

What Entrepreneurs Need to Know About the Angel Investment Process

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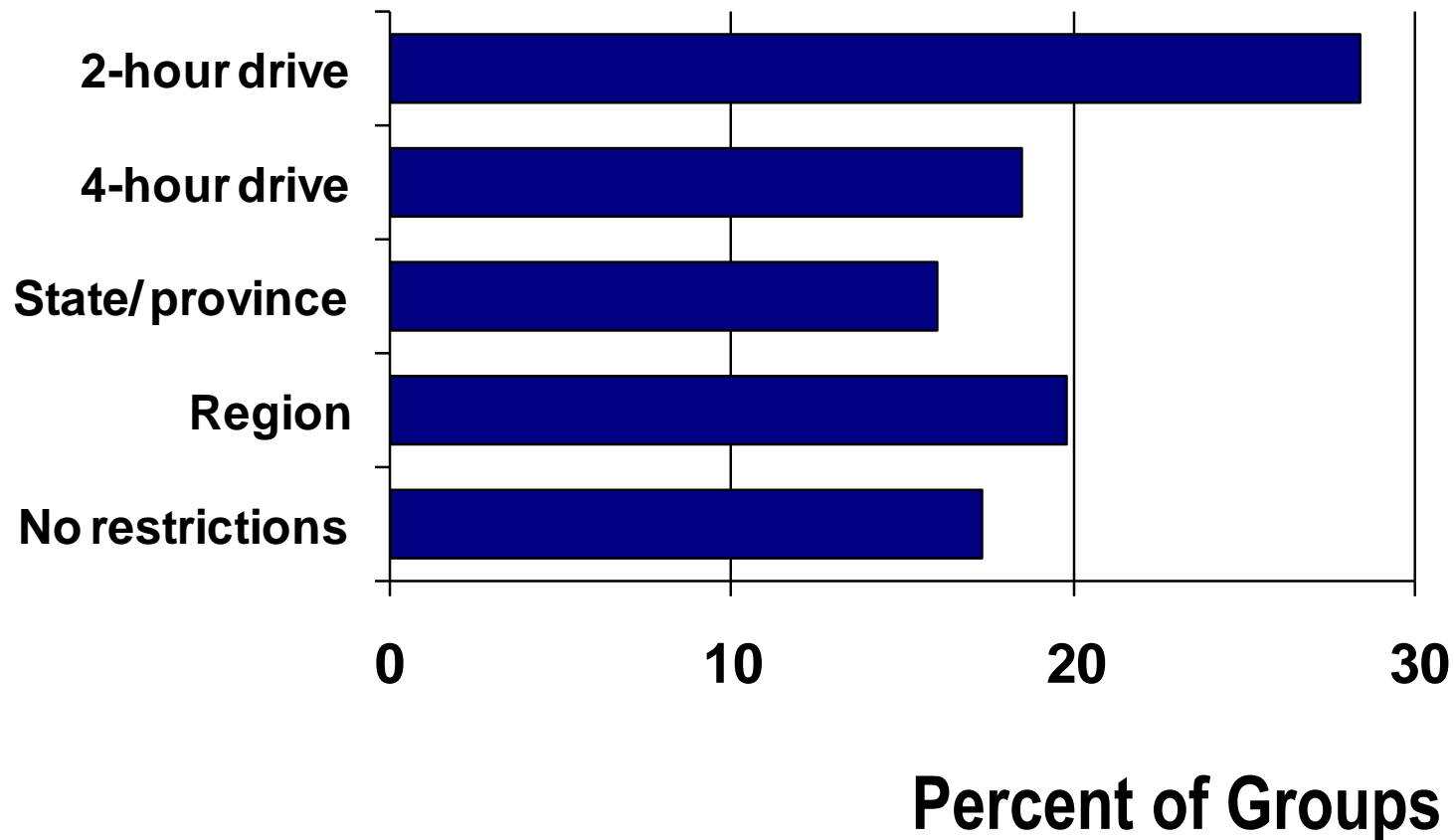
Today's Podcast

- Who are angel investors?
- Where do you find angel investors?
- How do angels help entrepreneurs?
- How does the angel investment process work?
- What do angels expect?
- What kind of returns do angels get?
- What are key issues and concepts in 2013 & 2014?
- Where do you find more information about angels?

Who Are Angel Investors?

- Often successful, exited entrepreneurs or retired business persons
 - Active investors
 - Invest both time and money in companies
- Accredited investors - SEC definition
- Invest their own money (**not money managers**)
- Generally invest in local companies
- Invest at least \$20K in businesses not run by family
- 2011: 318,500 investors invested ~\$22.5B in about 66,000 deals (mostly early-stage)

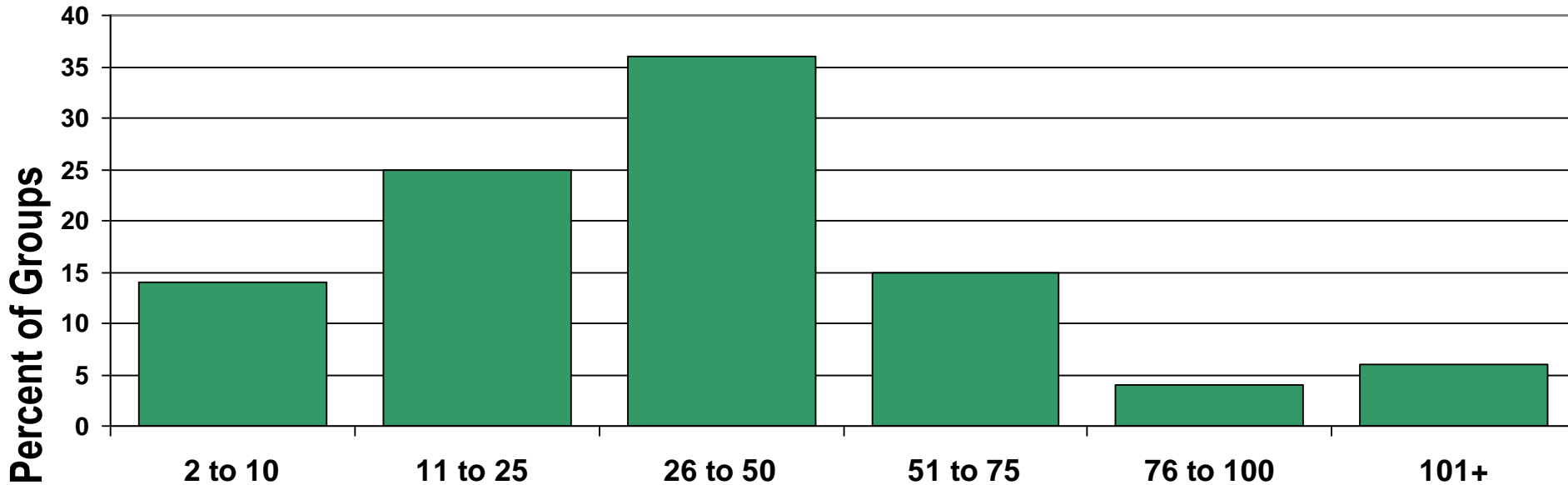
Geography – Where Do Angel Groups Invest?



Source: 2008 ACA Angel Group Confidence Survey

Investors Per Angel Group

Average = 43.1
Median = 34.5

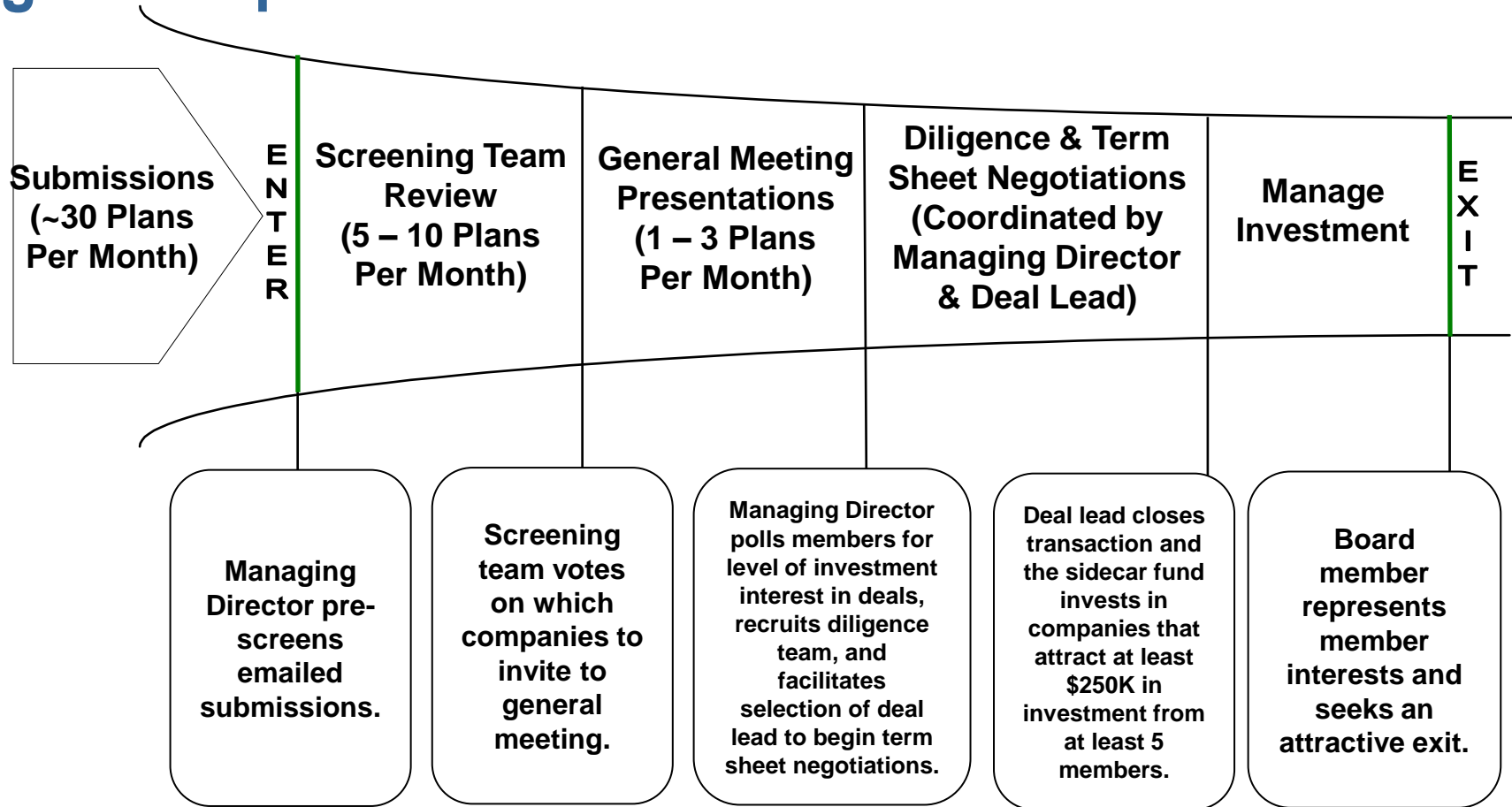


Source: 2011 ACA Confidence Survey and 2011 Member Directory

How Do Angels Help Entrepreneurs?

- Many angels provide mentoring before and after investment
- Many serve as board members or observers
- Some join venture as C-level executive for an interim period
- Information rights in term sheet
- Often invest in multiple rounds to ensure entrepreneurs can grow
- Develop relationships with venture capital firms for expansion capital
- Help lead M&A process early on
- Angel monitoring/mentorship improves startup health
 - Harvard/MIT study shows angel support improves startup success rate

Angel Group Evaluation & Investment Process

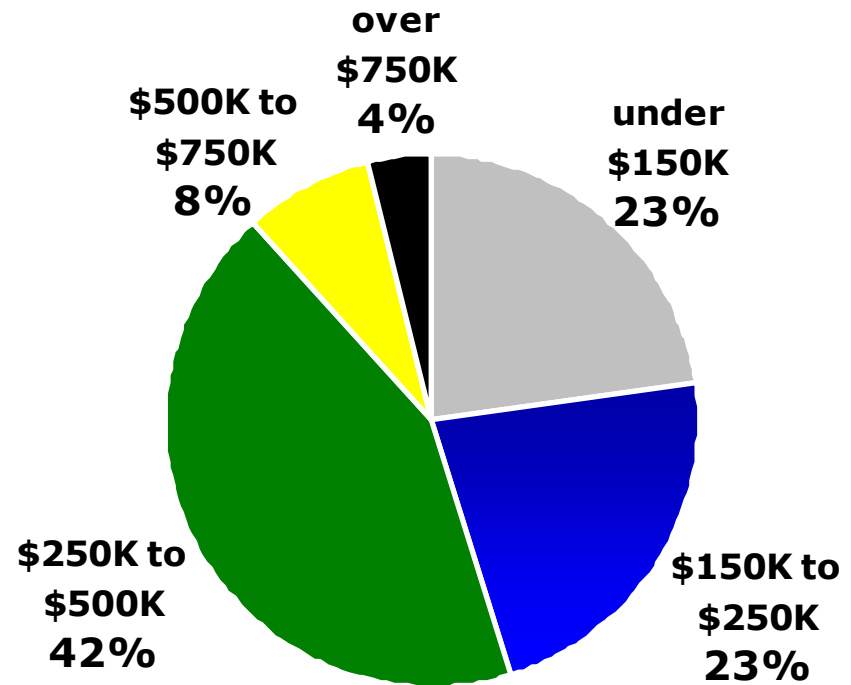


Source: James Geshwiler, CommonAngels, Boston

65% of Angel Groups Invest \$150K to \$500K Per Deal

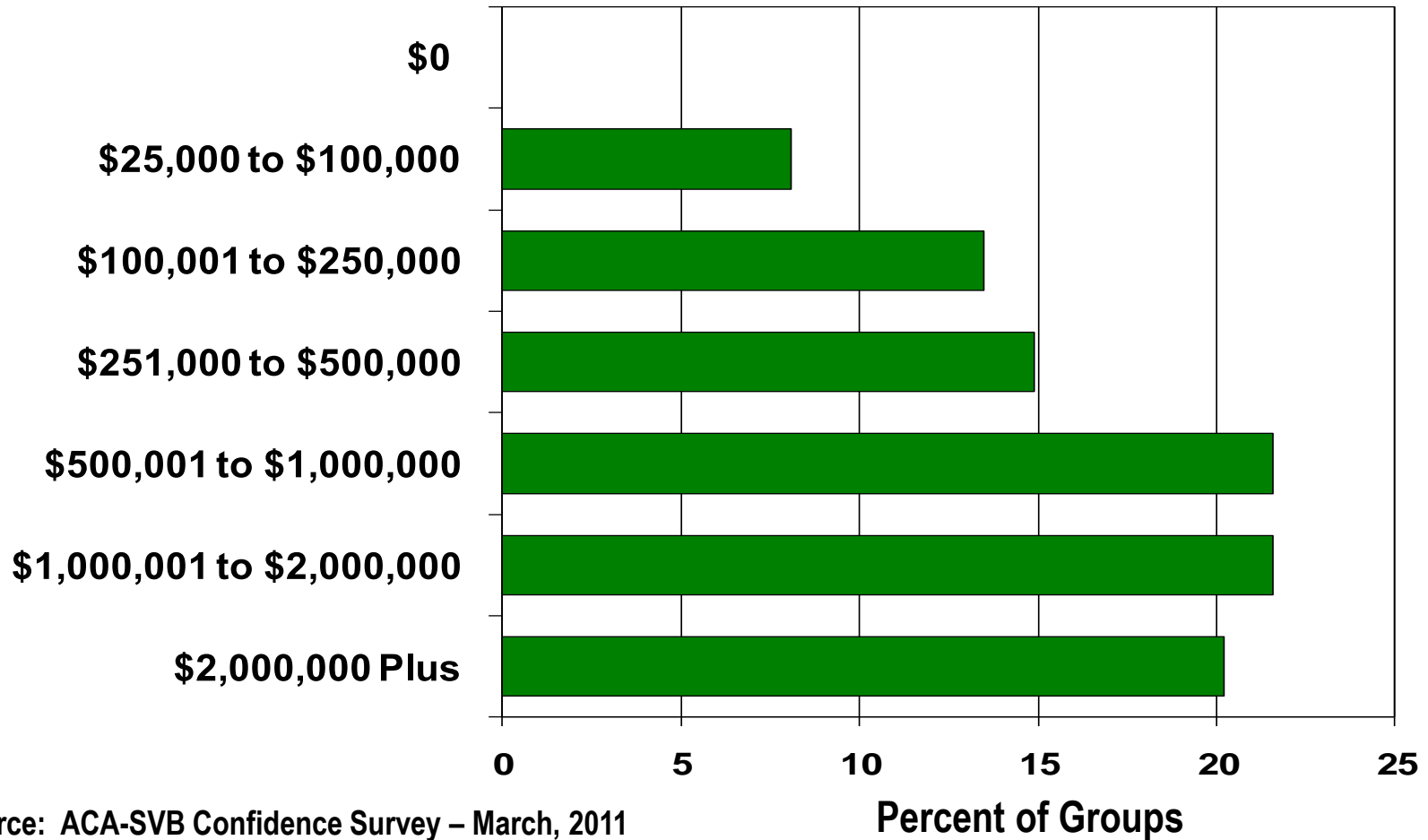
- Investment surprisingly broad
- Average deal size increasing
- Syndication needed among groups to fill rounds entrepreneurs need

Angel Group Investment Size



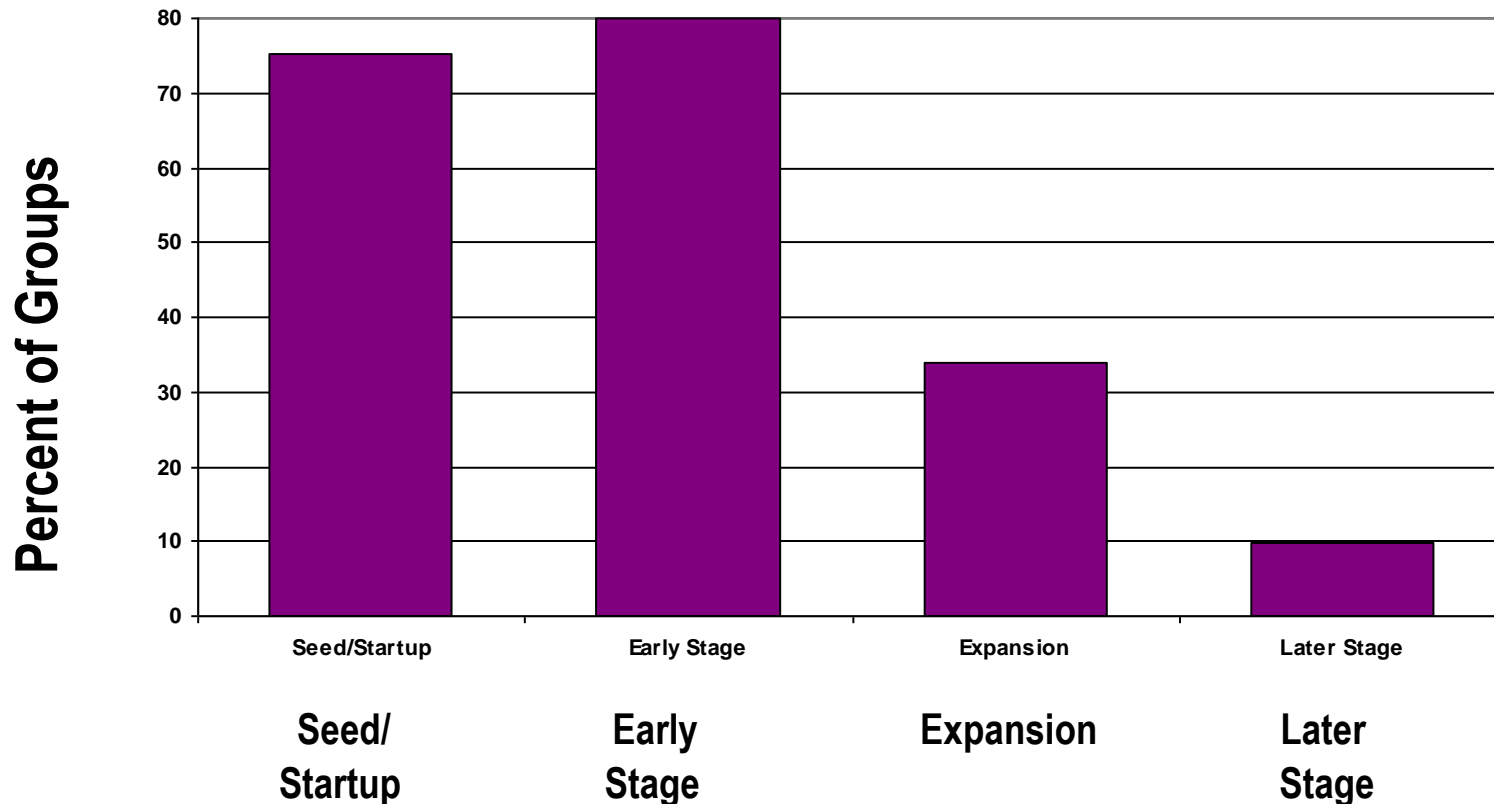
Source: ACA Confidence Survey, 2012

Average Total Investments Per Angel Group – 2011

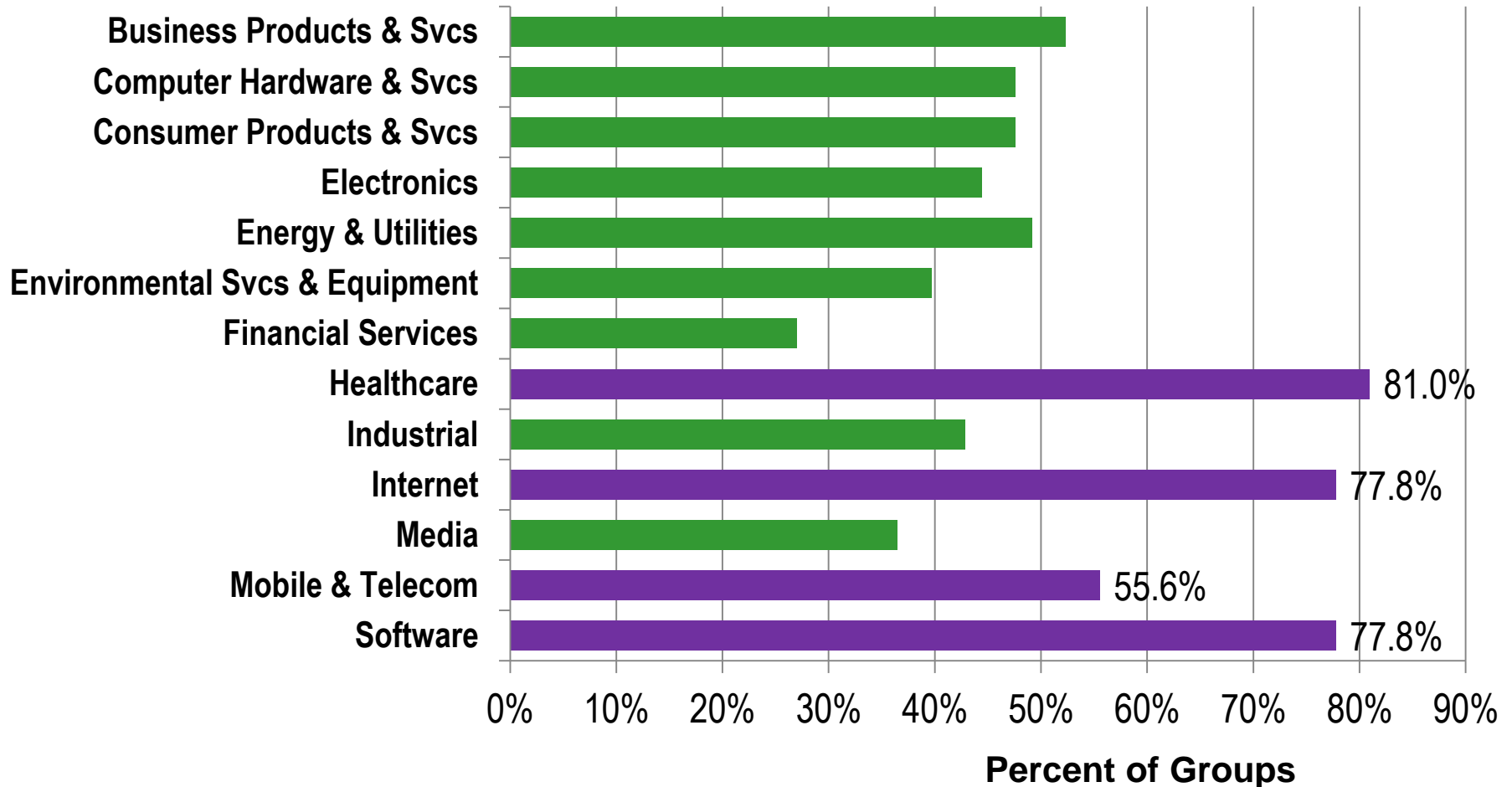


Source: ACA-SVB Confidence Survey – March, 2011

Preferred Investment/Company Stage

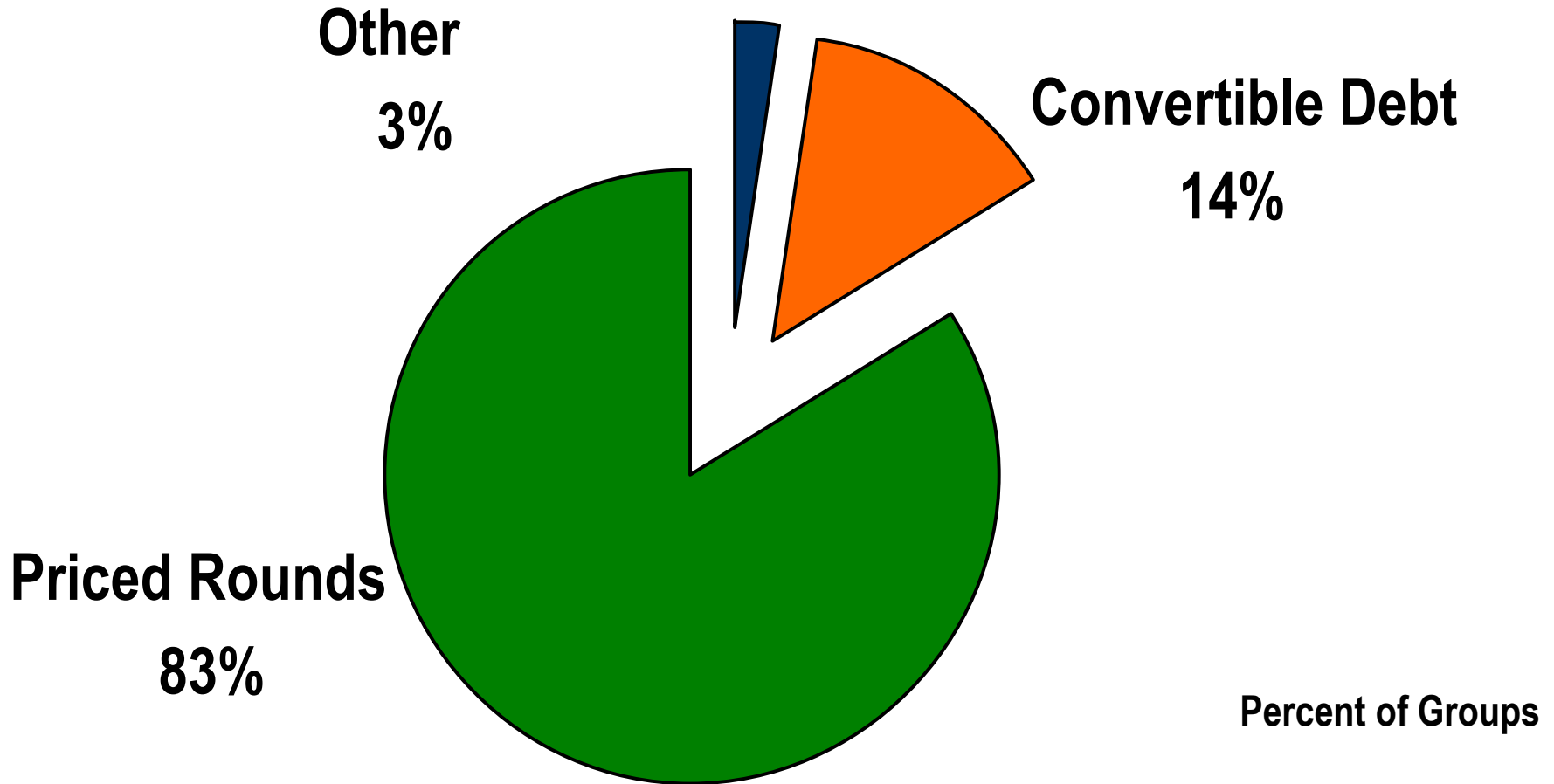


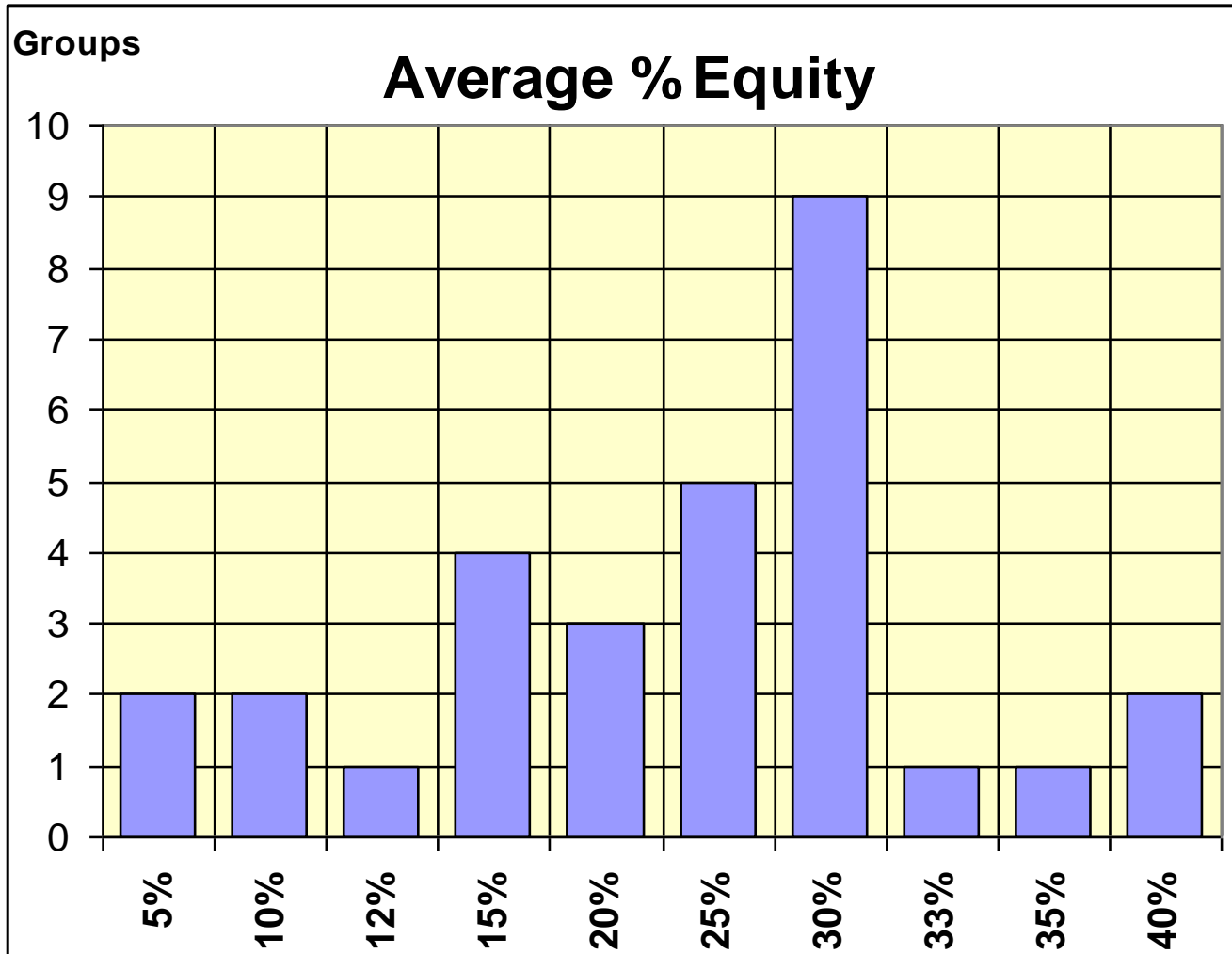
2012 Investment Preferences by Sector



Source: ACA Summit Confidence Survey – 2012

Preferred Deal Terms





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

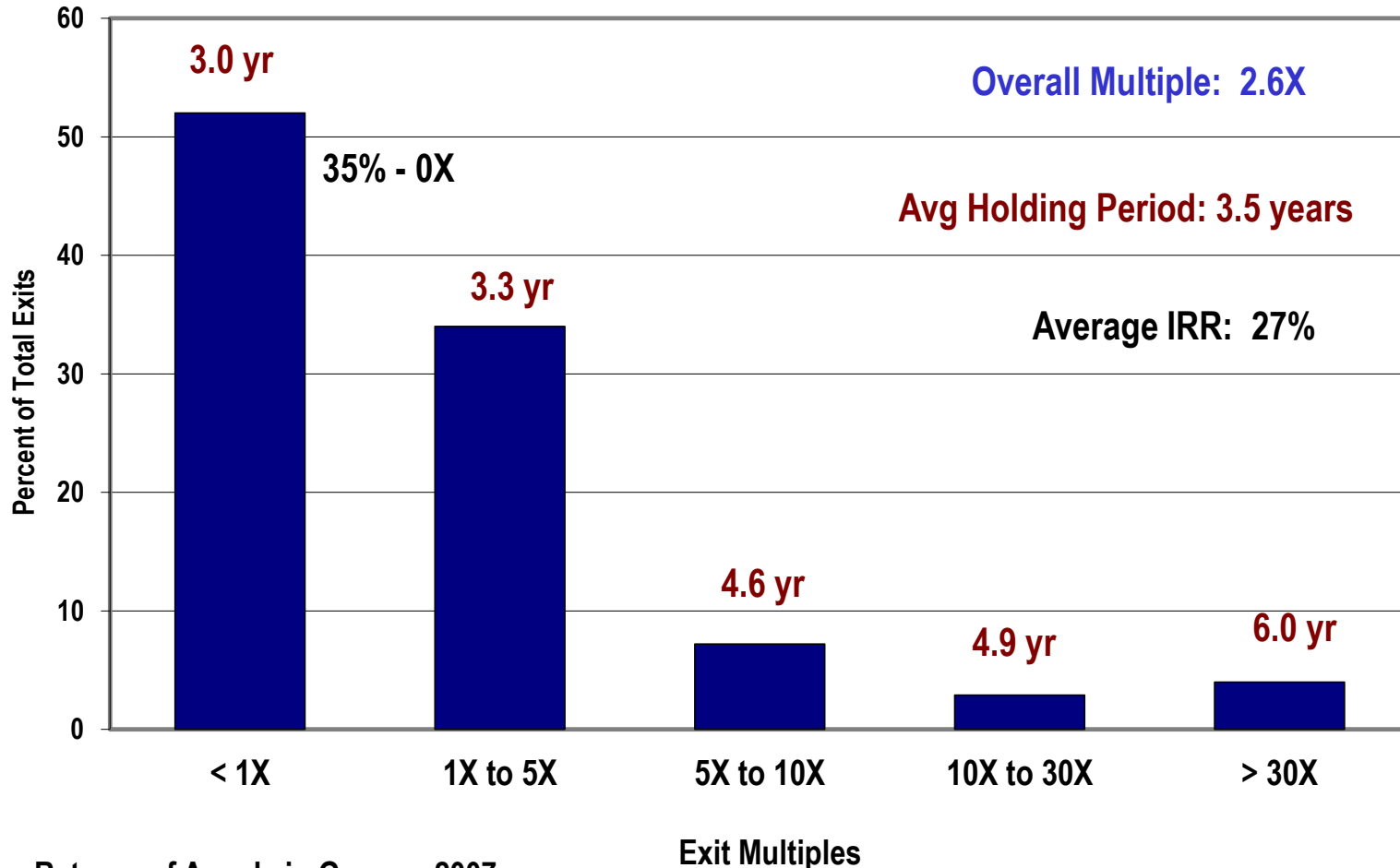
A Word About Expectations Related to Returns

- **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**

*Source: Rob Wiltbank, Willamette University, November, 2007 paper for Kauffman Foundation



Distribution of Returns by Venture Investment



Source: Returns of Angels in Groups, 2007

Trends and Key Issues – Angel Investment

- 4+ angel groups syndicate together & with family offices
 - Regions develop common terms and processes
 - Some interest in cross-border syndication
- Funds and sidecar funds (sustaining groups & expanding capital)
- Angel groups invest in multiple rounds
- Early exits – build early relationships between angels & strategics
- Vanilla term sheets – plain preferred stock
- Government interest in job creation
- JOBS Act and SEC rulemaking

More Information

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www.rookeandassociates.com

Angel Capital Association – National Association

www.angelcapitalassociation.org

www.angelresourceinstitute.org