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'Super Angels' Alight

No Longer Flying Solo, Big Investors Attract Others to Juice Start-Ups

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Much of the venture-capital industry is undergoing a shakeout. But a growing breed of start-up investors dubbed "super angels" is rapidly raising new money—and ratcheting up competition with established venture capitalists in the process.

Aydin Senkut, a former Google Inc. executive, plans to announce that he just closed a $40 million super-angel fund from institutional investors and wealthy individuals including hedge-fund manager Peter Thiel. His fund follows a $20 million super-angel fund by start-up investor Ron Conway in May and an $8.5 million fund from by former Google executive Chris Sacca in June.

Meanwhile, former PayPal Inc. executive Dave McClure is raising a $30 million super-angel fund, according to a regulatory filing. And super-angel investor Mike Maples, who raised a $33 million fund in 2008, is raising a new $73.5 million fund, according to a regulatory filing.

Many super angels started out just as mere angels, wealthy current and former Silicon Valley entrepreneurs and executives who invest their own money in technology start-ups.

What elevates super angels into an unofficial upper class generally is the magnetic effect their participation in a deal has on other investors—a main reason entrepreneurs like to do business with them.

And for super angels, investing has evolved into something more than a hobby. These players are now raising funds with outside money, investing full time and competing with VCs.

While their funds tend to be small, super angels have had an outsize impact on Silicon Valley. As many traditional venture capitalists retreated after the tech bust last decade, super angels filled the gap, investing small amounts of $25,000 to $1 million in dozens of new start-ups such as Facebook Inc., Mint.com and Zynga Game Network Inc. Super angels also work with established venture capitalists to bring them new deals.

As these micro-cap venture capitalists now raise their own funds—giving them more ammunition to participate in later financing rounds of a start-up—they are siphoning off more investment deals and fund-raising dollars from larger venture firms.

Judith Elsea, a managing director at Weathergage Capital, a $250 million fund-of-funds firm that invests in venture funds, says she recently invested in Mr. Senkut's new super-angel fund and has also put money into Mr. Maples's super-angel fund—at the expense of traditional venture funds.

"It's been pretty spotty" performance from regular venture funds, says Ms. Elsea. So "we have material exposure to several of these [super angel] managers."

Investing in super-angel funds can pose risks in that they typically invest in far-less-proven start-ups than venture capitalists do. And unlike venture capitalists, who have hundreds of millions to invest, super angels generally don't have enough money to fully fund a company to fruition.

Still, super angels are increasingly jockeying with established venture capitalists for stakes in start-ups. Geoff Yang, a venture capitalist at Redpoint Ventures, which closed a $400 million fund earlier this year, says his firm has been "squeezed" into a smaller ownership share in some investments because super angels wanted a bigger slice of the deal. While angels have brought many new start-ups to Redpoint's attention, "every [venture capitalist] is trying to figure out what their strategy is" with them, he says. "Are these guys friend or foe?"

Some start-up entrepreneurs say super angels have thrown them lifelines they couldn't secure from venture capitalists. Ryan Howard, chief executive of San Francisco online health-care start-up Practice Fusion Inc., says venture firms turned him down in 2008. They "want no risk," he says.

Super angels wrote Mr. Howard checks for $25,000 to $100,000, so that he was able to raise $1 million by early 2009. "Their network is mind-blowing," says Mr. Howard, whose firm raised a venture round from Morgenthaler Ventures late last year.

The super-angel activity contrasts with the rest of the venture industry, which is winnowing out after a decade of poor returns amid a lackluster initial-public-offering market for start-ups. The number of active venture firms is nearly one-third less than the 1,326 in 2000, according to research firm VentureSource.

Super-angel Mr. McClure says he tends to make dozens of small start-up bets and can comfortably make money if just a few of the start-ups are bought by larger acquirers for less than $100 million.

In contrast, big venture funds—often sized at several hundred million dollars and up—need bigger paydays to turn a profit on their huge funds.

"We have a whole different set of exit criteria," says Mr. McClure, whose biggest exit to date is Mint.com, the financial website that Intuit Inc. bought late last year for $170 million.

Mr. Senkut, who has invested in more than 60 start-ups as an angel investor since 2005, says he raised a super-angel fund because he wants to shift from being a minority investor in start-ups to taking majority stakes more often. With the new fund, the 40-year-old is growing from a one-man shop to a larger operation by hiring two staffers.

Having seen 10 acquisitions of start-ups in his portfolio over the past year—including Mint.com to Intuit and social search service Aardvark to Google Inc. for $50 million in February—Mr. Senkut says he is exiting from his start-ups three months to three years after the initial investment. By contrast, most venture-backed companies now either go public or get sold after a median time of 9.4 years, according to VentureSource.

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