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

- In 2017 > 300,000+ investors invested $27B in 71,000+ deals
Financing Life Cycle

- Idea
- Pre-seed Funding
- Seed Funding
- Start-up Funding
- Expansion/Mezzanine Operating Cap.
- Manufacturing/Delivery
- Institutional Equity
- Loans / Bonds
- Venture Funds
- Angels
- Angel Groups
- Seed Funds
- Founder
- Friends and Family
Invest at the Inflection Point
## Investor Considerations

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Management Team Experience</td>
<td>30%</td>
</tr>
<tr>
<td>Opportunity Size and Maturity</td>
<td>25%</td>
</tr>
<tr>
<td>Product or Service</td>
<td>20%</td>
</tr>
<tr>
<td>Technology / Product Uniqueness / Solution</td>
<td>15%</td>
</tr>
<tr>
<td>Investment Structure</td>
<td>10%</td>
</tr>
</tbody>
</table>

- **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
Terms Preferred by Sophisticated Angels

Moving toward “vanilla” term sheets with:
- Preferred stock
- Liquidation preference
- Board & information rights
- Anti-dilution
- Participation rights
Angel Investors

• **TYPES** - all shapes and sizes!
  – Friends and Family
  – Unsophisticated or Unsophisticated
  – Guardian Angels or coaches/mentors
  – Passive
  – Super Angels
  – **Angel Networks /Funds**
  – Single Family Offices
Growth in Number of American Angel Groups

2019: Over 600 and growing.

Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-13 data)
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

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>• $27 billion</td>
<td>• $69 billion</td>
</tr>
<tr>
<td>• <strong>71,000</strong> deals</td>
<td>• <strong>7751</strong> deals</td>
</tr>
<tr>
<td>• 32,000 seed</td>
<td>• 1220 seed</td>
</tr>
<tr>
<td>• 29,000 early stage</td>
<td>• 2734 early stage</td>
</tr>
<tr>
<td>• 9,200 expansion</td>
<td>• 3954 later/expansion</td>
</tr>
<tr>
<td>• &gt; 335,000 individuals</td>
<td>• 900 active firms</td>
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</tbody>
</table>

Sources: Center for Venture Research/ UNH; NVCA 2017 Yearbook; PwC MoneyTree
Angels Fund Majority of Startups in USA

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<tr>
<td>• $24 billion</td>
<td>• $133 billion</td>
</tr>
<tr>
<td>• 64,000 deals</td>
<td>• 10,430 deals</td>
</tr>
<tr>
<td>• 30,000 seed</td>
<td>• 4760 seed</td>
</tr>
<tr>
<td>• 27,000 early stage</td>
<td>• 4000 early stage</td>
</tr>
<tr>
<td>• 8,000 expansion</td>
<td>• 2700 later/expansion</td>
</tr>
<tr>
<td>• &gt; 325,000 individuals</td>
<td>• 1200 active firms</td>
</tr>
</tbody>
</table>

Sources: Center for Venture Research/UNH; NVCA 2017 Yearbook; PwC MoneyTree
Angels are Important to the Economy . . .
Entrepreneurs are key to job creation
No Startups, No Job Creation

Where Angels Invest

HALO REPORT OVERVIEW
WHERE THE ANGEL-BACKED DEALS ARE LOCATED
(PORTFOLIO COMPANY HEADQUARTERS)

Source: 2018 Angel Resource Institute
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

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

Define the Group Structure

Sourcing & Screening

Due Diligence

Community Building

The Investment Process

Monitor, Report & Advise

Deal Structure Negotiation

Group Management

Capital Sources

<The Group Development Process>
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**
Groups

Average % Equity

ACA Groups Reporting

(Caution: source data is incomplete & unverified)
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*

- 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

*Source: Rob Wiltbank, Willamette University, November, 2007 paper
Angel Returns: 20-25% Per Year?

Historical 20 Year Returns for Alternative Assets

- **Seed Funds**: 22.4%
- **All Venture**: 18.7%
- **Hedge Funds**: 18.7%
- **Buyouts**: 16.5%
- **S & P 500**: 14.9%
- **NASDAQ**: 13.2%

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

- Median time in due diligence: **20 Hours**
- **26%** of deals in due diligence over **40 hours**

**Low Diligence**
- Overall Multiple: **1.1X**
- Average Holding Time: **3.4 Years**

**High Diligence**
- Overall Multiple: **5.9X**
- Average Holding Time: **4.1 Years**

Source: Returns to Angel Investors in Groups, Rob Wiltbank, Willamette University, November 2007
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
BTVC
BlueTree Allied Angels
BlueTree Venture Fund I