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Angel Groups Adapt Investment Strategies to 2009 Economy

The economic recession is having an impact on angel group investment strategies. Angel groups' 2009 strategies include increased investment in portfolio companies, preferences for co-investing, less appetite for new deals, fewer anticipated exits, and a predicted increase in both quantity and quality of deal flow. These and additional findings are reported in a recent survey of angel group leaders conducted by the Angel Capital Association (ACA).

At \$276,918, the 2008 average investment per deal was up 4 percent over 2007, but the average number of investments (6.3) was down about 16 percent. Total per group funding averaged \$1.77 million and was 9 percent lower than the \$1.9 million 2007 per group average. The uncertainty of the market economy, loss of wealth, and desire to preserve capital for follow-on investment in portfolio companies were the most frequently identified reasons for fewer closed deals.

More than 40 percent of the respondents reported a preference for investing between \$250,000 and \$500,000. Groups added an average 3.7 new portfolio companies. Twenty-three percent of the groups responding to the survey reported one or more positive exits, and 76.9 percent reported that membership of accredited investors had grown or remained the same.

Angels are more selective and plan to increase co-investment activities

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More than two-thirds of the responding angels think that current market conditions will extend into 2010. While the percentage of leaders predicting less investment in 2009 than 2008 increased by about 5 percent from November to April, the percentage of those who expected investment to increase did grow slightly.

More than half the angel groups plan to increase their co-investment with other groups including angel groups (a 90 percent preference), early-stage venture capital firms, and individual angels. “As a fund, our investment activity should not significantly change. However, we are seeing a significant decrease in the number of member sidecar investments and the dollar amounts committed is leading to a need for more co-investment among angel groups and VCs,” an angel group leader wrote.

A third of the angels reported an intention to invest more in their existing portfolio companies. The groups emphasized the importance of cash management and several commented on increasing their engagement with portfolio companies during these challenging times.

Strong deal flow and less aggressive valuations

Angels have a strong belief that deal flow will remain robust with 70 percent of the groups predicting that the quantity and quality of 2009 investment opportunities will maintain or increase over 2008 levels. Nearly a quarter of the groups indicate that they may be more aggressive in seeking new deals.

As one leader wrote, “There are many good opportunities at more attractive valuations as a result of fewer investors.” Multiple angels observed lower valuations. Angels expressed preferences for investments in medical devices, software, biotechnology, IT, and telecommunications.

Many angels noted that there are few current opportunities for IPOs, acquisitions, or mergers. Nearly three-fourths anticipated that the average liquidity timeline for their current investments from initial

investment date would be greater than five years.

Organizationally, 59 percent of the responding groups are for profit; 25 percent are non-profit, and 16 percent have no structure. Nearly 70 percent have a network investment structure; 22 percent are organized as a fund, and nearly 8 percent have a sidecar fund. About 55 percent of the groups are member-led, 41.1% have a professional manager, and the balance has a combination of both.

Angels remain enthusiastic about angel investing as an asset class. One-third of respondents expect to grow their number of accredited member investors, and 20 percent plan to establish a sidecar fund. “There is no one in the seed space except angel investors and no better time for valuations,” an angel wrote.

*Survey data for the **ACA Angel Group Confidence Report** was collected from leaders of ACA member angel organizations in March and April 2009 and is an update to a November 2008 survey on the impact of the recession on angel groups and predictions for 2009.*

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