

BUSINESS ANGELS IN DENMARK (2002)

*The Danish Investment Fund
(DIF)*

DIF is a financial organisation that contributes to the development of Danish business and trade.

Our mission is to strengthen development and innovation in the Danish economy by procuring financing for promising projects in small- and medium-sized enterprises.

Operating independently in the capital market, DIF facilitate the supply of venture capital in terms of start-up equity and high-risk loans. The financing is provided on commercial terms.

In the light of our mission, we have set ourselves the ambitious goal: to make the Danish market for finance of innovation the best-functioning one in Europe.

Our capital base is currently DKK 2,400 million, part of which we use for direct business funding, and part of which we use to co-finance venture funds. In addition, we administrate VækstKaution, a national loan guarantee scheme for private companies.

EXECUTIVE SUMMARY OF THE REPORT ON BUSINESS ANGELS IN DENMARK

The role of Business Angels

The informal capital market is often considered to be larger than the institutional venture capital market – when comparing investments in early-stage firms. Interest in the informal capital market has grown noticeably in line with private investors - Business Angels – being an increasingly important source of funding for start-ups.

But what is the role of Business Angels in Denmark?

The difficulties in investigating Business Angels are well known and understood, as the angels are anonymous and hard to locate. In line with this, Danish studies on Business Angels have so far been limited, owing to limited samples, low response rates and/or inadequate questionnaires. By utilising an unique access to registered Business Angels in the Danish Business Angel Network, the Danish Investment Fund has collected the largest sample of Danish Business Angels to data.

A total of 157 Business Angels registered with DBAN were contacted. 76 of these responded. The response rate of 48% is remarkably high considering the difficulties in reaching Business Angels. Of the 76 respondents, 72 had already made investments unlisted companies.

Business Angels' investment criteria

The identified sample of angels has financial assets totalling EUR 400-500 mill. Of these angels, 63% have financial assets of 2,7 mill. EUR or less. On average, respondents have placed less than 30% of the capital, which they have allocated to investments in unlisted companies. 45% of the angels have invested less than 10% of the capital reserved for investments in unlisted companies. This implies a sizeable potential for further investments in unlisted companies, if the capital allocated can be mobilised.

The group of angels has started a total of more than 200 companies. Thus the typical angel is a serial entrepreneur with a strong entrepreneurial background. Sale of companies is the main source of their own financial resources.

As regards investment motivation Business Angels invest in unlisted companies for financial and non-financial reasons.

Table 1: Business Angels' reasons for becoming angels

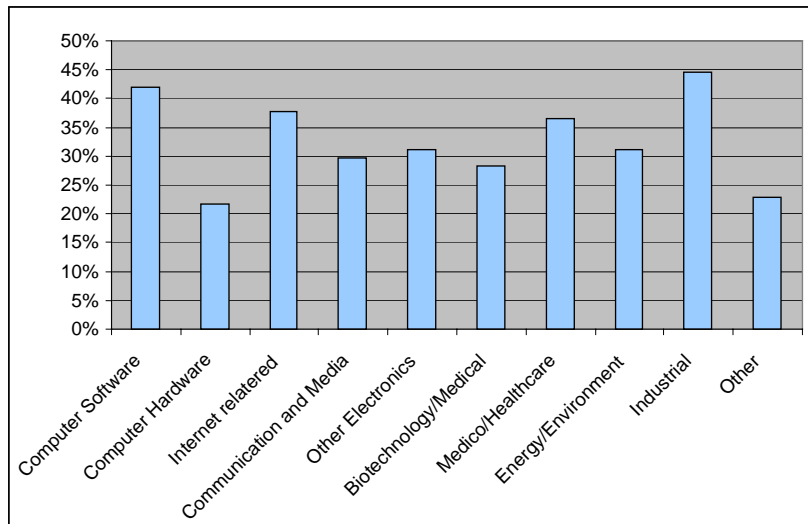
	Very important	Important	Not important
A way of having fun	57%	31%	13%
Personal satisfaction by being involved in entrepreneurial firms.	46%	40%	14%
High capital yield	31%	51%	18%

Source: The Danish Investment Fund

High expected returns are important, but also psychological factors such as ‘personal satisfaction’ and ‘having fun’ matter to angels, when deciding to become an angel.

Angels invest in a wide range of industries. From figure 1 it shows that angels’ preferences for investments are widely spread across industries.

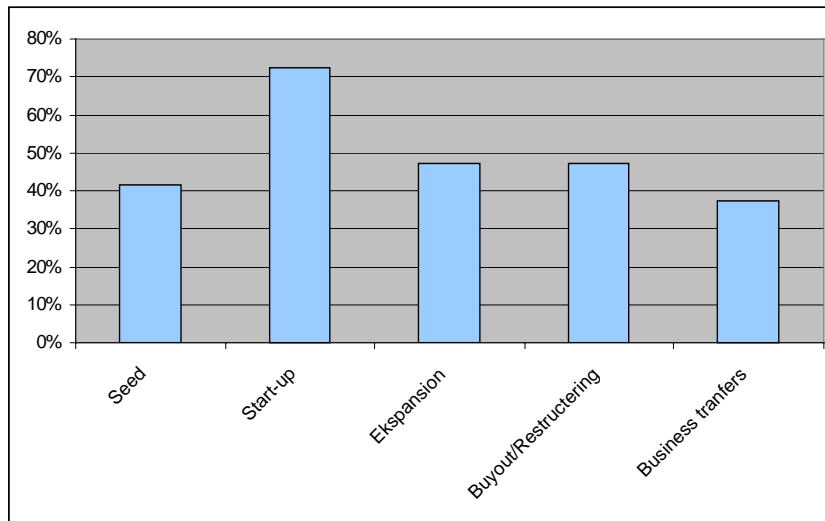
Figure 1: Interest of Business Angels in industries



Source: The Danish Investment Fund

As to the stages of development, angels invest in both early and later stages, but the study finds more emphasis on the earlier stages such as seed and start-up.

Figure 2: Business Angels' interest in stages



Source: The Danish Investment Fund

This is also reflected in company sizes. Angels prefer firms with fewer than five employees, or between 5-15 employees.

The investment horizon is 3-6 years on average. During this period the angels act as highly active investors. Forty-two per cent of respondents spend 1-1½ days a week in each portfolio firm. Their involvement in the firm is mainly as members of the board. But also assisting in design of business plans, attracting other investors and monitoring the financial development in the firms are common activities. The angels are – although to a smaller extent - also engaged in product development.

The geographical distance between home and firm is of importance to angels, when considering an investment. Two-thirds of angels prefer to invest in companies close to home. Of these, 70% prefer investments, which are located up to 50 or 100 kilometres from home.

This gives the angel the possibility of spending time in the company thereby fulfilling the role as an active investor.

Danish Business Angels invest by contributing either equity or loan capital. On average, they expect a return of 10-30% on their investment.

Although angels very often have clearly defined investment criteria, they are to some extent willing to deviate from these, especially in cases where they find a strong credibility in the entrepreneur or when their intuition about the project and management is good.

Investment activities

In 2001 the group of respondents invested a total of 60 mill EUR. In 2002 the amount is likely to be 43 mill EUR, a decline of 30%. This trend is similar to the one that is being experienced on the formal venture market, and a consequence of the economic downturn.

Historically angels have invested in more than 500 companies, of which 243 are still portfolio companies. A total of 296 companies were exited mainly through trade sale or sale to other investors. In connection with this, it is worth noting that a smaller number of investments are exited through liquidation than compared to formal venture capital funds. A trend which is also being confirmed by international researchers.

Contact between Business Angels and entrepreneurs

The analysis shows that Business Angels think it is more difficult for companies to find and identify angels than the other way round.

41% of the angels find it difficult to identify potential entrepreneurs and investment possibilities.

Table 2: Business Angels' use of information sources

	Very often	Often	Some-times	Almost never	Never
Active personal search	9%	17%	34%	30%	9%
Business connections	18%	34%	37%	4%	6%
Family/Friends	2%	11%	20%	34%	33%
Firm contacts me	9%	25%	41%	16%	9%
Accountants	2%	14%	35%	23%	26%
Lawyers	3%	11%	21%	29%	37%
Banks	3%	12%	28%	25%	32%
VC	2%	10%	18%	23%	47%
DBANs Marketplace*	2%	6%	37%	24%	31%
RBAN**	7%	20%	30%	13%	30%
Other networks	3%	22%	34%	17%	24%
Stock exchange	0%	9%	4%	13%	75%
Media (newspapers, magazines etc)	2%	16%	28%	24%	31%
Other	2%	4%	37%	20%	37%

* Danish Business Angel Networks (DBAN) has launched an Internet matching service in August 2002 "the Marketplace" on www.dban.dk.

** Regional Business Angel Networks under DBAN.

Source: The Danish Investment Fund

The angels create their deal-flow through a wide range of sources, the network among business associated being the most dominant. On av-

erage, Business Angels review three business plans a month, and from these they invest in approximately 4%.

They spend 1½ hour reading though a business plan. And if an angel decides to undertake a due diligence, the investigation normally lasts around eight days.

The reasons for an angel deciding not to invest can be a combination of factors: unrealistic assumptions, lack of belief in the market, lack of credibility in the entrepreneur, no interest in the industry or incomplete business plans.

Syndication

A total of 66% of angels have co-invested with other investor types within the last year. This means that Danish angels syndicate more than their British counterparts, but less compared to Business Angels in the US. Only 8% of Business Angels prefer to invest alone. Those angels who have not made any syndication claim that it is due to not being able to find either the right investors or the right investment.

When Business Angels syndicate, it is more likely to be with other angels. One-fifth syndicate with venture capitalists. The angels describe the relationship with the formal venture market as being valuable, although they acknowledge that any collaboration with VCs is not without problems. The angels fear there is a serious risk of their stakes in companies being “washed out”, when the venture capitalist enters the investment.

Public initiatives

In many countries public initiatives have been launched to improve the possibility for Business Angels and entrepreneurs to meet – thereby reducing the equity gap that exists for many entrepreneurs in the early stages. The challenges for such initiatives are to understand the players on the market and the obstacles to more investments, and through this create the optimal framework for the development of the informal venture market.

In Denmark the government has funded the creation of a national Business Angel network; the Danish Business Angel Network (DBAN). DBAN matches Business Angels and entrepreneurs through regional angel networks and an internet-based matching service “Markedspladsen” (“The Marketplace”). For more information please visit www.dban.dk.

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