

Building an Angel Group

September 2008

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a cornerstone investor in a vibrant early stage venture capital market



Angel Investing

- In New Zealand:
 - around 250 professional angel investors, although more will be doing it ad hoc.
- In the US:
 - \$25 billion invested by angels in 2007.
 - Angel numbers increasing 10% per year.
 - Angels invest in 30 times as many start-ups as VCs.
 - Angels investing 3-5 times as much capital into start-ups as VCs

NZVIF's Seed Co-Investment Fund

- It is providing \$40 million of matched seed funding to support the further development of early-stage investment markets alongside selected Seed Co-Investment Partners.
 - Capital Allocated - **\$36m**
 - Number of Seed Co-Investment Partners - **9**
 - Number of companies funded- **18**
 - Amount committed through programme (Seed + Private sector) - **\$15.5m**

The Vision for Angels in NZ

- ❑ Growing global companies through Angel investment.
- ❑ Investing in 100 companies with a combined capital investment in excess of \$100 million.
- ❑ Transforming a predominantly informal market to an increasingly professional and structured industry.

Why become an angel?

- ❑ Access to quality deal sourcing and quality due diligence.
- ❑ Critical mass of capital and skills
- ❑ Learn from the experiences of other investors
- ❑ Increased economic power and influence – enhancing likely deal flow and investment terms.
- ❑ Companionship and the sharing of common goals.

Key Elements of an Angel Group

- ❑ You need investors.
- ❑ You need companies to invest in.
- ❑ You need experience in investment management.
- ❑ You need the resources to manage an angel group.

Does your community have the capacity?

- ❑ Is there a strong presence of wealthy individuals in the community?
- ❑ What are the predominant industries in the region?
- ❑ Is there a potential pool of entrepreneurs ?
- ❑ What sort of support exists in the form of good legal, accounting, marketing and financial services?
- ❑ What sort of capacity exists for sources of follow-on funding from venture capital funds, or potential trade buyers, or other alternatives?

Group structure?

- ❑ Member-led co-operative v Manager-led company.
- ❑ Member-led gives members responsibility for:
 - deal sourcing
 - deal screening
 - due diligence
 - investment negotiation
- ❑ A manager can:
 - do much of the initial vetting of deals,
 - conduct initial interviews with companies
 - manage the group's members and its communications.

Investment Structure

- ❑ A group might pool its funds in which individual members make their own investment decisions and then the group combines all members' contributions into a single investment.
- ❑ Another structure is to use pledged or committed funds which are invested by a group decision. Majority support will lead to an investment of a defined amount.
- ❑ Individual investment based on group due diligence. This still allows for individuals who decide to invest to combine their contributions into a single investment amount, perhaps through a limited liability vehicle.
- ❑ An individual might invest based on their own individual assessment. This relates to fairly informal groups, or a circumstance where only one member is interested in a company.

Joining the angel group

- ❑ Accredited members only?
- ❑ Size of group?
- ❑ Membership process – membership criteria?
- ❑ Funding the group –free lunch?

Managing the processes

- ❑ Governance and operations
- ❑ Member communications
- ❑ Meetings
- ❑ Finances
- ❑ Membership
- ❑ Deal sourcing
- ❑ Presentation coaching
- ❑ Due diligence
- ❑ Investment
- ❑ Public relations and promotions.

Sourcing deals

- ❑ Members can be a key source of potential deals. They are often well-known in their communities as investors, and can, therefore, bring to the group their own deal sources.
- ❑ Service companies such as accountants, lawyers, and banks.
- ❑ Develop links with local research institutions and universities, or with local venture capital firms.
- ❑ A website is also an important way of promoting a group to potential entrepreneurs.

Screening the deals

- ❑ A smaller, informal member-led group can allocate potential deals to volunteer members to screen.
- ❑ In a manager-led group, the manager will coordinate and undertake much of the screening.
- ❑ Good screening weeds out the chaff.
- ❑ Screening committees - experienced angel investors lead the screening process, with two or three apprentice members learning the ropes.

Coaching and presenting

- ❑ Experienced angels want to see the best opportunities in town and.
- ❑ Coaching the selected businesses can make a significant difference.
- ❑ Some groups give presenting companies exact instructions on what to include in their presentation and meeting handouts.

Due Diligence

- Due diligence can be the most complicated and time consuming part of angel investing.
 - In a manager-led organisation, the manager will typically lead the investment-evaluation process.
 - In member-led groups, process must ensure coverage of relevant topics and should be conducted by those with experience and expertise in particular areas.
 - Some groups retain MBA students to support due diligence.
 - Other groups retain outside experts to evaluate a company or give a briefing on cutting-edge technology related to the potential investment.

Investing

- ❑ There are a variety of investment mechanisms and investment terms.
- ❑ Local professional service providers, such as lawyers and accountants, often have extensive hands-on experience with investment terms and negotiation techniques.
- ❑ In manager-led groups, the manager often plays an integral and key role in determining and negotiating investment terms.
- ❑ With any structure in which members make independent investment decisions, there should be a strong disclaimer of organisational liability.
- ❑ The angel investor needs to consider:
 - the ongoing relationship with the investment
 - investment size
 - the percentage of the round - or the percentage of the company - acquired
 - requesting a board seat or board-observation rights
 - information rights.

Public relations

- ❑ Community awareness or public familiarity is essential for quality deal flow and member recruitment.
- ❑ A website is an important tool. Angel groups may wish to host events or participate on local groups for investment or entrepreneurial programs.
- ❑ The more that is known of your group and its success, the more new members and good investments will be drawn to the group.

Talk to NZVIF

- ❑ The Seed Co-Investment Fund is looking for another four to six partners.
- ❑ We aim to co-invest around \$4 million with each of our partners.
- ❑ Together we can develop a strong early stage investing community to commercialise innovation and turning it into business success.

Acknowledgment

- *We would like to acknowledge the “Angel Investment Groups, Networks, And Funds: A Guidebook to Developing the Right Angel Organization for Your Community” - by Susan Preston, in association with the Kauffman Foundation – for its assistance in preparing this material.*