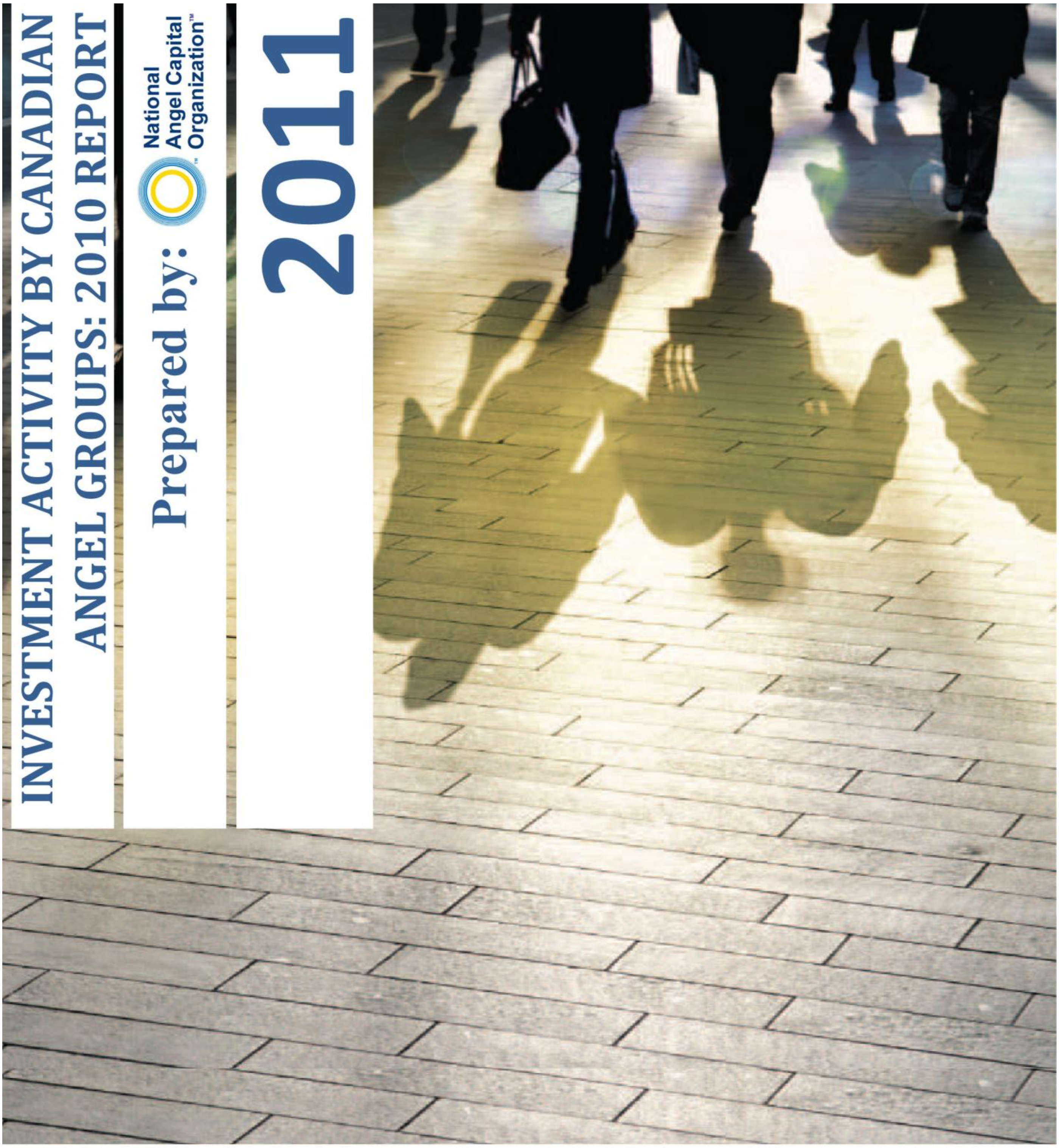
INVESTMENT ACTIVITY BY CANADIAN ANGEL GROUPS: 2010 REPORT

Prepared by: National Angel Capital Organization™

2011



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THE AUTHOR

Colin Mason is a Professor of Entrepreneurship in the Hunter Centre for Entrepreneurship at the University of Strathclyde in Glasgow, Scotland. His research and teaching are in the area of entrepreneurship and regional development. His specific research is concerned with access to finance. He has written extensively on business angel investing and has been closely involved with government and private sector initiatives to promote the business angel market, both in the UK and elsewhere. His most recent research, published in late 2010, was a study of high growth firms in Scotland for Scottish Enterprise. He was a member of the European Commission Expert Groups on Benchmarking Business Angels and Public Support for Risk Capital to Stimulate Private Investment in Innovation Oriented Research and is an honorary member of the British Business Angels Association. He was also one of the two judges for the Prince's Scottish Youth Business Trust (PSYBT) National Awards in 2010. He is the founding editor of the journal *Venture Capital: An International Journal of Entrepreneurial Finance* (published by Taylor and Francis Ltd) and Consulting Editor of the *International Small Business Journal* (Sage).

He has had a longstanding interest in Canada. He has taught at the University of Ottawa (1984) and Memorial University of Newfoundland (1985), has been a member of the British Association for Canadian Studies (BACS) since 1984, taught a one-semester course on Canadian Urban and Regional Development from 1984-1996, is a recipient of two BACS Faculty Enrichment Awards (1984, 1989), two travel grants from the Foundation for Canadian Studies (1988, 1991) and a BACS Institutional Research Program grant (2000) for research on Ottawa's technology cluster. He was a participant in the 1991 SUNY Plattsburgh Ontario Summer Seminar (for Canadian Studies teachers) in 1991. He was a Distinguished Visiting Professor, School of Management, University of Ottawa in 2004. He was the inaugural holder of the David F Sobey Visiting Professor in the Sobey School of Business, Saint Mary's University, Halifax, Nova Scotia between 2006 and 2008. He has also published research on community economic development in Cape Breton.

ACKNOWLEDGEMENTS

I would like to thank Bryan Watson of the NACO for initiating this study and inviting me to undertaking the study. As an enthusiastic Canadianist (see above) I was delighted to undertake the task. I am grateful for Bryan's support in cleaning the data and to the Steering Group for their comments and suggestions at the design stage and for their comments on an earlier draft. Special thanks go to all those groups which took the time to respond to the survey. Needless to say I am responsible for all the interpretation of the data and for any errors.

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31st March 2011

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MESSAGE FROM THE EXECUTIVE DIRECTOR

The National Angel Capital Organization (NACO) is Canada's industry association representing Angel capital in Canada. Our vision is to bring the Canadian angel community together. Our mission is to support Canadian angels as they foster the growth of the next generation of innovative Canadian companies. NACO achieves these goals through educational programs, communications activities, events and advocacy.

As Angel capital becomes more important for supporting our Canadian 'gazelles'[1] we at NACO believe that, though difficult, it is necessary for angels, entrepreneurs and policy makers to support a solid understanding of the breadth and depth of this asset class.

This study is a landmark for NACO and the Canadian Angel community. It is the first study compiled by NACO that examines the activity levels of the visible Angel community across Canada. Any of those that have tried, know that studying the Angel community is exceptionally challenging because of the difficulty in collecting primary data. We are pleased with the findings of this report and look forward to developing a robust time series of data on which to base trend analyses.

I would like to acknowledge the efforts of the author of this report, Colin Mason, Professor of Entrepreneurship in the Hunter Centre for Entrepreneurship at the University of Strathclyde in Glasgow, Scotland. His work as a researcher and founding editor of the journal *Venture Capital: An International Journal of Entrepreneurial Finance* have significantly advanced our knowledge of the workings of Angel capital throughout the world.

I also would like to acknowledge the efforts of our Research Committee who helped shape this survey and guide it to completion. This committee included:

- Shane Dolan, Industry Canada
- Paul Holness, Statistics Canada
- Guy Flavelle, Industry Canada
- Dr. Steve Gedeon, Ryerson University
- Stephen Long, Feddev Ontario
- Thomas Hellmann, University of British Columbia
- Thealzel Lee, Rocket Builders
- Ellen Farrell, St. Mary's University

As NACO's research program grows we look forward to providing our community and all of its stakeholders with an increased level of understanding of Angel activity in Canada. If you are interested in learning more about NACO's research program or becoming involved, I encourage you to contact us.

B Watson

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[1] High-growth firms experiencing growth rates of over 20 percent over at least a three year period

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EXECUTIVE SUMMARY

Business angels are becoming increasingly important as the main source of risk capital for businesses at the start-up and early growth stages. It is therefore imperative to be able to measure and monitor the investment activity of business angels.

The angel market is changing from one that is dominated by largely invisible individual angels to a more organized market in which business angel groups are becoming more prominent. Unlike individual angels who are largely invisible, business angel groups are identifiable and therefore offer the opportunity for the first time to accurately measure at least one segment of the angel market on a longitudinal basis.

This study is based on an on-line survey of angel groups which are members of the National Angel Capital Organization (NACO), the industry association representing Canadian angel capital. The survey was in two parts: questions on various aspects of the angel group and questions on each of the investments that group members made in 2010. The survey achieved an 83% response rate. However, a minority of groups only provided information on the group and did not (or could not) provide the investment-specific information.

Angel Groups in Canada

- Approximately half of the groups have been set up in the past three years, since 2008.
- The vast majority operate on the basis of individuals doing their own due diligence, sometimes with group support, and making their won investment decision. However, in most angel groups two or more angels will invest together in the same company.
- The groups collectively had just under 1500 investors. Three large groups accounted for 58% of the total. The majority of groups had fewer than 50 investors.
- The groups had a portfolio of over 250 investments. The three largest groups accounted for 55% of this total.
- In 2010 the groups collectively received around 1,850 business plans from companies seeking finance. Four groups accounted for 48% of the total. Only 14% of these business plans passed the initial screening and were considered in detail.
- The group made over 80 investments, with most groups making between one and five investments. This is equivalent to 4.5% of the overall number of business plans received but 32% of the business plans that had been seriously considered.
- Only around one-quarter of the group members invested in these businesses. The proportion was significantly higher in the smaller groups.
- Group investment trends appeared to be fairly similar to previous years.

Investments Made By Angel Groups in 2010

- The vast majority (90%) of investments were new as opposed to follow-on,
- The majority of investments (61%) were in Ontario, with a smaller concentration in British Columbia (17%). The remainder of provinces had just a handful of investments. The amounts invested by business angels are much greater in Ontario than in the rest of Canada.
- Angels invested CAN$35.3m in the 88 deals for which we have information. This is an under-estimate as some groups did not report the amount invested. Co-investors were involved in 58% of investments. They invested a further CAN$29.4m.
- The amounts invested by angels in a single deal ranged from less than CAN$50,000 to over CAN$5m, but clustered in the CAN$100,000 to CAN$999,000 range. Over half of the investments had just one angel investor while at the other extreme 30% had more than five angels.
- Angels invested in a wide range of industries but with a strong technology focus. The biggest concentration was in the ICT sector (43%), followed by life sciences (18%) and clean tech (16).
- Nearly three-quarters (74%) of investee businesses had sales revenue in 2010.

INTRODUCTION

The withdrawal of the venture capital industry from early stage investing, combined with that industry's recent contraction, have combined to increase the importance of business angels as a source of risk capital for entrepreneurial businesses. Indeed, business angels are increasingly 'the only game in town' as a source of smaller amounts of risk capital for businesses at their start-up and early growth stages, especially outside of Ontario, Quebec and British Columbia where venture capital investments are concentrated. Canadian Venture Capital Association data indicates that early stage venture capital investing has declined consistently from 2000. Investment in 2009 was just $449m, 15% of the amount invested in 2000, while a mere 150 companies raised early stage venture capital, 21% of the number in 2000. Data for Q1-Q3 in 2010 indicates a modest increase in investment activity, with 150 companies raising early stage venture capital, the same number as for the whole of 2009. However, just 29% were new investments, the remainder being follow-on investments. Given this context of a low level of venture capital investing and the increasing importance of business angels it is now imperative to be able to measure and monitor investment activity amongst business angels.

The business angel market is in the process of transforming itself from a largely invisible, atomistic market dominated by individual and small *ad hoc* groups of investors who strive to keep a low profile and rely on word-of-mouth for their investment opportunities, to a more organised market place in which angel groups are becoming increasingly significant. This has a number of consequences. First, the angel marketplace is in the process of being transformed from a 'hobby' activity to one that is now increasingly professional in its operation, with published routines for accessing deals, screening deals, undertaking due diligence, negotiating and investing. Second, since angel groups have got greater financial resources than individual investors, they have been able to make larger investments, make follow-on investments and engage in co-investing with other types of investor. And third, whereas individual angels are typically invisible angel groups are visible and accessible. This provides the opportunity for the first time to measure at least one segment of the angel market in an accurate and comprehensive manner and on a longitudinal basis.

There are various reasons for the emergence of angel groups. However, two are key. First, the withdrawal of many venture capital funds from the small end of the market has created the problem of the absence of follow-on investors. Business angels are much less able to rely on being able to pass on their investee businesses to venture capitalists to make the larger follow-on investments. Consequently, business angels now need deeper pockets, both to make bigger investments and also to be able to provide follow-on investments to their portfolio companies. The ability to provide follow-on funding is particularly important. One of the traditional problems of raising money from individual business angels is that they typically lack the financial capacity to provide follow-on funding. This forces the entrepreneur to embark on a further, time-consuming search for finance. Moreover, in the event that the need for additional finance is urgent then both the entrepreneur and the angel will find themselves in a weak negotiating position with potential new investors, resulting in a dilution in their investments and the imposition of unfavourable terms and conditions. Second, despite their apparent similarities, angels and venture capital funds have divergent motives, interests and incentives, for example with respect to return objectives and exit route preferences, which makes them uneasy bedfellows when investing in the same business. This was evident in the technology crash of the early 2000s when VCs used their superior power to crush angel investors through such practices as cram downs and liquidity preferences.

The emergence of angel groups is of enormous significance for the development and maintenance of an entrepreneurial economy. First, they reduce sources of inefficiency in the angel market. The angel market has traditionally been characterized by inefficiency on account of the fragmented and invisible nature of angels. There was no mechanism for angels to receive a steady flow of investment opportunities. They found their deals by chance. The entrepreneur's search for angel finance was equally a hit-or-miss affair. Investors and entrepreneurs both incurred high search costs.[2] This encouraged many to drop out of the market as either suppliers or seekers of finance. Attempts to overcome these sources of market inefficiency through the creation of intermediaries, such as COIN (Canada Opportunities Investment Network), which 'introduce' entrepreneurs seeking finance to angel investors, have generally been unsuccessful.[3] Angel syndicates, in contrast, are generally visible and are therefore easier for entrepreneurs to approach.

Second, angel groups have stimulated the supply-side of the market. Angel groups offer considerable attractions for high net worth individuals who want to invest in emerging companies, particularly those who lack the time, referral sources, investment skills or the ability to add value. However, many individuals who have the networks and skills to be able to invest on their own are also attracted by the reduction in risk that arises from investing as part of a syndicate, notably the ability to spread their investments more widely and thereby achieve greater diversification, and access to group skills and knowledge to evaluate investment opportunities and provide more effective post-investment support. Other attractions of syndicates are that they enable individual angels to invest in particular opportunities that they could never have invested in as individuals, offer the opportunity to learn from more experienced investors and provide opportunities for camaraderie and social interaction with like-minded individuals. Thus, angel syndicates are able to attract and mobilize funds that might otherwise have been invested elsewhere, thereby increasing the supply of early stage venture capital, and to invest it more efficiently and effectively.

Third, the range of business expertise that is found amongst angel syndicate members means that in most circumstances they are able to contribute much greater value-added to investee businesses than an individual business angel, or even most early stage venture capital funds. May and Simmons[4], leading angel syndicate practitioners in the U.S.A., comment that "when angels band together … their smorgasbord of advice and strategic services frequently makes the difference between life and death for a start-up."

Fourth there is emerging evidence that angels who are members of an organized angel group or network invest more frequently than unaffiliated angels.[5]

Angel groups are therefore now an important and growing category of investor and it is therefore appropriate that their investment activity be documented. Moreover, being visible, this is the only part of the angel market which can be accurately measured on a regular basis.

Prior research on the Canadian business angel market has primarily focused on business angels. Based on samples of convenience, and using qualitative methodologies, they have provided information on the characteristics of business angels and their investments, motivations and

[2] Mason, C. M. and Harrison, R. T., 1994, The Informal Venture Capital Market In The UK. In *Financing Small Firms*, edited by A. Hughes and D.J. Storey, pp 64-111. Routledge, London.; Wetzel, W.E. jr., 1987, The Informal Risk Capital Market: Aspects Of Scale And Efficiency. *Journal of Business Venturing*, 2: 299-313.

[3] Blatt, R and Riding, A., 1996, Where Angels Fear To Tread? Some Lessons From The Canada Opportunities Investment Network. In *Informal Venture Capital: evaluating the impact of business introduction services*, edited by R. T. Harrison and C. M. Mason, pp 75-88. Prentice Hall, Hemel Hempstead.

[4] May, J. and Simmons, C., 2001, *Every Business Needs An Angel: Getting The Money You Need To Make Your Business Grow*. Crown Business, New York.

[5] Mason, C.M. and Harrison, R.T., 2011, *Annual Report on the Business Angel Market in the United Kingdom: 2009/10,* Department for Business, Innovation and Skills, London (forthcoming). Gedeon, S.A. and Watson, B.J., 2010, *Assessment of the Activity Level and Trends of Angel Investors in Ontario*. National Angel Capital Organization. Toronto.

investment decision-making (see Appendix 1). However, there has only been one attempt to quantify the scale of angel investing in Canada.[6]

This report is the first attempt to capture and report on investment activity by angel groups in Canada. For the purposes of this report the population of angel groups is defined as members of the National Angel Organization. Its importance will be enhanced over time when it will be possible to identify temporal trends in both the supply side (number and characteristics of angel groups) and investment activity.

The National Angel Capital Organization (NACO) is the industry association representing Canadian Angel capital whose mission is to support Angels as they foster the growth of the next generation of innovative Canadian companies. It incorporated as a non-profit in 2002 to provide Angel investors with a secure environment to network and learn from their peers, as well as the opportunity to be heard collectively on national issues. By 2006, NACO had expanded its membership to include not only individual Angels but also Angel groups and networks. Currently, NACO has 30 Angel group members[7], 17 in Ontario, four in British Columbia, four in the Prairie Provinces, one in Quebec and two in Atlantic Canada. These Angel groups complement NACO's individual members.

METHODOLOGY

The survey was in two parts. The first part asked for information on various aspects of the angel group, including date of establishment, number of members, business plans received in 2010 and number of investments made in 2010. The second part of the survey asked for information on each of the investments that members of the group had made in 2010. This included whether the investment was new or follow-on funding, number of group members who invested, amount they invested, any co-investors and amounts that they invested, sector of the business and its location (province and city). However, some questions attracted few responses because they required specific knowledge of investments which survey respondents did not always possess.

The survey was undertaken online, hosted by Survey Monkey, and with follow-up telephone calls. It took places in February and March 2011. The survey yielded responses from 83% of NACO member angel groups.[8] The majority completed both parts of the survey where applicable (some groups had not made any investments in 2010). However, a minority of groups only provided the group data and did not – or were unable to – provide the investment-specific information.

This report is in two parts. The first part examines angel groups themselves. The second part reports on the investments made by these groups.

[6] Riding, A.L. and Bélanger, B., 2006, Informally Financed SMEs, *SME Financing Data Initiative*, Government of Canada; Riding, A.L., 2008, Business angels and love money investors: segments of the informal market for risk capital, *Venture Capital: an international journal of entrepreneurial finance*, 10 (4) 355-369.

[7] One member group joined during the course of this survey and was therefore not included in the measurements.

[8] We not list the Angel groups who responded by name as would risk breaking confidentiality because of the relatively small sample size.

PART 1 - ANGEL GROUPS IN CANADA

A total of 24 groups responded to this part of the survey, although not every question was answered by every respondent.

Age of Groups

Although there are a few long-established groups (e.g. VANTEC, Angel Forum, Alberta Deal Generator) around half of all groups have been established within the past three years (Figure 1). This recent growth in the number angel groups reflects both the efforts of the NACO to encourage and support new angel groups and the availability of government financial support in a number of provinces and regions.[9] Thus, a significant part of the organized angel market in Canada is fairly immature. We would expect to see this mirrored in the scale of investment activity.

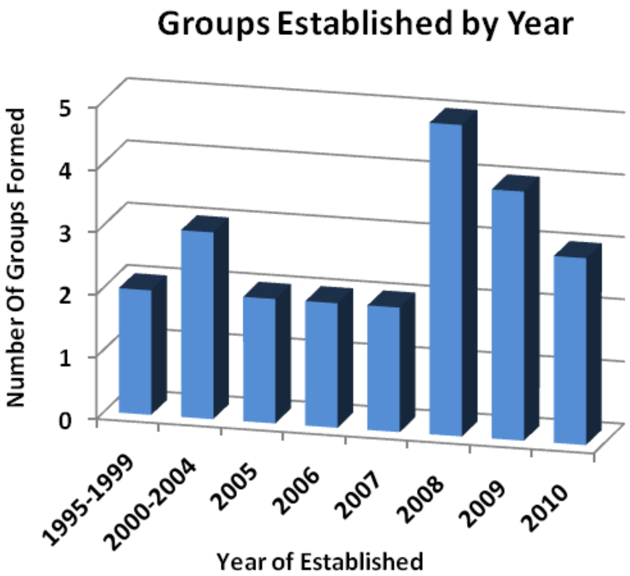

Figure 1 - Number of Angel Groups Established by Year

Method of Operation

The vast majority of groups operate on the basis of the individual members making their own investment decisions (Figure 2). However, in many cases the due diligence is undertaken on a group basis. Moreover, although individuals undertake their own due diligence several groups reported that members often organized themselves into informal groups to make investments. Just one group operated on a group basis with members required to pledge their funds to be invested on the basis of group decisions.

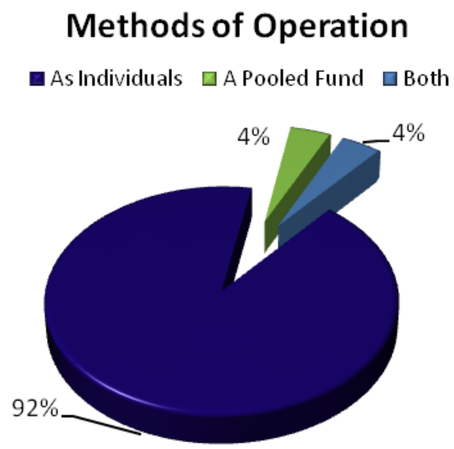

Figure 2 - Method of Investment Operations

Nearly Half of All Angel Groups Surveyed Have Been Formed in the Last Three Years

92% of all Angel Groups Surveyed have Members make Independent Investment Decision

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[9] For example, the Ontario Government set up the Angel Network Program in 2007 to fund the start up of new angel groups across the province. FedNor supports the Northern Ontario Enterprise Gateway and ACOA has supported First Angel Network Association and the Newfoundland and Labrador Angel Network. The Quebec government also recently began heavily supporting Anges Quebec.

Number of Investors

The groups collectively had just under 1500 investors. The majority of networks were quite small - very small in some cases – with fewer than 50 investors (Figure 3). However, the few large groups accounted for the majority of investors. The three biggest groups, each of whom had over 200 investors, accounted for 58% of all investors. As one would expect, the majority of group members had entrepreneurial backgrounds. Research on business angels in British Columbia reported that the attractions of joining an angel group were: to take advantage of the range of expertise of other angels in the group; to access better quality investment opportunities; and to pool resources.[10]

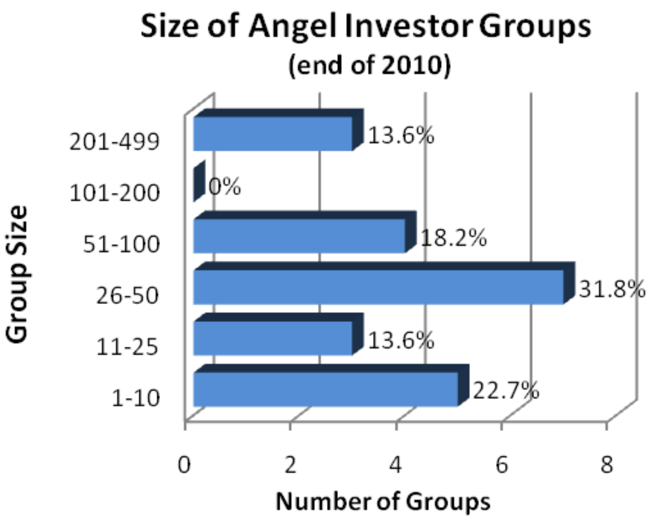

Figure 3 - Size of Angel Investor Groups

Investment Portfolios

The groups collectively have a 'portfolio' of over 250 investments.[11] The distribution is again skewed, with 55% of investments accounted for by just three, longer established, groups (Figure 4). Nevertheless, given how many groups have only been established recently, the number that have no investments in their portfolio is surprisingly small.

Approximately 1500 investors are represented by the 24 Groups surveyed and collectively have a portfolio of over 250 active investments.

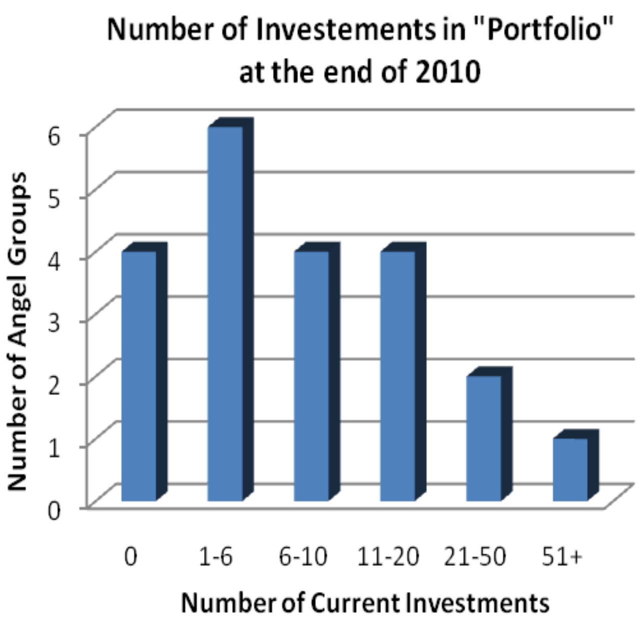

Figure 4 - Number of Active Investments

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[10] Hellmann, T., Ilyaszade, I. and Lee, T, 2010, *Angels in British Columbia: Preliminary Survey Results*. University of British Columbia.

[11] This, of course, does not reflect the total number of investments they have made as it excludes failed investments and exits.

Demand for Funding

The groups collectively received around 1,850 business plans from businesses seeking financing. For some groups the numbers were relatively small. However, four groups each attracted over 150 business plans – equivalent to 48% of the total (Figure 5).

1850 Business Plans were submitted to Angel Groups in 2010

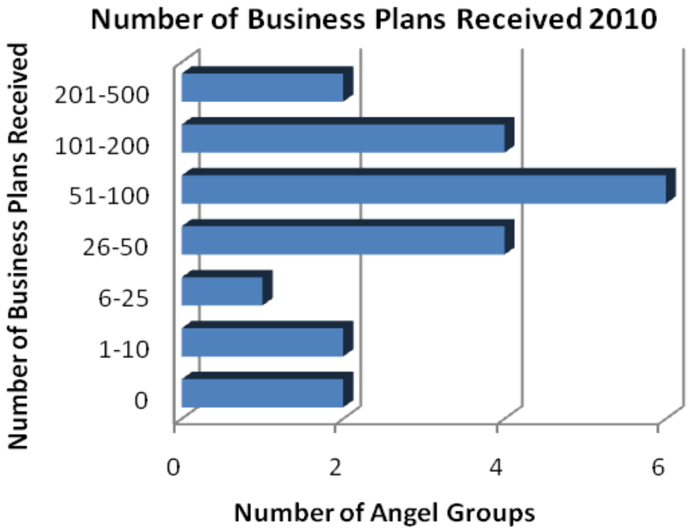

Figure 5 - Number of Business Plans Received in 2010

Investment Activity

Only 14 % of the submitted business plans got passed the initial screening process and were considered in detail by investors. Again, the numbers varied quite considerably between groups, ranging from five or less to over 20 (Figure 6).

Out of the total number of business plans submitted groups collectively invested in at least 83 businesses[12], with the majority of groups making between 1 and 5 investments.

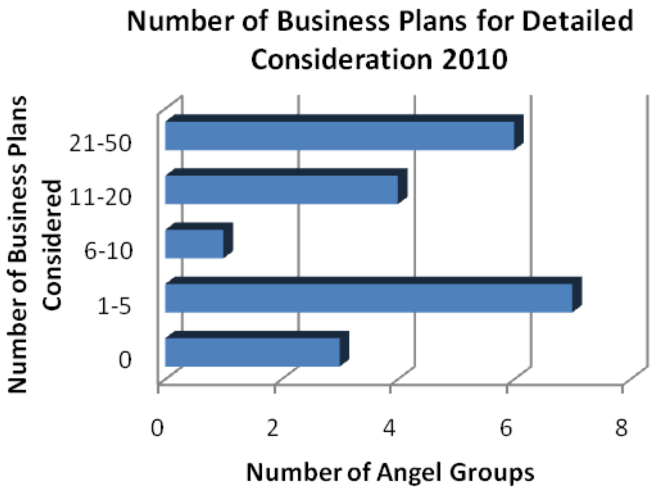

Figure 6 - Number of Business Plans Considered in Detail

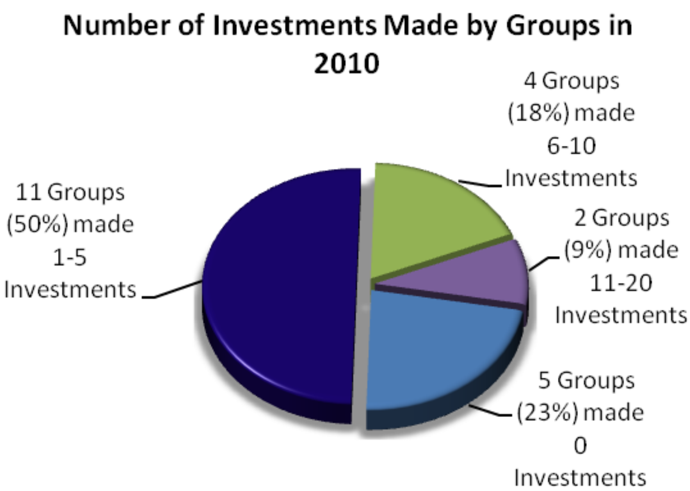

Figure 7 - Number of Investments Made by Groups in 2010

[12] We cannot be precise about this figure because some groups reported their investments in the form of 'more than'.

Thus, the yield rates were as follows[13]:

- The 'presentation rate': Business plans selected for detailed consideration as a proportion of those received: 13.9%
- The 'success rate': Business plans funded as a proportion of those considered in detail: 32.2%
- The 'funding rate': Business plans funded as a proportion of those received: 4.5%

However, in aggregate only one-quarter of group members actually invested in these businesses, although this proportion varies significantly between groups (Figure 8). The groups with the smallest numbers of members had the highest proportions of members making investments while the largest groups reported the lowest proportions. The actual number of members in each group making investments through the group is shown in Figure 9.

4.5 % of Business Plans received by Angel Groups were funded in 2010

This underlines that angel groups typically contain a significant proportion of inactive investors – although some may have invested independently of the group. Indeed, this is confirmed by the survey of business angels in British Columbia which noted that 30% reported that none of their investments came through angel groups and only 43% derived more than one-quarter of their investments through groups.[14]

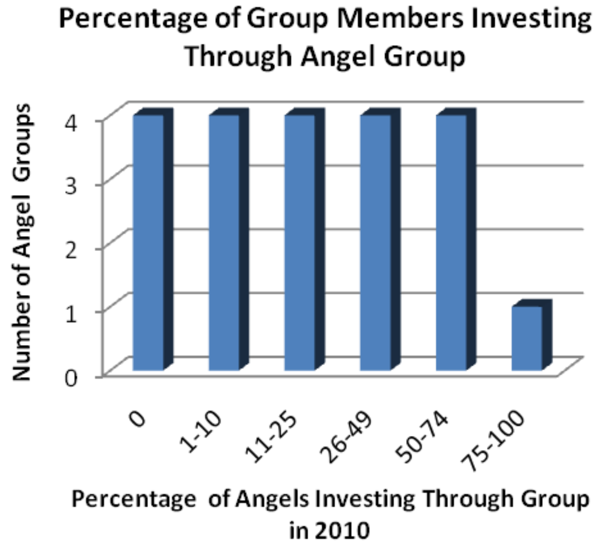

Figure 8 - Percent of Group Members Investing Through Group

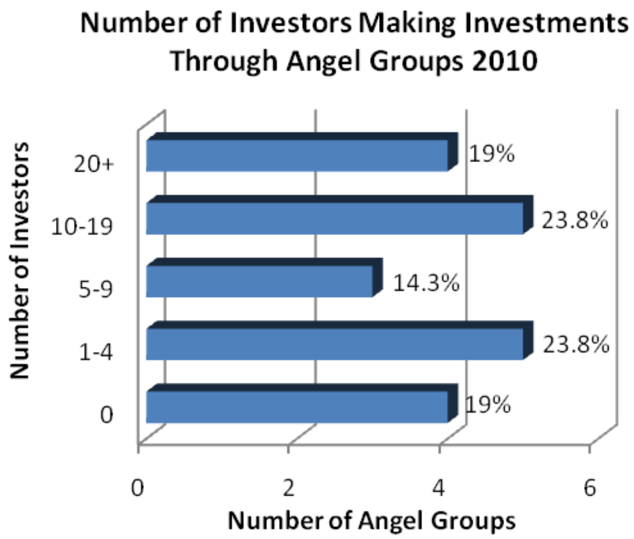

Figure 9 - Number of Investors Making Investments through Angel Groups in 2010

[13] To give some kind of benchmark for these figures the equivalent yield rates for UK business angel networks – which operate somewhat differently to angel groups – are as follows:

	2008/09	2009/10
'Presentation rate'	9.5	7.9
'Success rate'	28.3	31.2
'Funding rate'	2.7	2.5

Source: Mason, C.M. and Harrison, R.T., 2011, *Annual Report on the Business Angel Market in the United Kingdom: 2009/10,* Department for Business, Innovation and Skills, London (forthcoming).

[14] Hellman et al., op. cit.

Investment Trends

Aggregate investment activity in 2010 appeared to be fairly similar to previous years, with similar numbers of groups reporting similar, higher and lower levels of activity (Figures 10 and 11).

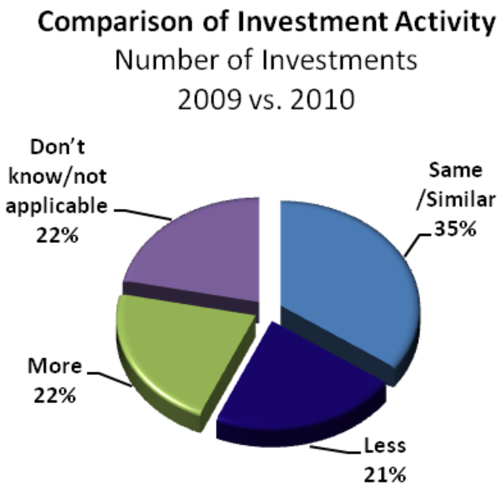

Figure 10 - Investment Comparison 2009 vs. 2010 Number of Investments

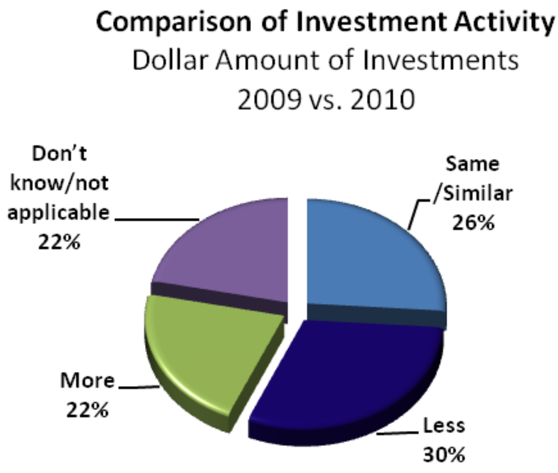

Figure 11 - Investment Comparison 2009 vs. 2010 Dollar Amount

PART 2 - INVESTMENTS MADE BY ANGEL GROUPS IN CANADA IN 2010

Fourteen angel groups provided full or partial information on all or some of their investments. A further five groups had no deals to report. The remaining five groups did not report information on any of their deals. In total 89 investments made by their members during 2010. However, two groups dominated, accounting together for 40 of these investments (45%), with 13 other groups accounting for the remainder. The vast majority – 90% - of these investments were new, as opposed to being follow-on investments.

In terms of location, 62% of investments were in businesses located in Ontario, a further 19% were in British Columbia, with only a handful of investments in the other provinces. Within Ontario, investments with known locations were dominated by Northern Ontario. All but one of the BC investments were located in the Lower Mainland.

The amounts invested by business angels are significantly larger in Ontario than in the rest of Canada.

In total the angels invested CAN$35.8m. This is an under-estimate as some of the 88 investments reported did not include the amount invested, and of course, it excludes groups which did not respond.

Over half (58%) of the deals also involved co-investors - in other words, situations in which the investment was syndicated between an angel group and other investors (e.g. venture capital fund, other angels, angel groups). Co-investors contributed a further CAN$29.4m. The same caveat regarding non-response also applies here. Co-investment between angels groups and co-investors has also been noted as being a prominent feature of the UK business angel market.[15]

[15] Mason, C M and Harrison, R T (2010) *Annual Report on the Business Angel Market in the United Kingdom: 2008/09*, London: Department for Business, Innovation and Skills.

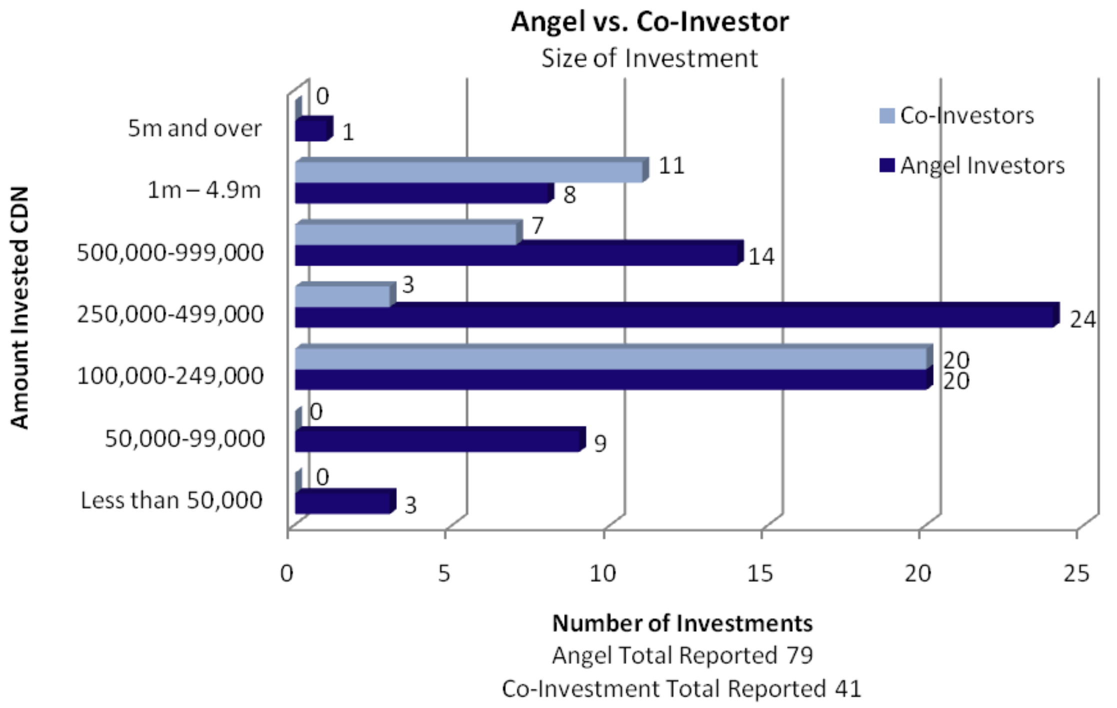

Figure 12 - Size of Sole Angel Investment and Co-Investments

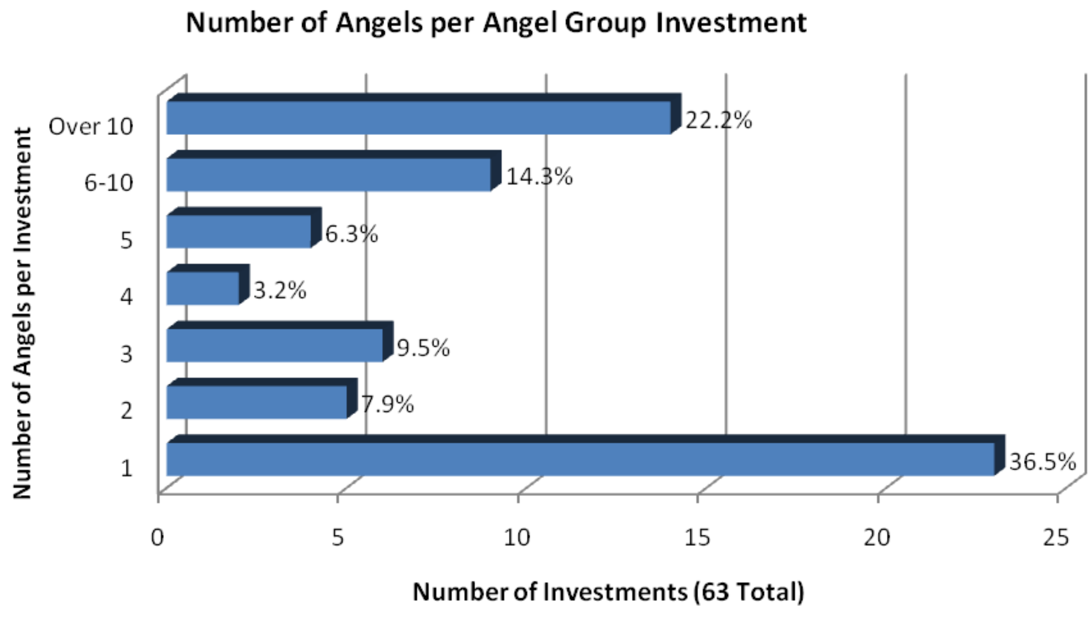

Figure 13 - Number of Angels Involved in each Investment

The amounts invested by angels range from less than $50,000 to over $5m – note that these amounts could have been invested by one or more angels – but clustered around the $100,000 to $999,000 range (Figure 12). Over half of investments had just one angel investor while at the other extreme 30% had more than five investors (Figure 13). The maximum was 20 angels investing in a single deal. Where co-investors were involved it was typically just one or two. Co-investors were of two types: those investing between $100,000 and $249,000 and those investing between $500,000 and $5m (Figure 12).

A recent survey of business angels in Ontario provides some useful comparative evidence.[16] Virtually all investors co-invested with others – angels, venture capital funds, private equity funds and government investment funds. The typical angel investment in a single company is CAN$50,000-CAN$250,000, but ranges from under CAN$50,000 to over CAN$1m. Co-investors invest three times the amount invested by angels.

Investee businesses were distributed across a wide range of industries, albeit with a strong technology focus, but with the biggest concentration in ICT industries which accounted for 43% of all investments (Figure14). Investments in the ICT sector were widely spread amongst its constituent sub-sectors, with software, electronics and computer hardware, communications and networking. Life sciences and cleantech each accounted for about 1 in 6 investments.

The majority of businesses (74%) that had raised finance from angel groups had sales revenue in 2010.

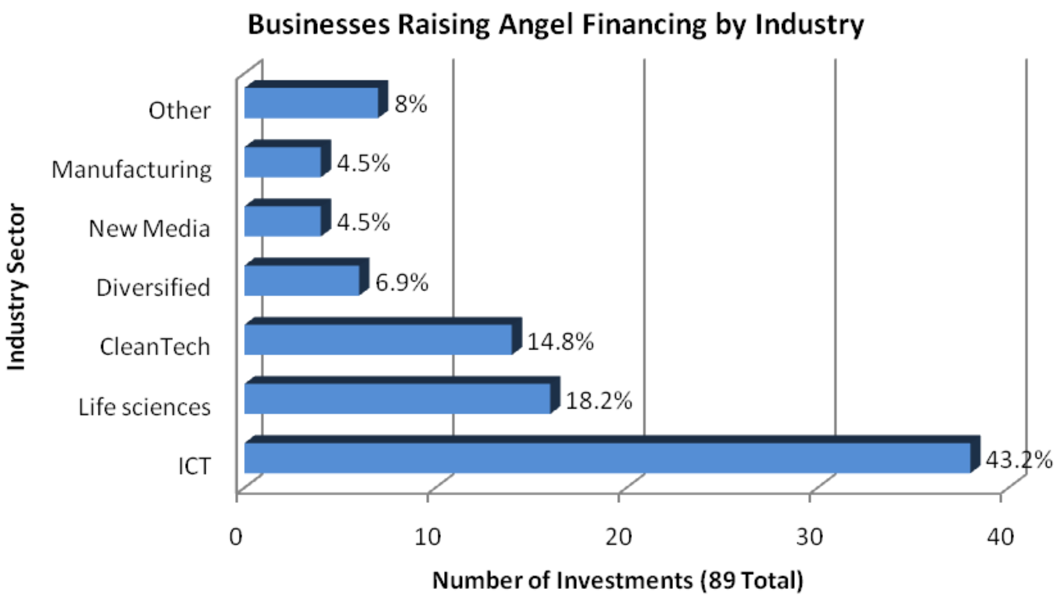

Figure 14 - Businesses Raising Angel Financing by Industry

SUMMARY

Organized angel groups are becoming a significant player in the provision of early stage venture capital in both the U.S.A. and Western Europe. With this growing importance, angel groups in Europe have also become increasingly important partners with government in co-investment schemes.[17] Although there are some long-established groups in Canada, the growth of angel groups has been very recent. This report, which is based on data provided by the vast majority of active angel groups in Canada is intended to capture the main features of this segment of the market while it is still at an early stage in development. The addition of time series data will in due course significantly enhance the value of this type of report.

[16] Gedeon, S.A. and Watson, B.J., 2010, *Assessment of the Activity Level and Trends of Angel Investors in Ontario*. National Angel Capital Organization. Toronto.

[17] Mason, C.M. (2009) Public policy support for the informal venture capital market in Europe: a critical review, *International Small Business Journal*, 27 (5), 536-556.

Most groups operate on the basis of individual members making their own decision whether or not to invest in the opportunities provided. This is very much the standard approach of angel groups internationally. But in many cases group members invest collectively.

The groups which responded have around 1,500 investors. Most of the groups are quite small, with less than 50 investors. The three biggest groups have 58% of the total.

The groups received 1,850 business plans in 2010, again skewed towards a small number of networks. Of these, 14% passed the screening process and were considered in detail, out of which 83 investments were made. That is equivalent to 4.5% of all business plans received but 32% of those that were seriously considered. Only one-quarter of angels invested in these deals.

The members of the groups invested over CAN$36m in 2010. Half of these investments had co-investors (e.g. venture capital funds) who collectively invested over CAN$29m. These figures are under-estimates as they do not take into account non-responses. Moreover, angel groups account for only a small part of the overall angel market. Factoring in non-response (estimated at CAN$5m) and assuming that angel groups account for just 10% of total angel investment activity[18] this suggests that business angels may have invested around CAN$400m, similar to the amount invested by venture capital funds in early stage businesses. However, because angels make much smaller investments the number of companies raising money from angels will be significantly higher.

Angels invest individually in around one-third of investments while at the other extreme more than one-third of deals involve more than five angels. The amounts invested by angels in individual investments ranges from under CAN$50,000 to over CAN$1m, but typically ranges from CAN$50,000 to CAN$500,000.

Angels have invested in a wide range of industry sectors, but with a strong technology focus. ICT was the most popular target, accounting for 43% of investments.

The significant decline in venture capital investments in Canada over recent years means that business angels are more than ever a key source of funding for early stage entrepreneurial ventures. Collecting data on investment activity in order to increasing our understanding of this market therefore assumes even greater significance. This report has made a contribution to this goal. It is appropriate to repeat this exercise on a year by year (or even more frequent) basis in order to monitor and identify market trends and highlight possible areas for public sector intervention. A future survey would make strenuous efforts to improve both the overall response rate and the completeness of responses and would revise the questions on the investments made to take account of what group respondents could reasonably be expected to know about the investments made by their members.

[18] The choice of 10% is based estimates for the U.S.A., the UK and Europe for the proportion of the angel market that is visible in a forthcoming OECD report.

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APPENDIX 1. PREVIOUS RESEARCH ON BUSINESS ANGELS IN CANADA

Much of the research on business angels in Canada has been undertaken by Allan Riding and his colleagues. His first study looked at angel investing in Ottawa (Riding and Short, 1989; Short and Riding, 1989). They also devised a novel approach based on the capture-recapture methodology in biology for estimating the size of populations to estimate the number of angels in the Ottawa-Carlton region (Riding and Short, 1987). Riding and colleagues followed up this work in the early 1990s with a major unpublished survey of business angels across Canada (Riding et al, 1993). This provided the basis for several published and unpublished studies of angel characteristics and angel decision-making (e.g. Riding et al, 1995; Duxbury et al, 1996; Feeney et al, 1999). Blatt and Riding (1996) also contributed an important critique of business angel 'introduction services' in the form of an assessment of the Canada Investment Opportunities Network. Further research on the Ottawa technology cluster led to a paper on angel financing of technology businesses (Madill et al, 2005). The theme of this paper on the complementarities between angel investors and venture capital funds in continued in a further paper by (Hagglund and Riding, 2009).

Riding's most recent research has focused on estimating the scale of angel investing in Canada based on data derived from the Survey of Financing of SMEs which has been undertaken periodically by Statistics Canada on behalf of Industry Canada (Riding and Bélanger, 2006; Riding, 2008).

Ellen Farrell undertook a major survey of business angels in Atlantic Canada on behalf of ACOA (Farrell, 1998). This was subsequently extended into a PhD (Farrell, 2005).

Harvey Johnstone (2001) has contributed an important, but under-appreciated paper which highlights the problems of demand-supply mismatches in angel finance in peripheral, economically depressed communities.

Robinson and Cottrell (2005) looked at the investment behaviour of private investors who are exempt under the Alberta Securities Legislation.

Recent unpublished studies have been undertaken of business angels in Ontario (Gedeon and Watson, 2010) and British Columbia (Hellmann et al, 2010).

APPENDIX 2. SURVEY INSTRUMENT

A: Background

Name of Angel Group

Survey Respondent Name and Contact Details

B: Network Details

1. How does your angel group make its investments?

- As individuals
- As a group

2. Either

How does your angel group make its investments as individuals?

Or

How does your angel group make its investments as a group?

3. How many investors were in your group at the end of 2010?

4. How many members made investments through your group during 2010?

5. What approximate number of your members are current or former entrepreneurs (people that launched a new business or run a start-up company)?

6. In what year was the group established?

7. How many investments were in your group's portfolio at the end of 2010?

8. During 2010, approximately how many business plans did your group receive from companies seeking finance?

9. Approximately how many investment opportunities were selected for formal due diligence by you investors during 2010?

10. How many investments were made through your group in 2010?

11. In terms of number of investments in 2010, compared to the average in previous years, is the level of investment: about the same, higher or lower?

12. In terms of the total value of investments in 2010, compared to the average in previous years, is the level of investment: about the same, higher or lower?

C: Investment Details

Please provide the following information for each investment that your group made in 2010.

1. Was the investment new or follow-on?

2. Amount invested by members of your group?

3. Number of your group members who invested?

4. % of equity received by your members?

5. Number of co-investors who also invested? (This refers to situations in which the investment was syndicated between your group and other investors (e.g. venture capital fund, other angels, angel groups).

6. Amount invested by co-investors?

7. Did the company have sales revenue in 2010?

8. Industry sector – choose from check list.

9. Location of the business: province or US state and city.

D: Exits[19]

1. Year of original investment?

2. Number of rounds of investment in this company by your members?

3. Total amount invested by your members?

4. Amount of cash received prior to exit?

5. % of equity sold by your members?

6. Amount of cash received by your members at exit?

7. Method of exit: check list.

8. Province/US state and city location of the business?

[19] This information was not reported because there were insufficient responses.

APPENDIX 3. Tabulated Survey Results

Table 1 – Year Groups Established

Year Established	No. Of Groups Established	%
2010	3	13.0
2009	4	17.4
2008	5	21.7
2007	2	8.7
2006	2	8.7
2005	2	8.7
2000-2004	3	13.0
1995-1999	2	8.7
Total	24	

Table 2. Methods of Operation

Method of Investing	Number of Angel Groups	%
As Individuals	23	95.9
A pooled fund	0	0
Both	1	4.2
Total	24	

Table 3. Number of investors in the group (end 2010)

Number of Investors	Number of Angel Groups	%
1-10	5	22.7
11-25	3	13.6
26-50	7	31.8
51-100	4	18.2
101-200	0	0
201-499	3	13.6
Not Reported	(2)	
Total	24	

Table 4. Number of investments in 'portfolio' at end of 2010

Number of Investments	Number of Angel Groups	%
0	4	19.0
1-5	6	28.6
6-10	4	19.0
11-20	4	19.0
21-50	2	9.5
51+	1	4.8
Not Reported	(3)	
Total	24	

Table 5. Number of Business Plans Received by Angel Groups in 2010

Number of Business Plans Received	Number of Angel Groups	%
0	2	9.5
1-10	2	9.5
11-25	1	4.8
26-50	4	19.0
51-100	6	28.6
101-200	4	19.0
201-500	2	9.5
Not Reported	(3)	
Total	24	

Table 6. Number of Business Plans Selected for Detailed Consideration (2010)

Number of Business Plans Considered	Number of Angel Groups	%
0	3	14.3
1-5	7	33.3
6-10	1	4.8
11-20	4	19.0
21-50	6	28.6
Not Reported	(3)	
Total	24	

Table 7. Number of Investments Made by Angel Groups in 2010

Number of Investments Made by Angel Groups in 2010	Number of Angel Groups	%
0	5	9.1
1-5	11	50.0
6-10	4	18.2
11-20	2	9.1
Not Reported	(2)	
Total	24	

Table 8. Proportion of group members making investment through the group in 2010.

Proportion of Group Investors Investing Through the Group in 2010	Number of Angel Groups	%
1-10	4	19.0
11-25	4	19.0
26-49	4	19.0
50-74	4	19.0
75-100	1	4.8
Sub-total	21	100
No investments made	4	-
Did not Report	3	-
Total	24	

Table 9. Number of investors making investments through the group in 2010

Number of Investors Making Investments in 2010	Number of Angel Groups	%
0	4	19.0
1-4	5	23.8
5-9	3	14.3
10-19	5	23.8
20+	4	19.0
Did not Report	(3)	
Total	24	

Table 10. Comparison of investment activity in 2010 with previous years

How Groups Invested in 2010 Compared to 2009	# of Groups by Number of investments	# of Groups by Dollar Amount invested
Same/similar	8	6
Less	5	7
More	5	5
Don't know/not applicable	5	5
Did not Report	(1)	(1)
Total	24	24

Table 11. Size of investments

	Angels		Co-investors	
Amount invested $CAN	Number of Investments	%	Number of Investments	%
Less than 50,000	3	3.8	0	-
50,000-99,000	9	11.4	0	-
100,000-249,000	20	25.3	20	48.8
250,000-499,000	24	30.4	3	7.3
500,000-999,000	14	17.7	7	17.1
1m – 4.9m	8	10.1	11	26.8
5m and over	1	1.3	0	-
Sub-total	79		41	
Missing/not applicable	(10)		(48)	
TOTAL	89		89	

Table 12. Number of angels in angel group investments

Number of Angels in the Investment	Number of Investments	%
1	23	36.5
2	5	7.9
3	6	9.5
4	2	3.2
5	4	6.3
6-10	9	14.3
Over 10	14	22.2
Sub -Total	63	
Did not Report	(26)	
Total	89	

Table 13. Industry Sector of Businesses Raising Finance for Angel Groups

Industry	Number of Investments	%
Information Technologies and Communications	38	43.2
Life sciences	16	18.2
CleanTech	14	14.8
Diversified	6	6.9
New Media	4	4.5
Manufacturing	4	4.5
Other	7	8.0
Total	89	

For more information, about our research and advocacy programs or to contribute to the Investment Activity by Canadian Angel Groups: 2011 Report, please contact NACO at:

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