

Discussion Paper - Scotland

Angel Networks & Syndications

Key Facts

SBA 6 Sub-dimension:

6.1.2

Country:

Scotland

Results & Impact (Archangels - 2019):

- Investment EUR 147 million (£125 million)
- # of companies: 84 companies
- Co-investments of EUR 50 million (£42.8 million) from Scottish Enterprise
- Exit Proceeds: EUR 156 million (£133 million)
- Jobs created: 4000
- 3 IPOs
- 1 Management Buyout 14 trade sales
- For every Pound (EUR 1.17) invested by Archangels produced a GVA (monetary value for final goods and services produced minus all the attributable cost of production) Economic Impact between £7.61-£9.51 (EUR 8.92 – EUR 11.15)
- 200 individual investors

A. Policy Level

The Scottish Entrepreneurial Support goes back to 2007, when the Scottish Government and its partners announced **Scotland's Economic Strategy** with one main objective of making Scotland a *“more successful country, with opportunities for all to flourish, through increasing sustainable economic growth”*. To deliver on the economic objectives, the Strategy underpinned four main priorities: 1) Invest in people and infrastructure, 2) Build a culture of innovation, Research and development, 3) Promote for inclusive growth and create more opportunities, 4) Position Scotland on the international map. 5. build a competitive and innovative ecosystem 6. and to bridge the financing gaps for entrepreneurs and SMEs.

BACKGROUND

- 1992: LINC Scotland was created as part of the Scottish Business Birth Rate Strategy as a conventional business angel network, responsible for both the demand and supply sides.
- 2003: Scottish Enterprise (SE) established the Scottish Co-Investment Fund (SCIF) to support in building the ecosystem including the demand side and co-invests alongside private sector investment partners on a *pari passu* basis.

B. Programme Level

Angel investing is particularly important from a regional economic development perspective as the majority of investments are local investments (recycling and reinvesting locally-created wealth). However, angel investing was associated with two main challenges: 1. Angel investors have difficulties in investing alongside venture capital funds 2. Bridge the financing gap for the MSMEs as this segment is not well covered by other financing tools available in Scotland.

The emergence of angel syndicates has been a key characteristic of maturing the angel investment sector as a result of the collective approach and knowledge the different investors can bring at every stage of the investment process. **1. Deal Sourcing:** through their high public profiles, they reduce search costs to both angels and entrepreneurs. **2. Screening Stage:** utilizing members combined experience in selecting investments **3. Post-investment:**





through follow-on investments and on-going monitoring **4. Diversification of investment.**

C. Action Level

Archangels Informal Investment

Archangels, established in 1992 is considered as the oldest business angel syndicate in Scotland and the longest, continuously operating angel syndicate in the world. Archangels invests in “proof of concept” proposals through expansion capital, start-up and early stage companies, with investment size between GBP 50k – 2 million (EUR 58 million - EUR 2.3 million).

Archangels usually leads investment rounds and co-invests along SE and other angel syndicates or VCs. Archangels’ investment team conduct a fully-fledged due diligence analysis on each investment deal, present it to Archangels’ Board of Directors before being presented to the members, who have the right to choose their investments. Archangels’ Board of Directors are substantial investors across all portfolio companies and invest at least GBP 100,000 in any new investment deal.

LINC Scotland (The Scottish Angel Capital Association)

LINC Scotland is the National Association for Business Angels in Scotland. LINC Scotland represents their members at the government level in Edinburgh, London and Brussels and were founding members in both the European Business Angels Association (EBAN) and the World Business Angels Association (WBAA).

LINC Scotland acts *as facilitators and not as investment advisors*, through the following: 1. making targeted introductions between business angels and potential investment opportunities 2. offering targeted capacity building programs and bootcamps for both entrepreneurs and investors 3. Acting as an “incubator” of new syndicates.

Innovative and Revolutionary Step Change

UK has introduced tax incentive systems for business angel investors to encourage them to invest in companies and social enterprises that are not listed on any recognized stock exchange. There are different tax incentive schemes however, tax incentives could include: 1. tax relief up to EUR 1.2 million of investments per year and the possibility of carrying back income tax relief from previous years. 2. Exemption from capital gain tax on disposable after the end of the three-year qualifying period 3. If shares are disposed at loss, investors are allowed to offset these losses against their income or capital gains 4. Unlimited capital gains tax deferral if gains have been reinvested 5. Inheritance tax relief.

D. Key Success Factors

- Clear and strategic Economic Growth Strategy that resulted in building healthy and vibrant entrepreneurial ecosystem.
- Positive and constructive government support to the Angel Syndication – co-investment basis in addition to introducing the tax incentive schemes to encourage angel investors in investing in non-listed companies.
- Economic impact assessment as opposed to financial investment metrics.