

BUSINESS ANGEL

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Abstract

The business angel is a non institutional investor that invests in a firm that has certain potential for growth, using own funds or managing external ones, becoming a majority shareholder and a manager. Since the business angel is an inteupreneur himself, he is able to deliver value to the firm by means of contacts, experience, personal capital and is able to push further the development of the businesses.

High net worth private investors who invest directly after an autonomous investigation in one or more private companies or start ups with strong growth potential in return for a shareholding in the investee company and possibly a position on the board of managers. Notably, thanks to their entrepreneurial character, their management experience, their networks of contacts and connections as well as their personal capital, they are able to facilitate the start up and the development of new business initiatives. Business angels can be defined as value adders, able to assume high risks and provide the right interpretation to business potential. Strictly speaking, business angels support entrepreneurs by following an approach which can adopt diverse forms within two macro reference models: - financial business angels: they invest risk capital in the company without being involved in management activities, or only marginally involved, by covering primarily supervising and controlling roles acting as business facilitators - industrial business angels: apart from contributing with financial resources, they participate actively in management activities thanks to their know-how and their professional and

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managerial competencies improving the company image as a whole. In both approaches the business angel normally has the interest to reach a significant capital gain by the moment he withdraws from the investment within a medium term time frame (3-5 years). The intervention of one or more business angels in a company is an active intervention.

Business Angels generally invest from 25.000 Euro to 250.000 Euro per company, but also up to 400.000 Euro in United Kingdom. The average in Europe in the more industrialized countries is around 80.000 Euro per intervention, however, when they group together as syndicates, business angels may invest up to 2,5 million Euro in some countries.

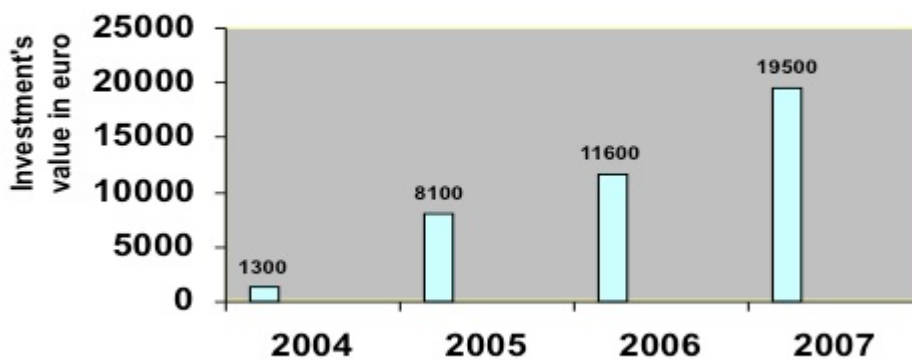
The term business angel was used for the first time during the early decades of the 20th century in the United States to characterize those well-off investors who committed huge amounts of money in the promotion of theatre productions by exploiting their knowhow to facilitate the success of the show. The investors who gave their support to various show businesses were considered as "angels" by the theatre companies. During the course of the 19th century this phenomenon which got more and more diffused in the economic reality of the United States was overshadowed by a capitalism which claimed economic stability, balance and predictability in which a system centred on the mixture of corporate activities of big enterprises, government intervention and involvement of syndicates was developed. The aim of this system was to assure the planning of economic activities and provide adequately for social welfare, but it also included many market distortions that discouraged free individual initiatives (bureaucratic model). Starting from the Seventies, there was a changeover to the entrepreneurial model, whose consolidation has been more evident in the United States with changes in cultural precepts including values and aspirations, in the now more efficient capital markets, and in the major rates of technological development. Most importantly the

entrepreneurial model has led to a more efficient valorisation of human capital that reflects an increase of individual prosperity and a keener freedom concerning private investment decisions with regard to the acquisition of capabilities, instruction and experience.

Business angels in Italy

Thanks to annual surveys carried out by IBAN (the Italian Business Angels Network: (www.iban.it)) it is possible to follow the historical evolution of Business Angels in Italy despite the limited traceability due to its intrinsic informality. During recent years we assisted in an acceleration process in the Italian market concerning the number of finalized investments (from 12 in 2004 to 105 in 2007) as well as with regards to the total equivalent of operations (from 1.3 to 19.5 million Euro), approaching the levels experienced by other competitive international markets. This notable increase expresses a growing interest in this phenomenon and is certainly correlated to the higher operational and functional efficiency of business angel networks.

**Table 1 - Investments of business angels in Italy
(years 2004-2007)**



Source: IBAN, Survey 2007

Following the most recent survey conducted by IBAN in 2007, it was furthermore possible to define the standard profile of a business angel in Italy who can be identified as a well-off person in terms of patrimonization, interested and mainly involved in entrepreneurial, managerial or consultancy activities, primarily male with an average age of 48 years. Preferred interventions are small companies with the aim to prospect emerging markets or to open a strategic or technological *parenthesis* which is potentially in synergy with his own entrepreneurial activity. These operations could therefore be defined as interventions where the industrial logic usually prevails over the financial one. Principal information channels of business angels remain informal, such as those based on personal investigations carried out using proper contact networks composed of friends and partners, other entrepreneurs, industrial and business associations, occasional events and other business angels.

70% of the representative sample invests up to 30% of their available capital, whereas the remaining part commits up to 50%. While sporadic investment prevailed in the past, today one can observe that those actors invest more frequently and with the trend to diversify. In 2007 most of the business angels concluded more than one operation with peaks of five investments within the same year, evaluating on average six opportunities before deciding to invest in one of those. The average investment was equal to 185.000 Euro, even if this amount is presumably meant to increase thanks to the development of business angels syndicates.

76% of the IBAN sample is resident in the North of Italy. Notwithstanding this territorial concentration, it is interesting to highlight that 89% of the business angels don't have geographic preclusions concerning their investment decisions. 40% of the benchmark declares to be available to invest by crossing national borders.

In 2007 the sectors which mainly attracted the attention of Italian Business Angels

were: ICT/Internet (24% of preferences); commerce (13%), manufacturing, business services, biotechnologies and energy with ca. 10% each, entertainment and food both 8%.

The medium investment duration corresponds to 3.3 years and the favourite way-out modalities can be defined as buyback by the proposers, admittance of financial investors of major dimensions as well as the involvement of an industrial partner.

Bibliography

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