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БИЗНЕС АНГЕЛИТЕ – ИЗТОЧНИК НА ФИНАНСИ

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BUSINESS ANGELES – SOURCE OF FINANCE

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Abstract

Business angels have long been recognized as an important source of finance for entrepreneurial businesses, particularly in the start-up and early growth stages when the financial support required is too small to be economic for Venture Capital fund investment.

The current study aims to provide an overall picture of the business angel market in Europe, USA, Canada and Japan. Angel investors play a key role in the development of economies, as many successful entrepreneurs decide to help up-and-coming startups with funding and mentorship.

They invest partly for the returns, which can be exceptionally high, and talk about return of capital in multiples, not percentages. But equally importantly, many of them invest because they have something more to offer their investee companies such as skills and knowledge.

Key words: *business angels, source of finance, business angel market, skills and knowledge*

JEL Codes: *N20, O16*

INTRODUCTION

The world of entrepreneurial startups is where the most exciting and creative action is happening in today's business world, with angel investing entering the mainstream; more than USD 50 billion are being invested annually in the World, with a sustained growth over the past years. Business Angels are

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an important source of equity finance for new and emerging entrepreneurial businesses. Generally, business angels play an important role in the economy. In many countries, they constitute the second largest source of external funding in newly established ventures, after family and friends. They are increasingly important in providing risk capital, as well as contributing to economic growth and technological advances.

Business angel investors are high net worth individuals who usually provide smaller amounts of finance (€25.000 to €500.000) in the form of equity investments in businesses with growth potential. A business angel investment is normally a minority investment (usually 10-30%), and it is directed at the pre-seed, seed or early stage & startup phase.

Angels are often leaders in their own field who not only contribute their experience and network of contacts but also their technical and/or management knowledge. Angels invest in businesses in the early stages of development, or post-revenue established businesses looking for expansion capital. Angels back high-risk opportunities, with the potential for high returns. In exchange for risking their money, they reserve the right to supervise the company's management practices. In concrete terms, this often involves a seat on the board of directors and an assurance of transparency.

Some invest on their own, others through an angel syndicate or club. The most significant trend is for angels to invest in syndicates or groups, generally with a lead angel. At seed stage, lower amounts of funding may be available. Businesses in the growth stage may be able to attract higher amounts from angel syndicates. Angels can offer multiple rounds of finance and frequently co-invest with other sources of equity and co-investment funds as further growth finance is required.

When taking on angel investment, a business should look beyond the capital they put in. Most can bring valuable first-hand experience of growing businesses, often early-stage businesses. Their skills and experience will be shared with the business, as well as their network of contacts. Most focus investments within a small geographic area, and so have local knowledge and local networks. Angels often make investment decisions quickly, without complex assessments. However, tracking down the right angel can take time.

A business angel network can be considered as an organization whose aim is to facilitate the matching of entrepreneurs with business angels. Business angel networks generally perform two types of activities: promotion of deal flow among members & representation of business angel interests at national and international level. A Business Angel Network is a conglomerate of Angel Investors, whose prime concern is to facilitate the investment of Seed Enterprises and Business Start-up for investors.

To facilitate the implementation of a business angel network, some well-known regional institutions can be invited to collaborate with the activities of the future network: banks, incubators, chamber of commerce or regional development agencies.

There are three types of Angel Networks:

- Non-profit Business Angel Associations: Association of Angels facilitating Angel's investments in local Companies for a stake in the company;
- Incubators - Group of Angel hosting companies in exchange for a stake in the company;
- For Profit Angel Networks - Networks enabling Entrepreneurs to Meet Business Angels. They often work on a Success Fee and Entrance Fee basis.

These institutions can provide a network not only sponsorship but allowing to use their infrastructure of rooms, sharing events, clients addresses. This collaboration can be returned, for instance, by secure credits for banks and helping in the creation of jobs, where research and development of activities can be committed with regional authorities.

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The principal benefits of participating in an angel syndicate are (HBAN, 2013):

- Diversified portfolio: portfolio investing is a lower risk approach to investment compared to the higher risk “all eggs in one basket” approach of investing in just one or two companies;

- Pooling of economic resources: pooling of funds provides the opportunity to invest in several companies and/or in larger deals;
- Pooling of skills, contacts and experience: syndicate members will benefit from each other's skills, networks of contacts and experience. This all enhances the possible success and returns of investing;
- Due diligence: ability to undertake a greater level of due diligence.

Business angels play an important role in funding innovative enterprise with 93% of their most recent investments being in firms engaging in process or product innovation; they have substantial shares in firms developing marketing, organizational, or business model innovations.

Angel investors support a much wider range of innovation than VC firms as they traditionally invest locally and in a wider range of sectors than venture capitalists. This means there is broader investment coverage both in terms of industry sectors and geography (angels live everywhere, not only in areas where VCs have offices, which tend to be concentrated in a few technology or science hubs) (OECD, 2011).

METHODOLOGY

To achieve the object of this paper, business angel investor's data has been collected. The primary information is mostly from websites, books, journals, etc. Also, a lot of facts and date from business angel investors and entrepreneurs' literature are taken into consideration.

ANALYSIS AND DISCUSSION

Angel investors play a key role in providing strategic and operational expertise for new ventures as well as social capital (i.e. their personal networks). Little is known about business angels and their investments. One explanation might be the existence of a large "invisible" market without public registers, another imprecise definition.

The angel investment market is much larger than most people realize. Estimates from both the United States and the United Kingdom from over the past ten years indicate that angel investment has been consistently larger than seed and early-stage venture capital (VC) investment despite some fall off following the dot com era in the late 1990s as well as some drop during the recent financial crisis. While methods of estimating the full angel market size vary, it has been documented through many studies over the past decade that total angel investment is much greater than overall VC investment in the United States and as well as in some countries in Europe (WBAF, 2018).

In 1996 the Federal Government in the USA created a network that links entrepreneurs and angel investors: The Angel Capital Network (ACE – Net), which is a public – sector network. Sponsored by the Small Business Administration, the system is run by 38 local operators working with local university and state business support centers (Sugioka, 2018).

Angel investors back more than 73,000 businesses each year in the US and many hundreds of thousands more around the world. These businesses are most frequently technology enabled businesses and are seen to be important drivers of innovation, GDP and job growth by most countries worldwide.

In the USA, the amount of loans by angel investors to venture businesses is reported to be several times greater than equity investment by accredited venture capital companies (Sugioka, 2018). In California, angels invest about four billion dollars each year in the initial financing for young corporations. About 4% of all incorporated CA firms receive angel financing within three years of their founding. This fraction of firms supported by angels is ten times greater than the 0.37% of firms funded by VCs among California corporations. Even if one focuses on the industries where VCs are active, angels also fund over 90% of initial security issues. Using the VC market as a benchmark, the estimates of the angel capital market using CA data is likely to be a lower bound for the U.S. angel market, because CA is the largest VC financing state in the USA (Chen, 2017).

Canadian angel investors are playing an active and important role in financing early stage firms, especially in the high-tech sector. The level of their activities can be further increased if certain market barriers are cleared. These include insufficient networking between investors, hefty taxes, unfavorable security regulations and a shortage of quality start-ups who are also willing to give up equity and management rights in exchange for angel funds. Thus, there may be a need for government and community efforts to improve the regulatory environments and the quality of investment opportunities.

However, especially in comparison with the US, the European BAs segment is still in its emerging phase both in terms of the number of active BAs and the amounts invested by BAs. Strained exit markets as well as an overall deterioration of the private wealth situation of many business angels as result of the financial crisis additionally limit the investment activity of BAs with investment activity at low levels.

EBAN, the European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players is a non-profit association representing the interests of business angels, business angels networks (BANs), seed funds and other entities involved in bridging the equity gap in Europe. Our main activities include representing the early stage investment market in Europe, carrying out research on the angel market and producing facts and trends, identifying and sharing best practices, promoting the role and visibility of business angel networks and early stage funds in Europe, promoting synergies and networking opportunities among actors in the industry, supporting the emergence of professional structures and quality standards across Europe, and supporting the internationalization of the angel and early stage industry and movement (EUAGENDA, 2018).

According to the latest EBAN Statistics, across 35 countries in Europe, there are more than 312.000 Angels, most of which are affiliated to one of the 474 existing Business Angels Networks. In 2015, approximately 4.74 thousand investors operated on the United Kingdom (UK) market, followed by 4.62 thousand business angels in France.

The total European early stage investment market was estimated to be worth €9.9 billion in 2016. Angels represented the biggest share of the market with a new record of €6.7 billion invested in early stage SMEs, having grown by 5% (from 2014 to 2015) and 10% (from 2015 to 2016) in the past two years. Angels were followed by the early stage venture capital industries, which invested €2.5 billion. Finally, equity crowdfunding investments were estimated at €700 million and are expected to continue growing at a fast pace.

According to a study by Slush and Atomico (2016), 22% of all tech-related business founders invest as angels, with repeat entrepreneurs more active than first-time founders. BAs tend to invest their own money, either individually or in formal or informal syndicates, in businesses which are not publicly traded, commonly in exchange for convertible debt or ownership equity. In a recent European Commission survey among European BAs, the large majority of respondents were male (89%) and the average age was 55 years (European Commission, 2017c). However, in Central and Eastern Europe (CEE), BAs tend to be younger (average age of 43 years) and the share of female BAs is larger. The average period of respondents' investment experience as a BA was 7.5 years; however, there are large differences by country. Among the surveyed BAs 98% hold at least a bachelor's degree (or equivalent) and the vast majority (87%) have experience in senior management.

In London there are 17 most active Angel Groups (SeedLegals, 2017): 24 Haymarket (typically invests between £100k and £3.5m), Angel Investment Network (investment ranges between £10k and £10m from over 100,000 registered investors), Angels Den Angel Network (investments typically range between £30k - £600k; the fund provides pitching and 'SpeedFunding' events as part of its Angel Club package, which includes pitch coaching, a half hour pitch at a Club event, and the opportunity to meet the angel network), Angels in MedCity (typically invests between £100k and £1m in the healthcare, medical technology and life sciences sectors), Cambridge Angels (the network typically invests between £50k and £1m although it may well commit further funds over several rounds), Cambridge Capital Group (typically invests between £50k and £1m; CCG provides investment for technology development and for the commercialization of intellectual property), Clearly Social Angels (typically invests between £150k and £1.5m. As well as funding, they also provides business support and financial advisory services including business plan review and financial projections), Fig (works with companies across any sector, typically looking to raise £500k to £5m), Firestartr (typically invests between $300k and $2m with an average fundraising size of £957k. The average stake taken by investors is 26.4% at a £3.01m pre-money valuation), FSE Angel Group (typically invests between £10k and £500k. The fund invests in companies at the following stages post proof of concept and at or close to revenue generation in addition to later stage revenue generation), Galvanise Capital (angel syndicate focusing on high growth startups in the digital space. Typically invests between £150k and £1m), Green Angel Syndicate (preferred investment size is between £250k and £500k with a strong focus on the green energy space, but will consider all kinds of green technologies), Hotspurs Capital Partners (typically invests between £500k and £2m; the average stake taken by investors is 26.0% at a £1.84m pre-money valuation), London Business Angels (now Newable - invests in SEIS/EIS qualifying startups, raising between £250k - £2.5m, typically with a B2B focus), Minerva Business Angel Network (typically invests between £25k and £500k; the average stake taken by investors is 29.1% at a £1.88m pre-money valuation), Mustard Seed Impact (typically invests up to £1m in startups with both a strong commercial and social impact element), Wild Blue Cohort (typically co-invest with other angel groups in rounds of £150k - £1m. In addition to growth capital they provide mentorship programs, office space, and access to its network of investors and entrepreneurs).

In Denmark, little importance is attached to policies stimulating business angels as a possible source of financing for small and medium-sized enterprises (SMEs). The Ministry is generally reluctant to take initiatives in this area. One important reason is the negative experience from two major policy initiatives: the PartnerKapital co-financing programme and the support for the Danish Business Angel Network.

A definitive assessment of the scale of the Business Angel market on the island of Ireland is not possible owing to the challenges in recording and tracking all Angel investment. Moreover, not all investments are made through managed Business Angel groups and networks. However, data from HBAN/Halo NI (that is, Business Angel investment delivered via HBAN and Halo), and complementary estimates from the European Business Angel Network (EBAN), which draw on a wider range of sources of investment, suggest that the scale of 'visible' Business Angel investment is in the region of €10-20 million pa. Importantly, the HBAN/Halo data indicate that both the volume and value of Business Angel investments has increased over the 2009/15 period (InerTradeIreland, 2016).

The average cost of establishing a company in Japan is ¥ 15.37 million. Roughly 30% of this is equity, the rest debt. Most of the debt consists of loans from financial institutions as access to risk capital is limited. Younger entrepreneurs are particularly critical of the fact that the reliance of loan officers on collateral and managerial experience as the criteria for deciding whether to grant a loan is a major obstacle to start – ups in search of capital.

CONCLUSION

Business angels have long been recognized as an important source of finance for entrepreneurial businesses, particularly in the start-up and early growth stages when the financial support required is too small to be economic for VC fund investment.

Business Angels now days are just as likely to be young successful entrepreneurs as well as the more traditional experienced business investor looking to invest into fast growing start-ups. With bank interest rates so low, the property market uncertain, and the stock exchange fragile, investing into sound young businesses can be both fulfilling and rewarding.

Studying angel activities has important implications for the efficient allocation of private capital and the success of many new small businesses. Moreover, knowing the size and properties of the angel market could help monetary authorities better understand the credit channel of the monetary transmission mechanism. Unfortunately, the current literature on angels is limited and regional.

Business Angels (BAs) are an important financing source for SMEs, and seed and start-up companies in particular. BAs are even more important in countries and regions lacking an institutionalized VC infrastructure, often being the only major source of equity finance for young innovative SMEs. An important additional element of their activity is often the provision of nonfinancial benefits like mentoring/advice, contacts etc.

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