Business Angels – A Subspecies of the homo oeconomicus ludens

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Abstract: Business Angels invest in start-up companies in their early stage. This type of investor usually has a good knowledge of the start-up's industry sector, and in addition to the funds he invests, his management experience and his network can be useful for start-ups. Business Angel involvement has shown to improve the success rate and the profitability of start-ups. The article depicts the relationship between entrepreneurs and Business Angels in four case examples.

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The Prototypical Business Angel

Business Angels are individuals who invest in start-up companies. The prototypical Business Angel may have built a company himself, experienced roadblocks on his way, surmounted them, and increased the value of the company with prudent management combined with bold moves, until he was approached by a larger enterprise that saw his company as a strategic addition to its activities.

He agreed to sell his company and found himself with a substantial amount of money. After a prolonged holiday, sailing the Aegean Sea, driving classic cars, or cutting his lawn, he found he missed some business action.

During this time he was approached by a former employee, met him for lunch and was presented with a plan to develop a product and start a company. As the project was positioned in an industry sector he knew so well, he was rather enticed.

He was not interested in managing a company anymore, he didn’t want to do research and development himself, he had no qualms about being in the background. All he was interested in was being involved, feeling the pulse of the times, sharing the excitement of young entrepreneurs and helping out with money and advice.

So he checked up the opportunity closely, and after further discussions he decided to swap the equivalent of a vintage sports car for some equity in the newly founded start-up. The sum injected was a substantial amount for the company to get going, and on the other hand an amount he could afford to write off in case of failure.

While assessing this case, he had contacted a few former business partners and they too were ready to invest. One of them was a recently retired scientist he consulted on the specifics of the project, another one was a dentist with a knack for technology, a third one was a manager in a listed company who was ready to add to the funds as he saw the potential of the company to be sold at a multiple if the product would be successful in a few years.

Our unnamed prototypical Business Angel, apart from investing, also took a seat on the board of the new company, representing the interests of the investors. Moreover, the newly minted entrepreneurs valued having his management experience with SMEs on board.

Sure enough, the word spread, and soon the investors were approached by other young entrepreneurs in search of funds for projects.

A few years later they found themselves with a portfolio of investments of CHF 100 to 400k for each project. Furthermore, they had joined one of the clubs that aggregate interested investors.

While Business Angels are glad to invest in promising projects, it is no walk in the park for a person with a project to find and convince investors. A good idea and a solid scientific background will not do on their own.

Case Example: Creoptix

It took Kaspar Cottier a few years to develop his hunch to a business idea that finally became Creoptix.

When Kaspar Cottier worked on his thesis on optical waveguides, he was fascinated by the physics of the topic. During discussions with colleagues, the technical possibilities emerged which led to further research on label-free waveguide grating sensors. Upon finishing his thesis he started to work as an optics engineer in a Swiss small and medium-sized enterprise (SME), following a career in supply chain and process engineering. At the same time, however, and while filing patents for the company, he followed up on his original topic until he was ready to go his own way. He was aware that his own money and the support of the family were valuable and important, but this initial money would not be enough for a company. Further funds would be necessary on the way.

Meanwhile, Cottier had managed to obtain a Commission for Technology and Innovation (CTI) grant to prove the concept and to build a prototype. While working on the prototype, Cottier wrote his business plan. Realizing a one-man show would not satisfy investors, he jumped on the opportunity when his CTI coach suggested to team up with Matyas Vegh, a biologist experienced with start-ups. As Cottier’s penchant is for technology, the preference of Vegh for management and sales made for a perfect match.

Together, they got on the road and started touring investors, presenting their project, while still living on their own savings. They presented, discussed, honed the plan, and they learned the hard way. "There was this presentation in Frankfurt," Vegh says, "when the potential investor tore our plan to pieces. However, when we sat on the train back to Zurich, we realized the..."
Case Example: credentis and the Development of Curodont Repair

Working as a scientist in industry, Dominik Lysek came across a British research project on self-assembling peptides to regenerate bone material. He saw this concept had the potential to be used on teeth as well, thus allowing a new way to treat caries. He initially moved on to work for another company. Two years later, though, he still had this project on his mind, so he contacted the scientists at Leeds University. Sure enough, they had patented the process and what’s more, they were ready to licence the patent to him. He cut his fulltime job in industry to 50%, started working on his business plan, arranged for specific experiments with the UK team and set out looking for investors. Lysek was lucky to have a boss who supported his entrepreneurial endeavours, and helped him find the initial contacts, and the first interested investors. Nevertheless, it took him 1.5 years and presentations at organisations like Novartis Venture Fund, Venture kick, BioBAC, and StartAngels Network until he was able to raise the funds necessary from the angel groups to start credentis ag and the development of Curodont Repair.

“A start-up entrepreneur has a vision, not a steady revenues stream – this does not fit into the classic risk approach banks take when evaluating loans”, says Lysek. “You therefore need Business Angels who share your vision and trust in your abilities to make it a reality. Some Business Angels will know the industry you’re in, or some aspects of it, while others will just trust you and their Lead Investor.”

“Trust is essential in this relationship between Business Angels and entrepreneurs”, Lysek continues. “My lead investor told me at a very early stage: the moment I doubt your trustworthiness I will leave the discussions. And he is right. Honesty is crucial.”

In the meantime, credentis has changed market approach and business model as the market seems to take more effort than first expected. Luckily, further research and development using the original knowhow led to several additional products based on credentis’ Curolox® Technology. This includes professional and OTC dental products, offering a path to multiple industry partnerships and revenue streams.

In Lysek’s view, “Business Angels are motivated by a penchant for innovation and technology, and they also want to make money.”

“Business Angels will not always agree with you, and they will bring a different view based on their personal background, but the ensuing discussions are fruitful and prevent you from seeing things in too rosy a light.”

Case Example: Piqur

Vladimir Cmiljanovic got into PI3k research at the end of his Bachelor, subsequently working on chemical antibodies and identifying the possibility to create a drug for treating cancer. He followed up on this idea with his thesis and managed to secure a grant from Novartis to do the proof of concept on mice. Pursuing this line in a Postdoctorate, with the help of foundations securing the funds, he reached the crossroads to either follow an academic career or to start his own company. Having learned about entrepreneurship from the cradle, being born to a father who supplied the automotive industry with chemicals, it is not surprising Cmiljanovic chose the entrepreneurial route.

Looking for partners and funds he soon realized he was at a too early stage for Business Angels, but he persevered and managed to motivate a number of drug specialists he had got to know in the course of his research to invest individually and to actually join his efforts. He was then able to attract individual Business Angels and subsequently to raise CHF 2.5M seed money.

“I did write a business plan in 2010”, Cmiljanovic says, “but I rarely had to forward it. The company presentation usually was the start of the discussions, while the business plan proved important as an exercise to clarify the business to myself. Of course, it developed over the years with each discussion.”

Continually expanding the number of investors, by 2013, he managed to convince a VC with substantial knowhow in oncology to join and invest. VCs, short for Venture Capitalists, tend to raise larger sums than Business Angels and to invest in later stages than Business Angels. Furthermore, Business Angels invest their own money, while VCs (and banks) invest funds entrusted to them. At this time, collaborations of VCs and Angels are infrequent, but the two worlds are converging: Angels are increasingly professionalizing their investment activities, and VCs need pipelines of Start-ups.

Cmiljanovic attributes the success of Piqur to the whole of his investors, partners, and co-workers. “You are not successful on your own,” he says. “Having been active in team sports, in handball, I know that success always is the result of the coordinated effort of people working together.”

Case Example: BioVersys

When Marc Gitzinger started working on his thesis, he also booked a course on Founding Your Own Company – just
As a chemist I am fascinated by the molecular language, and it is my scientific interest to understand nature on a molecular level. If one is lucky, new compounds with exciting properties might be synthesized during research. My advice is: patent the discovery, find enthusiastic colleagues and start a company. This will augment your life and may serve your fellow citizens.

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