



Business Angel Spotlight

Research by IFF Research and RAND for British Business Bank together with UK Business Angels Association

November 2017

Introduction

Background and objectives

Supporting start-up and high-growth companies is a key objective of the UK government.

Business Angel investors (BAs) have been increasingly recognised as an important source of equity capital at the seed and early stage.

But there has been a lack of data about the angels and their activities.

Key questions to be addressed by this research include:

- 1 *What is the profile of Business Angels?*
- 2 *What level of experience do Business Angels have?*
- 3 *What types of investments have Business Angels made in the 2016/17 tax year?*
- 4 *Performance of Business Angel investments*

Methodology

1

Online Survey



Email invitation to complete short online survey distributed to over 70 BA networks, June to October 2017.



Screening questions used defined a Business Angel as having made an Angel investment in the last three tax years.



Questionnaire covered number of investments made, use of SEIS/EIS, value of investments, demographics.



A total of 658 Business Angels completed the online survey.

2

Telephone Survey



Online survey respondents were invited to opt-in to taking part in an in-depth telephone interview. August to October 2017.



Questionnaire covered the performance of their portfolio, factors influencing investment decisions, recent exits, and challenges and support opportunities for Angels.



Interviews were conducted by IFF's telephone interviewers and lasted approximately 15 minutes.



A total of 159 completed the telephone survey.

The results contained within this presentation are based on the experiences and opinions of the Angels that took part in the research. They not necessarily representative of the Business Angel population as a whole.

Profile of Business Angels

Demographics of Business Angels

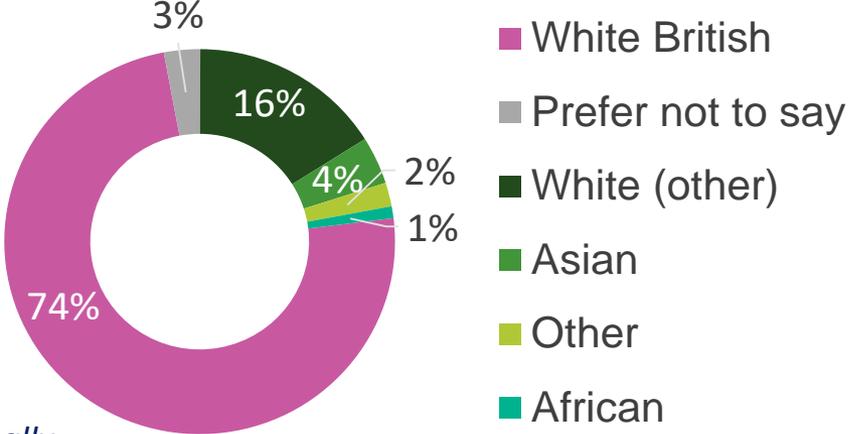
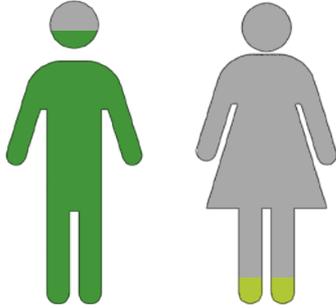
Angels responding to this survey predominantly male with a concentration in London and the South East.

90%

Male

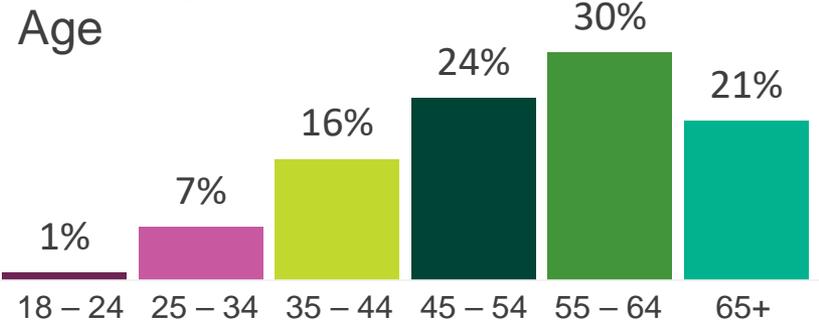
9%

Female



Higher share of male investors than Nation of Angels, however another 2017 survey, specifically of female angels, may have reduced response rate

Age



Region where Business Angels live

35% London
22% South East

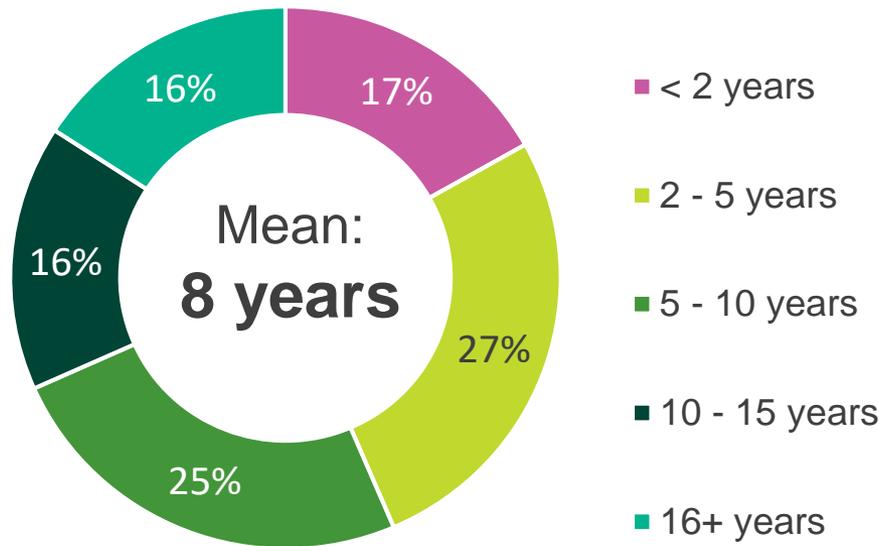


Source: B1_online, single: Please indicate your age Base: All respondents (658); B3_online, single: What is your ethnic group? Base: All respondents (658); B1_online, single: Please indicate your age Base: All respondents (658); B4_online, single: Where do you live? Base: All respondents (658)

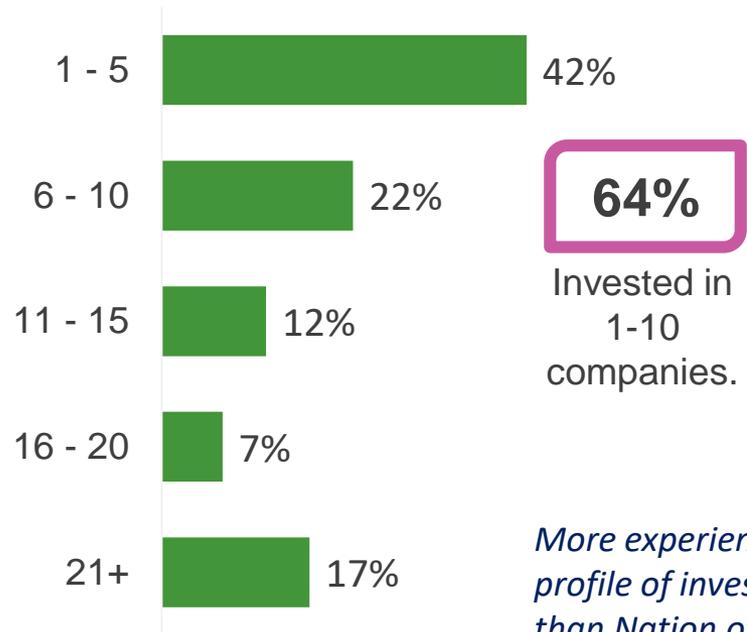
Experience and scale of investment history

The majority of Angels have a relatively modest number of investments but some have a much larger portfolio.

Years of investing experience



Total number of investments



19% Mean proportion of angels' investable assets allocated to business angel investments

More experienced profile of investors than Nation of Angels, in both years and number of investments

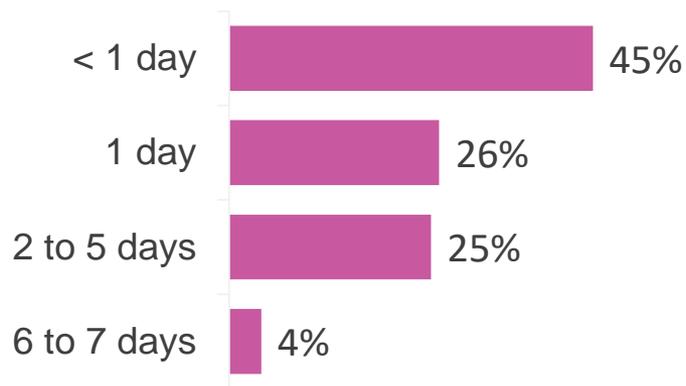


Source: A1A_tel, single. How long have you been investing as a Business Angel? Base: All respondents (159); A1_online, single. How many companies have you made an equity investment in, in total, since you began investing as a business angel? Base: All respondents (658); A2_tel, single. Approximately what percentage of your investable assets do you allocate to business angel investment? Base: All respondents (159)

Level of involvement with investment businesses

The average Angel devotes a substantial amount of time per week to their investment activities.

Time spent on angel activities per week



Mean number of days spent per week

Mean time spent increases with:



Total value of 2016 investments



Total number of investments held



Age of angel

Source: B6_tel, single: How much time do you spend per week on angel investing activities? Base: All respondents (159); B3_tel, single: Do you normally take an active role in the due-diligence and decision-making process when considering a new investment deal? Base: All respondents (159).

Level of involvement with investment businesses

Level of involvement depends on the investment - majority of Angels hold active roles in at least one investment, but many also hold passive roles.

Angels take diverse roles in supporting businesses...



... and share a range of experience with businesses that they invest in

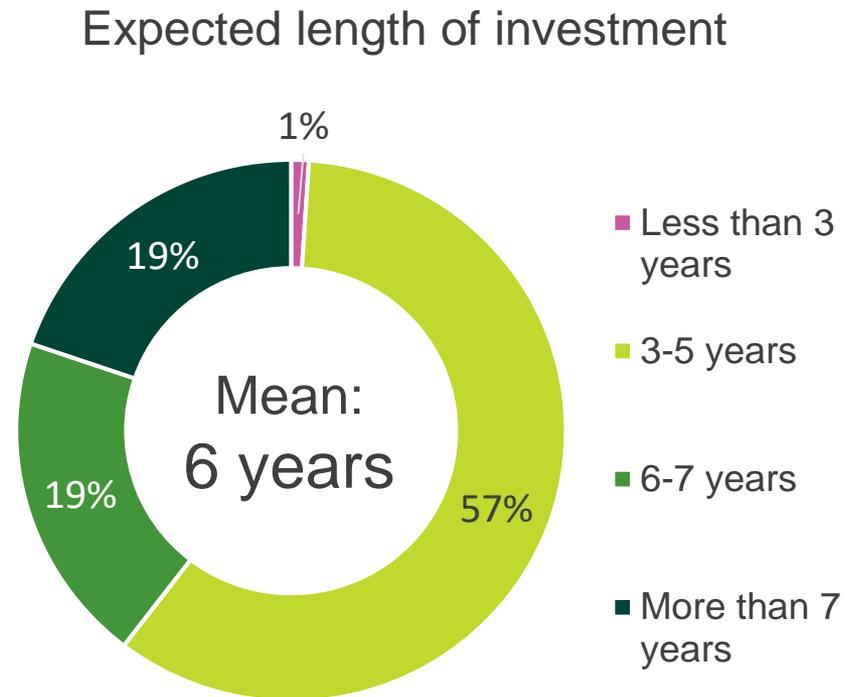
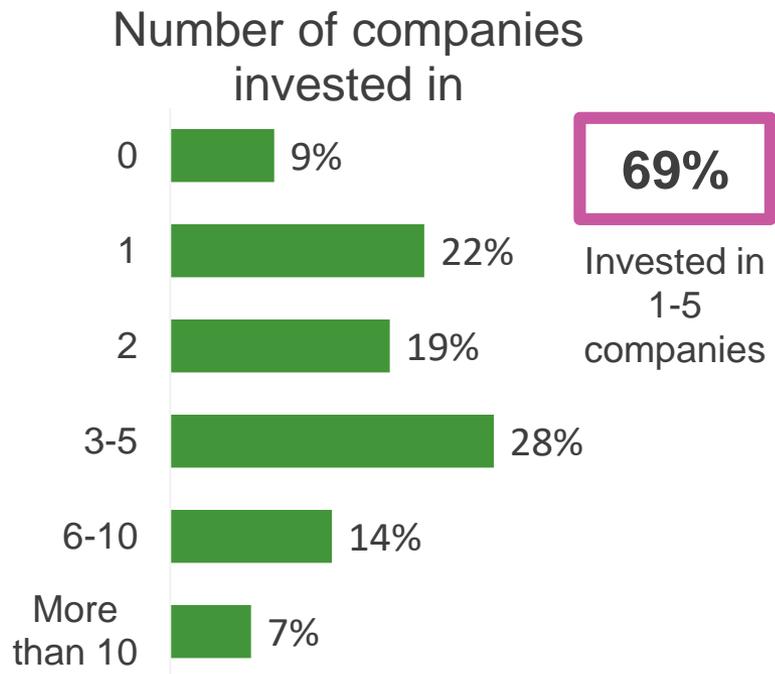


Source: B4_tel, multi: And once the investment has been made, what role (or roles) do you usually take in supporting the business? Base: All respondents (159); B5_tel, multi: What type of experience do you share with the businesses that you invest in? Base: All respondents (159) *Responses <10% not shown.

Investment activity in 2016 tax year

Number of investments in 2016 tax year

Most Angels invested in 5 companies or fewer and expected to hold their investment for 3-5 years.



Higher investment activity compared to Nation of Angels

EIS/SEIS require an investment to be held for at least 3 years to qualify

Source: A2_online, single: How many companies have you made an equity investment in during the tax year 6th April 2016 – 5th April 2017? Base: All (658); B7_tel, single: When you initially make an angel investment, how long, approximately, do you generally expect to hold it for? Base: All (159).

Sectors invested in by Business Angels

Most Angels invest in multiple business sectors.

Healthcare and Digital Health	27%	Fashion and Design	9%
Bio Tech and Pharmaceuticals	26%	Security and Cyber Security	8%
Financial Technology ('fintech')	25%	Advertising and Publishing	8%
Software as a Service	24%	FMCG	7%
E-commerce	22%	Film, Theatre and Entertainment	6%
Digital Media and Content	21%	Aerospace, Defence and Space Tech	5%
Energy, Environment and Clean Tech	20%	Property and Construction	5%
Manufacturing and Engineering technologies	18%	Transport and Logistics	5%
Electronics and Hardware	16%	Gaming	3%
Leisure, Hospitality and Tourism	11%		
Education Technology	11%		
Mobile and Telecoms	11%		
Financial and Professional Services	11%		



81% invested in any ICT / Digital tech sector

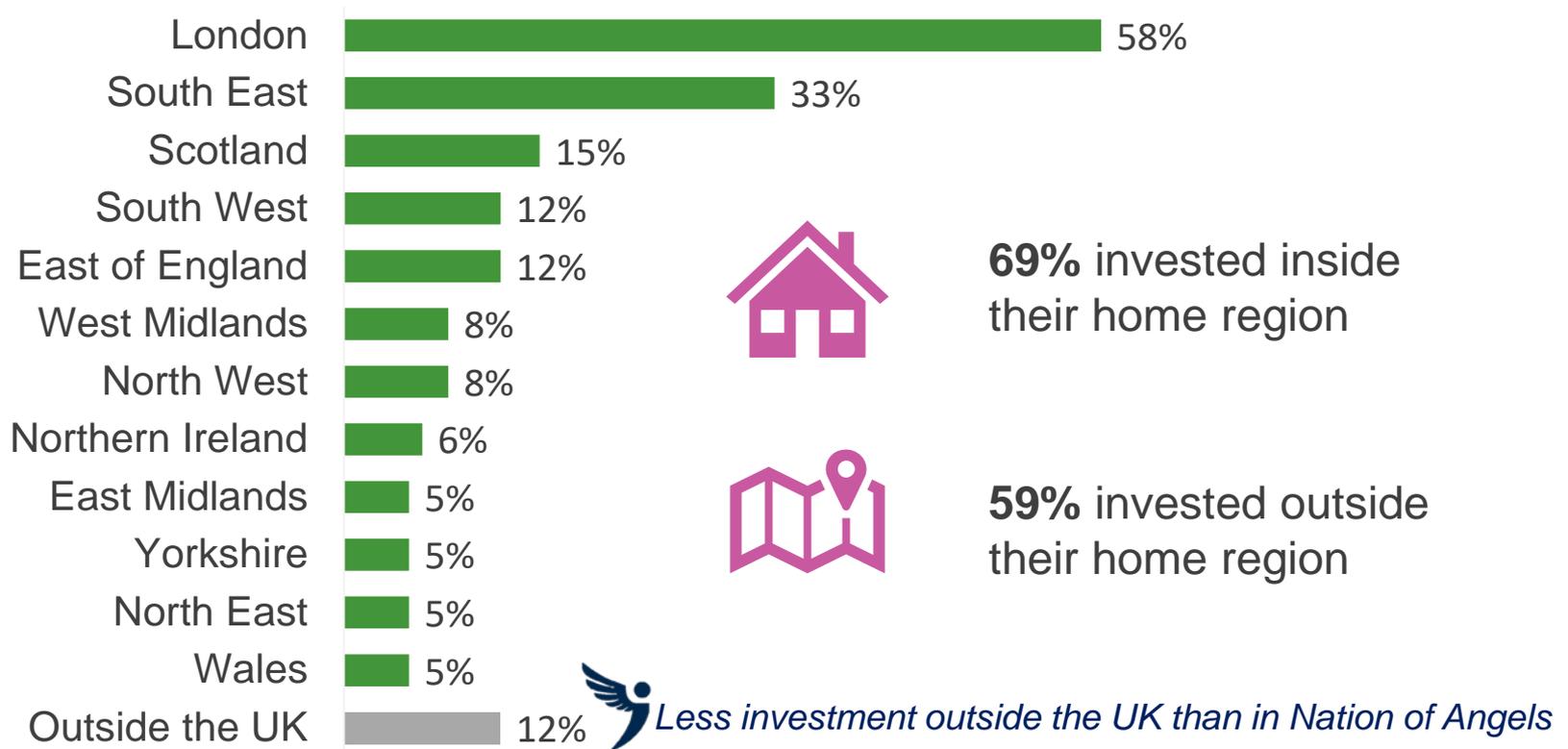


72% invested in any non-ICT / Digital tech sector

A12_online, multi: In which sectors were these companies operating? Codes with less than 10% not shown. Base: All who made investments in 2016 (586).

Locations invested in by Business Angels

The most common areas of investment are London and the South East.



Source: A11_online, multi: Where were the companies you invested in based? Base: All who made investments in 2016 (586).

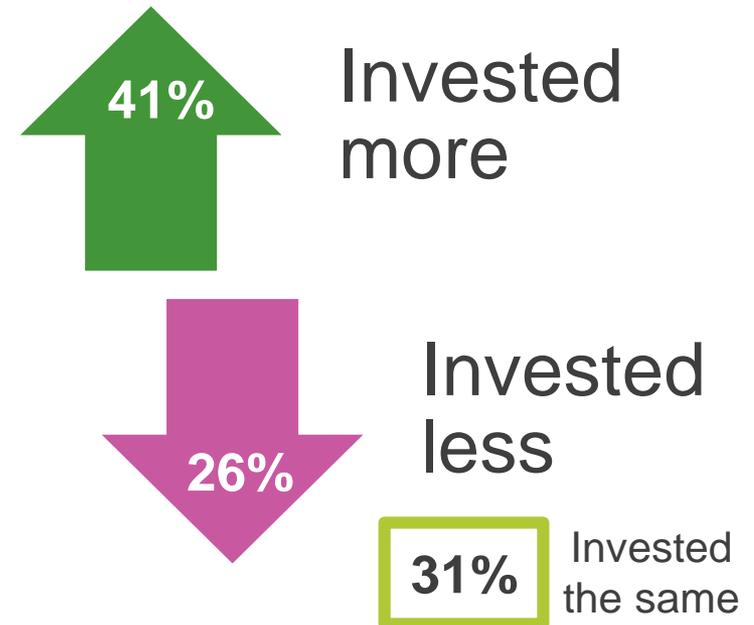
Value of investments made in 2016

Half of Angels invested less than £50,000 in 2016. The highest value investments reported (by 1%) were over £1,000,000.

Value of investments 2016

	Mean	Median
Initial investment	£75,511	£25,000
Follow-on investment	£40,457	£7,500
Total value	£114,886	£45,000

Volume (in £) of 2016 investments compared to previous year

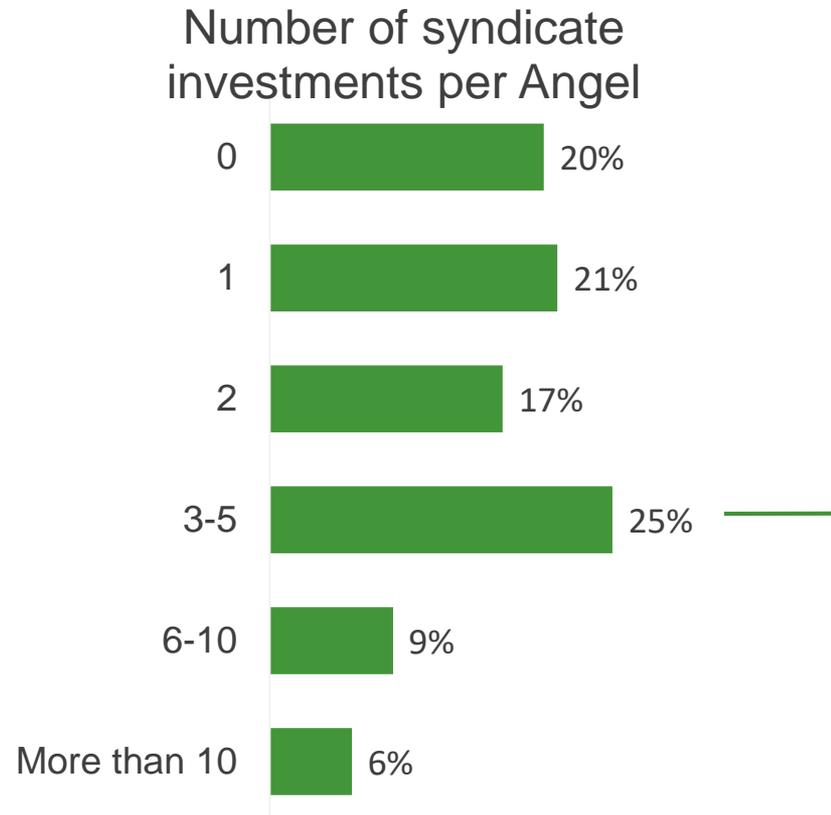


Source: A7_1/2_online, single: What was the total approximate value of the angel investments you made as initial/follow-on investments? Base: All who made investments in 2016 (586); A8_online, single: How does the volume (in £) of your angel investments in the 2016-17 tax year compare to the previous tax year? Base: All who made investment in 2016 (586).

How did Angels invest in 2016?

Investment through syndicates

Around four fifths of Business Angels invested through a syndicate in 2016.



Of those who invested as part of a syndicate

31%

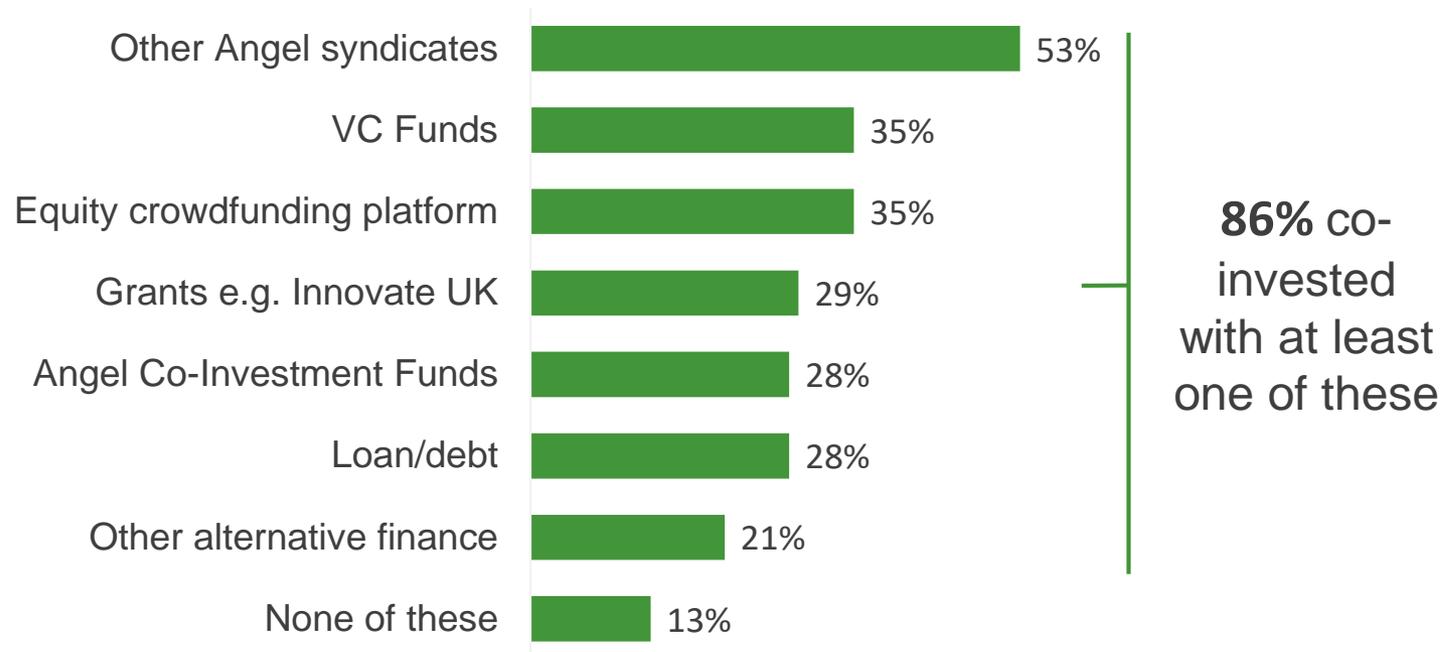
were lead investors for 1 or more investments

78% of Business Angels have invested through a syndicate

Source: A5_online, single: How many of the companies that you have invested in were made as part of a syndicate? Base: All who made investments in 2016 (586); A6_online, single: For how many were you the lead investor? Base: All who invested via a syndicate (464).

Co-finance providers

A high proportion of Business Angels co-invested with finance providers in 2016.



In addition to Business Angel activity...

36%

invested through an equity crowdfunding platform.

A3_tel, multi: Which, if any, of the following finance providers have you co-invested with in the tax year ended 5th April 2017? Base: All (159); A4_tel, single: In addition to any business angel activity, how many companies have you invested in through an equity crowdfunding platform during the tax year 6th April 2016 –5th April 2017? Base: All (159).

Role of EIS/SEIS in 2016 investments

High proportions of angels used at least one of EIS/SEIS for an investment in 2016; particularly for higher value investments.

Number of 2016 scheme investments per Angel:



83% of Angels used EIS



Mean: 3.4
Median: 2



42% of Angels used SEIS



Mean: 1
Median: 0



87% of Angels who invested in 2016 used EIS or SEIS

Total number of 2016 investments per Angel:
Mean: 4.4
Median: 3



Comparable to Nation of Angels (slightly under 90%)

Source: A3_1_online, single: For how many investments did you use the EIS Scheme? Base: All who made an equity investment in 2016 tax year (586); A3_2_online, single: For how many investments did you use the SEIS Scheme? Base: All who made an equity investment in 2016 tax year (586); A2_online, single: How many companies have you made an equity investment in during the tax year 6th April 2016 – 5th April 2017? Base: All who made an equity investment in 2016 tax year (586).

Attitudes towards EIS and SEIS

EIS/SEIS encourage angels to invest more in small businesses, invest earlier and invest in higher risk proposals.

Where 1 is strongly disagree and 5 is strongly agree...

As a result of EIS/SEIS, I invest more overall each year in small businesses than I would otherwise



Agree:

86%

"[EIS and SEIS] are brilliant schemes, without them there would be less angel activity"

As a result of EIS/SEIS, I invested in an earlier-stage business than I otherwise would have



81%

As a result of EIS/SEIS, I invested in a riskier business than I otherwise would have



78%

■ Don't know ■ 1 - Strongly disagree ■ 2 ■ 3 ■ 4 ■ 5 - Strongly agree

Source: A4_online, single: How would you rate each of the following statements Base: All who used EIS or SEIS in 2016 tax year (509); D2_tel, multi: What do you feel should be done to support the role of business angel investors here in the UK and potentially encourage more individuals to become angels? Base: All respondents (159)

Attitudes towards EIS and SEIS

Eligibility for EIS/SEIS is influential on the decision to invest for many angels, although the impact on duration of investment is less clear.

Where 1 is strongly disagree and 5 is strongly agree...

I decided not to invest in a business because it wasn't eligible for SEIS/EIS



Agree:
53%

"I think that the EIS is limited to 7 year old businesses - that is a mistake; it should be available to older companies."

As a result of EIS/SEIS, I held my investment for longer than I otherwise would have



41%

■ Don't know ■ 1 - Strongly disagree ■ 2 ■ 3 ■ 4 ■ 5 - Strongly agree

Source: A4_online, single: How would you rate each of the following statements Base: All who used EIS or SEIS in 2016 tax year (509); D2_tel, multi: What do you feel should be done to support the role of business angel investors here in the UK and potentially encourage more individuals to become angels? Base: All respondents (159)

Factors influencing investment decisions

Factors that may influence investment

The skills and experience of the entrepreneurial team is the most important factor for Business Angels.

The entrepreneurial team has the relevant skills/experience



Important:

92%

■ Not at all important ■ Not very important ■ Fairly important ■ Very important

When asked about other factors that have a very important influence on the decision to invest, **20% mentioned the character or their connections with the entrepreneurs.**

"It's not just the skills and experience needed, its the attitude and energy that the management bring, they need still to be hungry. It's important to meet the management, you've got to feel and get a sense that they are trustworthy and that you are going into business with them."

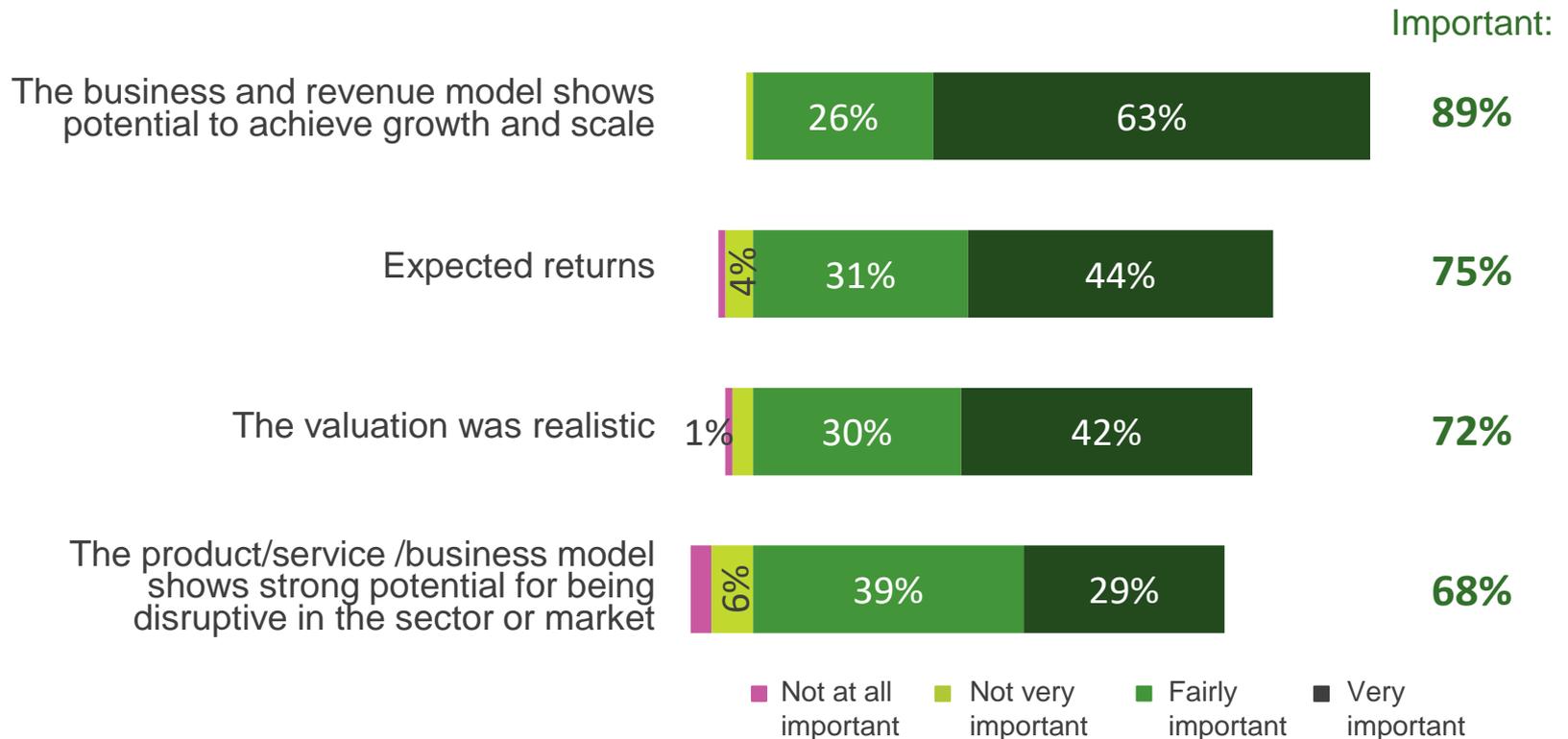
"For me its the people, a whole mix of skills, passion and drive, [they] need to have passion for the purpose of the organisation and meeting customer need"

"The management is absolutely key, they need to have a clear vision, good balance of team, good track record, to be impressive, they've got to have the x factor, they have it or not, I can't put it in words."

Source: B1_tel, single: Thinking about the factors that influence your decision to invest in a business, how do you rate the importance of the following factors in influencing your decision? Base: All respondents (159). Midpoints not shown. D2_tel, multi: What other factors that you consider to have a very important influence on your decision to invest in a business? Base: All respondents (159).

Factors that may influence investment

Potential for growth was also one of the most important factors.



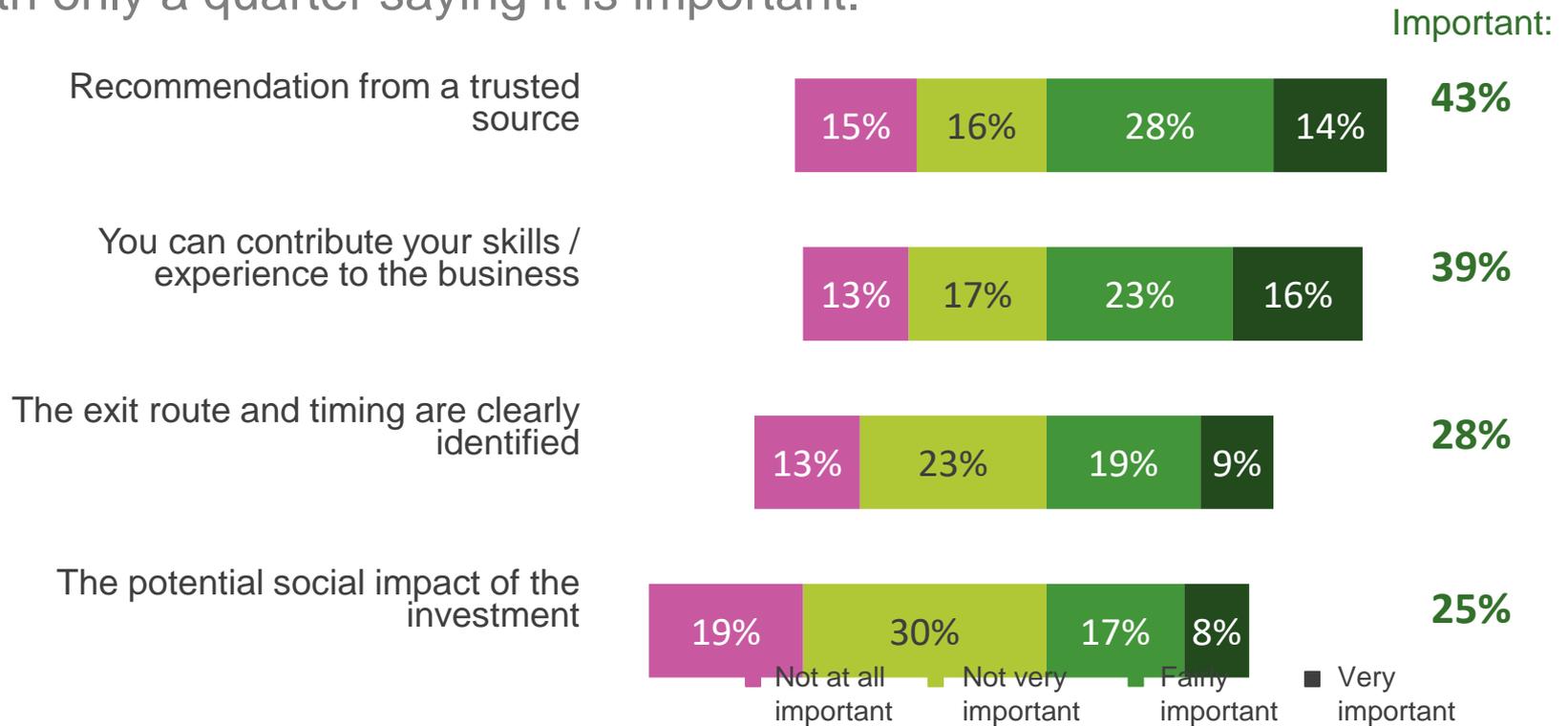
9% spontaneously mentioned tax breaks

6% spontaneously mentioned the importance of IP / patents portfolio

Source: B1_tel, single: Thinking about the factors that influence your decision to invest in a business, how do you rate the importance of the following factors in influencing your decision? *Base: All respondents (159)*. Midpoints not shown. D2_tel, multi: What other factors that you consider to have a very important influence on your decision to invest in a business? *Base: All respondents (159)*.

Factors that may influence investment

The potential social impact was considered the least important factor, with only a quarter saying it is important.



In addition, **7%** mentioned location of the business

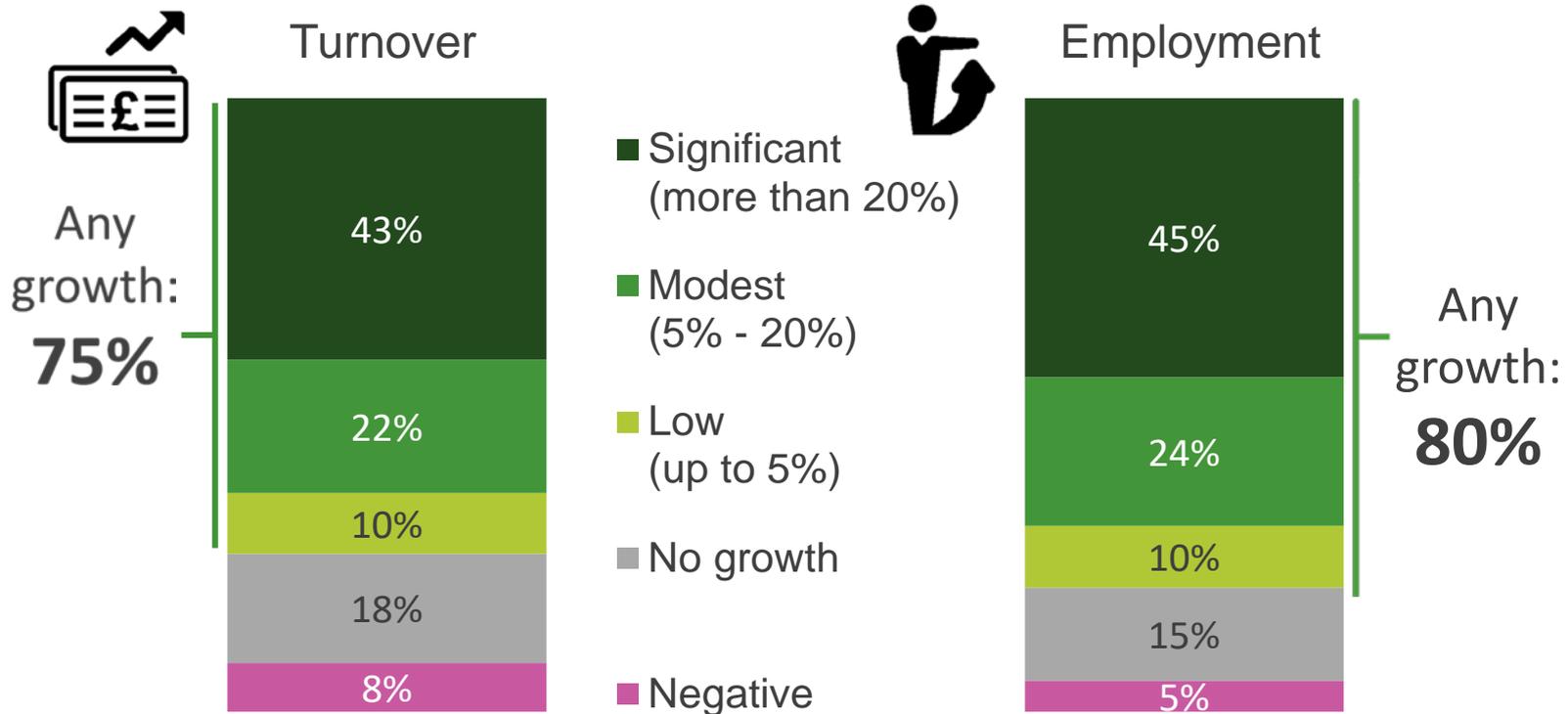
Source: B1_tel, single: Thinking about the factors that influence your decision to invest in a business, how do you rate the importance of the following factors in influencing your decision? *Base: All respondents (159)*. Midpoints not shown. D2_tel, multi: What other factors that you consider to have a very important influence on your decision to invest in a business? *Base: All respondents (159)*.

Performance of current portfolio and exits

Performance of current investment portfolio

Angel investors report strong portfolio growth in both turnover and total employment.

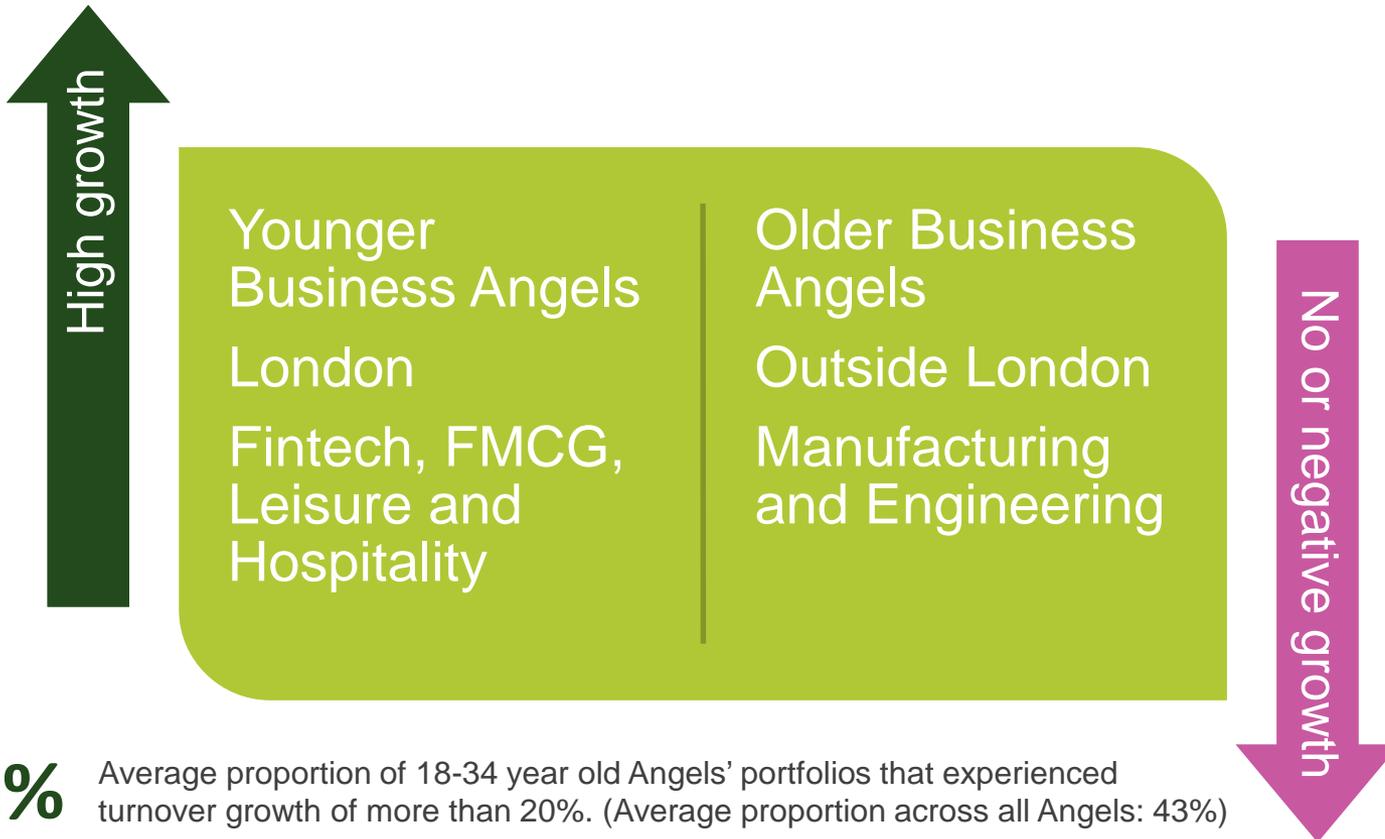
Average proportion of current portfolio experiencing growth levels



Source: A9_online, single: Thinking about the performance of your current portfolio, what proportion have experienced growth in turnover? Base: All who provided a breakdown of turnover growth in their portfolio (508); A10_online, single: Thinking about the performance of your current portfolio, what proportion have experienced growth in employment? Base: All who provided a breakdown of employment growth in their portfolio (476)

Performance of current investment portfolio

Portfolio performance is correlated with age, location of respondents and sector invested in.



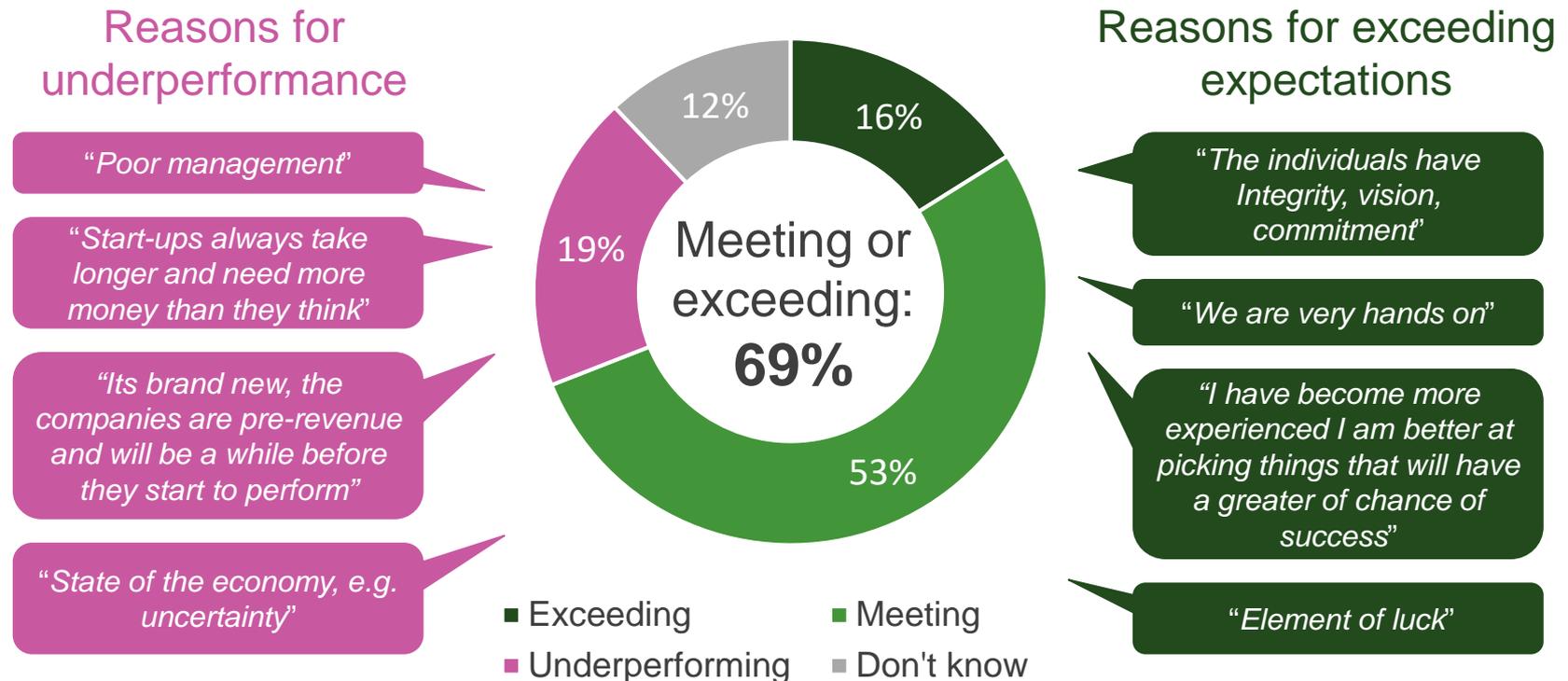
59% Average proportion of 18-34 year old Angels' portfolios that experienced turnover growth of more than 20%. (Average proportion across all Angels: 43%)

Source: A9_online, single: Thinking about the performance of your current portfolio, what proportion have experienced growth in turnover? *Base: All who provided a breakdown of turnover growth in their portfolio (508)*; A10_online, single: Thinking about the performance of your current portfolio, what proportion have experienced growth in employment? *Base: All who provided a breakdown of employment growth in their portfolio (476)*

Expectations regarding portfolio performance

For most Angels, the performance of their portfolio was in line with, or above their expectations.

Performance of portfolio against expectations

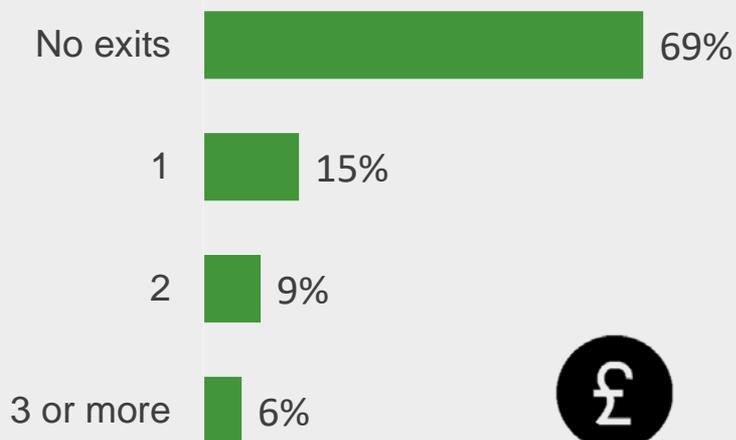


Source: A5_tel, single: How well is your current angel portfolio performing against your expectations? Base: All respondents (159) A6_tel, multi: What would you say is the main reason for this performance above your expectations so far? Base: All whose portfolios are exceeding expectations (26); A7_tel, multi: What would you say is the main reason this performance below your expectations so far? Base: All whose portfolios are underperforming against expectations (30)

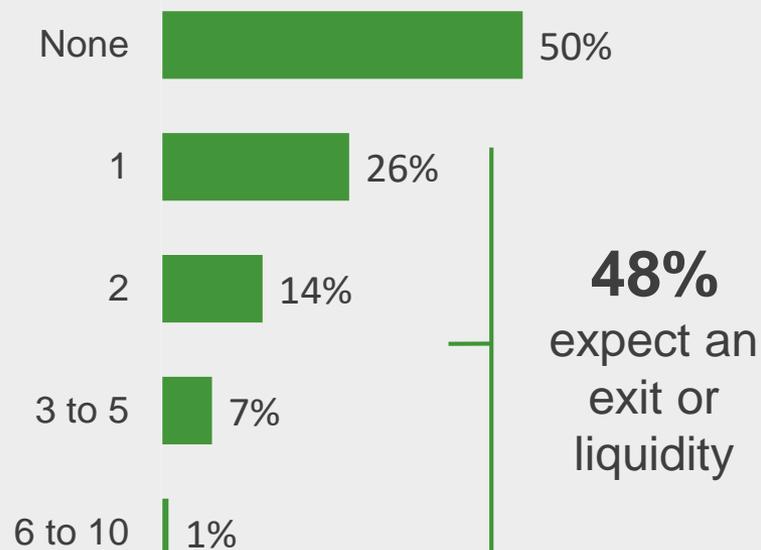
Recent and anticipated exits

Although most Angels did not exit any investments in the last financial year, half expect at least one exit in the next 12 months.

Number of exits in 2016-17 financial year



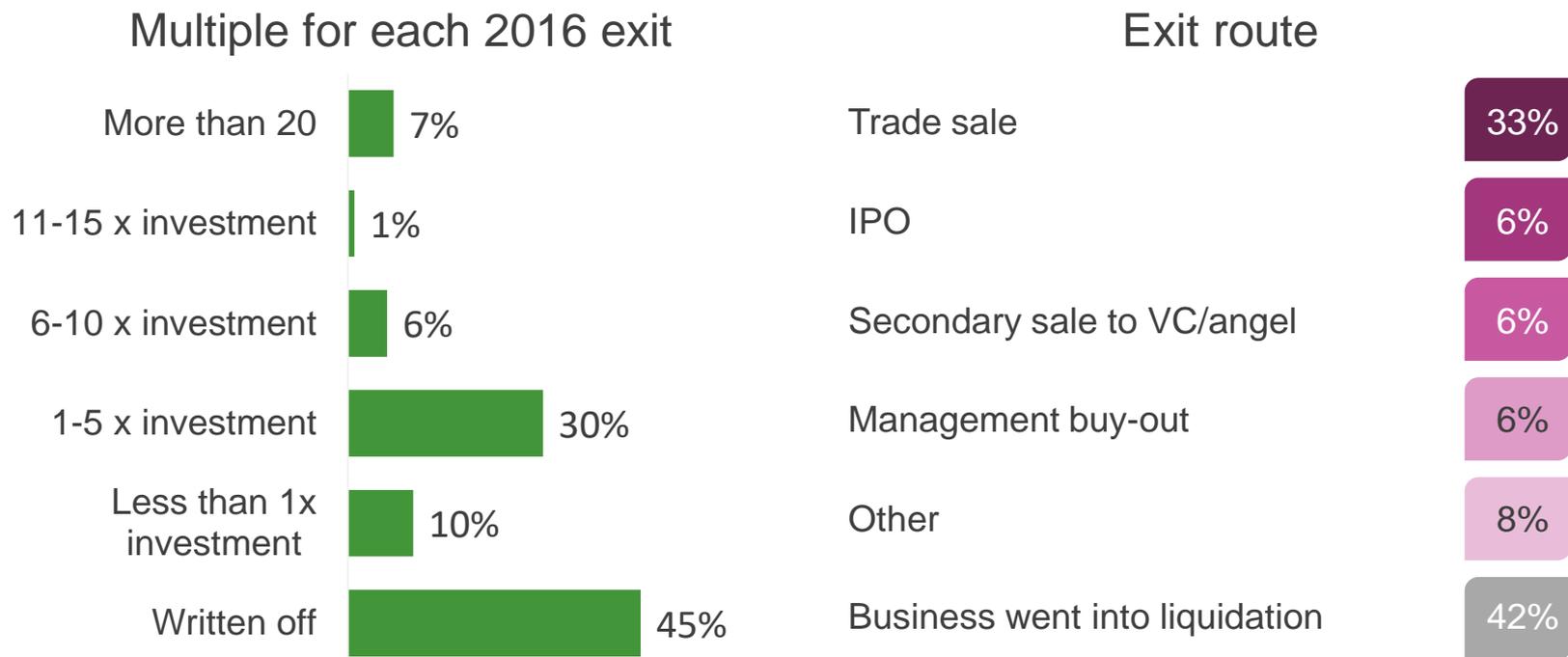
Expected number of investments offering opportunity for exit/liquidity in next 12m



Source: C1_tel, single: Have you exited any investments in the financial year ended 5th April 2017? If yes, how many? Base: All respondents (159); C4_tel, single: How many investments in your current portfolio do you think will offer you an opportunity for exit or liquidity in the next 12 months? Base: All respondents (159)

Outcome of exits in the last year

Although Business Angels report growth of their portfolio as a whole, writing-off investments is a frequently encountered experience.



 **89%** of Angels reinvest some or all gains from successful exits in further angel investments  *79% reported re-investing gains in small businesses*

Source: C2_tel, single: For each exit, please specify the approximate multiple for each one. Base: All exits made in financial year ending April 2017 (88); C3_tel, single: For each of these exits, what was the exit route? Base: All exits made in financial year ending April 2017 (88)

Future of business angels

Main challenges in next 12 months

The political and economic environment was often cited as being challenging but there were also a range of more pragmatic concerns.



Most commonly, Business Angels referenced political or economic uncertainty, including Brexit.

“Start ups are going to have a more difficult time due to the political environment, it will not be very entrepreneurial. Depending on Brexit...less easy to attract specialist individuals here who are foreign based”



Some spoke about the wider Angel environment, e.g. a lack of worthwhile investment opportunities or lack of other Business Angels, operational challenges in terms of growing the businesses they have invested in, a lack of people with the right skills.

“Just the usual challenges of building small businesses, e.g. sales, achieving revenue targets, product development and recruiting good people.”



Other Angels focussed on personal challenges such as not having enough time or money to spend on investing or, particularly, difficulties identifying good investment opportunities .

“The market is really crowded and there is a lot of people willing to be angel investors but difficult to link them up to companies”

“Finding the time to think about it...to assess possible opportunities”

Source: D1_tel, multi: What are the main challenges that you foresee in your role as a business angel in the next 12 months? Base: All respondents (159).

Support and encouragement for angels

Angels would like to be part of a thriving community and to draw on more support, including both guidance and tax breaks.



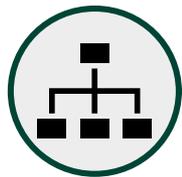
Angels felt strongly that the current tax breaks should be maintained and even improved to support investment.

“Guarantee current EIS and SEIS schemes will be maintained, they are brilliant schemes, without them there would be infinitely less Angel Activity”



Improvements to the Business Angel community were often mentioned. This included better guidance / education for Business Angels and encouraging more people to become Angels.

“New investors are hard to get...[want to] see younger investors and more women - not a single woman in our current group (40 of us)”



Some would like to see more structure to the investment process.

“There needs to be an improved framework for progressing businesses through their development phases. [...] A description in place like credit ratings to identify what stage the business is at, whether Early Stage, Developing, Trade Sale [...]. This would really do the industry good to have a formal framework. BAA could lead upon this”

“Its a very unregulated market, the Angel investing market”

Source: D2_tel, multi: What do you feel should be done to support the role of business angel investors here in the UK and potentially encourage more individuals to become angels? Base: All respondents (159). Factors under 10% not included.

Summary

Key findings

- 1 The Angels surveyed were very active in 2016, with most investing in between 1 to 5 businesses, and overall activity was higher than that found in the Nation of Angels report in 2015.*
- 2 The demographic profile of Angels that participated in this research remained in line with previous studies, although they reported greater levels of Angel investment experience.*
- 3 The survey results suggest that the availability of EIS has a strong positive influence on investment activity.*
- 4 Angel portfolios have performed well in 2016; on average 43% of an Angel's portfolio experienced high turnover growth (>20% increase).*
- 5 When asked about challenges faced by Angel investors, many cite the UK's exit from the EU, although personal circumstances are also a key driver of investment activity.*

British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government and is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). British Business Bank operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA.

British Business Finance Ltd (registration number 09091928), British Business Bank Investments Ltd (registration number 09091930) and British Business Financial Services Ltd (registration number 09174621) are wholly owned subsidiaries of British Business Bank plc. These companies are all registered in England and Wales, with their registered office Steel City House, West Street, Sheffield, S1 2GQ. They are not authorised or regulated by the PRA or FCA.

Capital for Enterprise Fund Managers Limited is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 06826072, registered office at Steel City House, West Street, Sheffield, S1 2GQ. It is authorised and regulated by the FCA (FRN: 496977).

*British Business Bank plc and its subsidiary entities are **not** banking institutions and **do not** operate as such.*

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk.