

VC's and Angels: Adversaries or Family?

Sixth Annual SmartStart Venture Forum

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Albany, New York

- Co-founder, New Vantage Group, Vienna, VA
- Co-Manager, The Dinner Clubs (3), Active Angel Investors, and three affiliated angel venture groups
- Advisor, Calvert Ventures, Solstice Capital, Women's Growth Capital Fund & Conservation International's Verde Ventures
- Co-Author, *Every Business Needs an Angel* (Crown Business: 2001) and Co-Editor, *State of the Art: An Executive Briefing on Cutting-Edge Practices in American Angel Investing* (Darden Business Publishing: 2003)
- Batten Fellow and Director, Northern Virginia Initiative, Darden Graduate School of Business Administration, University of Virginia
- Co-founder and new Chair, Angel Capital Association
- Participant in international forums and lectures – Paris, Tokyo, Bangkok, Malta, Copenhagen, Mexico City, Helsinki, Santiago, Barcelona, San Juan

The Pain: A Chronic Problem

- Becoming a successful big company takes a lot of hard work
- Tapped out after FFF and own money
- Capital gap is \$250,000-\$2.0M range
- Pre-bankable companies need support of all kinds

Solutions for Entrepreneurs

- Inc. 500 approach
- Government grants
- Traditional VC
- What about the gap?

...And It's Gotten Worse

Amount of Venture Capital Invested by Stage in the US
(in millions)

Stage	<u>2003</u>		<u>2004</u>	
Seed/Start-up	385	2.0%	346	1.5%
Early-stage	3,378	17.8%	3,885	16.9%
Expansion	10,304	54.4%	9,511	41.5%
Later	<u>4,879</u>	<u>25.8%</u>	<u>9,198</u>	<u>40.1%</u>
TOTAL	18,946	100.0%	22,940	100.0%

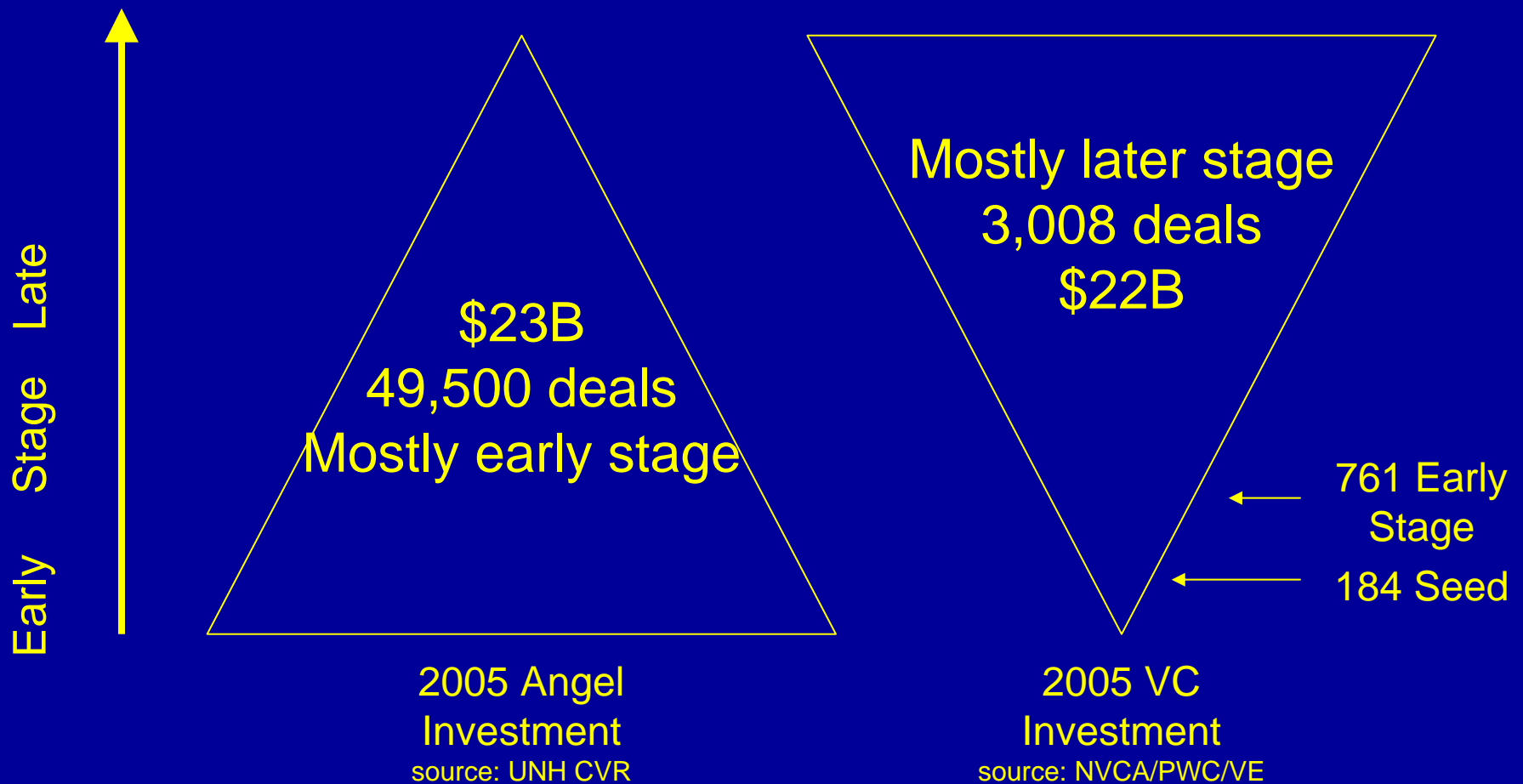
Current State of the Art

- Innovation equity capital gap deepens
(\$250,000 – \$2.0 million)
- Structured angel groups fill void
- 8.3 million → 250,000 → 10,000
- Segmentation into “pre-VC” and “post-FFF”
- Focus on research and results = matching VC data

Trends in U.S. Early-Stage Investing

- VC industry matures into \$20B/year market – back to '96!
- 55% into California and Boston, only 3,000 transactions
- Only 22% of '05 VC funding goes to first time, seed/early-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 @ \$1.5 million)
- 250,000 angels in 50 states with 49,000 transactions

Markets Large, Complementary



Angel Organizations Can Fill Capital Gap

Stage	Pre-Seed	Seed/Start-Up		Early	Later
Source	Founders, Friends and Family	Individual Angels	Funding Gap between \$500,000 and \$1,000,000 (depending on region)	Venture Funds	
Investment	\$25,000 to \$100,000	\$100,000 to \$500,000		\$1,000,000/\$5,000,000 and up	

So What Is An Angel, Really?

Our definition is –

- Accredited individual
- \$20,000 or more per deal
- Has lost money in venture in past!
- Patient capital - mentor

Current Options for Investors

- Limited partnership in a venture fund
- Solo, direct investor – from small informal capital to super angel
- “Business angel”
- Structured angel group activity
 - networks
 - pledge groups
 - pooled funds

The GEM Report found more than 50% invest in relatives' businesses

Investor's Relationship to Investee

Close Family	41.8%
Other Relative	10.5%
Work Colleague	6.1%
Friend/Neighbor	28.5%
Stranger	9.4%
Other	3.6%

Are All Angels Alike?

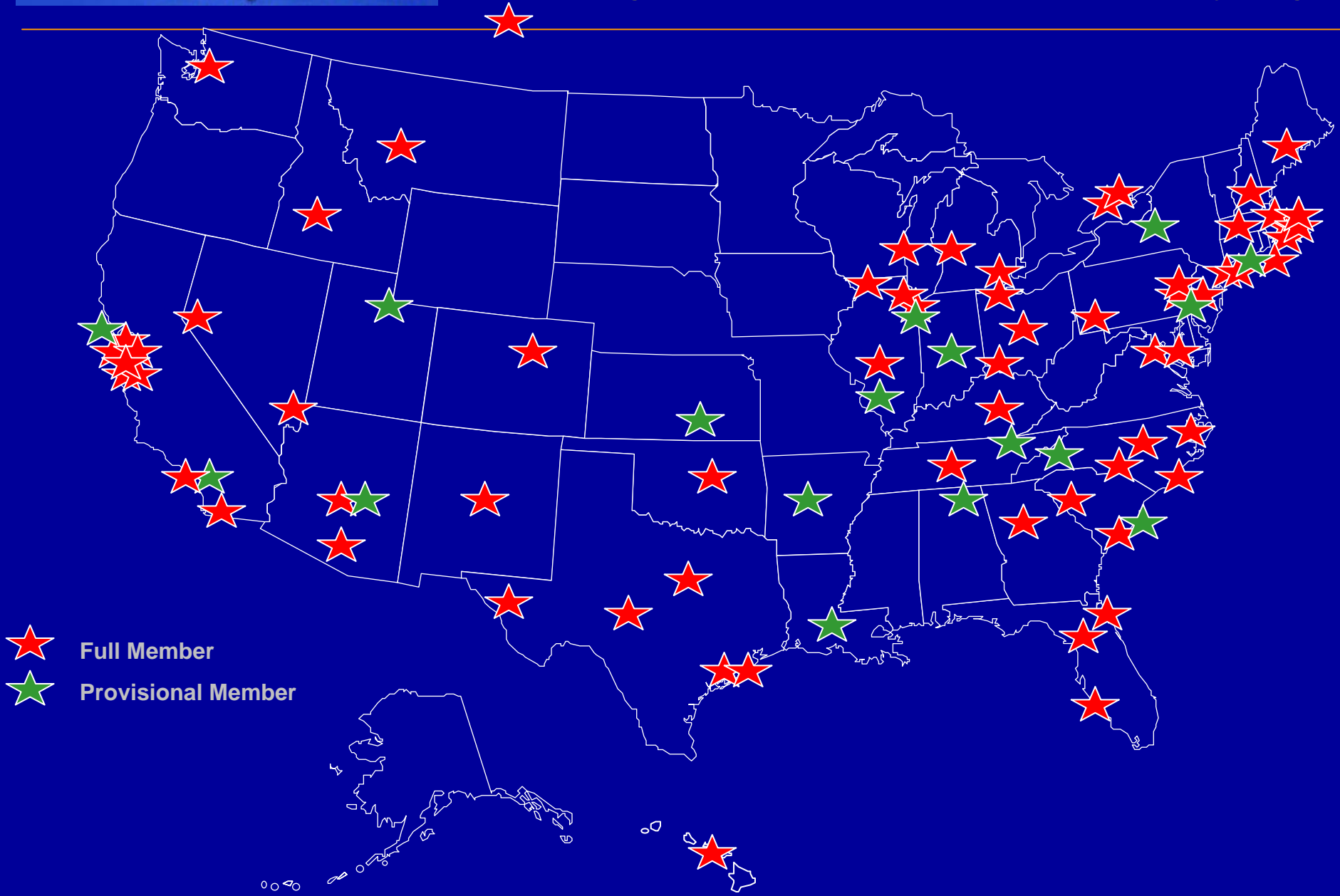
- Over-47 year old white male, \$125K/year, cashed-out entrepreneur is historic prototype
- Marriage partner
- Networker
- Executive recruiter
- Therapist
- Strategic Partner
- General utility player
- Fundraiser



NEW VANTAGE GROUP

Active Angel Venture Funds

Angel Capital Association Members by Region



What Is Involved In An Angel Deal?

- Defining your niche
- Getting good deal flow
- Developing unique due diligence
- Negotiating the terms
- Closing
- Monitoring
- Growing
- Exiting

Top Ten Tips for U.S. Angels

1. Use patient capital only
2. Develop mentor capital
3. Invest in what you know, or at least what you can understand
4. Expect the plan will take 2x longer and twice as expensive as pitched by entrepreneurs
5. Find a way to get psychic reward from your investment along the way
6. Remember it is cash on cash, not IRR that rewards
7. Time is an angels most valuable resource
8. Post investment relationship starts at due diligence and structuring the terms
9. Save powder for follow-on investments
10. Mentoring and luck trump "rule of law"

- Angel Capital Association (for North America)
(www.angelcapitalassociation.org)
- National Association of Seed and Venture Funds
(www.nasvf.org)
- Mid-Atlantic Venture Association
(www.mava.org)
- Community Development Venture Capital Association
(www.cdvca.org)
- Kauffman Foundation
(www.emkf.org)
- National Venture Capital Association
(www.nvca.org)

The Future: Issues and Innovations

- HNW individuals will want more involvement in their wealth management
- Entrepreneurs will continue to become investors – will become mentors
- The capital cap between FFF and VC is growing
- Structured angel groups will provide risk minimization and ways to work with VC's
- US will continue to be high tech, entrepreneurship leader – for a while!