

FIN(4)FW024
Finance Wales Inquiry
Response from Tim Wade

I seek to present my views on the above as an active Xenos investor. It is thus this area in Prof Jones-Evans report which I am best able to comment on.

1. On the slightly bigger picture of Finance Wales, anecdote would suggest that it has recently moved more toward the Private Equity model than the developmental model, driven their by a requirement to stand with less support from Welsh Government and hence to apply more commercial judgements to its investments. Clearly, it can be more developmental if WG are willing to support the inevitable costs of such a direction.
2. I am able to compare Xenos with a limited number of other angel networks, and in doing so find it to have several advantages to the investor and hence to Welsh SME's.
 - a. Perhaps the greatest of these is the active facilitation by Xenos of investment syndicates, tailored to the sector and specific opportunity in hand. These syndicates offer the benefits of typically including a lead investor who interfaces with the target company, the investor group and Xenos, and who would continue to do so post transaction. He is likely to be knowledgeable in the markets and issues of the particular sector, to lead the commercial appraisal of and due diligence on the target, and to bring extensive business experience to the company.
 - b. He is also likely to lead and structure the target company toward becoming investible (very often a necessity), causing the creation of properly presented business plans and the understanding of what they mean, management structures (including adequate financial involvement) and understanding of the process. Personal experience suggests that this can take several months and that some targets show themselves as unable and or unwilling to make the journey.
 - c. The existence of a syndicate makes possible pre deal funding for bought in due diligence. This is important to the investors for risk management and to the target company which typically learns a lot about itself. Multiple individual investors are likely to do less due diligence, raising the risk profile, and to place multiple time demands on the target which is typically overstretched by even a single DD.
 - d. The syndicate also facilitates investor relations through a single point of contact and coordinated exit.
 - e. Under the Xenos model, the investors are the judge of what is or is not investible. Whilst it is possible that a different investor(s) would make marginally different go/no go judgements, it is hard to see any need for an additional mechanism.
 - f. A comment on the Xenos angels when compared to experience of English angels, was that the Xenos angels took a far more developmental view of target companies than did there English counterparts.
 - g. As an investor, DD prepared by a third party without my active involvement would be singularly unconvincing, most especially since the

modest scale of DD which can be afforded relies heavily on judgement, ie the DD currently lies in the right place with the angels.

3. So far as I am aware, Xenos is typically able to find funding from angels for fundable propositions. Most propositions are not fundable! New structures or institutions will not change this.

4. EIS and SEIS are very attractive to angel investors, and some will not invest without. Most investors however regard these as a level of risk mitigation, not a way of rendering fundable that which is not, which is perhaps implied by the report.

5. Very early stage may thus be facilitated by some form of co-investment.

6. Xenos, along with Finance Wales has been obliged to become "more commercial" and now charges a fee to funded companies. This discourages both investors, who effectively pay it from the investment, and the company, who are typically offended by it. Adequate direct funding of Xenos might well provide greater advantages than "starting again".

Yours sincerely

Tim Wade