



# **BUSINESS ANGELS**

**2019**

# CONTENT

<b>1. EXECUTIVE SUMMARY</b>	2
1.1. Background	2
1.2. Key Findings	2
1.3. Conclusion	3
1.4. Recommendations	3
<b>2. INVESTORS IN BRIEF</b>	3
2.1. Who are Angel Investors? (Key points)	3
2.2. Who are Venture Capitalists? (Key points)	3
<b>3. DEFINITIONS</b>	4
3.1. Business Angel (Ba), Also Known As Regional Venture Capitalist	4
3.2. Business Angels Network (Ban)	4
3.3. Matching Process	4
3.4. Deal / Matching	4
3.5. Investment Forum	4
3.6. Business Angels Syndication	4
3.7. Serial Angel	4
3.8. Investment Readiness	4
3.9. Exit Route	4
3.10. Sophisticated Investor	4
<b>4. ANGEL INVESTORS vs VENTURE CAPITALISTS</b>	5
4.1. Angel Investor	5
4.2. Venture Capitalist Firm	5
<b>5. DIFFERENT PHASES OF STARTUPS</b>	6
5.1. Setting up a Startup	6
5.2. Growing a Startup	6
5.3. Raising a Startup's Capital	6
<b>6. FUNDING DEPENDING ON STAGES OF A STARTUP</b>	6
6.1. Seed Capital	7
6.2. Startup Capital	7
6.3. Early Stage Capital	7
6.4. Expansion Capital	7
6.5. Late Stage Capital	7
<b>7. DIFFERENT ANGEL INVESTMENT MODELS</b>	8
7.1. Business Angel	8
7.2. Business Angels Network (BAN)	8
<b>8. ANGEL INVESTMENT IN TURKEY</b>	9
8.1. Current State	9
8.1.1. Turkish Law	10
8.1.2. Application Procedure to Benefit from Tax Incentive	10
8.1.3. To Benefit from Tax Incentive, Company Planned to be Invested must Fulfill Following Conditions	11
8.2. Angel Investors and Venture Capital Firms from Turkey	11
8.3. Conferences and Events	11
8.3.1. WBAF - World Business Angels Investment Forum	11
8.3.2. Startup Istanbul	11
8.3.3. Startup Turkey	11
<b>9. REFERENCE LIST</b>	12

# 1. EXECUTIVE SUMMARY

## 1.1. Background

Angel investors' funding startups definitely has an impact much more than meets the eye. An angel investor detecting a unicorn and funding it can change the world. Although this phrase seems a bit romantic, the right startup investment can change people's habits, how they perceive the world, such as facebook, reddit or dji. (the term unicorn broadly refers to any startup exceeding 1B\$ of value.)

The main goal of a business angel or venture capitalist is to have a successful exit. These kinds of investments made especially to be sold and let the investors move on after a few years. Investments can be done in different stages, each of which require a different amount of money, different planning, different key factors (explained in "fundings depending on stages of a startup").

Angel Investors and Venture Capital Firms, fundamentally performing same concept but with following different subprocess', and getting involved in different stages.

In terms of angel investments, there are different methods (to some extent) are being used. There are angel groups and angel networks getting together and sharing both their finances and experiences, events and conferences bringing investors and founders together, or individual business angels (generally with executive experience) funding startups with their own money.

## 1.2. Key Findings

- Rate of return can be improved by avoiding unfamiliar sectors, making sensible decisions about due diligence and participating in startups after initial investment.
- Angel investment is a risky commitment.
- Angels are creating entrepreneurs, but at the same time entrepreneurs are creating angels. (55% of angel investors were previously a founder or CEO of their own startup [1]).
- The risk taken by business angels is rewarded with overall returns—2.6X in 3.5 years—that are fairly attractive. [2]
- Over 90% of all startups fail.
- Due diligence is directly correlated to the success of the startup.
- Investors taking an active role in their invested company though business and strategic consultancy, would achieve better results.



### 1.3. Conclusion

Angel Investment and Venture Capitalism have different processes both financial-wise and planning-wise. The amount of money to invest must be decided so that a road map can be drawn. Being identified as a potential angel investor and making a name for itself are important steps. At this point, working with a business angel network would be logical instead of entering network-driven nature of angel investment by itself.

### 1.4. Recommendations

- Coaching founders, transfer of knowledge and providing support about the whole process as a service can be considered
- Being a sponsor for events like StartupIstanbul, StartupTurkey or WBAF can be considered.
- Being a sponsor for Startup conventions or events might primarily be a good idea, considering the fact that people looking for angel investors value networking. Being known as a business angel might be very useful before starting its own network or portal for potential investment opportunities.
- By taking that into consideration, after this steps a conference can be hosted with attendees' present their ideas, with a prize of investment fund.
- Alternatively, a bridge can be created between investors and startups, bringing them together.
- (For companies) A subsidiary company can be found just for funding startups, acting like an angel investment company. On the contrary, this would require a substantial amount of capital, have to be considered as a long term investment basis.

## 2. INVESTORS IN BRIEF

### 2.1. Who are Angel Investors? (Key points)

- An angel investor is usually a high-net-worth-individual who funds startups at the early stages, generally with their own money
- Angel investors are generally the main source of funding for many startups.
- Investment made by angel investors usually promote innovation which leads to economic growth in general.

### 2.2. Who are Venture Capitalists? (Key points)

- Venture capitalists provide funding to companies and entrepreneurs at different stages of their evolution.
- Venture capitalists generally seek out emerging companies requiring remarkable amount of money for the first time.

## 3. DEFINITIONS

### 3.1. Business Angel (Ba), Also Known As Regional Venture Capitalist

A private individual who invests (part of his personal assets) in a startup and also shares his personal (business management) experience with the entrepreneur. Investment often takes place in the early days of the investee business's existence. Genuine business angels are therefore experienced entrepreneurs themselves, who invest venture capital in exchange for stock and are personally involved in managing investee businesses.

### 3.2. Business Angels Network (Ban)

An organisation whose aim is to facilitate the matching of entrepreneurs (looking for venture capital) with business angels. BANs tend to remain neutral and generally refrain from formally evaluating business plans or angels. A BAN make a marketplace for matching services.

### 3.3. Matching Process

Any action aimed at facilitating encounters between business angels and entrepreneurs.

### 3.4. Deal / Matching

The conclusion of an agreement whereby a business angel invests in a company's stock.

### 3.5. Investment Forum

A meeting in which entrepreneurs each have 15–20 minutes to present their business project to a range of business angels who have been pre-selected or have expressed an interest in one or more of the projects.

### 3.6. Business Angels Syndication

The gathering of several business angels into an informal consortium for the purpose of creating a critical mass of funds above what each business angel could or would be prepared to invest. This term also applies to the pooling of competencies in order to offer more managerial skills than any individual business angel could display.

### 3.7. Serial Angel

A business angel who closes two or more investment deals per year.

### 3.8. Investment Readiness

A privileged moment in time when entrepreneurs are ready to meet and negotiate with business angels.

### 3.9. Exit Route

The ways in which business angels sell their stake in an investee business. Possible exit routes include management buyouts, sale of stock to another business angel or a formal venture capital firm and in few cases listing on the stock market.

### 3.10. Sophisticated Investor

A person whom the offer reasonably believes he can understand the risk. To be sophisticated investor you have to have a surplus assets of £250,000 excluding property and / or income exceeding £100,000.[3]

## 4. ANGEL INVESTORS vs VENTURE CAPITALIST

### 4.1. Angel Investor

- Medium difficulty to approach.
- Attracting capital from an angel investor typically happens within one's first or second social circle reach.  
An Angel Investor is also referred to as a Business Angel or Informal Investor.
- Invests as an individual or as a part of a group called an investment syndicate.
- Are willing to invest in companies that are idea-stage, early-stage, and pre-revenue-stage.
- The amount invested is a lot less than the amount of Venture Capital.
- A syndicate investment is often in the range of EUR 100.000 to EUR 1.000.000.
- For an Angel Investor due diligence will range from a meeting over coffee or lunch to doing more thorough background checks and research with experts. When angels invest through a syndicate they tend to put more effort in their due diligence. As most Angel Investors are experienced in business and entrepreneurship that will have a lot of value to add to the company in the form of contacts and experience.
- Makes investments with a "Hand-off" mentality where they keep an eye out for updates but do not contribute too much of their time in the company.
- They like to be kept up-to-date through newsletters and personal phone calls and emails.
- You typically do not grant a board seat to an angel investor.

### 4.2. Venture Capitalist Firm

- Harder difficulty to approach
- Attracting capital from a VC typically happens through an introduction from someone the VC trusts.
- Invests as a company or business rather than an individual.
- The VC seldom enters the company at the idea-stage, early-stage, pre-revenue-stage.
- The VC does invest in companies at this stage when the reason to do so is compelling enough (scalable high tech with already successful founders).
- In general, the VC enters the picture in a later stage when the concept is proven and some initial revenue is obtained to grow to the company.
- A VC typically invests an amount that ranges from EUR 300.000 (seed-stage) to EUR 5-7.000.000 (later-stage).
- For a VC due diligence will range from a trustworthy introduction followed by several meetings to go through your finances, administration and your legal documentation regarding IP, holding setup etc. VC's will tend to do extensive background checks and research with experts. Venture Capitalists have to do a lot more due diligence because they have a fiduciary duty to their Limited Partners.
- VC's tend to co-invest in many deals. This means that the risk is being mitigated by partnering with multiple VC's when making an investment.
- The VC brings a wide variety of value for the business. This ranges from experience, hands-on guidance, financial skills, network (national and international) growth mentoring and hiring advice.
- In the VC's tend to want at least one board seat[4]

## 5. DIFFERENT PHASES OF STARTUPS

### 5.1. Setting up a Startup

Starting a business from scratch requires a lot of work. Although generating a business idea seems like a great starting point, making an idea into a company cannot be done without effort. It should not be forgotten that 90% of startups fail. Entrepreneurs often think they would never be one of the failures. Putting the product aside, a startup requires so much work including, determining legal structure, building a team, assessing finances.

### 5.2. Growing a Startup

Expanding and growing too quickly is one of the main reasons why startups fail. In this phase startups have different needs such as, hiring key team members, identifying team strengths, determining key metrics, refining business model and benchmarking progress.

### 5.3. Raising a Startup's Capital

Raising capital phase much more complex and needed to be taken seriously, some of the key factors are voting rights, board control, liquidation preferences and stock options.

## 6. FUNDING DEPENDING ON STAGES

Even though there are different methods of funding, typically five of them are commonly used. There are seed capital, startup capital, early stage capital, expansion capital and late stage capital. Although investors choose to involve in different stages, depending on the current state of the startup, many choose pre-seed and seed stages (Figure 1).

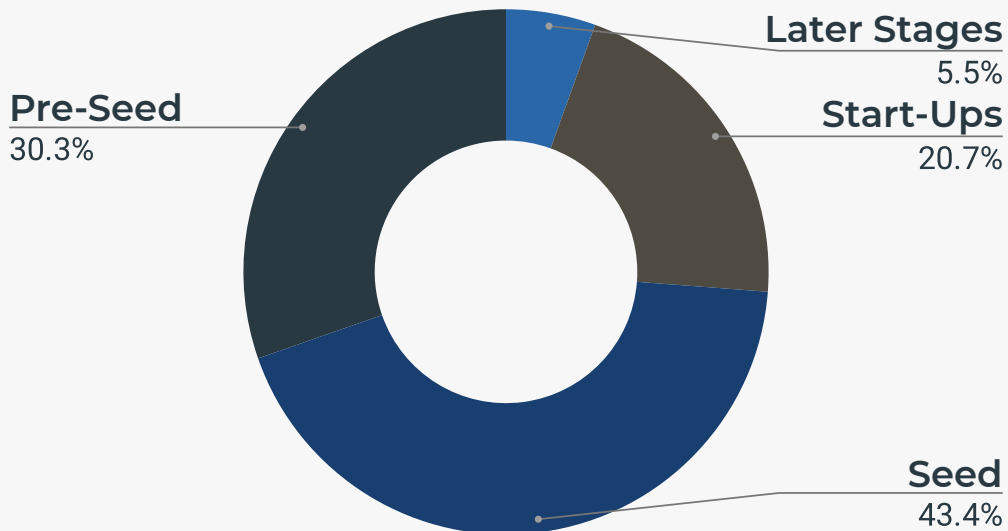


Figure 1: Stages of Investment [5]

## 6.1. Seed Capital

Startups would be seeking seed capital, if there are no product or an organized company yet. Investment capital can be used to create a sample of the product or funding a market research. Finding an investor at that stage would be hard, especially, finding an Angel Investor or Venture Capitalist.

## 6.2. Startup Capital

At this stage, the startup would have a sample product available with at least one principal working full-time. Funding at this stage is also rare. It tends to cover recruitment of other key management, additional market research, and finalising of the product or service for introduction to the marketplace. (Series A)

## 6.3. Early Stage Capital

Two to three years into the venture, a management team is in place, and sales are increasing. At this stage, VC funding could help you increase sales to the break-even point, improve productivity, or increase startup's efficiency. (Series B)

## 6.4. Expansion Capital

Startup is well established, and now looking to a VC to help take your business to the next level of growth. Funding at this stage may help entering new markets or increasing marketing efforts. Startup should seek out VCs that specialise in later stage investing. (Series C)

## 6.5. Late Stage Capital

At this stage, Startup has achieved impressive sales and revenue and has a second level of management in place. Startup may be looking for funds to increase capacity, ramp up marketing, or increase working capital. (Series D)

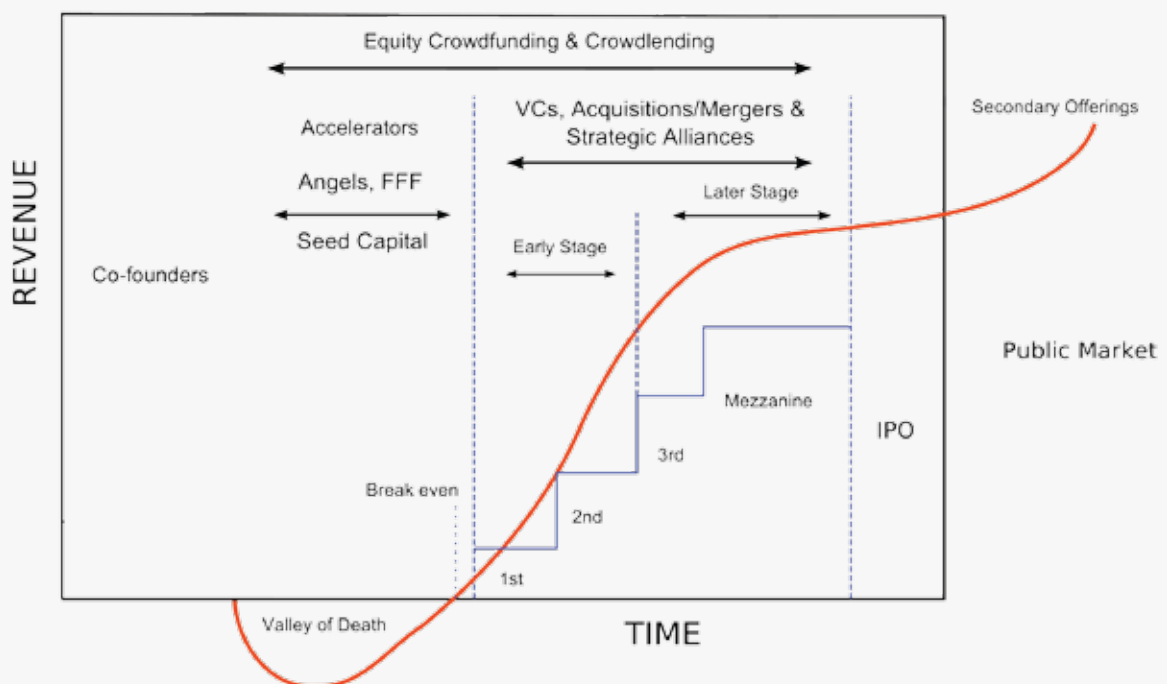


Figure 2: Startup Financing Cycle

## 7. DIFFERENT ANGEL INVESTMENT MODELS

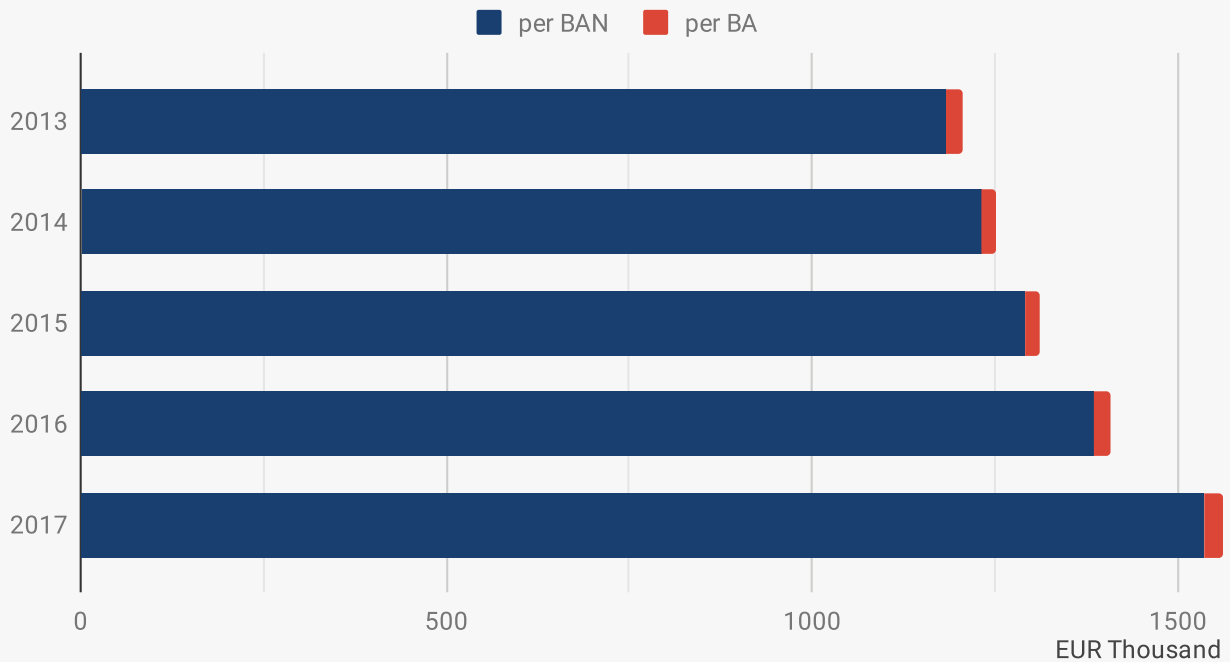
### 7.1. Business Angel

A high-net-worth individual funding projects. (As it is explained before)

### 7.2. Business Angels Network (BAN)

Angel investor networks are individual angel investors coming together and forming groups. Average amount invested is considerably more in BANs (Figure 3). Joining an angel group has many benefits including lowering the risk in investing, increasing diversity of investment and to be able to exercise better due diligence. A couple of activities are common among business angel networks, some of them are;

- Identifying potential business angels.
- Organisation of investment forums.
- Preparing founders for their meeting with angel investors



Some of the biggest angel groups are;

- New York Angels: <http://www.newyorkangels.com/home.html>
- Houston Angel Network: <https://houstonangelnetwork.org/>
- Alliance of Angels: <https://www.allianceofangels.com/>
- Golden Seeds: <https://goldenseeds.com/>
- Tech Coast Angels: <https://www.techcoastangels.com/>

## 8. ANGEL INVESTMENT IN TURKEY

### 8.1. Current State

After UK, Turkey is one of the main players in Early Stage Investment market with increasing amount of investment.

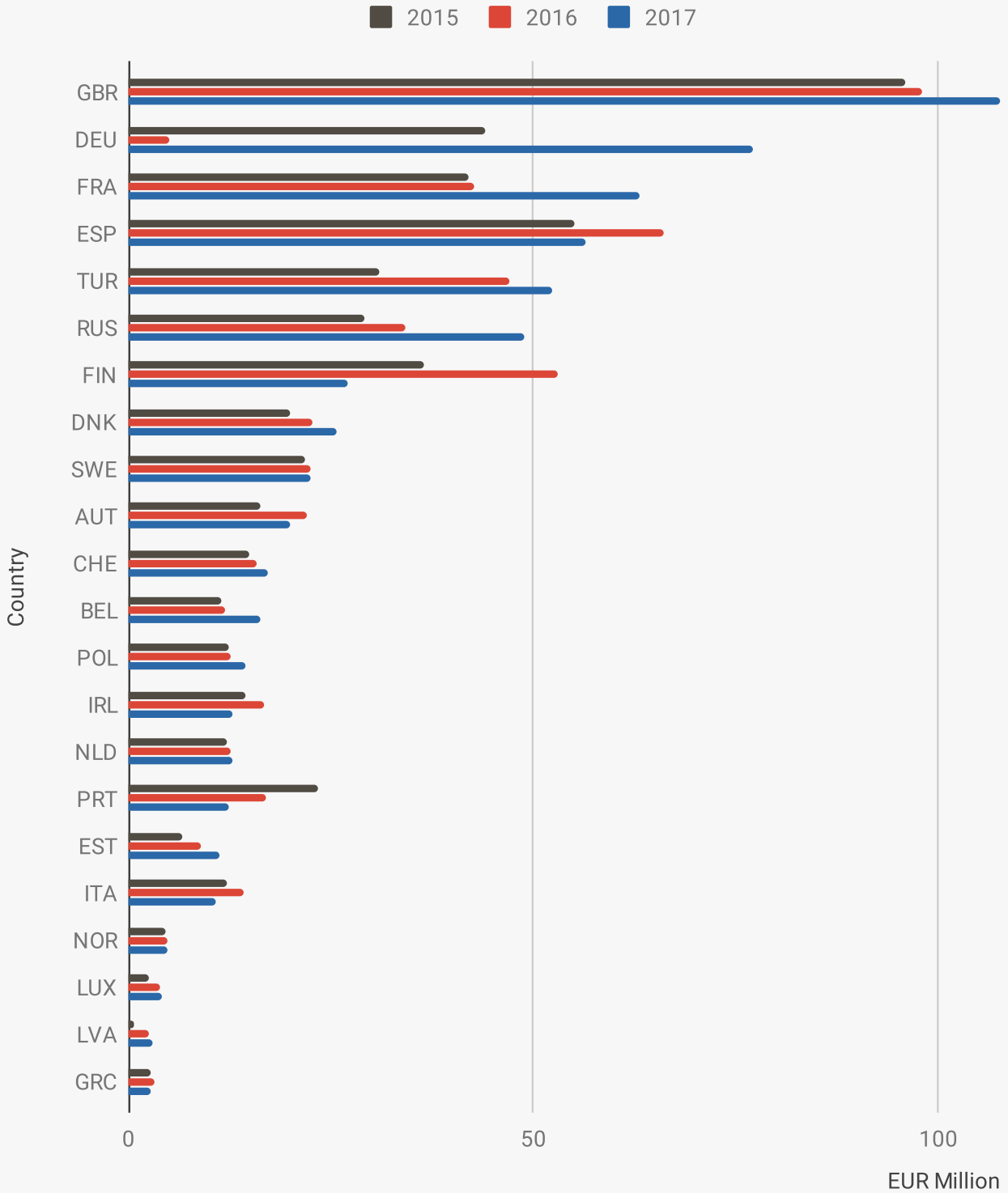


Figure 4: Amount of Angel Investment by Country [6]

According to an article in Hurriyet Daily News (Feb, 2018), Turkey attracts more and more investors, especially thanks to a tax incentive. Quoting the article mentioned;

“Last year, Turkey became the fifth biggest startup market for angel investors in Europe, according to the European Trade Association for Business Angels [EBAN]. Some 512 million euros were invested in Turkey, whereas five years ago Turkey ranked 32nd,” Baybars Altuntaş, the chairman of the World Business Angels Investment Forum (WBAF), has told the Hürriyet Daily News.” [7]

Another article from Hurriyet Daily News address’ the same subject, quoting the words of Baybars Altuntaş again;

“Speaking at the opening ceremony of the Angel Investors Conference 2018, World Business Angels Investment Forum (WBAF) chairman said Turkey provides “the highest tax incentive in the world” for angel investors partnering with entrepreneurs through capital support.

Baybars Altuntaş, the head of the WBAF, said the country offers 75 percent or 100 percent tax exemption on income tax basis to investors that partner with entrepreneurs.”[8]

### 8.1.1. Turkish Law

According to Turkish Law, an angel investor is stated as “Bireysel Katılım Yatırımcısı” (BKY). To be able to utilize the tax incentive, an angel investor must be a real person, not a company or two or more certified angel investors could form a partnership and invest together. The advantage of tax reduction can be capitalized in personal income tax declaration.

- Angel investors can deduct 75% of the total value they invested from their income tax base as expense on condition that company shares invested must be kept for at least two years.
- If in the last 5 years, companies invested in have projects supported by KOSGEB and TUBITAK as part of research, development and innovation programs, than the percentage deducted can increase up to 100%.
- Annual deduction amount cannot exceed 1 Million Turkish Liras.
- Money invested must be in sectors specified by regulations.

### 8.1.2. Application Procedure to Benefit from Tax Incentive

In order to benefit from tax incentives, licenced angel investor must apply to the Undersecretariat of Treasury with following papers though angel network.

- Business plan
- Draft of prime contract (in accordance with Turkish Commercial Law), involving companies’ subject of activity, partnership structure, registered and issued capital, current partners and other issues
- Company partners’ credentials and resumes
- If in the last 5 years, companies invested in have projects supported by Ministry of Science, Industry and Technology, Scientific and Technological Research Council of Turkey and KOSGEB as part of research, development and innovation programs, document taken from relevant institution authenticating the situation
- Affirmative covenant about partners of the firm following the regulations of the Undersecretariat of Treasury.
- Affirmative covenant about angel investor being not related to entrepreneurs in a way contrary to the legislative regulations.

### **8.1.3. Company Conditions to Benefit from Tax Incentive**

- Company's net sales must not be more than 5.000.000 TL in last two fiscal years before angel investors' participation
- Company must not have more than 50 employees
- Company must not be controlled by another company
- Company must operate in certain sectors specified by the Undersecretariat of Treasury
- Company shares must not be offered to the public
- Angel Investors cannot be controlling shareholder (more than 50%) [9]

## **8.2. Some Angel Investors and Venture Capital Firms from Turkey**

Some of the major Angel Networks and VC Firms from Turkey are listed below.

- <http://www.aslanobacapital.com/>
- <https://www.startupbootcamp.org/accelerator/istanbul/>
- <http://bicangels.com/>
- <http://galatabusinessangels.com/>
- <http://www.revo.vc/>

## **8.3. Conferences and Events**

### **8.3.1. WBAF - World Business Angels Investment Forum**

WBAF 2019 Conference took place in Istanbul in February, some of the main subjects were "connecting private equity funds with angel investor to boost innovation", "Private Equity Funds, family offices and wealth management institutions are booming globally", "Angel investment is booming worldwide"

for more information: <https://www.wbaf2019.istanbul/>

### **8.3.2. Startup Istanbul**

Startup Istanbul 2019 event will take place in 18-21 October, scanning up applications from 165 countries to connect the best ones with the investors. Among their sponsors, some are Intel, BIC Angels, Aslanoba Capital, UK Trade and Investment and Lidya Ventures.

for more information: <https://startupistanbul.com/>

### **8.3.3. Startup Turkey**

Startup Turkey was taken place in 26-29 April 2019, bringing investors with startups in a competition-like structure, very similar to Startup Istanbul. Among their sponsors are, EU European Regional Development Fund, Startup Estonia, Teknopark İstanbul, Startup Bahrain and Tüpraş.

for more information: <https://startupturkey.com/>

## 9. REFERENCE LIST

- [1] <https://www.angelcapitalassociation.org/data/Documents/TAAReport11-30-17.pdf?rev=DB68>
- [2] [https://www.angelcapitalassociation.org/data/Documents/Resources/AngelGroupResarch/1d%20-%20Resources%20-%20Research/6%20RSCH\\_-\\_ACEF\\_-\\_Returns\\_to\\_Angel\\_Investor\\_in\\_Groups.pdf](https://www.angelcapitalassociation.org/data/Documents/Resources/AngelGroupResarch/1d%20-%20Resources%20-%20Research/6%20RSCH_-_ACEF_-_Returns_to_Angel_Investor_in_Groups.pdf)
- [3] SAUBLENS,Christian ve REINO, Monica, 'Introduction to the Activities of Regional Business Angels Network', <http://www.yban.net/document/How to Create a BAN.pdf> , 2008, 2., [15.05.2015]
- [4] <https://nlfunding.co/angel-investors/>
- [5] [http://www.eban.org/wp-content/uploads/2017/11/Final-Report\\_Understanding-the-Nature-and-Impact-of-the-business-angels-in-Funding-Research-and-Innovation\\_FV.pdf](http://www.eban.org/wp-content/uploads/2017/11/Final-Report_Understanding-the-Nature-and-Impact-of-the-business-angels-in-Funding-Research-and-Innovation_FV.pdf)
- [6] <http://www.eban.org/wp-content/uploads/2018/07/EBAN-Statistics-Compendium-2017.pdf>
- [7] <http://www.hurriyetdailynews.com/turkey-becoming-a-haven-for-angel-investment-127878>
- [8] <http://www.hurriyetdailynews.com/turkey-provides-high-est-tax-incentive-in-the-world-for-angel-investors-wbafs-chairman-says-127559>
- [9] <https://www.kosgeb.gov.tr/site/tr/genel/detay/5667/bireysel-katilim-sermayesi-sistemi>