



LINC Scotland®
Local Investment Networking Company

*The Development and Contribution
of
Structured Angel Groups
in
Peripheral / Low Density Regions,
the Scottish Example*

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LINC Scotland



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A Vital Minority

Entrepreneurial firms seeking external equity financing for growth, make up only around **4%** of current start-ups,

but

In ten years time they will provide about **50%** of the employment of those firms remaining.





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Economic Context in Scotland

- A small peripheral market.
- Pop 5m with c.3.8m in 4 main city locales.
- Biggest export category is Information Technology, so innovation important.
- Strong research sector (7% of UK economy but 15% of R&D spend).
- Significant financial services sector (€850bn) but negligible 'trickle down' from big funds.
- Benign tax treatment of angel investments.





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The Scottish Early Stage Investment Market

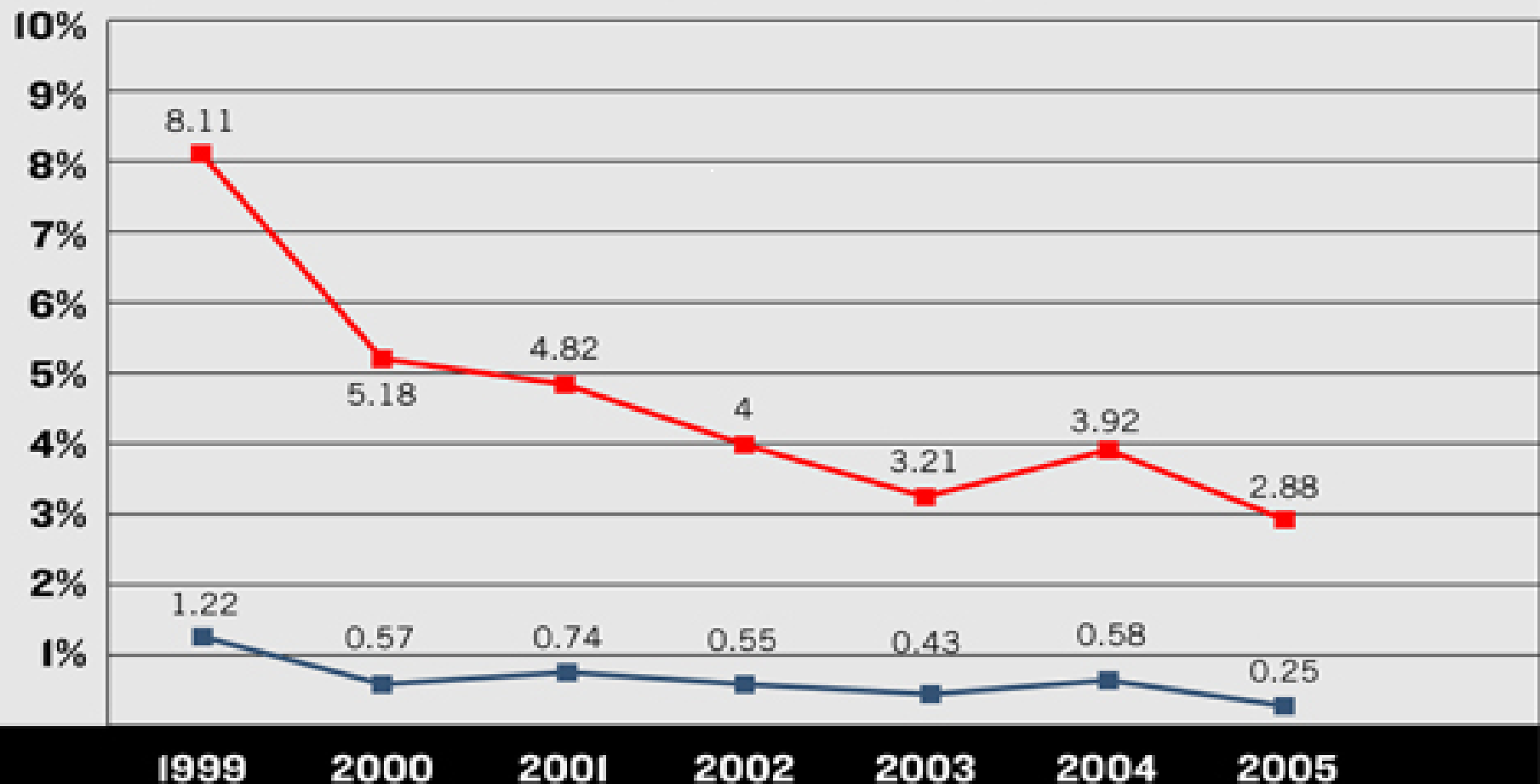
- Negligible early stage VC activity due to remoteness & lack of critical mass, but...
- One of the most mature business angel marketplaces in Europe.
- Angels the dominant investors in spinouts.
- Emergence of structured syndicates in recent years.
- Growing public sector and institutional interest in co-investing.



Declining Seed Investment

Venture capitalists are increasingly forgoing early-stage deals to pursue late-stage opportunities.

■ Percentage of seed deals ■ Percentage of VC dollars going into seed investment



SOURCE: VentureOne

Model of UK Government / VC Industry Relations

VC Industry



Government





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A Potential Solution:

'Angel' Investment is Increasing

"In 2004 business angel investment in Scotland rose to over €50M - more than twice the level of early stage investment recorded by the formal investment community."

Harrison & Don , *'The Equity Risk Capital Market For Young Companies In Scotland 2000-2004'*





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LINC Scotland

- Founded 1994 to support development of the business angel marketplace. An angel association with c.200 'solo' angels plus 18 Syndicates (c.400 angels).
Over 500 high growth companies funded to date.
- Exempt under UK Financial Services Legislation.
- Independent non-profit - financed by both private and public sectors.
- Active in company & investor readiness, development of syndicates, and sustainable intervention.





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Members Activity 2006 (c. 30% of Scottish Total):

€21m in 56 deals (51 companies),

Smallest: €20k; biggest: €1.1m, 3 IPOs

Software	8	Diagnostic Products	2
Electronics & Instrumentation	5	Environmental	2
Life Sciences	4	Opto	2
IT & Communications	4	Lasers	2
Engineering & Manufacturing	4	Logistics	1
Medical Devices	3	Pharmaceuticals	1
Creative Media	3	Chemicals	1
Healthcare	3	Hydroponics	1
Energy (inc Alt & Renewable)	2	Packaging	1
		Retail	1





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Syndicates - the Trend

LINC Scotland Membership

2002

c.300 'solo' angels + 2 syndicates (70 angels)



2006

c.100 'solo' angels + 18 syndicates (400 angels)





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Syndicates – the Investor Benefits

- Diversification of risk
- Value of shared experience
- More efficient use of time
- Larger rounds can negotiate more attractive terms and valuations
- Shared post investment monitoring





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Typical 'Syndicate' Structure (in Scotland)

- Two-circle arrangement.
- Core group or 'board' of 6 –10 active and experienced individuals, plus Gatekeeper.
- Receive, select and structure deals, and always invest own money.
- Deal offered to outer membership of 20 –70. Less active but still make own decisions.
- Syndicate appoints non-exec director and appoint/approve chairman.





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Supporting Syndicate Development

- Workshops for individual angels on benefits and methodology of syndicate operation.
- Transfer of know-how between groups.
- Personnel development through temporary assignment to established groups.
- Shared best practice in compliance and legal formats.
- Shadowing or 'handholding' for early deals.
- Financial & in-kind support through LINC.

Why do this? ...





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Syndicates - the Economic Benefits

- Increased capacity to 'follow-on' in absence of VCs.
- Increased local retention and recycling of wealth.
- Delivery channel for passive money (*including from diaspora*).
- Means of getting old money into new sectors.
- Importance of multiple delivery channels.
- Professionalisation creates credible co-investment partners for institutions and the public sector...



Fund Model

- Fund size = > €65 million (€ 30m Scottish Enterprise, € 35m ERDF).
- Matched / led by at least equal € from private sector, but on a deal by deal basis.
- Investment period = 6 years to end 2008.
- Type = high growth potential.
- €30,000 - €750,000 per company.
- €3 million deal ceiling.
- Co-Invest, *pari passu*, alongside private sector partners.

Fund Model

- SCF conducts diligence in choice of Partner, not individual deals.
- Notional ring fenced allocation to each Partner.
- Partner identifies deal and notifies SE for eligibility approval.
- Partner negotiates detailed deal and copies full terms to SE.
- SE confirms participation and prepares payment.
- Partner concludes deal and appoints non-executive director(s).
- SCF pays 3% deal fee to Partner.

Breakdown of Deals Completed April 03 to March 07

● Number of deals to date	176
● Private sector investment	€86,660,227
● SCF commitment to deals	<u>€35,528,160</u>
● Total Invested	<u>€122,188,387</u>
● SCF contribution to total committed	29.1%



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Economic Outcomes

- Review of 61 LINC start-ups funded in the 36 months up to 31/12/02.
- 24 have disappeared.
- Those remaining employ almost 3500 people.
- Almost half of those jobs are in 2 companies.





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Business Angels
...more than just money.