



Business Angels



In August, **InterTradeIreland** published a unique all island report into the Business Angel investor market. The cross-border trade and business development body has actively supported the development of a market where Business Angels and entrepreneurs can make deals anywhere on the island. The work drew on the views of over 100 individuals involved in **Business Angel investing**. According to the report: '**Funding for growth: The Business Angels Market on the Island of Ireland**', Business Angel investment here is estimated to be worth between €70 million and €120 million annually. However, with some clever strategic thinking, this market could yield much higher dividends in the years to come.

Business Angel investment groups or syndicates are popular investment vehicles with HBAN (Halo Business Angel Network) facilitating the development of business angel syndicates on the island of Ireland and its partner organisation Halo NI works to facilitate angel investment in Northern Ireland. The number of HBAN business angel investments

in Ireland has doubled since 2009 and remained in year on year growth throughout the period of the financial crisis. The total value of the investments has also increased from €24.6 million in 2009 to €58.6 million in 2015. A positive picture which reflects the general confidence in the development and growth of the market.

Although there is no such thing as an 'average' Business Angel, the report suggests that the typical Business Angel is largely male (over 90%), and generally middle-aged. **Grainne Lennon**, Operations Manager, InterTradeIreland said: "The high proportion in this age group is not unexpected. Business Angels need money that they can afford to risk,

Business Angels provide ‘smart money’ to entrepreneurs

GRAINNE LENNON →



they also need business experience and know-how and the time to provide support to businesses in which they invest, which would realistically reflect those in mid/later careers”.

“There is a growing trend in the UK towards more female Business Angels and an increasing number of younger Business Angels, observable in the USA, reflecting technology entrepreneurs ‘cashing-out’ at an early age. So far, these trends appear to be less pronounced on the island of Ireland. We’d like to see this trend towards diversifying the Business Angel talent pool replicated as future all-island syndicates develop”. It is also worth noting that HBAN has facilitated the introduction of a number of Irish female business angels to the newly formed EBAN Rising Tide investment syndicate, a

group of over 90 women from 25 countries which plans to invest €1m+ in early stage European companies.

In Ireland, the key incentive for investors is the Employment and Investment Incentive (EII) - a tax relief incentive scheme which provides for tax relief of up to 40% in respect of investments. The EII scheme allows an individual investor to obtain income tax relief on investments for shares in certain companies up to a maximum of €150,000 per annum in each tax year up to 2020. While effective tax incentives are regarded as important in an absolute sense, other factors are equally important according to the report. Most notably, the quality, viability, and commercial potential of the entrepreneur and business idea, were regarded by many of the study’s Business Angels as equally or more important factors in making

investments than the potential for mitigating risk or maximising returns through tax incentives.

Investing can also often be a ‘stop-start’ process, with other priorities (work related and/or personal) impacting on the flow and scale of investing, alongside the need for time between investments to see how they develop and mature.

In the wider European context, Grainne notes that: “Business Angels contribute significantly to the financing of early stage companies and, collectively, Business Angels are more important than venture capital funds at the start-up and early stage of investment - a 2014 European Business Angel Network (EBAN) report estimates that, in Europe, Business Angels invest €3 for every €1 invested by venture capital funds in the early stage investment market.

“Unlike bank lending and venture capital, Business Angel investing levels held firm in the immediate aftermath of the global financial crisis.”

On patterns of investment and investment approaches, four key points emerged from the report. Levels of cross-border investing on the island are, in absolute terms, modest, and ‘within jurisdiction’ investing appears far more common; investments are generally made in a number of related industries, although rarely one single industry; investing in groups and syndicates is increasingly common, but sole investing remains important; and finally, engagement and involvement with equity crowdfunding among Business Angels on the island of Ireland is currently low.

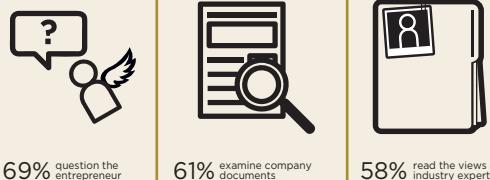
A fully-functioning and diverse financial ecosystem is certainly critical to support the development of entrepreneurial and high growth firms on the island of Ireland. The report includes some recommendations on increasing the number of Angel investors, developing a higher profile for them and enhancing the level of cross-border investment, including consideration of the current asymmetry of tax incentive ‘offers’.

All recommendations are designed to improve and further mature the island’s Business Angel market which the report estimates could grow to €264 million by 2020. Increasing the supply of Business Angels is, of course, crucial to developing this market. Equally, it is critical that there exists a sufficient volume of quality opportunities for investment and entrepreneurs that are investor ready. If both the demand and supply side are tackled this will further add to the development of an entrepreneurial ecosystem on the island of Ireland that can drive future economic growth and job creation.

The full report can be found at
INTERTRADEIRELAND.COM

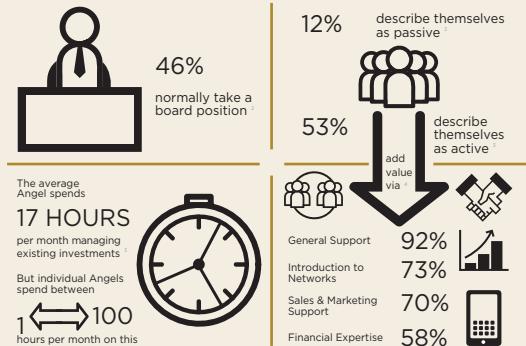
PRE-INVESTMENT ACTIVITY

Three key types of due diligence¹



POST-INVESTMENT ACTIVITIES

Mixed levels of engagement



Source: SQW, based on online survey of Business Angels. N values: 1=74, 2=48, 3=49, 4=26.

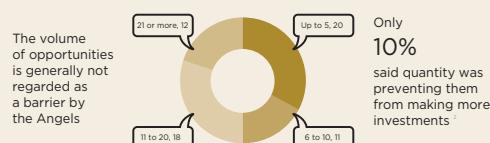
ANGELS AND OPPORTUNITIES

Three main sources of opportunities...



ANGELS BELIEVE THEY SEE SUFFICIENT QUANTITY...

How many investment opportunities do you see in a year? (n=65)



...BUT QUALITY OF OPPORTUNITIES IS AN ISSUE

Angels are prevented from making more investments by

31/63 unrealistic entrepreneurs (e.g. valuations, deal terms)



24/63 poor quality of opportunities seen



Source: SQW, based on online survey of Business Angels. N values: 1=48, 2=63.
Business Angels on the island of Ireland are committed to providing ‘smart money’, however, the intensity and nature of post-investment behaviour is tailored to each individual investor. According to the findings, Business Angels are generating positive exits from their investments.