



Houston Angel Network

Overview on Angel Investing

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Who is an angel investor?

- Accredited investor (meets SEC requirements)
- Invest both money and time in early stage companies
- Invest their own money in a deal (not money managers)

Where can you find an angel investor?

- Angel investment organizations
 - www.angelcapitalassociation.org
- Accelerators, incubators, universities
- Service providers, friends, family

Motivations of an angel investor

Angel investing is highly risky and involves a lot of work

Why do this?

- **Financial rewards:**
 - **25% annual returns, based on historical 20 year data**
 - **Source: Venture Economics**
- **Personal satisfaction: Helping entrepreneurs realize their dreams**
- **Civic contribution: Most new jobs in any economy are created by small companies**
- **Understand your angel investor's motivation!**

Company Benefits

- **Capital**
- **Validation of business plan**
- **Mentoring and coaching**
- **Help recruiting senior executives**
- **Customers/Strategic contacts**

“KNOWLEDGE CAPITAL”

Investment Overview

- **Friends & family**

Typical round: \$10,000

Each investor: \$ 2,000

Source: estimate

- **Angels**

Typical round: \$600,000

Each investor: \$ 40,000

Source: Center for Venture Research

- **Venture Capital**

Typical round: \$7,000,000

Each investor: \$3,000,000

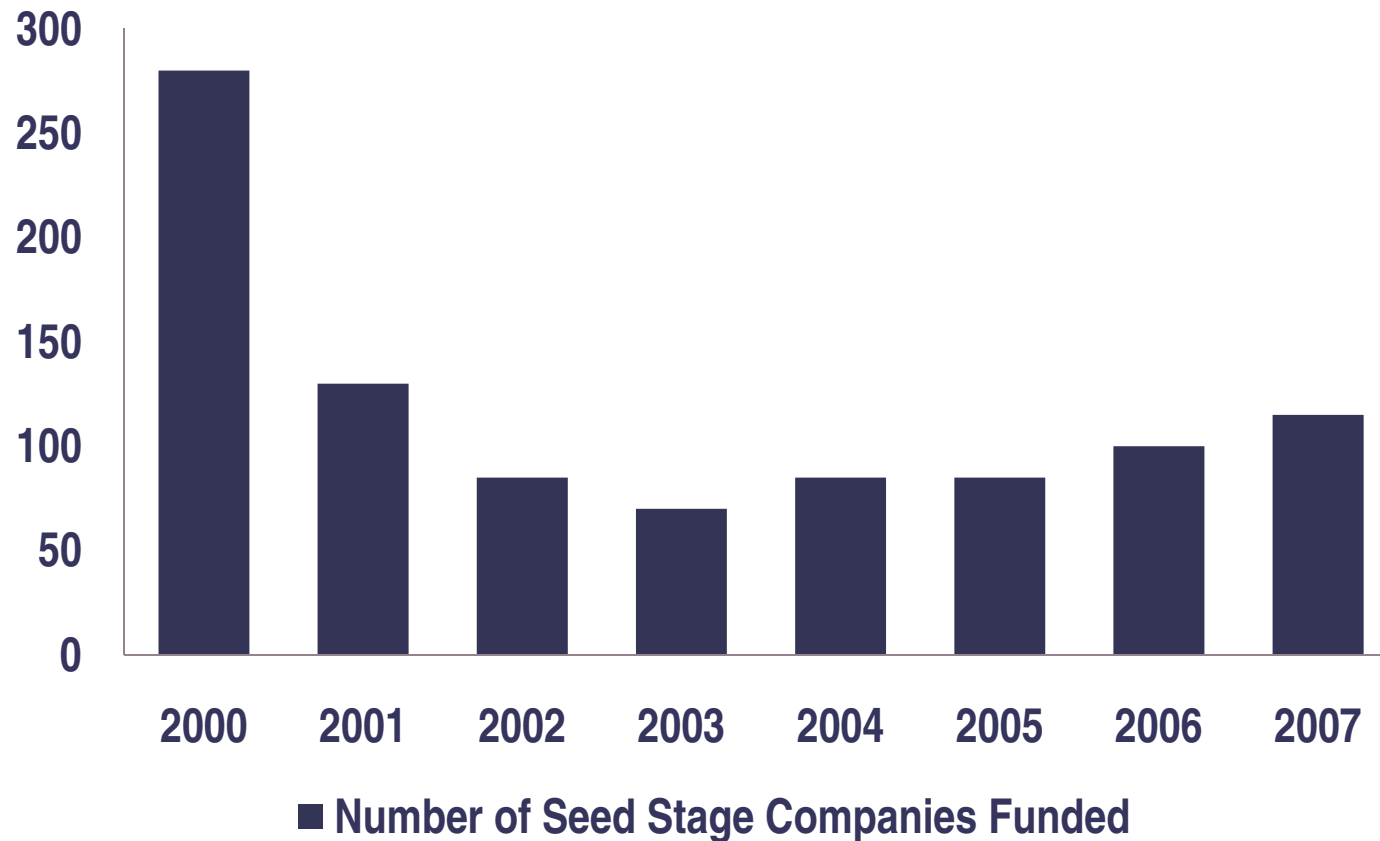
Source: PWC MoneyTree

- **Not accredited**
- **Unsophisticated/Passive**
- **Investing in a friend/relative**
- **1-2 lifetime investments**

- **Accredited**
- **More Sophisticated/Active**
- **Investing in an idea/entrepreneur**
- **Manage portfolio of investments**

- **Institutional money**
- **Sophisticated/Active**
- **Invest in company**
- **Large portfolio**

VC's Funding Fewer Seed Stage Deals



Source: Dow Jones VentureSource

**Estimated that 90% of
Outside Equity Capital in
Seed/Startup Stage Companies is
Sourced from Angels**

**35,000-50,000 Angels Invest
\$25B Annually in Start-Up and Early-
Stage Ventures**

Angel Investment Organizations

- **Angel investors getting more organized and sophisticated**
 - **Screening deals**
 - **Structuring deals**
- **Explosive growth in angel investment organizations:**
 - **Less than 20 in 1996**
 - **More than 300 in 2008**
- **Use power of the Network to negotiate structure and terms including pre-money valuation**

Implications of this Trend

- **Benefits:**

- **Convenient—reach more angels with less effort**
- **Bring more money to the table**
- **Focus on due diligence is good preparation for future rounds**
- **Term sheets more standard**

- **Drawbacks:**

- **Focus on more developed companies—moving away from classic seed stage investments**
- **If you don't fit their focus industries, you have to look elsewhere**
- **Beware the multiplier effect!**

Houston Angel Network

- **Largest angel organization in Texas**
- **Organization of approx. 75 active angel investors**
- **Purpose:**
 - **Facilitate investments in strong early-stage companies**
 - **Support Texas start-up community**
- **Format: Monthly meetings to review pre-screened investment opportunities**

Other Texas-Based Networks

Currently active groups:

- **Central Texas Angel Network: ~60 members**
- **Concho Valley Angel Network: ~10 members**
- **El Paso Angels: ~ 20 members**
- **Eyes of Texas: ~12 members (Austin, Dallas, Houston)**
- **North Texas Angel Network: ~30 members**

Investment Criteria

- **Experienced management team**
- **Compelling value proposition/business model**
- **Sustainable competitive advantage**
- **Potential for high-return**
- **Texas-based**
- **“Angel-friendly” investment**
 - **Seed-stage, early-stage investment**
 - **Seeking \$250K to \$3M in investment**
 - **Defined exit strategy—not a lifestyle company**

Investment Process

- **Identification of companies with strong potential**
- **Application process: 15-20 deals per month**
- **Initial due diligence: Members with industry experience**
- **Screening process: Committee of members**
- **Coaching process**
- **Formal presentation to angels: Monthly meeting**
- **Follow-up: Interested members form a team**

Factors for Success

- **Get a referral; Sharp executive summary**
- **Simple structure; Reasonable pre-money valuation**
- **Capital efficient business model**
- **Market validation—customers have tried your product**
- **Compelling exit strategy**
- **Be “coachable”—Take advice, work well with others**
 - **You want to have fun**
 - **Angel investors want to have fun**

Investment Activity

- Since 2001, HAN members directly invested ~\$27M in 54 deals (some companies had multiple rounds)
 - Life Science: 14 investments (26%)
 - IT/Telecom: 18 investments (33%)
 - Energy: 10 investments (19%)
 - Consumer Products/ Other: 12 investments (22%)
- Biggest Success:



- **Angel Capital Association: Angel trade group**
 - www.angelcapitalassociation.org
 - 165 angel group members (HAN founding member)
 - Angel member directory
- **Angelsoft: Investment platform with over 46 angel groups and 19,000 investors; www.angelsoft.net**
- **National Venture Capital Association**
 - www.nvca.org; Term sheet library
- **Old fashioned due diligence: Know your angel investor!**
 - Not all angel investors are “angels”
 - Company’s strength based on management and investors

Contact Information

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