## Programme

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00 – 9:05 AM</td>
<td>Welcome</td>
</tr>
<tr>
<td></td>
<td>Jesper Jatbæk, Chairman, BAC and vice-chairman, DVCA.</td>
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<tr>
<td></td>
<td>Søren Kreijer, Partner, KPMG</td>
</tr>
<tr>
<td>9:05 – 10:00 AM</td>
<td><strong>Why many European governments care so much about Business Angels?</strong></td>
</tr>
<tr>
<td></td>
<td>The economy and the trends of angel investing in Europe</td>
</tr>
<tr>
<td></td>
<td>By Paulo Andrez, President EBAN</td>
</tr>
<tr>
<td>10.00 – 11.00 AM</td>
<td><strong>Co-investment funds in Europe</strong></td>
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<tr>
<td></td>
<td>By Bjørn Tammene, Head ERP-Dachfonds, European Investment Fund</td>
</tr>
<tr>
<td>11:00 – 11:10 AM</td>
<td>Break</td>
</tr>
<tr>
<td>11:10 – 11:40 AM</td>
<td><strong>The Tax System as catalyst for early stage investing</strong></td>
</tr>
<tr>
<td></td>
<td>By Modwenna Rees-Mogg, Founder, CEO, AngelNews</td>
</tr>
<tr>
<td>11.40 – 12.20 AM</td>
<td><strong>Panel debate</strong></td>
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<td>Joachim B. Olsen, Liberal Alliance</td>
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<td>Benny Engelbrecht, Socialdemokraterne</td>
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<td></td>
<td>Brian Mikkelsen, Det Konservative Folkeparti</td>
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<td></td>
<td>Andreas Steenberg, Radikale Venstre</td>
</tr>
<tr>
<td>12.10 – 13.00 PM</td>
<td><strong>Networking and a light meal</strong></td>
</tr>
</tbody>
</table>
Society and Business Angels - a Partnership made in heaven?

Welcome!

Jesper Jarlbæk
Chairman BAC
Total commercial enterprises in Europe – appr. 21 million

- Micro: under 10 employees: 91.94%
- Small: under 50 employees: 6.67%
- Medium: under 250 employees: 1.19%
- Large: 0.20%

Micro: under 10 employees
Small: under 50 employees
Medium: under 250 employees
Large

EU Businesses

Business Angels COPENHAGEN
Danish Venture Capital and Private Equity Association
The importance of SME’s

- **67%** of all private sector jobs are in SMEs
- Over **50%** of total private sector GDP is produced by SMEs
- **75%** of all NEW private sector jobs are coming from SMEs

Hence, on all accounts,

this is a **dramatically important part of our economy**
Is "something rotten in the state of Denmark?"
- *eller "hvordan synes du selv det går?"*

Danish gazelles

2008: 2477
2011: 827

...a drop of **66%**
2012: 833

...stagnation

*Source: Five years after Lehman!*
Society and Business Angels - a Partnership made in heaven?

This seminar is a joint effort by

BAC - Business Angels Copenhagen

DVCA - Danish Venture Capital Association

EBAN – European Business Angel Network
Conference Objectives

- Portray the European SME reality today
- Illustrate innovative risk capital solutions
- Illustrate tax incentivization of the growth layer in the EU
- Promote a Danish political debate to get from stagnation to growth
Why many European governments care so much about Business Angels!

Paulo Andrez, President EBAN
Why governments should care about Angels?

Copenhagen, 25th September 2013

Paulo Andrez
President, EBAN
1. Created in 1999 by Eurada with the support of European Commission

2. Not for profit organization based in Brussels

3. Members in 35 countries

4. + 100 members (BANs, Federations...) ...and growing
Equity gap

Angels help fill the ‘Equity Gap’

Higher Risk

Capital Needs

Friends, Family & Founders

Business Angels

Early stage and seed venture funds

Venture Capital Funds

IPO

Seed ➔ Start-up ➔ Early Growth ➔
Number of BANs* in Europe

*BAN – Business Angel Network/Group
Amount Invested by BAs members of BANs (M€)... estimated to total BANs

- 2007
- 2008
- 2009
- 2010
- 2011
- 2012

427M€
508M€
Amount invested:
Size of Visible/ Invisible Market

2011
- 427 M€
- 4.745 M€
- 9%

Visible Market

2012
- 508 M€
- 5086 M€
- 10%
Number of BAs* in BANs

2011

241,444

21,730

9%

“formal” market

2012

261,054

26,105

10%

*BAs who made at least 1 investment in the past 3 years.
Visible market by country

- Amounts Invested by BAs
- Nr of Bas

Countries listed include: UK, Spain, France, Finland, Germany, Sweden, Ireland, Switzerland, Portugal, Italy, Turkey, Netherlands, Belgium, Austria, Greece, Luxembourg, Serbia.
Visible market growth/decline (amount invested)

- Greece: 838%
- Serbia: 250%
- Austria: 175%
- Turkey: 116%
- Finland: 116%
- UK: 100%
- Portugal: 90%
- Germany: 80%
- Spain: 70%
- Netherlands: 60%
- Sweden: 50%
- Switzerland: 40%
- Belgium: 30%
- Italy: 20%
- France: 10%
Average investment amount by BANs (k€)

Average = 1,1M€
Impact in the economy, just in the year of investment (2012)

Enterprises Financed
(2,900)

Jobs Created
(17,700)
Challenges for European Early Stage Investors’ activity
1
Scalability

If an entreprise wants to target a single market of 300 million consumers, where does it go? US or Europe?
Where will be the growth markets for early stage companies?

Hans Rosling

“World Pincode in 2012 - 1114”

“World Pincode in 2050 – 1125”
If they happen, great opportunities will arise, and European competitiveness will increase... more early stage investment will happen...
Financing the new companies

5
Allocation of EU money
Grants versus co-investment funds
6

Single market for entrepreneurs?

Is it easy to any EU entrepreneur to raise money from investors in any EU country or set up an entreprise in any EU country?
Lack of investment Readiness Training for Entrepreneurs and Angels.

Training programs using several delivery methods (eg : E-learning)
Probability of an entrepreneur to raise money from investors or from banks:

- Family, Friends, Fools and State
- Business Angels
- Venture Capital
- Mutual Guarantee
- Bank

Risks: Market, Team, Legal, Financial e Operational
Lack of knowledge of some governments in terms of the importance of Early Stage Investments
2/3 of jobs come from moderate and high growth firms

Source: Ernst & Young and Endeavor 2011
Launched in December 2011

Financing High-Growth Firms
THE ROLE OF ANGEL INVESTORS
While venture capital tends to attract the bulk of the attention from policy makers, the primary source of external seed and early-stage equity financing in many countries is angel financing not venture capital. In programmes form an important part of a broader economic development strategy focused on high-growth and technology-backed firms.

The angel investment market has developed significantly in a number of countries throughout the world, particularly over the past 5-10 years. In some countries, policies to encourage a greater number of angel investors seem to have played a role. These include supply-side measures such as tax incentives and the creation of co-investment funds.

Tax incentive programmes have aimed to increase the number of angel investors as well as to address tax asymmetries in profit and losses. Countries such as the United Kingdom, with long standing angel tax incentive programmes cite the impact the programmes have had on increasing angel investment activity which in turn creates jobs and economic growth (and therefore greater tax returns).
2012 - Market statistics - % of Amount

% of Amount

- Seed: 0.4%
- Start-up: 4.9%
- Later-stage venture: 3.4%
- Growth capital: 10.4%
- Rescue/ Turnaround: 1.0%
- Replacement capital: 3.0%
- Buyout: 76.8%

Venture Capital: €3.2bn
Buyout: €28bn
Growth: €3.8bn

Source: EVCA / PEREP Analytics
Some Angels’ investments in Europe
Trends on European Early Stage ecosystem
More wealthy people are diversifying their portfolio by becoming early stage investors.
Many philanthropists, foundations… are moving resources from donations to IMPACT investments
Crowdfunding (reward, equity and debt) is now a reality in several countries and it is growing.
The syndication among Angel Groups is increasing. Cross Border deals are increasing, but slowly.
Number of “Born Global” start ups is increasing
Corporates are creating VC arms to invest on Early Stage enterprises
Several governments are supporting the creation of BANs, depending on their performance.
More countries are implementing Business Angels’ Tax Breaks
Impact of a 30% Business Angel Tax Break (TB) on a National Budget

<table>
<thead>
<tr>
<th>Return for the State in terms of Revenues</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from taxes 1st Year</td>
<td>31.252</td>
<td>27.452</td>
<td>27.652</td>
</tr>
<tr>
<td>Revenue from Taxes 5 Years</td>
<td>31.252</td>
<td>284.108</td>
<td>961.717</td>
</tr>
<tr>
<td>Return for the State in 5 Years, if 30% TB</td>
<td>108%</td>
<td>1794%</td>
<td>6311%</td>
</tr>
<tr>
<td>Compound Annual Return for the State if 30% TB</td>
<td>18%</td>
<td>92%</td>
<td>152%</td>
</tr>
</tbody>
</table>

Source: Mazars Dec 2011

Scenario A - Company ceases activity after investment is done
Scenario B – Company that has some revenues but low profits
Scenario C – Company that is a success with growth rates exceeding 20%

Note: Even in scenario A (bankruptcy), the state gets full repayment of the tax break deduction. No risk for government that can create the rule that the deduction will only be possible after the start up has paid enough taxes to repay the tax deduction.
Public-Private BA Co-investment Funds are being developed in several countries
Added value for PUBLIC entities

- Help to build an early stage investment community that can start a virtuous cycle
- Don’t invest alone
- Don’t run the risk that the investment decisions can be considered political
- Attract more money for the ecosystem
- Don’t pay high cost for mentoring, networking and knowledge of the Business Angels
- Don’t pay management fees as it happens with VCs
Added value for public entities

- It is cheaper for the government than giving grants for free
- With BAs investing and more financial amounts available, it is easier to attract VCs to co-invest
- These initiatives enhance the Research and Development activities in the territory
- Good pay-back for the state (through taxes)
- Good ideas & good entrepreneurs do not have to emigrate...
How Public entities differentiate the Co-Investment Funds initiatives

1. Pure commercial basis. Get the best and wealthy 20-30 Business Angels in one country and co-invest with them
2. Co-invest with the existing early stage investors in a specific market
3. Attract new early stage investors to the market.
Main BA Co-Investment Funds in Europe
MAIN BA CO-INVESTMENT FUNDS

- Angel CoFund (UK)
  http://www.angelcofund.co.uk

- Compete BA (PT)
  www.pofc.qren.pt

- European Angels Fund (by European Investment Fund)
  www.eif.org/what_we_do/equity/eaf/index.htm

- Scottish CF (SCO)
  www.scottish-enterprise.com

- Technopartner (NL) part of Innovation Fund SME + (since 2012)
  www.agentschapnl.nl  http://www.technopartner.nl
Different features of each type of BA Co-Investment Fund (type of structure, investment leverage, investment decisions, asymmetric exits, carried interest...)}
## Type of Structure

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Type of structure required from Business Angels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>Angel syndicate with a minimum of 3 investors</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>Angel syndicate with a minimum of 3 investors</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>Single Business Angel</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>Single Business Angel or Angel Syndicate</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>Angel syndicate with a minimum of 3 investors</td>
</tr>
</tbody>
</table>

Note: Some schemes require active Business Angels, others allow passive investors (there is a manager of the investment vehicle)
# Investment Decision

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Investment decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>Angels &amp; Investment Committee (independent)</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>Angel Syndicate</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>Angel</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>Angel or Angel Syndicate</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>Angel Syndicate</td>
</tr>
</tbody>
</table>

Note: In all cases the governmental entities verify if the investments are eligible in terms of region, SME, sector....
Agreement with Angel structure is deal by deal?

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Deal by Deal Basis?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>Yes.</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>Up to 770.000 Euros portfolio investments. Long Term Co-Investment Framework Agreement.</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>Long Term Co-Investment Framework Agreement. Requires 250 K€ to 5 M€ from Angel to invest in maximum 10 years.</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>Yes.</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>Up to 8.000.000 Euros portfolio investments. Long Term Co-Investment Framework Agreement.</td>
</tr>
</tbody>
</table>
Public money is invested on

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Public money is invested in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>Start up</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>As a “loan” to Angel Syndicate</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>Start up</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>Start up</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>As a “loan” to Angel Syndicate</td>
</tr>
</tbody>
</table>
Max investment ratio PE/BAs

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>MAX INVESTMENT RATIO PE/BAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>1:1</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>1,85:1 (65% PE and 35% for BAs)</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>1:1</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>1:1</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>1:1</td>
</tr>
</tbody>
</table>
### Management fees for BAs?

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Management fees for BAs?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>No. Only a one off fee of 2.5% for each new investment.</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>No.</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>No.</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>No. Only a one off fee of 2.5% for each new investment.</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>No.</td>
</tr>
</tbody>
</table>

**Note:** In all cases the Co-Investment Scheme managers allow BAs to receive small money for expenses incurred while mentoring the start ups.
Asymmetric exits?

<table>
<thead>
<tr>
<th>Co-Investment Scheme</th>
<th>Asymmetric Exits?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund (UK)</td>
<td>No.</td>
</tr>
<tr>
<td>Compete BA (PT)</td>
<td>Phase (PE/BA)</td>
</tr>
<tr>
<td></td>
<td>A: 20%/80%</td>
</tr>
<tr>
<td></td>
<td>B: 50%/50%</td>
</tr>
<tr>
<td></td>
<td>C: 20%/80%</td>
</tr>
<tr>
<td>European Angels Fund (EU)</td>
<td>No. But allows a carry.</td>
</tr>
<tr>
<td>Scottish Co Inv. Fund (SCO)</td>
<td>No.</td>
</tr>
<tr>
<td>Technopartner (NL)</td>
<td>Phase (PE/BA)</td>
</tr>
<tr>
<td></td>
<td>A: 20%/80%</td>
</tr>
<tr>
<td></td>
<td>B: 50%/50%</td>
</tr>
<tr>
<td></td>
<td>C: 20%/80%</td>
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</tbody>
</table>
Technopartner (NL) asymmetric repayment

Note: Compete(PT) uses the same asymmetric repayment 80/20 50/50 80/20
State return per each 1 € invested by State in a BA Co-investment scheme

Assumptions: 50% of the investment is done by BA+CO, company ceases activity after the investment without any revenues.

<table>
<thead>
<tr>
<th>Rate of Return for State in the Co-Investment Fund</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Tax level</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
<td>80%</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>30%</td>
<td>1,20 €</td>
<td>1,30 €</td>
<td>1,40 €</td>
<td>1,50 €</td>
<td>1,60 €</td>
<td>1,70 €</td>
<td>1,80 €</td>
<td>1,90 €</td>
<td>2,00 €</td>
<td>2,10 €</td>
<td>2,20 €</td>
</tr>
<tr>
<td>35%</td>
<td>1,40 €</td>
<td>1,50 €</td>
<td>1,60 €</td>
<td>1,70 €</td>
<td>1,80 €</td>
<td>1,90 €</td>
<td>2,00 €</td>
<td>2,10 €</td>
<td>2,20 €</td>
<td>2,30 €</td>
<td>2,40 €</td>
</tr>
<tr>
<td>40%</td>
<td>1,60 €</td>
<td>1,70 €</td>
<td>1,80 €</td>
<td>1,90 €</td>
<td>2,00 €</td>
<td>2,10 €</td>
<td>2,20 €</td>
<td>2,30 €</td>
<td>2,40 €</td>
<td>2,50 €</td>
<td>2,60 €</td>
</tr>
<tr>
<td>45%</td>
<td>1,80 €</td>
<td>1,90 €</td>
<td>2,00 €</td>
<td>2,10 €</td>
<td>2,20 €</td>
<td>2,30 €</td>
<td>2,40 €</td>
<td>2,50 €</td>
<td>2,60 €</td>
<td>2,70 €</td>
<td>2,80 €</td>
</tr>
</tbody>
</table>

Source: EBAN 2013

Note: This is the worst scenario for the state and even though, the State always gets its money back in taxes…
KEY POINTS TO A SUCCESSFUL IMPLEMENTATION OF A CO-INVESTMENT FUND

1. Public Entities (PE) must invest in raising the awareness about the scheme

2. An initial Road Show across the country involving several BANs is important

3. Usually PE do not want to transfer all the “power” to BANs, so it is important that a comfortable scheme is put in place

4. BANs are the most interested entities in the success of the scheme, so any fraud evidence should be reported immediately

5. Using European Structural Funds can be important to decrease PE risk and to leverage National State Funds
KEY POINTS TO A SUCCESSFUL IMPLEMENTATION OF A CO-INVESTMENT FUND

6. Templates and a central back office should be put in place.

7. Deal Flow attraction capacity should be considered really important, since many BAs may not have the time to look for the Deal Flow.

8. Investment Readiness Training programmes are really important for entrepreneurs and Angels.

9. BA Tax Break together with a Co-Investment Fund enhances the success of both initiatives.

10. Connect Governments with other Governments.
Thanks
paulo.andrez@eban.org
Business angels

Break – we are back in 10 minutes!
Co-investment funds in Europe!
Bjorn Tremmerie, Principal, European Investment Fund
EIF – European Angels Fund

we innovate innovation
What is the EIF?

“ We’re the leading developer of risk financing for entrepreneurship and innovation across the EU.”

Helping
SMEs, micro-enterprises and European regions innovate and grow by making finance more accessible

Fulfilling
our dual goal and pursuing EU policy objectives as well as financial sustainability

Addressing
market needs by acting as a countercyclical investor in tough economic times

Working
with financial intermediaries across the 27 EU countries, EFTA and all Accession countries

EIF - European Angels Fund

68
EIF: Fostering Entrepreneurship & Innovation in Europe

"We’ve supported over 1 Million SMEs over 15 years"

<table>
<thead>
<tr>
<th>Public Private Partnership</th>
<th>EUR 12bn of assets under management of which EUR 7bn in venture capital and growth funds</th>
<th>Policy and Financial Return objectives driven AAA rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>• European Investment Bank</td>
<td>• European Commission</td>
<td>• 25 financial institutions</td>
</tr>
<tr>
<td>• European Commission</td>
<td>• 25 financial institutions</td>
<td></td>
</tr>
<tr>
<td>Activity</td>
<td>Details</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------------------------------</td>
<td></td>
</tr>
<tr>
<td>Invested in Venture Capital funds</td>
<td>260+</td>
<td></td>
</tr>
<tr>
<td>Invested in active European VC funds</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Portfolio companies</td>
<td>3800+</td>
<td></td>
</tr>
<tr>
<td>Investments in European Venture Capital funds</td>
<td>EUR 3.8bn</td>
<td></td>
</tr>
</tbody>
</table>
Helping businesses at every stage

SME Development Stages

- PRE-SEED PHASE
- SEED PHASE
- START-UP PHASE
- EMERGING GROWTH
- DEVELOPMENT

Risk Levels:
- HIGHER RISK
- LOWER RISK

Instruments:
- Public Stock Markets
- Portfolio Guarantees & Credit Enhancement
- Formal VC Funds & Mezzanine Funds
- VC Seed & Early Stage
- Microcredit
- Business Angels, Technology Transfer

EIF - European Angels Fund
European Angels Fund – Objectives

Our Goals

- Strengthen a market segment heavily underserved by existing programs
- Leverage the financing capability of non-institutional investors
- Support the seed and start-up market
- Improve the visibility of the angel market
- Catalyse additional investor resources and provide access to the asset class of BA financing
- European roll-out strategy
European Angels Fund – Key Points

Factsheet

• Co-Investments with Business Angels and other non-institutional investors

• Selection of Business Angels by the European Investment Fund (Adviser)

• German Pilot (EUR 70m) operational since March 2012

• Developed in close cooperation with Business Angels and BAND (Business Angels Network Germany)

• Pan-European roll-out
How does the European Angels Fund work?

- Maximum freedom for Business Angels (delegation of investment decisions)
- Standardised Co-Investment Framework Agreement
- 50:50 matching of the capital invested by Business Angels (volumes from EUR 250k – 5m)
- No fees, but attractive profit-sharing
- Investment-related costs shared by EAF on pro-rata basis
- Administrative workload reduced to a minimum
What do Business Angels need to do?

**BA’s To-do list**

- Invest successfully
- Co-invest with EAF
- No Cherry-picking
- Half-yearly „light“ reporting
Experience after 12 months (1/2)

- **Strong demand from Business Angels**
  - >200 applications
  - BAs active in all Sectors (ICT, Biotech, Medtech, High-tech, …)
  - High diversity in Track Records, personal backgrounds

- **Impressive Track Records**
  - On total portfolio level
  - On individual company level
  - Diverse write-off and failure rates
Experience after 12 months (2/2)

• Approved Co-Investment volume above plan
• Good absorption at portfolio level
• Interest from other regions and also from investors
• Start in the next months
  - Spain: EAF Spain - “Fondo Isabel La Católica” (EUR 30 Mio.)
  - Austria: EAF Austria – aws Business Angel Fonds (EUR 22.5 Mio.)
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This document describes in summary and preliminary form the proposed terms under which the corporate innovation platform is expected to be set up. The corporate innovation platform is not in existence yet and as a result the proposed terms of the corporate innovation platform as described in this document may change.
This document is not an offering of securities for sale in any jurisdiction. Any offer of ordinary shares in the corporate innovation platform and in any of its sub-funds will be made only by means of the final version of a private placement memorandum and of the articles of incorporation of the corporate innovation platform and the final versions of these documents should be read before any investment decision is made. If there is any inconsistency between this document and the final version of the private placement memorandum and the articles of incorporation of the corporate innovation platform, the final version will prevail. The fund’s final documentation will contain more detailed descriptions of all the material terms of an investment in the compartments, including discussions of certain specific risk factors, conflict of interests issues, tax considerations, fee and other matters relevant to prospective investors in the compartments.
Prospective investors should be aware that an investment in the corporate innovation platform will involve a significant degree of risk and that there can be no assurance that the investment objective of the corporate innovation platform will be achieved. Each prospective investor should consider and is strongly urged to seek independent advice as to the tax consequences of investing in the corporate innovation platform.
The Tax System as catalyst for early stage investing
Modwenna Rees-Mogg, Founder, CEO, AngelNews
The tax system as a catalyst for early stage investing

Modwenna Rees-Mogg
UK market – the background

Long history of active government intervention to stimulate enterprise – back to 1930s regardless of political persuasion started with Macmillan Report in 1931 – described the “equity gap” – equivalent to fund raising of around £10m today

- First intervention – banks forced by Government to create ICFC 1945 – became 3i – loans and preference shares
- 1981 Business start up scheme evolved into BES
- 1994 EIS
- 1996 VCT
- 2012 SEIS
- 2014 Social EIS

- Numerous govnt. funded and co-funded VC funds in 1990s and 2000s inc Enterprise Capital Funds – though now largely stopped
- 2011 Business angel co-fund funded by Regional Growth Fund based on success of Scottish Co-investment Fund – now funding has doubled

Other tax breaks
- Entrepreneurs’ relief
- EMI Scheme/other share schemes e.g. “shares for rights scheme”
- R&D tax credits
- Working Families Tax Credit
- 2012 Patent Box
Why?

- Continuing political belief in the concept of the “equity gap”

- Now 4.5m companies in the UK – 1 for every 13 people in the country – 1 in 10 for adult population; 500,000 new companies created each year

- SMEs contribute £bns to the economy and are one of the most significant groupings of employees in the country; ambitious SMEs in effect create all the value added jobs in the economy.

- Belief that Government is not a good investor and should devolve investment decision making to the experts – VCs, angels and indeed entrepreneurial business owners, and influence them with finance schemes that alters behaviour in a favourable way

- VC naturally moves upwards into later stage businesses as soon as possible, with a few notable exceptions – need incentive to get new entrants

- Business failure rates too high – entrepreneurs need financial and other support to succeed – value add offered by angels/VCs on top of money

- Failure to create £bn companies at same rates as the US

- Popular with politicians – “a positive project” to be associated with

- More recently popular with HNWI – so politically attractive

- When it works, it works – Skype, LoveFilm and many others
Why

• Financially very advantageous to HM Treasury -30%-40% tax back within 12 months
• Turns capital into jobs, which generates more income and business taxes than otherwise
• Business taxes are more easy to collect than capital taxes
• Pulls international entrepreneurs and investors into the UK
• Politically advantageous
  – Perception that tax is too high in the UK; this is a way to appease HNWIs and future HNWIs
  – Job creation
  – International economic competitiveness – “we are open for business”
  – Economic confidence – we are “world leaders in certain technologies e.g. mobile apps
  – Innovation centre of the world – exploits what we are good at – inventors and entrepreneurialism – justifies activities of centres of R&D e.g. universities
Key facts & figures

- VCTs/EIS/SEIS – over £1bn of new investment a year into c.3-4,000 companies; this is likely to grow significantly as the recovery comes into play
- Lifetime investment is £14bn + to date
- Job creation in the 100,000s +
- Jobs saved in the 10,000s +
- c.50 new entrants as fund managers
- 10,000’s new private investors (note Crowdcube and Seedrs equity platforms have over 70,000 registered investors vs the angel market in the UK ~20,000)
The Main Schemes

**VCT**
- Quoted VC funds on London Stock Exchange
- 124 funds @ £10-£80m
- £5bn invested
- New investment £400m pa/trending up as recovery comes
- £200,000 per investor per year
- £5m per company in total (inc EIS and grants etc)
- 30% income tax
- Tax free dividends (note yields 5-13%)
- Capital gains tax free
- 5 year rule for investors
- EU definition of SMEs
- Less than 50% stake

**EIS**
- Privately owned companies less than 5 years old/ EU SME
- Can be quoted on AIM
- 16,700 companies
- Also EIS “funds” – managed portfolios by fund managers
- £8.7bn invested since launch/Investment trending up as recovery comes
- 424k subscriptions
- £600-750m a year invested
- £1m per investor
- Capital gains rollover relief/ IHT relief
- Capital gains tax free
- Income tax 30%
- Dividends taxable
- Loss relief – can get 78% of cost of investment paid back if it fails
- 3 year rule for investors

**SEIS**
- Privately owned companies less than 2 years old/less than £200k assets
- Can be quoted on AIM
- e.1,000s companies
- Also SEIS “funds” – managed portfolios by fund managers
- £35-50 invested since launch
- £100k per investor/ £150k per company
- Less than 30% stake in co
- Capital gains tax free
- Income tax 50%
- Dividends taxable
- If loss get 102% of investment back from govnt.
- 3 year rule for investors

Now planning Social Enterprise EIS – for charities and not for profits – size limits around SEIS levels probably
VC “government owned” funds

ECFs

• Around a dozen - £15-35m matched funding from Government to private sector investment
• VCs and angel “clubs” have been successful at getting them
• 10 yr LLP structure
• Low key these days
• Fund managers’ fees in line with the market 2%/20%
• Usually have a focus e.g. tech

Angel Co-Fund/ Scottish Co-investment Fund

• Angel Co-Fund – originally £50m now £100m funded from Regional Growth Fund monies already committed by Government, modelled on very successful Scottish Co-investment Fund. Can now invest throughout the UK
• Match investment made by private sector
• Pay a “management fee” to the private sector investor – say 1-2% of funds managed a year – sufficient to give the fund manager a reasonable salary/working capital to run a boutique fund management business
Other schemes

Entrepreneurs’ relief

• 10% CGT on capital proceeds on from selling a business/business activity
• £10m lifetime limit
• Claim on tax return
• Can roll over capital gains over £10m into EIS etc

EMI Scheme

• £250k share options per employee (total £3m)
• Way to encourage employees to think like owners
• EMI Schemes have a number of formal rules that must be complied with
• c.£5k to get a lawyer or accountant to set up an EMI Scheme
• No tax to pay on options issued under the Scheme
• No tax or NI when shares are issued, no NI for employer
• Employee must work at least 25 hours or 75% of working time in the company
• No material interest prior to the grant
• 3 year holding rule

Patent Box

• Headline: 10% corporation tax rate on profits from IP
• Being phased in over 5 years
• Not necessarily the case you will easily get the money – in fact quite complicated
• Needs to be registered IP: UK, EU, EEA e.g. software patents from Estonia count in UK
• Relevant if using a patented tool in a process, not just owning a patent (notional royalty)

Start up loans

• £2,000 loan to start a business – readily available direct from Government

Working families tax credit

• Way to boost income for entrepreneurs’ taking minimum wage
• Income test, not a capital text
• £100s a month
• Separate claim system
• Now less valuable

R&D Tax Credits (SME)

• Very popular, well established scheme
• For SMEs set 25% of R&D expenditure off against tax bill
• Payable tax credit if making losses
• In effect some SMEs get paid to do R&D

Shares for Rights NEW

• Employees exchange certain employee rights for tax free shares in their employer
How does it fit into fundraising ecosystem?

- Entrepreneur, Friends & Family
- Crowd funding
- Angels
- VC
- Quoted

Entrepreneurs’ relief
WFTC
Start up Loans scheme
R&D tax credits
Indirectly Patent Box

EIS
SEIS
Social EIS

EIS
VCT
EMI/shares for rights
R&D tax credits
ECF
Patent Box
Characteristics

• Investors will always use schemes to fly to safer less capital intensive sectors where possible—e.g. software over biotechnology

• Growth of specialist tax advisers because rules are all very complex – with EIS/VCTs a breach leads to penal consequences – so more work for financial services industry

• Bias towards larger sums of investment: may be changing because of impact of crowd funding

• Traditionally largest investors will invest proportionately larger sums so increase cap upwards; impact of crowdfunding will be interesting

• Bias towards centres of economic activity – esp around universities, major cities – London and South East dominates the rest of the UK by a long way – probably more than 50% of all “tax break” activity

• For EIS capital benefits v important; for VCTs income benefits v important long term
Rules

• Cannot breach State Aid rules – so Government designs schemes to fit within de minimus rules and then seeks carve outs once they are working

• Always trying to hit true centre of the equity gap – this is almost impossible

• Pretty strict – inventive financial services brains always looking for ways to create low risk opportunities in the schemes so pressure to create more schemes and have more anti avoidance rules

• So rules get very complicated

• Biggest controversies – asset backed businesses & older businesses
Challenges

- Keeping interest up whilst avoiding abuse
- Targeting the “right” most high growth potential businesses
- Inherent conflicts of interest – e.g. investor directors
- Regulation – are the right investors targeted?
- Unintended consequences – SEIS replacing EIS investment monies?
- Are there now too many schemes?
- Liquidity for VCT shares in the secondary market – should funds be listed?
- Capital: many of schemes are about providing relief from capital taxes, but VCTs do give tax free dividends (note: few people use their full income tax allowance for investing)
Things to think about
Essentials

- Need co-ordinated political will over decades - beware changing schemes after the fact
- Cross departmental political support
- Where and what to target for support?
- Who should benefit from the tax breaks – only the wealthy?
- Flexibility in rules – note sensible people in tax office who can work with and not against “the market”?
- Types and levels of tax break both going in and getting out?
- Timings – how long do you have to hold investment to qualify?
- Efficient and easy to understand methodology for dealing with breaches (note: inadvertent breaches)
Types of investor?

• Active
  – VC fund managers
  – Business angels

• Managed
  – VC fund managers
  – Other fund managers

• HNWIs/Sophisticated/general public
Types of company

Company
- EU definition of SMEs – 250 employees etc
- High growth potential only or medium growth
- Young companies only?
- Special sectors?
Types of break

Debt?
Equity?
Preferred Equity?

Tax credits
Tax reduction

Income taxes
Capital taxes
Business taxes

How much do you want to create “frictionless” business by removing taxation from the equation And when does tax kick back in?
Building an ecosystem

• Investment will nearly always flow to the lowest risk, highest return scenario
• Don’t just do one scheme—set up schemes that fit different types of investor/entrepreneur
• Look after those with the money – they will look after the entrepreneurs
• Allow money to flow easily – avoid bureaucracy/allow schemes to be interlinked easily
• Watch out for intrinsic conflicts of interest e.g. regulation hindering risky investment
• Easy for regulation post credit crunch to create conflict between investor protection and tax schemes to encourage investors to take risks by investing in angel/VC deals

• JOBS Act US – delays, Enhanced Share buy backs, new consultation planned by FCA 2014 on crowdfunding

• Certificated investors – does this work?
Panel debate (in danish)
Joachim B. Olsen, Liberal Alliance
Benny Engelbrecht, Socialdemokraterne
Brian Mikkelsen, Det Konservative Folkeparti
Andreas Steenberg, Radikale Venstre
Hvad siger business angels til at iværksætterskatten (delvist) er væk?

1. Iværksætterskatten på avancer (fjernet med L49)

- Business angels i DVCA vurderer samlet set, at deres investeringer vil stige med 56%.
- DVCA vurderer, at business angels investerer ca. 1 mia. kr. årligt. Det vil sige 560 mio. kr. årligt
- N = 19.
Hvad siger business angels til at iværksætterskatten (delvist) er væk?

2. Hvad nu, hvis den også fjernes på udbytter? (Denne skat består stadigvæk)

- Business angels i DVCA vurderer samlet set, at deres investeringer vil stige med 83,8%.
- DVCA vurderer, at business angels investerer ca. 1 mia. kr. årligt. Det vil sige ikke bare 560 mio. kr. - men 840 mio. kr. årligt
- N = 19.