Formula for Success
Trends for Starting, Funding, Growing & Exiting Companies

Troy Knauss
Angel Resource Institute
Board of Trustees, Research Chair
Meet the team of current and past board members, investors, entrepreneurs & mentors from the Angel Resource Institute
### Angel Resource Institute

#### Education & Training
- Angel Investing Overview
- Term Sheets
- Valuation
- Due Diligence
- Post Investment
- Trends in Raising Capital
- Pitching to Investors
- Navigating the Boardroom

#### Unparalleled Experience
- over 380 program deliveries
- more than 9 years of success

#### Research Initiatives
- Starting an Angel Organization
- Financing High Impact Ventures
- Angel Basics for Economic Developers

#### Global Reach
- 38 U.S. states and territories
- 17 additional countries

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**White Papers**

**Surveys**

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Angel Capital Association

Membership

- over 20 Affiliate & Umbrella Organizations
- 200+ Angel Investor Groups & Funds
- represent 12,000 accredited investors and individual ACA members

Programs & Services

- Best Practices
- Industry Advocacy & Public Policy Research
- Professional Development
- Insurance Coverage
- Background Checks
- the ACA Summit for angel investors
- the leading global conference for angel investors
“Every individual that we can inspire, that we can guide, that we can help to start a new company, is vital to the future of our economic welfare.”

Fostering economic independence by advancing education and entrepreneurship

Innovative research-based programs

Entrepreneurship Programs
2015 Annual Report
Median and Mean Round Sizes – Angels Only

2015 Shows Round Sizes Increasing, Mean Ownership of Angel round is Relatively Stable 20-25%
Median and Mean Round Sizes – Angel Co-Investments

Round Sizes Trending Up When Angel Groups Co-Invest With Non-Angels

- **2012**: Median $1.21M, Mean $1.70M
- **2013**: Median $1.45M, Mean $1.83M
- **2014**: Median $1.50M, Mean $1.91M
- **2015**: Median $1.60M, Mean $2.00M

[Bar chart showing the trend in median and mean round sizes from 2012 to 2015]
So what about Florida and the Southeast United States?
Take a look at the funding available to startups and early-stage deals

- Florida: $590k
- Southeast (sans FL): $500k
- US Deals: $1,600k

[Graph showing funding amounts]
Same chart, but only looking at deals with rounds under $3 million
Take a look at the funding available to startups and early-stage deals

Thousands USD

Florida
$300k
$550k

Southeast (sans FL)
$380k
$600k

US Deals
$1,164k
$850k

Median Round Size  --Mean Round Size

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Florida
Southeast (sans FL)
US Deals

$0
$200
$400
$600
$800
$1,000
$1,200
$1,400
$1,600
Angel Investment Size

<table>
<thead>
<tr>
<th>Investment Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500K - $750K</td>
<td>8%</td>
</tr>
<tr>
<td>$750K - $1,000K</td>
<td>4%</td>
</tr>
<tr>
<td>$1,000K - $2,000K</td>
<td>23%</td>
</tr>
<tr>
<td>$2,000K - $5,000K</td>
<td>42%</td>
</tr>
</tbody>
</table>

Angel Investor Profile

**Individual Angels**
- Invest $10,000 to $250,000

**Angel Groups**
- Invest between $100,000 to $1,000,000

- Investments surprisingly broad
- Angels are sheep, we follow the most recent trends
- Syndication allowing average deal size to increase

*Data Source: Angel Capital Association*
What’s the right allocation of net worth for this asset class?

Figure 3% - 10% of an investors net worth for investments in this asset class

<table>
<thead>
<tr>
<th>Percent</th>
<th>$1,000,000</th>
<th>$2,500,000</th>
<th>$3,000,000</th>
<th>$4,000,000</th>
<th>$5,000,000</th>
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<tbody>
<tr>
<td>3%</td>
<td>30,000</td>
<td>75,000</td>
<td>90,000</td>
<td>120,000</td>
<td>150,000</td>
</tr>
<tr>
<td>4%</td>
<td>40,000</td>
<td>100,000</td>
<td>120,000</td>
<td>160,000</td>
<td>200,000</td>
</tr>
<tr>
<td>5%</td>
<td>50,000</td>
<td>125,000</td>
<td>150,000</td>
<td>200,000</td>
<td>250,000</td>
</tr>
<tr>
<td>6%</td>
<td>60,000</td>
<td>150,000</td>
<td>180,000</td>
<td>240,000</td>
<td>300,000</td>
</tr>
<tr>
<td>7%</td>
<td>70,000</td>
<td>175,000</td>
<td>210,000</td>
<td>280,000</td>
<td>350,000</td>
</tr>
<tr>
<td>8%</td>
<td>80,000</td>
<td>200,000</td>
<td>240,000</td>
<td>320,000</td>
<td>400,000</td>
</tr>
<tr>
<td>9%</td>
<td>90,000</td>
<td>225,000</td>
<td>270,000</td>
<td>360,000</td>
<td>450,000</td>
</tr>
<tr>
<td>10%</td>
<td>100,000</td>
<td>250,000</td>
<td>300,000</td>
<td>400,000</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Determining Size of Angel Checks

- Invest in at least 8-10 deals (lifetime)
  - Average of two investments per company
    (many one or two, but some three or more)
  - Allocate 20 investments in total

- Determine total personal assets set aside for angel investing (3-10% of total assets)

- **Divide total commitment by 20 investments**
  - Write checks averaging this size for angel deals
Median Seed Stage Pre-Money Valuation

2015 Median Valuation Up 53% From 2014, Highest Valuation in HALO History

2014 | $13.5M | 3rd Quartile: $4.4M | MEDIAN: $3.0M | 1st Quartile: $2.0M | $0.30M

2015 | $23.5M | 3rd Quartile: $7.5M | MEDIAN: $4.6M | 1st Quartile: $3.1M | $0.22M

YTD 2016 Florida Deals under $3M Raised

$5.7M

$2.2M

YTD 2016 Florida Deals

$2.2M
Most Active Angel Groups 2015 – Total Deals
2015 Share of Angel Group Deals by Region

- California: 20.9%
- Northwest: 8.7%
- Southwest: 7.9%
- Great Plains: 4.3%
- Great Lakes: 10.3%
- New England: 11.9%
- New York: 9.5%
- Mid-Atlantic: 4.1%
- Southeast: 12.2%
- Texas: 10.3%
2015 Percentage of Deals in Region vs. Out of Region by Angel Group HQ Region

- **Northwest**
  - In: 78.8%
  - Out: 22.2%

- **California**
  - In: 65.8%
  - Out: 34.2%

- **Southwest**
  - In: 76.1%
  - Out: 23.9%

- **Texas**
  - In: 75.9%
  - Out: 24.1%

- **Great Plains**
  - In: 76.0%
  - Out: 24.0%

- **Southeast**
  - In: 79.1%
  - Out: 20.9%

- **Great Lakes**
  - In: 83.7%
  - Out: 16.3%

- **New York**
  - In: 58.5%
  - Out: 41.5%

- **New England**
  - In: 88.8%
  - Out: 11.3%

- **Mid-Atlantic**
  - In: 62.2%
  - Out: 37.8%

- **Great Plains**
  - In: 76.0%
  - Out: 24.0%
Yearly Share of Angel Group Deals by Sector
Software and Healthcare comprise 48% of investments in 2015
Angels are willing to invest across industries

Data Source: Angel Capital Association Survey
Industry Share of Early-Stage Deals in Florida and the Southeast
Where are investors putting their money?

*US Deals excludes 25% “Other” industries not tracked in Southeast market via Halo Report
Which industries are the larger funders looking at in Florida? How does this compare to the rest of the Southeast?

Almost **2X deals in Florida** that raise more than $3M compared to other Southeast states combined.
Industry Specific Valuations (First Round of Funding)
All Southeast Deals

- **Software**: Pre-Money Valuation $3,600k, Funding Round $500k
- **Healthcare**: Pre-Money Valuation $7,400k, Funding Round $750k
- **B2B**: Pre-Money Valuation $2,300k, Funding Round $500k

Thousands USD

- $0
- $1,500
- $3,000
- $4,500
- $6,000
- $7,500

Pre-Money Valuation
Funding Round
70%
## Tracking Angel Returns 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Multiple</th>
<th>Hold (yrs)</th>
<th>IRR (%)</th>
<th>&lt;1X (%)</th>
<th>10% of exits to ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.5X</td>
<td>4.5yrs</td>
<td>22%</td>
<td>70%</td>
<td>85%</td>
</tr>
<tr>
<td>2007</td>
<td>2.6</td>
<td>3.5</td>
<td>27%</td>
<td>52%</td>
<td>90%</td>
</tr>
<tr>
<td>2009</td>
<td>2.2</td>
<td>3.6</td>
<td>22%</td>
<td>56%</td>
<td>80%</td>
</tr>
</tbody>
</table>

### Notes:
- **Siding with the Angels**
  - Business angel investing – promising outcomes and effective strategies
2015 Startup Funding Activity

**Angel Investors 2015**
- US$ 24.6 billion, 71,110 firms
- ~25% seed/startup
- ~50% early stage
- ~25% expansion/later stage capital
- Estimated 304,930 individuals

**Venture Capital 2015**
- US$ 59.1 billion, 4,500 deals
- 51% early-stage
- 57% capital deployed in California
- ~1,400 first-time deals (32%)

Angel dollars up 1.9% over 2014
Deals funded by Angels down 3.1%
Active Angel investors down 3.7%

Data Sources: UNH Ctr. For Venture Research, NVCA Yearbook 2015
1. Active and experienced angel investors will do 3 to 5 deals a year and will invest in approximately 1% to 5% of deals that they see.

2. Many will invest in only 10 to 15% of deals that they take to due diligence.

Inexperienced angels make the mistake of investing in the first deal they see because they are desperate to get into a deal, any deal. Funds also make mistakes as it gets toward the end of its investment cycle. Investors get tired and they lower investment standards. Don’t make these mistakes!
Exit Types

• Acquisitions have been the predominant method

• IPO activity is beginning to rise

Data Source; NVCA Yearbook 2015
M&A market is heating up

• This is certainly best M&A market we’ve seen for at least the past 15 years
• Transactions can complete in as little as 3 months
• Valuations are favorable to sellers
• Transactions are happening daily

Company Boards should be thinking about strategy and whether today is an opportune time to exit
5 critical factors to consider as an early-stage angel investor:

1. Do I understand the risks of angel investing?
2. Do I know how diversification impacts my returns?
3. What is my risk tolerance? What is my spouse’s tolerance?
4. How much should I allocate to this investment class?
5. What are my main investment objectives?

Marianne Hudson, Executive Director, Angel Capital Association wrote an article in Forbes, “What Every Angel Should Know Before Writing The First Check.” Interesting read on this subject.
5 critical factors to consider as an early-stage entrepreneur:

1. Is raising money just as important as the idea?
2. Is my company of interest to local investors?
3. Am I willing to personally fund the deal (bootstrap)?
4. How do I return money to investors?
5. Am I looking for personal income or wealth?

Troy Knauss and Michael Cain co-wrote the book, “How to Make Money with Angel Investors & Entrepreneurs: 100 Rules to Get a Startup Funded.” The book looks at 100 guidelines most critical to the success of every deal from the perspective of investors and entrepreneurs.
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How to Make Money with Angel Investors & Entrepreneurs
100 Rules to Get a Start-up Funded from the Minds of Investors and Exited-Entrepreneurs

Troy Knauss + Michael Cain

Available at Amazon

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