ACA Angel Funders Report - Pilot

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

August 2018

Rick Timmins, *Central Texas Angel Network*
Steve Flaim, *Tech Coast Angels*
Tony Shipley, *Queen City Angels*
Elaine Bolle, *RTP Capital Associates*
Emily Angold, *Angel Capital Association*
Marianne Hudson, *Angel Capital Association*

ACA ANGEL CAPITAL ASSOCIATION

Hockeystick

Introducing the Angel Funders Report

What are the factors that influence successful angel investing and the startups that angels support? This is a question that ACA begins to answer in the pilot Angel Funders Report.

The report is a new, strategic initiative of the Angel Capital Association to provide angels with information which reveals the true factors that impact the outcomes of startup investments. This report will provide insights and highlight key trends and statistics among angel investors. It will also provide the startup community, policy makers and the public a better understanding of angel investor practices and their impact on supporting the startup economy. This pilot report covers 2017 data from our initial (beta) set of angel groups.

The focus is on collecting and understanding the key data points that affect angel investing outcomes. This initial launch begins to compile data for long term analysis. The ACA Angel Funders Report will eventually contain additional data from a much larger set of angel groups and will be able to answer questions like:

- Is there a minimum number of angel investors in a round to ensure a successful exit? (by industry sector, geography or other factors)
- What are the average revenues of a company to attract VC investment and/or corporate acquisition? (by industry sector, geography or other factors)
- What do different startup CEO demographics mean for investment and company/investor success?

What is the Angel Funders Report?

- The first phase of our data analytics initiative (the pilot phase) included collecting data from 26 leading angel groups across the United States.
- The report covers investments for 2017. All individual investment and group data has been kept confidential.
- Data includes overall metrics of the pilot groups' angel investments and the companies in which they invested.
- Analysis of the data helps us understand the factors that impact the outcomes of the investments.

Methodology

The goal of the Angel Funders Report is to provide unparalleled depth in metrics which leads to understanding of factors that influence angel investing outcomes. ACA board chair, Linda L. Smith states, "We are creating a means for our members, and the general public, to tap in to the wealth of data-driven knowledge regarding the practices that shape angel investing success and our role within the startup community."

ACA received the data by survey and then reviewed and combined when multiple groups reported investing in the same round of investment, removing duplicate data. ACA's data collection and analysis methodologies:

- Comprehensive in coverage
- Regular in collection and publication
- Professionally administered
- Vehicle for promoting the leading groups and platforms
- Rigorous in its analysis
- Safeguarded to protect the privacy of investor's data from use by commercial third parties
- Will include a wide range of angel investors by amount of investing activity and organizational structure

In the future, will also be unmatched in depth of metrics collected and flexible enough to allow searching and benchmarking for data providers.

About the Dataset

The initial report is based upon 25 data fields collected from 26 angel groups selected for participation.

Data includes:

- 2017 data from 432 investment rounds in 393 companies (19 companies received multiple investments in 2017).
- Total investments by the 26 angel groups were valued at $102M.
- The 393 companies received a total of $534M via syndication with other angel groups, individual angels and VC firms.
- Angel groups that participated in the first round of the report are located in 17 states in the United States.
- Companies these angel groups invested in were in 36 US states, one Canadian province and Israel.

*Note – The Angel Funders Report data collection is now being expanded to include all ACA members and in the future, beyond ACA's membership. Future reports will have significantly more data and additional insights.

Key Findings

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

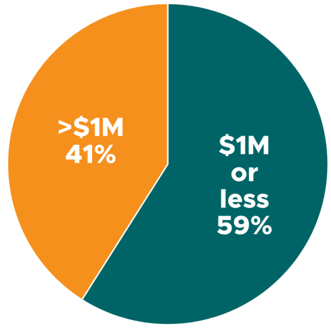
The findings of the initial report tell us that many variables influence angel groups and their investments:

- **Angels invest early and often:** while very early stage (Seed and Convertible Note) rounds dominate at 59% of angel group deals, 36% of the investments were in Series A or later rounds, including 13 Series C investments and one Series E.
- **Angels invest everywhere:** angel groups invest in home communities and beyond their local base. Angel groups in this report are located in 17 US states, but investments were made in companies in their home states and an additional 21 US states (total of 36), one Canadian province and Israel.
- **One size does not fit all:** angels use a variety of investment structures. Many investments were in equity deals, but nearly 36% of rounds were convertible notes or SAFEs.
- **Working together is essential:** syndication is vital for startups and angel groups. 74% of the deals were syndicated with other angel groups and VCs.
- **Angel-backed companies have more female CEOs:** 21% of funded companies had a woman CEO. This is a favorable comparison to VC-backed companies, which academic reports state only 2%-5% of such companies were led by females.
- **Angels invest in a variety of industries:** angels invest in a variety of industries, but with more than two-thirds of the deals in Tech and Life Science fields.

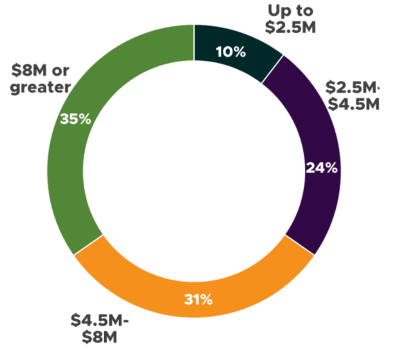
Investments by the Numbers

Nearly 60% of the total investment rounds were $1M or less, with a median size of $1M. The dataset includes some larger investments, however, with 9 deals of $10M or more (all follow-on rounds), and 16 deals between $5M to $10M.

Total Amount Raised Per Round



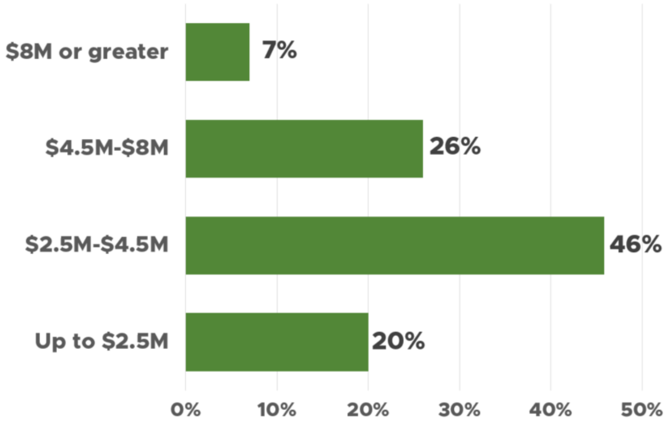
Pre-Money Valuation or Cap on Note



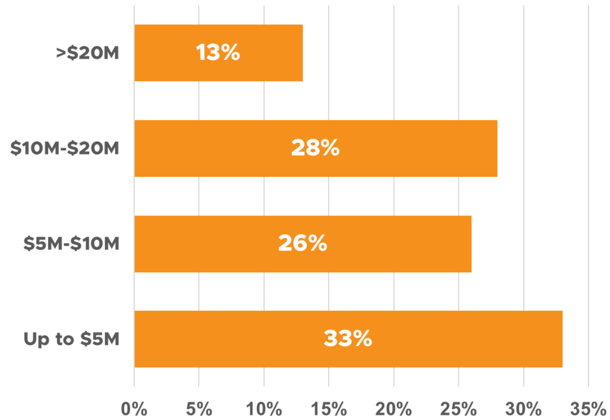
Investments by the Numbers

The median pre-money valuation or cap on a convertible note was $5M, with a wide distribution of valuations. The valuation levels change depending on which series the investment is made in. In the Seed/Angel Round, the median pre-money valuation was $4M, with 46% of groups reporting valuation between $2.5 and $4.5M. Many angel groups invest beyond the Seed Round. In the case of Series A deals, the median pre-money valuation was $8.5M.

Pre-Money Valuation - Angel Round

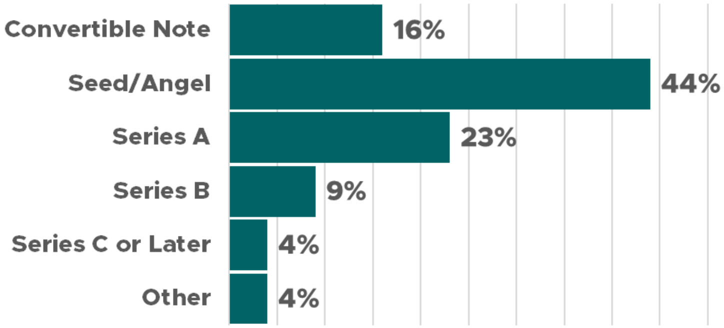


Pre-Money Valuation – Series A Round

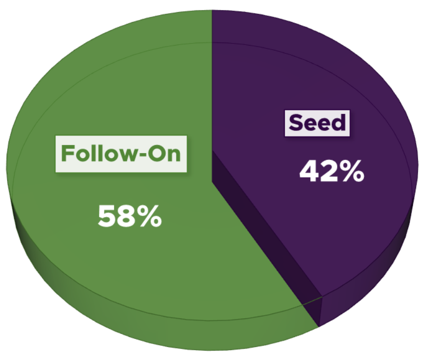


59% of angel group deals are in very early stage companies (Seed and Convertible Note Rounds), but angel groups also continue to invest in later rounds as well. 36% of the investments were in Series A or later rounds, including 13 Series C and one Series E round. Although most of the investments were in early-stage companies, more than half of the rounds were follow-on investments, which is perhaps different than conventional assumptions. Some follow-on rounds are categorized as Seed rounds, as some angel groups use multiple Seed rounds in their investing – capturing both "Pre-Seed" and "Seed" investments.

Round Classification



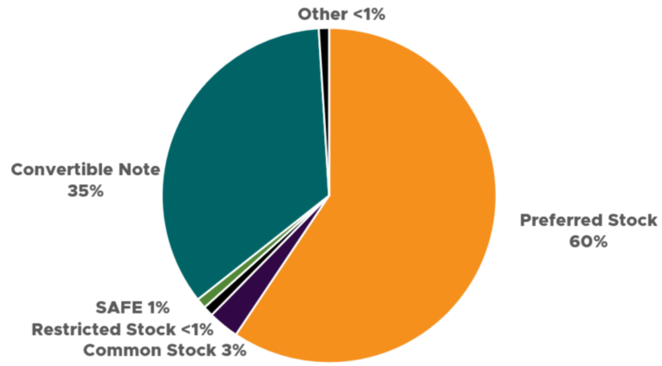
First Investment or Follow-On Round?



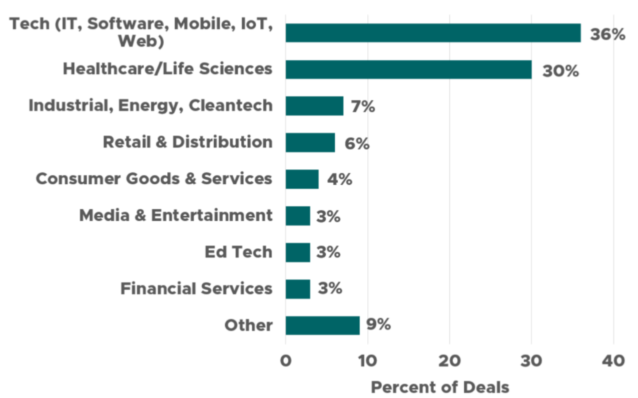
Investments by the Numbers

Deal Structure

Angel groups are using a variety of investment structures. Most investments were in equity or priced rounds, but 35% were in debt - convertible note rounds or SAFEs. Use of convertible notes appears to be increasing over time. In 2015, 82% of ACA members* preferred priced rounds over convertible notes. These angel groups clearly prefer equity rounds over debt, and have a proclivity for preferred stock over common stock, nearly 20:1.



Deals by Industry Sector

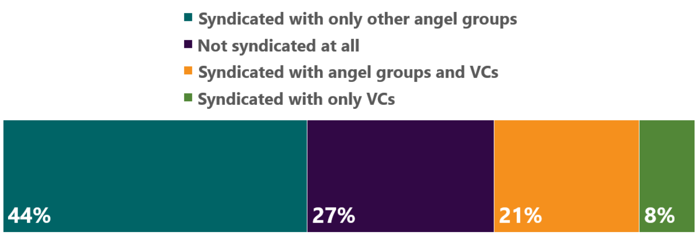


Angels in angel groups invested in variety of industries, with more than two-thirds of the deals in Tech and Life Sciences fields. The most deals in tech included Enterprise Software and Internet/IoT/Web, while Medical Devices had the most investments in the Healthcare/Life Sciences sector.

Syndication – Working Together

73% of deals were syndicated

Deal Syndication



Nearly three quarters of these angel group deals were syndicated in 2017. Deal syndication is critical for angel groups and the startups they fund. While the median investment per group is $202K, the median round size was $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.

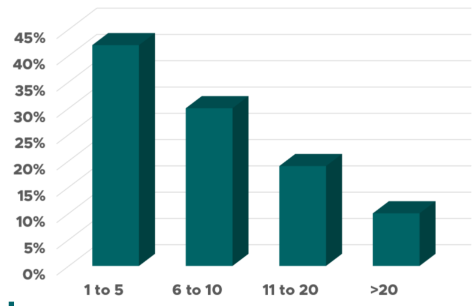
Of the deals that were syndicated, the majority involved other angel groups (89%), but 40% of the co-investments included VCs. Most of the VC activity took place in Series A or later rounds.

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

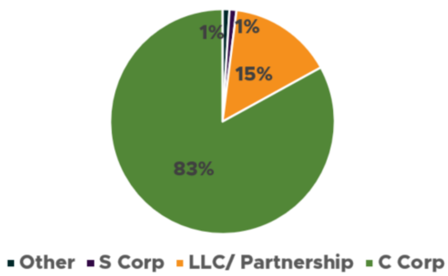
Company Detail

The initial data provides insights into the sizes of angel group portfolio companies, which are typically smaller companies based on revenue and number of employees. At the time of investment, nearly half of the companies were pre-revenue, although about 6% of the companies had revenues of more than $3M. The companies had small staffs, with a median of 7 employees, but some companies had revenues above $10M and 100+ employees. In terms of tax structure, the bulk of the startups were C Corporations, followed by Limited Liability Companies and S Corporations.

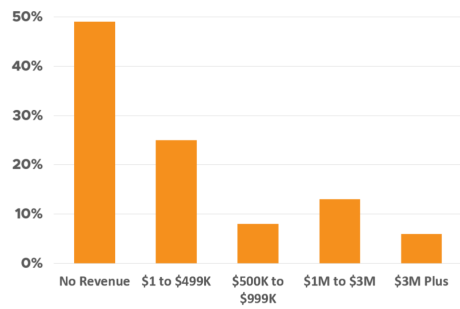
Number of Employees at Time of Funding



Tax Structure of Funded Companies



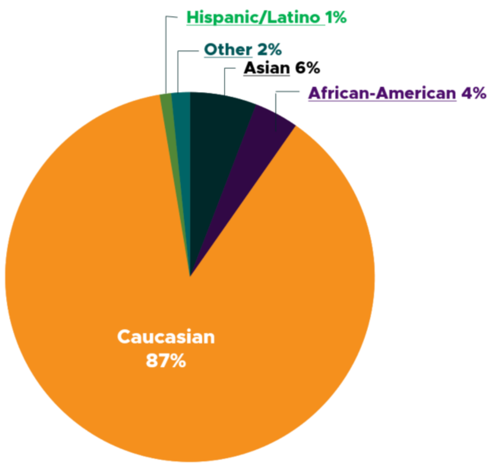
Company Revenue at Time of Funding



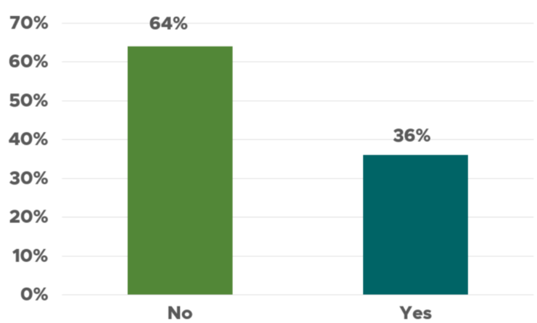
CEO Profile

The CEOs of the portfolio companies were typically white males, but we see some growing diversity particularly related to gender. More than 21% of the startup CEOs were females, which is favorable in comparison to VC-backed companies. Various academic studies report only 2-5% of those companies were led by females. Another important demographic about the CEOs is their previous experience in leading startup businesses. About two-thirds of the CEOs in this dataset were first-time CEOs, which might be surprising to those who have read media reports about serial entrepreneurs.

Racial Diversity Among CEOs



Previous Experience of CEOs in Leading Startups



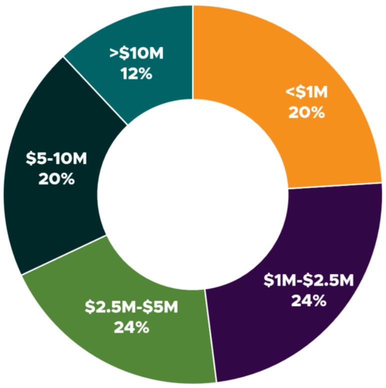
Gender of CEOs

Male = 79% **Female = 21%**

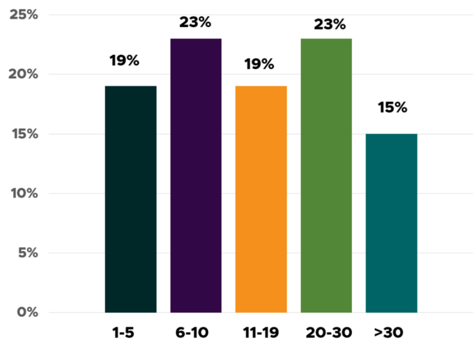
Angel Group Activity

Angel groups in this dataset had considerable variety in their activity. The median value of total investments for the year was $2.85M and the largest amount invested throughout 2017 in the dataset was $14.2M. Twelve percent of the groups invested more than $10M during the year, while 20% of the groups invested less than $1M. Three angel groups invested more than $10M in 40+ companies. Several angel groups in the dataset invested less than $1M per year in 3-4 deals. While the median number of deals was 10, 15% of the groups invested in more than 30 deals and 19% invested in 5 of fewer. The largest number of deals was 49. Drilling deeper into the data, we also see variation in the round sizes per deal. While the median investment per group per round was $202K – most investments ranged between $100K and $500K for 80% of the deals.

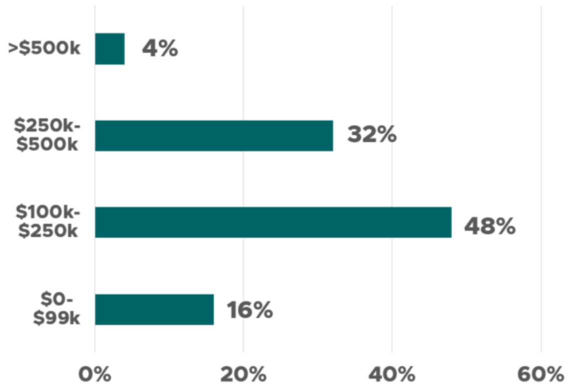
Dollars Invested Per Group in 2017



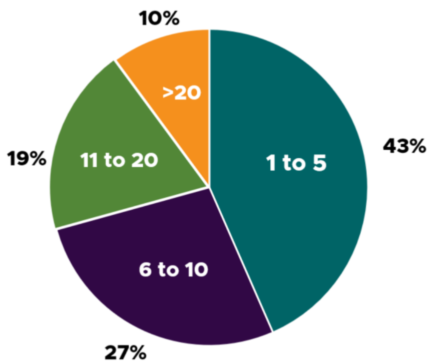
Total Number of Deals Per Group in 2017



Investment Amount Per Group Per Round



Number of Group Members in Each Deal



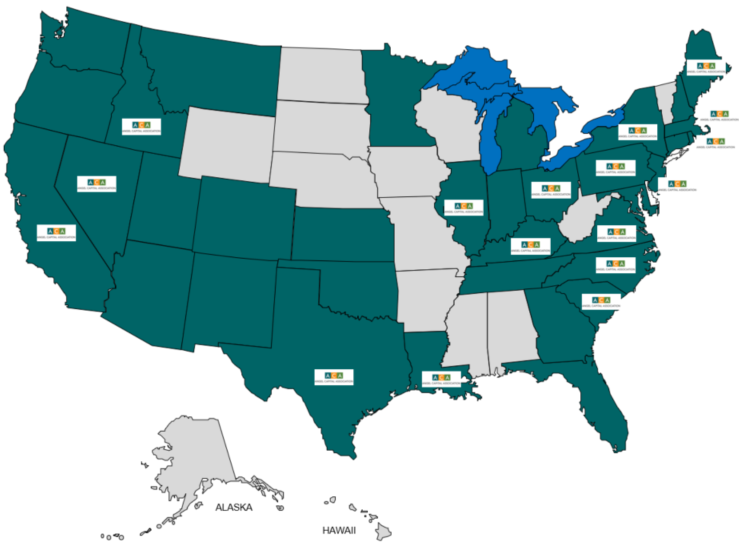
Angel networks allow each member angel to determine if they want to invest in a particular company. So, what is the optimal number of angels in a deal? This is a factor ACA will review over time. In the initial data, the average number of angels investing per deal is 10. Three larger groups averaged more than 20 angels in each deal.

* Two of the angel groups in the reported data are funds, in which their full membership made investments after majority vote. Numbers for angel funds are not included in the analysis of this question.

Angel Group Geographic Location

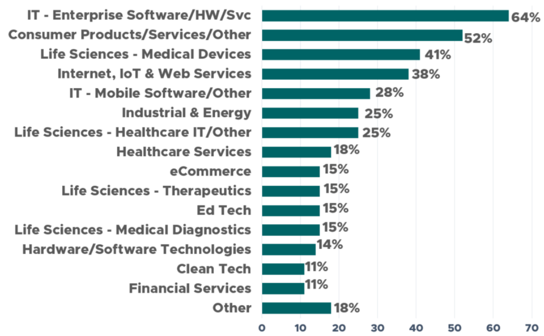
Angel groups in the initial data set are located in 17 US states across the US. Their investment coverage is considerably larger: they invested in companies located in 36 US states, one Canadian province and Israel.

Map Key
ACA reporting group location =
Location that ACA group invested in =

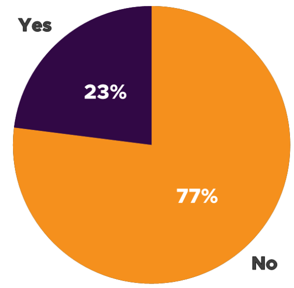


Angel Group Activity

Percentage of Angel Groups Investing in Sectors



Members Serving on Company Board



Angel groups invested in a variety of industry sectors, including IT/Enterprise Software, Consumer Products and Medical Devices.

In this dataset, 23% of the companies had an angel group member on the board. A key factor for ACA to analyze in the future is group participation on portfolio company boards, with the hypothesis that when an angel group is represented on the board, the better the chances of a good return. This percentage was likely affected by the high percentage of deals that are syndicated. In most cases, the group leading the deal represents the syndicate on the board.

Participating Angel Groups

757 Angels
BAN Baylor Angel Network
Boise Angel Alliance
Buffalo Angels a division of WNYVA
Central Texas Angel Network
Cherrystone Angel Group
Duke Angel Network
Golden Seeds
HPA Hyde Park Angels
Irish Angels
Launchpad Venture Group
Life Science Angels
Maine Angels
MABA Mid Atlantic Bio Angels
NOLA Angel Network
North Coast Angel Fund
Northern Kentucky Angel Investor Network
Ohio TechAngels
Pasadena Angels
Queen City Angels Invest | Inspire | Achieve
River Valley Investors Springfield, Massachusetts
RobinHood Ventures
RTP Capital Associates, Inc.
Sierra Angels
Tech Coast Angels
VentureSouth

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. This pilot report provides important knowledge about angel groups, investment decisions, and future reports will also focus on the outcomes of these investments.

ACA is now inviting all members to participate in the data initiative. Portfolio companies that provide data have better outcomes. Expanding the scope and insights reported in upcoming versions, ACA plans to dive deeper in to additional questions. Future reports will include average annual investment amounts, valuations, what sector groups angels are investing in, exits and related in-depth data.

Our goal is to have hundreds of angel groups participating by year end 2019 so that we may begin to analyze the factors that affect angel investing outcomes. Currently angel groups have limited data. ACA's goal is to provide better data to angels and the startup community.

Currently, angel groups can only analyze their own data to attempt to gain insights to improve their outcomes. Tony Shipley, ACA vice chairman best explains the value of the Angel Funders Report, "by gathering, analyzing and publishing data from angel groups, we will provide a foundation for better understating the factors that influence angel investing and the startups we support."

Here are some examples of insights currently being gained by large individual groups that we plan to learn more about in future Angel Funders Reports. Each had more than 100 investments to review and exits with a strong track record of success to help them gain important insights, including:

CEO Experience Counts

- One group found that companies led by a CEO who had previous experience in leading a startup was more than twice as likely to have a successful exit than a venture led by a first-time startup CEO – 32% of their portfolio with experienced CEOs had a positive exit compared to 13% of companies with first-time CEOs.

Successful Exit Secrets

- Another organization, which has had three "home run" exits of more than 100X of their investments, found that 2% of its exits were responsible for 74% of their returns - a small percentage of exits generated three quarters of returns. Further, each of these large returns came after the company boards chose not to take "early exit" options and instead pursued exits that took longer. Had the earlier options been accepted, the group's overall portfolio return would have dropped by half, from 4.8X to 2.4X.

Follow-ons Can Bring Higher Returns

- Leaders of a third group found that participating in follow-on rounds is key to long-term success, finding that the Internal Rate of Return for later rounds often showed more returns and reduced risk. Investing longer and later can increase the Internal Rate of Return.

These are examples of what ACA plans to include in future reports using data from all of the organizations providing data.

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