

High-risk companies hope to be touched by an angel

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When Maria Maccacchini sold her genomics company in 2001, she faced a problem — she had plenty of money and a lifetime of entrepreneurial experience but nothing to do.

So she became an angel.

Not the sort with wings, of course. Not of the Florence Nightingale variety either.

Rather, she decided to become one of the independently wealthy investors that form the backbone of the financing for small, high-risk startup companies nationwide — dubbed “angels” in the business world.

She decided to do it by joining one of the burgeoning number of angel groups, which are networks of like-minded investors popping up across the country, particularly in the Philadelphia area.

“I didn’t quite trust myself to make investments on my own and I just felt if there were more people, you have a more rational approach to [investing in] a company,” said Maccacchini, now a member of the Robin Hood Ventures group of Wayne.

There are at least 20 angel groups of various sorts in the Delaware Valley, and perhaps 200 nationwide. Typically, they are loosely organized groups of former entrepreneurs interested in combining their capital and expertise to make better decisions on which startup companies are worth backing, usually in high-risk industries, such as biotechnology or computers.

The groups are playing an increasingly important role in helping small companies start up and survive the precarious period between when the initial funding runs out

and when the company has grown large enough to attract the interest of large, established venture capital funds.

“There is a huge capital shortage for early-stage companies,” said Chris Starr, executive director and founder of the Mid-Atlantic Angel Group Fund, the region’s first formal fund backed by angels.

Angel groups tend to invest in fairly small amounts — from perhaps \$250,000 up to perhaps \$2 million. These small investments promise too little return to attract the interest of big venture capital funds, but can spell the difference between disaster and success for small companies.

Investors say the groups have a number of important advantages, including a convenient forum to review and discuss business plans, combine their investments and share expertise.

It’s difficult to tell exactly how much money is flowing through angel investments in the area. Members of local groups estimate that there are perhaps 100 such investors in organized groups.

The 200 groups nationwide represent about 5,000 investors, according to the Angel Capital Association, a new umbrella organization representing about half of the groups nationwide. The average group has 43 members and is only about four years old. The average investment is around \$350,000.

The association estimates that its member groups invested about \$200 million last year.

That’s still a fraction of the overall angel



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Chris Starr, executive director and founder of the Mid-Atlantic Angel Group Fund, said early-stage companies face significant capital shortages.

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investing market. According to the Center for Venture Research at the University of New Hampshire, about 225,000 angel investors pumped about \$22.5 billion into startup companies in 2004, up about 24 percent from the previous year.

Center Director Jeffrey Sohl said formal angel groups have become more popular in the last decade but, in most cases, are just putting names on informal networks that have existed for a long time.

Members of the local groups, however, say there is something different about the new groups.

Finding and making angel investments on your own “tends to get very confining and limiting, and you’re confined to what you know,” said Sushma Raj, a member of the new Minority Angel Investor Network.

And business owners seem to like it. The groups offer a way to find a willir pool of potential investors with a single phone call or visit to a Web site.

“The advantage of dealing with a club there is more money around the table ar you only have to do it once, said Chr Cashman, president and CEO of Prot Pharmaceuticals Inc., an antibiotic r search firm seeking money from membe of the Robin Hood Ventures group.

The term “angel” came from a 1981 pap on private investments in high-risk ve tures by William E. Wetzel Jr., then the rector of the Center for Venture Researc He borrowed the word from theater pi ducers, who call deep-pocketed patro who bankroll Broadway shows angels.

The first formal angel groups appear in the late 1980s, including the largest the Philadelphia groups, the Loosely (rganized Retired Executives group, LORE Associates. ■

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