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## Understanding Angel Investors

Most angel investors are experienced businesspersons or exited successful entrepreneurs who invest in seed and start-up entrepreneurs as a part-time avocation. They invest both time and money in starting companies. While return on investment is an important metric of success in this endeavor, angels genuinely enjoy working with entrepreneurs and growing their businesses. Many angels remain engaged in running their own businesses while assisting new entrepreneurs with their start-up ventures. Other angels are semi-retired, mixing angel investing with travel and recreation. Six to 10 angel investors will fund a round of investment in new ventures, and then a couple of angels will continue to work with the company for several years as mentors, coaches, and directors. Only in emergencies do angels tend to jump in as full-time executives, and then only on a temporary basis. Most angels receive no compensation for their efforts, although it is not unusual for angels serving on boards of directors to be paid in equity for their efforts.

Individual angels usually invest \$25,000 to \$100,000 per company and, because this is very high-risk investing, wise angels tend to invest in eight to 10 companies at a time.

Most angels invest 5–10 percent of their net worth in entrepreneurial ventures with the remainder in lower-risk accounts. Many consider their angel investments to be their “mad money,” that is, money they might just have wagered at the race track or the blackjack table.

It is said that all of the return on investment from 10 angel investments tends to come from 10–15 percent of angel investments. It would not be surprising to find, then, that angels seek to fund companies that show the potential to scale rapidly, that is, grow quickly to \$50 million or more in revenues over the first five to seven years of operations.

Since 1995, angels have been forming and joining angel groups at quite a rapid rate. It was reported in 2005 that over 220 formal angel groups had been formed in the U.S., up from perhaps 10 to 15 groups a decade earlier. What explains this rapid growth?

Solo angel investing is difficult, time-consuming, and lonely work. Finding deals, completing the necessary in-depth study of each deal (due diligence), and structuring the deal to meet the needs of investors and entrepreneurs alike can be quite intensive and laborious. By joining angel organizations, angels see more deal flow and can share the work of vetting and investing in each deal with like-minded investors.

Angel organizations tend to take one of two forms. *Angel funds* scrub deals as a group and then vote on making an investment from pooled funds. Companies earning a positive vote receive a substantial amount of funding in one investment. *Angel networks* are groups of angels who screen and scrub deals together, but then make their own decisions on investing. Some may invest \$25,000, a few perhaps \$100,000, while others may choose not to invest in a specific company.

Growth in Angel Organizations

