Workshop on Private Equity in Oregon: Angels

Oregon Growth Account Board
Tigard, Oregon
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• Where angel investing fits
• Angel Performance Project
• Challenges facing angel investing

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## Where does angel investing fit?

<table>
<thead>
<tr>
<th>Capital Sources</th>
<th>R&amp;D</th>
<th>Startup</th>
<th>Early Growth</th>
<th>Late Growth</th>
<th>Exit &amp; Long term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mortgage, Cash, Credit</td>
<td>Under $250K</td>
<td></td>
<td></td>
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<tr>
<td>2. Friendly Sources</td>
<td>$50,000 to $500,000 +</td>
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<tr>
<td>3. Angel Investors</td>
<td>$1M and up</td>
<td></td>
<td></td>
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<tr>
<td>4. Venture capital</td>
<td>$250,000 and way up</td>
<td></td>
<td></td>
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<td>5. Alliances &amp; Partnerships</td>
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</table>

### Stage of Opportunity

<table>
<thead>
<tr>
<th>Ventures Capital</th>
<th>Deals:</th>
<th>$$$’s:</th>
<th>Stage:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3-4K deals / year</td>
<td>approx $30B</td>
<td>2% pre revenue</td>
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<th>Angels</th>
<th>Deals:</th>
<th>$$$’s:</th>
<th>Stage:</th>
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<td></td>
<td>15K to 25K deals / year</td>
<td>approx $20B</td>
<td>40%+ pre revenue</td>
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</table>
Angel Performance Project

- Sample: publicly seeking angel groups in North America
  - Data from 86 different groups out 276 groups
  - 90% of investments made after 1994, 65% made after 1999
  - Only 8% of the exits occurred prior to 2000
    - 30% of exits occurred 2000-2003, 60% occurred 2004 to present

- Group response rate: 31%
- Individual response rate: 13%

- No Significant Self Selection Biases
  - Outcomes are uncorrelated to the response rate of a group.
    - 2.6X for 7 high response rate groups (2/3 response) vs. 2.4 for low rate groups
    - Median multiple was 1.2 for Hi rate groups, 1.4 for low rate groups
Angel Investors

• Accredited Investors

• Have been investing for 9 years, and are 57 years old.
  – 86% male, 99% college degree, 50% MBA degrees, 20% terminal degrees

• Make about 1 investment per year (1.1)

• Have significant entrepreneurial experience
  – Mean: 14.5 years as entrepreneur, founded 2.7 companies
  – Only 15% of the sample had less than 3 years entre experience
  – 22% had never worked in a large firm

• And invest 10% of their personal wealth in angel investing
Distribution of Returns by Angel Investment

Percent of Total Exits

- 35% (0X) Hold: 3.0 yrs.
- Hold: 3.3 yrs.
- Hold: 4.6 yrs.
- Hold: 4.9 yrs.
- Hold: 6.0 yrs.

Overall Multiple: 2.6X
Avg. Holding Period: 3.5 years

Exit Multiples

- < 1X
- 1X to 5X
- 5X to 10X
- 10X to 30X
- > 30X
Overall Multiple by Angel Investor

- Greater than 1X: 61%
- Less than 1X: 39%
Venture Capital Involvement

35% of deals took on VC investment at some point.
Challenges in Angel Investing

– Deal Flow is critical, and can be very spotty
  *Especially true for individuals, still true for groups in smaller metro areas*

– Compensation and Capability issues in groups.
  *Active vs. inactive members performing due diligence and oversight.*

– Capital Waves
  *Strong early activity to max capacity often happens before successful exits*

– Negotiating leverage in growing deals
  *Angel groups are doing some later stage round, but struggle to control terms*

– Dispersion of returns: sidecar funds and group cohesion.
  *Spread out the “winnings”? Interfere in the action?*