



JOHN MAY

The Role and Future of Angel Investing

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Background

John May, Managing Partner

- Co-founder, New Vantage Group, Investors' Circle and Private Investors' Network
- Co-Manager, The Dinner Club and GP of Mid-Atlantic Fund of Funds, LP
- Advisor, Next Generation Fund, Solstice Capital & Women's Growth Capital Fund
- Co-Author, *Every Business Needs an Angel* (Crown Business: 2001)
- 2001 Financier of the Year by the Northern Virginia/Maryland/Washington, DC technology councils
- Batten Fellow, Darden School of Management, University of Virginia

Stages of Venture Capital

Stage	Company Status	Competitive Sources of Capital
SEED	Pre-Business Plan	Friends, Mom, Credit Cards
START-UP	Plan and Most of Team. Pre-product, pre-revenue	Angels, More Credit Cards
GROWTH	Full Team, Product, Customers, Predictable Business Model	Strategic Partners, Corporate, Cross over public investors, Venture capital
MEZZANINE	Predictable and Profitable	Strategic, Corporate, Public, Cross Overs, VC
PUBLIC	Predictable and Profitable	Public Markets

United States Venture Capital Statistics

	1980	1990	2000
# of VC Funds in Existence	123	734	1,443
# of First Time Funds Raised	24	14	164
Average VC Fund Size	\$24 M	\$43 M	\$145 M
Capital Under Management	\$3 B	\$32 B	\$209 B

Venture Capital Disbursements to Portfolio Companies

Year	Annual	# of Companies
1995	\$5.5 B	1,327
1996	\$11.2 B	2,004
1997	\$17.2 B	2,696
1998	\$22.0 B	3,155
1999	\$59.4 B	3,956
2000	\$103.5 B	5,458
2001	\$40.0 B	3,767

Venture Capital Disbursements by Industry in 2000

Industry	# of Disbursements	Amount
IT	4,374	\$88.6 B
Non-High Tech	517	\$8.5 B
Medical/Health/Life Science	521	\$6.4 B
Total	5,412	\$103.5 B

Venture Capital Disbursements by Stage in 2001

Seed	2.3 %
Early Stage	23.8 %
Expansion	54.6 %
Later Stage	19.3 %

The Increasing Importance of Angels

The number of active Angel investors has increased dramatically along with the wealth created by the “new economy”

- Currently more than one million (accredited) Angels have approximately \$30 billion invested in more than 30,000 startups
(Source: Univ. of NH)
- In the last 3 years over 100 Angel groups have formed nationwide
- One book per quarter has been published targeting Angel Investors
- In the Mid-Atlantic alone, we now have 7 Structured Angel Funds
(The “Mutual Fund-ization” of Angel Investing)
- In many cases Angel groups are becoming alternatives to early stage VCs and incubators

Angel Group Industry Sector Preference in 2001

Software	16 %
Other Hit Tech	15 %
Electronics & Computer Hardware	13 %
Biotechnology	13 %
Telecommunications	11 %
Life Sciences	11 %
Manufacturing	10 %
No Preference	9 %
Retail	1 %

The Role of Angels in Today's Marketplace

- In good times the market pulls seed-stage companies up through the ranks from Angel to IPO.
- Today, limited number of IPO's
- Few exits in sight
- Wary Venture Capitalists
- Angels are more cautious due to longer times to exits

How are Today's Angels Different from Yesterday's

- More patience required
- Greater risk tolerance because much greater risk of failure
- Have cash on hand
 - ↳ Many of yesterday's angels vanished after March, 2000
- Expertise and contacts preferred over enthusiasm and faith
- Have time to wait

Angels vs. VC's

- “Warm” money
- Customized term sheets
- Blend of psychic and financial reward
- Due diligence still important
- Pitch the person as well as the plan

Many Variations of Non-VC Group Investing

- Ad hoc, one time partnerships
- Angel networks
- Pledge funds
- Angel Limited Partnerships
- Online matching services
- Member led and manager led LLC's
- Other

Bibliography of Angel Books

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Dinner Club Model

- Manager-led LLC angel fund
- Opportunity for member participation - “active LP”
- One K1 form
- Mid Atlantic region market response: Dinner Club, eMedia Club and Washington Dinner Club - over-subscribed
- Two affiliated clubs also created

Dinner Club Model Overview

- \$100,000 investment
- Active participation
- 30 investors minimum, 75 maximum
- Institutional units – up to 8 units @ \$500k each
- Early stage investments
- Preferring VC as lead investors
- Side-by-side investing on deals encouraged
- 11 meetings per year for first 2-3 years

What Investors Get

- Networking
- Private equity experience
- Greater deal flow
- Attractive returns
- Side by side investing
- Professional leadership

How Meetings Work

- 5:30-6pm Cash bar and networking
- 6-7pm Meal with entrepreneur and guests
- 7-7:30pm Review of portfolio investments and prior presentations
- 7:30-8:30pm 2 or 3 presentations by entrepreneurs
- 8:30-9pm Investment discussions and votes

How Investments Happen

- Members help provide deal flow
- Company presents at club meeting
- Club votes whether to proceed with due diligence
- Managers and committee investigate company, negotiate investment amount, make recommendation
- Club votes on whether to make investment
- Managers execute investment

The Future of Angels

- Recall the purpose of angel investing
 - ↳ New business development
 - ↳ Mentoring
 - ↳ Personal industry interest and expertise
- Continue supporting seed-stage companies after appropriate due diligence
- Be prepared for longer time frames, need for additional support, and greater personal involvement
- Not for the faint of heart... But serious investors are rewarded

Summary

- Venture Capital is key to high growth private companies
- High net worth individuals supply pre-institutional financial and advisory support
- Individual angels have learned that flocking together minimizes risk
- Angels and entrepreneurs can be found in any cultures' economic development system
- Here is to finding your wings in 2003