



# A NATION OF ANGELS

Assessing the impact of angel  
investing across the UK

A decorative background graphic on the left side of the page. It consists of a network of circular nodes, each containing a stylized angel icon with wings. The nodes are connected by thin lines, forming a complex web-like structure that extends from the top left towards the bottom right of the page.

# A Nation of Angels

Assessing the impact of angel investing across the UK

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# About Us

## *The UK Business Angels Association*

The UK Business Angels Association (UKBAA) is the national trade association representing angel and early stage investment in the UK. Each year, private investors account for between £800 million and £1 billion of early stage investment in the UK – the single largest source of early stage capital in this country. The angel community in the UK is also very diverse, reflecting a range of different models and approaches including angel networks, small groups and syndicates, super angels, individual investors and new models such as accelerators. The UK Business Angels Association represents and connects all those involved in the angel investment market, including early stage VC funds, banks and also non-traditional sources of finance, as well as advisers and intermediaries, policy makers and academics with a view to ensuring a coherent ecosystem for financing the growth of start-up and early stage businesses.

[www.ukbusinessangelsassociation.org.uk](http://www.ukbusinessangelsassociation.org.uk)

## *The Centre for Entrepreneurs*

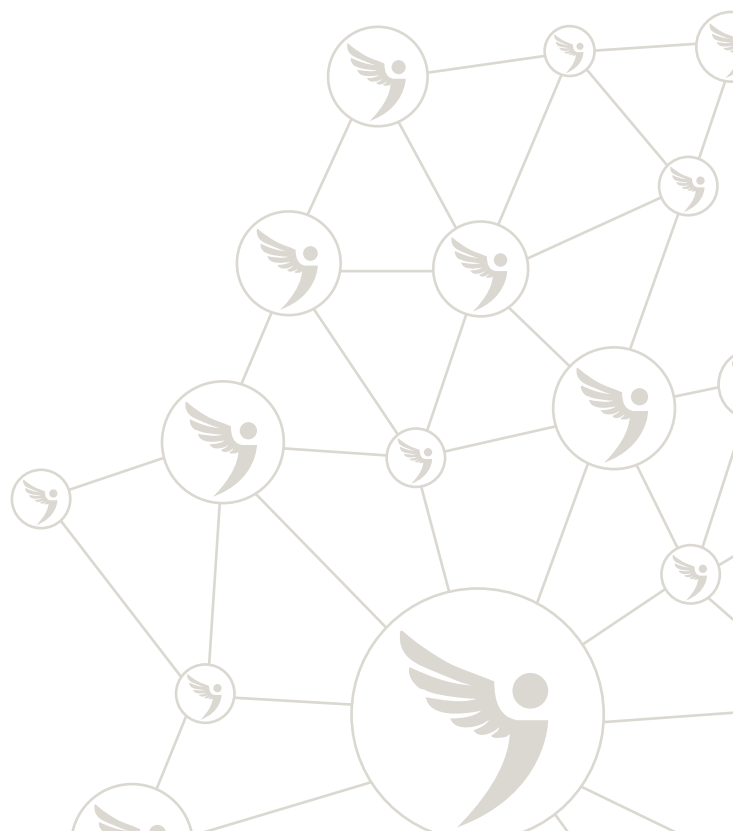
The Centre for Entrepreneurs (CFE) think tank promotes the role of entrepreneurs in creating economic growth and social wellbeing. It is home to national enterprise campaign Start-Up Britain. The Centre is a non-profit joint venture between FT columnist and serial entrepreneur and investor Luke Johnson and the Legatum Institute - a non-partisan charitable think tank best known for its annual Prosperity Index. It is supported by a prominent advisory board including serial entrepreneur and investor Brent Hoberman, angel investor Dale Murray, Supper Club founder Duncan Cheattle, Betfair founder Ed Wray, and Smith & Williamson partner Guy Rigby.

[www.centreforentrepreneurs.org](http://www.centreforentrepreneurs.org)

## *The Enterprise Research Centre*

The Enterprise Research Centre (ERC) was established in 2013 to answer one central question, 'What drives SME growth?' Our mission is to become the focal point internationally for research, knowledge and expertise on SME growth and entrepreneurship. ERC develops and brings the evidence base on SMEs and enterprise together, and works with policy makers and practitioners to ensure research shapes better policies and practices to help ensure SMEs grow. The centre is a collaboration between 5 University Business Schools: Warwick, Aston, Birmingham, Strathclyde and Imperial College and currently receives funding from the Economic & Social Research Council, the British Bankers Association, the Dept. for Business, Innovation & Skills and Innovate UK.

[www.enterpriseresearch.ac.uk](http://www.enterpriseresearch.ac.uk)



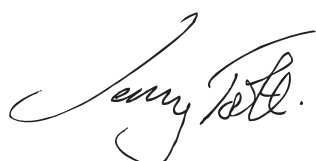
# Foreword

Angel investment may be seen as the most significant source of risk capital for start-up and early stage businesses in the UK but the market has significantly evolved since the last major UK study of angel investing was made in 2008 when the UKBAA, in collaboration with Nesta, looked at angel investment behaviour in the period pre-financial crisis<sup>1</sup>. Since that time, new models and approaches to investing have emerged alongside the traditional organisational model of networks with angels increasingly investing in groups and syndicates rather than on their own. Many angels are also taking an interest in online platforms and equity crowdfunding as a source of deal flow and investment opportunity. During this period, angel investing has had considerable further backing from Government with the increase in the level of EIS tax relief and the introduction of the Seed Enterprise Investment Scheme (SEIS).

UKBAA, as the trade body representing the angel and early stage investment community, has commissioned this study by the Enterprise Research Centre to better understand the impact of angel investors on the growth of their investee businesses and the influence of these new developments in the marketplace. This has helped to identify what action UKBAA and other key players can take to further support the growth and effectiveness of angel investing. We have been delighted to collaborate with the Centre for Entrepreneurs and notably Luke Johnson, Chair of CFE and a serial angel investor, in taking forward the campaign for Nation of Angels and creating awareness of the importance of angel investment in the wider marketplace.

The results of this study demonstrate the important role that angel investing is playing in the economy, not only bringing risk capital, business experience and skills to support the growth of small businesses, but also through investing to create social impact. Notably, we hope that this will reinforce the need for Government, key stakeholders and opinion formers to give continuing support to this Nation of Angels to enable the angel community to continue to grow and fulfil their important contribution to the UK economy.

On behalf of UKBAA, I should like to thank the Enterprise Research Centre for carrying out this research study and notably Professor Mark Hart, Aston Business School, and Prof Mike Wright and Dr Kun Fu, Imperial College Business School. We especially wish to express our deep appreciation to Barclays, BVCA and Deloitte who have sponsored the Nation of Angels research study on our behalf, and also the ESRC who have provided additional financial support to the study. Finally, I should like to give a very wholehearted thanks to all those angel investors and syndicate and network leads who have supported this campaign and responded to the survey, since without your help this new data and insight on the angel market would not have been possible.



**Jenny Tooth OBE**  
Chief Executive  
UK Business Angels Association

<sup>1</sup> Wiltbank, R. E. (2009). *Siding with the Angels: Business Angel Investing – Promising Outcomes and Effective Strategies*. London: Nesta

# Executive Summary

In a European context, the UK business angel market is seen as one of the most mature and extensively researched. However, there is a lack of recent systematic evidence on the profile and approach of business angels, their investing activities and notably their impact on the growth and performance of the businesses in which they invest. This report sets out to fill this gap by providing new findings from the largest survey of business angels in the UK and the impact of their investment activities to date.

This report, commissioned by the UKBAA in association with the Centre for Entrepreneurs (CFE) and with the support of the BVCA, Deloitte, Barclays and the ESRC, presents the results of the largest study of the investment behaviour and impact of business angels in the UK to date. The study comprised responses from 403 individual angels who responded to the online Nation of Angels survey, detailed follow-up telephone interviews with 42 individual angels who shared more details of their investment behaviour, and an online survey of 28 angel syndicate and network leads across the UK representing 8,000 angels.

**What is clear from the results of this research is that the UK business angel market is changing. The main findings of the study are as follows:**

- The characteristics of individual angels have changed with more women becoming involved (14% of all angels) and a rise in the number of younger individuals (16% are less than 35 years of age). As a consequence, UK angels have fewer years' experience than observed in previous studies of the UK business angel marketplace.
- Alongside this changing profile of angels, there is evidence to show that individual angels are making more investments than ever before. The median number of investments is 5 compared to 2.5 reported by an earlier study published in 2009.
- Previous studies have indicated that angels tend to invest in businesses close to their home base. The evidence presented here indicates a much higher incidence of angels investing beyond their home region (58.4%), as well as outside the UK (22.3%), and, therefore, geographical distance would seem to be becoming less important in the investment decision.
- One possible explanation of this trend is the increase in angels investing alongside other funding vehicles and especially crowdfunding platforms. The observed growth in the use of these digital platforms by individual angels is a major development in the UK business angel market place.
- Government has sought to provide tax incentives for angel investment through the Enterprise Investment Scheme (EIS), for individual investors in higher-risk small companies, and the Seed Enterprise Investment Scheme (SEIS), for individual investors in small, early stage companies. Almost 9 out of 10 angel investors have invested either through the EIS or the SEIS and around 80% of the total investments in angels' investment portfolios were made under these schemes with over half (55%) investing in EIS and a quarter (24%) investing in SEIS. The increased awareness of and use of these schemes in recent years might suggest a changing attitude to risk and it has been the existence and extension of these schemes that have encouraged angels to keep investing in turbulent economic conditions.
- Angels play a key role in achieving the successful growth and outcome of their investments by aligning the management team and investors with regard to planning, executing the growth plan and exit. For those cases where a syndicate of investors was involved, syndicate members considered that strong coordination and communication by the lead investor was very important for a successful outcome. These factors were more important than having a presence on the board.
- Angels reported a lower rate of low returns and a higher rate of expected higher returns than in previous research which shows considerable confidence in the market. Over 4 out of 10 investments were expected to generate a return in the range 1-5 times the initial investment. A further 2 out of 10 investments were expected to produce a return of 6-10 times the initial investment and 1 out of 10 were expected to achieve returns in excess of 10 times their initial investment. This is a higher rate of expected higher returns than found in earlier studies.
- Some 45% of angels reported that their investee businesses showed 'high growth' while approaching two-thirds (63.9%) had investments showing 'reasonable growth'. This pattern is stronger for younger angels (especially those aged 35-44 years) who have a tendency to invest in ICT software sectors. Women are less likely than men to report 'no real growth' in their investments, which may indicate a more discerning selection of growth prospects in the first place or a conscious decision to exclude the riskier deals. Irrespective of the reason, it is clear that women display greater confidence in the performance of their investee businesses post-investment.
- Recent growing interest in social entrepreneurship suggests a potentially significant role for business angels in businesses focussed on social impact as a primary objective. We define angel investments having a social impact as any kind of activity that has a particularly social, environmental or community objective. About 1 in 4 angels (25.7%) have invested in ventures that have a social impact. Social impact investments account for almost 23.8% of total investment deals of the angels in the survey. It may well be the case that the rise in younger and less experienced angels as well as more women angels has led to an increase in social impact investments.

# UKBAA Response to Research Findings

**The profile of angels is changing and attracting a diverse group of investors:** UKBAA will raise further awareness about angel investing to attract a wide range of individuals with the finance and experience to become business angels. We will build capacity and professional skills through training workshops and online learning to become effective investors and further support the identification of individuals with expertise to become lead angels to build syndicated deals.

Working with key relevant players, we will especially increase efforts to build angel capacity in the regions outside London and South East, where the market remains less developed, building effective hubs for angel investment.

**There is still a relatively low proportion of women investors:** UKBAA will increase efforts to create further awareness to attract more women to become angel investors and will support the development of a forum where women investors can share experience and build skills and capacity, also identify more women investor lead angels.

**Investing more widely and internationally:** UKBAA will continue to encourage and support individuals and angel groups to connect and collaborate across the UK to ensure that deals are shared and closed, including further development of the UKBAA Angel Deal Sharing Platform. We will work with our counterparts in Europe and internationally to support cross border links for deal sharing and the internationalisation of growth businesses.

**Angels are co-investing with a wide range of sources including crowdfunding:** UKBAA will work with all key finance players to ensure that angels can connect with relevant sources of co-investment, both traditional and new alternative sources, to effectively build deals and address ongoing funding requirements from start-up to exit. We will also ensure that angels can access the benefits of online platforms to support their investments.

**High usage of tax breaks to mitigate risk:** UKBAA will continue to work with Government and key stakeholders to ensure the continuation of the EIS and SEIS tax breaks for the angel market. We will continue to raise awareness among both entrepreneurs and investors to ensure effective usage, and will seek to address any remaining challenges relating to the operation of these schemes.

**Angels identified significant growth in their portfolio businesses and low negative growth:** UKBAA will support a connected ecosystem to enable angel investors to access all key players that can support the effective scale-up and growth of their businesses. We will work also with the entrepreneurial community and all those advising and supporting entrepreneurs on how to successfully attract angel investment to accelerate their growth.

**Angels provide ongoing support to scale and grow their investee businesses:** UKBAA will implement further opportunities for sharing experience from more experienced angels to less experienced angels to build skills to achieve company growth and effective returns, including further developing the role of lead angels post-investment.

**Angels demonstrate confidence in the angel market with higher expected returns and lower levels of negative returns:** UKBAA will connect with key finance players including VCs, corporates, private equity and AIM to ensure that angels can achieve opportunities for liquidity and effectively reinvest into further small businesses.

**Angels are increasingly investing in businesses that achieve a social impact.** UKBAA will continue to work closely with the Government and through UKBAA member, Clearly Social Angels, and other key players in the social impact ecosystem, to build greater awareness and opportunities to invest in social impact businesses.



# 1. Introduction



*'I like to invest in businesses that are likely to be around for a long time – I would like to be in at the beginning of the next household brand in the next 30-40 years.'*

Business angels are individuals investing their own money generally into new and growing privately owned ventures. Many angel investors bring not only finance to the business but also access to business experience, strategic advice and market and customer contacts. Business angels may invest on their own, but frequently they operate as part of a group of angels, referred to as a syndicate or network. For a growing business, the value of angel finance is that of patient and intelligent capital, that is, a willingness to combine long-term equity investment with an injection of sectoral and business expertise<sup>2</sup>.

In a European context the UK business angel market is seen as one of the most mature and extensively researched<sup>3</sup>. However, there is a lack of recent systematic evidence on the profile and approach of business angels, their investing activities and notably their impact on the growth and performance of the businesses in which they invest<sup>4</sup>. This report sets out to fill this gap by providing new findings from the largest survey of business angels in the UK and the impact of their investment activities to date. It considers:

- ▣ Who are the angels? Gender, age, and ethnicity of angel investors.
- ▣ Angel experience: the number of years operating as an angel investor and the number of investments made so far.
- ▣ The impact of angels: the number of positive exits, growth status, social impact and expected returns from the current portfolio.
- ▣ The extent to which there were differences in the characteristics of angels and the impact of their investments depending on their location: London and the South East compared with the rest of the UK.
- ▣ Investing in partnership: The extent to which angels invest alongside other funding sources including other angel co-investment funds, VC/PE, debt instruments, crowd-funding, R&D grants etc.
- ▣ Government investment schemes: the role of SEIS or EIS tax relief schemes and their influence on the angel investor's approach to deals.
- ▣ Location of investments: where do business angels make their investments?
- ▣ What business sectors do angels invest in? Including the extent of social impact investing.

<sup>2</sup> Bruton, G., Filatotchev, I. Chahine, S. & Wright, M. [2010]. "Governance, Ownership Structure and Performance of IPO Firms: The Impact of Different Types of Private Equity Investors and Institutional Environments", *Strategic Management Journal*, 31: 491–509.

<sup>3</sup> Centre for Strategy and Evaluation Services (2012). Evaluation of EU Member States' Business Angel Markets and Policies Final Report. Sevenoaks, Kent.

<sup>4</sup> Wiltbank, R. E. [2009]. *Siding with the Angels: Business Angel Investing – Promising Outcomes and Effective Strategies*. London: Nesta; Vanacker, T., Collewaert, V. & Paeleman, I. [2013] "The Relationship between Slack Resources and the Performance of Entrepreneurial Firms: The Role of Venture Capital and Angel Investors". *Journal of Management Studies*, 50(6): 1070-1096; Fraser, S., Bhaumik, S. & Wright, M. [2015]. "What Do We Know About The Relationship Between Entrepreneurial Finance and Growth?" *International Small Business Journal*, 33(1) 70-88.

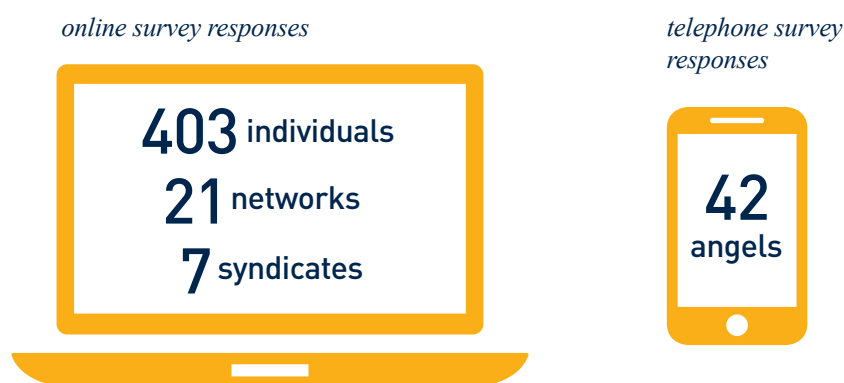


Our key approach to the research was through an online survey of individual angels which was launched in early June 2014 and was completed in October 2014 – the Nation of Angels Survey. However, business angel investment is a personal decision and there is no direct requirement for angels to make themselves known or report on their investment behaviour. Thus, a key difficulty with conducting research on business angels is the lack of any generally available list of individual angel investors which can be used as a sampling frame<sup>5</sup>. To overcome this issue, the UKBAA promoted the online survey to their members who were either individual angels or leads for existing angel syndicates or networks. UKBAA also marketed the survey to its wider contact list and through its website. The Centre for Entrepreneurs, in collaboration with the UKBAA, also organised an awareness raising campaign and launch event for the Nation of Angels Survey, as well as hosting a dedicated website. At the close of the online survey in October 2014, we had received 403 responses from individual angels making this the largest survey to date of business angels in the UK.

Alongside the online survey of individual angels, an additional online survey was launched in October to known angel syndicates and networks who were UKBAA members. This survey was designed to increase our understanding of the investor behavior and activity of angels investing as part of a wider group. A total of 28 responses (21 networks and 7 syndicates) were received ranging from long-established networks/syndicates (e.g. started in 1973 and 1982) to those recently set up (i.e. in 2014). Overall these syndicates and networks represent 8,000 angels, although there is considerable variation in the number of members of syndicates and networks. The average syndicate comprises 8 members, with a minimum of 3 and a maximum of 12<sup>6</sup>. The average network contains 468 members, with a minimum of 10 and a maximum of 3,500. Although the oldest syndicate/network dates back to 1973, nearly two-thirds (62%) of syndicates and networks have been created since 2008 at the start of the financial crisis. Over a half (54%) have been created since 2010.



Finally, a series of telephone interviews were also carried out with 42 angels who had participated in the larger online survey and had agreed to be contacted to share further detailed information on their investments and their role within the business. The focus in all these surveys was to seek information on angels' current portfolio and investments made in financial year 2013-14.



<sup>5</sup>Farrell, E., Howorth, C. & Wright, M. (2008) "A Review of Sampling and Definitional Issues in Informal Venture Capital Research", *Venture Capital*, 10(4): 331-353.

<sup>6</sup>We exclude two syndicates from this calculation as they would appear to be unique cases with one having only one member and the other having 150 members in their syndicate.

## 2. Angel Background and Investing Activity

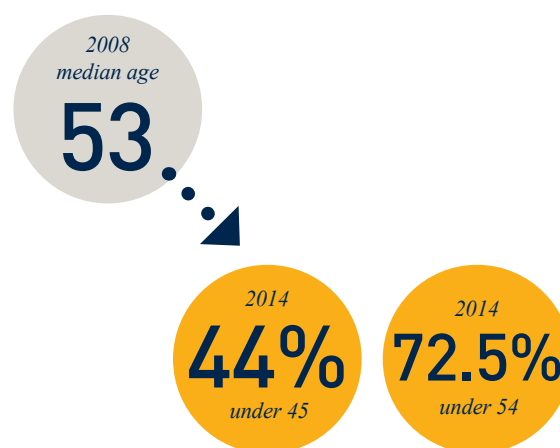
### 2.1 Who are the UK Angels?

The gender gap in the level of involvement in the business angel market in the UK remains quite wide (Figure 1). Nearly 86% of business angels are men but encouragingly women angels account for 14% of angels, which represent an increase on the 7% observed in a 2008 UK study<sup>7</sup> and 5.6% in a 2010 European study<sup>8</sup>. However, the UK still ranks below the US where 20% of angels were women in 2013<sup>9</sup>. There was a considerable difference between syndicates and networks in the proportion of members who are women. Syndicates reported that on average 0.5% of members were women, with a range from 0 to 3%. In contrast, the average percentage of women in networks was 17% with a range from 1 to 75%, the higher figure reflecting angel networks in the survey, which specifically target women investors.

Figure 1. UK Business Angels by Gender



Angels are found in all age groups, but our survey of individual angels shows a greater preponderance of younger angels compared with previous perceptions and survey evidence. Notably, about 44% are young angels aged under 45 (Figure 2) and almost three-quarters (72.5%) are aged 54 years or less. In contrast, survey evidence from 2008 found the median age of angels was 53 years<sup>10</sup>. When we examine the returns from the survey of angel networks/syndicates we note that network members were slightly older than syndicate members. The average age of network members was 50.6 years with a range from 42 to 60 years, while syndicate members were on average 47.6 years old with a range from 40 to 58 years.



<sup>7</sup> Wiltbank, R. E. (2009) *Siding with the Angels: Business Angel Investing – Promising Outcomes and Effective Strategies*, London: Nesta. Our finding is slightly higher than in another 2014 UK study which found that 12% of angels were women (Mason, C. & Botelho, T. (2014) *Business Angel Investing in the UK: A Changing Market Place*, University of Glasgow).

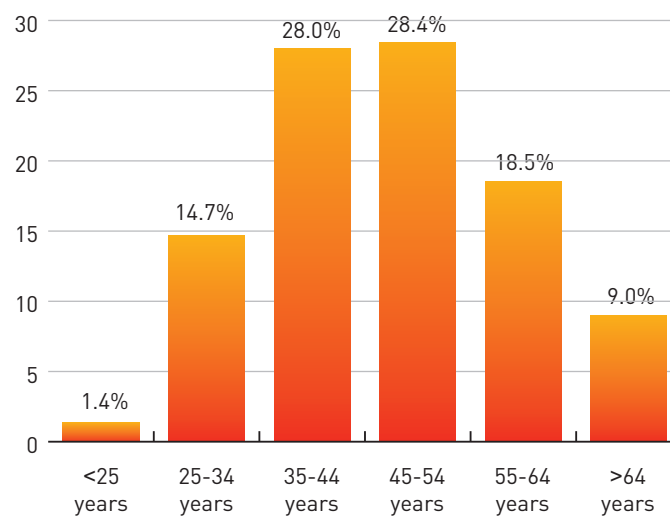
<sup>8</sup> [http://ec.europa.eu/enterprise/dg/files/ba-rep\\_en.pdf](http://ec.europa.eu/enterprise/dg/files/ba-rep_en.pdf), page 12 table 3.2

<sup>9</sup> Sohl, J. (2014) *The Angel Market in 2013: a Return to Seed Investing*, Center for Venture Research, University of New Hampshire.

<sup>10</sup> Wiltbank, *op. cit.*

Recent evidence from a smaller sample in 2014 indicates that about three-fifths (62%) of angels were aged 54 years or less<sup>11</sup>. This apparent fall in the age of angels may reflect the increase in the number of younger entrepreneurs in recent years that have generated significant personal wealth from exiting high growth ventures, especially in technology sectors.

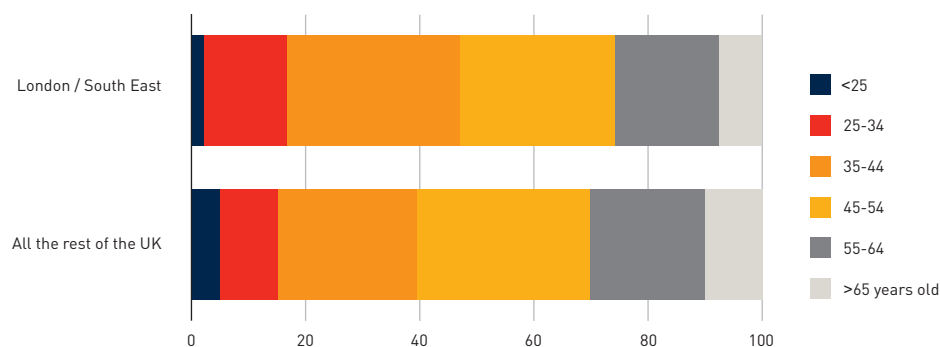
*Figure 2. UK Business Angels by Age*



Source: ERC Nation of Angels Survey (2014)

Angels located in London and the South East tended to be somewhat younger than those located in the rest of the UK (Figure 3). Approaching one-half of angels (45.8%) in London and the South East were aged 44 years or less, compared with approaching 4 in 10 (37.3%) in the rest of the UK.

*Figure 3. UK Business Angels by Age and Location*

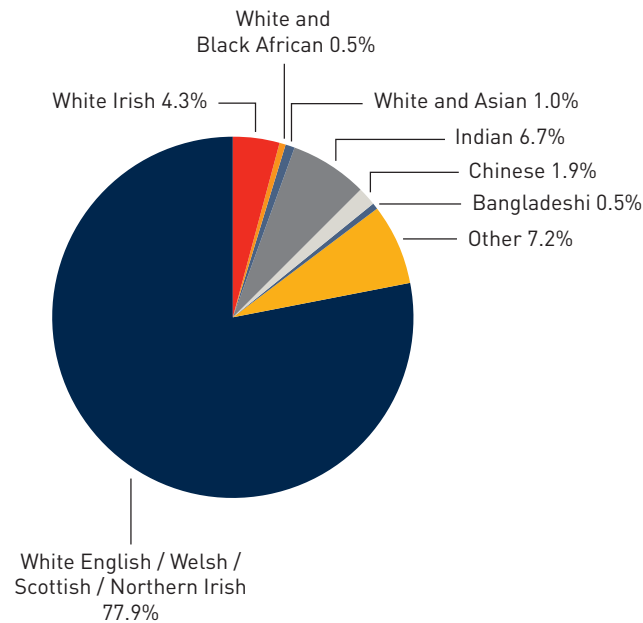


Source: ERC Nation of Angels Survey (2014)

The vast majority (78%) of angels are White-British by ethnicity, but over 1 in 5 (22%) are non-White. Asian angels account for a large portion (46%) of non-White British angels and are primarily located in London and the South East. Of the 46%, two-thirds are Indian and a third of Indian angels are located in other parts of the UK (see Figure 4).

<sup>11</sup> Mason, C. & Botelho, T, *op. cit.*

Figure 4. UK Business Angels by Ethnicity

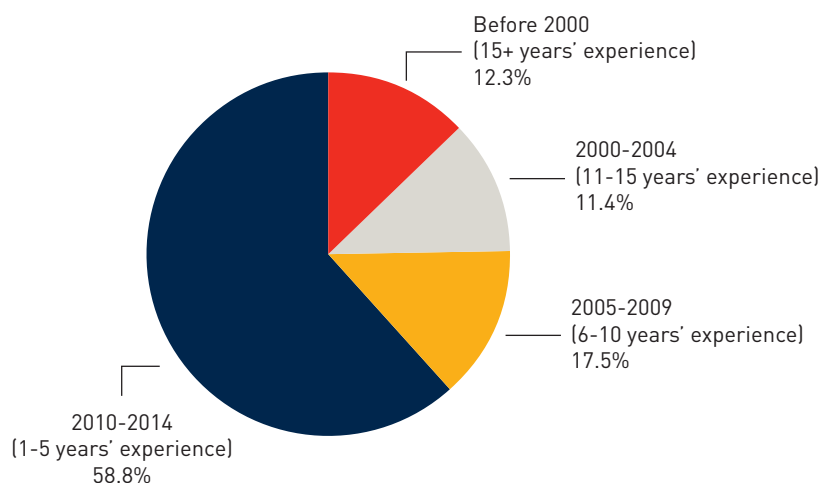


Source: ERC Nation of Angels Survey (2014)

## 2.2 Experience and Scale of Angel Activity

A mixture of full-time and part-time active and passive angel investors have engaged with the Nation of Angels Survey. Nearly 40% of angels are investing on a full-time basis, either as a passive investor or as an active investor and director. Approximately 7 out of 10 angels have invested as part of a syndicate. Almost 96% of angels indicate that they would continue to make investments in the next two years. There is evidence that a significant proportion of angels have begun to invest only recently. A large proportion of angels began their investment activity during the recession. Almost two-thirds of angels (60%) have made their first investment since 2010 while little more than 1 in 10 had been investing for more than 15 years (Figure 5). On average, angel investors hold about 7% equity stakes in an investment.

Figure 5: Investment Experience of UK Business Angels (Years Investing)



Source: ERC Nation of Angels Survey (2014)

# 60%

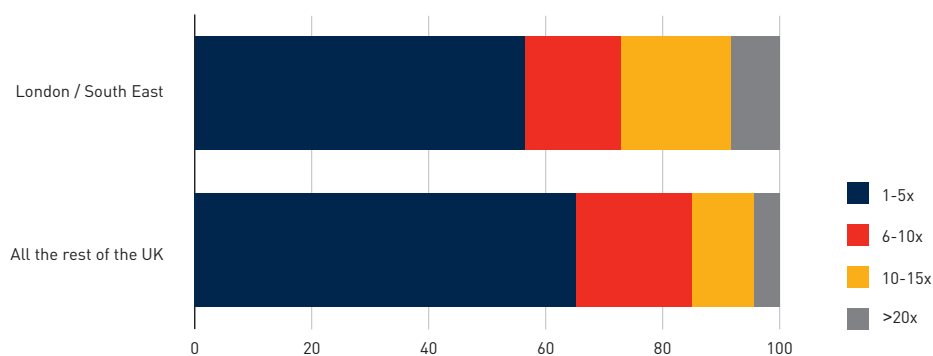
*made first investment  
since 2010*



*only 1 in 10 have been  
investing for more than  
15 years*

Angels in the rest of the UK tended to have fewer years' experience as angels compared to those located in London and the South East (Figure 6). Almost two-thirds (65.2%) of angels in the rest of the UK had 5 years or less experience as an angel compared to some 56.4% of angels in London and the South East. Correspondingly, almost twice the proportion of angels in London and the South East (8.3%) had over twenty years of angel experience compared to the rest of the UK (4.5%). Similarly, a much larger proportion of angels in London and the South East (18.8%) had 11-20 years of angel experience compared to the rest of the UK (10.6%).

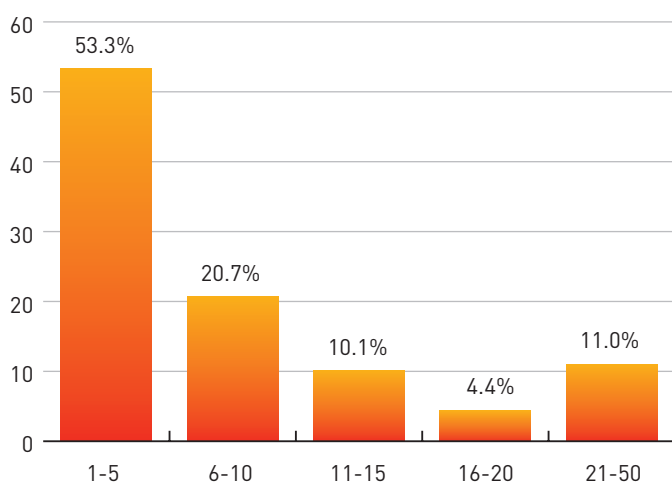
*Figure 6. Angel Locations within the UK and Angel Experience*



Source: ERC Nation of Angels Survey (2014)

Each angel in the survey had made a median of 5 investments in total since they first began their investment activity, with the highest number being 50 investments by one angel. As shown in Figure 7 more than half (53.3%) of the angels have made no more than 5 investments thus far. More experienced angels who have made over 20 investments to date represent 1 in 10 of all respondents. Overall, the findings indicate a much higher rate of investment activity than reported in a 2008 survey which showed a median of 2.5 investments<sup>12</sup>.

*Figure 7: Number of Investments by Business Angels*



Source: ERC Nation of Angels Survey (2014)

*Median*  
  
**5**  
*investments per angel*

*Highest number of investments by one angel*  
**50**

<sup>12</sup>Wiltbank. *op. cit.*

There is wide variation in investment activity by syndicates and networks. Taken together, syndicates and networks have made, on average, 51 investments per group over the period 1973-2014, varying from a very longstanding network that has made 202 over the period 1997-2014 to a new syndicate that has done no deals so far. The median number of deals is 19 by a syndicate and networks. Separately, the average number of investments per syndicate is 10 with a range from 0 to 21 and with a median of 10. The average number of investments per network is 69 with a range from 1 to 202 and a median of 47.5.

During the tax year ending in April 2014, each angel had made, on average, 3 first round investments, with the highest number being 36. Nearly a quarter of angels in the survey had made no investment during that year (Figure 8). Exploring this point further we find that the most experienced angels were more likely not to have made any investments compared to the least experienced. Some 38% of angels with over 20 years' experience had not made an investment in this period whilst this was the case for only 16% of angels with 1-5 years' experience.

However, nearly half of the angels (47%) had made a follow-on investment by April 2014 after a first-round investment earlier in the tax year. The number of follow-on investments varies from 1 to 16.

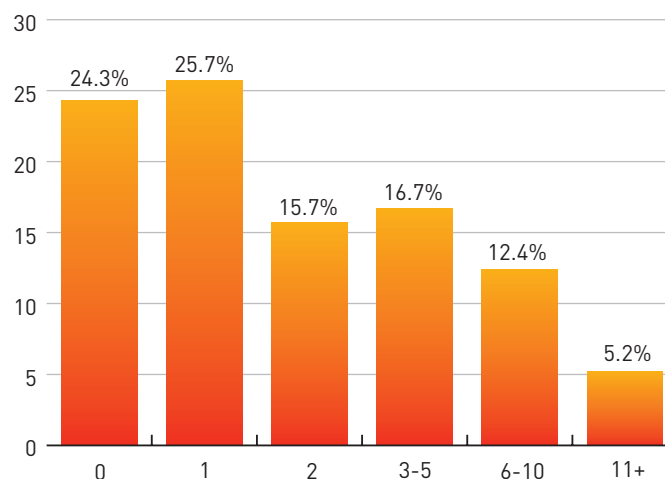
*Average  
investments per  
syndicate*

**10**

*Average  
investments per  
network*

**69**

*Figure 8: Number of Investments by Angels in 2013-14*



Source: ERC Nation of Angels Survey (2014)

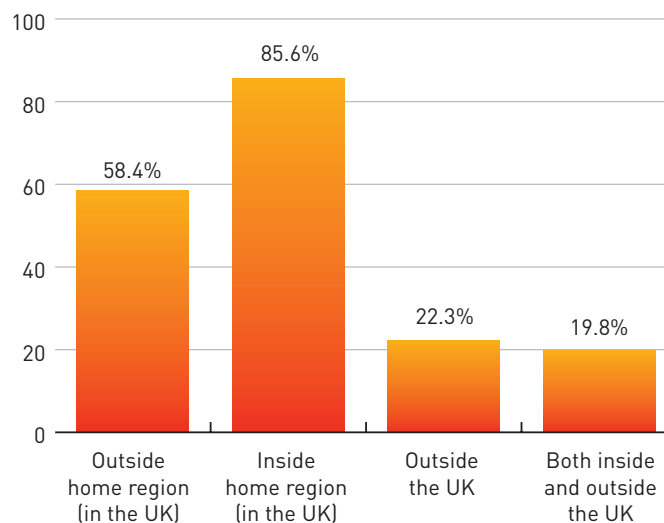
### 2.3 Where do Angels Invest in the UK?

Two-thirds of angels responding to the survey were located in London and the South East for the purposes of making investments. There was a similar split between male and female angels in both London and the South East region and the rest of the UK. The question to explore is how close to home do they invest?

Figure 9 shows the geographical locations where business angels have made their investments and the categories are not mutually exclusive. Nearly all (98%) of the angels in the survey have made investments in the UK with a significant number (22%) having invested in businesses outside the UK. Nearly a fifth of angels (19.8%) actively invest both inside and outside the UK, meaning that a very small number of angels (2%) located in the UK invest only overseas.

Further, some 58% of angels invest outside their home region in the UK. These findings stand in some contrast to other evidence which suggests that distance is an important constraint on the likelihood of a business angel investing in a particular business. In other words, angel investing is a local activity. Evidence from the Nation of Angels Survey indicates that a significant minority of angel investments are in businesses a relatively 'long distance' from their home location defined simply as not in their home county and indeed beyond immediately adjacent counties<sup>13</sup>.

Figure 9: Investment Location of Business Angels



**2%**  
of UK angels  
only invest outside  
of the UK

Source: ERC Nation of Angels Survey (2014)

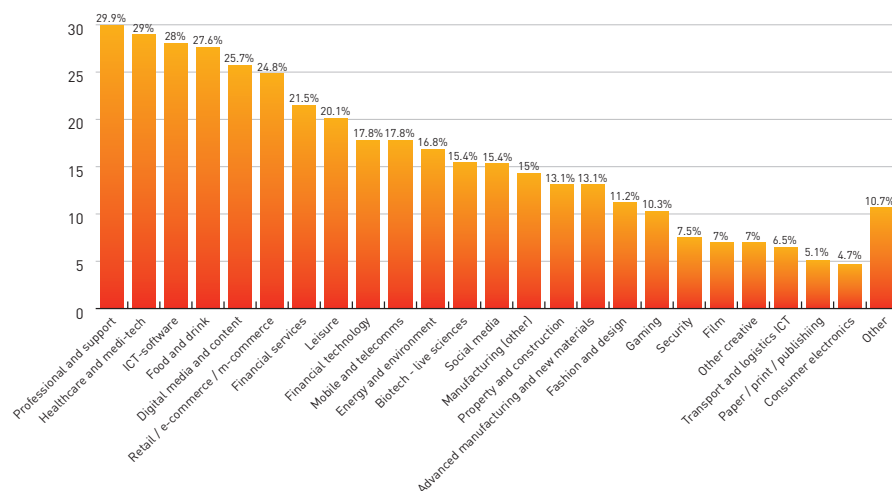
Note: Respondent responses sum to greater than 100% as multiple responses were possible.

<sup>13</sup> Harrison, R., Mason, C., & Robson, P., (2010) "Determinants of Long-distance Investing by Business Angels in the UK", *Entrepreneurship and Regional Development*, 22(2), 113-137.

## 2.4 What Type of Activities do Angels Invest in?

Angel investors are investing in a vast range of industrial sectors, ranging from hi-tech to traditional sectors, from manufacturing to service sectors. Nevertheless, the top 5 sectors for angel investments are: professional services, healthcare, ICT-software, food and drink, digital media, with retail and e-commerce, financial services and leisure industries, being the next most popular areas for investors (Figure 10).

Figure 10: Sectoral Distribution of UK Business Angel Investments



Source: ERC Nation of Angels Survey (2014)

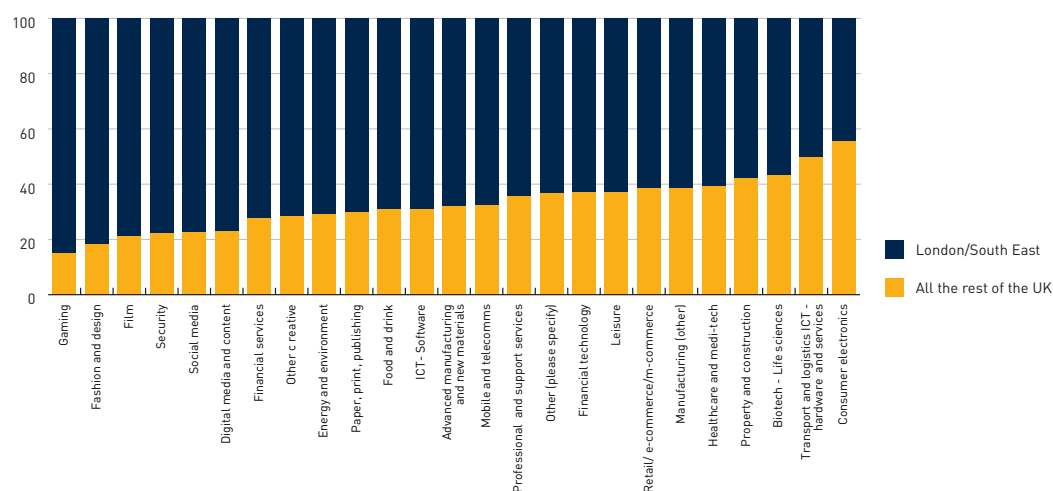
Note: Respondent responses sum to greater than 100% as multiple responses were possible.



Nearly 70% of angel investors are investing in technology-intensive<sup>14</sup> businesses while 9 out of 10 business angels have investments in the other non-technology-intensive sectors, within their portfolio.

There were marked regional differences in the relative importance of industrial sectors for angel investment (Figure 11). Over three-quarters of angels investing in the gaming, fashion and design, film, security, social media, and digital media sectors were located in London and the South East. In other regions, there is a low level of investing in creative industries. In contrast, the majority of angels investing in consumer electronics were located in the rest of the UK, with the share of transport and logistics and ICT software sector investments being evenly split between the two parts of the country.

Figure 11: Location of Business Angel Investments by Sector



Source: ERC Nation of Angels Survey (2014)

<sup>14</sup> Healthcare and med-tech, ICT- software, digital media and content, financial technology, mobile and telecoms, biotech - life sciences, advanced manufacturing and new materials, gaming, transport & logistics ICT, and agriculture-tech are classified as technology-intensive sector.



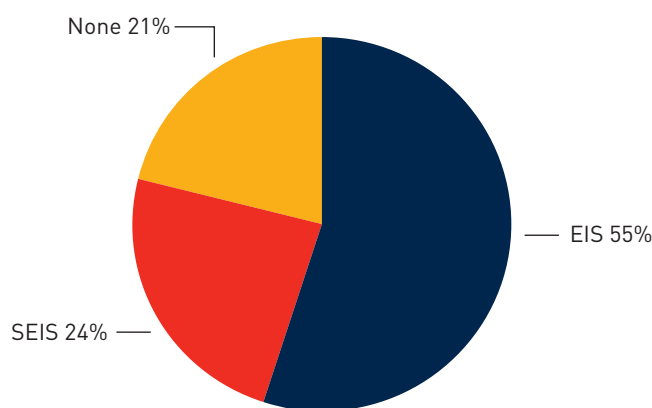
## 2.5 What use do Angels Make of EIS/SEIS Tax Relief?

Government has sought to provide tax incentives for angel investment in higher-risk small companies through the Enterprise Investment Scheme (EIS). Notably, in 2012, the Government increased the level of EIS relief from 20% to 30% and introduced the new Seed Enterprise Investment Scheme (SEIS), for individual investors in small, early stage companies<sup>15</sup>. The EIS provides for relief at 30% of the cost of the shares against an individual angel's income tax liability for the tax year in which the investment was made up to a maximum investment of £1m in a qualifying business, with companies able to take on up to £5m investment annually under this scheme. With respect to the SEIS, tax relief is available at 50% of the cost of the shares on a maximum annual investment of £100,000, with a maximum total of £150,000 accessible under SEIS by any individual qualifying business.

Figure 12 shows the investments of business angels made under EIS and SEIS schemes. Slightly under 90% of the angel investors have invested either through the EIS or the SEIS.

Almost 80% of the total investments in angels' investment portfolios were made under these schemes with over half (55%) investing in EIS and a quarter (24%) investing in SEIS. By way of comparison, evidence from 2008 shows that 57% of investments made use of the EIS scheme, while evidence from 2013 indicates that SEIS was used in only 12% of angel deals. The increased awareness and use of these schemes in recent years might suggest a changing attitude to risk and it has been the existence and extension of these schemes that have encouraged angels to keep investing in turbulent economic conditions.

Figure 12: Investments Made Using EIS/SEIS Schemes



Source: ERC Nation of Angels Survey (2014)

SLIGHTLY UNDER  
**90%**  
*of angels have  
invested through  
the EIS or the SEIS*



*'I give myself a specific amount of money to invest each year and that sum is related to tax thresholds under the current Government schemes to encourage investment'*

<sup>15</sup> <https://www.gov.uk/business-tax/investment-schemes>

<sup>16</sup> Wiltbank, *op. cit.*

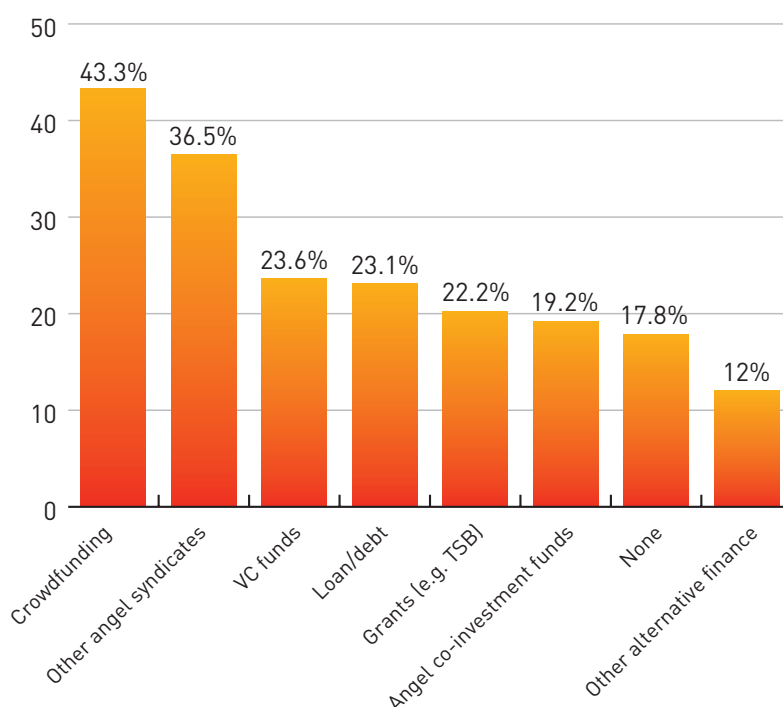
<sup>17</sup> Deloitte/UKBAA (2013). *Taking the Pulse of the Angel Market*. London: Deloitte and UKBAA.

## 2.6 How far do Angels Co-Invest with other Sources of Finance?

The survey enabled us to provide a more fine-grained analysis of co-investing with other funding sources than previous studies. Investment with other angel syndicates is a popular form of collaboration, favored by 36.5% of angel investors (see Figure 13). Indeed, some 92% of syndicate and network leads surveyed reported that their members make angel investments in other syndicates and networks.

While there has been an increase in the share of angel investors in early-stage venture capital deals to over two-fifths<sup>18</sup>, our findings indicate that only a quarter of angels (23.6%) invest alongside venture capital firms (Figure 13). The venture capital industry in the UK is evolving in response to the growing availability of alternative forms of early-stage finance<sup>19</sup>. However, there may be further scope for the venture capital industry to connect with business angels in order to source deals not least because, as we show below, of the increasing use by angels of online platforms.

Figure 13: Sectoral Distribution of UK Business Angel Investments



Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

**1/5**

*of angels invest alongside grant giving bodies*

Surprisingly, a similar share of angels (23.1%), invest alongside providers of loan/debt finance. This level of angel co-investment alongside providers of loan/debt finance reflects the fact that although there is a pipeline of deal flow from banks to angel investors, this may require further development or it may be that businesses taking on debt are likely to be less attractive to angel investors or perhaps, given the early-stage of many angel investments, that the businesses involved may not be at a stage where they can raise significant bank debt.

A fifth of angels (20.2%) invest alongside grant giving bodies such as Innovate UK (formerly the Technology Strategy Board), suggesting that angels are active in identifying opportunities with innovation potential that are able to obtain the validation of an external respected funding body.

<sup>18</sup> Pierrakis, Y. & Mason, C. (2007). *Shifting Sands: The Changing Nature of the Early Stage Venture Capital Market in the UK*. London: Nesta.

<sup>19</sup> Clark, J. (2014). *VC Evolved*. London BVCA.

However, the largest source of co-investing is with crowdfunding platforms. Approaching 45% of angels are investing alongside these platforms. Crowdfunding platforms have recently come to prominence in funding early-stage ventures<sup>20</sup> making it easier for angels to invest and to connect with other angels but also providing major challenges for traditional funders of early stage businesses, not least because of the small amounts that individuals can invest<sup>21</sup>.

**45%**  
of angels are  
investing alongside  
crowdfunding  
platforms

*These angels are more likely to be younger than those investing alongside venture capital, loan/debt providers and co-investment funds*

In the follow-up telephone interviews, it was clear that angels had so far completed a small number of deals using equity crowdfunding platforms (median of 2 deals), although there was considerable variation with the number of such deals completed by individual angels ranging from 1 to 30. A quarter (24%) of angels interviewed said that they used other digital platforms for investing.

Looking more closely at the different forms of co-investment we now make comparisons in terms of age, gender, sector and years of experience. Angels investing alongside crowdfunding are more likely (49%) to be younger than angels investing alongside venture capital, loan/debt providers and co-investment funds, where 33%, 35% and 30%, respectively, were under the age of 45.

Although the data indicates that there are fewer women angel investors in the UK than men, women are only marginally less likely to be represented in crowdfunding co-investments than they are in the general market. Crowdfunding may be providing female angels with greater opportunity for investing than other traditional sources. There are even smaller shares of female angels investing alongside VC (6%) and loan/debt (2%) than male angels, although 10% of angels investing with co-investment funds are female.

As with angel investing generally, angels involved with crowdfunding cover a wide range of sectors. The top 5 sectors for angels investing alongside crowdfunding are: food & drink, professional services, digital media, retail and e/m-commerce and financial services. As a comparison, the top 5 sectors for all angels are: professional services, healthcare, ICT-software, food and drink, digital media. It seems that angels investing in technology-intensive sectors are more likely to co-invest with VC as might be expected, with ICT-software, healthcare and medi-tech, retail e-commerce, mobile and telecoms, and digital media each being invested in by over a third of angels co-investing with VC.

For angels investing alongside debt providers, ICT software, digital media and retail e-commerce all involved over a third of angels. For angels investing with co-investment funds, healthcare and medi-tech, ICT software, digital media, retail e-commerce, biotech and life sciences and mobile and telecoms each involved a third of angels.

Angels investing along with crowdfunding are relatively less experienced, with about 72% of angels having less than 5 years' experience (i.e., they had started investing since 2010) (Figure 14). If we look at the distribution within each experience group, less experienced angels are disproportionately more likely to invest with crowdfunding than more experienced business angels. Almost half (48.5%) of the angels with less than 5 years' experience are investing with crowdfunding (Figure 15). These findings, together with the evidence above on the age of angels using crowdfunding, suggest that younger less experienced angels have more readily become 'early adopters' of these new platforms as they have become established, taking advantage of a new route for investing and funding provision.

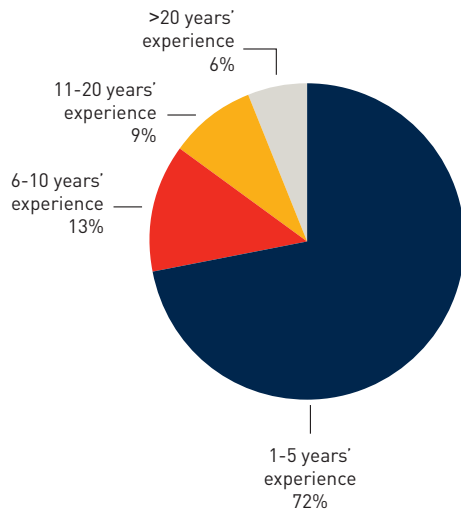


*'I take into account the amount of money that is required for the deal and rarely invest alone – ideally I like to invest with 8-12 people to spread the risk'*

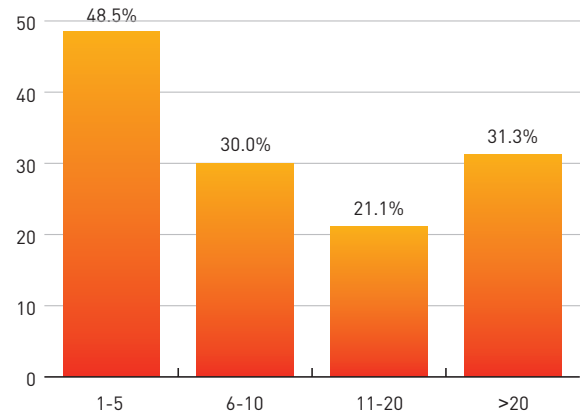
<sup>20</sup> Schwienbacher, A., Belleflamme, P., & Lambert, T. (2014). Crowdfunding: Tapping the Right Crowd. *Journal of Business Venturing*, forthcoming.  
Bruton, G., Khavul, S., Siegel, D. & Wright, M. (2015) "New Financial Alternatives in Seeding Entrepreneurship: Microfinance, Crowdfunding, and Peer-to-Peer Innovations", *Entrepreneurship Theory and Practice*, forthcoming

<sup>21</sup> Clark, J. *op. cit.*

*Figure 14: Experience (years) of Angels Investing Alongside Crowdfunding*



*Figure 15: Angels Investing Alongside Crowdfunding: Years of Experience*



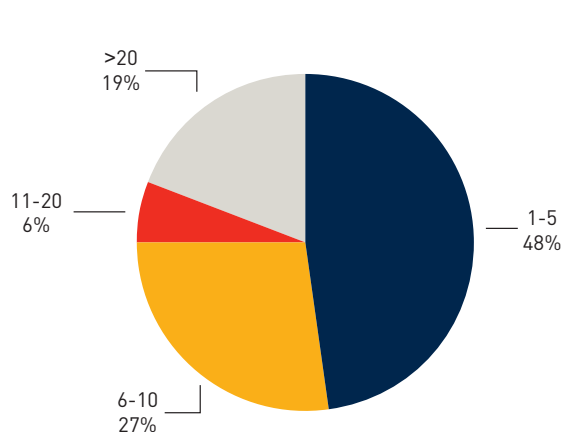
Source: ERC Nation of Angels Survey (2014)

**58%**  
of angels investing  
alongside co-  
investment funds  
have less than  
5 years' experience

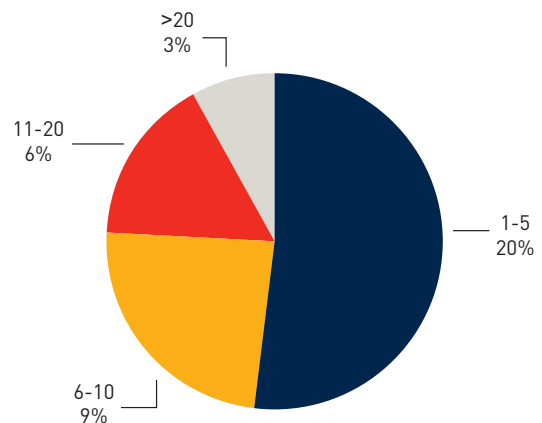
Similarly, around half of angels investing alongside VC and loan/debt finance (48% and 52%, respectively), and almost three-fifths (58%) of angels investing alongside co-investment funds have less than 5 years' experience. More experienced angels appeared to be more likely to co-invest with VC than the other finance sources (Figure 16).

*Figure 16: Angels Investing Alongside VC and Debt Finance: Years of Experience*

Angels co-invest with VC



Angels co-invest with loan/debt



Source: ERC Nation of Angels Survey (2014)

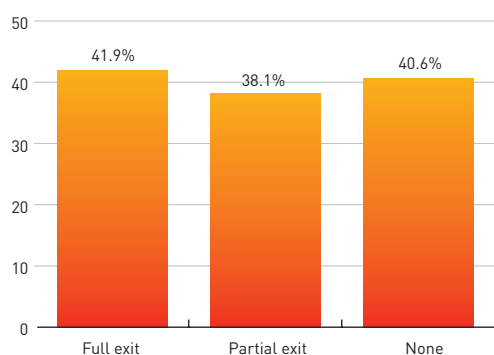
## 3. Impact of Angel Investments

There is a lack of up-to-date evidence on the impact of angels and this has previously been relatively limited<sup>22</sup>. It is now five years since the Nesta-BBAA study 'Siding with the Angels' on angel portfolios was carried out, mainly on the outcomes of investments made pre-financial crisis<sup>23</sup>. This survey provides new evidence on the impact of angels in terms of the extent to which angels have already achieved positive exits, whilst reviewing their perspective on growth and expected returns on their current investments. In addition, by adopting a broader approach to assessing the impact of angels than other studies we are able to provide insights into not only the financial impact of angels, but also the social impact of angels, and into the anticipated benefits of angel investing on the growth of recent angel-backed businesses.

### 3.1 Positive Exit

Typically angels will be seeking to generate a return on their investment through an exit via a full or partial sale to a corporate or financial buyer of some kind<sup>22</sup>. Almost 60% of the angels reported that they have experienced a positive exit since their first investment, with some angels having both full and partial exits (see Figure 17). As noted earlier the exit route and its timing was the major influence on the decision to invest in the first place.

Figure 17: Positive Exits by Angel Investor and Investment



Source: ERC Nation of Angels Survey (2014)  
Note: Respondent responses sum to greater than 100% as multiple responses were possible.

ALMOST  
**60%**  
*of angels reported that they have experienced a positive exit since their first investment*

Syndicates and networks, taken together, have a wide range of exit experience. On average they have made 3 full exits. However, some have made no exits so far; these are not only recently established syndicates and networks but also some of those, which started investing during the 2008-2014 period. Others, which have existed from as far back as 1994, have had over 20 exits during the 1994-2014 period. In addition, syndicates and networks, taken together, have also made an average of 1.5 partial exits, that is, when the angels liquidate some of their shares, but remain in the deal, with a range from 0 to 15. During the tax year 2013-14, one syndicate reported making an exit, while 5 networks had made an exit during this period.

**79%**  
*of angels reported that they re-invest their gains in further small business investment opportunities*

When angels realise their investment, an important question that arises is where they reinvest their gains. Some four-fifths (79%) of our interview respondents reported that they do indeed go on to re-invest their gains in further small business investment opportunities. Only 7% said that they did not, with the remaining 14% saying that they were not sure whether they would reinvest again in small business opportunities.

<sup>22</sup> For example, see Mason, C., & Harrison, R. (2002). "Is it Worth it? The Rates of Return from Informal Venture Capital Investments". *Journal of Business Venturing*, 17: 211-236.

<sup>23</sup> Wiltbank, *op.cit.*

<sup>24</sup> Collewaert, V. (2012) "Angel Investors' and Entrepreneurs' Intentions to Exit Their Ventures: a Conflict Perspective". *Entrepreneurship Theory and Practice*, 36(4): 753-779.

### 3.2 Angels' Perspective on their Portfolio Growth

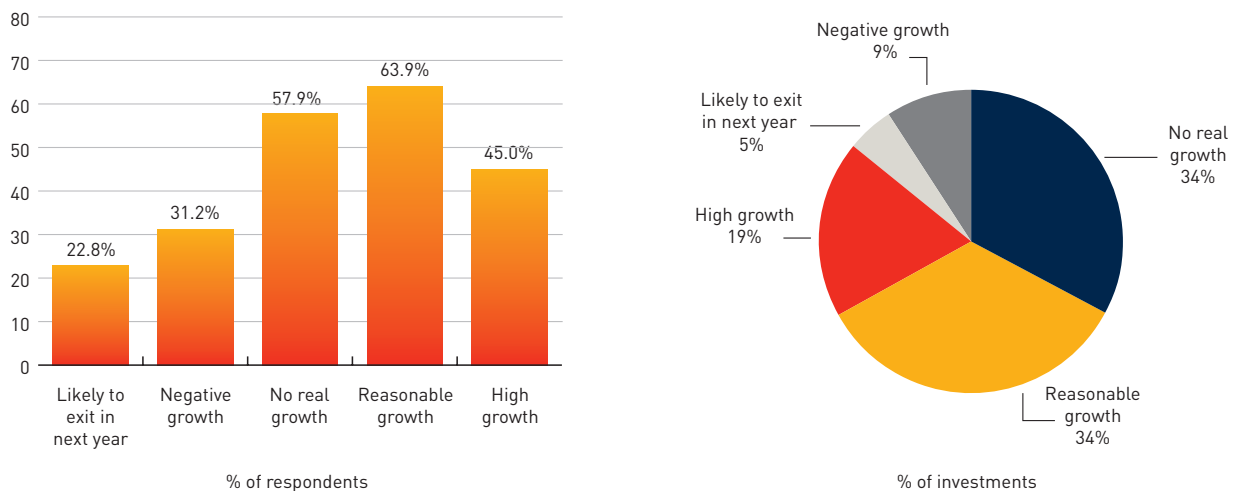
The performance of the UK angel's investment portfolios looks encouraging. Amongst their portfolio, angels may have investments experiencing different levels of growth. Some 45% of angels reported that they had investments showing high growth while approaching two thirds (63.9%) had investments showing reasonable growth (left hand chart in Figure 18). Almost a third (31.2%) of individual angel respondents reported that they had investments with negative growth.

With respect to the performance of the portfolios of investments (right hand chart in Figure 18), less than a tenth (9%) of investments were reported to be experiencing negative growth while a fifth (19%) were experiencing high growth.

**45%**

*of the angels  
reported  
investment  
high growth*

Figure 18: Growth Status of Current Investment Portfolio



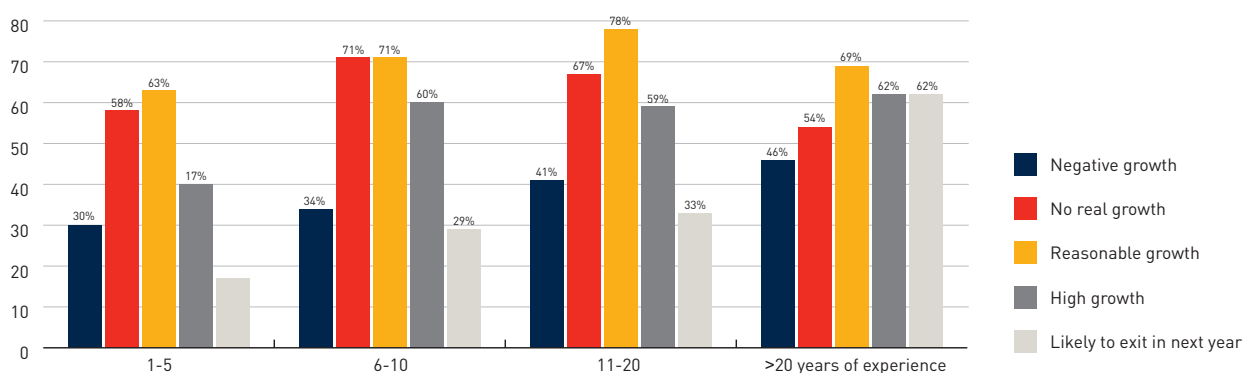
Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

Among those angels investing alongside crowdfunding, a little over three-quarters (77%) reported reasonable to high growth in their investments. The rate is slightly higher than that reported by all angels in the sample (75%). These investments are very recent however, and as yet there is no track record on crowdfunding outcomes and exits to provide benchmark comparisons.

Looking in more depth at the drivers of expected returns, having a very long experience as an angel investor (i.e. over 20 years) does appear to be associated with a substantially higher likelihood of an exit in the next year (i.e. in 2015) compared to angels with fewer years' experience (Figure 19). Correspondingly, angels with more years' experience were more likely to be involved in investments with negative growth. These findings suggested that more experienced angels may be able to identify better deals and add value to them but at the same time may also be investing in riskier deals.

Figure 19: Growth Status and Angel Experience (Years)

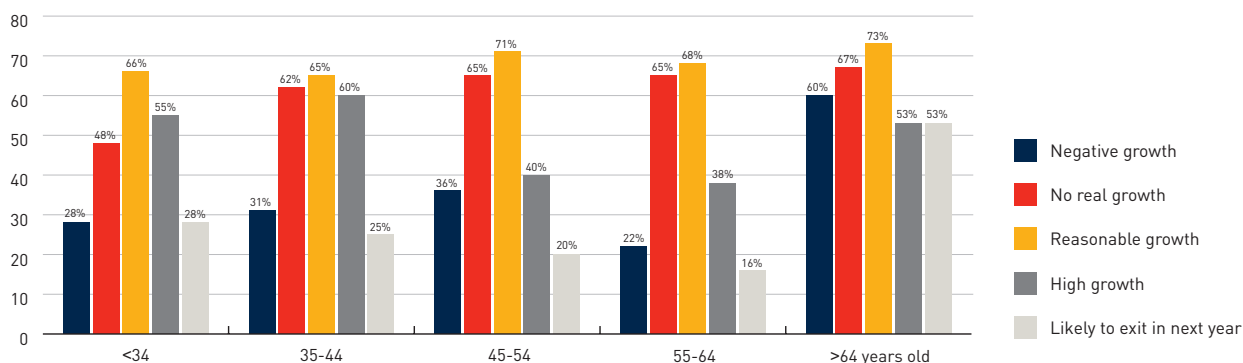


Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

The oldest age category of angels (65 years of age and above) tended to be more likely to report extremes of performance in their investments (Figure 20). This age group had the highest percentage both of investments with negative growth (60%) and of those likely to exit in the next year (53%). As for angels with longer experience, this finding suggests that older angels (who are more likely to be more experienced) may be better able to identify and add value to deals but also invest in riskier deals with potentially higher pay-offs. For angels in the 35-44 years of age category, 62% of them reported high growth, considerably higher than for 45-64 year old angels where less than 40% of angels have invested in deals with high growth status. Younger angels may be more likely to invest in high growth ICT software related sectors.

Figure 20: Growth Status and Age of Angel



Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

Figure 21 shows the growth status of angel investments by gender. The profiles between men and women are broadly similar except in one important respect. Women are less likely than men to report 'no real growth' in their investments, which may indicate a more discerning selection of growth prospects in the first place or a conscious decision to exclude the more riskier investments.

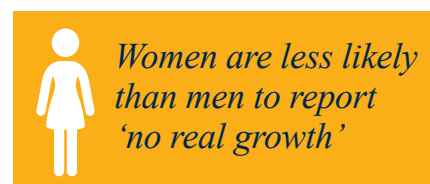
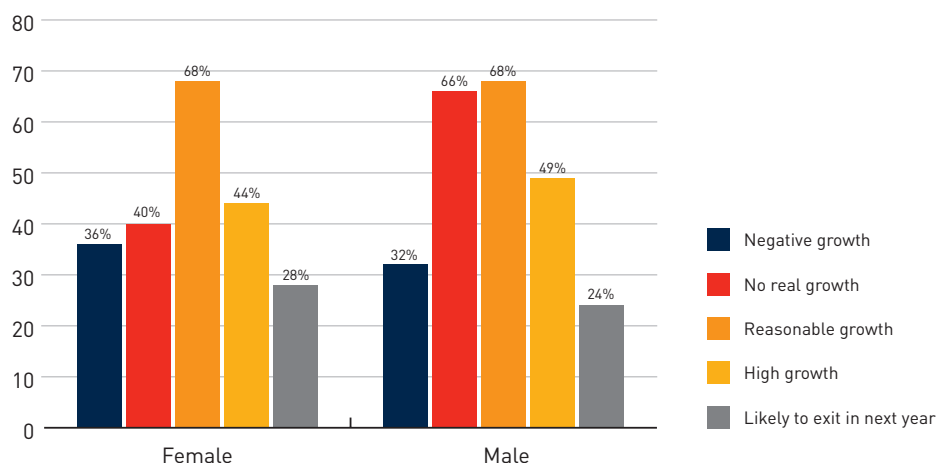


Figure 21: Growth Status and Gender of Angel (% of Responses)

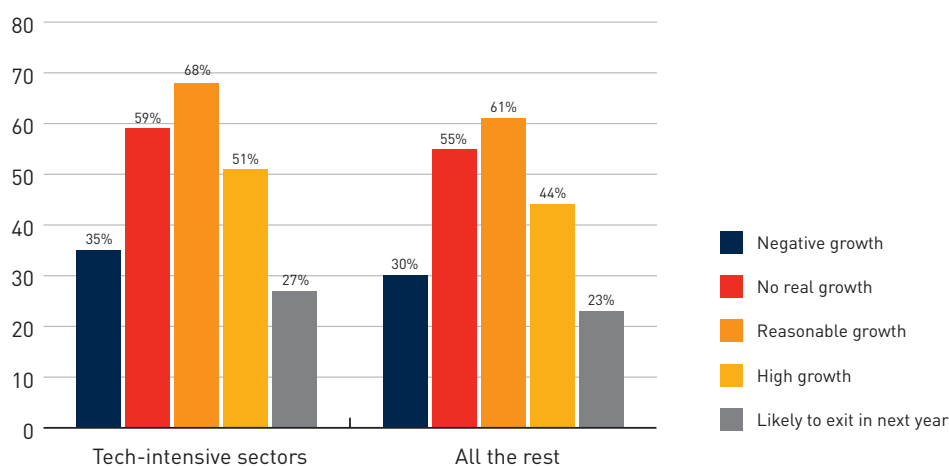


Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

As angels invest across a wide range of sectors, we initially condense analysis of industries to a comparison between technology-intensive sectors and the rest. The overall pattern of performance of angels' investments was rather similar between the technology-intensive sectors and the rest of the sectors. However, technology-intensive investments were slightly more likely to have higher and reasonable growth, and lower chances to experience no real growth. Technology-intensive investments did have a slightly higher chance of experiencing negative growth compared with investments in other sectors (Figures 22a and 22b). These contrasting findings are not too surprising as technology sectors are more likely to be higher risk-higher return than other sectors.

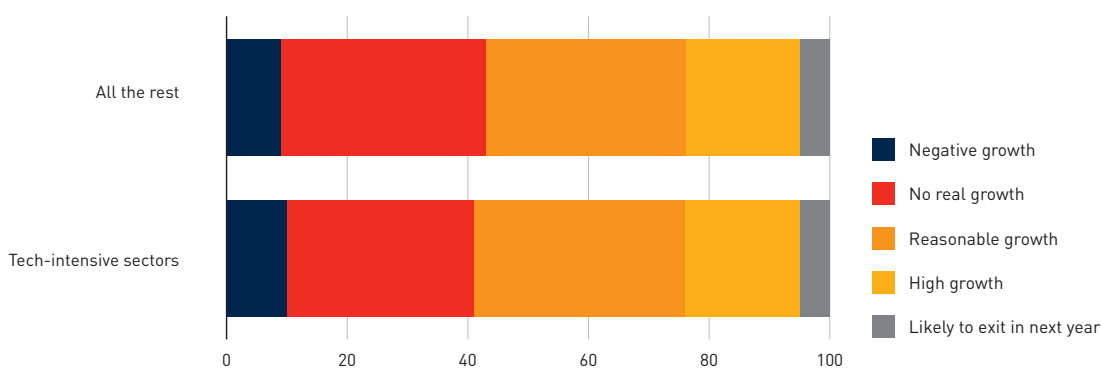
*Figure 22a: Growth Status and Sector (% of Responses)*



Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

*Figure 22b: Growth Status and Sector (% of Investments)*



Source: ERC Nation of Angels Survey (2014)

Looking at a more fine-grained breakdown, the 5 sectors with the highest share of investments reported to be likely to exit in the next year are other, consumer electronics, transport & logistics, ICT - hardware and services, and other creative. The sectors reported to have more than a fifth of investments experiencing high growth were financial technology, financial services, gaming, other creative, consumer electronics, mobile and telecoms, and advanced manufacturing and new materials. The sectors with the highest share of negative growth were security, other, ICT software, gaming and healthcare and medi-tech (see Appendix).



### 3.3 Returns on Investments

In addition to estimates on expected growth outcomes of their portfolio, we also assessed perspectives on estimated returns. As a forward looking indicator of the impact of angel investing, respondents estimated the expected returns on the investments in their current portfolio that they had held since before January 2012 (Figure 23)<sup>25</sup>. Returns were defined as the multiple of the original investment made. If an investment only returned the amount of the initial investment, this would be a return of 1 times the initial investment. The data is presented from two perspectives. First, we present the percentage of angels reporting expected returns on their investments across a range of categories and then second, we look at the expected returns for the total number of investments held by all the angels in the survey.

Individual angel respondents reported that they expected that almost a quarter (24%) of investments would not return the initial money invested (i.e. a return of less than 1 times the original investment). Over two-fifths (44%) of investments were expected to generate a return in the range 1-5 times the initial investment. About a fifth of investments (19%) were expected to produce a return of 6-10 times. The remaining 13% of investments were expected to generate returns in excess of 10 times the original investment.

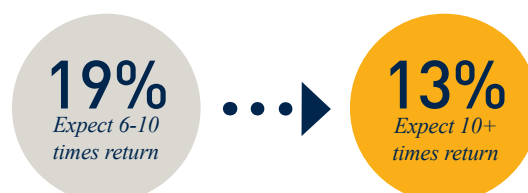
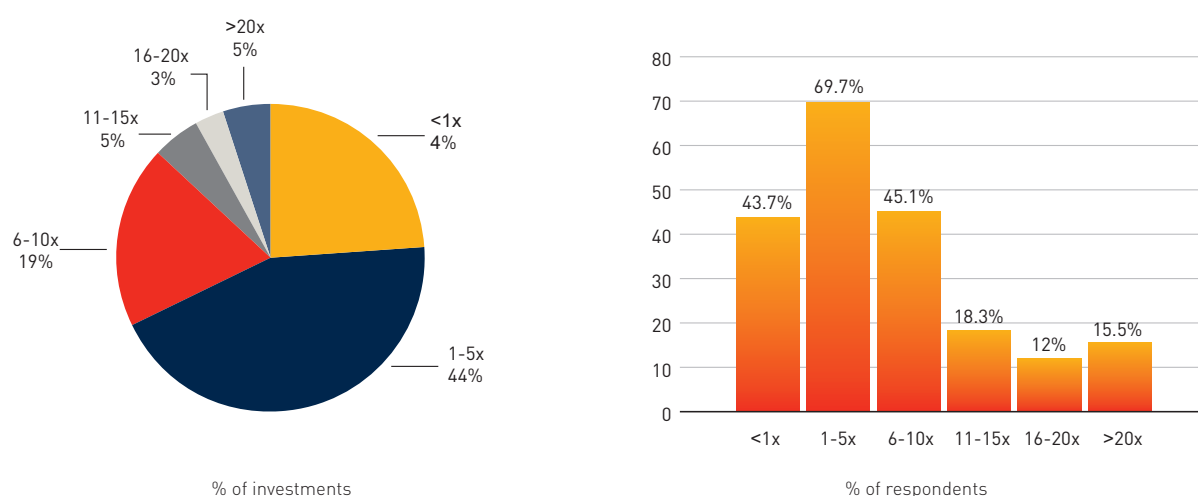


Figure 23: Expected Returns on Investments made since January 2012.



Source: ERC Nation of Angels Survey (2014)

Note: Respondent responses sum to greater than 100% as multiple responses were possible.

Although these figures relate to expected returns that may not be realised, they do indicate some marked differences with earlier studies of angel returns. Our findings suggest a lower rate of low returns and a higher rate of higher returns than found in earlier studies reporting actual returns. One study published in 2002 noted that 34% of investments recorded a total loss<sup>26</sup>, while a 2009 study found that 56% of angel investments did not return the initial money invested<sup>27</sup>. Correspondingly, the 2009 study found that 35% of investments generated a return of 1-5 times the original investment and 9% generated over 10 times the original investment.

<sup>25</sup> While there is some debate about the returns sought by business angels compared to venture capital firms, recent suggestions are that they are comparable (see DeGennaro, R.P., & Dwyer, G.P. (2009). Expected returns to angel investors. Working Paper, Federal Reserve Bank of Atlanta).

<sup>26</sup> These findings suggest a lower rate of low returns than reported in Mason, C. & Harrison, R. T. (2002) "Is it Worth it? The Rates of Return From Informal Venture Capital Investments". *Journal of Business Venturing*, 17, 211-236.

<sup>27</sup> Wiltbank, *op. cit.*

Turning to the individual angel perspective rather than the investments themselves, individual angels expected a wide range of returns on their current portfolio of investments. Almost 7 out of 10 angels (69.7%) had investments that they expected would generate a return of 1-5 times the original investment, while some 45% anticipated that some investments would generate a return of 6-10 times their original investment (Figure 23). Of note, a significant minority of individual angels had investments that were expected to yield a 20-fold return. Nevertheless, over 4 out of 10 individual angels (43.7%) had investments that were anticipated not to return their initial investment, that is, would generate less than 1 times the initial amount invested.

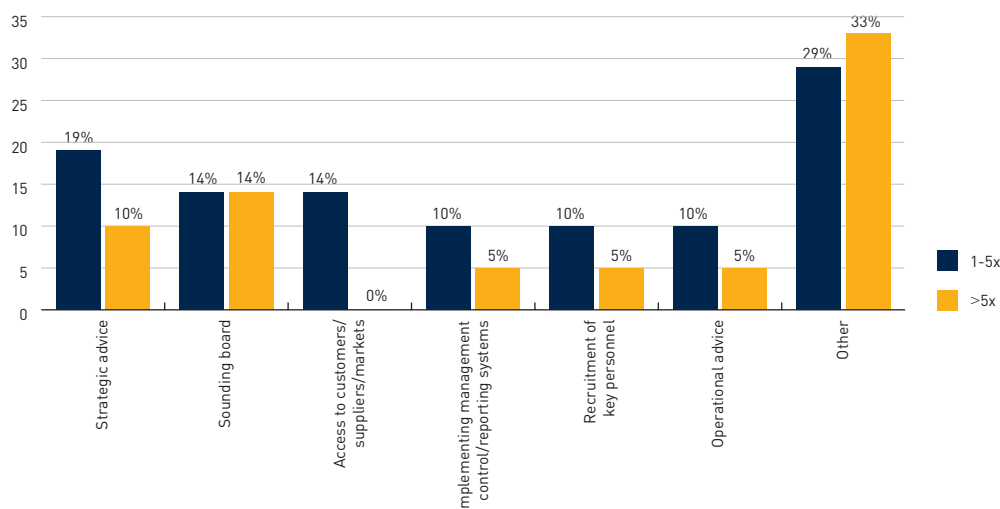
We explored the impact of angel investments in more depth by asking angels in the telephone follow-up survey about the drivers behind a particular deal they could identify (anonymously) as successful and one that they could identify (again anonymously) as unsuccessful. An important context for this discussion is the rationale for an angel to invest in the first place. Although angels have various influences on their decision to invest in a deal, our follow-up telephone interviews with a smaller number of angels clearly indicate that the most important factor was that the exit route and timing were clearly defined, followed by being able to agree a realistic valuation with the entrepreneur as well as being able to contribute their skills and experience to the business.

Almost a half (48%) of successful deals these angels had ever been involved in had generated a return. The angels interviewed expressed various reasons why they considered the deal to be a success. Accordingly, the anticipated returns of these deals identified as successful varied considerably. Over two-fifths (44%) considered that a return of 1-5 times their initial investment would be a successful deal, with a little over a quarter (28%) indicating a 6-10 times return on initial investment. In almost two-thirds of cases (65%) angels investing in successful deals invested in a syndicate and in less than a third (31%) of cases they were the lead investor.

Where angels indicated that they were the lead investor the expected return was likely to be higher. In two-thirds (67%) of cases where the angel was the lead investor the expected return was over 5 times the original investment, compared with 56% for non-lead investor cases. In over three-fifths (62%) of cases, angels held a board position in successful deals.

Angels generally spent relatively little time with their investments, with about two-thirds (65%) spending less than 1 day a month. However, a small proportion of angels were quite intensively involved, spending 6-10 days a month with their portfolio companies – these were generally companies with a high expected return<sup>28</sup>. Our follow-up telephone interviews also indicated a much lower incidence of types of involvement in portfolio companies than generally reported in prior research. This may be because involvement is mainly through the lead investor rather than all investors in a company<sup>29</sup>. What is notable is that angels were more involved in roles in those portfolio companies with lower expected returns that is, between 1 and 5 times the initial investment (Figure 24).

Figure 24: Role of Angels in their Investments compared with Expected Returns



Source: ERC Nation of Angels Survey – Telephone Follow-up (2014)

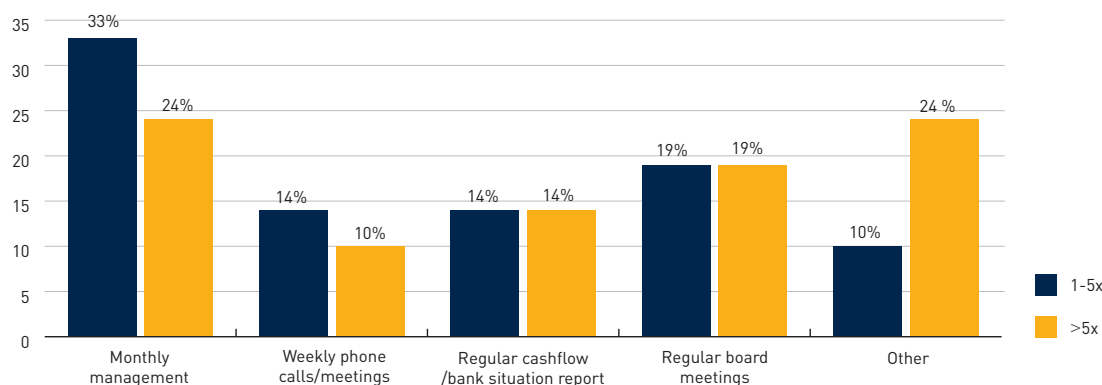
<sup>28</sup> This is consistent with Wiltbank's finding of higher returns from more frequent involvement (Wiltbank, *op. cit.*).

<sup>29</sup> This is also the case in venture capital investments where syndicate leads are the most closely involved. [Wright, M. & Lockett, A. (2003) "Structure and Management of Alliances: Syndication of Venture capital investments", *Journal of Management Studies*, 40(8): 2073-2104.

Angels in the follow-up telephone survey indicated that they used a range of mechanisms to incentivise the management team, beyond equity stakes, but in general their incidence was quite low. However, it is notable that interview respondents reported a higher incidence of share options in deals with lower expected returns (i.e. between 1 and 5 times the initial investment).

Angels use a range of reporting and feedback mechanisms either directly or through the lead angel, however their incidence generally seems quite low (Figure 25). There was a greater incidence of the use of monthly management accounts and weekly contacts in successful deals with lower returns than in those with higher returns, suggesting a need for more information and involvement when a deal is doing less well.

*Figure 25: Reporting and Feedback Mechanisms from Investments compared with Expected Returns*



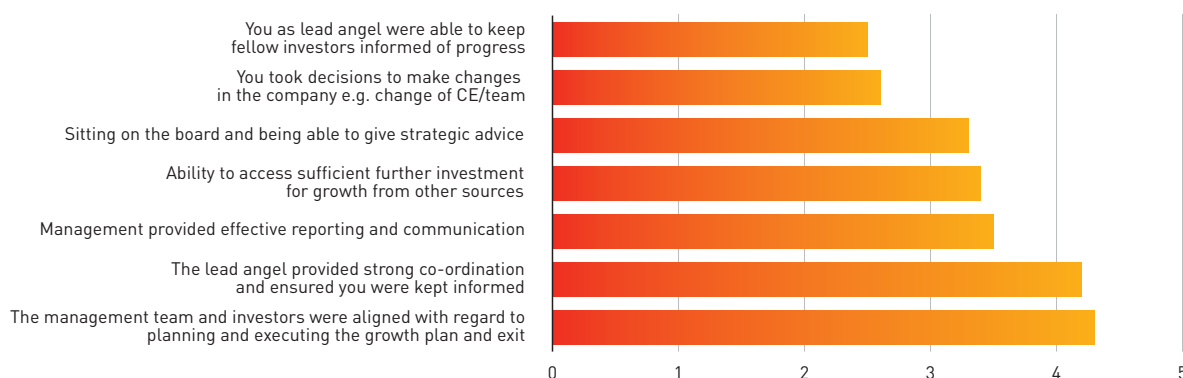
Source: ERC Nation of Angels Survey – Telephone Follow-up (2014)

We asked angels in the follow-up telephone survey to score to what extent a range of factors explained why a particular deal was successful (Figure 26). The most important reason was that the management team and investors were aligned with regard to planning and executing the growth plan and exit. For those cases where a syndicate of investors was involved, syndicate members considered that strong coordination and communication by the lead investor was very important, with reporting and communication by the management team being the third most important factor. These factors scored somewhat more highly than, for example, having a presence on the board and provide more detailed insight into the effectiveness of different types of involvement by angels than previous studies<sup>30</sup>. Decisions to change management were one of the least important factors, indicating the importance of good management from the start.



*“For me, the expertise of the team is crucial and we look at the team as a unit not just the CEO. We look at how they have worked together and for how long and then pose the question – if things get tough, will they stay close?”*

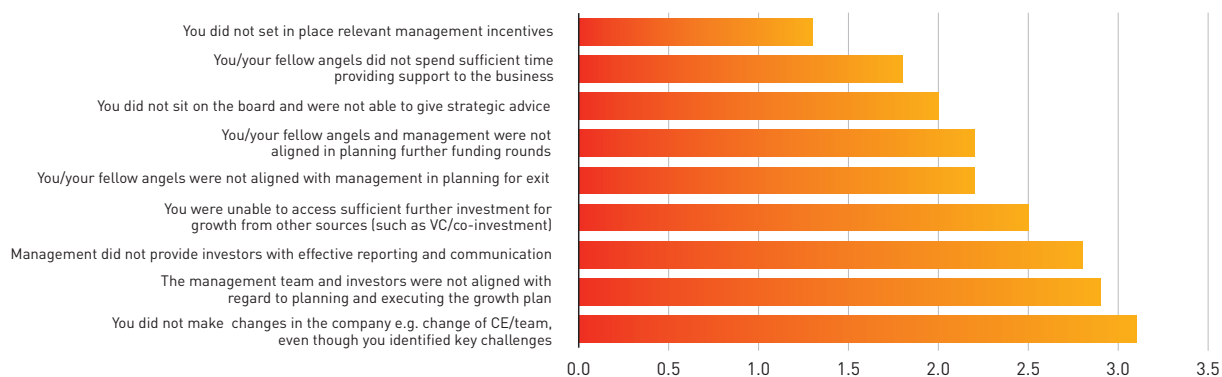
<sup>30</sup> Wiltbank, *op. cit.* finds a positive relationship between board presence and exit returns.

*Figure 26: Factors Related to a 'Successful' Deal*

Scores: Answers were rated on a scale of 1 to 5, where 1 means "it was not important at all", and 5 means "it was very important"

Source: ERC Nation of Angels Survey – Telephone Follow-up (2014)

Nearly two-thirds of angels (62%) contacted in follow-up telephone interviews were willing to comment on why they believed a particular deal had been unsuccessful<sup>31</sup>. We asked angels to score to what extent a range of factors were the reasons why a particular deal had not realised its potential (Figure 27). Clearly, a deal was unsuccessful for multiple reasons, but the 3 most important reasons related to not making changes to the management team even though key challenges had been identified, lack of alignment between the angel investors and the management team with regard to planning and executing a growth plan, and lack of effective reporting and communication by management to angel investors. These factors were to a large extent the corollary of the reasons for why a deal was successful. Not being on the board was not seen as a reason why a deal was unsuccessful.

*Figure 27: Factors Related to an 'Unsuccessful' Deal*

Scores: Answers were rated on a scale of 1 to 5, where 1 means it was not a reason at all, and 5 means it very much was a reason

Source: ERC Nation of Angels Survey – Telephone Follow-up (2014)

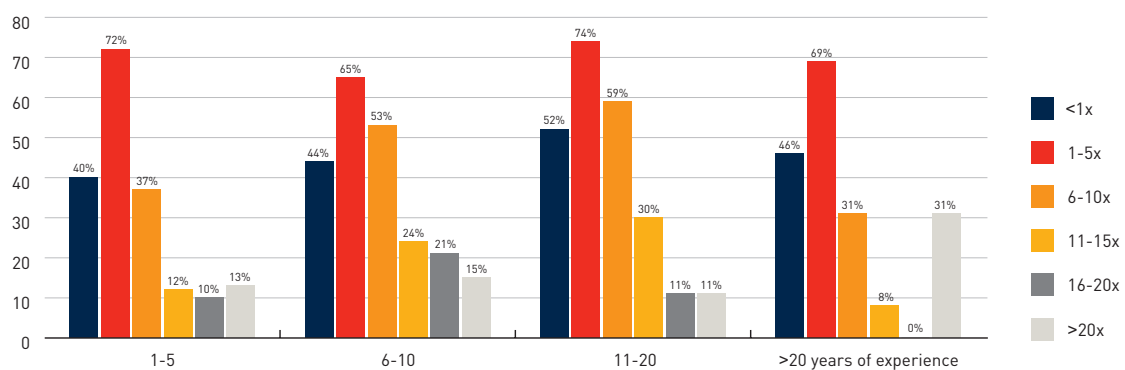
<sup>31</sup> 29% claimed that they had not had an unsuccessful deal, while the remainder declined to comment.

### 3.4 Angel Experience and Expected Returns

The Nation of Angels Survey enabled us to extend previous studies' examination of the drivers of expected returns. The number of years' experience as an angel has a mixed effect on expected returns (Figures 28a and 28b). Having a very long experience as an angel investor (over 20 years) does appear to be associated with a substantially higher expectation of a very high return from their current portfolio (over 20 times return on initial investment). This may indicate that very experienced angels are able to access better deals or are better placed to add value to investee companies. However, there was a very low proportion of the most experienced angels expecting to return between 6 and 20 times their initial investment.

The combined share of 72% of investments of the most experienced angels generating returns of 5 times initial investment or less is very close to the 71% total for this level of returns by the most inexperienced angels. In comparison, angels with 6-10 years' experience report that 35% of their investments are expected to generate a return of at least 6 times the initial investment.

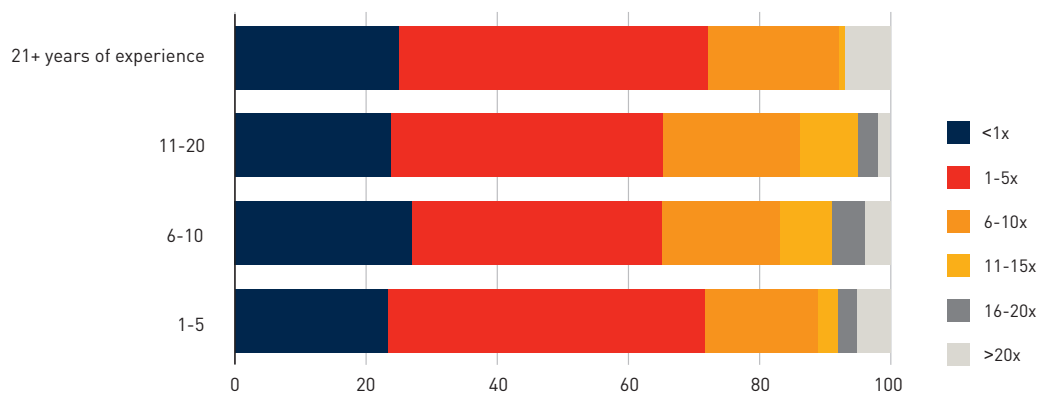
Figure 28a: Expected Returns on Investments made since January 2012 by Angel Experience (Years): % of Responses



Source: ERC Nation of Angels Survey (2014)

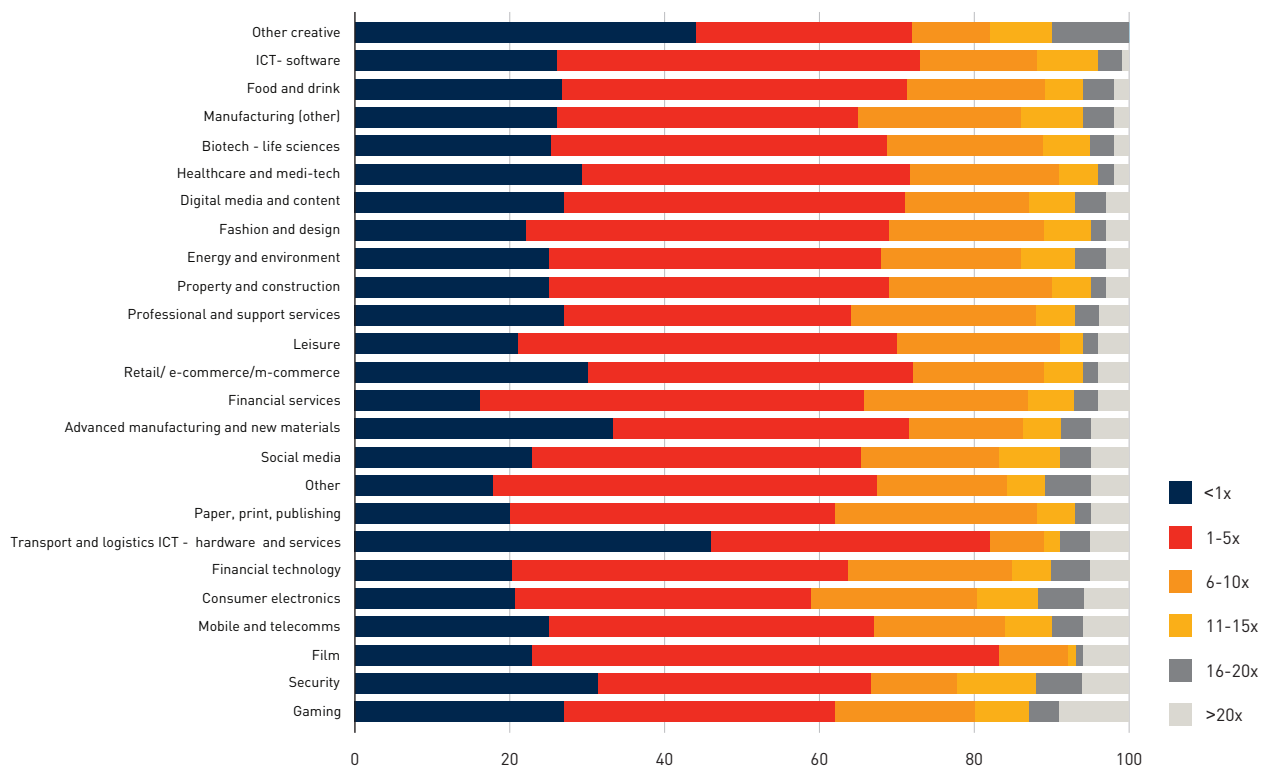
Note: respondent responses sum to greater than 100% as multiple responses were possible.

Figure 28b: Expected Returns on Investments made since January 2012 by Angel Experience (Years): % of Investments



Source: ERC Nation of Angels Survey (2014)

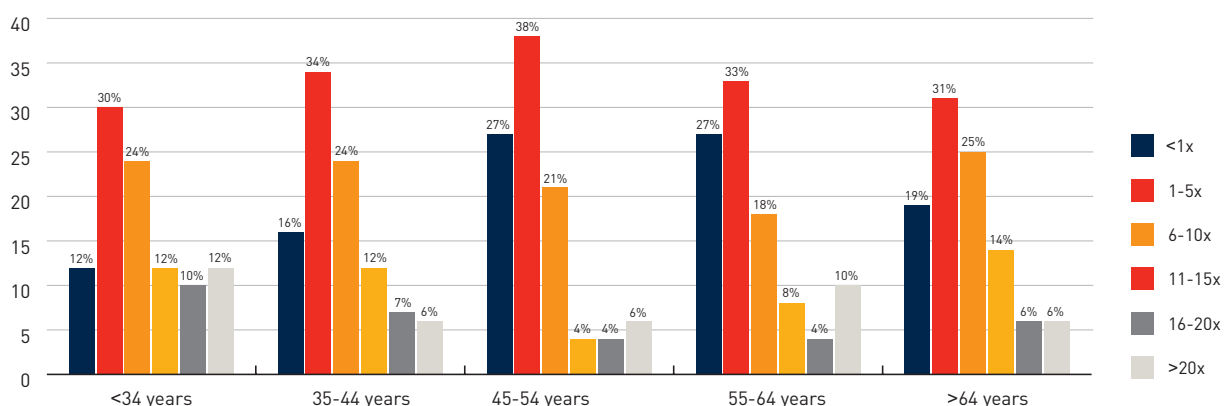
The sectors with the highest percentage of expectations of a very high return (greater than 20 times the initial investment) are gaming, security, films, mobile and telecoms, and consumer electronics (Figure 29). In contrast, the sectors with the highest percentage of expectations that investments would not return their initial investment were transport and logistics ICT – hardware and services, other creative and advanced manufacturing and new materials.

*Figure 29: Expected Returns on Investments made since January 2012 by Sector*

Source: ERC Nation of Angels Survey (2014)

Between these two extremes, film, leisure, financial services, and ICT software were more likely to generate modest returns in the 1-5 times initial investment range. The paper, printing and publishing, professional and support services, and consumer electronics sectors stood out in the 6-10 times initial investment range. Combining the 10-15 times and 15-20 times ranges because of the small numbers, other creative, security and consumer electronics were the highest performing sectors.

With respect to age, mid-career angels (from 45-64 years of age) were more likely than other age groups to have expectations that investments would not return their initial investment (Figure 30).

*Figure 30: Expected Returns on Investments made since January 2012 by Age of Angel*

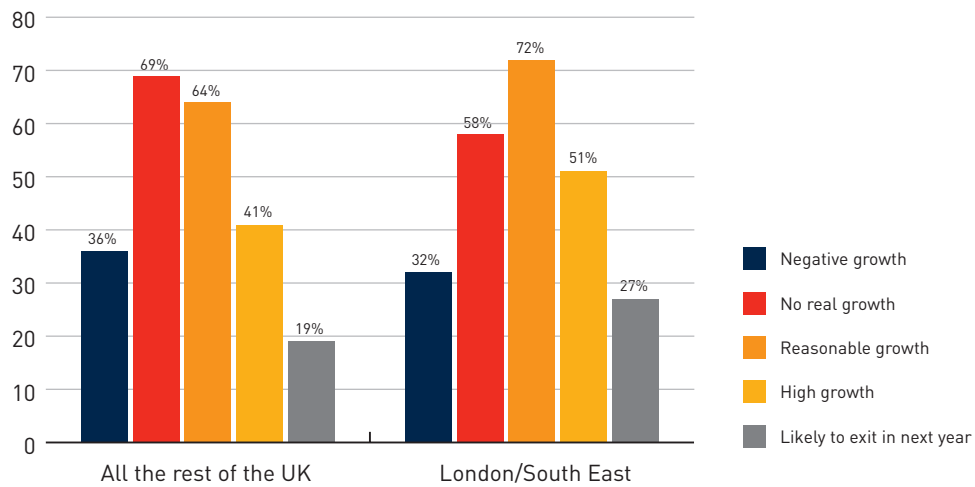
Source: ERC Nation of Angels Survey (2014)

Note: respondent responses sum to greater than 100% as multiple responses were possible

### 3.5 Regional Differences in Performance of Investments

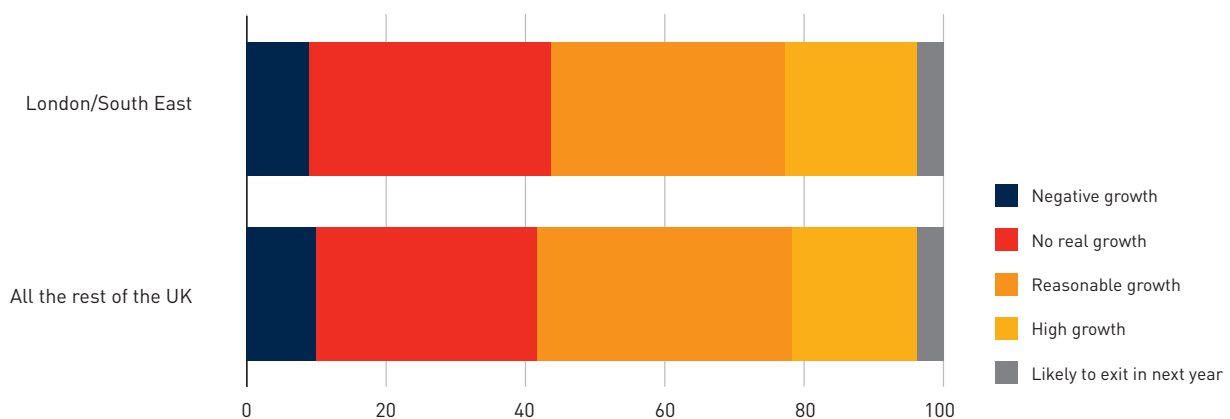
The growth of angel investments looks rather similar between London and the South East and the rest of the UK (Figures 31a and 31b). A slightly higher percentage of investments in London and the South East region experienced high growth (19%) and no real growth (35%) compared with the rest of the UK (18% and 32%, respectively).

Figure 31a: Growth Status by Region (% of Responses)



Source: ERC Nation of Angels Survey (2014)

Figure 31b: Growth Status by Region (% of Investments)



The share of investments with the lowest expected returns (Figures 32a and 32b), that is, likely not to return the original investment, was somewhat higher in the rest of the UK [31%] compared to London and the South East [22%].

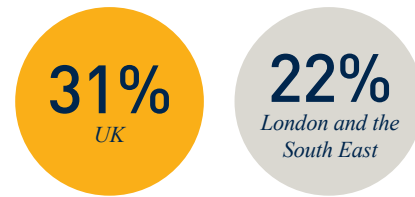
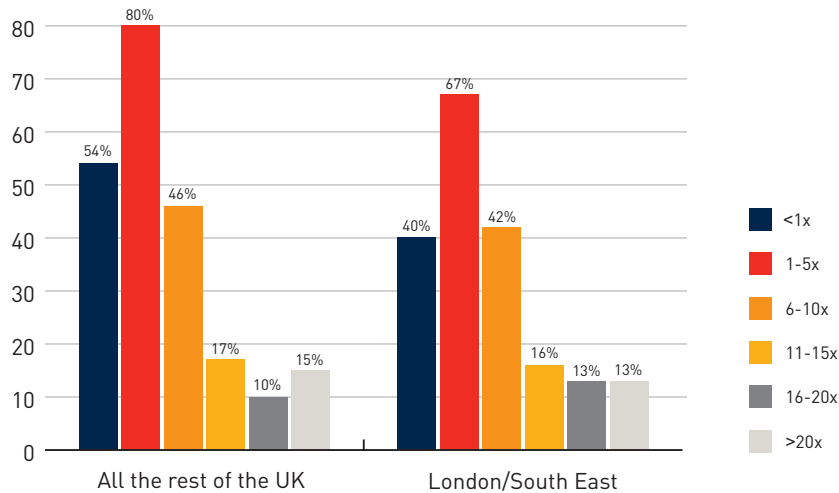


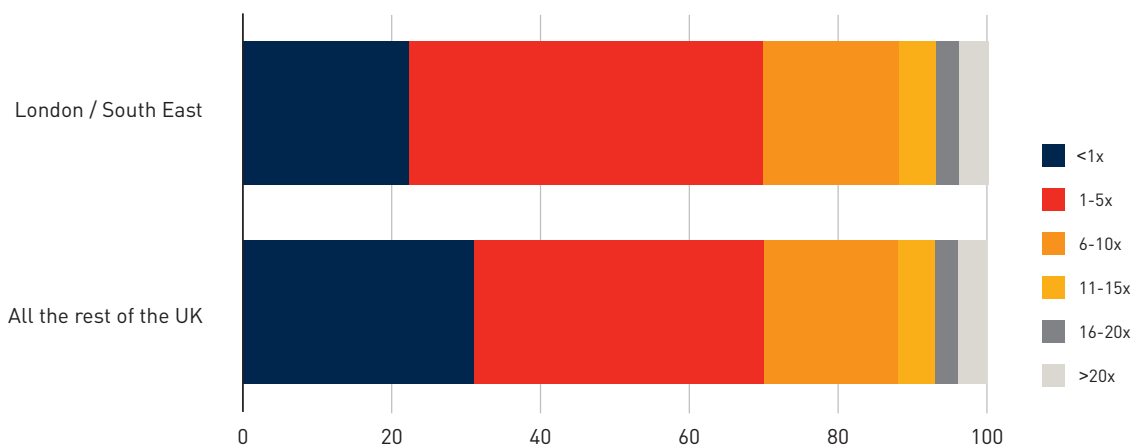
Figure 32a: Expected Returns on Investments made since January 2012 by Region (% of Responses)



Source: ERC Nation of Angels Survey (2014)

Note: respondent responses sum to greater than 100% as multiple responses were possible.

Figure 32b: Expected Returns on Investments made since January 2012 by Region (% of Investments)



Source: ERC Nation of Angels Survey (2014)



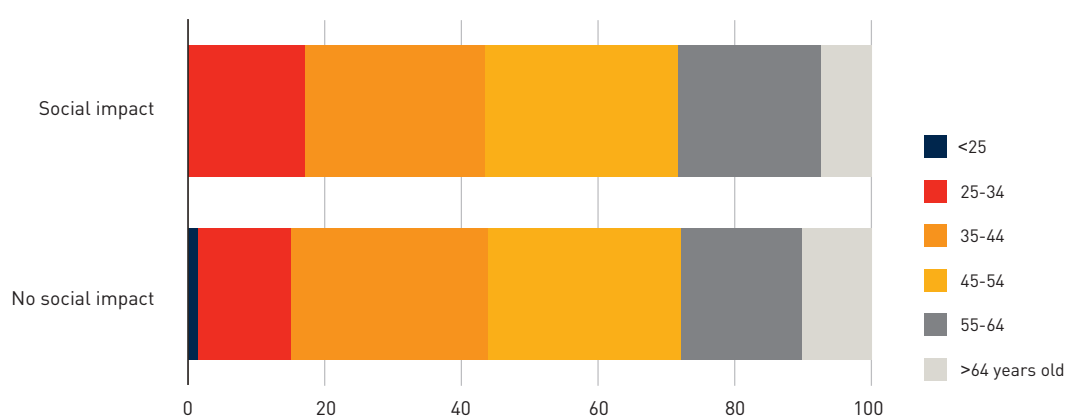
### 3.6 Investment in Social Impact Businesses

Recent growing interest in social entrepreneurship suggests a potentially significant role for business angels given that some business angels do not invest for purely financial returns. We define angel investments having a social impact as any kind of activity that has a particularly social, environmental or community objective. These kinds of activities can occur in any sector and might include, for example, providing services or training to socially deprived or disabled persons, using profits for socially-oriented purposes, setting up a community recycling initiative or organising self-help group for community action.

About 1 in 4 angels (25.7%) have invested in ventures that have a social impact. The social impact investments account for almost 23.8% of total investment deals of the angels in the survey. Delving more deeply into the relative importance of social impact investing for those angels who make these kinds of investments, we find from our follow-up telephone interviews that, generally, they form a small share of their total annual investments with a median of 10%, although there is some variation around this level.

Perhaps surprisingly, there was little evidence that social impact investments are more likely to be undertaken by younger angels (Figure 33). Over a sixth (17%) of angels making social impact investments were aged 34 years or under, compared with almost a sixth (15%) of angels who had not made a social impact investment.

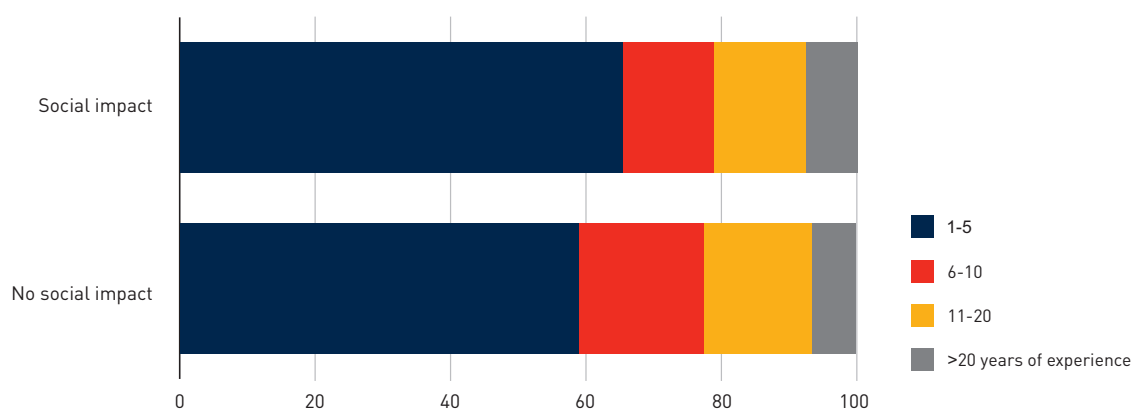
Figure 33: Social Impact Investments by Age of Angel



Source: ERC Nation of Angels Survey (2014)

However, the data indicates that social impact investments may be more likely to be undertaken by less experienced angels (Figure 34). Almost two-thirds (65.4%) of angels making social impact investments had been 1 and 5 years' experience as an angel, compared with nearly 6 in 10 (58.9%) of angels who had not made a social impact investment.

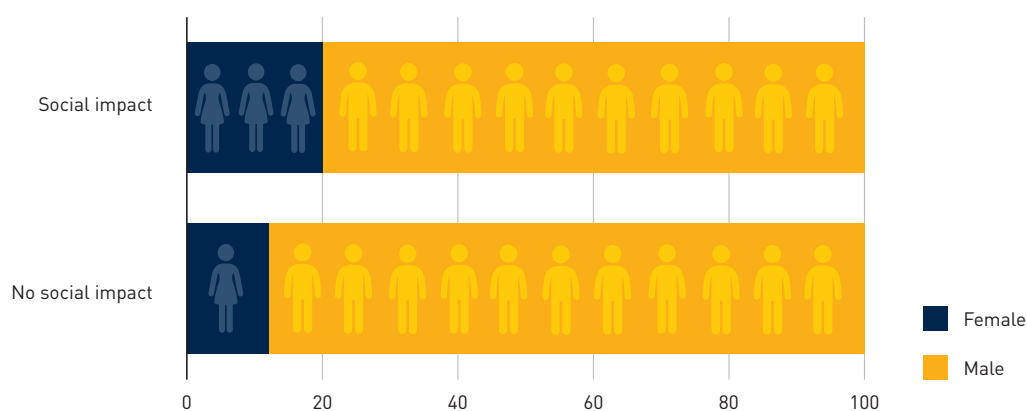
Figure 34: Social Impact Investments by Angel Experience (Years)



Source: ERC Nation of Angels Survey (2014)

The data also shows that social impact investments may be more likely to be undertaken by female angels (Figure 35). A fifth (20%) of angels making social impact investments were women, compared with an eighth (12%) of angels who had not made a social impact investment.

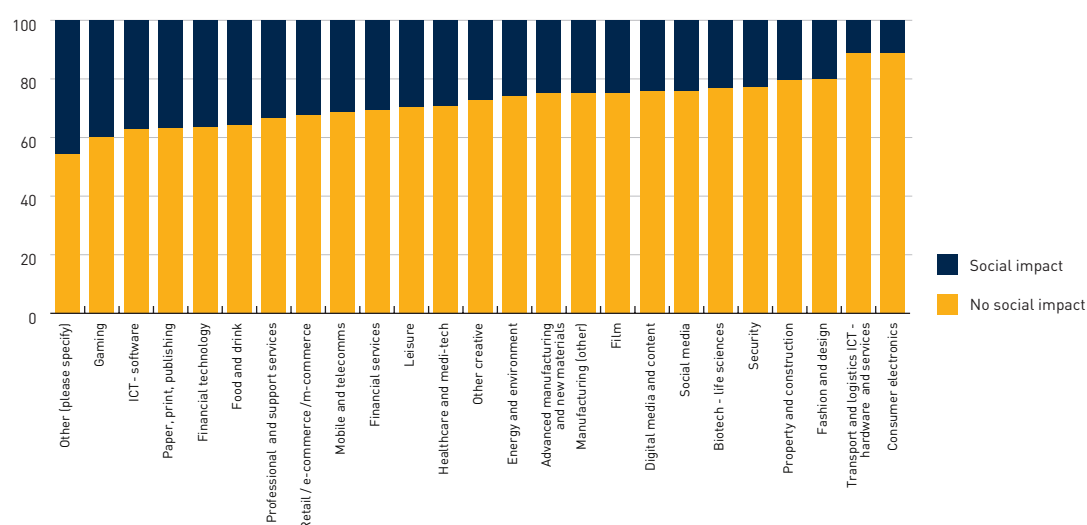
Figure 35: Social Impact Investments by Gender



Source: ERC Nation of Angels Survey (2014)

The main sectors in terms of the highest share of angels making social impact investments, besides the 'other' category were gaming, ICT-software, paper, printing & publishing, financial technology and food and drink (Figure 36). The sectors with the lowest share of social impact investments are consumer electronics, transport and logistics ICT – hardware, fashion and design, property and construction, and security.

Figure 36: Social Impact Investments by Sector



Source: ERC Nation of Angels Survey (2014)

<sup>33</sup> The "Other" sector is quite diverse including: agricultural engineering & automotive technology, e-learning, PAAS, privacy, collaborative consumption, wine production, sport, TV / programme idea, education, crowdcube venture fund, music/intellectual property, social enterprise, marketing, mining, childcare, aquaculture, horticulture, kitchenware, music, roundtable, agri-tech.

## 4. Summary and Conclusions

### 4.1 Introduction

The rationale for this study was the lack of recent systematic evidence on the profile and approach of business angels, their investing activities and notably their impact on the growth and performance of the businesses in which they invest. This study set out to fill this gap by providing new findings from the largest survey of business angels in the UK and the impact of their investment activities to date.

The study comprised responses from 403 individual angels who responded to the online Nation of Angels Survey undertaken in the period June to October 2014, accompanied by detailed follow-up telephone interviews with 42 individual angels who were prepared to share more details of their investment behaviour, and an online survey of 28 angel syndicate and network leads across the UK.

### 4.2 Summary of Findings

- ▀ The characteristics of individual angels have changed with more women becoming involved (14% of all angels) and a rise in the number of younger individuals (16% are less than 35 years of age). As a consequence, UK angels have fewer years' experience than observed in previous studies of the UK business angel marketplace.
- ▀ Alongside this changing profile of angels there is evidence to show that individual angels are making more investments than ever before. The median number of investments is 5 compared to 2.5 reported by an earlier study published in 2009.
- ▀ Previous studies have indicated that angels tend to invest in businesses close to their home base. The evidence presented here indicates a much higher incidence of angels investing beyond their home region (58.4%), as well as outside the UK (22.3%), and, therefore, geographical distance would seem to be becoming less important in the investment decision.
- ▀ One possible explanation of this trend is the increase in angels investing alongside other funding vehicles and especially crowdfunding platforms. The observed growth in the use of these digital platforms by individual angels is a major development in the UK business angel marketplace.
- ▀ Government has sought to provide tax incentives for angel investment through the Enterprise Investment Scheme (EIS), for individual investors in higher-risk small companies, and the Seed Enterprise Investment Scheme (SEIS), for individual investors in small, early stage companies. Almost 9 out of 10 angel investors have invested either through the EIS or the SEIS and around 80% of the total investments in angels' investment portfolios were made under these schemes with over half (55%) investing in EIS and a quarter (24%) investing in SEIS. The increased awareness and use of these schemes in recent years might suggest a changing attitude to risk and it has been the existence and extension of these schemes that have encouraged angels to keep investing in turbulent economic conditions.
- ▀ Angels play a key role in achieving the successful growth and outcome for their investments by aligning the management team and investors with regard to planning, executing the growth plan and exit. For those cases where a syndicate of investors was involved, syndicate members considered that strong coordination and communication by the lead investor was very important for a successful outcome. These factors were more important than having a presence on the Board.
- ▀ Angels reported a lower rate of low returns and a higher rate of expected higher returns than in previous research which shows considerable confidence in the market. Over 4 out of 10 investments were expected to generate a return in the range 1-5x the initial investment. A further 2 out of 10 investments were expected to produce a return of 6-10x the initial investment and 1 out of 10 were expected to achieve returns in excess of 10x their initial investment. This is a higher rate of expected higher returns than found in earlier studies.
- ▀ Some 45% of angels reported that their investee businesses showed 'high growth' while approaching two-thirds (63.9%) had investments showing 'reasonable growth'. This pattern is stronger for younger angels (especially those aged 35-44 years) who have a tendency to invest in ICT software sectors. Women are less likely than men to report 'no real growth' in their investments which may indicate a more discerning selection of growth prospects in the first place or a conscious decision to exclude the more riskier deals. Irrespective of the reason, it is clear that women display greater confidence in the performance of their investee businesses post investment.
- ▀ Recent growing interest in social entrepreneurship suggests a potentially significant role for business angels in businesses focussed on social impact as a primary objective. We define angel investments having a social impact as any kind of activity that has a particularly social, environmental or community objective. About 1 in 4 angels (25.7%) have invested in ventures that have a social impact. Social impact investments account for almost 23.8% of total investment deals of the angels in the survey. It may well be the case that the rise in younger and less experienced angels as well as more women angels has led to an increase in social impact investments.

### 4.3 Conclusions

The overriding conclusion from this study is that the UK business angel market is changing with a more diverse population of angel investors in operation than ever before. We are now able to see how the changing nature of the population of angels is impacting upon the type of investments they make, who they invest with and where their deals are located.

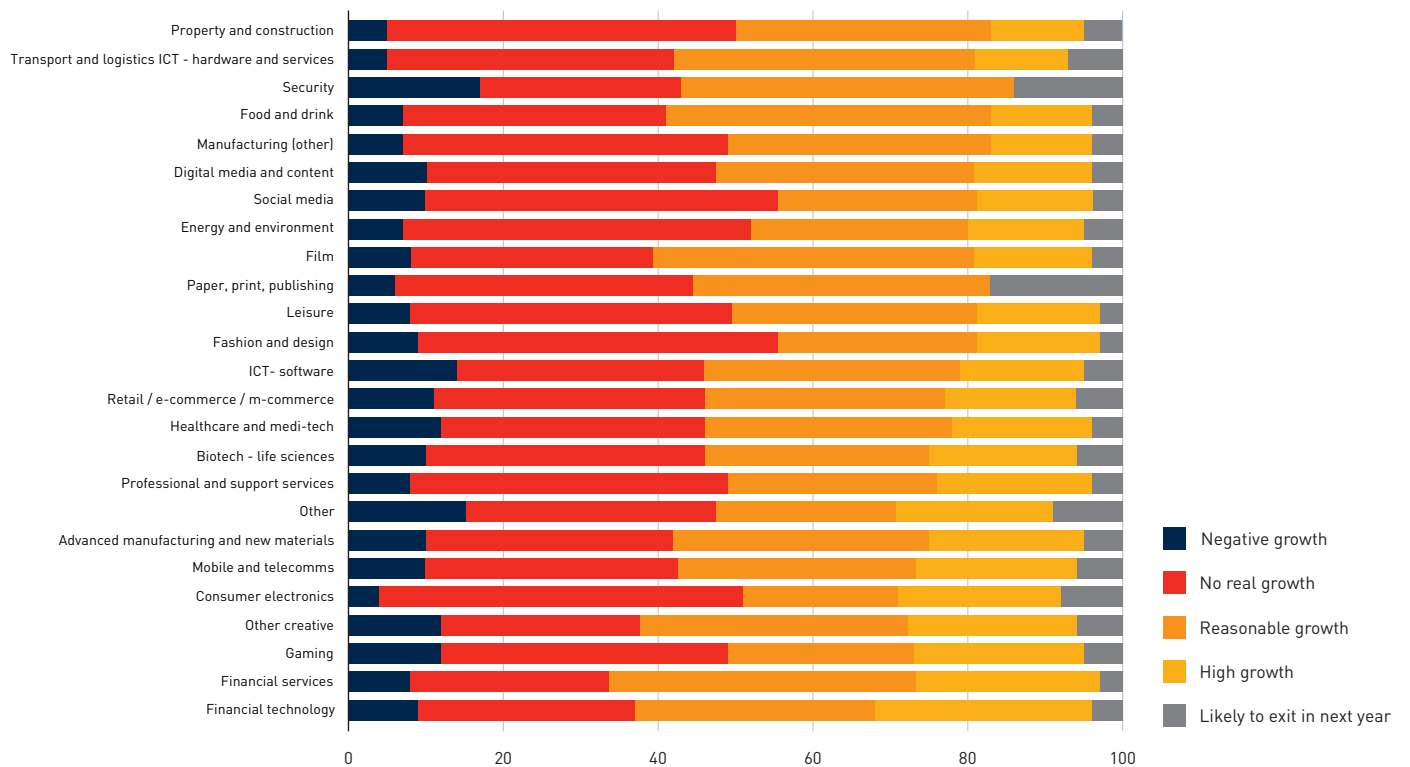
Government has potentially played an important role in this changing profile of business angels in the UK through tax schemes to encourage even more angel activity in recent years. So too has the development of digital platforms for investment which has made it easier for individuals to engage in the investment process.

Finally, we have been able to provide limited analysis of trends in the angel market. It will be valuable to conduct an annual survey of this kind to continue tracking developments in this changing market.



## Appendix

Figure A1: Growth Status and Sector (% of Investments)



Source: ERC Nation of Angels Survey (2014)







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