

# HALO Report™

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ANGEL RESOURCE INSTITUTE



PitchBook

## 2017 1H ARI HALO Report

For immediate release  
November 6, 2017



ANGEL RESOURCE INSTITUTE

ADDITIONAL REPORTS: [ANGELRESOURCE.ORG](http://ANGELRESOURCE.ORG)

# ARI HALO REPORT™

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## METHODOLOGY & VALIDATION

Angels and angel groups invest alone, together, and with many other types of investors. Unless otherwise noted, the 2017 H1 HALO Report™ data includes funding rounds that have at least one angel group participating and may include other types of investors in those rounds. Note that “Median Angel Group Investment” is the median size of investments made by Angel groups in the reported deals.

This report discusses angel group investment trends for the first half of 2017, which represents a total of 1,465 deals in the US and over \$1B in total rounds including co-investors. Deals with rounds greater than \$5 million were excluded from this report to avoid skewing the data. Data was captured directly from angel groups through the Angel Resource Institute’s data portal ([www.arihaloreport.com](http://www.arihaloreport.com)), via email or phone calls from group leaders or administrators, and via Pitchbook™.

### 2017 Highlights

Pre-money valuation dropped from \$3.6M in 2016 to \$3.5M in 2017 H1

Median investment by angel groups dropped from \$127K to \$120K

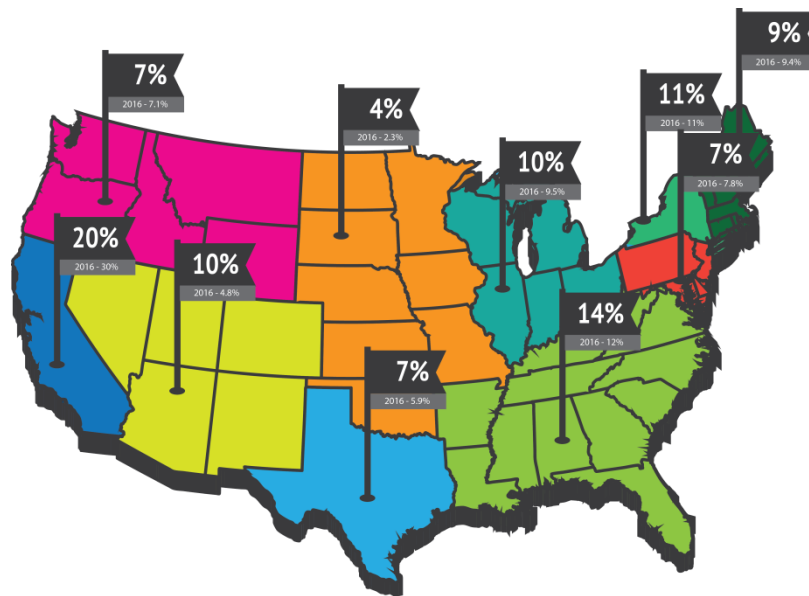
Median of 2 new investments per angel group in 2017 H1

81.4% of deals were for preferred stock

# DISTRIBUTION OF DEAL FLOW

In the 2016 Angel Resource Institute's HALO Report™, California represented 30% of the deal flow. While that was consistent with past data collection efforts, 2017 saw a significant jump in deal flow outside of California and specifically in the Southwest due to a number of new angel groups reporting.

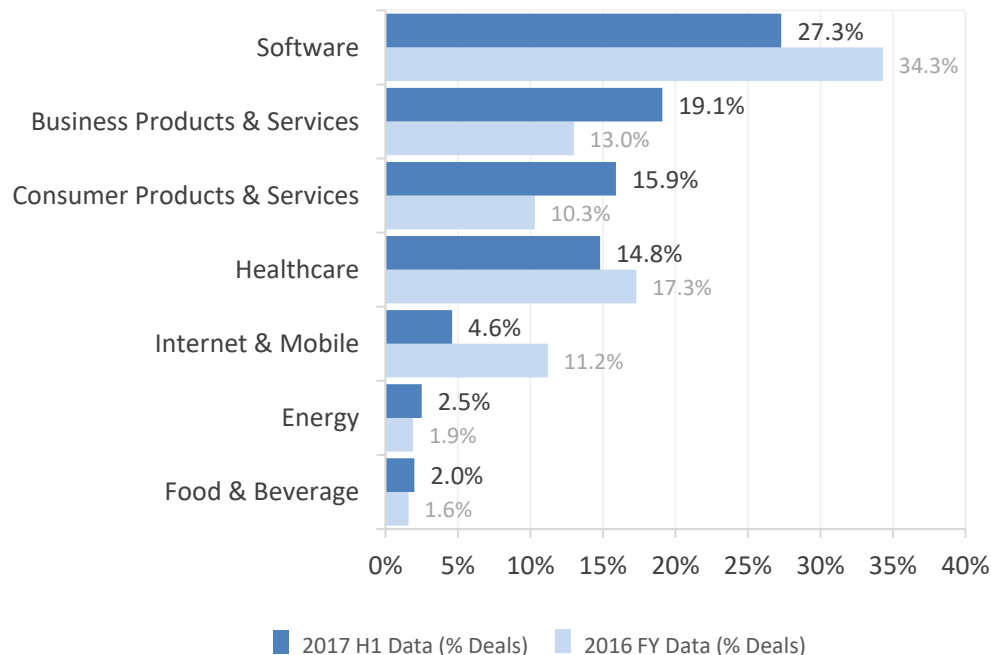
	2017 H1	2016 FY
California	20%	30%
Southeast	14%	12%
New York	11%	11%
Great Lakes	10%	9.5%
Southwest	10%	4.8%
Northeast	9%	9.4%
Mid-Atlantic	7%	7.8%
Northwest	7%	7.1%
Texas	7%	5.9%
Great Plains	4%	2.3%



# 7 INDUSTRIES TO WATCH IN 2017

The Angel Resource Institute identified 1,462 newly funded startup companies in 2017 that had a defined industry-focus. To no surprise, **software and healthcare continued to dominate the industry preference for angel group investments**. But what is a surprise is that the percentage of these deals dropped overall. Some of this change is due to the greater distribution of deal flow across the United States and in areas where technology and healthcare is not the driving economic force. Angels are going back to basics and making a conscious decision to put a portion of their investments in lower risk categories.

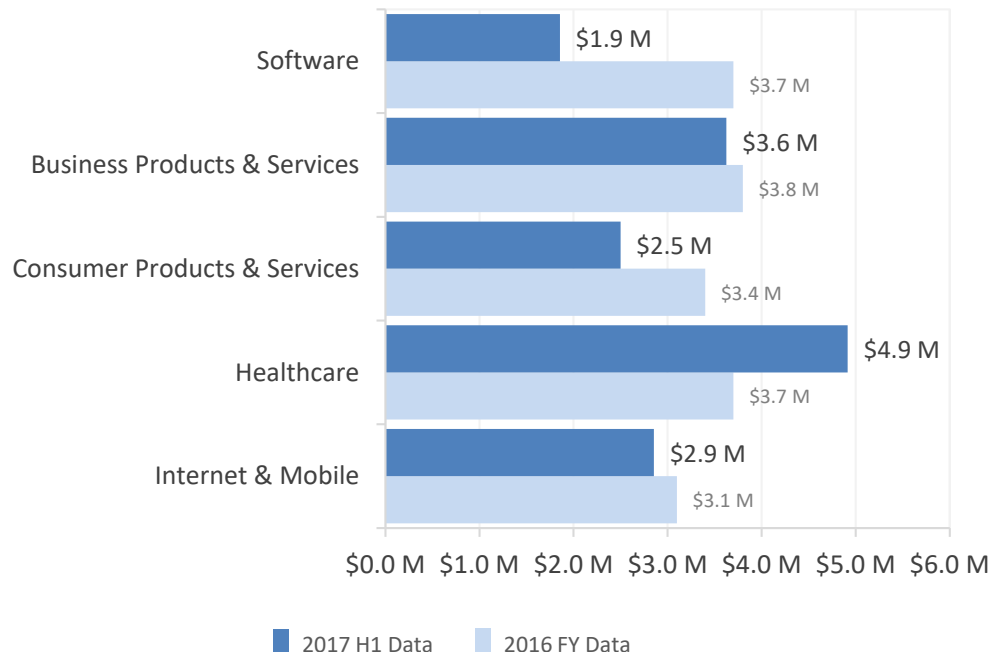
ARI tracks twenty (20) industry categories, but most represent less than 2% of the deals. A full report on all categories will be available in the year-end report.



# MEDIAN PRE-MONEY VALUATION

ARI is highlighting the pre-money valuation for the top 5 industries in the first half of 2017. There are two significant changes. First, the median first-round pre-money valuation for software firms dropped significantly due to a large number of early startups that received low amounts of funding from angel groups. Second, healthcare saw a big jump in pre-money valuation, but no determination has been made on why these valuations increased.

Overall, the pre-money valuation for companies funded by angel groups dropped from \$3.6 million in 2016 to \$3.5 million in 2017 H1. This data suggests that angel groups recognize the need to lower valuations in order to justify the risk and potential exit multiples. Moreover, it indicates that the market is accepting lower valuations.



# HISTORICAL PRE-MONEY VALUATION

The 2017 H1 ARI HALO Report™ appears to show a slight drop in the aggregated median pre-money valuation for all industries regardless of geography. Since 2012 and 2013, angel groups have been moving upstream with investments and, as a result, have been willing to fund deals with higher valuations given the lower risk. Based on data in ARI's 2016 Return Study, 70% of all angel-backed deals failed to return 1X an investment. This high failure rate requires angels to **find scalable deals at a valuation that provides for the possibility of a minimum 10X return.**



# OVERALL MEDIAN VALUES

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2017 H1

2016 FY

Pre-money Valuation: **\$3.5M** \$3.6M

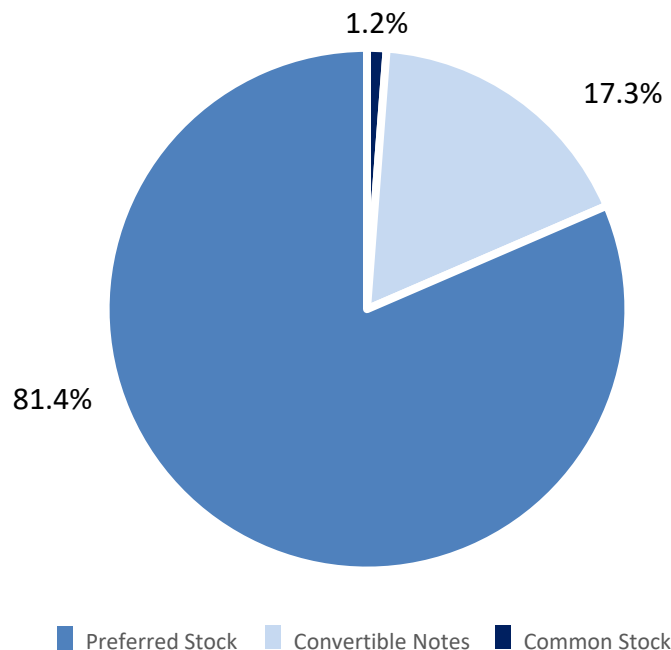
Angel Group Investment / Deal: **\$120K** \$127K

The 2017 H1 ARI HALO Report™ removed all first-round deals with funding rounds greater than \$5 million. While angel groups do participate in higher rounds, it is not the norm and, in most cases, angel groups are a small percentage of those deals. ARI recognizes that angel groups are attempting to move upstream and syndicating more deals in order to lower individual and group investment risk.

# SECURITY PURCHASED IN TRANSACTIONS

One of the questions that is often asked is **why angel groups do not do convertible notes**. Well, the truth is that many angel groups do convertible notes, but it is only a small percentage of an overall portfolio and most notes are used as a bridge round or to get the fund into a deal. In the 2017 H1 study, angel groups completed 17.3% of deals as convertible notes versus 81.4% as preferred stock. Common stock deals were only 1.2%.

Entrepreneurs should be aware that most angel deals will require a priced round with preferred shares.





# 8X MORE DEALS FOR MOST ACTIVE ANGEL GROUPS

The 2017 H1 ARI HALO Report™ points out some of the most active groups in the US based on the number of new deals done over the course of the reporting period. While there are some active angel networks and funds that choose not to provide deal data, the groups who are listed are consistently looking for new investment opportunities. Entrepreneurs should feel confident that these groups have money and are willing to invest in strong opportunities. In the first half of 2017, the median number of new portfolio company investments per angel group was two (2) deals while these groups had a median of 8 times that number.

**Median number of new deals completed by all angel groups, year-to-date, in the US: 2**

**Median number of new and follow-on deals, year-to-date, for the active groups listed: 16**



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# ARI MINORITY REPORT

In 2016, ARI unveiled a new study on minority leadership that provided strong evidence that the race and gender of a startup founder is not a factor on the valuation or investment round size of a deal. However, the study also pointed out that female founders only represent about 16% of all funded, angel-backed early-stage deals.

In the first-half of 2017, ARI tracked 1,095 startup founders and devised that the number of female-backed deals climbed considerably. Female-founded firms jumped to 21% of angel-backed deals. Some of the data points to the fact that more women are co-founding deals with their male counterparts. In fact, **49% of all female co-founded companies also have at least one male co-founder on the team.**

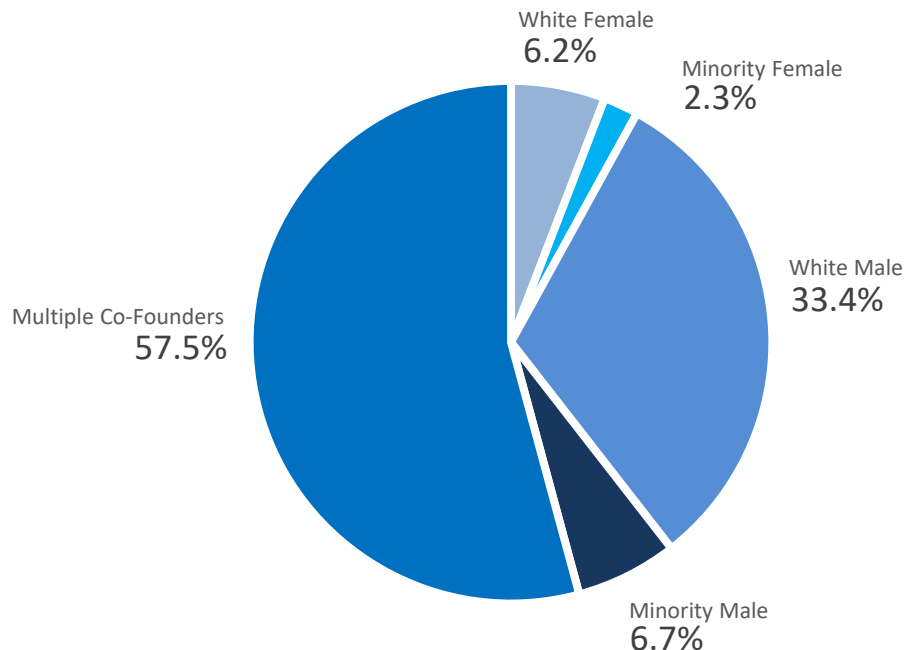
Gender	% Founders Included in All Deals	% Time Single Founder*	Single Founder as % All Deals	% Deals by Gender & Race that Include Opposite Gender Co-Founder(s)
White Female	15.4%	40.3%	6.2%	49.6%
Minority Female	5.6%	40.4%	2.3%	48.9%
White Male	61.0%	54.8%	33.4%	13.0%
Minority Male	18.0%	37.3%	6.7%	18.0%
	100%			

\* Percentage of founders, by gender and race, that start companies without other co-founders

# >50% OF DEALS HAVE MULTIPLE CO-FOUNDERS

While tracking race and gender of founders is a relatively new statistic for the report, ARI thought it was critically important to better understand the relationship between funded deals and the number of founders in each company. Turns out, **the majority of angel-backed deals (57.5%) have multiple co-founders** while single founder companies represented 42.5% of all deals funded by the same angel groups – with white males representing almost 79% of those companies.

As ARI continues to do research in this space, the performance of deals led by single founders versus multiple co-founders will provide additional insight.



# ABOUT US

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## **About the Angel Resource Institute™ (ARI)**

The Angel Resource Institute™ (ARI) is a 501(c)(3) charitable organization devoted to education, mentoring and research in the field of angel investing. ARI was founded by the Ewing Marion Kauffman Foundation, and is a sister organization of the Angel Capital Association, the professional association of angel groups in North America. The programs of ARI include educational workshops and seminars, research projects and reports – including the HALO Report™ – and information about angel investing for the general public. More information is available at: [www.angelresourceinstitute.org](http://www.angelresourceinstitute.org).

## **About the HALO Report™**

The Angel Resource Institute's HALO Report™ provides analysis and trends on US angel and angel group activity. Angels and angel groups invest alone, together, and with many other types of investors. The report focuses on a number of industries: Business Products & Services, Consumer Products & Services, Healthcare, Internet & Mobile, and Software. Additionally, the report analyzes where angel are investing and the impact on gender and race. For additional reports, visit [www.arihaloreport.com](http://www.arihaloreport.com) or [www.angelresource.org](http://www.angelresource.org).

## **About Pitchbook™**

PitchBook™, a Morningstar company (MORN), is the industry's leading resource for meaningful information about global VC, PE and M&A activity. PitchBook empowers over 2,000 clients to make the most informed business decisions by providing them with the highest quality information on the entire investment lifecycle through its flagship product, the PitchBook Platform. This award-winning, web-based platform features a powerful suite of integrated technology that meets the diverse, data-driven needs of the private markets. For more information about PitchBook, please visit [www.pitchbook.com](http://www.pitchbook.com).

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Special thanks to the many angel group leaders who submitted data directly to ARI, ARI representatives, Tyler Knauss, Rowan Arts, and High Point University entrepreneurship students for significant contributions to the report. For more information about the Angel Resource Institute and additional reports on early-stage investing, visit: [www.angelresource.org](http://www.angelresource.org).

ARI RESEARCHERS AND LEAD INSTRUCTORS TEACH CLASSES, WORKSHOPS, SEMINARS, AND GIVE KEYNOTES AT MAJOR CONFERENCES AROUND THE GLOBE. WE WORK WITH LOCAL, STATE, AND FEDERAL GOVERNMENTS, FOUNDATIONS, ECONOMIC DEVELOPERS, ANGEL GROUPS, AND ENTIRE STARTUP ECOSYSTEMS. CONTACT US TODAY TO LEARN MORE!

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