

Angels Nest



Credit: Angels Nest

Status as of May 2020

FOUNDED: 2015

BASED: Mexico City, Mexico

INVESTMENT GEOGRAPHY: Mexico, specifically Aguascalientes, Campeche, Chihuahua, Mexico City, Jalisco, Yucatan

FORM: For-profit

NUMBER OF ANGELS: 300; 90 active

NUMBER OF DEALS: 35

TOTAL FUNDING: \$4.2M USD

INVESTMENT FOCUS: Sector agnostic. Innovative business models that are highly scalable.

WHAT MAKES THIS NETWORK SPECIAL

Angels Nest operates one of the most active angel networks in Latin America. With no membership fees, an online platform for angels, and international partnerships that activate additional capital, Angels Nest lowers entry barriers to angel investing and aligns its goals and revenue with the interests of investors and entrepreneurs.

BUSINESS MODEL

- Angels Nest charges a flat fee to cover investment transaction legal costs as well as a 4-6% success fee, both of which are deducted from the investment at closing.
- The network negotiates an equity stake of approximately 4% in each invested company, a long-term revenue opportunity derived from successful companies.
- Transaction-related fees, registration fees for investment and educational events, and sponsorships cover 60-70% of the organization's costs to date.

KEY ANGEL ENGAGEMENT STRATEGIES

- With no membership fee, Angels Nest encourages curious potential angel investors to engage with the network risk-free.
- Educational sessions, workshops, and pitch events activate new angels and keep experienced angels engaged.
- International partnerships provide exclusive access to cross-border deals that generate excitement and diversify domestic angels' portfolios.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Entrepreneurs apply online, and those that pass an initial screen are further assessed by staff at a due diligence meeting.
- Entrepreneurs that agree to give the Angels Nest network exclusive access to their investment opportunity receive coaching from staff and pitch to the network.
- Angels Nest staff facilitates the investment process to increase the chance of a successful investment close.

Bonny Moellenbrock is the lead author of this case. This angel network spotlight 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 May 2020. 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



I grew four different companies and sold three – one very successfully. The other went bankrupt. I learned the most from the bankruptcy experience, from the mistakes I made. Entrepreneurs can benefit the most from the mentorship of angel investors who can share lessons learned from their entrepreneurial and business experience.

Israel Pons
Founder



Angels Nest was founded in 2015 by Israel Pons, a Mexican entrepreneur with international business experience. After growing four companies and learning about angel investing while residing in the United Kingdom, he returned to Mexico and worked with a large company there to learn about the Mexican business culture. This role included travel throughout Latin America, where he noted the lack of resources and support for entrepreneurs. In 2011 he conducted a study of the Mexican entrepreneurial environment and began engaging with government efforts to promote entrepreneurship. The government was funding accelerators at that time, but would not provide financial support for an angel network. Nevertheless, Pons felt strongly that entrepreneurs needed access to angel investment and mentorship. He left his job and launched Angels Nest, funding the organization with his own investment and that of a fellow board member.

Angels Nest, now with a presence in six regions in Mexico, is sector-agnostic, investing in early-stage businesses with innovative, disruptive business models that are highly scalable. Through informal and formal relationships built upon Pons' international business network, Angels Nest is linked with angel investors throughout Latin America, in North America, and in Europe. In 2016 it became Mexico's national representative of the Global Business Angels Network (GBAN), a strong community of angel networks, and a founding partner of EMAAC, the Association of Mexican-German Entrepreneurs. In 2018, Israel Pons became Mexico's High Commissioner for the G20's World Business Angel Investment Forum (WBAF), and in 2020 became President of the WBAF Angel Investment Fund.

THE ANGELS NEST SERVICE MODEL

EXAMPLE INVESTMENT: **GASZEN**

Portfolio company Gaszen, based in the state of Guanajuato, provides a wireless device that helps consumers better manage their gas usage. Gaszen received an investment from the Angels Nest network in 2017 to go to market and another in 2018 to upgrade their technology.

"Angels Nest has a passionate, competent, and highly energetic team to propel any startup to success in its capital raising. Gaszen had a paradigm shift in how to conduct a capital raise through investors."

Jennifer Reyna
Co-Founder, Gaszen

Angels Nest follows a typical angel network approach, with a staff of six (four full-time equivalents) recruiting angel network members, sourcing and screening enterprises, connecting angels to promising investment opportunities, and facilitating the due diligence and investment process. Much of this activity is facilitated with an online platform that allows for efficient information-sharing across its relatively widespread investment geography and with its international angels.

Investment process: Entrepreneurs complete an online questionnaire, and those that meet base criteria in an initial screening are reviewed by two senior staff members. The most compelling opportunities are invited to meet with staff. At this initial due diligence meeting, staff further discuss the business as well as the Angels Nest process. To receive coaching and the opportunity to pitch to the network, entrepreneurs must sign an agreement that includes investment exclusivity for Angels Nest. Those that agree launch their investment opportunity on the Angels Nest platform, providing a business plan, financial projections, financing need, and a brief video pitching the company. Entrepreneurs also attend in-person pitch events with members, scheduled as opportunities move forward.

Angels review investment opportunities online and at pitch events. Due diligence questions and answers are also shared on an online forum. Interested angels pledge an investment amount, and when the company's funding goal has been reached, the Angels Nest team facilitates the closing process. The members invest individually into the company, but all with the same terms negotiated by the Angels Nest team and lead investor(s). In most cases, an angel network member is nominated to represent the investor group, monitoring the company and providing updates on the online discussion forum. Investment documents and share certificates are also kept online in each member's account.

Education and training: Angels Nest provides educational sessions and workshops for angels and entrepreneurs. New angel members have access to five workshops on due diligence, valuation, deal structuring, investment monitoring, and portfolio structuring. Entrepreneurs can access coaching on investment stages, the angel investment process, investment pitch preparation, valuation, negotiation, and crowdfunding strategies. With the support of interns paid by the Mexican Ministry of Finance, Angels Nest has also produced over 100 “Microtips” – short clips to inspire and inform entrepreneurs – on the Spotify platform and is launching a podcast on the angel investor experience. Angels Nest is also exploring the delivery of workshop content in webinar modules.

Business Model & Path To Sustainability

“

Many say that if you don't charge a fee the investors won't be committed. But gym membership doesn't guarantee that people go to the gym. Our goal is to move the needle on investments, and our success-based fees align with that.

Israel Pons
Founder

”

Unlike many angel networks, Angels Nest does not charge a membership fee, removing what can be a significant barrier to entry for curious potential angel investors. Instead, its business model is based on service fees and transaction fees. At the close of investments facilitated on the Angels Nest platform, a \$2,500 USD fee for the transaction's legal work and a 4-6% success fee (depending on the stage of the company) is deducted from the investment. The network entity also negotiates a small equity stake in the company of approximately 4%.

This success-based approach aligns the common interests of the investors, entrepreneurs, and Angels Nest – all efforts of the organization are focused on identifying the most promising investment opportunities, connecting angels with these opportunities, reaching the investment goal, and closing the investment. If a company does not close a round, despite the assistance of Angels Nest, no fee is charged.

Angels Nest also charges registration fees for in-person events and educational workshops, and accepts sponsorships by service providers that contribute space to defray the costs of these offerings.

To date, earned income covers 60-70% of the organization's costs. The remainder has been funded by co-founders' investments and grants from Xcala, an Inter-American Development Bank-funded initiative to catalyze angel networks in Latin America. The \$30,000 USD in grants from Xcala provided critical support for the network as they developed the business model. Now that the Xcala grant program has ceased, Angels Nest is working to replace this support.



Credit: World Business Angels Investment Forum

Angel Engagement



We tried having set monthly pitch meetings, and the team was stressed out working for the calendar, rather than the investors and entrepreneurs. We have events when we have good deals and information to share.

Israel Pons
Founder



If the objective is to activate the people that make the investments, then they – the investors – are the primary customer. You can't start with the entrepreneurs – they are the beneficiaries, but not the primary customer. You need to ask, 'Why do people become angels? Where is the fun? You have to give them something they can't get themselves.

Israel Pons
Founder



The Latin American business corruption culture has made potential angel investors more risk-averse. We counter that with a focus on people and values.

Israel Pons
Founder



Angels Nest is a developmental network – it is open to qualified high-net worth individuals regardless of investment experience and is willing to educate them in how to be an angel investor. Eighty percent of its 300 registered members are in Mexico, primarily in its regional clusters: Mexico City, Aguascalientes, Campeche, Chihuahua, Jalisco, and Yucatan. The remaining 20% are in Latin America, North America, the United Kingdom, and Germany, as Angels Nest uses its platform and partnerships to engage in cross-border investing.

The organization works very deliberately to attract, activate, and maintain members, and tracks investor participation and meetings between angels and entrepreneurs to assess engagement. Of its 300 registered members, 25% are considered “semi-active” by the network, having participated in three events and/or made at least one investment in the past year; 5% are “active,” having made at least three investments. Angels Nest strives to engage members on a monthly basis to ensure continuity, but, unlike many groups, Angels Nest does not have a set monthly meeting. Instead, meetings are driven by the availability of relevant content and the needs or interests of the members – if there are good deals in the pipeline, Angels Nest will hold a “speed funding” pitch meeting; “angel talks” provide useful information on sectors or investment trends; workshops provide training and education on angel investing. In addition to the introductory angel investing trainings, workshops on post-investment company engagement and angel portfolio management address the needs of active angels.

Facilitated by Pons' international business relationships and love of travel, international partnerships are another core angel engagement strategy for Angels Nest. As entrepreneurial activity in Mexico waxed and waned during the network's first few years, Pons realized he had to ensure there were quality opportunities to keep investors engaged. Developing and sharing international deal flow with members was a unique value-add for Angels Nest, giving members investment opportunities that they could not otherwise access on their own. Investors like the prestige and excitement of international deals, as well as the portfolio diversification they provide. Twenty percent of the investments made in the network's first four years have been into foreign entrepreneurs with operations in Mexico or in startups abroad, including across Latin America, North America, the United Kingdom, and Germany. The value of these opportunities was affirmed by the World Business Angel Investment Forum's 2020 launch of the WBAF Angel Investment Fund, a \$10 million international co-investment platform, and appointment of Pons to serve as President of the Fund.

Another notable characteristic of Angels Nest's programming is a focus on transparency and business ethics to combat any perception of business corruption in the region. Angel network members must self-certify as qualified investors according to Mexican law. The network stresses that its primary goal is not to make money, rather it is to support entrepreneurs in order to achieve an economic development mission. This focus on ethics has increased their credibility and helped to attract in-kind sponsors, such as EY, for their workshops.

Strategies In Practice

Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common context and business model challenges that angel networks face, and summarizes different strategies networks are using to address these challenges. The strategies Angels Nest has adopted are highlighted in the right column below.

		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

To reach sustainability, Angels Nest is working to increase its investment closings and generate more revenue through capacity-building workshop registration fees, local government workshop sponsorships, and larger, destination “Pitch at the Beach” events. In the interim, grants and founders’ in-kind and monetary subsidies are critical to keep this angel network growing and investing.

SUCCESS MEASURES

To monitor the effectiveness of its network, Angels Nest tracks the activity level of its members and the viability of portfolio companies with the following metrics:

Member activity level:

- **Active:** 3+ investments in the past year
- **Semi-Active:** Participated in at least 3 events and/or made at least 1 investment in the past year

Company viability:

- **Success rate:** Percentage of portfolio companies that are still operating (vs. those that have failed)

At an individual portfolio company level, Angels Nest tracks sales and employment to monitor performance and impact, and also tracks two demographic measures: geographic distribution and management gender.



Using the money raised as a key metric can be misleading, since one big deal can bias that. The number of companies supported may not be a relevant metric if they are not good companies. Company success rate is the best measure of the effectiveness and impact of the network. Our current success rate is 90%.

Israel Pons
Founder



Lessons From this Network



Credit: Angels Nest

Reduce barriers to entry and friction for investors.

For any angel network, the number of actively investing members is only a fraction of the total number of members – Angels Nest’s 30% is typical. Thus, it is important to maintain a strong ongoing pipeline of prospective members to activate. Having no membership fee for angels keeps the prospective investor funnel large, giving potential angels a chance to be inspired and engage without making a financial commitment first. In addition, team management of the investment process effectively reduces the administrative and logistical burden on the investors, allowing them to focus on the companies and the “fun” part of angel investing. All of these strategies reduce the friction that often inhibits angel investment.

Integrate international partnerships to motivate investors and increase capital availability.

Angels Nest’s relationships with angel groups in Latin America, North America, and Europe provide a distinctive value-add for members, bringing exclusive access to international investment opportunities that also diversify domestic investors’ portfolios. The inclusion of international members also increases the capital available to Mexican entrepreneurs.

Align interests of angel investors, entrepreneurs, and the network entity.

While some consider it inappropriate to essentially “charge” the entrepreneur by taking transaction fees out of the investment, this approach effectively aligns the interests of all parties. The network staff is incentivized to identify top-quality enterprises for the angel investors to consider and to help entrepreneurs raise enough capital to close the round. The network is then compensated for a successful investment close. Finally, by taking a small equity stake in invested companies, Angels Nest continues to be aligned with the companies’ successful growth.