

Alaska Angel Conference 2020



October 16, 2020

Angel 101 -Will Fowler, Signal Rock



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How does AAC work?

- Alaska Crowdfunding Act makes equity investing accessible to Alaskans
 - Investors commit \$5,500 to an LLC.
- Entrepreneurs apply to be a part of a 12-week conference.
- Investors learn how to conduct due diligence on applicants.
- LLC makes an equity investment in one startup.



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Alaska Angel Conference 2019

- Key Accomplishments
 - Created 10 new angel investors
 - Some of those new investors invested an additional \$100,000 shortly after the event
 - Built new networks between investors and entrepreneurs
 - Helped startups learn about funding options



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AAC 2020 Schedule

WORKSHOPS	SELECTION	FINAL EVENT
Oct 9 th – Feb 4 th Wed 5:30- 7:30pm In Person & Online	Oct 9 th – Feb 4 th Wed 5:30- 7:30pm In Person & Online	April 23 rd Invest \$100K+



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Signal Rock Capital

Trends and Tools for Early Stage Investing Groups





Will Fowler

Signal Rock Capital Founder



Will's Background and Experience



GRUBSTAKES VENTURES



Experience

30+ Holdings

5 Member Managed Funds

Administered: Screening, Fund,
Syndicate, SPVs

SLO Angel Conference

2 Accelerator/Incubators

Angel 101



What is an Angel?

An accredited investor who wants to lose money





Why do we Invest?

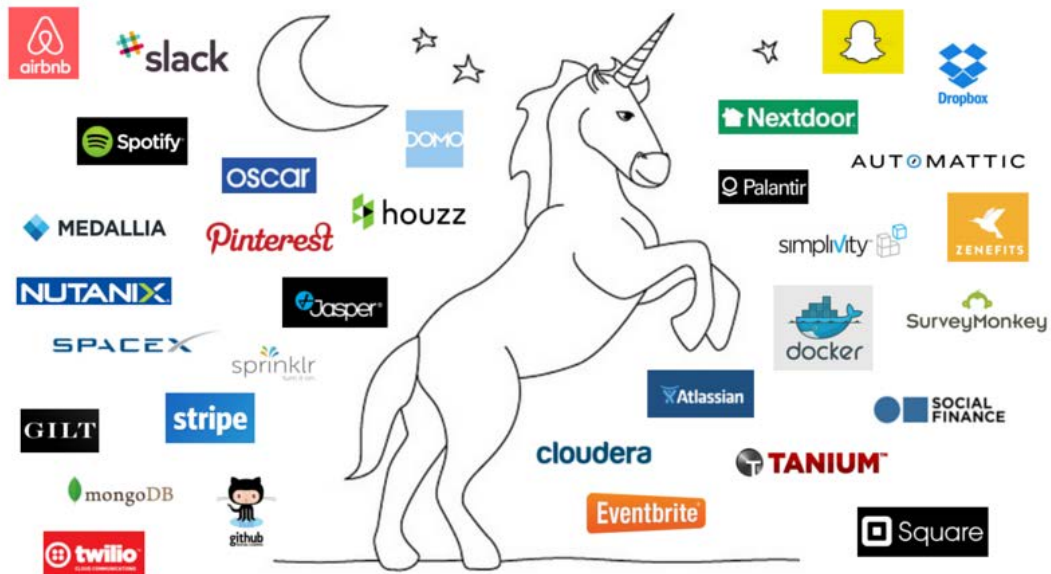
- A. We are Fools
- B. We are Gamblers
- C. We Love our Hometowns





How do we Make Money?

Exit or Bust





Angel Investing Data

21%: Average Ownership/Round

81%: Preferred Stock

17% Convertible Notes

1.2% Priced Common



Angel Investing Data

70%: Fail or return less than 1X

85%: Of returns come from less than 10%

21%: Average ROI

2.5X: Average Multiple

The Most Likely Outcome
Is FAILURE

You Need Many Investments to Get a Return

10 is OK

20 is Better



How to Get Portfolio Returns

Returns are Positively Correlated with Three Things:

1. Time Held
2. Amount of Time Spent in Due Diligence
3. Post Investment Engagement



3 keys to Getting a Return

1. Get the Best Possible Deal Flow Available
2. Get Your Capital Deployed
3. Have a Systematic Approach to DD and Portfolio Management

How We Deploy Capital



Types of Investment Vehicles

Passive Funds

Managed Funds

Active Funds

Event Funds

Groups/Networks

Solo



Passive Funds

Usually and Automatic or Semi-automatic Trigger

- Preset Investment Criteria (No due Diligence)
- Automatic Terms (usually trailing)
- Predetermined Amount
- Very Low Administrative Work

Pros:

- Little Overhead/Administration
- Auto Diversification

Cons:

- No Deal Choice
- Not Autonomous



Managed Funds

All Decisions and Administration
Handled by Professionals

Pros:

- Someone else does the work
- Auto diversification

Cons:

- No choice
- Less involvement



Active Funds

Member Managed: Group does the work, then votes to invest

Pros

- Group Work
- Money is already “spent”
- Diversification

Cons

- Higher level of organizational support and administration



Event Funds

Member Managed & Driven by an Event

Pros

- Group work (usually)
- Funding certainty

Cons

- Limited choice
- No diversification



Groups Networks (Most Common)

Membership Without a Fund

Pros

- Group work
- Individual choice

Cons

- Dinner club danger
- Needs strong organization and administration



Solo

Lone Wolf Investing

Pros

- Ultimate choice
- High engagement

Cons

- It's a ton of work
- No network to leverage

What is Going Right

12,000

Angel Deals in 2017 (estimate)

\$10 B- \$15 B

Angel Dollars Invested (Estimate)



VC vs. Angel (2015)

National:

- VC: \$77.3B
- Angel: \$24B (31%)

San Diego

- VC: \$1.5B
- Angel: \$134M (9%)

300,000

Accredited Investors Wrote Checks in the Last Two Years

400

Active Angel Groups

What is Going Wrong

5,000,000

Accredited Investors in the US

.06%

Number of “Activated” Angels

There are more of us, why
aren't we writing checks?

80%

Of Accredited Investors are Worth LESS than \$5M



Are We Overspending?

Standard Round Minimum: \$25,000

10 Investments = \$250K or 5% of \$5M

20 Investments - \$500K or 10% of \$5M

For some, this is too high of a percentage of their assets



Are We Under Diversifying?

Many Angel Investors Write 1-2 Checks, or Maybe 4-5

They hit their “Play Money” Threshold

Most Likely Outcome is Failure

They Then Stop Writing Checks

Common Issues

Networks

Don't Write Checks



Networks Don't Write Checks

Investors

- Too Much Work
- Not enough “Winners”
- Dinner Club vs. Investment Club
- Stop Participating

Startups

- Takes too long to get a check
- The checks aren't big enough
- Ugly Baby
- DD is a Pain
- Stop Applying

Winners

Are Hard to Find

You can't Pick Winners
You can only Screen out the
Losers



We are Emotional Creatures

We invest in people and teams

It's easy to fall in love

We are not used to falling in love frequently

How many times do you buy a house?

How many kids do you have?

The answer is probably not 20



Screening for Losers

Do you know a loser when you see it?????

Do you know a winner when you see it????

Stick with what you know

Diversify to hedge your bets

Deal Flow

Is Lumpy or Sparse



Deal Flow is Everything

Connect to ALL of the Deal flow Sources

Be Nice

Take Time for Feedback

Volunteer

Give "Coffee" Time

Every Decision Affects Deal Flow

Every Decision Affects Deal Flow

They Disappear

After They Get Your Money



Post Investment Involvement

Create an Approach/Committee

Require Reporting

Have a Face-to-Face closing Meeting

Ask Them What You can do to Help

Create Transparent Follow-on Criteria

Terms

Are Not Standard and Hard to Understand

Educate Yourself on Terms



Investor Friendly Isn't Bad for Startups

Priced Rounds are Better:

- You know what you are buying
- The clock starts for 1202 Tax Exclusion

Member Managed Funds



Structure

Member Managed LLC

Chair, and Other Committee Heads

20% Capital Calls as Needed

18-24 Month Deployment (could be annual)



Structure

Screening Committee

General Meeting

Due Diligence (Ad Hoc)

Membership Votes

Deal Leads and Portfolio Committee

Co-Investment Committee

Angel Conferences



Structure

Manager Managed LLC

All Members Make up Committees

Winner Take All Event

Host

Legal Back-end

Sponsorships



Structure

Investors Meet Every Week

- Learn
- Screen
- Due Diligence
- Vote to Invest (at conference)



Effects

New Active Investors

- Join Existing Groups/Funds
- Make New Funds/Groups
- Become Mentors, etc.



Angel Conference Data

Seattle Angel Conference

- 26 Companies Funded
- \$2.5M Invested
- 300 New Investors
- 1 Fund
- 1 Group

San Diego Angel Conference

- 4 Companies Funded
- \$625K Invested
- 30 New Investors
- Fund Manger Group
- 1 New Managed Fund

How to Get Something Started

It's Easier Than You
Think



Fund

Find a Champion

Design the Fund

Understand the Costs

Get Your Docs

Recruit and Close



Conference

PPM Interest Form

LLC Manager

Docs

Education Sessions

Thank you for joining us!

Join us October 23 at 5:30 PM for “What is due diligence?”

Thank you, Will Fowler, Signal Rock



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