

NATION OF ANGELS

The unsung heroes of
Britain's economy

January 2015

Sponsored by Barclays, BVCA, Deloitte and ESRC

A report by the Centre for Entrepreneurs and the UK Business Angels Association

Research undertaken by the Enterprise Research Centre



Centre for
Entrepreneurs

CFE

Centre for Entrepreneurs

Launched in October 2013, the Centre for Entrepreneurs think tank promotes the role of entrepreneurs in creating economic growth and social well-being. It is home to national enterprise campaign, StartUp Britain.

The Centre is a non-profit joint venture between FT columnist and serial entrepreneur, Luke Johnson and the Legatum Institute - a non-partisan charitable think tank best known for its annual Prosperity Index.

It is supported by a prominent advisory board including serial entrepreneur and investor Brent Hoberman, angel investor Dale Murray, Supper Club founder Duncan Cheatle, Betfair founder Ed Wray, and Smith & Williamson partner Guy Rigby.

UK
Business Angels
Association

UK Business Angels Association

The UK Business Angels Association is the national trade association representing angel and early stage investment in the UK (England, Wales and Northern Ireland). It has superseded the BBAA and was re-launched in its new strengthened role in July 2012.

Each year private investors account for between £800 million and £1 billion of early stage investment in the UK - the single largest source of early stage capital in this country. The angel community in the UK is also very diverse reflecting a range of different models and approaches including angel networks, small groups and syndicates; super angels; individual investors and new models such as accelerators.

The UK Business Angels Association represents and connects all those involved in the angel investment market, including early stage VC funds, Banks and also non traditional sources of finance, as well as advisers and intermediaries; policy makers and academics with a view to ensuring a coherent ecosystem for financing the growth of start-up and early stage businesses.



FOREWORD

Britain is becoming a nation of angels. As business formation rates continue to hit new records, more and more individuals are choosing to invest their capital in Britain's engines of growth: entrepreneurs.

Anecdotally, the impact of recent market developments and government policies have led to an explosion in angel investing - particularly when examining the Seed Enterprise Investment Scheme or the rise of crowdfunding. But until now, research that examines the impact of such developments and the level of angel investing was lacking.

To fill that gap, the Centre for Entrepreneurs (CFE) and the UK Business Angels Association (UKBAA) partnered to undertake a major research project under the 'Nation of Angels' campaign banner. Over the past nine months, UKBAA and CFE have worked with the Enterprise Research Centre (ERC) to understand the changing demographics and behaviour of angel investors, the relationship between angels and their investee companies, and the economic and social impact of angel investing.

Our research achieved unprecedented scale. A record 403 angels responded to

our online survey to share details of their portfolios. 42 angels engaged in in-depth telephone interviews to discuss their investment behaviour and 28 syndicate and network leads representing 8,000 angels engaged in a separate online survey.

The resulting report, *'Nation of angels: assessing the impact of angel investing across the UK'* published by the ERC makes for encouraging reading. The findings - summarised over the following pages - demonstrate the crucial role that angel investors are playing in the economy, bringing risk capital, business experience and skills to support the growth of small businesses.

We are grateful to Barclays, the British Venture Capital and Private Equity Association, Deloitte and ESRC for sponsoring this project; to Prof Mark Hart, Prof Mike Wright and the ERC for undertaking the research; and to Maserati for providing prizes to incentivise angels to engage in the survey.

Luke Johnson

Chair, Centre for Entrepreneurs and Risk Capital Partners

Jenny Tooth

Chief Executive,
UK Business Angels Association



COMMENT

TIM HAMES

Director General

BVCA - The British Private Equity and Venture Capital Association

This report is pioneering, encouraging and challenging. It sets out a very different landscape for angel investment than was true a decade ago and offers a clear sense of direction for what the angel arena will look like a decade hence. Its fundamental message is change. Change in who angels are. Change in how angels invest. Change in whom angels invest with. Change, though, is both welcome and logical. Much of what angels like to support could be described as disruptive innovation. It is rational, therefore, that the angel scene itself is open to both disruption and innovation. Change is our ally and not our enemy.

There are important lessons to be learnt here for all of those who work with angels and who want to see them succeed. This is true for venture capital as well. Our sector needs to recognise the enhanced role that angels now have and ensure that our relationship with them evolves in a positive fashion. There are real similarities between the findings outlined in this report and those for venture capital uncovered by the BVCA's own work on the venture space, *Venture Evolved*. I am convinced that through closer co-operation between angels and VCs we can create a far better climate for entrepreneurs and their ideas.

RICHARD HEGGIE

Head of Proposition and Delivery for Entrepreneurs

Barclays Wealth and Investment Management

The UK business angel market is widely recognised as one of the most mature globally. Its importance to overall economic growth is increasing and as the report illustrates there is evidence to suggest that this trend is likely to continue. We believe one of the potential drivers of this increase is a rising number of entrepreneurs who are going through a phase of wealth realisation and their desire to pass on their business expertise and invest in potentially high growth start-ups.

This is reflected in an overall rise of angel investors with the population becoming more diversified with regard to regional location, gender and age. However, these positive developments will need to be tracked in this changing market and throughout the current economic cycle.



COMMENT

MARK DOLEMAN

Head of UK

Entrepreneurial

Business

Deloitte

As a leading global professional services provider working with many and varied organisations, we are also determined to have our roots well established in local communities. The angel community has developed into a vital cog within the economic wheel. Entrepreneurialism is no longer seen as a destination for eccentrics and drop outs. Society heaps praise on those prepared to take risk and reach for their dreams. The dramatic increase in new start-ups, incubator hubs and alternate sources of finance reflect the change that has occurred. At the source of this are the angels that provide the much needed finance and mentoring.

The survey supports a number of intuitively known thoughts. For example, the government tax incentives are enormously helpful. The improved economic sentiment is being reflected in the angel portfolios and that technology is a favoured area of investment probably both pull and push.

However the survey throws a few surprises. Angels are getting younger and slightly less white and male. This can only be welcomed and we all have a duty to work together to find ways to accelerate this trend. What the survey does not give us the answer to is the big question – EXIT. There is more liquidity in the market, but has it reached the normal range for an angel investee company? My experience is that achieving good value on exit for many is still a challenge and options are limited. It is vital that as a community we continue to lobby relevant organisations to provide the platform for successful businesses to obtain development capital and enable angels to re-invest in their core market.

I would like to thank everyone involved in producing this report and the valued insight.



HEADLINE FIGURES

The profile of angels is changing, attracting a more diverse group of investors, with more women and younger individuals becoming angels.

Encouragingly, the proportion of women angels at 14% is an increase on the 7% observed in 2008. However, the UK still ranks below the US where in 2013 20% of angels were women and there is still a long way to go to achieve a significant gender balance of angel investors. 44% are young angels aged under 45 and almost three-quarters are aged 54 years or less. In contrast, survey evidence from 2008 found the median age of angels was 53 years.

Fig. 1.0
UK business angels by age

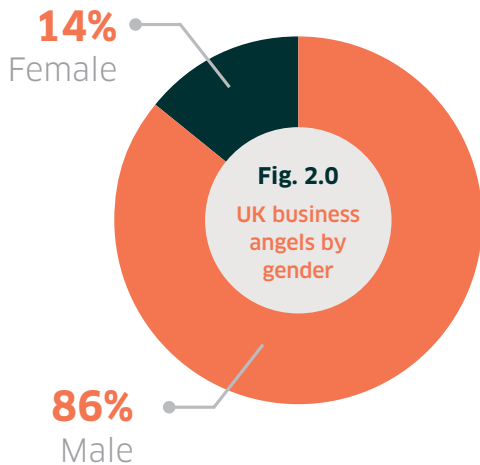
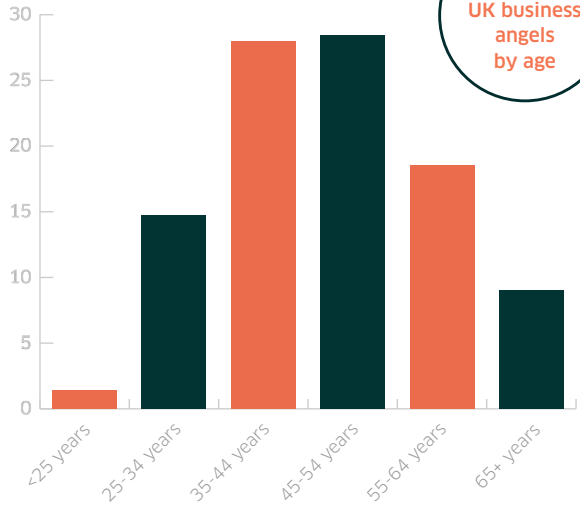


Fig. 2.0
UK business angels by gender

¹ Sohl, J. (2014) The angel market in 2013: a return to seed investing, Center for Venture Research, University of New Hampshire.

² "Wiltbank, R. E. (2009) Siding with the angels: Business angel investing - promising outcomes and effective strategies, London: NESTA".

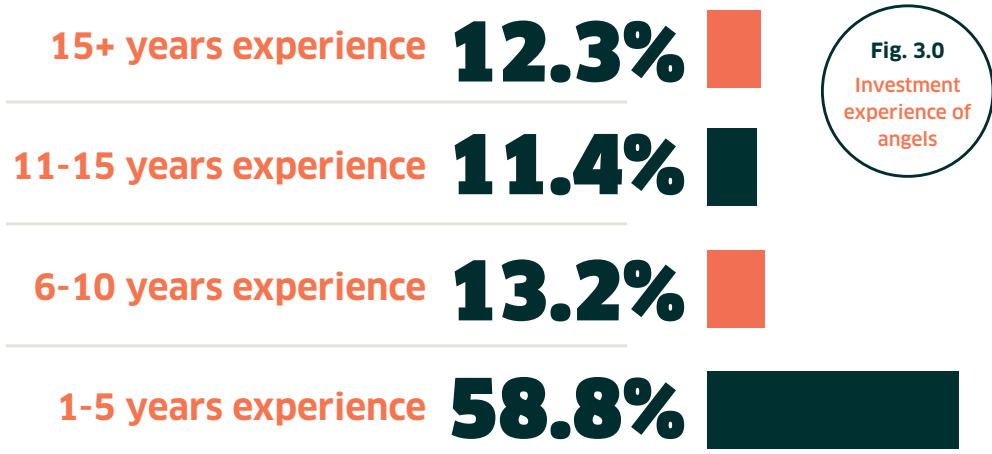
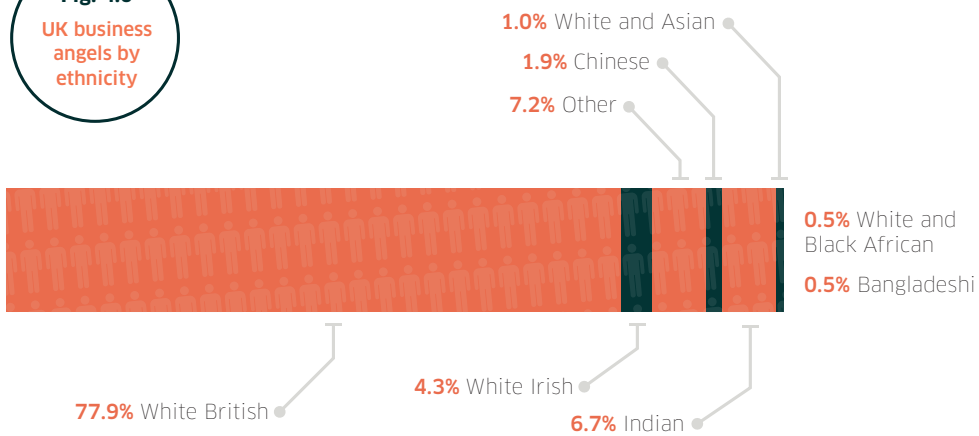


Fig. 3.0
Investment experience of angels

Fig. 4.0
UK business angels by ethnicity



CALL TO ACTION

Work to raise further awareness about angel investing to attract a wider range of individuals with the finance and experience to become angels, particularly identifying lead angels. Build capacity and professional skills through training workshops and online learning.

Angels are investing more widely and internationally, geographical distance seeming to become less important in the investment decision.

Previous studies had indicated that angels tend to invest in businesses close to their home base.

Alongside the changing demographics of angels, they are making more investments than ever before.

Overall, the findings indicate a much higher rate of investment activity than a 2008 survey, which showed a median of 2.5 investments.³

Fig. 5.0
Investment location by angels

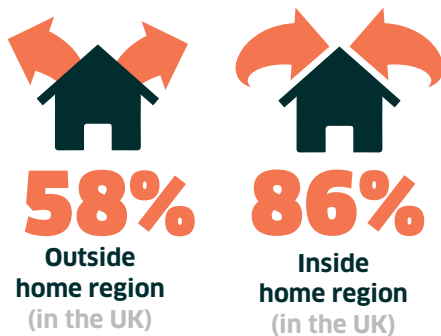
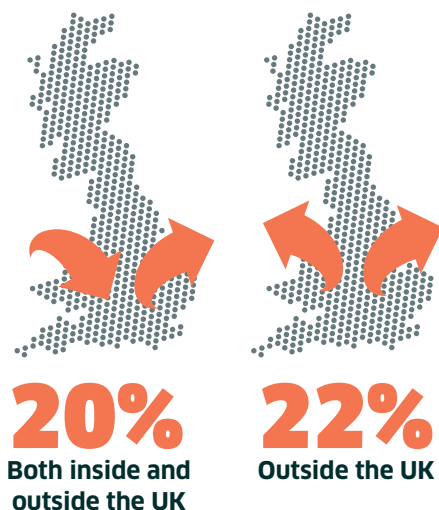
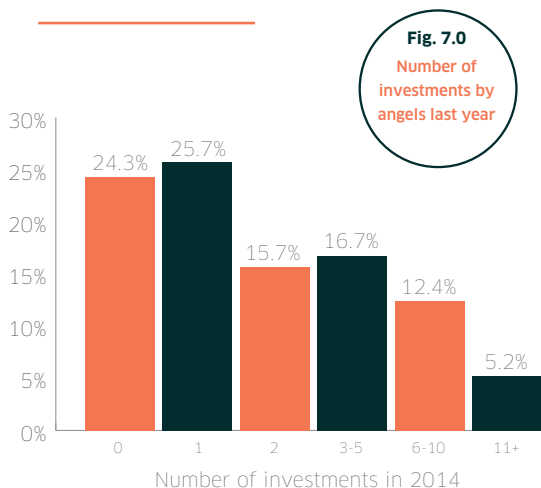


Fig. 6.0
Investment location by angels



³ Wiltbank, *op. cit.*

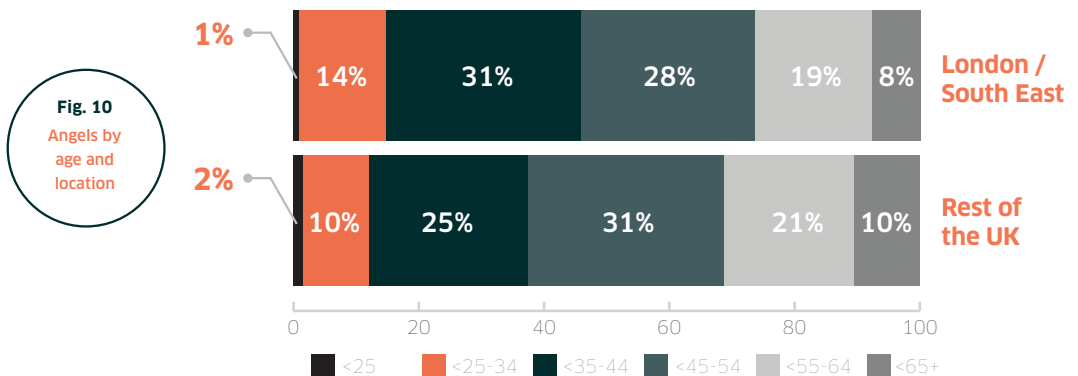
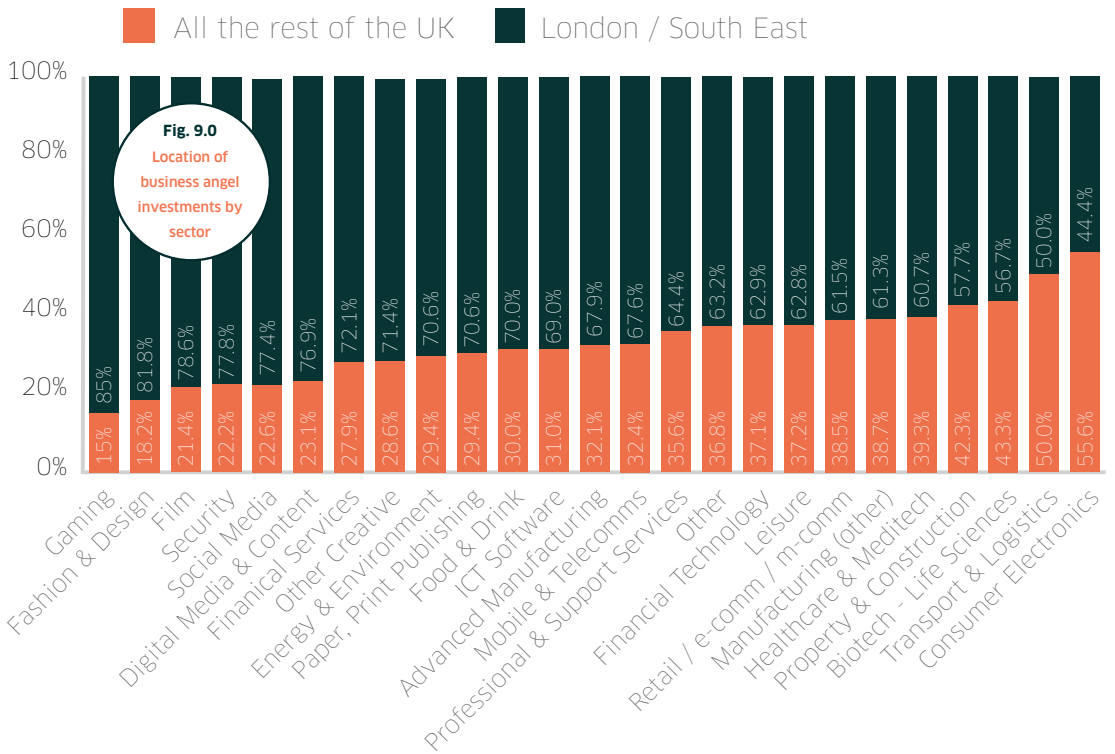


However, the market remains less developed outside London and the South East.

Additionally, London and the South East appear to be attracting newer, younger angels more so than the rest of the UK.

CALL TO ACTION

Increase efforts to build angel capacity in the regions outside London and South East, building effective hubs for angel investment.





Crowdfunding
43.3%



**Other Angel
Syndicates**
36.5%



Loan / Debt
23.1%



VC Funds
23.6%



**Grants
(e.g. TSB)**
20.2%



**Angel
Co-Investment
Funds**
19.2%



None
17.6%



**Alternate
Finance**
12%

Angels are co-investing with a wide range of sources, especially crowdfunding.

Angels have been shown to be co-investing with a range of different finance sources including VC and debt finance.

However, it is clear that a considerable proportion of angels and especially younger ones have responded to the opportunities offered by online platforms and crowdfunding to source deals and co-invest. In fact, London is the world leader for raising capital through crowdfunding platforms, beating cities like New York and San Francisco.⁴

CALL TO ACTION

Work with key finance players to ensure that angels can connect with all relevant sources of co-investment, including crowdfunding, to address entrepreneur funding requirements from start-up to exit.

⁴ Crowdfunding Centre

Angels are increasingly investing in businesses that achieve a social impact.

They not only bring risk capital, business experience and skills to support the growth of small businesses, but also create social impact through their investments. One in four angels (25.7%) have invested in ventures that have a social impact. Social impact investments account for almost 23.8% of total investment deals of the angels in the survey.



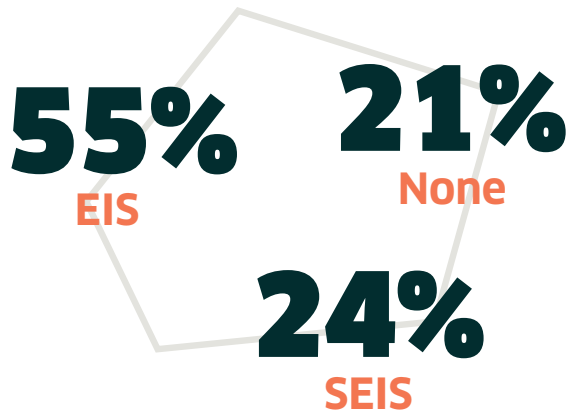
1 in 4
angels (25.7%) have
invested in ventures that
have a social impact.

CALL TO ACTION

Work with all key players to build greater awareness and opportunities to invest in social impact businesses.

SEIS and EIS tax breaks have played a big role in encouraging investment.

9 out of 10 angel investors report using the SEIS/EIS schemes, and almost 80% of all investments were made using EIS (55%) or SEIS (24%).



CALL TO ACTION

The next government should ensure the continuation of the EIS and SEIS. They should engage with the angel and entrepreneur communities to address any challenges or make any improvements relating to the operation of these schemes.

Angels provide ongoing support to scale and grow their investee businesses.

Angel investors were also asked the growth status of current investments and about likely returns on the investments. This allows for an assessment of the likely impact angel investments will have in the future.

Angels identified significant growth in their portfolio businesses and low negative growth, and are confident they will see higher than expected returns and lower levels of negative returns than seen in previous studies.

Fig. 11 - Growth status of current investment portfolios by angels

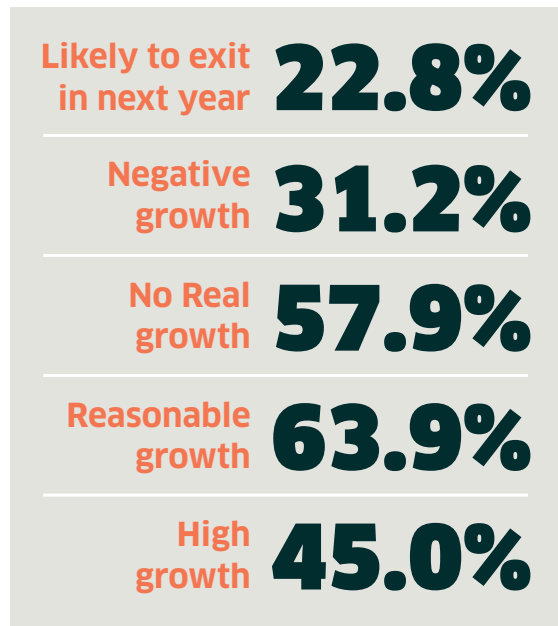


Fig. 12 - Growth status of current investment portfolios by investments



CALL TO ACTION

Work with the entrepreneur community and those advising and supporting entrepreneurs on how to successfully attract angel investment to accelerate their growth.

CALL TO ACTION

Facilitate access to liquidity to enable angels to re-invest in the next wave of UK entrepreneurs.

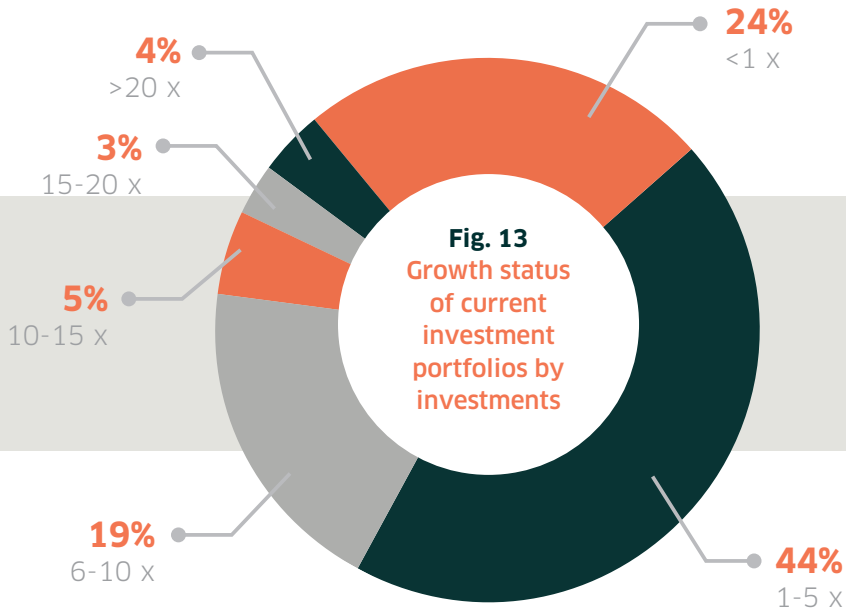


Fig. 14

Expected returns on investments made since January 2012 by angels

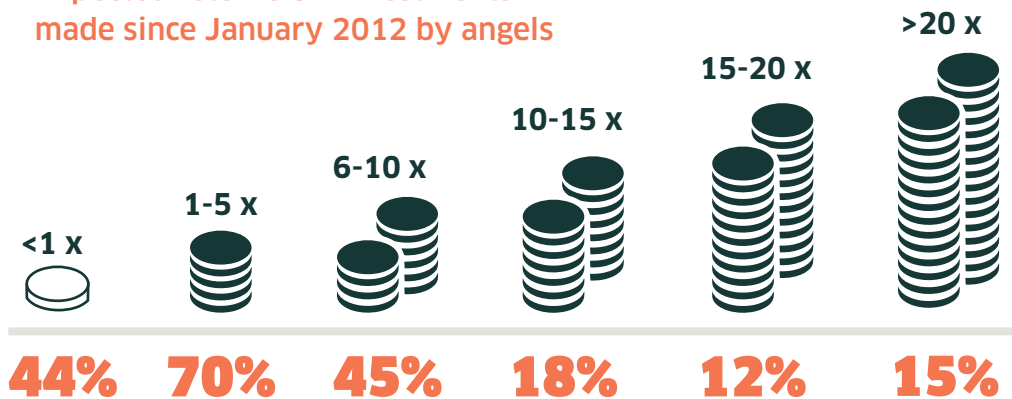
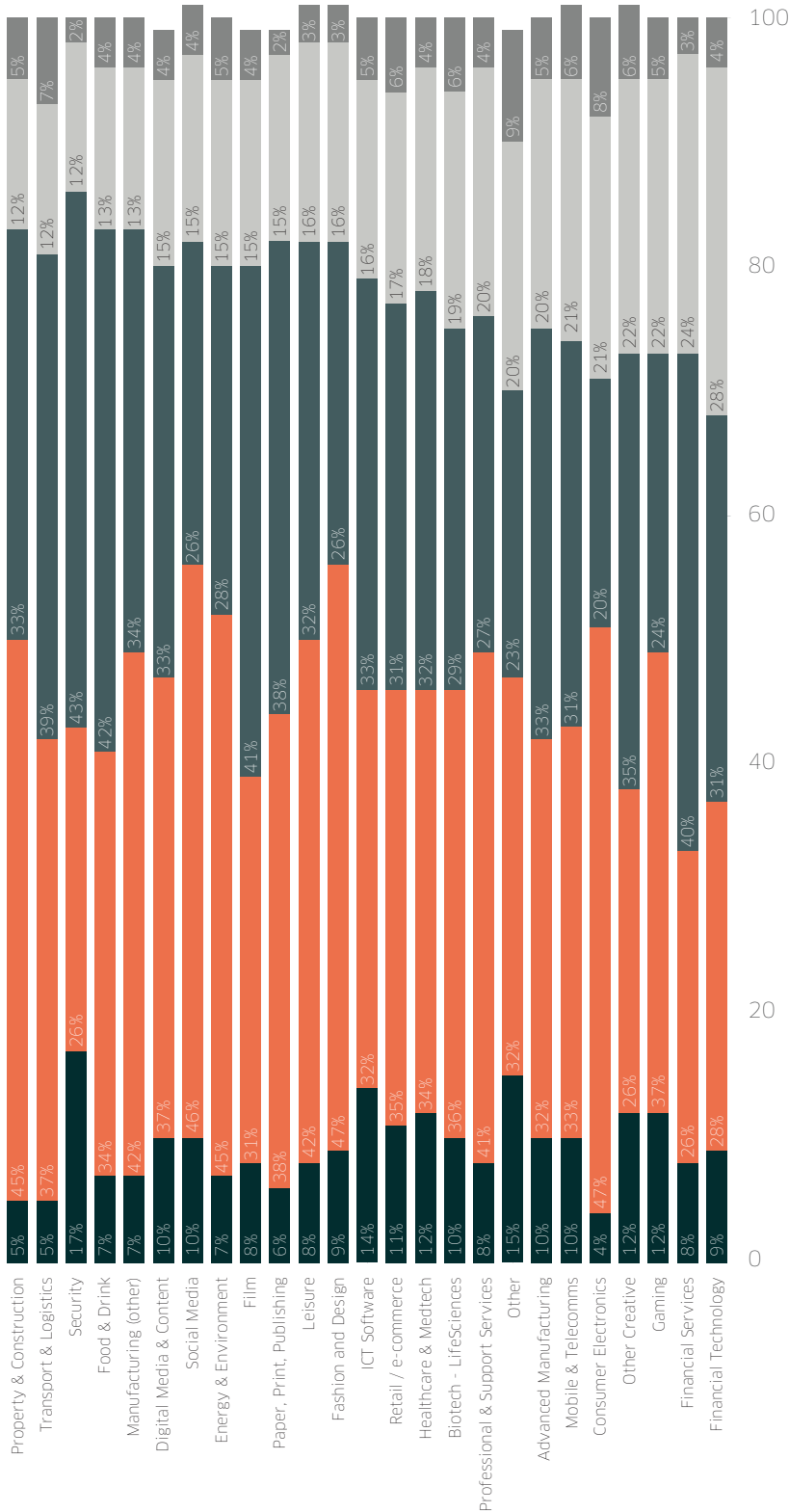


Fig. 15 - Growth status and sector (% of investments)



All of the survey results in this report are from Wright, M. Hart, M. Fu, K. (2014) Nation of Angels: Assessing the Impact of Angel investing across the UK, Enterprise Research Centre.

METHODOLOGY

UKBAA and CFE commissioned the Enterprise Research Centre to undertake the Nation of Angels research. An online research survey ran between June and October 2014 receiving 403 responses - making it the largest survey of business angels in the UK.

Alongside the online survey of individual angels, an additional online survey was launched in October 2014 to known angel syndicate and network leads in the UKBAA Membership, covering 8,000 investors.. Finally, a series of telephone interviews were also carried out with 42 angels who had participated in the larger online survey and had agreed to be contacted to share further detailed information on their investments and their role within the business. The responses are from wide cross-section of angels across the country and a range of sectors.



The Enterprise Research Centre (ERC) was established in 2013 to answer one central question, 'What drives SME growth?' Our mission is to become the focal point internationally for research, knowledge and expertise on SME growth and entrepreneurship. ERC develops and brings the evidence base on SMEs and enterprise together, and works with policy makers and practitioners to ensure research shapes better policies and practices to help ensure SMEs grow. The centre is a collaboration between 5 University Business Schools: Warwick, Aston, Birmingham, Strathclyde and Imperial College and currently receives funding from the Economic & Social Research Council, the British Bankers Association, the Dept. for Business, Innovation & Skills and Innovate UK.


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