

## **ANGEL NETWORKS: A BETTER MOUSETRAP**

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Around the world, we are seeing the rise of a new and vibrant form of investing activity: networked angel investing. This article provides some context and outlines the rationale for the growth in this form of investing, and ends with an invitation to those who would like to know more.

### **Proud Heritage, Enormous Scale**

Angel investors are not a new phenomenon. With a long heritage, angel investors, or business angels have provided seed capital and advice to would be entrepreneurs for as long as people have collaborated to form commercial enterprises. Prior to the development of joint stock companies and then public markets, most commercial enterprises relied on rich and knowledgeable people for their initial funding. More recently, the rise of organized venture capital funds has tended to push the angels out of the limelight. However, while less visible they have not gone away. Indeed, the National Venture Capital Association of America believes that over the last thirty years angels have invested twice as much into early stage companies as the venture capital funds that have been most visible in the popular consciousness. A recent article in the Economist quoted the Center for Venture Research which estimates that there are 350,000 angels investing \$30 billion in 50,000 ventures each year in just the US. Worldwide the numbers are much larger but are hard to estimate.

### **The “Typical” Angel Investor**

Angel investors are a diverse group of people. Some are former entrepreneurs, many are corporate executives or professionals with relevant expertise in areas such as law, accounting, banking etc. Some are fortunate to have a history of family wealth or are spouses with the responsibility to manage their family’s investments. Some are professional investors acting as angels in their spare time. Angels tend to be self directed investors, investing their own money in areas that interest them. Most enjoy advising and assisting the entrepreneurs that they back. Angels are, and need to be, patient. Typically, they expect to hold on to their investments for five to seven years (although some angels wish to "cash out" after only a few years, and some classes of investment allow them to do so). And Angels tend to have confident and risk taking personalities; they operate in an environment in which high returns are married with high levels of risk.

### **The Angel Investor’s Challenges**

Angel investors face a common set of challenges. Acting alone most angels:

- Do not see a consistent flow of good quality deals. They see only what they come across through their own contacts and relationships

- Have limited capability to conduct the breadth of due diligence that an early stage investment demands
- Must base their decisions more on intuition than on fact. They just don't have the time to go deep in understanding a company and its prospects
- Do not have the negotiating leverage to set ideal valuations and terms and conditions
- Post investment, lack the breadth of capabilities and network to really assist their entrepreneurs grow their companies, and increase the return to the angel's investment

Notwithstanding these challenges, the vast majority of angel investing is undertaken by individuals acting alone.

### **A Better Mousetrap**

Around the world, we are seeing the rise of a new and vibrant form of investing activity: networked angel investing. In this model, angels come together to work collaboratively. The angels share deal flow, conduct due diligence together, negotiate as a group and then work hard to bring their combined capabilities and network to rapidly grow the companies in which they have invested. First, the angels worked together in single location clubs or forums such as at Band of Angels founded in 1994. More recently, as innovation has become more of a networked phenomena and as communications technology and practice has become ever more effective and low cost, so these single location angel groups have combined to form multi location, international networks. These networks allow angels in various parts of the world to collaborate in sharing deal flow, and combine the wisdom of a growing crowd to make better investments with an increased likelihood of success.

### **An Invitation To Learn More**

Keiretsu Forum is the largest of these new angel networks, with more than 500 angels in 11 chapters on three continents. If you are interested in learning more, and if you are an accredited investor, then we would like to invite you to visit a Keiretsu Forum meeting to see just how this works in practice. Please contact [matthew@keiretsuforum.com](mailto:matthew@keiretsuforum.com) or call (415) 994 4320 at your convenience.

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