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## Treat angel investing 'like a hobby'

To Koh Boon Hwee, meeting entrepreneurs is always fun as they're engaging

ANGEL investing in early-stage start-up companies has to be fun and is best approached like a hobby, says well-known corporate figure and business angel investor Koh Boon Hwee.

'If you are thinking of doing this focusing on the financial return, I think you'd be quite disappointed because it is invest (and) wait,' he said in an interview. It can take as long as a decade for an angel investment to bear fruit, said Mr Koh and fellow angel investor, Professor Wong Poh Kam.

Mr Koh is a prominent name in the local angel investing scene. He recalled making his first angel investments in the early 1980s in electronics start-ups in Silicon Valley, which he visited regularly while working for United States computer company Hewlett-Packard.

The early eighties marked the birth of the electronics and computing era. 'So there were exciting companies that were coming up all the time. And it's quite infectious,' Mr Koh said.

He reckoned he has invested in about 75 to 100 start-ups over the past 30 years. He began to invest in Singapore companies in the nineties.

Prof Wong, a professor at the NUS Business School and founding director of NUS Entrepreneurship Centre, started investing in what he described as interesting start-up companies in the late 1990s. He had been an entrepreneur before, having co-founded three companies in Malaysia before joining the National University of Singapore in the late eighties.

'The next best thing to being an entrepreneur is to be an investor,' he said in a separate interview. He explained that it was also a case of practising what he preaches since he teaches innovation and entrepreneurship at the business school.

Mr Koh cited three reasons which prompted him to become an angel investor.

In earlier days, as an idealistic young man, 'there's always some excitement about investing in technologies that can change the world that we live in. Later on, it became equally exciting to see whether you could invest in companies that can grow because in the nineties, Asia was just coming into its own. People were willing to start up in Singapore and China was opening up, so there were people who were starting businesses which could make an impact on the communities we live in.'

It also gives him a thrill to learn and keep his mind agile as an angel investor, especially when he enters an area that he is not familiar with. For example, although his background is in electronics and technology, he has more lately been investing in biological sciences, of which health care-related activities are a big part.

A third reason for becoming an angel investor is that 'it's like an intellectually challenging game. Over a long period of time, if you do it well you ought to make a return on your investment... to me it is an indication of your intellectual ability', Mr Koh said.

Like Mr Koh, Prof Wong does not base his investment decision purely on the financial aspects of a deal, and believes in enjoying the process.

'I need to have good chemistry with, and I need to like, the founders... But of course they have to have a good business plan. We want entrepreneurs to invest in who are coachable, meaning they are willing to listen to new ideas, and are not so full of themselves that they think they know everything,' Prof Wong said.

He also spoke of the excitement of working with some of the younger entrepreneurs who possess oodles of energy and passion. 'Sometimes we play a mentoring role. We advise them, share with them mistakes we have made before.'

Nevertheless, overall, angel investments have to be profitable for an angel to continue to have funds to support more start-ups.

Mr Koh pointed out that in the venture capital business, perhaps only one or two out of 10 investments would succeed. 'So the one or two that succeed need to be a ten bagger, which means you must make 10 times your investment or more. Otherwise it won't pay for the rest of the losses. Among the remaining eight, five or six will be completely written off, and you have a couple which we call the walking dead.'

'On average, you must aim for a 25 to 30 per cent IRR (internal rate of return) or else it's not worth it,' he said.

Since as many as eight investments out of 10 may not work out, an angel investor must have 15 to 20 companies in his portfolio, said Mr Koh.

Both men warn that angel investors can only plough in money which they can afford to lose due to the high risk involved in investing at an early stage of a company's development.

As Mr Koh noted, an angel investment comes with 'the highest risk but if you get it right, the highest return for the smallest amount of investment'.

For him, angel investing 'is almost like a hobby because I do like to meet entrepreneurs. I think they bring a different spirit to a company. Most of them are very engaging people, so that's always fun'.

Angel investors typically provide more than just funds to help a start-up. They also impart advice, a role that Mr Koh relishes. 'Usually we act as a sounding board. We can debate strategies, business models, the rate at which we want to grow versus how much money we might need to do it,' said Mr Koh, who is non-executive chairman of Yeo Hiap Seng and Sunningdale Tech.

Indeed, Dr Noel Moore, chief executive officer of HistoIndex, which counts Mr Koh among its angel investors, said: 'Angel investors bring benefits beyond their invested money. Start-ups can focus on their business while absorbing guidance and direction from the angel investor.'

Dr Moore said the successful track record of the angel investors helps HistoIndex - which provides products and services in the area of medical diagnostics - to avoid many setbacks and find faster routes to success. 'This can be simply a network of connections or resources, but can also be of a fundamental strategic nature. It is almost like short-circuiting the learning curve,' he said.

HistoIndex also received co-investment from Spring Seeds Capital for its commercialisation efforts. Earlier, it was extended a grant from Spring Singapore's Technology Enterprise Commercialisation Scheme (TECS) for its technology development work. Dr Moore said the TECS grant enabled the company to develop and manufacture machines and place them at trial sites to gather information about the user experience and functionality of the machine in the field.

Mr Koh said it is normal for angel investors to work together for risk diversification and to tap complementary skills.

In this regard, the Business Angel Network (South-east Asia), or Bansea, creates a platform for angel investors to get to know one another so that they can invest in groups to share the risks and knowledge, said Prof Wong, the organisation's founding chairman. Bansea, which was established in 2001 by a group of Singapore-based angel investors, has more than 70 members.

Prof Wong also pointed out that with the Singapore market being small, a local high-tech start-up needs to expand beyond the domestic market if it is to grow and succeed. Hence, to add value to the start-ups, angel investors here need to build more cross-border links with their counterparts overseas.

'I see the whole of Asia is moving quite rapidly in the high-tech field. There would be a lot more opportunities in China, India and the surrounding region, but we can only capitalise on them if we

build this strong network of cross-border angels. That's why I see part of my focus these couple of years is to help promote cross-border linkages through Bansea,' said Prof Wong.

Government support programmes and a greater interest in entrepreneurial start-ups have injected more vibrancy into the local angel investment landscape, he said.

Spring's Start-up Enterprise Development Scheme (Spring Seeds), a co-investment programme, has helped to encourage more high net worth individuals to make a foray into angel investing, he said. This factor, along with the presence of Bansea, which organises activities such as workshops, has contributed to the development of angel investing, Prof Wong added.

Angel investors can also apply for tax incentives under the Angel Investors Tax Deduction Scheme which aims to encourage smart money from such investors to flow to Singapore start-ups. In line with trends around the world, it was found that angel investment is increasingly a more important and effective source of financing for young start-up companies seeking capital. So far, about 30 angel investors have been approved under the scheme.

Mr Koh said there have been five dramatic changes in the angel investment scene over the years. For starters, there is now a much better understanding of the roles of an angel investor, a venture capitalist and a private equity player. More funds are also available now for angel investing than in the 1980s and early 1990s.

'The third element is that our younger people are more inclined to take the risk. They are more willing to want to be their own boss. Not all of them want to go and work for a big MNC or a big GLC (government-linked company) or the civil service. That actually is very positive. Also with time, the stigma of failure has reduced in Singapore," Mr Koh said.

The fifth change is that with Asia being much more open and vibrant today than it was 20 years ago, 'when people are starting up a business, they are not looking at just their home country. They are looking at a global business'.

Two conditions must exist for an angel investor to take the plunge and acquire a stake in a start-up, Mr Koh said. 'One is the presence of entrepreneurial leadership. The other is a great product and a great service with a large market. Through a lot of painful experiences, I'd say both are necessary conditions.'

At the end of the day, what he finds gratifying as an angel investor is 'seeing the company and the individual who conceptualised it be really successful. I like to think that I had a little role to play in their success'.

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