

BUSINESS ANGELS

2019 REPORT

INVESTING IN START-UPS
ACTIVITY AND TRENDS



MAY 2019
STUDY COMMISSIONED BY:



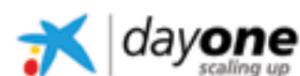
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FOREWORD REPORT 2019

Once again this year, I am pleased to announce the fourth edition of the AEBAN report on the investment of business angels in Spain, with the aim of contributing to improving the knowledge of the investment ecosystem and in which relevant investors have been invited to participate, who have contributed with qualitative comments.

The activity in 2018 shows slight variations in noteworthy parameters relating to private investors and start-ups, which contributes to stressing the value of the analysis carried out and its usefulness for public and private agents in the investment ecosystem.

One of the main findings of the report is the increase in the age of private investors, 68% of whom are over 45 years of age, which coincides with their profile as senior managers and company founders.

With regard to the experience of investors, it should be noted that more than half of them have been investing for less than seven years. This data should lead us, once again, to encourage private investors to improve their training for investment activity and co-investment in order to diversify the portfolio through an average number of investments higher than the current one, which should be at least ten investee companies, in order to minimise risk.

The average valuation of transactions merits special attention, as it has become more

moderate in the most incipient stage of projects and has increased in subsequent stages, confirming the greater sophistication of the analysis carried out by investors.

The main areas for improvement include the need to implement fiscal stimulus measures for investment activity in order to maintain the competitiveness of our investment ecosystem, as well as increasing the participation of women in investment activity and investments with a social impact.

Once again, we must highlight the consolidation of business angel networks as the main instrument for articulating the sector, for their work in selecting and presenting investment opportunities to business angels who, once again this year, highlight them as the main source for identifying investments.

Finally, I would like to thank the investors and respondents who made this report possible and the excellent work of Professor Juan Roure and the IESE researcher Amparo de San José in preparing the report and improving its content through the introduction of new variables subject to analysis, which allow us to obtain a complete view of the ecosystem.

Kind regards,

José Herrera

PRESIDENT OF AEBAN

AEBAN

AEBAN is the Spanish Association of Business Angel Networks. Established in November 2008 under Law 1/2002, AEBAN's mission is to promote the activity of those entities that carry out investment activities in the initial stages: Networks, investor groups and clubs, companies and investment funds active in the seed and start-up stages, accelerators and incubators and participatory financing platforms.

Currently, AEBAN connects 35 business angel networks in 10 Spanish autonomous communities. These networks, in turn, connect nearly 2,000 investors who in the last year mobilized resources totaling 40 million euros. AEBAN's objectives are as follows:

- To centralize all associations and/or networks of private investors (business angels) in Spain.
- To serve as a forum for the exchange of information, experience and projects between representatives of associations and/or networks of business angels, public administrations, educational institutions and any other entities or institutions interested in the goals of the Association.
- To collaborate in the promotion and exchange of investment projects.
- To play the role of spokesperson for associations and/or networks of business angels before public or private institutions and administrations, in relation to the promotion of the activity of business angels.
- To relate to other associations and networks in international spheres.
- To identify, promote and share "best practices" in the development of the activities of business angel associations and/or networks and in investment processes.
- To encourage learning and constant updating of knowledge among the members of the Association.
- To promote reflection on issues affecting business angels.
- To disseminate information about business angels and business angel networks.
- To promote periodic studies on the private investment market.

These objectives will be accomplished mainly through the following activities:

1. The creation of periodic meeting points between associations and/or networks of business angels, business angels, public administrations, educational institutions and entrepreneurs, for the sharing of information, experiences and projects, as well as for reflection on specific issues affecting business angels.
2. Contacts with international associations and networks.
3. The development of a platform that allows market agents, entrepreneurs and entrepreneurs to interact with business angel associations and/or networks.
4. Exchanges with public and private institutions and administrations, on behalf of business angel associations and/or networks, for the promotion of business angel activity.
5. Preparation and dissemination of a catalogue of 'best practices'.
6. Organisation of training and data dissemination courses.

KEY FIGURES

- The investor profile in 2018 reflects an increase in the average age of investors, 68% of which are over 45 years old. They are mainly senior managers, founders, and consulting professionals (60.2%), among which backgrounds in technology and finance dominate the experience landscape (59.6%). In turn, 58.4% has been investing for less than 7 years.
- The average amount that each investor invests in a start-up has gone down to 37,600 euros, whereas the most common ticket per investment went down to 20,000 euros in 2018. Both decreases represent around a 20% fall compared to the same values of last year. For most investors, more than 47%, it is vital to co-invest, as they can only allocate to investments a maximum of 50,000 euros per year.
- For some investors, portfolios continue to improve in terms of diversification, although this aspect remains a challenge, as 44.7% still has made less than 5 investments and almost 26.52%, less than 10. Investors' experience also improves, as the proportion of investors who have made more than 11 investments increases.
- Investment at national level remains dominant, accounting for 39% of investments. Yet, 28% is a remarkable figure for international investment.

45%

OF INVESTORS HAS MADE LESS THAN 5 INVESTMENTS

59%

OF INVESTORS HAS MADE FOLLOW-ON INVESTMENTS

9%

IS THE INCREASE IN PRE-SERIES A VALUATIONS

91%

OF INVESTORS CONSIDER TRAINING TO BE IMPORTANT

- The activity of business angels has ceased to be 'invisible', investment opportunities come directly from entrepreneurs (60.74%), through various networks (63.7%) also visible to entrepreneurs, and friends and associates (62.9%).
- The crowdequity platforms continue to penetrate the market and are already used by 27.4% of investors to expand their investment opportunities.
- A growing number of investors, 16% has not been active in 2018; of the remainder, 73% has made between 1 and 5 investments in 2018. The number of investors who have accompanied their investees in subsequent rounds has increased to 58.6% in respect of 50% of the previous year.
- Entrepreneurs seeking financing for initial, pre-market stages have seen their valuations shrink, with the average value around 700,000 euros, compared to the 912,000 euros recorded in (2017).
- In terms of the valuations of start-ups in more advanced stages, prior to Series A and with market traction, there is a slight 9.3% increase in the average valuation. This increase is notably greater in the last quartile of investments, where valuations have risen from 3.5 million to 5 million euros and have reached a maximum of 50 million euros.
- The software sector, with 56.7% of active investors, remains the most popular one among investors, followed by the 'health' arena, which includes biotechnology and pharmaceuticals, which has risen to 29.6%. As a third sector worth highlighting, finance and banking ranks third, accounting for 31% of investments.
- Interventions and initiatives such as training (91% consider it important), participation in a network of business angels (81% find value on that) or the establishment of a code of conduct or best practices (67% consider that adequate) are seen as potential drivers for the professionalization of the sector.
- Among the trends that investors expect to materialize in 2019 are the inflow of more international funds, the more active role of investors in the global economy, and an increase in the number of corporate investors. On the other hand, no changes are expected in the ease of finding financing for start-ups nor limitations on investment by investors.

INVESTOR PROFILE

The analysis of the investor profile, although it does not show much variation year to year, shows the evolution and consolidation of trends, and makes it possible to identify significant changes in the medium term. Variables such as professional experience, age, sex or scope of investment are relevant, among others, for entrepreneurs or public agents seeking to influence the development of the sector.

Among others, professional experience can condition the propensity of investors to invest in a given sector in which they feel more comfortable. Experience as an entrepreneur shows a correlation with the amount invested in each operation (ACA, 2018¹), as well as sex, since there is a greater proportion of investment in start-ups led by women (WA4E, 2018²).

¹ Laura Huang, *The American Angel Report* Angel Capital Association, results of the American Angel Campaign, 2018, www.theamericanangel.org/

² Business Angels Europe, 'The Barriers and Opportunities for Women Angel Investing in Europe', 2018, <http://wa4e.businessangelseurope.com>

AGE OF INVESTORS

The average age among investors continues to be concentrated on the middle segment of professional activity, i.e. professionals and entrepreneurs between 45 and 54 years of age, a group that brings together up to 68% of investors (see Figure 1).

Over the years, the +45 age range has been consolidated and, in particular, that of investors aged between 45 and 54, which has almost doubled its representation. Except for the maximum level reported in 2017 for the 25-44 age range, this younger group loses weight among investors as a whole (see Figure 2).

The continuity in the age groups with respect to the previous year confirms the parallelism in age profile with North American investors, where 43% are over 61 years of age and where the proportion of investors under 40 years of age barely reaches 8% (ACA, 2018).

The engagement of women investors in start-ups does not seem to be evolving favourably, although the efforts made by entities such as WA4S Team, IESE or Impulse for Women are expected to bear fruit in the coming years.

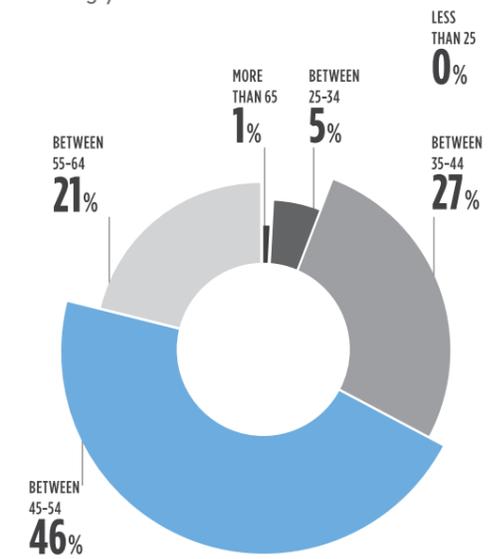


FIG. 1: AGE OF INVESTORS IN 2018

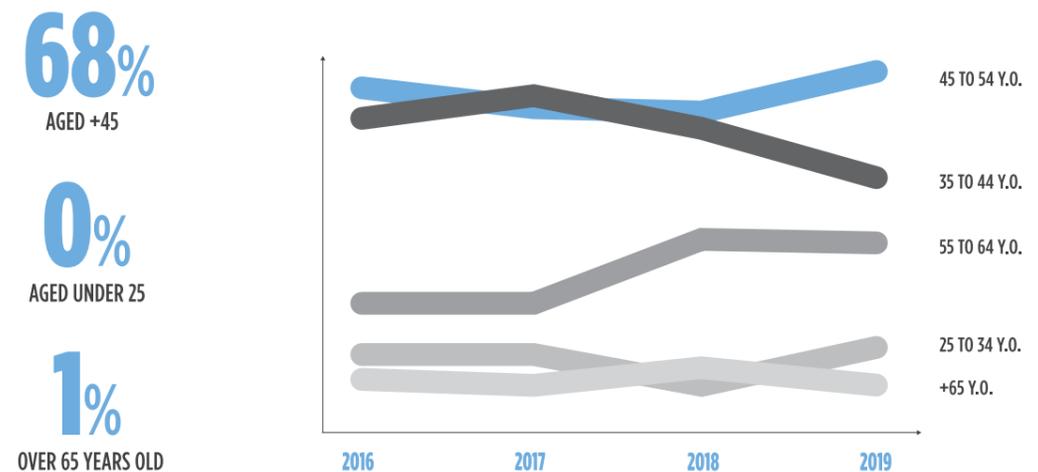


FIG. 2: EVOLUTION OF THE AGE OF INVESTORS 2015-2018

PROFESSIONAL EXPERIENCE OF INVESTORS

Professionals who venture into investment as business angels show profiles with professional track records mainly in a narrow spectrum of economic sectors, including technology and finance, which collectively account for close to 70% of the total (see Figure 3).

While it is generally considered that start-ups, within particular business sectors lack investment due to an absence of investors with experience in such areas, some investors consider that causality points in the opposite direction. In other words, they argue that investment forums, networks and accelerators are dominated by start-ups focused on digital businesses and that prevents professionals from other sectors to venture into angel investment.

A clear example would be the difficulty of finding investment in projects of a more industrial nature or highly specialized niches where analytical capacity and specific technology knowledge might be lacking:

'We have focused too much on investment in ICTs and, as a result, there are fewer professional profiles coming from sectors such as health or education. However, now, investors start to join in from the industrial world looking for investments 'different' from the most common start-ups.'

David Mor

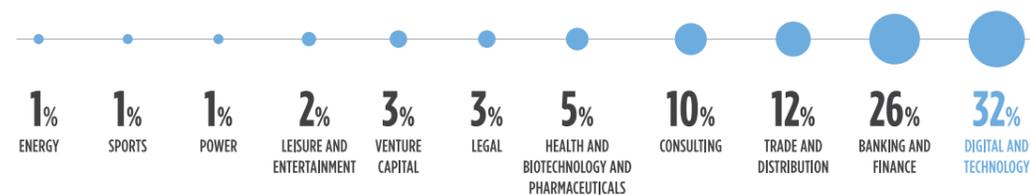


FIG. 3: PROFESSIONAL BACKGROUND

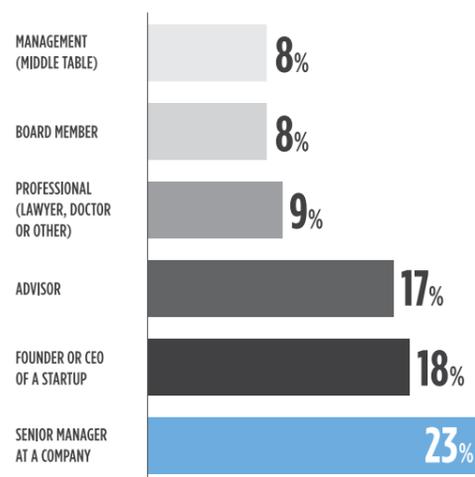


FIG. 4: POSITION OCCUPIED BY INVESTORS AT THE BEGINNING OF THEIR INVESTMENT ACTIVITY

It is also confirmed that, among the positions held by investors at the time they started investing, senior managers stand out (see Figure 4). While many entrepreneurs prefer investors who have gone through the process of creating and forging a company, the senior management profile also offers advantages. In general, investors with a management profile are or have been exposed to international contexts, have a very deep knowledge of specific management areas and can be of great value in expanding the network of contacts and access to large companies.

YEARS OF EXPERIENCE AS AN INVESTOR

The results of this study confirm the continuous inflow and outflow of activity among investors in start-ups. As it can be seen in the graph, as regards the years of experience of active investors, the proportion of investors who started before 2007 has declined across all categories, while the number of those who joined in 2012 and after has increased.

In this way, the Spanish experience grows apart that of the United States with respect to the previous survey, where 20% of active investors has more than 18 years of experience.

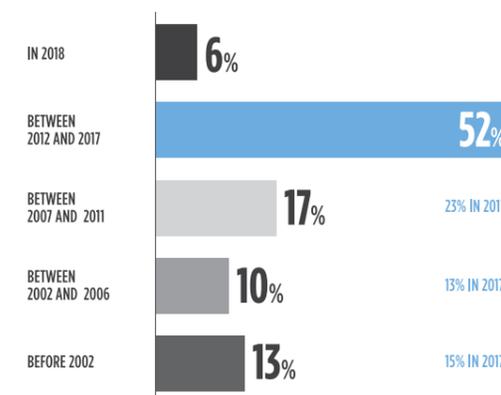


FIG. 5: YEARS OF EXPERIENCE OF ACTIVE INVESTORS

For some investors this is not a surprising fact and would be related to the level of 'amateurism' of the sector, understood as the lack of knowledge and planning of the investment activity of newcomers:

'If you start angel investment as a hobby and don't delve into reality, that's what happens (...) the initial drive is extinguished after a few years due to lack of adequate vision and strategy. Generally, the effort, knowledge, time, and funds that business angel investment require are underestimated!'

Jose Martín Cabiedes

'The lack of financial planning leads the investor into a perfect storm: They invest a lot at the beginning, after four years, they have had no exit events to bring in liquidity, and finally they stop investing. Few are aware of the need to diversify and of the fact that, possibly, it's going to be ten years until they see an exit.'

François Derbaix

INVESTMENT CAPACITY

The sample of investors offers a limited annual investment capacity, which collectively remains similar to the figures of the previous survey. In both editions, a large majority of investors (67%) has less than 100,000 euros to allocate to investment per year.

On the contrary, there is a slight increase in the upper segment, among investors with more than 500,000 euros available annually to invest, enlarging the representation of this segment to 8.4%, which accounts for a little more than two percentage points. These investors with the capacity to invest more than 500,000 euros per year come mainly from the technology, banking and finance and distribution sectors.

In this context, for many investors, more than 47%, it is essential to co-invest as they only allocate 50,000 euros a year to investment, and therefore, in order to achieve optimum diversification, they need to join efforts.

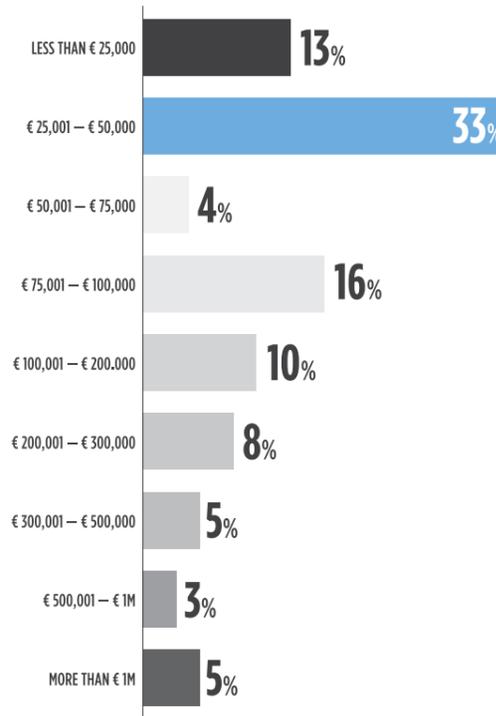


FIG. 6: AMOUNT AVAILABLE ANNUALLY TO INVEST IN START-UPS

EQUITY DIVERSIFICATION: PROPORTION ALLOCATED TO INVESTING IN START-UPS

Spanish investors continue to be 'cautious' and with limited exposure to this activity, i.e. the number of investors allocating less than 10% to investment in start-ups remains at around 68% of the total.

Even so, it is necessary to insist on reducing the risk of this exposure by expanding the size of portfolios and co-investing.

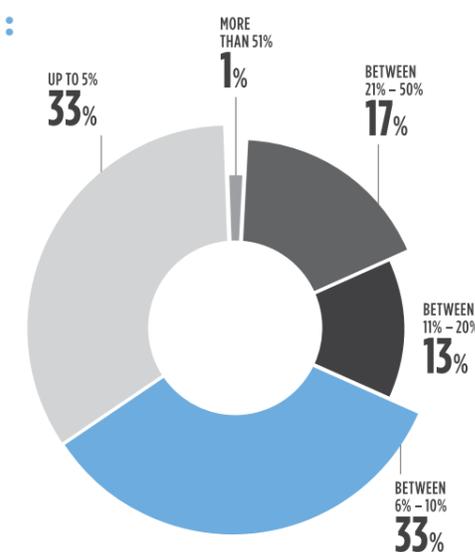


FIG. 7: EQUITY ALLOCATED TO INVESTING IN START-UPS

ACTIVITY

GEOGRAPHICAL SCOPE OF THE INVESTMENT

Investment at the national level continues to be the dominant scope, accounting for 39%. Although it does not stand out as a typical activity within this type of investors, 28% of them affirm they invest at international level.

The most comparable data on the international activity of business angels refer to 'super investors', which are part of the EIF's programme for European business angels³ and for which available data indicate that a 44% of investors participate in international operations.

Among internationally active investors, those with the greatest investment capacity predominate. Considering the group that reports international activity, 48% has more than 200,000 euros available for investment

annually, which represents a remarkable difference versus the 18.5% that has that same amount available in the overall sample.

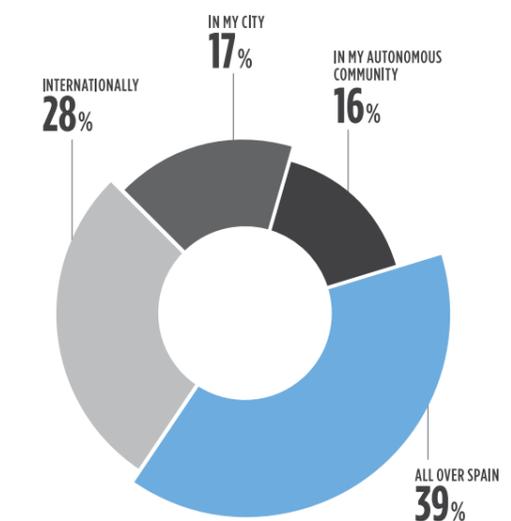


FIG. 8: GEOGRAPHICAL SCOPE OF THE INVESTMENT

³ Data obtained from the FEI presentation in Brussels on March 6.

SOURCES OF DEAL FLOW

The shortlist of investors' favourite deal flow sources remains stable, with the networks of business angels ranking slightly better than the personal and professional trust circle and the direct reach out of entrepreneurs (see Figure 9).

Networks, as it can be seen below, reinforce their relevance in two particular aspects: As a diversification opportunity and, above all, as the environment that contributes to the professionalization of investors.

In addition, it is confirmed that the activity of business angels has ceased to be 'invisible,' as it was traditionally considered. Entrepreneurs are increasingly connecting directly with investors. Their attendance to public events and presence on LinkedIn has changed the traditional discretion for a more high profile approach.

The crowdequity platforms continue to increase their presence among business angels, and their relevance is highlighted as a source of deals in the opinion of 27% of investors, a boost from the 16% of last year.

The growth of the crowdequity platforms correlates with their efforts to face and overcome a certain perception of adverse selection. One of the formulas that yielded results for them was to co-invest with renowned investors to overcome the initial perception there was of them as second-option financing, i.e., the option for start-ups to resort to when they could not get investment from business angels. In turn, investors consider them a consolidated player in the market.

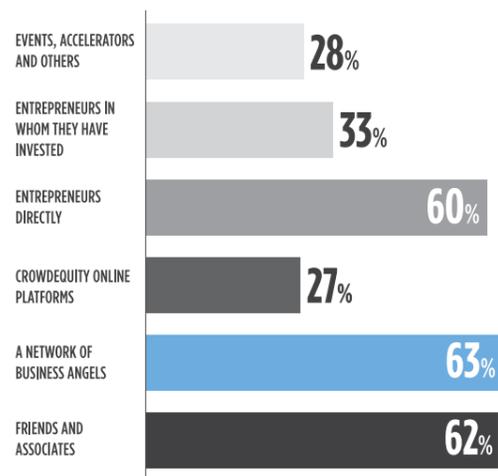


FIG. 9: SOURCES OF DEAL FLOW

‘My recommendation for a business angel is to invest initially through some kind of crowdequity platform or through a network or a group. Diversification, co-investment and a learning period to grasp the basics of the entrepreneurial ecosystem are essential.’

Jaime García Murillo

‘The sustainability and growth of the platforms will depend on their success in terms of the ROI they are able to generate. For the time being, the adverse selection has already been limited: It is not start-ups that fail to find funding those that resort to platforms, also, some of the platforms co-invest with renowned investors.’

Javier Sánchez-Guerrero

INVESTMENT AND RETURNS

INVESTMENT IN 2018

The year 2018 has been a year of rest or halt for many investors, with a 16% of investors not having made any investment, an increase of over 10% versus the previous year, although slightly less than the 18% of 2016. In turn, 3% of investors has significantly increased their portfolio and completed more than ten investments this year.

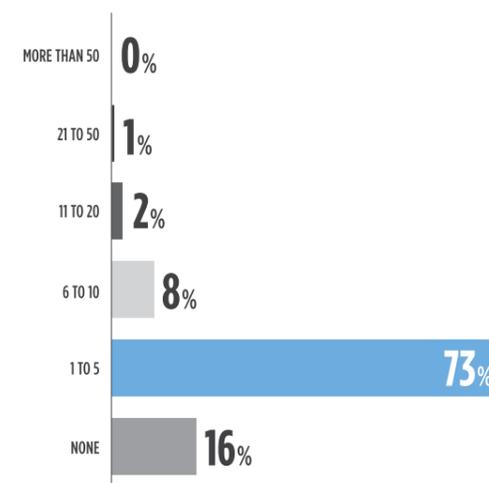


FIG. 10: INVESTMENTS MADE BY EACH INVESTOR IN 2018

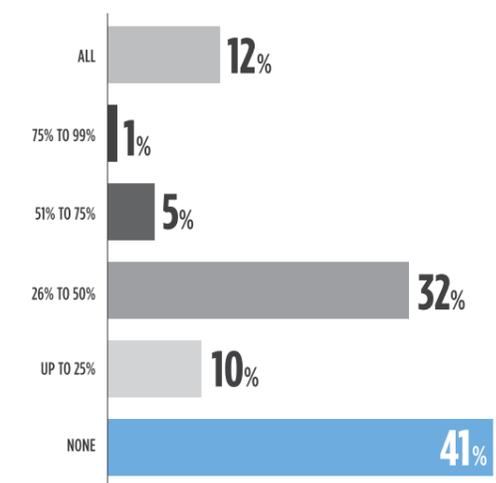


FIG. 11: RELEVANCE OF PORTFOLIO INVESTMENTS MADE IN 2018

The percentage of investors who have participated in capital increases in some of the start-ups already within their portfolios has risen to 58.6% from the 50% recorded in 2017. This follow on investments continue to increase, as does that same figure in the United States, which stands at 58%. An interesting data point in regards to the type of transactions in which business angels engage in the United States is the high percentage of post Series A capital increases they join. Up to 36% of the investments they make are post Series A, including some in Series C, and one in series A (ACA, 2018⁴).

However, as it can be seen in the graph below, the number of investors who have engaged only in follow-on transactions has been drastically reduced: From 34% (2017) to 12% (2018).

‘I like to participate whenever I can in follow-on rounds with other business angels before the venture capital funds arrive, at this stage there is still not enough evidence to discern between those start-ups that will thrive and those that will not.’

François Derbaix

⁴ The ACA 2018 study collects data from networks of investors, not individual investors.

As for the amount invested per start-up, there is an evolution towards smaller amounts since, as it can be seen, the number of individual investment tickets under 25,000 euros has increased significantly to 48.6% (35% in 2017). There is also a change in tickets between 25,001 euros and 50,000 euros, 18% of the total (22% in 2017). In turn, 29.4% invest more than 50,000 euros per company. In the 2018 sample, no investor has reported invested amounts per company in excess of

300,000 euros, while in 2017 that segment was represented, accounting for 5% of the total number of investors with individual tickets above that figure.

The average investment in 2018 corresponds to 37,600 euros (almost 10,000 euros less than the previous year), with an average value of 25,000 euros, and a more frequent ticket of 20,000 euros (5,000 euros less than in 2017).

INVESTMENT HISTORY

Despite the risks of diversification, there is still a tendency for investors to accumulate experience. Throughout the four editions of this study, there has been a notable decrease in the number of investors with less than five investments in their entire track record, although this figure does not show notable changes versus last year.

The most notable exception is the compensatory movement of 3% of investors moving upwards from the 6 to 10 range, which goes up to 11 to 20. In that same percentage, the number of investors with the most active track records have increased, i.e. those with more than 50 investments made.

Among investors who started before 2011, the evolution of the investments made is obviously more encouraging and, as it can be seen in the graph below, more than 60% has already made more than 11 investments, compared to the 43% of the overall sample. In fact, proportionally, the difference is remarkable when it comes to those who have made more than 21 investments, a 21% compared to the 11% of the overall sample.

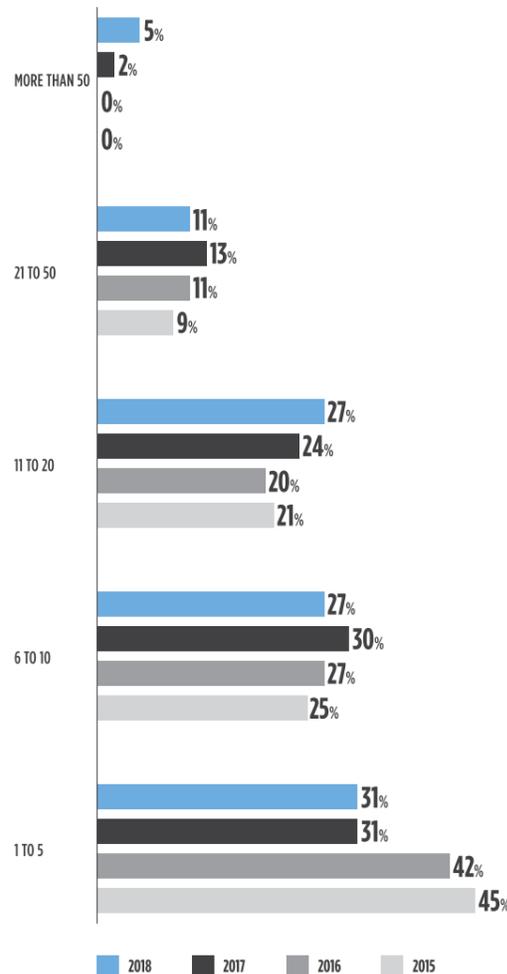
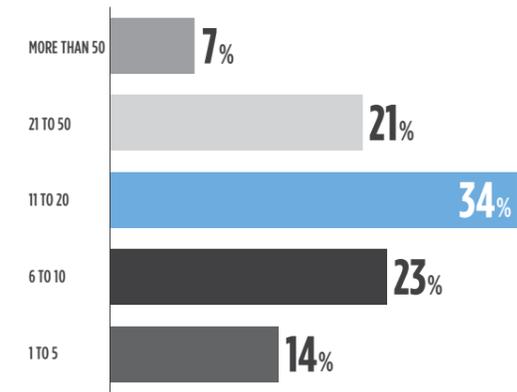


FIG. 12: HISTORY OF INVESTMENTS MADE (DATA AT THE END OF EACH YEAR)

FIG. 13: INVESTMENTS MADE BY INVESTORS BEGINNING THEIR ACTIVITY BEFORE 2011



CURRENT EXPOSURE

The most important change in favour of risk diversification can be seen in the 44% of investors who have less than five investments currently in their portfolio, which, although a remarkable percentage, has declined from the 53% recorded in 2017. This difference has increased mostly among investors who currently have more than 6 and more than 11 investments in their portfolios. Portfolios shrink once they exceed the barrier of 20 investments, except in the top 3%.

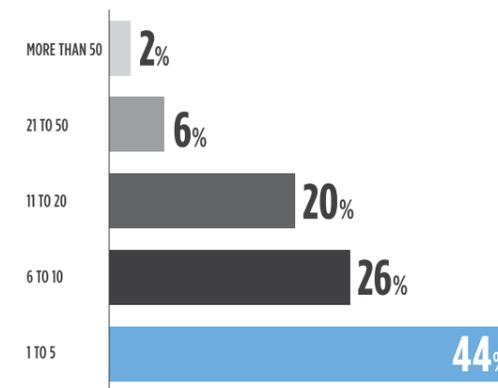


FIG. 14: PORTFOLIO INVESTMENTS AT THE END OF 2018

Among the group of investors who have been investing the longest, since before 2011, the main difference in the size of active portfolios is observed in the segment of those having 21

to 50 investments, which accounts for 13% compared to the 6% considering the overall sample. In the remaining segments, there are variations between 1% and 3%, with 41% accounting for those who, although investing since 2011, have portfolios with less than 5 companies.

In the international comparison, data collected shows improvement and the gap has narrowed, yet, a large number of investors faces significant risk, as many of them hold a portfolio of 2 investments (fashion 2018).

	SPAIN	USA
MEAN	6	7
AVERAGE	9	11
FASHION	2	
RANGE	1-73	1-106

FIG. 15: INTERNATIONAL COMPARISON

There is no consensus on the size of portfolios for optimal risk diversification. Some recent studies (Harrison 2018⁵) propose that the minimum size to avoid the high risk of negative returns is set at 50 investments. Along the same lines there is the practice of spray and pray promoted by some investors.

However, the investors consulted for this study are moving away from these figures, yet it is important to frame this debate around what is considered 'active angel investment', i.e. considering the component of smart capital that characterises business angels and their particular types of investments.

A reasonable solution for business angels is to combine investments in which they take on an active role with others in which they only take on a financial position.

⁵ Data from Richard Harrison's presentation, 'Angel Investing: Trends in the USA and Europe', at the VII AEBAN Business Angels Congress 'Building the Ideal Portfolio', November 8, 2018.

'For business angels that are not full time investors, taking an active role in more than 3 or 5 investments at a time is complicated. To diversify the portfolio, it is necessary to co-invest. And in this regard, networks of business angels and their collective intelligence are key.'

María Luisa García

'It is difficult to quantify the optimal size of a portfolio... Fifty, as a recent study indicates, seems difficult to implement for a business angel, but below ten is clearly irrational. Maybe a good option is between ten and twenty.'

José Martín Cabiedes

The previous AEBAN study for the year 2017 shed light on expectations of waiting time until divestment, and estimated it at a period barely exceeding 5 years. However, academic evidence and investors with more experience in the sector extend the period for divestment to 9 or 10 years in order to obtain the most lucrative returns in terms of multiples (ARI, 2016).

'If the average exit time for a venture capital fund is eight years, for business angels, as we enter earlier, it is undoubtedly greater [...]. Therefore, if you want liquidity, you should not miss the opportunity to sell as soon as possible, for example, by selling shares to the venture fund coming in [...] if you can [...].'

François Derbaix

Acquisition by large companies, whether national or multinational, is the main mechanism for the exit of business angels from investments, as this is the case for up to 50% of the investments made. As sources of liquidity, ranking right behind the acquisition by a large international company comes the selling of shares to a fund investing in the start-ups in a later stage.

'A corporation in the equity of a start-up may be very favourable at first, but it hinders the possible future sale to another corporate. The optimal option is to consider a vesting purchase attached to certain results and development levels.'

Enrique Penichet

DIVESTMENT RESULTS

The so longed for liquidity is still limited: 61% of investors did not make any investments in 2018 (see Figure 16), and 40% of investors assumed losses on divestments made.

Although data are scarce in terms of positive divestments, among the investors that have obtained positive results, those with multiples of 3 to 11 stand out.

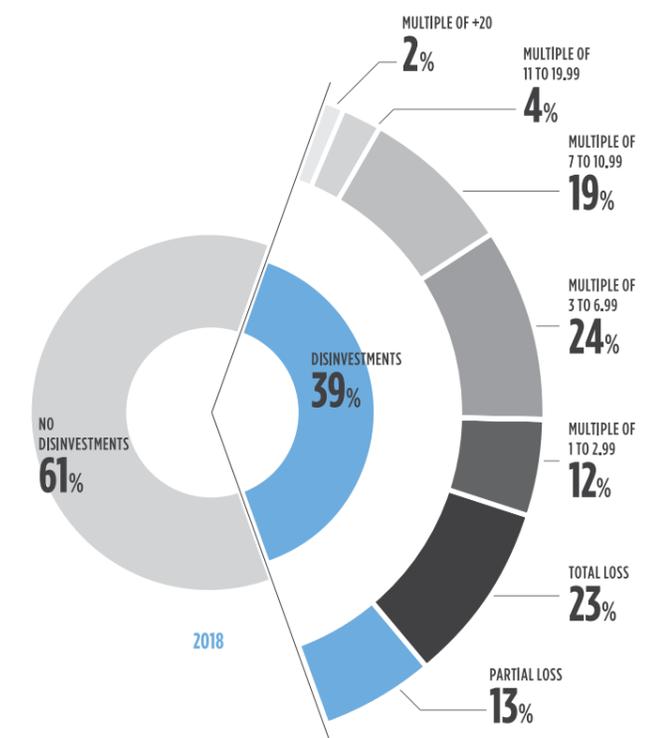
However, as some investors consulted also point out, these figures probably conceal a significant number of non-consolidated divestments, i.e. positions in 'zombies' that are start-ups with expectations of negative returns

but that have not legally declared bankruptcy or liquidated the company. In other countries, multiples of less than 1 reach up to 70% (ARI, 2016⁶), although previous studies set the losses at around 35% (ACA, 2007⁷).

⁶ Angel Research Institute, 'Angel Returns Study', 2016.

⁷ Angel Capital Association, 'Returns to angel investors in groups', 2007, <https://www.angelcapitalassociation.org/data/Documents/Resources/AngelGroupResearch/1d%20-%20Resources%20-%20Research/ACEF%20Angel%20Performance%20Project%2004.28.09.pdf>

FIG. 16: DIVESTMENT AND RETURNS OBTAINED IN 2018



INVESTORS' EXPECTATIONS

Investors are more optimistic than last year about the outlook of their portfolio as a whole. Few investors believe they will lose all or part of their invested capital, 0.86%.

At the opposite end, there are a few more, 6%, who expect their portfolio to produce a multiple greater than 20.99 times the amount invested.

In general, this optimism is also found among the scarce 6% who expect yields lower than 3x, and the segment of those who expect returns up to 7x their investment has significantly increased. In the higher segment, with higher returns, expectations remain the same.

Although investors are optimistic, reality can be tough: According to international data, 39% of investors lose all or part of the amount invested in their portfolio (ARI, 2016).

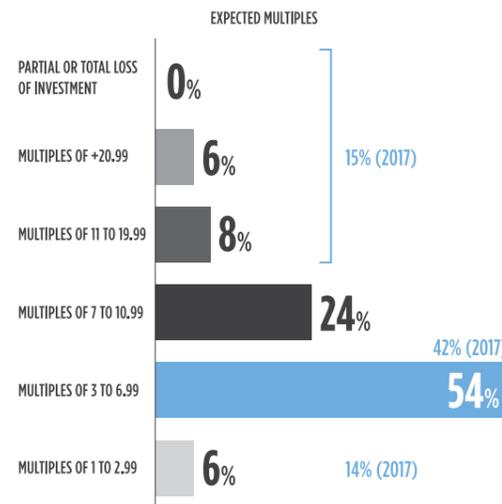


FIG. 17: EXPECTED MULTIPLES CONSIDERING THE ENTIRE ACTIVE PORTFOLIO

As it can be seen on the following graph, the upper segment, which includes the highest valuations, has indeed extended its range upwards. The business angels are therefore participating in rounds with higher valuations than in previous years, especially in a more advanced stage, right before Series A, in which they coinvest with other active investors in stages less sensitivity to valuation.

VALUATION OF INVESTMENTS MADE

The valuations in the bulk of the surveyed group have not undergone substantial variations. This continuity is seen especially in the seed segment, where even the intermediate section has experienced a recession. This segment represents 'investment in start-ups prior to launching the minimum viable product (MVP), without relevant metrics, without a proven business model, without previous investment, undergoing the development of prototypes, and with few paying users or clients'.

However, there have been some variations in the segment of investment made prior to Series A, mainly in the upper segment. In general, valuations for most operations have consolidated 2018 values after an increase versus the previous year, 2016.

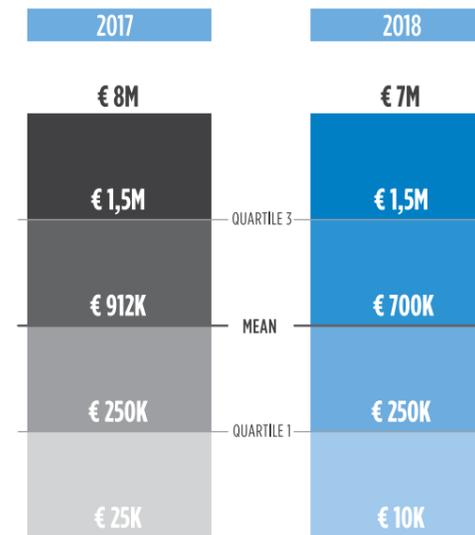


FIG. 18: VALUATIONS OF TRANSACTIONS WITHIN THE SEED SEGMENT

In the words of an investor, this change is explained as follows:

'There are increasingly more active pre-series A funds in Spain, both new and international VCs, and to invest in a given start-up they do not hesitate to raise the valuation. That explains the high valuation levels on those segments. The same goes for the platforms, which are not so demanding in this respect.'

José Manuel Carol

With regard to valuations in Spain vis-à-vis the United States, and using the data available up to the second half of 2018, the average valuation stands at 3.3 million dollars, which represents an increase of 14% on the figure for the first half of 2017 (Sohl, 2018⁸).

⁸ Jeffrey Sohl, 'The Angel Investor Market in Q1Q2 2018: Seeking Stability in Post Seed Investing', Centre for Venture Research, January 7, 2019.

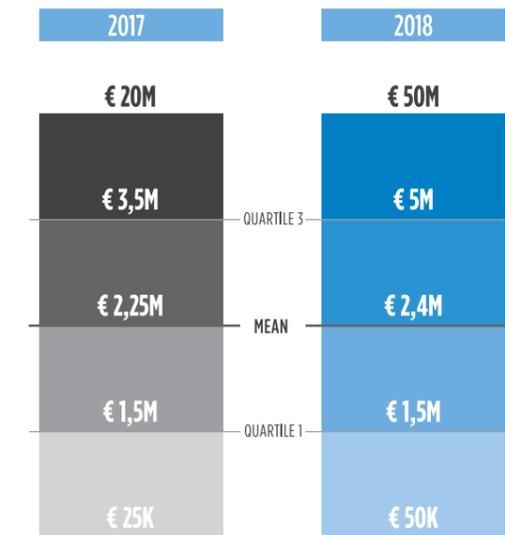


FIG. 19: VALUATIONS OF TRANSACTIONS IN PRE-SERIES A STAGES

The table below provides additional details that place the 66% of valuations below \$4 million for the entire pre-Series A segment (ACA, 2018⁹).

VALUATION IN MILLIONS OF DOLLARS	PERCENTAGE OF OPERATIONS CARRIED OUT
BETWEEN 1 DOLLAR – 2.2 MILLION	20%
BETWEEN 2.2 – 4 MILLION	46%
BETWEEN 4 – 7.1 MILLION	26%
MORE THAN 7.1 MILLION	7%

FIG. 20: VALUATION OF ANGEL INVESTMENT IN THE UNITED STATES

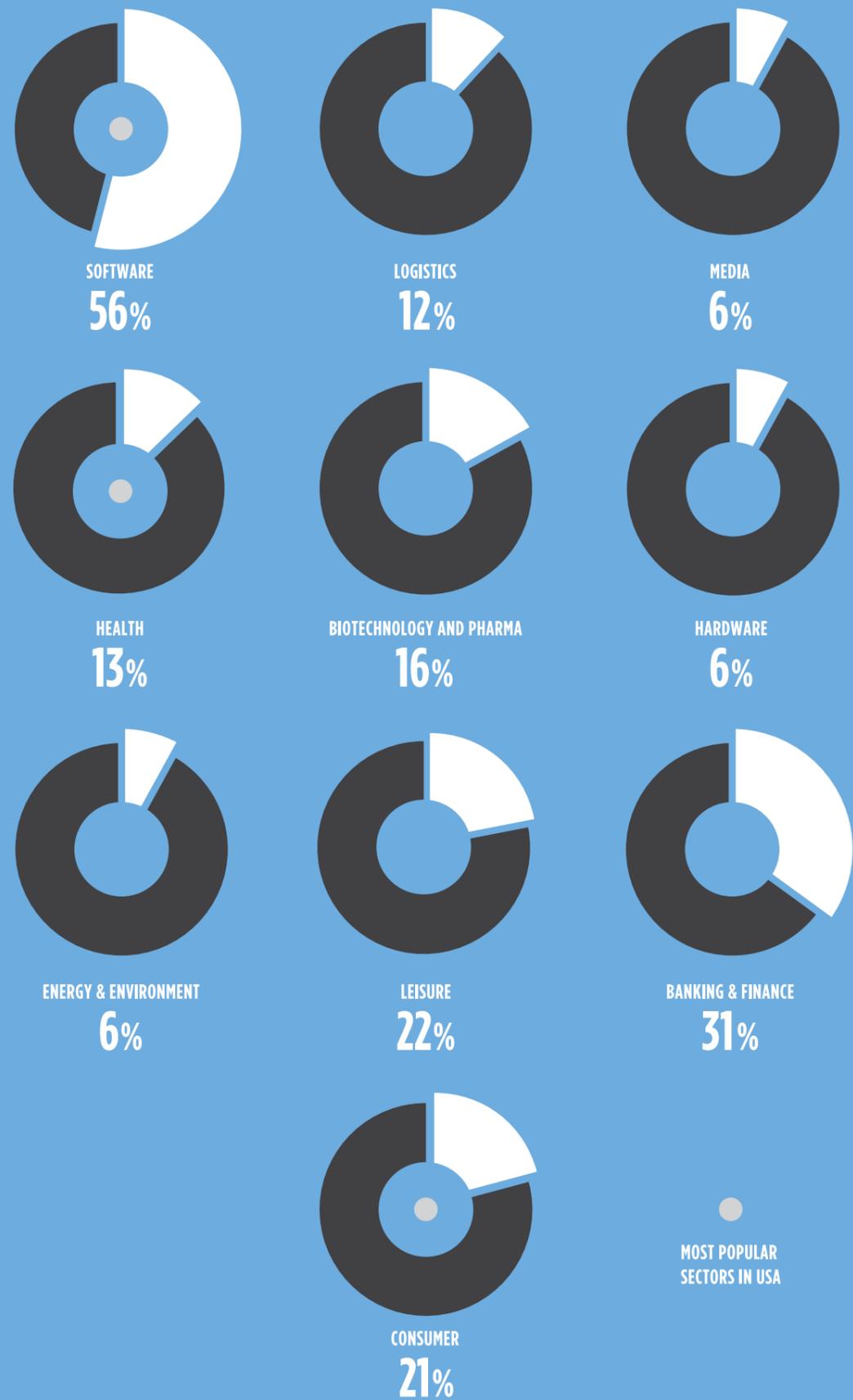
⁹ Angel Capital Association (ACA), 'Angel Funders Report', 2018.

FIG. 21: SECTORS IN WHICH THEY INVEST

MOST POPULAR SECTORS AMONG INVESTORS

As regards the sectors that continue to attract investor interest are software, banking and finance, and leisure and trade, followed by businesses related to health, biotechnology, and pharmaceuticals. The chart below indicates the sectors in which business angels have participated in 2018. For example, 56.7% have invested in an internet and software start-ups, or 31% have invested in finance technology.

In the United States, health and software account for the largest number of investments, with 22% and 20% respectively; followed by consumption (10.6%) and financial services (10.4%).



PROFESSIONALIZATION OF THE SECTOR

The previous year's survey pointed to the need to deepen the professionalization of the sector, which, as seen in the previous pages, entails a high turnover of investors and long periods until disinvestment that translates into significant planning, and the search for diversification remained a challenge.

The 2019 survey proposed consulting investors on a series of aspects to explore avenues for AEBAN or other agents to contribute to the consolidation and professionalization of the sector.

TRAINING

As highlighted by the profile portrayed by the study, investors have an extended professional track record (+45 years old), have held positions involving great responsibility and knowledge of the business world (leadership positions and founders), and come from the technology and banking sectors (which also concentrate the majority of investments).

However, this experience is probably necessary but not sufficient to deal with an activity as specific as investment in start-ups.

The result of the investors' own reflection on whether 'an experienced manager or entrepreneur does not need any specific training to invest' is negative. This means that more than 80% consider that this experience is *not sufficient*. They therefore welcomed the suggestion that 'the intervention of the business angels would improve with training', a statement with which 88% of them agree or very much agree.

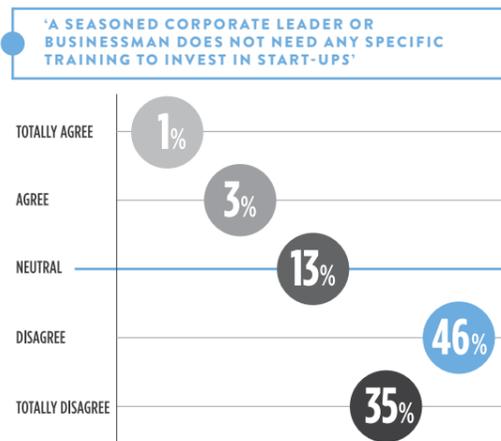


FIG. 22: NEED FOR TRAINING TO INVEST IN START-UPS

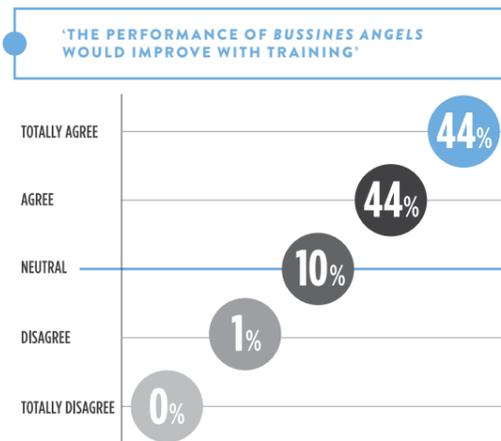


FIG. 23: RELEVANCE AND IMPACT OF TRAINING

IMPACT OF BUSINESS ANGEL NETWORKS

In addition to being the main reception point of start-ups the investors themselves state that 'business angel networks contribute to their professional performance'. This is because networks provide investors with access to more experienced investors, offer frequent information sessions, some even training, and facilitate interaction between start-ups and investors.

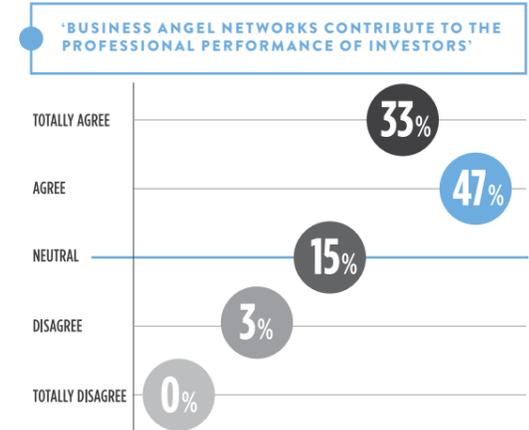


FIG. 24: IMPACT OF THE NETWORKS OF BUSINESS ANGELS

ESTABLISHMENT OF STANDARDS

The relationship between investors and start-ups is based on the tacit assumption by both parties that the relationship will be conducted fairly, correctly, and professionally. Even though in most cases it occurs in such a way, there are also disadvantageous situations for both sides.

Despite the rise and availability of training initiatives in the ecosystem, as seen above, in the opinion of investors themselves, there is a lot of room for improvement. To this end, some networks in Spain and Europe have codes of conduct that they promote among investors.

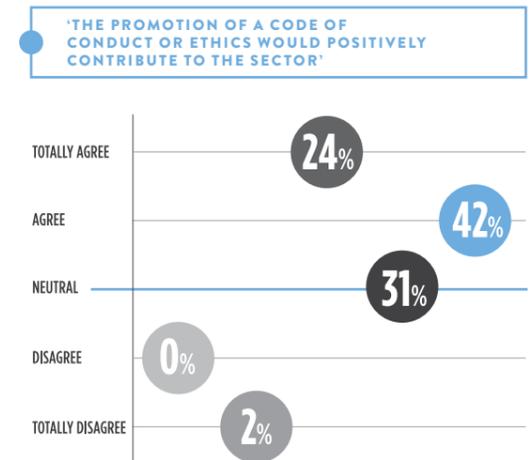


FIG. 25: CODE OF ETHICS OR CONDUCT

'It would be great to have a series of best practices shared by all... I have seen how a business angel with a tiny participation can knock down an operation and drive a company into bankruptcy.'

Enrique Penichet

'Perhaps it would be interesting for new investors to have access to documents and background information that represent good practices, from investment termsheets to shareholder agreements.'

David Mor

TRENDS

The 2019 survey also proposed to investors a number of possible trends regarding the market or developments around future investment.

With contextual information on individual investment activity, investors do not anticipate changes in the ease or difficulty of entrepreneurs to find funding in 2019.

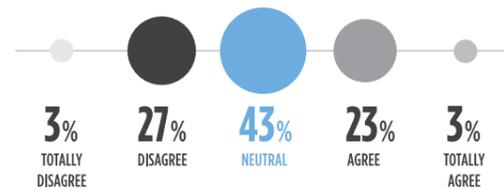


FIG. 26: IT WILL BE EASIER TO FIND FUNDING IN 2019 THAN IT WAS IN 2018

Continuing with the trend initiated last year and taking into account the inflow of foreign funds in several start-ups, investors expect this inflow to increase over the course of this year.

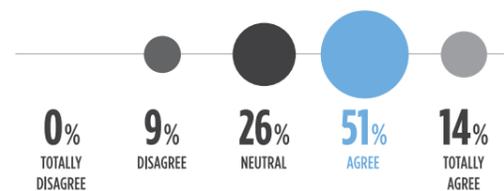


FIG. 27: MORE INTERNATIONAL INVESTORS TO ENTER THE MARKET

The interest aroused by technologies such as virtual and augmented reality, artificial intelligence and 3D printing can only grow further. More than 60% considers that investment in such technologies will divert investment from other start-ups with less disruptive technologies.

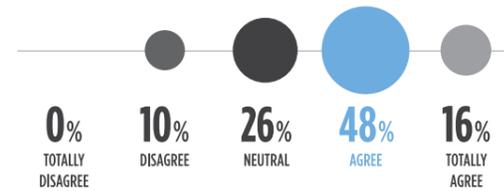


FIG. 28: INVESTMENT IN DISRUPTIVE EMERGING TECHNOLOGIES WILL INCREASE TO THE DETRIMENT OF OTHER INVESTMENTS

In addition, investors are expected to specialize in specific technologies or sectors, possibly because of the need for specific knowledge and analysis required for this type of technology (see graph below).

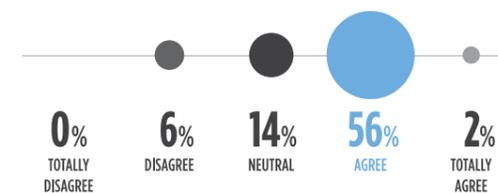


FIG. 29: INVESTORS WILL SPECIALIZE IN SECTORS OR TECHNOLOGIES

Although liquidity in favour of investors is limited, 61% of them have not obtained any divestment in 2018. According to investors, this will not have a major impact on the investment capacity of active investors. As it can be seen in the graphic, the unfavourable opinion is 13 points higher than the favourable opinion, much less decisive than in previous questions.

However, it would be in line with the fact that many investors still have reduced portfolios or have recently entered the market, which would give room for the intervention of a relevant segment of the market.

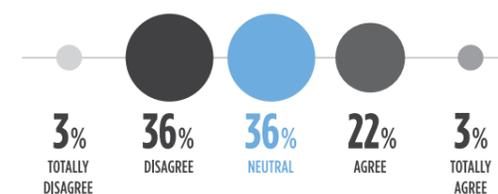


FIG. 30: THE LACK OF LIQUIDITY WILL LIMIT THE INVESTMENT OF ACTIVE BUSINESS ANGELS

The venture capital takes force in different forms: More corporations active in the identification of start-ups to join corporate acceleration and cooperation initiatives with start-ups and launching of challenges to identify opportunities for open innovation or co-investment with business angels and other investors.

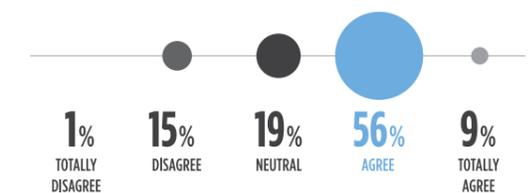


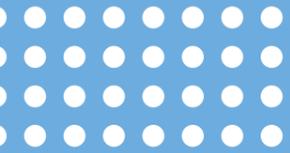
FIG. 31: LARGE COMPANIES WILL MAKE MORE ACQUISITIONS PROVIDING LIQUIDITY TO INVESTORS

However, as shown in the graph below, investors expect this increased interest to materialize in the participation of corporations in the market as strategic buyers, standing as an exit option and, therefore, liquidity to investors in earlier stages.

CONCLUSIONS

The AEBAN 2019 survey confirmed the continuity of a dynamic market that combines the deepening of activity and the professionalization of part of the investors with the continuous entry of new investors and the exit of others. Among the most outstanding aspects that AEBAN, as a representative association of the sector, identifies as areas and trends that need to be followed closely are the following:

- Despite the improvements in experience and diversification, taking into account the continuous influx of new investors and the exit of others, perhaps due to erroneous expectations about the activity, the professionalization of investors remains a priority challenge for the association.
- It is necessary to strengthen the role of the networks of business angels, as these are the most relevant source of investment and co-investment opportunities for investors. In addition, according to investors themselves, they have a positive impact on the professionalization of investors.
- The decrease in the ticket volume of each investment and the increase in valuations at the high end are signs of increased syndication and participation of less valuation-sensitive investors, such as funds co-investing with business angels in Spain. This coexistence will lead investors to adjust their practices to the requirements and conditions of the funds so as to maintain an adequate position vis-à-vis venture capital funds.
- Investment in start-ups in Spain has attracted the interest of foreign investors. At the same time, large corporations are entering the ecosystem as a new investment player, in addition to performing other functions. It is essential for investors to understand the implications of the entry of corporations.
- Therefore, in this more complex context, it is essential to continue working on the professionalization of investors in order to deepen key messages such as the need for diversification, using co-investment as a means, the need to plan to face the long period of holding of assets up to liquidity or co-investment with more sophisticated investors.



METHODOLOGY AND ACKNOWLEDGEMENTS

The objective of this study is the contribution of recent and systematic data on the activity and profile of business angels to include aspects such as their performance expectations, the evolution of their portfolios, and their perspective on failure. With this study, AEBAN sets out to reflect a more up-to-date and realistic picture of the profile of business angels by consulting active investors, investors operating through networks, and investors with no clear affiliation to one or the other network. The study has accumulated four consecutive editions, which also offer the possibility of consolidating results based on trends and identifying new and specific aspects.

The study included a questionnaire of 18 questions, which was sent jointly to all networks and partners of AEBAN and individually by the authors to more than 400 active investors, to get more than 160 responses, out of which 135 are considered valid.

The fact that it was not obligatory to identify oneself has made possible the high number of responses, but it has also reduced the possibilities of directly identifying and interviewing some of them in order to go deeper into the most outstanding and complex aspects.

AEBAN and the authors of the study are grateful for the collaboration of the networks of investors and all those investors who collaborated with their answers. Also, our appreciation goes to Juan Luis Segurado (IESE researcher), who kindly contributed to the revision of the draft.

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