

Trends in Angel Investment

Early-Stage Capital in the United States:
Moving Research Across the Valley of Death
and the Role of SBIR

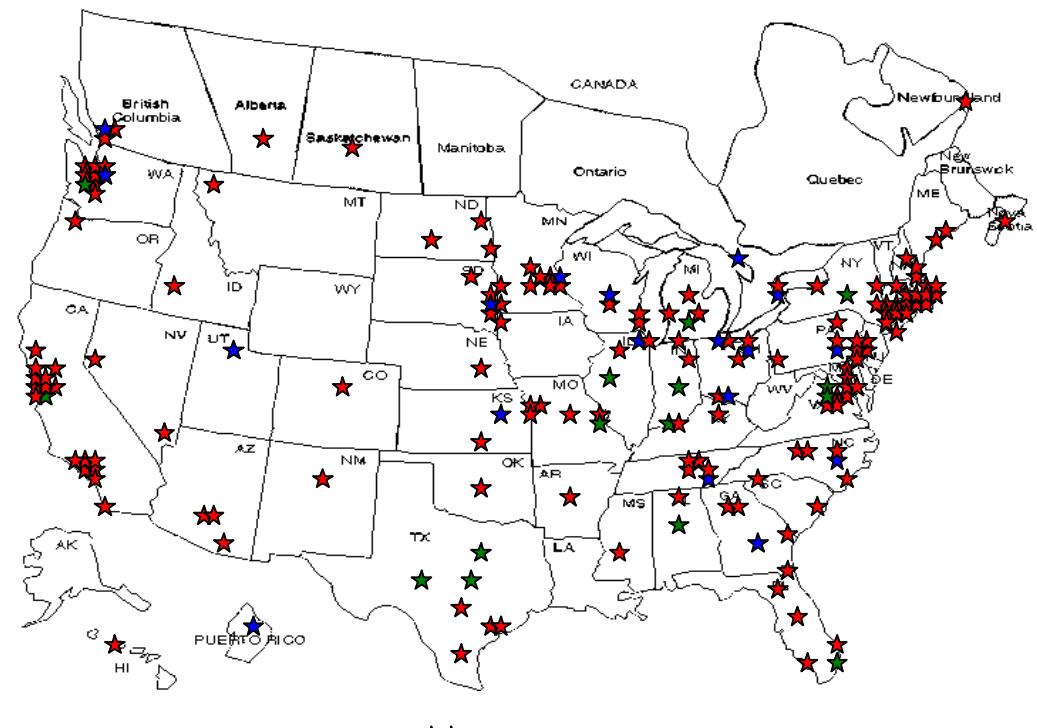
April 16, 2010



Angel Capital Association Today

- Mission: Support the growth, financial stability, and investment success of its member groups.
- 150 member angel groups
- 6,500 accredited investors
- 20 affiliated organizations
- 49 states/ provinces

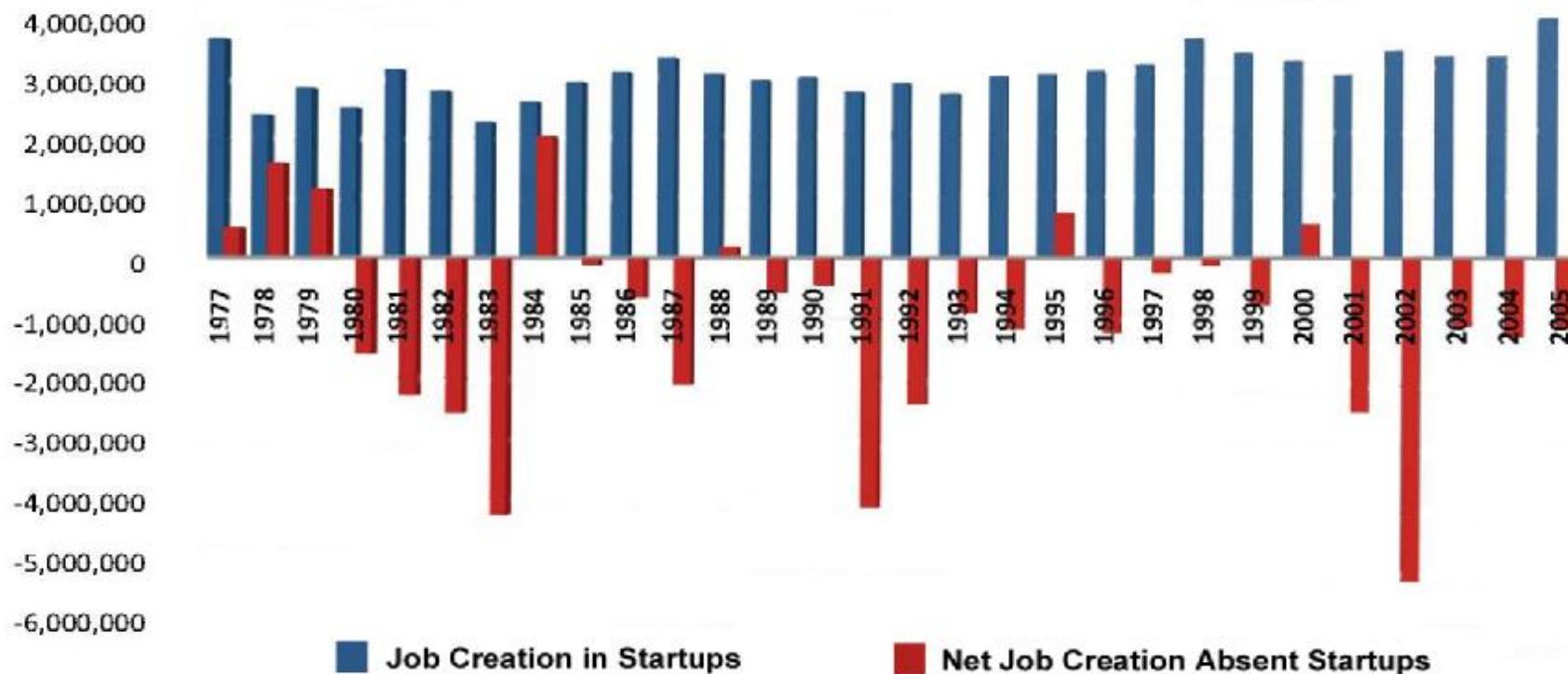




HAIL THE JOB CREATORS

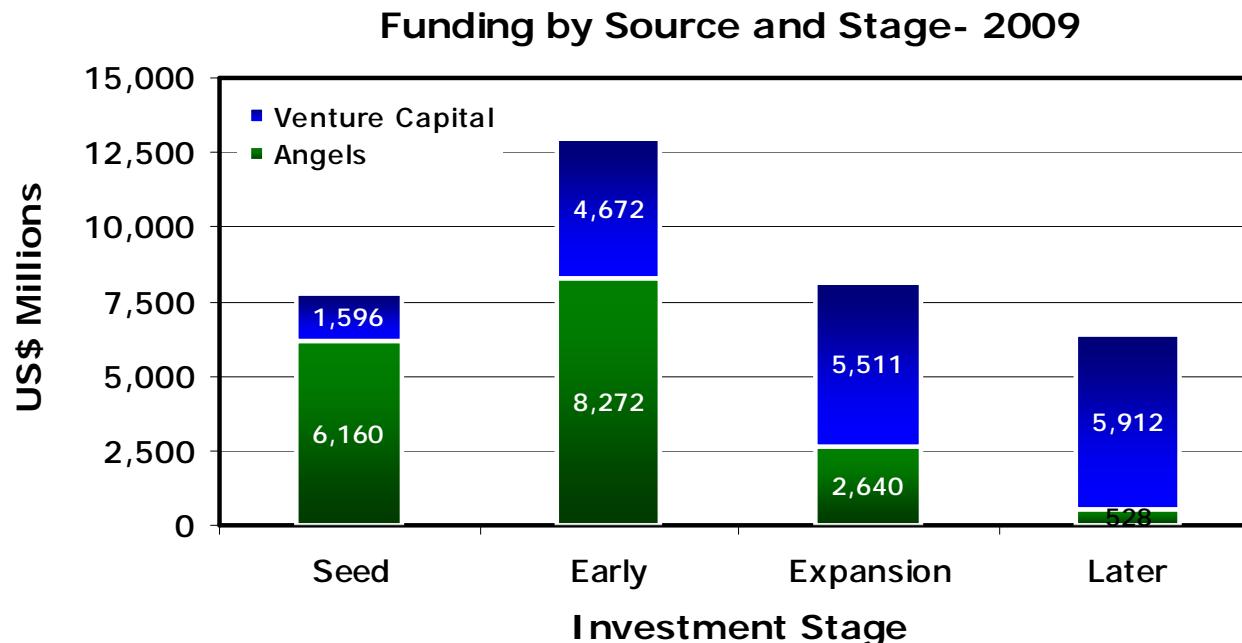
ENTREPRENEURS ARE KEY TO JOB CREATION

No Startups, No Job Creation



Source: *Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States*.
Census Bureau and Kauffman Foundation, January 2009

Early Stage Funding Profile



Sources:
Center for
Venture
Research and
PwC
MoneyTree

Angel Investors 2009

- \$17.60 billion
- ~57,000 deals
- 35% seed/startup
- 47% early stage
- ~ 259,500 individuals

Venture Capital 2009

- US\$ 17.69 billion
- ~2,800 deals
- 9% seed/startup
- 65% later/expansion capital
- Total 794 firms (not all active)

Angel Groups are Small - *but Important* - Subset of All American Angels

U.S.
Millionaires

4,200,000

Informal
Investors
*3 study
estimates*

1,000,000

Active
Angels
*Center for
Venture
Research*

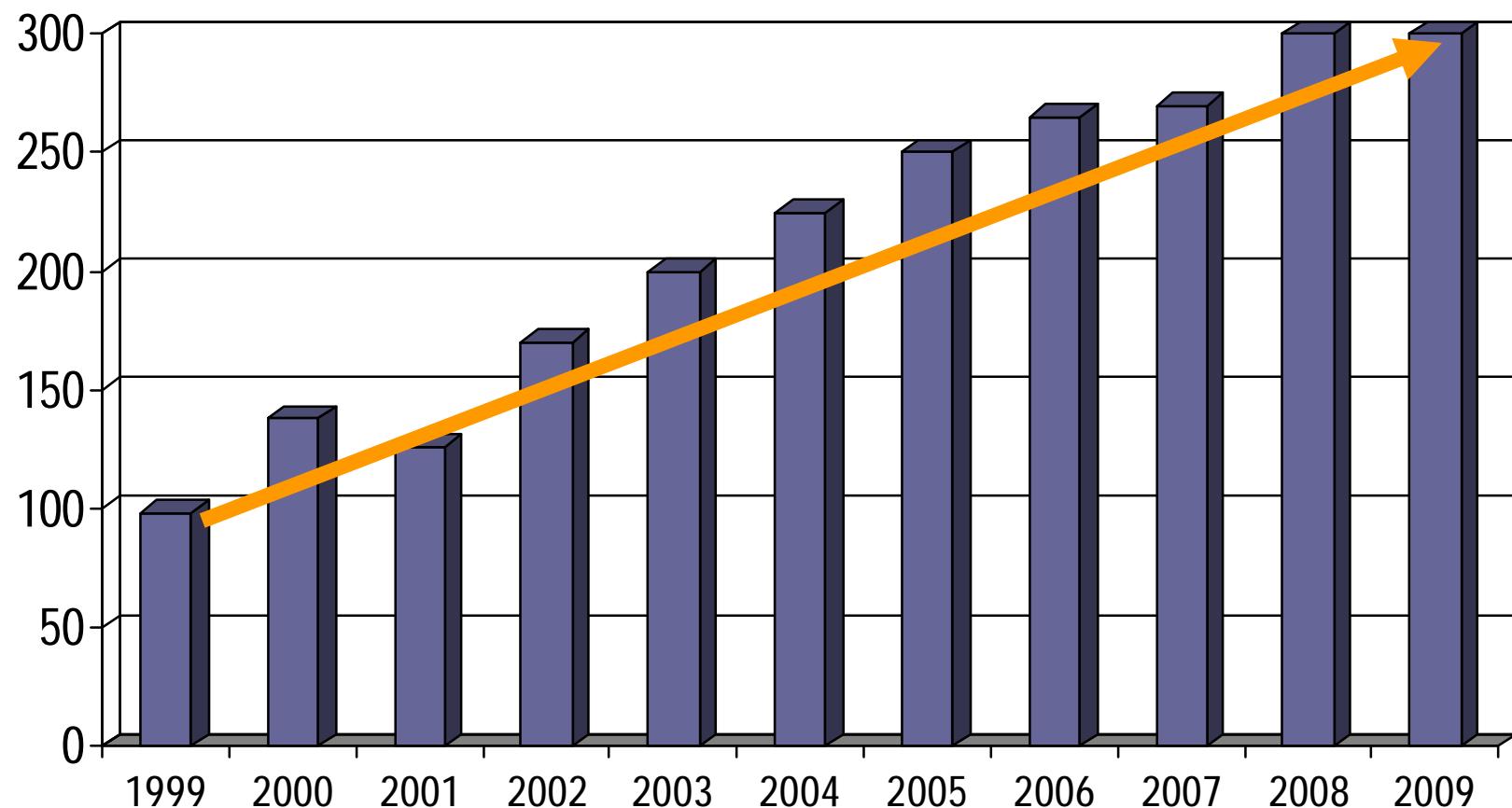
225,000

Investors
in Angel
Groups

12,000

2009 Report from Spectrem: \$1 millionaires down in 2008 27%, those with \$5 million down 28%
World Wealth Report (Capgemini): 19% drop in HNWI and 22.8% drop in wealth in 2008

Growth in Number of American Angel Groups



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



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

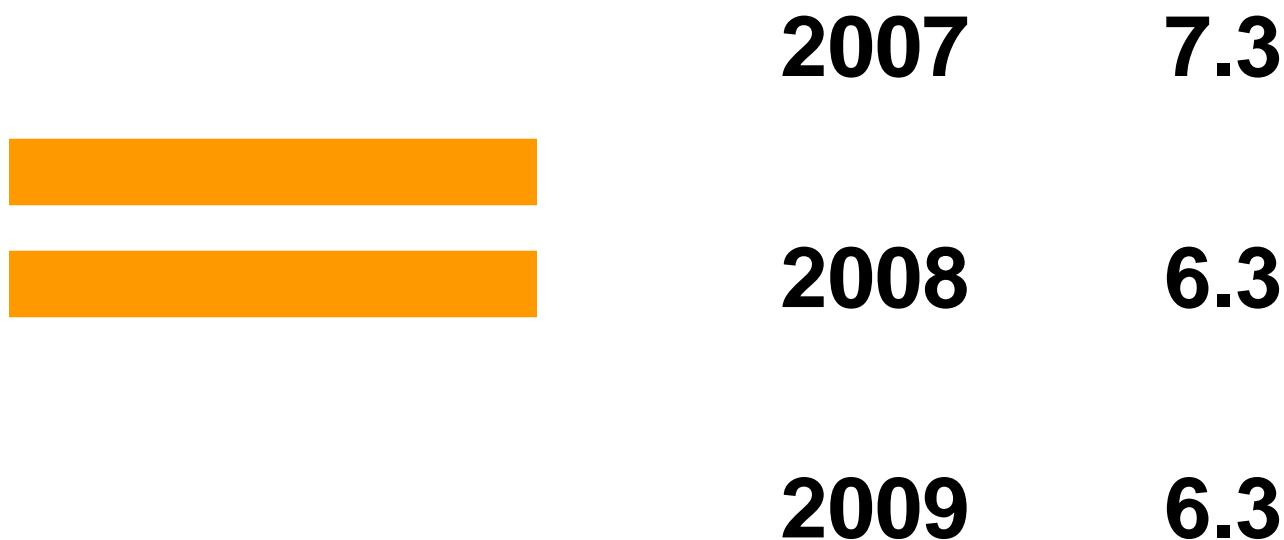
In 2008:

- 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)

Economy Affects ACA Member Investment in 2009

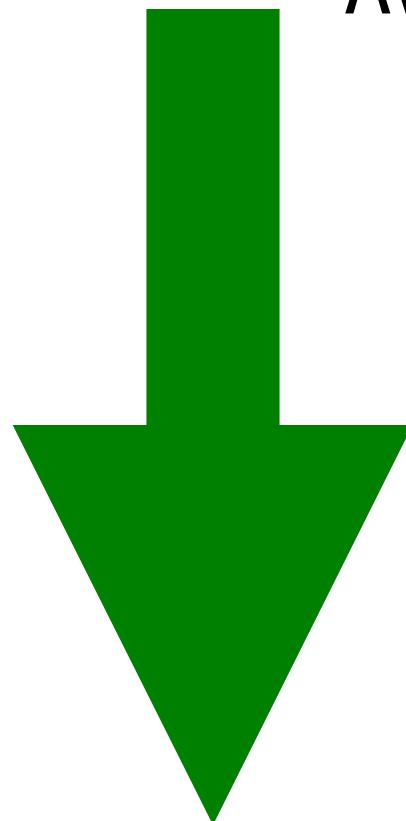
Average Number of Investments Per Group



PRELIMINARY DATA: ACA Confidence Survey, March 2010
Self reported data, not verified, still collecting data

Economy Affects ACA Member Investment in 2009

Average Investment Per Deal Per Group

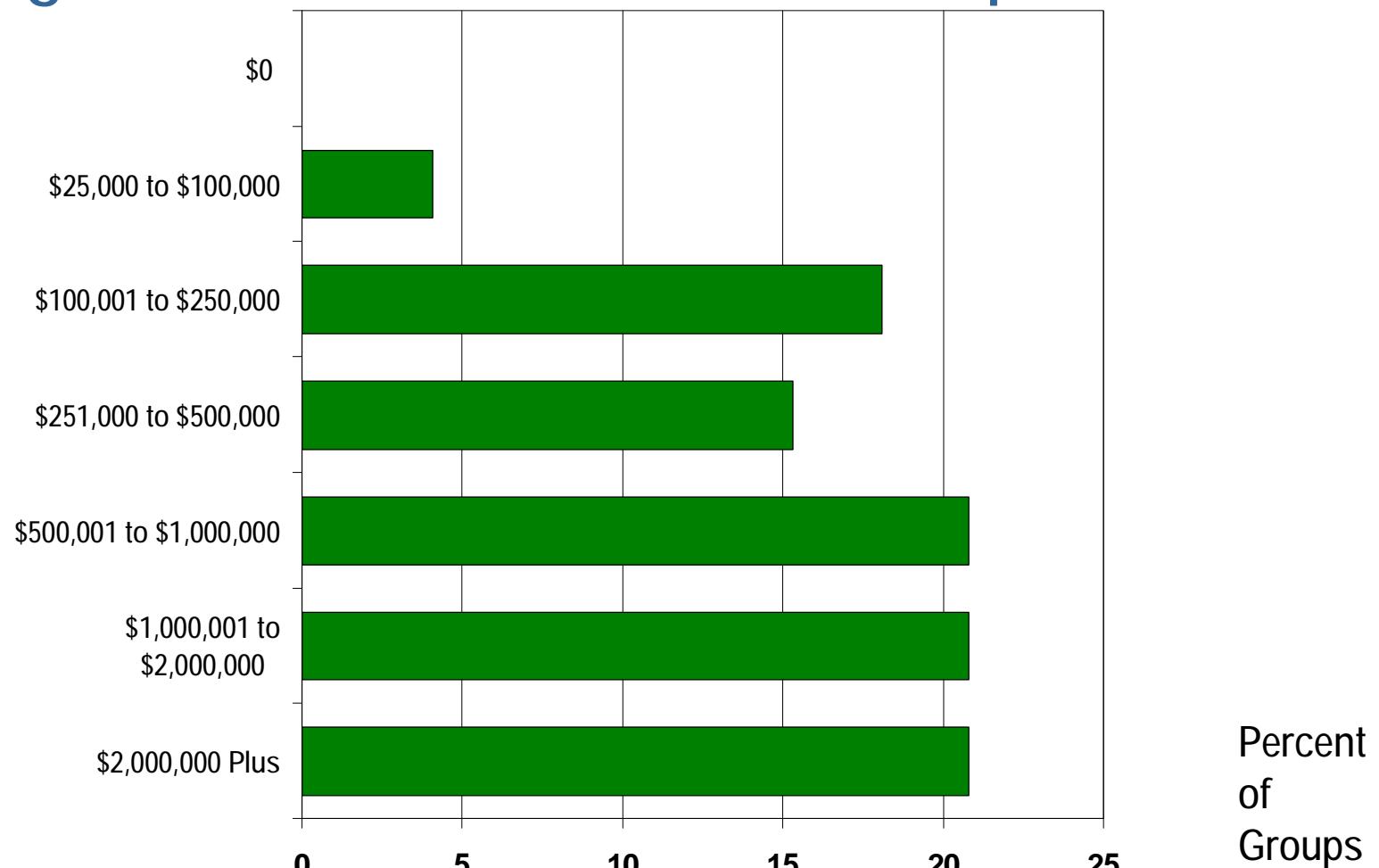


2007	\$265,926
2008	\$276,918
2009	\$220,770

PRELIMINARY DATA: ACA Confidence Survey, March 2010
Self reported data, not verified



Average Total Investments Per Group – 2009

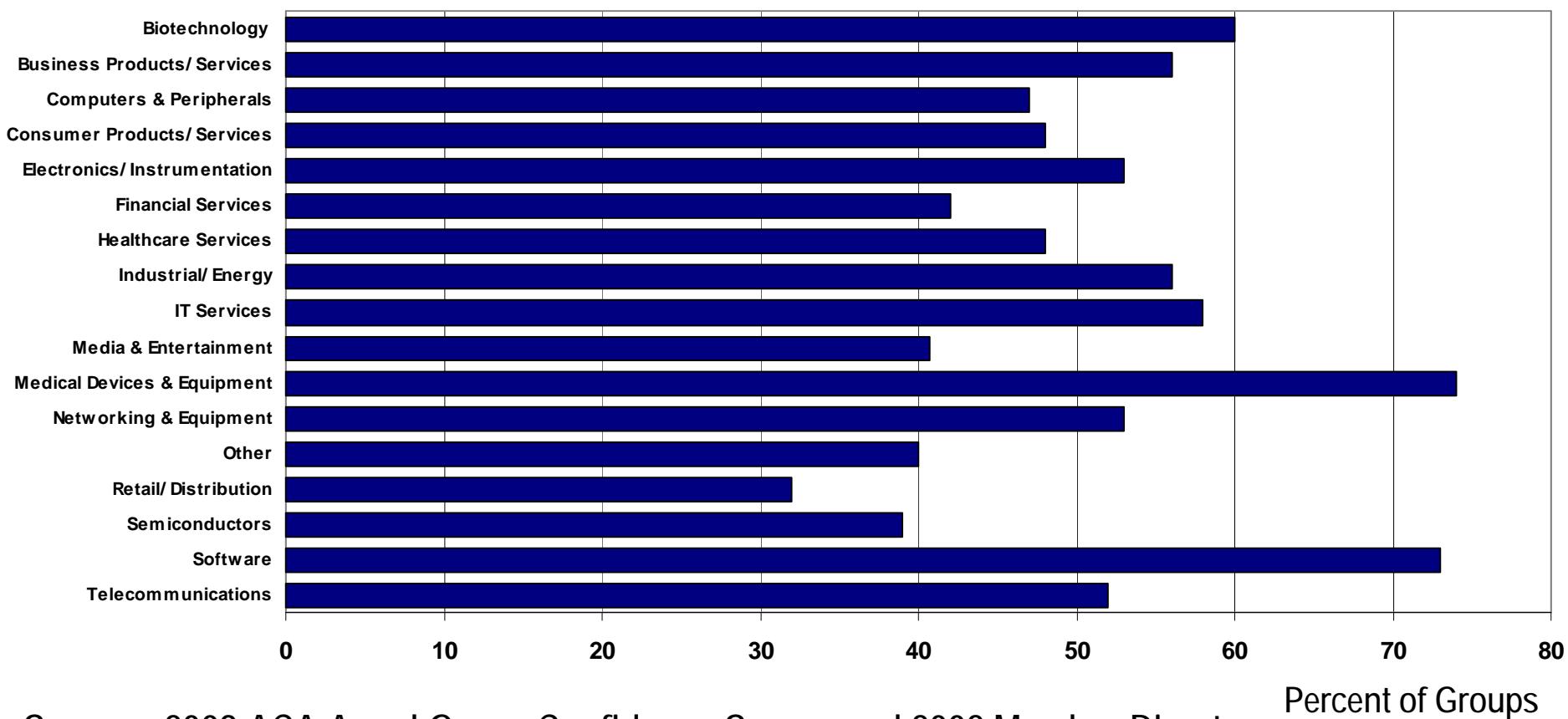


Source: ACA Confidence Survey, March, 2010



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Group Investment Preference – 2008-2009



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

Percent of Groups

2009 Prediction:

Plan Major Changes to Group Structure or Investment Process?

Increase member angels	29.2%
Decrease member angels	0.0%
Establish sidecar fund	19.4%
Raise new fund	12.3%
More investment in portfolio cos	32.3%
More co-investment with other groups	53.8%
Increase co-investment (general)	35.4%
Update industry preferences	15.4%
No changes planned	21.5%
Other changes	23.1%

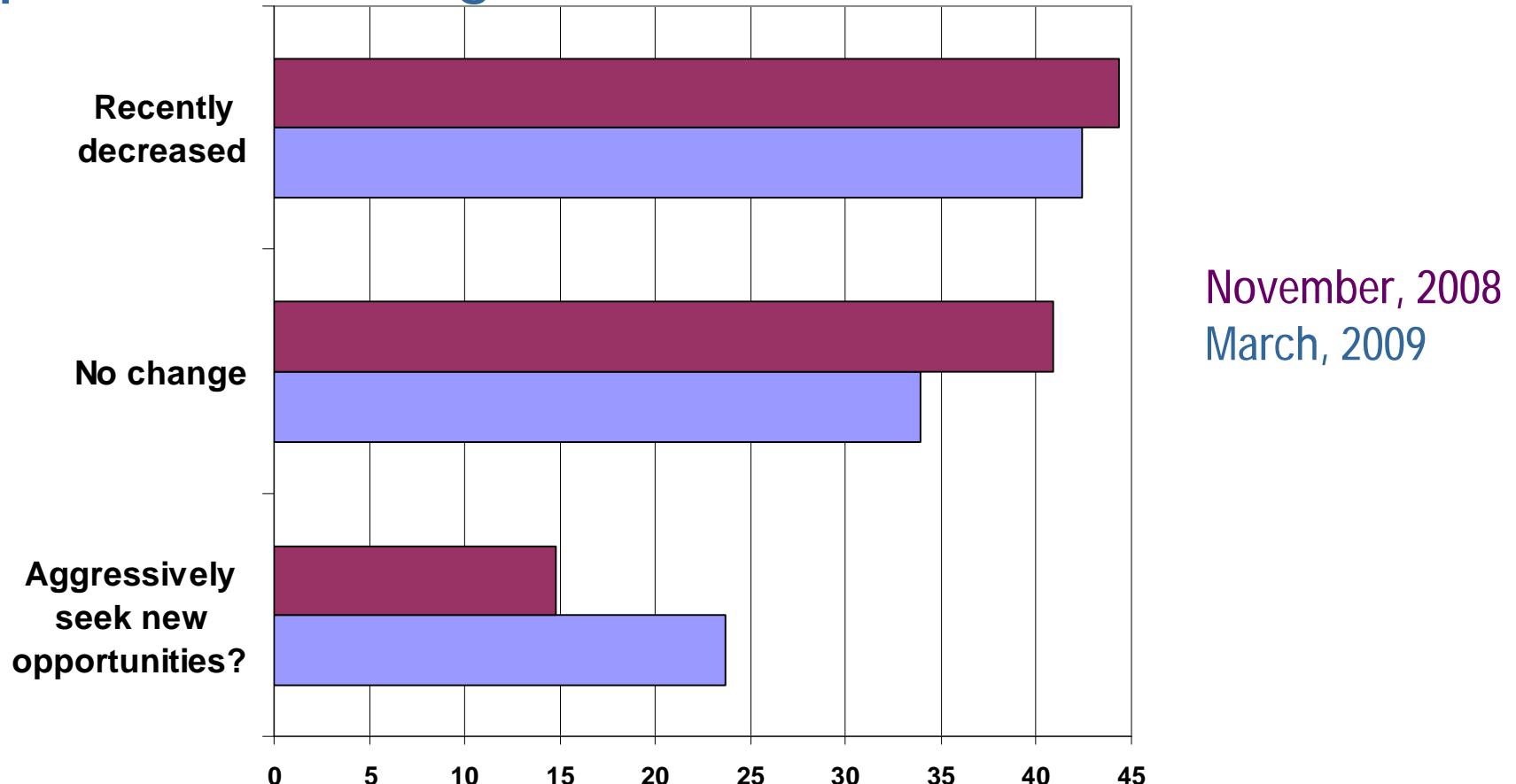
Source: 2009 ACA Angel Group Confidence Survey



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Impact of Recession:

Appetite for Adding New Ventures to Your Portfolio?



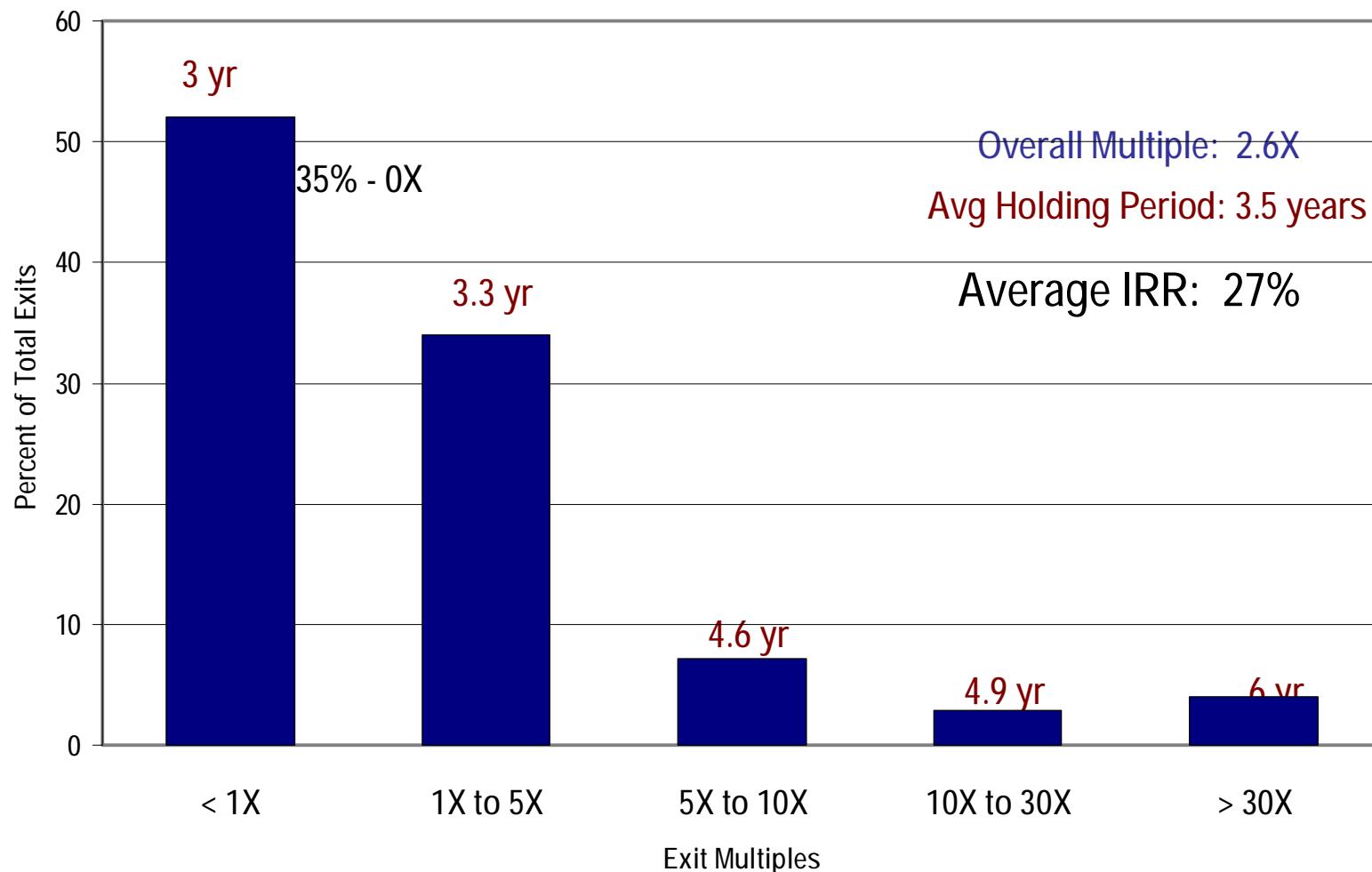
Source: 2009 ACA Angel Group Confidence Survey

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



Distribution of Returns by Venture Investment



Key Policy Issues for Angels – and the Entrepreneurs They Invest in

- Senate Financial Reform Bill
 - 1,300 page bill with two problem paragraphs
 - Increase accredited investor definition for inflation
 - Repeal Federal preemption of state regulation over “accredited investor” securities offerings
- Federal Tax Credits for Angels
 - ACA consulted on two of three bills being drafted
- Obama Administration Stimulus (Reduce taxes on QSBS)
 - Increase Qualified Small Business Stock exemption to 100% and extend it to more years.

Opportunity: Grow Angel Pool

National awareness and education campaign could double active angels

- Events and media: you could be an angel
- Education to understand risks, pros and cons
- Interested angels take education to build skills
- Connect to angel groups to pool capital
- System to connect all angels to SBIR winners/ mentoring
- Establish endowment for individuals interested in advancing field

Need seed capital to get started

ACEF Education Programs

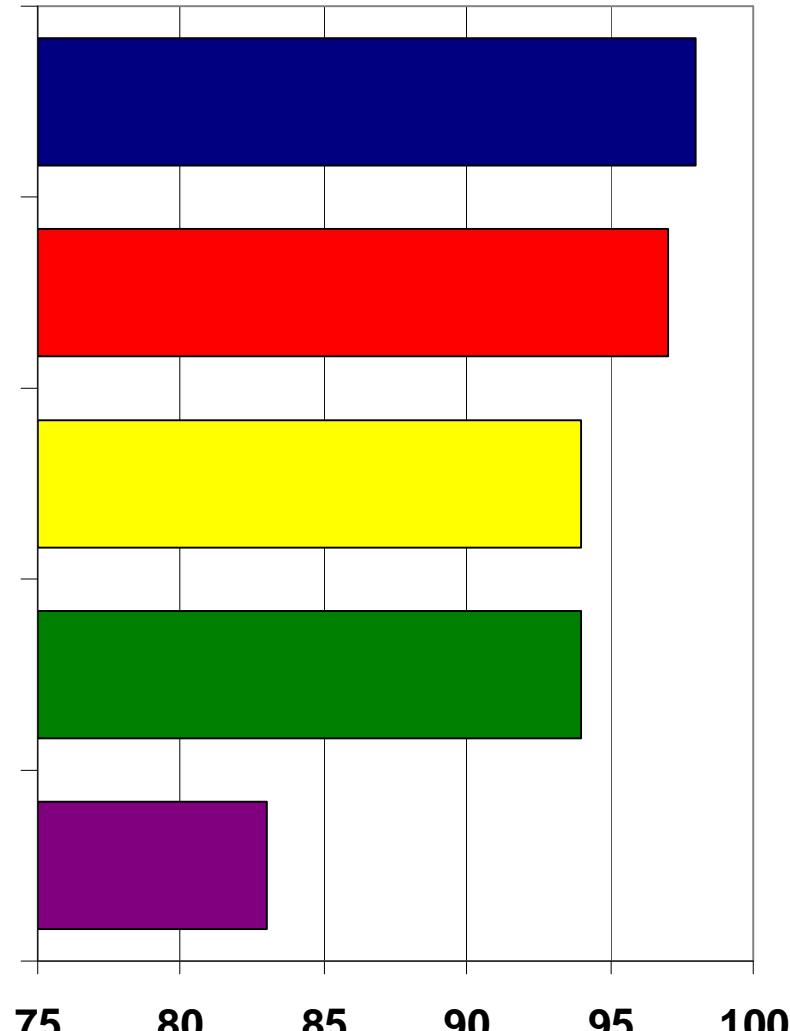
- **Full Day Seminars**
 - Angel Investing Overview
 - Starting an Angel Organization
 - Angel Investing Basics for Economic Development Professionals
- **Half Day Workshops**
 - Term Sheets
 - Due Diligence
 - Valuation & Portfolio Strategy
 - Post-Investment Relationship
 - Trends in Raising Capital

the POWER of
angel
Investing

Developed by Ewing Marion Kauffman Foundation

Education Helps Angels

- Better prepared to make decisions**
- Become smarter investor**
- Learn from seasoned experts**
- Improve skills to become more active**
- Education needed to mitigate risks**



Source: HNW survey of PAI students

SBIR and Angels

- Good fit in industry verticals
- Angels like non-dilutive capital of SBIR grants
- Many angel groups interested in talking with award winners (all phases)
- Many award winners need more coaching on the “business side” or connections to entrepreneurs



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