



Australian Government

Department of Industry, Tourism and Resources

Study of Business Angel Market in Australia



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A study commissioned by the Department of Industry, Tourism and Resources

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Australia's Business Angel Market

SUMMARY

Who are Australia's business angels?

Australia's 'business angels' are a hidden and private group of investors. They invest their time, effort, and money to help small Australian companies grow and prosper. They invest partly for the returns, which can be exceptionally high, and talk about return of capital in multiples, not percentages. But equally importantly, many of them invest because they have something more to offer their investee companies such as skills and knowledge. This involvement brings business angels personal satisfaction in addition to the buzz of financial returns.

The majority of the angels in our study have something unique and important to offer their investee companies. It may be that through their direct experience as entrepreneurs themselves, they can offer wisdom and capital to help others repeat their success. Or it may be that through their experience as bankers or management consultants, they can bring financial or business discipline to young companies. They may be nearing the end of their formal careers, with sufficient time available to help others. Or they may be mid-way through, having hit the jackpot in their professional lives already, with sufficient funds to invest freely in what many would regard as high-risk ventures.

Our interviews have shown that successful angels have learned to understand and accept risk. They are not paralysed by fear of failure or indeed concerned that they might lose their entire investment. In some cases, angels with experience in a particular industry have a privileged view of the risks inherent in an opportunity, and are therefore in a better position to price those risks than the market as a whole. In other cases, experienced angels can size up the risks of an opportunity more accurately on the basis of intuition than a less experienced person could do with a complex spreadsheet model. As explained below, for whatever reason, many angels are confident that they understand the risks involved and are willing to take them in exchange for the potential returns, both financial and non-financial.

How do they invest?

Business angels generally invest on their own or with 'friendly' co-investors typically for amounts less than \$500,000. The average size of investments made personally by the angels we interviewed ranges from an average minimum of \$54,000 to an average maximum of \$640,000 – suggesting a rough average of \$350,000. When angels co-invest with others, the 'syndicate' value can be \$5 million or more; this is as large as a venture capital investment.

The angels have made an average of eight investments each and typically make one or two new investments a year. Around two-thirds of the angels have exited investments. Of the angels who have exited one or more investments; almost half their investments (41%) have been exited on average.

Angels generally would like to invest no more than 20% of their 'investable'¹ capital into angel opportunities, and mostly less than 10%. ICT (technology, software/online/internet) companies feature prominently among the investee companies of the angels we interviewed. Biotechnology and renewable energy investments are the next most prominent in terms of industry sectors invested in.

The majority of angels report at least one 'blockbuster' – an investment that returned more than ten times their original capital, usually within a short time frame (3-5 years). Such 'wins' give them a taste of the benefits of angel investing, which boosts their confidence in being able to select good future angel investments. A blockbuster also provides money to 'play with'. Angels know that some of their investments will not work out, but anticipate that the winners will easily pay for the losers. Moreover some of them so enjoy the ride that they do not really focus on the returns. It should be noted, however, that most angels in the study report a remarkably high positive return from their exited investments².

How do they find the deals?

Very few of the angels we interviewed actively seek investment proposals, yet they receive an average of one a month, usually through their own business or social networks. Some angels by virtue of their day jobs, such as investment bankers or managers of Pooled Development Funds (PDFs), see a large amount of deal flow.

Around two thirds of the angels we interviewed were not part of formal angel networks, nor did they wish to be. They had their own informal networks, which provided deal flow, advice on assessing opportunities, and co-investors; the benefits typically provided by a formal angel network.

Of the angels that we interviewed, membership of formal angel networks varied according to region. Only 12% of the Sydney angels and not one of the Melbourne angels were members of formal angel networks, whereas all the ACT angels and 88% of the Queensland angels were members of a formal angel network³.

There may be a number of reasons for this apparent regional difference. The authors believe one possibility is the critical mass of both wealth and angel investors in the larger cities. Angels in Melbourne and Sydney have larger informal networks of similarly minded investors, so investors in those cities can more easily find each other, thus removing the need for a formal network. Secondly, the angels we interviewed in Melbourne or Sydney tended to have professional backgrounds and skills in investing or advising, and thus they rely less on others, and in particular less on formal networks, to either assess or assist their deals. Angels in the smaller capitals were more likely to be seasoned 'hands-on' entrepreneurs who perhaps benefit from the skills and advice a formal network can offer. A third possibility is that the difference was caused by the sampling technique used. The project began with a list of angels provided by the Department of Industry, Tourism and Resources (DITR); we were required to make every effort to interview these angels, and in almost all cases we were successful in doing so. This list included members of formal networks in Queensland and the ACT. In order to avoid biasing the interviewees geographically, and to make best use of our personal networks, we sought most of the remaining interviewees from Victoria, New South Wales, Western Australia and South Australia. These interviewees tended not to be members of formal networks.

¹ Capital free for investment purposes (i.e. excludes their home)

² Sixty-nine percent report more than 50% of their exited investments have yielded a positive return

³ The two South Australian angels and one Western Australian angel were also not members of networks

The formal networks we interviewed revealed a wide range of approaches. Their models vary from simply inviting potential angels to come along at no cost to regular 'pitch sessions' through to having a paid administrator who helps find and manage deals. Most of the networks operate in effect as private clubs, which can be joined only by invitation, but some are open to all comers upon the payment of a fee. A few networks of the latter style are very large, having hundreds or even thousands of members. Some networks are focused on a particular industry or region, while others invest more broadly.

A number of networks are in their relative infancy, often based on US models, but it remains to be seen how they evolve and whether they will ultimately be successful. We heard about a number of networks that were established in the 1990s that typically did not survive the tech wreck, and it is possible that a number of the newer networks will likewise not survive.

How do angels assess opportunities?

Angels do not usually have a formal process for assessing opportunities, but they know what to do when they see one. Often they refer to their initial assessment as a 'sniff test' or say they base their decisions on 'intuition'. The quality and integrity of the entrepreneur or management team is the single most important factor in this preliminary assessment. Once angels are comfortable with the person they are investing in, other factors such as the product, idea, Intellectual Property (IP), or industry are considered. Angels get heavily involved in due diligence and rely on their informal networks to help assess a deal, but use lawyers and accountants to finalise the investment details.

Most angels like their investee companies to be located close by. The vast majority of angels contribute expertise and advice (as well as capital) to their investee companies, and this is much easier to do if the companies are in close proximity. Also, most angels like to know and trust the management of the investee company and other investors in the company as well, which is easier to achieve if the company is from the same area as the angel. Angels who say that location is not a factor often have established international networks and can invest either with or in people they know and trust.

How is the market working?

Most angels believe the market is working to a degree, however some believe it could be more efficient.

Suggestions from angels for improving the market were mostly in three categories:

- information and education for entrepreneurs;
- information and education for potential angels; and
- tax incentives for angel investors.

There is overwhelming support by angels for increasing the number of 'investment ready' opportunities. The main suggestion for how to do this is for appropriate business education to be provided to entrepreneurs, researchers, and students, particularly those doing technical courses.

Most angels know people who could be angels but are not investing, largely on account of lack of skills, education, or knowledge about how to angel invest. In other cases risk aversion or lack of time are the barriers to turning more high net worth individuals into angels. This situation may be improved if education on all aspects of angel investing was provided.

The majority of angels were not looking for handouts. In spite of this, tax incentives were proposed as a way to stimulate angel investment. Many believed that the tax treatment of angel investments should be more encouraging than the tax treatment of share market investing.

Angels appear to have limited interaction with the formal capital markets. The main form of interaction is through the public listing of an investee company when exiting or reducing exposure to an investment. The most common exit methods are trade sales and Initial Public Offers (IPOs). Venture capital (VC) firms were involved as co-investors in a small number of situations, and exits via a VC investment were uncommon. The authors have concluded that it may be that the opportunities that appeal to angel investors are quite different, with respect to risk, reward, and duration, from the opportunities that appeal to VCs.

The structure of this report

This report outlines in detail our findings, based on the 46 interviews of individuals and 12 interviews of network leaders, on the following topics:

- *Characteristics of the business angel investors* who participated in the study, including who they are and how they came to be angel investors (Section 1)
- *The nature of the angels' investments*, including how many, how big, which sectors they are in, how involved the angels are, how the deals are structured, how the deals are exited, interactions with formal capital markets, and what returns are made (Section 2i)
- *How the angels source deals* and what role formal angel networks play (Section 2ii)
- *How the angels assess potential investment deals* including what process they undertake and what factors they consider (Section 2iii)
- *How the market is working* and what barriers exist to better functioning of the market (Section 3)
- Finally, for the angel networks we interviewed, we list the range of models including what services are offered and how network investors meet (Section 4).

A snapshot of all our interviewees is contained in the Appendix, along with the interview guides used.

BACKGROUND TO THE STUDY

Informal capital markets play a fundamental role in national innovation systems. Start-up companies rely heavily on informal capital; studies in the US suggest that informal investment is more than twice as large as formal venture capital investment⁴. Similar findings appear to hold for the UK and Europe. Although knowledge of the Australian situation is less complete, it would appear likely that in this country as well, angel investors are a very important source of capital for early-stage businesses.

⁴ William Bygrave, "Financing Entrepreneurs and Their Businesses," Kauffman Foundation and the Business Council of the United Nations, July 2003. Available at [http://www.altassets.net/pdfs/UN_financing_report\[1\].pdf](http://www.altassets.net/pdfs/UN_financing_report[1].pdf)

Relatively little is known about Australian angel investors. The angel sector operates informally, and many angels are reluctant to divulge information about themselves or their investments. Studies of angel investing have been carried out recently in the UK and America, but the last major academic study undertaken in Australia was in 1999⁵. The 2006 Department of Communications, Information Technology and the Arts (DCITA) study⁶ on business angel networks found that business angels represent an important source of capital in Australia and recommended additional fiscal and regulatory measures to stimulate angel investment.

Estimates of the size of the angel sector in Australia vary widely. Bygrave estimated the amount of “informal investment” in Australia in 2003 to be US\$2.55 billion, seven times the amount of “classic venture capital” invested in that same year.⁷ Hindle and Wenban declined to estimate the size of the sector, noting that the “temptation to extrapolate” from the data gained from 36 interviews “must be resisted”.⁸ Rolfe Peacock gave a “ballpark estimate of total informal equity investment” in Australia in 2004 of A\$1 billion, lower than Bygrave but still larger than the amount of formal venture capital investment.⁹ Like Hindle and Wenban, we cannot, on the basis of the data gathered for this report, make any estimate of the total amount of angel investing in Australia. We can however, state with certainty that the angel sector is active, important, and growing.

DITR specified the terms of reference for this study through an open request for tender via the AusTender website. The study findings were to be based on interviews of around 50 Angels and 10 Angel networks conducted over a five-week period. The specified objective of the study was: ‘*The Department will receive a report containing information collected through interviews, which provide insight into the investment market from the point of view of individual Business Angels and Business Angel Networks. The information provided by this study will contribute to policy development on informal market capital and support for innovation in Australia*’.¹⁰

WHAT IS A BUSINESS ANGEL

A recent article in *The Economist*¹¹ traced the definition of ‘angel investor’ to the world of show business, in which ‘angels’ backed performances in return for the right to mingle with the cast, to get front-row seats, and very occasionally to earn a financial return. Subsequently, the concept was broadened to include investments in grit as well as in glitz, and the term “business angel” is now widely understood, if not always consistently defined.

5 Kevin Hindle and Robert Wenban, “Australia’s Informal Venture Capitalists: An Exploratory Profile,” *Venture Capital: An International Journal of Entrepreneurial Finance*, Volume 1, Number 2 / April 1, 1999, pages 169 - 186

6 “Business Angel Networks”, DCITA, July 2006, authors not named

7 Bygrave, op cit, page 4

8 Hindle and Wenban, op cit, page 183

9 Rolfe Peacock, “Informal Venture Capital in Australia,” chapter 8 Appendix B of *Understanding Small Business: Practice, Theory, and Research*, second edition, Scarman Publishing, Adelaide, 2004

10 Full details of the project tender can be obtained through DITR Tender 050906.

11 *The Economist*, September 14, 2006, pp 81-83

For the purposes of this report, a *business angel* is defined as an individual who invests money directly into an arms' length privately held company, and brings something else to the table as well – expertise, contacts, customers, etc. We did not restrict 'angel' interviewees only to those who identified with the term. In fact, many of the investors we interviewed would not classify themselves as angels, yet their history of directly investing money and time in private businesses readily qualified them for inclusion in this study.

More information on the understanding and interpretation of the term by our interviewees is contained in the body of the report.

STUDY PROCESS

As specified in the terms of reference from DITR, the activity goal of the study was to conduct interviews with around 50 Angels and 10 Angel networks. For the purposes of this report, the interviewees are referred to as 'angels' or 'business angels', although many would not call themselves such, and some dislike or reject the terminology. Because the population of angels is not known, it is impossible to identify a random sample of them. We therefore refer to our group of interviewees as a 'collection' rather than a 'sample', as sample has the connotation of fairly reflecting the entire population, and we cannot be certain this is the case.

Nevertheless, every attempt was made to identify a broad range of angels. Sources used to contact angels included prior professional networks (academia, consulting, banking and law), former university peers (Harvard, Sydney University and the Australian National University), tech sector winners (via colleagues, spouses and friends), and direct personal connections through friends and relatives. Many of our interviewees provided us with referrals to other angels. We also contacted connections provided directly by DITR (mainly through Commercialising Emerging Technologies Program (COMET) business advisors and angel networks).

We collected names of 88 individual angels in the course of the study. We conducted interviews with 46 of them and also interviewed 12 networks (10 currently operating, two no longer operating).

Interview guides (in the Appendix) were used to structure and direct the interviews with the angels and the angel networks. Sixteen of the angels were from New South Wales (NSW), 11 from Victoria, eight from Queensland, eight from the Australian Capital Territory (ACT), two from Western Australia, and one from South Australia.

Feedback from these interviews provides the content for this report. DITR set the study timeline to five weeks, which limited the team's ability to interview some of the angels whose names were collected.

The names of the angels and any identifying information have been kept confidential.

Particular thanks to

- The angels and others interviewed for this report.
- Lyn Thomas for her administrative assistance.
- DITR, particularly Jennifer Beckman and Cecilia Tran, for their input and guidance.
- Dr Chris Booth for introductions and input into the interview guide.

Disclaimer

The findings in this report are based on interviews with individuals who are believed to be trustworthy. Information gained from the interviews has not been independently verified.

There is at present no definitive knowledge of the size, location, or profile of the angel population in Australia. Thus we cannot be certain that our collection of interviewees accurately reflects the entire population of angels, although every attempt was made to source angels from multiple and varied channels.

Interviews were conducted using the guide contained in the Appendix, however the spoken wording of the questions often varied somewhat from that in the guide, and occasionally the answer to a particular question came out in the course of conversation rather than as a direct response.

FINDINGS BY TOPIC

Findings have been split into four areas, which align to the questions asked in each interview (see interview guide in the Appendix):

1. Who the business angels are
2. How the angels invest:
 - i. The profile of their investments
 - ii. The sources of their deals
 - iii. Their assessment of deals
3. How the business angel market works in Australia
4. How formal angel networks are structured and working

1. Who the angels are

Finding 1: Three different investor profiles

Three different 'groups' of angels emerged from our study. The key factors separating these three groups were their professional background and to some extent their age. While some findings were common across the entire collection – for example, almost all of the angels invest both money and expertise – other findings differed substantially across the groups – for example, which industries the angels are comfortable investing in. Throughout the report we have highlighted these key differences across the groups as they appeared in the analysis.

Group 1: The early winners

This group of investors has significant financial wealth, usually obtained in their mid 30s or 40s. Their wealth typically came from a fortuitous investment or start-up, often during the technology boom of the late 90s, or in some cases through inheritance. They have sufficient investment capital to allocate a small percentage to angel type investments, and they see these investments both as something 'fun' and as a way to further build their wealth. They are more likely to invest in industries they know, usually ICT, and to rely more heavily on their own networks to source deals. They invest because they have made their own fortune through investing or at least have seen others make substantial returns, so they understand the risk reward trade-off. Angels with inherited wealth may view angel investing as somewhat of a philanthropic activity, investing in businesses that mean something to them personally or that they believe will make a difference to the world.

Group 2: The professionals

This group of investors achieved wealth and experience through their chosen professional career. They are, or were, consultants, bankers, lawyers, accountants, or venture capitalists. They encounter investment opportunities through their day-to-day business dealings and through their professional networks. They typically see no value in belonging to formal angel networks, and among this group only the angels outside Sydney and Melbourne are in formal networks. They don't actively seek investment opportunities but still may be presented with 20 or more a year. They usually invest only what they are prepared to lose but also view their angel investments as a sensible component of their investment portfolio.

Group 3: The experienced entrepreneurs

This group of investors generated both wealth and experience through establishing and building up their own businesses. They had typically sold those businesses, usually while still in their 50s, and have significant investment capital to 'play with'. Their motivation for being an angel is to help others achieve as they have, and to generate greater financial returns from higher risk ventures. They are often in semi-retirement. If located outside of Sydney and Melbourne, they are more likely to be members of angel networks or other professional networks as a way of sourcing investment opportunities. They are likely to invest in their own industry. As with the other groups, they typically invest both money and expertise.

Chart 1 - Three groupings of angels emerged

Chart 1

Three different angel groupings*

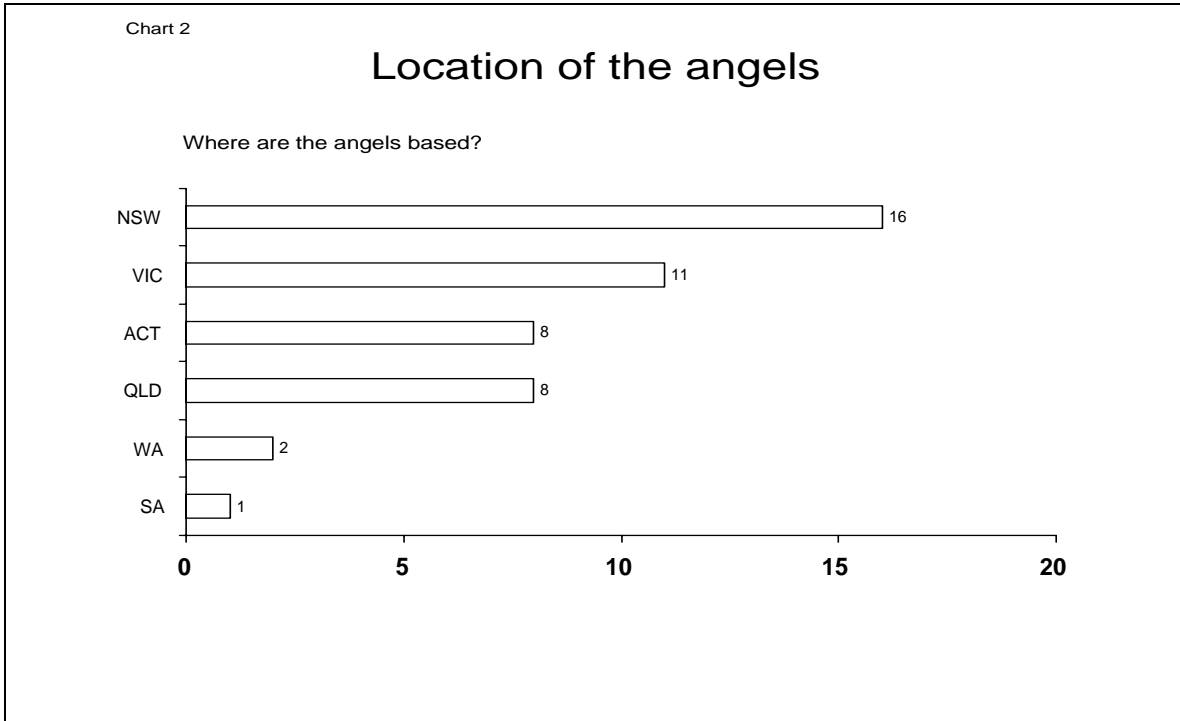
	Early winners	The professionals	Experienced entrepreneurs
Wealth	Made money fast through tech sector win or inheritance	Made money through lucrative banking, consulting, finance or legal career and wise investments	Made money on sale of own business built up during their career
Age/ Education	35-45 Average 41 Graduate or post-graduate	40-65 Average 52 Post-graduate	50+ Average 58 Secondary, graduate or post-graduate
Investment averages	6 investments Min \$57,000 Max \$915,000	8 investments Min \$84,000 Max \$425,000	10 investments Min \$29,000 Max \$562,000
Investment industries	Usually technology, internet, online sectors	Broad range of industries, often technology	Broad range of industries but often technology and often industry they know
Motivation	Fun; like the challenge and understand the potential rewards	Financial returns; have the skills to help the businesses	Investing in others; have strong entrepreneurial instinct and a skill set they want to put to use

* Our collection included 14 'early winners', 14 'the professionals' and 18 'experienced entrepreneurs'; the profiles here reflect the majority of angels in each grouping

LOCATION

The collection of angels was focused around the major east coast capital cities, with the highest number in Sydney (16), followed by Melbourne (11). Almost all the angels were based in the capital cities or close-by (e.g. Gold Coast). The spread across the east coast is due in part to the networks of the project team (Sydney, Melbourne) and the introductions to angels provided by DITR (Brisbane, Canberra). We are confident that, with more time, we would have found more angels in the other States and Territories.

Chart 2 - Location of the angels



Some differences in angel behaviour across these locations were apparent, and where appropriate we have highlighted these differences.

GENDER AND AGE

Finding 2: Mostly male and between mid-30s and late 60s

The vast majority of angel investors we interviewed are male. We had only two women in our interviewee list, despite asking specifically for referrals to female angels. We also came across a number of women who could have been angels (based on their wealth and experience) but were not. We did not encounter any female angel networks.

In terms of age, the angels were spread from mid-30s through to their late 60s. There were more angels in their 50s than any other decade.

The 'early winners' are, not surprisingly, younger than the other groups – having by definition made their money at a younger age through luck, good timing, or inheritance. The 'experienced entrepreneurs' are generally older than the average of our collection, again in part by definition.

Chart 3 - Gender of the angels

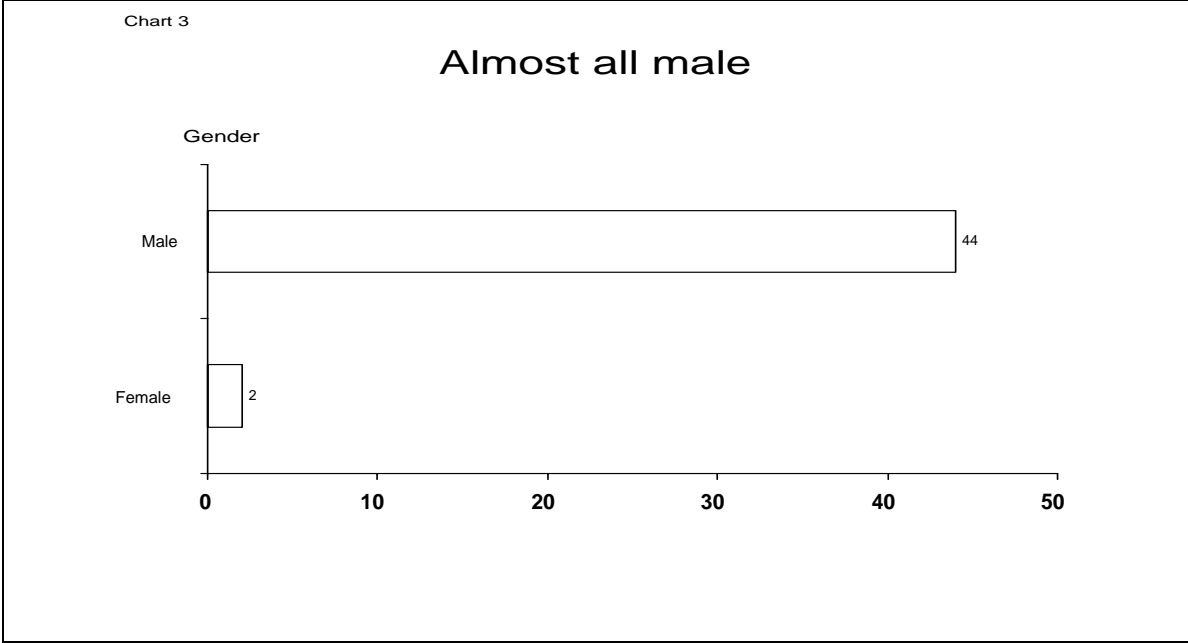
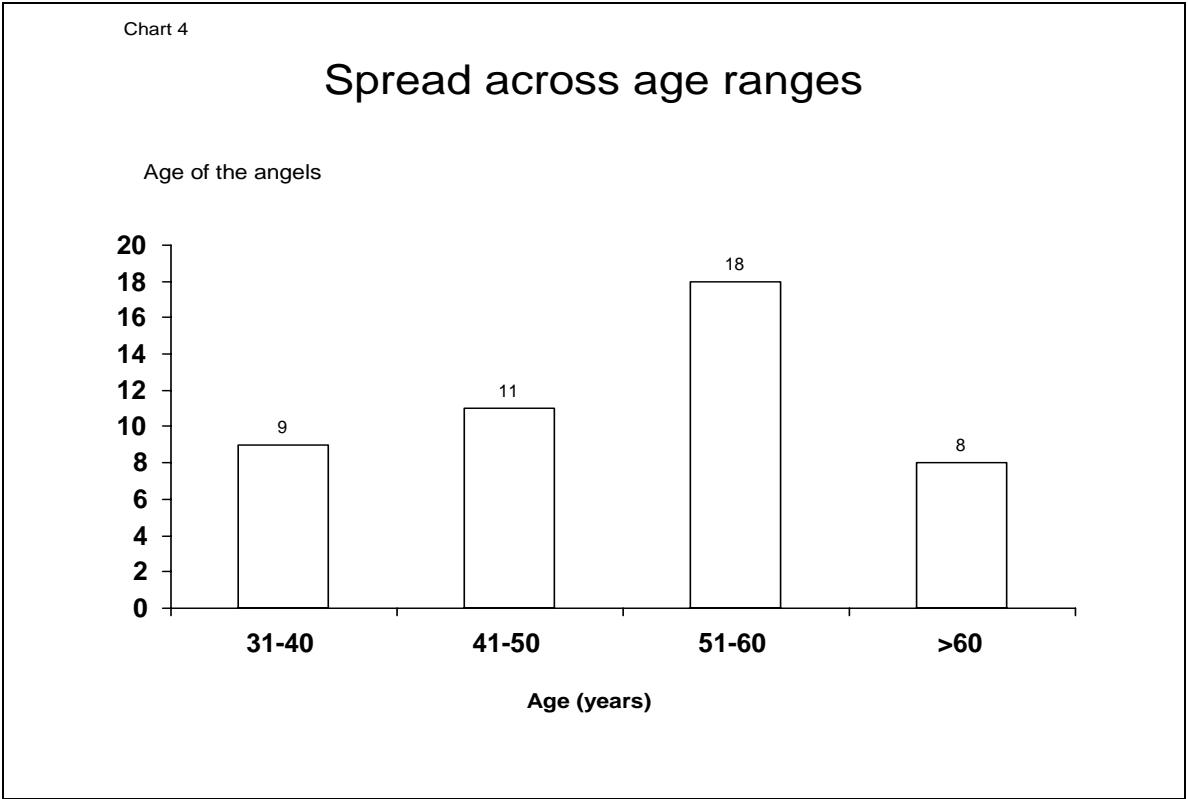


Chart 4 - Age of the angels



EDUCATION AND PROFESSIONAL BACKGROUND

Finding 3: Tertiary qualified, usually at the post-graduate level, often with business, commerce or economics qualifications

Most of the angels held postgraduate degrees (61%). The 'experienced entrepreneurs' were less likely to have a post-graduate degree and a few of these investors had no tertiary qualifications, having spent their adult lives running and building businesses.

The educational discipline of the angels was skewed towards business, commerce, and economics. Seventy-two percent of our collection had a degree in one of these fields.

'The professionals' typically had business, law, or economics degrees. The 'early winners' were more likely to have an IT or engineering degree. The 'experienced entrepreneurs' came from a wider range of disciplines, more often scientific than the other groups.

Chart 5 - Education level

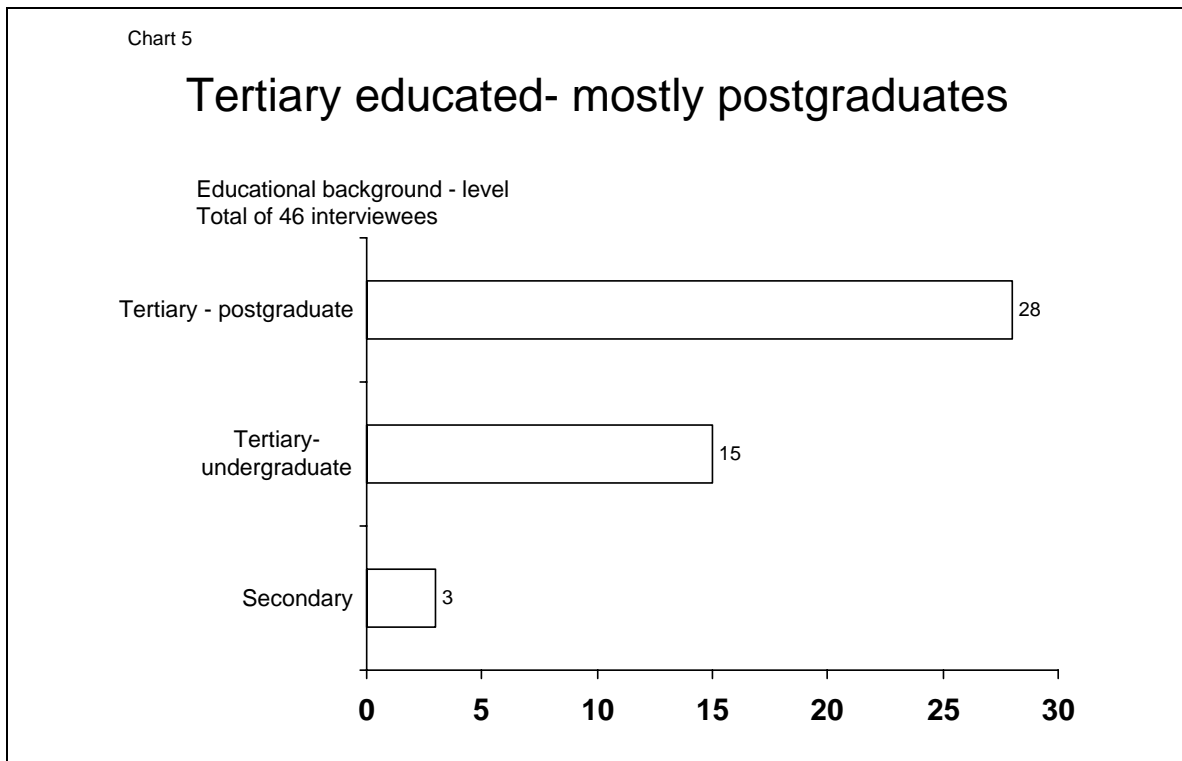
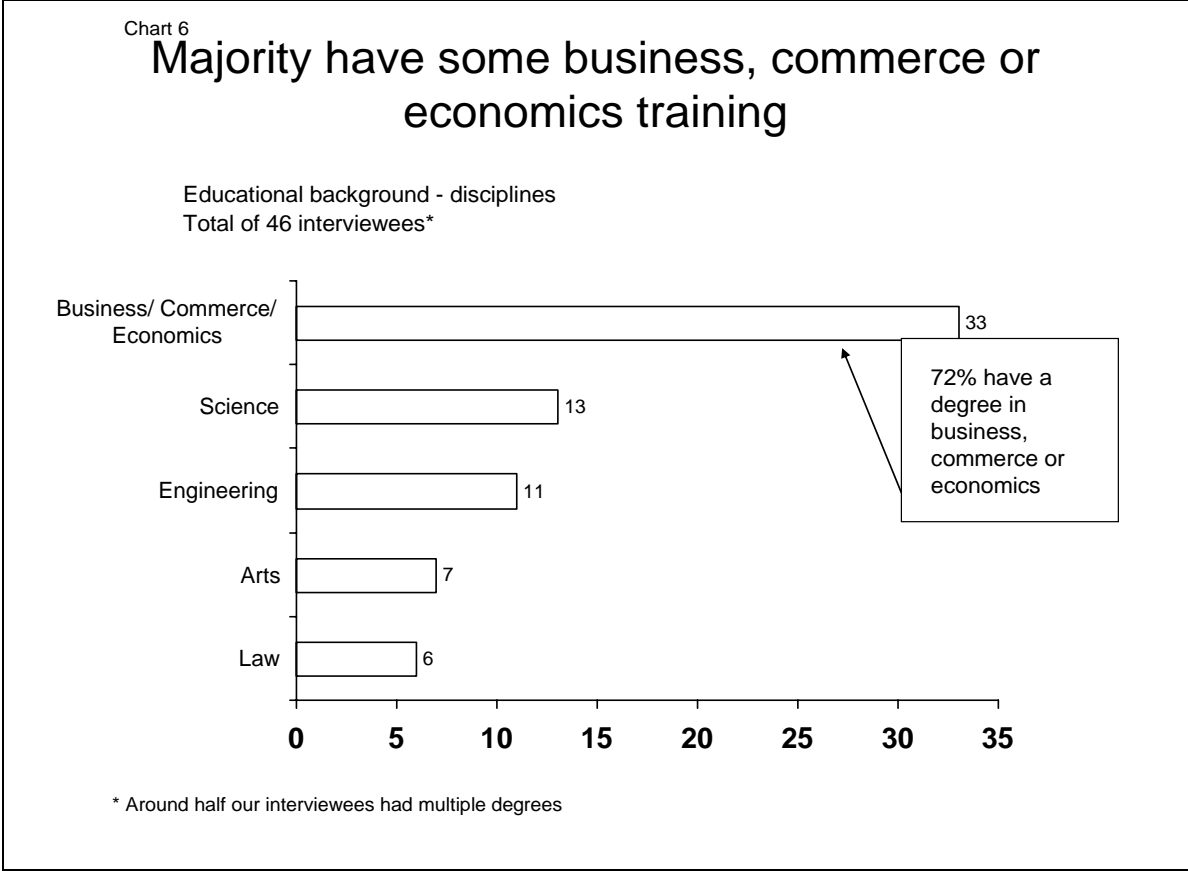


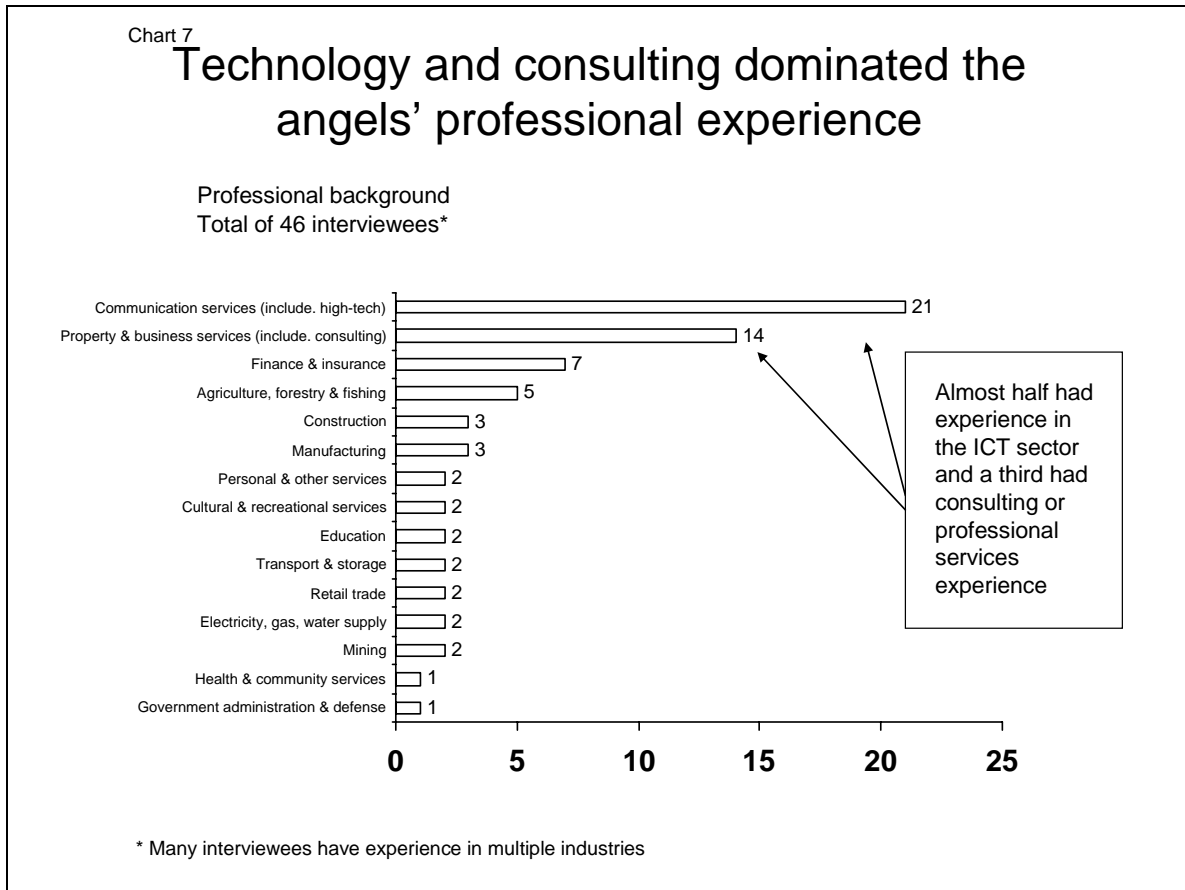
Chart 6 - Educational disciplines



Finding 4: Angels frequently have a background in ICT industries or consulting

The angels have worked in a wide variety of industries, and their professional experience varied across the groupings. However, the 'experienced entrepreneurs' typically work or have worked in software or manufacturing companies. 'The professionals' had finance, consulting, accounting, or legal backgrounds. The 'early winners' had a wider variety of professional backgrounds, including media, performing arts, and law, although as noted earlier most of them held tertiary qualifications in IT or engineering.

Chart 7 - Past professional life



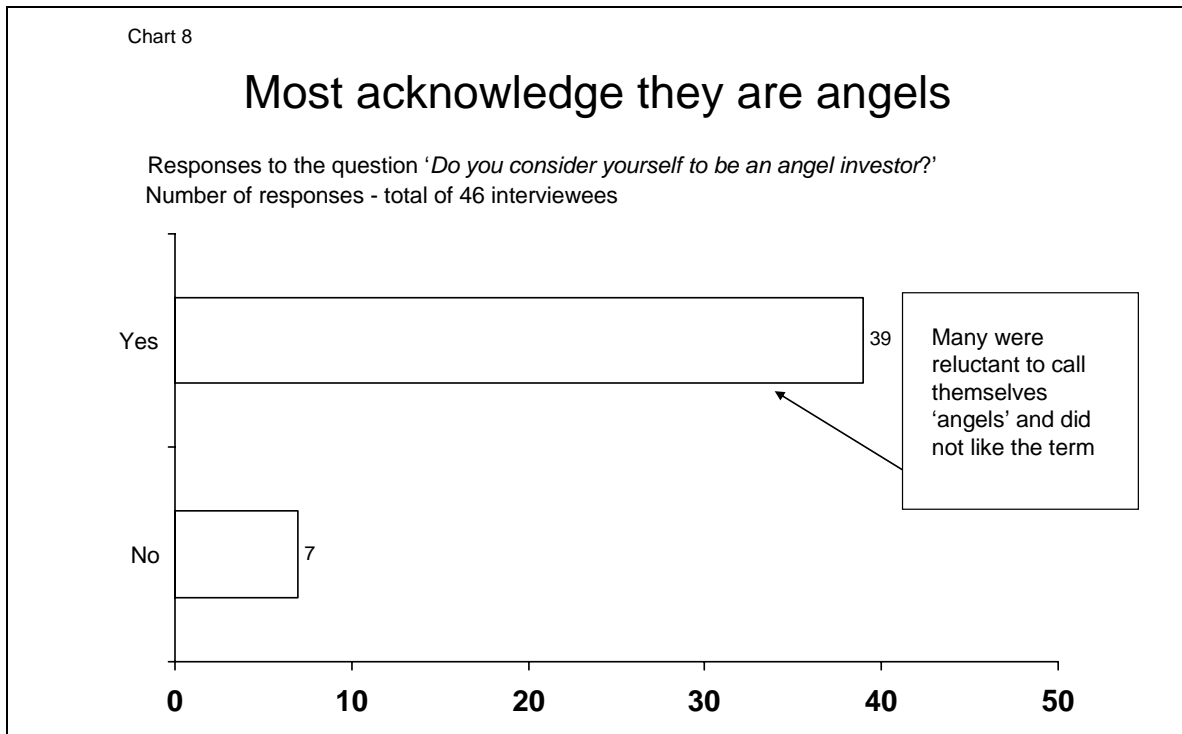
Finding 5: Many do not consider themselves as 'angels,' or like the term

When asked if they consider themselves to be an angel investor, many of the interviewees asked us to define an angel investor or said they had never really thought about it. They see themselves as investors who help, but not necessarily as 'angels'. Most of those who responded positively to this question did so only after an explanation of the definition. Even after they acknowledged that their investing behaviour fit the definition of an angel, many were reluctant to call themselves one. One angel preferred the term 'active principal investor'; another liked the phrase 'early stage investor'.

'Angel' is not a label that all of these investors wear with pride. The exception to this was those investors who are part of formal angel networks. This group (typically 'experienced entrepreneurs') was more comfortable with the term.

We asked those interviewees who responded positively to the 'Are you an angel?' question with the follow-up question 'What does the term angel investor mean?' They responded that the term typically is thought to involve investment in early stage companies and also to involve giving advice to investee companies, not making a passive investment.

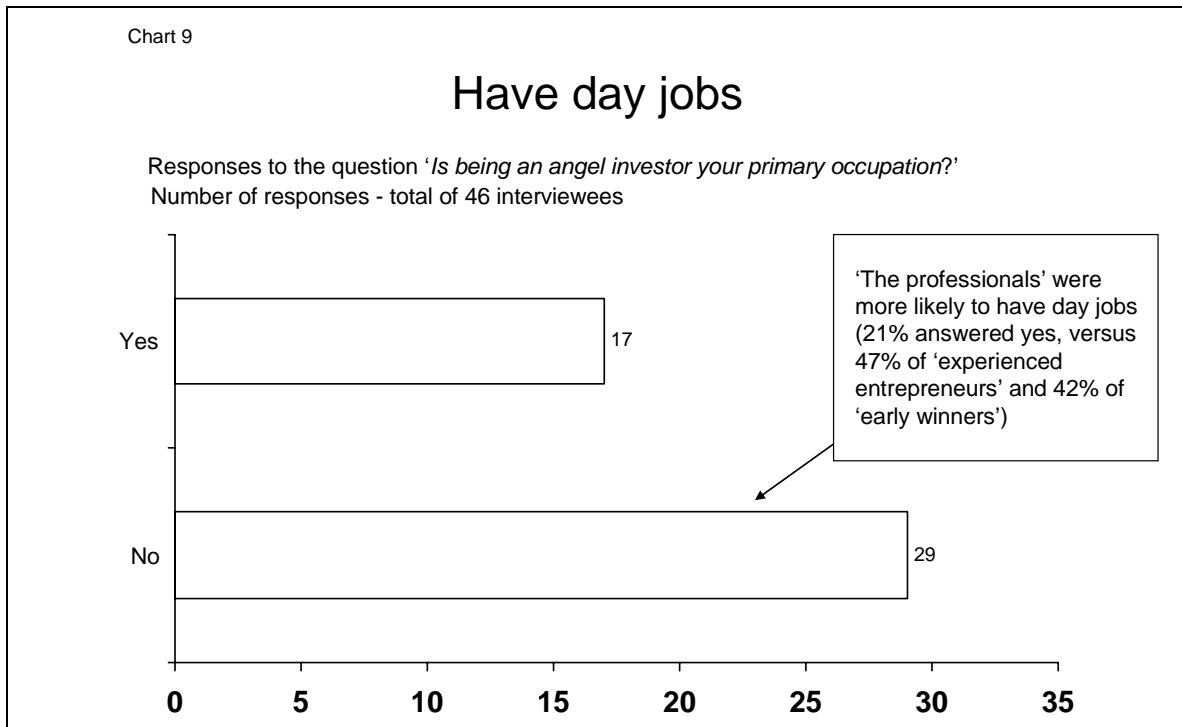
Chart 8 - An angel or not?



Finding 6: Most have a day job as well as being an angel investor, but a small group of investors are solely angels

Sixty-three percent of our interviewees had day jobs outside their angel investing. Responses to this question varied by the groupings. The 'experienced entrepreneurs' were more likely to be dedicated angels. A proportion of the 'early winners' and 'the professionals' had spent time as dedicated angels (due to their financial independence) but more often than not, re-entered the paid workforce to take on roles that particularly interested them. These angels indicated that they continue to invest, but by necessity now spend less time with their investee companies.

Chart 9 - Is being an angel their primary occupation?

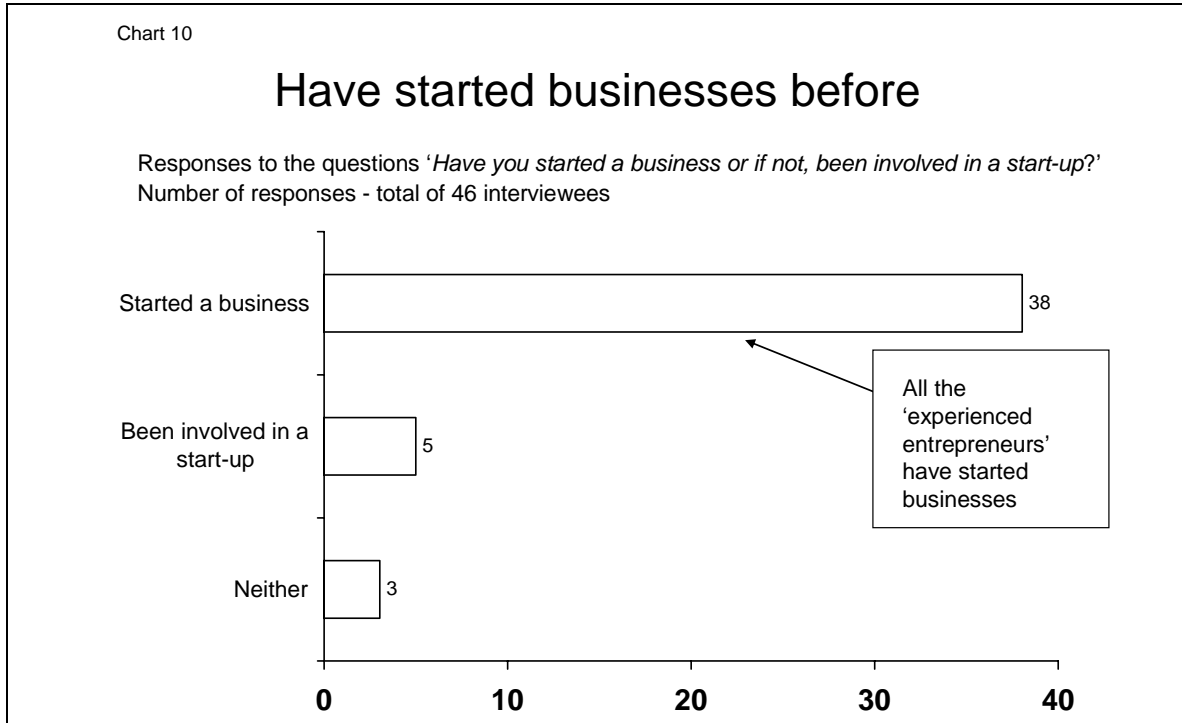


Finding 7: Most have started a business or were at least involved in a start-up

Ninety-three percent of the angels we interviewed have either started a business or been involved with start-ups. Eighty-three percent of them had actually started businesses (not investment companies) of their own.

'The professionals' group contained fewer angels who had been involved in start-ups perhaps, arguably, as those who take the professional path may be less endowed with the entrepreneurial spirit.

Chart 10 - Entrepreneurial experience



Finding 8: Most invest for more than the financial returns

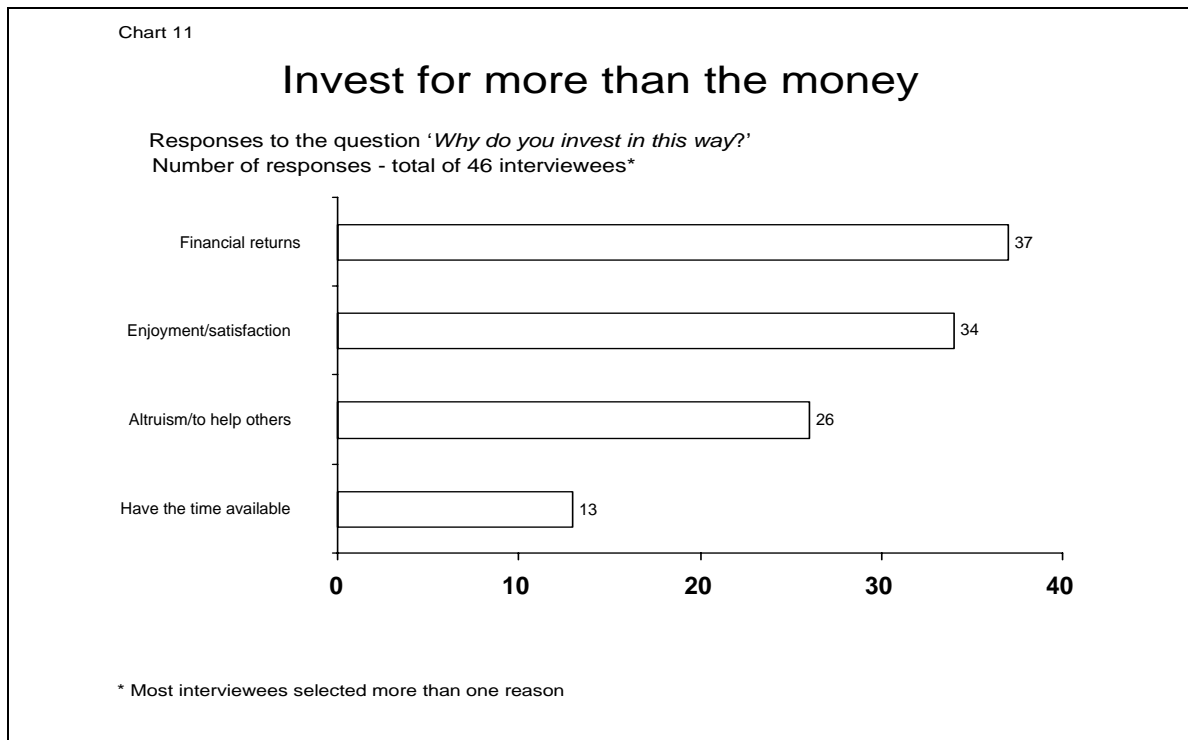
The responses to this question did not vary significantly across the groupings. Almost without exception, the angels we spoke to invested for more than the financial returns. However, financial returns remained a significant factor for many, with the returns being substantial on many successful deals. Some investors consider angel investing as a sensible component of a balanced portfolio. They acknowledge it to be high risk and high return and are prepared to risk money in this way.

The reasons given for angel investing generally reflected a genuine interest and passion for early stage businesses. These investors get significant reward from helping their investee businesses, regardless of the financial returns. Typically, the investor had a skill set, knowledge or experience to offer their companies, over and above the financial input.

With only the data gathered in this project at hand, it is impossible to say whether the returns from this type of investing outweigh the risks. There were certainly a number of hugely successful deals and most of the angel investors we interviewed had had at least one 'ten bagger' or 'blockbuster' – an investment yielding returns of more than 10 times the initial investment within 3 - 5 years. It was commonly mentioned by those interviewed that an initial success led an individual down the path of further angel investing.

Most have not made enough investments over a long enough time period to accurately assess their return on capital. Indeed, most have never calculated exactly what they have made or lost, or what their return on capital per annum has been.

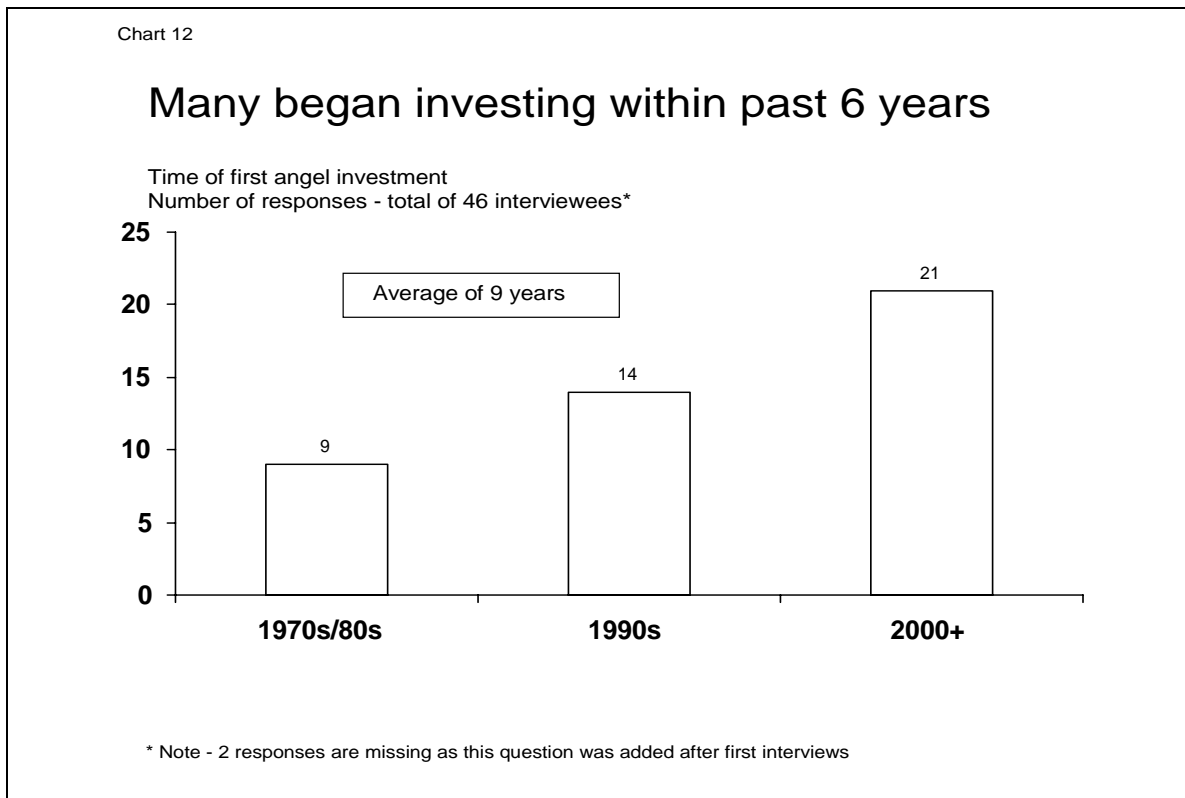
Chart 11 - Why do angels invest?



Finding 9: Many angels are new to investing since 2000

The angels have been investing for an average of nine years. Fifty two percent of our collection have been investing for 10 years or more. A new wave of investors (mostly the 'early winners' and 'the professionals') started investing in the late 1990s or 2000, and continue to invest, typically on the back of their tech sector gains. The longest-serving investors started in the early 1980s through direct involvement in the first wave of biotechnology or technology start-ups.

Chart 12 - When began investing



2i). How they invest - Size and nature of investments

Finding 10: The angels invest both money and expertise, usually on their own or with a small number of people whom they know well

Only a handful of angels interviewed had 'passive' angel investments in their portfolios. All of the angels made investments in which they provided expertise, as well as cash, to their investee businesses.

Much of their investing is done alone, although most angels sometimes co-invest with others as well as making their own individual investments. Investing with others can take a number of forms. It can be an ongoing, formal angel syndicate. It can be with an institution (such as a Venture Capital firm or a PDF). It is often with a group of 'mates', through the encouragement of one party to get others to invest.

Chart 13 - The nature of their investments

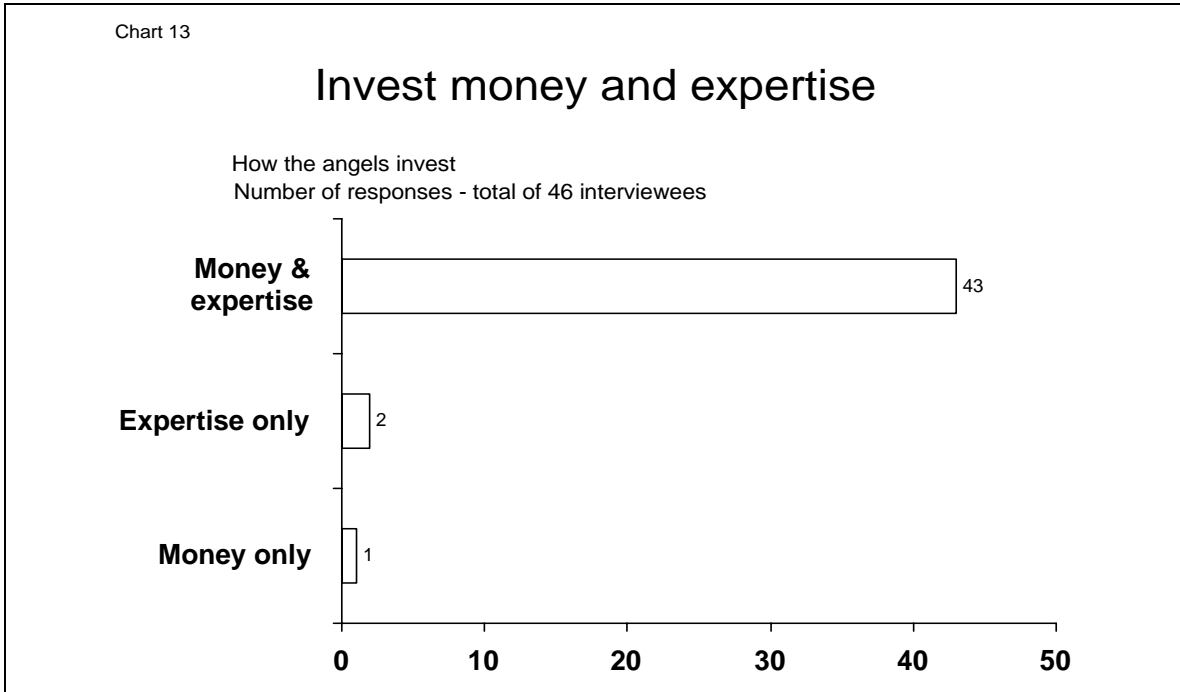
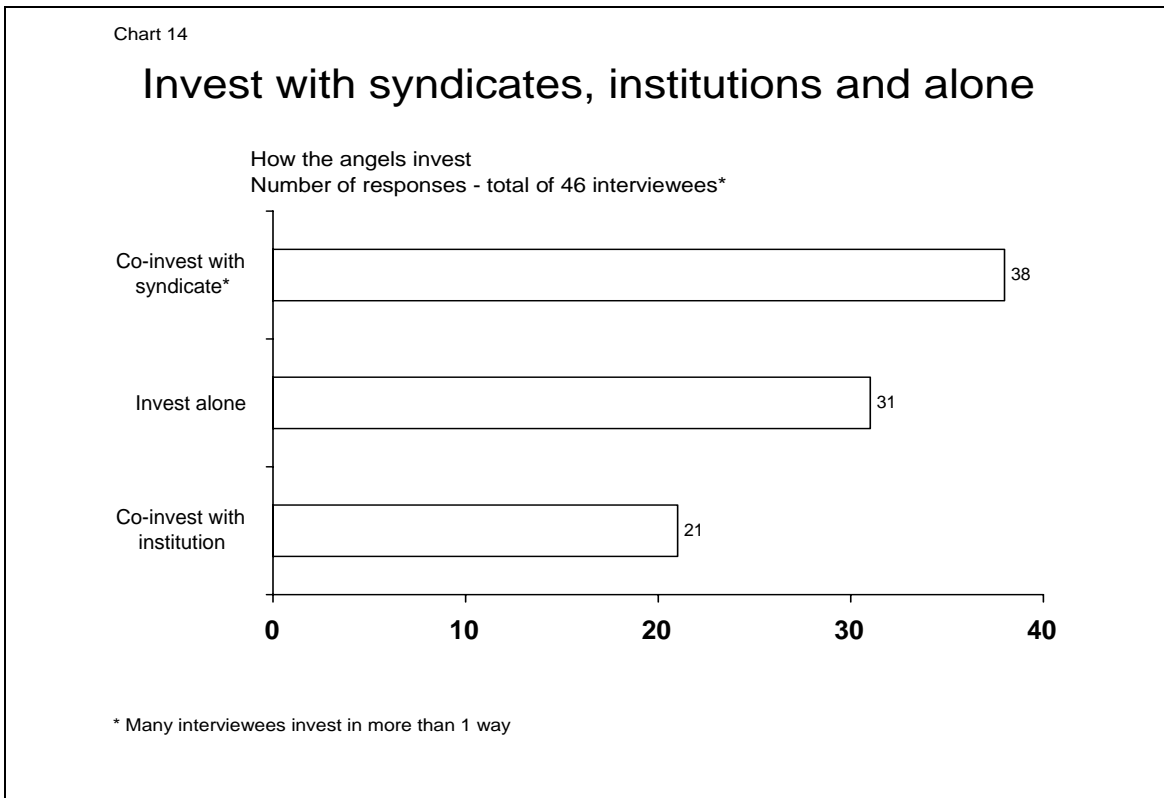


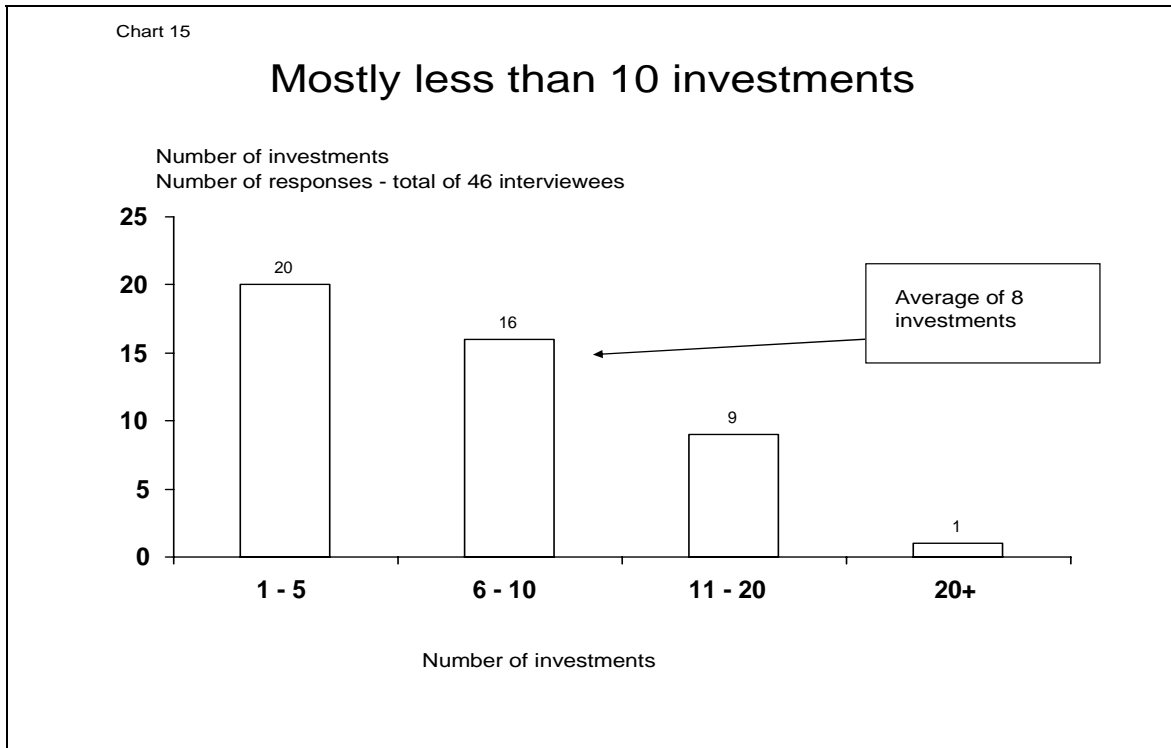
Chart 14 - Invest alone or with others



Finding 11: The average number of investments made is eight, with a range from two to 32.

The average number of investments the angels have made is eight. This ranges from two to 32. Clearly, the longer an angel has been investing, the higher the number of investments that the angel is likely to have made. Most angels have made around one investment per annum since becoming an angel.

Chart 15 - Number of investments



Finding 12: Syndicate investments can reach venture capital level funding

Of the 38 angels who invested with others, the maximum syndicate size was \$50 million, the minimum \$50,000. In most cases involving syndicates, the capital raising was equivalent in size to that a venture capital firm would make. The average minimum of these group or syndicate investments was \$147,000; the average maximum was \$5.5 million.

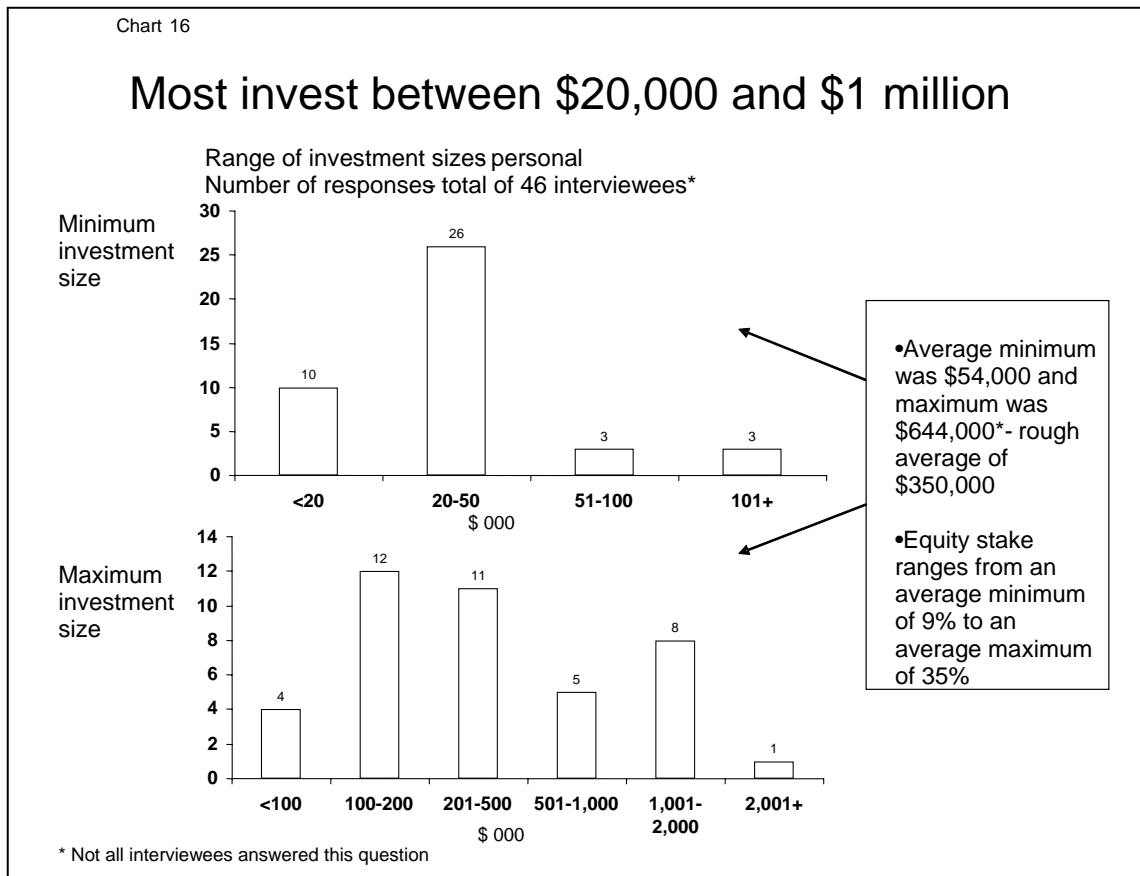
Finding 13: Personal investments range from \$5k to \$2.6m¹² with a rough average of \$350,000; taking an equity stake averaging between 9% and 34%.

Individually, angels invest an average minimum of roughly \$54,000 and an average maximum of around \$640,000. The smallest investment size was \$5,000, the largest \$2.6 million with a rough average of \$350,000. These numbers suggest that the 46 individual angels we interviewed have made angel investments of more than \$125 million.

Only four investors held a maximum stake of more than 50%, with the range averaging between 9% and 35%.

There was wide variation in investment size and equity stake taken across the collection. What did not vary as much was the percentage of available investment capital that the angel was willing to put into angel type investments. The quantum of investment represented by this percentage varied, of course, according to total wealth. This point is expanded upon at the end of section two. It is clear that the size of the angel's wealth determines the amount he or she is willing to invest in each deal.

Chart 16 - Minimum and maximum investment size

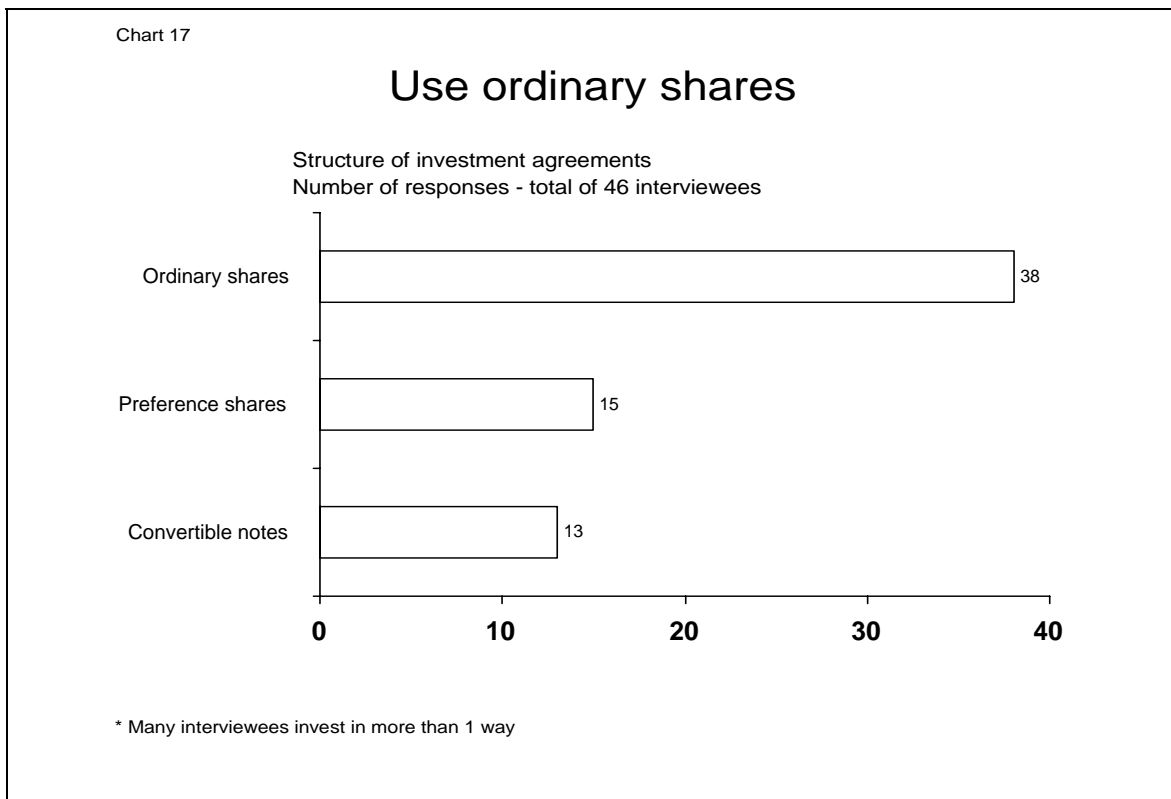


¹² One investor invested \$7 million, however this was such an outlier it has been excluded from the analysis

Finding 14: Ordinary shares the most popular for shareholder agreements

Angels reported that most shareholder agreements are based on ordinary share structures. Smaller investors tend to get ordinary shares in return for their investment. Larger investors take a variety of approaches, depending on the situation. One reason provided for this was that smaller investors tend to be dealing with smaller companies and less experienced entrepreneurs, who may be put off by complicated financial deals. Other reasons given included an impression that incoming venture capital firms like clean investment sheets and a reluctance to spend money on legal fees at this early stage. More sophisticated or experienced angels preferred convertible notes or preference shares. Other investors believed that more complicated investment structures put too much pressure on management. Most angels indicated that they do not require restrictive covenants in their investment agreements, but some do. Those that do, often have covenants relating to further investment or sale of the company, as well as to key performance indicators or milestones.

Chart 17 - Structure of investments



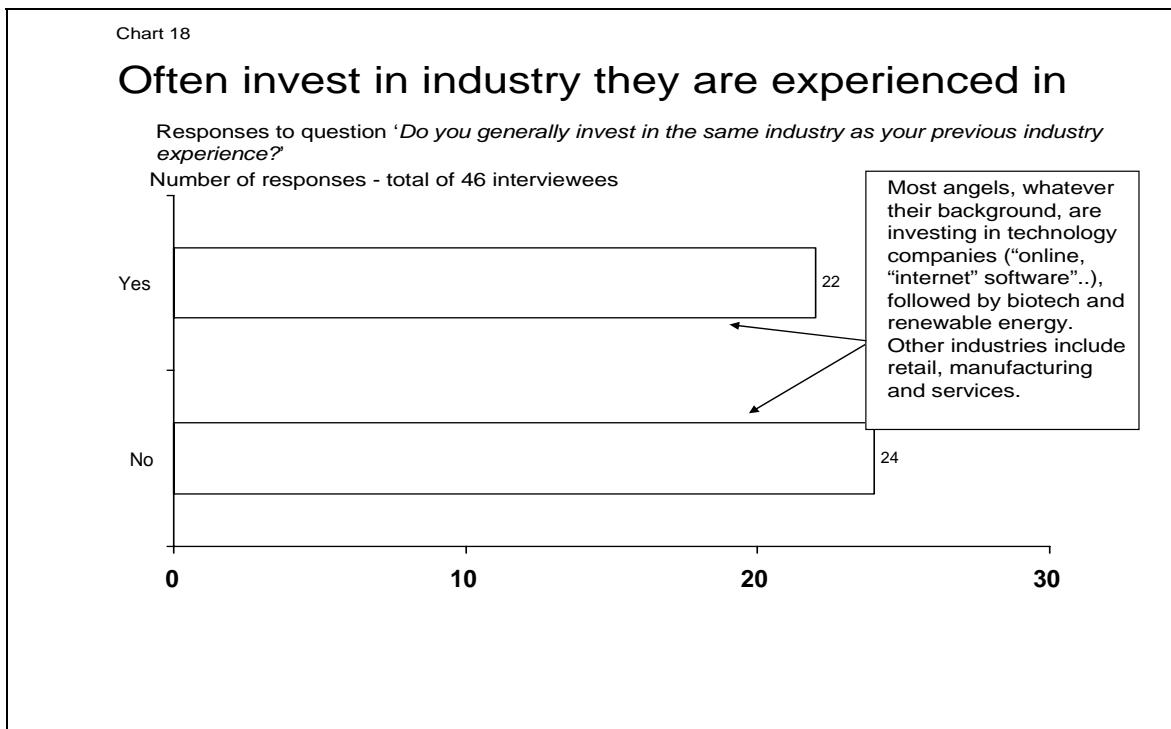
Finding 15: Approximately half invest in industries familiar to them, often ICT, but 'the professionals' tend to have a broader portfolio of investments

Forty-eight percent of our collection invests largely in industries in which they have direct industry experience. This was less likely to be the case though for 'the professionals'. Members of this group had experience across a wide range of industries (through consulting, finance, accounting, or advisory roles). Thus, they indicated that they are able to offer their companies a more generic set of management or financial skills, which are valuable to companies in any industry, rather than technology or operational skills specific to a single industry. This professional group tended to rely on their own networks or on specific technical experts to supplement their knowledge when doing due diligence. The 'early winners' were more likely to focus on technology companies, as their expertise and understanding were more likely to be in this field.

Those that say they will invest in industries beyond their direct experience are usually more concerned about other factors such as whether they can add value to the business or whether the business interests them.

Technology, online, and software businesses feature prominently among the industries our collection invests in. The majority of investors have at least one investment in this space. Biotechnology and renewable energy investments are the next most prominent in terms of industry sectors invested in. Other industries mentioned include restaurants, retail, construction, manufacturing, fast food, mining, medical devices, packaging, and engineering services.

Chart 18 - Invest in industry are experienced in



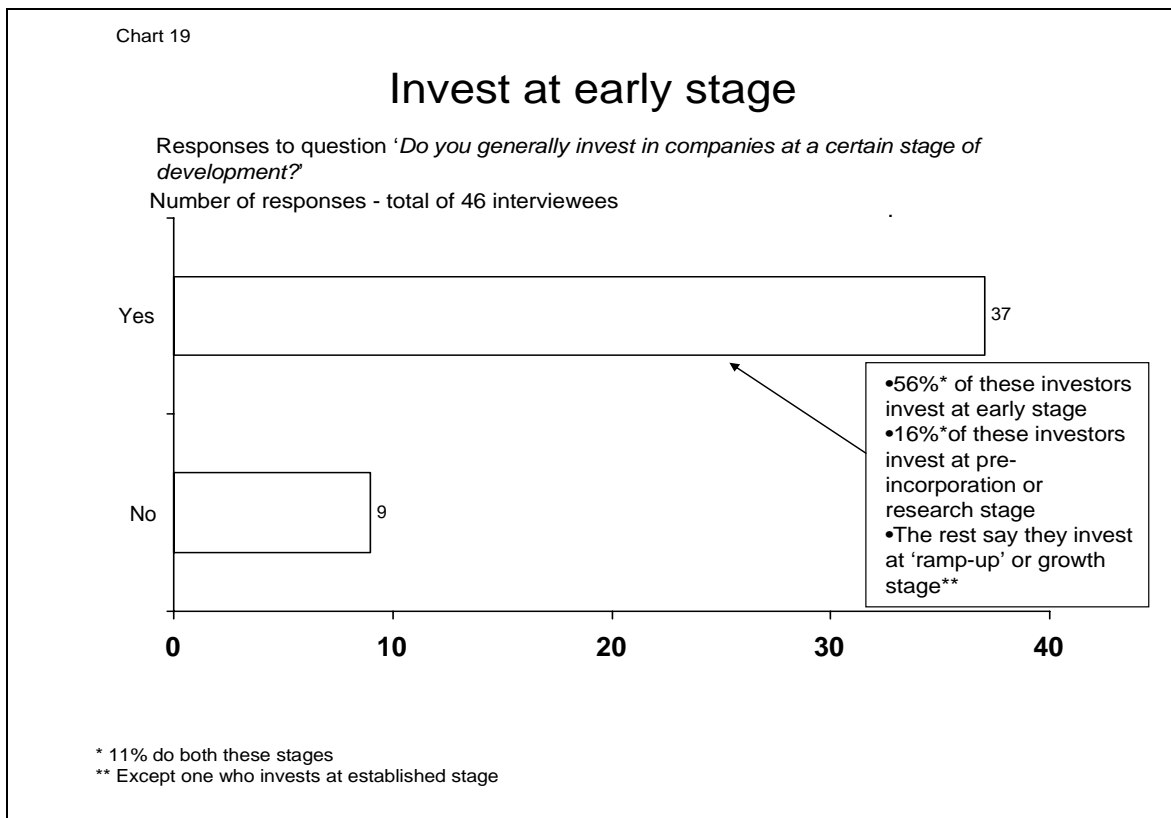
Finding 16: Most invest at early stage or 'ramp-up' stage

Eighty percent of our collection invested consistently in companies at a certain stage of development. In these cases it was typically at early stage (56% of cases), meaning post-incorporation, but usually within 1-2 years of the company starting-up. A handful of these investors (16%) would also invest at pre-incorporation stage, most often in high-tech or biotech ventures, where the angel sees the research or IP as having potential, and is willing to work with the inventor or scientist to create and build a company around this.

Some angels referred to the stage at which they invest as 'ramp-up' stage, which was less about the age of the company, just that the business was ready to take on an investment to grow.

Because founders generally want to maintain a significant share of equity, investors who want to invest large amounts of money typically have to invest at a later stage, where the risk profile is lower, as are potential returns.

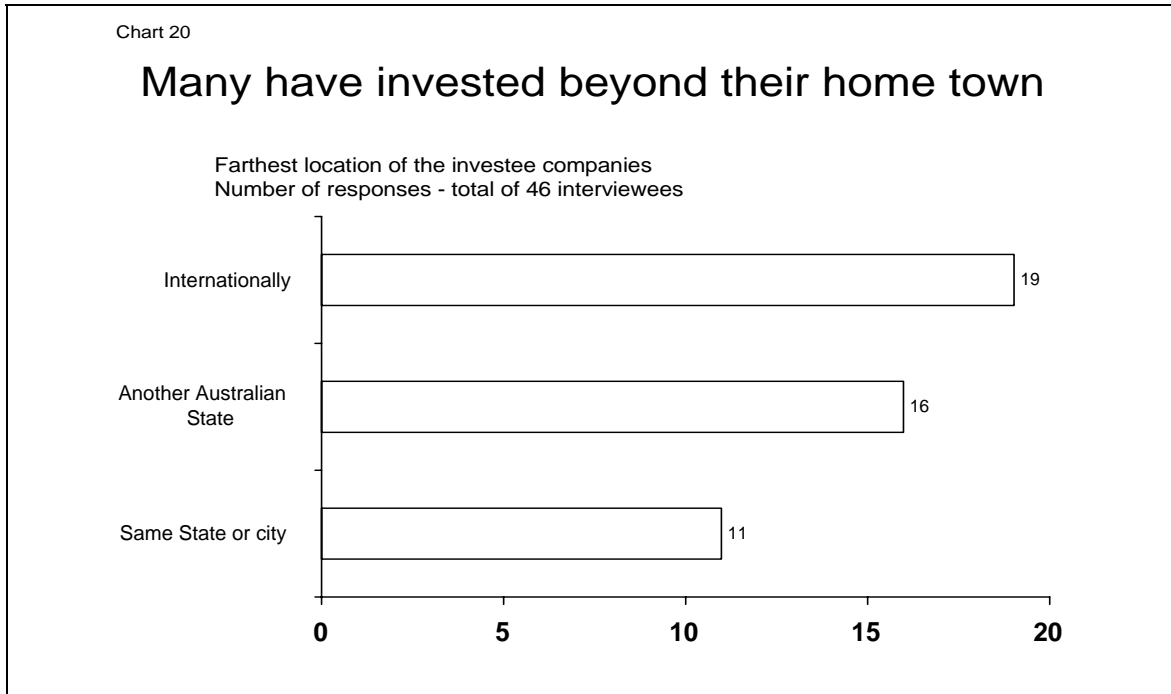
Chart 19 - Invest at a certain stage of development



Finding 17: Almost half have had an investment overseas in their portfolio

While the majority of the angels' investments were located in their home town, most angels also had investments further away. Somewhat surprisingly, 41% of our interviewees had invested in an overseas company. These opportunities usually came through their business or social networks, and were often in the US or Europe.

Chart 20 - Investing internationally common



Finding 18: Most are active in their investee companies – in both formal and informal ways – but generally spend less than two days a week helping them

Ninety one percent of our collection was either active or very active in their investee companies, the majority (65%) being very active.

Eighty percent of the angels take on a formal role within the company and this is usually (81% of cases) as a board member. Fewer than a quarter have taken on management positions.

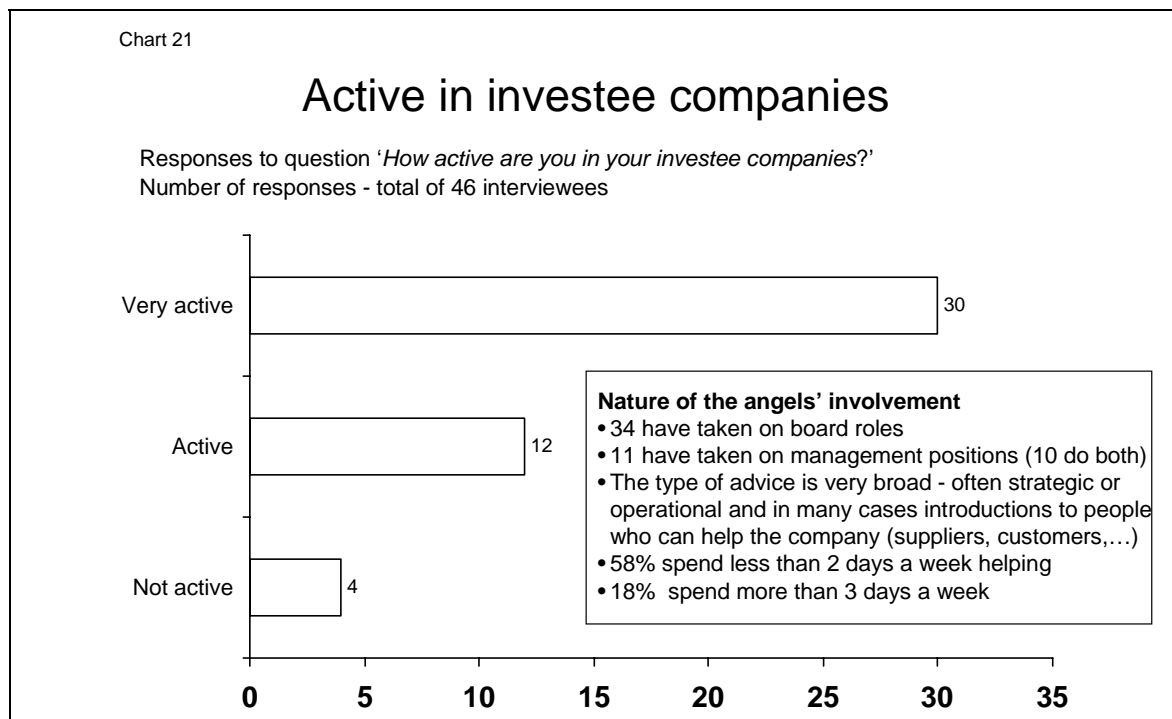
There was reluctance from some angels to take on board positions, due to fiduciary responsibilities of board members, fear of ‘insolvent trading’ provisions in the corporations law, and general concern about litigation risk. A couple of angels are members of ‘oversight committees’ or ‘advisory boards’– effectively providing a board member type role without the financial risk associated with a directorship.

Angels gave their companies advice across an extremely broad spectrum. Often the advice involved contacts or introductions that could prove critical to the company’s success (for example, introductions to potential customers). Advice was also offered frequently about strategy and operations.

Fifty eight percent of angels spend less than two days a week helping their set of investee companies. Our findings indicate that angels with day jobs devote less time; whilst angels that are purely focused on angel investing, devote more time.

The ‘experienced entrepreneurs’ spend more time with their companies, usually because they don’t have full-time jobs and therefore have the time to spend. They are also likely to have selected their investments, in part, on the basis of being able to leverage their time.

Chart 21 - Active with investee companies



Finding 19: Most of the angels have no specific expectation of total returns but most expect many multiples of invested capital over 3-5 years

More than 80% of the angels interviewed responded 'no' when asked if they had an expectation of the total returns for their investment. However it was clear that they expected a significant multiple of their capital returned if the venture was successful. Angels spoke about 3 times, 5 times, 10 times and higher. Sixty-three percent expected the returns to flow through within 3 to 5 years, 22% under three years, while 15% were happy to hold their investments for longer periods of time.

Chart 22 - No specific expectation for financial returns

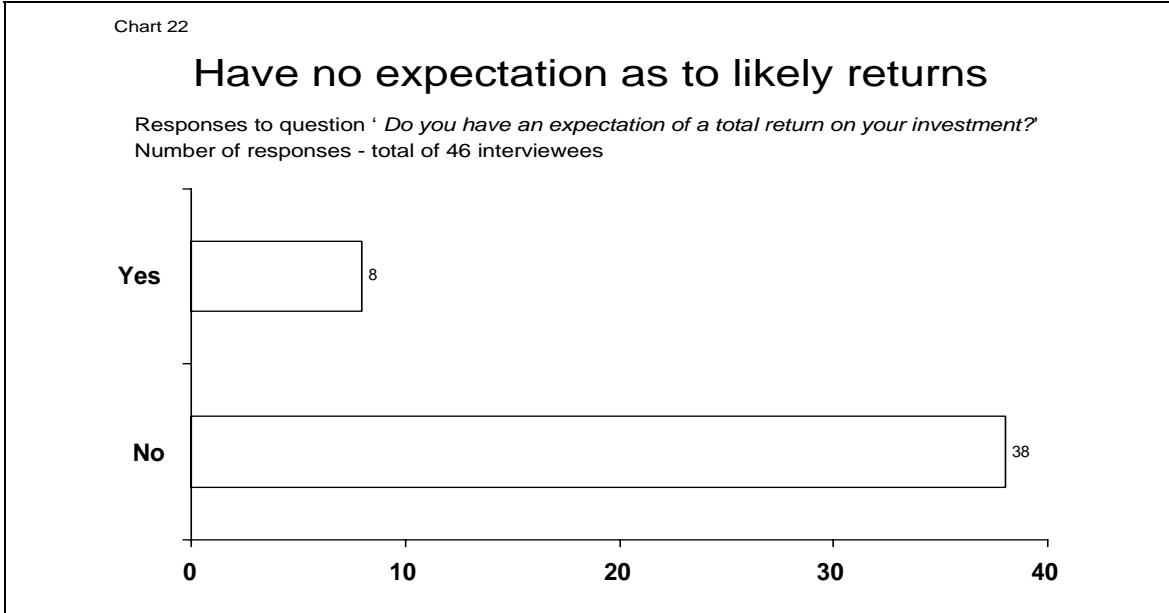


Chart 23 - Timeframe to returns



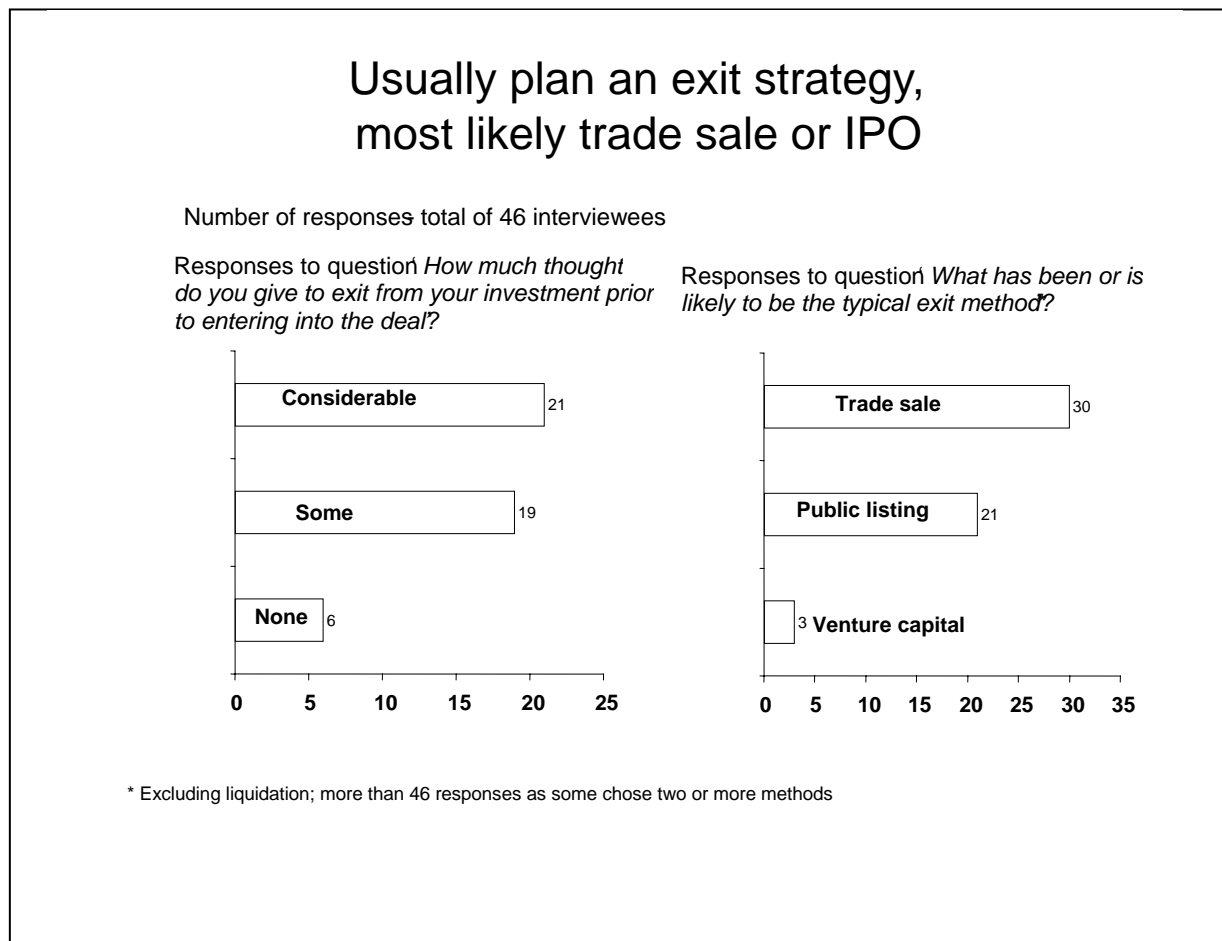
Finding 20: Angels usually give advance thought to likely exit options, which is most often via a trade sale or IPO

Eighty-seven percent of our collection considers exit strategies prior to entering into the deal. Experienced angels say that they have learnt to consider likely exit options through past investing experiences.

Some angels want to know, with a high level of specificity, who the entrepreneur believes the trade sale can be made to – not just that the expected exit will be by trade sale. Angels said that they do not believe that events will flow exactly in accordance with the business plan. However, few angels (13%) report that they specify in the shareholder agreement the timing and manner of exit, for the simple reason that it is too uncertain.

Angels mostly expect an exit to be via a trade sale (65% say it is or has been a likely exit method) or IPO (45%).

Chart 24 - Plan for exit and most likely exit method



Finding 21: Angels appear to have limited interaction with venture capitalists

Angels appear to have limited interaction with the formal capital markets. The main form of interaction is through the public listing of an investee company when exiting or reducing exposure to an investment. Venture capital (VC) firms were involved as co-investors in a small number of situations, and exits via a VC investment were uncommon. In our opinion it may be that the opportunities that appeal to angel investors are quite different, with

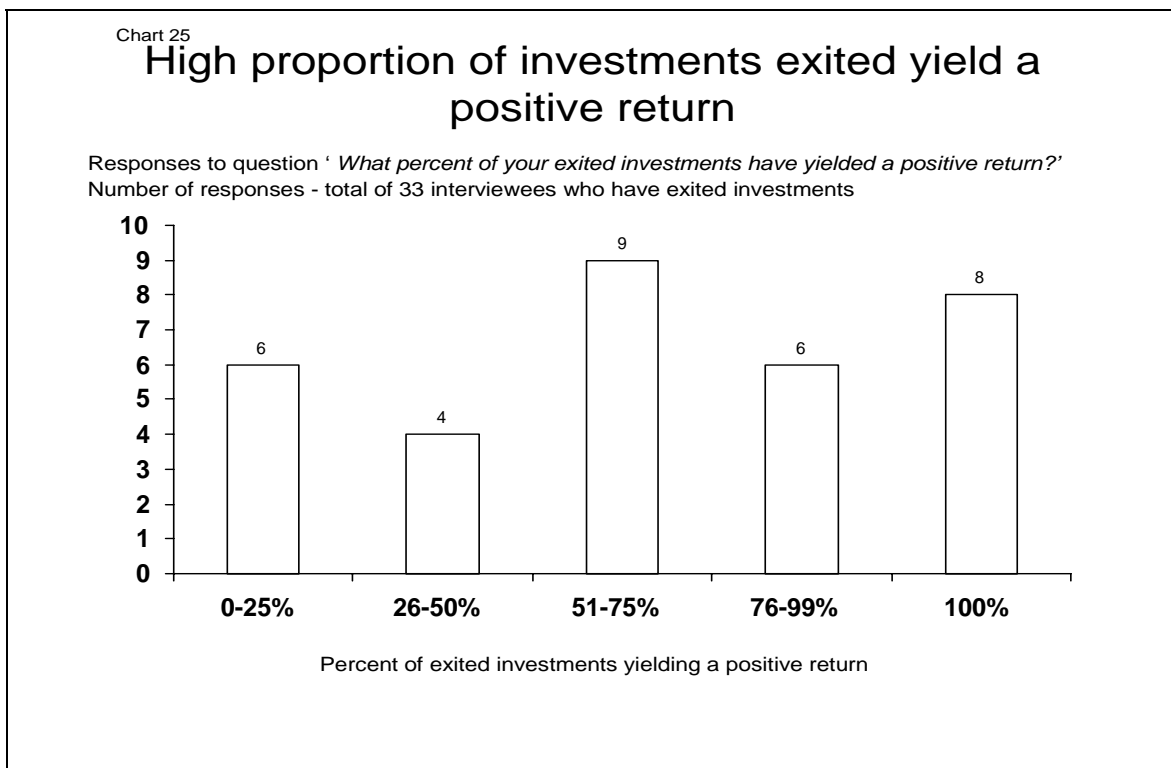
respect to risk, reward, and duration, from the opportunities that appeal to VCs. If this were the case, then there would be an additional reason to support angel investing.

Finding 22: Vast majority of investments have yielded a positive return

Seventy-two percent of the angels have exited one or more of their investments. Of those, they have exited an average of 41% of their investments. This supports their plans to hold their investments for 3-5 years (based on the average length of time as an angel investor being nine years, it is expected that around half their investments would have been exited). A surprising number of angels (69%) who have exited any of their investments say that more than 50% of their exits yielded a positive return.

We consider that one possibility for this positive return is that the angel market is generally a good place to invest; another is that the angels we interviewed are either unusually skilled or selectively forgetful. It is also possible that many angels are staying with losing investments until they are liquidated, rather than exiting more quickly and acknowledging a loss. The 'play money' approach to angel investing would support the latter hypothesis.

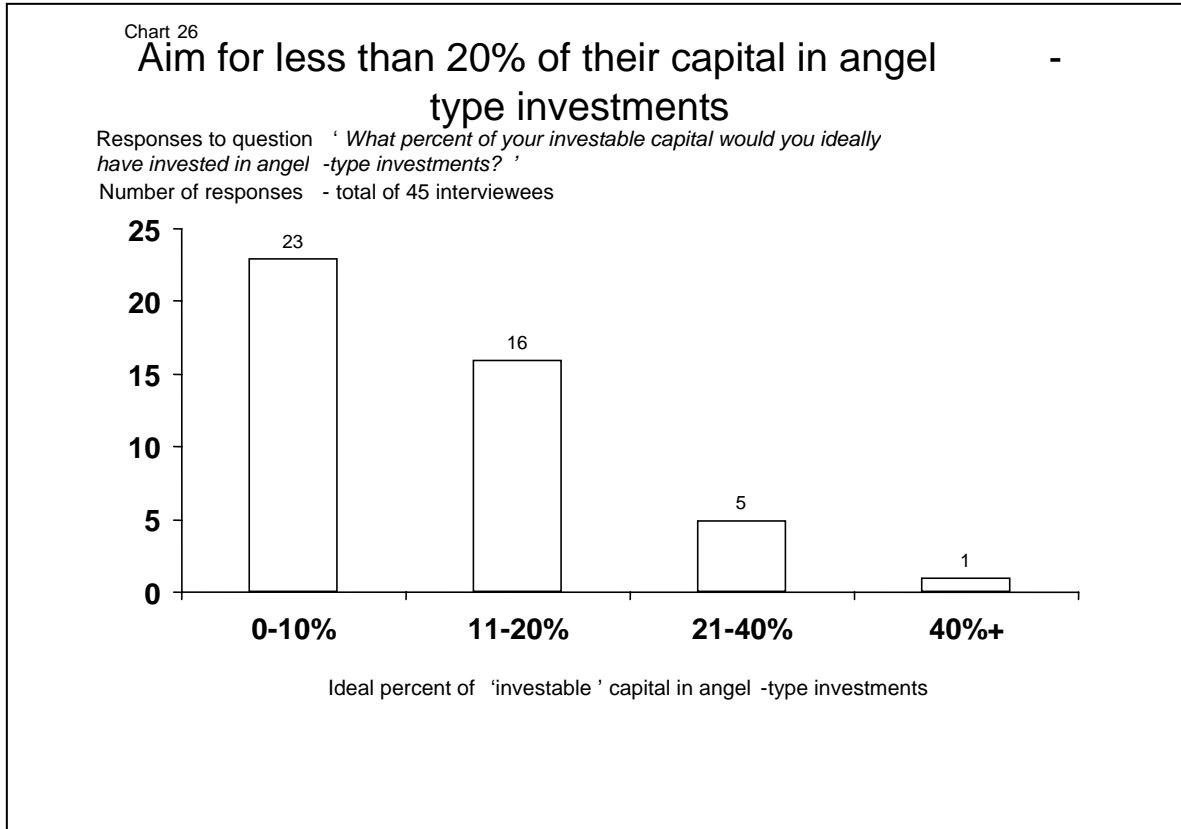
Chart 25 - Percent yielded a positive return



Finding 23: Angel investors would like to invest up to 20% of their capital in angel type investments

The interviewees, all of whom are active angel investors, generally prefer less than 20% of the amount of investable¹³ capital in angel-type investments. Around half indicated that less than 10% was ideal. Those investing more aggressively generally had had a big success (in terms of return) from one of their investments, and were choosing to either keep the money invested in that company, or to reinvest in other angel-type opportunities.

Chart 26 - Percent of investable capital in angel investments



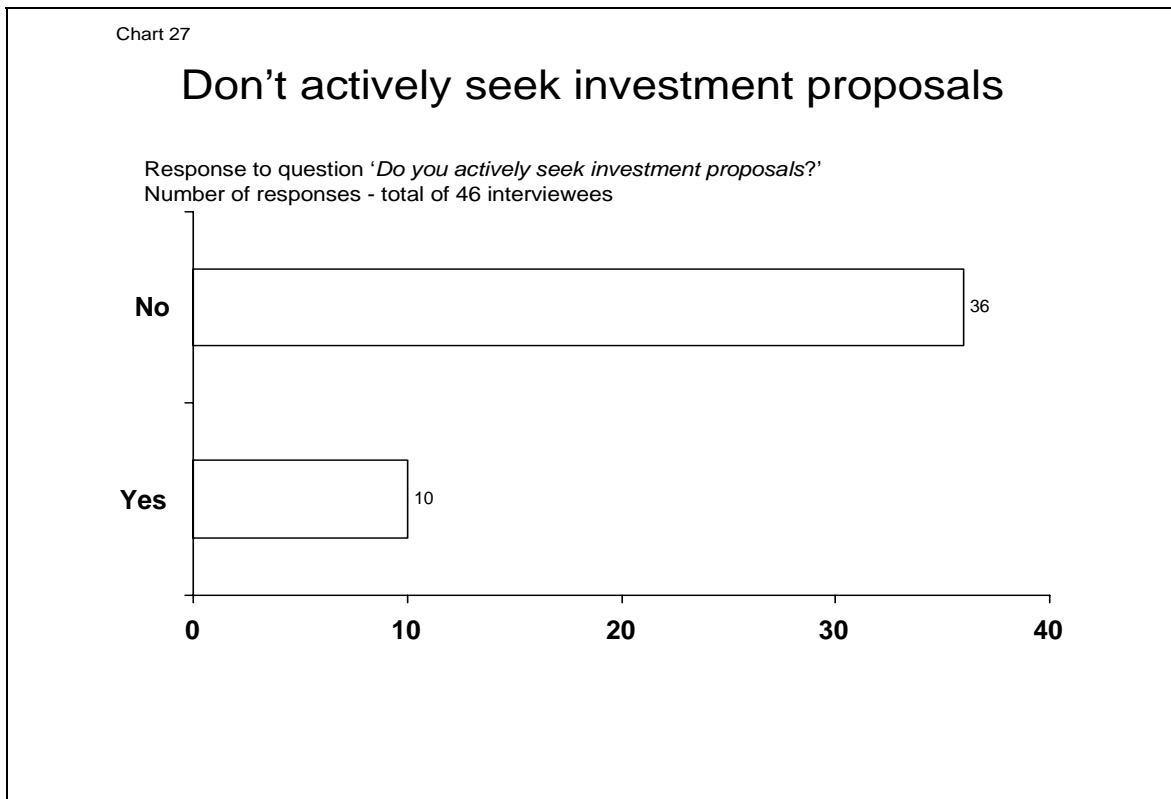
¹³ Capital available for investment (i.e. not in the family home)

Finding 24: Most angels don't actively seek proposals; proposals find them through informal networks

Seventy-eight percent of our collection say they do not actively seek investment proposals or approaches. Some angels attend functions whose purpose is to present investment opportunities, but they do not see these channels as a frequent source of deals. Only three angels say they find opportunities through the formal angel networks.

Angels report receiving approaches for investment mainly through close connections - usually from a friend, or colleague of one of their friends or colleagues. Some angels receive approaches through their public profile or speaking appearances.

Chart 27 - Don't actively seek investment proposals/approaches



Finding 25: Mixed views on formal angel networks – most are not members of one

There was a mixed response to the question about membership of angel networks. Some angels were not aware such networks existed. A large number had either been invited into one or had previously been involved with a network that no longer exists.

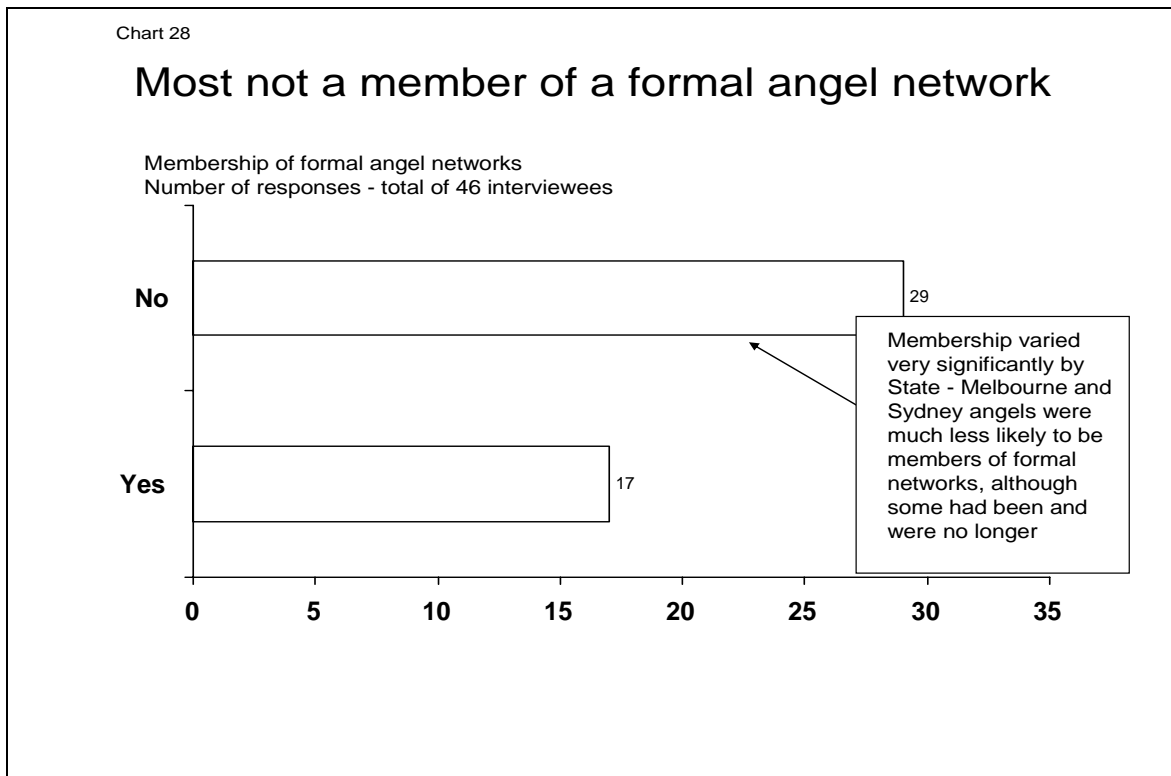
A high proportion of the Queensland (88%) and ACT (100%) angels we interviewed were members of newly formed angel networks. The reasons behind this were described in the section ‘Summary’ above.

Some angels did not consider themselves to be part of networks yet were tapped into more formal alliances of angels (see network section below).

Those that were not currently members of a formal angel network typically saw little point in joining one. They believed that they could source on their own what the angel network offered (deal flow and advice). Those not in a formal angel network, but open to the idea, said that they would be very selective in joining one, and that their decision would be based on knowing and trusting the other members.

Those that found networks helpful generally saw it as a networking or social event, on top of a possible source of deal flow or advice.

Chart 28 - Member of an angel network



Finding 26: Most receive more than 10 proposals a year

Most angels (76%) receive more than 10 investment opportunities a year and 43% see more than 20 a year. This is usually *'without trying very hard'*. The angels would typically consider fewer than half of these opportunities, and in cases where they receive many proposals, fewer than 10%.

Relatively little time was dedicated to reviewing these opportunities. It is only when an opportunity sparks the angel's interest that the true due diligence process begins.

Some angels we interviewed work as early stage or venture capital fund managers, investment bankers or service providers who specialise in raising funds for early stage companies. These people reported that they see a very large amount of deal flow in their day-to-day jobs.

Chart 29 - Number of investment proposals/approaches each year

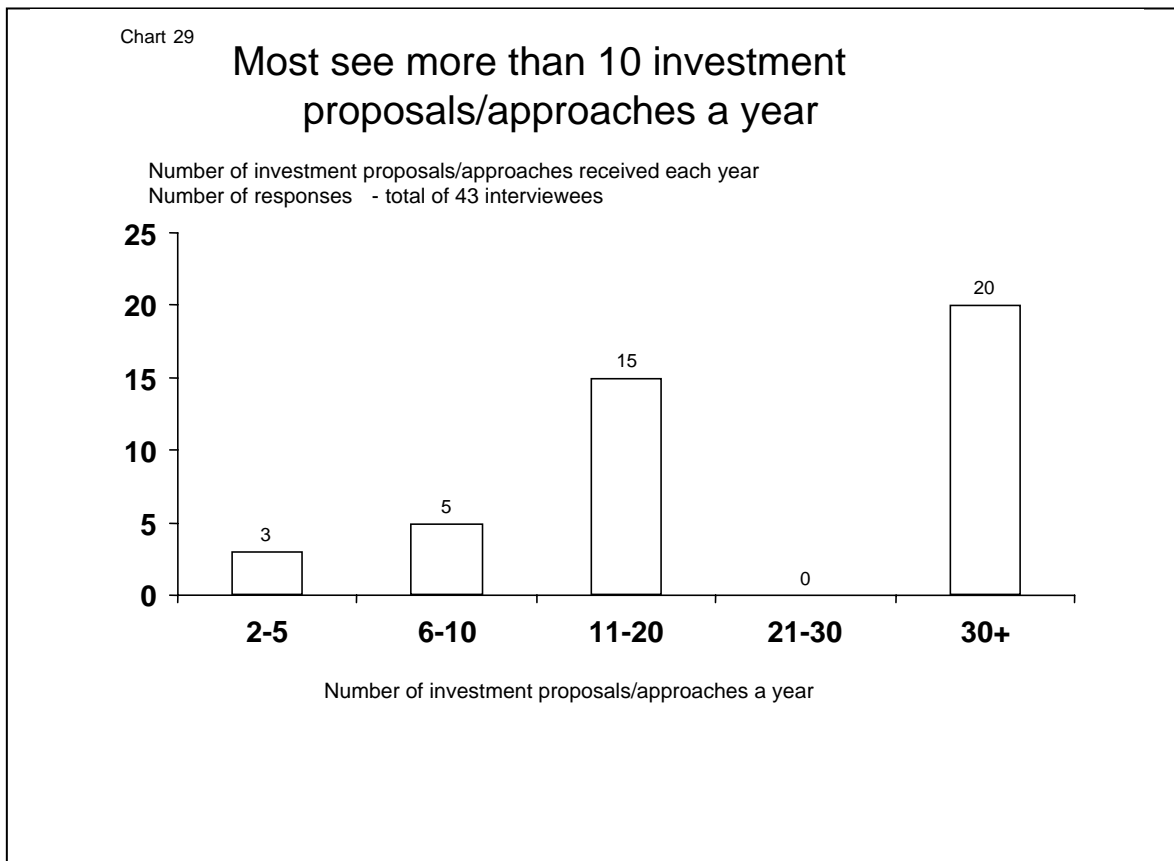
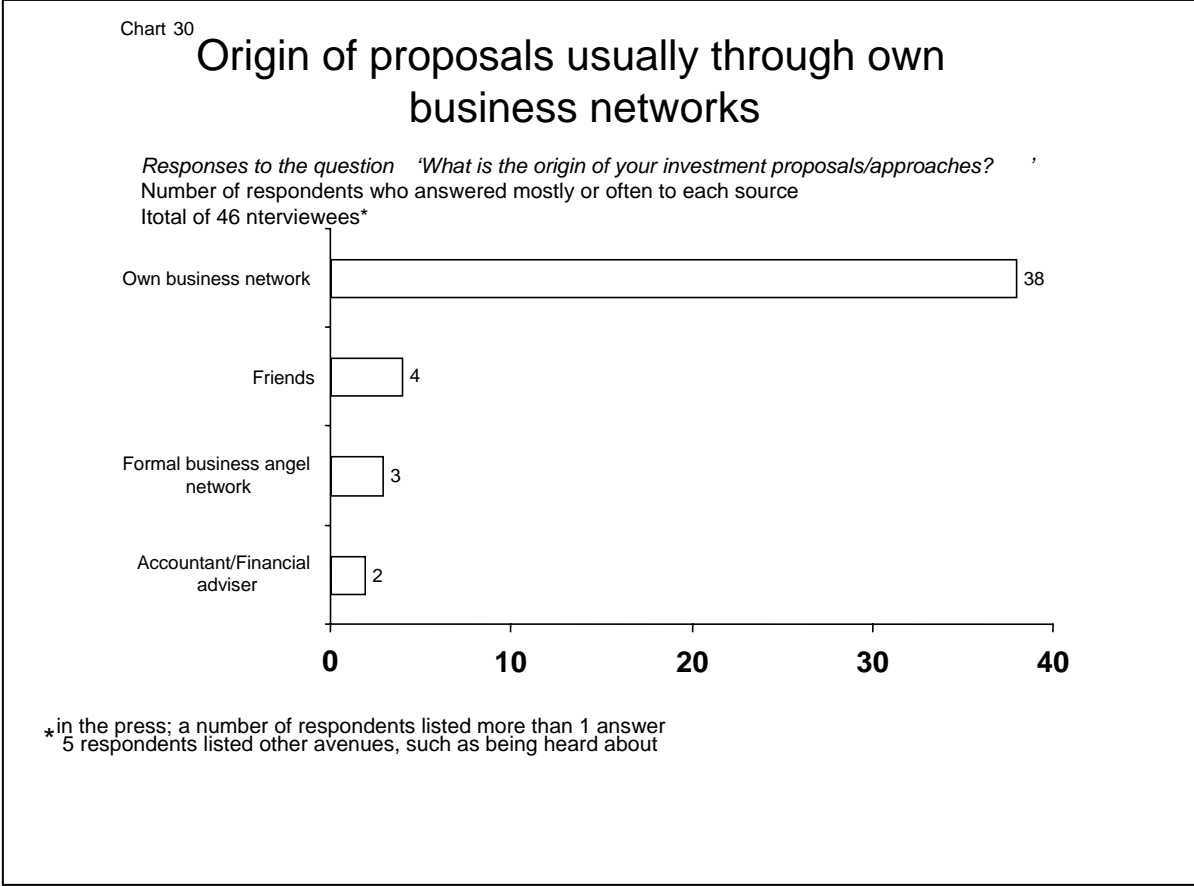


Chart 30 - Origin of proposals



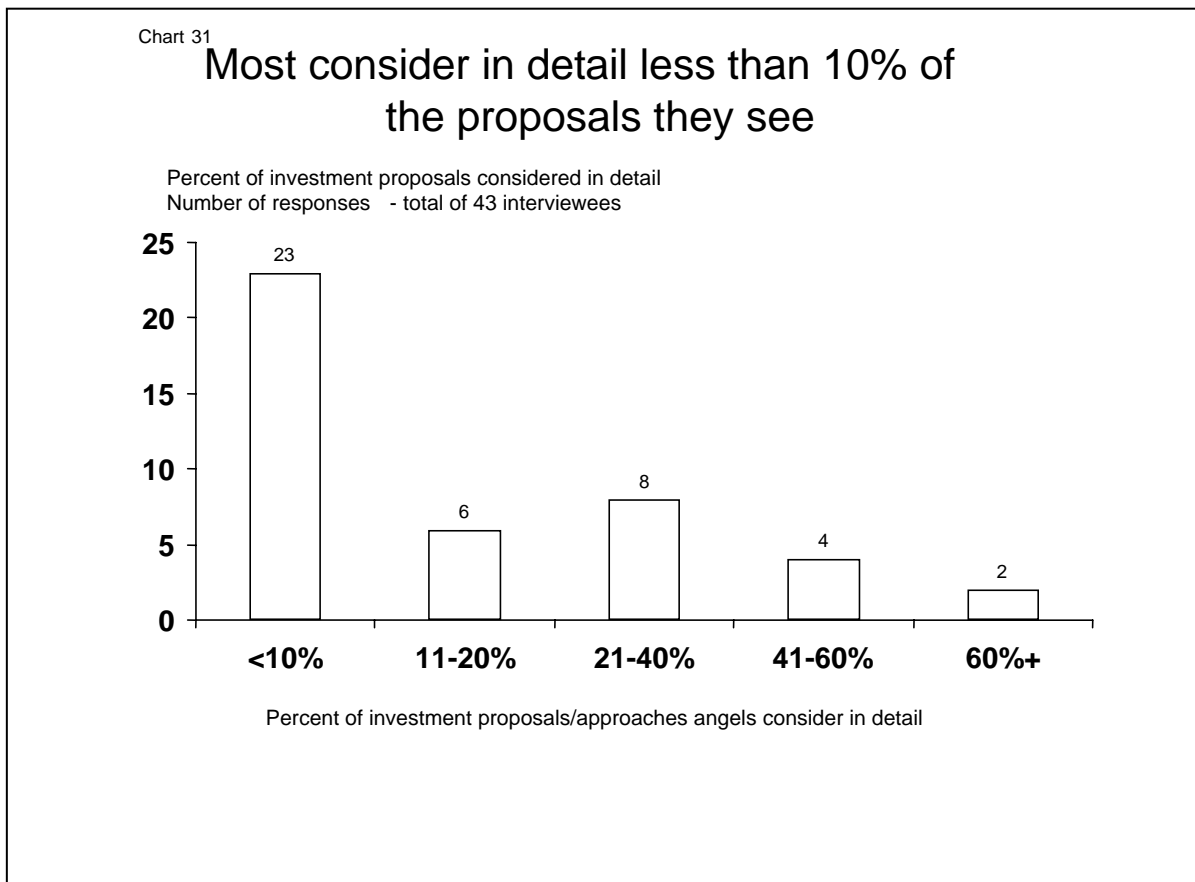
2iii). How they invest - Assessing an opportunity

Finding 27: Angels consider relatively few proposals in detail, have no formal process for reviewing them, and spend less than one day a week reviewing them

Angels were characteristically ruthless in their approach to culling proposals. They would spend very little time in their initial assessment, often relying on whether they know and trust the entrepreneur or management team, or know others investing in the company.

Once a company passed the preliminary 'sniff test', other factors were assessed such as the prospects of the industry in general, the location of the business, or the specific terms of the deal.

Chart 31 - Percent of investment proposals considered in detail



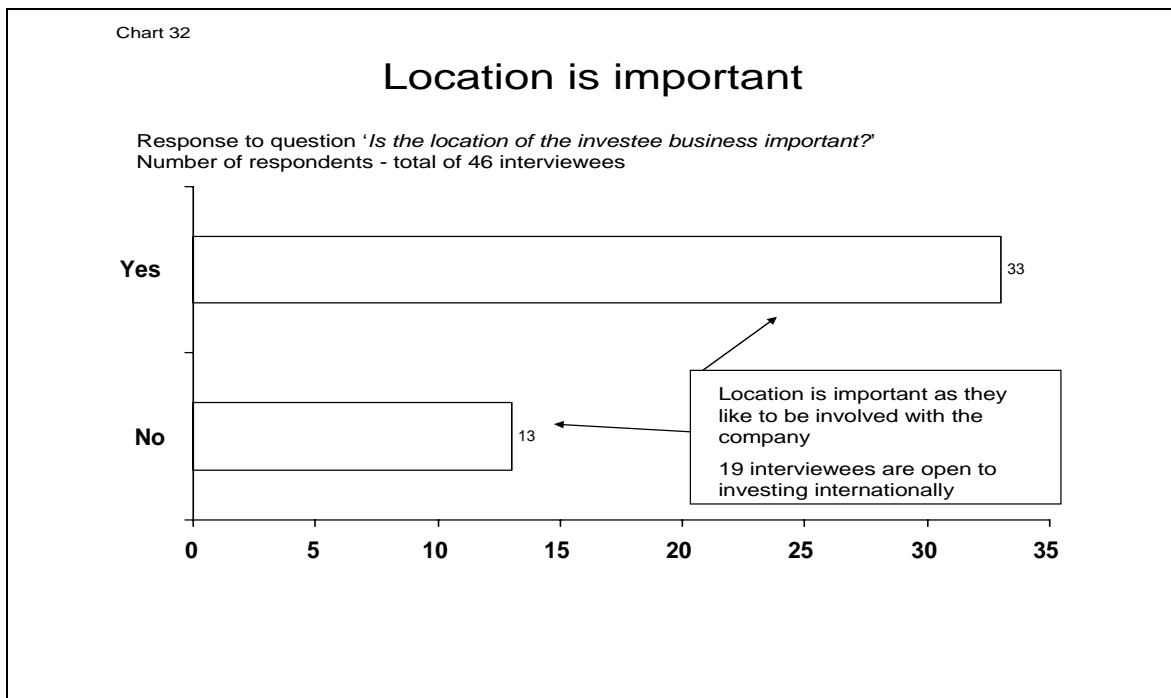
Finding 28: Location is very important

Location of the investee business was important for the vast majority of investors. This is reportedly because they are involved or very involved in their investee companies, and doing this remotely is relatively difficult. Equally, because angel investors prefer to invest in people they trust, they are more likely to invest closer to home.

Investors in technology businesses reported they were more likely to be comfortable investing in businesses beyond their home state. We believe this is possibly because these investors were experienced users of technology for communication and control.

Thirty-nine percent of the angels would consider investing internationally with 41% having actually invested overseas. When they have invested internationally, they have again done so through close networks. As discussed below, angels are happier to invest in a distant business if they know and trust the management, entrepreneur, or other investors in the business.

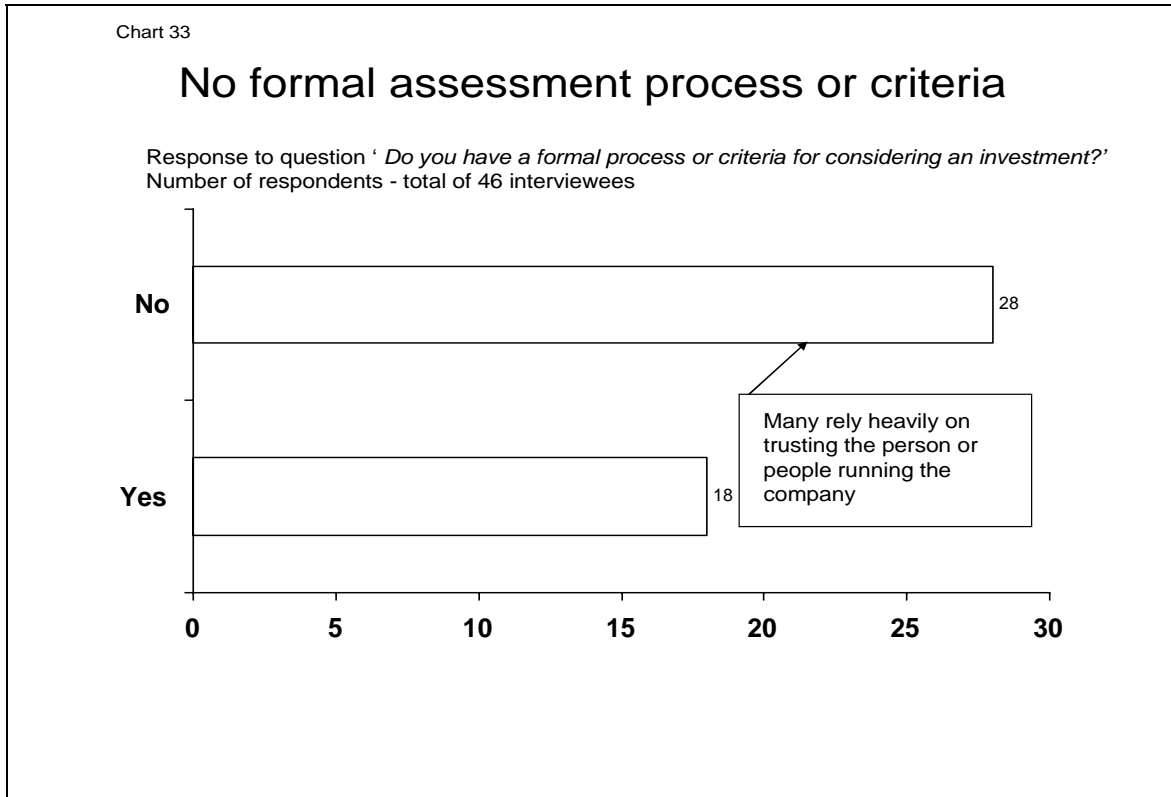
Chart 32 - Is the location of the investee business important?



Finding 29: Most say they have no formal process or criteria for assessing an investment, but they know what they are looking for

Sixty-one percent of our collection say they have no formal process for considering an investment. Some of the angels relied on an informal but repeatable process, while most relied more on intuition, gut-feel or instinct.

Chart 33 - Formal process for assessing an investment



Finding 30: Management is the most important factor in assessing an investment

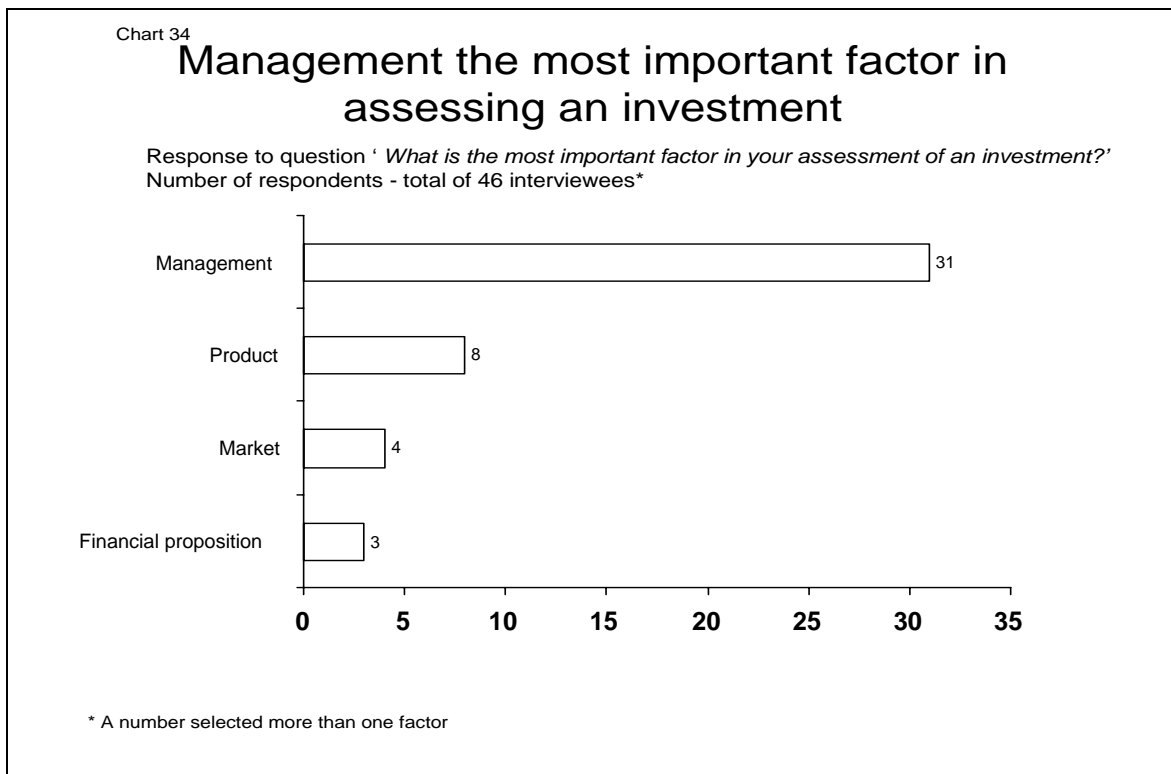
When asked what the most important factor is in assessing an investment, 67% said the people or management. In those they invest in, angels look for integrity, honesty, and trustworthiness as well as smarts. They also looked to ensure the motivations of management were aligned to their motivation.

Our findings revealed that some investors were clearly backing a person or people. Angels believe that the first idea might fail, so good people are needed to develop and succeed at the second or third idea.

Other factors mentioned, aside from management, were whether the business had customers or partners, what the market was like, what strategic position the company could exploit and whether the investment would be of interest to other investors (for exit).

Technology sector investors were more likely to specify the product and idea. Those investing bigger amounts were less likely to place management first, as they had the financial flexibility to recruit the right team to run the company.

Chart 34 - Importance of factors in assessing an investment



Finding 31: It takes between one and three months to make a decision to invest, with the angels doing most of the due diligence themselves

Most angels take one to three months between first sighting an investment opportunity and the time they actually invest. The time taken is largely a function of how organised and 'investment-ready' the investee company is. Few (less than 15%) deals happen in less than one month. Those that take over six months usually involve a company that is not ready for the investment. Investments in companies being spun out of universities or other institutions also take longer to complete; angels attribute this to slow decision-making and other delays on the part of the institutions.

Ninety-three percent of angels get involved in the due-diligence of a company, mostly saying they get heavily involved.

Angels often rely on friends or colleagues to help assess a proposal – they find someone with the right technical background to help them better understand the potential of the business or the market it is operating in. Lawyers and accountants are often used to complete the deal for the bigger or later stage deals.

Chart 35 - Time taken before investing

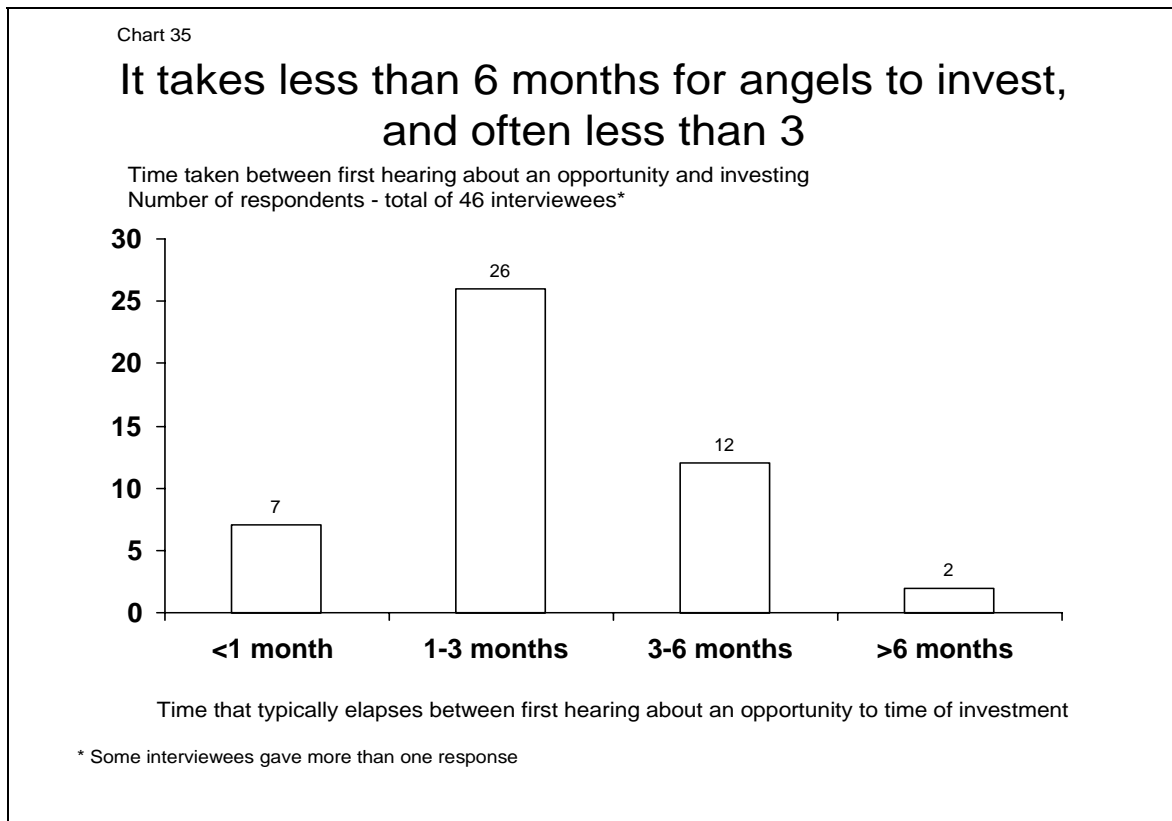


Chart 36 - Angel involvement in due diligence process

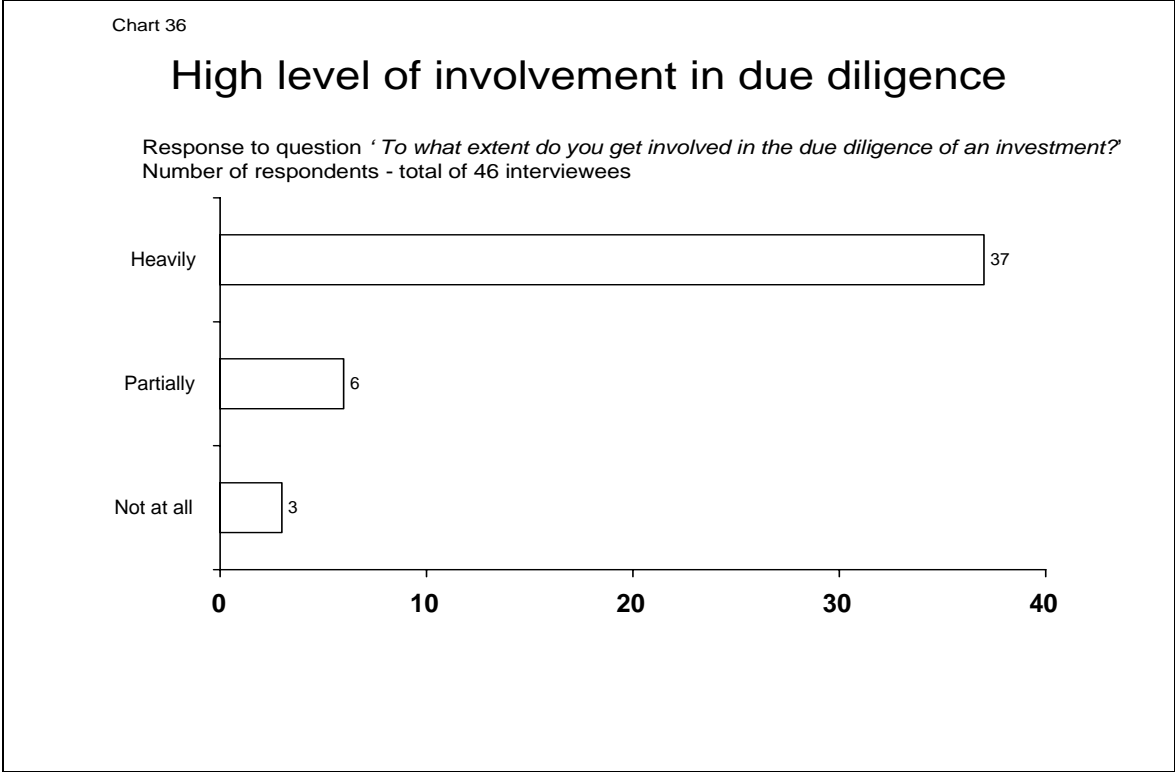
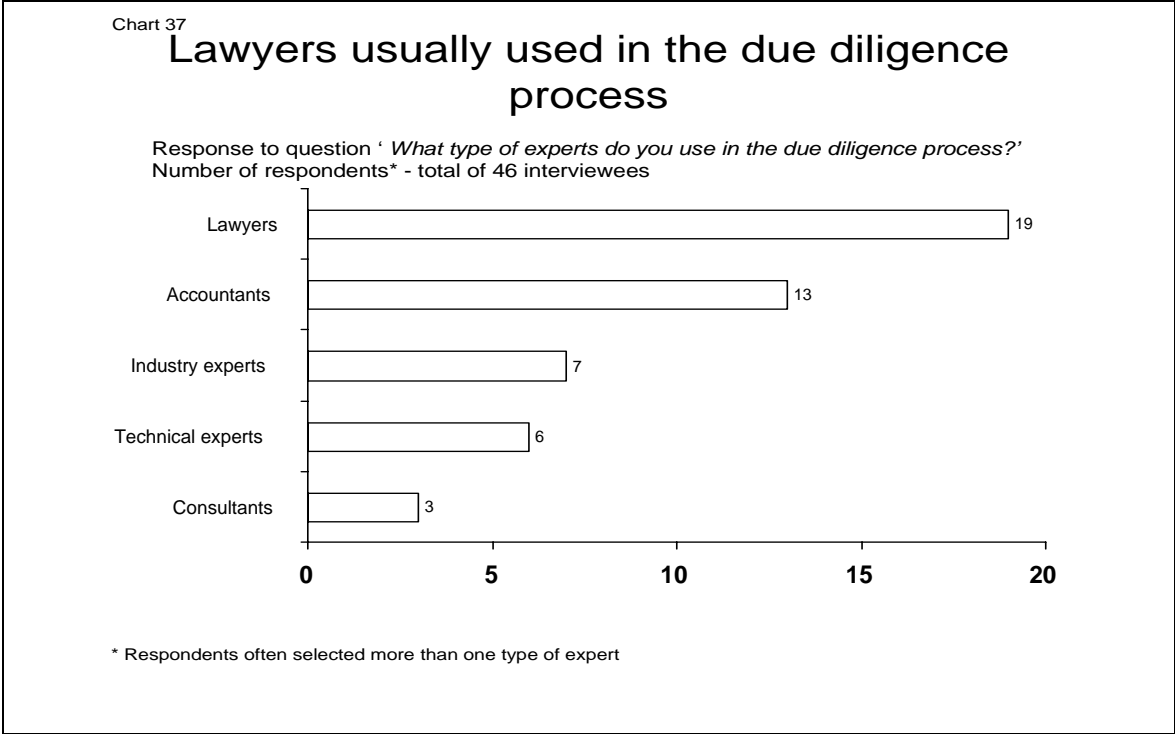


Chart 37 - Type of experts used in due diligence process



Finding 32: Government support means very little to the angels, but usually doesn't hurt

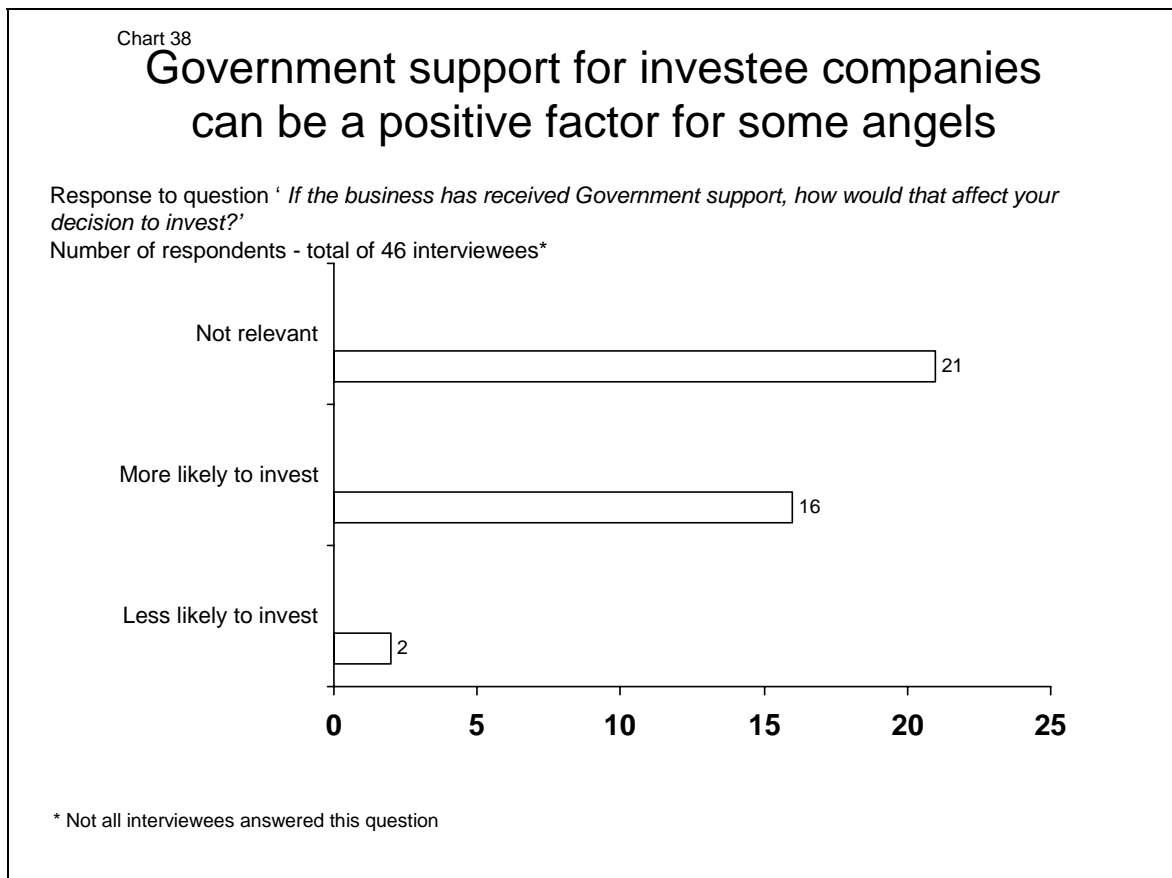
Most angels did not pay much attention to whether a company had received Government support. Of course, all investors appreciate free, non-dilutive capital, whether from the Government or another source. Of the angels that responded to this question, forty one percent said it would help if the Government had already done some due diligence, but would still carry out their own due diligence. Apart from two angels, the remainder said their investment decision would be unaffected.

There were mixed views on the impact of Government support on their companies. A few investors were critical of Government and felt that government involvement could have negative consequences – usually due to reporting requirements and restrictive program rules.

Others said that Government support was a two-edged sword. The tick of approval is a positive, but the paperwork and reporting is a negative.

Some investors had specific comments about particular Government programs. The COMET program received both positive and negative comments, based on the quality of the local advisor. The COMET program rules were questioned for discouraging future investment in the companies via the requirement for a percentage of all future funds raised to go to the COMET advisor, regardless of their degree of involvement in the fund raising process.

Chart 38 - Impact of Government support on angel view of an investment opportunity



3. How the market works

Finding 33: Most plan to invest in the next 6-12 months, have no difficulty finding opportunities, and have seen no change in the flow of opportunities.

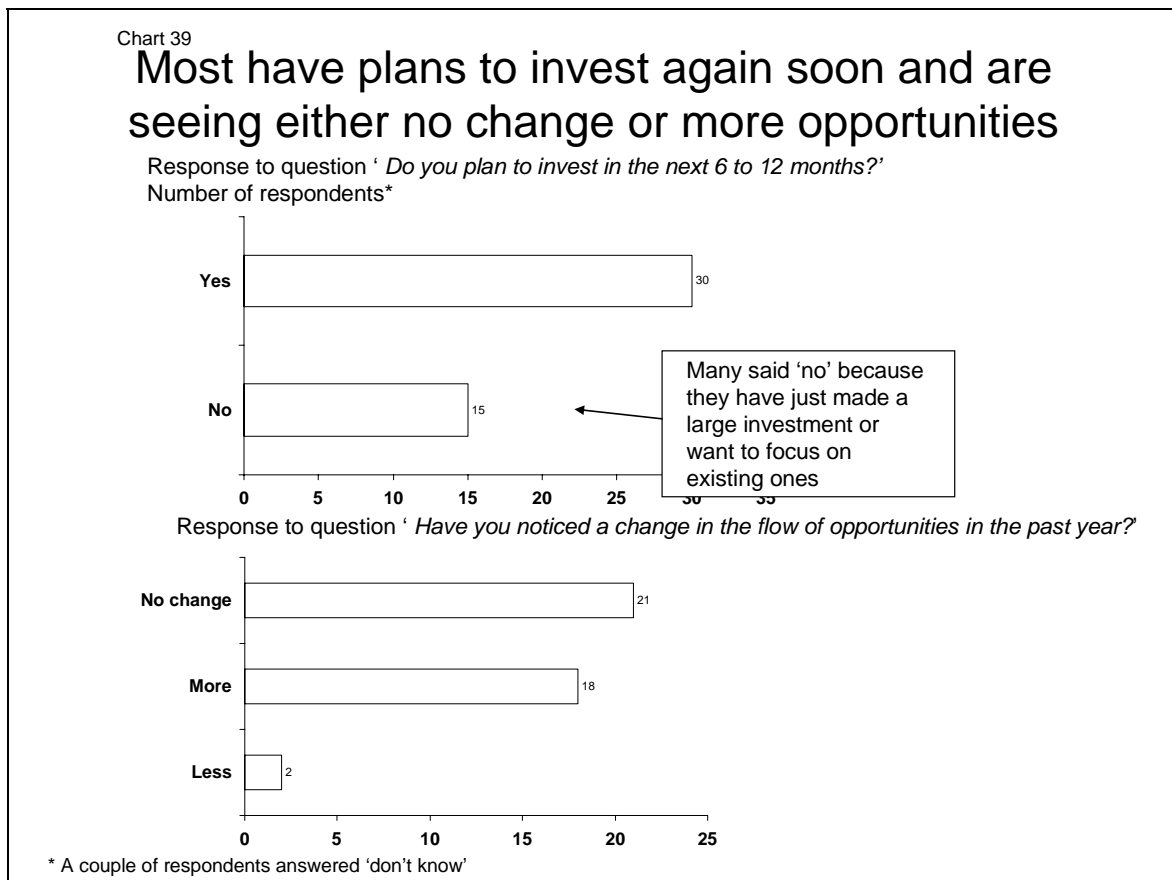
Two-thirds of the angels say they plan to invest within the next 6-12 months. Those that do not are typically swamped with existing investee businesses, or in some cases have taken on full-time jobs that are consuming their time.

Sixty-three percent say they have no difficulty finding opportunities; 28% say they do have difficulty. Those that have difficulty finding opportunities are more likely to be the 'early winners' or 'experienced entrepreneurs' and are more likely to be located in Queensland or ACT.

Most see there as being no change (46%) or an increase (39%) in opportunities over the past twelve months.

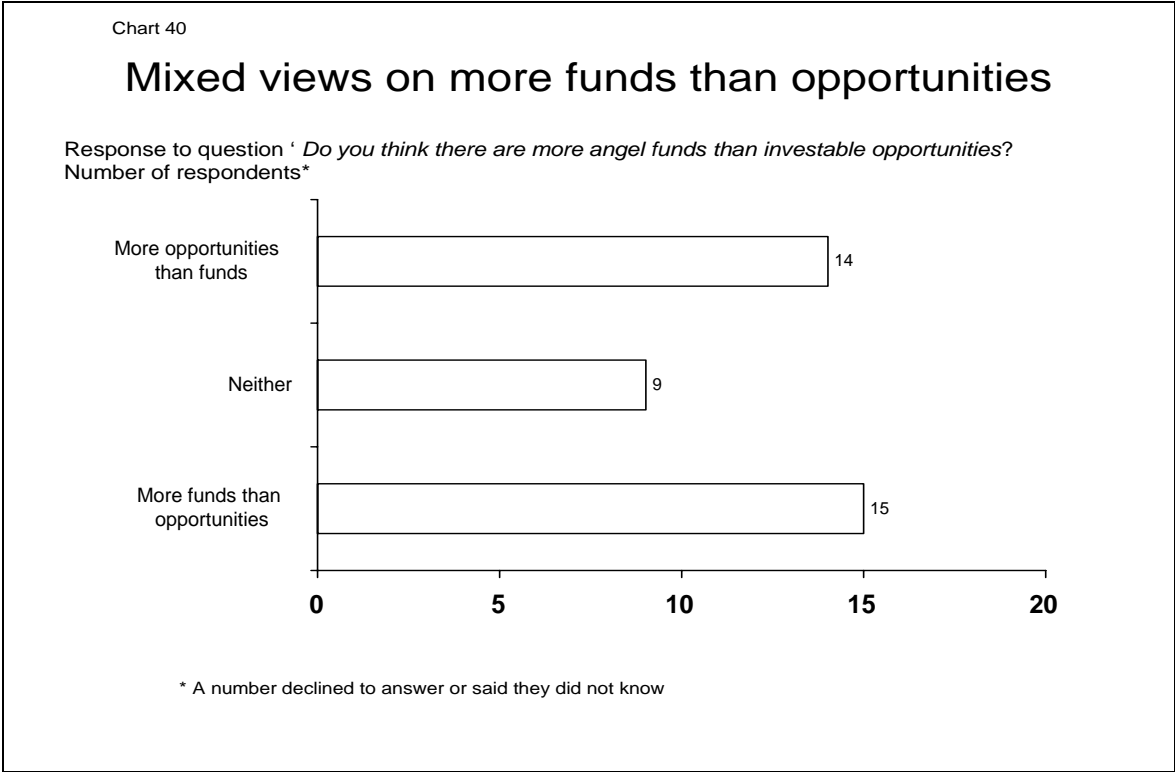
Some saw an increase in the number of opportunities because many angels pulled out after the dot-com crash, improving the opportunity flow for those left. Others noted an improvement in the quality of opportunities, with more experienced entrepreneurs in the companies they see.

Chart 39 - Plans to invest and flow of opportunities



There were mixed responses to the question 'Are there more funds than investment-ready opportunities or more opportunities than funds?' Only 38 angels responded to this question, of which thirty-nine per cent believed that there were more funds than opportunities, and thirty-seven per cent believed that there were more opportunities than funds. It may be that the funds and the opportunities are not finding each other efficiently.

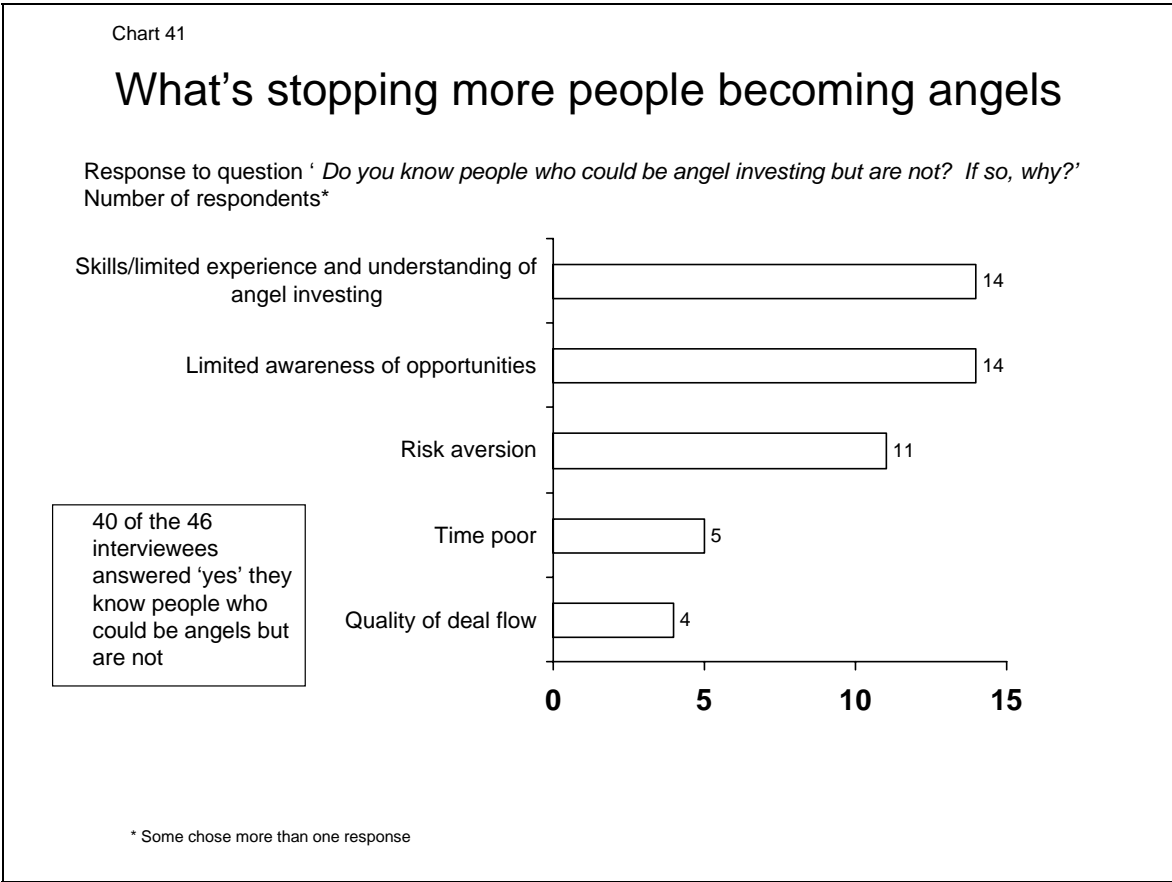
Chart 40 - More funds than investment-ready opportunities or not?



Finding 34: Most angels know people who could be angels but are not, with the major barriers to more angel investing being information and education

Almost all our interviewees knew people who could be angels but are not investing. The majority attributed it to lack of awareness as to how to do it. The largest barrier was simply education or experience. Some high net worth individuals are reportedly less inclined to invest in this way simply because they have no knowledge of or experience in it. Risk aversion was also noted as a reason by many of the angels for people they know choosing not to angel invest. Some suggested practical ideas to address this such as creating standardised pitch documents or through pooling investor funds to reduce due diligence costs and share risk.

Chart 41 - Reason why people they know are not angel investing



Finding 35: Main barriers to more opportunities are better packaging and presentation of ideas, and awareness of how to be an entrepreneur

When asked *'What do you believe are the main barriers to the market operating more effectively?'*, some angels commented that the market could be improved via better means for funds and opportunities to find each other, for example via a website.

Those that believed the problem to lie in insufficient opportunities typically criticised the sophistication of the entrepreneurs they see, citing the need for business education within science and technology courses. On the whole, many of the entrepreneurs, be they scientists or researchers are said to be unaware of how to package an opportunity and present it to potential investors. Their knowledge of how to run a small business was also thought to be low. The main suggestion from the angels to improve this situation came down to education. Technical and scientific degrees or diplomas should contain an obligatory small business course¹⁴. Angels typically don't have the time or the inclination to dig through poorly presented proposals.

Those that believed there to be insufficient funds saw a lack of awareness and education in angel investing amongst high net worth individuals.

Finding 36: Tax incentives to increase funds in the sector are seen as important but angels are not asking for handouts

The majority of angels are not looking for handouts or special treatment, at least as they define those terms. They do however believe that the risk associated with angel investing, and the benefits it brings to the economy, justified more favourable tax treatment than that given to investors in *'Telstra shares'* as one angel put it.

Some angels¹⁵ suggested that the tax treatment of equity payments is a problem for early stage companies, particularly those companies who do not have the cash to pay their employees at rates similar to larger companies. Employees do not want to be paid in equity because that payment triggers a tax event. This situation is said to act as a real constraint on the company's ability to reward their employees with equity, the result being that small cash constrained companies have difficulty using equity to reward their employees.

It was generally acknowledged that upfront tax deduction schemes have been too easily rorted.

4. Profile of the formal angel networks

We interviewed representatives from 12 formal angel networks – two of which are no longer operating. A previous study¹⁶ found, as a "best estimate", that "there are only about a dozen such [angel] networks currently operating in Australia." On that basis, this report covers most if not all of Australia's angel networks.

¹⁴ Monash University will offer, beginning in 2007, a Master of Business (Commercialising Science and Technology) course aimed in part at addressing this need.

¹⁵ It was not possible to identify exact percentages as no question specifically focussed on tax.

¹⁶ "Business Angel Networks", DCITA, July 2006, pages not numbered

The networks are at least as varied as the individual angel investors described above. Their models vary from inviting a list of potential angels to come along at no cost to regular 'pitch sessions' through to having a centralised, paid administrator who helps find and manage deals. Most of the networks operate in effect as private clubs, which can be joined only by invitation, but a few are open to all comers upon the payment of a small fee. Some networks are focused on a particular industry or region, while others invest more broadly.

The study completed by DCITA states, without citing a reference or evidence, that "International experience suggests that business angels operating through structured networks consistently outperform angels operating individually."¹⁷ We cannot determine whether this is the case in Australia. Some of the networks we interviewed have not yet exited an investment, so it is difficult to measure their performance. However, very few of the individual angels with whom we spoke, even those whose primary motivation for angel investing was financial, indicated any interest in joining a formal network if they were not already in one, although many had been asked to join or had once been part of one. It became clear in the course of this study that many business angels in Australia know one another, and have at least some awareness of what each other are doing. In this environment, if network members were truly outperforming individual angels, we would expect the individual angels to become aware of this performance gap and to respond favourably to invitations to join networks. It is definitely the case that networks allow some individuals who would not otherwise make angel investments to do so, and that networks perform valuable and useful services for entrepreneurs as well. Rather than providing superior investment performance, however, networks may serve to enable deals that individual investors might not have done at all.

Like the individual angels, the networks do not find any difficulty in attracting deal flow. Indeed, most of them have more opportunities than funds, and are interested in bringing in more capital. The networks' ideas about how to encourage additional funds primarily focused on changing the tax system to provide additional incentives for angel investing, for example the ability to defer tax on an investment that is exited and then rolled over into another eligible opportunity (a number of other countries have such provisions). Because most of the networks themselves have not for profit status, changes to the tax code would not affect them directly. Like individual angels, most networks attract investment opportunities via personal referrals; indeed, the deals considered by most networks are essentially the deals that have been brought to their members individually and then referred to the network.

Although they are capable of investing amounts equal to what might come from a venture capital (VC) firm, the networks do not see themselves as competing with the VCs, but rather as operating in a different space with a different model. Some networks style themselves as "business partners," meaning that they will work closely with their investee companies and perhaps provide additional services, such as mentoring, consulting, or business planning, generally for a fee. Other networks seek deals that would not be attractive to the typical VC – "5X in five years, not 10X in three years" as one network leader put it. Like individual angels, then, angel networks fill a niche in the Australian capital market that might otherwise be underserved.

¹⁷ 'Business Angel networks', DCITA, July 2006, pages not numbered

SUMMARY – WIDE RANGE OF NETWORK MODELS

Network Name	Location	Members	Years in operation	Meeting format	Snapshot of model	Range of services	Investments made
Angels Institute	Gold Coast / Brisbane	One network as a member (20 members in that network)	1	Runs workshops	For-profit group whose aim is to train and educate Angel Investors – who then form regional groups under the national umbrella body of the Angels Institute – “the Rotary model”	Education – members pay for education weekends run by the institute – and are invited to frequent social events.	Investments are made at the regional sub group level – a couple of investments have been made through Apollo 13 (another Angel network)
Apollo 13	Gold Coast	17	6 months	Monthly	Exclusive fee paying group – maximum 17 members – all are members of Angels Institute	Group sourcing and review of deals	Invested \$54,000 since inception
AusFirst Angels	Brisbane	thousands	20	Regional meetings	After paying a small joining fee, members can invest relatively small amounts in opportunities selected by network	For entrepreneurs, offer fee-based mentoring and fund raising. For members, provide deal flow and reporting.	Unknown
BioAngels	Adelaide	15 currently (maximum 20)	4	Regular monthly meetings	Modelled on west coast US angel networks	For entrepreneurs, provide assistance in packaging and presenting deal. For members, provide analysis and reporting.	\$6 million
Brisbane Angels	Brisbane	20	Just in the process of being incorporated etc - started – formed out of a less formal group : Archers	Monthly meetings	References the west coast US Angel networks (e.g. TechCoast). However, it will be an evolving model, and it is accepted that it will take some time to build	The model is still evolving, but it is anticipated that a member of the group will have to agree to sponsor a potential investee company which will be sourced from the Queensland	No investments have yet been made through Brisbane Angels – although two were made through the earlier and less formal group – Archers

Network Name	Location	Members	Years in operation	Meeting format	Snapshot of model	Range of services	Investments made
			Angels & Coffee Club			Capital Pipeline (COMET, incubators, and government mentoring programmes)	Angels.
BSI (Business Strategies International)	Sydney Melbourne Brisbane	90+ angels on their database – angels are not formal members	15	Invites angels to regular pitch sessions in Sydney, Melbourne, Brisbane	No fee to angels. BSI charge potential investee companies for business plan preparation	Business planning	Raised \$30m for 12-13 companies in past 2 years
Capital Angels	Canberra	20	18 months	Executive meets once a month and the pitching dinners are less frequent	Model references west coast angel groups – however it is at an early stage	Forum for angel investors to see investor ready ideas pitched to them	15 of the 20 members have invested in 5 deals
Enterprise Angels	Brisbane, Sydney, and Melbourne	739	6	Four per year in each city, about 25 investors and 3 – 6 companies	Investors are screened but do not pay a fee. Companies pay \$7K to register and a 5% success fee. Education subsidiary feeds to network, and network feeds to VC funds owned by same company.	One-day intensive workshop for companies	236
Founders Forum	Brisbane / Gold Coast / Perth	Open	6	2 nd Tues of every second month	Public forum at which entrepreneurs and early start ups – pitch for seed / early stage capital: 3 companies are given the opportunity to pitch	In Brisbane, companies that wish to pitch are screened by a board to see if they ready	\$40 million

Network Name	Location	Members	Years in operation	Meeting format	Snapshot of model	Range of services	Investments made
Strategon (Australian Business Angels)	Nationwide — office in Adelaide	650	12	Investment showcases and forums by email	Membership is free for investors. Companies pay a success fee if investment is made. Strike rate of 60%.	Screening leads, helping companies prepare	Average two per month

Background and profile of selected networks

Angels Institute – a proposed peak body for investors and mentors

- The Angels Institute, a relatively new “for profit” organisation based on the Gold Coast, is seeking to become recognised as the national peak body for investors and mentors involved in early stage ventures. A prerequisite to becoming a member of the Angels Institute is to attend a three day educational weekend workshop put on by the institute. Individuals can then apply to become “mentor members”, “investor members,” or “senior members”. The intention is that members of the Angels Institute will form, under the Angels Institute umbrella, affiliate subsidiary investment groups around Australia – a model not dissimilar to Rotary.

Apollo 13 – an Angels Institute club on the Gold Coast

- Apollo 13 was established on the Gold Coast in June 2006 and is the first group established under the umbrella of the Angels Institute. The founder of Angels Institute is a member. Apollo 13 has 18 members, two of whom are women. Apollo 13 is not actively looking to recruit any more members. It has scheduled monthly meetings throughout the Gold Coast region.

AusFirst Angels – capturing smaller investors

- Very broadly based network with 14,500 members who invest relatively small amounts in companies that are typically based around a single clever idea. Heavy focus on retaining manufacturing and intellectual property in Australia. Run by paid staff who source deals, analyse opportunities, and take formal roles in investee companies.

Bio Angels – specialising in bioscience

- Explicitly modelled on west coast US angel networks. Operates as a not for profit association with a maximum of 20 members, and has a half-time executive officer. Members are expected to devote significant time to the network and must be investing their own funds (possibly from self-managed super). BioAngels are active investors and will not make passive investments. Usually require Board representation and coordinate due diligence, which is somewhat similar to that carried out by VCs. Support from South

Australian Government was important in starting the network.

Brisbane Angels – an evolving model

- Brisbane Angels has only been recently created, and has evolved out of an earlier group, Archers Angels, which itself evolved out of an informal “coffee club”. The “coffee club” still exists as a separate group. Archers Angels is now a subgroup of Brisbane Angels. A core group of people are members of all the relevant entities. Brisbane Angels intends to create another subgroup, Bioangels, which will focus on the biotechnology/life science area. Some of the membership of Archers Angels invested in 5 early stage companies last year (2006). Brisbane Angels is growing and as at November 2006 had 20 members (18 of whom were men and two of whom were women). There is no compulsion on members to invest and there is no intention at present to pool funds. There is a strong emphasis on social functions (boat trips etc) as a method of bonding members of the group and encouraging them to participate.

BSI – servicing entrepreneurs

- BSI is a business services firm that sells a range of business services to early stage companies and entrepreneurs. BSI maintains a database of high net worth individuals, advisers, journalists etc, and every quarter, BSI invites them to “investor forums” (breakfast functions) in Sydney, Melbourne and Brisbane. At these breakfasts, a number of early stage companies pitch for investment capital (at the recent Sydney forum, nine companies pitched). BSI charges companies a fee to present at the “investor forum” and separate fees for preparation and expenses. In addition to these fees, the company is required to pay 5% of any funds that it raises from BSI contacts.

Capital Angels – starting to invest

- Capital Angels is a relatively new network which has been operating for approximately one and half years (founded in 2005). At present, it has 20 members who cover a wide range of industries and experience. There are no paid office holders or employees and the price of membership is small. Dinners are held every six weeks at which a couple of early stage companies pitch for investment capital. In order to be eligible to pitch, a company needs to be sponsored by a member of Capital Angels. Members decide individually whether they will invest in a particular company – there are no requirements on members to make minimum investments and there are no pooled funds.

enterpriseangels – facilitating private investing

- Investors are screened and then invited to attend quarterly meetings in Brisbane, Melbourne, and Sydney. Companies are put through an intensive one-day workshop to help them prepare presentations for the meetings. Investors receive regular notice of investment opportunities meeting their criteria through a variety of means, and have the option of seeing the companies present in

person at regular private meetings. Three to six companies give five-minute pitches at each meeting, followed by lunch and networking. Investors who are interested in a particular company arrange to meet them privately. In a given year 80% of companies that present raise some funds; average investment is \$240K. *enterpriseangels* typically assists companies looking to raise up to \$2 million.

Founders Forum – public pitchfests

- Founders Forum is a public forum which anyone can attend to see companies pitch for investment capital. There are branches of Founders Forum in Brisbane, Newcastle, Darwin, and the Gold Coast. Founders Forum meetings are held every two months. At each meeting, three companies get to pitch for funds. Companies wishing to present at these meetings are reviewed by an experienced board of angel investors, service providers, etc. Since its inception in early 2000, entrepreneurs involved with the Founders Forum have raised in excess of \$40m in capital for their businesses.

Strategon – combining electronic and face to face communication

- Strategon began as an Adelaide-based network and subsequently merged with Australian Business Angels, which was formed in 1993 with the support of Australian Business Limited. Strategon offers investment showcases and forums by email and face to face for the purpose of introducing investors to companies seeking capital. Interested investors carry out their own due diligence and generally invest as individuals, although syndicates occasionally form. The typical investment is between \$250,000 and \$500,000, and there is an average of two transactions per month. With offices in Sydney, Adelaide and Singapore, Strategon offers a national approach and international connections.

Background and profile of two networks that are no longer operating

East Coast Angels – the Tech Coast model in Sydney

- East Coast Angels, based in Sydney, ceased to make new investments sometime in 2004/5. It was based on the US Tech Coast model. While it was operating, East Coast had 30 paid up members. The membership consisted of high net worth individuals, almost all of whom were prominent in the Sydney business / banking / investment circles. There were strong links between the group and the VC market. The group had dinner meetings approximately once a month. The group made five investments over a three to four year period. On average three to five members invested in each investment. East Coast employed an experienced funds manager to do due diligence for the group. The salary of the paid employees and the administration costs were paid through a joining fee and subsequent yearly subscriptions. Ultimately, it was decided not to continue with the group, in large part because with a small membership it was difficult to get a sufficient number of members to invest in companies that presented.

Tinshed – equity model with tech focus

- Tinshed was based in Sydney and also had an office in Hong Kong. It operated for about three years and had approximately 20 members who were generally prominent and high profile members of the Sydney and Melbourne business community. The member angels ranged in age from about 30 to 70 years. It was based on a for profit model – with a paid executive that conducted thorough due diligence on potential deals. As a consequence the operating costs of Tinshed were relatively high. Quarterly forums were held as well as other social functions. Ultimately, Tinshed did not continue because it was unable to become cash flow positive. For the model to be sustainable investments had to be exited and profits realised – this became much more difficult in the aftermath of the tech crash.

APPENDIX

Interview guides

ANGEL INTERVIEW GUIDE

Section 1: Investor background – ‘Who you are’

- 1 Gender M F
- 2 How old are you? Or which age range do you fit into?

Age _____

- A <30
- B 30-39
- C 40-49
- D 50-59
- E 60-69
- F 70+

- 3 What is your education background (highest level)?

- A Secondary
- B Tertiary – undergrad
- C Tertiary – postgrad
- C Trade

Other (specify)

- 4 If tertiary educated (undergrad / post grad) in what area is your field of qualification?

- A Science / Health Sciences
- B Business

- C Engineering
- D Law
- E Arts / Life Sciences
- F Economics
- Other

5 Which industries have you worked in?

Sector (based on ANZSIC codes – don't list for them – interpret their response)

- A Agriculture, Forestry & Fishing
- B Mining
- C Manufacturing (incl. medical devices, pharmaceutical)
- D Electricity, Gas Water Supply
- E Construction
- F Wholesale Trade
- G Retail Trade
- H Accommodation, Cafes and Restaurants
- I Transport and Storage
- J Communication Services (incl. high- tech)
- K Finance and Insurance (incl. banking)
- L Property and Business Services (incl. consulting, law)
- M Government Administration and Defence
- N Education
- O Health and Community Services
- P Cultural and Recreational Services
- Q Personal and Other Services

More detail on sector/company names/ positions held

- 6 Do you consider yourself to be an angel Investor?
Y What do you consider the term to mean?
N Why not?
- 7 Is being an (angel) investor your primary occupation?
Y
N
- 8 Do you have a formal job title/company structure (not including an investment company or family trust)?
Y
N
If yes, details?
- 9 Have you started a business?
Y
N
- 10 If no, have you previously been part of a start-up?
Y
N Describe
- 11 Was any aspect of your background instrumental in you becoming an (angel) investor?
Y
N
If yes, which aspect(s)?
- 12 Why do you invest in this way?
A Financial returns
B Enjoyment/satisfaction
C Altruism: e.g.: pass on skills / act as coach ...
D Have the time available
E All of above
Other _____

Comments

13 When did you first make an angel investment (date)?

Section 2. Investment profile – ‘How you invest’

1 How do you invest?

Tick all that apply

- A Money only
- B Expertise only
- C Money & expertise
- D Co-invest with syndicate
- E Co-invest with institution
- F Invest alone

2 How many investments have you made?

Number _____

Or use following scale:

- A <2
- B 2-5
- C 5-10
- D 10-20
- E 20+

3 Did you invest with a syndicate (or institution)? What is the range of investment sizes the group has made?

A Minimum _____

B Maximum _____

4 What is the range of investment size you have made?

A Minimum _____

B Maximum _____

- 5 What is the range of equity stakes you take / the syndicate or group takes?
- A Minimum_____
- B Maximum_____
- 6 How are your investments typically structured?
- A Ordinary Shares in the company
- B Convertible notes
- C Preference shares
- Other - Explain
- 7 Do you typically invest at a certain stage of a company's development?
- Yes No (*specify if yes*)
- A Research/IP (pre-incorporation)
- B Start-up/ Early-stage
- C Expansion stage (growth phase)
- D Established (pre-IPO)
- 8 Do you generally invest in the same industry as your previous industry experience? Yes No Why/Why not? Which industries do you invest in?
- 9 How active are you in your investee companies?
- A Not active
- B Active
- C Very active
- 10 If active what form does it take? (*tick all that apply*)
- A Formal
- B Informal
- If formal what role?
- A Management role

B Board position

What type of advice do you typically provide to your investee companies?

A Strategic

B Technical

C Operational

D HR

E Legal

F Financial

G Contacts

H Marketing / Sales

I All of above

Other

11 Do you require covenants in your shareholder agreements?

Yes No If so, what?

12 Typically, how much time per week would you devote to your investee companies (total)?

A <1 hour

B <1 day

C 1 – 2 days

D 2 – 3 days

E >3 days

13 Do you belong to any business angel networks? Yes No

If yes which one(s) and why?

If no, have you considered joining? Why/why not?

14 Do you actively seek investment proposals/approaches? Yes No

15 What is the origin of your investment proposals/approaches?

Avenue	Mostly	Often
A Business matching service	<input type="checkbox"/>	<input type="checkbox"/>
B Formal business angel network	<input type="checkbox"/>	<input type="checkbox"/>
C Own business networks/associates	<input type="checkbox"/>	<input type="checkbox"/>
D Accountant/financial adviser	<input type="checkbox"/>	<input type="checkbox"/>
E Friends	<input type="checkbox"/>	<input type="checkbox"/>
F Other	<input type="checkbox"/>	<input type="checkbox"/>

16 How many investment proposals/approaches would you receive each year?

- A <2
- B 2-5
- C 5-10
- D 10-20
- E 20-30
- F 30+

Or specify

17 Of the investment proposals/approaches that you receive, what percent would you consider in detail?

- A <10%
- B 11-20%
- C 21-40%
- D 41-60%

- E 60%+
Or specify

18 Typically, how much time per week would you devote to considering investment opportunities?

- A <1 hour
B <1 day
C 1 – 2 days
D 2 – 3 days
E >3 days

19 Is location of the investee business important? Yes No Why/ why not?

20 Would you consider investing internationally? Yes No Why/why not?

21 Have you invested in businesses in:

- A the same City as you
B the same State as you
C Australian States other than the one you live in
D NZ
E Internationally (if yes – where?)

22 Do you have a formalised process and or criteria for considering an investment?
Yes No Why/why not?

23 What is the most important factor in your assessment of an investment?

- A Management
B Product
C Market

D Financial proposition

Other

Comments

24 How much time typically elapses between the time you first hear about an investment opportunity to the time that you invest your money?

A <1 mths

B 1-3 mths

C 3 mths – 6 mths

D > 6 mths

25 To what degree do you get involved in the due diligence of an Investment?

A Heavily

B Partially

C Not at all

26 Are experts used in the due diligence process?

Yes No

27 If yes, what type of experts?

A Lawyers

B Accountants

C Bankers

D Consultants

E Industry experts

F Technical

G Journalists

Other

28 If the business you are considering investing in has received Government support (under a program such as Commercialising Emerging Technologies (COMET), Innovation Investment Fund (IIF) or Commercial Ready) would you be:

- A More likely to invest
- B Your investment decision would be unaffected
- C Less likely to invest

Why?

29 Do you have an expectation of a total return on your investment? Yes No

If yes, specify_____

30 What is your expected timeframe for returns from your investments?

- A <3 yrs
- B 3-5 yrs
- C 5-10yrs
- D 10 yrs+

Or specify_____

31 What has been or is likely to be the average length of investment?

- A <3 yrs
- B 3-5 yrs
- C 5-10yr
- D 10 yrs+

Or specify_____

32 How much thought do you give the exit from your investment, prior to entering into the deal?

- A Considerable
- B Some
- C None

33 In the investments that you have made is the manner and timing of your exit specified in a written document? ?

Yes No why?_____

34 Have you exited any of your investments? Yes No How many?

35 What has been or is likely to be the typical exit method?

- A VC
- B Other institutional buyout
- C Trade sale
- D Other private sale
- E Public listing

Or specify_____

36 If you have exited any, how many of your angel Investments have yielded a positive return?

- A 100%
- B 76% - 100%
- C 51-75%
- D 26% -50%
- E 0-25%

37 What % of your investable capital would you ideally invest in the angel / early stage sector?

- A 60%+
- B 40% - 60%
- C 21--40%
- D 11% -20%
- E 0-10%

Section 3: Business Angel Market Characteristics - is the angel market working'

1. Do you plan to make investments in the next 6 to 12 months? Yes No

2. Have you had difficulty finding good opportunities to invest in? Yes No
Why/why not?

3. Have you noticed any change in the flow of opportunities/approaches over the past year?
- A More
 - B Less
 - C No change

4. Do you believe the pool of available angel funds is matching the supply of worthy opportunities?
- A More opportunities than funds
 - B Neither
 - C More funds than opportunities

Comments

5. If the market is not working, what do you believe are the main barriers to the market operating more effectively?
6. What could be done to increase the amount of angel funds available for investment?
7. What could be done to increase the number of good investment opportunities for angels?
8. Do you know individuals who could be business angels but are not investing?
Yes No
9. If yes, what is stopping them from investing?

COMMENT

- A Quality of deal flow – investments not attractive enough
- B Limited awareness of opportunities
- C Risk aversion – prefer lower risk/return profile
- D Limited exit opportunities

- E Tax barriers
 - F Regulatory restrictions
 - G Skills / limited experience and understanding of angel investing / market
 - H Better alternatives – e.g. superannuation
- Other

NETWORK INTERVIEW GUIDE

Network summary	
Number of angels	
Network head	
Network address	
Years of operation	

Section 1: Background of Business Angel Network

1. What is the profile of your network's membership?

Number of males	
Number of females	
Average age	
Age range	

• Education Background

Mostly undergrad	
Mostly postgrad	
Other	

• Industry experience? (particular sector)

Mostly one sector	<i>Specify</i>
Range of sectors	<i>Specify</i>
Other	

- Length of industry experience – average

2. How did the network begin?
3. How has the network evolved?
4. How does your network function?
 - How do you recruit members?
 - How frequently do you meet?

Section 2: Business Angel Network (BAN) Characteristics:

1. What are the operational costs of the network? (both cost category and level)
2. How many members have actually made investments through the network?
3. What services does the network offer members? (e.g. education/seminars/networking events)
4. What links does the network have with the formal VC market?
5. Has the network been successful? How is success measured? (e.g. number of referrals? Number of investments? Return on the investments?)
6. What are the particular skills sets of the network operators?
7. What are barriers to the effective operation of the network (if any)?

Section 3: Investment Characteristics:

1. How are investments sourced?
2. Are the investments local? Why/why not; is location of the investee important; would they consider investing internationally (why/why not)
3. Do network members typically invest in the same industry as their previous industry experience?
4. What is the investment range?

5. What is the average investment size?
6. Is there a maximum investment limit? (why/why not)
7. What is the expected investment return and timeframe?
8. Are there any common characteristics of investees (i.e. Industry sector, maturity/stage of growth of company, type of concepts/ideas supported)?
9. What investment criteria or screening process does the network use?
10. How have the investments typically exited?
11. What has the average length of investment been (for those that have exited)?
12. What services does the network offer to investees?

Section 4: Business Angel Market Characteristics

10. Does your network you plan to make investments in the next 6 to 12 months?
Yes No

11. Do you have a view on whether the demand for investment opportunities is meeting the supply of angel funds?

More opportunities than funds

Market is clearing

More funds than opportunities

Comments

12. If the market is not clearing, what do you believe are the main barriers to the market operating more effectively?

13. Do you know individuals who could be business angels but are not investing?

Yes No

14. If yes, what is stopping them from investing?

Comment

Quality of deal flow –
investments not
attractive enough

Limited awareness
of opportunities

Risk aversion –
prefer to invest
elsewhere

Limited exit
opportunities

Tax barriers

Other

15. What could Government do to increase the amount of angel funds available for investment?

16. What could Government do to increase the number of investment opportunities for angels?

Angel #	Investor group	Angel Investment profile
1	Early winners	Invests in technology companies
2	Experienced entrepreneurs	Invests in biotechnology. Passion for taking research from bench to business
3	Experienced entrepreneur	Invests in and grooms talented people in a range of sectors – from restaurants to consulting
4	Experienced entrepreneur	Invests in software companies through non-recourse loans and provides consulting style advice to companies for equity
5	The professionals	Invests only in established businesses
6	The professionals	Invests in technology/software via an incubator he and four colleagues have established
7	Experienced entrepreneur	Invests time and expertise in selected young people across a range of businesses
8	The professionals	Invests in businesses he can help grow across a range of industries
9	Early winners	Invests mainly in online/technology companies
10	Early winners	Invests to make a difference in a range of businesses from the arts to biotech
11	The professionals	Invests in B to B online space in companies with global potential
12	The professionals	Invests in technology companies he can be involved in and make a difference to
14	Experienced entrepreneur	Invests small amounts of cash plus significant amounts of effort in early stage companies
15	Experienced entrepreneur	Won't invest money only – insists on being involved
16	Experienced entrepreneur	Invests in the local area – not necessarily in his area of industry expertise – “is the CEO coachable?”
17	The professionals	Key element in investment decisions – “is it a fashionable space”
18	The professionals	Generalist investment focus
19	Experienced entrepreneur	Generally invests area of expertise : ICT
20	Experienced entrepreneur	Generally will invest in companies in his own area of expertise – ICT largely on the basis of the idea
21	Early winners	Focus on web based IT and renewable energy
22	Early winners	General investment focus although tends to be technology related
23	Experienced entrepreneur	Only invests in his area of expertise – retail
24	Experienced entrepreneur	Only invests in things that he can understand, add value to, and if likes the founder.

¹⁸ There were 46 interviewees in total. Angel numbers go to 50, as four planned interviewees were not able to be conducted before this report was due for completion.

Angel #	Investor group	Angel Investment profile
25	Early winners	Angel investments are typically focused on ICT.
26	Experienced entrepreneur	Experience and investment focus tends to be media/arts/ ICT
27	Early winners	Original success in IT – but investments not limited to ICT
28	The professionals	Exposure to deal flow through occupation
29	Experienced entrepreneur	Made money in IT overseas – full time angel not limited to ICT investments
30	The professionals	Experienced angel investor both in US and Australia
31	Early winners	Industry experience and money made in ICT – angel investing not limited to ICT – dependant on stage of company – “post R&D, post product, cash must be in”.
32	The professionals	Tends to invest in area of his industry experience – ICT
33	Early winners	Invests in internet based businesses
34	The professionals	Invests across a broad spectrum, including but not limited to angel investments
35	Early winners	Wants to support Australian high-tech sector. Has a network of high net worth's who co-invest with him
36	Experienced entrepreneurs	Has a partner in the United States to source US deals
37	Experienced entrepreneurs	Invests to help develop Australian ICT
39	Experienced entrepreneurs	Invests in technology, mostly online businesses
40	The professionals	Tried to form a BAN in his region but it did not eventuate
41	Experienced entrepreneurs	Is on the board of all investee companies and chairman of three. Takes at least \$100K pa in director's fees from each company
42	The professionals	Invests for the fun – open to a range of industries
45	Early winners	Invests in early stage companies
46	Early winners	Invests with family member in local businesses
47	Early winners	Sports / marketing investment focus.
48	The professionals	Tends to invest in areas in which he has knowledge through earlier investment experience
49	Early winners	Experience in finance / web based companies - focuses on businesses which face similar challenges to those that he faced as an entrepreneur.
50	Experienced Entrepreneur	Investment focus on his core industry experience – Media / Technology / Service based companies – enjoys working with early stage companies