



Benchmark of Federations

The Italian informal venture capital market: results of the Survey 2013 and scientific activities

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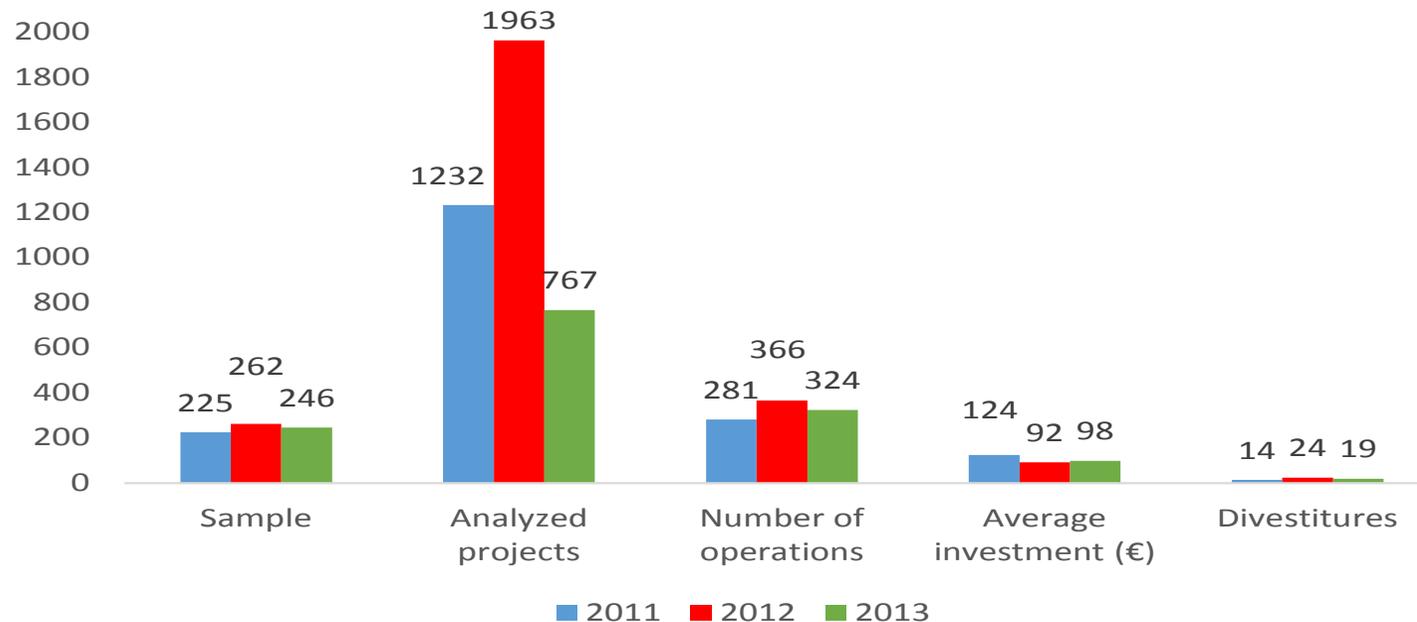
Milano, 19th March 2015

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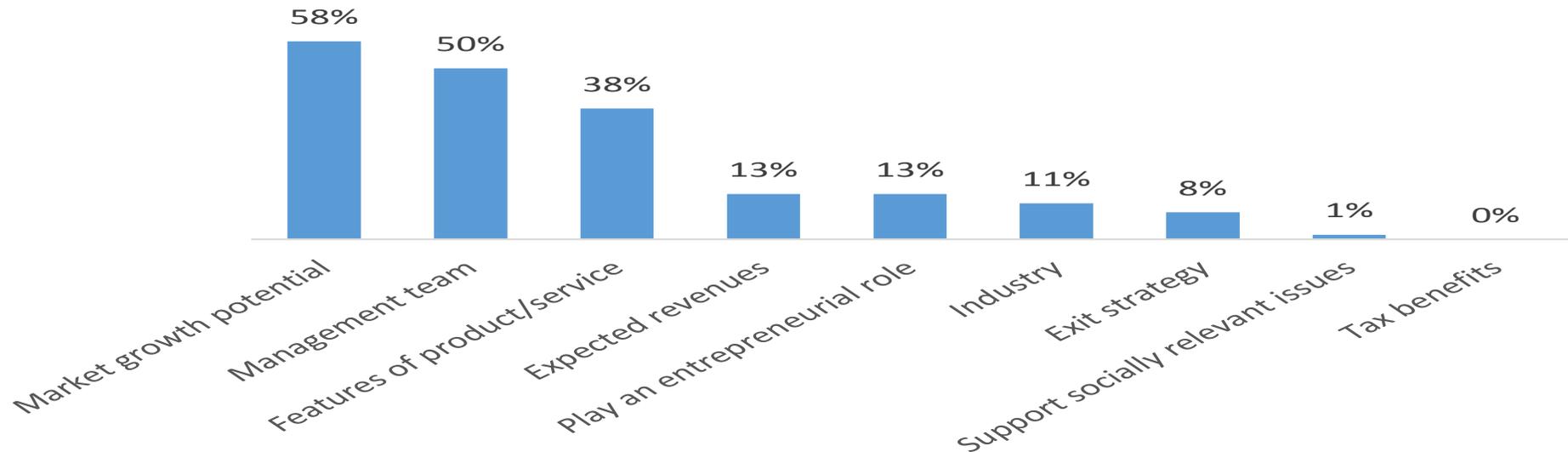
Features of Italian Business Angels (1/2)

- Every year IBAN promotes a survey-based investigation in order to analyze the Italian informal venture capital market, mapping both sides of the investments: the business angels (investors) and the start ups (financed firms).
- The survey 2013 gathered data on investments, divestitures and personal features of Business Angels in 2013, and took place at the beginning of 2014. The new analysis, Survey 2015, is currently active.
- The sample is 246 Business Angels, and 324 investments.
- A relevant size of the sample is constituted by aggregate answers from different Business Angels associations (regional BAN and Club of Angels), showing the rise of syndicated investments.
- The following chart shows the sample data of the surveys of the last 3 years.



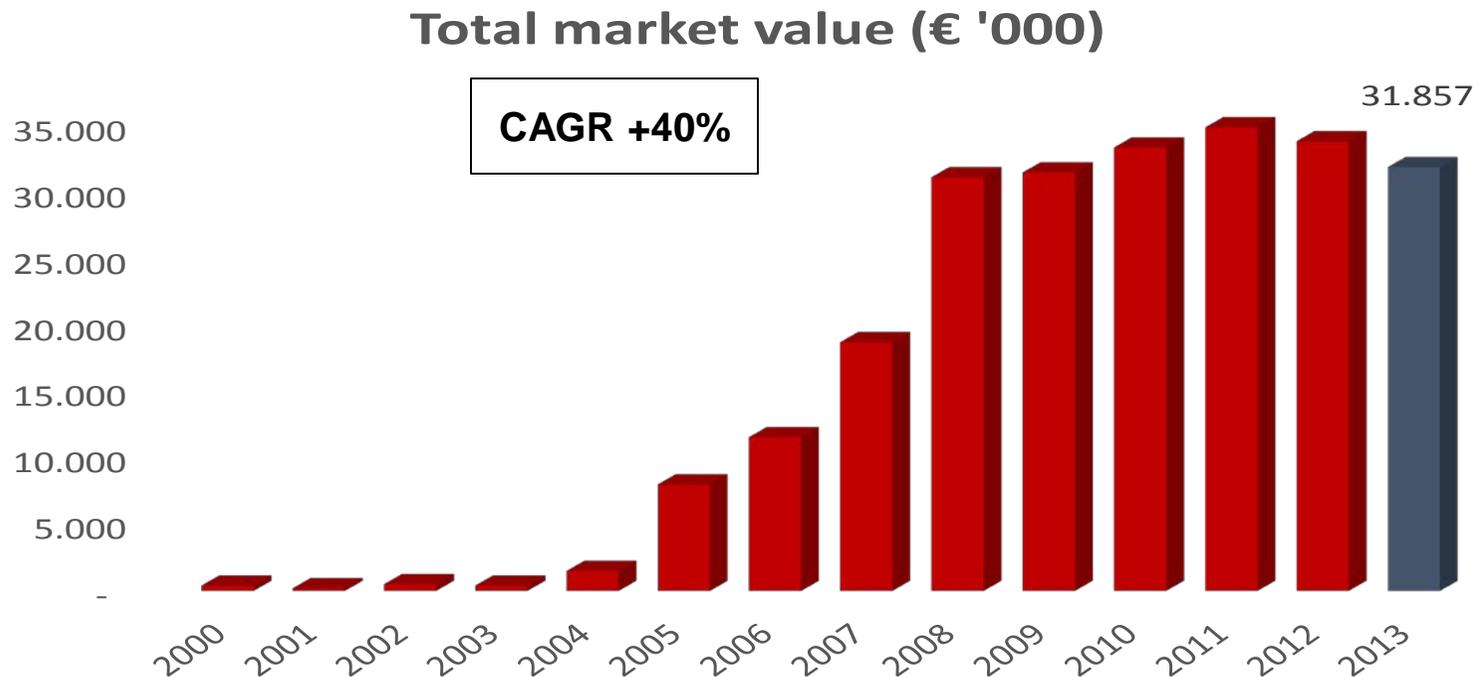
Features of Italian Business Angels (2/2)

- The average Italian Business Angel is between 40 and 50 years old, is male, lives in Northern Italy and is an IBAN (or one of its regional BAN) associate, or is affiliated to an Angel Investors' Club.
- He is an entrepreneur and a former manager, educated (graduate), and his private wealth is below 2.000.000 euro, of which less than 10% is invested in angel financing.
- The most relevant features analyzed by Business Angels are market growth potential, management team and features of the product/service, respectively. He is a long-term oriented investor.
- The following graph shows the most relevant features analyzed by Business Angels when they approach an investment opportunity.



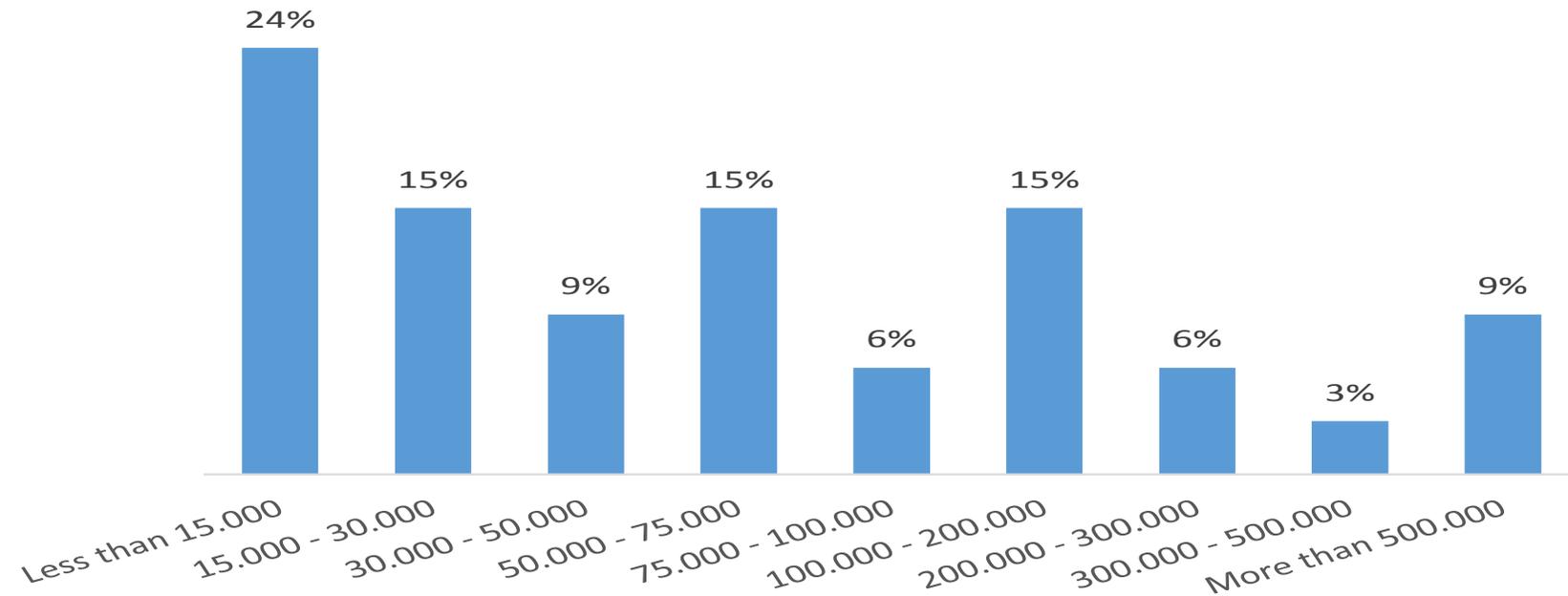
Features of investments of Italian Business Angels (1/3)

- The Italian informal venture capital market grows steadily, and in 2013 its total value was € 31.857.000.
- This is not an estimation of the ‘universe’ of Business Angels (cfr.Mason, 2008).
- After a constant growth between 2000 and 2008, the annual value of investments is now stable in the range 30 – 35 million euro.



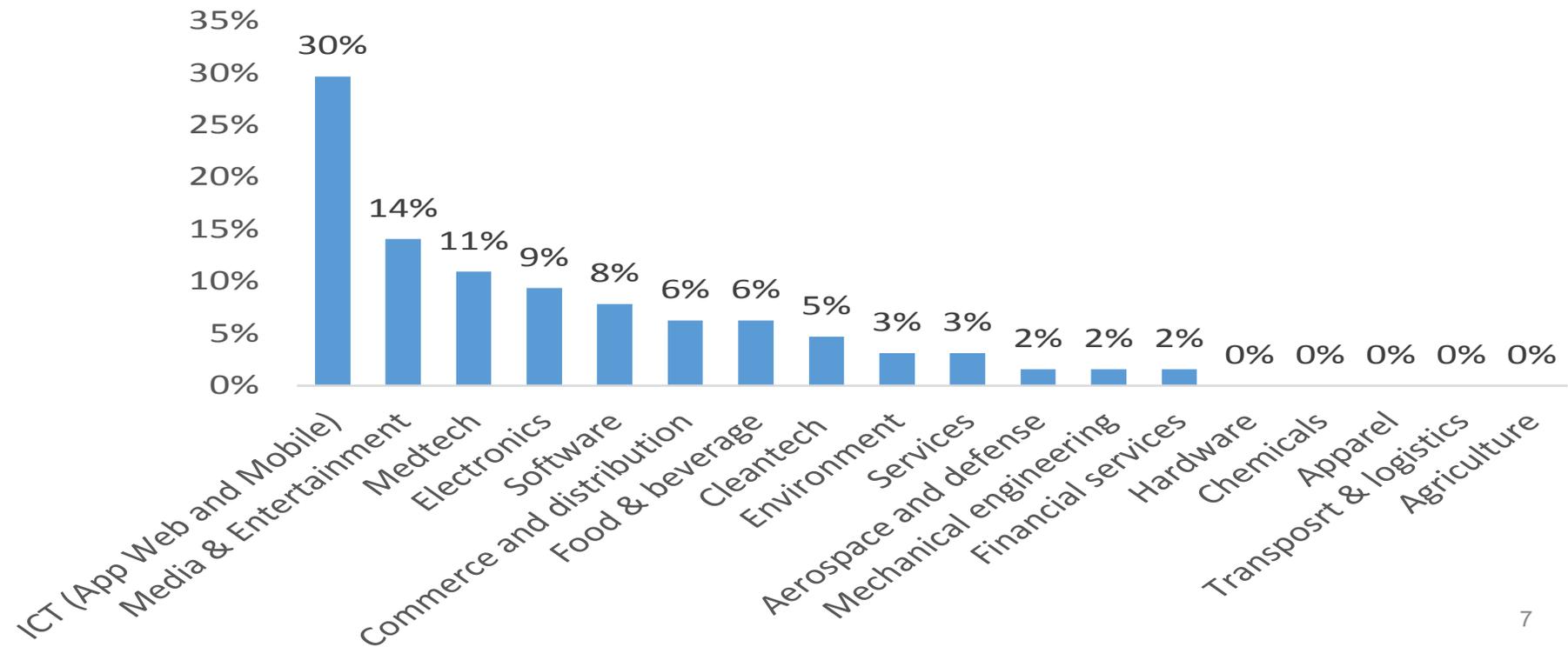
Features of investments of Italian Business Angels (2/3)

- In 2013, IBAN mapped 324 investments.
- 84% of investments were equity investments, 11% were shareholder financing and 5% were collaterals.
- The majority of investments financed firms established in Northern Italy.
- 35% of Business Angels investments targeted pre-revenue companies (seeds and start-ups).
- 68% of investments were smaller than 100.000 euro (average **funding gap**).
- The following graph shows the amount invested by Business Angels in each project.



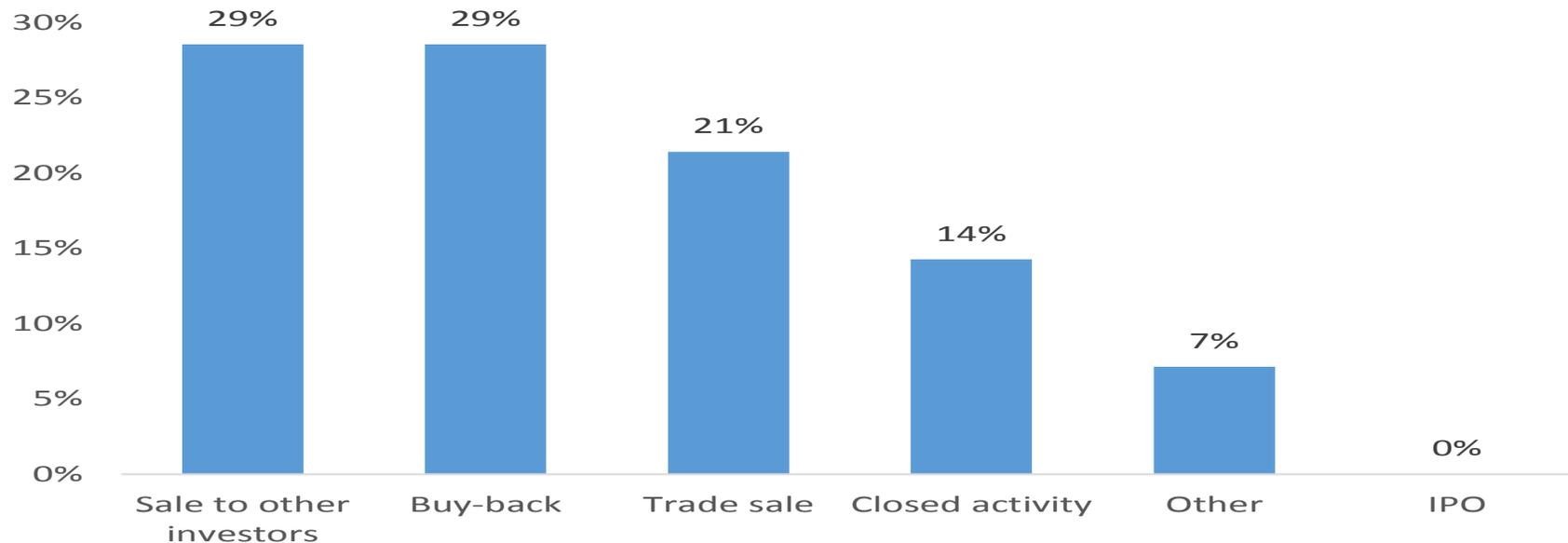
Features of investments of Italian Business Angels (3/3)

- 74% of Business Angels owned less than 15% of the share capital of the financed company.
- 46% of Business Angels made solo investments, and 31% **coinvested** with 8 or more Business Angels (consistently with previous years).
- The most financed industry in Italy was **ICT**, followed by **media & entertainment** and by **medtech**. The following graph shows the distribution of investments by industry financed (number of investments).



Features of divestitures of Italian Business Angels

- In 2013 IBAN mapped 19 divestitures.
- Only 10% of the sample reported at least one exit in 2013 (sample bias?).
- The industries with the highest number of divestitures were ICT and cleantech.
- Half of the reported divestitures resulted in a partial or total loss, while 14% had a **return** over 50%.
- The following graph shows the distribution of the exit strategies actually performed by Business Angels.



IBAN's scientific research: objectives and research questions

- ✓ Business Angels activities are of high interest for researchers: researches in the US, Canada and UK were published on the most prestigious international journals.
- ✓ At the domestic level, we are repeating the most rigorous and widely accepted research methodologies.
- ✓ Among the major research goals of the empirical analysis there is the valuation of the determinants of the IRR of Italian Business Angels investments. The database encompasses the details of the divestitures from 2007 to 2012 (6 years).
- ✓ The main results are the following:
 - ✓ **High-tech** investments don't result in higher returns when compared to investments in other industries;
 - ✓ There is an inverted «U shaped» relationship between **experience** (number of investments performed during the Business Angels' lifetime) and investments' performance: the IRR grows for Business Angels' with average experience, then decreases for the most experienced Business Angels;
 - ✓ Investments whose **duration** is lower than 3 years result in lower returns;
 - ✓ The performance of investments increases for higher **rejection rate** (rate of rejected project over the total valued investments);
 - ✓ Divestitures performed during the recession (2008 – 2010) don't result in lower IRR for Business Angels.
- ✓ Other research questions cover the following topics:
 - ✓ Determinants of investment strategies;
 - ✓ Analysis of contractual constraints and capital protection policies of Business Angels;
 - ✓ Analysis of the performance of angel-backed firms compared to venture-backed firms.

IBAN's scientific research: literature review (1/2)

Research objective	Research questions	Major contributors
<ul style="list-style-type: none"> - Profiling BA - Role of BAN/BAS/BAG 	<ul style="list-style-type: none"> -What are the main features of BA? -What is their background? -How much money do they invest? -What industries do they prefer? -What is the role of BAN/BAS/BAG? -Should BAN receive government's financial aid? 	<p>Wetzel (1986); Gaston (1989); Freear <i>et al.</i> (1992); Wetzel, Freear (1993); Riding (1993); Landstrom (1993); Harrison, Mason (1994, 1998, 2007); Coveney, Moore (1998); Lerner (1998); Aernoudt (1999); Visser, William (2001); Paul <i>et al.</i> (2003); Mason (2006); Sohl, Hill (2007); Morrisette (2007); Sohl (2007); Paul, Whittam (2009); Christensen (2011); KFW (2011); Festel, De Cleyn (2013); Li (2014)</p>
<ul style="list-style-type: none"> - Size, growth trend, features of domestic informal venture capital markets 	<ul style="list-style-type: none"> - What is the size and the growth trend of the informal venture capital market in a given country/region? - What are the industries which receive most investments? - What is the holding period? - What are the favorite exit strategies? 	<p>Landstrom (1993); Mustilli, Sorrentino (2003); Bygrave <i>et al.</i> (2003); Fleming (2004); Harrison, Mason (2008); Capizzi, Giovannini (2010); OECD (2011); Kraemer-Els, Skillo (2011), Lahti (2011); Romani (2013)</p>
<ul style="list-style-type: none"> - BA and hi-tech firms 	<ul style="list-style-type: none"> - Do BA investments boost technology development? - Do hi-tech firms grant a higher IRR when compared with non hi-tech start-ups? 	<p>Freear, Sohl (2002); Harrison, Mason (2003); Madill (2005); Shane (2008); Metrick, Yasuda (2011); Festel, De Cleyn (2013)</p>
<ul style="list-style-type: none"> - BA investment process - BA evaluation procedures - Determinants of investments 	<ul style="list-style-type: none"> - What are the differences between BA and VC? - What are the main variables affecting BA evaluations? - What are the impacts of non-pecuniary benefits? - How do BA's experience and background affect investment criteria? 	<p>Landstrom (1995); Haar <i>et al.</i> (1998); Feeney <i>et al.</i> (1999); Van osnabrugge (2000); Harrison, Mason (2002, 2003); Mason, Stark (2004); Maula <i>et al.</i> (2005); Paul <i>et al.</i> (2006); Wiltbank <i>et al.</i> (2006); Riding <i>et al.</i> (2007), Harrison <i>et al.</i> (2007); Sudek (2008); Clark (2008); Capizzi, Tirino (2011); Mittenness <i>et al.</i> (2012); Collewaert (2012); Bamres, Collewaert (2012)</p>

IBAN's scientific research: literature review (2/2)

Research objective	Research questions	Major contributors
<ul style="list-style-type: none"> - BA vs. VC: operations and performances - Relations between BA's and VC's investments - Coinvestments - Angels backed vs. Ventures backed companies 	<ul style="list-style-type: none"> - Are BA and VC substitutes or complementary? - Do they invest in the same firm? - Do they invest sequentially? 	<p>Van Osnabrugge (1998); Chirovoulu (2004); Sohl (2006); Harrison, Mason (2000); Sudek (2008); Hsu et al. (2014); Johnson, Sohl (2012); Bonnet, Wirtz (2012); Kerr <i>et al.</i> (2011); Shehan (2005); Goldfarb <i>et al.</i> (2012); Chahine <i>et al.</i> (2007)</p>
<ul style="list-style-type: none"> - Determinants of IRR - Functional forms of determinants of IRR 	<ul style="list-style-type: none"> - What are the major variables affecting the performance of BA's investments? - What are the functional forms of the determinants of IRR of BA's investments? 	<p>Lumme (1996); Harrison, Mason (1999); Wiltman, Boekor (2007); Wiltbank (2009); Capizzi (2011)</p>
<ul style="list-style-type: none"> - Impact on performance of angels backed firms 	<ul style="list-style-type: none"> - What are the performances of angel backed firms? - Does BA's experience matter? - Do angels backed firms deliver better post-IPO performance? 	<p>Delmar, Shane (2006); Johnson, Sohl (2007); Kerr <i>et al.</i> (2011)</p>
<ul style="list-style-type: none"> - BA and contractual issues 	<ul style="list-style-type: none"> - How do angels monitor investee companies? - What kind of contracting clauses do they implement? - How do they protect their investments? 	<p>Elitzur (2003); Wong (2009)</p>

IBAN's scientific research: publications

- Capizzi V., Giovannini G., (eds.), *Business Angels e Informal Venture Capital in Italia*, Bancaria Editrice, Roma, 2010.
- Capizzi, V., *What drives the return of Business Angels' investments? An empirical analysis of the Italian informal venture capital market*, **GSTF Global Business review**, Vol.1 No. 2., 2011
- Capizzi, V., *Determinants of Business Angels Investments: an empirical analysis of the Italian informal venture capital market*, working paper presented at "Innovation and Entrepreneurship World Conference", Singapore, 2011
- Capizzi, V. e Tirino, G., *Business Angels and Informal Venture Capital in Italy: emerging trends and investment policies of Italian Business Angels*, AIFA Research, SDA Bocconi, 2011
- Capizzi, V. e Tirino, G., *The informal venture capital market in Italy: in search for the determinants of business angels' IRR*, "World Finance Conference", Rio De Janeiro, 2012
- Capizzi, V., *Linear and nonlinear determinants of the performance of informal venture capitalists' investments. An empirical analysis*, "**Journal of Governance and regulation**", Special Conference Issue, April, 2013.
- Capizzi, V., *The returns of business angels investments and their major determinants*, "**Venture Capital: An International Journal of Entrepreneurial Finance**", 2015, Forthcoming.

IBAN's scientific research: next steps

- ✓ Increase of the scientific activity: submission to international journals and participation to conferences;
- ✓ Constitution of a European think tank (BAE) and building of a European database;
- ✓ Comparison of the results in different countries;
- ✓ Feasibility study of a **IBAN Observatory**, with appropriate sponsorships;
- ✓ Creation of a “Pan-European” BAE Observatory, in order to perform comparative analysis and offer policy suggestions at an European level.