

## **WBAA International Exchange Workshop**

**San Francisco, California, USA**

**Wednesday, May 5 2010**

### **Summary Notes of Day's Proceedings, Discussions & Major Results**

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#### **MORNING SESSION**

##### **Welcome and Introductions – Objectives of the Day**

**Time:** 8:15 – 9:00 am

**Speakers:** John May (WBAA), Catherine Mott (ACA), John Huston (ACA), Brigitte Baumann and Claire Munck (EBAN), Mannie Liu (China Business Angels Association)

**Key topics:** current state of angel investing, not only locally but cross border, getting to know who is in the room: networking, education and best practices among business angels

##### **Summary:**

The WBAA International Workshop was hosted by the Angel Capital Association in the framework of their international summit. They have been organizing an international exchange for the last 3 years with increasing interest for their members and were delighted to host this session.

Education and professional networking for angel investors is a key component of success; organizations such as the ACA and the Angel Capital Education Foundation are already aware of this fact and they not only support a platform for sharing best practices but also conduct research and educational programs for angels, entrepreneurs and angel groups. Sharing best practices includes sharing stories of deals gone wrong and how to avoid making the same mistakes. Additionally, it must be taken into account that most public representatives, and in general the Government, is not particularly aware of the business angel's investing environment and the impact of legislation; hence educational / lobbying activities geared towards public officials are important.

Some lessons can be learnt from EBAN, which is the oldest trade association working with networks, federations, early stage venture capital funds, individual angels and associate members. EBAN has been appointed to run the WBAA based on its experience in coordinating a large membership base from an important number of countries. EBAN pillar initiatives looking forward:

- Professional standards for angel investment
- Lobbying supra-national (i.e. EU) authorities.

- Data and research support the previous pillars as well as benchmarking through the organization of events, enabling to sharing best practices
- Awareness raising on the importance of angel investors, including speaking engagements, capacity building (training for angels, entrepreneurs, angel group leaders) and running the World Business Angels Association Secretariat
- Support to cross border investment and syndicated investment.

Next, an overview of the Beijing conference was presented. 300 delegates, 40 from overseas, five related events including local government officials, NGOs and local investors who all shared their experiences in China were present; feedback was very valuable and was recorded in a blog. The WBAA event was held in conjunction with the Nobel Prize at the Great Hall of the People, which itself constitutes a great honor and a sign of the growing importance of the business angel's initiatives. At this event John May was given a life-time achievement award. The outcome of the conference was the founding of the first angel investing business group in China, a new course at the local university and the publication of a new text book.

## **Session 1: “Continental Review – Latest Trends in the Global Angel Market – How Have We Recovered from the Crisis?”**

**Time:** 9:00 - 10:15 am

**Speakers:** John Mactaggart (AAAI, Australia), Fernando Prieto (Southern Angels, Chile), Hannu Jungman (Veraventure, Finland), John Huston (ACA, US), Mannie Liu (China Business Angels Association), Bob Okabe (ACEF Board, US); Moderator: John May (ACA, US)

**Key topics:** co-investment models, most active economic sectors to invest in, implications of the financial crisis, going beyond the local markets, need for statistical data, creation of business angel networks, exit strategies

### **Summary:**

**Australia:** public markets outlook is flat after fast recovery, VCs are running through harsh times and this constitutes a great opportunity for angels (16,000 already operating in the country, \$1.4b invested over 5,000 companies, co-investment ratio of 5:1, more than 26,000 jobs created), local investing and low quantities (<\$10k were the most common) per deal are the norm, need to put attention on exit strategy (early exit vs. follow up), impact of public innovation program change to be determined.

**Latin America:** Organized angel investing is very new to Latin America, which does not have a regional angel investor trade association as of this date (The federation of Latin Americana angel groups was officially set up during the afternoon following the WBAA Workshop! One of its first expected first actions will be to join the WBAA). It is difficult to talk about Latin America as a single entity: 30 countries, 500 Mn people, and very different realities. Nonetheless there are some common characteristics: being an angel or an entrepreneur is tougher than in Europe or US, there are challenges in terms of culture, access to information, public intervention, lack of trust... The key is to figure out how to go beyond local economic circumstances and to put innovation on the public agenda. Today there are 24 networks at different stages of growth (540 affiliated individual members), with only 5 being more than 5 years old; 67 deals have closed formally to date (data is not very reliable or complete). Chile has funds available but no projects for that money (as opposed to Colombia). A major challenge for Latin American angel groups lies in establishing cross-border angel investor relationships to invest all around the world and find quality dealflow.

**Europe:** three different angel investing models are present in Europe: Nordic, Anglo-Saxon, and Mediterranean. Angel investment is a new segment in most European regions but in particular in Eastern and Southern Europe. Entrepreneurship is unfortunately not very popular in Finland despite having one of the most innovative cultures in Europe: students want to get a nice job in finance, almost none say that they want to become entrepreneurs. Luckily, there is governmental support in the form of tax schemes to help angel investors in some European countries to compensate for the lack of entrepreneurial spirit. Government can play a big role in investing / providing a leverage to private funds, mostly in the form of co-investment funds with angels organised in the networks. ICT is the hottest sector in Finland but also energy / clean tech (background of investors play a role here: Nokia).

Nonetheless, few angels have made cross-border investments. There are three groups of countries regarding the angel investing communities: well established markets, those moving quickly (i.e. France), and emerging countries. It is again key to focus on exits, both to corporations and to VCs (including co-investment funds, that require due diligence on angels and businesses).

**United States:** The market for angel investing has rebounded, with robust interest today in angel deals. 3.5% of US households meet angel investor criteria (of accredited investor); of these, only 5% ever write a check, and of these, only 5% belong to an organized angel group. On the deal flow side, there are 5.5 Mn firms in the US, and 500K new companies are formed every year. Only 48% new companies are alive 5 years later, but in US these companies generate 2/3 jobs, 1% top American companies generate 40% of the jobs...

Congress is very illiterate on this area: politicians are not knowledgeable about business angels (after all the goal is to be re-elected), and financial reform legislation has had serious unintended effects on both angel investors and startups.

Key issues in the US regarding angel groups are:

**Exits:** this is what groups are most worried about.

**Starting New Angel Groups:** Angels need to decide whether and when to start a group, VC co-investment or not...

**What is the Definition of Success?:** An IRR threshold needed. You don't make money in the business if the only potential buyers are financial bidders (only worried about cash flow) it is better to have strategic buyers that are not exclusively worried about EBITDA.

**Asia:** This financial crisis is very different from the one in 1997, when the crisis originated in China as opposed to the US. Impact of the crisis in China: 30-50% drop in stock market, real estate market as well (2-30% decrease in Hong Kong), liquidity tight up, confidence plummeted. It is tough to get business angel statistical data on China – due to the reluctance of individual investors to share information about their wealth – and hence hard to get fiscal relief schemes for investing when individuals won't disclose their deals and there is no data on the economic impact of their investment to convince policy makers (**lack of data** and how to get better data was a recurrent theme throughout the event). In China the most active sectors are Internet, energy and then manufacturing. The equity ratio required by angel investors is on average less than 10%. Angels are mostly located in Shenzhen, Beijing and Shanghai.

## **Session 2: Robert Okabe, ACEF Board (US) - “The Importance of Education Among Angel Investors”**

**Summary:** Various educational programs are offered by the Angel Capital Educational Foundation. The course “Angel Investing Overview” is the most in demand, followed by “Starting an Angel Organization”. More advanced courses feature more technical subjects such as Due Diligence and Terms Sheets. Interestingly, angel groups are not the ACEF's

biggest market: other organizations (i.e. universities, economic development institutions, etc) that work with business angels constitute the bulk of clients.

Education programs are an effective approach to recruiting angel investors. Education is also the key to more frequent and informed group investing. Before such a course, half the people weren't members of an angel group member... but 24% decided to become angels. ACEF's experience demonstrates that organized investor education can be very good for recruiting and to foster investment activity, both individually and in groups.

*[Editor's note: can we draw a linkage between better angel investor education and better IRRs?]*

### **Session 3: “Creating Ecosystems for Angel Investors, Networks, and High Growth Companies”**

**Time:** 11:00 am – 12:15 pm

**Panel Speakers:** Nelson Gray (LINC Scotland, UK), Burton Lee (Stanford University, US), Tom Gibson (SME Research, US); Moderator: Paulo Andrez (FNABA, PT)

**Key topics:** co-investments, tax incentives, exit market, public intervention, role of the university in angel investment, side-car funds vs direct government subsidies for angel group operating expenses, kick-starts, templates and country/segment backgrounders, publicize the role of the angel investment community to the general public and the entrepreneurs, lack of understanding among policy makers for what angel groups are and how they work, national innovation policy

**Summary:** Business angels are part of a larger innovation ecosystem that should be strengthened for them to be successful. A healthy and sustainable innovation ecosystem requires that multiple concurrent factors be available: entrepreneurs, co-investment funds, sound technology transfer and intellectual property laws/regulations, tax incentives and a healthy exits market.

**Lessons from Silicon Valley:** Silicon Valley is highly unique - it is hard to replicate Silicon Valley anywhere... it is even uncertain how a Government could today create Silicon Valley from scratch, if it we assume that the current Valley was an intentional result of policy! There is a need to have a broad and holistic view of the entire ecosystem. Grassroots interest in entrepreneurship should be combined with top/down help from the Government.

**Lessons from developing countries:** In order to reduce political instability and foster market development risk capital is needed: banks wouldn't finance these ventures (and it is not their role). Afterwards there is one more stage to go: expanding the SME (small & medium enterprises) segment. The problem is that the size of investment of business angels (around \$300k) is not appealing to VCs. It is hard to find investors for SME investing, opportunities are geographically concentrated in the capital cities, traditional fund managers would rather do private equity transactions (higher volume, higher fees). Hopefully the business angels could do better in developing countries than regular risk capital institutions in the past. Setting up angel networks is therefore an important recommendation to governments in developing countries. However some cultural issues need to be addressed including the difficulties associated with public knowledge of wealth in some countries.

**Lessons from Scotland:** Key success factors taken from the Scottish experience:

1. Get government to understand the importance of business angels (and not only VCs)
2. Use a centralized government-administered seed fund to co-invest alongside angel groups and stimulate the market: go and find potential investors to co-invest, look for advisors for entrepreneurs

3. Create a single, business angel national federation per country which can stimulate collaboration between the local angel groups as opposed to many competing against each other with no coordination and no common voice near the public authorities.
4. Stimulate the creation of new groups to invest. They will become the investment channel for public funds eventually.
5. Need for business angel education.

**Use of Sidecar Funds vs Direct Subsidies to Support New Angel Groups:** Some angel groups in Europe and elsewhere receive direct government subsidies for their operating expenses over several years, often against strict quality and quantity criteria defined with supporting bodies. Direct subsidies for operating expenses can be good to kick-start the activities but angel groups need to think very early on about how to move to a fully self-sustaining business model in the future. It was proposed that governments could establish modest sidecar funds for new angel groups, which would then be able to apply part of the management fee to cover their operating expenses. This would strengthen the angel investors by having a fund to co-invest in deals, would promote increased professionalism by angel group managers, and support full autonomy by angel groups with a sustainable business model.

**Angel Group Promotion of Entrepreneurship:** It was asked how angel groups can foster the development of more entrepreneurs? Burton Lee indicated that there are a number of ways that angel groups can directly support the education and training of young entrepreneurs in universities, and primary and secondary schools:

- 1) Work with, and support through mentorship, internships and other means, entrepreneurship teaching programs at universities, both at business schools, but more importantly at engineering and medical schools.
- 2) Support student entrepreneurship clubs at universities, and secondary and primary schools: these are the future entrepreneurs, where personal coaching, and small levels of financial support, can make a huge difference.
- 3) Get directly involved with university and research institute technology transfer offices (and use their ties with government officials). IP is not getting out of the university
- 4) Challenge the assumption that scientists and engineers can't run companies

**Angel Capital Policy Foundation:** A panelist asked if might make sense for the angel community to establish a separate Angel Capital Policy Foundation (much like ACEF), to focus specifically on, promote and research, national and regional policy issues (tax incentives, government support mechanisms for fledgling angel groups, etc) affecting the global angel community. The creation of a dedicated organization to focus on policy issues, that could lobby governments, know the angel investing community and create the non-market conditions to promote sound angel investing and job growth. ACA actually has a very active policy committee which has been instrumental in making sure that the impact of the Dodd Financial Reform bill did not adversely affect the angel community.

**Government Co-investments and Tax Benefit schemes:** Governments don't make investing decisions, but provide seed capital through matching funds and in most cases receive the same terms as the private investors (pari-passu). In case of a developing country, the steps to foster the business angel environment would be:

- Package of recommendations / feasibility study to the government that fits the environment.
- Foresee to start collecting data early on to understand the impact and rate of return for the investors and the government
- Take care of the exit market in developing countries, where you don't find that many IPOs or the like (example: South Africa, royalty financing linked with equity) by connecting the angel group to the corporations and M&A partners
- One idea could be to create a country rating in terms of business angel investing friendliness

## **LUNCH SESSION - “Lunch and Dialogue with Professor Rob Wiltbank”**

**Time:** 13:00 – 14:00

**Speaker:** Rob Wiltbank (Willamette University, US); Introduction: Frank Peters, Tech Coast Angels

**Title of Talk:** “Learning from Angel Research and Future Possibilities for Data”

**Key topics:** Data availability, distribution of returns, US vs. UK, developing angel investing as a new asset class

### **Summary:**

There exists a widespread assumption that angel investors lose money but keep on investing anyway ... Is this, in fact, true? Where could angel investing go in five years from now? What is needed to develop angel investing into a new, bonafide and accepted asset class that is taken seriously on a global scale?

There is insufficient data and clarity regarding angel investing performance (i.e. distribution of returns). Investors want to see improved data on the following variables:

- ROI, exit track records, jobs created, duration of holding periods, valuation of deals, cash-on-cash multiples, government perspectives on rate of return...

Fortunately there is some data available: distribution of private wealth in a particular country, potential policy initiatives (plus tax incentives), overall market activity, angel group practices, investment strategy, segment focus...

Regarding the distribution of returns, a study conducted in the US and the UK showed that, cash-on-cash, less than 1x is around 50% (most of the deals will fail)... and the exit takes on average 3.5 years, has a multiple of 2.6x and 27% IRR (UK: 2.2X 3.6 years, approx. 22%IRR). Larger returns are also highly correlated with longer holding periods (3 years to 6+ years). The Global Entrepreneurship Monitor (GEM) was mentioned as the type of data collected on a national randomized sample basis that could be generalized. EIS data in the UK was also assessed as having few selection biases.

The benefits of having improved data availability and quality include:

- Wealth advisors could promote and engage in angel investing more easily
- Governments and institutional money can effectively support co-investing
- Entrepreneurs more effectively find right and avoid wrong investors
- Data required to intelligently reach new geographies more quickly

Next steps to move towards an asset class:

- Improved self-reporting
- Only available group angel data; it'd be great to get super angel data (plus is it different in different geographies)
- Quarterly reporting ala Venture Source: activity levels, deal characteristics, investor focus...
- Anonymous tax related data
- Continued systematic sampling of angel investors over time
- Do deals beyond a certain geography
- Attract all appropriate capital sources to fund new businesses
- Clean matching of strategies and opportunities (stage, industry, style...)
- Track the amount of time put into investments, to more accurately assess true returns to investors

## **AFTERNOON SESSION**

### **Session 4: “Support Mechanisms and Experiences in Cross Border/Cross State Deals”**

**Time:** 14:00 – 15:00

**Panel Speakers:** Claire Munck (EBAN, Europe), Wong Poh Kam (BAN South East Asia), Mark Boggett (Seraphim Capital, UK), Dusan Stojanovic (True Global Ventures/Angel investor), Dan Mothersill and Matey Nedkov de Lacamp (Canadian National Angel Capital Organization - NACO); Moderator: David S. Rose (New York Angels/Angelsoft, US)

**Key topics:** cross border business angel investing, importance of having a local lead investor or “agent”, personal connections required, face-to-face interactions are needed to build confidence and trust between investors

#### **Summary:**

**Lessons from Singapore:** You can't be a cross border angel unless you know people well. Face-to-face interaction is required, and direct interaction is highly recommended. Cross border investments are less than 10% in Singapore, and this also includes expats at the other end (i.e. a Singaporean angel investor invests in a Silicon Valley entrepreneur that shares a Singaporean origin). Overseas deal origination is varied: they are either brought to the Singaporean investor through his network, or he has actively sought deals outside Singapore. It is more common and practical to look to the nearby Asian region (China, India, Australia) for cross-border deals, than to go all the way to Silicon Valley.

**Lessons from UK:** Overseas US investors help British investors with due diligence in the United States, assist UK investors with securing inputs from their American portfolio companies, and use British capital to match their angel investment (Seraphim Capital model). Leveraging of overseas investment on favorable matching terms can be attractive to local governments. The majority of deals (2/3) come from advisors, many from their angels. UK fund investors could do a better job of harnessing UK and US angels; meeting face-to-face more often would help facilitate this.

**Lessons from Sweden:** in small economies you need to think big (aka global) from the very beginning; this is particularly true with ICT technologies and markets. Key point: there has been a local investor in every cross-border deal, who meets in person the entrepreneur. It is also important that the local investor share the same agenda with the overseas investor/partner. To reduce risks such as travel costs and legal uncertainty, the following rules should be followed:

- Always have a local investor meet the entrepreneur. If the local angel doesn't want to invest, then there is no deal.

- Use information technology to avoid traveling (Skype, etc)
- ...despite the above precautions, legal and tax uncertainties can still be hard to overcome

**Lessons from Canada:** Cross border investment is important for building bridges between different angels in Canada (huge land mass, relatively low population and thinly spread – “Canada is a series of warring city states”). Angel investing in Canada is some 7-8 years old. Reciprocity (i.e. doing deals and study visits in both directions) is important for angel investors and portfolio companies – to gain mutual market knowledge, to know what companies are available to invest, and what the characteristics of deal flow overseas looks like. Main lessons learnt:

- In co-investment, money isn't enough: portfolio companies that go international have to become mini-multinationals
- National angel associations (such as NACO) can establish “agents” in different countries to develop relations with other angel associations, support cross-border deal-making, help portfolio companies get up and running, and undertake overseas market analysis: not every country is suited for all company/ investment
- Have trade shows and look for other ways to partner with governments
- Sometimes it is necessary for investors to push company CEOs to go global

**Lessons from Europe:** less than 5% of European angel deals are cross border today. There are some cross border networks operating in Europe, but mostly in industry verticals (photonics, media content, sustainable development). EBAN supports cross border collaboration due to a growing interest from its members on 3 levels: benchmarking deal flow and valuations, company internationalization and cross border investing. EBAN doesn't want to be involved in match making but in capacity building, data and research, and policy lobbying. For instance, they actively lobby the European Union to develop EU funded pilot projects (e.g. EASY project for early stage investors in ICT, healthcare, medtech – 13 million€ raised in 2 years). The challenges of cross border investing include geographical distance, cost and extra time, lack of information of investment framework in other countries, lack of information access to deal flow. It is key to have trusted local investors and partners on the ground, and it is helpful to work on common templates for assessing opportunities or preparing agreements; EBAN has developed a cross border toolkit for its members through the EASY project which is available for its members.

**Conclusions:** the panel concluded the following

- Try to go global by having members from different countries
- Cross border investing is all about relationships: building trust, having connections on the ground, engaging in trek tours to get to know the local companies and individuals
- Networking, networking, networking...
- Investments on a reciprocal basis (in both directions) create a win-win situation

## **Small Breakout Sessions**

**Time:** 15:00 – 16:00

Introduction to the objectives of the break-outs: John May (WBAA)

The attendees split into four groups, each of which selected a Rapporteur. John May tasked the groups with providing the assembled group with answers and suggestions to the following questions:

- How can the WBAA service you as an angel investor?
- What should WBAA be looking to do as a next step?
- How can WBAA be sustainable?

Each group discussed participants' recommendations for specific actions that the WBAA might undertake, which were summarized by the Rapporteurs.

## **Report from Break-out Sessions**

**Time:** 16:00 – 16:30

**Moderator:** John May (WBAA)

### **Summary of the group discussions:**

- Who are the WBAA “customers”? national angel trade associations/federations? Individual angel groups? Individual angel investors?
- Develop a global ranking of countries as to the quality of the angel investing climate (a global index)
- Provide information services/a knowledge base to member angel federations on topics such as tax policies worldwide, what are the terms for investing in different jurisdictions (share structure, etc)
- Focus on ways to facilitate cross border investing between new/existing angel associations
- Develop a global standard vehicle to do cross border investing
- At the next WBAA meeting present 5 companies and facilitate cross border investment
- Facilitate international endorsement of co-investors by creating a trusted network
- Hold more gatherings (including possible webinars)

What is the value of WBAA:

-implementation at regional level

-Record of things done

Replicate Ready for Equity (capacity building for angels and entrepreneurs) in Latin America

Leverage the power of a global association to influence public policy in favour of angel investing

Comments by other participants:

- Burton Lee recommended that before the WBAA ask what services it can/should provide to its members, it should first ask what is its primary mission?
- Lee suggested that the WBAA's mission might include the following:
  - Global spokesperson for the world's angel investor community - public relations with governments and media
  - Building a global brand and identity for angel investors, including actions such as the conduct of education and ad campaigns globally about angel investing
  - Education of policy, media and business communities about angel investing, to include actions such as online manuals/dictionaries of angel investing terms, concepts, and processes
  - Provide policy recommendations to governments that affect/improve angel investing at a regional or national level; lobby international government agencies that have jurisdiction across multiple national boundaries
  - Fund/conduct research into angel investing around the world
  - Lower the barriers and cost to establishing angel groups around the globe, by providing information services to the broader community, such as discounted software licenses and online services for angel networks; online tools and templates and draft documents; and data
  - Promote communication between angel investor communities around the world, with a view to developing cross-border investing, thru study visits and other reciprocal actions
  - Investing in regions where angel groups are not established, by raising funds or using other financial instruments
  - Building trust and confidence in angel investors around the globe

**N.B: There needs to be a balanced view to WBAA to reflect good practices from all over the world .**

## **Wrap Up and Next Steps**

**Time:** 16:30 – 16:45

**Moderator:** John May (WBAA)

### **Summary and Key Takeaways:**

WBAA is clearly relevant in today's world. But there is lack of clarity as to who our client is, what should be our main service, and what should be our next step/events...

Key takeaways include:

- Strategically define the mission, vision and business plan of the WBAA. This revolves around various dimensions (education, cross border investing, PR, lobbying...), could be done in a retreat among WBAA members and other interested parties
- WBAA should work on a business plan in the coming months considering different funding options (patron model, support from large corporations, ...)
- Create a global standard for business angels
- The education of policy makers worldwide was underlined as a major objective and possible purpose of WBAA
- Create a knowledge base for the federation and the business angels (deal database, best practices, policy differences among countries – plus templates). This information could be used for many purposes (i.e. for the Governments)
- Provide information for deal flow and co-investment
- Create a World Angel Investor Panel to report on the global status of business angels periodically every 6 months ... And to try to grow the community
- Share some real deals (both positive and negative) in a WBAA conference to gain insights and best practices from other business angels
- Create a stock exchange for alternative exit mechanisms and strategies
- Avoid becoming a bureaucratic organization, be focused on practical results and direct benefits to angel investors globally.

**\*\*\*\* END \*\*\*\***

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