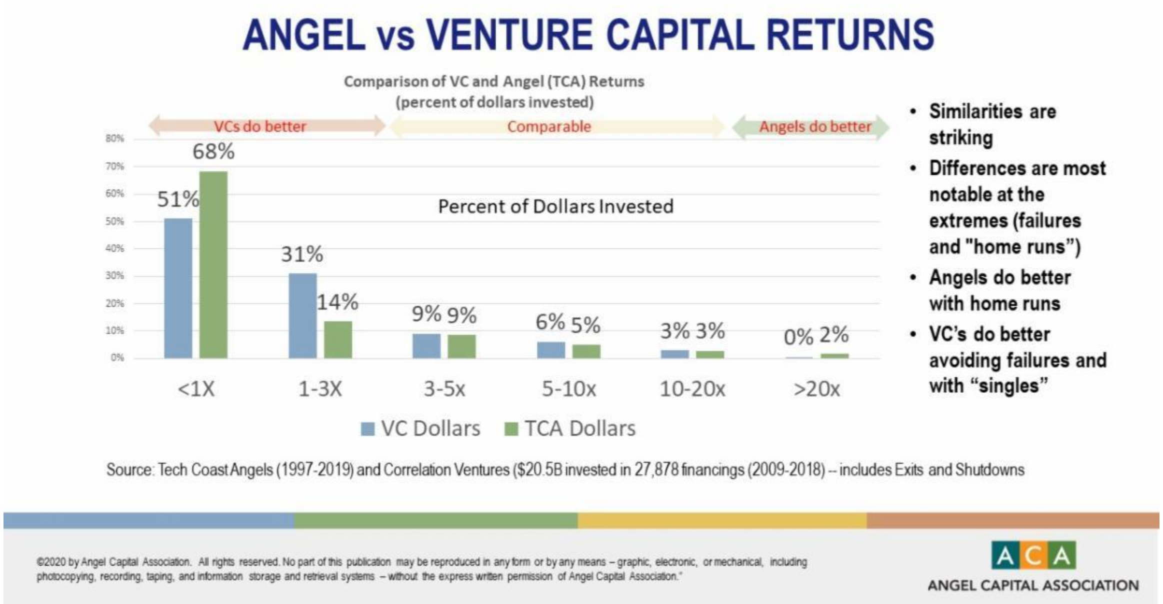
ACA
ANGEL CAPITAL ASSOCIATION

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.

The distribution of financial outcomes for Venture Capital firms and Angels is surprisingly similar, as this comparison shows of 27,878 VC financings to the experience of Tech Coast Angels' in their first 179 outcomes (both exits and shutdowns):



ANALYSIS

But a closer look reveals more nuanced observations:

- The differences are most notable at the extremes (failures and "home runs"). This reflects the higher risk/higher return nature of Angel investing.
- The probability of a "strikeout" <1x return is higher for Angels than for VCs — 68% of dollars in angel deals vs 51% of VC dollars. This makes sense because VCs tend to invest at a later stage when much risk has been taken off the table.
- However, probably of a "home run" (>20x) is higher for Angels by a considerable margin — 2% of dollars in angel deals vs <1% of VC dollars. This makes sense because Angels tend to invest at lower valuations, and because many angel deals don't require significant follow-on dilutive while most VC investments require larger amounts of follow-on capital. So there is less upside for VCs.
- The probability of a "single" (1-3x) is considerably higher for VCs — 14% of dollars in angel deals vs 31% of VC dollars. This makes sense since there is less financing risk in VC deals (since the VCs have more dry powder than angels) and hence the companies benefit from the staying power the VC to hang on long enough until an exit can be found.
- The probability of "doubles" (3-10x) and "triples" (10-20x) is almost identical.

THE TAKEAWAY

Because angel investing is even more reliant on “grand slam” home runs compared to VC’s, diversification is also more important for Angels – especially since most Angels invest in far fewer deals that the typical VC Fund’s portfolio.

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