Important Things to Know About Angel Investors - 2014

Marianne Hudson
Executive Director
Angel Capital Association
ACA Mission:

Fuel the success of angel groups and accredited individuals active in the early-stage landscape

- World’s largest trade group for angel investors
  - 220+ angel groups
  - 12,000 accredited investors
  - Voice of accredited individuals, portals, and family offices
- 50 states + Canada
- Research/education partner
Who are Angel Investors?

• Often successful, exited entrepreneurs or retired business persons
  – Active investors
  – Invest both time and money in companies

• Accredited investors - SEC definition

• Invest their own money (not money managers)

• Generally invest in local companies

• Marianne: Invest at least $20K in businesses not run by family

• 2013: 298,000 investors invested ~$24.8B in about 71,000 deals (mostly early-stage)
Profile of Angels in Groups - Median

<table>
<thead>
<tr>
<th>Category</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years investing</td>
<td>9</td>
</tr>
<tr>
<td>Number of investments</td>
<td>10</td>
</tr>
<tr>
<td>Total exits/ closures</td>
<td>2</td>
</tr>
<tr>
<td>Years as entrepreneur</td>
<td>14.5</td>
</tr>
<tr>
<td>Number ventures founded</td>
<td>2.7</td>
</tr>
<tr>
<td>Age</td>
<td>57</td>
</tr>
<tr>
<td>Percent of wealth in angel investing</td>
<td>10%</td>
</tr>
<tr>
<td>Education</td>
<td>Masters degree</td>
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Motivations of Angels

• Help entrepreneurs
• Stay engaged – using skills and experiences to help build a business
• Give back to community or university
• Active form of investing – not just watch markets
• Many women – join Board of Directors
• Return on Investment is the metric
Companies Backed by American Angels

- AMBIT Broadband
- THE HOME DEPOT
- Yahoo!
- Best Buy
- facebook
- Amazon
- bitpipe
- Costco.com
- Alcoa
- redhat
- CISCO
- Starbucks
- Google
- green dot
- Regeneration Technologies, Inc.
- Ask.com
- PayPal
HAIL TO THE JOB CREATORS

ENTREPRENEURS ARE KEY TO JOB CREATION

No Startups, No Job Creation

Angels Fund Majority of Startups in USA

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>• $24.8 billion</td>
<td>• $29.6 billion</td>
</tr>
<tr>
<td>• 71,000 deals</td>
<td>• 4,050 deals</td>
</tr>
<tr>
<td>• 32,000 seed</td>
<td>• 120 seed</td>
</tr>
<tr>
<td>• 29,000 early stage</td>
<td>• 1,375 early stage</td>
</tr>
<tr>
<td>• 9,200 expansion</td>
<td>• 2,550 later/expansion</td>
</tr>
<tr>
<td>• &gt; 298,000 individuals</td>
<td>• 548 active firms</td>
</tr>
</tbody>
</table>

Sources: Center for Venture Research/ UNH; NVCA 2014 Yearbook; PwC MoneyTree
Angel Groups are Small - *but Important* - Subset of All American Angels

<table>
<thead>
<tr>
<th>U.S. Millionaires</th>
<th>Informal Investors (3 study estimates)</th>
<th>Active Angels Center for Venture Research</th>
<th>Investors in Angel Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,700,000</td>
<td>1,000,000</td>
<td>300,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Sources: Spectrem, academic studies, 2013
Angel Groups are Key Trend in Sophisticated Investing

Growth in Number of American Angel Groups

Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-13 data)
Angel Groups Take Professional Approach

- Experienced, Accredited Investors
  - Successful Entrepreneurs/Business People
  - Median Years Investing – 9
  - Median Number of Investments – 10

- Invest Where We Live & In What We Know
  - Main Street – Not Wall Street
  - 300+ Groups – In Every State
  - Work as a Team

- Focused on Best Practices
  - Deal Screening
  - Due Diligence
  - Term Sheets
  - Valuation

- Support Companies We Invest In
  - Board Seats and Advisory Boards
  - Contacts, Advice, Recruiting, Strategy
  - Follow-on Funding and Exits

Sources: SEC proposed rule, Center for Venture Research, academic studies, 2012
Angel Group Evaluation & Investment Process

Submissions (~30 Plans Per Month)

Managing Director pre-screens emailed submissions.

Screening Team Review (5 – 10 Plans Per Month)

Screening team votes on which companies to invite to general meeting.

General Meeting Presentations (1 – 3 Plans Per Month)

Managing Director polls members for level of investment interest in deals, recruits diligence team, and facilitates selection of deal lead to begin term sheet negotiations.

Diligence & Term Sheet Negotiations (Coordinated by Managing Director & Deal Lead)

Deal lead closes transaction and the sidecar fund invests in companies that attract at least $250K in investment from at least 5 members.

Manage Investment

Board member represents member interests and seeks an attractive exit.

Source: James Geshwiler, CommonAngels, Boston
The Angel-Entrepreneur Connection

- Many angels provide mentoring before and after investment
- Many serve as board members or observers
- Some join venture as C-level executive for an interim period
- Information rights in term sheet
- Often invest in multiple rounds to ensure entrepreneurs can grow
- Develop relationships with Venture Capital firms for expansion capital
- Help lead M&A process early on
- Angel monitoring/mentorship improves startup health
  - Harvard/MIT study shows angel support improves startup success rate
Angel Organizations Can Help Address Capital Gap

<table>
<thead>
<tr>
<th>Pre-seed Stage</th>
<th>Seed/Startup Stage</th>
<th>FUNDING GAP</th>
<th>Early Stage</th>
<th>Later Stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founders, Friends &amp; Family</td>
<td>Angel Investors</td>
<td>Very few angel deals done above $1 million</td>
<td>Venture Capitalists</td>
<td></td>
</tr>
</tbody>
</table>

| $0 | $250K | $1.5 million | $4 million | $10 million up |
US Angel Group Update: 2013 Year in Review
Angel Round Sizes Remain Steady Over Three-Year Period

*Angel rounds include angels & angel groups only
Round Sizes Hit Three-Year High When Angels Co-Invest with Non-Angels

Rounds include angels, angel groups, and non-angel investors
Round Sizes Increase Across Top Sectors
Healthcare Round Sizes Jump $500K in 2013

Chart references median round sizes for all deals involving angel groups, co-investors
Angel Group Co-Investment Trending Up for Three Consecutive Years

- 2011: 32.7% Not Co-Invested, 67.3% Angel Group Co-Investment
- 2012: 29.0% Not Co-Invested, 71.0% Angel Group Co-Investment
- 2013: 27.0% Not Co-Invested, 73.0% Angel Group Co-Investment
More High-Valuation Deals Closed in 2013
Median Round Size Holds Steady at $2.5M

*Including all rounds with angel groups pre-series A
Golden Seeds is Most Active Angel Group
Ranked by Total Number of 2013 Deals and Compared to 2012

1st: Golden Seeds
CA, MA, NY

2nd: Tech Coast Angels
Southern California

3rd: Houston Angel Network
Houston, TX

4th: Central Texas Angel Network
Austin, TX

5th: Sand Hill Angels
Sunnyvale, CA

6th: Launchpad Venture Group
Boston, MA

7th: New York Angels
New York, NY

8th: Desert Angels
Tucson, AZ

9th: Investors’ Circle
National Group

10th: Alliance of Angels
Seattle, WA
Angel Group Deals Are Widely Distributed Nationally

2013 Share of Angel Group Deals by Region

California: 18.6%
Northwest: 7.7%
Southwest: 6.0%
Great Plains: 5.5%
Great Lakes: 11.8%
Southeast: 11.7%
Mid-Atlantic: 9.2%
New York: 9.4%
New England: 11.3%
Texas: 8.5%

Legend:
- 13% +
- 11-12%
- 9-10%
- 7-8%
- 5-6%
- Less than 5%

Data Powered by SVB Silicon Valley Bank, ANGEL RESOURCE INSTITUTE, CB INSIGHTS, HALO Report™
Dollars Slightly More Concentrated in Fewer Regions than Deals
2013 Share of Angel Group Dollars by Region

- California: 19.6%
- New England: 14.2%
- New York: 8.9%
- Mid-Atlantic: 10.8%
- Great Lakes: 13.0%
- Southeast: 9.6%
- Great Plains: 6.0%
- Texas: 6.3%
- Southwest: 5.5%
- Northwest: 6.1%

Legend:
- 13% +
- 11-12%
- 9-10%
- 7-8%
- 5-6%
- Less than 5%
Mobile Consistently Trending Up Year Over Year
Internet Deals Spike 5.5% to a Three-Year High

Chart references annual share of angel group deals across U.S.
Top Sectors Claim Nearly 80% of Angel Group Dollars
Mobile, Healthcare, and Internet Up 10% from 2012

Chart references annual share of angel group dollars across U.S.
### Investment Activity Per Group

<table>
<thead>
<tr>
<th></th>
<th>Medians</th>
<th>Range</th>
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<tbody>
<tr>
<td><strong>Deals</strong></td>
<td>6 to 7</td>
<td>0 to 55</td>
</tr>
<tr>
<td><strong>Total $ Invested</strong></td>
<td>$1.75 to $2M</td>
<td>$0 to $15M</td>
</tr>
<tr>
<td><strong>$ Per Deal</strong></td>
<td>$240K - $291K</td>
<td>$0 - $780K</td>
</tr>
</tbody>
</table>

- Figures are for 2009-2011 on an annual basis
- Most active groups are on coasts
- Central US leaders: Austin, Columbus, Pittsburgh

Source: Combination of Halo Report data and self reported through ACA Surveys
Average Total Investments Per Group – 2011

Source: ACA-SVB Confidence Survey – March, 2011

Percent of Groups

- $0
- $25,000 to $100,000
- $100,001 to $250,000
- $251,000 to $500,000
- $500,001 to $1,000,000
- $1,000,001 to $2,000,000
- $2,000,000 Plus

Source: ACA-SVB Confidence Survey – March, 2011

Percent of Groups
67% of Angel Groups Invest $150K to $500K per Deal

- Investment surprisingly broad
- Average deal size increasing
- Syndication needed among groups to fill rounds entrepreneurs need

Source: ACA Confidence Survey, 2012
Preferred Investment/Company Stage

Source: 2011 ACA Angel Group Confidence Survey and 2011 Member Directory
2012 Investment Preferences by Sector

- Business Products & Svcs: 77.8%
- Computer Hardware & Svcs: 77.8%
- Consumer Products & Svcs: 81.0%
- Electronics: 0%
- Energy & Utilities: 55.6%
- Environmental Svcs & Equipment: 55.6%
- Financial Services: 0%
- Healthcare: 81.0%
- Industrial: 77.8%
- Internet: 77.8%
- Media: 55.6%
- Mobile & Telecom: 77.8%
- Software: 77.8%

Source: ACA Summit Confidence Survey – 2012

Percent of Groups
Investors Per Group

Average = 43.1
Median   = 34.5

Source: 2011 ACA Confidence Survey and 2011 Member Directory
Geography – Where do Groups Invest?

Source: 2008 ACA Angel Group Confidence Survey

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent of Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-hour drive</td>
<td>30</td>
</tr>
<tr>
<td>4-hour drive</td>
<td>20</td>
</tr>
<tr>
<td>State/province</td>
<td>15</td>
</tr>
<tr>
<td>Region</td>
<td>20</td>
</tr>
<tr>
<td>No restrictions</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: 2008 ACA Angel Group Confidence Survey
Preferred Deal Terms

- Priced Rounds: 83%
- Convertible Debt: 14%
- Other: 3%

Source: ACA-SVB Confidence Survey – March, 2010
39 groups reporting (Caution: source data is incomplete & unverified)
A Word About Expectations Related to Returns

- **Angel investing is VERY risky**
  - 1 or 2 of every 10 investments brings most of return
  - Hard to tell which companies will return

- **Current return estimates for portfolios:**
  - Annual IRR of 27% - 2.6X in 3.5 years*

- **If business gets VC funding later, angel investment is often diluted**

- **Some really great angels therefore looking for 10 to 30X potential**
  - Wide variety of expectations, depending on mix of motivations to be an angel

- **Correct valuation is critical**

*Source: Rob Wiltbank, Willamette University, November, 2007 paper for Kauffman Foundation*
Distribution of Returns by Venture Investment

- **Overall Multiple:** 2.6X
- **Avg Holding Period:** 3.5 years
- **Average IRR:** 27%

**Exit Multiples:**
- < 1X: 35% - 0X
- 1X to 5X: 3.3 yr
- 5X to 10X: 4.6 yr
- 10X to 30X: 4.9 yr
- > 30X: 6 yr

Source: Returns of Angels in Groups, 2007
Trends and Key Issues - Investment

- 4+ angel groups syndicate (with family offices)
  - Regions develop common terms and processes
  - Some interest in cross-border syndication
- Angel groups invest in multiple rounds
- Early exits – build relationships between angels & strategics
- Vanilla term sheets – plain preferred stock
- More interest in cleantech
Trends and Key Issues – Group Structure

- Funds and sidecar funds (sustaining groups & expanding capital)
- More groups connected to universities and economic development
- Slow growth in number of angels per group
Trends and Key Issues - Landscape

- VCs – some doing startups, most later stage
- Social Networking – AngelList, Gust, LinkedIn…
- Accelerators
- Super Angels
- Government interest in job creation
- JOBS Act and SEC rulemaking
  - Crowdfunding
  - General Solicitation
JOBS Act* Overview

- Increase Capital Pool
  - Crowdfunding
- More Paths to Investors
  - General Solicitation
- More Options for Exits
  - Regulation A
  - Shareholder Thresholds
  - IPO On-Ramp

* Jumpstart Our Business Startups Act
More Information

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NOTE: ACA & ARI are NOT sources of equity capital and can’t evaluate biz plans