USA Angel Capital Association Conference, Boston
April 18 – 20, 2018

Gerald Carter Chair Canterbury Angel Investors (CA)

Preamble

I attended the conference as chair of Canterbury Angel Investors. Aside from the more obvious benefits of being in Boston, I particularly wanted to validate (or otherwise) my thoughts on how our local ecosystem should develop.

I am writing this report some four months after attending, so can now add perspective of the conferences impact

Key impressions

Prior to the actual conference we had an enlightening tour around the local ecosystem, visiting "**Greentown"** (a physical maker space for "green" startups) **CIC** (co working space for startups) **MIT future lab** (The Engine).
We also attended the **TiE Scale Up** which is a "master programme" for startups.

There are two key areas of impressions. Firstly those from the actual conference, and those of the local Boston Eco-system

Conference

- I know you have all heard this but NZ punches way above its weight.
- US angels keen to syndicate with NZ.
- NZ easy place to develop tech
- Average angel investment round was US$400k
- Average age of people pitching was around 40
- 23% of angel invested groups have revenue, but refer to my notes below on TiE

Comment: Overall the size and structure of funding rounds isn't that different from NZ, the frequency is probably greater

Boston Eco system

- Population is 800,000, but a much larger immediate pop.
- 18 tertiary Institutes often with very substantial endowments. MIT alone has a surrounding economic base of US$2 trillion making it the worlds 10 largest economy!
- One startup space (CIC which is largely self funding) had 600 startups

TIE Scale Up which is a "master programme" for startups.
- 15 in each cohort and have had 60 through in the past four years with 59 still operating
- TiE angel invest about 11 deals a year
- Average deal raise is $USD400k

- There were 12 x 5min pitches...mostly well presented
- Big emphasis on the team
- ALL groups had significant revenue

Greentown focuses on hardware / software solutions for green outcomes.

- 30% sponsored, balance rental income

CIC Wow....600 resident startups (remember pop of Boston is only 800,000)

- 3000 startup companies since 1990
- US$4.5b raised by CIC clients
- $7.8b under management in their buildings

MIT "The Engine" fully funded by MIT. Its a "long shot" tech space"

- “We invest in the unimaginable”

All had close associations with the tertiary institutes (18)

Comment: The quantity and quality of startups and associated facilities was impressive

Key conference learnings

- Expected return from a portfolio is x2.6
- Angel group subscriptions are $USD2-3000
- Some charging US$1000 to pitch
- Lean startups are really good, but anorexic ones are really bad
- Angels are increasingly doing Round A funding often in syndication
- Always have a Plan A, Plan B from the start for capital funding
- Boards are "hands if" not "hands on"
- Never invest alone
- Stay away from complexity such as family or related startups
- Companies are "bought", not "sold"
- CEO sells the company, not the board
- 5 reasons to buy a company:
  - buy the people
  - buy the IP
  - buy a product
  - buy a cash flow
  - buy a product
- Until the exit we are all donors
- 85% of exits are less than $USD15m
- Check exit multiples for company sectors before investing – look for $USD20m plus. Telco x2.5, Cleantech x5.8.
- NZ spends $700m on grants...way ahead per capita of US
- Almost 2/3 of US startups have no rev at funding round
- Companies with experienced CEO's have an av exit of x5.2 as opposed to non experienced at x1.8
- What matters to an Angel investor:
  - Trust, Coachability, Openess.
- What wins pitches:
  - Passion - NO
  - Calmness - infers greater business ability
- Do the "beer test" - who are you really dealing with
- Invest in the" jockey, not the horse"

Conference session insights and highlights

DAY 1

Keynotes
The things I have learned from investing in women, Joanne Wilson
The economic outlook for angel investors, Jeff Mortimer BNY Mellon

Joanne Wilson

- Invest in women to make money – not philanthropic
- 70% of portfolio have women founders
- Angels better than VC’s for investing in women
- Looks for diverse “C” team
- Encourages women to be authentic, real and bold
- Women must use more aggressive financials
- How to get to deal flow
- Invest alongside others
- Only forwards deals if she is investing
- On lots of boards
- Invests equally in each company
- Likes to invest in minority lead companies.
- Term sheets have to be fair

Jeff Mortimer

- If you wait until you are comfortable, you are too late
- The market doesn’t care where you bought in
- Invest out of cycle, when all are scared (you will too!)
- Current market, not a good time for debt

Best quote goes to Joanne Wilson when responding to a pitch (not at conference) "*Great idea....pity you thought of it"!!* in other words back the Jockey, not the horse.

DAY 2

Keynote “*Our increasing Digital World*”
Terry Jones Founder Travelocity and Kayak.com

https://static1.squarespace.com/static/54ca4393e4b064086b1f4492/t/5ad7e927562fa75adb96365b/1524099372267/180419+ACA+My+story+custom+45min.key+%28shrunk%29.pdf

- Never stop learning
- Startups fail due to no market need
- You don't have to change the world to cause disruption
- Starters, Growers and Runners need different leaders
- Culture eats strategy
- 23% startups fail because of wrong team alignment
- 13% Fail by loosing focus
- 14% fail by ignoring feedback
- DO more with less
- Startups are like a jazz band, not an orchestra

Valuing startups: *A New and nuanced approach*, Launchpad Venture Group

Methodologies

1. **Dave Berkus** USD$

Idea	$500k
Prototype	$500k
Team	$500k
Build	$500k
Sales	$500k

2 **Bill Payne**

https://seraf-investor.com/compass/article/seraf-method-valuing-startup valuation-look-table

15-40% equity at first round. Typical 20-30%

Adjust for
- Exit reality
- Capital needs
- Current market conditions

https://docs.google.com/spreadsheets/d/1CdjlEpBKsOf8aqrAHufRnau-mFsy_1p4XRQcWXaB-9Y/htmlview

What (probably) works in early stage startups
John Lily, Lateral Capital Management

- Expect “average” returns (x 3 revenue)
- Invest in at least 15 startups
- Don’t try to “hog” the best deals
- Don’t have a board seat…mentoring from the side is more effective
- Don’t stay local
- Invest in the “jockey” but don’t forget the “horse”
- Spread investments evenly – not favourites
- Don’t try and pick the best technology
- Don’t invest in “cool” products (invest in benefits)

Executing effective exit strategies
Amstar, Launchpad Venture Group

- Timing of exist is as important
- Board role Identifiy potential purchasers
  Coach CEO on how to approach purchasers
  Ensure documentation is available to effect purchase and manage process
- CEO sells the company
- Prepare for exit from beginning
- “Until the exit we are all donors”

What adds value
- Exit strategy (more than just a list – actionable plan)
- What is the strategic valu to purchaser
- Keep regular contact with purchasers key decision makers
- Range of exit types (people, tech, market share, product, cash flow)

Three types of value creation
- Conceptual (What the company can achieve)

- Strategic (value to purchaser)
- Financial (cash / profit contribution)

KPI metrics for fast growing companies
John Ohara Chair AANZ

- Dashboards useful to monitor KPI's
- Highlight issues with traffic light colours
- If you cant measure it, you cant improve it – Drucker
- L4M – average revenue over four months extrapolated to 12 months
- NPS (Net promotor score) can indicate forward declining revenue

DAY 3

Data to dollars

Boston Launch Pad Angels, Tech Coast Angels, Central Texas Angel NetworkT, Queen City Angels, The Decision Platform, Hockeystick

https://docs.google.com/gview?embedded=true&url=https%3A%2F%2Fstatic.ptbl.co%2Fstatic%2Fattachments%2F172786%2F1523734855.pdf%3F1523734855

- ACA has 268 members and data from 25 organisations.
- Median investments per group - 45% less than US$2.5m
- 40% investing in less than 10 companies per group
- Approx 50% were investing less than $100k per round
- Most members have less than 7 members investing in a round
- 66% are doing deals with other clubs
- 33% have VC's in the deal syndication
- 66% have no revenue at funding
- 24% have less than $1m revenue at funding
- Return multiple for an experienced founder / CEO x 5.2
- Return multiple for a first time founder / CEO x 1.8
- Failure rate Experienced CEO 16%, Inexperienced 30%
- Always manage and reaccess alighment of founders and board

Syndication *Harnessing the power of angel networks to accelerate funding and increase returns*
Sophia Angel Investment fund, VentureSouth, Tech Coast Angels

- Syndication has a role where VC is not appropriate for the company
- Possible to raise greater amounts pre VC (or no VC)
- Different approaches to DD can be an issue
- Syndication groups agree to make their own decisions and not rely on others representation

Models angels can use to enhance deal flow from diverse entrepreneurs

Given there were four female panelists and a female moderator, the conversation wasn't so much about "diversity"

Trip Highlight

Visiting the "Bits & Atoms Lab" at MIT. We were privileged to have a tour with the director, Andreas Merchin.

The lab is founded on a collaborative environment where participants are selected for the skills they can bring, not their academic performance. There are no titles, and projects are not driven by industry. Andreas has founded the “No labels research group”

Rapid prototyping of ideas is encouraged to validate thinking

The lab is home to the 3D printer, FabLab and we were given an overview or tech being developed: Creation of a human heart, pain sensors, artificial noses, variations of 3D printing.

Conference organisation – key “do’s and don’ts”

- Do get to know the program before you get there
- Don’t rely on the program on your phone app…..it doesn’t always provide the full description
- Do go to the before and after events and be prepared for a very full diary
- Do take the time to network….some very interesting contacts and advice
- Do go to the conference…it was a great week

Postscript

It is now interesting to be able to reflect and look at the lessons and validations taken from the week.

- Need to increase the size of CA to 100 bonafide investors
- Increase the subscription fees
- The pitching groups need to be DD ready on pitch night
- Investment rounds will increase so that CA needs to be able to close $500k rounds at each pitch night
- CA needs to be visible in the local ecosystem
- Work to standarise DD

Hosted Andreas Merchin form “Bits& Atoms” Lab and arranged “high level” tours to the Medical School, University of Canterbury and FabLab. Andreas and his wife are considering relocating to New Zealand….the reasons are interesting

- Easier to develop tech in NZ – a better regulatory environment
- VC funding is less, so that it is more discerning
- Close to future markets

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USA
Angel Capital Association Summit in Boston
April 2018 - Trip Report
Phil Southward

OVERVIEW

The 2018 ACA summit in Boston was my first angel conference and in my opinion it was more than worth the time and money. I will go again. The main highlight for me was the people I met, all of whom were interesting, welcoming and very knowledgeable. Thanks especially to Suse Reynolds who did a fantastic job organising additional events for us kiwis outside of the conference, including the "Leading Lights Dinner" with a number well known American angels (including Bill Payne and Dave Berkus), a tour of the "Label Free Research Group" of MIT (http://ilp.mit.edu/newsstory.jsp?id=24093), attending a TiE Scaleup pitch event (http://tiescaleup.org), along with two further dinners with a selection of international angels.

KEY IMPRESSIONS

- I was surprised that in spite of the obvious maturity of the American angel scene, most of the presenters from angel groups were talking of portfolio returns of 2-4 times, similar to average New Zealand exits in the last 10 years.
- The practices/sophistication of New Zealand angel groups seem to be at a similar level to many of American and international angel groups in spite of the shorter time formal angel groups in New Zealand have existed.

KEY LEARNINGS

- IQ of the founders is an important indicator of success. It is generally accepted that the coachability of founders is an important indicator for the success of startups, since coaching by experienced angels leads to companies doing better than they otherwise would. But how do you access coachability? One angel group believes you can test IQ to measure how coachable founders are likely to be (using the Watson Glaser assessment - https://www.wikijob.co.uk/content/aptitude-tests/test-types/watson-glaser). The reason for this is that if someone has a low IQ, they are often not smart enough to understand the coaching and implement it successfully.

- Although valuations are high in Silicon Valley and some other areas, valuations are actually the same globally when measured on the resources founders need for two years of operations.
- Angel investing is a global talent hunt
- 90% of startup equity comes from angels. VCs do bigger deals, but they do fewer deals. Without angels, startups would never get to VCs to be funded further.
- It might sound obvious, but exit performance changes with time. The more time, the higher the chances of positive exits.
- The low number of women angel investors compared to men is not due to the lower numbers of women in business but rather because many women working for corporates who could be potential angels:
    - Have a lack of understanding of what angels do
    - Think you have to have a lot of money to become angel investors (something I also thought for some time)
    - Are directed by investment advisors towards "safe" investments rather than angel investment
    - Do not have any contact with entrepreneurs
    - Think their first priorities are children and other financial commitments
    - Have a lack of time due to family responsibilities
    - Think angel investing is very risky
- "*If there is a euphoric buyer, as an angel investor, you have one job, to sell to them.*" (Jeffrey Mortimer).
- Can one person make a difference in the world? "*One person makes ALL the difference*" (Terry Jones)
- Valuation matters. For two reasons:
    - Real world results are not success or failure. Most exits are in the middle and therefore valuations are critical to returns.
    - A high post money valuation for early stage companies increases the risk of failure. Companies need to have valuations they can "grow into" because if the valuation is too high initially, then future money will not be available.
- None of the traditional methodologies (Berkus, Billy Payne "scorecard", Risk Factor Summation Method) for valuing startups factor in what is going to happen in the future. Seraf has therefore developed a new valuation method that attempts to model future events. It can be downloaded for free at: bit.ly/DownloadValuationWorksheet
- *"Lean Startups are really good, but anorexic ones are really bad"* (Dave Berkus and Mike Cegelski)
- An increase from 7 years to 10 years until an exit, requires a doubling of multiples to get the same return.
- Many investors invest the same amount in all their companies for the first round since they cannot pick which ones will be successful. Differential investment only comes with second or third rounds.
- If founders do not communicate well, don't invest.

Conference Session Insights and Highlights

18th April 2018

International Exchange Workshop

- USA:
  - Angel investors are critical to startups and economy
  - $25B invested
  - 71k deals in every state
  - > 300,000 angels
  - **90% of startup equity comes from angels** (VCs do bigger deals, but they do fewer deals. Without angels, the startups would never get to VCs
  - 13,000 investors in ACA
  - Four pillars in ACA:
    - supports angel data and research
    - provides education for angels
    - represents angels in Washington DC
    - provides relevant content and connections for deal flow and exits
  - ACA study/research
    - Who are they?
      - Angels are entrepreneurs and executive - see photo
      - Background makes a difference, entrepreneurs write larger checks and have more positive exits
    - How do they invest?
      - Newer angels are bringing diversity to investing
      - Angels live across the USA
      - Typical deal size is around $25,000 and up to $500,000
      - men and women have some investing differences around gender of founder
      - people invest with people like themselves (education, colour, industry, etc)
      - all angels agree team quality is important
      - Angels grow portfolio over time, more years the higher number of investments.
      - Exit performance changes with time. More time, more positive exits.

- NACO (Northern Angel Capital Association)
  - Mission - to grow and develop Angel investment in Canada and evolve it into a sustainable asset class of investment that will drive Canadian economic development and prosperity
  - Three Aims:
    - Empowering connections
    - Improving outcomes
    - A voice for angels

- National network of investors, also do cross border investment with USA
- Only 6% of VCs are women and 20% of angels are women
- Only 2.7% of funding goes to companies with women CEOs
- NACO and female funders partner to create angel investing education programs
- Female funders is empowering thousands of women to become the angel investors of tomorrow
- A lot of women found the angel groups not so welcoming (often because they are mainly men).
- SHRED - Canadian government gives cash for companies investing in innovation
- Includes:
  - self guided education
  - investment opportunities
  - global community
- Aim is to get more angel investors who are women, who then invest in more female run companies, so there will then be more entrepreneurs who are women

- EBAN
  - ***"Angel investing is a global talent hunt"***
  - 10-20 years before today's entrepreneurs see results from being successful angel investors
  - Tax laws different in every European company can hinder movement of companies elsewhere.
  - The biggest growth in funding for startups is in Asia

- EUROPEAN ANGEL INVESTING LANDSCAPE
  - Business Angels Europe:
    - created 5 years ago
    - a confederation of various angel groups
    - 250 angel networks/groups
    - 40,000 individual angels
    - promote angel investment in Europe
    - fragmented market over 27 countries
  - Priorities:
    - being a strong voice for members to European institutions
    - resource of knowledge, experience and intelligence on European angels
    - grow international investment/cross border investment
    - influence EU policy
    - promote women angel investment
  - BAE Club:
    - launched in Barcelona in March 2014
    - 13 groups, 10 countries, +2100 angels
    - most active clubs in EU with high track record
    - more than 150 events/year
    - Early Stage Investing Launchpad (ESIL)

            - can register on the platform - https://www.europeanesil.eu
    - WA4E (women angels for entrepreneurs)
        - around 15% of UK angels are women investors
        - 54% of women in the survey had already founded a business
        - Portfolio with 30-50% with women founders
        - women back a wide range of industries
        - reason for angel investing a bit different than for males, the women were very passionate about entrepreneurship (money lower down the priorities)
        - Key barriers for women who were NOT angels:
            - lack of understanding
            - thought you had to have a lot of money to do it
            - no advisors for investment mention angel investment, directed towards “safe” investment
            - did not have contact with entrepreneurs (as most of the women were in corporates)
            - many women thought their first priorities were children and other financial commitments, and they also had a lack of time
            - Women thought angel investing was very risky

- ISRAEL: A New Platform and Fund Model - VC investing in the Israeli market from IAngels in Israel - https://www.iangels.co
    - Based in Tel Aviv
    - Hybrid VC and co-investment platform:
        - with idea of being transparent on everything they do.
        - Do same work that a VC will do, will upload everything to platform
        - It is a crowd funding platform but for accredited investors only for angel investment. Minimum is $10,000 USD per investment
    - Fees like a fund: 2% per year for four years and 20% carried interest.
    - Traditional and crypto portfolio management
    - $140 million invested
    - Israel is the 3rd largest ecosystem in startups
    - ⅔ desert, no natural resources. Only resource is the brain/mind
    - Pioneers in agritech, cybertech and MedTech
    - World renowned academic institutions
    - Broad and diverse capital base:
        - 90 accelerators
        - more than 70 VCs
        - 200 international funds
        - 300 angel investors
    - Founders think global from day 1
    - 298 multinational corporations
    - 95% of exits are M&As and 5% are IPOs

    - The Israel tech ecosystem presents the highest potential return on a relative basis
    - 22 people in IAngels team, 18 are women.

- ASIA: What Angels need to know in emerging Asian markets
    - Asian market characteristics:
        - Fragmented, diverse, high growth, high intensity, developing
    - Strengths of the asian market:
        - speed
        - intensity
        - agility
        - market size
        - openness
        - STEM talent pool
        - combination of software and hardware
    - High adoption and elimination rate - Fast for investors to tell winners from losers, potentially faster investment return cycle.
    - Top 3 stock exchanges in q4 by global IPO trends were: NYSE, Bombay, Shanghai
    - Looking to the US as a model for learning or business partnership but now less for investment
    - Founders going back to Asia to start companies
    - Asian companies staying in Asia to raise capital and expand regionally.
    - Top mistake companies make is focusing too much on opportunity rather than suitability

- BRAZIL: Vision and Numbers for Brazil's Angel Investment ecosystem
    - Anjos do Brasil - a non-profit organisation to foster angel investment for growth of innovative entrepreneurship in Brazil
    - macroeconomic problems, but startups are at microeconomic level
    - One of the 10 biggest economies in the world, embrace new technology in brazil.
    - Brazilian angel investment growth
    - Most of the angels do not have an industry sector focus
    - Only 7000 active angel investors

- SCOTLAND - The Archangels Share, a book about the first 25 years of the Archangels
    - founded in 1992 with four pillars
        - build businesses in scotland
        - invest in young tech companies
        - give something back
        - make money have fun
    - Early stage technology and life sciences
    - All investee businesses must be based in Scotland
    - high growth and scalability

- range of investment from $50k to $3million
- Lead investor over multiple funding rounds
- Use domain expertise in network
- Follow a portfolio approach to investing
- Limit exposure to failures by identifying issues quickly
- Only 17% of cash was lost from failures
- Investor due diligence focuses on:
  - Team
  - Large market international
  - Is technology disruptive and unique?
- 90 members in syndicate
- $25 million of investment ⅔ from Archangels, the rest from partners
- 21 companies in current portfolio
- 84 investments
- $143 million of current port
- Total $338 million
- 22 successful exits
- Premise of returns going in, is 10x, the reality thought is much less, 2.75x on exits (or 1.75x returns over total portfolio) - returns not large, but stable returns
- Patient investors, take the long view
- Sales will be slower than you think, nothing ever goes as you think

- PACIFIC ALLIANCE: Growing the Angel Collaboration
  - What is the Pacific Alliance?
  - Returns of around 3x
  - Have not chased facebook type companies, but concentrated on areas where they have a competitive advantage.

The things I've learned from Angel Investing - Joanne Wilson

- Has invested in more than 100 companies
- Went through the dot.com crash
- Investors don't run companies (different skill sets)
- **Invests mainly in women led/founded companies**
- Angels backing around 30% of women led/founded companies, but VCs only 5%
- Female founders pitch differently
- women tend to spend longer building their businesses and when they pitch they tend not to be so confident about their businesses
- Advice to founders - "be authentic, be real, be bold", Question to ask potential investors: "are you in or are you out?"
- Advice to investors: "Once people realise you have money, it's amazing how many people find you", "make yourself available"
- Talk with institutional investors and often gets deals referred that are too early for the institutional investors.
- Only sends deals to someone else if she invests in the deal too.

- Thinks it is very important to have an investment thesis
- Puts in smaller amounts of money in first rounds, makes sure money is available for later raises.
- Puts in equal amounts for all companies at same stages because you never know if the companies will implode.
- You have to start with the right valuation (price). Silicon Valley has done everyone a big disservice by having such high valuations.

The Economic Outlook for Angel Investors - Jeffrey Mortimer

- bought his first shares as a kid
- higher inflation and higher interest rates in 2018, so borrowing money will become more expensive
- risk asset (shares, etc) will do better in 2018 than bonds or other low risk assets
- when yield curve is flat or falling, then a recession has always followed so make sure your companies have good control on costs and enough cash in the bank.
- 35 year bull market in bonds is over >> makes hurdles harder
- Copper is an early indicator of economic cycle (Dr Copper)
- Rising inflation is a cycle killer. They can end with a shock, but with inflation rising they will also end
- We are wired to be poor market investors because of fear… This means will sell low if market falls
- *“The stockmarket exists for one reason only, to frustrate the most people possible”*
- *“As angel investors, get comfortable with being uncomfortable”*
- *“If there is a euphoric buyer, as an angel investor, you have one job, to sell to them.”* Typically after this high price, the markets will fall.
- Today sitting at 9-10 split, the first time since 1970, buy dips, better to be a buyer than a seller right now.
- 9-10 splits only end (after approx 18 months) as:
    - 10-10 split, which is great and could last for upto 24 months
    - straight to a recession
- *“For an angel investor, it is your entry price that matters, it is all that matters.”*

19th April 2018

Keynote - Data, Algorithms and Insights from Propel(X)

- Technology and deregulation brought about change. In the 1970s, deregulation, then introduction of Apple II >> company called TradePlus (now called eTrade)
- technology >> insights, the more the insights, the greater the participation in the markets
- Been working on the Angel diligence process
- Questions and responses can be standardised. Important to standardise these because then can compare across companies
- Propel(X) - an investment platform that connects accredited investors with deep tech startups - breakthroughs in science and technology - https://www.propelx.com
- 70-130 data points per company
- So what does propelx do with the information and what is next?
    - Create risk profiles for each company & Track real outcomes and compare with risk profiles
    - Create first level of predictions

Keynote - Building Innovation in Our Increasingly Digital World - Travelocity and Kayak Founder Terry Jones

- Why does he do this - “Never stop learning”
- How big does your dream need to be to have a successful company?
- You don’t have to change the world to have a successful company
- Leadership is critical in startups
- Entrepreneurs are seekers of adventure, open to new things, creatives, comfortable with risk
- There is more than one right answer
- Not every CEO can scale a startup
- Its all about the team
- Hire people who aren’t like you
- Can one person make a difference? **One person makes all the difference**
- Focus on the team. Are they rock stars
- wayblazer.ai
- Take the first risk
- Watch failure, not to assign blame, but to ensure victory
- No battle plan survives contact with the enemy
- Travelocity transformed their business model over time, while competitors didn’t
- 13% of companies fail by losing focus
- 14% of companies fail by ignoring feedback
- Kajak sent customer feedback emails direct to engineers, even though they are expensive. “Give the pain to the people who caused the pain - the software engineers”
- 15% fail due to no market need
- Better answers get people to buy - use AI to put up right reviews and right pictures to match what they are looking for
- right question, right answer >> AI

- 29% of startups fail because they run out of cash
- Do more with less
- “AI is the new UI”
- Get the slides at www.tbjones.com

Startup Valuation Methodology

- Valuation matters for two reasons:
  - Real world results are not binary. Vast majority of outcomes are in the middle and in these deals valuations are critical to returns.
  - High post money in early stages increases failure risk. Companies need post moneys they can grow into, if valuation is too high, then future money is not available
- Valuation takes place in a market with market forces, markets are regional
- Valuing mature companies is a science, but these techniques do not work for startups
- Traditional methodologies for valuing startups:
  - Berkus Valuation
  - Bill Payne “scorecard” method
  - Risk Factor Summation Method
- None of these methodologies factor in what is going to happen in the future.
- Venture Capital “Required Return” method moving in right direction, but only considers one round of financing.
- The “Seraf method” uses market data and real world norms
  - Founder economics need to work
  - market prevailing % ownership norms
  - current market conditions
  - future market conditions
  - post money and capital staging included
- Founder economics - founders need to have enough stock to be properly motivated to stick it out for the long haul
- Investors routinely (and deliberately) over pay for first rounds in order to keep founder dilution manageable
- in 95% of angel deals, the investors end up owning 15-40% of the company on post money basis. Most these are 20-30% ownership (from 70,000 deals)
- Additional capital with a higher valuation allows a company to achieve more
- Seraf method is built on normative baseline percentage ownership as the starting point (ie not as a goal, but as a yardstick)
- Then look at raising or lowering from that starting point using adjustment factors across:
  - Exit realities
  - financing needs
  - deal environment
- Download the spreadsheet to do this valuation method. - bit.ly/DownloadValuationWorksheet
- See also the ebook and the article about this.
- Best is price preferred equity and NOT convertible notes

- End stage for founding team is that the team is diluted to around 7% after a lot of different rounds.
- If founder salaries are too high, that is a red flag as could mean that founders do not value their shares (i.e are they motivated enough, etc).
- The pre-money on the next round must be the same as or higher than the post-money on the previous round.

What (Probably?) Works in Early Stage Investing

- Early stage investors are individuals who have the experience, capacity, and conviction to invest in early stage companies which they can help to make successful
- To prove investment in early stage companies in a way that are profitable and do something for the common good
- Five criteria for investing
- Financial goal to be "average" investors, which is around 3x gross return
- What are the investment rules that they do not follow?
    - We don't try to outsmart the market - if you are going to do less than 15 deals, then don't do it
    - We don't try to hog the best deals
    - We don't want a board seat - what actually helps is coaching the CEOs from the side
    - We don't stay local
    - We don't invest only in the jockey, we also invest in the horse. - "There are no good people and no bad people, just horses for courses".
    - We don't invest in what we know - want to be the dumbest question asker in the room.
    - We don't invest more in our favourites - invest the same amount in each company
    - We don't try to pick "the one best" technology
    - We don't invest in cool products (invest in benefits)
    - We try to avoid the ten big lies (e.g. plug and play, its going to change the way you live)
    - We don't live in the hype cycle
    - We don't confuse investing with charity
    - We don't rationalise our failures
    - We try not to be jerks

ACA Insights from Angels who have backed 100+ companies Each - Dave Berkus & Mike Cegelski

- *"Lean Startups are really good, but anorexic ones are really bad"*
- The seed rounds of today are like the series As of yesterday
- "We're not hands on, we're hands if"

Executing Effective Investment Exits

- Why bother planning for exits?

    - Exits are where returns are made or lost
    - ideally want to exit at high multiple and for cash
    - Some critical parameters influence returns:
        - capital invested
        - expected dilution post investment
        - time to exit
        - exit multiple
        - currency and terms offered
- **Increase from 7 years to 10 years until an exit requires a doubling of multiples to get same return.**
- Active boards are important to optimise exits >> Requires proactive planning and engagement
- Think early and strategically about exits
- Complimentary roles between board and management
    - board can help steer towards harvestable opportunities
    - Management must product operating results
    - CEO sells the company - different from selling product
    - Early discussions and agreement on roles
    - Build expert knowledge of what buyers are looking for
    - **Focus company initiatives on what buyers will pay for**
    - Have to have an actionable, implementable exit strategy, not just a list of possible acquirers
        - build meaningful relationships with several acquirers of each category - know what strategic value your company has with potential acquirers
        - Exit strategy is where you build the company to solve the problem of the buyers (like a product solves problems for customers, the company solves problems of the buyers of the company)
    - Types of exits
        - Acqui-Hire - value is in the people, little value in the entity itself
        - Technology
        - Feature
        - Product
        - Business
        - Company
    - Multiples from exit increase as you go from Acqui-Hire to Company exit type
    - Types of value for companies:
        - Conceptual value
        - Strategic Value
        - Financial Value
    - Over the time period until exit, the value changes from conceptual to financial together with going from Acqui-Hire to Company exit type.
    - Each transition to the next type of value is a period of not only increasing value, but also tremendous risk
    - A great banker will enhance an exit by providing “air cover” for the CEO and management

- Plan and prepare from the beginning >> maintenance of books and records is a MONEY issue
- Plan and prepare for Escrows and holdbacks
    - insert charter “waterfall” provision EARLY in the company’s history
- Earnouts
    - create fundamental misalignment of interests
    - establish and ensure adequate information flow
- Use legal team as advisors, not as those defining the documents
- Skills needed on the board are different at the beginning from the skills needed when going for an exit >> change board members as necessary
- *“Until the exit we are all donors”*

How to attract the best companies and deals

- Canadian angel group have a weekly get together where entrepreneurs come along and pitch
- Another group organises an event with a few CEOs from portfolio companies to talk about their experience with the angels group. Provide free food and drink for those who come along.

20th April 2018

Techstars accelerator

- 90% success rate of their startups
- 10 years old
- not just accelerator
- 40 accelerator programs in 12 countries
- 3500 founders and $4.7 billion have gone through program
- 5% of entrepreneurs who receive Series A are Techstars graduate

How non-financial unconscious biases drive your interest in ventures and how to get past them

- What biases investors during the pitch - cues and behaviours by the entrepreneur
- HBR article Lakshmi Balachandra - how VC really assess a pitch - https://hbr.org/2017/05/how-venture-capitalists-really-assess-a-pitch
- Honest Signals - How they shape our world by Alex Pentland
- Different outcomes in investment decisions based on viewing pitch or not
- Entrepreneurs must be able to articulate their ideas in a pitch to all kinds of "catchers"
- What matters:
    - Trust is important - investors make trust judgements of the entrepreneur during the pitch, what behaviours from pitch give trustability:
        - Openness (accepting suggestions, not defensive)
        - Coachability (can I work with this person)
        - Name dropping (has a strong network)
        - Being younger..and
        - Laughing !!!
    - Style - winners of pitch competition can be predicted almost purely on their non-verbals. What are they doing for this:
        - Got passion ? Does passion really matter? NO.
        - Calmness dictated whether the presentation was a good presentation.
        - What does calmness infer >>> Higher in business abilities and investment interest
    - Femininity is less likely to get investor interest, women entrepreneurs more likely to display masculinity too >> confident, determined, strong, bold.
    - Is there a gender bias by investors against the markets that women entrepreneurs choose to start their businesses?
        - male investors prefer male markets with men CEOs
        - female investors prefer female markets with women CEOs
        - To be expected? NO:
            - male investors prefer female markets with male CEOs
            - Rationale is arbitrary

How to better drive the success of group portfolio companies

- Due diligence:
    - should also include whether the founders are people you can trust - pint of beer/cup of coffee test - who are you. Can you work with this person.
    - Regular question to cofounders: “How did you get to know each other”?
    - Find out as much as possible about the founders personally
- Three key roles of investor post close:
    - shareholder
    - board observer
    - board director
- **“The three things I invest in are: people, people, people” - Peter Cowley**
- You don’t have to be on the board to help out a company. So how do you get involved as a shareholder?
    - Mentor
    - meeting and chatting with founders
    - create education for entrepreneurs (and also angels) which also means that entrepreneurs meet each other
    - Checking for alignment of founders and investors/board with company, etc
    - Your experience, helping out
- Board
    - Board size:
        - small agile boards (maybe around 3 people) are good at the beginning. Downside is that maybe not enough skills available.
        - Opposing view that minimum size should be 5 people on board as 3 people often dominated by CEO/founders
        - Do NOT allow CEO to be chairman
    - Board members try to specialise in certain areas, eg. someone focus on exits, someone focus on cash, etc
    - All board members should have “skin in the game” - opposing view that an independent director (not a shareholder) as a fifth person, ie. deciding vote.
    - Only people on the board who add skills and experience that are necessary/good for the company.
    - For most of portfolio companies, you will not be on the board
    - Communication from board back to founders:
        - a lot of communication should not be shared with all shareholders, e.g firing a staff member
        - four shareholder communications a year and a meeting once a year
        - What do you do if you have founders who do not communicate/listen?
            - do not invest in the first place
            - talk with founders face to face

How to Spot a High Performing Team - Chris Wadden, Chairmen of the Pasadena Angels

- Traditional testing adapted to Entrepreneurship
    - Meyers Briggs
    - Prevue HR system
    - StrengthFinder 2.0
- One investor only invests in entrepreneurs with Meyers Briggs resutls of NT. He then adds the E to invest in ENTs.
- EntreMetrics - www.entremetrics.com - is an online assessment that provides quantitative information …
    - score for 5 entrepreneurial quotients
    - EM5 - NCAT shows certain beliefs and biases that affect our behaviour
    - Results presented as a numerical score, graphically in a bar chart and a radar plot against the gold standard scores
- Grit and self-control predict achievement - from Angela Duckworth.
    - Grit is the tendency to sustain interest in and effort toward very long term goals
    - Self control is the voluntary regulation of impulses in the presence of momentarily gratifying temptations.
- Founder institute has various tests on founders
- One angel talks to entrepreneurs to see if they are smart
- Take founders to lunch to chat. Red flag is if they do not communicate well.
- Coachability is most important trait of entrepreneurs for Dave Berkus
- One angel wants data, not passion. Is there a business model there? uses this to evaluate founders and how they think/work
- To assess coachability - the Watson Glaser assessment (https://www.wikijob.co.uk/content/aptitude-tests/test-types/watson-glaser) - closest profiles to an IQ test. If someone scores below 50%, then they are not coachable not because they do not want to listen, but because they are not smart enough to process coaching and implement it.
- One angel pushed back that Steve Jobs, Mark Zuckerberg and Bill Gates were not coachable.
- Dave Berkus - defines coachability as whether he wants to invest. In general coachability leads to companies doing better than where the founders are not coachable.

Conference Organisation – Key "Do's and Don'ts" You Picked Up

- Bring a lot of business cards, everyone was exchanging business cards. I haven't used business cards for years and thought I could just do my usual electronic exchange of contact details.
- Don't be shy. Conference participants were really interested to hear about investing in our part of the world and had plenty of useful information they were willing to share.
- Hold your head up. New Zealand angel investing might not have been going for that long, but we can offer just as much useful experience as others can.
- It's not necessary to stay at the conference hotel. I booked a place through AirBnB that was a bit further away (and cost a LOT less).
- The USA does have good coffee. You just have a look a bit harder than you would in NZ.

PLUS SCANNED COPIES OF BUSINESS CARDS… PLEASE!

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ACA Conference – Boston, MA
April 18-20 2018 Trip Report
Katherine Sandford, Enterprise Angels

Introduction

The ACA Summit is the first conference I've attended with an angel-investment focus. With ~600 attendees and a strong NZ-contingent of ten, the greatest impact for me came from networking with others, much more experienced in the space, and the wide range of topics that were presented in the break out sessions. Choosing what to attend was challenging. Touring MIT's Bits and Atoms Lab was mind-blowing, and definitely a trip highlight, and it was great to experience a local incubator pitch night and get a sense of how NZ companies compare at that same stage.

While the conference tagline was *Charting a Course in a Changing Market,* it could have also been centered on *Women and Diversity,* as these were topics and themes that came through consistently in almost every session. I gave up counting the number of references to women over the course of the conference.

Grateful thanks to Suse Reynolds for coordination of the eclectic kiwi bunch of "Angels on Tour" – the extracurricular activities, including social events, outside of the conference proper were an excellent addition to the formal programme.

As always with these events, networking with the other kiwis proved to be incredibly valuable (and fun!), and I got a greater understanding of the talent and expertise we have at home. It also served as a reminder that I need to get more engaged in the community in NZ. Thanks guys!

Key impressions, insights and highlights

Angel investors, regardless of nationality share a set of common values
- Doing good, giving back, supporting economic development in their countries and being part of a like-minded community

It's a risky game if you're only in it for the money
- USA 2016 stats – 500k startups, 4125 VC funded, 726 exits → 492,000 were unfundable!

NZ Accelerators do a good job
- Attending the TiE Boston ScaleUp Pitch Night before the conference provided a good perspective on this

- Doesn't matter what country you're in – there are excellent pitches and there are fairly average pitches. NZ is no different to Boston in that regard!

While all conference sessions were really interesting, the Impact Investment track and the John Lily session were the most impactful for me, so am highlighting these specifically below:

1. **Impact Investing**

- While around for some years, it is coming into its own. Tuesday workshop and dinner were over-subscribed.
- The landscape is complex and there are limited connections between the various groups across the US, but there is a drive to improve this and some links are being formed
- Those involved are looking for ways to identify impact investors to differentiate from traditional investors
- There are two threads forming – environmental and social
- There are many traditional sectors that can spin into impact and empowerment
- ACA is going to facilitate a weekly impact call on Tuesdays to share deal flow across ACA membership
- Investorflow.org – free investor-centric website for sharing impact deals. Goal to match specifically with what you want to invest in. Individuals, angel groups and funds welcome to join.
- Impactinvestorlandscape.org – entrepreneurs can connect with investors. Currently free, but looking for sponsorship to keep it running
- US Dept of Commerce have economic development grants available and keen to engage in the impact space - $21m available this Spring
- Mission drift for impact-focused companies has been a real risk as they have taken on more investment – but now more institutional investors are wanting to be in the impact space. Maintaining mission alignment is something mentors can support.
- Funds/Accelerators
    - Next Wave Impact Fund – learning by doing
    - Rockies Impact fund - $25m being raised with first investments year-end; also have Impact hyper-accelerator (one week)
    - HalcinIncubator.org – social enterprise incubator
    - Cincinnati – incubator focused on women and minorities
    - Austin has four impact/diversity accelerators
    - Fledge – conscious company accelerator in Seattle
    - Women's investor network in Rockies
    - E8 Seattle based clean tech group
    - MIT inclusive innovation challenge - $1m available –free money

- **Luni Libes workshop – Impact without waiting for exits**
    - Book – Revenue Based Financing (Luni Libes)
    - Subscribes to a revenue based equity approach to angel investing, e.g. Revenue-based Equity
        - In Round 1 $100k buys 10% ownership

- Company repurchases half of those shares for $200k using 5% of future quarterly revenue
- This provides a 2x+ return
- With this model, any company that can earn revenue is investable
- IRR is higher as you are getting revenue monthly or quarterly over an extended period of time
- With this model you are taking money out of the company, but so is the landlord, employees etc
- On Round 2, if things are going well and the next investment is going to raise revenues significantly, then be prepared to take a lesser percentage of the new number in order to maintain the same amount each month/quarter.
- See fledge.com and lunarmobiscuit.com

2. John Lily (Lateral Capital) session "What Probably Works in Early Stage Investing" provided a lot of good advice for a "newbie" Angel:

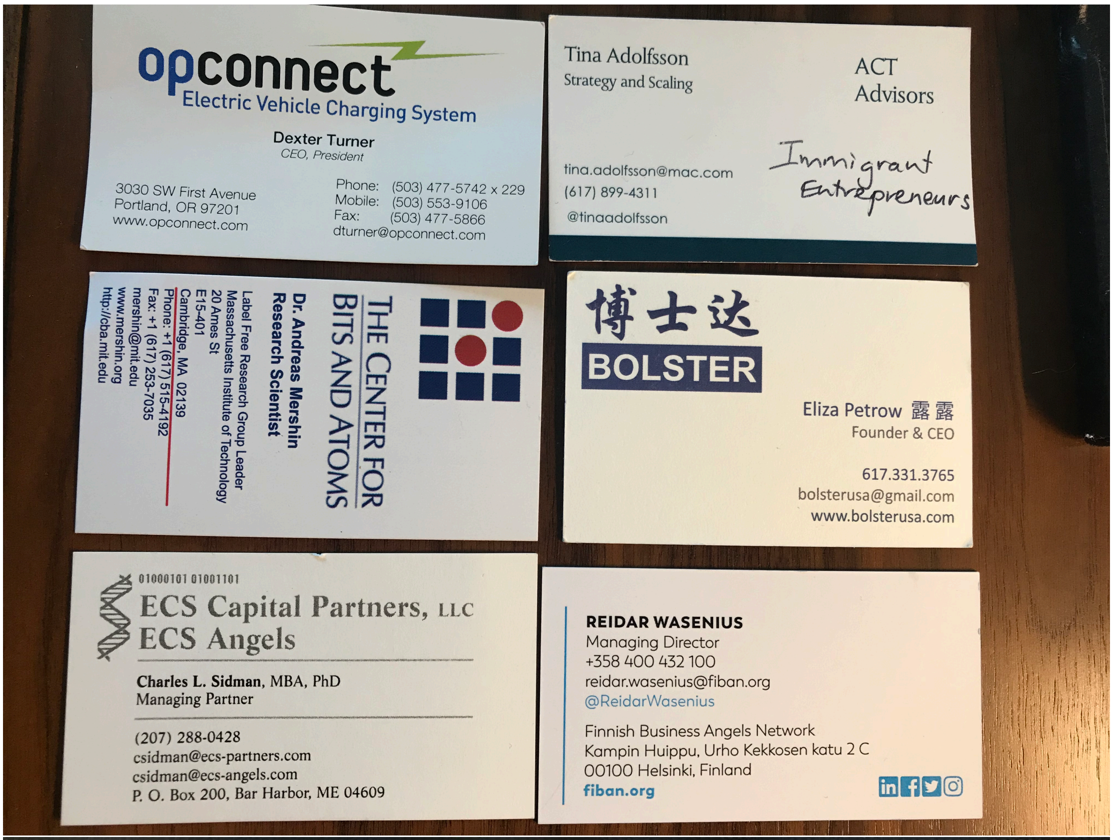
- Early stage investing is about a process – not about the amount of money you have – it is self-perpetuating once you get started
- Early stage investors don't follow the rules – what seems to work is what they DON'T do!
    - DON'T try to outsmart the market – expected success is 7%. 7% of 15 deals = 1 winner, so if you're not prepared to do at least 15, DON'T start!
    - DON'T try to hog the best deals – source deals alongside others
    - DON'T be obsessed with getting a Board seat – coaching the CEO on the side can be far more effective
    - DON'T stay local – location doesn't matter
    - DON'T invest in only the jockey – invest in the horse first because the track conditions change and chances are the jockey needs to change at some stage too
    - DON'T invest in what you know – when you don't know you ask better, dumber questions!
    - DON'T invest more in your favourites – early stage investing is its own asset class, not a stock-pickers business
    - DON'T try to pick the one bet technology – invest in "techtilities" – products and services that everyone in the industry will need
    - DON'T invest in "cool" products – invest in benefits, the things customers want to buy
    - DON'T be sucked in by the "Top 10 lies" – it's plug and play, it will change your life, batter life is fantastic, etc…
    - DON'T live in the hype cycle – invest in the trough of disillusionment to the slope of illusionment, e.g. Blockchain is still at least 3 years away
    - DON'T confuse investing with charity – nature is full of infinite causes (Da Vinci)
    - DON'T rationalize your failures – expect at least 50% to fail and learn from those failures

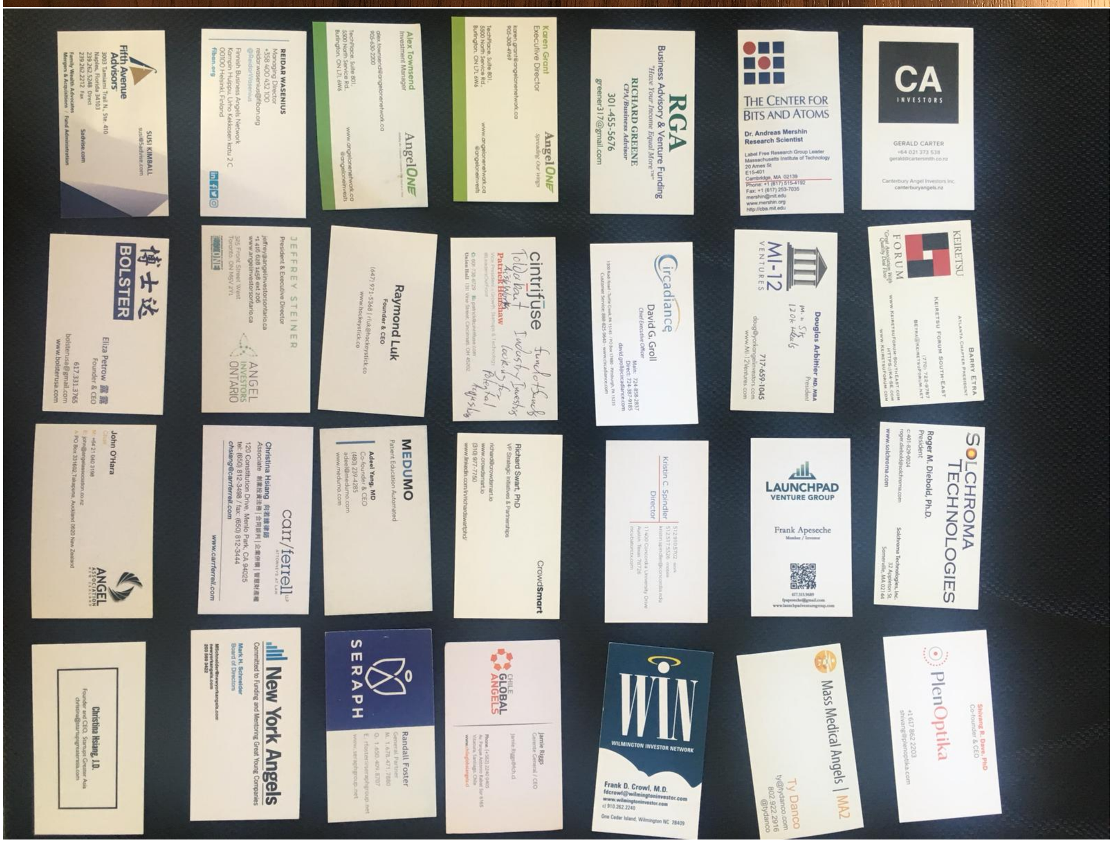
    - DON'T be a jerk! Companies need help, not attitude. This should be fun. The more support you provide the more insight you get. You generally know in the first meeting if you're going to invest – so get on with it and DON'T keep them waiting or make them go through multiple meetings. Introduce them to people who may be interested and move on.
- Other things to think about:
    - Be a paranoid optimist with impeccable integrity
    - Target one investment per month – if you're not doing that, you're not going to change the world!
    - Look for a team of two – there should be a tech person and a sales and marketing person. A good deal-closer is worth $350-400k, so the business should be able to afford to pay for that. Need to consider if the business is worthy of investment if they don't generate enough revenue to support a sales person.
    - Always talk to customers
    - The more you do the better you get at it. You shouldn't start unless you plan to actually do it – you must be serious.
- In order to be able to provide value to a company, you must have the experience capacity and conviction to invest in companies and help them to be successful
    - You should look for companies that
        - Have a finished product/service and at least one customer
        - Patents
        - Will be for sale in 5-7 years to a strategic buyer
        - Contribute to the common good of all stakeholders

Other conference session insights and highlights

- **Blockchain** - it is still early days for Blockchain investment but the industry is projected to grow from $0.4B in 2017 to $176B in 2020 and $3,100B in 2030. The technology has happened but the question remains whether or not new products and services and great companies will be built on it (Check out Ty Danco on line)
- **Exit planning** – develop a genuine strategy, not just a list of possible acquirers. Be clear on what the critical challenges are that your company can resolve for the acquirer. Get on their radar early and clearly understand what your company needs to do to catalyse their interest.
- **Insights from Angels with more than 100 investments:**
    - The influence Angel investors can have in the ecosystem is significant – we are founder friendly
    - Complexity is never a benefit
    - We make good decisions and we may make bad decisions for good reasons – either way we have to live with them
    - Lean startups are really good but anorexic ones are not
    - Getting off a Board is a wonderful thing
    - We co-opt for deals not compete for deal

Business Cards (*credit to Tim Warren, for some of these*)





ANGEL ASSOCIATION NEW ZEALAND

Boston ACA 18,19,20 2018
Trip Report
Tim Warren - Flying Kiwi Angels

1. Key impressions

Boston ACA summit was a great experience. It was US centric yet there was a ton to learn. The international contingent were excellent value - Who knew the Finns were so much fun! As usual Kiwis were very well represented and it was great to have the home crowd (were there 10 of us?) to talk to at the end of a long day. It's people that make a place home, and I think we all felt that way for the week we were there.

2. Key learnings

I took 15 pages of notes and yet I still feel I may have missed some important points. This is what I have summarized and if you want the full pack - let me know!

Key Points:

- Attendees: There were attendees from a very large number of countries, but 70% were US based. The sophistication of the general attendees (especially the US based ones) was lower than I expected, however within the group there were also many of the world's leading angels like Dave Berkus and Jim Payne. As a method of comparison: I have 16 direct angel investments, and that was more than two thirds on the people that I talked to. I found this surprising given the higher deal flow available in the USA.
- Companies: The quality of the companies I saw pitch was disappointing. Not one brilliant idea out of the 30 or so pitches I saw. However I liked the 5 minute pitch format that was used. A handful of the founders were quality, but most people were trying it on and they would not get a look in with an experienced investor. NZ companies looked great by comparison and there are 4-6 NZ startups from here I could have dropped in to the US environment and they would have won people over.
- Angel groups: The Angel groups vary like the attendees. Some are n more than a handful if individuals having a flutter, others are

massive corporate engines with thousands of minutes and hundreds of companies.

- The support services and tools for the groups and startups was generally of a very high quality. THere are end to end angel solutions that make life a lot easier.
- There are a lot of investment solutions (like Seraf) that don't have an equivalent in NZ. These companies source deal flow, provide rigorous professional DD and portfolio management on behalf of Angel groups. They are available from outside the US and are a great way to get deal flow from another country.
- One of the most impressive presentations was from the Israeli angel group iAngel. In their approach and thinking they are way ahead of anyone in NZ and we should learn from them. In fact I would say they were ahead of any. They do 10 DD a month!
- Diversity was a theme for the conference at all levels, from Angel group makeup to company origin to founder background. The overwhelming data and discussion was that it helps it all levels. Data points to about 20-25 % of angels are women. Some speakers had funds that only invested in immigrants or female founders. Great to see this being put into action. I did think that NZ is ahead in this discussion than the US. There were some genuinely inspiring female investors and Suse and I had more than a few talks about who we can bring to NZ angel events.
    - My details from one session as follows;
        - Joanne Wilson - Things i've learned from investing in women
            - Not anti-man, but is Pro-Women
            - Invests in Women To make money, it's not philanthropic
            - 70% of her portfolio have female founders
            - She is usually the first money in
            - Angels are better for % female founders than VC (which is far more male dominated)
            - Wants diverse C team in every investment
            - Female founders pitch differently to men, be open to that
            - Perfect is the enemy of the good
                - Women can try to be perfect
                - Need to be prepared to get it wrong
            - Women can be afraid to make the 'ask'
            - Women must use more aggressive financials in their projections
                - Let DD find that aggressive sales assumption :-)
            - Suggested to women investors getting out more and making themselves available to

    - Accelerators
    - Meetups
    - Events
- Valuation was a popular topic. There is a more advanced approach this in the US groups. One of the best sessions was from from Launchpad Ventures (http://bit.ly/ValuationEbook) about a method based on 25+ weighting factors and was based about ensuring investors got a suitable % of the company (20% ish) in a round and defined not only the valuation but the round size.
- Somewhat disappointing turnout from VC. There were a handful of open minded ones present, but if I was in VC in the US I would be taking a look at the machine that feeds them their series A deal flow.
- Blockchain and cryptocurrency were ever present and highly divisive. Some investors there were like proselytising acolytes of the coming of the 'CryptoLord'. The more professional investors were largely dismissive, and the speaker from BNY Mellon outright rubbished cryptocurrency as an non asset-backed financial bubble for 'scammers and morons'. Not his actual words, but it was his actual meaning.
- Artificial Intelligence was ever present and largely uniting in the belief that it is massively important. Impressive conversational AI chatbot driven new travel booking service from the founder of Kayak. You just type what you want in a conversational chat and it does the hard work. Super impressive - you could actually hear the room take a collective intake of breath.
- Key takeouts from the investment discussions:
    - The single most important factor in generating positive returns from early stage investing is taking a portfolio approach. Everyone talked about it and there were plenty of stats to back it up.
        - You need at least 14-15 companies to have an even chance of making money! 20+ is much safer....
        - No one talked about picking winners
    - Don't put in too much money at too low a valuation - it would work for Founders OR the next round investors, so it won't work for angels either.
    - Don't invest too much in each deal, but be prepared to double down on winners
    - The importance of finding investors who follow on by taking up their rights or upping their stake was discussed - however there was also awareness that too many angel rounds for a single company is a bad thing.
    - Lots of discussion about getting small amounts of VC money in for the Angel round. While some people wanted to keep VC at bay until Series A, with Angel groups now able to do 'Super Seed' rounds on $1m+ (Traditionally the VC zone), we are

encouraged not to alienate the VC by taking all of the round, and make sure they have an opportunity for an earlier round
    - Strong preference from all presenters for Preferred equity over any other form of instrument including anything convertible or otherwise fancy! If convertibles ar used, $5m is a sensible maximum valuation. Convertibles were the rage 10 years ago, not many people are just trying to clear them off the cap tables. I think think there is a place for them, especially with pre-revenue companies.
    - Counterpoint to this was a presentation about Revenue Investing. A very different approach that I think is clever and i'll be looking how to apply in in NZ. It is based on defining a multiple return (say 2.7x) on an investment and paying out to the investor a % of revenues until that number is hit. No debt, no equity. Very interesting.
    - Angel groups were told "VC will put in more founder options at Series A at Angel expense (I.E. on the pre-money). It's always that way, get used to it.
    - Work with the VC, they are your exit. But do DD on them.

3. Conference session insights and highlights

The highlight of the event was the New Zealand dinner with Dave Berkus, Jim Payne and Jon Huston and a handful of other top level folk. I don't know how NZ has this pulling power to get the very best to 'hang out with us', but I put it down to excellent work by Suse and the team, and an inviting but humble approach to what we do. To my amusement during the dinner Dave Berkus told me that his method is "20 years only and only for pre-revenue seed companies" and that investors need to be more sophisticated with applying valuations than what he was doing "back then". Dave had 300+ investments, including a casual 10% of the Tour of Duty franchise. I talked bow ties and sesquipedalianism with Jon Huston, while at the table Bill Paynes wife tried to … well lets hope those photos don't come out…

If the highlight was the dinner, then the highlight of the highlight (and the whole trip and maybe the entire decade) was when Bill Payne asked if Phil Southward was my dad! I died. Yes - for the rest of the trip Phil was Dad.

So that was that. I was in Boston a full week and loved the city, the summit and the company. The key learning for me is that we need to keep learning - this is an ever evolving area.

4. Conference organisation – key “do’s and don’ts” you picked up

I found the conference poorly catered, no snacks, basic lunch, few refreshments.

Talk to as many people as possible. Tak to different people, sit with a different crowd.

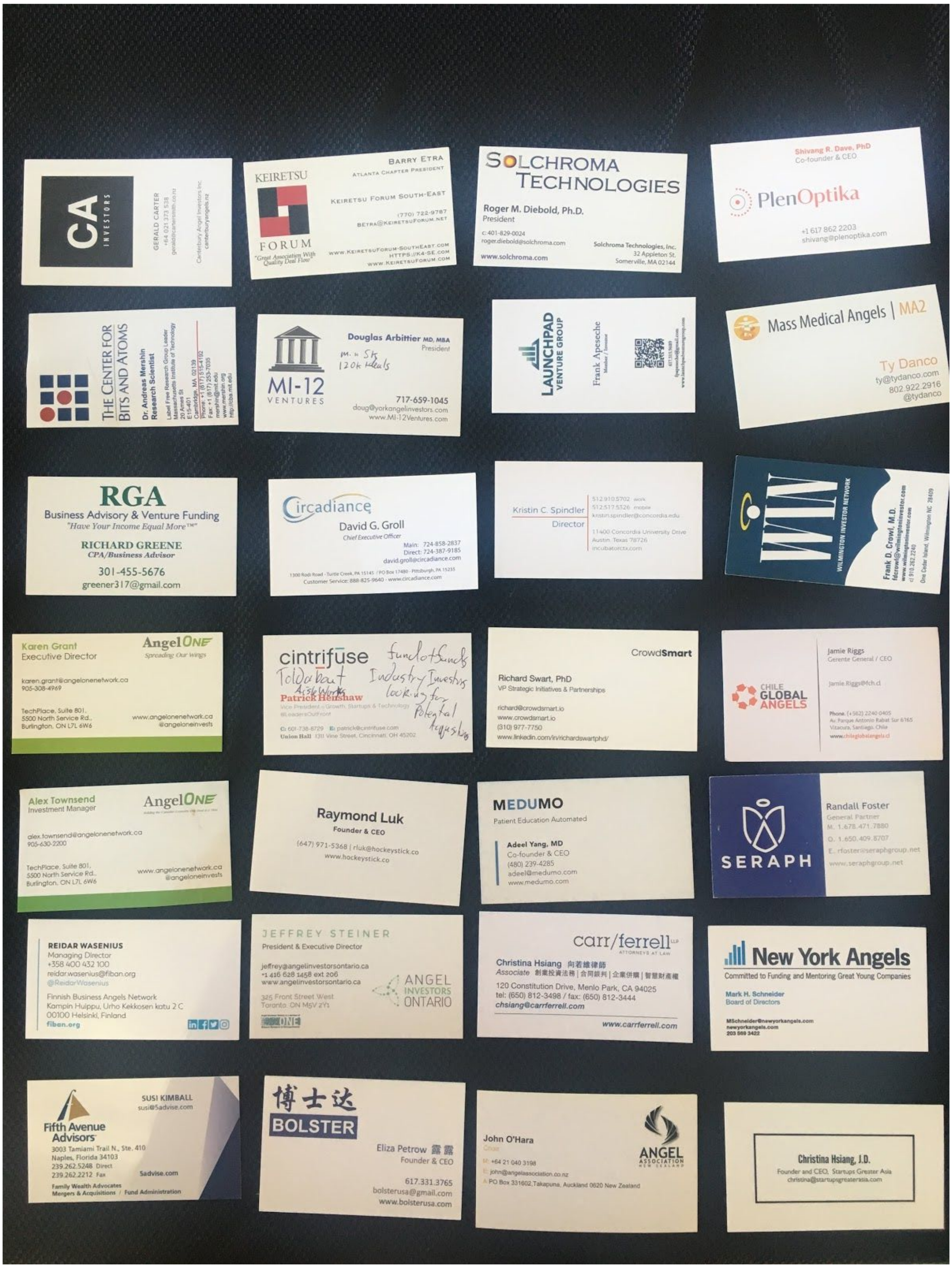
There were too many pitches, and frankly I didn’t really want to be pitched - I was there for the Angels.

Business cards. They are not dead. You need them.

The conference sound production was top notch and really helped enjoyment when you can hear properly.

Finally: If you need a dad, Phil makes a great standin!

5. PLUS scanned copies of business cards… PLEASE!



ANGEL ASSOCIATION NEW ZEALAND

ACA Summit Trip Report
18-20 April 2018
Heath Milligan, Flying Kiwi Angels

1. Key impressions

1. The number of US angels and amount of money searching for investments is massive (even before reaching VCs).

2. Following recent exits, New Zealand's angel investing results metrics appear to outperform those reported for the US and Scotland (self-described "patient investors").

3. Available tax breaks seem to skew the direction of investment placements in the UK and US.

4. Israel's returns and time-to-exit attractive vs US. (See iAngels metrics slide attached)

5. Brazil valuations seem very low for seed rounds (as the cost to operate is lower), though the market size is large.

2. Key learnings

1. Angels with Entrepreneurial backgrounds are far more active (see attached ACA slide, and full American Angel report attached)

2. ArchAngels: The most important output from the DD process is the relationship with management.
   Going in, you need to believe that a 10X return is possible on each deal. – Mike Rutterford, ArchAngels

3. *Financial Advisors don't recommend Angel investments as an asset class, or explain the tax breaks available.* – Jenny Tooth, UK Business Angels

4. Joanne Wilson, Gotham Gal Ventures:
   - Women founders network differently – they're harder to find.
   - They pitch differently – they feel more comfortable pitching to a woman.
   - Men entrepreneurs double their numbers. Women halve them.

- *Entrepreneurs: It's not up to you to do due diligence for the other side… to figure out that maybe you won't make as much money as you say.*
- Angels: Be known to all the institutional investors.
- *I don't refer deals that I'm not investing in.*
- *You have to start with the right valuation – Silicon Valley has done a great disservice in raising expectations of starting point valuations.*

5. Syndication across other angel groups/networks appears to generally happen in the second (top-up) round, not the first/Seed round.

6. The average target/expected angel portfolio return is 2.6X, and to achieve this, <u>you need a portfolio of at least 15 companies</u> – John Lilly, Lateral Capital (see full slide deck attached)

7. Starting valuations matter! (See slide photo attached)
   The best (IRR) returns for Angels are from M&A exits in the US$20m-$40m range, not from VC-backed 'Unicorn' companies.
   You can play games with Revenue Share and Warrants rather than Ordinary or Preference Shares to get earlier returns, and higher at exit. (in the US context, the gain in value on shares on sale or warrants/options on exercise is taxed equally.)
   - ⇨ Appoint a Board Member as Chief Acquisition Officer

8. *The biggest reason startups fail is that there is No Market Need* – Terry Jones, WayBlazer
   Innovation is like baseball – if you fail 70% of the time, you're AWESOME! (see slide deck attached)

3. Conference session insights and highlights

1. *Sell, sell, sell! It's the best way to fund the company!* – Mike Rutterford, ArchAngels

2. John Lilly - What (Probably?) Works in Early Stage Investing – see slide deck attached.
   - Invest after the hype cycle, and <u>follow-on</u> for Seed 2 and Series A.
   - <u>They don't want a Board seat !</u>
   - Jockeys should be "Paranoid Optimists of Impeccable Integrity"
   - *Related parties in a company are trouble.*

3. Jeffrey Mortimer's Economy / Stock Market clock. (See presentation attached)
   - The right mindset to be in is shown on the inner part of the dial, but *"as a contrarian investor you will feel stupid and alone!"*
   - 12-3, then skip to 7 is a common bear market correction
   - Typically 3-6 is generational, and we've just had 2 of them! This 'dual-stage' bear market happens after a bubble at 12.

- Today, April 2018, we're at a 9-10 split: we should expect low US interest rates this year, higher interest rates and inflation in 2019, followed by a recession.
  - ⇨ *Protect the hell out of your business! Don't borrow, don't hire!*
- Then at 6-7, go aggressive, borrow and acquire.
- M&A buyouts take place at 9:30-10 on the clock.
- *When unemployment goes up 0.5% from the trough, recession has always followed.* (referring to US data)
- The full cycle takes 5-7 years, or 7-10 years

4. *Bitcoin is NOT an asset! It's not gold. It's not fiat currency. It's getting more attention than it deserves. It hasn't earned the right yet!*
   – Jeffrey Mortimer, BNY Mellon

5. Effective Exits (See presentation attached)
   - Board to identify strategic value – which acquiring companies have an existential need for your product?
   - What is the Sale action plan? – meet and know them, get phone numbers. Keep them updated with progress.
   - At *Feature* or *Product* stage, Strategic Value is core.
   - Beware: Acquirer's legal will insert "Pro-rata" instead of "Waterfall" to assist founders, and crush Preference shareholders' priority.

6. KPI metrics – John O'Hara, AANZ
   - L4M – Last 4 months revenue, extrapolated 12 months
   - NPS – Net Promoter Score. A decline usually leads to a decline in revenue 3-6 months out.
   - For B2B, the Sales Close rate. 30% is good. 60% is Best-in-class. 5% is unsustainable.

4. Conference Organization – key "do's and don'ts" you picked up

- **Do** have an app/website with the daily schedule and for participants to download the presentations on the day (so participants can view and take notes while the presenter talks).

- **Do** make sure all the presentations are actually uploaded there. (Very frustrating if files are missing, though presenters say slides are available.)

- **Do** ensure there is good WiFi access

- **Don't** under-cater the meals (including morning and afternoon tea) – all the brain exercise makes people hungry, especially if they've just flown in.

- **Don't** book the International Dinner at a noisy and crowded public restaurant – it makes networking almost impossible apart from with the small group at your immediate table.

5. Scanned copies of business cards attached