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

September 6, 2016

Marianne Hudson
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
MEMBERS ARE TOP GROUPS & PLATFORMS
ACA MEMBERS FUND GREAT COMPANIES, EXITS

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CARBONITE

CRUISE

SmartCells, Inc.
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
New Company Formation (USA)

- 500 Classic VCs
- 1000-2000 Seed Funds
- >50,000 Angels
- >200,000 Friends & Family
- 500,000 Startup Companies

SOURCE OF EQUITY FUNDS – TYPICAL YEAR
NEW COMPANIES CREATE ALL NET NEW JOBS

ENTREPRENEURS ARE KEY TO JOB CREATION

No Startups, No Job Creation

HIGH GROWTH FIRMS BUILD JOBS AFTER STARTUP

Figure 7: The Accumulation of High-Growth Firms

Year 0:
500,000 firm births
243,500 (48.7%) will survive to age 5

Year 1:
500,000 firm births
234,500 (46.7%) will survive to age 5

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

Average = 41.4  
Median = 17.5

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

<table>
<thead>
<tr>
<th>Angel Investors</th>
<th>Venture Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $24.6 billion</td>
<td>• $59.1 billion*</td>
</tr>
<tr>
<td>• 71,000 deals</td>
<td>• 4,380 deals</td>
</tr>
<tr>
<td>• 17,750 seed</td>
<td>• 186 seed</td>
</tr>
<tr>
<td>• 31,950 early stage</td>
<td>• 2,219 early stage</td>
</tr>
<tr>
<td>• 19,170 expansion</td>
<td>• 1,975 later/expansion</td>
</tr>
<tr>
<td>• 305,000 individuals</td>
<td>• 718 active firms</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
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<th>Angel Investors</th>
<th>Venture Capital</th>
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<tbody>
<tr>
<td><strong>Total Invested</strong></td>
<td>$24.6 billion</td>
<td>$59.1 billion*</td>
</tr>
<tr>
<td><strong>Total Deals</strong></td>
<td>71,000 deals</td>
<td>4,361 deals</td>
</tr>
<tr>
<td><strong>Average Seed/Early Stage Pre-Money Valuation</strong></td>
<td>$2.6M</td>
<td>$5.1M</td>
</tr>
<tr>
<td><strong>Average Investment per deal (all deal sizes)</strong></td>
<td>$347K</td>
<td>$13.6M</td>
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</table>

Sources: “Angel Investing Market for 2015, Center for Venture Research/ UNH; AngelList; NVCA 2015 Yearbook; PwC MoneyTree
## PROFILE OF ANGEL INVESTORS

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

- over $750K: 4%
- $500K to $750K: 8%
- $250K to $500K: 42%
- $150K to $250K: 23%
- under $150K: 23%

Source: ACA Confidence Survey, 2012
2015 Share of Angel Group Deals by Region

- California: 20.9%
- Northwest: 8.7%
- Southwest: 7.9%
- Great Plains: 4.3%
- Texas: 10.3%
- Southeast: 12.2%
- Great Lakes: 10.3%
- Mid-Atlantic: 4.1%
- New England: 11.9%
- New York: 9.5%
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

Angel Resource Institute
Halo Report
Pitchbook
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.
ANGEL GROUPS VARY BY NUMBER OF INVESTORS

Average = 68
Median = 50

- 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

Source: ACA Member Group Survey, March 2015 -103 groups reporting
GROUPS ALSO VARY IN AMOUNT INVESTED

Total Investment Dollars Per Group in 2014

- Less than $500,000
- $500K to $1M
- $1M to $2M
- $2M to $5M
- $5M to $10M
- More than $10M

Average = $2.46M
Median = $1.24M
Highest = $16.34M

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
  o Customer acquisition
  o Personnel
  o Develop strategy
  o Support to exit
  o Resources: office space, accounting, etc.

• Active deal/risk assessment
  o Deal screening
    ❖ Typically reject 90% that apply
    ❖ Potential for growth/value creation
    ❖ Fraud almost never an issue
  o Extensive due diligence
  o Negotiated terms – issuer does not set
    ❖ Information rights
    ❖ Board or observer seat
  o Intermediaries not involved

• Work hand-in-hand
  o Economic development
  o University tech transfer
  o Accelerators/ incubators

• Accredited platforms
  o Investors may follow a successful lead investor

Harvard/MIT study: angel support improves startup success rate
RISKS & REWARDS OF ANGEL INVESTING

Overall Multiple: 2.6X
Avg Holding Period: 3.5 years
Average IRR: 27%

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
- Support startups & scaleups
- Visibility is important
- Rules balance capital formation & protection
- Seed the market if/when necessary
- Favorable taxes for startups, investors

It starts with the entrepreneur
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
  o Wisconsin Angel Network

• Connect angels and mentors to:
  o University tech transfer offices
  o 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

Marianne Hudson  
Angel Capital Association  
+1 913-894-4700  
mhudson@angelcapitalassociation.org  
www.angelcapitalassociation.org

@ACAAngelCapital  
www.forbes.com/sites/mariannehudson