

Becoming an Angel Investor

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Graham & Walker Roundtable
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My Personal Journey

- ☐ Learned I was an Accredited Investor
- ☐ Found an Angel Group where I could learn
- ☐ Active with Angel Groups and on own for last 6 years
- ☐ Have a portfolio of over 20 Startup Investments
- ☐ See positive results in progress and returns
- ☐ Excited to share with you what I have learned

Angel Investing: The 5 W's and the H

- Who
- What
- When
- Where
- How
- Why

Who

Who are Angel Investors

Angel Investors are
individual accredited investors
who **provide financing**
with their **own money**
for **early-stage** start-ups
usually in exchange for
convertible debt or **ownership equity**

Definition of who is an Accredited Investor

- **ANNUAL INCOME:** An individual who made a gross income of more than \$200K (\$300K with spouse) for at least 2 years with ongoing expectations for the next year
- **NET WORTH:** An individual (or married couple) whose (joint) net worth exceeds \$1M, excluding the value of a primary residence.
- **TRUST MGT:** Someone managing a trust with more than \$5M assets

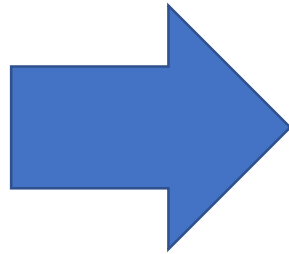
Increase Awareness of Opportunity to Angels that simply don't have their wings yet

5.3 Million*

individuals are “defined as those having investable assets of US\$1 million or more, excluding primary residence

4.5 Million**

Households made over \$200K (3.9% of US HH)



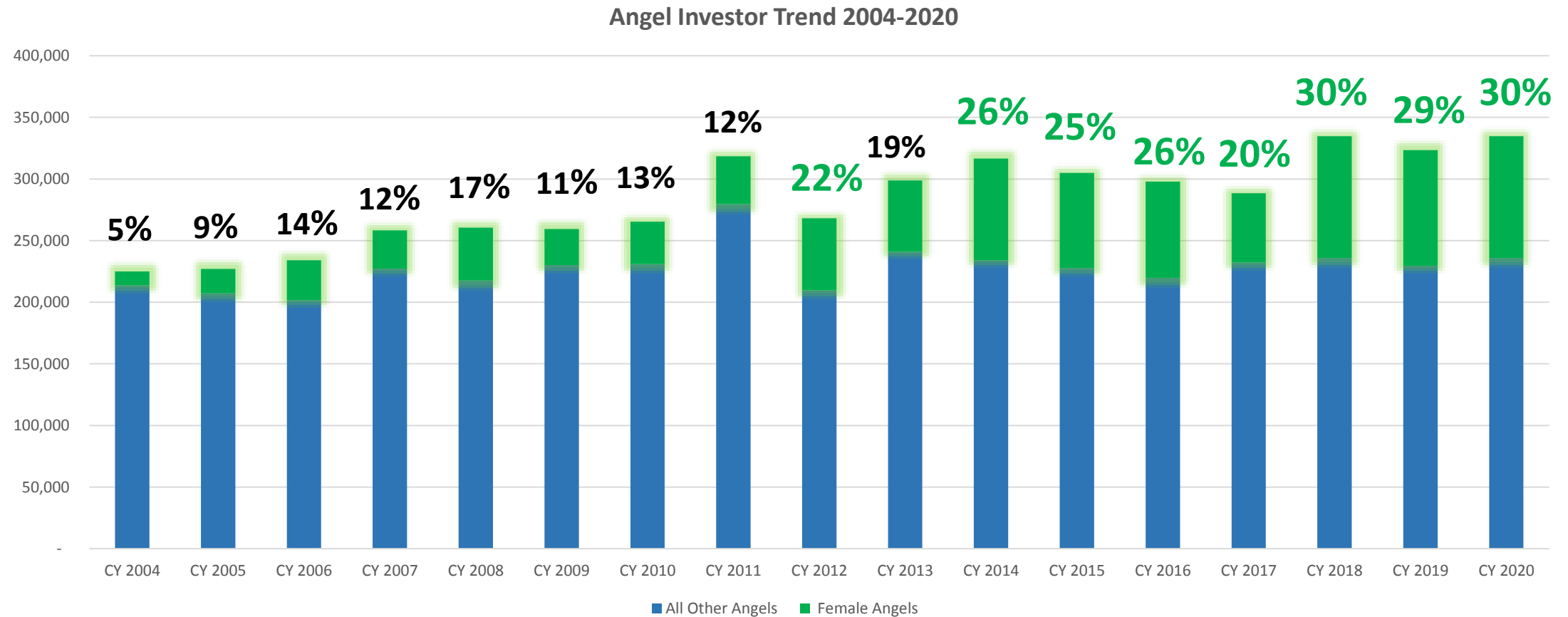
Only capturing

3%-6%

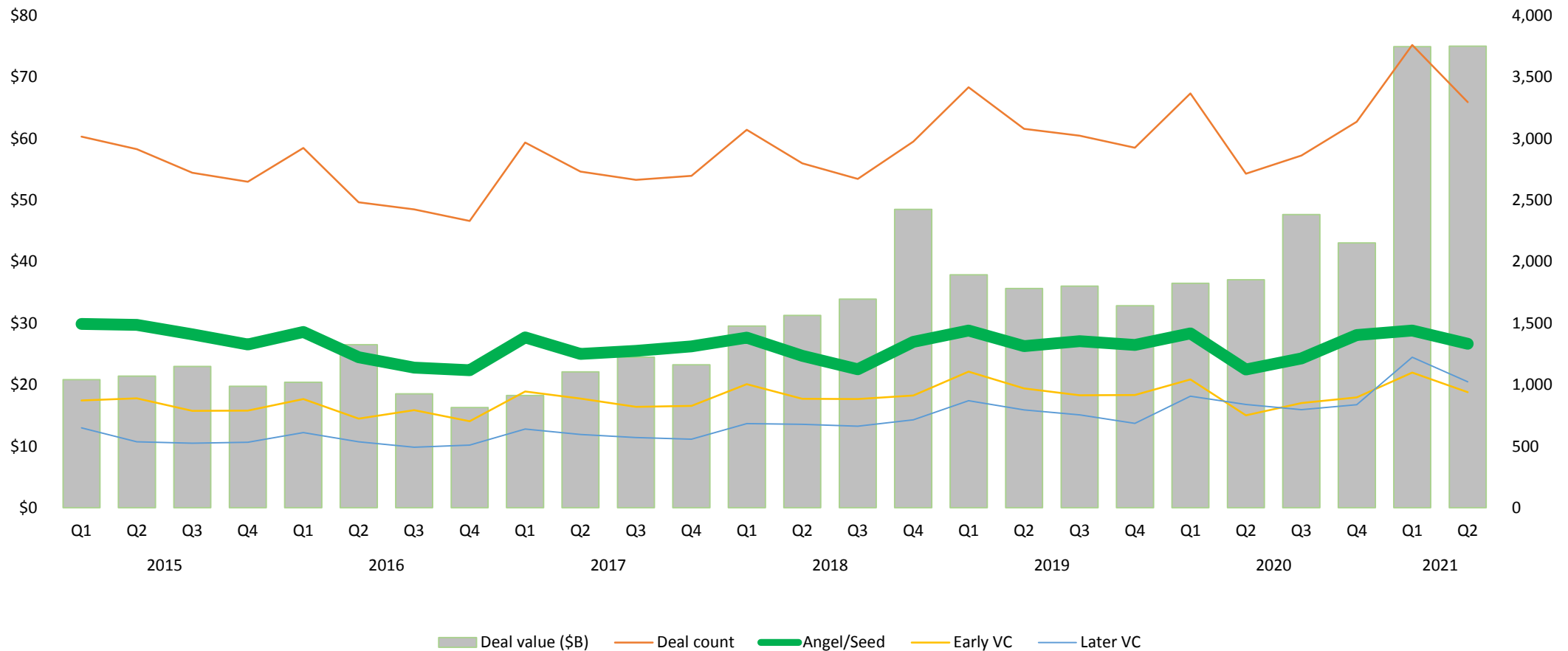
Of this potential today

Source: *2018 World Wealth Report compiled by Capgemini; **2010 Census

Women Angel Investors now represent ~30% of all Angels in the US



Angels are responsible the **Largest % of Deals** with the important role igniting innovation

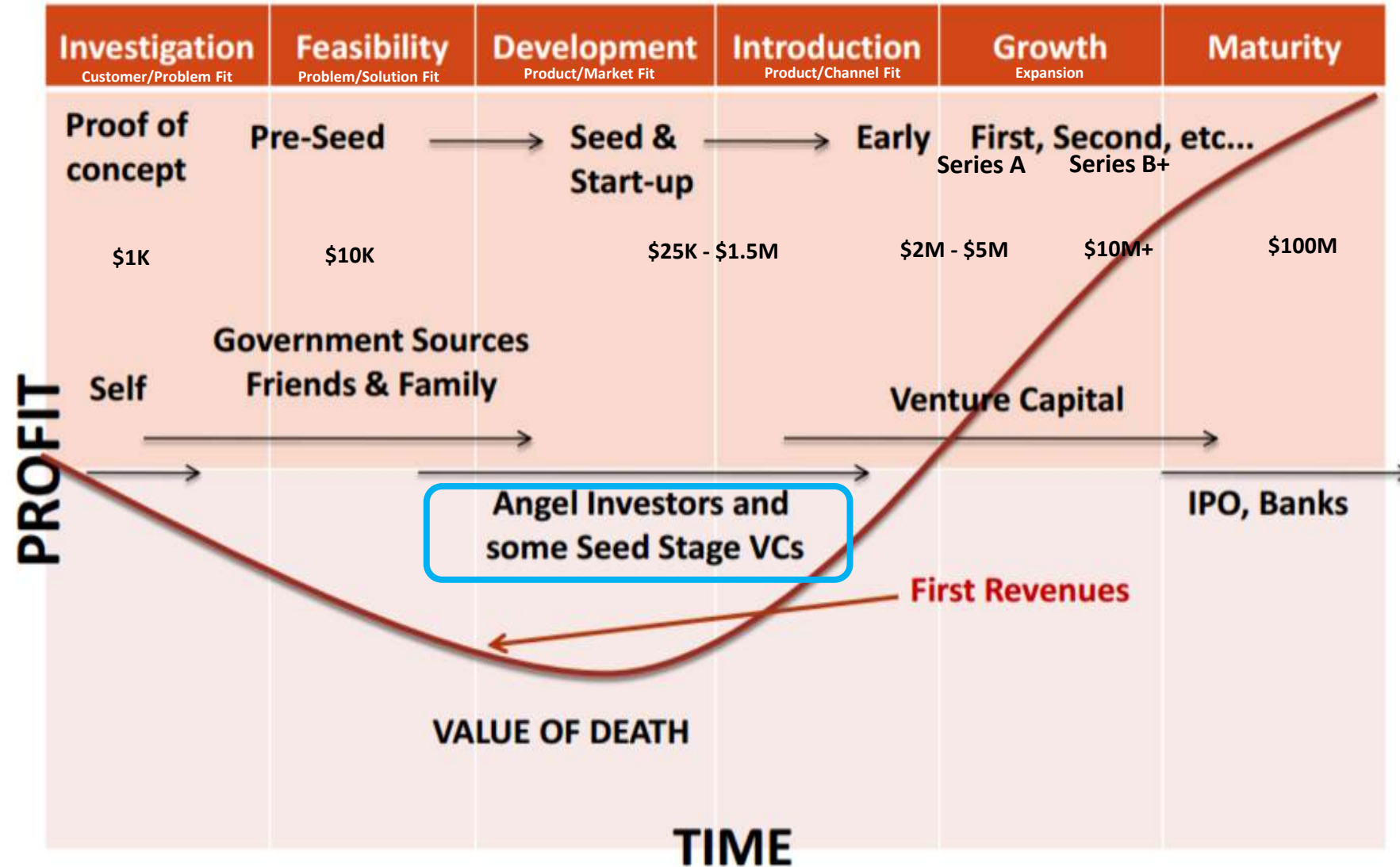


Angels vs VCs

- **Who's Money:** Angels invest their own money while VCs invest other people's money while
- **Check Size:** Individual Angel Check size is smaller than that of a VC since they have larger amounts of money to deploy. They need appropriately sized deals so their check size is usually bigger.
- **Stage:** Angels start the ecosystem spark and invest in more, earlier stage companies while VC funds typically invest in fewer, later stage companies
- **Outcome:** Angels are more often invested in the sweet spot of acquisitions, around \$50M while VC are looking for huge exits. They usually look for “unicorn” potential (over \$1B).

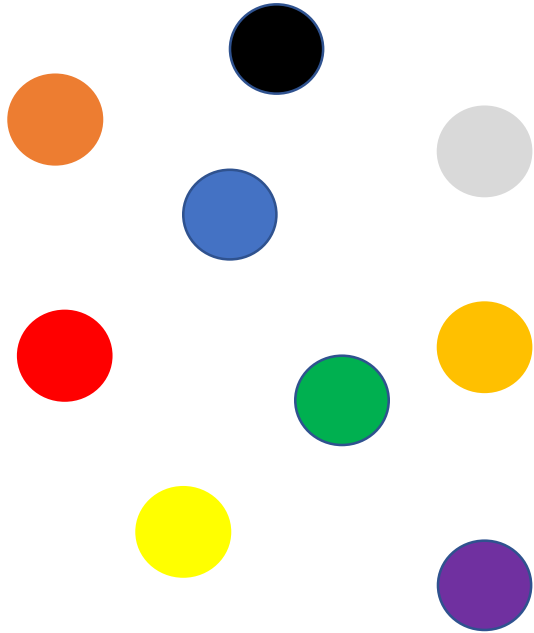
When

The Capital Lifecycle

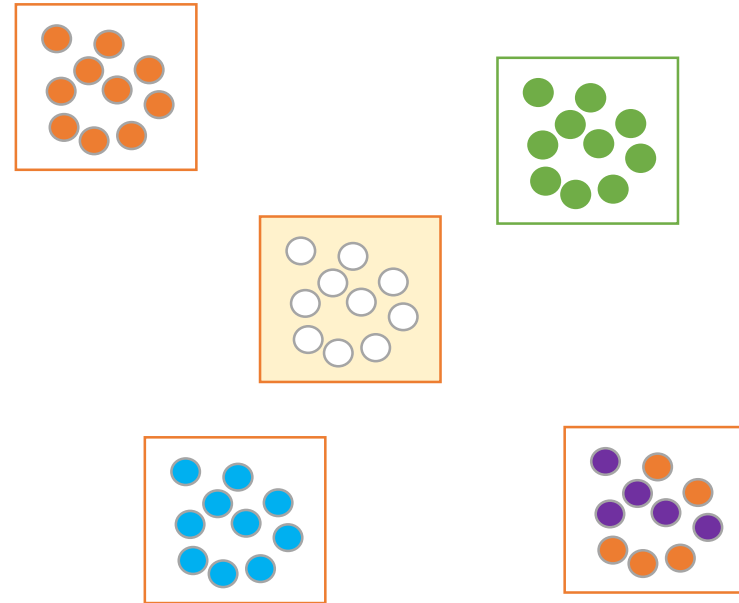


How

All Angels don't invest the same way



As Individuals



In Groups

Two Main Type of Angel Groups



Network

Pitch then Fund
Individual Choice



Funds

Fund first

There are also different types of funds

Active

Significant portion of the member investors **actively involved in the screening, deal flow, due diligence and investment decision.**

Passive

Investor are passive in the selection of which **relies on rules, algorithms or others** to do the fundamental **due diligence and investment selection.**

Managed

Provides for **General Partners who manage the investment analysis and decision process.**

Event

Both the **investment is taken up front** and the **date** of when the investment will be decided are defined up front **before the companies are known**

What

What do Angel Investors do?



Review Founder Pitches



Perform Due Diligence

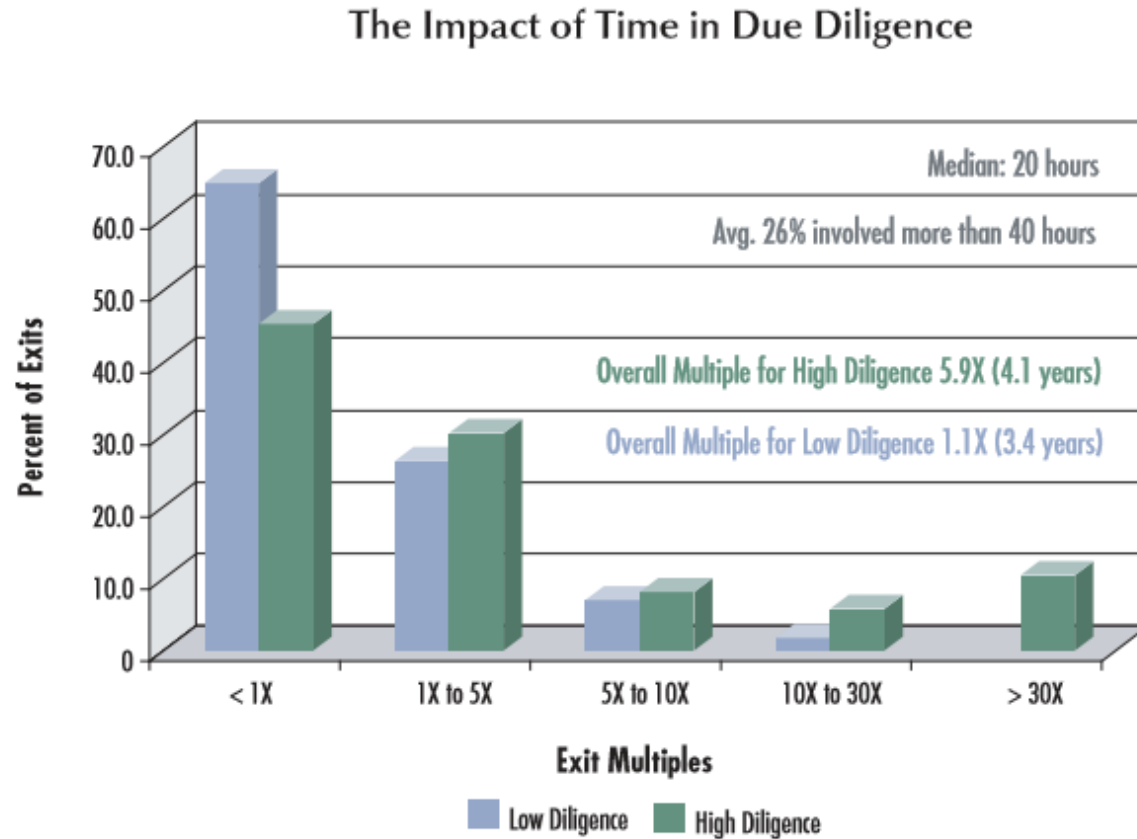


Invest their own money

Due Diligence

- An **investigation or audit** of a potential investment to **confirm facts and assumptions**
- Usually includes **discussions with founders** and **reviewing documents** in the areas of *market problem, product solution and differentiation, Market Size, traction, team, competition, moat, GTM strategy, financial model, investment ask and use of funds*
- The purpose is to assess **whether to write that check**

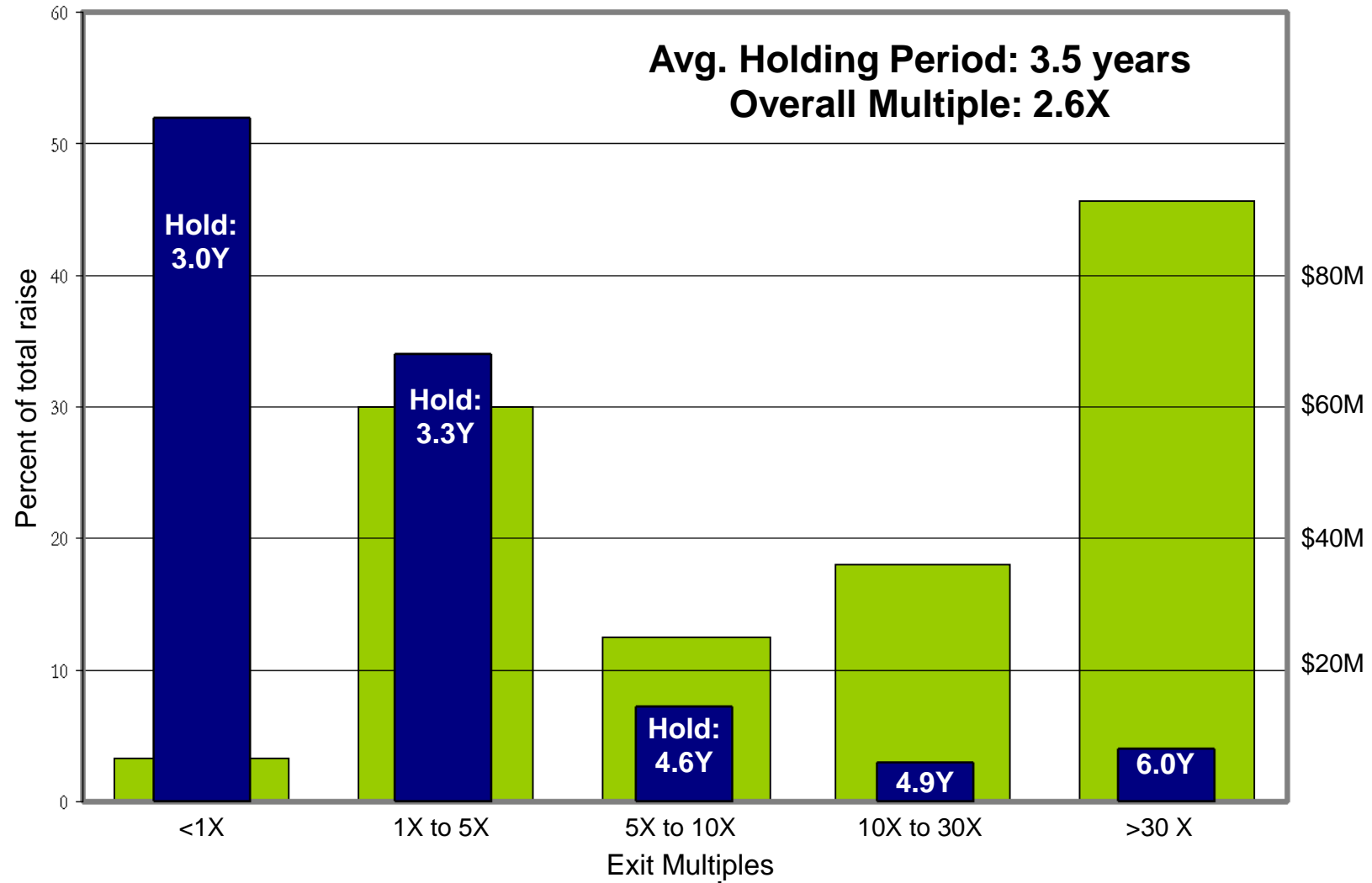
Amount of Due Diligence Matters



Spending time on due diligence is significantly related to better outcomes.

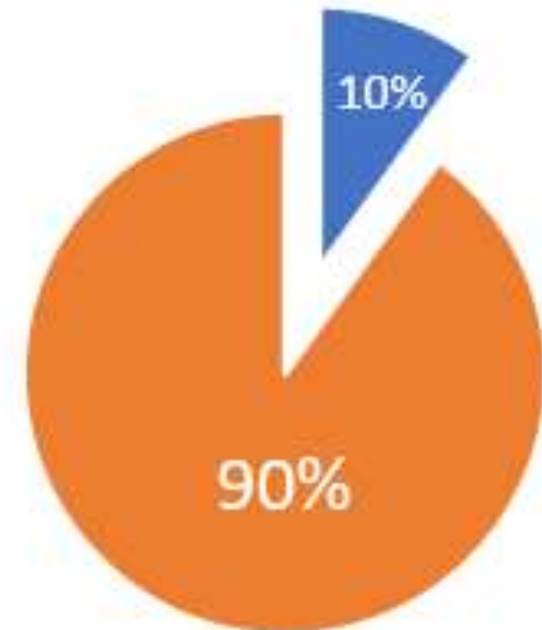
How

Distribution of Returns by Investment



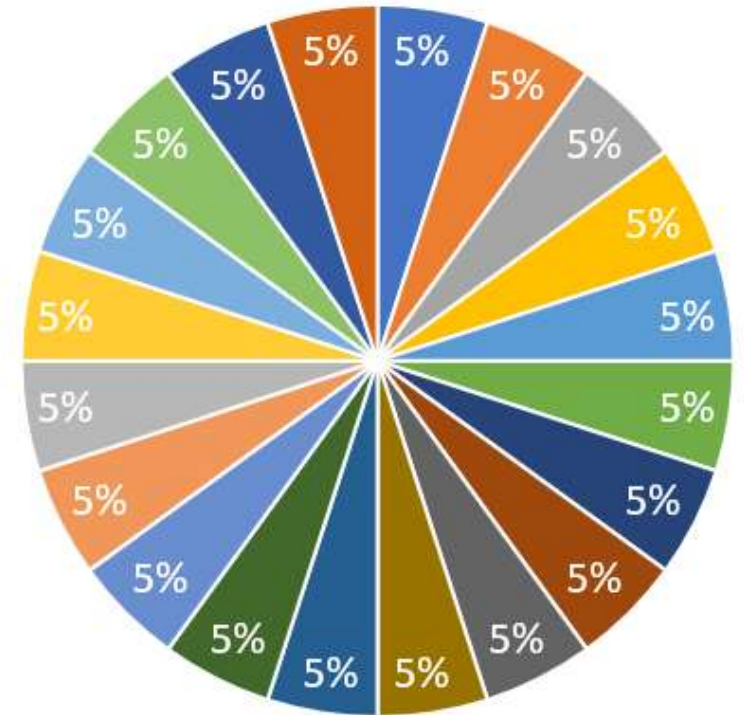
Include Angel Investments in your Portfolio

- Angel Investing is **risky** as more startups fail than make it every year
- **Invest only a portion** of your net worth dependent on your risk tolerance
- Typical guidelines: **5% - 10% of net worth**
- If \$500K Total Net worth ~ Up to \$50K towards Angel Investments
- If \$1M Total Net worth ~ Up to \$100K towards Angel Investments



Diversify the Angel Portion of your Portfolio

- Create an **Angel Portfolio** and **diversify** within that
- Your associated **Check Size** ~\$5K
if Portfolio is \$100K
- Recommended **number of investments**
to spread out risk is ~**20+**
- Diversification Dimensions can include
Stage, Industry, Founder diversity



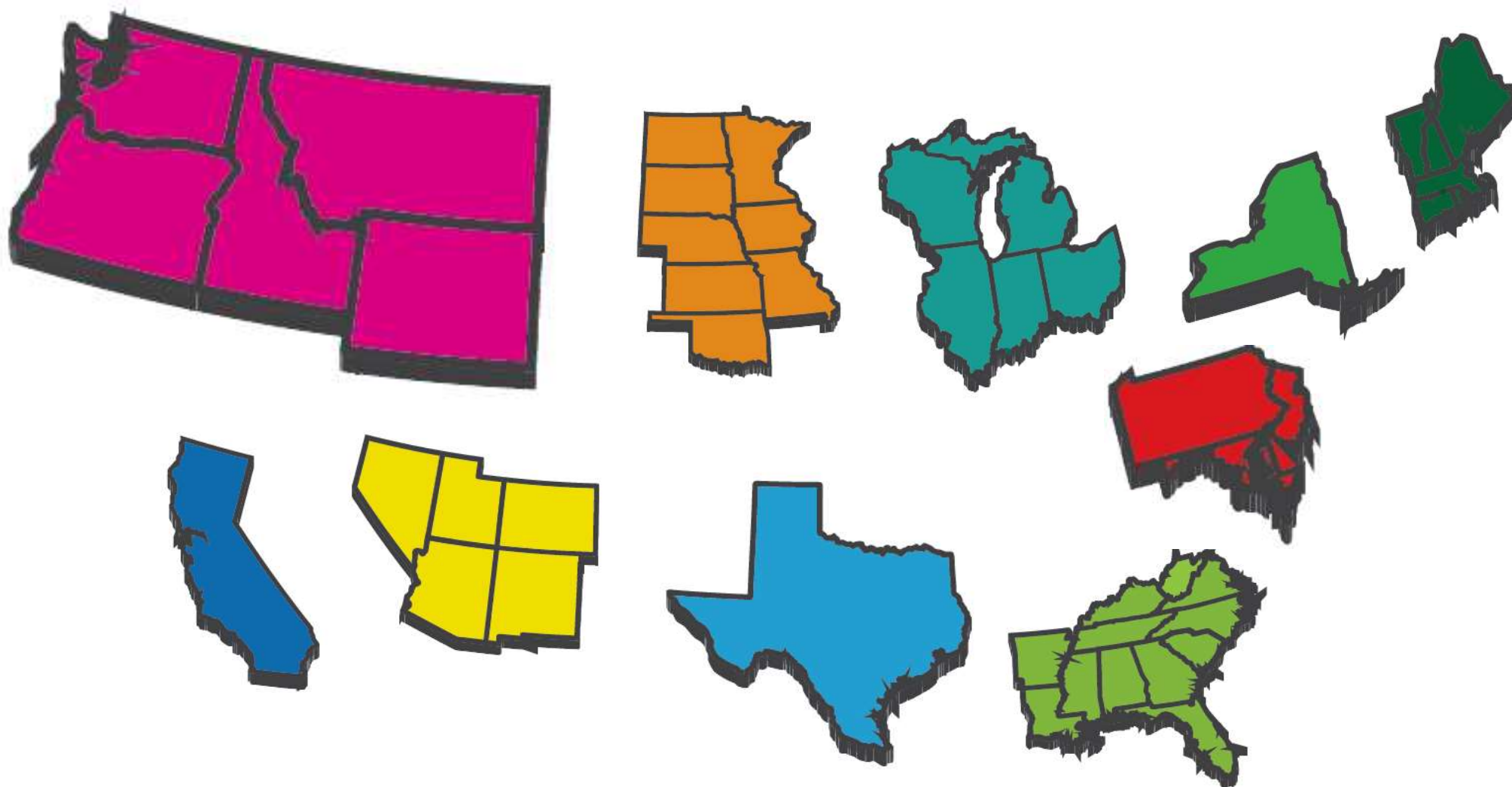
Where - Latest Trends in Regions

Data Source: 2020 HALO Report



2,198
Deals

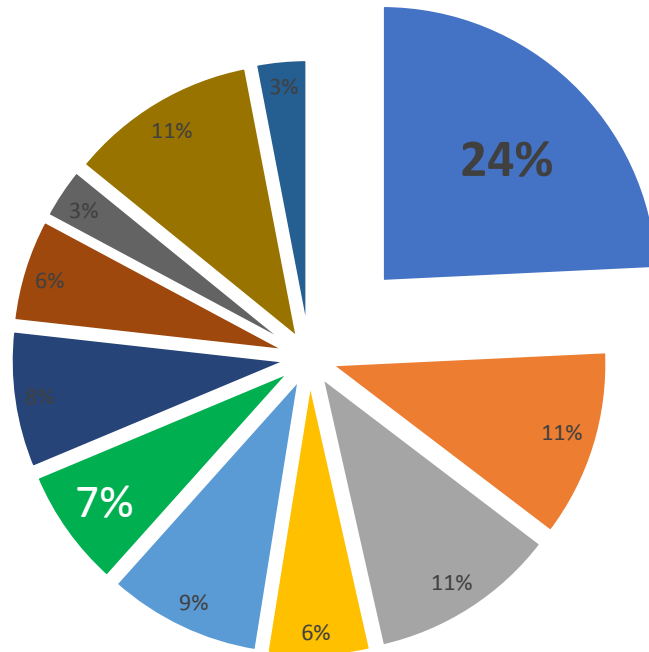
How do the different Regions stack up?



Follow the Money..From **Where**? California Angel Groups are responsible for over 27% of \$ Invested

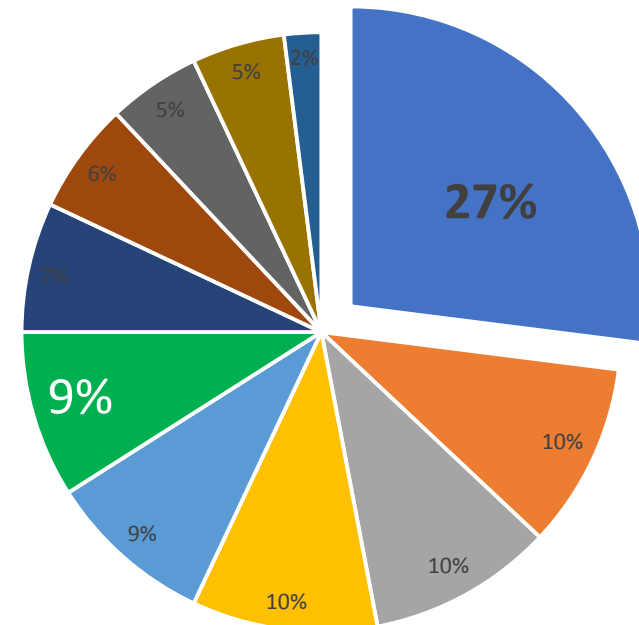
Seed/Series A Deals and \$ invested by investor location

2020 % of all Seed/Series A Deals by Investor Location



California New York Southeast Mid-Atlantic Southwest Northwest
Great Lakes NorthEast Outside US Texas Great Plains

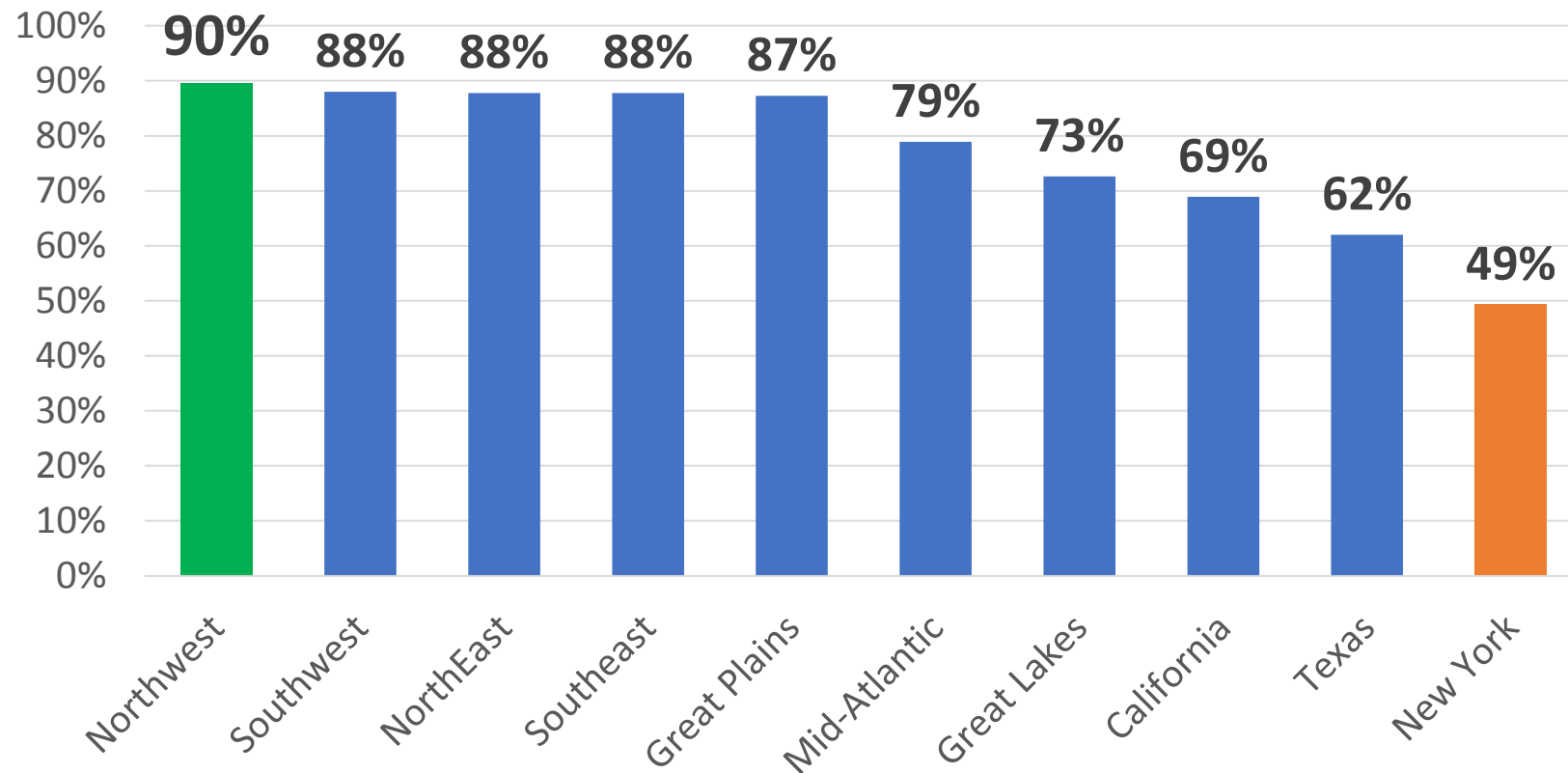
2020 % of Dollars Invested by Investor Location



California New York Southeast Mid-Atlantic Southwest Northwest
Great Lakes NorthEast Outside US Texas Great Plains

Source: 2020 Halo Report with 2,198 deals

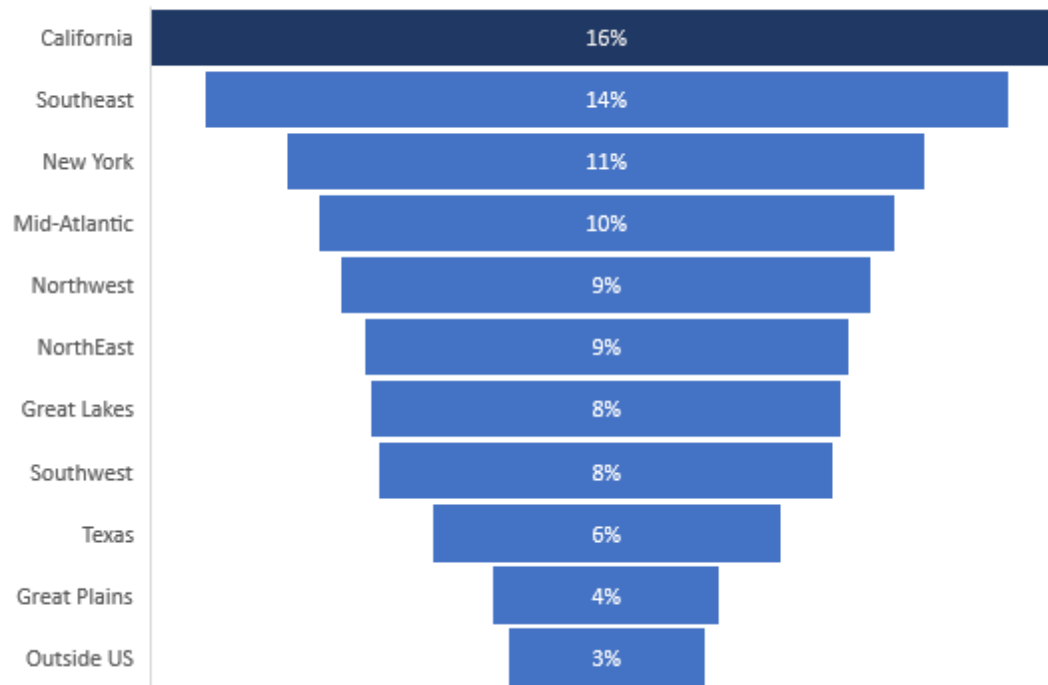
From **Where**? The vast majority of **Northwest** Angel Groups deals are homegrown while Angel Groups in New York aggressively invest outside their home region 51% of the time – similar to last year



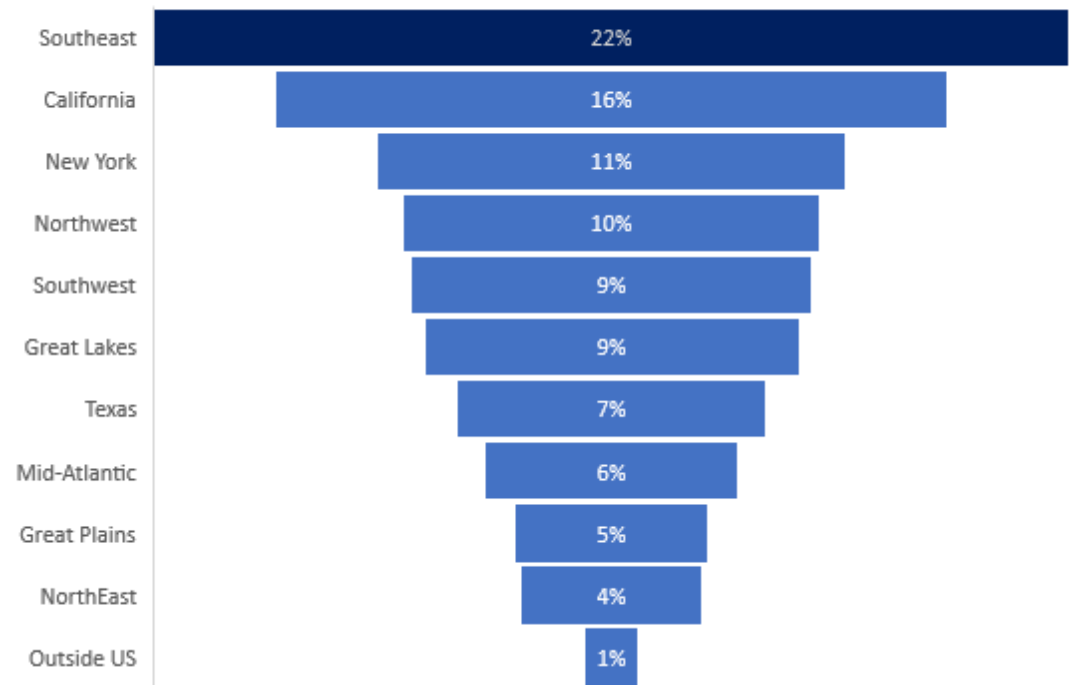
Source: 2020 Halo Report with 2,198 deals

To **Where**: California remains a draw for investors with 16% of out of home region deals being invested in companies there. **9%** from other regions comes to the **Northwest**

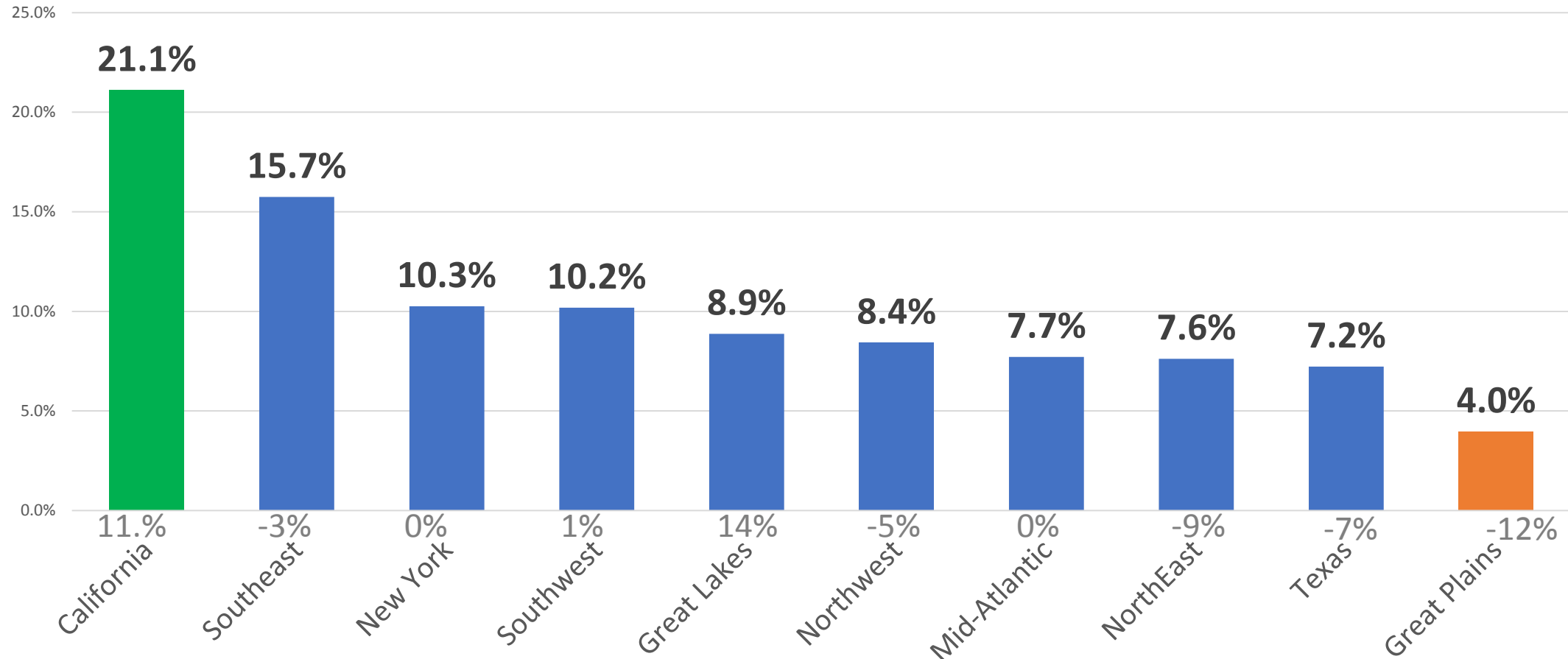
**Where Out of Home Region Deals Go -
% Deals**



**Where Out of Home Region Deals Go -
% \$ Invested**

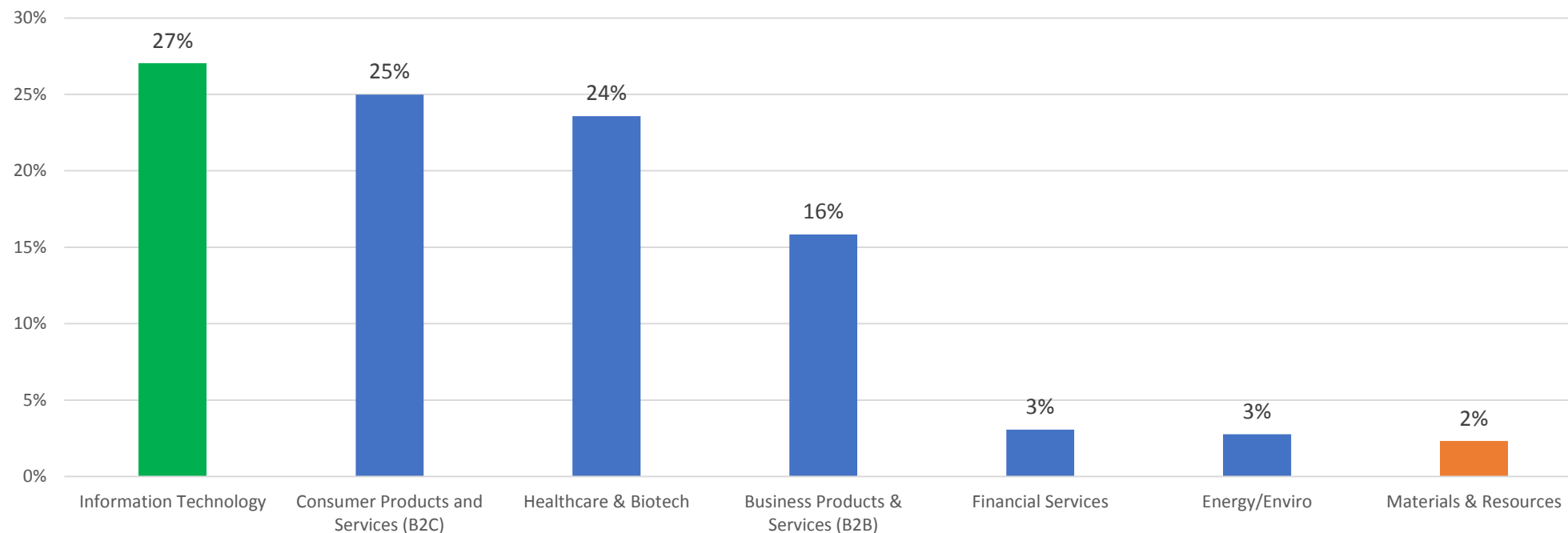


To **Where?** **21%** of all Angel Group backed deals were located in California down to 4% in the Great Plains



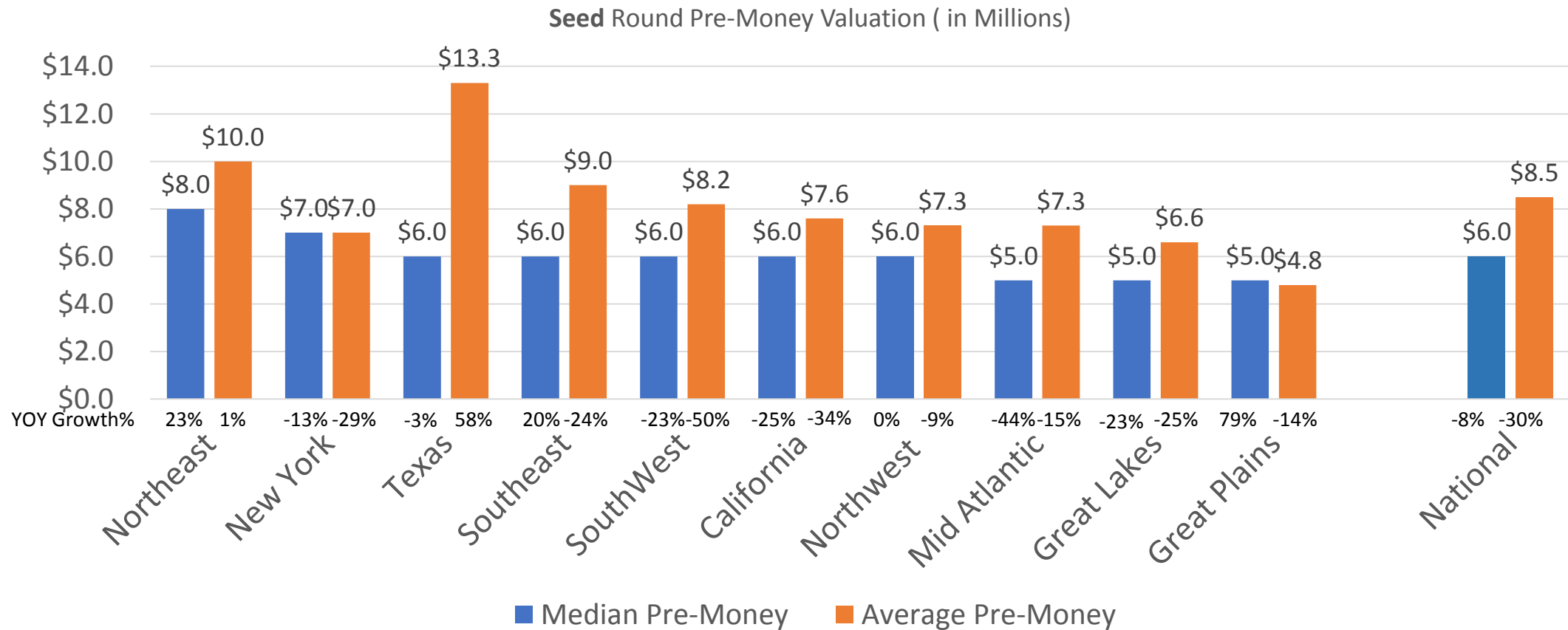
Source: 2020 Halo Report with 2,198 deals

What? National Average focus by Industry Sector



Source: 2020 Halo Report with 2,198 deals

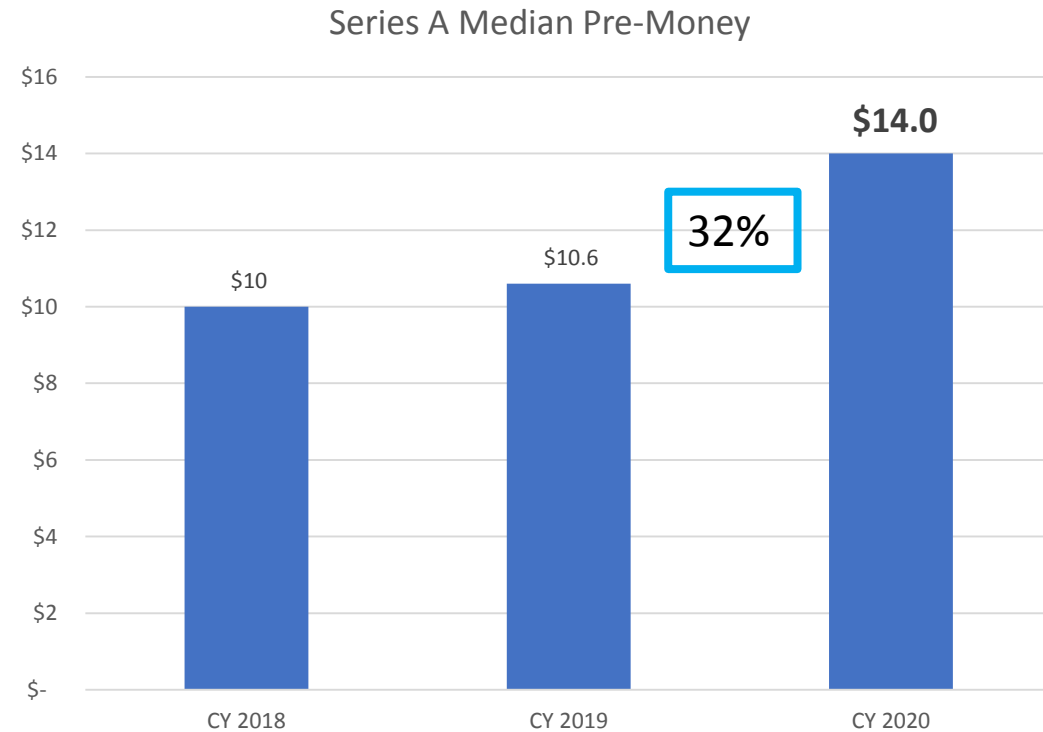
How Much? Pre-Money Seed Round Valuation in Northwest was at the National Median of \$6M and below the National Average with \$7.3M



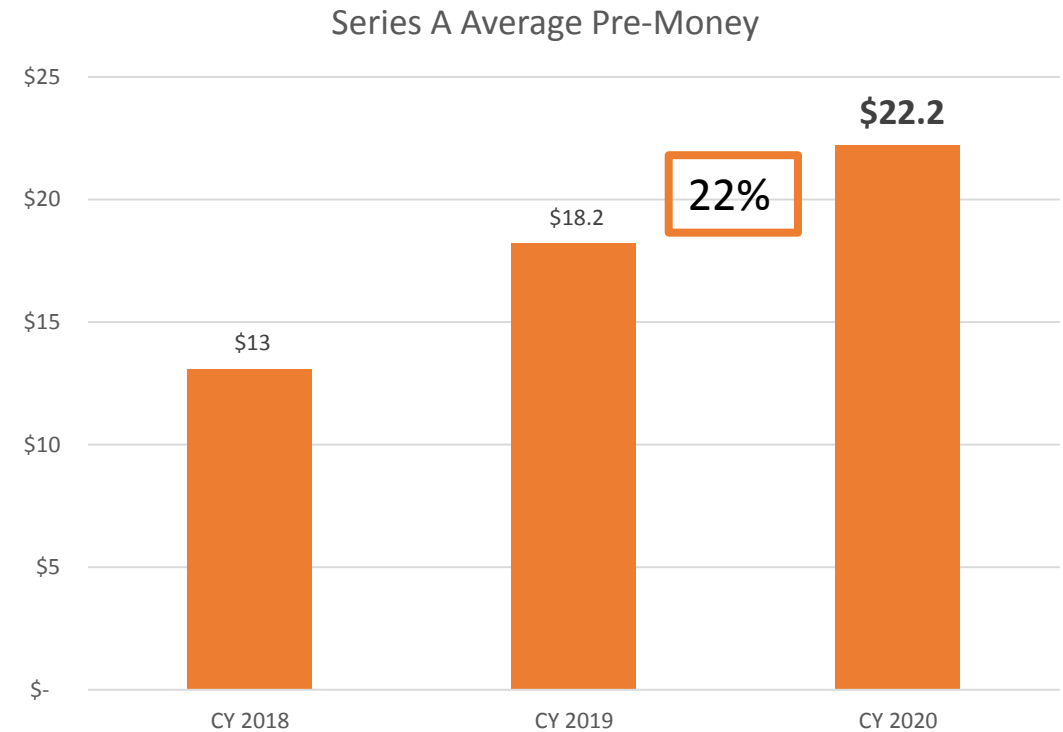
Source: 2020Halo Report with 1,921 deals

How Much? Both Pre-Money Series A Round Valuation National Median and Average increased Year over Year

Series A Pre-Money Valuation Medians



Series A Pre-Money Valuation Averages



How Big? Seed Round - National Median Actual was only 50% of Funding Round Size

Funding Round Size

National:

- Median = \$1.0M
- Average = \$1.9M

Actual Investment

National:

- Median = \$500K
- Average = \$1.6M

When the Average is larger than the Median value, we have outliers at the high end of the distribution that are pulling up the averages

How Big? Series A- National Median Actual was only 10% of Funding Round Size

Funding Round Size

National:

- Median = \$4.0M
- Average = \$5.9M

Actual Investment

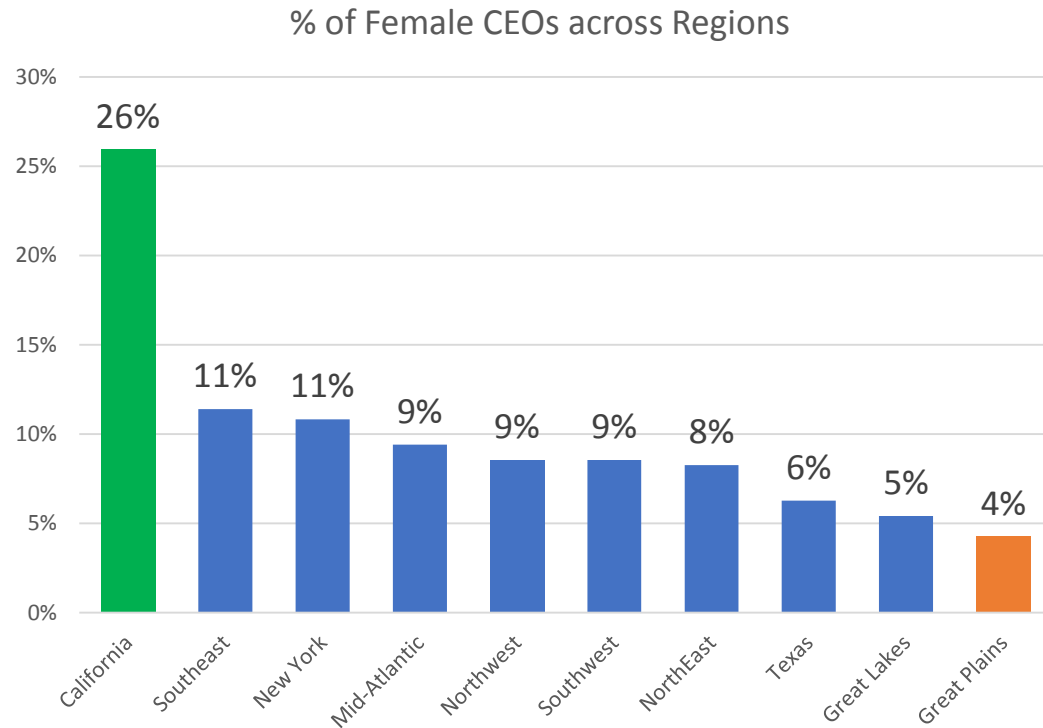
National:

- Median = \$400K
- Average = \$2.7M

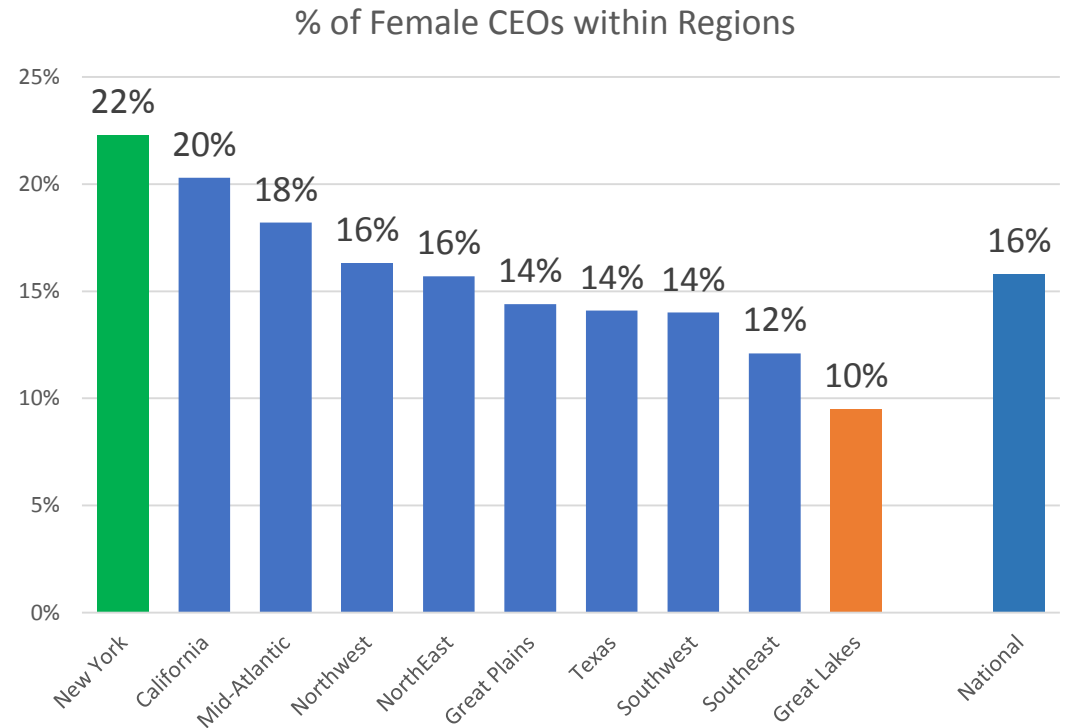
When the Average is larger than the Median value, we have outliers at the high end of the distribution that are pulling up the averages

More Who? Northwest is at the National Average for Female CEOs in the Region

% of Female CEOs **across** Regions

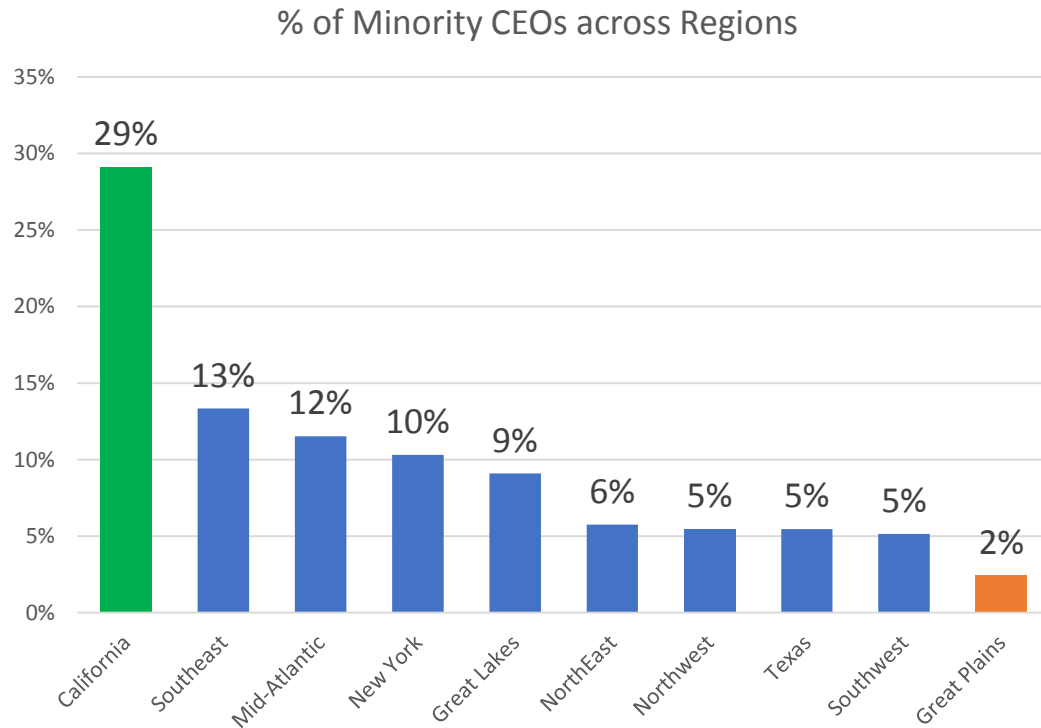


% of Female CEOs **within** Region

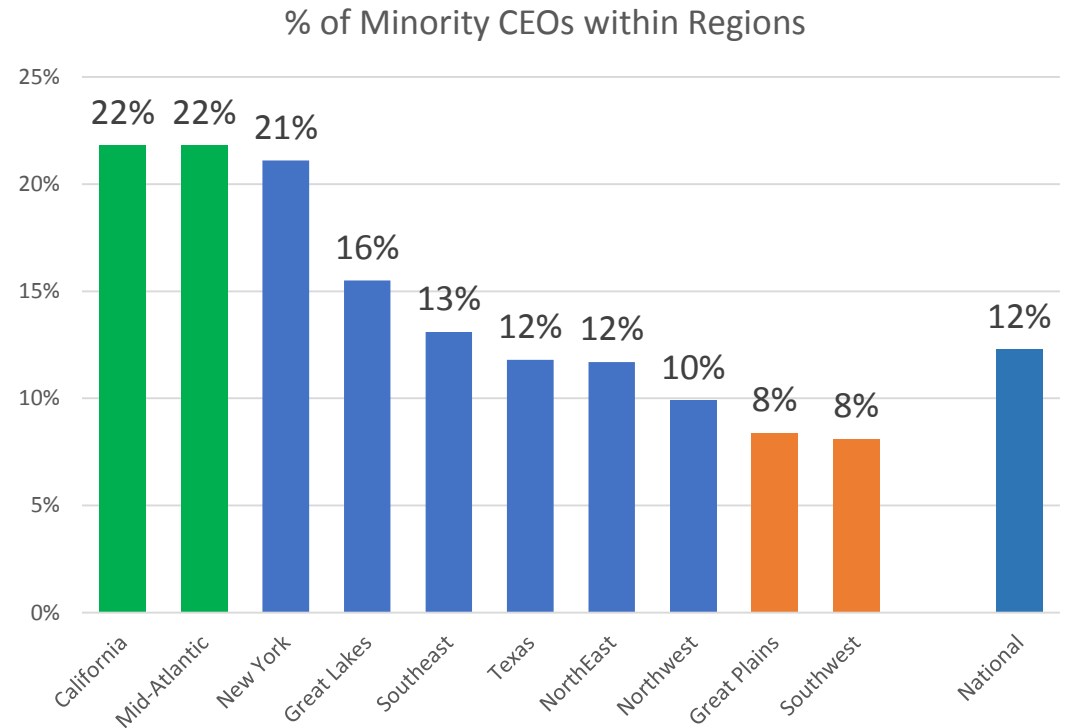


More Who? Northwest is slightly below the National Average for Minority CEOs in the Region

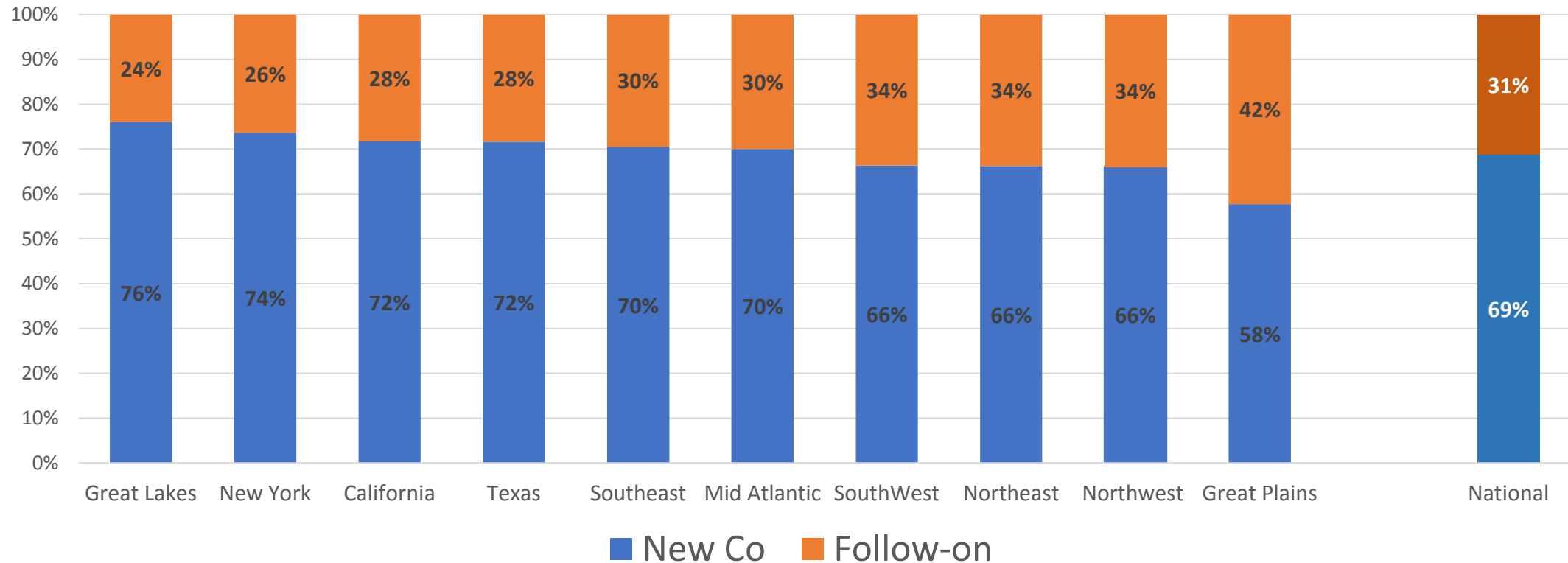
% of Minority CEOs **across** Regions



% of Minority CEOs **within** Region

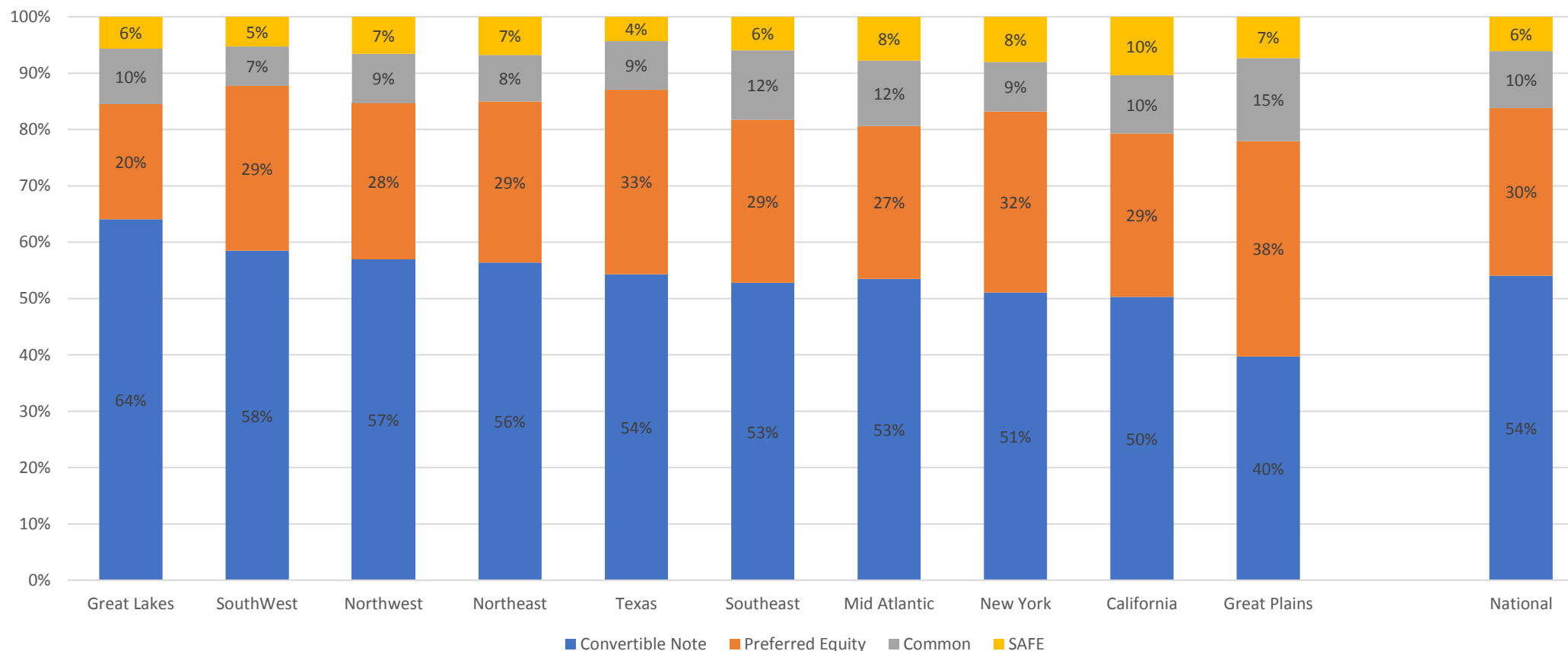


How Much? National Mix is 70/30 New Co/Follow-on Funding



Source: 2020 Halo Report with 2,198 deals

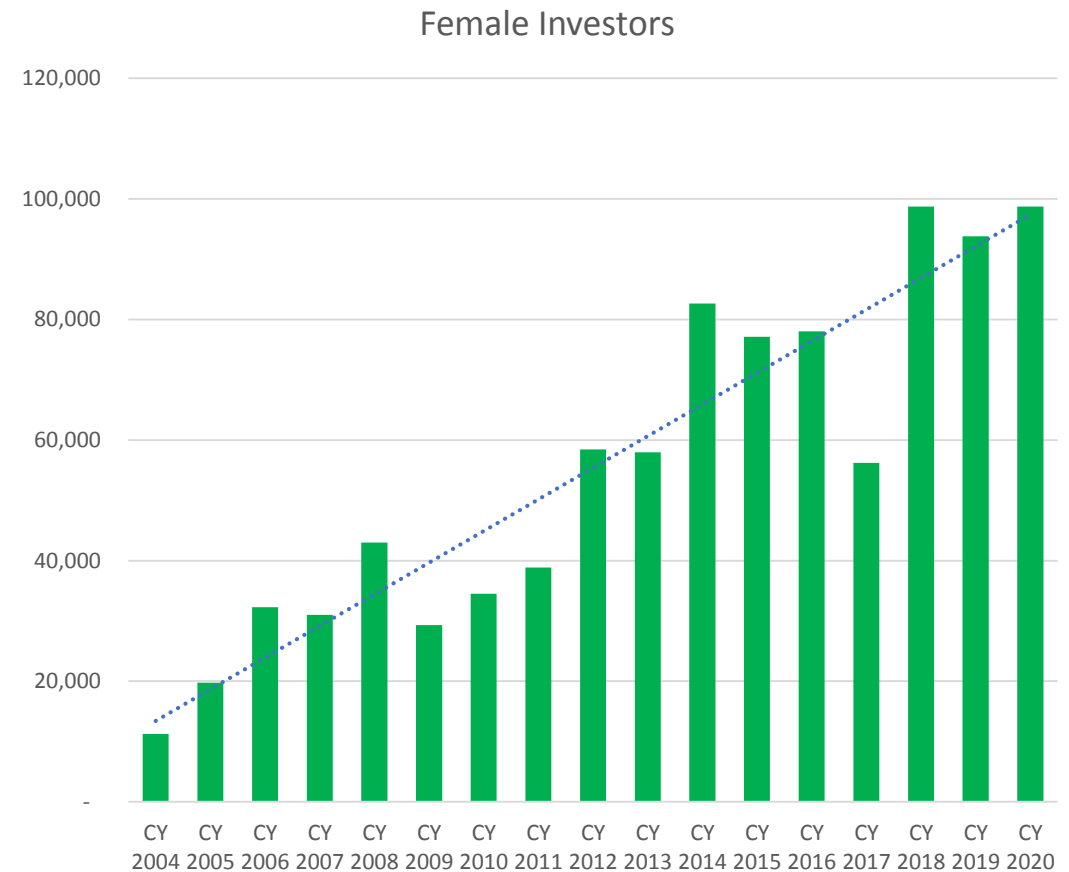
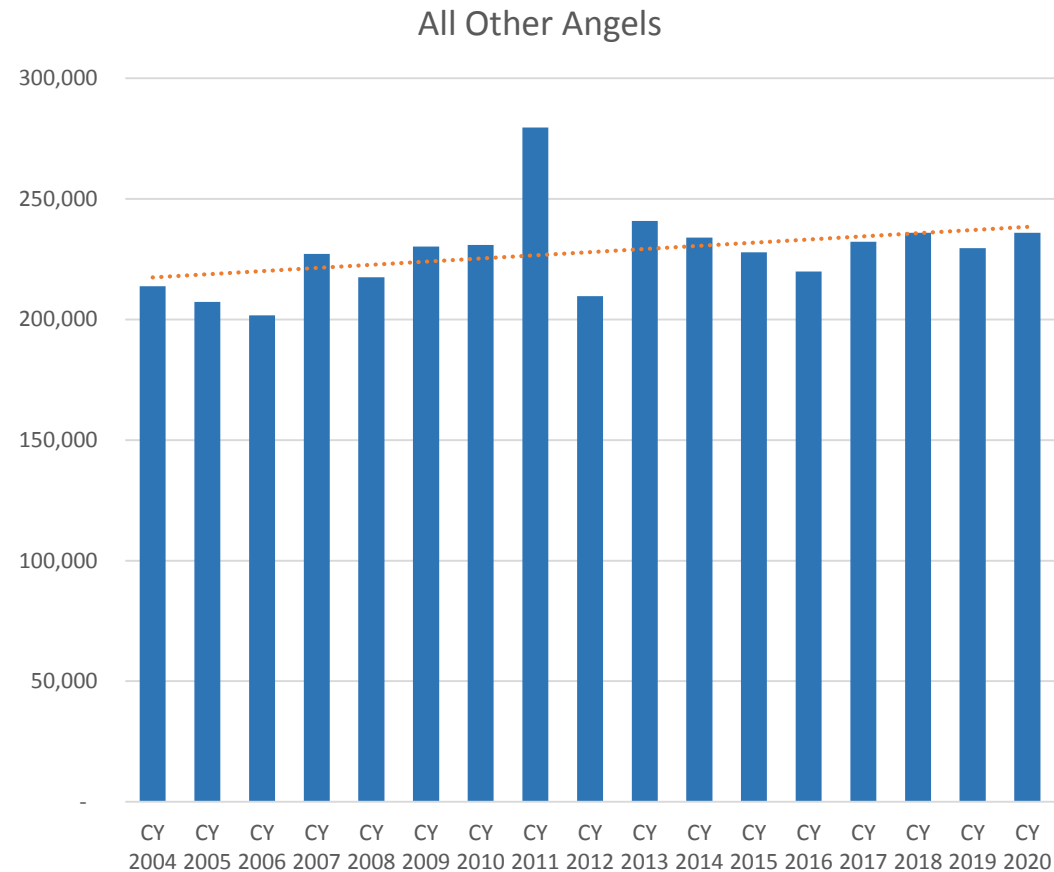
How? Convertible Notes continues as the most common Funding Type followed by Preferred Equity



Source: 2020 Halo Report with 2,198 deals

Why

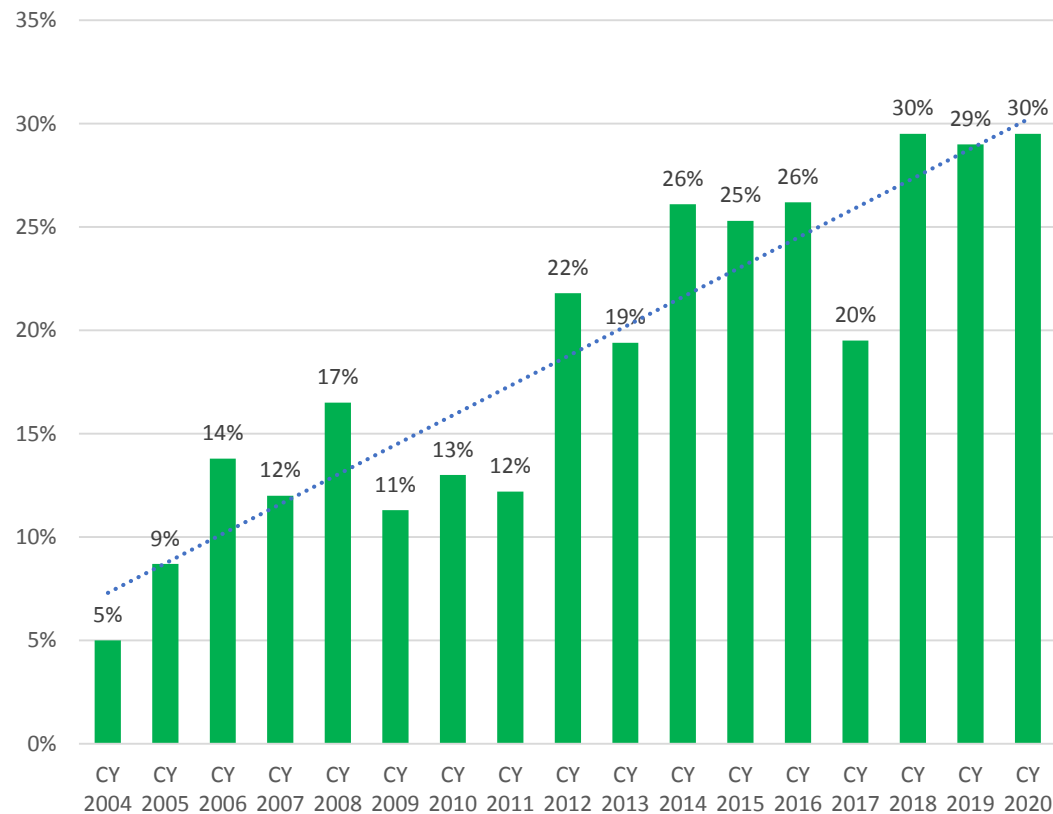
The rate of **growth** of Female Angels has been significantly greater than Non-female Angel Investors



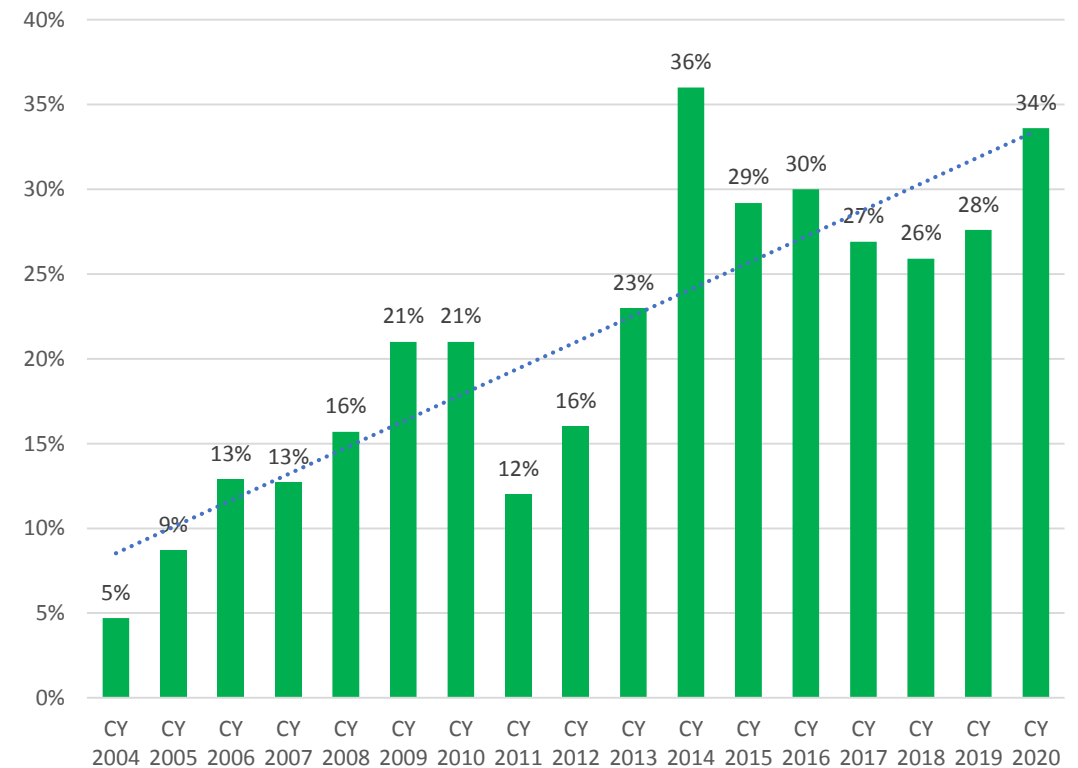
Source: Center for Venture Research

Female Angel Investors and Women Owned Businesses seeking funding growth is on similar trajectories

% of Angel Investors are Women

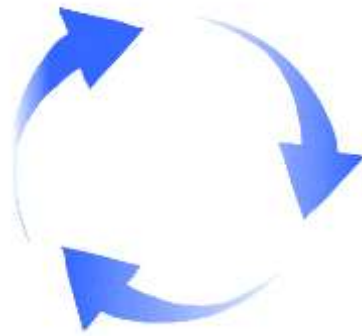


% of Entrepreneurs seeking funding that are women owned Ventures



There is a **positive cycle** between Angels and Entrepreneurs that creates **long term growth**

Angels



Entrepreneurs

55% of Angel Investors were previously a founder or CEO of their own startup

Increasing number of successful Entrepreneurs in the short run can help the number of Angels in the long run

Why Do Angels Invest?

- **Financial Return**
- **Diversification of net worth**
- **Help new job growth – local economy**
- **Have a front seat on latest innovation** trends
- **Meet like minded colleagues** who have become friends
- **Expand Personal Growth** and Learning
- **A way to Give Back via Leverage Experience** through advise and mentorship to Start-ups
- **Share learnings** with new Angel investors
- **High Energy** and the Enthusiasm is contagious
- **Personal happiness** and fulfillment – in making a difference
- **Making a Difference**
- **Its Fun!**

Getting Started

- Angel Capital Association www.angelcapitalassociation.org
 - Education through Workshop and Videos
- Gust Groups www.gust.com
- Angel List www.angel.com
 - Syndicates on Angel list
- Women only groups
 - Pipeline angels www.pipelineangels.com
 - Golden Seeds www.goldenseeds.com
- Seattle Angel Conference – www.seattleangelconference.com
- Angel Investing by David Rose (book)
- Graham & Walker Accelerator

Graham & Walker Accelerator

- 6 pre-seed or seed-stage companies with open rounds
- Live pitches with full Q&A, small-group investor meetings week of February 21
 - Accredited? You're invited!
 - Private registration link to be shared over email.
 - <https://www.eventbrite.com/e/investor-showcase-for-gw-accelerator-cohort-4-tickets-240428005637>