ACA INVESTOR INSIGHTS REPORT 2022

ACA

ANGEL CAPITAL ASSOCIATION

INDEX

A LETTER TO OUR COMMUNITY

For approximately the last three and half years the ACA has collected once a month key learnings that angel groups have seen from collecting and analyzing data around angel investments. These insights from ACA angel groups and funds are shared on a monthly basis in order to help individual angels and angel groups learn more about key trends in our industry and improve outcomes.

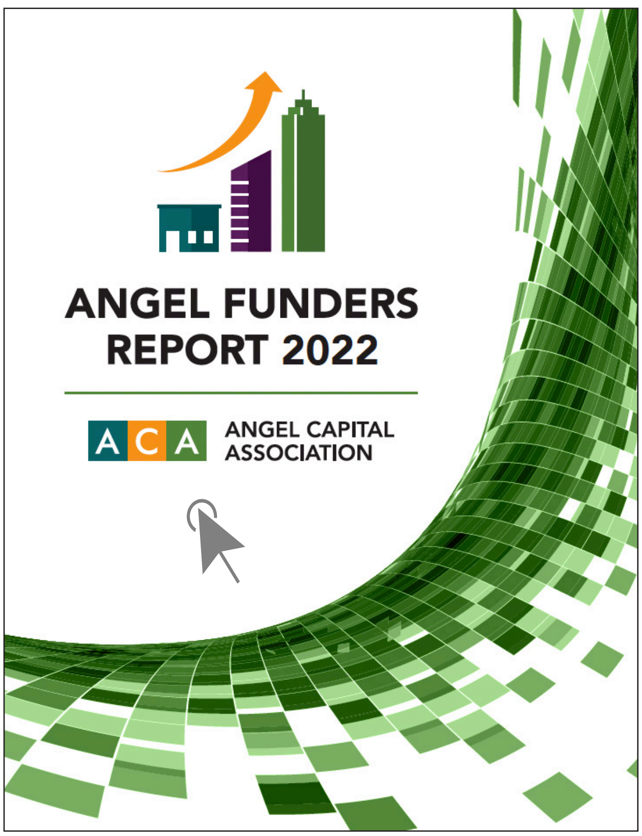
The Angel Capital Association believes that data will make us better investors. ACA is committed to helping angels make informed decisions that will improve investment outcomes. The is why the ACA started the ACA Data initiative several years ago.

This annual summary conveniently consolidates our monthly data learnings. Please enjoy reading these data insights. If you'd like to receive the monthly emails and read them as they are freshly published, you can subscribe here.

Thank you,

Rick Timmins

Rick Timmins
ACA Data Analytics Chair



ADDITIONAL INFORMATION AVAILABLE

Go online to get your copy of the Angel Funders Report. The Angel Capital Association publishes the Angel Funders Report annually to increase awareness about angel investor activity and build a deeper understanding of the investing environment. The report provides context for seemingly disparate data points, identifies trends, and highlights innovative ways that ACA members are working together to fuel the entrepreneurial ecosystem.

ECONOMIC IMPACT OF ANGEL INVESTING CAN BE MEASURED

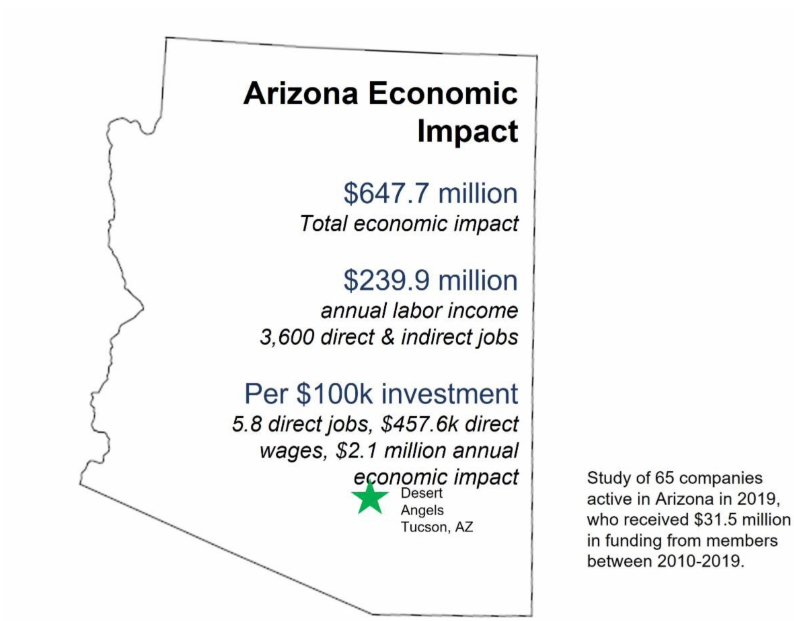
Angel investors are vital to the economic health of communities and play a vital role in our nation's economy.[1] Indeed, angel investors invest in early-stage companies at a time when capital and expertise are critical to helping those companies advance. Measuring the return on this investment informs process, future action, and to an angel group may be a powerful attractor for new members.

Measuring the economic impact of these investments in a region informs an even greater effort. For example, the data may be parsed by industry or sector, providing valuable insights to state and community partners, bolstering their efforts to pursue new program resources, and positioning them to serve an even greater population of early-stage companies. This supports a strong infrastructure for startup companies, which in turn creates new jobs and attracts new resources to the region. Economic impacts are a way to quantify not only the direct impacts of new jobs, payroll and sales generated by the companies, but also the consequential effects on the state's economy overall. This approach provides a more robust basis for understanding the return on investment from financing programs that stimulate economic growth.

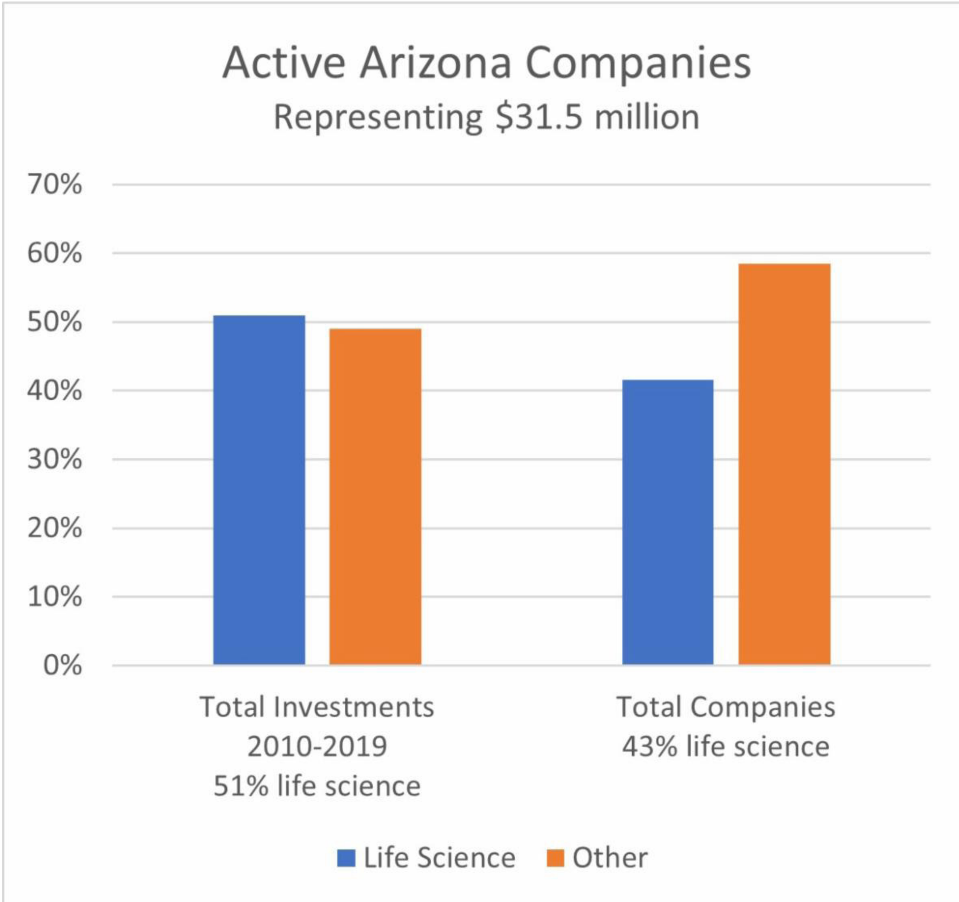
Desert Angels Economic Impact Study

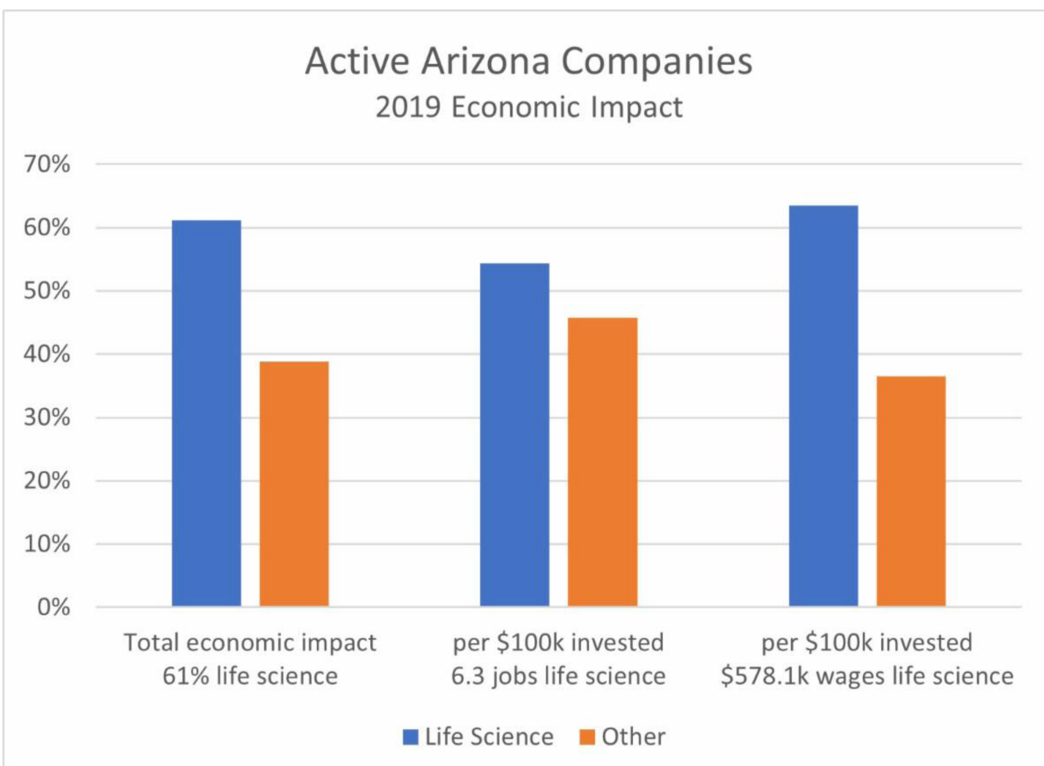
Desert Angels conducted a ten-year look back study of 95 portfolio companies in which its members had invested during 2010-2019. Of those, 65 companies representing $31.5 million of member investments were active in Arizona in 2019 and provided the data necessary to complete the study. It showed that each $100,000 in investments resulted in 5.8 jobs, $458k in direct wages, and $2.1 million in annual economic impact.

The initial portfolio interview data, reported in aggregate to preserve company confidentiality, was collected in partnership with interns provided by the University of Arizona. This report enabled community partners to view regional activity as well as data relevant to their efforts - for example university commercialization activities, incubator programs, grant awards, and the state angel tax credit program. This report also revealed that just over 40% of the portfolio companies active in Arizona fell into the "life sciences" industries, which was of particular interest to one partner who, in turn, sponsored the economic impact study. The study was done using similar tools and methodology as used by Tech Launch Arizona, the commercialization arm of the University of Arizona, to measure their venture development activities. Following is a snapshot from the economic impact report along with the life science summary breakout.

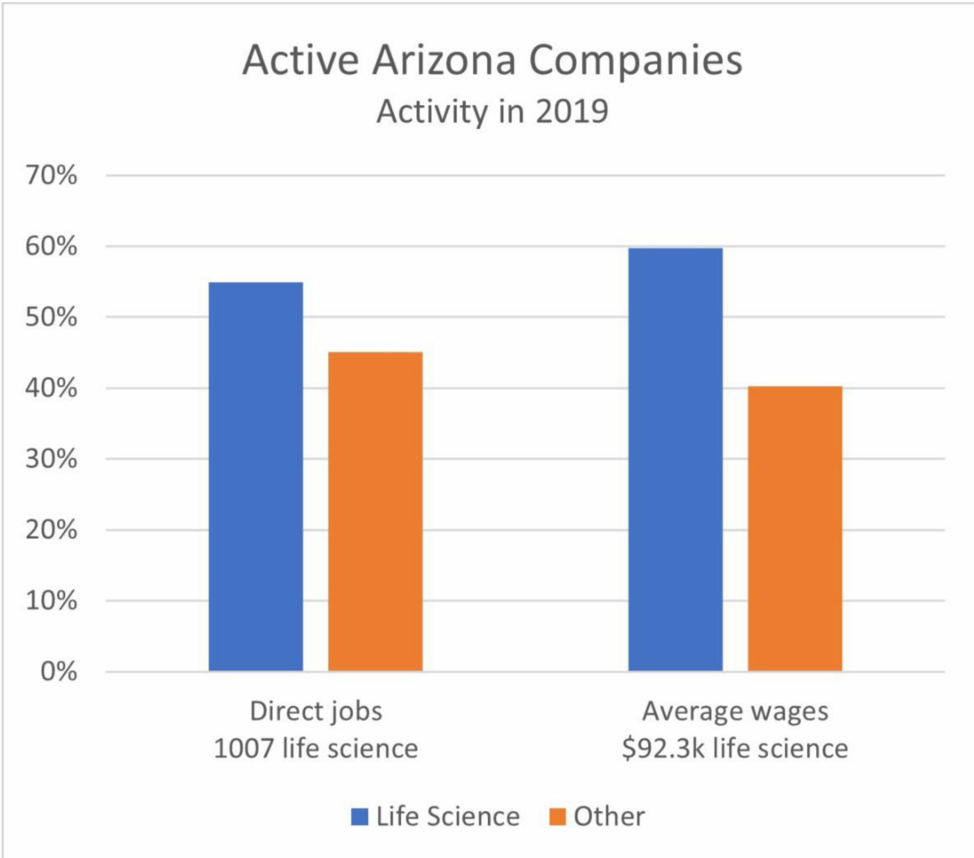


ECONOMIC IMPACT OF ANGEL INVESTING CAN BE MEASURED





ECONOMIC IMPACT OF ANGEL INVESTING CAN BE MEASURED



THE TAKEAWAY

As is the case with Desert Angels, the economic impact study provided valuable data for partner and statewide initiatives; revealed partnerships and connections for further ecosystem development; and provided additional perspectives for members looking at return on investment.

The results of this study will inform the angel group's strategic plan and serve as a baseline for future studies. It would also be interesting to compare this data to other angel groups around the country, especially in those areas that are undergoing significant regional economic growth as is the case with southern Arizona.

AUTHOR: *Joann MacMaster, CEO of Desert Angels*

PUBLICATION DATE: *January 2022*

ECONOMIC IMPACT OF ANGEL INVESTING ON COMMUNITIES, INVESTORS AND FOUNDERS

Based on carefully tracked data, The Central Texas Angel Network (CTAN) has been able to demonstrate not only the cash returns angel investing can provide to individuals, investors and start-up founders, but also the incredible impact it makes on a community. Generational wealth is being created as a result of entrepreneur success and funding by angel investors.

Established in 2006, the CTAN network has become one of the most active angel investment groups in the country. CTAN employs a network model whereby individual members invest directly in companies as opposed to the fund model that is utilized by many groups. The organization has created processes for tracking approximately 70 financial metrics in the hope of making members more successful angel investors by driving better outcomes.

Performance of CTAN from 2006 through 2021:

- Invested $124M in 202 companies.
- Realized and unrealized value of the portfolio is $424M or 3.4x.
- 109 of the 202 companies invested in have either exited or gone out of business - leaving 93 companies in business at the end of 2021.
- Collectively, these 109 companies no longer in the portfolio have yielded a 29% internal rate of return to CTAN members.

CTAN Portfolio – 2006-2021 – By the Numbers

Companies Invested In	Total $'s Invested	Total $'s Valuation
202	$124M	$425M

Valuation Multiple	Exits & Out of Business Companies	IRR on Exits & Out of Business Companies
3.4X	109	29%

Excess Cash Returned Above Investment to CTAN Members	Excess Cash Returned To Entrepreneurs/ Teams (Estimated)
$204M	$714M

CENTRAL TEXAS ANGEL NETWORK

CTAN member investments are having an economic impact through 2021:

- An average of 90 active investments remained in the portfolio at the end of each year.
- Companies averaged 28 employees per company or 2,520 employees at the end of each year - with approximately 65% of these employees in Austin and 35% in other communities.
- Using average salaries for various sectors, it is estimated that aggregate payroll levels are approximately $200M.
- Additionally, there is a multiplier impact that includes expenditures from suppliers, purchases made by these companies and other indirect spends, which suggests that conservatively an additional 4,939 jobs are created on an annual basis with an additional $325M in salaries.

These investments are having a powerful impact within the communities that house these start-ups. Additional economic data points such as payroll taxes and others are not calculated.

Excess cash returned (as noted earlier, a total of 109 companies have either exited or gone out of business):

- The breakout is 47 companies with exits and $41M in investments compared to 62 companies and $25M in investments that have gone out of business.
- This combined $66M in investments has returned a total of $270M and a net return to CTAN members of $204M.
- By reviewing cap tables at the time of exit, we have also estimated the start-up company founders' shares have provided entrepreneurs with an estimated $714M in cash returns.

This excludes the returns generated for other start-up employees through option pool returns, creating significant wealth to these employees.

Economic Impacts With CTAN Investments Per Year 2015-2021

# of Companies in Business-Y/E	Average # of Jobs Per Company	Total # of Employees
90	28	2,520

Estimated Salaries	Estimated # of Additional Jobs Created	Estimated Total Labor Income in Communities
$197M	4,939	$325M

Thus, in summary, CTAN's $124M investment over a 15-year period has produced a billion dollar return to members of the community (including employees) or an 8x return. Angel groups like CTAN can and do have a powerful impact on their communities.

THE TAKEAWAY

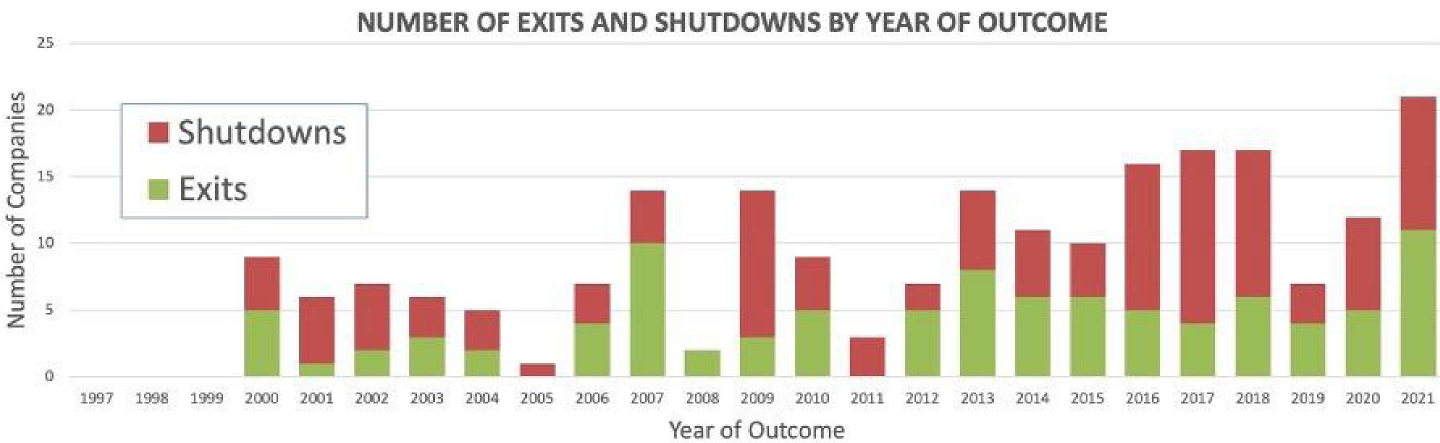
Angel investment positively impacts the local community in terms of jobs created, tax-base created and economic wealth for entrepreneurs and investors. It is also showing very positive cash returns to angel investors and founders of start-up companies.

AUTHOR: *Rick Timmins, Member, Central Texas Angel Network*

PUBLICATION DATE: *June 2022*

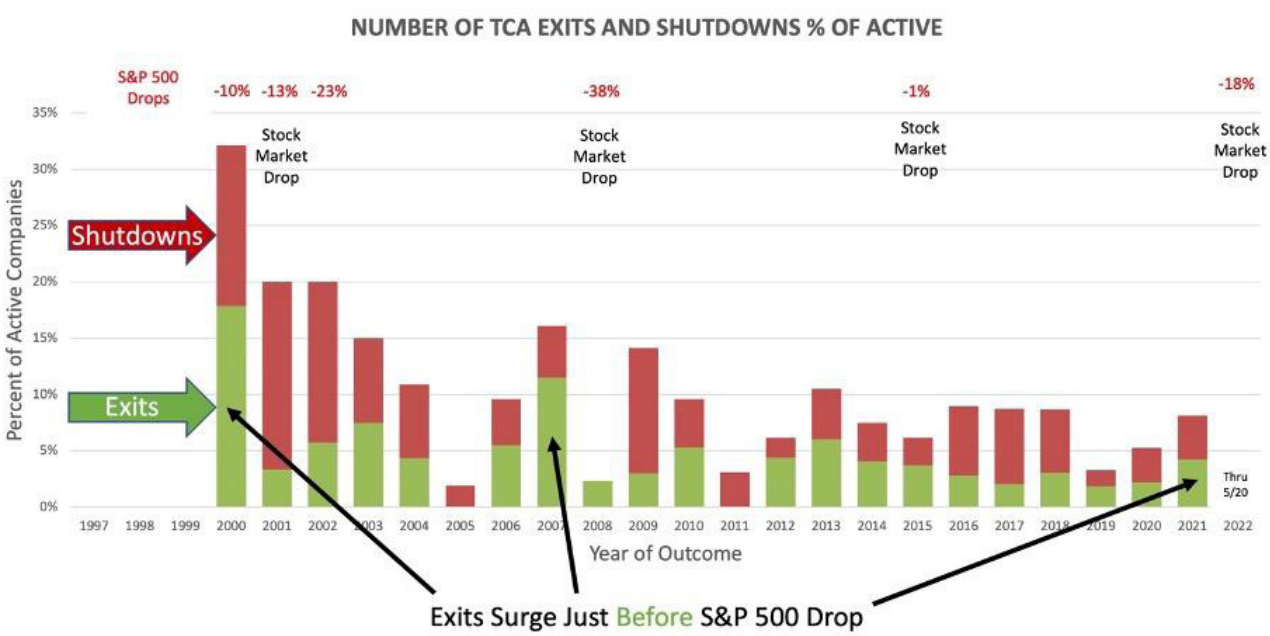
IMPACT OF STOCK MARKET DROPS ON EXITS, SHUTDOWNS AND INVESTMENT LEVELS

2021 was a very good year for most angel groups in terms of successful exits. For Tech Coast Angels, we had 11 exits which was about twice the number realized in each of the previous seven years. Many angel groups also had their biggest "Home Run" in 2021 – for example, TCA had one (Procore Technologies) at 368x, Portland Seed Fund had one (Auth0) at 84x, and Central Texas Angel Network had two (Recursion Pharmaceuticals at 70x and ESO at 30x). Here is the pattern of exits and shutdowns by year for TCA (note this is obviously a subset of all angel funded outcomes and TCA may not be representative of other groups, but it is a fairly large portfolio of over 500 companies, so hopefully the conclusions are relevant more generally):



Source: Tech Coast Angels Portfolio Outcomes

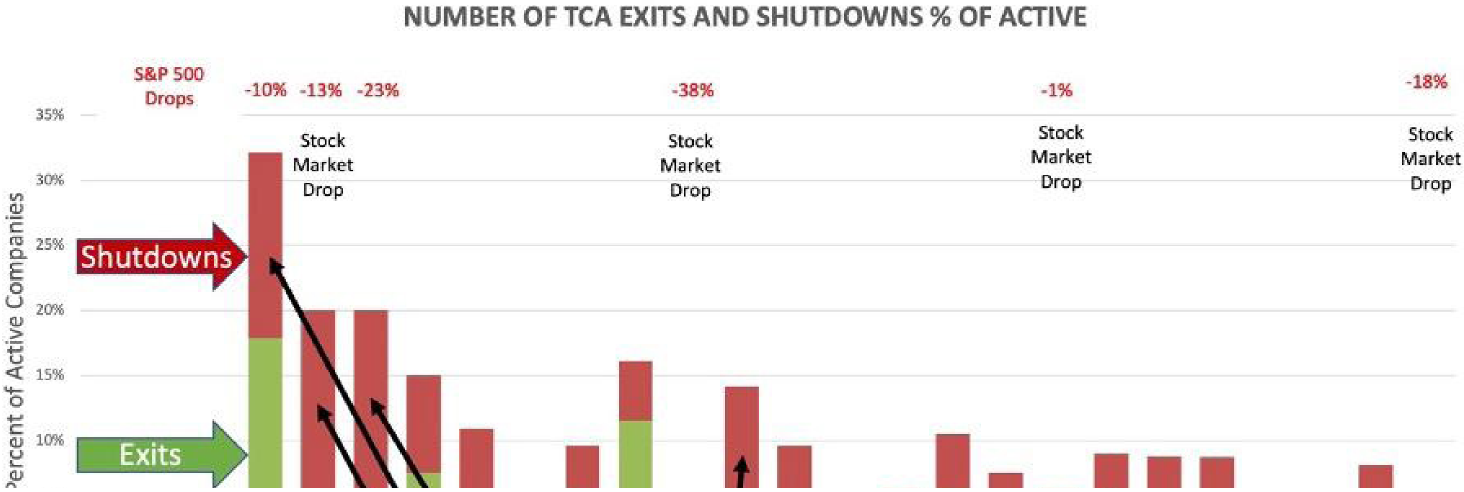
The number of exits often peaks just before a significant stock market drop, which is not surprising since most acquirers tend to defer acquisitions and focus on shoring up their existing business. Taking those numbers of exits and shutdowns as a percentage of the number of active companies at the end of the previous year brings additional clarity.



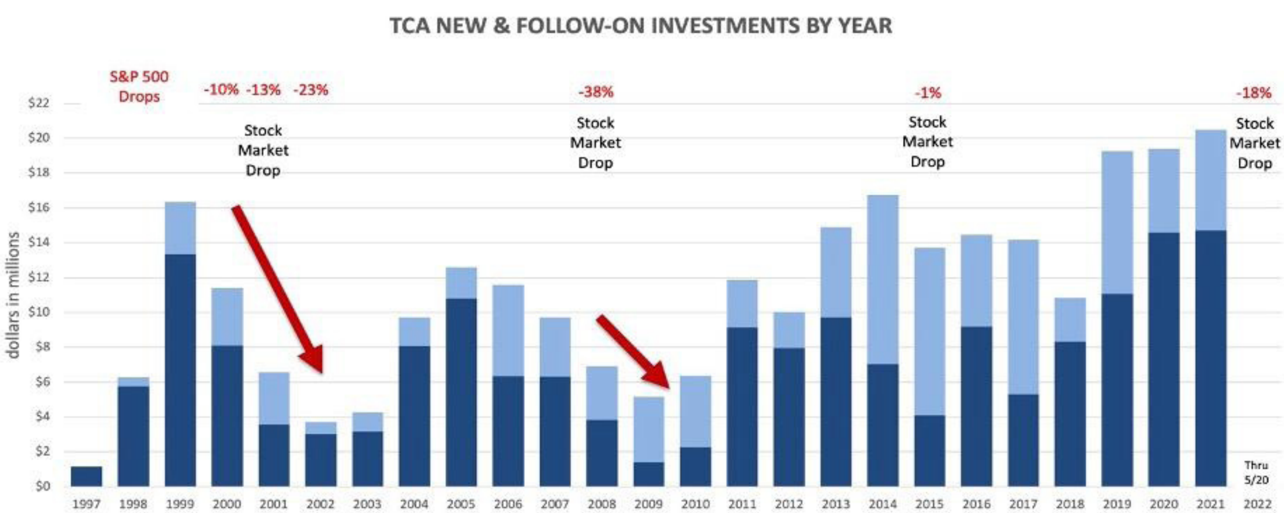
Source: Tech Coast Angels Portfolio Outcomes

IMPACT OF STOCK MARKET DROPS ON EXITS, SHUTDOWNS AND INVESTMENT LEVELS

It is also compelling that the number of shutdowns tends to surge immediately after a stock market drop:



This surge in shutdowns coincident with a stock market drop is also not surprising because funding usually dries up at this stage of the cycle. Angels adjust to the diminished value of their public securities (that they would need to sell in order to fund their angel investment). Angels also tend to pullback on new investments when shutdowns are more common and exits are fewer. Further exacerbating the trend are potential declines in membership as turnover increases and fewer new investors decide to join angel networks.



KEY TAKEAWAYS

The bear market we seem to be entering now is likely to lead in the near term to fewer exits, more shutdowns, and less capital available to early-stage companies from Angels. But it is "always darkest before the dawn," so this market correction will inevitably lead to lower valuations encouraging a new cycle of investment at some point in the next few years. Some of the best successes are born in the midst of these downcycles -- so there is opportunity especially at the lower valuations that are expected.

AUTHOR: *John Harbison, Chairman Emeritus of Tech Coast Angels*

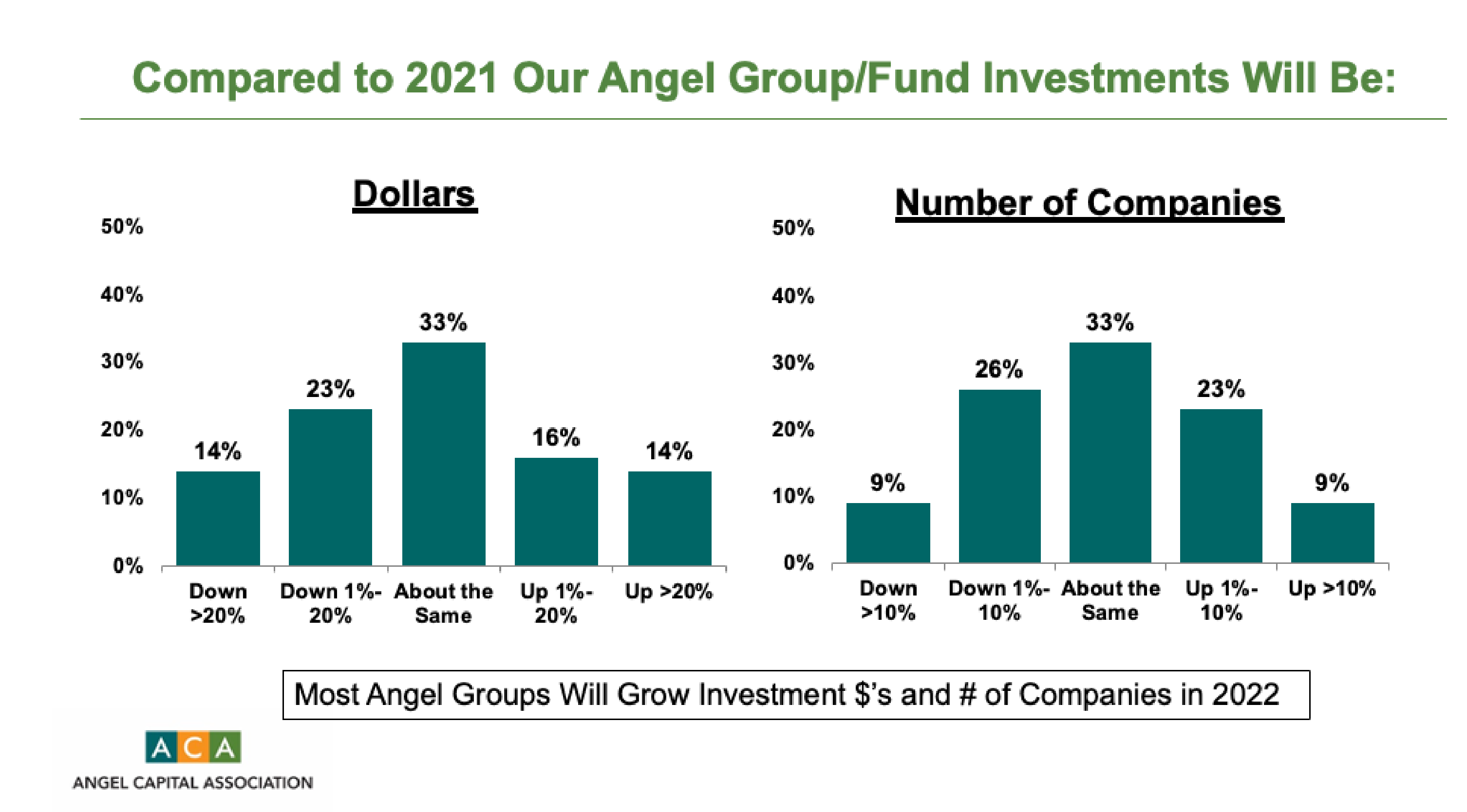
PUBLICATION DATE: *May 2022*

2022 ANGEL INVESTMENT SENTIMENT VERSUS 2021

The Angel Capital Association will soon be publishing the 2022 Angel Funders Report which provides significant insights into angel investing trends in 2021. Today's environment is much more challenging, even more than the COVID epidemic of the last several years. This, of course, is due to many factors including falling valuations in public markets, rising interest rates, supply chain disruptions, increasing inflation, and geopolitical conflict. And broader economic conditions have already impacted private capital. Crunchbase recently published a report indicating that as of the end of the third quarter, 2022 late-stage venture capital and private equity funding to VC backed companies was down 40% quarter over quarter and 63% year over year. Early-stage venture funding also saw a 25% decline quarter over quarter and a 39% decline year over year.

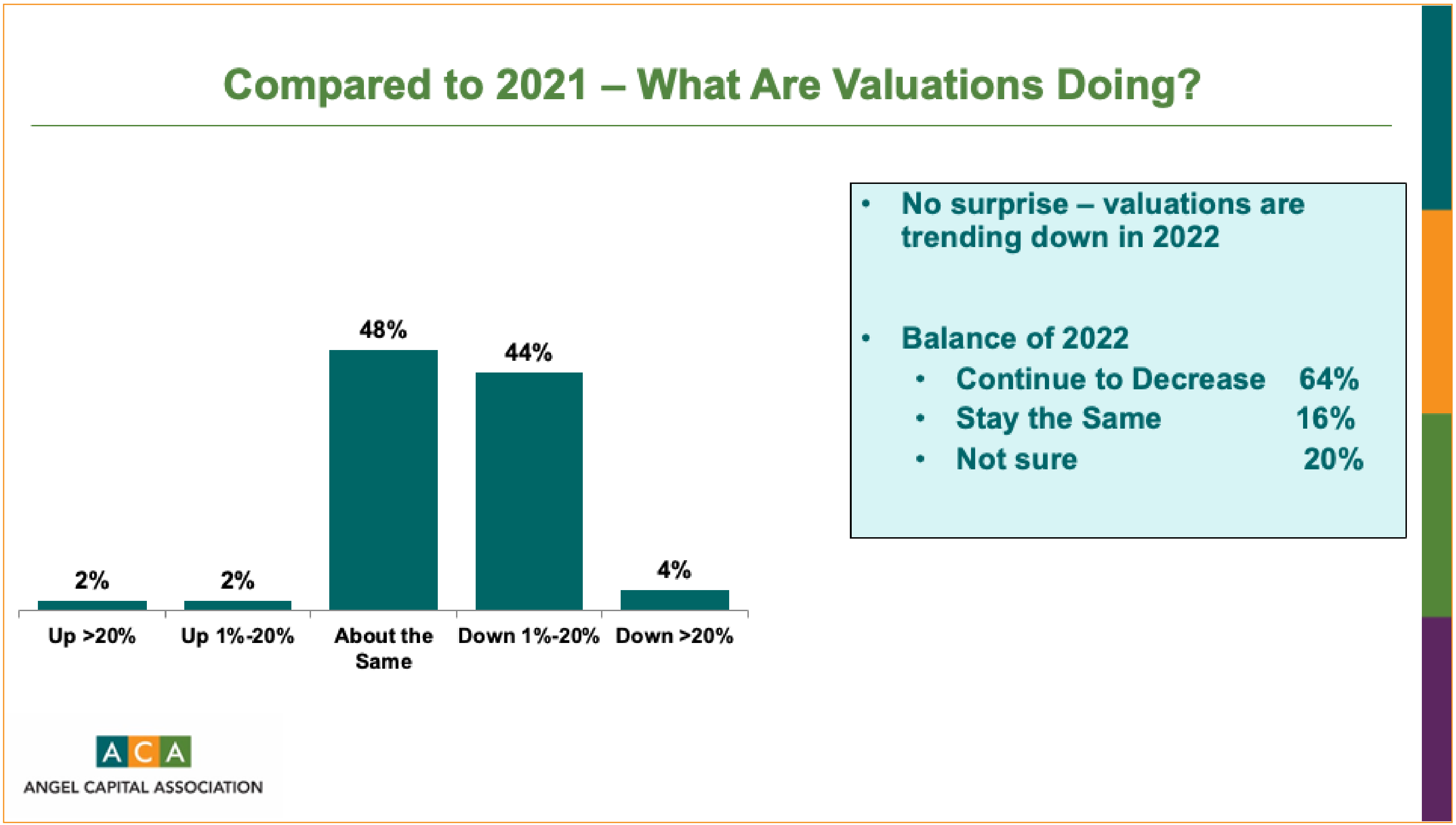
As noted, much has changed from last year to this year. Given the magnitude of those changes the ACA also conducted a 2022 Angel Investing Sentiment Survey in September, 2022. This survey was sent to ACA angel groups and involved responses to 12 questions centered around investing sentiment in 2022 versus 2021 by angel groups and angel group members. The accumulated data was summarized and a report has been prepared on the responses by the 44, primarily large angel groups, that responded to this survey.

The first chart we are sharing here asked what angel groups estimate their 2022 investments in terms of dollars and the number of invested companies will be compared to 2021. Unlike venture capital investing in 2022 compared to 2021, which is likely to see a sharp decline, angel groups responded very differently. In terms of dollars, 63% of groups indicated that invested dollars will be the same or even up 1% to 20% year over year (16%) or even up more than 20% versus last year (14% of groups). Only a combined 37% of angel groups expected invested dollars to be either slightly down (1% to 20%) or down more than 20%. As you review the data on the number of companies, again it indicates that 65% of the angel groups believe that company investments will be the same or even higher (32% of responses) in 2022 versus 2021. Only 35% of the respondents expect the number of company investments to decline in 2022.



2022 ANGEL INVESTMENT SENTIMENT VERSUS 2021

Let's look at another chart from the Angel Group Sentiment Survey and look at valuations. No surprise here that valuations in 2022 are either the same (48%) or are in effect declining. 44% of angel groups indicate valuations are down 1% to 20% compared to 2021 and even 4% of angel groups indicated valuations are down 20% or more. Another question asked of angel groups was what they expected to see in terms of valuation for the balance of 2022, which is basically Q4 of this year, and as noted in the green-shaded box on the chart, a full 64% of angel groups expected valuations to continue to fall. This data supports the data we have seen published by Tech Crunch and Carta which indicated valuations for venture capital investments in 2022 are declining in all rounds (Seed through Series D) anywhere from 3% to 42%.



THE TAKEAWAY

In summary we believe angel groups and individual angels continue to be resilient and are continuing to fund companies even in a down economy while we are seeing VC's pulling back. Angels recognize that it takes a long time to build companies, so recent ups and downs are not deterring angels and that their investment is going to be longer than the current business cycle. Lower valuations in public markets and elsewhere are also impacting early-stage companies and savvy angels realize that the current environment is a strong investing opportunity rather than a barrier.

AUTHOR: *Rick Timmins, Member, Central Texas Angel Network*

PUBLICATION DATE: *October 2022*

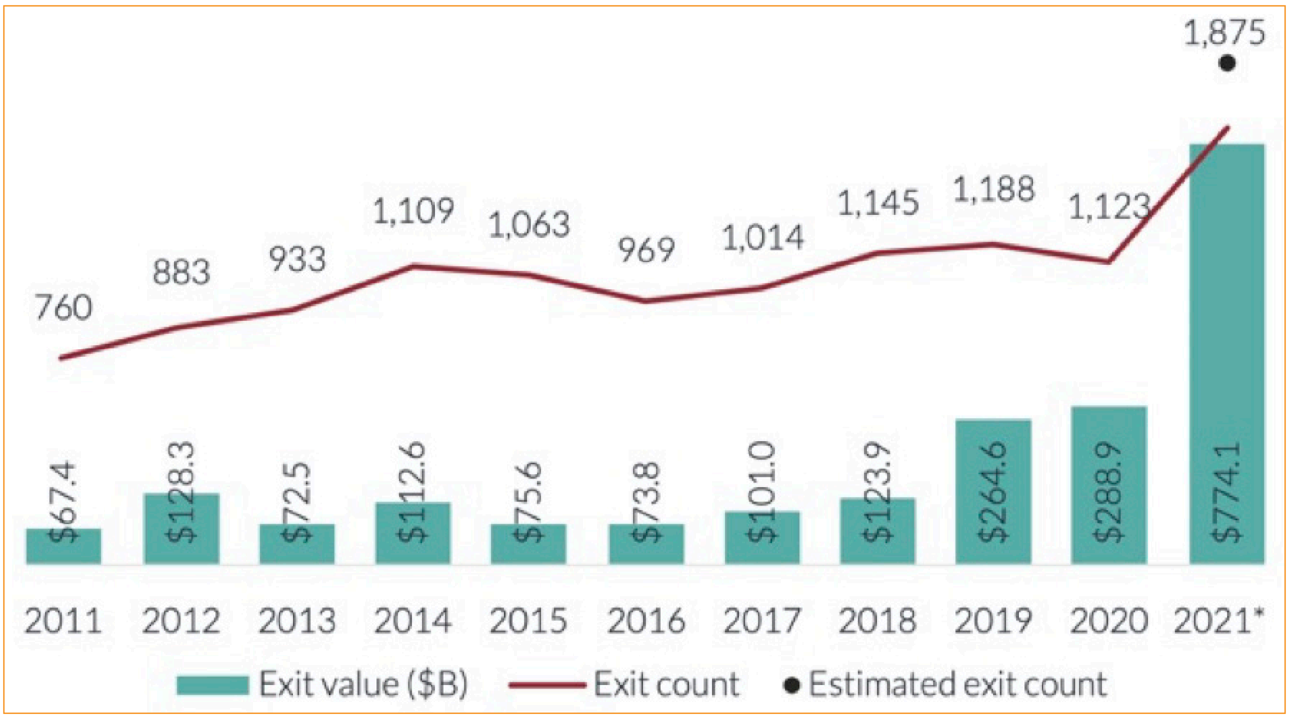
THE EQUITY SELLER'S BUBBLE OF 2021

2021 was an unusual year. Investors participated in record returns, capital raises, valuations, and founder-friendly deals, the most "exuberant" year for startup financing in two decades. What are the lessons we can learn about investing during and after startup capital market bubbles?

How We Got Here–2021: The Peak of the Twelve-Year Bull Market and Startup Bubble

It is an old rule of thumb that to understand startup markets today, measure the previous several quarters of M&A and IPO activity. Rising exits typically foreshadow a rise in venture activity as investors, encouraged by strong returns, plow new money into the startup economy. This is precisely what happened. The number and value of startup exits accelerated in 2019. The value received from startup exits reached a peak in 2021, 2.7x 2020's exit value and 1.7x that year's number of exits.

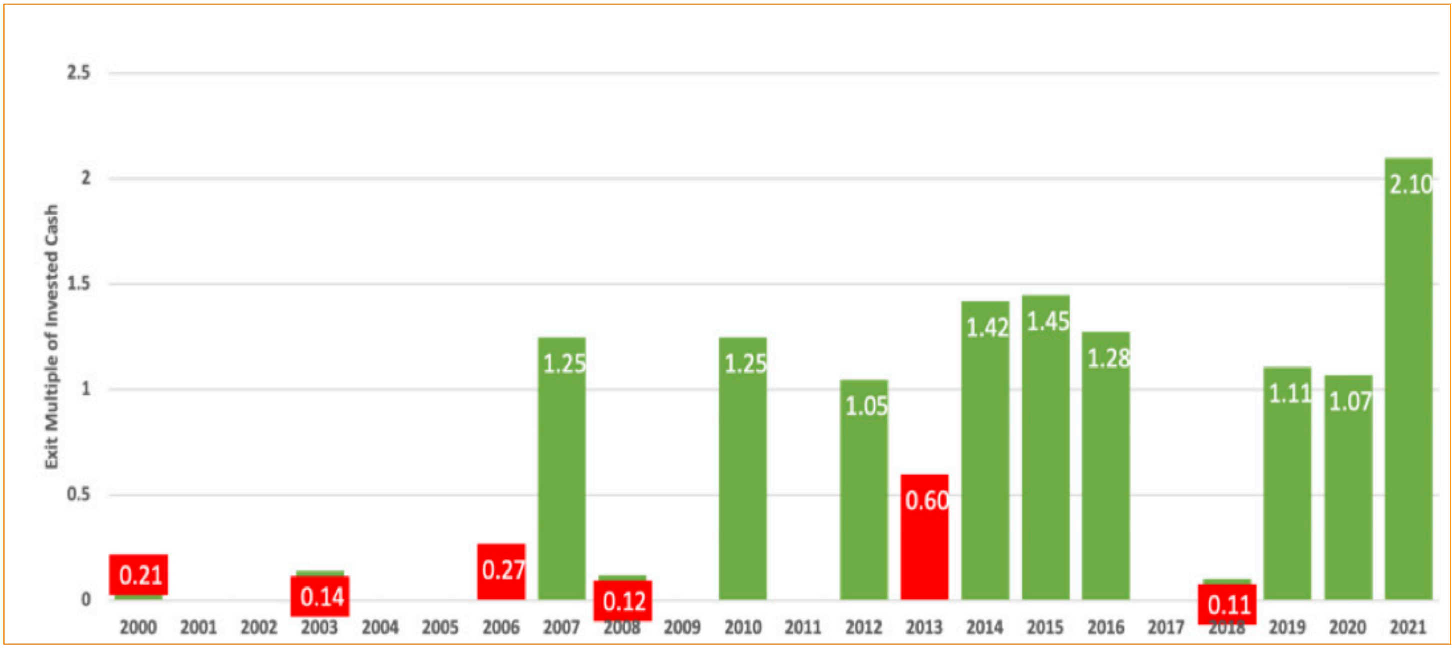
FIGURE 1: EXITS AND EXIT $, 2011 TO 2021



** As of December 31, 2021*
Source: Pitchbook-NVCA Venture Monitor

Angels, too, saw record returns in 2021. As the ACA's 2022 Angel Funders Report revealed, Angels received a record median multiple (2.1x) of their previously invested capital in 2021, nearly twice the median exit multiple of the prior year (1.07x), a level not seen in at least two decades:

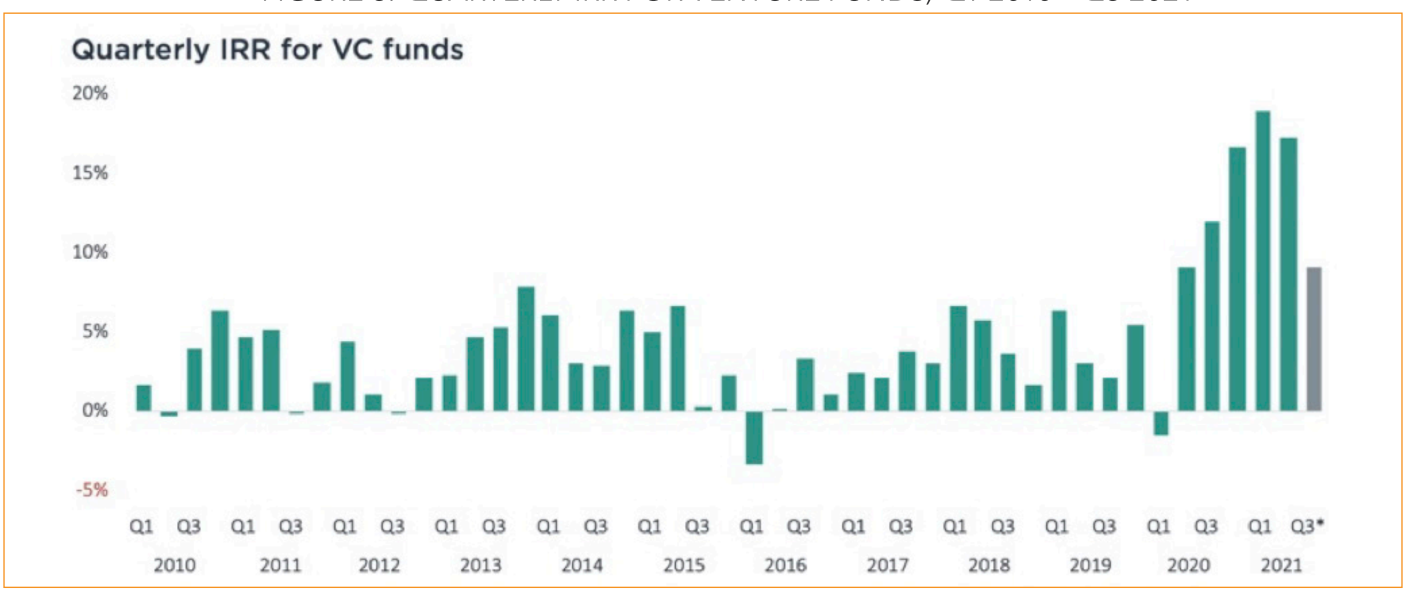
FIGURE 2: MEDIAN EXIT RETURN MULTIPLE TO ANGELS BY YEAR



Source: 2022 Angel Funders Report, Angel Capital Association

Similarly, beginning in 2020, the median quarterly IRR for venture funds globally reached levels also not seen in many years, growing to 3x and 4x the typical IRRs of the previous decade:

FIGURE 3: QUARTERLY IRR FOR VENTURE FUNDS, Q1 2010 – Q3 2021



Source: Pitchbook

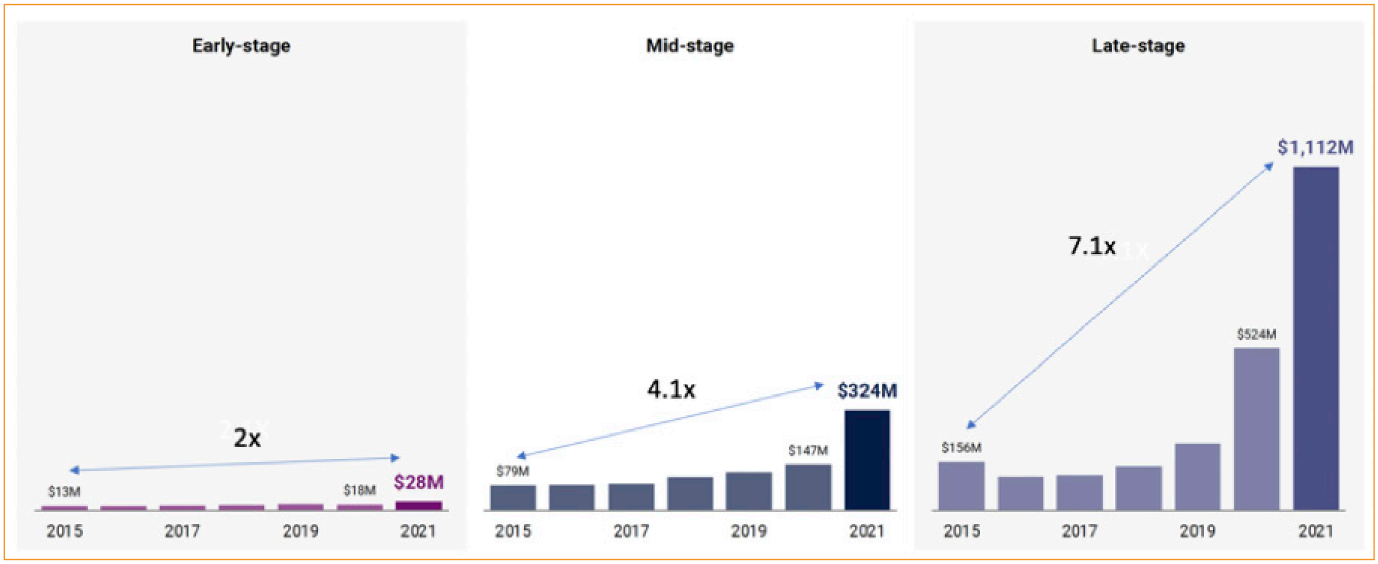
When investors receive outsized returns, private capital markets are soon flooded with new investor cash. From 2017 to 2020 the total amount of startup funding in the US nearly doubled, from $85B to more than $150B. In 2021 alone the amount invested in startups doubled to more than $300B. In addition to traditional angel and venture investors, newer investors from family offices, private equity, hedge funds and corporate venture poured cash into venture funds as well as "buying" access to direct investments in hot startups.

THE EQUITY SELLER'S BUBBLE OF 2021

More cash and a surge in the size and number of funds helped create an equity seller's market, fueling competition for deals at every stage. And more competition led investors to offer or accept higher and higher valuations to win those deals. It is no accident that this seller's market also saw the increasing adoption of the least investor/management balanced deal structure, the SAFE note. SAFEs spread COVID-like, offering few investor protections and fewer (if any) provisions for Board-led healthy governance. As was true of prior bubbles, many of these SAFE deals were done quickly, with minimal diligence in classic FOMO (fear of missing out) speed. And many deal-makers were new to venture capital, never having managed funds or deals during down markets. The eagerness of some leading venture funds to invest in crypto exchange FTX in mid-2021 is only the most notorious example of low-diligence FOMO deals.

Median valuations for mid-stage deals grew 4x in seven years and late-stage deals grew 7x during the same period. Even early-stage valuations were affected, growing less dramatically but still doubling over the same period as market comparables and management expectations were influenced by "anything goes" valuations:

FIGURE 4: VALUATION INCREASES BY STAGE, 2015 TO 2021

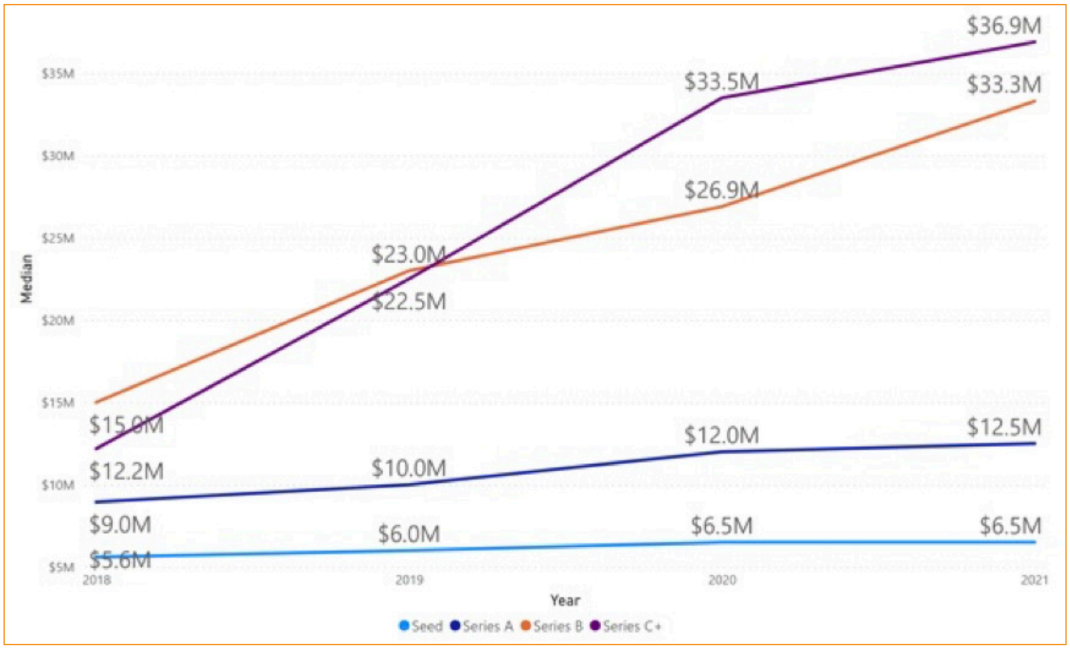


Source: CB Insights, Data Interpruted by Ron Weissman

Valuations for seed stage deals managed by angels remained comparatively reasonable during this period. But early-stage deal competition wasn't confined to experienced angel groups--it also saw the participation of many seed-stage tourists, infected by FOMO and eager to cash in on the current exit money flood. Non-traditional investors new to this asset class participated in record numbers, driving up valuations with new cash and an eagerness to buy their way into the buzziest deals. Many were new VCs or CEOs who had not lived through prior down markets and had no long-term experience of venture startup boom and bust cycles. Many came of age during the long bull market, where everything trades up:

THE EQUITY SELLER'S BUBBLE OF 2021

FIGURE 5: VALUATIONS BY STAGE



Source: 2022 Angel Funders Report, Angel Capital Association

The most dramatic valuation increases were in 2021, the high point of the bull market. Overall, median early-stage valuations grew 55% and mid and late-stage valuations more than doubled between 2020 and 2021. Did deal quality increase at the same rate that valuations increased? Only if future exit valuations remained at 2021's historically inflated levels. More cash and an equity seller's market grew this quite visible valuation bubble.

To summarize 2021: We saw the peak of the largest startup equity seller's market in many years, where founders and management teams held most of the cards and could negotiate for extremely favorable valuations from investors anxious to win their share of hot deals.

What are some of the characteristics of a seller's market? And what lessons can angels learn? Appendices to the National Venture Capital Association's (NVCA) latest model term sheet and investor rights agreement summarize and compare deal terms in 2021 with the medians of the previous five years by deal stage, enabling us to identify the distinguishing characteristics of that market.[1]

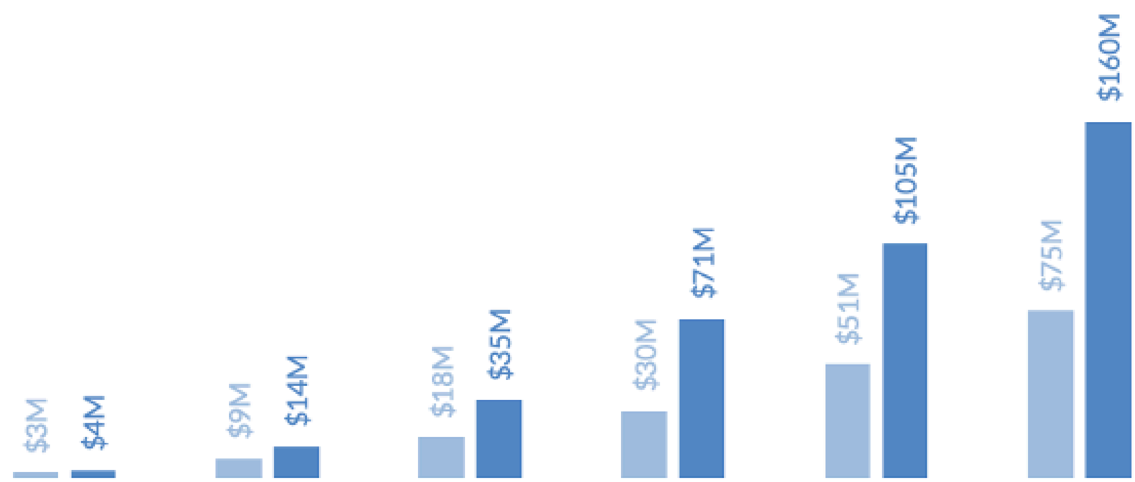
1The data is based on Alumni's study of 200,000 transactions across 90,000 investors. (For the latest term sheet and associated deal data, see: https://www.aumni.fund/resources/new-enhanced-model-term-sheet-v3-0. Similarly, see https://www.aumni.fund/resources/new-enhanced-model-investors-rights-agreement.) Please note that several of the charts in the Alumni appendix (not used here) are mislabeled, having been copied incorrectly from previous charts. The raw numbers, however, appear to be correct.

Key market characteristics include:

- Larger capital raises
- Higher valuations
- Higher step ups at the next round
- More founder-friendly deal terms

Larger Capital Raises. During 2021, the amount raised increased dramatically for every series, compared to the previous five years. For seed, median capital raised increased 45% from $3M to $4M; Series A increased 65% from $9M to $14M and Series B, from $18M to 35M (89% increase). Later rounds saw even larger funding increases, all with more than 100% growth over the median of the prior five years:

FIGURE 6: MEDIAN ROUND SIZE BY SERIES

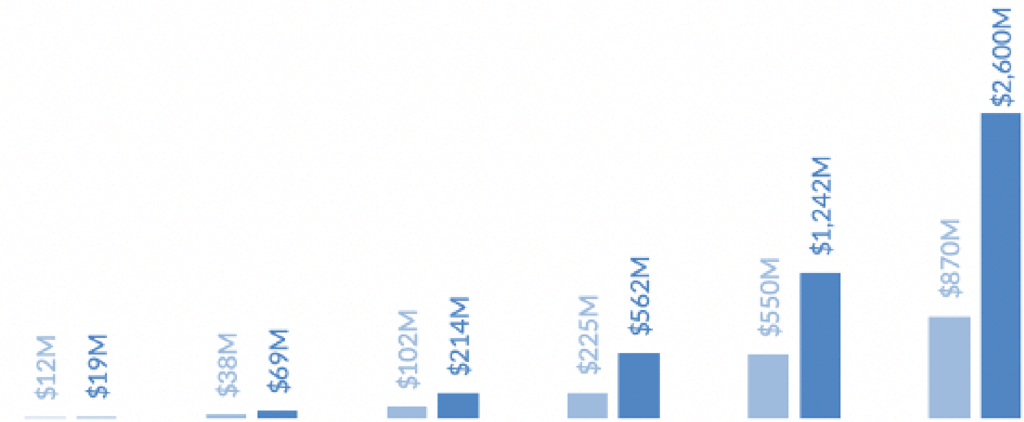


	Seed	Series A	Series B	Series C	Series D	Series E+
2016-2020	$3M	$9M	$18M	$30M	$51M	$75M
2021	$4M	$14M	$35M	$71M	$105M	$160M
▲	45.0%	65.7%	89.2%	136.4%	105.4%	113.3%

Source: NVCA/Alumni Enhanced Model Term Sheet 3.0

Higher Valuation. Median post-money valuations in 2016-2020 for Seed Stage priced rounds were $12M. In 2021, those increased by 56% for $19M. For Series A, previous five-year medians of $38M increased by 82% to $69M. Later stage valuations more than doubled, and by Series E, tripled compared to 2016-2020. Notice the pattern: the later the stage, the greater the percentage increase over the reference "normal" period:

FIGURE 7: POST MONEY VALUATION BY SERIES



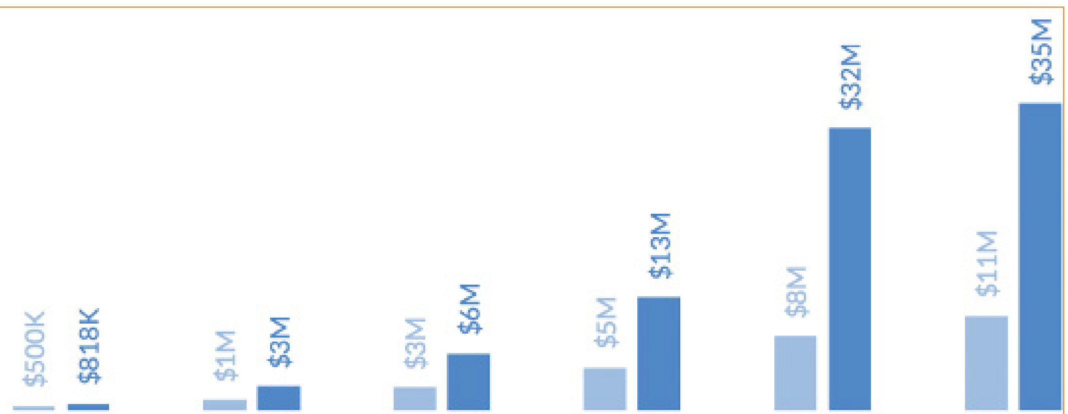
	Seed	Series A	Series B	Series C	Series D	Series E+
2016-2020	$12M	$38M	$102M	$225M	$550M	$870M
2021	$19M	$69M	$214M	$562M	$1,242M	$2,600M
▲	56.0%	81.8%	111.2%	149.1%	125.8%	198.9%

Source: NVCA/Alumni Enhanced Model Term Sheet 3.0

Valuation caps experienced a similar trajectory. These were 14% higher than the median of the prior five years for Seed stage and 20% higher for Series A. As with priced equity, Later stage caps were larger still, reaching 56% higher for Series C. For priced equity rounds, the increase in post money valuations, compared to prior years, was even higher: a 78% increase over prior years for Seed and a 91% increase for Series A.

Along with the increase in round sizes and valuations, the amount of capital invested to be considered a "major investor" earning special rights grew substantially in 2021. Even Seed Stage was impacted, growing from a median of $500K to $818K in invested capital. For Series A, the amount invested to be considered major investors tripled, from $1M to $3M:

FIGURE 8: MEDIAN INVESTMENT BY MAJOR INVESTORS

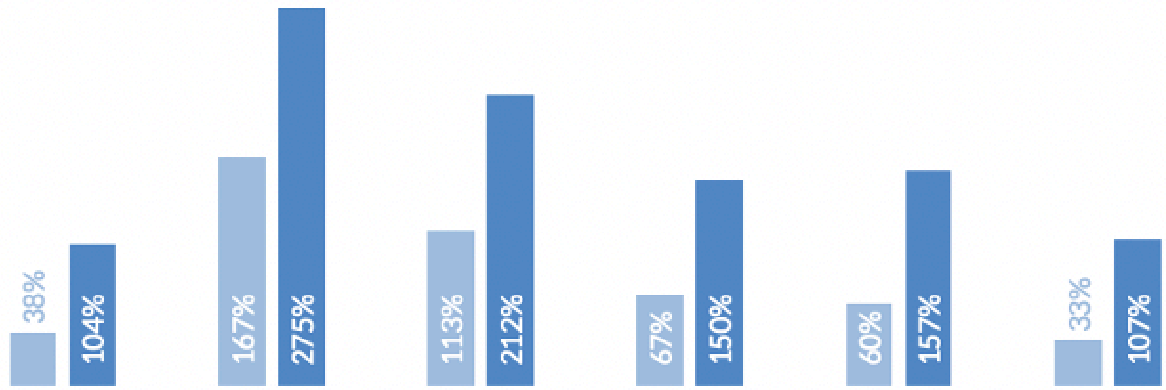


	Seed	Series A	Series B	Series C	Series D	Series E+
2016-2020	$500K	$1M	$3M	$5M	$8M	$11M
2021	$818K	$3M	$6M	$13M	$32M	$35M
▲	63.6%	131.7%	144.7%	163.9%	278.3%	225.6%

Source: NVCA/Alumni Enhanced Model Term Sheet 3.0

Unsurprisingly, step ups to the next round were also substantially larger in 2021 than in the prior five years. The median capital raised during Seed rounds in 2021 was 103% more than the prior round. And this was 2.7x larger than median Seed Stage step ups for the preceding five years:

FIGURE 9: MEDIAN STEP UP FROM PRIOR ROUND FINANCING



	Seed	Series A	Series B	Series C	Series D	Series E+
2016-2020	38.3%	166.6%	113.3%	66.7%	59.8%	33.3%
2021	103.5%	275.0%	211.7%	150.0%	157.1%	106.5%
▲	*170.4%*	*65.0%*	*86.9%*	*125.0%*	*162.6%*	*219.5%*

Source: NVCA/Alumni Enhanced Model Term Sheet 3.0

Deal Terms. Apart from valuation and funding, most deal terms remained stable in 2021. Liquidation preferences remained constant at a founder-friendly 1x. At the same time, given the equity sellers' market, some investor-friendly terms were reduced. Thus, while major investors retained prorata investment rights, the extension of those rights to all series investors was pared back significantly, particularly at later stage. And the percentage of deals with investor redemption rights, never a large number, were reduced further in 2021, often by as much as 40% to 50%. Investors did gain a modest increase in legal expense budgets across all deal stages. In other respects, for priced equity rounds, most deal terms remained constant between 2021 and the previous five-year reference period, including the size of corporate boards. For non-SAFE deals, little changed apart from dramatic increases in funding and valuation.

KEY TAKEAWAYS

- 2021 saw the height of startup funding during one of the longest bull markets in recent history.
- 2021 was an anomalous year, fueled by record recent exits, and investors eager to contribute much larger cashflows into startups and venture funds. Key investment indicators diverged sharply from industry norms of the previous five years.
- 2021 saw the height of a 2020-2021 startup capital bubble. 2021 startup funding broke records for capital invested and for company valuations. For priced equity rounds, most key terms did not change apart funding amounts and valuation. At the same time, 2021 saw the continued spread of SAFEs, a "deal culture" characterized by fast execution, limited diligence, and less emphasis on corporate governance.

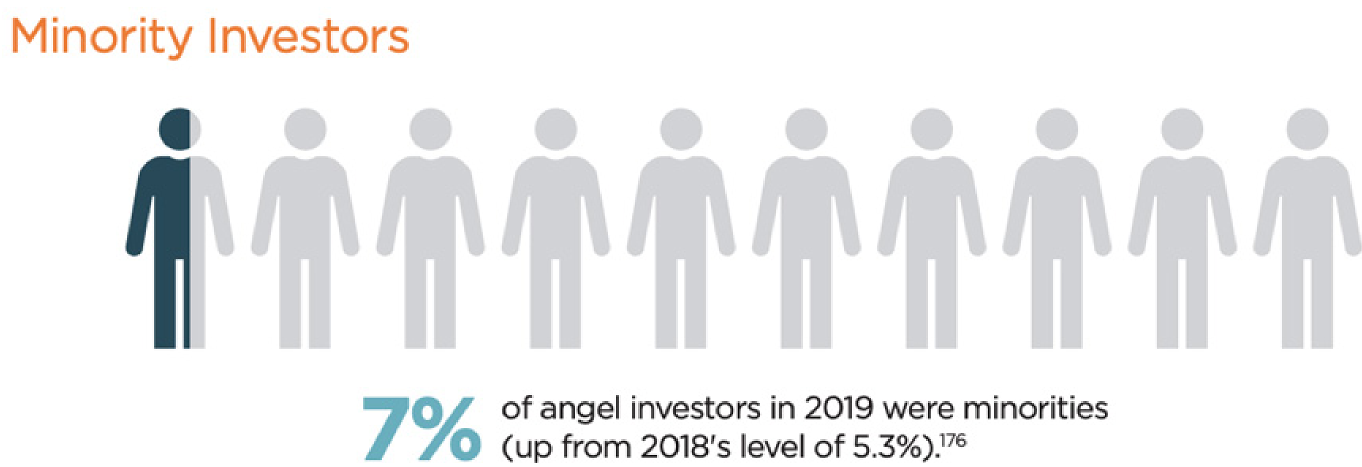
AUTHOR: *Ronald Weissman, Band of Angels and Vice Chair, Angel Capital Association*

PUBLICATION DATE: *December 2022*

ETHNICALLY DIVERSE FOUNDERS PRODUCE BETTER RETURNS

Based on statistical research conducted by the ACA, we believe US angels who are part of the nation's innovation / venture capital ecosystems in areas like technology, life sciences and cleantech invested $4B in 2020. A larger group of investors funded small businesses of every kind amounting to a total of approximately $25B annually. The analysis in this data research note is based on the larger community of angel-like investors backing small businesses across the US. We believe that the behavior of "innovation angels" is substantially different from this larger group of funders of small business (the former, for example, invested a disproportionately larger share of dollars into female and minority-led businesses). Nevertheless, the overall trends in small business funding are quite important and are explored in greater detail in our analysis here.

According to the SEC Office of the Advocate for Small Business Capital Formation Annual Report for Fiscal Year 2020 (click here), 7% of 323, 365 active angel investors in 2019 were minorities (up from 2018's level of 5.3%).



Source: OASB 2020 Annual Report from SEC

Yet only 7% of angel investors are minorities, leaving the U.S. with a little over 20,000 minority angel investors:

The fact that there are so few minority angel investors may be one of the main reasons funding to diverse founders significantly lags, with minorities consistently receiving less than 5% of angel and venture funding.

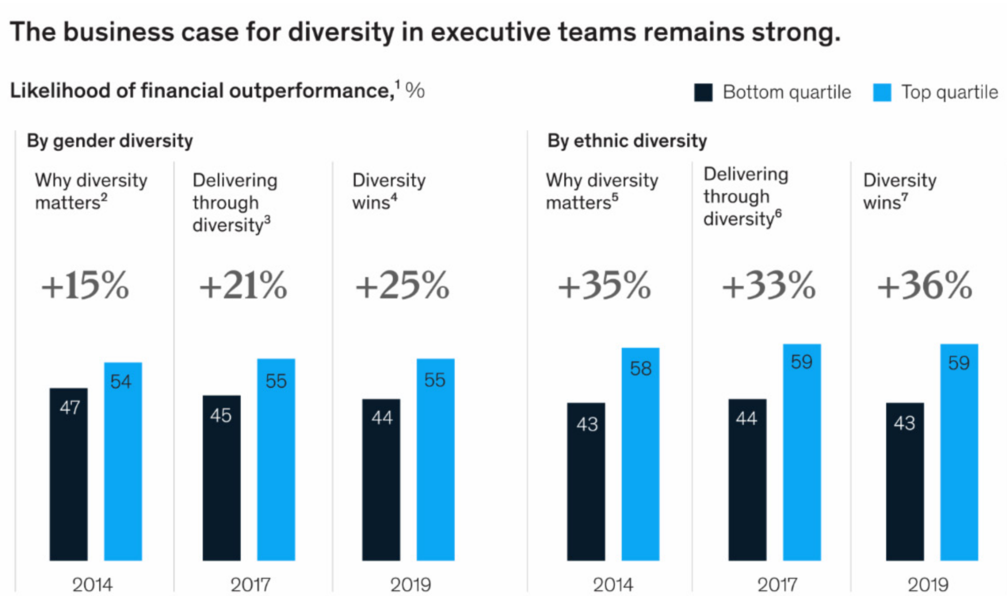
This is a missed opportunity for angel investors, and angels must invest in diverse founders, but not for moral or ethical imperatives. There is a major financial upside for investing in minorities.

ETHNICALLY DIVERSE FOUNDERS PRODUCE BETTER RETURNS

The SEC report goes on to note that companies with ethnically diverse leadership teams have higher realized return multiples than they do from companies with all-white leadership teams. For ethnically diverse team, the returns are 3.26X compared to 2.50X for all white teams; and companies with ethnically diverse C-suite leadership boast returns of 3.31X versus 2.02X for all white C-suite leadership teams:

Source: OASB 2020 Annual Report from SEC

Further, in the 2020 Diversity Wins report by McKinsey they found that companies with ethnically and culturally diverse executive teams outperformed those without diverse teams by 36 percent in profitability:



[1]Likelihood of financial outperformance vs the national industry median; p-value <0.05, except 2014 data where p-value <0.1. [2]n = 383; Latin America, UK, and US; earnings before interest and taxes (EBIT) margin 2010–13. [3]n = 991; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK, and US ; EBIT margin 2011–15. [4]n = 1,039; 2017 companies for which gender data available in 2019, plus Denmark, Norway, and Sweden; EBIT margin 2014–18. [5]n = 364; Latin America, UK, and US; EBIT margin 2010–13. [6]n = 589; Brazil, Mexico, Singapore, South Africa, UK, and US; EBIT margin 2011–15. [7]n = 533; Brazil, Mexico, Nigeria, Singapore, South Africa, UK, and US, where ethnicity data available in 2019; EBIT margin 2014–18.
Source: Diversity Wins data set

McKinsey & Company

ETHNICALLY DIVERSE FOUNDERS PRODUCE BETTER RETURNS

For angel investors making an intentional, strategic approach to investing in diversity is smart investing. It will require more effort to engage with diverse founders and organizations, but the leg work will pay off. Here are 5 actionable insights angels can undertake in building a portfolio with minority founders and working with diverse organizations:

1. Partner

a. Join their groups
b. Create Shared-membership agreements
c. Sponsor and attend their events
d. Co-brand/Co-host your events
e. Highlight their work, deals, and brand in your social media
f. Advertise that you're looking for diverse/UR founders
g. Plug/refer their founders into your programs
h. Introduce them to your service providers
i. Take the cold calls

2. Mentor

a. Get to know the network or fund manager
b. Get to know their inner circle
c. Establish a regular cadence of check-in's, lunch, meet ups
d. Share your cell number and take the call
e. Bring them to your events as a special guest
f. Coach them
g. Vouch for them
h. Introduce them to your network

3. Educate

a. Create cross-group training programs
b. Share educational materials and training events
c. Share case studies
d. Introduce them to your most prolific investor for learning
e. Walk through Due Diligence, Negotiations, Term Sheets
f. Run through Investment Structures
g. Explain tax implications
h. Discuss Exit scenarios

4. Advocate

a. Learn about evolving policies with SEC, SSBCI, SBA, State, Local, etc.
b. Discuss what investor gaps and issues exist in their groups & communities
c. Co-author a policy guidance document
d. Talk with your policy leaders, legislators, etc. together
e. Introduce them to pertinent policy people

5. Co-Invest

a. Share deals, bring deals, consider deals
b. Establish a deal/venture scout program
c. Leave room in the investment
d. Share the Deal Memo
e. Walk the group through the terms
f. Introduce them to you LP's
g. Invest in their funds
h. Open an SPV; Lead if appropriate

THE TAKEAWAY

There are mounds of data and reports that repeatedly emphasize the outsized returns that diverse-led teams produce. These are returns that angels dream of, and thus, investing in diversity is the opportunity.

AUTHOR: *Eli Velasquez, Managing Partner of Investors of Color*

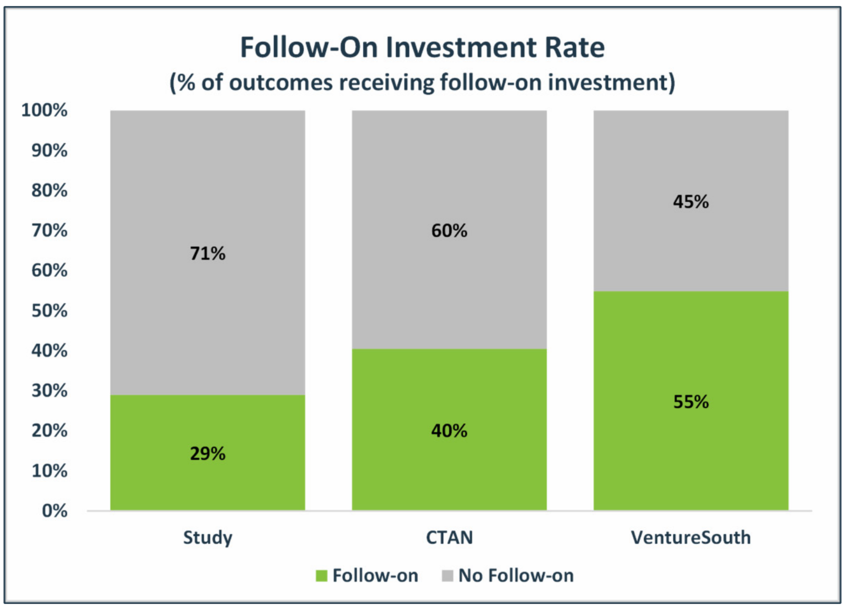
PUBLICATION DATE: *February 2022*

FOLLOWING UP ON FOLLOW-ONS

VENTURESOUTH DATA ON FOLLOW-ON RATES, TIMING AND SUCCESS

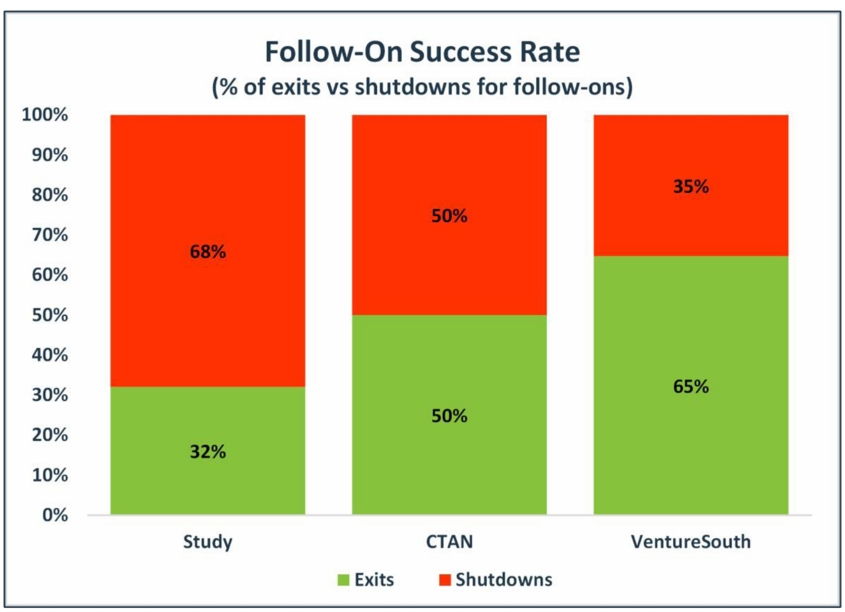
Over the last couple of years, the ACA data initiative has yielded tremendous insights on various aspects of angel group investment portfolios. At VentureSouth we have especially appreciated some of the learnings that other groups have shared regarding follow-on rates, exit timing, and returns by investment rounds, particularly from prolific data-sharing groups CTAN, Launchpad and Tech Coast Angels. We have been comparing our own data to these standard-bearers to see how we're doing - so for this ACA Data Insights edition, we wanted to add our numbers to the data sets, while attempting to extend the analysis with an additional slice of the data.

In 2020, CTAN shared compelling data on their follow-on investment and success rates. Here, we compare VentureSouth follow-ons with CTAN data and the foundational "Returns to Angel Investors in Groups" study published in 2007. It appears that angel group follow-on investing has become much more common – and more effective – since the early group data captured in the "Returns" study. VentureSouth has been an increasingly active follow-on investor, and among the 31 companies in our portfolio that have reached a final outcome, we made follow-on investments in 17 (55%). Among those 17 companies, nearly two thirds (11) generated exits* for our investors (and 8 of those exits generated capital gains):



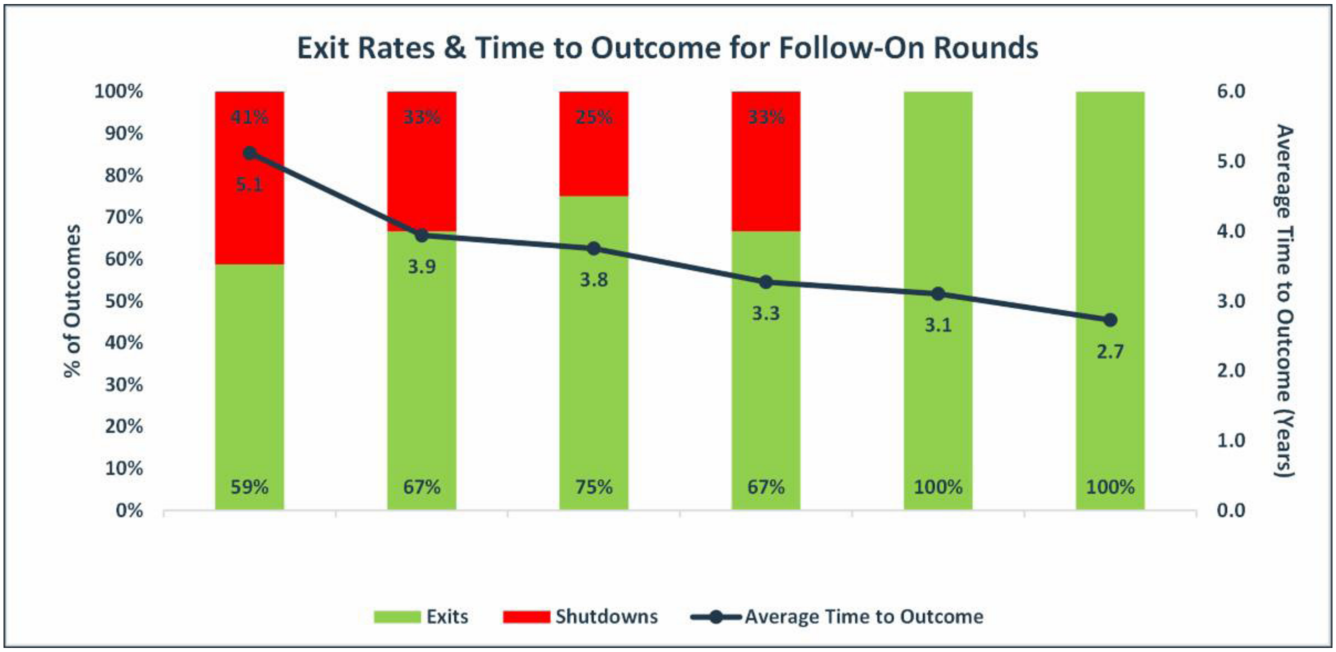
Note: ACA nomenclature for "exits" includes any concluding transaction(s) that return capital to investors, while shutdowns imply a total capital loss.

Source: VentureSouth (2022), CTAN (2019) and "Returns to Angel Investors in Groups", Wiltbank & Boeker, 2007.



FOLLOWING UP ON FOLLOW-ONS

While the previous view highlights follow-ons investments on a company-by-company basis, we also wanted to gain a more nuanced understanding of the numbers on a round-by-round basis. For the 17 companies (with outcomes) in which we made follow-on investments, we invested in 57 total rounds (3.4 rounds per company on average). Across the first and subsequent follow-on rounds, we've observed generally increasing exit rates – from 59% for first rounds to 100% for fifth and sixth rounds (albeit with a small count of only 5 of those rounds). Notably, the rates of return actually peaked in rounds 4 and 5 as companies moved closer to their outcomes with meaningful remaining upside:



KEY TAKEAWAYS

Analyzing our data alongside some of the previously mentioned insights from other groups, a few key takeaways emerge from our point of view.

- Our data corroborates earlier findings from CTAN and others that follow-on investing can prove to be a compelling and effective approach for angels – especially as companies eliminate early risks and move closer to exit ramps. (And we continue to champion disciplined and proactive exit planning).
- Combining our data with prior findings from Launchpad suggests that rounds ~2-5 can offer compelling risk/reward dynamics, which creates interesting possibilities for "opportunity fund" scenarios as companies raise larger rounds and angels seek to exercise their pro-rata investment rights.
- We didn't consider the success rate of single-check deals in this analysis, but perhaps in a future issue of ACA Data Insights we'll examine some of our successful early exits (and one-check write-offs).
- Of course, this is a very small data set, full of idiosyncrasies and subject to highly unpredictable and impactful events (and this data ignores our remaining active portfolio of over 50 companies) – so these takeaways are offered as strong opinions held loosely. We look forward to continuing to learn alongside our ACA peers.

AUTHOR: *Matt Dunbar, Managing Director of VentureSouth*

PUBLICATION DATE: *March 2022*

A COMPARISON OF LIFE SCIENCES OUTCOMES COMPARED TO OTHER VERTICALS

As angels, we often ask ourselves whether returns in one industry are likely to be better than other industries. In recent years, TCA has invested about 35-40% each year in Life Sciences.
Since TCA's founding in 1997, we have invested in more than 500 companies and 123 (32%) of these have been in Life Sciences. Of the total investment, 25% has been in Life Sciences. Therefore, the dataset is large enough to perhaps develop some observations and conclusions comparing Life Sciences to all other verticals combined.

A few quick observations/conclusions:

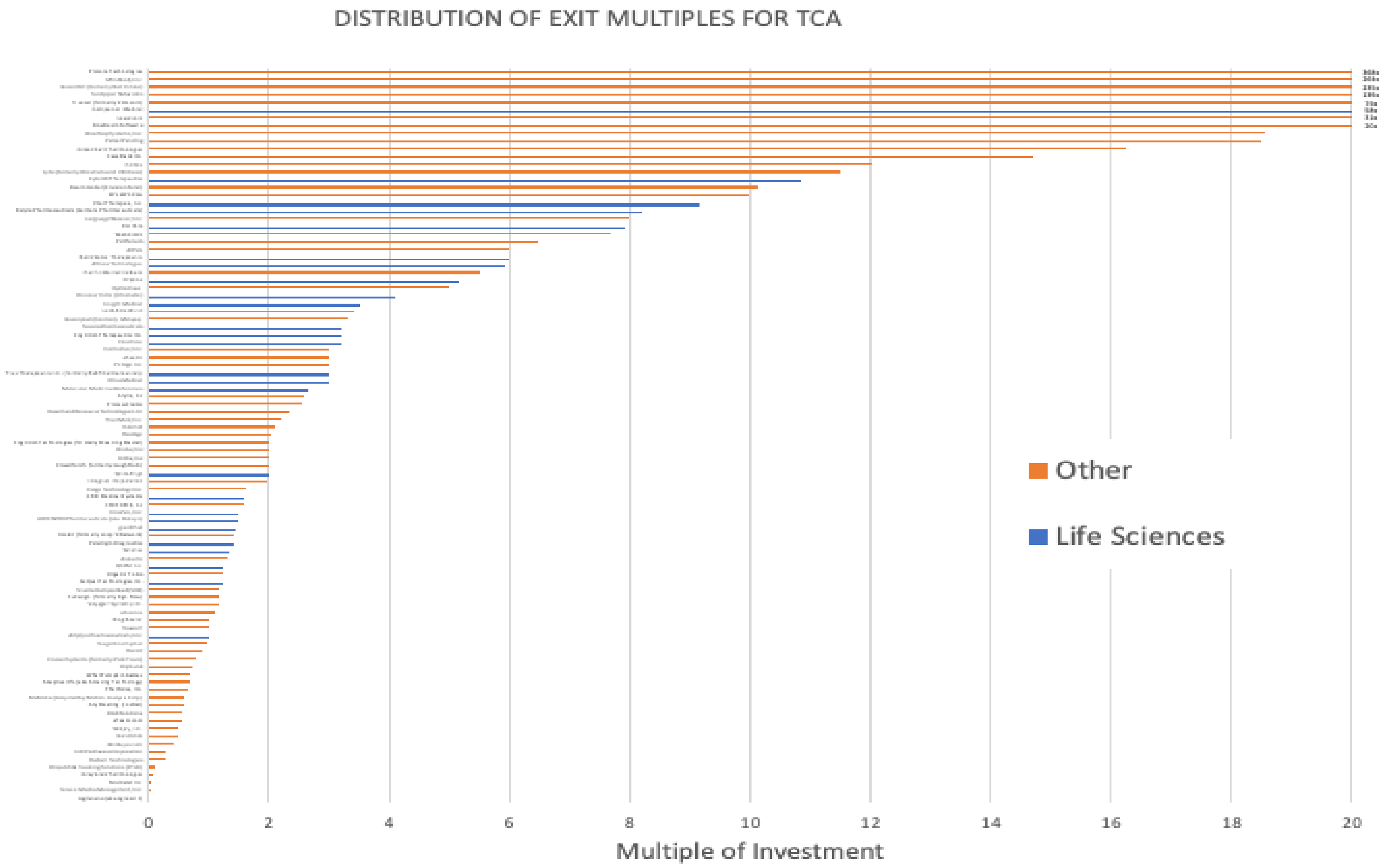
- *Life Sciences companies have a higher % of outcomes that are exits compared to other industry verticals – 54% vs 40%.*
- *The IRR is also higher – 27.6% for Life Sciences compared to 25.7% for other verticals.*
- *The average years to exit are comparable for Life Sciences – 4.7 vs 4.6 years.*
- *But the number of years before shutdown is slightly more – 5.0 vs 4.6 years. This may because it takes longer to validate (or invalidate) the value proposition in clinical trials compared to customer validation through minimum viable products for in other industries.*
- *The median multiple realized per exit of 3.1x for Life Sciences is higher than the 2.0x median multiple per exit for all other verticals.*
- *However, the average multiple realized on all outcomes is lower – 3.2x for Life Sciences compared to 7.6x for other verticals.*

Much of this difference in average multiples realized is due to far more "grand slam home runs" in industries other than Life Sciences (at least that is true of TCA's experience so far). Of TCA's 15 largest "grand slams," only two have been in Life Sciences:

Company	Multiple	Industry	Years Since Investment
Procore Technologies	368	Software	15
MindBody Inc.	264	Software	10
GreenDot (formerly Next Estate)	235	Financial	9
Sandpiper Networks	139	Software	5
Truecar (formerly ZAG.com)	75	Consumer Internet	9
Companion Medical	58	Life Sciences	5
LeaseLock	31	Financial	5
BlueBeam Software	20	Software	10
One Stop Systems, Inc.	19	Hardware	18
Parcel Pending	19	Business	5
Green Earth Technologies	16	CleanTech/Industrial	0
CaseStack Inc.	15	Business	16
Lytx (formerly DriveCam and I-Witness)	12	Business	10
CytomX Therapeutics	11	Life Sciences	6

A COMPARISON OF LIFE SCIENCES OUTCOMES COMPARED TO OTHER VERTICALS

This skew is evident in the overall distribution of returns, where the “sweet spot” for Life Sciences seems to be a multiple of 3x – 9x:



Why this discrepancy between IRR and multiple realized for Life Sciences? For Life Sciences, the total amount of eventual investment needed tends to be higher because the FDA approval process means it takes longer to reach revenue (my hypothesis since I don’t have the data to prove or disprove this) and often that investment comes without large upticks in valuation. Also, many Life Sciences exits are made early on to strategic buyers once the technology is proven (with FDA approval) but before the company achieves significant revenue; this also may mean fewer home runs since strategic buyers have active programs to pick up companies well before they have significant revenues. As such, the market cap of these earlier exits tends to be less (again a hypothesis on my part which I can’t test since I have that info for only a subset of the companies). The biggest TCA exits in “non-Life Sciences” took much longer to develop significant revenue before IPOs (e.g. GreenDot, Mindbody and Procore), and that depresses the IRR overall for that group; the two Life Sciences exits in this top 15 group were at 5 and 6 years, compared to 9, 10 and 15 years respectively for Greendot, Mindbody and Procore. If I had data on revenues at the time of exit, my hypothesis is that Life Sciences exits tend to be smaller in $ value because some of the other verticals have companies that have grown to significant revenues by the time they IPO or are acquired.

A COMPARISON OF LIFE SCIENCES OUTCOMES COMPARED TO OTHER VERTICALS

From a public policy perspective, these results suggest that the decision to support Life Sciences (through NIH grants) makes sense. Many Life Sciences start-ups initially are still in a research stage, while non-Life Sciences startups tend to focus their expenditures on applied research/product development instead of basic research. Many of these companies would not have attracted sufficient early funding without this government subsidy for research. This element of non-dilutive funding helps level the playing field allowing Life Sciences investors a return in terms of IRR although not necessarily so in terms of average multiple realized.

How do each of the types of Life Sciences companies do? Peeling the onion back one layer, below is the breakout for the four sub-verticals within Life Sciences (Note that we are now dealing with a smaller number of companies within each sub-vertical so the results are skewed a lot by the fact that the two biggest TCA returns within Life Sciences were both coincidentally in medical devices):

			Life Sciences sub-verticals			
	Life Sciences	Other	digital health	medical devices	medical diagnostics	pharma
# Exits	26	71	3	8	1	14
# Shutdowns	22	106	5	4	3	10
# Outcomes	***48***	***177***	***8***	***12***	***4***	***24***
# active	75	202	9	25	15	26
# total	**123**	**379**	**17**	**37**	**19**	**50**
Exits as % of Outcomes	54%	40%	38%	67%	25%	58%
Average multiple per outcome	***3.2***	***7.6***	***1.6***	***7.2***	***0.5***	***2.1***
Median Multiple per exit	***3.1***	***2.0***	***3.2***	***3.8***	***na***	***2.8***
Average Years to exit	***4.7***	***4.6***	***4.0***	***4.0***	***1.0***	***5.4***
Average Years to shutdown	***5.0***	***4.6***	***3.0***	***6.8***	***3.3***	***5.9***
Average age of active companies	***3.6***	***5.9***	***2.7***	***3.6***	***3.7***	***3.9***
IRR	*27.6%*	*25.7%*	*8.9%*	*62.8%*	*-50.0%*	*15.4%*

THE TAKEAWAY

Life Sciences companies seem more likely to reach an exit, although often at lower multiples of investment. With the caveat that homeruns can occur in any industry, and those typically drive portfolio returns, TCA's experience with 221 outcomes suggests that really large home runs may be less likely in Life Sciences perhaps because 1) significant follow-on investment without large jumps in valuation dilute early shareholders and 2) strategic acquirers are poised to buy Life Science companies soon after FDA approvals are realized and before significant revenues are achieved.

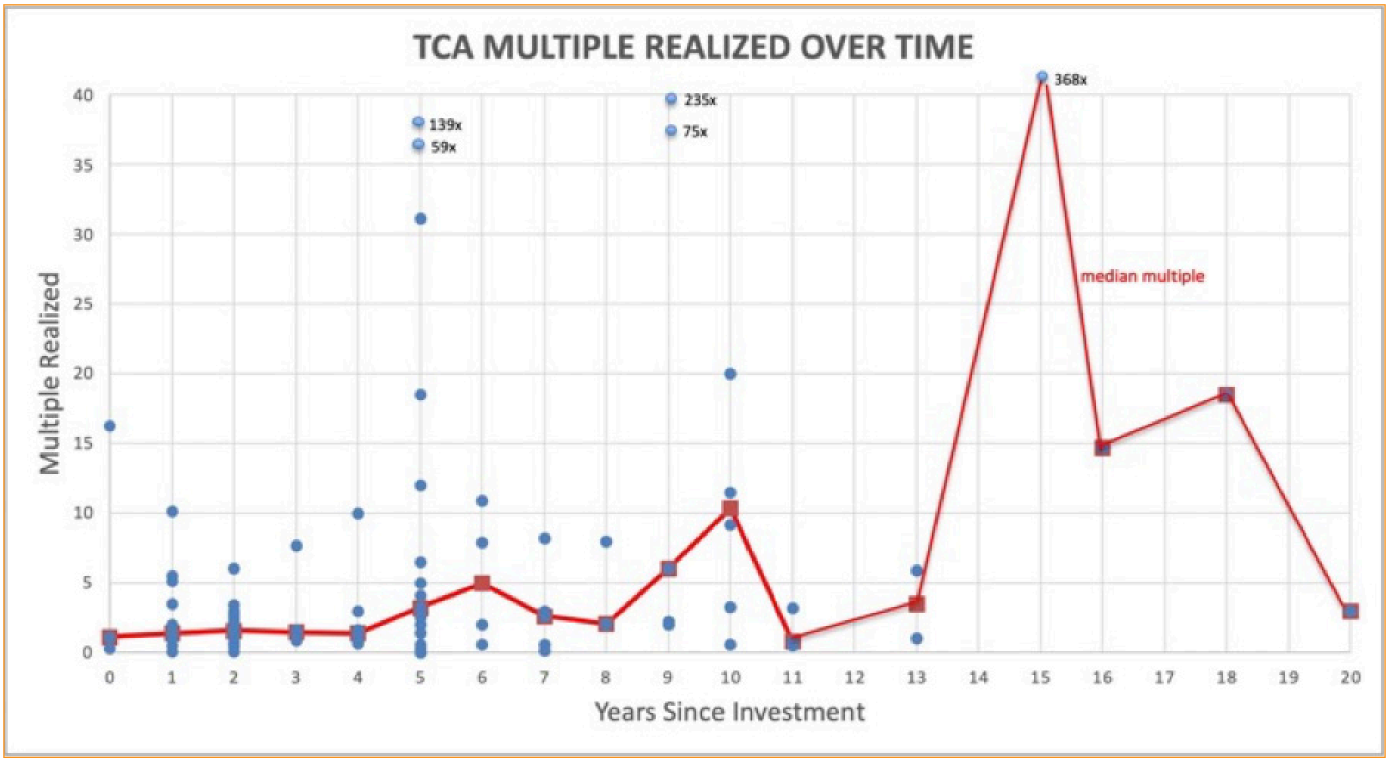
AUTHOR: *John Harbison, Chairman Emeritus of Tech Coast Angels*

PUBLICATION DATE: *September 2022*

PATIENCE IS REQUIRED IN ANGEL INVESTING

It is important to have realistic expectations on returns and timing when one begins the journey known as Angel Investing. One of those expectations is timing – shutdowns tend to come early and exits tend to come later. This was covered in an earlier ACA Data Insights.

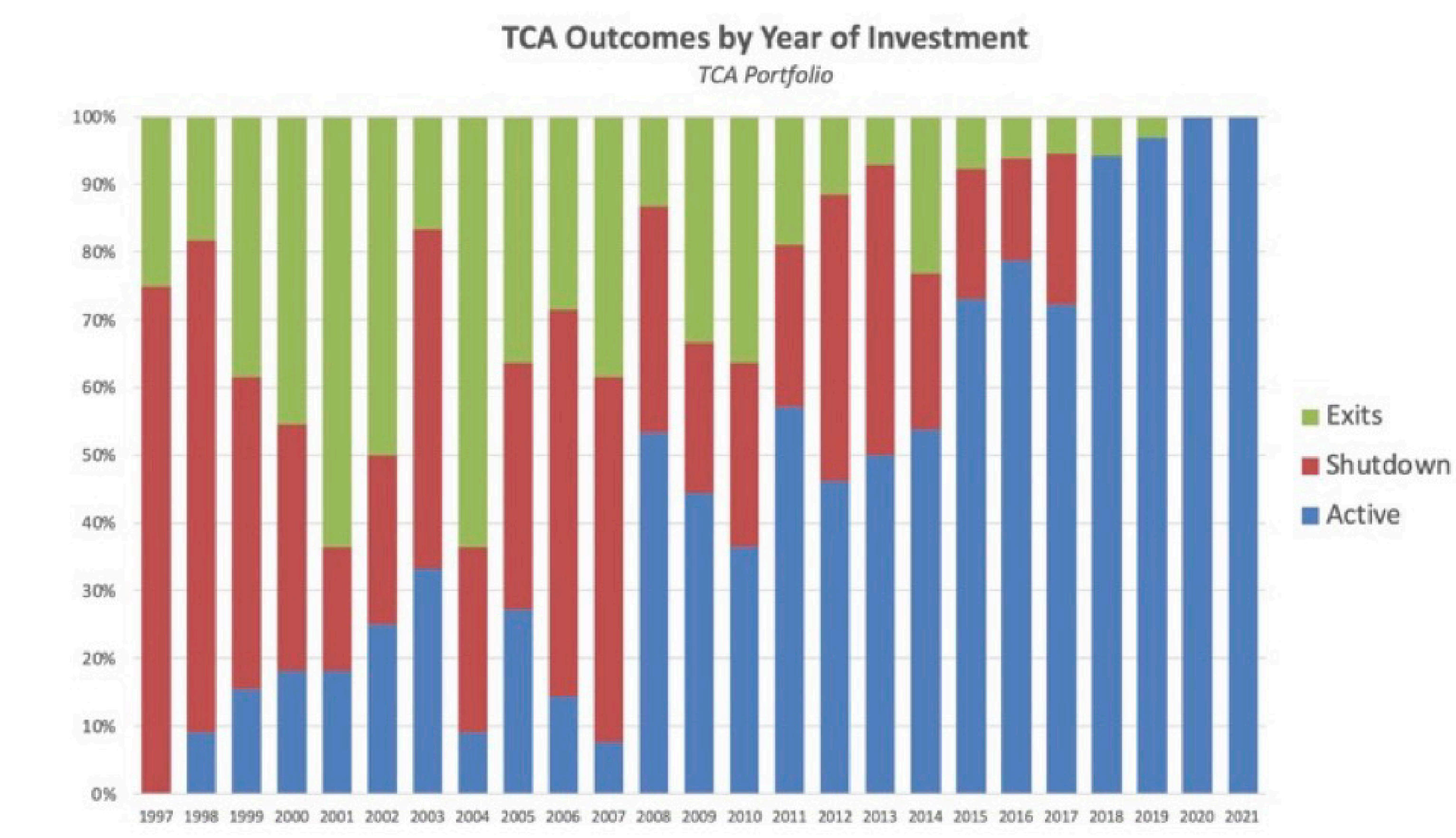
A deeper look at the distribution of TCA's 95 exits out of 223 outcomes through 2021 shows the importance of being patient as an angel investor. If you invested an equal amount in every one of the deals, including 128 shutdowns, you would have received 6.7 times your investment back and an IRR of 26.2%. However, it would not be until year 5 that you would have realized 100% of your overall investment (including the shutdowns). In year 5 and beyond, exits tend to be at higher multiples and there are fewer shutdowns each year as well. It is the really big multiples in these later years that drive overall returns, since companies take a long time to grow revenues and profitability to command the higher valuations upon exit:



Source: Analysis of 223 Tech Coast Angels outcomes 1997-1021

PATIENCE IS REQUIRED IN ANGEL INVESTING

In fact, TCA has active portfolio companies in every year since its founding in 1997 other than that first year:



So the "tail" is very long and most angels will be left with some unresolved investments as they "shuffle off this mortal coil," as Shakespeare would say.

THE TAKEAWAY

Patience is truly a virtue in angel investing. Therefore, don't get discouraged by early shutdowns and only modest sized exits in the first 5-7 years, and consequently decide to cease further investments. With patience, you should start to see better returns in the later years if you maintain your pace of new investment.

AUTHOR: *John Harbison, Chairman Emeritus of Tech Coast Angels*

PUBLICATION DATE: *November 2022*

APPLYING ANALYTICAL LENS TO INTERNAL INVESTMENT PROCESS

At Launchpad Venture Group, we devote a majority of our analytical effort to making better decisions as investors and helping the companies we invest in to succeed. However, another area where we sometimes turn our analytical focus is internal process improvement. These include efforts to make our core activities of: 1) scouting new companies; 2) completing diligence; 3) aligning in terms and filling investment rounds; 4) providing ongoing support to the portfolio; and 5) enabling successful exits as seamless and efficient as we can for both investors and founders as we can.

One example is the recent process re-engineering of Launchpad's diligence flow shown below. There is a lot of value-adding activity in Diligence that should be completed to improve returns. However, diligence in particular runs the risk of becoming a parking lot for checks to prevent all of the past bad investment experiences a group has had from ever happening again. Like well-written software, without periodically returning to "refactor" the process, it can become needlessly bloated and ineffective. Since this is often a founder trope of Angel Groups in general, we work hard not to let it happen to our process. We already include several intermediate decision points where we can decide not to take more of a founder's time if the trajectory isn't promising, but we realized that as a result, successful entrepreneurs were experiencing longer times to funding than they should.

The two slides below show the "before" and "after" value stream maps for Launchpad's diligence process, from a founder's perspective. It covers the process between when a founder applies for funding and when they ultimately receive a positive funding decision. By making each step of the process visible and distinguishing between active value-adding time and waiting times, we are able to calculate our "process efficiency" (value-adding time divided by total elapsed time) We then used this to identify key sources of waste in our process and remove them. Through this analysis, we were able to halve the cycle time (total elapsed time) from first application to positive funding decision.

APPLYING ANALYTICAL LENS TO INTERNAL INVESTMENT PROCESS

From this work, we identified and modified several activities that were introducing delay into the diligence process without adding value. In order of greatest to least impact on the timeline, these were:

- In response to Covid and not being able to meet founders in person, we had started inviting companies first into our Catalyst meeting before coming to present at the main forum. This gave us another opportunity to interact with the founding team. Many early-stage companies do benefit from warming up to the main meeting, but because of the once-per-month cadence, it also introduces a 30-day delay in the overall process. We have switched to expediting ready companies directly into pitching to our Main Forum event.

- In our attempts to respect the time of founders who didn't end up getting funded, we had introduced numerous intermediate checkpoints into our diligence to avoid continuing when the outcome looked doubtful. Ironically, these numerous checkpoints and the resulting delays from not scheduling the next step of the process until after clearing each checkpoint were delaying the decision for founders who did ultimately get funded. We removed more minor checkpoints and shifted our approach to schedule all meetings up front assuming a successful outcome to reduce scheduling delays.

- In our old process, each step was conducted more or less sequentially. We moved some activities with longer durations to completion in parallel to collapse the overall timeline.

- We realized that the mindset of our diligence had evolved over time to an exhaustive look at every possible risk in each diligence. We shifted this mindset to focus first on "What Needs to Be Believed" to make a given company an attractive investment, and then use diligence to test those key assumptions and risks. This "hypothesis-based" diligence approach allows us to just use the necessary tools in our extensive diligence toolkit.

APPLYING ANALYTICAL LENS TO INTERNAL INVESTMENT PROCESS

THE TAKEAWAY: At first blush, a 15% process efficiency seems pretty bad, and even a 30% process efficiency leaves much room for improvement (which we intend to keep working on). However, if you take a good hard look at your own process, you may see many of the same inefficiencies creeping in and be surprised at the magnitude of potential improvement lurking there.

AUTHOR: *Alexander Brown, Managing Director, Launchpad Venture Group*

PUBLICATION DATE: *April 2022*

DID YOU KNOW?

LEARN MORE ABOUT HOW ANGELS FUEL INNOVATION - AND THE ANGEL INVESTOR FOUNDATION FUELS ANGELS.

MEASURING MEMBER ENGAGEMENT AS DRIVER OF ANGEL GROUP SUCCESS

Angel investor groups, similar to other volunteer organizations, are enabled by the level of the individual members' engagement. Intuitively, the level of engagement in combination with members' experience and expertise tends to be directly related to an angel group improving its investment outcomes. For the sake of clarity, Queen City Angels (QCA) is defining "engagement" as a member's commitment to QCA's success as demonstrated by their intellectual contributions and participation in activities key to the organization's mission.

"We're all flying this plane together. So, you know, it's in no one's interest to not do a good job," QCA Member-Investor.

Given the importance of member engagement to investment outcomes, this should be an area of interest that most angel groups want to better understand. -- especially since the data to track individual members' level of engagement can be fairly easily obtained, as compared with experience and expertise information which are far less quantifiable and thus more difficult to track. What level of individual member engagement, within an angel investor group, is needed and should be expected for the group to achieve their goals? Can more be accomplished simply through a greater level of member engagement and, if so, what should be the expectation for individual investor engagement?

These important questions were recently raised by an ad hoc committee of QCA members, who sought to address these issues and better understand how QCA member engagement (e.g., the Pareto Principle: 80/20 Rule) actualized. The interesting and thought-provoking questions raised by the committee prompted QCA to begin the search for answers through analyzing historical member participation data. In particular, the focus was to determine how engaged the QCA membership has been as measured by attendance at regular investor meetings; serving on deal screening or due diligence teams; participating in post investment governance activities; and/or, serving on standing QCA committees.

Percent of Active Regular Members Engaged	Average Meeting Attendance by Active Members	Percent Increase in Membership Over 5 Years	Percent Increase in Companies Considered
93%	66%	149%	33%

MEASURING MEMBER ENGAGEMENT AS DRIVER OF ANGEL GROUP SUCCESS

In an extensive research project, six-years (2016-2021) of QCA historical member participation data was aggregated and analyzed and this high-level analysis revealed:

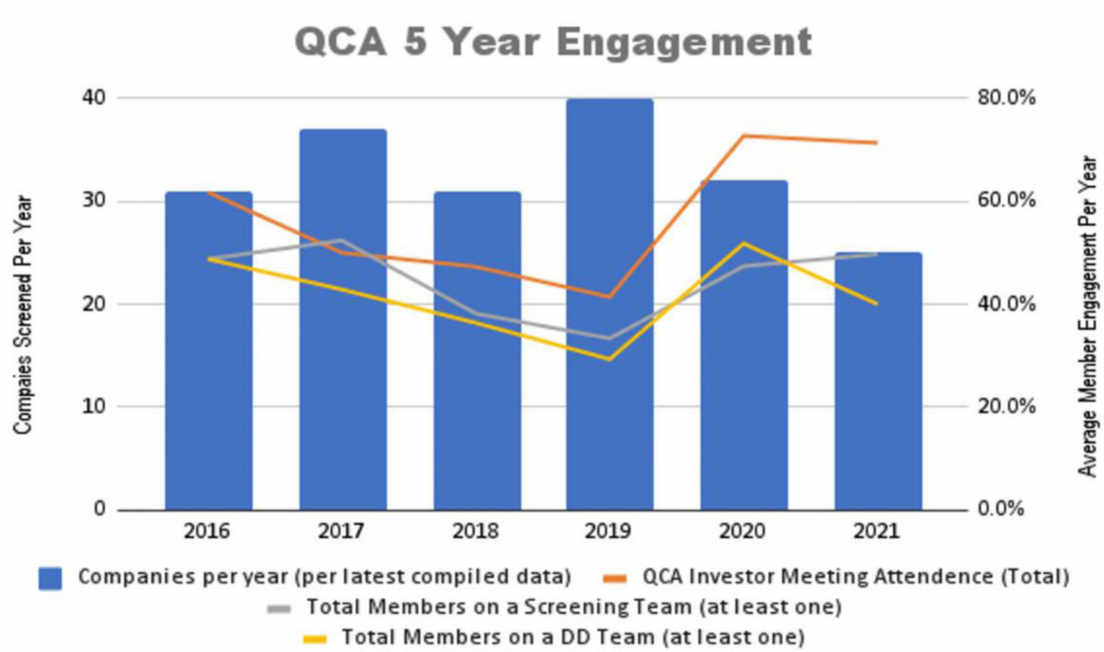
1. The percent of active "Regular"* member engagement far exceeded the Pareto Principle in all categories that were analyzed.

2. Active membership more than doubled in the six-year time frame and the regular meeting attendance (as a percent of active members) increased by more than 25%.

3. Service on both due diligence and screening committees was broadly distributed throughout the membership. For these committees, engagement doubled over the six years considered.

4. Member engagement kept pace with the expansion of companies being considered. Despite the growing number of companies being screened, and/or moving into due diligence, and/or receiving an investment, the percent of active members' engagement per company was consistent (at a high level) over the six-year period, for all categories analyzed.

Given these findings, QCA members' engagement was higher than expected and clearly indicates a broader distribution of the workload. It also indicates more members are gaining valuable experience and developing the needed expertise to better evaluate companies coming through the pipeline. Intuitively, the level of engagement in combination with members' experience and expertise tends to be directly related to the group improving investment outcomes.



MEASURING MEMBER ENGAGEMENT AS DRIVER OF ANGEL GROUP SUCCESS

So, what impact and/or purpose has this project had on the way QCA conducts its operation? Generally, it has enabled the following:

- Allowed the organization to establish a clearer picture of what to expect from an engagement standpoint for current and future QCA members.
- Allowed the organization to plan more efficiently for handling the functional activities that are required to manage an expanding portfolio of companies.
- Provides data that can be used to benchmark QCA member activities against other angel groups.
- Provided data that can be shared with prospective new members when they ask, "how much time will I be expected to dedicate to QCA activities if I become a member?"

In the past three years, QCA has raised its largest investment Fund ($23 million, which is more than twice its previous largest Fund) and increased membership by more than double. Additionally, QCA has increased its annual investment amount from approximately $5M to approximately $10M and its number of active portfolio companies has almost doubled. None of this growth would have been possible without the active engagement of its members keeping pace with the investment opportunities. Furthermore, QCA believes that its members are more likely to remain engaged in the organization if they have a direct hand in executing the important activities that allows QCA to thrive and expand.

***QCA Regular members are defined as a investor member that agrees to invest $250,000 over the first three years of membership.**

AUTHORS:

- *Tony Shipley, Immediate Past Chair of ACA, Founder/Chairman of the Queen City Angels*
- *Ted Capossela, QCA Board Member, QCA Investor Member*
- *Scott Jacobs, QCA Executive Director*

PUBLICATION DATE: *July 2022*

MEMBER ENGAGEMENT INCREASES THROUGHPUT AND EXPERTISE APPLIED IN DUE DILIGENCE

In the July 2022 edition of ACA Data Insights, the Queen City Angels (QCA) offered "Measuring Member Engagement as Driver of Angel Group Success" summarizing a comprehensive study of six years of data related to member engagement. This is the first sequel to that Insight. QCA defined "engagement" as a member's commitment to QCA's success as demonstrated by their intellectual contributions and participation in activities key to the organization's mission.

The key activities that provided the input data for this study included individual member attendance at regular investor meetings; serving on deal screening or due diligence teams; post investment governance activities; and/or, serving on standing QCA committees.

The high-level data analysis revealed:

1. The percent of active member engagement far exceeded the Pareto Principle in all categories that were analyzed.

2. Active membership more than doubled in the six-year time frame, and the regular meeting attendance (as a percent of active members) increased by more than 25%.

3. Service on both due diligence committees and screening committees was broadly distributed throughout the membership. For these committees, engagement doubled over the six years considered.

4. Member engagement kept pace with the expansion of companies being considered. Despite the growing number of companies being screened, and/or moving into due diligence, and/or receiving an investment, the percent of active members' engagement, per company, was consistent (at a high level) over the six-year period, for all categories analyzed.

Angel investor groups, like other volunteer organizations, are enabled by the level of individual member engagement. Intuitively, one might assume that the level of member engagement in combination with members' experience and expertise would be directly related to an angel group improving its investment outcomes. To help assess if this is indeed the case and the degree of improved outcomes, some questions come to mind such as the following:

- What level of individual member engagement within an angel investor group is needed and should be expected for the group to achieve their goals?

- Can more be accomplished simply through a greater level of member engagement, and if so, what should be the expectation for individual investor engagement?

Given the findings reported in the July 2022 ACA Data Insights, QCA members' engagement was higher than expected and indicates a broader distribution of the required workload among QCA members. The tracking shows more members are gaining valuable experience and developing the needed expertise to better evaluate companies coming through the pipeline, thus leading to better investment decisions. Now that QCA has a better understanding of the data as to member engagement, has that level of engagement driven better results? How do we measure and evaluate those results? How are the results related to engagement?

MEMBER ENGAGEMENT INCREASES THROUGHPUT AND EXPERTISE APPLIED IN DUE DILIGENCE

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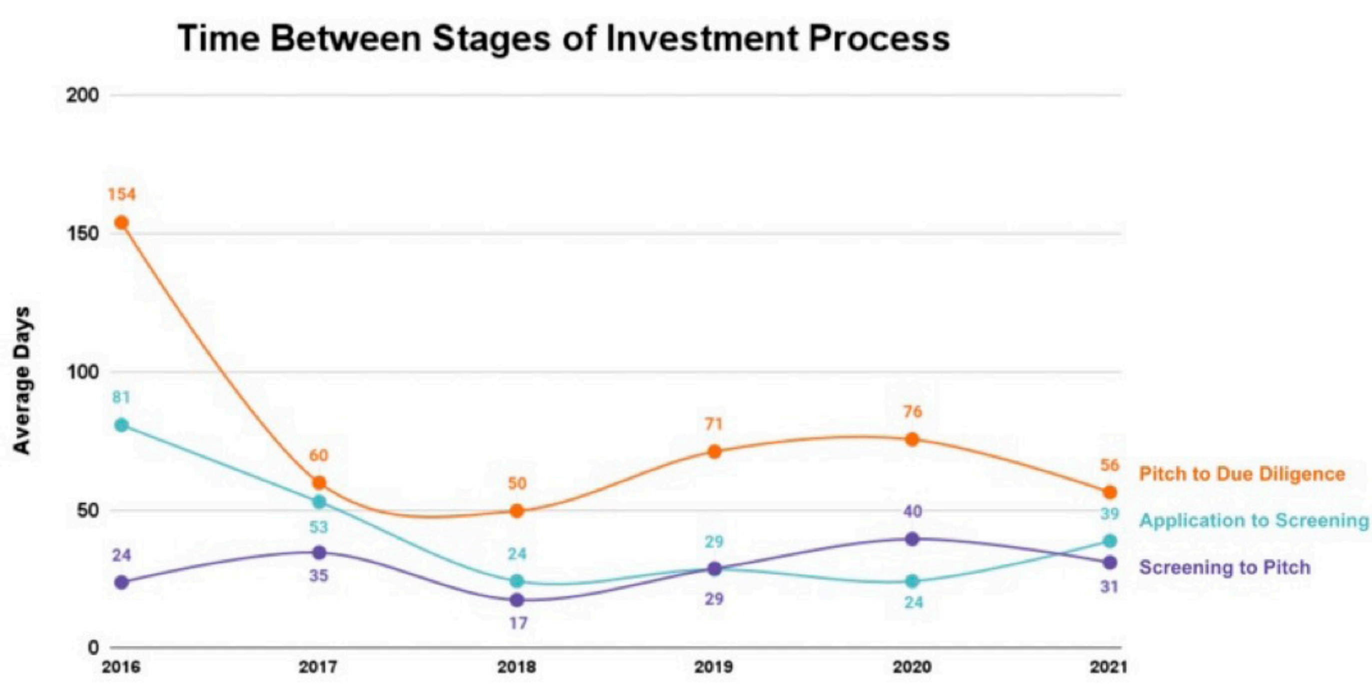
To answer these questions, we had to dig ''deeper'' into the data especially as it relates to screening committees, due diligence activities and the portfolio companies that received investments from QCA within the six-year (2016-2021) study period.

The initial data analysis (shown in the graph below) illustrates the QCA "deal pipeline" for the study period, i.e., those companies who applied for funding from QCA and progressed toward an investment. More specifically, we considered a year-by-year comparison of the number of companies that:

- Applied for funding
- Were pre-screened and advanced to an in-person meeting with a QCA screening committee
- Advanced to the opportunity to present at a QCA investor meeting, and
- Advanced to due diligence and ultimately funded by QCA.

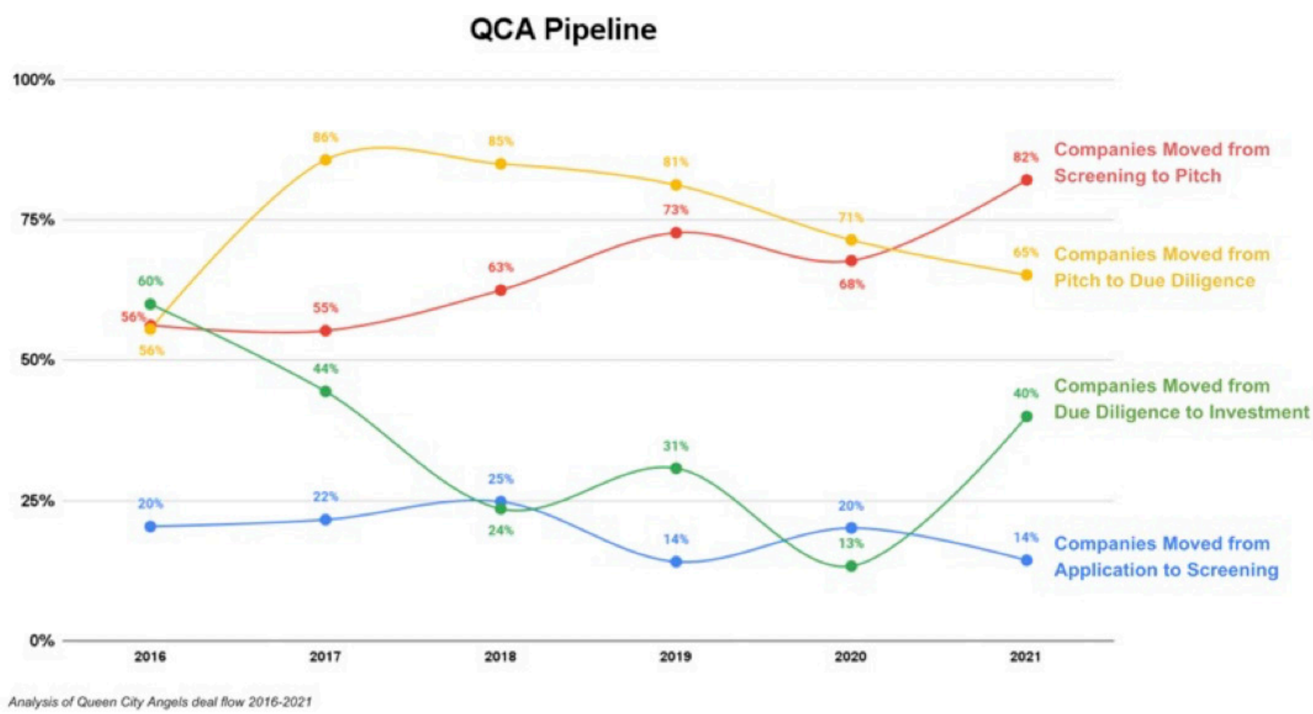


Analysis of Queen City Angels deal flow 2016-2021

MEMBER ENGAGEMENT INCREASES THROUGHPUT AND EXPERTISE APPLIED IN DUE DILIGENCE

In addition to distributing the required workload effectively, greater member engagement has also resulted in increased "speed" of execution as it relates to working companies through the pipeline. As a result, during the study period QCA has become far more efficient relative to our processes and decisions to invest.

A second graph (below) indicates the number of companies at all stages of the pipeline has remained constant or increased over the study period. Thus, the increased speed of execution has not come at the expense of having fewer companies in the pipeline. Clearly, the increased member engagement has had a very positive effect on QCA's ability to consider more companies for investment and to do it faster.



THE TAKEAWAY

Increased member engagement (coupled with extensive training) has had a direct positive effect on the number of companies being considered for investment and the speed in which those decisions are made. That efficiency has shortened decision time and freed up resources to screen more deals.

Has the increased level of engagement resulted in better results/outcomes in terms of amount invested per member and ultimately the success of the investments? In the third and final article of this series, the data will be analyzed to explore that question.

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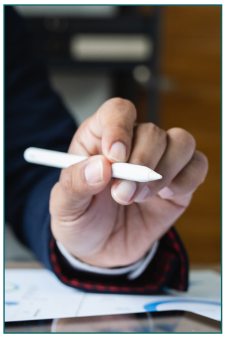
THE ACA DATA ANALYTICS INITIATIVE

These data insights, like the Angel Funders report, are based on the data collection and analysis of leading ACA member organizations throughout the U.S. and Canada. We are actively recruiting all ACA member organizations to contribute their investment data to the ACA Data Initiative. The more data we collect from as many groups as possible, the more valuable the analysis and reporting becomes.

Submitting your group's data is easy! It's the only way to build a data bank that can help all groups make smarter investment decisions. Sign up today to contribute your group's data!



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