WSJ Blogs
VENTURE CAPITAL DISPATCH
An inside look from VentureWire at high-tech start-ups and their investors.

http://blogs.wsj.com/venturecapital/2010/05/07/friend-or-foe-angels-vcs-debate-who-has-the-upper-hand/?mod=rss_WSJBlog

May 7, 2010, 1:20 PM ET

# Friend Or Foe? Angels, VCs Debate Who Has The Upper Hand

By Russell Garland

Depending on when you walked into the room, you could have heard a rousing speech on how angel investors have eclipsed venture capitalists in driving innovation or a sober discussion of why VCs and angels need to work together.

That keynote and panel at Thursday's 2010 Angel Capital Association Summit in San Francisco, on the heels of the National Venture Capital Association's annual meeting in Silicon Valley, illustrated the range of sentiments flying around as both types of investors rethink their models.

The three-day angel event drew more than 400 investors from across the U.S and nearly 50 other countries. An informal electronic poll of attendees found that 48% sometimes look for investments that subsequently will require venture capital and 55% thought relations between the two groups are okay but have room for improvement.

"It's The Angels' Time," was the title of the speech by angel investor and blogger Basil Peters, who asserted that VCs are essentially dinosaurs saddled with too-big funds at a time when entrepreneurs can create companies cheaply and quickly, sometimes over a weekend.

What these start-ups need is a limited amount of outside capital provided by angel investors who know when to exit by selling to corporations hungry for dynamic young companies whose revenue they can scale from $10 million to $100 million or more. "Yes, most angels have lost money," Peters said, but that's not surprising. "It's not easy to learn to be a successful investor."

That's changing now, he said, comparing the angel industry to where venture capital was in the early 1980s. Peters said he believes data will show that organized angel groups make better decisions. Such groups really got started in the mid-1990s, and even now only 3% to 4% of angel investors belong to them. The big opportunity, Peters said, "is to connect more angels together."

But angels sometimes need to connect with VCs, too, said the subsequent panel, organized and led by James Geshwiler, a managing director of Boston's Common Angels, who said it took him five or six years to learn how to syndicate well with venture firms.

"We made a lot of mistakes in valuations, we made a lot of mistakes in how we designed those term sheets," said Richard Sudek of Tech Coast Angels. "Back in 2000, the world was very different." Now, he said, the Southern California group spends more time thinking whether a start-up will have an early exit through M&A, another round of angel financing or a venture round.

“I think the rules are changing,” said Mike Elliott, managing partner at Noro-Moseley Partners and a NVCA board member. Venture investors are willing to provide liquidity to early investors and to ease up on tough deal terms to avoid hurting angels.

Gino Di Sciullo, a partner at venture firm Charter Life Sciences, said his firm concentrates on first rounds for health care companies that can get to an exit on $3 million to $12 million and finds its interests better-aligned with those of angels than with most VCs.

For Canaan Partners, a 23-year-old venture firm deploying a $650 million fund, angel investors “are a very important part of our ecosystem right now” because capital requirements have forced it to invest in health-care companies at a later stage, said General Partner Wende Hutton. And as limited partners cut off funding to under-performing firms, VCs are facing syndicate risks just like angels. “There is nothing cushy about what’s going on in our quarters right now,” she said.

Also in *Dow Jones Newswire* May 7, 2010 as ‘Friend Or Foe? Angels, VCs Debate Their Relations At Annual Summit’

## Friend Or Foe? Angels, VCs Debate Their Relations At Annual Summit

SAN FRANCISCO

### Dow Jones Newswire 20100507

BY RUSSELL GARLAND

Depending on when you walked into the room, you could have heard a rousing speech on how angel investors have eclipsed venture capitalists in driving innovation or a sober discussion of why VCs and angels need to work together.

That keynote and panel at Thursday's 2010 Angel Capital Association Summit in San Francisco, on the heels of the National Venture Capital Association's annual meeting in Silicon Valley, illustrated the range of sentiments flying around as both types of investors rethink their models.

The three-day angel event drew more than 400 investors from across the U.S and nearly 50 other countries. An informal electronic poll of attendees found that 48% sometimes look for investments that subsequently will require venture capital and 55% thought relations between the two groups are okay but have room for improvement.

"It's The Angels' Time," was the title of the speech by angel investor and blogger Basil Peters, who asserted that VCs are essentially dinosaurs saddled with too-big funds at a time when entrepreneurs can create companies cheaply and quickly, sometimes over a weekend.

What these start-ups need is a limited amount of outside capital provided by angel investors who know when to exit by selling to corporations hungry for dynamic young companies whose revenue they can scale from $10 million to $100 million or more. "Yes, most angels have lost money," Peters said, but that's not surprising. "It's not easy to learn to be a successful investor."

That's changing now, he said, comparing the angel industry to where venture capital was in the early 1980s. Peters said he believes data will show that organized angel groups make better decisions. Such groups really got started in the mid-1990s, and even now only 3% to 4% of angel investors belong to them. The big opportunity, Peters said, "is to connect more angels together."

But angels sometimes need to connect with VCs, too, said the subsequent panel, organized and led by James Geshwiler, a managing director of Boston's Common Angels, who said it took him five or six years to learn how to syndicate well with venture firms.

"We made a lot of mistakes in valuations, we made a lot of mistakes in how we designed those term sheets," said Richard Sudek of Tech Coast Angels. "Back in 2000, the world was very different." Now, he said, the Southern California group spends more time thinking whether a start-up will have an early exit through M&A, another round of angel financing or a venture round.

"I think the rules are changing," said Mike Elliott, managing partner at Noro-Moseley Partners and a NVCA board member. Venture investors are willing to provide liquidity to early investors and to ease up on tough deal terms to avoid hurting angels.

Gino Di Sciullo, a partner at venture firm Charter Life Sciences, said his firm concentrates on first rounds for health care companies that can get to an exit on $3 million to $12 million and finds its interests better-aligned with those of angels than with most VCs.

For Canaan Partners, a 23-year-old venture firm deploying a $650 million fund, angel investors "are a very important part of our ecosystem right now" because capital requirements have forced it to invest in health-care companies at a later stage, said General Partner Wende Hutton. And as limited partners cut off funding to under-performing firms, VCs are facing syndicate risks just like angels. "There is nothing cushy about what's going on in our quarters right now," she said.