ACA Data Insights
What We Learned From Our Data

In support of [ACA's Data Insights](#) initiative, once a month we will be sharing charts illustrating useful learnings form analyzing data on angel investing and portfolio returns.

An earlier Data Insight published by the team at Launchpad Venture Group discussed the very real benefits in the number of angel investment companies a person should consider making over time to help insure the likelihood of success in angel investing. Data indicated that investing in 15-25 companies was demonstrating a stabilized return multiple of 4.5x.

In this Data Insight I would like to have an angel investor consider diversification in angel investing in terms of different vertical industries. Typically when a person begins their journey in angel investing, they will focus on investing in companies in which they are familiar with in terms of their work experience and education. Actually this is not a bad way to start. You have worked for a number of years in a particular field and now you have a chance to utilize the knowledge you have accumulated over many years of experience. It can lead to you providing insights into a market opportunity that can be very helpful not only to you, but likely to other angel members of your group.

But let's also consider you developing a portfolio of companies not only in terms of the quantity of investments, but also the various vertical industries that you should consider making angel investments. To help make this point let's look at a chart from the [Central Texas Angel Network (CTAN)](#) in Austin.

One of the ways CTAN looks at companies is to summarize them by Special Interest Groups or SIGS. We lump the various vertical industries into five SIGS. As you can see in chart below, the five SIGS within CTAN are broken down as follows:
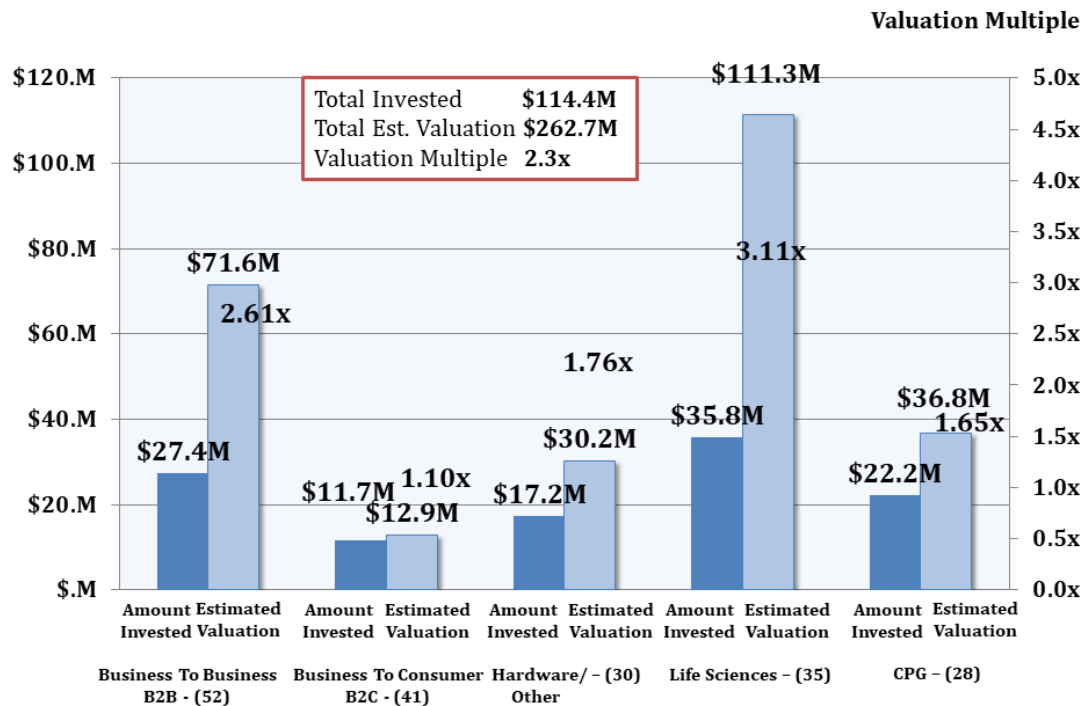
1—Business to Business (B2B) Software

2---Business To Consumer (B2C) Software

3—Hardware/Other

4—Life Sciences

5—Consumer Products (CPG)

2019 CTAN-Estimated Valuation Multiple by SIG's

Valuation Multiple

Total Invested	$114.4M
Total Est. Valuation	$262.7M
Valuation Multiple	2.3x

Chart values:

- **Business To Business B2B - (52):** Amount Invested $27.4M; Estimated Valuation $71.6M; 2.61x
- **Business To Consumer B2C - (41):** Amount Invested $11.7M; Estimated Valuation $12.9M; 1.10x
- **Hardware/ – (30) Other:** Amount Invested $17.2M; Estimated Valuation $30.2M; 1.76x
- **Life Sciences – (35):** Amount Invested $35.8M; Estimated Valuation $111.3M; 3.11x
- **CPG – (28):** Amount Invested $22.2M; Estimated Valuation $36.8M; 1.65x

At the bottom of the chart is the number of CTAN companies invested by members within each SIG from 2006 through 2019: B2B Software 52 companies, B2B Consumer 41 companies, Hardware/Other 30 companies, Life Sciences 35 companies and Life Sciences 28 companies for a total of 186 companies invested.

This chart for each SIG shows on the first bar how much has been invested by CTAN into companies in each of the segments along with the valuation estimate as of the end of 2019 which is the second bar. The comparison of estimated valuations at the end of 2019 to the amount invested produces the valuation multiple. Breaking down the five segments that are tracked shows the valuation multiple by SIG as follows:

1—Business to Business (B2B) Software—2.6x valuation multiple

2—Business to Consumer (B2C) Software—1.1x valuation multiple

3—Hardware/Other—1.8x valuation multiple

4—Life Sciences—3.1x valuation multiple

5—Consumer Products (CPG)—1.7x valuation multiple

As most people know, Austin is one of the major tech cities in the country and as a result most of our members are from the tech world. This is reflected in that the combined companies invested in B2B Software (52) and B2C Software (41) is 93 companies or 50% of all investments.

However over the years many CTAN angel members with tech experience have also invested in Life Science companies, including myself. Life Sciences has the highest valuation multiple of the five segments. This is encouraging news for those that have diversified their angel investing into other vertical/segments outside of their world of experience. CTAN is an angel group of +185 members, and it does have individuals that have domain experience in Life Sciences industries. These include doctors, medical device specialists and other disciplines. Using their domain experience, and appropriate due diligence, those CTAN members investing in various segments/industries, including those segments outside of their work experience and education have created a more likely or probable return on their investment portfolio.

Prior to any investment by CTAN members, a very thorough due diligence process and report is produced and shared with all members to read and evaluate. Meetings are held by members to share their views on these companies and this healthy dialogue and communication enables members who are not subject matter experts in a field or industry to consider making an investment in a particular company outside their domain expertise.

Stay tuned for additional insights next month and sign up to participate in ACA's Data Initiative by submitting your data for future editions of the Angel Funders Report to provide angels with insights on the factors that affect the outcomes of startup investments.