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Angels To VCs: Please Don’t Send Us Your Leftovers

Relationships between angel investors and venture capitalists are not always smooth, but when the two are competing to invest in the same startups – which happens more frequently now that hot young tech companies need less money to get going – interactions can get tense.

Angel investors speaking on a panel last night at an event hosted by Morgenthaler Ventures in San Francisco came up with several venture capital no-no’s during the evening.


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The angels were Mark Sugarman, founder of MHS Capital, a $35 million early-stage venture fund backed by technology executives and entrepreneurs; Manu Kumar, founder of K9 Ventures, which has a $6.25 million fund backed by individuals and family offices; and Nils Johnson, an angel investor and entrepreneur.

Here’s their list.

- **VCs send us their leftovers**. Says Sugarman:
“We send our deals to firms when they’re ready, but firms don’t send deals to seed guys. I’m surprised at how few established funds send seed guys deals on a regular basis. You’d think that for deals they’d consider funding in the future — if there’s an appropriate market size and a high-quality team but still some uncertainty – they’d send those, but they don’t send those over. It’s the ones where the market died, or they’d never invest.”

- **VCs try to push us out of deals**. Says Johnson: “Sometimes if the entrepreneur is not kicking and screaming, it’s really competitive. Power is shifting, rounds are smaller, and that motivates the venture community to want to get in to early stage rounds…(Not all angels do follow-on rounds, but) why wouldn’t I want to invest at a $20 million or $100 million valuation? When big VC firms show up and do the round and take all of it and don’t want to make room for existing angels, we fight back and work our way back into the round.”

- **VCs try to control the terms**. Says Kumar: “I met with a company that had a term sheet from a big VC who wanted super pro rata, so when the company does a Series A, the VC owns 20% at that stage. That’s a total non-starter — entrepreneurs are getting smart enough to realize that and (in this case) pushed them out of the deal. VCs have to be careful they’re not messing up future financing in return for investing in the deal first. Also in terms of valuations being set, most of the bigger firms are less sensitive to valuation, but they get a bigger chunk of the company in a follow-on anyway. They can screw up the valuation at an angel level.”

- **VCs don’t work hard enough**. Says Johnson: “As an angel I’m spending Saturdays and Sundays helping the entrepreneur and the VC is doing nothing between the time he writes the check and ‘Let us know when there’s a Series A.’”… Be helpful — those are the VCs I work with as an angel.”

- **VCs have to teach founders how to work with a board**. Says Kumar: "I try to make sure there's a board in my deals… Large venture funds don't realize they're dealing with first-time entrepreneurs. They expect a board packet. I've had several situations where I've given sample board packets to entrepreneurs and said, 'Do this.' I'd love to see institutional VCs realize that founders have a learning curve. VCs have the responsibility to teach founders how to work with a board."

Angel investors and venture capitalists – do you have your own gripes? Please add them in the comments section.