

ARI HALO Interim Findings for 2018

Dear Fellow Angel Investors,

We have been digging into the latest investing data provided by you and augmented with data from PitchBook. While we look forward to producing a detailed year-end report, we would like to share with you some preliminary salient findings in the following areas:

- Pre-Money Valuations and Deal Round Size
- Invested Companies by Location
- New Deals versus Follow-on
- Gender / Ethnicity Findings
- Comments on General Activity and Exits of Note

We know that with more data points for a full year's worth of transactions, we will have enough data to make even more meaningful statements about geography, specific trends and valuation.

But for now:

Pre-Money Valuations and Deal Round Size:

Across the country, valuations are up. Not a surprise, but still noteworthy. We broke out Series A from Pre-Series A and Seed to reveal the following:

Pre-Money Valuation

	Minimum	Maximum	Median	Mean
Seed / Pre-Series A	0.35	26.0	5.0	6.2
Series A	1.75	32.5	10.8	13.2

All entries in \$M

Round Size

	Minimum	Maximum	Median	Mean
Seed / Pre-Series A	0.025	8.2	0.98	1.5
Series A	0.260	15.0	2.70	3.91

All entries in \$M

Series A – Had a median valuation of \$10.8 M with an average of \$13.2M. The minimum valuation was \$1.75M, and max was \$32.5M. It is interesting that angel groups are participating in these Series A deals, as well as B, C, D, and even one E. The Round Sizes for Series A had a median of \$2.70M, with a mean of \$3.91M with a minimum of \$260K and a maximum of \$15M.

Pre-Series A – But more to our sweet spot, is our tracking of Pre-Series A deals, where we see median valuation of \$5M, mean valuation of \$6.2M, minimum of \$350K and max of \$26M. Yes, we did a double take on that last data point, and researched the deal to find a fascinating company in San Francisco, led by a minority male CEO in the financial services space. He successfully raised \$4M from angels.

The Round Size for Pre-Series A ranged from 25K to \$8.2M, with a median of 980K, and an average round size of \$1.5M.

We did a quick check with last year's report for trending, and ALL metrics are up across the board. We'll address this in more detail in the year-end report. We also plan to report valuation by type of business and region.

Company Location:

Where in the country are the companies that received angel funds?

California -- Is still the leading region for companies receiving early stage investments at 17.2%, but trending down as a % of total companies. The 2017's full year report held at 20%. Interestingly, a close runner up to California is the Southeast region, where companies received 16% of all investments reported. The regions where companies are located break down as follows:

Percentage of Deals by Region (Company Location)

REGION	Frequency	Percent	Composition of Region
CALIFORNIA	206	17.71%	CA
GREAT LAKES	103	8.86%	OH IL MI IN WI
GREAT PLAINS	64	5.50%	ND SD NB OK MO KS MN IA
MID ATLANTIC	100	8.60%	PA NJ DE MD DC
NEW YORK	111	9.54%	NY
NORTHEAST	99	8.51%	MA ME VT NH CT RI
NORTHWEST	112	9.63%	WA ID MT WY OR
SOUTHEAST	192	16.51%	NC SC VA KY TN GA FL AL WV LA AR MS
SOUTHWEST	115	9.89%	NV UT CO NM AZ
<u>TEXAS</u>	<u>61</u>	<u>5.25%</u>	<u>TX</u>
Total	1,163	100.00%	

Again, we will see if this holds true with additional companies funded in the 2nd half of 2018.

New Deals versus Follow-Ons:

Also back to normal is the finding that half of all investments are Follow-On rounds.

52.4% of all deals were Follow-On while 47.6% were new. We must note a correction is needed in the 2017 report. At that time we indicated that only 11% were Follow-On rounds. We realize we included incubators, and did not do so in 2016 or 2018, AND we also used "new" as a default condition for deals not readily identified as Follow-On.

For 2018 we have reviewed each transaction in detail, assessed whether it was a new financing or a Follow-On financing, and then included it as a Follow-On in our notations if we found an angel group included in the current financing that also participated in the first financing. With this more precise definition of "Follow-On", we found over half of all transactions were Follow-On deals. The total number of deals was 1,163.

We further found angel investors participating in Series B, C, D, and even E rounds. It appears where they can negotiate participation rights, they are partaking.

We obviously excluded these deals from our analysis of Pre-A and A Series (Round Size and Valuation), but noted these deals in total number of deal count, and in Follow-On activity.

Gender / Ethnicity Findings:

Compared to prior year Gender and Ethnicity data is still trending towards favorable inclusion of investment in women and minority led companies, BUT, the current sample size is only 324 companies at the moment. Of these 324 (with 341 founders), companies with only a woman leader represent 25.5%, while companies with only a male leader are 69.5%. Almost 5% of companies had both a male and female founder / leader.

Gender	Frequency	Percent
Both	17	4.99%
Female	87	25.51%
<u>Male</u>	<u>237</u>	<u>69.50%</u>
Total	341	100.00%

Minority	Frequency	Percent
Minority Female	14	4.32%
Minority Male	32	9.88%
White Female	73	22.53%
<u>White Male</u>	<u>205</u>	<u>63.27%</u>
Total	324	100.00%

Minority led companies constituted 14.2% of the deals; again, we only have the required level of detail for this analysis from 324 companies / deals. However, we realize that included in this data are 34 deals from Golden Seeds, and 12 deals from Astia -- two very active organizations who specifically invest in only companies with women leaders. If we delete these deals from our sample, we would see a very different picture:

Gender Analysis without Golden Seeds and Astia

Gender	Frequency	Percent
Both	12	4.20%
Female	58	20.28%
<u>Male</u>	<u>216</u>	<u>75.52%</u>
Total	286	100.00%

The activity of Golden Seeds and Astia represent a significant increase in the women-led companies receiving funding, again based on our limited sample size. We will pursue more detailed gender data for a larger sample size to include in our year-end report.

We look forward to building a larger data base of companies with women led teams so that we can compare differences, such as the round size, to those led by men. We do not have enough data points to draw any meaningful conclusions, but it appears that at the Seed and Pre-Series A level, the difference in round size is negligible. Series A however, may be where we start to see more differences between men and women and the amount the capital they raise. With our limited sample, we see a difference of 10% in the mean -- with the mean for Series A led by men at \$3.764M, and the mean for women led Series A at \$3.415M. Still we need larger sample sizes and look forward to tracking the data to determine if indeed this is a trend.

Comments on General Activity and Exits of Note:

In the meantime, a note of recognition to Golden Seeds -- THE most active angel group of all in reporting their data to ARI -- 34 deals in the first half of 2018 alone. They were followed by the Alliance of Angels at 23 deals, and Keiretsu at 22 (11 international and 11 domestic). Again, we look forward to reporting more on the most active groups in each region.

Lastly, we note one very significant exit -- a Kieretsu deal that went public in mid-2018. We know there were many others, but we have not previously requested exit data. If you will kindly share your exit successes with us as well, in your year-end data submission, we will celebrate and share these results. It is very valuable data for any longitudinal studies or predictive modeling, as well as for general recognition amongst colleagues. We all love to brag about these inspiring successes!

We also wish to acknowledge the intense efforts and analytical diligence of team member, Pinar Yildirim, MBA and the support of her colleagues at Florida Atlantic University.

On behalf of all of us affiliated with the Angel Resource Institute, we wish you, your colleagues, family and friends, a wonderful holiday season, and a most prosperous New Year.

We look forward to a productive 2019, and to a full report to you all in the New Year.

Gwen C. Edwards

Chair, Angel Resource Institute (www.angelresource.org)