Barry Moltz

Angels Over Alaska: a guide for investor groups

by Tim Pearson

"There must be a seven rolling for me somewheres."
--*Angels Over Broadway by Ben Hecht*

Chicago angel investor Barry Moltz was in Anchorage (www.barrymoltz.com) to visit with APU instructor Rick Wolk's Entrepreneurship class. They're using Barry's book You Need to Be a Little Crazy as a text. A dinner group gathered to hear Barry talk about angel investing and to discuss its application to Alaska.

Not familiar with angel investors? They're, well, financial angels. The term comes from the Broadway angels who financially back theater shows in New York – an inherently risky business.

Three years ago there were no formal angel investor groups in Chicago. Now there are five. Barry himself heads up Prairie Angels (www.prairieangels.com) and serves on the steering committee of Angel Capital Alliance (www.angelsummit.org), a national angel association.

There are about 200 angel groups in the U.S. The angel market is estimated to be $100 billion in the U.S. – twice that of the institutional venture capital market at $48.3 billion. The SBA estimates 250,000 angels contribute $20 billion annually to 30,000+ private companies.

The role of angels in the financial ecosystem is unique. They provide bridge funding to entrepreneurs who need money to develop prototypes before going to venture capitalists or institutions for more funding. Angels themselves are usually serial entrepreneurs, not bankers or venture capitalists, who have been successful and enjoy the energy that comes with start-ups. They may also have second or third generation wealth.

Angels provide a significant source of entrepreneurial funding. A 2003 global survey of entrepreneurial activity by the Kauffman Foundation found that funding for 99% of startups was from informal investors (family, friends, fools and angels), not venture capital funds.

In 2002, Kauffman also found that 4.6% of adults in the U.S. were informal investors – the highest rate among the G7 industrialized countries.

So how do angel groups work? According to Barry, there are two kinds: member-managed and professionally managed groups. Member-managed groups, such as his, meet bimonthly or quarterly and work as a collective, an LLC. Everyone pays a $500/year membership fee and pledges to make a $25,000/year investment.

Professionally managed groups may pay a $5000/year membership and then pay a professional to manage their investments. The manager receives a percentage of the profits.

There can also be side-car funds – out of 30 members, ten may decide to each put in $100,000 into a $1.0 million fund. If at least eight decide to make an investment, they invest.

Members of Barry's group all came from referrals. They look for knowledge, skill, and level of interest when evaluating new members.

His group numbered 60 in 2003, but some wanted a networking group; others wanted an investing group. They then decided to be an investing group and of the 60, 30 rejoined with a single focus and even more energy.

Prairie Angels typically looks at 100 deals a year and invests in three. So far they've committed $2.0 million to seven companies.

Barry's personal motivation for joining was to learn, to give back to the community and to invest. He recommends that one only use Las Vegas or mad money and in ten years he hopes to break even. He considers the asset class to be that of junk bonds. The typical rule of thumb is that one deal in ten does well enough that to cover the losses of the other nine. Again, it's about the learning and giving back.

Prairie Angels operates with a $50,000 budget and charges $125 for an entrepreneur to present their business plan. (Other groups in the U.S. may charge $295 to $5000 for a presentation fee.) The presenter is assigned an angel plus an MBA student to prepare for their presentation. Presentations run for 15 minutes followed by a 15 minute Q&A session.

The meetings may also have a sponsor who pays a sponsorship fee of $2000. Food is important. Libations are crucial. At year-end, $10,000 of their budget is given away to charity.

So who do they invest in? Only in companies within their geographic region – Chicago and the Midwest.

And how do angels make the investment decision? According to Barry, "It's an emotional decision; it's not rational. I do it because I know my [investor] friends." It boils down to trust.

What is the hardest part of starting an angel investor group? Getting started . . . because now there is no rush to do deals. In the roaring 1990's everyone was rushing to do deals. Now however, you have to build urgency and you need accredited investors ($1.0 million net worth or $200k individual annual income). They need to be committed to investing and to contributing 2-4 hours per month to the group.

And what about angels in Alaska? The evening's consensus was that Alaska does have groups of 2-3 investors who work together, but no formal angel groups.

Looking for a place to start?

Connect with: Allan Johnston (allan.johnston@wedbush.com) of Wedbush Morgan. Allan is a connector without peer. He really believes good people ought not be strangers. No rolodex should be without him. Ask him to lunch.

Visit: www.alaskainvestnet.org. Alaska InvestNet is a nonprofit that connects ideas with money and money with ideas.

Read: State of the Art: An Executive Briefing on Cutting-Edge Practices in American Angel Investing, (2003).

Alaskan angels do have a golden history. Miners running for the 1899 goldfields were backed by investors who put up grubstakes – money for food and equipment -- in return for shares in a claim. 105 years later, angel investing still comes down to a roll of the dice: Who do you back? And will they be lucky? Good luck!

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