

# RESEARCH ON BUSINESS ANGEL INVESTING

## "Siding With The Angels" - Research by Robert E. Wiltbank

*This research was organized by NESTA [www.nesta.org.uk](http://www.nesta.org.uk) with data from BBAA and their members*

### 1. Business angel investing is risky, but overall appears to generate attractive outcomes.

The most likely outcome in any one angel investment is failure, but 'winning' investments are very attractive. Fifty-six per cent of the exits failed to return capital, while 9 per cent generate more than ten times the capital.

Because the 44 per cent of investments that generate positive exits win at a larger multiple than the costs of the negative exits, the overall return to business angel investing in the UK is 2.2 times the invested capital.

These 9 per cent large investment exits produced nearly 80 per cent of all the positive cash flows.

Given the holding period of just under four years, this is approximately a 22 per cent gross internal Rate of Return (RR).

### 2. Key strategic choices are significantly related to better investment outcomes.

Angels with entrepreneurial expertise outperformed those without it, especially in earlier-stage opportunities.

More than half of the investments were very early stage going into pre-revenue ventures.

Those who invest in opportunities where they have specific industry expertise failed significantly less.

Those who perform at least some due diligence, even just 20 hours, experienced fewer failed investments.

After the investment is made some involvement with the venture was related to improved investment outcomes. However failure was greater where investors were perhaps too involved, specifically when they held management roles.

Exits where the business angel investor had made follow-on investment in the venture were significantly less successful.

### 3. Tax incentives appear to have a material effect on encouraging business angel investing, and some details may help refine existing policy.

Eighty per cent of investors surveyed have made use of the Enterprise Investment Scheme, at least once. And 57 per cent of their investments had made use of the EIS.

Investors said that 24 per cent of their investments would not have been made without tax incentives.

On average, it takes three years for an investment to fail, but six years to get to a win.

The average investment size is £42,000 per investor, and an average of six investors co-invested into each venture (although 17 per cent of the venture investments were made by solo investors).

Angel investors on average acquired 8 per cent of the venture; only 10 per cent of investments acquired more than 20 per cent of the venture.

Most angel investing is done within 250km of the investor's home, though 25 per cent of investors were willing to make investments abroad.