



ANGEL CAPITAL ASSOCIATION

After the Altar

Post-investment monitoring

ACA Angel Insights Exchange
November 8, 2016



A few words about our format

- This session is designed primarily for audience engagement
- We want to learn from your insights – please contribute!
- We intend to capture key learnings and share with ACA members



A framework for our discussion

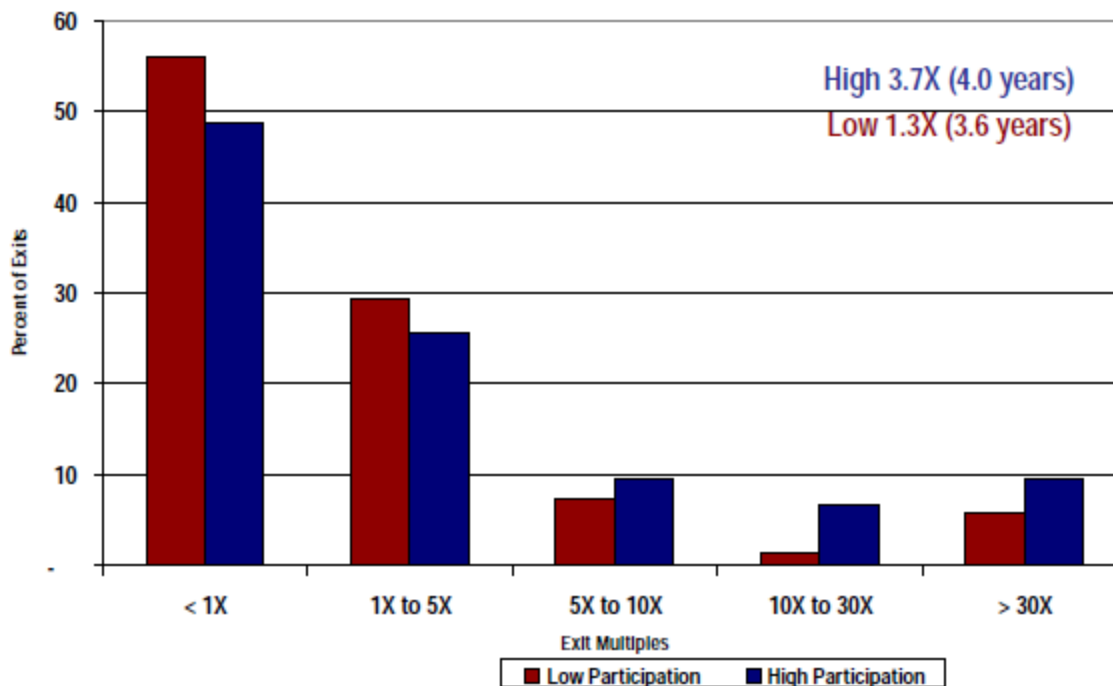
- Keeping communication lines open
- Dealing with unresponsive teams
- Considering follow-on rounds
- When to let love die...
- Other topics you want to cover



Impact of Participation

Mentoring, Board, Financial Monitoring

High = 1 or 2 times per month
Low = 1 or 2 times per year



Communications: Frequency

Formal

- Information Rights
 - Monthly?
 - Quarterly
 - Annually
- Live Updates
 - Regular meetings
 - Portfolio days
- Other?

Informal

- Ad hoc
 - Emails
 - Calls
 - Cries for help
- Other?

Communications: Frequency

- Most mandate quarterly updates via formal information rights in deal documents (typically Investor Rights Agreement)
- For funds that receive state support, periodic reporting is mandatory
 - For OTAF, reports required semi-annually, which helps in collecting portfolio updates
- Some require portfolio updates at annual or semi-annual portfolio day events
 - Some provide script for portfolio company to follow for update (for example):
 - Highlights and Lowlights from last 12 months
 - Outlook for next 12 months
 - Financial summary (including cash position and runway)
 - Exit outlook
 - Requests for assistance from investors



Communications: Responsibility

Formal

- Angel director
- Deal lead
- Group staff
- Other?

Informal

- Angel director
- Deal lead
- Group staff
- Other individual investors
- Other?

Communications: Responsibility

- Relatively even split among participants between angel Director, deal lead and staff in terms of responsibility for collecting updates
- Some purposefully remove the responsibility from the Director and rely on deal lead to avoid conflict of interest issues for Director (who now represents all shareholders)
- One suggestion was to make sure staff and investors are active in local ecosystem to stay up to date on informal channels/rumor mill

Communications: Format

- Financial statements?
- Management commentary?
- Valuations?
- Cap Tables?
- Internal assessment?
 - Scorecard?
 - Deal by deal or aggregated?
 - Deal lead commentary?
- Available only to investors or all members?

Communications: Format

- Financial statements are mandatory
 - Some require monthly or quarterly quickbooks export
- Most require management commentary along with financials
 - Some provide a report template for CEOs to complete
 - See flash drive for list of questions to ask frequently (per John Huston)
 - There's no standard format across investors, so sometimes difficult to force preferred group format if company is reporting out to several investors
 - Some groups develop KPIs up front and require company to report progress on those metrics
- Several also include deal lead commentary with report
 - Queen City Angels and Hub Angels both have 1-2 page report formats they will share
 - Some use a subjective rating scale to indicate positive/negative trends (OTAF uses 1, 2 or 3 dots)
 - Some have tied and some have abandoned efforts to provide and track the ratings
- Mixed responses on making updates available to all members vs just those who invested
 - For follow-on rounds, most groups make reports/updates available to all members
- Some groups experimenting with additional channels:
 - Slack, LinkedIn, Google groups, newsletters

Communications: Tools



Communications: Tools

- Gust has built new tools onto its deal management platform – now offering 409a valuation services and cap table management for startups
- Seraf was developed as an internal tool by Launchpad, now available to other investors and angel groups. Focused on tracking portfolio returns.
- Proseeder allows for emailing/communicating updates efficiently, but doesn't provide specific tools for tracking portfolio valuation, etc.
- Visible provides a dashboard for entrepreneurs to report to investors
 - They have a program for investor partnerships to help reduce cost/onboard portfolio companies
- Many entrepreneurs create a deal room in dropbox or similar repository.
 - Would be nice to have easy access/integration across tools for importing/archiving documents. Asking entrepreneurs to recreate deal rooms across platforms for different investors is cumbersome.

Dealing with unresponsive (or slow) teams

- Incentives to comply with reporting?
- Penalties for non-compliance?
- Other tips and tricks?

Dealing with unresponsive (or slow) teams

- ACG stipulates a \$5000 penalty for failing to provide updates or timely K-1s. Used primarily as a threat – have not actually collected on it to date
- Ensuring a Director seat or Observer seat at time of investment helps mitigate the issue
- One group does not allow company to come back to pitch follow-on round if not providing timely updates
- One group has proposed that company must give up a common board seat for non-compliance – but not implemented to date



Considering follow-on rounds

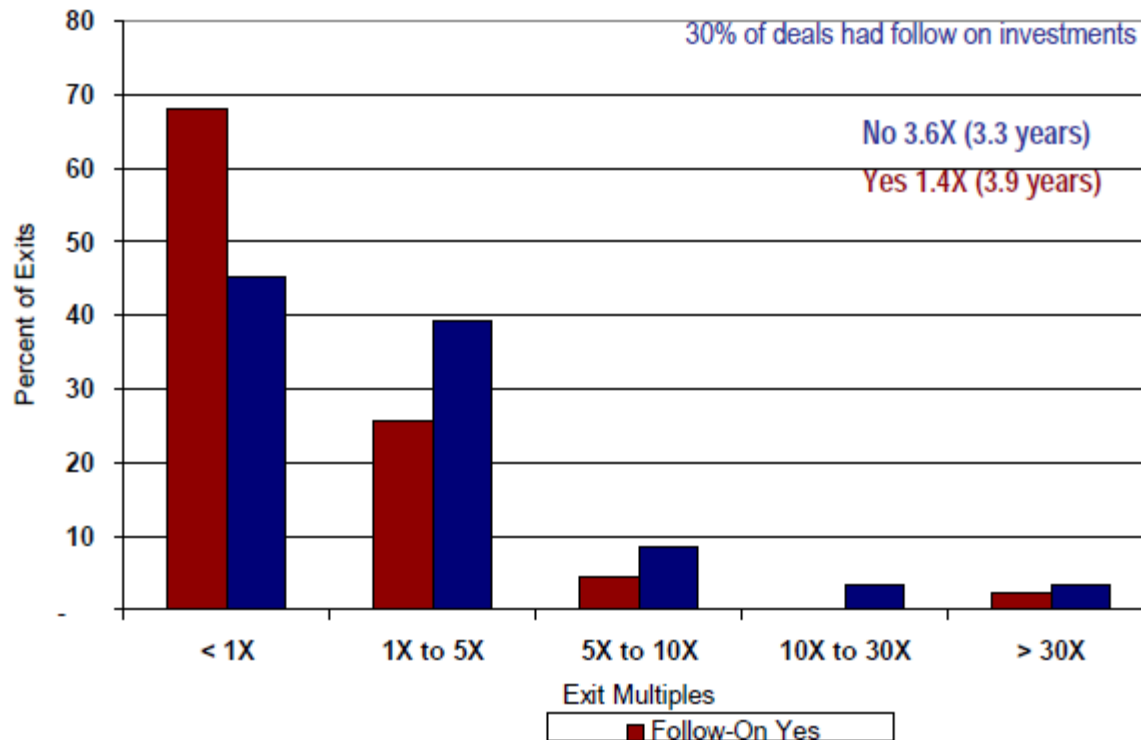
- How many will NOT consider a follow-on?
- How many formally allocate follow-on funds?
- Other formal follow-on policies?
- Informal approaches/guiding philosophies?

Considering follow-on rounds

- One investor had a policy of writing only one check personally
- Others reviewed on deal by deal basis
- For those with funds, many indicated they reserve follow-on capital
 - Reserve ratios ranged from 0.5:1 to 3:1

Notes from session

Relationship with Follow On Investment (*Same Angel*)



- Careful not to oversimplify and draw wrong conclusions from this slide
- Ready study for underlying data and commentary on limitations



When to let love die

- How do you know when its time to say goodbye?
- Any luck with redemption rights?
- How do you take your write-off?
- Other tips on exiting the unexitables?
 - See ACA webinar from last week

When to let love die

- See “Exiting the Unexitables” from 11/2/16 on ACA website
 - OTAF has successfully run auction to sell remaining shares to investors



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Your agenda....

- Other portfolio monitoring topics you want to cover?

Your agenda....

- Anyone using CEO coaches for portfolio executives?
 - None in attendance indicated experience on this front



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Thank you!

- Stay tuned to ACA website for notes captured from this session
- Enjoy the rest of the Exchange!

