

Alternative investing

Angel investors fly higher when together

Lewiatan
BUSINESS ANGELS 

There is no lack of available funds or ideas for potentially lucrative investments in promising Polish start-ups, but experts say those interested in riding the angel-investing wave should learn to invest in tandem with others to reap the full benefits

Angel investors, high-net-worth individuals who invest directly in promising start-ups in return for a share of the company, are still relatively rare in Poland, but their numbers are growing. According to several investors spoken to by *WBJ*, conditions for angel investing are excellent, but in order to reach the next level angels in Poland must start investing together.

Jacek Błoński, CEO of Lewiatan Business Angels (LBA), an organization which describes itself as the largest and most active business-angel network in Poland, says the number of applications for investment funding his organization receives is soaring.

"Awareness of angel investing in Poland is growing rapidly. We are organizing a lot of events and seminars among seed funds and incubators to show that angels now play a critical role in financing early-stage projects." Another reason for the surge in applications, according to Mr Błoński, is that government and European investments in R&D are starting to pay off.

"A lot of EU money was pumped into R&D centers. People started working in them and launching their own ideas, and it's really helping us," he said.

The next step

According to Mr Błoński, potential angel investors are also starting to get more curious as they are hearing about increasing numbers of success stories. But as angel investing becomes more widespread and more sophisticated, investors, experts say, should learn to mitigate risk by expanding their portfolios. This, however, is something few can do on their own.

That is where syndication, or investing in groups that combine the capital and business experience of several investors, comes in to play. The practice is already common in the US, where syndication deals account for the majority of angel investor deals, and is growing quickly in Western Europe. But it is still a marginal investment option in Poland, where the majority of investors

currently seem to prefer investing alone or in small groups.

Syndication makes particular sense for angel investing because it is an alternative form of investment rather than a full-time activity. For example, the European Business Angel Network advises investors to commit between three and 10 percent of their net wealth, excluding their own homes. Those in the angel investing community who are most active and knowledgeable invest up to 40 percent, but that's not the norm, said Mr Błoński.

Angel investing is also an especially risky form of investment, where businesspeople expect

above-average returns – often 25 percent or more – but also accept above-average risk. In the US, fewer than 10 percent of investments bring a greater-than five-fold return on invested capital.

"Risk mitigation is a major concern for any investor, and in particular for business angels because they invest in early-stage companies where risk is larger," said Anna Hejka, an angel investor, as well as founder and managing director of merchant banking firm Heyka Capital Markets Group.

Syndication allows groups of investors to quickly build a portfolio of emerging companies, and combine relatively small sums of money to ensure a stronger negotiating position, and possibly gain stronger corporate rights within companies.

Combining capital also allows angels to take on larger projects, which can go some way towards bridging the equity gap between

individual business angels and venture capital funds. Mr Błoński cited the example of Air Ventures Polska, in which venture capital fund Helix Ventures invested zł.3.5 million in March, as a classic example of angels investing in a firm's first-stage development, before bringing it up to a level at which venture capital funds find it attractive.

With syndication, angel investors can stay much longer with a company and become involved in the second, third, and fourth rounds of investment.

Syndication also enables investors to venture into different industries than ones they are familiar with. According to Mr Błoński, while many Polish investors are well-versed in the ITC sector, it is almost impossible to find knowledgeable investors in Poland in biotech, medical tech or advanced materials.

Anna Walkowska, founder and

managing director of Homplex, an online service for people looking to renovate their homes, says that the group of three angel investors who agreed to fund part of her firm provides a tailored mix of knowledge in the marketing, furniture and construction sectors.

In more developed markets, syndicates operate according to various models and can bring together up to several dozen investors. In Poland, it is still too early to say if a particular organizational model has taken hold, and the line between group investing and syndicates of investors still seems blurry.

Good conditions

Investors seem to agree that there is currently no lack of cash in Poland for new business projects. Whereas only a few years ago Polish entrepreneurs suffered from a serious equity gap, today they have several options for finding a partner to help finance their projects.

"The Polish market is very interesting right now because there is plenty of money for start-up companies, even seed companies," said Krzysztof Gawrysiak, an investor associated with three Polish angels networks. According to him, up to zł.1.6 billion is currently available for start-ups or early-stage companies in Poland. Mr Gawrysiak said companies from places as far away as California had contacted him through business angels networks in search of funding.

Among potential sources of funding for start-ups are the over 40 business incubators that exist in Poland. These provide an array of business support resources and services to start-ups or early-stage companies. Each incubator usually invests up to €20,000 per project received, with each incubator investing in between five and 10 companies or business ideas.

Partnership between angel investors and incubators is particularly promising, according to Mr Błoński, with LBA currently in the process of closing two deals, one in the chemical sector and the other in medical devices, that are co-investments between angels and incubators.

"Effective incubators do the preparatory work with entrepreneurs, and therefore when angel investors appear the company hopefully has an improved business model, better understanding of the business process, stronger



LUKASZ MAZUREK/WBJ/SHUTTERSTOCK

organizational structure, and better knowledge of the capital markets, all of which makes investing in such a company less risky for angel investors," said Ms Hejka.

Other sources of funding for start-ups include several funds created by the National Capital Fund (KFK), which are able to invest up to €1.5 million both in start-ups and early stage companies, said Mr Gawrysiak. Add to this the 10 or so different angel investing networks and EU funds made available for young entrepreneurs through organizations like the Polish Agency for Enterprise Development, and "there is plenty of money for start-ups in Poland at the moment," he added.

On top of this relative abundance of funding sources, would-be entrepreneurs now also have access to partners during every step of the business development process, said Mr Błoński. "What we have today in Poland is a dream model where you have a partner on each stage of developing your project. In the initial stage you can enter incubators, and they have money and experts to polish your projects. Once the company is established you can find money from angel investors, and then you have the option to turn to KFK or venture capital funds for larger funding. Finally, when you are ready to exit, you can list on the Warsaw Stock Exchange's NewConnect market."

Angel networks and trust

An increasing number of syndicate deals are likely to take place in Poland, experts say. However, a boom in syndicate investing is not expected just yet. One reason why it is taking a time for syndication or group investing to catch on

in Poland might have to do with the fact that it is still an emerging form of investment.

Because syndication is a new phenomenon in Poland, the different angel networks probably still feel a need to prove themselves and therefore have more of a competitive approach than a cooperative approach, explained Ms Hejka.

Mr Gawrysiak agreed that Polish business-angel networks compete for projects and angels, but added that there was cooperation to promote angel investing. "Chief operators of the different networks know each other, so I think on a level they cooperate, but it's true, they are fighting for the best deals," he said.

"There are almost no examples of angel groups calling one another to invest together, which is normal in the US," said Mr Błoński.

He added that LBA is working actively to change this. "We are the biggest network, are quite well established and are part of wider European associations, so I think it's our responsibility to take care of the whole ecosystem of angel investing in Poland."

According to Mr Błoński, a major obstacle to increased cooperation among Polish business angels is a deeply ingrained lack of mutual trust. "I think it will take a long time to change. Maybe it's in the Polish mentality, maybe it's related to our history, but many businesspeople assume that people will cheat them, and this mental block is a big challenge for us."

But according to Ms Hejka, lack of trust is a general problem when it comes to investing, and Polish resistance might have more to do with a lack of experience. "In the US, syndication has been going on for many years



"What we have today in Poland is a dream model"

**– Jacek Błoński,
CEO of Lewiatan
Business Angels**

and therefore you have teams of people who already know each other, already know who likes to take care of which part of the investing process, and in which field. In Poland syndication is new and people don't know each other that well."

Syndication in Poland often ends up in a group of people who are willing to invest together but who only commit themselves to put the money or spend a very limited period of time on the project. Therefore, the burden of the investment process often falls on one person, something Ms Hejka says she has experienced personally.

Macro-level impact

Distrust is not the only chal-

lenge facing angel investors in Poland. Government support in the form of tax breaks for individual investors would give a solid push to the movement, Mr Błoński said.

Figures concerning the economic impact of Polish or even European angel investing are rare. But the Center for Venture Research at the University of New Hampshire calculates that in the first half of 2011, total angel-funded investments in the United States amounted to \$8.9 billion, an annual increase of 4.7 percent. The center also estimates that angel investment is a significant contributor to job growth, estimating that the practice led to the creation of 134,130 new jobs in the US in 2011, or five jobs per

angel investment.

"On a macro level it's worth it for the government to support individual investors who invest in start-ups with tax relief. It can create a real incentive. With examples from other European countries, we want to show these potential benefits to the Polish government."

Mr Błoński recognized this might not be easy. "It's a political discussion, inevitably some people are going to say the government would be allowing rich people to save money, while failing to see that on the macro level it would create jobs and companies on which the government can levy taxes."

That, though, is another discussion altogether.

Alice Trudelle

Polidea

Polidea, an angel-funded firm operating on the mobile IT market, benefited from the combined knowledge of angel investors Krzysztof Gawrysiak and Tomasz Grzybowski in the tech and marketing sectors, respectively.

Lewiatan Business Angels provided zł100,000 in 2009, and the firm was already profitable after its first year. "We are still seeing strong, double-digit growth," said Mr Gawrysiak. Although following the typical angel-funded investment pattern Polidea could now be ready for listing on the Warsaw Stock Exchange's alternative market NewConnect, it is not in the immediate plans. "We have thought about listing but we don't need the money. The company is very profitable. Maybe if we will need some money injection for opening new branches, for example in the US, but for the moment we are not considering it," said Mr Gawrysiak.

Polidea has developed quickly by surfing on the latest trends on the mobile market, such as paper publications expanding or developing online. Its platform Pixblish is used by several titles and publishing houses in Poland such as weekly *Polityka*, and the firm is also selling its application in Western Europe. "Digital technology is very interesting for publishers. It's much easier and cheaper to reach their audience and update information, while also providing interaction with the reader," said Mr Gawrysiak.

The firm is also working to provide IT solutions for a few US-based medical companies, and is currently working on a major transaction. "Polidea is perceived as one of the best mobile-software solution providers in Europe. Those companies are choosing us not because of price but based on quality," said Mr Gawrysiak. ●

Homplex

Anna Walkowska and her husband were both employed in the IT sector when they started renovating their home. Today they run Homplex, an online service aiming to offer comprehensive help for people looking to do the same. The project was partly angel-funded, and Ms Walkowska says it benefited from the mix of knowledge combined between angel investors Jacek Błoński, CEO of Lewiatan Business Angels, Marcin Lorych (from the furniture sector) and Mirosław Rotek (from the construction sector).

The idea for Homplex came from the founders' own experience. "I wanted to have control over the whole renovation process, and I wasn't interested in paying an interior architect for this information. I searched on the internet but the information wasn't satisfying. So I had the idea of an application supporting the whole process starting from the

idea, and later managing tasks, planning the shopping, and managing relations with contractors, something like a virtual interior architect for people who can't afford such a service," said Ms Walkowska.

She did the research, and found that in Australia, the US and the UK, there was no competition for such a project. The pair then started looking for funding and after being rebuffed by banks, looked at both angel investing and venture capital groups. "We chose angel investing in large part because we retain control over the company. Venture capital funds were asking for over 50 percent of the company, whereas our three business angels together took 40 percent. I didn't want to give up so fast on my idea," said Ms Walkowska.

Homplex is planning to expand to Germany and the UK in the near future. ●