

Business Angels

Q&A for Jacek Blonski – Vice-President of European Business Angel Network and CEO of Lewiatan Business Angels (the largest Business Angels Network in Poland)

Q1. Who is a typical Business Angel?

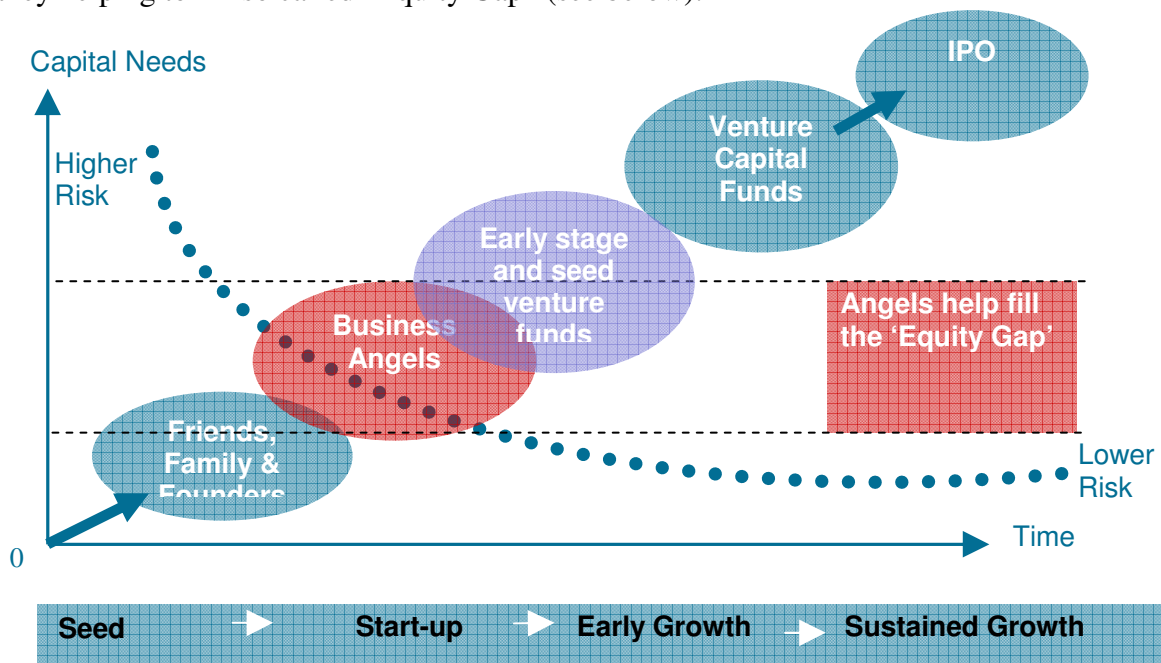
Business Angel is a private individual investing own wealth in early stage businesses and willing to share his/her managerial skills, specialist knowledge and networks. Investing typically below 25% of the personal wealth, seeking profit, but also fun.

Q2. What kind of criteria Business Angels use when evaluating the projects?

First of all they look for the management team, than the business opportunities and the quality of the business plan. The business should be scalable with high growth perspective and strong business forecasts. The ideal situation is when the founder/entrepreneur already posses a proof of concept of that idea and the product/service is ready or almost ready to sell on the market. Nevertheless, the quality of the entrepreneur is for Business Angels the a most critical factor when making a decision for investment.

Q3. Why Business Angels?

Nowadays, Business Angels play more and more important role on the financial market since they helping to fill so called “Equity Gap” (see below):



The problem is very serious – especially now during the strong economic slow down worldwide. Raising capital for new start-ups becomes quite a challenging task. Banks are not willing to support companies being on the early stage development phase – mostly because of lack of security – and for institutional investors such kinds of investments are much too small and risky. When we analyze more deeply that problem we could simply find that Business Angels can be in many cases the only solution for such companies (start-ups).

Q4. Who are the Angel Networks?

Angel Networks are usually private or semi-public body whose aim is to match entrepreneurs looking for equity with Business Angels. They play very important role since they act as a facilitators and add lots of value into the entire angel market. They increase supply & demand for Angel Investment in many ways: they prepare entrepreneurs and investors for investments by offering investments readiness programs such as business plans advice, presentation trainings or on the investors side they educate new angel in the basics of Angel Investments by offering them legal advices, meeting with more experienced investors or advising investors on the tax break schemes.

Q5. What are the latest trends for the Angel market in Europe?

In European Business Angel Network we analyze the entire angel market every year and since the beginning of the crisis (mid 2008) we observe the following trends:

- quality of projects received much improved
- Increasing co-investments with early stage funds and other investors
- Increasing size of deals but decreasing size of investment by individual investors
- Investing increasingly in syndicates
- Increasing provision of training services for investors and entrepreneurs
- Diversification of investment sectors

Q6. What is the EU investment activity vs. USA – do you see any differences?

Yes – the latest research made by Angel Capital Association and EBAN show that EU investment activity is 25% of US level unfortunately. In 2007 total estimated invested amount in EU in seed stage company was on a level of 4-5 billion EUR, where in USA was around 20 billion EUR. This clearly shows that there is lots of job to be done in order to minimize this gap.

Q7. Do you have any ideas how we can change it?

Of course there is no one single or golden rule for that. But definitely there are some significant factors that can stimulate and change the angel market in Europe. I would definitely named couple of these:

1) Fiscal incentives

Capital gain or loss exemption from tax
Equity guarantees

The best example is UK, which is one of the Europe's most develop angel market. They have 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

This could be a base for other EU countries for stimulating angel market by introducing good and supportive tax break schemes.

2) Non-financial incentive

Syndication opportunities
Business Angel Academies
Investment readiness programs

3) Promoting codes of conduct for Business Angels Networks and also Business Angels

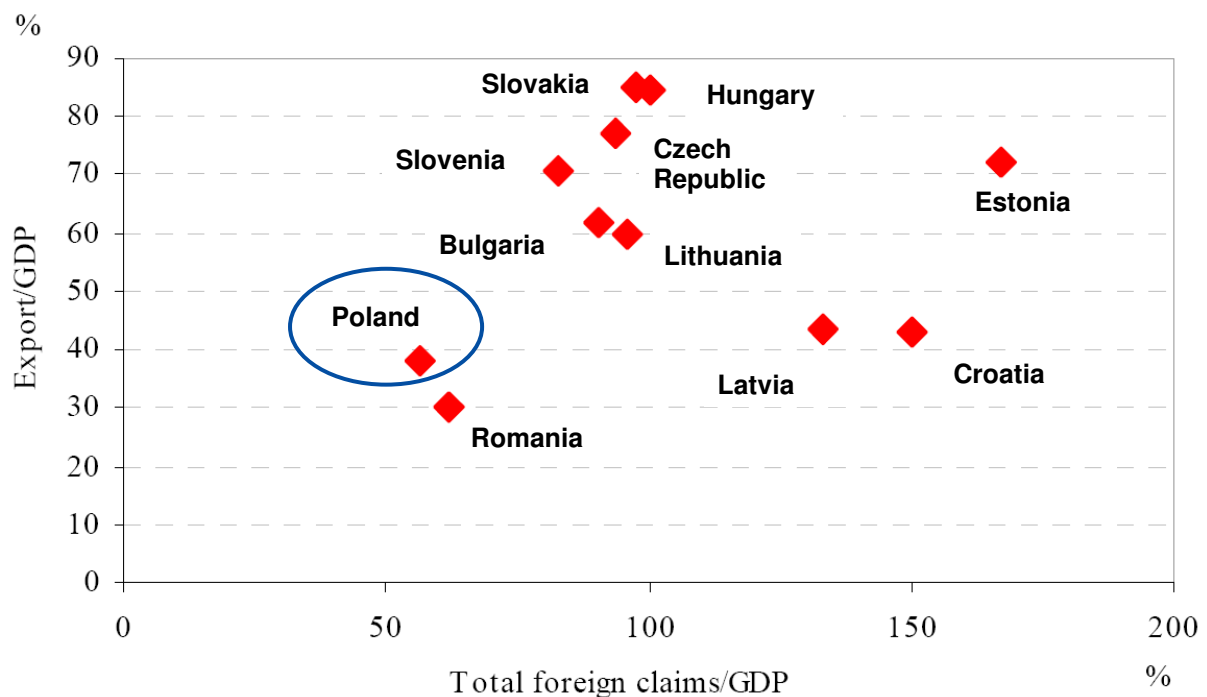
- 4) Integration of Business Angels Network activities in the regional entrepreneurship strategy. In Portugal you have very gut example of such a pro-active approach, which is offered by Gesentrepreneur, a company managed by Francisco Banha – one of the most active and experienced person on the Portuguese venture capital market.

Q8. You present CEE region and Poland in particular as an attractive investment market – why is it so?

Yes – I based this opinion on several factors which can help potential investors (possible Portuguese) made a decision for such an investments in Poland.

The latest Ernst&Young Raport from 2008 about the most attractive localization for the future investments place Poland on the very top among other European countries (more information can be found on the E&Y web site). Also when we compare the dynamics of the GDP in EU in 2008, Poland is among top five countries with its 4,8% GDP (based on the Eurostat data). Also forecast made by European Commission for GDP in % for the 2009 place Poland in the top European Countries. When we co-relate this with attractive labour cost (lower then in Hungary, Slovakia or Czech Republic) and % of the people with higher education we could find some arguments for making a decision for go or not to go to Poland.

In addition to that when we read a World Bank Report on the potential impact of the economic crisis for the countries in the CEE region, we could simply noticed that Poland is forecasted to be less impacted (see below):



On top of that as a CEO of the largest business angel networks in Poland – Lewiatan Business Angels – I noticed (since last Q of 2008) many more attractive project coming to my network and seeking good partners that can help grow these companies or take them on the different level. In many case there are international projects looking for so called ‘smart money’ (money plus something). This something is very often contacts, access to personal network, know-how or some help and advice on how to enter with the product/services for different

markets. This can be an unparalleled chance and an opportunity for foreign investors to make a good investment with very high IRR.

Q9. What is EBAN?

European Business Angel Network (EBAN) is THE EUROPEAN TRADE ASSOCIATION FOR BUSINESS ANGELS, SEED FUNDS, and OTHER EARLY STAGE MARKET PLAYERS. It is an independent and non-profit association representing the interests of business angels networks (BANs), early stage venture capital funds and other entities involved in bridging the equity gap in Europe.

EBAN was established with the collaboration of the European Commission in 1999 by a group of pioneer BANs in Europe and EURADA (the European Association of Development Agencies).

Our main purposes are to:

- Represent the early stage investment market in Europe
- Carry out research on the angel market and produce facts and trends
- Identify and share best practice
- Promote the role and visibility of business angel networks and early stage funds in Europe
- Promote synergies and networking opportunities among actors in the industry
- Support the emergence of professional structures and quality standards across Europe
- Support the internationalisation of the angel and early stage industry and movement

Thank you...