

## **Angel Investors in Groups Achieve Investment Returns in Line with Other Types of Equity Deals**

*Largest study on angel exits is released by Kauffman Foundation and Angel Capital Education Foundation*

**(KANSAS CITY, Mo.), Nov. 12, 2007** – The largest study on the financial returns of angel investors in North America, released in a new report today by the Ewing Marion Kauffman Foundation and the Angel Capital Education Foundation, shows that angel investors participating in organized angel groups achieved an average 27 percent internal rate of return on their investments.

Overall, this set of angel investors affiliated with angel groups experienced exits that generated 2.6 times their invested capital in 3.5 years from investment to exit. This return compares favorably to that of other private equity investments, including those of early-stage venture capital. Seven percent of exits generated returns above 10 times their initial investment.

The “Returns of Angel Investors in Groups” study was conducted over the past year and analyzed results from 86 organized angel investor groups throughout the United States, involving 539 individual angel group investors who have experienced more than 1,130 exits in which companies that had received the investments were acquired, went public, or were closed. It comprises the largest data set of angel investor exits ever collected.

The study, conducted by Robert Wiltbank of Willamette University and Warren Boeker of the University of Washington, also assessed how these strategic factors impact the angel investors’ outcomes: due diligence time, industry experience, participation with the company after the investment is made, and follow-on investing. In addition, the study provides key demographic information about angel group investors.

The results demonstrate the risk inherent in angel investing. In slightly more than half the venture investments, some or all of the study respondents’ investment capital was lost.

“As the largest empirical study of the investment returns of angel investing, it sets a benchmark on returns and performance factors for angel investors connected to angel groups,” said Robert Litan, vice president of Research and Policy at the Kauffman Foundation.

Angel investors are high net worth individuals who make equity investments directly into growing companies, usually as the ventures are starting up. These investors are often the first outside, arm’s-length investors that an entrepreneur engages. The study’s respondents had made investments in mostly early-stage firms, with nearly 45 percent of the investments in companies that had no revenues at the time of the first investment.

In recent years, individual angels began forming angel group organizations with other individual angels to share in due diligence, to make larger investments, and to make more sophisticated investments. Despite the growth of angel group investors, little research has been conducted on

their financial performance or demographic profiles.

### **Strategies to Enhance Performance**

The historical picture of angel group investor outcomes offers lessons in the practice of angel investing. These include:

**Due diligence time** – Investors experienced better returns in the deals where they exercised more due diligence. Sixty-five percent of the exits with below-average time spent on due diligence reported a return that was less than their original investment. Losses occurred in only 45 percent of the deals where investors did above-average due diligence.

**Industry expertise** – Analysis indicated that expertise has a material impact on angel investors' returns. Returns were nearly double for investments in ventures where the investor had related industry expertise.

**Participation** – After an angel makes an investment, his or her participation in the venture – through mentoring, coaching, and financial monitoring – is significantly related to that venture's returns, according to the study.

**Follow-on investing** – Deals where the angel investor made follow-on investments generated significantly lower returns. In ventures where follow-on investments were made, nearly 70 percent of the exits occurred at a loss. The study recommended additional research to determine the impact of other factors in these results.

“This study will help build understanding of the importance of excellent investment processes for both investors and the entrepreneurial companies in which they invest,” John Huston, chairman of the Angel Capital Education Foundation.

The study can be downloaded at [www.kauffman.org](http://www.kauffman.org).

### **About the Kauffman Foundation**

The Ewing Marion Kauffman Foundation of Kansas City is a private, nonpartisan foundation that works with partners to advance entrepreneurship in America and improve the education of children and youth. The Kauffman Foundation was established in the mid-1960s by the late entrepreneur and philanthropist Ewing Marion Kauffman. Information about the Kauffman Foundation is available at [www.kauffman.org](http://www.kauffman.org).

### **About the Angel Capital Education Foundation**

The Angel Capital Education Foundation is a charitable organization devoted to education and research in the field of angel investing, a growing driver of our entrepreneurial economy. Information, education, data, and research analysis is available to investors, entrepreneurs, policy-makers, state and local entrepreneurial support professionals, university faculty and students and others interested in learning more about angel investing. ACEF programs include

conferences, educational workshops and seminars, and research projects and reports. ACEF was founded by the Ewing Marion Kauffman Foundation. More information is available at [www.angelcapitaleducation.org](http://www.angelcapitaleducation.org).

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