Executive Summary
11/27/2017

The American Angel Campaign

The American Angel

Early-stage financing from angel investors is critical to the success of high-growth startups. Recent estimates suggest that annual US angel investment activity may total as much as $24 billion each year, contributing to the growth and success of more than 64,000 startups, though the exact amount cannot be measured precisely. Indeed, many details about American angel investors has long eluded public knowledge. Put simply, there is a lack of knowledge on the profile and investment activities of US angel investors. The American Angel campaign was launched with the goal of shedding light on these questions by conducting the largest survey of business angels in the United States and putting faces on the modern American Angel.

This report, commissioned by the Angel Capital Association and the John Huston Fund for Angel Professionalism (raised by Rev1 Ventures), presents the results of the largest ever study of the profile, background, and investment behavior of angels in the US to date. The study comprises responses from 1,659 individual angels from throughout the country who responded to The American Angel survey.

www.theamericanangel.org

What We Learned: Key Takeaways

1 Angels May Be Creating Entrepreneurs, But Entrepreneurs are Also Creating Angels

A key question is how people become angels in the first place: is there a particular background that "creates" more angels than others? The findings presented here demonstrate that angels are created "organically" – that is, angels were, at one point, on the other side of the table as entrepreneurs themselves, and are therefore "local" and familiar with the entrepreneurship ecosystem. 55% of angel investors were previously a founder or CEO of their own startup. There is a virtuous cycle between angels and entrepreneurs—not only do entrepreneurs become angels, but they also give back:

- 60% of angels with an entrepreneurial background take an advisory role and 52% of them take a board seat. This compares to 38% of angels without an entrepreneurial background who take an advisory role, and only 26% of them take a board seat.
- Angels with an entrepreneurial background write larger checks, with an average investment of $39,000 as compared to $28,000 for those with no entrepreneurial background.
- Angels with an entrepreneurial background make more investments, with an average of 12 companies in their current portfolio, compared to an average of 10 companies for those with no entrepreneurial background.

55% of angel investors were previously a founder or CEO of their own startup.

In terms of their industry experience, 51% of angel investors also report a background in technology. Taken together, these statistics may provide one explanation for the largely held presumption that the angel investment market is male-dominated (78% of investors in the study are male). Technology has long been acknowledged to be a male-dominated industry, and startup founders and CEOs are also overwhelmingly male. An inevitable gender imbalance emerges when these same individuals become angel investors, resulting in a similar and notable demographic imbalance in the angel investment market. Nevertheless, there is good news on the gender front, as more women become angel investors.

2 Female Angels are Increasing in Number… and Changing the Nature of Angel Investing

The American Angel study finds that women actually comprise 22% of angels, a percentage that is much higher than that of venture capital firms. More importantly, the number of women entering the angel investment market appears to be growing. Of angels who started investing within the last two years, 30% of these are women. Women are also changing the role of the angel investor, demonstrating different preferences and investment behavior from men:

- Female investors place great importance on the gender of the founders they are considering investing in. 51% of women consider the founders' gender to be highly important, while only 6% of their male counterparts considered the founder's gender to be highly important. Having more female angels may impact the extent to which women-led startups are being given the opportunity and platform to receive early-stage financing.

- Female investors place more importance on social impact (with 33% stating that a startup's social mission is an "extensively used" criteria), more than twice the percentage of men (16%) who "extensively used" social mission as part of their decision criteria.
- On the other hand, female investors invest more modest amounts of capital, at an average check size of $26,500, compared with men who invest an average of $37,700. Female investors are also somewhat less likely to back up their past investments, making follow-on investments 27% of the time as compared with males making follow-on investments for 32% of their investments. The reason for the lower numbers for women may be that more of them are newer to the angel community.

Women comprise 22% of angels, and are 30% of angels who started investing within the last two years.

3 Experienced Angels Invest More Upfront and in Follow-On Rounds

Investment experience is widely recognized as a determinant of venture capital firm performance, and consistent with this, findings suggest that angel investing tenure does change how angel investors evaluate investment opportunities and form an investment strategy. Angel investors with the longest tenure devote 15% of their overall investment portfolio to angel investments and write a check of $42,000 per startup on average. Others with shorter tenure devote only 7% to angel investments and invest $25,000 on average. In a given year, investors with at least 10 years of experience invested in an average of 3.8 companies, whereas other investors invested in an average of 3.0 companies. Angels with more experience are also more likely to double down and make subsequent investments in their existing portfolio of startups. Those with the longest tenure devote 39% of their angel portfolio to follow-on investments, while newer angels allocate 23% to follow-on investments.

Angels with the longest tenure write bigger checks, have larger portfolios and make more follow-on investments.

4 Angels are Everywhere . . . Not Just in San Francisco, New York, and Boston

When thinking about where angel investors reside, many consider only three cities: San Francisco, New York, and Boston. The findings presented here suggest a more balanced distribution of angel investing. In particular, 63% of angel investors in the study are located outside of those cities, with large percentages in the Great Lakes (16.2%), Southeast (15.4%), and Mid-Atlantic (10.7%). Entrepreneurs should strongly consider fundraising in geographies other than the west coast and the northeast, and may have the greatest success attracting angel capital in their home regions. Furthermore, angels based in California and New England report writing smaller average checks ($32,000) than the average of all other regions in the country ($37,000). Entrepreneurs should also consider the mighty state of Texas, where only 4% of angels in this study reside, but whose average investments are definitely bigger: Texans made the largest angel investments ($44,000).

63% of the angels in this study are located outside of San Francisco, New York, and Boston.

5 Angel Investing is a "Team Sport"—Angels Invest with Others and are Beginning to Also Use Online Platforms

89% of angel investors in our sample identify prospective investments through angel groups, even when they are not formal members. Despite this, 24% report that independent investing outside of angel groups is their main channel for deal flow. Angels also report identifying deals through friends and associates (52%), direct contact with entrepreneurs (58%), and online and crowdfunding platforms (17%). There is also a trend in the increase of angels investing alongside other funding vehicles, especially through crowdfunding platforms, with 16% of angels reporting the use of a digital platform for at least one investment.

6 Angel Investments are Generating Some Positive Returns and Angels Remain Optimistic

Given the inherent risk of angel investing, most prior studies posit that 5-10% of investments will be economically profitable. This sample of angel investors report that, on average, 11% of their total portfolio yielded a positive exit. After accounting for stagnant portfolio companies (sometimes called "zombies"), 39% of portfolio companies that achieve an exit event are positive exits. In terms of future expectations of returns, angels report higher rates of expected return than their prior investments, which shows considerable confidence in the market. The mean desired target multiple was 9x, with a mean and median target window of 5 years.

7 Angel Investors are Not Mini VCs

Although angel investors are becoming more sophisticated and professional, and increasingly find themselves filling some of the funding gap as VCs move upstream to fund larger investment rounds, angels do not look like VCs. Venture capital continues to be even more heavily male dominated, geographically concentrated in California, New York and Boston, and disproportionally focused on tech centered companies. The angel investing communities are more diverse in many ways and geographically dispersed with greater participation by women.

Angels are more diverse than VCs, both geographically and with more participation by women.

More details on these findings, as well as the complete results from our study, can be found in the full report.

Data Disclaimer

While this is the largest data set ever on individual angels, we recognize that the documented findings within the report do not necessarily reflect all US angel investors. Despite multiple efforts to address the potential sampling biases, there is an over-sampling of ACA members (60% of the sample) and investors in angel groups (68% of the sample), since 80% of ACA members belong to angel groups. It may also be that these angels are more active than angels not connected to angel groups or online platforms. Obtaining retrospective data also has drawbacks, and individuals may have varying levels of recollection of past experiences that could account for some variation in responses. More information on study methodology and limitations are discussed in the Survey Methodology appendix. All analyses, interpretations, and conclusions are the opinion of the authors.