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# THE EUROPEAN BUSINESS ANGELS MARKET AN APPROXIMATION

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Editor



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## OVERVIEW

### 1. Introduction

The European Business Angels market: All BAE members have contributed to this edition to provide the reader with information regarding the state of angel investing in Europe as of 2015, making it possible to take a look inside the markets of Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Scotland and the United Kingdom. This introductory text aims at giving a short European wide overview of recent trends and developments in the angel market. For a detailed insight of each country, it is recommended to take a look into each contribution.

### 2. Taking the pulse of the European Angel Market<sup>1</sup>

Angel investing in Europe grows continuously, the markets differentiate more and more and new models and forms of cooperation are on the rise. All in all, the landscape of angel investing changed tremendously over the past ten years.

While it is growing, the potential of this type of private investment is still very far from exhausted. Nevertheless, there remains to be a lot of optimism with voices within Europe stating: "The best years of angel investment are yet to come."

Even politicians have begun to grasp the importance of business angels more and more. From understanding to action, though, there seems to be quite a distance. So far, little has been done to actually improve the framework for angel investing. It is now necessary to ensure that the requirements of high-risk angel investing are not only heard but acted upon. Promotion of business angel investing is one of the big challenges of the present and future. It is essential to raise awareness not only with politicians but also in the public eye.

### 3. Market manifestations

To actually disagree with the title of this book, there is no single European angel market in existence. When you look at the landscape and read through the different reports you can tell that in fact the market is best described by diversity and different degrees of maturity. On top, there are more developed markets like the UK, France and Germany. On the other hand countries like Spain and Portugal have been engaged in angel investing since the beginning but are nowadays affected by the repercussions of the financial crisis in Europe. Looking to Eastern Europe most countries are still in a very early stage of development. Small countries like Malta and Luxemburg focus on specific sectors trying to attract start-ups from all over Europe.

#### 3.1. Structures

So how are these varying markets structured? All over Europe the establishment of angel networks was the starting-point for the forming of angel markets. While France seems still to be dominated by this network structure other countries have adapted different methods. In Belgium for example, networks are merging, forming two bigger networks instead of seven smaller ones in the country. In Spain networks which try to attract a larger number of potential investors have dominated in the early years. More recently, there has been an increase of club-type groups with business or friendship bonds. Meanwhile, Germany and the UK have

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<sup>1</sup> The wording „taking the pulse“ is borrowed from a 2013 study of BAE member UKBAA.

developed even more diverse angel scenes, which reflect a wide range of models and approaches, like incubators, accelerators, super angels, crowdfinancing and family offices focusing on start-ups.

### **3.2. The size of the market – facts and figures?**

Often times people want to have exact data considering the angel market(s) in Europe. The problem with informal investing of course is that it is very hard to track or extract data. Angels all over Europe operate in such a diverse market place that it seems to be impossible to capture its size. What makes matters worse: a lot of angel investing happens in the so-called invisible market, outside of structures like networks, clubs or matching platforms. Now, many attempts have been made to generate or extrapolate figures. But all surveys share the same problem: they are either relatively small scale or unrepresentative of the market.

Still, some data exists that represents trends, evaluates special instruments or analyses influential factors, which you can find in the single reports. But what do we do with this data? Certainly, statistics are useful, but not at all costs. We should not pretend to have exact data, if we don't have it. There remains a lack of robust data on the European angel markets. But there is as well a lack of market intelligence to be considered. So the aim has to be to take the pulse of the European angel market, not to quantify the market and extrapolate numbers!

### **3.3. Impact of Angel Investing**

Exact numbers and data aside, it needs to be stated: Angel investors are the main source of early stage investment in Europe. Even with the dramatic increase in new start-ups, incubator hubs and alternate sources of finance that reflect the change that has occurred all over Europe: at the source of this are the angels that provide the much needed finance and mentoring. The economic and social impact of angel investing demonstrate the crucial role that angel investors play within the economy contributing private capital, business experience and skills to support growth of small businesses. Angel investing facilitates deals of corporate venturing, industry players and market leaders investing in start-ups and growth companies. Therefore angel investing is to be considered a valued growth enabler in the support of entrepreneurs and innovation.

### **3.4. Angel Profiles**

Who is it that we are actually talking about, when we speak of angel investors? For years, it has been accepted as fact, that mostly successful ex-managers or entrepreneurs over the age of 50 were investing their capital and know-how into start-ups. In general, business angels are a lot younger nowadays. Start-up entrepreneurs that successfully sold their company at a rather young age discover angel investing as a form of investment and opportunity to mentor young entrepreneurs. This development is accompanied by the fact that more and more investors look for start-ups outside their home regions. The geographical distance is becoming less important when operating on a global market. Still, cross-border investment remains to be a challenge. Typically, angels used to invest only in early phases of a company. Lately, there has been the trend for angels to participate more and more in later rounds, especially in follow-on financing of their portfolio companies to make up for the lack of capable VC firms.

While some angels state that they don't focus on certain sectors, most investors certainly do. Notably, ICT companies are a strong focus for business angels all over Europe. Other important sectors in varying degrees are biotech, medtech or consumer products.

## **4. Drivers for Angel Investments**

Key drivers for promoting angel investment in Europe are strong federations, tax breaks and other government incentives and the development of a strategy for the whole financial chain.

### **4.1. Strong federations**

A strong national federation for angels is capable of representing the angel market with all its different actors and helps establish a nation-wide community. With promotional tools, events and lobby work, federations are able to actively promote the visibility of business angel financing across the whole country and in the public eye. By acting as a united voice of the angel community towards government and all other relevant opinion formers, federations can achieve a more favourable environment for business angels. This includes providing a hub of information, market intelligence and developments on the angel market as well as fostering training activities, especially investor readiness programs. These organisations are needed to help build and further develop the angel ecosystem as well as create a better connectivity and cooperation between the angel community and all other relevant sources of finance and support.

### **4.2. Tax Breaks**

Government tax incentives can be enormously helpful: The UK angel market has been uniquely supported by a major tax relief scheme (EIS and SEIS). The EIS scheme has been in operation for a good twenty years showing the extent and depth of government support for business angels. The SEIS scheme has been established more recently to substantially kick start angel investing in seed companies.

So, tax breaks are great, but they need to be reliable. Examples in France and Portugal have shown that tax incentives can also be ineffective. In Portugal for instance, active BAs can deduct to the amount of personal taxation. The exact amount of the deduction is established every year in the Portuguese government's annual budget. Due to the public finance situation of the country the amount established is actually insignificant. In the last government budget for 2013 it was established an authorization to the government by the parliament to approve the amount of 10.000 Euro.

### **4.3. Other government incentives**

While tax incentives for active angels seem to be best working, other nations have established different methods to stimulate the angel scene. Germany has established a grant for business angel investments in 2013. The INVEST – Zuschuss für Wagniskapital provides a 20% tax-free subsidy on the investment in a young, innovative company. In Spain, there is a special program to support the creation and development of angel networks operating since 2010. The day-to-day work of Belgian networks is financially supported by the regional government. In some countries, the national federations as well receive governmental subsidies.

### **4.4. Overlooking the whole financing chain**

Often times, business angels are the first investors in a string of investments developing a company from the seed phase to being a significant player in their market. Therefore it is necessary to stimulate the cooperation between angels and VC's, ultimately resulting in a better climate for entrepreneurs seeking capital. Connectivity throughout the whole chain could also enable angels to participate in even later rounds, eventually until an IPO.

## **5. Key trends**

### **5.1. Syndication**

The syndication of angel deals has been a growing trend for angel investors over the past years. The advantages are obvious: angels are able to pool risk, to do larger deals and to share due diligence on investment opportunities. Syndication also enables the angels to better par-

ticipate in follow-on financing and being a bigger player in negotiations with VC's. Unsurprisingly, most market reports claim that syndication is of high significance to the angels, with the UK once again leading the pack. Following the aforementioned 2013 study in the UK (Taking the pulse), 73% of British angel usually invest in syndication. Countries like France, Belgium and the Netherlands are following this trend as well, while bigger syndications in Germany meet obstacles by new rules and regulations.

## **5.2. Co-investment facilities**

Over the years it became obvious that only increasing the number of business angels is not enough for the development of a healthy start-up environment. Co-investment vehicles can support in increasing financial capability and diversifying risks. In France this objective has been taken first by several regions, which have been setting up regional co-investment funds, investing pari-passu with Angels, who would remain lead investors. At the national level a new Co-investment Fund called Angel Source has been set up in 2013, as a pilot National Public co-investment fund. Angels source will only co-invest pari-passu with a selection of Angel networks members of France Angels. Similar instruments, both nationally and regionally, exist in Germany. It was also the first country in Europe where the European Angels Fund was launched. This vehicle by the European Investment Fund (EIF) invests alongside experienced angels and has since been rolled out to Spain and Austria.

## **5.3. Matching platforms**

Angel investors are increasingly using the internet and online platforms to access deals and generate their deal flow to supplement their off line investing. A relatively small number of angels is using platforms for online transactions. Some angel groups and networks are also building their own online communities for deal sharing and deal structuring. A further potential outcome of the online investment communities and showcasing is the opportunity to support cross-border deal sharing. In addition to that, crowdfunding platforms are going to be a new part of the Angels ecosystem. Some angels have begun to take on the lead in crowdfunding campaigns already.

# **6. Challenges**

## **6.1. Exit**

What we do not have is the answer to the big question of exits. Exits remain a concern with many feeling they take longer than planned. Achieving good value on exit remains a challenge for many and options are limited. Angels face the challenges of how to successfully scale up and exit their businesses. The angel market continues to lack options, with many angels and syndicates supporting businesses through multiple rounds of funding, but without a clear opportunity for realisation of returns.

## **6.2. Investor readiness and virgin angels**

As mentioned above, one of the biggest challenges remains to be attracting more individuals to actually engage in angel investing and provide their private capital for the benefit of young innovative companies. Angel networks and federations play an important role in educating virgin angels to make their first steps into the ecosystem. Granted, the level of the available private capital is widely varying all over Europe. These countries that have the resources must try to exploit them.

## AUSTRIA

### 1. General Information Austria Wirtschaftsservice Gesellschaft

The Austria Wirtschaftsservice Gesellschaft (aws) is the Austrian federal development and financing bank for the promotion and financing of companies. The bank provides approximately 1 billion Euros (p.a.) in financial aid, mainly as grants, loans and guarantees.

With these services the aws pursues these three statutory objectives:

- Strengthening of the Austrian industrial location,
- Securing and creating new jobs,
- Strengthen the international competitiveness of Austrian companies.

The aws offers a variety of different services with focus on enterprises ranging from the pre-seed stage to small and medium-sized enterprises.

### 2. The Austrian Business Angel Network (ABAN)

#### 2.1. Angel Financing for Smart Businesses

i2 Business Angels is a matching service, founded in 1997 from the aws, to link equity seeking enterprises with potential investors. It targets state-of-the-art-start-ups to support them raising equity with the purpose to promote early stage funding for start-ups and innovative business models. Vice versa, this enables investors to participate in new ventures. International i2 is a founding member of the European Business Angels Network and since 2013 full member of the Business Angels Europe.

#### 2.2. i2 – Services

Within the i2 programme aws offers the following assistances and acts as a direct connection point:

- Facilitating potential arrangements between i2 members and early-stage start-up companies,
- i2 Business Angels provide additional mentoring, entrepreneurial know-how and their networks,
- i2 supports the entrepreneurial community in Austria through networking events and workshops, research as well as contact to international Business Angels groups.

#### 2.3. Investment Focus

i2 focuses mainly on the DACH & CEE regions and innovative enterprises seeking capital from 100,000 Euros up to 1 million Euros. Its objectives need to provide a scalable business model, a distinct competitive advantage and high growth potential. Targeted industry sectors include all technological sectors such as medical and mechanical engineering, chemistry, physical and life sciences, IT, digital media as well as unique consumer products and services.

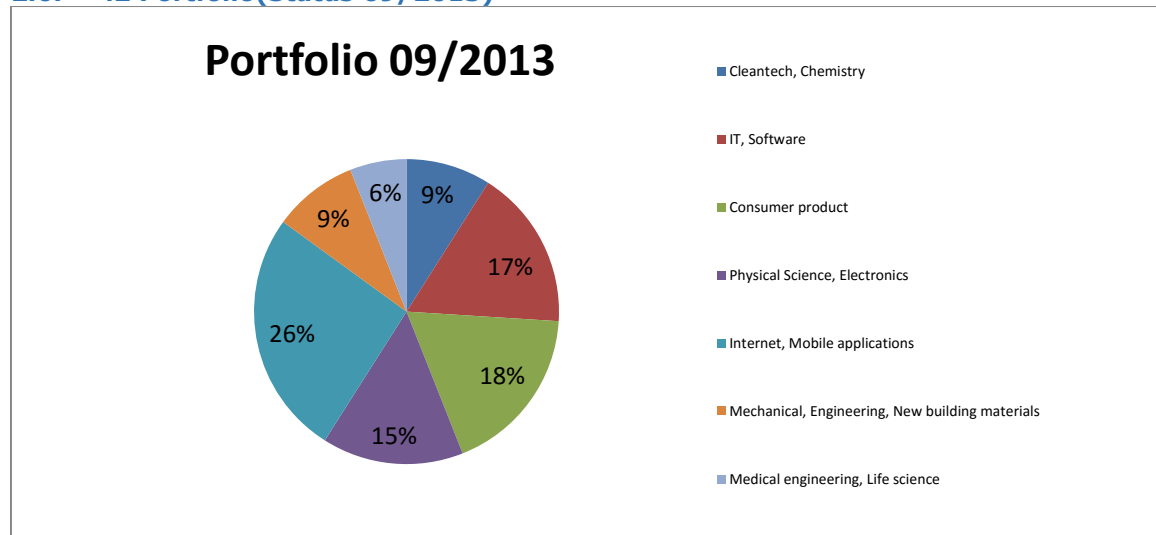
#### 2.4. Screening Procedure

i2 receives approximately 500 requests, and from those selects about 60. Those proposals are required to meet restrictive criteria and are screened by the vastly experienced i2 team to ensure the quality standards. The i2 Team verifies the details and assumptions anticipated in their documents. Afterwards, i2 prepares an investment proposal and offers them to the Business Angel Network.

#### 2.5. i2 Figures and Track Record

The ABAN is the holding for the 65 strategic partners like incubators, venture capital organizations, banks, consultants and lawyer offices as well as the 230 i2 Business Angels. Since its founding in 1997, the Business Angels have invested in over 105 start-up companies with an overall transaction volume of approximately 17 million Euros. Currently 30% of the listed enterprises find a suitable business angel. In 2013 18 out of 60 start-up companies, and for the first six months of 2014 14 entrepreneurs, stroke a deal with matching business angels. Thus, they invest ranging from 40,000 to 800,000 Euros amounting to an average of 156,000 Euros.

## 2.6. i2 Portfolio(Status 09/2013)



**Founding and beyond: after** all parties have agreed to the conditions and the deal has been closed this solely symbolizes the initial beginning of the funding process. Then founders have access to a network of valuable public funding and co-financing instruments of Austria Wirtschaftsservice Gesellschaft mbH.

## 2.7. Alternative Financing in Austria and Additional Services for Equity

Apart from this, the matching service is embedded in the wide ranging activities of the aws. The *aws Gründerfonds* is an independent venture capital fund for innovative and fast growing enterprises. Their investment size ranges from 100,000 Euros to 3 million Euros. The *aws Business Angels Fonds* is a financial instrument for private investors with a proven track record. The fund offers equity in trust to invest in start-up enterprises and doubles the initial private investment. Within the *aws Double Equity Credit* programme the aws acts as a guarantor for commercial banks and takes over 80% of the guarantees. Since the beginning of July 2014 i2 provides and maintains the aws Equity Finder ([www.equityfinder.at](http://www.equityfinder.at)), a free of charge open access platform to connect seed- and early-stage companies as well as small and medium-sized enterprises with potential investors.

## AUTHOR: Bernd Litzka



Dr. Bernd Litzka has trained as a chemist and PhD in Business Administration. In 2000 he founded his first company, and in 2003 he could sell its technology to a group of investors from the Netherlands. From 2004 he worked as an analyst for high-tech and start-up projects of the aws – austria wirtschaftsservice. Since 2010 he has been program manager of the new Business Angel Market i2 aws and later on of the aws Business Angel Fonds.



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## BELGIUM

### 1. The Background of Angel Investing in Belgium

Since 1998, 7 Business Angels networks emerged in Belgium. These networks were set up in the period 1998-2001. They guaranteed a complete coverage of the Belgian area: 4 networks in Flanders, 2 in Wallonia and 1 in Brussels. In the beginning of 2004, the 4 Flemish networks merged into 1 Flemish network: BAN Vlaanderen. In 2007, 1 Walloon network merged with the Brussels network into 1, Be Angels.

Today (April 2014), Belgian counts 2 networks: 1 network in Flanders, 1 in Wallonia.

The two networks together count close to 400 Business Angels and receive yearly over 750 projects of which approximately 200 presented during close to 35 investment events to their members. This results in 40-50 deals annually for a total amount of up to 10 million €. Both networks organize entrepreneur and investor training activities such as Business Angel days during the year.

### 2. National Association BeBAN

The 2 Belgian networks join forces in BeBAN, the Belgian Association of Business Angels Networks. Its main goal is the promotion of the visibility of Business Angel Finance and Business Angel Networks in Belgium. A code of conduct was elaborated and subscribed by all existing networks.

BeBAN became the facilitator in setting up cooperation between all Belgian Business Angels networks and other governmental, public and private organizations, active in the field of risk capital. For instance, in 2002 a new product, the "business angel+" loan, was launched by the Federal Participation Fund to give favourable subordinated loan, collateral to deals in which Business Angels, members of a network, had invested. Up until today, this is a very intensively used co-financing mechanism for Belgian BA's (see further for more details).

### 3. Lobbying

Since 2000, the Belgian Business Angels networks used BeBAN as a platform to discuss with the Finance and Banking Commission in order to clarify the scope of Business Angels networks intervention and the compatibility of their action with the Belgian legislation on public issues and the obligation to prepare a prospectus for public offerings. Because of this legislation, business proposals cannot be submitted to more than 100 people.

Both networks are active at a regional level in order to lobby for a more favourable environment for Business Angels including fiscal incentives, co-investment mechanisms, training activities, support to women angels and the like.

### 4. National/Regional Support

Both networks in Belgium have secured financial support from their regional government for their day-to-day operations. This support varies from region to region due to the fact that the economic policy is a regional (not a national) competence in Belgium.

The support of all regional authorities constitutes an official recognition of the contribution of Business Angels to the stimulation of the Belgian economy. In Wallonia, a guarantee scheme for Business Angel investments was created through the public financing agency in Wallonia

"Sowalfin". The Federal "Participation Fund" created a "BA+ loan" which serves as a leverage to BA-investments in the form of subordinated debt for the entrepreneurs.

## **5. EU Support**

The European Commission supported several initiatives in the conceptual phase of the Business Angels networks:

### **5.1. Awareness Actions**

Ten awareness seminars have been conducted in the late 90's. They were co-ordinated by the JCI. Seminars were held in Bruges, Kortrijk, Gent, Antwerp, Leuven, Hasselt, Brussels, Mons, Liège and Wavre.

### **5.2. Feasibility Studies**

Two feasibility studies were co-funded in Belgium: one done by GOM Vlaams-Brabant and NCMV, and another done by PYTHAGORAS n.v., a private company.

### **5.3. Pilot Projects**

DG Enterprise supported one pilot project in Belgium. The beneficiary was the Vlerick Leuven Gent Management School.

### **5.4. ERDF-Support**

One network was supported through the European Regional Development Fund. The beneficiary was Limburg BAN vzw, which merged into the new Flemish network, BAN Vlaanderen.

### **5.5. Interreg III**

Three Belgian organizations (BAN Vlaanderen, SOCRAN and WfG Ostbelgien), together with a German (AGIT) and a Dutch (LIOF) partner started the Interreg-project EuBAN in January 2004. EuBAN was a tri-national network in the Euregion Meuse-Rhine, which aimed to generate more Business Angels activity in this region and to enhance cross-border investments through Business Angels. EuBAN was partially subsidised through Interreg III-funds.

### **5.6. Interreg IV**

Be Angels is part of Seed4Start, a consortium led by Business Initiative (Luxembourg) to stimulate cross border investment in the Greater Region (Luxembourg, Lorraine in France and parts of the Walloon Region in Belgium).

### **5.7. Leonardo**

Be Angels, at the time through BAMS, participated as a partner in the Ready for Equity project concerning the creation of European-wide training programmes for angels and entrepreneurs.

## **6. Promotion of Business Angel Investing**

The Dutch-speaking economic daily newspaper "De Tijd" regularly publishes articles on Business Angels Networks operating in Flanders. So does the French-speaking daily "L'Echo" for the Walloon network. Many articles were originally inspired by the Business Angels Network's initiatives and by the efforts of Mr Rudy Aernoudt, a Belgian European Commission official.

Economic magazines such as "Trends/Tendances" and "PME/KMO" publish regularly several pieces on BA and BAN activities in Belgium in both French and Dutch.

The start-up of BAN Vlaanderen in February 2004 raised a lot of attention in all national media (TV, newspapers, business magazines) and enhanced the knowledge about the existence of Business Angels networks. Since then, a large publicity-campaign with commercial spots, advertisements and a region-wide road show expands the Business Angels network concept throughout Flanders. BAN Vlaanderen launched its funding platform [www.angel4me.be](http://www.angel4me.be) in order to bring the first step in the matchmaking process possible on an online level.

Be Angels fully refurbished its website in 2013 in order to promote all deals financed by its members and raise awareness near the general public (angels and entrepreneurs), concerning its role and activities. It started publishing press releases which are distributed to the daily press and specialized magazines.

Be Angels recently participated in an interview regarding Business Angel financing for Euronews's feature Business Planet.

## **7. Government Policies**

### **7.1. Taxation**

Beneath are the highlights and key figures of the Belgian tax regime in relation to Business Angel activity:

#### **7.1.1. Income tax rate**

- Individual: Progressive rates up to 50%
- Corporate: General rate of 33% plus a surtax of 3% on income tax. Small and medium-sized companies with income of less than EUR 322,500 are subject to reduced rates under some conditions.

#### **7.1.2. Capital Gain tax rate**

- Individual: Capital gains derived by individuals not engaged in business activities are generally not taxable; otherwise they are taxed at an income tax rate of 33%. Capital gains, derived from shares are normally tax exempt (if held more than 6 months further to a change in law end of 2015). The capital gains on the sale of real estate acquired more than 5 years ago is also tax exempt.
- Corporate: Taxed at the ordinary corporate tax rate. Capital gains on shares are tax exempt.

#### **7.1.3. Dividends tax rate**

- Individual: Dividends received by a Belgian resident from a company are subject to a taxation of 25%. Under certain conditions, the tax rate amounts only 15%.
- Corporate: 95% of dividends received by a Belgian company, from local or foreign companies, are exempt from tax under certain conditions (the most important being the participation of at least 10% or an investment of at least EUR 1.2 million and for at least 1 year). The remaining 5% is subject to tax at the normal rate. Dividends paid to non-residents are subject to a 25% withholding tax, but reductions can be applied under certain categories of shares, as well as exemptions under the EC parent-subsidiary or under tax treaty countries.

#### **7.1.4. Other tax incentives**

Mechanisms available in Flanders:

- Winwin-loan: encourages the public to provide loans to friends starting a business: Tax credit of 2.5%/year, maximum EUR 1,250/taxpayer; unique tax credit 30%. Loan amount: maximum EUR 200,000/SME/taxpayer;
- Reduce tax discrimination between debt and equity financing;
- Lower the effective corporate tax for all companies;
- Yearly deduction from taxable income, equal to the amount of interest paid on the capital in case of long-term debt financing;
- Notional interest deduction, a mechanism available not only for Flanders but for the whole of Belgium.
- Indirect incentive for Business Angels who want to group in a fund: the PRICAF regime gives a tax transparency, which means that shareholders pay practically no tax on the capital gains made.

Specific situation for angels investing through a co-investment or angel fund: The ARK Angels Fund and the Ark Angels Activator Fund - both initiated and operated by BAN Vlaanderen - are private PRICAF's which also fall under the PRICAF regime.

A "tax shelter for start-ups" was launched in 2015 by the Federal Government under the Digital Belgium initiative. It gives private individuals the possibility to deduct 45% of what they invest in micro-companies off their income tax with a ceiling of 100.000€, or 30% in SMES. Details and conditions are found on <http://www.digitalbelgium.be/en> as well as other incentives for funds and investments via crowdfunding sites.

## **7.2. Other Public Policies**

With the upcoming of the first Business Angels networks in Belgium, and upon the request of some initiators of those networks, the national finance supervisory authority ('Bank Commission') has provided clear guidelines within which Business Angels networks were allowed to operate. This official statement gave the Business Angels networks a more professional and recognized image in the market. Through this official recognition, Belgian Business Angels networks have been able to gain confidence in the market and grow quickly to high numbers of members/investors and deal flow.

## **7.3. Government Subsidy to Business Angels Networks**

In difference to the taxation and financial policy, which is a federal (= Belgian) competence, the economic development policy is a regional matter in Belgium. It is up to the Flemish, Walloon and Brussels regional government to decide upon support to economic development organisations, such as Business Angel networks.

### **7.3.1. The Flanders Region Case: BAN Vlaanderen**

BAN Vlaanderen is the sole Business Angels network operating in Vlaanderen (Flanders), the Northern part of Belgium. It was established in 2004 as a merger of 4 smaller, mostly regionally oriented networks, which were in operations since 1998.

#### **7.3.1.1 Subsidies**

The Flemish government has been subsidising the operations of these predecessors of BAN Vlaanderen since 1999.

From its inception in 2004 onwards, BAN Vlaanderen got a major support for the regional Flemish government. Nowadays, this support equals approximately 40% of the operational budget of the network.

This subsidy is composed of: An annual fixed part of 90% of the total support and a variable, output related part of 10% of the total.

Besides this structural support (renewed every 3-4 years), BAN Vlaanderen has been given ad hoc subsidies for specific projects on consolidated financing, support of growth companies ('gazelles'), M&A-support and implementation of a Business Angel-portal/intranet.

Over the years, BAN Vlaanderen has been the appreciated partner of the Regional Development Agency and Flemish Ministry of Economy for several studies and pilot projects on alternative finance, crowd funding, SME-internationalisation, etc.

All subsidy agreements have been subject to an elaborate and constructive negotiation process between the network and the government officials (= 'Agentschap Ondernemen').

Recently, BAN Vlaanderen is selected as one of the main strategic partners of the Agentschap Ondernemen in the economic development policy for Flanders, which is a major recognition for the important role BA's are considered to play in entrepreneurship and risk financing.

### 7.3.1.2 Operations in Key Figures

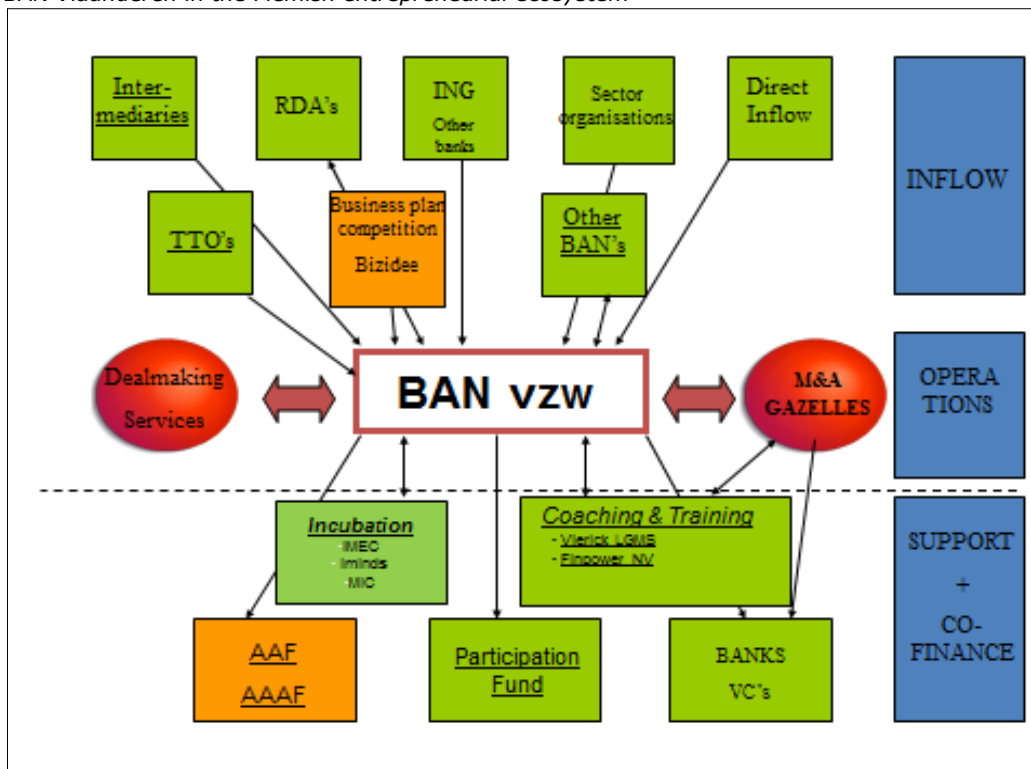
Since its inception in 2004, BAN Vlaanderen has shown an impressive growth path. Both, in quantitative and qualitative terms, the last 10 years were characterized by continuous increases in the levels and results attained. BAN Vlaanderen started with 75 affiliated Business Angels and grew to 230 members (status as per 31/12/2014).

In the past 10 years, these angels were brought into contact with over 1,000 entrepreneurs and this in accordance with well established and transparent processes which were optimized within our organization.

These +1,000 entrepreneurs were the selected and screened projects from a total gross inflow of up to 4,800 applications. So we can justifiably state that the Flemish capital seeking entrepreneurs increasingly have found their way to BAN Vlaanderen.

Typical for BAN Vlaanderen is its communication, cooperation with relevant intermediaries, embedment in the economic framework and the cooperation to government initiatives around business plan competitions, combined financing, platforms around "Gazelles" and "Mergers and Acquisitions" which are certainly explanatory to this broad awareness and inflow.

*BAN Vlaanderen in the Flemish entrepreneurial ecosystem*



Within those + 1,000 cases presented, no less than 210 cases were funded in the existence of BAN Vlaanderen (only counting first rounds, excluding follow-on investments). With a success rate of 1 in 5, BAN Vlaanderen scores very high if set off to a VC-comparison.

A big strength of the network of BAN Vlaanderen, in achieving this high success rate, proves to be its "deal making services", established since 2008. BAN Vlaanderen offers (free of charge) to its members and entrepreneurs a full service package of enabling, guidance and juridical expertise in the negotiation process which follows the matchmaking phase. So, after the investment projects are presented to the business angels, BAN Vlaanderen can introduce one of its 8 dealmakers (all of them being seasoned lead investors themselves) to give guidance to the due diligence and investment process. These "go-betweens" enhance the chances of luck

and speed up the process. They render these services on behalf of BAN Vlaanderen in complete neutrality between investors and investees company, with only one aim: enable the deal, preferably in the briefest delays.

Due to the diversity in these processes and need for tailor made solutions, their own experience as an investor is mandatory but also explanatory for the success of these services: our experience has shown that one out of three companies that enter this guided deal making process will receive funding at the end! Also the time needed to conclude the deal has shortened with 50%. In this period, an additional 73 BA + loans (see further) were granted to these cases.

Through the creation of two co-investment funds (see further), an additional 18 cases received supplementary funding through BAN Vlaanderen. By doing so, a total direct flow of risk capital of € 44 million was realized in 10 years time.

Taking into account an estimated additional funding of € 60 million in these cases from other sources, we come to a total investment of over € 100 million in the Flemish economy.

#### **7.3.1.3 Public Funding**

Co-investment funds: BAN Vlaanderen had been at the initiative of 2 consecutively investing co-investment funds for BA's:

- The Ark-Angels Fund (investment period 2007-2011) co-invested with BA's in 16 companies. The capital for the fund was provided on a 50/50 basis through a group of 41 BA's and the Flemish Government through the Arkimedes I-fund under the umbrella of the PMV (Flemish Participation Company). It now is in the phase of exiting (2 successful exits realized recently) from its participations.
- The Ark Angels Activator Fund (investment period 2012-2017) is the second BA-co-investment fund in which the Flemish Government (again through PMV) participates alongside a group of 56 angels and the ING bank, each of the 3 groups of shareholders bringing a third to the total capital of approximately 15 mio €. This fund is actually in investment modus and will invest in 15 to 20 BA-backed companies with an unknown leverage of up to 4 times the BA-investment!

Business Angel + loan: the Participation Fund Flanders is a regional financial institution that supports the self-employed, professional people, SCs and starters, including jobseekers who would like to start their own businesses. In addition, the Participation Fund Flanders's objective is to share its know-how by providing financial, technical and administrative services to other institutions, alone or with the collaboration of other organizations. The Business Angel+ loan is intended for entrepreneurs whose company is in a launch phase, or which has reached a stage of strategic development for the future of the business, and which does not have access to traditional bank credit because of the innovative or technological nature of the project, but which on the other hand enjoy the financial support of one or more Business Angels

Characteristics:

- Subordinated loan
- Interesting and fixed interest rate
- Period of 5, 7 or 10 years
- 1 to 3 years of capital repayment grace
- A minimum of guarantees required
- Maximum €125,000, by means of a contribution from the Business Angel(s) and the creator/entrepreneur(s) higher than or equal to the Participation Fund's loan
- The Business Angel+ loan benefits from a guarantee issued under the European Community's Competitiveness and Innovation Framework Program.

The Participation Fund Flanders has signed an exclusive co-operation agreement with our Business Angels network. The projects are preselected by the Business Angel network, which proposes them to potentially interested Business Angels. The Participation Fund Flanders gets involved when the "matching" is nearing a conclusion.

## **8. Selected topic: Crowd Funding**

### **8.1. A New and Different Link in the Financing Chain**

In Belgium, just as in all Western European countries, a number of new initiatives in crowd funding entered into the spotlight. Most probably many of the "crowd funded" projects will need a Business Angel at a later stage who can lift the project to a higher level.

However, it should be emphasized that there are clear differences between the two forms of funding. This clarification is all the more necessary because the naming and the communication around crowd funding often piggy-backs on, refers to or compares crowd funding with Business Angel financing. This comparison is not correct and since both activities are indeed clearly different this distinction should be clear as well for entrepreneurs as for potential investors.

### **8.2. Original Form of Crowd Funding is Useful**

BAN Vlaanderen is satisfied with the attention that is attracted to starters and daring entrepreneurs through these crowd funding initiatives. BAN Vlaanderen believes that the system of crowd funding has well proven its value in the creative industries, where young talents get the opportunity to enter the market through sponsorship by their fans/believers. These sponsors receive for their support either nothing or a small gift which is usually associated with the funded project. This original form of crowd funding (donation-based, reward based and even loan based) enjoys the sympathy of BAN Vlaanderen from its entrepreneurial promotion task. It is clear and straightforward. Parties involved know what to expect and can act accordingly.

### **8.3. Crowd Funding for Start-Ups Includes Risks**

Some recent initiatives, however, focus on expanding the original concept of crowd funding to the financing of start-ups through equity. BAN Vlaanderen wants to indicate that there may be some risks associated with this so-called "equity-based" crowd funding.

- A good start-up funding goes way beyond simply providing the necessary money currently needed. The numerous initiatives around start-up - and micro-finance often provide in a limited funding that allows a start-up, but offers still too little long-term capitalization. The basis of equity is therefore often too small at the start, which may hinder the company's growth and "time to market".
- Besides money there is at least as much need for guidance of the young entrepreneur. So once the money is invested, the attention and resources go to the right priorities. In that sense it is probably not the best choice to just provide money for every would-be entrepreneur without further follow-up. In fact, we should give starters more "smart money", which combines a financial input with a good portion of investor commitment and entrepreneurial experience.
- There is also the legal context herein which should be clarified urgently, if the entrepreneurs do not want to collect money illegally. Specifically, there is the protection of the depositor, for which the supervisory authorities provides a number of specific rules.
- More specifically in Belgium these rules determine that the supply of such platform itself should only be directed to projects with a clearly defined maximum sought capital of 100,000 Euros which may not be split into subprojects. Often the projects on a crowd funding platform are not so financially precisely defined and thus create a de facto infringement against the rules. Currently it is not clear who can be held liable in that case: entrepreneur, investor, the platform?
- Moreover, there is a real risk of an unbalanced appreciation under which the new shareholders invest. In a normal process the valuation of the business is done in consultation between entrepreneur and investor, and a clear agreement about the price



of the shares is created. With crowd funding a unilateral proposed price ("take it or leave it") is proposed to the investors and probably both parties do not see their valuation issues fully negotiated. In order to avoid unpleasant surprises in the course of the cooperation a solid and balanced drafted shareholder's agreement and Articles of Association are also of crucial importance.

- For a company with growth ambitions the early spread of the capital over a large group of investors, achieved through crowd funding, is usually not the ideal starting position for further funding rounds in the growth of the business to follow without problems. Excessive distribution of the shareholding capital makes strategic decisions and the entry of new strategic investors more difficult. Same goes for exit if not treated properly in the shareholders' agreement.

We express the hope that the crowd funding initiatives soon get the chance to tackle these typical pitfalls and that their legal environment gets clear, so they can soon take up their role alongside the business angels. Specific attention in this start-up phase of equity crowd funding should go to the selection of the proposed investee companies: a lot of projects, looking for money, have been turned down by professional investors after serious due diligence. These projects might now try their luck with the less informed and less professional crowd.

#### **8.4. Crowd Funders aren't Business Angels**

BAN Vlaanderen wants to clarify that crowd funders are no Business Angels, since Angels do much more than just providing finance. Besides the capital participation they also provide commitment and added value to the invested company by putting their knowledge, network and operating expertise at service. For this, they can draw on their extensive business experience and therefore enjoy credibility with other funders. Crowd funders completely lack these additional assets.

It is probably the best not to give the erroneous impression in naming and communication around crowd funding that this would be the case. An erosion of the concept of "Business Angel" would be unfortunate, precisely because of the positive role that many angels play in young companies.

#### **8.5. A Crowd Funding Platform is Not a Business Angel Network"**

A crowd funding platform is usually a very open structure where project sponsors and investors can easily join and place or select projects. This contrasts with the Business Angel networks where projects are presented and invested in all discretion. For example, Business Angels network files aren't accessible on any website.

First of all, the Business Angel network approach gives huge advantages for entrepreneurs in terms of protection of the idea and the promoters. Within a Business Angel network, he or she may propose the business plan to experienced investors and receive feedback on this in all discretion. There is always control with the entrepreneur to whom is about to enter into the shareholders' structure of the company: from a competitive perspective, a very important issue often overseen in crowd funding! In addition, within a Business Angel network, the entrepreneur is also sure that the project only comes to the attention of a group of selected accredited investors that also bring the above mentioned knowhow alongside financial investment. In other words entrepreneurs encounter "like-minded" peers.

There is also a comprehensive package of training and coaching by the network team so the project can be elaborated and presented under optimal conditions. A Business Angel network helps business owners to optimize their proposal so their search for funding becomes no reckless adventure.



The investors, for their part, can rest assured that only decent and thoughtful projects are proposed to them in which investment is worthwhile. The Business Angel network-team provides quality screening and standardized information per project.

In addition, the recognized structure of the network also guarantees that there is a sustainable model behind the action, with clearly defined procedures and responsibilities. The model of BAN Vlaanderen is indeed a non-profit model, so the promoters guarantee not to pursue profit.

#### **8.6. What About the Legal Framework?**

Within the network of BAN Vlaanderen more than 200 investments in Flemish innovative companies were realized from an inflow of more than 2,800 projects since its inception in 2004. The average investment, around 120.000 EUR, is situated just above the current legal 100k€-limit of the crowd funding. We hope that the transparency and the legal framework surrounding crowd funding quickly rises to the level that we require to be able to cooperate with a number of these crowd funding platforms.

A recent proposal from the Belgian Minister of Finance, envisions to enhance the crowd funding initiatives by raising the maximum capital sought from 100.000€ to 300.000€ per project, while limiting the investor risk by a maximum investment per investor per project of 300 €. This proposal has not been transferred into legislation yet and if so, will only set a broad framework, lacking any organisational input or requirements for crowd funding platforms. Will crowd funding platforms prove strong enough to self-regulate?

From our perspective, we take a cautioned approach to the structuring of this new market, keeping in mind the carefully built values of our organisation. We assume a clear win-win-situation in cooperating in a hybrid model where co-investment between the crowd (bringing market validation) and Business Angels (bringing professionalization in due diligence and post-investment coaching) combines the best of both worlds, in full respect of the strengths of each party.

#### **AUTHOR: Reginald Vossen**



Reginald Vossen holds two Master's Degrees in Applied Economic Sciences (Commercial and Financial Sciences, Commercial and Consular Sciences – International Marketing). As Chief of Staff of the provincial economic executive of the Belgian province of Limburg, he was founding secretary of the Limburg BAN in 1999. Since the merger of 4 Flemish BANs into BAN Vlaanderen in 2004, he is the general manager of this network with focus on the Flemish region.

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## FRANCE

### 12 Years of Steady Development

#### 1. France Angels, the French Business Angels Networks Federation

##### 1.1. Historical Context

Until 2000 Angel investors, who were probably not more than a few hundreds, were investing alone, without formal support from public authorities, and were accessible for only a small number of entrepreneurs, mostly in the nascent Internet world.

After the crack of the "Internet Bubble" it took some time for the market to recover and develop mostly through a "mutualized" approach of Angel investing: the Angel network. Thanks to those networks it was easier for angels to source and screen investment opportunities, perform more professional due diligences, and eventually syndicate their investment with other network members.

##### 1.2. Creation and Development of France Angels

As early as April 2001, 5 recently created Angel networks and 5 commercial structures dealing with early stage investments decided to gather in a National Association, a totally private initiative, called France Angels with a view of becoming more visible for both entrepreneurs, private investors and public authorities, promoting angel investing across the whole country, developing angel total number and providing professional training and support to network managers and new angels.

Some public support was obtained as grants to France Angels as well as support from local governments for regional networks. Some early initiatives such as a seminal Angel Congress in 2001, sponsored and hosted by the French Senate of the School of Business Angels, development of a Center of Resources and of a training program for Network Managers, a Network "Charter" and "Code of Conduct", made it possible to grow up to 1500 angels in 2006 and more than 4300 in 2013, members of c. 85 Angel Networks and 40 Angel Funds.

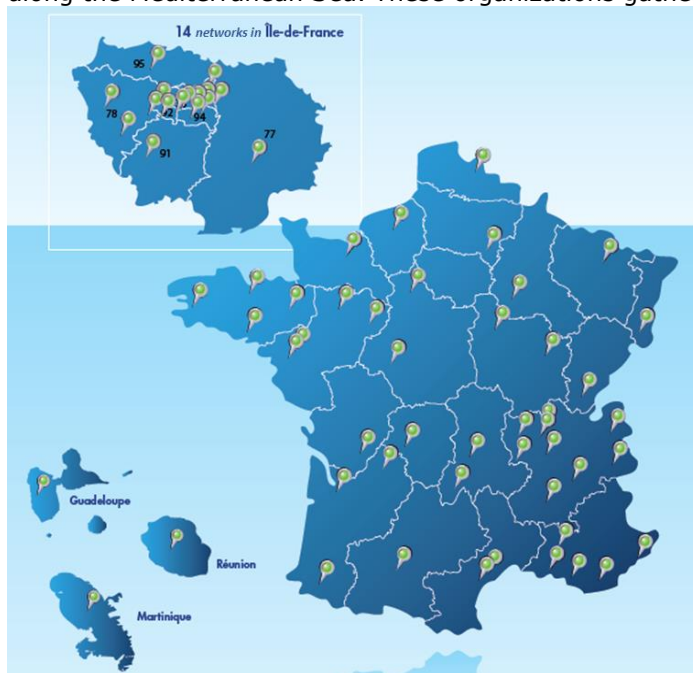
#### 2. Characteristics of French Angels Networks

##### 2.1. Business Angels Networks Types

The basic fabric of Angel Investment in France is still a non-profit association of 30 to 150 Angels, gathering diverse entrepreneurial and sectorial experiences and competences in a particular geographical area, mutualizing most of the deal flow process among members, led either by a group of volunteer angels and /or by a salaried manager, whichever is financially sustainable.

The original approach of Angel investing in France comes from the dominant development of a variety of networks: from regionally based networks (still a dominant approach with c. 65 networks across the country) to more industrial sector focused networks (health care, clean-tech, ICT, Forest industry, robotics...) and University alumni based networks (most of Technical and Business Schools across France, have an alumni network or plan to set up one in the near future).

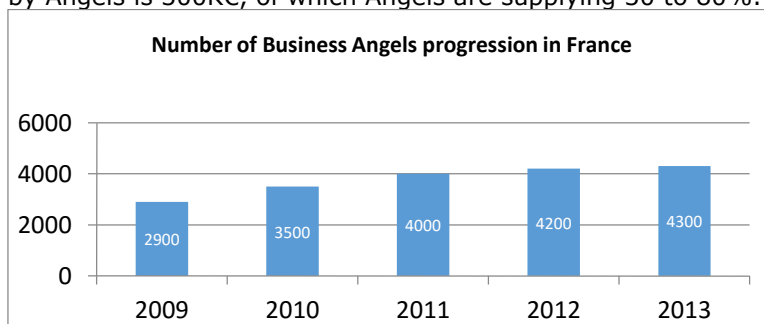
The regional organizations also develop a lot. It enables to increase the co-investments, exchanges of good practices between networks and to have more impact with the local ecosystem. The organizations base themselves on dynamic areas: Paris region, Lyon region, region along the Mediterranean Sea. These organizations gather generally from 4 to 8 networks.



An interesting network has been set up 10 years ago, called Femmes Business Angels, whose members are only female Investors; their membership has been constantly growing up to 100 members in 2013. They could invest in every kind of startups, led by male or female entrepreneurs.

More than 5 large networks, made of more than 150 members, sometimes including several chapters are now becoming very professional in their processes, and belong to the top tier of European networks: Paris Business Angels, Investessor (West Paris Region), BADGE (Alumni of leading Engineering and Business Schools and Universities), Arts & Métiers Business Angels (Alumni of Technical Engineering Schools), Grenoble Angels, Savoie Angels. These networks have all set up 1 or 2 side-car angel funds called SIBAs (40 SIBAs in total are also members of France Angels) in order to increase their financial capacity.

The 4300 Business Angels members of France Angels have been investing in more than 350 startups a year for several years and are currently supporting and mentoring a portfolio of more than 2000 startups and mid-caps. The average first round of early stage investment led by Angels is 300K€, of which Angels are supplying 30 to 80%.



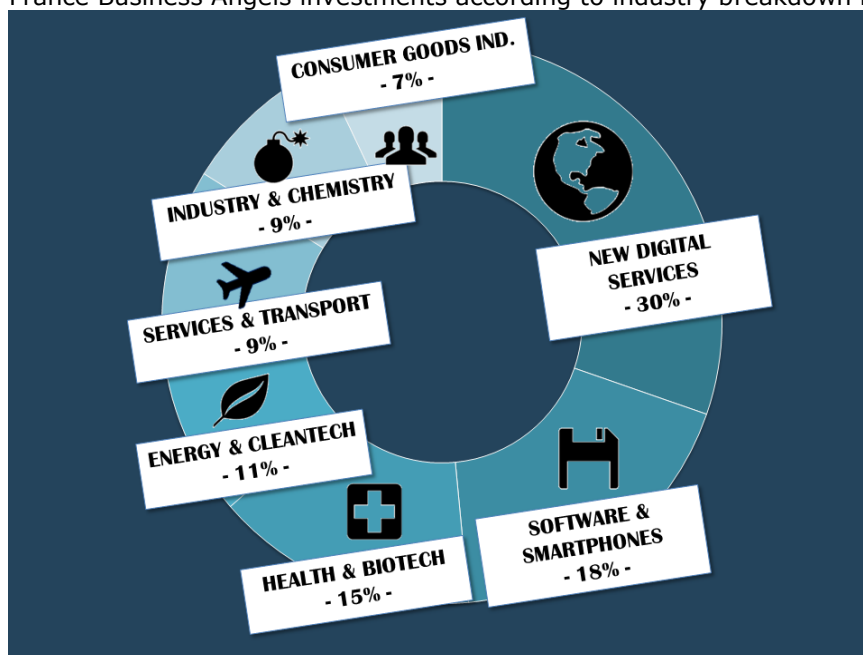
There are still in addition a significant number of Angels in the "Invisible Angel Market", evaluated by several studies at 2500 to 3000 Angels in total, who either do not know about Angel

networks or do not want to mutualize their Angel activity with others or prefer to syndicate on a case by case basis and informally with some friends.

The small number (although estimated number) of Angels outside of networks, all belonging to a single federation of networks (France Angels), is a very particular aspect of Angel Investment.

Still a number (a handful to 50) of "Super Angels" have recently developed, mostly entrepreneurs of the Internet world, who are only or quite investing in the Internet world as well. For this purpose they tend to set up a mini VC structure, which should more be called an Entrepreneur Fund, whose funding is coming from one or several individuals or Family or Corporate and managed by professionals of the VC industry. Their high visibility in the Internet arena makes them appear more numerous than they are in reality.

France Business Angels investments according to industry breakdown in 2013



### 3. France Angels Relationship with the French Innovation Eco-system

#### 3.1. Others Coaching Organizations

French Business Angels networks and SIBAs benefit from a very active public as well as private environment of organizations supporting the innovative startups:

- Incubators, 61 Technopoles and CEEI (European Innovation Centers) are Regional structures, mostly financed by local Governments as well as the ERDF (European Regional Development Fund) and members of a National Association called RETIS, French part of the EBN (European Business Network). 91 organizations are currently members of Retis. Angels are generally involved in the selection, training and eventually financing of the startups, hosted by these organizations. Retis is a key partner of France Angels at the National level because France Angels and Retis members work in close collaboration.
- A significant number of Accelerators mostly in the Web sector have been set up in recent years, and are as well partners of Angels, although some perceive themselves more as competitors to Angels as they are developing their own funding capabilities. This trend is supported by the French government which has recently launched the

initiative "French Tech", which is going to increase the number of accelerators in France (300 M€ are planned for that purpose).

- A large network of public (Initiative France / 230 members platforms), and Private (Reseau Entreprendre / 72 regional locations) Regional structures are providing very early stage "no interest/no guarantee", loans to entrepreneurs, from 20 to 80K€. Some Angels are simultaneously member of one of those structures and/or coaching the selected entrepreneurs in their fund raising process. That is tangible deal flow source for Business Angels networks.
- Angels are also very involved in the National and Regional Clusters (71 in France), supported by National or Regional Agencies, as well as large corporations in a particular industry sector. Angels are providing, generally free of charge, coaching activities and training in Fund raising. France Angels is a sponsor and co-leader of the National competition among startups hosted by National clusters, which leads to the renowned label EIP
- New Public TTS agencies (12 SATT as of today), financed by the Ministry of Research have been setup recently to help transform Research Results, mostly coming out of the Public Universities in a particular Region, into either IP or startups. These SATTs are also suggesting to involve Angels at this early stage, in order to provide some business advice to potential entrepreneurs.
- A large number of Seed Funds are prime partners of Angels, Regional Seed Funds, created by most of Regional Governments, with a co-financing by the ERDF, Private seed funds financed by Regional Banks, Public-Private early stage funds, some of which being investing at seed stage (45 funds members of UNICER, partner of France Angels), and more recently, Industry focused, and multi-regional seed funds, financed by the FNA (National Early Stage Fund) 25 as of today. Angels are very often lead investors for those funds but over time they becoming competitors for attracting good deal flow.
- France Angels is also an active Associate Member of AFIC, which gathers and represents the French VC Industry, taking part of the activity of their members in work groups related to early stage investing. Conversely, 20 VCs are Associate members of France Angels and associated in the work groups of France Angels.

More generally, our members are very involved in the local economic development activities in their region, since this is one of their important motivations to become an active Business Angel.

### **3.2. New Actors: Crowdfunding Platforms**

Crowdfunding platforms are going to be a new important part of the Angels eco-system. New regulation, although formally released in July 2014, has been already revealed in several publications. It will be, and this has been a political objective of the Socialist government, one the most liberal of Europe and USA. It opens the possibility for equity crowdfunding platforms to raise funds up to 1 M€ without the need for a prospectus, provided they have been registered with the AMF (French equivalent of SEC) and provide a minimum but limited information about the issuer. No need for any capital, no need for investors to be qualified or to invest a maximum amount of fund.

In 2013, the website "Good Morning Crowdfunding" pointed out 10M€ in equity crowdfunding in France for 14 platforms. Almost 3000 crowdfunders have invested in 4000 companies or projects. This will require a fast positioning of Business Angels regarding this new form of fund raising. A lot of discussions are currently going on.

## **4. Government Policies to Promote Business Angel Activity in France**

### **4.1. Tax Incentives**

Since 2006, the French government has designed a tax deduction system for direct investment by private investors in SMEs (up to 250 headcount and/or 50 M€ of revenues). This Income tax relief called Madelin after the Minister of Finance that launched it, was originally of 25%, with a cap of 20K€, and a commitment to keep shares for 5 years. This tax relief has been extended to Angel Funds (SIBAs), which would benefit as well of a partial guarantee given by the Public Bank Oseo.

Over the years, this tax relief has, however, been reduced by successive governments (right government as well as left governments as of today) up to now 18% with a cap limited to 10K€ (cap combined with other types of tax reliefs for family care spending for instance). It is proven to be now rather ineffective in inducing private individuals to invest in risk startups at the seed level.

This tax relief has been extended in more recent years to investment through professional capital investment FCPI, managed by certified fund managers, provided more than 70% of the fund is invested in early stage. For the same reason as for direct investment the funds raised by VCs have decreased by 40 % in the past 2 years.

On the other hand, this tax relief does not help any more the development of the 40 existing SIBAs (angel side car funds), since after 2010, it would require the SIBA to employ at least 2 salaried people and have a maximum of 50 shareholders, which makes this kind of structure not financially sustainable any more.

Since 2007, a new law, called TEPA, has been creating a new tax relief, called ISF-PME, on the Wealth tax, called ISF, at a rate now of 50% (originally and for 2 years at 75%), with a cap of 45K€ now, (originally 50K€). In 2008, this measure enable 73 200 taxpayers to inject 1.1 billion Euros in the capital of the SME. This tax relief system has proved to be more effective than the Madelin one, since it goes up to an investment of 90K€ per year. But this is applicable only to individuals paying the ISF (approx. 60\$ of Angels only). It requires as well keeping the new shares for at least 5 years; it is also applicable to dedicated FCPI and FIP.

As far as we may know from tax data collection research TEPA tax breaks have been used by around 70 000 private investors in 2007-2008 for a total tax saving of 600K-700K€. Most of this amount, however, concerns investment in SME family businesses which benefited from the same tax break system. The real support to Business Angels, investing in non-related SMEs, and committed to support and monitor over time these SMEs is probably (research is not clear on that purpose) only a small fraction of this total of 700K€.

### **4.2. Government Subsidies**

Early as 2001, The Ministry of Finance and Industry has been hosting and sponsoring a major Annual Congress gathering up to 500 people and provided a substantial annual subsidy, which combined with a support from the Public Bank CDC, amounted to 80K€ i.e more than 50% of total France Angels budget. This Government subsidy has decreased over the years to an annual level of 15K€ provided only by the new Public Bank for SMEs, BPI France.

On top of this government subsidy to France Angels, 43 networks over 10 years, selected through a competitive bid managed by the Ministry of Finance with the support of France Angels have received a subsidy of 100K€ over 3 years to help them grow.

At the Regional level many subsidies have been allocated to regional networks, by local Governments. First instance came from the Paris Region and was based on the number of investment pitches organized by a network: an amount of 1000€ per pitch with a cap of 30.000€. Mostly this amount is around 500€ per investment with a cap of 20.000€.

This has been complemented in several regions by subsidies in kind provided by local Development Agencies, Chambers of Commerce, or City Government Agencies in the form of secretarial services or hosting of teams and meetings. Other subsidies have been often proposed for Promotion and Communication campaigns in view of developing the number of Angels in the region and market awareness of Angels.

#### **4.3. Public Co-Investment Funds**

Over the years it became clear that increasing the number of Business Angels was not enough for startup development. There was a need for additional funding to the Angel one, in particular for later rounds of financing, where VCs were less and less present.

This objective of increasing the financial capability of Angels has been taken first by several Regions, which have been setting up Regional co-investment funds, investing pari-passu with Angels who would remain lead investors. Funds would come 50% from Regional budgets, 50% being accrued by the ERDF. At this time 7 Regional Funds are up and running, mostly focused on seed and early stage phases, one being more focused on later stage development. Size of these Co-Investment funds may vary from 10 to 20 M€.

At the National level a new Co-investment Fund called Angel Source, has been set up in 2013 as a Pilot National Public co-investment fund. The 20 Million funding have been supplied 90% by the FNA (National Seed Fund of funds), and 10% by Private investors, mostly Angels. It is managed by a professional fund manager firm, called Isource-Gestion, but with a significant involvement of Angels in the Selection and Investment Committees. Angel Source will only co-invest pari-passu with a selection of Angel networks members of France Angels, which can demonstrate a significant track record. This selection process makes it possible for Angel Source to rely on the Angels due diligences and on the support and reporting of lead Angels in order to save costs. To conclude, 4 initiatives of the French government mentioned above are also co-investment opportunities for Business Angels:

There are new public TTS agencies (SATT), created to help transform Research Results, mostly coming out of the Public Universities in a particular Region, into either IP or startups. In just two years SATTs invested around 48 M€ into innovation projects. BpiFrance was born from a fusion between Oseo and CDC Entreprises to create the first public organization of investment and development of companies: BPI invested 750 M€ in innovation in 2013 for a total amount of 10 billion euros. The FNA (National Early Stage Fund) intend to take part in the financing of the investment fund intervening for early stage. It is managed by BpiFrance; this fund is endowed with 600 M€, for investments ranging between 5 and 30 M€.

The French government analyzes the opportunity of investing in the crowdfunding platforms in order to support their development in France.

**AUTHOR: Philippe Gluntz**





Philippe Gluntzis graduated from Ivy League "Ecole Polytechnique", "Ecole des Ponts et Chaussées" and also from "l'Institut d'Études Politiques de Paris" in Economics and holds a PhD in Management from Vanderbilt University (USA). He is Chairman and Board Member of several NTIC and Logistic companies, and is involved in the Venture Capital market, on top of his academic teaching. He is President, and Executive Vice-President of the French Federation of Business Angels Networks and early stage Funds (France Angels), and of the Confederation of European Business Angels (BAE).

## APPENDICES

### Regional based networks

Business Angels network	Location	Website
AB2A	Picardie	<a href="http://www.aisnebusinessangels.com/">http://www.aisnebusinessangels.com/</a>
Adour Business Angels	Midi-Pyrénées	<a href="http://www.adourangels.fr/">http://www.adourangels.fr/</a>
Alpes Léman Angels	Rhône Alpes	<a href="http://www.alpes-leman-angels.info/">http://www.alpes-leman-angels.info/</a>
Alsace Business Angels	Alsace	<a href="http://www.alsacebusinessangels.com/">http://www.alsacebusinessangels.com/</a>
Alumni Business Angels	PACA	<a href="http://www.alumni-ba.com/">http://www.alumni-ba.com/</a>
Armor Angels	Bretagne	<a href="http://www.armorangels.org/">http://www.armorangels.org/</a>
Atlantic Business Angels Booster	Pays de la Loire	<a href="http://www.businessbooster.fr/">http://www.businessbooster.fr/</a>
Auvergne Business Angels	Auvergne	
Beaujolais Business Angels	Rhône-Alpes	<a href="http://www.beaujolais-businessangels.com/">http://www.beaujolais-businessangels.com/</a>
Bluesky Capital	Paris	<a href="http://www.bluesky-capital.fr/">http://www.bluesky-capital.fr/</a>
Bourgogne Angels	Bourgogne	<a href="http://www.bourgogneangels.org/">http://www.bourgogneangels.org/</a>
Bretagne Sud Angels	Bretagne	
Business Angels Nord de France	Nord-Pas de Calais	
Business Angels Grand Gâtinais	Paris	<a href="http://ba-gg.fr/">http://ba-gg.fr/</a>
Capitole Angels	Midi-Pyrénées	<a href="http://www.capitole-angels.com/">http://www.capitole-angels.com/</a>
Caraïbes Angels	Martinique	<a href="http://www.caraibesangels.org/">http://www.caraibesangels.org/</a>
Champagne Ardenne Angels	Champagne Ardenne	<a href="http://www.champagne-ardenne-angels.fr/">http://www.champagne-ardenne-angels.fr/</a>
Club Invest 77	Paris	<a href="http://www.business-angels-77.fr/">http://www.business-angels-77.fr/</a>
Eure-et-Loir Business Angels	Centre	<a href="http://www.business-angels28.fr/">http://www.business-angels28.fr/</a>
Fa Dièse 2	Paris	<a href="http://www.fadiese.fr/">http://www.fadiese.fr/</a>
Femmes Business Angels	Paris	<a href="http://www.femmesbusinessangels.org/fba">http://www.femmesbusinessangels.org/fba</a>
Finance & Technologie	Paris	<a href="http://www.finance-technologie.com/">http://www.finance-technologie.com/</a>
Finaqui	Aquitaine	<a href="http://finaqui.com/">http://finaqui.com/</a>
Finistère Angels	Bretagne	<a href="http://www.finistereangels.fr/">http://www.finistereangels.fr/</a>
Grand Delta Angels	PACA	<a href="http://www.grand-delta-angels.com">http://www.grand-delta-angels.com</a>
Grenoble Angels	Rhône-Alpes	<a href="http://www.grenobleangels.grenobleecobiz.biz/">http://www.grenobleangels.grenobleecobiz.biz/</a>
Health Angels Rhône-Alpes	Rhône-Alpes	<a href="http://health-angels-ra.org/">http://health-angels-ra.org/</a>
Invest-Y	Paris	<a href="http://www.invest-y.com/">http://www.invest-y.com/</a>
Investessor	Paris	<a href="http://www.investessor.fr/">http://www.investessor.fr/</a>
Le Mans Sarthe Investissement	Pays de la Loire	<a href="http://www.lmsinvestissements.fr/">http://www.lmsinvestissements.fr/</a>
Limousin Business Angels	Centre	<a href="http://www.limousin-businessangels.fr/">http://www.limousin-businessangels.fr/</a>
Logoden Participations	Bretagne	<a href="http://www.logodenparticipations.com/">http://www.logodenparticipations.com/</a>
Lorraine Business Angels	Lorraine	<a href="http://www.lorraine-ba.com/">http://www.lorraine-ba.com/</a>
Lyon Angels	Rhône-Alpes	<a href="http://www.lyonangels.org/">http://www.lyonangels.org/</a>
Marla Business Angels	Picardie	<a href="http://www.marlabusinessangels.com/">http://www.marlabusinessangels.com/</a>
Méditerranée Investissements	PACA	<a href="http://www.mediterranee-investissements.com/">http://www.mediterranee-investissements.com/</a>
MELIES	Languedoc-Roussillon	<a href="http://www.melies.fr/">http://www.melies.fr/</a>
Normandie Business Angels	Normandie	<a href="http://www.nbangels.org/">http://www.nbangels.org/</a>
Norm'angels	Normandie	<a href="http://normangels.blogspot.fr/">http://normangels.blogspot.fr/</a>
Norm'invest	Normandie	
Ouest Angels	Pays de la Loire	<a href="http://ouestangels.org/">http://ouestangels.org/</a>



Paris Business Angels	Paris	<a href="http://parisbusinessangels.com/">http://parisbusinessangels.com/</a>
Périgord Angels	Dordogne	
Provence Business Angels	PACA	<a href="http://www.provenceangels.com/">http://www.provenceangels.com/</a>
Reims Business Angels	Champagne Ardenne	
Re-Sources 1	Nord-Pas de Calais	
Rhône-Vallée Angels	Rhône-Alpes	<a href="http://www.rhonevallee-angels.fr/">http://www.rhonevallee-angels.fr/</a>
Roanne Angels	Rhône-Alpes	<a href="http://www.roanneangels.fr/">http://www.roanneangels.fr/</a>
Savoie Angels	Rhône-Alpes	<a href="http://www.savoie-angels.com/">http://www.savoie-angels.com/</a>
SIRS Business Angels	Paris	<a href="http://www.sirs-business-angels.org">http://www.sirs-business-angels.org</a>
Sophia Business Angels	PACA	<a href="http://www.sophiabusinessangels.com/">http://www.sophiabusinessangels.com/</a>
Sud Angels	Languedoc-Roussillon	<a href="https://www.sud-angels.fr">https://www.sud-angels.fr</a>
Symbiose 53	Pays de la Loire	<a href="http://www.symbiose53.fr/">http://www.symbiose53.fr/</a>
Synergence	Poitou-Charentes	<a href="http://www.synergence.fr/">http://www.synergence.fr/</a>
Val Angels	Paris	<a href="http://www.valangels.com/">http://www.valangels.com/</a>
Val de France Angels	Centre	<a href="http://www.valdefranceangels.fr/">http://www.valdefranceangels.fr/</a>
Var Business Angels	PACA	<a href="http://vba.tvt.fr/">http://vba.tvt.fr/</a>
Yonne Business Angels	Bourgogne	

#### Industry sector focused networks

Business Angels network	Investing sector	Website
Alidev	Agribusiness	<a href="http://www.alidevangels.com">http://www.alidevangels.com</a>
Angels Santé	Health Business	<a href="http://www.businessangelssante.com/">http://www.businessangelssante.com/</a>
Cleantech Business Angels	Cleantech	<a href="http://www.cleantechbusinessangels.com/">http://www.cleantechbusinessangels.com/</a>
DDIDF	Sustainable development	<a href="http://ddidf.org/">http://ddidf.org/</a>
Forinvest	Wood Industry	<a href="http://forinvest-ba.fr/">http://forinvest-ba.fr/</a>
Go Beyond	International Business	<a href="http://www.go-beyond.biz/">http://www.go-beyond.biz/</a>
IT angels	IT Business	<a href="http://www.itangels.fr/">http://www.itangels.fr/</a>
Seed4Soft	Software	<a href="http://seed4soft.com/">http://seed4soft.com/</a>
We2Go	Family Office	

#### University alumni based networks

Business Angels network	Type of University	Website
Arts et Métiers Business Angels	Arts & Métiers (Technical school)	<a href="http://www.am-businessangels.org/">http://www.am-businessangels.org/</a>
BADGE	Technical schools	<a href="http://www.business-angels.info/">http://www.business-angels.info/</a>
Dauphine Business Angels	Dauphine University	
Edhec Business Angels	EDHEC (Business school)	<a href="http://www.cleantechbusinessangels.com/">http://www.cleantechbusinessangels.com/</a>
EM Lyon Business Angels	EM Lyon (Business School)	
ENSAE Business Angels	ENSAE (Technical school)	<a href="http://www.ansaeba.org/">http://www.ansaeba.org/</a>
ESSEC Business Angels	ESSEC (Business school)	
GEM Angels	GEM (Business school)	
Harvard Angels	Harvard University	<a href="http://harvardangelsfrance.com/">http://harvardangelsfrance.com/</a>
INSA Angels	INSA (Technical school)	<a href="http://www.insa-angels.fr/">http://www.insa-angels.fr/</a>
INSEAD Business Angels	INSEAD (Technical School)	
ISEP Business Angels	ISEP (Technical school)	<a href="http://www.isepba.com/">http://www.isepba.com/</a>

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## GERMANY

### 1. Background on Business Angels Netzwerk Deutschland (BAND)

Business Angels Netzwerk Deutschland e.V. (BAND) is the federation of business angels and their networks. Its main role is to build and strengthen the business angel ecosystem in Germany. BAND acts as the voice of the angel investor scenery towards the government and the general public. It organizes the exchange of experiences, supports cooperation and creates better connectivity between the angel community. BAND looks for trends and collects existing numbers, data, facts, statistics and scientific knowledge about angel investments. BAND aims to identify examples for best-practice, cooperates with market experts and brings their competencies into service of the continuing professionalization of the German angel market.

### 2. Market structures

Germany has a strong and diverse business angel market. Angel investors are recognized as the most important early stage investors, investing a lot more capital in seed stage than venture capital firms. On top of that, more and more angels begin to invest in follow-on rounds. Angel investing in Germany is to be considered as a professional market segment along the financing chain of innovative, high-potential startups.

#### 2.1. Angel Investor's Profiles and their Forms of Merger and Cooperation

Business angels are characterized by two wings: they invest their own private money as well as entrepreneurial know-how. They open their networks for the startup, know the industry and potential customers, hence providing added value.

Besides this general orientation, any form of typology is more or less speculative. Angel investors are either successful businessmen or serial entrepreneurs, having built (and successfully sold) their own companies before getting in touch with angel investing or even CEOs of SMEs, who invest in startups besides their own entrepreneurial activities. In addition, there are managers, consultants, lawyers, professors etc. all active in angel investing. Some angels look to invest in specific sectors, while others search for top deals no matter what sector; some focus strictly on new economy, some are open to investments into old economy. Most angel investors take a hands-on approach, with the intensity of their involvement varying individually.

Generally, angel investors only aim for a minority stake in the company, the investment sum ranging from smaller five-digit numbers to the deep pockets of a few super angels. German angels are predominantly male and usually between 40 and 50 years old. Angels investors over 65 are pretty rare. Only a few female investors are active right now, but seem to be on the rise. It's an advantage for both. The typical business angel does not really exist. That is quite an advantage: The typical start-up does not exist either.

Activities of business angels are not concentrated locally or regionally but rather spread out over mainly the western part of Germany. In the East German states the number of angel investors remains still low. The German market is decentralized with angel investors to be found nearly everywhere in West Germany, not only in the proclaimed start-up hotspots. German angels invest either alone or in syndication – formal or informal, on long term or on a deal by deal basis – to concentrate know-how and enlarge the investment sum. A small number of business angel sidecar funds – currently there are four of them – is active in the market. In addition to that, there are a number of angel mergers, who want to fly under the radar of public perception and make their deals as a form of “closed-shop”. Self-organized angel groups

after the US model are hardly to be found in Germany. Family offices are only part of the angel market, if family members are personally active as angel investor.

The German business angels is dominated by individuals, informal and divers, not regulated. In Germany, something like an accredited investor as in the US or UK simply does not exist.

## **2.2. Business angel Networks**

Business angel networks remain the backbone of the German Angel market providing the basic infrastructure. Since 2000 their number has been steady between 35 and 40. They are organized in BAND. Angel networks are the regional contact points for business angels looking for dealflow, partners and networking opportunities as well as for start-ups looking for financing.

The networks themselves vary in structure and size, in their form of organization (private, public or associated with a local institution). The networks are generally not focused on specific sectors, but some have a strong regional focus. The German angel networks are the structuring and stabilizing force in the market, provide visibility and they are the first place to go for virgin angels.

## **2.3. Investment Partners of Angel Investors**

More often than not, startups need more money than angels are able to provide. Therefore business angels have to rely on investment partners to either co-invest or leverage their own investment. The most important players in the German market are:

- High-Tech Gründerfonds (HTGF): public-private VC fund focused on investing in early stage companies and providing initial financing up to 500.000 Euros in the form of subordinated convertible loans, and acquires 15% of the nominal share of the company. HTGF will also offer the opportunity of further 1.5 million Euros for follow-on financing. In the first 5 years of its existence HTGF financed approximately 400 companies from the high-tech sector and set them successfully on their way.<sup>2</sup> HTGF invites Business angels as side investors, to provide additional capital of financing. They invest in almost every second (45 %) seed financing of HTGF or starting a company by themselves. In recent years, German business angels have been the second most active investor in follow-on rounds by the HTGF, only surpassed by VC firms from abroad.<sup>3</sup>
- ERP Startfonds –program of the German public bank Kreditanstalt für Wiederaufbau (KfW) - provides venture capital to small innovative technology companies not older than ten years. To participate in the ERP-Startfond it is necessary that there is a private lead investor who invests alongside the KfW into the company. The KfW invests up to 50% of the investment amount under the same economic terms and conditions (pari passu) as the lead investor.
- European Angels Fund (EAF): co-investment fund that was initiated in 2012 by the European Investment Fund (EIF) and the German government respectively the Federal ministry for Economic Affairs and Energy and developed with Business Angels Netzwerk Deutschland e.V. (BAND). Instead of granting co-investments on a deal-by-deal basis, the European Angels Fund enters long-term contractual relationships with Business Angels. Co-investment framework agreements (CFAs) in the range between between EUR 250k and EUR 5m are established through which the European Angels Fund grants equity for co-investments to each Business Angel for future investments. The CFAs are standardised while also leaving room for adaptation to specific requirements of individual Business Angels like timeframe, sector focus, number of investments, etc. With this construction, the EAF meets the mentality of Business Angels: a maximum of freedom combined with a minimum of bureaucracy. The requirements for participating

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<sup>2</sup> For more information see: <http://high-tech-gruenderfonds.de>

<sup>3</sup> Interview with Dr. Alex von Frankenberg, BANDquartal 2/2015, [www.business-angels.de](http://www.business-angels.de)

angels are quite high though: the EAF verifies the qualifications and experience beforehand. If the requirements are met, the EAF trusts the investment decision of the approved Angel totally.

Aside from the mentioned co-investment partners a number of public and private seed funds are active within the market, investing in different framework alongside angels.

#### 2.4. Expert Community

In the periphery of Business Angels activities a highly specialized expert community has been established, consisting of lawyers, tax advisors and auditors. By organizing the annual BAND expertforum BAND strongly supports the networking of these players. In addition to that, everybody is invited to ask questions using the BANDexpertentool on the website, which are then forwarded to various experts from law and tax firms. This opens up the possibility to get immediate answers from experts considering the angel investment process.

#### 2.5. Service providers

With the constant growing of the Business Angels Community the portfolios also tend to get larger and harder to handle for individual angels. Exit options have to be analyzed, follow-on financing has to be negotiated and new questions arise considering the internationalization strategies of portfolio companies. Angel investors look for support and the market reacts with different service offers: internet based matching platforms, online tools for dealflow and portfolio management as well as new controlling instruments have stormed the scene in recent years. Another important subject remains to be investor readiness. When it comes to continued education, the German market does not offer a whole lot of training. Since most angels don't like to learn in an institutionalized and organized form, alternative ways of angel education needs to be developed, even more so considering virgin angels.

#### 2.6. Interaction, Awareness and Visibility

The German market is hard to grasp. Best practice cases of financed startups and successful exits help gain the media's attention. To attract new angels, more of these examples are to be made public. Furthermore, communication structures need to be established to initiate the exchange of experiences among business angels.

**German Business Angels Day:** is the most important event organized by BAND biennially. Since 2001 the DBT has established itself as a brand within the angels ecosystem. With more than 500 participants and 150 exhibitors, the DBT is the largest convention of its kind in Europe. The congress is recognized as a central promoter of the business angel culture in Europe. Within two days workshops, panels and speeches focus on current topics of the angel scene. An important part of the DBT is also the exhibition of innovative companies seeking capital.

**BAND Business Angels Community Summit** – Alternating with the DBT, BAND organizes the Business Angels Summit biennially alongside a business angel as host. The Summit is an exclusive event only for active business angels. The idea was generated during the "year of the business angels" in 2010. During the campaign, BAND got in contact with even more active business angels and learned: Everyone is acting in his individual way, in his own personal environment and. What is missing in Germany so far, is a "business angels community". The aim of the event is to achieve the establishment of such a community

**"Business Angel des Jahres":** Every year BAND hands out an award to "The German Angel of the Year". Business angels who supported their portfolio companies, especially through their own network and know-how, have the best chance to get the award. Only start-ups can recommend "their" business angel for the award

**Business Angels Decade:** "We want more" – that was the motto of the "year of the business angels", proclaimed by BAND in 2010. The campaign had good results in making the business

angels landscape known and more transparent, but it also showed that a sustainable effort is needed to further stimulate the scene. That is why “the business angels year” was the starting point for the decade of the business angels, a large-scale offensive to stimulate the business angels market during the ten years between 2010 – 2020. Main target of the decade of the business angels is to increase the public awareness of business angel activities and to further stimulate private investments into start-ups.

On top of that hundreds of events take place, locally, regionally, nationally or even cross border, representing the angel circle of its market or its periphery. The events are listed on the website [www.business-angels.de](http://www.business-angels.de) and also on the website of BAND’s media partners.

### **2.7. Incentives to stimulate the market**

Business Angels invest into the economy’s future. Even politicians have recognized: if you want to be innovative, keep old and attract new angels, you have to make sure that the framework is right and even incentivize angel investments, which remains to be a risky asset class.

The grant INVEST Zuschuss Wagniskapital provided by the Federal Ministry of Economics and Technology was launched in spring 2013, creating an incentive system especially for Business Angels. Until 2016 150m € are set aside for this purpose by the federal government.

Business angels, who invest in small and medium sized companies (SME), which are also younger than ten years and considered innovative receive a totally tax free grant of 20% of the investment sum to increase their financial power for an investment and reduce risks.<sup>4</sup>

### **2.8. Angel investing as a link in the financing chain**

Business Angels, VC’s, Family offices and corporate ventures are not necessarily in competition, but rather are partners in the financing of start-ups. With investments into start-up companies, business angels are taking a high risk in an early stage of the company development. Normally the activities of business angels are complemented by fund-based venture capital companies. They invest alongside business angels or take on the follow-on financing. Therefore venture capital and business angels are partners in the financing chain of start-ups. An initial funding through the business angels does not continue if there is no follow-on financing available. On the other hand, promising start-ups only make it to the next stage, when seed funding has been taking place. Therefore angels, VCs and corporate ventures are all in the same boat. In the case of an exit this has to be recognized by taking a critical look at the known rule “last in – first out”. To underline the cooperation between angels and VCs BAND and VC federation BVK have released a „Paper of Solidarity“ in 2013, in which both pledge for the improvement of venture capital framework.

In addition to that crowdfunding has been on the rise in recent years and becomes an important part in the entire foodchain. Several platforms are working on incorporating business angels as lead investors in their deals<sup>5</sup>. This way, the crowd is able to leverage angel investments significantly without having too much to say at the table, because crowdfunding works with profit-participating loans and not equity.

### **2.9. Interacting with the start-up ecosystem**

There are strong interactions taking place between the business angels market and the start-up ecosystem. For angel investors, the existence of a lively and differentiated start-up community is crucial, most notably in respect to qualitative and quantitative dealsourcing. To meet new start-ups, angels look at accelerators, incubators, company builder und start-up factories

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<sup>4</sup> For more information, see: [www.bafa.de](http://www.bafa.de)

<sup>5</sup> Crowdfunding platforms like Companisto and Aescuvest seek the cooperation with angels, while the angel matching platform Venturate plans to open investments for the crowd.

with programs that promise to get start-ups to the next level, attend award ceremonies, business plan competitions and pitching events. High-potential startups also have the ability to attract media coverage as well as employees and foreign investors, thus creating a cycle, that provides a good investment climate as well as co-investment opportunities. Example Berlin: In recent years Berlin has developed into one of the most vibrant startup capitals in Europe. Especially for software start-ups it does take a leading role: in Germany, Berlin is leading in VC investments into tech start-ups with 298 such investments between 2010 and 2014, far ahead of runner-ups Bavaria and North-Rhine-Westphalia.<sup>6</sup>

However, the Berlin scene does not attract start-ups from all sectors. Berlin one of many start-up hubs. Without a doubt, Munich is one of the most important start-up cities, with Hamburg and Cologne, Dresden, Stuttgart, Frankfurt and the metropolitan area of the Ruhr also having active start-up scenes: in the shadow of Berlin's hype, hidden champions mature everywhere. All in all, the strength of the German Startup Ecosystems as well as of the German Business Angels market lies in its diversity.

### **3. Size of the Angel Investor market: Approximation**

The continued growth, professionalization and differentiation of the German Business Angel market demand for reliable numbers, data and facts about the development of the market. As necessary as a quantitative analysis is, as hard it is to generate: Business Angels often act as discreet investors, if they even choose to identify themselves as angels. This creates a sort of fragmented market: besides the visible Business Angels market, there is an invisible one, whose size can only be estimated. It is filled with private persons, who choose to be angel investors without being public about it.

This segregation into visible and invisible market makes it impossible to grasp the market's size as a whole. In this constellation you have to resist the temptation to simply extrapolate figures because these numbers are nothing but false information inducing wrong allocations. Instead of doing this, there are different approaches and methods in use in Germany, to approximate the market size and explore the market in a qualitative way.

#### **3.1. The quantitative view out of the companies' perspective**

The Centre for European Economic Research (ZEW) in Mannheim chooses a different access to the angels market: Instead of trying to reach out to business angels directly, the ZEW takes another route asking a representative figure of newly-founded companies whether or not an angel investor was involved with them, among other things. Two studies of this kind have been published in 2007 and 2014. While the 2007 study focussed on high-tech-companies alone, the 2014 one took a wider approach, hence limiting the comparability<sup>7</sup>.

The study of 2007<sup>8</sup> estimates a number of 2,700 to 5,400 angel investors being active in Germany at the time. The wide range illustrates the problem that exact figures are generally difficult to gather. Especially angel investing outside the high-tech sector is difficult to quantify, since it also mostly happens outside of networks, as the authors claim. So, to extract one number, it should be probable to talk about 4,000 active angels in Germany in 2007. The more recent study of 2014<sup>9</sup> also does not pin an exact number on the board. But the range of 6,100 to 9,000 angels signifies an enormous growth. It seems fair to estimate that today about 7,500 business angels are active in Germany. From 2007 to 2014 then, we are talking about a growth of nearly 90%.

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<sup>6</sup> According to a 2014 EY study, summary here: <http://www.business-angels.de>

<sup>7</sup> Both studies focus on questionnaires handed out to a representative number of start-ups

<sup>8</sup> Fryges, Helmut, Gottschalk, Sandra, Licht, Georg, Müller, Kathrin: Hightech-Gründungen und Business Angels, Mannheim Oktober 2007 (ZEW: Zentrum für Europäische Wirtschaftsforschung GmbH)

<sup>9</sup> Egel, Jürgen; Gottschalk, Sandra: Finanzierung von jungen Unternehmen in Deutschland durch Privat-investoren, Mannheim, April 2014 (ZEW Zentrum für Europäische Wirtschaftsforschung GmbH)



But how much do angels actually invest in start-ups? According to the afore mentioned studies, that number has grown even more enormously in the years between 2007 and 2014. Eight years ago, the total investment volume of the business angel market was estimated at € 190m annually<sup>10</sup>. In the years 2009-2012 the annual investment volume of business angels in Germany has risen to € 650m per year. According to the study, angels in Germany invest more money than venture capital firms, who have invested € 590m annually.<sup>11</sup> Comparing the results of both studies it seems obvious to conclude that angel investing has been on an upward trend in recent years.

### **3.2. The German Business Angels Panel – a longtime market barometer**

Unique in Europe: the German Business Angels Panel<sup>12</sup>, created in 2002 by the monthly paper VDI Nachrichten in cooperation with BAND and the universities of Aachen and Duisburg-Essen. Every quarter, a quorum of about 50 experienced angel investors is filling out a questionnaire answering questions about their investments, their favourite sectors, their exits and their deal-flow. Needless to say that this group of the polled angel investors is not representative of the market as a whole, therefore the panel serves more as a market barometer than a study. The panel shows trends and curves, turns the spotlight on the current market happenings and generates questions.

A lot of movement in the market – the current view of panelists: the first quarter panel of 2015 shows exceptional results: 61% of the polled investors have invested money into new companies between January and March 2015, doubling the longstanding arithmetic average. Also, the angels have never before evaluated the overall business climate as good as in early 2015 in the 13 years of the panel's existence.

For the sixth time in a row internet-driven business models are leading the charts of the favourite sectors, with green technologies coming in second, pushing the software developers into third place. In fourth place were the companies focussed on media and entertainment, while medtech companies took a dive and were out of the top 5 for the first time in ten years, highlighting their recent downward trend. Out of the blue into the top 10 came fintech startups.

The additional question of the panel 1/2015 dealt with crowdfunding. Every fifth angel has already investing through a crowdfunding platform into innovative startups, while 36% of angels use platforms for dealsourcing.

Summarized, the Business Angels panel depicts the market in a time period over a decade, therefore creating a valuable historic document, which is desirable Europe wide.

### **3.3. Insights into the German Business Angels networks**

Business Angels Netzwerk Deutschland e.V. (BAND) created an annual survey to raise data and facts from their member networks. This survey is also not able to deliver a total overview of the market and exact data: not all organized angels are willing to provide information regarding their investments. Furthermore, several angel investors are organized in more than one network. Having been organizing this survey since 2001, it also creates the benefit of a longtime study.

Results from the 2014 survey: The number of angels organized in networks has remained steady at 1,500, meaning that 20% of Business Angels are active within the formal networks. The size of the networks varies heavily, with size and success not correlating. Small, privately organized networks can surely stack up against big networks with about 200 members, with the small ones even leading the pack in terms of investments per members (deal rate). The

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<sup>10</sup> ZEW 2007, p. 8

<sup>11</sup> ZEW 2014, p. 26

<sup>12</sup> For further information see [www.ba-panel.de](http://www.ba-panel.de)

top network reaches a deal rate of 1.25, meaning that more successful deals took place than there were members active.

The investment sum per deal raises an eyebrow, too: Every start-up, that successfully gained capital via an Business Angels network, received an investment of 218,000€ on average. No other statistic shows that high of an amount in terms of investment per deal. The survey specifically asked for angel money, so co-investment money should not be included in this sum. Some networks even pointed out, that the raised capital was much higher, if you take into account the co-invested sums by co-investment partners. One explanation for this high amount could be, that networks provide fertile ground for co-investments: the better the angels know one another, the better the mechanisms of the network are, the higher is the success rate for syndication. This would also explain the constant rise of the investment sum per deal in the survey over the years.

We can't measure the market as a whole, not yet. But there are plenty of sources available that deliver numbers to capture the size of the German market. However, these numbers don't seem to mesh well with each other. This is where researchers are needed, not only when it comes to statistics. Qualitative analysis of the market remains an urgent desideratum. Because the angel research needs to be intensified not only in Germany, but also in Europe, BAND has taken a leading role to push forward angel research and data in Germany and in Europe under the leadership of Business Angels Europe BAE. After having organized the ever first Angel Investment research conferences in December 2013 in Berlin, the next BAE Angel Investment research conference is scheduled for February 2016 in Essen.

#### **AUTHOR: Ute Günther**



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## ITALY

### 1. IBAN Association – Italian Business Angels Network

IBAN, the Italian Association of Business Angels, founded in 1999 through a project promoted by European Commission (DG Industry) and founder member of BAE (Business Angels Europe) and WBAA (World Business Angels Association), is the institution that best understands and represents the Italian reality of the informal venture capital investors. The Association is focused on the development and the growth of the Business Angels phenomena in Italy and its members are Business Angels networks, investors clubs, Business Angels and professionals in matching investors (formal and informal) with entrepreneurs. In addition, IBAN has links with the Italian Venture Capital Association (AIFI) and local and national associations of entrepreneurs. The Association receives and examines about 300 company ideas per year and selected about 100 projects per year than presented to the registered business angels.

At glance IBAN's expertise includes:

- Increasing the sources of financing for unlisted SME and start-ups
- Scouting and helping the financing of start-ups and SMEs (investment readiness)
- Recruiting BA and facilitate the setting up of BA networks and clubs (ready to invest)
- Organizing investments forum between investors and companies searching for capital
- Organizing Business Angels Academy training events
- Stimulating the exchange of experience among Business Angels Networks and encouraging "best practices".

Over the years IBAN has created a strong "relationship network", merging Institutions and Economic Operators know-how and expertise that provides a common factor to the skills and experiences of many organizations and operators in the sector, covering the entire "value chain" of "early stage" phase of firms. In this way IBAN can effectively support the start-up in the process of growth and value creation and develops and coordinates the activities of investment in risk capital in Italy and Europe by informal investors. IBAN is also responsible for encouraging the exchange of experiences between the Business Angels Networks, promoting the recognition of business angels and their clubs as subjects of economic policy and, since 10 years, monitoring the operations made by angel investors. Today, IBAN represents more than 500 informal investor's community across all Italy.

In 15 years of business IBAN has achieved several goals and has played many actions, for example:

- IBAN Association is the only Italian organization that analyzes the state of Angel Investing in Italy through its annual survey;
- A well-established market in the last three years, after playing a pioneering phase in 1999/2000;
- Improvement of European best practices through close collaboration between IBAN and the other partners of BAE – Business Angels Europe;
- The role of Business Angels as an economic operator continues to grow;
- Sharp increase in the number of deals closed in the last 5 years;
- Recognition of the importance of Business Angels in the financial market.

- Published a "White Paper" about innovation business according to the dictates of the European Charter of Lisbon and presented proposals in the Ministerial and Community seat; gaining acceptance in the role of Business Angels and its favorable tax regime (DL 112/08, Article 3 - the capital gains tax exemption if reinvested in another start-up);
- During 2012 the Association IBAN has been approached both by Banca d'Italia and by the Ministry of Economic Development with regard to measures to support the sector;
- Made and / or participated in over 350 seminars and conferences in all Italian regions and abroad;
- Received positive recognition from the Italian government, the Consob, the Italia Stock Exchange, the Chamber's system, the Industrial Districts Club, various regional and provincial Administrations, as well as the business community;
- Over the years it continues to be the subject of many articles on specialized and on not specialized press (see [www.iban.it/press-area/about-us](http://www.iban.it/press-area/about-us));
- Created [www.iban.it](http://www.iban.it) , a website with an average of 10,000 visitors each month.

## **2. State of the Art of Angel Investing in Italy - Survey IBAN 2012**

IBAN Association conducted a survey (data collected with an online questionnaire) between January 14th and March 28th, 2013, to assess the status of the Italian angel investing market.

### **2.1. Survey Sample Size**

IBAN Survey 2012 Sample Size is composed by 262 Business Angels, divided in direct IBAN Members, indirect IBAN Members (belonging to Club or Business Angels networks associated with IBAN) and other investors selected by IBAN Association.

### **2.2. Investments Size**

In 2012, thanks to IBAN Survey we observe that the investments' total amount is about € 33.810.000, recording -3% with respect to the previous year. This amount was invested through 366 investment operations, concerning 94 startups.

### **2.3. A new Trend: Business Angels Syndication**

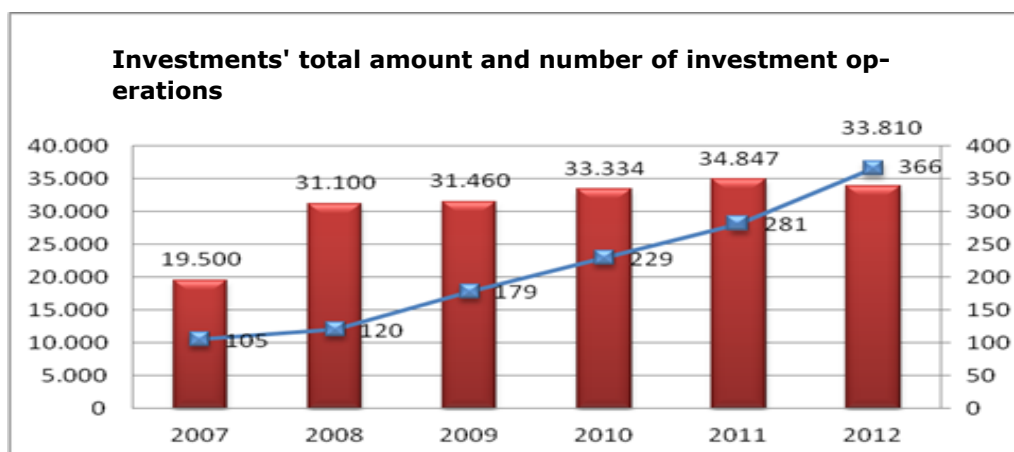
Several clubs, born during the last few years, took part in the Survey. This circumstance strongly influenced the results, broadening the gap between the average amount of single declared investment, resulted in 92.400 € (124.000 € in 2011), and the average total amount of investment in a targeted company, resulted in 360.000 € (231.000 € in 2011).

### **2.4. Angel Investing as a Part of the Italian "Early Stage" Market**

Angel Investing Market is part of a larger one: the Early Stage Market. Today, the size of the Italian Early Stage Market is estimated around €169 million broken down in 502 operations<sup>13</sup> and the Angel Investing market has a significant share. Looking deeper in the consolidated data collected by IBAN Association and AIFI, we observe that the number of Business Angels' investment operations weigh about 72% of all the registered investment operations, while weighing only 20% of the registered investments total amount. These results reveal a strong vitality experienced by the Seed and Early Stage Financing where Venture Capital Firms have a strong presence together with Business Angels.

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<sup>13</sup> Survey IBAN 2012+ indagine AIFI 2012



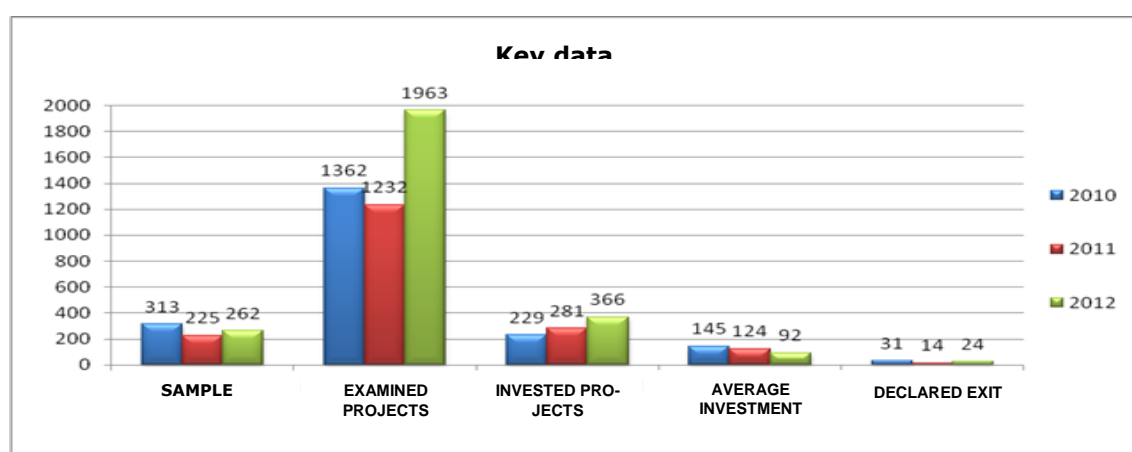
INVESTMENTS' TOTAL AMOUNT AND NUMBER OF INVESTMENT OPERATIONS

Only 18% of the 1.963 seriously examined projects were invested by our sample (23% in 2011). This circumstance highlights the growing strictness during the projects' valuation process aiming to have a better quality to the detriment of quantity.

IBAN Survey 2012 confirms the strengthening of operations made by Business Angels Syndications. This is due mainly to the bigger capital gathering (that gives the possibility to invest in larger startups and in more industries) together with a lower risk. This trend is confirmed by the growing number of small investments made by a single investor: about 76% of Business Angels invested less than 10% of their own "cash" assets; about 76% of investment operations counted less than 60.000 € and the weight of "micro investments" has grown during 2012. About 80% of the invested societies are "innovative startup" by Decreto Sviluppo bis of 2012 and Business Angels investments were targeted mainly on "Energy and Environment", followed by ICT and MedTech, industries characterized by high potential growth and high innovation.

Business Angels are more widespread across Italy than what we think of. About 50% of our sample are not IBAN Members, but they recognize it as their representative institution.

Main Figures	Year 2012	% Yearly Variation
Sample ( 52% IBAN Members)	262 answers	+16 %
Total investments	33.810.000 €	-3 %
Individual investment operations	366	+ 30 %
Invested Companies	94	-37%
Analyzed projects	1.963	+59 %
Individual Investment Average amount	92.400 €	- 25 %
Declared Exit	24	+71 %



### **2.5. Business Angel: Identity and Investment Behavior**

The typical Italian Business Angel is a 50-55 years old man, with a high educational qualification (92%) and he lives mainly in Northern Italy (76%). Moreover he is a "serial" professional investor: about 20% of our sample declared to have more than 6 investment operations realized during last years. About 80% of our sample declared a personal assets greater than 500.000 €, growing with respect to last year, and one fourth of it declared an asset between 2 MI and 5 MI €. Furthermore, more than 66% of Business Angels invest between 5 and 10% of their available "cash" assets, and 36% think that their "invested" assets could grow in the near future.

These trends, in essence, highlight an optimistic growth forecast for the Italian Angel Investing. Most of the investments were located in Northern Italy (81%). In 2012, Business Angels investing in Europe were 31%, recording a small decrease with respect to the previous year. During last year, only 24 disinvestment operations (Exit) were declared, 10 more than the previous year. It is clear that the current economic environment influences investors' behavior: Exits were delayed in favor of waiting for better economic conditions. The preferred exit strategy was the sale to other investors (47%). Other significant exit strategies were the sale to a company or a merger (31%) and the sale to a business team (16%).

Usually, when an investment deal takes place, most of the targeted companies have between 0-5 employees. At the time of disinvestment the number of employees has grown to the range of 6-10 employees per company. Even if our sample counts only 62 exits during the last three years we record that the presence of BA fostered the employment of 650 people.

### **2.6. The Integration between Crowdfunding e Angel Investing**

In according to IBAN Association, Business Angels should be considered as co-investor or lead investor. CONSOB regulations on equity crowdfunding give an important position to institutional investors (lead investors). In order to close the fundraising of an innovative start up, they should have to buy minimum 5% in equity of it.

IBAN is focused to determine best positioning for such an important ruler in early stage financing as in the case of the Angel Investor. Should a Business Angel be considered and classified as an institutional investor, he/she would not be able to take advantage of fiscal benefits assigned to private investors. However, and in a large majority of investment situations, the Business Angel tends to be a significantly more professional and sophisticated investor than a traditional private one.

It is in consideration of the above that IBAN Association has determined to consider the Angel Investor as a half-way subject, positioned between the institutional Investors and the private ones: this in order to recognize his/her professionalism, thus enabling the gain of an adequate standing position while benefiting of the available fiscal advantages.

## **3. Government Public Policies to Promote Angel Investment**

The Italian government has launched in October 2012 the "Decreto Crescita", a package of tax breaks to support the birth and development of innovative companies that provides tax incentives for investors who choose to invest economic resources in innovative start-ups.

Over this period of time IBAN Association has maintained close contacts with the Italian Ministry of Economic Development, advising and contributing to the published final text on the implementing provisions for tax and fiscal incentives when venture capital investments are made in innovative start-ups, as introduced by Decreto Sviluppo Bis (December 18, 2012).

The new regulation introduces fiscal incentives in the form of tax deduction:

- individual subject: fiscal incentives of 19% subject to a maximum of 500.000 €;
- legal person: fiscal incentives of 20% subject to a maximum of 1.800.000 €.

**AUTHOR: Luigi Amati**



As an Angel investor he is one of the founders of Italian Angels for Growth, he is the President of Zernike Meta Ventures and co-founder and CEO of META Consulting, a company focused on innovation, entrepreneurship and finance working with International Institutions.

During the early years of his career he has been a researcher and software engineer in the field of Computational Mechanics. He holds an Engineering Degree from the University of Rome, a Master of Science and a Diplome from Imperial College London.

## NETHERLANDS

### 1. Angel Investment in the Netherlands -Statistics

Precise statistical details of the Dutch Business Angels market are not available. For an indication of the scale of the market we can, however, make use of some statistical data from the Netherlands Federation of Business Angels Networks, known by the abbreviation BAN Nederland.

#### 1.1. Statistics from BAN Nederland 2012

Number of network members: 13  
 Numbers of angels organised in these networks: 3200  
 Number of deals done in the networks: 118  
 Total amount of angels' investments: € 34,000,000  
 Average deal size: € 290,000<sup>14</sup>

The Dutch federation represents just part of the Business Angels market. Not all known networks are members of the federation and more importantly, a large proportion of the Business Angels operates independently or in small groups not directly affiliated as members of Business Angels Networks. During the annual conference of the Dutch Federation in Utrecht, in 2012, Ms Marianne Hudson<sup>15</sup> indicated that within the EU the estimation is that only 8% of EU Business Angels deals take place via networks. Extrapolating from this assumption, the Dutch Business Angels market could represent an investment volume of € 272,000,000. If we instead assume that the federation represents 16% of the Dutch Business Angels market, the investment volume amounts to € 212,500,000. Although precise figures are not available, the clear conclusion is that Business Angels investments represent a substantial contribution to the provision of private venture capital. Even more when we take into account that the year 2012 economically was a year of recession in the Netherlands.

The following networks are members of the Dutch federation:

Network	year established	Members	Participation values	stages
TIIN Capital	1998	600	300k-2m	growth
Investeerdclub	2009	45	50-500k	seed, start, growth
Informal Capital Network	2003	400	up to 1m	Growth
BID network	2005	115	10k-1m	All phases
FLIIN	2007	60	50k-500k	growth, start
Meesters van de toekomst	1996	230	50k-1m	start, growth
Mind Hunter	2006		>100k	All phases
Women Professionals Group	2010		25-300k	start, growth
Money Meets Ideas	2002		100k-1.5m	All phases

<sup>14</sup> yearly statistics Dutch federation of Business angels networks (BAN Nederland)

<sup>15</sup> See the website [www.dagvandeinformal.nl](http://www.dagvandeinformal.nl)

Nextstage	2004	100	50k-1m	seed, start, growth
Investormatch	2010	>500	50k-2m	All phases
ABN Amro Informal Investment Service	1999	350	100k-3m	All phases
Pepperbase	no information available			
Matchinvest	2008	300	50k-500k	All phases, except seed
Successity	2011	20	50k-500k	early stage

Source: Evaluation of EU Member States' Business Angels Markets and Policies, Centre for Strategy & Evaluation Services, United Kingdom oktober 2012. The last two networks are added by the author and are therefore recent.

This year, the ING Bank launched the ING Informal Investment Service. Three major Dutch banks have now also established their own informal investment service for their wealthy clients. Together with the ING Bank these are ABN Amro bank and Rabobank (under the name Money Meets Ideas).

We are also seeing local development agencies establishing Business Angels Networks. These include the Northern Development Agency (known by the abbreviation NOM) and the Brabant Development Agency (known by the abbreviation BOM). These establishments have followed the successful approach taken by the Development Agency East Netherlands (Oost N.V.) with its Business Angels Network Meesters van de Toekomst (Masters of the Future). Within these development agencies the central focus is a tie-in between the Business Angels Networks and the local valorisation programmes of the universities and universities of applied sciences and linkup with revolving co-invest participation funds requiring 50% co-financing by the market. In these programmes Business Angels are viewed as possible co-financiers.

## 1.2. Market Developments

Each year the Dutch Ministry of Economic Affairs monitors developments in the informal investment market in the Netherlands via a survey among Business Angels<sup>16</sup>. This survey is non-representative but does offer some indication of the developments on the Dutch Business Angels market. The survey also considers the wishes and bottlenecks as perceived by the Business Angels.

Dutch Business Angels who participated in the survey above all invest in young businesses demonstrating exponential growth (53%) with a further 26% investing in existing companies. 12% have invested in management buy-outs and by-ins with only a few percent investing in reorganisations. The ICT sector has proved most popular among respondents. Software was identified by 49% of investors as an attractive sector. Internet enjoyed 44% interest and IT services 36%. Almost 40% of respondents indicated investment interests in Healthcare & medtech. 11% of respondents are investors in Environment and Cleantech businesses. The creative industries have to date achieved a 16% investment rate. One trend that seems to be emerging is a preference for high-tech sectors.

If we consider the share of other financiers as co-investors, the most eye-catching result is the important role played by venture capital funds (38%) followed by the banks (33%). Re

<sup>16</sup> Informal invest in Nederland 2- meeting, Tornado Insider, May 2013



Regional funds occupy the third position at 19% while corporate investors scored 17%. Family and friends of the entrepreneur provided co-financing in 15% of cases. In 55% of the investment opportunities, the surveyed investors were in fact sole investors.

One noticeable outcome of the survey was that deal activity in 'the past year' has remained reasonably on par with previous years, despite the period of recession and growth stagnation. 30% of all surveyed investors expected to conclude the same number of deals this year as last year, as compared to 40% in last year's survey. 35% of the respondent investors expected to conclude less deals this year than last year while last year's percentage was 25%. In other words, future expectations for the number of direct investments among respondents are showing a slightly downward trend. 33% of respondents listed as main reasons for a fall in investment activity the poor economic climate but above all the disappointing return from existing participations (53%) and lack of availability of good-quality propositions (32%).

### **1.3. Trends on the Dutch Business Angels market**

As previously indicated, statistics about developments on the Dutch Business Angels market are unfortunately limited. On the basis of my experience as Business Angels Network manager, however, I am able to identify a number of trends. It should nonetheless be noted that these trends are based purely on my personal observations and experience.

Business Angels have always been playing an important role in the financing of young, promising start-ups. However, specifically this group is at risk of becoming the victim of the current crisis on the financial markets. Because banks are becoming increasingly reticent in providing growth financing for existing companies, these established entrepreneurs are turning en masse to the Business Angels. As a consequence Business Angels are shifting upward in the business column and increasingly regularly finance propositions that in the past were the realm of banks and participation companies.

After all, why invest in a high-risk start-up with no track record, if, as a Business Angel, you can equally easily acquire a position with an established business with a proven track record? This shift is making it very difficult for start-up companies to acquire Business Angel financing to start up their business. For one group of start-ups, however, a clear exception can be made, namely for the so-called intrinsically-interesting start-ups. These are start-ups with an intrinsically-interesting IP, which automatically represents a certain value. These start-ups, most of them are spin-offs from the universities and major businesses, continue to attract Business Angels. On the other hand, the entry level amounts for participation are directly related to milestones in execution, and are characterised by a number of investment rounds, with relatively low investment amounts.

Young start-up companies with little experience above all have to finance their start-up phase with their own savings or financial assistance from family and friends. The equity gap to formal capital from the bank has clearly grown in the Netherlands, for start-ups. This situation reveals a clear role for government in reducing the risk for investors by means of separate co-financing funds. Also in the Netherlands, we are above all seeing crowd funding platforms entering the risk capital market for start-up companies.

The previously referred to trend among Business Angels, namely the shift towards large deals with a lower risk profile, ties in seamlessly with two other observable trends, namely: syndication and internationalisation. It is increasingly common for Business Angels to work together by organising syndicates or small groups of investors who invest jointly in a single business. In this way Business Angels are better able to spread their individual risks and they are able to invest larger amounts, sometimes up to well in excess of one million Euros.

We are also seeing growth in the international character of the Business Angels market. The new generation of Business Angels is relatively young and far more used to thinking internationally; many indeed enjoy an international lifestyle. The same also applies to entrepreneurs



in search of venture capital for growth. It is for example extremely useful to bring a German investor on board, if the growth strategy is focused on accelerated introductions to the German market. This applies in particular to the life sciences and high-tech sectors.

Another clearly observable trend is that possible exit strategies in certain niche markets are also highly internationally-aligned. By considering whether or not to invest, the exit strategy is becoming increasingly important. The more opportunistic the exit strategy becomes, the greater the likelihood of finding a Business Angel. The Dutch Business Angels market has in fact always been highly opportunistic in character. Only those propositions with a low risk profile and high market potential are likely to find a Business Angel. Prior to the crisis, there was more willingness to undertake more high-risk investments, because investors were aware that those same investments could easily generate a high return.

The personal spark between investor(s) and entrepreneur(s) remains crucial. There is clear evidence that Business Angels Networks are offering selected propositions on open and closed platforms via the Internet, and that such offers are always accompanied by in-depth personal introduction, in either a formal or informal setting.

Social investment, namely investing in activities with a clear social relevance, is becoming an increasingly important element in the decision of whether or not to make an investment. This has nothing to do with charitable considerations. There is evidence that propositions that take clear account of human or environmental elements are in fact commercially more successful. And at the end of the day, the investor is above all interested in commercial success.

## 2. Government Policies to promote Business Angel Investment

Since the late 1990s, the Dutch government has been focusing attention on Business Angels. Initially the emphasis was above all on financial support for information meetings for entrepreneurs and novice Business Angels. In 2006, the **Business Angel Programme (BAP)** was launched.

The aim of BAP was to support existing and new Business Angels Networks that supply information to Business Angels and to entrepreneurs wishing to attract new capital. In other words, the BAP programme was aimed at (start-up) businesses in search of venture capital and Business Angels on the lookout for good propositions. The eventual goal of the BAP programme is to bring businesses and Business Angels into contact with one another, so that Business Angels increase their levels of investment in techno start-ups.

The BAP features 4 action programmes: Awareness, Readiness, Cooperation between Business Angels Networks (BANs) and Research and Monitoring. The results of the BAP programme include some 500 information meetings organised for more than 2000 angels and 7000 entrepreneurs, 63% of whom acquired new contacts as a result.

At the same time, the Dutch government launched the **Seed facility** for investors. The SEED Capital scheme makes it possible for investors to assist techno start-ups and creative start-ups in turning their technological and creative knowledge into usable products or services. The SEED Capital scheme means that closed-end participation funds can qualify for a loan the maximum size of which matches the private contribution amount from the fund, up to a maximum of € 4 million. These loans are subject to a more flexible repayment regime. This scheme makes investing in techno start-ups and creative start-ups not only socially responsible but also financially attractive.

- As soon as income is generated, the fund repays just 20%, until their own investment has been paid back.
- At that point, 50% is repaid, until the Ministry of Economic Affairs has recouped its investment.

- If the fund continues to enjoy income flows, any additional income is once again shared in an 80:20 ratio between the fund and the Ministry.

The total budget for SEED applications in 2013 was € 20 million

In 2013, an **Investment fund** to the tune of € 150 million was established, for innovative companies.

The fund will invest approximately 20% of this total in other funds, as long as they obtain the remaining 80% of their capital from private financiers. The € 150 million can in this way be expanded to € 5750 million in venture capital for innovative companies. The fund is financed to the tune of € 100 million by the Ministry of Economic Affairs and € 50 million by the European Investment Fund (EIF)

In 2013, the Dutch government announced two further new instruments: **early phase financing** and **investments by Business Angels in young and small businesses**<sup>17</sup>. Early phase financing is intended for innovative start-up companies or existing innovative SMEs with ambitious plans for growth. This financing will enable these businesses to produce an initial prototype and to further expand their business models with a view to independently attracting follow-up investments. For these two instruments, the government has reserved a total of € 75 million.

By offering co-financing for investments by Business Angels in particular in young, innovative and small businesses, financing will be made available to a group of companies currently experiencing difficulties in acquiring the necessary financing as a consequence of the tightening up of regulations (Basel III) and the economic crisis. These two instruments tie in neatly with one another, thereby offering support for the difficult-to-finance initial growth expansion by innovative start-up companies and ambitious existing SMEs.

Special thanks to drs. Mirco Rossi, senior policy maker, ministry of economic affairs for the latest information he gave.

## **AUTHOR: René Reijtenbagh**



René Reijtenbagh is senior Business Angels Network manager at the Development Agency East Netherlands (Oost NV). There he founded "Masters of the Future" - the BA network for the Eastern part of the Netherlands. He has a lot of experience in Business Angels deal flow. He is elected board member of the Dutch Federation of BA Networks. René studied Economic Geography at the Radboud University of Nijmegen and Business Administration at the TSM Business school in Enschede also in the Netherlands.

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<sup>17</sup> See letter Ministry of Economic Affairs, to the parliament DGBI-) / 13156534

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## PORTUGAL

### 1. Brief History of Angel Activities in Portugal

#### 1.1. The Early Angel Activities

Business Angels activity started formally in Portugal in 1999 with Gesventure/Business Angels Club. In the beginning of 2006, APBA – Associação Portuguesa de Business Angels (BA's) was created with the objective of boosting the Business Angels activity in Portugal and to aggregate several Business Angels that had not visibility on the market. After that many regional networks were launched together with FNABA- Federação Nacional dos Business Angels. Presently APBA is the largest Portuguese Business Angels Association.

On the 8<sup>th</sup> November 2007, a new law (DL 375/2007) was enacted creating a new legal entity – Venture Capital Investor (Investidor em Capital de Risco), that covers the Business Angel figure. In 2010 PME Investimentos, a public institution through European Union funds – (Compete program), launches a co-investment fund. This fund has helped the activity of Business Angels to grow significantly.

#### 1.2. How Angel Investment Grows and Develops

In Portugal a Business Angel is a private investor in which the investment is oriented to innovative projects. It's an investment with smart money (with expertise and financial capability/investments typically around between 25,000€ and 500,000€). A Business Angel wants to exercise its mentoring ability, has expertise and a network of contacts. He usually prefers to invest in Portugal or on a specific region of the country. Often the Portuguese market is used as a test market and the final goal is to help the start-up to become a global company.

In Portugal the development of the Business Angels activity had a sharp increase since 2010, the period in which was launched a co-investment fund by PME Investimentos (public organization) through European Union funds – (Compete program). The launch of Compete program with the Business Angels was a long desired opportunity by the community. As required by the regulation of the co-investment fund, Business Angels investment vehicles were created, with a minimum of three Business Angels as shareholders. For each project Business Angel investment vehicles contribute with 35% of the capital and PME Investimentos with 65%. Each investment vehicle had a goal of investing 750,000 € together with PME Investimentos.

The implementation of this model was relevant in terms of volume and number of projects invested by Business Angels since 2011 until 2014, enabling a sustainable growth of its activity.

Sometimes Business Angels co-invest with VC funds, like ES Ventures, EDP Inovação and Portugal Ventures (public VC).

Since 2010 until September 2014 Business Angels investment vehicles with PME Investimentos co-investment fund made 188 investments in 114 start-ups, totalizing 21 million Euros. This figures regards only the investment within the framework of compete program. The remaining market (i.e. Business Angels investing alone) is not visible and much more difficult to access.

### 2. Entrepreneurial ecosystem context

### **2.1. Entrepreneur activities**

Entrepreneurs activities usually follow innovative business models and technologies like IT, web, mobile, cleantech and cloud applications. However it covers a broad range of sectors like agriculture, trade, tourism, financial services, education, health and telecommunications.

### **2.2. Incubators / accelerators**

For more than a decade it was created a network of public and private incubators, however, since 2010 new private and public players, accelerators were created. This accelerators are playing a key role in the ecosystem, because they help the development and promotion of ideas and projects with a consistent business model supporting them to go to the market and getting investment.

Accelerators may be public or private like Fábrica de Startups, Beta-I and Startup Lisboa and are in many cases associated with universities and sponsored by large companies and banks like Caixa Geral de Depósitos. Accelerators are very active and have different programs according to the needs of and stage of development of the entrepreneur. The government has launched several programs to support entrepreneurs such as the Passport to Entrepreneurship.

### **2.3. Innovation, Competition and Award Event**

There are several contest ideas / scholarships with or without prizes, promoted by public and private entities:

- Large companies such as EDP (Premio EDP Inovação)
- Universities especially of Management and Economics (all have entrepreneurship offices and contest ideas)
- Public (Passport to entrepreneurship and Portugal Ventures activities)
- Accelerators/Incubators-(Demo Days, Venture Day, Energy Portugal, Seed-camp)
- Global Entrepreneurship Week (a Kauffman project with APBA and SEDES in Portugal)

### **2.4. Science Parks and Technology Centers**

There are several science parks and technology centers. These parks have some level of coordination through a national association called Tech Parks. These parks are more focused on R&D activities.

## **3. Specific Angel Group Structures and Organizations**

### **3.1. Current Angels Groups and Organizations/National Angel Groups if any**

The largest network in Portugal is APBA- Associação Portuguesa de Business Angels. This network has many individual Business Angels as associates but also several investment vehicles of its Business Angels.

There are also some regional Business Angels organizations like Centro Business Angels –CEC and Invicta Angels (O’Porto).

### **3.2. Organizations Supporting Angel Group Activities**

There are two Business Angels Federations in Portugal:

- APBA (Associação Portuguesa de Business Angels) created in 2006, who’s mission is to foster the development of Business Angels in order to develop the spirit of entrepreneurship and contribute to the growth of a sustainable and innovative economy. In the last years APBA participated in different international organizations and events, like EBAN board, ACA congresses. During 2013 APBA joined BAE-Business Angels Europe. APBA also has a partnership with Portuguese speaking Business Angels organizations (Anjos do Brazil and Cape Vert Business Angels). Since 2008 APBA organizes every year with SEDES the Global Entrepreneurship Week- Portugal. APBA has national

coverage and near 150 members, with a North delegation and associated regional networks such as Business Angels do Concelho Empresarial do Centro.

- FNABA (Portuguese National Federation of Business Angels) created in February 2007, with the mission of representing the interests of several networks established in Portugal.

APBA and FNABA participated together in the development of the Business Angel's legal framework, in the approval of the tax benefits for Business Angels and in the creation of Compete program for co-investment.

## **4. Prognosis for the Future**

### **4.1. Crowd Funding Activities**

In Portugal there are some crowd funding platforms and also online platforms for investing in start ups like 'ppl.com.pt' and 'seedrs.com' (international platform created by Portuguese shareholders). There is no legal framework regulation for this type of platform.

### **4.2. Connections between Public and Private Early Stage Investing**

The Compete program created a co-investment scheme co-investment with Business Angels investment vehicles. The managing body of the program, PME Investimentos, validates if the investments are eligible in terms of region, sector of activity.

Portugal Ventures - Portuguese public venture capital firm which invests in seed, early and growth stages usually for 4-7 years, with a minority stake in company's equity. Portugal Ventures co-invests with Business Angels.

## **5. Government Policies to Promote Business Angel Investing**

### **5.1. Taxation**

#### **5.1.1. National**

In Portugal de Decree-Law n 215/89, of 1st July 1989, as regards fiscal benefits, establish in its article 32 the taxation as regards venture capital companies and as regards Business Angels. Business Angels can deduct to the amount of personal taxation until the limit of 15% of such amount, 20% of the value invested by him or by its own BA investment vehicle. The exact amount deduct is established every year in the Portuguese Government annual budget. Due to the public finance situation of the country the amount established is actually insignificant.

In the last government budget for 2013 it was established an authorization to the government by the parliament to approve the amount of 10.000 Euros. Nevertheless until now the Government didn't enforce such authorization.

#### **5.1.2. Local**

As regards local taxes the Town Halls can establish lower rates for taxes in its areas. Until now none of the Town Halls establish any specific reduction for Business Angels investments.

#### **a. Your public policy suggestions**

Regarding tax incentives is relevant to increase a tax shield with a significant amount that can be deducted to the personal taxation.

In the future of European framework of 2014-20, the co-investment schemes should be reinforced. The current program Compete is a good benchmark of an initiative with a very positive impact on BA's activity.

## **6. Angel Investment Trends**

### 6.1. Angel Investment Trend

The Business Angels activity in Portugal is growing at a sustainable pace. During the last 3 years the evolution of the market has been very strong with the appearance of many Business Angels investment vehicles which are professionalizing the activity. There are many new players in the ecosystem that are energizing the system and capturing synergies, enabling the appearance of better projects and therefore more investment. This expected trend can be accelerated by better public policies that are friendly to investors namely for Business Angels.

### 6.2. Hopeless and Hopefuls

The Portuguese public finance situation creates some constraints to the investment activity. However this can also be an opportunity because there is a strong entrepreneurial dynamic in the country and assets are at a good price for investors

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João Trigo da Roza, has more than 25 years of business experience and is president of Portuguese Business Angel Association and founder of Toplever Business Consultants. As business angel Joao is partner of an investment company, Brains2Market, investing on start-ups on different fields like web applications and services. As executive Joao was CEO of Portugal Telecom Multimedia.com, CEO of Telepac (ISP), Chairman of Sapo portal, board member of PT Ventures. Joao also served as Board Member of Expo Urbe, the company that was in charge of the urban development project associated with the 1998 Lisbon World Exposition.

## SCOTLAND

### 1. Market Context

Scotland currently has the same legal and taxation regime for Business Angels as the rest of the United Kingdom and information on this can be found in the UKBAA section of this publication. However, the Scottish Government in Edinburgh has considerable autonomy in other areas of finance including investment in both direct and indirect economic development measures, subject of course to the normal EU State Aid rules. The most significant intervention is the Scottish Co-Investment Fund which invests pari passu alongside pre-accredited partners, most of which are angel groups of the type described below. All commercial aspects of the investment process – deal sourcing, diligence, terms, structuring etc., are led by the private sector partners.

### 2. LINC Scotland

LINC Scotland was founded 1993 to support development of the Business Angel marketplace and is now an angel association representing most of the active angel community in Scotland. To date LINC members have invested in over 850 high potential companies. The membership is overwhelmingly organised into structured angel groups similar to those found in North America. The 19 groups which are members of association contain over 1200 individual angel investors.

#### 2.1. Business Angels 'Groups' – What Do We Mean?

- Structured co-investing groups by and for angels
- Not run by intermediaries
- Do not sell services to SMEs
- May be 'Manager Led' or 'Member Led'
- Can include 'private offices' if investment decision made by those who own the wealth

#### 2.2. Typical 'Group' Structure in Scotland

- Two-circle arrangement
- Lead group or 'board' of 6 –10 active and experienced individuals, plus Gatekeeper
- Lead group review, select and structure deals, and always invest own money
- Deal offered to outer membership of 20 –70 individuals
- Outer circle less 'hands on' but still make own decisions
- Group appoints investor director and appoints / approves chairman

#### 2.3. Other Characteristics and Benefits

- Professionalization and continuity
- Delivery channel for more passive money
- Means of getting old money into new sectors
- Increased local /regional retention and recycling of wealth
- Creates credible co-investment partners for institutions and the public sector

#### 2.4. LINC Members Activity 2014

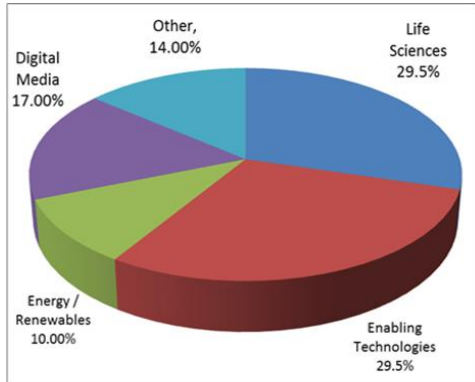
- 88 deals with €24.43m invested by private investors



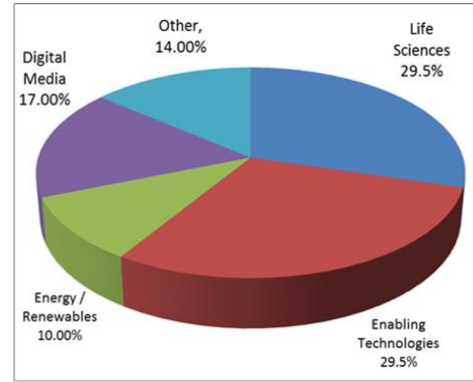


Overall investment €47.52m inc. other leverage  
Average angel deal size = €278k

## 2.5. Sectoral Breakdown by Number



## 2.5. Sectoral Breakdown by Value



## 2.6. Creation of Value and Completing the Cycle

A majority of LINC's member groups came into being from 2004 onwards following the launch of the Scottish Co-Investment Fund the year before. The timing of the recession only a few years later posed particular challenges to their ability to recycle capital through successfully realising value from their earliest investments.

The most common method of 'exit' for angel investors is through the strategic acquisition of portfolio companies by large corporate players and for several years this activity was at a very low level globally.

Now however, with renewed corporate activity, LINC is working with Business Angels and their investee companies to help them better understand the needs of potential partners or acquirers and so pursue value-building strategies from the earliest stages of the business. This will be complemented by work to improve our global connectivity with those acquirers, collaborators and investors which can help the companies achieve even more, while providing a return for founders and early investors.

**AUTHOR: David Grahame**



Executive Director at LINC Scotland

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## UNITED KINGDOM

### The Changing Landscape for Angel Investing in the UK

#### 1. Background on UKBAA

The UKBAA is the trade body for angel investing in the UK. It was established in 2012, having superseded the previous trade body entitled British Business Angels which was set up in 2004. UKBAA represents the angel market in the UK and its main role is to build the ecosystem for angel investing, create better connectivity between the angel community and all other relevant sources of finance and support, act as a voice of the angel community to government and other relevant opinion formers; provide a hub for information, market intelligence and developments on the angel market. UKBAA has a specific focus on England, Wales and Northern Ireland. It also collaborates with LINC Scotland which has co-ordinate the angel syndicates and key developments in Scotland.

The following overview therefore reflects predominantly the data and perceptions from the angel market covered by UKBAA.

#### 2. What does the UK angel market look like in 2014?

The UK Angel market has changed considerably over the past years and notably since the financial crisis. Angel investing in the UK was traditionally organised through networks, often with quite extensive levels of angel members. However the angel market is now much more diverse with far fewer large networks and many more formal and informal syndicates, also Super Angel funds, Accelerators, online platforms and crowdfunding.

##### 2.1. The Technical and Regulatory Framework

Angel investing in the UK has a relatively light-touch technical and regulatory framework which has been carved out of the existing Financial Markets Regulations. Under the Financial Services and Markets Act 2000 Financial Promotions Order 2005, Angel Investors in the UK are able to self-certify that they are either High Net Worth (annual income to the value of £100,000 or more or held, throughout the past financial year, net assets to the value of £250,000) or sophisticated<sup>18</sup>.

##### 2.2. How big is the Angel Market in the UK?

Quite simply we don't know! With such a diverse marketplace for angel investing, it is impossible to capture its size and indeed whilst many attempts have been made to extrapolate figures, surveys have to date been relatively small scale or unrepresentative of the market.

One figure we do have is from the Government statistics on the use of the **Enterprise Investment Scheme** since all angels using this scheme have to submit details of their investments to the Government.

This latest figure is for EIS 2012 (which is always 12 months behind in terms of reporting) and shows that the over **£1.1bn** was invested by investors in small businesses using this scheme in the financial year. We also know that this may not all be straight angel-type deals and that

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<sup>18</sup> <http://www.legislation.gov.uk/ukxi/2005/1529/schedule/5/made>

not all angels use the EIS scheme with potentially only around 70% of deals done through the EIS. This figure was also the highest since 2001 EIS stats, and significantly higher than the stats between 2008-11. So we can see that reflects considerable current growth in angel investing since 2012 and we will look at these drivers in more detail below.

What is notable as a comparator is that Venture Capital investment in early stage businesses in 2012 was only £323m, going up to just over £400m in 2013, thus angel investing would seem to be about 2.5 times larger than the VC market for this stage of business.

In 2013, UKBAA carried out some research of the angel market in collaboration with Deloitte "Taking the Pulse of the Angel market in 2013" and looked at about 270 deals and spoke to over 60 angel investors across the country. Angels were asked their views on the angel market and 58% declared that they were investing more in 2013 with 20% saying they were maintaining the same level of investment, with only 22% investing less.

**Figure 5. Angels' investment levels in 2012/13 compared to previous years**



UKBAA-Deloitte "Taking the pulse of the Angel market 2013"

As detailed above, there remains a lack of robust research data on the Angel market and with that in mind, UKBAA has commissioned a much larger piece of research on the angel market for 2014. The research entitled "Nation of Angels" is being carried out by the Enterprise Research Centre which is a major new research hub on entrepreneurship and finance, and led by Warwick, Aston and Imperial University Business Schools. So far, over 400 individual angel investors have responded and we are hoping for many more to complete the survey in due course. Full results are due out at end of 2014, but some early findings are touched up on below.

### 2.3. The Changing Face of Angel Investing

Based on the interim findings of UKBAA's 2014 research as detailed above, one of the most significant findings is that angel investors are getting younger, with nearly 45% of the angels in the survey being aged under 45, with 16.5% under 35 and a small number under 25. Angel investing in the UK remains a predominantly male activity at 86% of the 395 respondents in our recent survey. However encouragingly, 14% of angels are women which is an increase on estimates previously available on women investing (5%-8%). However there is along way to go to attract more women into angel investing. Notably, there are some more women focused investor groupings emerging including Angel Academe, Incito Ventures and a UK branch of Astia. Whilst the majority (77%) of angels identified in the survey are British by ethnicity, approaching a quarter (23%) are not. Asian angels account for a large portion (46%) of non-British angels.

Angels' experience, measured by the number of years investing as a business angel, ranges from 1 to 42 whilst a high proportion have started investing as an angel after 2000. Angels vary in their approach to angel investing with some engaged actively full-time and others investing part-time. Some describe themselves as active investors and others are passive angel investors. Whilst angel investing has frequently been perceived as very locally focused, 58% of angels in UKBAA's survey said that they invest outside their home region in the UK.

## **2.4. What sectors are attracting Angels investment?**

Angels are investing in a vast range of industrial sectors, ranging from high-tech to traditional sectors, from manufacturing to service sectors, often reflecting their own sector interests and professional experience. Our research shows that tech accounts for a high proportion of angel deals with a strong focus on healthcare and medtech, digital media, and including both b2b and b2c services including ecommerce and m-commerce. Angels are also taking an interest in software and notably in software as a service as well as big data. In London and other key cities, Fintech is also emerging as a strong focus for angel investors, also reflecting the fact that an increasing number of angels have emerged from the financial services sector since the crisis.

## **2.5. What are the Influencers and Drivers for angel investment in the UK?**

### **2.5.1. Key Driver: tax breaks**

As detailed above, the UK Angel market has been uniquely supported by a major tax relief scheme, the Enterprise Investment Scheme<sup>19</sup> This scheme has been in operation for nearly thirty years, showing the extent and depth of Government support for Business Angels and which has been across both Labour and Conservative political Parties. The EIS scheme offers a tax break currently 30%, increased from 20% in 2012) for an investor who makes an investment in an unquoted qualifying business with a significant trading base in the UK. Not only does the scheme offer tax relief on the deal, but also offers deferral of capital gains tax made on subsequent gains and deferral of tax on gains that are subsequently reinvested and also in relation to Inheritance tax. An investor can invest up to £1m a year using this scheme but cannot be connected before making the investment and must be a UK tax payer, whilst some trades are excluded.

In 2012, the Government decided to give a further boost to investing in small business and not only raised the EIS tax relief from 20% to 30% but made a further bold decision to support start-ups and seed stage businesses by bringing in a new Seed Enterprise Investment Scheme SEIS offering new 50% tax break for investments in seed stage companies. The scheme enables investors to invest up to £100k per year in seed businesses offering also the same capital gains deferrals. This time also if an investor is exempt from any capital gain on the sale of the business. Also if an investor makes any gain in sale of a business or property sale that are used to subscribe for shares in a seed stage business then they get 50% exemption from capital gains for life. An investor cannot own more than 30% of the company's issued share capital - which offers important protection for the company. The company cannot take on more than £150,000 in total of SEIS, and must have been trading for less than two years with less than 25 employees and no more than £200,000 gross assets.

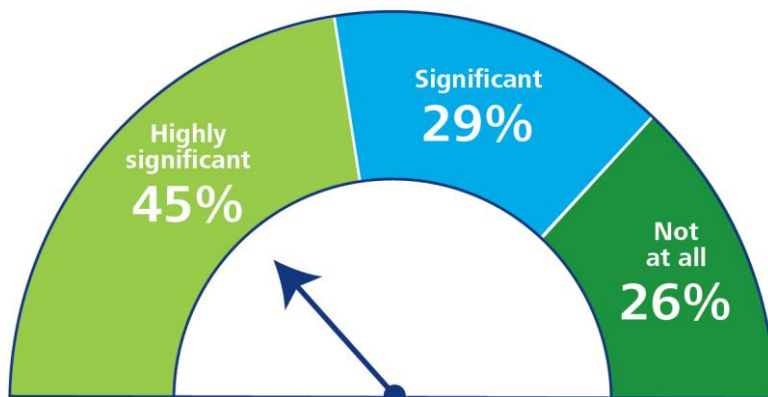
Under both EIS and SEIS, if the company fails, the remaining loss after up front tax breaks can be set off against other income up to the highest rate of tax relief paid by the investor. This can mean that around 70% of the overall investment is covered by the Government through these tax breaks!

As has already been identified above, this tax break scheme has been widely used by many UK investors and offers substantial mitigation to risk. The Seed SEIS scheme has been seen to substantially kick start angel investing in much earlier stage businesses. Our 2013 research showed that for many investors the existence of these tax breaks is a key influencer about whether to take on the risk of angel investing showed that 74% of angels felt that the tax breaks were significant or highly significant to their decision –making. Our 2014 current research still underway reinforces this picture with nearly 8 out of 10 having used the scheme.

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<sup>19</sup> <http://www.hmrc.gov.uk/eis/part1/1-1.htm>

Figure 7. How significant was EIS in your investment decisions in 2012/13?



The following HMRC stats may be observed on the use of the schemes  
EIS latest figures 2011-12

- 1.1bn – 87% increase in the amount invested through EIS from 2010-11
- 2,596 companies raised funds under EIS (increase of 27% on previous year) of which 1,498 companies raising funds for first time
- 52% of investments over £100k

SEIS Stats 2013

- 1,100 companies raised funds under SEIS
- Over £82M invested
- Average investment £72,000 (max £100k per investor)

#### 2.5.2. Key Driver: Syndication- Angel Co-Investment Funds

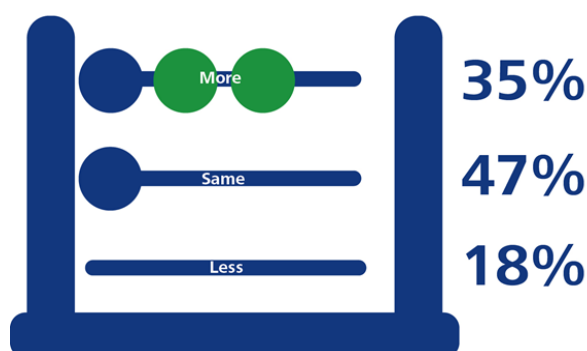
Syndication of Angel Deals has been a growing trend for angel investors over the past few years. UK investors are forming both structured and unstructured syndicates. This has enabled them to pool risks, share due diligence and pool their finance enabling them to do larger deals than when on their own and offering substantial opportunities to invest in further rounds. Consequently angel syndicated deals are frequently being done at around £1m plus first round.

Co-investment Funds have been seen to be a specific lever to encourage syndication. This has particularly manifested itself in Scotland where there has been a successful angel co-investment fund operated through the Scottish Investment Fund for a number of years and which has resulted in a very extensive number of angel groups emerging in the Scottish region.

2012 saw a further catalyser for syndication for the rest of the UK Angel market in the form of a new Angel Co-investment Fund supported by public funding. The Angel CoFund originally set up at £50m and then extended by the Government to £100m is aimed at leveraging syndicated angel investment. The Fund which is managed by British Business Bank (previously Capital for Enterprise Ltd) can offer between £100k and £1m co-investment alongside angel syndicated deals. The Fund which is not a VC fund, but operates as a "Super Angel" alongside angel money cannot invest take more than 49% of the total investment and can also offer follow-on investment.

This fund like the existing Scottish co investment fund has had a substantial role in encouraging more angel syndication and encouraging a structured approach to deal making. Our recent research has shown that 82% have invested as much or more in syndication. With latest figures showing that 7 out of 10 deals in the UK are done in syndication.

Did you invest more in syndication in 2013?



Overall indicators so far from the new Angel CoFund have shown that there is at least a 3:1 ratio of angel money leveraged by the Angel CoFund and that this is encouraging larger deal size among the syndicates, often bringing in a range of co-investment partners to build the deal. A key factor has been the importance of the Lead Angel and this is seen as vital to support effective syndication. The success of the national Angel CoFund is now being emulated around the UK regions who are seeking to set up new dedicated cofunds. The London Region is now supporting a new £75m Angel Co-Fund for London's entrepreneurs and Greater Manchester region is also introducing a new Angel Co-investment model to leverage angel syndication.

It is also notably that a number of angel groups are successfully using EIS /SEIS funds to co-invest alongside their angel deals. This often enables angels to directly put some of their annual investment provision directly into a managed fund which offers them the same 30-50% tax breaks. This is also suitable for more passive angels and assists in leveraging syndication and helping to close the deal. In some cases angels remain involved in the decision-making on the EIS Fund deals, or they may take a more passive role.

## 2.6. The Changing Landscape for Angel Investing

As mentioned above, the UK scene for angel investing has become much more diverse and much wider ranging. The previously held perception of the 'ladder of finance' has been largely discarded with Angels playing a role across multiple forms of investment across the value chain. Angels are investing from both very early seed right through to IPO and through multiple models alongside many types of different co-investors, from crowdfunding to Private Equity.

### 2.6.1. Angels and Venture Capital

Angels are increasingly co-investing with a wide range of different funding sources. Early Stage VCs are increasingly looking to connect with Angels both in terms of deal sourcing and offering next stage of finance (series A). Whilst challenges still remain for angels in relation to dilution, especially those using the EIS scheme which requires them to take ordinary non preferential shares, (except for a liquidation preference which is allowed under EIS). Nevertheless, there is evidence of angels and VCs collaborating in deals, especially those that operate publicly funded VC Funds. Nesta's research in 2012 revealed that 41% of investments done by VCs have angels in the deals. Some VCs are also now maintaining high power Angel Pools to sit alongside their own deals both as co-investors.

Perhaps more surprisingly Private Equity firms may be seen to be directly engaging with Angels and angel syndicates, again often for deal flow or cross referral, but also seeking angel – backed businesses as good prospects for PE ( Series B) funding, with a view to getting in early. There is also evidence of PE firms appointing experienced high profile High net worth angels with strong sector experience as Chair or Non Execs to guide the PE portfolio businesses

through growth and expansion and prepare for exit. Several PE fund managers are also doing Angel investing in their own time.

One of the more interesting recent developments is that of the Corporate Angel. Whilst Corporates have been starting to set up their own VC funds for some years, there are some enlightened corporates now recognizing the opportunity to co-invest alongside angels and a Angel ie on the same terms as the Angels, whilst offering additional access to markets and customers and technical infrastructure to help build the deal alongside the angels- and with a view to developing the pathway to exit for the angels in due course.

As in the US, successful entrepreneurs in the UK are re-investing their success into other small entrepreneurs- what we have called the Silicon Valley effect! Whilst this approach is still not as widespread in the US, there have been some great entrepreneurs identifying this opportunity, often using Fund vehicles to with the backing of the EIS scheme to offer additional tax breaks and bringing direct hands on support and market connections, some developing an accelerator type scheme alongside their investing. Examples of such Entrepreneurial investors include: Brent Hoberman (ex-Last Minute.com) who has set up Profounders Capital; Stephan Glaenzer (ex-Last FM) and Eileen Burbidge(ex Beebo) who have set up Passion Capital; Ex Skype Brothers have set up Atomico; Richard Reed and cofounders (ex-Innocent Drinks) have set up: Jam Jar investments.

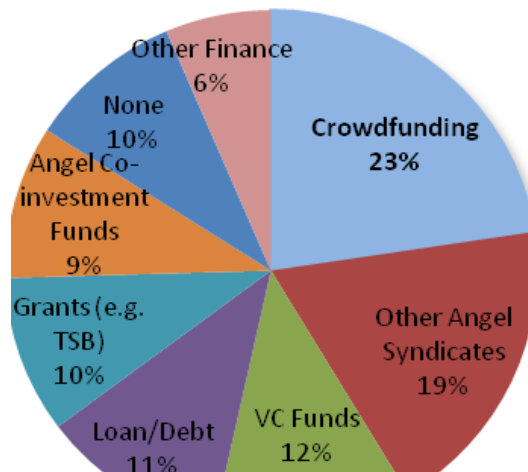
#### **2.6.2. Angels and Accelerators**

An increasing number of Angels are getting engaged in Accelerators. These offer an opportunity to both identify bespoke deal flow and get in early, as well as enabling angels to take stakes in deals in return mentoring and support and market access. In some cases entrepreneurial angels are directly backing and setting up Accelerators or helping to mobilise other investors including corporates. These new accelerators models are burgeoning both in London and around the other main cities in the UK, often around key tech clusters or science parks, with a growing number having a direct sector or market focus. This approach has directly impacted on angels approach to deal flow, offering angels the opportunity of taking a hand in directly curating their own pipeline of start up and early stage deals.

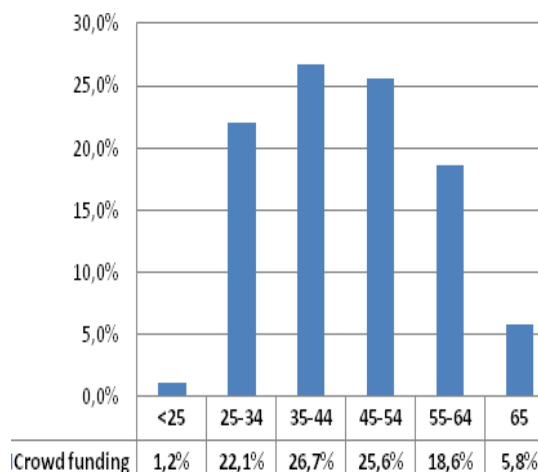
#### **2.6.3. Angels and Crowdfunding**

Again as in the US, crowdfunding has grown exponentially in the last three years. Equity Crowdfunding platforms in the UK have been required from the outset to be regulated under the Financial Conduct Authority FCA and have been required to set up a similar regulatory and compliance framework as Venture Capital Funds. During 2013, the UK Government also carried out a consultation on the regulatory and technical environment for all crowdfunding platforms including lending and donation and out of which was developed a relatively light touch framework with the onus being on ensuring that individuals engaged in crowdfunding were sophisticated and understood the risks they were taking. As a measure of this interest and recognition of the role that platforms play and the number of angels involved, UKBAA has enabled regulated equity crowdfunded platforms to become members of the trade body. A significant number of experienced angels have also directly invested in the crowdfunding platforms as growth businesses, whilst there is a clearly significant number of angels investing in and alongside deals on the platforms. Our latest research findings National of Angels (Enterprise Research Centre Interim findings October 2014) show that crowdfunding plays a relatively bigger role than other types of financing with approaching a quarter (23%) of angels investing alongside these platforms.





Our research has also shown that Angels investing alongside crowdfunding are likely to be somewhat younger than angels in general, with half (50%) being under 45 compared with 45% for under 45 for all angels (see Figure).



Equity Crowdfunding deals are growing in size with many deals being done at a similar level to angel deals, with some deals attracting over £1m first round and attracting leading investors alongside the crowd. For example, the deal for Lovespace which won the UKBAA Equity Crowdfunded- Angel Deal of the Year 2014. Lovespace, set up by Brett Akker founder of the successful Zipcar and also an angel investor. Lovespace raised £1.6m from a combination of business angels, VC funding and the crowd all investing alongside each other.

#### 2.6.4. Angel and Online Platforms

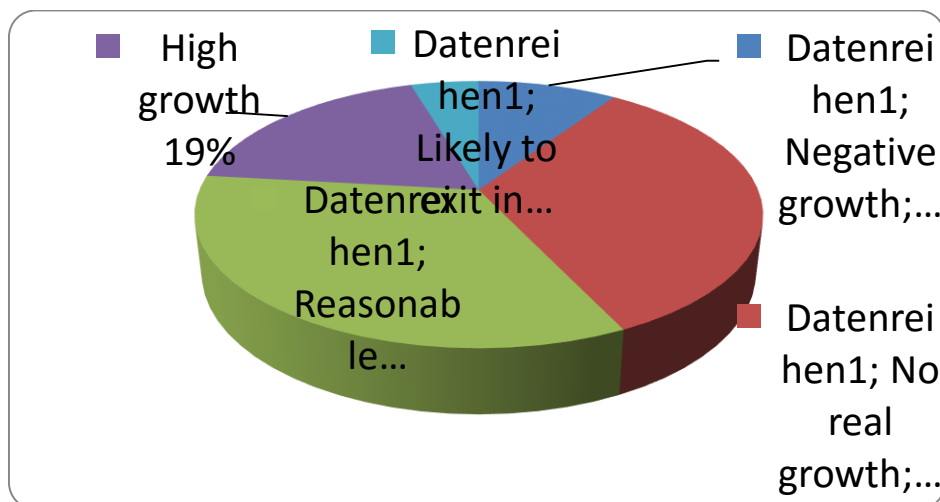
Angel Investors are increasingly using the internet and online platforms to access deal showcases for deal flow to supplement their off line investing, whilst a relatively small number of angels are using platforms for online deal transactions. Some angel groups and networks are also building their own online communities for deal sharing and deal structuring. UKBAA has also set up its own "Members-only Angel Deal Sharing Platform" in partnership with an FCA regulated online platform JustInvesting to enable the closing of deals by members that have already been part-funded to attract investment from other investors, syndicates or funds and close the deal.

There is also a growing interest among Angels in being part of an online community to share and do deals, with quite a significant number of UK active Angels now being part of Angel List,

with other more specific online communities also being formed such as Seedcamp (international) and CapitalList which is focused on the London region. A further potential outcome of the online investment communities and showcasing is the opportunity to support cross-border deal sharing and some deals are now being done between UK angel investors alongside other Angels through the opportunities shared online.

### 3. What are the ongoing challenges for the growth of UK Angel investing?

Angels are, in the main, reporting overall optimism about their portfolios in 2014, with over fifty percent reporting good to high growth and expecting positive exits.



However, Angels in the UK continue to face the challenges of how to successfully scale up and exit their businesses. The angel market continues to lack options for liquidity, with many angels and syndicates supporting businesses through multiple rounds of funding, but without a clear opportunity for realization of returns.

At the same time, there is a clear recognition of the need to support the realization of the high growth potential for their portfolio and ensure the growth of world class businesses and avoid selling out too early which provides an ongoing dilemma for the angel market. The opportunities for angels to work alongside other key players in the eco system including Private equity, AIM and the wider business and market expansion schemes. A key further area of concern for the angel community is the need to increase access to talent and skills for their portfolio to ensure the right team is in place to support high growth.

There have been one or two notable exits for angels in 2014 e.g. DeepMinds a big data company acquired by Google and Brandwatch, the social media monitoring company, which offered a 1x return partial liquidity event for the angel investors through its latest Series B round and there have been a number of notable angel-backed ecommerce deals successfully listing on the AIM Alternative Investment market. Nevertheless, there remains a low level of exits through trade sales with Corporates in the UK still not making sufficient acquisitions at this level. The new £2.5bn Business Growth Equity Fund BGF, which was set up with backing from the top five UK banks in 2012, is offering angels partial liquidity for deals that meet their threshold of around £2m-3m turnover. Whilst the Government has supported some useful concessions to simplify access to the Alternative Investment Market, again offering a potential partial or full exit for angels.

As may be seen, the UK Angel market is in a strong state and with substantial government backing, yet there remains much to be done to support portfolio companies to achieve their

high growth potential, whilst enabling increased access to exits and liquidity for angels here in the UK going forward.

**AUTHOR: Jenny Tooth**



Jenny Tooth is the CEO of the UK Business Angels Association which has superseded the British Business Angels Association, the trade body for angel and early stage investing. Jenny has been providing strategic support to BBAA since its establishment in 2004, supporting both policy and interfacing with Government, as well as developing the trade body's major annual events. She has operated a wide range of investment readiness programs, including projects supported by national and EU funding. She has also participated in a number of expert groups on access to finance and chaired the EC Knowledge Intensive Services group under DG Enterprise.



## ABOUT BAE

### Mission

**Business Angels Europe** (BAE) is the European Confederation of Angel Investing, representing the European Business Angels' Federations and Trade associations in Europe. BAE brings together the most active and developed countries operating in the angel market in Europe.

Business Angels Europe is the Voice of Angel Investing in Europe.

- Ensuring a supportive fiscal and regulatory framework for angel investing across Europe.
- Creating a connected ecosystem for angel investing across Europe, working with key players across the finance and business marketplace
- Promoting the growth of the angel market in Europe and raising awareness of angel investing to individuals with the capacity to invest, bringing both finance and experience to small businesses.

## MEMBERSHIP DIRECTORY

### Austrian Business Angel Network



Austrian Business Angel Network was formed in 1997. Currently ABAN represents over 200 individual angel investors as members of the national matching service (i2). ABAN is associated with several regional angel networks and new angel initiatives. Since 1997 business angels have invested about 14M€ in around 100 Austrian start up companies. ABAN screens approximately 500 start-ups and offers 60 investment proposals per year.

**[www.business-angels.at](http://www.business-angels.at)**

### BEBAN (Belgium)



BEBAN (Belgium), originally started in 1998. Peaking at 7 networks in 2002, the Belgian BAN-market has meanwhile been consolidated to 2 major networks covering the whole country: BeAngels and BAN Vlaanderen. The two networks together count close to 400 business angels, receive yearly over 500 projects presented during close to 50 investment events to their members, which results in 40-50 deals annually for a total amount of up to 10 million €. Both networks organize entrepreneur and investor training activities such as business angel days during the year.

**[www.beangels.eu](http://www.beangels.eu)**

### France Angels



France Angels was set up in 2001 and represents 82 Business Angels Networks and 15 Angel Funds involving 4300 active angels, investing 120M€ directly and indirectly a year in 370 deals, creating 2000 jobs, and mentoring a portfolio of circa 2000 startups and SMEs.

**[www.franceangels.org](http://www.franceangels.org)**

### Business Angels Netzwerk Deutschland e.V.



Business Angels Netzwerk Deutschland e.V. was the first federation in Europe, starting in 1998. BAND (english: "ribbon") is gathering the German Angel community and networks. Over all BAND is representing more than 5.000 angels investing 300M€ per year.

**[www.business-angels.de](http://www.business-angels.de)**

## IBAN Association (Italy)

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IBAN Association (Italy) was formed in 1999. Today IBAN associates around 450 angel investors. In 2011, 151 deals have been recorded, leading to 281 investment transactions, for a total of 34.8 million € invested.

**[www.iban.it](http://www.iban.it)**

## Business Angels Networks Netherlands (BAN Nederland)

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Business Angels Networks Netherlands (BAN Nederland) is the Dutch federation of business angel's networks and has 13 business angels' networks as full member. They represent approximately 2500 active and less active business angels. We estimate that the Dutch business angels market has a invest size between the 150 and 200 mio yearly and that the BAN Netherlands represent 30% from this market. This market share is to rise fast.

**[www.bannederland.nl](http://www.bannederland.nl)**

## Portuguese Business Angels Association

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Portuguese Business Angels Association was formed in 2006. It represents the 2 main Portuguese business's angel's networks and 12 investment vehicles, with more than 150 business angels. APBA screens more than 100 deals per year and its members have an investment commitment of around 10M€ for the period 2013-2014.

**[www.apba.pt](http://www.apba.pt)**

## Linc Scotland

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Linc Scotland, the national association for business angels in Scotland was founded in 1993. The membership is mainly organised into 19 structured angel groups, comprising around 800 individual investors. In 2012 a total of 82 deals were completed at a total value of 36.6 M€, comprising 26.66 M€ of direct private investment plus 9.94 M€ co-investment, mainly by the Scottish Co-Investment Fund.

**[www.lincscot.co.uk](http://www.lincscot.co.uk)**

## Association (Spain)

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Association (Spain) was formed in 2008 representing 28 Spanish Business Angels Networks, 2800 angels from all regions. In 2013, 140 deals have been closed, for a total of 50 M€ of direct investment. Since 2014 AEBAN reunites in working groups individual and relevant business angels and other instructions active in the early-stage market.

**[www.aeban.es](http://www.aeban.es)**

## UK Business Angels Association

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UK Business Angels Association is the national trade association representing angel and early stage investment in the UK. (England, Wales and Northern Ireland). Each year private investor's account for between £800 million and £1 billion of early stage investment in the UK – the single largest source of early stage capital in this country.

**[www.ukbusinessangelsassociation.org.uk](http://www.ukbusinessangelsassociation.org.uk)**