



Where angels love to tread

FOR A WHILE, IT LOOKED LIKE the global economic and financial crisis that began to unfold in 2008 would severely disrupt Israel's dynamic entrepreneurial energy. In the past start-ups relied crucially on venture capital (VC). As the world shifted in bipolar fashion from an excess appetite for risk to a fierce neurosis against taking any risk, VC funds in Amer-

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ica and in Israel dried up. Like an irrigation pipe, if nothing goes into the VC pipe from investors, nothing comes out for start-ups. There was a severe money drought.

In the US, in 2010, VCs raised only \$12 billion, one-eighth the amount they raised in 2000. In Israel, VCs raised 40 percent less funds in 2010 than in 2008. The year 2011 was only slightly better.

But help is at hand. A different type of investor is springing up to replace VCs, known as angels. Angels have been around since the dawn of history. But their role is rapidly growing in importance, they are becoming increasingly professional and they are beginning to work together.

Unlike VCs, who invest other people's money, angels invest their own. They take a smaller chunk of a start-up's common stock than VCs, are more patient and bring hands-on start-up experience to the table. Most of them invest the money they themselves made by selling successful start-ups.

Israel has some 30 angel investors and they are filling part of the vacuum left by the decline of venture funds. They have invested some \$75-\$100 million over the past two years in about 150 start-ups, out of some 500 that were born. Each investment averages around \$100,000-\$150,000,



people." Vardi focuses his investments on Internet-based businesses that can be launched with minimal initial funding.

"VCs and angels are totally different," he explained. "Angels are willing to take higher risks, invest much earlier and take stock on much more favorable terms." He says that angel investing is suitable for early-stage Internet businesses, where "in the last 10 years funding requirements shrank amazingly."

"We have investments from two of the 10 leading angels in Israel," Frenkel told *The Jerusalem Report*. "We chose to go with them for the mentoring. We meet them monthly, brief them and get advice and discuss strategies. They supply connections. They believe in us and let us know that. They show patience and support – and criticize when needed, of course."

Frenkel explained that unlike the heyday of lavish VC funding, today's start-ups are lean. "We don't believe in surveys or focus groups," he said. "We build a minimal viable product, deploy it to the users and see how they react. We then choose what to keep and what to fix. That way, the product is built according to the users' needs – minimizing redundant expenses. Hence the angels' investment lasts longer."

I believe that the sparse funds available to start-ups today actually stimulate creativity and create a strong sense of time-to-market urgency. As Jaime Lerner, the former Jewish mayor of Curitiba, a Brazilian city, once said, if you want creativity, knock two zeros off your budget.

Angels love to tread where VCs fear to approach – in risky early-stage 'seed' investments. And because it's their own money, they track closely how it is used. Each year, new angels are born, as exit money from the sale of start-ups accumulates and is recycled. I hope Israel's start-up scene will thrive on this important change in entrepreneurial finance. ●

in return for about a quarter of the start-up's shares. (VCs invest, on average, \$1 million.) This sounds like small change, but it isn't, because many start-ups today are Internet businesses, where the required initial investment is quite small. Some angels band together to pool their funds.

I spoke with a leading angel investor, Yossi Vardi, and with an entrepreneur, Lior Frenkel, who got angel funding. Frenkel is a co-founder of Moovu, a "cloud-based platform for sharing, saving and organizing online videos."

Vardi is known as the godfather of the Israeli high-tech industry. Over the years he has made an estimated 100 investments in start-ups. Vardi supplied the initial funds for his son Arik's (and partner Yair Goldfinger's) start-up Mirabilis, which invented instant messaging and was acquired by AOL for \$408 million. Today, Goldfinger is a major angel investor.

"I don't choose companies," Vardi stressed. "I don't choose ideas. I choose

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