Giving Wings to New Ideas

Trends and developments in the angel market around the world

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II International Angel Investor Brazil Summit
8/11/2012

World Business™ Angels Association

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FNABA FEDERAÇÃO NACIONAL DE ASSOCIAÇÕES DE BUSINESS ANGELS

Agenda

<u>The Rise of Angel Investing</u>

The Entrepreneurial Ecosystem

Business Angels' Performance

Challenges for angel investment across the globe

- *Co-investment Funds*
- *Tax Breaks*

The Power of Diaspora

Conclusion

Double #BA in the UK 18.000 » 36.000

10 February 2012

UK's Prime Minister celebrates Angel Investing

"Angel investment was recognised by David Cameron as the most important source of capital for start-up and early stage businesses"

EUROPEAN INVESTMENT FUND

Pilot Country:
Germany

12 March 2012

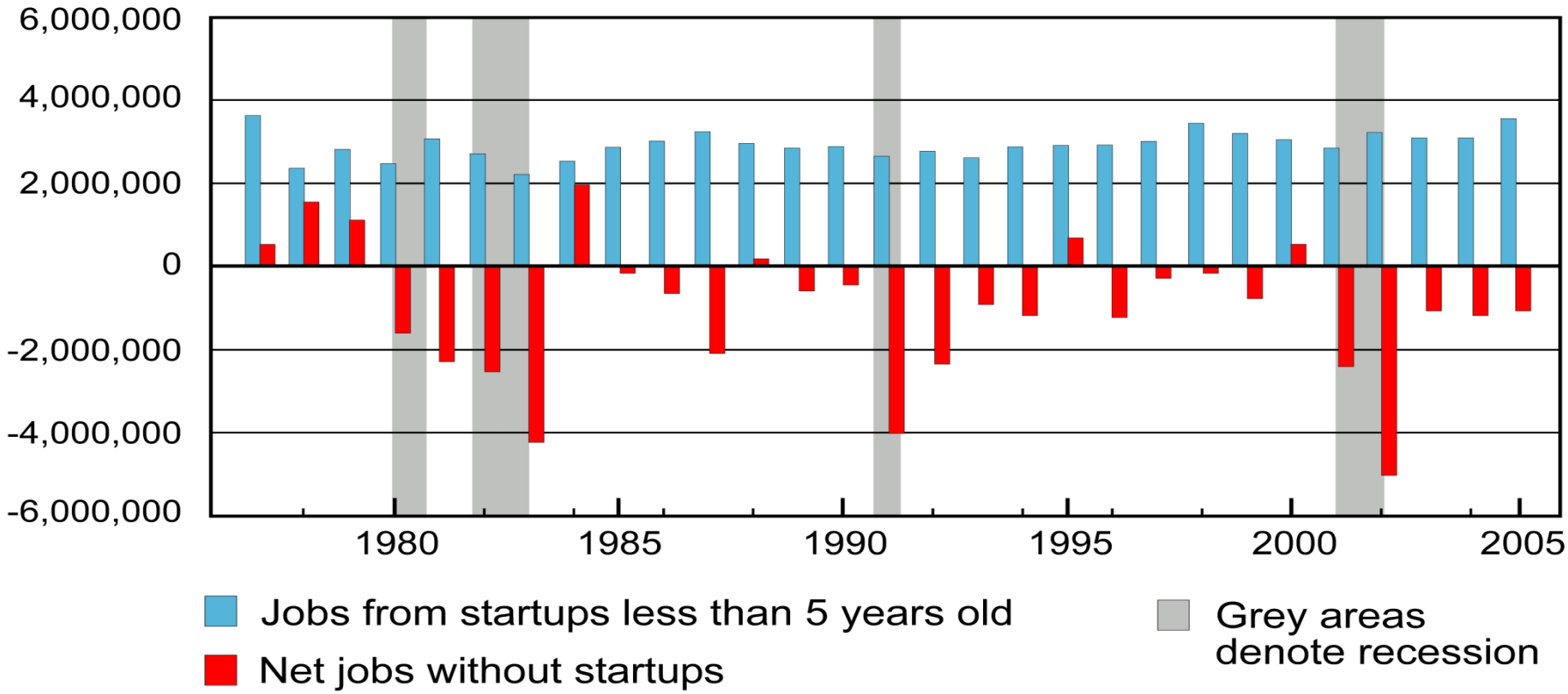
"The EIF has launched the European Angels Fund (EAF), a fund which provides equity to Business Angels and other non-institutional investors for the financing of innovative small and medium-sized enterprises in the form of co-investments."

1st Ever Global Research
113 interviews from 32 countries

December 2011

"Following the recent financial crisis and continued difficult economic environment, business angels have been playing an important role in filling financing gaps left by banks & venture capital firms " OECD Report - 2011

Job Creation from Startups



Kauffman Foundation

Companies less than five years old have created 40 million jobs in the US in the past 30 years

Companies five years and older have, in the sum, lost jobs in the past 30 years

ABOUT EBAN

115 member organisations
27 countries
20,000 BA

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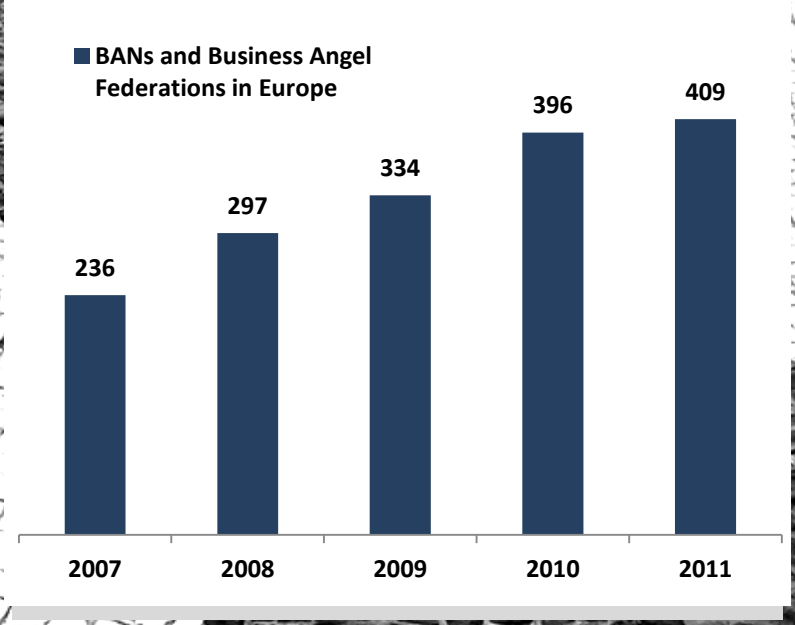
EBAN DATA

DATA REPORTED TO EBAN (2010)	
# Business angels	8.356
Business plans submitted to BA	3.661
Deals closed	945
Average Amount of Deal	60.400€
Total amount invested	128M€

BANs Market Trends



- Increase in the number of Early-stage actors, contrary to the consolidation trend concerning the European VC Market;
- Increase in the number of European BANs over the last 5 years;

SUMMARY OF INDUSTRY STATISTICS

Statistics	Trend y-o-y (Europe)	Europe	USA
Number of networks	↑	circa 420	360
Of which commercial	→	circa 20%	
Estimated number of business angels	→	75k	265K
Total amount invested annually by angels (est.)	→	€ 3.5 bln	$20.1 bn
VC investments in seed and start-up/early stage	↓	circa € 1.8 bln	$2.5 bn

Source: EBAN; NVCA Yearbook 2011; www.pitchbook.com; Center for Venture Research at the University of New Hampshire

EUROPEAN ANGEL MARKET= c. 23% OF US ANGEL MARKET (2010)

Average exchange rate 2010: 1 USD:0.76€

Source: http://www.oanda.com/lang/fr/currency/historical-rates/

WORLD BUSINESS ANGELS ASSOCIATION

Business Angels Leaders Forum
Outubro 2007

International platform for the professionalization of BA, sharing of good practices and promoting the entrepreneurship around the world.

Founding countries: Portugal, Spain, United Kingdom, France, Italy, India, China, USA, Chile, Australia and UAE.

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Angel Networks: a Recent Phenomenum

REGION	YEAR	ORGANISATION
Europe	1993	UK, Scotland
Europe	1999	EBAN - European Business Angels Association
Europe	1999	IBAN – Italian Business Angels Network
Europe	2000	BAC - Business Angels Club
Europe	2000	BAND – Business Angels Network Germany
South America	2002	Gavea Angels
Europe	2001	France Angels
Asia	2001	BANSEA - Business Angels Network of South East Asia
South America	2001	LAAI - Business Angels Association of Latin America
North America	2004	ACA – Angel Capital Association
South America	2004	Southern Angels (Chile)
Europe	2007	FNABA – Portuguese Business Angels Federation
Europe	2007	IAG - Italian Angels for Growth
Oceania	2007	AAAI - Australian Associani of Angels Investors
Oceania, Europe, Asia	2008	New Zealand, Spain, Israel, China
WORLD	2009	WBAA - World Business Angels Association
Europe	2009	Russia, Netherlands
Africa	2010	Cape Verde
Europe	2011	Finland, Turkey
Europe	2012	UK Business Angels Association

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MEMBERS WORLDWIDE

INTERNATIONAL ORGANISATIONS

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INSME

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Entrepreneurial Ecosystem

VCs

Grants
Banks

Investment
Readiness

Mentors
Role Models
Coaches

Service
Providers

Funding
Sources

Talented
People

Business
Angels

Labs

Public
Incentives

Business
Accelerators

Business Plans
Education

Companies

Crowd
Funding

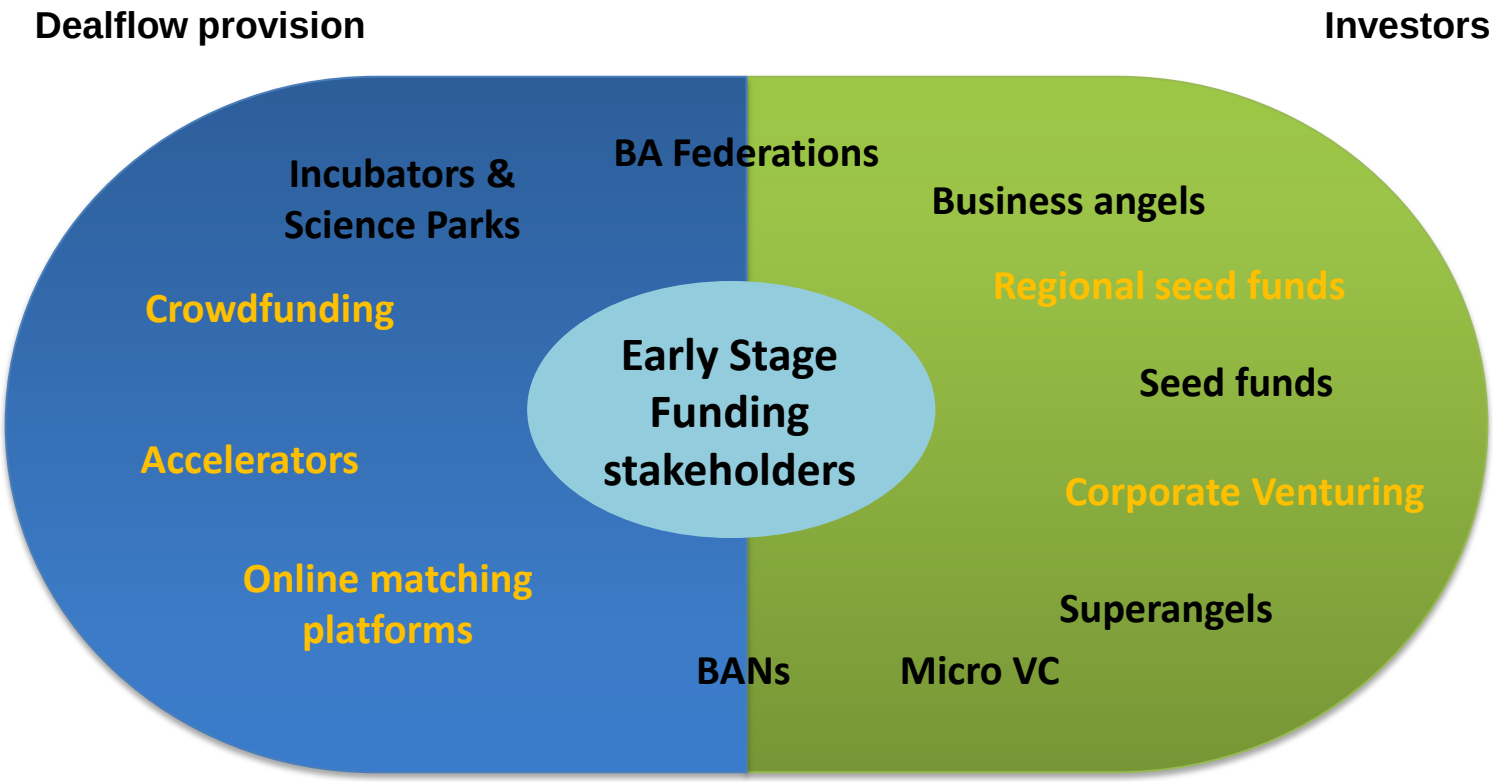
Sources of
Technology
Innovations
Product Ideas

Entrepreneurship
Centre

Incubators

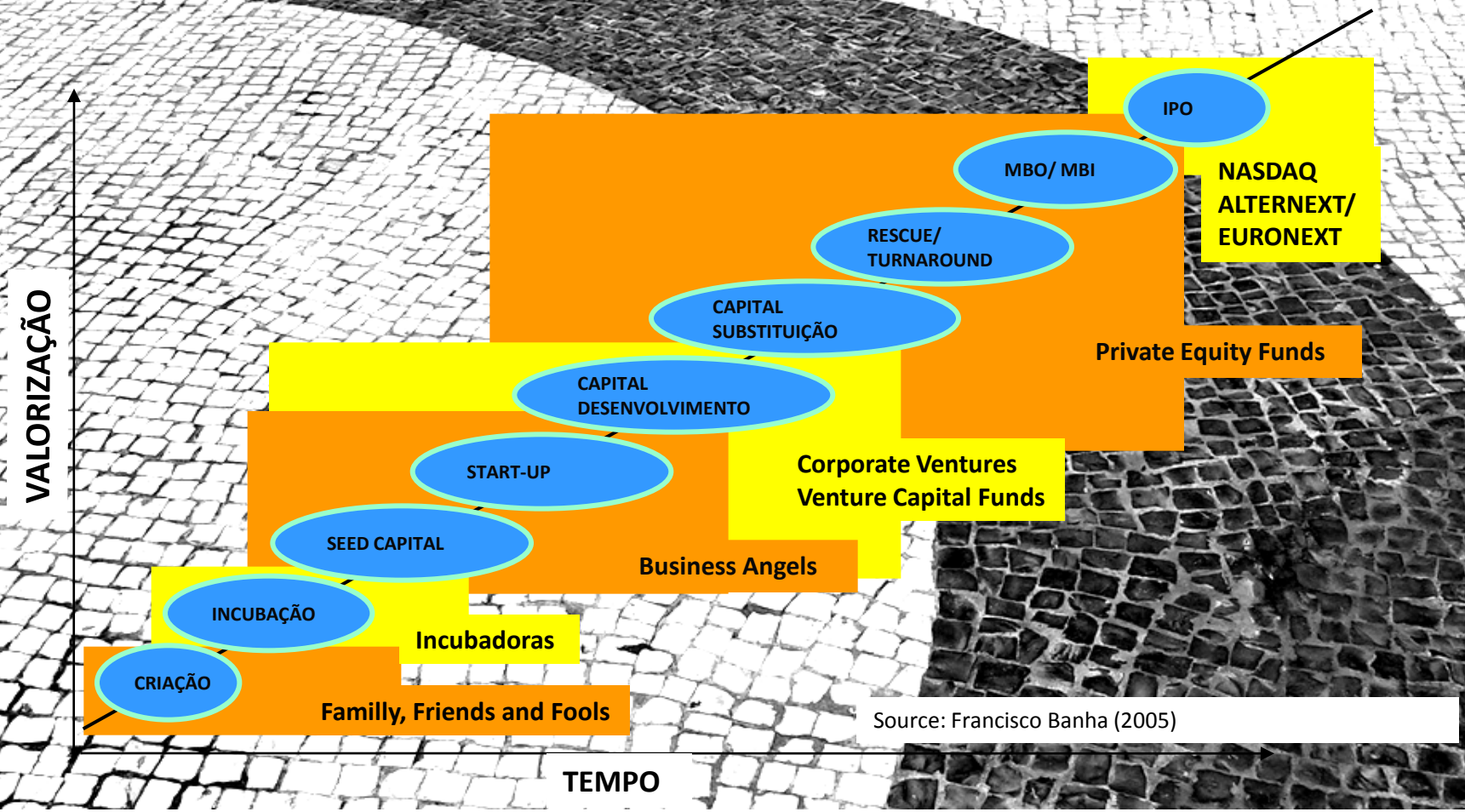
Universities

Early Stage Funding Stakeholders



newest actors

START-UP GROWTH CYCLE



Source: Francisco Banha (2005)

Only a hand full reaches the heaven…

TEXCHANGE elevating innovation

Google

trampoline systems

BullionVault.com

YouTube

Michelson Diagnostics

YAHOO!

amazon.com

facebook

IN 2011 IN THE USA:

250.000 INVESTED BY BA

IN 57.000 NEW PROJECTS IN A

TOTAL OF :
USD 20 BILLION

twitter

CISCO

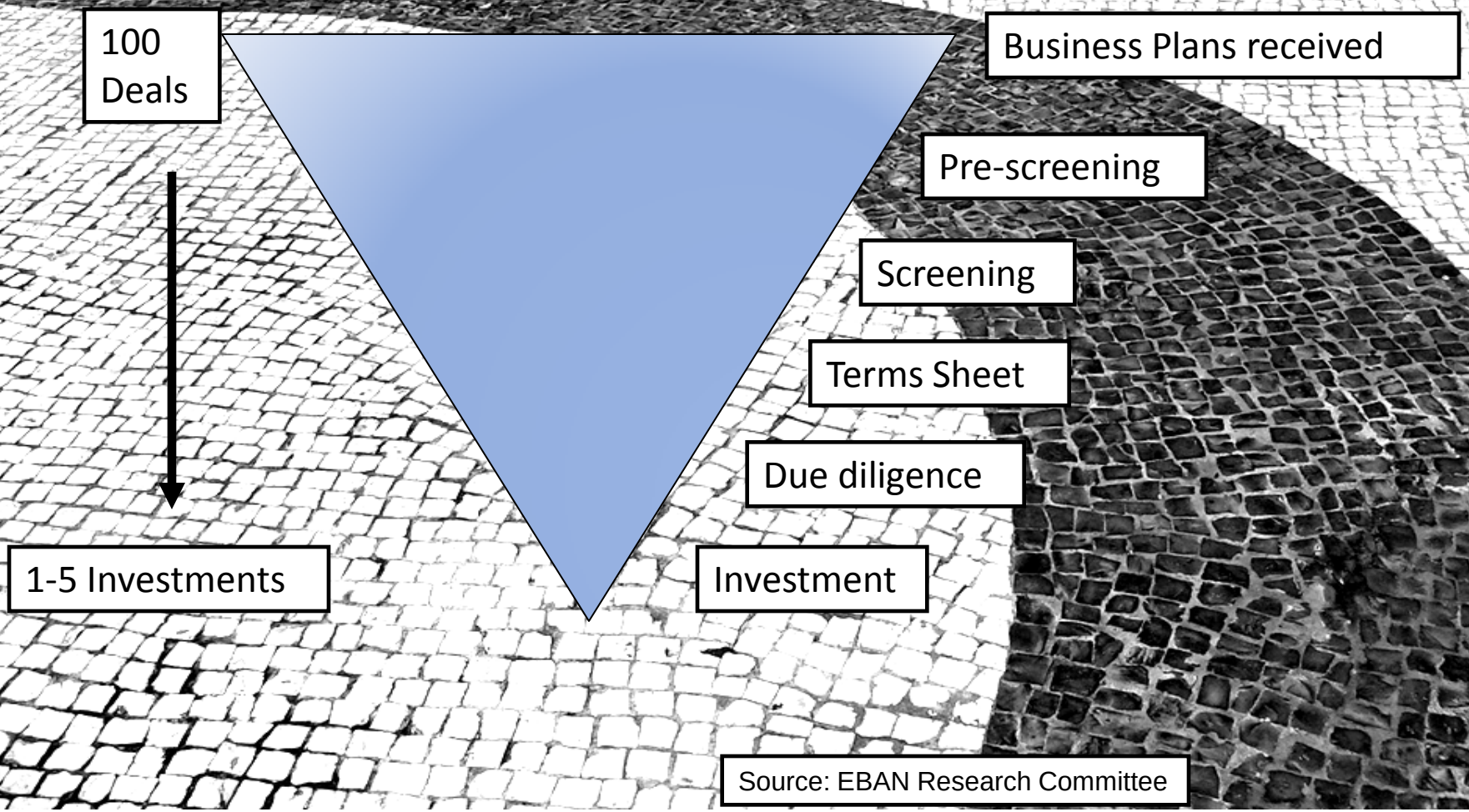
ALCOA

myspace.com a place for friends

Angel's investments in Europe

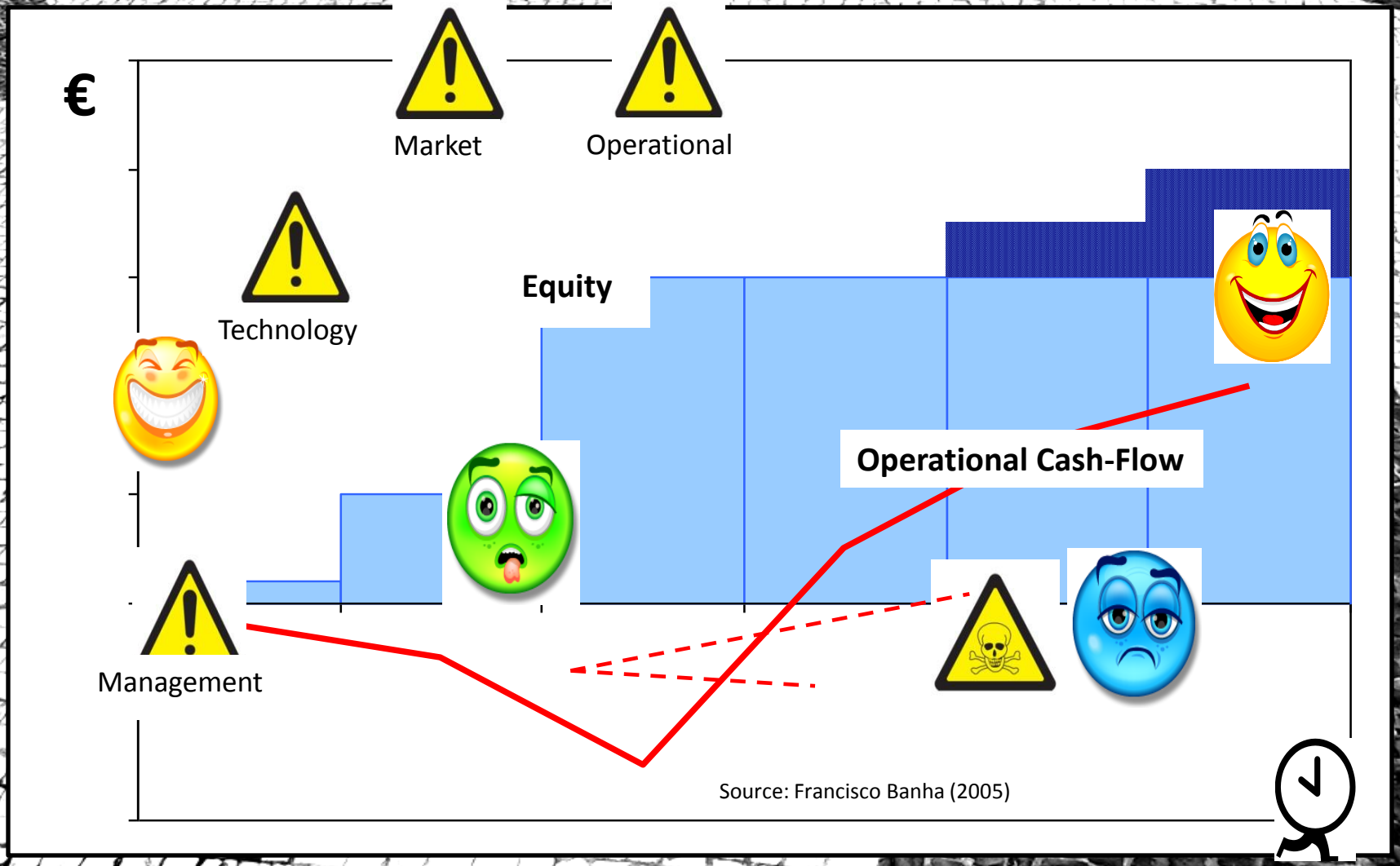
SSCP
DATA DISCOVERIES
skype
MODESAT communications
d+3 Desarrollos dentales plus tres
legic
ENDOSENSE
Industrial Software Systems
wifi@rt
SVOX
optos
EASTISOFT streamline your business
NOMADESK The Virtual Fileserver for Nomadic Businesses
Q.CELLS
AC IMMUNE
myguide.pt
UK explorer
IWIW
EPiSERVER
NetBooster AGENCY
1000mercis Interactive Advertising & Marketing
SULFURCELL
VistaPrint BEST PRINTING. BEST PRICE.
Bac2 Conductive Composites
MirriAd
NOVACTA
amazon.com
SKINKERS communication you can't miss!
Brandwatch
LIKWIDATOR.COM POMOC UBEZPIECZENIOWA
privalia
Goldenegg
wizi to find me.
GENEART THE GENE OF YOUR CHOICE
NetageSolutions Makes a difference.
YOOX
Eurogentec Experience true partnership
Telemis
buy·v!p
BAQUIA knowledge center
ALTER ECO COMMERCE ÉQUITABLE
uniteddogs
unitedcats
MDA Mephisto Design Automation
Phynova
GAT Microencapsulation
move&do
NOMADESK
studiVZ
mastrad
meetic.fr vous allez aimer
tobii WORLD LEADER
HOMEPC informática ao domicílio
COBRA PREMIUM BEER
QYPE
PRICEMINISTER Acheter et vendre. A moitié prix
Michelson Diagnostics
notrefamille.com
privalia
3DVista Products
intamac internet accessed monitoring & control
Pout
wolfson microelectronics
MED MicroEmissive Displays
Ozumi
innocent little tasty drinks
baolab MICROSYSTEMS
meilleurtaux.com AGENCE CONSEIL
HumanOptics
hitflip
kelkoo
CISCO
Microbial
photoways
nanocyl The Carbon Nanotube Specialist
tiscali INTERNET WITH A PASSION.
seatwave
last.fm
XING
PROGRAMETER
responsibletravel.com world's leading travel agent for responsible holidays
trovit
MutuiOnline Scegli e risparmi
bebo
VIBRANT
euremis mobile solutions
PASSPACK
PLAZES Right Plaze, Right Time
flashbook.pl
netinfo.bg

But…Very few projects receive funding from Bas…



Source: EBAN Research Committee

“Equity Gap” Vs BAngels…



Growing towards VCs with a BA

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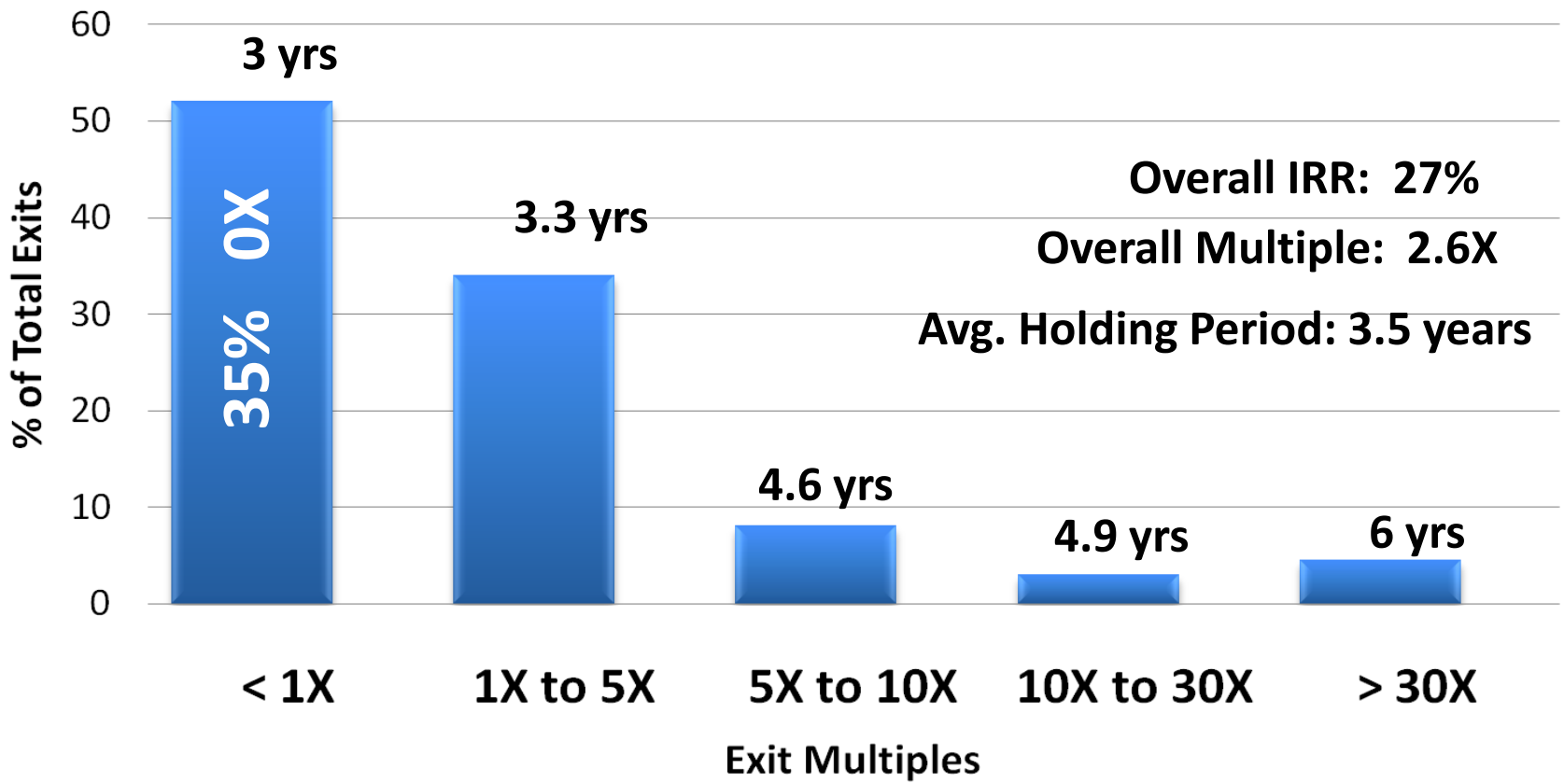
Actual BA returns

	US Angels (07)	UK Angels (09)
# of Angels	539	158
# Investments	3097	1080 (134M GBP)
# of Exits	1137	406
ROI	2.6X/3.5 yrs	2.2X/4 yrs
IRR	27%	22%
% of Deals/ % of Returns	7% of Deals/ 75% of Returns	9% of Deals/ 80% of Returns
<1X	52%	56%

Returns to Angel Investors in Groups North American group affiliated angels; Funded by the E. M. Kauffman Foundation (2007)
May 2009 Siding with Angels (UK) Funded by National Endowment for Science, Technology and the Arts and the British Business Angel Association (2009)

Distribution of Returns by Venture Investment



Returns to Angel Investors in Groups North American group affiliated angels; Funded by the E. M. Kauffman Foundation (2007)

Key success factors for angel investing

LEVEL	FACTORS
Individual	Experienced former entrepreneurs as angel investors
Individual	Due diligence prior to investment MORE Due diligence » LESS gut feeling » MORE Returns
Individual	Investing in sectors in which the angel investor has experience
Individual	Portfolio investing
BAN	Training, mentoring, coaching for new angel investors
BAN/ Federations	Well-functioning entrepreneurial ecosystem
Federations/ Int. Organisations	Social capital and networks (local and, increasingly, international)

INSTAGRAM: THE MOST RECENT "BIG" SUCCESS

620M

Instagram's founders from left, Mike Krieger and Kevin Systrom.

13

551

Chris Sacca

1.000.000

baseline VENTURES

Adam d´Angelo

BENCHMARK CAPITAL

138 x

33 X

Jack Dorsey

250K + 250K = 69 Milhões USD

Investment Sector Trends

Healthcare

Blueprint Health, iCouch.me, OvaScience, Medigram, PracticeFusion, drchrono iPad Patient Care Platform, Doximity, Iconic Data, Comprehend Clinical

Internet

Saas Pose, Collba, Pinterest, Punchfork, BrandMyMail, Hall.com, BugRocket, Picfull, Trippy, Farmigo, Fab, Bre.ad, WeHeartIt, Sparked, JobSpice

Mobile & Telecom

All My Apps, Path, Popset, SendHub, MoodMe, LocalMind, OnSwipe, Magisto, Chewsy, Clueapp,

Industry
Education
Software
Energy & Utilities

Source: Francisco Banha and ACA (2012)

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Challenges for the angel investment market

- ❑ Lack of clear definitions, data and research
- ❑ Follow-on funding *(LESS VC » MORE angel funding)*
- ❑ Exit Markets
- ❑ Financial sustainability of associations, BANs and groups
- ❑ Professionalisation of the market
- ❑ Gender

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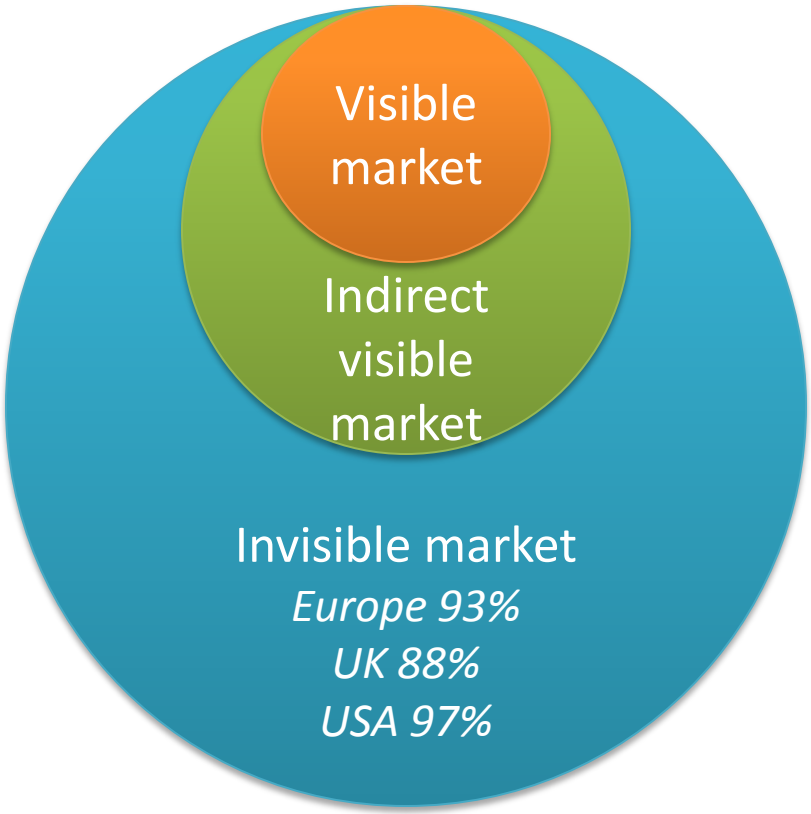
Visible/Invisible market

Venture Capital Market

US:	**18. 275 Millions USD**
Europe :	**5,309 Millions USD**
UK:	**1.087 Millions USD**

Estimates : 2009



Angel Market (Size)

US:	**17,700 Millions USD**
Europe :	**5557 Millions USD**
UK:	**624 Millions USD**

Total BANs

US :	**469**
Europe :	**383**
UK:	**74**

We lack data!

Source: Harrison and Mason(2010) and OECD/EBAN/ACA/

Trends and developments

- ❑ Lean start-ups
- ❑ Online tools *(eg. Gust)*
- ❑ International and cross-border co-operation
- ❑ Cross-border deals
- ❑ Affinity angel networks and groups *(vs sector based)*
- ❑ Impact investing
- ❑ Accelerators & Crowdfunding
- ❑ Corporate VCs
- ❑ **Co-Investment Funds**
- ❑ **Public Incentives**

Overview of public intervention in seed/early-stage financing

Targeted angel financing policies

Supply-side	Demand-side
Tax incentives (UK-SEIS)	Investment readiness of entrepreneurs
Co-investment funds (PT-COMPETE)	Supporting the development of an entrepreneurial culture
Support to angel associations, networks and groups	Promote an entrepreneurial ecosystem
Training and development of angel investors	

Why are Co-Investment Funds Important

- ❑ Equity gap is expanding
- ❑ Business angels continue to need to be involved more and longer in their investee companies
- ❑ Facilitate exits and build ecosystem
- ❑ Private investors need to be mobilised to fund knowledge economy – interest from policy makers
- ❑ **One of the most important incentives for angels**

Different Co-Investment Models

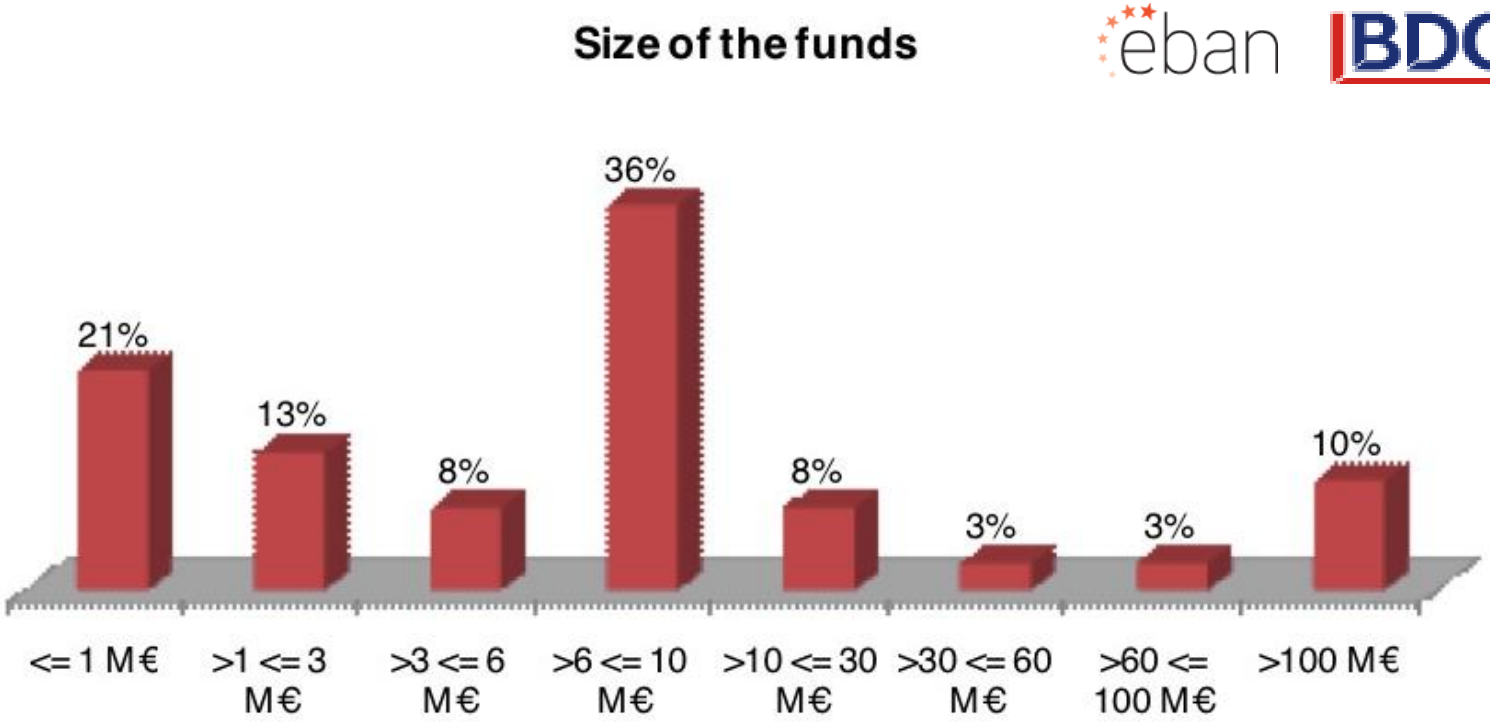
	Scottish Co-Investment (Scotland)	Technopartner Co-Investment (NL)	Compete Co-Investment (PT)	Enterprise Capital Fund (UK)	Business Angels Loan + (BE)
Public due diligence on	SCF partners (BA Fund managers)	Business Angels	Business Angels	Fund Managers	Project
Minimum Nr. BAs to co-invest	1	3	3	0	1
Co-Investment	Per Deal	In a BA investment vehicle	In a BA investment vehicle	Fund	Per deal
Public money is invested	In the start up	In a BA investment vehicle	In a BA Investment vehicle	Fund	In the start up
Exclusive for BAs	No	Yes	Yes	No	Yes
Allow re-investment	No	No	No	Yes	No
Management fees for BAs	One time 2,5% of public money	No	No	Annual 1,5%-2,5%	
Public/Private Investment Ratio	1:1	1:1	1,85 : 1	2 :1	n.a.
Investment decision	SCF partners	Business Angels	Business Angels	Fund Managers	BA/Bank
Carried interest	n.a.	n.a	n.a	20% with 8,5% hurdle rate	n.a
Repayment ratio (public/private)	1 : 1	Phase A:20%/80% B: 50%/50% C:20%/80%	Phase A:20%/80% B: 50%/50% C:20%/80%	State receives a 4,5% interest rate plus 12,5% of profits	n.a.
Max. Public Money per investment vehicle/Fund	n.a	4 Million EUR	0,5 Million EUR	20 million GBP	n.a.

Source: EBAN RESEARCH COMMITTEE

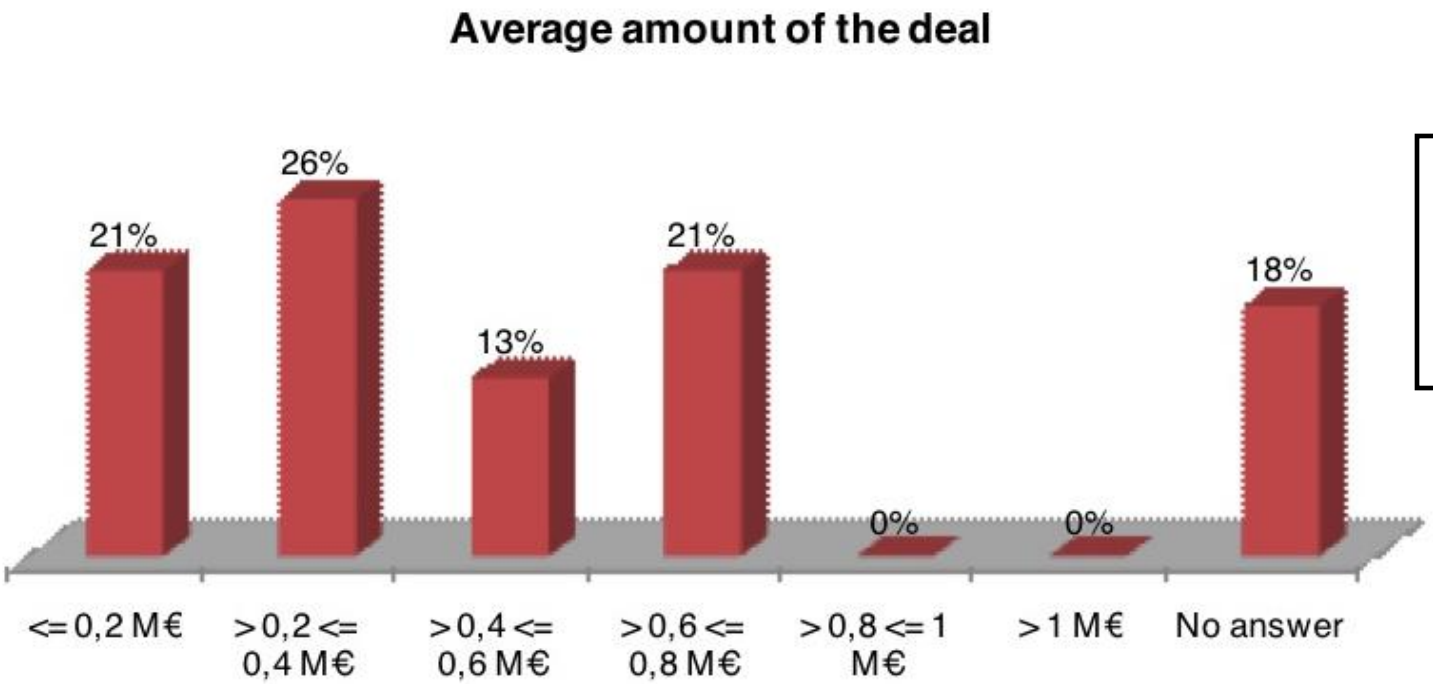
Co-Investment: Summary

- ❑ Tailor Made for BAs or available for VCs as well
- ❑ Ratio of investment BA/CO (1:1) or (35:65)
- ❑ Asymmetric repayment for BAs or paripassu
- ❑ Co-Investment Funds invest in BAs investment companies or directly in start ups
- ❑ For applying there are specific calls or it is always open
- ❑ Investment decision is totally dependent of BAs or also dependent on investment committee of Co-Investment Fund
- ❑ Co-Investment fund allows BAs to charge a fee for managing the funds , others not
- ❑ Some Co-Investments funds allow BAs to apply for Tax Breaks, others not
- ❑ 1 BA is enough to apply or there is a need of a minimum nr of BAs (e.g. 3)

Co-Investment: size of the Funds

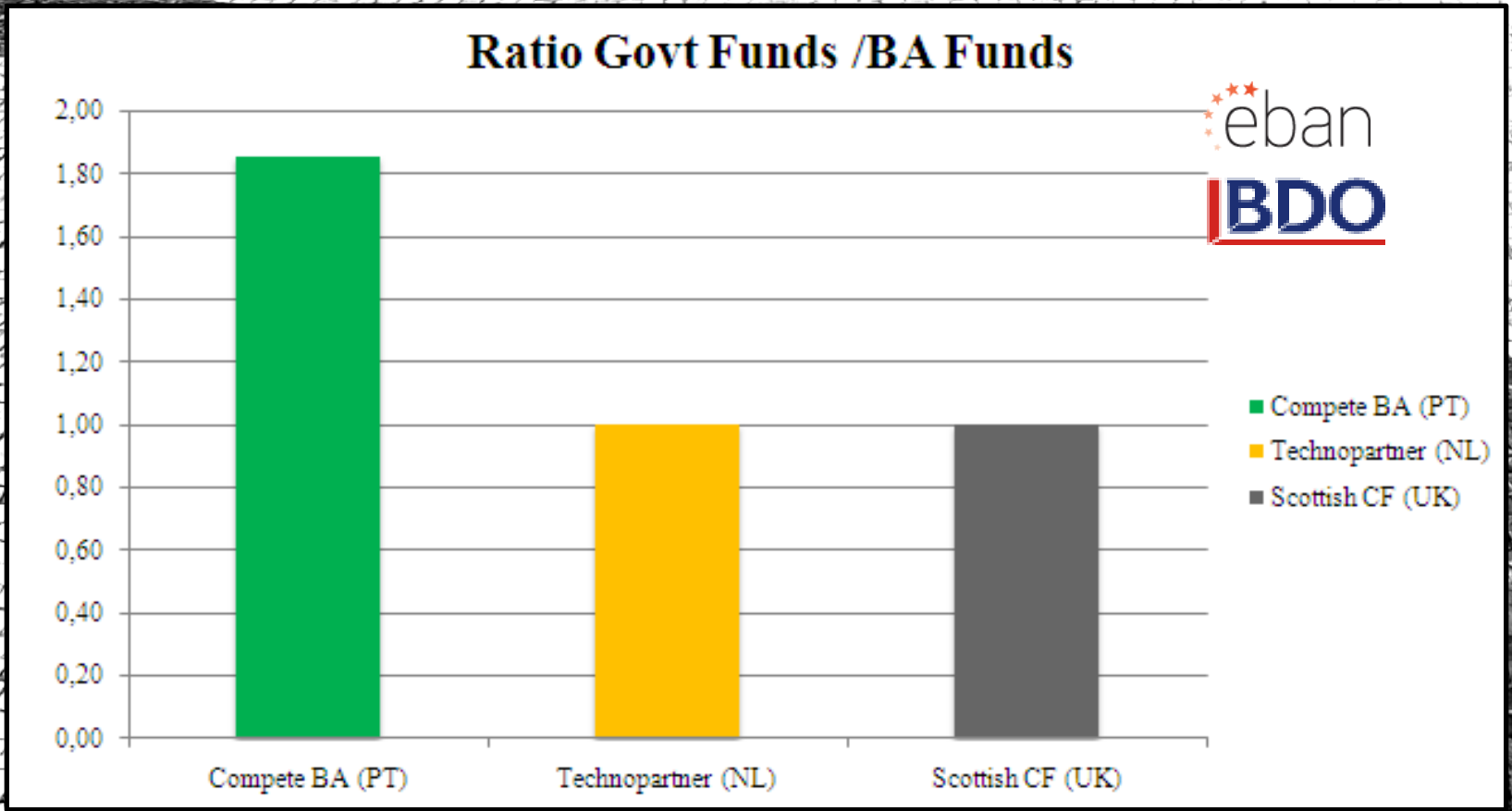


Co-Investment: Average Amount of the Deal

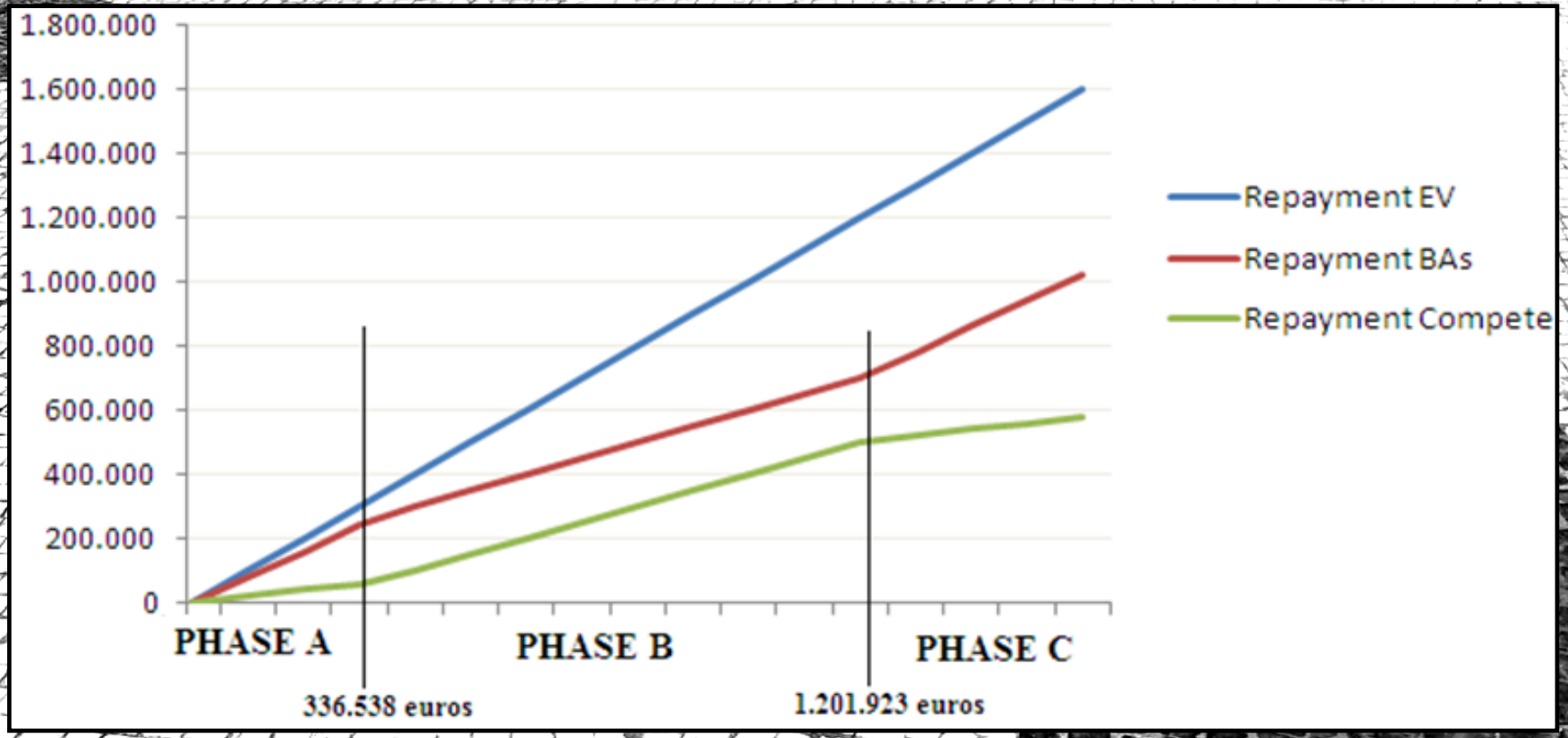


Funds take over after the angels

Ratio of Public Funds versus BA Funds

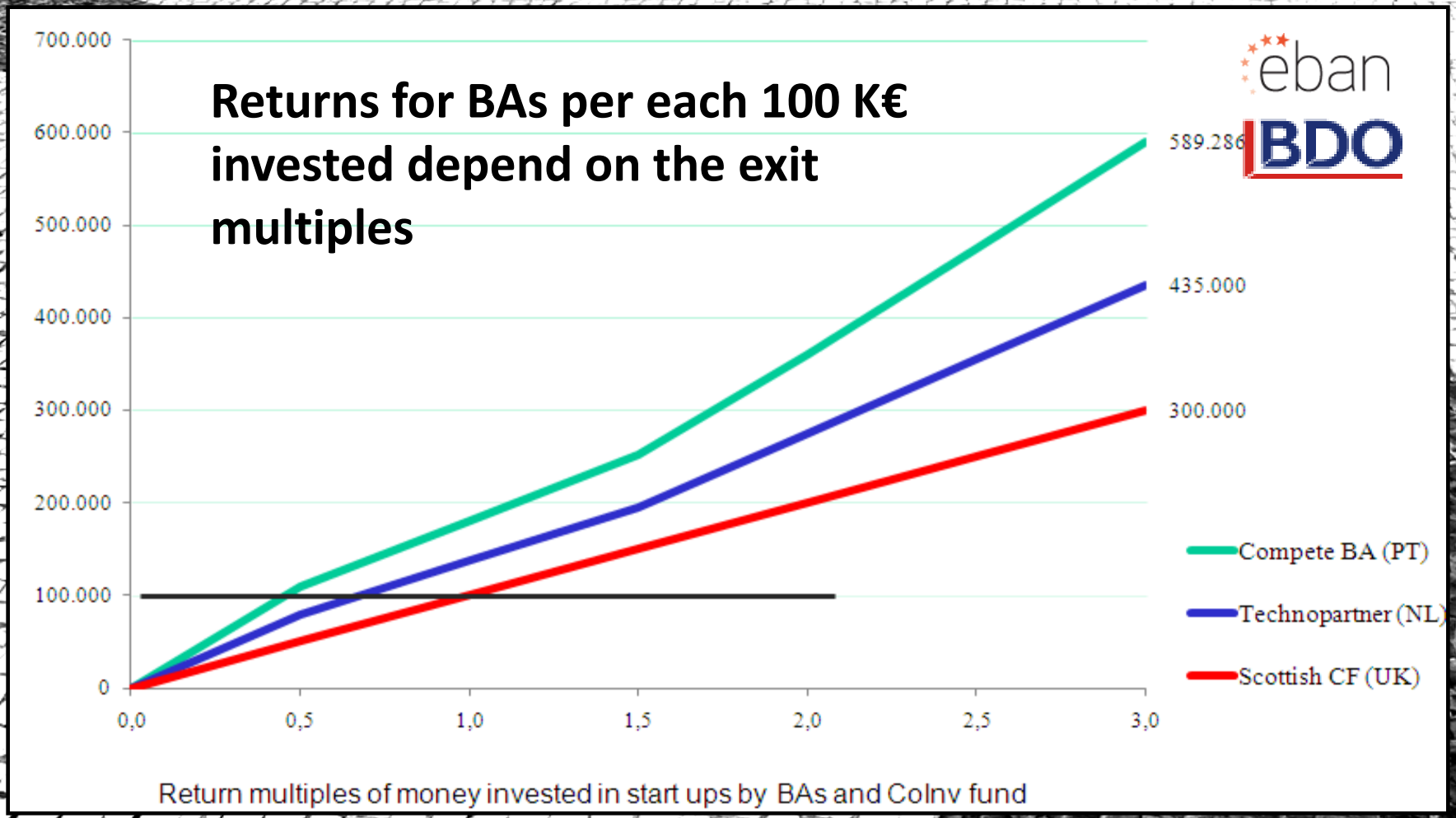


Asymmetric Repayment in COMPETE (PT)



- **Phase A – Until BAs receive their total investment (BA 80% / CO 20%)**
- **Phase B - Until COMPETE receives their loan in total (BA 50% / CO 50%)**
- **Phase C – After BAs and Compete have received their total amounts (BA 80% / CO 20%)**

Returns for BAs



Case Study: COMPETE Co-Investment Fund

- Loan from Compete to the Investment Vehicles (of which BAs are shareholders)
- Loan with a VC "behavior" except for unavailability of re-investments.
- Loan Period : 10 years with investment period until 30-06-2013
- No interests or capital guarantees for Compete
- BAs have no personal liability to pay back the amount of the loan
- Minimum 3 business Angels per IV
- Maximum loan per each IV: 65% of the IV Investment needs with a maximum of 500.000 euros per each IV
- IV Investment capacity that maximizes the COMPETE financing:

  500.000 euros / 0,65 = 769.230 euros (approx. 770.000 euros)
- BAs must bring into the IVs 270.000 euros to maximise investment

Case Study: COMPETE Co-Investment Fund (2)

Investment Period: **2010 - 2012**

Registered Investment Vehicles: **56**

Business Angels involved: **267**

56 Investments = 8.2 M Euros… for now!!!

European Union Funding (QREN): **28 M Euros**

BA funds maximising COMPETE: **12.5 M Euros**

VC Firm (CAIXA CAPITAL) : **1.5 M Euros**

Total Amount available for Investment: 33.8 **M Euros**

Added Value of Co-Investment Funds

For the BA network

- ❑Extension of the activity of the angel network
- ❑Bridge between angels and other investors e.g. early stage VC
- ❑Professionalization of angels (shareholder agreements/exit routes)

For the angels

- ❑Leverage of their participation
- ❑Portfolio building – new sectors and larger deals

For the company

- ❑Fast decision making (average 4 weeks)
- ❑Angel involved as mentor through a longer period

Added Value of Co-Investment Funds

For Governments

- ❑ Don't have the risk that the investment decisions are political
- ❑ Attract more money for the ecosystem
- ❑ Don't pay high cost for mentoring, networking and knowledge of the Business Angels
- ❑ Help to develop an investment community that can start a virtuous cycle
- ❑ It is cheaper for the government than giving grants for free
- ❑ With BAs investing and more financial amounts available, it is easier to attract VCs to co-invest
- ❑ These initiatives enhance the Research and Development activities in the territory
- ❑ Even if the return for the government is not exceptional, the government will receive its money in terms of taxes, less unemployment costs... in 2-5 years
- ❑ Good ideas & good entrepreneurs do not need to emigrate...

Tax Breaks: Mazars Research

Publication of a study commissioned by FNABA to Mazars on the impact on the State Fiscal Revenue of a tax incentive of 30% to be granted to investments made by Business Angels. (November 2011)

MAZARS FNABA FEDERAÇÃO NACIONAL DE ASSOCIAÇÕES DE BUSINESS ANGELS

Main conclusions:

- **The State always get back the amount of the tax incentive**, without any loss of Fiscal revenue / increase in Fiscal expense;
- **State's payback is zero (0) months**, i.e., the State receives in taxes and other charges from the start up more than the amount of tax incentive granted, before having to give relief or reimburse the Business Angel;
- **State's payback is similar in any of the scenarios**, not being affected neither by the success or failure of the company in which the Business Angel invests, nor by the investment values;
- **State's payback is stable** for any investment values;
- **«Profitability» of the State varies from 108% to 6311%**;

Tax Breaks: UK Seed EIS Fund

The Seed EIS offers investors tax advantages that can help mitigate a substantial part of the risk of early stage investing:

- ❑ 50% income tax relief on investments (regardless of marginal tax rate);
- ❑ 28% capital gains tax relief on any reinvested gains (for tax year 2012/13 only);
- ❑ and if needed 20% loss relief against income (for 40% tax rate payers).

This means for investors who have capital gains this year, which are reinvested in Seed EIS, the downside loss could be just 2%.

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Business Angels Worldwide Network for the Portuguese Speaking Diaspora

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Portuguese Speaking Business Angels Communities Across the Globe

Existing Business Developments Portugal - Brazil

- ❑ Portuguese investments in Brazil in the last 20 years accumulated 25.000 Million Euros of assets. Brazilian assets in Portugal amounted to 3.000 million Euros.

- ❑ In 2011, Portuguese entrepreneurs invested 11,4 million Euros (29,5 million Reais) in small businesses in Brazil.

- ❑ Portuguese government offers (European) visa to those willing to invest 500.000€ Euros in Portugal.

- ❑ Direct investments from Brazilian companies in Portugal multiplied by 6 in the first 5 months of 2012 to 49 million Euros.

- ❑ Call for cooperation in the technology, renewable energy and construction sectors.

EMBRAER

177 Million Euros invested by Embraer in Portugal

25 Million Euros invested in biotecnology by CIATEC Campinas in Portugal and new partnerships to come

Undisclosed investment in nanotechnology in Portugal

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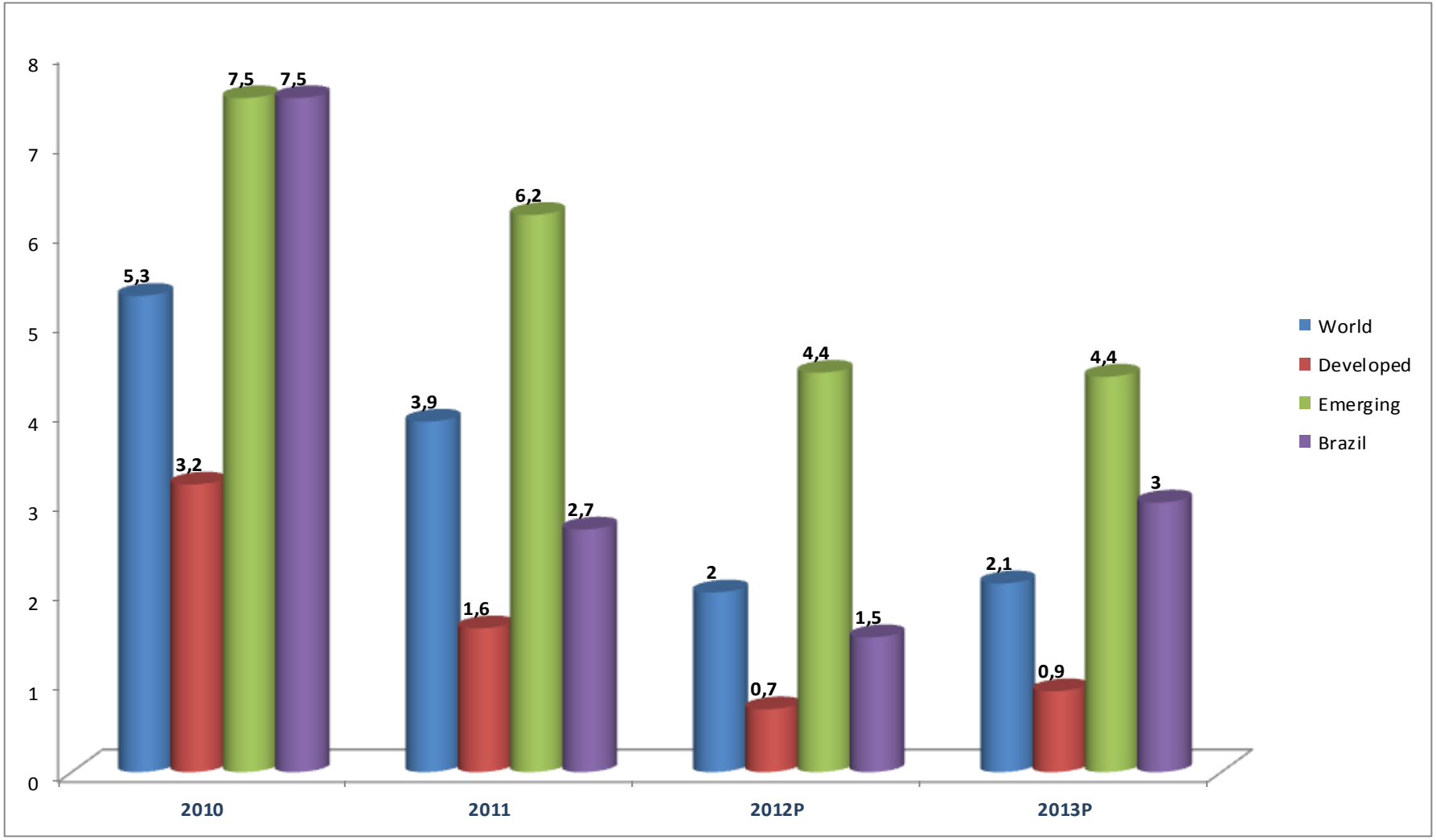
World and regional GDP: Projections



Fonte: FMI
(P) Projecção RC Consultores

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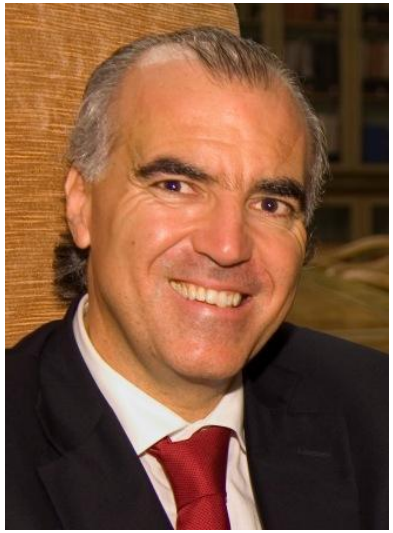
If you want to go fast, go alone;
If you want to go far, go in group.

African proverb



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Fonte: FMI
(P) Projecção RC Consultores

NEVER GIVE UP!!!