



# Is a “Band of Angels” Feasible for Eastern Jackson County?

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By: Steve Gouldsmith

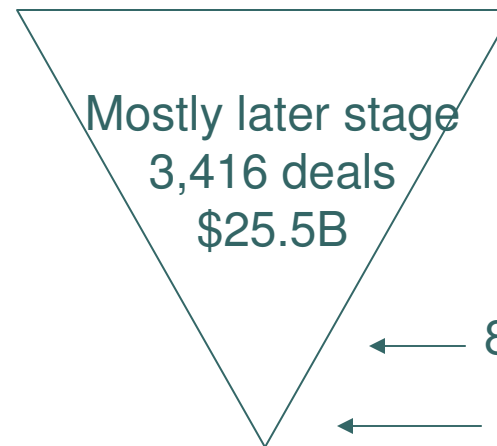


# Let's Get up to Speed....

- The capital markets for equity are quite large & complementary



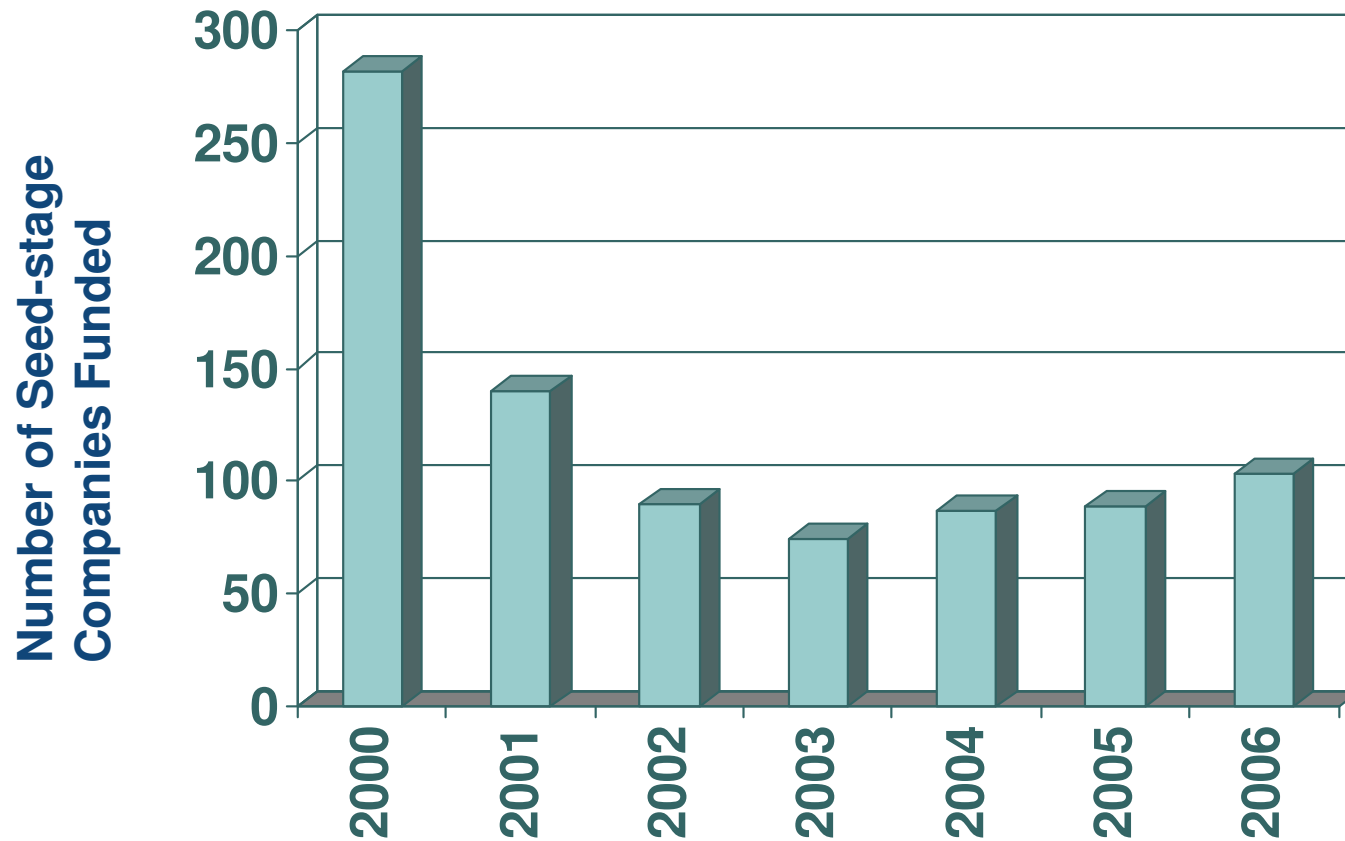
2006 Angel Investment  
source: UNH CVR



2006 VC Investment  
source: NVCA/PWC/VE



# Venture Capital is funding fewer start-ups / early stage companies



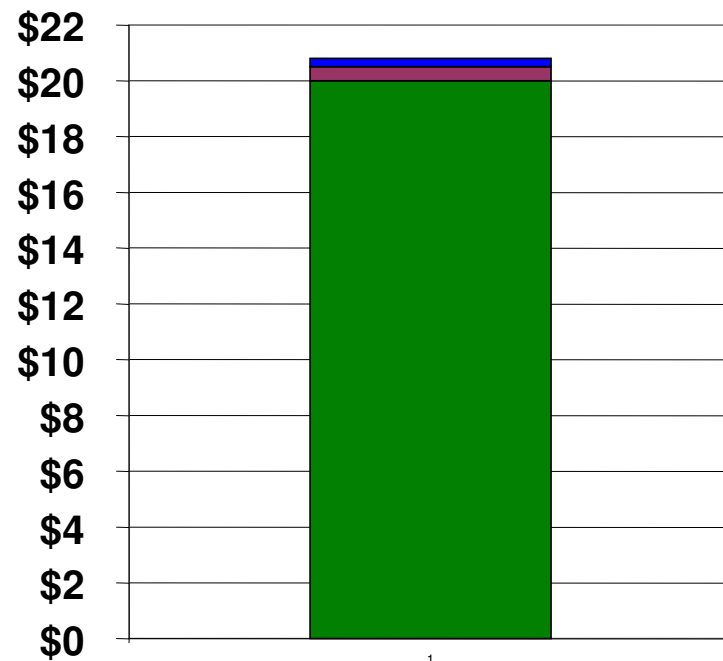
Source: VentureOne

# Annual Sources of Start-up Funding

Venture Capital ~\$0.3 billion  
State Funds ~\$0.5 billion  
Angel Investors ~\$20 billion

**Angels = 90+% of outside equity for start-ups!**

Friends & Family ~ \$60 billion



Sources: MoneyTree, NASVF studies on informal capital



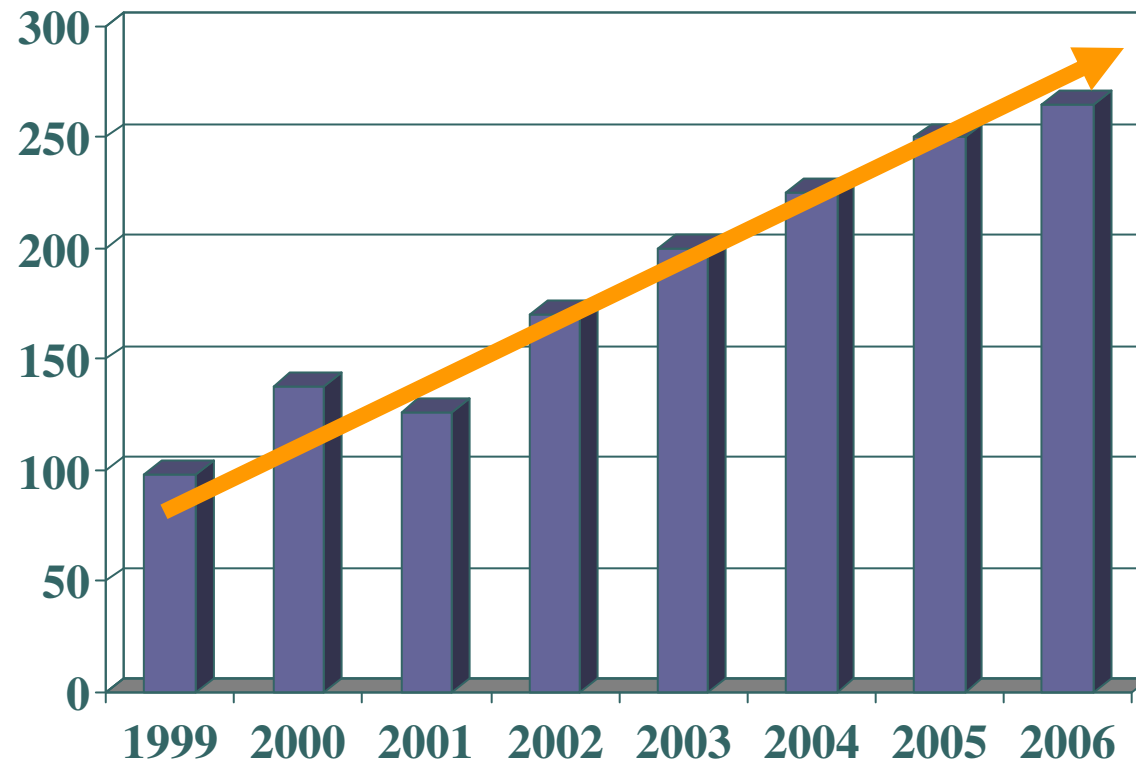
# The Capital Gap....

Angel Groups can address what is being missed!

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



# Angel Groups are starting to “catch on” in popularity....



Sources: Center for Venture Research and Kauffman Foundation



# Let's Review Some Investment Data from Angel Groups

	<b>Average</b>	<b>Median</b>
<b>Number of investments</b>	<b>7.4</b>	<b>5</b>
<b>Total monies invested</b>	<b>\$1.78 mil</b>	<b>\$1.06 mil</b>
<b>Dollars invested per round</b>	<b>\$241,528</b>	
<b>Dollars invested per angel</b>	<b>\$31,457</b>	
<b>Number of new companies</b>	<b>4</b>	

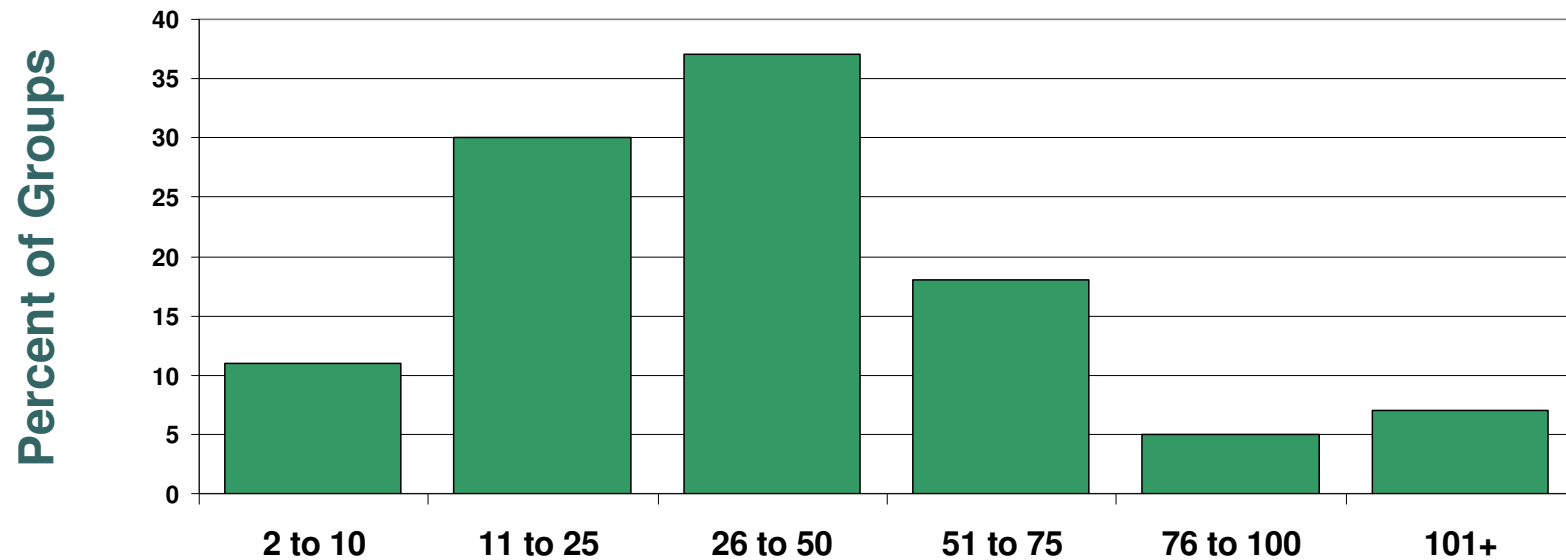
- 72% co-invested with venture capital firms
- 29% had distributions to investors
- Investments were up 23% from 2005

Source: Data from 56 ACA members reported in ACA Survey – 2007



# Average Number of Investors Per Angel Group

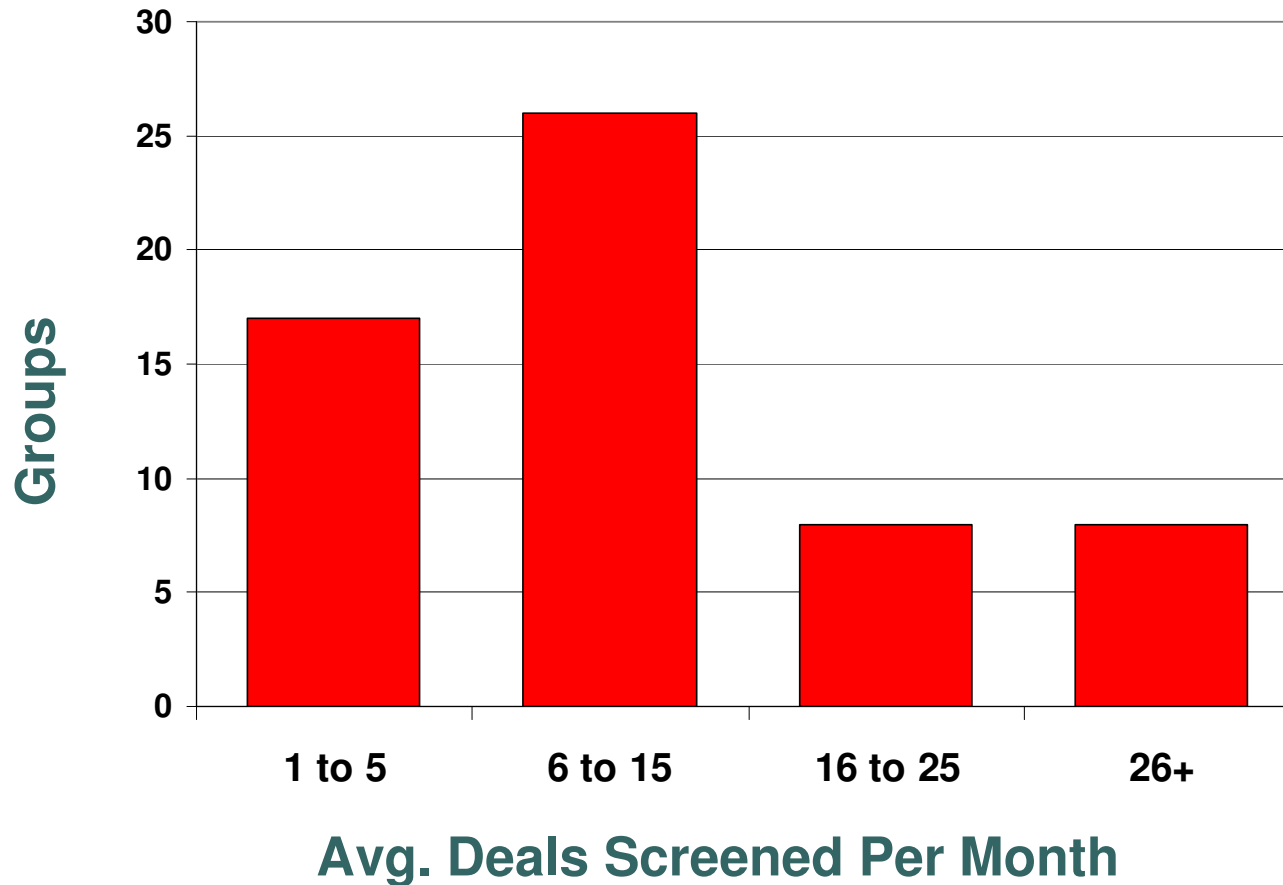
Average = 44  
Median = 38



Source: ACA Conf. survey and membership applications - 116 groups reporting (2006-2007)



# What's "Deal Flow" Look Like?



Source: ACA Confidence survey - 59 groups reporting (2007)

# ● ● ● | How Are the Groups Managed?

- *Member-Managed:* 59 groups
- *Manager-Led:* 51 groups
- Networks/groups with “Sidecar Funds” report the *network* is member-managed and the *sidecar* is manager-led



# Benefits of Angel Groups

- Returns:

- Average returns for angel investments are 2.6x over 3.5 years ~ 27% IRR
  - HOWEVER, a peek under the hood of many groups in this research shows:
    - 52% of exits return *less* capital than invested
    - 7% of exits achieve returns over 10x of the money invested, accounting for a large chunk of the total dollar investment returns
    - While only 48% of exits had at least 1x return, 61% of investors (in these groups) had an **overall** multiple of at least 1x
      - ➔ This says multiple investments or a portfolio has its advantages
- Returns are positively correlated with three factors (and the more, the better):
  - Due diligence time
  - Experience of angels (in the industry)
  - Angel(s) interaction with the company(s) invested in



# Benefits of Angel Groups

- Why do you think your colleagues are interested in “angel investing”?
  - Expectation of high financial reward
  - Playing a role in the entrepreneurial process
  - Fun and satisfaction of being involved in an entrepreneurial firm
  - Creating a job (and income) for oneself
  - Sense of social responsibility



# Benefits of Angel Groups

- Why are Angel Groups being formed?
  - The opportunity to co-invest with other, more-experienced investors
  - Angel groups provide more efficient matching of entrepreneurs and investors
  - The efficiencies of group due diligence and investment support cannot be emphasized enough
  - New angels learn from experienced angel investors on all aspects of early-stage investing
  - The combination of potential investment dollars gives greater economic power and influence (improving overall deal-flow and “terms” negotiation)
  - Angel groups provide intangible value of camaraderie, group interaction and the sharing of common goals



# Things to Consider in Starting an Angel Group (Universal Truisms)

- Typically made up of entirely individuals, not entities or funds
- Angel investing is typically an “active, rather than passive”, investment process
- Individuals within the group typically have common interests
- Members typically have a mixture of experience and backgrounds
- Most of the time, angels prefer to invest locally.
- Successful angel groups MUST have a champion (or group of champions) to ensure start-up & ongoing operations
- You must value “group dynamics”, learning from one another and having access to superior deal flow
- Angels must have a keen interest in capitalizing on high-return potentials, yet also be willing and able to lose their entire investment in this early-stage financing.



# Tidbits from Research on Some Area Angel Groups

- Centennial Angels – Columbia, MO
- St. Louis Arch Angels
- Midwest Venture Alliance – Wichita, KS
- Women's Capital Connection – Kansas City
- Mid-America Angels – Kansas City
- Prairie Wind Angels – Kansas City
- ACA – Angel Capital Association



# Tidbits from Research on Some Area Angel Groups

- Almost ALL are “member-managed” with a loose network structure, meaning lots of volunteerism!
  - Pre-screening committees
  - Due-diligence gathering & effort
  - Negotiations of term sheets
  - Each investor “writes their own check” and makes their own decision
  - Etc.
- Annual dues range from \$500-5,000 per member
  - This is based on if there’s “part-time” help for administration and pre-screening, as well as covering some legal fees and meetings (if held over lunch/dinner in rented space)
  - Many offer a couple “sponsorships” to help off-set operational fees
- Most have relationships with larger funds (VC) for “hand-offs” after initial or second round fundings



# Tidbits from Research on Some Area Angel Groups

- The majority have some sort of “portal” for submission of deals
  - Most are using “Angel Soft”, a program to help manage deal flow....AND IT’S FREE!!!!
  - Half are charging an “application fee” and/or “presentation fee” to help self-screen out the “junk”
- All have an affiliated, “soft landing spot” or some sort of business assistance partner for deals that are not quite ready
  - i.e. University link / Business development centers / Non-profits / Incubators
- Over half of these angel groups are in ACA (Angel Capital Association), a trade organization offering education/research
  - 152 angel group members representing over 6,000 angel investors
  - \$600 annual group fee



# Tidbits from Research on Some Area Angel Groups

- Half of the groups have tried “syndication investments” on a deal (investing with another angel group)
- They use a monthly dinner meeting for group collaboration and deal presentations
- Most have a “minimal yearly investment” requirement for each member (\$25-50k each year)
  - It’s a hurdle to see if a member is truly going to be active
  - Many do not hold this requirement “fast and true” (if truth be told)
- Most groups accept only “accredited investors” as members, and membership is grown by “member invitation only”
- Typical deal size in these groups is between \$125-250k
- All but one group is “generalized” in membership expertise and investment type, not focusing on a specific industry or niche.



# Q&A / Discussion

- Next Steps?
  - Another Meeting with Broader Audience?
  - Objective(s) of meeting?
  - Facilitator / Champion (if there's interest in moving forward)?
  - Anything else?