BANDquartal

Issue 1/2016

BUSINESS ANGELS NETZWERK DEUTSCHLAND e.V.

How to explore the landscape of Angel Investing in Europe

Editorial

Our German readers might be surprised to read an issue of BANDquartal in English, but there's a simple reason for using the modern lingua franca. The topic of angel investment research is not a national one, it ultimately has a larger, European scope.

That is why BAE, Business Angels Europe, the association of national angel federations in Europe places emphasis on the intensification of angel investment research. BAND's co-president Ute Günther is responsible for research and data in BAE's Board of Directors.

In February 2016, BAND organized the BAE Conference on Angel Investment Research for the second time. It was held at Zeche Zollverein in Essen as a further step to establish a community of business angel researchers all over Europe.

You will find the results of this conference here, but the general aim of this issue at hand (or more likely, on screen) is to paint a picture of the challenges, methods and results of angel research all over Europe.

One desirable result of BAND's efforts would be to extend the German Business Angels Panel all over Europe (more on this on p. 20). BAND also calls for the adoption of a code of ethics and guideline for good practice on European angel investment research, which you find on page 25 of this issue.

Last, most certainly not least, we would like to thank all the authors - academics as well as practitioners - for their valuable contributions to this issue!

Enjoy reading!

Matthias Wischnewsky

I. Angel Investment Research – a huge challenge

Ute Günther, Roland Kirchhof

Knowing a lot – knowing nothing. Angel Investment in Europe

What is it all about?

As the main source of seed and early stage funding, angel investors play a crucial role all over Europe. They are extremely relevant for business survival and success and a key issue for the future of the EU economy. Voices of market experts within Europe forecast: "The best years of angel investing are yet to come".

The desire to better understand the diversity of the growing business angel ecosystem is omnipresent: market intelligence is required. From governments to angel associations, market players ask for key indicators about measuring the impact of angel investing.

So, exploring angel investing is becoming more and more important and remains a huge challenge.

Good news – We do know a lot

Angel investing in Europe is by no means a black box: there is a wide range of literature about this topic. To list all of it would be pointless here.[1] Positive as well: among the field of experts it is now widely recognized that angel investment research is not as easy as it seems (a phrase, which most researchers would consider an understatement). There is the "tip of the iceberg phenomenon" (the division into visible and invisible market) and the fact that the angel market as a whole can be characterised as enormously diverse. On top of that, a lot of angels prefer to stay anonymous and do not like to share their deals, be it successes or especially failures. These factors make it extremely hard to collect reliable and comparable data. Combined with a lack of methodological approaches and varying definitions of what a business angel is, this constitutes the problem of data aggregation even on a national level, let alone on a European level.

Today, no one in the world of researchers and market experts underestimates the value and the challenges of angel investment research.

But we need more!

So, yes, angel investment research does not need to start from scratch and the assessment of the difficulties surrounding it are broadly shared within the community. But that does not mean that everything is going just fine. We do know a lot, but for some, it still means that we know nothing in terms of being able to provide consistent data.

Of course, European politicians – among others - would love to know the following:

- How many BAs are there in Europe? How many women BAs exist?
- How much is the yearly average amount invested by BAs?
- How many BA groups are there in Europe?
- How many BAs leverage on other source of financing?
- How many training courses exist for BAs?

…and much, much more…

Not only children know: To wish for is one thing, receiving it the other. The problem with these types of wishlists is the simple fact that they simply cannot be granted. Of course, everybody in the angel ecosystem would like to be equipped with those data, but definitely not at all cost!

What good is it to implement an instrument that fails in practical application because it was developed under completely wrong assumptions about the market as follow-up of bad data? Severe market failures are the results. Bad data destroy reputation, bring more harm than benefits.

The expert community has been tolerating the misuse of data in the field of angel investments a while now. That's a little understandable: to not be able to deliver good data, facts and figures is painful, especially for those representing a national association or a European federation like myself. It is hard to say that there are many facts and complex issues that we cannot grasp as deeply as we would like to.

[1] You'll find a list of significant research here (in German): http://www.business-angels.de/marktinformationen/forschung-statistik/

To be honest, the expert community remained silent for too long.

But: Opposition against bad data is growing, critical voices are getting louder. The process of rethinking is on the way.

Stop unrealistic expectations

One aim should be to not publish data at all cost only to fulfil unrealistic expectations. It's an urgent need to reduce expectations to something reasonable. No ifs and buts. Angel investment research is not a journey to never-never-land.

Combining the desirable with the feasible

So, let's start combining the desirable with the feasible! Let's stay confident towards decision makers in politics and funders of projects, tell them what is possible and what is not.

It must be the purpose of our research strategy to identify more representative ways of sampling and to come up one day with a new level of robust data and qualitative research studies on the visible market.

However, we need to bear in mind that the level of actual investing by private individuals in small businesses across Europe will never be fully known.

High-potential top class scientists and academics are strongly required. It's them to set standards and benchmarks and to find best solutions on national and EU level and worldwide. There is no single "golden bullet" to solving the problems of exploring the invisible angel investment markets. Multi-dimensional analysis is needed. We are confident that the research community is able to identify these new ways in studies to come so that we will know even more about angel investing than today.

Dr. Ute Günther is co-president of Business Angels Network Germany e.V. (BAND), the national association of the German Business Angels Networks. Since 2013 she also serves as Vice President of Business Angels Europe (BAE). She has been executive board member of Business Angels Agency Ruhr e.V (BAAR) since 1999 and is additionally CEO of Startbahn Ruhr GmbH as well as Managing Board Member of pro Ruhrgebiet e.V. In 2013 she was appointed to be member of the Advisory board "Young digital economy" at the German Federal Ministry of Economics and Technology. Dr. Günther studied Philosophy, Romance languages and Education and has been active in researching and teaching at the universities of Bochum, Essen, Trier and Vallendar.

Dr. Roland Kirchhof is co-president of Business Angels Netzwerk Deutschland e.V (BAND). He also serves as CEO of Startbahn Ruhr GmbH, co-president of Business Angels Agentur Ruhr e.V. (BAAR) and member of the Board of pro Ruhrgebiet e.V. The qualified lawyer has made his doctoral thesis at the University of Munich and completed his management career in the Free State of Bavaria, the State administration North Rhine-Westphalia as Assistant Secretary of the County Association NRW and as Chief Executive of the independent city of Herne. In addition to his law career, he is a pioneer of Angel Investment in Germany and an expert in developing infrastructures for young innovative start-ups and capacity building strategies.

Interview with Nelson Gray

"When appropriate, let's just be honest and say 'we don't know'"

BAND: As a longtime active angel investor and trustee of the Angel Resource Institute you are very familiar with the angel investing landscape and also statistics and data about it. What in your opinion is the biggest challenge when it comes to collecting reliable data?

Nelson Gray: There are quite a number of difficulties when trying to collect reliable data relating to angel investing. The first seems so simple, but causes significant confusion, and relates to defining what is meant by the term "angel investor"? From whom should we be collecting data? Data collection needs to be based on a consistent and rigorous definition of business angel. Unfortunately, there is definitional ambiguity, and most reports presenting data do not include a description of the definition they have used to establish their sample base.

There are a number of elements that need to be addressed. For example, the population of business angels is not fixed or static. Do you include "virgin angels" who have not yet invested (and may never do so)? How do you deal with "dormant angels", individuals who have made one or more investments but are not currently looking to make new investments, either because they have no further liquidity (but may become active investors again once they realise proceedings from a successful exit event) or because they have invested and have withdrawn from the market on the basis that this activity is 'not for them'? Counting either category of individual as business angel risks exaggerating the total number of active angels in the market and hence the investment capital potentially available. Do you include only those angels who are "accredited" under local legal regulations? If you only include "accredited" angel investors in jurisdictions that have such regulations, how do you compare or amalgamate this data with data from jurisdictions that have no such legal requirements?

Nelson Gray has been a business angel investor for over 20 years and is recognized internationally as a thought leader and public speaker. Nelson's extensive experience allows him to blend a practical application of investment and company growth with an understanding of public policy at an international level. As a qualified UK Financial Services Authority fund manager, he managed two early stage investment funds and was responsible for funding over 50 SMEs. He acted as the fund manager for Scotland's leading Business Angel syndicate, established in 1992; has invested in over 30 companies personally, and is a member of Angel groups in Scotland and the USA. He has extensive international experience in supporting Angels, entrepreneurs and government bodies.

How do you compare the population of accredited business angels between for example the UK and the USA, where the regulations impose differing criteria?

A typical classic definition of business angel would be something like:

> *"A knowledgeable private individual, usually with business experience, who directly invests part of his or her personal assets in new and growing unquoted businesses. Besides capital, Business Angels provide business management experience for the entrepreneur."* [1]

[1] list of definitions used by DG Enterprise accessed at http://ec.europa.eu/enterprise/policies/finance/glossary/index_en.htm#b

Whilst the majority of definitions exclude investment by "friends and family", there remain substantial inconsistencies. Is a friend of a friend an angel? How does one deal with the growth in Equity Crowdfunding or individuals investing through "Angel Platforms" such as Angel List, where the opportunity to be significantly "hands on" may be limited (if only because of the sheer number of investors involved in each deal, sometimes running into the thousands)? Such investors are clearly part of the "Informal Investment" community (non-institutional risk capital investments in unquoted businesses), but are they "ngel investors"? The classic definition emphasises the leverage to be had from the hands-on involvement in the business by the angel. Indeed, one survey found that of firms considered the business angels' contacts and know-how to be even more important than the provision of finance.[2] It should be regarded as simple "best practice" to provide a clear description of the definition used when publishing any data.

The second "big issue" is finding angels. Most business angels and their investments are invisible and virtually impossible to identify and track over time. Survey data is therefore restricted to the visible market. This tends to comprises angel networks and data from individual business angels who happen to have come to the attention of the survey. The data tends to be biased in relation to the nature of investors sampled, with an over sampling of those claiming to represent regional and national associations. The fact that they are visible does not mean that they are the most active or experience investors. This data, drown from perhaps just 10% of the market is then used to estimate the total market size. Unfortunately, many published data sources fail to provide details of how this scale up has been calculated, and many seem to simply do little more than guess.

And the third big issue is that data is most often collected by way of surveys, and many surveys are simply not done in a rigorous manner. Surveys of angels tend to suffer from problems of selection bias. Many do not respond to a survey (non-response bias). If those who do respond are different from those who do not the survey results will be over generalised. It is likely that angels who respond to surveys have done well, while angels who have lost money (and may now have given up investing as a result) are unlikely to wish to publicise the fact. This results in "survivorship bias". And surveys that depend upon angel groups or networks, as opposed to the less visible solo angel, probably bias the data of the average size of deals done, and the industry sectors invested in, as investments in IP heavy sectors such as life science tend to require higher levels of funding than say service companies. Once again the key to addressing this issue is proper disclosure by those publishing the data as to the characteristics of their data sample.

BAND: Policy makers tend to rely on the present data in order to shape new instruments to foster angel investing. Do you feel like there needs to be a fundamental change in the way these projects are approached?

One often sees generalist data quoted by government agencies when setting out new policy proposals, yet it is clear that the limitations of the data are not appreciated, or even in some cases where the data originally came from and the motivations or skill of those producing it. This is compounded by a lack of understanding of the fundamentals of angel investing, and in particular the nature of companies that are suitable for such a form of finance. Very often I see policy based on the assumption that private individuals "should be investing more as angels" based on comparative data on the level of investment in one country compared to another but without properly analysing fundamental such as the availability of truly investable deal flow or local levels of equity aversion on the part of entrepreneurs. Even in the most developed markets barely 5% of all start-ups are ever likely to seek or be suitable for third party equity investment. Just capturing how much investment is presently happening is not a good basis for policy making.

There needs to be a fundamental analysis of both realistic potential supply of funding and credible demand for funding. This analysis needs to be properly funded and professionally researched. On the suppy side for example it would be appropriate

[2] Beteiligungsmarkt nach der Krise: Optimistischer Ausblick Aber Angebotslücke beim Wachstumskapital wird größer, KfW Bankengruppe, 2010.

to estimate the potential funding that might be available from a region before committing resources to stimulate Angel activity, however one must not confuse total investment funds stated to be available with the actual amount likely to be committed early stage investment. Investors may indicate an 'in principle' commitment of funds but never actually invest, because of changes in personal circumstances, changes in investment preferences, or, most often difficulty in finding what they believe to be investible deals. On the demand side amost every investigation into the "Funding Gap" reports that while entrepreneurs complain about a lack of funding the investors complain about a lack of investable propositions. Studies into the potential for Angel funding must take into consideration the level of "credible" demand for funding. This is complex as there is no single measure of a propositions "inevitability". Propositions that would receive funding in one location may be perceived as unattractive to investors in another, due to the investor's investment preferences, background skills or knowledge, availability of follow on funding, and many other factors. Particular caution should be taken to ensure that programs to stimulate entrepreneurial activity take into account the nature of company that local investors are likely to support. This brings us back to the need for specific and rigorous research into the realities of the local Angel investor market before policy is designed and implemented.

BAND: If so, which opportunities do policy makers have to actually find out how to best create new policies, if data is inconsistent?

First, policy makers need to be educated as to the realities of the data that is presently available.

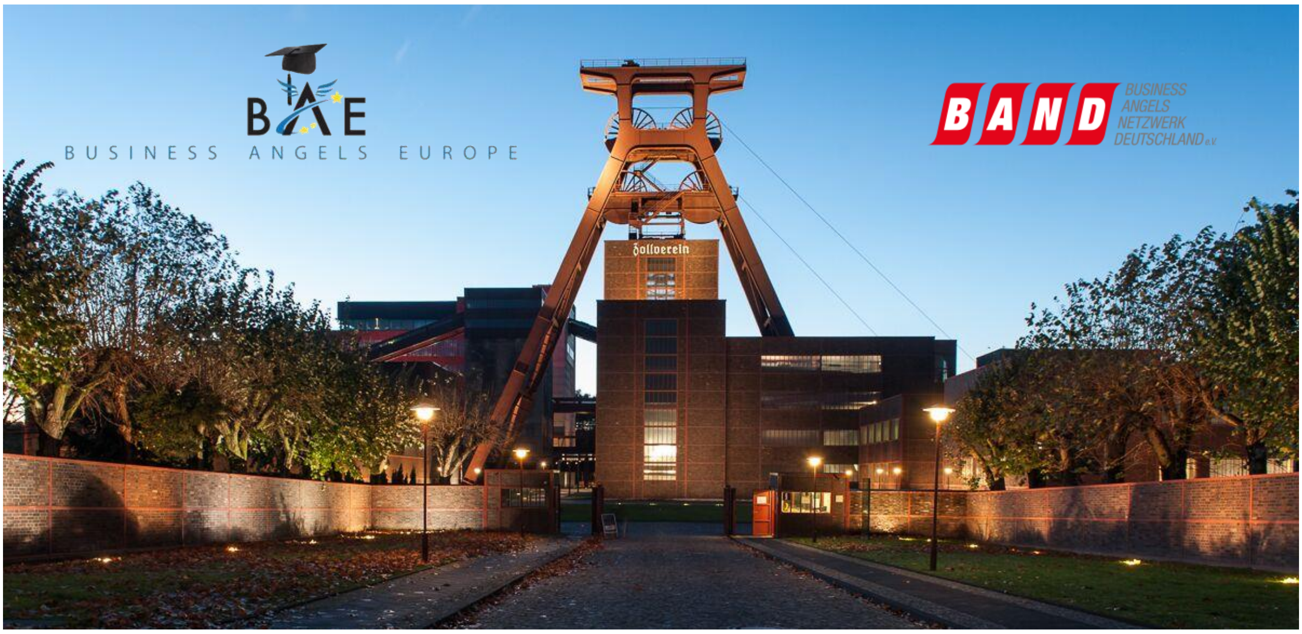
The Angel community can help by stopping quoting data we don't really believe in, or does not set out clearly the definitions used for "angel investor" or the nature and source of the individuals sampled. If the press release is not clear as to the methodology used to scale up the numbers from the sample to an estimate of total market size, just don't publish the data. When appropriate, let's just be honest and say "we don't know". This honesty should extend to requests for data. Obtaining reliable data requires significant investment, and we should say so. Personally I would rather have no data than bad or bogus data.

Policy makers should also be guided to structure data gathering in a manner most appropriate to support the policies under consideration, so that it is specific and focused on what information is relevant and appropriate. Just because the government has a program to support ITC incubators does not mean that local investors will wish to invest in that type of company if the investors backgrounds are for example from the service or tourism business.

Simply collecting data on the potential capacity for investment is meaningless unless one also identifies what the investors are likely to invest that capacity in. The opportunity for policy makers is to work with organisations who have built a reputation for academically rigorous research, and the angel community should be encouraging them to do so.

The interview was conducted by
Matthias Wischnewsky

Business Angels Europe Conference on Angel Investment Research 2016



The conference venue: former coal mine ZOLLVEREIN, UNESCO World Heritage Site in Essen, Germany

After the initial event in Berlin in December 2013 the second edition of the BAE Conference on Angel Investment Research hosted by BAND took place on Monday, 22nd of February 2016 at ZOLLVEREIN UNESCO World Heritage Site in Essen, Germany.

40 academics - the pundits of angel investment research - from 15 countries all over Europe were present. The participants all agreed on the fact that research should be improved and also standardized all over Europe. The conference in Essen was a further step in establishing a community of business angel researchers all over Europe.

One fact remains certain: business angels are the most important early stage financiers of innovative start-ups. But how many angels are active in Germany and Europe, how much do they invest, what is the median and what is the average of an angel investment in € and in percentage of shares? How high ist he average return on invest, what percentage of deals is syndicated, what are the investors' favourite sectors? These seemingly easy questions evoke a variety of answers, most of which cannot withstand scientific revision.

That was precisely the central question oft he second conference in 2016: How can you gather serious data in a market that is best described as private and informal? The only scientifically acceptable way to do so, is if you reveal your methods and sources. The participant researchers all agreed that reliability needs to be key to angel research. Don't fantasize about data, was their credo.

Another focal point of the debate was a research project initiated by the European Commission. The SMART project aims at painting a concrete image of the business angel scene in Europe and wants to collect reliable and comparable data in 41 European countries within a time frame of less than two years. The participant researchers all pointed out that this layout of the study is overambitious and simply unrealistic. The inititative of the SMART project on the other hand was praised, although it needs to combine the desirable with the feasible.

Another result of the conference was that the methodic standards need to be improved and possibly standardized all over Europe – in the face of market segmentation – visible and invisible – this is a huge challenge. First approaches were presented, though. A practicable method (perhaps for all of Europe) was introduced by Dr. Georg Licht of the renowned research institute ZEW in Mannheim. The ZEW tracks angels via their portfolio companies, because their data is easier to access.

More information and the presentations of all speakers are to be found here:

http://www.business-angels.de/veranstaltungen/business-angels-europe-conference-on-angel-investment-research-2016/

Business Angel Session auf dem

G-Forum
Jahreskonferenz

06./07. Oktober 2016
Leipzig

90 Minuten, vollständig dem Angel Research gewidmet.
Wenn Sie Ihre Forschungsergebnisse präsentieren möchten,
melden Sie sich bitte unter
band@business-angels.de

Mehr Information zum G-Forum:
http://www.fgf-ev.de/g-forum-2016-leipzig/

Spotlights on European Angel Research: Conference Statements

"Angel market raises methodological issues:

Research on angel investing is paramount for policy-makers as well as potential angel investors to help them make appropriate decisions. It should deal with quantitative data such as number and profiles ofan-gels. But such a research raises several important methodological issues, concerning the definition of angels and data collection on angel activity, in particular concerning the invisible market.

Significant progress has to be made in the near future in this area, involving university researchers, open use of public data bases, and significant public and private financing, if the capacity of angel investing is to develop further. This is a key for development of innovation and jobs in all our European countries."

Philippe Gluntz
President, BAE Business Angels Europe

"Pooling of available information - an excellent idea:

I was delighted to attend the BAE event in Essen and meet others interested in tracking angel investment in Europe. So much information on angel investment is confidential, and the availability of data differs considerably from country to country, but it does seem like an excellent idea to start pooling what is *already collected and work towards a common approach on assembling data that can make a positive contribution to understanding this very important form of investment. We will be producing the next annual report on the Risk Capital Market in Scotland for Scottish Enterprise over the next few weeks, and this will give a good overview of the 'visible' part of angel investment in this corner of Europe."*

Jonathan Harris,
Young Company Finance, Scotland

"Sharpening the picture of the angel market:

It seems that not a day goes by without us being asked questions we simply cannot answer easily, especially so if they are of a quantitative nature. People asking these questions often show little understanding, when you try to explain that you are dealing with an informal market, where collecting data is extremely difficult.

No wonder there are people who answer these types of questions along the lines of: „A firm assertion is better than an uncertain truth". In the long run, this is not the way to go. One aim of the BAE conference in Essen was to limit these uncertainties through the use of new, different and better methods. Moreover, it should be about sharpening the overall picture of the business angel market, which can be achieved to a certain degree through qualitative studies."

Dr. Roland Kirchhof
Co-President
Business Angels Netzwerk Deutschland e.V

"Influences of different factors in internal rate of return:

Through an econometric analysis making reference to an original set of independent variables, testing different functional forms, both linear and non-linear, we found that: (1) the relationship between experience and internal rate of return (IRR) is U-shaped and significant; (2) the widely accepted expectation that investments with a short holding period earn a lower IRR is confirmed by quantitative data; (3) an original explanatory variable – rejection rate – is put into the model and its impact on business angels' performance is positive, non-linear and significant; (4) the final overall econometric model shows relevant explanatory power, with an R-squared close to 35%."

Prof. Vincenzo Capizzi
University of Eastern Piedmont

"Do angel-backed companies perform better – a research project:

The research undertaken by our team investigates whether angel-backed firms exhibit better performance than non-backed ones and the extent to which a longer relationship between an investor and an investee provides an advantage.

The key issue in identifying the impacts of a BA support on firms' growth path lies in the construction of an appropriate counterfactual intended to mimic what would have occurred if firms had not been backed by a BA.

Our empirical strategy rests upon a unique dataset developed from different administrative and ad hoc sources. We are thus endowed with an exceptionally important sample of companies: a sample of 432 enterprises funded by an angel and a control group containing 2,160 similar companies, based on the number of employees, the age, the location, the industry in which they operate, and the equity structure."

Dr. Nadine Levratto,
Université Paris Ouest Nanterre

II. Research Agenda

Colin Mason, Tiago Botelho

Business Angels – a new Research Agenda

Introduction

Research on business angels is relatively recent, dating back to the pioneering research of William E. Wetzel on Business Angels in New England, published in the inaugural edited of Babson College's *Frontiers of Entrepreneurship Research* in 1981. This research was followed by a number of other regional studies of business angel investing in the USA, all funded by the US Small Business Administration. Robert Gaston provided an overview of these studies in his book *Finding Private Venture Capital for Your Firm*, published in 1989. By the early 1990s, business angels had started to attract attention from researchers in Europe – notably the UK (Colin Mason and Richard Harrison) and Sweden (Hans Landström) – but also further afield (e.g. Japan, Australia).

The initial research studies – termed first generation studies – focused on the 'ABC' of angels, their attitudes, behaviours and characteristics. These studies examined the backgrounds of angels, their personal characteristics and motivations for investing. Subsequent studies – second generation studies – have focused largely on the investment decision-making process and investment criteria of angels. Over the past 10-15 years, research on business angels has become much more broadly focused on such topics as entrepreneur-angel conflict, angel learning, angel diversity (e.g. women angels) and passion. At the same time, research on angels has become global, with studies in virtually every continent (e.g. China, Latin America)

Public policy has been a strong theme through much of this research. This reflects the long-standing efforts of governments to close the so-called 'equity gap' – small amounts of risk capital for pre-revenue companies at their seed, start-up and early growth stage. A major focus of policy has been what were originally known as 'business introduction services' – but later as business angel networks – a means of addressing the difficulties that angels and entrepreneurs seeking finance encountered in finding one another. This form of intervention – which Wetzel initially advocated and was subsequently created as the Venture Capital Network (VCN) – was adopted in the UK in the early 1990s as a direct consequence of the Mason and Harrison research, and by the EU in the late 1990s.

Despite the growth of angel research, particularly since the start of the millennium, many 'unknowns' remain. Moreover, the nature of business angel investing is changing, notably as angels increasingly join together in managed groups in order to invest, and thereby challenging the relevance of prior research. There is also an ongoing need to inform policy-makers. The following research agenda identifies four themes where there is a particular need for research.

Research Agenda

1. The Investment Process

The investment process has been a major focus of both previous and current research. It is therefore fairly well understood. However, much of this research has been on the decision to invest – or not. There is virtually no research on how angels value their investments, an area that is known to be a source of angel-entrepreneur conflict and reason why potential deals fall through. Equally, there is little known about the investment contracts that angels use – their key features and how they are negotiated. There is also remarkably little research on investment outcomes – both the exit process and the returns from investing. Finally, angel groups have the financial resources required to take a firm to later stages without the need of a venture capital fund. This and the continuing shift of venture capital funds to bigger investments means that they are less likely to be a source of follow-on investment. Indeed, two-third of the investments by Scottish angel groups are follow-on investments. This is very different from the original investment and made in very different context. In particular, agency issues are likely to be less significant because the investor and entrepreneur will have worked together for a time. But there has been no research on the angel's follow-on investment decision.

2. Market structure

As noted above, the rise of angel groups has transformed the nature of angel investing. It raises a number of questions. How similar or different are angel groups? Has it changed the nature of angel investing – has it attracted passive angels? Are angel groups less hands-on investors? What are the implications of the interactions amongst its members? Does it encourage 'herd' behaviour? Will angel groups evolve into venture capital funds as Jeff Sohl fears? In short, is the essence of angel investing in danger of being lost as a result of the emergence of angel groups? More positively, the emergence of institutions such as angel networks and groups means that at least part of the angel market is now visible, in contrast to the era of solo angels who sought to retain their anonymity and hence operated largely below the radar. This allows the opportunity to collect data on a regular basis to monitor trends in angel investing.

3.Business Angel-Venture Capital Relationships

In the era of solo angels there was a complementary between angel investors and venture capital funds. Business angel-backed businesses would seek their next round of funding from venture capital funds. As one Canadian VC said in response to the question of where they find their deals replied that they "follow the angels". Indeed, this complementarity – first highlighted in a paper by John Freear and William Wetzel – forms the core of the funding escalator model. Other aspects of this complementary relationship include referral of deals – angels referring deals that are too big to VCs, and VCs referring deals that are too small to angels – and co-investing. The emergence of angel groups on the one hand and the shift of venture capital funds to bigger deals has however put a big question-mark on the continued relevance of the funding escalator. If it no longer exists, then what has replaced it?

4. Business Angel – Crowdfunding relationships

The recent emergence of crowdfunding has transformed the entrepreneurial finance market. We are concerned here with equity crowdfunding (E-CF). The obvious question is whether E-CF and business angels operate in separate markets or whether there is some overlap. There is a suggestion that some entrepreneurs will see E-CF as more favourable than angels because they can strike a better valuation and the 'crowd' are likely to be passive investors. However, savvy entrepreneurs will want the value-added contribution from a knowledgeable, experienced angel. There may also be a concern that having hundreds of equity investors make compromise the ability of a business to raise follow-on investment from an angel group or a VC. This would be compounded if the initial investment was done at too high a valuation. There is evidence from to UK surveys of angels in 2014 that a significant minority of business angels have invested on crowdfunding platforms. Since equity crowdfunding does not allow individual investors to do much in the way personal due diligence, design their own investment agreement, agree their own valuation or become engaged in a hands on capacity it is difficult to understand why angels would want to invest via a crowdfunding platform. The greatest potential for E-CF platforms and angels to work together may be as syndicate partners, with the crowdfunding platform playing the role of sidecar fund, investing alongside an angel group.

5. Policy

Governments support angel investing in a variety of ways, most notably by providing tax breaks on angel investments but also contributing to the costs of angel groups and networks and establishing co-investment funds to invest alongside angel groups to fill out a funding round. However, there has been remarkably little evaluation of the effectiveness of this intervention. Tax incentives seem to be untouchable, with dire warnings that angels would stop investing if they were removed. Such warnings are to be expected! But success in the eyes of policy-makers appears to be the amount of investment that tax incentives has stimulated rather than the effectiveness of this investment in generating successful entrepreneurial companies. Angels say that tax should not – does not – alter the merits of individual investments. A tax incentive will not turn a weak business into a strong business. But there is the suggestion that tax incentives encourage some angels to 'take more risks' – investing in businesses that they would not consider in the absence of the tax break. It is questionable whether this approach will produce a better performing portfolio. More generally the angels need to be encouraged to focus much more on the exit, factoring this into their initial investment decision and then using their hands on involvement to seek a strategic exit. The rarity of such an approach underlines the need for more investment in training for angels.

Conclusion

Business angel investing offers a rich choice of research opportunities for theory-based and policy-based research. Its disadvantage, in an era when the emphasis on quantitative research requires access to large data bases is precisely the challenges in obtaining data, particularly in a form that offers scope for the application of sophisticated statistical analysis. Nevertheless, researchers are now increasingly rooting angel research in theory rather than, in Wetzel's phrase, (simply) 'putting boundaries on our ignorance' (although that is not to devalue 'descriptive' studies). Hence we are now increasingly seeing studies that are examining angel investment activity through some theoretical lens (e.g. emotion, impression management, learning, identity). And, as noted above, there is an ongoing need for research that informs policy-makers – what is working, what is not working, and what is needed.

Colin Mason is Professor of Entrepreneurship in the Adam Smith Business School, University of Glasgow. His research and teaching interests are in the area of entrepreneurship and regional development. His specific research is concerned with entrepreneurial finance. He has written extensively on business angel investing and has been closely involved with government and private sector initiatives to promote the business angel market, both in the UK and elsewhere.
He is the founding editor of the journal Venture Capital: An International Journal of Entrepreneurial Finance (published by Taylor and Francis Ltd) and Consulting Editor of the International Small Business Journal (Sage).

Tiago Botelho joined Norwich Business School as a Lecturer in Business Strategy in August 2015. Prior to joining NBS he held teaching positions (lecturer, teaching assistant, and tutor) at the University of Glasgow, University of Strathclyde, Universidade Nova de Lisboa, and Piaget Institute. He holds a BA degree in Economics from the Universidade Autónoma de Lisboa (Lisbon, Portugal) and a Masters (MA) degree in Finance and Business Economics from Fundação Getúlio Vargas, Escola de Pós-Graduação em Economia (Rio de Janeiro, Brazil). Currently, he is completing a PhD in Management at the University of Glasgow on the topic of business angel investing.

Helmut Kraemer-Eis

Business Angel Research: illusion and disillusion

Businesses drive innovation, growth, employment and social cohesion across Europe. To do that, they need access to finance. The European Investment Fund (EIF) is Europe's main provider of risk financing to support small and medium sized enterprises (SMEs) and small mid-caps. We deliver sources of funding including equity, debt and microfinance via financial intermediaries.

The EIF is part of the EIB Group, 61.3% owned by the European Investment Bank (EIB), 26.5% by the European Union (EU) through the European Commission and 12.2% by 29 public and private financial institutions. This combination of public and private shareholding gives us a dual focus: to support EU policy objectives, while acting as a market-oriented institution that delivers appropriate return on capital.

Business Angels (BAs) represent a very important class of private equity investors[1] and EIF cooperates with BAs in order to support SMEs. EIF has implemented the European Angels Fund (EAF). The EAF is a co-investment fund to provide equity to BAs for the purpose of SME financing. It has been launched in March 2012 in Germany with an initial volume of EUR 70m and been increased and extended to Spain, Austria, Ireland and the Netherlands since then and currently reaches a volume of c. EUR 253m. EAF has already committed app. EUR 75m to BAs who have already drawn more than EUR 14m for more than 100 co-investments in SMEs since the launch of the programme. Further roll-out to other countries is foreseen and the launch of the program in Italy and Denmark is scheduled for 2016. Aim of EAF is to co-invest with experienced BAs in order to build a joint portfolio over a time of 5-10 years.[2]

In addition to EAF, EIF also invests in institutional fund set-ups with an angle on BA investments, including funds with involvement of BAs in the investor base and fund governance or funds aiming to co-invest with BAs or BA syndicates. With a view to further develop this approach, a new mandate has been launched in 2015: The Business Angels ICT pilot under Horizon 2020 InnovFin with an initial volume of EUR 30m aims to support Business Angels investing predominantly in start-ups, innovative SMEs and small midcaps with a particular focus on CEE countries who aim at commercializing new ICT-related products and services across Europe.

Against this background, EIF is monitoring BA-related market developments carefully and we also consider academic research in this field to be very relevant. In this context, the BAE conference on Angel Investment Research, organised by BAE in Essen on 22nd of February provided useful ideas and I have been asked to come up with my own "wish-list" for researchers.

There are difficulties in measuring the size of the business angel community, the main ones being identification and definition. BAs typically prefer to stay anonymous and the details on their investments are rarely disclosed. Further, nothing can prevent an individual from identifying oneself as a 'virgin' angel, although he/she may have never actually invested. Others may have occasionally acted as angels, but are no longer looking for investment opportunities. Moreover, the so called "invisible market" makes a precise estimation of the angel market difficult. Hence improved and systematic data collection exercises, done on a regular basis are key in order to enhance research possibilities. However, it is obvious, that a certain part of this non-institutional market activity will - on purpose – continue to be informal and will remain invisible.

From my perspective, following a harmonisation of definitions (i.e. who/what is a BA?), a starting point to analyse the segment, can be the analysis of drivers and patterns of BA activity on country level (framework conditions (e.g. tax, laws/regulation), activity levels (supply, demand, public support measures)). What are the national setups? Objective should be to perform cross country comparisons and to derive best market practises in order to arrive at concrete and well informed policy recommendations. Moreover, more reliable estimations of market sizes on national and European level could help the market also from a communication/lobbying perspective.

Relevant and interesting sub-questions in the context of these international comparisons are:

- What is the relevance of cross border activities for BAs?
- How successful are BAs who are active cross border?
- Depending on sector, country, or hub – how are valuations and their development over time?

Further food for thoughts could be:

[1] See for a general description of BA financing: Kraemer-Eis and Schillo (2011), OECD (2011), CSES (2012) and OECD (2016).

[2] For more information see: http://www.eif.org/what_we_do/equity/eaf/index.htm and http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/innovfin-sme-vc/index.htm.

- How is the relationship between crowd-funding and BA investing – what are the trends?
- How successful are syndicates/clubs?
- The analysis of different exit strategies;
- What are the relationships between visibility, activity, and success of BAs?

This list of questions is certainly not exhaustive but relevant answers would already provide significant improvements for a better understanding of this important market segment.

References:

CSES (2012). Evaluation of EU Member States' Business Angel Markets and Policies. Final Report. October 2012.

http://ec.europa.eu/enterprise/dg/files/ba-rep_en.pdf

Kraemer-Eis, H. and Schillo, M. (2011). Business Angels in Germany - EIF's initiative to support the non-institutional financing market. EIF Working Paper 2011/011. November 2011.

http://www.eif.org/news_centre/research/index.htm

OECD (2011). Financing high-growth firms. The role of angel investors. December 2011.

OECD (2016). Financing SMEs and Entrepreneurs 2016. An OECD Scoreboard. Forthcoming.

Dr. Helmut Kraemer-Eis is Head of the European Investment Funds's (EIF's) Research & Market Analysis (RMA). RMA is part of EIF's General Secretaritat. The EIF is the EIB Group's specialist provider of risk finance to benefit SMEs across Europe. By developing and offering targeted financial products to its partners, the EIF enhances SMEs access to finance and fosters EU objectives as entrepreneurship, growth, innovation, research and development, and employment. Prior to that, Helmut developed and headed EIF's Guarantees and Securitisation Risk Management for 7 years.

III. What do we know about the Angel Market?

Peter Wirtz, Christophe Bonnet, Laurence Cohen

Angel Cognition and Active Involvement in BAN Governance and Management

Principal Topic

This study seeks to understand the intensity and type of involvement of individual business angel network (BAN) members in network activities.

The market for informal venture capital features a high degree of information asymmetry, which makes it difficult for early stage start-ups to match with the appropriate angels. That is why, in an effort to narrow the equity gap, there have been numerous initiatives since the late 1990s to develop formal BANs. The functions of BANs have changed over time, from offering mere matching services to act as syndicates providing due diligence, deal structuring and post-investment services, as well as contributing to educate business angels (BAs)and entrepreneurs (Gregson et al., 2013; Lange et al., 2003; Mason, 2006). Though BANs frequently employ some administrative and managerial staff ("gatekeepers") (Paul and Whittam, 2010; Zu Knyphausen-Aufsess and Westphal, 2008), anecdotal evidence shows that in many BANs deal selection, due diligence and post-investment monitoring largely rely on a small number of active volunteer members.

Not all BAs are equally involved with their ventures. If being actively involved at different stages in the investment process plays a role in venture performance, we may presume that a BAN's value added ultimately depends on those members who are active. In other words, for a BAN to be efficacious, it is not necessary that all its members play an active role. Our goal is to understand the intensity (time spent) and type of involvement (due diligence, board participation, mentoring, etc.) of BAN members. So, we investigate the following questions: Who are the active angels and what explains their involvement? How can the involvement of individual BAs in different BAN activities be explained? Are there specific human capital features that favor strong involvement more than others?

This paper provides a better understanding of the determinants of BAs' active involvement in making BANs accomplish diverse functions and building cognitive resources and shared competencies.

Method

To test the impact of various human capital features on BAs' involvement in their network and in specific network activities, we conducted a questionnaire survey with a regional French Business Angel Network, (SAMBA). This BAN is located in the Rhône-Alpes region. This region is known for its dynamism and intense entrepreneurial activity and hosts some of the larger and more dynamic angel networks in France. The survey instrument covers four types of data: the individual characteristics of business angels (age, gender …), their overall and specific satisfaction with network services, their involvement in specific BAN activities, and their decision making style and human capital features (experience in strategy, marketing, finance, as a CEO, as an entrepreneur). The survey was conducted online with Qualtrics survey software. At the closure of the online survey, 46 responses were complete. The total population of SAMBA network members is estimated to be 197 which results in a response rate of approximately 23%. This is consistent with prior studies investigating business angels' networks in the US and the UK.

Results and Implications

The respondents' characteristics are in line with previous research in France. They are mostly men (93.5%) and they are 59 of age on average. 82% of them hold a degree of higher education (above master level) 63 % of them are professionally active (entrepreneurs account for 24 %) and 37% of BAs are retired. Concerning investment, 80% of the 46 respondents have at least made one investment, and 76% of respondents have made their investment inside the BAN. The cumulative investment per active angel in our sample (total since he/she started to invest) is below €25,000 for 8% of respondents; 41% indicate investing between €25,000 and 50,000; 32% indicate investing between €50,000 and 100,000; 11% indicate investing between €100,000 and 500,000 and only 8% above €500,000. 38 out of 46 respondents are satisfied or totally satisfied with their network. Measured on a five-point scale, BAs consider that their network contributes to local economic development (4.39) and consider their investor role as a provider of knowledge and skills. They benefit from other members' experience and skills (4.04). Services and the resulting satisfaction depend on active BA involvement: 54.3% of responding angels can be considered as strongly involved, investing at least 6 days per year in BAN activities; 30.43 % bring investment opportunities, 30.43 % contribute to deal flow, 41.30 % participate in the pre- selection of investments and 47.83 % get actively involved in due diligence and 41.3% participate in post-investment monitoring.

BAs' decision-making style influences their investment behavior and the way they get involved with the ventures they invest in. Wiltbank et al. (2009) propose two measures of decision-making styles: prediction and control orientation. A predictive approach to decision making means that an individual's decision making strongly relies on formal tools helping to predict future outcomes (formal business plans, NPV …). Applied to the specific context of business angel investment decision making, the control-orientation concept would mean that, to reach a decision, angels imagine how they can contribute to the venture's strategy and what added value they can potentially contribute. This study shows that, the BAN-members involvement in their activities of the network is explained by a strongly control-oriented decision-making style as well as by human capital features related to experience in strategy, marketing and sales. Control orientation hence appears to be a significant driver of a BAN's operations and efficacy. One possible explanation for the absence of a significant relationship between a predictive decision-making style of individual BAs and involvement in activities such as preselection and due diligence may reside in the increasing professionalization of BAN services over the past decade that is perceived by respondents, suggesting that those activities have become standard routine. Testing this assumption is of course beyond the scope of the present research and needs further investigation.

Ongoing research is needed to monitor change occurring in BANs over time. Also, there is a need for extending our research to other angel networks in Western Europe (like German or/and Italian networks), to explore the potential influence of specific regional and institutional specificities.

Prof. Dr. Peter Wirtz is a full Professor of Corporate Finance at Jean Moulin University in Lyon France, where he serves presently as the vice-president in charge of research. He is one of France's foremost experts in corporate governance research and a pioneer of French business angel research. He has published several books and journal articles in French and English.

Dr. Christophe Bonnet is an Associate Professor of Finance at Grenoble Ecole de Management (France). His main areas of teaching and research are entrepreneurial finance, corporate finance and corporate governance.
Christophe Bonnet graduated as an engineer in agronomy. He holds an MBA of HEC Paris, an MSc of the University of Paris IX Dauphine, and a Ph. D in Management of the University of Bourgogne. His professional background is in corporate finance and in private equity.

Laurence Cohen is currently completing a PhD in Finance at the University of Lyon on the topic of business angels, venture capital and governance. She is also a lecturer in finance at the University of Lyon – Jean Moulin. She has completed her masters's degree in business administration from IAE of Grenoble. Since 2004, she has been working as a consultant specialized in audit and finance.

Mike Wright

Business Angels: The Changing Landscape

The landscape for business angels is changing in terms of the angels themselves, their investment activities and the expected impact of their activities. These are the headline findings from our recent survey of business angels in the UK. To obtain our insights into the angel market we conducted an online survey with follow-up interviews between June and October 2014. The UK Business Angels Association (UKBAA) helped promote the survey to individual angels and syndicate/network lead members who then rolled-out the survey to their members. To help boost respondent numbers we partnered with the Centre for Entrepreneurs and UKBAA in a campaign to wider awareness of the survey and also held a launch event to which we invited syndicate leads. At the end of this process we obtained responses from 403 business angels, making it the largest angel survey in the UK.

The characteristics of individual angels have changed with more women becoming involved (14% of all angels) and a rise in the number of younger individuals (16% are less than 35 years of age) compared with previous studies. As a consequence, UK angels have fewer years' experience than observed in previous studies of the UK business angel marketplace. This growth in younger and less experienced angels suggests that for the future of the market there is a need to ensure that syndicate leads and angel organizations engage in activity to nurture such investors in to retain and develop their involvement.

Alongside this changing profile of angels, there is evidence to show that individual angels are making more investments than ever before. The median number of investments is 5 compared to 2.5 reported by an earlier study published in 2009. Defining angel investments having a social impact as any kind of activity that has a particularly social, environmental or community objective, we find that a quarter of angels (25.7%) have invested in ventures that have a social impact.

Previous studies have indicated that angels tend to invest in businesses close to their home base. Our evidence indicates a much higher incidence of angels investing beyond their home region (58.4%), as well as outside the UK (22.3%), and, therefore, geographical distance would seem to be becoming less important in the investment decision. One possible explanation of this trend is the increase in angels investing alongside other funding vehicles and especially crowdfunding platforms. Some 43% of angels reported that they were investing alongside crowdfunding platforms. The observed growth in the use of these digital platforms by individual angels is a major development in the UK business angel market place.

Angels investing alongside crowdfunding are likely to have fewer years experience as investors compared to those not investing alongside crowdfunding. In contrast, angels interacting with VCs are likely to have more years of experience as investors than those not investing with VCs. There is also a difference in expected growth of investments. Angels co-investing with crowdfunding expect fewer investments to be high growth but they also expect fewer to have negative growth than those not investing alongside crowdfunding. In contrast, angels co-investing with VC expect more investments to be high growth but that more will have negative growth compared with those not investing with VC.

Finally, angels play a key role in achieving the successful outcome of their investments by aligning the management team and investors with regard to planning, executing the growth plan and exit. Where a syndicate of investors was involved, syndicate members considered that strong coordination and communication by the lead investor was very important for a successful outcome. These factors were more important than having a presence on the board.

Prof. Mike Wright joined Imperial College Business School as Professor of Entrepreneurship in September 2011. He is Director of the Centre for Management Buy-out Research, the first centre to be established devoted to the study of private equity and buyouts, which was founded in March 1986 at the Nottingham University Business School.

He is Chair of the Society for the Advancement of Management Studies. He has written over 50 books and more than 400 papers in academic and professional journals on management buy-outs, venture capital, habitual entrepreneurs, academic entrepreneurs, and related topics.

Carsten Rudolph

Data and facts about angel investments in Bavaria

BayStartUP is the Bavarian institution for company formation, financing and acceleration. It is supported by private sponsoring partners and the Bavarian Ministry of Economics. To provide efficient matching between startups and investors, BayStartUP helps young companies to prepare thoroughly before addressing potential investors. The BayStartUP team then creates various opportunities to establish qualified contact between startups and more than 200 business angels and around 100 institutional investors such as (corporate) venture capital funds or public investors.

These efforts led to 49 successful financing rounds equaling a total volume of almost € 38m in the last year.

The record level figures represent a 50 % increase compared to last years' financing volume. By contributing in 60% of all transactions, business angels played a significant role. Hence, € 12m equity provided by business angel investors represent a great contribution to the vibrant Bavarian startup community.

With an average angel ticket of € 150,000 we saw various consortiums – predominantly consisting of 2 to 3 angel investors – jointly supporting promising new ventures.

Furthermore, € 25m follow-up investment raised by previously matched startup companies, demonstrate a very promising growth perspective.

The potential of the Bavarian startup companies is also reflected in two recent exits and a very substantial investment by a large corporate investor: metaio, a Munich based augmented reality specialist, has been recently sold to Apple and Volkswagen Financial Services acquired 92 % of the mobile payment startup sunhill technologies from Erlangen. Another very attractive exit, particularly from an angel perspective, has been the strategic investment by Siemens Novel Businesses in the Munich based robotic startup Magazino. The corporate investor acquired shares of the young company, which develops and markets mobile robots for intralogistics solutions, from the High-Tech Gründerfonds and two angel investors.

The achievements in the last months combined with a continuous supply of new promising venture ideas confirms our chosen path and strengthens our position as one of the biggest financing networks in Germany.

Dr. Carsten Rudolph is CEO of BayStartUP GmbH. He has many years of experience in industry in leading positions, in consulting and in the German and international startup scene.
BayStartUP is a Bavarian institution for company formation, financing and acceleration. It is supported by the Bavarian Ministry of Economics and private sponsoring partners. BayStartUP organises the Munich Businessplan Competion and the Northern Bavarian Businessplan Competition. The Bavarian network of Business Angels and investors, run by BayStartUP, is a leading one in Europe.

Matthias Wischnewsky

Acces to angel markets: The Business Angels Panel and the Halo Report

There are several ways to approach the angel market. One possibility is to poll a group of angel investors regularly, allowing to show trends and developments over years. In Germany, this method is used to achieve some sort of transparency and public visibility of the angel market: The Business Angels Panel.

About the Business Angels Panel

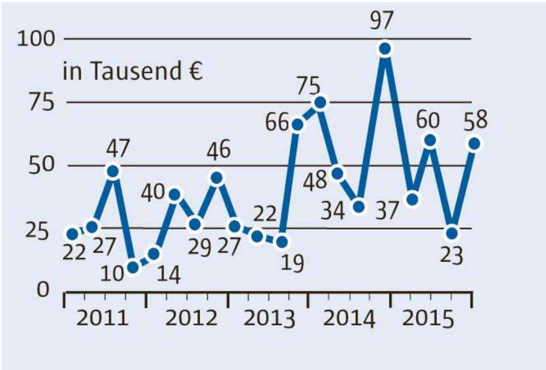
Since 2001, the Business Angels Panel by VDI Nachrichten in cooperation with BAND and the universities of Aachen and Duisburg-Essen has provided unique access into the angel investment market.[1]

Quarterly, a group of more than 50 active and experienced angel investors is asked about their investments, their overall assessment of the investment climate, their preferred sectors to invest in, their dealflows and their exits. The questions per quarter remain mostly the same[2], which allows a certain comparability over the years since 2001.

The Business Angels panel, which is unique in Europe, can be regarded as a market barometer, showing trends and changes to come in the German landscape of angel investing. Still, one needs to be cautious: due to its rather small sample size and qualitative nature, the data collected by the panel is not to be considered representative of the angel market as a whole.

Facts and figures from recent years

The favourite sectors of the angel investors remained rather steady, with sectors like web services or software leading the pack. Other sectors like medtech, environmental technologies and also new materials are also mostly found near the top of the charts. On the other hand, the investment sums varied greatly. In late 2011, the angels invested only € 10,000 on average, while in late 2014 they invested nearly ten times as much (see graphic below).



Average investment sum per angel over the past 5 years in thousand € (© VDI Nachrichten 10/2015)

[1] For more information, see: http://www.business-angels.de/marktinformationen/business-angels-panel/ or refer to http://www.ba-panel.de

[2] Except for several topical questions that change every quarter (be it new sectors, exits etc.)

The Business Angels Panel 04/2015[3]

The last Business Angels in 2015 panel asked investors about their opinion about start-ups in the industry 4.0 sector. The digitalization and cyber connection of industrial processes seems to be one of the economic megatrends of this decade. At least, it is set out to be an important "future project" by the German government.[4]

Astonishingly enough, in late 2015, the surveyed business angels do not seem to have picked up the trend yet. While only 31% of the angels were convinced that the industry 4.0 is actually going to benefit Germany's economy, an even smaller fraction of only 11% has actually invested in start-ups from this sector. In the near future, only 24% of the investors plan to extend their activities in the sector, while 38% exclude engaging in industry 4.0 start-ups.

So, if industy 4.0 isn't a focus (yet), which sectors were the most favourite in late 2015? For the first time ever, environmental technologies topped the charts, followed by web services, energy, software and advanced materials.

Speaking of investment sums, the angels invested € 58,000 on average, which corresponds with the long-term mean of the panel. The vast majority of angels (70%) held only up to 10% of shares.

Underlining its value as a market barometer the just-released panel of the first quarter of 2016 somewhat contradicts the findings of late 2015. Among the top five sectors, industrial automation was to be found for the first time ever, suggesting that industry 4.0 is very well within the scope of German angel investors.

About the Halo Report

Founded in 2006 by the Ewing Marion Kauffman Foundation, the Angel Resource Institute has dedicated itself to education, research and mentoring for the angel investment scene.[5]

Part of its efforts in research is the Halo Report, which is published both quarterly and also in annual reports together with PitchBook and Williamette University MBA. So, at first glance, the similiarities between the Halo Report and the German Business Angels Panel seem obvious.

Unlike the Business Angels Panel, the Halo Report focusses on angel groups in the US with a deal driven approach, relying on an aggregation of public data as well as surveys. The Halo Report looks at all deals, where at least one angel group was involved in. To participate in the quarterly and annual reports, angel groups can sign up to an online platform or fill out an excel sheet.[6] The 2015 report for instance was "based on 5133 deals totalling $21.8B in total rounds including co-investors." [7]

However, the Halo Report does not state the number of angel groups that submitted data or discloses the concrete public data that is used to compile the report. For the sake of transparency and comparability between the annual reports, this would help tremendously.

Still, the Halo Report allows for some sort of comparability, while probably not in absolute figures like total investment sums, since the participant angel groups through the survey might vary from year to year. But it certainly makes average figures like pre-money valuation, investment sum per deal and ownership percentage comparable throughout the years.

The Halo Report 2015

For 2015, the basic trends are upward: The mean round size of "angels only" deals reached a new high of $1.164M. This remarkable number does not concur with a rise of the mean ownership percentage, however, which remained somewhat steady between 20 and 25 %, meaning the pre-money valuations of start-ups have been growing significantly. In fact, the report states the median valuation of seed deals at $4.6M, with the highest valuation set at more than $20M.

[3] You can access it in German here: https://www.vdi-nachrichten.com/Technik-Finanzen/Industrie-40-Business-Angels-investieren-zoegerlich
[4] https://www.bmbf.de/de/zukunftsprojekt-industrie-4-0-848.html
[5] http://www.angelresourceinstitute.org/about-us.aspx
[6] http://www.arihaloreport.com/
[7] 2015 Halo Press Release, http://www.angelresourceinstitute.org/~/media/Files/2015%20Halo%20Press%20Release.docx

Outlook

While the Business Angels Panel is not here to replace scientific data and research, it does hold significant value for market players and experts. No other survey in Germany or Europe is able to provide trends and insights about the market of informal investing as fast and as continuously as the Angels Panel.

It should be an aspiration to extend its reach all over Europe by forming a European Business Angels Panel that would be able to identify Europe-wide trends and also differences between the participant countries

As for the Halo Report, it certainly provides interesting inshights into the angel investing scene. With its focus on angel groups, it seems well-suited for the American angel market.

For Europe, the adaptation of this method seems too ambitious and not expedient at this point, keeping in mind the differences between European Angel markets and their stages of development.

An approach like the Business Angels Panel seems better suited to combine the desirable with the feasible and provide some qualitative insight into European angel markets.

Matthias Wischnewsky is the Project Manager of Business Angels Netzwerk Deutschland e.V. (BAND). Matthias does project work for the association both on a national and an international level. Besides, he focusses on the PR work of the association and is the editor of BANDquartal. In addition, he serves as the contact person for the members of BAND and distributes the dealflow. Matthias earned his master's degree in history and German language, literature and culture at University Duisburg-Essen. Before he joined BAND, he worked for a research project in corporate history at the University of Jena.

Ute Günther

European trends – insights from BAE's recent e-book

Published as an e-book by BAE on their website in late 2015 and edited by BAND, "The European Business Angels market(s)" is an anthology, compiling various national reports. All BAE members have contributed to this edition, making it possible to take a look inside the markets of Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Scotland and the United Kingdom.

While it is not possible to identify a single European market of angel investing, some key drivers and key trends can be seen all over the continent, while some challenges remain. They can be summarized as follows:

Key drivers for angel investing

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 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.

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.

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 net-works 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.

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.

Key trends of the angel market(s)

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 participate 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.

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 vehi-cles can support in increasing financial capability and diversifying risks. In France this ob-jective 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 ilot 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.

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 plat-forms are going to be a new part of the Angels ecosystem. Some angels have begun to take on the lead in crowdinvesting campaigns already.

Challenges

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 fund-ing, but without a clear opportunity for realisation of returns.

Investor readiness and virgin angels

As mentioned above, one of the biggest challenges remains to be attracting more indi-viduals to actually engage in angel investing and provide their private capital for the bene-fit 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.

To dive deeper into the European angel markets, you can download the e-book here:

http://businessangelseurope.com/News/Pagine/%E2%80%9EThe-best-years-of-angel-investment-are-yet-to-come%E2%80%9C.aspx

CODE OF ETHICS AND GUIDELINES FOR GOOD PRACTICE

ON EUROPEAN ANGEL INVESTMENT RESEARCH

BUSINESS ANGELS NETZWERK DEUTSCHLAND e.V.

01
Ongoing need for a better understanding of the European angel investment market(s).
The European angel community is fast-growing, very diverse, reflecting a wide range of different investment models and approaches. It is also of crucial relevance for innovation and the future of the EU economy. That's why exploring angel investing is becoming more and more important - market intelligence is highly required.

02
Angel investing in Europe is not a black box – but many "unknowns" remain
No need to start from zero: there are lots of studies - both policy-based and theory-based, qualitative analyses, case studies and examples of best practice, robust data from special market segments, "oral" histories and narrative reports about success and failure, market barometers and trend scouts. What is missing is transparency and evaluation.

03
Due to market characteristics angel investment research is a huge challenge
Always have in mind that you are dealing with an informal market divided into a visible and an invisible part. A lot of angels prefer to stay anonymous. On top of that there are varying definitions of what an angel investor is. That makes data aggregation extremely hard.

04
Simply put: We don't know the size of the European Angel investment market
The few numbers we have are not representative and can only relate to the visible market. And many surveys are simply not done in a rigorous manner.

05
STOP the dissemination of bad data
Bad data destroy reputation, bring more harm than benefits and – most importantly – cause severe market failures.

06 Let's just be honest and say 'we don't know'
Don't ignore the fact that actual investing by private individuals in small business across Europe will never be fully recorded (unfortunately). Never publish bad data at all costs only to fulfil unrealistic expectations.

07Combine the desirable with the feasible
A process of rethinking is required to reduce unrealistic expectations. Policy makers need to be educated as to the realities of data that are available. The opportunity for policy makers is to work with organisations who have built a reputation for academically rigorous research.

08 Sharpen the picture of the European angel investment market by rigorous research
Provide a new level of robust data on the visible market! Document where the data originally emerged from and point out limitations of published data. Be careful in generalising data! Country comparisons should be made with caution. Never suggest a comparability which simply isn't there! And design more qualitative studies developing solid knowledge bases about angel investing in Europe.

09 Build a common strong methodological basis and implement alternative approaches
High-potential top class scientists and academics are strongly required. It is on them to set standards and benchmarks and to find the best solutions on the national and EU level as well as worldwide. There is no single "golden bullet" to solving the problems of exploring the invisible angel investment markets. Multi-dimensional analysis is needed.

10 Take time and foster cooperation
Angel investment research is relatively recent - in Europe as well as worldwide - and the challenges and problems are similar. There is a clear need for building a lively community among angel investment researchers providing mutual exchange of experience and initiating harmonised research designs and special conferences.

The next issue of BANDquartal

BANDquartal 2016, 2 will deal with syndication.

Imprint

BANDquartal: online magazin, published quarterly

Issue 1, 2016

Editorial work
Matthias Wischnewsky, M.A.

Editor
Business Angels Netzwerk Deutschland e.V. (BAND)
Dr. Ute Günther
Dr. Roland Kirchhof

Semperstr. 51
45138 Essen

phone	+49 201 894 15 60
fax	+49 201 894 15 10
maill	band@business-angels.de
web	www.business-angels.de

BANDquartal is distributed at no charge to interested readers.