

# Angel Funds

## Entrepreneur Capital

**Bruce Gjovig**

**UND Center for Innovation**

# What is an Angel Investor?



Historically “angels” were investors who financed Broadway productions in New York City.

Angels = Early-stage, Higher Risk  
Capital, Higher ROI

# Early-stage Entrepreneur Capital



“Most Likely” to “Most Difficult”

1. Personal Savings
2. Credit Cards
3. Sell Assets (boat, hobbies, etc.)
4. 2<sup>nd</sup> Mortgage on home
5. Friends & Family (love money)

# Entrepreneur Capital Sources



6. Vendors, Suppliers, other companies
7. Commercial Bank Loans
8. 'Angels' or Private Investors
9. Government Grants
10. Venture Capital



# Sources of Equity Capital

<1 in 10 Startups secure angel investors

<1 in 1000 Startups secure VC financing

< 1 in 10,000 companies go public

< 1 in 10 angel deals attract VC funds

<1 in 100 angel-funded ventures go public  
via IPO

# Entrepreneur Capital Sources



## Coopers & Lybrand Finance Study

328 fast-growth mnfg & service startups

71% - owner, friends, family

13% - private investors

8% - supplier/customer alliances

8% - bank loans

In 28<sup>th</sup> month: funded by banks, etc.

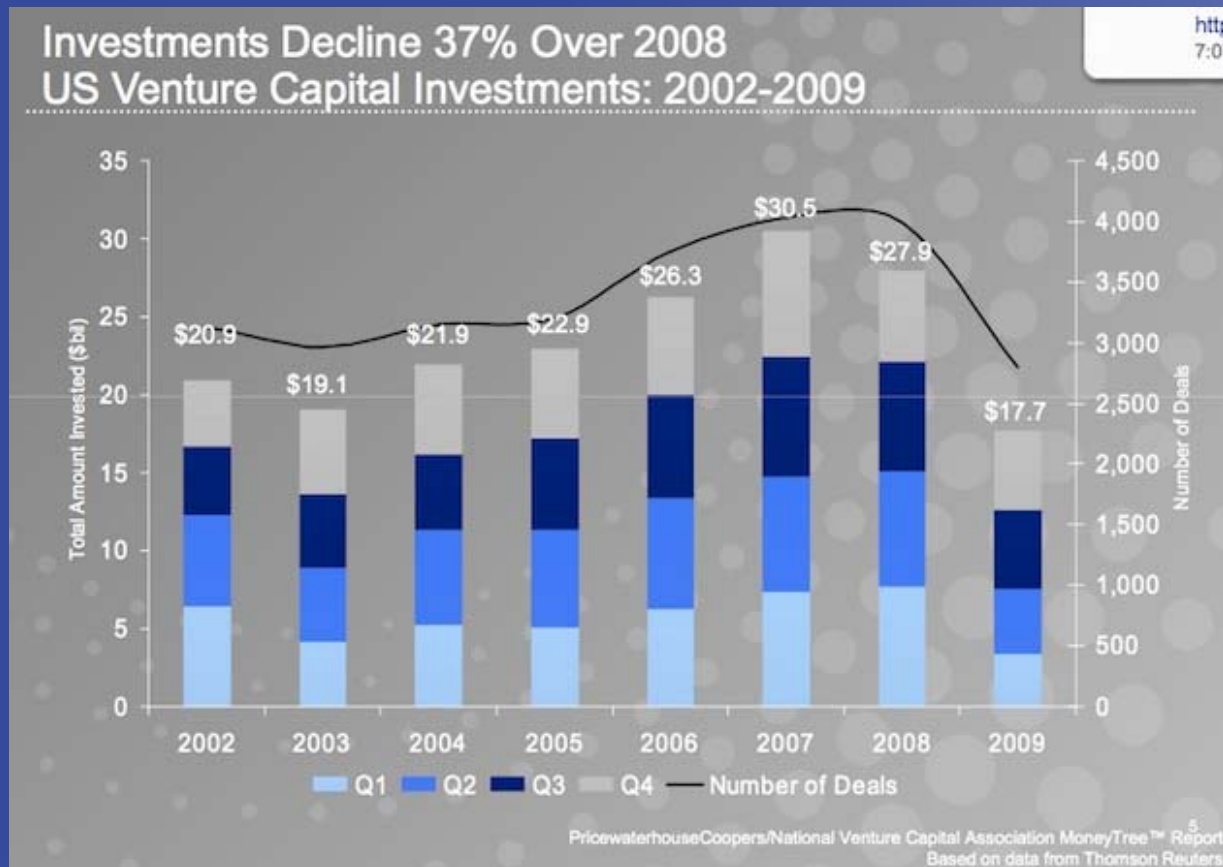
# Sources of Equity Funding



- 500,000 to 1 M startups per year
- 64 IPOs in 2009 (43 in 200, 385 in 2000)
- 699 M&A deals worth \$39.3 B (2009) -16%
- 2,795 co's received \$17.7B from VCs 2009
  - Lowest since 1997, < 200 startups (< 6%)
- VCs invest about \$300 M/year in startups
- 57,200 startups with angel investors (\$18 B)
- State Equity Funds: \$500 M in US in 2008

# VC from 2002-09

## 37% decline over 2008



# Venture Capital Funds



- <4,000 ventures/year (vs. >50,000)
- 95% Post “Seed & Early” Stage
- 3-6% of deals are seed deals
- 2-3% of investment dollars are seed
- Long shot for early stage entrepreneurs

*VCs are not interested in startups not because of poor ROI, but have too much money to invest – need scale and big deals*

# Angel Investors

- Angel Investors provide about 90% of the seed and early stage outside equity capital for startup entrepreneurs





# Ave. Angel Looks Like

- Entrepreneurs/Business Owners
- 40-60 years old, 2 college degrees
- \$100 to \$250,000 annual income
- Invests within 50 miles of home
- Network: referred by friends (70%), attorney or accountant (30%)
- More than 400,000 active angels

# Why be an Angel?

- Expectation of good ROI
- Diversify Investment Portfolio
- Willing/able to lose entire investment
- Stay Involved (be useful)
- Affection for entrepreneurs
- Likes Venturing, building co's
- Community Involvement
- Give Back



# Ave. Angel Deal



- Invests \$25 K- \$250 K/deal, ~15% deal
- Pooled fund or 6-8 investor friends per deal (teams)
- Expect 20-40% ROI within 5-7 years
- Invest 3 deals/year 1:4 to 1:20 of deal flow
- Invest in tech or industries they know
- 70% deals include loan guarantees
- Expect board/advisor role
- Due Diligence takes 3 to 4 months

# Angels invest in:

- Software – 19%
- Healthcare/med devices – 17%
- Energy/Industrial – 17% (Cleantech)
- Retail – 9%
- Biotech – 8%
- Communications/IT – 8%
- High Tech – 4%
- High tech does not drive angel investing

2009 Data



# Angels Look for:

- Ventures that grow and scale
- Strong Entrepreneur team who can execute
- Innovation — disrupt market
- Clear differentiation competitive advantage
- Take away the Big Pain — opportunity
- Cash Flow & Profitability quickly
- Attractive Business Model
- ROI — 10-30x investment 5-7 years
- Valuation, terms, exit strategy, etc.



# Angel Exits in 2009

- IPOs = >1%
- M&A = 54%
- LBO/ESOPs = 5%
- Bankruptcies = 40%
  
- Angel Returns: 23-38% (variable)
  
- Source: Center for Venture Research, UNH



# Angel Networks

- 1996 - 10                      2005 - 220
  - 1999 – 98                      2007- 250
  - 2000 – 138                      2008- 420
  - 2002 – 170                      2010 –500
- 
- Pooled or networked funds
  - Most angels invests outside of networks.
  - 35% use facilitators, 40% angel driven, less than 11% through internet



# Angel Networks

- 5 to 125 investor members
- Attract more deal flow
- Collective due diligence (intelligence)  
(many lens to view deals)
- Greater investment clout
- Syndicate with other angel funds
- Value-added to portfolio co's  
*No deal so good you go it alone.*



# 10 ND Angel Funds



1. Valley Angel Investment Fund – 2006
2. Northern Plains Investment Fund – 2006
3. FM Angel Investment Fund- 2006
4. Dakota Renewable -2006
5. Dakota Venture Group 2006
6. Wingspan Angel Fund 2007
7. Southern Valley Investment Fund – 2008
8. Arthur Ventures 2008
9. Aurora Fund 2009
10. Linn Grove Growth Funds 2010
11. Harvest Fund 2010 TBD

# RainSource Capital

- 23 Angel Funds in 6 states
- \$21 M total
- Experienced Management
- Disciplined Approach
- Share Deal Flow
- Reduce transaction & operating costs
- More capital through Syndication
- Enhance opportunity for timely exits
- 4 of 10 ND funds are affiliated



# Pooled Angel Fund

- For-Profit LLC
- Min \$1 M, ideally \$1.5+ M
- Accredited Investors – \$1+M net worth
- \$50,000 + over 4 years (20+ members)
- Fund - Member Managed (investors)
- Share capital, expertise, time
- Source Deals/Screen/Due Diligence
- Invest Locally, statewide and beyond
- 45% state investment tax credit



# ND Angel Incentives

- 45% state **investment tax credit** (best in US)
- At least 6 accredited investors
- No investor with more than 25% fund
- Max. \$45,000 tax credit/year (\$100 K/yr)
- At least \$500,000 at risk for 3 years
- At least 3 early-stage co's in portfolio
- Be member-managed
- Certified by State (meets requirements)
- Max. \$5 M credits per fund (\$11 M fund)



# Member Managed Funds



- Governance Structure:
  - Leader, officers, members, operating assistance
- Establish Investment Criteria
  - Source deals, geographic focus, industry focus, stage, side-by-side, etc.
- Establish Investment Process
  - Screening process, due diligence, coaching entrepreneurs, side-by-side
- Investment Approval Process
  - One vote per member, 51% to 67% of quorum
- Syndication with other funds

# Forming the Fund

- Founders decide governance, investment criteria, process, proxies
- RainSource Capital affiliation?  
\$25 K upfront, 10% carry, 1% annual fee
- Draft PPM, Member Control Agreements, legal review, security filings
- Educational Meetings: prospective accredited members (30-60)
- Host and coordinate fund raising
- 2-3 months - \$30,000 costs



# Capitalization

- Min. Closing \$1 M (20 x \$50 K)
- Organizational Meeting, form committees
- Educational Training on deal flow, screening, due diligence, investment terms, etc.
- Meeting schedule (6 x/year)
- Angelsoft setup and training
- Continue fund raising
- 2-3 months



# Fund Operations

- Deal Flow management
- Screening Deals (Angelsoft)
- Meetings: Coaching Entrepreneurs
- Due Diligence
- Negotiate Terms, pricing, closing (templates)
- Syndicate with other funds
- Education/best practices
- Portfolio management – value added
- Portfolio Exits (10 years)



# Fund Tracking

- Federal and State ID numbers
- File Secy of State, Securities Comm.
- Fund Bank Account – 2 signatures
- Deposit capital calls, paperwork
- Maintain member documents & info
- Pay invoices
- Make investments
- Prepare financial statements
- Annual Tax preparation (K-1s)



# Best Practices

- Assist from Center for Innovation & Dakota Venture Group (communication)
- Screening committee (interns)
- Due Diligence lead -Venture Valuations
- Pricing and Structuring Deal
- Syndication among funds
- Monitoring of Investments (reporting)
- Venture Development – value added
- Portfolio Company Exits
- Angel Education Seminars/Networking



# EB-5 Foreign Direct Investment



- Equity Investment (Series B with angels)
- Funds obtained legally/lawfully
- Startup, expansion or troubled business
- Cash or cash equivalents (CDs, treasuries, bonds, equipment, inventory, property...)
- Expect process of 6-12 months
- \$1-5 M with multiple investors are usual (each 10 jobs)

# EB-5 Regional Center



- RC to encourage foreign investments
- EB-5 RCs count direct & indirect jobs
- 24 Regional Centers in US now
- Ex: Seattle (RE), SD (Dairy) Wisc. (Multi-industry)
- Center for Innovation Foundation
- North Dakota RC – application complete
- Law renewed for 5 years in Nov 2009

# EB-5 Regional Center



Center for Innovation Foundation

## Industry Focus:

1. Agri-Business
2. Bioscience
3. Manufacturing
4. Aerospace
5. Information/Communications Technology
6. Real Estate Development
7. Energy (incl. Cleantech)



# Targeted Countries for EB-5

- China
- South Korea
- Brazil
- India
- Canadian hockey players
- other

# EB-5 Partners



- **Center for Innovation:** direction & management
- **Deal Flow:** Entrepreneur Ventures, economic developers
- **Angel Investors in US:** side-by-side \$s
- **Agents in Foreign Lands:** honest
- **Immigration Attorneys**
- **Economist – Econometric Analysis**
- **Expect \$10-15 M per year**

# EB-5 Investor Process



1. Consultation with agent
2. Business Plan & PPM documents
3. Investment in escrow to Reg. Center
4. VISA Application & Consulate Process
5. Approval from USCIS
6. Conditional Green Card
7. Removal of Condition (Green Card)

# Thank you!!



Bruce Gjovig

Entrepreneur Coach & CEO

**UND Center for Innovation Foundation**

4200 James Ray Drive

Grand Forks, ND 58203

[www.Innovators.net](http://www.Innovators.net)

Bruce@Innovators.net

701-777-3132