ANGEL FUNDERS REPORT 2022

ANGEL CAPITAL ASSOCIATION

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LETTER FROM OUR CEO
Insight into Angels and Their Investments

The Angel Capital Association publishes the Angel Funders Report annually to increase awareness about angel investor activity and build a deeper understanding of the investing environment. The report provides context for seemingly disparate data points, identifies trends, and highlights innovative ways that ACA members are working together to fuel the entrepreneurial ecosystem.

Angel investors have proven their resilience, enduring several years of volatile markets driven by both the COVID-19 pandemic and the end of the great bull market where exits soared, venture funds posted record returns, and private company valuations exploded. Investments made by individual angels and angel groups continued to "fuel the tank" for entrepreneurs and kept investment pipelines flowing for venture capitalists.

Angels are patient with capital, and not easily distracted by short-term market trends, as proven in 2020 and 2021. ACA predicts that this patience will continue to pay off in the coming year. Market volatility will likely lead to corrections in areas like startup valuations, driving deal terms that are more beneficial to investors, and presenting a significant opportunity for angels.

In recent years, the angel investor community has been working aggressively to emphasize the importance of recruiting underrepresented founders and investors. In 2021, data shows that progress is erratic, and we must continue to encourage progress in this area. ACA wants and needs a broader base of investors and entrepreneurs as a permanent part of the ecosystem. Our broad-based programs to increase awareness and recruit new angel investors working with communities and others further these goals.

> *"Every $100,000 invested generated 5.8 direct jobs, $458,000 in wages, $2.1 million in economic output and $37,000 in state and local revenue."*

Angel investors play a unique role in the investment and entrepreneurial ecosystem that is not well understood by many, including governments. The ACA remains an active advocate in Washington and beyond. We educate public policy organizations about the value provided by the angel ecosystems in the overall economy. We advocate for the best interests of investors and entrepreneurs so that we can keep capital flowing and live up to our unique ability to fuel economic growth.

With members pumping over $1 billion annually into start-ups, ACA is building the entrepreneurial ecosystem and a new community of leaders. We are committed to increasing awareness of the importance of angel investors to the overall economy. A study conducted by Desert Angels estimated that "For every $100,000 of investment, these portfolio companies produce 5.8 direct jobs, $458,000 in wages and $2.1 million in economic output. In addition, their employees generate an estimated $37,000 in state and local revenues per $100,000 of investment."[1]

We want to encourage many of the millions of potential angels to join us. If you are deploying capital to grow early stage companies, you are part of this critical ecosystem, and we invite you to engage with us. Help us create a powerful network of entrepreneurs, investors, and community resources so that we can continue to support economic growth. Angel investing is a team sport, and ACA welcomes you to join us as we strive to make angel investing more accessible and successful for all.

Patrick Gouhin
CEO, Angel Capital Association

1 Desert Angels Economic Impact Study September 2021

2022 HIGHLIGHTS

REPORT FEATURES

- Data from participating angel groups, summarizing the details behind record-setting investments across North America
- Regional data showing how active investors and promising startups are benefiting from angel capital in every state and region
- Reports from key group leaders on surviving COVID-19 and beyond
- Fall 2022 update from major angel groups regarding current investing environment
- Expanded information on exits

IN 2021...

ACA Angel Groups Invested

$950M

Angel Portfolio Companies Leveraged Their Investments to Raise More Than

$5B TOTAL

Leveraged Their Initial Angel Investments by

5X

The Median Exit Multiple of Invested Capital Increased to

2.7X

ON AVERAGE...

Each Angel Group Invests About

$5.3M per year

Top Industries for Angel Group Investments

Medical/ Health Care	Health Technology	Biotechnology	Software as a Service	Clean/Green Technology

MORE DIVERSE

Women CEOs Raised Initial Investments on Par with Men

Women Raised $1.01 For Every $1.00 Raised By Men In Initial Rounds

INTRODUCTION

2021 proved once again that angel investors combine both the vision to invest in an inherently risky asset class and the fortitude to maintain a steady hand in rocky seas. Angels invest not only their money but also their time and expertise (estimated at one million mentoring hours annually) in helping start-ups weather unpredictable markets. In 2021, angels maintained their investment momentum based on the number of deals. Angels mitigate their risks by investing smaller amounts in multiple investments across a variety of companies over time. Angel investors also balance risk by investing with other angels. ACA works closely with angel groups, accredited platforms, and family offices to provide syndication, professional development, and networking opportunities to facilitate more successful investments.

As the largest association of angel investors in the world, ACA is committed to providing thought leadership through essential data and analysis, in addition to professional development and networking opportunities. Since angel investing often begins as an informal relationship between entrepreneurs and angels, there is typically a data gap at this important stage. Data collected and reported directly by angel investors provides more accurate and deeper insights into early stage investments than other venture focused reports. ACA's yearly report represents the most comprehensive review of current investments from the angel community available improving the overall quality of reporting and analysis of this asset class.

ACA launched its data initiative in 2018 to help early stage investors make better investment decisions, and to help the business community better understand angel investing's impact on new business formation, job growth, and economic prosperity. The initiative also helps entrepreneurs gain a deeper understanding of how and why angels invest, helping them prepare for raising capital and building strong investor relationships.

The Angel Funders Report is based on direct investment data solicited from ACA member groups. We collect data from a broad spectrum of angel investors, including leading angel groups across North America, so that we can provide powerful first-hand information on the current state of early stage investing. Our angel investing experts analyze and enhance the data with their knowledge of trends and best practices, developing a comprehensive insider's view to share with the broader investment community.

We estimate total angel investment levels and the total amount raised by our portfolio companies using the actual data reported, supplemental information and industry reports as the foundation. The ACA member organizations that provide the information for this report take many forms —groups of ACA members, angel networks, angel funds, networks with sidecar funds, and more.

2021 was an unusual year for angel investing, buffeted by many factors, including the COVID-19 roller coaster, VCs aggressively going after angel deals, skyrocketing valuations, and a SPAC IPO surge early in the year.

The decrease in VC activity in early stage deals with an increase in later stage deals has been one of the most notable and impactful trends in 2021. The best exit market in years caused unprecedented returns to venture funds, in turn leading fund investors to invest unprecedented amounts of capital into new funds. The increased amount of capital available to chase deals caused a dramatic increase in valuations, especially in later rounds. The overall increase in valuations place investors at great risk if or when markets cool down and valuations are unsustainable. These high valuations increase the probability of companies being forced into down rounds (lower valuations) in subsequent financings. In contrast, angels kept their heads while VCs and others around them were losing theirs, maintaining consistent valuation levels.

> ***"The best exit market in years caused unprecedented returns to venture funds, in turn leading fund investors to invest unprecedented amounts of capital into new funds."***

Angel investors continued to support early stage deals via initial and follow-on investments, investing the highest dollar total since we began collecting this data. This is seen in an increase in the amount each group invested in each deal.

The consistency of investing trends in 2021 in the face of overall market volatility demonstrate angels' critical role of supporting the creation and growth of early stage companies. Angels continue to focus their greatest share of dollars on the earliest rounds, Seed and Series A, investing fewer dollars in later stage rounds. Angels invested primarily in preferred equity deals followed by convertible notes, with some regional use in SAFEs. Overall, SAFEs remained outside the angel mainstream, accounting for only 9% of angel deals, up only slightly from 2020.

Industry trends were relatively stable — life sciences and IT continued to lead the industries in share of dollars and number of deals. Despite the risky aspects of early stage investments, angels remain steadfast, with constant support of early stage entrepreneurs, rather than simply following market trends. In fact, making initial investments during rough times is often a secret to long-term success.

> ***"ACA experts predict additional shifts in 2022, including lower valuations spreading across various rounds and industries in response to market changes and inflation."***

One area of divergent trends was in the support of diverse entrepreneurs. Progress in this area was uneven – women entrepreneurs were able to garner more investment dollars per deal for the first time, but initial investments in companies led by Black CEOs reverted to historical levels after a very strong 2020 performance.

2021 was a strong year for exits, primarily via acquisitions, with median returns increasing to 2.7X vs 1.6X for prior years

ACA experts predict additional shifts in 2022, including lower valuations spreading across various rounds and industries in response to market changes and inflation. Despite volatility, recent feedback from ACA members indicates that their appetite for early stage investing remains strong.

KEY FINDINGS

Key findings from ACA's 2021 data collection and analysis include:

- ACA member groups invested approximately $950 million in 2021 in more than 1,000 companies and even more deals.[2]
- On average, angel groups invested a total of $5.3 million per group, an increase of 15% from 2020. The total amount invested in 2021 represents the highest total since we began tracking this data.
- Angels invested more dollars per company than years prior, although the absolute number of deals per group declined slightly.
- Portfolio companies raised a total of more than $5 billion (est.), leveraging their initial angel investments by 5X.
- Angels continued to focus on investing in seed-stage deals in 2021, reducing investments in later rounds. Angels invested more than 50% of their dollars in Series Seed, which accounted for nearly 60% of deals, up from 50% in the prior two years.
- The path to greater diversity in angel investing is proving uneven, with women CEOs making gains in the level of investment, but declining in overall number of CEOs landing deals in 2021. Asian or Asian American CEOs nearly doubled their amount of investment, and Latinx CEOs increased by more than 100% -- but Black CEOs tracked at about half of the amount invested in 2020.
- Health and life sciences have increasingly displaced long time angel mainstays like enterprise software, fintech, and hardware. In 2021, about 1/3 of all deals were related to life sciences, and the remaining 2/3 of deals were spread among other areas. Medical technology and health technology continued to lead among verticals, although they have receded from their 2020 COVID-19 driven dominance.
- Angels have made positive returns on their investments. In 2021, for companies still operating at time of exit their median return was 2.7X.

2 A single company typically has more than one angel investor and has more than one round of investment. Each investment made by an angel group counts as one deal. That is why numbers of companies invested in may be less than the number of investments made.

INVESTING BY THE NUMBERS

The Depth of the ACA Database of Angel Group Investments Continued to Grow.

In 2021, 69 reporting groups invested in 951 companies for a total of $362M in investments, representing the highest dollar amount since we started capturing data. Based on this sample, it is estimated that ACA member groups invested over $950M in 2021. Overall, we estimate that these portfolio companies raised a total around $5B in 2021.

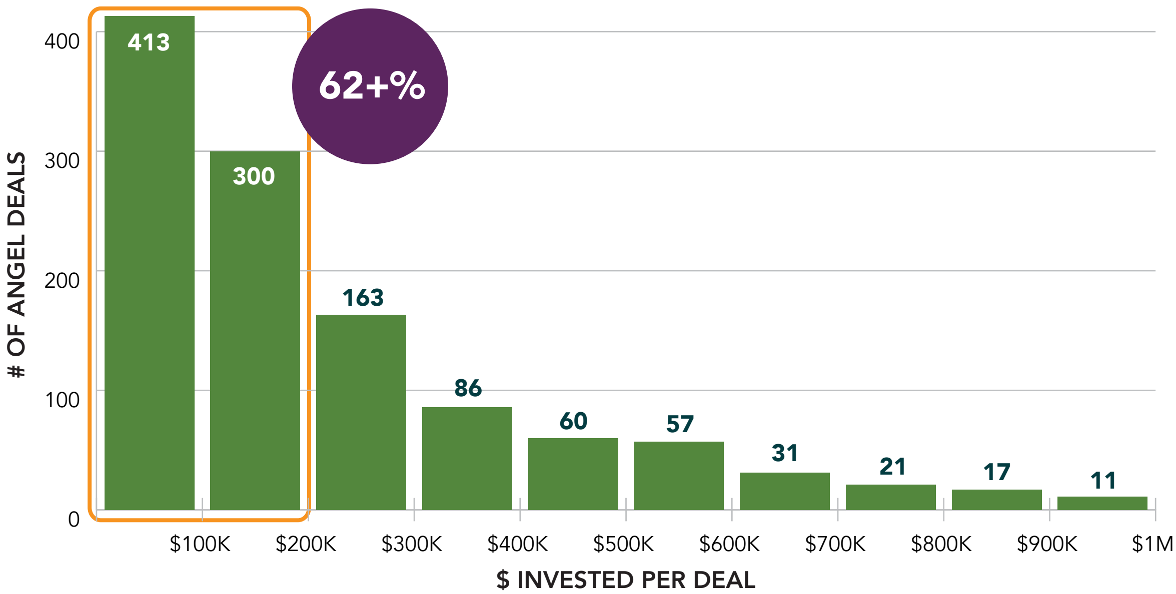
Among the reporting groups, they invested in 951 companies and 1202 deals. Their average total annual investment per group was $5.3M with over 17 deals per group *(see Figure 1)*.

FIGURE 1. Angels Engaged in More Deals in 2020

Year	Average Group Annual Investment	Median Group Annual Investment	Average # deals per group
2021	**$5.3M**	**$3.0M**	**17.7**
2020	$4.6M	$2.3M	19.5
2019	$4.0M	$1.5M	13.8

Angels made their investments in many small deals, with 24% of deals invested in rounds of less than $1M. In these small deals, the group's individual investment was less than $200K 62% of the time. This relatively small deal size was indicative of how early stage these companies were, placing angels on the bleeding edge of capital formation and job creation in this economy *(see Figure 2)*.

FIGURE 2. Angels Make Many Small Investments



The "sweet" spot for angel investing is seed stage, and 59% of all deals were in this category in 2021 *(see Figure 3)*. This was 9 percentage points higher than prior years *(see Figure 4)*. Angels play an essential role in providing the source of initial funding for start-ups. Over 855 of all deals were Series A or earlier. This commitment to the earliest deals has been consistent over time.

FIGURE 3. Angels Focus on Seed Rounds

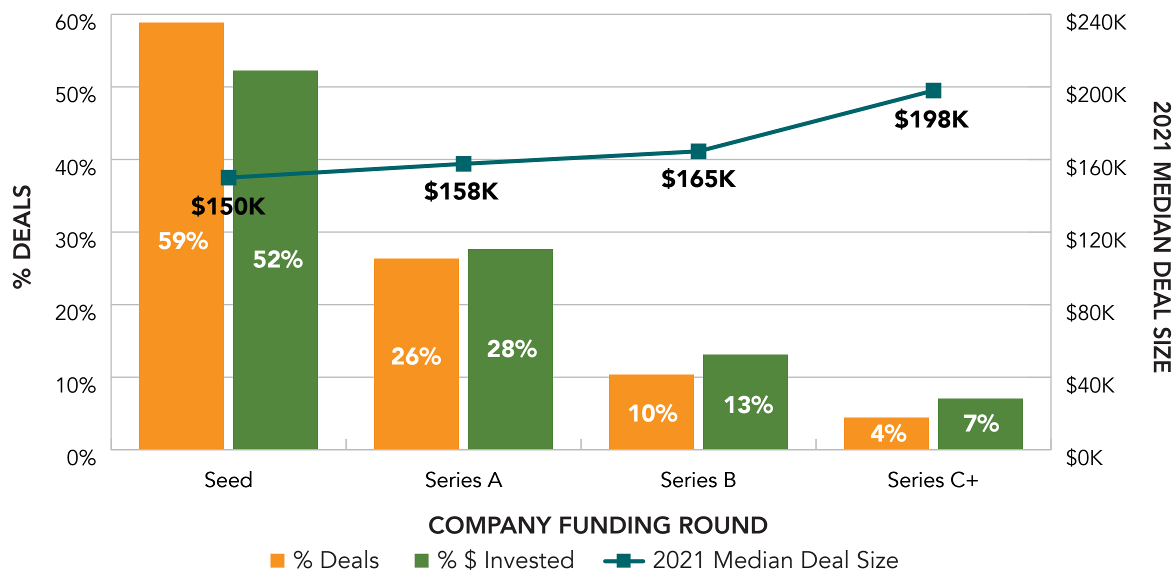
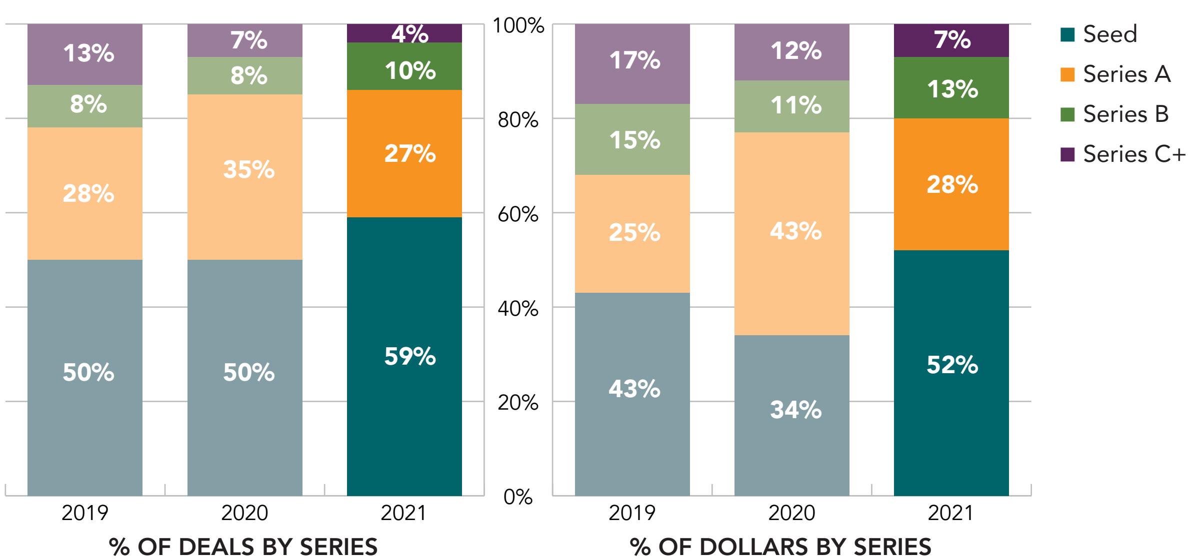
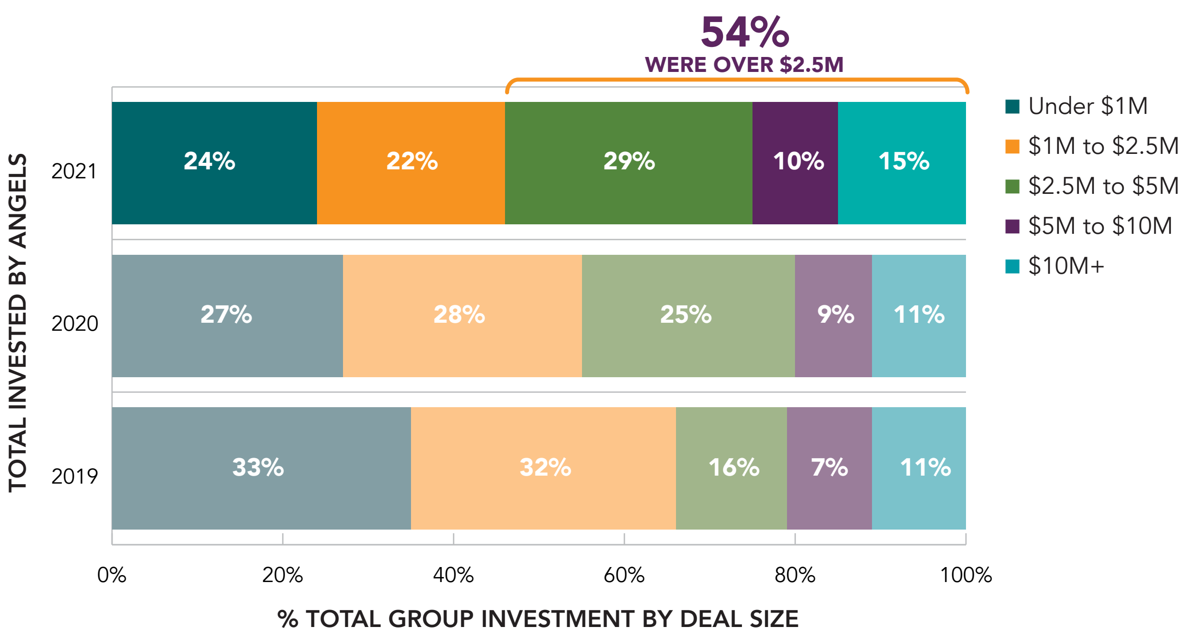


FIGURE 4. Seed and Series A Dominated Angel Investments



Angels continued to invest in smaller rounds (< $2.5M), although the overall investment trend continued to move toward larger rounds. 54% of angel groups invested $2.5M or more in 2021, compared to 45% in 2020 *(see Figure 5)*. ACA experts believe this was driven in part by investments being made in larger follow-on rounds, which will be discussed in more detail later in the report.

FIGURE 5. Small Deals are Key; Larger Follow-on Rounds are Growing



Angel dominance is also seen in their contribution percentage within each round, as compared to venture capitalists and other groups. Angel groups contributed 32% of the seed round capital versus having other groups fill their rounds (68%), a significantly greater percentage than the prior years *(see Figure 6)*. As venture capitalists and others retreated to later stage rounds, angels held their focus and increased their participation. Angels were also attracted to the more "reasonable" early stage valuations, covered in more detail in the valuation section of the report. Angel investments tend to taper off as companies mature, but smart angels were still making meaningful investments during follow-on rounds for their most promising companies *(see Figures 6 and 7)*.

FIGURE 6. Angels Contribution to Seed Round Grew in 2021

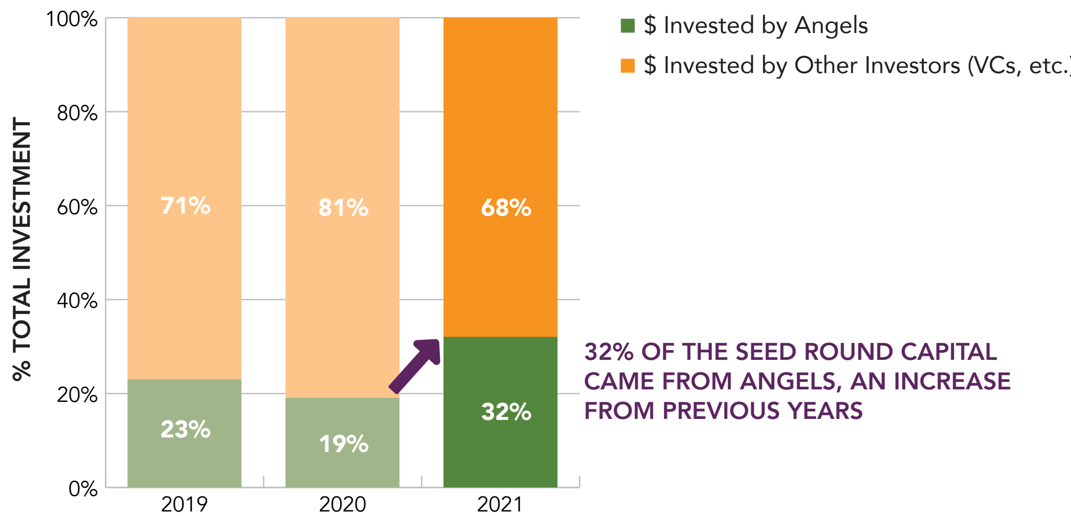
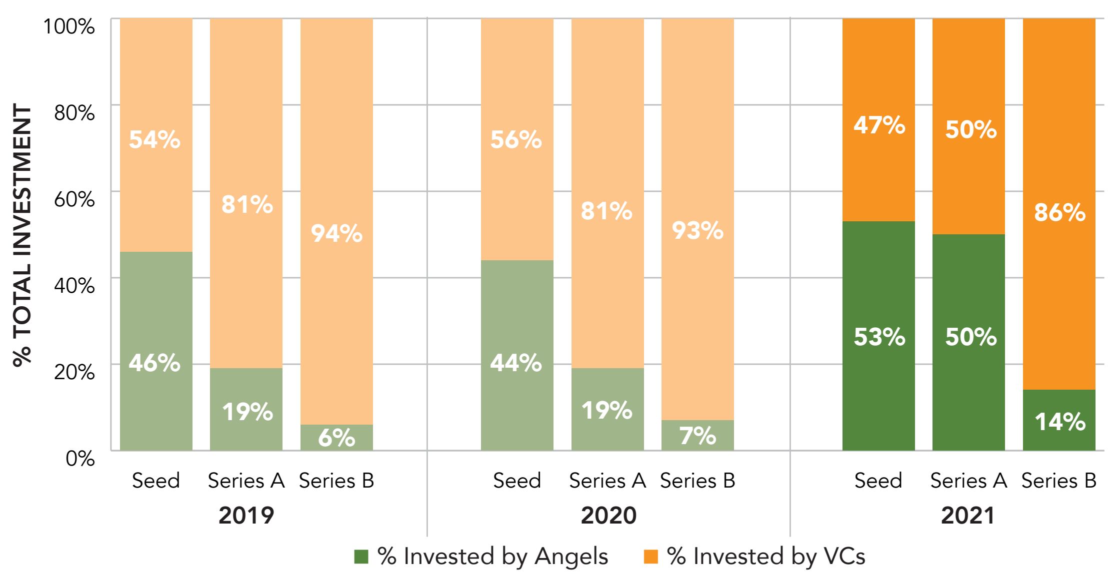
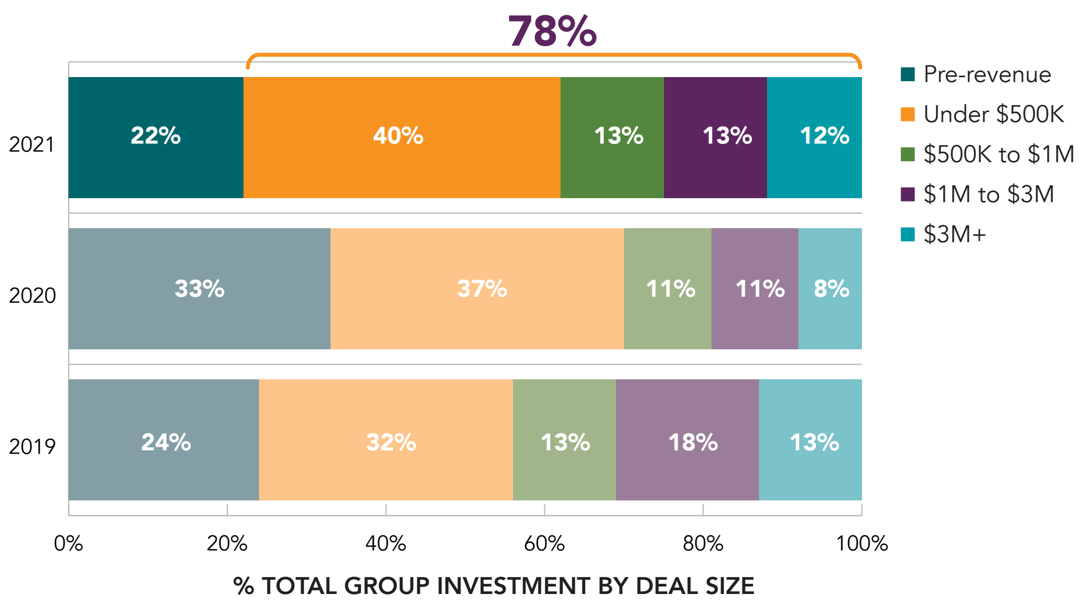


FIGURE 7. Angel Investments Taper in Later Rounds



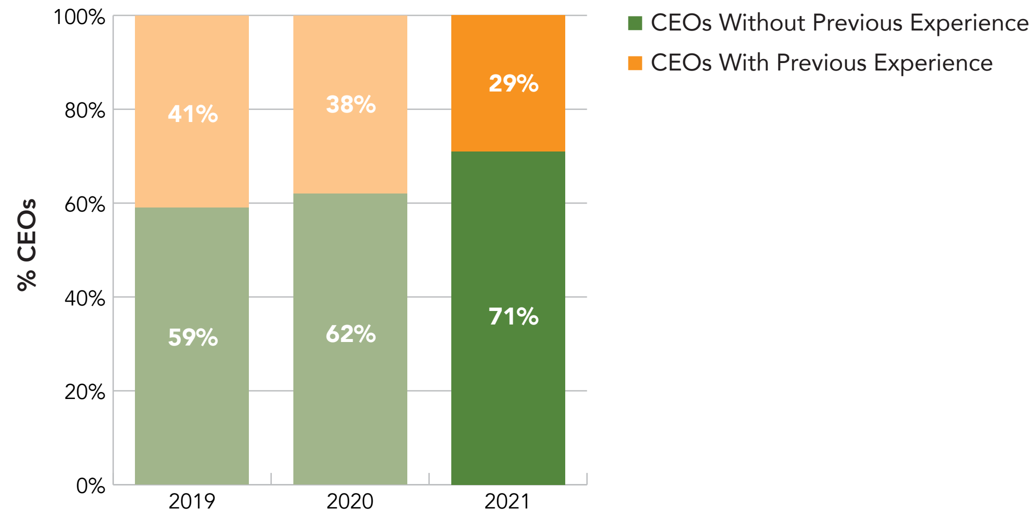
Reflecting the early stages of many of these investments, about a quarter of the companies reported no revenue at time of funding, with another 40% reporting less than $500K in annual revenue. In 2020, about 1/3 of the companies were pre-revenue. The increase in funded companies with revenue can be attributed to the increase in follow-on funding and increased caution by investors, who wanted to see a track record before investing *(see Figure 8)*.

FIGURE 8. More Companies in 2021 Had Some Revenue at Funding



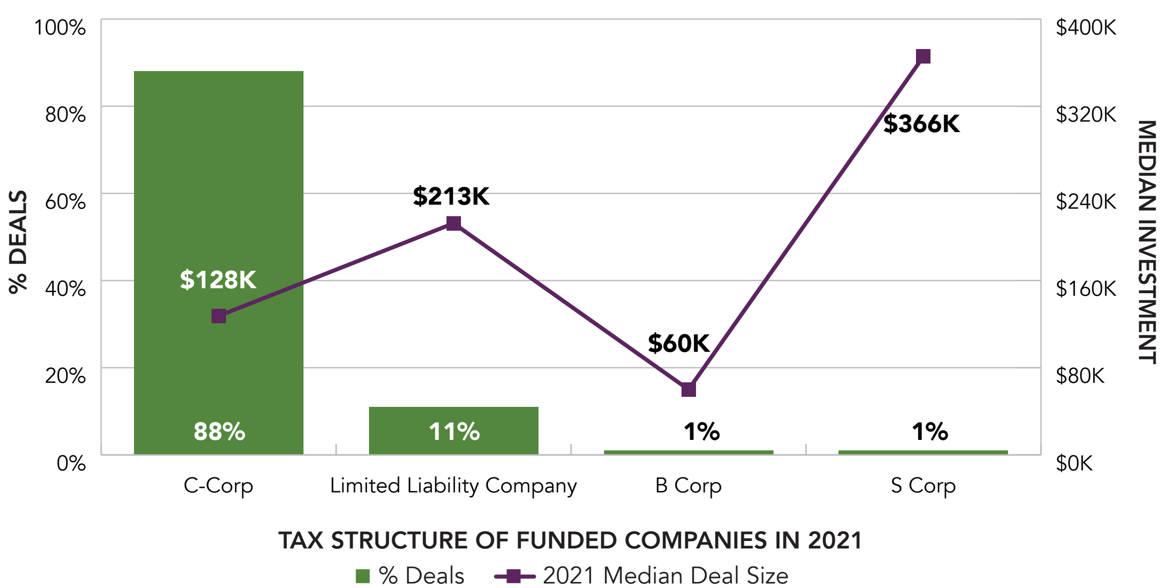
The need to see a track record doesn't necessarily extend to company leadership, as *Figure 9* shows, angels consistently backed new CEOs. 71% of investments featured a first-time CEO, as compared to just 29% of the companies having an experienced CEO at the helm.

FIGURE 9. Angels Consistently Back First-Time CEOs



Impact investing, as defined by investing in B-corps, was still a small part of angel investing. C-corps and LLCs made up the strongest percentage of investments *(see Figure 10)*.

FIGURE 10. Most Investments are Made Into C-corps



INITIAL VS. FOLLOW-ON DEALS

As startups grow, they advance through multiple funding rounds; typically, a company begins with a small seed (or a "pre-seed") round and raises progressively larger Series A, B, and C or even later funding rounds. As companies mature, they increase in value and ambition, and need more funding as they address new markets an geographies. Initial vs. follow-on funding types are defined by the action of the angel investor, rather than the company's investment round label. The first investment an angel makes in a company is that angel's "initial" investment. All subsequent investments made by that same investor in the same company are called "follow-on" investments. Therefore, an initial investment by one angel may be a follow-on investment for a different angel. Many groups tend to make a smaller initial investment, investing again as the company makes progress against its milestones and needs to raise additional funding to develop additional products or expand operations into new markets.

Angels were active in both initial and follow-on rounds. Total investment dollars went up in 2021, although total deal count went down. While there was an increase in dollars invested in both initial and follow-on deals, follow-on dollars jumped over 25% from 2020 *(see Figure 11)*. Overall, angels devoted more than half of their deals each year to "new" companies and about 45% of their activity to following on with investment into companies into which they had already invested *(see Figure 12)*.

FIGURE 11. Initial and, Especially, Follow-on Investments Grew in 2021

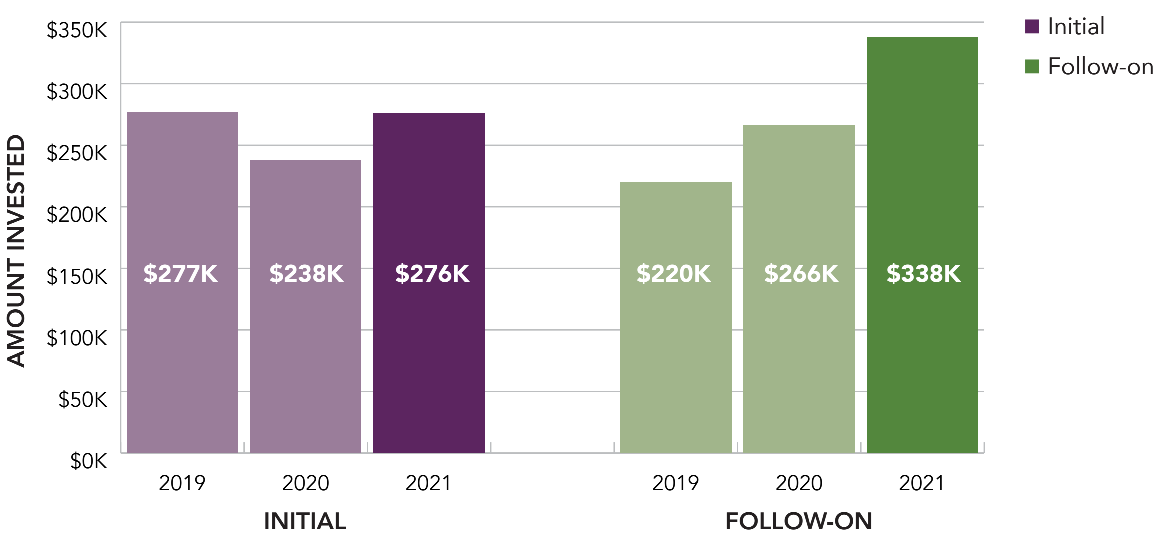
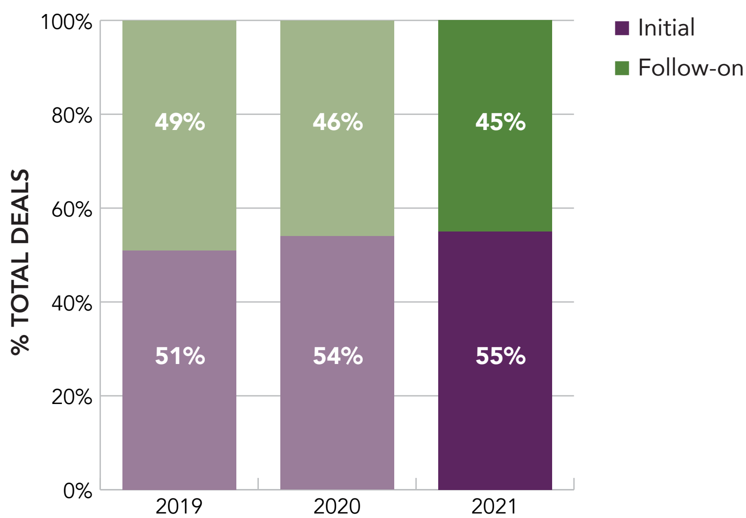
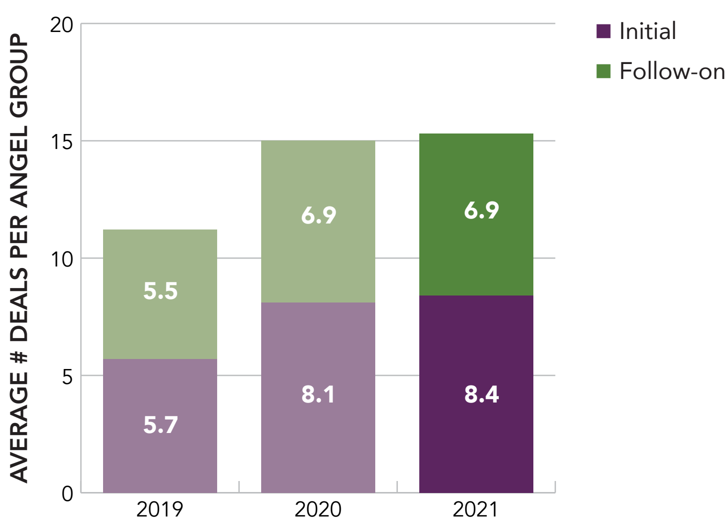


FIGURE 12. Initial Investments Remain Over 50% of All Deals



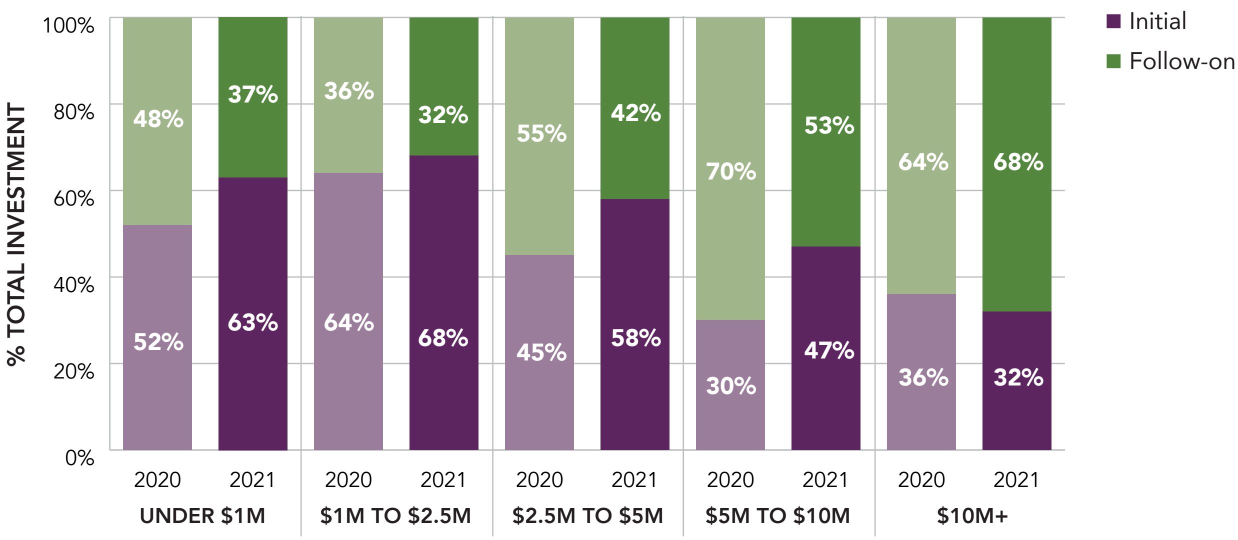
On a per group basis, the number of follow-on deals remained steady, although the investment dollars increased. There was a slight increase in the number of new deals, again demonstrating angels' commitment to funding new investments *(see Figure 13)*.

FIGURE 13. Number of Initial Deals Per Group Increased in 2021



Angels continued to focus mostly on the earlier stages of company development, with correspondingly smaller rounds. There continued to be meaningful participation in later rounds for successful portfolio companies. The preponderance of investing when the round size is under $1 million is mainly initial funding. However, follow-on investing typically was part of later, larger rounds as the companies grew and required more funding *(see Figure 14)*.

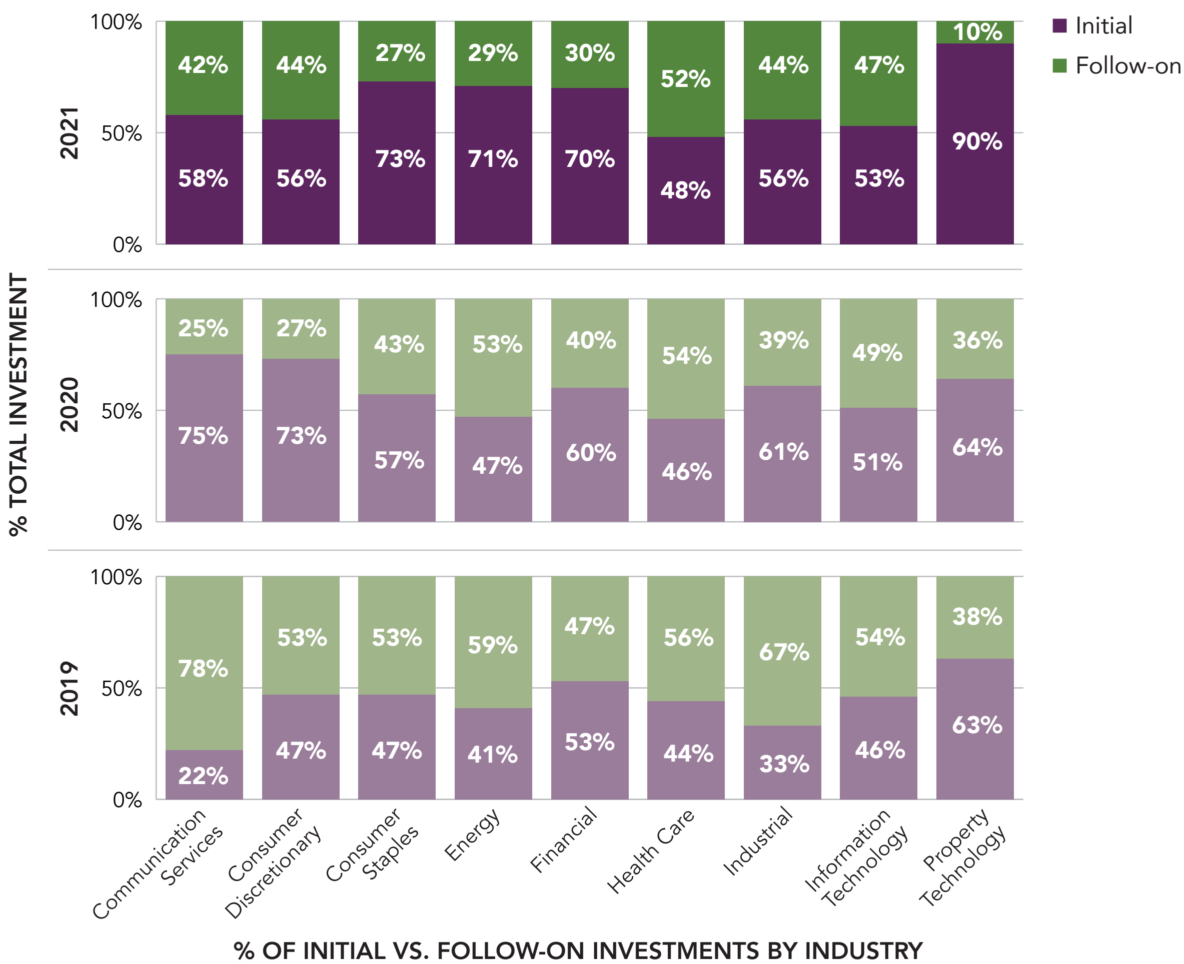
FIGURE 14. Initial Investments are Primarily Done in Smaller Rounds



TOTAL INVESTED AMOUNT IN INITIAL VS. FOLLOW-ON INVESTMENT BY COMPANY FUNDING ROUND

Taking a deeper dive into initial vs follow-on funding by industry, except for proptech which was over 90% new deals in 2021, there was not a great deal of variation among industries with 1/2 to 3/4 initial deals. Additionally, there does not appear to be a correlation between heavy initial investing in one year to an increase in follow-on funding in the subsequent year *(see Figure 15)*.

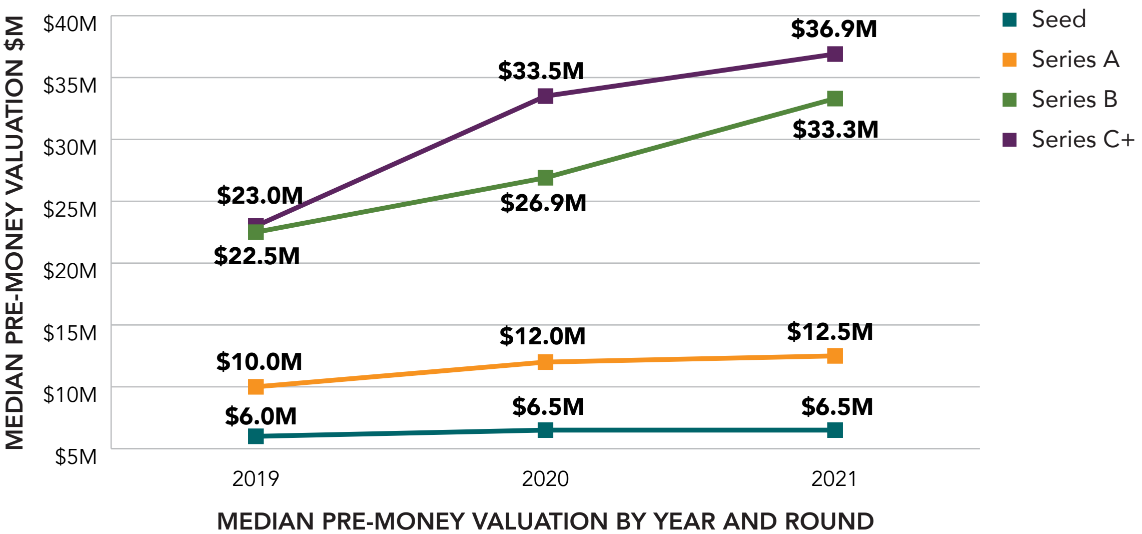
FIGURE 15. Initial VS. Follow-on Investments by Industry



VALUATION TRENDS

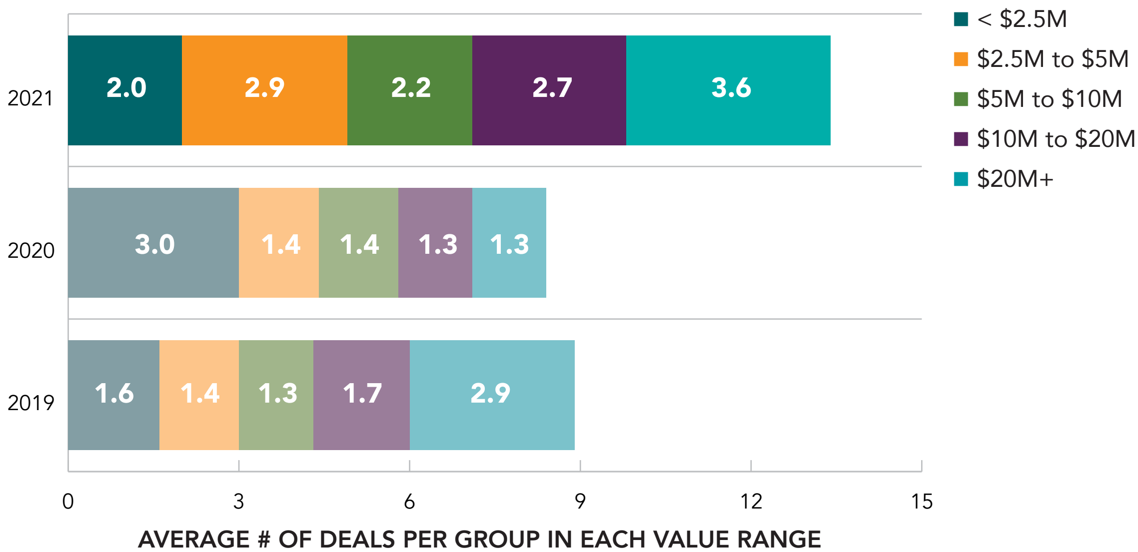
Venture valuations have been growing for several years with dramatic growth in 2021, fueled by an explosion of venture funding. After a series of successful exits, VC fund investors reinvested their return into new VC funds. This strong infusion of new capital created a surge in venture-backed valuations. While venture valuations shattered records, angels kept their heads and maintained valuation discipline. Median pre-money valuations in seed rounds remained the same as the previous year at $6.5M. Valuation levels in Series A, Series B and Series C+ rounds continue to increase over the prior year *(see Figure 16)*.

FIGURE 16. Pre Money Valuations Rapidly Increased for Later Rounds



In 2021, the median amount invested by angel groups increased overall. As groups invested larger amounts, the median amount invested per deal increased dramatically. The growth seen in 2020 in smaller deals (<$2.5M rounds) was not repeated in 2021. Trends reverted to deal sizes like 2019. The under $2.5M round was the only area to shrink, instead of experiencing the more than 40% growth seen in larger rounds *(see Figure 17)*.

FIGURE 17. Number of Investments Grew Across All Valuation Levels Except Under $2.5M



INDUSTRIES

While there was some variation in seed valuations by sector, absolute valuation level did not remove drive investments. The two most active sectors, determined by number of deals, were healthcare and information technology. Together, these sectors made up more than 75% of all deals and have similar, mid-range seed stage valuation *(see Figures 18 and 19)*. This will be discussed in more detail in the next section of the report. When it comes to valuations, hardware continued to garner higher seed valuations than other industries but represented a much smaller number of deals than the more popular sectors.

The higher valuations for hardware and cleantech are driven by the fact it costs more (cost of physical parts, manufacturing, etc.) to build a company in these sectors. More capital-intensive companies will have higher valuations simply because their fundamental product strategy requires them to raise more capital than other sectors.

FIGURE 18. Seed Valuations Did Not Vary Greatly by Sector

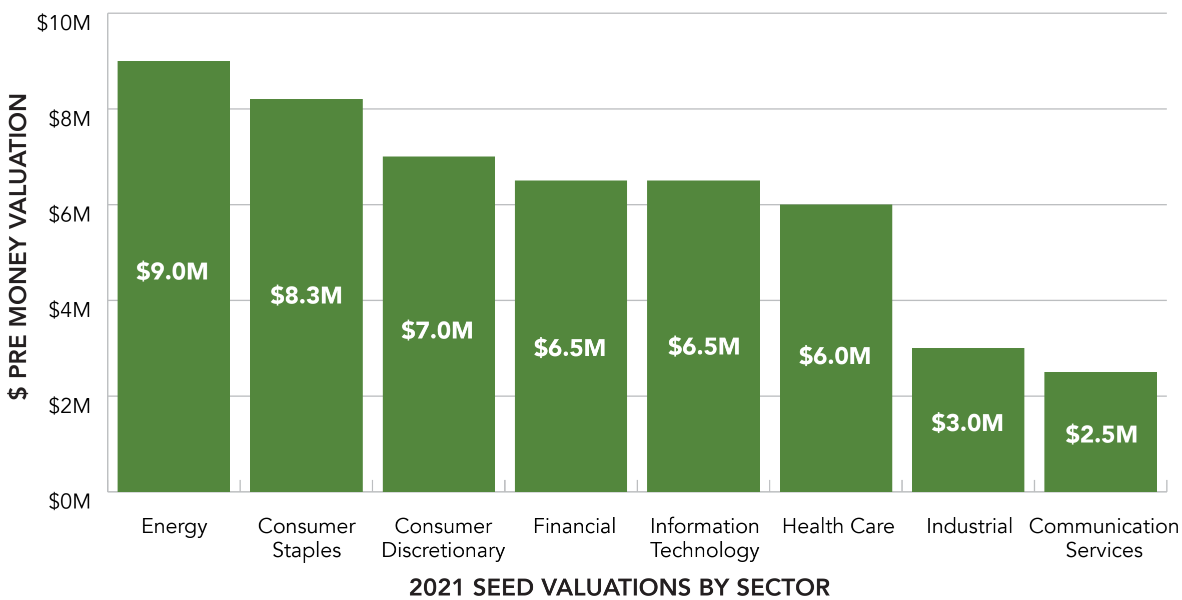
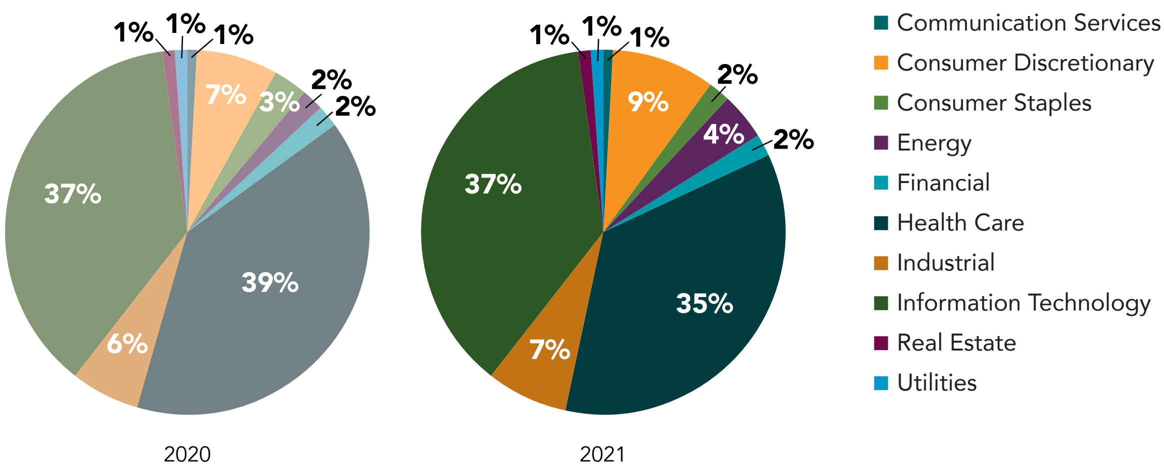


FIGURE 19. Health Care and IT Dominated Seed Investments

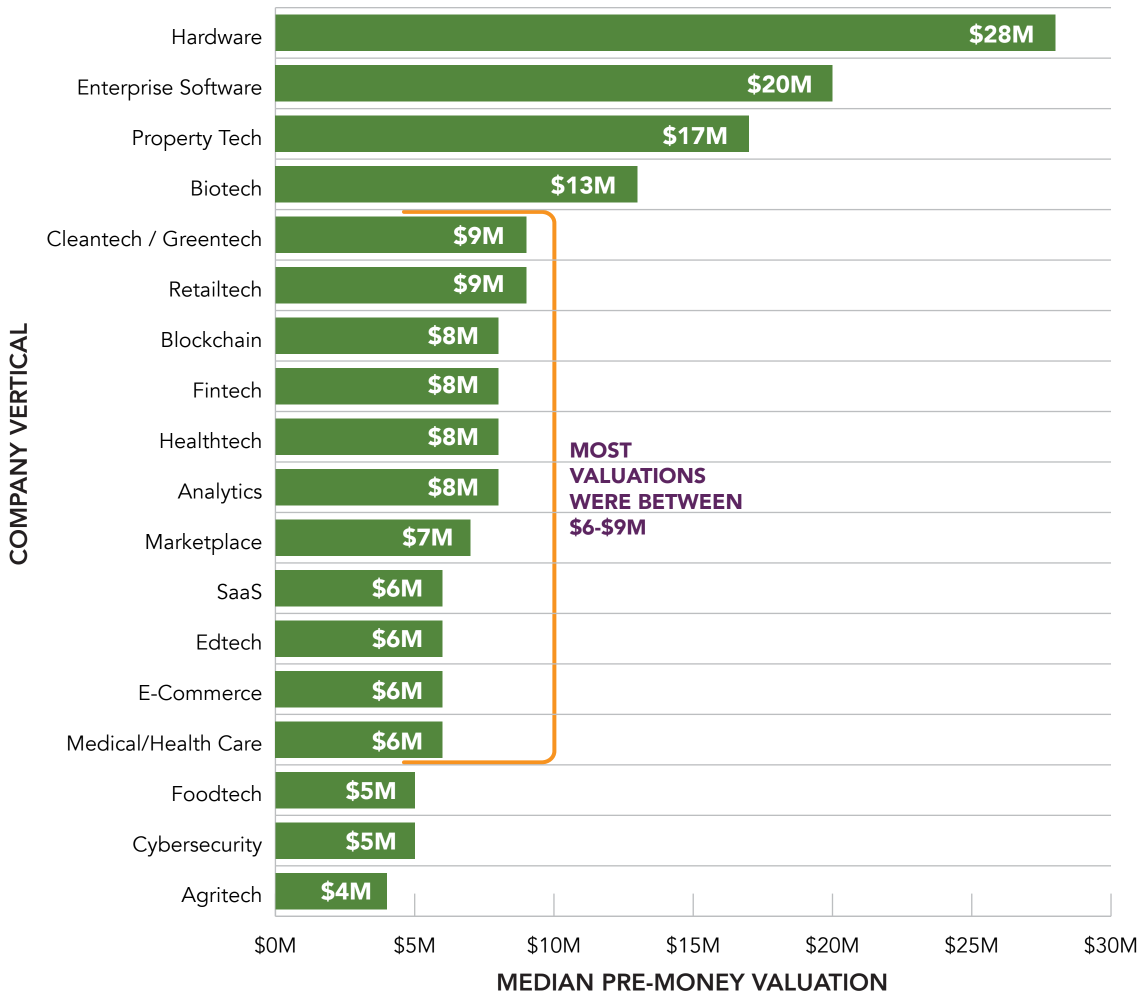


DEALS BY SECTOR

Drilling down into more detail by industry we can see differences in seed valuations. Again, by definition, hardware companies were more capital intensive, so it is no surprise that hardware led the pack. They have an entirely different cost structure than most others on this list *(see Figure 20)*. Healthcare companies often required most capital to fund clinical trials at later stages, but are not capital intensive at earlier seed stages.

Real Estate on this chart is mostly software, aka "proptech" which was an exploding market over the past few years. Growing property values means that realtors and other principal buyers of PropTech can afford more software tools and the stakes are higher. It will be interesting to see if this sector becomes very hard hit with the decline of property values and property sales in most of the, formerly hottest, property markets.

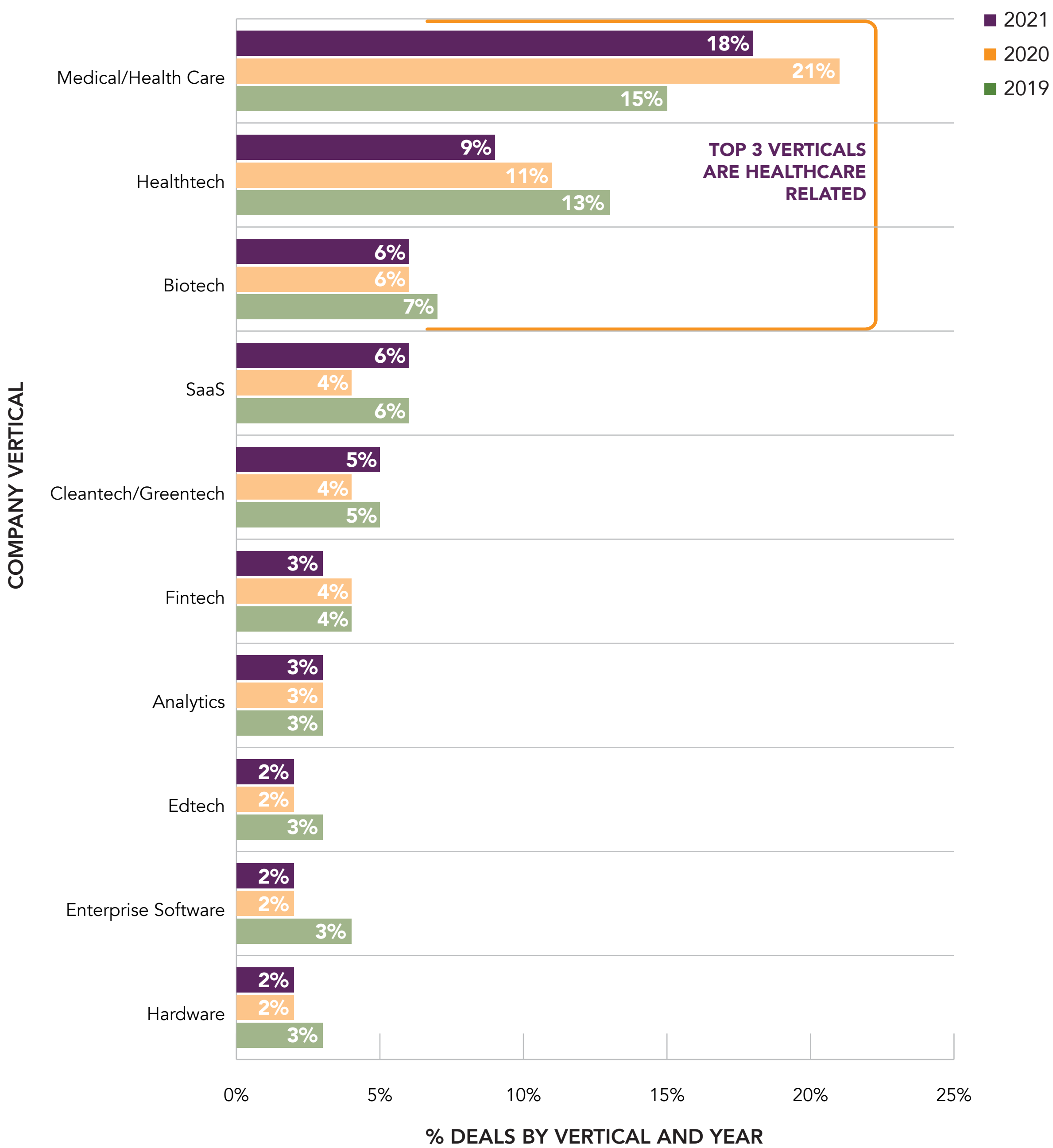
FIGURE 20. Most Seed Valuations Range From $6-$9M



Like venture capitalists, angels are looking for companies that have the potential to deliver venture scale (10X) returns to compensate for the risks inherent in early stage investing. A meaningful breakthrough is needed to be able to achieve these venture scale returns. These breakthroughs are more commonly seen in science and tech-based companies. This drives the long-standing trend of angel investment in these types of early stage companies. Historically, that meant investing in enterprise software, fintech, and hardware. Now, we are seeing health and life sciences displacing these longtime angel mainstays. In 2021, medical and healthcare continued to lead investment verticals, although both had receded from their COVID-19 driven dominance in 2020. In 2021, a third of all deals were life science related, and the remaining 2/3 were spread among other sectors *(see Figures 19 and 21)*.

And correspondingly, as *figure 21* indicates, capital intensive sectors were traditionally the least popular among traditional angel groups because angels are not able to keep up with the level of capital needed over the lifespan of a hardware companies. Therefore, as the chart shows, hardware was the least popular sector.

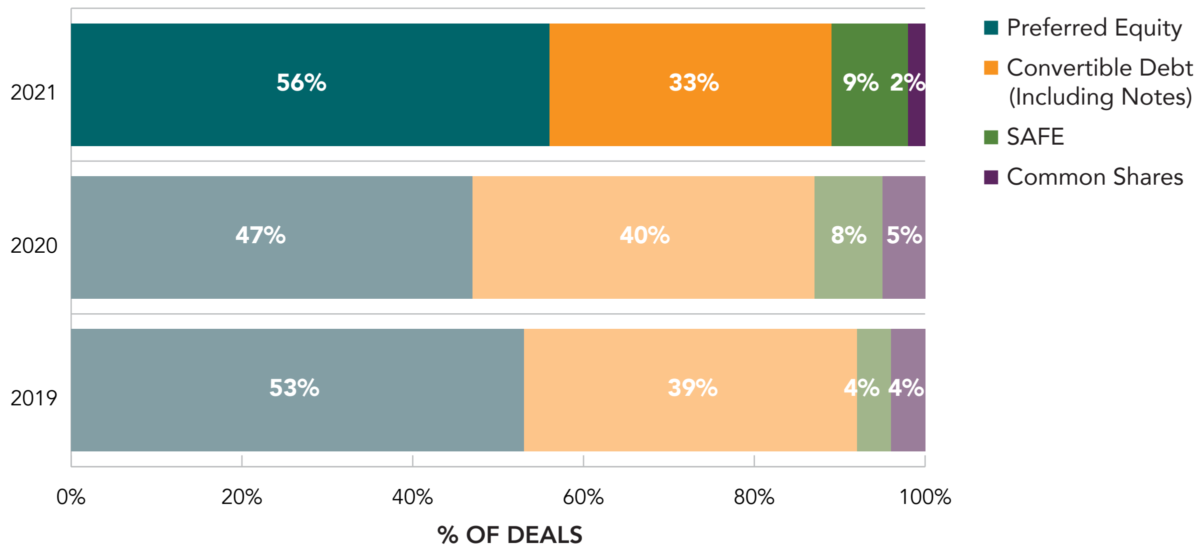
FIGURE 21. Health Care Related Vertical Led in Number of Deals



REGIONAL PERFORMANCE

Regional differences in investing practices are seen most clearly in the types of investment vehicles used and the level of valuations. Overall, preferred stocks maintained its traditional dominance in 2021 *(see Figure 22)*.

FIGURE 22. Preferred Equity and Convertible Notes Were Used for Most Transactions.



Regionally, SAFEs had been taking some market share from Convertible Notes. Although their growth slowed as investors began to experience some of the risks associated with SAFEs. California led the way in this trend, driven by a combination of the strong presence of Y-Combinator and similar incubators who favored SAFEs and the large number of younger angels who blurred the line between entrepreneurs and investors *(see Figure 23)*.

DESERT ANGELS STAYS FOCUSED on Continuous Improvement, Growth During and After the Pandemic

Founded in 2000, Desert Angels is a Tucson-based non-profit angel group that invests in early stage companies in their region and across the country.

The group of about 100 active angel investors has invested $60+ million into 132 portfolio companies and 12 sidecar funds since inception. They are a founding member of the ACA and are one of the most active angel groups in the country.

At the end of 2019, Desert Angels welcomed a new executive team: Jeffrey Lang, Board Chair; Joann MacMaster, CEO. Both Lang and MacMaster brought a unique perspective with experience as both entrepreneurs and investors. Lang is a successful serial entrepreneur and has served as a member of the board. MacMaster led the venture development efforts for Tech Launch Arizona, the University of Arizona's tech transfer and commercialization arm.

MacMaster and team launched a strategic plan around four pillars: membership, companies, community, and service. However, there was nothing to prepare them for what would happen next – in early 2020, COVID-19 changed the face of investing in Arizona, and around the world.

In response, the team set out to change and expand how the group finds, evaluates, and commits to early stage companies. All activities were moved to Zoom, removing geographic barriers for members and companies. The operational infrastructure was updated. Syndication efforts were increased by joining Angel Syndication Network (ASN), a network of prominent angel group leaders who actively collaborate for deal syndication. Leadership became more active in Angel Capital Association programs to learn, define, share, and adopt current best practices and lessons learned from other groups. One significant ongoing effort is tied to improving outcomes through enhanced due diligence, together with increasing diversity of membership.

> “Working with the ACA and ASN, we’ve been able to improve our deal quality and due diligence efforts.”

JoAnn MacMaster
CEO

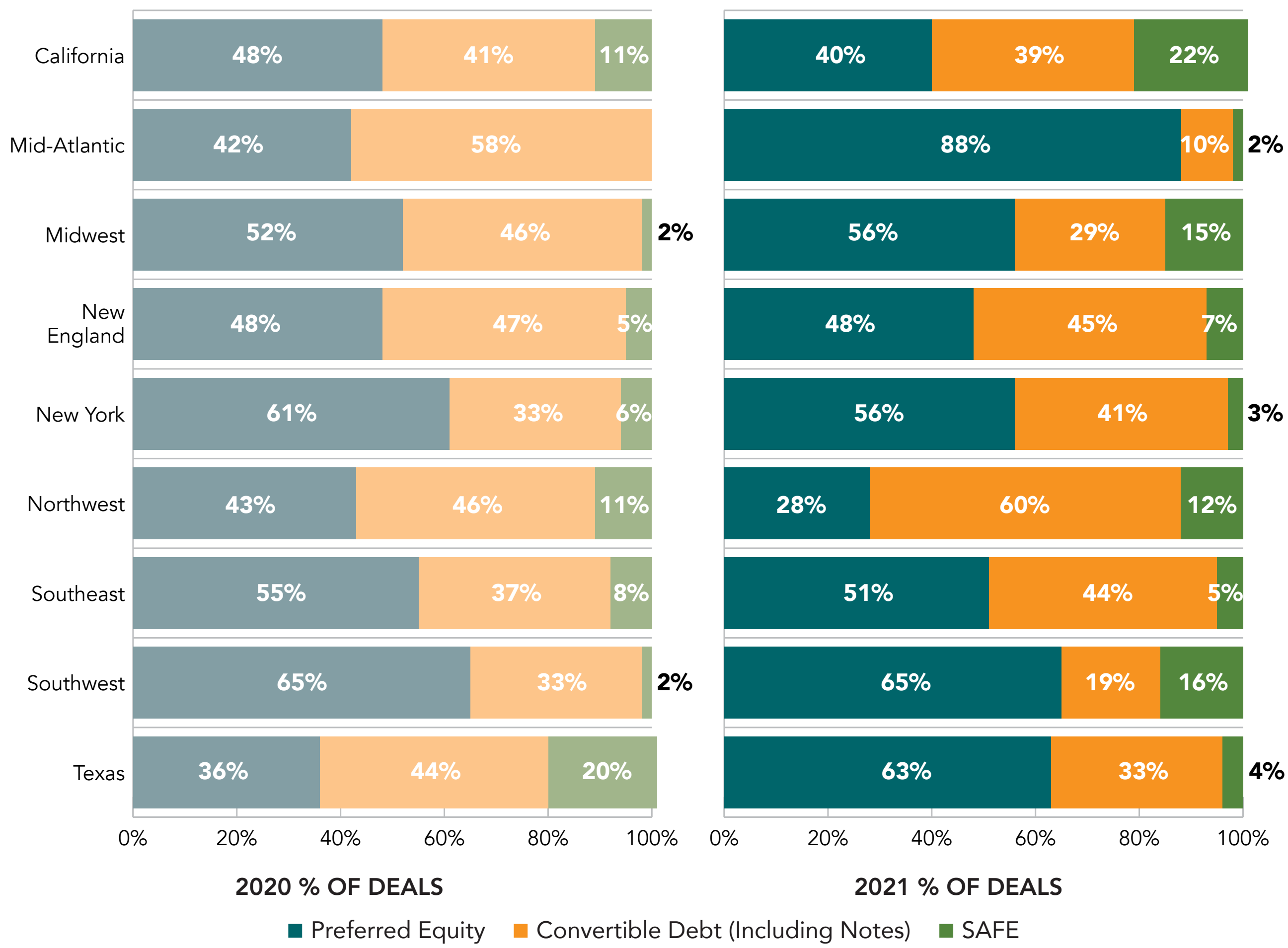
DESERT ANGELS

So far, members have responded favorably to the changes, strengthening both engagement and retention. Desert Angels returned to “in person” meetings in September 2021; however, they maintained a hybrid culture offering a Zoom for all business activities.

Part of the Desert Angels’ mission is regional economic development. Prior to 2020, about 80% of the investments made by members were in Arizona companies. Today, with added virtual engagement, more than one-half of new opportunities come from outside of Arizona. “Working with the ACA (Angel Capital Association) and ASN (Angel Syndication Network), we’ve been able to improve our deal quality and due diligence efforts,” said MacMaster. “We can offer our members a wide range of opportunities that have been vetted by our peer groups. The forced and strategic changes brought by the pandemic brought an unexpected upside, noting that Desert Angels continues to emphasize and work even more closely with its local community partners to strengthen Arizona opportunities.

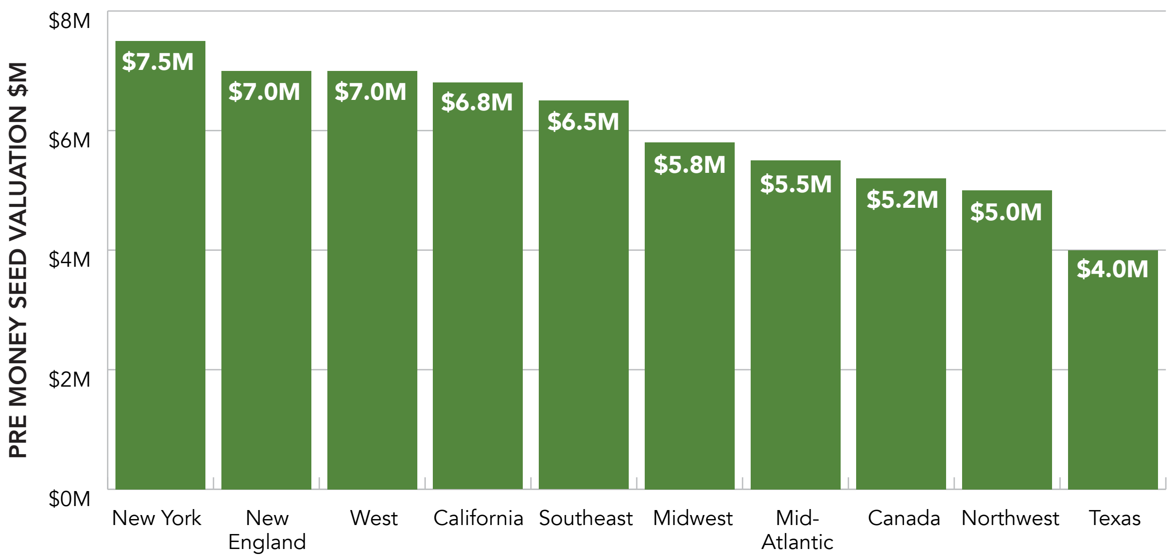
By being willing to step back, reassess where they were and where they wanted to go, Desert Angels developed a strong strategic plan. They changed their processes, expanded their investment horizons The ability to grow and change while responding to a challenging environment contributes to their longevity. Their commitments to economic development and leadership in their entrepreneurial ecosystem are also critical to their success. Desert Angels is a great example of how groups can refresh and revitalize themselves.

FIGURE 23. California Led in SAFEs, Primarily Taking Shares From Convertible Notes



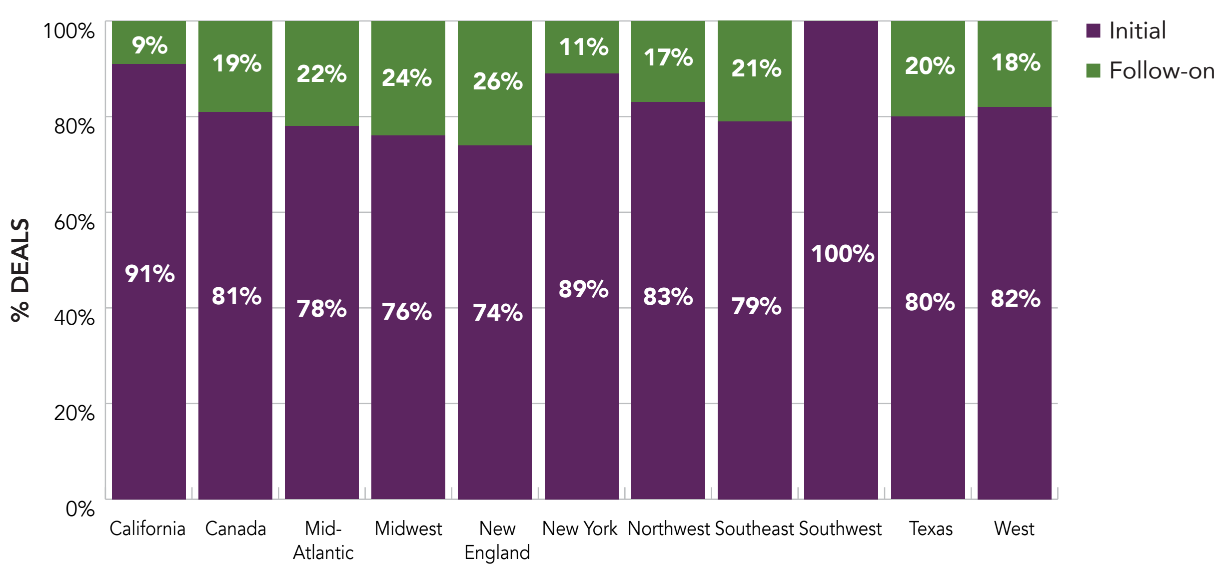
There were regional differences in valuations. New York, New England, and the Western region of the United States led the way in pre-money valuations for seed rounds. These regional differences may reflect the greater density in the number of angels, angel groups, VC seed funds and other competitors for seed stage deals in the region. In regions with fewer investors there is likely to be less competition for deals, therefore; angels can demand tougher terms because entrepreneurs have fewer options for raising capital *(see Figure 24)*.

FIGURE 24. Pre-Money Valuations Were Lower Away From the Coasts



There was also some regional variability in terms of initial vs. follow-on deals, with New England and the Midwest leading the way, but most groups devoted at least 3/4 of their resources to initial deals *(see Figure 25)*.

FIGURE 25. Initial Deals Represented 75% of Most Regions' Activity



Over the last several years, accelerated by the move to virtual meetings during the pandemic, angels have broadened their geographic scope beyond their local region. In 6 out of 10 regions during 2021, angels invested in more out-of-region deals than in-region deals, both by number of deals and total dollars invested *(see Figure 26)*. The growth in out-of-market deals were also driven by the increase in syndication among angel groups across the nation.

FIGURE 26. In 6 of 10 Regions, Less Than 50% of Their Dollars Were Invested Within Their Region

	INVESTORS									
REGIONS INVESTED IN	**California**	**Canada**	**Mid-Atlantic**	**Midwest**	**New England**	**New York**	**Northwest**	**Southeast**	**Southwest**	**Texas**
California	73%	25%	12%	3%	6%	15%	12%	8%	1%	—
Canada	1%	**45%**	3%	14%	0%	6%	5%	11%	9%	—
Mid-Atlantic	2%	1%	**15%**	3%	3%	15%	14%	13%	5%	11%
Midwest	0%	—	13%	64%	13%	14%	0%	6%	0%	7%
New England	9%	2%	5%	4%	51%	1%	4%	7%	5%	—
New York	6%	6%	22%	2%	18%	**14%**	1%	24%	2%	—
Northwest	5%	2%	16%	1%	2%	4%	**49%**	4%	3%	1%
Southeast	4%	—	7%	2%	3%	3%	6%	**27%**	—	14%
Southwest	—	—	—	5%	—	—	7%	0%	76%	24%
Texas	1%	18%	6%	3%	3%	26%	3%	2%	—	**43%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

There was significant variation in the top investment sector by region, although the top two were generally healthcare and information technology. Regional variation was also related to the prominence of centers of excellence or historical economies dominated by a given sector. New England and California have long been healthcare powerhouses. And California, unlike the Midwest except for aerospace and semiconductor manufacturing, has never been a hotbed of traditional heavy industry. In Canada and Southeast, the consumer discretionary sector was also a popular choice in 2021 *(see Figure 27)*.

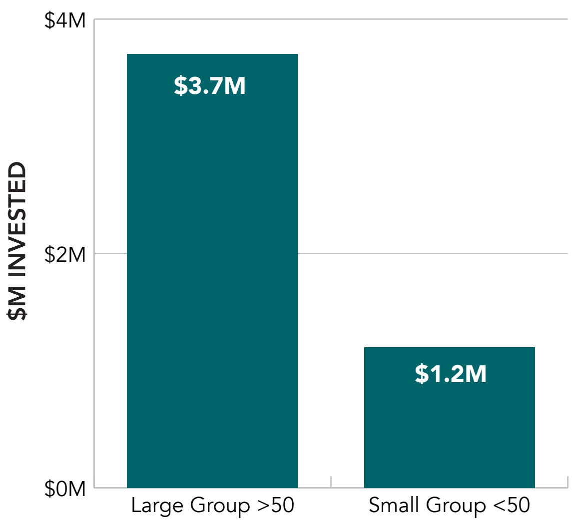
FIGURE 27. Beyond Healthcare and IT, Key Segments Varied by Region

	INVESTORS									
SECTOR INVESTED IN	California	Canada	Mid-Atlantic	Midwest	New England	New York	Northwest	Southeast	Southwest	Texas
Consumer Discretionary	6%	39%	0%	1%	3%	19%	17%	31%	3%	40%
Energy	2%	12%	—	0%	12%	—	27%	4%	1%	0%
Financial	2%	16%	2%	15%	12%	1%	—	2%	—	—
Health Care	46%	5%	59%	36%	36%	16%	23%	27%	48%	19%
Industrial	—	20%	1%	3%	1%	7%	3%	3%	18%	0%
Information Technology	44%	8%	39%	45%	36%	57%	29%	32%	29%	41%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

ANGEL GROUP DYNAMICS

When it comes to angel groups and investment patterns, size does matter. Large groups (more than the median group size of 50 members), invested 3X the median annual group dollar investment when compared to small groups in 2021. This is a continuation of a long-standing trend *(see Figure 28)*. Smaller groups also grow into larger groups over time. The greater use of syndication also increased the ability of smaller groups to work with larger groups and benefit from their experiences.

FIGURE 28. Large Groups Continued to Invest 3X What Small Groups Invested



While the total invested by large groups was 3X that of small groups, the differences in per deal investments were smaller. The median investment per deal by large groups was $150K vs $108K for smaller groups. Larger groups can do more deals and write a larger number of checks per deal because they have more members, which drives up the groups' total investments *(see Figures 29 and 30)*. They also generally have access to more deals and larger deals, because larger groups have more members developing deal flow and van have more recognized brands in the entrepreneurial community.

FIGURE 29. Larger Groups Invested About 50% More Per Deal.

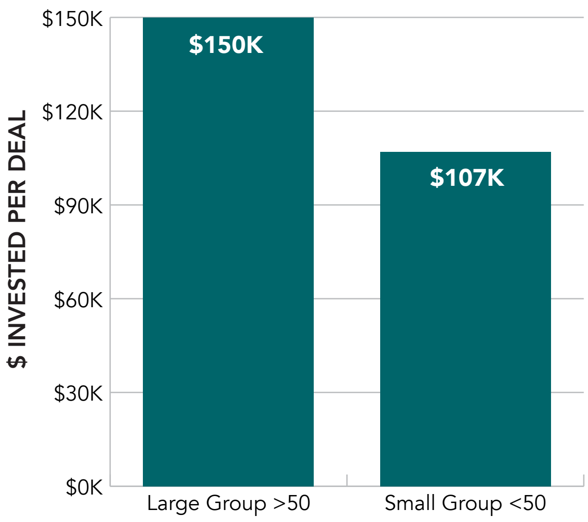
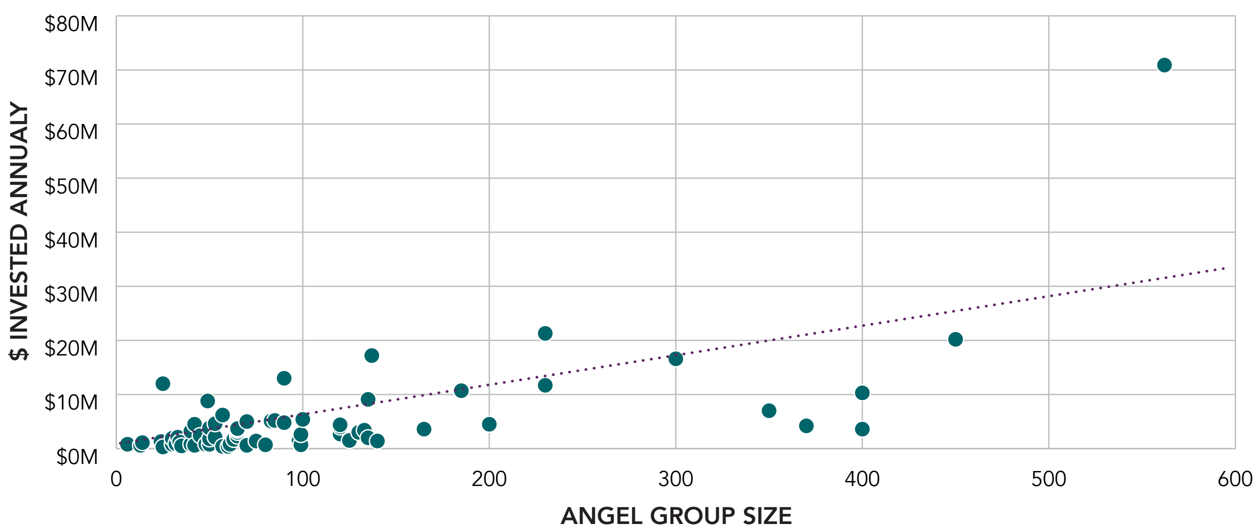
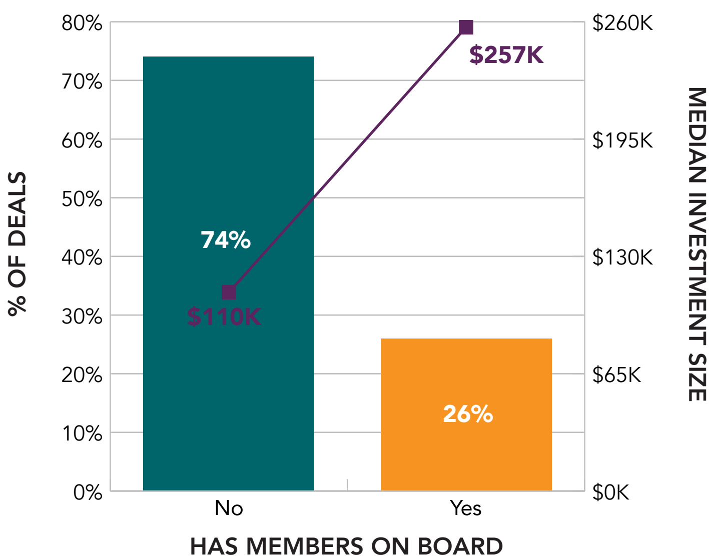


FIGURE 30. Not Surprisingly, Larger Groups Continue to Invest More



Angels provide much more than just investment dollars for their portfolio companies. ACA angel groups generally provide continued, hands-on mentoring based on the deep experience of their individual members. Many deals are structured so that one of the group's seasoned angel investors with experience in the sector sits on the board of directors for the early stage company. This is a natural extension of the mentoring process and allows greater insight into the company's performance for follow-on investment consideration. There is definitely a strong relationship between the amount invested, the lead position and board representation; those who contribute the most to a round get to write the term sheet and lead the deal. When angels lead rounds and invest larger amounts, they often require a board seat as part of the deal. When angels are on the company's board, their investment amounts increased by more than 2X *(see Figure 31)*.

FIGURE 31. Having Board Representation Increased Median Deal Investment



THE FACES OF COMPANY CEOs

GENDER DIVERSITY

In 2020, angel groups made significant progress toward increasing the diversity of funded company CEOs. 2021 proved that the path to greater diversity was uneven — while female CEOs achieved parity in the level of investments made, the number of women-led deals declined *(see Figures 32 and 33)*.

FIGURE 32. Female CEOs Closed the Investment Gap with Male CEOs for Initial Investments

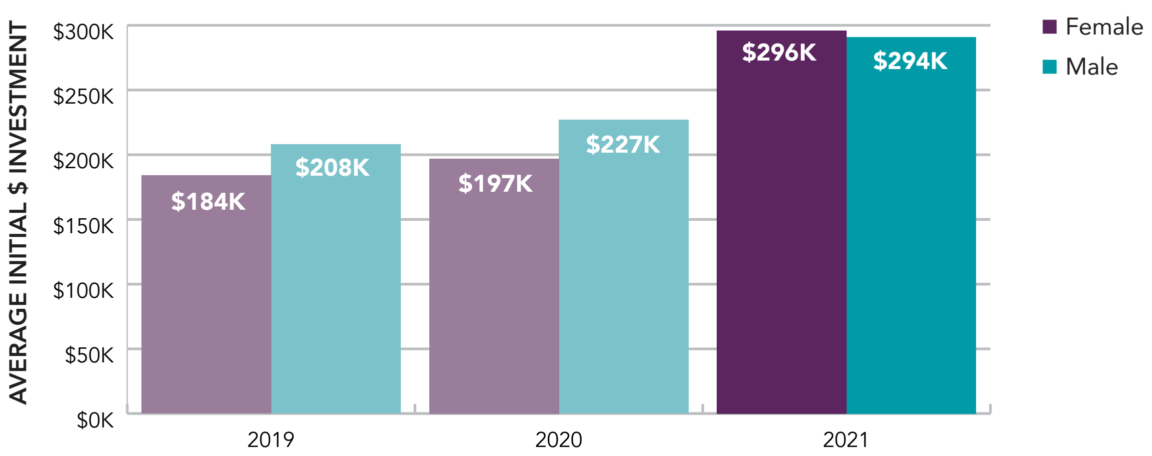
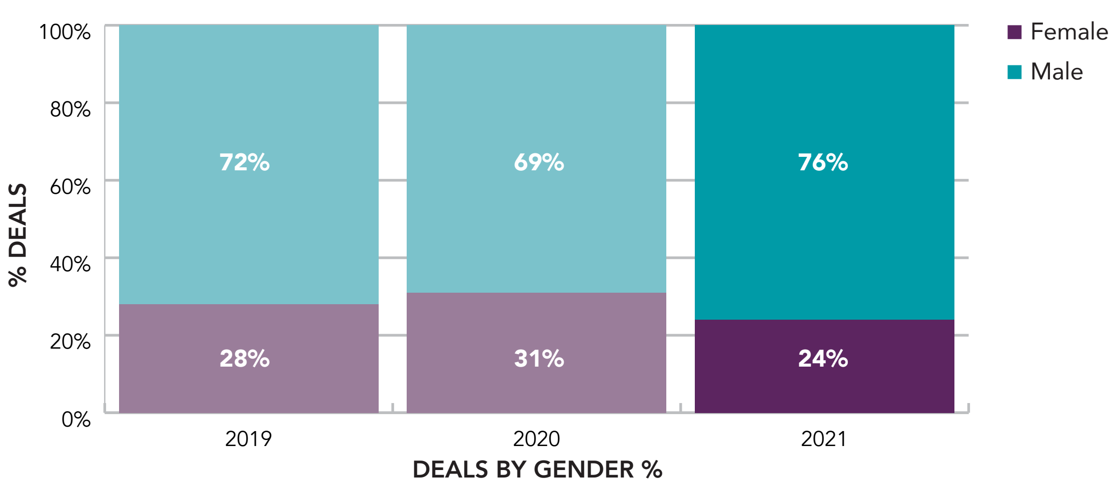


FIGURE 33. # Deals in Female Led Companies Declined



COMMUNE ANGELS IS CHANGING THE LANDSCAPE of Angel Investing in Michigan

Commune Angels is one of the newer ACA members and reflects some of the newer trends in angel investing. Commune Angels was launched in 2020 by five Black or African American co-founders committed to expand access to angel investing and capital.

The group was founded upon the belief that diversity is essential to transformative innovation, and its members are committed to contributing their unique experiences, relationships, and resources to drive better outcomes for investors and portfolio companies.

"One of our goals is to increase awareness of angel investing as an asset class, especially among new investors," said Terrence Reeves, co-founder of Commune Angels. "We know there are many accredited investors who are unaware of the portfolio diversity and benefits that angel groups offer. We're tackling the important task of introducing investors to a broader range of companies that will transform the world we live in and a community of peers that will help them evaluate those companies."

Starting a new angel group during a pandemic is a bold move, but it has paid off for Commune Angels and their 37 members. When COVID-19 hit Michigan in March 2020, many companies, especially start-ups feared the worst — that 2020 would be a very bad year. Fortunately, since then, most businesses have been steadily rebounding and angels have continued to make investments. Commune Angels have made 7 investments and 2 follow-on investments in less than two years, making them the 3rd largest and one of the most active angel groups in Michigan. Most of the investments are made in seed rounds, and the group forms a separate SPV for each deal under a master LLC. Each investor has a $5K minimum per deal, and the group aims to invest at least $50K per portfolio company.

“Research has confirmed time and again that diverse teams outperform non-diverse teams committed.”

Terrence Reeves
Co-founder of
Commune Angels

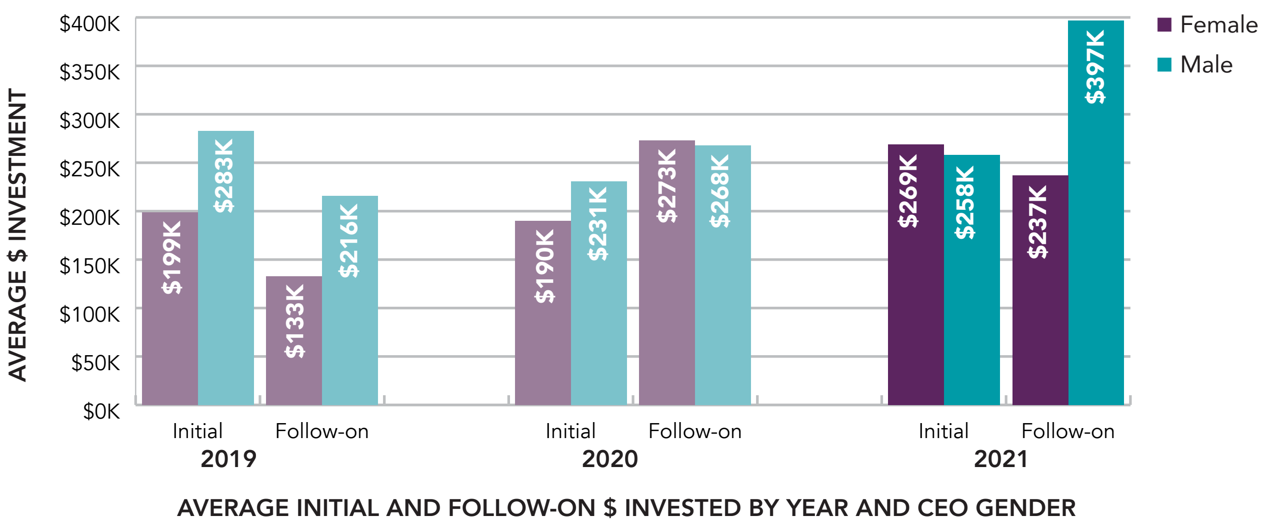
Through continuous learning opportunities for new and experienced investors, Commune Angels aims to make angel investing more accessible and successful for funders of all backgrounds, including those who aren’t accredited investors yet. The group leverages ACA resources and its own educational materials to hold monthly learning meetings for members in addition to their quarterly investment meetings.

The group fosters unique partnerships to enhance the entrepreneurial ecosystem, open access to nationwide deal flow, and increase exposure to angel investing. Commune Angels partners with other early stage investors that share their commitment to diversity. Commune Angels creates learning opportunities in partnership with TechTown Detroit, Ann Arbor SPARK, and the Angel Capital Association.

“Research has confirmed time and again that diverse teams outperform non-diverse teams,” said Marlo Rencher, co-founder of Commune Angels, citing a research study out of McKinsey & Company. “We know that D&I is a competitive advantage in business and believe investors should leverage D&I when investing and adding value to early stage companies. Diversity is both a good strategy for making investment decisions and when seeking higher financial returns.”

Male CEOs continued to garner greater follow-on investments than their female counterparts *(see Figure 34)*. This was most likely driven by their longer history and participation in leading companies for which follow-on financing is needed. It is likely over time, this will stabilize and follow the trend seen in initial investments.

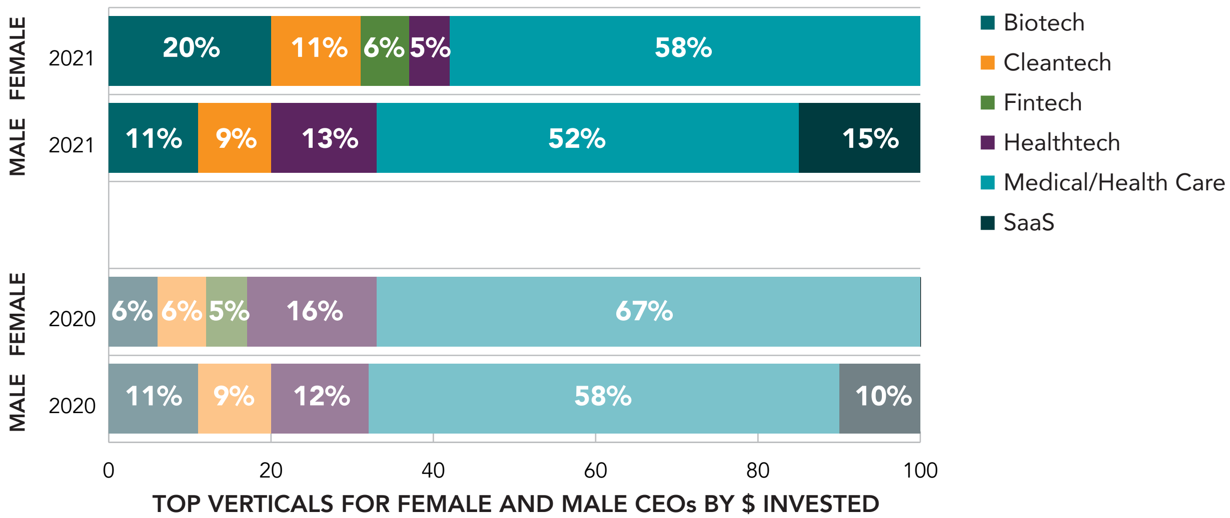
FIGURE 34. Males Still Led in Follow-on Investment



Gender did not seem to be a major factor in industry focus, with medical and healthcare dominating both gender groups' investments, but there are more male-led SaaS companies. SaaS companies need relatively more capital to get to an exit than most other companies, given the multi-year cashflow deficits of their back-end-loaded revenue model *(See Figure 35)*.

Sector preferences may play a role in understanding why males receive more capital, since some capital-intensive sectors, like hardware, are overrepresented by male CEOs. Other factors may include their likely greater business experience and the comfort of majority male investors with people like themselves.

FIGURE 35. Outside of Medical and Healthcare, Verticals Vary by Gender



ETHNIC DIVERSITY

In 2020, Black entrepreneurs received significantly more capital from angel investors than in years past, with an average dollar amount per investment of almost $300K. This was primarily driven by initial investments in Black founder led companies. This focus on ethnic diversity also translated into more diversity within existing angel groups and in more diverse angel groups being formed.

Both the number of Black CEOs funded by angels and the amount of investment capital they received fell dramatically in 2021, reverting to historical levels. In 2021, white CEOs received the largest investment, followed by Asian CEOs *(see Figure 36)*. Latinx CEOs, however, gained a lot of traction and received the largest average investments per deal. Given relatively small sample sizes, it is unclear if this is a trend. The ACA will do additional monitoring and analysis to better understand the roots of these changes in access to capital by minority entrepreneurs. The biggest change in investing patterns between 2020 and 2021 can be seen in the differences between initial and follow-on investing especially among Black founders where the initial funding declined to 2% from 16% in 2020 *(see Figure 37)*.

Angel investors often stress the importance of the management team when making investment decisions. While this does not mean that the CEO of the prospect company must have prior CEO experience, a strong CEO track record may enable companies to raise more capital.

FIGURE 36. Average Initial Investment by Year and CEO Ethnicity

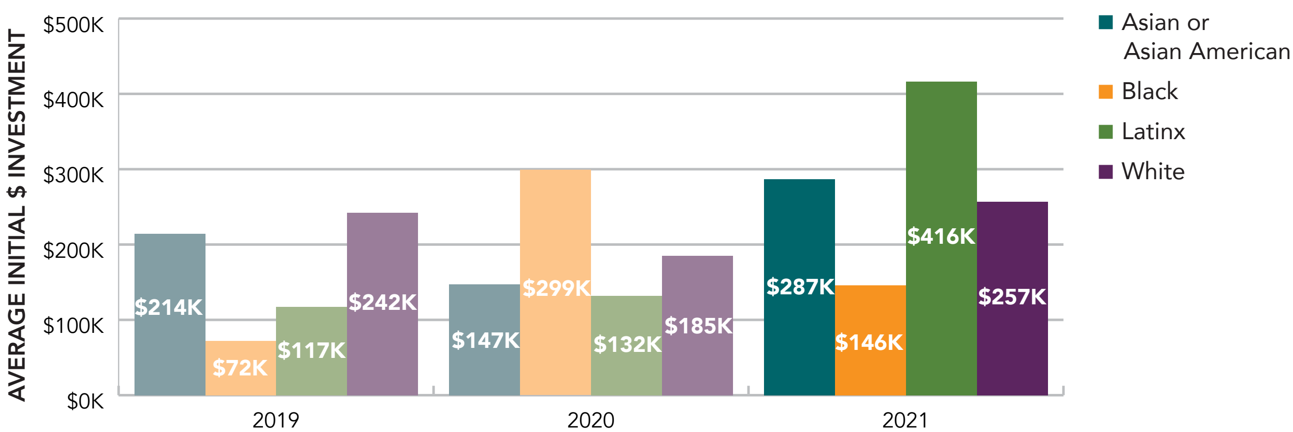
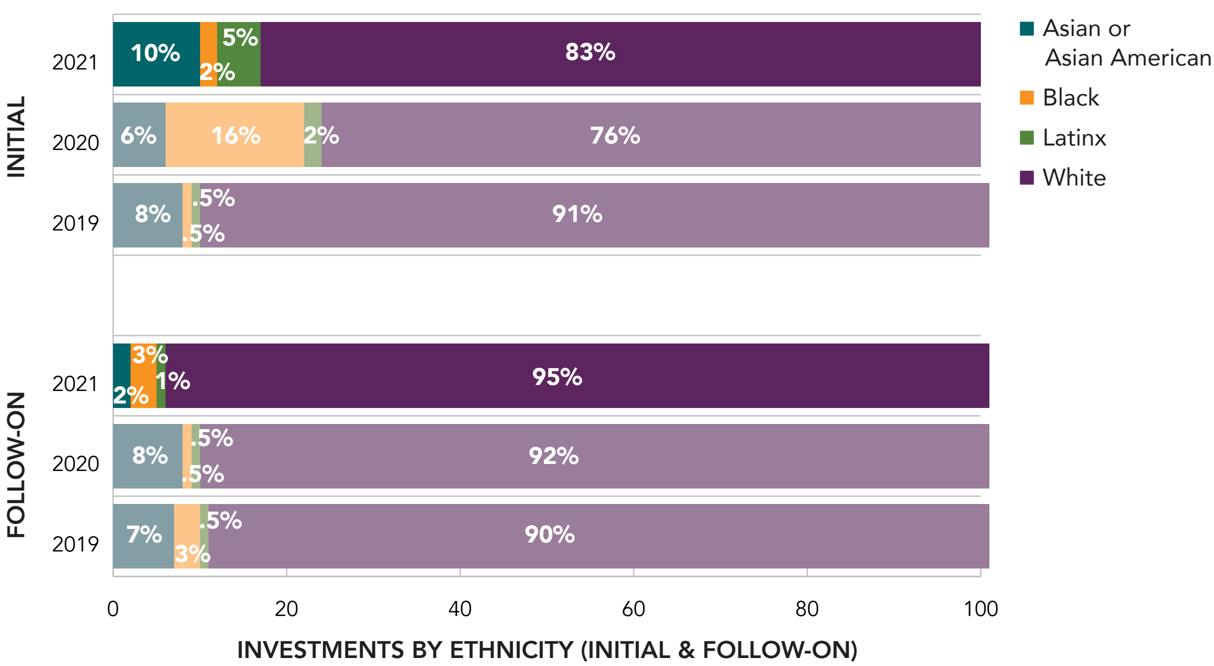


FIGURE 37. There Were Fewer Initial Investments in Black Led Companies in 2021



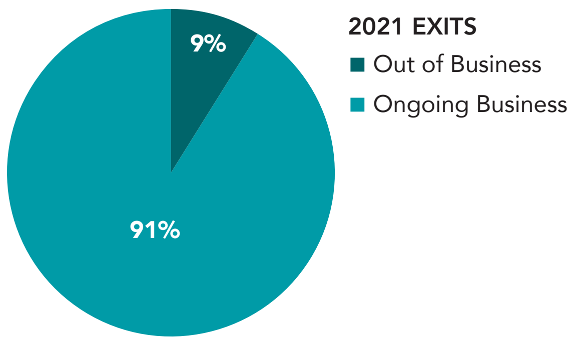
ACA remains committed to working with communities and angel groups to increase the diversity of investors, angel groups and investee companies, and last year's results show the importance of continued efforts.

ANGEL PAYDAYS: FOCUSING ON EXITS

While angels invest in early stage companies for many reasons, generating a financial return via a successful exit is an essential part of the investment rationale. One of the key functions of the Angel Funders Report and the ACA Data Initiative is to gather information on exits, with a goal of creating a rich datasource documenting investment outcomes and financial returns, so that we can provide meaningful, actionable insights about what drives successful exits.

Like many other investment classes, angels participated in the unprecedented exit year of 2021. 91% of companies exiting in 2021 were ongoing, active businesses at the time of the exit *(see Figure 38)*. This number must be viewed with a grain of salt as there may be a tendency to underreport negative results. As we continue to encourage reporting of ALL exits including shutdowns, we will gather more insights into this measure.

FIGURE 38. Most Portfolio Companies Were Still Operating At Time of Exit



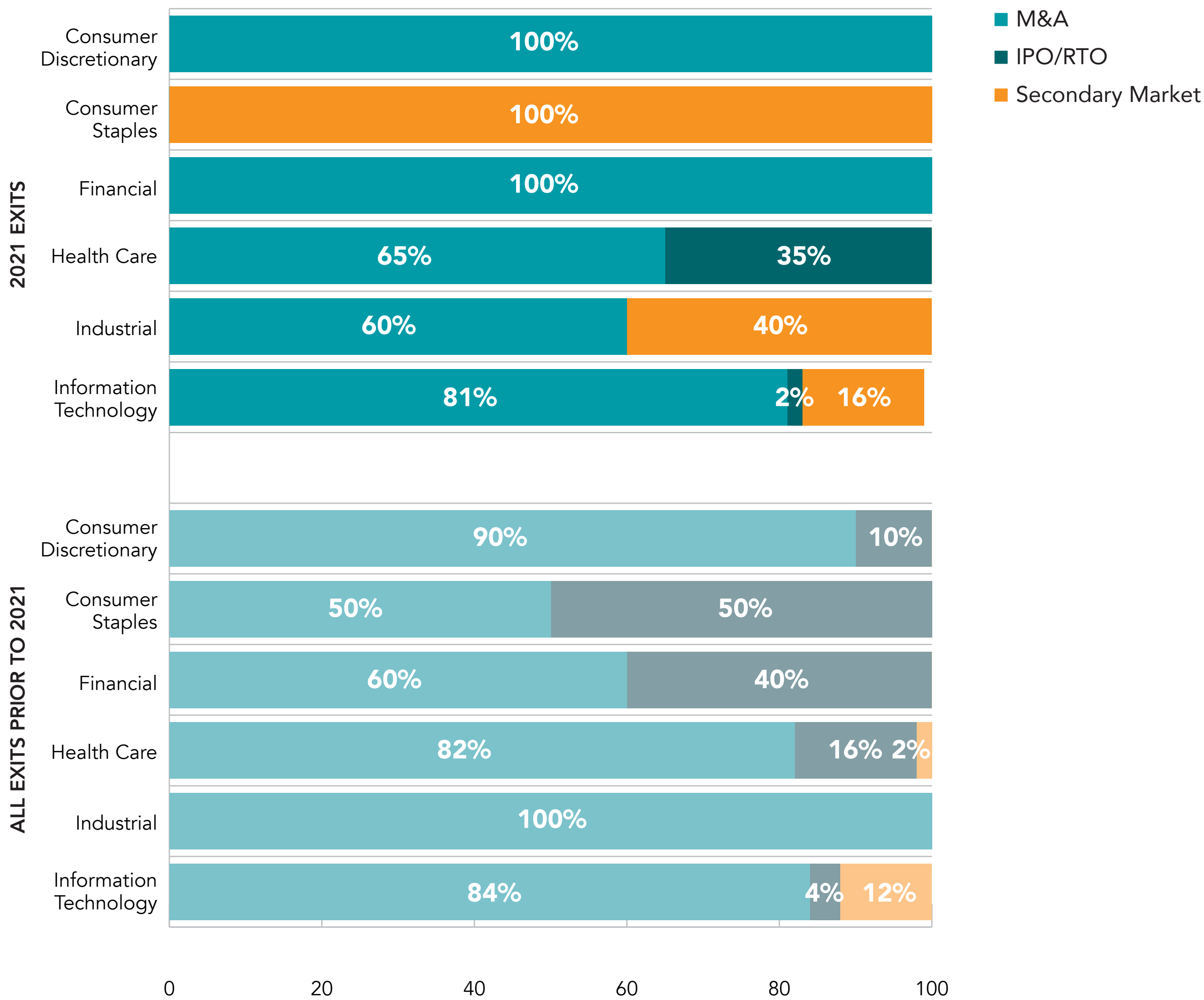
Mergers and acquisitions dominated exits, although there was more IPO activity in 2021 compared to prior years. This might be driven in part by the interest in SPACs as an easier road to IPO, although both traditional IPOs and M&A were at record levels in 2021. Secondary markets also played a stronger role in 2021, representing 14% of all exits *(see Figure 39)*.

FIGURE 39. M&A Dominated Exits; IPOs Drove Multiples

Multiples of Invested Capital for All 2021 Exits Including Shutdowns					Multiples for All Exits Prior to 2020 Including Shutdowns				
Type of Exit	# Exits	%	Average	Median	Type of Exit	# Exits	%	Average	Median
IPO / RTO	8	8%	59.5X	3	IPO/RTO	18	3.9%	19.4X	3
M&A	71	68%	6.2X	2	M&A	274	58.5%	9.1X	2
Out of Business	11	11%	—	—	Out of Business	161	34.4%	0.1X	—
Secondary Market	13	13%	15.4X	5	Secondary Market	15	3.2%	5.6X	3
Total	**103**	**100%**	**11.6X**	**2**	**Total**	**468**	**100%**	**6.4X**	**1**

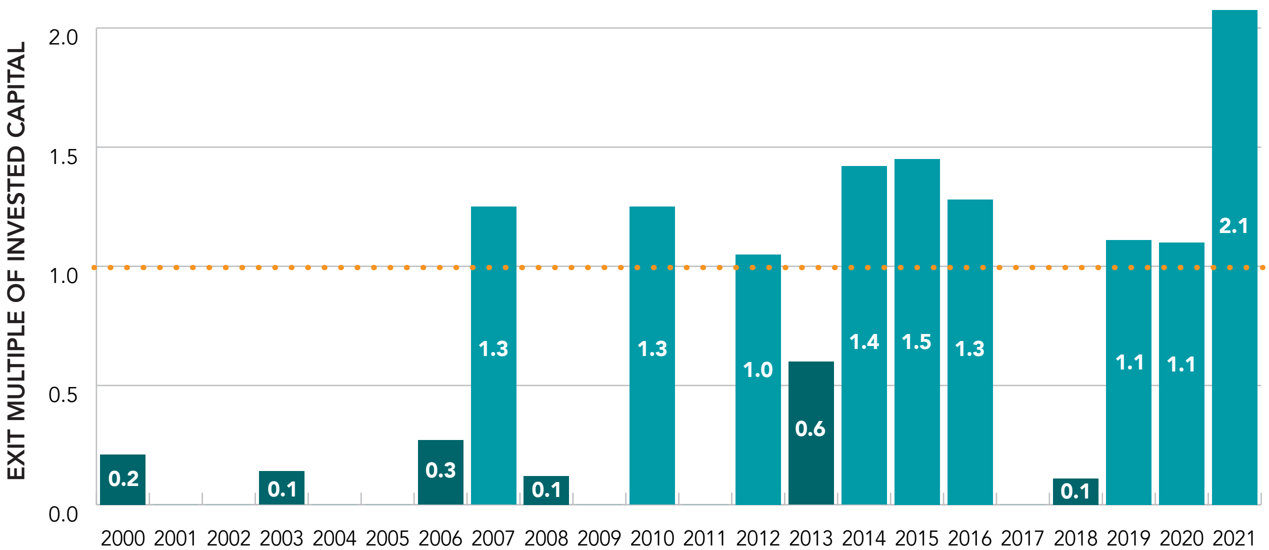
While M&As dominated exits, IPOs and secondary market exits differed by industry. The two industries with IPO exits in 2021 were healthcare and information technology (IT); secondary markets played more of a role in consumer staples and industrial exits *(see Figure 40)*. For IT companies reaching scale, IPOs are the classic exit. For healthcare companies, an IPO is often an early stage fundraising event at the conclusion of an important round of clinical trials to fund the next portion of the long journey to a real exit.

FIGURE 40. Historically, M&A Drove Most Exits



The success of an exit is typically measured as a multiple of the dollars invested, and in 2021, exits generated a median of 2.7X invested capital for companies who were still operating at the time of exit. When shutdowns are included, exits still generated a median of 2.1X return. 2021 represented the strongest exits in the past 20 years *(see Figure 41)*.

FIGURE 41. 2021 Had the Highest Returns in 20 Years



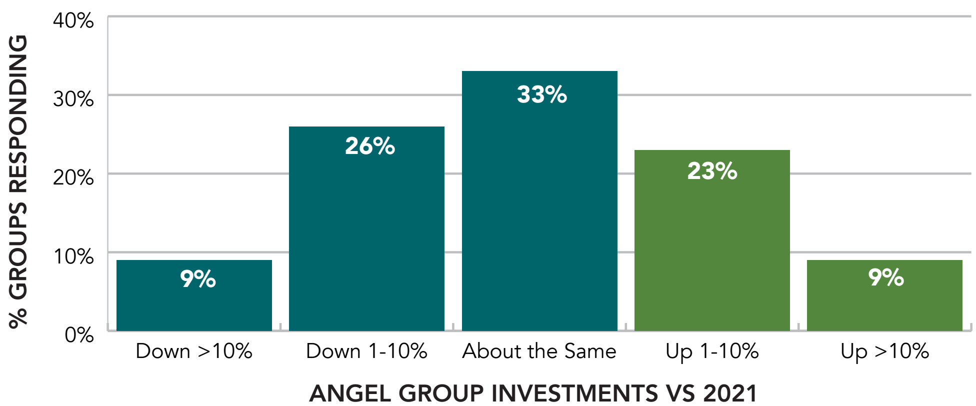
MEDIAN EXIT MULTIPLE BY YEAR
If **Multiple > 1**, 50% of Investors (the median and higher) made money that year since a median exit multiple of 1X = return of capital

In 2021, the rest of the investment market had an unusual year. As noted previously, it was the best exit market in a decade or more, and venture firms had unprecedented returns from their investments. These strong returns drove investment of capital into new funds. As a result of so much capital chasing a fixed number of deals, venture valuations soared in 2021, placing investors at higher risk for unsustainable valuation levels and eventually less robust exits if the market cools down. ACA anticipates a reduction in both exit returns and valuations in 2022, and we will continue to monitor activity.

FALL 2022 GROUP UPDATE

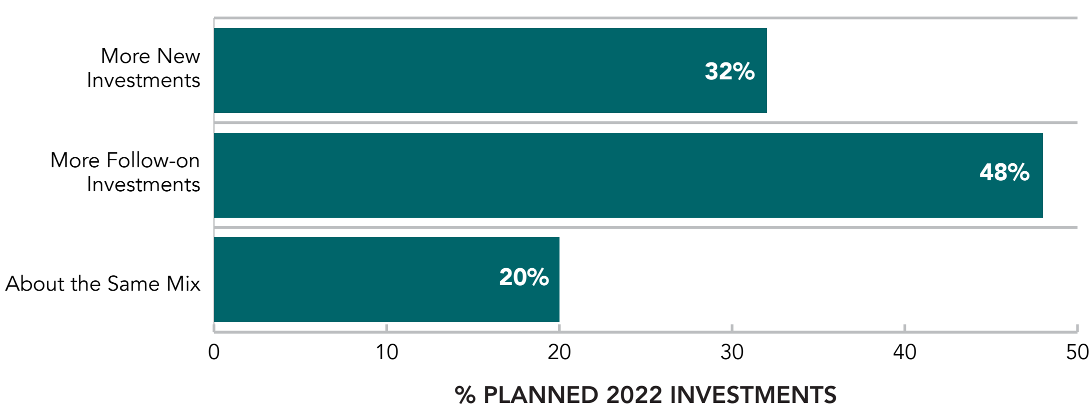
In an effort to gain up to date feedback on angels' current behavior, we conducted a sentiment survey to track group attitudes and action in the Fall, 2022. This was similar to a survey we conducted in 2021. This, again, reinforced the conclusion that angels are reliable and consistent supporters of this asset class and continue to find and invest in promising start-ups. Angels are not scared by changing market dynamics. Groups are continuing to invest and 1/3 believe that the number of their investments will increase *(see Figure 42)*. In other words, two-thirds of angels believe that the number of investments will at least stay the same or increase above 2021 levels.

FIGURE 42. In 2022, Angels Remain Confident



While there is significant interest in making new investments, angel groups are also increasing their engagement with existing portfolio companies. About 50% are reporting that they are doing more follow-on deals in 2022, about 1/3 claim more initial investments *(see Figure 43)*.

FIGURE 43. Groups are Making More Follow-on Investments in 2022



The interest in continuing to invest may be driven in part by the combination of more investor friendly terms *(see Figure 44)* and decreasing valuations *(see Figure 45)*. Strikingly, six times the number of angels believe term sheets are becoming more investor friendly than the number who believe they are becoming more founder-friendly. About 64% also believe that valuations will continue to decline in 2022. This is driven by: 1) public market valuations falling by 50% or more in everything from tech to biotech and 2) private market valuations tend to lag public markets by 1-2 quarters. Public market valuations collapsed in Q1, so it is to be expected that by Q3 or Q4 angel private market valuations would fall as well.

The expectations for more investor friendly terms bodes well for angel investors while perhaps being more challenging for entrepreneurs.

FIGURE 44. Groups are Seeing More Investor-Friendly Terms in 2022

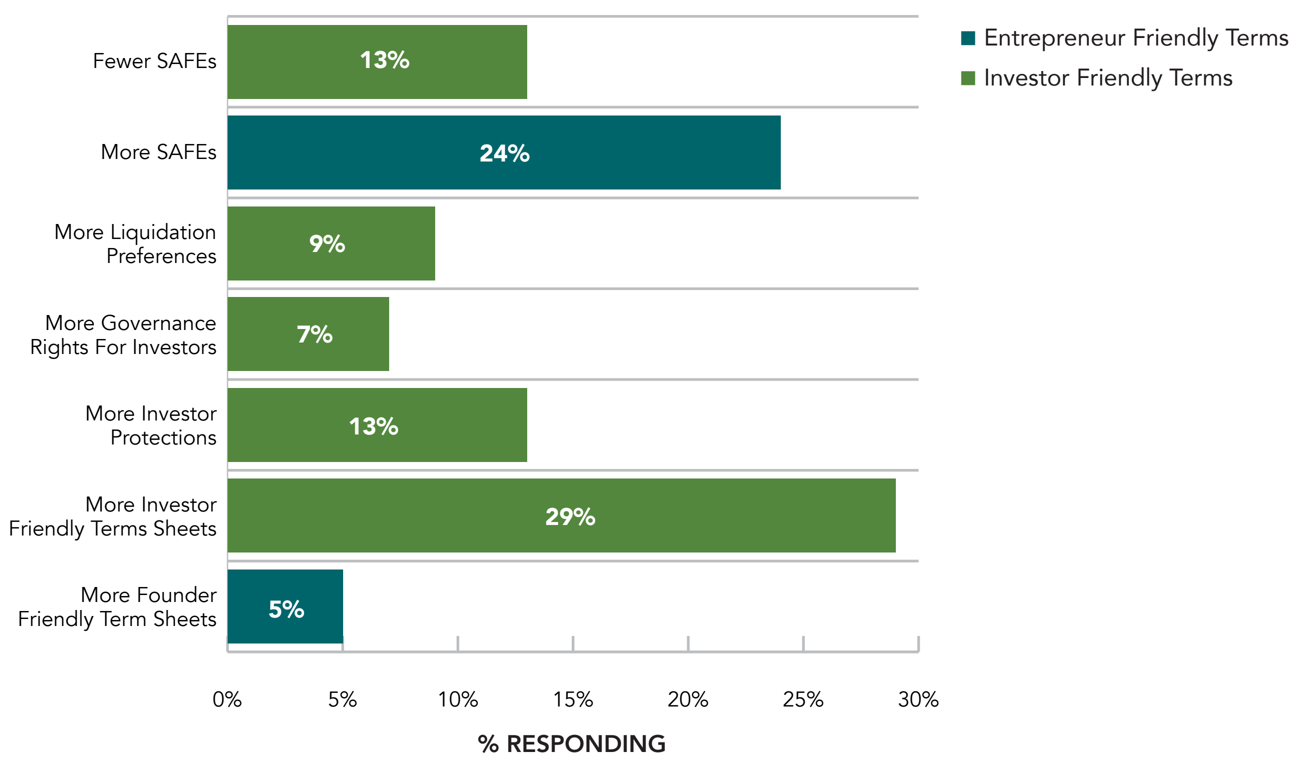
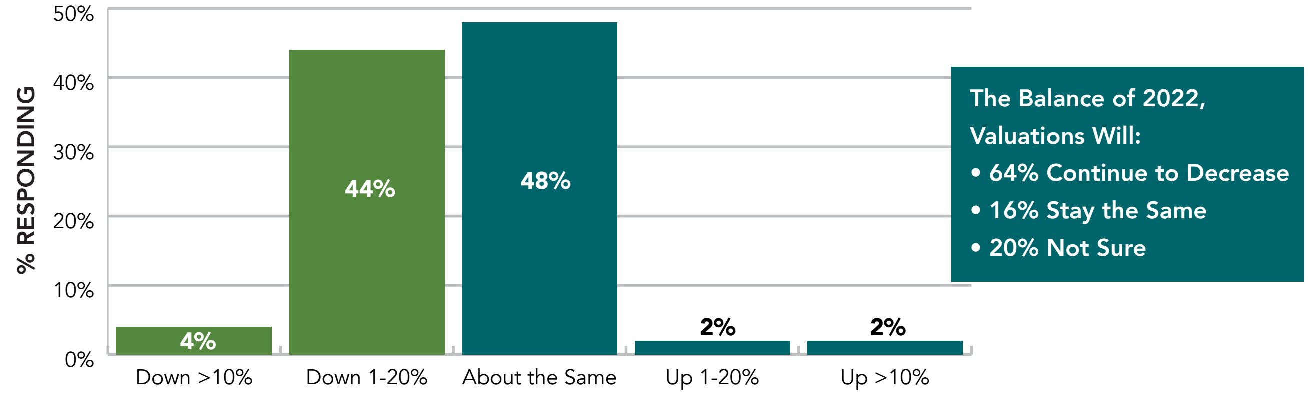
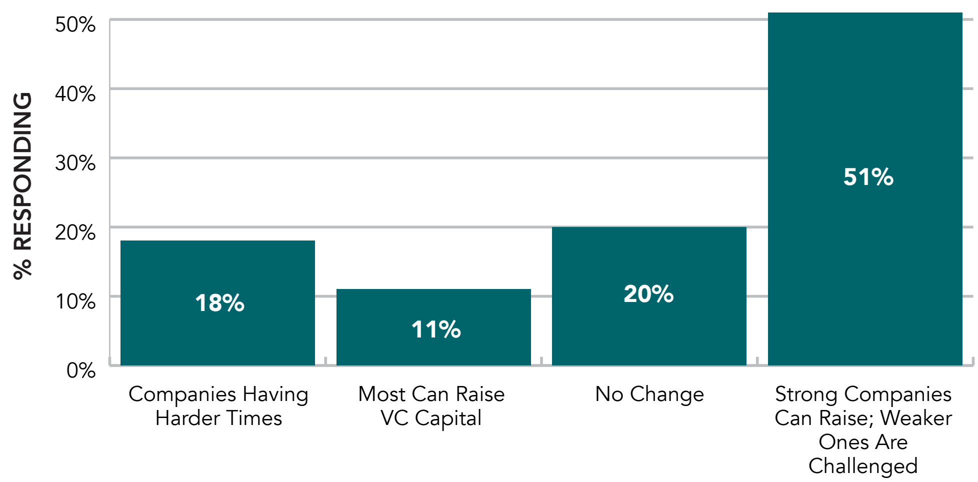


FIGURE 45. In 2022, Valuations are Trending Down



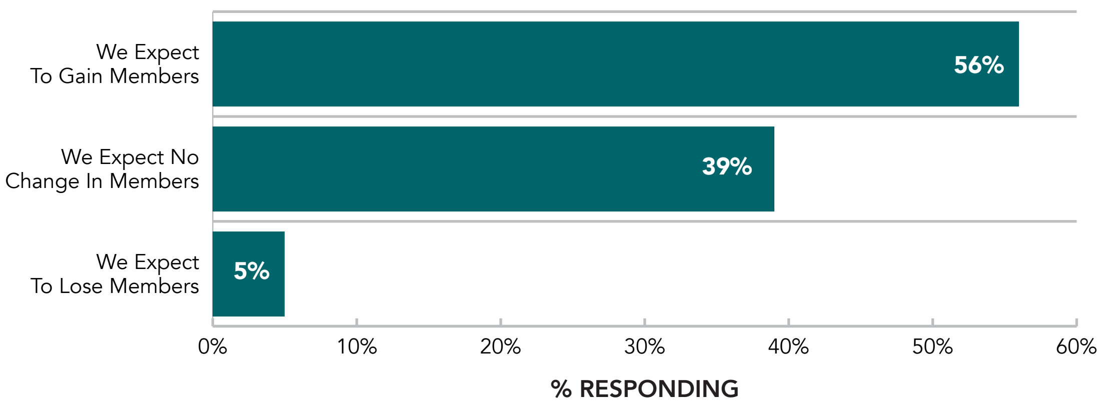
Angels believe their stronger portfolio companies will be able to raise follow-on funds from VCs as needed. As VCs triage their portfolios, they are reserving funding for those most likely to get to profitability/survivability quickly and supporting the rest with fewer dollars. We are seeing the same dynamic for our portfolio companies. Half the respondents indicated that strong companies are doing well, marginal companies are not *(see Figure 46)*.

FIGURE 46. Strong 2022 Portfolio Companies Can Get VC Funding



Perhaps the strongest positive note is tied to membership trends. Angel groups are healthy with 56% expecting membership gains in 2022 *(see Figure 47)*.

FIGURE 47. In 2022, Angel Groups are Healthy and Growing



ACA'S MOST ACTIVE ANGEL GROUPS

ACA is thankful for its angel groups support of the ACA Data Initiative. Among the groups submitting their data in 2021, the most active groups are shown below.

anges québec
Golden Seeds
IRISH ANGELS
KEIRETSU FORUM
LAUNCHPAD VENTURE GROUP
NEW YORK ANGELS
NORTH COAST VENTURES
TECH COAST ANGELS
VENTURESOUTH

---

band OF ANGELS
BAYLOR ANGEL NETWORK
Duke ANGEL NETWORK
e COAST ANGELS
FA FRONTIER ANGELS
Harvard Business School | Alumni Angels Greater New York
HAN HOUSTON ANGEL NETWORK
Lateral Capital Advisors, LLC – Micro Venture Capital for Early-Stage Companies
LIFE SCIENCE ANGELS – Investing For Life
NEBRASKA ANGELS
QUEEN CITY ANGELS – INVEST | INSPIRE | ACHIEVE
Rockies Venture Club
757 ANGELS

The top nine were the most active in both number of investments and total amount invested.
The rest were most active based on either number of investments or total amount invested.

WHAT'S NEXT

The Angel Funders Report is a snapshot of the state of angel investing and a foundation for continued analysis and exploration of trends. ACA works with its angel groups to expand outreach and collect more information to augment this annual report.

In previous reports, we highlighted six major areas for additional exploration:

- The role of syndication
- Initial vs. follow-on funding
- The role of gender and ethnicity in portfolio company performance
- Changing industry trends
- Variables affecting angel group performance based on size and lifecycle
- Emerging investing models
- Exit factors

We will continue to build on this work in the coming years, including our efforts to facilitate syndication among angel groups and better understand its impact on investment performance. We will continue to closely monitor gender and ethnic performance trends to identify sustainable tactics for driving more diversity. Additionally, we will work with our angel groups to get more detailed data on alternative investing models and organization structures, including Revenue Based Investment Funds (RBI's) and SPACs.

ACA will continue to monitor the impact of these and other significant trends, including:

- Understanding and influencing the impact of potential tax changes to ensure an increasing flow of critical early investment dollars to entrepreneurs.
- Identifying new funding sources for start-up investments and investment models: Significant new funding is being offered to help drive the creation of new angel organizations as part of new government initiatives. ACA will continue to play a leadership role in these activities. Tracking these new investors and their investments will increase in the years to come as the ACA and the Angel Funders Report expand their reach.

ACA's Data Initiative has grown significantly, and we continue to strive for greater impact. To provide the most actionable and helpful data, we need to expand our database. All ACA members are encouraged to participate in the ACA Data Initiative — after all, our members are the most definitive source of early stage investing information. With strong support from our member community, we will continue to provide perspective and analysis that helps demonstrate how start-ups can be more successful when they are backed by the expertise, commitment, and dollars of ACA members.

ACA remains steadfastly committed to providing the information and insight needed to ensure that start-ups are the engine of innovation, job growth, national competitiveness, upward mobility, and social justice. We are proud to represent the angels who are the fuel for that engine.

"ACA remains steadfastly committed to providing the information and insight needed to ensure that start-ups are the engine of innovation."

APPENDICES

THE ACA METHODOLOGY

The Angel Capital Association invited its North American angel groups to participate in an in-depth analytics-sharing initiative. ACA and its committee of experts received the raw data, combining and enhancing data from multiple reporting groups using publicly available analytics. All financials are reported in U.S. dollars. The 2022 Angel Funders Report reflects data collected from 69 angel groups about investments made during calendar year 2021 *(see Figure 48)*. Where noted, the analysis includes comparison data from previous years. External sources and acknowledged experts were interviewed and their insights are included as part of the commentary within the report.

FIGURE 48. Angel Investment Summary

Year	# Investing Groups	# Unique Companies	# Deals	$ Invested	Average Group Annual Investment	Total Raised by Companies	Median Group Annual Investment	Average # Deals per group
2021	**69**	**951**	**1202**	**$362.4M**	**$5.3M**	**$2.0B**	**$3.0M**	**17.7**
2020	75	1109	1465	$348.5M	$4.6M	$2.3B	$2.3M	19.5
2019	83	912	1149	$331.8M	$4.0M	$2.3B	$1.5M	13.8

Exits All Time	
# Exits	# Unique Companies
686	608

Please note: some specific data variances from chart to chart are driven by source analytics

PARTICIPATING ACA MEMBER GROUPS

7,810 MEMBERS ACROSS **69 GROUPS**

Located in **36 STATES + 2 PROVINCES**

INVESTMENT STRUCTURE

Network	Network w/ Sidecar Fund	Fund
32	21	16

GROUP SIZE:

> 50 Members:	16
50 – 99 Members:	30
100 – 299 Members:	16
300+ Members:	7

ACA REPORTING GROUPS

GROUP NAME	LOCATION	YEAR EST.	
757 Angels, Inc.	Virginia Beach, VA	2015	■
Accelerate Venture Partners	Wichita, KS	2005	■
Alamo Angels	San Antonio, TX	2016	■
Anges Quebec	Quebec City, QC	2008	◆
Band of Angels	San Francisco, CA	1994	■
Baylor Angel Network	Waco, TX	2009	◆
BELLE Michigan Impact Fund, LP	Grosse Point Farms, MI	2012	▲
Bellingham Angel Investors	Bellingham, WA	2005	■
Birmingham Angels	Birmingham, MI	2015	▲
Bluegrass Angels Inc	Lexington, KY	2005	▲
BlueTree Allied Angels	Pittsburgh, PA	2003	◆
Broad Street Angels	Philadelphia, PA	2016	■
Buffalo Angel Network	Buffalo, NY	2003	◆
Bulldog Angel Network	Huntsville, AL	2017	■

Investment Structure: ■ Network ◆ Network with a Sidecar Fund ▲ Fund

GROUP NAME	LOCATION	YEAR EST.	
CAV Angels	Charlottesville, VA	2016	■
Centennial Investors	Columbia, MO	2006	■
Central Illinois Angels	Peoria, IL	2009	■
Central Texas Angel Network	Austin, TX	2006	■
Charlottesville Angel Network	Charlottesville, VA	2015	■
Cherrystone Angel Group	Providence, RI	2004	◆
Clean Energy Venture Group	Boston, MA	2005	◆
Desert Angels	Tucson, AZ	2000	◆
Duke Angel Network	Durham, NC	2015	◆
E8	Seattle, WA	2006	◆
eCoast Angels	Portsmouth, NH	2000	■
Frontier Angels	Bozeman, MT	2004	◆
Golden Seeds LLC	New York, NY	2004	◆
HBSAANY	New York, NY	2010	■
Houston Angel Network	Houston, TX	2001	■
Hub Angels Investment Group	Boston, MA	2000	▲
IrishAngels	Chicago, IL	2012	■
The JumpFund	Chattanooga, TN	2013	▲
Keiretsu Forum	Wayne, PA	2011	■
Lateral Capital	Sarasota, FL	2003	▲
The Launch Place	Danville, VA	2011	▲
Launchpad Venture Group, LLC	Wellesley, MA	2000	■
Life Science Angels	Sunnyvale, CA	2005	■
Maine Angels	Portland, ME	2003	◆
Michigan Angel Fund	Ann Arbor, MI	2012	▲
Mid-Atlantic Bio Angels (MABA)	Scotch Plains, NJ	2012	◆
Nebraska Angels	Omaha, NE	2006	■
New Dominion Angels	Warrenton, VA	2008	■
New York Angels	New York, NY	2004	◆
Next Act Fund	Pittsburgh, PA	2016	▲
Next Wave Impact	Denver, CO	2018	▲

Investment Structure: ■ Network ◆ Network with a Sidecar Fund ▲ Fund

GROUP NAME	LOCATION	YEAR EST.	
NO/LA Angel Network	New Orleans, LA	2014	◆
North Coast Ventures	Cleveland, OH	2006	▲
Northern Ontario Angels	Thunder Bay, ON	2006	■
Park City Angels	Park City, UT	2008	■
Portland Seed Fund	Portland, OR	2011	▲
Queen City Angels	Norwood, OH	2000	◆
Robin Hood Ventures	Philadelphia, PA	1999	■
Rockies Venture Club	Denver, CO	1985	◆
RTP Capital Associates, Inc.	Research Triangle Park, NC	2010	■
Sacramento Angels	Sacramento, CA	1998	◆
Sage Growth Capital	Boise, ID	2019	▲
SideCar Angels	Somerville, MA	2012	◆
Sofia Fund	St. Paul, MN	2013	▲
Soundboard Angel Funds	Morristown, NJ	2011	▲
SWAN Impact Network	Austin, TX	2015	■
Tamiami Angel Fund	Naples, FL	2004	▲
Tech Coast Angels	Laguna Niguel, CA	2011	◆
TiE Global Angels	Santa Clara, CA	1992	■
VentureSouth	Greenville, SC	2016	◆
VisionTech Partners	Indianapolis, IN	2009	■
Westchester Angels	Westchester, NY	2015	■
Wisconsin Investment Partners	Madison, WI	2000	■
Wolfpack Investor Network	Raleigh, NC	2016	■

Investment Structure: ■ Network ◆ Network with a Sidecar Fund ▲ Fund

GLOSSARY

A

ACCREDITED INVESTOR – A classification currently defined by the U.S. Securities & Exchange Commission as an individual who meets one or more of the following criteria:

- $1 million or more in net worth excluding primary residence;
- Personal income in excess of $200,000 in each of the last two years; or
- Joint income with a spouse exceeding $300,000 in each of the last two years.
- As of the publication date of this report, the SEC has communicated future plans to expand the pool of eligible investors by considering a measure of "sophistication" but details have not been released.

ANGEL GROUPS – Organizations, funds, and networks formed for the specific purpose of facilitating angel investments in early stage companies (see also Angel Network).

ANGEL INVESTOR – An individual who makes direct investments of personal funds into a venture, typically early stage businesses.

ANGEL FUND – An aggregation of angels or angel money pooled together into a single check-writing entity. An angel fund may range from active member participation with individual angels collectively making investment decisions to passive with funds primarily managed by an investment committee or some variation.

ANGEL NETWORK – An aggregation of angels working together (often in the context of a defined "membership" and referred to as an Angel Group) to share deal flow, diligence, deal term development, experience, and company supervision.

B

B CORP – B corporations are a legal structure and designation for a company focusing on its societal impact in addition to shareholder value. B corporations are intended to be businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

BACK-END LOADED REVENUE MODELS – A business plan which assumes the majority of the revenue for the startup, or for a given customer of the startup, will not come in the early years of the startup, or not in the part of the relationship with a given customer, but rather later on in the company's development or later on in the relationship with a given customer. Back Loaded Revenue Models require some source of financing of early company activities while waiting for the revenue to come in. SaaS companies are a leading example of this.

BRIDGE FINANCING – A small financing intended to carry a company over until its next major financing event. Often effectuated with simpler deal structures such as convertible debt.

C

C CORPORATION – A legal structure and form for a company. C corporations are separate taxable entities, with legal existence apart from its owners, the stockholders.

CAP ON NOTE OR VALUATION CAP – When a convertible note is used as the investment vehicle for an investor, a maximum conversion valuation for the conversion of the note amount into shares may be set at the time of entering into the note. A valuation cap is key to align the interests of management and investors.

CAP TABLE – A table describing the capitalization of a company including the names and number of shares owned by each principal and investors. This table is often segmented to describe each of several funding rounds in the company and clearly differentiates preferred and common shareholders.

CAPITAL INTENSITY – The relative amount of capital a company will require to grow to scale. A capital-intensive company would require tens or even hundreds of millions of dollars of investment to reach scale, whereas a capital efficient company might require as little as a few million dollars in total capital to reach scale.

COMMON STOCK – Represents the base shares of ownership in a corporation. Founders and employees typically own shares or options for common stock.

CONVERSION RIGHTS – Rights by which preferred stock and convertible notes "converts" into common stock Usually, one has this right at any time after making an investment. Company may want rights to force a conversion upon an IPO; upon hitting of certain sales or earnings' targets, or upon a majority or supermajority vote of the preferred stock. Conversion rights on a note may convert at the time of a future financing. Conversion rights may carry with them anti-dilution protections.

CONVERTIBLE NOTE – Convertible notes are structured as loans with interest and repayment provisions. However, if the borrower completes an equity financing prior to the maturity date, the loan amount converts to common or preferred stock at an agreed-upon rate, usually at the option of the investor. Interest on convertible notes is often deferred. The conversion rate is typically expressed as a discount to the valuation of that next round of funding and is negotiated at the time of making the note. Convertible notes were originally designed as very short-term financing instruments "bridging" the company to its next equity round. Convertibles have grown into major financing instruments of longer duration, particularly in cases where investors and management agree that a simpler structure than an equity round is faster or that it is premature to value a company.

CONVERTIBLE PREFERRED STOCK – Most common security for venture capital investments. Holders of this class of stock are senior to common shareholders and often to prior investors in the event of an exit and have special exit distribution rights referred to as "preferences." A 1x preference means that investors receive their money back before junior preference holders and common. A 2x preference means that investors receive double their money back "in preference" to others. In the event of a qualified IPO, all preferences disappear and all stock holders convert to common. Cram Down – A round of financing at a valuation less than the previous round of investment. In this case, the earlier investors are said to have been "crammed down," that is, to have suffered substantial dilution in ownership percentage at the expense of the current investors. (See also Down Round)

D

DEAL FLOW – The flow of opportunities an investor, group, or fund learns about or has access to. Good deal flow means the investors regularly see very interesting deals that are still early and attractive, whereas bad deal flow might mean not seeing enough deals or seeing only low-quality deals that have been rejected by other investors or seeing deals too late to be a fit for their stage of investment.

DEAL STRUCTURE – An agreement made between the investor and the company defining the rights and obligations of the parties involved; the process by which one arrives at the final terms and conditions of the investment.

DILUTION – The reduction in percentage ownership of the company that investors suffer due to subsequent funding rounds.

DISCOUNT ON CONVERSION PRICE – The discount is the agreed-to price per share that the noteholder can buy shares at once the subsequent Series A funding is obtained. The price of the shares after financing will be discounted to a lower price for the noteholder since they took the greatest risk by providing funding early on. While discounts can vary, 20% is quite typical.

DOWN ROUND – Price per share is less than in the previous round of financing. (See Turnaround Financing)

DUE DILIGENCE – Process of validating a potential investment. Usually involves the study of six areas of a company's business plan: market structure, competition, and strategy; technology assessment; management team; operating plan; financial review; and legal review. Checking the references of the principals is a critical portion of this process.

E

ENTREPRENEURIAL ECOSYSTEM – The community and support structures natively surrounding entrepreneurs and founders in each city or region. May typically include incubators, accelerators, university programs, entrepreneur education, demo days, panel discussions, and other activities of interest to and in support of entrepreneurs.

EQUITY – Ownership interest in a company, usually in the form of stock or stock options.

EXIT – A liquidity event in which the ownership of a company changes or the company winds down and dissolves. Positive exits typical involve either IPOs (initial public offerings involving selling the company to the public markets) or strategic acquisitions in which the company is sold to another company. Negative exits typically refer to the failure, wind-down and dissolution of the company or a sale to another company at a valuation too low to repay investors fully.

EXIT STRATEGY – A planned action taken by a company that results in liquidity of the company's stock, often in the form of an acquisition by a publicly traded company or a public offering.

F

FAIR MARKET VALUE (FMV) – An acceptable selling price to an independent third party.

FIRST CLOSE – An early close of part of a round of financing upon the agreement of all parties.

FOLLOW-ON INVESTMENT – An investment into a company by an investor who has previous invested in that company.

FOUNDER VESTING – A term imposed on founders of seed and early stage deals in which the founder's ownership is subject to a vesting schedule with nothing up front and linear vesting over, typically, four years. The first twelve months' ownership is often "cliff" vested after the first year with monthly vesting thereafter. For more mature companies, vesting credit can be applied at the time of investment. The purpose of this term is to protect investors from an early, unplanned exit by the founder and to provide investors with the equity necessary to attract a new management team.

FULLY DILUTED – Total number of common shares outstanding. Includes all securities that could be converted into common shares, such as warrants, stock options, convertible bonds, and preferred stock.

FUNDING ROUNDS – Funding round is referring to the rounds of funding that startups go through to raise capital. They often begin with a "seed" round and then move to a letter, such as A Round, B Round, C Round, etc., because each round follows another. The letter identifies which number of rounds they're on. Sometimes "Pre-Seed" is used for very early rounds.

H

HARVEST – Reaping the benefits of investment in a privately held company by selling the company for cash or stock in a publicly held company; also, to execute the exit strategy.

HOLDING COMPANY – A corporation that owns the securities of another, in most cases with voting control.

I

INDUSTRY SECTORS – The Global Industry Classification Standard (GICS) is used for Industry Sectors. Access detailed definitions here.

INITIAL INVESTMENT – An investor's first investment in the company (may also refer to the first investment taken by a company).

INITIAL ROUND – The first investment round by non-affiliated investors. Often preceded by a "friends and family round" of money raised from affiliates of the founders.

INITIAL PUBLIC OFFERING (IPO) – The regulated process by which a private corporation registers its shares for trading in public markets.

INTELLECTUAL PROPERTY – Right or non-physical resource that is presumed to represent an advantage to the firm's position in the marketplace, including patents, trademarks, copyrights, and licenses. IP is priced into valuations done by angels.

INTERNAL RATE OF RETURN (IRR) – The interest rate received for an investment consisting of payments (negative values) and income (positive values) that occur at regular periods. IRR is the discount rate at which the present value of the future cash flows of an investment equals the cost of the investment. The most accurate IRR calculations come when holding periods are determined for each company rather than using a blended or averaged holding period.

L

LIMITED LIABILITY COMPANY (LLC) – A company owned by "members" who either manage the business themselves or appoint "managers" to run it for them. All members and managers have the benefit of limited liability, and, in most cases, are taxed in the same way as a subchapter S corporation without having to conform to the S corporation restrictions.

LEAD INVESTOR – Leader among the investors in a round of equity investment in a privately held company. Usually also the leader of the due diligence efforts related to the same investment round.

LIQUIDITY EVENT – A transaction returning some or all an investor's money. It might be an exit (see Exit) or it might be an investment transaction where later investors offer to buy the shares of earlier investors.

LIQUIDATION PREFERENCE – The right for preferred shareholders to be paid before common shareholders upon liquidation of the ownership of the company.

M

MARKET CAPITALIZATION (MC) – The total dollar value of all outstanding shares, computed as shares multiplied by current price per share.

MULTIPLES – A means of expressing the ratio between two numbers. For example, a "4X revenue multiple" would mean a valuation of a company that is set at four times the annual revenue, a 2X exit multiple might mean a deal where an investor makes a return of two times her initial investment, and a 3X growth rate might mean a company which tripled its annual he formal term for the return of capital compared to the capital invested is MOIC, Multiple of Invested Capital.

N

NET INCOME – The net earnings of a corporation after deducting relevant costs such as selling, depreciation, interest expense, and taxes.

P

PAYCHECK PROTECTION PROGRAM LOANS – An SBA-backed loan that helps businesses keep their workforce employed during the COVID-19 crisis.

POST-MONEY VALUATION – The valuation of the company immediately after an investment, most simply calculated by adding the amount invested to the pre-money valuation. Alternatively, in situations where debt is converting or other complications exist, it can be calculated by dividing the amount invested by the percentage ownership (fully diluted) in the company the investors receive for their investment.

PRICED EQUITY – A type of investment round in which the investors are buying stock as part of the transaction for an understood per share price (i.e., the company has an agreed-upon total Pre-Money Valuation).

PRE-MONEY VALUATION – The valuation assigned to the company through negotiation between investors and founders immediately before an investment.

PREFERRED STOCK – Preferred stock is a type of security that has certain rights that are senior to common stock (though junior to debt at law). The most fundamental right for preferred stock is to be paid before common in the event of a liquidation of the company. Many other rights and features can be added to preferred stock, but those rights are required to be recorded in a public document (typically called articles of incorporation or a charter) filed with the secretary of the jurisdiction of incorporation. Because of its customization, preferred stock is very commonly used by investors in private exempt deals.

PRIVATE PLACEMENT – The sale of stocks, bonds, or other investments directly to institutional or accredited investors. A private placement does not have to be registered with the SEC, as a public offering does, if the securities are purchased for investment as opposed to resale.

PROOF OF CONCEPT – The product has been proven to work through analysis of the science or acceptance by the marketplace.

PRO-RATA OWNERSHIP – Pro Rata is a Latin phrase referring to proportionality. In the investment context, that proportionality typically refers to each investor's respective percentage ownership in a company. For example, a dividend might be paid out pro rata, which means proportionally to all the shareholders according to their respective percentage ownership in the company (i.e., if you own 10% of the company, you receive 10% of the dividend payout). Or it might mean the proportional right to participate in a future financing according to the percentage ownership (i.e., if you own 10% of the company, you are entitled to purchase up to 10% of the new investment). "Pro Rata Rights" is a nickname typically given to that right to participate in future financings.

R

REGISTRATION (PUBLIC OFFERING) – The process by which a company is authorized by the Securities and Exchange Commission (SEC) to offer shares for sale to the public. This generally involves the disclosure of substantial information on the operations and plans of the company.

RETURN ON INVESTMENT (ROI) – The return on invested capital without regard for the timing of the return. ROI is expressed as a multiple of the invested capital. For example: Harvesting $150,000 on an initial investment of $50,000 within five years is 3X ROI. (Since time is not a consideration when computing ROI, harvesting $150,000 on that $50,000 in 10 years still yields 3X ROI.)

REVERSE MERGER – A merger structured in such a way that the acquired company is the surviving entity, and the acquiring company ceases to exist (for tax reasons or due to the relative strength of the respective brands, etc.) A reverse triangular merger is a deal in which the acquirer creates a subsidiary and then the target company is merged into the subsidiary with the subsidiary being the surviving company.

ROUNDS OF CAPITAL – A round of capital is a fundraising in which all investors receive substantially the same equity security on substantially the same deal terms at roughly the same time. Rounds are typically given a name such as Series A or Series B or Series Seed.

S

S CORPORATION – A small business corporation designed to operate as a pass-through tax entity in which the owners personally pay the corporation's income taxes.

SAFE NOTE – A SAFE note is a Simple Agreement for Future Equity convertible security that, like an option or warrant, allows the investor to provide money now in exchange for the right to buy shares in a future priced round. SAFEs were intended to address many of the drawbacks and challenges posed by convertible notes and serve as an equitable option for investors and founders. Because they contain so little by way of investor protections, many investors dislike them, and they have begun to take on some of the complexities common with convertible notes such as price caps, conversion price discounts, maturity dates, interest rates, and other investor rights such as information, governance, and participation in future rounds. Startups may prefer SAFE notes because, unlike convertible notes, in their simplest form they are not debt and therefore do not accrue interest nor do they have a predefined time horizon as they do not have an expiration date. (www.upcounsel.com)

SCREENING DEALS – The process used to sift, rate, or grade the opportunities presented by new ventures to determine which opportunities to spend additional time examining. Those that do not pass the screen are rejected. An outline of the screening process can often be found on the website of the angel group.

SEED FUNDING – This is the first institutional/not friend and family equity funding stage. It typically represents the first professional or semi-professional money that a business venture or enterprise raises; some companies never extend beyond seed funding into Series A rounds or beyond. Some common names for funding rounds include:

- Pre-Seed
- Seed
- Series A
- Series B
- Series C (and onwards in the alphabet)

SIDECAR FUND – A sidecar fund is a pooled investment vehicle associated with a principal investor (such as a fund or an angel group) that facilitates investments by "riding alongside" the principal investor. This method is often used by angel networks to provide for a fund for diversification for its members. (venturesouth.vc)

SPAC – A publicly traded company created for the purpose of acquiring or merging with an existing company.

START-UP FINANCING – Financing that is provided to companies completing product development and for early marketing. Companies may be in the process of organizing or may already be in business, but usually have not sold their product commercially.

STEP UP VALUATIONS – A fund accounting term referring to the practice of updating the valuation of a fund's holdings in a company based on a subsequent financing that company has done or other market-based adjustments. It is a method of attempting to more accurately reflect the true market value of a fund's holdings, but it can involve a significant degree of subjectivity.

STOCK OPTION – Grants the right to purchase securities (usually common stock and usually in the context of employee compensation) at a stated exercise price over some future period.

SYNDICATION – Syndication is the process of coordinating multiple investors to invest together into one round, whether they be individuals, angel groups, VC funds, etc., to provide the funding resources needed by one company under a consistent set of processes and terms. Trust and credibility between investors fuels syndication opportunity. (https://seraf-investor.com/)

T

TARGET MULTIPLES – The desired return on investment of private investors in early stage companies defined in a multiple of the original investment.

TERMINAL VALUE – The projected value of the venture at the time of exit. For early stage ventures, project revenues and earnings at exit point and use industry metrics (e.g., multiple-of-revenues or PIE ratio) to determine terminal value.

TERM SHEET – Document that memorializes and summarized the agreed-upon terms for a financing round. Term sheets allow prospective investors to evaluate a potential deal and guide lawyers in preparing the definitive investment agreements. Term sheets typically include all the material deal terms.

TURNAROUND FINANCING (OR DOWN ROUND) – A financing where the pre-money valuation of the financing is lower than the post-money value of the previous round. May be provided to companies which still show promise although they have gone through or are currently in a problem period. Often referred to as "Down Round," since the new valuation is lower than the previous valuation.

V

VALUATION – Valuation is the analytical process of determining the current (or projected) worth of an asset or a company.

VALUATION MODELS – The techniques used vary by stage of company, but with startups, common approaches include the Berkus Method, The Payne Method, the Seraf Method, and the Required Return Method.

VENTURE CAPITALIST (VC) – A financial institution specializing in the provision of equity and other forms of long-term capital to enterprises, usually to firms with a limited track record but with the expectation of substantial growth. The venture capitalist may provide both funding and varying degrees of managerial and technical expertise. Venture capitalists do not generally use their own after-tax dollars to invest.

VERTICAL MARKET – A market definition, specialty, or niche, such as "enterprise software," "cancer diagnostics," or "fabless silicon design." It is a subset of a "sector."

VESTING SCHEDULE – Used in stock options to describe the number of shares that the option recipient can purchase at a defined price and at given dates in the future. Also defines the expiration of said options.

VOLUNTARY CONVERSION – The optional rights of Series A Preferred shareholders to convert shares of Series X Preferred into shares of common stock of the company at the then applicable conversion ratio, which initially may be one-to-one (Initial Conversion Ratio) and subsequently subject to adjustment.

VOTING RIGHTS – A shareholder's rights to vote for the board of directors and other important events such as sales and mergers. Sometimes divided upon the following lines:

- Full – Vote with common stock on each matter as if the preferred shares had been converted into common.
- Class – Corporate statute or certificate of incorporation provide a class vote allowing certain preferred stock to vote separately on matters such as sales or mergers. It may be that a particular class of preferred stock votes alone or that all classes of preferred stock vote together.
- Right to Elect Director(s) – Guaranteed right to elect one or more directors to the board.
- Special – Vetoes over certain matters or super share voting. More common in venture investments.

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SOURCES

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- Seraf Compass, **www.seraf-investor.com/compass**

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ANGEL CAPITAL ASSOCIATION

ANGEL FUNDERS
REPORT 2022

ANGEL CAPITAL
ASSOCIATION