

## conference report 2005

key issues raised at the bbaa conference  
6-7 June 2005, Birmingham

## **promoting intelligent capital**



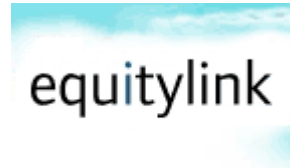
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This report has been compiled by Jenny Tooth, Liz Carrington & Anthony Clarke on behalf of BBAA

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## Chairman's introduction to conference report

British Business Angels Association (BBAA) is now making its mark as the new trade body representing the Business Angel Market. Its presence as a key part of the business angel and private equity industry was highlighted by the success of the BBAA's first conference held in Birmingham on the 6<sup>th</sup> & 7<sup>th</sup> June 2005 which was attended by over 150 delegates.

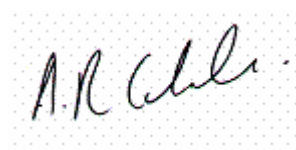
BBAA's key focus is to promote and support the development of business angel networks and related organisations, raise awareness of the importance of this sector as a key source of investment in SME growth within government and the financial market place. As a trade body, BBAA is also keen to promote best practice in relation to angel investment as a way of widening its appeal and has developed a strong code of conduct for its Members which is now being adopted.

The conference was aimed at anyone who had an interest in the Business Angel industry and SME equity finance and was attended by investor groups, individual investors, professional experts, intermediaries and academics. Over 33 speakers from across the UK and Europe shared their knowledge and expertise during this event, enabling all those who attended the opportunity to hear about and discuss a wide range of subjects such as developments in the informal investment market and new emerging models and trends in angel finance. The event also gave the opportunity for the participants to network and interact with a wide range of angel groups, investors, practitioners and experts from across the UK regions.

The following report gives a summary of the main issues which were raised during this first Business Angels Association Conference, including key messages which emerged from the presentations and discussions, We hope to build on these outcomes in planning further actions for the BBAA during the coming year.

We hope that you find the contents of this report interesting and informative and would like to take this opportunity to thank all of those who supported this event, especially our speakers and conference participants and our sponsors. We hope to see you at the BBAA conference next year.

If you have any questions or comments, or would like further information on BBAA, please feel free to contact my colleague Liz Carrington at [Liz@bbaa.org.uk](mailto:Liz@bbaa.org.uk) or on 0207 089 2305.



Anthony R Clarke  
Chairman: British Business Angels Association

## Agenda for BBA conference Monday 6 June 2005

### 13.45 Registration and coffee

### 14.30 Welcome

Norman Price, *Deputy Chairman, Advantage West Midlands*

### 14.40 Chairman's Welcome

Anthony Clarke, *Chairman, British Business Angels Association*

### 14.45 Key note Speech: Importance of the Informal Investor Market in supporting SME growth.

Rory Earley, *SBS*

### 15.15 New Perspectives on the Angel Market

Peter Kelly, *Helsinki University of Technology and London Business School*

### 15.45 Tea break

### 16.10 Panel discussion: Accelerating the Angel Market

Moderator: Mark White, *NESTA*

- Mark Boggett, *London Seed Capital*
- David Grahame, *LINC Scotland*
- Nemone Wynn-Evans, *OFEX*
- Ken Cooper, *SBS*

### 17.10 Panel Discussion: VC and Angels: Addressing the Disconnect

Moderator: Hugh Campbell *GP Bullhound*

- Matthew Mead, *3i*
- Kit Hunter Gordon, *Business Angel & CEO Summit Group*
- Eileen Rutschmann, *Business Angel*
- Carolyn Maddox, *Bridges Community Ventures Fund*

### 18.10 Summing Up

Anthony Clarke

### 18.30 Networking Reception - all delegates

### 19.45 Close

## Agenda for BBA conference Tuesday 7 June 2005

**08.30 Coffee**

**09.00 Welcome**

**09.05 Author of 'A Report on Valuation of Seed Investments in the UK'**

Sigurdur Petursson & Dean Wallis, *NESTA*

**09.20 Panel discussion: Valuation and Deal Mechanism for Early Stage Investments**

Moderator: Paul Gardner, *c2Ventures*

- Andy Hasoon, *Entrepreneur Fifty Lessons Ltd*
- Kevin Caley, *Advantage Early Growth Fund*
- Alexander McPherson, *Katalyst*

**10.05 Panel discussion: The Changing Face of Angel Investment**

Moderator: Martin Carr, *Equity Link*

- Béatrice Jauffrineau, *Femmes Business Angels, France*
- Maria Dramalioti-Taylor, *Business Angel*
- Romin Tehrani, *Business Angel*
- Ute Günter, *BAND, Germany*

**10.50 Coffee break**

**11.10 Panel discussion: Are Super - Angel Syndicates Replacing Business Angel Networks?**

Moderator: Bob Barnsley, **Advantage Business Angels**

- Barry Sealey, *Archangels*
- John Goodger, *GEIF*
- Jon Cox, *OION*
- John Hecht, *Birmingham Investor Group*

**11.50 Panel discussion: Intelligent Investing: The Pitch or the Plan?**

Moderator: Irene Bejenke Walsh, *Message Lab*

- Colin Clarke, *Ecole Supérieure de Commerce de Dijon-Bourgogne, FRANCE*
- Michael Anderson, *Business Angel*
- Kuldip Clair, *Connect Midlands*
- Tracey Graily, *Dragons Den Entrepreneur*

**12.40 Key Messages and Thanks**

Anthony Clarke

**13.00 Conference Close**

## Delegate List for BBA conference 6<sup>th</sup> & 7<sup>th</sup> June 2005

Delegate	Organisation
Matthew Mead	3i
Andy Hasoon	50 Lessons
Bob Barnsley	Advantage Business Angels
David Clark	Advantage Business Angels
Jasbir Bansal	Advantage Business Angels
Mike Bird	Advantage Business Angels
Neil Mackay	Advantage Business Angels
Pat Sutton	Advantage Business Angels
Patricia Geraghty	Advantage Business Angels
Stephen Tyler	Advantage Business Angels
Peter Brown	Advantage Early Growth Fund
Tim Powell	Advantage Early Growth Fund
Mike Watts	Advantage West Midlands
Norman Price	Advantage West Midlands
Patrick Palmer	Advantage West Midlands
Ward Hills	Albion-Innovations
Ben Whitfield	Angel Bourse
Mehrdad Ghodoussi	Angel Bourse
Kevin McNally	Angel News
Lindsay Angus	Angus & Partners
Barry Sealey	Archangels
Michael Blakey	Avonmore Developments Ltd
Simon Blakey	Avonmore Developments Ltd
Mark Bevan	Bache Trenarne
Roland Kirchof	BAND
Ute Gunter	BAND
Colin Hall	Barclays Bank
David Beer	Beer and Partners
Paul Jenkinson	Beer and Partners
John Hecht	Birmingham Investors Group
Joanna Geary	Birmingham Post
Carolyn Maddox	Bridges Community Venture Fund
Anthony Clarke	British Business Angels Association
Jenny Tooth	British Business Angels Association
Liz Carrington	British Business Angels Association
Lucy Fitzgerald	British Business Angels Association
Tom Large	British Business Angels Association
Christopher Price	Business Angel
Eileen Ruschmann	Business Angel
Maria Dramalioi-Taylor	Business Angel
Matthew Hindhaugh	Business Angel
Michael Anderson	Business Angel
Romin Tehrani	Business Angels
Paul Verschuur	Business Angels Capital
Richard Small	Business Angels Capital
Robert Hance	Business Angels Capital
Peter Beech-Allen	Business Link Berkshire and Wiltshire
Paul Gardner	C2 Ventures
Richard Lichfield	C2 Ventures
Ian Palmer	Capital Brokers
Clive Austin	Catapult Venture Managers



Mike Downey	Cavendish Management Resources
Kuldip Clair	Connect Midlands
Richard Jephcott	Connect Midlands
David Lester	Crimson
Andrew Millington	Dains
Duncan Leonard	Dains
Douglas May	Dimer
Kevin Caley	Early Advantage Growth
Tom Yardley	East Midlands Business Angels
Colin Clarke	Ecole Superieure de Commerce de Dijon- Bourgogne
Ian Mudie	Entrust
Bob Taylor	Investors
Nick Taylor	Investors
Oliver Woolley	Investors
Scott Haughton	Investors
Martin Carr	Equity Link
Paul Baker	Equus Capital
Simon Harris	Equus Capital
Andrew Stevenson	E-Synergy
Mike Bowman	E-Synergy
Claire Munch	European Business Angels Network
Beatrice Jauffrineau	Femmes Business Angels
Paul Coleman	Finance South East
Leanna Jones	Finance Wales - Xenos
Ray Hurcombe	Finance Wales - Xenos
Jonathan Guthrie	Financial Times
Gerald Turner	Focus Enterprises
Paul Traynor	Fusion Ventures
John Goodger	GEIF
Gary Waller	GEIF and London Business Angels
Charles Owen	General Capital Venture Finance
Joanthan Hill	General Capital Venture Finance
Mark Edworthy	General Capital Venture Finance
Martin Large	GLE
Hugh Campbell	GP Bullhound
Tracey Graily	Grails
Sigurdur Petursson	Guest Speaker
Desmond Oliver	halo
Annamaria Mignano	HB-corporate
Tim Le Cocq	HB-corporate
Peter Kelly	Helsinki University of Technology
John Benner	Independent Growth Finance
Mark O'Neil	Independent Growth Finance
Alexander Macpherson	Katalyst Ventures LTD.
Anthony Collinson	Katalyst Ventures LTD.
Charles Anderson	Kingston Innovation Centre
Christopher Fogg	Kingston Innovation Centre
Chris Lane	Kingston Smith
Jon Sucliffe	Kingston Smith
Ron Norman	Kingston Smith
Henry Pound	LBA Investor
Douglas Old	Liberty Bloom Limited
Philip Harrington	Liberty Bloom Limited
David Grahame	LINC Scotland
Aisha Ejaz	London Business Angels



Lucy Williams	London Business Angels
Jason Ball	London Seed Capital
Mark Boggett	London Seed Capital
Irene Bejenke Walsh	Message Lab
Annabel O'Conner	MS&L Capital
Claire Maloney	MS&L Capital
Dean Wallis	Nesta
George Whitehead	Nesta
Mark White	Nesta
Ruth Hollis	Northwest Regional Development Agency
Nemone Wynn-Evans	Ofex
Jon Cox	OION
Noel Botha	Orion Innovations
Richard Atkins	Orion Innovations
Damian Sczudlo	Poland Partner Consulting
Jonathan Davies	Real Deals
Janet Ashworth	Royal Bank Of Scotland Group
Ken Cooper	Small Business Service
Rory Earley	Small Business Service
Tony Goulbourn	South Yorkshire Investment Fund
Colin Spiller	Strathdon Investments
John Caines	SWAIN
Philip Tellwright	SWAIN
Brian Whittaker	TEChINVEST
Debbie Garritty	TEChINVEST
John Christian	TEChINVEST
Robert Sheffrin	TEChINVEST
Roy Fraser	TEChINVEST
Vivienne Upcott Gill	TEChINVEST
Emma Vigus	The Share Centre
Kit Hunter Gordon	The Summit Group
Michelle Henery	The Times
Christopher Fitzsimmons	Tower Gate Limited
Eileen Mondral	TVIN
Colin Mason	University Of Strathclyde
Andrew Burton	Viking Fund
Barbara Greaves	Yorkshire Association of Businesses Angels

## **Key issues raised at the bbaa conference**

**6<sup>th</sup> & 7<sup>th</sup> June 2005, Birmingham**

### **Norman Price, Deputy Chairman, Advantage West Midlands:**

Norman Price (NP) opened the conference and welcomed all the delegates to Birmingham and to the West Midlands region. He presented the extensive record of the West Midlands in promoting entrepreneurship and the importance of supporting SME investment.

### **Anthony Clarke, Chairman of British Business Angels Association:**

Anthony Clarke (AC) welcomed everyone to the conference and drew attention to the importance of this event as the inaugural conference of BBAA as the new Trade Association for Angel networks and groups in the Angel Market. He outlined the key aims of the BBAA emphasising its important role in raising awareness about the angel market, supporting greater transparency of investing and promoting a code of conduct to support best practice.

AC then outlined the programme over the next two days and invited the audience to actively participate in the panel debates.

### **Key Note Speech: Rory Earley, Small Business Service, DTI:**

Rory Earley (RE) said that the promotion of enterprise is at the heart of the work of SBS. Over 80% of SMEs have no difficulty in accessing finance, but for the 20% who identify a finance gap; SBS exists to address market failures. Key measures developed by the SBS include : The new SBS Task Force; a new Finance for Investment Advisory Board; Small Firms Loan Guarantee; Regional VC Funds; Early Growth Funds (co-investment) and the new Enterprise Capital Fund, due to be launched during 2005.

RE said that the SBS recognises the important role of Business angels: "Angels go where VC's fear to tread!" However the SBS is concerned about the lack of core data on levels of angel funding and thus there is the danger that the angel market loses visibility in policy terms. SBS is keen to support BBAA to become a source of key data on investment levels and trends.

RE sees the value of BBAA in supporting transformation of the industry- especially opportunities to increase transparency through the provision of increased data on angel activity and through the code of conduct.

*Comment: There is a need for SBS to collaborate with other aspects of public policy, not just treasury, in addressing SME market challenges e.g. issues such as public procurement.*

RE: Alun Michael the new Minister for Small Firms has recognised the importance of improving access to public procurement and is looking at strategies to support public sector reform to enable increased number of SMEs to participate in public contracts.

Key message:

- **SBS recognises the important role of Business angels – Angels go where VC's fear to tread!**
- **The SBS is concerned about the lack of core data on levels of angel funding and thus there is the danger that the angel market loses visibility in policy terms.**
- **The value of BBAA is in supporting transformation of the industry- especially opportunities to increase transparency through the provision of increased data on angel activity and through the code of conduct.**

## New Perspectives on the Angel Market

### Peter Kelly, Helsinki University of Technology

Peter Kelly (PK) drew attention to the fact that an Angel in the USA invests in an SMEs every 10 minutes. With two million Angels –only 20% are active. Mainly investing in early stage companies

In the UK, angel investments rate at an average of only one per hour, whilst there are 50,000 angels at least in the UK, only a small proportion are active.

VCS are not in this space and cannot compete with this level of investment. Angels have a huge resource of experience and personal knowledge that VCs don't have.

Peter Kelly referred to his study of 110 Angels in the UK having done 900 deals between them. He compares the situation in Finland where investors won't take risks and thus there is so much less investment potential in this country compared with UK.

PK saw that the Angel Market is an Iceberg- we only see a small part of it- its highly personal- its important to understand more about the trends in angel investing and to raise awareness about what angel investors bring to entrepreneurs

BANs are vital as gateways – they make the entrepreneurs investor ready and to support angels to do effective deals.

PK has adopted a new term “**Mentor Capitalists**” as a key terminology to reflect the core contribution of angels to SMEs i.e. their leverage of knowledge as well as finance. He feels this major difference with VCs is not always recognised and a great deal of time is spent by business support agencies teaching businesses how to raise VC money, whilst only a smaller number of intermediaries focus on the importance of enabling SMEs to access Angel money- smart money.

*Q: Why is the Angel Market in the US so dynamic- they also have a challenge of transparency?*

PK: Very different scene in the UK – angels are more entrepreneurial – offer a deep pool of talent, creates a dynamic with the entrepreneurial community in the US- critical mass of knowledge is made available to SMEs.

Key messages:

- **The Angel Market is an Iceberg- we only see a small part of it- its highly personal- its important to understand more about the trends in angel investing and to raise awareness about what angel investors bring to entrepreneurs**
- **“Mentor Capitalists” reflects the core contribution of angels to SMEs i.e. their leverage of knowledge as well as finance. This major difference with VCs is not always recognised and a great deal of time is spent by business support agencies teaching businesses how to raise VC money.**

## Panel: Accelerating the Angel market

*Moderator: Mark White (MW), NESTA*

**Ken Cooper (KC), SBS:** reviewed the Early Growth Funds and identified the importance of these co-investment funds in getting more deals done. He particularly recognised the role of these funds in improving syndication. KC said that there was a challenge to get angels to collaborate in deals – “getting investors to work together could be like herding cats!”

EGF funds also offer resources to provide effective fund management and facilitation to improve efficiency of syndication and deal making.

**Enterprise Capital Fund:** KC presented this new funding programme being launched in June/July 2005, having now gained approval under State Aid rules. This offers a new and different approach- to energise additional investment activity, but not directly addressing market failure. It should increase investor appetite for investing in early stage.

The UK Government is sharing the profits, including a mid term profit share with the investors and return of capital- the profit share is a big variable, but will be sharing upside and downside with investors.

He also explained the opportunity for a Specific Angel led model of the ECF which has been made available to enable sophisticated high net worth investors to get involved, but not requiring FSA regulation.

**Mark Boggett (MB), London Seed Fund:** MB presented London Seed as the first of the Early Growth Funds set up in the UK with £4.85 co-investment fund. He identified the importance of facilitating angel syndication, backing and supporting smart money.

MB also presented the new EIS tracker Fund launched by London Business Angels in April 2005. This is a transparent fund investing alongside angel funds and also supporting syndication.

**Nemone Wynn Evans (NWE), OFEX:** Referred to the key role of AIM and OFEX which has had a major overhaul recently. Nemone identified the importance of OFEX in accelerating the angel market, enabling nearly 2.5K businesses to access the public markets.

A key element of their approach is accepting risk, providing an aggregation mechanism, and supporting tax advantages. OFEX also enables Angels to have a business in which they are investing to be independently valued.

NWE concluded by saying that OFEX has a light regulatory touch compared with a VC, but gives a better overall valuation- a challenging rival to the VCs.

**David Grahame (DG), LINC:** Founded 1993 and worked hard to preserve independence- it's easy to achieve the non profit motive!

LINC plays a key role in capacity building for investment readiness but also has importance in building capacity of investors too. Comprised of syndicates about 6-10 active groupings and some less active, LINC encourages the angel dynamic and facilitates investment deals. However a key challenge is often that key SME sectors have a funding gap, but angels are not experienced in this sector and don't invest- thus recognises that an organisation such as LINC has a role to play to support and facilitate angels to address the gaps in the market place.

DG also identified the importance of the Scottish Co-investment fund in supporting investor syndication and deal flow.

Interim outcomes of co-investment fund after two years shows that such funds provide a high leverage in supporting the collective fire power of angels and increasing total level of investment.

*Q: Are there techniques to encourage Angels to be more active:*

MW: Key message: the importance of investor capacity building and to support/ educate angels in the opportunity to work in syndicates.

*Q: Will ECF support Institutional investors as well as angels?*

KC: ECF will support both.

*Q: Will Early Growth Funds be extended – using further EU money*

KC: There would not be another round of Early Growth Funding but SBS had been working with the EU to encourage them to make the new CIP Programme flexible enough to support co-investment funds. ECFs might also fill some of this space.

*Q: How far is ECF competitive with VCTs?*

KC: Distinction between Angel Market and VCTs- since not necessary for angel ECF model to have a fund manager- more hands on role for investors.

NWE: sees enormous role played by VCTs in supplying companies to AIM and OFEX

Key Messages:

- **UK government recognises the value of co-investment funds to support syndication to increase the level of angel activity.**
- **A new opportunity is offered through the ECF to accelerate the angel market- to increase the investor appetite for risk and for investing in early stage SMEs, including a special framework to promote an angel-led ECF model.**
- **Co-investment can show a high leverage in supporting the collective fire power of angels and increasing total levels of investment.**
- **It is important to support actions for investor capacity building as a means to educate angels in the opportunity to work effectively in syndicates.**

## Panel: VC and Angels: Addressing the Disconnect

*Moderator: Hugh Campbell (HC), GP Bullhound*

HC said that the conflict that exists between VCs and Angels is all about power. He felt that key problems were raised by protracted negotiations during due diligence and over share options. He said that for Angels it's like dancing with the devil! - and Angels often don't understand the rules!

Hugh referred to quotes from Angels and VCs about their experiences in working with each other:

"VCs are not about Venture - only Capital!"- I.e. a contrast with the concept of Mentor Capitalist

"Entrepreneurs are not assets- and Angels are the first liability!"

**Mathew Mead (MM) 3i:** Said that he is one of the Devils! Most VCs are regarded by angels as rapacious and only interested in short term rewards – whilst VCs often see angels as a bunch of amateurs!

However, MM said that he saw Angels as a very important part of 3i's deal network.

**Kit Hunter Gordon (KHG), Summit:** Said that he has been on all sides: as entrepreneur, angel and VC.

He found that VCs are always looking for an exit, less concerned with value but a quick exit and IRR. He now prefers to act as a "Mentor Capitalist", taking a key role in the company in which invests. KHG finds working with VCs challenging- tend to value companies differently and require extensive share protection, easy for angels to lose control and can be forced out in second round funding.

He felt that the challenge for Angels is not to be regarded by VCs as a passenger they are waiting to shake off, need to have a large enough share holding to play a key role in the deal.

**Eileen Ruschman (ER), Business Angel:** As an experienced angel investor, she normally takes an active role in companies. ER declared that she finds term sheets with VCs "scary"- and doesn't like being treated as an idiot.

VCs often tend to ignore angels.

For her, one of the key differences is that Angels invest their own hard earned money whilst VCs invest someone else's money!

She asked: "Do we really want to bridge the disconnect? – it's like cheetahs breeding with vultures!"

ER felt that key strategies are needed to support transparency and agree terms at the outset, increase general interaction to improve mutual understanding.

**Carolyn Maddox (CM): Bridges Community Ventures Fund:** Bridges was set up to provide equity to SMEs in poorest communities. 14 investments have been done so far with 12 of these involving angels. It is often a challenge to find enough smart investors and CM recognises the need to build up a wider pool of angels- Angels often bring the deals to Bridges for co-investment.

CM sees co-investment as the best opportunity to make the link between VCs and Angels.

*Q from HC What makes a good angel?*

MM: 3i have done 4 deals with software companies with angels- key role of angels is in experience, contacts in the market, business understanding, but also needs to understand the VC

Kit- a good angel has the ability to follow their money into second round or get pushed out

*Q: Do VCs have any patience? – or are you just buying a specific window and want 30 months rapid turn around*



MM: It's an issue of confidence-VCs tend to specialise - want to make the money work in the market place.

CM: recognises that there is a need for patience since for many of their deals they could wait up to 7-8 years for an exit!

Q: *How do Angels relate to financial returns when VCs are only concerned with IRR.*

ER: Angels are in for the longer term and less concerned with short-term gain- looking for 10x return over time

*Comment: One of the key issues is that there is a lack of visibility among Angels. The key will be to support greater access to knowledge about angel markets for VCs.*

*Comment: Colin Mason: VCs are investing on a portfolio basis. His study revealed that angels made fewer deals where they lost money compared with VCs- but a proportion of deals for angels end up as "living dead". VCs are shown to perform less well overall on deals but have successful home runs.*

*Comment: Angels and VCs tend to invest on very different terms and supported with different tax regimes, e.g. EIS and Early growth funds etc- isn't there a lack of economic parity.*

Q: *Entrepreneurs often like having angel investors on board and want to retain them in subsequent rounds but VCs often don't want this.*

HC pointed out that every 20 minutes an entrepreneur fails-therefore the real value of angels is making smart money (mentor capitalist) to be available to SMEs

### **Key messages**

- **The conflict that exists between VCs and Angels is often about power**
- **There are important issues to be addressed in the investment process - investment criteria; due diligence; valuation**
- **If the disconnect is overcome the main gain is for the entrepreneur!**
- **Effective strategies are needed to support transparency and agree terms at the outset, increase general interaction to improve mutual understanding.**
- **There is a need to address the lack of visibility among Angels - the key will be to support greater access to knowledge about angel markets for VCs.**

## Valuation of Seed Investments

### **Sigurdur Petursson, Dean Wallis, NESTA**

Dean Wallis (DW) explained the background to the research and how this had provided an opportunity for NESTA to understand the processes to provide greater transparency in the market place.

Sigurdur Petursson (SP) presented the research and showed that investors used both formal and informal methods. A wide range of variables were found to be used by Angels to calculate exit prospects or rate of return. Key variables included revenues, credibility of management and attractiveness of the market.

DW explained that there was a need to build on this research to look at key drivers and the interconnections between variables. For example, it would be important to assess the implications that valuation can be seen to be 50% higher if the company has 12 months positive trading revenue, or that valuation is 50% higher for each person in the management team. There is a need to further understand the implications for angel investors who invest in pre-revenue companies, for example should they invest specifically where they can they influence sales and markets?

*Q: How far was any of these methods more significant than others- was the amount invested to date significant*

DW: There is a need to track trends further for example through Venture Index

#### **Key messages:**

- **Can we make a science out of valuation- are formal methods better than informal methods?**
- **Do better valuation methods improve effectiveness of investment choices or identify where impacts can be made by “smart money”?**
- **There is a need for more data collection to increase the evidence base on angel and investing trends e.g. levels, valuations etc. This will provide more opportunities to identify more effective practices for investing and raise awareness about gaps or market failures to government etc**

## Panel: Valuation and Deal Mechanisms for Early Stage Businesses

*Moderator: Paul Gardner (PG) C2 Ventures:*

PG said that valuation is an art not a science. For intermediaries/brokers in the market place working with both entrepreneurs and investors, deals are becoming more complex with a range of financial sources involved.

A variety of methods and variables may be applied as shown by PG in his presentation. He concluded by stating that valuation may be seen to reflect what the market will pay!

**Andy Hassoon (AH), Entrepreneur: 50 Lessons Ltd.** AH's main business activity has been to help entrepreneurs to find investment. He identified the opportunity to use the technique of filming leaders and chief executives of key corporates to get them to provide lessons from their own experience and create training products around this. He has found that the key aspect that investors are backing is the management team.

He has identified a key market through education products which is significant in terms of public sector and SMEs. His challenge has been how to reach the markets and persuade investors to back his business and identify the potential of his products when valuing his business.

He has found that key aspects to consider are whether the business can be scaled internationally- the more you sell the less capital is needed. He recommends to entrepreneurs to focus on sales in order to attract investment.

**Kevin Caley (KC), Advantage Business Growth Fund-** one of the seven co-investment funds set up in the UK, KC explained that the fund has made 18 investments in 18 months and as co-investment fund sometimes they lead and sometimes follow.

As a fund manager he does not believe in pseudo-scientific methods, but sees the valuation of a business based on what the products and the business can be sold for. It was important to get the deal structure right and not to get hung up on the entrepreneurs' own projections.

KC felt that there is now a lot more competition to structure good deals. It is important to realise that there are now a lot more sources of risk capital and finance for entrepreneurs to choose from and there is a lack of good entrepreneurs coming forward for angel finance!

**Alexander Macpherson (AM), Katalyst:** AM explained that Katalyst acts for the investors and takes a lead on investments, often alongside other VCs.

A key challenge for most investors is how to protect the downside. An important variable when valuing the business is the actual achievement to date of the entrepreneur. Future value is discounted.

AM presented strategies for risk reduction in structuring the deal and how deal structure can help. An important challenge is what can be done to influence the success of the business going forward successfully? How to align the upside rewards of the entrepreneur and the requirements of the investor. If Angels are not prepared to follow money when a VC appears they will get washed out- again you can only value what an investor will pay.

*Comment: Many experienced angel investors rely on gut feeling – often look at cash flow rather than profitability*

*Comment: Angels also invest in the person*

*Comment: Angels often pay too much in the first round? - often it's the follow-on money that creates the problem!*

*Comment: Ratchets can also be seen to destroy the relationship with the entrepreneur*

**Key message s:**

- **Valuation may be seen in the end to reflect what the market will pay!**
- **Valuation is an ongoing challenge for the Angel Market and it would be important for the BBAA to support further collection of data on strategies and best practice on valuation to support effective deal making.**

## Panel: Changing Face of Angel Investing

*Moderator: Martin Carr (MC):*

MC asked if there is a new breed of angels emerging? And what is their profile? Does this offer BANs and entrepreneurs added value in the market place? How can BANs support these developments?

**Ute Günther (UG), BAND Germany-** UG explained that in 1998 BAND identified key steps in building up the credibility of the market place and the investment base in Germany. They decided to use training and capacity building to strengthen the network and support recruitment- building up the infrastructure and raise awareness of the value of investing...

Overall UG felt that there were not many women angels in BAND- However this is less of a concern than professionalizing and strengthening the network- how to build capacity, and support syndication. UG sees the importance of attracting a diverse pool of investors, young and old, but not a key focus on individual women's networks to attract women investors.

**Maria Dramaloti-Taylor (MDT), Business Angel:** MDT compared herself with the standard profile of the male investor aged between 45-65 investing 5% of his money, whilst she is 30+ a technocrat, investing up to 80% of her money! MDT identified her interest and background as an entrepreneur and engineer and her own strategy to seek low valuations and take on high risk with a high level of hands-on strategy.

Sex and Investment! MDT recognises that investing is gender blind and that there should be a mix in angel syndicates to draw on different strengths, not just networks for women or men. However she questions whether the current infrastructure of BANs can support this new emerging breed of younger investors.

**Beatrice Jauffrineau (BJ), Femmes Business Angels France:** BJ explained that their Network has been set up to raise the profile of women investors. Women had not identified with the main profile of male Angel investors and wished to interact and share experience. The Network also exists to educate women.

A considerable number of women in France are ready to transfer their experience to entrepreneurs. Women investors are also attracting women entrepreneurs with more now coming forward to present to the network.

BJ sees the real value in such a women's' network as being a means to reach target and recruit key professionals and MBA students and provide a basis for interaction and sharing experience and knowledge, but she does not see the network as exclusive.

**Romin Tehrani (RT), Business Angel:** As a new business angel, RT does not feel odd within Angel networks and not sure that there will be a massive wave of younger investors. He feels it could be challenge to attract a larger number of younger investors - how do you lower the barriers?

However he feels that there is a value in attracting younger professionals and entrepreneurs who are interested in being knowledge angels as a precursor to direct investing.

*Q: Why are there so few women angels considering there are a large number of high net worth women in the UK?*

*Comment: You can't assume that having money leads to a capacity for angel investing- need knowledge and professional skills and to identify with the concept.*

BJ: It is a question of culture, women are still not encouraged to get involved in these aspects- potential more risk averse.

*Comment: There could be added value in operating female entrepreneurs clubs as a source of women investors- potentially the next generation of women will come forward more readily.*

**Key message:**

- **Women/younger investors need to be made aware of the opportunity - but no need for specific separate Networks or groups**
- **Opportunities to support sharing of experience and interaction between women investors can be useful.**
- **Investing should be gender blind. Mixed syndication is seen as more valuable than all women investor groupings**

## Panel: Are Super-Angel Syndicates replacing Business Angel Networks?

*Bob Barnsley (BB), Moderator:*

**Barry Sealy (BS), Archangels** BS feels that the difference between angel networks and angel syndicate groupings is getting quite blurred. He has found that you need to be a good entrepreneur to be a good angel. Above all, angel investing is about providing knowledge, not just money. Archangels have about 80 individual angels, all high net worth.

BS said that the role of super syndicates such as Archangels is to provide an informed investment pool, drawing on an extensive pool of collective knowledge to the entrepreneur.

Deals are filtered by a gatekeeper and circulated to members and they have never failed to fulfil the investment required! Last year over £8.6M was invested by the Archangels with 25 investments to 19 companies, with £4.7m follow-on. Outcomes for the Archangels have resulted in 53 investments totalling £34.7M.

BS felt that the importance of this “super syndicate model” model is that it gives easy access to a wide range of investors with modest means. Investors can choose whether to invest but Archangel can also negotiate and lead deals, also doing due diligence and handling documentation and flow of information. But they do not seek to make a profit on the process.

**John Goodger (JG), GEIF:** GEIF founded in 1995 is a member angel network and part of the NW Brown Group. Now have 150 members and have established relationships with syndicates. Their general approach is very similar. GEIF Ventures has made 17 investments in 11 companies over the last 2.5 years.

He felt that the positive benefits of syndicates were in bringing more available funds to get deals done and a wide knowledge base for the entrepreneur as well as improved deal flow and supporting due diligence. However he felt that there some risks in causing confusion in the market place in relation to contacts and a conflict of interest between solo angel investments, syndicates and co-investment funds. JG did not feel that super syndicates would replace angels but offer an effective complement.

**Jon Cox (JC) OION:** JC gave an overview of Oxfordshire Investment Opportunity network, set up in 1994 with a current group of 140 businesses and institutional members and links with other private funds. They have a strong technology focus, mainly Oxford based. They also have sister networks: Thames Valley Investment Network and also Oxford Early Investment which is a new proof of concept fund and Solent Investment Opportunity Network.

Overall they have invested in nearly 90 technology-based businesses, raising over £19.5 M since 2000 with 30% of businesses presenting to OION securing funding. Members form both formal and informal syndicates and this is seen to improve deal volume, whilst entrepreneurs access a wide range of knowledge. JC concluded that it works best when supported or facilitated and thinks there could be lack of clarity among some syndicates which results in taking a long time to reach decisions and this can slow the deal process.

**John Hecht (JH), Birmingham Investor Group:** JH explained that they had found the process of investing very frustrating and Advantage Business Angels had encouraged them to form a syndicate. They operate as a club, meeting 6 times per year. They identify leads and encourage investors to work together.

JH recommends this approach as a means to get deals done and feels there is a need to support and structure the syndicates.

*Q: How much power does the Gatekeeper have or the Board in a syndicate and how has this process evolved?*

BS: This has changed over the years. The Gatekeeper consults with the Board members and if the decision to invest is not unanimous they don't go ahead.

*Q: Is syndication bringing new people or repositioning existing members?*



JH: Syndicates are useful to bring in new investors they can learn from each other and gain experience.

*Q: How do larger syndicates operate with individual companies?*

BS Nearly always appoint a non exec director to the board and ensure a lead syndicate member is involved in the company. It is important to ensure that the syndicate is not just focusing on the investment.

**Key Messages:**

- **The role of super syndicates such as Archangels is to provide an informed investment pool, drawing on an extensive pool of collective knowledge to the entrepreneur.**
- **The positive benefits of syndicates are in bringing more available funds to get deals done and a wide knowledge base for the entrepreneur as well as improved deal flow and supporting due diligence**
- **Super syndicates are more likely to complement than supersede BANs**

## Panel: Intelligent Investing- The Pitch or the Plan?

*Moderator, Irene Bejenke Walsh (IBW)*

A Video Clip from Dragon's Den was presented showing Tracey Grailly's pitch to the Dragon Den Investors.

**Tracey Grailly (TG) Dragon's Den Entrepreneur:** TG said that as an entrepreneur she did not know where to go to get money. When she had presented in front of the Dragon's den, it had been a daunting process and she was in fact grilled by the "Dragons" for one hour 40 minutes and was given very little help by the TV Programme producers about how to present herself to the investors.

Her key selling points to the Dragons were that she has a 90% conversion rate with new customers and could show that she was able to sell and market her products. She felt that her pitch had shown she had done her research and that there was a genuine business to invest in, but she was desperate enough to consider selling 40% of her business when she went before the Dragons Den.

TG recognised that there are thousands of businesses looking for funding as shown by the numbers who applied to the Dragons Den Programme. She felt that Angel finance is not widely known about by entrepreneurs. As a result of the programme, 8 were potentially selected by the "Dragons", but only 4 were invested in after due diligence.

TG had learned a lot from her experience. She had realised that how you present yourself as an entrepreneur has a direct influence on the investors. She has recognised that lasting judgements are made in the first 30 seconds of the investor pitch, but also felt that her capacity to really know her business and having done the research was important in enabling her to interact with the investors during the due diligence process and was vital in achieving successful investment.

The two "Dragons" who invested in her business, Doug Richards and Rachel Elnaugh, have proved to be excellent mentors and non execs, giving her their time and expertise, so she was able to identify the benefits of Business Angels as investors.

**Michael Anderson (MA), Business Angel:** MA introduced himself as a serial angel investor, having spent 15 years successfully investing in SMEs. He said that he had learned that the key aspects to focus on are the people, the product and the plan. He was concerned that the entrepreneur and the team could demonstrate their capability, that the business plan was sound and that the product or service was scaleable.

MA said that there were three aspects about the pitch which are relevant:

- The ability of the entrepreneur to sell themselves – and therefore their product
- The capacity of the entrepreneur to convey a sense of passion and vision
- The entrepreneur's capacity to understand the investors' needs.

MA also presented a series of cartoons to show what kind of entrepreneurs were unlikely to gain investment.

MA was particularly concerned that the pitch does not "shoe-horn" entrepreneurs into templated presentations which may be misleading or even hide the true potential of an individual company.

**Kuldip Clair (KC), Connect Midlands:** KC gave the background of Connect Midlands as part of a wider network set up in 1986 at University of California, San Diego. The focus of Connect is to nurture entrepreneurs and support investment readiness and to link entrepreneurs with the resources they need for growth. They directly prepare companies for the pitch to investors through training, mentoring, workshops, boot camps and coaching. They also support networking events to enable entrepreneurs to decide if they are ready or not for investment and enable investment ready entrepreneurs to present to investors.

Connect Midlands believes that the pitch and the plan are closely related and that training is needed to enable entrepreneurs to effectively articulate and deliver their plan to investors.

**Colin Clarke (CC): Ecole Supérieure de Commerce de Dijon-Bourgogne, FRANCE.** CC has been researching the influence on investor behaviour of the investor pitch. Previously little research has been done on presentational factors related to angel behaviour. Working with London Business Angels, he has analysed the entrepreneurs' pitch before and after pitch training pitch, also presented a questionnaire to investors to respond in a detailed way to key aspects of the pitch and their reactions. His conclusions showed that Business Angels do not want to admit the extent of the influence of the pitch on their decision making.

The analysis of the investor questionnaires showed a considerable consensus on what makes a good presentation. However Angels do not readily admit that presentational factors are the key element in their investment decisions. Whilst in the US they do admit the influence of a skilful presentation as a rationale for investing.

*Q: What is the balance between the people and the plan?*

MA: The challenge is the disconnect between the entrepreneurs' requirements and their understanding of the investment process and the investors' requirements- it is vital for BANs to bring this understanding to both the supply and the demand side.

*Comment: BANs and investors groups can see thousands of business plans each year and have to make a judgement on the plan, but they look for evidence of the capacity of the management team – a business must show itself to have potential first before getting as far as the pitch.*

MA and KC: There is a strong sense of instinct in the whole process- experienced investors use gut reactions about the person.

Key messages:

- **The pitch should not force entrepreneurs to follow templated presentations which may not suit their business model and which may be misleading or even hide the true potential of an individual company.**
- **The key challenge is the disconnect between the entrepreneurs' requirements and their understanding of the investment process and the investors' requirements**
- **It is vital for BANs to bring this understanding to both the supply and the demand side. BANs must develop the capacity of the entrepreneur to effectively present their proposition and develop the capacity of the investors to have effective decision making strategies.**

**CONFERENCE CLOSED 1.00PM 7<sup>TH</sup> JUNE 2005**



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