

Angel Investors Overview: Who Angels Are and How They Finance Startup Companies

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Waltham, Massachusetts
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Gregg Stone

- **Lawyer turned Venture GP turned Angel Investor**
 - Hemenway & Barnes 1980-1986
 - Pell, Rudman & Co, 1986 -1998
 - Kestrel Management, 1994 - present
- **Angel Investor**
 - Personally invested in 14 companies over past five years
 - Member of Launchpad Venture Group
 - 65 Members, 22 Investments, \$7.5M+ invested in past 5 years



Profile of an Angel

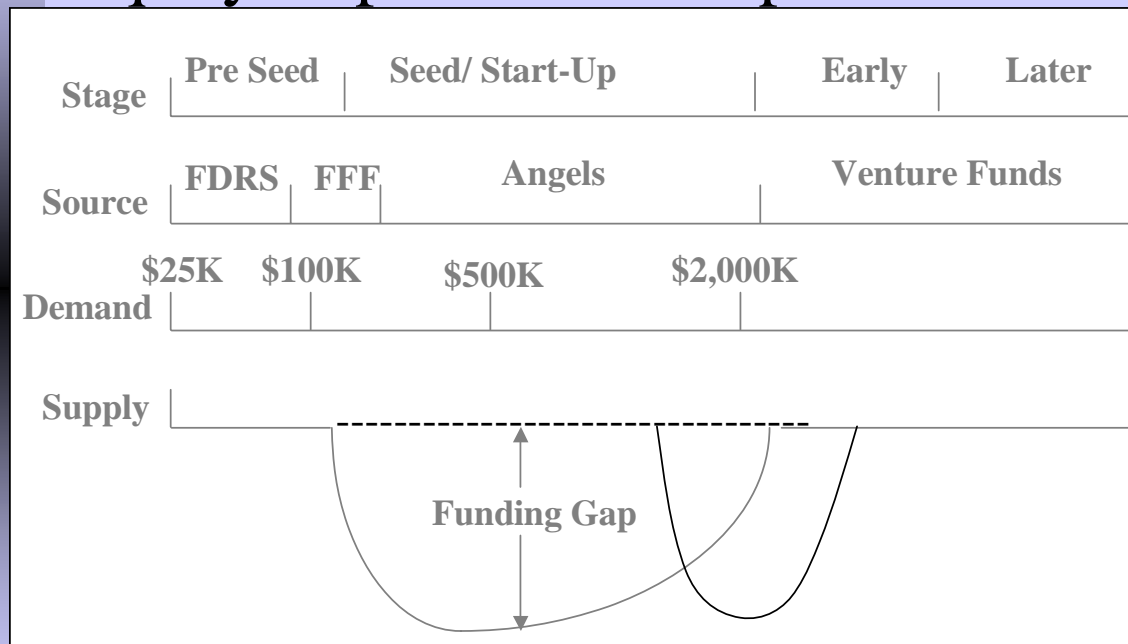
- What does an angel look like?
 - Prior success as entrepreneur, manager or counsel
 - Invests close to home
 - Patient capital with a value add
 - Typically works in groups (up to 40 people)
- 260,000 US angel investors in 2008
- 250+ organized groups of 20+ people

How Much Do Angels Invest?

- Angels invested approximately \$20B last year in over 55,000 businesses
- \$350,000 average round
- Approximately half the funds go to seed and start-up rounds
 - \$100K to \$2M
 - Raised from 2 to 40 investors

Traditional Stage Analysis

Equity Capital for Entrepreneurs



Center for Venture Research - University of New Hampshire



Boston Angel Groups

- Angel Healthcare Investors - hcangels.com
- Beacon Angels – beaconangels.com
- Boston Harbor Angels – bostonharborangels.com
- CommonAngels - commonangels.com
- Golden Seeds – goldenseeds.com
- Hub Angels – hubangels.com
- Investors Circle – investorscircle.net
- Launchpad Venture Group - launchpadventuregroup.com
- Walnut Venture Associates – walnutventures.com



Other Groups

- Cherrystone Angels
 - Rhode Island
- Bay Angels
 - Cape Cod / Southeastern Mass
- River Valley Investors
 - Springfield, MA
- eCoast Angels and Breakfast Club
 - New Hampshire
- Other groups in Connecticut, New Hampshire, Maine and Vermont

What do angel group investors look for?

- Investment Returns
 - Look for 5 – 10X, know that many will fail (20% IRR reported – 25% end in bankruptcy)
- Psychic Returns
 - Ability to actively help entrepreneurs make their businesses a success
 - Visibility into new technologies, applications, ideas
- Networking
 - Meet and work with like minded men and women

What should entrepreneurs look for?

- Money
 - \$250k - \$1MM in New England
- Experience/Support
 - Expertise and contacts needed to make the company a success
- Continued control of the business
- Agreement on business model and exit timing

How to Approach a Group

- Work your network to get an introduction
 - Network at organizations such as MIT Enterprise Forum
 - Ask your attorney or accountant for an introduction
 - Find a champion in the angel group to guide you
- Prepare a short business plan with:
 - Resumes
 - Capital need
 - Examples of parallel success
- Angelsoft (<http://angelsoft.net>)



Angel Group Investment Criteria

- Strong management with a deep understanding of its market
- Large market opportunity
- Barriers to entry, typically through IP
- Product in Beta with one or more customers
- A creditable plan to reach positive cash flow or exit
- Reasonable expectation on valuation

Angel Attributes

- Smaller deals than most VCs
- We avoid capital intensive businesses
- We get involved in companies and thereby increase probability of success
- We invest in deals where we can get substantial returns with an exit of less than \$20M
- We keep our investment terms simple
- We can be patient.



Launchpad Venture Group

- Founded in 2001 with a focus on early stage technology startups
- Approximately 60 members
- We've invested \$7.5M in 22 companies and helped those companies raise an additional \$110M
- We've had 4 exits: 2 successes and 2 failures



Current Launchpad Mission

- Launchpad Venture Group is a Boston-based angel investment group that provides funding to early-stage companies. *We are looking for innovative, technology-driven startup companies addressing a significant market opportunity where our investment can make a difference.*



Current Launchpad Focus

- **Local (within New England)**
 - We prefer companies inside of RT 495
- **Early Stage (Seed or Series A)**
 - Most investments at a \$1M to \$3M pre-money valuation
- **Capital Requirements**
 - Companies are looking for \$250K to \$1M in current round
 - Over time, the company should need less than \$10M
- **Technology-based Business**
 - We have a very broad definition
 - Someone in Launchpad should have industry expertise



Launchpad Investments

- Deals from 2002 through 2008
 - **Business Software:** Building Engines, Vela Systems, GateRocket, iTeam, TimeTrade, UpdateLogic, InBoxer
 - **Consumer Internet:** FrameMedia, EveryScape, Tikatok, Yokel, Zync, American Fantasy Sports
 - **Medical:** NABsys, Neuroptix, Catalyst Oncology
 - **Devices:** Vigix, Zeemote, JAM, SepSensor
 - **Mobile:** AdME
 - **Restaurant:** Finale (not our typical deal!)



The Launchpad Process

- From Intro to Deal
 - Executive summary filed on Angelsoft
 - Screening committee meets monthly and forwards deals to group
 - Company presentation at group meeting
 - Due diligence performed by team of 2 to 5 people
 - Investment deal negotiated between angel group and company
 - Timeline – anywhere from 2 months to a year
- Deal Funnel
 - Launchpad receives 400+ plans a year
 - 20 companies present to the membership per year
 - We invest in an average of 5 new companies per year

