

Business Angels - an alternative source of financing for SMEs

EBAN
The European Association of Business Angel Networks

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Topics

- Characteristics of Business Angels
- Where Angels sit with regard to other finance sources
- Characteristics of Business Angel Networks
- How Angel Networks can add value
- About EBAN and Lewiatan Business Angels
- Conclusions

About Business Angels

Business Angel: Private individual investing own wealth in early stage businesses AND own expertise and network of contacts

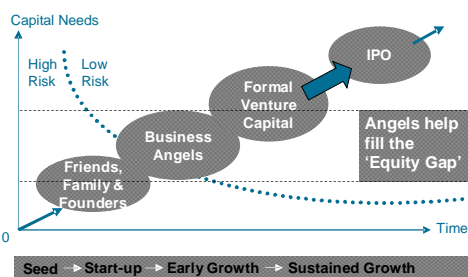
- Investment 30 000 – 1,5 M euro
- Willing to share their managerial skills, specialist knowledge and networks
- No sector preference
- Often prefer to invest in their region of residence
- Seeking profit, but also fun
- Can become involved in the business ("active Angel") or not ("passive Angel").

About Business Angels

Characteristics that Business Angels are seeking:

- Strong & committed Management Team
 - High growth / attractive niche/ scaleable / strong business forecast
 - Current & comprehensive Business Plan
 - Identified exit options
- BUT Entrepreneur's qualities are most important

Angels and Other Finance Sources



About Angel Networks

"Private or semi-public body whose aim is to match entrepreneurs looking for equity with Business Angels"

- **Membership:** Business Angel investors
- **Fees:** Annual membership fee and sometimes % success fee
- Seeks & filters applications from entrepreneurs
- Allows selected entrepreneurs to pitch to investors
- **May also:** provide training (to entrepreneurs and Angels), opportunities to syndicate
- *Polish Example – Lewiatan Business Angels*

Best Practice: Adding Value

Angel Networks can increase supply & demand for Angel Investment in other ways:

- **Investment Readiness programmes** – get entrepreneurs ready for investment
 - e.g. Business Planning advice, Presentation Training etc.
 - Can be a structured programme or provided just before the investment pitch to enhance performance
- **Investor Readiness programmes** – educate investors in the basics of Angel investment
 - e.g. Legal Issues advice, meet with existing Angels, learn about tax break schemes

Best Practice: Adding Value

Angel Networks can increase supply & demand for Angel Investment in other ways:

- **Syndication** can be encouraged/facilitated by networks (*Syndication = many Angels investing together*)
 - Increases amount of money available
 - Increases Angels' bargaining power
 - Enables coordination of legals, investment terms
 - Enables greater cooperation during Due Diligence and subsequent monitoring of investment

Why Business Angels?

Key points why to choose BA as an external source of financing for SMEs being on the early stage of development:

- Financial support
- BA experience and personal contacts
- Know – how
- Support of Business Angels Networks (investments readiness programs)

Research Report
Competitiveness of the SME sector 2007 conducted by PKPP Lewiatan (www.pkpplewiatan.pl)

About EBAN

- Established with collaboration of European Commission, 1999
 - Organisation's goals include:
 - Exchange experience & encourage best practice
 - Promote & create positive environment for Business Angels and early stage investment market sectors
 - Push forward the informal investment agenda
 - Organisation's members include:
 - National Federations of Angel Networks
 - BANs with Local / Regional / National coverage
 - Early stage venture capital funds
 - Other organisations inc. non-European Angel Networks
- 75 members, 22 countries

About Lewiatan Business Angels



- The largest and most active Business Angels Network in Poland, established in 2005 under the brand of Polish Confederation of Private Employers Lewiatan
- Organisation's goals:
 - To match entrepreneurs with investors (no sector specialisation)
 - To promote Business Angels investing in Poland
 - To exchange experience & encourage best practice
- Track record:

MEDICALGORITHMICS

LIKWIATOR.COM
POMOC UBEZPIECZENIOWA

LEGIĆ

Spółdzielni
Poznań

flashbook.pl

OZUMI

Industrial Software Systems

GG
Goldtech

Conclusions

- Business Angels are an important sources of finance and offer good added value for entrepreneurs and SME's through:
 - Adequate financial support especially for start-ups
 - Know how and experience
 - Direct contact – (elasticity and good co-operation)
- Angel Networks can add further value by providing investor / investee readiness support, facilitation of syndication etc.
- Business Angels market is growing in Europe and starts to play an important role for SMEs as an external source of finance

Contact details

Thank you for your interest!

EBAN - European Business Angel Network
LBA – Lewiatan Business Angels

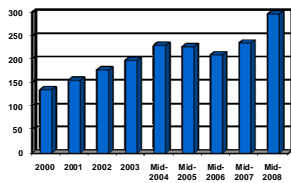
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Back-up

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European Angel Market Characteristics

Number of Business Angel Networks



Case Study: UK

One of Europe's most developed Angel markets.

- 2007: 22.630.342,16 in 388 entrepreneurs (survey of 22 networks only)
- 22 BBAA member networks, 4991 Angels
- Highly supportive tax break scheme, "Enterprise Investment Scheme"
 - Income tax rebate equal to 20% of investment up to €600k
 - Exemption from capital gains on Angel investments
 - Income tax relief of 40% on failed investments
- Larger average deal size – syndication becoming prevalent
- Commercial networks more prevalent than elsewhere
- National trade association, British Business Angels Association

Benchmarking angel activity

US	Europe
Center for Venture Research: 2006: 258,200 angels, invest \$26 billion in 57,120 ventures	European estimate 2007: 50.000/75.000 angels investors 2-3 billion€ invested EBAN Statistics for 2006 - 9000 active angels in 97 networks - 653 deals done <u>Only record activity in responding networks: only a very small portion of the activity</u> (2007 figures will be ready in June 2008)
No fiscal incentives YET at federal level (25 states have tax credits for angels) – but more and more discussions as to how to attract new angels into the market as VCs and angel syndicates are moving further along the financial value chain	Fiscal incentives a growing phenomenon, UK as benchmark Compensation for the lack of entrepreneurial spirit?

How to encourage angel activity?

NATIONAL LEVEL

- Fiscal environment
 - Capital gain or loss exemption from tax
 - Equity guarantees
- Non-financial incentives
 - Syndication opportunities
 - Business Angel Academies
 - Investment readiness
- Promoting codes of conduct for BANs and BAs
- Integration of BAN activities in the regional entrepreneurship strategy