ANGEL CAPITAL ASSOCIATION

ACA Data Insights
What We Learned From Our Data

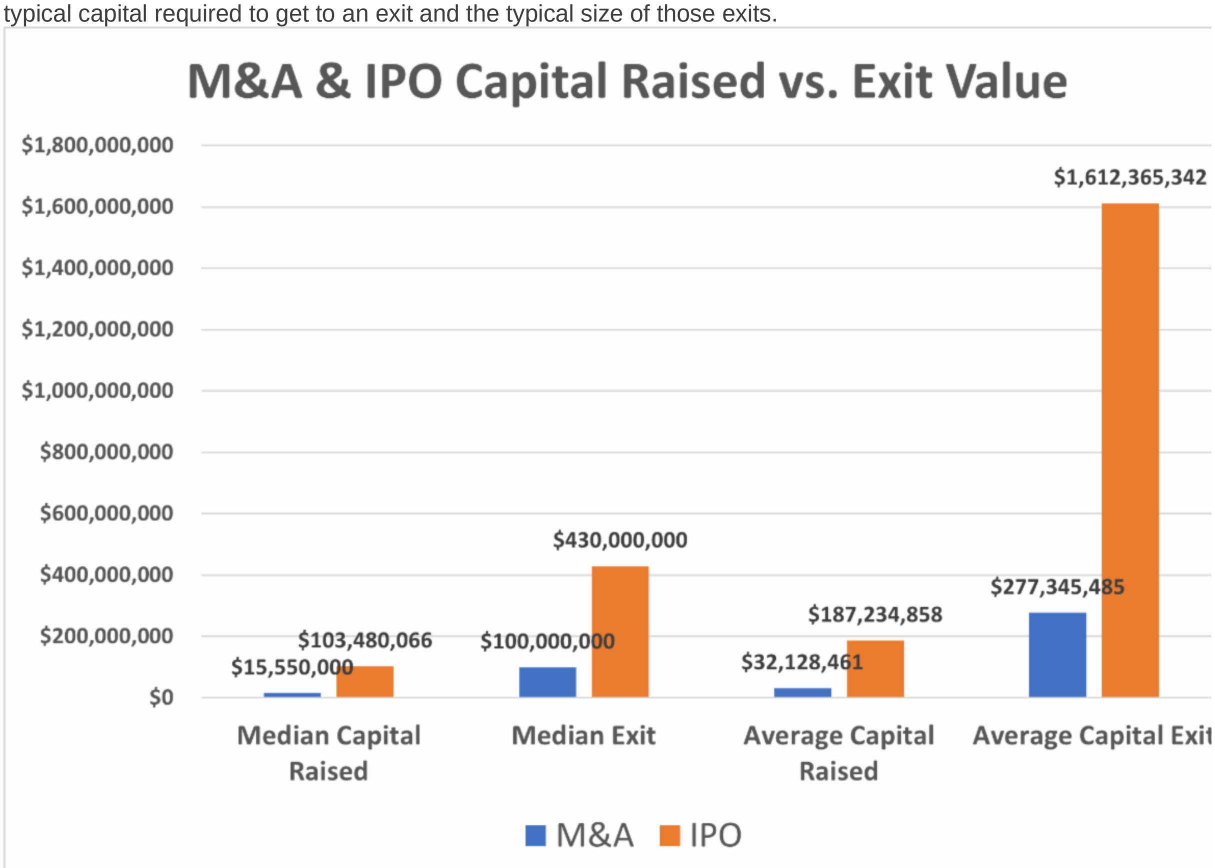
In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings form analyzing data on angel investing and portfolio returns.

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 lens 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] Figure 1 identifies the typical capital required to get to an exit and the typical size of those exits.



IPOs are 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.

Figure 2

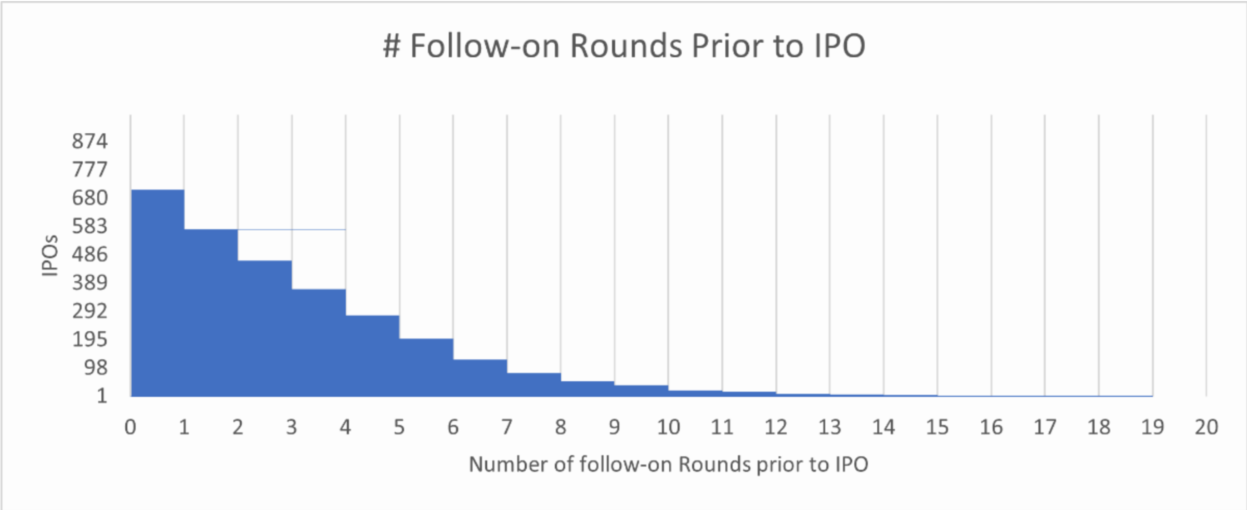
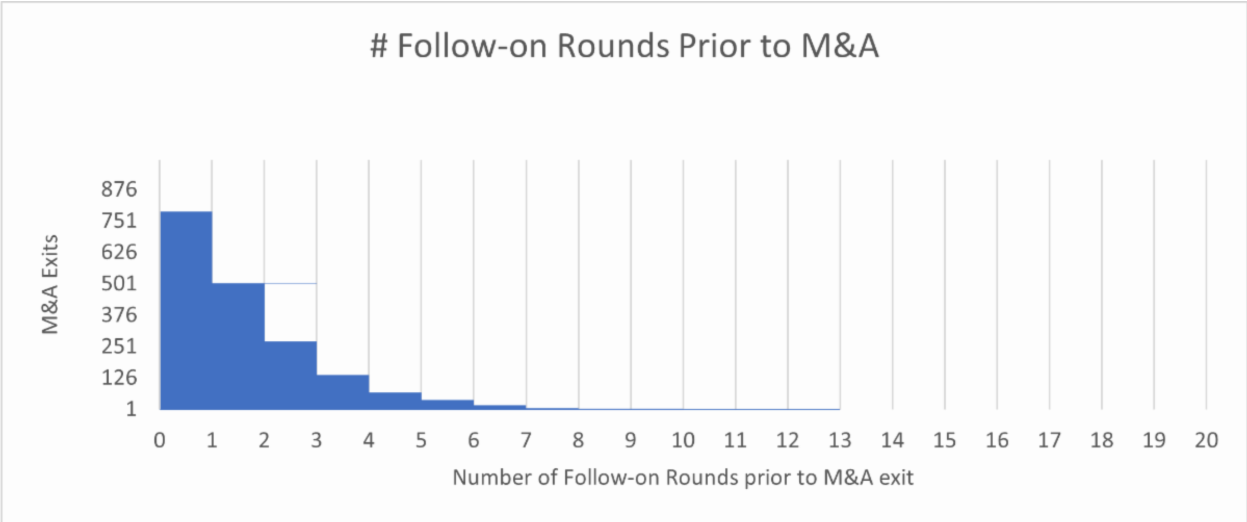


Figure 3



THE TAKEAWAY

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 rather than a blockbuster IPO occurs.

Finally, note carefully the typical capital requirements to get to 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 to angels 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 modest early exit as the road to a mega-exit is long, capital intensive and filled with risks for angel investors.

A follow-on posting will examine the differences in capital requirements and exit multiples of different industry sectors.

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