



Growth of the Angel Asset Class

Doing Better Deals

Mike Volker

Mar 23, 2016

Winnipeg, MB

NACO Founding and History

- How it all started...
 - A small group of lone wolf investors from across Canada who would connect once a year over golf
- Our founding 100...
 - In 2002, NACO brought together 100 active Angel investors who invested in the creation of a formal non-profit entity
- Our goals in the early days were simple...
 - Help each other avoid common mistakes



About NACO – Who We Are Today

NACO Mission

To professionalize Angel investment in Canada and evolve it into a new asset class of investment.

NACO Vision

To establish a national, broad based, community of Angel investors in Canada and connect them into their peers and the greater early-stage funding ecosystem so they can support the growth and development of innovative Canadian entrepreneurs and companies, and supporting the ongoing evolution of that community through research, education and public policy.



About NACO – Who We Are Today (Cont..)

- NACO has evolved to become the National champion of Canada's Angel investing community
- We are the Professional Industry Association for the Canadian Angel Investor Community.
- Working with our members and other stakeholders, NACO:
 1. Connects investors, networks and industry partners
 2. Supports best practices and professional development
 3. Informs policy in support of the early-stage funding eco-system
 4. Provides trusted intelligence on Angel investing in Canada



NACO 2016 Initiatives

- Angel Academy: Professional Development for Angel Investors
 - Used to engage and recruit members locally. Planning eight events this year
- Research on Investors, Companies and Policy Matters
 - Data that helps to influence investor best practices and policy decisions. Currently collecting data from Angel investors
- National and Regional Summits, and Local Events
 - Excellent opportunities to expand your networks and learn
- Valuable partner benefits for members
 - Free or discounted tools and resources offered by our partners



NACO 2016 Policy Recommendations

- Create a National Investment Tax Credit – a 15% refundable tax credit for investments made in qualified ventures
- Allow angel investors to take accelerated investment write-offs when making an investment in qualified ventures
- Establish funds that would co-invest with angels in qualified ventures (eg. Like VCAP)
- Permit issuance of founders shares or stock options with no tax liability until shares are sold and then only on the basis of proceeds received, not on the basis of an artificial interim deemed value



2016 National Angel Summit

Oct 4-6, 2016 – Vancouver, B.C.

- First ever NACO Summit hosted in Vancouver
- Network with experienced investors, venture capitalists and other industry leaders
- Develop lasting relationships that can lead to syndication and improved access to deal flow
- Gain insights on the most pressing issues affecting Angels today
- Discover national best practices that lead to investor success

Location: Marriott Pinnacle Downtown Hotel, Vancouver, BC

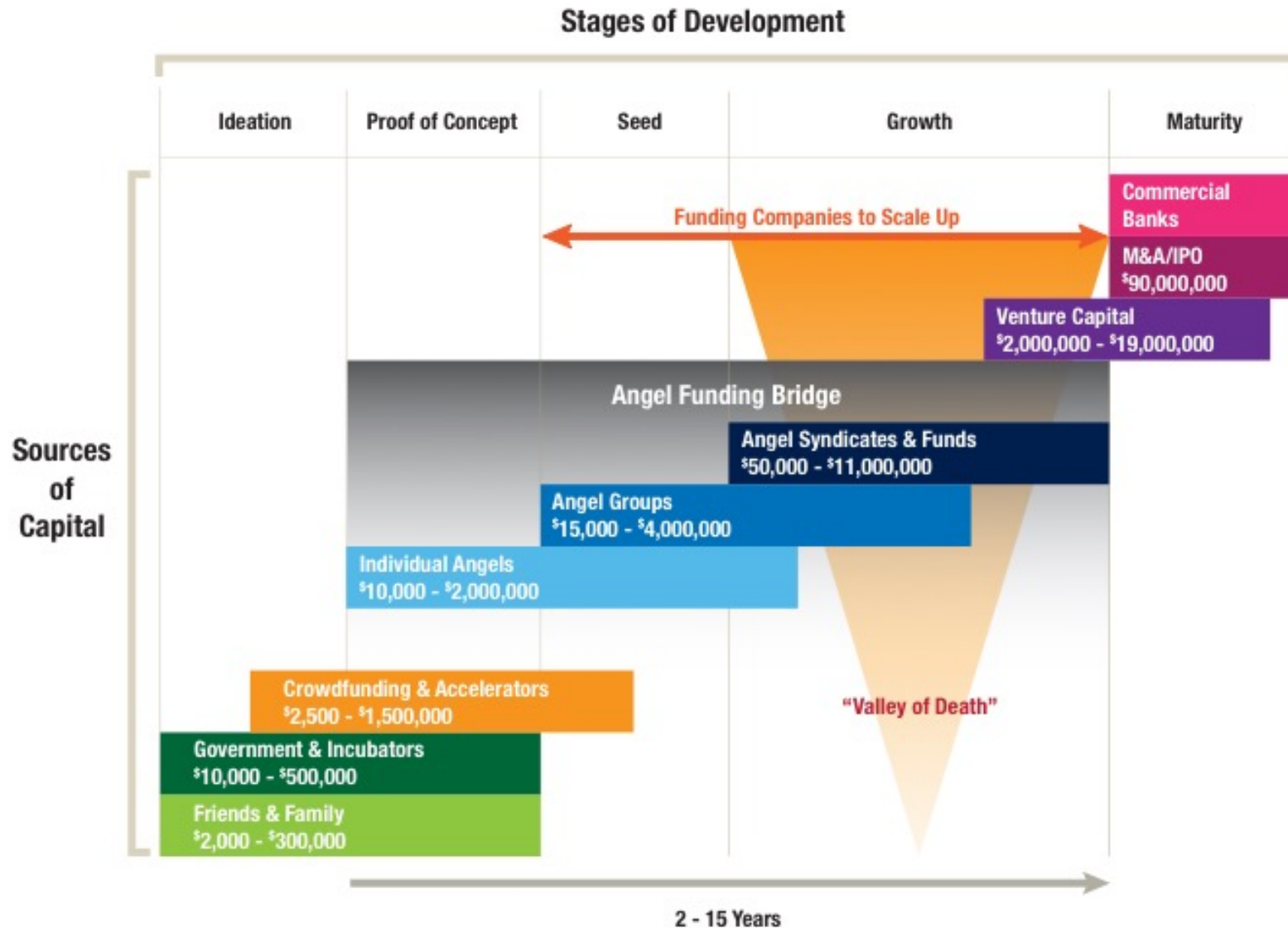


Regional Initiatives – Western Canada (WED)

- **Purpose:** to support the growth and development of Western Canadian Angel investors and better connect them into National and International best practices and peers
 - Secured funding of \$1.5 M over three years
 - Funds will support the ongoing growth of local Angel networks, as well as coordinated regional initiatives focused on research and education
 - > 50% of funds will flow directly to newer and existing Angel networks across Western Canada – *now receiving applications!*
 - Success will be measured on growth of membership, investments, dollars invested among others



Canadian Angel Investors Fill the Funding Gap



Select NACO Member Groups

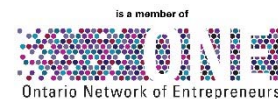


Select NACO Partners



Federal Economic Development
Agency for Southern Ontario

Agence fédérale de développement
économique pour le Sud de l'Ontario



NACO's goals in working with you

- Grow the size of the known Angel community
- Help create stronger local networks, and collaboration between them
- Reduce investor risk through collaboration, knowledge sharing and syndication
- Improve access to capital for our brightest Canadian companies
- Make Angel investing sustainable as an asset-class that funds innovation
- Narrow the innovation and productivity gap



Why engage with NACO?

- Improve your outcomes
- Leverage our national network
- Contribute to the development of a strong National Angel asset-class and help us solve Canada's innovation gap



Down to Business: Doing Better Deals Getting to 27%

- Do lots of deals (>20)
- Do extensive Due Diligence (with others)
- Do post-investment stewardship
- Negotiate Better Terms
 - exit preference vs lower valuation
 - exit “PUT” option
 - secret weapons:
 - observer status
 - don't waive audit waivers



Angel Challenges

- Support for subsequent rounds
- Liquidity (exits)
- Returns
- Bandwidth (more deals than money/angels)



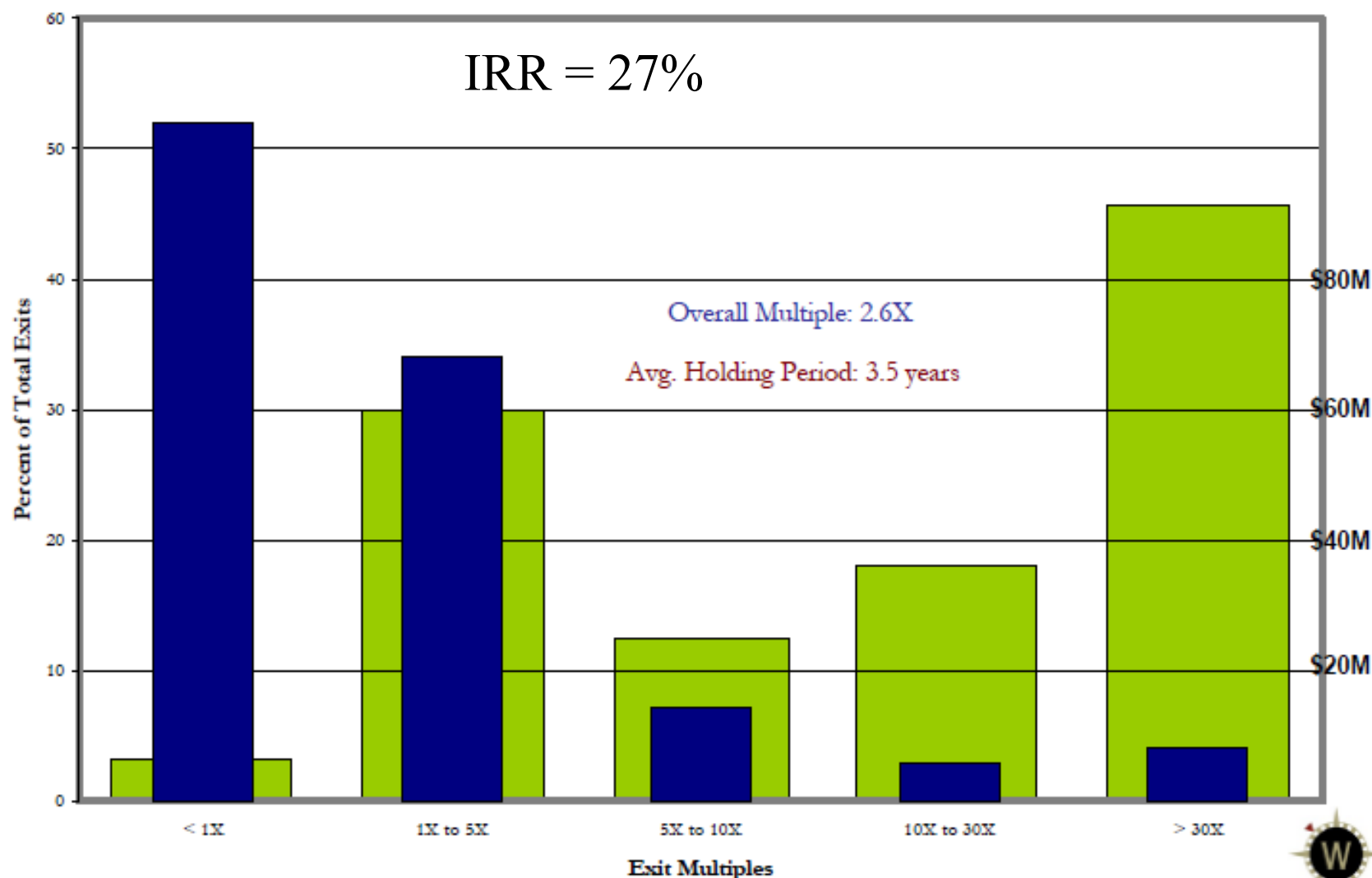
Angel Funds

- A great way to build a portfolio
 - engage smaller investors or new angels
 - Many models & styles prevail
 - Negotiate better terms
 - Alternative Structures
 - public funds (e.g. Difference Capital)
 - debt (Espresso Capital)
 - Royalty Financing (TIMIA Capital)
- TSX:TCA



ANGEL RETURNS

Distribution of Returns by Venture Investment



Why deals go bad

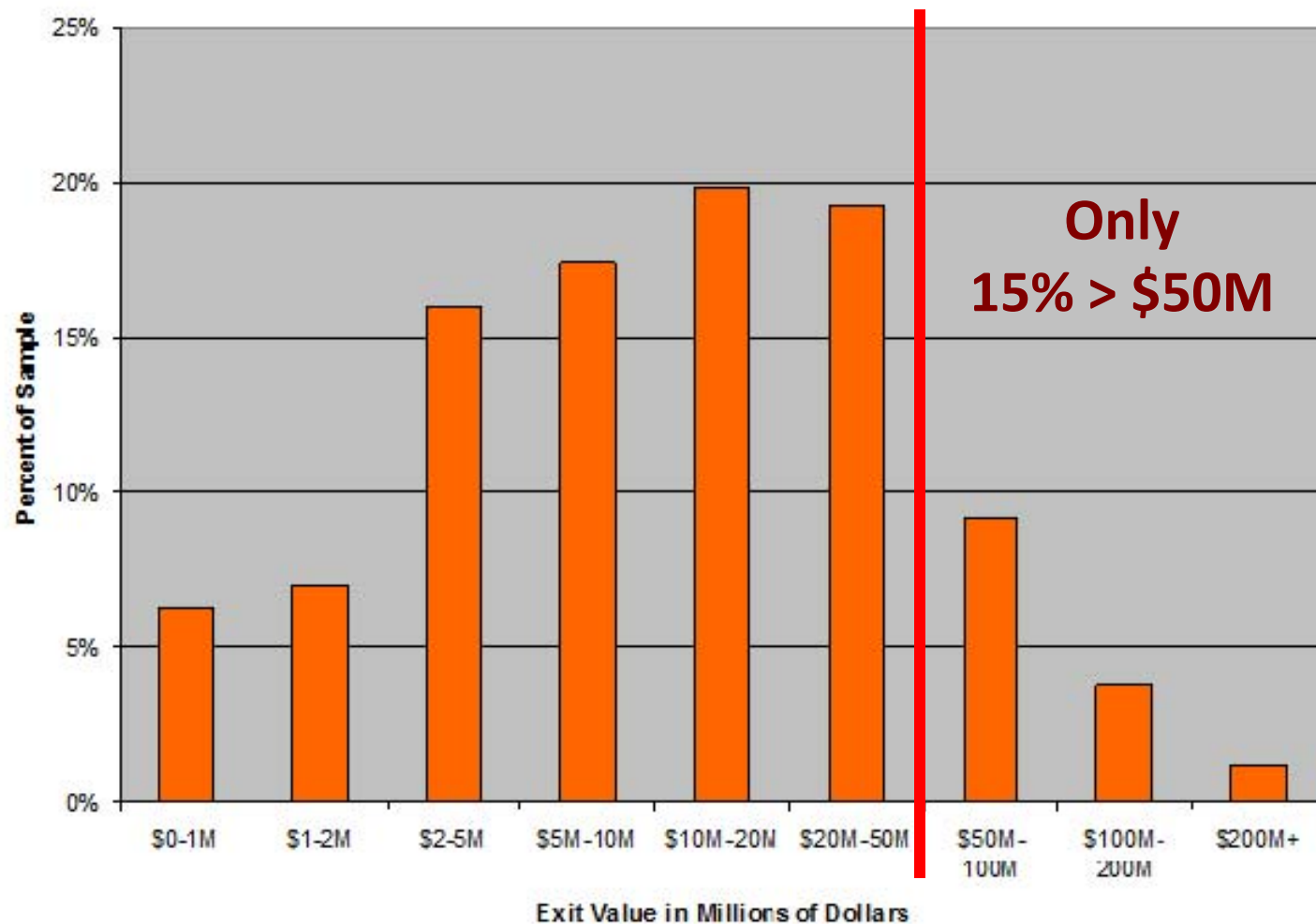
- Lack of Teamwork
- Lack of Stewardship
- Lack of Strategy
- Lack of Commitment
- Lack of Capital?
- Sociopathic entrepreneurs



Some good questions in angel investing

- 1. How much invested capital does it take to get to an exit?**
- 2. How diluted will I get by the time an exit takes place?**
- 3. Which should you worry about more, dilution or opportunity cost?**
- 4. Do you get what you pay for? i.e. do higher valued deals produce better returns?**
- 5. For selecting an Investment: Is Traction or TAM more important?**
- 6. Better to focus on getting venture to break even or maximizing expected return?**

Public Acquisition of Private Firms from '96 to '06



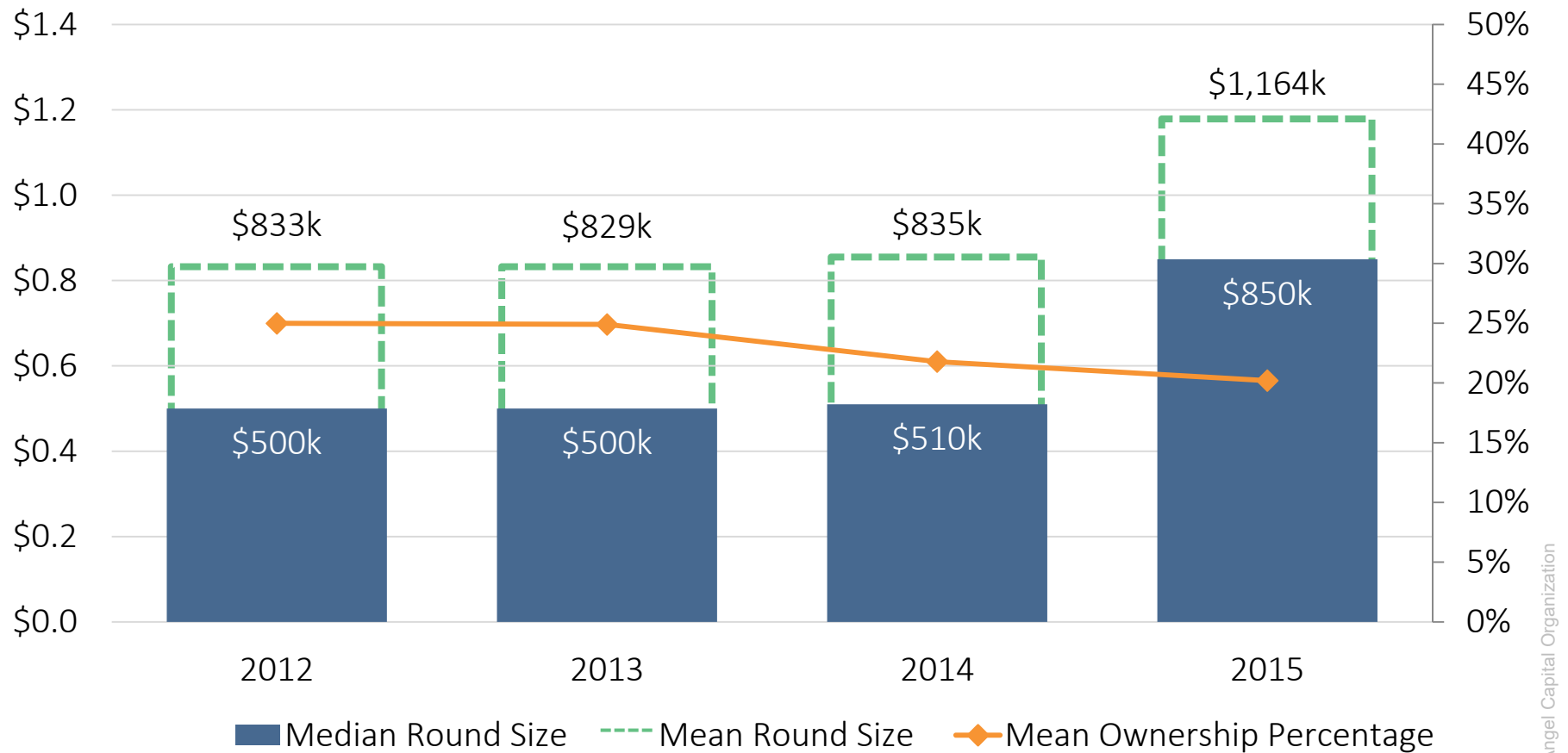
Diminishing Returns to Raising Capital

Variable	N= 539 Burners	N=514 Earners	
Paid in Capital	13,919,446	95,055	
Revenue (M's)	16.84	18.33	Acceleration
Years	6.5	12.2	
Total Cashout	37,051,885	18,442,152	Improved Wins
Deal Profit Dollars	22,236,724	18,347,816	
Return on Capital	16.3%	53.8%	Pain of Capital Intensity

- **Fail at 90% for earners vs. 10% for burners: equal ROIC**
- **Raise past \$1.1M = marginal effect of dilution > acceleration**

Median and Mean Round Sizes - Angels Only

2015 Shows Round Sizes Increasing,
Mean Ownership of Angel round is Relatively Stable 20-25%



© National Angel Capital Organization

Empirical Observations

In **BOTH** Angel and VC

- You're most likely to lose your money in any 1 investment
- Losses are capped but wins are not capped
 - 10% of investments generate 90% of all cash returns
- Losses are realized twice as fast as Wins
- Returns have a negative relationship with follow-on

2015 HALO Report: NOTEWORTHY

Valuations have climbed for the last 3 years, but so have round sizes, thus % owned by angel round is essentially flat

More Convertible Debt Deals, no slowing in this trend

As far as syndication goes, Group angel investing is still local, doing 1/3 of deals outside main area is high.

Median Seed Stage Pre-Money Valuation

Median Valuation Up 53% From 2014, Highest Valuation in HALO History

2014

\$13.5M

3rd Quartile:
\$4.4M

MEDIAN :
\$3.0M

1st Quartile:
\$2.0M

\$0.30M

\$23.5M

2015

3rd Quartile:
\$7.5M

MEDIAN :
\$4.6M

1st Quartile:
\$3.1M

\$0.22M

Good questions in angel investing

1. How much invested capital does it take to get to an exit?

Commonly less than \$1M.

\$500K is the median of Privates bought by Publics from 96-06.

2. How diluted will I get by the time an exit takes place?

Commonly reduced to 50% of orig position, often by 66%

3. Which should you worry about more, dilution or opportunity cost?

It depends how long you can delay the choice

Longer leans toward protect against dilution, but

Typically Opportunity cost, missing the outliers, is key challenge

4. Do you get what you pay for? i.e. do higher valued deals produce better returns?

NO ONE KNOWS

5. For selecting an Investment: Is Traction or TAM more important?

6. Better to focus on getting venture to break even or maximizing expected return?

Expert Entrepreneurs focus on traction & getting to break even

The more finance experience the more likely you say TAM & expected return

Uncertainty in angel investing rewards NOT DYING & punishes prediction

IP Licensing Deals

- Is Intellectual Property overrated?
- Should Post-Secs take equity or fees?
- Freedom to Operate
- Playing the game
 - SFU vs AT&T
 - GraphOn vs Autotrader



Open Networking

