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.

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:

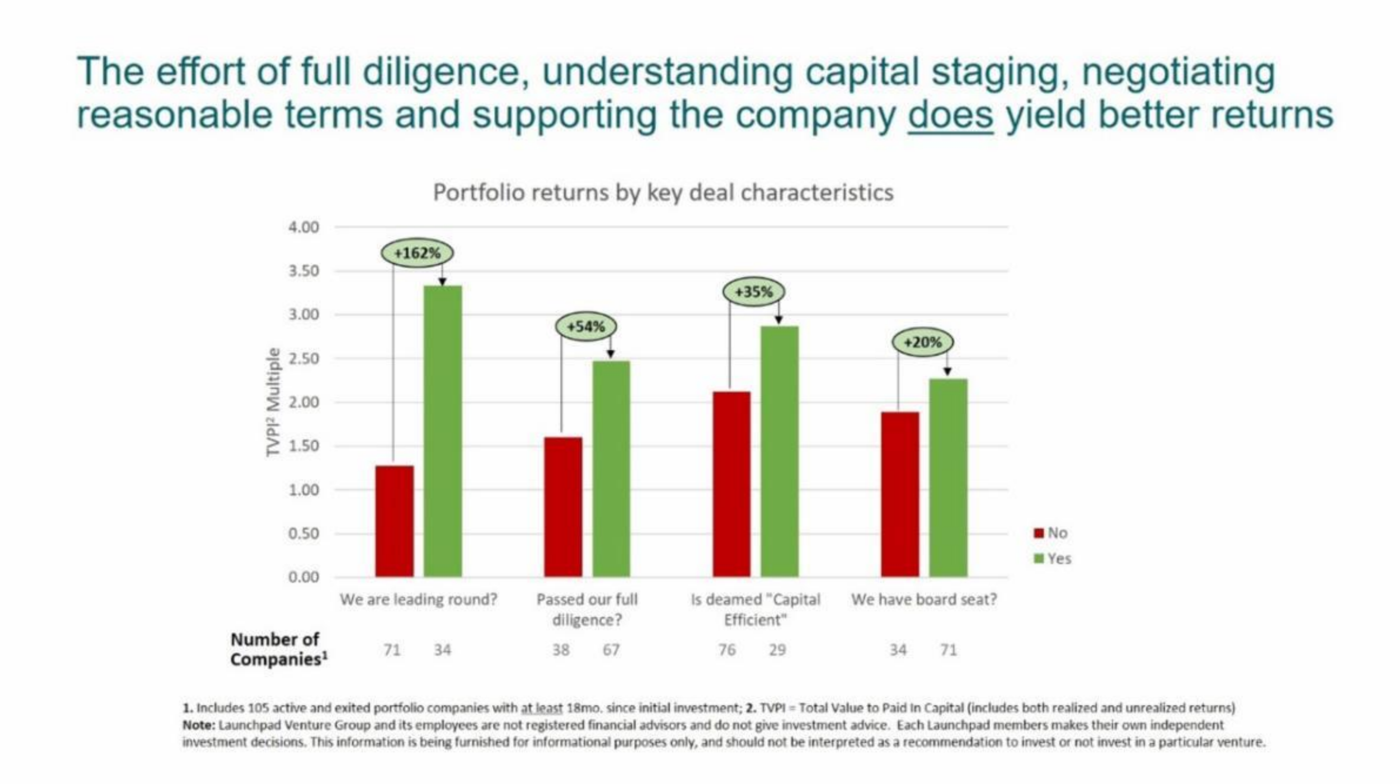
- **Diligence Effort -** Did the company enter the portfolio by passing the formal 4-week Launchpad diligence process, or because enough individual members were interested and invested more than $100k to have it tracked as part of the portfolio?

- **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 Termsheets –** Did Launchpad lead the round and negotiate the termsheet used? Launchpad’s termsheets 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?

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.

THE TAKEAWAY

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.

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