

Venture Capital - a chat about angel investors

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David De Waal of Quickberry speaks candidly to BizAssist.co.za about venture capital in South Africa and what private investment means for SMEs, and explains an alternative form of investment – the “angel investor”.

What is Quickberry?

Quickberry has been operating for about 3 years. We focus on raising venture capital – from private investors, venture capital funds and corporates – for entrepreneurs. I define “venture capital” as equity investment in seed or early-stage businesses that have international potential, rather than simply an investment in any start-up business (a fast food franchise, for example). Usually the businesses that approach us for assistance are start-ups. We also help inventors with the commercialisation of their inventions.

What growth in venture capital have you seen since you started?

There has been no growth in the availability of venture capital (according to my definition) over the period in which we have been operating. There are very few institutions that provide true venture capital for early-stage businesses. There are some funders that finance start-up businesses, such as Business Partners and the National Empowerment Fund (for previously disadvantaged entrepreneurs), but they generally don't have an appetite for new technology or unusual ventures. Both the South African Venture Capital and Private Equity Association (SAVCA) and the government recognise that this is a problem for the country, but I'm not aware of any immediate plans to address it.

What sort of growth and demand is there for private investors?

As there are only a handful of proper venture capital funders, there is a massive demand for investment from private investors. These so-called “angel investors” are a recognised feature of the United States and British start-up business markets. Unfortunately in South Africa angel investors are very thin on the ground. As Quickberry, we are trying to build a database of potential angels, because we recognise the contribution they can make to innovation and the successful launching of new ideas.

How can venture capital benefit SMEs in South Africa?

Venture capital is vital to the creation of new businesses that would not survive without funding. Apart from the benefits of obtaining cash, the new business should also benefit from the venture capital provider's contacts and experience. However, because of the investment risks involved, it is an expensive form of funding because the company will have to issue shares at a relatively low valuation.

Do you feel that SMEs are taking advantage of private investment opportunities and offers, and how do you feel this can best be encouraged?

I believe that SMEs are very willing to engage with venture capital funders, whether they are investment funds or private investors. The problem is rather that there are not many South African investors looking for these types of investments.

How difficult is it for SMEs to attract the attention of an outside investor?

Since there is such a shortage of available venture capital, an SME has to be quite special in order to attract attention as an investment opportunity. Ideally, it would have a product or service that confers a sustainable competitive advantage, and which could be exported or set up in countries besides South Africa. A business that is already trading is also much more likely to attract funding than one that is still only a concept.

Have there been any recent trends or developments in venture capital investment that you can note?

The main trend in venture capital investment in South Africa has been a move away from very early-stage start-up businesses to those that are already trading, and a focus on larger deals.

Could you tell us more about “angel investors”?

Angel investors are private individuals who invest in seed or early-stage companies. They are normally businesspeople who have already made some money, and they are often retired or semi-retired. They like to invest in companies in industries where they have experience, and many like to become actively involved in the business. There is a flourishing angel investor culture in the United States and Britain, but it is sadly still lacking here.

Is there a demand for this kind of investment – whereby expertise is provided and valued above financial contributions?

There is great demand for angel investment – not only because angels are the only funders prepared to invest in start-ups, but also because they can provide much-needed skills, contacts and experience. I wouldn't say that the expertise offered is the primary attraction of angels, but it can be very valuable if there is a good working relationship between the entrepreneur and the investor (which is not always the case!).

What size investment is required when looking to invest in a business?

Usually the amount of funding required is between R1m and R5m, or slightly more. Angel investors generally wouldn't invest the full amount personally, but may invest as part of a consortium or syndicate.

Are there success stories you have witnessed or been privy to? Are you able to share them with us? The South African venture capital market is really too young to have had any noticeable success stories. You must remember that venture capital investment is usually a long-term endeavour (3-10 years). In some ways this is the problem for venture capital provision: since there is no track record, investors can't be persuaded to invest – but because there is no investment, there can be no track record! We are hoping to create some successes through private investors and thereby kick-start the process. We have a number of very special businesses already, so this is a distinct possibility!

For more information on Quickberry and its venture capital investment opportunities, please contact David De Waal on 021 465 7021 or visit www.quickberry.com