



CORPORATE FINANCE

The international and Italian experiences of BA investing: models of references

25 June 2007

ADVISORY

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The Business Angel Investment model

History and rationale

- The term "angel" comes from the practice in the early 1900's of wealthy businessmen investing in Broadway (and off-Broadway) theatrical productions in the US
- Despite the early inception of angel's initiative different reasons have jeopardized its visibility and evolution, such as:
 - Individuality and privacy of the BA's investments inducing to a minor disclosure of the phenomenon
 - The Western countries' economic systems which determined a lack of dynamism, concurring in the delay of the development of the angels' segment

The Business Angel Investment model

History and rationale

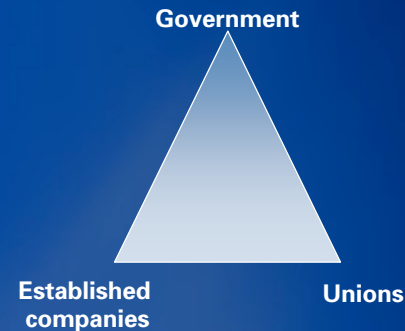
- In particular, the level of dynamism is a matter of how fertile the country is in coming up with new inventions, their innovative/commercial application and diffusion onto the market
- Different dimensions caused the dearth of dynamism in the Western countries, leading to the establishment of a Bureaucratic model:
 - Economic institutions
 - Economic culture
 - Historic moment

The Business Angel Investment model

Bureaucratic VS Entrepreneurial Capitalism

- The Bureaucratic model: established companies, large trade unions, and an interventionist government coexisted to achieve two goals - equilibrium and predictability

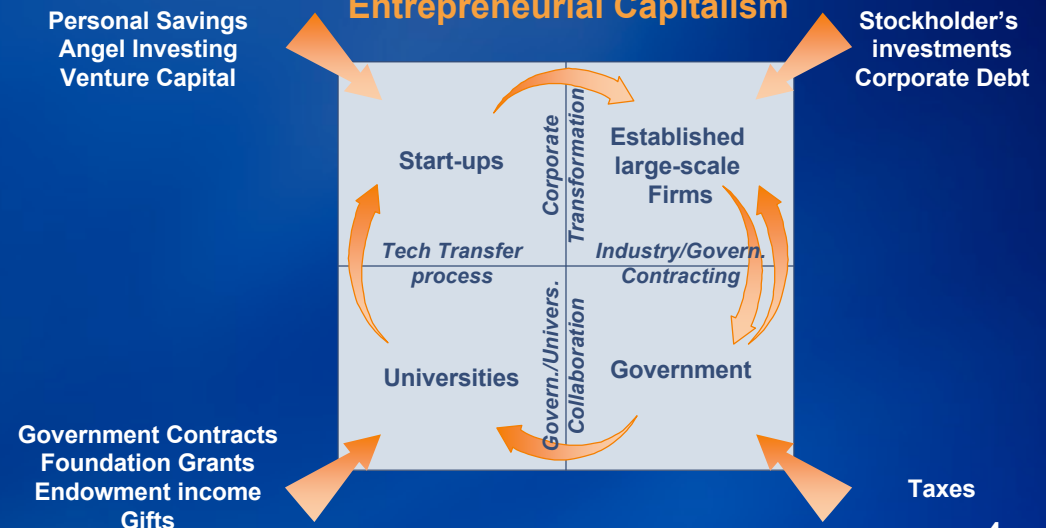
Bureaucratic Capitalism



- “Today the economic system recognizes the individual as the engine of change and has switched to an Entrepreneurial model” (Carl J. Schramm)

- In the 70s and 80s Endogenous and exogenous shocks lead to the Entrepreneurial capitalism:
 - Larger opportunity space for new firms
 - Boom of technological innovations
 - Sustained growth of the service sector
 - Risk-taking and self-employment culture
 - Demand more sophisticated

Entrepreneurial Capitalism



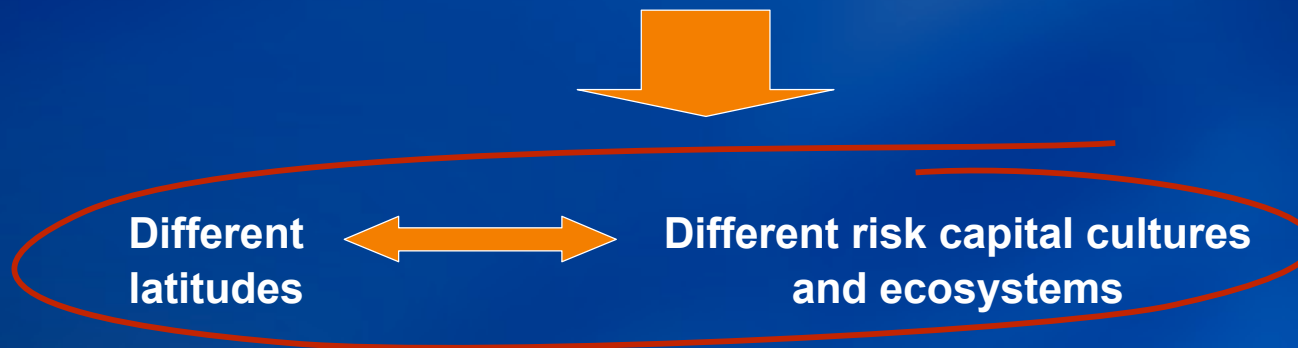
Source: "Making the turn: entrepreneurial capitalism and its European promise" Carl J. Schramm

The Business Angel Investment model

The right time to flow the seed

- A new financial capitalism emerged that still serves the ‘production’ of ideas, “financing new activities and putting inefficient old activities into the hands of those who can exploit them better” (Martin Wolf, FT, June 19, 2007)
- Within this new socio-cultural environment, Business Angels undertake their role in a more structured way:
 - They are fundamental to the growth of economies
 - They spot the “equity funding gap”
 - They intervene where no other financial actor is willing to enter

BAs’ role and activity ultimately face the peculiar aspects characterizing each region and country



Facts and Figures

USA

- Annual investment by Business Angels of circa US\$25 billion
- Active angel investors in 2006: 250.000
- 51,000 ventures funded by angels
- Spawned 132 angel portals, as of 2005
- GDP 2006: US\$13,02 trillion (PPP terms)

Europe

- The number of networks in Europe has grown from 50 networks in 1999 to 211 in 2006
- EBAN 2006 Survey: 1.103 deals funded for a total investment of about €224 million, of which €97 million (416 deals) concerning investments made by Venture Capitalists in the seed phase
- Business Angel market in Europe is estimated at €1,5 billion
- The number of Business Angels in Europe is estimated between 50.000 and 100.000
- GDP 2006 (EU27): US\$13,88 trillion (PPP terms)

The US Experience

A mature market with further growth channels

- **Country overview**

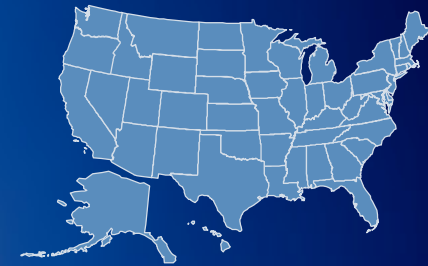
- BA phenomenon born in early 1900s, revamped with the '70s entrepreneurship momentum
- Widespread equity and risk taking culture matched by seed and start-up financing supply
- Business failure acceptance

- **Business Angel System**

- Organizational and institutional environment supporting angel investors
- Interaction with Venture Capital to fill the seed and post seed gap
- Increase angel syndication and private-public investment partnerships
- Institutionalisation of Angel markets
- Government supply-side measures: tax credits (the ACE act)

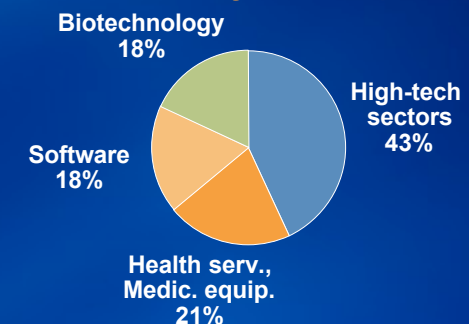
- **Success story: *what if* the SBIC program never helped Intel?**

- In 1968, Arthur Rock & Co. promoted the Intel early financing (US\$2,5 million) qualifying it for the SBIC program and investing US\$300K personally
- Additional US\$ 6,8 million equity raised in 1971's IPO
- Last year, Intel Capital, the Venture Capital arm of Intel Corp., invested US\$1,07 billion in 163 deals of which 60% outside US



| Angel Market at a glance | | |
|-----------------------------|---------|---------|
| | 2005 | 2006 |
| Total investments (\$mln) | 23.100 | 25.600 |
| Total investments (€mln) | 19.506 | 19.405 |
| Projects funded (no) | 49.500 | 51.000 |
| Average deal size (ca €) | 394.053 | 380.486 |
| Active angel investors (no) | 227.000 | 234.000 |
| Jobs created (no) | 198.000 | 201.400 |

Breakdown by sector (2006)



The UK Experience

The European benchmark for Angel Investment stretching toward innovative investment schemes

- **Country overview**

- The largest European angel market started out in the '80s
- British Angels entered the niche left out by VCs, following the technology bubble burst

- **Business Angel system**

- Strong support from organizations and industry associations
- Solid Government Involvement
- Supply-side measures: tax relieves and capital gain tax exemption (EIS) and equity guarantees
- Flying toward maturity, as signaled by the larger average deal size

- **Success story: value creation matters at the exit stage!**

- GLE Growth Capital's exit from Pout Ltd., a new make up brand founded in 2001; angel-invested in 2003; after 3 years the value of the company increased by 4 times and the business was sold to a PEH (Catterton Partners)






| Angel Market at a glance | | |
|--------------------------|---------|---------|
| | 2004 | 2005 |
| Total investments (€mln) | 35,9 | 58,1 |
| Projects funded (no) | 165 | 188 |
| Average deal size (ca €) | 217.787 | 309.062 |

Source: EBAN, 2006 Survey (45% return rate)

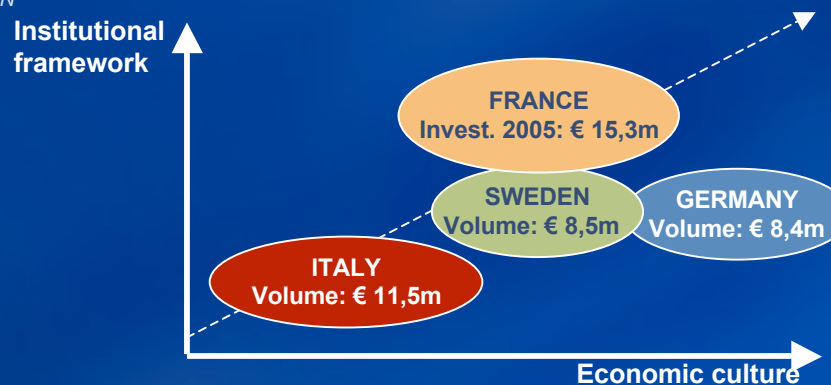
The European Experience

BA industry in a development phase

- Significant improvement in the visibility of the European Business Angel market
- Business Angels as major actors in closing the equity gap, a financial market gap identified as €250.000 to €2,5 million across Europe
- Number of BAN has more than doubled in the last ten years

| | Government involvement | Fiscal incentives | Institutionalization | Investments structure | Promotional initiatives |
|---|--|---|--|--|---|
|  France | √√√ Public subsidies Legal framework | √√√ Favorable taxation schemes | √√√ Special status given to BAs | √√ Recourse to co-investment VC Funds | √√ Activities to diffuse BA's culture |
|  Germany | √√ Investments together with BA's Band sponsored by Federal Ministry | √ Actions to secure a more attractive tax status | √ Set up as either public sponsored associations, non profit associations or private enterprises | √√√ Recourse to co-investment Backed by private industry VC Funds | √√√ Activities to diffuse BA's culture Relations with media partner |
|  Sweden | √√ Public subsidies Support program run by Authority | √ Actions to secure a more attractive tax status | √ Organized as non-profit entrepreneurial networks, consulting firms or state-supported organizations | √ Unique BA's & VC's association enabling the follow-on funding VC Funds | √√ Activities to diffuse BA's culture |

Source: EBAN



The Italian Experience

A “fledgling” angel market with unexpressed potential

- **Country overview**

- A developing market both for informal and formal equity finance
- Environmental conditions: SMEs accustomed to a loan culture and family-restricted board seats (governance)
- Skills to forge new technologies not business ventured
- Opportunities coming from BICs and PNI

- **Business Angel system**

- Spreading regional networks and informal support organizations
- Development of government agencies and investment schemes: IPI, Sviluppo Italia, 388/2000 Law
- Mac as possible exit route for BAs
- Lack of performance-related public subsidies to BANs
- Lack of fiscal incentives on Angel’s entry and exit stages

- **Success story: It’s possible because it happened!**

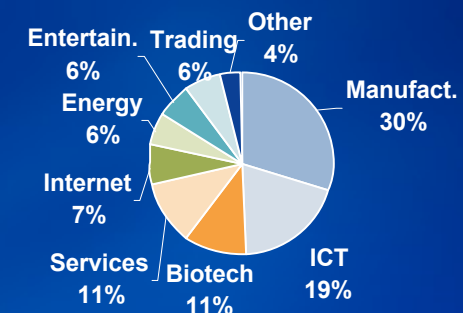
- MutuiOnline:
 - Founded in 1999 as the first Italian online mortgage broker
 - 2000: early-financing from Nestor 2000 Sprl and Jupiter Venture SA
 - 2006: raised €690 million in mortgages through the website with ca. 43.000 applications and 37 banks brokered
 - June 14, 2007: Float 35%, Market Cap €246 million



| Angel Market at a glance | | | |
|--------------------------|---------|---------|---------|
| | 2004 | 2005 | 2006 |
| Total investments (€mln) | 1,3 | 8,0 | 11,6 |
| Projects funded (no) | 12 | 35 | 69 |
| Average deal size (ca €) | 108.775 | 228.000 | 167.500 |

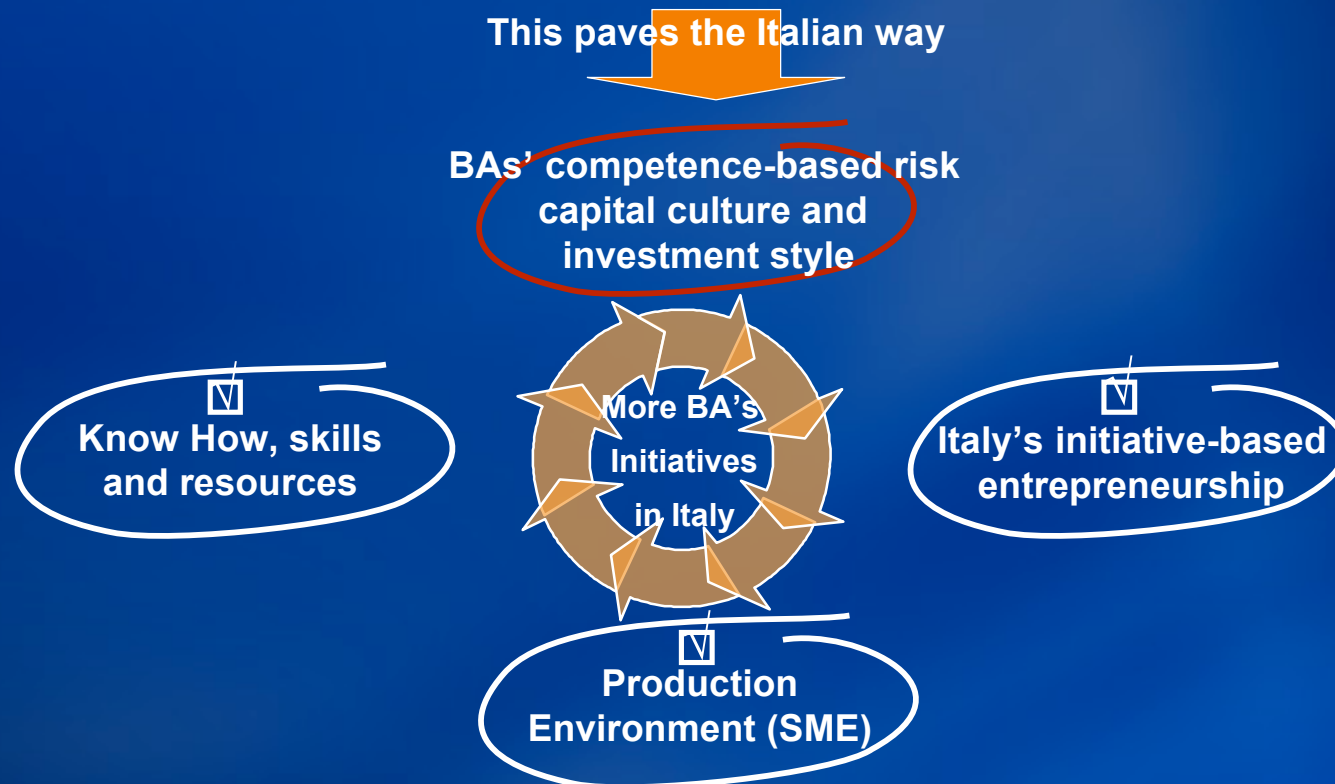
Source: EBAN, 2006 Survey (45% return rate), IBAN

Breakdown by sector (2006)



Framing success factors and problems: finding the Italian Way

- Best practice in order to stimulate the BA initiatives:
 - Improving *communication on Business Angel activity* and general knowledge
 - *Institutionalization* of Angel market
 - Introducing efficient *fiscal incentives*
 - Development of *angel syndicates*
 - Development of the *collaboration* between Business Angel networks and early stage venture capital firms



Let the Business Angels take off

Some ideas

- Create a platform/Club of skilled promoters acting as catalyst to facilitate the progress of innovations in a systematic way
- Greater visibility of national 'champions'/industry opinion leaders as a way to dislodge and boost the BA's market
- System as a matter to exist and evolve



Cooperation between KPMG and IBAN

Why KPMG:

Enduring pragmatic commitment on cutting-edge enterprises in the corporate finance industry

KPMG Angle:

Broadcast and strengthen the concept regarding the Business Angel activity all over the country

- *Deep relationship with the business community*
- *27 local offices synergic to BANs*
- *KPMG International Network*
- *Meetings, events, awards, seminars in order to promote the BA industry*
- *Understand the different economic trends*
- *Long-lasting cooperation with AIFI*

