

# Angel Investor Groups

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# Topics

- Early Funding Sources
- Angel Investors: Who Are They?
- Angel Investor Groups
  - Why Join an Angel Group?
- Angel Fundable Deals
  - Investment Criteria
  - Deal Structures
- Angel Group Types

# Early Funding Sources

- Self funding: bootstrapping, grants
  - Proof of concept, idea stage
- Friends and family: \$1,000-\$50,000
  - \$50 billion/year
  - Pre-revenue, develop product, identify users
- Angel Investors: \$150K-\$1 million
  - \$20 billion/year
  - Seed, startup, early and growth stages
- Venture Capital: \$4 million & up
  - \$20 billion/year
  - After company has revenues

# Angel Investors: Who Are They?

- Wealthy individuals-“accredited investors”
- Entrepreneurs and business persons
- Expect a return on their investments
- Active: mentors, want to give back to community
- \$25K-\$100K per deal per angel
- 3-15% of personal assets
- More than 250,000 practicing angels

# Angel Investor Groups

- Approximately 400 groups in the US
- ACA members invested an average of \$2.26 million per group in 2012
- Average invested per round: \$259,972 in 2012
- Angels are willing to invest across industries, with a preference on science and technology, specifically healthcare, Internet, mobile and telecom, and software

# Why Join an Angel Group?

- Combined skills and knowledge
- Standardized processes and term sheets
- Efficiencies of dividing the work:
  - Deal sourcing
  - Due diligence
  - Mentoring
  - Monitoring
- Expectation of high financial reward
- Playing a role in the entrepreneurial process
- Sense of social responsibility

# Angel Fundable Deals

## Lifestyle Companies

- Great income source for entrepreneurs
- Organic growth
- No anticipated exit
- Not fundable by investors

## High Growth Companies

- High growth potential
- Need capital to grow
- Exit strategy defined at outset
- Entrepreneur builds wealth, perhaps not high income

# Investment Criteria

- Geographical boundaries
- Business sectors of interest and knowledge
- Development stage (seed/startup, early, growth)
- Scalability, high growth potential
- Management team
- Size of opportunity
- Product and technology
  - IP?
  - Customer validation
- Marketing/sales channels
- Competitive advantage

# Deal Structures

- Convertible Notes
  - Interest deferred
  - Does not require an agreement on valuation
  - Conversion rate at a discount of the valuation of the next round of funding
- Preferred Stock
  - Based on agreed upon valuation
  - Senior to common stock, junior to debt
  - Liquidation preferences
  - Redemption rights

# Angel Group Types

## Network

- Each individual investor decides whether to invest in a particular deal or not.
  - **Pros:** Flexibility to invest based on personal expertise, interests and risk tolerance
  - **Cons:** Uncertainty of availability of capital; participation of individuals without a real commitment or capacity to invest; ability to maintain consistent volunteer commitment of members

## Fund

- Committed capital; due diligence and investment decisions made by investor vote.
  - **Pros:** Certainty of availability of capital; investor participation
  - **Cons:** Possibility of unwanted investments from an individual's perspective

# Angel Group Types

## Member-Led

- Sponsored and managed by investors.
  - **Pros:** Greater connection of members to group and activities such as deal screening, member recruitment, etc.; involvement provides for hands-on education for members
  - **Cons:** Ability to maintain consistent volunteer commitment of members; potentially inconsistent operations

## Manager-Led

- Sponsored and managed by a manager.
  - **Pros:** Professional operation; screening and investment activities conducted by experienced management; manager handles member relationships
  - **Cons:** Operating costs are higher to cover professional management income, benefits, office space, and administrative support

# Hybrid: Angel Round Capital Fund, L.P. The ARC Angel Fund NYC [www.arcangelfund.com](http://www.arcangelfund.com)

- **Member-Led Fund:** Committed capital and investors in order to attract and execute on best deal flow possible, and properly mentor the companies for successful exits.
- **Supported by professional management:** Efficient organizations need to be properly structured and well managed.
- **Large or part of a network of other groups:** Expertise, mentoring capacity, deal flow, capital available to invest, diversification, syndication.

# ARC Angel Fund NYC

- Member-Led: due diligence and investment decisions by majority vote
- Operations supported by manager Innovation Capital Asset Management, LLC (ICAM)
- Geographical focus: NYC, North-East and Mid-Atlantic
- Investment focus: Software, IT, Internet, Tech-Enabled Services, Business Services, Digital Media, Mobile, Healthcare IT
- Investments average \$50,000 to \$250,000

## Puerto Rico Angel Round Capital Fund, LLC (The ARC Angel Fund PR)

- Under trademark and copyright license with The ARC Angel Fund NYC
- Member-Led: due diligence and investment decisions by majority vote of investors
- Operations supported by manager The Sifre Group, LLC and Innovation Capital Asset Management, LLC (ICAM) as consultants
- Geographical focus: Puerto Rico
- Investment focus: seed and early stage entrepreneurial companies with high-growth potential

# The ARC Angel Fund PR

- Benefits of the ARC Angel Fund PR alliance with The ARC Angel Fund NYC and its manager ICAM:
  - Support on internal operations
  - Guidance on investment structures, due diligence methodologies and valuation mechanisms utilized in the venture capital industry
  - Deal flow generation both within and outside of Puerto Rico
  - Mentoring and monitoring of portfolio investments
  - Seeking portfolio investment exit situations
  - Outreach with USA venture community and industry associations

# Sources, Industry Organizations

- Angel Capital Association
  - [www.angelcapitalassociation.org](http://www.angelcapitalassociation.org)
- Angel Resource Institute (Kauffman Foundation)
  - [www.angelresourceinstitute.org](http://www.angelresourceinstitute.org)
- Preston, Susan. INVESTMENT GROUPS, NETWORKS, AND FUNDS: A Guidebook to Developing the Right Angel Organization for Your Community. Kauffman Foundation, 2004
- Angel List
- Funding Post
- Early Stage East

# Thank you

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