



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 start-ups, everyone is keen to back the next Rocket Lab.

There are many reasons people invest in early stage companies. Some investors seek financial gain. Others, the satisfaction of using their knowledge and experience to provide expert advice. Increasingly, more and more investors want the opportunity to invest in for-purpose companies that benefit society *and* achieve a financial return (known as [Impact Investing](#)).

Making direct investments of private capital into private early-stage companies, usually in exchange for equity stakes, is known as **wholesale investing**. It is a personal form of investing that carries high risks but also the potential for high returns – **financial, social or environmental**.

Bill Murphy, Angel investor and equity-raising expert, shares key points to consider about investing in early stage companies.

What are wholesale investors?

Wholesale investors can be anyone interested in investing who qualifies as a wholesale investor by New Zealand's Financial Markets Conduct Act 2013. To learn more about whether you will qualify, take our simple questionnaire [here](#).

What are angel investors?

Angel investors, or business angels, as they are also known, are wholesale investors that take their investing a step further. Angel investors get involved, often through an angel network, in assisting the business in a management, governance or mentoring capacity. They are sometimes referred to as bringing 'smart money' to the deal.

What is Equity Crowd Funding?

Equity crowdfunding is another way of helping early-stage companies raise capital and following the Financial Markets Authority (FMA) approval in 2014, several crowdfunding sites have emerged.

Before you invest, find out what you're getting yourself into...

What are the benefits of becoming an early-stage investor?



1 Investment Returns

Early-stage investing, especially in angel-backed deals, can deliver superior returns - financial, social and environmental.

2 Give something back

Many wholesale investors are successful entrepreneurs 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 an opportunity to mentor entrepreneurs – or take a board seat, as an Investor Director – and back major solutions to some of New Zealand's toughest challenges.

3 Priority access to deal opportunities

Get access to early investment opportunities. Angel investors can attend regular pitch nights to hear about new opportunities. These opportunities are then made available to wholesale investors after angel investors have committed their funds, but only if further investment is still required.

4 Contribute to New Zealand Inc

Early stage investors are contributing to the New Zealand economy through the nurturing of New Zealand's next big companies via capital and the business acumen of angel investors.

5 Involvement without immersion

Early stage investors enjoy the adrenalin rush of emerging company volatility, but without the burden of ultimate responsibility for the company. Investing in early stage offers via a Fund is another avenue to explore, and a way to diversify, on a dedicated investment committee's recommendation.

6 Excitement, fun, passion!

Many investors invest because they enjoy investing in innovation and start-ups - 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

Early-stage investors, particularly angel investors, enjoy maintaining or 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, and the world's most complex problems - and understand the potential opportunities.

9 Benefit all New Zealanders

Early-stage 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

Back your ability to pick winners and reuse your hard-won wisdom. If you go on to become 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.



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

- Murray Denyer, Enterprise Angels

Why is early-stage investment important to New Zealand’s growth?

Early stage investors enable businesses and social enterprises with international growth and impact potential to make progress. A [book](#) by the Organisation for Economic Cooperation and Development (OECD) documents the important role early-stage investors play, filling the gap that lies between seed stage (often funded by company founders, friends and family, universities and research institutes) and venture capital funds (i.e. typically above \$3 million).

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 businesses. Before making any investment, it’s a good idea to undertake a thorough review of your goals and circumstances, including income needs, timeframe, whether the investment is personal or for a family trust, and your appetite for risk.

The equity crowdfunding regulations introduced in 2014 have made it possible for anyone (the “crowd”) to invest in private, early-stage companies not listed on the stock market, in exchange for shares in that company. Companies at the beginning of their lifecycle may use equity crowdfunding to finance their development and growth. This form of investing opportunity has been made possible by the Internet.

How do I choose what to invest in?

As first-time investors, it’s often useful to start with what you know. Get to know the standard and substance of information about companies in industries where you have personal experience (although this information may be limited due to the early-stage nature of the business). Check out the angel backers and due diligence available about companies in industries you understand. 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 follow the expertise of angel investors into other sectors.

Investing in a Fund is another great starting point and way to diversify your portfolio while reducing risk.

How do I mitigate risk?

Because early-stage investments are the earliest equity investments made in start-up companies, all the capital invested can be lost if the business fails.

Investors often mitigate risk by joining angel groups and investing with other angel investors. By actively assessing investment opportunities together and providing expertise, networks and guidance to investee companies post-investment, angel investors can substantially reduce the rate of failure.

Another risk mitigation strategy is diversification. Many angel investors build a portfolio of 10 or more investments across industry segments and stages to increase the potential of return on their investments. Investment in an Angel Fund is another way to achieve this.

Did you know Enterprise Angels is one of New Zealand's largest Angel Investor Group? Our objective is to connect experienced early stage investors with entrepreneurs and innovators.



Beppie Holm
- Enterprise Angels

How much should I invest?

First, you should decide how much you wish to invest in this space and divide that number by 10. This figure is the size of each investment you should make to have a portfolio of 10 investments.

New Zealand's wholesale investors typically invest \$10 - \$50 k per deal each (although sometimes much higher amounts are invested). When considering investments in businesses that you understand and have expertise in, you might wish to invest a larger sum. 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.

The best strategy is not to invest all at once. Consider opportunities and invest your funds over a period. You should also remember that companies you invest in often require further funding. If you don't wish your shareholdings to become diluted, reserve a portion of your funds for future rounds.

What rights will I have as an investor of companies?

Angel investors will negotiate the inclusion of investor protection clauses in the Shareholders Agreement. These protections include anti-dilution and pre-emptive rights.

Pre-emptive rights ensure you are offered the right to invest in subsequent rounds before new investors to ensure you have the option of maintaining your relative shareholding. Your holding will only be diluted if you choose not to invest in further rounds.

The rights will vary with each investment, please check the relevant Shareholders Agreement.

When will I see a return on my investment?

Companies may take between three and seven years to provide any 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 many 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, but never more than what you invest.

What are the next steps?

Enterprise Angels is a membership-based investment network and a wider community of nationwide wholesale investors. The core of Enterprise Angels is its members. Our objective is to connect experienced early stage investors with entrepreneurs and innovators. If you're keen to find out more, partner with us, or ready to leap right in to investing or membership make your choice now.

Visit: www.enterpriseangels.co.nz/invest