

Best Practices for Angel Investors in Life Sciences



LIFE SCIENCE ANGELS™

Investing For Life

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Who are Angel Investors

Angel investors:

- invest with their individual funds
- are entrepreneurs themselves / executives of corporations
- motivated to contribute to the ecosystem
- natural mentors
- want to be a part of the innovations in their industry
- provide valuable management advice and strategic connections

Angel Capital Association

- 13,000+ angel investors / 240+ angel groups, accredited platforms, family offices

<https://www.angelcapitalassociation.org/>

Empirical Observations

In **BOTH** Angel and VC

- You're most likely to lose your money in any one investment
- Losses are capped but wins are not capped
- 10% of investments generate 90% of all cash returns
- Losses are realized twice as fast as Wins

Angel Return Study Data

	Multiple	Hold	<1X	10% of exits to \$
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2016



TRACKING ANGEL RETURNS

2.5X

4.5 yrs

70%

85%

2007

Returns to
Angel Investors
in Groups

2.6

3.5

52%

90%

2009

Siding with the Angels

Business angel investing – promising outcomes and effective strategies

2.2

3.6

56%

80%

CAMBRIDGE **C | A** ASSOCIATES

Early stage VC '05-'11

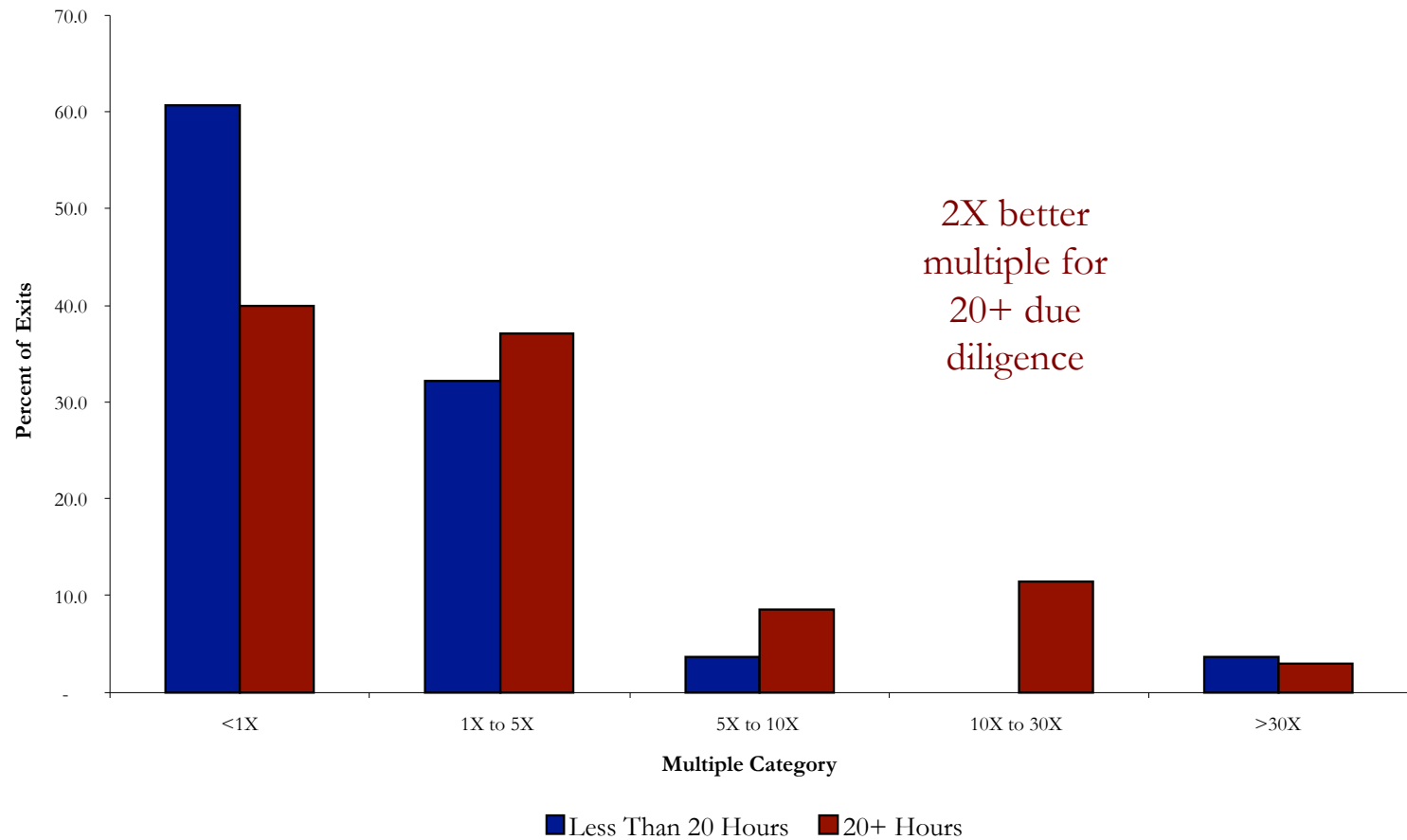
2.1

Gross TVPI & includes carried value

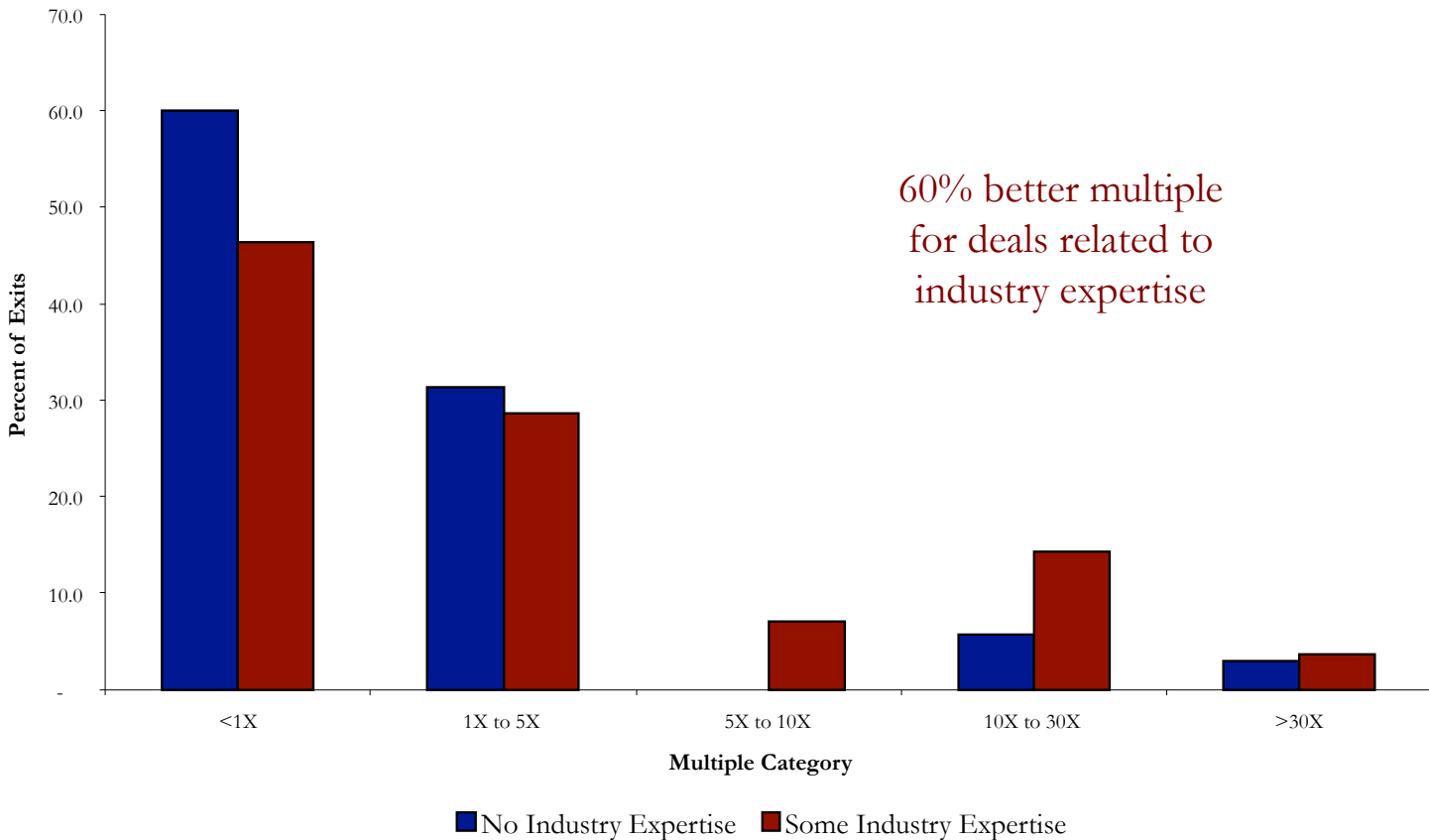
Tracking Angel Returns

- The overall cash on cash multiple has remained steady at **2.5X Capital**.
- The **holding period** has increased by 25% to **4.5 years** on average.
- **10% of all exits generated 85% of all cash.**
- The **failure rate** (exits at less than 1X) climbed to **70%**.
- Most of the increase in failed investments came from a decrease in the 1X-5X category, with **larger exits representing about 10% of outcomes.**
- As with the prior studies and also formal VC, the distribution is highly skewed: the median investment is a loss, while the mean is a 2.5X multiple.

Outcomes Split by Due Diligence



Outcomes Split by Industry Expertise





LIFE SCIENCE ANGELS™

Investing For Life

- 100+ individual members
 - SEC Reg. D accredited individuals and organizations
 - Executives, entrepreneurs, physicians, scientists, engineers and venture capital firms from the life sciences industry
- 62 companies funded to date
 - ~\$50M invested
 - ~\$1B in follow on investment from VCs and strategics.
- 23 exits - \$15M invested, \$24M returned

LSA Deal Structure

- Members make their own investment decisions
- Strong preference for equity vs. debt
- Investments structured as an LLC to allow:
 - Single investor, single check to company
 - Increases leverage in terms negotiation
 - Follow up information more readily available to investors
 - Improves likelihood of participation in follow on rounds
 - Greater public recognition of LSA participation
 - Positions LSA to syndicate investment to other groups when needed

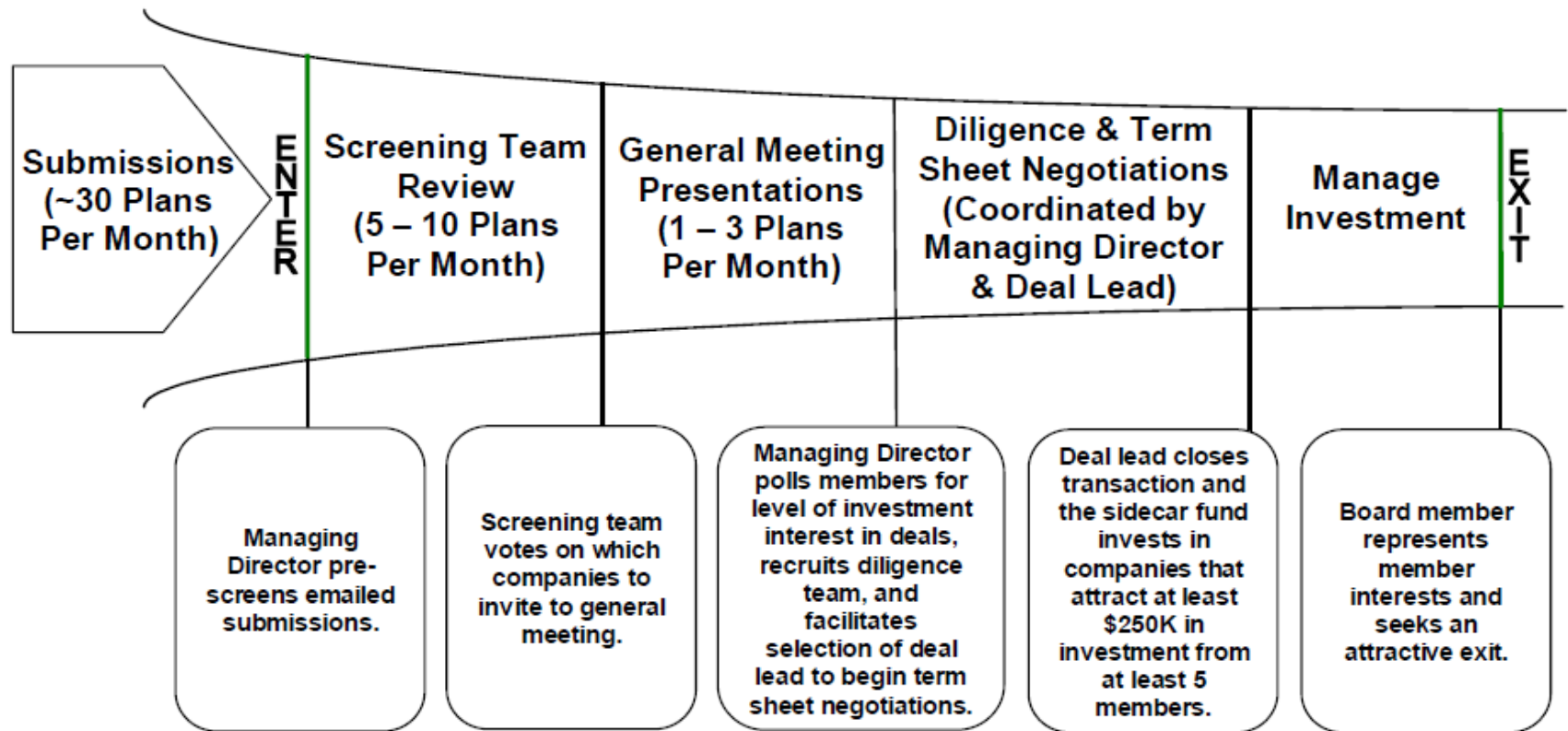
LSA – Deal Flow

- **Active solicitation from life sciences industry**
 - Sourced from members, sponsors, VCs, universities, etc.
- **2 investment committees**
 1. Biotechnology, Genomics and Molecular Diagnostics
 2. Medical Devices, Diagnostics and Digital Health
- **Internal champion(s):** required for new deals
- **Investment range:** \$150k to \$1M
- **Syndication:** Proven track record with other angel groups and VC firms
- **Follow-on funding rounds:** LSA normally participates in one or more for portfolio companies

What is the Purpose of Due Diligence?

- Find deals that do not have any risk? ~~No.~~
- Find deals that have minimal risk? ~~No.~~
- IDENTIFY ALL MATERIAL RISKS AND ALL FACTORS THAT DETERMINE THE EXTENT TO WHICH THEY CAN BE MANAGED, MITIGATED, OR ARE REAL RISKS.

Common Due Diligence Process



CommonAngels Deal Flow Process

Multitude of DD Practices

- Initial light screening - gauge for interest
- Due diligence check list
- Lean LaunchPad approach

Key: Focus resources and time on deals your group is more likely to do!

Life Science Specific:

- Life science companies require more cash to hit milestones that can raise valuation: Greater understanding required!

One Approach: Due Diligence Checklist

- Compelling Market Need
- Specific, Sufficient TAM & SAM
- Solution Strong Enough to Cause Decision Makers to Alter Behavior
- IP protection & FTO (Industry specific – where applicable)
- Clear product roadmap
- “A” Level Team
- Sufficient Margins to Base a Cash Positive Business
- Moderate Financing Risk/Cash Requirements to Critical Inflection Points and Exit
- Identifiable Exit Pathway

Preferred: The Lean LaunchPad Approach to Due Diligence

- LLP breaks any business down in to modules contained in a Business Model Canvas
- The founding team needs to generate specific, quantifiable hypotheses for each module
- Major benefit is the quality of customer discovery. The founding team (not consultants) needs to Get Out of the Building and test each hypothesis
 - Customer is defined very broadly to include every stakeholder
 - So in the broadest sense, investors and acquirers are Customers!

MedTech Business Model Canvas

REGULATORY	COMPELLING CLINICAL NEED
REIMBURSEMENT	VALUE PROPOSITION vs AVAILABLE SOLUTIONS FOR EVERY STAKEHOLDER
DATA REQUIREMENTS CLINICAL TRIALS	
TEAM/RESOURCES	IP / BARRIERS TO ENTRY
P&L MARGINS CASH FLOW	CASH NEEDS FINANCING RISK
BUSINESS MODEL	EXIT PATHWAY

RED = FIRST

BLUE = SECOND

GREEN = THIRD

THEN REPEAT