

# Angel Groups

*Innovative Financing  
for Entrepreneurs*

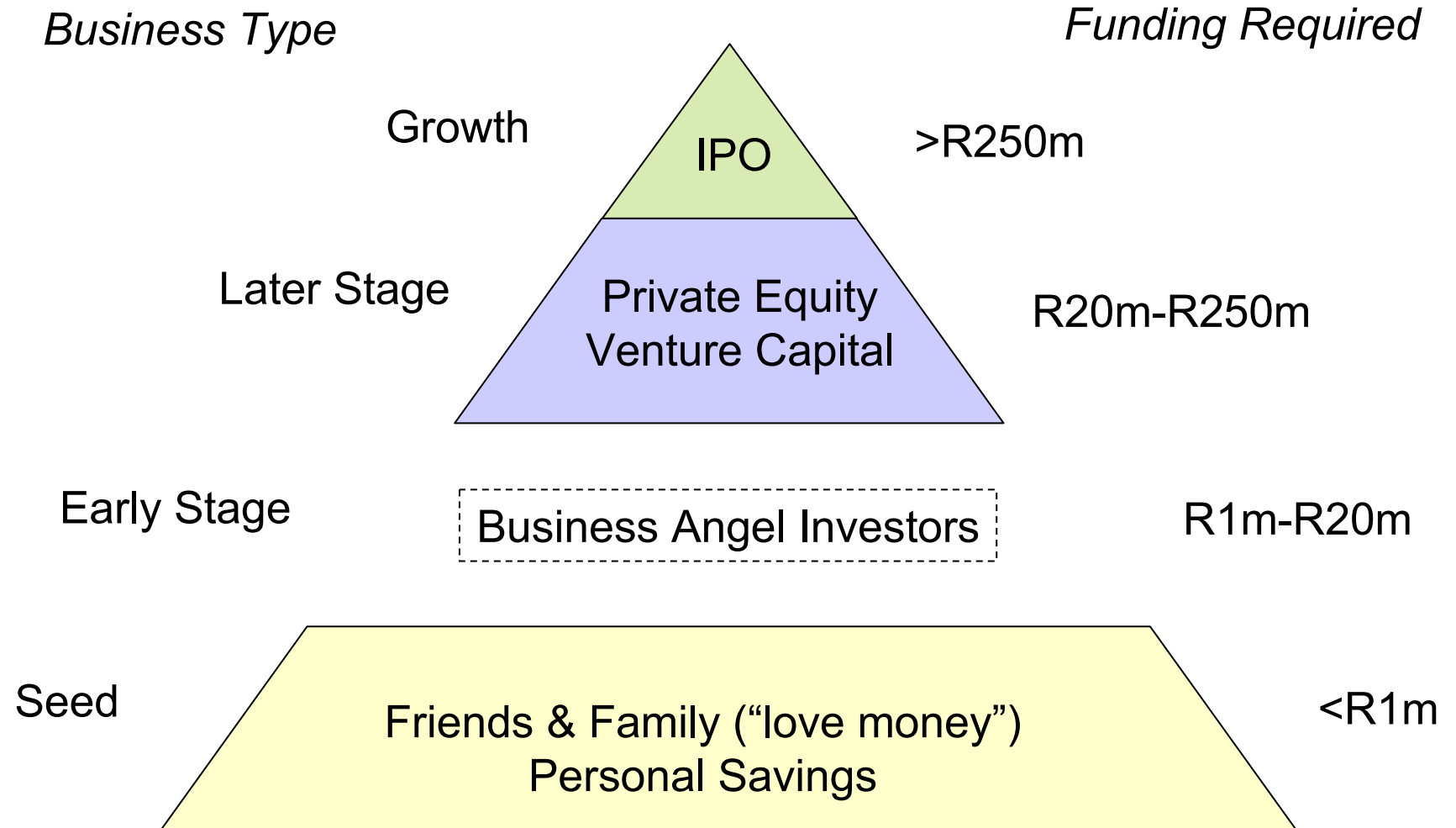
# Background to the Research

- Missing Middle initiative : G20, World Economic Forum
  - ▣ Angel investment gap in Africa
- Craig Mullett interest & fit with Research
  - ▣ South African background
    - Masters thesis on Private Equity in South Africa
    - Postgraduate in Commerce (Honors) from UCT
  - ▣ Angel investor background
    - Member of Angel investor Forum
  - ▣ Linkages
    - USA : Angel investment groups
    - USA : Research partners
    - South Africa : Research partners

# Entrepreneurial Equity Financing Gap

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# Why this matters ...

- Rapid growth start-ups generate the most new jobs in an economy and also require the highest amount of equity risk capital.
- A 2005 study of 37 countries found that of various sources of funding (debt, private equity, venture capital, angel investor capital), only angel investor capital significantly positively influenced the propensity to be entrepreneurs.
- Successful entrepreneurial hubs (Silicon Valley, Boston, New York) all have developed angel investor networks
- Incubated start-ups rely heavily on angel networks for financing, contacts and strategy advice

# Business Angel Definition

- High net worth individual
  - ▣ Net assets (excluding home)
    - In USA : \$1 m
    - In South Africa : estimate R5 million ?
- Not family or close friends of founders
- Invest personal funds
- Spend some time evaluating the business
- May spend additional time active in selected businesses
- Invest in private business with capital at risk
- Primarily invest for financial return
  - ▣ A 2007 study notes motivation by financial and emotional/psychological factors

# Typical Business Angel Profile

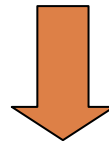
- 'Transitory state' - changes based on personal lifecycles
- Usually have an entrepreneurial background (>70%)
- A 2009 review of global angel studies concludes they typically are:
  - ▣ Male (95% or greater)
  - ▣ Aged 46-55 years (54%)
  - ▣ University graduates (74%)
- Research study in 2010 found that angel investors had on average 13% of their wealth invested in private angel investments, with over 90% being in seed to early stage ventures.

# Entrepreneur's views on Angels

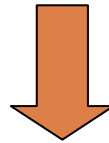
- Research indicates that angels are perceived as fairer and more trustworthy than venture capitalists, thus frequently being preferred as funders by entrepreneurs.
- Prior studies indicate that angels are a preferred funding source and provide 61% of early-stage financing.
- A 2010 survey indicates 58% of start-up entrepreneurs in the USA plan to rely on business angel financing.
- A 2009 survey of entrepreneurs that they view angels as :
  - ▣ Filling funding gaps
    - ▣ In USA, average investments by each angel group is \$241,000 and average per round is \$372,000. ?
  - ▣ Leveraging other funding sources
  - ▣ Filling knowledge and experience gaps
  - ▣ Providing a wide range of business contacts

# Angels are organizing globally in groups

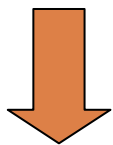
First group (“Band of Angels”) started in Silicon Valley in 1994



Groups started in Canada and Europe in 1990’s

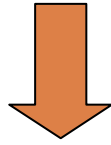


Rapid growth in 2000’s lead to new groups in many countries



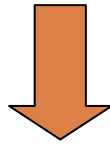
USA

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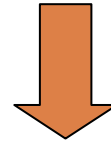
Canada

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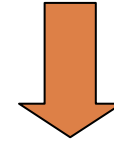
Europe

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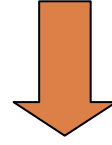
Australia/  
NZ

20



Asia

20



Latin  
America

10



# Why Angel Groups?

- Provide economies of scale and other benefits to :
  - Angel investors
    - See more deal opportunities with less effort
    - More industry viewpoints to effectively screen deals
    - More resources for due diligence and deal negotiation
    - Post-investment support and monitoring enhances returns
  - Entrepreneurs
    - One application leveraged to multiple investors
    - Wider network of contacts can be provided by more investors, as well as coaching and advisory support
    - Structured process that is quicker turn-around with more follow-on funding potential
- Ecosystem impact
  - Angel groups more effective in directing resources to start-up businesses

# Angel Groups Investment Performance

	<i>Mean</i>	<i>Median</i>
Investment	\$169,089	\$50,000
Cash out	\$490,022	\$42,052
Years held	3.61	3
IRR	29.4%	-1.8%

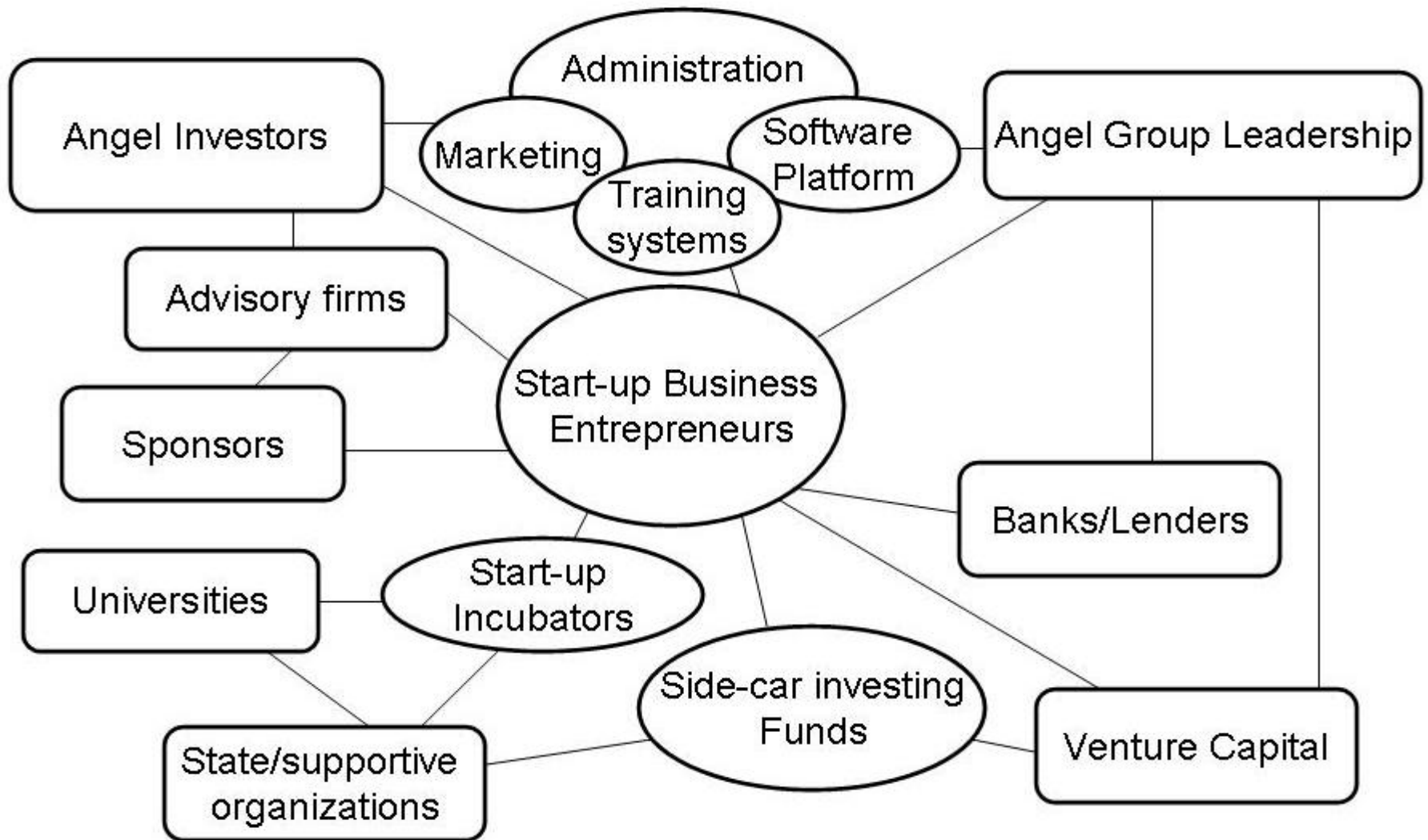


*Data from the 2007 Angel Performance Improvement Project reflecting 419 exited/closed investments in USA*

# Why not just electronic networks?

- A research study (2009) indicates that angels can provide capital despite high investment uncertainty primarily due to the geographic focus of their investments, which allows them to gain additional monitoring and network relational influences.
- This geographic focus is viewed as financially rational in another study (2008), due to the relationship-driven screening of entrepreneurs and monitoring through more active participation in the venture.
- The proximity concept is further explored (2008), noting that the geographic proximity for angel investors is reduced by :
  - ▣ Social proximity (social relations between parties)
  - ▣ Cognitive proximity (shared knowledge and understandings)
  - ▣ Institutional proximity (common habits, routines, practices)

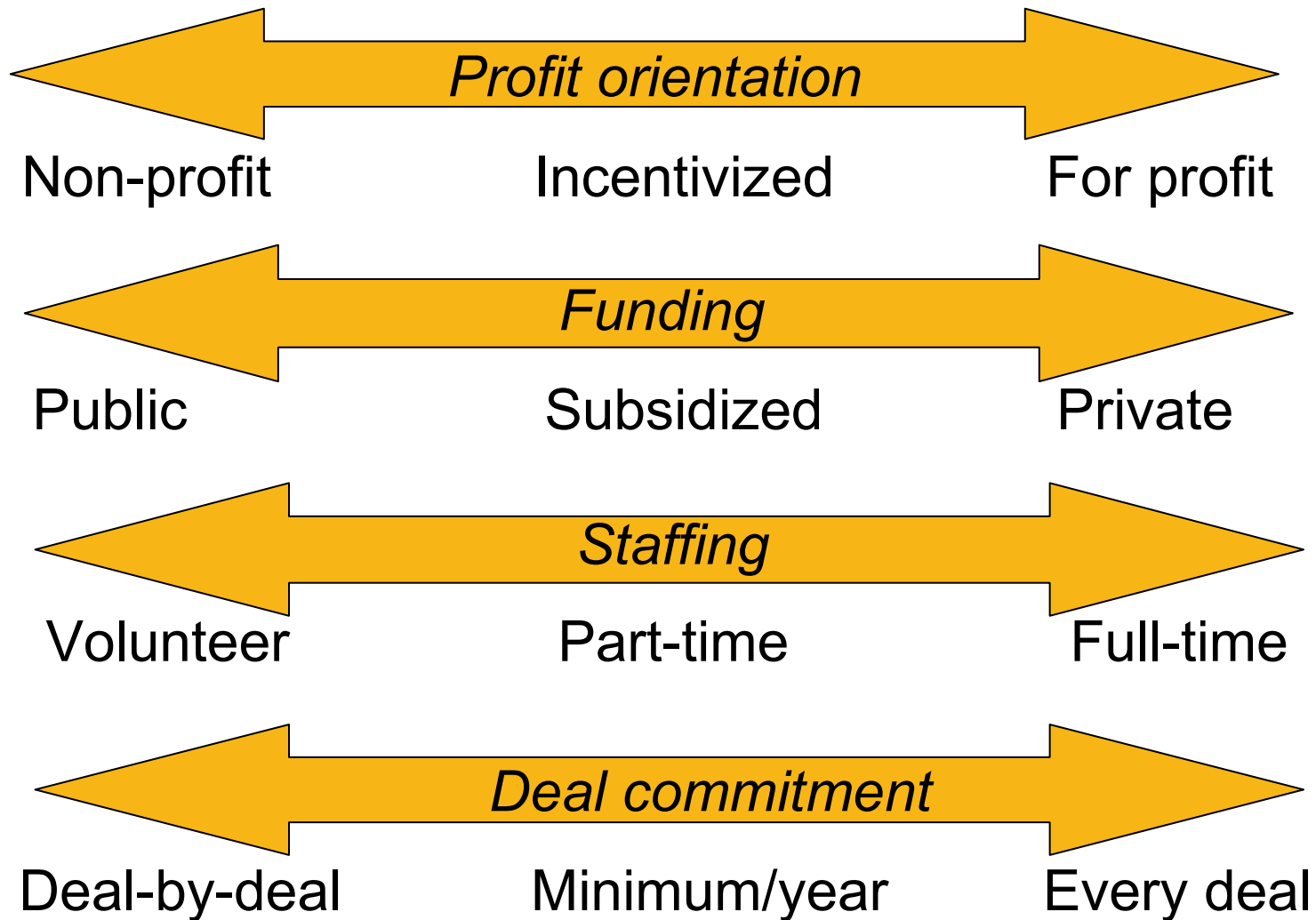
# Angel Group Ecosystem



# Angel Group Typology - Structure

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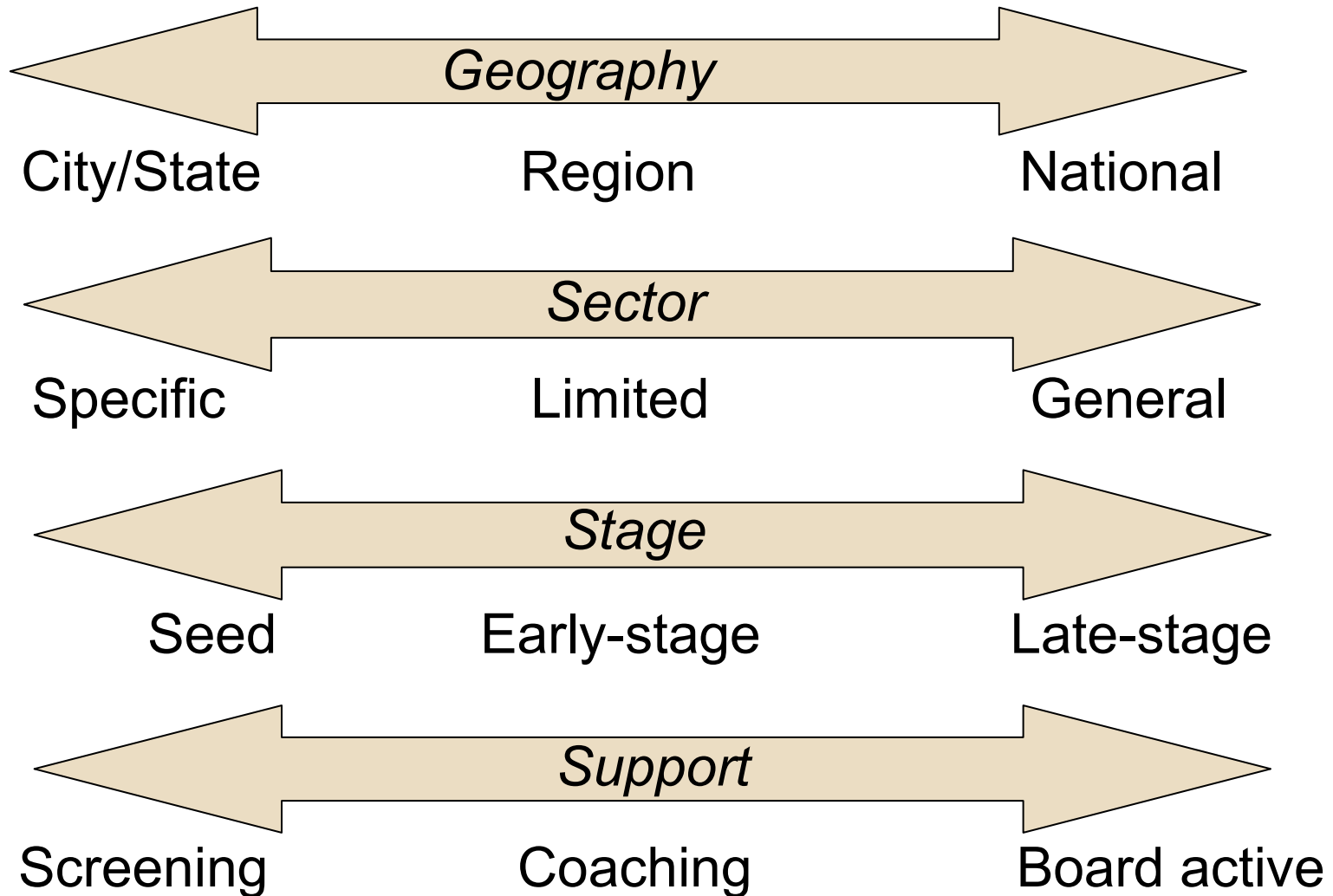
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# Angel Group Typology - Focus

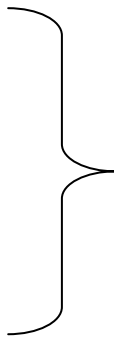
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# Angel Group Profiles

- Group years of existence
  - Range : 0 – 20
  - Average : 4
  - Median : 3
- Members
  - Range : 3 – 280
  - Average : 48
  - Median : 37
- Staff
  - Range : 0 – 7
  - Average : 1
  - Median : 0.5



*An extra year of existence equates to an extra 5 members*

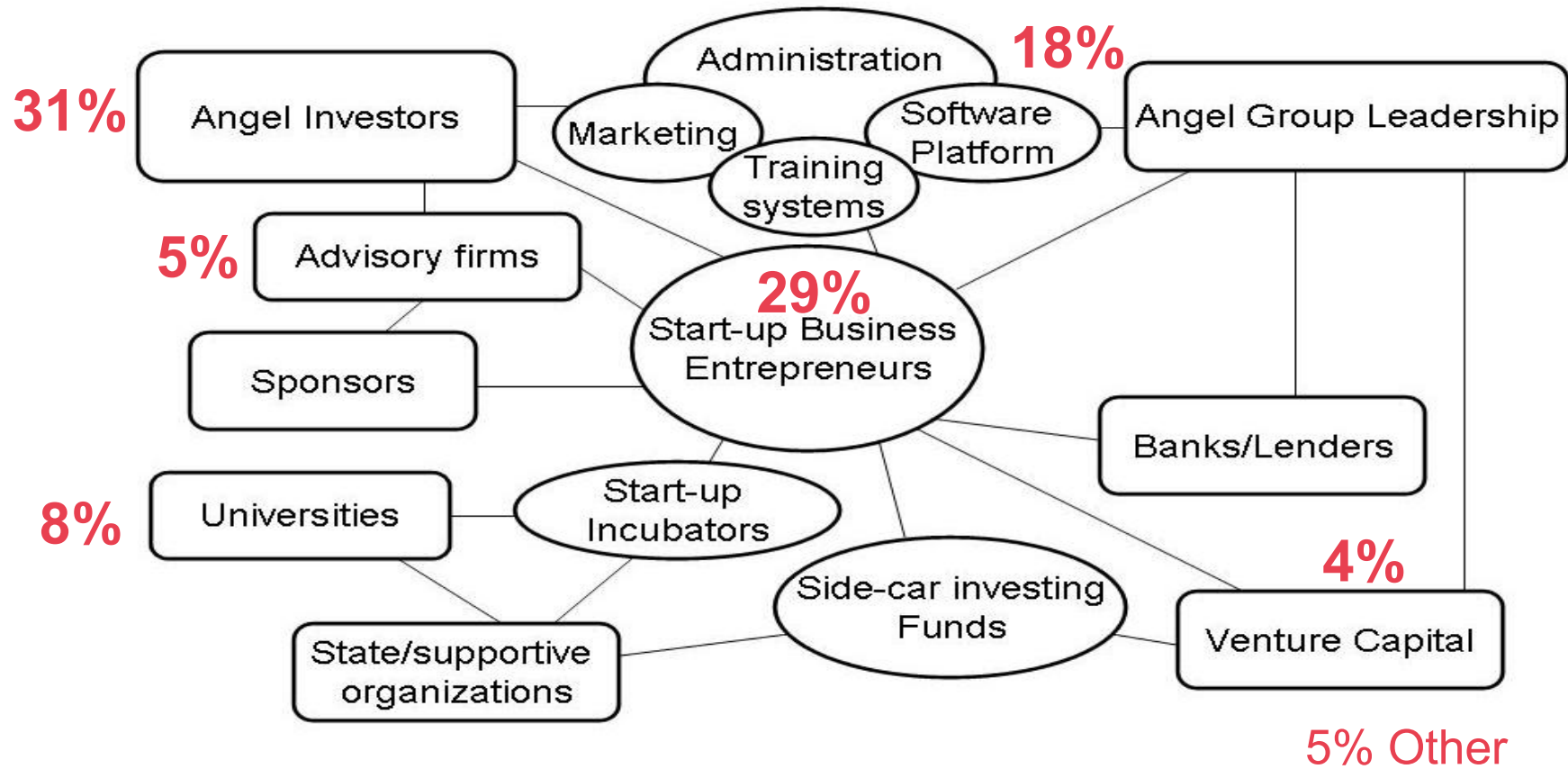
*Above data from a 2007 Study of USA ACA Angel Groups (127 responses)*

# Angel Group Investment Process





# Deal flow of Angel Groups : the ecosystem lifeblood

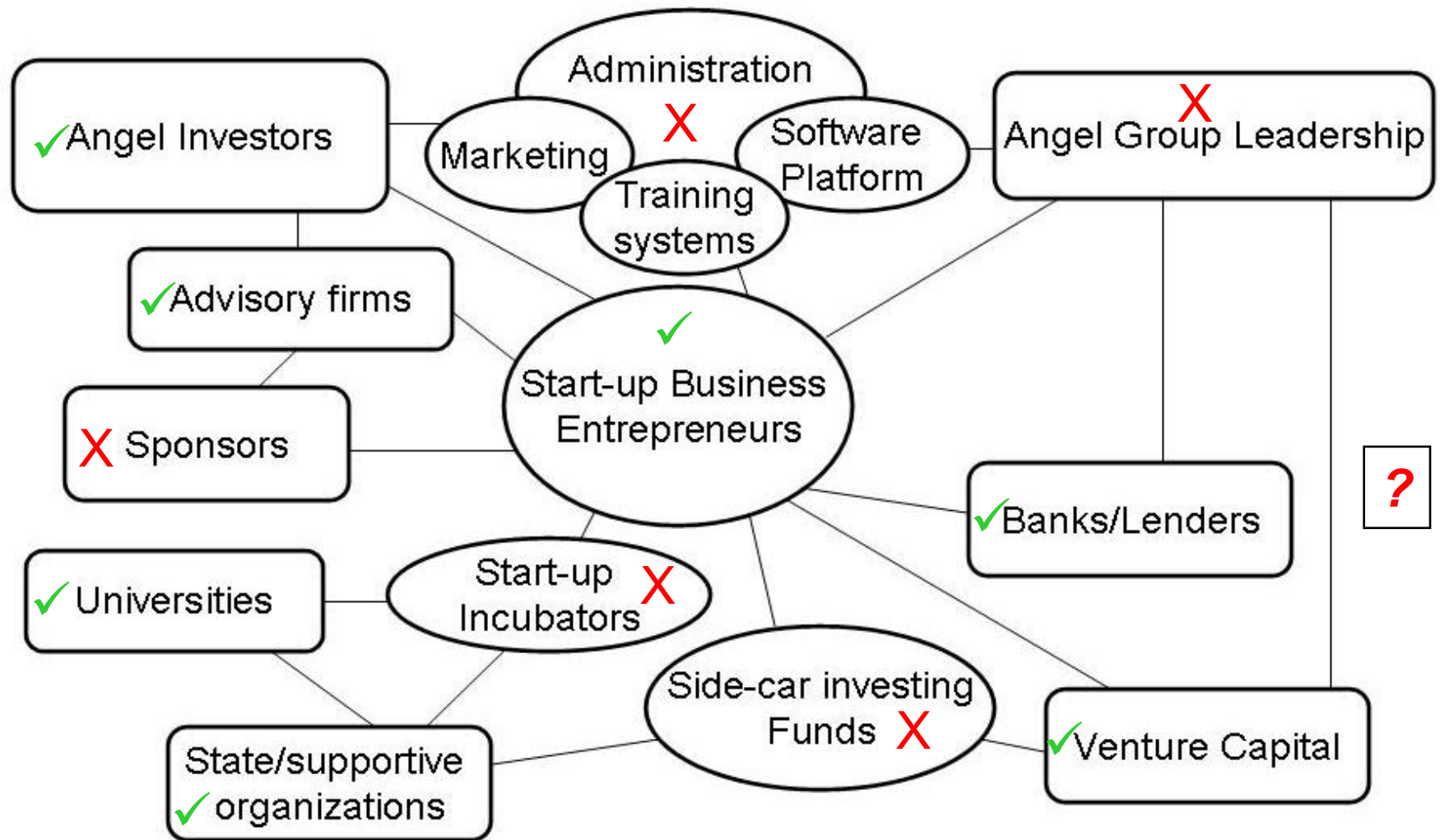


*USA Data from Pepperdine Private Capital Markets Project 2010*

# Angel Group Sidecar Investment Funds

- Committed capital
  - Captive VC-type fund
    - Private individuals “passive angels”
    - Family investment offices of ultra-wealthy
    - National seed/early stage funds
    - International early stage funds
    - Regional funds
- Opt-in Capital
  - Higher investment fee per deal
  - Go/no-go per investment
- Fees per investment/per annum for operating costs
- Reward/incentive structure on exits to compensate angel leadership
  - Share of carried profit over hurdle rate

# Angel Group Ecosystem applied in Cape Town



# Public policies to encourage Angel Groups

- Ecosystem development
  - Incubators
  - Linkages
- Angel Group support
  - Sponsorship
  - Meeting venues
  - Administrative costs
- Tax incentives
  - Rebates on investment within thresholds
  - Targeted capital gains tax exemptions
- Funding of new ventures
  - Sidecar funds
  - Low-cost debt

# Further research to be done in USA

- Which angel group structures are most common?
  - ▣ H : For-profit groups
    - Review of ACA current active group database
- Which angel groups fail more often?
  - ▣ H : Non-structured voluntary groups
    - Review of ACA failed groups from historic database
- How are sidecar funds most commonly structured?
  - ▣ H : Similar to mini-VC funds
    - Surveys of angel groups identified as having sidecar funds

# Further research to be done in South Africa

- What components of the angel ecosystem are required for an angel group to start in South Africa?
  - ▣ H : Most of components identified to date
    - Survey of angel investors in South Africa
- Which angel group structure is the most likely to succeed in South Africa?
  - ▣ H : For-profit involved angel group
    - Survey of angel investors in South Africa
- Which sidecar fund structure is the most likely to succeed in South Africa?
  - ▣ H : Hybrid fee based committed and opt-in fund
    - Survey of potential sidecar investors in South Africa

# Next steps

Gathering more information?

Expanding the ecosystem players?

A first group in Cape Town?

Your input ...

# Contact information

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