ANNUAL REPORT ON THE BUSINESS ANGEL MARKET IN THE UNITED KINGDOM: 2009/10

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Colin Mason is Professor of Entrepreneurship, Hunter Centre for Entrepreneurship, University of Strathclyde, Glasgow. He previously worked at the University of Southampton. His research and teaching are in the area of entrepreneurship and regional development. His specific research is concerned with venture capital and regional development and with the availability of venture capital for entrepreneurial businesses. He has written extensively on business angel investing. From 1993 to 2001 he produced an annual report on business angel investment activity on behalf of BVCA and then NBAN which was based on the data provided by business angel networks on the investments that they had facilitated. His current research projects include a study of high growth firms in Scotland.

Richard Harrison is Professor of Management and Director, Queen's University Management School, Queen's University of Belfast. He has previously held chairs at the Universities of Ulster, Aberdeen and Edinburgh. His major research interests lie in entrepreneurship and economic development, and specifically in the area of access to early stage risk capital. He has been co-author of an annual report on the regional early stage risk capital market in Scotland since 2001, which is the most consistent and comprehensive analysis of business angel and early-stage VC investment at regional level. His current research interests include studies of how business angels learn through the investment process and the process of leadership development in small companies.

They are joint co-editors of the journal *Venture Capital: An International Journal of Entrepreneurial Finance* (published by Taylor and Francis Ltd), now in its 13th year of publication.

Together they have unrivalled knowledge of the business angel market through a 20+ year record of research and engagement with policy-makers and practitioners both in the UK and elsewhere. They are the leading UK-based researchers on angel finance and their work has exerted a significant influence on other research both in the UK and elsewhere They pioneered the study of business angels in the UK. Their subsequent research has provided significant understanding of the operation of the angel market (e.g. investment returns; angel investment decision-making; the angel-venture capital interface) and influenced both policy and practice (e.g. CGT taper, investment readiness). They undertook a previous study on behalf of the Small Business Investment Task Force which identified ways in which angel investment activity could be measured and made recommendations on the most appropriate approaches for the UK to follow. This report has arisen directly out of this prior work.

ACKNOWLEDGEMENTS

We are pleased to acknowledge the many people and organisations that made this report possible. First, we are grateful to all those organisations that have provided the data. Second, we are grateful to Guy Willmington of BBAA for collating and organising both the data from the networks and from the survey of independent angels. Third, we are extremely grateful to Mike Young (BIS Access to Finance Expert Group), Helene Keller (Enterprise Directorate, Department for Business, Innovation and Skills) and the members of the Steering Group - Emmanouil (Manos) Schizas (ACCA), Jenny Tooth (BBAA), Colin Ellis (BVCA), James Perry (HM Treasury) and David Grahame (LINC Scotland) – for their perceptive comments and critique of earlier drafts of this report. The final report is significantly better as a result. However, we remain responsible for any remaining errors.

This Second Report on the UK's Business Angel Market is again the outcome of Mike's tireless advocacy for the need for better data on angel investment activity, both at the Bank of England where he was responsible for the Bank's annual Finance for Small Firms report and more recently as Deputy Chair of the Access to Finance Expert Group.

GLOSSARY OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
BAN	Business Angel Network
BBA	British Bankers Association
BBAA	British Business Angels Association
BIS	Department for Business, Innovation and Skills
BVCA	British Venture Capital Association
EBAN	European Business Angel Network
EIS	Enterprise Investment Scheme
EU	European Union
ICT	Information and Communication Technologies
RDA	Regional Development Agency
VC	Venture capital (or venture capitalists)

EXECUTIVE SUMMARY

1. INTRODUCTION

This is the second annual report on investment activity by business angels in the United Kingdom. The inaugural report established a template to examine business angel investment activity in 2008/09 and to estimate the overall size of the market. This report follows this template to report on business angel investment activity in 2009/10.

Business angels are high net worth individuals who invest their own money, either alone or with others, directly in unquoted businesses in which there is no family connection. They normally invest in the form of equity finance in the hope of achieving a significant financial return through some form of exit. Typically they will also take an active involvement in their investee businesses. Business angels have long been recognised as an important source of finance for entrepreneurial businesses, particularly at their start-up and early growth stages where the amounts required are too small to be economic for venture capital funds to invest.

Given the importance of business angels as a source of funding for entrepreneurial businesses it is important that their investment activity is documented and changes in the market are tracked. However, this is extremely problematic. Investing in unquoted businesses is a private activity, the market is largely unorganised, lacking a single access point, and there are no directories of business angels. So, to all intents and purposes neither the number of business angels nor their investment activity can be measured comprehensively nor can investment trends be accurately tracked.

The approach that was established in the 2008/09 report on the UK's business angel market and which is replicated in this report in order to develop a consistent time series, is to focus on the visible market for which comprehensive data can be collected, meaning that this segment of the market can be measured accurately. The visible market comprises networks and other forms of portals, such as angel syndicates, which organise and facilitate new and young businesses to raise finance from angels. In practice this visible market is defined for England, Wales and Northern Ireland as comprising those networks that are members of the British Business Angel Association (BBAA) as they were the only networks that provided data. In Scotland, where the market is organised differently, the visible market comprises angel syndicates that are members of LINC Scotland.

2009/10 has been a difficult one for investors and for companies seeking to raise finance. Economic conditions deteriorated significantly in 2009 following the financial crisis in 2008, with big declines in private sector consumption, manufacturing production and capital expenditure and increases in insolvencies and unemployment. Fears of a double-dip recession have meant that recovery has been cautious. Sharp reductions in early stage venture capital investment and bank lending have resulted in increased demand for angel funding and required angels to provide greater financial support to their existing investee companies. However, the recession severely curtailed angels' exit opportunities and, hence, their capacity to recycle investment into new ventures.

2. AN OVERVIEW OF MARKET TRENDS

There are limitations in the data reported by business angel networks which arise from the nature of the various operational models used. Specifically, networks which charge investors a membership fee are able to report accurate numbers whereas networks which invite potential investors to events can only report approximations. Networks which charge a success fee on completed investments are able to report accurate investment statistics and have greater knowledge of the details of the investment (e.g. number of angel investors in the deal; involvement of co-investors, etc) than those networks which have no financial interest in the outcome of introductions that they make and therefore do less in the way of monitoring outcomes. Third, there can be a significant time-lag between the point at which the angel members are introduced to a business seeking finance (e.g. at a pitch) and an actual investment being made, raising the possibility of double-counting between years. This all leads to various inconsistencies in the data that form the basis of this report.

Data from the BBAA survey of its member networks show that those networks that were active in 2009/10 had 4,555 member angels at the end of the year. This compares with 5,548 member angels reported by networks in 2008/09. It would therefore *appear* that there has been a decline of nearly 1000 angels (18%) between 2008/09 and 2009/10. However, this is misleading for three reasons. First, it is possible that the 2008/09 total was inflated by some double counting, which, if excluded, would virtually eliminate the apparent decline in the number of angels. Second, the number of member angels with those angel groups reporting in both 2008/09 and 2009/10 reveals a decline of less than 1%. Third, investor turnover data indicates that more angels joined the reporting networks in 2009/10 than left (+631). Moreover, 13 out of 18 networks had more investors joining their network in 2009/10 than leaving. This all leads to the conclusion that angel membership has, in all probability, done no worse that remained static between 2008/09 and 2009/10 and, based just on the data on flows, may actually have increased.

By no means all of the angels registered with the networks are actively investing. The networks estimated that fewer than 1,800 of their registered angels were active, just 37% of the total. Even fewer – less than 500 (10%) - made investments through the network during 2009/10 (although this does not preclude the possibility that they made investments independently of the networks).

The networks received 9,640 business plans in 2009/10. This was an increase of 955 (+11%) on the 2008/09 figure. The networks put forward just 764 businesses to their investors, just 8% of the business plans received. This is 60 fewer businesses than were presented to investors in 2008/09 when 9.5% of received plans were put forward. There were 238 businesses which raised finance from these networks, a marginal increase on the 2008/09 number (+2%). These companies raised £42.3m through from angel investors in 2009/10 compared with £44.9m in 2008/09, a decline of £2.6m (-6%). To this figure we can add the investments made by business angel groups in Scotland and reported by LINC Scotland which comprised 78 investments involving a total of £27.5m, of which £18.2m was contributed by business angels.

So, for the UK as a whole business angels invested a total of £60.5m in that part of the visible market which this report is able to monitor (namely BBAA networks covering England, Wales and Northern Ireland, and angel groups that are members of LINC Scotland). This is a decline of 3.7% compared with 2008/09.

Comparing 2008/09 with 2009/10 therefore reveals two contradictory trends. On the one hand, the proportion of businesses presented to investors has fallen. On the other hand, for those businesses selected for presentation to investors, the probability of raising finance has increased. In other words, 'good' investment opportunities have not found it any harder to raise finance from business angels during 2009/10.

3. INVESTMENT ACTIVITY

The BBAA networks provided detailed data on a total of 245 investments in 2009/10. These companies raised a total of £98.3m of investment through the networks. Business angels registered with these networks contributed £32.2m (33%) of this total. Scottish angels made a further 78 investments, involving a total investment of £27.5m, of which angels contributed just over £18m (66%). Based on the deal specific data overall reported angel investment activity in this part of the visible market in the UK in 2009/10 was £50.5m.

Overall, the evidence indicates divergent trends in the market between 2008/09 and 2009/10. There has been a small increase in the number of investments amongst BBAA member networks (+20 investments; 9%) while investments by those angel groups affiliated to LINC Scotland increased marginally (+4 investments; 5%). This is a noteworthy increase given the extremely difficult economic conditions in 2009/10. The number of angel investors has remained fairly constant (no Scottish data available). However, the amount invested by angel investors has dropped by 13% from £57.8m to £50.5m. This reflects activity in the BBAA networks, where angel investment fell from £39.9m to £32.3m, a 19% fall. It is also consistent with a decline in the mean number of member angels participating in each investment made through a BBAA network which has fallen from 4 to 3.6. In contrast, Scottish angel groups slightly increased the amount that they invested. On the other hand, the overall amount invested from all sources has remained virtually static. This reflects activity in BBAA networks which, in aggregate, have significantly increased the amount of non-angel investment that they have attracted. For BBAA networks, each £1 of angel investment in 2009/10 therefore leveraged £2.04 of other funding, compared with £1.44 in 2008/09. The conclusion from this evidence – which is consistent with the aggregate angel investment reported in Chapter 2 – is of remarkable stability in most dimensions of the angel market. This is all the more encouraging in the light of the prevailing economic conditions in 2009/10.

There is a wide range in overall deal size, ranging from less than £25,000 to over £1m. However, most deals are in the £50,000 - £500,000 range. Fewer than 10% of deals were for £1m or more. LINC Scotland investments are slightly larger, with 51% of £200,000 or more compared with 45% of BBAA investments, reflecting the impact of the Scottish Co-Investment Fund which is drawn down in the majority of angel deals in Scotland. Deal sizes were smaller in 2009/10 than in 2008/09: 56% of BBAA investments in 2009/10 were under £200,000 compared with 48% in 2008/09. This was even more extreme in the case of LINC Scotland where 49% were under £200,000 compared with only 36% in 2008/09.

The majority of investments (55%) reported by BBAA networks only involved angels. However, at the other extreme, angels have been minority investors in one-third of all deals. The situation in Scotland is rather different on account of the operation of the Scottish Co-Investment Fund, which requires at least pound for pound matching. As a consequence, the majority of investments by angel groups (85%) are co-investments, and in the vast majority of cases angels have provided at least 50% of the overall investment.

Looking just at the amounts invested by angels, in the case of BBAA networks, in one-third of the deals angels collectively invested less than £50,000 per deal, in over half of the deals angels invested less than £100,000 and in three-quarters of deals angels invested less than £200,000. More than half of all investments involved at least two angels, while 18% involve more than five angels. In Scotland angels are less likely to make investments of under £25,000 and more likely to invest over £200,000. As the data only covers angel groups all of the investments involve multiple angels.

Solo angels dominate where the total angel investment is small. Hence, individual angels account for close to two-thirds of investments when the total angel investment is under £25,000. This proportion drops to 54% for angel investments of between £25,000 and £49,000 and to around one-third when the amount invested by angels is £50,000 or more. Nevertheless there is considerable variability, with sizeable proportions of small angel investments involving multiple angels and of larger investments involving a single angel.

The majority of companies funded through BBAA networks were raising finance for the first time from that network. However, in the case of LINC Scotland the majority of investments are follow-on deals which we interpret as reflecting the greater investment capacity of angel groups. Indeed, follow-on investments as a proportion of all investments by Scottish angel groups has increased from 67% in 2008/09 to 76% in 2009/10. In contrast, amongst BBAA networks the proportion of investments involving companies raising finance from the network for the first time rose from 59% to 67%.

Investments made by business angels through BBAA networks were largely focused on the early growth stage and start-up stage. However one-quarter of their investments were in established companies seeking development capital. Angel groups in Scotland had a much greater focus on the early growth stage and made fewer investments in established companies. There have been no obvious shifts in the investment focus of business angels in terms of the stage of investment between 2008/09 and 2009/10.

Just over half of the investments by BBAA investors were in companies that have five or fewer employees and 78% have 10 or fewer employees. Investments made through LINC Scotland are also oriented towards small companies but to a slightly lesser extent than in the case of BBAA investments: 46% have five or fewer employees and 67% have ten or fewer employees. This is consistent with the higher proportion of follow-on investments made by Scottish angel groups. The proportion of investments in companies with more than ten employees has risen from 12% to 22% amongst BBAA investments and from 29% to 33% in the case of LINC Scotland investments.

Business angels invest across a wide range of industries, but with a strong focus on technology sectors. Angels investing through BBAA networks focused on ICT (including software) (25%) and biotech/medical/health (19%). Scottish angel groups had a much stronger focus on biotech/medical/health (33%).

4. SURVEY OF INDIVIDUAL ANGELS

We also have data from questionnaires completed by 147 individual business angels. Two-thirds (67%) of the responding angels were members of angel networks that were members of the BBAA. Just under half (49%) of the respondents were members of angel syndicates.

The majority of respondents (72%) had made at least one investment during 2009/10. The median amongst those was two investments but there was a tail of more active investors who had made more than five investments. Collectively respondents had made a total of 276 investments, of which 66% were new, the remainder being follow-on investments. The total amounts invested ranged from under £10,000 to over £500,000 but with skew towards smaller investments: 56% of investors who had made investments in 2009/10 invested up to £50,000 and 75% invested up to £100,000. There has been a *slight* shift in favour of smaller investments: 70% of angels invested less than £75,000 in 2009/10 compared with 64% in 2008/09.

The proportion of respondents who did not make any investments in 2009/10 is only slightly higher than the proportion in the 2008/09 sample (28% cf. 25%). Just over one-third of respondents (35%) invested more in 2009/10 than in 2008/09 but this is largely offset by 32% who had invested less in 2009/10 than in 2008/09. The remaining one-third invested about the same in both years. This is consistent with both the aggregate data from the networks and the deal specific information which suggest that there has been little change in the volume of business angel investment activity between 2008/09 and 2009/10.

The majority of active investors (70%) had used the Enterprise Investment Scheme (EIS) for at least some of their investments. However, only 38% used the EIS for all of their investments. The proportion of investors not using EIS is slightly higher in 2009/10 than in 2008/09 (31% cf. 24%). However, the proportion of investors using EIS for all of their investments was higher in 2009/10 than in 2008/09 (38% cf. 32%).

Just over half of all respondents had made at least some of their investments through angel networks, with nearly one-third using a network for all of their investments. Thus, there is fuzzy distinction between the visible and invisible markets, with many angels who are members of angel networks investing in both the visible and invisible markets. Active investors were more likely to use networks. Angels who were members of networks were more likely to invest. Both findings point to evidence of a ‘network effect’.

5. MARKET SCALE ESTIMATES

Finally, we estimate the scale of the market in the UK using an updated version of the ‘bottom up’ methodology used in last year’s report to extrapolate from the visible segment of the market, namely the investment activity channelled through business angel networks.

In the case of Scotland angel groups associated with LINC Scotland invested £18.2m. LINC Scotland estimates that their members are aware of only around 35% of identified business angel deals. Assuming no differences in the size distribution of investments made through LINC Scotland and otherwise, this suggests that total business angel investment in Scotland may be in the order of £51.2m, almost unchanged from the previous year.

For the rest of the UK a number of adjustments to the reported data on angel investment need to be made in order to estimate the overall scale of the UK business angel market, notably (a) adjustments for investment by BAN members that is not made through a network and (b) adjustments for investment by angels who are not BAN members. Applying these adjustments gives an estimate for the scale of the market of £266.5m.

Our overall estimate for angel investment activity in the UK in 2009/10 is £317.7m. This analysis suggests that overall angel investment in the UK has declined by 25% in 2009/10 compared with 2008/09. However, it needs to be remembered that other measures of angel investment activity show much less change between 2008/09 and 2009/10. Moreover, angels were able to lever in more finance from other investors in 2009/10 than in 2008/09. Thus, the total amount invested in businesses which had an angel element was broadly similar to 2008/9. Perhaps the most significant indicator is that the number of investments which included an angel element increased slightly in 2009/10, suggesting that business angels continued to play an important and vital element in the financing of companies, despite the economic pressures on both angels and investee firms.

6. SUMMARY

In summary, the angel market remained remarkably robust in 2009/10, despite the recessionary conditions. As might be expected demand for angel funding increased and while some of this additional demand was of low quality, angels actually invested in a slightly higher proportion on the deals that they were presented with. On the supply side, the number of angels has remained virtually unchanged and the number of investments has increased slightly. However, the amount invested by business angels has declined by around 25%, although some of this decline reflects a fall in deal size. Moreover, overall deal sizes have remained fairly static, suggesting that angels are leveraging larger investments from co-investors.

1. INTRODUCTION

1.1 Context

This is the second annual report on investment activity by business angels in the United Kingdom. The inaugural report, which was commissioned by the Department for Business, Innovation and Skills (BIS) on behalf of a consortium comprising the Association of Chartered Certified Accountants (ACCA), the British Business Angels Association (BBAA), British Private Equity and Venture Capital Association (BVCA), and LINC Scotland, established a template to examine business angel investment activity in 2008/09 and to estimate the overall size of the market. This report follows this template to report on business angel investment activity in 2009/10.

Business angels are high net worth individuals who invest their own money, either alone or with others, directly in unquoted businesses in which there is no family connection. They normally invest in the form of equity finance in the hope of achieving a significant financial return through some form of exit. Typically they will also take an active involvement in their investee businesses, offering advice, networking, working part-time or becoming a member of the board of directors.

Business angels have long been recognised as an important source of finance for entrepreneurial businesses, particularly at their start-up and early growth stages where the amounts required are too small to be economic for venture capital funds to invest. Indeed, the concept of the funding escalator has frequently been used to portray the various sources of finance used by a growing business, starting with family and friends, in some cases followed by government grants, then business angels, venture capital funds and finally a stock market listing. However, this is increasingly seen as no longer applicable (URS, 2010).

First, the complementary relationship between business angels and venture capital funds (Freear and Wetzel, 1990; Harrison and Mason, 2000) – the so-called relay race (Benjamin and Margulis,2000) in which an angel makes the initial investment and then passes on the ‘baton’ to the venture capital fund to make a larger follow-on investment – has largely broken down. This has arisen for several reasons. The contraction of the venture capital industry and the increase in its typical minimum investment (Pierrakis, 2010) has meant that there are fewer VCs available to make follow-on investments. The souring of relationships between angels and VCs (which can be traced back to the way in which VCs managed their investments in the post-2000 tech crash which was to the detriment of angel investors) has prompted many angels to follow an ‘early exits’ investment strategy (Peters, 2009), investing in businesses that have smaller financial requirements, hence less likely to require follow-on funding from VCs, and which can achieve an exit through a trade sale in just a few years. The rules of the Enterprise Investment Scheme (EIS) which restrict business angels to ordinary shares are also problematic. Angel groups claim that their effect is “almost invariably [to] misalign the interests of angel groups and VCs”, creating difficulties when venture capitalists, using preference shares or similar instruments, invest in subsequent rounds.[1] Second, only a minute number of businesses achieve an IPO. Acquisition is the most common exit route for investors in successful entrepreneurial businesses (Mason and Harrison, 2002; Wiltbank, 2010).[2]

For these reasons business angels have become by far the main source of risk capital for new and early stage businesses seeking amounts of under £2m. The paucity of venture capital finance means that business angels are also increasingly required to make follow-on investments in their portfolio companies. The public sector in various forms is also a

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[1] LINC Scotland (2009) *Note on UK Tax Structures and Informal Investing*, Glasgow.

[2] However, angel and VC-finance companies continue to be the main source of companies that go to an Initial Public Offering (IPO) (Johnston and Sohl, 2011).

significant source of funding in this space, both as a direct investor and also through co-investment funds which invest alongside business angel groups (and other investors).[3]

Given the importance of business angels as a source of funding for entrepreneurial businesses it is important that their investment activity is documented and changes in the market are tracked. However, given the nature of business angels this is extremely problematic. Investing in unquoted businesses is a private activity and the market is largely unorganised, lacking a single access point. There are no directories of business angels, and although their investments are recorded at Companies House through form 88(2)[4], the scale of the task to extract this information for the UK and limitations of the data themselves (see Mason and Harrison, 2008a; 2008b) means this is not a feasible solution.[5] So, to all intents and purposes neither the number of business angels nor their investment activity can be measured comprehensively nor can investment trends be accurately tracked.

The approach that was established in the 2008/09 report on the UK's business angel market (Mason and Harrison, 2010) and which is replicated in this report in order to develop a consistent time series, is to focus on the visible market for which comprehensive data can be collected, meaning that this segment of the market can be measured accurately. The visible market comprises networks and other forms of portals, such as angel syndicates, which organise and facilitate new and young businesses to raise finance from angels. We define this visible market in England, Wales and Northern Ireland as comprising those networks that are members of the British Business Angel Association (BBAA). In Scotland, where the market is organised differently, the visible market comprises angel syndicates that are members of LINC Scotland.

However, the visible market in England, Wales and Northern Ireland has itself fragmented in recent years and so now comprises two groups of networks: (i) networks which are members of BBAA and report their deals through BBAA and (ii) syndicates and networks of various types that have a public profile and hence are visible but which are not members of BBAA, either through choice or eligibility. A criticism[6] of the 2008/09 report was that that it only covered that part of the visible market comprising BBAA members. For this report seven non-BBAA angel groups were contacted for data for the 2009/10 report but only one responded. It is clearly desirable that future reports have complete and robust data on the entire visible market to portray the full significance of the market. This can only be achieved with the support of all business angel groups.

The data that provides the basis for this report have been collected by BBAA and LINC Scotland from their members and provided to us in an anonymised form. This has been supplemented by data from a survey of individual business angels. This serves two purposes. First, it provides a comparison of investments made through the visible and invisible markets. Second, it provides an indication of the proportion of investment activity that occurs in the visible and invisible markets, information which, in turn, can be used to estimate the overall scale of angel investment activity in 2009/10.

[3] The Scottish Co-Investment Fund is a major player in the Scottish market (as this report shows). However, co-investment funds are in the minority amongst publicly backed venture funds in England and Wales (SQW, 2010).
[4] All incorporated companies in the UK are obliged to file details of investments received where such investment results in the issue of shares. Companies are obliged to make returns on form 88(2) within one month of the allotment of schemes (Mason and Harrison, 2008a; 2008b).
[5] 88(2) forms have been used to examine the early stage venture capital market in Scotland (Harrison et al (2010). However, this is only possible on account of the availability of information on companies that have raised equity finance (from Young Company Finance) and Scotland's small size.
[6] A number of other criticisms levelled at the report reflect a misunderstanding of the brief which was to report on investment activity statistics rather than wider aspects of the investment process.

1.2. Time Context

The year 2009/10 has been a difficult one for investors and for companies seeking to raise finance. Economic conditions deteriorated significantly in 2009 following the financial crisis in 2008, with big declines in private sector consumption, manufacturing production and capital expenditure and a rise in the private sector 'distress index' (comprising UK insolvencies and unemployment). Fears of a double-dip recession have meant that recovery has been cautious.

Such economic conditions have mixed implications for angel investors. On the one hand, by discouraging start-up and expansion plans it reduces investment opportunities. On the other hand, sharp reductions in early stage venture capital investment (Table 1.1) and bank lending (Table 1.2) have resulted in increased demand for angel funding and required angels to provide greater financial support to their existing investee companies. In addition, the recession severely curtailed angels' exit opportunities and, hence, their capacity to recycle investment into new ventures.

Table 1.1. Early stage venture capital investing

	Number of financings					Amount invested (£m)				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Start-up	208	245	207	170	92	160	531	190	172	15
Other early stage	285	255	295	285	204	222	415	244	187	137
Total early stage	491	500	502	455	296	382	946	434	359	152

Source: BVCA annual reports

Table 1.2. Bank lending to small businesses

	New term lending £m	Term lending	Overdraft borrowing
Monthly average 2010	550	-201	-37
Monthly average 2009	664	+136	-26
Monthly average 2008	991	+303	+2

Source: British Bankers' Association

These economic circumstances have a major bearing on the performance of the angel investment market and are reflected in the statistics reported below.

1.3 This Report

This report follows the same structure as the inaugural report. It provides an analysis of angel investment activity in 2009/10 and estimates the overall market size. It is also able to compare investment trends for 2008/09 and 2009/10.[7]

The Report is structured as follows.

Chapter 2 draws upon the BBAA's survey of its member networks (undertaken in association with EBAN) to provide an overview of key trends in the visible market, notably investor numbers, investment activity and funding rates.

Chapter 3 draws upon deal specific information on investments that were made through BBAA networks or by angel groups affiliated to LINC Scotland. This provides a detailed analysis of the types of investments made by business angels.

Chapter 4 reports on the survey of individual angels investors undertaken as part of this research to gain an insight into investment activity in the invisible market.

Chapter 5 reports on our updated estimate of the overall scale of the business angel market in the UK using the data available for the visible and invisible markets to develop this.

Chapter 6 summarises the key findings from the analysis and highlights the key issues concerning the development of the business angel market in the UK in 2009/10.

This is followed by a list of references cited in the report and a statistical annex comprising a series of standard tables which will be updated annually.

[7] Financial years (April-March)

2. AN OVERVIEW OF MARKET TRENDS

2.1 Data Sources

This chapter reports on the aggregate investment activity of business angel networks. Information was collected by BBAA,[8] the trade association for England, Wales and Northern Ireland, from a survey all of its members. The following discussion is based on investment returns from all 20 networks that were active in 2009/10. A further four networks were either dormant or in the process of restructuring.

There is a high level of overlap between the networks which reported in 2008/09 and in 2009/10. One fairly significant network which reported in 2008/09 left the BBAA at the end of that year and so did not report in 2009/10. Two networks reported in 2009/10 but not in 2008/09. One is a very small network which was dormant in 2008/09 and did not facilitate any investments in 2009/10 while the other is a new network, acting as an umbrella organisation for three smaller networks.

Given this high continuity in membership over the two years there is no need to report again on the characteristics of the networks – date of formation, organisational structure, partner organisations, commercial status, funding and services provided (see pp. 8-15 of last year's report for this information). Instead we focus on those characteristics which are potentially variable over time, namely activity measures – number of investors, retention and turnover; number of businesses approaching the network; number of opportunities made available to investors; investments made and amount invested.

Finally, it is important to recognise the limitations of the data used in this report. Dr William E Wetzel jr, the pioneer of angel research, commonly described it as being 'grubby'. This comment was made in the early 1990s when the angel market comprised individual, anonymous angels who were protective of their privacy, and reflected the problems in identifying business angels and getting them to respond to surveys. Some twenty years on, and with a significant proportion of angel investing now channelled through institutions – or networks – it might be thought that data problems will have disappeared, at least in this segment of the market. Unfortunately, this is not the case. The quality of the data provided by networks depends on the nature of their operational model. This has three dimensions.

First, 'membership' of an angel network is a variable concept. The critical issue is whether investors pay a membership fee. Those networks which do charge investors a membership fee – which tend to be the larger networks - are able to report accurate numbers. However, other networks – especially those whose fee income is based on a success fee on completed investments – do not charge investors a membership fee and instead may simply invite targeted individuals to events. Hence, the number of 'member angels' reported by these networks is, inevitably, an approximation.

Second, networks which charge a success fee on completed investments (usually in the form of a percentage of the amount raised) are able to report accurate investment statistics and have greater knowledge of the details of the investment (e.g. number of angel investors in the deal; involvement of co-investors, etc) than those networks which have no financial interest in the outcome of introductions that they make and therefore do less in the way of monitoring outcomes.

Third, there can be a significant time-lag between the point at which the angel members are introduced to a business seeking finance (e.g. at a pitch) and an actual investment being made, raising the possibility of double-counting between years.

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[8] This information also contributes to an annual profile of business angel networks and their investment activity across Europe published EBAN (European Business Angels Network).

This all leads to various inconsistencies in the data that forms the basis of this report.

2.2 Network Activity

(a) Investor numbers

Those networks that were active in 2009/10 had 4,555 member angels at the end of the year. This compares with 5,548 member angels reported by networks in 2008/09. It would therefore *appear* that there has been a decline of nearly 1,000 angels (18%) between 2008/09 and 2009/10. However, this is misleading for three reasons.

First, it is possible that the 2008/09 total was inflated by some double counting. Two 'sister' networks which share the same investors but manage the investment process independently (and so report their investments separately) each reported their number of angel members in 2008/09 but reported a single total in 2009/10. Excluding these angels from the 2008/09 total would have the effect of virtually eliminating the apparent decline in the number of angels. Second, and further supporting this position, is that a comparison of the number of member angels with those angel groups reporting in both 2008/09 and 2009/10 reveals a decline of less than 1%, with the number of networks reporting an increase in the number of member angels (11) exceeding those which reported a decline (7) (Table 2.1). Third, investor turnover data indicates that more angels joined the reporting networks in 2009/10 than left. During 2009/10, 859 angels joined the networks, equivalent to 19% of the end-of-year membership. This compares with 31% in 2008/09. A total of just 228 angels left the networks during 2009/10, 5% of their total membership. This was also lower than in 2008/09 where the loss rate was 9%. The networks which reported in 2009/10 thus had a net increase of 631 members. Moreover, 13 out of 18 networks had more investors joining their network in 2009/10 than leaving (and in two other cases the numbers joining and leaving were the same). Finally, it is important to recall the point made earlier that 'membership' is a difficult concept for some networks because of the way in which they operate.

Table 2.1 Trends in angel membership of networks

			Change	
	2008/09	2009/10	number	%
All networks – headline total	5548	4555	-993	-17.9
Excluding possible source of double-counting (see text)	4626	4555	-71	-1.5
Networks reporting in both years	4585	4544	-41	-0.9

This all leads to the conclusion that angel membership has, in all probability, done no worse that remained static between 2008/09 and 2009/10 and, the data on flows suggests it may have actually increased.

The proportion of women angels (3.7%) who were members of networks in 2009/10 was very similar to the previous year. The proportion of members joining the networks during 2009/10 who were women was 4.5%, again very similar to 2008/09.

The distribution of registered angels across the networks is highly skewed, as was the case in 2008/09. Indeed, the skew has become slightly more significant, with just two networks accounting for 51% of investors in 2009/10, whereas the two largest networks in 2008/09 accounted for 45%. However, the typical network is quite small. The median figure in 2009/10 was 133, a slight increase on 2008/09 when the median was 123.

The angels registered with the networks are by no means all actively investing. Indeed, this is one of the many difficulties that are encountered in estimating the population of business angels. Some angels will be looking to make their first investment. Others may not have the available cash to make investments while another group may have reached their investment capacity in terms of finance and/or time, at least for the time being. The networks estimated that fewer than 1,800 of their registered angels were active[9], just 37% of the total. Even fewer – less than 500 (10%) - made investments through the network during 2009/10 (although this does not preclude the possibility that they made investments independently of the networks[10]). The comparable figure for 2008/09 was 590 investors (11%).

Several of the networks reported that their membership also included non-angels. These included other types of investors, such as family investment offices and venture capital funds, and various types of support providers, including lawyers, accountants, corporate finance advisers, business advisers and non-executives. However, the level of detail reported concerning these members varied across the networks so it is not possible to quantify their numerical significance.

(b) Approaches by businesses and opportunities received by members

The networks received 9,640 business plans in 2009/10. This was an increase of 955 (+11%) on the 2008/09 figure. As in the case of investors, the distribution was again skewed, with four networks accounting for 60% of the total. Given the tightening of the credit markets for SMEs in the year under review it is no surprise to see this increase in businesses seeking equity finance.

(c) Investments made and funding rates

Networks make two important value-added contributions to the investment process. First, they exert a quality filter on the businesses that they put forward to investors for funding. Thus, they will turn away some businesses as being unsuitable for funding by angels, other businesses will be told that they are not investment ready and advised on what they need to do before they can become candidates for angel funding, while others will voluntarily withdraw after learning more about what is involved in raising finance from angels. Hence, the networks put forward just 764 businesses to their investors, just 8% of the business plans received. This is 60 fewer businesses (-7%) than were presented to investors in 2008/09 when 9.5% of received plans were put forward.

Second, networks enhance the investment readiness of the businesses that they select to put forward to their investors. This includes individual advice, investment readiness training and pitch presentation training. We noted in last year's report that networks which provided investment readiness training were relatively more successful in securing investment for their companies. However, in this year's survey (which includes a wider definition of support) virtually all of the networks claim to provide support to businesses which they put forward to investors. Hence we cannot replicate this analysis on the 2009/10 data.

There were 238 businesses which raised finance from these networks, a marginal increase on the 2008/09 number (+5, +2%).[11] According to the network survey data these

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[9] This was left to the responding networks to define.

[10] Chapter 5 provides some insight into the extent to which members of business angel networks also invest in opportunities that have been identified through other sources.

[11] These companies raised £62.3m through the Networks. This includes both angels and other sources. However, just four Networks identified the total amounts raised from angels and from other investors and it is not clear whether the other Networks did not report the split or whether their investments only involved angels. The amount reported as being provided by non-angels was £20.3m.

businesses raised £42.3m from angels who were members of these networks. The comparable amount for 2008/09 was £44.9m, a decline of £2.6m (-6%).

To this figure we can add the investments made by business angel groups in Scotland and reported by LINC Scotland. These groups invested £18.2m in 78 businesses. Taking account of other investors – largely the Scottish Co-Investment Fund - these businesses raised a total of £27.5m.

Thus, business angels invested a total of £60.5m in that part of the visible market which this report is able to monitor (namely BBAA networks covering England, Wales and Northern Ireland, and angel groups that are members of LINC Scotland). This is a decline of 3.7% compared with 2008/09.

Table 2.2. Funding rates

	2008/09	2009/10	Change	
A: Number of business plans received	8,685	9,640	+955	+11.0%
B: Number of companies presented to investors	824	764	-60	-7.3%
C: number of companies raising finance through the network	233	238	+5	+2.1%
Conversion rates				
The 'presentation rate' (B as a proportion of A)	9.5%	7.9%	-1.6 percentage points	
The 'success rate' (C as a proportion of B)	28.3%	31.2%	+2.9 percentage points	
The 'funding rate' (C as a proportion of A)	2.7%	2.5%	-0.2 percentage points	

Comparing 2008/09 with 2009/10 therefore reveals several trends (Table 2.2). On the one hand, while the demand for angel finance has increased, the proportion of businesses presented to investors (presentation rate) has fallen. This would be expected if, as is likely, economic conditions and the lack of alternative sources of finance have pushed more businesses – including unsuitable ones - to seek angel finance. But for those businesses selected for presentation to investors, the probability of raising finance (the success rate) has increased. In other words, 'good' investment opportunities have not found it any harder to raise finance from business angels during 2009/10.

For the vast majority of companies that had raised finance through the networks – some 72% - this was the first time that they had raised finance through that network. The remaining 28 % of companies had previously raised finance from members of the network and were raising follow-on finance.

2.4 Summary

Comparing angel investment activity in 2009/10 with 2008/09 reveals a number of trends in the visible market:

- Overall the evidence suggests that the number of angels who are members of networks has remained virtually unchanged.
- The majority of networks which reported in 2009/10 recorded more angels joining than leaving.
- Turnover in angel membership has fallen.
- There has been an increase in the number of business plans received by networks (+10%), suggesting that the demand for angel finance has increased.

- The proportion of companies submitting business plans to networks which went on to raise finance from angels is unchanged.
- However, for those companies whose business plans were circulated to investors, the probability of funding increased (from 28% to 31%).
- The amount invested by business angels who are members of networks based in England, Wales and Northern Ireland has fallen by 6% but there has been a modest increase in the actual number of businesses receiving investment (+5; 2%).
- Adding investment activity by LINC Scotland angel groups indicates that for the UK the amount invested by business angels has fallen in the visible market by 3.7%.

3. INVESTMENT ACTIVITY

3.1 Data Sources

The previous chapter provided a broad overview of activity in the visible angel market in 2009/10 based on evidence provided by member networks of the BBAA (covering England, Wales and Northern Ireland) and changes since 2008/09. This chapter looks in more detail at the investments made both through BBAA networks and also by angel groups associated with LINC Scotland. Hence, in this chapter we adopt a UK perspective.

The data for this chapter come from three sources. The first is deal-specific information from all 20 members of the BBAA which were active in 2009/10. The second is deal specific information from one angel group in England which is not a member of BBAA. The third is aggregated data from LINC Scotland on the investments made by their angel syndicates in 2009/10. This represents all of the investments made by its member-syndicates. Here again, it is important to be aware of the data limitations that arise from the ways in which the various networks operate (see Chapter 2). Specifically, networks that derive a 'success fee' from each investment that occurs are able to report both more, and more accurate, information on the investments that they facilitated than those networks which do not have a financial interest in the investments that are made. In particular, the data undercounts angel investing in situations where a company raises money from more than one angel network. Such investments would be recorded as (unclassified) co-investment by the other network. However, anecdotal evidence suggests that this is an 'infrequent', although not 'unusual', occurrence.

Because BBAA and LINC Scotland data are not entirely compatible their investment activity is presented separately. The networks that are members of BBAA mostly operate on the basis of 'introducing' investors to entrepreneurs seeking finance, for example through presentation events and newsletters, and then step back from the process and let investors, either individually or in groups, find investments that interest them and negotiate a deal with the entrepreneur. However, the level of involvement of the network managers in shaping the investment opportunity varies. The Scottish market is very different. LINC Scotland is mainly supporting organised angel groups where the typical model is for the group's gatekeeper and/or its managing group to select from the deals that it receives those that they regard as potentially investable businesses and invite the members to invest (often up to a maximum amount). Thus, the investments that are reported by LINC Scotland are exclusively made by angels investing as members of angel groups (but making their own individual investment decisions).

Both the BBAA and LINC Scotland data are consistent with what they provided for the 2008/09 report. Hence, as well as profiling business angel investment activity in 2009/10 we are also able to compare investment activity in 2009/10 with 2008/09.

3.1 Aggregate investment activity

The 20 BBAA networks (which represent all of the networks that were active in 2009/10) provided detailed data on a total of 245 investments in 2009/10.[12] A total of £98.3m of investment was raised through these networks.[13] A total of 876 business angels[14] registered

[12] This figure differs slightly from the aggregate number of investments reported by networks in Chapter 2.

[13] This is skewed by one business which raised £18m

[14] The information reported by networks was the number of their angels who participated in each investment. Some networks provided an approximate number, usually in the form of 'more than'. Thus, this number is likely to be an underestimate. On the other hand, there will be over-counting in situations where angels are

with these networks contributed £32.2m (33%) of this total.[15] Scottish angels made a further 78 investments, involving a total investment of £27.5m, of which angels contributed just over £18m (66%). Most of this difference was accounted for by the Scottish Co-Investment Fund (approx. £8.2m).[16] Based on the deal specific data, overall reported angel investment activity in this part of the visible market in the UK in 2009/10 was £50.5m. Including the additional investment raised by co-investors, the total amount of investment raised through angel networks and groups was £125.8m

Table 3.1 Angel investment activity

	2008/09	2009/10	Change	
A: BBAA Networks				
Number of investments	225	245	+20	+8.9%
Total amount raised	£97.5m	£98.3m	+£0.8m	+0.8%
Total angel investment	£39.9m	£32.3m	-£7.6m	-19.0%
Number of angel investors	895	876*	-19	-2.1%
B: LINC Scotland Angel Groups				
Number of investments	74	78	+4	+5.4%
Total amount raised	£27.6m	£27.5m	-£0.1m	-0.4%
Total angel investment	£17.9m	£18.2m	+£0.3m	+1.7%
C: UK [A + B]				
Number of investments	299	323	+24	+8.0%
Total amount raised	£125.1m	£125.8m	+£0.7m	+0.6%
Total angel investment	£57.8m	£50.5m	-£7.3m	-12.6%

Note:

* This is a minimum figure. Some networks provided an approximate number, usually in the form of 'more than'.

Overall, the deal specific data indicates divergent trends in the market between 2008/09 and 2009/10.

- *Number of investments*, there has been a small increase in the number of investments amongst BBAA member networks (+20 investments; 9%) while investments by those angel groups affiliated to LINC Scotland increased marginally (+4 investments; 5%). This is a noteworthy increase given the extremely difficult economic conditions in 2009/10.
- Number of angel investors: the number of angel investors has remained fairly constant (no Scottish data available).
- *Amount invested by angel investors*: the amount invested by angel investors has dropped by 13%, from £57.8m to £50.5m. This reflects activity in the BBAA networks, where angel investment fell from £39.9m to £32.3m, a 19% fall. It is also consistent with a decline in the mean number of member angels participating in each investment made through a BBAA network which has fallen from 4 to 3.6. In contrast, Scottish angel groups slightly increased the amount that they invested.
- *Overall amount raised*: the overall amount invested from all sources has remained virtually static. This reflects activity in BBAA networks which, in aggregate, have significantly increased the amount of non-angel investment that they have attracted.

have made more than one investment in the year. This will partly account for the difference to the numbers of angels making investments recorded by the BBAA survey data in Chapter 2.

[15] The difference between these numbers and those reported by the Networks in Chapter 2 reflects the various inconsistencies there were highlighted in Chapter 1.

[16] We do not have any information on the number of Scottish angels investing.

The conclusion from this evidence – which is consistent with the aggregate angel investment reported in Chapter 2 – is of remarkable stability in most dimensions of the angel market. This is all the more encouraging in the light of the prevailing economic conditions in 2009/10.

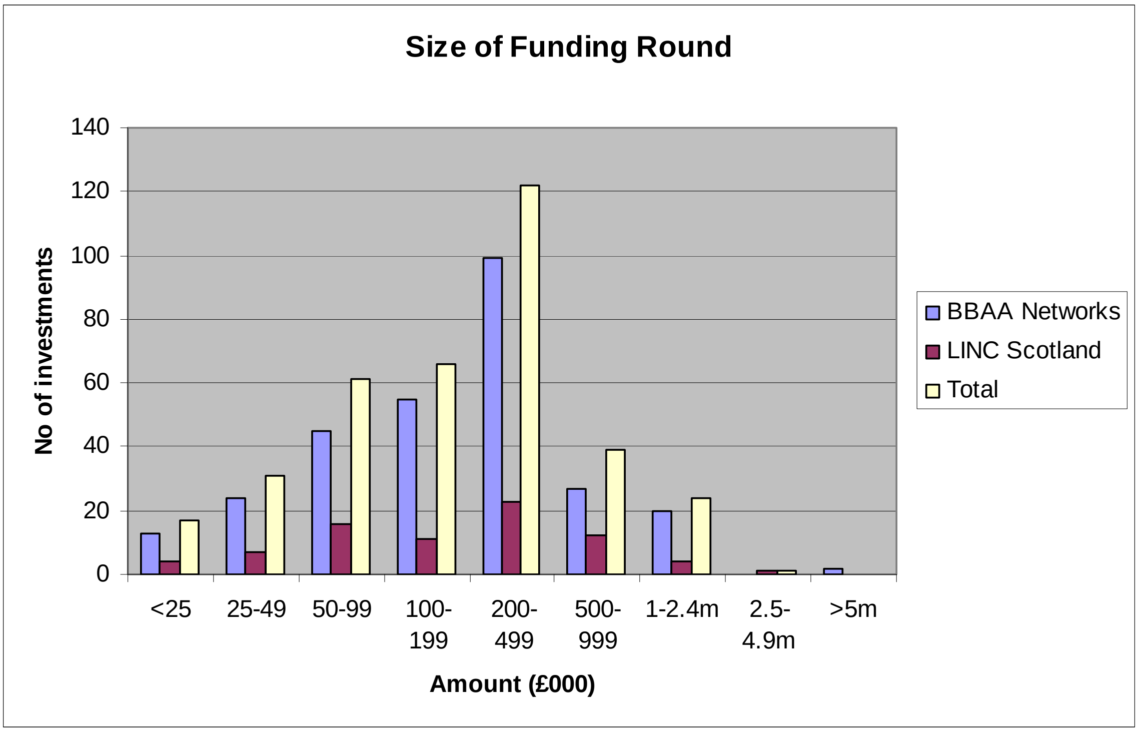
3.2 Size of Funding Round

There is a wide range in overall deal size, ranging from less than £25,000 to over £1m (the two biggest being deals of £5.8m and £18m). However, most deals are in the £50,000 - £500,000 range. Fewer than 10% of deals were for £1m or more. LINC Scotland investments are slightly larger, with 51% of £200,000 or more compared with 45% of BBAA investments (Figure 3.1).

Deal sizes were smaller in 2009/10 than in 2008/09: 56% of BBAA investments in 2009/10 were under £200,000 compared with 48% in 2008/09. This was even more extreme in the case of LINC Scotland where 49% were under £200,000 compared with only 36% in 2008/09 (Figure 3.1).

The apparent contradiction between the slight increase in the overall amount invested and the increase in the frequency of smaller deals is likely to be accounted for by the presence of one exceptionally large investment of £18m in 2009/10.

Figure 3.1. Size of funding round

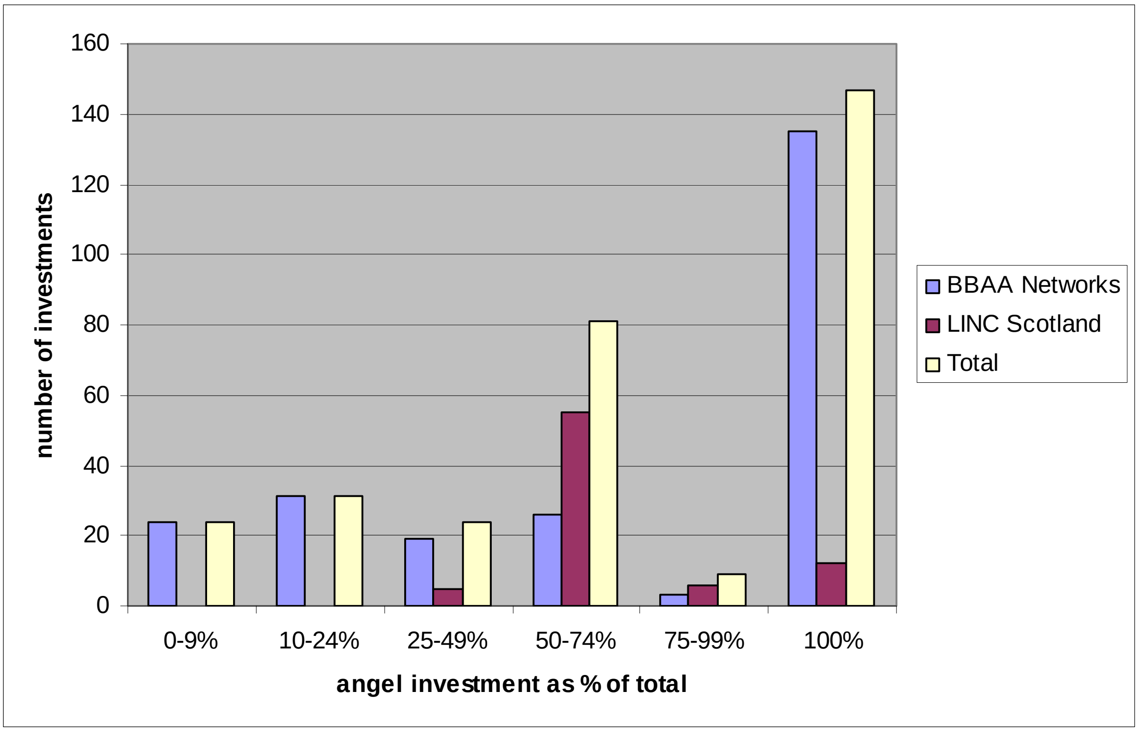


The significance of business angels in these investments is shown in Figure 3.2. Investments made through BBAA networks exhibit considerable diversity. The majority of investments (55%) only involved angels. However, at the other extreme, angels have been minority investors in one-third of all deals. Indeed, seven deals did not involve any angels.[17]

[17] At first sight this might seem surprising. However, it simply reflects that the larger networks in particular are not focused exclusively on serving angel investors and regard their client as the company seeking finance. Thus, they define their role as securing finance for the companies that they take on regardless of its source.

The situation in Scotland is rather different on account of the operation of the Scottish Co-Investment Fund, which is drawn down in the vast majority of investments by angel groups. This requires at least pound for pound matching. Two consequences arise. First, the majority of investments by angel groups (85%) are co-investments. Second, in the vast majority of cases angels have provided at least 50% of the overall investment.

Figure 3.2. Significance of angel investment in total deal size



The amounts invested by angels are shown in Figure 3.3.[18] In the case of BBAA networks, one-third of deals involved angels investing less than £50,000 per deal, in over half of all deals angels invested less than £100,000, and in three-quarters of deals angels invested less than £200,000. In 2008/09 two-thirds of investments by angels were under £200,000. So here again we have evidence of a decline in the average amount invested by business angels per company. However, in Scotland angels are less likely to make investments of under £25,000 and more likely to invest over £200,000. It is also the case that very few angel investments are for more than £500,000 in a single investment.

However, it needs to be noted that Figure 3.3 reports the total amount invested by all business angels in a deal and not the amounts that they invest individually. This is because angels registered with the same network often invest in the same deal. Unfortunately, the individual investments are not reported separately. Amongst BBAA networks more than half of all investments involve at least two angels, while 18% involve more than five angels (see Figure 3.4). In the case of Scotland the data only covers angel groups so all of these investments involve multiple angels.

[18] As noted earlier, these figures are only for angels who are members of the reporting network. In deals which involve other co-investors it is quite possible that this will also include angels.

Figure 3.3. Amounts invested by business angels

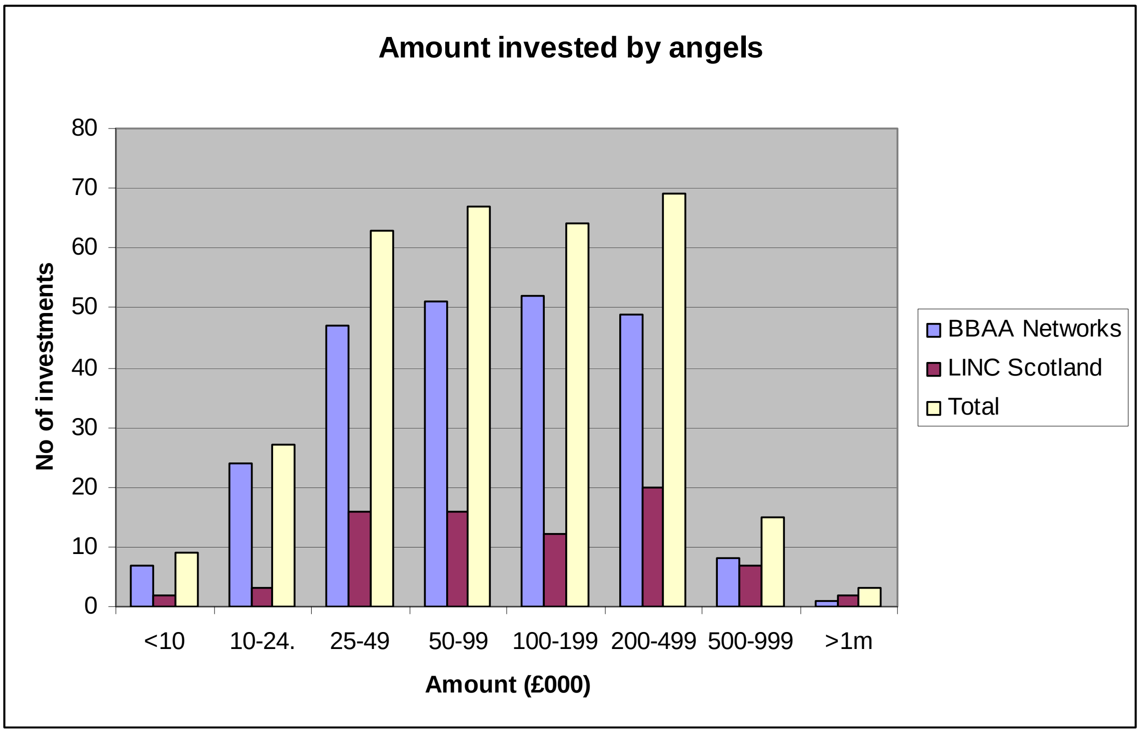
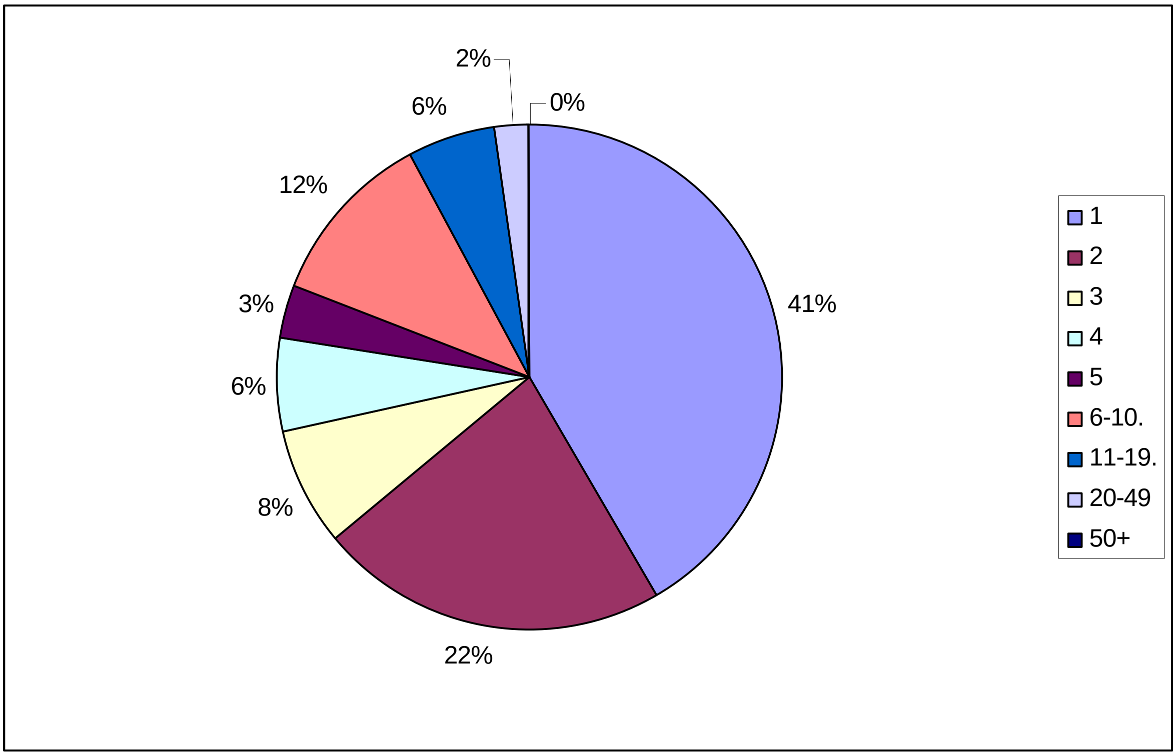
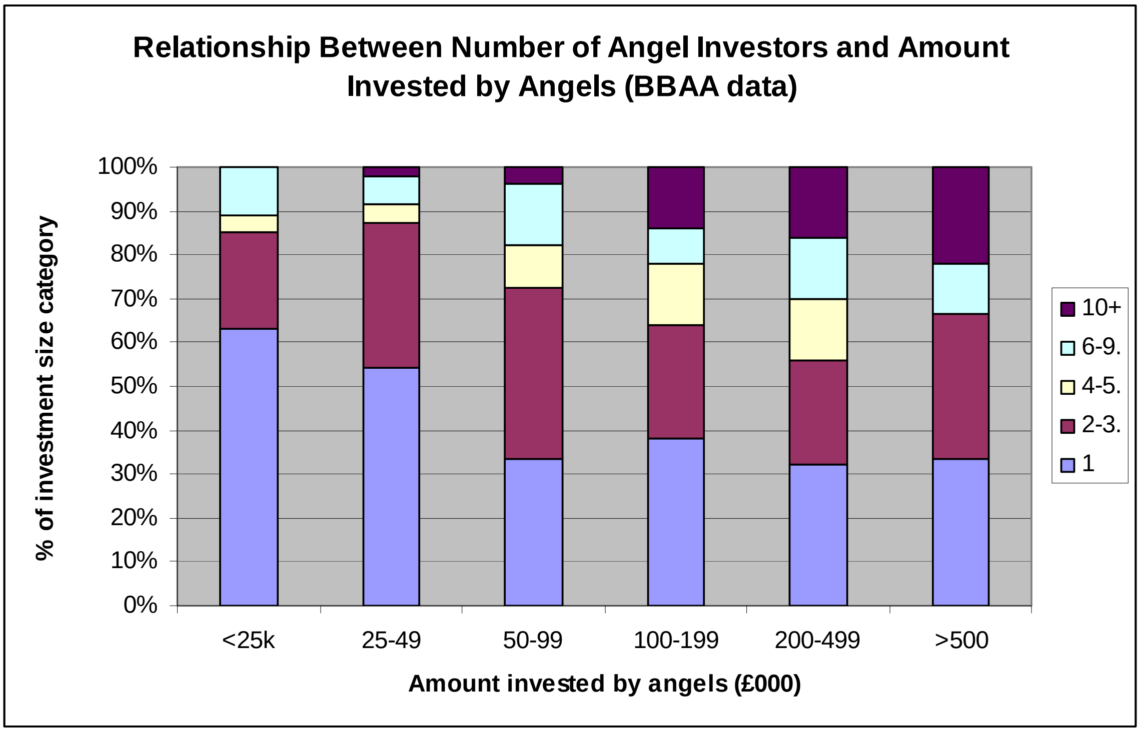


Figure 3.4. Number of business angels investing in each investment (BBAA investments only)



Further insight into the structure of investments is shown in Figure 3.5. Here again the information is only for deals made through BBAA networks. Not surprisingly, single angels dominate where the total angel investment is small. Hence, individual angels account for close to two-thirds of investments when the total angel investment is under £25,000. This proportion drops to 54% for angel investments of between £25,000 and £49,000 and to around one-third when the amount invested by angels is £50,000 or more. Nevertheless there is considerable variability, with sizeable proportions of small angel investments involving multiple angels and of larger investments involving a single angel.

Figure 3.5. Relationship between the number of angel investors and amount invested by angels



3.3 Investment By Round

The available data only covers the number of times that a company has raised funds from the reporting network. We do not have data on the complete funding history of companies. All we can say is whether or not the investment is the first occasion that the company has raised finance from that particular network. However, this is not information that networks would typically record, hence the extent of follow-on investing is likely to be under-reported.

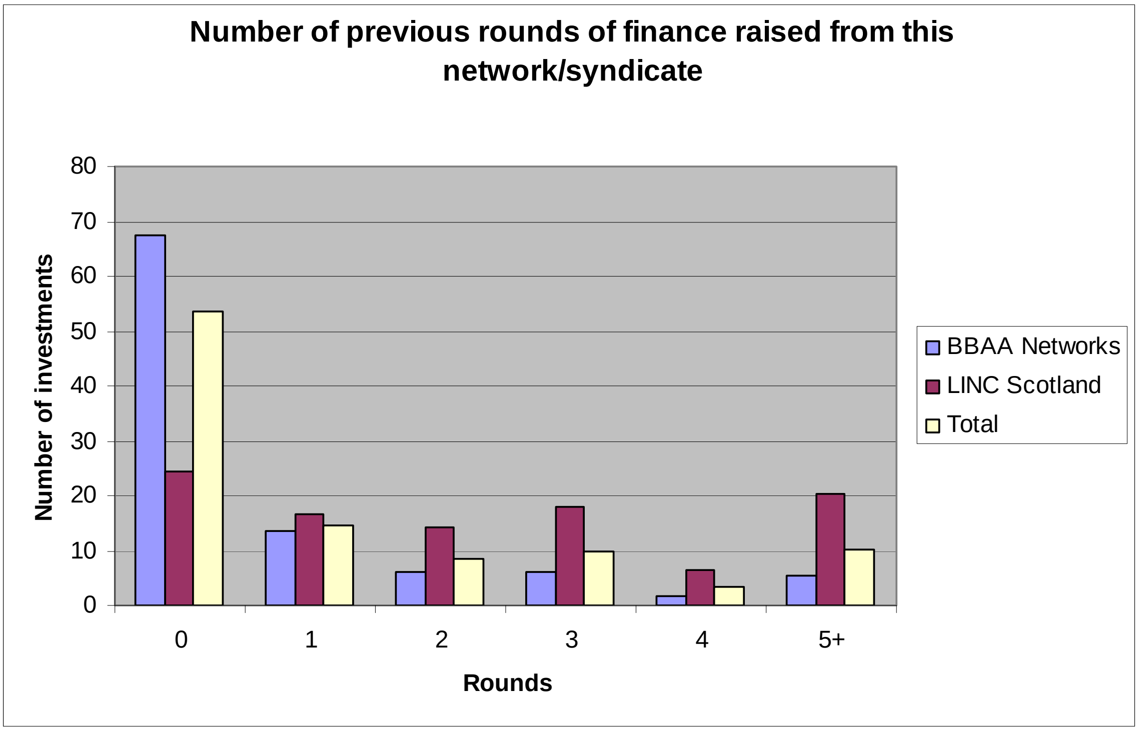
Even with this caveat, there is a major contrast between BBAA networks and LINC Scotland (Figure 3.6). The majority of companies funded through BBAA networks were raising finance for the first time from that network. However, in the case of LINC Scotland the majority of investments are follow-on deals which we interpret as reflecting the greater investment capacity of angel groups.[19] Indeed, follow-on investments as a proportion of all

[19] However, it may simply reflect the way in which data is reported. Companies that have previously raised investment from one or more angels, via a network, are likely to directly approach these investors for follow-on funding. Because such investments by-pass the networks they are not reported by them. This has the effect of reducing the proportion of follow-on investments that are reported by networks. This problem does not

investments have increased from 67% in 2008/09 to 76% in 2009/10. This reflects several factors, including the maturity of the Scottish angel market as reflected in the portfolio sizes of many of the angel groups, the extra capacity in the market that is provided by the Scottish Co-investment Fund, and the lack of bank funding for deals that would have been seen as 'bankable' a few years ago. Indeed, there has been a growth in the number of deals where angels are providing debt because that was the right form of investment for the company's needs.[20] In contrast, amongst BBAA networks the proportion of investments involving companies raising finance from the network for the first time rose from 59% to 67%. This is consistent with the evidence reported earlier concerning an increase in the number of companies approaching angel networks and reductions in the availability of both bank finance and venture capital.

Any shift in angel investing from new to follow-on investing has important implications. First, the more that angels are forced, in the absence of alternative sources of finance, to provide follow-on rounds, the more that they will be diverted away from investing in new and very early stage businesses. Second, companies raising follow-on finance may exceed the size threshold which qualifies for EIS relief (50 employees).[21] And third, follow-on investing may require the use of financing instruments that do not qualify for EIS relief, if formal VC investors are brought in.

Figure 3.6 Number of previous rounds of finance raised from this network/syndicate



arise with the LINC Scotland data because this is based on information which is reported by the angel groups themselves.

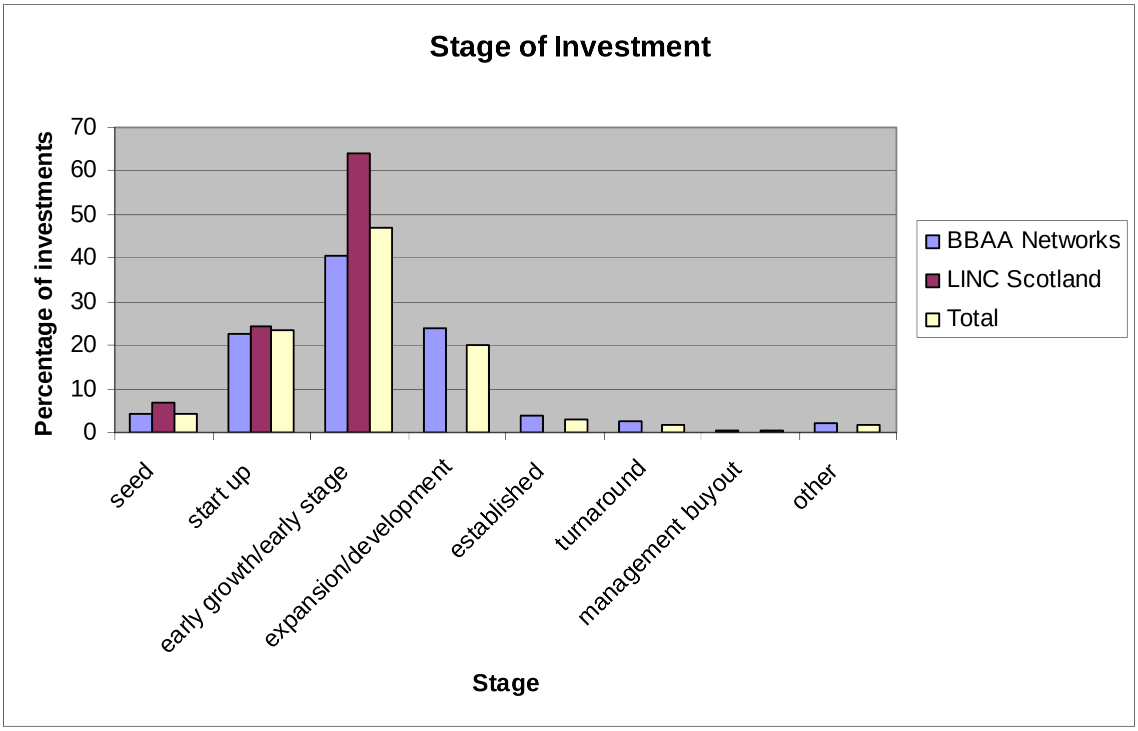
[20] We are grateful to David Grahame of LINC Scotland for this information.

[21] The March 2011 Budget announced that subject to agreement with the European Commission from April 2012 the thresholds for the size of qualifying company for both EIS and VCTs will be raised to fewer than 250 employees and to the company having no more than £15million of gross assets before the investment. In addition, there will be an increase in the annual amount that can be invested though both EIS and VCTs in an individual company to £10million; and an increase in the annual amount that an individual can invest through EIS to £1million.

3.4 *Stage of Investment*

Investments made by business angels through BBAA Networks were largely focused on the early growth stage and start-up stage (Figure 3.7). However one-quarter of their investments were in established companies seeking development capital. Angel groups in Scotland had a much greater focus on the early growth stage and made fewer investments in established companies. It is also important to note the limited involvement of business angels in seed stage investments. As this is also a type of investment that is shunned by venture capital funds[22] it suggests that this remains a type of funding that needs to be supplied by the public sector. Very few business angels are involved in investing in turnarounds and management buyouts and buyins.

Figure 3.7 Stage of investment



Seed: Money used for the initial investment in a project or start-up company, for proof-of-concept, market research, or initial product development

Start-up: Financing provided to companies for use in product development and initial marketing. Companies may be in the process of being set-up or may have been in business for a short time, but have not yet sold their product commercially.

Other early stage: Financing provided to companies that have completed the product development stage and require further funds to initiate commercial manufacturing and sales. They may not yet be generating profits.

Expansion/Development/Established: Sometimes known as 'development' or 'growth' capital, provided for the growth and expansion of an operating company which is trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or to provide additional working capital.

Turnaround/Rescue: Financing made available to existing businesses which have experienced trading difficulties, with a view to re-establishing prosperity.

Management buyout (MBO): Funds provided to enable current operating management and investors to acquire an existing product line or business.

[22] Venture capital funds made no seed investments in 2009 (BVCA, 2010).

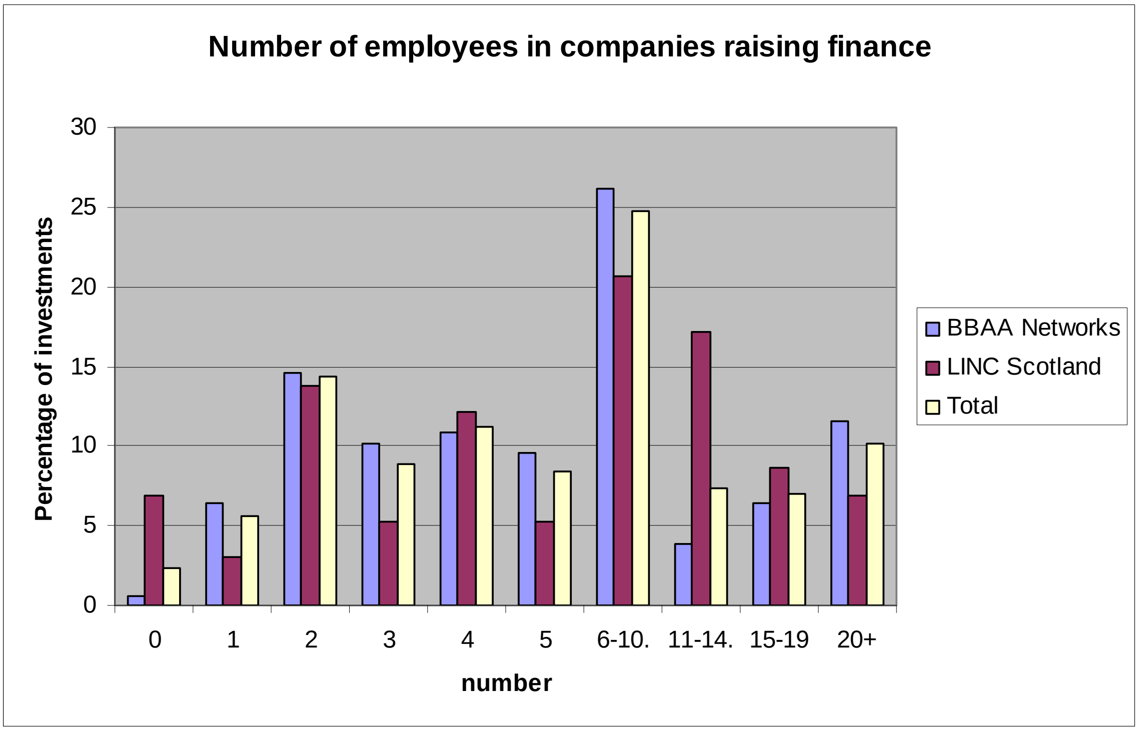
Management buy-in (MBI): Funds provided to enable an external manager or group of managers to buy into a company.

Comparison with 2008/09 is hindered by changes made to the classification of some of the investment stages. However, there have been no obvious shifts in the investment focus of business angels in terms of the stage of investment.

3.5 Size of Company

It is not surprising, given the focus on the start-up and early stages, that the majority of investments by business angels are in small companies. Just over half of the investments of BBAA investors are in companies that have five or fewer employees and 78% have 10 or fewer employees. Investments made through LINC Scotland are also oriented towards small companies but to a slightly lesser extent than in the case of BBAA investments: 46% of investments are in companies that have five or fewer employees and 67% have ten or fewer employees (Figure 3.8). This is consistent with the higher proportion of follow-on investments made by Scottish angel groups.

Figure 3.8. Number of employees in companies raising finance



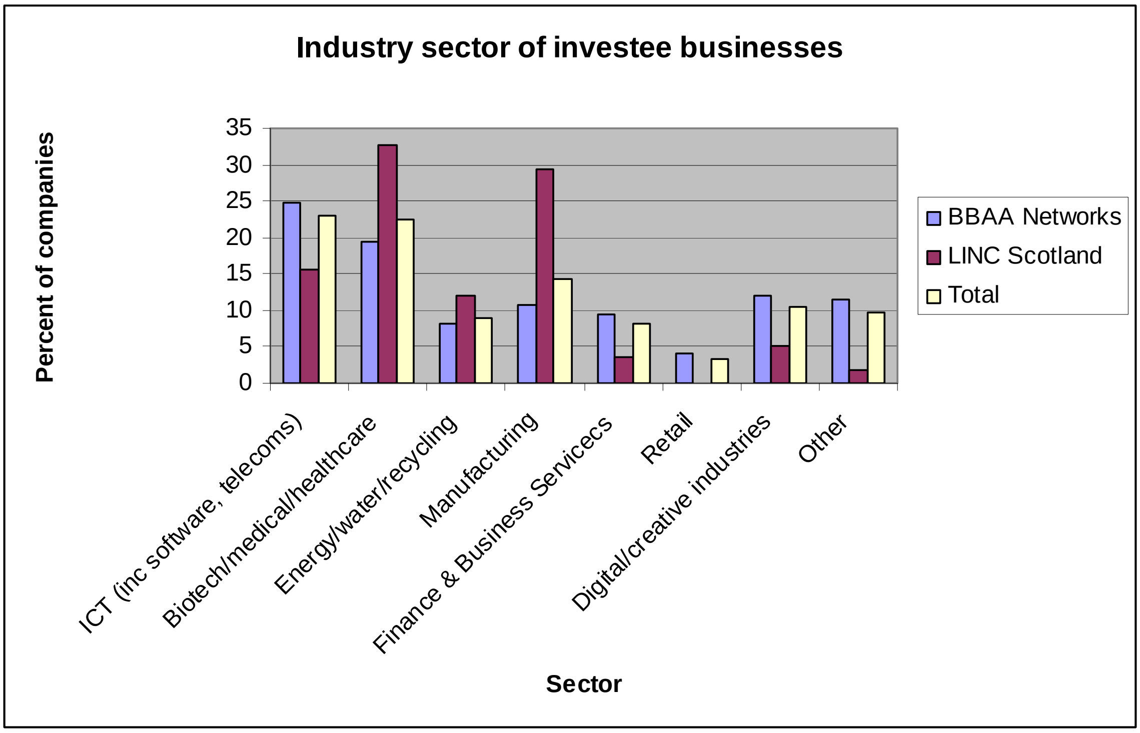
One of the most significant changes between 2008/09 and 2009/10 is that the tail of business angel investments in larger companies has increased. The proportion of investments in companies with more than 10 employees has risen from 12% to 22% amongst BBAA investments, which is consistent with the increase in the proportion of investments in established companies, and from 29% to 33% in the case of LINC Scotland investments. This trend might be linked to the increase in the number of established businesses that have been unable to raise further bank funding.

3.6 Investment by Sector

The industry categories reported are fairly broad and only some of the networks provided a detailed description of each company's activities. However, it is clear that business angels invest across a wide range of industries, but with a strong focus on technology sectors. We estimate that 63% of investments were in technology companies in 2009/10, little different from the proportion in 2008/09 (67%).

Angels investing through BBAA networks focused on ICT (including software) (25%) and biotech/medical/health (19%). Within the ICT category there was a strong emphasis on web-based services and software, web sites and mobile phone applications. Bio-medical products, medical devices, medical technology and healthcare dominated the biotech/medical/healthcare category. The energy/water/recycling sector was dominated by clean technology and green energy businesses. E-commerce businesses were also quite common, dominating the retail category but also featuring in the ICT sector (e.g. web-based payment systems).

Figure 3.9. Industry sector of investee businesses



Scottish angel groups have a much stronger focus on biotech/medical/health (33%). Moreover, this emphasis has increased between 2008/09 and 2009/10 from 21% to 33% whereas ICT's share of investments has fallen from 26% to 16%. The sectoral distribution of BBAA investments shows less change over this period: the proportion of investments in manufacturing companies has gone up from 11% to 18% and in digital and creative industries has increased from 4% to 12%.[23]

3.7 Summary

[23] However, in both cases a change to the industry categorisation used in this report may have contributed to these changes.

Although this analysis is restricted to one part of the visible market it nevertheless provides important insights into the operation of the business angel investment market. Moreover, as an annual publication it is able to identify trends in the market. The key insights from this analysis of the market in 2009/10 are as follows:

- At least in the visible market co-investment is significant: 45% of the investments that are channelled through BBAA networks involve angels investing alongside other investors, while in Scotland the proportion is even higher at 85% and largely comprises angel groups co-investing with the Scottish Co-Investment Fund.
- Most of the deals in which angels participate are in the £50,000-£500,000 range. In the investments channelled through BBAA networks angels are sometimes minority investors. However, this is not the case in Scotland.
- The amount invested by business angels (either individually or in groups) is generally less than £200,000.
- The majority of deals involve the participation of more than one angel. There is a general, but by no means regular, relationship between number of angel investors and amount invested by angels whereby bigger investments typically involve more angel investors than smaller investments.
- The majority of investments through BBAA networks (67%) are the first approach by that company to the network concerned whereas the majority of investments by Scottish angel groups are follow-on investments (76%).
- Angels are largely investing in businesses at their start-up and early growth stages.
- Most of the investee companies are small, with fewer than 10 employees
- Angels make investments across a wide range of sectors but with a strong technology focus.

These features of the angel investment market in 2009/10 are very similar to those reported for 2008/09. Nevertheless, some changes have occurred.

- There has been a slight increase in the number of investments made through BBAA networks and by LINC Scotland angel groups.
- The amounts invested by angel investors has declined. This reflects investment activity in BBAA networks. Angel groups in Scotland slightly increased the amount they invested.
- However, the overall amount of investment raised through angel networks and groups has remained virtually the same.This reflects the activities of BBAA networks which, in aggregate, have significantly increased the amount of non-angel investment that they have attracted.
- The amount that business angels invest per deal has got smaller.
- The proportion of investments channelled through BBAA networks that are ‘first round’ (i.e. the first approach by that company to the network concerned) has increased whereas in Scotland the proportion of follow-on investments has increased.
- The proportion of investments in companies with more than 10 employees raising finance has increased.

4. SURVEY OF INDIVIDUAL ANGELS

4.1 Introduction

The angel market is like an iceberg – only a small proportion of investment activity is visible, with the bulk below the surface. Investments that are made through angel networks are the visible part of the iceberg. These deals are documented by the network that in some way facilitated them. However, the majority of investments by business angels are made directly between the investor and entrepreneur, are not publicly documented and hence are invisible. This leaves open the question of the extent to which investment activity in the visible market is similar to that in the invisible market. This chapter seeks to shed light on this critical issue with evidence from individual angels.

4.2 Survey Details

The data for this chapter comes from questionnaires completed by 147 individual business angels, 8% of whom were women. As was the case for the 2008/09 survey, the questionnaire was available for on-line completion, and invitations to participate were circulated by BBAA to their individual investor members as well as through the BBAA web site and at various BBAA events (where the survey could also be completed on paper) and also by the ACCA and Law Society memberships (in an attempt to reach individuals through their accountants and solicitors).

The questionnaire was deliberately kept very short in order to encourage a high response rate. The questions covered the following: whether the respondent is a member of a BBAA angel network; whether the respondent is a member of a business angel syndicate; number of investments made in 2009/10 and number of these that were new, as opposed to follow-on, investments; amount invested (actual amount or banded); change in the amount invested compared with 2008/09; proportion of that investment made using EIS; proportion of that investment made through angel networks; proportion that investment made through angel syndicates; time spent providing advice and assistance to investee businesses; and location of the respondent. The questions asked were similar to those in the questionnaire used for the 2008/09 report.

4.3 Membership of a BBAA Member Network or an Angel Syndicate

Two-thirds (67%) of the responding angels were members of angel networks that were members of the BBAA. This is does not give us the depth of coverage of the invisible market that we desired but reflects the sources used to reach angels. It may also reflect the fact that angels who join angel networks are by definition less protective of their anonymity and hence may be more inclined to complete a questionnaire than those who remain wholly in the invisible market. Just under half (49%) of the respondents were members of angel syndicates.

There was an overlap, with 38% of respondents being members of both BBAA networks and also syndicates. However, angels were more likely to be members of BBAA angel networks than to be members of syndicates (29%). Just 10% were members of angel syndicates but not networks.

4.4. Investment Activity in 2009/10

The majority of respondents (72%) had made at least one investment during 2009/10. The median amongst those was two investments but there was a tail of more active investors who had made more than five investments (Figure 4.1). Collectively respondents had made a total of 276 investments, of which 66% were new, the remainder being follow-on investments. The amounts that they had invested during 2009/10 ranged from under £10,000 to over £500,000 but with skew towards smaller investments: 56% of investors who had made investments in 2009/10 invested up to £50,000 and 75% invested up to £100,000 (Figure 4.2).

Figure 4.1 Number of investments made in 2009/10

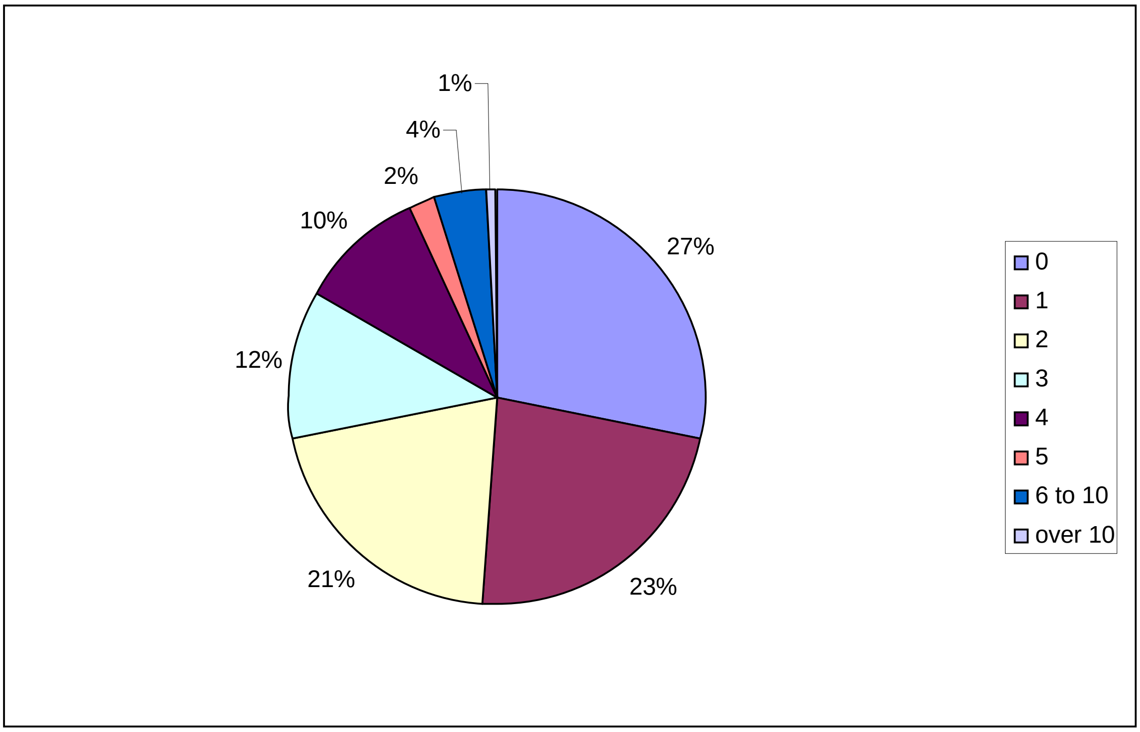
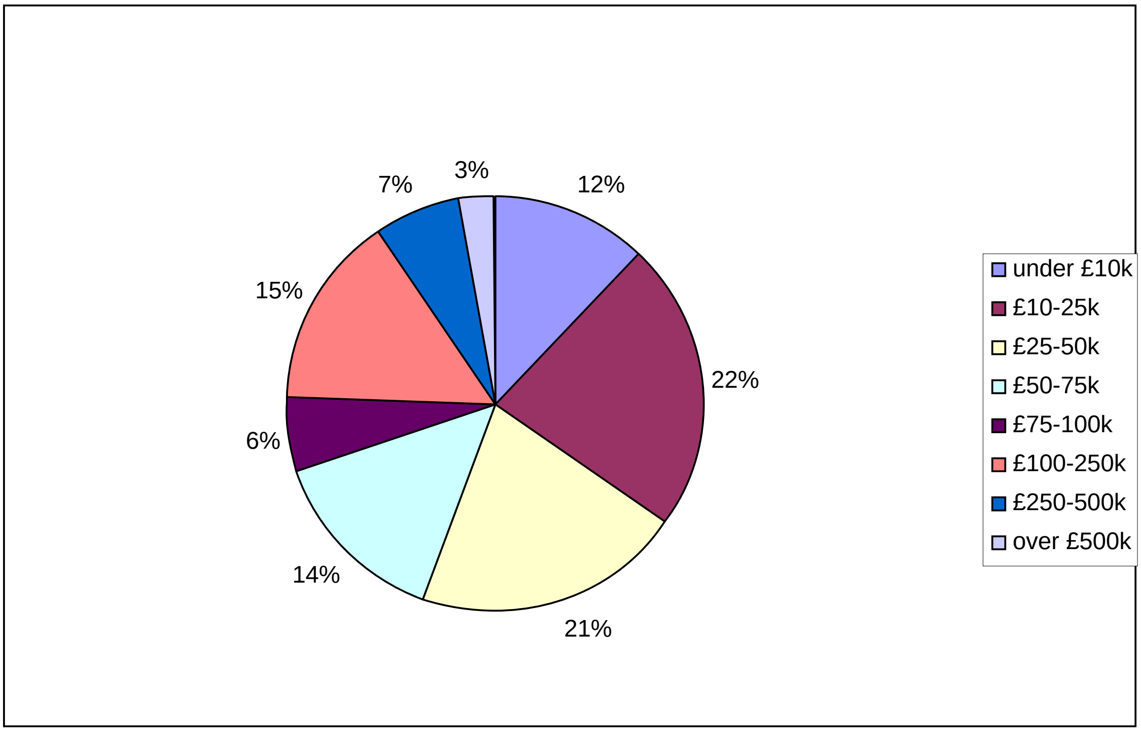


Figure 4.2. Amount Invested during 2009/10 tax year

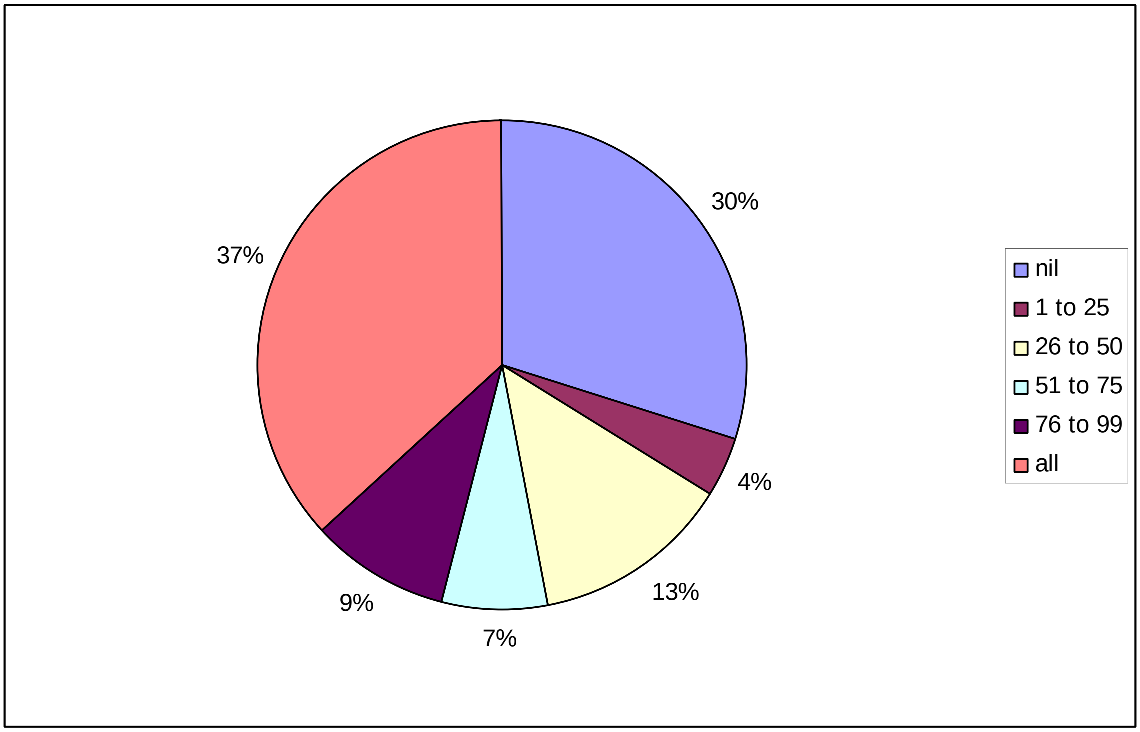


Comparing investment activity in 2009/10 with 2008/09 confirms the evidence from the networks of little change. The proportion of respondents who did not make any investments in 2009/10 is only slightly higher than the proportion in the 2008/09 sample (28% cf. 25%). Just over one-third of respondents (35%) invested more in 2009/10 than in 2008/09 but this is largely offset by 32% who had invested less in 2009/10 than in 2008/09 (Table 4.1). The remaining one-third invested about the same in both years. Finally, there has also been a *slight* shift in favour of smaller investments: 70% of angels invested less than £75,000 in 2009/10 compared with 64% in 2008/09. This is all consistent with both the aggregate data from the networks and the deal specific information which both suggest that there has been little change in the volume of business angel investment activity between 2008/09 and 2009/10.

Table 4.1 Comparison of amounts invested in 2008/09 and 2009/10

Amount invested in 2009/10 compared with 2008/09	Number of angels	%
More than in 2008/09	47	34.8
Less than in 2008/09	43	31.9
About the same	45	33.3
missing	12	

Figure 4.3. Proportion of investment made under the Enterprise Investment Scheme



Note: Excludes respondents who did not make any investments in 2009/10

The majority of active investors (70%) had used the Enterprise Investment Scheme (EIS) for at least some of their investments (Figure 4.3). However, only 37% used the EIS for all of their investments. Investors making just one or two investments in 2009/10 were almost equally split between those using EIS for all of their investments and those not using EIS for any of their investments (48% cf. 44%). More frequent investors (four or more investments made in 2009/10) used EIS for the vast majority of their investments (95%) but only a minority of these investors used EIS for all of their investments (19%).

The proportion of investors not using EIS is slightly higher in 2009/10 than in 2008/09 (31% cf. 24%). However, the proportion of investors using EIS for all of their investments was higher in 2009/10 than in 2008/09 (37.5% cf. 32.5%) (Table 4.2).

Table 4.2. Proportion of investment made under the Enterprise Investment Scheme

	2009/10		2008/09
Proportion invested under the EIS (%)	number of angels	%	%
Nil	32	30.8	23.7
1-25	4	3.8	5.3
26-50	13	12.5	12.3
51-75	7	6.7	11.4
76-99	9	8.7	14.9
All	39	37.5	32.5
Sub-total	104	100	100
No investments	41		
missing	2		

Note: Excludes respondents who did not make any investments

This evidence allows us to reiterate the point made last year that there is only an imperfect overlap between angel investments and investments made through the EIS. It is clear that a significant minority of business angel investments are not made through EIS (possibly because the business or the form of investment does not meet the eligibility criteria for EIS). Understanding why specific investments are not made using EIS (e.g. eligibility rules) is an important question for further research.

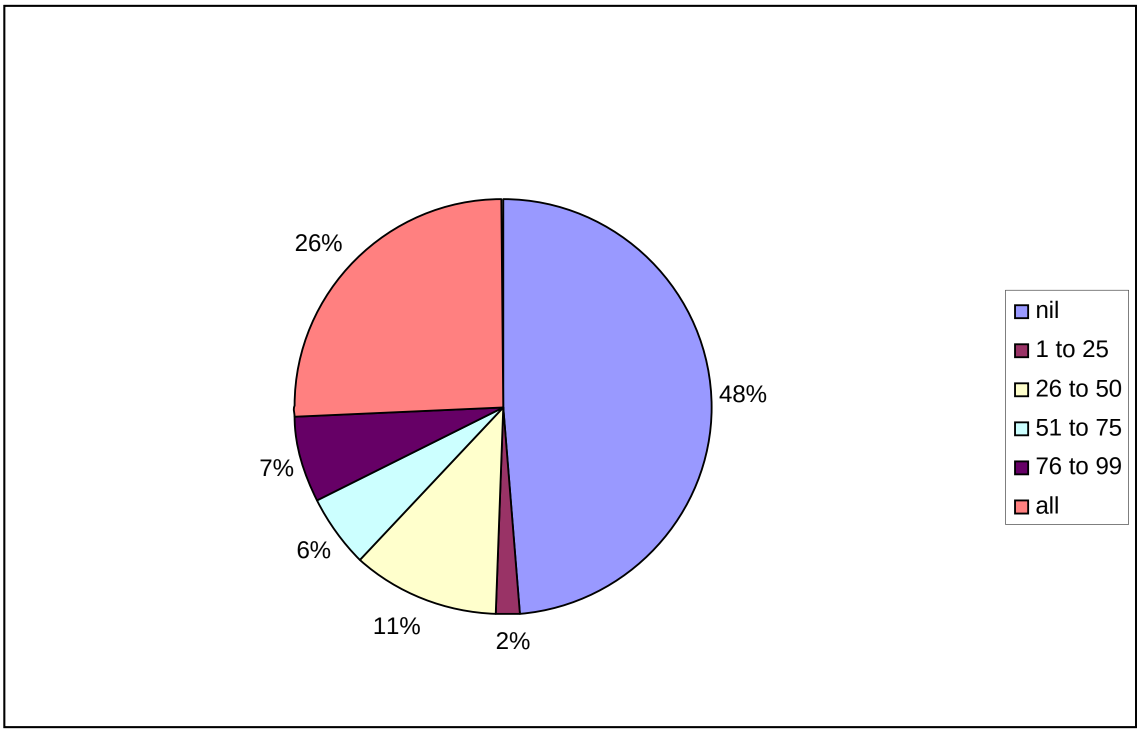
4.5 Investments made through angel networks and syndicates

Just over half of all respondents had made at least some of their investments through angel networks, with just over one-quarter using a network for all of their investments (Figure 4.4).

More active investors were more likely to use networks. 86% of investors who made four or more investments in 2009/10 used networks for at least some of their investments (57% for 75% or more of their investments), compared with only 22% of less frequent investors (and only 22% used networks for 75% or more of their investments).

However, confirming the conclusion of the 2008/09 report, there is no consistent relationship between the amount invested and the use of networks. Indeed, none of the investors who invested the biggest amounts (over £100,000) in 2009/10 made exclusive use of networks, compared with 36% of those making smaller investments (£50,000 or less). Indeed, smaller scale investors – both in terms of frequency of investing and amount invested – comprise a dual population with around half not using networks, while between one-quarter and one-third invest exclusively though networks.

Figure 4.4. Proportion invested through an angel network



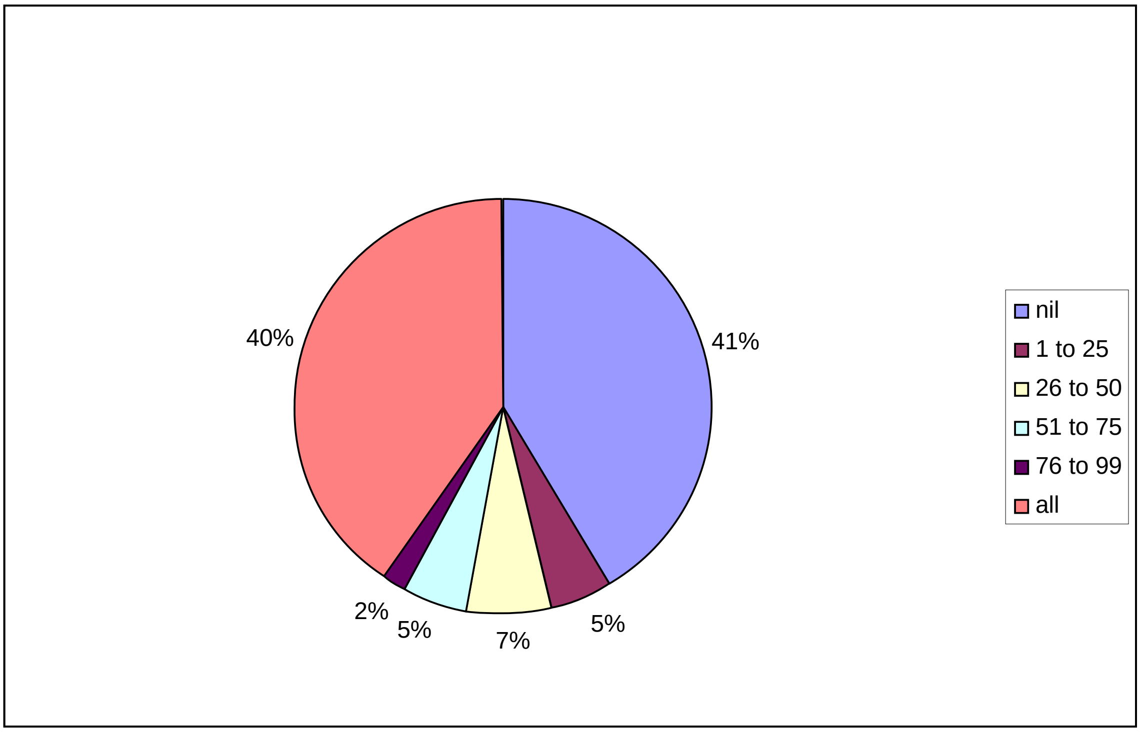
Note: Excludes respondents who did not make any investments in 2009/10

Two further insights can be gained from focusing just on those respondents who were members of an angel network. First, they were much more likely to invest than those respondents who were not members of networks (81% cf. 57%). Second, many of them operate in both the visible and invisible markets. Some 39% of these investors did not make any of their investments through networks. This compares with 30% who made all of their investments in 2009/10 through networks and 45% who made more than half of their investments through networks.

Evidence that the most active investors were the most likely to use networks, and that angels who were members of networks were more likely to invest point to evidence of a ‘network effect: either networks attract the most active investors or membership of a network enables investors to be more active.

Almost 60% of angels had invested at least partly through angel syndicates, with 40% investing exclusively through angel syndicates (Figure 4.5). Smaller investors – those investing less than £50,000 in 2009/10 – were most likely to invest exclusively through a syndicate (48%). In the case of angels making the largest investments (over £100,000) they were just as likely as smaller investors not to make any investments through a syndicate (42% cf. 43%). However, only 23% of these angels invested entirely through syndicates, with the remainder (35%) channelling some of their investments through syndicates. This suggests that syndicates are most likely to attract smaller investors. This is confirmed when we observe that amongst smaller investors 67% were members of syndicates compared with 28% of the larger investors.

Figure 4.5. Proportion invested through an Angel Syndicate



Note: Excludes respondents who did not make any investments in 2009/10

4.6 Summary

This evidence from a survey of individual business angels has complemented the evidence from angel networks. The key insights are as follows.

- The population of self-defined business angels includes both active angels and those who have not invested in the previous year (but who – in all probability – have existing investments). This, in turn, reinforces the view that it is more appropriate to measure the angel market in terms of investments rather than investors.
- There is a fuzzy distinction between the visible and invisible market, with many angels who are members of angel networks or of angel syndicates, or both, also making investments in the invisible market.
- The EIS is important, used by more than three-quarters of angels but only 37% of investors used EIS for all their investments. This reinforces last year's conclusion that the using EIS investment statistics as a surrogate for angel investment activity is misleading.
- Angels typically invest less than £100,000 per annum, although the distribution is skewed with a tail of investors who commit much larger amounts.
- There is evidence of a 'network effect', with the most active investors being the most likely to use networks, and with angels who were members of networks more likely to make investments.
- Comparing 2009/10 with 2008/09, the proportion of inactive angels is slightly higher in 2009/10, while there is a small positive balance (+ 3) between the proportion of angels who had invested more in 2009/10 than in 2008/09 and the proportion who had invested less in 2009/10 than in 2008/09. This reinforces the conclusion that we have drawn from the networks data that there has been little change in the volume of business angel investment activity between 2008/09 and 2009/10, despite the severity of the recession.

5. MARKET SCALE ESTIMATES

5.1. Introduction

The rationale for this study is that despite the importance of the business angel market to the financing of new and early stage ventures in the UK there is little evidence on the overall size of the market. In the 2008/09 report we built on one early study (Mason and Harrison, 2000) that used data obtained from business angel networks to estimate the scale of the market in the UK by estimating the number of business angels, their investment activity and the value of the investments they made. In this chapter we update the 'bottom up' methodology used last year to extrapolate from the visible segment of the market, namely the investment activity channelled through business angel networks.

5.2. 'Bottom-up' Market Scale Estimates

We know from the survey of networks that £42.3m has been invested by business angels through BBAA networks in 2009/10 and a further £18.2m has been invested by angels through LINC Scotland (Chapter 2). This gives a national total of £60.5m based on the combination of BBAA and LINC Scotland data. In view of the different processes used to collect data for Scotland and the remainder of the UK, and the differences in the structure of the business angel markets discussed in earlier chapters, we estimate the scale of the business angel market in Scotland and the rest of the UK separately.

(i) Scotland

LINC Scotland estimates that their members are aware of only around 35% of identified business angel deals (based on a comparison with the data collected for the annual report on the risk capital market in Scotland published by Scottish Enterprise), equivalent to approximately 43% of companies receiving business angel investment in Scotland in 2008 (no more recent estimates are available). Assuming no differences in the size distribution of investments made through LINC Scotland and otherwise, this suggests that total business angel investment in Scotland may be in the order of £51.2m (£18.2m (100/35)), almost unchanged from the previous year.

(ii) Rest of the UK

There are a number of adjustments to the reported data on angel investment that need to be made in order to estimate the overall scale of the UK business angel market: (a) adjustments for investment by BBAA members that is not made through a network (b) adjustments for investment by angels who are not BAN members

(a) Investment by BAN members that is not made through a network. In addition to the information available from BBAA networks, we also know from the survey of angels (Chapter 4) that a significant amount of angel investment is not invested through networks: (i) 26% of investors who are members of BBAA networks have channelled only part of their investment activity through networks (see Figure 4.4). (ii) We estimate this proportion to be 50% on the basis that angel members of BBAA networks make approximately 50% of their investment through BANs (median amount invested through BANs – see Table A4.2). For this 26% of angel investors, therefore, we estimate that they will have made as much investment outside the networks as they have through them. (iii) Given that there is £42.3m of estimated angel investment made through networks, this suggests that there is a further £11.0m (£42.3m x 0.26 = £11.0m) of business angel investment in the UK (outside Scotland) represented by the non-network facilitated investments of BBAA member investors. (iv) This gives an adjusted market estimate (the visible market excluding Scotland) for angel investors who are network members of £53.3 (£42.3m + £11.0m).

(b) Investment by angels who are not network members. Not all angel investors are members of and invest through BBAA networks. These investors represent the invisible market referred to above (Figure 1.1) and are not included in our detailed analysis in the body of this report. However, it is important to include an estimate of their activity in order to build up an estimate of the overall scale of the business angel market in the UK. We approach this in the following way:

(i) Based on the survey evidence above (Chapter 4), we estimate that 52% of investors have invested all or part of their investment activity through networks and 48% have not invested through networks at all and are not included in the estimates of market activity so far. However, given that these respondents were sourced through BBAA presentations for the most part and non-response was higher for channels other than BBAA, this does not provide a basis for estimating the size of the invisible market in the UK.

(ii) In the absence of any evidence-based estimates of the ratio of the visible to the invisible angel market we applied last year the estimate of 20% used in the 1999 estimates of the scale of the market (Mason and Harrison, 2000).

Applying this to the adjusted market estimate (the visible market excluding Scotland) for angel investors who are network members of £53.3m suggests a final bottom-up estimate for the scale of the market of £266.5m to which must be added the grossed-up estimate of £51.2m for Scotland, to give a final overall estimate for the UK of £317.7m. Overall, therefore, on a like-for-like comparison, angel investment in the UK has declined by 25% in 2009/10, compared with 2008/09.

However, other measures of angel investment activity show much less change between 2008/09 and 2009/10. Morever, the other evidence in this report indicates that angels were able to lever in more finance from other investors in 2009/10 than in 2008/09. Thus, the total amount invested in businesses which had an angel element was broadly similar to 2008/9. Perhaps the most significant indicator is that the number of investments which included an angel element increased slightly in 2009/10, suggesting that business angels continued to play an important and vital element in the financing of companies, despite the economic pressures on both angels and investee firms.

6. SUMMARY AND CONCLUSIONS

6.1. Introduction

This is the second annual report on business angel investment activity in the UK. It covers financial year 2009/10 when the economy was in decline as a result of the financial crisis, with falling output and rising unemployment and fears of a double-dip recession contributing to a cautious and tentative economic outlook. With declines in both bank lending and venture capital investing demand for business angel finance might have been expected to increase. However, the limited exit opportunities faced by business angels will have reduced their ability to recycle their finance to make new investments.

We have again focused on the visible market, defined as investments channelled through the various networks that are members of the British Business Angels Association (BBAA) and angel groups associated with LINC Scotland. The visible market has expanded to encompass more than just the BBAA membership. However, with one exception these groups have been unwilling to provide data for this report. The data from networks has been supplemented by responses from 147 individual angels to a short survey.

It is important to recognise that the data used in this report have several limitations. First, the concept of membership is inappropriate for networks which do not charge investors a membership fee. These tend to be the larger networks. For these networks the concept of membership is a fluid concept, hence the number of angels which they report as being ‘members’ will be an estimate. Second, networks which charge a success fee on completed investments (usually in the form of a percentage of the amount raised) are able to report accurate investment statistics and have greater knowledge of the details of the investment (e.g. number of angel investors in the deal; involvement of co-investors, etc) than those networks which have no financial interest in the outcome of introductions that they make and therefore do less in the way of monitoring outcomes. Third, there can be a significant time-lag between the point at which the angel members are introduced to a business seeking finance (e.g. at a pitch) and an actual investment being made, raising the possibility of double-counting between years. This all leads to various inconsistencies in the data that forms the basis of this report.

6.2. Overview

In summary, the angel market remained remarkably robust in 2009/10, despite the recessionary conditions. As might be expected, demand for angel funding increased and while some of this additional demand was of low quality, angels actually invested in a slightly higher proportion of the deals that they were presented with. On the supply side, the number of angels has remained virtually unchanged and the number of investments has increased slightly. However, our market scale estimate suggest that the overall amounts invested by business angels has declined by around 25%, although some of this decline reflects a fall in the average amount invested by angels in each company. Moreover, overall deal sizes have remained fairly static, suggesting that angels are leveraging larger investments from co-investors.

6.3. Chapter Summaries

The aggregate evidence reported by the networks (Chapter 2) highlights the skewed nature of the market, with just two networks accounting for 51% of investors and four networks accounting for 60% of all the business plans received. Comparing 2009/10 with 2008/09 indicates limited change. Angel membership has been fairly stable in net terms and turnover has declined. Women continue to account for a very small proportion of investors. Demand for business angel finance has risen, with an increase of 11% in the number of business plans received by the networks. However, the proportion of businesses put forward to investors has fallen slightly, which would be consistent with a decline in the quality of demand. However, the proportion of businesses which successfully raised finance increased from 28% to 31%, confirming that angels still have an appetite for investing, even in recessionary economic conditions. There was a slight decline in the amount invested, which would be consistent with a decline in valuations.

Turning to the data on individual investments that the networks have facilitated (Chapter 3), there has been a modest increase in the number of investments. However, the amounts invested by business angels has fallen sharply (but only for BBAA networks). On the other hand, the overall amount invested has not changed between 2008/09 and 2009/10 suggesting that angels were better able to leverage additional finance in 2009/10. Indeed, co-investment between angels and other types of investor continues to be significant.

In terms of investment characteristics there is again little difference between 2008/09 and 2009/10. There is great diversity in the size of funding round, although the majority of deals are in the £50,000 to £500,000 range. Business angels generally invest up to £200,000 per deal, with the majority of deals involving more than one angel. Investments are concentrated at the start-up and early growth stages. The majority of investee companies have fewer than 10 employees. Investments are in a wide variety of sectors but with a strong technology focus.

However, three differences are of note. First, deal sizes were smaller in 2009/10. Second, LINC Scotland reported more follow-on investments in 2009/10, which is consistent with the anecdotal evidence on difficulties in securing exits, whereas BBAA networks experienced a higher proportion of new investments.[24] Third, the proportion of larger companies (more than 10 employees) raising finance increased, which might be consistent with the lack of bank finance or longer periods of bootstrapping prior to seeking external finance.

Two-thirds of the individual angels who were surveyed (Chapter 4) were members of a BBAA network. The majority had made more than one investment in 2009/10. Two-thirds of these investments were new and one-third were follow-on. Three-quarters had invested less than £100,000 in total. The results support other evidence in this report which suggests that there has been little change in the volume of investment activity, with 35% investing more in 2009/10 than in 2008/09, 32% investing less in 2009/10 than in 2008/09 and the proportion of angels making no investments in 2009/10 only slightly higher than the equivalent figure for 2008/09.

Angels made significant use of the EIS for at least some of their investments. The proportion was slightly lower than for 2008/09. However, the proportion using EIS for all of their investments was higher in 2009/10 than in 2008/09. This evidence again indicates that it is misleading to use EIS investment activity as a measure of angel investment.

Just over half of the angels in the survey used networks for at least some investments. One-quarter used networks for all of their investments. Hence there is a significant minority of angels who make investments in both the visible and invisible markets. Angels who were members of a network were more likely to invest in 2009/10. In addition, those angels making the most investments were also more likely to use networks. Both statistics are evidence of a 'network effect': either networks attract the most active investors or membership of a network enables investors to be more active.

Finally, we use the evidence from the angel survey to derive scaling factors to estimate the overall size of the UK business angel market, taking account of both investments by angels

[24] As noted earlier, 'new' in this context means the first time that a business had approached this network to raise finance. Networks typically would not keep a record of the funding history of companies that the helped to raise finance.

who are members of a network but which are not made through networks, and investments by angels who are not members of any network (Chapter 5). This gives us an overall estimate for angel investment activity in 2009/10 in the UK of £317.7m which is a decline of 25% compared with 2008/09. However, this contrasts with other indicators of market change which suggest that angel investment activity has remained remarkable stable between 2008/09 and 2009/10.

6.4. Looking Forward

This report and its predecessor have contributed considerable new insight into the operation of the angel market (e.g. the scale of co-investing, fuzziness of the visible market-invisible market distinction and imperfect overlap between angel investing and EIS investments) and provided the opportunity to provide a somewhat more rigorous estimate of market size than previously existed. The reports have underlined the critical importance of business angels as key investors in the early stage risk capital market, both in their own right and as co-investment partners. Accordingly, the health of the angel market remains critical to the vitality of the UK's entrepreneurial economy. Angels have a crucial role to play in the "private sector-led recovery".

Looking to the future of these reports, there is the possibility that the number of publicly funded networks will decline as a result of losing their funding (e.g. as a result of the demise of the RDAs). If so, then this will reduce the number of networks reporting investment data and will further increase the skewed distribution of reported activity amongst a small number of private sector networks. However, BBAA has recently opened its membership to individual angels, super angels and angel groups. Accordingly, it is essential for this report to maintain its credibility that future reports extend their coverage of the visible market to include these new categories of BBAA members as well as non-BBAA networks. Without this wider range of respondents the report is likely to lose credibility and its sponsors may decide that it is not worth continuing. The resulting lack of data on angel investment activity will be damaging to the entire angel community – entrepreneurs, angels and networks alike. Regular, good quality data which highlights the critical role of business angel investing is essential to ensure, as a minimum, that they are not disadvantaged by policy changes and to make the case for positive support.

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STATISTICAL APPENDICES

CHAPTER 2

Table A2.1. LINC Scotland Summary of Angel Investment for Years 2000-01 to 2009-2010

Year	No. of Deals	Angel Investment £M	Total Deal Size £M	No. of First Rounds	No. of Follow-On
2000-01	31	6.7	7.2	28	3
2001-02	28	9.1	12.1	20	8
2002-03	20	6.6	7.6	15	5
2003-04	24	8.0	10.4	11	13
2004-05	38	14.8	17.0	21	17
2005-06	45	13.4	19.3	24	21
2006-07	56	15.4	19.6	23	33
2007-08	56	17.2	26.5	26	30
2008-09	74	17.9	27.6	24	50
2009-10	78	18.2	27.5	19	59

CHAPTER 3

Table A3.1 Size of Funding Round

	BBAA Networks						LINC Scotland					
	2008-09			2009-2010			2009-2009			2009-2010		
Amount	number	Percentage	Cumulative Percentage	number	Percentage	Cumulative Percentage	number	Percentage	Cumulative Percentage	number	Percentage	Cumulative Percentage
Less than £25,000	9	4.3	4.3	13	5.3	5.3	3	4.0	4.0	4	5.2	5.2
£25,000 - £49,000	20	9.5	13.8	24	9.8	15.1	5	6.8	10.8	7	9.0	14.2
£50,000 - £99,000	32	15.2	29.0	45	18.4	33.5	7	9.5	20.3	16	20.5	34.7
£100,000 - £199,000	41	19.4	48.4	55	22.4	55.9	12	16.2	36.5	11	14.1	48.8
£200,000 - £499,000	61	28.9	77.3	59	24.1	80.0	27	36.5	73.0	23	29.4	78.2
£500,000 - £999,000	29	13.7	91.0	27	11.0	91.0	15	20.3	93.3	12	15.4	93.6
£1m - £2.4m	16	7.6	98.6	20	9.2	99.2	5	6.7	100.0	4	5.1	98.7
£2.5m - £4.9m	1	0.5	99.1	0	-	99.2	0	-		1	1.3	100.0
£5m and above	2	0.9	100	2	0.8	100	0	-		0	-	100.0

Total	211	100.0		245	100	100	74	100.0		78	100.0	100
Missing	14			0	0	0	0	-				
Total	225			245	100	100	74	74		78	100	100

Table A3.2 Angel Investment as a Proportion of Total Deal Size

	BBAA Networks				LINC Scotland			
	2008/2009		2009/2010		2008-2009		2009/2010	
Proportion of deal size	number	%	number	%	number	%	number	%
0 – 9	10	4.7	31	12.3	2	2.7	0	-
10 – 24	27	12.8	31	12.3	10	13.5	0	-
25 – 49	25	11.8	19	7.5	19	25.7	5	6.4
50 – 74	18	8.5	26	10.3	32	43.2	55	70.5
75 – 99	9	4.3	3	1.2	5	6.8	6	7.7
100	122	57.8	143	56.5	6	8.1	12	15.4
Total	211	100	253	100	74	100	78	100
Missing	14		-		-		-	
Total	225		253		74		78	100

Table A3.3 Amount invested by angels

	BBAA Networks						LINC Scotland					
	2008/2009			2009/2010			2008/09			2009/10		
Amount	number	percentage	Cumulative Percentage	number	percentage	Cumulative Percentage	number	percentage	Cumulative Percentage	number	percentage	Cumulative Percentage
Less than £10,000	5	2.2	2.2	7	2.8	2.8	0	0	0	2	2.6	2.6
£10,000 - £24,000	15	6.7	8.9	24	9.7	12.6	7	9.5	9.5	3	3.8	6.4
£25,000 - £49,000	38	16.9	25.8	50	20.2	32.8	11	14.9	24.4	16	20.5	26.9
£50,000 - £99,000	54	24.0	49.8	53	21.5	54.3	17	23.0	47.4	16	20.5	47.4
£100,000 - £199,000	41	18.2	68.0	54	21.9	76.2	19	25.6	73.0	12	15.4	62.8
£200,000 - £499,000	53	23.6	91.6	50	20.2	96.4	17	23.0	96.0	20	25.6	88.4
£500,000 - £999,000	17	7.6	99.2	8	3.2	99.6	3	4.0	100.0	7	9.0	97.4
£1m and over	2	0.8	100	1	0.4	100	0	0		2	2.6	100
Total	225	100		247	100	100	74	100		78	100	100

Table A3.4 Number of business angels investing in each investment

	BBAA Networks			
	2008/2009		2009/2010	
Number of angels	Number of investments	%	number	%
0	3	1.3	7	2.9
1	87	38.7	98	40.5
2	40	17.8	52	21.5
3	30	13.3	18	7.4
4	16	7.1	14	5.8
5	10	4.4	8	3.3
6-10	25	11.1	27	11.2
11-19	6	2.7	13	5.4
20-49	8	3.6	5	2.1
50+	0	0	0	0
Total	238	100	242	100
missing	4		4	
Total	242		246	

LINC Scotland data not available

Table A3.5 Number of angel investors and amount invested by angels

2008/2009	BBAA Networks					
	Number of business angels					
Amount invested by angels	0	1	2-3	4-5	6-9	10+
Less than £25,000	0	16	3	-	-	-
£25,000-£49,000	0	15	13	6	4	1
£50,000-£99,000	0	20	22	10	2	0
£100,000-£199,000	0	12	13	5	7	3
£200,000-£499,000	2	17	15	4	9	7
£500,000+	1	7	4	1	1	5

2009/2010	BBAA Networks				
	Number of business angels				
Amount invested by angels	1	2-3	4-5	6-9	10+
Less than £25,000	17	6	1	3	0
£25,000-£49,000	26	16	2	3	1
£50,000-£99,000	17	20	5	7	2
£100,000-£199,000	19	13	7	4	7
£200,000-£499,000	16	12	7	7	8
£500,000+	3	3	0	1	2

Breakdown for LINC Scotland not available

Table A3.6 Number of previous rounds of finance raised from this Network

	BBAA Networks		LINC Scotland		BBAA Networks		LINC Scotland	
	2008/2009				2009/2010			
Number of rounds	number	%	number	%	number	%	number	%
0	85	59.0	24	32.4	113	67.3	19	24.4
1	33	22.9	17	23.0	23	13.7	13	16.7
2	9	6.2	10	13.5	10	6.0	11	14.1
3	3	2.1	7	9.5	10	6.0	14	17.9
4	5	3.5	8	10.8	3	1.8	5	6.4
5 and more	9	6.2	8	10.8	9	5.4	16	20.5
Total	144	100	74	100	168	100	78	100
Missing	81		-		78		-	
Total	225		74		246		78	

Table A3.7 Stage of investment

	BBAA Networks		LINC Scotland		BBAA Networks		LINC Scotland	
	2008/2009				2009/2010			
Stage	number	%	number	%	number	%	number	%
Seed	6	2.7	3	4.0	4	6.9	4	6.9
Start-up	58	26.8	15	20.3	19	24.4	19	24.4
Early stage/early growth	96	43.1	51	68.9	50	64.1	50	64.1
Expansion	30	13.4	4	5.4	5	6.4	5	6.4
Late growth	9	4.0	0	0	n/a	n/a	n/a	n/a
Established	7	3.1	0	0	0	0	0	0
Turnaround	11	4.9	0	0	0	0	0	0
Management buyout	2	0.9	1	1.3	0	0	0	0
Other	4	1.8	-	0	5	2.0	-	0
Total	223	100	74	100	246	100	74	100
Missing	2		-	-	-	-	4	-
Total	225		74	100	246	100	78	100

Note: Late growth category eliminated in 2009/2010

Table A3.8 Number of Employees in Companies Raising Finance

	BBAA Networks		LINC Scotland		BBAA Networks		LINC Scotland	
	2008/2009				2009/2010			
Number of employees	number	%	number	%	number	%	number	%
0	2	1.8	2	3.0	1	0.6	4	6.9
1	9	8.2	3	4.5	10	6.4	2	3.5
2	14	12.7	11	16.7	23	14.6	8	13.8
3	15	13.6	2	3.0	16	10.2	3	5.2
4	18	16.4	8	12.1	17	10.8	7	12.1
5	11	10.4	9	13.6	15	9.6	3	5.2
6-10	27	24.5	12	18.2	41	26.1	12	20.7
11-14	7	6.4	11	16.7	6	3.8	10	17.2
15-19	1	0.0	5	7.8	10	6.4	5	8.6
20+	6	5.5	3	4.5	18	11.5	4	6.9
Total	110	100	66	100	157	100	58	100
Not applicable*	11		-		89		20	
Missing	104		8		-		-	
Total	225		74		246		78	

* turnarounds

Table A3.9 Industry sector of investee businesses

(i) 2008/2009

	BBAA Networks		LINC Scotland	
Industry	Number	%	Number	%
IT/internet/software/telecoms	51	22.7	17	25.8
Medical/healthcare/biotech/pharma	38	16.7	14	21.2
Clean tech/environment/recycling	16	7.1	5	7.6
Technology/hardware	19	8.4	12	18.2
Manufacturing/electronics/engineering	22	9.8	11	16.7
Business services	17	7.6	0	0
Retail	11	4.9	0	0
Property/property development	10	4.4	0	0
Media/creative industries	9	4.0	6	9.1
Food and dink	7	3.1	0	0
automobile	4	1.8	0	0
Tourism/hospitality	6	2.7	0	0
Other	15	6.7	1	1.5
Total	225		66	100
Missing	-		8	
Total	225		74	

(ii) 2009/2010

	BBAA Networks		LINC Scotland	
Industry	Number	%	Number	%
ITC (including software and telecoms)	60	24.7	9	15.5
Biotech/medical/healthcare/	47	19.3	19	32.7
Energy/water/recycling	20	8.2	7	12.1
Manufacturing	26	10.7	17	29.3
Finance and Business services	23	9.5	2	3.5
Retail	10	4.1		
Digital/creative industries	29	11.9	3	5.2
Other	28	11.6	1	1.7
Total	243	100	58	100
Missing	3		20	
Total	246		78	

CHAPTER 4

Table A4.1. Amount Invested during 2008/09 tax year

	2008-2009			2009-2010		
Amount	Number of angels	% of all respondents	% of respondents making investments	Number of angels	% of all respondents	% of respondents making investments
Nil	39	25.5	-	41	27.9	-
£10,000 or less	9	5.9	7.9	13	8.8	12.2
£10,001 to £25,000	21	13.7	18.4	24	16.3	22.6
£25,001 to £50,000	28	18.3	24.6	22	15.0	20.8
£50,001 to £75,000	15	9.8	13.5	15	10.2	14.1
£75,001 to £100,000	12	7.8	10.5	6	4.1	5.7
£100,001 to £250,000	19	12.4	16.7	16	10.9	15.1
£250,001 to £500,000	9	5.9	7.9	7	4.8	6.6
Over £500,000	1	0.6	0.9	3	2.0	2.8
Total	153			147		

Table A4.2. Proportion invested through an Angel Network

	2008-2009		2009-2010	
Proportion invested through an angel network (%)	Number of angels	%	Number of angels	%
Nil	40	35.4	51	48.6
1-25	9	10.0	2	1.9
26-50	12	10.6	12	11.4
51-75	12	10.6	6	5.7
76-99	11	9.7	7	6.7
All	29	25.7	27	32.1
Sub total	113		105	100
Missing/No investments	40		42	
Total	153		147	

Table A4.3. Proportion invested through an Angel Syndicate

	2008-2009		2009-2010	
Proportion invested through an angel syndicate (%)	Number of angels	%	Number of angels	%
Nil	52	47.0	43	41.3
1-25	7	6.2	5	4.8
26-50	10	8.8	7	6.7
51-75	6	5.3	5	4.8
76-99	10	8.8	2	1.9
All	28	24.8	42	40.4
Sub-total	113	100	104	100
Missing/No investments	40		43	
Total	153		147	

Table A4.4. Proportion invested under the Enterprise Investment Scheme

Proportion invested under the EIS (%)	Number of business angels	%	Number of business angels	%
Nil	27	23.7	32	30.8
1-25	6	5.3	4	3.8
26-50	14	12.3	13	12.5
51-75	13	11.4	7	6.7
76-99	37	14.9	9	8.7
All	37	32.5	39	37.5
Total	114		104	100

Note: Excludes business angels who did not make any investments in the year.

TABLE A5. SOURCES OF DATA

Table A5.1 BBAA Member Networks which supplied activity and investment information

- Advantages Business Angels
- Beer and Partners
- Beer and Young
- Central England Business Angels
- Connect London
- Creative Arts Investment Network
- Entrust
- Envestors
- Finance South East
- Growth Investment East Midlands
- Halo Northern Ireland
- Kingston Business Angels
- London Business Angels
- Minerva Business Angel Network
- Octopus Ventures
- Oxford Early Investments
- Oxfordshire Investment Opportunity Network
- Thames Valley Investment Network
- Xenos
- Yorkshire Association of Business Angels

Table A5.2 Other sources of investment information

- LINC Scotland

Table A5.3 Other angel networks invited to provide investment data and/or support the completion of the online angel survey

- Cambridge Angels
- Cambridge Capital
- ISIS Angel Network
- Angels 5k
- BIG
- Hotbed
- Hotspurs
- Seraphim
- MMC Ventures
- Pi Capital

Table A5.4. Other organisations supporting the completion of the online survey

- ACCA
- Law Society
- Angel Investment Network
- Venture Giant