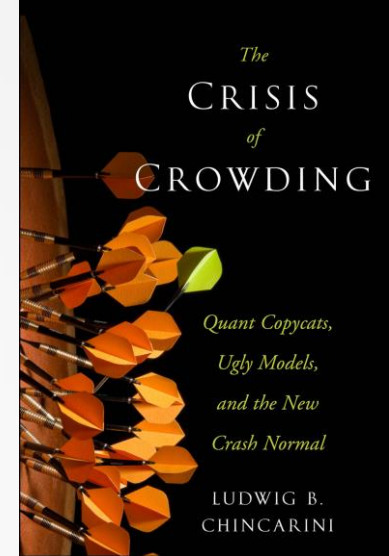# (Im)perfect Substitutes: Business Angels and Crowd Sourced Start-up Funding

Authors: Bonini, Capizzi, Giudici, and Tenca

June 29, 2024
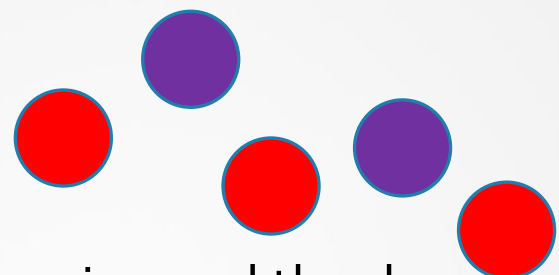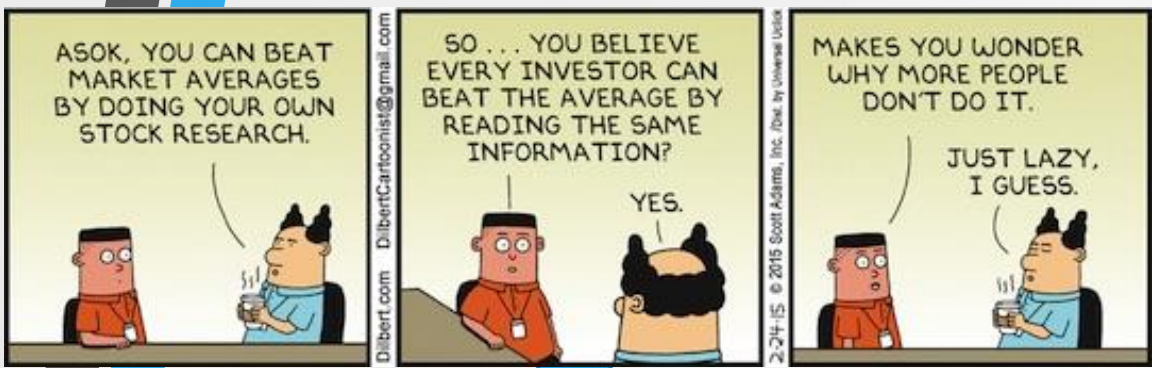
Discussant: Ludwig B. Chincarini, Ph.D., CFA
University of San Francisco
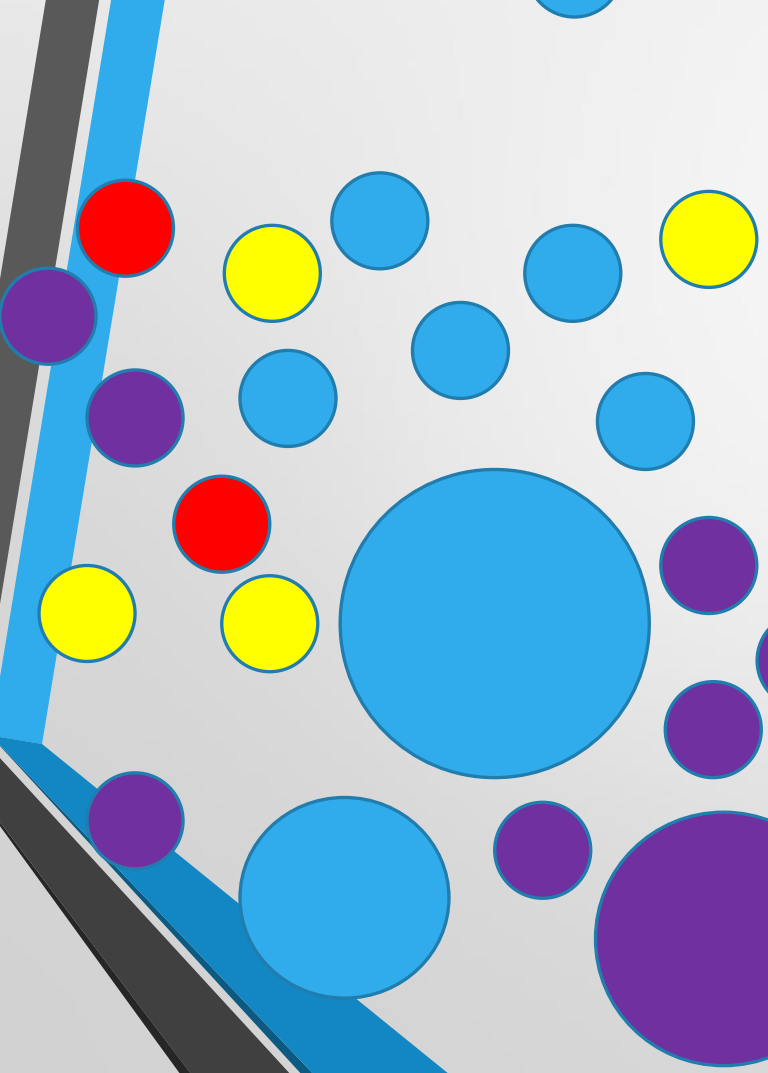USCF Investments
Wedge Capital

Lisbon School of Economics & Management
Universidade de Lisboa

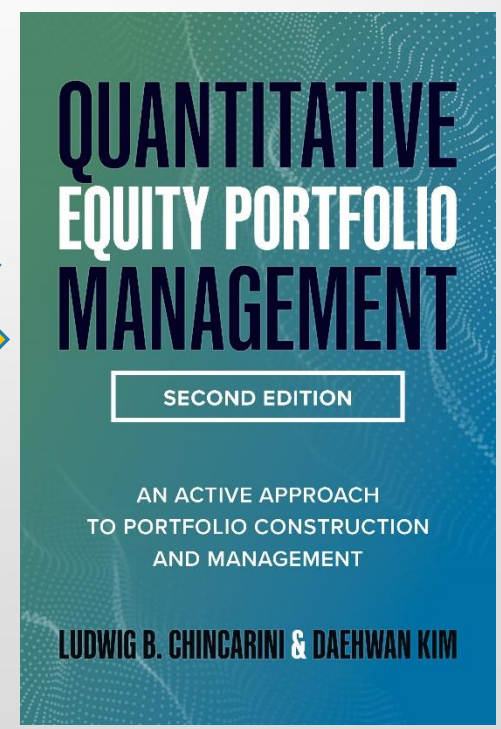EFMA ANNUAL CONFERENCE
LISBON, PORTUGAL
JUNE 29, 2024

Thank you for coming and thank you John Doukas and the amazing job the EFMA does every year.

New Edition of QEPM 2023.

Good for teaching students in quant finance.

1. Summary of Work

- Study the difference between angel investing and crowdfunding investing.

- <u>Question 1</u>: What are the differences in companies that come?

- <u>Question 2</u>: What are the outcome differences?

2. Background

- Data Sets: Data on Surveys of Angel investors (IBAN - https://www.iban.it/) and on CrowdFunding through Osservatior CrowdInvesting (https://www.osservatoriefi.it/efi/osservatorio-crowdinvesting/)

- Period of Study: 2013-2017

2. Background

- ## Business Angel: An angel investor is someone who invests their own money in a small business in exchange for a minority stake (usually between 10% and 25%). Angel investors tend to be entrepreneurs or people with extensive experience in the business world.

- ## CrowdFunding: the practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the internet.

  US Examples: KickStarter, GoFundMe, Indiegogo

3. Findings

- Question 1: ECF (equity crowd funding) companies in Italian data set give up less equity and less likely to have subsequent rounds of fund raising.

- Question 2: No difference in survival (by 2019) or in change in PI (derivative profitability measure).

Note: Without controls, there is a difference, with higher success from ECF.

4. Comments

- Interesting, important, and challenging area – the space of early money.
- You should check my paper on "Exploring Angel Investor Impact: Diving into the Shark Tank." (https://onhccd.a2cdn1.secureserver.net/pubs/Angel_Impact_Shark.pdf)
- Maybe help (and maybe not) with some of the difficulties in this space.

4. Comments

- Don't understand if you use PI or Delta PI (change in PI). Not clear in the text. If so, fine, otherwise, I would also suggest trying growth in PI or related measures.

- Do you/did you need to adjust analysis for the different number of observations in the two groups? Unbalanced panel data?

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4. General Comments

- I am not sure I agree with conclusion, that different investors should seek different capital sources. Having done this, I think entrepeneurs (without connections) have to try every venue until one brings them the bacon. ;)

- Is there some way to help you with causation? Maybe look at dataset and find companies who were on both platforms and ended up with only one…one might believe this was "chance" and then you would have a "natural experiment" for causality?

4. General Comments

- The authors mention this in the CONCLUSION, but I certainly think it might be interesting to do the same analysis in the United States where the market is more saturated and maybe there are more natural experiments to help with causality issues.

Summary

- I think the angel space is an important area to understand and research.

- The authors provide new evidence on the differential experience of startups with ECF and angel investors.

- This adds to our still limited knowledge of angel investing area.

Thank you
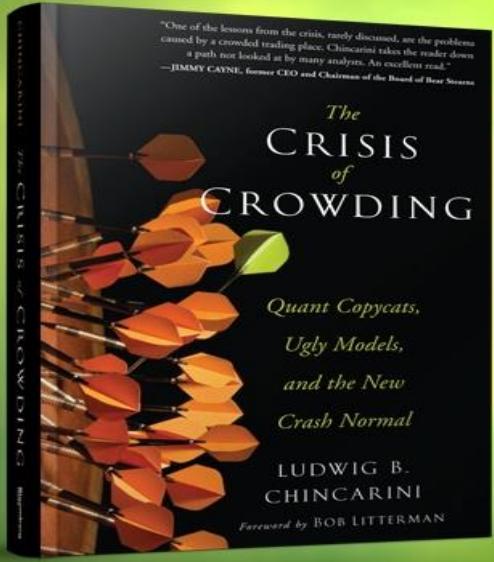
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