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ENTREPRENEURS | 9/09/2012 @ 1:36PM | 2,271 views

You Want How Much Ownership In My Business?

You want how much ownership in my business? It's an emotion filled question I hear every time I meet an entrepreneur seeking money for his or her business.

Without a doubt, this very critical topic has significant ramifications for both the investor and founder.

Due to the nature of this crucial issue, I am pleased to share with you a high level overview of how each entity thinks about ownership and how this hot topic can be resolved harmoniously for all.



An invitation to a prospective investor may be the hardest decision in an entrepreneur's life.

From an entrepreneur's perspective, he has conceived a brilliant idea, designed a remarkable product or service, knows customers who will buy immediately and is ready to launch the company with vigor. He has spent countless hours and personal resources to achieve his dream. He's passionate about his purpose and highly committed to a noble cause. It's his baby and he loves it. It's all he talks about with anyone who will listen. He knows his idea is worth millions of dollars and he knows he will eventually grace the cover of *Forbes*. He sees thousands of employees, great wealth for one and all, and a room full of awards honoring his genius. He intends to run his company forever. In time, his children will follow him.

There is, however, one huge problem. He's run out of his own money; his relatives' money and the money of any fools who've invested with him. He knows that without further funding he will be forced to close the doors.

Where does he turn for money to grow the business? He can reach out to a bank. It has money to lend. But unfortunately he has neither the financial history nor the collateral required by the bank to obtain a personal or commercial loan.

"How about angel investors?" he ponders. "I know they will love my idea and

fund my plan. They've got lots of money to invest." In his mind, she sees these investors as generous, charitable and like family. "They are better than a bank," he muses. "I won't have to pay interest to them and surely they won't want much ownership. I'm sure they'll understand why I want to keep most of the ownership; it's my idea; it's my company; and I've made great sacrifices. It's my baby."

He moves forward to meet with Angels to pitch his terrific plan. He learns they like his company and that they are willing to give him enough funding to reach profitability. He's thrilled. But this moment of joy ends abruptly when he hears the terms of engagement.

Kindly and professionally, the lead Angel describes how sophisticated investors partner with entrepreneurs who need their money. She begins with an overview of how Angels view a company's value. [Next](#) she outlines the various stages of company growth and the milestones of each. She continues to delineate the levels of financial risk at each stage. She continues her presentation with the desired percentage of ownership the Angels want for their investment in the company, and a request to include employees in a stock option plan of up to 15% of ownership in the company prior to the Angels investment, along with a list of legal requirements and terms. She notes that their goal is to obtain ten times their investment when the company is sold. Instead of being thrilled, he's now stunned. You want how much ownership in my company? What happened? Where's the love, the charity?

He returns to his office and shows his wife the angel presentation. He's anxious to consult with her and better understand the offer.

He thinks his company is worth \$10 million, although he has neither revenue nor profits. The Angels tell him the company is valued generously at \$500,000. This figure is similar to other companies in the same industry and at the same growth stage.

The Angels note that his company is in the idea stage. Only a few modest milestones have been achieved. They further note that this earliest of stages holds the most significant financial risk for the entrepreneur and for the investors. The couple then reviews the other stages, milestones, risks and ownership levels the investors have outlined, as follows:

- **Idea**- The concept being developed-highest risk-investor ownership range 50-80%
- **Seed**- The product is in development-still high risk-investor ownership range 40-50%
- **Pre-revenue**- There's a sales plan in place-potential customers identified-a real risk-investor ownership range 30-40%
- **Sales, no profits**-With financial break-even within reach-modest risk-investor ownership range 20-30%
- **Profitable and growing** -Sales ready for acceleration- low risk -investor ownership range 5-20%

The couple then reviewed the percentage of ownership he, his employees and investors will have in the near term. He notes that the investors will capture 50% ownership with a \$500,000 investment, the employees will receive 15% ownership and that he will end up with...(he pauses) 35% of the company. He also notes that the investors will secure even more company ownership if additional money comes from them. Such a scenario will cause him to lose even more ownership in the company. Sadly, he proclaims, I'm really not the

owner any more. They examine the formula to better understand the ownership calculations.

They look at the legal documents that are required and the Angel terms of engagement. They note the investors want a seat on the board of directors, monthly financial reports, and a vote in all major decisions that might affect the business. They also want to review the Shareholder Agreement, Company Bylaws and Articles of Incorporation.

Special note - For greater detail on this topic, please visit my personal website www.AlanEHall.com, and we can email you the template for a typical dilution formula.

Lastly they discuss the ultimate sale of the business. Clearly the investors will want to sell it. It's how they realize a return on their invested funds. This will not be a life style business run by the family indefinitely. They ponder selling the business. What might they receive in cash? What would they do with the money? What would key employees receive? Is it worth it?

"So much to think about," they conclude. They ponder the options:

- 1) Try to run the business without additional money; it won't work and no wealth is created, and the dream dies.
- 2) Agree to the Angels' offer. It can work, the dream can be realized and we can take money to the bank.

They decide to accept the Angel's offer and move forward. From a financial point of view, their decision makes sense. For example, if the company were to be sold for \$10 million, he would receive approximately \$3.5 million; certainly better than nothing at all.

It will, however, take time for his deep emotions to subside. If his true feelings control his behavior, he knows the arrangement will fail.

Now set, the founder calls the lead Angel to confirm the goal to move to due diligence, an important step prior to receiving funds. Once completed satisfactorily, and all legal documents are signed, money from the Angels is wired to the company to facilitate future growth.

In conclusion, it should be clear that an invitation to a financial investor to become a partner may be one of the most difficult decisions an entrepreneur will make in his or her life. It should always happen with one's eyes very wide open. For business builders who can start and grow a flourishing business without others' money, good for you.

To those with big dreams of success, welcome to the free enterprise system and capitalism. I welcome your thoughts and your stories on the businesses you've created both with and without the involvement of outside angel funds. What went well? What would you have done differently in hindsight? You can reach me via this site, via @AskAlanEHall, or at my personal website, www.AlanEHall.com.

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