

AngelList Helps Entrepreneurs Build Companies

Fundraising is a difficult and time-consuming process that diverts entrepreneurs from building their companies. For decades, entrepreneurs who sought to obtain funding from Silicon Valley's small, wealthy group of angel investors found the process similar to breaking into an exclusive club. (An angel investor is an individual who provides capital for a startup, usually in exchange for convertible debt or ownership equity.) They had to work with their personal networks to set up meetings with financiers and then negotiate privately, with little awareness of fair market value or better opportunities elsewhere.

To assist these individuals, AngelList (<https://angel.co>), founded in 2010 in San Francisco, has created an online forum where founders of early-stage companies—called *startups*—post their ideas and meet investors who fund these often risky ventures. AngelList's mission is to make startup investing transparent and efficient.

How does AngelList work? Basically, startups access the site and create profiles that list information such as their previous financial backers (if any) and the amount of capital they have already raised. They then utilize those profiles to make their "pitch" to hundreds of certified investors—financial firms as well as wealthy individuals and companies. To avoid fraud, AngelList vets its investors by requiring them to provide a track record of their prior investments. At the same time, the company thoroughly researches any startups that it lists on its Web site.

AngelList restricts its services to startups that are trying to obtain funding for the first time. For example, the company handles the regulatory paperwork to help startups complete the relevant forms. One feature on the company's Web site, called "Syndicates," lets investors pool their money under the direction of a single, wealthy investor known as a "lead." Then, whenever the lead decides to back a startup, so do the other investors, or "backers." Leads set their own terms. For example, one lead investor collects up to a 20 percent "carry" fee from his backers, plus a portion of any positive return they receive if the startup is acquired or goes public.

AngelList takes a 5 percent cut on any such paydays. In 2014, some \$87 million worth of deals were transacted via AngelList's syndicates. Startups such as the private taxi service Uber (www.uber.com) and babysitting-jobs Web site Urbansitter (www.urbansitter.com) have used AngelList to make contact with new investors and quickly finalize their funding deals. In another example, Sprig (www.eatsprig.com), a San Francisco-based dinner delivery service, raised most of the money it needed for a new kitchen in a single day on AngelList.

At the end of 2013, AngelList added startup job listings to its Web site. In addition, it was lobbying the U.S. government to further relax fundraising restrictions contained in the JOBS Act, the 2012 Federal law that lowered regulatory requirements for startups. The company's goal is for the public—rather than simply accredited investors—to use the site to provide funding for promising startups. And the bottom line? By early 2015, AngelList featured tens of thousands of businesses, and it had provided entrepreneurs with thousands of

introductions to potential investors. Also in early 2015, AngelList expanded its investor syndicates to the United Kingdom.

Questions

1. What are the advantages that AngelList offers to entrepreneurs?

2. What are potential disadvantages that entrepreneurs might encounter by using AngelList?

(Hint: What if you listed your company profile on AngelList and no investor provided funding?)

Additional Questions

1. How can founders use AngelList India to raise capital?
2. How are Syndicates different to investing directly into the company?
3. How Indian Startup culture different from US?
4. A short insight into the Startup India Incubator Program