Chair for Strategy and Organization
TUM School of Management
Technical University of Munich

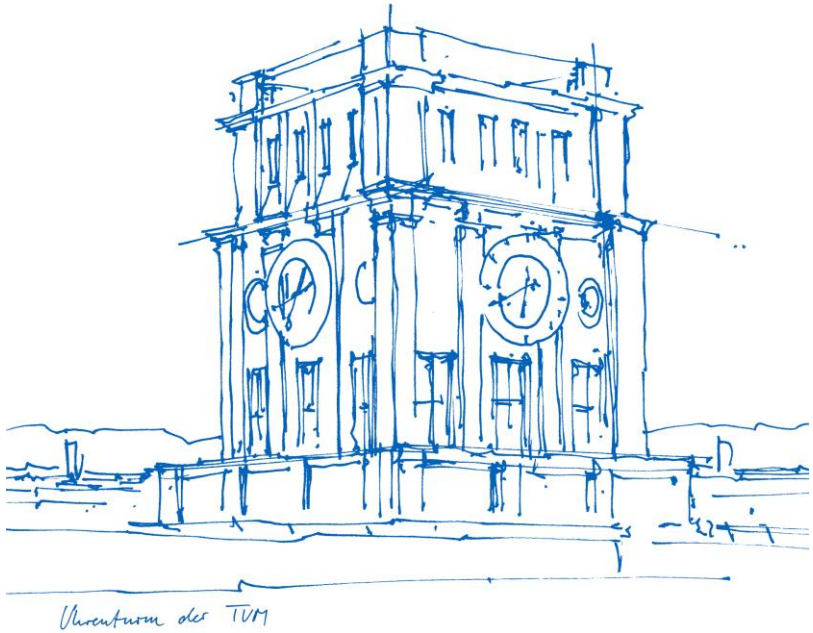
Investieren in Start-Ups

Business Angels und andere Engel

Kai Kirsch

July 09, 2021

Prüfungsleistung 2



Outline

1. Was sind Angel überhaupt?

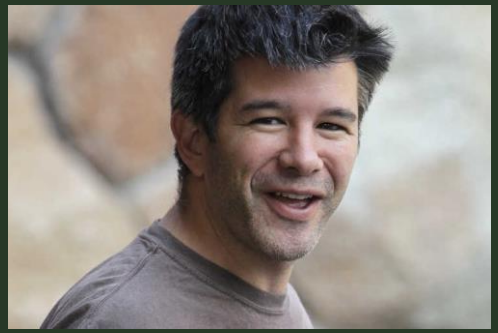
2. Was ist die Motivation hinter Angel Investments?

3. Was brauche ich, um ein Angel zu werden?



Source of image: Techadvance. https://techadvance.co.uk/blog/2018/05/how-is-cloud-better-for-my-business-than-traditional-on-premise-pbx/question-mark-in-clouds/

Angel tauschen Geld & Erfahrung gegen Unternehmensanteile



Uber co-founder Travis Klanick. Wikipedia.





Angel investor Jason Calacanis. Medium

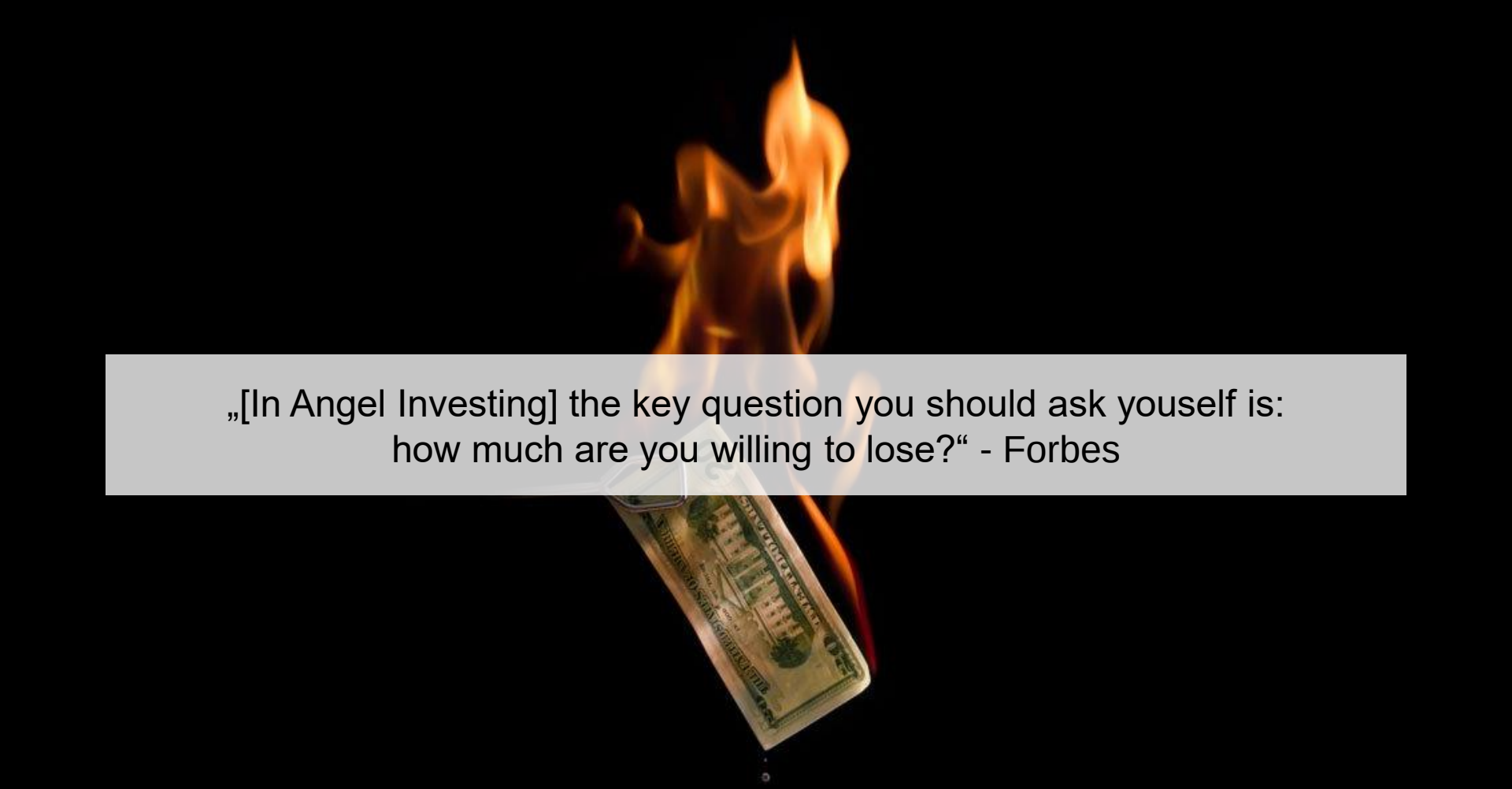
<u>Charakteristiken von Start-ups:</u>

- Junge, innovative Unternehmen
- Benötigen Rat z.B. zur Produktvalidierung
- Benötigen Kapital zum Überleben

<u>Charakteristiken von Angeln:</u>

- Erfahrene (ehemalige) Gründer
- Bieten ihre Fachexpertise
- Fordern Unternehmensanteile und hoffen auf Wertsteigerung

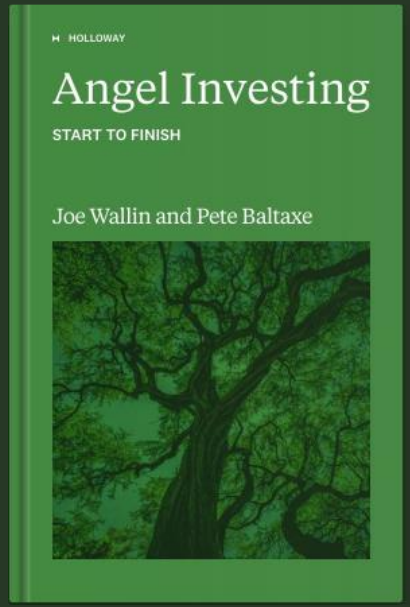
Source of content: Kirsch, K. (2021). Own creation. Source of image: Uber co-founder Travis Klanick. Wikipedia; Angel investor Jason Calacanis. Medium.



„[In Angel Investing] the key question you should ask youself is: how much are you willing to lose?“ - Forbes

Source of content: Hudson, M. (2016). 8 Steps To Becoming An Angel Investor. Forbes.; Simeon Simeonov. (2011). Patterns of Successful Angel Investing. Slideshare. Source of image: Steve Spangler. https://www.stevespanglerscience.com/lab/experiments/burning-money/

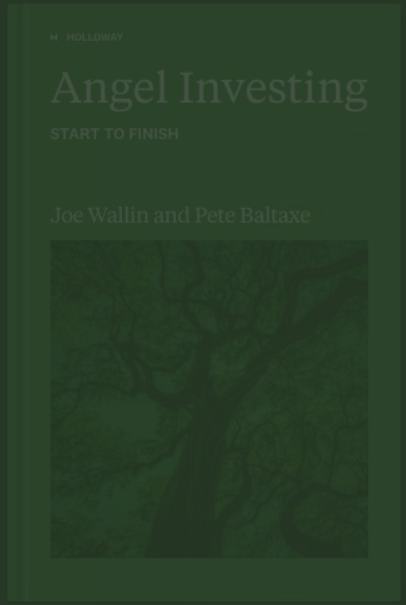
Three reasons for angel investing



„Angel investing can be fun, financially rewarding, and socially impactful“

Source of content and image: Wallin, J. & Baltaxe, P. (2021). Angel Investing. https://www.holloway.com/b/angel-investing

Motivation für Angel Investitionen



„Angel investing can be 1 fun, financially 3 rewarding, and socially impactful 2“

Angel Investing can be socially impactful



Angel investor Jason Calacanis. Twitter.

“If everyone would invest 5% of their net worth [into start-ups], then the world would be a much better place”.

Education

Udemy

Democratizing education through an online course marketplace

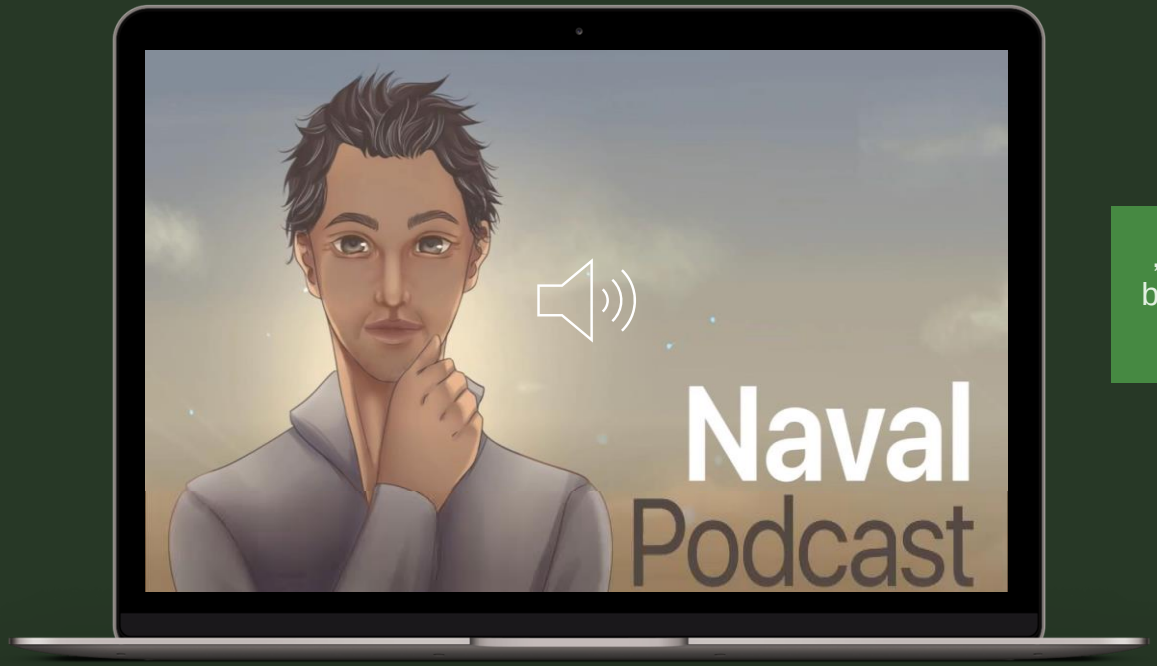
Mobility

VOLOCOPTER

Developing sustainable electric air taxis

Source of content: Angel: How to Invest in Technology Startups | Jason Calacanis | Talks at Google. (2017). YouTube; Financing rounds. (2021). Tracxn.com. Source of image: Google; Wikipedia

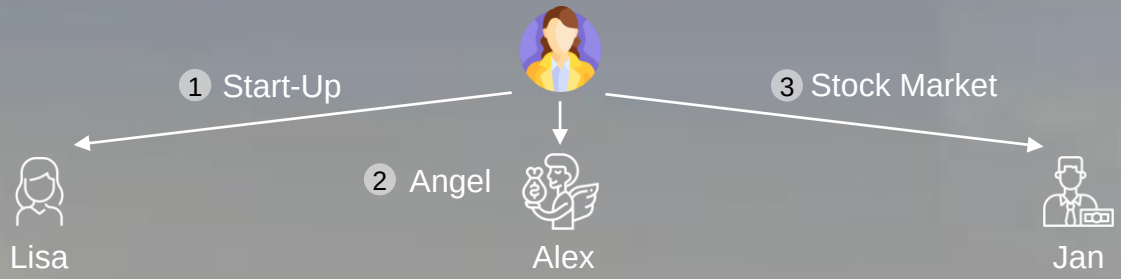
Angel investing can be financially rewarding

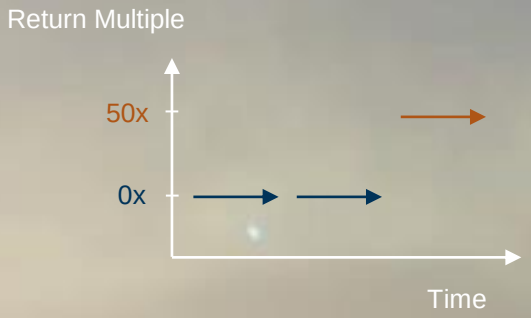


„You must own equity - a piece of a business - to gain financial freedom.”
– Naval Ravikant

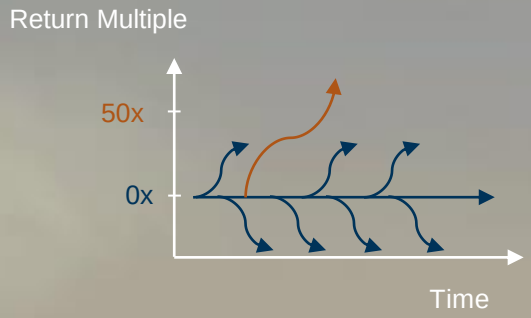
Source of content and image: Naval Ravikant. (2019). How to Angel Invest, Part 1. YouTube.

Three options to gain substantial equity in a business

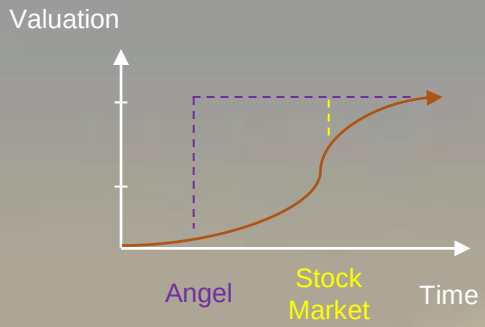




Sequential founding of start-ups is time intensive and limits founders to one company at a time resulting in linear growth



Angels profit from non-linear growth through parallel investments



By joining investments early, angels benefit more from the growth curve compared to stock market investors

Source of content: Naval Ravikant. (2019). How to Angel Invest, Part 1. YouTube. Source of image: Kirsch, K. (2021). Own creation.; Icons from https://www.flaticon.com/

How my perception on gaining financial freedom has evolved

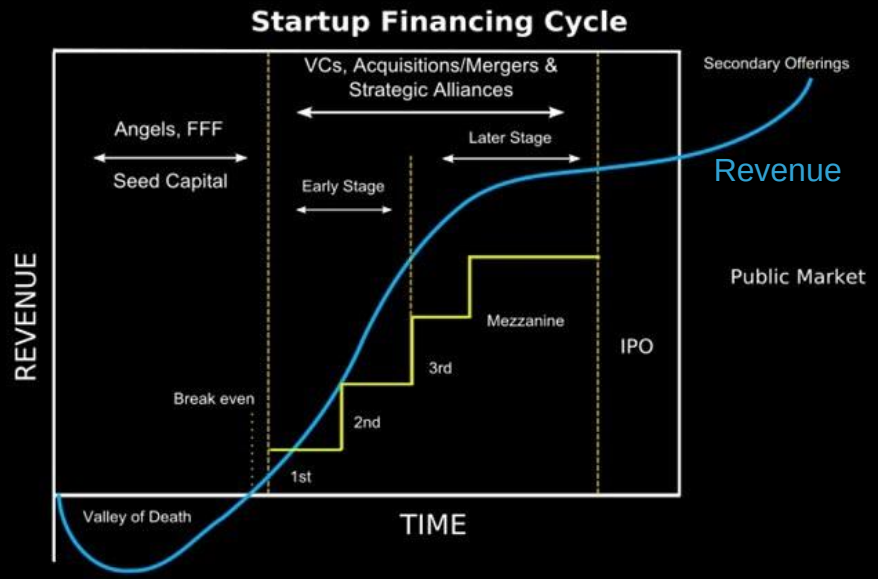


Source of content & image: Kai Kirsch. (2021). Own creation.



Source of content: Kirsch, K. (2021). Own thoughts. Source of image: Greg Rakozy from Unsplash

Angels face a major risk: the downward financing risk



Valley of Death = where cash is used but rarely generated

Once **cash is burnt**, the start-up needs new & more funding

Downward financing risk = no one invests after you

Risk of company going **bankrupt** = 0x return on investment

"As a result, you often pick a winner based on what you think the 'judges' (= VCs) are going to pick, to win in the next round"
– Naval Ravikant

Source of content: Naval Ravikant (2009). : How to be an Angel Investor, Part 2. Venture Hacks; Michael Brown (2019). Startup Death Valley Curve. Plan Projections. Source of image: Technological Entrepreneurism. Mario W. Cardullo (1999). Research Studies Press; Flaticon

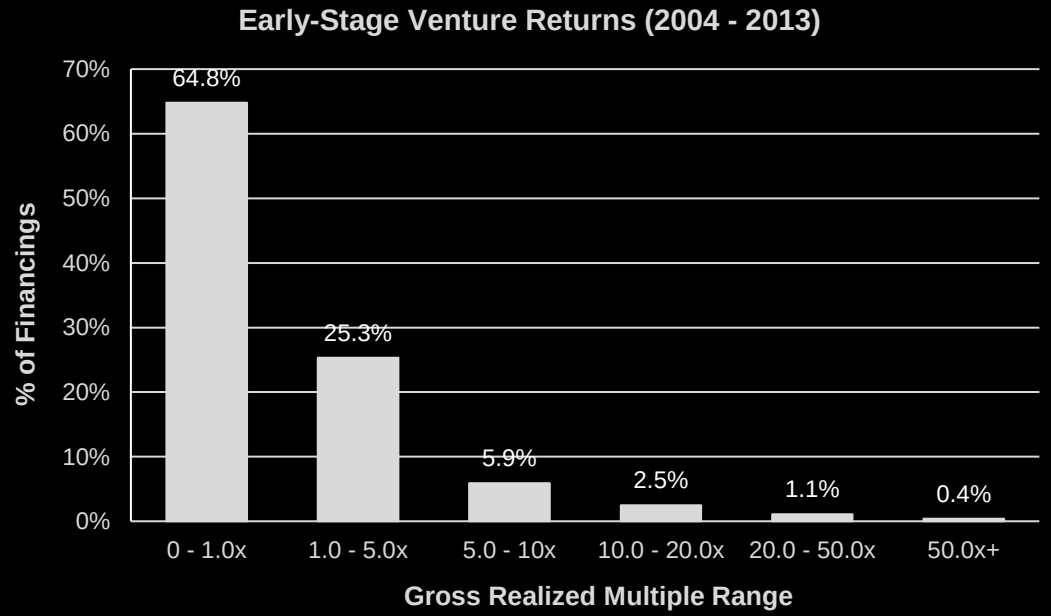
You need to understand this (angel) mentality

“”It doesn’t matter how many times you fail.
You only have to be right once […]”
– Mark Cuban



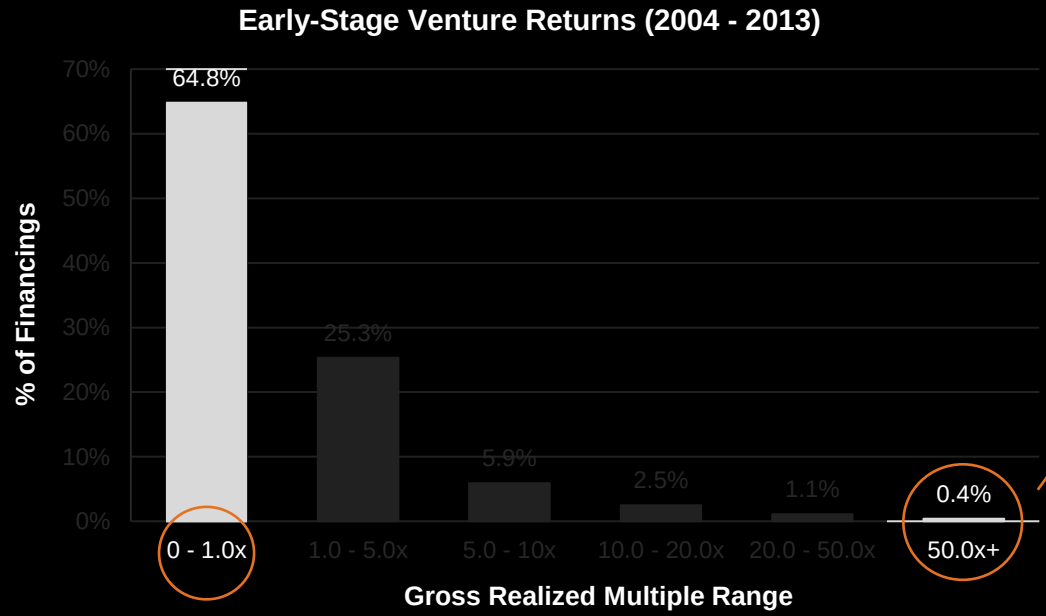
Source of content: Cuban, M. retrieved from Entrepreneur.com. https://www.entrepreneur.com/article/283104. Source of image: Own adjustment from Goalcast. https://www.goalcast.com/2018/10/17/motivational-mark-cuban-quotes/

Venture outcomes are highly skewed



Source of image: VCAdventure. https://www.sethlevine.com/archives/2014/08/venture-outcomes-are-even-more-skewed-than-you-think.html

The return of winners is unbound while losses are bound to 1x



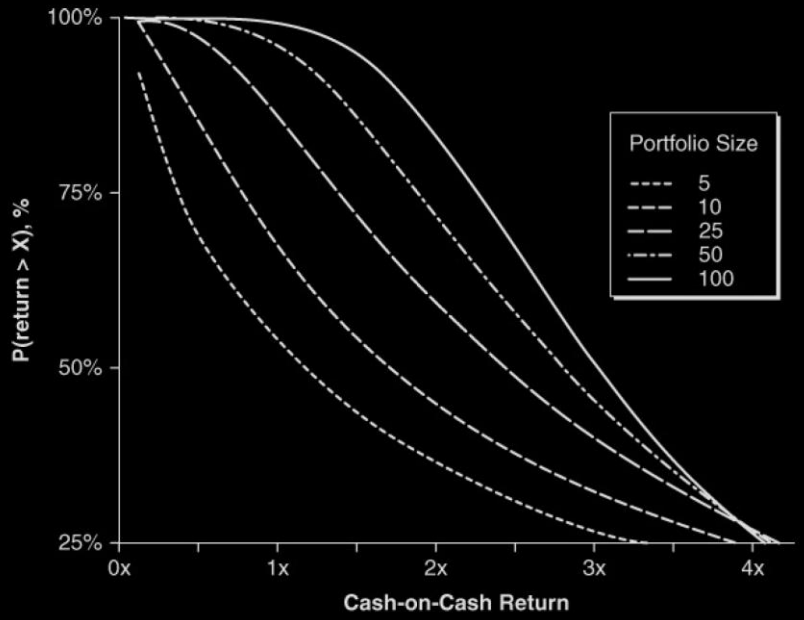
Uber

Had a cash-on-cash return of 4,996x during IPO

Power-law = few investments make your portfolio profitable

Source of content: Eric Jorgenson. Advice on Investing from Naval Ravikant..Almanack of Naval Ravikant; Austin, S. et. al. (2019). Uber jackpot. Wall Street Journal.; Myra Yip. (2020). 8 Tips on Becoming a Successful Angel Investor, from Jason Calacanis. Hive Life.; (2020). Shaan Puri. (2020). Leading AngelList Ventures | Avlok Kohli. PodcastNotes. Source of image: VCAdventure.

The probability of angel returns increases with portfolio size



"In the short run, the market is a voting machine but in the long run, it is a weighing machine."
- Ben Graham

Higher portfolio size =
higher chance of hitting a winner

Source of content & image: Simeon Simeonov. (2011). Data Driven Patterns of Successful Angel Investing. Slideshare.

Strategies help hitting the „home-run“ & go beyond pure luck



Source of content: Paul Arnold. (2019). There are only three venture capital strategies. SwitchVC. Source of image: Kai Kirsch. (2021). Own creation.

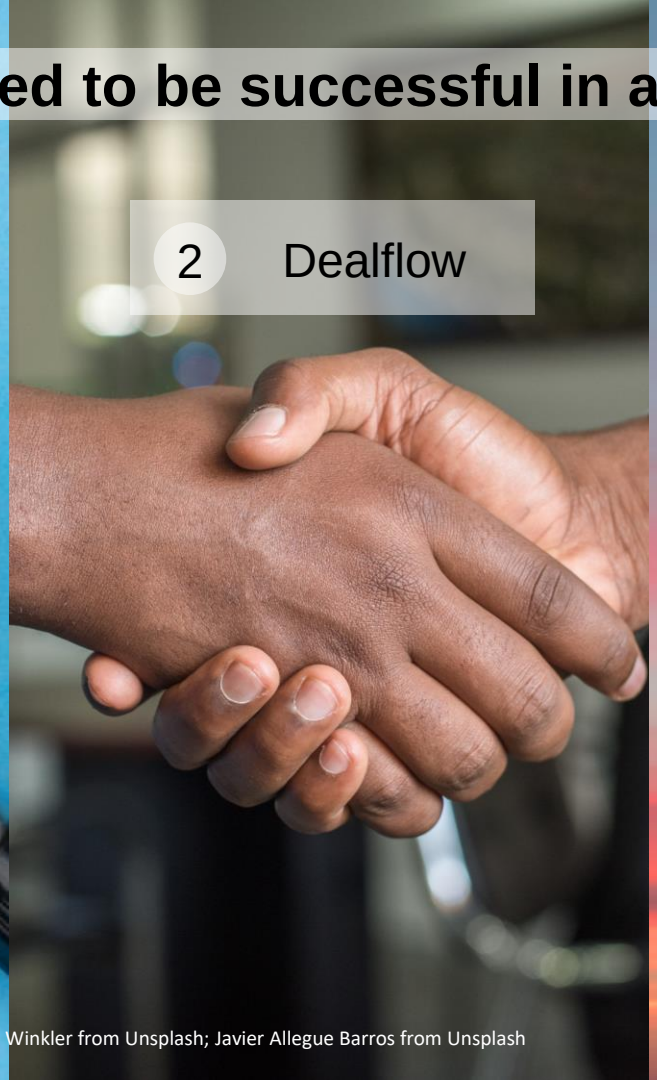
Three things you need to be successful in angel investing

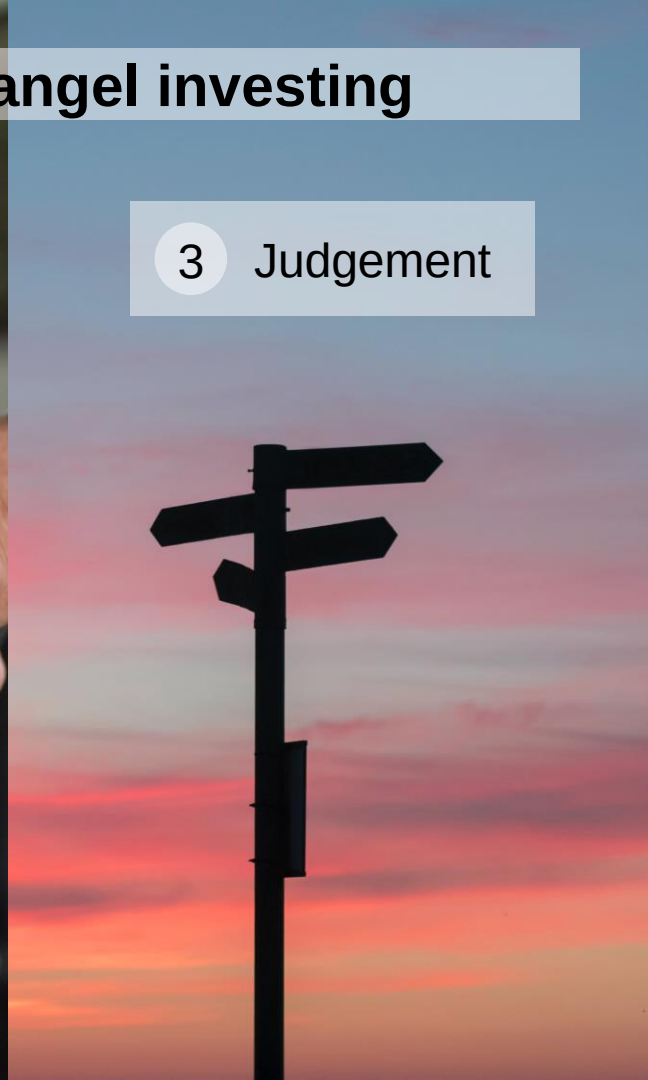
1 Money

2 Dealflow

3 Judgement

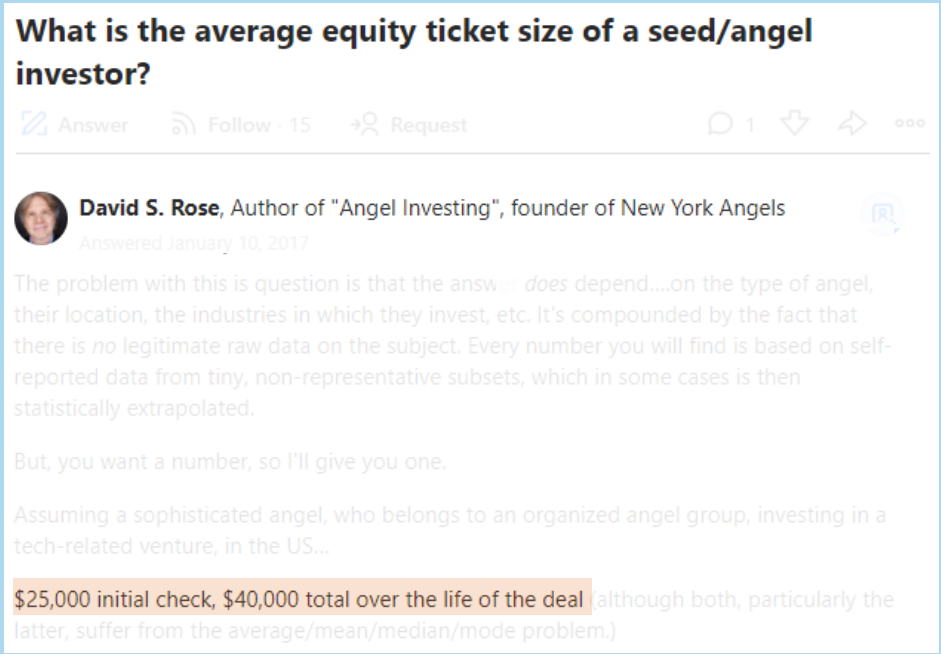






Source of image: Cytonn Photopgraphy from Unsplash; Markus Winkler from Unsplash; Javier Allegue Barros from Unsplash

1 How much money do I need?



What is the average equity ticket size of a seed/angel investor?

Answer · Follow · 15 · Request · 1

David S. Rose, Author of "Angel Investing", founder of New York Angels

Answered January 10, 2017

The problem with this is question is that the answ *does* depend....on the type of angel, their location, the industries in which they invest, etc. It's compounded by the fact that there is *no* legitimate raw data on the subject. Every number you will find is based on self-reported data from tiny, non-representative subsets, which in some cases is then statistically extrapolated.

But, you want a number, so I'll give you one.

Assuming a sophisticated angel, who belongs to an organized angel group, investing in a tech-related venture, in the US...

$25,000 initial check, $40,000 total over the life of the deal (although both, particularly the latter, suffer from the average/mean/median/mode problem.)

Quora

Source of content: Quora. https://www.quora.com/What-is-the-average-equity-ticket-size-of-a-seed-angel-investor

1 Angel investing in the USA requires an accreditation

You need to be an **accredited investor** which is defined as **either a person**:

with a **gross income** exceeding **$200,000** in each of the two most recent years

with a **joint income** with a spouse or partner exceeding **$300,000** for the two most recent years

with a **net worth** (with spouse) that exceeds **$1,000,000**, **excluding** the primary **residence**

\- Significant barrier to the start-up market

Source of content: Entrepreneur. Getting Started with Angel Investing. https://www.entrepreneur.com/article/52742; Accredited Investor. Adam Hayes. (2021). Investopedia

1 Three options to start angel investing with little money

Get involved



Expertise

Equity

%

Equity Crowdfunding

SEEDMATCH

„[...] bereits ab **250 Euro** online mit Seed Investments an Startups beteiligen [...]“

Angel Syndicates

BayStartUP



Share costs and start-ups with other Angel

\- Requires experience & time

\+ Enables you to get access to more start-ups = Dealflow

Source of content: The Swedish Investor. (2018). Angel: How to Invest in Technology Start (by Jason Calacanis). YouTube.; Own thoughts. Kirsch, K. (2021). Source of image: Flaticon; Google

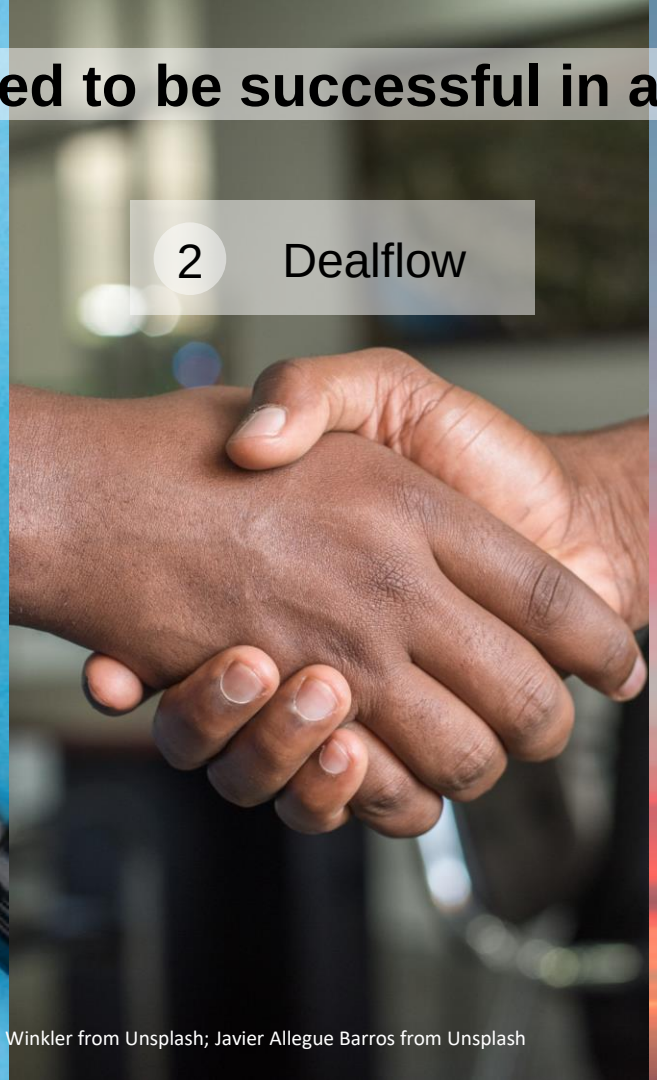
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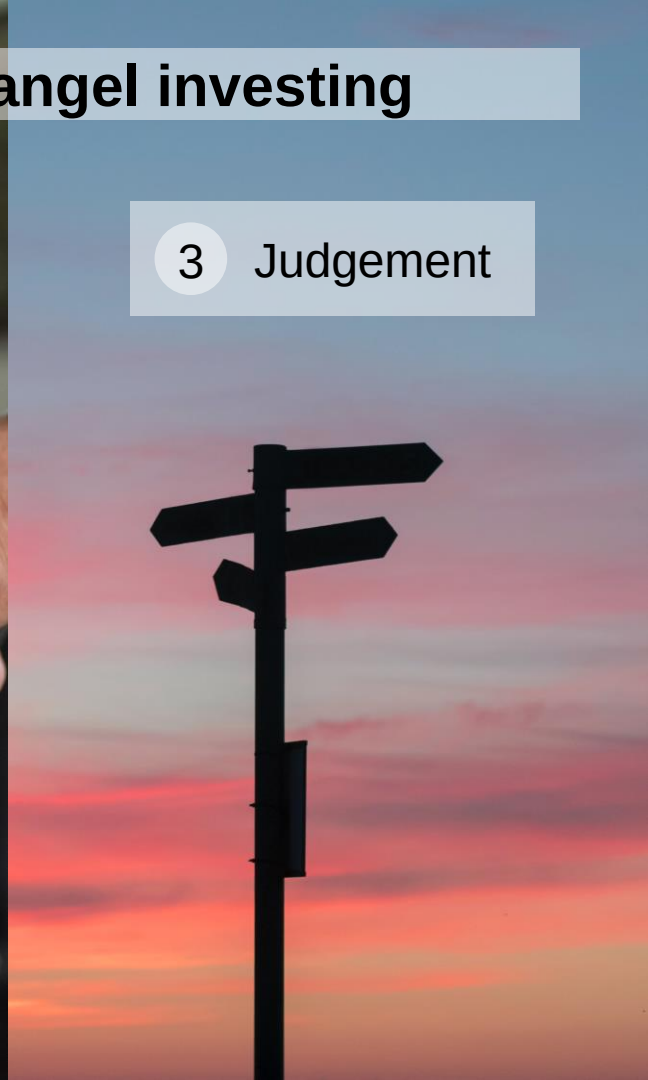
1 Money

2 Dealflow

3 Judgement







Source of image: Cytonn Photopgraphy from Unsplash; Markus Winkler from Unsplash; Javier Allegue Barros from Unsplash

2 TechHubs sind die Voraussetzung für Dealflow



Handelsblatt

TECHNOLOGIE

Silicon Valley an der Isar: Wie München Start-ups und Tech-Giganten anzieht

Starke Forschung

Viele Großunternehmen

Entrepreneurship Bildung

Source of image and content: Höpner, A. & Jakobs, H. (2021). Handelsblatt.

2 Access means when you want and, on the terms, you want



„The single most important thing is having the ability to get into a deal that you want to get into and that is access [...]“ – Naval Ravikant

Source of content: Naval Ravikant. How to Angel Invest, Part 1. (2019). YouTube. Source of image: https://starkware.co/team/michael-riabzev/

2 A good brand improves deal access significantly

Build a network through credibility
- Don't forward a deal you wouldn't do yourself

Extend from deals you have
- Forward deals to co-investors and you will receive some too

Take time to give feedback
- Help founders to stay in touch for a later round



Make good deals
- Investing in winning companies showcases your expertise

Provide something profounder e.g.:
- Founder friendly culture like Andreessen's fund
- Helpful infrastructure like Naval with AngelList
- Helpful content like Paul Graham with his blog

Building a brand in Angel Investing

You need a brand because founders want smart money.

Source of content: Naval Ravikant. How to Angel Invest, Part 2. (2009). Venture Hacks. Source of image: VectorStock

2 A brand is an authentic identification of yourself

Don‘t

1. **Emulate others:** No one is better at being them
2. **Build a narrow brand** on just one technology
3. **Force yourself** to things that don‘t interest you

Do

1. **Absorb & learn** from others but express yourself
2. **Build unique horizontal insights** e.g. Marketing
3. **Identify** the medium you thrive in



Summarizing



Speaking



Writing

Source of content: Naval Ravikant. (2009). How to be an Angel Investor, Part 2. Venture Hacks; The Knolwedge Project. (2017). #18 Naval Ravikant. Spotify. Source of image: Google Images; Unspalsh

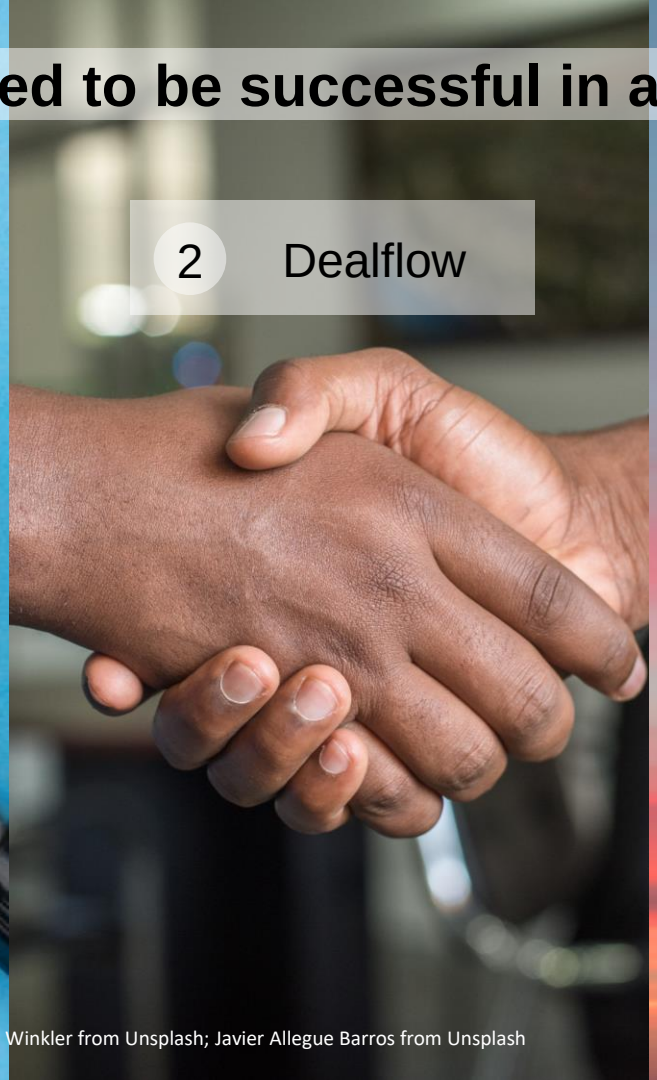
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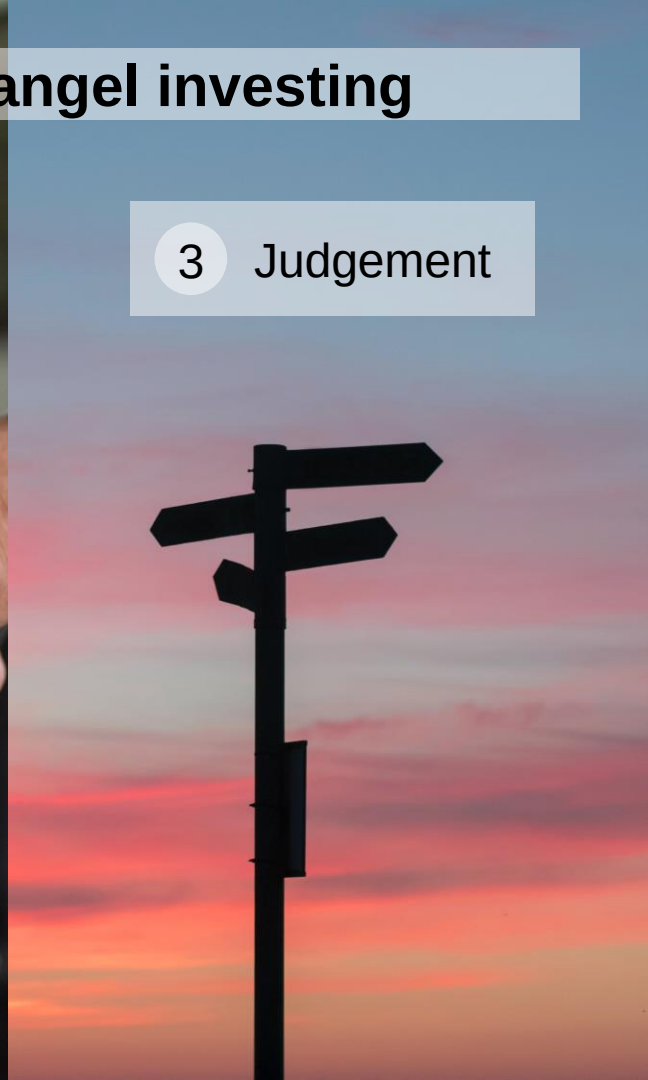
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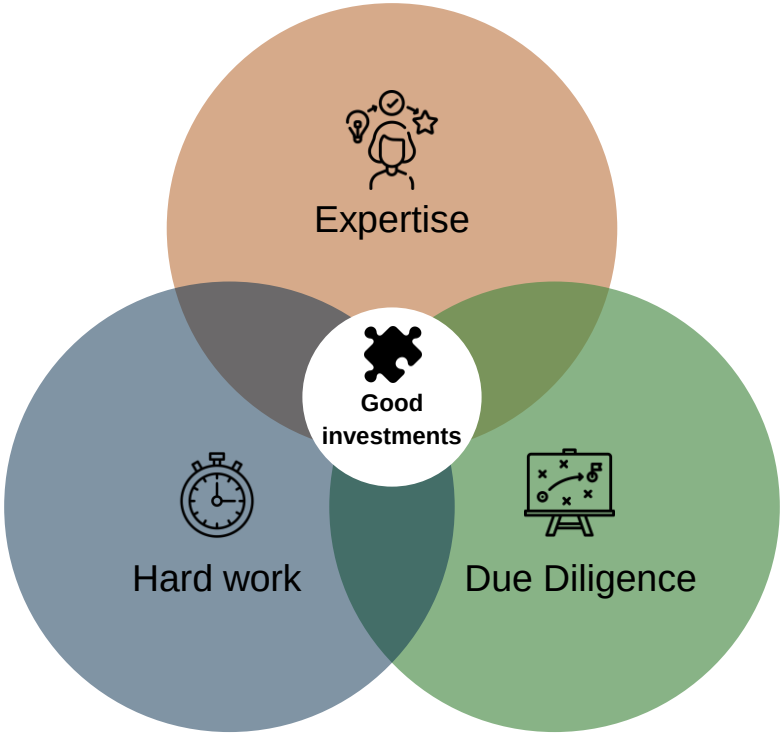






Source of image: Cytonn Photopgraphy from Unsplash; Markus Winkler from Unsplash; Javier Allegue Barros from Unsplash

3 Judgement – How do I evaluate good investments?



Source of content: Wallin, J. & Baltaxe, P. (2021). Angel Investing. Holloway. Source of image: Own illustration. Kirsch, K. (2021).

3 Focus on your expertise



Angels had a 60% better return on their investment when they invested within their area of expertise.
- Angel Resource Institute

Source of content: Wallin, J. & Baltaxe, P. (2021). Angel Investing. Holloway. Source of image: Own illustration. Kirsch, K. (2021).

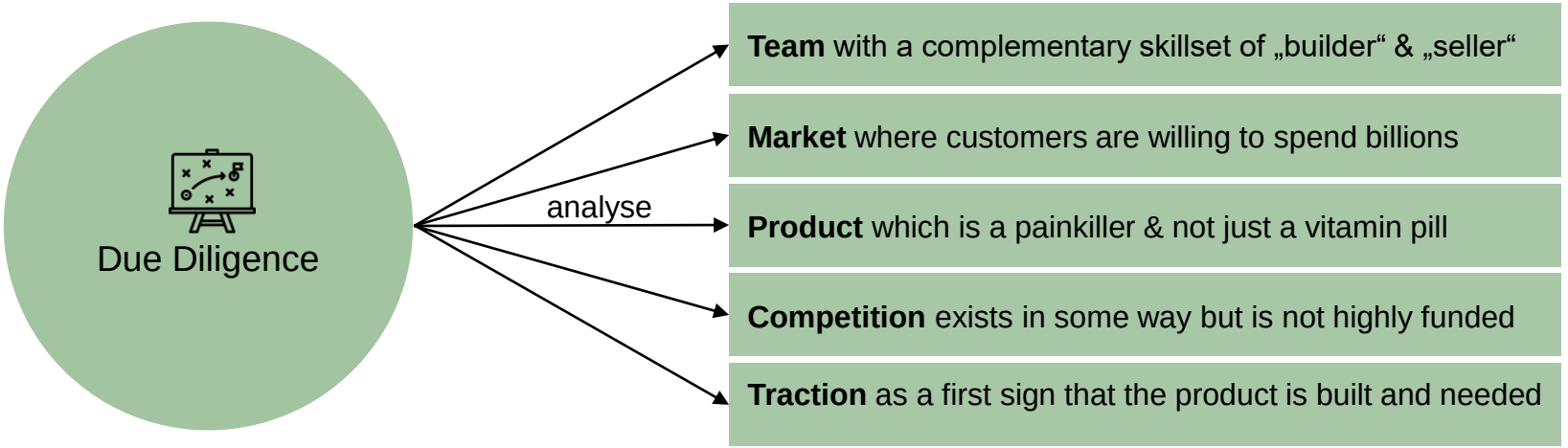
3 Invest the necessary work



Investors got a 2x better return on an investment when they did more than 20 hours of due diligence versus when they did less than 20 hours.
– Angel Resource Institute

Source of content: Wallin, J. & Baltaxe, P. (2021). Angel Investing. Holloway. Source of image: Own illustration. Kirsch, K. (2021).

3 Take a structured approach to your investment decisions



“At the very early stage, most investments are made based on the quality of the founder, how well they’ve thought through the problem, how well they can articulate a solution” – Naval Ravikant

Source of content: Wallin, J. & Baltaxe, P. (2021). Angel Investing. Holloway; Naval Ravikant. (2009). How to be an Angel Investor, Part 2. Venture Hacks. Source of image: Own illustration. Kirsch, K. (2021).

3 Teams are the most important early-stage investment criteria



“It's hard to tell which businesses are going to work because a lot of businesses fail. And a lot of good entrepreneurs chasing bad businesses fail. But the entrepreneurs themselves don't fail over a long period of time.”
– Naval Ravikant

Source of content: Naval. M. Personal Blog. https://www.navalmanack.com/secret-sections/investing

3 Founder characteristics that angel investors look for

Intelligence
as deep market understanding

Visionary
to be ahead of your competition



Passion
as the desire and energy to push through hard times

Realism
to execute and achieve actual results

Integrity
as in doing and delivering what you promise

Also mentioned:
- Being coachable
- Having charisma
- Moving quick

Covered by 2-3 founders with at least one being a builder & one a seller

Source of content: David S. Rose. (2017). How to pitch a start-up idea to an investor; Richard Feloni. (2015). Naval Ravikant looks for in an entrepreneur. Business Insider; Patrick O'Shaughnessy. (2021). Josh Buckley - Identifying Legendary Start-ups. Apple Podcast. Ted. Source of image: Kirsch, K. (2021). Own creation.; PowerPoint Icons

3 Essential characteristics to invest in



Source of content: Naval Ravikant. (2009). How to be an Angel Investor, Part 2. Venture Hacks. Source of image: Kirsch, K. (2021). Own creation.;

3 Perceived passion by founders can induce an evaluation bias

Results:

- Perceived passion of founders influenced likelihood of funding
- Six angel characteristics reinforced this effect


Low cognitive style


High promotion focus

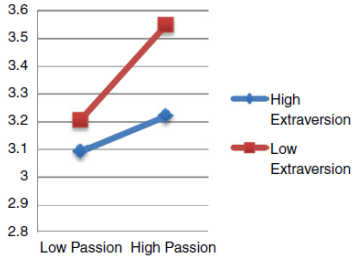

High openness


Low extraversion

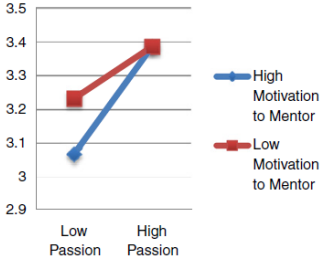

High motivation to mentor


Higher age

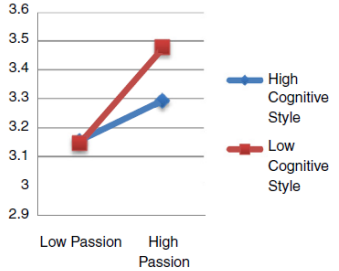
b. The moderating effect of Extraversion and Perceived Passion on Evaluations of Funding Potential



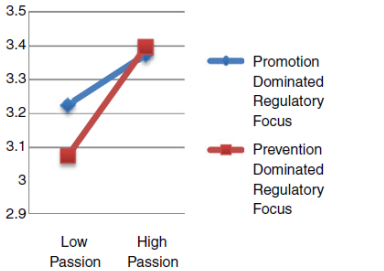
e. The moderating effect of Motivation to Mentor and Perceived Passion on Evaluations of Funding Potential



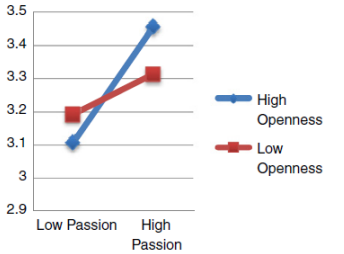
a. The moderating effect of Cognitive Style and Perceived Passion on Evaluations of Funding Potential



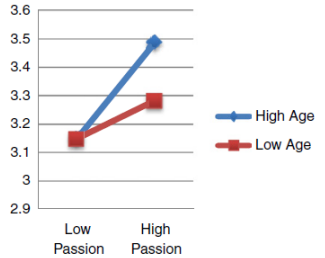
d. The moderating effect of Regulatory Focus and Perceived Passion on Evaluations of Funding Potential



c. The moderating effect of Openness and Perceived Passion on Evaluations of Funding Potential



f. The moderating effect of Age and Perceived Passion on Evaluations of Funding Potential



Source of content and image: Mitteness. (2012). Angel investor characteristics. Journal of Business Venturing. Source of other images: Flaticon

3 Nowdays, founders know exactly what angel investors want



Source of content: Anthony Pompliano. (2020). Pomp Podcast #320: Jason Calacanis - The World's Most Successful Angel Investor?. YouTube.

Last advice – some of the DOs and DON‘Ts by David Rose

Make sure you do …

- take a long-term view i.e. years or decades
- have a strong economic base to tolerate losses
- have a willingness to learn
- maintain self-discipline
- have a high tolerance for risk & failure

Make sure you don’t …

- invest in one of the first deals
- invest in fewer than 20 deals
- invest outside your domain of experience
- skip on thorough due diligence
- sign any documents without your laywer‘s review

Source of content: Rose, D., & Hoffman R. (2014). Angel Investing: The Gust Guide to Making Money and Having Fun Investing in Startups. Wiley.