



## **BAE Club Professional Standards**

### **Business Angel**

#### **➤ What is a business angel?**

A business angel or angel investor is an individual who makes direct investments of personal funds (eventually from a management company or family fund) into a venture, typically early-stage businesses (not stock quoted). Because the capital is being invested at a risky time in a business venture, the angel must be capable of taking a loss of the entire investment, and, as such, most angel investors are high-net-worth individuals.

#### **➤ Investment strategy and Ticket size**

They ideally engage into several investments in order to deploy a portfolio strategy to manage risk and to diversify. Mostly they engage in investments of 10.000 EUR to 250.000 EUR per company. Investments in capital shares are the most common modus operandi, but a convertible loan as well as a SAFE might occur.

#### **➤ Beyond financial investment**

Besides their financial investment, angels also invest in the venture in terms of unpaid time allocated for strategic advice, mentoring and enabling relevant contacts to foster the growth of the company, however mostly through a board or advisory function. Becoming part of the management team is an exception. Delivering services in exchange for equity is not a typical angel characteristic. Both investments together constitute the “two wings” of the angel investor.

Business angels do this for a variety of reasons: to give-back to their communities, the opportunity to work with entrepreneurs, to stay engaged and to work with fellow angels in building enterprises, just to name a few. Return on investment is an important metric of their success and is mostly created through an exit from the company, however it is not their sole motive for engagement.

Business angels understand that the exchange of diverse perspectives leads to better investment decisions. Therefore business angels strive for a diverse ecosystem and do strongly lean against discrimination by any means. Business angels understand that co-operation beats competition.

Business angels do not invest in businesses with business models that rely on ecological or social exploitation. In negotiations, business angels are committed, true to their word and decisive. It is understood that tough decisions need to be made but feedback shall be provided in a fair and transparent fashion.

Business angels are confidential about sensitive information provided by startups and other investors and shall never be used for other purposes than the investment decision. Business angels are convinced of their positive impact, of their investment activities and actively encourage other people to become angel investors by their exemplary behaviour and an openness to share their knowledge.

## **Lead Angel Investor**

### **➤ What is a Lead Angel Investor?**

A lead angel (investor) is a member of a group of angel investors who is preferably holding the largest stake and/or has significant knowledge of the sector, and in charge of arranging and negotiating the investment round from the angel perspective. They are usually the most actively involved in the overall investment project before and after the deal conclusion.

For this activity they might be awarded compensation, like a carried interest arrangement or an option, for which some networks can provide standard arrangements.

## **What is an Angel Network and Group?**

Business angel networks and groups are by definition platforms, set up with the goal to reduce transaction costs for its members and startups in the process of early stage investments. These organisations thus orchestrate support activities to increase transparency, knowledge transfer and are implementing standardization in requirements and processes.

Business angel networks understand that transparency is crucial for accurate valuation of startups and therefore collect data and observations and are willing to share insights with members and other networks (in compliance with GDPR).

Angels can make individual investment decisions in networks/groups, that is, some angels may invest in one deal and another (set of) member(s) may invest in the next deal. Even a temporary phase of non-investment is possible. A network doesn't invest itself in the deals presented, its members do. There is no standard model for BA-networks and groups, consequently operations vary from organization to organization. They can be for profit/not-for-profit organisations.

## ➤ Things that they have in common:

- I. Angel networks/groups encourage deal flow by promoting the organisation and easing the process for applying for funding.
- II. Angel networks/groups can provide their members with rigorous, standardised processes for screening deals, for performing due diligence on candidate companies and in design and utilization of term sheets for investment. Investing through angel organisations is usually handled in a standardized manner. They often have a code of conduct for their members.
- III. Angel networks/groups actively recruit angel investors to join their network/group. The networks enforce amongst its members a Code of Conduct in order to ensure the highest professional standards, ensure the equitable provenance of the funds invested and to foster the image of angel investing in general.

## ➤ BA-network Structure

There are mainly two ways of organizing a network activity and structure:

### ***Manager-led network***

In these networks, managers are appointed to lead the organisation. Managers are usually compensated through member dues, entrepreneurs' fees, success fees, carried interest on deals in which members invest, sponsoring, etc.

### ***Member-led network***

Elected members manage these networks. Members are recruited to screen deals and to lead due diligence efforts. Other members are responsible for finances, membership recruiting and communications. Administrative assistance is often provided by local service providers, entrepreneurship centres or is hired by the network/group. Dues pay for this administrative support.

## ➤ Angel Syndicate

A term more commonly used in the United Kingdom, meaning a more formal or structured consortium of angels investors ( it can even take the place of "Business Angels Network" with the same meaning). On the continent, however, an Angel Syndicate could also mean a group of angel investors who are more "informally" aligned, meaning sharing investment leads or co-investing on a more sporadic, intermittent or even ad hoc basis. Importantly, in our sense of understanding, an angel syndicate does not have formal management nor processes.

## **What is an Angel Fund?**

A formal or informal assemblage of active angel investors who cooperate in some part of the investment process. Key characteristics of an angel fund are: control by member angels (who manage the entity or have control over the entity's managers), and collaboration by member angels in the investment process. An angel fund is different to an angel co-investment fund, which can have other types of investors (like regional investment funds) and has the prime goal of co-investing with angel rounds.

## **Members of the BAE Club**

The BAE Club aims to connect the "best of breed" BA-networks and groups throughout Europe and Canada. To become member of this group, some requirements have to be met.

- I. A BAE-Club member must be a network with a strong track record with at least €1,5 million invested per year in the last 3 years. Membership is on an invite-only basis and needs to be approved by the BAE board.
- II. Members can originate from all European countries, whether a national association is present or not. The BAE-Club strives for a geographical spread and representation throughout Europe. It could envisage however, and specifically in case of strategic relevance, opening up membership to a network that does not meet all criteria.
- III. The management of the BAE-Club members engages itself to support the Club's activities in general and its cross-border pitching sessions in particular, and to actively promote the Club's activities with its members/angels.
- IV. BAE Club members pay their membership fee timely.
- V. Ideally, BAE Club members should have a code of conduct for their members.

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