State of Entrepreneurial Finance:
VCs, Angels, Super Angels, and the Creative Other

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InfoDev Mobile Startup Camp
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- General Partner, Seraphim Capital, London
- Co-Chair, World Business Angels Association
- Participant in international forums and lectures – Paris, Tokyo, Bangkok, Malta, Copenhagen, Mexico City, Helsinki, Santiago, Costa Rica, Lisbon, Cardiff, London, Sao Paulo, Holland, Auckland, Dubai, Panama, Beijing, Brisbane, Dominican Republic, Hong Kong, Istanbul, Bulgaria, Puerto Rico, Indonesia, Dublin, Shanghai, Toronto, Casablanca
Overview

VC’s, active angels and new entrepreneurial finance players need each other to provide innovation finance in an even more competitive world economy.
“The internet, venture bubble at the turn of the century was not a once in a ten year flood – it was a once in a hundred year flood.”

Mark Heeson, President, National Venture Capital Association at the ACA Summit, San Diego, 2007
“The bad news is our fund lost millions. The good news is none of it was our own money.”
1,538 Early-Stage Markets Large, Complementary

Early Stage

2011 Angel Investment
source: UNH CVR

Mostly early-stage

$22.5B
66,230 deals

Late Stage

Mostly later stage

2011 VC Investment
source: NVCA/PWC/VE

3,906 deals
$29.4B

438 Seed/Start-up

1,538 Early-Stage
…And It’s Gotten Worse

Amount of Venture Capital Invested by Stage in the U.S. (in millions)

<table>
<thead>
<tr>
<th>Stage</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed/Start-up</td>
<td>3,350</td>
<td>1,725</td>
<td>1,056</td>
</tr>
<tr>
<td>Early-stage</td>
<td>2,927</td>
<td>5,495</td>
<td>8,632</td>
</tr>
<tr>
<td>Expansion</td>
<td>5,485</td>
<td>9,187</td>
<td>9,772</td>
</tr>
<tr>
<td>Later</td>
<td>5,919</td>
<td>6,854</td>
<td>9,983</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>17.7B</td>
<td>23.26B</td>
<td>29.49B</td>
</tr>
</tbody>
</table>

Where Do VC $s Go?

- VC industry matures into $25 B/year market – back to ’98!
- 61% into California and Boston, only 3,400 transactions
- 77% of VC $ goes to 10 states
- Only 19% of ’10 VC funding goes to first round, 27% in ’11 to start-up/seed-stage companies – 75% of angels go there
- Median transaction for VC’s is $7.0 million (angels = $430,000) and pre-money valuation grows to $14.3 million (angels @ $2.0 million)
Entrepreneurial Financing Sources Have Grown

- Bootstrapping and FFF come first
  - Individual angels
  - Syndicates of angel groups
  - Accelerators
  - Family offices
  - Super Angels
  - Crowdfunding platforms
  - VC light funds
The World of Angel Investing

- Part mentoring
- Part venture capital
- Part psychic reward
- Part adventure
Angel Investing

...cash investments of after tax dollars from *individuals* into a *stranger’s* company, in a *minority* position of equity with no dividends, interest or cash flow, in a *principle to principle* relationship using *time* as well as money for 3, 5, 7, 9 years to earn *long term capital gains* and the only recourse is...the *rule of law*

- John May
What is evolving? (The 250 club)
- Non-institutional entrepreneurial finance
  - Angel groups
  - Super angels
  - Accelerators, incubators, other innovations
  - Crowdfunding platforms
  - Early stage VCs, including state and local funds
  - Family offices
  - Corporate funds
**Angel Groups are a Small - but Important - Subset of All American Angels**

<table>
<thead>
<tr>
<th>U.S. Millionaires</th>
<th>3 study Estimates of Informal Investors</th>
<th>Center for Venture Research - Active Angels (est.)</th>
<th>Investors in angel groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,200,000</td>
<td>1,000,000</td>
<td>225,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

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
Many Variations of Non-VC Angel Group Investing

- Ad hoc, one-time partnerships
- Angel networks
- Pledge funds
- Angel Limited Partnerships
- Member-led and manager-led LLC’s
- Other (be creative)
What is a relationship like?

- Mentor capital
- Access to capital, IBs
- “been there, done that”
- Spousal, with a twist
Research: *Returns of Angels In Groups*

- Angel Capital Education Foundation, paid by Kauffman Foundation
- Rob Wiltbank (Willamette University) and Warren Boeker (University of Washington)
- First opportunity to understand the ROI of angels connected to angel groups and drivers behind returns
- Released in November, 2007

**Responses:**
- 538 angels (*accredited investors*)
- 3,097 investments
- 1,137 exits and closures
<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years investing</td>
<td>9</td>
</tr>
<tr>
<td>Number of investments</td>
<td>10</td>
</tr>
<tr>
<td>Total exits/ closures</td>
<td>2</td>
</tr>
<tr>
<td>Years as entrepreneur</td>
<td>14.5</td>
</tr>
<tr>
<td>Number ventures founded</td>
<td>2.7</td>
</tr>
<tr>
<td>Age</td>
<td>57</td>
</tr>
<tr>
<td>Percent of wealth in angel investing</td>
<td>10%</td>
</tr>
<tr>
<td>Education</td>
<td>Masters degree</td>
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</table>
Distribution of Returns by Venture Investment

- Overall Multiple: 2.6X
- Average IRR: 27%
- Avg Holding Period: 3.5 years
- 35% - 0X
- Exit Multiples:
  - < 1X
  - 1X to 5X
  - 5X to 10X
  - 10X to 30X
  - > 30X

Percent of Total Exits
Investment Structure

- Network (69.8%)
- Fund (22.2%)
- Network/Sidecar (7.8%)

Source: 2008 ACA Member Directory/2009 membership applications
Actual Angel Group Investments – 2008-2009

Source: 2008 ACEF, SVB and Dow Jones VentureSource Angel Group Data Surveys – verified w/ ent calls
Top 10: What NOT to Say to a VC/Angel*

#1

“It’s kind of hard to explain what we do”

*Thanks to Carter Griffith at Updata Partners
"Did you get my Outlook meeting invite?"
Top 10: What NOT to Say to a VC/Angel

#3

“I’ll send you that if you sign an NDA”
Top 10: What NOT to Say to a VC/Angel

#4

“Product…product…product…product…”
#5

“Get this: IBM just signed us on as a partner”
Top 10: What NOT to Say to a VC/Angel

#6

“Hold on, let me finish”
Top 10: What NOT to Say to a VC/Angel

#7

“I know you guys don’t invest in healthcare, but hear me out”
Top 10: What NOT to Say to a VC/Angel

#8

“We’re offering 1/3 of the company for $3 million”
Top 10: What NOT to Say to a VC/Angel

#9

“We’ll quit our day jobs tomorrow if you fund us”
Top 10: What NOT to Say to a VC/Angel

#10

“We have no competition”
U.S. Entrepreneurial Financing Trends

• VC-like terms
• Diversification
• Education for angels
• Public policy positions
• Regional deal syndicate among groups
• Side-car funds
• Online management tools
Be half full, be patient, collaborate, and remember

“Every Business Needs an Angel”
<table>
<thead>
<tr>
<th></th>
<th>Top Ten Tips for U.S. Angels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Use patient capital only</td>
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<tr>
<td>2</td>
<td>Develop mentor capital</td>
</tr>
<tr>
<td>3</td>
<td>Invest in what you know, or at least what you can understand</td>
</tr>
<tr>
<td>4</td>
<td>Expect the plan will take 2x longer and twice as expensive as pitched by entrepreneurs</td>
</tr>
<tr>
<td>5</td>
<td>Find a way to get psychic reward from your investments along the way</td>
</tr>
<tr>
<td>6</td>
<td>Remember it is cash on cash, not IRR that rewards</td>
</tr>
<tr>
<td>7</td>
<td>Time is an angels most valuable resource</td>
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<tr>
<td>8</td>
<td>Post investment relationship starts at due diligence and structuring the terms</td>
</tr>
<tr>
<td>9</td>
<td>Save powder for follow-on investments</td>
</tr>
<tr>
<td>10</td>
<td>Mentoring and luck trump “rule of law”</td>
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