Enterprise Angels
Investment for Growth

Invest with Confidence
A beginner's guide to investing in early-stage businesses

Thinking of investing in early-stage companies?

With the buzz about innovation and startups, everyone is keen to back the next Rocket Lab.

Investing in the early-stages of a business's growth carries high risks but also the potential for high returns and it's exciting. In addition to financial returns, there are many reasons people invest in early-stage companies. Some seek the satisfaction of using their knowledge and experience to advise or support startups, others simply like to stay at the forefront of innovation and some like to support the growth of NZ Inc. It can be very rewarding personally and professionally.

There are many ways you can invest in early-stage companies: directly, with an angel group, via an angel or venture capital fund or via equity crowdfunding. This guide will cover investing directly or with an angel group.

What are angel investors?

Angel investors, or business angels, are individuals who invest their own money into early-stage companies, typically in exchange for equity. Angel investors, sometimes referred to as 'smart money', often mentor founders, offer governance support, and share valuable networks, increasing the likelihood of business success. They play a critical role in the startup ecosystem by bridging the funding gap between informal sources (like friends and family) and larger-scale venture capital.

Who can become an angel investor?

In New Zealand, you must be certified as a 'Wholesale Investor' to be eligible to become an angel investor. A Wholesale Investor is defined under the Financial Markets Conduct Act 2013 (FMCA) as someone that can access offers that do not have the full disclosures and protections given to retail investors. Wholesale Investors fall into one of two main categories "Eligible Investors" and "Safe Harbour Investors". To find out if you qualify, take our quick questionnaire here.

New Zealand's angel investors

Since angel investing was formally recognised as an industry in 2006, and the formation of the Angel Association of New Zealand in 2008, New Zealand has seen a proliferation of angel investors and angel funds. Today's angel environment is maturing.

Why is early-stage investment important to New Zealand?

Early-stage investment is vital to New Zealand because it fuels innovation, economic growth, and global competitiveness. early-stage investors support businesses to scale and create high-value jobs, develop new technologies and products and expand internationally, increasing export revenue and raising New Zealand's profile as a hub for innovation.

Beyond financial returns, early-stage investment strengthens the country's entrepreneurial ecosystem and contributes to social and environmental progress. Many angel investors are motivated to back startups that address complex challenges, such as sustainability, education and wellbeing, helping New Zealand tackle important issues while building wealth and resilience for the future.

Risk Warning: Investing in early-stage companies involves risk and should be done only as part of a diversified portfolio. Offers facilitated by Enterprise Angels are for Wholesale Investors who make their own investment decisions and understand the risks. Read the full risk warning.

"The thing I like about being an angel investor is "making widgets". By that I mean doing something meaningful regarding driving economic growth, employment , and wealth creation."
Murray Denyer

How do I start investing?

There's so much choice when it comes to investing: shares, bonds, property, bank deposits and, of course, investing in private businesses. Before making any investment, it's a good idea to undertake a thorough review of your goals and circumstances, including investment amount, income needs, timeframe, and your appetite for risk. You need to understand that angel investing is risky, funds are illiquid, they don't typically generate dividends and returns can take 7-10 years plus.

How do I choose what to invest in?

It's useful to start with what you know. Review the information, angel backers and due diligence from companies in industries where you have personal experience (although this information may be limited due to the early-stage nature of the business). Form a view on whether there is enough information for you to make an informed choice to invest. Once you have achieved your level of comfort, apply your personal standards to new industries and learn from the expertise of fellow angel investors in other sectors.

You may form a thesis on trends that will drive the success of certain companies, e.g. aging population, growth in EV use, climate change, feeding the growing population etc.

Investing in a fund is another great starting point and an efficient and cost-effective way to diversify your portfolio. Diversification is key to reducing risk.

How much should I invest?

First, you should decide how much you wish to invest in this space and divide that number by 20 to determine how much you will invest in each company for a diversified portfolio. Halve that figure to allow for follow-on funding and that is your investment parcel size.

New Zealand angel investors typically invest $5k - $50k per deal each (although sometimes much higher amounts are invested). With investments in businesses that you understand and have expertise in, you might wish to invest more. In sectors where you have less experience, your investments are likely to be modest. Everyone's investment plan will be different depending on their risk profile, expertise, the amount available for investment and time available to devote to building your portfolio.

As with the public markets, it's best to not invest all your capital at once. Consider opportunities and invest your funds over a period.

What rights will I have as a shareholder of an early-stage company?

Angel investors will negotiate the inclusion of investor protection clauses in the Shareholders Agreement. These protections include antidilution, liquidation preference and preemptive rights and will vary with each investment. Please check the glossary for further details of various terms.

When will I see a return on my investment?

Companies may take from three to ten years to provide returns to shareholders, but this can vary greatly. We have seen returns as soon as 20 months and at the longer end of the scale, there are companies that still have not provided any return to investors after 14 years. And of course, there is a risk that you might lose all the money you invest.

Can I lose more than I invest?

The only capital at risk is the capital you invest and associated fees.

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Benefits of being an Angel Investor

1. Investment Returns
Investing in angel backed startups can deliver superior returns - financial, social and environmental. Bear in mind that with higher return potential comes higher risk.

2. Give something back
Many angel investors are successful entrepreneurs or businesspeople who have empathy for the 'growing pains' entrepreneurs go through to realise their dreams. Many also understand the power of innovation to tackle complex social and environmental problems. As an angel investor, there's often opportunities to mentor entrepreneurs or join the board as an Investor Director and back major solutions to some of New Zealand's toughest challenges.

3. Priority access to deal opportunities
Enterprise Angels individual and partner members get priority access to deals we access.

4. Contribute to New Zealand Inc
Angel investors are contributing to the economy through nurturing New Zealand's next big companies via capital and their business acumen and connections.

5. Involvement without immersion
Angel investors enjoy the adrenalin rush of emerging company volatility, but without the burden of ultimate responsibility for the company.

6. Excitement, fun, passion!
Many investors invest because they enjoy the excitement of investing in innovation and startups; from inspiring pitch nights to high (and no) multiple exits, it's a wild ride with unexpected twists and turns.

7. Be part of a network/club
Angel investors enjoy maintaining or building their personal networks and growing their knowledge with people that have similar interests.

8. Keep up with trends
Keep abreast of new frontiers, rapidly evolving technologies, markets, the world's most complex problems, and understand the potential opportunities.

9. Being part of something bigger
Angel investors take great pride in the fact that the products and concepts developed by the companies in which they invest challenge the status quo and can disrupt whole industries.

10. Intellectual challenge
As an angel investor, there's the opportunity to learn about new innovations and industry disruption outside your area of expertise. You can learn how early-stage companies raise capital and post investment you can provide support to investee companies as they navigate the growth journey.

NEXT STEPS.........

Enterprise Angels is a membership-based investment network and a wider community of nationwide wholesale investors. If you're keen to find out more or partner with us, contact us here, or if you are ready to leap right in to investing or membership visit: www.enterpriseangels.co.nz/invest.