2019 ACA Angel Funders Report

Angel Funders Report

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The ACA report on angel group investment and the startups they support.

July 2019

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Hockeystick

The Angel Funders Report—A Closer Look at Angel Investments

The second Angel Funders Report begins to take a deeper look at angel investment trends, comparisons to 2017 data and factors influencing their outcomes. The 2019 Angel Funders Report is part of the ACA Data Analytics initiative, initially established to eventually provide angels with information and insights that impact the performance of startup investments.

The objective of the Angel Funders Report is to provide vital information and data that reveals the meaningful influencers of investment outcomes. As ACA receives more data, the Angel Funders Report will examine additional detail, including exits and out-of-business analysis of the data which will help us understand the factors that impact the outcomes of the investments. In future years, we will be able to collect more data on positive exits and investments that ended with companies going out of business.

Angel Funders Report

Methodology

ACA invited member organizations from throughout North America to participate in this data analytics initiative. A subset of the angel groups that volunteered for the project provided data. ACA's data partner, Hockeystick.co, received the data by survey connected to ACA's Data Analytics platform on Hockeystick, and then reviewed and combined data when multiple groups reported investing in the same round of investment, removing duplicate data. Where possible, Hockeystick enhanced data regarding the companies via publicly available sources. All dollars reported are in US dollars, meaning Canadian investment dollars were converted to US dollars.

About the Dataset

The 2019 Angel Funders Report is based upon 35 data fields collected from 68 angel groups including everything from the size of the investments to the various stages of development to the previous experience of the startup CEOs. The 2019 Angel Funders Report has the most up-to-date information available based upon the completed calendar year of 2018. Key points about the 2018 dataset include:

- The 2018 data is comprised of 1,170 investments in 905 companies

- Total investments by the 68 angel groups were valued at $228M

- The 905 companies received a total of $1.8B via syndication with other angel groups, individual angels, VC firms and other private equity investors

- The 68 angel groups were located in 31 US states and Canadian provinces

- These angel groups invested in companies that were located in 42 US states and Canadian provinces

- This year's analysis is based upon enhanced data coming from a 160% increase in the number of angel groups reporting and a 270% increase in the number of investments analyzed

Key Findings

The sharing and analysis of data provides the information for angels to make decisions based on experience and fact. It also provides the startup ecosystem a window into how angels think.

The data shows that many variables influence angel groups and their investments:

- **Angels continue to invest early:** over half of the deals and total investments reported were made in the pre-seed and seed rounds.

- **Angels also fund companies for multiple rounds:** like 2017, more than half of 2018 deals were follow-on investments.

- **Angels invest outside of their home community:** while 31 states and Canadian provinces were represented in the data, these groups invested in deals in 42 states and Canadian provinces.

- **The preferred deal structure is evolving:** while 54% of deals were priced rounds, there was huge growth in convertible notes compared to 2017. Nearly 46% of the investments were not equity. Angels made considerably larger investments in equity-based deals than notes ($3M compared to $1.7M).

- **Female CEOs rise in recent years:** the trend of angel-backed companies having more female CEOs remains steady with 21% in 2018. There is a significant rise over the past 15 years, from 5% to 21%.

- **Leadership experience matters:** 40% of CEOs in the dataset had previous experience as startup CEOs. These CEOs with previous experience received an average of $253K versus CEOs without previous startup experience only receiving $206K. This is the total amount of angel money in the deal, noting that angel money in the total dataset was small.

- **Connections boost funding:** 35% of deals had a group member on the board of the company, which resulted in much larger average investments, over 2.5X those that did not.

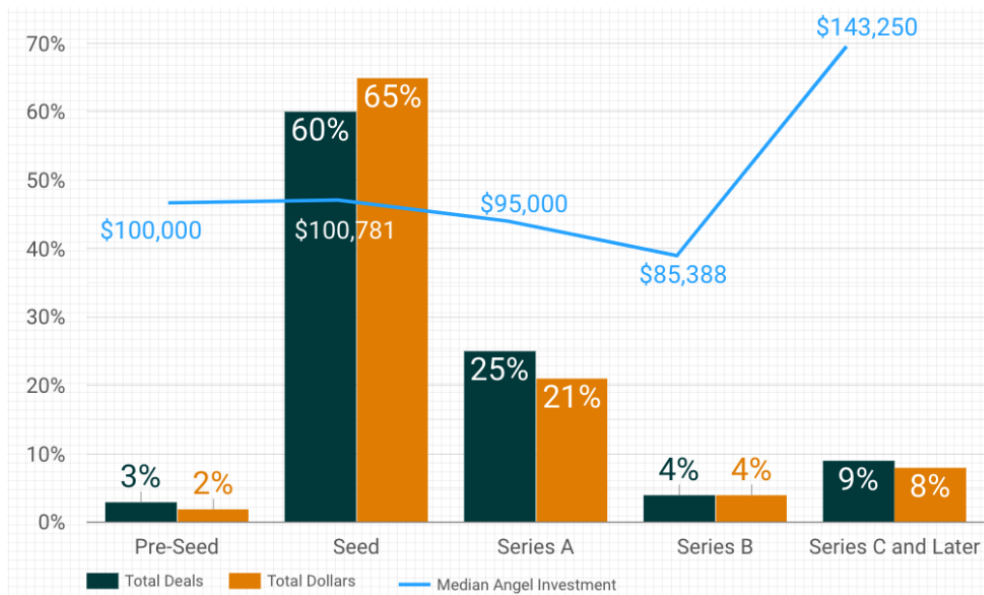# Investments by the Numbers

Total Amount Raised Per Deal

There was a wide range in the total dollar amount raised per deal in the 2018 dataset. 40% of the deals were below $1M and 77% of all of the deals were less than $3M. The median total round size is $1.2M, which is 20% higher than the 2017 data of $1M. The range of deal sizes indicates that angel groups are involved in early stages and investors are participating in multiple rounds.

Total Deals

|	
$10M or greater	5%
$3M to $9.99M	18%
$1M to $2.99M	37%
$500K to $999K	19%
$10K to $499K	21%
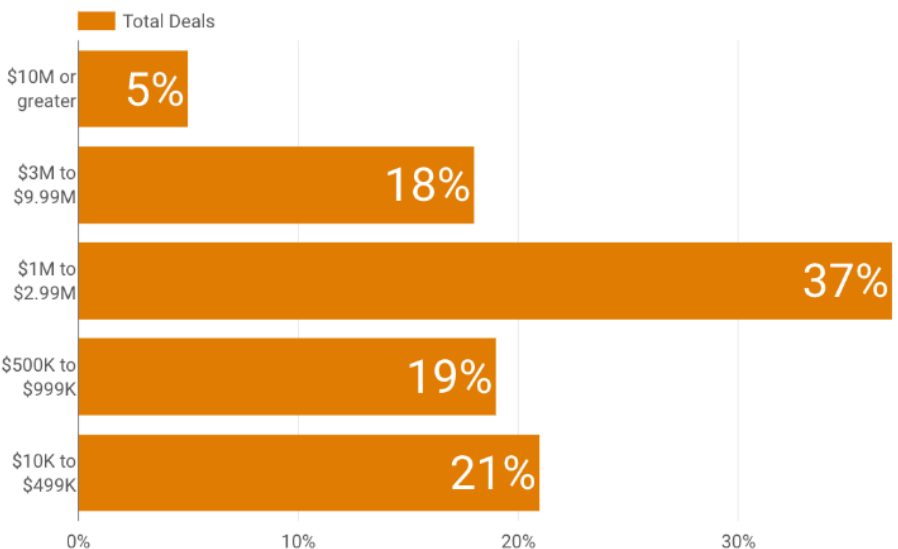
Investments by the Numbers (Continued)

Angel groups continue to invest mostly in the Angel (or Seed) rounds, but this chart shows additional investments in later rounds. More than half of the deals and dollars - 60% - were made in the seed round, followed by 25% in Series A. The average valuation in the seed round was $6.4M and the median was $5M. The median amount that angel groups invested in seed rounds is just over $100K. The 2018 data provides proof to the logic that angel group investments are larger in later rounds, increasing from about $100K in the seed rounds to $143K in Series C or later.
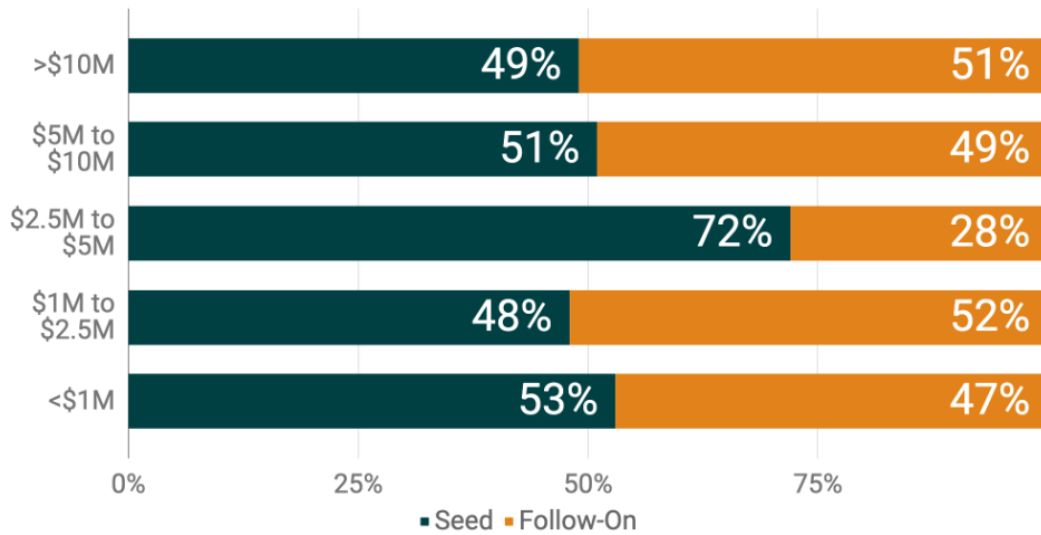
Investment by Round

Initial Investment vs. Follow-On Investment
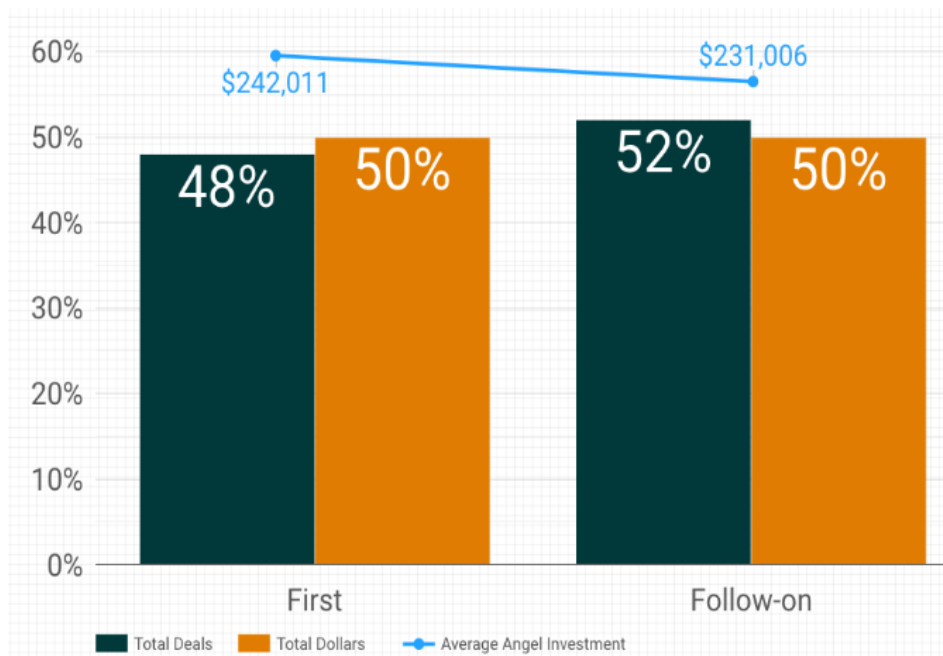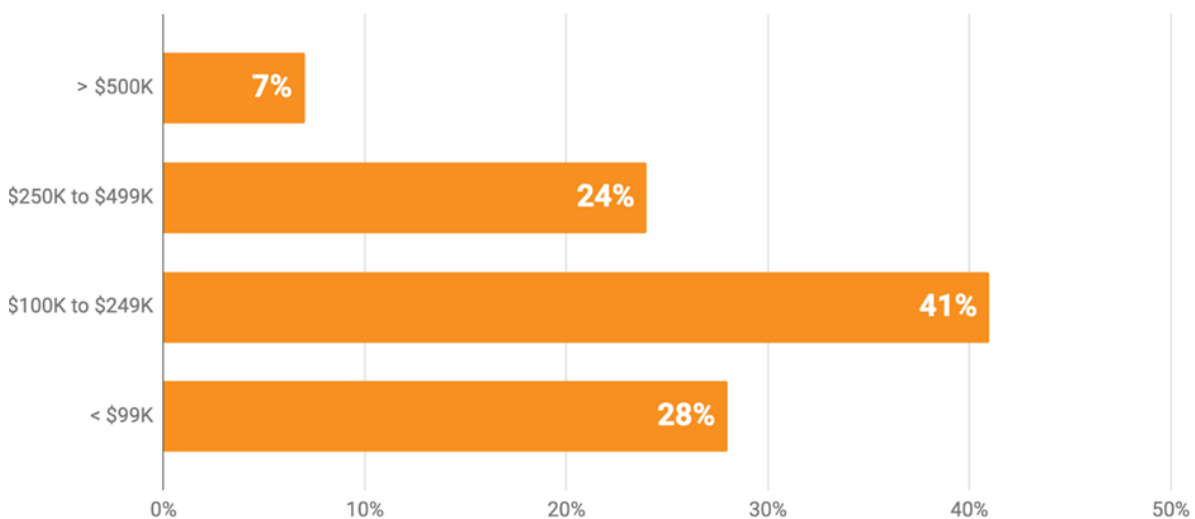
Investments by the Numbers (Continued)

Total Investments in Seed and Follow-On Rounds

	Seed	Follow-On
>$10M	49%	51%
$5M to $10M	51%	49%
$2.5M to $5M	72%	28%
$1M to $2.5M	48%	52%
<$1M	53%	47%

■ Seed ■ Follow-On

Angel groups invest in follow-on rounds just over half of the time. Interestingly, the percentage doesn't change much when the size of the investment is broken out. This compares to last year's inputs which showed 42% in seed rounds and 58% in follow-on rounds. Investments by an angel group are in one of the five categories listed in the above chart.
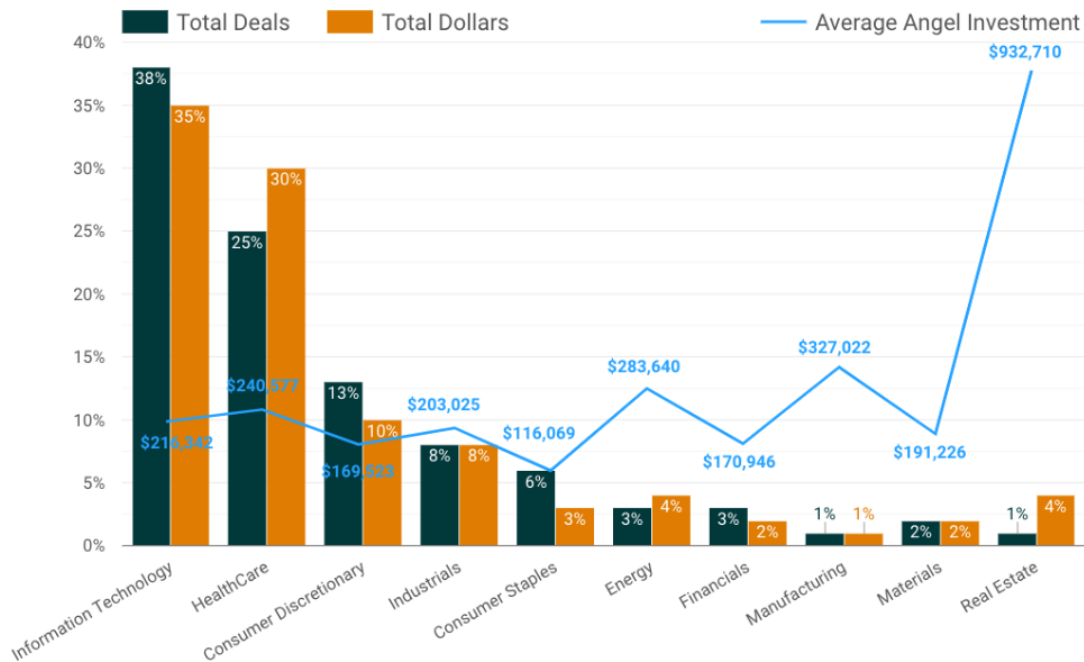
Average Amount Invested by Angel Groups in Seed Rounds

> $500K	7%
$250K to $499K	24%
$100K to $249K	41%
< $99K	28%

Nearly 70% of the investments are less than $250K in the seed round.

Investments by the Numbers (Continued)

Top Ten Industry Sectors

Angel groups invested in a variety of industries, with roughly two-thirds of the deals in Information Technology and HealthCare. These two sectors also account for 65% of the dollars invested. The Information Technology deals tend to be smaller amounts than health care and many other sectors. This mirrors 2017 data which presented similar trends. Angel investors are also investing in a variety of other industry sectors.
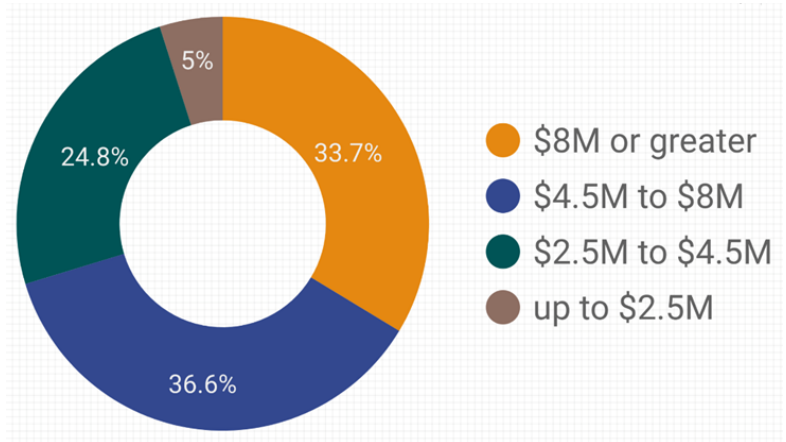
Top Ten Industry Verticals
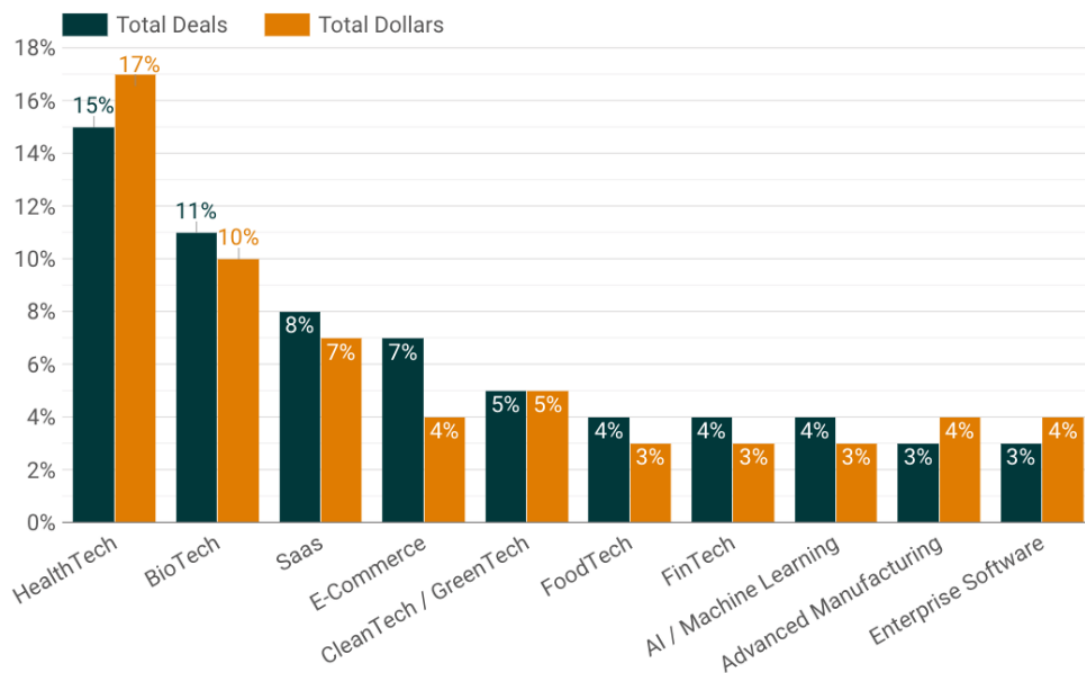
Taking a look into the industry verticals* that divide the sectors into more detailed categories, we see the top ten verticals by deals and dollars. The HealthTech vertical had the highest number of total deals and total dollars, followed by BioTech and SaaS. Sectors are broader while verticals are subsets of sectors with even more detailed subcategories.
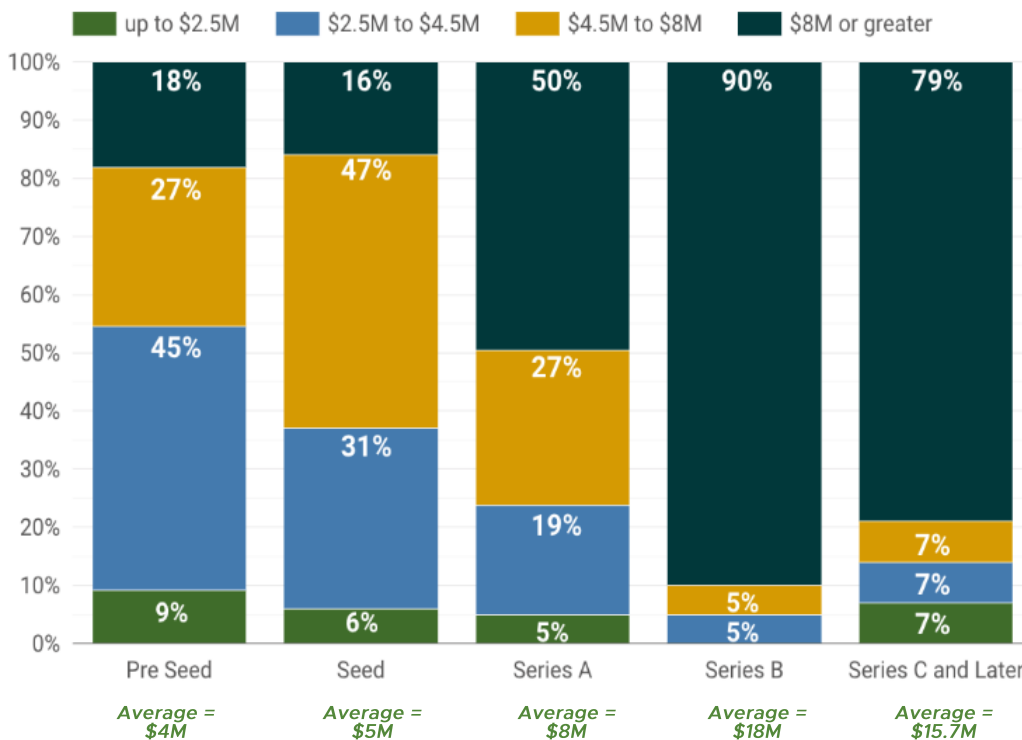
Investments by the Numbers (Continued)

The median pre-money valuation was $6M, which is a 20% increase from 2017 data ($5M). Over 36% of deals had a $4.5M-$8M valuation in the pre-money valuation seed round, while one third were above $8M and 30% of deals had a valuation of $4.5M and below. This chart represents data that includes all deals and investors, including VCs. Almost half of all deals had a valuation of $4.5M to $8M. The majority of angel investments are in the seed round, which tend to be smaller in size.

Pre-Money Valuation/ Cap on Note – All Rounds

- $8M or greater — 33.7%
- $4.5M to $8M — 36.6%
- $2.5M to $4.5M — 24.8%
- up to $2.5M — 5%

Valuation Breakdown by Round

Legend: up to $2.5M | $2.5M to $4.5M | $4.5M to $8M | $8M or greater

	Pre Seed	Seed	Series A	Series B	Series C and Later
$8M or greater	18%	16%	50%	90%	79%
$4.5M to $8M	27%	47%	27%	5%	7%
$2.5M to $4.5M	45%	31%	19%	5%	7%
up to $2.5M	9%	6%	5%		7%
Average	$4M	$5M	$8M	$18M	$15.7M

This chart is another way to show the later the round, the larger the average investment. The average round size for Series C and later rounds was more than three times the average seed round.
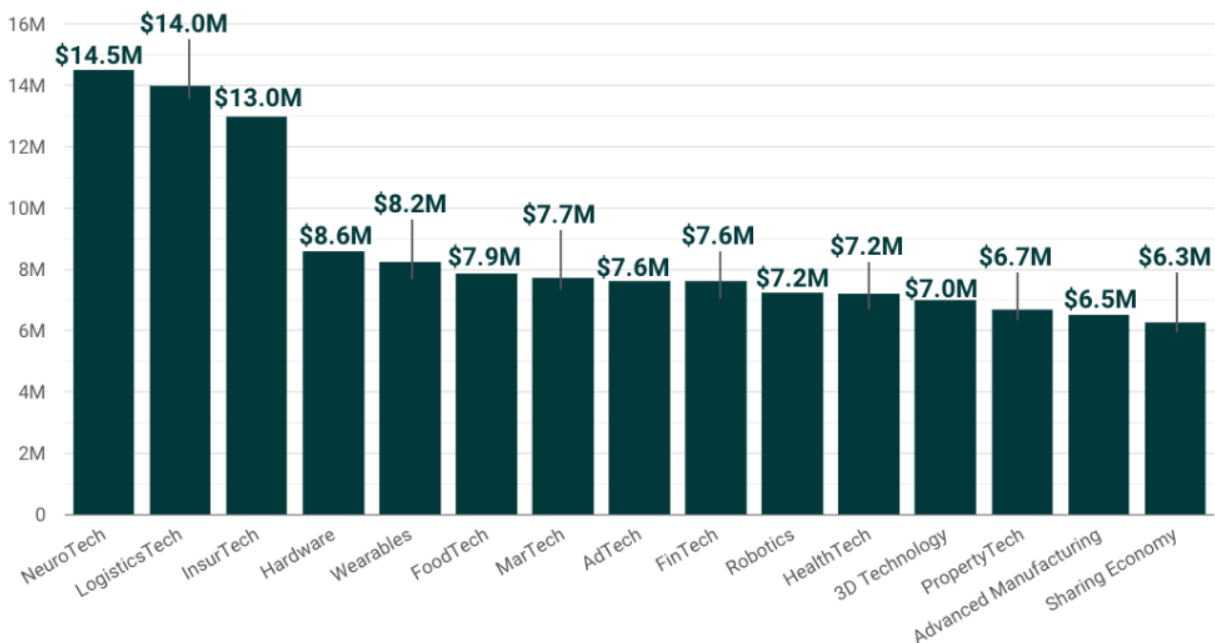
Average Valuation for Top 14 Verticals
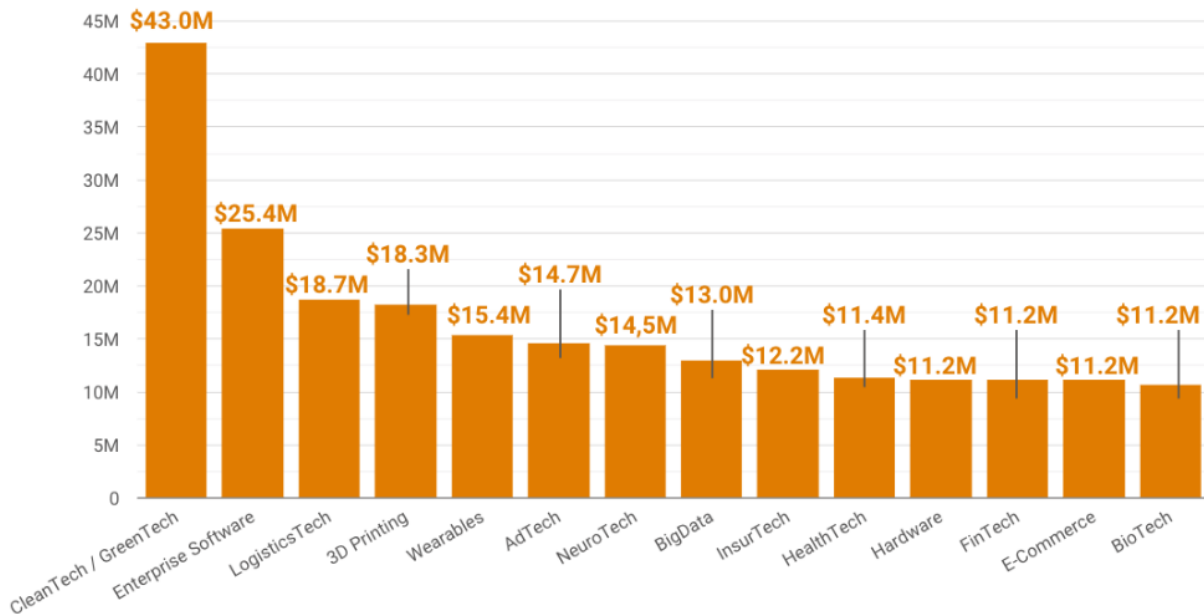
The top 14 industry verticals - a subset of industry sectors - showed much larger valuations than the overall averages. Clean Tech/Green Tech and Enterprise Software recorded the highest valuations for all deals in the top 14 verticals. Clean Tech has a reputation of being more expensive, so it is not surprising that this vertical came in at the top of the average valuations. The chart does not show Space Tech, a true outlier with an average valuation of $140M.

Average Seed Round Valuation for Top 15 Verticals

Deals in many industry verticals averaged more than the $6.4M average valuation of angel rounds. This group of 15 verticals includes a number of cost intensive fields such as wearable, food tech, robotics and health tech.

Investments by the Numbers (Continued)

Pre-Money Valuation/Cap on Note by Region

Region	Average Valuation ▼
New England	$7.8M
Southeast	$7.3M
California	$6.5M
Southwest	$6.3M
Mid-Atlantic	$6.1M
Great Lakes	$5.4M
Texas	$5.3M
Northwest	$5.2M
New York	$5.2M
Great Plains	$3.9M

There was a significant variation of average valuations based on geographic location for all deals (not just the seed round). Much like the value of real estate in different regions and locations, average valuations vary considerably by region. New England had the highest valuations with $7.8M, which was almost double the Great Plains valuation average of $3.9M. New York surprisingly had a lower valuation in comparison to other regions.

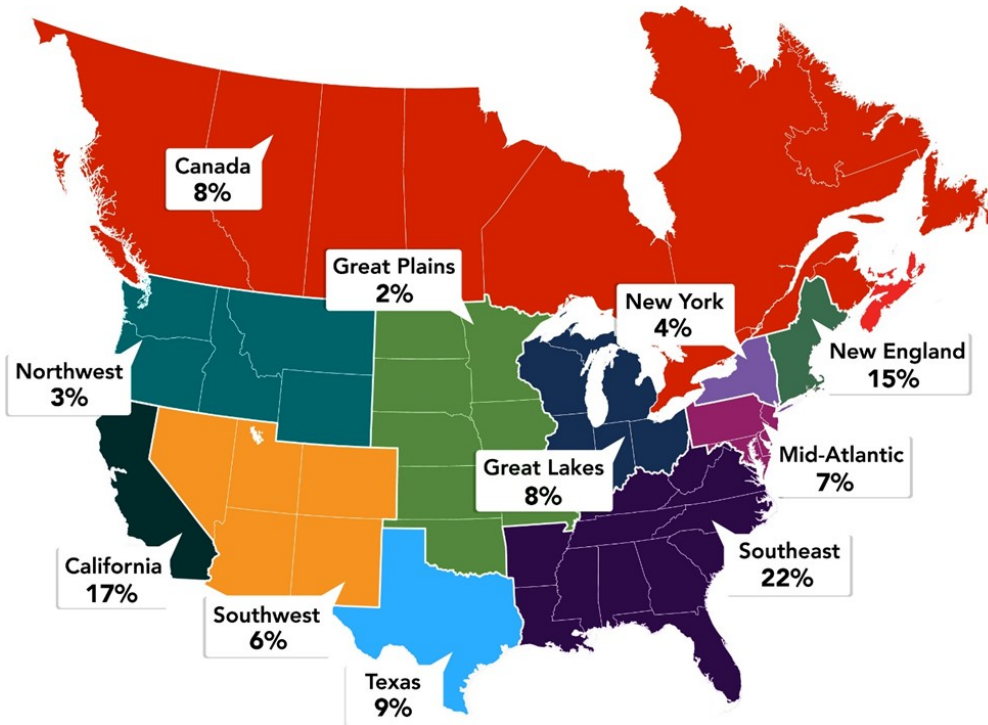## Deals by Investment Structure — All Rounds
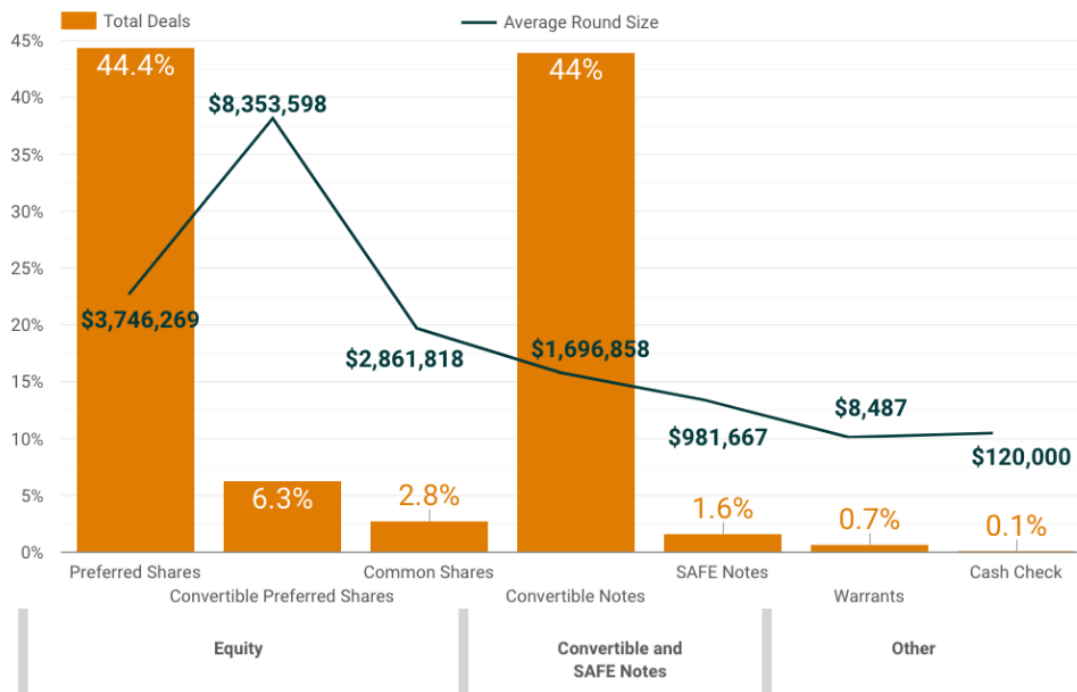
While most deals used an equity structure, 44% were convertible notes and less than 2% were Simple Agreements for Future Equity (SAFEs). This is a large increase over the 2017 data (36% were convertible notes in 2017). This is a big shift in favored structures over the past few years; In 2015, 82% of ACA members surveyed* preferred to do priced rounds for their initial investments. Now the data for total investments reflects that angels are choosing an attractive deal and company versus a specific investment structure. In the case of equity deals, angels showed a considerable preference for preferred shares over common shares.

An interesting aspect of this analysis is that the priced rounds (equity) tend to be considerably larger than debt-based investments. Average round size for equity deals was about $3M, compared to $1.7M for notes.

* Link to Marianne Hudson's Forbes article: Convertible Notes: The Debate Continues

Investments by the Numbers (Continued)

Where Investment Dollars Go – by Region

Canada
8%

Great Plains
2%

New York
4%

New England
15%

Northwest
3%

Great Lakes
8%

Mid-Atlantic
7%

California
17%

Southwest
6%

Southeast
22%

Texas
9%

Angel groups invested in companies located throughout North America. The Southeast had the highest percentage of reporting angel groups, which directly corresponds to where the companies receiving funding are located (higher percentage in the Southeast region). Of the total investment dollars represented, 8% of the companies are located in Canada.

Syndication - Working Together is Important

Over 67% of investment deals were syndicated in 2018. It is interesting to note that 73% of the deals had syndication in last year's data. Deal syndication is critical for angel groups and the startups they fund. Deals syndicated exclusively with angel groups raised an average of $1.5M, while deals syndicated with VCs raised only an average of $3.5M. Deals syndicated with angels and VCs raised the most at $6.1M.
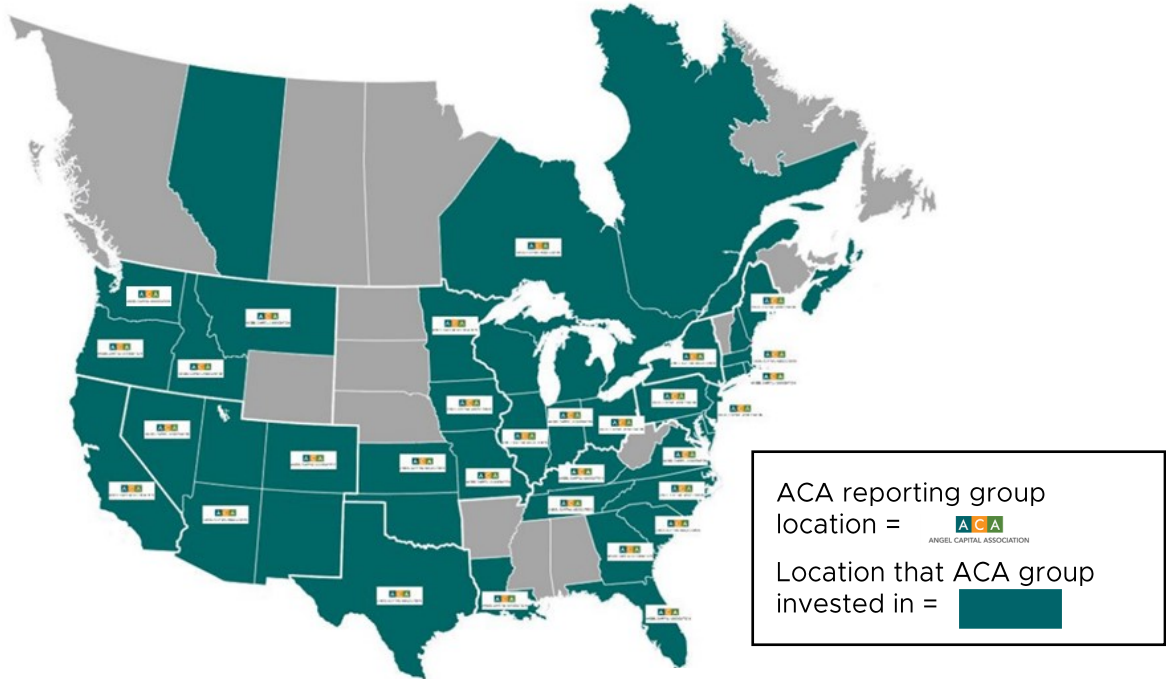
Co-investing with other investors allows angels to diversify their portfolios and provides startups with the funds that they need (typically $1M+). In addition to benefiting startups, many angel groups have developed relationships, increased trust and created processes to work together to raise the amount of capital that the entrepreneur requires.

Deals by Co-Investment Type

7.1%

32.3%

29.3%

31.3%

- Not Syndicated at all
- Syndicated with only other angel groups
- Syndicated with Angel Groups and VCs
- Syndicated with VCs only
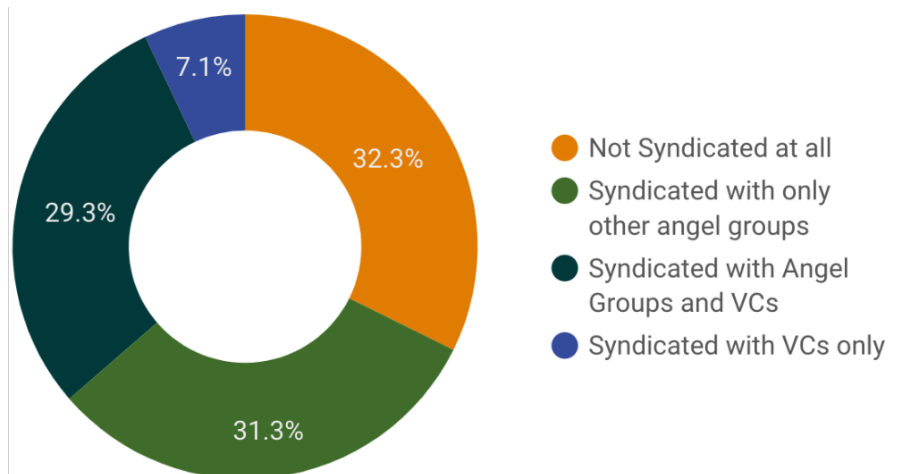
Syndication - Working Together is Important (Continued)
Groups are Investing Far and Wide

ACA reporting group location = ACA ANGEL CAPITAL ASSOCIATION

Location that ACA group invested in =

An emerging trend is the growing geographic diversity in which angel groups invest. The 68 reporting groups are located in 31 US states and provinces. Their investment coverage is considerably larger having invested in companies located in 42 US states and provinces. A deeper analysis of the data shows that some angel groups are investing in a wider geography on their own without syndication, while many others are investing in startups in other locations because they are part of syndicated rounds in their region or with other investors in their industry focus or affinity (such as investing in women-led startups). California had the highest total number of investments, followed by Virginia and Massachusetts.

Company Detail
Number of Employees at Investment
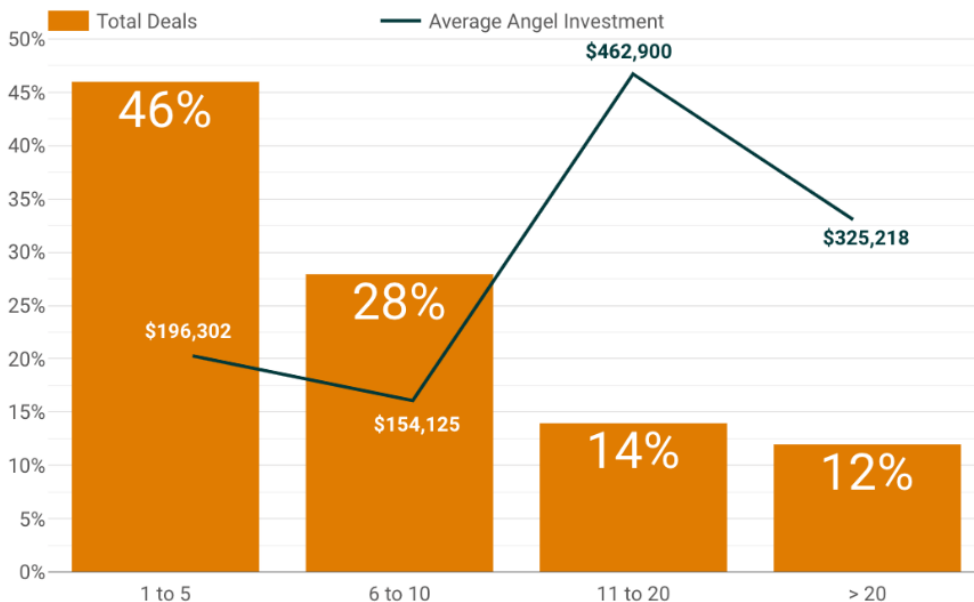
The 2018 data provides insights into the sizes of angel group portfolio companies. They are typically smaller companies with one to five employees and smaller revenue. 74% of companies had ten or fewer employees, although 12% of the companies had more than 20 employees. While the average number of employees was 11.4 and the median number of employees was 6, the larger companies in the dataset skew the average. The companies with smaller employee sizes received smaller angel investments.

The data for total deals, including pre-seed/seed and follow-on rounds, show that more than half of the companies receiving funding had less than $500K in annual revenues and 27% had no revenues at all. Only 10% of these companies had a revenue of over $3M. The average revenue equals $1.7M. As the companies grow revenue, they begin to receive higher investments (and VCs participate more).

Revenues at Time of Funding
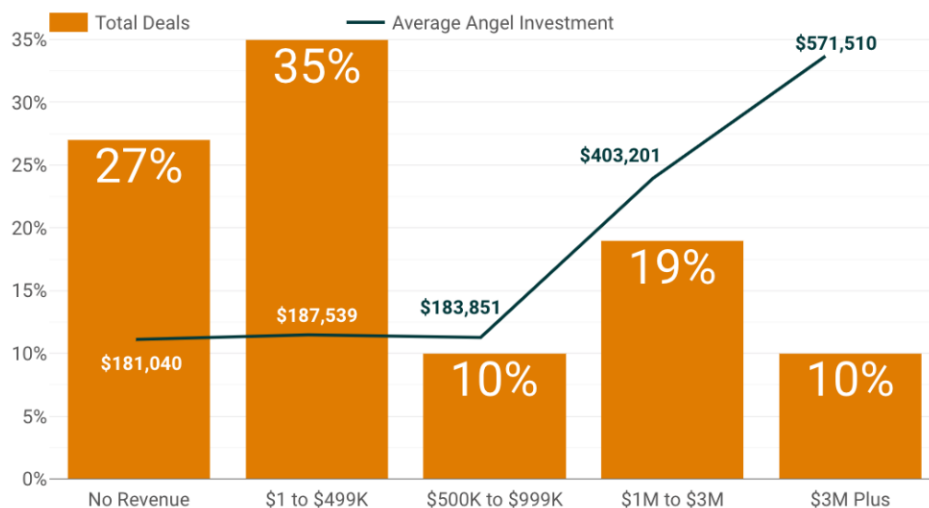
Tax Structure of Funded Companies
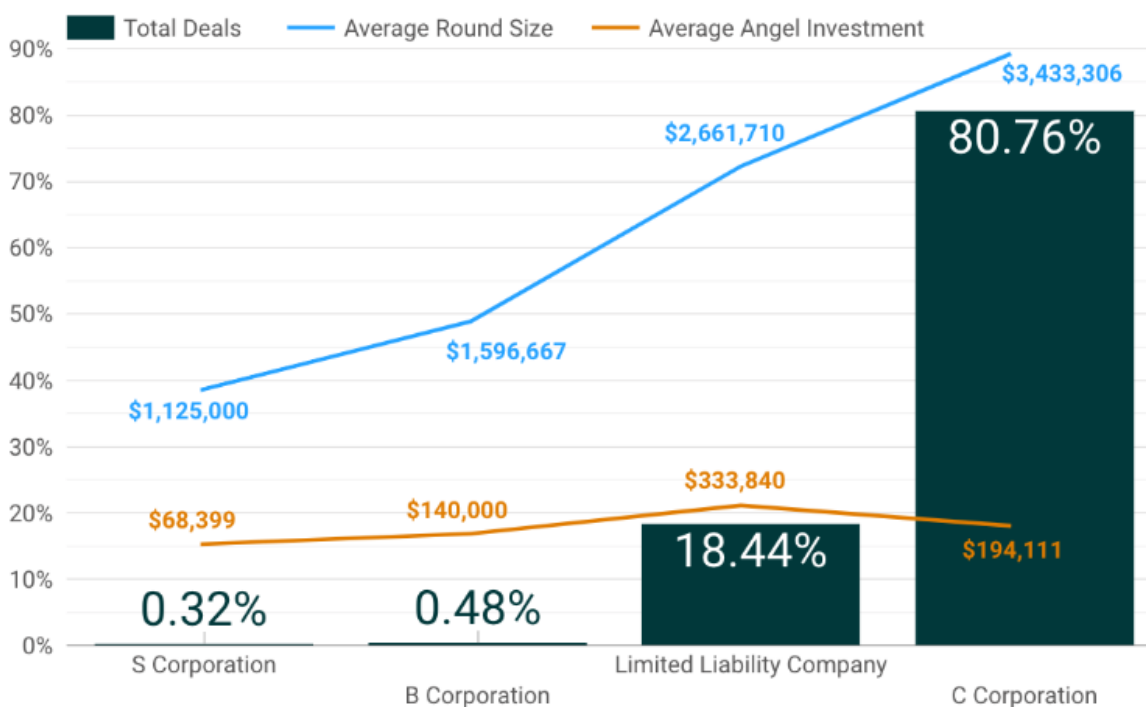
The majority, 81%, of the startups were C Corporations, followed by Limited Liability Companies, B Corporations and S Corporations. The average amount angel groups invested is higher for LLCs ($334K), than C Corps ($194K). VCs favor C Corps.
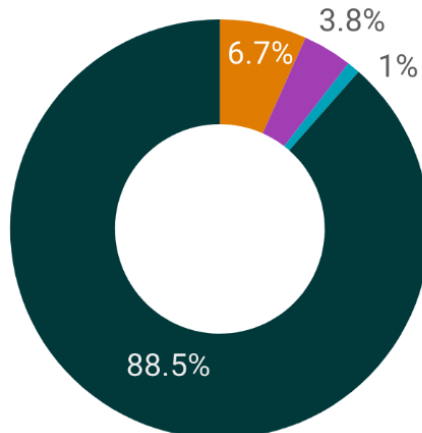
CEO Profile

Growing Diversity of CEOs, with More to Do

By Gender

21% of CEOs were female

The 2018 data provides a look at the CEOs of the startup companies. While the CEOs are still predominately Caucasian males, 21% of CEOs are female. The percentage of female CEOs has significantly risen over the past 15 years, from just 5% of female CEOs to 21%. Angel investors are funding women-led companies at a much higher rate than Venture Capitalists. According to our data, African Americans and other people of color are still underrepresented in early stage investing.

By Race

- 6.7% Asian
- 3.8% Black or African American
- 1% Mixed Race
- 88.5% White

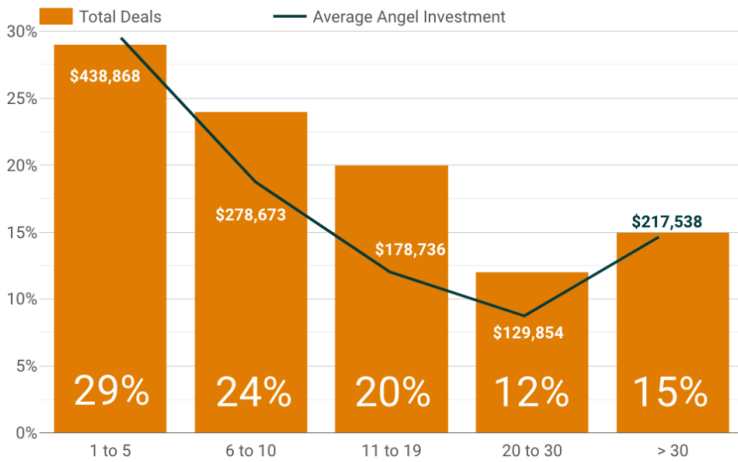---

CEO Experience Makes a Difference
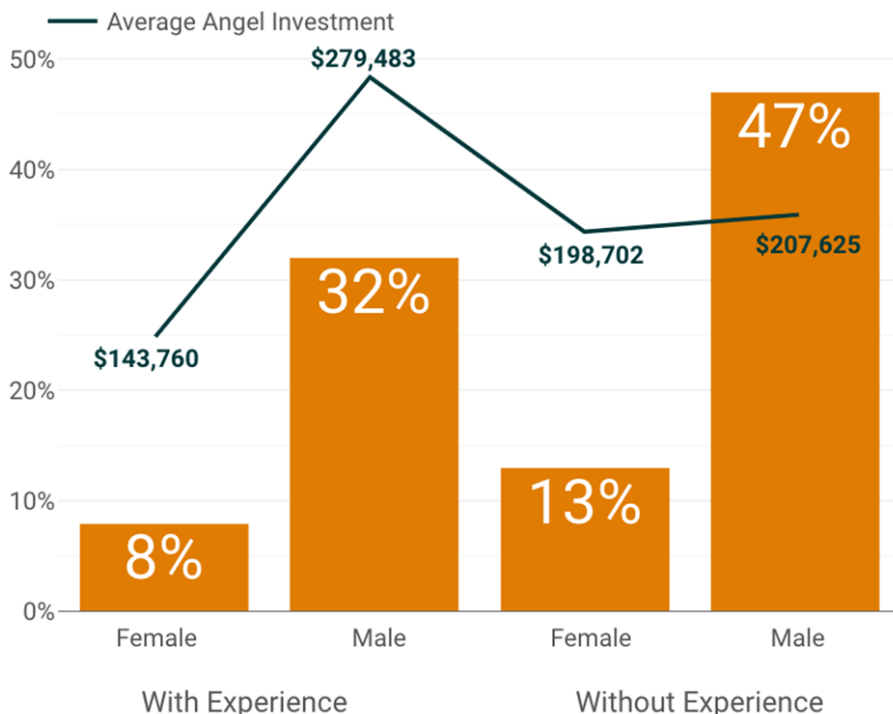
Two factors about startup CEOs make a big difference in the size of angel group investments in the company:

- **Whether or not the CEO has previous experience in leading a startup.** 40% of the CEOs in the dataset had previous experience as startup CEOs and, as most people would assume, the companies with experienced CEOs received larger investments from the angel groups - $253K versus $206K, an 18% difference.

- **Gender**. Female-led companies generally received smaller investments than startups led by males. More research needs to be done to fully understand why this is happening. A contributing factor may be that female CEOs ask for less money and there could also be some "unconscious bias" by investors taking place, as documented by academic researchers.

More data and analysis is also needed to understand why companies led by females without previous experience leading startups get average investments that are larger than those led by females with startup CEO experience. This may be an anomaly caused by small amounts of data.
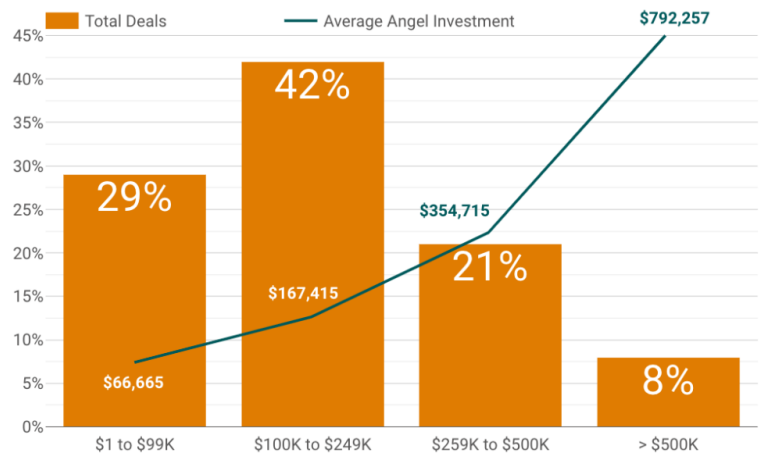
Angel Group Activity
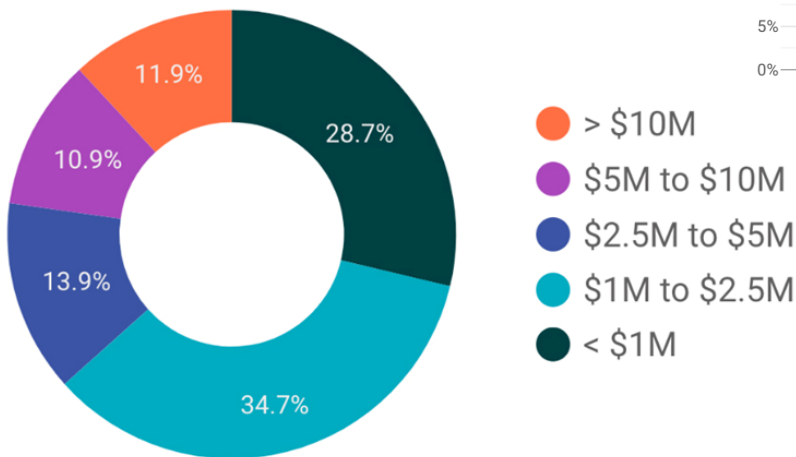
Total Number of Deals per Group

Legend: Total Deals | Average Angel Investment

Bars: 29% (1 to 5), 24% (6 to 10), 20% (11 to 19), 12% (20 to 30), 15% (> 30)

Line values: $438,868 | $278,673 | $178,736 | $129,854 | $217,538

Average = 16, Median = 10

Average Dollars per Deal per Group

Legend: Total Deals | Average Angel Investment

Bars: 29% ($1 to $99K), 42% ($100K to $249K), 21% ($259K to $500K), 8% (> $500K)

Line values: $66,665 | $167,415 | $354,715 | $792,257

Average = $215K, Median = $100K

Total Dollars Invested per Group

- > $10M — 11.9%
- $5M to $10M — 10.9%
- $2.5M to $5M — 13.9%
- $1M to $2.5M — 34.7%
- < $1M — 28.7%

Average = $3.4M, Median = $1.7M

The range of investment activity among angel groups in deals and dollars was quite large. Almost 30% of angel groups closed five or fewer deals during 2018, while 27% invested in more than 20 deals. The average total dollars invested for the year was $3.4M, while the median was $1.7M. A few groups with higher investment activity were responsible for the large difference between average and median. The average deal size per deal per group was $215K. We noticed that the average deal size was higher for groups that made fewer investments and also was actually higher for groups that invested in more companies. Future data will help us understand the reasons why.
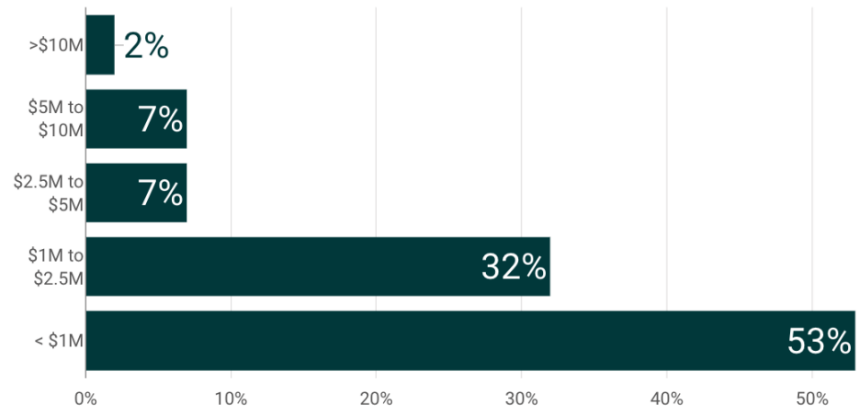
Angel Group Activity (Continued)

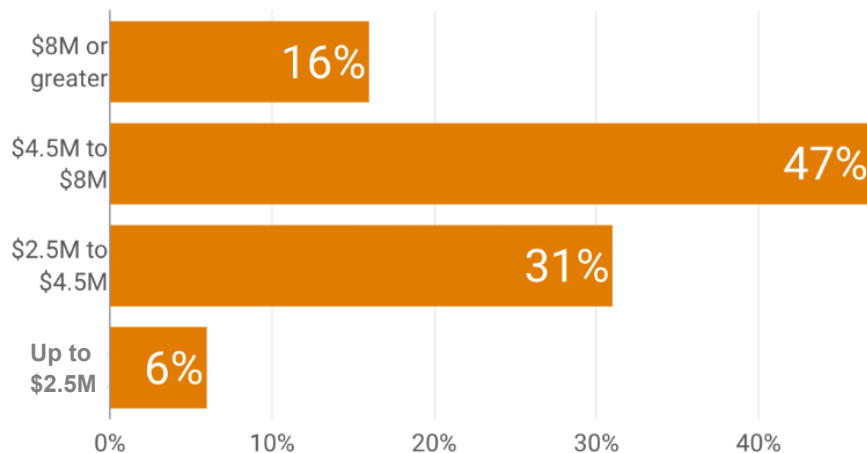## Total Amounts Invested by Angel Groups in Seed Rounds

>$10M	2%
$5M to $10M	7%
$2.5M to $5M	13%
$1M to $2.5M	22%
< $1M	57%

0%   10%   20%   30%   40%   50%
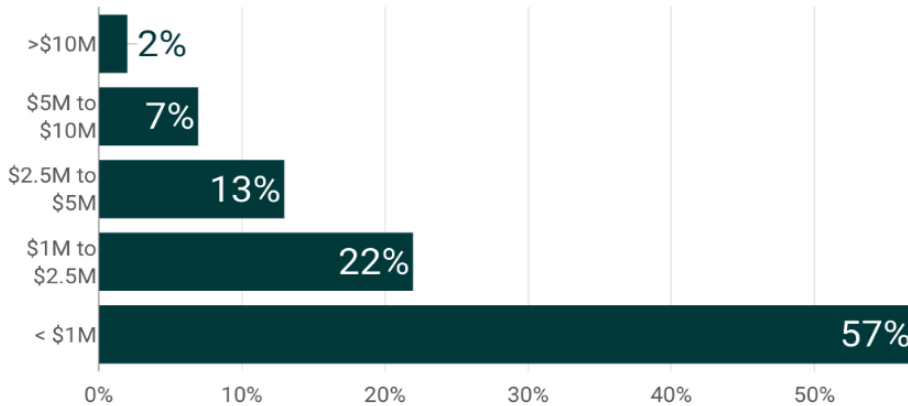
57% of all angel group investments are in seed rounds of less than $1M. There is a considerable range of investment amounts in the seed round with some over $10M.

Total Amounts Invested by Angels in Follow-On Rounds

The median round size for follow-on investments in 2018 was $1.2M. 48% of the overall amount invested in follow-on rounds by angel groups in 2018 was over $1M.

>$10M	2%
$5M to $10M	7%
$2.5M to $5M	7%
$1M to $2.5M	32%
< $1M	53%

0%   10%   20%   30%   40%   50%

Pre-Money Valuation by Group, Seed Round

$8M or greater	16%
$4.5M to $8M	47%
$2.5M to $4.5M	31%
Up to $2.5M	6%

0%   10%   20%   30%   40%

The median pre-money valuation in the seed round by group is $5M and the average valuation is $6.4M. This compares to the median pre-money valuation on the 2017 data of $4M.

Angel Group Activity (Continued)

Top Groups (by Dollars)

As measured by dollars invested, Northern Ontario Angels exceeded all other angel groups by a considerable margin. The top ten angel groups with the highest dollars invested include groups from many regions across North America. There is some overlap in the top groups by number of deals.
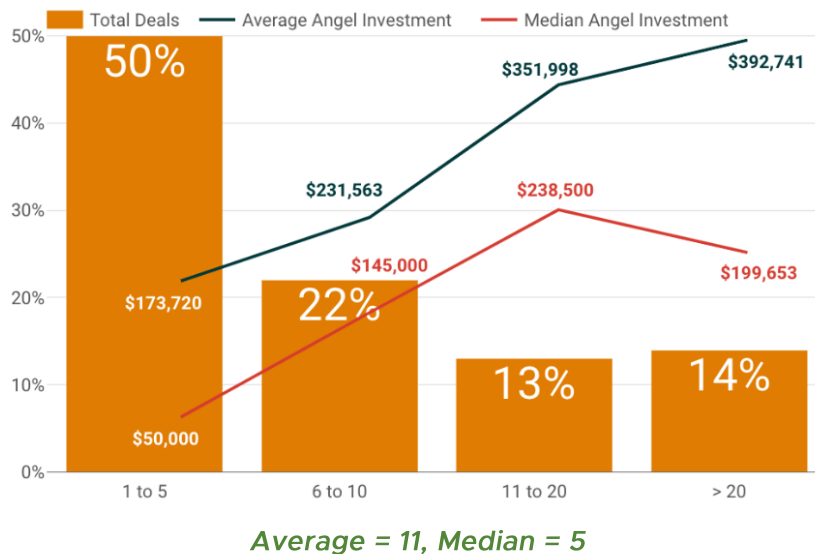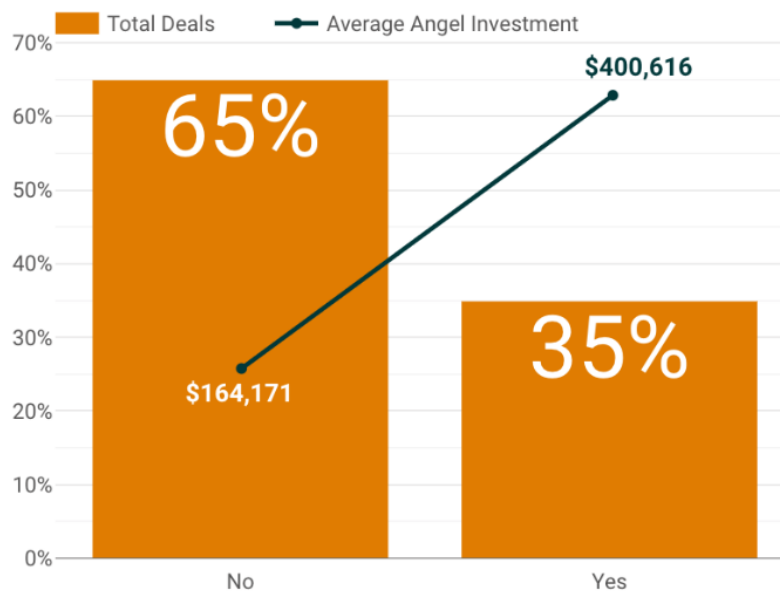
Top Groups (by Deals)

Angel Group Activity (Continued)

Number of Members Investing in Deals Within an Angel Group

Average = 11, Median = 5

Impact of Group Board Seat at Investment

The majority of the angel groups in this dataset are networks, in which each angel decides whether or not to invest in a particular opportunity. On average, 11 angels in these networks invest. As more angels choose to invest, the total average dollars for that group more than doubles.

A huge factor in the size of an angel group's investment is whether or not the group is represented on the company's board of directors. If they have a member investor on the board, the average investment more than doubles – from $164K to $400K.

The Future of the Angel Funders Report — What's to Come?

The Angel Funders Report is an evolving part of ACA's Data Analytics Initiative. At ACA, it is our goal to gather data which can be turned into information and then transformed into knowledge ultimately leading to wisdom. Future reports will highlight our journey toward this future state of enhancing the wisdom of our members as they make investment decisions. Guiding us along this journey will be a mindful eye toward exit data and the associated outcomes of investment decisions.

ACA invites all members to [participate in ACA's Data Analytics](#) initiative to ultimately receive a deeper dive on what key factors provide the best outcomes. Currently, angel groups have limited data on the factors and criteria that drive successful investments and even when data Is available, it is usually only their own with no consideration for larger trends that are emerging within the angel community. ACA is working to change this by expanding the available resources and data, so angel investors have the insights and information to make smart decisions that offer better results.

The future of the Angel Funders Report will include examining exits – both the positive ones and those in which the companies went out of business. This is where we will get the most impactful insights that will influence future investment decisions.

Although the 2018 dataset included a few exit examples, there were too few to be statistically significant and therefore insights have not been included in this version. We do have, however, the insights from two large angel groups that have analyzed their own data and results. The following charts and analysis from the Tech Coast Angels and Central Texas Angel Network, presented during the 2019 ACA Summit, provide examples of some of the knowledge ACA hopes to include for aggregated angel groups in the future:

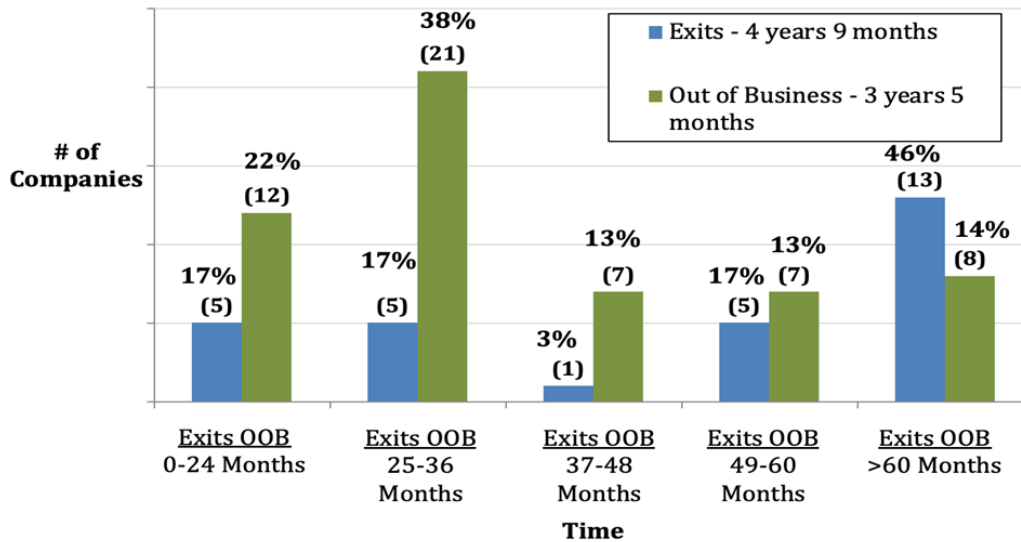**There is no correlation between deal size and outcomes:**
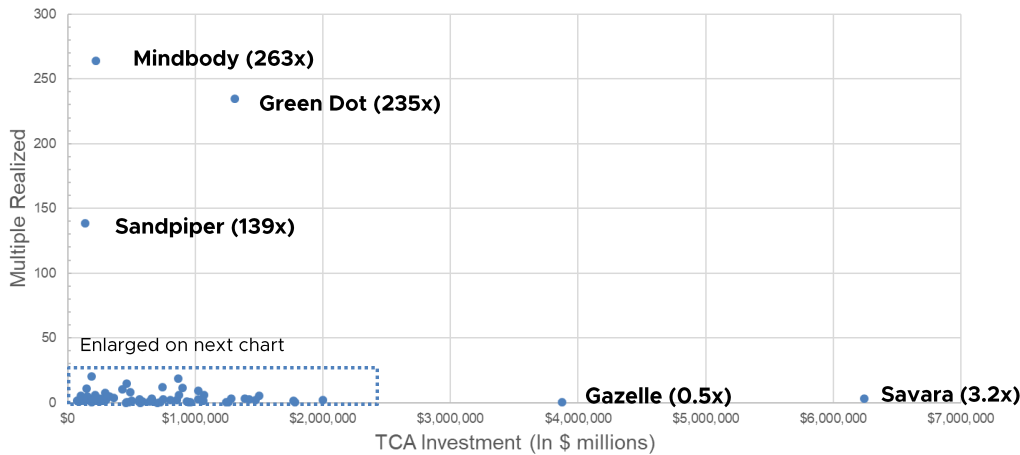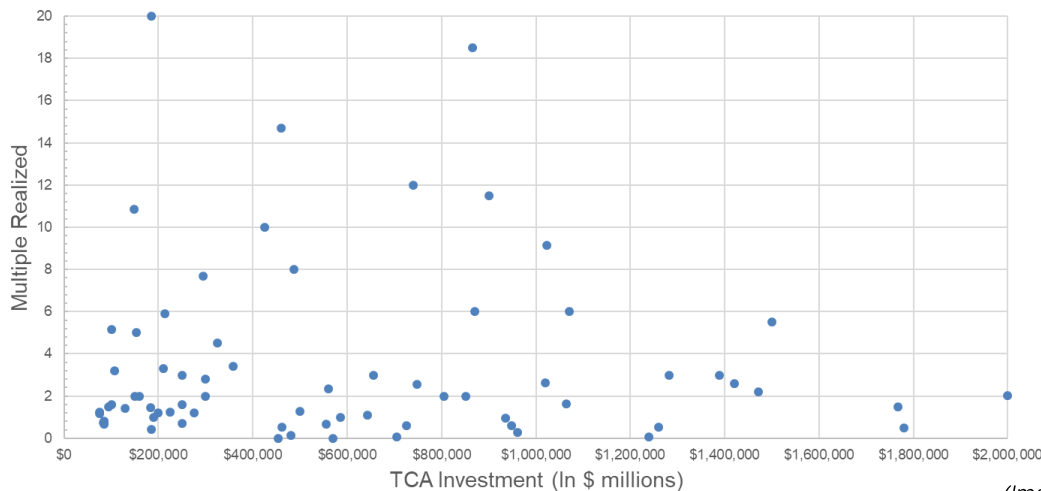
(Image Attribution - Tech Coast Angels)

The Future of the Angel Funders Report — What's to Come?

Successful exits take time and this often exceeds the period in which many companies go out of business:

(Image Attribution - Central Texas Angel Network)

Portfolio diversification is important – investing in more companies increases chances of a positive return:
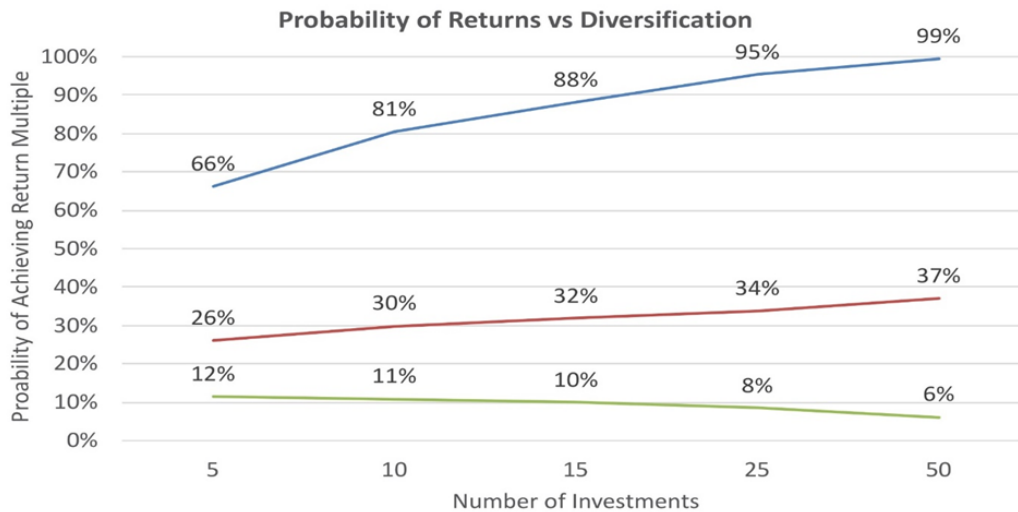
(Image Attribution - Tech Coast Angels)

In the chart above, angels who had invested in 5 companies had a 66% chance of earning at least 1X of their investments and a 26% chance of earning at least 4.9 times their money. Investors who had 25 companies in their portfolios had a 95% chance of earning at least 1X and a 34% chance of earning at least 4.8X. This chart is based on the first 159 outcomes of the Tech Coast Angels and random selection of investments and a Monte Carlo simulation of 20,000 outcomes.

An objective of the ACA Angel Funders Report is to provide a much larger, yet secure database to analyze and expand upon these and other insights that will help angels improve outcomes.

ANGEL CAPITAL ASSOCIATION

ACA has the Connections and Resources That Drive Returns

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