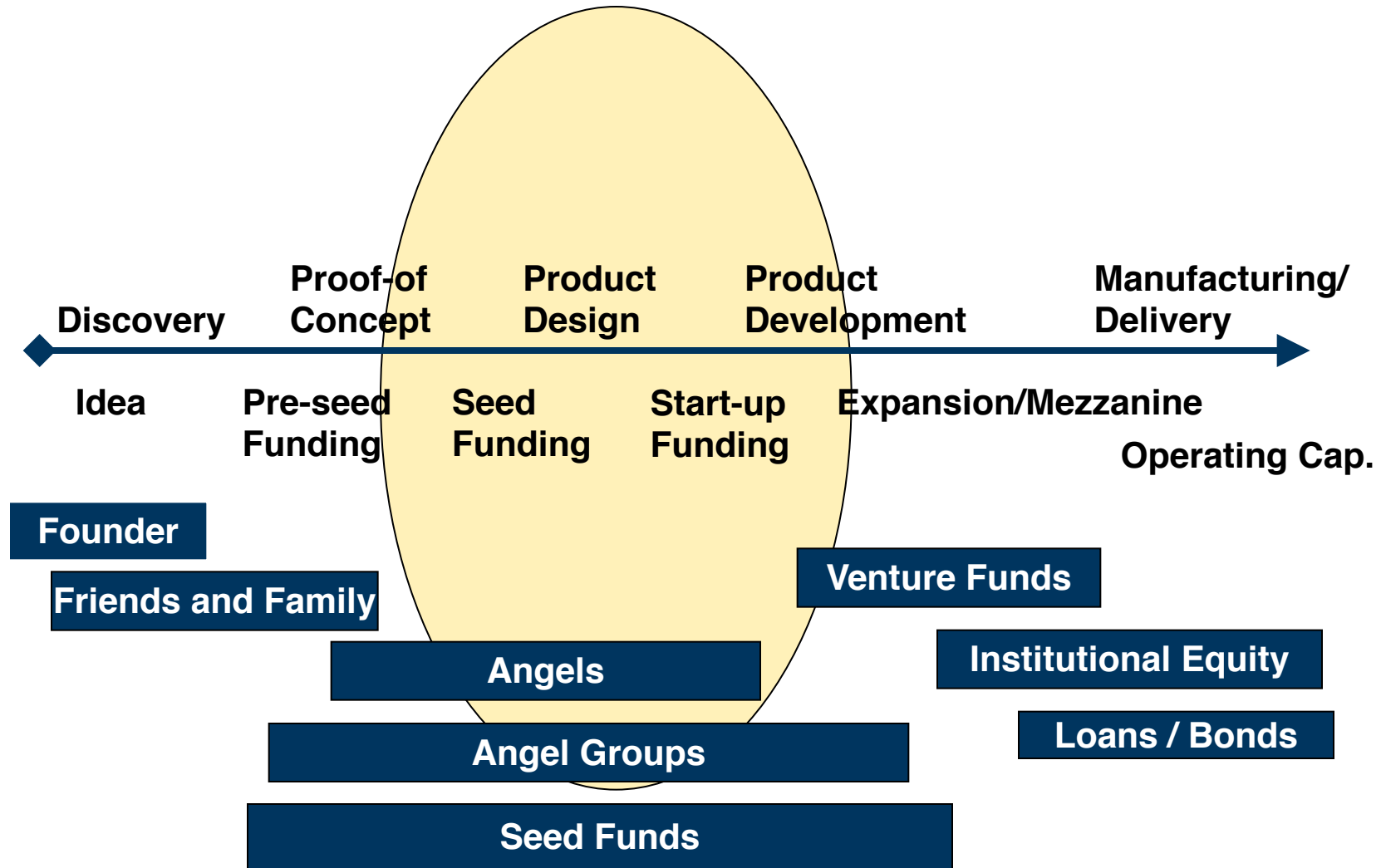


Role of Angel Investors in Capital Formation

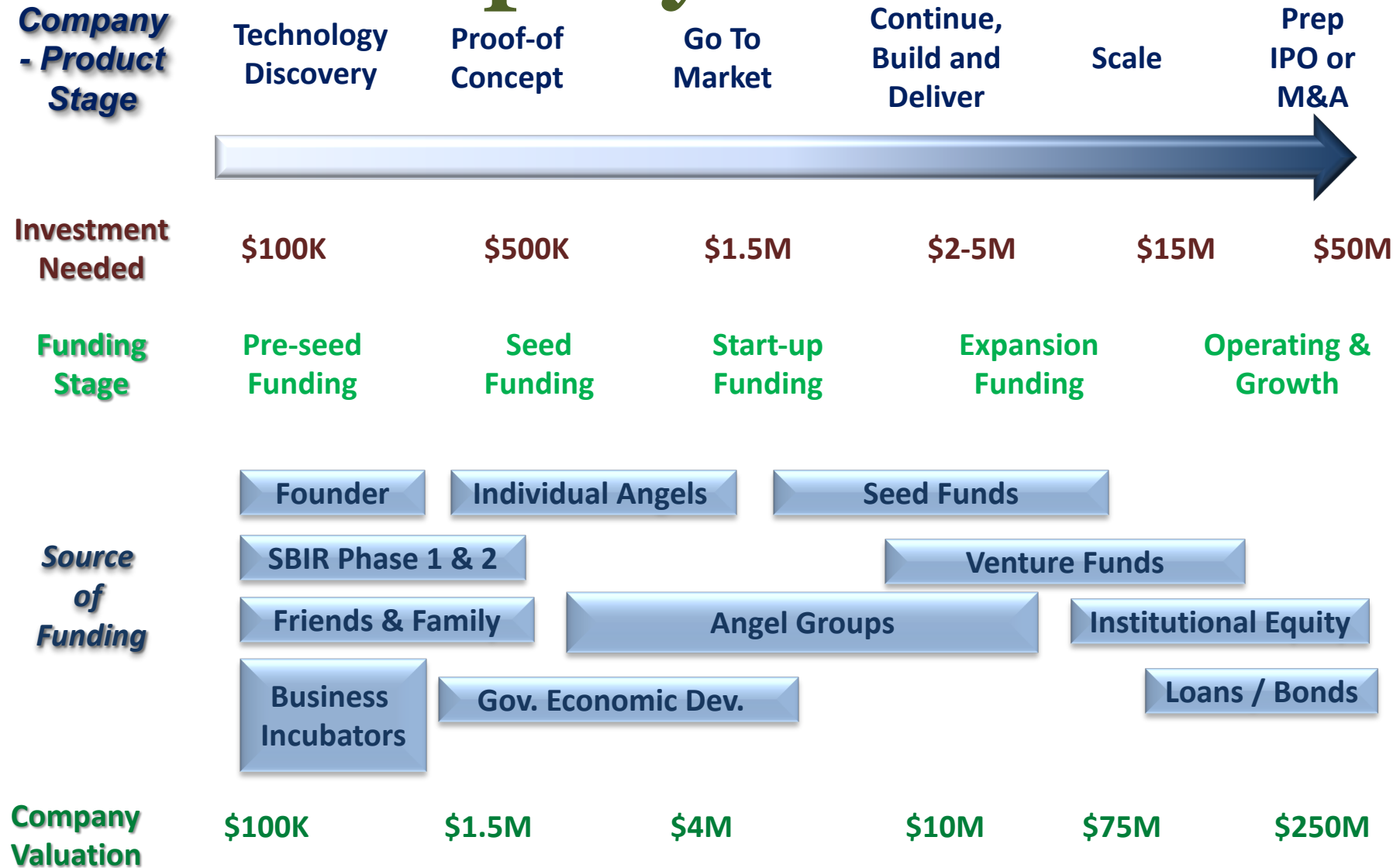
Who are Angel Investors?

- **Often successful entrepreneurs or retired business persons**
 - Active investors providing money, expertise, and their network
 - Contribute to their local ecosystem (mentoring, judging, educating)
- **Accredited investors – SEC definition**
- **Invest their own money (*not money managers*)**
- **Generally invest in local companies**
- **Invest in businesses not run by family**

Financing Life Cycle



Investment Landscape— Company Valuation

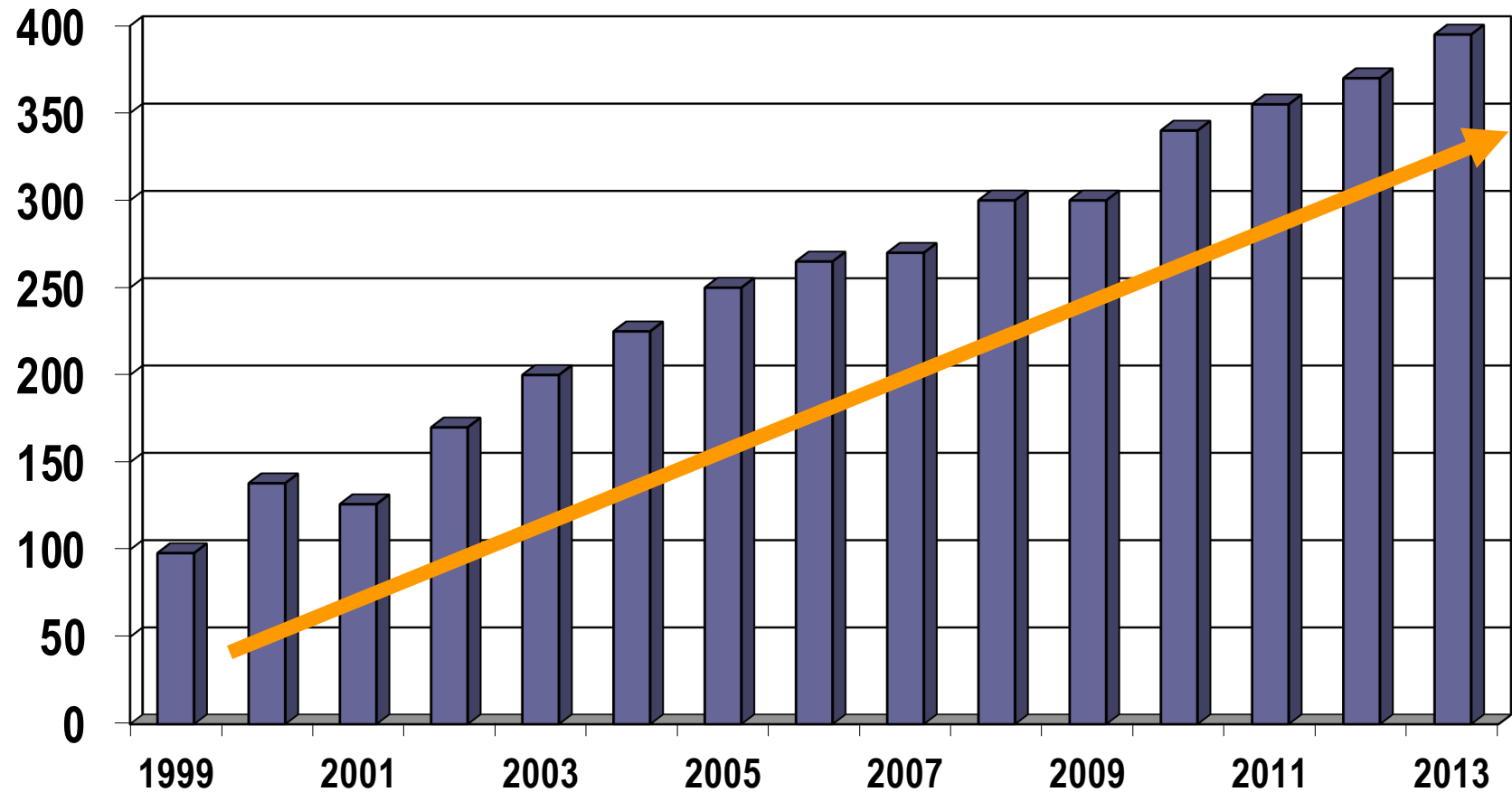


Angel Investors

- **TYPES - all shapes and sizes!**
 - Friends and Family
 - Unsophisticated or Sophisticated
 - Guardian Angels > active advisors/mentors
 - Passive
 - Super Angels
 - **Angel Networks /Funds**
 - Single Family Offices

Growth in Number of American Angel Groups

2019: Over 600
and growing.



Why Angel Investor Networks

- **The Power of Aggregation**
 - Aggregating investment dollars
 - Aggregating knowledge, experience
 - Aggregating industry connections
 - Collective Due Diligence
- **Mitigate Risk - Diversified portfolio**
- **Higher Quality Deal Flow**
- **Greater Investment Clout — Strength in numbers**
- **Continuity through Portfolio Management — monitoring and mentoring with talent and experience**

Who is Funding Companies Less Than 5 Years Old?

Angels Fund Majority of Startups in USA

Angels Provide ~90% of Outside Equity for Startups

Angel Investors (2017)

- \$27 billion
- **71,000 deals**
- 32,000 seed
- 29,000 early stage
- 9,200 expansion
- > 335,000 individuals

Venture Capital (2017)

- \$69 billion
- **7751 deals**
- 1220 seed
- 2734 early stage
- 3954 later/expansion
- 900 active firms

Angels Fund Majority of Startups in USA

Angels Provide ~80% of Outside Equity for Startups

Angel Investors (2019)

- \$24 billion
- **64,000 deals**
- 30,000 seed
- 27,000 early stage
- 8,000 expansion
- > 325,000 individuals

Venture Capital (2019)

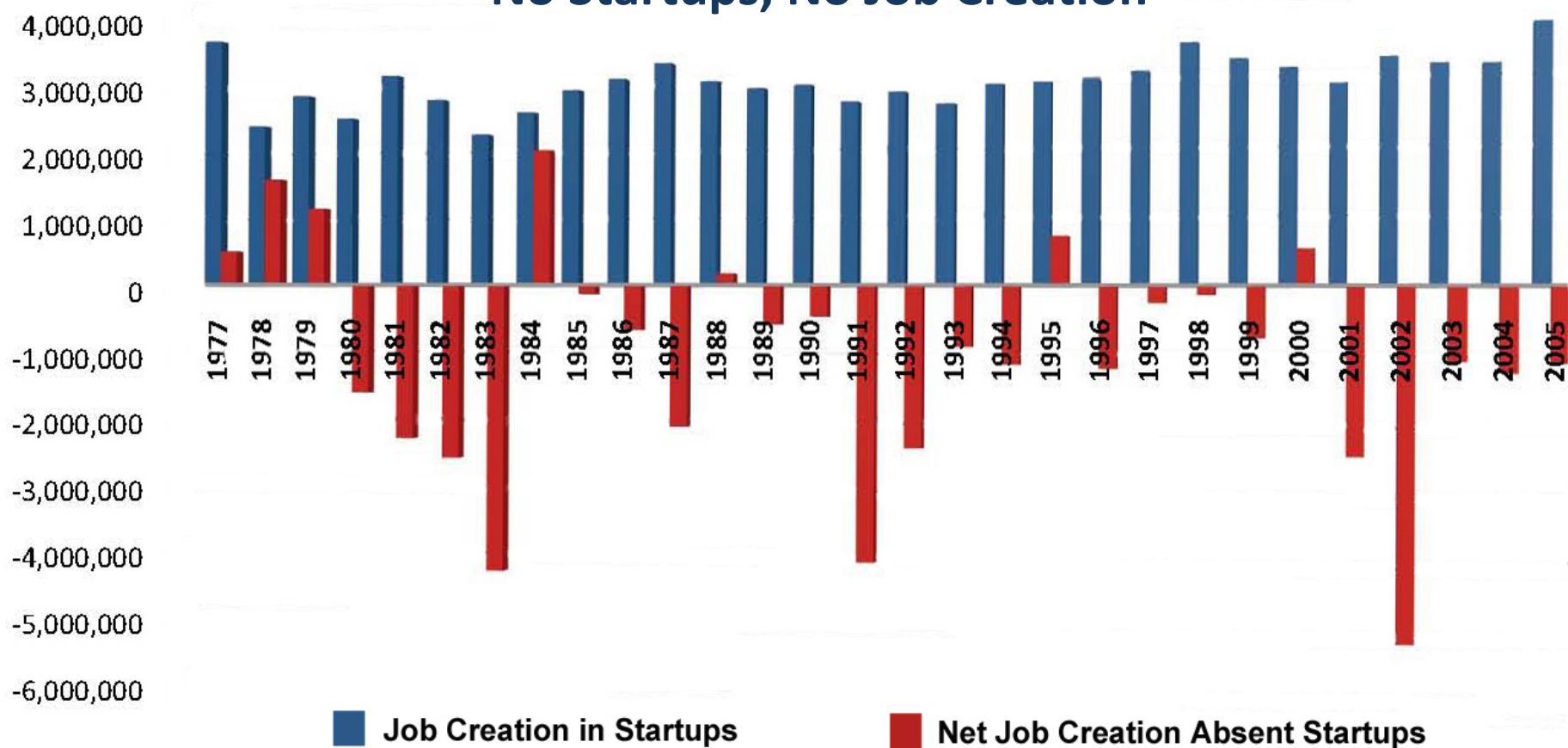
- \$133 billion
- **10,430 deals**
- 4760 seed
- 4000 early stage
- 2700 later/expansion
- 1200 active firms

**Market Shift > many
angel groups are
becoming MicroVC
Funds**

**Angels are
Important to the
Economy . . .**

Job Creators

Entrepreneurs are key to job creation
No Startups, No Job Creation



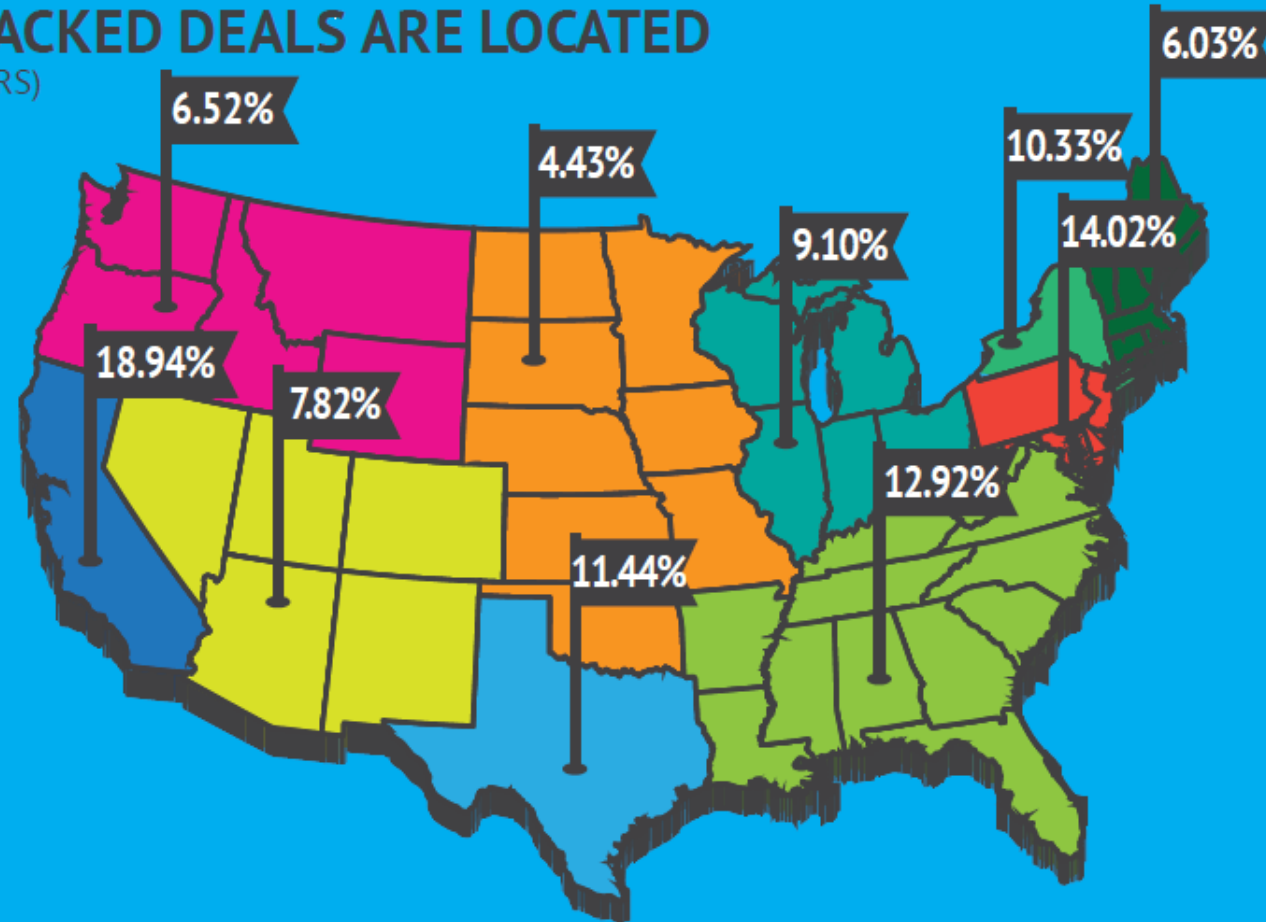
Source: Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States. Census Bureau and Kauffman Foundation, January 2009

Where Angels Invest

HALO REPORT OVERVIEW

WHERE THE ANGEL-BACKED DEALS ARE LOCATED

(PORTFOLIO COMPANY HEADQUARTERS)



BlueTree Allied Angels

- **An investment “network” of accredited investors; formed in October 2003**
- **Members: Cashed-out Entrepreneurs, C-Level types, Professionals**
- **Locations: Pittsburgh**
- **Over \$50+ Million invested**

Top 20 Angel Groups by Investor Mosaic Aug-2014

Rank	Angel Group	Notable Investments
1	Life Science Angels	Zogenix, Nanostim
2	Queen City Angels	Akebia Therapeutics, Aerpio Therapeutics
3	Boston Harbor Angels	Smart Cells, Carbonite
4	Atlanta Technology Angels	Vocalocity, Verdeeco
5	Tech Coast Angels	Vital Therapies, Hipmunk
6	Band of Angels	Practice Fusion, CENTRI Technology
7	Pasadena Angels	AdColony, Savara Pharmaceuticals
8	Upstate Carolina Angel Network	Proterra, Selah Genomics
9	Launchpad Venture Group	Localytics, Hadapt
10	Keiretsu Forum	Carbonite, Smart Cells,
11	Golden Seeds	TaskRabbit, HitFix
12	Central Texas Angel Network	Savara Pharmaceuticals, Phunware
13	The Angels' Forum	Zonare Medical Systems, Qumu
14	Sand Hill Angels	Storefront, NoWait
15	New York Angels	Localytics, Chromis
16	TiE Angels	FlightCar, Openbucks,
17	Desert Angels	HTG Molecular Diagnostics, Calimmune
18	Alliance of Angels	DocuSign, Dashwire
19	BlueTree Allied Angels	ALung Technologies, HealthSpot
20	Arizona Technology Investor Forum	Cancer Prevention Pharmaceuticals, AdiCyte

Foundation Elements of a Successful Angel Group



BlueTree Allied Angels

- *Committee Process – Engages Membership*
 - Deal Flow Committee
 - Screening Committee
 - Due Diligence Committee
 - Key Deal Negotiation Members
 - Monitors/Board Reps
 - Growth and Transaction Committee
 - Trouble Shooting & Turn Around Committee

Criteria, Metrics, Returns of Angel Groups/Funds

The Opportunity

- **Scalable**
 - *\$30 million (min.) in revenues in 5 years*
 - *(VCs look for \$100 million)*
- **High gross margins**
- **Large niche market**
- **Unfair competitive advantage**
- **Ready for customers**

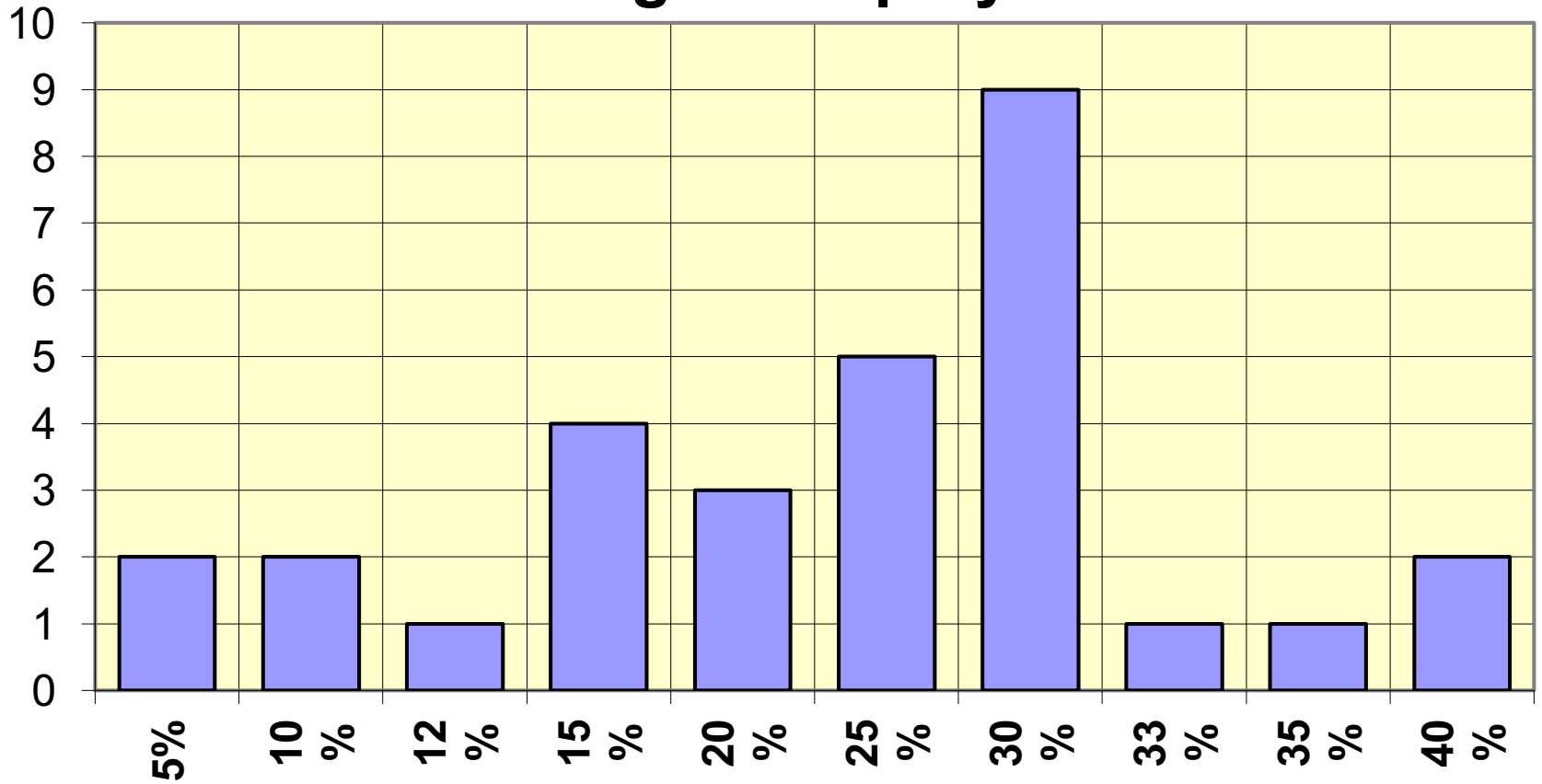
Investor Considerations

Management Team Experience	30%
Opportunity Size and Maturity	25%
Product or Service	20%
Technology / Product Uniqueness / Solution	15%
Investment Structure	10%

- **Management Team usually most important**
 - CEO
 - Coachable, vertical experience, leadership
 - Team
 - Balanced & complete
 - Experience working together
 - OK to have some positions still to be filled

Groups

Average % Equity



ACA Groups Reporting

(Caution: *source data is incomplete & unverified*)

Terms Preferred by Sophisticated Angels

Moving toward “vanilla” term sheets with:

- Preferred stock
- Liquidation preference
- Board & information rights
- Anti-dilution
- Participation rights

Fundable Management Teams

➤ CEO

- *CEO experience*
- *Vertical experience*
- *Coachable (very important)*
- *Leadership*

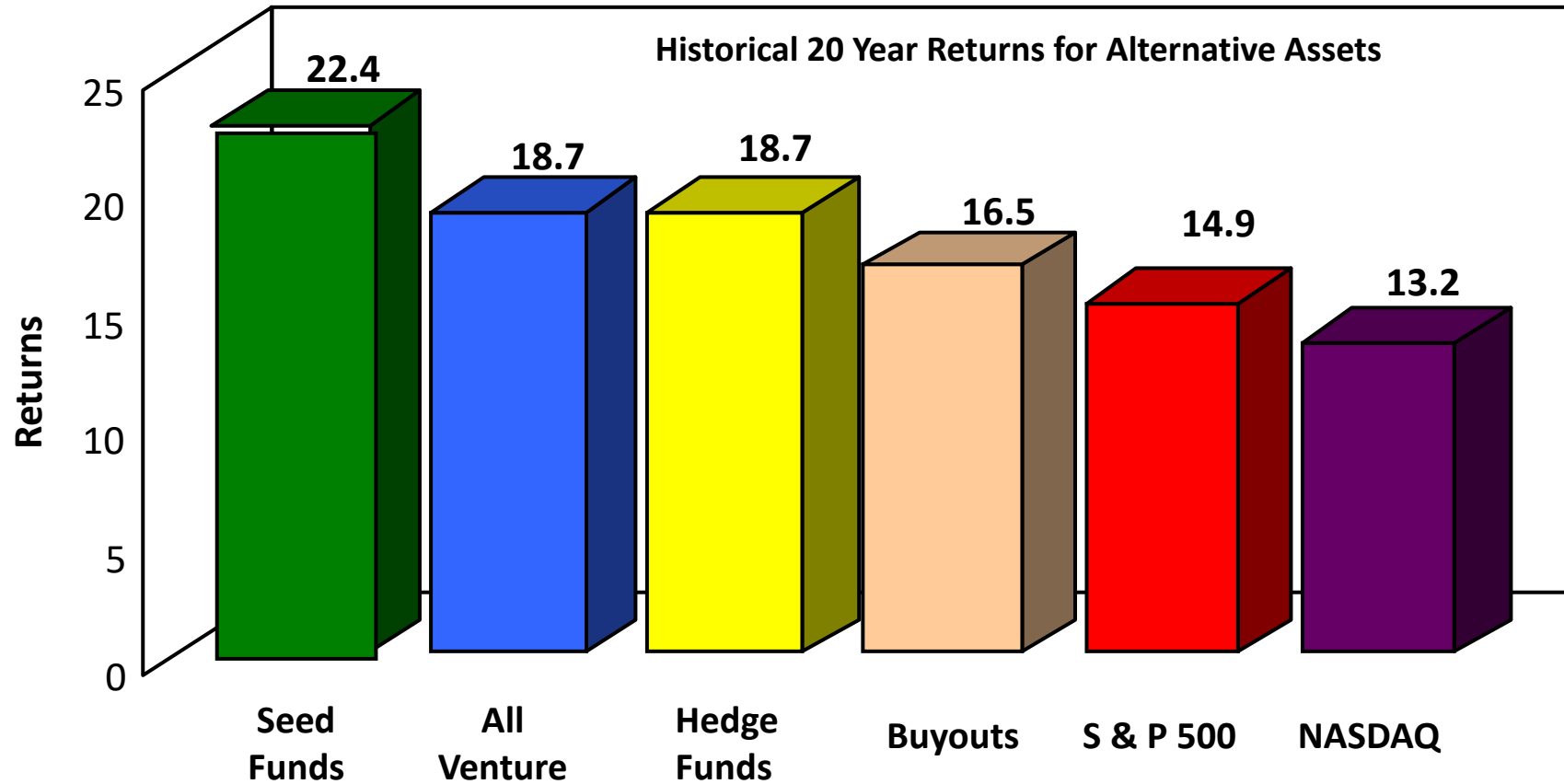
➤ Team

- *Balance & Complete*
- *Experience working together*

A Word About Return Expectations

- **Angel investing is *VERY* risky**
 - 1 or 2 of every 10 investments brings most of return
 - Hard to tell which companies will return
- **Current return estimates for portfolios:**
 - Annual IRR of 27% - 2.6X in 3.5 years*
 - BTAA > 18.8% realized IRR (2010 – 2020)
- **If business gets VC funding later, angel investment is often diluted**
- **Some really great angels therefore looking for 10 to 30X potential**
 - Wide variety of expectations, depending on mix of motivations to be an angel
- **Correct valuation is critical**

Angel Returns: 20-25% Per Year?

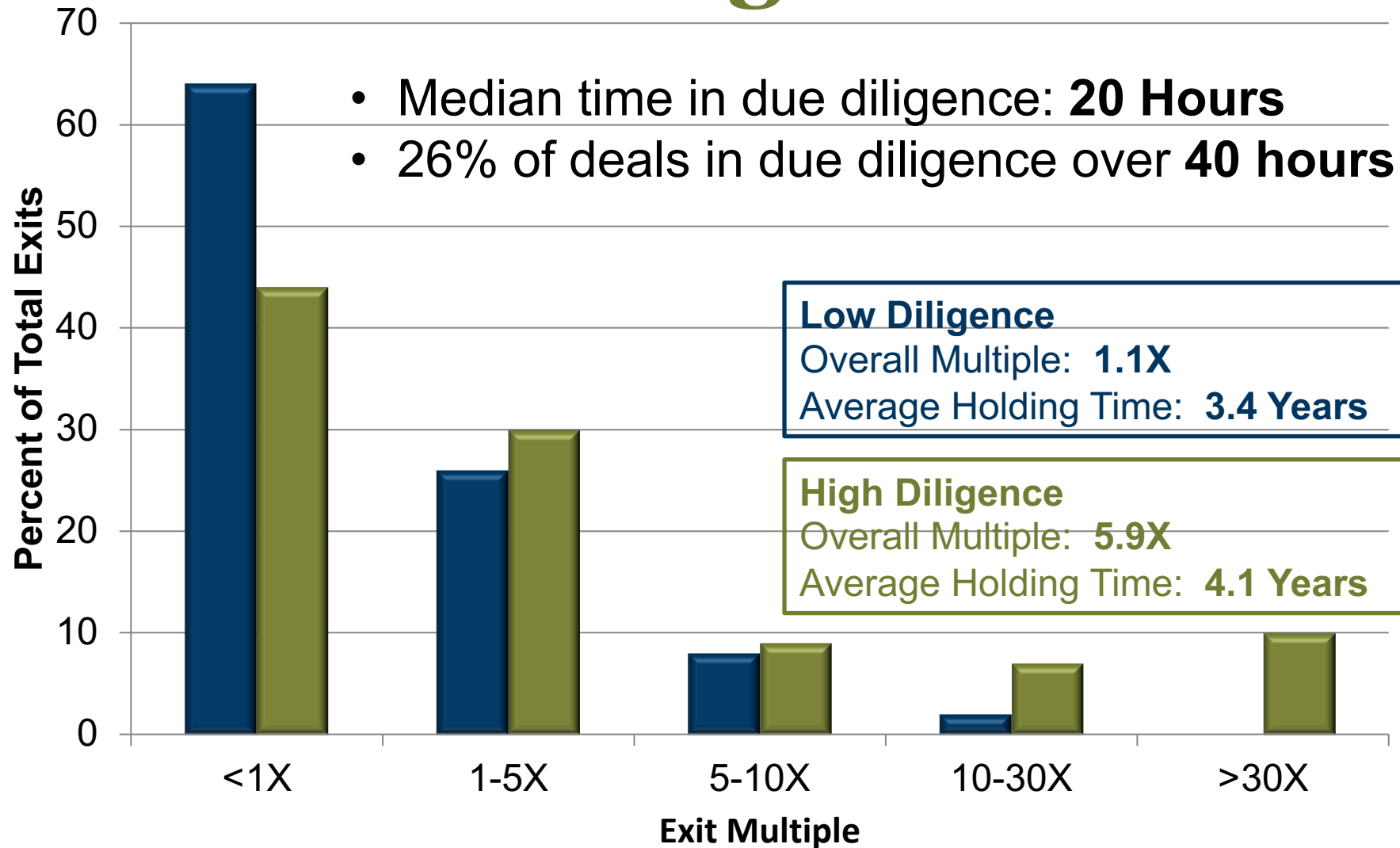


Source: Venture Economics, HFRI Equity Hedge Index

November study: IRR = 27% or 2.6X in 3.5 years

Rob Wiltbank, Willamette University

Impact of Time in Due Diligence



One Simple Question?

Is this team going to leverage these partners, to execute this plan, engaging in these activities, to defeat these competitors in order to better serve these customers selling this product or service with these current and future features and benefits, which solve this problem, at this price point and capture this market which drives these financial projections which in turn accretes value such that I will one day see a return of this magnitude on my investment?

BlueTree Capital Group
BlueTree Allied Angels
BlueTree Venture Fund I

