EUREKA
innovation across borders

EUREKA
HIGH-TECH
INVESTMENT PROGRAMME

Potential sources of Investment

Presented by

Candace Johnson | EBAN President

Modwenna Rees-Mogg | CEO and Founder of AngelNews

Executive summary

1 The world of private investors and angels

2 The investor mindset

3 Angel investing

4 Crowd Funding

5 Venture Capital

6 Tax breaks and other motivation

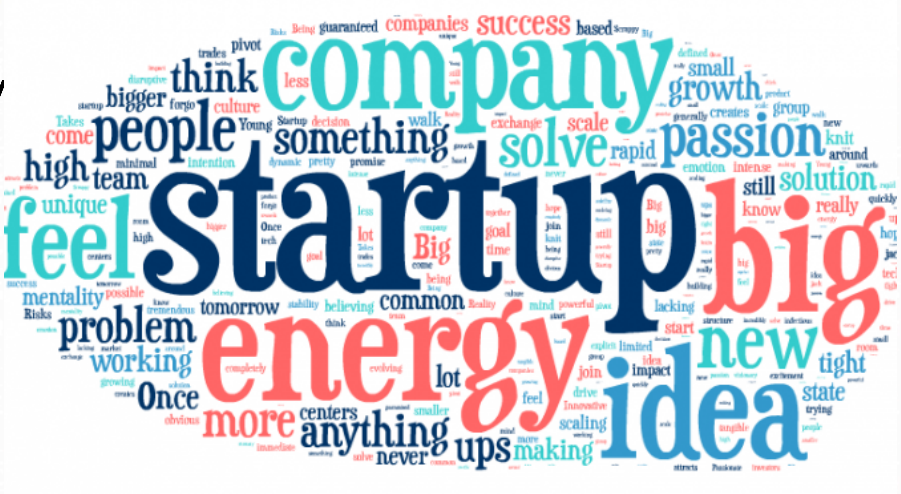
The world of private investors & angels

The world of private investment into business is booming, for the following reasons:

- Investors wanting more control over and insight into their investment portfolios/unhappiness with some fund management performance
- Investors seeking a superior return to traditional markets e.g. stock markets, commodities, property
- Many governments offer generous tax breaks and other incentives to encourage investors

The world of private investors & angels

- Private company investment opportunities are now very accessible thanks to the internet and the proliferation of advisers and intermediaries. The stories of how successful angel backed companies have been e.g. Apple, Facebook, WhatsApp has encouraged more people to seek out an opportunity to invest in the next “billion dollar” start up
- Private investing is fun and “cool” – TV and the web has helped
- The weak global economy has led talented people to create highly scalable businesses with opportunities for investors to make superior returns



The world of private investors & angels

- Investment by **private investors** in the US and western economies is 3-5x that of institutional Venture Capital. It runs into $ bns every year.
- Crowd funding – equity, debt and reward is only **a few years** old but is already raising $bns per year for start ups and early stage businesses with a great team and a better idea
- We are seeing SOME **successes** coming more quickly– maybe even an **exit** within 5 years – a time frame investors can understand
- There are more women in the world of angel investment – up to 15%
- Investors are getting **younger**; there is much more variety in how they like to invest

The world of private investors & angels

- There are still **“best” sectors** if you want to fundraise successfully
  - TMT
  - Medical technology
  - Renewables
  - Consumer/retail
- Led by hopes of **high returns** and **investor sentiment** (they like the idea of saving the world, backing the next big consumer idea etc)
- And some sectors investors really don’t like!
  - Biotech
  - Heavy manufacturing

The world of private investors & angels

- The amounts investors invest per round is growing thanks to
  - Recognition that companies that are growing fast eat a lot of cash
  - **Syndication of investments** – with many investors co-investing at the same time it enhances the ability to raise larger sums

- **Valuation** remains a very hot topic
  - Views differ on the valuation methodologies that are "right"

The investor mindset

Investors are motivated by very different things but the fundamental questions for an entrepreneur to ask are:

About **their money**?

- Are you investing your own money or someone else's?
- Are you representing other investors in this round who will be co-investing with you?
- How quickly are your funds available?
- Are you able to follow your money in another round of investment?

About **themselves**?

- Are you hoping to be actively involved in this business?
- If so, what role do you want?
- If not, what do you want our relationship to be?

The investor mindset

About the **investment**?

- Do you understand and have experience of the sector my business is operating in?
- Can you add value to the investment e.g. by making sales introductions
- Are you invested in a competing business and if so why do you want to invest in my business?
- What are you exit horizons?

The investor mindset

What angels want!

- Original motivation is always soft – e.g. help an entrepreneur like I was helped, change the world etc
- Very quickly this motivation is overtaken by desire to make money even if the risks are high.
- Identifying with scalable businesses (from dinner party boasting to having “a job to do”)

These motivations can lead to irrational exuberance!

The investor mindset

What crowd funding investors want!

- Original motivation is curiosity and desire to back something interesting and fun – tax breaks are also a bit motivator in equity investing
- Current excitement in crowd funding is leading to investments being made at very high valuations and very quickly – time will tell whether this market reverts to characteristics more like angel and VC investing

The investor mindset

What Venture Capitalists want!

- Great returns for their investors
- To be invested in the most successful deals so they can get great returns and so they can build a track record so they can raise another fund

The investor mindset – experienced investors

Experienced investors know that this is risky

- Over 50% of investments will fail to give investors their money back
- Only 3 in 30 will deliver stellar returns of 30x return on investment
- You must have a wide portfolio of investments to beat the odds
- You need to understand what you are investing in
- The quality of the management is still the most important single factor in the investment decision, although market opportunity comes a close second.

The investor mindset – experienced investors

Therefore they put in place all sorts of measures and tactics to improve their chances

- Due diligence around the transaction
- Legal agreements to protect against downside risk
- Deal terms that work in their best interests eg. liquidation preference, drag along/tag along rights
- Only investing where they can really add value

Angel investing

Angels are private individuals who invest their own money in a business, where they have not previously been connected with the management team of that business. Sometimes they also invest money on behalf of family.

- Most angels are men and although they are getting younger they will typically be over 45 years old.
- They typically **invest** between E10k and E250,000 per investment
- They may or may not have predetermined investment criteria
- They are typically looking for capital growth and not income
- They usually like to feel engaged with the investment but may or may not want to be actively involved in the deal.

Angel Investing

These are the **7 steps** to take if you want to raise money from angels

1. Take your time to prepare well
   Have a great investor deck, presentation & business plan, have all your documents lined up, get pre authorisation for tax break schemes etc before you start.
2. Be aware that it will take six – nine months from the day you start fundraising to close a round
   Most angel deals close between September and February so plan accordingly
3. Make sure your business is exciting, the financials look fantastic and that the team is great
4. Use advisers, especially if you have a lean team –
   Normally at least one person in your team will spend all their time fundraising so make sure the business does not suffer in the meantime

Angel Investing

5. Be aware that you may have to co-ordinate lots of different angels from different places into the round
   Plan your fundraising so that you approach as many people as possible at the same time to create a sense of excitement and scarcity in the minds of investors
6. Never accept a cheque without a proper legal agreement being in place
   Honestly don't! or you may find the investors have all sorts of rights you did not think they had
7. At the very least have a lawyer and preferably an accountant to look after your interests in the deal.

Equity crowd funding

Crowd funding investors range from people investing E10-E100 to E100,000 per investment

- The median investment size is around E1,000-E2,000
- We are now seeing crowd funders investing over E1m in certain very popular deals. More typically crowdfunding is able to raise E100,000 per investment
- Less than 50% of crowd funding campaigns are successful, although many companies that fail still go on to raise angel or VC funding.
- Crowd funders like to follow one another, so it is very important to start a crowd funding campaign with your own crowd primed and ready to invest when it launches

Crowdfunding

These are the **8 steps** to take if you want to raise money from crowd funders

1. Take your time to prepare well. Have a great video, investor deck, presentation & business plan, have all your documents lined up, get pre authorisation for tax break schemes etc before you start.
2. Be aware that if it goes well you could have your money in a few days
3. Make sure your video is really amazing and sells the business in the time allowed. And make sure the financials add up and that the team looks backable
4. Confess to any skeletons in your cupboard with the platform operator before you go live. IT will be fatal if such information comes out during the campaign
5. Remember it will be 24/7 throughout the life of your campaign
Make sure someone is there to run the business in the meantime

Crowdfunding

6. Check when the best time of year for a campaign like yours
   If you have a seasonal business, time your campaign to fit with when funders are most interested e.g. if you are a holidays business run your campaign when everyone is thinking about their summer holiday
7. It is possible to run a crowd funding campaign alongside an angel/VC round. , but it will be hard work. Try to get big angel/VC money committed before you start your campaign
8. Have a follow up strategy ready for all your new investors.

Venture Capital

Venture Capitalists invest other peoples' money although they sometimes also invest personally in or alongside their funds

- They may invest the money of individuals, pension funds, governments and sometime corporates. Their funds are either evergreen or fixed life. If they are fixed life it is usually for 10 years (plus an extension period of 2 years)
- Most VC are run by men. They are often 25-50 years of age
- They will have a range of fixed investment criteria ranging from geography to sector to investment amount and stage of company
- Depending on the type of fund they are either looking for capital growth or capital growth plus income.
- The vast majority will want to be VERY involved in your business, including regular phone calls and meetings and probably sitting on the company board.

Venture Capital

These are the **9 steps** to take if you want to raise money from Venture Capitalists

1. Take your time to prepare well
   Like with raising angel money, have an investor deck, presentation & business plan, have all your documents lined up and make time in your diary to attend meetings and answer questions
2. Be aware that it takes 4-6 months to raise a VC round at least
3. Definitely appoint advisers such as a lawyer, accountant and corporate financier. Most VCs do not invest in opportunities sent direct to them
4. Make sure the financials add up and that the team looks backable. Double check for inconsistencies in your story and correct them
5. Confess any skeletons in your cupboard to your advisers early. It will be fatal if such information comes out in the middle of a round

Venture Capital

6. Remember VCs will test you hard e.g. ringing you late at night to get something for the next day to see how you respond to stress. Also remember that the deal is not done until the final paper work is signed – a term sheet is not a firm offer to invest.
7. Like Angels VCs have times when they most like to invest. Check out their funds to see if they need to invest quickly e.g. because the investment window is shortly closing.
8. Do not waste your time or the VCs by approaching VCs who will not be interested in your type of business
9. Remember the 1st 100 days after an investment are often the most important for a VC as this is when they find out whether you can deliver on your promise and plan.

Tax breaks and other motivations

We talked earlier about other motivations. Here are some true examples of real investments where investors were motivated by apparently the wrong things but which had some surprising outcomes.

- The investor who bought into an investment to buy themselves a job (and took out more than they invested in salary in the first year of working
- An angel who invested in a sector they did not understand at all in order to co-invest with some really clever investors. NOTE all the angels exited within 3 years at a great profit!
- An angel whose investment was like the English antique broom – they kept investing in new management teams and new business models in alternate order for years and years, until the deal looked nothing like the original one.

Tax breaks and other motivations

- The VC who overpaid for an investment just so that they could be seen to be co-investing with other “cool” VCs in that deal.
- The VC who invested in a great technology and then realised that the founders who were Russian wanted to go home and did – effectively leaving the business without anyone to run it.
- The crowdfunders who invested in a business fronted by a famous TV personality even though the valuation of the shares was outstandingly high.

Conclusion

- The right external investors bring value like nothing else.
- For the best external investors (including crowdfunding investors) the money they invest will be worth less than the market opportunities they bring you
- You need to be highly focused and engaged if you are going to raise external finance
- It takes real time and commitment to achieve a successful fund raising
- Not all types of fund raising will be suitable for everyone – do lots of research to find out what is best for you before embarking on a campaign.
- Take lots of advice before you start and whilst you are fund raising.
- Always listen to investors, never argue with them and accept that even if you do not take their advice, it will probably tell you something useful.

Questions and Answers

Next webinar:
Raising Capital through an Effective Process

- **Speakers:**

  Riku Asikainen | FiBAN President

  Paulo Andrez | EBAN President Emeritus

- Date: 17th of March, 2PM CET