Angels are Important to the Economy:

Public Policy Strategies to Promote More Investment in Entrepreneurial Companies
Agenda

• Who angels are and how they support entrepreneurs and jobs
• State strategies to stimulate angel investment
• ACA public policy platform
Angel Capital Association Today

- **Mission**: Fuel the success of angel groups and private investors who actively invest in early-stage companies
- 170 member angel groups
- 8,000+ accredited investors
- 20 affiliated organizations
- 48 states/provinces
- Charitable partner:

[Map of Angel Capital Association's network across the United States, highlighting full members, provisional members, and affiliates.]
Hail the Job Creators

From 1980 to 2005, firms less than five years old accounted for ALL net job growth in the United States.

HAIL THE JOB CREATORS

ENTREPRENEURS ARE KEY TO JOB CREATION

No Startups, No Job Creation

Companies Backed by American Angels
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<thead>
<tr>
<th>Voice</th>
<th>Promotion</th>
<th>Professional Development</th>
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<tbody>
<tr>
<td>Public Policy</td>
<td>External Marketing</td>
<td>Events</td>
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<td>Lobbying</td>
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<td>Summit</td>
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<td>Promotion</td>
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<td>Regional Meetings</td>
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<td>Member Communications</td>
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<td>Leaders Workshop</td>
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<td>Confidence Survey</td>
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<td>Investor Referrals</td>
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<td>LinkedIn</td>
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<td>Industry Awards</td>
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<td>Portfolio Success</td>
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<td>Background Checks</td>
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<td>Syndication Meetings</td>
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<td>Sector Group Support</td>
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<td>Life Science</td>
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<td>Clean Tech</td>
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<td>Portfolio Support</td>
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<td>Insurance (starts w/ D&amp;O)</td>
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<td>HP Store for ACA</td>
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<td>Dell Innovators Credit Fund</td>
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<td>Portfolio Management</td>
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<td>VC Experts</td>
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<td>Angel Tools</td>
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<td>Resources</td>
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<td>Syndication Services</td>
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<td>eHealth, Gust</td>
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Angels Invest in the Majority of Startup & Early Stage Deals

Number of Deals in 2009: Angel Investment and Venture Capital

Source: “Jeffrey E. Sohl, Center for Venture Research” and 2010 NVCA Yearbook
Angels: Majority of Startup Funding

Funding by Source and Stage - 2009

- **Angel Investors 2009**
  - $17.60 billion
  - ~57,000 deals
  - 35% seed/startup
  - 47% early stage
  - ~259,500 individuals

- **Venture Capital 2009**
  - $17.69 billion
  - ~2,800 deals
  - 9% seed/startup
  - 65% later/expansion capital
  - Total 794 firms (not all active)

**Sources:**
Center for Venture Research and PwC MoneyTree
Who are Sophisticated Angel Investors?

- Make equity investments – generally not loans
- Often successful, exited entrepreneurs or retired business persons
  - Active investors
  - Invest both time and money in companies
- Accredited investors - SEC definition (ACA requirement)
- Invest their own money
- Generally invest in local companies
- Motivated by returns, but also community development, love of mentoring entrepreneurs
- Kauffman/ACEF: Invest at least $20K in businesses not run by family
Profile of Angels - Median

- Years investing: 9
- Number of investments: 10
- Total exits/ closures: 2
- Years as entrepreneur: 14.5
- Number ventures founded: 2.7
- Age: 57
- Percent of wealth in angel investing: 10%
- Education: Masters degree

Source: *Returns of Angels in Groups*, Robert Wiltbank and Warren Boeker (funded by Kauffman Foundation)
Angel Groups are Small - *but Important* - Subset of All American Angels

<table>
<thead>
<tr>
<th>U.S. Millionaires</th>
<th>Informal Investors</th>
<th>Active Angels</th>
<th>Investors in Angel Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,200,000</td>
<td>1,000,000</td>
<td>225,000</td>
<td>12,000</td>
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</tbody>
</table>

2009 Report from Spectrem: $1 millionaires down in 2008 27%, those with $5 million down 28%
World Wealth Report (Capgemini): 19% drop in HNWI and 22.8% drop in wealth in 2008
Growth in Number of American Angel Groups

Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-11 data)
**Investment Activity Per Group**

<table>
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<tr>
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<th>Medians</th>
<th>Range</th>
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<tbody>
<tr>
<td>Deals</td>
<td>6 to 7</td>
<td>0 to 55</td>
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<tr>
<td>Total $ Invested</td>
<td>$1.75 to $2M</td>
<td>$0 to $15M</td>
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<tr>
<td>$ Per Deal</td>
<td>$240K - $291K</td>
<td>$0 - $780K</td>
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- Figures are for 2009-2011 on an annual basis
- Most active groups are on coasts
- Central US leaders: Austin, Columbus, Pittsburgh

Source: Combination of Halo Report data and self reported through ACA Surveys
Many States Support Angels and Startups

• More than 20 states currently have tax credits
• Some states recently added them
  – Georgia, Connecticut, Illinois, Minnesota
  – Seeking job growth and leveraging additional investment
• Some have ended them in last few years
  – Iowa and Hawaii
  – Budget shortfalls
States with Tax Credits – Varied, Mixed Success

Tax Credit Rate
- > 50%
- 40 – 50%
- 25 – 35%
- 10 – 20%
- No income tax
- Refundable
Interesting Models and Strategies

Ohio
Third Frontier
Innovation Creating Opportunity

RAIN Source Capital
Discover the Power of RAIN Angel Funds

Wisconsin Angel Network
MAKING CAPITAL CONNECTIONS
Tax Credits & Programs Make a Difference in Wisconsin

Angel Investments

Tax credits introduced
Tax credits enacted

2003 2004 2005 2006 2007 2008 2009 2010 2011

$1,738,000 $3,713,297 $5,387,496 $7,427,170 $11,655,500 $15,000,000 $22,100,000 $50,247,680 $59,008,431

$- $10,000,000 $20,000,000 $30,000,000 $40,000,000 $50,000,000 $60,000,000 $70,000,000
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<th>Now</th>
<th>2011</th>
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<tr>
<td>Income tax credit:</td>
<td>25% (per investment)</td>
<td>25% (per investment)</td>
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<td>(12.5% per year - 2 yrs)</td>
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<tr>
<td>Effective date:</td>
<td>January 1, 2005</td>
<td>January 1, 2011</td>
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<td>aggregate amount of tax credits per year:</td>
<td>$5.5M (2010)</td>
<td></td>
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<td>Maximum investment per company:</td>
<td>$4 M</td>
<td>$8 M</td>
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<td></td>
<td>($500k/investor)</td>
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</tbody>
</table>
Ohio Technology Investment Tax Credit Generates Private Investment

Total credits = $28.5M
Private $ = $109.8
Companies = 422
Return = 4:1

Source: Ohio Department of Development
ACA Promotes Stimulus for States

- Reports and studies available on different state programs and legislation:
  
  www.angelcapitalassociation.org/public-policy/state-policy-kit/
What States and Communities Can Do:

• Befriend local angels
• Offer workshops on investing
  – *Power of Angel Investing is available*
• Reduce risk for investors
• Manage risks AND expectations
• Connect entrepreneurs to mentors and education resources
• Insist entrepreneurs tell story well/ are prepared
Other Supportive Policies & Programs

• Develop more data and research to build understanding
• Education and coaching
  – Entrepreneurs
  – Angels and potential investors
  – Entrepreneurial support community
• Angel-(venture) forums
• Support admin costs for angel groups – or promote events to share info among angels, angel groups
• Systematic information and support
  – Wisconsin Angel Network
• Connect angels & mentors to:
  – University tech transfer offices
  – Promising, but not-ready for angel money entrepreneurs
ACA Public Policy Platform

• Maintain accredited investor standards
• Preserve Federal preemption (Reg D) of seed stage stock
• Develop good tax policy
  – Low capital gains tax rates
  – Angel tax credits at state and federal levels
• Keep angel investment private
Federal Angel Stimulus

- 100% exemption for 2010 and 2011 investments on Qualified Small Business Stock (0% taxes on gains from these investments)
- Four bills to include tax credits for angel investments in Congress in 2010
For More Information

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• www.angelcapitalassociation.org