An Introduction to Angel Investing

SSA Workshop
January 20, 2017
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Contact: Dave King, Founder & CEO
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Charles.Reynolds@willistowerswatson.com
Angel Investing Overview

- What is an angel investor
- Angel Investing Best Practices
- Overview on Angel Groups
- Question & Answer Session with SSA Members
- What is an angel investor? -
What Is An Angel Investor?

- The term “angel investor” originated in the early 1900s - referred to wealthy investors who invested in Broadway theatrical productions

- Today, the term typically refers to high-net worth individuals or accredited investors* that invest in early-stage, private companies

*SEC accredited investor definition – net worth of $1M excluding primary residence or income of $200k ($300k with spouse)
Who Is The Typical Angel?

- Vary in background
  - Level of investment expertise
  - Professional Experience
- Accredited investors – high net worth or income
  - $200K single, $300K married, or $1M net-worth (less primary residence)
- Able to invest their own money into debt or equity deals
What Type of Company Might Angels Invest In?

- Company is not sufficiently developed to stand on its own – still burning cash & not profitable.

- Novel business concept often associated with an emerging market.

- Products may be new and/or under development & still subject to technical & market risks.

- The business may need both additional funding & mentoring to grow to the next stage of development.

Other considerations: Venture exists in a “halfway” state, often between possible failure and take-off. Founding team has likely exhausted their personal savings & monies from friends & family. Valuation may be problematic – if not speculative.
What Do Angels Want in an Investment?

- Typically seed or **early stage companies**
- **Large market** opportunity with scalable growth
- Compelling strategy for gaining market share
- Proprietary technology or other barriers to entry
- Strong management team open to coaching
- Opportunities they can identify with/understand
- Reasonable Valuation & Credible exit strategy
- Exceptional opportunities for high return on investment!
Why Become an Angel Investor?

- **Stay engaged** – using skills & experiences to help build a business

- **An active form of investing** – not just watching the markets

- **An interest in mentoring** the next generation of high impact entrepreneurs - create jobs & wealth

- **Motivation** can be both financial and/or altruistic

- **Return on investment** motivates all investors
How Venture Capital Differs From Angels

- Venture capital firms are professional managers of risk capital
- Typical investors are endowments, foundations, ultra high net worth persons, insurance companies, etc.
- VCs invest as a fund vs. investing individually
- The average venture capital fund: $135M
- Often look to invest $5-$8M in a given company
Example of an Angel Funded Company

- WeGoLook
- Founded: 2009
- HQ Location: Oklahoma City, OK
- Employees: 121
- Total SSA investment ~$840K
- Acquired December 2016 for $42.5M
- Angel Investing Best Practices -
Angel Investing - Part of Alternative Assets

- Most wealth managers believe “alternative investments” are a necessary part of any healthy portfolio allocation plan.

- The alternatives category includes:
  - Real Estate
  - Commodities
  - Hedge Funds
  - Private equity

- Angel investing is a form of private equity.
**Return or Risk? Where do you start?**

<table>
<thead>
<tr>
<th>Increased Risk &amp; Increased Return</th>
<th>#1 Way to Increase Return – Valuation and Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Stage Companies</td>
<td>#2 Way to Increase Returns – Many Small Investments and a Few Follow On</td>
</tr>
<tr>
<td>(Life Sciences – Diagnostics, Device and Instruments)</td>
<td>35% +/-</td>
</tr>
<tr>
<td>Business Interests</td>
<td>20% +/-</td>
</tr>
<tr>
<td>(Proven Operator with a Clear Exit)</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>15% +/-</td>
</tr>
<tr>
<td>(Single Family Residences - SFR)</td>
<td></td>
</tr>
<tr>
<td>CMA, Retirement, 401K, IRAs</td>
<td>10% +/-</td>
</tr>
<tr>
<td>(Dividend Growing, World Dominating Brands)</td>
<td></td>
</tr>
</tbody>
</table>
Angel Investor Return Targets

- Many angels target 10X ROI (cash-on-cash) or more
- Typical timeframe of 5 to 7 years
- Annualized rate of return between 40% & 60%
- Require higher returns because of high risk
Some Truths About Angel Investing

- Smart investors are aware of their inability to pick only winners

- Investing in startups is a numbers game as most startups fail

- In general, out of 10 companies: 2 wildly succeed, 4 die slowly, 4 die violent deaths

- Successful companies will need follow-on investment

Source: Angel Investing – David S. Rose
Determining Your Return

- How much money you make from angel investing is determined in large part by:
  - Value of the company when you invest
  - Terms of the deal
  - Value of the company when you sell
  - Number of years it takes to sell

- It is estimated that 40% or more of deals fail to secure funding due to a failure to agree on valuation

Source: Angel Investing – David S. Rose
What Many Individual Angels Do

- Go out and find a company of interest
- Invest in unvetted deals with too high valuations
- Write a check (sometimes a really big check)
- Don’t reserve follow on capital
- Invest in too few deals
- Invest without a long-term mindset
- Quit investing in the category after losing money
- Tra Pippin -
- Overview on Angel Groups -
The Better Angel Model

- Join an angel group - Work together to find promising companies

- Camaraderie and shared ideas/Consistent Deal Flow

- Conduct or have access to thorough due diligence

- Syndicate with other angel groups – deeper pockets

- Get involved with the company post-investment
Angel Networks

- Angels are investing together and networks are spreading – about 50 eight years ago – over 300 today

- Our region is a good example:
  - Seed Step Angels
  - Mid-America Angels
  - Gopher Angels
  - Midwest Venture Alliance
  - Nebraska Angels
  - Plains Angels
  - Women’s Capital Connection
How Does an Angel Network Operate?

- Meet regularly to review investment opportunities
- Invest individually or through a pool or fund
- Provide capital in the $250K-$400K range

SSA Stats:
- 52 members, 42 investments, $11,088,000 invested, 2 Exits
i2E/SSA Relationship

- i2E created and operates SeedStep Angels \( (\text{since 2009}) \)
- i2E/SSA is user-friendly
  - Deal flow, due diligence, & network administration are managed by professionals
- Members of SSA are accredited investors
- Annual membership fee of $1,500 individual/$2000 group
  - Join at www.seedstepangels.com
- Willingness to invest, share ideas, and attend meetings
Question & Answer
With Angels
Thank You!

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Appendix

Appendix Slides
**Angels vs. VCs**

- Angel investments in 2015: estimated at $24.6B (71,110 deals) – up from $24.1B in 2014 (73,400 deals)

- VC investments in 2015: estimated at $59.1B (4,380 deals) – up from $48.3B in 2014 (4,356 deals)

- About 20%-30% of VC dollars are invested in seed & early stage deals while virtually all of angel dollars are in these type investments

- It is estimated that angel investors provide 80% - 90% of outside equity capital for start-ups

Source: Center for Venture Research & NVCA
Angel Investments Are Growing

U.S. Angel Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollars Invested</th>
<th># of Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$20.1B</td>
<td>61,900</td>
</tr>
<tr>
<td>2011</td>
<td>$22.5B</td>
<td>66,230</td>
</tr>
<tr>
<td>2012</td>
<td>$22.9B</td>
<td>67,030</td>
</tr>
<tr>
<td>2013</td>
<td>$24.8B</td>
<td>70,730</td>
</tr>
<tr>
<td>2014</td>
<td>$24.1B</td>
<td>73,400</td>
</tr>
<tr>
<td>2015</td>
<td>$24.6B</td>
<td>71,110</td>
</tr>
</tbody>
</table>

Source: Center for Venture Research
Eligible Angels

SEC information on the number of U.S. households that qualified as “Accredited Investors” based on 2010 net worth:

- $1-$2.5 million = 5.37 million households
- $2.5-$5 million = 1.89 million households
- $5-$10 million = 830,000 households
- $10-$100 million = 600,000 households
- Over $100 million = 10,000 households
- Total = 8.7 million households
## Angel Investor Return Targets

<table>
<thead>
<tr>
<th>Years to Exit</th>
<th>5X</th>
<th>6X</th>
<th>7X</th>
<th>8X</th>
<th>9X</th>
<th>10X</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Yr.</td>
<td>50%</td>
<td>57%</td>
<td>64%</td>
<td>68%</td>
<td>73%</td>
<td>78%</td>
</tr>
<tr>
<td>5 Yr.</td>
<td>38%</td>
<td>43%</td>
<td>48%</td>
<td>52%</td>
<td>55%</td>
<td>58%</td>
</tr>
<tr>
<td>6 Yr.</td>
<td>31%</td>
<td>35%</td>
<td>38%</td>
<td>41%</td>
<td>44%</td>
<td>47%</td>
</tr>
<tr>
<td>7 Yr.</td>
<td>26%</td>
<td>29%</td>
<td>32%</td>
<td>35%</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>8 Yr.</td>
<td>22%</td>
<td>25%</td>
<td>28%</td>
<td>30%</td>
<td>32%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Sweet Spot – 5-10X in 4-8 Years
How Much & How Often Do They Invest?

- Angel Capital Association 2015 survey data (106 groups responding):
  - Number of investments
    - 37% - less than 5 deals (SSA 5-6)*
    - 22% - 6 to 10 deals
  - Total invested
    - Average: $2.46 million per year
    - Median: $1.24 million (SSA $1.6M)*
  - Members per group
    - Average: 68 (SSA 52)
    - Median: 50

*Since 2009