



ANGEL CAPITAL ASSOCIATION
THE PROFESSIONAL ALLIANCE OF ANGEL GROUPS

2009 Angel Group Confidence Report

Survey Results

April 2009

2008 INVESTMENT DATA

How much total capital (\$) did your group invest in 2008?

Average \$1,765,349

What was the number of deals closed by the angel group in 2008?

Average 6.28

Of your group's total deals in 2008, how many were in companies your group had not previously invested in?

Average 3.74

How many of your group-led investments had a positive exit (M&A, IPO, or other) in 2008?

0	76.6%
1	14.0%
2	6.2%
3 to 4	1.6%
5 or more	1.6%

Compared to prior years, how would you describe the relative state of your deal flow in 2008?

Quantity increased, but quality decreased	10.8%
Quantity decreased, but quality increased	9.2%
Quantity and quality increased	43.1%
Quantity and quality decreased	9.2%
Remained the same	27.7%

How would you describe any change in the number of accredited investors that belong to your group in 2008?

The number grew significantly	15.4%
The number grew slightly	21.5%
It stayed the same	40.0%
The number decreased slightly	20.0%
The number decreased significantly	3.1%

If you did not close as many deals this year as you had anticipated, what were the reasons (if any) based on group strategy and/or market dynamics? (check all that apply)

Viability of investments shifted during due diligence process	22.4%
Need to reserve additional follow-on capital for portfolio companies	32.7%
Loss of member wealth led to reduced appetite for investment	46.9%
Uncertainty of market economy encouraged preservation of capital	53.1%
We received fewer investment-quality opportunities than expected	24.5%
Entrepreneur was unable to fill out the round from other investors	10.5%
Other	24.5%

2009 OPINIONS – ANGEL GROUP CONFIDENCE

What do you predict for overall investment by your group for 2009?

The number of investments and total dollars will increase	30.7%
The number of investments and total dollars will decrease	40.0%
The number of investments and total dollars invested will be the same as 2008	23.1%
The number of investments will increase or stay the same, but total dollars invested will decrease	3.1%
The number of investments will decrease or stay the same, but total dollars invested will increase	3.1%

What is your prediction for deal flow for your group in 2009?

Quantity will increase, but quality will decrease	13.8%
Quantity will decrease, but quality will increase	9.2%
Quantity and quality will increase	43.1%
Quantity and quality will decrease	6.2%
Remain the same	27.7%

What do you predict will be the average liquidity timeline for most of your current angel investments since your initial investment?

0 to 1 year	0.0%
1 to 2 years	0.0%
3 to 4 years	23.5%
5 to 6 years	48.4%
Longer than 6 years	28.1%

Do you plan any major changes to your group structure or investment process in 2009? (Check all that apply):

Significantly grow the number of member investors	29.2%
Significantly decrease the number of member investors	0.0%
Establish a sidecar fund for our network	20.0%
Raise a new fund	12.3%
Invest in a greater portion of existing portfolio companies	32.3%
Increase our co-investment activities with other angel groups	53.8%
Increase our co-investment activities with other equity investors (VCs, individual angels, etc.)	35.4%
Update industry preferences for investment	15.4%
We do not plan any changes at this time	21.5%
We plan other changes	23.1%

What do you see as the short term implications of recent market conditions on investing?

(Sample of responses)

- “There is a greater reluctance by angels to invest in companies due to the lack of exists on existing investments and their reduced liquidity of remaining funds.”
- “Investors are concerned by impact of economy on their net work and ability to invest. Angels will be far more selective and cautious.”
- “Members may have less liquid funds to invest in early stage companies.”
- “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.”
- “Valuations are coming way down. Follow on capital is scarce.”
- “Valuations are lower. Angels are pickier. It will take a longer time to exit.”
- “It is a buyers market for investing in new, health companies.”
- “The Bernie Madoff scandal makes people appreciate the transparency angel groups offer. The collapsing stock market makes people want alternatives. I have never had so many candidates for group membership. That said, everyone seems to feel broke, regardless of how much money they have.”

What are the immediate and long-term challenges you anticipate for your portfolio companies?

(Sample of responses)

- “They need to focus on getting to cash flow positive and not assume there will be additional capital.”
- “The short term challenge is stretching cash to stay alive through a combination of cost cutting and fundraising or even going in to hibernation if necessary. The long term challenge is growing revenues while holding the line on expenses and raising cash even if it isn’t needed. Cash is king!”
- “The challenge is finding the appropriate run rates now to manage cash and still be positioned to capitalize during the recovery.”
- “We have relied on our VC partners for information. Given their challenges, we are engaging our portfolio companies more. We anticipate our VC partners to keep dead companies alive, with our assistance. We are going to resist this. In the long term, things will be good.”
- “Companies will need to learn to run a tighter budget and accept more board oversight.”
- “In the current market companies are struggling to obtain credit and funding. In the long term, companies will face the challenge of increased competition and decreased sales. Achieving and exit or M&A will also become increasingly difficult.”

To what extent has the current economic downturn affected your group’s appetite for adding new ventures to your portfolio?

No apparent change	33.9%
Our appetite for new deals seems to have recently decreased	42.4%
We might more aggressively seek new deals on an opportunity basis	23.7%

How long do you estimate the credit crunch/ current market conditions will last?

Q2 2009	4.7%
Q4 2009	26.6%
2010	56.2%
2011	10.9%
Later	1.6%

**In which areas to you see opportunities in today's private equity market?
(Sample of responses)**

- “We have moved to more mature businesses with significant revenues – typically a VC A round. We are also looking to buy bankrupt companies.”
- “There is opportunity with services and products that immediately save companies money.”
- “Green environment (wind, alternative and renewable energy); and high tech”
- “Angel funds may have some great opportunities to help young companies or restructuring companies that may not otherwise be able to obtain traditional capital funding due to tightened banking policies and practices.”
- “There are many good opportunities at more attractive valuations as a result of fewer investors.”
- “Life sciences are a good opportunity. Companies with revenues at \$1,000,000 to \$2,000,000 will be easier to fund than pre-revenue companies.”
- “We see a great deal of entrepreneurial activity in the life sciences, especially in medical devices. We think the current level of activity is likely to increase in this field in the coming years.”

**What other thoughts or observations do you have about the current market and the future of angel group investments?
(Sample of responses)**

- “Good deals will be made if there is capital available. Overall angel group activity has subsided, but is still far more active than our local VC community.”
- “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.”
- “This market is encouraging angels and angel groups to be more disciplined and has promoted co-investment.”
- “Liquidity and risk appetite will decrease. I think pooling of capital will be increased.”
- “These are tough times but we will recover. I would like to see meaningful tax incentives even for “entry level” angel investors. Also, they should reduce the holding period to 3 years compared to the 5 in the stimulus package.”
- “An increasing role of government control will limit opportunities in the free markets.”
- “Syndication will probably bring great value if we can ever figure out how to deal with the issues syndication creates.”
- “This too shall pass. We will be back to normal in a year or so.”
- “Follow on capital must come back or we will be out of business.”
- “Angels will invest more cautiously and at a somewhat later stage such as revenue being used as evidence of traction.”
- “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.”