

FUNDING FOR GROWTH: THE BUSINESS ANGELS MARKET ON THE ISLAND OF IRELAND

AUGUST 2016



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ACKNOWLEDGEMENTS

InterTradelreland would like to thank Simon Pringle and Joseph Duggett of SQW Ltd, Colin Mason of Glasgow University and Tiago Boethlo of the University of East Anglia for the research behind the report. We would also like to thank the 100+ business angels from across the island of Ireland who all gave so generously of their time to participate in the online survey, qualitative consultations and focus group which all proved crucial to the research.

Finally, InterTradelreland would like to thank the members of the steering group, all of whom provided important insights and direction for the research.

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Foreword

There is an increasing recognition of how important Business Angels are as a source of equity finance for new and emerging entrepreneurial firms at the seed and early stage. The OECD argues that they are critical to economic development not only due to the absence of much venture capital at the early stage, but also because of their 'key role in providing strategic and operational expertise for new venture as well as social capital (ie: their personal networks).'¹

On the island of Ireland, Business Angels have been developing a strategic role in early stage and risk financing since the late 1990s. Although much of this investment is not visible there has been a trend towards formalisation of Business Angel networks, groups and syndicates. HBAN, operating as an all-island organisation but focusing on Ireland, has supported regional, cross-border and sectoral syndicates of angels. In Northern Ireland Halo NI also works to bring investors and entrepreneurs together. Both parts of the island now have Co-Investment Funds in place, adding another element to a slowly maturing Business Angels market which the report estimates to be currently worth between €70 and €120 million.

Given the relative novelty of the market there has been a lack of systematic evidence on the characteristics, investment patterns, behaviours and attitudes of Business Angels in either Ireland or Northern Ireland. This report sets out to fill this gap by providing findings from a survey and series of interviews with angels from across the island. The report also contains some evidence of the outcomes of angel investment and the material on 'exits' should prove particularly interesting, given its importance to future investment decisions.

InterTradelreland, as 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 findings on increasing the level of cross-border flows of investment, a challenge found across all OECD countries, through greater visibility of investors and opportunities, and reducing any barriers caused by differing tax incentives on either side of the border, are important ones for ensuring the most efficient and effective market for funding for growth on the island.

A fully-functioning and diverse financial ecosystem is certainly critical to support the development of entrepreneurial and high growth firms in both Ireland and Northern 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.

¹ OECD, Financing High-Growth Firms: The Role of Angel Investors (2012), p. 9..

EXECUTIVE SUMMARY

Executive Summary

Context

Business Angels are an important source of equity finance for new and emerging entrepreneurial businesses. **Business Angels are individuals who invest their own money directly in new companies**, often providing the first round of equity capital once the entrepreneur has consumed funding from personal savings, friends and family, and the public sector. Business Angels also provide ‘smart money’, taking a hands-on approach to investing, providing advice, insights, knowledge and contacts to entrepreneurs.

The island of Ireland has a significant and growing Business Angel market, benefiting from a well-developed support infrastructure, including tax incentives. Key to this infrastructure are established Business Angel groups and networks, notably HBAN, an all-island network which focuses principally on the Republic of Ireland, and Halo NI in Northern Ireland.

However, **to date there has been limited detailed information on Business Angel investing on the island**, in part, because of its intrinsic nature, where individuals often invest privately on their own or in small ad-hoc groups.

Against this background, InterTradeIreland commissioned SQW Ltd, supported by academic specialists, to undertake a study to provide evidence on: the characteristics, investment patterns, behaviours and attitudes of Business Angels on the island; the outcomes of Business Angel investing (particularly evidence on ‘exits’); and the role of

tax incentives and other supports in supporting Business Angel investing. The study was also tasked with developing a series of recommendations to improve the market for Business Angel investing on the island.

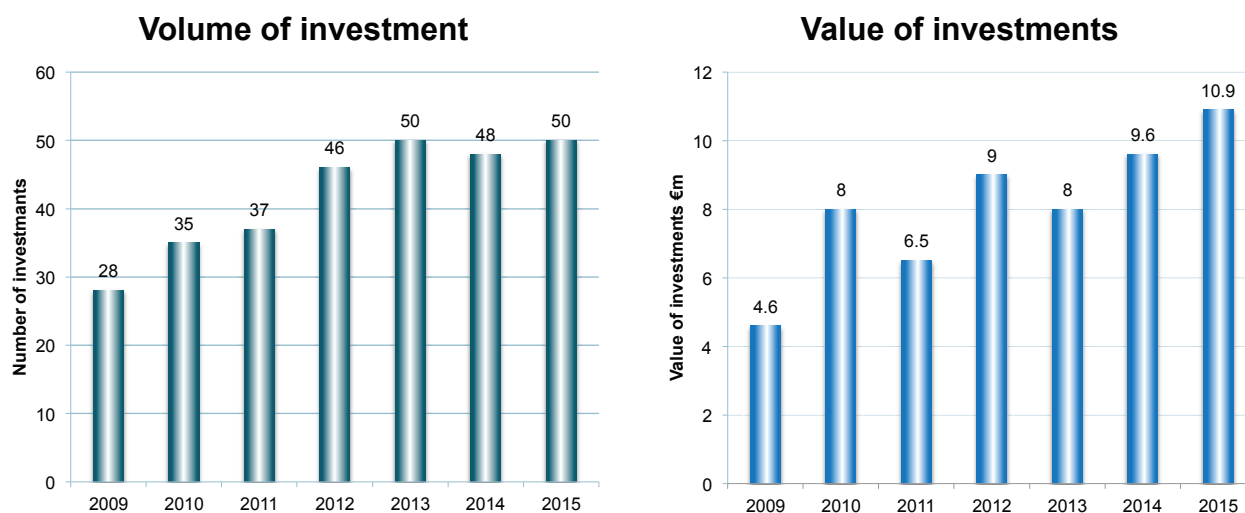
The work **drew on the views of over 100 individuals involved in Business Angel investing**, via an online survey and interviews with Business Angels, and consultations and a workshop with economic development policy stakeholders and practitioners from across the island of Ireland.

Scale of the Market

A definitive assessment of the scale of the Business Angel market on the island of Ireland is not possible owing to the challenges in recording and tracking all Angel investment (with no formal obligation for Business Angels to report on their investments). Moreover, not all investments are made through managed Business Angel groups and networks.

However, data from HBAN/Halo NI (that is, Business Angel investment delivered via HBAN and Halo), and complementary estimates from the European Business Angel Network (EBAN), which draw on a wider range of sources of investment, suggest that the scale of ‘visible’ Business Angel investment is in the region of €10-20 million pa. Importantly, the HBAN/Halo data indicate that both the volume and value of Business Angel investments has increased over the 2009/15 period (see Figure 1).

Figure 1: HBAN and Halo NI data on the volume and value of Business Angel investments facilitated through these networks



Source: HBAN/Halo NI

It is uncertain what proportion of the total Business Angel market this 'visible' investing represents. EBAN estimates that across Europe a 10% ratio applies (that is, visible investment accounts for 10% of the total market), but this will vary across places and may well be higher on the island of Ireland, given the well-developed nature of HBAN and Halo. Given this, if it is assumed that the 'visible' market accounts for 15% of the total market, Business Angel investing on the island of Ireland is estimated to be between €70m and €120m annually, with around 330 firms securing investment.

Characteristics, Investment Patterns and Approaches

On characteristics, the survey data suggest that **the stock of Business Angels on the island of Ireland is largely male (over 90%), and generally middle-aged**, with over two-thirds of survey respondents aged 45-64. The high proportion in this age group

is not unexpected; Business Angels need money that they can afford to risk, business experience and know-how, and the time to provide support to businesses in which they invest, all more realistic for those in mid/late-careers.

This general profile recognised, Business Angels bring a wide range of experiences, with very different 'backstories' in terms of their own Business Angel journeys. Importantly, there are differences between those investing on a full-time basis and those investing alongside pursuing an active career. Put simply, **there is no such thing as an 'average' Business Angel**. 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.

Across the island of Ireland, there appear to be a modest number of 'serial Business Angels' making

multiple investments at high values, with a ‘long tail’ of those investing in one/two businesses, with lower investments. From the study’s survey cohort of over 50 Business Angels that had invested in firms, the ‘top five’ most active accounted for over a quarter of the investments, and two-thirds of the value of investments. Whilst this ‘shape’ of investment is a well-established feature of Business Angel markets, it does emphasise on the island of Ireland the need to increase the number of Business Angels with broader investment portfolios, where the chances of positive overall returns are enhanced.

On patterns of investment and investment approaches, four key points emerged:

- **Levels of cross-border investing on the island are, in absolute terms, modest, and ‘within jurisdiction’ investing appears far more common.** Possible explanations for this behaviour include the distance involved in cross-border investing, making it harder to engage physically with the entrepreneur, a lack of visibility of opportunities over the borders, a focus on ‘giving something back’ to their local area as a driver for Business Angel investment, and uncertainty over regulatory and tax considerations in cross-border investments.
- **Investments are generally made in a number of related industries, although rarely one single industry.** Although ICT and related digital industries were the most common sectors invested-in by survey respondents, Business Angels indicated they invested typically in a number of related industries. Angels not focusing on specific industries were likely to be from a Professional Services background, bringing less industrially-specific sets of experience and expertise to the investment table.
- **Investing in groups and syndicates is increasingly common, but sole investing remains important.** A high proportion of Business Angels surveyed indicated they were a member of a network or syndicate, reflecting in part the distribution and promotional channels used to advertise the study’s online survey. However, individual investing remained an important part of the mix, even among individuals who were parts of a network or syndicate.

- **Engagement and involvement with equity crowdfunding among Business Angels on the island of Ireland is currently low.** A small proportion of Business Angels on the island of Ireland engaged by the study had invested via an equity crowdfunding platform, but this was not regarded (presently) as a ‘serious’ alternative to traditional Business Angel investing. In part, this arose because the modest scale of investment was not attractive in providing potential returns on investment. The evidence also suggests that the equity crowdfunding market is regarded as too early-stage, with inexperienced individuals on both the demand and supply-sides. While some Business Angels are getting involved, the majority are waiting for the market to mature and ‘find its level’ and, in the case of Republic of Ireland in particular, for the regulatory landscape to respond as that jurisdiction currently has no legal framework for equity crowdfunding.

Behaviours, Attitudes and Exits

On behaviours, Business Angels on the island of Ireland demonstrate mixed levels of engagement with firms’ post-investment, reflecting their different characteristics and investment approaches, although consistently the ‘offer’ is more than simply a financial investment. A majority of the Business Angels surveyed self-identified as ‘active’ investors, and qualitative interviews indicated that support provided typically included industry- and business-related knowledge and expertise, advice on strategy

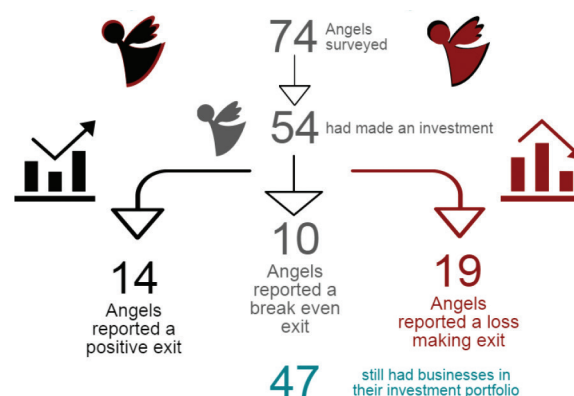
and brand development, technical assistance, and providing advice on treasury management e.g. cash-flow, follow-on funding etc.

Factors influencing the level of engagement included the specific context of the individual investment, including whether this was a single investment or via a group/syndicate (in which the role of Lead Investor was important); the maturity of the investment; the number of other investments in the Business Angel's portfolio, and relative priorities; and the level of need/demand from the investee business. Taken together, the evidence suggests that **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.**

On attitudes, feedback from Business Angels was that the volume and flow of opportunities had been building over recent years, consistent with evidence on the increase in the scale of market cited above. Whilst the quantity of opportunities was not acting generally as a constraint on investment, the quality story appeared rather more mixed, with some evidence that the quality of opportunities was acting as a barrier to investing. Recognising that significant variation in the quality of opportunities will always be an inevitable part of the mix, the study's view is that there **may be a case to consider how the consistency of quality of opportunities can be enhanced, particularly around the investor readiness and realism of the entrepreneurs.**

The literature on Business Angels has focused traditionally on characteristics and the level of investment into businesses. There has been very much less focus on the outcomes of Business Angel investing, and particularly the extent to which 'exits' are achieved, that is, when the financial value that has been created by the investment in the business is extracted, or the Business Angel secures a

capital return on their investment. But exits matter fundamentally; no exits mean Business Angels have no cash to reinvest, and no (or few) exits means no positive or demonstrator signals to attract more individuals to become Business Angels. Moreover, a lack of exits means there are likely to be limited economic impacts from the companies that have been funded by Business Angels.



This recognised, the study's research indicates that **Business Angels on the island of Ireland are generating positive exits from their investments.** As set out in the graphic above, of the 54 Angels responding to the study's survey that had made an investment, 14 identified positive exits.

Loss-making exits were more common than positive exits, but this is not unexpected; angel investing is a risky business, and the number of positive exits may increase as live investments start to realise exiting gains. Loss-making investments are also likely to emerge before profitable ones. Indeed, the survey data indicate that it takes time for exits to be realised: 70% of Business Angels making their first investment before 2011 had realised at least one positive exit by the time of the survey in late 2015, compared to 15% of Business Angels that had made their first investment after 2011. This demonstrates the need for 'patience' in Business Angel investing, a characteristic that, helpfully, was

evident in the majority of the Business Angels on the island of Ireland engaged in the research.

Incentives and Support

The tax and regulatory landscape for Business Angel investing, be this in terms of personal and/or business regimes is complex generally, and is asymmetric on the island of Ireland. Specifically, the key incentives in scope are the Enterprise Investment Incentive (EII) in the Republic of Ireland, and the Enterprise Investment Scheme/Seed Enterprise Investment Scheme (EIS/SEIS) in Northern Ireland. The EIS/SEIS incentives, are, in broad terms, seen consistently as the more 'attractive' to investors by those in the Business Angel community on the island.

However, in both jurisdictions, **tax incentives are regarded clearly by many Business Angels as a key part of the case for involvement in this form of investing.** Almost half of the Business Angels surveyed reported that they would stop making Business Angel investing if all tax incentives were removed, and a third reported that they would scale back their investing.

Whilst tax incentives may matter, they are not the 'be all and end all' of Business Angel investing. Four points are important here:

- **The tax incentives in place on the island appear to impact on the total scale of investment that Business Angels are willing to allocate to investing,** but they do not influence generally individual investment decisions, or the sector within which Business Angels invest. This is consistent with evidence from elsewhere on the role of tax incentives in Business Angel investing.
- While **effective tax incentives are regarded as important in an absolute sense, other factors are equally important.** 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.

- While **improving tax incentives was regarded as important for Business Angels (particularly in Ireland), improving other elements of the landscape for Business Angel investing factors were also important,** including enhancing the quality of start-ups seeking finance, and improved investment readiness for investors.
- There is **limited robust evidence on the impact, additionality and Value for Money of tax incentives as a policy instrument for supporting Business Angel investment,** including their effect on firm growth or performance. Further, there are risks associated with tax incentives, their perceived benefits include risk mitigation but whether encouraging investment in higher-risk firms is always desirable may be questioned, and the less attractive tax regime in the Republic of Ireland may in fact incentivise Business Angels to make more thorough and commercially-driven investment.

It is also worth noting that the asymmetry between the tax incentives on the island is regarded as a barrier to further cross-border investing, particularly in limiting the extent to which Northern Ireland-based Business Angels consider making investments south of the border. There is also uncertainty on who can avail of tax incentives in a cross-border investment i.e. whether it is possible for cross-border investors from Northern Ireland to avail of the UK's tax incentives when investing in the Republic of Ireland (and vice versa); greater clarity on this issue is required.

Developing the Market

In concluding, five Strategic Recommendations are made to improve the market for Business Angel investing on the island of Ireland. These are summarised below; specific detail on underpinning actions to progress these recommendations are provided in the Full Report for consideration by partners across the island.

- **Strategic Recommendation I.** Increase the profile and policy-leverage of Business Angel investing among key decision makers across the island of Ireland, placing it at the core of enterprise and economic development thinking.
- **Strategic Recommendation II.** Enhance the scale and improve the functioning, of the cross-border Business Angel market on the island of Ireland, with a view to raising the number of Business Angels that consider actively investing in the neighbouring jurisdiction.
- **Strategic Recommendation III.** Broaden and deepen the pool of 'active' Business Angels on the island of Ireland, leading to more individuals becoming Business Angels, and a more diverse cohort of Business Angels.
- **Strategic Recommendation IV.** Enhance the capacity and support to those groups both providing and seeking Business Angel investment, leading to a more mature, sophisticated, and efficient market.
- **Strategic Recommendation V.** Develop the underpinning infrastructure for Business Angel investing, including the evidence base.

Reflecting the importance of tax incentives, particularly in supporting the development of cross-border investing activity, one 'Policy Recommendation' is also offered:

Policy-makers across the island of Ireland should continue to give serious consideration to the case for harmonising, and enhancing the symmetry of, the tax incentive 'offer' for Business Angel investing on the island of Ireland. This should be focused on considering a 'levelling-up' of incentives in Ireland to the UK's EIS/SEIS model.

Delivering against the recommendations (and underpinning Actions) will require robust governance and delivery arrangements, and further work to move them on to a deliverable agenda for progress. Partners to the study are therefore encouraged to consider the most appropriate form of delivery to ensure that actions are delivered in an integrated and consistent way; this should include specific consideration of the roles of InterTradeIreland, HBAN and Halo NI. Further, while delivery against specific actions will be the responsibility of a range of agencies, it is important that relevant Government Departments, both in Ireland (Department for Jobs, Enterprise and Innovation) and Northern Ireland (Department for the Economy), retain an overall strategic role to ensure that progress is made and delivery is realised.

SECTION

1

SETTING THE SCENE

Setting the Scene

Background

Business Angels are an important source of equity finance for new and emerging entrepreneurial businesses. For this study, Business Angels are defined as *individuals who invest their own money directly in new and emerging companies, often providing the first round of equity capital once the entrepreneur has consumed available funding from personal savings, friends and family, and public sector sources.*

Importantly, Business Angels do (or should) provide ‘smart money’, taking a hands-on approach to investing, and providing entrepreneurs with advice, insights, knowledge and contacts as well as equity finance to grow their business.

Many governments have recognised the importance of Business Angels, and put in place a range of mechanisms to support them. On the island of Ireland, this includes:

- Tax and regulatory incentives – the Enterprise Investment Incentive (EII) Scheme in Ireland, and the Enterprise Investment Scheme (EIS) and Seed EIS in Northern Ireland.
- Support for the establishment and on-going development of Business Angel groups and networks – the Halo Business Angel Network (HBAN), an all-island network which focuses principally on Ireland, and Halo NI.

The evidence from HBAN and Halo NI is that the Business Angel market on the island of Ireland is significant, and growing. However, to date there has

been limited detailed information on the market, be this in Ireland or Northern Ireland. In large part, this arises because of the intrinsic nature of Business Angel investing, where individuals often value their anonymity and invest on their own or in small ad-hoc groups of friends.

Whilst this picture is changing to some extent (as discussed later), the often ‘invisible’ nature of Business Angel investing nevertheless provides a challenge for policy makers in developing evidence-based approaches and interventions to improve the market.

Study Purpose and Delivery

In this context, the purpose of this study is to **provide a detailed picture of the Business Angel market on the island of Ireland.** A set of specific research questions have been identified, focusing on (i) establishing the characteristics, investment patterns, behaviours and attitudes of Business Angels, (ii) evidence on the outcomes of Business Angel investing (notably evidence on the ‘exits’ achieved), and (iii) the role of tax incentives and other supports in supporting the Business Angel market.

SQW Ltd, supported by academic specialists, has undertaken a study to provide evidence on the research questions and, based on this evidence and informed by relevant experience of developing Business Angel markets elsewhere, the study has **developed a series of recommendations to improve the market for Business Angel investing on the island of Ireland.**

The work **draws on the views of over 100 individuals involved in Business Angel investing**, including via an online survey of 74 individuals¹ and interviews with 21 Business Angels, and consultations and a workshop with economic development policy stakeholders and practitioners from across the island of Ireland.

Alongside this primary research, the study includes **desk-based research**, reviewing data and documents on the Business Angel market on the island of Ireland, including evaluation evidence and materials provided by HBAN and Halo NI, undertaken by SQW. A parallel headline review by academic researchers has been completed on the international evidence on ‘what works’ in supporting the development of the Business Angel market.

Structure

This Synthesis Report contains the following main sections: Section 2: Why Business Angels matter; Section 3: Business Angels – Characteristics, Investment Patterns and Approaches; Section 4: Business Angels – Behaviours, Attitudes, and Exits; Section 5: The Role of Incentives and Supports; and Section 6: Improving the Business Angel market.

¹ The online survey was promoted and distributed by a variety of methods including through HBAN, Halo NI and Enterprise Ireland, by referral of financial advisers/other professional intermediaries, and promotion via Social Media.

SECTION

2

WHY BUSINESS ANGELS MATTER

Why Business Angels Matter

The Role of Business Angels

Business Angels play an important role in the supply of finance for entrepreneurial businesses, and in the development of knowledge-based and productive economies. Their core contribution, and why they matter, can be summarised as follows.

They provide risk capital: many commentators argue that businesses are too reliant on debt. However, debt finance is a fragile basis on which to grow a business, especially one that is based on the development of innovative products and therefore business often fall into the ‘the valley of death’ between idea and commercialisation.

They make small investments, and therefore fill a funding gap that is uneconomic for institutional investors, such as venture capitalists, to provide. But the aggregate scale of their investments in start-up businesses is substantially greater than that of venture capital funds.

They often focus their investments on technology businesses that are a key source of innovation and high-growth businesses necessary in the competitive global economy.

They typically invest locally, because their sources of deal flow are local and their need for frequent interaction with their investee companies, and so go some way to overcoming geographical gaps in the availability of risk capital that is created by the over-concentration of venture capital investments in core economic regions (for example, London in both a UK and European context).

They provide ‘smart money’ – they are typically themselves successful entrepreneurs, or have held senior positions in large companies. As such, they often wish to be ‘hands-on’ investors, being able to contribute their skills, knowledge, experience and networks.

Overview and Headline Market Trends...

Business Angel investing is not a new phenomenon; for example, Henry Ford attracted Business Angel investing for his business in the first years of the twentieth century. However, since the 1980s and the growing recognition of the ‘enterprise culture’, Business Angel investing has been identified as a significant activity and a major source of risk capital for start-up and early growth businesses. Since then, this type of investing has been shown to be a feature of all advanced economies, and in recent years has been documented in China and other emerging economies.

The nature of Business Angel investing has changed considerably over the past 30-40 years. It was initially an informal practice undertaken by individual high net worth individuals who typically had generated wealth through their own entrepreneurial efforts. Becoming a Business Angel was a way in which they could continue their entrepreneurial interests, in ways which were rewarding financially, and operationally. Business Angels therefore invested on their own or with small groups of associates. Typically, they were anonymous, their investing was private and occurred ‘under the

radar', so that this form of investing was largely 'invisible'. One of the consequences of such 'invisibility', however, was an inefficient market, with entrepreneurs unable often to find Business Angel investors, and Business Angels themselves experiencing inadequate deal flows.

Starting in the 1990s, but developing momentum post-2000, Business Angel investing began to evolve from a solo activity to one in which Business Angels were joining together increasingly in the form of managed groups, or syndicates (that is groups of Business Angels who invest together over time). Various drivers have underpinned this shift in behaviour:

- **Diversification of investment portfolios:** instead of investing (say) €100,000 in one business, through groups Business Angels can alongside other investors spread this same amount of resource over perhaps five businesses, helping to avoid 'eggs in one basket'.
- **Deal flow:** being part of a group gives individual Business Angels access to a superior deal flow than what they would see on their own, with managed groups providing a consistency of deal flow.
- **Shared expertise and learning:** the members of groups often have a width and diversity of skills and experience, which should result in better evaluation of investment opportunities and more rounded support for investee businesses. Group investing also provides opportunities from investors

to learn from one another.

- **Changes in the model of venture capital:** the progressive withdrawal of venture capital funds from 'small' investment activity following the Dot Com crash of the early 2000s increasingly required Business Angels to hold back funds for follow-on investments. This is often challenging for many solo Business Angels; working in groups means they are often in a much stronger position to make follow-on investments.

In policy and market terms, the development of groups and syndicates has been broadly welcomed. However, there are potential risks associated with the trend. These include, for example, concerns that as Business Angels are becoming more organised, they are becoming more like venture capitalists and so losing some of the valuable characteristics that the unencumbered Business Angel model provides. Linked to this is the risk that the groups will result in a reallocation of Business Angel capital away from its traditional role in providing seed investment, to larger and later stage deals. There is a final concern that groups attract inexperienced wealthy individuals seeking 'passive' investments, rather than 'investor active' ones; the hands-on activity of Business Angel investors is recognised widely as a key element of value-added in the model.

The development of managed Business Angel groups and the formalisation of this investor market have also been facilitated by the growth of Business Angel networks. These seek to connect entrepreneurs seeking finance with Business Angels,

SECTION 2

WHY BUSINESS ANGELS MATTER

and undertake (to different degrees) the initial screening of investment opportunities, together with training activities designed to improve Business Angel capability. The number of these networks has grown substantially; in Europe there were under 100 Business Angel networks in 1998, in 2014 the number was approaching 500 (covering both traditional matching networks and managed Business Angel groups).²

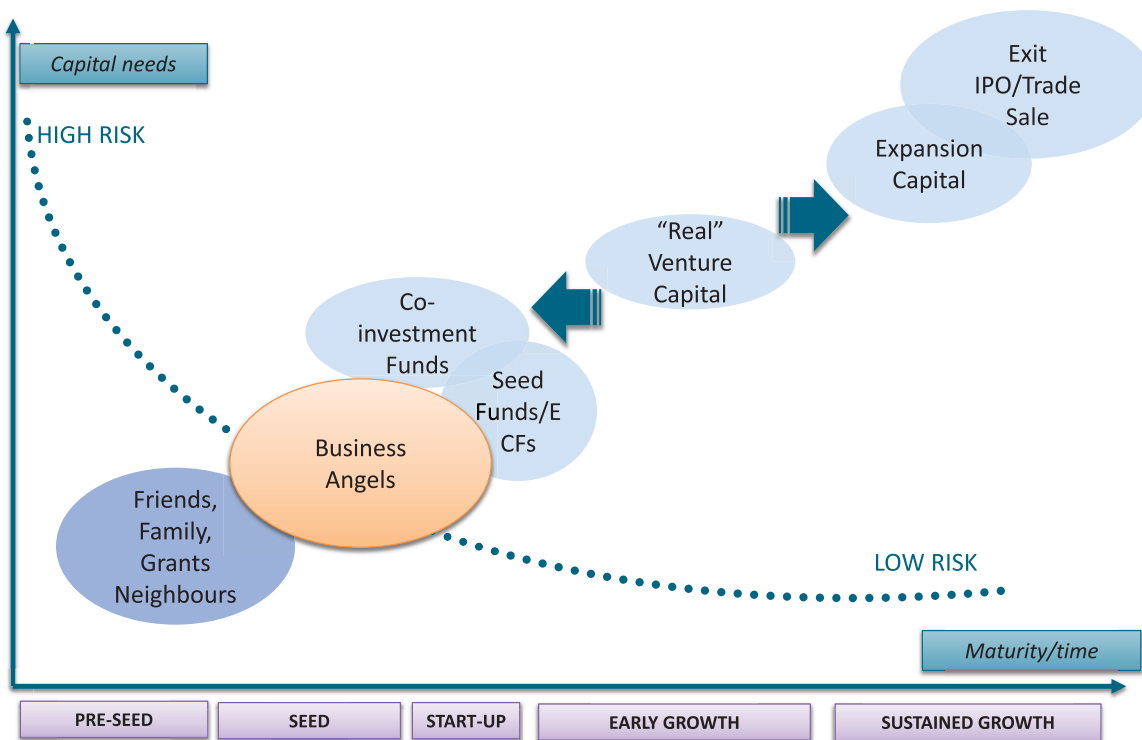
A second important development has been the changing role of Business Angel financing. The ‘funding escalator’ (see Figure 2.1) pictures Business Angels as investing when ‘3F’ funding (Funder, Family, Friends) sources have been exhausted. This investment takes the business in question to the point when they can access venture capital money.

In other words, Business Angels and venture capital funds are seen to play a complementary role. As one commentator put it:

The angel investment runs the critical first leg of the race, passing the baton to the venture capital fund only after the company has begun to find its stride.³

This complementarity between Business Angels and venture capital funds is now much less in evidence as a result of the contraction of venture capital. Instead, what we are observing in Business Angel markets across Europe, North America and elsewhere is a ‘bundling process’ in which Business Angel groups co-invest alongside other investors, including public sector co-investment funds, in an

Figure 2.1: The ‘funding escalator’ for Small and Medium Sized Enterprises



Source: SQW, adapted from David Gill, St John’s Innovation Centre (2013)

²EBAN, *Statistics Compendium 2015* (2016).

³G.A. Benjamin and J. Margulis, *Finding Your Wings: How to locate private investors to fund your business* (New York: Wiley, 1996), p. 71.

overall deal size of approaching or over €750,000 to €1m.

...and the Current Landscape on the Island of Ireland

As elsewhere, these broad market trends have been evident across the island of Ireland, and enabled through the development of HBAN and Halo NI.

In Ireland, HBAN was established in 2009⁴, funded by Enterprise Ireland and InterTradelreland, and based on the LINC Scotland model. It has responsibility for the creation of new Business Angel investment groups or syndicates, and acts as a representative and lobbying body for Business Angel investing in Ireland. There is now a network of HBAN-supported syndicates across the Republic of Ireland, including technology syndicates in Dublin (Bloom Equity) and Cork (Boole Investment Syndicate), all-island Medtech and Food syndicates, the Ireland-wide Irrus Investments Syndicate (investing in a broad range of Life Science, MedTech and other IP based companies), and regionally-based syndicates such as the West by North West Syndicate (WxNW) and South East Business Angel Network. HBAN also supports networks of individual Business Angels. HBAN is an all-island initiative, although it focuses principally on Ireland given the work of Halo NI.

In Northern Ireland, Halo NI, founded in its current form⁵ in 2009, seeks similarly to link together entrepreneurs and Business Angels and 'get the right type of smart funding into interesting companies' by selecting and preparing entrepreneurs. Halo NI also include a wider network - the Plus Network - of funding partners. This

includes private Business Angel groups, Business Angel clubs, early stage venture capital companies, family investment offices, specialised crowdfunding platforms and others.

Co-investment funds are also an important part of the landscape. There is a well-established intervention in Northern Ireland, the Co-Fund NI, supported by Invest NI. By March 2016, Co-Fund NI had invested in 28 companies alongside Business Angels, with over £20m invested (by the Fund and co-investors)⁶. In the Republic of Ireland, a new €20m co-fund has recently been established, funded by the European Investment Fund (EIF) and Enterprise Ireland.⁷

The scale of the Business Angel market

Business Angels matter in 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.

Two sets of data, provide a perspective on the scale of the visible Business Angel market on the island of Ireland. It should be noted that both sets of data are estimates, and provide an indication of the potential scale of the Business Angel market on the island of Ireland: they are neither comprehensive nor definitive.

⁴HBAN grew out of the earlier Halo Business Angel Partnership intervention.

⁵Halo was first established in March 2004 as a two year pilot, with a second phase covering 2006-2008.

⁶See https://www.cofundni.com/news-details.aspx?News_ID=10267&FriendlyID=CO-FUND-NI-MAKES-MILESTONE-INVESTMENT

⁷See http://www.eif.org/what_we_do/equity/eaf/Ireland.htm

SECTION 2

WHY BUSINESS ANGELS MATTER

Visible Data Set 1: HBAN and Halo NI Data

One important by-product of the emergence of managed Business Angel groups and networks is that, by virtue of their greater visibility, it becomes possible to collect data on this element of the market. Data on the frequency (i.e. number of investments) and scale (i.e. value of investments) of Business Angel investment delivered through HBAN and Halo NI for the 2009-15 period is set out below.

Table 2.1: Number of Business Angel investments via HBAN/Halo

	2009	2010	2011	2012	2013	2014	2015
Ireland	20	24	28	30	36	35	40
NI	8	11	9	16	14	13	10
Total	28	35	37	46	50	48	50

Source: HBAN/Halo NI

Table 2.2: Scale of Business Angel investments via HBAN/Halo (€m)

	2009	2010	2011	2012	2013	2014	2015
Ireland	3.7	5.2	5.9	6.6	6.0	6.5	8.8
NI	0.9	2.8	0.6	2.4	2.0	3.1	2.1
Total	4.6	8.0	6.5	9.0	8.0	9.6	10.9

Source: HBAN/Halo NI

The data indicate a consistent growth in both the frequency and scale of Business Angel investment over 2009-2015, with around 50 deals each year over the past three full years for which data is available, and Business Angel investment of €10.9m in 2015 across the island of Ireland. This is a positive picture and reflects the general confidence in the development and growth of the market reflected in stakeholder discussions for this research.

The data also indicate the consistency in the balance between the Republic of Ireland and Northern Ireland, with the former accounting for around three-quarters of investment and value over the period, and in terms of the overall value of investments, a consistent growth trajectory across the two jurisdictions, with a compound annual growth rate of around 15% over the 2009-15 period in both jurisdictions.

Visible Data Set 2: EBAN Data

EBAN collect data on Business Angel investment across Europe, based on data provided from Business Angel networks and a range of other sources⁸. These data are split by country, including for the Republic of Ireland and UK, but not at a finer spatial scale in the UK (i.e. data for Northern Ireland is not available from EBAN). To estimate the scale of the NI market specifically using the EBAN data, we have assumed that it represents 6% of the total UK Business Angel investment, based on previous evidence on the UK market.⁹

The data are set out below in Table 2.3: they suggest a consistent increase in the scale of the 'visible' Business Angel market on the island of Ireland over recent years, reaching €18.2m by 2013, the latest year for which the EBAN data are available.

Table 2.3: Value of visible Business Angel investing assuming NI = 6% of UK levels (€m)

	2007	2008	2009	2010	2011	2012	2013
RoI	4.0	2.3	No data	6.0	No data	12.1	13.2
NI	3.3	5.2	4.2	3.4	No data	4.1	5.1

Source: SQW, based on EBAN. The data for the Republic of Ireland was based on investments into 59 firms, with 6% of the UK data for Northern Ireland equating to 32 firms.

⁸The sources include national federations, other early stage investors, Zephyr, Crunchbase, market reports, national publications, press articles and research papers

⁹UKBAA/ Deloitte, *Taking the Pulse of the Angel Market* (2014).

The estimates are somewhat higher than the HBAN/Halo NI data (€18.2m in 2013 from EBAN, compared to €8m from HBAN/Halo). This is explained by a combination of factors including: the other sources from which the EBAN data are based (see Footnote 8), the estimate that 6% of the UK market is accounted for by Northern Ireland (which may be too high, but is the best estimate available), and potentially the variation in definitions and data-sources used. In this context, it should be noted that the €10.9m Business Angel investment identified by HBAN and Halo NI in 2015 leveraged a reported further €15m+ from other funds, providing a total investment from these funding rounds of €26m. Some of this non-Angel data may be included in the equivalent EBAN estimates.

Estimates of the total market

By making assumptions about the ratio of ‘visible’ to ‘invisible’ investments, it is also possible to estimate the overall scale of the Business Angel market, accounting for the potentially significant flow of deals that are not captured in the data above. On this basis, EBAN estimate total Business Angel investment in Europe in 2013 of €5.5bn, based on an assumption (drawing from surveys and research) that ‘visible’ investing represents typically 10% of the total Business Angel investing market.

In practice, the scaling-up factor will vary country to country, dependent on both the institutional structures in place, and the nature of the market. Whether this estimate holds true on the island of Ireland is unknown – the invisible market is just that, invisible. However, the feedback from industry stakeholders engaged in the research for this study suggest that a 10% assumption may be too low, taking into account the well-developed nature of HBAN and Halo NI activities across the island.

Reflecting this, Table 2.4 sets out a range of valuations for the total Business Angel market,

assuming that the ‘visible’ market is either 10%, 15% or 20% of the total market on the island of Ireland, using the HBAN/Halo (for 2015) and EBAN (for 2013) respectively.

Table 2.4: Estimates on the scale of the total Business Angel market on the Island of Ireland

	Visible market = 20% of total	Visible market = 15% of total	Visible market = 10% of total
HBAN/Halo data (for 2015)	€54m	€73m	€109m
EBAN data (for 2013)	€91m	€122m	€183m
Broad range	€50-90m	€70-120m	€110 -180m

Source: SQW based on HBAN/Halo and EBAN data

An integrated assessment of the scale of the market

A definitive assessment of the scale of the Business Angel market on the island of Ireland is not possible owing to the challenges in recording and tracking all angel investment.

This important caveat noted, both the HBAN/Halo and EBAN data suggest that the current scale of the ‘visible’ market is in the region of €10-20m per annum. A major uncertainty is the proportion of the total market that this ‘visible’ investing represents; EBAN estimate that across Europe a 10% ratio applies, but this may be higher on the island of Ireland. If it is assumed that the ‘visible’ market approximately accounts for 15% of the total market, **the data suggest total Business Angel investing annually on the island of Ireland of between €70 million and €120 million.**

The number of firms securing Business Angel finance is also highly uncertain, given the range of

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WHY BUSINESS ANGELS MATTER

values covered by Business Angel investing (from tens of thousands in some cases to hundreds of thousand in others). However, the HBAN/Halo NI data indicate that 50 firms had secured investment in 2015; again, assuming this represents 15% of the total market suggests **around 330 firms across the island of Ireland securing Business Angel investments in 2015, including both firms known to HBAN/Halo and those that are not.**

These data are estimates, and should be regarded as such. But they indicate the potentially significant overall scale of the Business Angel market on the island of Ireland. However, as discussed later in this report, the contribution of Business Angels is also about more than just the scale of finance: a key objective of this type of investing is to provide ‘smart money’, such that hard cash investment is underpinned with Business Angel’s skills, knowledge, experience and networks to the growth of early-stage companies.

SECTION

3

BUSINESS ANGELS – CHARACTERISTICS, INVESTMENT PATTERNS AND APPROACHES

Business Angels – Characteristics, Investment Patterns and Approaches

This Section characterises the features, investment patterns, and approaches of the island of Ireland's Business Angel community by answering the following research questions:

On Characteristics

- Who are the Business Angels (gender, age, sector, background etc.) on the island?
- What is the investment experience of these Business Angels – numbers/size of investments and how long investing?
- What characteristics have 'lead Business Angels' including sector experience, amount of time spent on investments, etc?

On investment patterns and approaches

- What sectors do Business Angels invest in on the island?
- Where do Business Angels make their investments on and off the island – what is the level of cross-border investing?
- To what extent are investments by Business Angels undertaken in partnership and what value do they see in this?
- How involved are Business Angel investors in other types of equity-based funding, e.g.: equity crowd-funding and other alternative online platforms?

Characteristics

Findings from the Online Survey

The headline findings from the online survey relate to the personal characteristics of Business Angels, and their investment experience are summarised in the infographics (Figure 3.1 and Figure 3.2 on pages 30-31).

The following points are noted from the online survey data:

- **The stock of Business Angels on the island of Ireland remains largely 'traditional' in its make-up**, in terms of its gender and age. Recent equivalent evidence from the UK indicates a trend towards more female Business Angels and an increasing number of younger Business Angels¹⁰ (this is also 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.
- The high proportion of individuals aged 45-64 (with a further group aged over-65) is notable, but largely expected. Business Angels need money that they can afford to risk, business experience and know-how, and the time to provide support to businesses in which they invest, all more realistic for those in mid/late-career. Positively, the characteristics identified in the respondents to the survey – including many serial entrepreneurs – indicates that **Business Angels on the island of Ireland are well positioned to provide 'smart money' to entrepreneurs.**

¹⁰UK Business Angels Association, *A Nation of Angels* (2015).

- **In the visible market, there does appear to be a reliance on a small number of ‘serial Business Angels’ making multiple investments at high values,** with a ‘long tail’ of those investing in one/two businesses, with a lower median investment. With two-thirds of ‘active’ respondents making their first investment in the past five years, this is not unreasonable. This market shape is a well-established feature of many Business Angel markets across Europe, where research shows that the frequency distribution of investment size is skewed towards lower values, with mean data influenced heavily by small number of large deals.¹¹ However, the implication is that increasing the stock of Business Angels with broader investment portfolios – where the chance of positive overall returns are enhanced – will be an important development going forward.

Reflections from the Wider Research

The qualitative interviews validated the online survey findings, with two caveats:

- First, a wide range of experience of Business Angel investing was identified (from a few months to over 20 years), with very different ‘backstories’ in terms of the journeys to become an Business Angel, and differences between those investing on a full-time basis (including those who have retainers) and those investing alongside pursuing an active career. This finding, that **there is no such thing as an ‘average’ Business**

Angel is straightforward, but it is an important consideration going forward, especially given the allure of ‘one size fits all’ policy approaches.

- Second, the interviews indicated **Business Angel investing can often be a ‘stop-start’ process,** with other priorities (be these work-related or personal) impacting on the flow and scale of investing, alongside the need for time between investments to see how they develop and mature. This ‘intermittent’ approach to Business Angel activity needs to be borne in mind when considering how the market can be improved.

Investment Patterns and Approaches Findings from the Online Survey

The headline findings from the online survey relating to Business Angels investment patterns and approaches are summarised in Figure 3.3 on page 33. The following points are noted:

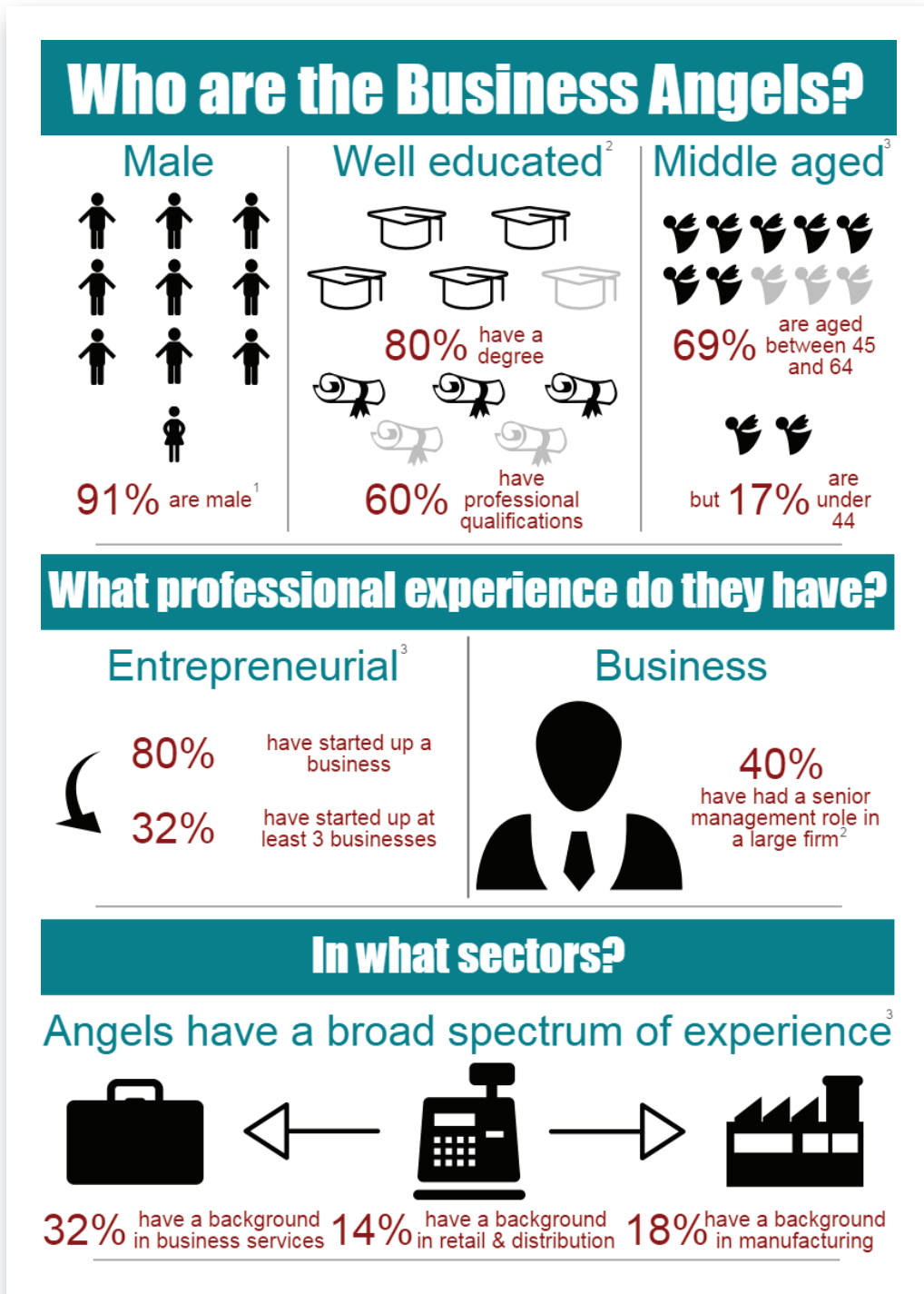
- Levels of cross-border investing are in absolute terms modest, ‘within jurisdiction’, investing appears far more common. This is to be expected; while recent evidence from the UK as a whole is that geographical distance may be becoming less important in the investment decision¹², Business Angel investment has focused largely on local markets and networks, and issues related to different legal and regulatory systems are in play (as discussed below) on the island of Ireland. With no baseline against which the level of cross-border

¹¹CES, *Evaluation of EU Member States’ Business Angel Markets and Policies* (2012).

¹² UKBAA, *Nation of Angels*.

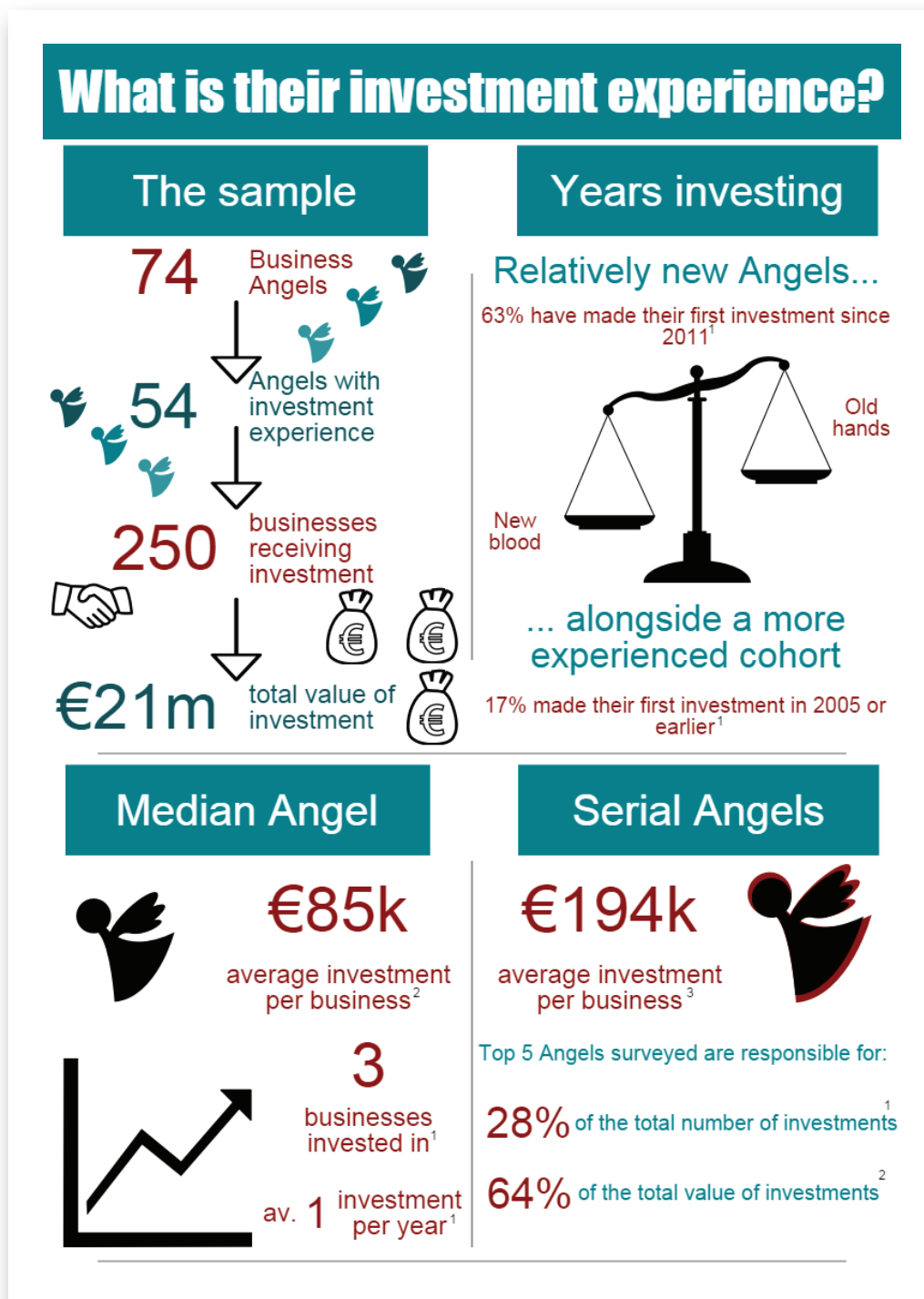
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Figure 3.1: Personal characteristics of Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels. N values: 1=72, 2=59, 3=74.

Figure 3.2: Experience of Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels. N values: 1=54, 2=53, 3=5.

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BUSINESS ANGELS – CHARACTERISTICS, INVESTMENT PATTERNS AND APPROACHES

investing can be assessed, whether this is high or low is largely a subjective assessment. This said, the survey suggests that **barriers to cross-border investing may be evident in both directions and there is scope to increase levels of cross-border investment activity.** Twenty out of 63 Business Angels overall indicated that a lack of or insufficiently attractive tax incentives had acted as a constraint to cross-border investing, although of the six Business Angels who had actually invested outside their jurisdiction of residence, just one identified this constraint.

- The sectoral focus of Business Angel investment, with a particular focus on ICT and related digital industries reflects both the strength of the technology base (especially around Dublin), and the consistent focus of Business Angels investors in technology-based industries (with 83% of 'active' Business indicating they typically invest in technology intensive industries).¹³ However, behind these data, it is worth noting **that most Business Angels surveyed indicated they invest typically in multiple industries,** with a median of three identified in the survey; less than a fifth of Business Angels reported that they typically make investments in one industry only.
- The high proportion of Business Angels indicating they were a member of a network or syndicate is likely to reflect in part the distribution and promotional channels used to advertise the online survey. However, it also indicates both the **growth of 'formalised' methods for Business Angel investing that have developed on the island of Ireland, and at the same time the on-going importance of individual investing.** Among those respondents indicating they were members of syndicates (n=17), under half said

that they 'always' or 'usually' invest as part of a group. The survey also indicated the presence of informal groups – for example, among those respondents that indicated they were members of Halo NI (n=14), half indicated that they had actually invested as part of a group. It is worth noting that whilst a small number of respondents indicated they were members of more than one group, membership of multiple groups was far less common than found in a recent survey of the Business Angel market in the UK as a whole, where just under half of Business Angels who were members of a group were members of more than one.¹⁴

Reflections from the Wider Research

On the spatial focus of investments...

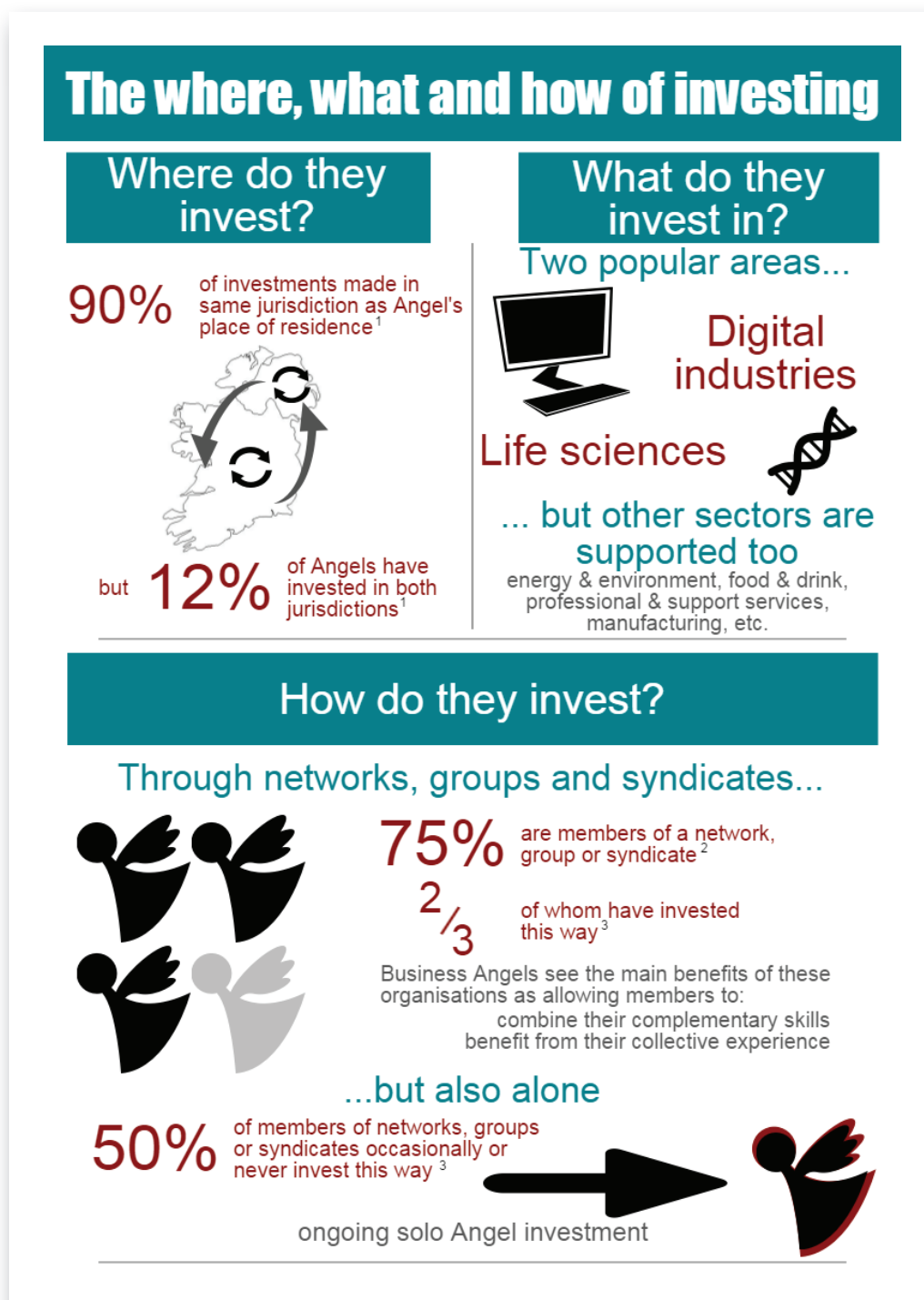
The online survey data indicates that Business Angels generally invest in their own jurisdiction. Possible explanations for this behaviour provided by the consultations included:

- The **distance involved in cross-border investing** (particularly between the major conurbations of Dublin, Belfast and Cork, where many Business Angels are based) makes it harder to engage physically with the entrepreneur, which is regarded as a key element of the 'offer'. Indeed, while other issues are relevant, in many cases the issue with cross-border investing was distance absolutely, rather than the border itself – of the 19 (from 21) Business Angels interviewed that had not invested in the other jurisdiction on the island, an explanation for seven was distance. It is possible that Business Angels who are candidates for long distance (and therefore possibly cross-border) investing are more likely to be those with a

¹³These include Healthcare and Medi-Tech, ICT, Software, Digital Media and Content, Financial Technology, Mobile and Telecoms, Biotech and Life Sciences, Advanced Manufacturing and New Materials, Gaming, Transport and Logistics ICT.

¹⁴C. Mason and T. Boethlo, *The 2014 Survey Of Business Angel Investing In The UK: A Changing Market Place* (2014) (see http://www.gla.ac.uk/media/media_362647_en.pdf).

Figure 3.3: Investment patterns and approaches of Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels. N values: 1=54, 2=53, 3=38.

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focused investment approach where a tight spatial threshold will not generate deal flow.

- A reported **lack of visibility of opportunities over the border** – with barriers to opportunities evident in both directions, and the associated risk that investing in an entrepreneur from the other jurisdiction would mean investing away from the Business Angels' known networks and contacts.
- A **focus on 'giving something back' to their local area** as a driver for Business Angel investment, with this 'responsibility intent' less pronounced for those areas further away and/or in the other jurisdiction on the island. For Business Angels in the Republic of Ireland, there was also feedback that if they were to invest in a separate jurisdiction this would more likely to be in Great Britain, given the scale of the market opportunity.
- **Uncertainty over regulatory and tax considerations in cross-border investments** and, particularly from the perspective of Business Angels based in Northern Ireland, whether the incentives provided by EIS/SEIS would be available to them for investments in Ireland. Stakeholders indicate that it is possible for cross-border investors from North-to-South to avail of the UK's tax incentives in some cases. However, this does not appear to be understood widely by those Business Angels engaged with during the research.

Given this, there **was an acceptance of the case for further promoting cross-border investing**, particularly by improving the accessibility of opportunities across the two jurisdictions. This provides a helpful base on which actions to further develop the cross-border market can be taken

forward. Feedback on potential ways in which barriers can be addressed, and the different emphases in the feedback on cross-border investment and particularly its relationship with tax are set out in Table 3.1. In summary, the interviews suggest the asymmetry of tax incentives prevents NI-based Business Angels from looking across the border for opportunities, while the issues for Irish Business Angels are more commonly related to the visibility of opportunities. Greater joint-working, networking, and sharing of opportunities were suggested by interviewees as ways to increase the cross-border flow.

...and industry focus

The online survey data indicates the importance of ICT/Digital Industries and Life Sciences industries for Business Angel investment on the island of Ireland, but it also highlighted that most invested in a range of industries. This picture was consistent from the qualitative interviews, where most (although not all) identified that they focused on a handful of (often related) industries, although rarely one single industry.

Those Business Angels interviewed that did not have this focus were generally from a Professional Services background, bringing a less industry-specific set of experience and expertise to the investment table.

For Business Angels that did focus on specific industries, this was based on industrial experience in that area. For example, one Business Angel noted their background was in Automotive Manufacturing and Engineering, and that they '*only look to invest in this sector*' – or because they felt they understood fully the underlying technology or market. The

Table 3.1: Qualitative evidence on cross-border investing and tax issues

Business Angels based in Northern Ireland (n=6)			Business Angels based in the Republic of Ireland (n=15)		
Barriers			Barriers		
With the UK's highly attractive tax regime for investment, Business Angels based in Northern Ireland do not see the incentive to look across the border for investment opportunities: tax incentives are therefore limiting the consideration of investment across the border.			The visibility of opportunities from Northern Ireland and the challenges caused by distance (which make it harder to get to know the entrepreneur, evaluate the opportunity and provide hands on support) are the major barriers to cross-border investing.		
Distance was also identified as a barrier, but this was less pronounced and common than issues related to the UK's beneficial tax incentives.			The additional uncertainty associated with exchange rate risk (Sterling vs Euro) was also identified as a barrier to investing in firms based in Northern Ireland.		
Examples from the qualitative interviews with Business Angels					
Example 1	Example 2	Example 3	Example 4	Example 5	Example 6
<i>Has never seen any opportunities in Ireland, either through his own network or Halo ... but, less supportive tax policies would discourage investments if there was an opportunity in any case.</i>	<i>Has invested into one Irish business and would consider investing in others but he almost exclusively looks at NI opportunities as the tax advantages are much better.</i>	<i>Has only invested in NI because Ireland lacks the same tax incentives. Would invest in Ireland if there was a cross-border agreement on tax.</i>	<i>Has 'nothing against' NI opportunities in principle, but it is the distance that puts him off. Similarly, he is reluctant to invest in other cities (e.g. Cork/Galway) because they are too far from Dublin.</i>	<i>Geographically, it is an issue to invest in NI from his Irish location. Proximity to the investee business makes a difference, as it is all about on-going relationships.</i>	<i>No policy against investing in NI but has never seen any opportunities. Also, any investment in NI would be risky as he does not know anyone who could help him evaluate the opportunity.</i>
Solutions			Solutions		
A cross-border agreement on tax would remove one barrier to investing, accompanied by a greater visibility of Ireland-based opportunities to have the most impact.			Ensuring greater visibility of NI based opportunities for Ireland-based Business Angels, for example through the existing HBAN syndicates and meetings.		
Greater clarity on the tax position for cross-border investing (ie: whether tax incentives can cross the border) was also identified by Business Angels as an area where more could be done by policy makers, to further encourage consideration of opportunities across the border, and removing uncertainty.			Hosting cross-border networking events for individual Business Angels from across the island so that they can meet, develop relationships, and potentially longer-term look to co-invest in opportunities in both jurisdictions.		

Source: SQW, based on qualitative interviews with Business Angels.

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potential of the business (including to generate an exit), and the quality of the entrepreneur/management team are of course key to which specific investments are taken forward, but business experience and understanding of the industrial context for investment was clearly a consideration.

The Benefits of Syndicates, Groups, and Networks

Most (18 of the 21) Business Angels interviewed in-depth were members of HBAN or Halo NI, and

identified a range of benefits of membership of a syndicate (i.e. membership of one of HBAN’s formal syndicates), or a network (Halo NI and individual members of HBAN).

These findings are consistent with the evidence from elsewhere, and mirror the arguments and drivers discussed in the Overview in Section 2.

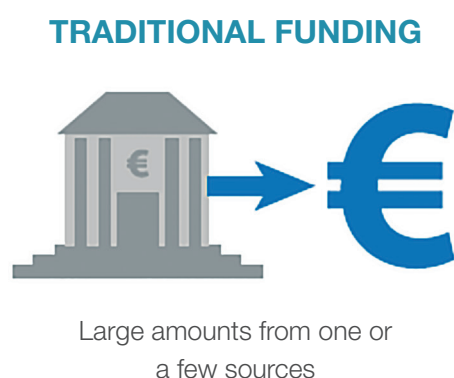
A number of negative effects were also identified, including the ‘loss of control’ of the investment process when undertaken in a ‘joint investing’

Table 3.2: Feedback on the benefits of Syndicates, Groups, and Networks

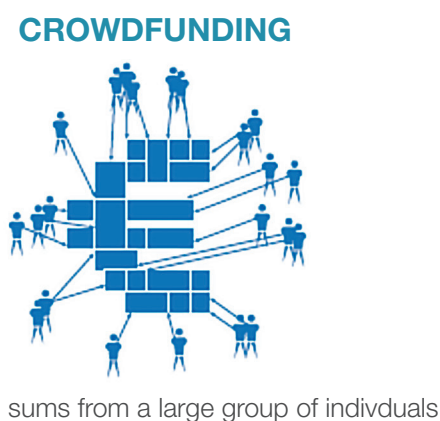
Benefits of investing via a Syndicate or Group	Examples
<p>Process benefits</p> <ul style="list-style-type: none"> • Pooling of knowledge, experience, and expertise between members, including from a lead investor where relevant • Improved capacity for due diligence, legal and financial aspects of the investment processes and reduced burden on individual Business Angels • Better assessment and management of risk <p>Investment benefits</p> <ul style="list-style-type: none"> • Increased flow of opportunities, including owing to greater awareness of Business Angels among start-up community • Increasing potential for co-investing with VCs owing to the higher investment values that are possible through syndicated investment, and the potential for making smaller individual investmentss benefits 	<p>One member of a HBAN syndicate reported that the ability to network with like-minded peers is crucial as angel investing is an ‘undercover industry’, so meeting fellow angels has helped the Angel to learn more about the investment process.</p> <p>A separate HBAN syndicate member cited the benefits of bringing together different/ critical views, and the ‘knowledge transfer’ which takes place between Angels that would not otherwise occur.</p>
Benefits of investing via a Network	Examples
<p>Process benefits</p> <ul style="list-style-type: none"> • Pooling of knowledge and experience • Improved consistency in scale of flow of opportunities, and a reduced burden on individual Angels to identify opportunities • Pre-screening improves viability of opportunities • Training and support improves pitches and entrepreneur capacity <p>Network benefits</p> <ul style="list-style-type: none"> • Informal knowledge transfer between Business Angels at events/ meetings • Understanding of the wider Business Angel market 	<p>A Halo NI member identified the main benefit being the facilitation of a flow of opportunities, which is important as the Angel lacks the time to search for opportunities. Halo also helps to build a network and understand the broader angel investing marketplace.</p> <p>A separate Halo NI member also indicated that informal sub-groups can help to share the burden of managing investments when a group of Angels decide to collaborate on an investment.</p>

Source: SQW, based on qualitative interviews with Business Angels

Figure 3.4: Crowdfunding simply put



Source: European Commission, *Crowdfunding Explained*



context. However, these were very much in the minority, and highly case-specific.

Crowdfunding

One of the study's specific research questions is to assess levels of involvement of Business Angels on the island of Ireland in other types of equity-based funding, including equity crowdfunding and other alternative online platforms.

As defined by the Europe Commission, crowdfunding is:

*'[A] way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms ... Crowdfunding is most often used by start-up companies or growing businesses as a way of accessing alternative funds. It is an innovative way of sourcing funding for new projects, businesses or ideas.'*¹⁵

There are various forms of crowd-funding including

peer-to-peer lending (where the crowd lends money to a company with the understanding that the money will be repaid with interest), rewards-based crowdfunding (where individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services), and equity crowdfunding (where there is a sale of a stake in a business to a number of investors in return for investment). **The focus of this study is on equity crowdfunding.**

Equity crowdfunding is a significant and growing model of financing across Europe, and particularly the UK. Research for the European Commission indicates that some €105m of finance was raised through equity crowdfunding in 2014, of which around €69m was in the UK.¹⁶

Within this UK context, the scale of the equity crowdfunding market in Northern Ireland appears modest: data published the British Business Bank identified six 'visible' equity crowdfunding investments in Northern Ireland in the period

¹⁵European Commission, *Crowdfunding Explained*, see http://ec.europa.eu/growth/access-to-finance/funding-policies/crowdfunding/index_en.htm

¹⁶European Commission, *Crowdfunding: Mapping EU markets and events* (2015) (see http://ec.europa.eu/finance/general-policy/docs/crowdfunding/20150930-crowdfunding-study_en.pdf)

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2011- H1 2014, around 2.5% of the total across the UK, where equity crowdfunding platforms are concentrated in London and the South of England. However, equity crowdfunding was, in relative terms, an important part of the overall equity mix, with the six identified investments over the period accounting for the 13% of ‘visible’ equity deals reported in the research, the highest amongst all UK regions.¹⁷ By contrast, in the Republic of Ireland, there is no legal framework currently for equity crowdfunding, and Irish law does not recognise, or regulate, crowdfunding as a distinct route for raising finance.¹⁸

From the online survey three points are noted on crowdfunding. These were that there was:

- Limited active engagement in equity crowdfunding – under 10% of survey respondents had themselves invested via a crowdfunding platform. This is not surprising given the legal context and the absence of a functioning equity crowdfunding market in Ireland.
- A notable level of scepticism regarding businesses that had previously raised equity finance via crowdfunding. While a majority of survey respondents (62%¹⁹) said they would treat it like any other investment opportunity, 31% said they would be ‘dubious’ about investing in the business, and 7% that they would not consider investing in the business. This distribution was consistent across both jurisdictions, by age-range and investment experience.
- Limited use of crowdfunding websites as a source of potential investment opportunities – a very small proportion of survey respondents (two out of 74) identified crowdfunding websites as a source of potential investment opportunity.

The qualitative interviews also provided some evidence of engagement with equity crowdfunding. Three Business Angels had made crowdfunding investments, although they were not regarded by these Business Angels as an alternative to their ‘traditional’ investing, and were generally small (at around €5-15k).

For the majority of Business Angels interviewed who had not to date engaged in equity crowdfunding, a range of issues were identified:

- Business Angels invest in the entrepreneur as much as the business, and this is not offered through the ‘anonymity’ of crowdfunding.
- Business Angels prefer to be near their investments, so the potential ‘distance’ from investing via crowdfunding in businesses based elsewhere is a significant issue.
- Many investment opportunities are over-valued currently on crowdfunding sites, and are not seen as ‘serious’ alternative to traditional Business Angel investing. In part, this arises because the modest scale of investment is not attractive in providing a potential return on investment.
- There are information gaps on ‘how to’ invest via crowdfunding, and the tax status of crowd-funded investments is uncertain.

The consistent message was that the equity crowdfunding market remains at an early-stage, and was regarded as rather ‘frothy’ as a result of inexperienced individuals on both the demand and supply-sides. While some Business Angels are getting involved, at this stage the majority are waiting for the market to mature and find its level, and, in the case of Ireland, for the regulatory landscape to

¹⁷British Business Bank, *Equity Crowdfunding in the UK: Evidence from the Equity Tracker* (2015) (see <http://british-business-bank.co.uk/wp-content/uploads/2015/03/230315-Equity-crowdfunding-report-final.pdf>)

¹⁸European Crowdfunding Network, *Review of Crowdfunding Regulation* (2014) (see http://www.osborneclarke.com/media/filer_public/61/fe/61fe40e6-5790-41d0-b181-bb2065bca9a8/ecn_-_review_of_crowdfunding_regulation_2014_3.pdf)

¹⁹n=59

respond.

Comparisons to crowdfunding activity by Business Angels in the UK as a whole are instructive here. A 2014 survey²⁰, found that 22% of UK Business Angels had invested through a crowdfunding platform and the separate *Nation of Angels* report found 45% of Business Angels had invested alongside crowdfunding platforms.

These differences recognised, the wider evidence on the impact of crowdfunding on Business Angel investing, and the relationship between the two, is unclear. Whilst the study's online survey findings and the UK data indicate some overlap, with some Business Angels investing on crowdfunding sites, there is also evidence from unpublished research that entrepreneurs are using equity crowdfunding sites because the process is quicker than seeking to raise funding from Business Angels, the valuations tend to be better, and they cede less control. The benefits of access to a skilled and experienced investor, singularly or severally, which the Business Angel model offers is an aspect that many entrepreneurs using crowdfunding routes overlook.

Further, from the perspective of most Business Angels, it is difficult to see the attraction of investing on an equity crowdfunding platform. It uses a standardised investment contract, there is limited scope to undertake personal due diligence on the investment beyond what the platform provides, and the types of investment instruments available to deploy are limited, hence the limited scope for downside protection. For investors, crowdfunding also is unlikely to enable investors to play a 'hands-on' role in their investee businesses.

This said, the feedback from some stakeholders involved in this study indicates a recognition of

the potential opportunity of crowdfunding over the medium term. As such there may be a case to consider how the **understanding and awareness of the opportunity can be developed on the island of Ireland** to ensure that the place is set-up to maximise its potential as the market matures in the coming years. Notably, there is evidence emerging that crowdfunding exhibits an uneven geography of both investors and investments. For example, Scotland has been shown to suffer a net loss of crowdfunding finance because of its lack of indigenous platforms.²¹ And thinking through the pros and cons for both entrepreneur and investor, potentially the most likely scenario for equity crowdfunding and Business Angels to play complementary roles is where the crowdfunding platform positions itself to co-invest alongside a Business Angel group in a 'bundled' deal. Indeed, recent evidence from the UK indicates there is an increasing trend of Business Angels, and formal venture capital investors, co-investing alongside or in parallel with crowd investors.²²

Finally, and interestingly, one Business Angel interviewed for this study noted that it was their involvement with crowdfunding which had '*sparked his interest in Angel investing*'. This is a single case, and care is needed here as many individuals engaged in crowdfunding may not have the resources or experience necessary to become effective Business Angels. However, there may also be **a case to consider ways in which to leverage the potential of crowdfunding as a route-in to Business Angel investing**.

²⁰Mason and Boethlo, *2014 Survey of Business Angel Investing in the UK*.

²¹Twintangibles, *Crowdfunding The Scottish Perspective* (2013) (see <http://twintangibles.co.uk/wp-content/uploads/2013/08/Crowdfunding-The-Scottish-Perspective.pdf>).

²²NESTA, *Pushing Boundaries, the 2015 UK Alternative Finance Industry Report* (2016) (see http://www.nesta.org.uk/sites/default/files/pushing_boundaries_0.pdf).

SECTION

4

BUSINESS ANGELS – BEHAVIOURS, ATTITUDES AND EXITS

Business Angels – Behaviours, Attitudes and Exits

This section details the behaviours, attitudes and exit routes of the island of Ireland’s Business Angel community by providing answers to the following research questions:

On Behaviours

- What pre- and post-investment strategies and behaviours are Business Angels exhibiting, and do these optimise their investment outcomes?

On Attitudes and Exits

- What are the attitudes of Business Angels across the island to the quantity and quality of opportunities they see for investment?
- What is the attitude of Business Angels across the island to return-on-investment and exit strategies?
- What are the impacts of their Business Angel investment e.g. number of positive exits, impact of these on firm growth, likely returns from investment portfolios, extent of follow-on investing, etc.?

Behaviours

Findings from the Online Survey

The headline findings from the online survey related to Business Angel behaviour pre- and post-investment are summarised in Figure 4.1.

The following key points are noted from the online survey data:

- Reflecting the importance of getting to know

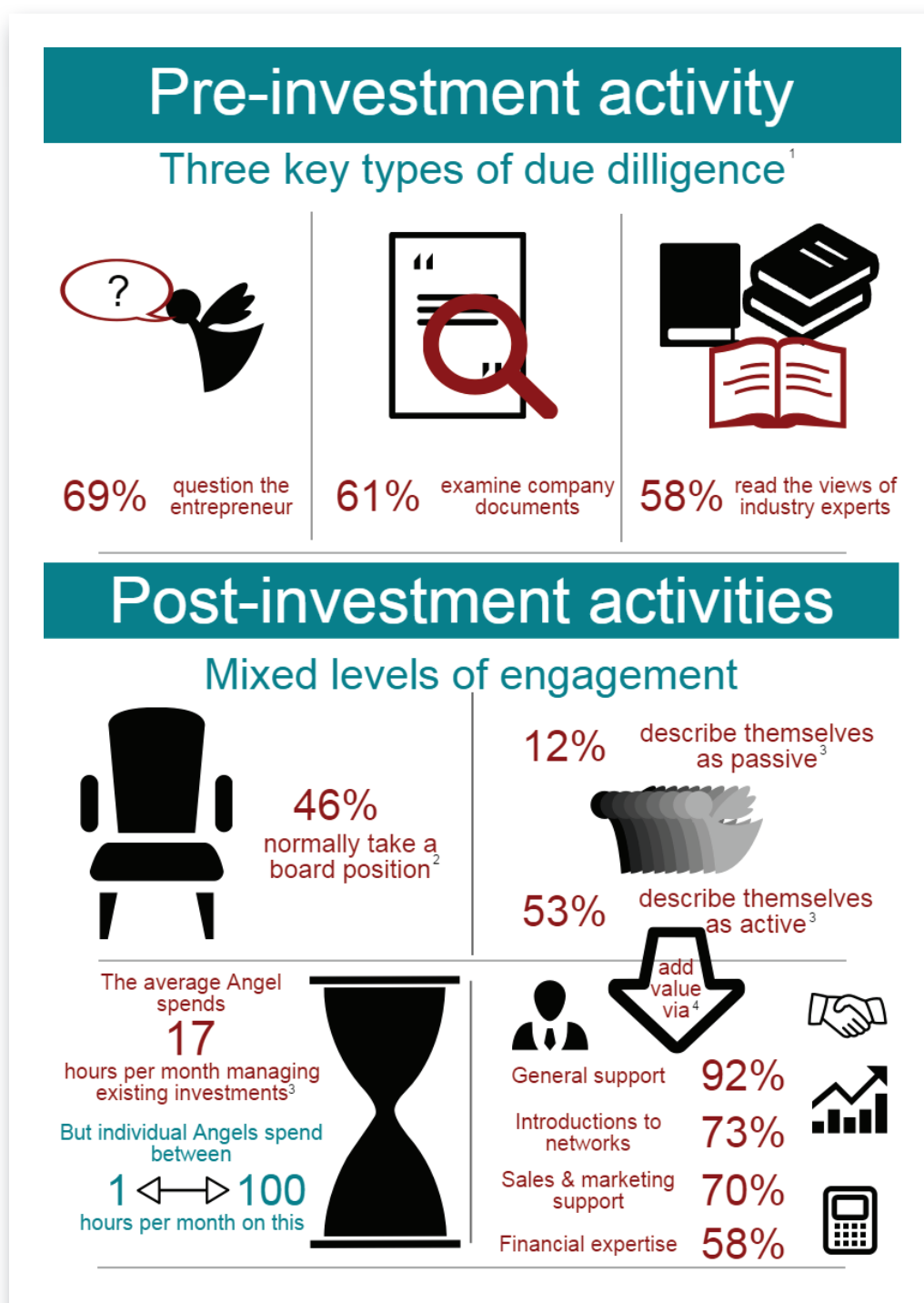
the entrepreneur behind the business as well as the business itself, **the key methods of due diligence applied by Business Angels are questioning the entrepreneur and examining company documentation.** Business Angels also undertake wider due diligence to understand better the market in which their prospective investment business operates. This includes taking and reading the views of industry experts, and engaging with businesses and professionals.

- Business Angels demonstrate a **mixed level of engagement with firms post-investment**, reflecting their different characteristics and investment approaches. Within this, the majority of Business Angels self-identified as ‘active’ investors, and while board membership was common it was not the norm. A sizeable proportion (17/49) of ‘active’ Business Angels said that their approach varies by business indicating that their behaviour is fluid and adaptable rather than fixed.

Reflections from the Wider Research

The qualitative interviews provided an opportunity to probe in more detail the post-investment behaviours of Business Angels. As might be expected, the interviews indicated a wide range of involvement, although consistently the ‘offer’ was more than simply the financial investment. Support typically provided included industry- and business-related knowledge and expertise, advice on strategy and brand development, technical assistance (e.g. on product design/prototyping/development), and providing advice on treasury management (e.g. cash-flow, follow-on funding etc).

Figure 4.1: Behaviours of Business Angels on the Island of Ireland – evidence from the Online Survey



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

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BUSINESS ANGELS – BEHAVIOURS, ATTITUDES AND EXITS

The factors influencing the level of post-investment engagement, both across the Business Angels interviewed and, in some cases, for individual Business Angels included:

- The specific context of the individual investment, including whether this was a single investment or via a group/syndicate (where the role of Lead Investor was important).
- The maturity of the investment (with some Business Angels identifying that the scale of involvement reduced over time).
- The number of other investments in the Business Angel's portfolio, and their relative priorities.
- The level of need/demand from the investee business.

Across this diversity, the most common approach was to be an 'active' investor, which may include Board membership in a Non-Executive capacity, with a more directive approach (for example, becoming Chairman) or a hands-off approach evident in a smaller number of cases.

Taken together with the online survey, **the evidence suggests that 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 and investment.

Attitudes

Findings from the Online Survey on opportunities

The headline findings from the online survey related to the attitudes of Business Angels are summarised in Figure 4.2.

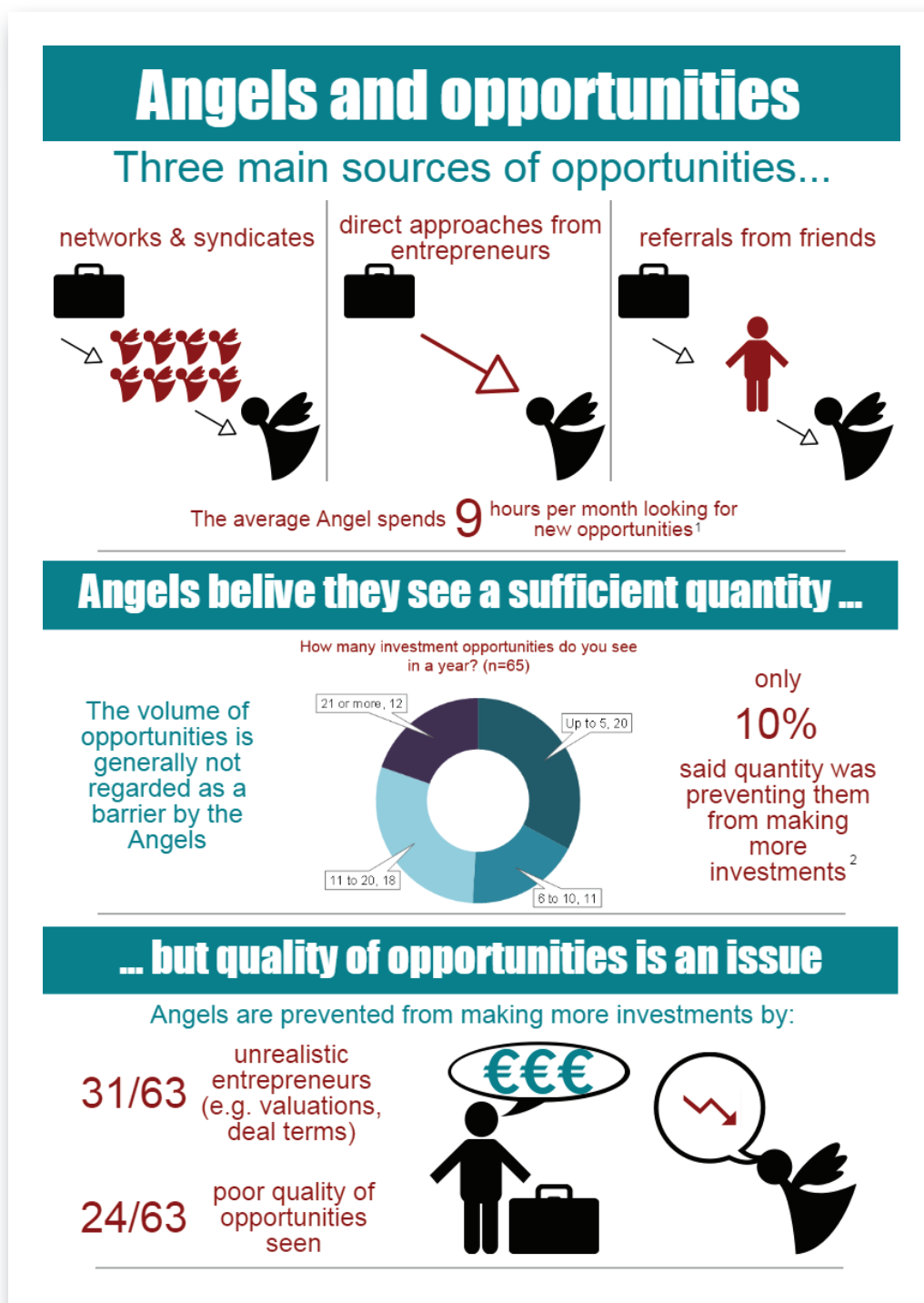
The following key points are noted from the online survey data:

- Business Angels were generally 'reactive' in identifying investment opportunities, preferring to use network events, entrepreneurs making contact directly, or being referred by a friend. Only a small number of Business Angels identified 'direct' opportunities flowing from innovation assets, such as accelerators and science parks. This points to the **core role that groups and syndicates have in identifying opportunities**.
- The **volume of investment opportunities is generally not regarded as a barrier to greater investment** by Business Angels themselves. However, this is in part owing to the amount of time they wish to spend on investing which, given the number of new Business Angel investors in the sample, may be lower than in more developed markets.
- **Issues surrounding the quality of the opportunities act to constrain higher levels of investing**. This includes the underlying quality of the opportunity itself, as well as the realism of entrepreneurs (in valuations, deal terms, etc.), which may together reduce the attractiveness of the overall 'package'. More broadly, insufficiently attractive tax incentives are acting to hold back Business Angel investment, particularly in the Republic of Ireland.

Reflections from the Wider Research

The qualitative interviews probed the attitudes of Business Angels to the quantity and quality of the investment opportunities they see. Consistent with the online survey, the quantity of opportunities was regarded generally as sufficient, with consistent feedback that the *volume* of opportunities was improving over time. This is in line with wider perceptions of a developing market. The sense of improved volume may also reflect the approaches to investment, with Business Angels looking to make one or two investments each year. However,

Figure 4.2: Attitudes of Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels. N values: 1=48, 2=63

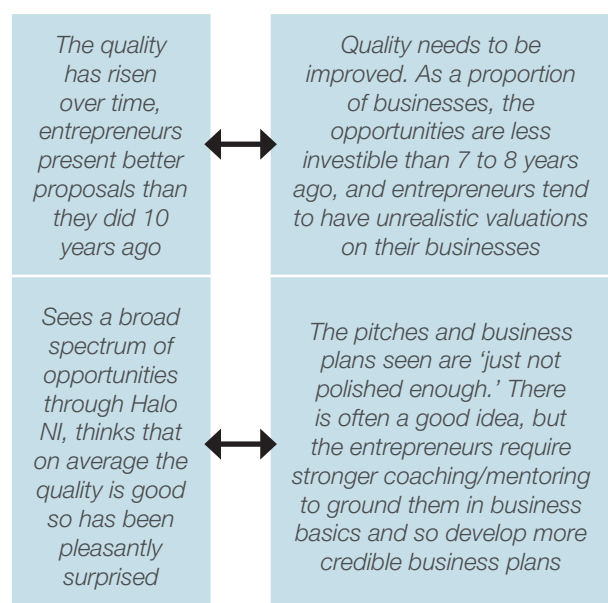
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from the Business Angel perspective, the scale of opportunities is not regarded as a constraint to investment.

Whilst for a majority the *quality* of opportunities was not limiting, eight of the 21 Business Angels interviewed stated explicitly that the quality of opportunities was holding them back from making more, or larger, investments. The feedback on this issue was quite polarised, with some Business Angels' views that the quality of opportunities was 'good and getting better', while others identified concern related to the entrepreneurs seeking finance.

Some examples of the feedback on the quality of opportunities from the interviews are provided below.



Two other points are noted. First, the feedback of a wide range in quality – one Business Angel characterised this as '25% that were interesting', and '75% that they wouldn't touch', although it should be noted that quality is a subjective issue: an opportunity that one Business Angel sees as poor quality may attract funding from another. Second,

there was evidence of Business Angels recognising the work done by HBAN and Halo NI in supporting quality through advice and support to entrepreneurs and the screening of opportunities.

To summarise this sub-section, the story is mixed. On the one hand, **the volume flow appears to be building and at the moment is not acting as a constraint on investment.** On the other hand, the quality story appears rather more mixed. Whilst significant variation in quality is an inevitable part of the mix, the study's view is that **there may be a case to consider how the consistency of quality of opportunities can be enhanced, particularly around the investor readiness and realism of the entrepreneurs.**

Evidence on Exits

The literature on Business Angels has focused traditionally on investor characteristics and the level of their investment into businesses; essentially, the 'inputs' of the market. There has been much less focus on the outcomes of Business Angel investing, and particularly the extent to which they are achieving 'exits' – that is when the financial value that has been created by the investment in the business is extracted, or the Business Angel secures a capital return on their investment.

Principal forms of 'exit', and associated pros and cons for Business Angels

Share buyback where the company or the other shareholders buy the investor's shares. This is an unattractive option as it will lead to the investor and the other shareholders being in conflict at exit: the investor wants the company to be valued as high as possible while the other shareholders as low as possible. Share buybacks happen, but are not preferred by investors.

An Initial Public Offering (IPO) involves listing the company's shares on a recognised stock exchange, at which point the investor is free in theory to sell his/her shares on the open market. However, selling a significant amount of shares in a relatively young thinly-traded public company is likely to have a negative impact on its share price and is, therefore, usually not a cash exit for investors. Moreover, the reporting obligations flowing from an IPO for the business concerned are not insignificant, and in extremis can be burdensome.

Trade Sale for cash, where all shareholders exit at the same time as the company is sold to a third party (usually another corporate). This alignment of interest means everyone wins and is in contrast to share buyback.

Source: based on HBAN 'Investing in Private Companies – Insights for Business Angel Investors'

This lack of focus is, in part, owing to the fact that, in the context of Business Angel networks, exits are difficult to track as investors hold no obligation to report them.²³ Moreover, the evidence that there is suggests that the number and rate of exits has slowed across all Business Angel markets in the aftermath of the Dot Com crash in the early 2000.²⁴ In an island of Ireland context, a regular message from stakeholders is that while there have been some exits for Business Angels, the number has been modest, and the opportunities to 'celebrate success' to stimulate further rounds of investment have been limited.

However, exits matter fundamentally. No exits for an

individual Business Angel means they have no cash to reinvest. No (or few) exits means that there is no positive signal or demonstrator effects to attract more individuals to become investors and it can lead to the discouragement of existing Business Angels. Further, a lack of exits means there are likely to be limited economic impacts from the companies that have been funded by Business Angels.

For example, previous research indicates that exits have played an important role in the development of the Business Angel market in New Zealand and Nova Scotia in Canada, both through demonstrator effects, and through providing the resources for further re-investment in the local area. The example of Nova Scotia is summarised below.

The role of exits in developing the Business Angel market in Nova Scotia²⁵

Nova Scotia in Canada is not a wealthy province, and there are relatively few self-made high net worth individuals with the potential to become Business Angels, and who can offer expertise and experience, as well as money. But the market is changing and a number of recent large exits have provided a significant boost to Business Angel investing in Nova Scotia, and the wider Atlantic Canada area. Although investors in these companies have generally been external, the founders and other shareholders have remained and re-invested locally. As such while start-ups in Nova Scotia have limited access to 'smart money', this is changing for the better as 'cashed out' entrepreneurs with expertise in growing tech companies recycle their wealth.

²³EBAN, *Statistics Compendium 2015*.

²⁴C. Mason and T. Boethlo, *The Role of the Exit in the Initial Screening of Investment Opportunities: The case of Business Angel Syndicate Gatekeepers* (2014) (see http://www.gla.ac.uk/media/media_302905_en.pdf)

²⁵SQW, *The Future of Early Stage and Growth Finance in Northern Ireland* (2015) (see <https://www.detini.gov.uk/publications/future-early-stage-and-growth-finance-northern-ireland>).

SECTION 4

BUSINESS ANGELS – BEHAVIOURS, ATTITUDES AND EXITS

Findings from the Online Survey

The study has sought to provide evidence on exits from Business Angels through the online survey, including returns secured and the time taken to realise exits. The headline findings from the online survey are set out in Figure 4.3.

The following key points are noted from the online survey data:

- **Angels are largely patient and realistic on the time required to realise exits** on their investments, with three quarters expecting to wait four or more years. However, 43% expect to exit within 4-5 years which may be slightly optimistic, particularly given evidence suggesting that the most positive exits take longer to achieve.²⁶
- There has been **mixed performance across the investment portfolios of the survey cohort, with loss-making exits more common than profitable ones**. This is not uncommon: Business Angel investing is a risky business,²⁷ and the number of profit-yielding exits (if not the proportion) may be expected to increase as the 47 Business Angels with live investments start to realise exits. It is also worth noting that failed loss-making investments are likely to emerge before profitable ones.²⁸
- There **is no typical exit in terms of the nature of investment** with key variables of time between initial investment and exit, total amount invested and return on investment realised, all having relatively large ranges. However, the type of exit did show a pattern, with trade sales by far the most common type of exit achieved. This is consistent with the 'preferred' type of exit

summarised from the HBAN guide above.

Looking in more detail at the exits, there are some common themes, although the size of the sample means it is not possible to compare those with exits to those without:

- None described themselves as a 'passive' investor, with nine of the 14 self-identifying as an 'active' investor, and five that the levels of engagement varied with the business. Eight would normally take a board position in firms they invested in.
- They were serial entrepreneurs: 13 had started-up at least one business previously, and 11 had started two or more.
- Twelve had experienced loss-making or break-even exits, with the key learning being the need for a broad investment portfolio for gains to offset losses.
- As might be expected, most were experienced Business Angels who had been investing for more than five years, with 11 of the 14 making their first Business Angel investment in 2010 or earlier. Consistent with this, the average number of businesses they had invested in was six, compared to an average across the survey of four. These data reflect both the time that it takes for investment to be converted into exits, and the experience of these Business Angels, with potentially the ability to identify investment opportunities with a strong positive exit potential.

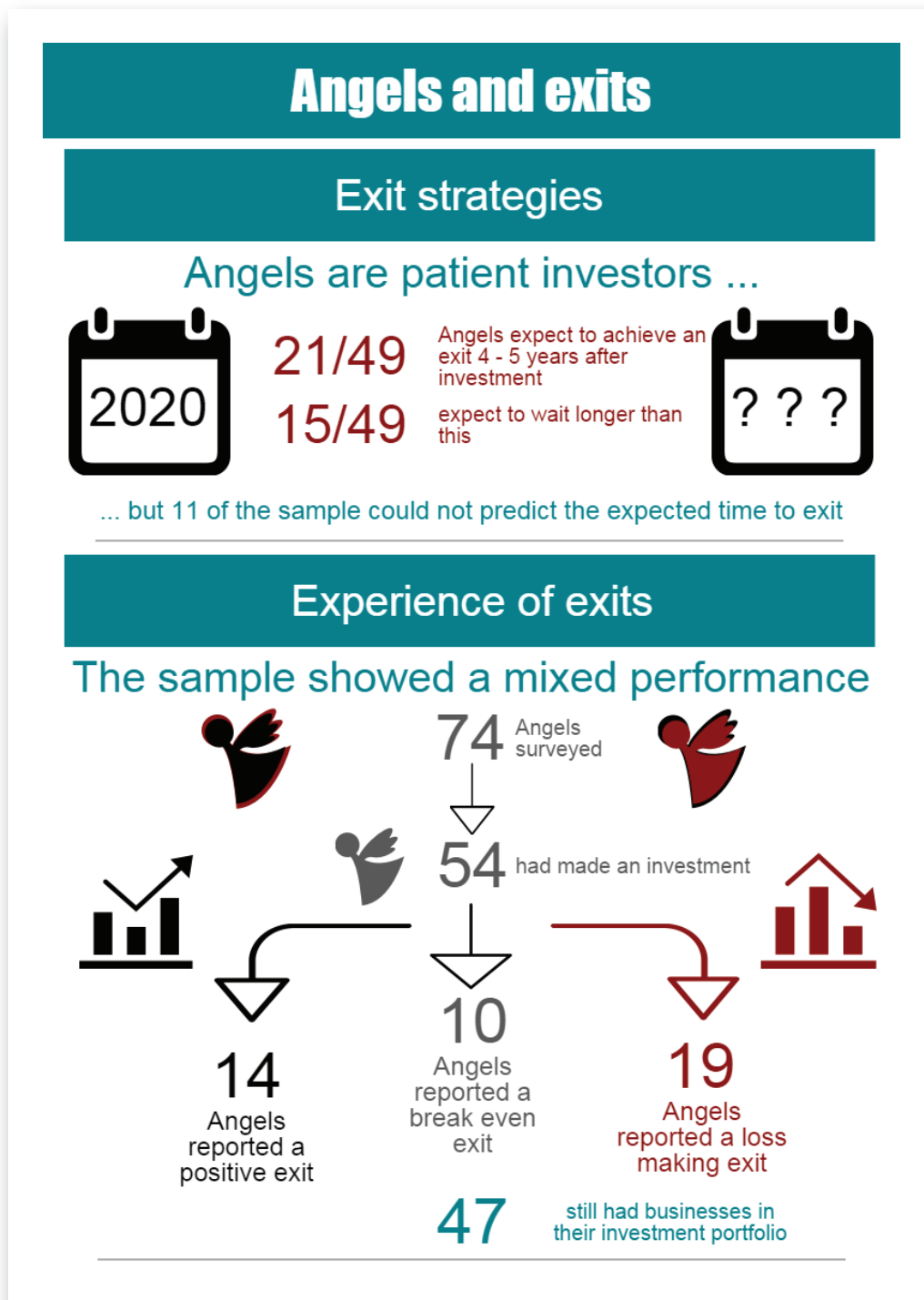
Further detail on ten Business Angels providing detail on their positive exits is at Table 4.1. The table highlights the variation in experience, and demonstrates that **Business Angels on the island**

²⁶Exits at a loss took an average of 3.2 years to "accomplish" while exits where returns exceeded ten times the investment took approximately eight years': NESTA, *Siding with the Angels* (2009), p. 15

²⁷Previous research estimates that 56% of angel investments did not return the initial money invested (see NESTA, *Siding with the Angels*) and 34% of investments recorded a total loss (see C. Mason and R.T. Harrison, 'Is it Worth it? The Rates of Return from Informal Venture Capital Investment', *Journal of Business Venturing*, 17 (2002), pp. 211-236.

²⁸For evidence see Mason and Harrison, 'Is it worth it?' and NESTA, *Siding with the Angels*.

Figure 4.3: Evidence on Exits of Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels

SECTION 4

BUSINESS ANGELS – BEHAVIOURS, ATTITUDES AND EXITS

Table 4.1: Further evidence on Profitable Exits of Business Angels on the Island of Ireland – evidence from the Online Survey

Angel	Location	Summary	Details of returns and timescales
Angel 1	NI	Invested in seven businesses since 2000, with one profitable exit to date reported	<ul style="list-style-type: none"> • 2x return on an investment of €180k was realised after nine years.
Angel 2	Ireland	Invested in three businesses since 2010, with one profitable exit to date reported	<ul style="list-style-type: none"> • 7x return on an investment of €30k was realised after three years.
Angel 3	Ireland	Invested in two businesses since 2005, with one profitable exit to date reported	<ul style="list-style-type: none"> • 4x return on an investment of €50k investment was realised after two years.
Angel 4	NI	Invested in 10 ten businesses since 2008, with two profit-yielding exits reported to date	<ul style="list-style-type: none"> • 1.5x return on an investment of €36k was realised after one year.
			<ul style="list-style-type: none"> • 1.2k equity investment (plus a loan) generated a return of €360k after 4 years
Angel 5	NI	Invested in three businesses since 2001, with two profit-yielding exits reported to date	<ul style="list-style-type: none"> • 10x return on an investment of €12k investment (no data was provided on the timing of this exit)
			<ul style="list-style-type: none"> • 15x return on an investment of €24k was realised after three years
Angel 6	Ireland	Invested in two business since 2014, both of which have seen profit-yielding exits.	<ul style="list-style-type: none"> • The investments associated with these exits were €75k and €25k (no data was provided on the rate of the return)
Angel 7	Ireland	Invested in six businesses since 2009, with two profit-yielding exits reported to date	<ul style="list-style-type: none"> • 6x return on an investment of €50k was realised after three years
			<ul style="list-style-type: none"> • 1.2x return on an investment of €50k was realised after three years
Angel 8	NI	Invested in more than 20 businesses since 2002, with four profit-yielding exits reported to date	<ul style="list-style-type: none"> • The investments were held for between four and fourteen years before achieving a profitable exit (no data was provided on the rate of the return of investment value)
Angel 9	Ireland	Invested in four businesses since 2005, with two profit-yielding exits reported to date	<ul style="list-style-type: none"> • 23x return on an investment of €150k realised after one year
			<ul style="list-style-type: none"> • 1.5x return on an investment of €50k realised after three years
Angel 10	NI	Invested in 11-15 businesses since 2003, with five profit-yielding exits reported to date	<ul style="list-style-type: none"> • 55x return on an investment of €12k realised after 11 years
			<ul style="list-style-type: none"> • 2x return on an €12k investment (no data was provided on the timing of this exit)
			<ul style="list-style-type: none"> • 1.1x return on an investment of €36k realised after four years
			<ul style="list-style-type: none"> • 1.2x return on investment of €36k realised after two years
			<ul style="list-style-type: none"> • A profitable exit on an investment of €36k realised after four years (no data was provided on the rate of the return)

of Ireland are generating positive exits from their investment.

Importantly, the survey data also highlights that it takes time for exits to be realised. As shown in Table 4.2, a high majority of Business Angels making their first investment before 2011 had realised at least one exit by the time of the survey in late 2015, and most at least one positive exit. By contrast, most Business Angels that had made their first investment more recently had not yet realised any form of exit. This is not unexpected, but emphasises the medium to long-term nature of developing the market, and the need for investment ‘patience’.

Table 4.2: Exits by time of first investment

	Achieved an exit (positive, neutral, or negative)	Achieved a positive exit
First Angel investment pre-2011 (n=20)	80%	70%
First Angel investment in 2011/15 (n=34)	24%	15%

Source: SQW analysis of online survey

Reflections from the Wider Research

Three further points, drawing on the qualitative interviews with Business Angels, stakeholder workshop, and bilateral consultations with industry representatives, are noted:

- First, the importance of predicting the timing and scale of an exit and the role of exit-based thinking was mixed across the qualitative interviews. In some cases very specific approaches were taken – e.g. one Business Angel reported they looked explicitly for investments that have the potential for an exit within four years – while in others the unpredictability of the exit event meant that this

was not the focus – e.g. one Business Angel noted that *‘If you think a business is good enough to invest in, you should be prepared to back it in the longer term to try and maximise the potential of the business and make it sustainable’*. However, more broadly, an exit-centric approach to investing was not commonly identified in the study’s research, which is consistent with the evidence on the ‘exit-orientation’ of Business Angel groups in Scotland and NI, which shows that most Business Angels and Angel gatekeepers (i.e. network managers) did not adopt an exit-centric approach to their investment decision-making.²⁹

- Second, as noted above, the modest number of visible exits on the island of Ireland was identified as an issue, given that exits are seen as important at providing examples of ‘what can be achieved’, and thus helping to promote increased interest in Business Angel investment. Clearly, the research indicates that exits are taking place – indeed, the survey sample of 54 ‘active’ Business Angels alone identified around 30 individual profit-yielding exits. The challenge is to provide evidence of and promote these exits as far as practical, and create a wider culture of ‘exit success’.
- Third, while the focus above has been on exits themselves, key to this is the ability of firms to access appropriate sources of follow-on funding. While the growth in syndicated investment may, over time, lead to an increasing blurring between Business Angel and venture capital investment, there nevertheless remains a need to ensure that the wider finance model is meeting the needs of growth firms. This report deals with Business Angels, but this wider finance perspective, of which Business Angel investing is but one part, remains vital.

²⁹C. Mason and T. Boethlo, *The Role of the Exit in the Initial Screening of Investment Opportunities*

SECTION

5

THE ROLE OF INCENTIVES AND SUPPORTS

The Role of Incentives and Supports

This section reviews the role of incentives and supports in enabling Business Angel activity on the island of Ireland, answering the following research question:

Incentives and Supports

- What influence do the following have on the investment decisions of Business Angels: supports and initiatives, taxes and other incentives?

The Existing Landscape

Tax and Regulatory Incentives

The tax and regulatory landscape for Business Angel investing is complex, covering both personal and business regimes and differs in the two jurisdictions on the island. However, for this study, the key incentives are the Enterprise Investment Incentive (EII) in the Republic of Ireland, and the Enterprise Investment Scheme/Seed Enterprise Investment Scheme (EIS/SEIS) in Northern Ireland. A summary of the initiatives are provided in the box below.

Enterprise Investment Incentive (EII)

EII in Ireland provides finance for start-ups and SMEs (at any stage of development) with the purpose to create and retain jobs. EII allows individual investors income tax relief of 30% for investments of up to €150k p.a. in the first

year of investment. An additional 10% relief is available in the fourth year of investment if it can be proven that additional jobs were created or the investee company used the capital raised for R&D expenditure. EII allows investments in new ordinary shares to qualify as a tax deduction against the investor's total tax income at their marginal income tax rate (typically 41%).

Enterprise Investment Scheme/Seed Enterprise Investment Scheme

EIS in Northern Ireland is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who buy new shares in those companies. Tax relief is at 30% of the cost of the shares, to be set against the individual's Income Tax liability for the tax year in which the investment was made. Tax relief can be claimed up to a maximum of £1m invested, giving a maximum tax reduction in any one year of £300k; to be eligible for income tax relief shares need to be held generally for three years from the date of when the shares were issued.

SEIS complements EIS, and is intended to recognise the particular difficulties which very early stage companies face in attracting investment, by offering tax relief at a higher rate. Relief is available at 50% of the cost of the shares, on a maximum annual investment of £100,000. The relief is given by way of a reduction of tax liability, providing there is sufficient tax liability.

A more detailed assessment of the principal elements of the three schemes (that is the RoI EII, UK EIS, and UK SEIS) is set out below in Figure 5.1, provided by cross-border tax experts in PKFFPM, after the 2016 Budget in the Republic of Ireland.

The assessment highlights the ‘advantages’ to the investor of EIS/SEIS relative to the EII, including on capital gains (relevant for Business Angels when considering the potential for profit-yielding exits), and the timing and (for SEIS) rate of income tax relief.

Figure 5.1: Comparison of EII in Ireland vs. the UK’s EIS & SEIS

	EII	UK EIS	UK SEIS	Comment
Rate of relief	30% in Year 1 +further 10% after 3 Years	30%	50%	In the UK, the relief is available up front, while in Ireland 30% is available in Year 1 and the additional 10% after three years.
Company Investment limit	€15 million lifetime limit	Stg£5 million per 12 months. No lifetime limit	Stg£150,000 lifetime limit	€15 million lifetime limit compares unfavourably to unlimited lifetime limit in the UK
Investor Limit	€150,000 p.a.	Stg£1,000,000	Stg£100,000	Larger single investor limit in the UK makes it easier to raise funds. For every 3 UK investors, you require 25 Irish investors (assuming €1 = £0.80).
Holding Period	4 years	3 years	3 years	
Eligible companies	Most trading SMEs	Most trading SMEs	Small companies (<25 employees + <Stg£200,000 in assets)	
Treatment of Capital Gains	Gain on disposal of shares subject to CGT	Gain on disposal of shares exempt from CGT (if held for 3 years) ³⁰	Gain on disposal of shares exempt from CGT (if held for 3 years)	UK regime much more attractive, with no CGT on disposal

Source: PKFFPM (Desi Foley and Anne Rooney)

³⁰There is also a one year carry back on this relief and the possibility of deferring Capital gains Tax on other sales of assets using EIS

SECTION 5

THE ROLE OF INCENTIVES AND SUPPORTS

The research does not assess formally the pros and cons of the different tax incentives in play in Ireland and Northern Ireland (either for the investor or the public purse). However, it has sought to provide evidence of the general influence of tax incentives on the investment decisions of Business Angels, including how this varies across the two jurisdictions. Indeed, the evidence shows that the UK's EIS/SEIS incentives, both working as policy instruments to address risk-aversion in SME financing activity, are, in broad terms, seen consistently as more 'attractive' to Business Angel investors than Ireland's EIS by those in the Business Angel community across the island of Ireland. Indeed, the EIS/SEIS is identified by HBAN 'as one of the most beneficial angel tax relief schemes in the world.'³¹

In this context, the findings from the online survey and the wider research which follow provide evidence on the influence of tax incentives (and other support) on the investment decisions of Business Angels, including variation between those Business Angels operating under the two regimes.

Other Supports

Apart from tax incentives there are also a wide range of other support mechanisms developed by public sector economic development agencies across the island (including InterTradelreland, Enterprise Ireland, Invest NI), universities and other research institutions (including innovation centres and technology commercialisation programmes), and a growing number of 'accelerators' and start-up programmes. As noted in Section 2, co-investment funds, are also an established part of the landscape, with the long-standing Co-Fund NI and the new Enterprise Ireland/EIF co-fund in Ireland (the latter coming into operation at the time of publication).

This wider enterprise and innovation 'ecosystem' is important for Business Angel investing both

in terms of develop demand for investment, and in providing support to develop Business Angels and entrepreneurs, including for example, InterTradelreland's Seedcorn Investor Readiness Competition.

Evidence from the Online Survey

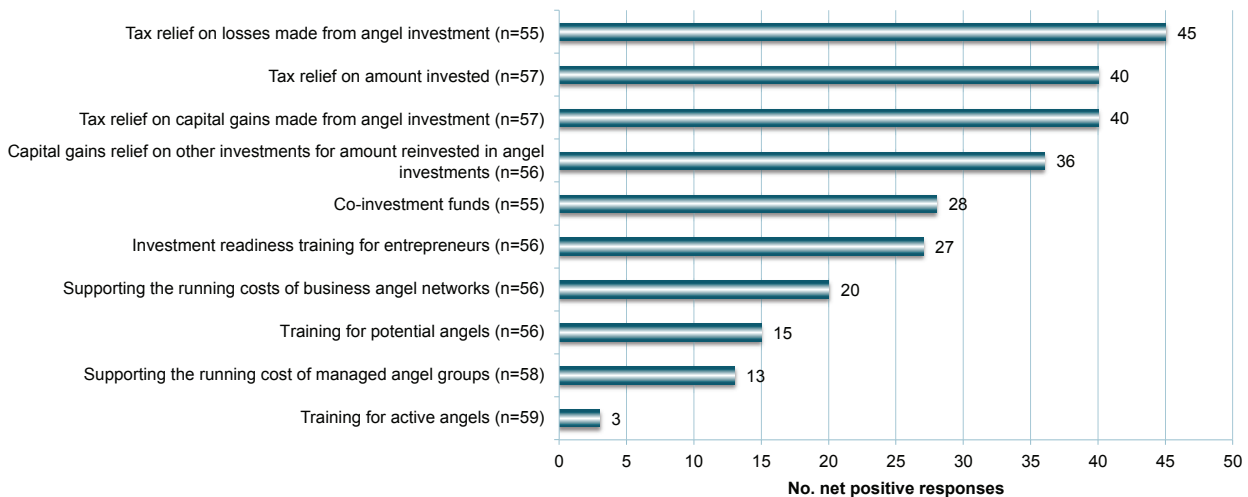
To provide context on the role of incentives and supports, the online survey asked Business Angels to identify how important they considered different forms of support that the Government can provide. As shown in Figure 5.2, a range of supports were regarded as important, including supporting the running costs of Business Angel networks, training for Business Angels, and co-investment funds (such as the Co-Fund NI that matches Business Angel investment with publicly-backed funding). However, tax relief on losses, capital gains, and the amount invested, were regarded as the most significant. This trend was consistent across Angels in both Ireland and Northern Ireland.

The following key points are also noted from the online survey data:

- In both jurisdictions: **Tax incentives are regarded clearly by many Business Angels as a key part of the case for involvement in Business Angel investing.** Almost half of the Business Angels surveyed reported that they would stop making Business Angel investing if all tax incentives were removed, and a third reported that they would scale back their investing. Whilst this is not a realistic scenario, and questions around tax regimes often invoke reflex responses, the findings do highlight the importance of the tax agenda, and attractive incentives, to the Business Angel community. The breakdown by jurisdiction is set out in Figure 5.3 (the differences are not statistically significant, although this is likely to partly due to the modest sample sizes).

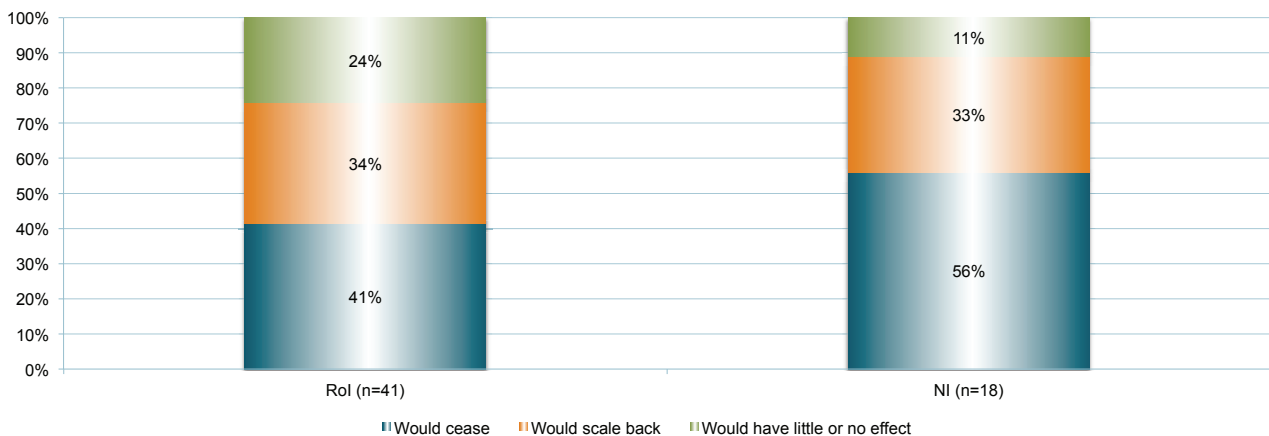
³¹<http://www.hban.org/Investors/Tax-Incentives.161.html>

Figure 5.2: The importance of types of Government support for Business Angels



Source: SQW analysis of online survey Net positive = the number of Angels that responded it was Very Important or Important minus the number of Angels that responded it was Unimportant or Very Unimportant

Figure 5.3: Response to: If all tax relief for Business Angel investing were removed, how likely is it that you would cease making Business Angel investments? Split by jurisdiction

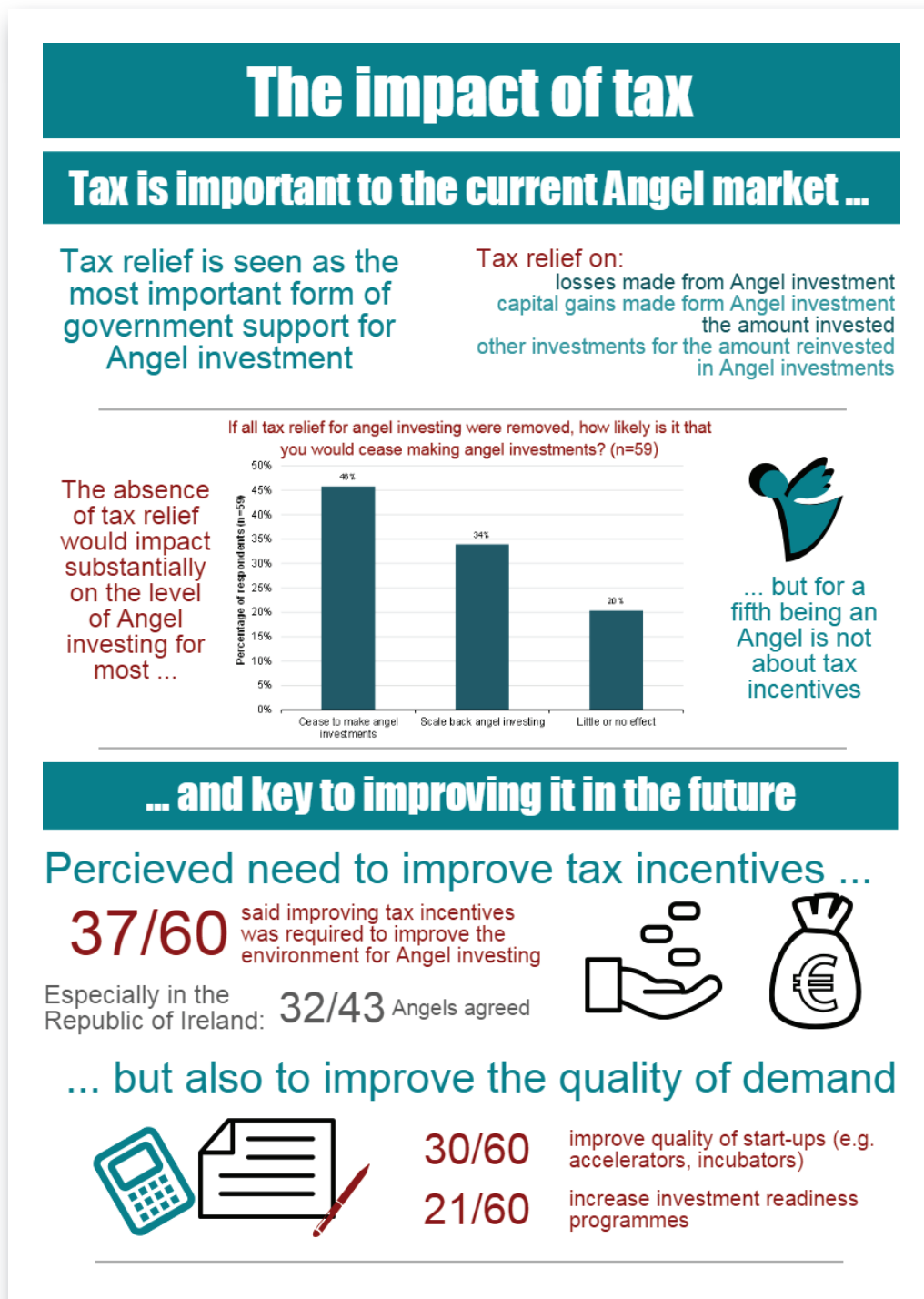


Source: SQW, based on online survey of Business Angels

- While over half of Business Angels surveyed thought that tax incentives needed to be improved (and a higher proportion in Ireland specifically, with relief on capital gains identified by a number of Business Angels as being particularly important), improving the quality of start-up seeking finance,

and related work to increase the coverage of investment readiness programmes, were also commonly cited as actions required to improve the landscape for Business Angel investing on the island (consistent with the findings on quality of opportunities discussed in the previous section).

Figure 5.4: Evidence on the influence of tax on Business Angels on the Island of Ireland – evidence from the Online Survey



Source: SQW, based on online survey of Business Angels

So, **whilst improving tax incentives may matter, this is not the ‘be all and end all’ of developing the Business Angel market.** Tax incentives may also encourage Business Angels to make riskier investments, which is not always a desirable outcome.

- It is also noted that there is no relationship in the data between the importance of tax incentives and the extent to which Business Angels self-identify as ‘active’ or ‘passive’ investors: put another way, there is no evidence that those Business Angels motivated strongly by tax are less ‘hands on’ investors.

Reflections from the Wider Research

The findings from the wider research are consistent with the previous message – that tax is important, but that other factors are also in play. Further, the qualitative interviews and workshop also indicated that the role of tax incentives is complex, linked both to the specific benefits that may be derived from tax ‘breaks’, and the effects of the regulatory framework on Business Angel behaviour, *inter alia* related to the types of shares and legal structures that underpin these incentives.

This said, consistent with feedback from the stakeholders engaged in the work, the qualitative interviews aligned with the commonly cited view that the EIS/SEIS ‘offer’ in NI is the more attractive incentive for Business Angels on the island. The feedback from the Business Angels based in the two jurisdictions reflects this asymmetry.

In Ireland, while a number of Business Angels indicated they recognised the differences with the UK regime but valued the EII scheme absolutely, many of those interviewed regarded the existing EII

incentive as a barrier to higher levels of investment in general terms. The qualitative interviews added to this by providing specific examples of Business Angels stating that it held-back their level of investment. Specifically:

- Seven of the 15 Business Angels interviewed based in Ireland indicated that they would have made more, and/or higher value, investments if the tax regime in Ireland had been more attractive, with the lack of relief on capital gains (thereby incentivising profit-yielding exits) seen as a particular barrier, and an area of focus for proposed changes in the tax framework. This group included both experienced Business Angels (for example, some who had made 10 or more investments), and less experienced investors with a handful of investments to date.
- Of the remaining Ireland-based Business Angels, five indicated that tax did not influence their decision making (positively or negatively), and two cited the positive influence of EII in helping to make investment decisions.³²

By contrast, in NI the EIS/SEIS offer was seen as beneficial consistently, and all six Business Angels interviewed reported that the tax incentives had increased the number and/or value of investments (including follow-on investments) they had made or planned to make. Other positive effects included making Business Angel investing a more attractive investment opportunity, and mitigating the risk to the investor over losses. In two cases, Business Angels indicated that they would not have become investors if the EIS/SEIS incentives had not been in place.

These findings should be treated with some caution: they indicate the self-reported effects of the existing tax regimes in place, are based on a small number

³²In one case tax incentives were not discussed owing to a time limitation of the interview

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of qualitative interviews, and should not be taken to be representative of the wider Business Angel community. But they do reflect the potentially important ways in which tax incentives influence the behaviours of Business Angels, in broad terms to encourage higher investment in NI, and to scale-back (at least for some) investment in Ireland.

However, three further issues are important when considering the evidence on tax incentives:

- The evidence from the qualitative interviews is that the **tax incentives in place impact on the total scale of investment that Business Angels are willing to allocate to investing; they do not influence generally individual investment decisions, or the sector within which Business Angels invest.** Although in a small number of cases Business Angels in Northern Ireland reported that the incentives had led to then making higher risk investments, or a greater willingness to invest in higher risk businesses in the future, in others this effect was explicitly rejected, one Business Angel noted tax has (and would have) no influence on the risk profile of investment because *'Angel investing is already inherently risky'*. A second also commented that seasoned Business Angels are not 'in the game of playing the tax margins'. The role of incentives in influencing the total level of investment than individuals are willing to allocate to this class of investment, rather than individual investment decisions, is consistent with the wider research evidence on the role of tax incentives on Business Angel investing.
- While effective tax incentives are seen clearly as important in an absolute sense, and their total removal would likely impact substantially on levels on Business Angel investment (as evidenced both in the online survey, and implied from the qualitative interviews), **the relative importance of tax incentives is more nuanced than the**

online survey data would suggest. As may be expected, other factors, most notably the quality, viability, and commercial potential of the entrepreneur and business idea, are more important than the potential for mitigating risk or maximising returns through tax incentives. Indeed, of the 20 Business Angels interviewed where the topic was discussed, only six indicated that tax incentives were crucial or very important, and the majority regarded them as of secondary/tertiary considerations, or not at all. For example, one Business Angel noted:

Tax is a minor concern compared to the team of people running the business, the probability of business being successful and predicted time to exit.

Notably, most of those Business Angels that regarded tax incentives as crucial/very important to their activity as a Business Angel were based in Northern Ireland where the existing regime is, as we have seen from the feedback, regarded as more attractive. So, whilst tax incentives may increase overall levels of investment – and in some cases play an important role in converting high-net worth individuals into Business Angels where attractive incentives are in place – other factors, most notably related to the potential of the commercial opportunities, are more consistently the most important.

- Finally, and thinking more widely, **there is limited robust evidence on the impact, additionality and Value for Money of tax incentives as a policy instrument for supporting Business Angel investment.** For example, while the UK's EIS and SEIS schemes are regarded consistently as attractive to Business Angels, and the take-up has been strong at a national level (albeit limited in NI, accounting for around 1% of EIS take-up and SEIS take-up based on the latest regional data),

there is no recent and robust evaluation evidence on the effects of these schemes on firm growth or performance, crucially comparing the performance of firms funded through EIS/SEIS to a comparison/control group of firm that have not. Similarly, in the Republic of Ireland, whilst there is evidence on the take-up of EII³³, again there is no robust evaluation evidence of the effects of the incentive on business performance over the medium-long term. As such, whether incentives of this type 'work' in promoting economic growth is open to question. Further, there are risks associated with tax incentives: as noted above, the benefits of EIS/SEIS identified from the perspective of some Business Angels include risk mitigation. However, whether investment in higher-risk firms is always desirable may be questioned and a less attractive tax regime in Ireland may in fact incentivise Business Angels to make more thorough and commercially-driven investment decisions.

³³See for example http://www.budget.gov.ie/Budgets/2015/Documents/EII_Report_pub.pdf

SECTION

6

IMPROVING THE BUSINESS ANGEL MARKET

Improving the Business Angel Market

Long-run evidence on ‘what works’ elsewhere

Business Angels have existed throughout the industrial era, before being recognised and targeted by government. However, in recent decades as entrepreneurship has been recognised as a key driver of economic development, so governments have sought to encourage and ‘mainstream’ Business Angel investing.

The focus of support has been largely on the supply side. There has been an emphasis on increasing the number of Business Angels and the frequency of their investing, enhancing the skills of Business Angels, addressing market inefficiencies caused by the invisibility of both Business Angels and entrepreneurs seeking finance (e.g. through networks). Only more recently has the policy agenda moved on to enhancing the demand side, and the development of co-investment fund initiatives has required efforts to stimulate the development of Business Angel groups to be the partners in such schemes.

The key findings from an assessment of the evidence on a range of support measures (including tax incentives, the development of Business Angel networks, investor education schemes, investment readiness programmes and co-investment schemes), which should inform actions to improve the Business Angel market on the island of Ireland,

are as follows:

- **The most appropriate form of support to stimulate Business Angel investment is related to the maturity of the market:** ‘hard’ forms of intervention – notably institutional arrangements such as Business Angel Networks and tax incentives – are appropriate when the market is immature, along with support for capacity building. However, the case and need for on-going institutional support is weaker when markets become mature, and, in some places, the emergence of Business Angel groups has occurred without public sector intervention.³⁴
- **The need for investor training and investment readiness programmes remains strong, particularly on exit-oriented investment strategies:** these are most effectively delivered by Business Angels on behalf of either individual Business Angel groups or national Business Angel associations, rather than by governments or their executive agencies.³⁵
- **The long-term economic effects of tax incentives remain uncertain:** although tax incentives do appear to stimulate increased Business Angel investment activity, it is by no means clear that this extra investment is producing an increased number of high growth businesses. Hence a decline in the headline amount of Business Angel investment activity may have no

³⁴T. Lahti and H.M.A. Keinonen, ‘Business Angel Networks and Entrepreneurs: A Match Made in Heaven?’, in C. Mason and H. Landstrom (eds), *Handbook of Venture Capital Research: Volume 3* (London, Edward Elgar, 2016), forthcoming.

³⁵C. Mason and J. Kwok, ‘Investment readiness programmes and access to finance: a critical review of design issues’, *Local Economy*, 25:4 (2010), pp. 269-292.

significant effect in the ‘real’ economy at all. Of the various forms that tax relief can take, the evidence suggests that reinvestment relief (i.e. the ability to reinvest capital gains, regardless of their origins), is the most effective, perhaps linked to the fact that it is time limited, with the capital gain needing to be invested within a defined window. Encouraging cashed-out entrepreneurs to recycle their wealth and expertise as Business Angels is a key feature of a strong entrepreneurial ecosystem.

One final point is important: interviews with stakeholders as part of this study highlighted securing high-level policy buy-in to Business Angel investing as an important factor in the development of the market. For example, buy-in at senior levels within government was cited as an important factor

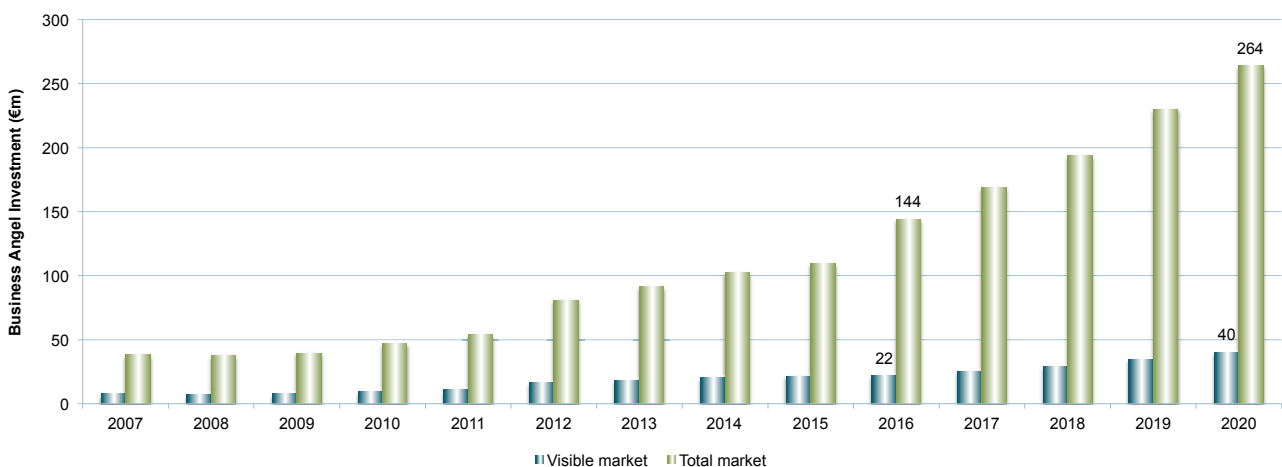
in the development of the market in Great Britain, particularly in Scotland and England, over the past decade.

The Size of the Prize

The evidence indicates that the Business Angel market on the island of Ireland is growing and stakeholders and Business Angels consulted for this study were consistently optimistic about the potential for ongoing, and even higher, growth to 2020. This growth will build on the emerging infrastructural platform, particularly through HBAN and Halo NI, and as the breadth and density of the Business Angel community grows.

To provide an indication of the potential growth,

Figure 6.1: The potential size of the Business Angel market to 2020



Source: SQW, based on EBAN data

the data from EBAN set out in Section 2 has been projected forward to 2020, assuming a consistent growth rate from 2014 equivalent to that experienced over the 2007/13 period. This would suggest the potential for a ‘visible’ Business Angel market of €40m by 2020 and, assuming this represents 20% of the total market (reflecting the ongoing development of HBAN/Halo NI), a total market of around €260m. By any yardstick, this would be a significant component of economic development activity on the island.

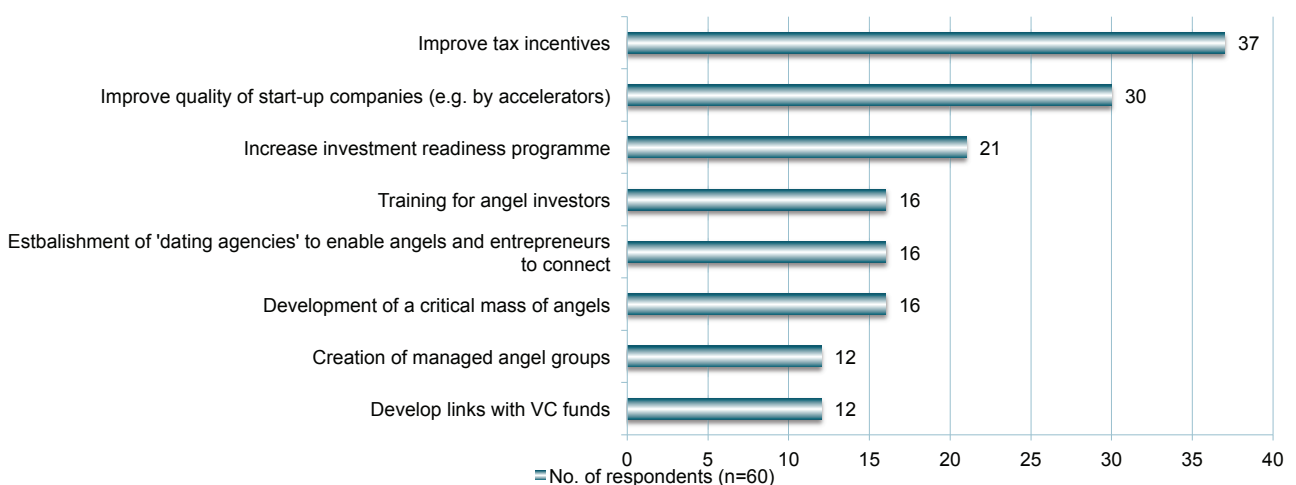
The extent to which this growth trajectory is deliverable will rely both on the supply-side (i.e. more Business Angels, making more investments) and, crucially, the demand-side with a sufficient volume and quality opportunities for investment, particularly (although not exclusively) in technology and knowledge-based industries, and entrepreneurs that are investment ready. The delivery of this is consistent with the policy agenda in both Ireland – through *Enterprise 2025* and *Innovation 2020*

– and Northern Ireland – through the *Northern Ireland Economic Strategy* and the *Northern Ireland Innovation Strategy*.

Therefore it will only be through the effective operation of the entrepreneurial ecosystem across the island that sufficient demand will be generated and sustained, through maximising the all-island potential of the research base, generating a pipeline of start-ups and supporting enterprise and wider skills development among people of all ages. There is evidence of significant activity across the island to create this pipeline. This includes (but is not limited to):

- Ireland - Enterprise Ireland’s funding support for High Potential Start Ups, through a range of grants and support, including the New Frontiers Entrepreneur Development Programme, and the network of Business Innovation Centres.
- Northern Ireland - NISP Connect, including its Springboard programme open to innovation

Figure 6.2: Top 3 changes identified by Business Angels needed to improve the environment for Business Angel investing on the island of Ireland



Source: SQW, based on online survey of Business Angels

companies with high growth potential, and other Invest NI supports, including Propel, which are focused on firms with high growth and export potential.

- All-island - Interventions to stimulate and accelerate the exploitation of research activity from the universities and higher education institutions across the island.

Whilst this wider ecosystem development is outside of the scope of this study, stimulating demand is critical and needs to be a priority going forward for all relevant stakeholders.

The views of Business Angels

As noted in Section 5, changes to tax incentives, the quality of start-up seeking finance, and the coverage of investment readiness programmes were identified in the online survey as the most common ways in which Business Angels would like to see improvements to the landscape for Business Angel investing. Figure 6.2 details the 'top three' changes identified by Business Angels as those that would improve the investment environment.

The feedback from the qualitative interviews on improvements was broadly consistent with the online survey. Improvements to tax incentives were identified, particularly by Business Angels in the Republic of Ireland, and activity to develop the quality of investment opportunities flowing through to Business Angels identified across the island. Further to issues related to tax incentives (particularly on capital gains), and improving the awareness and visibility of investment opportunities across the border, qualitative consultations also identified recommendations to raise the profile and awareness of Business Angels investing in the wider market and policy environment. For example, one Business Angel (based in Ireland) commented that 'Angel investors and Angel investing are underground, not

celebrated' on the island of Ireland, and another (based in Northern Ireland) that 'more Angel investment could be stimulated if there was more publicity around what is an exciting activity'.

Operating Realities

The recommendations to improve the market for Business Angel investing on the island of Ireland will operate within a certain context, which highlights:

- **The evidence from this work is that the Business Angel market on the island of Ireland is, in broad terms, operating largely effectively.** The scale of activity appears to be increasing, and solid platforms are now in place through HBAN and Halo NI to increase investment levels. While it remains relatively early days in terms of exits and hard economic benefits being realised, the direction of travel is a positive one. The implication here for any recommendations is a cautionary 'if it ain't broke, don't fix it'.
- **The support landscape for Business Angel investment on the island of Ireland is already quite well-developed, and continues to mature.** For example, there is an ongoing focus on the development of syndicates and a new model of matching Business Angels and opportunities has recently been developed by Halo NI. There is also a range of programmes to support investor readiness, including InterTradeIreland's Seedcorn competition. Whilst there may be scope for new initiatives and ideas, these need to avoid duplicating existing activity, trying things that have already been tried and failed, or creating new structures and systems that will create a less streamlined landscape for investors and entrepreneurs to navigate. The implication here is to ensure that any recommendations 'work with the grain' of the existing support landscape.
- In this context, it is important to note that **much of**

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the public money behind these interventions is focused on one specific part of the island, that is, it is focused on delivering benefit to the tax-payers of Ireland and Northern Ireland respectively. However, in practice for fluid markets like early-stage equity investment, these administrative constraints are not always effective or efficient. The implication is that there is a case to promote thinking and support interventions which are focused on developing the 'wider enterprise ecosystem' across the entire island of Ireland.

- **The Business Angel (and wider risk finance) market is changing**, driven by developments in technology (such as crowdfunding), the emergence of new business models and industries and new models of financing entrepreneurship and business growth through accelerators and incubators. Further, whilst there arguably remains a job to be done to further promote Business Angel investing across the island, the market is opening up to new communities and sources of investment, with early-stage investing increasingly 'mainstream' supported by high profile investors (e.g. television's 'Dragons' on both sides of the Irish Sea) and the emergence of young cashed-out technology entrepreneurs. The implication here is to ensure that any recommendations ensure that they focus on only those areas where there is genuine market failure, not displacing or impacting adversely the ability of the market itself to drive change.
- **There needs to be a recognition that the 'invisible' nature of much of the market is by design, not accident.** Whilst there is a case to seek to gather further evidence on the overall scale of investing, and bring into the fold informal Business Angel investors that want to benefit from the platforms and offer of HBAN and Halo NI, in many cases individuals may wish to remain anonymous and continue to invest 'under the

radar'. The implication here is to ensure that any recommendations trying to improve and develop the 'visible' market does not interfere or disrupt the operation of the 'invisible' market, by dis-incentivising this type of investment. In a real sense there is a risk that by seeking to characterise fully the 'invisible' market it will be damaged. Business Angel investing is also not a linear process, and can be an 'intermittent' and long-term game, indicating that any actions progressed will take time to flow through into the market. A medium-term perspective is, therefore, warranted.

Strategic Recommendations and Underpinning Actions

With these operating realities in mind, five 'strategic recommendations' and one policy recommendation to improve the market for Business Angel investing on the island of Ireland are proposed, each with a set of practical underpinning actions.

Strategic Recommendation I: Increase the profile and policy-leverage of Business Angel investing amongst key decision makers across the island of Ireland, placing it at the core of enterprise and economic development thinking.

- **Action 1: Host a series of regular (probably annual) high-level round-table events with Ministers, senior officials, and advisers from the two governments, and representatives from the Business Angel community.** The spirit of the events should be 'dialogue and discussion' (not lobbying/promotion) in order to develop a relationship of trust and commitment on both sides, and to inform strategic policy making.
- **Action 2: Host a series of regular (probably annual) meetings between economic development practitioners (e.g. from Invest**

NI, Enterprise Ireland, InterTradelreland, DETI, DJEI) and active Business Angels. The focus of the meetings should be to ensure that economic development practitioners ‘speak the language’ of the Business Angel community, to inform the practical design and delivery of economic development interventions on the supply- and demand-side. This is not about displacing HBAN or Halo NI, but making sure those wider executives responsible for policy and execution are fully informed on Business Angel thinking and activities.

- **Action 3: Scope the potential to identify a visible public ‘champion’ (or Tsar) for the Business Angel community on the island of Ireland.** The role would focus on raising the profile of Business Angel investing and providing expert advice to the administrations in both jurisdictions. The champion would be a high-profile and successful Business Angel, from the island, ensuring there is no confusion in the market, notably with the existing leaderships of HBAN and Halo NI.

- Note: this individual could potentially play an important role in a number of the other Actions e.g. Actions 1 and 2, 10 and 12, and 14.

Strategic Recommendation II: Enhance the scale, and improve the functioning, of the cross-border Business Angel market on the island of Ireland, with a view to raising the number of Business Angels that consider actively investing in the neighbouring jurisdiction

- **Action 4: Increase the accessibility of opportunities for cross-border investing by explicitly highlighting investment opportunities across the border through existing mechanisms.** Practically, this would mean Halo NI and HBAN ensuring that at least one opportunity in the neighbouring jurisdiction was included in its regular opportunity-distribution mechanisms.

- **Action 5: Encourage participation by Business Angels in groups/syndicates in the neighbouring jurisdiction.** Practically this will mean encouraging Business Angels based in Northern Ireland to join the existing (and any new) syndicates in the Republic of Ireland, and ensuring that Irish-based Business Angels are involved as syndicates emerge in Northern Ireland.
- **Action 6: Develop the information provided to and available on the rules and regulations regarding tax incentives in cross-border investments, including via existing Business Angel portals (e.g. InterTradelreland, HBAN, Halo NI).** The purpose here will be to ensure that the up-to-date legal position is made clear to Business Angels, to avoid information barriers preventing cross-border investment. This should include engagement with the relevant tax and policy agencies in the two jurisdiction, and be led by tax experts. Partners should consider funding the provision of professional advice to Business Angels/groups on cross-border investing, and develop case study materials to demonstrate the potential successes that could arise in cross-border investing and how tax regimes have been navigated successfully, in both directions.

Strategic Recommendation III: Broaden and deepen the pool of ‘active’ Business Angels on the island of Ireland, leading to more individuals becoming Business Angels, and a more diverse cohort of Business Angels

- **Action 7: Support the development of new Business Angel groups across the island.** This could include, potentially, an all-female group (drawing on best practice elsewhere), groups linked to universities/education institutions across the island (drawing on their alumni and staff, and the friends and families of these cohorts), and potentially an explicitly cross-border group

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(drawing on the learning from a previous effort of this type that failed owing to investment capacity). Again, the emphasis would be on building some profile and momentum, with facilitation and start-up support provided (at least initially) by HBAN/Halo NI, and others as appropriate (e.g. InterTradelreland, Invest NI, and Enterprise Ireland).

- **Action 8: Undertake a focused programme of knowledge gathering and capacity building on the equity-crowdfunding market, and its role on the island of Ireland.** This should include the potential for developing platforms on the island of Ireland, the implications of the legal and regulatory framework in Ireland, focused research on the use and perceptions of equity crowdfunding by individuals (including Business Angels, and non-Business Angels, and how the latter may be ‘converted’ to traditional Business Angel investing), and foresighting activity to inform future activity.
- **Action 9: Continue to market and promote actively Business Angel investing – online and offline – leveraging the recognition and market position of the existing HBAN and Halo NI ‘brands’.** A structured programme of joint marketing across the island should be considered, consistent with Strategic Recommendation II.

Strategic Recommendation IV: Enhance the capacity and support to those groups both providing and seeking Business Angel investment, leading to a more mature, sophisticated, and efficient market.

- **Action 10: Pilot a new Angel-to-Angel training programme on an all-island level, focused on transferring the skills and experiences of ‘serial’ Business Angels to new cohorts.** This programme could potentially include a formal programme pairing experienced Business Angels with new Business Angels (potentially matched via HBAN/Halo NI). A particular focus here should

be on knowledge transfer on how to develop a diversified-portfolio and exit-focused investing.

- **Action 11: Expand the existing programme of inward and outward ‘missions’ of Business Angels to other successful Business Angel markets, targeting ‘best of class’ activity.**

The focus of the missions should be to develop and embed relationships with other places internationally to both generate learning and potentially attract investment interest. A likely early focus here would be leveraging the Irish Diaspora and the existing networks of high-profile ‘serial angels’ across the island.

Strategic Recommendation V: Develop the underpinning infrastructure for Business Angel investing, including the evidence base on market activity, the technology platform, and the ‘event diary’

- **Action 12: Support comprehensive reporting on Business Angel investment through the establishment of a bespoke island of Ireland ‘Business Angel Monitor’, drawing on equivalent models in other places.** The Monitor should seek to capture all Business Angel investment, both through the ‘visible’ market, and as far as appropriate the ‘invisible’ market (taking care not to impact negatively on the operation of this market).
- **Action 13: Building on existing materials, publish an annual ‘state of play’ report for Business Angel investing on the island of Ireland.** This should draw on the island of Ireland ‘Business Angel Monitor’ above, reporting on the scale and nature market activity, and highlight ‘success stories’ to communicate recent major exits and investments to the wider early stage finance community (including financial and wealth advisers).

- **Action 14: Consider the potential to develop a shared data-platform between HBAN and Halo NI to maximise efficiencies and promote the effective collation and dissemination of data and information on the Business Angel market.**

This shared platform would provide a single point of contact for members across both organisations, and help to leverage and share the resources and materials that have been developed by each organisation for the benefits of all Business Angels across the island. The intent of this would be to help provide a seamless and integrated platform; there would be no other agenda.

- **Action 15: Support a co-ordinated programme of events, masterclasses and activities to further animate and develop the Business Angel community across the island, building on the existing programmes and events already in place.** The long-term aim should be to ensure that each week there is 'something happening' for the Business Angel community, led increasingly by the Business Angels themselves in shared spaces, both real and virtual.

...and one Policy Recommendation

As demonstrated in this study, tax incentives matter in supporting the Business Angel market. From an all-island perspective, the existing regimes in place drive investor behaviour and inform attitudes to cross-border investing, with a recognised and significant asymmetry between the present 'offers' of the two jurisdictions.

Decisions by policy makers in Dublin and London on tax incentives will be determined ultimately by a range of high-level fiscal issues, considerations and contexts. Moreover any proposals for changes would need to be based on detailed financial and economic modelling, and considerations of legal and regulatory factors (including State aid rules). These are all issues outside the scope of this work and as

such have not been addressed.

Notwithstanding this, the study has identified across the range of its research activities the importance of tax incentives, particularly in supporting the development of cross-border investing activity. Recognising this, one final 'Policy Recommendation' is offered:

Policy-makers across the island of Ireland should continue to give serious consideration to the case for harmonising, and enhancing the symmetry of, the tax incentive 'offer' for Business Angel investing on the island of Ireland. This should be focused on considering a 'levelling-up' of incentives in Ireland to the UK's EIS/SEIS model.

Given its unique role in being able to look 'both ways', this Policy Recommendation is best led by InterTradelreland.

Implementation

Delivering against the Strategic Recommendations and Actions set out above will require robust governance and delivery arrangements, and further work to move them on from indicative actions to a deliverable agenda for progress. Whilst some actions will be the responsibility of specific agencies, partners should consider the most appropriate form of delivery to ensure that actions are delivered in an integrated and consistent way, including considering the roles of InterTradelreland, HBAN and Halo NI.

Further, while delivery against specific actions will be the responsibility of a range of agencies, it is important that relevant Government departments, both in the Republic of Ireland and Northern Ireland (DJEI and DfE), retain an overall strategic role to ensure that progress is made and delivery is realised.



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