
ARCHANGELS' STRATEGY SUMMARY



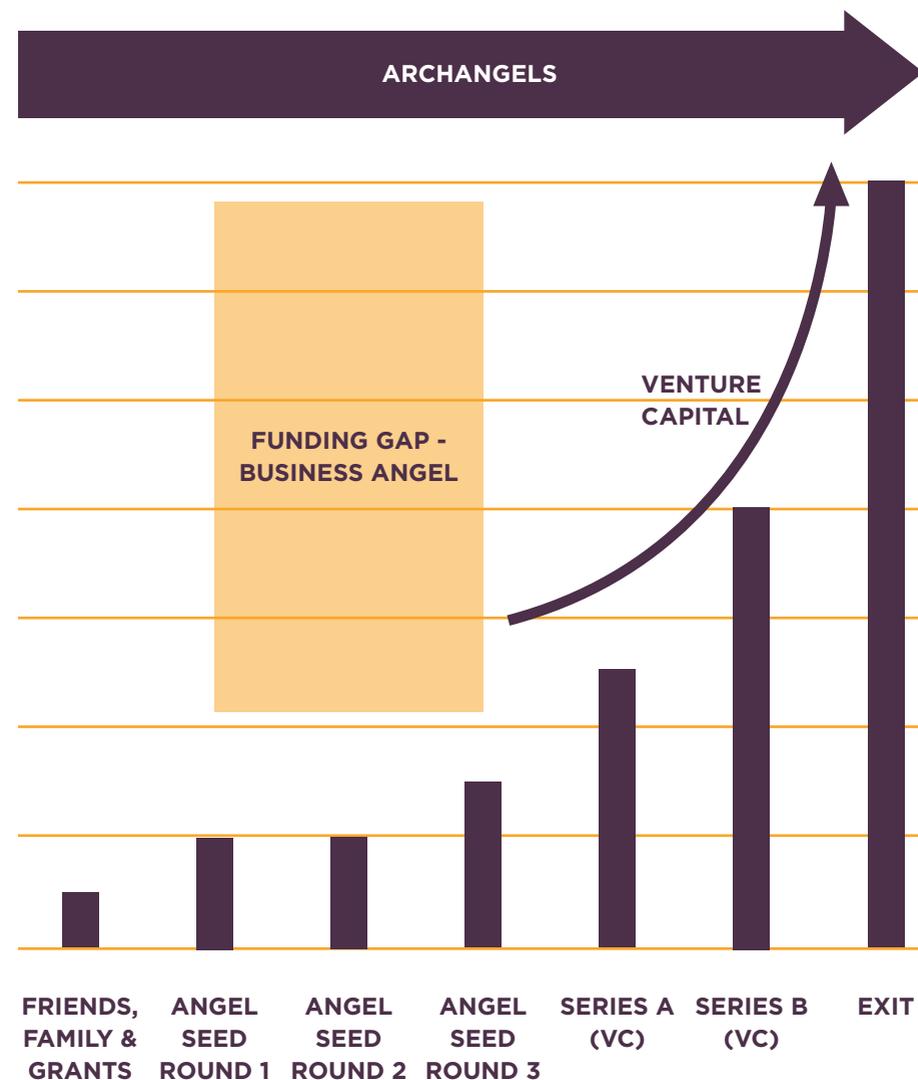
Archangels

investing in innovation

INTRODUCTION

Archangels was established in 1992 and since then it has become recognised as the leading early stage investment house in Scotland, as well as one of the leading early stage investment houses in the UK more generally.

Archangels occupies an area of the funding market which straddles traditional business angel funding and moves into the area occupied traditionally by venture capital.



THE ARCHANGELS APPROACH



OUR BUSINESS ETHOS IS UNDERPINNED BY FOUR FUNDAMENTAL PILLARS



Build business in Scotland
supporting the next generation of entrepreneurs to succeed



Giving something back
financial support and access to our networks and experience



Have Fun
Meet interesting people and learn about innovative businesses



Make Money
as a measure of success and to ensure the sustainability of our syndicate

These values underpin that our motivation is not to make money just for the sake of it or to finance a fund management business, but to make money as a consequence of broader objectives related to a genuine desire to create successful businesses in Scotland.

It is difficult to benchmark Archangels against other institutions in the early stage investing market. As a consequence of our values and operating structure, as well as the depth of our members' pockets and their willingness to invest over multiple rounds and long periods of time, we are a hybrid between business angel and VC. Whilst this should mean the best of both worlds for our investing members and for our portfolio companies, it also means that our model diverges from both categories of investing in many fundamental regards.

- We have the philosophy and mindset of angels but adopt the professionalism of VCs in our processes; and
- Driven by our four pillars, we straddle the ethos of business angels with the desire to make financial returns matching the best VCs;

The business angel approach allows for greater alignment with our founders. We invest in the same share class as our founders and get our returns at the same time. We don't take preferences or use complex share capital structures in the same way as VC investors. We acknowledge that building a successful technology business from scratch takes time and therefore we

THE ARCHANGELS APPROACH

understand the need for patience and forbearance when some business milestones are not achieved as quickly as everyone would like. This approach, along with the value of our networks and experiences, means that we gain the respect and trust of founders. It also helps more of our companies to scale quicker. In the VC world a few companies will scale very quickly and the rest will wither. By contrast, we take a holistic approach rather than the easiest route to generating a return on invested capital, which may not align with the company's best interests.

Furthermore, because we are business angels and it is our own capital which we are putting at risk (whilst accepting the benefits of the tax system), we can invest earlier, we are less formulaic and we can be much more opportunistic. We generally have a greater appetite for risk than VCs.

However, notwithstanding the difference in philosophy and motivation which Archangels has relative to the VC community, we have nevertheless adopted the rigour of the VC approach to our processes, pre-, during and post investment.

This means:

- We are clear and transparent about our investment criteria and this allows us to triage opportunities effectively and efficiently and our members have confidence in the quality and the consistency of the new investment opportunities which they will ultimately see;
- Our executive team are experienced investment professionals

and understand the risk appetite of our members, as well as the attributes which are required to maximise the prospect of a satisfactory financial return;

- Our investment process through new deals committee and investment committee, comprising our core group investors, the executive team and pulling upon the domain expertise within our networks, provides proper governance as well as challenge to the due diligence process and the investment thesis. This instils confidence in our investors that opportunities have been properly assessed before being presented to them for investment.
- We take a rigorous approach to portfolio management post investment, ensuring that proper governance is in place, that the right individuals are in place at the board and senior management level and that we understand how the company is performing against plan.
- We draw upon our own experiences across the portfolio and allow our investees to benefit and learn from these.

This VC approach to process instils confidence in our investors and public partners. Our insistence on greater governance provides transparency and develops and improves the professionalism of our management teams. All of this makes exits more likely.

This hybrid, “best of both worlds” approach to investing makes Archangels unique and is fundamental to our track record and reputation in the market.

INVESTMENT FOCUS

Our four pillars are what have shaped and continue to shape our investment strategy from a process and philosophical point of view, but they also inform our investment focus in terms of portfolio selection. We work with our founders with a common objective to achieve an exit and when that exit does come along (good or bad), we consider what lessons need to be learned and we refine our approach.

Our current core criteria are:

- To invest as lead investor in businesses which are based in Scotland and which have their roots in Scotland;
- To focus on industries where scalability can be achieved without large capex requirements, ie B2B technology, software and healthcare;
- To focus on deep, disruptive, protectable software and technologies, which confer defensibility and where the disruptive nature would create market pull;
- To focus on technologies which are addressing very large, international markets and are therefore scalable; and
- To back high quality individuals who have credibility, emotional intelligence, capable of being coached, and who value what Archangels can bring to the table and really want to work with us.

Given our geographic focus on Scotland, there are a limited number of opportunities which we see each year and therefore, within the constraints of our chosen industries (tech and healthcare) we are generalists rather than focused on specific themes. Scalability, market size and pull, defensibility and the quality of the individuals we are backing are the overriding areas of focus.



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