ANGEL CAPITAL ASSOCIATION

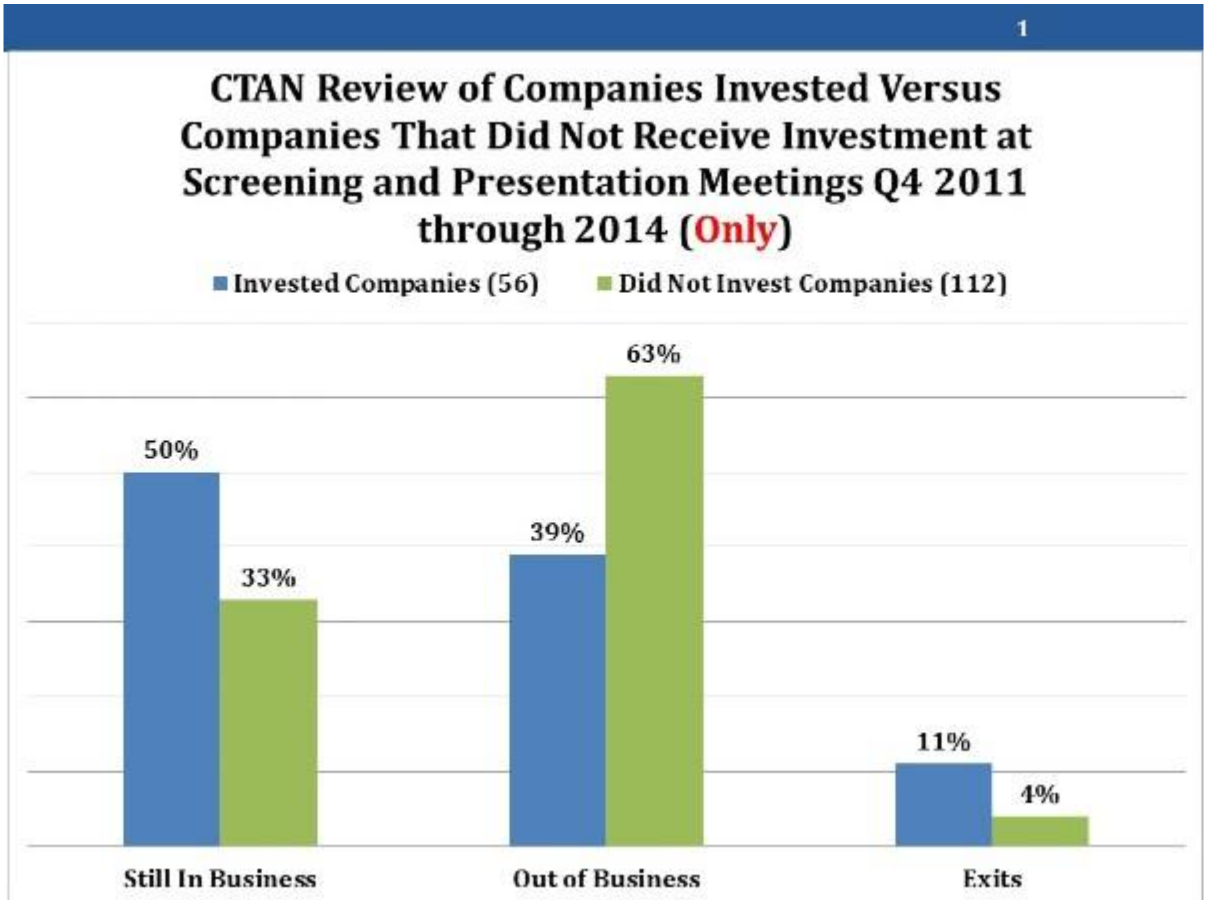
ACA Data Insights
What We Learned From Our Data

In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings from analyzing data on angel investing and portfolio returns.

Many of us have seen a study published several years ago by Rob Wiltbank in which he stated that the ROI for companies receiving low diligence (<20 hours) was 1.1x versus the ROI for companies receiving higher due diligence (>20 hours) was 5.9x.

An angel organization gathered data from their own screening process in conjunction with their due diligence (DD) process to demonstrate that impact of these activities to their members. The Central Texas Angel Network (CTAN) has a process in which members vote for companies to come to an initial Screening Meeting where initial DD on the company is performed. If enough votes are obtained for a company at that meeting they move to the Presentation Meeting and more DD is performed. The total of the DD after this event is less than 20 hours. If enough votes are obtained after the Presentation Meeting much more DD is performed (averages between 30-40 hours) by member volunteers and an Investment Director. After successful DD members are asked to soft circle potential investments.

CTAN tracked their data for just over three years from Q4, 2011 through 2014 and reviewed this data in late 2018 so that outcomes could be analyzed. **The data showed that 112 companies went through this process in this timeframe and did not receive funding while 56 companies went through the process, including extensive DD and did receive funding.** In the case of companies with more DD and funding, 50% were still in business while only 33% of the companies with much less DD and no funding were still in business. Only 39% of higher DD and funded companies were out of business while 63% of companies with less DD and no funding were already out of business. Finally 11% of companies with more DD had already exited successfully while it was significantly less at 4% with companies with less DD.



This data shared with CTAN members, helps them understand the importance of good due diligence embedded in the various meetings and the overall process that CTAN members utilize to make decisions to invest in start-up companies. There are two variables at work in this study:1) significant due diligence on all companies with combined member investments of $200k or more, which is the majority of the 56 investments and 2) the actual investment by members. **This data helps support the belief that more due diligence can help increase the likelihood of successful outcomes of angel investors.**

Stay tuned for additional insights next month and sign up to participate in ACA's Data Initiative by submitting your data for future editions of the Angel Funders Report to provide angels with insights on the factors that affect the outcomes of startup investments.