
Early-stage businesses run on angel power

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Every year thousands of new American businesses get a chance to thrive under the protective wings of angel investors. Who are these angels and why would it be good for the Mid-Columbia's growing technology community to have its own flock of angel investors?

Bill Payne of the Kauffman Foundation addressed these questions and more at the Tri-City Industrial Development Council's October luncheon. Payne said the main funding sources for new companies are friends, family and "fools," plus angel investors and the large venture capital funds. Government grants and state and local programs play a lesser role.

Friends, family and fools are primary supporters of new companies, investing \$100 to \$5,000 each in a friend or family member. Most are not business-savvy and remain passive investors. Venture capital funds are run by professional managers who invest millions of dollars into a large portfolio of more mature companies, not startups.

What is an angel?

An angel investor himself, Payne said two attributes distinguish angels from other investors. First, angels invest their own money. They generally are professional investors who maintain a portfolio of around 10 companies assembled over time to mitigate the high risk of investing in new companies.

The Securities and Exchange Commission criteria for an accredited investor is a net worth of \$1 million, annual personal income of \$200,000 or family income of \$300,000. Payne recommends a higher net worth because "most of your return is going to come from one or two companies out of every 10." A 25 percent average return on your entire portfolio is an appropriate objective, he said, since the two successful investments must achieve much higher returns to compensate for the other eight.

Nate Silverman, manager of the Washington Technology Center's Angel Investor Network, said that individual angel investments usually range from \$20,000 to \$100,000, depending on expected return, personal interests and other factors. Angels also invest time in their portfolio companies. They are heavily engaged in such activities as mentoring and coaching, serving on boards and making business connections. "Entrepreneurs often say that the business acumen angels brought to their companies was worth at least as much as their invested capital," Payne said.

Who are these angels?

Angels tend to be former entrepreneurs or retired business persons who invest in local firms. "It's a very active form of investing. You're not just watching markets go up and down," Payne said.

Beyond financial gain, some angels enjoy helping entrepreneurs or giving back to a community or university. Others want to stay engaged, using their skills and experiences to help build businesses.

"Angel investing is not easy, nor is it charity," Silverman said. Many angels have joined formal organizations that ease the burden of flying solo. "Through these groups, angels share knowledge, have access to more opportunities and participate in programs for making wise investment decisions," Silverman said. "Angel organizations also have fostered a robust system that has standardized the investing process and attracted venture funds as partners," Payne said. As a company matures, angels measure their contribution and exit at the appropriate time. "There are always new companies that will gain from the angel's service," he said.

Angels benefit communities

"Angels fill an important role in the economy because only they can and will invest in young, fast-growing entrepreneurial companies," Silverman said. "In 2003 venture firms invested in fewer than 500 startups in the United States, while angel investors funded around 40,000."

"Angels invest in seven to 10 percent of all startup companies, and they only choose companies that are expected to grow 20 to 30 times in value in five to seven years," Payne said. These companies create high-paying jobs, he said, "and the wealth from angel investing spawns an even greater number of companies, which further fuel the economy."

Angels in the Tri-Cities?

Seattle-based Roger Girard, chief executive officer and chairman of IsoRay Medical in Richland, is both an angel and a recipient of angel funds. "Tongues are wagging about IsoRay's new cancer treatment," Girard said. "What most people don't realize is that most of our financing has come from a large network of outside angel investors."

Although these investors are bringing new resources to the Tri-Cities, Girard agrees with efforts currently under way to establish a local technology-focused angel investment group. "Angel groups take time to develop, but when they succeed, the entire community benefits," Silverman said.

Gary Spanner, manager of Pacific Northwest National Laboratory's Economic Development Office, noted that the Kauffman Foundation presents full-day angel investing workshops throughout the nation. "PNNL will sponsor and heavily subsidize one here if there is sufficient interest," he said. In addition, the workshops will be offered at full price (about \$300) in Seattle on Feb. 4 and in Spokane on March 4.

For more information about a Mid-Columbia angel investment group, contact Spanner at 372-4296, gary.spanner@pnl.gov. Payne's presentation is available at

http://www.pnl.gov/edo/documents/angel_investing_oct2004.ppt. Silverman can be reached at nates@watechcenter.org, 206-616-7153.