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# Important Things to Know About Angel Investors - 2014

Marianne Hudson  
Executive Director  
Angel Capital Association

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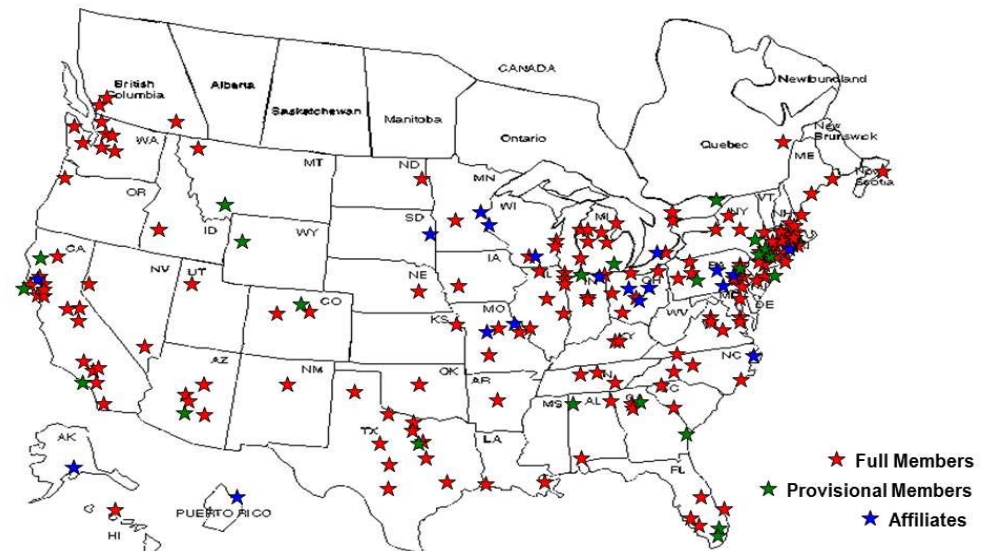


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## ACA Mission:

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

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





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## Who are Angel Investors?

- Often successful, exited entrepreneurs or retired business persons
    - Active investors
    - Invest both time and money in companies
  - Accredited investors - SEC definition
  - Invest their own money (**not money managers**)
  - Generally invest in local companies
  - Marianne: Invest at least \$20K in businesses not run by family
  - 2013: 298,000 investors invested ~\$24.8B in about 71,000 deals (mostly early-stage)
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## Profile of Angels in Groups - 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, Willamette University, published by Kauffman Foundation - 2007





## Motivations of Angels

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

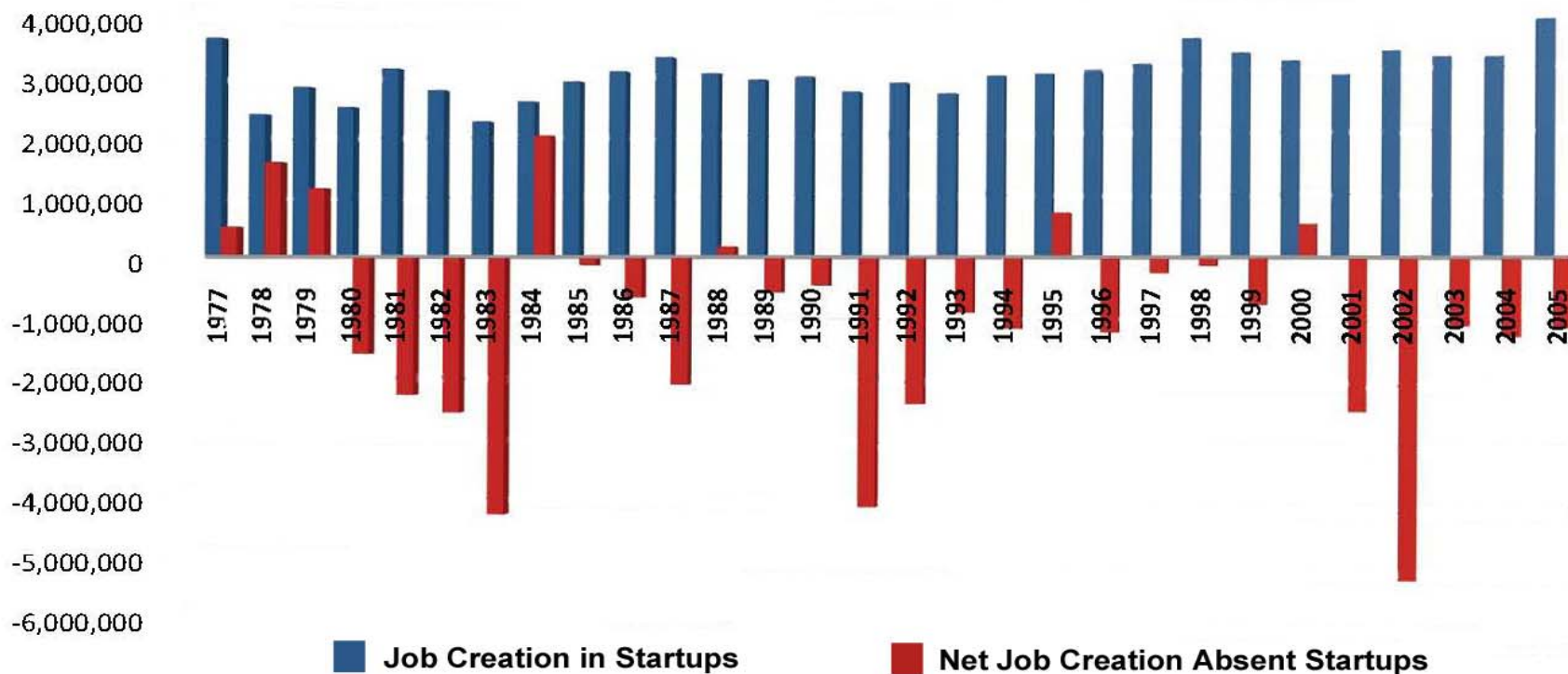




# HAIL TO THE JOB CREATORS

## ENTREPRENEURS ARE KEY TO JOB CREATION

### No Startups, No Job Creation



Source: Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States. Kauffman Foundation, January 2009.



# Angels Fund Majority of Startups in USA

Angels Provide ~90% of Outside Equity for Startups

## Angel Investors (2013)

- \$24.8 billion
- **71,000 deals**
- 32,000 seed
- 29,000 early stage
- 9,200 expansion
- > 298,000 individuals

## Venture Capital (2013)

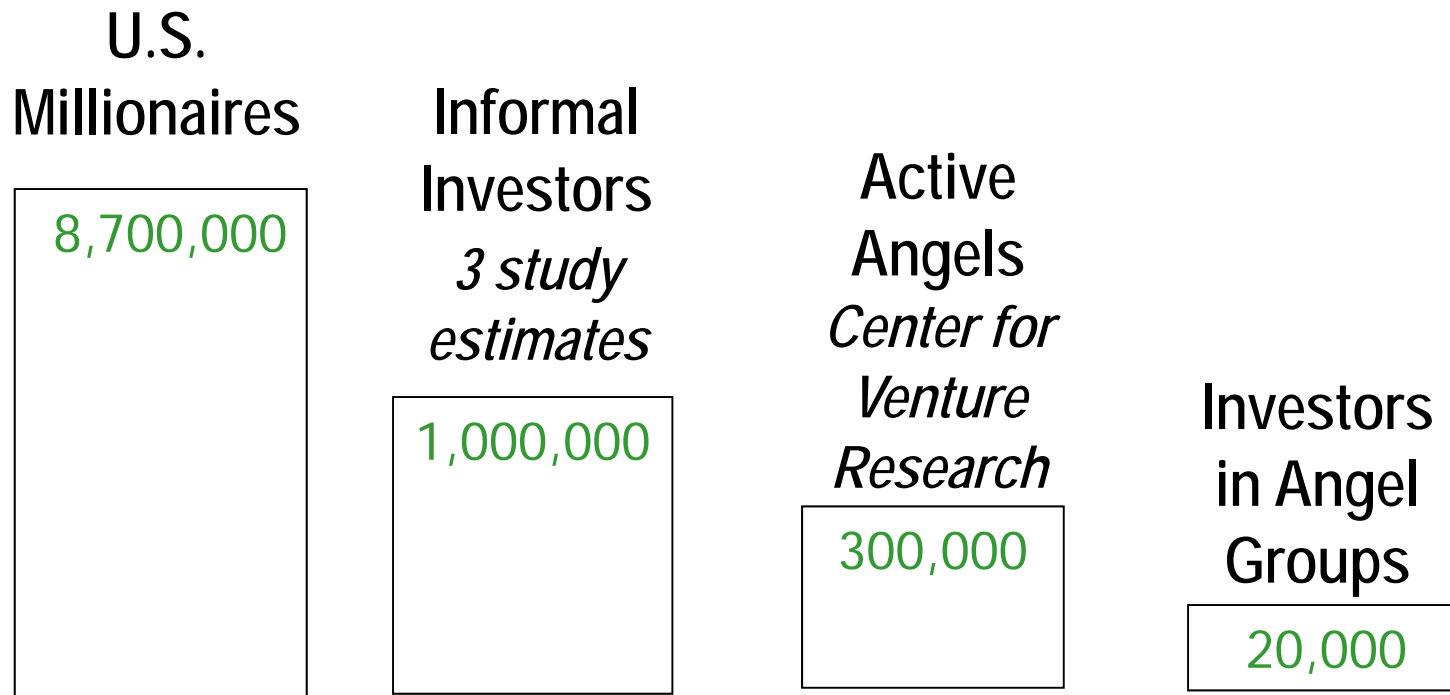
- \$29.6 billion
- **4,050 deals**
- 120 seed
- 1,375 early stage
- 2,550 later/expansion
- 548 active firms

Sources: Center for Venture Research/ UNH; NVCA 2014 Yearbook; PwC MoneyTree





# Angel Groups are Small - *but Important* - Subset of All American Angels



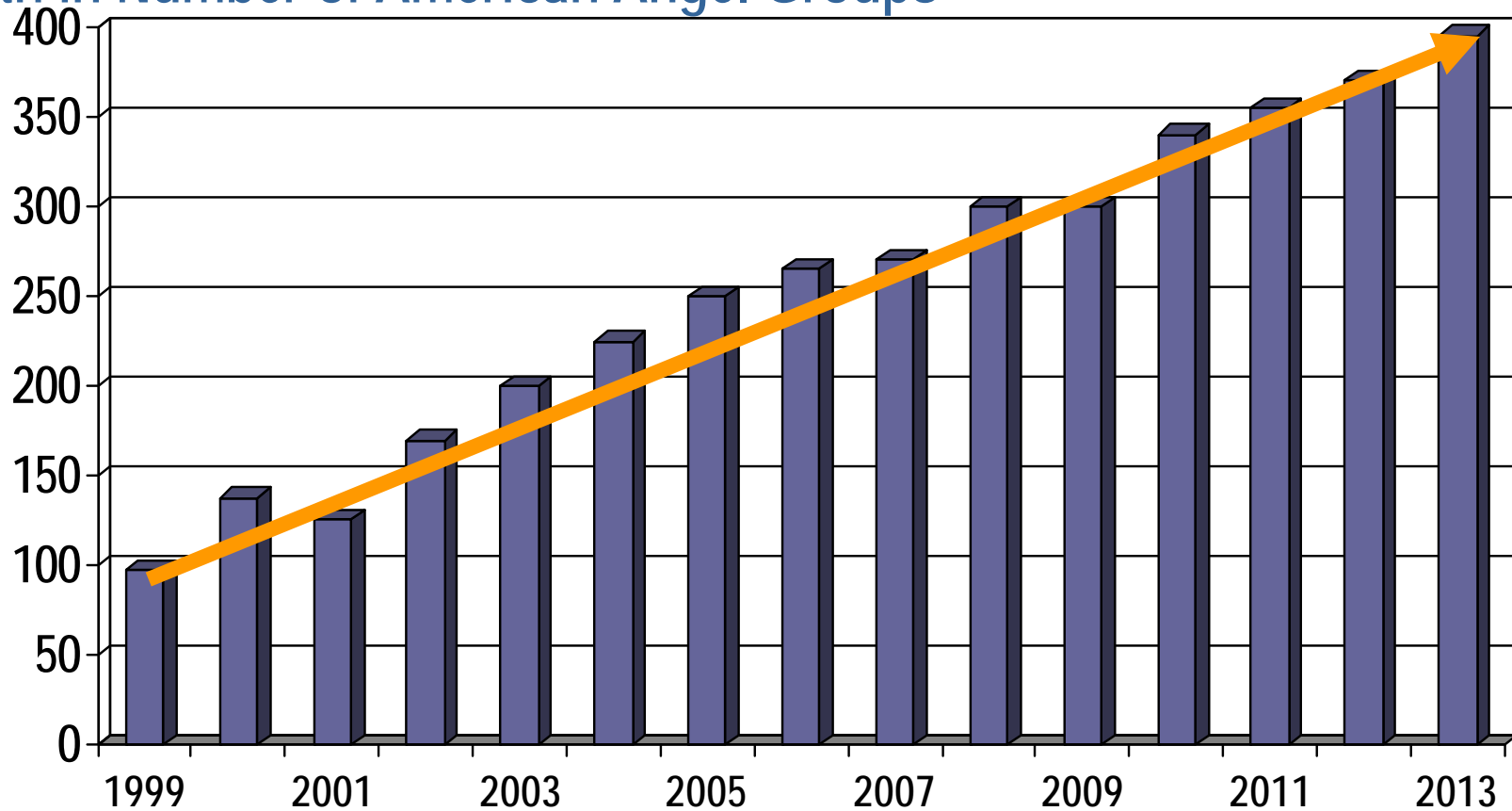
Sources: Spectrem, academic studies, 2013



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# Angel Groups are Key Trend in Sophisticated Investing

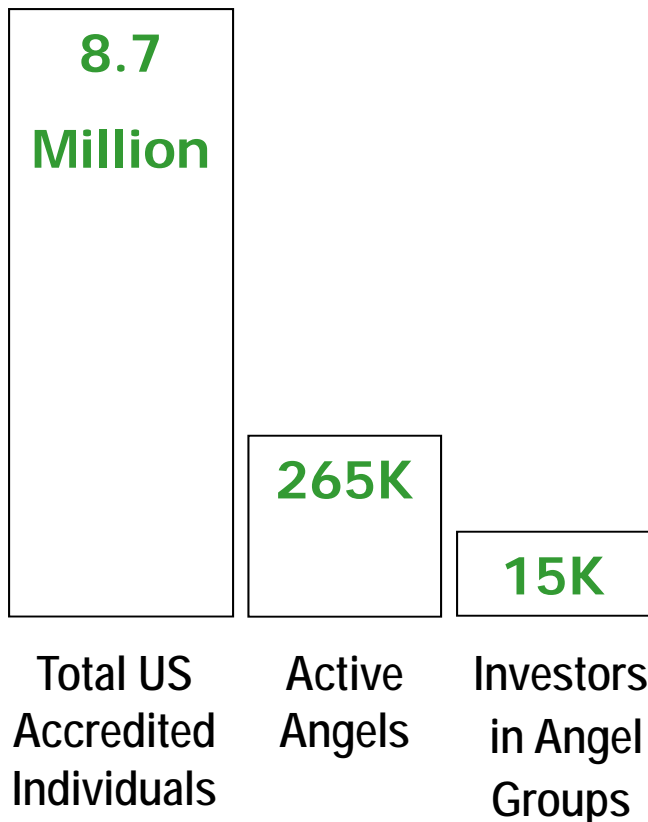
## Growth in Number of American Angel Groups



Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-13 data)



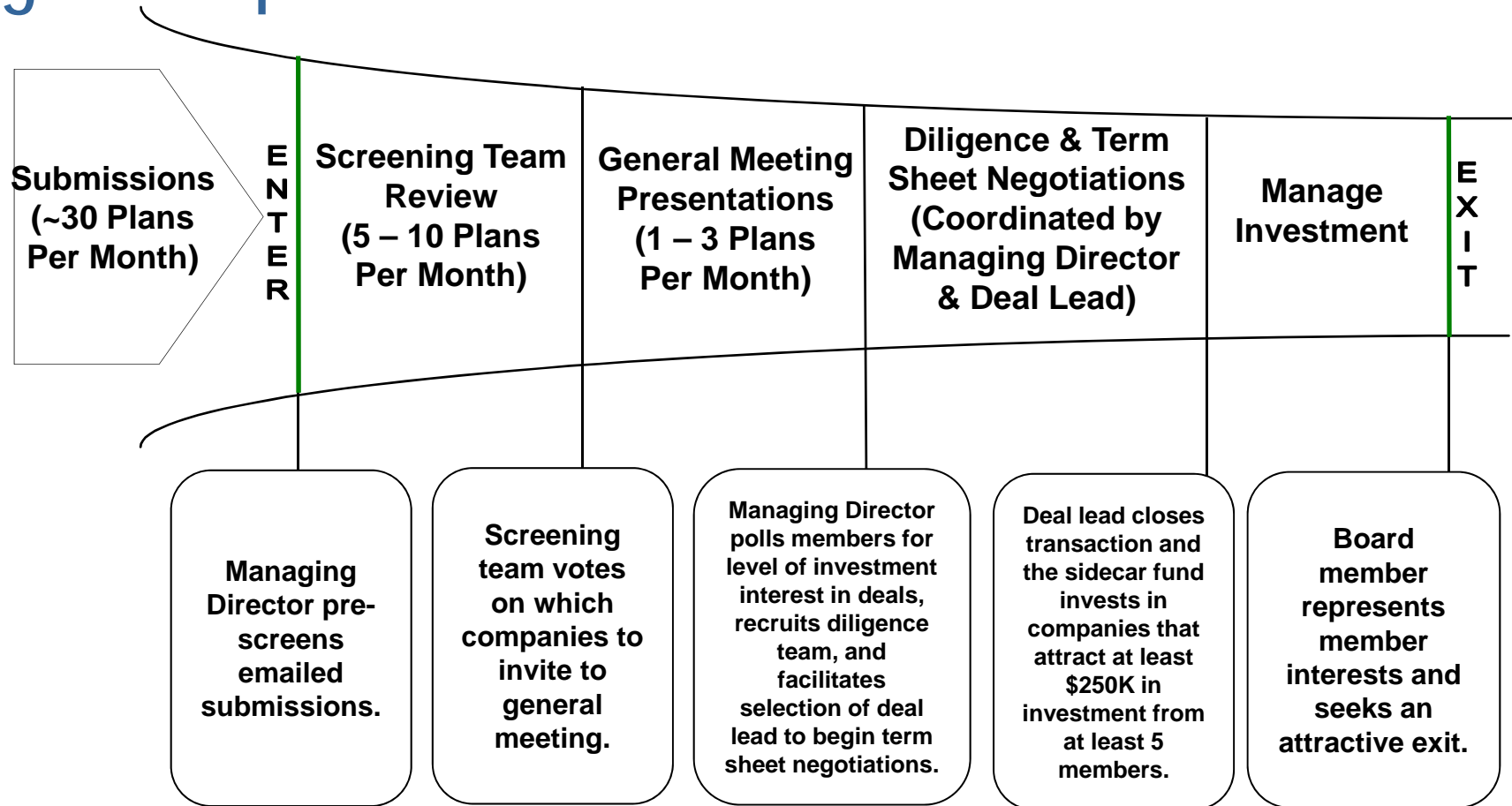
# Angel Groups Take Professional Approach



- **Experienced, Accredited Investors**
  - Successful Entrepreneurs/Business People
  - Median Years Investing – 9
  - Median Number of Investments – 10
- **Invest Where We Live & In What We Know**
  - Main Street – Not Wall Street
  - 300+ Groups – In Every State
  - Work as a Team
- **Focused on Best Practices**
  - Deal Screening
  - Due Diligence
  - Term Sheets
  - Valuation
- **Support Companies We Invest In**
  - Board Seats and Advisory Boards
  - Contacts, Advice, Recruiting, Strategy
  - Follow-on Funding and Exits



# Angel Group Evaluation & Investment Process



Source: James Geshwiler, CommonAngels, Boston



## The Angel-Entrepreneur Connection

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

Pre-seed Stage	Seed/Startup Stage	FUNDING GAP	Early Stage	Later Stages
Founders Friends & Family	Angel Investors	Very few angel deals done above \$1 million  Very few VC deals done below \$4 million	Venture Capitalists	

\$0

\$250K

\$1.5 million

\$4 million

\$10 million up



Silicon Valley Bank



ANGEL RESOURCE INSTITUTE

present the

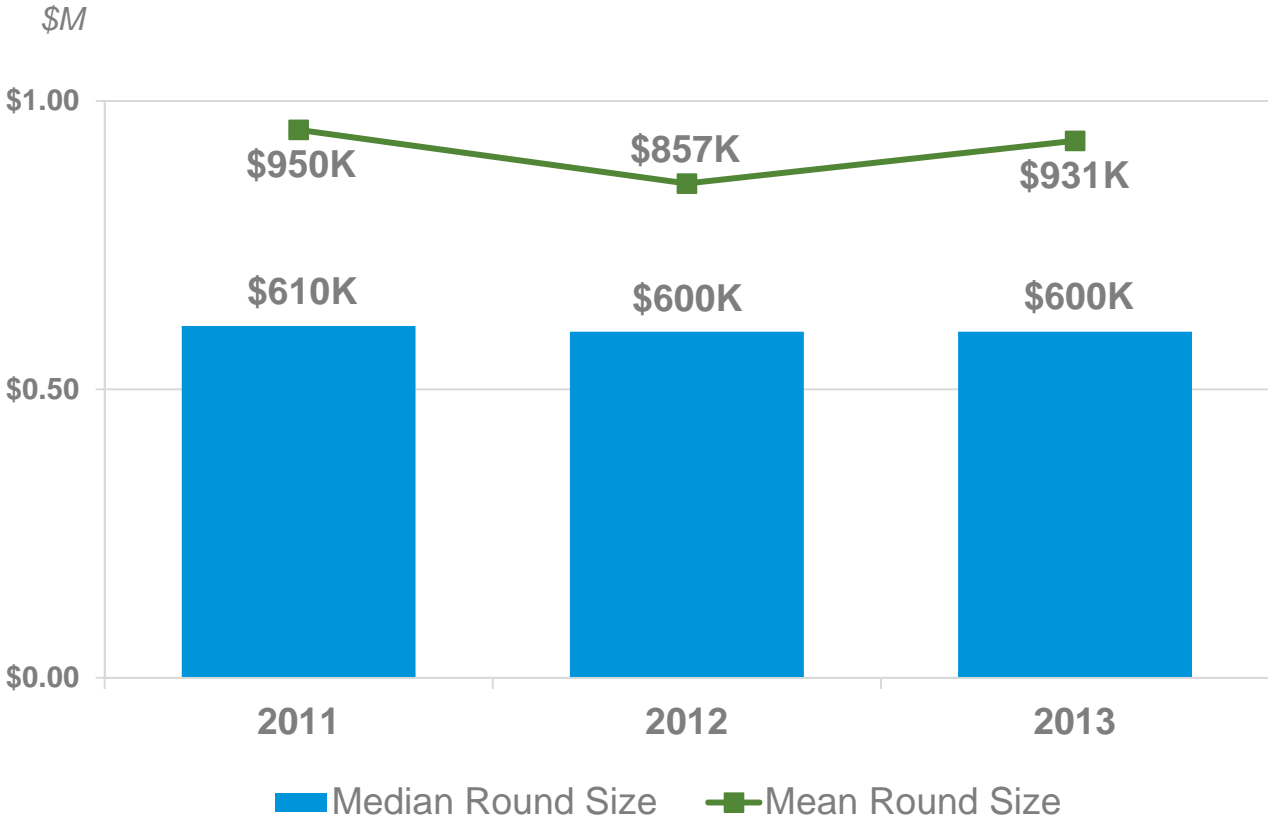
# HALO Report™



US Angel Group Update: 2013 Year in Review

Data Powered by  CB INSIGHTS

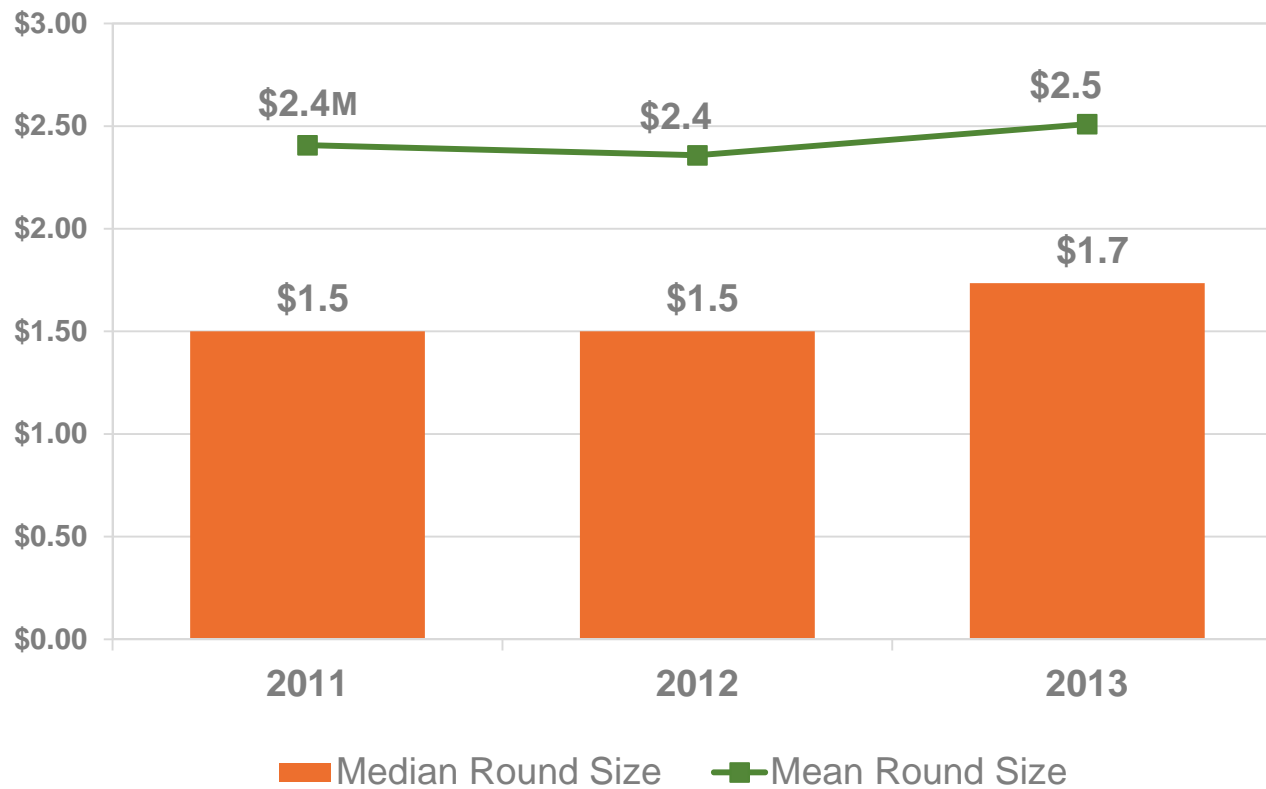
# Angel Round Sizes Remain Steady Over Three-Year Period



\*Angel rounds include angels & angel groups only



## Round Sizes Hit Three-Year High When Angels Co-Invest with Non-Angels



Rounds include angels, angel groups, and non-angel investors

# Round Sizes Increase Across Top Sectors

## Healthcare Round Sizes Jump \$500K in 2013

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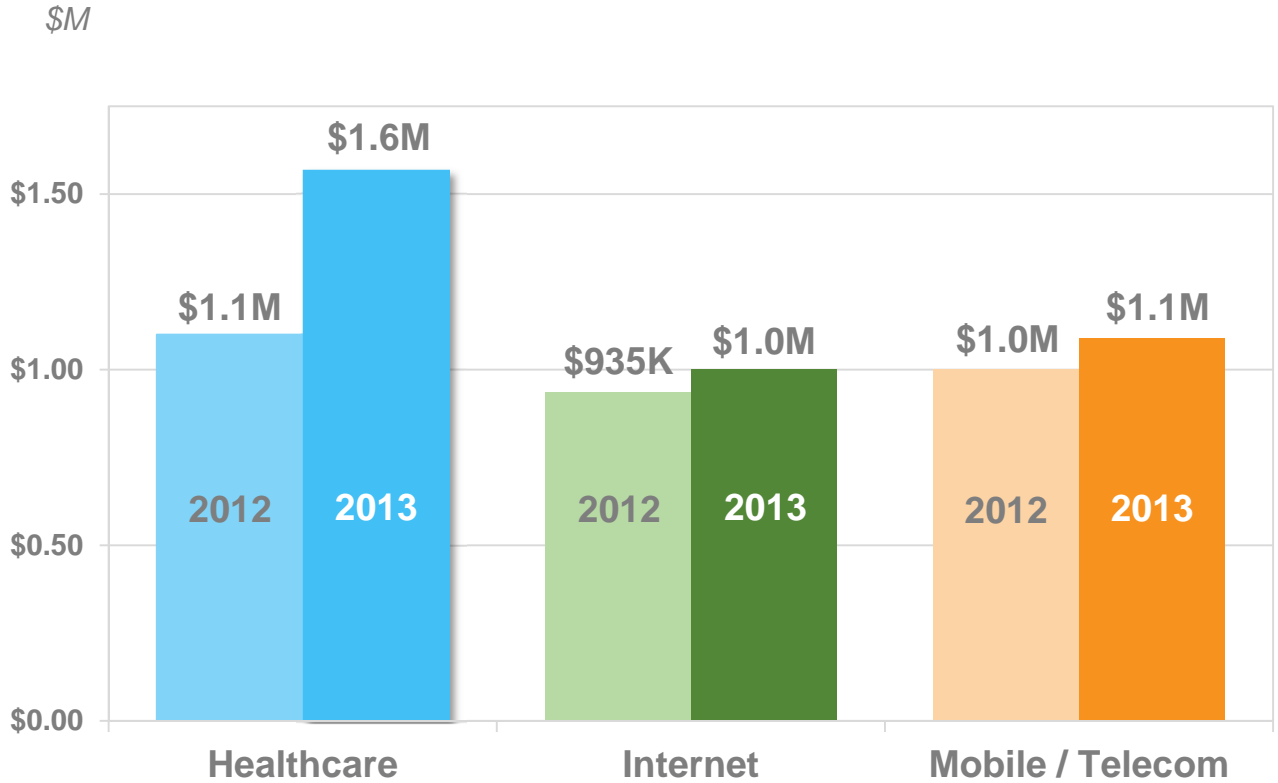
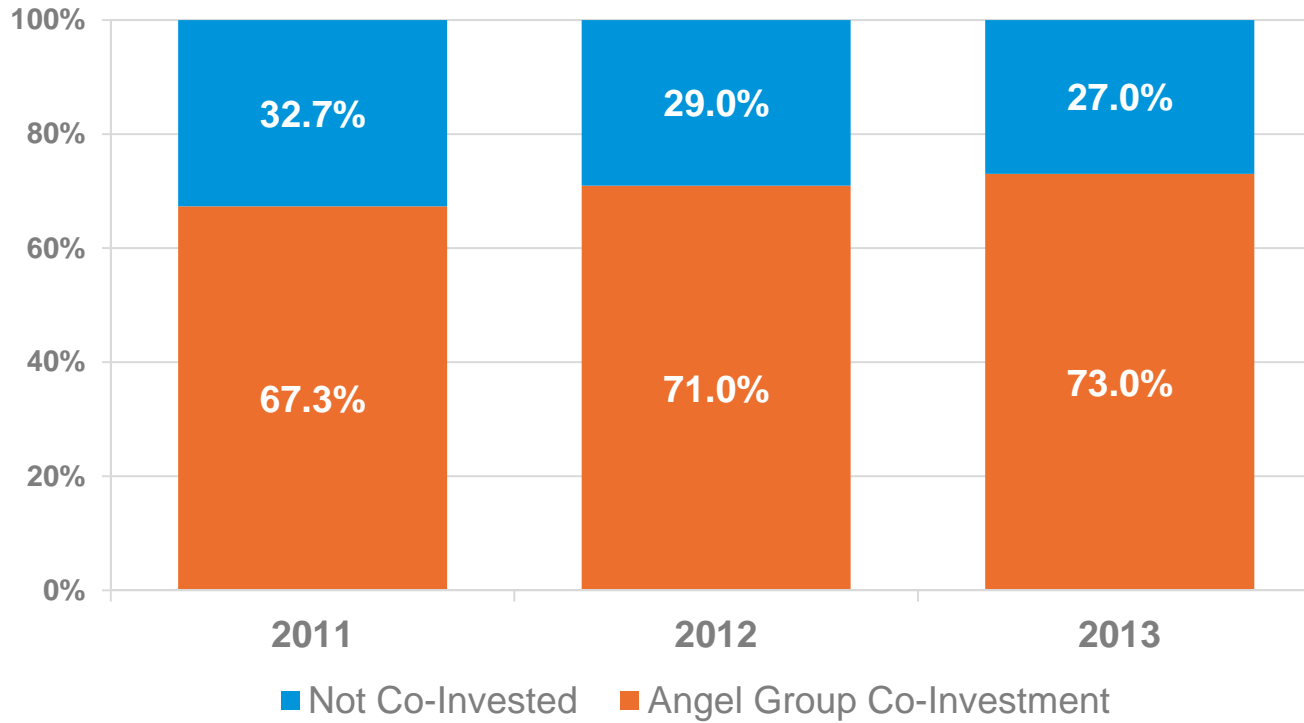


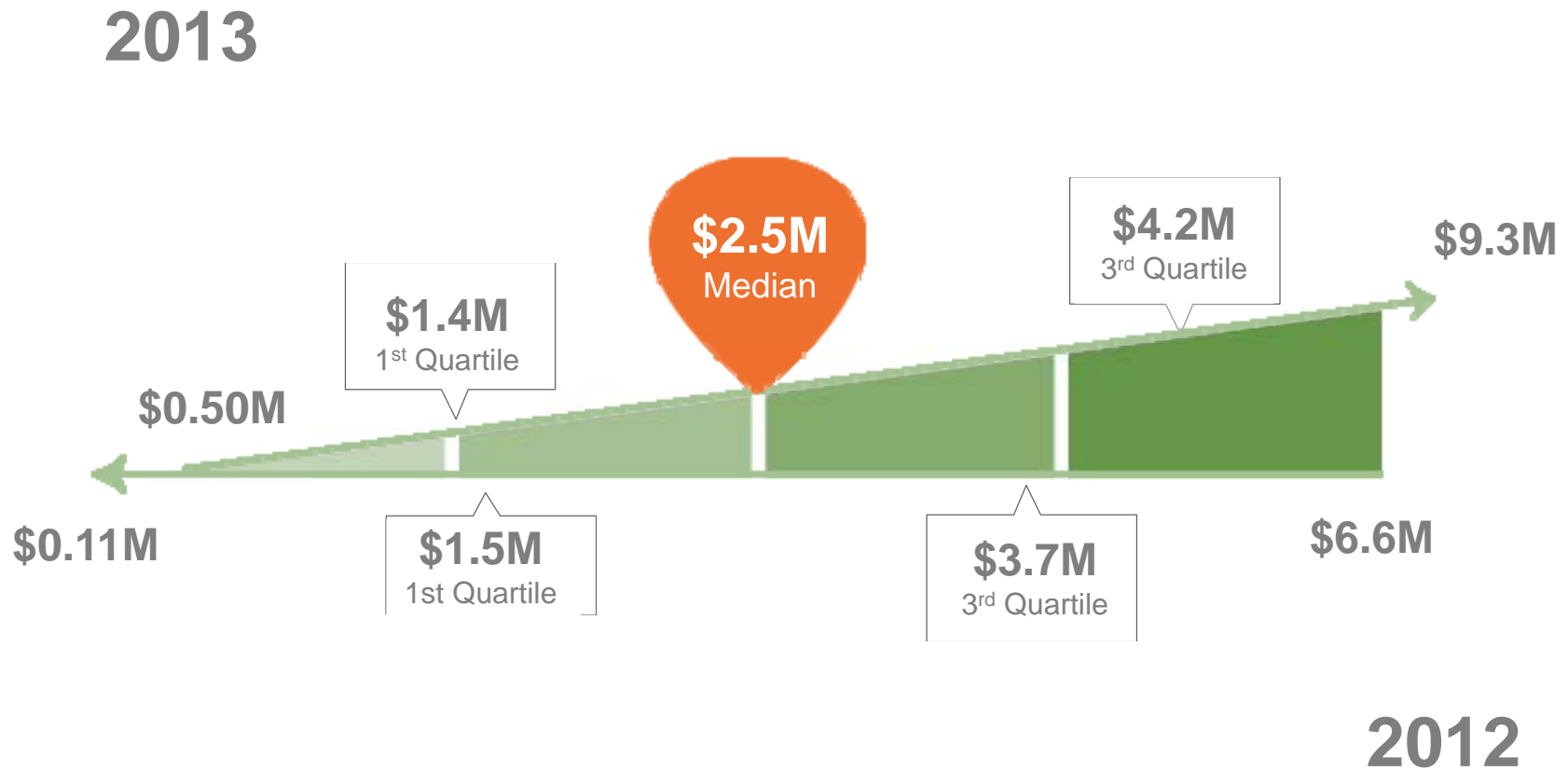
Chart references median round sizes for all deals involving angel groups, co-investors

## Angel Group Co-Investment Trending Up for Three Consecutive Years



# More High-Valuation Deals Closed in 2013

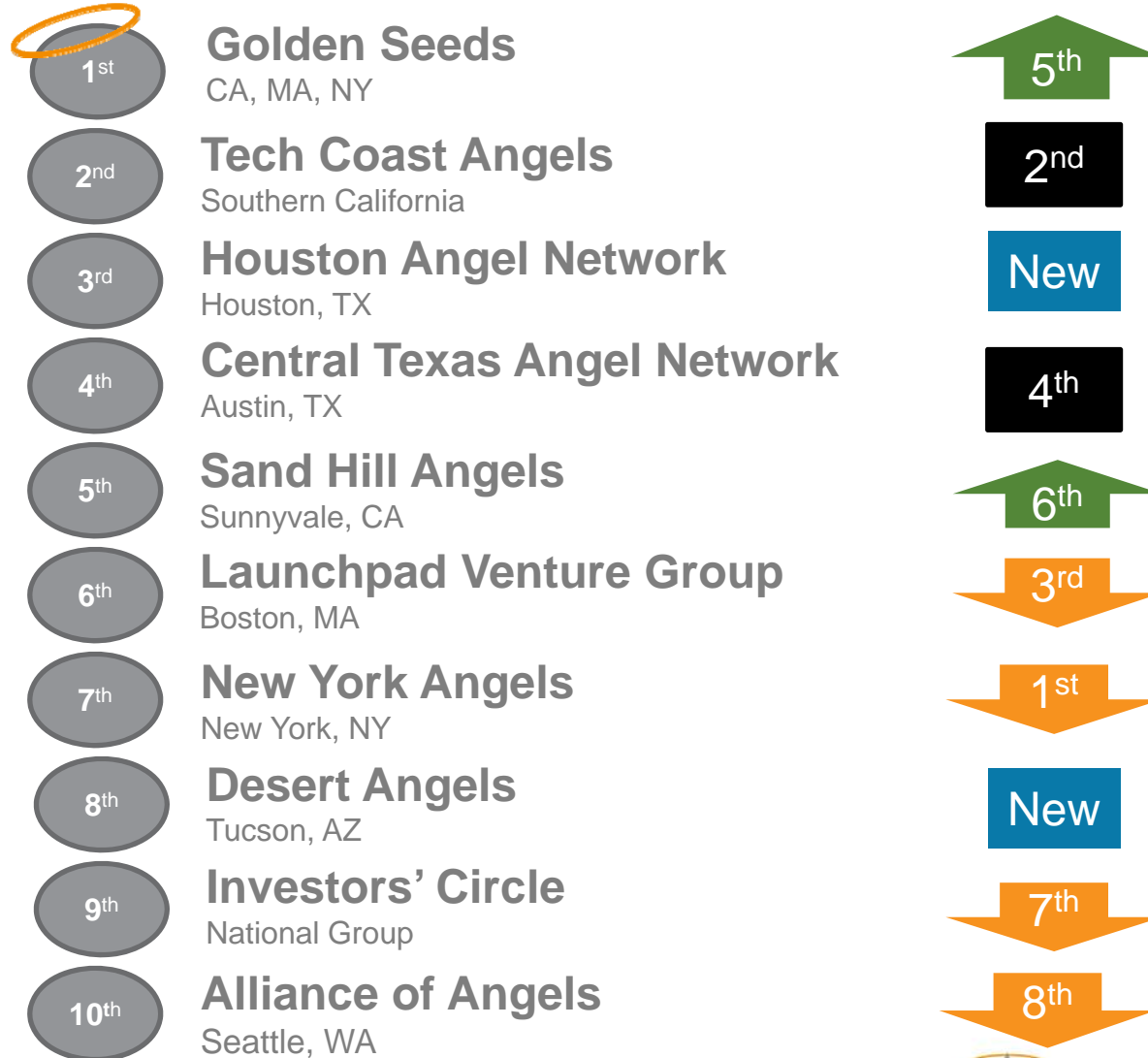
## Median Round Size Holds Steady at \$2.5M



\*Including all rounds with angel groups pre-series A

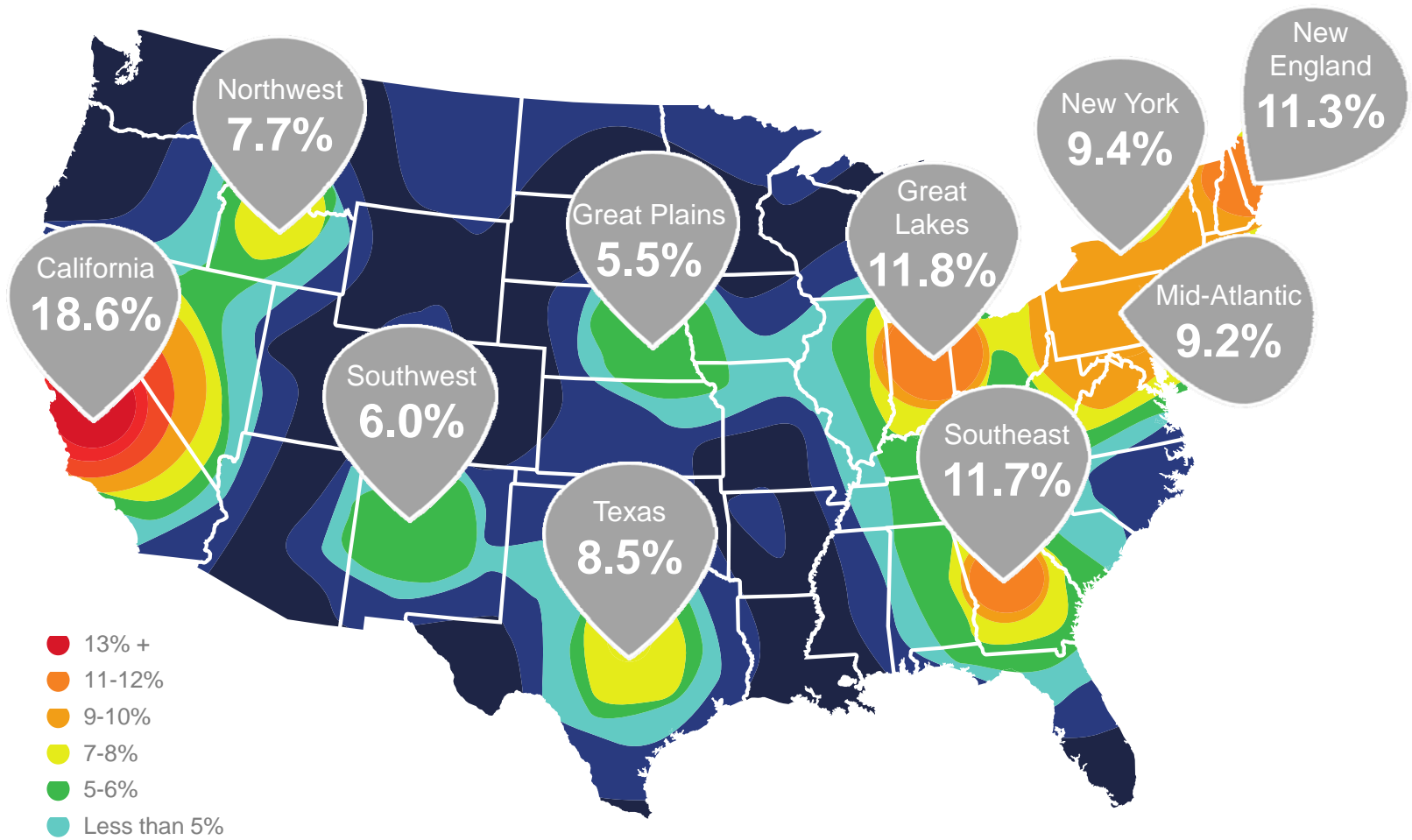
# Golden Seeds is Most Active Angel Group

Ranked by Total Number of 2013 Deals and Compared to 2012



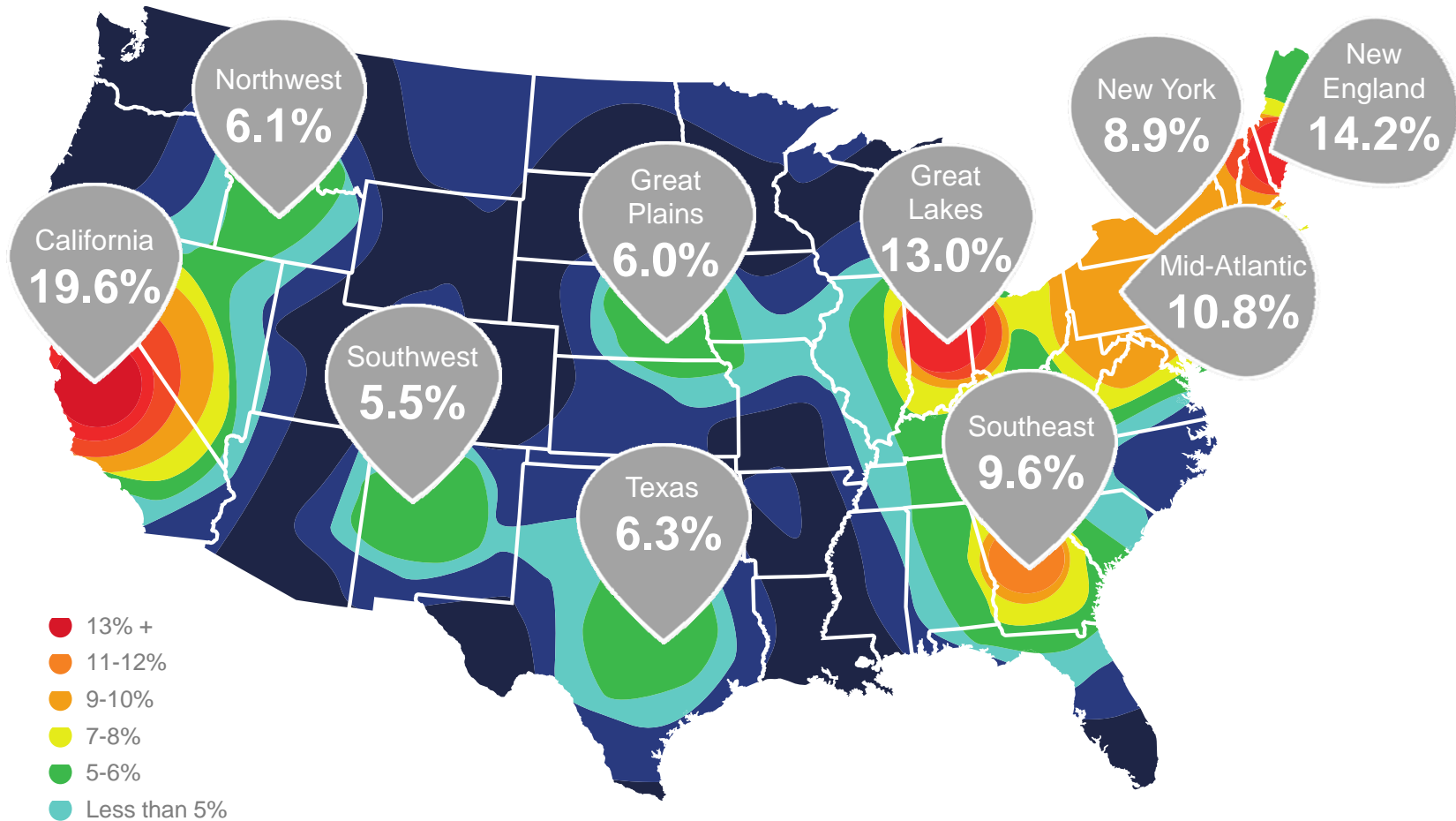
# Angel Group Deals Are Widely Distributed Nationally

## 2013 Share of Angel Group Deals by Region



# Dollars Slightly More Concentrated in Fewer Regions than Deals

## 2013 Share of Angel Group Dollars by Region



# Mobile Consistently Trending Up Year Over Year

## Internet Deals Spike 5.5% to a Three-Year High

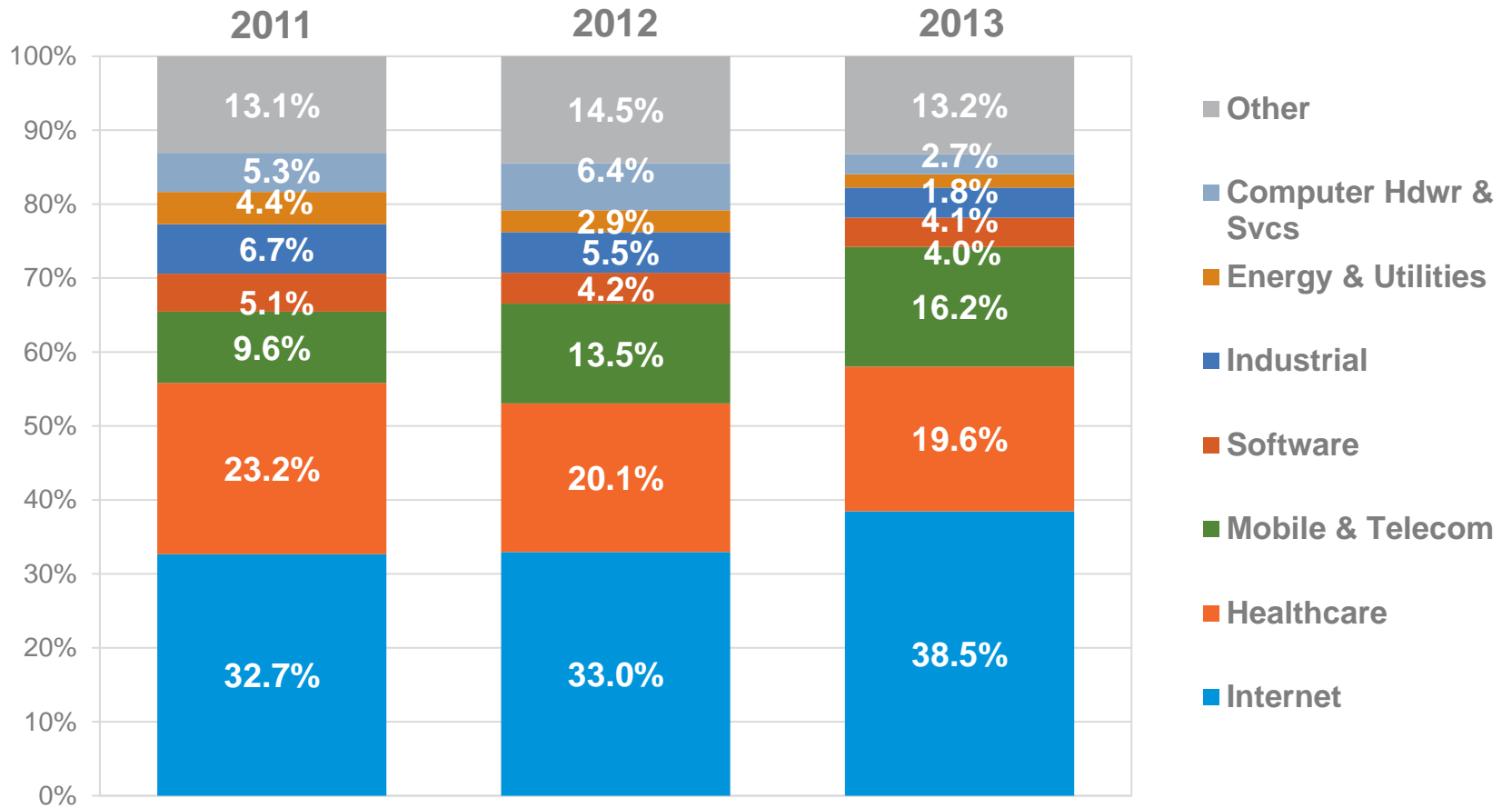


Chart references annual share of angel group deals across U.S.



# Top Sectors Claim Nearly 80% of Angel Group Dollars

## Mobile, Healthcare, and Internet Up 10% from 2012

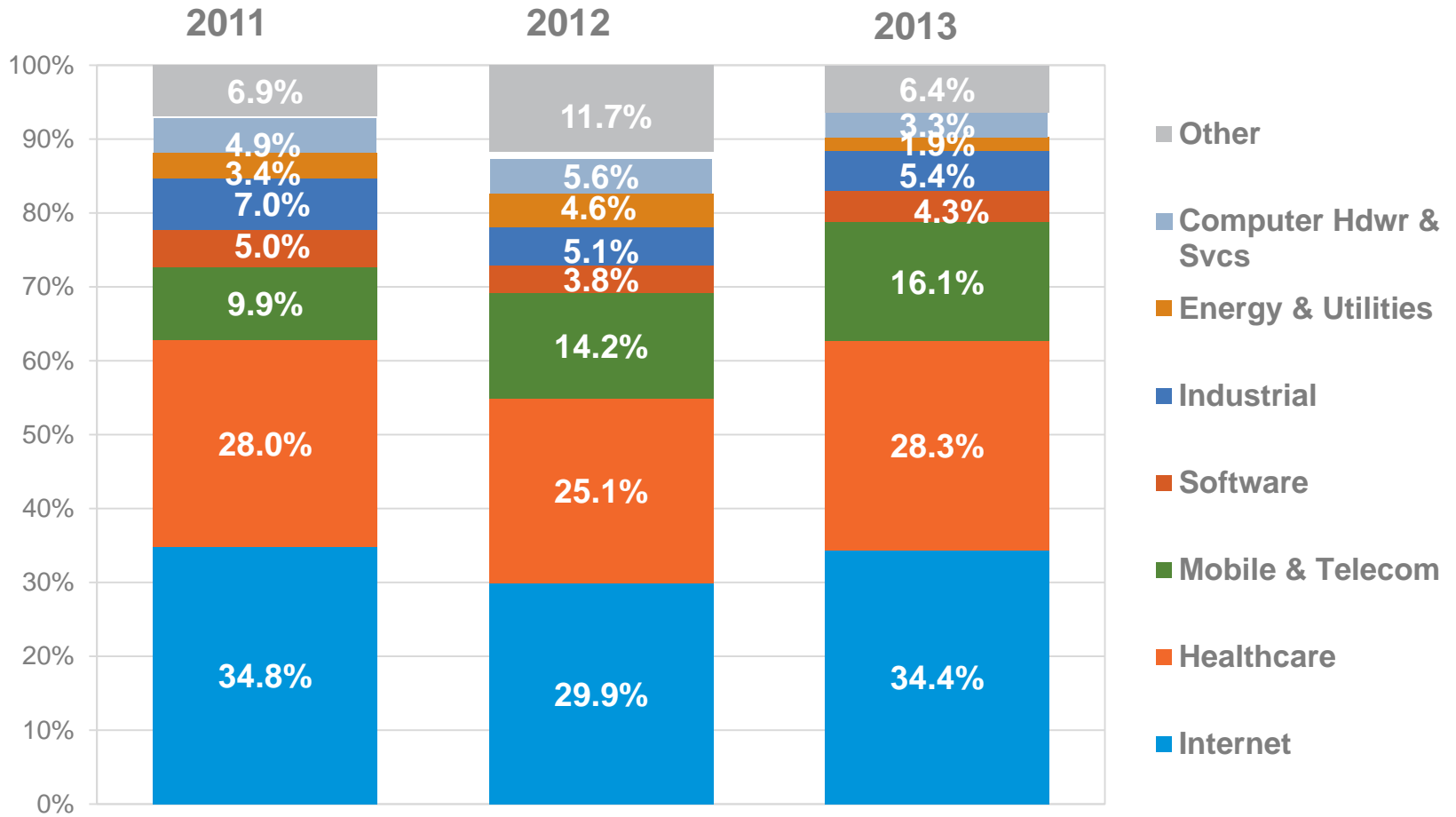


Chart references annual share of angel group dollars across U.S.



## Investment Activity Per Group

	Medians		Range
<b>Deals</b>	<b>6 to 7</b>		<b>0 to 55</b>
<b>Total \$ Invested</b>	<b>\$1.75 to \$2M</b>		<b>\$0 to \$15M</b>
<b>\$ Per Deal</b>	<b>\$240K - \$291K</b>		<b>\$0 - \$780K</b>

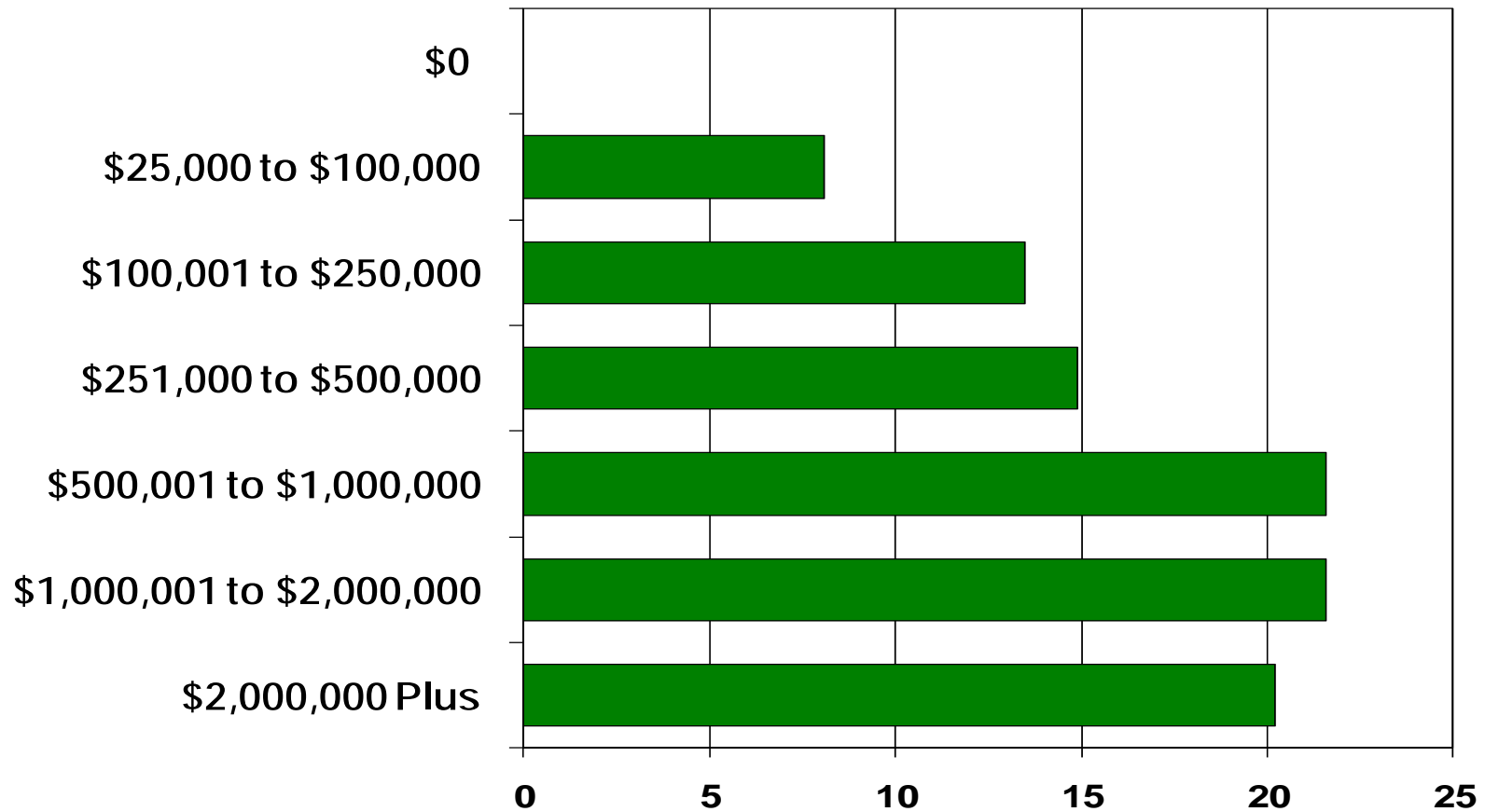
- Figures are for 2009-2011 on an annual basis
- Most active groups are on coasts
- Central US leaders: Austin, Columbus, Pittsburgh

Source: Combination of Halo Report data and self reported through ACA Surveys



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# Average Total Investments Per Group – 2011



Source: ACA-SVB Confidence Survey – March, 2011

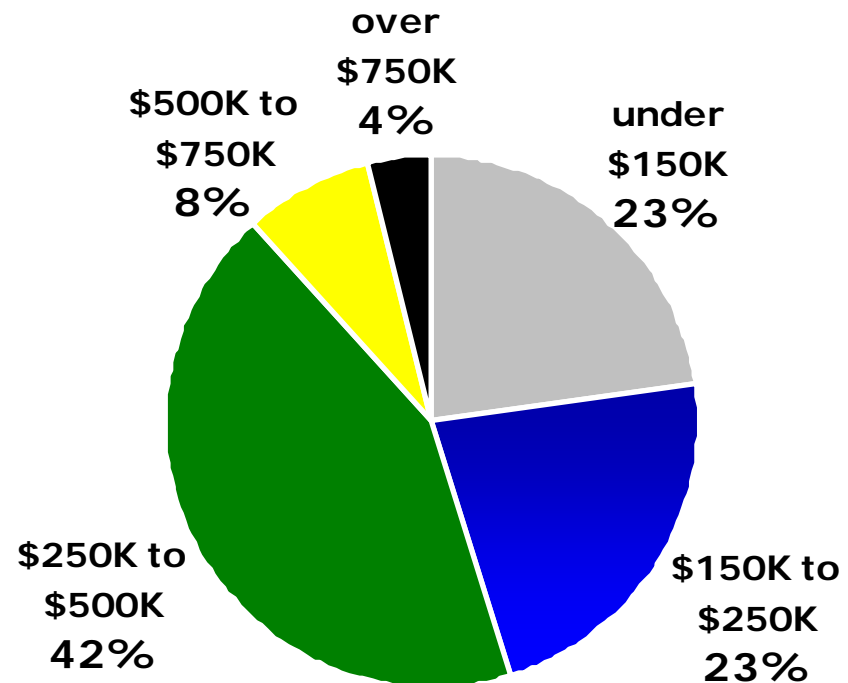
Percent of Groups



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

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

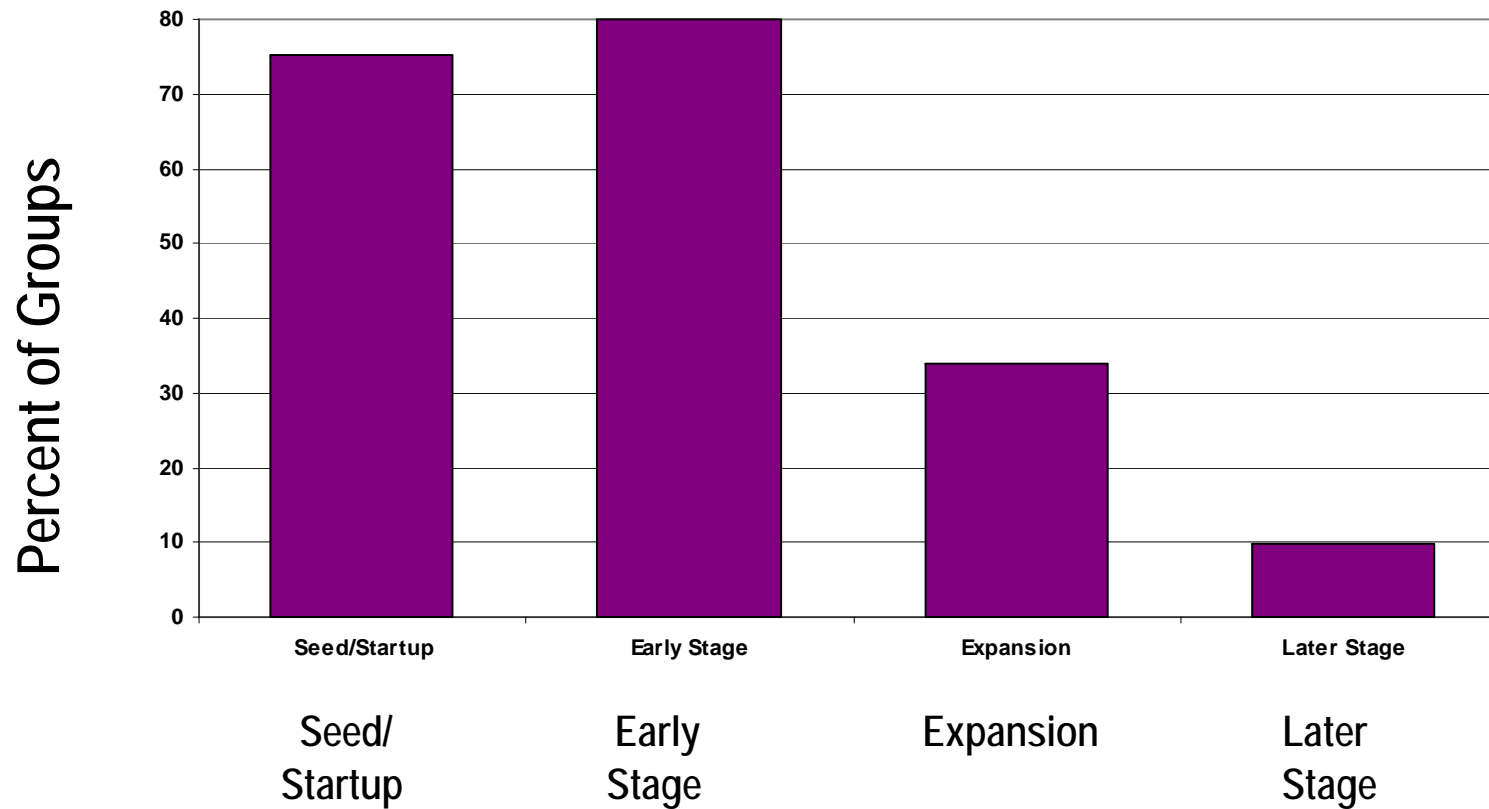
Angel Group Investment Size



Source: ACA Confidence Survey, 2012



# Preferred Investment/Company Stage

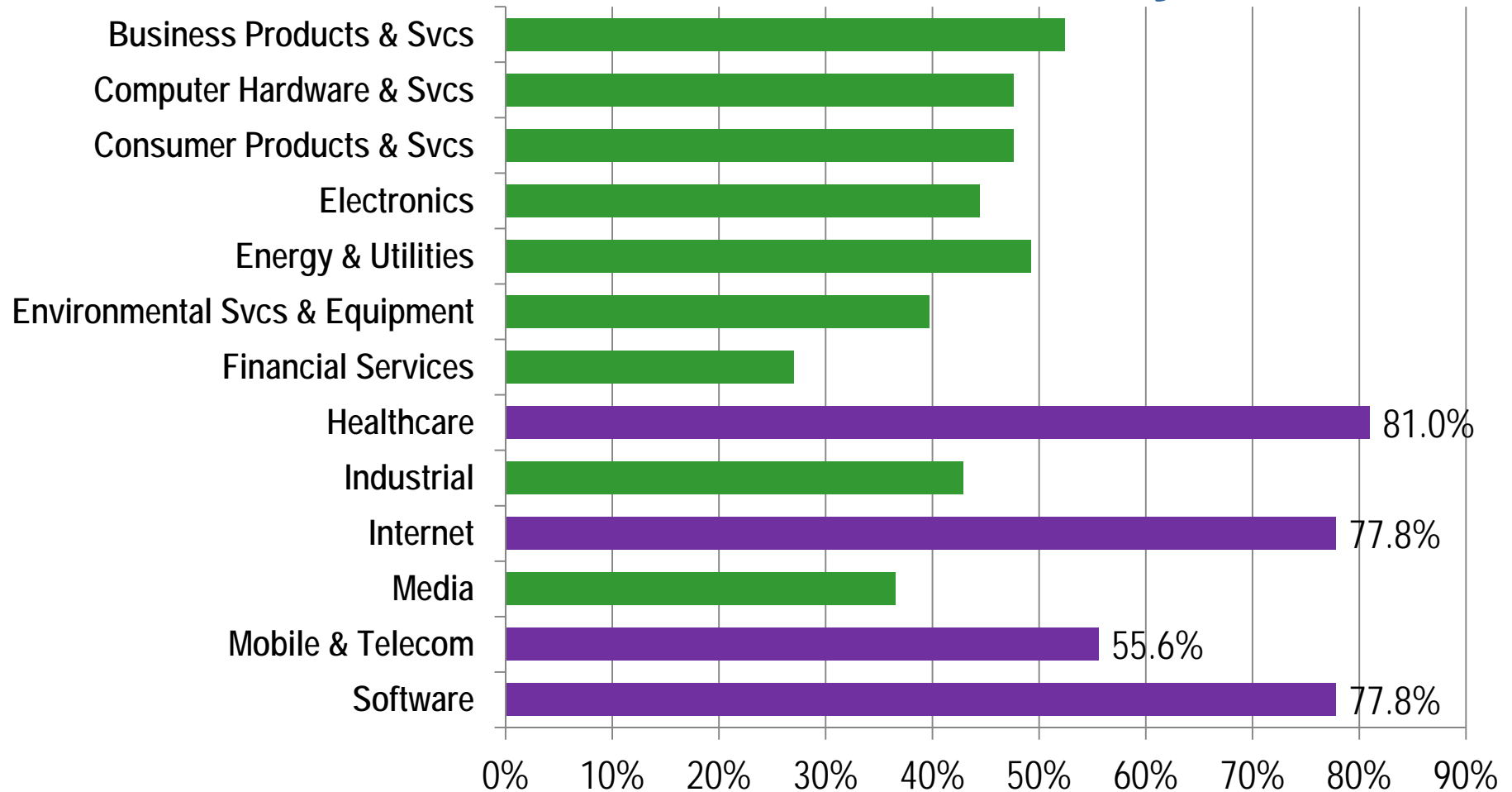


Source: 2011 ACA Angel Group Confidence Survey and 2011 Member Directory



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## 2012 Investment Preferences by Sector



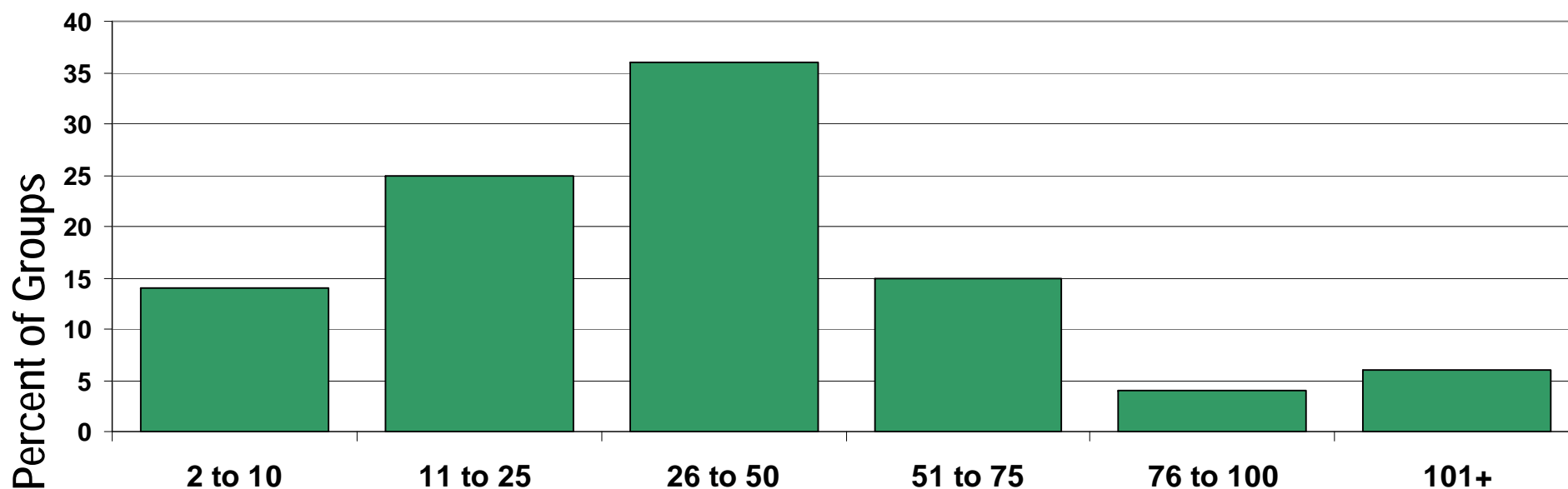
Source: ACA Summit Confidence Survey – 2012

Percent of  
Groups



# Investors Per Group

Average = 43.1  
Median = 34.5

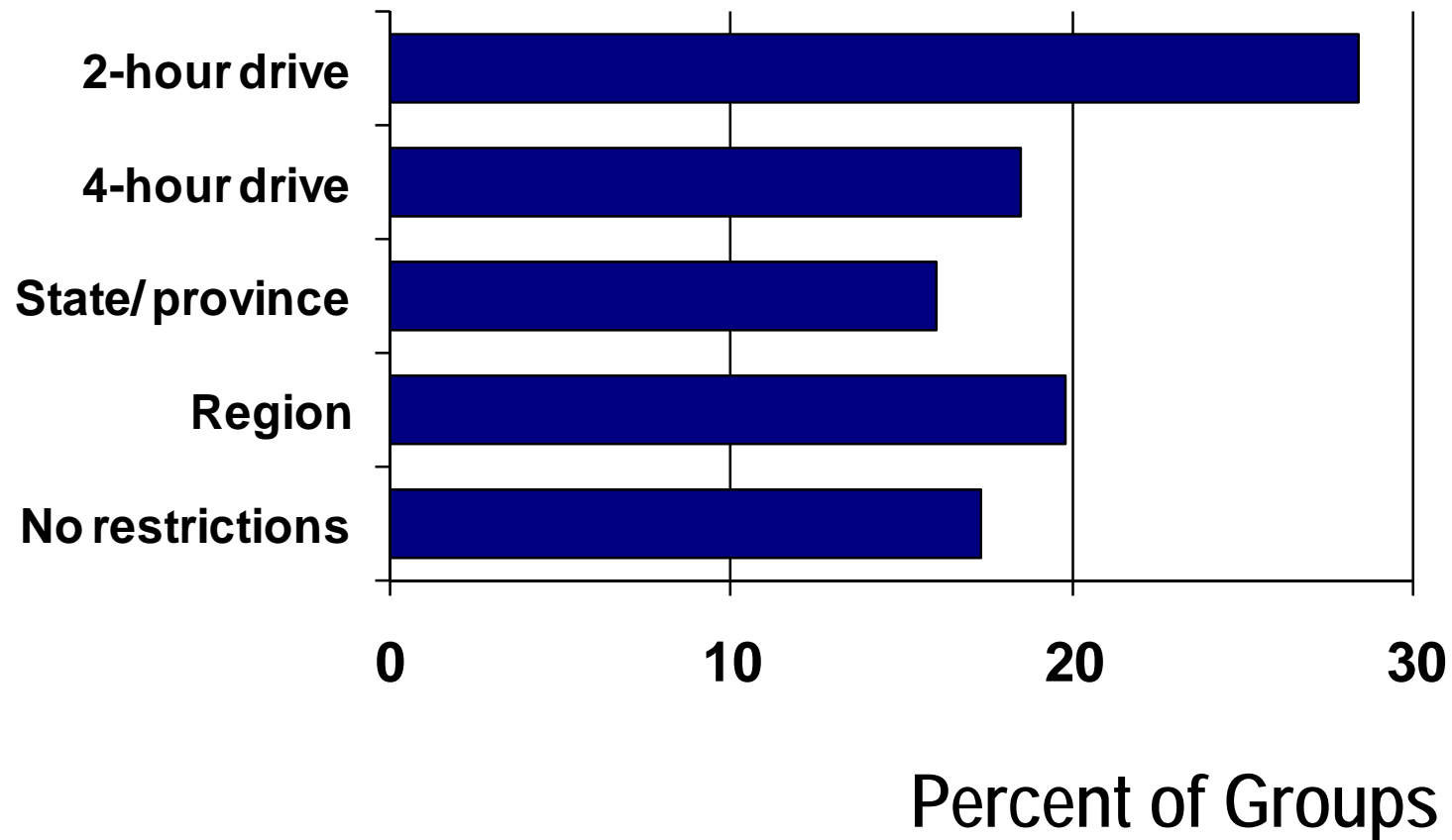


Source: 2011 ACA Confidence Survey and 2011 Member Directory





## Geography – Where do Groups Invest?

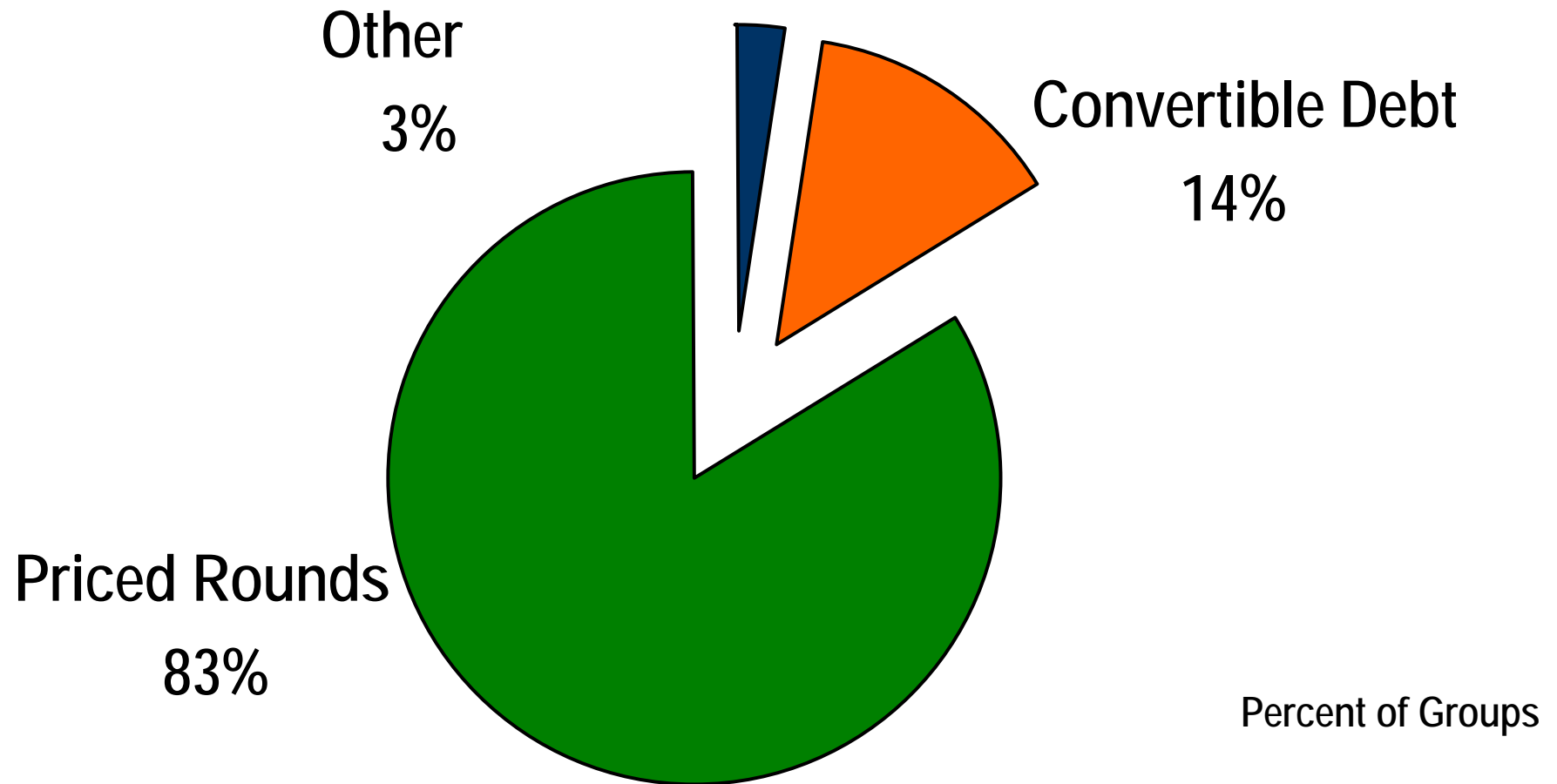


Source: 2008 ACA Angel Group Confidence Survey

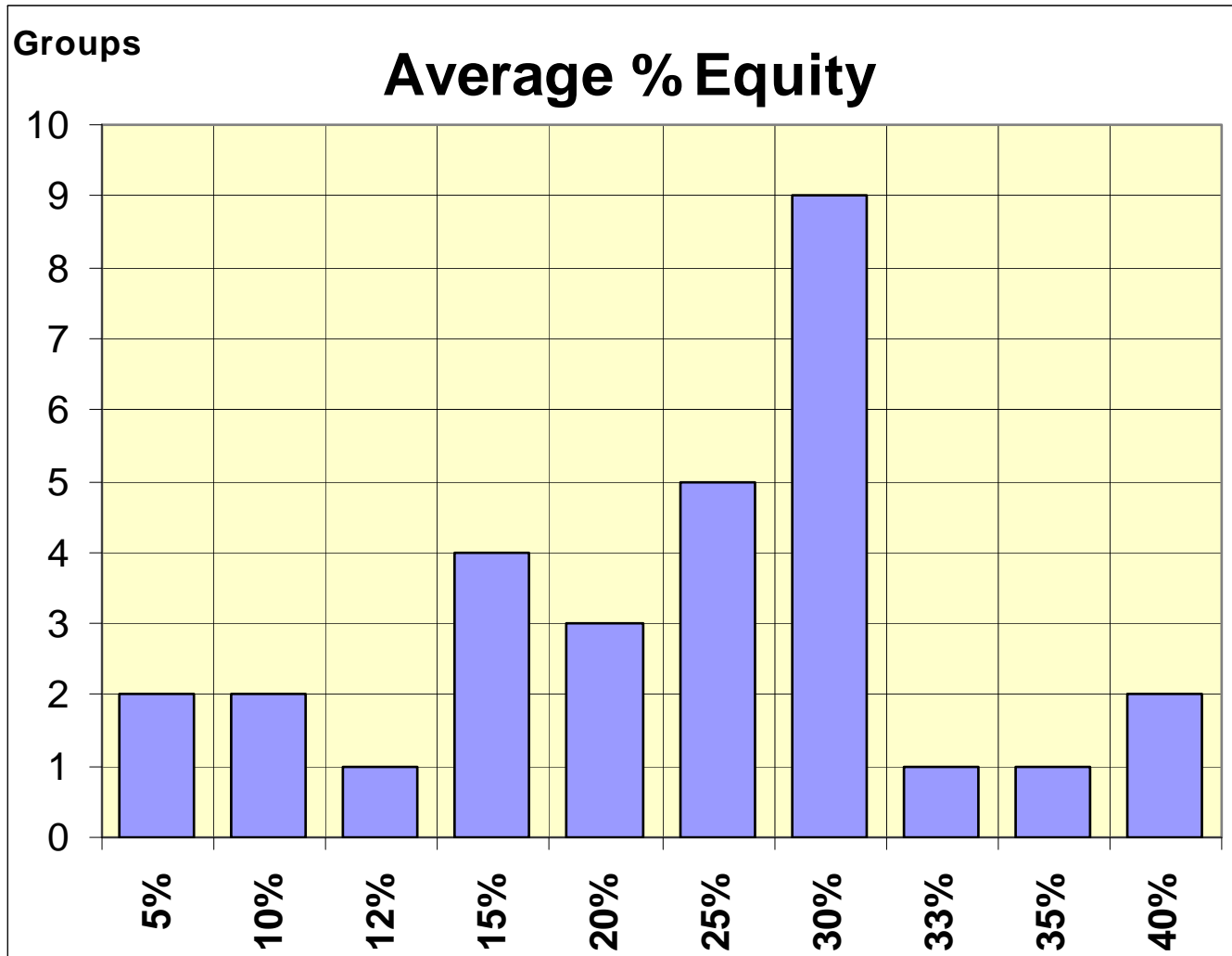




# Preferred Deal Terms



Source: ACA-SVB Confidence Survey – March, 2010



39 groups reporting (Caution: source data is incomplete & unverified)



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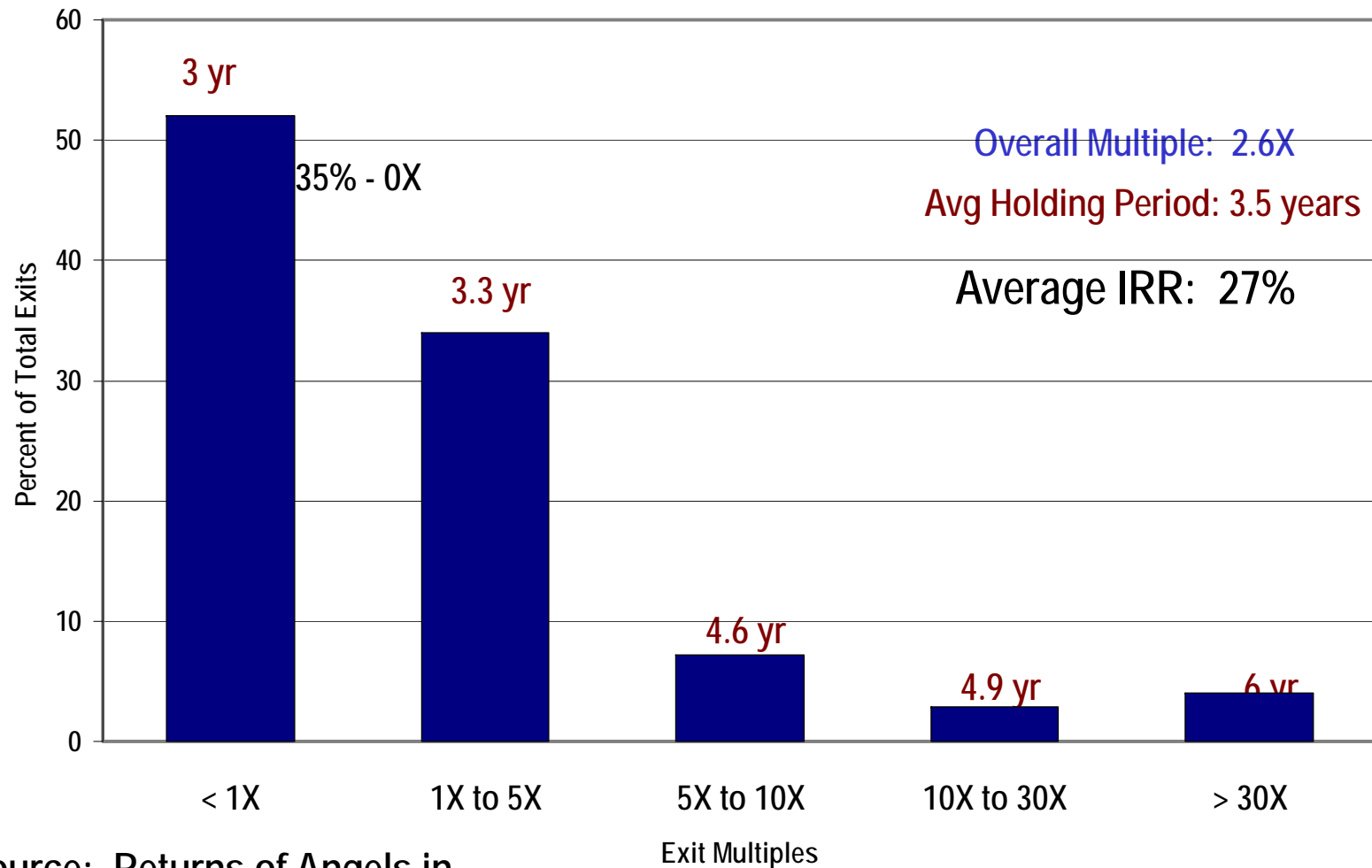
## A Word About Expectations Related to Returns

- Angel investing is **VERY** risky
  - 1 or 2 of every 10 investments brings most of return
  - Hard to tell which companies will return
- **Current return estimates for portfolios:**
  - Annual IRR of 27% - 2.6X in 3.5 years\*
- **If business gets VC funding later, angel investment is often diluted**
- **Some really great angels therefore looking for 10 to 30X potential**
  - Wide variety of expectations, depending on mix of motivations to be an angel
- **Correct valuation is critical**

\*Source: Rob Wiltbank, Willamette University, November, 2007 paper for Kauffman Foundation



# Distribution of Returns by Venture Investment



Source: Returns of Angels in  
Groups, 2007





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## Trends and Key Issues - Investment

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

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

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

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



Issue ACA most concerned about

\* Jumpstart Our Business Startups Act

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## More Information

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

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