



ANGEL CAPITAL ASSOCIATION

ANGEL INVESTMENT IN THE U.S. – HELPING STARTUPS BE SUCCESSFUL

September 6, 2016

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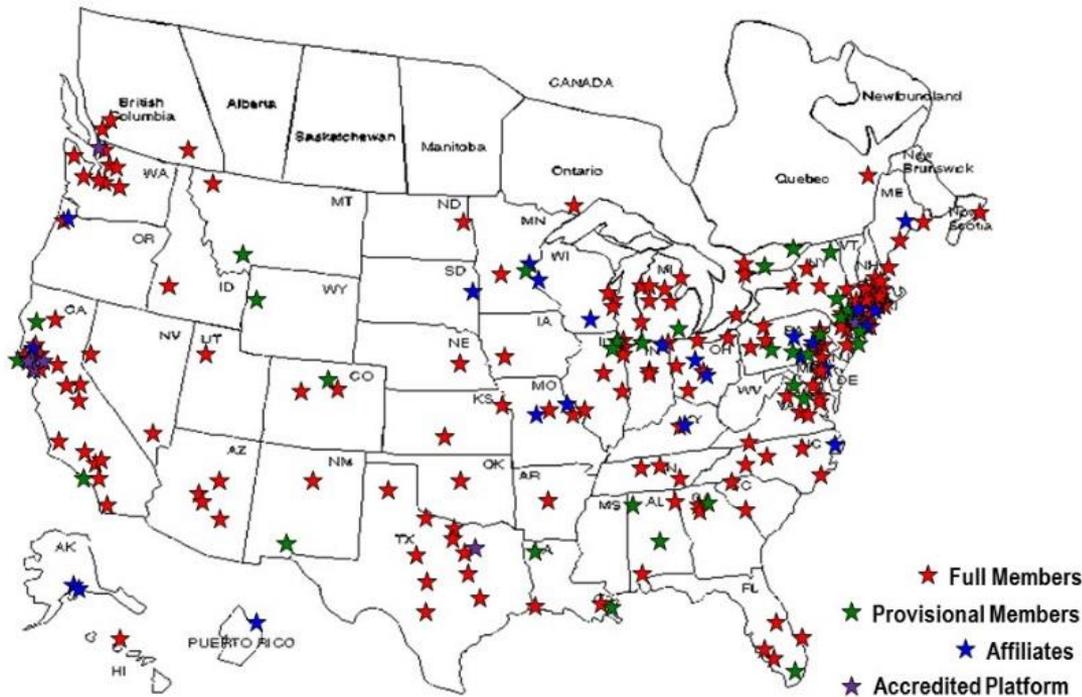
TOPICS IN MY PRESENTATION

- The American startup funding scene
- Impact of innovative startups
- Stats and trends in American angel investing
- Who are angels and what they do
- The kinds of companies American angels fund
- Building a strong ecosystem – private & government
- Resources ACA offers to global early-stage community

ANGEL CAPITAL ASSOCIATION TODAY

World's largest association of accredited angel investors

www.angelcapitalassociation.org



- 13,000+ investors
- Angel groups
- Accredited platforms
- Family offices
- Individual angels
- 250+ organizations
- Every U.S. state & 5 Canadian provinces

Mission: fuel success of angel groups and accredited investors, as well as the early-stage companies they support



ANGEL CAPITAL ASSOCIATION

MEMBERS ARE TOP GROUPS & PLATFORMS



LIFE SCIENCE ANGELS



NEXTGEN
VENTURE
PARTNERS.



New Dominion Angels



Houston Angel Network



FundersClub

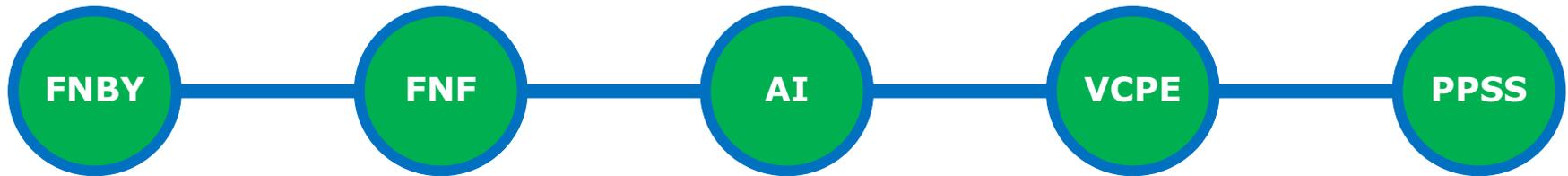


ANGEL CAPITAL ASSOCIATION

ACA MEMBERS FUND GREAT COMPANIES, EXITS



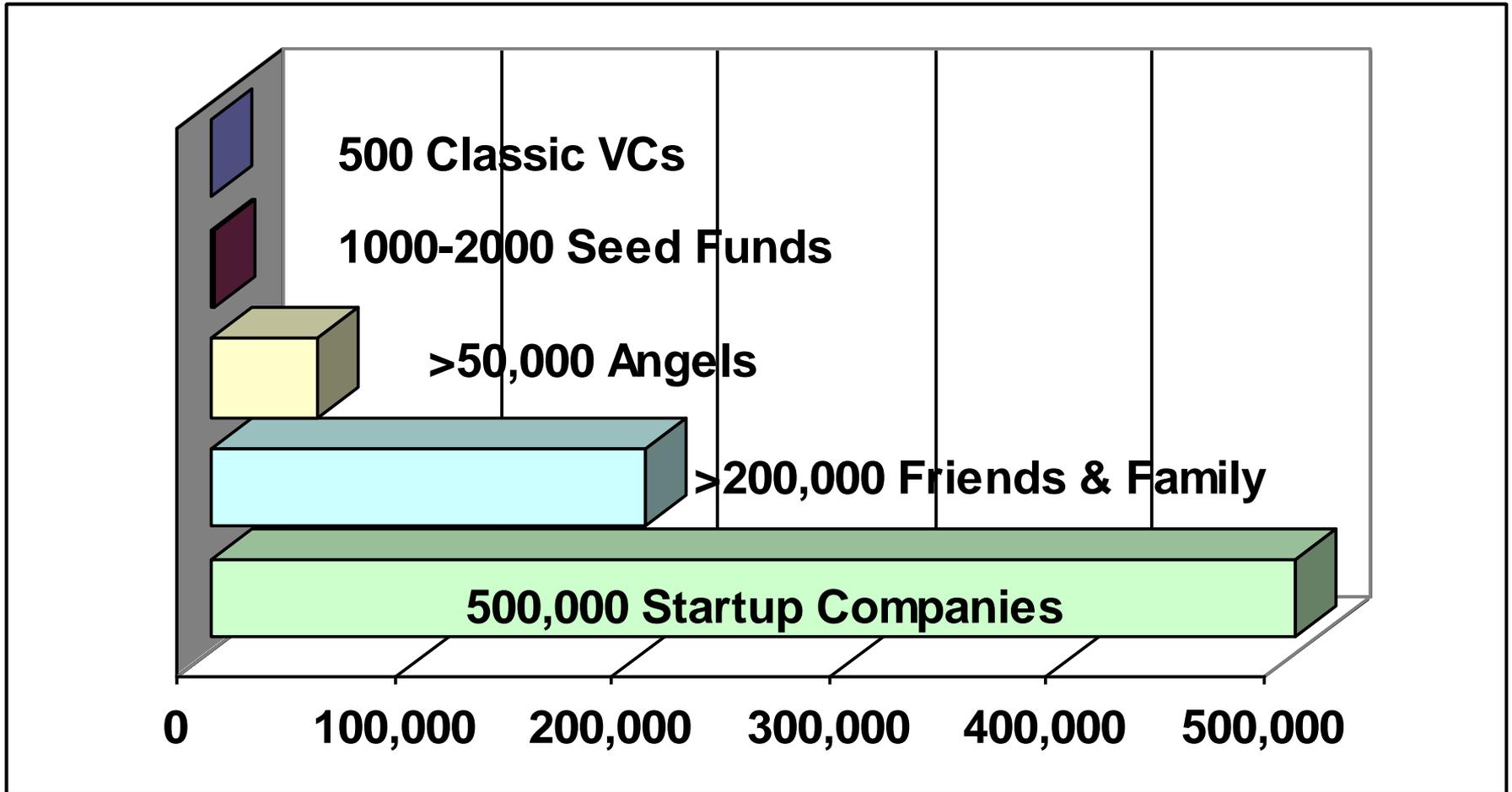
FIVE LEVELS OF EQUITY IN US



- First National Bank of You
- Friends and Family
- Equity Crowdfunding by Any American (*type of FNF?*)
- Angel Investors (Accredited Investors)
- Venture Capital/Private Equity
- Private or Public Stock Offerings

SOURCE OF EQUITY FUNDS – TYPICAL YEAR

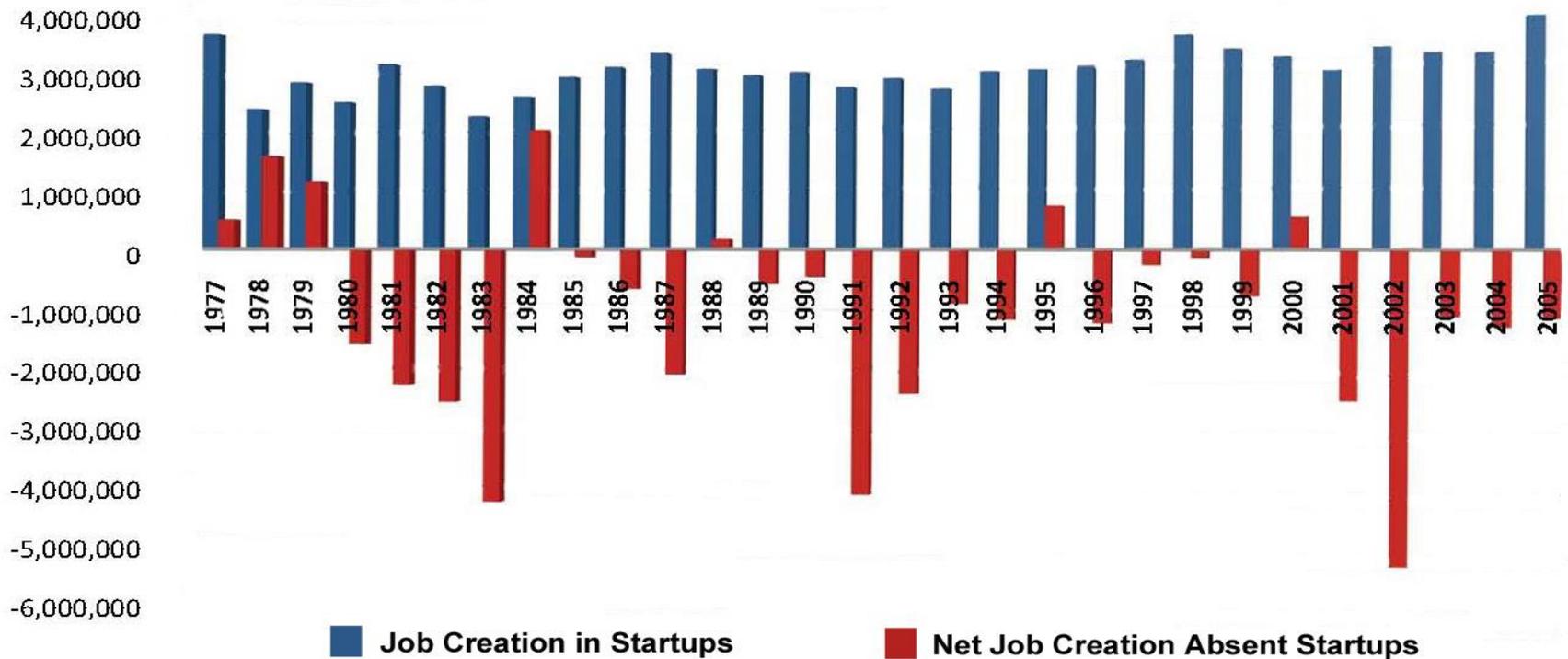
New Company Formation (USA)



NEW COMPANIES CREATE ALL NET NEW JOBS

ENTREPRENEURS ARE KEY TO JOB CREATION

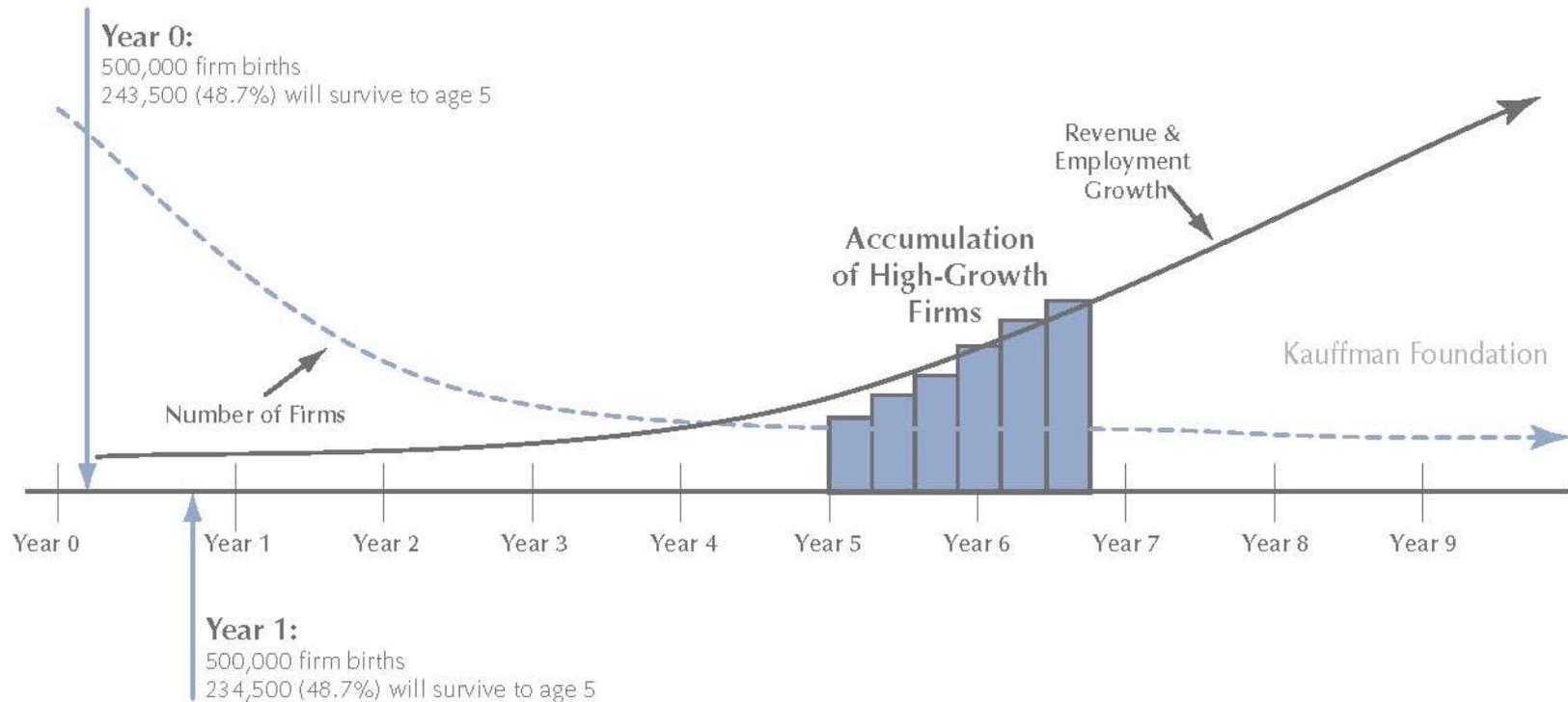
No Startups, No Job Creation



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

HIGH GROWTH FIRMS BUILD JOBS AFTER STARTUP

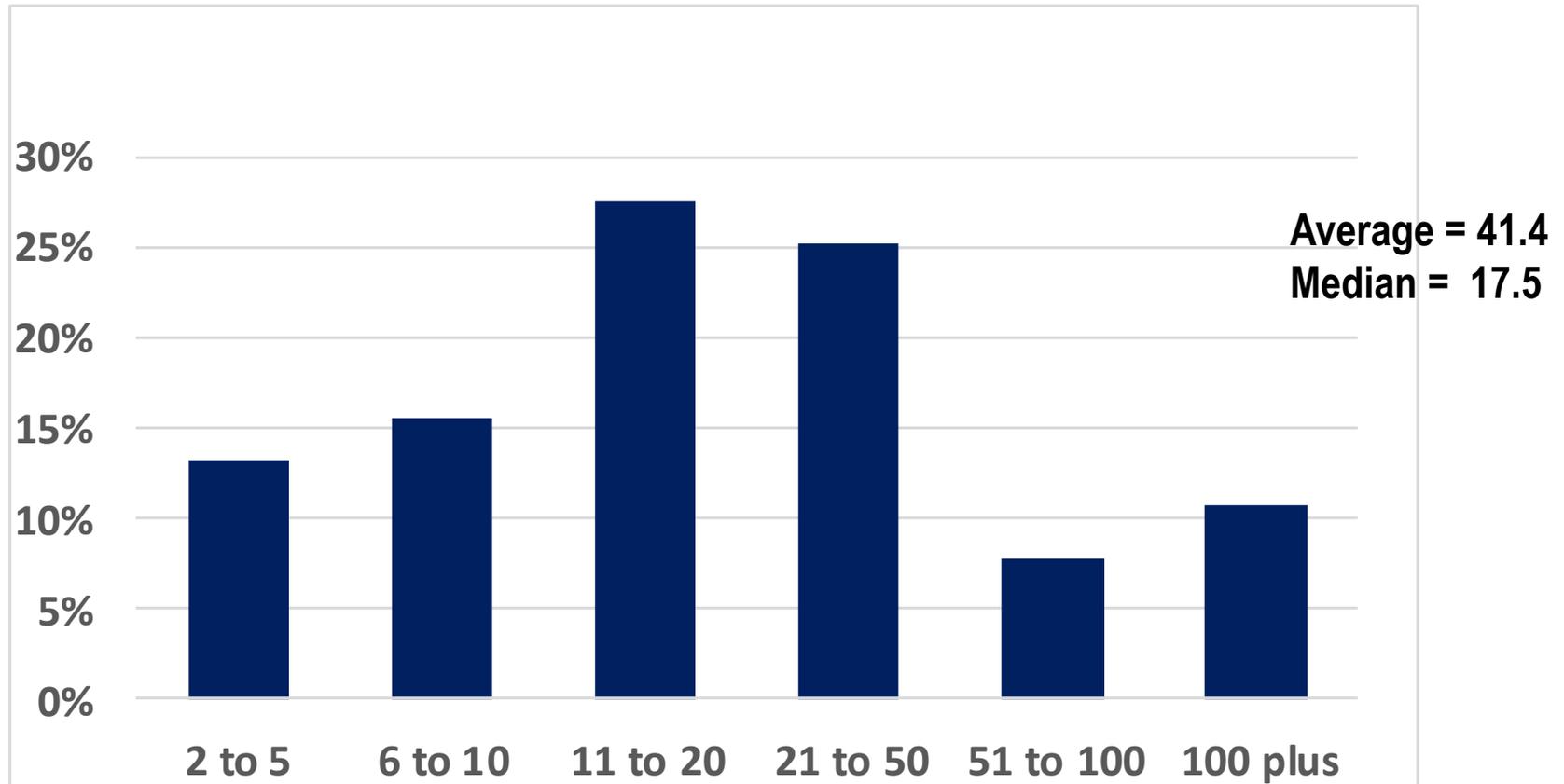
Figure 7: The Accumulation of High-Growth Firms



Source: High Growth Firms and the Future of the American Economy, Kauffman Foundation, 2010

ANGELS FUND HIGH-GROWTH COMPANIES

Number of Employees One Year After ACA Member Investment



Source: ACA research on member investments, March 2015

KEY ANGEL STATS (ESTIMATES)

2015 National Market

\$24B invested

71K+ deals
in every state

~300,000 angels

90% of outside equity for
startups

Averages

Individual
check size

**\$10 -
\$50K**

Market deal
size

\$345K

Group deal
size

\$850K

Market
Valuation

\$2.7M

Group
Valuation

\$3M

ANGELS FUND MAJORITY OF STARTUPS

Angel Investors

- \$24.6 billion
- **71,000 deals**
- **17,750 seed**
- 31,950 early stage
- 19,170 expansion
- 305,000 individuals

Venture Capital

- \$59.1 billion*
- **4,380 deals**
- **186 seed**
- 2,219 early stage
- 1,975 later/expansion
- 718 active firms

Sources: "Angel Investing Market for 2015, Center for Venture Research/ UNH;
NVCA 2016 Yearbook; PwC MoneyTree

*(12 expansion-stage companies accounted for more than \$10 B of this total)

ANGEL VS VC INVESTMENT SIZE AND VALUATION

	Angel Investors	Venture Capital
Total Invested	<ul style="list-style-type: none">• \$24.6 billion	<ul style="list-style-type: none">• \$59.1 billion*
Total Deals	<ul style="list-style-type: none">• 71,000 deals	<ul style="list-style-type: none">• 4,361 deals
Average Seed/Early Stage Pre-Money Valuation	<ul style="list-style-type: none">• \$2.6M	<ul style="list-style-type: none">• \$5.1M
Average Investment per deal (all deal sizes)	<ul style="list-style-type: none">• \$347K	<ul style="list-style-type: none">• \$13.6M

Sources: "Angel Investing Market for 2015, Center for Venture Research/ UNH; Angellist; NVCA 2015 Yearbook; PwC MoneyTree



PROFILE OF ANGEL INVESTORS

- Years investing 9
- Number of investments 10
- Total exits/ closures 2
- Years as entrepreneur 14.5
- Number ventures founded 2.7
- Percent of wealth in angel investing 10%
- Education Masters degree
- Other backgrounds: corporate leaders, professional services

Source: *Returns of Angels In Groups*, Robert Wiltbank, Willamette University, published by Kauffman Foundation - 2007



WHY DO ANGELS INVEST?

- 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
- Return on Investment is the metric

- **Most are not “dragons” or “sharks”**

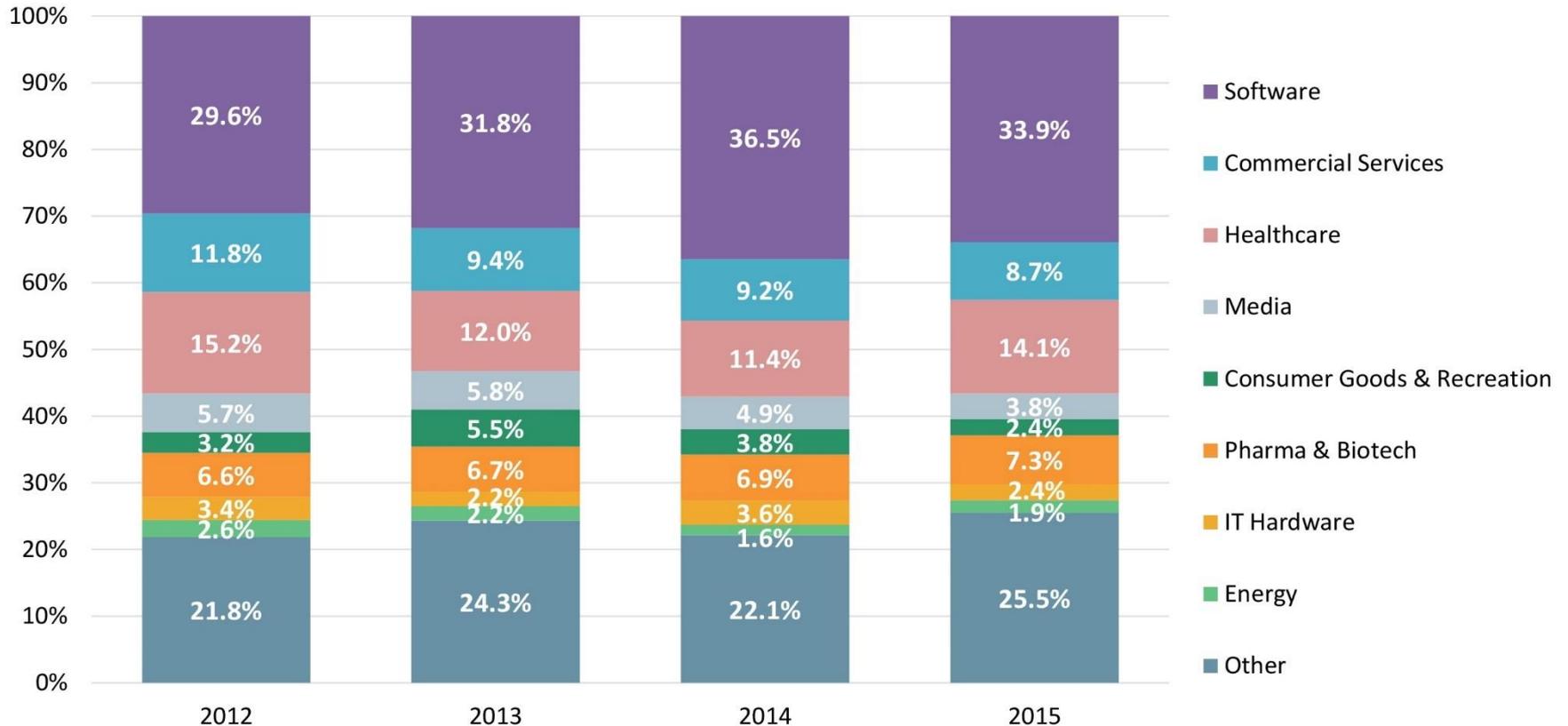
EQUITY BEST FOR THESE ENTREPRENEURS

- Innovative firms (product, business model)
- Plan to grow company quickly in short time period
- Want to exit in short time (5 to 7 years?)
- Willing to have additional owners involved in strategic decisions
- See advantages of mentors and board members
- Strong business plan
- Prototype at least and customers on-line
- Entrepreneur has invested own dollars and exhausted other alternatives (including friends and family)

- *Equity capital is “right” for small percentage of businesses*

Yearly Share of Angel Group Deals by Sector

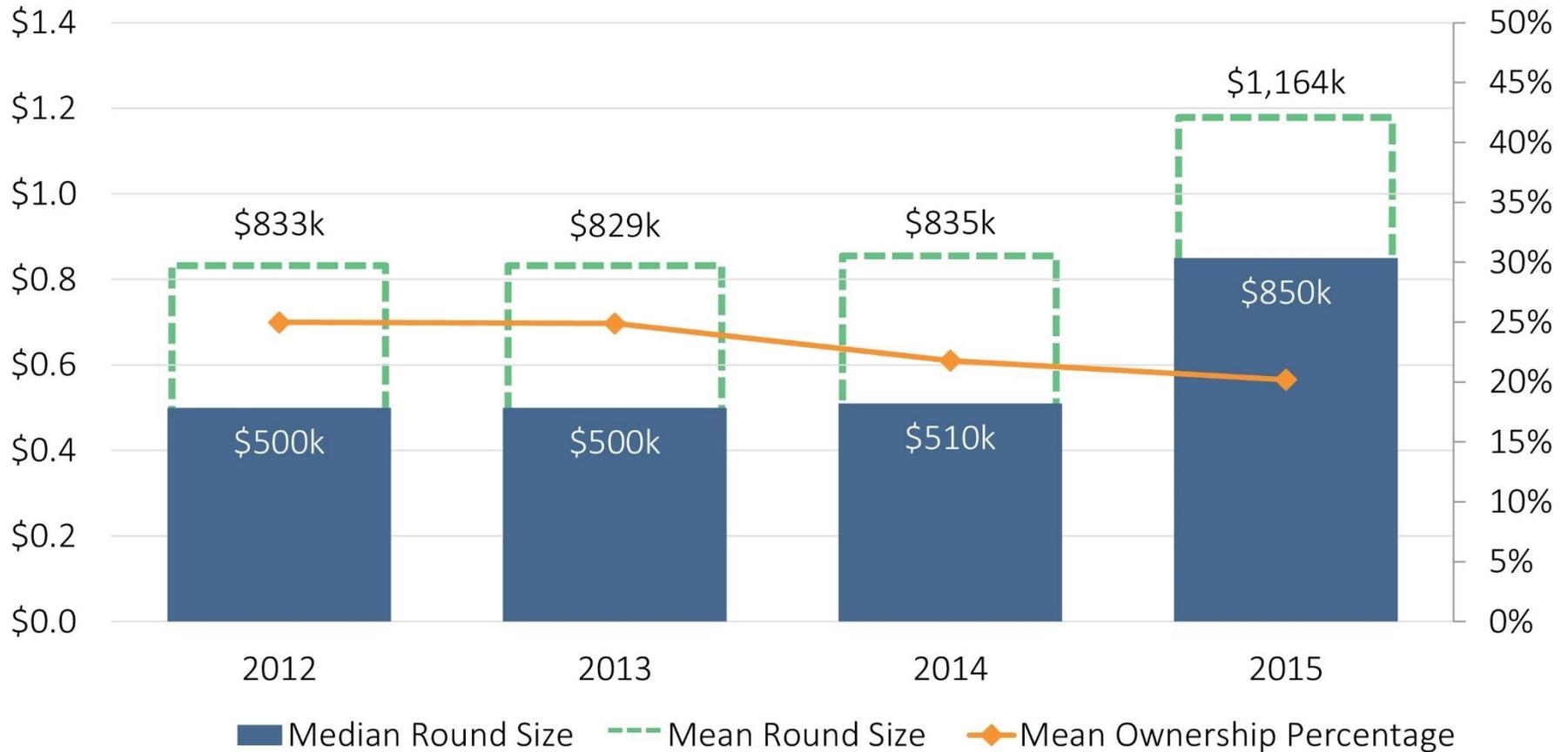
Software and Healthcare comprise 48% of investments in 2015



Median and Mean Round Sizes – Angels Only

2015 Shows Round Sizes Increasing,

Mean Ownership of Angel round is Relatively Stable 20-25%

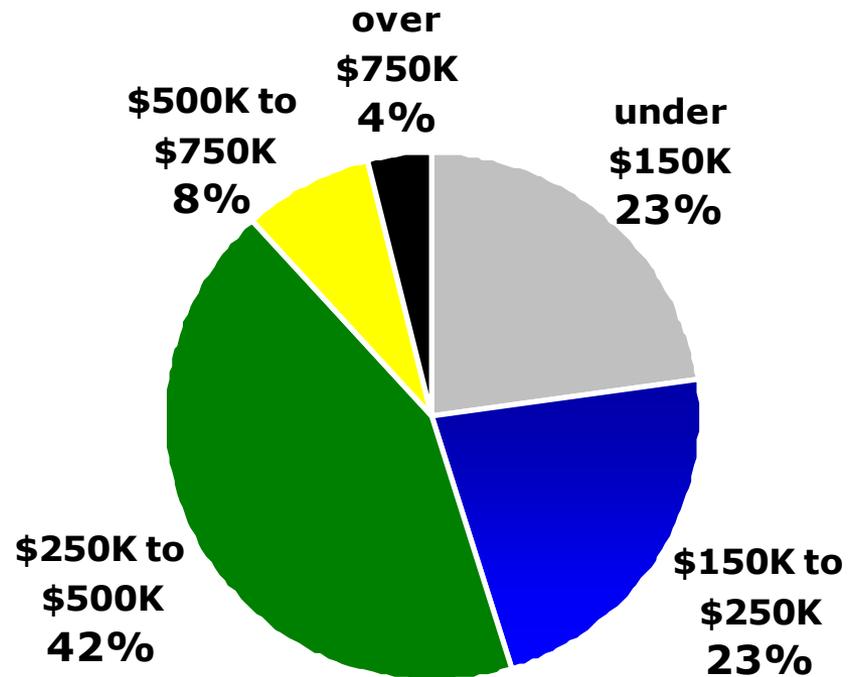


MULTIPLE GROUPS NEEDED TO FILL ROUNDS

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

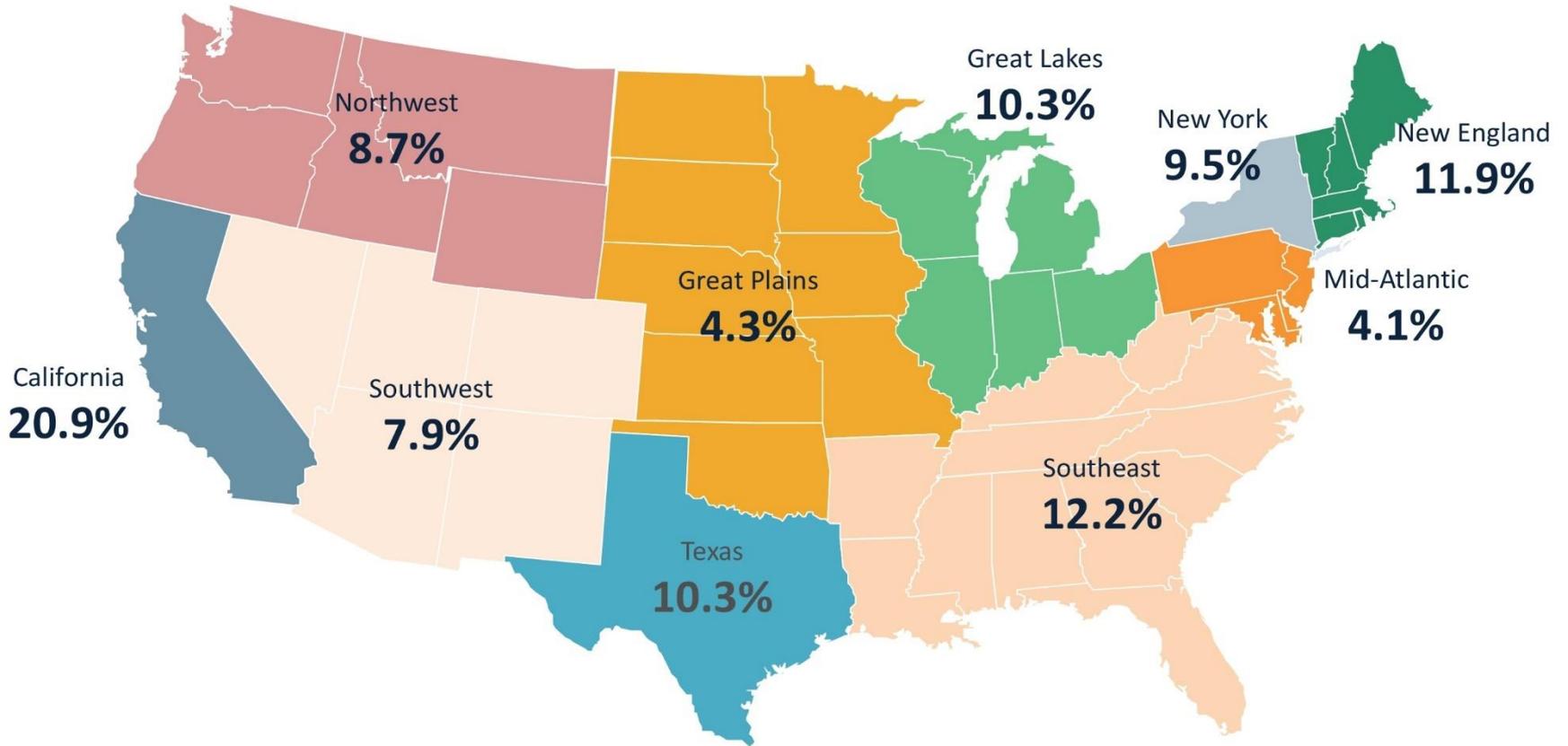
- Investment surprisingly broad
- Average deal size increasing
- Syndication needed among groups to fill rounds entrepreneurs need

Angel Group Investment Size



Source: ACA Confidence Survey, 2012

2015 Share of Angel Group Deals by Region



Median Seed Stage Pre-Money Valuation

Median Valuation Up 53% From 2014, Highest Valuation in HALO History

2014

\$13.5M
3rd Quartile:
\$4.4M
**MEDIAN :
\$3.0M**

1st Quartile:
\$2.0M

\$0.30M

2015

\$23.5M
3rd Quartile:
\$7.5M
**MEDIAN :
\$4.6M**

1st Quartile:
\$3.1M

\$0.22M

MANY WAYS TO INVEST

Large majority invest informally. Other options offer advantages in deal flow, sophistication, sharing of work, building portfolios, and connecting to more funding and exits. Also seed funds like 500 Startups.

Informal or Individual

(on own or with friends)

Online

(via accredited platforms)

Accelerator

(funds and/or connect through mentoring)

Angel Groups

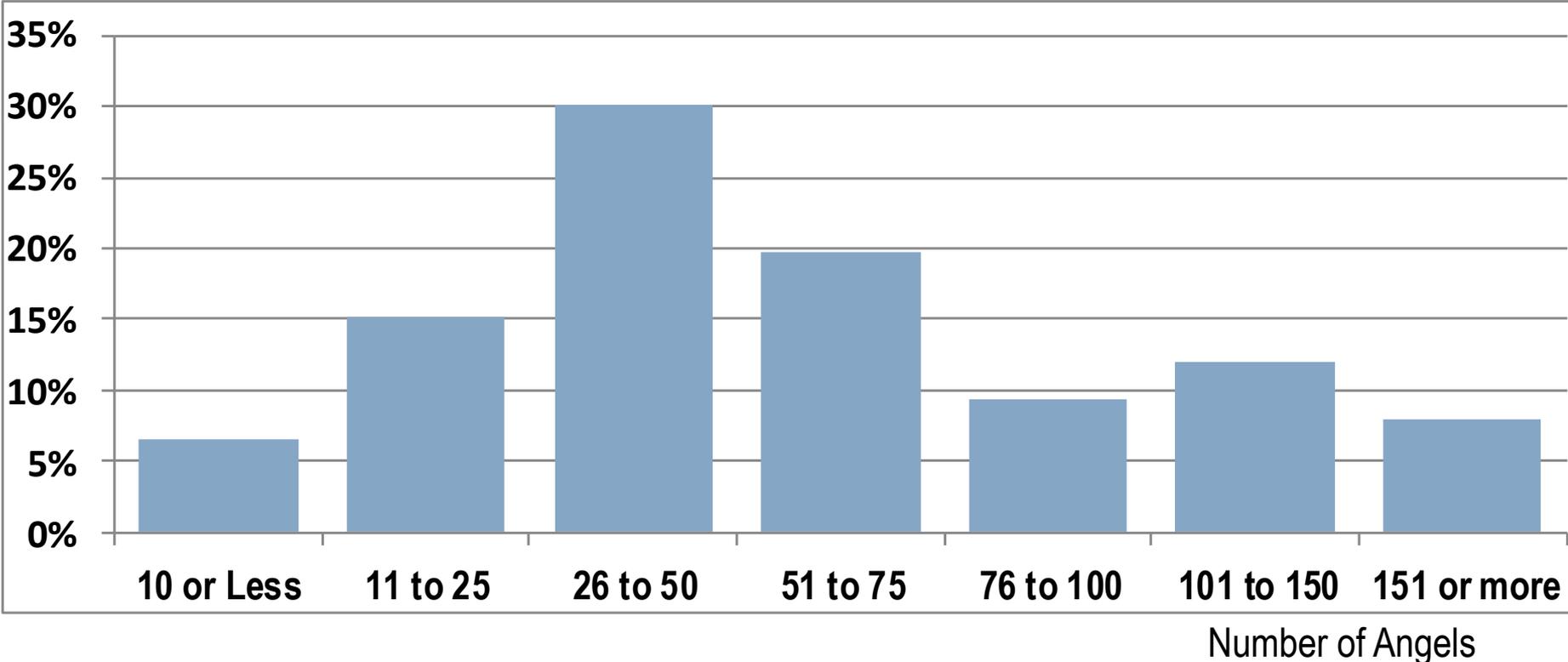
(networks, funds or combination)

ANGEL GROUPS VARY BY NUMBER OF INVESTORS

Average = 68

Median = 50

% of Respondents



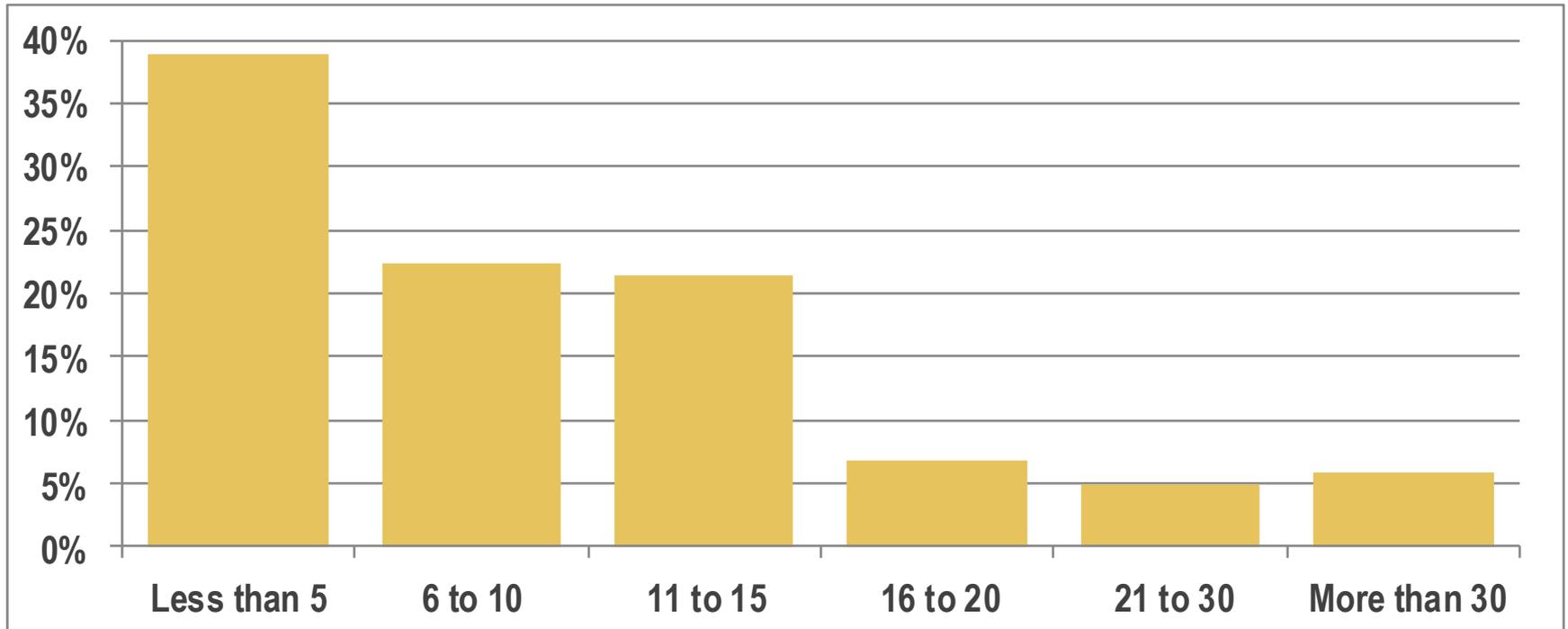
- Size of group membership has increased over time – average in 2012 was 52
- Largest 20% of groups account for 49% of ACA member angel investors

Source: ACA Member Group Survey, March 2015 -106 groups reporting



...AND ALSO IN DEAL ACTIVITY

Number of Investments Per Group in 2014



Average = 10.3

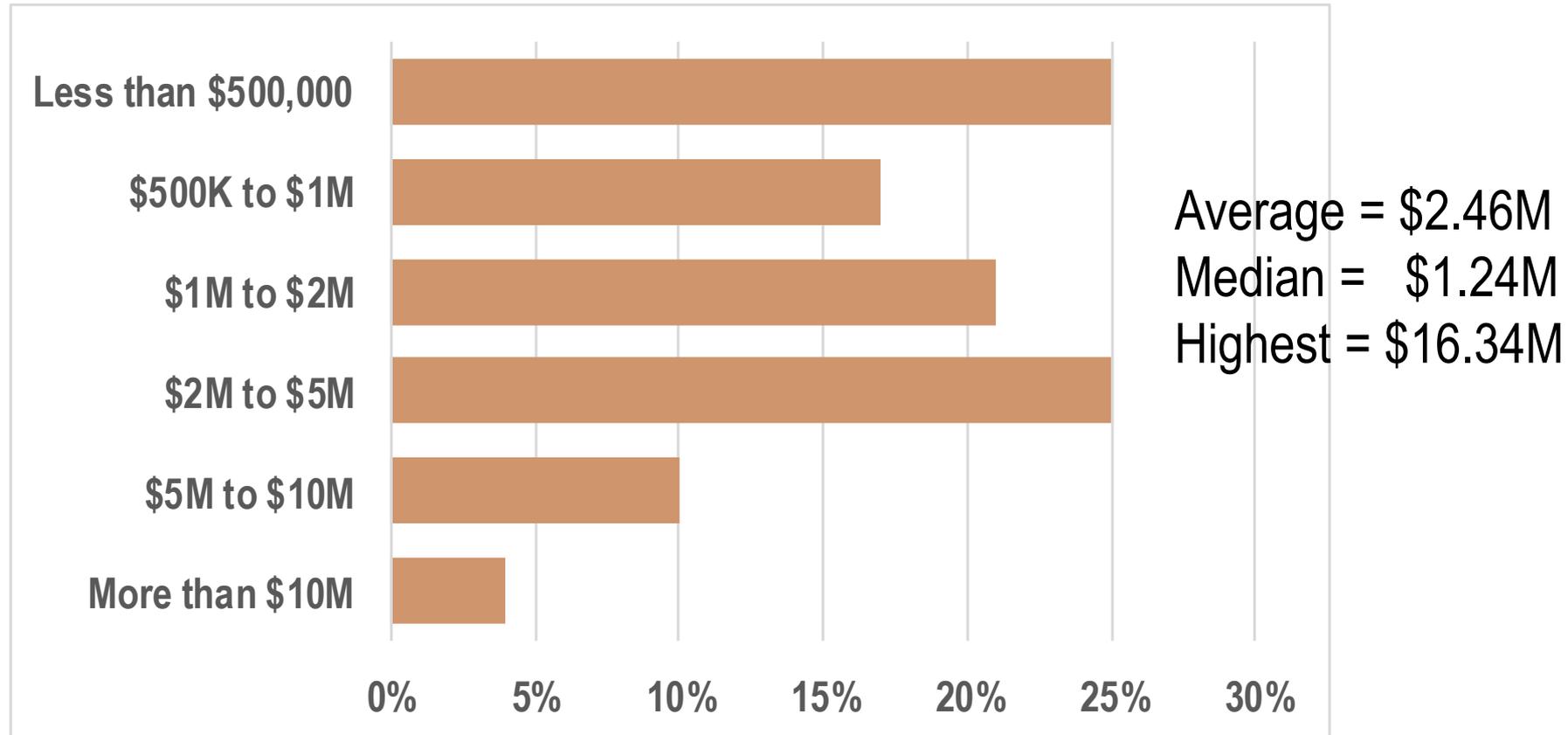
Median = 7.0

Highest = 61

Deals per group

GROUPS ALSO VARY IN AMOUNT INVESTED

Total Investment Dollars Per Group in 2014



Source: ACA Member Group Survey, March 2015 -103 groups reporting

DEAL STRUCTURE PREFERENCES

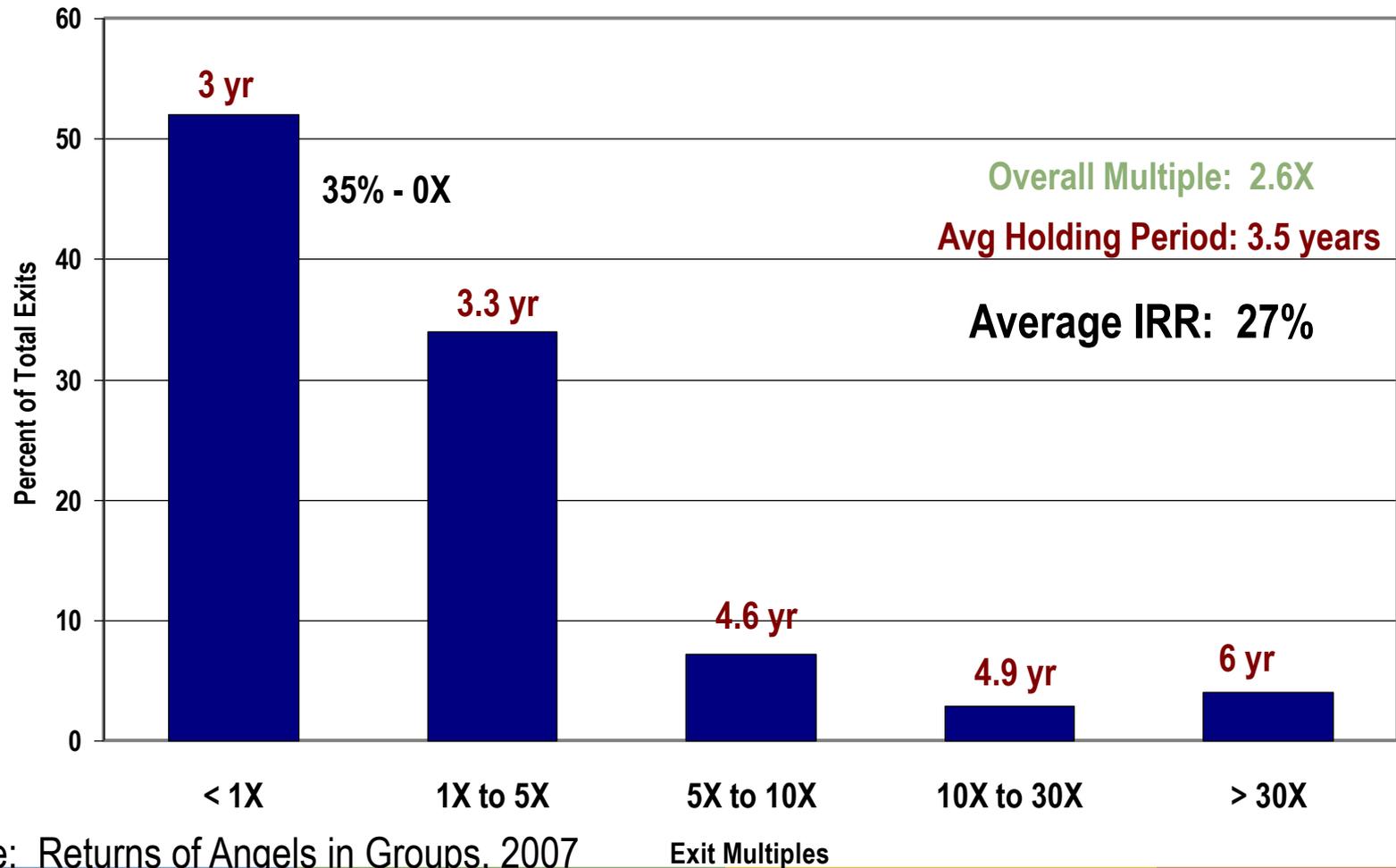
- Strong preference for priced rounds and preferred stock
- Some will do convertible debt
- Most sectors: products developed and have customer traction
- Valuation not only for sector but for location (not unlike real estate)
- Board seat for significant investments
- Most groups stay away from generally solicited offerings

ANGEL INVESTING = HANDS-ON WORK

- Not just a check – ongoing support of entrepreneur
 - Customer acquisition
 - Personnel
 - Develop strategy
 - Support to exit
 - Resources: office space, accounting, etc.
- Work hand-in-hand
 - Economic development
 - University tech transfer
 - Accelerators/ incubators
- Active deal/risk assessment
 - Deal screening
 - ❖ Typically reject 90% that apply
 - ❖ Potential for growth/value creation
 - ❖ Fraud almost never an issue
 - Extensive due diligence
 - Negotiated terms – issuer does not set
 - ❖ Information rights
 - ❖ Board or observer seat
 - Intermediaries not involved
- Accredited platforms
 - Investors may follow a successful lead investor

Harvard/MIT study: angel support improves startup success rate

RISKS & REWARDS OF ANGEL INVESTING



Source: Returns of Angels in Groups, 2007

TRENDS IN US EARLY-STAGE INVESTING

- “Unicorn thinking” led to problems, so downsizing in deals and valuations
- Social networking – LinkedIn especially
- Blending of angel groups and online investing (AngelList...)
- Crowdfunding – product (Kickstarter), now equity
- Accelerators
- Cross-border investment (small amount)
- Getting more women involved as investors & entrepreneurs
- Government interest in job creation/ SMEs

BUILDING GOOD STARTUP ECOSYSTEMS (AND ROLE OF GOVERNMENT POLICIES)

Connect & collaborate



Support innovation & research



Get to markets for growth & exits



Experienced entrepreneurs & investors are critical



It starts with the entrepreneur



Seed the market if/when necessary



Support startups & scaleups



Visibility is important



Rules balance capital formation & protection



Favorable taxes for startups, investors



HELPFUL GOVERNMENT POLICIES



Regulation D: makes it easier for startups to raise capital (exemptions on public filings)



Securities regulatory communications that recognize market innovation



Taxation of capital gains lower than income tax rates



State support for education/mentoring of entrepreneurs and angels (especially by top leaders)



Grants for research, innovation by startups (Small Business Innovation Research and state programs)

OTHER SUPPORTIVE POLICIES & PROGRAMS

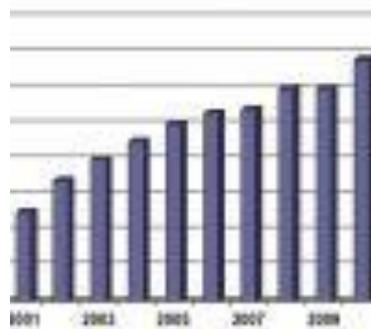
- Develop more data and research to build understanding
- Angel-venture forums (demo days)
- Support admin costs for angel groups – or promote events to share info among angels, angel groups
- Systematic information and support
 - Wisconsin Angel Network
- Connect angels and mentors to:
 - University tech transfer offices
 - Promising, but not-ready for angel money entrepreneurs
- Tax credits for investing in innovative startups

ACA RESOURCES AVAILABLE TO YOU

Via www.angelcapitalassociation.org:



Webinars and Videos



Research, Best Practices



Timely Articles and Blogs



Sign up for Angel Insights Monthly Newsletter for news, new resources



INVESTORS: COME TO 2017 ACA SUMMIT

Join 700+ investors in **San Francisco** on **April 26-28** to:

- Share best practices in angel investing - deal sourcing, terms, supporting portfolio companies, syndication, and top exits
- Discuss the latest data and trends in startup investing and different industry sectors
- Hear keynote presentations from thought leading investors and entrepreneurs
- Network with top angels from throughout North America and the world
- Meet with corporate leaders to build relationships for investor portfolio companies and meet a limited number of interesting entrepreneurs



MORE INFORMATION

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