



ANGEL CAPITAL ASSOCIATION

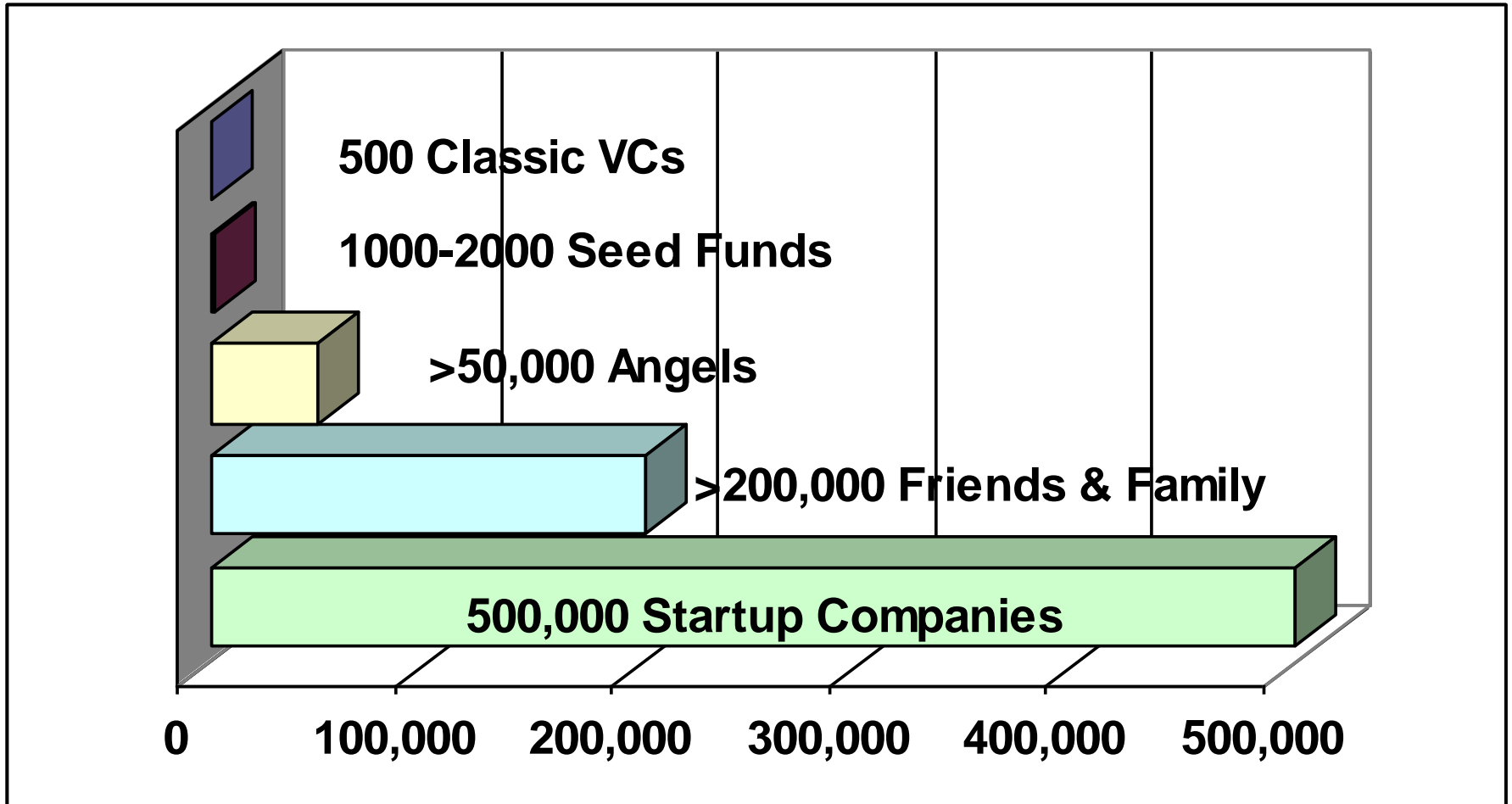
Important Things for Entrepreneurs to Know about Angel Investors





New Company Formation

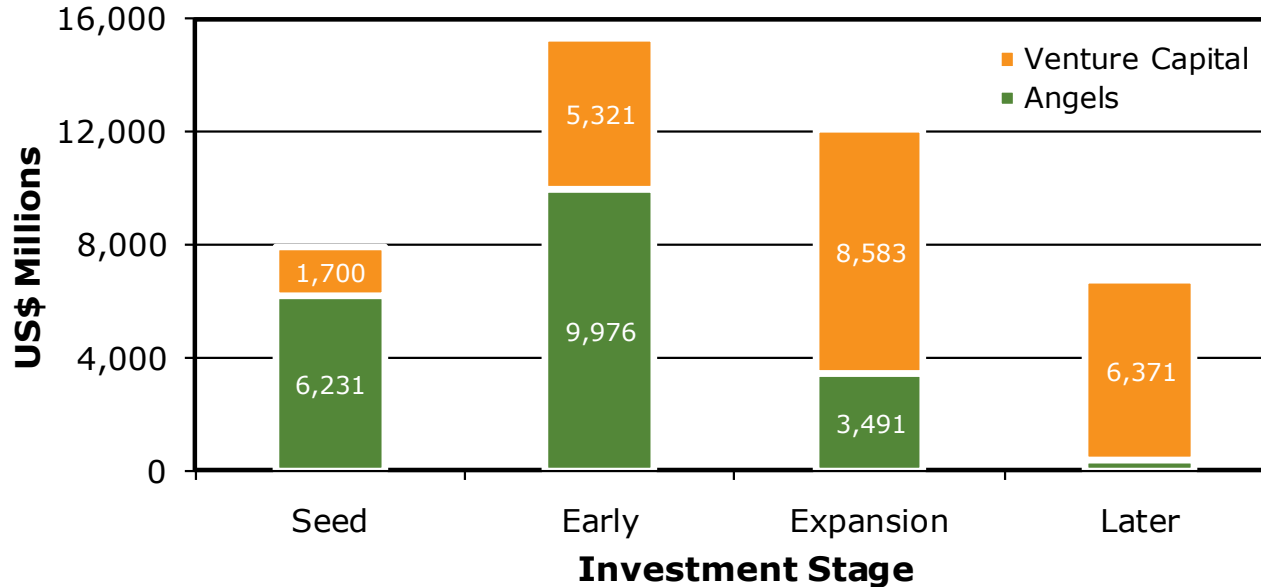
Source of Equity Funds – Typical Year





Angels: Majority of US Startup Funding

Funding by Source and Stage- 2010



Sources:
Center for
Venture
Research and
PwC
MoneyTree

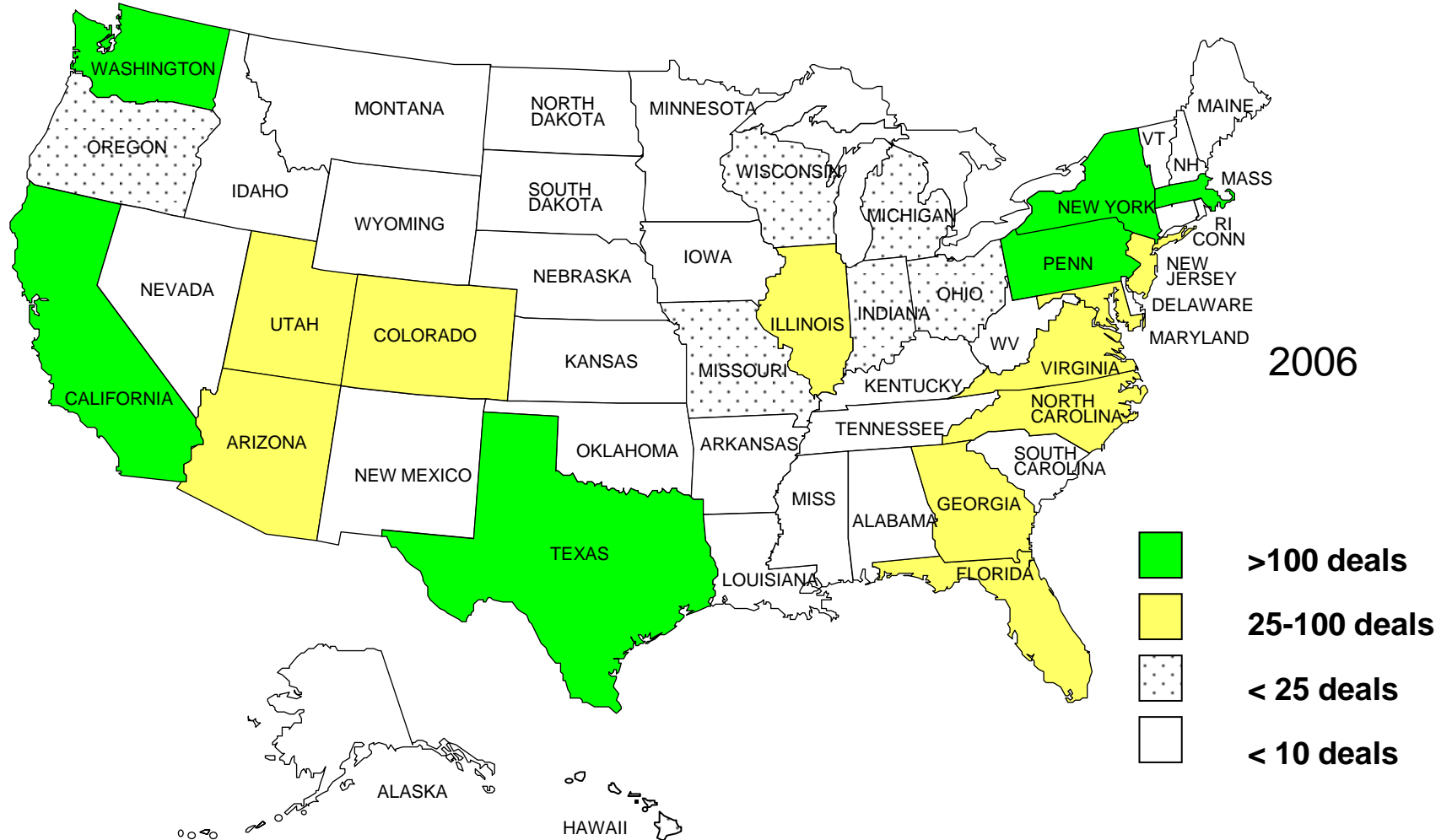
Angel Investors 2010

- US \$20.10 billion
- ~61,900 deals
- 31% seed/startup
- 67% early/expansion stage
- 265,400 individuals

Venture Capital 2010

- US \$21.97 billion
- ~2,750 deals
- 8% seed/startup/ 24% early stage
- 68% later/expansion capital
- 462 firms active

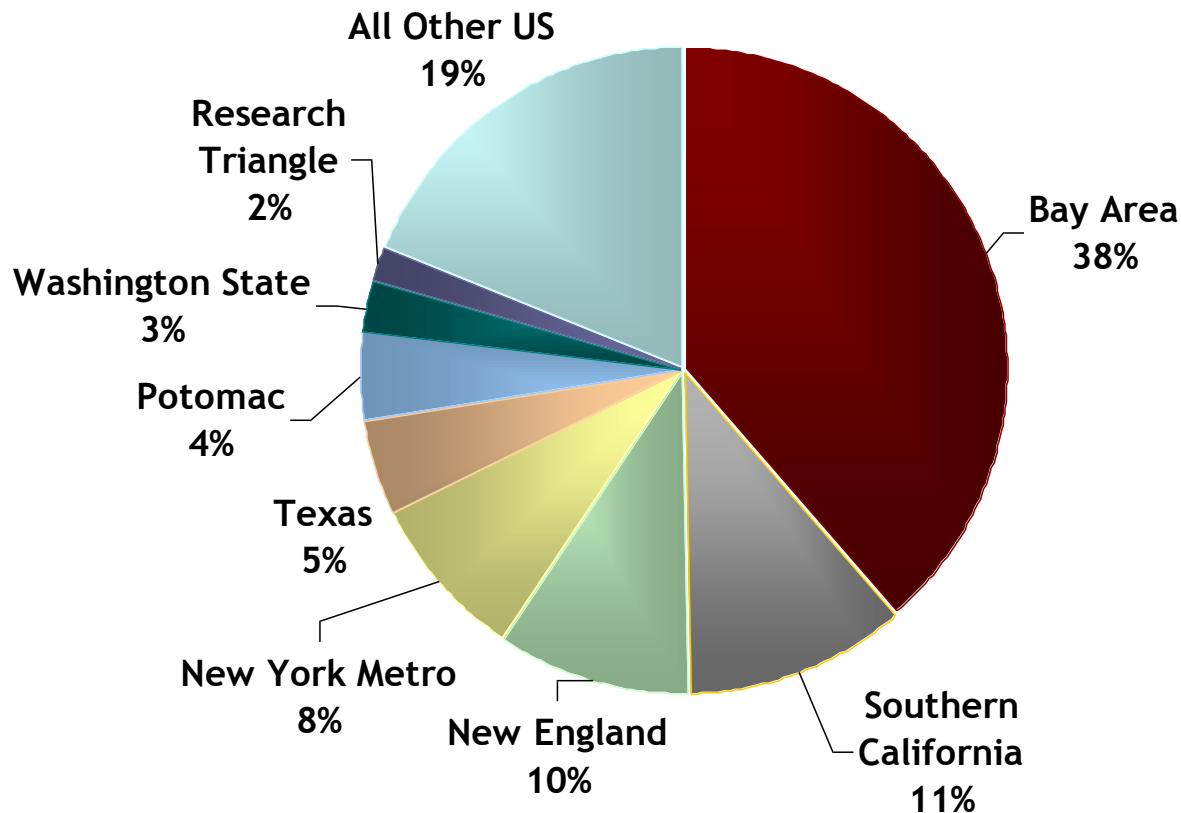
VC Deals by State





Bay Area Draws Most Investment Dollars

Regional Investment in the United States 3Q'06



Companies Backed by Angels





Why Angels Matter

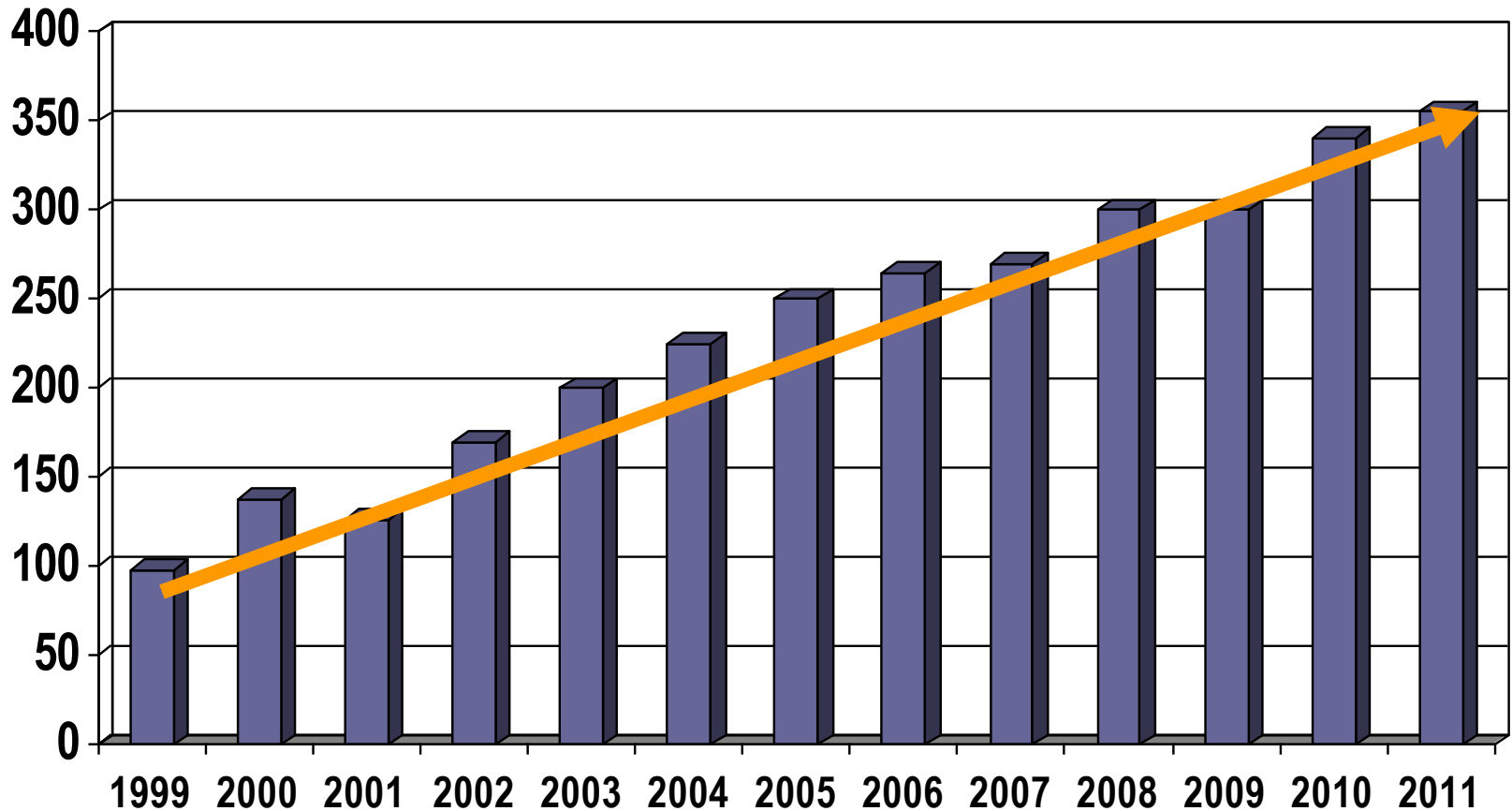
A really great angel helps an entrepreneur:

1. See around the corner
2. Gain a sober second opinion
3. Network with people who can help build the business
4. By being an ambassador
5. Gain credibility in a field



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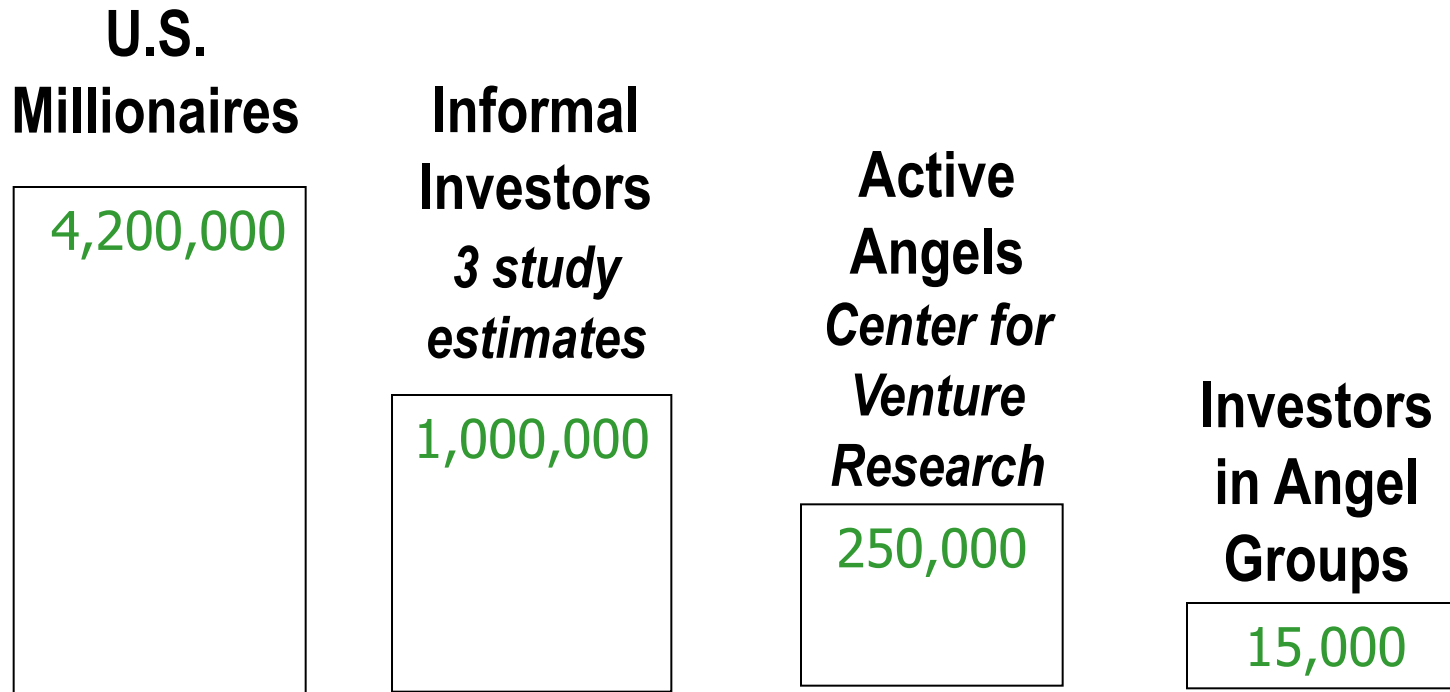
Growth in Number of American Angel Groups



Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-11 data)



Angel Groups are Small - *but Important* - Subset of All American Angels



2009 Report from Spectrem: \$1 millionaires down in 2008 27%, those with \$5 million down 28%
World Wealth Report (Capgemini): 19% drop in HNWI and 22.8% drop in wealth in 2008



One Premise on Angel Groups

- Creating new class of investor
 - Entrepreneur-friendly
 - Developing sophistication/ excellent processes
 - Growing geographic diversity
- Market efficiencies developing
 - Entrepreneurs can locate more easily
 - Investors get better quality deal flow, while individuals maintain anonymity
 - Building partnerships with other angel groups and VC community for follow-on funding
- Beginning to close capital gap

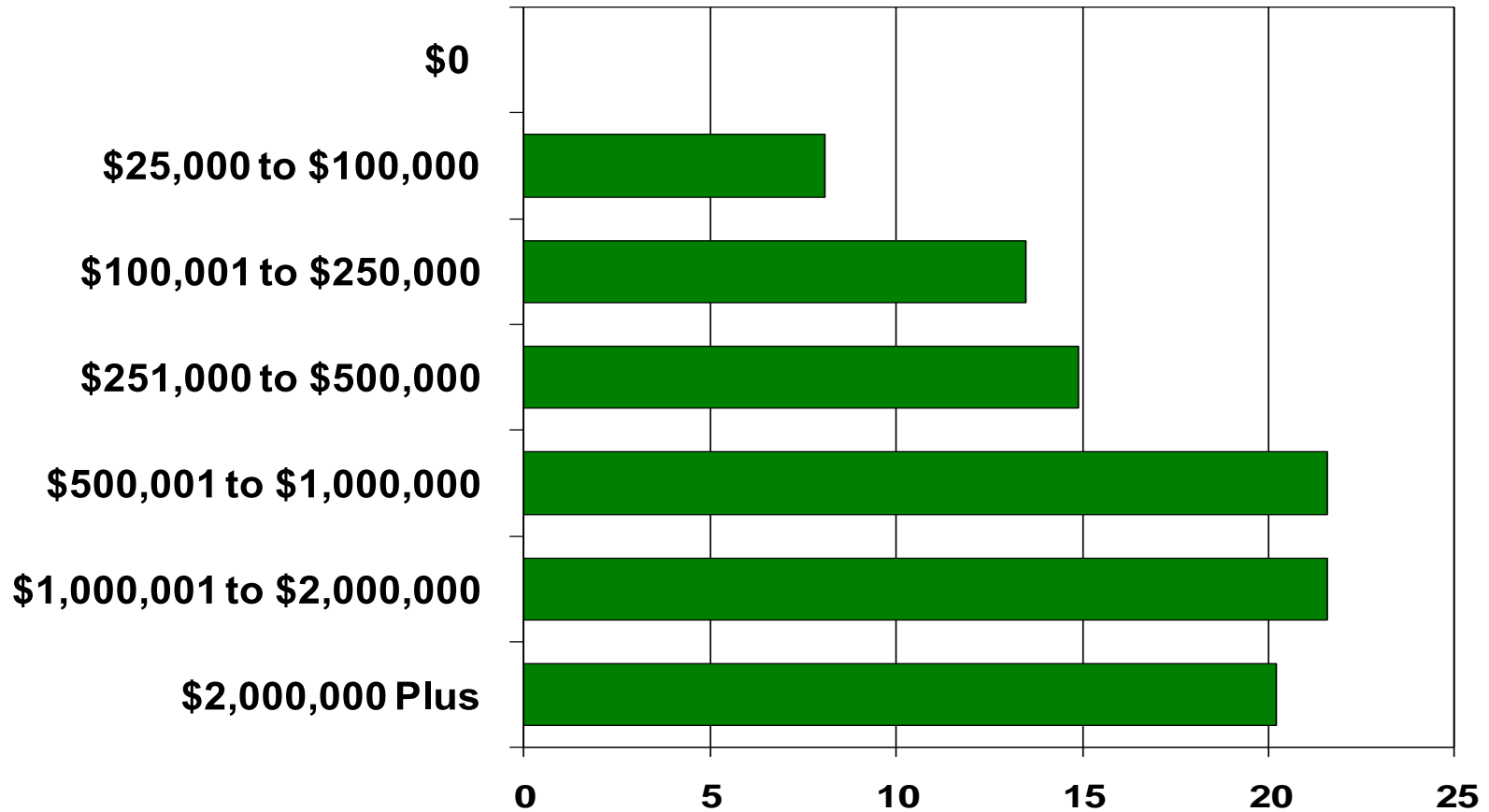


Angel Organizations Can Help Fill Capital Gap

Stage	Pre-Seed	Seed/Start-Up		Early	Later
Source	Founders, Friends and Family	Individual Angels	Funding Gap between \$500,000 and \$2,000,000/\$5,000,000 (depending on region)	Venture Funds	
Investment	\$25,000 to \$100,000	\$100,000 to \$500,000		\$2,000,000/\$5,000,000 and up	



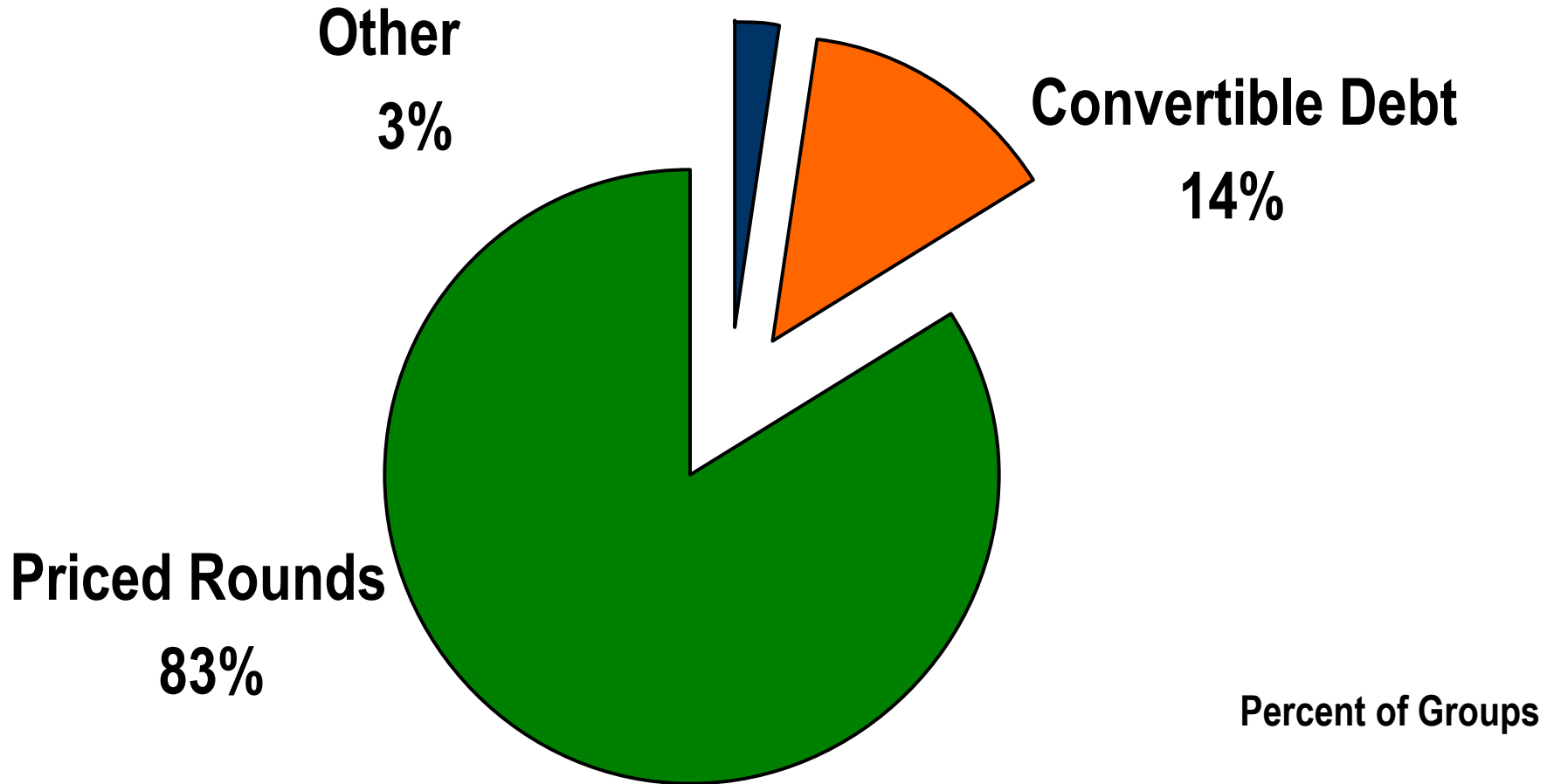
Average Total Investments Per Group – 2009



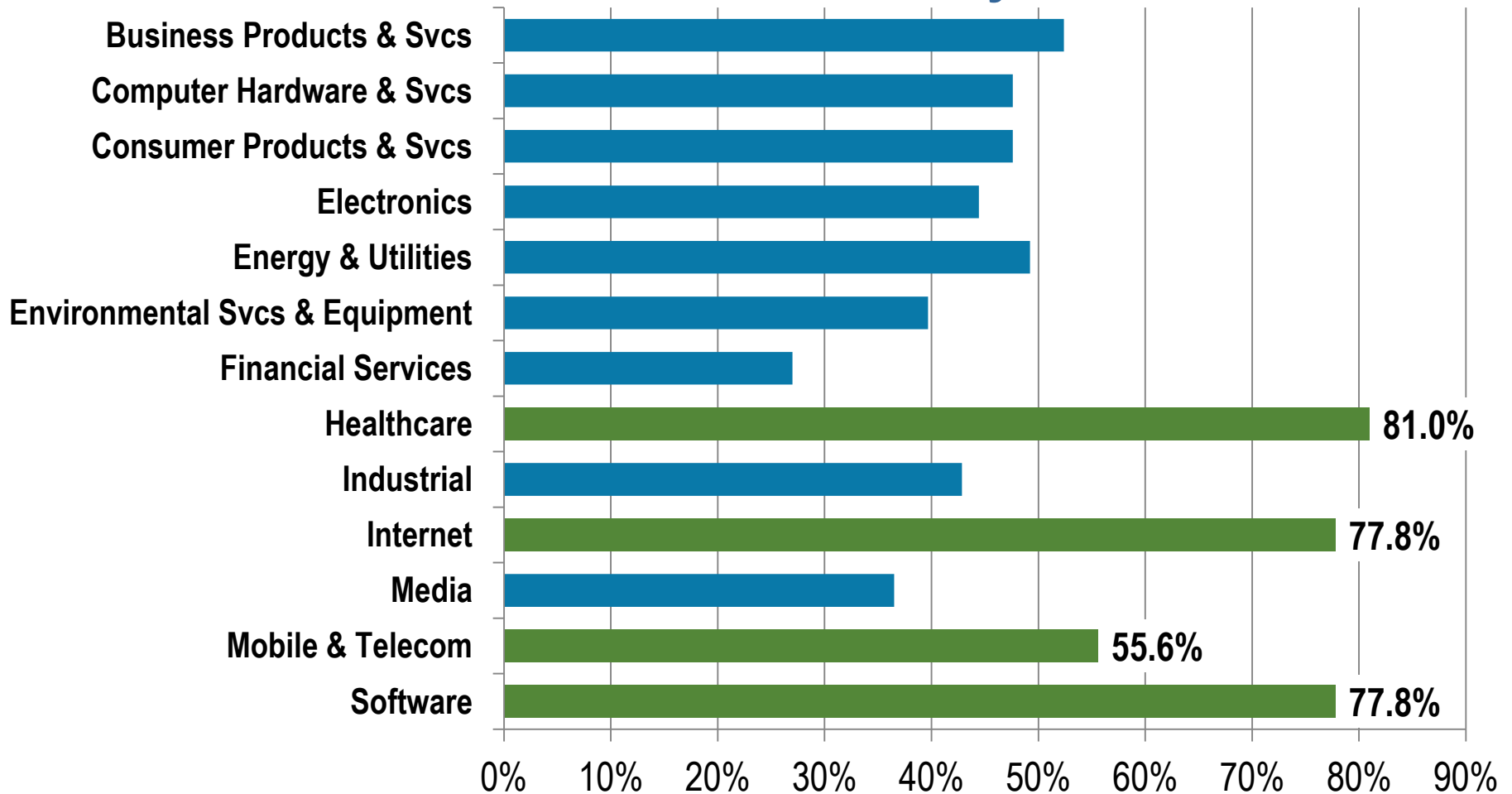
Source: ACA-SVB Confidence Survey – March, 2010

Percent of Groups

Preferred Deal Terms



Investment Preferences by Sector

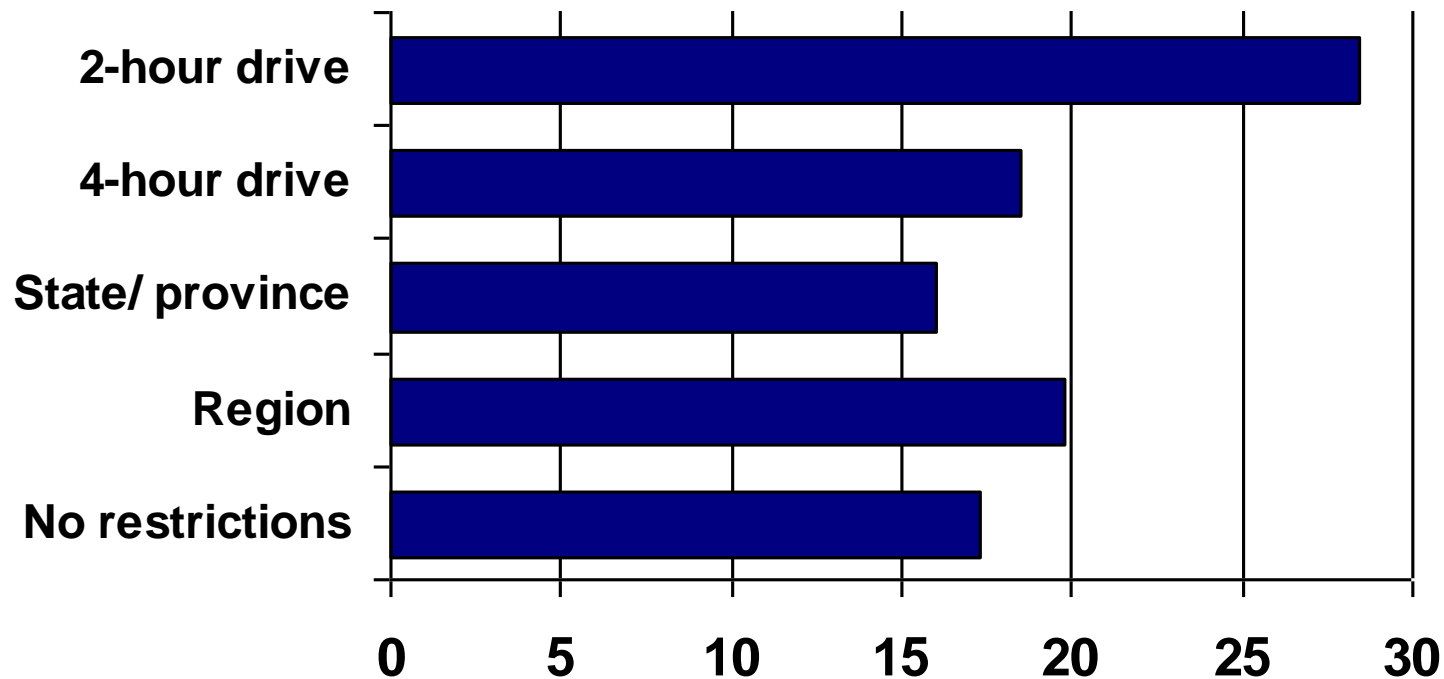


Source: ACA Summit Confidence Survey – 2012

Percent of Groups



Geography – Where do Groups Invest?



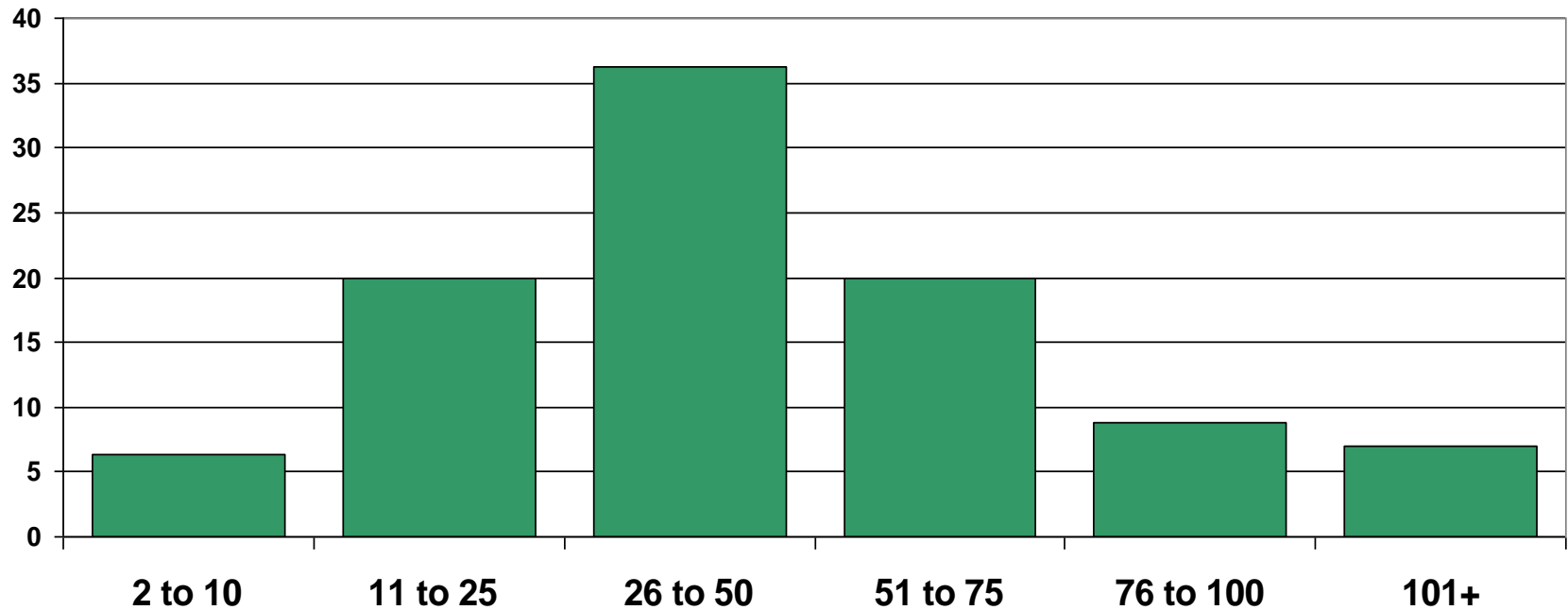
Percent of Groups

Source: 2008 ACA Angel Group Confidence Survey



Investors Per Group

Average = 55 Median = 41



Source: 2008 ACA Confidence Survey

Percent of Groups



Engaging Angels

- How do you find angels?
- What do angels expect?
- What attracts them to deals and/or entrepreneurs?
- What do entrepreneurs need to provide to angels?





Finding Angels

- **Business plan in top shape**
- **Referral from someone the angel knows and trusts (lots of networking)**
- **Web site matching – caution!**
 - www.vfinance.com, <http://activecapital.org>, www.gensx.com, www.fundinguniverse.com
- **Find local angel group**
- **Directories of angel groups:**
 - U.K: www.bbbaa.org/uk
 - Europe: www.eban.org
 - North America: www.angelresourceinstitute.org
 - North America: www.angelcapitalassociation.org (includes only ACA member groups)



Investment Expectations

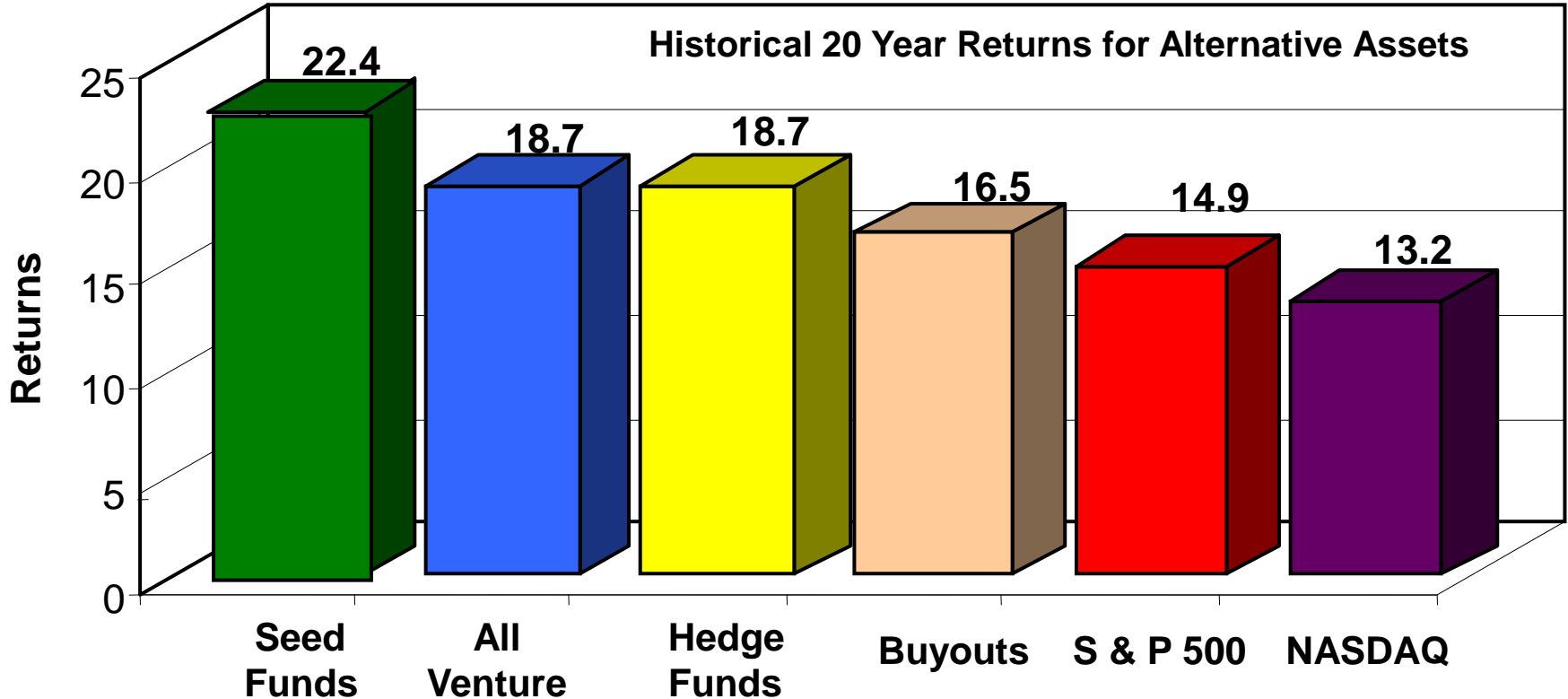
- From investor's perspective
 - Return on Investment
 - Company involvement
 - **As advisor**
 - **On board**
 - **Part of management**
 - **Or some want to be passive**
- From company's perspective
 - Find or provide follow-on investments
 - Introduction to potential partners or customers
 - Very little interaction



A Word About Return Expectations

- **Angel investing is VERY risky**
 - 1 or 2 of every 10 investments brings most of return
 - Hard to tell which companies will return
- **Current return estimates for portfolios:**
 - Annual IRR of 27% - 2.6X in 3.5 years*
- **If business gets VC funding later, angel investment is often diluted**
- **Some really great angels therefore looking for 10 to 30X potential**
 - Wide variety of expectations, depending on mix of motivations to be an angel
- **Correct valuation is critical**

Angel Returns: 20-25% Per Year?



2007 study: IRR = 27% or 2.6X in 3.5 years

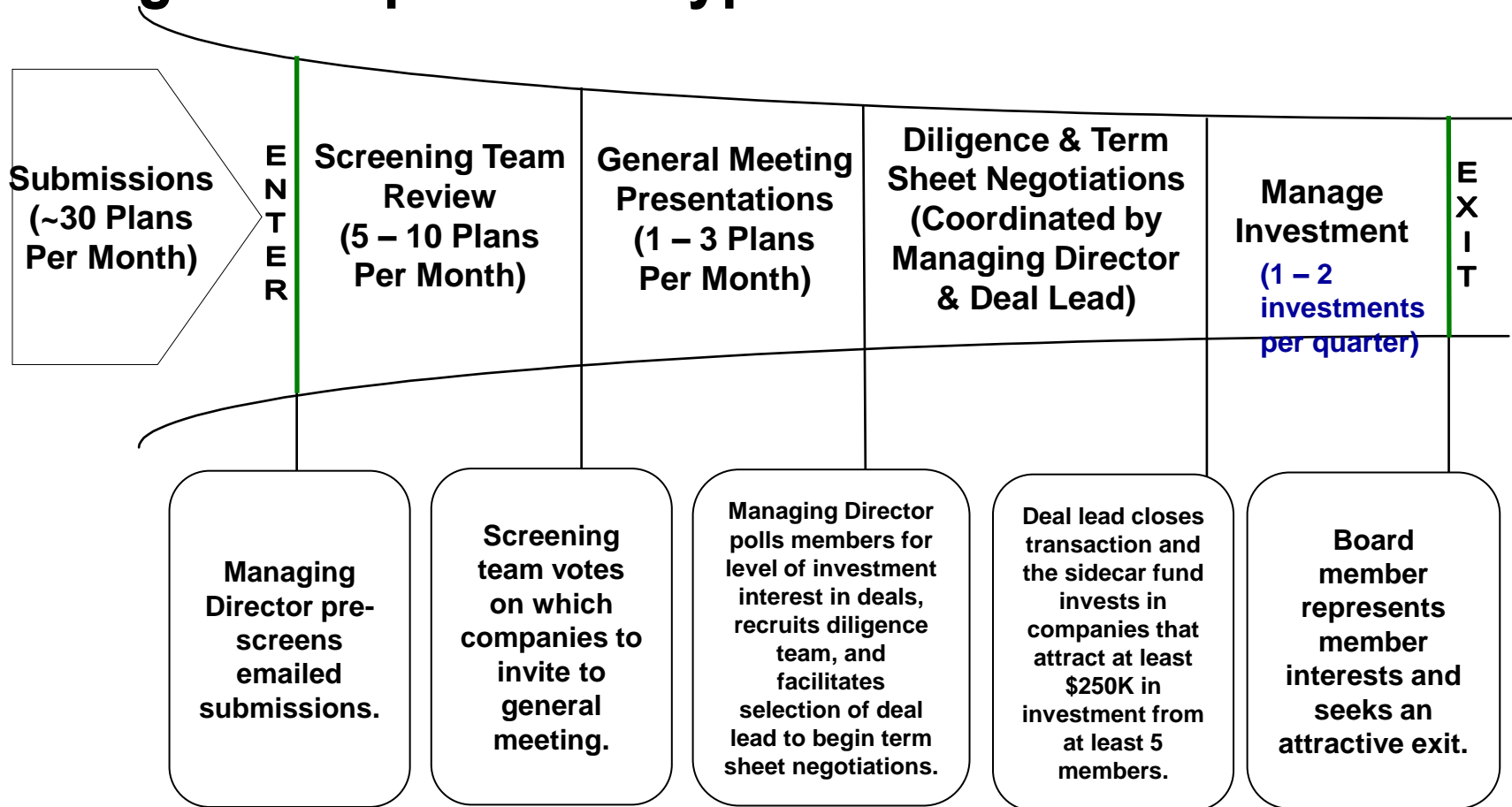
Rob Wiltbank, Willamette University



Process, Deals & Implications

- What's the process for investment?
- What do the deals look like?
- What issues do entrepreneurs need to consider for angel and follow-on funding?

How Angel Groups Work: Typical Deal Process



Source: James Geshwiler, CommonAngels, Boston

Deal Flow Statistics – Angel Groups

- Prescreening 1 in 4 to screening
- Screening 1 in 3 to DD/ present
- Due Diligence 1 in 3 to investment meeting
- Investment 1 in 2 raise money
- OVERALL 1 to 4 in 100 who apply receive investment



Writing Business Plans

- Entrepreneur MUST write plan (no consultants)
- See Pitching Angel Investors
at www.entrepreneurship.org (Kauffman site)
- Use editors for clarity and brevity
- Resources:
 - SBA - http://www.sba.gov/starting_business/index.html
 - The Business Mentor - www.fasttrac.org
 - INC Business Plan Building, Section by Section
http://www.inc.com/guides/write_biz_plan/20660.html

Forms of Business Plans

<p>Elevator Pitch</p>	<p>Two minute verbal summary Product, opportunity, differentiation Attract interest – not closing</p>
<p>Executive Summary</p>	<p>2-4 page written summary Balanced presentation Attract interest – not closing</p>
<p>PowerPoint</p>	<p>20 minute verbal presentation Cover whole plan Find serious investors</p>
<p>Full business plan (write full plan first)</p>	<p>20-50 pages plus appendices Validation scorecard (due diligence) Basis for all other plan forms</p>



Angel Rating System

Management Team	0-30%
Size of Opportunity	0-25%
Product or Service	0-10%
Sales Channels	0-10%
Stage of Business	0-10%
Size of this round	0 - 5%
Need for more funding	0 - 5%
Quality of plan	0 - 5%



Fundable Management Teams

- CEO
 - CEO experience
 - Vertical experience
 - Coachable (very important)
 - Leadership
- Team
 - Balance & Complete
 - Experience working together

The Opportunity

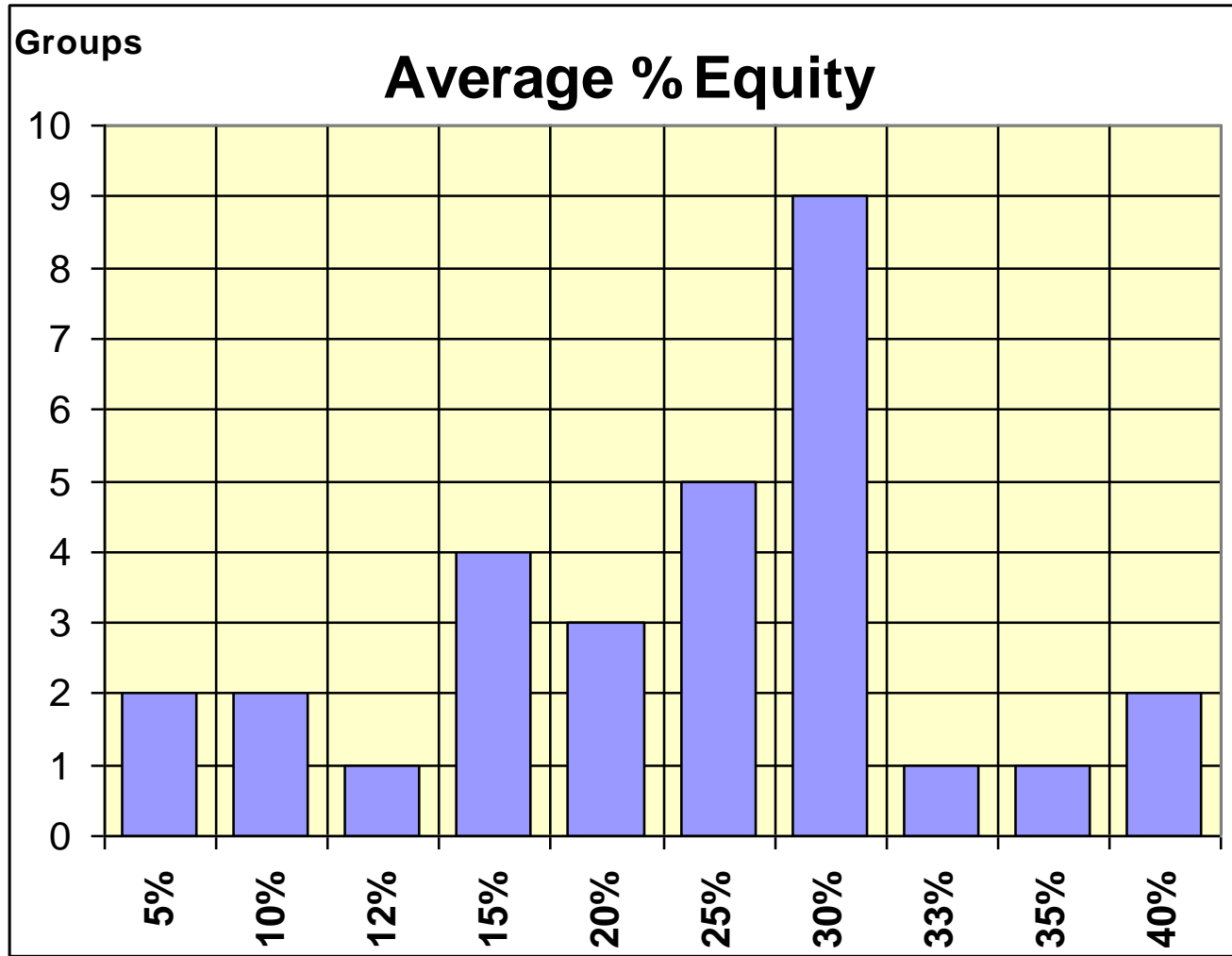
- Scalable
 - \$30 million (min.) in revenues in 5 years
 - (VCs look for \$100 million)
- High gross margins
- Large niche market
- Unfair competitive advantage
- Ready for customers



Terms Preferred by Sophisticated Angels

Moving toward “vanilla” term sheets with:

- Preferred stock
- Liquidation preference
- Board & information rights
- Anti-dilution
- Participation rights



39 groups reporting (Caution: source data is incomplete & unverified)



Common Mistakes in Pitching Angels

- Only discuss technology/product
- Not prepared for presentation
(practice, practice, practice!)
- Presentation too long
- Inappropriate appearance



Once you get investors to the table...

Closing the Deal





Understand the Process

- Read how angel groups work
*(Cutting-Edge Practices in American Angel Investing
J. May & E. O'Halloran, U of VA)*
- Look on the website of your local group
- Network with those familiar with the process
- Know what to expect
- Be open and honest with investors
- Remain patient



Understand the Terms

- Start-up funding terms are unique
- Study these terms
 - Read *Term Sheets & Valuation* (A. Wilmerding - \$15)
 - Talk to your advisors
 - Consult with experience entrepreneurs
- Stay flexible on terms, especially valuation
- Understand common practice (your region and business vertical)

Closing

- Read and understand the closing documents
- Remain patient with investors
- Communicate regularly with possible investors, use friendly persuasion
- Pursue low hanging fruit
- Get the deal closed...and **execute the plan!**



ANGEL CAPITAL ASSOCIATION

Information, Resources, and Support



ANGEL RESOURCE INSTITUTE



ANGEL CAPITAL ASSOCIATION

- **Kauffman Foundation** www.entrepreneurship.org
- **Angel Resource Institute** www.angelresourceinstitute.org
- **Angel Investor News**
- **Inc Magazine (and Web site)**
- **Books (see www.angelresourceinstitute.org)**
 - ✓ *Term Sheets & Valuation – A Line by Line Look at the Intricacies of Venture Capital Term Sheets & Valuation*, A. Wilmerding (2003) \$10 from www.amazon.com
- **Top level entrepreneurial support orgs**
- **Web sites match entrepreneurs and investors**



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Need More Information?

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