The raising role of Business Angels in financing innovation in Europe

Geneve, 12th February 2014

Paulo Andrez
President
Start Ups Valley of Death

Cash flow

Start-up

time

www.eban.org
Imagine that you have 100,000 Euros in a safe bank, and you receive 4% of interest rate for your deposit.

Hi, My name is Scott, and I want you to invest in my new fantastic Start Up! I will pay you 5% annually.
But if the World Bank guarantees you that if Scott’s new venture doesn’t pay you the 5%, they will pay it immediately to you, would you invest?
Mitigated Risks

Probability of an entrepreneur to raise money for his/her venture

Risks (MELFO)
Market, Entrepreneurs, Legal, Financial & Operational
Total Project Risk

Getting out of comfort zone

Reduction of 50% to 90% of the total risk of the project

Initial Project

Project after mitigation of risks

Final Risk of the Project

Investor's risks

Entrepreneur's risk

Reduction of 50% to 90% of the total risk of the project

Getting out of comfort zone
A VERY COMPETITIVE PROCESS

100 Deals → Business Plans received

Pre-screening

Screening

Terms Sheet

Due diligence

Investment

1-5 Investments
Angel Market size

Visible Market (5%-10%)

Rest of Visible Market (20%-30%)

Invisible Market (60%-75%)

Sources: EBAN, ACA, OECD

Note: Visible Market is data related with BANs, Angel Groups
Created in 1999 by Eurada with the support of European Commission

Not for profit organization based in Brussels

Members in 39 countries

+ 100 members (BANs, Federations...) ...and growing
Number of BANs in Europe

- 286 data collected
- 297
Number of BAs* in BANs

2011

241,444

21,730

9%

“formal” market

2012

261,054

26,105

10%

*BAs who made at least 1 investment in the past 3 years.
Visible market by country

Amounts Invested by BAs

Nr of Bas

M€
Visible market growth/decline (amount invested)
Average investment amount by BANs in 2012 (k€)
Impact in the economy, just in the year of investment (2012)

- Enterprises Financed: 2,900
- Jobs Created: 17,700
2/3 of jobs come from moderate and high growth firms

Source: Ernst & Young and Endeavor 2011
What governments at European, National or Regional level can do to foster Angel activity?
Financing High-Growth Firms
THE ROLE OF ANGEL INVESTORS
Parts of the OECD study

While venture capital tends to attract the bulk of the attention from policy makers, the primary source of external seed and early-stage equity financing in many countries is angel financing, not venture capital. In programmes form an important part of a broader economic development strategy focused on high-growth and technology-backed firms.

The angel investment market has developed significantly in a number of countries throughout the world, particularly over the past 5-10 years. In some countries, policies to encourage a greater number of angel investors seem to have played a role. These include supply-side measures such as tax incentives and the creation of co-investment funds.

Tax incentive programmes have aimed to increase the number of angel investors as well as to address tax asymmetries in profit and losses. Countries such as the United Kingdom, with long-standing angel tax incentive programmes, cite the impact the programmes have had on increasing angel investment activity which in turn creates jobs and economic growth (and therefore greater tax returns).
State return per each 1 € invested by State in a BA Co-investment scheme

Assumptions: 50% of the investment is done by BA+CO, company ceases activity after the investment without any revenues.

<table>
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<tr>
<th>State Tax level/Rate of Return for State in the Co-Investment Fund</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
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<td>30%</td>
<td>1,20 €</td>
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<td>2,50 €</td>
<td>2,60 €</td>
<td>2,70 €</td>
<td>2,80 €</td>
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</table>

Source: EBAN 2013

Note: This is the worst scenario for the state and even though, the State always gets its money back in taxes…
Message for European Business Angels Week participants
by José Manuel Barroso, President of the European Commission

Dear participants in the European Business Angels week,

Business Angels have been playing an important role in Europe's recovery, by financing start-ups that create jobs and by bringing European innovation to consumers and businesses worldwide. They are an essential element of the creativity, innovation and solidarity within our overall growth and jobs strategy.

I would like to take this opportunity to salute the European Business Angels Network (EBAN) for organizing this European Business Angels Week that will not only help grow awareness for private citizen’s investments in start-ups but also continue to foster innovation and jobs creation on a European-wide level.

Access to finance is crucial for many entrepreneurs, especially for those with innovative products or services, and a pre-condition for smart growth and competitiveness. At the European Commission, recognising this, we are working through programmes such as Horizon 2020, COSME and the SME Initiative to provide much needed financing for SME’s and start-ups by mobilising guarantees, loans and risk capital. The Commission will continue to provide the possibility for co-investments with business angels, such as currently in the European Angels Fund, as well as disseminating good practices.

The European Commission would like to take the opportunity on the occasion of the European Business Angels Week to thank all stakeholders in the innovation and entrepreneurial society and economy for working together to create a better Europe for our citizens, and a more innovative and sustainable Europe.

I wish you a great event.

José Manuel Barroso
President of the European Commission
Brussels, 18th November 2013
What governments at Continental, National or Regional level can do to foster Angel activity (to finance the innovation) ?

1. Implement a definition or a certification process for Business Angels
2. Raise Awareness about Angel Investment
3. Investment readiness trainings for Entrepreneurs and potential Angels
4. Tax Incentives for Angel Investments
5. Co-Investment funds (e.g. replacing grants)
Some Angel investments in Europe

Thank you

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