

DEMYSTIFYING ANGEL INVESTING

2022



ANGEL CAPITAL ASSOCIATION



ANGEL CAPITAL ASSOCIATION TODAY



Great Connections



Gold Standard Education



Data Analytics



Advocacy in DC

**World's largest professional society of active
accredited angel investors - www.angelcapitalassociation.org**



SPEAKERS



Marcia Dawood
Angel Capital Association Chair



Sue Bevan Baggott
Next Wave Impact, Queen City Angels
Angel Capital Association Member



AGENDA

- What is Angel Investing? Who are Angel Investors?
- Why Be an Angel? Types of Angels
- Angel Investing Basics
- Funding Sources/Investable Companies
- Angel Investors
- Attributes of Investible Companies
- Presentation Basics



POPULAR ALTERNATIVE ASSETS (with degrees of ease in liquidation)

- Art
- Antiquities
- Classic Cars
- Commercial/Residential Real Estate
- Gold/Silver/Coins/Jewelry
- Oil & Gas Drilling Funds
- Cryptocurrency/NFTs
- Venture Capital (VC) Funds
- **Angel Financed Companies**



WHAT IS AN ANGEL INVESTOR?

OLD: Angel investors are high net worth individuals who invest their own money into seed-stage startup companies, providing much-needed capital to bring new companies to market.

NEW: ANYONE – (Thanks to Crowdfunding)

Anyone who identifies as a business angel

Can be someone who offers business expertise and networks in addition to financial investment



WHY BE AN ANGEL?

- Wealth Creation/Financial Returns (need to diversify – more on that later)



- Build Innovation in Your Community



- Assist Entrepreneurs (coach, advise, mentor)



- Give Back; Grow Jobs; Assist Universities

- Stay Engaged (leverage skills, expertise, and experience while learning)

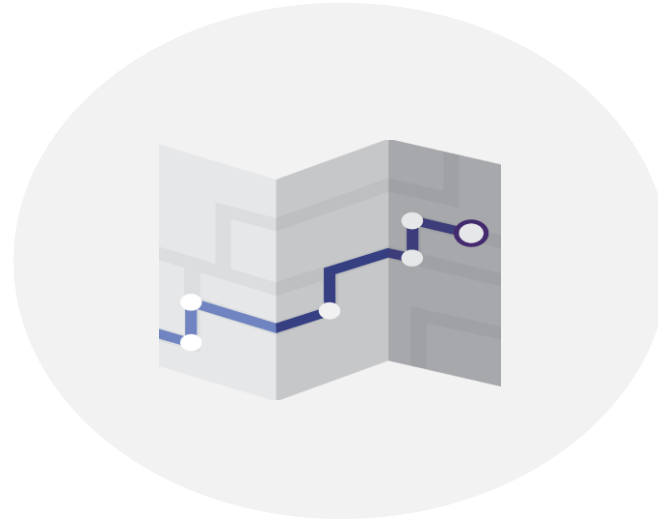


TYPES OF ANGELS



SOLO ANGELS

Individual investors, independent investment decisions, conduct own due diligence, “Lone Wolves”



NETWORKS

Group vetting of companies, individual investment decisions, membership fees, training opportunities (Tech Coast Angels, Golden Seeds, Queen City Angels)

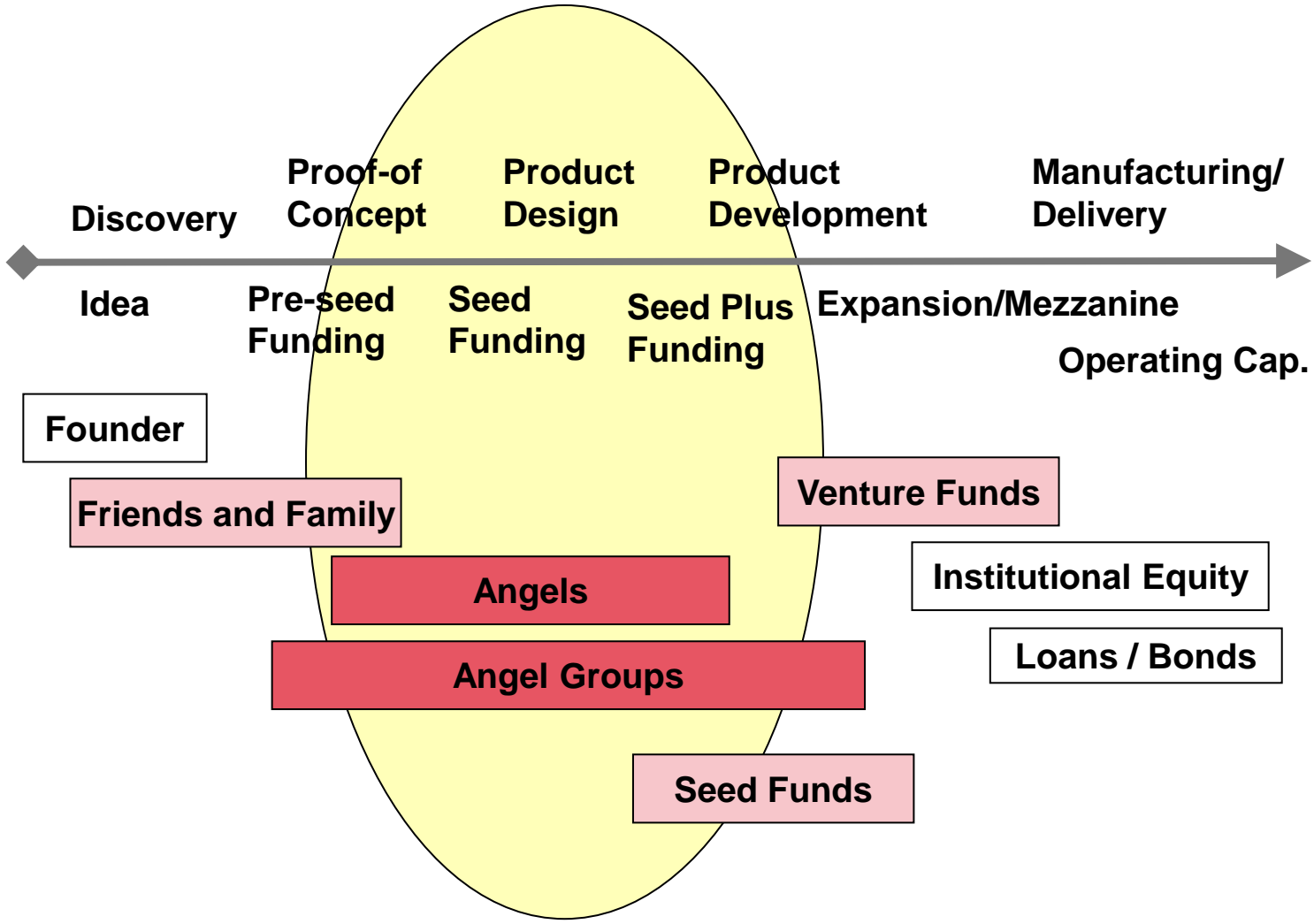


FUNDS

Committed capital over period of years, pooled investments, investment decisions made by management team of fund
(Mindshift Capital, many angels groups have an angel fund now)



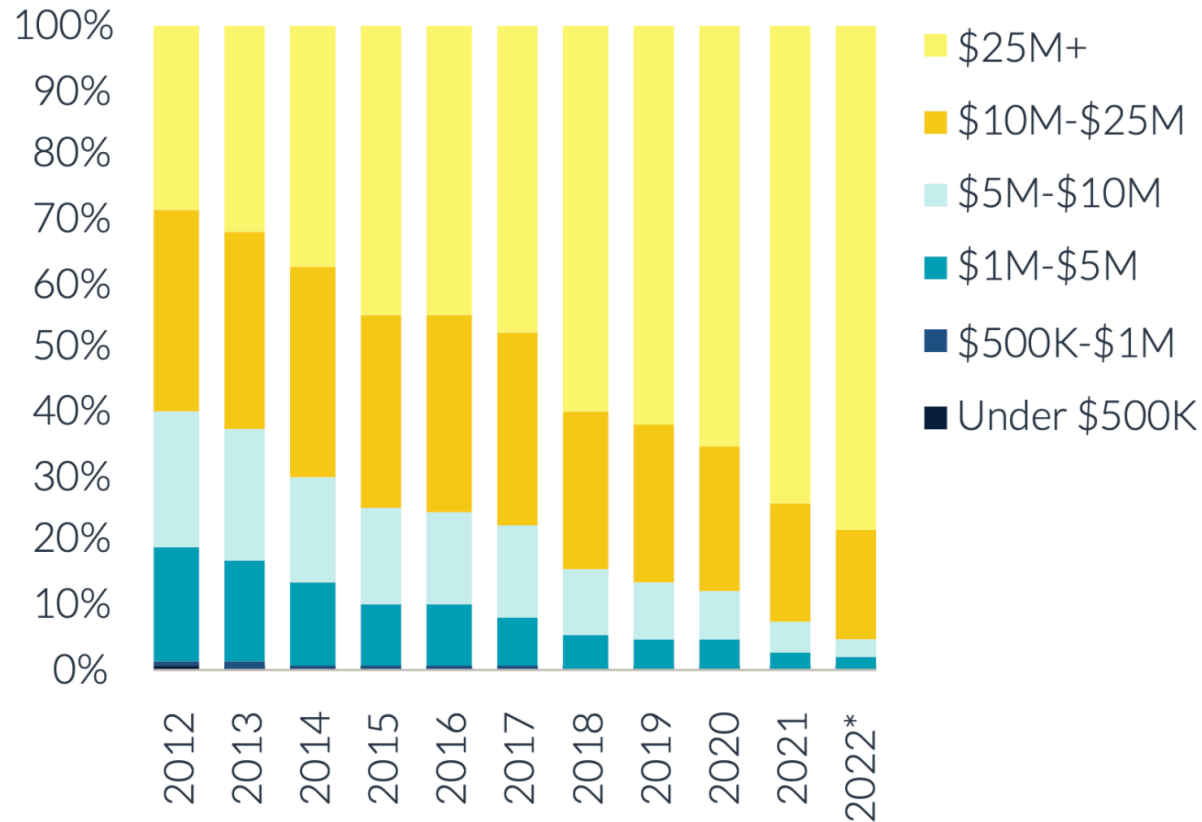
STARTUP COMPANY FINANCING LIFE CYCLE



STAGES WHERE VCS PLAY

Early stage growing more top-weighted

Share of US early-stage VC deal value by size bucket



Angels Provide ~90% of Outside Equity for Startups

PitchBook-NVCA Venture Monitor

*As of March 31, 2022

WHAT COMPANIES DO ANGELS INVEST IN

Most invest in businesses with the potential to deliver 10X+ returns to investors that tend to have one or more of the following characteristics:

- Disruptive new technologies
- Large or New and fast-growing markets
- New disruptive business models

TOP INDUSTRIES FOR ANGEL GROUP INVESTMENTS:



Biotechnology



Healthcare Technology



eCommerce



Green Technology



Financial Technology



HOW MUCH SHOULD ANGELS INVEST

- Consider angel investing as part of your overall **asset allocation strategy**
 - Public Company Stock, Real Estate, Collectables, Commodities
 - Hedge Funds, Private Equity, Venture Capital
- Illiquid private company investments (e.g. Angel Investments, VC) should represent a **minority percent** of your asset allocation
- For the **majority** of angel investors who are not fulltime angel professionals, a **5% to 10%** allocation to angel investments is sufficient and prudent
- ***Don't put more into angel investing than you can afford to lose.***



MAKING INVESTMENTS AND DIVERSIFICATION?

- **Diversification** is a core feature of all professional angel portfolios
 - Expect to make a minimum of 10 investments
 - But, diversification begins, not ends, at 10 companies - 20+ investments will greatly increase your likelihood of a positive overall return

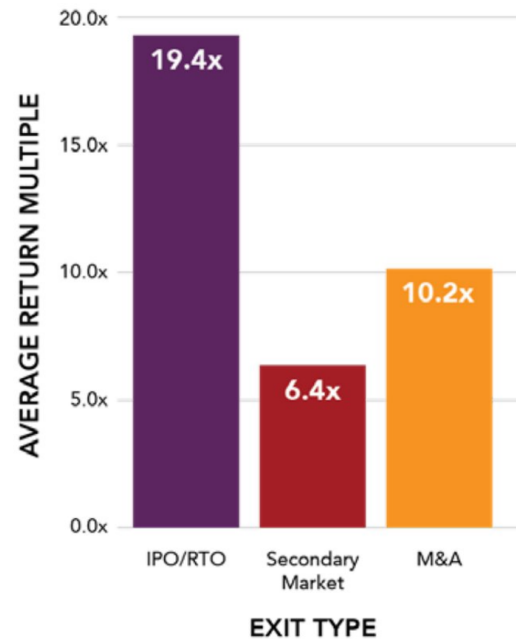
- Also Consider building a portfolio with companies that are in different:
 - Industries or sectors
 - Stages of development
 - Types of entrepreneurs
 - Types of key risks



RISKS/RETURNS

- Angel investments are zero liquidity, long-term, high-risk investments. (5-10 years prior to return)
- Angel Investing returns are more challenging to track than public markets.
- At least 50% of companies go out of business; 10% cover other investments made
- Average IRR has been collected at 27% per 2 Rob Wiltbank studies

FIGURE 32. Average Return Multiples by Company Exit Type



Source: ACA Angel Funder's Report 2020



ANGEL INVESTING IN FOUR SLIDES:

- How Angels Organize
- Investment Life Cycle
- Funding a Start-Up
- Importance of a Portfolio



HOW ANGELS ORGANIZE



Individual Angel



Angel Group



Screening



Due Diligence



Deal Negotiation



Advising/
Coaching



Board/
Governance



Ecosystem
Development

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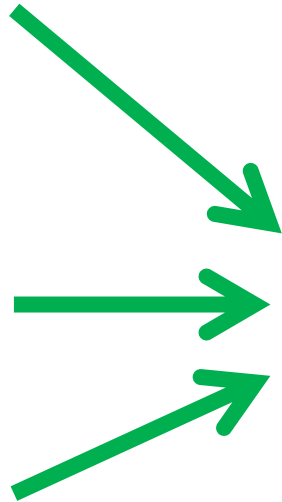


Board/
Governance



Ecosystem
Development

Network



Fund

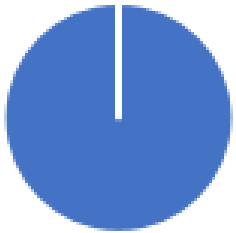


Based on vote of members

FUNDING A STARTUP

Hypothetical Example: Pre-seed Startup

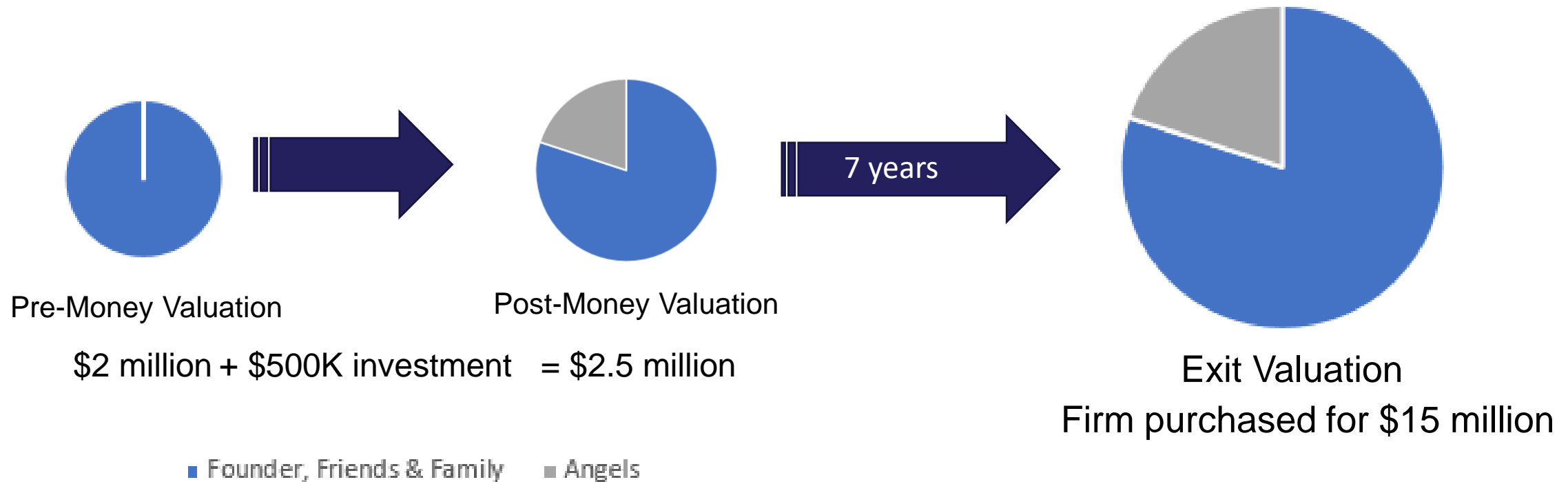
Pre-Money Valuation



\$2 million



FUNDING A STARTUP



\$2 million + \$500K investment = \$2.5 million

Exit Valuation
Firm purchased for \$15 million


20% of \$15 million acquisition = \$3 million (from a \$500K investment)


Absolute cash return or "multiple": 6X


Time-weighted rate of return or "IRR": 29%

IMPORTANCE OF A PORTFOLIO

	<u>Alpha</u>	<u>Beta</u>	<u>Gamma</u>	<u>Delta</u>	<u>Epsilon</u>	<u>Zeta</u>	<u>Eta</u>	<u>Kappa</u>	<u>Lambda</u>	<u>Mu</u>	<u>Total</u>
Investment (\$K)	25	25	25	25	25	25	25	25	25	25	250
Return (\$K)	0	0	0	0	0	25	25	75	125	250	500
Multiple	--	--	--	--	--	1X	1X	3X	5X	10X	2X
IRR	--	--	--	--	--	0%	0%	17%	26%	39%	10%







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SOURCES OF CAPITAL



- Founder, Friends, Family \$0-\$200k
- Crowdfunding up to \$50k*
- Angels \$50k-\$2M
- Venture Capitalists \$1M and up
- Bank Debt (varies)

*Typically. In rare cases, much more is possible.



FRIENDS AND FAMILY

- Follows “bootstrapping” phase
- Important first source of capital
- “Skin in the game” is meaningful
- Be careful with valuation if you sell equity

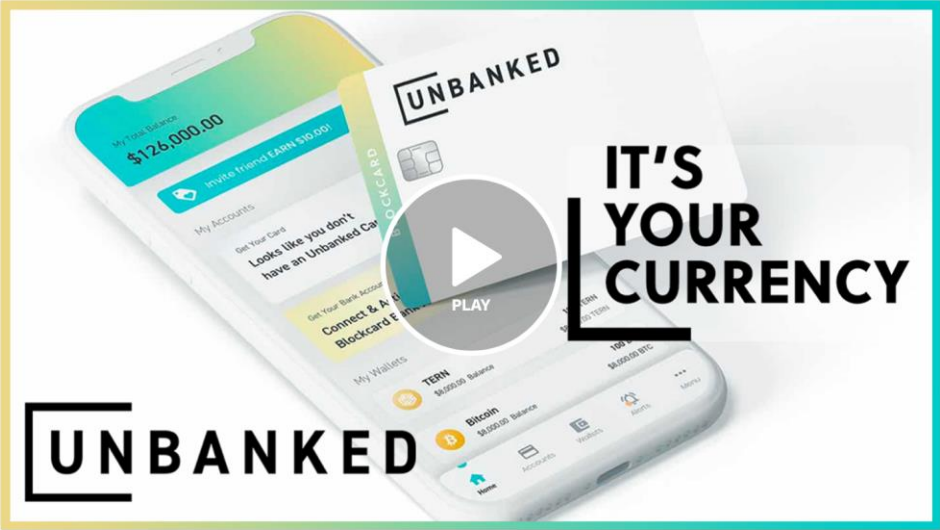


CROWDFUNDING EXAMPLE ON REPUBLIC

UNB Unbanked

Connecting DeFi and cryptocurrencies to banks, cards, and other legacy finance

SUBSCRIPTION CRYPTO SAAS FINTECH PAYMENTS BLOCKCHAIN CROWD SAFE



\$2,061,953

8247% of minimum goal raised i

2,533

Investors

90 days

Left to invest

Invest in Unbanked

\$150 minimum investment

Deal terms

Valuation cap i

\$115,000,000

Discount i

20%

Minimum investment i

\$150

Maximum investment i

\$500,000

Funding goal i

\$25K – \$5M

Deadline i

September 4, 2022

Type of security i

Crowd SAFE

VENTURE CAPITAL

- Professional, rigorous
- Very selective (view 1000, fund <10)
- You need an introduction



COMPANIES OF INTEREST

- For individual angels
 - Could be almost any business
 - Most often in area of expertise
- For angel groups
 - Some are specialists, some are generalists
 - Most look for good idea with great management team
 - Most seek high growth potential for 10x return



COMPANIES OF INTEREST

Generally three kinds of products (or services):



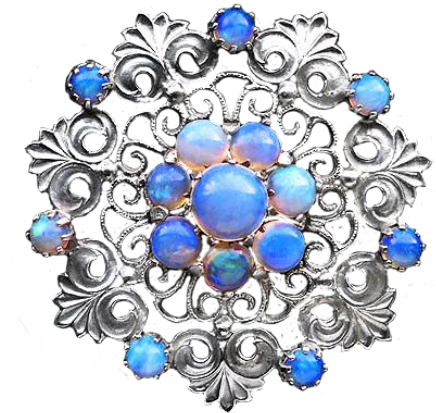
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TYPICAL ANGEL FUNDING

- Stage
 - Very early in company development
 - Can be pre-revenue
- Amount -- \$50k to \$1M+ (more with syndication)
- Geography – May be regional/local
- Terms – Vary widely
- Security – Preferred stock (most desired by angels);
Convertible note (acceptable to many angels); others

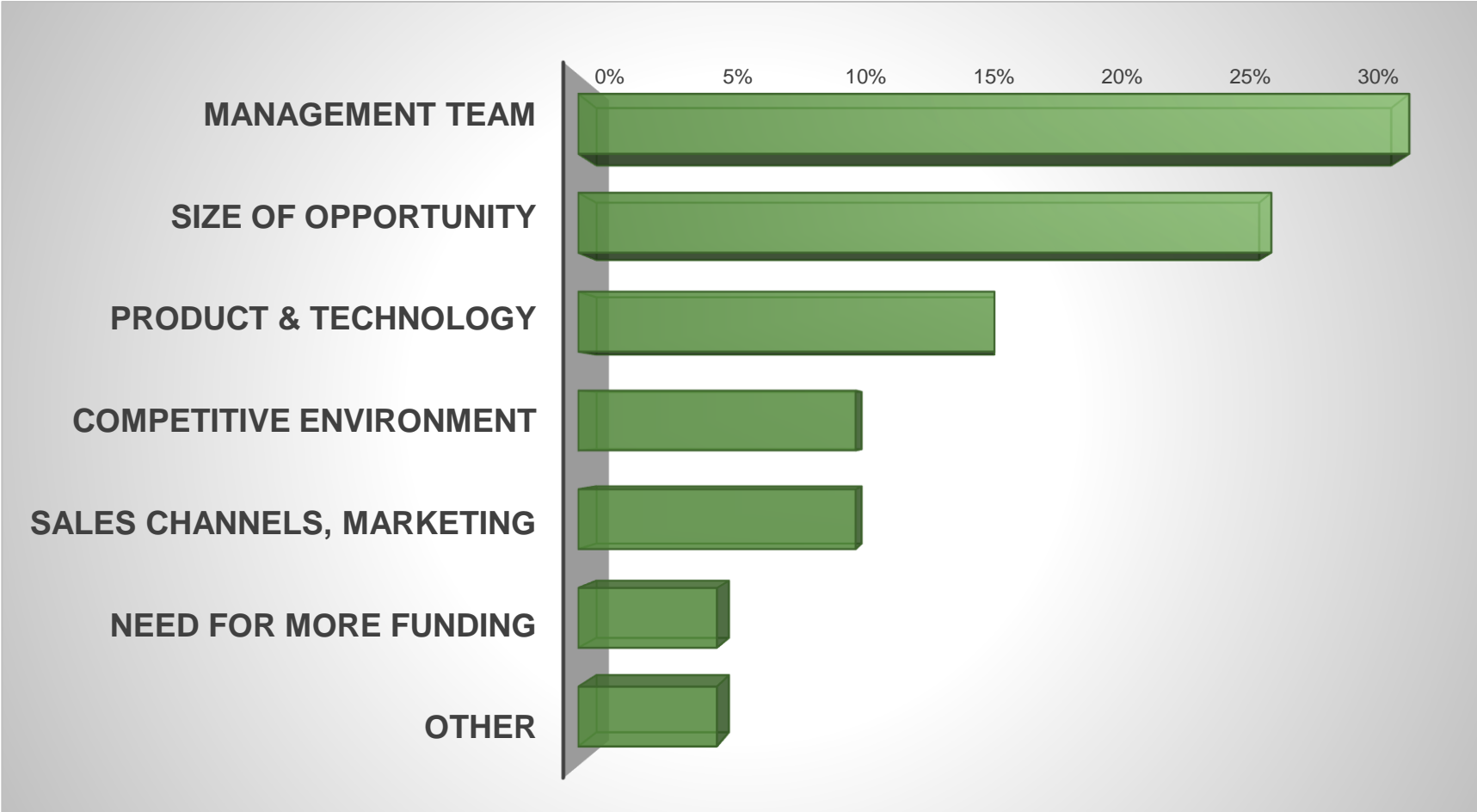


IT'S MORE THAN JUST MONEY

- Angels bring:
 - Experience
 - Contacts/Networks
 - Advice
 - Board representation



WHAT ANGELS LOOK FOR - WEIGHTING OF FACTORS



PRESENTING TO INVESTORS



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PRESENTATION PREPARATION

- It's an audition—make it count
- Make a good first impression
 - Prepare, execute, follow-up
 - The goal – sufficient interest to progress to due diligence
- Different formats
 - Elevator | 10 minute | 30-60 minutes (Q&A)
- Know the numbers/facts
- Understand the investor
- Anticipate questions



PRESENTATION PREPARATION

- Rehearse
 - Get feedback from others
 - Time yourself
 - Video is good
 - Exude passion
 - Allow time for questions
- Get “expert” help if possible



PRESENTATION PREPARATION

- Logistics
 - Appropriate dress
 - Be early
 - Know the venue
 - Have a Plan B
 - Copies of the presentation



THE PITCH

- Key parts of the presentation
 - Brief Overview
 - The Market
 - Consumer/Customer Problem
 - Your Solution: Products/Services
 - Business Model (How you make money)
 - Competition and Competitive Advantage (IP/patents)
 - Go-to-Market (Sales/Marketing) Strategy
 - Team (management, board/advisors)
 - Summary Financial Info
 - Capital Needs/Uses of Funds being Raised
 - Exit strategy



PITFALLS

- No exit plan
- “No competition”
- Jargon/acronyms
- Too many words per slide/no graphics
- Not telling how you’ll make money
- Unrealistic projections
- “If I just capture 1% of the market...”
- Reading slides
- Mistakes/misspellings (not misspellings)



ACA MEMBERS FUND GREAT COMPANIES, EXIT



QUESTIONS



THANK YOU FOR ATTENDING!!!

- To express our gratitude for your attendance today, we would like to offer the following complimentary registration for an upcoming Ann and Bill Payne ACA Angel University course:
- September 13th- Fundamentals of Angel Investing
- 11am-1pm ET
- Course instructor: Eli Velasquez, Investors of Color
- Angel investor panelists:
 - Juan Thurman – Swan Impact
 - Silvia Mah – Stella Angels
 - Aurelia Flores – New Markets Venture Partners
 - Vanessa Villaverde – The Sparrow Fund
 - David Olivencia – Angeles Investors
- Course registration link: <https://events.angelcapitalassociation.org/aufall22#FunAI>
- Discount code to enter at checkout : DAIFUNAI



Ann and Bill Payne
ACA ANGEL UNIVERSITY

