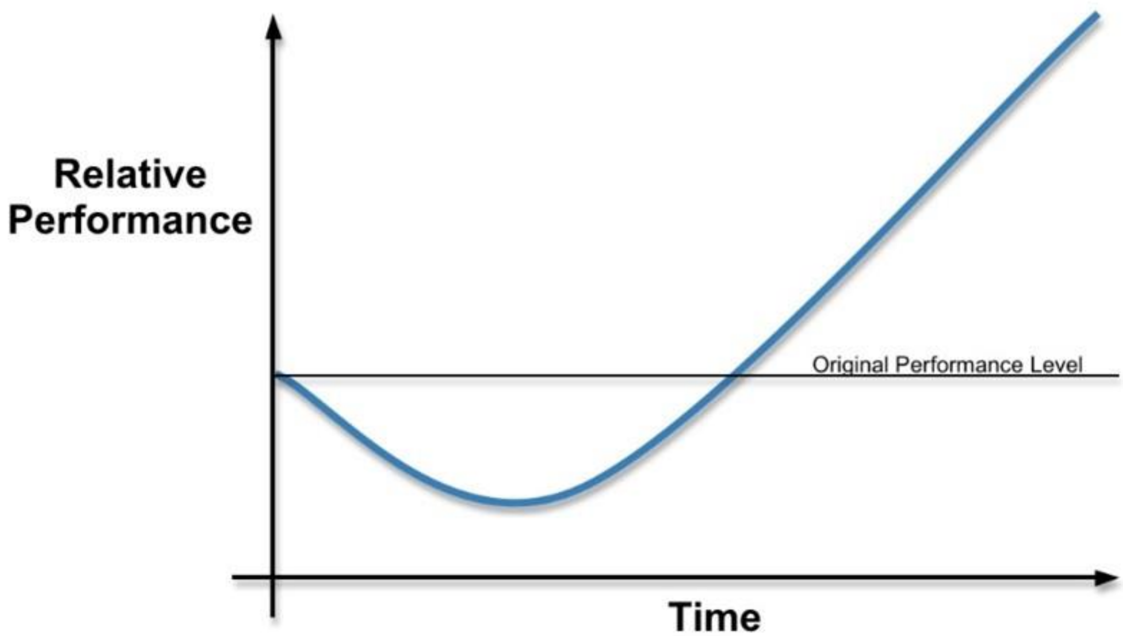
ANGEL CAPITAL ASSOCIATION

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.

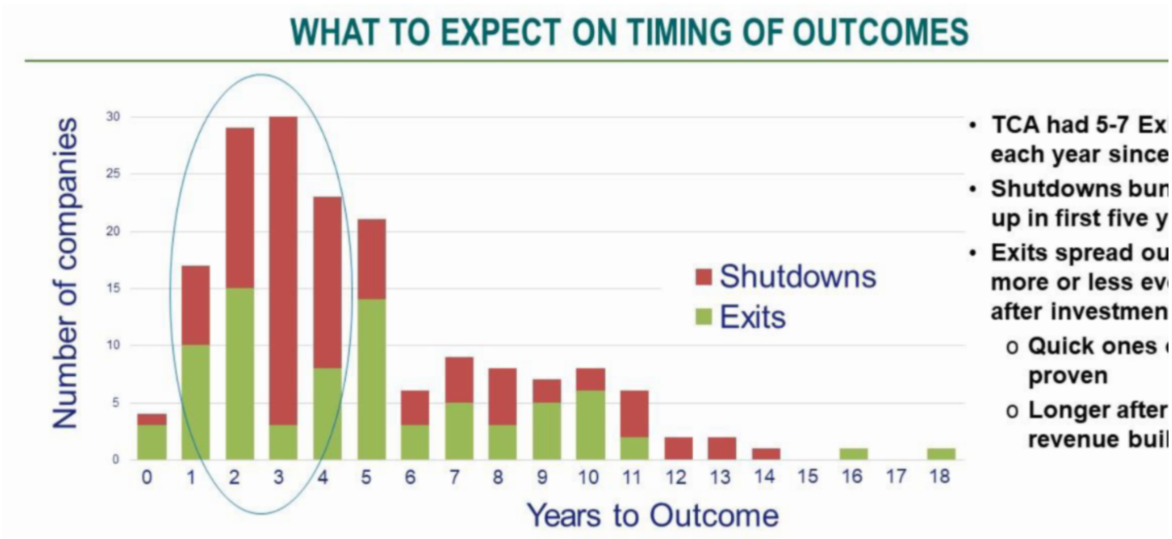
Early losses, big wins

One question that is often asked by angels is how long does it take to really be successful at angel investing. This is a unique asset class. We all know and should expect that a large percentage of our deals return less than capital in the first few years; this is called the J-curve for a portfolio, since the early losses cause the portfolio value to dip below 1x ROI for the first few years. After that, we begin to see the winners.



But most analysis of J-Curves has come from venture portfolios. The ACA data shows how angel portfolios are different.

This data from analysis of 79 Tech Coast Angels Exits that Realized Cash (and 103 Shutdowns) shows that shutdowns are more likely to occur in the first five years, and that exits stretched out to 18 years or more. This suggests that angel-backed companies behave differently than VC-backed ones.



Source: Analysis of 182 Tech Coast Angels Outcomes including Exits and Shutdowns

THE TAKEAWAY

Why? I believe that angels behave differently to their entrepreneurs than VCs do. We are willing to except a longer time to an exit that might not be home runs. This comes from investing our own money rather than someone else's money. We invest in entrepreneurs we believe in, and technologies that we think can define a category or change the world.

Sometimes this belief and patience can lead to exceptional results. For example, let's look at a 2004 Alliance of Angels investment. In 2004 first round, the AoA invested at $0.76/share. In 2005, we did another round at $0.68/share; and in 2006, yet another round at $0.88/share. So, after a down round, our J-curve took a downward dip, but the next up round brought it back to neutral. Liquidity did not come until 2018 (14 years after the first investment), when DocuSign exited via an IPO. In 2021, it traded as high as $268/share, a multiple of 394.

However, not all deals follow a positive pattern, so it is important to assess each round for each company with the same rigor as you look at new deals. The diligence is easier on successive rounds, since, as an existing investor, you should have more knowledge. **But if you still believe in the**

company, the team and it's prospects, the data shows that you should not be afraid to double down.

Author: Dan Rosen, Alliance of Angels and Tech Coast Angels