

## **When will we have a national business angels network?**

This is not the first day that business angels exist. But it was recently that the reunion of these informal private investors were oriented to support their activity. The European Business Angels Network, with a 6 years existence, already has near 50 similar networks, at local, regional and national levels. Business Angels Club is its only Portuguese member, leading to a request during the 7<sup>th</sup> Gesventure Meeting: it is essential to create as quickly as possible a national Business Angels network.

By Cristina Pereira

« Business Angels networks – private investors that contribute with their own capital, time and knowledge to the creation of companies in early stages – are a phenomenon rose in the 1980s in the United States and in the United Kingdom, where there are today, respectively, near 500 thousand and 40 thousand federated business angels. It a very different reality from the one in continental Europe: only by the end of the 1990s these networks had an expression in the old continent, with the creation of the European Business Angels Network (EBAN), the federation that reunites the European networks, presently with 50 associates. Portugal does not have, yet, this kind of national structure and, if it weren't for the Business Angels Club of Gesventure, EBAN member for 6 months, the phenomenon would not have representativeness at national level. Even our neighbor Spain, for example, already has these kinds of networks in five regions, federated in a national structure.

EBAN reunites networks of several types. They can be national federations of Business Angels Networks (BAN), networks with national covering, regional and local networks, network of abroad Europe with the interest of maintaining a link with the European business angels sector or other interested identities with direct involvement in the promotion of informal investment in Europe.

To increase the disclosure of the benefits of these networks both for entrepreneurs and business angels is, this way, crucial due to its widely recognized advantages as innovation motor and for the creation of new companies. It was with this preoccupation in mind that Gesventure included in its 7<sup>th</sup> Meeting, which took place in the past November 9<sup>th</sup>, a dedicated panel to this theme that counted with representatives from EBAN and from the French and Belgian national networks.

## **Angels invest between €25 thousand and €250 thousand**

Which is the reason why the business angel image is so important?

Because it is him that “fills in the “equity gap” that is verified when an entrepreneur decides to make his project grow,” explained Claire Munck from EBAN (see the interview in the box). In fact, it is after exhaustion of the resources of the called three “F” “family, friends and fools” that the entrepreneur approaches venture capital societies or banks to get more financing. But the earlier invest in projects of bigger volume and banks demand more guarantees. That is why there is this lack of financing at seed and start-up stages. “The business angel is one of the solutions to this lack” referred Claire Munck.

A business angel is an investor with their own specificities. In average he invests between €25 thousand and €250 thousand. He is willing to share his management qualifications, specialized knowledge and contact network. Frequently, prefers to invest in his residential area. He wants profits, but he also wants to amuse himself. In fact, the enthusiasm “is crucial” to a business angel, underlined Claire Munck. “He spends his own money and invests basically in ideas. Without enthusiasm he wouldn’t do his investment,” she added. Other important aspect is that “business angels don’t have a sector preference. I.e. they can invest in high tech sectors or in the more traditional ones.

Reginald Vassen, president of BAN Vlaanderen, the national Belgian network, referred also different types of business angels: the angels that look for revenues (young people that want to be entrepreneurs and invest small amounts), the entrepreneur angels (which are the biggest category and are older), the virgin angels, i.e. angel investor that are not yet and that constitute a great category and are characterized by making investments of small amounts, the latent angels and the business angels, i.e. the ones that have support structures.

### **It is urgent to create a national network in Portugal**

“It is not through venture capitalists that new businesses get financed,” stated Claude Rameau, president of France Angels. He added that both them and banks are not interested in investing in the early stage of the company. Even if they are interested in the project they advise the entrepreneur to come back and contact them latter. Thus, being “the only way of the entrepreneur getting the initial investment is through a business angel,” he stated.

The businessman António Neto da Silva, panel’ moderator, agreed making an observation: “the formal venture capitals are not very different from the banks. They are managed by people paid do to that.” And, who gets a wage has the risk of loosing his

job if there aren't good results. Claude Rameau underlined that "the banks have their role, the venture capital have theirs and BAN theirs. Each one has its place in the continuous stages of creation of a new company." What is new in Europe, however, "is the idea that each one of them has to know well the other two." It is evident that, he emphasized, "much money only the banks have it, the average the venture capitals have it and few have the business angels."

Claude Rameau launched a challenge: "in Portugal it is essential to create as soon as possible a BAN." According to the responsible of the French network, if the Portuguese want to make "something more visible" in the business angels' domain, they have to be united. "Why should they be by themselves? Why not create a network? If they continue alone they still will have good projects. But they will have to judge the project and the entrepreneur by themselves." This could lead to misjudgement. "In a group of five, six or eight business angels that judge the same entrepreneur, the opinion will be very different if there is only one," he evidenced. The great advantage, he insisted, is that "networks reduce the risk of their decision." And he gave a French example: "in France 38 new networks of business angels emerged in the past three years."

### **Growing syndication**

And which is the advantage of business angels networks? They facilitate the meeting between entrepreneurs and business angels, normally very difficult. It is private or semi-public organisms that can be national, but in general they operate more at regional level. As Claire Munck explained, if business angels are an "old tool," "business angels networks are new tools" and have a crucial role in innovation.

These networks offer services like concept disclosure, business angels identification, support to entrepreneurs and business angels and the promotion of meeting between those two characters. On the latest, the EBAN responsible made evidence that the "matching" between the two is made through forums, seminars, presidential reunions and internet tools.

BANs are also a good platform to syndication, being this, one of the tendencies that begin to affirm itself in the sector. This practice allows reuniting several business angels that congregate their capital making joint investments that they could not make separately. Besides increasing the financing level of a project, "dilutes the risk to individual investors," evidenced. Other tendency that is verified is that co-investment funds that support the venture capital market development and make potential of direct

investment in eligible companies through the joint investment with partners of the private sector, like angels, syndicated angels, venture capitals or business investors.

### **Wider conscientiousness is needed**

There are several measures that can be taken to reinforce the activity in business angels' area. Claire Munck evidenced the need of awareness campaigns. As she explained "we don't know how many business angels are there, because they don't express themselves publicly." But the regions also have to give financing to BAN, promote a BAN conduct code and business angels and integrate BAN strategies in entrepreneurial regional strategy.

At state level, of which only United Kingdom is an actual example of best practices, it is important to offer a favourable tax framework, through, namely, tax exemptions to gains and losses and an favourable tax framework to individuals which invest in start-ups. In terms of administrative environment it has to offer prospecting and financial services and support to BANs. The States must, also, guarantee support to national networks.

At European Union level, finally, Claire Munck evidenced the need of launching awareness campaigns, make benchmarking of the national policies and encourage Member States to adopt a favourable tax environment and venture capital informal investments.

### **Portugal needs a favourable tax-judicial framework**

But it is at regional level that is the most important progress part of these networks. To Claude Rameau, first it is necessary to supply the capital to the structure set. "In the United Kingdom, for example, every region finances a network," he said.

"It is very important to have a presence in every region," said also Reginal Vossen. In Belgium, this is now a priority. "Of course that it costs a lot of money," he referred. However, the fruits are rewarding. "Among the annual objectives of the Belgian BAN is the attraction of 120 business angels and the launching of 150 projects or companies," he explained.

Now it is to Portugal to accept the challenge launched by the responsible of European networks and to create their own. Francisco Banha, responsible for the only existing structure in the country, which reunites two dozens of investors, considers that there is much to do at judicial-tax framework level of the activity of these investors. The risk involved is big, in a way that the favourable framework to the activity is essential to stimulate the entrepreneurial spirit. But, may good news come in their way. The

economist Margarida Matos Rosa from Unidade Coordenadora do Plano Tecnológico (tech plan coordination unit) evidenced in her presentation that “business angels have to be supported at tax framework level.” We wait for the tech plan presentation by the end of November.

### **Elevator Pitch**\*

António Costa – Kefirtech is specialist in kefir, a product obtained through milk fragmentation by helpful organisms and that has the yogurt and fermented milk markets as a target. There isn't any company at national level producer of kefir and the project wants to raise €150 thousand in a first round and €600 thousand further.

Manuel Reis da Silva – has activity since 1990 in the area of taking advantage of the residues of the sub products with have its origin in slaughterhouses. The objective is the production of larves to the sportive fishery market. The project took five years to be approved and the production unit is the only with licence at national level.

David Silva – Best Golf Corporation is on the event, formation, carer management, and publicity and communication area surrounding golf. Counts, among their partners, with PGA Portugal, the Portuguese Federation of Golf, Fujitsu, DotOne and the newspaper “a bola.” Has, presently, a €1.5 million business volume, but needs financing for a more ambitious growth.

Mad Puppet Entertainment Studios – it's a project of a video game on-line that is being developed for 20 months and that shall be concluded within 15 months. It needs an investment of €750 thousand that is mostly to develop the production team. The objective is to obtain 40 thousand monthly subscriptions and is expected a business volume of €5 million within three years.

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\* 7th Gesventure Meeting offered, like usually, the Elevator Pitch space that allows that entrepreneurs present in summary their project to the investors' community. This concept is based in the five minutes that the entrepreneur has when meets a potential investor in the elevator and has to attract him with his idea.

Claire Munck: “there are many people that are business angels, they just don’t know it”

You said in your presentation that business angels don’t have a great will of being known. How do business angels approach them?

Yes, in fact they don’t like to be known, because they don’t like that entrepreneurs go voluntarily knocking on their door to ask for their financial support to the creation of their company. That is why it is important to have business angels networks which have an interface role between the investor and the entrepreneur. With effect, at network level, the sourcing work, i.e. of angels recruitment, is made through regional level publicity, like, for example, in magazines, and it is networks’ managers that have the role of explaining the advantages of the networks to both angels and entrepreneurs. The networks also contact former student and former company chairmen associations to convince them to become business angels and to explain the network functioning way. It is necessary, however, a great communication work about what business angels do, what networks do... because there are people who are potential business angels but don’t know it.

How is the process of creating a network? And at city or region level? Is there a preference to regions that have entrepreneurial structures, for example?

EBAN only gives information about good practices in networks’ formation and operation. In fact, it is at regional level that this works better because each region has its own structures, a specific entrepreneurial population and sectors more or less developed. Many times, a network is launched with the support of regional authorities, of regional development’ agencies... and sometimes they are private initiatives. The networks also have relations with incubators and scientific parks which contribute with good projects to the network.

And do you believe that biotech, one of this conference’s themes, can be a sector with interest to business angels?

In fact, as we heard in the conference, the biotech is a sector that demands great investments. This morning, someone was saying that, to launch a company, it is necessary a million euros! In Europe, the average investment is of €100 thousand. Thus, we talk about very high amounts and of investment perspectives completely different. The investment return in the biotech sector is between 7 and 12 years, as we heard this morning, while, in average, the angels like to “come out” between 5 and 7 years. And that is why, in the United States, and now also in the United Kingdom, we verify a

strong tendency to the creation of specialized co-financing funds to support investments made by angels. Other tendency is “syndication”: it is the reunion of several investors to attend the necessities of only one investment, gathering their capacities and their financial potential. Syndication is an investment mean of angels in this sector although, for now, it is only for the more mature markets, i.e. United Kingdom and Scotland. These two techniques allow achieving a critical mass of financing to sectors like biotech.