



AEBAN VIII Annual Report

Prolog:

As every year since 2016, the Spanish Association of Business Angels Networks presents a report that compiles the activity of business angels in Spain. We are proud of our report, prepared by one of the most prestigious scientific research institutions in our country, IESE Business School, with the active participation of its Business Angels Network, which already has 20 years of experience. This report will explain that the aggregate data of early-stage direct investment activity shows a clear decrease in investment in 2023. This decrease is more significant in mature stage projects, where the scarcity of foreign investment has been especially felt. Investors have generally been more cautious, investing less in new companies and more in accompanying their investees. Looking ahead to 2024 suggests a possible recovery in investment activity by the end of the year. Still with caution, as investors are aware that the macroeconomic environment will remain unstable and that the current geopolitical conflicts, the political uncertainty in Spain and the major transformation challenges linked to climate change and energy transition will continue to largely mark the economic and financial agendas. At AEBAN we are convinced of the great work carried out by business angels in their support to entrepreneurs, contributing to the development of their businesses.

With its entrepreneurial vision to the success of startups. Therefore, one of the fundamental initiatives of our association is the preparation and training of investors, to which all of our member networks contribute. The more business angels and networks that facilitate their investment activity, the more successful will be the innovative entrepreneurship that generates quality employment, so necessary in our country. Although our ecosystem is better positioned every year, there is still room for growth and improvement. AEBAN represents the business angels, networks networks and clubs that

bring them together before the different organisations that participate in the ecosystem and regulators, maintaining constant communication with all of them. It also serves as a forum for the exchange and experience of all stakeholders and to identify and share best practices. We want our ecosystem to improve with the collaboration of all stakeholders! From the Board of Directors, on behalf of all AEBAN members, we thank CaixaBank and ICEX-Invest in Spain for their continuous support and contribution to the association. For the preparation of this annual report, we have also counted on the sponsorship of HF Legal and SpainCap.

Executive Summary:

The persistence of a macroeconomic environment that is not very favourable for investment since mid-2022 (with high inflation, expectations of economic recession and rising unemployment, high interest rates and geopolitical instability, among other factors). Geopolitical instability, among other factors) and low liquidity due to a remarkably weak divestment environment in all markets (acquisitions and IPOs) have had a global impact on the strategies and approaches of venture of professional venture capitalists investors in Europe and the United States. This has led to a marked decline in investment activity, with a few exceptions, in all investment segments during 2023. The largest declines have occurred in the more mature investment stages, from early stage (series B) onwards. early stage (series B), later stage (series C, D) and venture growth (series B) stage (series C, D) and venture growth (series E and subsequent). In Spain, the strong withdrawal of international investors in comparison with 2021 and 2022, has led to a drop in activity, especially in large transactions (mega-rounds of more than 100 million euros) in the most advanced stages of investment. The abrupt correction in the overall volume of venture capital is explained more by this factor than by the reduction in deals. Early-stage (pre seed/seed) or early-stage (Series A and B) investment activity, in which business angels and other similar "informal" venture capital operators (accelerators, crowdfunding, venture builders, family offices, etc.) have generally experienced more moderate declines. Excluding the impact of the aforementioned mega-rounds on the overall level of activity, the data confirms a steady growth in the number of venture data confirming a sustained growth of venture capital in Spain over the last ten years. In a context of more restricted financing and volatile goods and services markets, investors have shown great caution during 2023. In general, they have chosen to invest more moderately and selectively, or They have even avoided making new investments, which has generated less competition due to operations in the market and, as a result, a decrease in valuations. At the same time, in these circumstances have focused on providing support to companies in which they had already invested in order to guarantee their continuity.

The greater caution of venture capital investors and the fact that they are more selective has posed specific challenges for entrepreneurs seeking financing. Investors have chosen to place their capital selectively in solid projects led by management teams with a unique vision and management and adaptation capabilities that allow them to sustain their operations in an environment of capital scarcity and high volatility in the markets. Regarding the management of their portfolios, they have focused on monitoring the sources of risk in the

startups invested, emphasising the efficient use of capital and the search for profitability from principle, instead of promoting strategies of rapid growth or seeking additional financing.

Despite the slowdown experienced in venture capital, both in its institutional form as “informal”, the financing ecosystem entrepreneur in Spain has demonstrated a greater resilience than that of other European countries. Macroeconomic conditions and sectors, marked by high interest rates, inflation, geopolitical conflicts and fluctuating economic expectations, as well as the decline in investment activity and paralysis in divestment markets seem to have affected to a lesser extent the investment strategies of the business angels surveyed. It is significant that only 9% of them claim not to have made investments in 2023. Most completed between one and five rounds during the year

The high level of experience and extensive track record of the investors surveyed emerges as a relevant factor behind these results. About half of investors have between three and eight years of experience as business angels, and almost 60% allocate more than 6% of its assets to high-risk projects, having made between one and ten investments till the date. Furthermore, a significant proportion of investors have added at least a new startup to your investment portfolio in 2023, while almost 70% have made at least a follow-up investment.

In terms of volume invested, the average per investor is close to 50,000 euros during the year once the excessive weight on the results of this variable of a volume corresponds to the annual amount of 3,000,000 euros a single investor surveyed. Relative to short-term expectations of investors, in the entrepreneurial ecosystem it is perceived that the conditions of the environment which caused the decrease in activity investment from 2022 could have been exceeded, suggesting the possibility of a recovery in activity towards the end of 2024. However, investors are aware that the macroeconomic environment will continue being unstable and that the current conflicts, geopolitical issues, political uncertainty at the local, as well as the great transformation challenges linked to climate change and energy transition, will continue to mark largely the economic and financial agendas during the year. Despite these reservations and the greater caution in investments in general, the vast majority of investors surveyed express confidence in the short term, since they indicate their willingness to invest in 2024. Medium and long-term trends in the sector of angel investment:

- Consolidation of investor networks, private investors, investor groups and online platforms as reliable and effective ways to access entrepreneurial financing.
- Increasing professionalisation in the sector, driven by the role of investor networks and the growth of private investor groups.
- Greater use of co-investment between business angels and other business financing instruments, whether traditional or alternatives.
- Growing adoption of own vehicles of investment or use of indirect investment by private investors more experienced.

- Greater relevance of the alignment between investors and founders and the implementation of corporate governance processes effective, whether formal or informal, in companies in early stages.
- Deepening digital transformation and developments in technologies and industries emerging, as well as the dissemination of AI and machine learning technologies (ML) in multiple sectors, such as sources of inexhaustible new opportunities for entrepreneurs and financiers.
- Greater interest in the sector to promote participation of women business angels in the entrepreneurial financing market.
- Growing interest of investors in technological or scientific-based startups arising from the knowledge generation and innovation system, such as universities and R & D centres.
- Increased investment share angle in the social impact and socially responsible investment segments.
- Increased investor interest in startups led by founders and management teams diverse in terms of gender or origin ethnic.
- Increased data availability and sophisticated analytical tools to support investment decision making.