ACA Investor Insights Report 2021

Action learnings from leading angels

ANGEL CAPITAL ASSOCIATION

ACA Investor Insights Report 2021
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ACA Investor Insights Report 2021

A Letter to Our Community

For approximately the last two and half years the ACA has collected once a month key learnings that angel groups have seen from collecting and analyzing data around angel investments. These insights from ACA angel groups and funds are shared on a monthly basis in order to help individual angels and angel groups learn more about key trends in our industry and improve outcomes.

The Angel Capital Association believes that data will make us better investors. ACA is committed to helping angels make informed decisions that will improve investment outcomes. The is why the ACA started the ACA Data initiative several years ago.

This annual summary conveniently consolidates our monthly data learnings. Please enjoy reading these data insights. If you'd like to receive the monthly emails and read them as they are freshly published, you can subscribe here.

Thank you,

Rick Timmins

Rick Timmins
ACA Data Analytics Chair

Value of Angel Engagement

If we are honest with ourselves, being an active angel investor is a lot of work. Between keeping a finger on the pulse of the local innovation ecosystem, scouting deal flow, completing diligence, negotiating term sheets, and supporting our portfolio companies through a decade or more of ups and downs, it has the potential to consume thousands of hours of effort each year. **It can be tempting to question if all that effort is justified, or whether you can get essentially the same results by cutting a few corners and streamlining the process?**

Launchpad Venture Group **is always looking for ways to make more efficient use of investor and entrepreneur time, so we turned to our 20 years of investment returns data to try and quantify the value of some key but energy-intensive activities.** In particular, we looked at Total Value to Paid-in-Capital (TVPI) return multiples for 105 portfolio companies with at least 18 months since the initial investment. This metric measures the current value of the investment (both realized and unrealized) as a multiple of the cash invested. Within these 105 companies, Launchpad segmented returns based on the following "natural experiments" in the data:

- **Diligence Effort -** Did the company enter the portfolio by passing the formal 4-week Launchpad diligence process, or because enough individual members were interested and invested more than $100k to have it tracked as part of the portfolio?
- **Understanding Capital Staging -** As part of diligence, was the company assessed to be "capital efficient", meaning that the diligence team did not think it would need to raise more than $5M in outside capital over the course of the business.
- **Negotiating Term sheets –** Did Launchpad lead the round and negotiate the term sheet used? Launchpad's term sheets typically include provisions to protect both investors and entrepreneurs from common stumbling blocks.
- **Board Representation –** Did Launchpad provide a board member or board observer to actively support the company over its development and represent investors?

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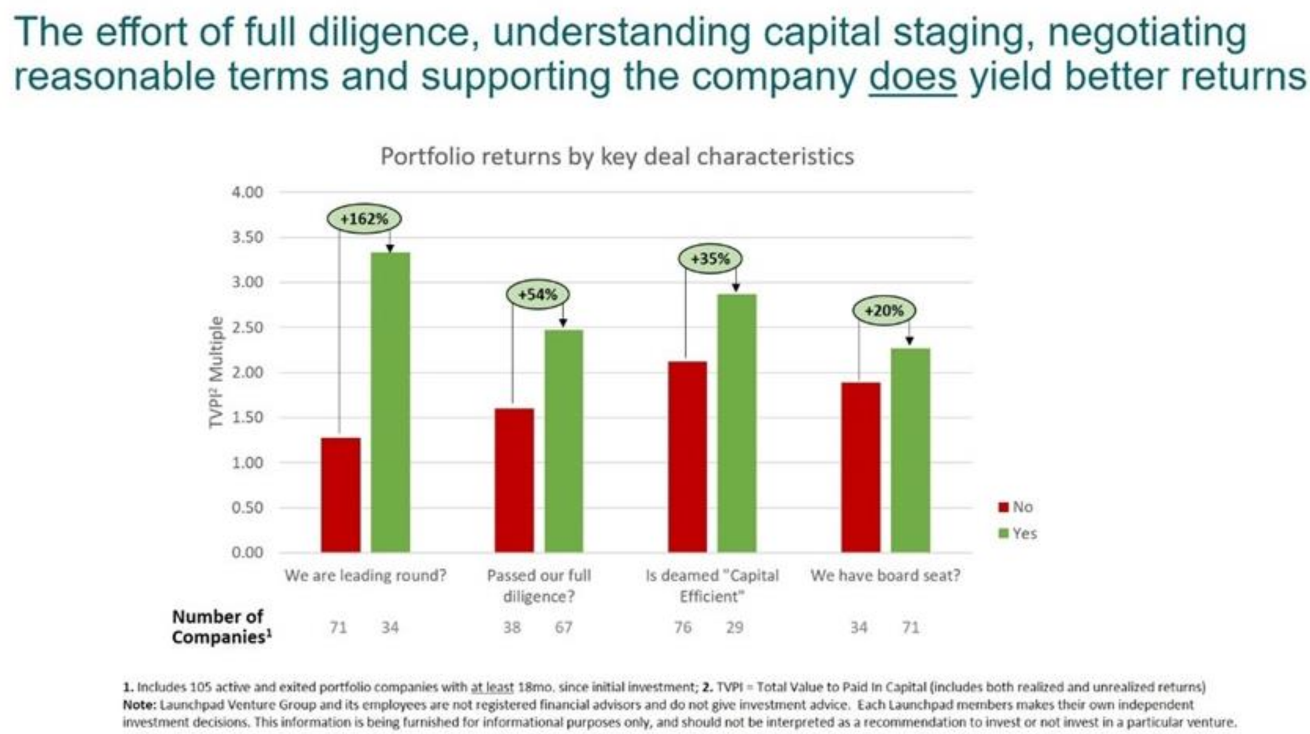
Value of Angel Engagement

The analysis results are summarized in the chart below.



It's interesting to note that all of these activities yielded statistically-significant higher return multiples, suggesting that the time and energy devoted to them is worthwhile. In particular, the time to negotiate a thoughtful set of terms at a market-competitive valuation and with core protective provisions was associated with more than doubling of investment returns.

Putting companies through a structured diligence process designed to surface major issues ahead of time was associated with a 50% bump in returns. Thinking about future capital requirements and giving preference to capital efficiency increased returns by 35% and having board representation (which is a standard Launchpad term but not perfectly correlated with round leadership) was associated with a 20% increase in returns above and beyond those from leading the round.

It appears that the temptation to cut corners should be resisted, and good angel investing continues to be a time and energy-intensive pursuit. We are interested to hear whether other angel groups have had similar experience.

Author: Alexander Brown, Launchpad Venture Group
Publication Date: March 2021

Founder Age Impact on Returns

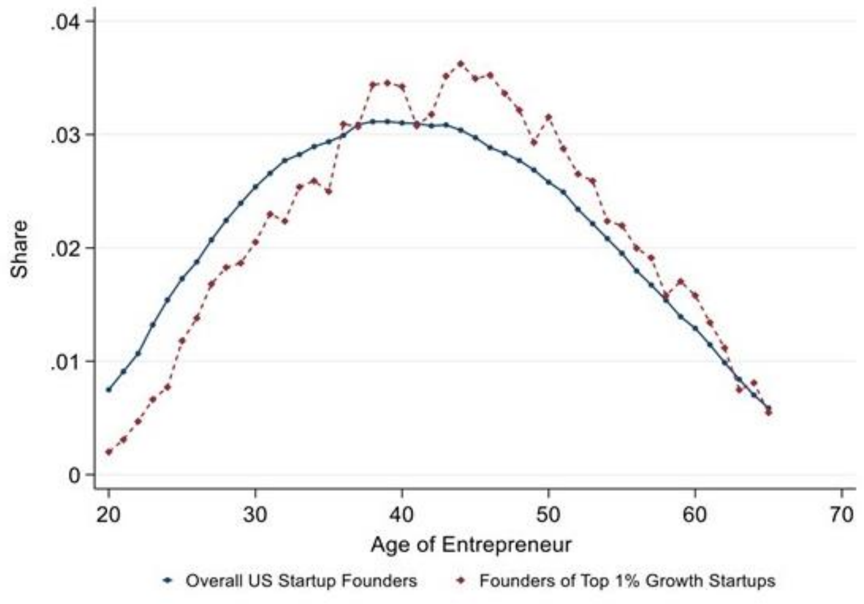
It is commonly held that great start-ups are more likely to come from young entrepreneurs – but is that true? According to data analysis, the answer is **NO**:

> *"A 50-year-old founder is 1.8 times more likely to achieve upper-tail growth than a 30-year-old founder. Founders in their early 20s have the lowest likelihood of successful exit or creating a 1 in 1,000 top growth firm."*

That's the conclusion according to analysis done by MIT-Sloan economist Pierre Azoulay along with Benjamin Jones of Northwestern-Kellogg, J. Daniel Kim of the University of Pennsylvania-Wharton, and Javier Miranda of the U.S. Bureau of the Census. It is all documented in their paper published in 2019 called **"Age and High-Growth Entrepreneurship" – click here** for the full paper. Here are some more highlights:

> *"Across the 2.7 million founders in the U.S. between 2007-2014 who started companies that go on to hire at least one employee, the mean age for the entrepreneurs at founding is 41.9. The mean founder age for the 1 in 1,000 highest growth new ventures is 45.0"*

Figure 1: Founder Age Distribution: All Startups and High Growth Startups



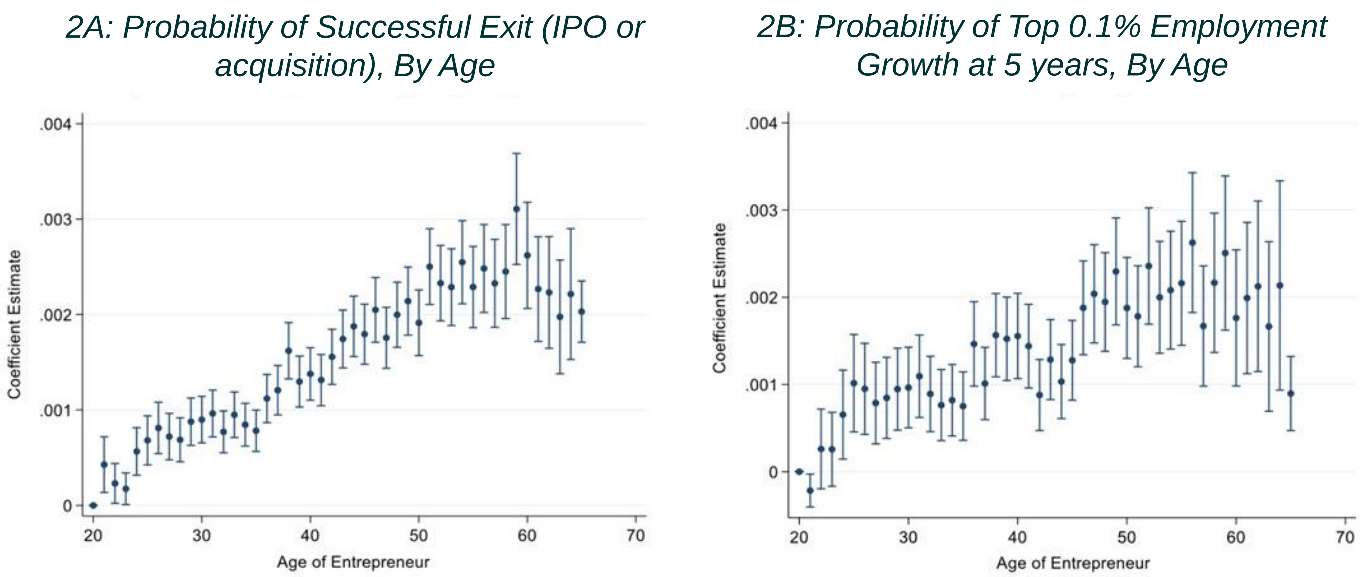
Source: **Age and High-Growth Entrepreneurship by** *Pierre Azoulay (MIT-Sloan), Benjamin Jones (Northwestern University-Kellogg), J. Daniel Kim (University of Pennsylvania-Wharton), and Javier Miranda (U.S. Census Bureau), 2019*

Insight continued on the next page.

Founder Age Impact on Returns

The probability of successful exit goes up with the age of the founder:

Figure 2: Likelihood of Extreme Success, Conditional on Starting a Firm



Source: **Age and High-Growth Entrepreneurship by** *Pierre Azoulay (MIT-Sloan), Benjamin Jones (Northwestern University-Kellogg), J. Daniel Kim (University of Pennsylvania-Wharton), and Javier Miranda (U.S. Census Bureau), 2019*

The findings are similar when considering high-technology sectors, entrepreneurial hubs, and successful firm exits. Prior experience in the specific industry predicts much greater rates of entrepreneurial success.

Why?

Insight continued on the next page.

Founder Age Impact on Returns

Yes, young people are potentially sharper cognitively, less distracted by family or other responsibilities, and more capable of transformative ideas. But older entrepreneurs often have experience in addition to greater access to human capital, social capital, or financial capital. It is true that young people can create great companies (Apple, Microsoft, Amazon, Google, Facebook, etc.), but they **also make mistakes and the same entrepreneur is often even more successful after having processed those learnings**. For instance, even a great entrepreneur such as Steve Jobs made some big mistakes (as we all have) early on in his career:

- After leaving Apple in 1985, Jobs started NeXT to create a high-end workstation for students and universities. Unfortunately, at a price of $6500 ($14,000 in 2022 dollars), students could not afford it. Then in the late 1980s at NeXT, Jobs rejected IBM's inquiry to replace Microsoft Windows with the NeXTSTEP OS if Next agreed to drop its aspirations to make hardware. Later NeXT failed on the hardware side, although NeXTSTEP OS eventually was transformed into MacOS after Apple acquired it.

- In 1988, Jobs ordered that John Lasseter and his small content team at Pixar be let go because the company needed to focus on selling software rather than making content using that software. The manager ignored Jobs' directive since one of Pixar's first shorts (Tin Toy) was nominated for an Oscar, and the win within weeks put Pixar on the map. Jobs then saw the potential, reversed course and embraced a content future for Pixar – fortunately Lasseter stayed on to make that happen.

In another example, Ford Motor Company was the third car company founded by Henry Ford – the first two failed.

Back to the Sloan/Kellogg/Wharton study, they observed that the most successful young entrepreneurs actually "peaked" later in their careers when looking at the relationship between age and growth in market valuation. Steve Jobs peaked at Apple at age 48 (iPhone released at age 52), Bill Gates peaked at Microsoft at age 39, Jeff Bezos peaked at Amazon at age 45 (after expanding beyond books into all retail and AWS), and Sergei Brin and Larry Page peaked at Google at age 36 (as Google perfected its paid search product and business model). Elon Musk didn't become CEO of Tesla until age 36, and the acceleration of Tesla's market valuation did not come until he was well into his 40s.

Author: John Harbison, Tech Coast Angels
Publication Date: April 2021

Knowing When and How to Support the Portfolio

At Launchpad Venture Group, we believe strongly in the value of providing human capital to companies we invest in as well as financial capital. In this view, writing a check is just the beginning of an ongoing partnership to help build successful companies for the long run. Launchpad prefers to lead investment rounds and have a seat on company boards that can provide active partnership for growing companies.

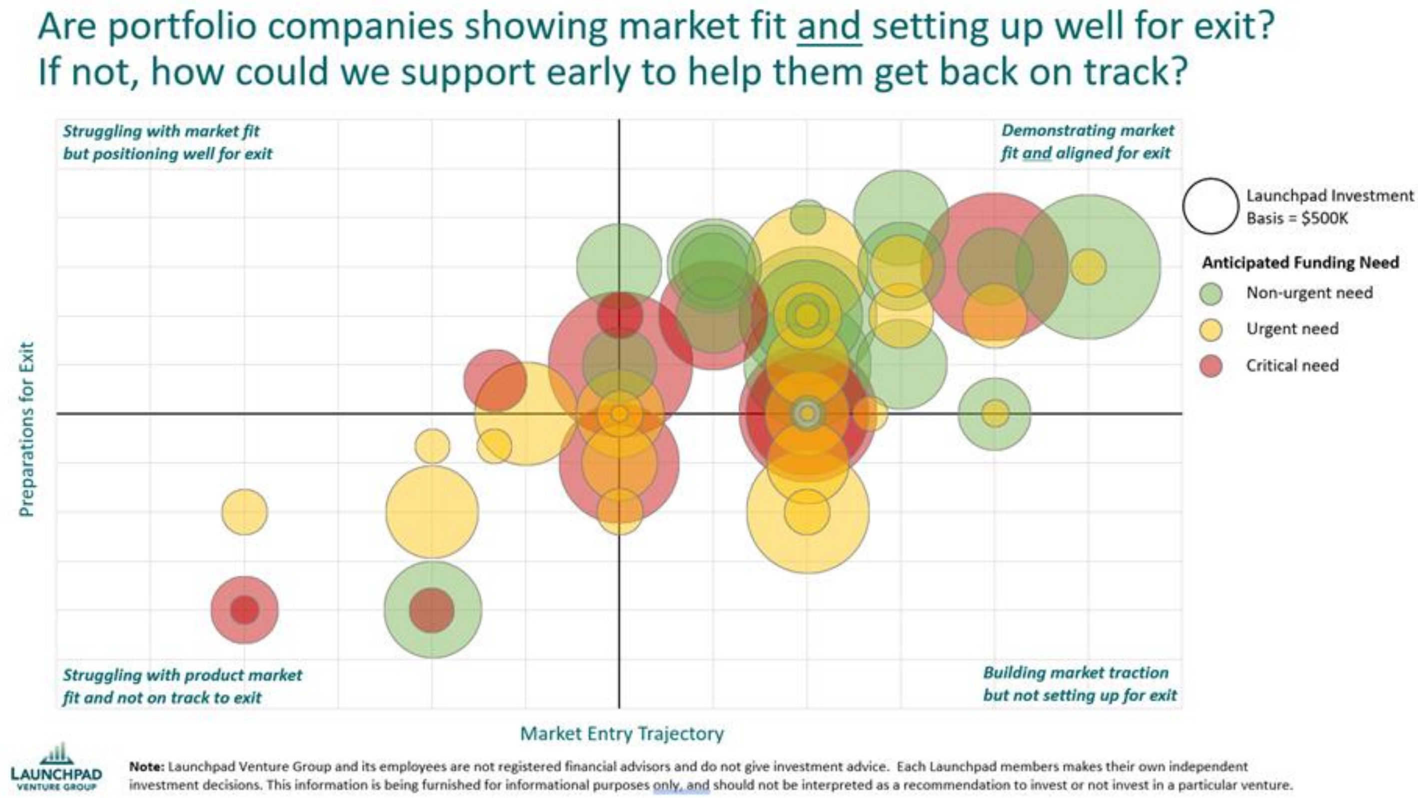
Even in cases where we do not have an official board seat, we identify a "point person" to stay close to company developments and use that transparency to proactively suggest ways to help. We operationalize this support system in part by surveying each portfolio company's director, observer, and point person semi-annually to record progress on a number of dimensions, anticipate upcoming funding needs, improve investment decisions, and respond to emerging support opportunities.

To support portfolio companies, we have found the chart below to be a particularly useful view for weighing and prioritizing when to offer support, and of what type. The chart is a bit complicated, but captures in one location a wealth of information to help flag opportunities to help the portfolio achieve its full potential:

- Each bubble in the chart represents a company in the portfolio
- The size of the bubble represents Launchpad's total investment basis in the company, so that we have a sense of how large a share of the portfolio it represents
- The color of each bubble indicates how much funding runway each company currently has, the better to anticipate when they may be returning for another round of financing
- The x-axis tracks how the company is progressing down the path of market entry relative to its stage, which is typically the major risk source for investments at our stage
- The y-axis tracks how the company is progressing toward setting up for exit…an essential part of driving attractive investment returns, but one founders often overlook until later than they should.

Insight continued on the next page.

Knowing When and How to Support the Portfolio



Taken as a full picture, this overview allows us to quickly grasp the current state of the portfolio overall, and is particularly useful in signaling need for one of three supporting interventions that we as investors can proactively supply:

1. For portfolio companies that are starting to fall behind on their market entry trajectory, investors can offer to help with sales leads or other useful connections. Launchpad can also leverage its particularly deep bench of Sales and Marketing experience to work with the company to sanity check and adjust the Go-to-Market strategy, as needed.

Insight continued on the next page.

Knowing When and How to Support the Portfolio

2. Exits don't just happen, and for companies that are starting to fall behind on setting up for exit, a conversation with the board member and subtle nudge in the right direction may be all that is needed to head off a hurried and desperate scramble to line up potential suitors down the road. Timely introductions to potential acquirers or other resources to build an attractive exit can also accelerate the company's progress.

3. For companies with "urgent" or "critical" funding need, (meaning they will need additional funds in the next 6 months) Launchpad can anticipate and ramp-up our follow-on diligence and investment process in preparation to streamline fundraising.

Transparency is essential to a successful partnership, particularly when managing a portfolio of 60+ active companies. Without it we run the risk of missing opportunities to help, or worse still, wasting an entrepreneur's time with unnecessary or uninformed offers of assistance. By leveraging our network of support liaisons and maintaining an evolving comprehensive view of where help might be beneficial, we apply our human capital where it can drive the greatest impact for our founders and the portfolio as a whole.

Author: Alexander Brown, Launchpad Venture Group
Publication Date: December 2021

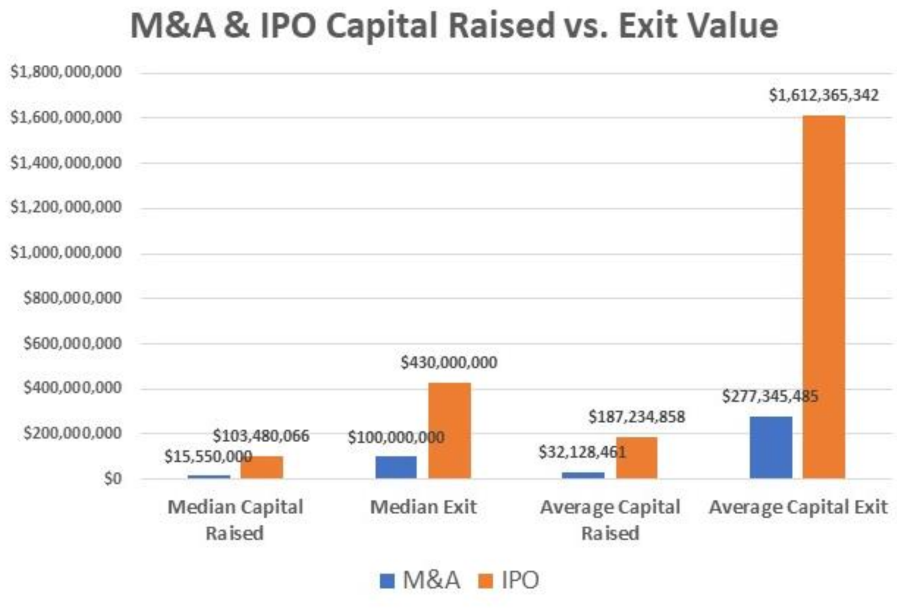
IPOs, Acquisitions and Angel Investors

IPOs are widely considered the investor's ultimate prize. Acquisitions, while more prevalent, lack the cachet, the thrill and the returns of high-flying IPOs. But is this the right strategy for angels when evaluating a startup's exit goals and opportunities?

ANALYSIS

To answer this question, we examined a sample of approximately 2750 startup exits.[1] Exhibit 1 identifies the typical capital required to get to an exit and the typical size of those exits.

Exhibit 1



Note 1) This *Crunchbase* sample includes approximately 1000 M&A transactions and 1750 IPOs from 2010 to 2017, not distorted by several recent overlapping IPO bubbles. This analysis focuses on earliest stage investments. Since it is unclear who the earliest investors were, the analysis is not restricted to angel-funded companies.

Insight continued on the next page.

IPOs, Acquisitions and Angel Investors

IPOs are commonly considered the grand slam of startup investing. IPOs returned almost 6x the average [2] and 4.3x the median M&A exit. But to reach an IPO required almost 6x the average and 7x the median capital of an M&A exit. Given their far lower capital requirements, M&A is more capital efficient, returning 6.4x the total capital invested compared to IPOs, which returned 4.2x the invested capital [3].

Exhibit 2

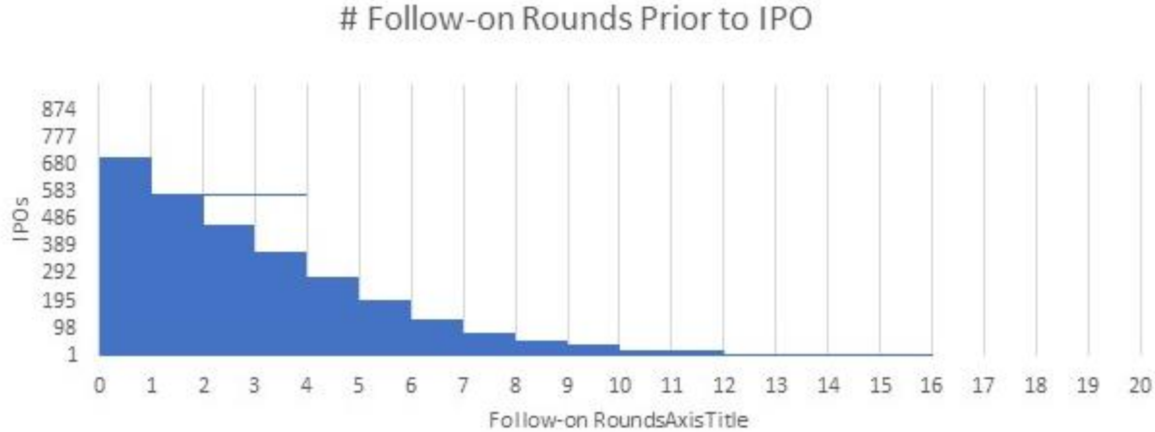
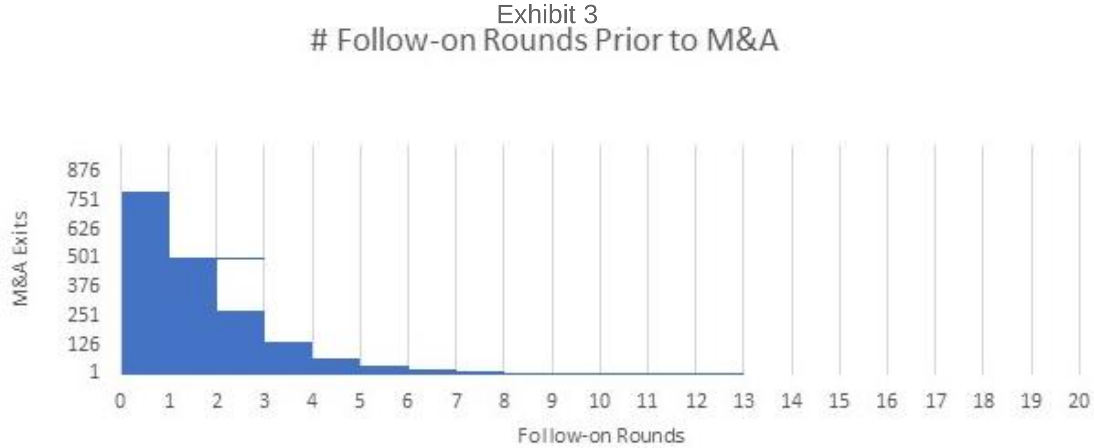


Exhibit 3



Notes:
2) Unlike medians, exit averages are distorted by unusually large, mega-billion dollar exits

3) Calculating the multiple of capital invested returned via an exit (gross MOIC, Multiple of Invested Capital) is a blunt instrument. On the one hand, it ignores the lower share price paid by early investors, who, obviously can make a higher multiple on their capital than later investors, and an investment multiple higher than gross MOIC. At the same time, MOIC also ignores liquidation preferences which benefit senior (later) investors at the expense of junior (earlier) investors if the M&A price isn't large enough to pay all preferred shareholders for their preference shares

Insight continued on the next page.

IPOs, Acquisitions and Angel Investors

Achieving an IPO required 1.5x more financing events (an average of 4.2 rounds) than an M&A exit (an average of 2.8 rounds), as Figures 2 and 3 indicate. With each additional financing round comes additional risks for angels: down rounds, more dilution (not always balanced by an offsetting increase in valuation), punishing pay-to-play terms, or additional senior liquidation preferences potentially burying angels if a modest sale failing to clear the liquidation preference stack occurs.

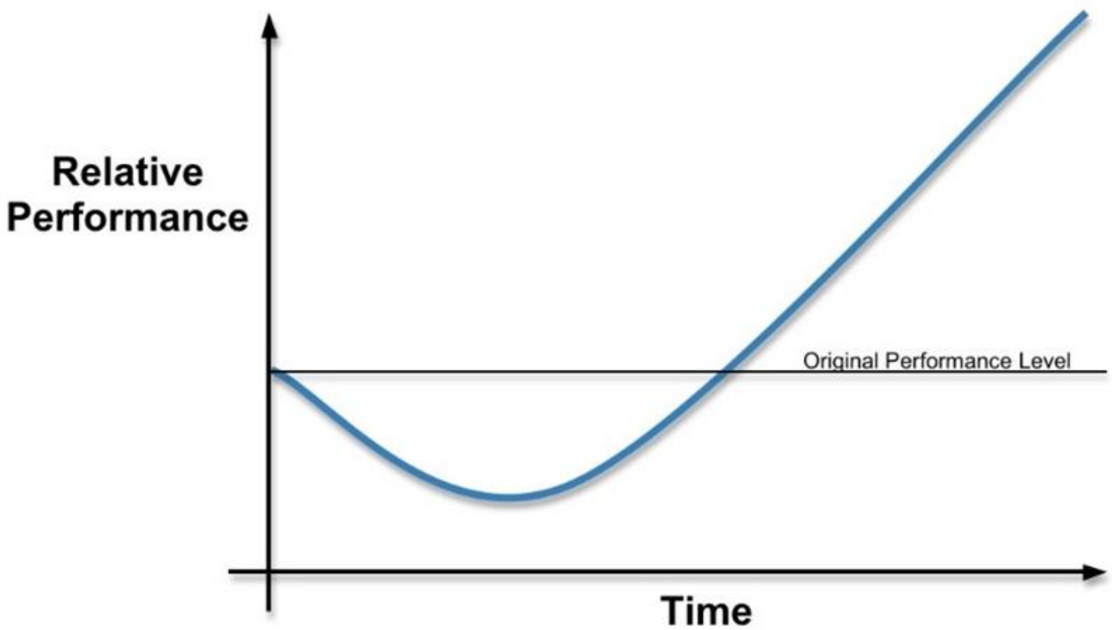
Finally, note carefully the typical capital requirements to reach an exit: $15M to $30M for M&A, $100M or more for an IPO. When CEOs tell Series Seed investors that they'll only need a small Series A before they're done fundraising, approach with extreme caution!

If your investee company does reach an IPO, the rewards can be enormous. But don't overlook other exits. The prudent angel should look seriously at attractive Series B share buyout offers from other investors seeking to acquire more shares or an unsolicited, early M&A. Think carefully before you reject such offers. Similarly, look seriously at companies whose strategy is a more reasonable early exit as the road to a mega-exit is long, capital intensive and filled with risks for angel investors.

Author: Ronald Weissman, Band of Angels Publication Date: January 2021

Time to Realize Good Angel Returns

One question that is often asked by angels is how long does it take to really be successful at angel investing. This is a unique asset class. We all know and should expect that a large percentage of our deals return less than capital in the first few years; this is called the J-curve for a portfolio, since the early losses cause the portfolio value to dip below 1x ROI for the first few years. After that, we begin to see the winners.



But most analysis of J-Curves has come from venture portfolios. The ACA data shows how angel portfolios are different.

This data from analysis of 79 Tech Coast Angels Exits that Realized Cash (and 103 Shutdowns) shows that shutdowns are more likely to occur in the first five years, and that exits stretched out to 18 years or more. This suggests that angel-backed companies behave differently than VC-backed ones.

Insight continued on the next page.

Time to Realize Good Angel Returns

Source: Analysis of 182 Tech Coast Angels Outcomes including Exits and Shutdowns

Why? I believe that angels behave differently to their entrepreneurs than VCs do. We are willing to except a longer time to an exit that might not be home runs. This comes from investing our own money rather than someone else's money. We invest in entrepreneurs we believe in, and technologies that we think can define a category or change the world.

Sometimes this belief and patience can lead to exceptional results. For example, let's look at a 2004 Alliance of Angels investment. In 2004 first round, the AoA invested at $0.76/share. In 2005, we did another round at $0.68/share; and in 2006, yet another round at $0.88/share. So, after a down round, our J-curve took a downward dip, but the next up round brought it back to neutral. Liquidity did not come until 2018 (14 years after the first investment), when DocuSign exited via an IPO. In 2021, it traded as high as $268/share, a multiple of 394.

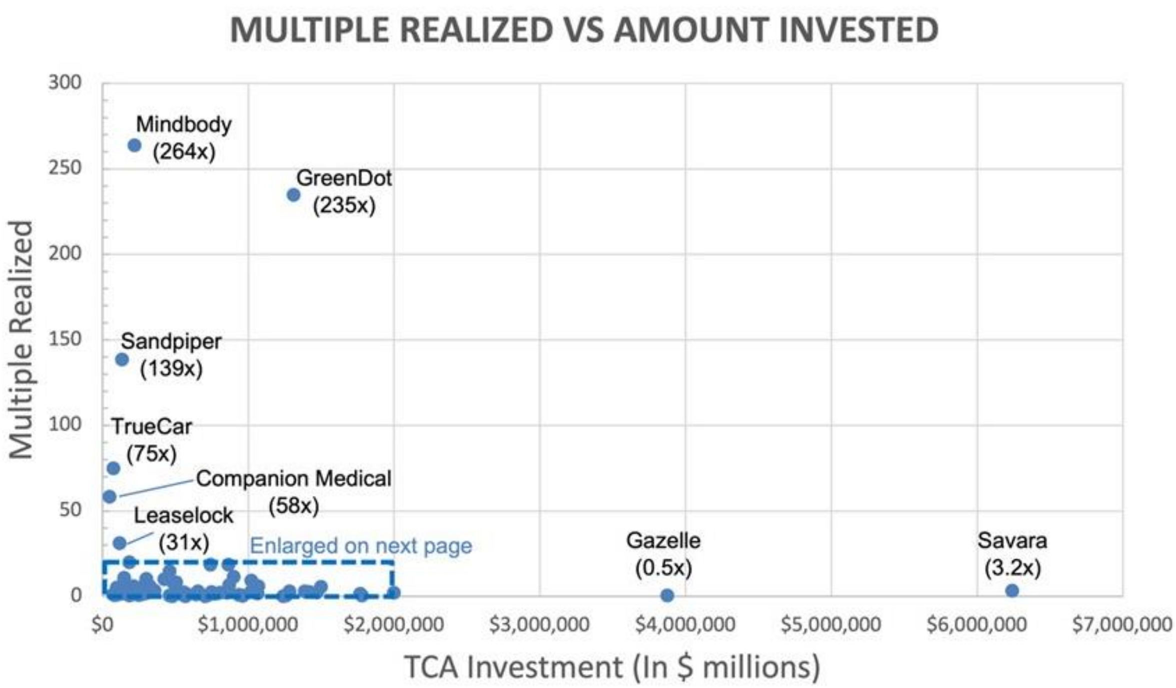
However, not all deals follow a positive pattern, so it is important to assess each round for each company with the same rigor as you look at new deals. The diligence is easier on successive rounds, since, as an existing investor, you should have more knowledge. **But if you still believe in the company, the team and it's prospects, the data shows that you should not be afraid to double down.**

Author: Dan Rosen, Alliance of Angels and Tech Coast Angels
Publication Date: May 2021

Wisdom of Crowds Among Angel Investors

Successful angels and angel groups put significant effort into due diligence, and studies have shown that returns are higher with more extensive due diligence. But what happens when angels in a group evaluate that due diligence and come to their own conclusion on whether or not to invest – are the heavily subscribed deals more likely to produce higher returns?

Based on analysis of all 86 exits among the 206 outcomes in Tech Coast Angel's portfolio, the answer (at least for TCA) seems to be that there is no clear correlation:



Source: Analysis of 86 Tech Coast Angels Exits that Realized Cash 1997 - 2020

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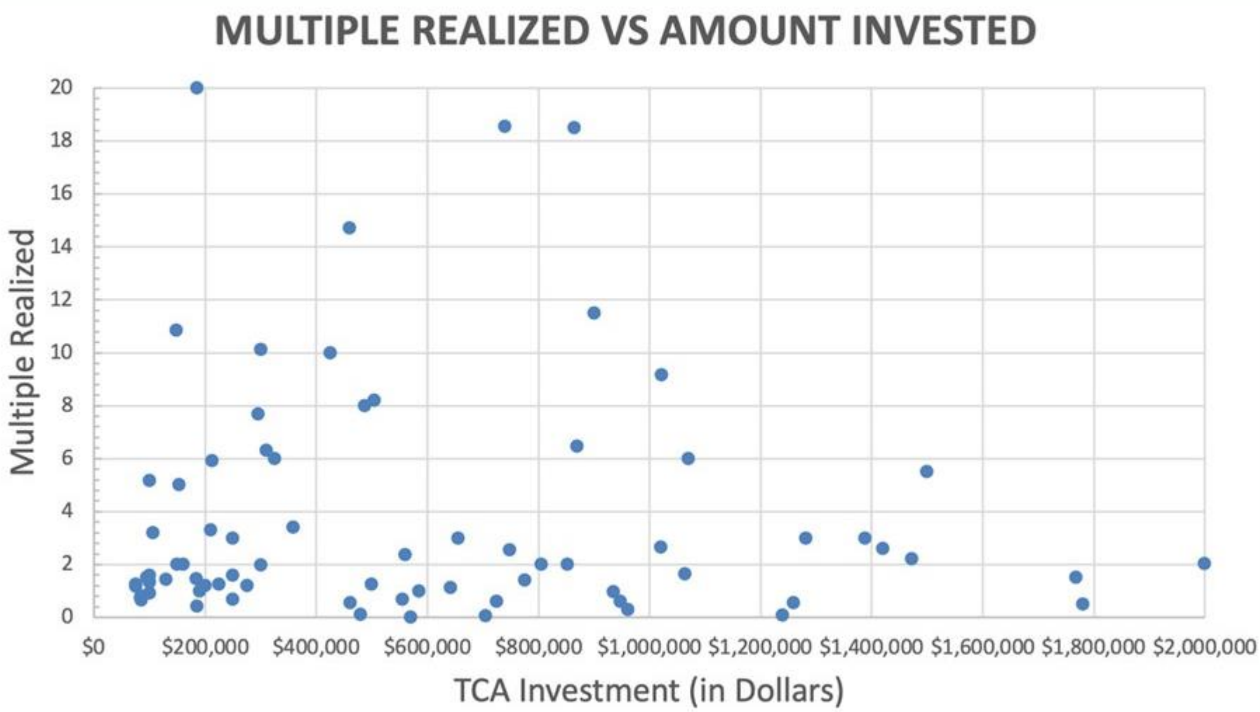
Wisdom of Crowds Among Angel Investors

Expanding the lower corner of that chart also shows no correlation:



Source: Analysis of 86 Tech Coast Angels Exits that Realized Cash 1997-2020

But what about the averages? The average investment in TCA's 86 exits so far was $667k, compared to an average of $618k for the 120 shutdowns so far. This means that TCA invests on average 8% more in the deals that have exits than those that fail.

While that may sound encouraging, it misses the reality that 5 of TCA's 6 largest "home runs" had relatively smaller amounts invested by TCA, and that the average invested in those deals was only $318k vs $528k for all of TCA's 462 investments (including active companies):

Insight continued on the next page.

Wisdom of Crowds Among Angel Investors

TCA "HOME RUNS"

Company	Multiple realized	IRR	Amount invested ($ thousands)
MindBody Inc.	264	61%	$220
GreenDot (formerly Next Estate)	235	60%	$1,311
Sandpiper Networks	139	168%	$135
Truecar (formerly ZAG.com)	75	62%	$75
Companion Medical	58	125%	$50
LeaseLock	31	99%	$118
Average for Top 6	134	109%	$ 318
Average for All 206 Outcomes	5.3	26%	$ 638
Average All 462 companies			$ 528

But all crowds are not the same. A similar analysis for Central Texas Angel Network shows a more encouraging "Wisdom of Crowds" effect: the average investment amount for CTAN exits was $903k, compared to an average of $408k for the shutdowns – which is 121% larger. Further, the average amount invested in CTAN's top 5 exits (in turns of multiple realized) was $2,262k. So, maybe there is "wisdom of crowds" effect after all – at least in Texas!

The different experiences in CTAN and TCA highlight the importance of the ACA Data Initiative. While these two groups are among the most active angel groups, there is much we can learn from each other by pooling our data. In 2020, TCA invested in 64 companies and CTAN invested in 29, but the total number of companies reported to ACA from 74 groups participating was 1372.

Author: John Harbison (Tech Coast Angels) and Rick Timmins (Central Texas Angel Network)
Publication Date: June 2021

ACA Investor Insights Report 2021
Returns

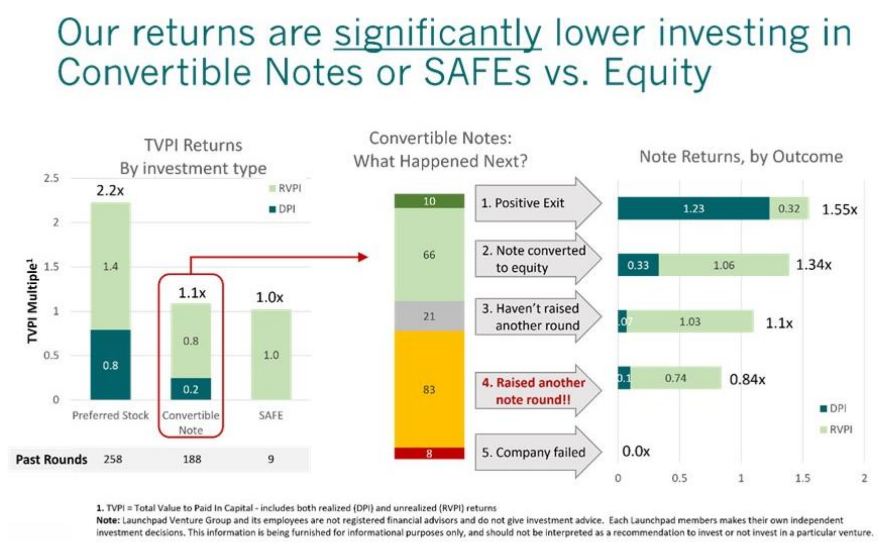
Returns for Convertible Notes/SAFE vs Equity

Launchpad Venture Group has always had a strong preference for investing in preferred equity rounds rather than convertible notes or SAFEs. The main reason for this is that we believe equity investment best aligns the interests of founders and investors so they can focus on building great companies together rather than worrying about the yet-to-be-determined conversion terms of debt-based investments. (The tax implications of convertible notes are another reason to prefer equity, which we can save for a future post)

Given the increasing popularity of notes and SAFEs, we frequently find ourselves pushing back on founders and other investors who tout the “speed and simplicity” of these funding tools.

However, we wondered if our preferences were grounded in performance. At the end of the day as investors we are interested in the returns from our investments. So, we turned to Launchpad’s 20 years of investment returns data to determine what our actual returns have been from investing in equity versus convertible notes and SAFEs. To do this, we looked at 484 individual investment rounds that the group has made using Total Value to Paid-in-Capital (TVPI) return multiples for rounds with at least 18 months since the initial investment. This metric measures the current value of the investment (both realized and unrealized) as a multiple of the cash invested.

To get a clear picture of round-level returns, we needed to link back the ultimate payout from a company to the actual round where capital was invested. For example, if we invested in a convertible note round that later converted into equity as part of a subsequent fundraising, and then paid a return over two separate milestone escrow payments, we needed to determine what portion of each escrow payment came from shares converted in from the note into equity in order to determine that note’s ultimate return.
The analysis results are summarized in the chart below.



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Returns for Convertible Notes/SAFE vs Equity

Even though we prefer equity investments, we were shocked to see how much lower our returns have been from investing in convertible notes versus equity. Our TVPI multiple on convertible notes and SAFEs is half what it is for preferred equity, and this difference is sustained over 258 rounds of equity investment and 188 rounds of investments in convertible notes.

While we admittedly view SAFE notes as a cancer of the investing world and thus have little experience with them compared to some investors, there is no reason to believe their returns fare better than convertible notes, since they strip out what few remaining investor protections notes offer.

The result was surprising enough that we felt compelled to dig deeper to understand what was driving such a low average return for convertibles. We looked at what happened next after the company raised its convertible note, and what the ultimate returns were for each outcome category:

1. Positive Exit – For roughly 5% of note rounds, this was the last round of financing and the company successfully exited without needing to raise additional funding. This is a best-case scenario where notes were used as a bride to an exit, and the investors received a 1.55x return on their investment. While a positive return, it is worth noting that the return is still lower than the average equity returns of 2.2x because noteholders only receive the benefit of their discount or cap at the time of exit rather than growth of equity value.

2. Note Converted to Equity – Roughly 35% of convertible notes behave the way they are supposed to and convert into equity at the next fundraising round. The average 1.3x returns in this outcome reflect the benefits of a note discount or cap, but are still below average equity returns.

3. Not Yet Raised Another Round – About 11% of rounds are recent enough that the company hasn't yet raised another round of financing, but the company is still in flight. These notes are being carried at their original face value of 1x investment, and the jury is still out.

4. Raised Another Note Round – The big surprise here is that a shocking 44% of note rounds were subsequently followed by another note round. These serial-note rounds absolutely kill investor returns by delaying a conversion to equity that can grow in value with the company over time, and postponing the start of the section 1202 clock to benefit from tax incentives for risky investment. Investors in these rounds are effectively receiving debt-level returns for equity-level risk taking. Furthermore, companies that raise capital through a drip of note rounds are often under-funded and struggle to make the confident investments needed to reach "escape velocity." Rounds in this category only returned 84 cents on the dollar, on average.

Insight continued on the next page.

Returns for Convertible Notes/SAFE vs Equity

5. Company Failed – 4% of our note rounds were the last investment before a company failed, and they returned nothing. Companies fail as a normal part of early-stage investing; but what is different about unconverted note rounds is that in the event of failure the note typically has zero residual value, unlike equity investments that can often salvage a portion of the invested capital as the company winds down.

Given these insights, it appears that our skepticism of convertible note rounds is well-justified. Furthermore, while it is impossible to know at the time of investment what a company's next round of fundraising will be, we plan to give extra scrutiny to companies that look to be embarking on a campaign of serial note fundraising. The expected returns just aren't worth the headache.

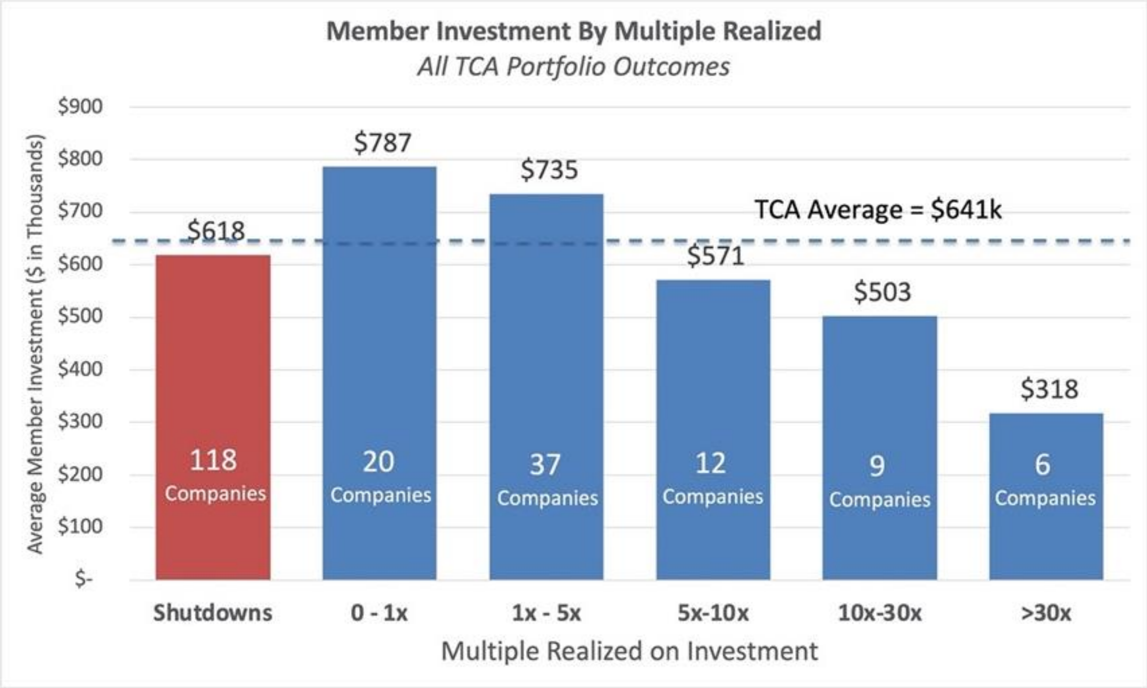
Author: Alexander Brown, Launchpad Venture Group
Publication Date: July 2021

Wisdom of Crowds Among Angel Investors -- The Sequel

In our June 2021 Data Insight, we explored what appeared to be no correlation between the amount of investment (primarily a function of the number of Tech Coast Angels members investing) and the outcomes in terms of the multiple realized. It was a scatter-shot that seemed to resemble a shotgun blast rather than some determinate pattern.

However, successful data analysis looks for hidden patterns, so this month we cut the same data differently and group the investments in buckets of different sized investments, as well as factoring in the mix of exits/shutdowns and actives in each grouping -- and look for patterns. The results are interesting.

For starters, with the benefit of hindsight, the companies delivering the largest returns tend to attract less total TCA investment. This seems to be a very consistent pattern since the amount invested steadily decreases with the multiple realized and reinforces the earlier conclusion that investors should not be timid about investments that inspire them even if their angel peers are more skeptical:



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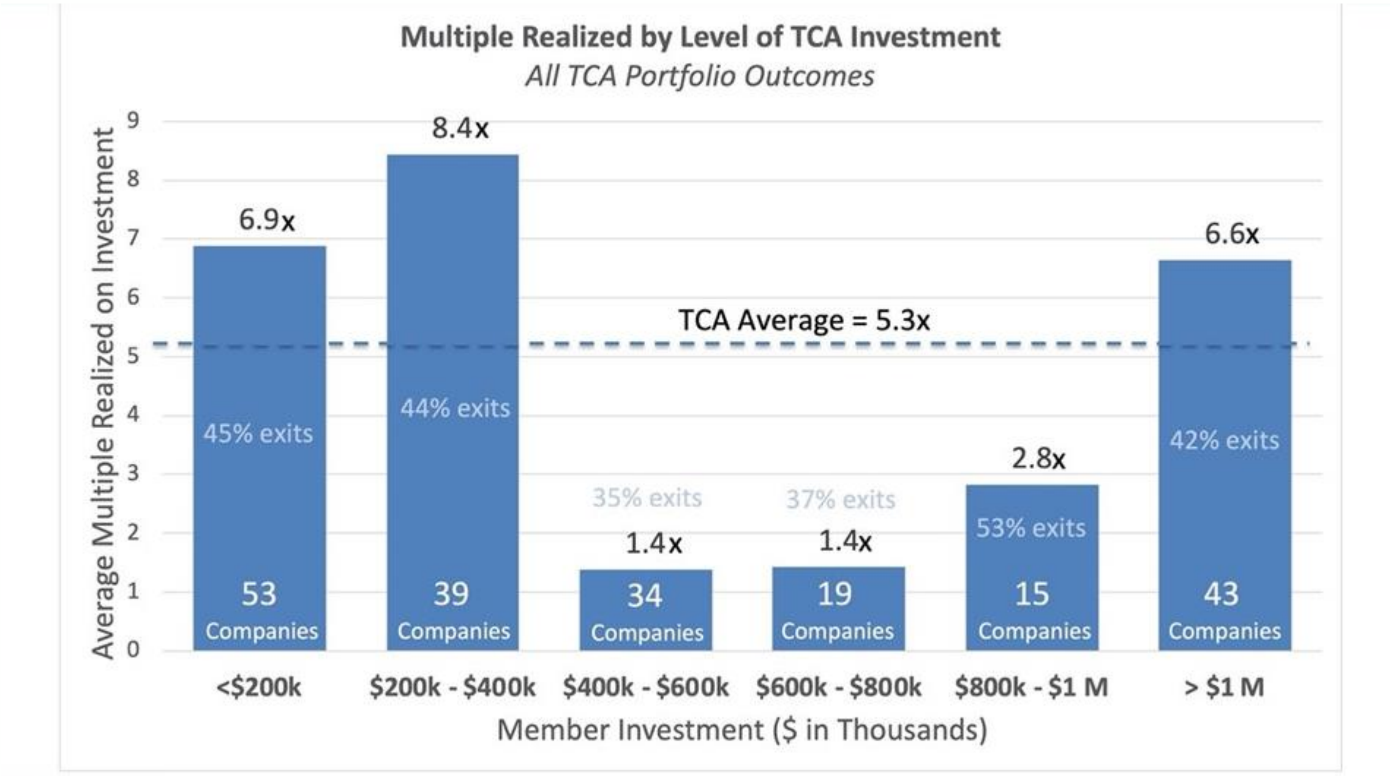
Wisdom of Crowds Among Angel Investors -- The Sequel

But what does it look like the other way around – using the amount invested as the independent variable and the multiple realized as the dependent variable? The highest returns tend to come in the smallest and largest sized rounds, with a "Valley of Death" in the moderately sized investment range. Companies in the $400k - $800k range only realized 1.4x multiple while the deals over $1M yielded 6.6x and companies less than $400k range yielded 7x-8x:



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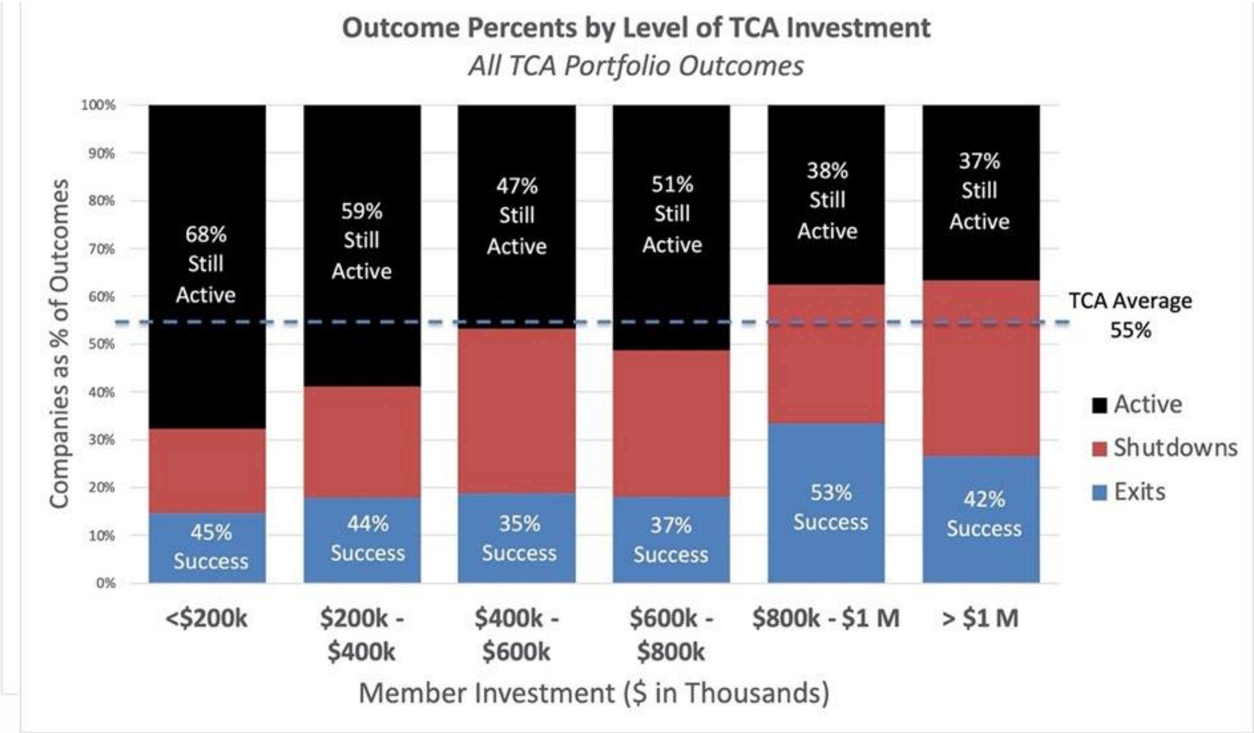
Wisdom of Crowds Among Angel Investors -- The Sequel

Layering in the active companies in the TCA portfolio reveals that the larger the deal, the more likely an Exit or Shutdown outcome is realized. The smaller deals seem to take longer to resolve.



Just as with many other investment classes, following the stampede in Angel Investing is not necessarily the most winning strategy. Do your thorough Due Diligence, ask all the important questions (of the company and of the experts in your Angel Group), but then invest based on your own judgement not that of others. You may be blessed with better outcomes when you ***invest in the companies that most inspire you***.

Author: John Harbison, Tech Coast Angels
Publication Date: August 2021

Which Investment Round Has the Highest Returns

At Launchpad Venture Group, we enjoy as strong culture of "continuous improvement" that looks to learn from our 20 years of past investment data to make better investment decisions today and going forward. We also make a habit of supporting our founders through multiple rounds of fundraising; and one question we frequently get from our members is, "which round of investment in a company offers the best returns?" Some members prefer to make a single investment in each company to maximize diversification across companies, while others use investments across several rounds of an individual company to "knowledge cost average" their returns. **Can our data tell us anything about better strategies for follow-on investing?**

To do this, we looked at 484 individual investment rounds that the group has made using Total Value to Paid-in-Capital (TVPI) return multiples for rounds with at least 18 months since the initial investment. This metric measures the current value of the investment (both realized and unrealized) as a multiple of the cash invested. To get a clear picture of round-level returns, we needed to link back the ultimate payout from a company to the actual round where capital was invested. For example, if we invested in a convertible note round that later converted into equity as part of a subsequent fundraising, and then paid a return over two separate milestone escrow payments, we needed to determine what portion of each escrow payment came from shares converted in from the note into equity in order to determine that note's ultimate return.

The analysis of Launchpad's results are summarized in the charts below. **The left-hand chart shows average TVPI return multiple by round, and the right-hand chart shows the distribution of return outcomes for each round.**

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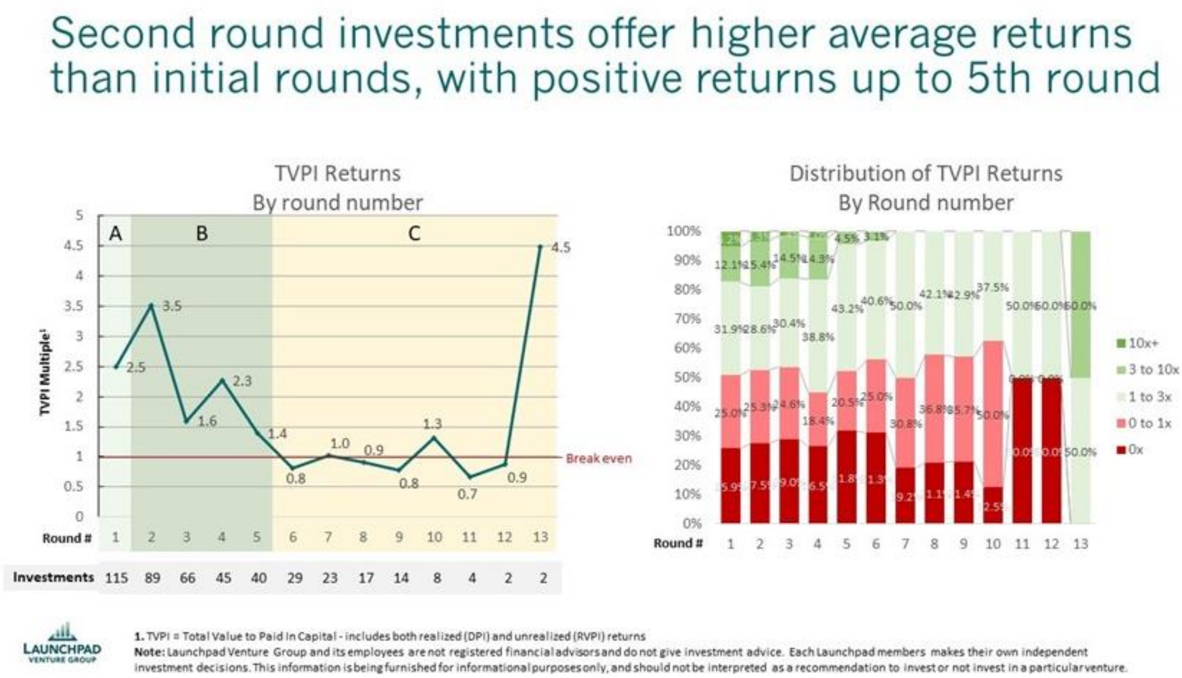
Which Investment Round Has the Highest Returns



The return profile by round appears to fall into three ranges, each with insights for investors:

A. **The first round of investment does not have the highest average return.** There are roughly 5% of rounds that see more than 10x returns, but on average first round investments only return an average of 2.5x vs. 3.5x for second-round investments, which have the highest average return.

As early-stage investors, we know that we tend to overpay for companies at their first fundraising. Very often, these rounds happen before the product is completely proven, and almost always before the company has demonstrated market traction. If we valued the company at its true worth at this stage, the founders would need to give up too much equity to keep them well-incented to carry the company to a successful exit. While average returns are not the highest, they are still attractively positive and buy us a seat at the table…plus, it is essential that enough people invest in that first round to get to subsequent rounds of fundraising. We salute the investors willing to step up and meet this need.

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Which Investment Round Has the Highest Returns

B. **Rounds 2 thru 5 have positive, but generally declining expected returns with each subsequent round**. By the second round, companies have typically grown into their valuations and can offer a greater probability of a 3-10x return, in particular. With each following round, we see a notable decline in probability of a >10x return as the company consumes more capital. (and would need to exit at much higher valuations to return 10x)

Investors considering a follow-on investment in their portfolio companies in these rounds should assess whether the company is progressing well down a path of de-risking the investment, and thus able to successfully “grow into” the next round of financing. They should also track and be mindful of which round of funding a company is raising.

C. **Investments after the 5th round do not drive positive average returns.** The probability of a >3x return all but disappears after the 5th funding round, and the probability of a money losing investment generally rises with each new round beyond 5.

Some companies need to keep raising more and more rounds of capital over time. In a few cases, they just need a little more runway to get the business model turning over well; however, there is a growing risk with each new round that they are becoming dependent on external subsidy and will never achieve “escape velocity.” While there are always exceptions (like one company that delivered a 5x return on its 13th round) that prove the rule, and “defensive” follow-ons to protect earlier investments may still make sense, investors should be realistic about the odds of success in these later Angel funding rounds.

Taken together the lesson for investors is that, while “one and done” may not be the best strategy from a returns standpoint, slavishly following-on in companies that have become dependent on “investor welfare” also problematic. **As often, the best strategy lies somewhere in the middle, and a disciplined investor needs to monitor how each of their companies progresses through the capital formation process when making follow-on decisions.**

Author: Alexander Brown, Launchpad Venture Group
Publication Date: September 2021

ACA Investor Insights Report 2021
Diversification

Diversification by Vertical

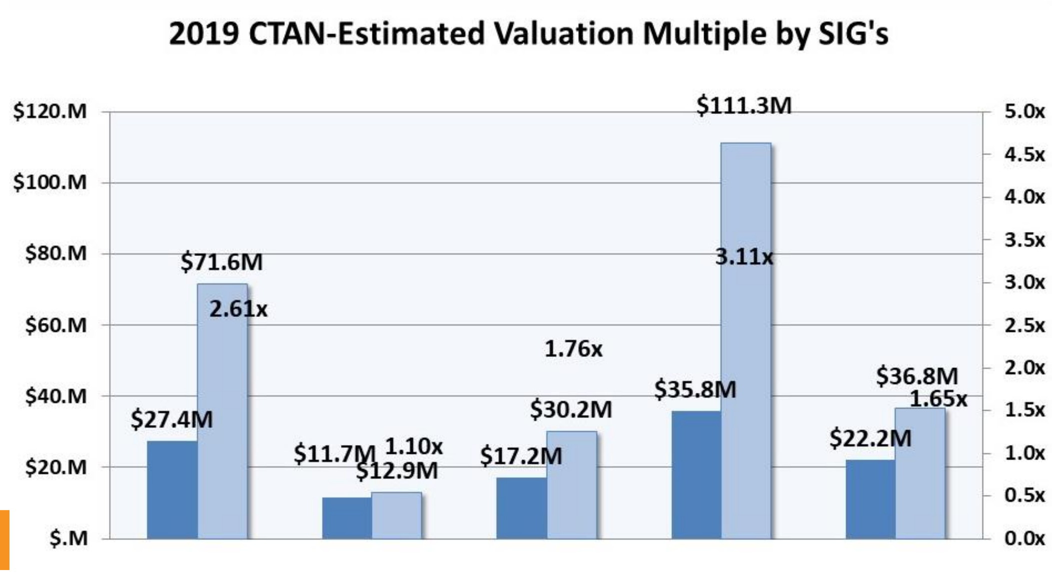
An earlier Data Insight published by the team at Launchpad Venture Group discussed the very real benefits in the number of angel investment companies a person should consider making over time to help insure the likelihood of success in angel investing. Data indicated that investing in 15-25 companies was demonstrating a stabilized return multiple of 4.5x.

In this Data Insight I would like to have an angel investor consider diversification in angel investing in terms of different vertical industries. Typically, when a person begins their journey in angel investing, they will focus on investing in companies in which they are familiar with in terms of their work experience and education. Actually, this is not a bad way to start. You have worked for a number of years in a particular field and now you have a chance to utilize the knowledge you have accumulated over many years of experience. It can lead to you providing insights into a market opportunity that can be very helpful not only to you, but likely to other angel members of your group.

But let's also consider you developing a portfolio of companies not only in terms of the quantity of investments, but also the various vertical industries that you should consider making angel investments. To help make this point let's look at a chart from the Central Texas Angel Network (CTAN) in Austin.

One of the ways CTAN looks at companies is to summarize them by Special Interest Groups or SIGS. We lump the various vertical industries into five SIGS. As you can see in chart below, the five SIGS within CTAN are broken down as follows:

1—Business to Business (B2B) Software
2---Business To Consumer (B2C) Software
3—Hardware/Other
4—Life Sciences
5—Consumer Products (CPG)



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Diversification by Vertical

At the bottom of the chart is the number of CTAN companies invested by members within each SIG from 2006 through 2019: B2B Software 52 companies, B2B Consumer 41 companies, Hardware/Other 30 companies, Life Sciences 35 companies and Life Sciences 28 companies for a total of 186 companies invested.

This chart for each SIG shows on the first bar how much has been invested by CTAN into companies in each of the segments along with the valuation estimate as of the end of 2019 which is the second bar. The comparison of estimated valuations at the end of 2019 to the amount invested produces the valuation multiple. Breaking down the five segments that are tracked shows the valuation multiple by SIG as follows:

1—Business to Business (B2B) Software—2.6x valuation multiple
2—Business to Consumer (B2C) Software—1.1x valuation multiple
3—Hardware/Other—1.8x valuation multiple
4—Life Sciences—3.1x valuation multiple
5—Consumer Products (CPG)—1.7x valuation multiple

As most people know, Austin is one of the major tech cities in the country and as a result most of our members are from the tech world. This is reflected in that the combined companies invested in B2B Software (52) and B2C Software (41) is 93 companies or 50% of all investments.

However, over the years many CTAN angel members with tech experience have also invested in Life Science companies, including myself. Life Sciences has the highest valuation multiple of the five segments. This is encouraging news for those that have diversified their angel investing into other vertical/segments outside of their world of experience. CTAN is an angel group of +185 members, and it does have individuals that have domain experience in Life Sciences industries. These include doctors, medical device specialists and other disciplines. Using their domain experience, and appropriate due diligence, those CTAN members investing in various segments/industries, including those segments outside of their work experience and education have created a more likely or probable return on their investment portfolio.

Prior to any investment by CTAN members, a very thorough due diligence process and report is produced and shared with all members to read and evaluate. Meetings are held by members to share their views on these companies and this healthy dialogue and communication enables members who are not subject matter experts in a field or industry to consider making an investment in a particular company outside their domain expertise.

This due diligence and work encourages members to build a portfolio not only in terms of the number of companies one invests in, but also consider investing in various segments/verticals to also diversify their portfolio and increase the likelihood of successful angel investing returns. Relying on other members of an angel groups is one of the cornerstones of belonging to an angel group.

As noted by the valuation multiples of the various segments within CTAN, a portfolio of diverse vertical industry companies, along with the number of companies to invest in, can also yield excellent returns and improve the likelihood of success in angel investing. **You may see lower returns and more risk if you try to stay in just one vertical.**

Author: Rick Timmins, Central Texas Angel Network
Publication Date: February 2021

The State of U.S. Early-Stage Venture: 2Q21

AngelList has recent published a report on “The State of U.S. Early-Stage Venture: 2Q21” which offers insights into all the deals that took place on the AngelList platform this past quarter. The data is paired with Silicon Valley Bank’s proprietary data on founder spending activity this quarter. Here are some key observations and takeaways:

- 90% of events that happened this quarter to early-stage startups on AngelList were positive ones.
- Nearly 12% of the startups in our portfolio raised a priced equity round in 2Q21, compared to just over 7% one year ago.
- Average pre-seed valuations on AngelList jumped 26% compared to last quarter. Seed stage valuations jumped nearly 14%.
- Startup credit card and payroll spend recovered to pre-pandemic levels.

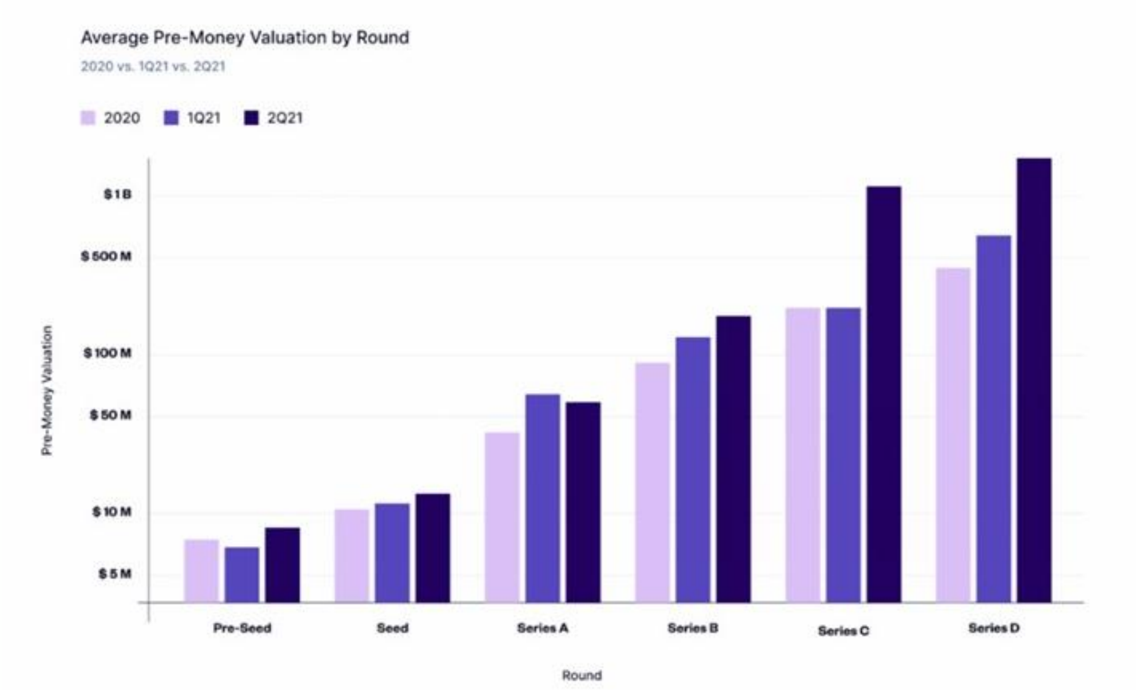
For all the data and analysis, click here for the full report.

The early-stage venture industry continues to surge just one year after one of the worst quarters on record.

Markup rates for startups on AngelList soared to new heights in 2Q21, exceeding the previous record markup rate set in 1Q21. Meanwhile, valuations for startups continued to climb, and spending by founders bounced back to levels not seen since before the pandemic.
As early-stage investors, we know that we tend to overpay for companies at their first fundraising. Very often, these rounds happen before the product is completely proven, and almost always before the company has demonstrated market traction. If we valued the company at its true worth at this stage, the founders would need to give up too much equity to keep them well-incented to carry the company to a successful exit. While average returns are not the highest, they are still attractively positive and buy us a seat at the table…plus, it is essential that enough people invest in that first round to get to subsequent rounds of fundraising. We salute the investors willing to step up and meet this need.

Insight continued on the next page.

The State of U.S. Early Stage Venture: 2Q21



Collectively, this data offers a unique view into how capital flowed into and out of startups in 2Q21. The analysis indicates that the early stage venture market has done a complete 180-degree turn from one year ago.

Specific insights covered in the report include:

- Markup and positive activity rates
- Valuations
- Investment activity by sector
- Funding to female founders
- Popular investment instruments
- Investor behavior on AngelList
- Founder credit card spend
- Founder payroll spend
- Startup formation rate by locale

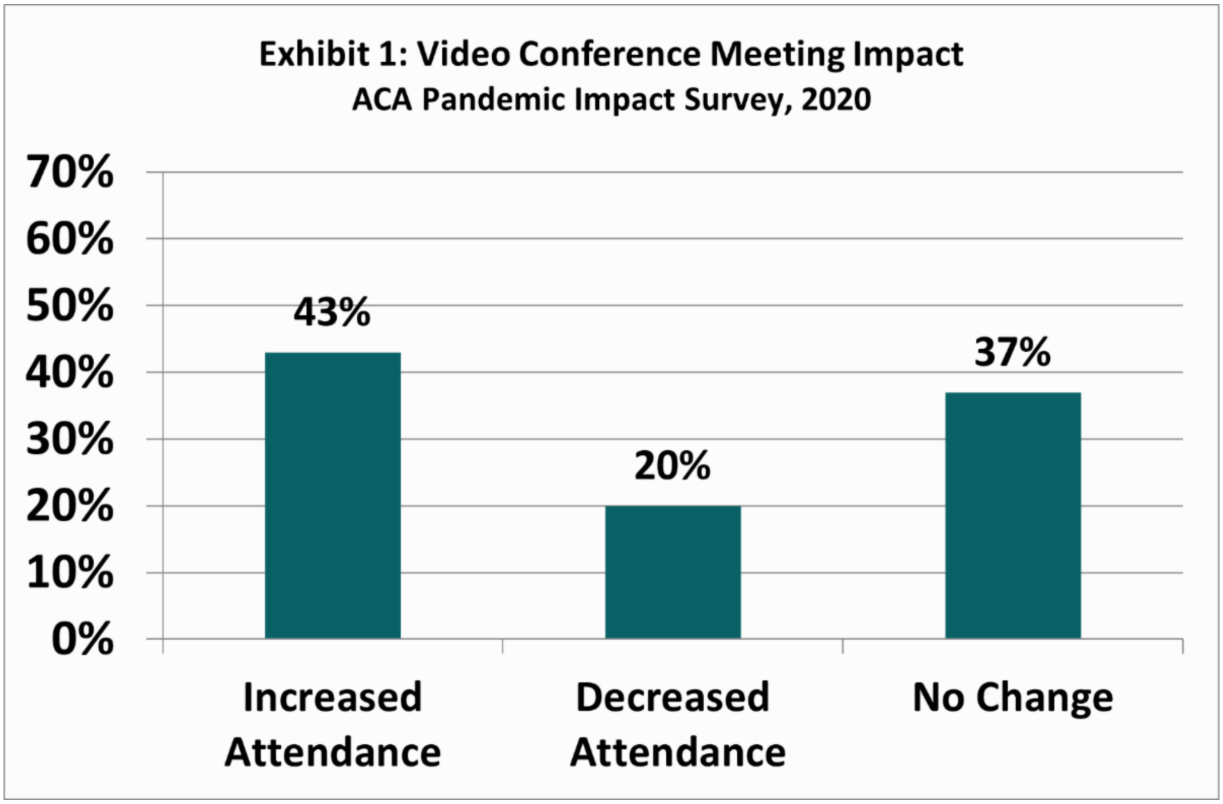
Read the report to see all of AngelList's findings.

Author: Matthew Speiser, AngelList Venture
Publication Date: October 2021

Regional to National Investing

During the pandemic, early-stage investors shifted, of necessity, from in-person to online meetings, deal review, diligence and deal execution. One of the potential side effects of this shift was the ability to meet and evaluate startup opportunities outside of a group's traditional town, startup hub or region.

The ACA's 2020 Pandemic Impact survey indicated that the move to videoconferencing did not reduce angel engagement, and in 43% of groups surveyed, actually increased member activity:



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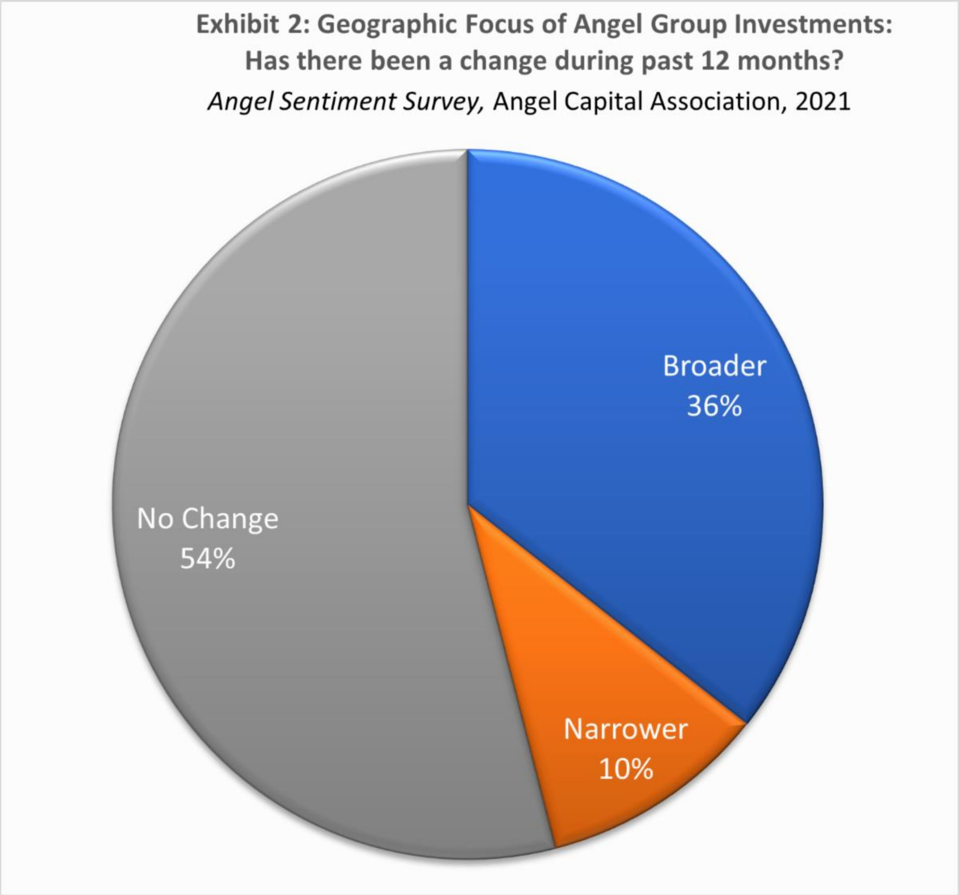
Regional to National Investing

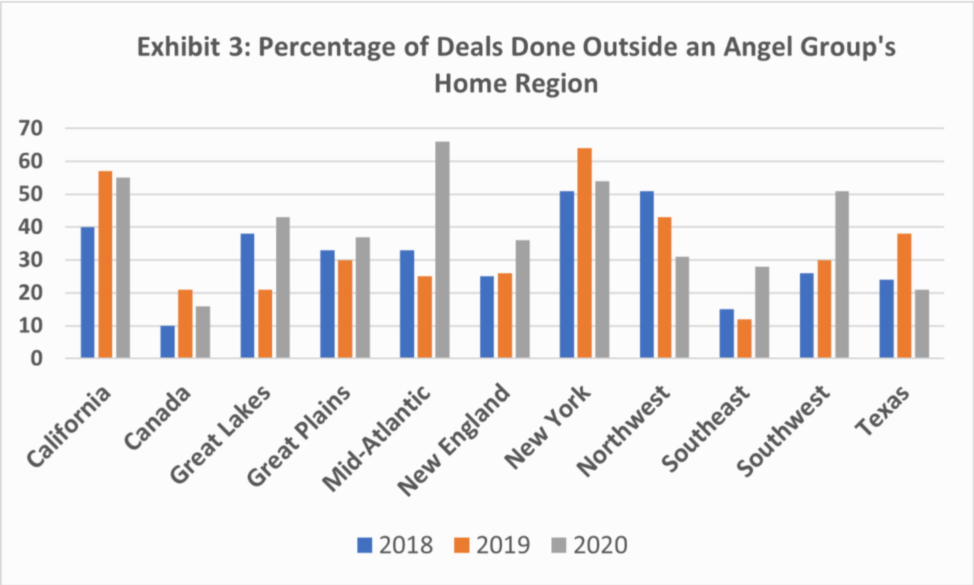
Given the greater ability to engage entrepreneurs beyond the angel group's local territory, what happened in 2020? Did virtual dealmaking lead to more geographically diverse investing?



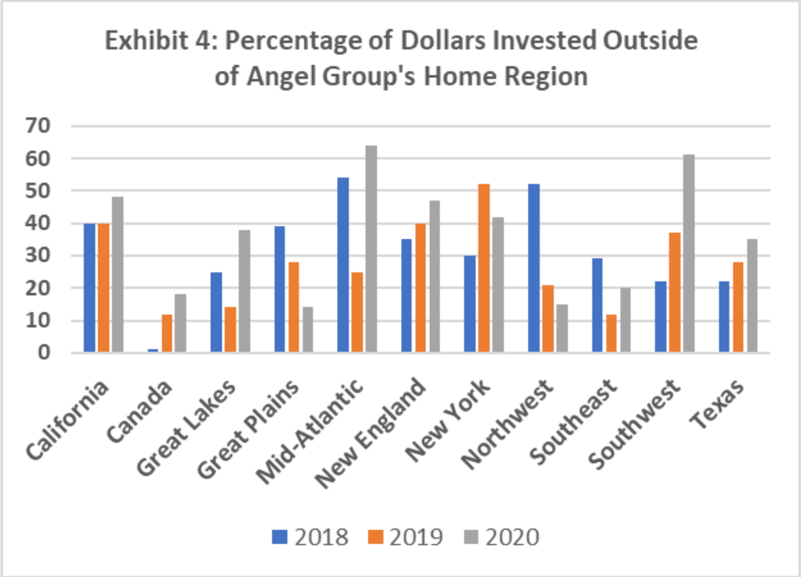
As the ACA's 2021 angel sentiment survey revealed, more than a third of angel groups reported that they had broadened the range of geographies in which they invested during 2020. Deal level data collected by the *ACA Angel Funders Report 2021* confirms this trend. It also enables us to determine if that increased geographic span extended primarily to nearest neighbor regions and whether this trend affected a just a few ACA regions or was a broader phenomenon.

Insight continued on the next page.

Regional to National Investing



As Exhibit 3 (see Chart 30 and commentary from the 2021 Angel Funders Report) indicates, in 2020 angel groups (collectively by region) in six out of the ACA's eleven regions invested in more deals outside of their home region than they did in 2019, and seven regions invested in more out of region deals in 2020 than they did in 2018. In 2020, seven out of eleven regions invested more dollars out of area than they did in 2019:



Insight continued on the next page.

Regional to National Investing

On average, angel groups executed nearly 40% of their deals and invested more than 36% of their dollars out of their home region in 2020, a 30% growth in invested dollar flows outside the home region compared to the prior year. Two regions, Mid-Atlantic and Southwest, invested 60% or more of their dollars outside their regions:

Exhibit 5

Investor Region →
Investee Region ↓

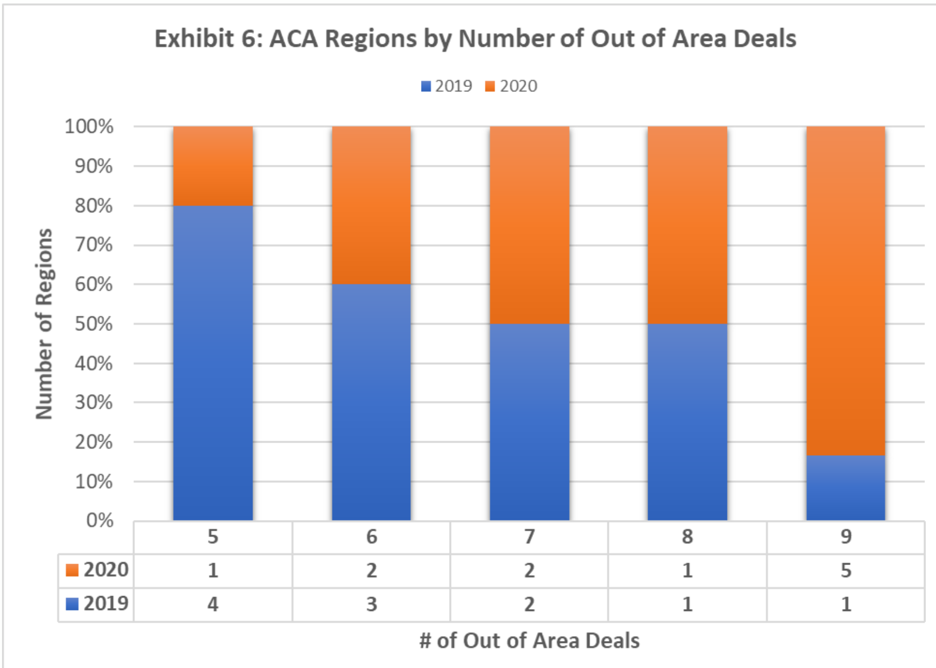
Investors in This Region Invested in These Regions: (% of $)

ACA Region	California	Canada	Great Lakes	Great Plains	Mid-Atlantic	New England	New York	Northwest	Southeast	Southwest	Texas
California	52.2%	0.5%	0.0%	0.2%	2.2%	2.4%	4.7%	3.1%	1.2%	0.7%	6.0%
Canada		82.5%			1.1%						
Great Lakes	8.5%		62.1%		0.5%	0.7%	6.1%		0.3%	0.9%	
Great Plains			3.4%	86.0%	0.1%	1.0%	0.2%	1.2%	0.8%	0.9%	
Mid-Atlantic	0.6%		0.2%		35.6%	2.2%	0.5%	0.3%	0.2%	0.3%	0.4%
New England			0.3%			53.2%	13.4%			2.6%	
New York	20.9%	1.8%	2.9%	4.0%	9.1%	27.5%	58.1%	1.5%	3.1%	6.9%	1.0%
Northwest	10.5%	13.8%	19.9%	6.6%	29.2%	4.6%	9.8%	84.6%	10.6%	39.3%	14.8%
Southeast	4.8%	0.3%	4.2%		11.2%	5.8%	5.0%	1.2%	80.1%	0.7%	10.4%
Southwest	1.7%		1.2%	1.6%	5.8%	1.6%	0.8%	2.8%	2.2%	38.6%	2.1%
Texas	0.8%	1.1%	5.7%	1.6%	5.1%	0.8%	1.4%	5.3%	1.6%	9.1%	65.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Cross border angel investing was not simply a matter of funding companies in nearest neighbor regions. As Exhibit 6 illustrates, in 2019, most regions executed deals in only five or six other regions. In contrast, in 2020, the first year when most deals were done online, more than half of regions saw dollars flow to eight or more other regions—and in six, regional dollars flowed across North America, to nine or ten of the other regions, a reversal of pre-pandemic 2019 investing behavior.

Insight continued on the next page.

Regional to National Investing



While only one US region (Exhibit 5) invested (a very small amount, 1.1% of their capital) in Canada, Canadian investors funded deals in five US regions:

Exhibit 7

Investor Region →
Investee Region ↓

Investors in This Region Invested in These Regions: (Deal Count)

ACA Region	California	Canada	Great Lakes	Great Plains	Mid-Atlantic	New England	New York	Northwest	Southeast	Southwest	Texas
California	45%	1%	1%	2%	4%	2%	6%	3%	3%	4%	2%
Canada		84%			1%						
Great Lakes	5%		57%	2%	4%	1%	4%		1%	2%	
Great Plains			1%	63%	1%	1%	1%	1%	1%	1%	
Mid-Atlantic	1%		3%		34%	3%	1%	1%	2%	1%	1%
New England			1%			64%	3%			1%	
New York	18%	1%	5%	10%	11%	14%	46%	5%	7%	9%	2%
Northwest	16%	9%	18%	10%	27%	8%	19%	69%	8%	16%	8%
Southeast	3%	1%	4%		7%	2%	4%	3%	72%	2%	4%
Southwest	3%		2%	2%	3%	4%	3%	8%	3%	49%	4%
Texas	9%	5%	9%	10%	8%	2%	12%	9%	2%	13%	79%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Insight continued on the next page.

Regional to National Investing

While 60% of deals were done in region, 2020 investing data indicates a growing willingness of angel groups to invest well beyond their regions. Angel groups were, of course, investing across regional borders before the pandemic, but the near-universal adoption of online deal engagement sharply reinforced this trend.

The adage that "angels only invest in companies they can drive to in second gear," is no longer a truism. One positive impact of the pandemic was the accelerated growth of an increasingly cross-regional and even national view of investing opportunities across the ACA's angel community.

Author: Ronald Weissman, Band of Angels
Publication Date: November 2021

Future of the ACA Data Initiative

These data insights, like the Angel Funders report, are based on the data collection and analysis of leading ACA member organizations throughout the U.S. and Canada. We are actively recruiting all ACA member organizations to contribute their investment data to the ACA Data Initiative. The more data we collect from as many groups as possible, the more valuable the analysis and reporting becomes. Submitting your group's data is easy! It's the only way to build a data bank that can help all groups make smarter investment decisions. Sign up today to contribute your group's data!

Learn more about the ACA Data Initiative!

The Angel Capital Association is your authority on angel investment information! The Angel Funders Report, powered by Hockeystick, is the only official report from ACA for angel investment data in North America. Quality and accuracy are verified by collecting information directly from our member groups and then validated through the efforts of our data partner, Hockeystick, ensuring the most reliable information in the market today.