



An Introduction to Angel Investing

SSA Workshop

January 20, 2017

Event Sponsors

- Thank you to our Host sponsor -



Contact: Dave King, Founder & CEO

Event Sponsors

- Thank you to our Lunch Sponsor -



**Willis
Towers
Watson**

We design and deliver solutions that manage risk and optimize benefits.

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?

Increased Risk & Increased Return

Early Stage Companies (Life Sciences – Diagnostics, Device and Instruments)	35% +/-
Business Interests (Proven Operator with a Clear Exit)	20% +/-
Real Estate (Single Family Residences - SFR)	15% +/-
CMA, Retirement, 401K, IRAs (Dividend Growing, World Dominating Brands)	10% +/-

#1 Way to Increase Return – Valuation and Terms

#2 Way to Increase Returns – Many Small Investments and a Few Follow On

VISTAGE

Private advisory boards for CEOs,
executives and business owners.

Rod Whitson
Chairman
Vistage Worldwide LLC
405-535-2818
rod.whitson@vistagechair.com

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

SeedStep Angel Member Tra Pippin

- 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 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 *(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!

Kevin Moore

Director of Angel Investments | Venture Advisor

SeedStep Angels

PH: 405.813.2421

Email: kmoore@i2E.org

Web Site: www.seedstepangels.com



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

Year	Dollars Invested	# of Ventures
2010	\$20.1B	61,900
2011	\$22.5B	66,230
2012	\$22.9B	67,030
2013	\$24.8B	70,730
2014	\$24.1B	73,400
2015	\$24.6B	71,110

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

ROI on Invested Capital

	5X	6X	7X	8X	9X	10X
4 Yr.	50%	57%	64%	68%	73%	78%
5 Yr.	38%	43%	48%	52%	55%	58%
6 Yr.	31%	35%	38%	41%	44%	47%
7 Yr.	26%	29%	32%	35%	37%	39%
8 Yr.	22%	25%	28%	30%	32%	33%

Years
to
Exit

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