

START-UP INVESTORS

Angels at the Boardroom Table

Business angels, or early-stage financial investors, seem to be everywhere at the moment in Germany's start-up world. There are rich profits to be made, but for some companies, the angels can turn into devils.

BY MIRIAM SCHRÖDER, KATRIN TERPLITZ AND ANJA MÜLLER



Increasingly, help is at hand for Germany's start-ups. Source: Getty

For Philipp Hartmann, Tobias Johann and Kai Hansen, the investor from Berlin really did seem like an angel.

Cornelius Boersch gave them the money for their very first start-up, "Sport Me," a social network for sports fans.

WHY IT MATTERS

German business is learning to love "business angels," whose investment money and helpful expertise are playing an increasingly important role among start-ups.

FACTS

"Business angels" invest an annual average of €650 million in German start-ups, compared to €590 million from venture capital funds.

In the United States, angel investors are responsible for some €25 billion of investment a year.

Thirty percent of German family owned businesses have already invested in a start-up company.

When that flopped, Mr. Boersch lost his money. But all he said was: “Boys, I just paid for your education.” Then he invested in their next project, an online delivery service called Lieferando.

That’s what an ideal “business angel” looks like: a financial guardian for start-up founders. Mr. Boersch is a legendary figure in the German start-up scene, a prototype for private investors who support new companies.

Broadly speaking, these angels bring two forms of support: on the one hand, advice, knowhow and contacts; on the other, much-needed capital. In return, they get a stake in the company, usually around 10 percent.

Profits come later, normally by selling their shares when the company is taken over or launches on the stock market.

“Intelligent founders look for investors who can really help. The stupid ones look for a nice old man.”

ANONYMOUS BUSINESS ANGEL

spotlights. Their contributions to the economy are often not even recognized. But without them, many successful business ideas would never get off the ground, since banks and venture capitalists are notoriously reluctant to lend to start-ups during the so-called “seed phase.” Business angels with a tolerance for risk - and even a taste for risk - are the second-largest source of capital for start-ups, after money from founders themselves and their families.

These days, one-third of all German start-ups have an angel at their boardroom table. These include well-known managers from many sectors of the economy, like car rental boss Konstantin Sixt, or Carsten Kengeter, head of the German stock exchange and Karl-Erivan Haub, the chief executive of Tengelmann, a major German supermarket group.

Who are these “angels” and where do they come from?

For the most part, they are a shy species, staying out of publicity

Current investments in startups

€ 1.2 bln*

A business angel invests on average



BUSINESS ANGELS

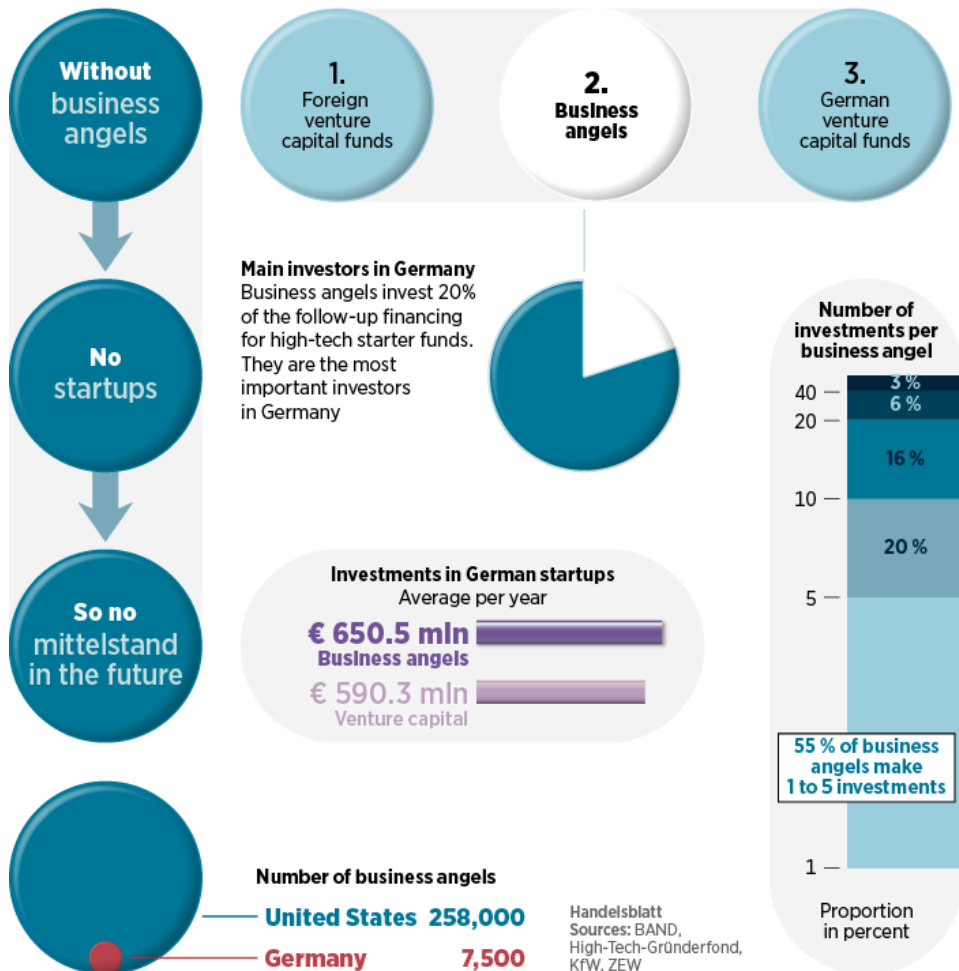
in Germany

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The typical angel is around 50 years old, and has three to four investments of this kind. They tend to be successful businessmen, very wealthy in their own right, sometimes former corporate executives. More and more, they are wealthy young founders who have cashed in on a previous start-up.

Drivers of Growth



In recent years, business angels in Germany invested an average of €650 million, or \$683 million annually, according to the Center for European Economic Research.

This compares to an average of only €590 million put in by venture capital firms. And it seems start-ups with angel investors do better:

Research from the “Business Angels Network Deutschland” suggests they tend to be bigger, more innovative and faster growing.

But angels don’t just do it to hang out in hip lofts. There are juicy profits to be made.

“Anyone who invests at the earliest stage of a start-up can often get their money back 30 or 50 or 100 times over. Or they could lose the whole lot!” said Guido Schmitt, former chief executive of online gambling site Bet-at-Home. Mr. Schmitt has himself made and lost money on a number of start-ups.

This kind of investment takes steady nerves. Alfred Möckel, former boss of Consors Capital Bank, has a lot of experience as an angel. “There’s about 100 percent risk...But about 1,000 percent opportunity,” he joked. As well as the money, Mr. Möckel said he enjoys his role: “It’s a good feeling to help bring an idea to life, and get it to market,” he said.

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GUIDO SCHMITT
FORMER CEO OF BET-AT-HOME

Angel investment may be fashionable in Germany, but the country still lags far behind the United States. An estimated 258,000 business angels in America invest some \$25

billion every year. But things are changing in Germany. Since 2013, the federal government has backed a scheme to encourage start-up investment. “INVEST - Subsidies for Venture Capital” adds 20 percent government money to any investment in a company less than ten years old.

The scheme has raised €100 million so far. Next year, its investment limit will be doubled to €500,000 per investor. There may be considerable tax advantages too; sources in the financial industry told Handelsblatt of plans to make start-up stakes under 10 percent exempt from tax. A previously proposed “Anti-Angel Law,” which might have taxed these stakes much too heavily, now appears to be off the table.

And being an angel can be contagious. The three founders of Lieferando, the online delivery start-up which Mr. Boersch backed with such belief, are now angels in their own right. Their investment company, called Rheingau Founders, places an angel in every one of their start-ups. It's not just about capital or even expertise, says Mr. Hartmann, one of the Rheingau Founders: angels can also open crucial doors for start-ups, and build networks like no-one else.

"Of course it's very fashionable to be a business angel right now," said one insider. But not every angel is a blessing for a start-up, he added. The money may be there, but they may not have the specific expertise to help a start-up flourish.

In particular, former corporate executives may not always be ideal partners. They tend to think in a quite different way to start-up founders who are looking to disrupt existing markets. Risk appetites may also differ. "Failure rates among angel investments can be as high as 50 percent," said Arndt Rautenberg, former head of strategy with Deutsche Telekom and current angel. Many former managers may feel uncomfortable in such a fraught atmosphere, he added.

Roland Kirchhof from BAND, the business angel network, sounded another warning note: "Many business angels turn out to be business devils. They sometimes use an early crisis to get a majority holding, and then force out the founders." Consultants have also been known to pose as angels to gain lucrative contracts. But these dangers can be exaggerated.

One business angel put it like this to Handelsblatt: "Intelligent founders look for investors who can really help. The stupid ones look for a nice old man."

All hype aside, business angels can make some serious profit with start-ups. And that profit isn't always just financial. All the angels we spoke to agreed that even experienced managers can learn a lot from the start-up environment, where new technologies and market trends may be more significant.

A startling statistic: already, 30 percent of German family owned enterprises have invested in a start-up. As Mr. Möckel, the former banker, put it: “The dynamism of a startup is infectious. It’s often much better than getting consultants in!”

Handelsblatt’s Katrin Terplitz covers companies and markets, focusing on the Mittelstand and family owned businesses. Anja Müller covers mid-sized and family owned companies for the newspaper. Miriam Schröder is based in Berlin and writes about the city’s start-up scene. To contact the authors: terpitz@handelsblatt.com, mueller@handelsblatt.com

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