



ANGEL CAPITAL ASSOCIATION

ANGEL INVESTMENT IN THE U.S. – TRENDS & BEST PRACTICES

September 26, 2016

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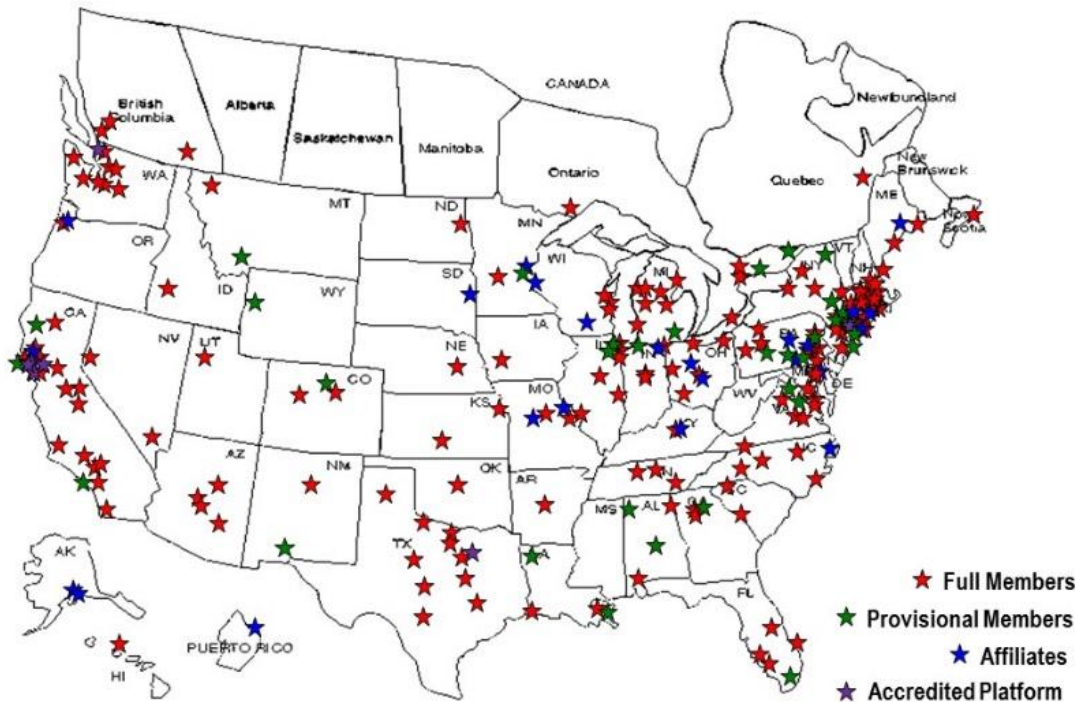
TOPICS IN MY PRESENTATION

- Update on Angel Capital Association
- The American startup & expansion funding scene
- Stats and trends in American angel investing
- Best (or maybe good?) practices in angel investing
- 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

hpa HYDEPARKANGELS



FundersClub



ANGEL CAPITAL ASSOCIATION

ACA MEMBERS FUND GREAT COMPANIES, EXITS

Pinterest

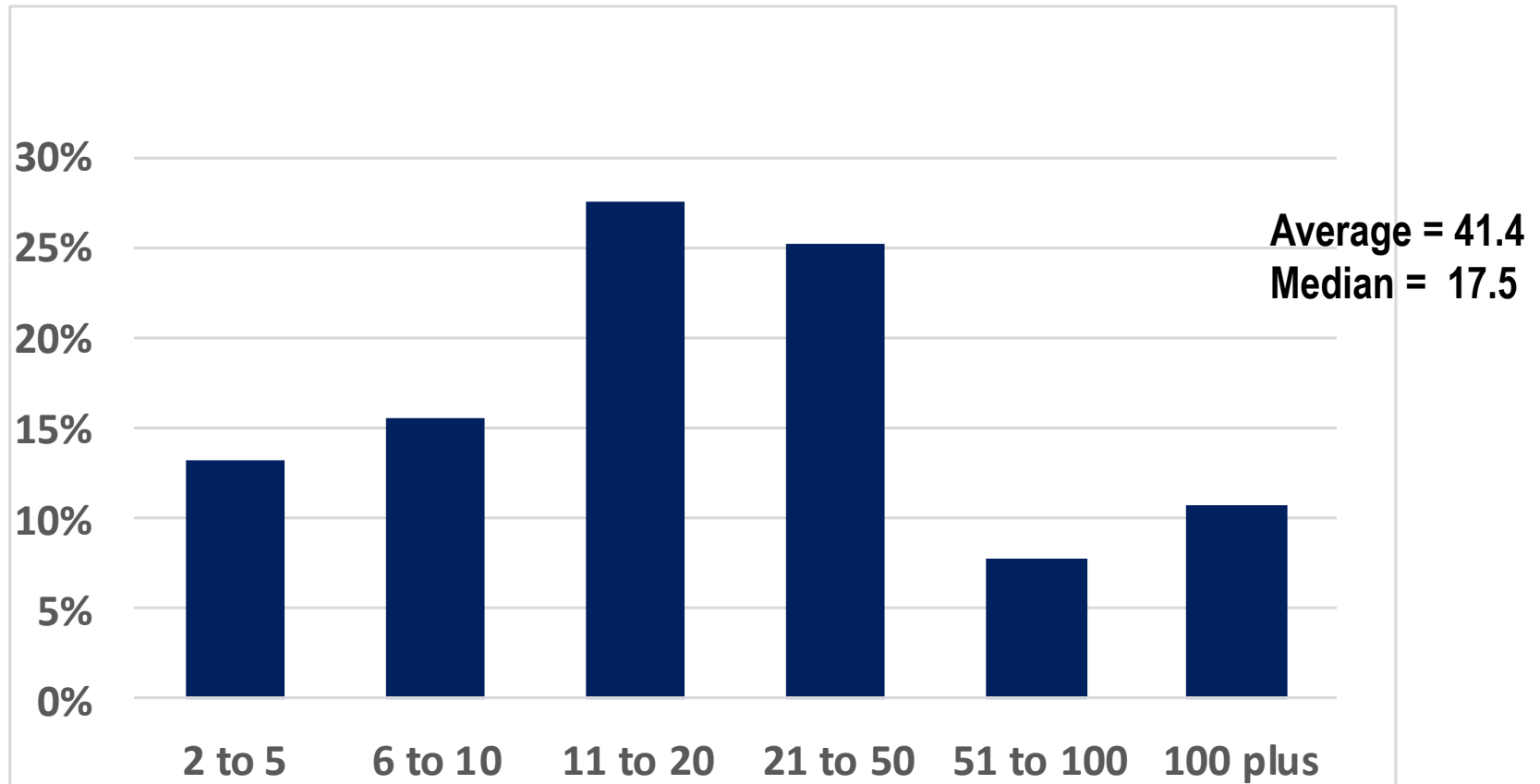


CARBONITE 



ANGELS FUND HIGH-GROWTH COMPANIES

Number of Employees One Year After ACA Member Investment



Source: ACA research on member investments, March 2015

KEY AMERICAN 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

\$4+M

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)

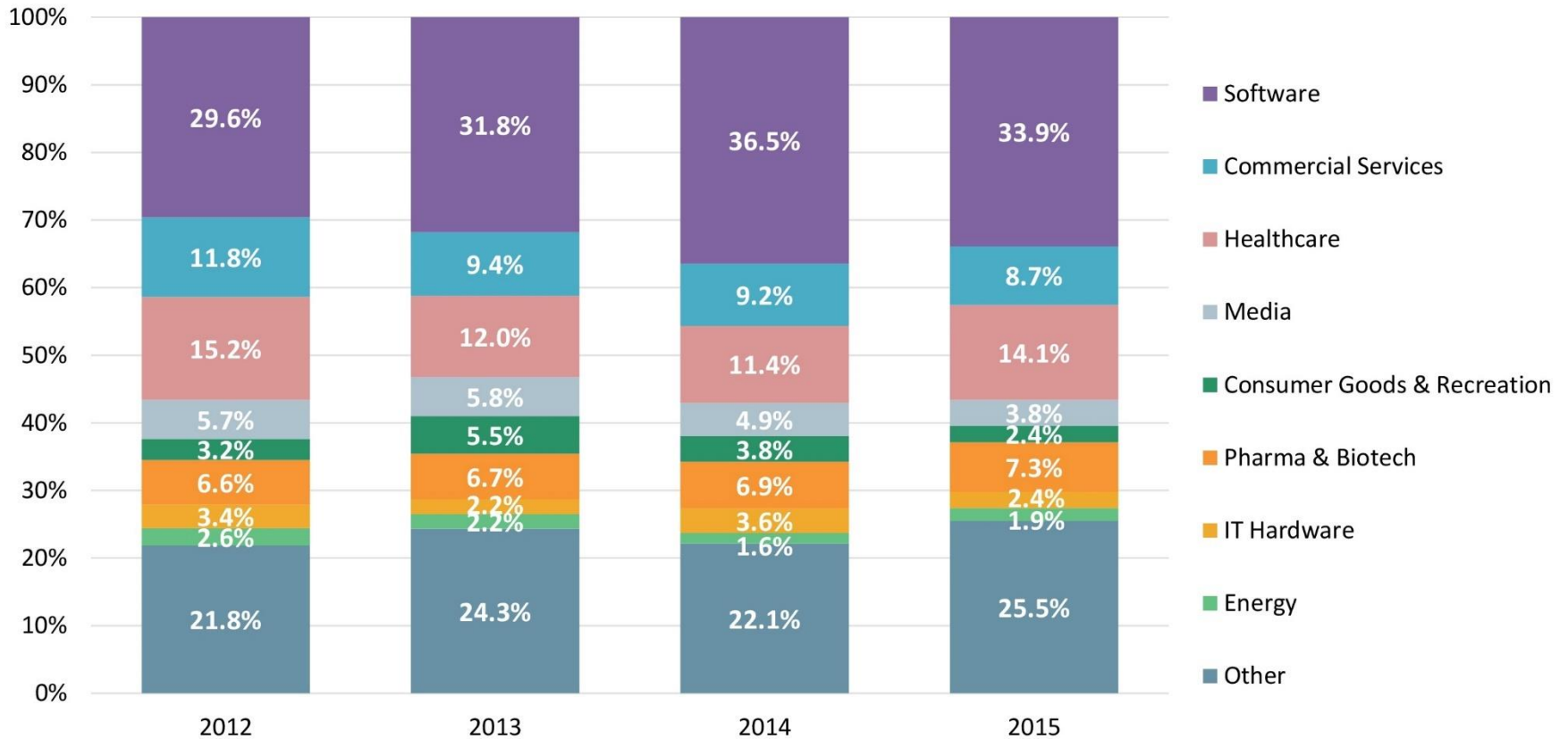
ANGEL VS VC INVESTMENT SIZE AND VALUATION

	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

Yearly Share of Angel Group Deals by Sector

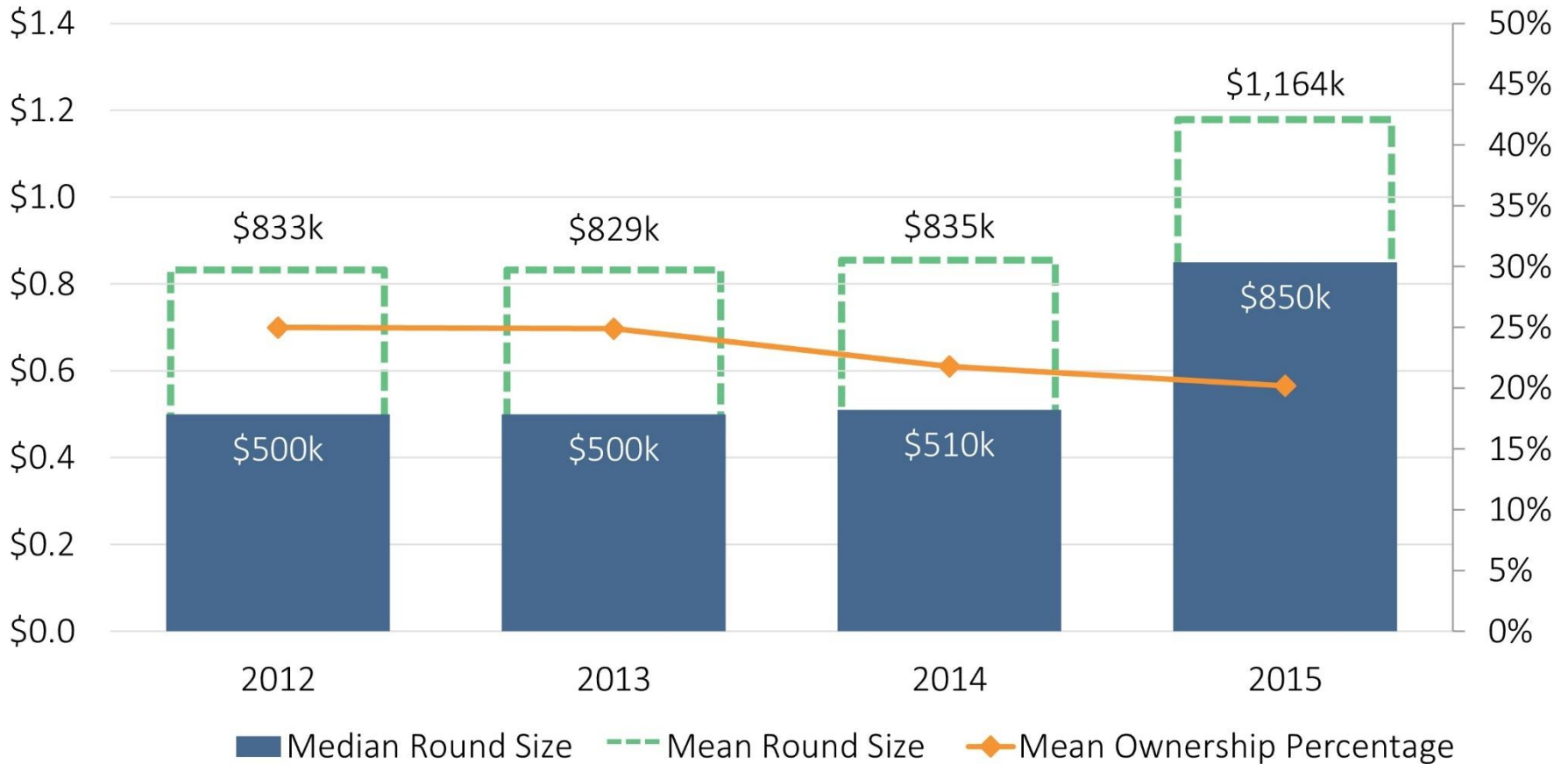
Software and Healthcare comprise 48% of investments in 2015



Median and Mean Round Sizes – Angels Only

2015 Shows Round Sizes Increasing,

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

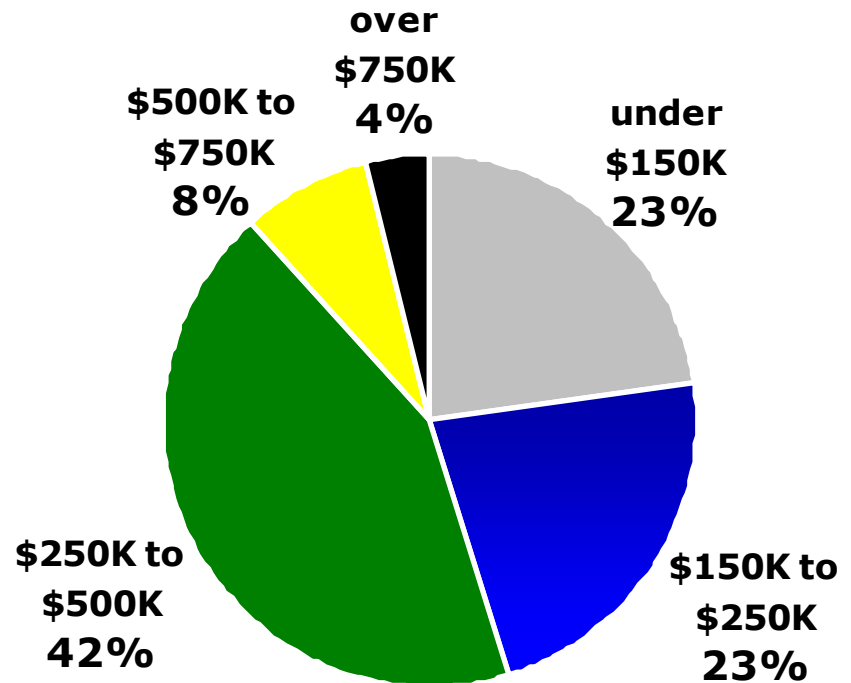


MULTIPLE GROUPS NEEDED TO FILL ROUNDS

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

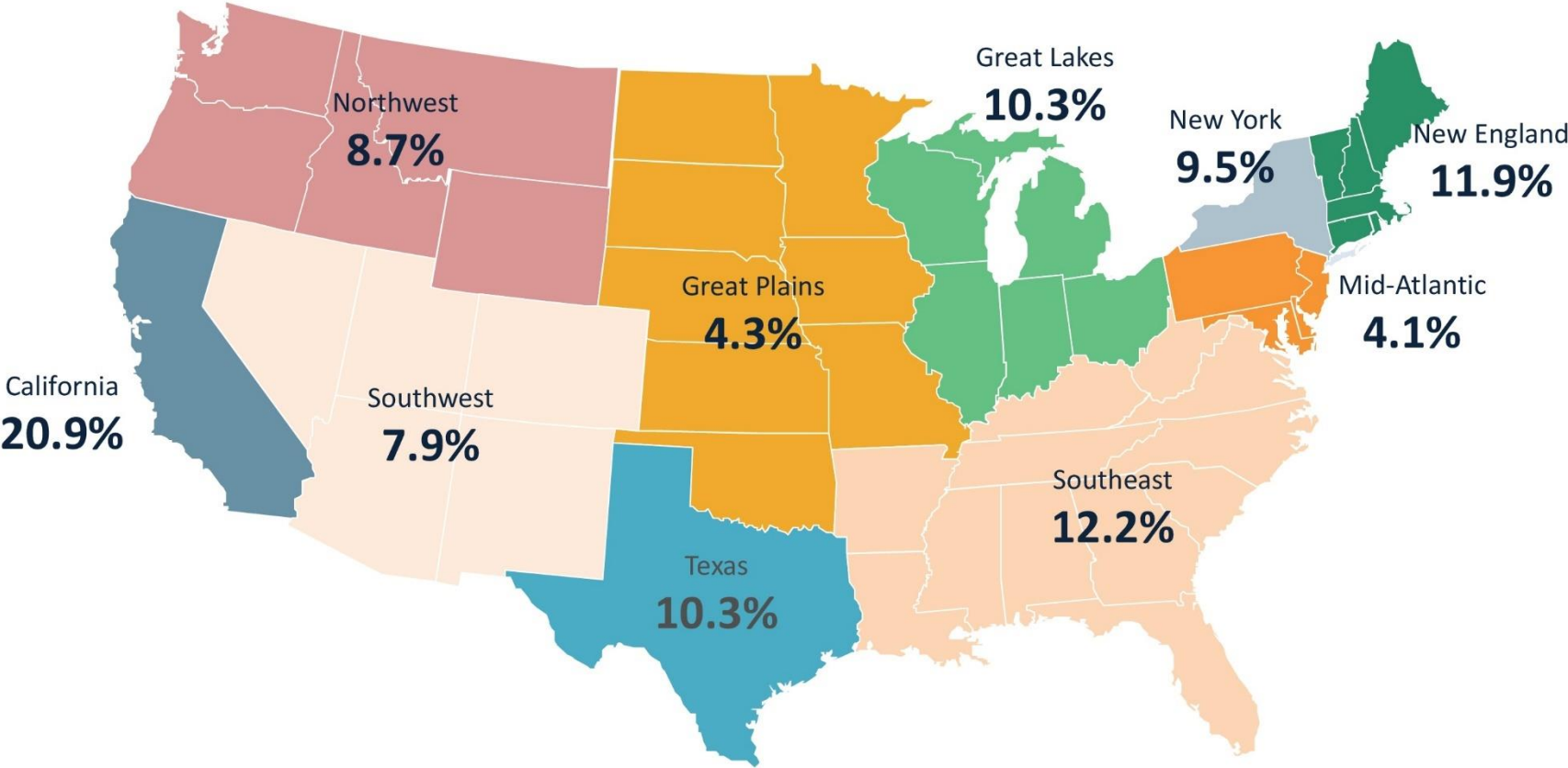
- Investment surprisingly broad
- Average deal size increasing
- Syndication needed among groups to fill rounds entrepreneurs need

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

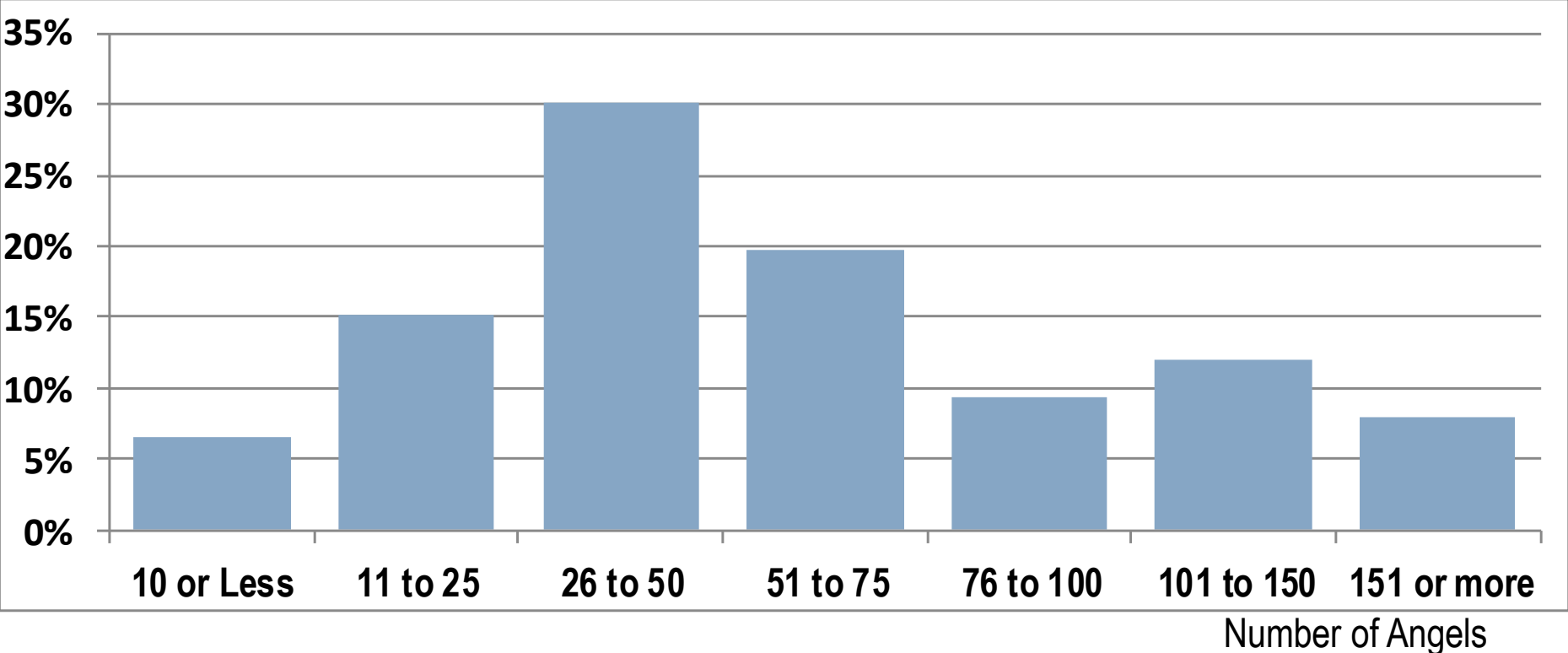
(networks, funds or combination)

ANGEL GROUPS VARY BY NUMBER OF INVESTORS

Average = 68

Median = 50

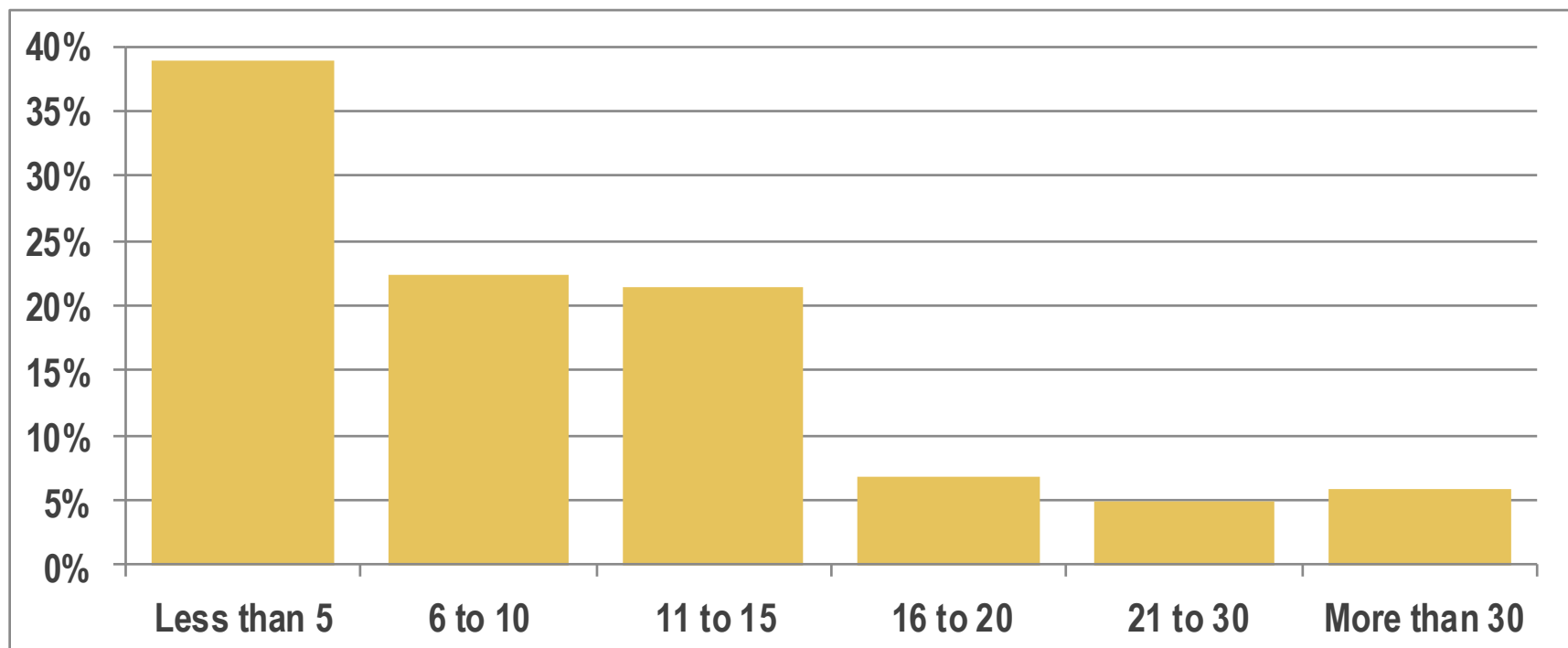
% of Respondents



- 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

...AND ALSO IN DEAL ACTIVITY

Number of Investments Per Group in 2014



Average = 10.3

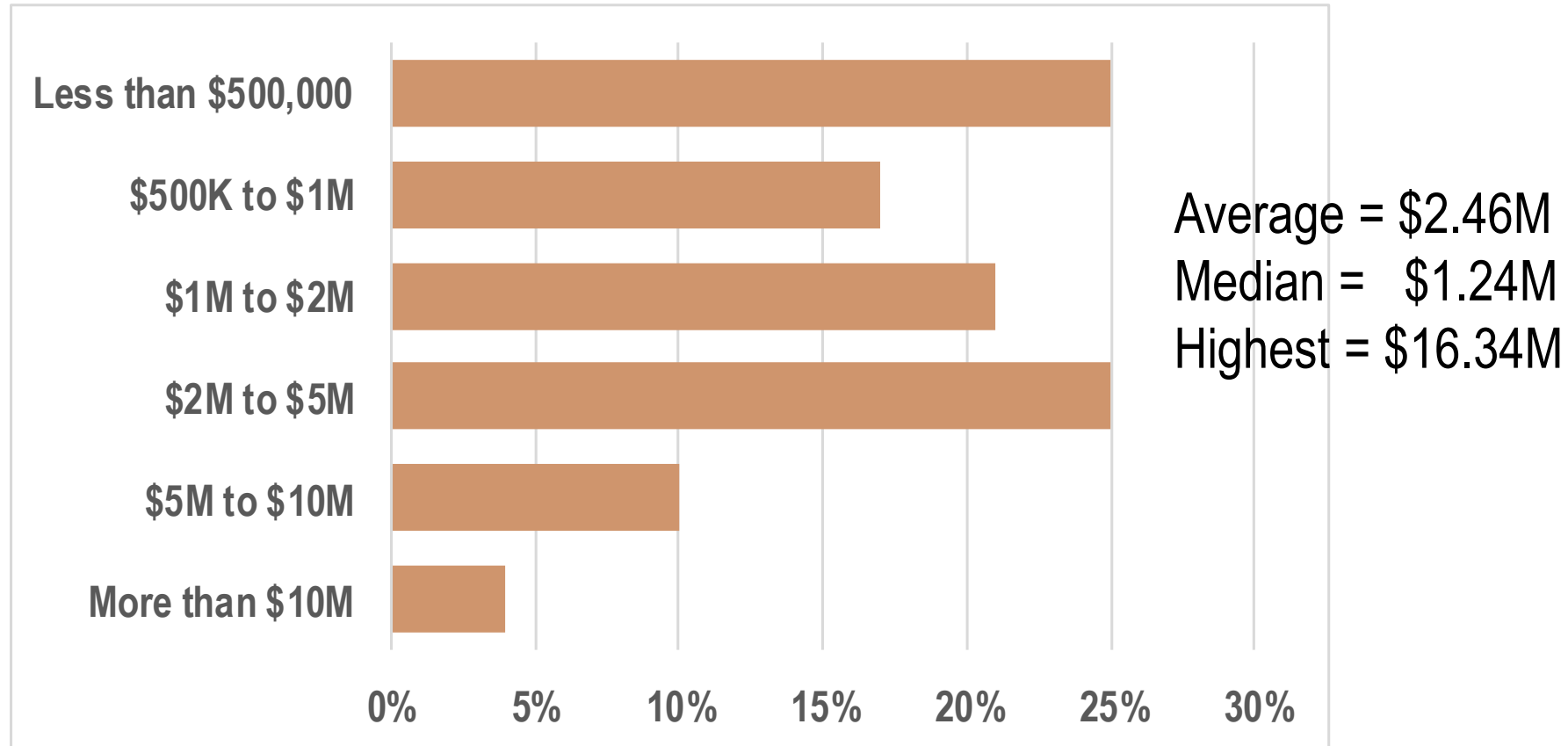
Median = 7.0

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

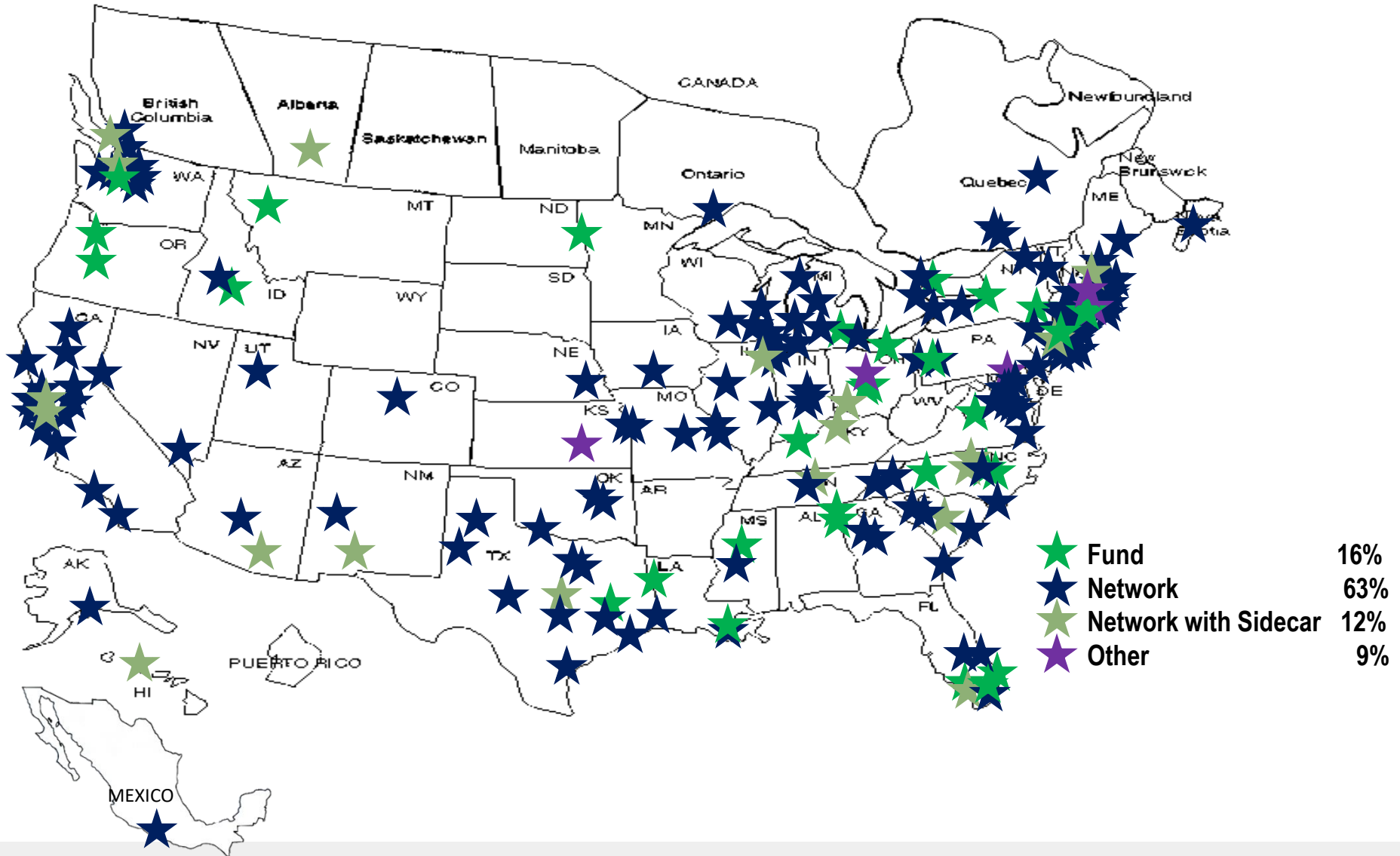
DIVERSITY IS INCREASING...WE MUST DO MORE!

- Supporting women entrepreneurs
- Focused on Veteran-owned businesses
- Minority-focused investing
- Under 30 angel investors
- Number of angels that are women is increasing



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

ACA GROUPS BY INVESTMENT STRUCTURE

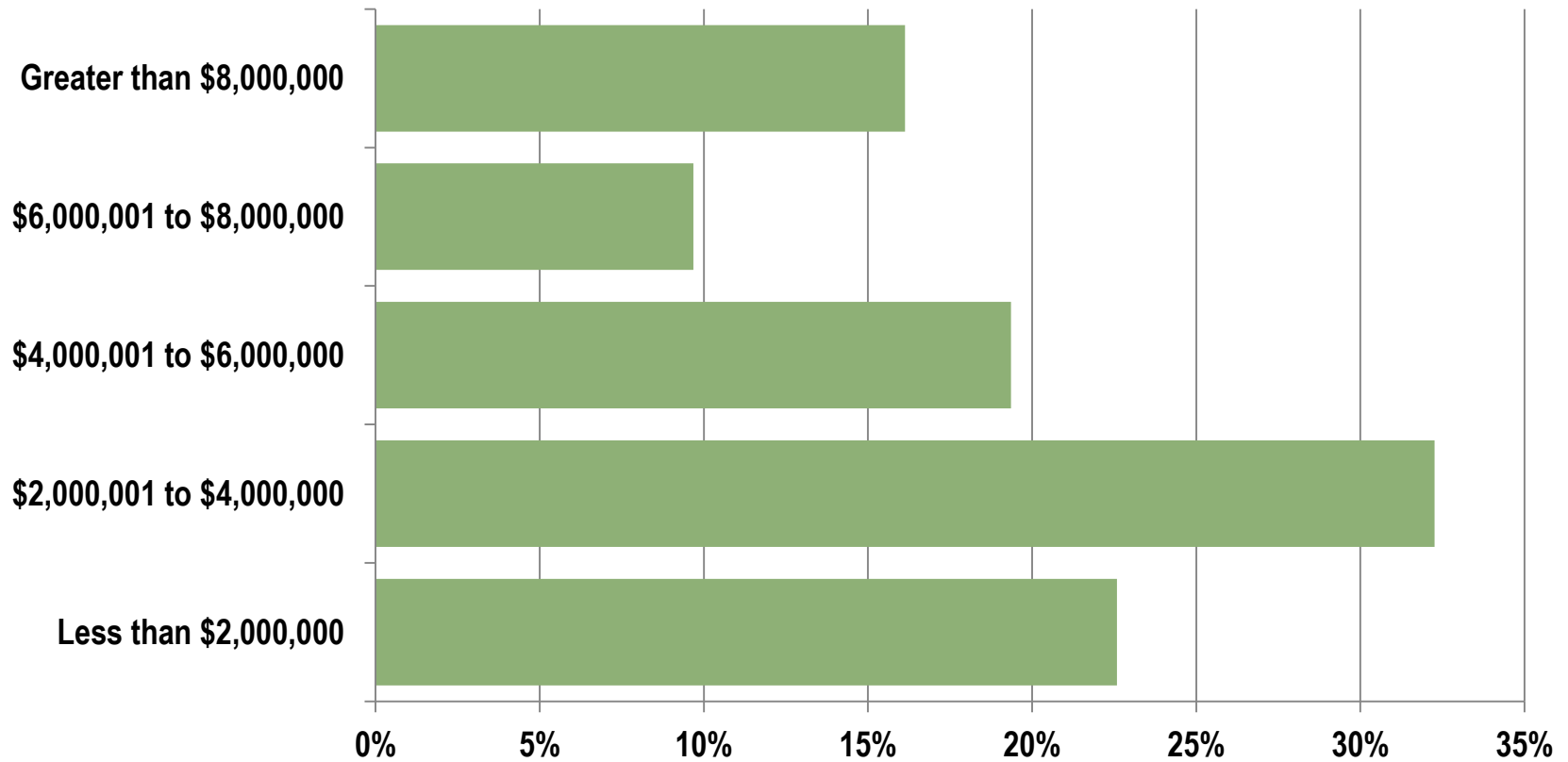


Source: ACA Member Group Survey, March 2015 -106 groups reporting



ANGEL CAPITAL ASSOCIATION

ANGEL FUNDS BY DOLLAR SIZE

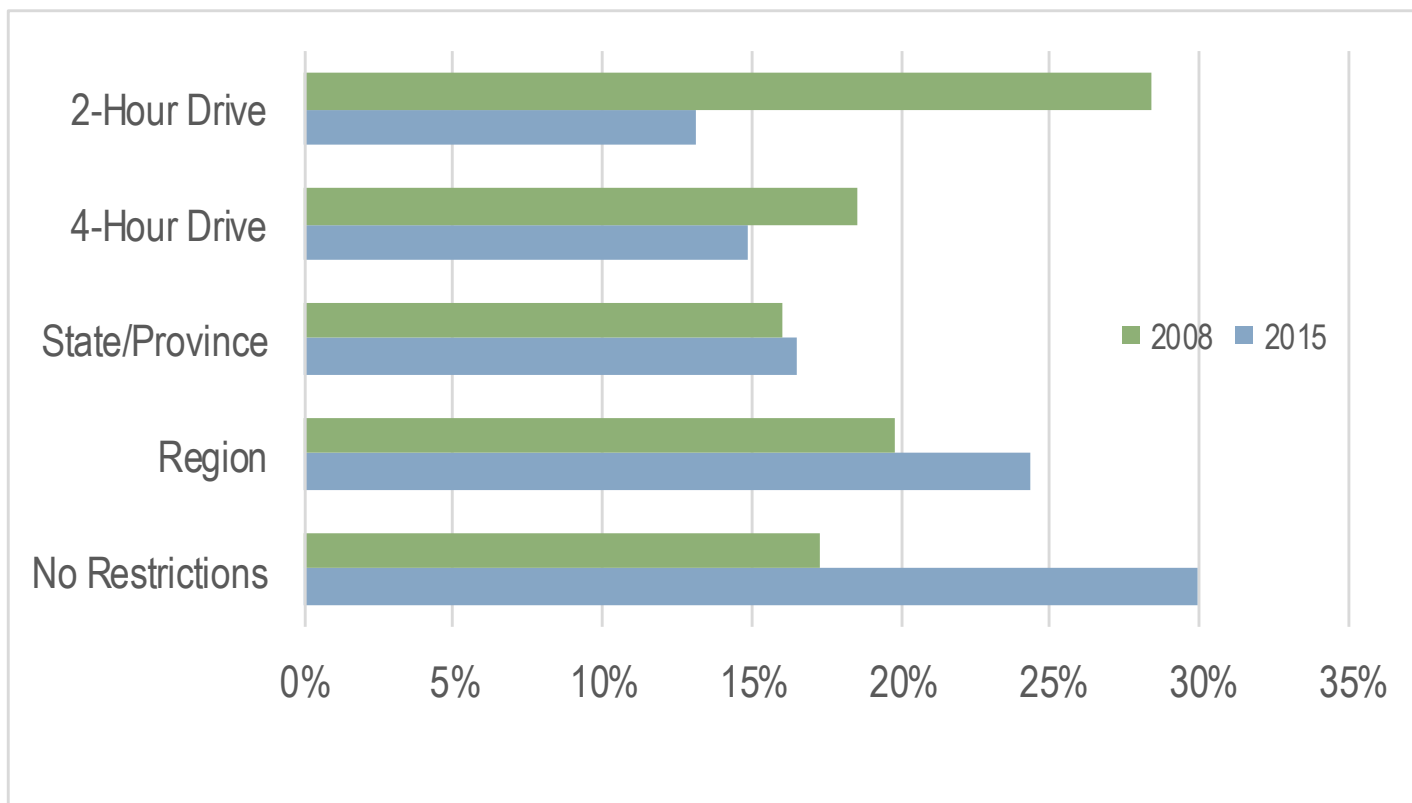


Average: \$7.1M

Median: \$5.3M

BIG EVOLUTION: WHERE GROUPS INVEST

In what geography does your group prefer to invest?



- In 2008, 63% preferred closer to home
- In 2015, 54% invest in region or have no geography restrictions

DEAL STRUCTURE PREFERENCES

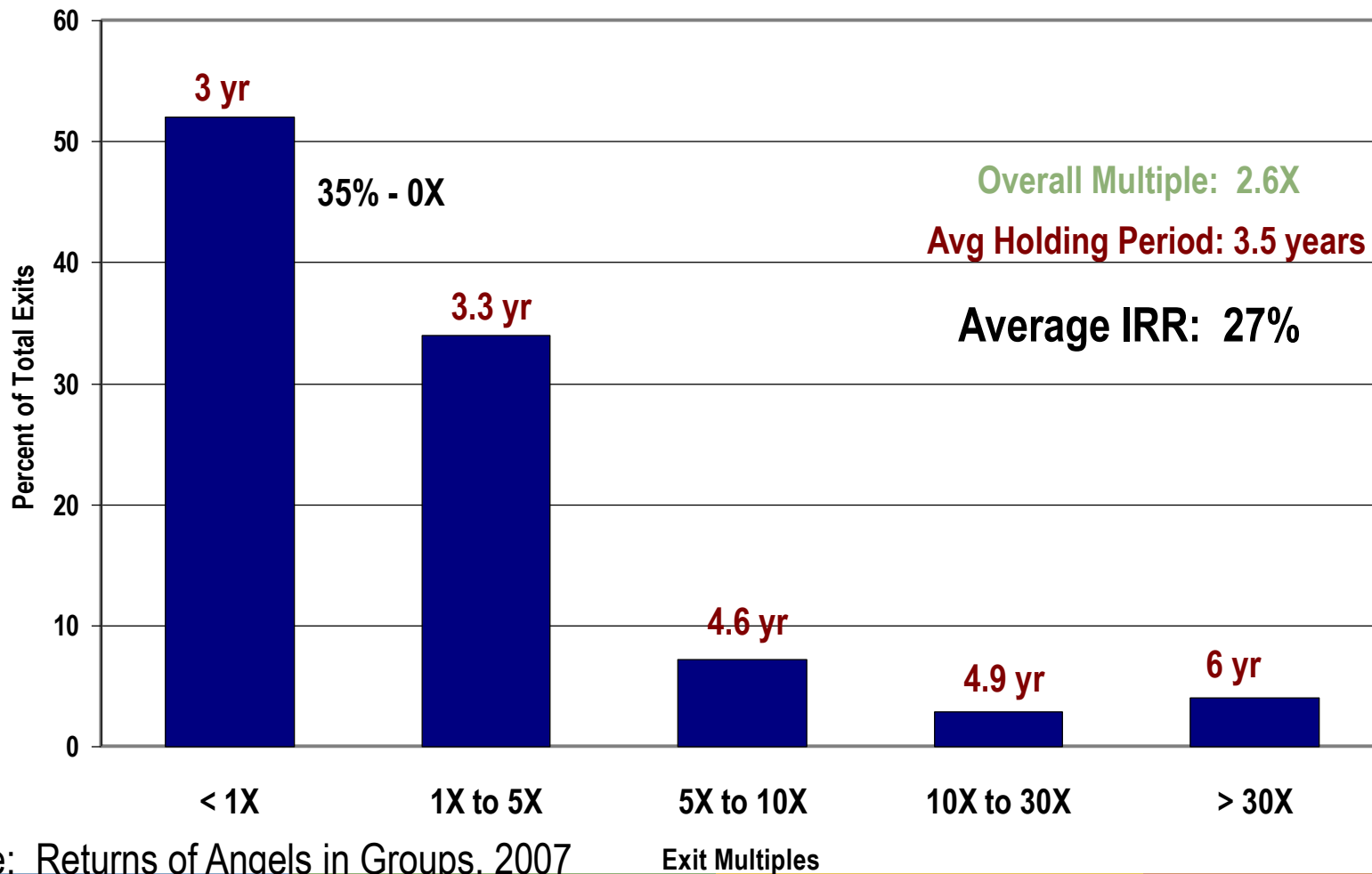
- Strong preference for priced rounds and preferred stock
- Some will do convertible debt
- Most sectors: products developed and have customer traction
- Valuation not only for sector but for location (not unlike real estate)
- Board seat for significant investments
- Most groups stay away from generally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

SOME INVESTMENT PRACTICES THAT WORK

- Portfolio strategy
- Syndication
- Focus not just on front end of investing, but on outcomes after the check
- Investment structures – improvements to convertible debt
- Online platforms for accredited investors
- New models for angel groups, bringing in new angels – women, younger investors, etc.

PORTFOLIO STRATEGY

RISKS & REWARDS OF ANGEL INVESTING



SYNDICATION

- 75% plus of ACA member deals are syndicated
- Common agreements lead to sharing DD, fast track on group decisions
- Come out of regular communication and trust building
- Regularly include multiple angel groups, family offices, private equity
- Only way to support companies where VCs are rare



- \$12M series B
- Led by Golden Seeds
- 6 ACA member groups, across US
- Plus many others

FOCUS BEFORE AND AFTER CHECK



Picking good entrepreneurs is important, as is:

- Negotiating good deals
- Conducting due diligence

But, can you really tell which will be best in show?

- Angels make, or lose most money, after investing:
 - Dry powder, criteria next decisions
 - Board of Directors (holding their feet to fire, CEO compensation)
 - Minimizing losses (taxes, ensuring \$ for closing businesses)
 - Help with follow-on round investors and exits
 - Keep track of cap tables and dilution

INVESTMENT STRUCTURES – CONVERTIBLE DEBT

- In survey a year ago, ACA members said:
 - 82% prefer priced equity round
 - But 78% had done at least one convertible note round
 - And 25% used convertible notes in < half of investments
- Improvements to notes:
 - Valuation cap for next (equity) round
 - Setting discount for note holders – 20-30%
 - SAFEs – not even including the debt part of the deal

ONLINE INVESTING – FILL ROUNDS, DIVERSIFY

- This means crowdfunding for angels, but not everyone

 **AngelList**

FundersClub



 **OurCrowd**

seedinvest

portfolia

NEW MODELS BRING DIVERSITY, BETTER DECISIONS



THE RISING TIDE PROGRAM

pipeline
ANGELS

NEXTGEN
VENTURE
PARTNERS

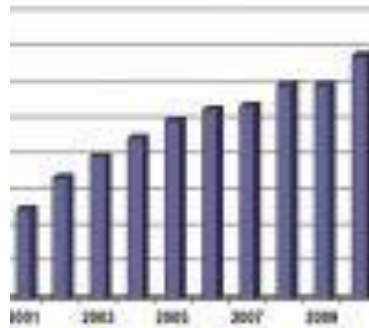
seedinvest

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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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

AMERICAN STARTUP ECOSYSTEM

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



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

