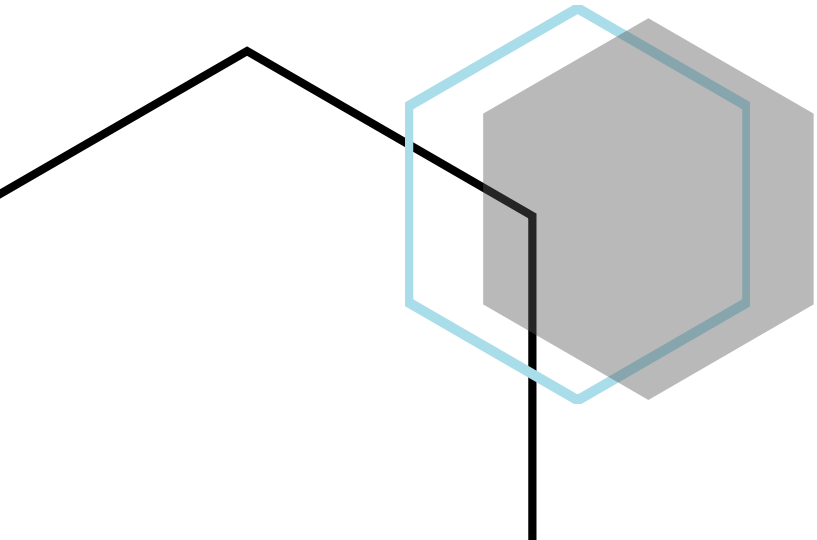


# Business Angels' Changed Role in Today's Startup World

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**A Strategy White Paper for the Development of a  
Better Startup Ecosystem  
– DEEP ECOSYSTEM LEADERSHIP COMMUNITY**

In partnership with





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# Business Angels' Changed Role in Today's Startup World

## A Strategy White Paper for the Development of a Better Startup Ecosystem

### On the Authors

DEEP Ecosystems is a world-wide community of tech ecosystem builders who collaborate to build more transnational, inclusive, entrepreneur-driven and impactful innovation systems.

The main activities of DEEP are the [Startup Heatmap Europe](#), an unparalleled database on ecosystem development metrics, the [DEEP Ecosystem Conference](#), which brings together a community of more than 400 professional ecosystem leaders twice a year. Finally, DEEP organizes the [DEEP Startup Ecosystem Accelerator](#) which directly supports the growth of local ecosystems. DEEP regularly organizes peer-knowledge exchanges and educational formats for ecosystem builders ranging from Ecosystem Hacks, Data Trainings and Full-Scale Educational Programs.

### On this Publication

The [DEEP Ecosystems Conference](#) on 15<sup>th</sup> April 2021 brought together 175 practitioners and experts from the startup scenes of more than 45 countries to have data-driven discussions on the most pressing challenges their ecosystems face.

The event evolved around 5 deep dive topics ranging from AgriTech and sustainable food production to diversity and female entrepreneurship. Each of the topics was prepared in-depth by a research team and the findings shared with all participants before the debate. Combining the knowledge and insights of the whole DEEP Ecosystem Leader community Strategic White Papers are formulated that aim to inspire everyone in the startup scene and open up a perspective of how we can build a more transnational, inclusive, entrepreneur-driven and impactful ecosystem.

The DEEP Dive on Business Angels was co-hosted by the European Investment Fund and the Austrian Angels' Association. Further expert contributions came from the Max-Planck Foundation, Bird Incubator and Lispolis.



**Oscar Farres,**  
**Head of VC at European Investment Fund (EIF)**

## WHAT HAPPENED TO BUSINESS ANGELS?

### A Changed Environment Forces Angels to Adapt

**With a 5x slower growth than VC investments in Europe, Business Angels face difficult times to participate in the race for the best deals. Institutionalization, competition from government and crowdfunding platforms are making the traditional Business Angel type obsolete.**

*“Business Angels very often are cornerstones of local ecosystem development – that is why they are so important to the EIF.”*

Business Angels are a key resource for small and medium sized enterprises and provide support when they make the push towards scaling up. Angel investors provide early-stage capital to these companies in return for a participation in the capital. Their value goes beyond the money they provide. They also contribute their skills, knowledge and business contacts and perform the role of a business mentor.

Business Angels also operate as hunting grounds for VC funds. “If angel investments were to slow down, it would have a massive impact on the startup economy in Europe. Indeed, if angel investing

breaks down, you break down the whole pipeline of development,” says Luigi Amati of Business Angels Europe.

An understanding of the changes taking place and factors impacting activities of Business Angels can enable ecosystem builders to get involved and make Business Angels and their Networks an invigorating marketplace.

### **Business Angel investments grew 5x slower than total investments**

Business Angel investments are growing 5x slower than total startup investments.

However, they are growing faster than Seed investments, which typically have a unit size of 500k - 2mn €. In fact, for the 3-year period from 2017-19, Seed investments have shown a negative growth. The average annual growth rates of the three investment types compared:

- Total Investment Sums (without grants): +31.04%
- Business Angel Investment Sums: +6.5 %
- Seed Investment Sums (500k – 2mn €): -4.17%

### **Covid-19 pandemic has not dented Business Angel investments**

The Covid-19 pandemic has not been able to dampen Business Angel investments, despite a reduction of 19% in first-round



investments. Investment data of UK for 2020 is an indication:

- Record high of 324 angel investments in the UK in 2020 (Beauhurst 2021)
- Business Angels increased their investments by 19% (idib)
- Positive market conditions for Angels due to lower evaluations

### Stagnation in number of Business Angels and Networks

There is no growth in the number of Business Angels and their Networks. The Network numbers peaked

at a little over 400 in 2016 and have stayed in the same range ever since. The Angel numbers peaked in 2018, and tapered off after that, with about 345,000 being active in 2019.

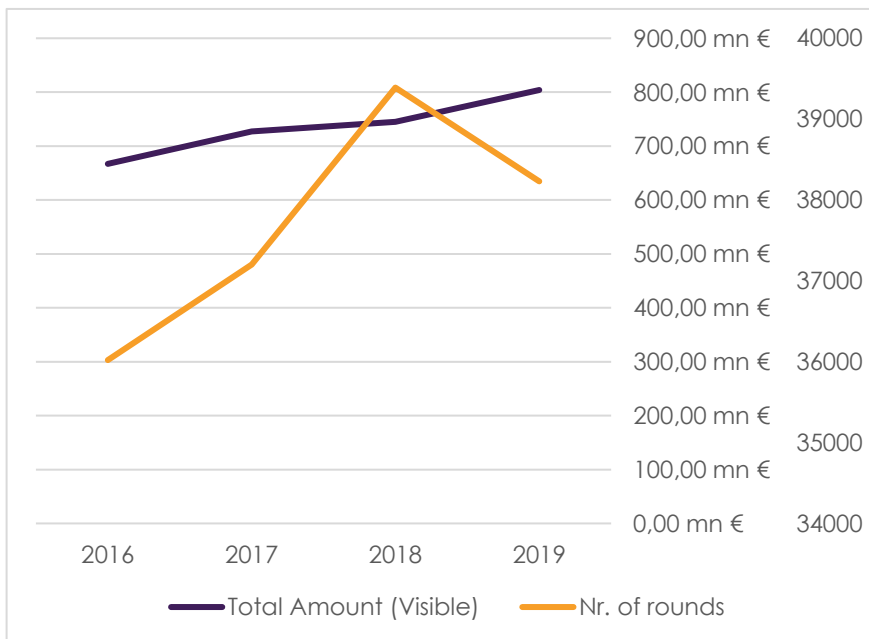
### Business Angel growth varies widely from country to country

Regional variations in Business Angel growth rates are stark. The largest markets like Germany and France, that have tended to define the European trendlines, are shrinking or stagnating. Mid-size markets like Sweden, Italy and Finland, are catching up fast with growth rates in the range of 30-40%.

### Internationalization continues to be limited

Despite efforts to encourage cross-border Business Angel investments by Business Angel network associations like EBAN, CEBAN, etc. international investments remain uncommon.

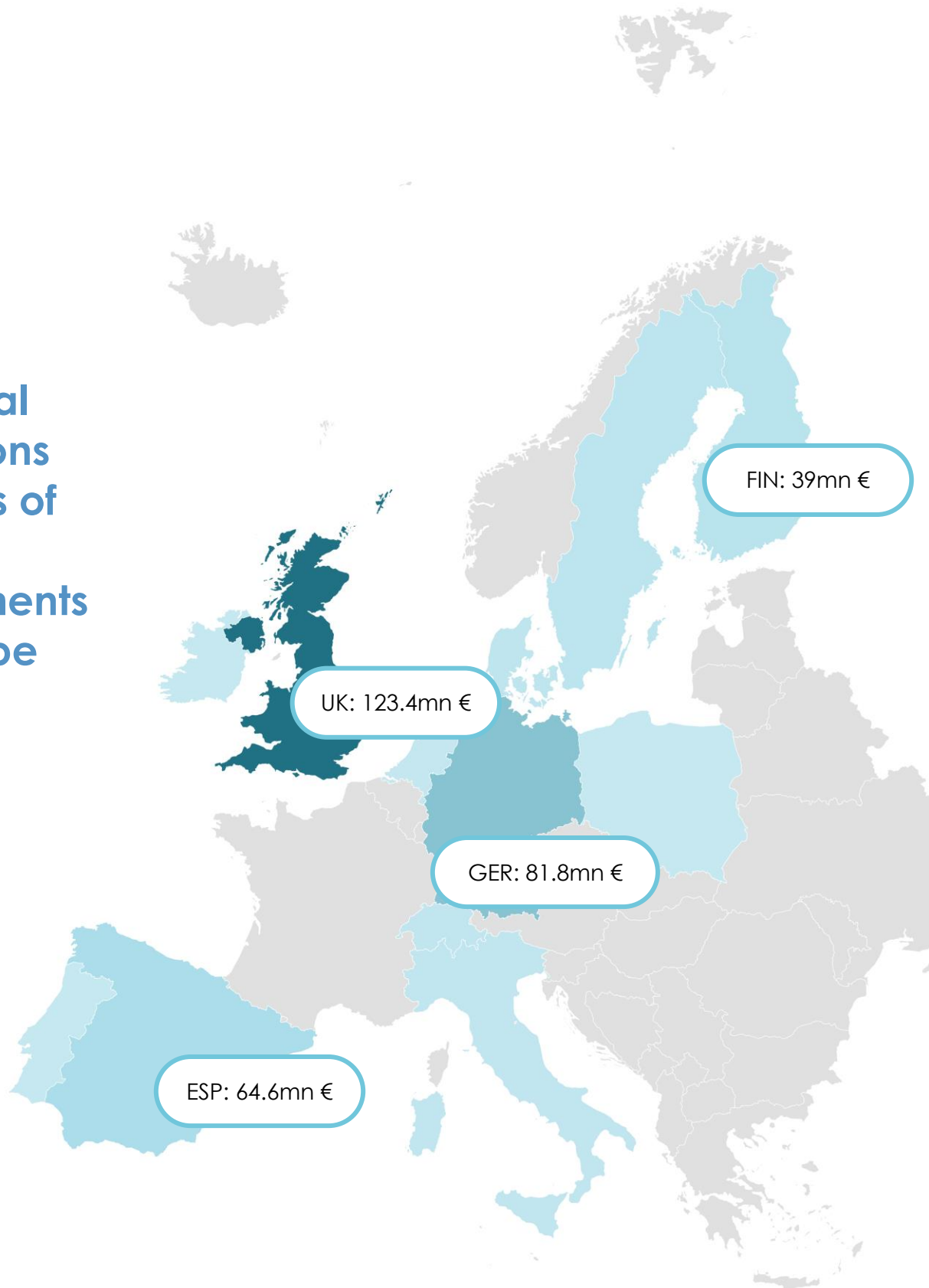
- 75% of angel investments in Europe happen in the same or a neighboring country (EBAN 2020)
- 60% of European Angels rate cross-border investments as difficult or never tried it (ibid)
- Research showed that Business Angels in the US tend to invest in a range of 50-100 miles from where they live (Harrison et al., 2010).



Source: EBAN 2019

## Business Angel Investments Grow 5x Slower than VC Investments in Europe

## Large Regional Variations in terms of Angel Investments in Europe



Source: EBAN 2019



**Paul Ginsberg**  
*Enabler & Facilitator, The Together Plan*

“With the growing success of tech startups, non-tech investor interest has shifted from traditional investment opportunities to investment in the (early stage) startups. What they lack is the knowledge on how, why and where to invest. A solution could be educational formats aimed at an interested audience help them gain the insights they need.”

## **Changing Market Conditions are impacting Business Angels**

The impact of changing market conditions on Business Angels is a mixed bag. While there is greater competition from relatively newer sources like Crowdfunding, there is also support coming in from governments in the form of co-financing schemes.

## **Equity Crowdfunding has emerged as a viable option for investments**

Equity-based crowdfunding has emerged as a viable option for many startups. This is especially true in markets like UK, Finland,

Spain and Germany that have a regulatory framework that supports this channel.

## **Business Angels are spending more time evaluating opportunities**

Online matchmaking has caught on, and it seems to be giving everyone more time to focus on the things that matter. Online Business Angel meetings are better attended than the physical ones used to be. More cross-border Angels are able to participate. According to Angel investor Elizabeth Pauchet, “Paradoxically, members are more available. We’ve had two monthly meetings now where startups pitch via Zoom, and attendance is significantly higher than in

the usual pitch plus cocktail format.”

Angels are moving quickly beyond online participation. “Due diligence and deal execution are quicker; many people have been able to carve out more time to focus on their Business Angel activity – which is a side interest for the vast majority of our network’s members,” says Pauchet.

## **Increasing professionalism in the ranks of Business Angels**

The ranks of professional Business Angels are increasing. As an example, in the UK 78 individual Angels had equity in >40 companies (Beauhurst 2021). Experienced Angels are taking a step further and making the move to create funds with professional investment managers that have the





potential to significantly improve portfolio performance. At the same time, entry barriers for newcomers with no experience as Angels and no network are increasing, leading to a reduction in the one-off Angel investors. With only about 34% of exits being able to return the investment (based on UK data, UKBAA 2021), Angel investing is becoming an increasingly difficult business activity.

**Emerging Typology of Angel Investors indicates consolidation around 5 distinct profiles**

**Classic Lead Investor**

High-net worth individuals investing anywhere between 20-200k € and engaging actively in the build-up of the company on a 1:1 basis.

**Occasional Investors**

Family offices, non-tech Angels who occasionally get involved in a startup to experiment but are not knowledgeable about the business model or asset class.

**Equity Crowdfunding Investors**

Investors with smaller capital available or interest in diversifying in geographical markets.

**Super-Angels**

Professionalized investors with staff and large-scale.

networks. Often seasoned serial entrepreneurs with good connections to VCs.

**Mixed Forms**

There can be a variety of combinations of different types of investors. Two common ones are:

Platform-based – This is a combination of VC investments and Crowdfunding. Examples of this form have emerged on the Seedrs equity crowdfunding platform. ([Seedrs Blog](#), undated)

VC-promoted – Another mixed form is the VC-backed angel program, where large VC investment firms provide a select group of individuals capital to invest for them. Such programs in Europe have been started by Atomico Ventures, Ada

Name	Bio	Investments
Daniel Ek	Co-Founder Spotify	pledged to invest 1bn € in startups
Xavier Niel	Kima ventures	>100 investments per year
Chris Mairs	Founder Entrepreneur First	>120 investments
Morten Lund	Copenhagen-based investor	>115 investments
Matt Robinson	Co-Founder Nested and GoCardless	>50 investments
Ian Hogarth	Co-Founder songkick	>30 investments
Hanis Hansmann	Vienna-based investor	>45 investments
Luis Marlin Cabiedes	Spain-based investor	>40 investments
Felix Haas	German investor	>50 investments

**Europe's Most Active Super Angels**





Ventures, Backed VC and Sequoia ([Sifted 2020](#)).

## Regulatory Conditions

Tax incentives have been one of the primary drivers of Business Angel investments, as traditional tax regimes make high-risk investments unattractive for individuals due to the high incidence of taxation on distributed profit (= capital gains).

Tax incentives for Business Angels have been around three main themes:

- a) Upfront relief on amount invested
- b) Tax reliefs on returns
- c) Loss relief

Some of the most relevant tax incentive schemes for Business Angel in Europe are the following (EC, 2017):

- Seed Enterprise Investment Scheme (SEIS - UK): It confers a 50% tax break for investments in seed stage companies. Investors can fund seed businesses up to £100k per year. They also get capital gains deferrals.
- Enterprise Investment Scheme (EIS - UK): This

scheme has been in existence for about 30 years and consists of a tax break of 30% for an investor who makes an investment in an unquoted qualifying business with a significant trading base in the UK. In addition, deferral of capital gains tax on subsequent gains are covered. An investor can invest up to £1m per year.

- "Madelin" tax reductions (France): in 2006 the French government introduced a tax reduction system for direct investment by private investors in SMEs. Nowadays, the tax relief is 18% with a cap limited to 10K€ and the commitment to keep shares for 5 years. This tax relief is also extended to Angel Funds, though there are strict requirements that need to be adhered to.
- "INVEST – Venture Capital Grant" (Germany): in 2013 the Federal Ministry of Economics and Technology launched this incentive system for Business Angels. Business

Angels who invest in SMEs, which are younger than ten years and considered innovative, receive a fully tax-free grant of 20% of the investment.

## Measurement of Angel Investments has been a challenge

The ability to accurately track Angel activity remains a challenge. There are many reasons. The structured networks, clubs and platforms where much of the known activity takes place represent only a part of the ecosystem. There is a large 'invisible market' outside these 'visible' structures.

Even Angel investors seem to resist disclosures and are apparently comfortable with the private arrangements they are able to work out with investee companies. Unlike VC investors, Angels don't have other investors (LPs) to report to. In effect, there is an inadequate policy framework that defines and governs Business Angel activity as a distinct business activity.

The most reliable source for Angel information in Europe is the EBAN annual survey that is distributed via the national Business Angel associations who are member organizations and

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cover the organized portion of Business Angels in Europe. As is evident, one of its limitations is that the data is based on a survey, and subject to what respondents may choose to disclose or hide.

In addition, EBAN estimates the data to represent only 10% of the market. While a factor of 10 is not difficult to apply, EBAN's estimate of 10% representation is just that, an estimate.

Though efforts have been made to 'formalize' Angel activity, gaps remain. Efforts are being undertaken along the following lines to surface Angel activity and bring it within the purview of a

transparent, measurable mechanism:

- Surveys based on an initial incomplete list using snowballing method to identify further Angels
- Tracking of the investments by 'accredited investors' (e.g. in UK, investors can be certified as 'high net worth individuals' if they meet some criteria)
- Hybrid supply-side (investors) and demand-side (SMEs) surveys
- The analysis of BA networks and syndicates
- Exploiting the BA tax incentive schemes data
- Analysis of business registries and reports about matching capital increases involving outside shareholders, e.g. 50-500k €

- Tracking of startup media mentions of angel investment rounds



**Javier Gutiérrez Boronat**  
Max-Planck Foundation

*"Deep Tech is particular risky. That prevents some Angels from investing early stage. However, we need to work this out to make innovation happen!"*

**Pedro Rebordão**  
Innovation Manager, Lisbon



*"An opportunity for Portugal are ex C-level executives who move here because of the quality of life and are ready to spend their time and resources with our ambitious entrepreneurs."*

## OUR RECOMMENDATIONS

Based on the data collected and the exchange of experts during the DEEP Ecosystem Conference in April 2021, the DEEP Ecosystem Leaders formulate the following recommendations for a strategy towards a vibrant Business Angel investment ecosystem:

### 1) Highlight the role played by Business Angels

Business Angel activity is highly under-reported. While efforts are being undertaken in parallel for data transparency, ecosystem builders need to highlight the work being done by some of the known Angels, and the difference they are making to startups as well as late-stage investors. This could include successful examples of Angel investments as well as how they are influencing decisions taken by VCs.

### 2) Create a transparent process of collecting data and measuring performance

The ability to measure the activity will provide data to ecosystem builders to take necessary steps to provide or withdraw support, as per the situation, in an effort to take it towards desired goals. Without measurement, we are driving blind.

### 3) Introduce Education and Training initiatives

Angel investing has had the image of an informal activity, often done on the side of a successful business enterprise. However, that is changing. Professionalization is coming into the space, with prominent Angels setting up vehicles with a professional management team to further their Angel investing goals. Ecosystem builders can aid and expand the scope of work being undertaken by Angels in isolation. This can be done through the introduction of educational and training programs, with different ones being aimed at the Angels and professional management teams. Programs for Angels could be further fine-tuned based on their type.



## 4) Adopt modern tools and techniques

An example is Shark Tank: The show features a panel of investors called "sharks", to whom selected entrepreneurs make a pitch for investment. Whether the pitch is successful or not, it is believed that appearance of the show has a rub-off on the entrepreneurs with post-show revenues often registering an uptick. Ecosystem builders need to become smart and leverage the appeal of modern tools and media such as this show. The process should begin with an analysis on the impact a show like Shark Tank has. Is the impact real or is it a myth? Are new Angels becoming visible as a result of the show?

## 5) Political lobbying and regulatory changes

Tax incentives are a big driver of Angel investments. Many countries have recognized the need and have created taxation structures that incentivize Angel investing. These developments in a few countries need to be expanded to cover a much larger part of the continent.

## 6) Internationalize Business Angel investing

Startup growth does not respect political boundaries. Ecosystem builders need to handhold Angels and show them the opportunities that exist beyond political boundaries. At the same time, they need to establish a method of understanding and mitigating the challenges foreseen by Angels in cross-border investing.

## 7) Define a roadmap for Business Angels as well as Ecosystem Builders

Define the role of Business Angels in a rapidly changing marketplace for investors. What is the role they are expected to play? This could include setting up some goals for themselves (the ecosystem builders) so that even ecosystem builders have objective measures against which their performance can be evaluated.