



ANGEL CAPITAL ASSOCIATION
THE PROFESSIONAL ALLIANCE OF ANGEL GROUPS

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RECESSION LEADS TO DECREASE IN ANGEL GROUP INVESTMENTS – BUT SOME ORGANIZATIONS INCREASE ACTIVITY

ACA angel groups more selective in their 2008 investments, adapt investment strategies to 2009 economy

Kansas City, MO, May 18, 2009 – Angel group leaders report in a recent survey by the Angel Capital Association (ACA) that average investment activity per group declined by nine percent in 2008 from 2007, although several angel groups actually increased investments because they see new opportunities during the recession. The survey also found that as the recession lengthened, predictions for 2009 changed: between November 2008 and April 2009, a higher percentage of those surveyed forecast overall decreases in activity this year, but the percentage of respondents predicting more investment also increased.

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.

2008 Investments – Down for Many, but Up For Some

According to survey responses, the average group investment per deal in 2008 (\$276,918) was about four percent larger than the 2007 average, but the average number of investments per group (6.3) was about 16 percent less than in 2007. Total funding per group in 2008 averaged \$1.77 million and was nine percent lower than the \$1.94 million 2007 per group average.

As members of angel groups invest their personal capital, loss of individual member wealth and the overall decline of the economy were the most cited reasons for the 2008 decline in angel group investment. Many noted that there are very few current opportunities for positive exits, via acquisitions or going public, during the economic downturn.

According to John Huston, ACA Chairman and Manager of Ohio TechAngel Funds in Columbus, Ohio, “Heightened selectivity by angels and venture capitalists has clearly amplified the financing challenge young ventures are facing today, even at collapsed valuations. However, highly capital efficient start-ups that can reach cash flow break even with just a few million dollars of investment are having no trouble attracting capital. Our member angels have prospered through other downturns, but mentoring portfolio entrepreneurs has never been more essential to their success. Over 30 percent of ACA’s member groups foresee increasing both the number and dollar amount of their investments this year, reflecting their confidence that this market will produce many lucrative exits in the future.”

2009 Predictions – Some See Opportunities

Although 40 percent of angel groups expect overall investment will decrease again in 2009, a majority of angel groups (53.8%) expect that 2009 investments and dollars will be the same or greater than in 2008.

In addition, nearly a quarter of angel groups indicate that the overall decline in company valuations and high quality of investment opportunities will mean they will be more aggressive in seeking new deals in 2009. There is even stronger belief that deal flow will be strong during the recession – seventy percent of angel groups believe that the quantity and quality of 2009 investment opportunities will maintain or increase over 2008 levels.

It should be noted that the percentage of leaders predicting less investment in 2009 from 2008 in the April survey increased by about five percent from November 2008, but that the percentage forecasting more investment also increased slightly.

Addressing Economic Challenges

Angel groups are using a number of strategies to combat the recession and ensure their portfolio companies receive enough capital. As one angel leader noted in the survey, “As long as quality deals that interest investors continue to come in, there will be an appetite for angel investment. Just like any portfolio company, our group has to adapt to market conditions.”

More than 90 percent look to co-invest with other angel groups and nearly 63 percent of ACA member groups co-invested with a venture capital firm and/or had a portfolio company receive a follow-on round from a venture capital firm in 2008. As leaders think about 2009, plans for syndication are expected to increase. More than half (53.8%) said they plan to increase co-investment activities with other angel groups and about one-third said they would increase syndication with venture capitalists and individual angels.

Strategies for some angel groups may mean they will invest in fewer new ventures, just as they also forecast that the quantity and quality of investment opportunities will improve or stay the same in 2009. About one-third of the respondents noted that they will put more of their investments in existing portfolio companies.

There are some positive trends during the recession. One third of those surveyed plan to increase the number of investors in their group, and separate from the survey, ACA is aware of several new groups that were established in late 2008 and early 2009. Many of the groups that predict more investment see opportunities in reduced valuations for companies, in sectors such as clean tech and healthcare, and in capital efficient companies.

Report Summarizing Survey Available

The survey report, which is available at www.angelcapitalassociation.org/dir_about/news.aspx, shows a theme of caution and adaptation to the short and long term effects of the recession among angel groups for 2009. As one respondent put it, “There is no one in the seed space except angel investors and no better time for valuations. Angel investors have to have a high risk profile and view for the long run.”

The **Angel Capital Association** is the trade association of leading angel investment groups in North America. The mission of ACA is to support the growth, financial stability, and investments success of its member groups. ACA’s mission is accomplished by providing professional development, best practices, networking and collaboration opportunities for angel investors who belong to member angel groups. The organization also serves as the public policy voice of the angel community and is focused on advancing policies at the state and federal level that support and promote angel investing. As of April 2009, 162 angel groups are members of ACA, and those groups represent over 7,000 accredited angel investors. More information is available at www.angelcapitalassociation.org.