

FINANCIAL POST MAGAZINE

Early-stage investing

Paul Brent, Financial Post Magazine · Jan. 5, 2009 | Last Updated: Jan. 5, 2009 12:03 PM ET

WHERE does an entrepreneur turn to these days for financing, now that funding from banks and venture-capital firms (VCs) is drying up? Many are hoping angel investors — high-net-worth investors who provide start-up cash and management talent to early-stage companies — will come to the rescue. And it looks like the entrepreneurs might be in luck: If attendance at recent events where companies present business plans to angel investors is any indication, interest is growing amongst potential angels. “In the last three months or so, it has been standing room only,” says Basil Peters, CEO of B.C.’s Fundamental Technologies II angel fund.

The reason? The economic crisis may have instilled fear in the hearts of most investors, but it has an upside for angels. According to Randy Thompson, a partner in Calgary VC firm Argon Venture Partners and a former angel investor, the lack of other financing options gives angels, who often form groups to pool capital, increased bargaining power when making deals with capital-hungry companies. Thompson’s recent informal survey of Alberta angels confirms that few are planning to take a break from investing. “I was shocked,” he says. “A majority of people said, ‘I am still going to be here every month.’”

Even before the recent economic crisis, angels were already becoming the dominant providers of seed funding for new ventures, as many VCs decided to funnel cash into existing projects rather than taking on new investments. Daniel Mothersill, president of the National Angel Capital Organization, points out that angels already put up \$3.5 billion annually, or double VCs’ contribution. “VCs have, for the most part, vacated the seed stage,” he says. “Angels are stepping in to fill that gap.”

It will take a few months to see if the new interest will translate into increased investment, but Peters predicts the angel phenomenon will grow as other sources of capital dry up, and given that more Boomers are hitting their 50s and 60s, the typical age of angels. “All the trends are moving towards more,” he says.