

## C2ER 49<sup>th</sup> Annual Conference

# Angel Investing: A Growing Driver for Our Entrepreneurial Economy

Marianne Hudson  
June 5, 2009

# HAIL TO THE JOB CREATORS

From 1980 to 2005,  
firms less than five  
years old accounted  
for all net job growth in  
the United States.

*Business Dynamics  
Statistics Briefing: Jobs  
Created from Business  
Start-ups in the United  
States, January, 2009.*



# Companies Backed by American Angels



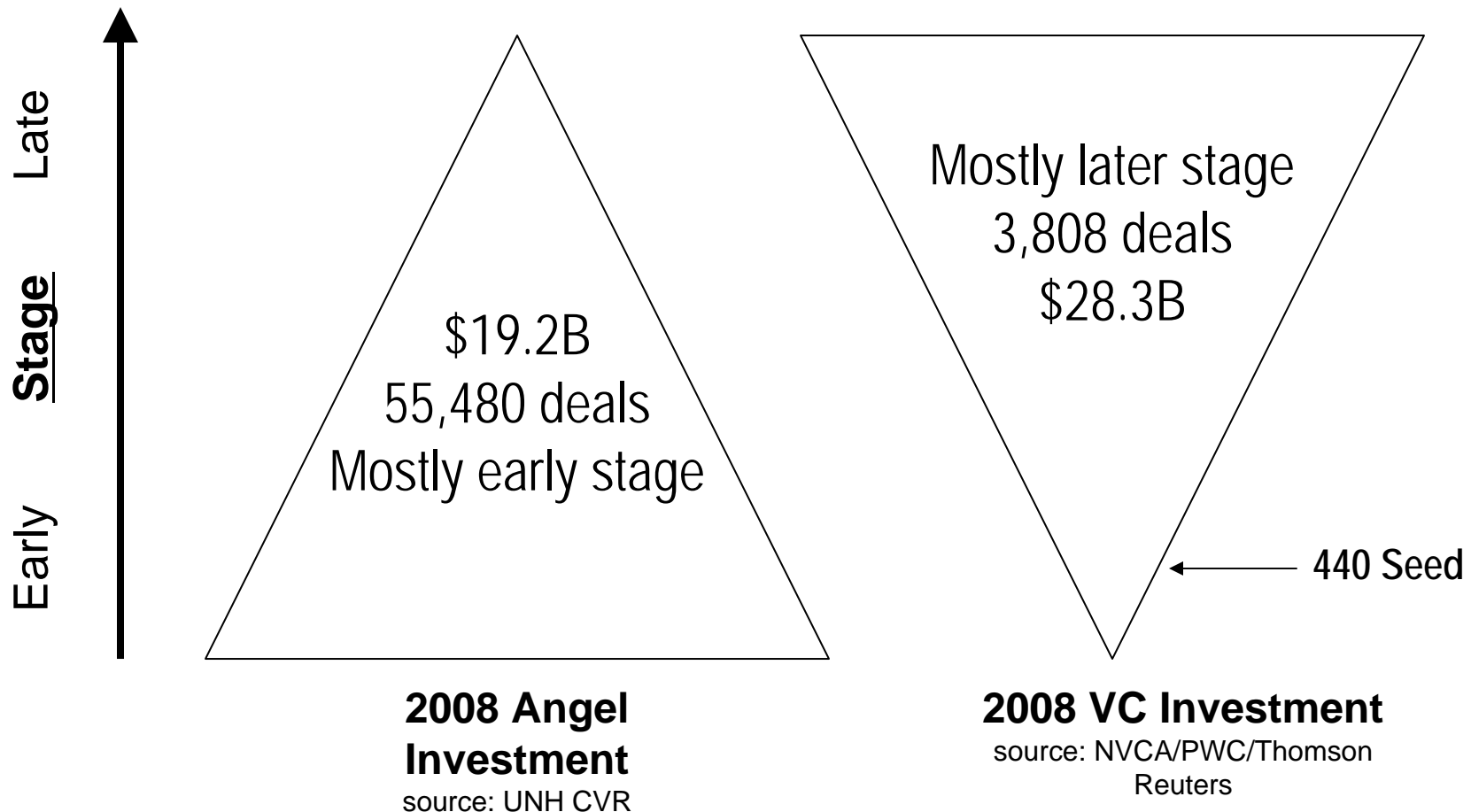
## Who are Sophisticated Angel Investors?

- Make equity investments – generally not loans
- Often successful, exited entrepreneurs or retired business persons
  - Active investors
  - Invest both time and money in companies
- Accredited investors - SEC definition (*my requirement*)
- Invest their own money
- Generally invest in local companies
- Motivated by returns, but also community development, love of mentoring entrepreneurs
- Kauffman/ACEF: Invest at least \$20K in businesses not run by family

## Profile of Companies Angel Groups Invest In

- Product is developed or near completion
- Company has existing customers or pipeline of potential customers who can validate demand
- Entrepreneur has invested own dollars and exhausted other alternatives (including friends and family)
- Company is likely to grow rapidly and reach at least \$15-30M in revenues in the next 3-7 years
- Business plan is well thought out
- Entrepreneur plans to exit company and willing to take advice/ give up some control

# Equity Capital Markets Large, Complementary

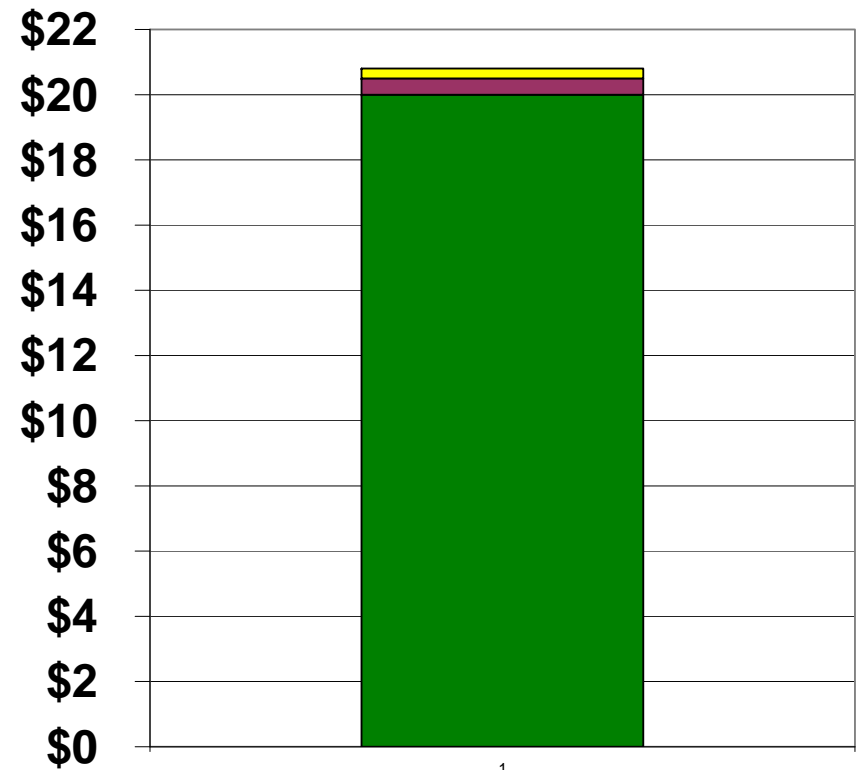


## Annual Sources of Start-up Funding

Venture Capital ~\$.3 billion  
State Funds ~\$.5 billion  
Angel Investors ~\$20 billion

*Angels: 90% of outside  
equity for start-ups?*

Friends & Family ~\$60 billion

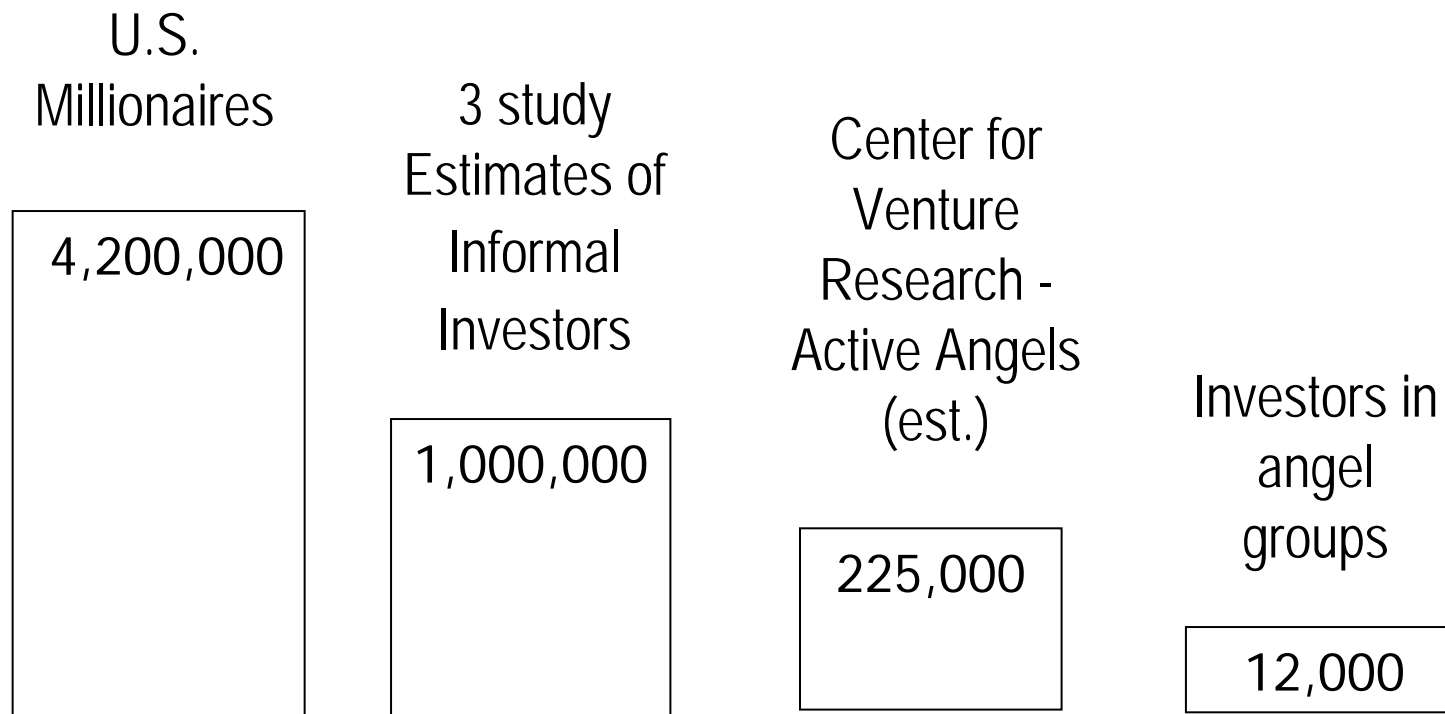


## The Angel Community Has Issues

- Wide gap in investor sophistication
- Need for privacy makes it hard for entrepreneurs to locate
- Lack of education for investors keeps latent investors from activity
- Perception by later investors not good
- Very limited data on market, few industry standards and tools

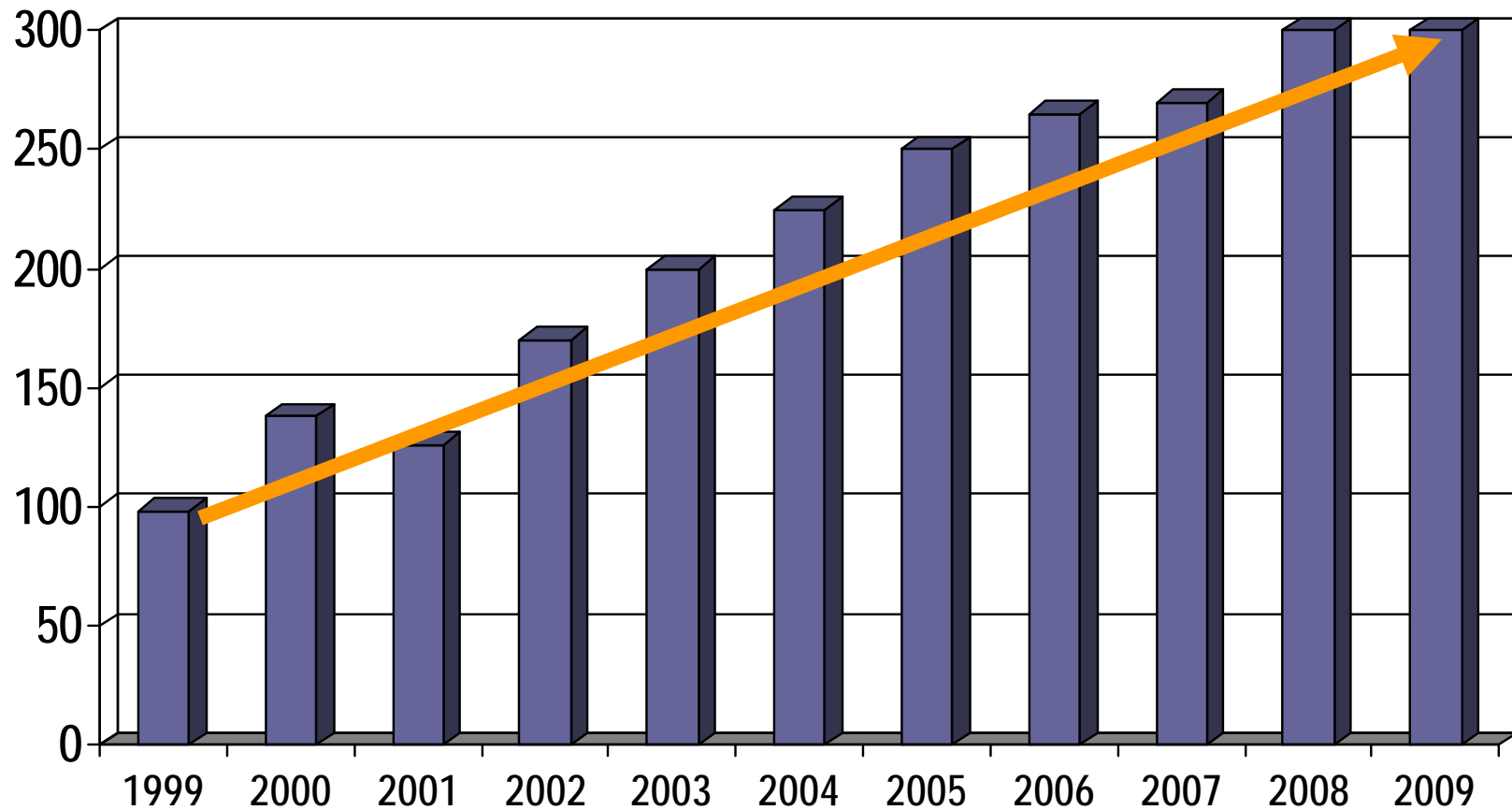
**IMPORTANT:** Education, connections, and tools build skills and help more entrepreneurs

# Potential Angels in the United States



2009 Report from Spectrem: \$1 millionaires down in 2008 27%, those with \$5 million down 28%

## Growth in Number of American Angel Groups



Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ACEF (04-09 data)

# Resources for Angel Groups

## *501(c3) public charity*

- Education:
  - Seminars & workshops
  - Papers
- Research:
  - Group investment data
  - Research reports that benefit general public
- Public awareness

## *501(c6) trade association*

- *Membership organization*
- Professional standards
- Conferences and meetings
- Public policy
- Discounts to events, pubs, insurance, etc.
- Member networking/  
collaboration

# Angel Capital Education Foundation

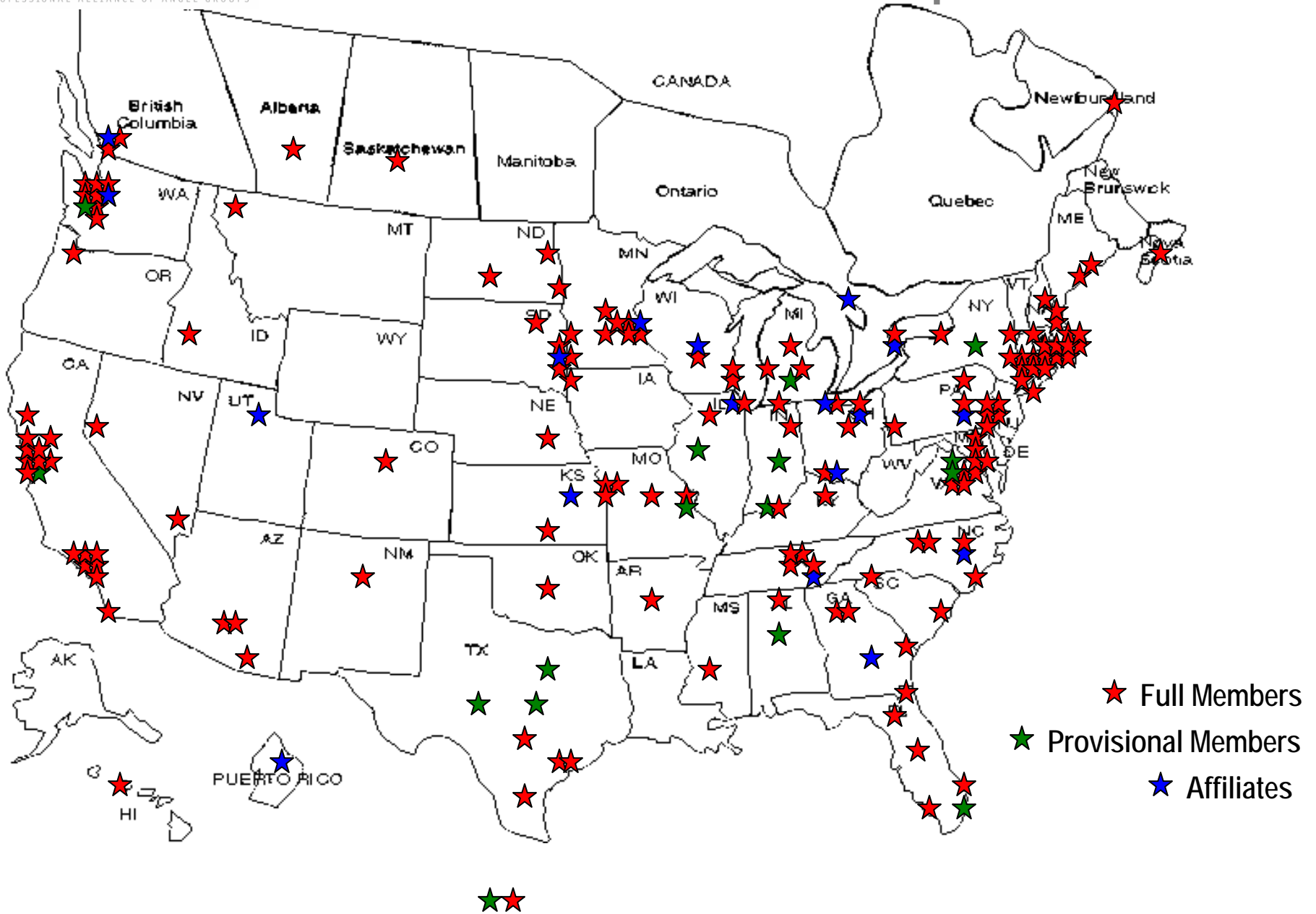
- **Full day seminars**
  - Angel Investing Overview
  - Starting an Angel Organization
- **Half day workshops**
  - Term Sheets
  - Due Diligence
  - Valuation
  - Post-Investment Relationship
- **Research and data**
  - Financial performance of angels connected to angel groups
  - Investment best practices
  - Quarterly data on angel group investments
  - Group demographics

*the POWER of*  
**angel**  
*Investing*



ANGEL CAPITAL ASSOCIATION  
THE PROFESSIONAL ALLIANCE OF ANGEL GROUPS

# Members and Affiliates – April, 2009





ANGEL CAPITAL ASSOCIATION  
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## Comparing Average Group Investment Data

	2008	2007	2006
Number of investments	6.3	7.3	7.4
Total dollars invested	\$1.77 mil	\$1.94 mil	\$1.78 mil
Dollars invested per round	\$276,918	\$265,926	\$241,528
Number of new companies	3.7	4.5	4

In 2008:

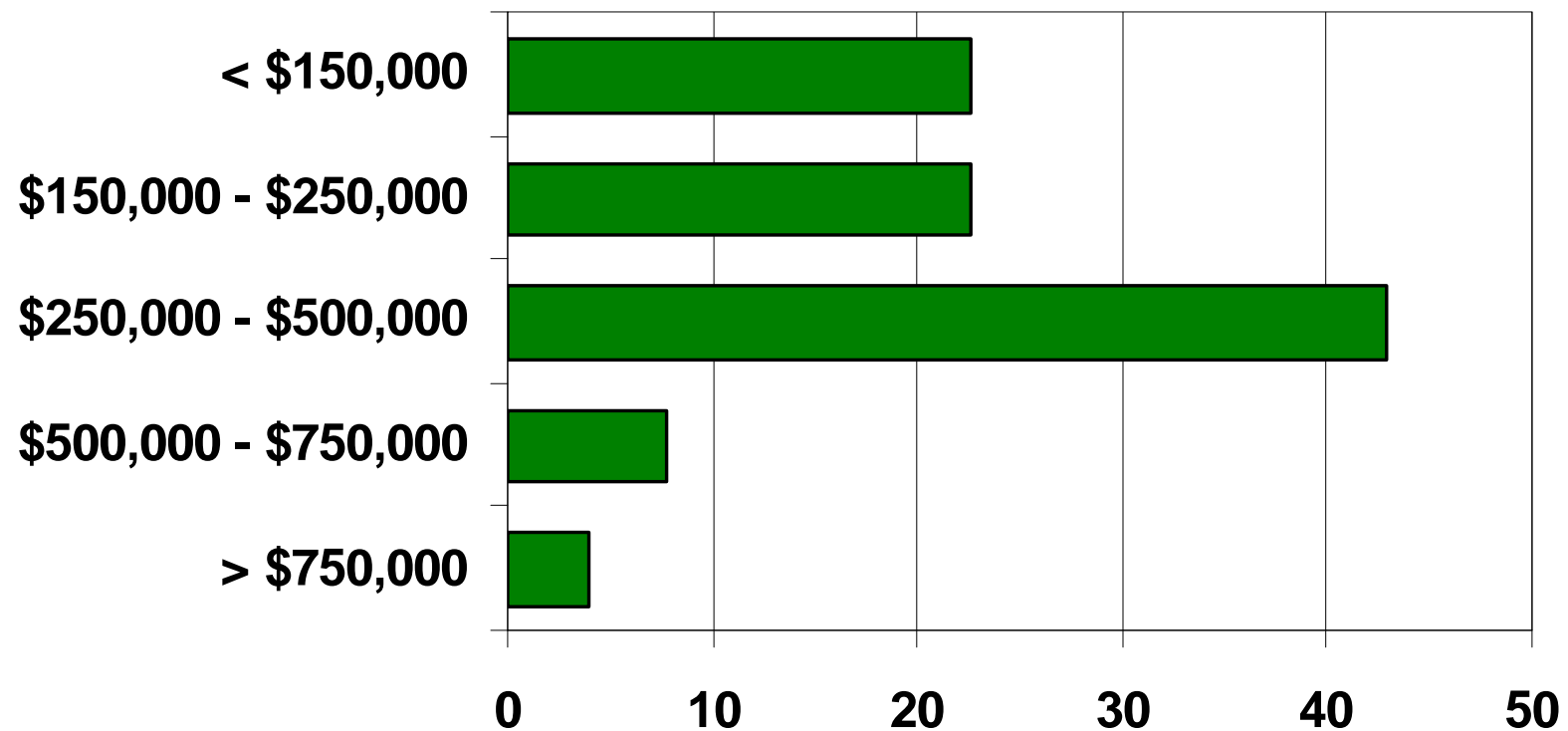
- 62.7% had follow-on or co-investments with VC firms
- 23.4% had 1 or more positive exits

Source: ACA Angel Group Confidence Surveys – 2007, 2008, and 2009 (self-reported, not verified)



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## Average Preferred Investment Per Round - 2008



Percent of  
Groups

Source: 2009 ACA Angel Group Confidence Survey and 2008 Member Directory

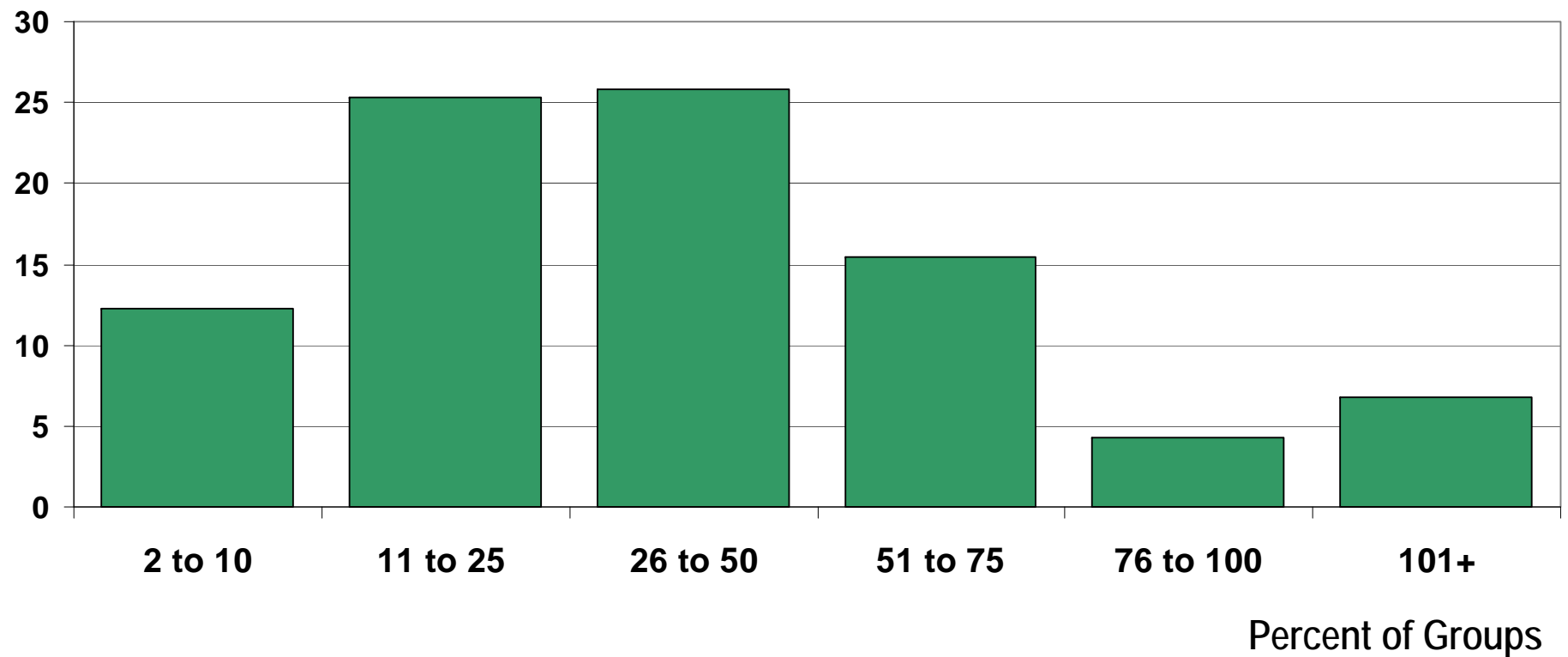


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# Investors Per Group – 2008-2009

Average = 43.6

Median = 32.5

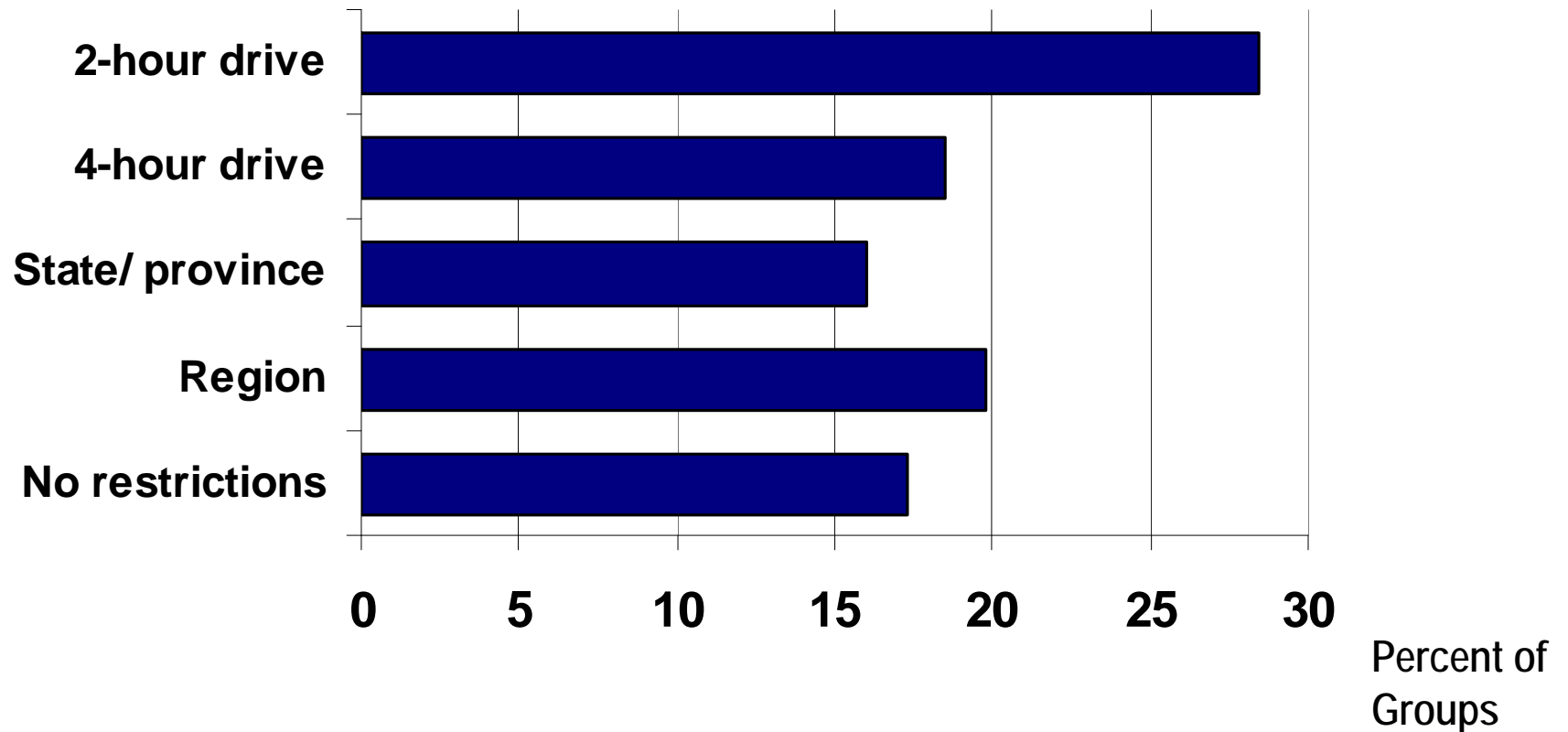


Source: 2009 ACA Confidence Survey and 2008 Member Directory



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# Geography – Where do Groups Invest?

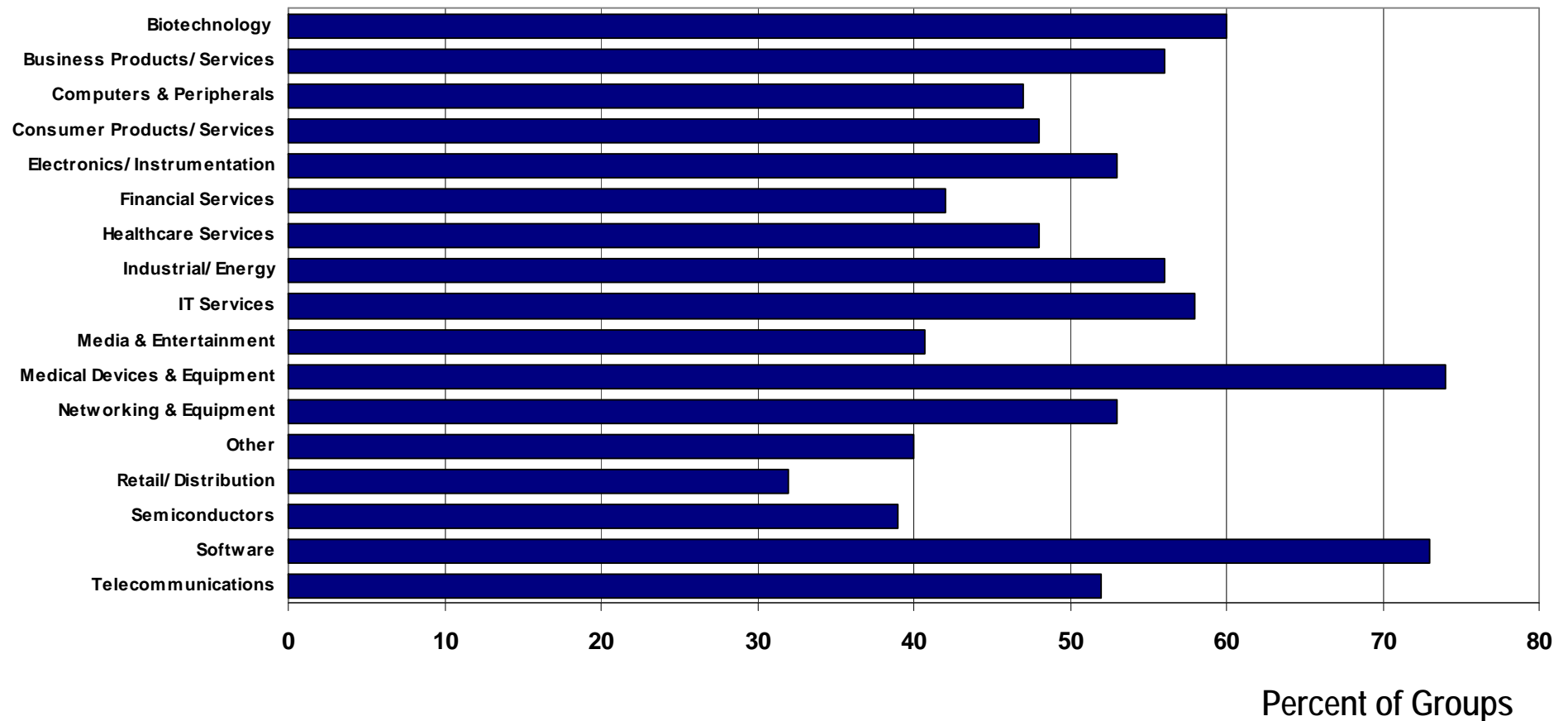


Source: 2008 ACA Angel Group Confidence Survey



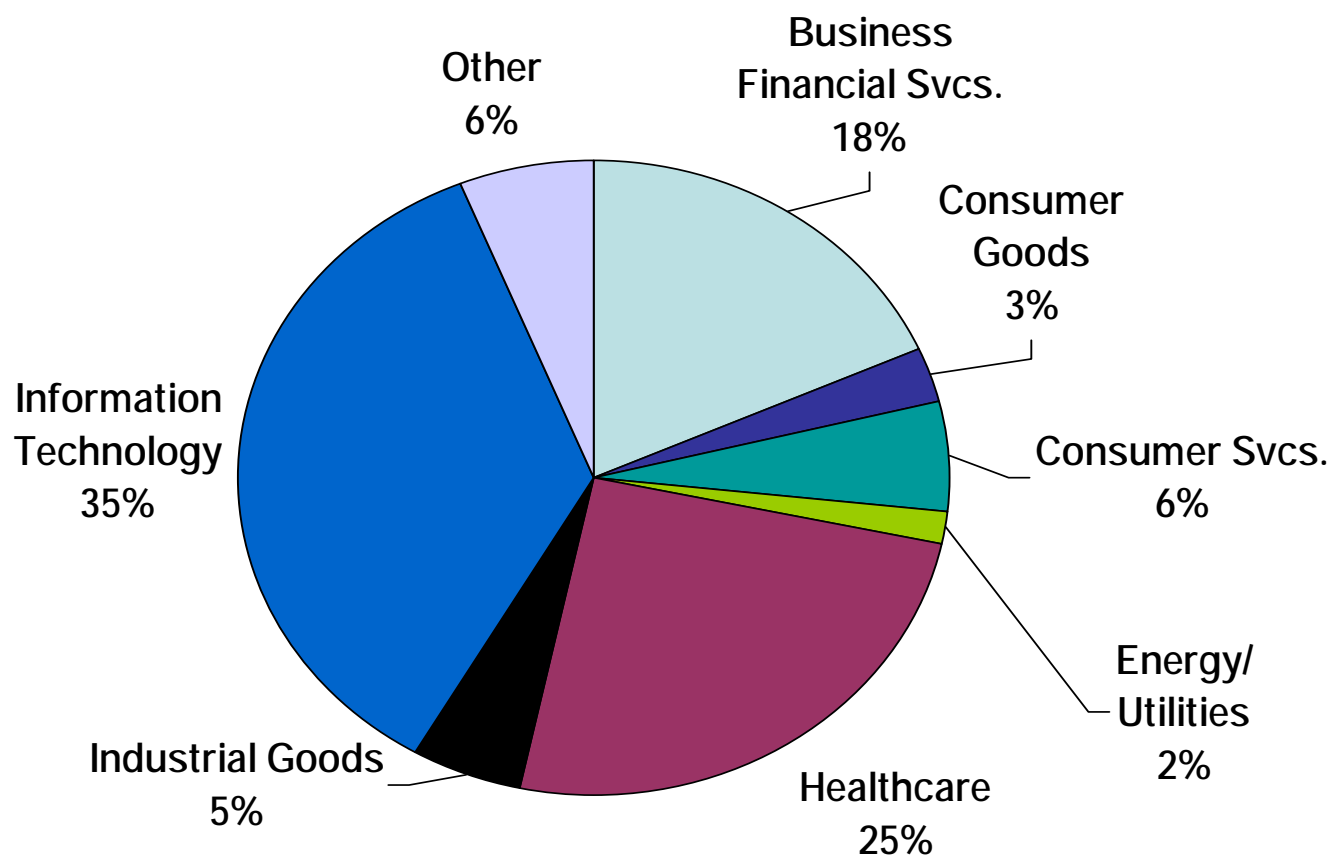
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THE PROFESSIONAL ALLIANCE OF ANGEL GROUPS

# Investment Preference – 2008-2009



Source: 2009 ACA Angel Group Confidence Survey and 2008 Member Directory

# Actual Angel Group Investments – 2008-2009



Source: 2008 ACEF, SVB and Dow Jones VentureSource Angel Group Data Surveys – verified w/ ent calls

# New Dataset on Actual Group Investments

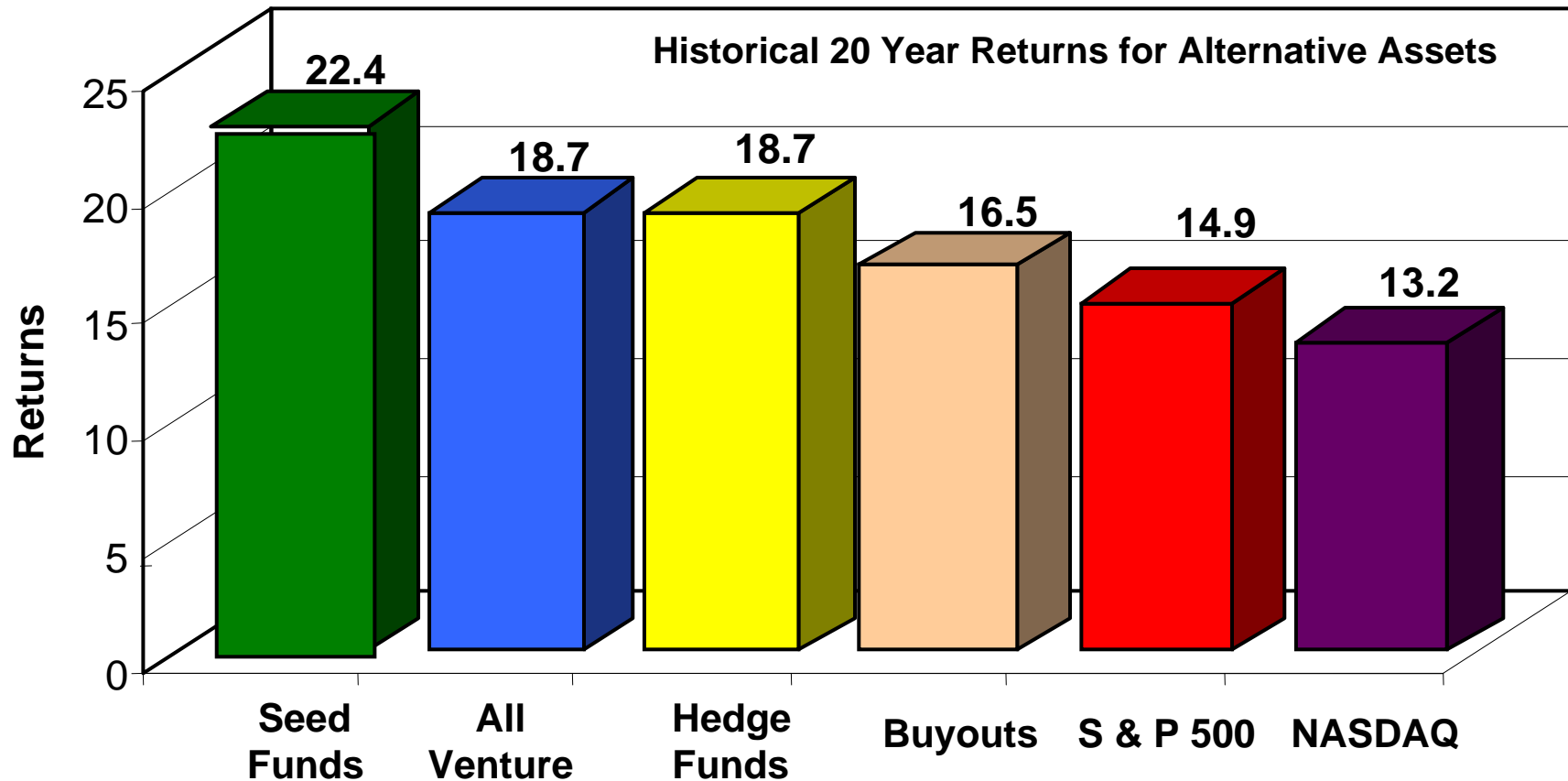
Dow Jones **VentureSource**



Silicon Valley Bank 

A Member of SVB Financial Group

## Angel Returns: 20-25% Per Year? (except now...)



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

Rob Wiltbank, Willamette University



**Angel Group Founded 2006**

**Kansas City area**

**By two local incubators**

# *Why Was MAA Started?*

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- Lack of organized early stage funding sources in the KC area
- Difficult for entrepreneurs to find angel investors and vice versa
- Previous angel effort, Bi-State Investment Group (BIG), was a fully invested fund – a follow-on fund was not raised
- Deal flow at ECJC & LRTC was not as strong as we wanted it to be
- Lots of discussion in the community about the need for an organized effort, but no one willing to step up and take on the work



# *How Was MAA Started?*

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- Support from the Angel Capital Association, best practice information, education, speaking to other angel groups
- Developed a mailing list – Kauffman, Bi-State, local incubators, Book of Lists, etc. – Fall of 2005
- Organized two “recruiting” meetings – discussed mission, structure, investment philosophy, process, etc. – Fall & Winter of 2005
- Held first investment meeting in March of 2006 – 24 members.

# ***MAA Results – 36 months***

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- Number of companies applying for funding: **304**
- Average funding sought: **\$1.2M**
- Screening presentations: **82**
- Q&A sessions: **45**
- Companies completing due diligence: **23**
- Number of investments: **18**
- Number of portfolio companies: **13**
- Total amount invested: **\$4.1M**
  
- MAA has grown from 24 members in to 96 in 2009
- Two affiliate chapters:  
*Women's Capital Connection and Show Me Angels*





# RAIN Source : Nationally Recognized

- Operates a network of 23 RAIN<sup>®</sup> Funds
  - Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho
  - 450 angel investors
  - \$20 million committed capital
- \$16.5 million RAIN<sup>®</sup> Source Equity Fund
- \$15 million Invest Northwest Fund LP
- RAIN<sup>®</sup> *maker* conference and investor tools
- Ruvelson RAIN<sup>®</sup> *maker* Fellowship
- Experienced Management



# RAIN® Network is Achieving the Results Envisioned: \$78 Million Invested

- **Serving Communities : 41 communities**
  - 55 companies,
  - 2200 jobs, 40 jobs per company
  - \$1.4 million per company
- **Attracting Diverse Investors: 24 Company Investments**
  - \$ 16 million RAIN Funds
  - \$18 Million RSC and INW
  - \$44 million VC partners



RAIN<sup>®</sup> *funds* are organized and capitalized by its member investors

- Structure
  - Limited Liability Company
- Capitalization
  - \$1 million or greater
- Member Investors
  - \$30-50K minimum investment
  - 10-30% upon subscription
  - Accredited (angel) investors



# When Deal is Right - Great Impact!

- Steve Mercil, RAIN Source Capital



## What Communities Leaders Can Do:

- Befriend local angels
- Offer workshops on investing
  - *Power of Angel Investing is available!*
- Reduce risk for investors
- Manage risks AND expectations
- Connect entrepreneurs to mentors and education resources
- Insist entrepreneurs tell story well/ are prepared

## Profile of Angels - Median

- Years investing 9
- Number of investments 10
- Total exits/ closures 2
- Years as entrepreneur 14.5
- Number ventures founded 2.7
- Age 57
- Percent of wealth in angel investing 10%
- Education Masters degree



## Other Supportive Policies & Programs

- Develop more data and research to build understanding
- Education and coaching
  - Entrepreneurs
  - Angels and potential investors
  - Entrepreneurial support community
- Angel-(venture) forums
- Support admin costs for angel groups – or promote events to share info among angels, angel groups
- Systematic information and support
  - Wisconsin Angel Network
- Connect angels & mentors to:
  - University tech transfer offices
  - Promising, but not-ready for angel money entrepreneurs

## Finding Angels

- Most Effective: Referral from someone the angel knows and trusts (lots of networking)
- Web site matching – caution!
  - 27 sites listed on [www.angelcapitaleducation.org](http://www.angelcapitaleducation.org)
- Find local angel group
- Directories of angel groups:
  - North America: [www.angelcapitaleducation.org](http://www.angelcapitaleducation.org)
  - North America: [www.angelcapitalassociation.org](http://www.angelcapitalassociation.org)  
(includes only ACA member groups)

## Need More Information?

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