

# Pandemic Investor Impact Report

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# Pandemic Impact Report Overview

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- ACA is uniquely positioned to provide real time insights into the impact of the Pandemic on early-stage investing given our organizing role in the North American Angel community and on-the-ground contact major angel investors and groups.
- This report combines findings from the ACA's recent pandemic survey of those major angel organizations and external information reflecting the current state of Angel and VC investing trends late in 2020.
- Examining VC financing patterns will help angels and our portfolio companies prepare for future funding rounds in 2021.
- Our overall goal is to place the ACA's Pandemic survey within the broader context of early stage investing sentiment and behavior in 2020. This investment activity reflects both continuing uncertainty as well as innovative responses by many, including the most active angels, to our current social and health crises.



# Highlights

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- Even in a Time of Pandemic, the angel ecosystem remains strong.
- Early-stage investors are resilient. The initial strong retrenchment seen in late Q1 and Q2, trends are beginning to rebound as we move through the year. Although it is too early to measure the impact of the current COVID-19 spike (November 2020), this downturn does not appear to have the multi-year impact of the Great Recession.
- Early-stage capital markets remain down compared to 2019 but are starting to stabilize and some sectors are very strong.
- There are many healthy signs. The Q2/Q3 IPO market is one of the strongest ever. The S&P 500 recovered after 5 months. Angel sentiment has stabilized.
- Although many early-stage companies began losing revenue in Q1 entering the Pandemic without strong cash reserves, the support from existing investors (VCs and angels) providing both additional funding and expertise is helping them weather the storm. Follow-on funding for VCs and angels increased.



# Highlights

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- The impact on valuations is mixed. VCs are reporting slight increases in 2020 although the round-to-round step-up valuations are slowing. Angels report some initial valuation decreases that are now stabilizing. VCs currently report that the number of down rounds has decreased, returning to low, pre-pandemic levels.
- Most angle groups (92%) do not view the Pandemic as a threat. They have learned how to adapt and move forward.
- Angel groups continue to have strong engagement, deal flow and commitment to early stage investing with almost 20% expecting 2020 investments to exceed 2019.

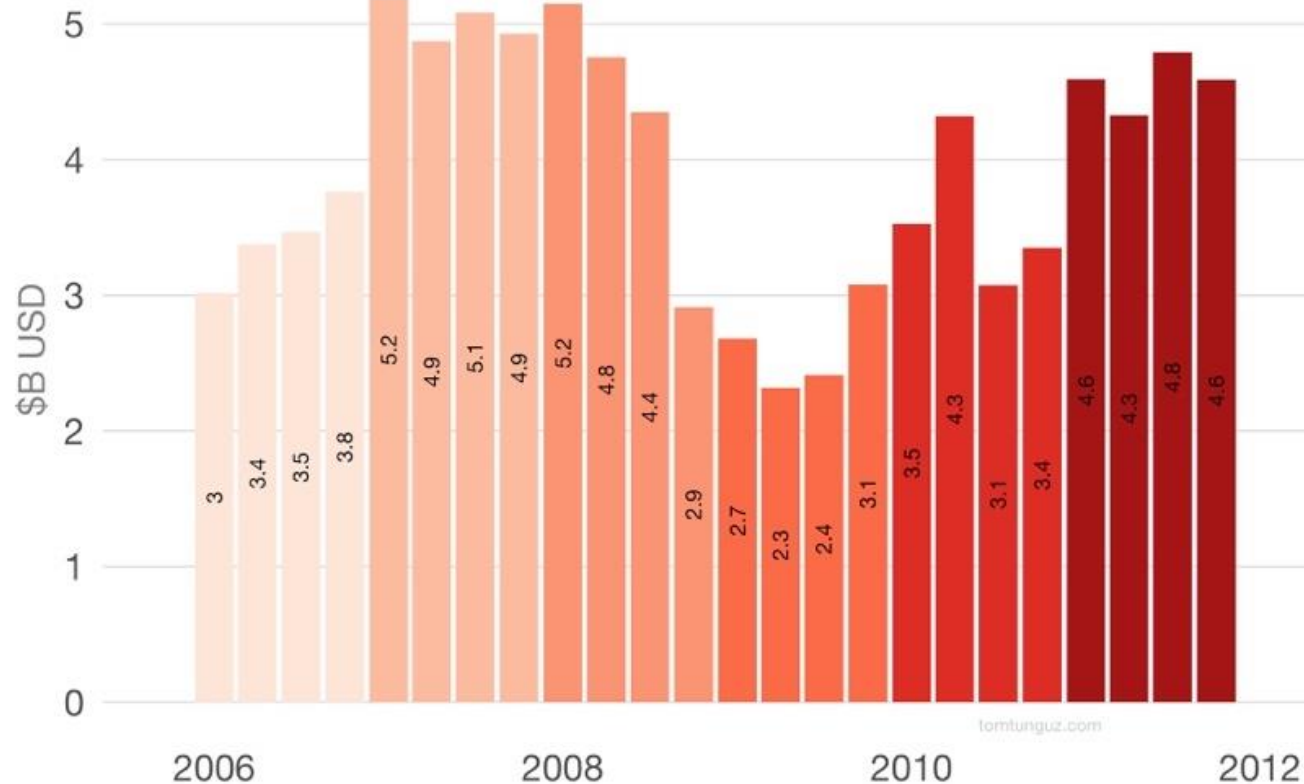


# Setting the Stage—1<sup>st</sup> Half 2020



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# During the Great Recession Early-Stage VC Financing Declined 40%



**Funding took 18 months to recover from the Great recession**

# The Great Recession (2008-2011) Set Expectations for COVID-19's Likely Impact on Early-Stage Investing

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- VC Fundraising fell by more than 50%
- Dollars declined but angel rounds increased
  - Easier to get initial capital, harder to get follow-ons
- Angel, seed and early-stage valuations fell by 25%
- Companies funded during the recession had fewer follow-on financings, more bankruptcies
- Ecosystem post-recovery remained weak
  - Fewer follow-ons, 1/3 fewer exits, 2x bankruptcies
- 6+ quarters to recover





# Q1 – The Pandemic Arrives



# Q1 2020 – The Pandemic Arrives

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- IPOs at lowest point since 2010
- New VC funds move later stage, dramatic fall in new seed and early-stage funds < \$100M
- “Startup Apocalypse” approaching as 41% of startups surveyed reported < 3 months of cash (*Startup Genome*)
- Angel and seed round funding falls 21%
- Corporate Venture Capital (CVC) \$ down 25%
- 2/3 of angel groups expect to invest less in 2020
- Strong sector and regional differences (Midwest stronger than East or West coast)



# Q1 2020: Exits Fall and LPs Retreat to Later Stage Funds

## M&A

- The number of M&A exits fell 17% from Q4'19 to Q1'20
- The deal value of M&A fell 50%

## IPO

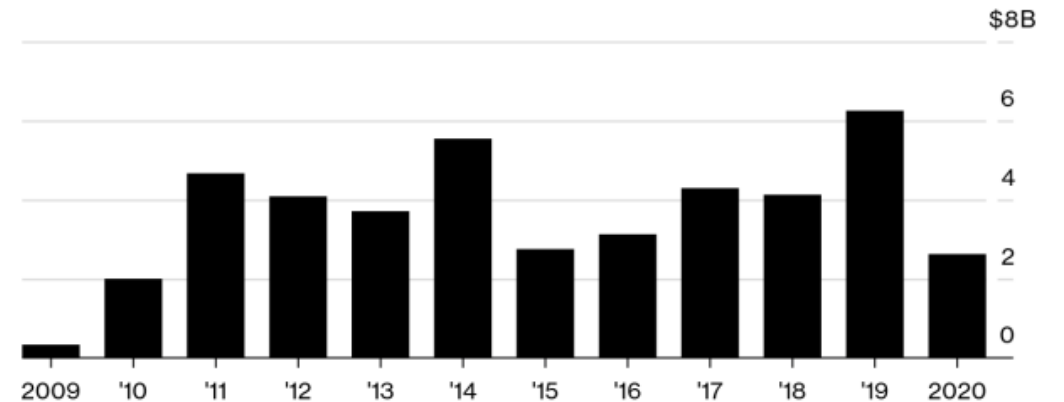
- The number of Q1 IPOs fell 50% (Crunchbase).
- Early Q2: The value of April IPOs was the lowest since 2010 (Bloomberg)
- IPO \$ value fell 50%+ from 4/19 to 4/20 and >50% from Q4'19 to Q1'20

## LPs

- LPs claimed to remain committed to existing funds but have not yet felt the impact of fewer IPO and M&A distributions
- Global flight to late stage: 60% of new funds were \$500M+ and the number of funds <\$250M fell from 35% in '19 to 20% in 2020. The fall was greatest for funds < \$100M. This is the sharpest fall in more than a decade.

### IPO-No!

The value of initial public offerings in April was the lowest since 2010.



Source: Bloomberg

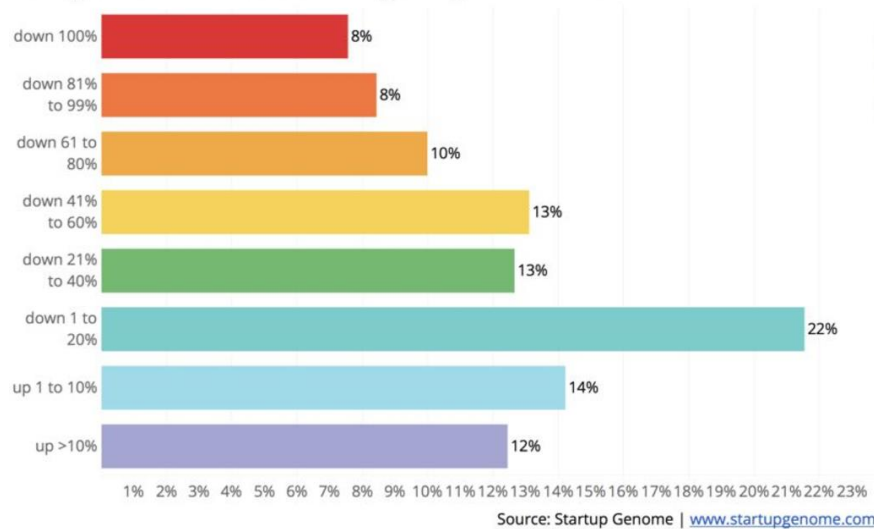
Note: Volume is for U.S. Equity IPO in April period.

Bloomberg Law



# Q1: Revenue Decline

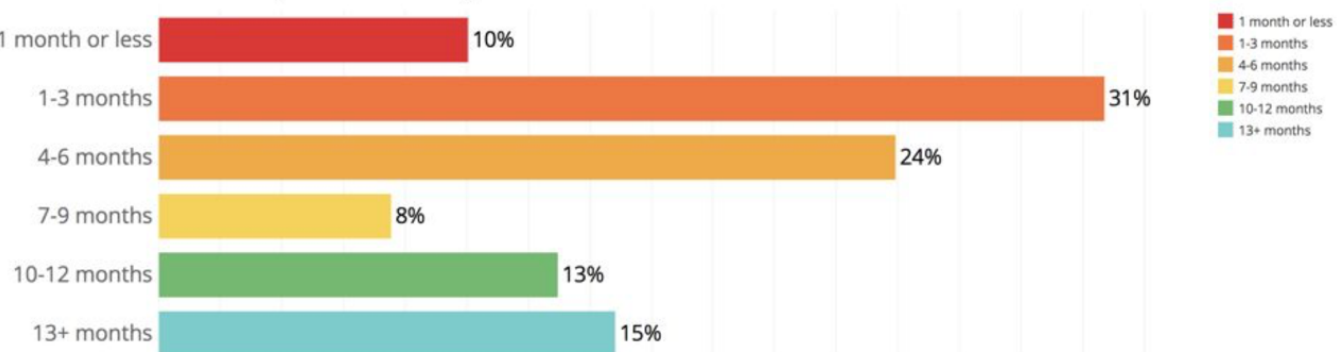
Change in Revenue Since the Beginning of the Crisis



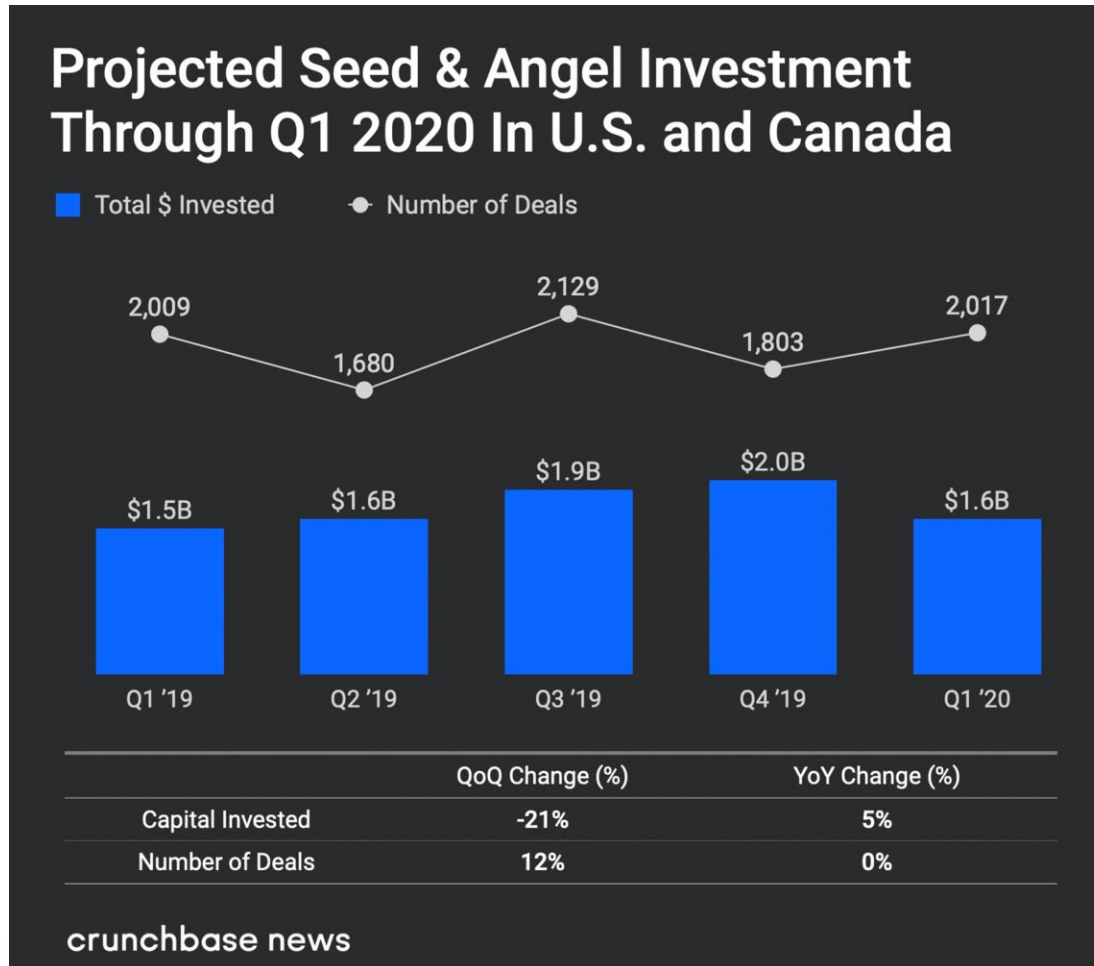
**52% of startups report 20%+ Revenue Decline**

**41% have Less than 3 months of Cash**

Months of Runway as of Today



# Q1: Seed and Angel \$ Decline



## Seed \$ decline

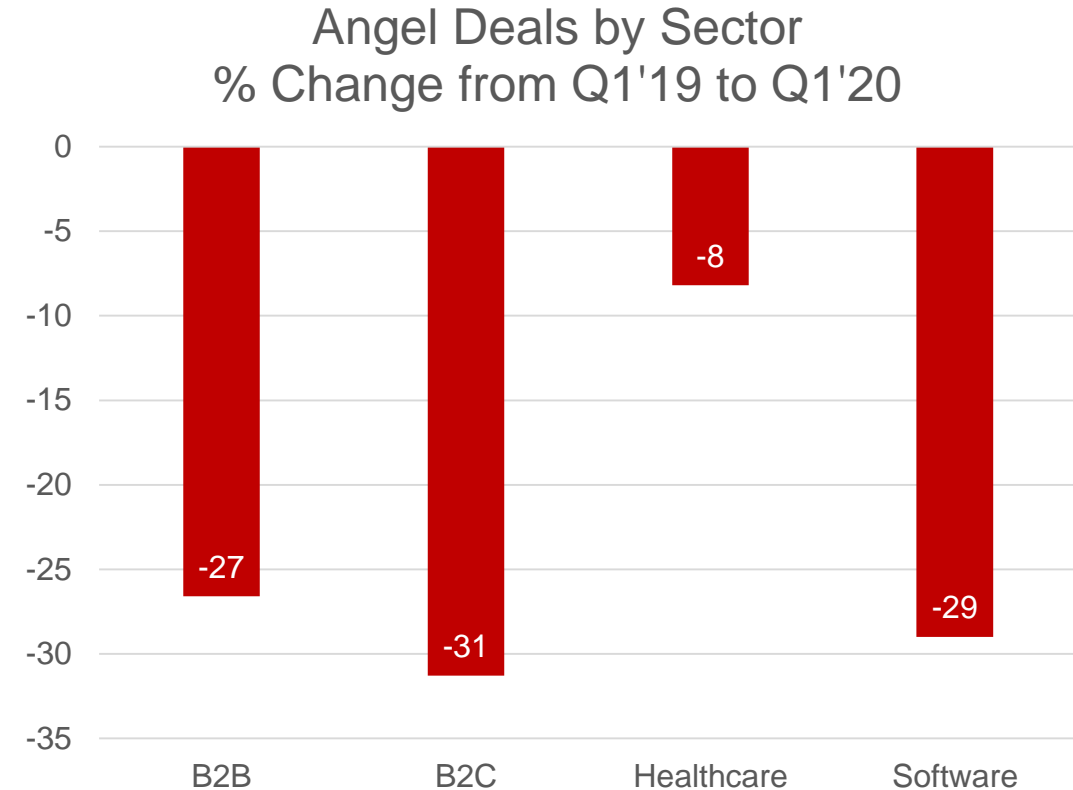
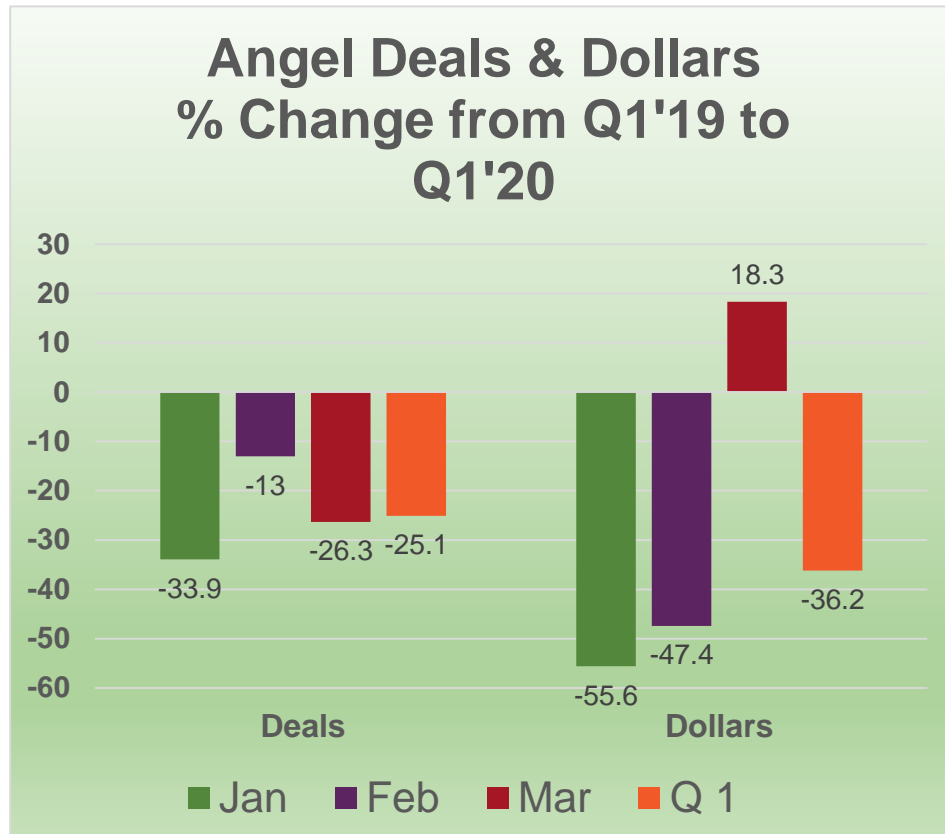
North American Angel and seed round \$ declined 21% from Q4'19 to Q1'20; the number of deals increased (Crunchbase)

Several coastal startup hubs saw sharp YoY Q1'19 vs. Q1'20 funding declines

- Boston, down 22%
- New York, down 29%

And the data only reflected the 2<sup>nd</sup> half of Q1 when the effects of COVID started

# Angel Investing Slowed in Q1



# Q2 2020 – Deepening Pain



# Q2 2020 - Deepening Pain

- Startup deals continue to decline across all investing stages
- Early-stage capital is harder to raise
- Early-stage investing is a less attractive asset class for CVCs & Fund investors

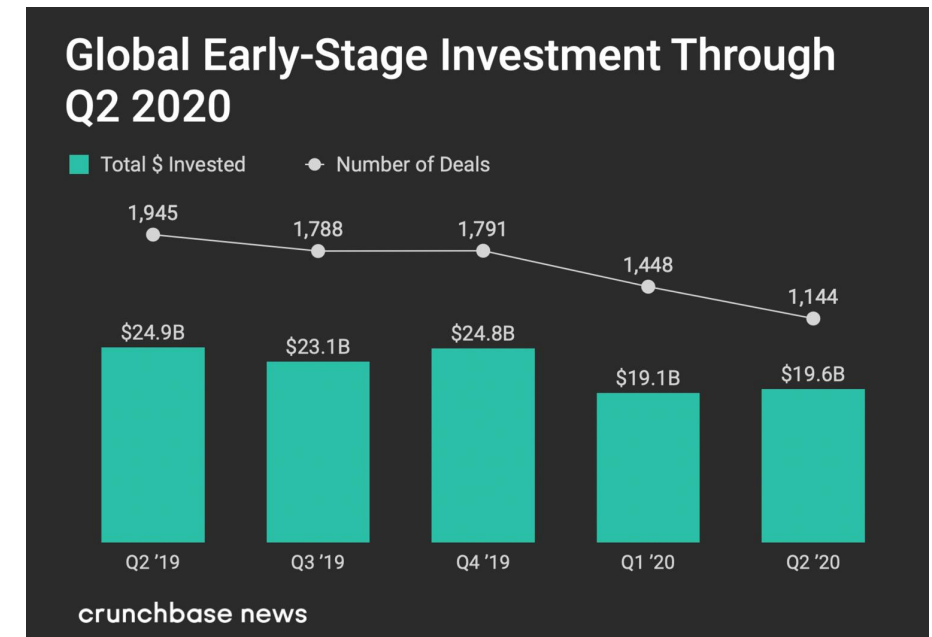
## Q2'19 vs. Q2'20

### **Angels**

- Deals Down 38%
- \$ Down 58%

### **Early-Stage VC**

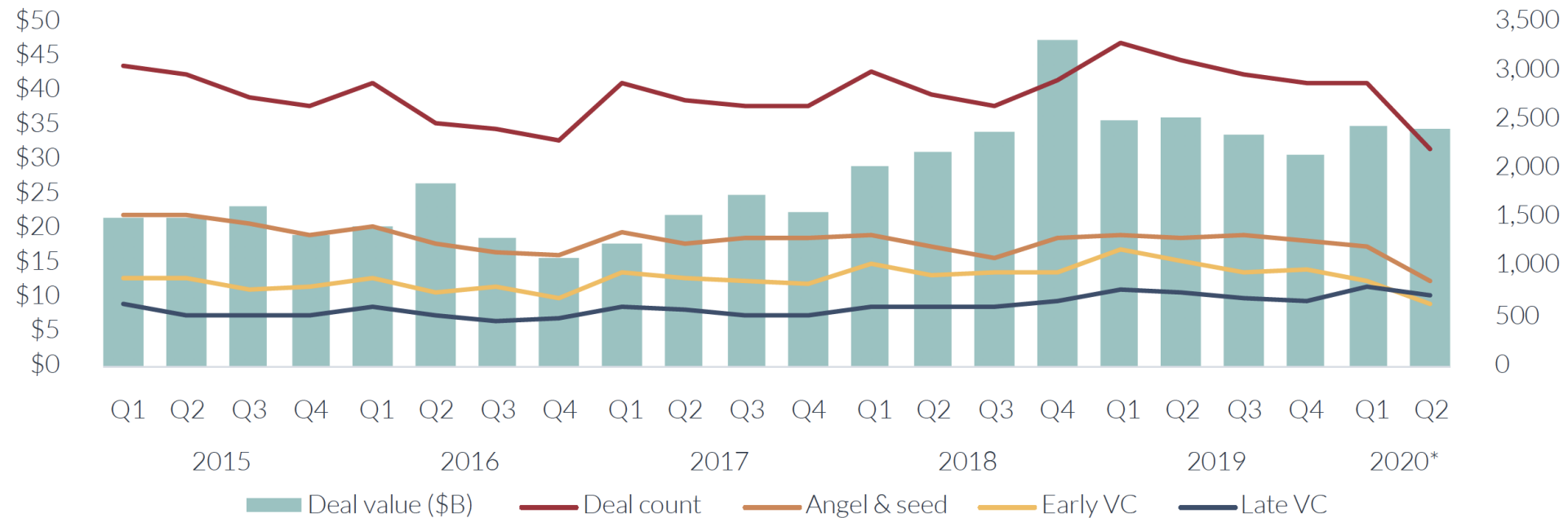
- Deals Down 41%
- \$ Down 21%,





# COVID-19 Related Dip Seen in Q2 Deal Count

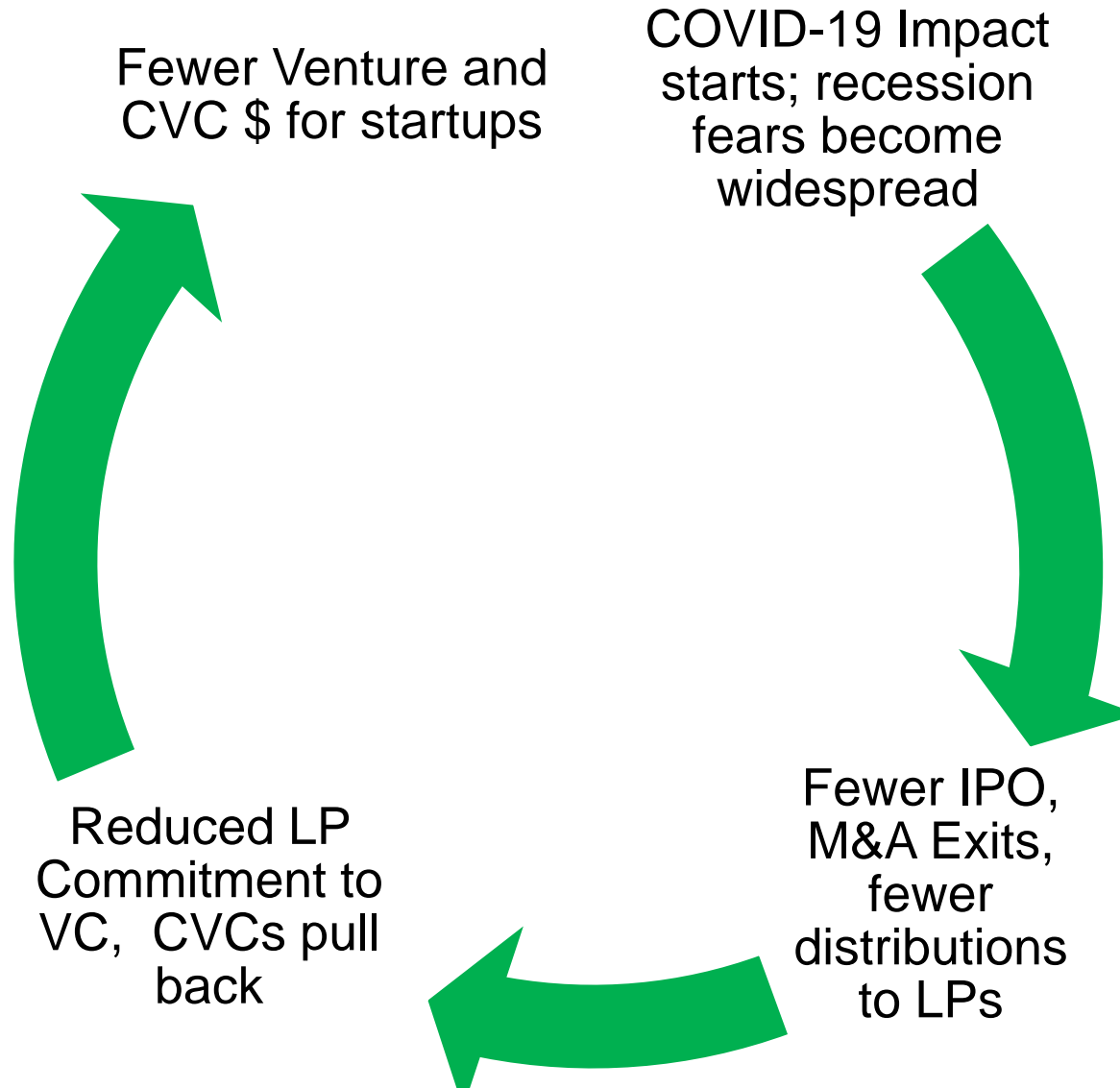
US VC deal activity by quarter



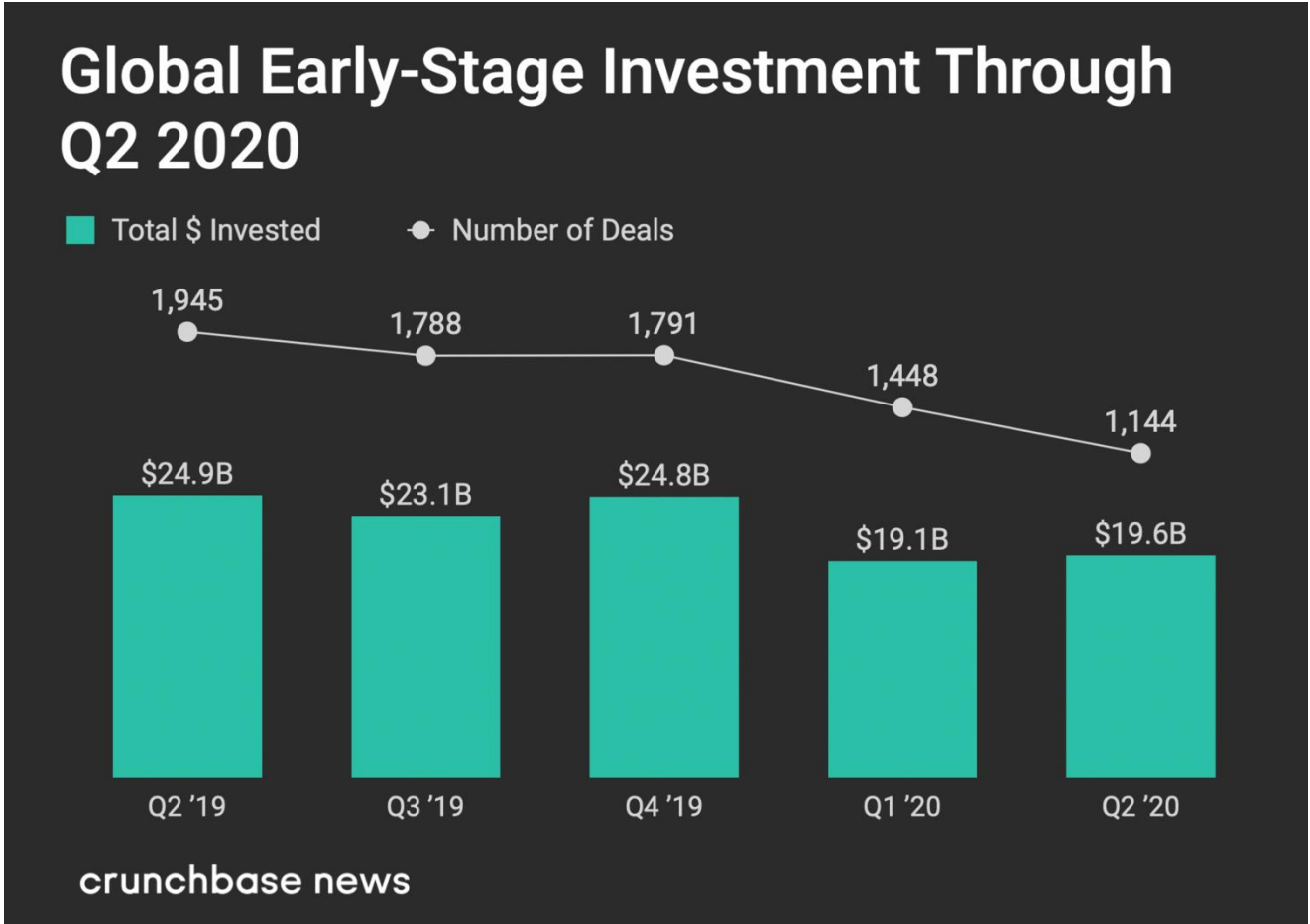
PitchBook-NVCA Venture Monitor  
\*As of June 30, 2020



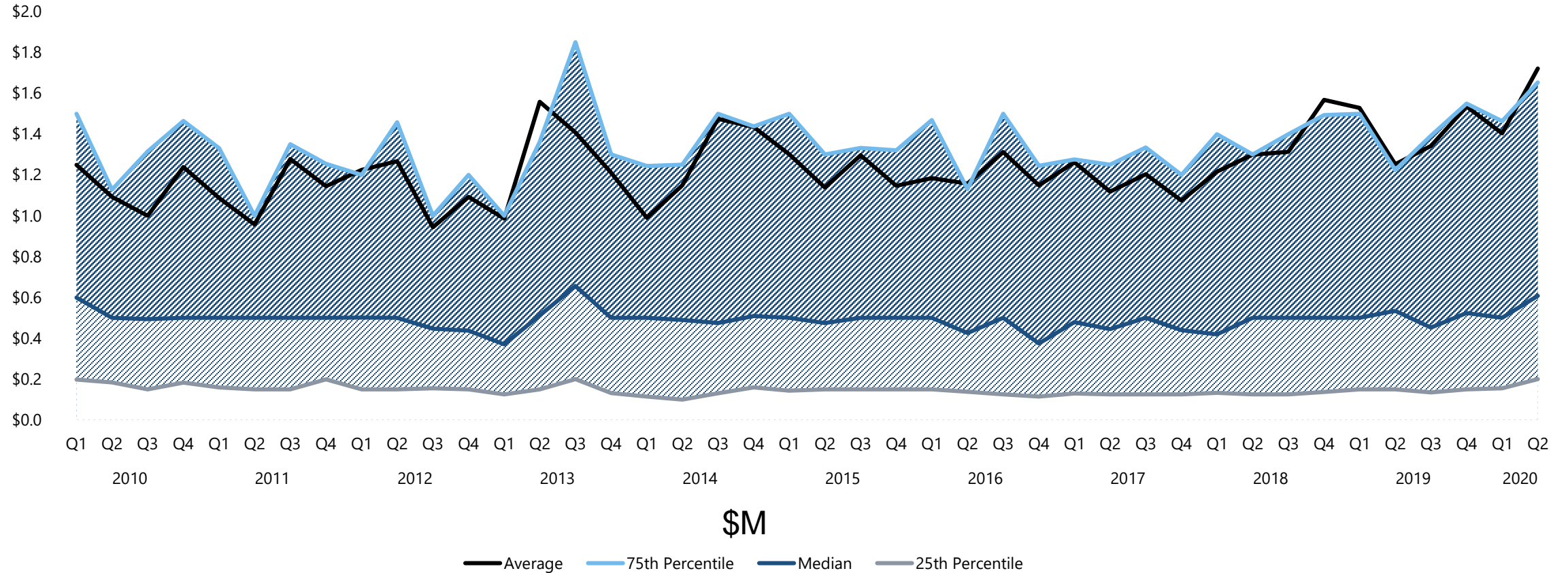
# VC Fundraising Down Cycle



# Deals and Dollars Fall YoY, Stabilize at Lower Level in Q2

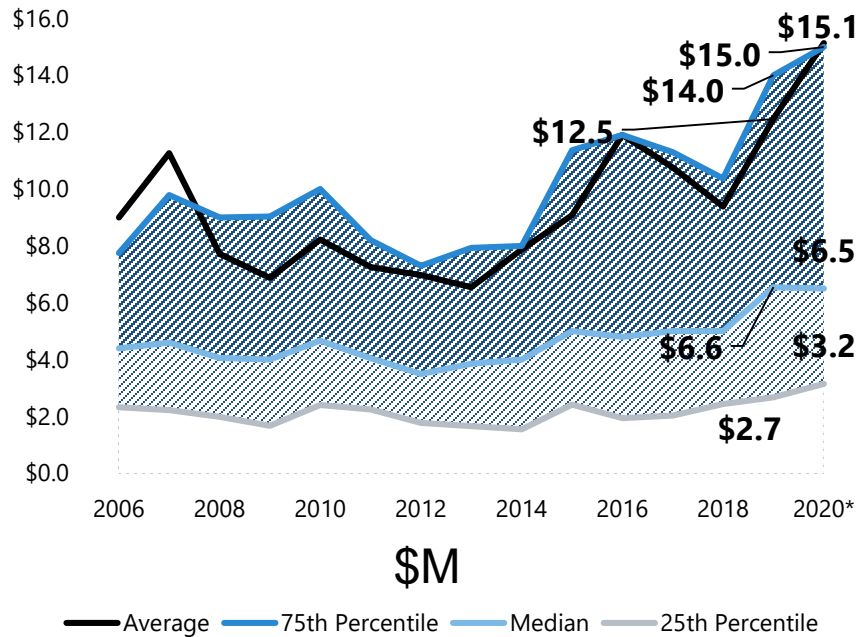


# Angel Deal Sizes Increased

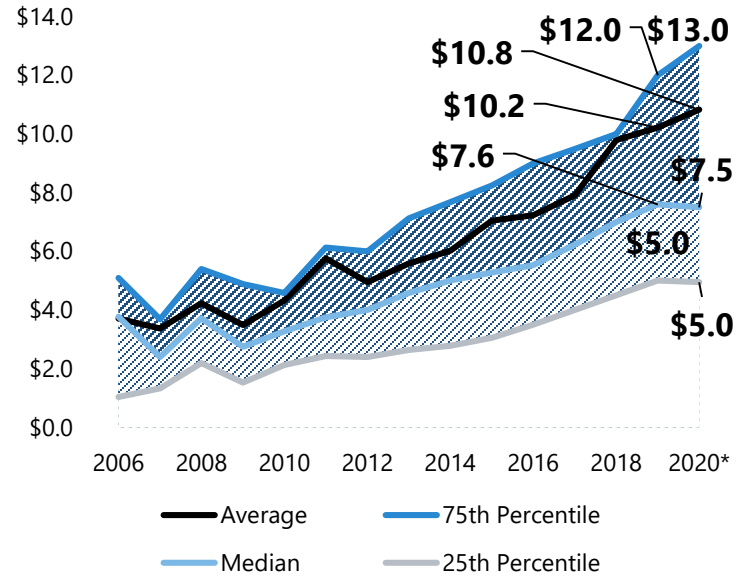


# 2020 Valuations Actually Increased Slightly

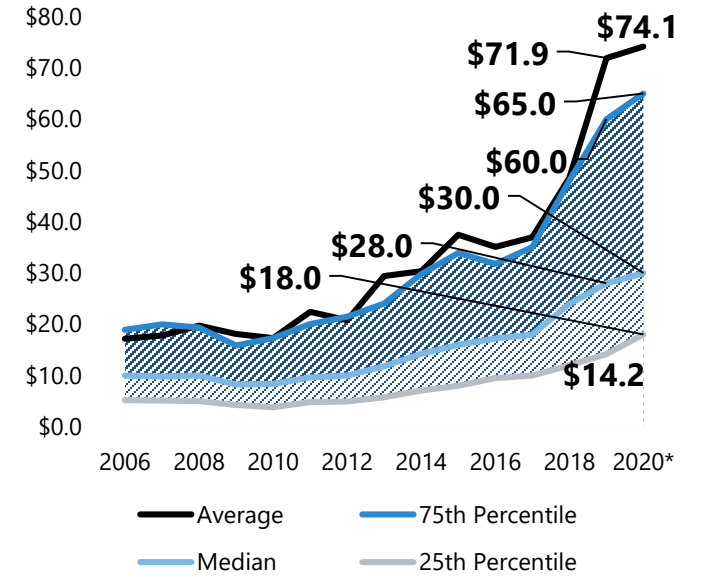
## Angel



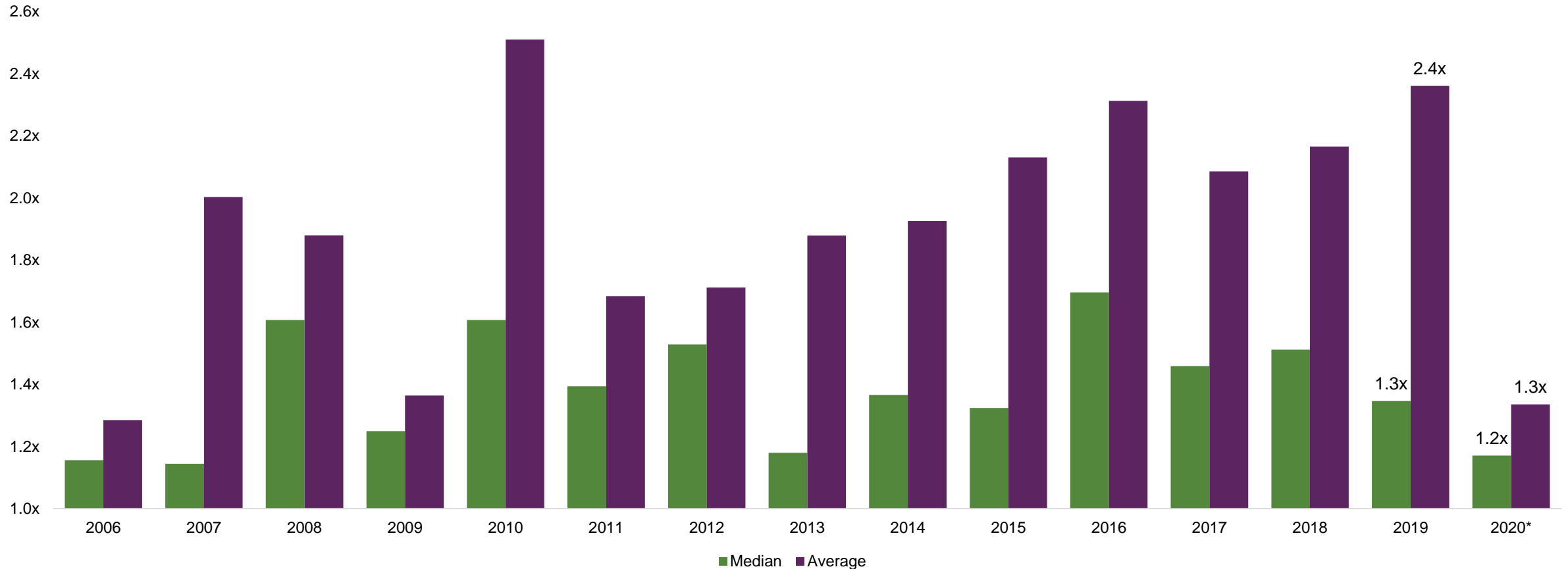
## Seed



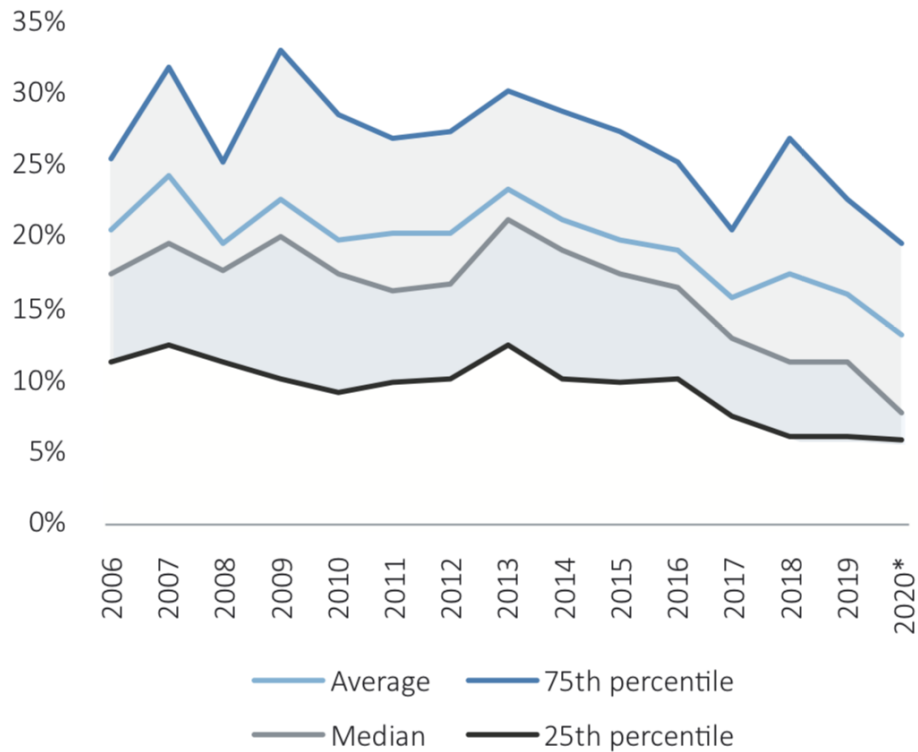
## Early-Stage VC



# Valuations Are Up But Q2 Step-Up Valuations Were 50% Less (26%) Than in Q1 (54%)



# But Angels Own Less and Less Equity



Source: PitchBook | Geography: US  
\*As of June 30, 2020

**COVID did not create an Equity buyer's market**

**In Q2 The % Equity owned by angels continued to decline**

**A bit Tougher Q2 Terms:**

- 3X # of deals with Multiple Liquidation Preferences
- 3X Pay-to-Play Since Q3'19
- 2X Cum. Dividends since Q4'19

**these terms affected only a small (But growing) % of deals**

**(Fenwick & West)**

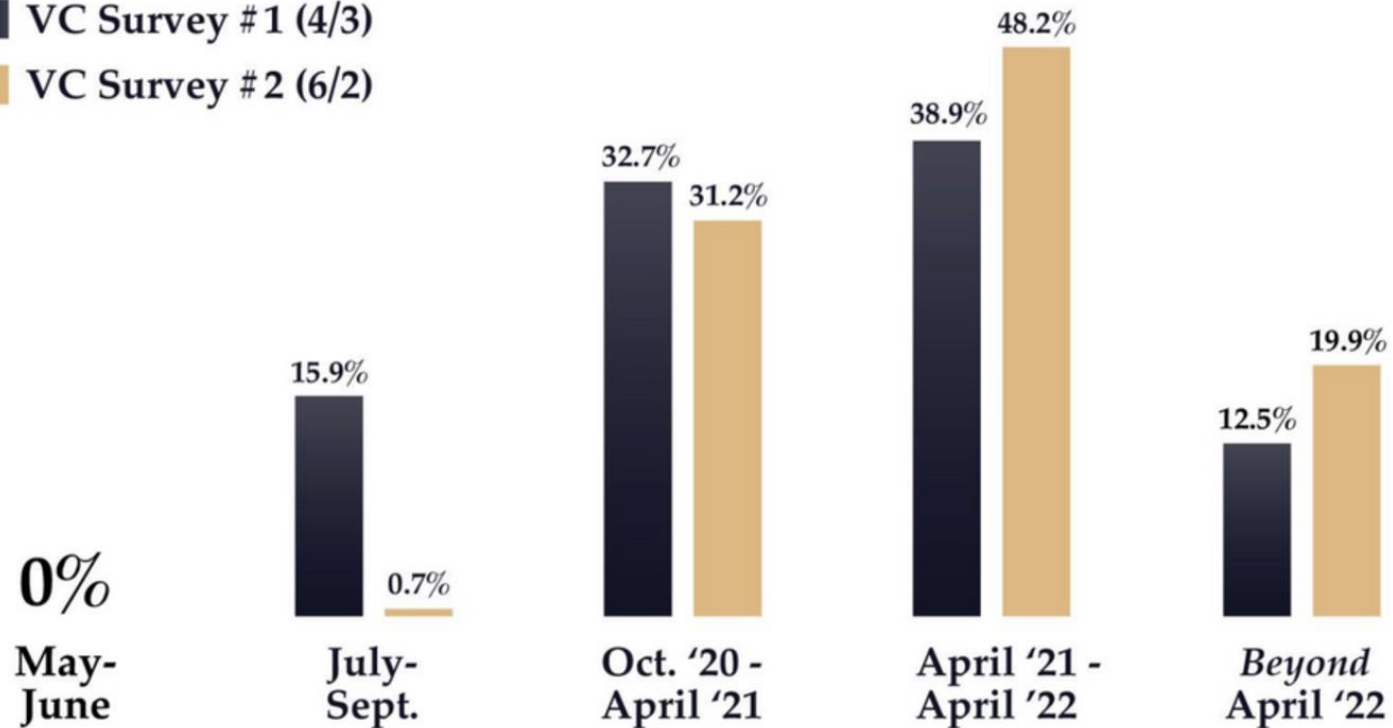
# Growing Pessimism - 2/3 of VCs Think Recovery is Still 1- 2+ Years Away

When do VCs think the U.S. economy will recover from the COVID-19 pandemic?

NfX

VC/Startup Sentiment 1 & 2 (4/3-6/2)

- VC Survey # 1 (4/3)
- VC Survey # 2 (6/2)



INVESTORS



# The Latest Data- Going Forward



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# Q3 2020 – Early Stage Continues to Lag

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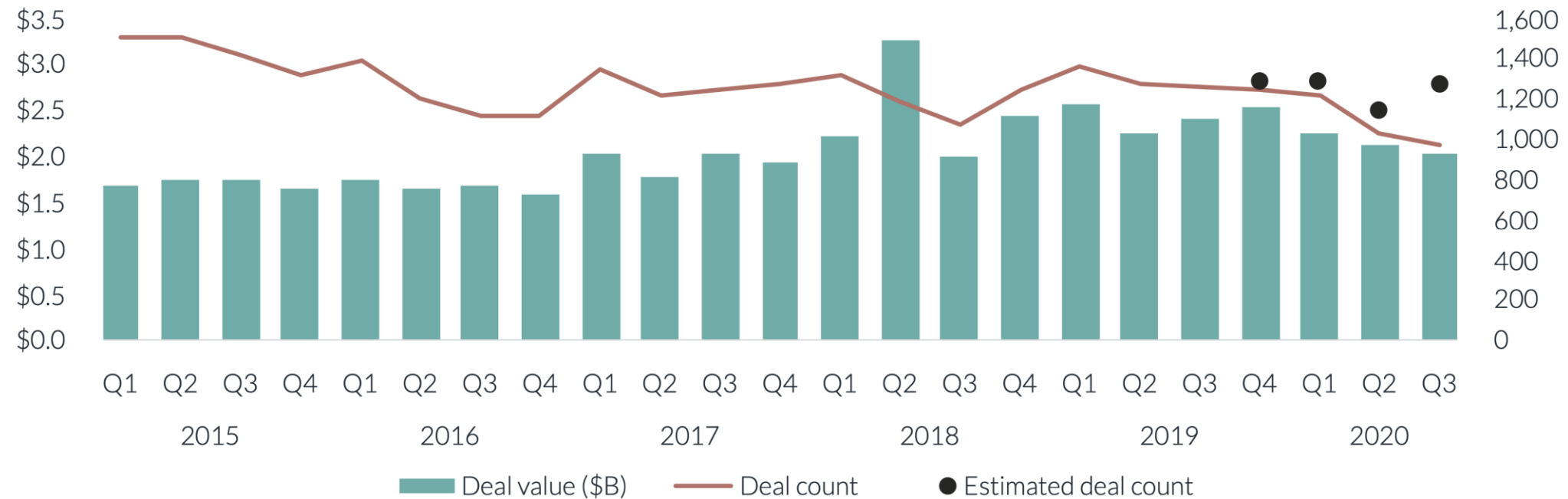
- % of US deals under \$5M the lowest since 2010
- % of \$ in first time deals = 5.5%, a record low
- Only 23.7% of deals were first time financing
- Money shifted from early stage to growth stage (\$25M - \$50M tier)
- Full Year Early-Stage VC \$ is expected to fall 20% to 25% below 2019
- First time funds raised a record low of 3.4% of all capital raised by VCs
- Takeaway: Near term, it will be a bit harder for angel-backed companies to raise next round capital from VCs

Sources: NVCA/Pitchbook, Crunchbase



# Angel & Seed Capital Investment Shows a Slowdown Over Recent Quarters

US angel & seed combined deal activity by quarter (with deal count estimation)



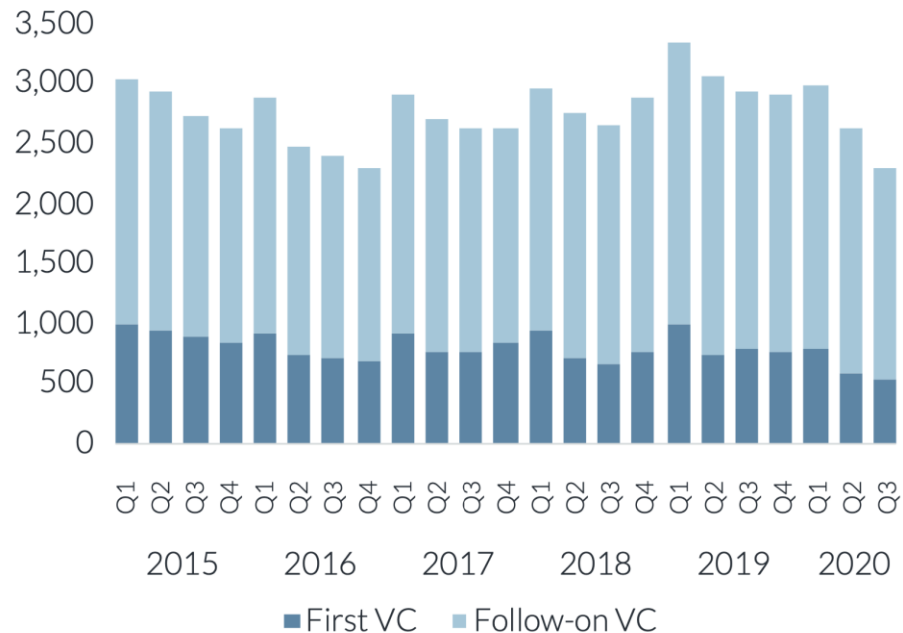
PitchBook-NVCA Venture Monitor  
\*As of September 30, 2020



# Broader Investment Overview

*First-time financings represented only 23.7% of deal count in Q3*

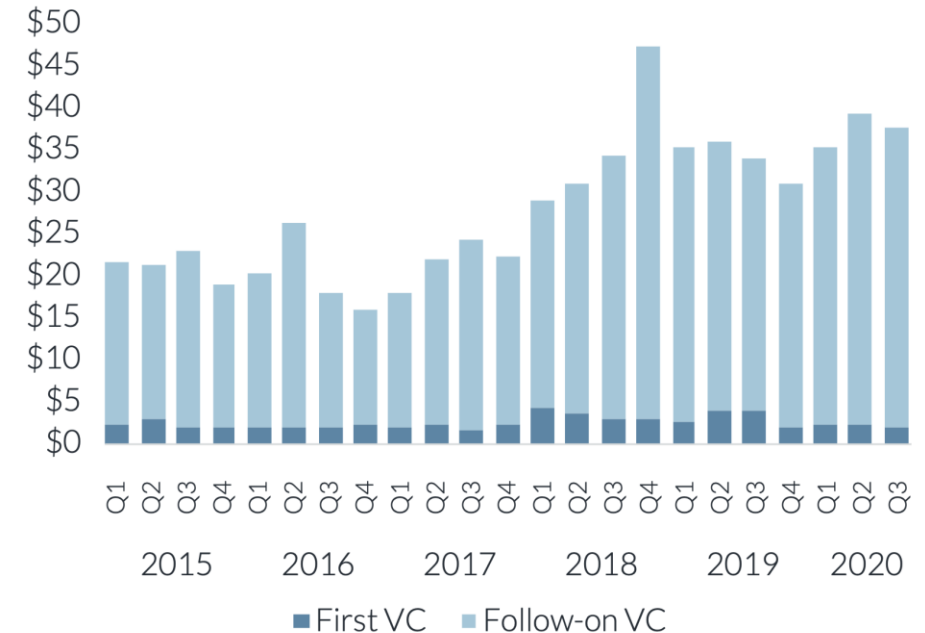
US VC first financing vs. follow-on financings (#)



PitchBook-NVCA Venture Monitor  
\*As of September 30, 2020

*First-time financings deal value fell to a record low of 5.5%*

US VC first financing vs. follow-on financings (\$B)



PitchBook-NVCA Venture Monitor  
\*As of September 30, 2020



# Angel Group Perspectives April – September 2020

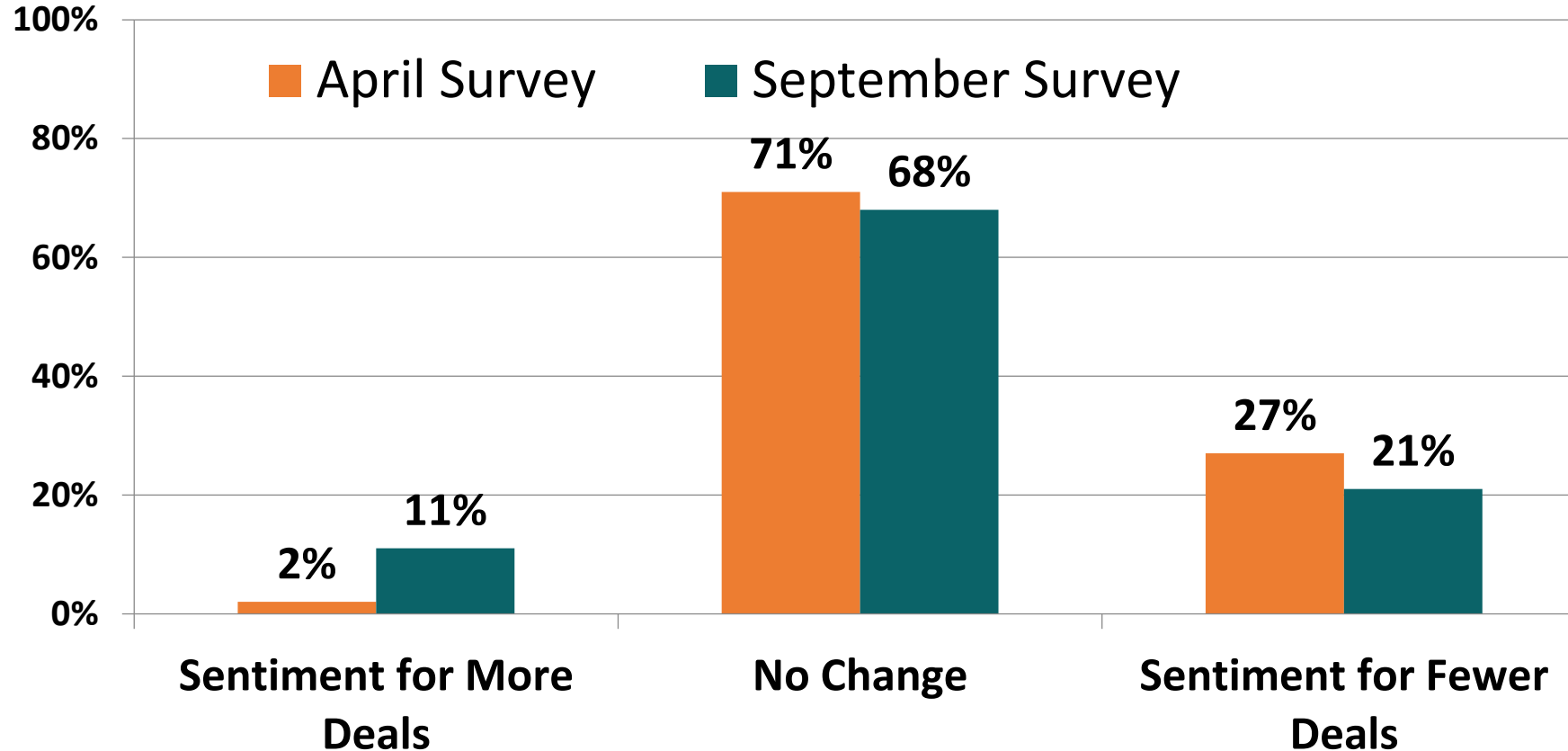


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# Deal Dynamics



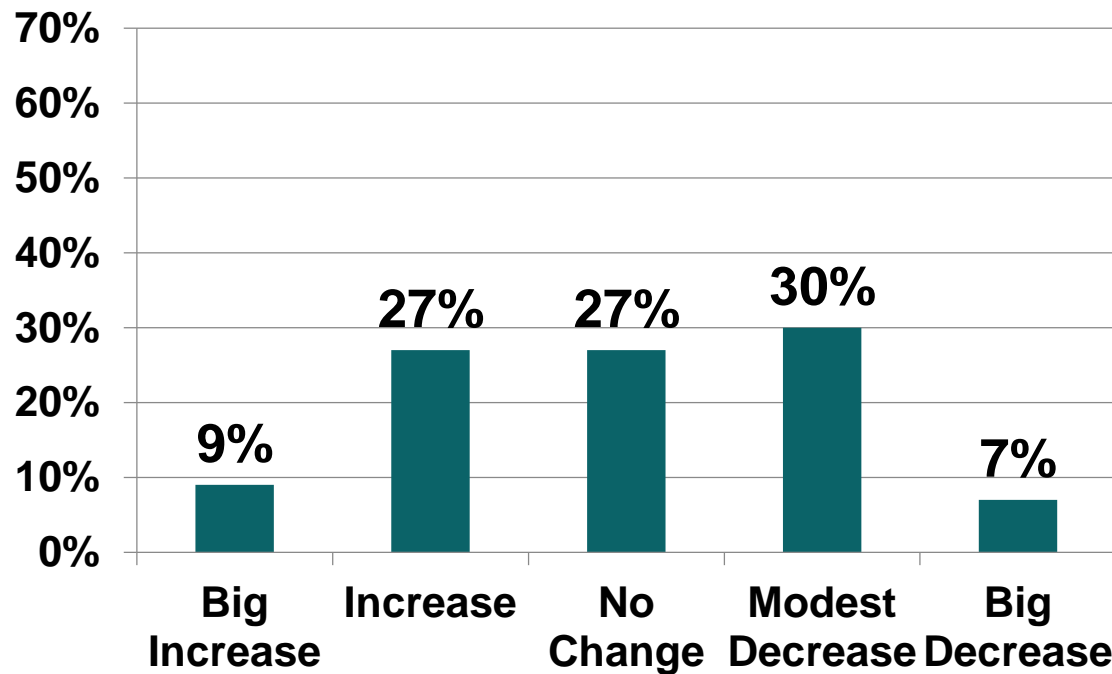
# Has Angel Group Sentiment Changed Due to the Pandemic?



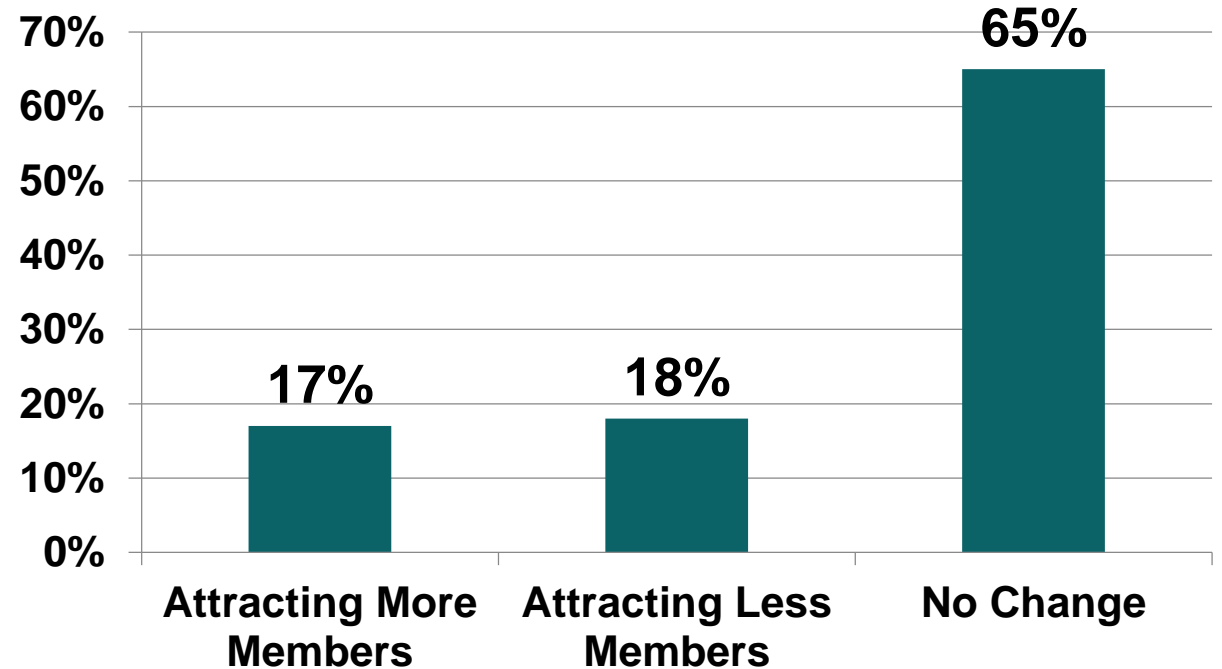
- While there is some sentiment for fewer deals since the pandemic, most angel groups or funds do not have a desire to change the current flow of incoming deals
- We saw a slight increase for groups wanting to do more deals

# Is The Pandemic Impacting Deal Flow?

## Impact on Incoming Deals



## Deals Via Video Conferencing and Impact With Members



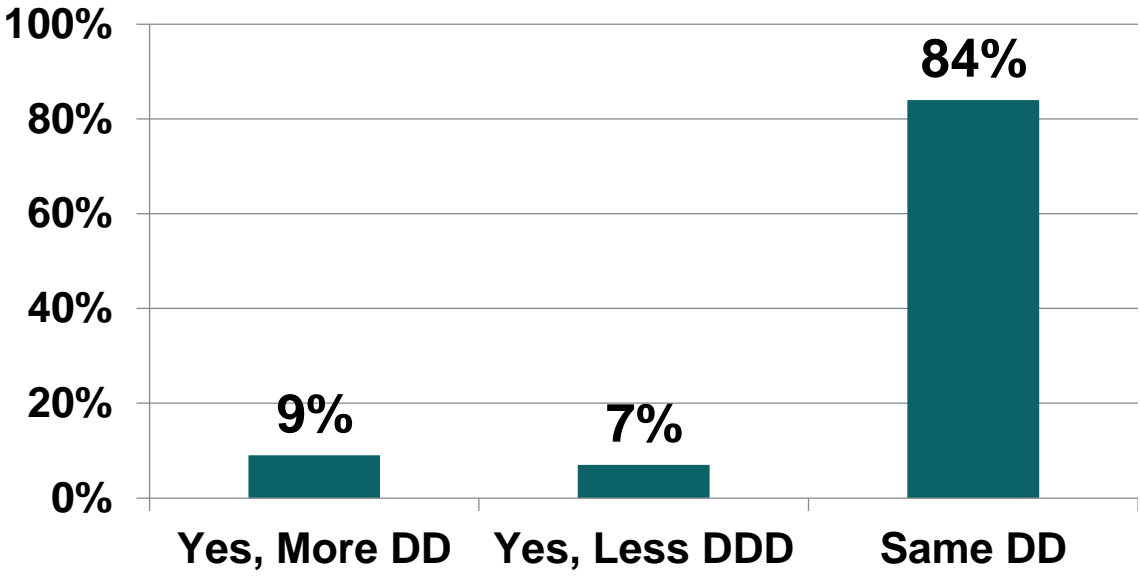
- Deal flow is down, but only modestly
- 2/3 of groups have seen no change in members participating in deal meetings since video conferencing



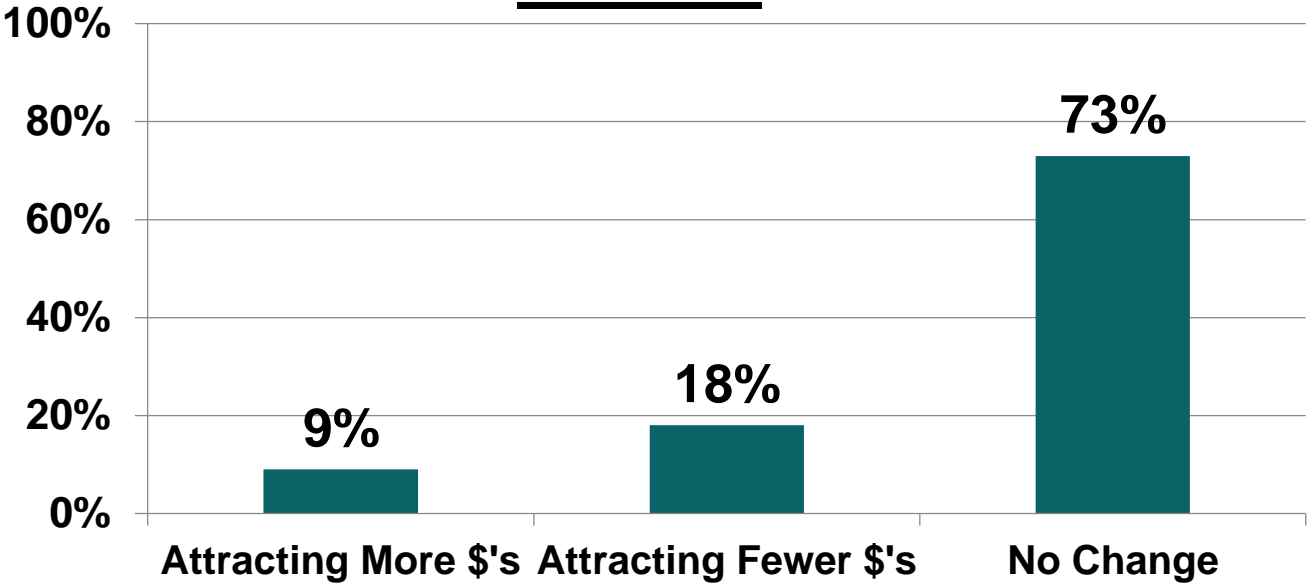


# Is The Pandemic Impacting Due Diligence and Dollars Invested in Deals?

## Is Pandemic Affecting Due Diligence on Deals?



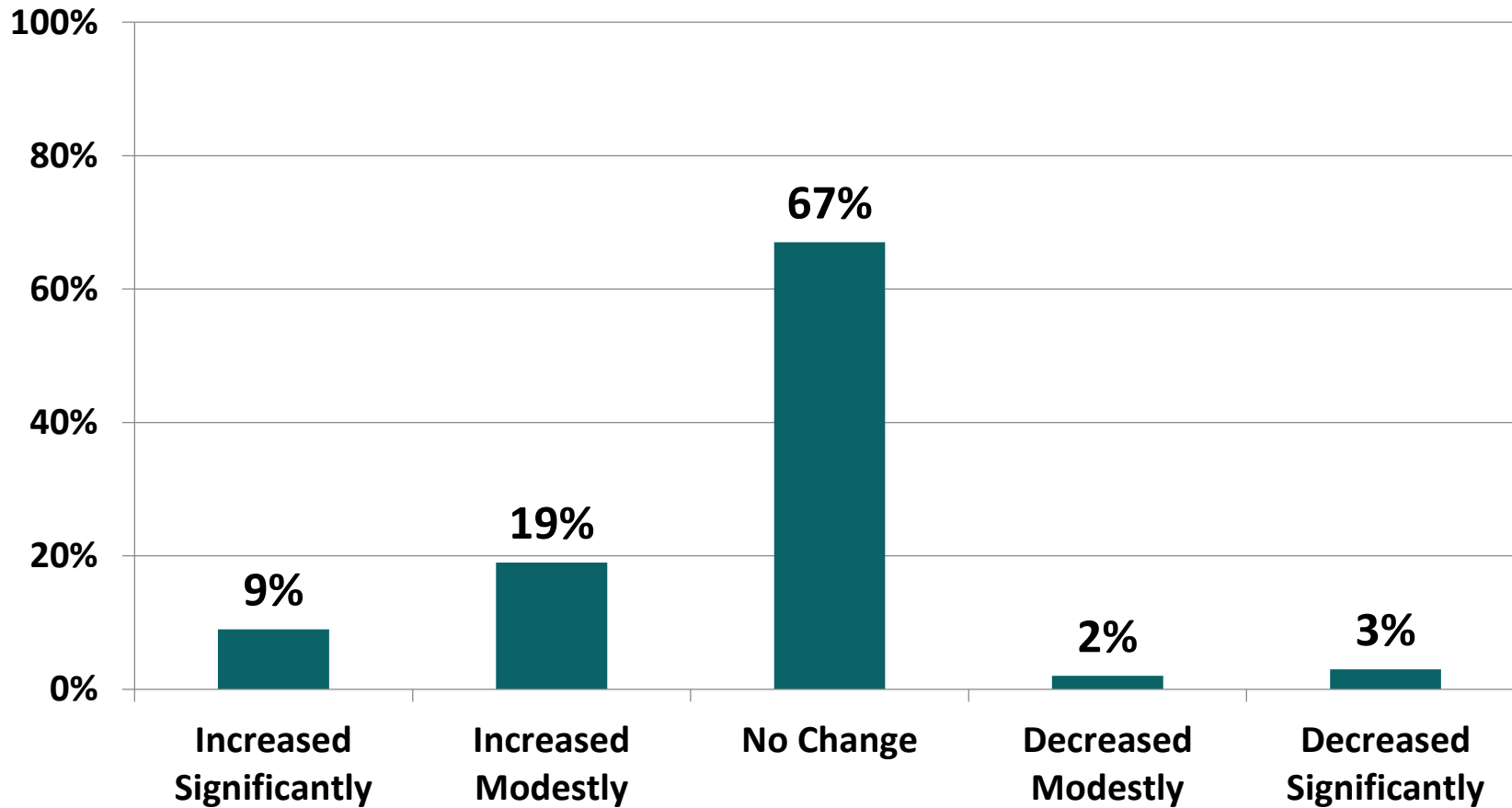
## Pandemic Impact on Dollars Invested in Deals



- Pandemic has not impacted due diligence
- Virtually no change to dollars invested in deals since the pandemic



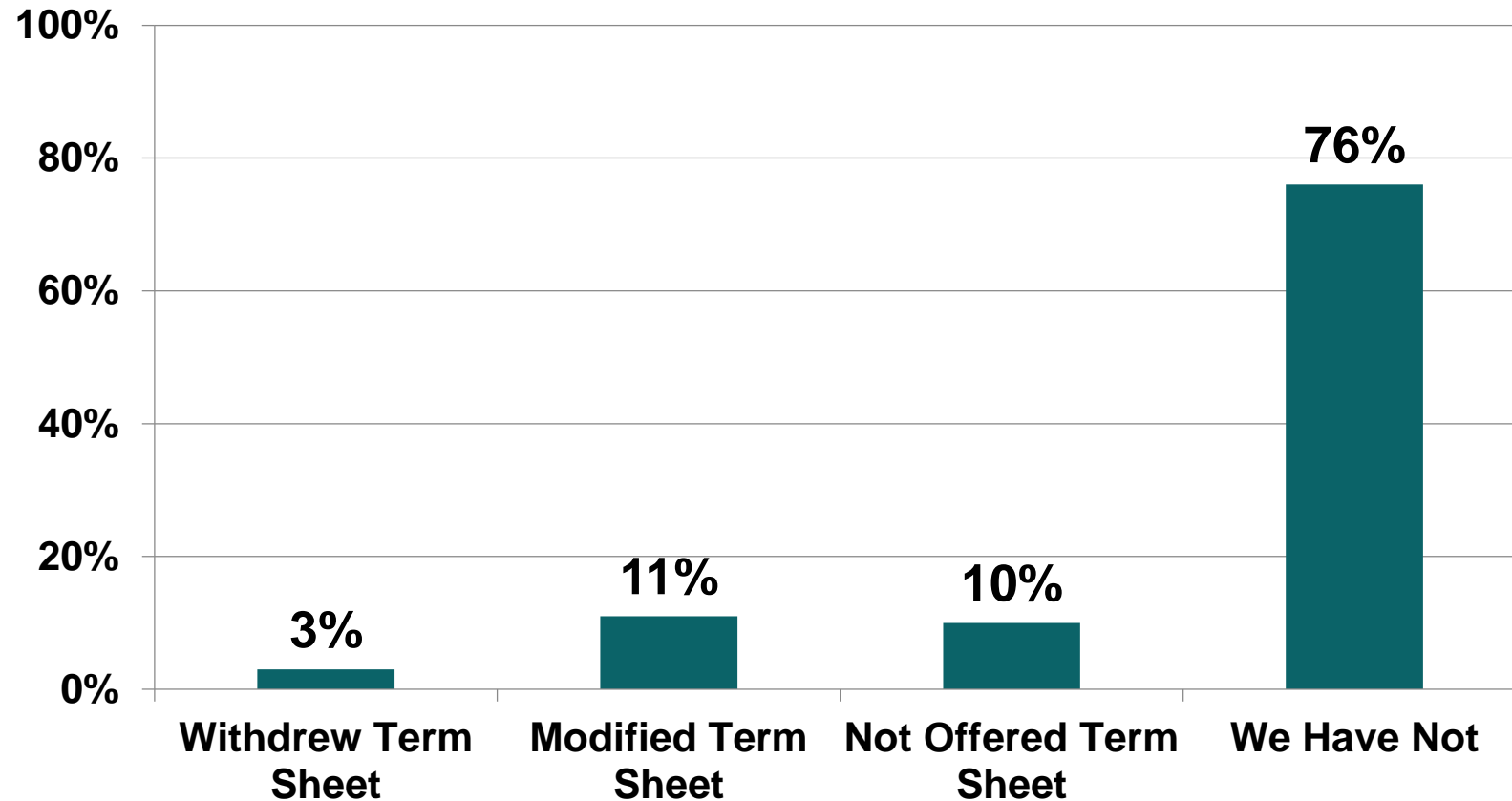
# Since Pandemic, Deals Closed Outside Geographic Area Have...



- Very little change in deals outside group geography
- Some willingness (28%) for deals outside of geography

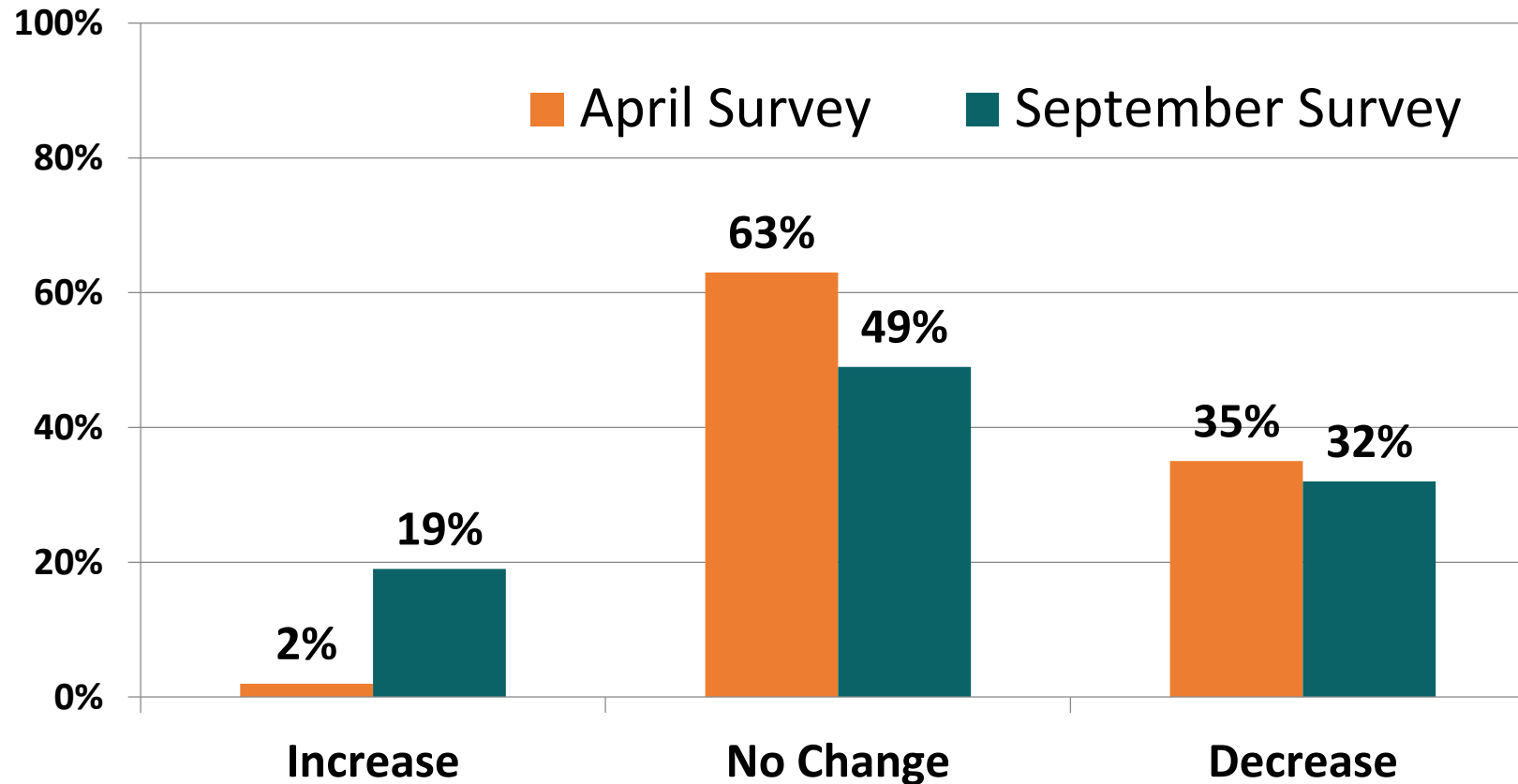


# Has Group Modified or Withdrawn a Term Sheet in the Last 120 Days?



- Very little “do differentlys” with regard to term sheets
- No withdrawal of term sheets

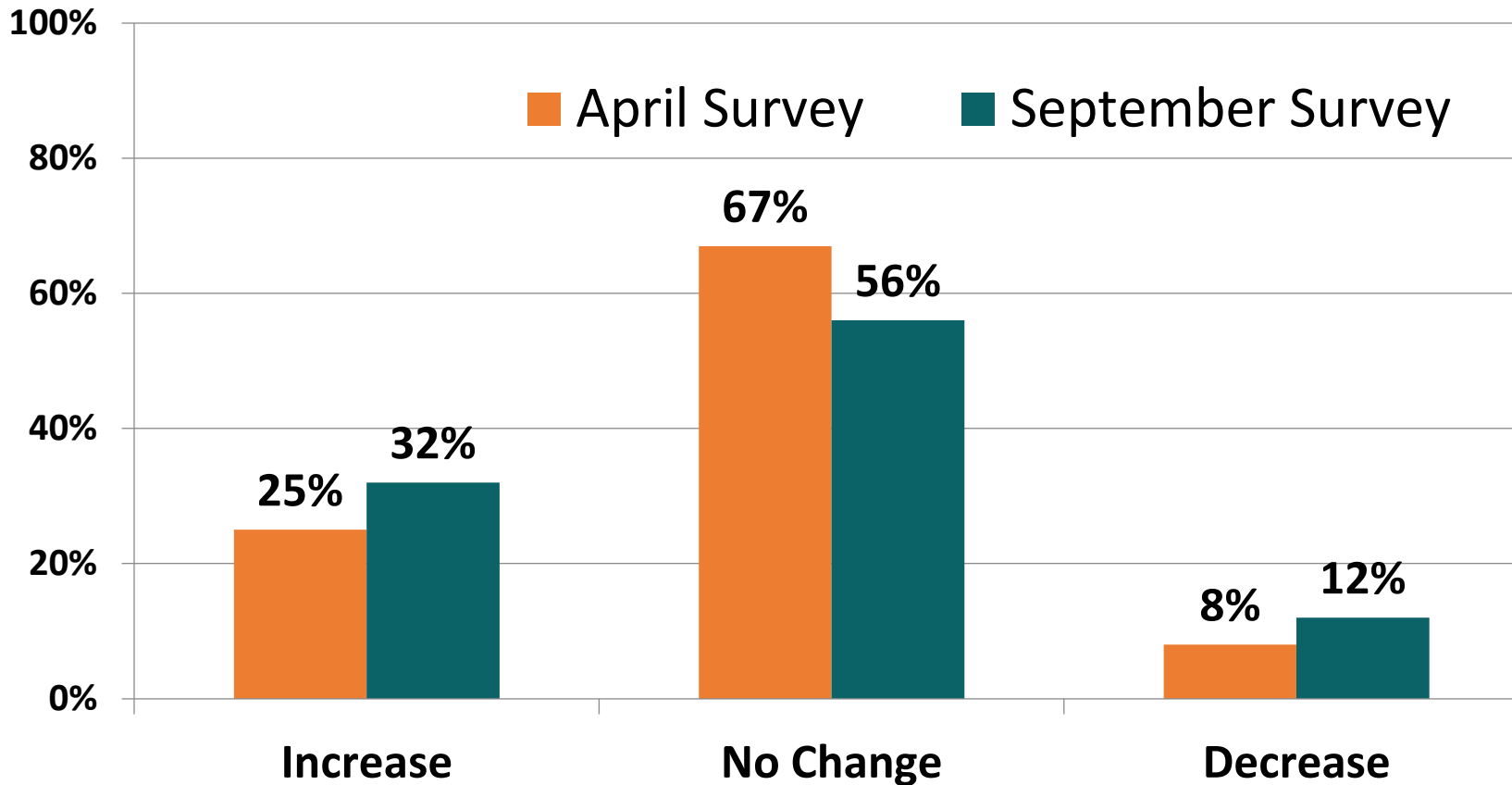
# What Is Your Member Willingness To Invest In New Deals



- April to September 2020, members' willingness to invest in new investments has grown to 19% from 2%
- The overall decrease in interest is virtually unchanged.

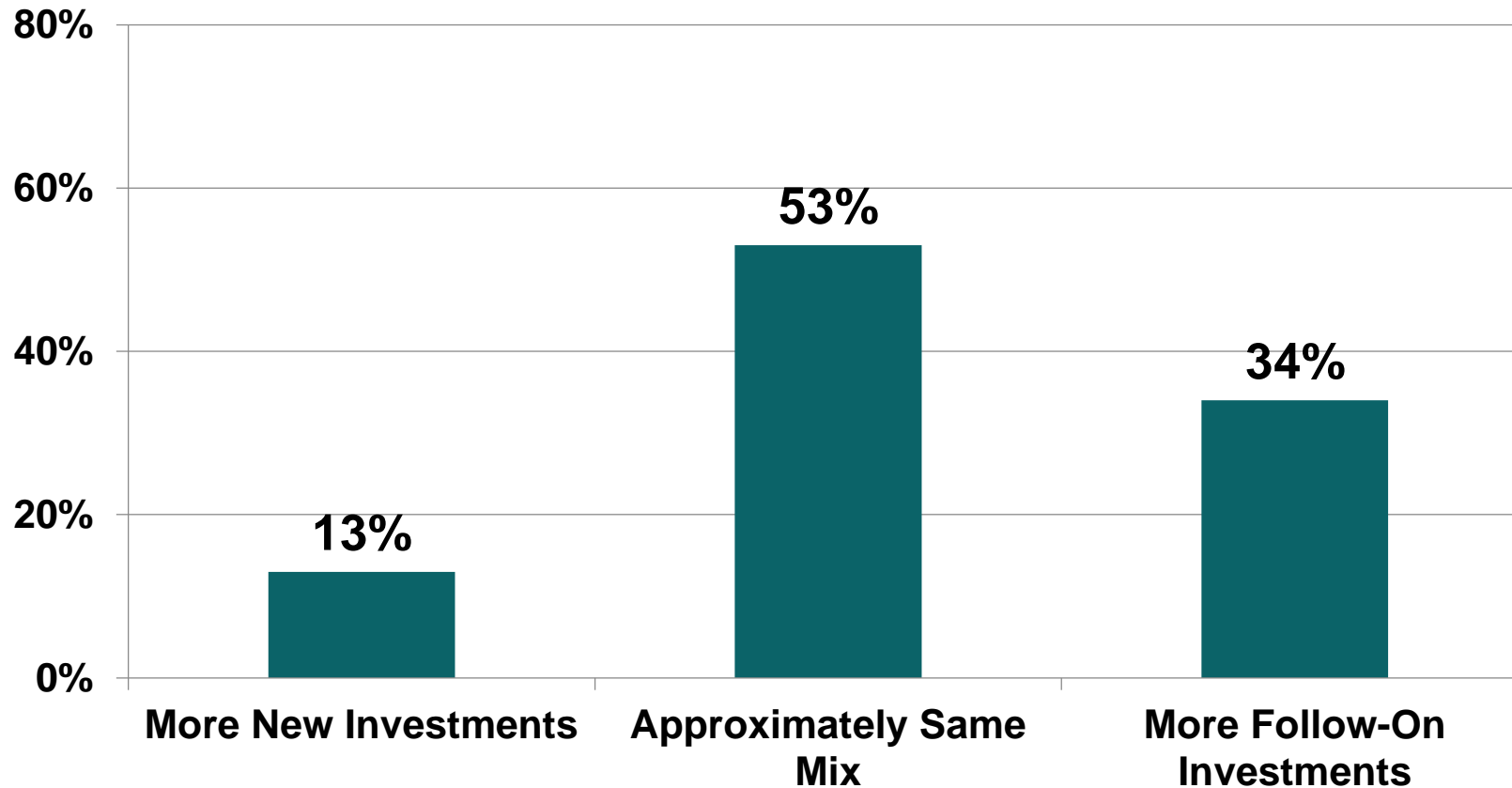


# What Is Your Member Willingness to Invest in Follow-on Rounds



**April to September-- members' willingness to invest in follow-on rounds increased from 25% to 32%**

# Estimated Mix of New Company Investments Versus Follow-on Investments in 2020 Versus 2019



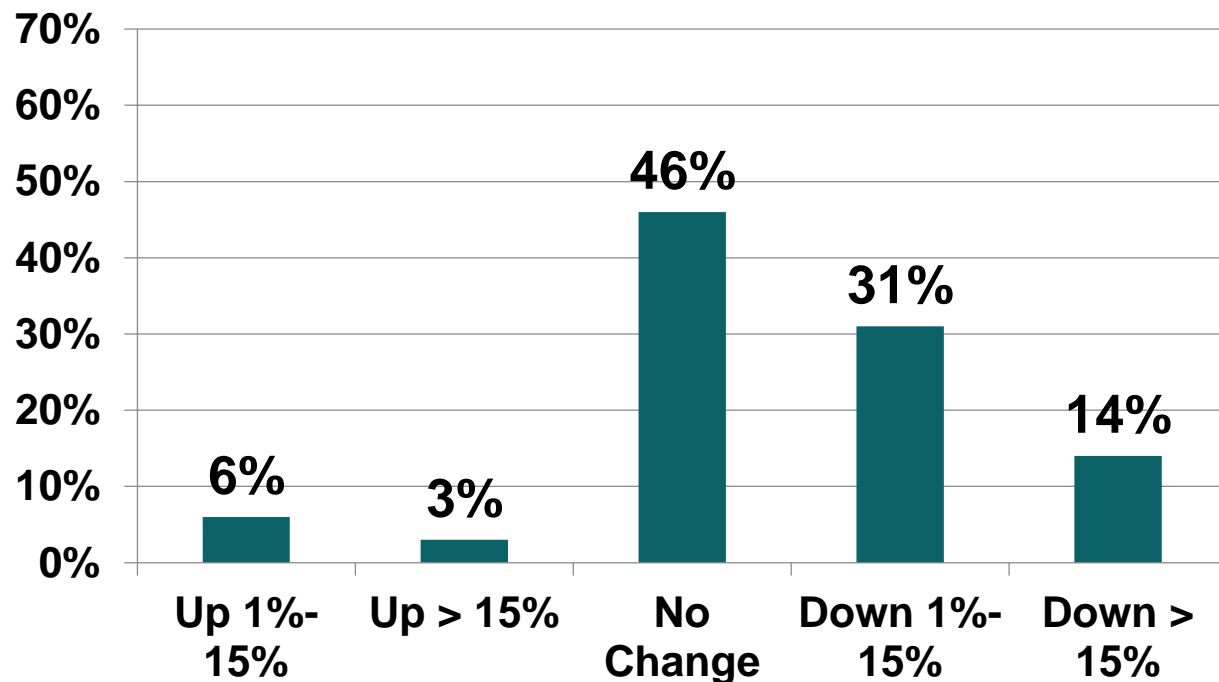
Overall there is more willingness to invest in follow-on rounds versus new companies—

34% vs 13%

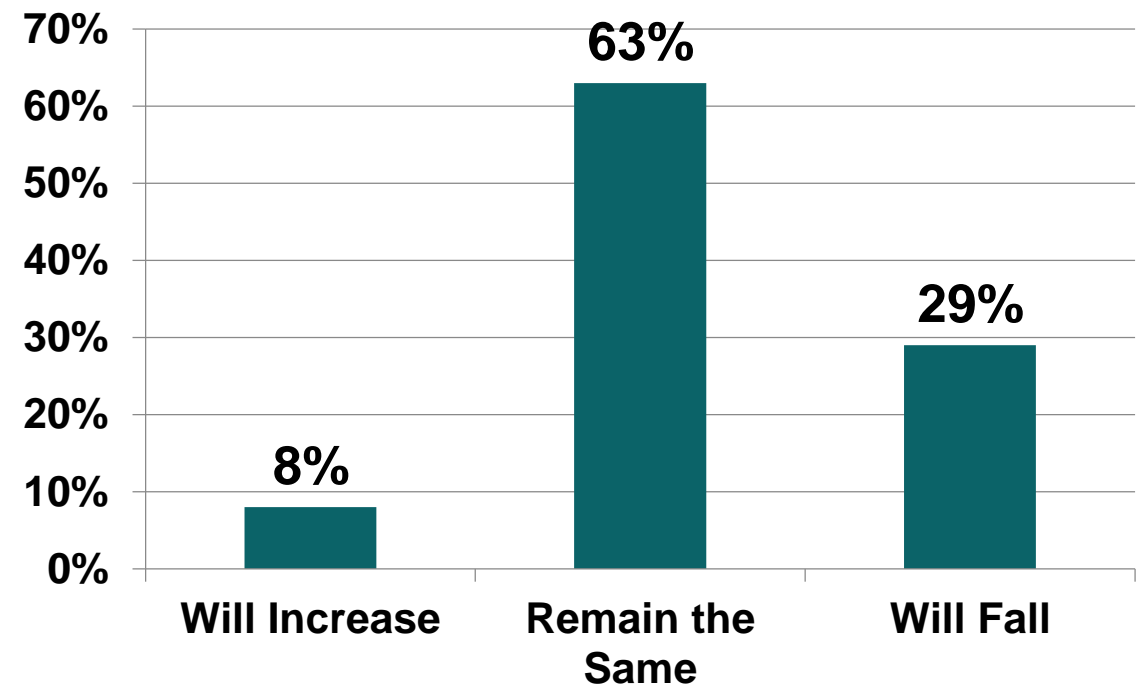


# Impact to Valuations Since the Start of the Pandemic—September 2020

## Valuation Changes



## Valuation Expectations For Remainder of 2020



- Minimal changes in valuation decreases since April 49% down to Sept 45%.
- At 63%, most groups believe they will remain the same for 2020, although 29% indicate they will continue to fall; consistent with the VC views.

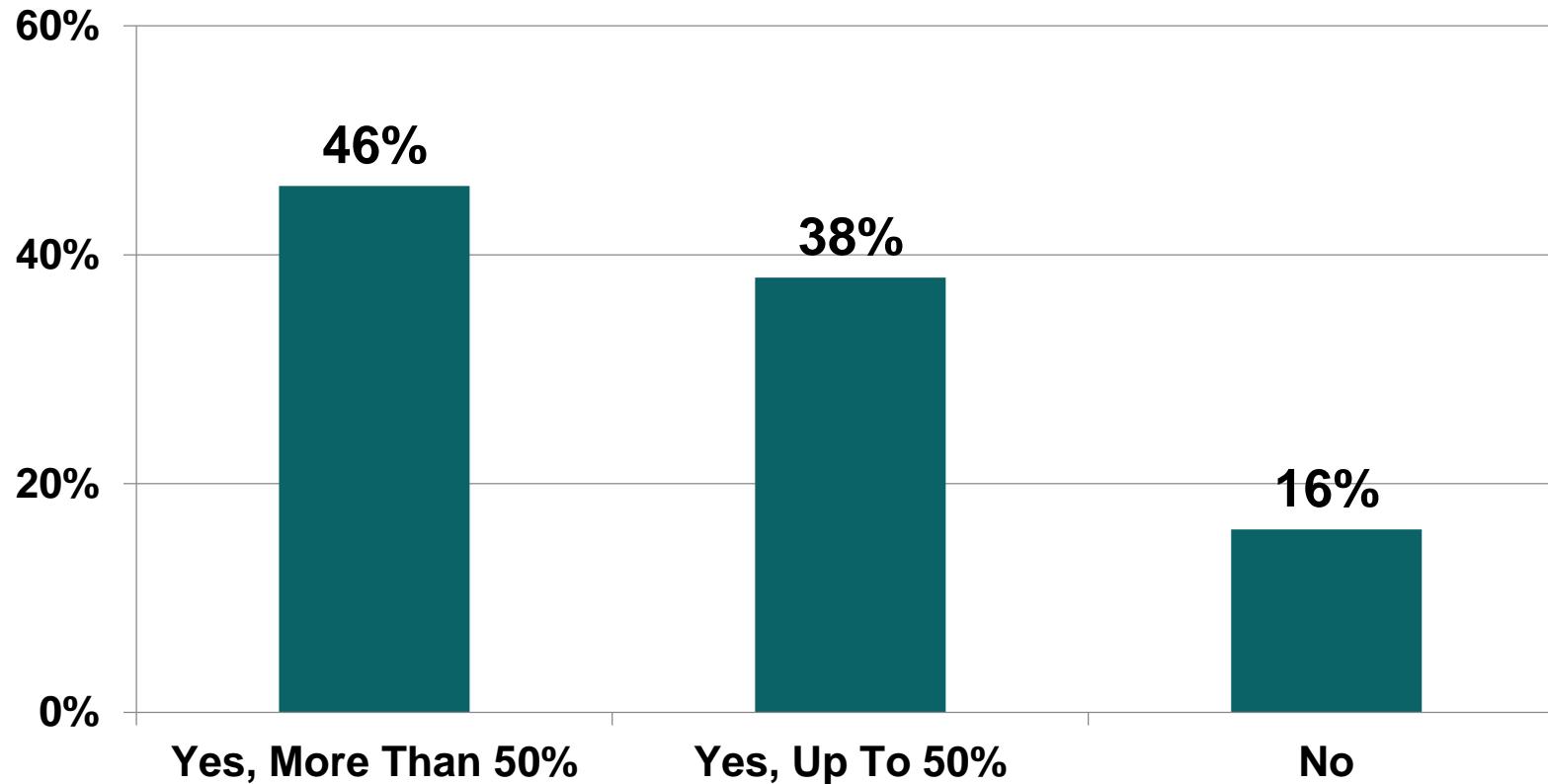


# Company Performance



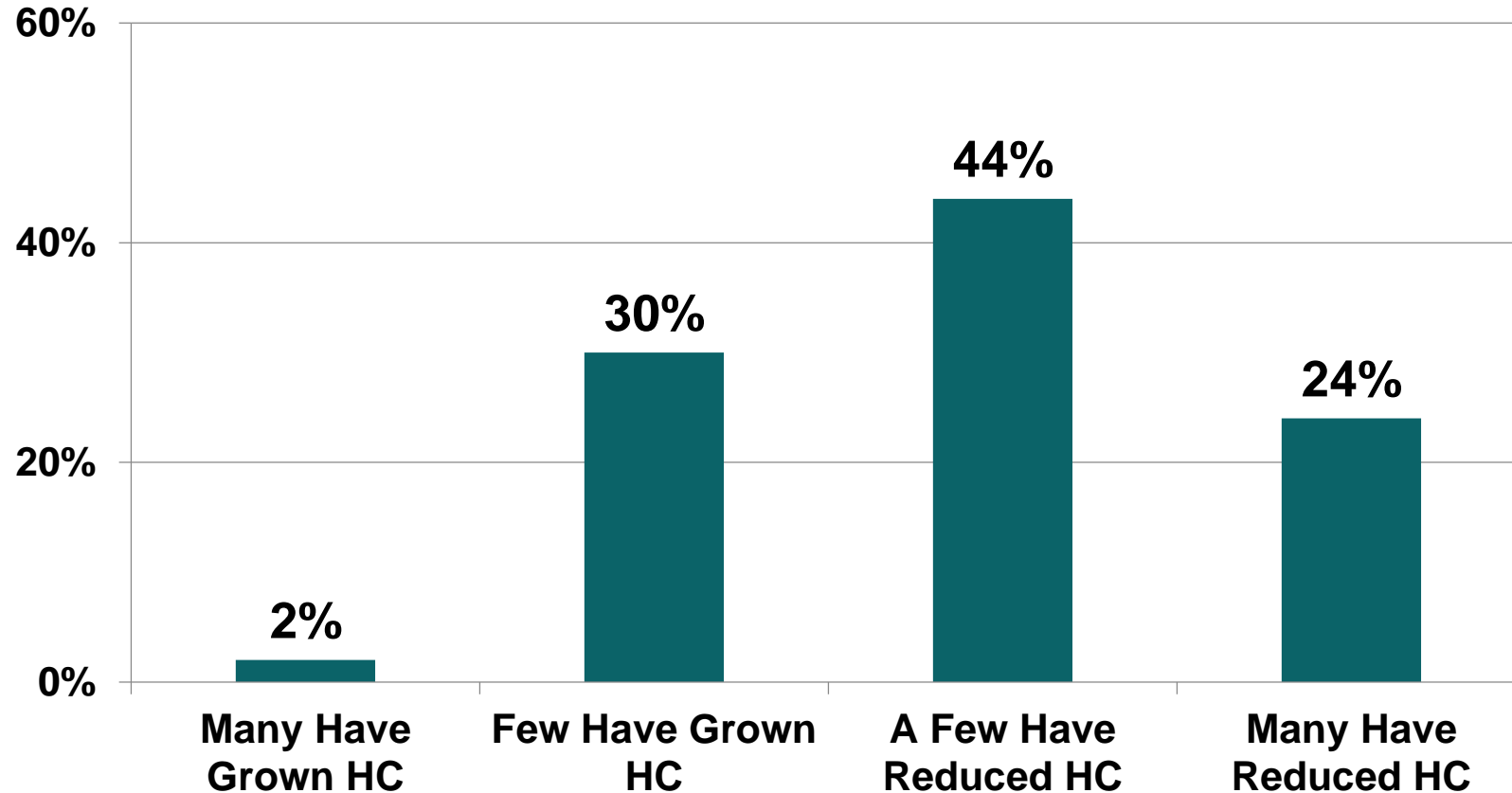


# Have Portfolio Companies Applied and Received Emergency CARES Act Funding?



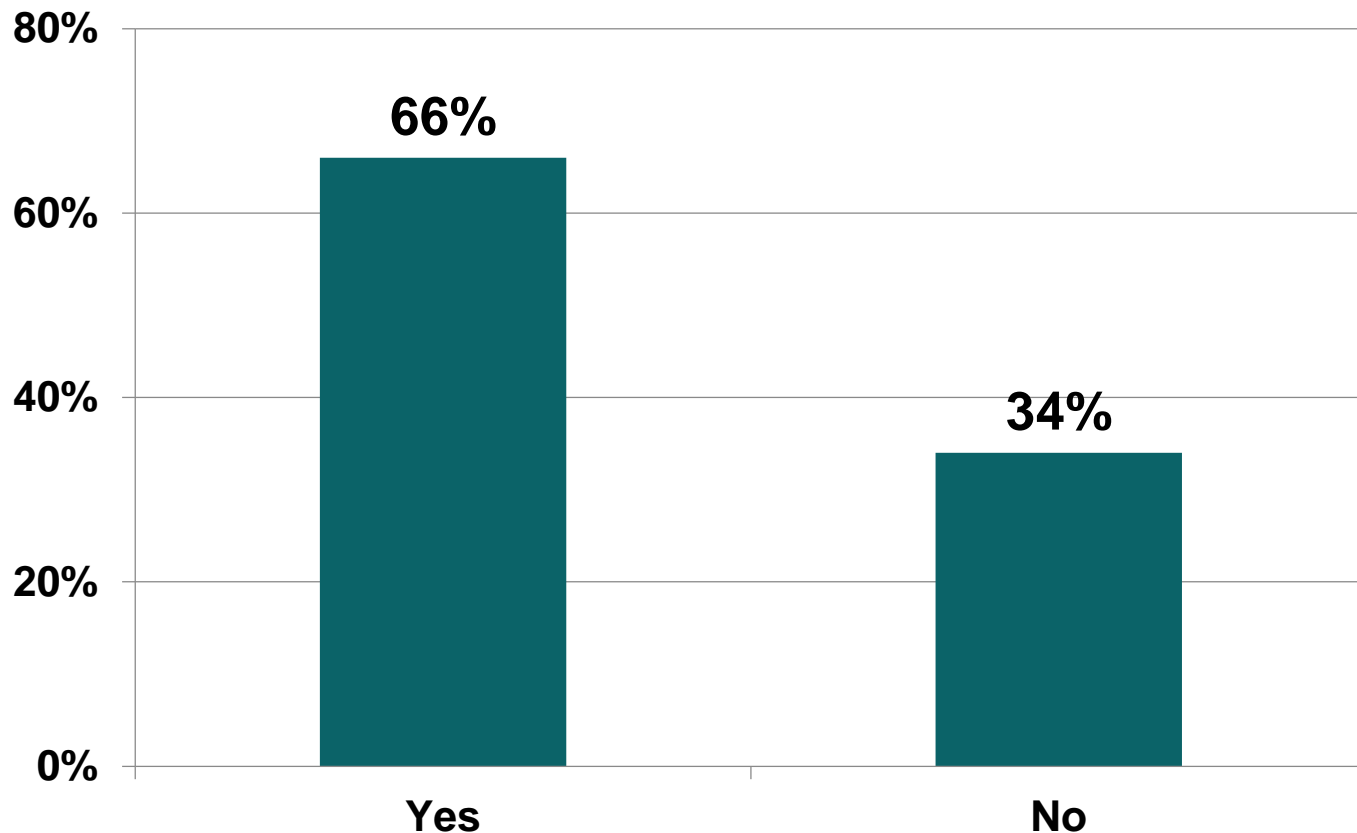
- **Clearly, nearly all portfolio companies have applied for PPP funding**
- **Very little change from April survey data**
- **PPP loan forgiveness is now being worked on by many companies**

# Change in Portfolio Company Headcounts Since Start of Pandemic



- No surprise here as most companies have reduced headcount in portfolio companies
- These figures are not much different than the April survey responses

# Have Portfolio Companies Reached Out for Bridge Loan?



## Top Five Things Angel Groups are Doing to Assist Portfolio Companies (Near 100% Responses)

1. Help in arranging follow-on funding
2. Assist with better and more frequent communication
3. More mentoring/overall advice
4. Assist with expense control/cash preservation
5. (Tie) Assistance with government programs
5. (Tie) Help with sales/customer referrals



# What Are The Top 6 Items Portfolio Companies Are Currently Focused on During the Pandemic?

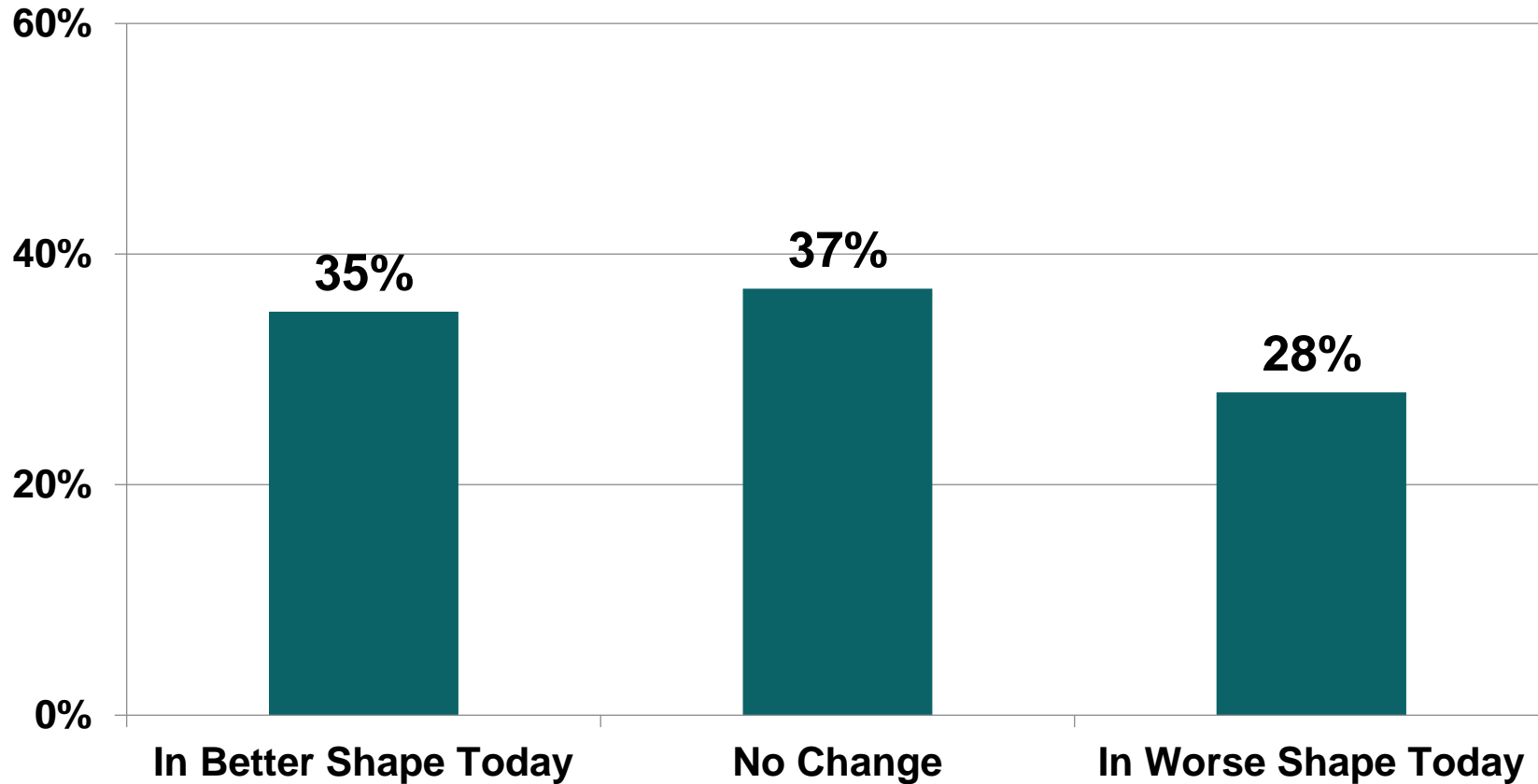
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1. Capital preservation / cash flow
2. Try to reach out to new customers to grow sales
3. Expense and staffing reductions
4. Learning how to pivot better
5. Raising capital
6. Grow sales with existing customers

**Cash Management & Grow Sales!**

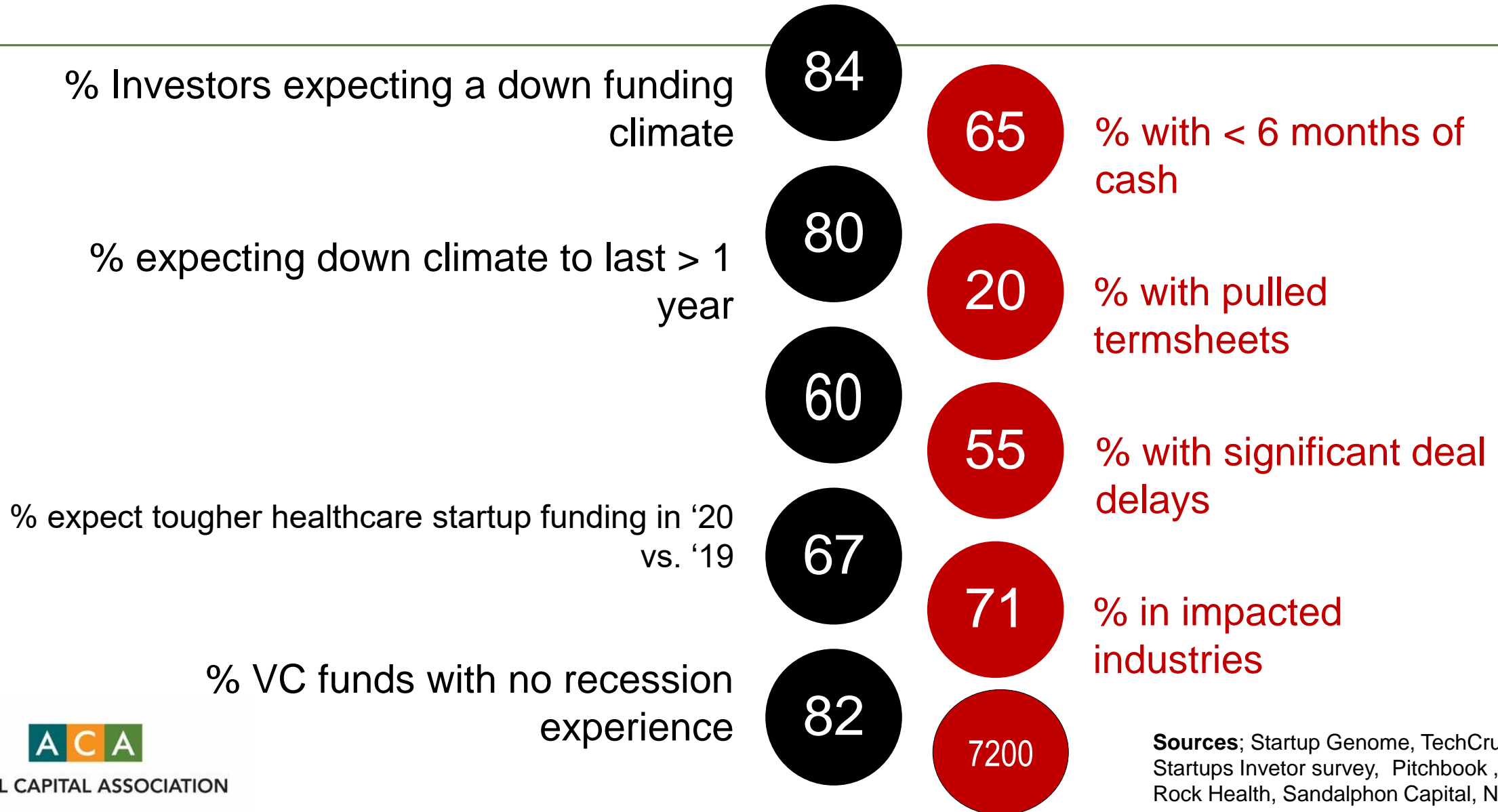


# Compared to April 2020 Portfolio Companies Are:

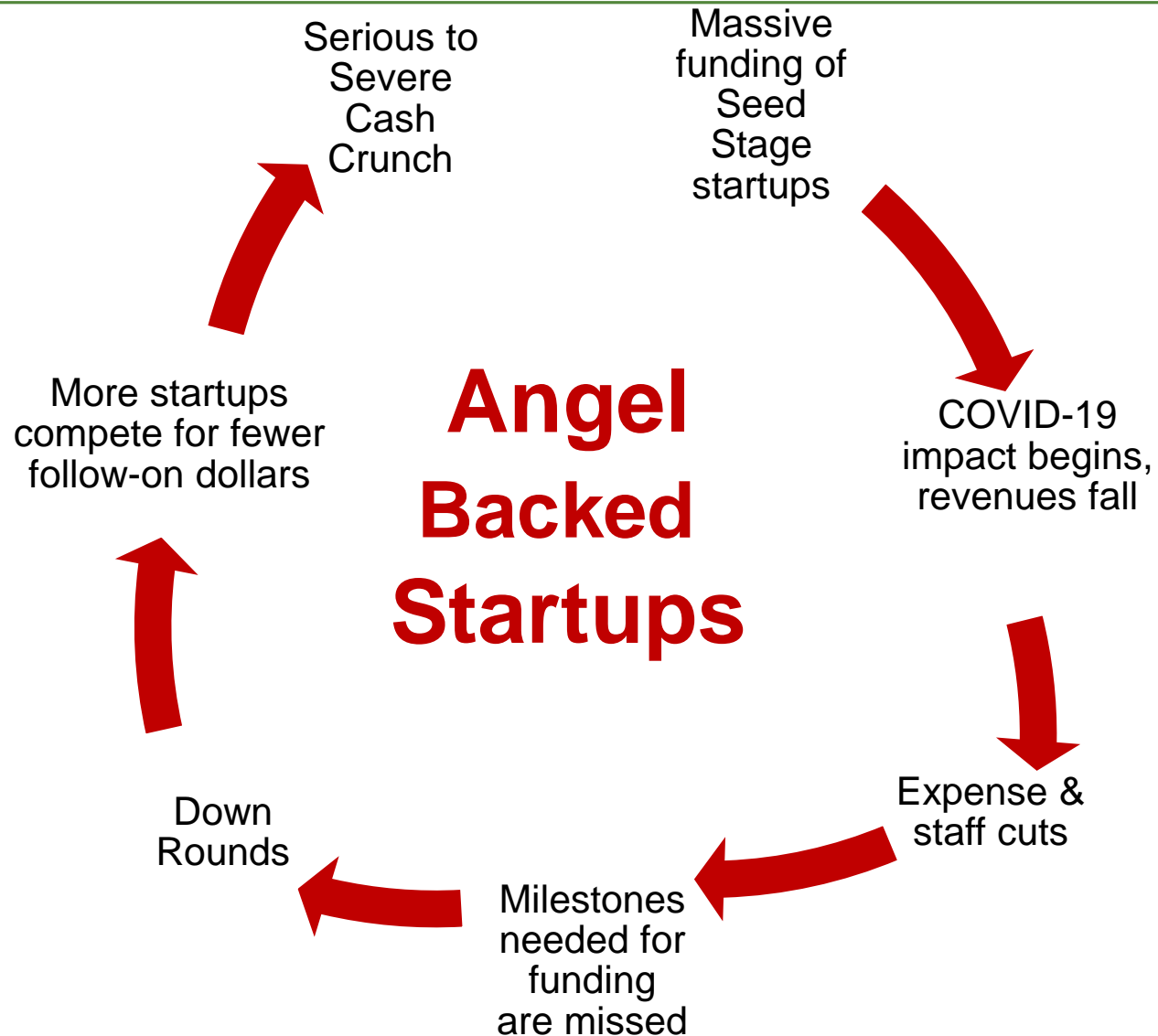


- A mixed bag of results – both improvements and companies in worse shape
- Surprising to us that only 28% are in worse shape today compared to April

# Voices of the Investor and CEO



# Anatomy of a Capital Crunch



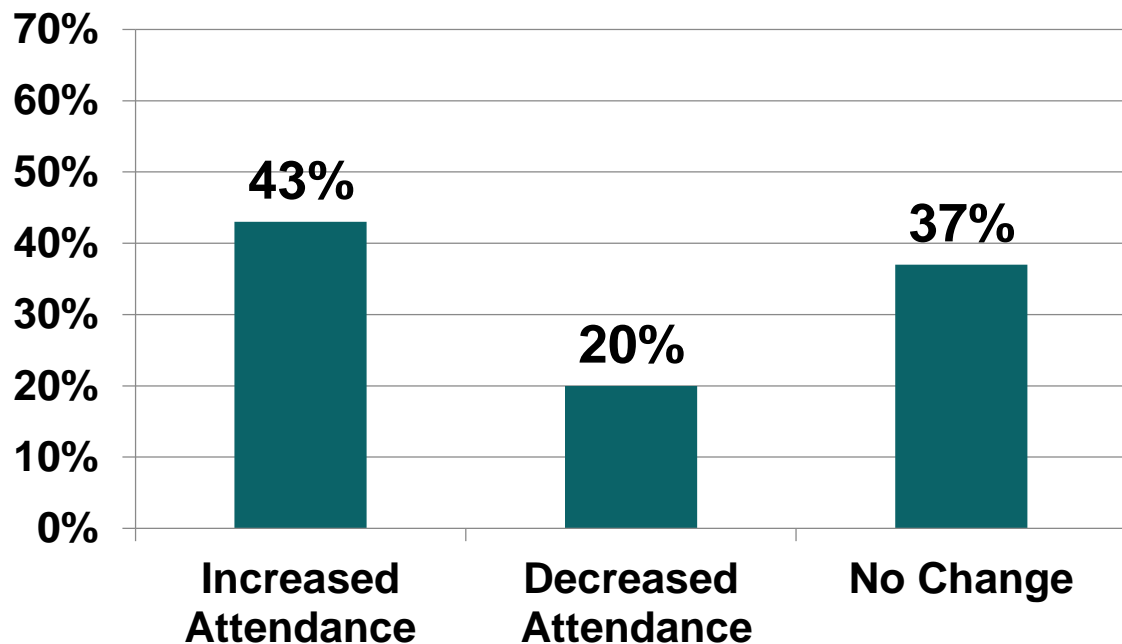
# Angel Group Membership Dynamics



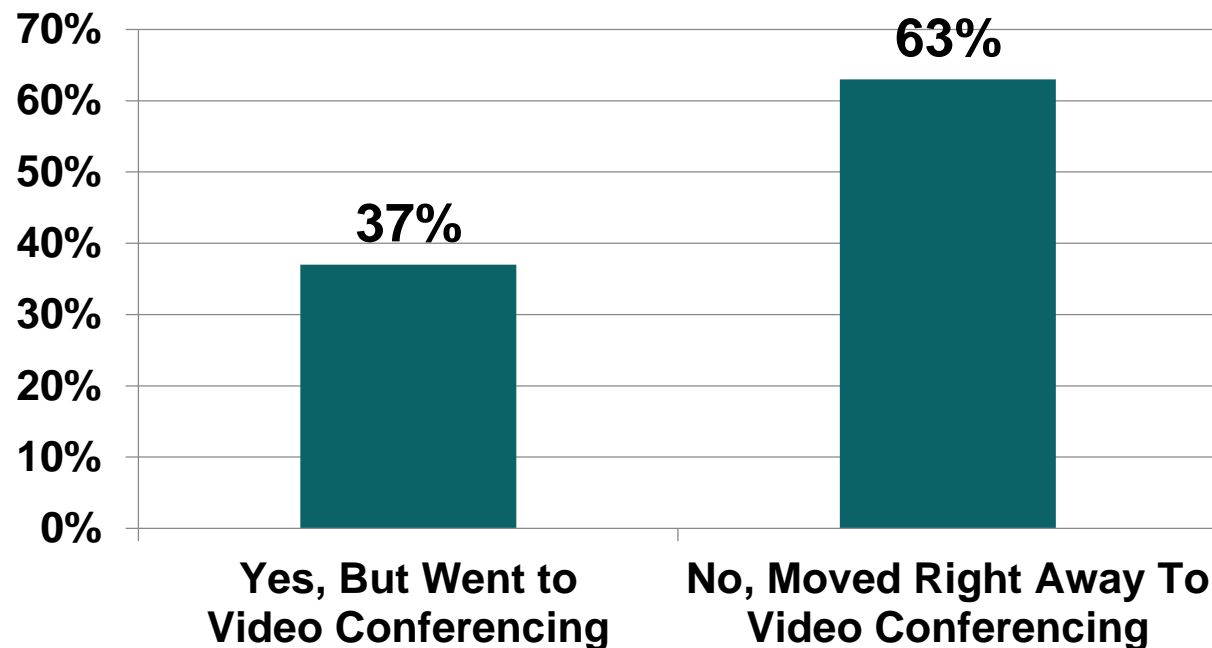


# Everyone Has Moved To Virtual Meetings...But

## Video Conference Meeting Impact



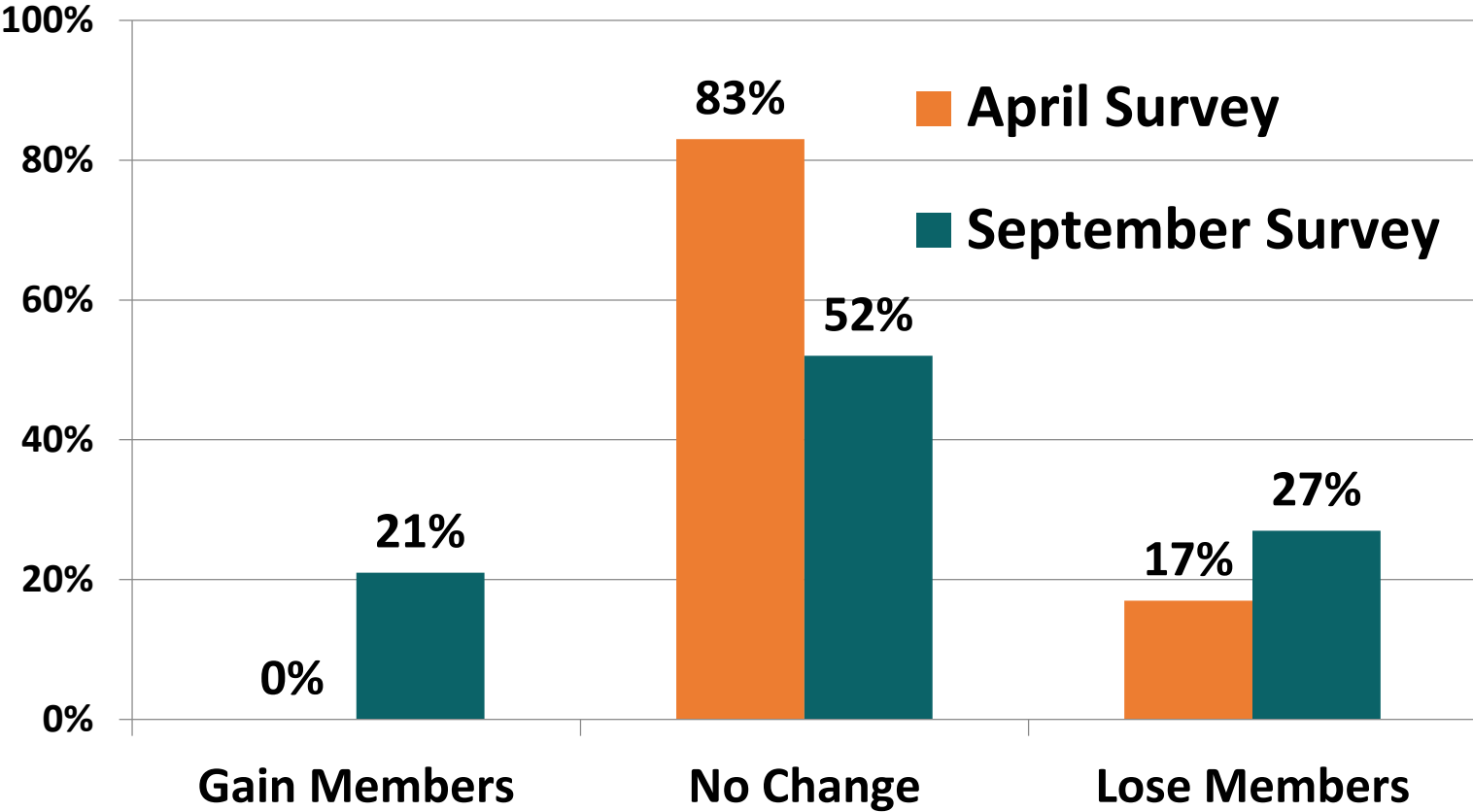
## Has The Group Cancelled Meetings Because of Pandemic



- Angel groups moved right away to virtual meetings...no surprise
- In 43% of groups virtual meetings have actually increased attendance



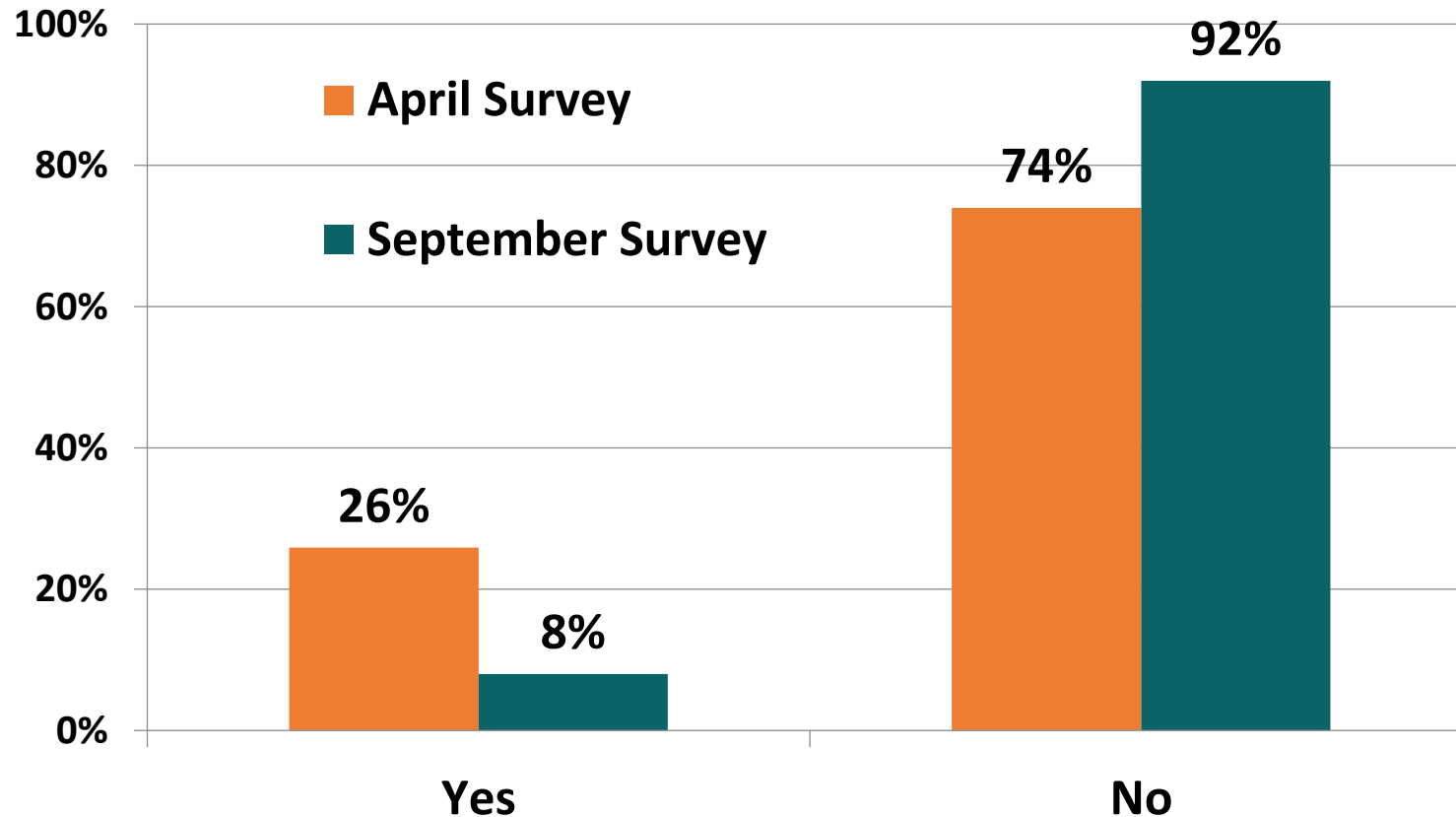
# Estimated Group Membership Impact Due to Pandemic



- Surprisingly, more than 1 out of 5 groups are actually gaining members during the pandemic
- Also, we have seen more groups decreasing their membership
- More clarity on group membership from April to September



# Is Current Health and Economic Crisis A Threat to Group or Fund?



- From April to September, the great majority (over 90%) of groups do not believe the health and economic crisis is a threat to their group/fund
- Much more clarity on this topic has emerged in the last five months

# So what does this all mean?



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# Angel Trends and the VC Ecosystem

	Angels*	VC Trends**
<b>Early-Stage Deal Volume</b>	Deal volume down	Deal volume down to a record low
<b>Early Stage \$\$</b>	76% angel groups report same or declining investment \$	Record low--sharp decline, shift to late stage, expected 20% to 25% less than '19
<b>Sentiment</b>	68% report no change and/or increasing interest in investing. Sentiment has improved since April.	Late-stage exuberance, early-stage gloom, VCs anticipate longer recovery
<b>Valuation</b>	Expectations for lower valuations	Increasing for all stages
<b>First time vs. Follow-ons</b>	15% of groups focused on more new investments; 34% on follow-ons	75%+ of deals are follow-ons

\*Angel Funders Report 2020, Angel Capital Association, October 2020

\*\* Q3 2020 Crunchbase and NVCA/Pitchbook/MoneyTree reports



# The Pandemic Has Strengthened Some Sectors and Weakened Others

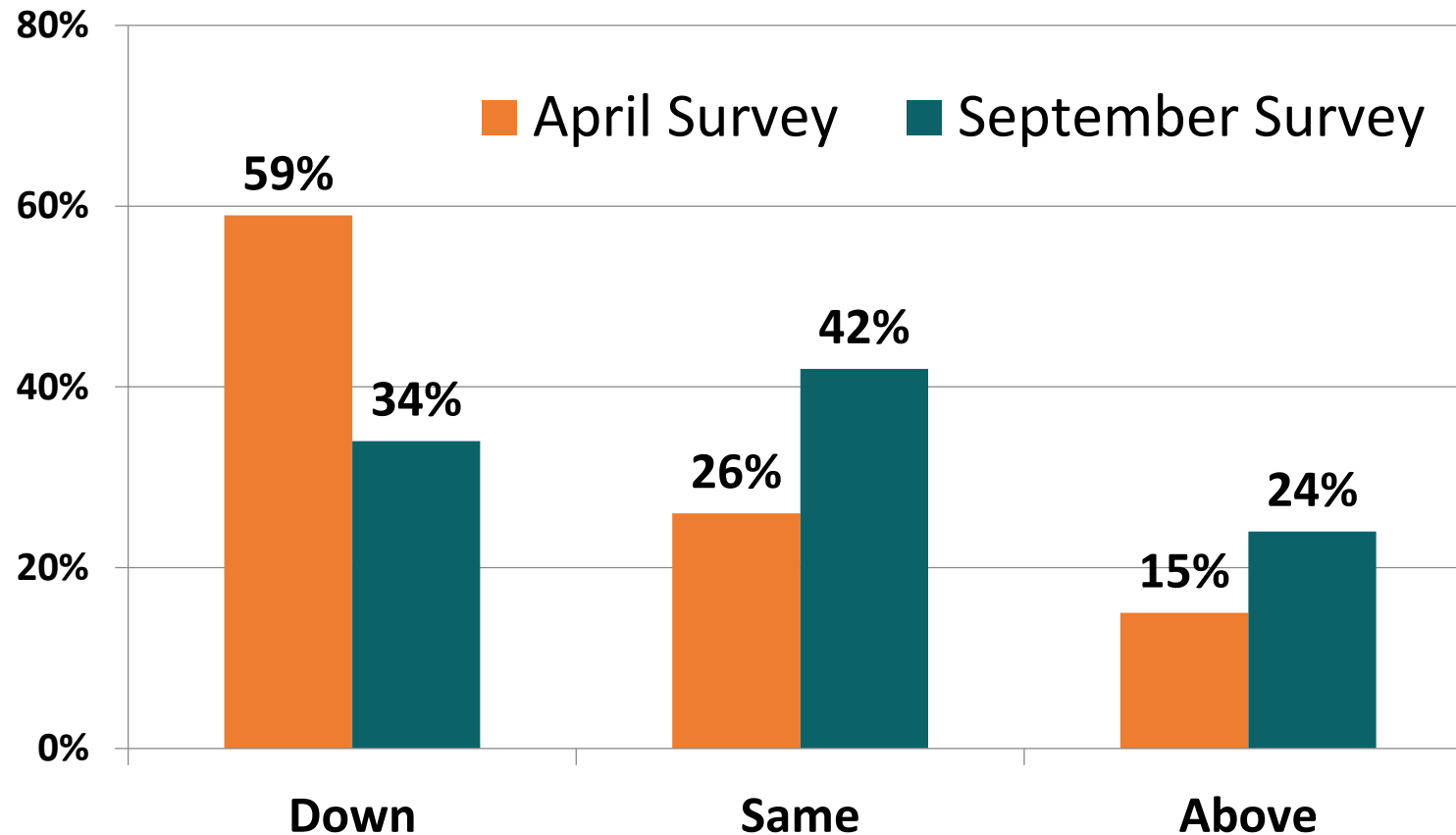
## Stronger

- 💰 Life Sciences/ Digital Health
- 💰 Mobile
- 💰 Robotics
- 💰 Process Automation
- 💰 Security
- 💰 Defense Technology
- 💰 Food & Beverage
- 💰 Delivery Services
- 💰 Hardware
- 💰 Edu-tech
- 💰 Blockchain
- 💰 Verticalized AI
- 💰 Collaboration & Communications

## Weaker

- 📉 Local Services
- 📉 Hospitals
- 📉 Advertising
- 📉 Automotive
- 📉 Civilian Aerospace
- 📉 Transportation
- 📉 Leisure
- 📉 Retail
- 📉 High-end Fashion
- 📉 Hotels & Hospitality
- 📉 Travel
- 📉 Commercial Real Estate
- 📉 Sports and Recreation
- 📉 Arts & Entertainment

# Angel Investing Expectations Stabilizing: Estimate of Dollars Invested By Group for Total Year (2020 vs 2019)



- Five months since the first pandemic survey has seen a big change in this estimate
- In April, 59% were estimating \$'s invested to be down compared to only 34% in the September survey
- 42% expect \$'s invested to be the same versus 26% in April
- Surprisingly, 24% now expect more \$'s invested in 2020 compared to 2019

# Conclusions

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*Viewed in context, quarterly ups and downs don't matter all that much. Angels build companies for the long term, typically with a 7-year exit horizon. As the ACA Pandemic survey illustrates, Interest in angel groups, angel funding, diligence and post-investment mentoring hasn't materially changed. Despite COVID, North American Angel investing remains quite active and healthy.*

## **Market Trends**

- Early-stage capital markets remain down compared to 2019. but are starting to stabilize; some sectors are very strong.
- It is not an apocalypse and hardly the multi-year collapse predicted by some due to the Great Recession's investing experience.





# Conclusions

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## Market Trends Continued

- There are many healthy signs:
  - The Q2/Q3 IPO market was one of the strongest ever.
  - The S&P 500 recovered after 5 months. Angel sentiment has stabilized.
  - Angel and VCs report more resilient CEOs than in prior downturns.
- Given these trends, for Angels, there remain a few worrisome developments:
  - As VCs move later stage, angels are asking, “where will next round dollars come from for our companies needing more capital?” VC’s flight to later stage makes the ACA’s Angel syndication initiatives even more critical.
  - The ACA’s *Angel Funders Report* and other industry findings note a decline in Angels’ percentage of equity ownership. This risks reducing angel influence on term sheets to achieve strong protections, healthy corporate culture and responsible governance.



# Conclusions

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## Moving Forward

- Investors are embracing “Generation Zoom” deals and are experimenting with new models of diligence and deal execution—as well as new strategies for angel group cohesion.
- In addition, the Pandemic has accelerated the adoption of Telehealth and remote learning and meeting tools. These have become major investment opportunities for angels and VCs.
- Angel funding has stabilized. While 34% of groups expect full year funding to decrease in 2020 compared to 2019, 42% expect no change, and 24% anticipate an increase.
- Angels continue to play a critical role in their portfolio companies’ success providing not only critical funds, but also the expertise to help guide their companies in troubling times.



# Conclusions

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## Moving Forward

- 68% of Portfolio companies have reduced headcount, and many “cash is king” best practices were more quickly adopted by angel-backed entrepreneurs than in past crises.
- Follow-on investments by both VC and angels are playing a larger role during this difficult times.
- VC Funding is a lagging indicator, as VCs and their LP funders respond to the activity of exit markets. The strong Q2-Q3 IPO recovery will (eventually) lead to a return of early-stage VC and with it, more next –round dollars for angels’ portfolio companies.

***The angel ecosystem has recovered well from the initial impact of the pandemic and the health of the angel ecosystem remains strong!***



# What's Next

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- The ACA will continue to collect and analyze data to understand the impact of the Pandemic and the ongoing economic situation on early-stage investing.
- The Angel Funders Report 2021 expected in late Spring 2021 covering 2020 angel investing will provide in depth analysis of impact of the Pandemic.
- The ACA will continue to issue monthly data insights and periodic special reports as needed.
- [ACA Angel University](#) courses provide the latest smart practices on angel investing.

ACA welcomes your comments and feedback! Please send your thoughts to [aca@angelcapitalassociation.org](mailto:aca@angelcapitalassociation.org).



# Appendix



ANGEL CAPITAL ASSOCIATION

# The ACA Group Pandemic Survey

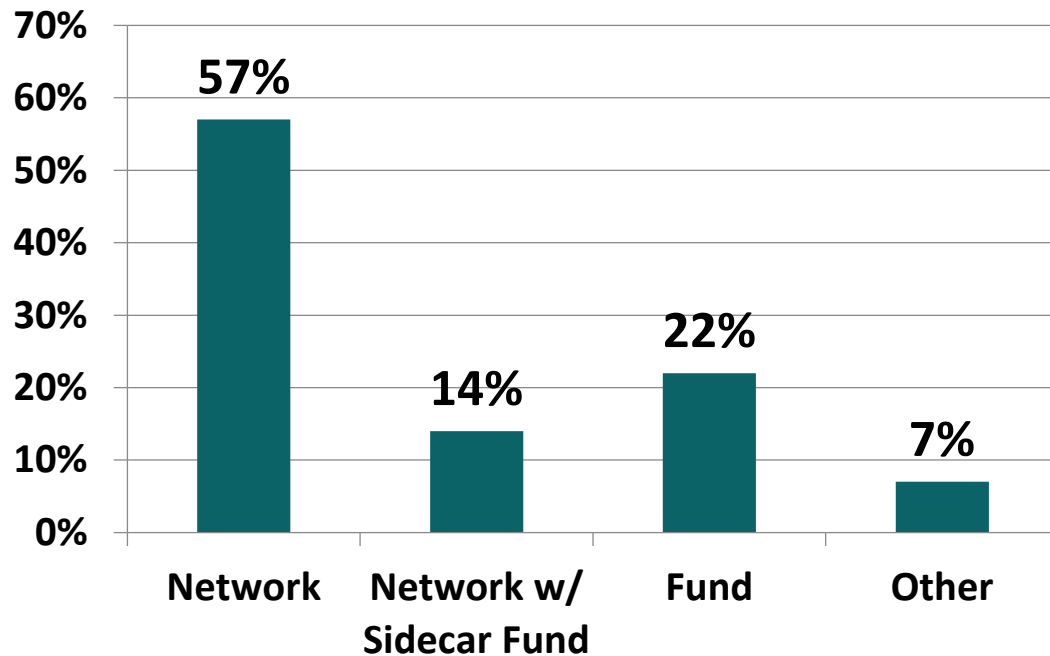
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- The September survey sent to all ACA angel groups or funds (approximately 240 organizations). It was also sent to a few non-ACA angel groups.
- This survey was conducted September 8 -September 22, 2020.
- A total of 117 angel groups responded to the survey, a 49% response rate.
- Responses came from angel groups in 40 states, 3 provinces in Canada and Mexico.
- The groups responding were both large and small. Average group size was 90 members, while the median group size was 57 members.
- The April survey was conducted April 21 - May 1, 2020 when most angel groups were just trying to understand the impact of COVID-19.

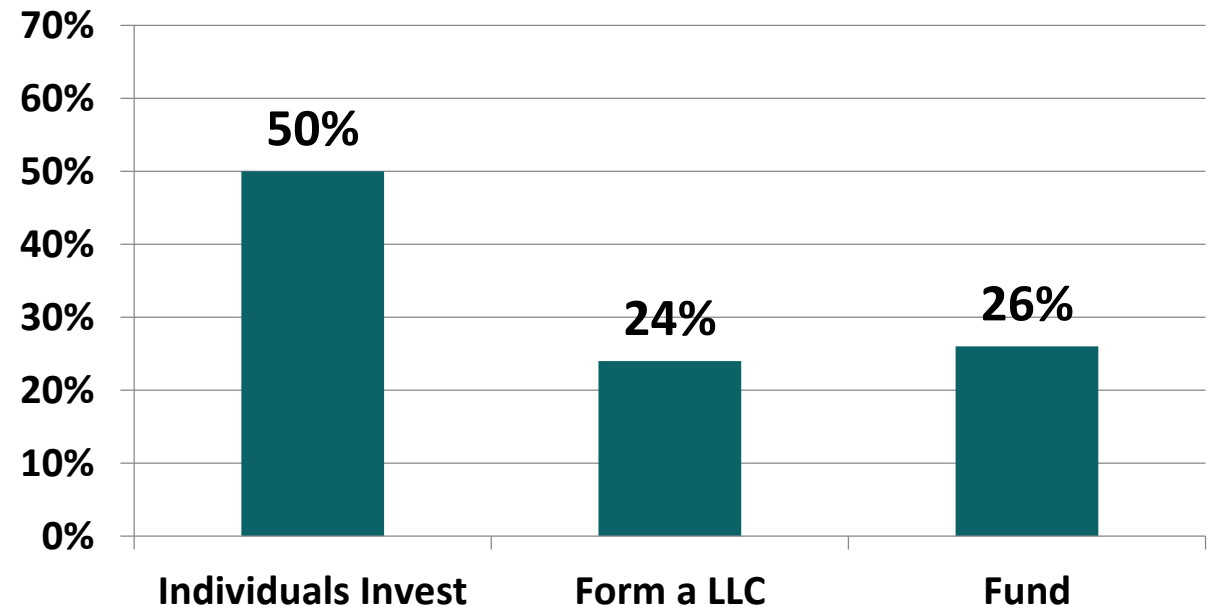


# Information on Angel Groups Responding to Survey

## Type of Angel Group



## How Group Makes Investments



- Over 70% of groups responding are a network
- Also of note is 26% of groups make investments via a fund



# Investment Data Sources

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- Bloomberg
- Crunchbase News
- Jeffrey Sohl, et. al, “The Angel Market and COVID-19: Building Bridges or Piers,” Center for Venture Research, University of New Hampshire, May 19, 2020
- PitchBook-NVCA Venture Monitor
- Fenwick & West
- NfX
- Crunchbase
- Startup Genome
- TechCrunch
- 500 Startups Investor survey
- SVB
- Rock Health
- Sandalphon Capital
- R. Weissman
- NVCA/Pitchbook/MoneyTree reports
- Angel Funders Report 2020, Angel Capital Association, October 2020

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