

Lagos Angel Network

Status as of December 2019



FOUNDED: Informally in 2011, incorporated in 2014

BASED: Lagos, Nigeria

INVESTMENT GEOGRAPHY: Nigeria

FORM: Nonprofit

NUMBER OF ANGELS: 65; 22 active

NUMBER OF DEALS: 30

TOTAL FUNDING: About \$2M USD

INVESTMENT FOCUS: Technology

WHAT MAKES THIS NETWORK SPECIAL

Lagos Angel Network was founded by high-profile Nigerian entrepreneurs and angel investors. With the help of development funding and key partnerships, they have leveraged their reputations and skills to build one of the most active angel investor networks on the continent.

BUSINESS MODEL

- Current revenue comes from a mix of membership, sponsorship, and event fees.
- LAN has carried interest in each deal they facilitate, meaning they receive a percent of the profit returned to investors. This is expected to provide revenue for the network in the medium to long

KEY ANGEL ENGAGEMENT STRATEGIES

- LAN provides significant support throughout the deal process, including taking an active role in deal sourcing, sharing investment agreement templates, contracting professionals to complete financial due diligence, and drafting final deal documents.
- The network regularly holds masterclasses on a variety of investing topics to engage new members and upskill current members.
- LAN recently launched a syndicated investment approach where they source additional capital from non-members to join member deals.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Partnerships with Innovation Support Network Hubs, Ventures Platform, and VC4A foster to a strong pipeline of promising entrepreneurs.
- LAN regularly conducts masterclasses for entrepreneurs.

Aunnie Patton Power is the lead author of this angel network spotlight. This case is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of December 2019. Find other cases from this project as well as the full guide at <http://bit.ly/EmergingAngels>

Development History and Model

FOUNDING STORY AND LEADERSHIP



Of course, money is critical, as funding is the first thing on everyone's mind, but innovation hubs and business angels shouldn't underestimate their value as mentors and advisors to the rising number of entrepreneurs solving critical societal problems in Africa.

Tomi Davies
Co-Founder



In 2011, Tomi Davies, a seasoned entrepreneur and technology investor, began a series of conversations with InfoDev, a World Bank group that supports entrepreneurship in developing economies. The conversation started with the idea of a fund for angel investors in Nigeria. Davies had himself already spent several years independently investing in Nigerian start-ups, but his conversations with InfoDev exposed him to the work of the New York Angels and other global angel investment networks that organize groups of regional investors. Although Lagos at that time had over 300 venture capital firms, with some investing in seed rounds of very early stage ventures, there was not yet a coordinated angel investing movement in the city.

Around this same time, Wennovation, a new business incubator, was preparing to graduate its first class of startups in Lagos. Founders Wole Odetayo, Michael Oluwagbemi, Idris Bello, Gbenga Sesan, Emmanuel Oluwatosin, and Dami Agboola had combined experience in technology start-ups, management consulting, investment banking, and venture capital. An interest in launching a fund to invest in startup companies led them to conversations with InfoDev and awareness of Davies' similar interests. Working together, the Wennovation founders, Davies, and Adedotun Sulaiman, a well-known local investor, decided to jointly launch an initiative to support early-stage investment in Nigeria. InfoDev covered initial costs for the launch event, and the Lagos Angel Network (LAN) was born in 2012.

LAN began with 20 high net worth individuals and organizations as founding members. These founding members represented current angel investors, business leaders, venture capital investors, and successful startup entrepreneurs.

As of late 2019, LAN has 65 members; of those, 22 have actively invested in the previous twelve months. The network's average investment is approximately \$48,000 USD.¹ LAN is particularly interested in investments with younger co-founders that leverage technology, but will look at any company to which they believe the network can add value.

THE LAN SERVICE MODEL



LAN provides a number of services aimed at increasing both the number of angel investors in the network and the number of deals closed.

Learning and networking. LAN offers masterclasses to its members to empower them to conduct and coordinate their own deals. For example, one masterclass is focused on the POEM (Proposition, Organization, Economics, and Milestones) framework that Davies developed to help bridge the knowledge gap between the corporate world (where potential angel investors may come from) and the startup world. The framework helps new investors understand how to evaluate a new market, diligence startups from a business model, technology, and financial perspective, and set milestones for future growth and funding. As a network, LAN places great emphasis on connecting angels to one another. According to a member, the greatest benefit of LAN is meeting other professionals and benefitting from their expertise. The members of the network share potential deals to gauge interest, particularly among sector experts who can assist in evaluating and conducting due diligence.

Deal sourcing. For a robust deal pipeline, LAN has partnerships with organizations across Nigeria and Africa, including Innovation Support Network Hubs, a nonprofit made up of 75 entrepreneurship hubs in Nigeria; Ventures Platform, which works with startups across Northern and Southern Nigeria; and VC4A, a platform supporting high-growth, high-impact startups across Africa and beyond.

1: InfoDev, World Bank, ABAN. *Angel Investing In Africa in Africa, State of Play: Finding Product/Market Fit*. 2018.

EXAMPLE INVESTMENT: BIG CABAL MEDIA

When Tomiwa Aladekomo joined Big Cabal Media in 2018 as CEO, LAN had already invested in the company. But rough times had hit and Aladekomo had to rebuild the company from scratch. When Aladekomo raised additional investment in a priced Seed Series round, LAN participated in that round, as well. Big Cabal Media has since tripled revenue, doubled their audience, grown their product offerings, and added dozens of jobs. Aladekomo cited the contributions of LAN members as active company board members and mentors, as well as the network's willingness to make follow-on investment as significant factors in their success.

Due diligence. Network angels lead the due diligence on potential deals using an investment readiness assessment framework developed by advisory firm EY. The framework includes scoring criteria for market strength, management depth, financial return, and exit potential. To conduct financial due diligence, LAN contracts professional organizations on behalf of its members, spending about N225,000 (\$600 USD) per deal to provide this service.

Deal structuring. LAN deals can take the form of convertible notes, simple agreements for future equity (SAFEs), pure equity, and bridge financing. Due to the level of experience of LAN members and support from the network itself, investees have found that the LAN deal structuring process is quite sophisticated. In order to bring deal costs down and decrease time to close, LAN provides template term sheets and convertible note purchase agreements to members. LAN also uses special purpose vehicle (SPV) shareholding agreements that aggregate angels' equity investments to decrease the number of contracts that need to be signed and reduce the complexity of transactions involving many angels. LAN is also willing to do follow-on investments (see box). On average, LAN spends N150,000 (about \$400 USD) on legal costs per investment.

Investment management. LAN asks investee companies to submit information on a regular basis, generally bi-annually. This includes written reports as well as in-person presentations to the board. One investee shared that this structured process for reporting to investors has helped the business and garnered useful strategic feedback.

Business Model & Path To Sustainability

Originally, LAN relied on partnerships with development funders to support operations, with the co-founders making the case that angel investing is a development asset class. They see their work to increase the amount of risk capital available for startups with young founders as a development imperative in Nigeria, considering the nation's large youth population and high unemployment.

Currently LAN earns revenue from membership fees, sponsorship fees from corporates and international organizations, and event fees from seminars, workshops, and masterclasses. Annual membership fees are N250,000 (\$600 USD) for individuals and N500,000 (\$1,200 USD) to become a corporate sponsor. The Bank of Industry in Nigeria has been an important sponsor since the creation of the network. The network continues to be subsidized by its founders; it expects to reach sustainability with the membership fees and investment activity of approximately 50 active members.

In addition, LAN has carried interest, or "carry," a provision to participate in the profits of all deals it facilitates. The carry is 10% of the return that investors receive over and above the principal amount they invested. For example, if LAN investors put \$50,000 into a deal that returns \$200,000 upon exit, the LAN network receives 10% of \$150,000, or \$15,000 carry. Given that the return horizon of the current portfolio is seven to ten years, this revenue will not be realized for several years.



SUCCESS MEASURES

LAN measures three factors across their portfolio to determine the success of their investees: the number of jobs created by the company, if they have successfully hit breakeven, and if they have raised follow-on institutional funding.

Angel Engagement

LAN's co-founders and founding members brought with them relationships across the incubation and investing space in Nigeria, and thus started with a strong pipeline for engaging new angels. LAN also increases membership by offering regular masterclasses and events to attract potential angels. The trainings are often co-hosted with partners such as the chamber of commerce or the bank of industry. Any potential new angels who show interest in joining the network can then take a series of classes to qualify for membership.

Another approach LAN employs to increase early stage investing in Nigeria is syndication – sourcing additional capital from non-members, including those of the African diaspora, to join member deals. LAN began structuring syndicated deals in 2016 and five have been conducted thus far. The most recent investment included 33 parties, of which only 5 were LAN members.



Strategies In Practice

Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common context and business model challenges that angel networks face, as well as strategies networks are using to address these challenges. The strategies LAN has utilized are highlighted in the column on the right.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	Relatively small markets	<p>Expand the local market through partnerships</p> <ul style="list-style-type: none"> • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available <p>Attract new angels through broader definition and awareness</p> <ul style="list-style-type: none"> • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement <p>Activate capital through education, facilitation, and risk reduction</p> <ul style="list-style-type: none"> • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
	Lack of investment awareness, experience, & skill	
	Bias against local early-stage investing	
	Regulatory barriers to angel investing	
BUSINESS MODEL CHALLENGES	Achieving a sustainable business model	<p>Diversify revenue and share costs</p> <ul style="list-style-type: none"> • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support <p>Attract and retain staff and membership talent</p> <ul style="list-style-type: none"> • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members <p>Use innovative financing structures in addition to equity</p> <ul style="list-style-type: none"> • Use alternative financing structures that match local expectations around ownership, business success, exit, and return
	Retaining skilled network leadership	
	Lack of participation by key influencers	
	Unsuitability of traditional equity in some cases	

Looking Ahead



Due to a cross-stakeholder initiative to increase the pool of capital for African entrepreneurs, LAN may have another co-investment partner in the near future. Catalyst was founded by African Business Angel Network (ABAN), an angel network trade association, and AfriLabs, a network of innovation hubs, as a co-investment fund that will match investments from qualifying angel investors into African growth-stage companies. To be eligible for matching funds, startups are required to register on the Catalyst platform through AfriLabs hubs, and must have received investment from an angel who is a member of an ABAN-registered angel network. Catalyst will play a role in monitoring the ongoing performance of startups who receive investment.² Catalyst plans to raise funds from various institutional partners.

Lessons From This Network



There is significant value in grant funding to get angel networks off the ground.

Although LAN was started by a set of high profile and wealthy individuals, it was grant funding from InfoDev and sponsorship from the Bank of Industry in Nigeria that made this network a reality. Even as experienced investors, the founders had to put in a significant amount of work to build a network able to deploy capital into Nigerian startups. This work was not compensated and was over and above their other professional roles and activities, so funding to cover the administrative costs of setting up the network and facilitating deals proved to be critical.

Traditional financial terms can contribute to network financial sustainability.

LAN includes terms in each deal that allows the network to participate in investment profits at exit. While it is too early in the investment portfolio to see revenue from this profit share, this is a key component in the networks plans for future sustainability.

Engaging additional capital can happen inside or outside the network.

LAN allows non-members to invest in network deals through syndication. While this may not be the most straightforward way to increase network membership (and membership fees), it helps achieve the broader goal of increasing the amount of early-stage capital available in the local ecosystem.

Partnerships are key in all stages of the deal process.

LAN works closely with incubators across the country to source deals for its members, it pulls in professional capacity to help with due diligence, and partners with non-members to fund deals. It also partners with leading governmental institutions such as the Bank of Nigeria and the Bank of Industry to provide support and visibility to their work.



Find other case studies and the full report *Angel Networks in Emerging Markets: A Guide for Development Institutions* at <http://bit.ly/EmergingAngels>

2: AfriLabs & ABAN press release, September 2019. <https://www.afrilabs.com/african-business-angels-network-aban-and-afrilabs-partner-to-launch-catalyst-a-new-investment-solution-for-african-startups/>