Angels are Important to the Economy:

Public Policy Strategies to Promote More Investment in Entrepreneurial Companies

Agenda

- Who angels are and how they support entrepreneurs and jobs
- State strategies to stimulate angel investment
- ACA public policy platform
Angel Capital Association Today

- **Mission**: Support the growth, financial stability, and investment success of its member groups.
- 150 member angel groups
- 6,500 accredited investors
- 20 affiliated organizations
- 49 states/provinces

Hail the Job Creators

From 1980 to 2005, firms less than five years old accounted for **ALL** net job growth in the United States.

HAIL THE JOB CREATORS


Companies Backed by American Angels
Angels Invest in the Majority of Startup & Early Stage Deals

Number of Deals in 2009: Angel Investment and Venture Capital

Source: “Jeffrey E. Sohl, Center for Venture Research” and 2010 NVCA Yearbook

Angels: Majority of Startup Funding

Funding by Source and Stage - 2009

Sources: Center for Venture Research and PwC MoneyTree

Angel Investors 2009
- $17.60 billion
- ~57,000 deals
- 35% seed/startup
- 47% early stage
- ~ 259,500 individuals

Venture Capital 2009
- $17.69 billion
- ~2,800 deals
- 9% seed/startup
- 65% later/expansion capital
- Total 794 firms (not all active)
Who are Sophisticated Angel Investors?

- Make equity investments – generally not loans
- Often successful, exited entrepreneurs or retired business persons
  - Active investors
  - Invest both time and money in companies
- Accredited investors - SEC definition (ACA requirement)
- Invest their own money
- Generally invest in local companies
- Motivated by returns, but also community development, love of mentoring entrepreneurs
- Kauffman/ACEF: Invest at least $20K in businesses not run by family

Profile of Angels - Median

- Years investing 9
- Number of investments 10
- Total exits/ closures 2
- Years as entrepreneur 14.5
- Number ventures founded 2.7
- Age 57
- Percent of wealth in angel investing 10%
- Education Masters degree

Source: *Returns of Angels in Groups*, Robert Willbank and Warren Boeker (funded by Kauffman Foundation)
Angel Groups are Small - but Important - Subset of All American Angels

U.S. Millionaires
Informal Investors
Active Angels
Investors in Angel Groups

- 4,200,000
- 1,000,000
- 225,000
- 12,000

2009 Report from Spectrem: $1 millionaires down in 2008 27%, those with $5 million down 28%
World Wealth Report (Capgemini): 19% drop in HNWI and 22.8% drop in wealth in 2008

Growth in Number of American Angel Groups

Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ACEF (04-10 data)
Average Group Investment Activity by Year

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of investments</td>
<td>6.3</td>
<td>6.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Total dollars invested</td>
<td>$1.38 mil</td>
<td>$1.77 mil</td>
<td>$1.94 mil</td>
</tr>
<tr>
<td>Dollars invested per round</td>
<td>$218,131</td>
<td>$276,918</td>
<td>$265,926</td>
</tr>
<tr>
<td>Number of new companies</td>
<td>3.5</td>
<td>3.7</td>
<td>4.5</td>
</tr>
</tbody>
</table>

- Note: Investment numbers reflect investments per group, which is not the same as total deal size (lots of syndication)
- In 2009, 60.8% had follow-on or co-investments with VC firms


Many States Support Angels and Startups

- Over 20 states currently have tax credits
- Some states recently added them
  - Georgia and Connecticut
  - Seeking job growth
- Some are ending them
  - Kansas and Hawaii
  - Budget shortfalls
States with Tax Credits – Varied, Mixed Success

Interesting Models and Strategies
Tax Credits & Programs Make a Difference in Wisconsin

Wisconsin Triples Tax Credits in 2011

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax credit:</td>
<td>25% (per investment)</td>
<td>25% (per investment)</td>
</tr>
<tr>
<td></td>
<td>(12.5% per year - 2 yrs)</td>
<td></td>
</tr>
<tr>
<td>Effective date:</td>
<td>January 1, 2005</td>
<td>January 1, 2011</td>
</tr>
<tr>
<td>aggregate amount of tax</td>
<td>$5.5M (2010)</td>
<td></td>
</tr>
<tr>
<td>credits per year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum investment per</td>
<td>$4 M</td>
<td>$8 M</td>
</tr>
<tr>
<td>company:</td>
<td>($500k/investor)</td>
<td></td>
</tr>
<tr>
<td>investments:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ANGEL NETWORK INVESTMENT
DOLLARS IN WISCONSIN

2003: $1,238,000 (11 deals)
2004: $3,713,297 (20 deals)
2005: $5,387,406 (36 deals)
2006: $7,427,170 (77 deals)
2007: $11,665,500 (82 deals)
2008: $15,000,000 (53 deals)
Ohio Technology Investment Tax Credit Generates Private Investment

Total credits = $28.5M  
Private $ = $109.8  
Companies = 422  
Return = 4:1

ACA Promotes Stimulus for States

- Reports and studies available on different state programs and legislation:
  www.angelcapitalassociation.org/public-policy/state-policy-kit/
What States and Communities Can Do:

• Befriend local angels
• Offer workshops on investing
  – *Power of Angel Investing is available*
• Reduce risk for investors
• Manage risks AND expectations
• Connect entrepreneurs to mentors and education resources
• Insist entrepreneurs tell story well/ are prepared

Other Supportive Policies & Programs

• Develop more data and research to build understanding
• Education and coaching
  – Entrepreneurs
  – Angels and potential investors
  – Entrepreneurial support community
• Angel-(venture) forums
• Support admin costs for angel groups – or promote events to share info among angels, angel groups
• Systematic information and support
  – Wisconsin Angel Network
• Connect angels & mentors to:
  – University tech transfer offices
  – Promising, but not-ready for angel money entrepreneurs
ACA Public Policy Platform

- Maintain accredited investor standards
- Preserve Federal preemption (Reg D) of seed stage stock
- Develop good tax policy
  - Low capital gains tax rates
  - Angel tax credits at state and federal levels
- Keep angel investment private

Federal Angel Stimulus

- 100% exemption for 2010 and 2011 investments on Qualified Small Business Stock (0% taxes on gains from these investments)
- Four bills to include tax credits for angel investments in Congress in 2010
For More Information

Marianne Hudson  
Executive Director  
Angel Capital Association  
mhudson@angelcapitalassociation.org  
913-894-4700

• www.angelcapitalassociation.org