

Angels & Innovation

The Rudd Government has undertaken a [Review of the National Innovation System](#). The AAAI made a [submission](#) to this important review and the AAAI directors made personal appearances and contributions to the public consultation sessions in five states.

The full Review was released on September 9, 2008 and is open for comment until September 30. The AAAI will be making a submission during this comment phase.

The challenge this review places before the government is to think in the long term. The review highlights how the last decade and more of neglect has brought Australia low. Our competitive rankings by almost any measure tell us that we are woefully under resourced in R&D, commercialisation, skills, supportive tax measures, intellectual property, public private collaboration and a host of other critical elements of the National Innovation System.

The Review Panel hired a Melbourne cartoonist to provide some comic relief. A sample is included here, go online for the [complete collection](#).

An opportunity for Australia in this Review is to recognise the value of



supporting a dynamic, active, diversified angel investor community. A successful angel community inherently means a successful entrepreneurial culture, internationally competitive growth businesses, improved quality of business management and governance all with consequential increases in tax revenues and social benefits.

Angels represent the opportunity for a nationwide, grass roots, volunteer based approach to picking the nation up by its own bootlaces. Angel investors are not a bunch of 'rich guys'. Angel investors are typically over 45, have enjoyed modest success in business, have achieved a degree of financial security, have a passion to assist entrepreneurs succeed and

overwhelmingly seek to do so in endeavours that satisfy a desire for societal improvement.

Angel investing is risky and, without appropriate support, the human, social and financial capital of those people will not be applied to the success of the Australian community. Angels are taxpayers not institutions and they respond most directly to visible, active support for their interest and passion in improving the economic success of Australian innovation.

The AAAI has identified five key areas for policy initiatives with regard to angel investing in Australia.

1. AAAI will establish clarity with ASIC on the regulatory view of angel groups and, if possible, obtain exemption from Australian Financial Services Licence requirements for "suitably" structured and qualified groups; and
2. AAAI will develop in association with ASIC the

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News – Angel at Large

By Jordan Green, Deputy Chairman AAAI

In May I commenced a 4½ week tour of the USA to research angel groups and develop relationships to benefit Australian angel investors and their portfolio companies.

Angel investing has been with us for as long as successful business people have been using their own funds and expertise to foster growth in other businesses. The term was originally coined two centuries back in England to describe wealthy individuals who funded theatrical productions. In the last few decades it has come to mean private individuals investing their own money and time in growth businesses.

Many people could be considered angels even if unaware of the term, or of the formal organisation of the space that has evolved in recent years. Since the dot com bubble there has been a strong swing towards angel groups - a collection of angels who review, evaluate, invest and exit deals together. Angel groups are now recognised as best practice due to the deeper, broader resources, experience, expertise and networks of a group over an individual. It is often said that a core benefit of a group is that it prevents individuals from making bad investments.

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Even in groups, angels are a collection of individuals investing their own money which means that each group develops its own, idiosyncratic approach to the angel process of deal generation, screening, evaluation, terms sheet, due diligence, investment, portfolio management and exit. This diversity is an important strength of the angel movement because it promotes a wide range of interests and approaches that, in turn, accommodate the multitude of industries, markets and business models pursued by entrepreneurs.

Available data on investment metrics illustrates why angels are important. The most recent, authoritative study¹ was in the USA, which concluded that angels invest USD25bn per annum. For comparison, PricewaterhouseCoopers Money Tree report estimates that venture capitalists (VC) in the USA in 2007 invested USD30.5bn. The VC invested an average of USD7.8m in each deal while the angels invested an average of USD500K per deal for an average return of 2.6 times their investment in 3.5 years, or approximately 27% Internal Rate of Return (IRR).

Those numbers imply that angels invested in 50,000 companies compared with fewer than 4,000 companies for VC. This order of magnitude difference emphasises the broader economic impact of angel investing and highlights that the two categories of investors are not a lockstep continuum. If every angel deal depended on subsequent VC investment then angels would be throwing away money. That is not the case. Many angel deals do go on to access VC investments but, many others find alternate paths to market and exit.

Angels tend to be business people who have enjoyed success, frequently entrepreneurs, and have a passion to help grow new businesses. Typically, they are financially secure rather than wealthy and the most valuable part of their investing is the application of their time, skills, experience and networks to actively guide and assist the entrepreneurs in whom they invest. Thus it is only natural for there to be significant diversity in the character and interests of angels and the groups in which they gather.

My tour of angel groups in the USA commenced with the Angel Capital Association (ACA) National Summit in San Diego. The Summit was attended by 365 angel group leaders and investors from North America, Australia, New Zealand, Chile and Europe. The groups in attendance represented nearly 7,000 individual angel investors. The ACA is a professional alliance of around 265 of the angel organisations in North America to share best practices, network and develop data about the field of angel investing.

At the Summit, I and other AAAI Board members met with the ACA executive, the European Business Angels Network¹ (EBAN) executive, the Canadian National Angel Organisation and leaders of angel groups in North America, Europe and South America.

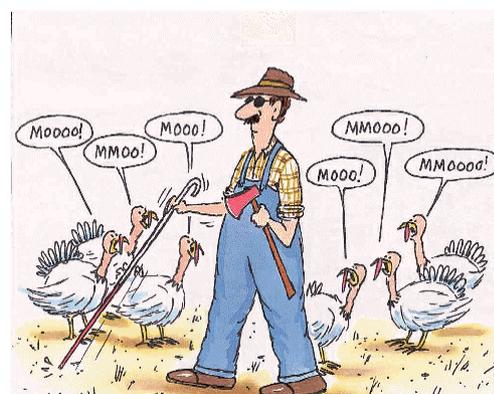
In the ensuing weeks I was welcomed to group meetings by over 15 angel groups and had conversations with over a dozen other angel groups and angel funds.

In discussing angel activities with angel groups around

the country several common aspects became evident:

- Working size for a group is in the 80-100 range.
- Most groups have at least a part-time, paid manager for administrative support. In the majority of cases, deal flow is handled by member volunteers.
- Most groups meet at least twice a month and many meet four times a month.
- In the concentrated centres of Southern California, Silicon Valley, Boston and New York large groups can follow their entire portfolio life-cycle locally – deal flow, due diligence, company growth and exit.
- Outside those exceptional locales angel groups typically co-invest with each other and with early stage VC.
- Most USA angel groups are prepared to invest in Australian entrepreneurs entering the USA when introduced to them by their peers and friends in the Australian angel community.
- Most angel groups in the USA are less than four years old and around a third are less than two years old.
- Europeans have been organising their “business angels” far longer than the USA, or Australia.
- Many states in the USA, like countries in Europe, offer significant tax incentives for angel investors and the formation of angel groups.
- Many states in the USA have started to emulate the successes of England, Scotland, New Zealand and others with government-backed angel co-investment funds. Australian governments have been slow to join this trend to deliver significant injections of capital into the ‘innovation economy’ with a higher degree of success and broader reach of benefits than similar efforts in the VC space.

My tour made it clear that the AAAI is recognised as a peer by its counterparts in the USA, Canada and Europe; that Australian angel groups are comparable to their international cousins; and that there is a genuine appetite in the USA to invest in Australian entrepreneurial ventures referred by Australian angels.



The Conundrum of the Solo Angel

¹ Returns of Angel Investors in Groups, Robert Wiltbank & Warren Boeker, Ewing Marion Kauffman Foundation, November 2007
<http://www.kauffman.org/items.cfm?itemID=9361>

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Special Offers**ANTHILL SUBSCRIPTION**

Angel members get a discount subscription to the Australian Anthill. Ask your angel group administrator to arrange your subscription (he/she will need your name, postal address and credit card details).

Stop Press

Melbourne Angels hosts AAAI Board Summit Oct 2-3. Generous support from ICN (Victoria) and Macpherson+Kelley.

Brisbane Angels has invested in UQ AgScience spinoff *Aussie Colours*.

BioAngels has invested in Melbourne-based drug screening and diagnostics company, AdAlta Pty Ltd.

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Events**AUSTRALIA**

AAAI Board Summit
 October 1-2 2009 Melbourne
 AAAI National Angel Conference
 February 18-20 2009 Brisbane
 Melbourne Angels Meeting
 October 8th 4:15-6:15pm Melbourne
 Capital Angels Meeting
 September 30th 6pm Canberra
 BioAngels Meeting
 October 8th 5:30pm Adelaide
 Brisbane Angels BBQ Night
 October 8th Evening Brisbane

Angels Institute - Business Angel Awards
 September 2008 Queensland

INTERNATIONAL

2008 National Canadian Angel Summit
 16-17 October 2008 Halifax, Nova Scotia
 Angel Association New Zealand Summit 08
 5th November
 Cable Bay Vineyards, Waiheke Island
 EBAN 9th Annual Congress
 27-28 April 2009 Madrid, Spain
 ACA National Summit
 15-18 April 2009 Atlanta, Georgia, USA

Experiences with Angelsoft

by Dr Corinna Steeb, Executive Officer, BioAngels

After careful evaluation, BioAngels recently signed up to use Angelsoft, a web-based investment database platform for managing the deal flow of the group. As with any new application, it took a few weeks to learn this application however, BioAngels now use this platform to manage most of the group's activities.

The application is user-friendly and the USA-based support has been great so far. As the administrator for our group, I initially set up the parameters for both our members and for potential entrepreneurs. We reworked some of the standard entrepreneur questions and set the access levels for members. As we had only recently updated our website, I was able to upload member's details without too much delay and added a smart link to Angelsoft on our website.

As a teaching example, we uploaded the information of a current deal and gave a real live demonstration to our members, showing them how to indicate their level of interest and how to post group messages about the deal. I also showed them what information the administrator can access and how I could use this platform to manage information and events.

Within three months of signing up to Angelsoft, we now use this platform almost exclusively to communicate with members and entrepreneurs, screen and manage deals and organise events. Angelsoft is a great tool to produce a standardised Executive Summary which allows for easy screening of new funding requests. This obviously does not improve the deal however it certainly forces the entrepreneur to describe their product or service in detail so that an initial assessment can be made if the deal is sufficiently interesting to be presented to the group.

I still have to cheat the time when booking events as Angelsoft does not recognise the South Australia time zone but, other than that, it's all good.

For more information check out www.angelsoft.net, to become an Angelsoft user write to editor@aaai.net.au for a referral.

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concept of an "accredited" angel investor to underpin the above. Accreditation will rely on an education and practice regime developed, disseminated/delivered and administered by AAAI with some elements of the Continuing Professional Development approach used by other professions.

3. AAAI will seek to establish a government co-investment fund using angel and angel group accreditation as the basis for automatic investments alongside accredited angel investors according to a formula and a cap, i.e. not a discretionary investor and therefore very low OpEx, as per successful co-investment funds overseas.
4. AAAI seeks government financial and in-kind support for increasing the profile of angel investors and angel investor groups and to hold effective networking events for angel investors.
5. AAAI advocates tax initiatives in the areas of personal income tax and Self Managed Super Fund regulation for capital gains and losses to more effectively motivate and reward wide spread investment by Australians in our entrepreneurs.

Angel investors get our very own recommendation (9.10) in the Review, which calls for "Modest facilitating grants to organisations of angel investors ... to support an increased profile, networking and an ability to mount investor-education programs."

The AAAI has put its hand up for a seat on the recommended National Innovation Council that will advise the Prime Minister. The AAAI supports the recommendations of the review for renewed commitment to properly coordinated and updated assistance schemes including COMET, Innovation Investment Funds and a suite of improved tax credits for R&D.

If you want to contribute to the AAAI comment on the review, or the AAAI policy initiatives please write to the [Editor](#).