



Newsletter

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Ron Weissman—Software
Jan Jannink—Internet
David Deacon—Social

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Rivka Sherman-Gold
Mike Bates
Art Reidel
Wally Buch
Denis Coleman
Paul Quadros

Membership Committee
Mike Bateman
David Burwen
Brian Frenzel
Art Reidel
Stephen Taylor

Dinner Details

Date: Wed., May 19th, 2010
Place: Los Altos Golf and Country Club
Time: 6:15 - 9:00 pm
RSVP: 650.321.0854
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Introduction

A report by Josh Lerner and William Kerr, “*The Consequences of Entrepreneurial Finance: A Regression Discontinuity Analysis*”, published by the Harvard University School of Business, has some very provocative conclusions. The study shows that angel-backed companies are more likely to succeed and show more growth than those funded by venture firms alone. The report found that companies with angel funding see between 30% and 50% higher growth (as measured by metrics such as website traffic) and are more likely to survive for four years, than companies financing by VCs alone. The report engages the question of why this is and posits that “*Access to capital per se may not be the most important value-added that angel groups bring. Some of the 'softer' features, such as angels' mentoring or business contacts, may help new ventures the most*”. It’s a fascinating study we maybe should all read and give our entrepreneurs (thanks to Chris Meyer for pointing this out to us); a link to the study is at: <http://hbswk.hbs.edu/item/6347.html?wknews=041910>

Perhaps this study is another reason that the Angel Capital Association meeting last week had such a positive mood. Since I am on the board I am biased, so I thought to quote from an unsolicited email our member Mike Bates sent summarizing the meeting:

- *Angel movement is stronger than ever; based on the increasingly large attendance of participants from all over the world (I met some folks from South Africa who asked me lots of questions about how our angel group operates)*
- *We should look for opportunities to shoot for early exits from less-capital-intensive deals*
- *The academic data also suggests that angels do just as well in all-angel deals as angel-VC deals (question in my mind: can we push the all angel syndication model for increasingly large amounts of capital?)*
- *Many smaller angel groups must syndicate for adequate deal flow; lots of opportunities to syndicate among groups. We may need to bolster systems and personal connections (requires commitment and effort) in order to get comfortable forming syndicates*
- *There are several different business models in the angel community; lots of diversity on a variety of issues; there is room, as good as we are, to learn from others*
- *One universal problem seemed to be that 20% of angel group membership tackles most of the work.*
- *The Band is held in high regard by everyone I spoke to*

Thanks Mike! While it looks very likely that the effort to raise the definition of angel (e.g. ‘accredited investor’) to \$2.5M was pushed back and it will remain at \$1M; it seems that carried interest is going to be taxed as ordinary income. This combined with the shrinking number of venture professionals made the NVCA meeting gloomier than the ACA, which has experienced 50% growth in the past 5 years!

- Ian