

Investors seek hot local startups needing a cash infusion



Angel group provides heaven-sent funding

BBJ photo/MARK MALIJAN

Bruce MacCormack, chair of the Bellingham Angels, said his investment group is always on the lookout for small startup companies with huge growth potential.

Dan Hiestand

The little bit that Bruce MacCormack can reveal about the 32 investors in the Bellingham Angels is intriguing.

“What we’ve found with the group are (approximately) 30 of the best-known and influential — probably wealthy businessman — in the Bellingham area,” said MacCormack, the Bellingham Angel’s chair. “They’ve all been successful businessmen. I’ve got financial people, bankers, accountants, attorneys and land developers.”

And if the group’s vision is realized, he also hopes they’ve found a good way to help up-and-coming businesses take off to the next level.

The Bellingham Angels are a group of accredited investors — almost all from Whatcom County — who provide equity capital to early- and mid-stage entrepreneurial companies. While the group primarily focuses on businesses in Whatcom, Skagit and Island counties, it has also helped fund projects in the lower mainland of British Columbia and as far south as Seattle.

The angel formula is fairly straightforward: Local and regional businesses with high potential for success apply for angel group investor seed capital, and investors decide whether to provide funding for said projects based on selective screening, applicant presentations and subsequent due diligence.

Last year, five regional businesses were given an angel boost — including Bellingham-based communications company AudienceCentral — and investors raised between \$500,000 and \$1 million, MacCormack said.

The idea is intriguing to local companies, especially in an area where seed capital is a challenge to come by, MacCormack said. A Washington Technology Center report published last year indicates Bellingham’s local business community may be ready to move on to a higher level where angel investing might thrive.

The report, entitled “2006 Washington Index of Innovation and Technology,” said the city is thriving when it comes to new company creations. Bellingham had 2,569 new businesses last

year, and ranked No. 1 for business births per capita in the state. In other words, the local business ground is fertile.

Tom Dorr, director of the Small Business Development Center (SBDC), said the group serves an unmet need for access to capital in the community.

“Before (the group), it was hodgepodge (when it came to arranging capital financing),” Dorr said. “I’d give out names of five or six people that I knew were angel investors, and encourage people to contact them directly. The problem with that was that I didn’t know what types of deals the (angels) wanted to be in, and what types they weren’t interested in. By having a network of angels, it’s a lot more coordinated, and there is more diversity.”

Dorr said the SBDC worked with the Washington Technology Center three years ago to help the angel group form locally. The SBDC also helps refer companies looking for financing to the group, and helps applicants to prepare for the angel screening process. Conversely, the SBDC also directs potential investors to the angels.

By invitation only

Investors involved in the group are a select membership: To qualify as an angel investor, the U.S. Securities and Exchange Commission requires that the individual have either a net worth exceeding \$1 million, or have an individual annual income of \$200,000 or joint income with a spouse exceeding \$300,000 in each of the most recent two years, with a reasonable expectation of reaching the same level in the coming year.

“Membership is by invitation only, and we prefer that anybody coming in is known by another member,” he said. “When you get involved in the investment decisions, you want to have a comfort level with those other individuals who are investing with you.”

Member wallets must be thick because the risk — and reward — can be great, MacCormack said.

“Certainly, some of the reasons (for investors to invest) are to make money, because it’s a high-risk, high-gain opportunity,” he said. “Typically, for every 10 investments you make, two are going to be really successful. That doesn’t mean to say that (investors will) get nothing back on the other investments. You may break even, you may do somewhat well, and some may be a disaster. It really just depends.”

For investors who realize success, the reward can be great, he said.

MacCormack said the expected return on the initial investment is three to five times for the portfolio, and in a small number of cases — about 10 percent — the return on the initial investment is greater than 10 times.

Companies chosen for angel funding must have an exit strategy so that investors can claim their returns in a timely fashion, MacCormack said.

“Angels are looking for an exit (strategy), around five years,” MacCormack said. Often times, this strategy means the company goes public or is acquired in a merge. While the group’s investors are looking for profits, MacCormack said the group’s spirit is philanthropic.

The local angels came together in the summer of 2005, and started with just five members.

“Very soon, we started to get more members,” MacCormack said — especially after the group conducted an informational seminar in November of that year. “That really triggered the big move in terms of membership.”

MacCormack — who was named chairman of the group in August 2005 — said the angels hope to have 40 member investors by the end 2007, including its first female investor.

The structure of the organization includes a five-member executive committee, including

MacCormack, and those members act as the member managers. The group also utilizes a four-member applicant screening committee. Investors meet six times per year at the Bellingham Golf and Country Club, and are supported by six local business sponsors.

“Our sponsors are very involved,” he said. “There is a great camaraderie built up between the whole group, whether they are sponsors or members.”

“We’re very interested — just like all the members of the Bellingham Angel Group are — in helping entrepreneurs and business owners here in this community develop and grow their businesses,” said Brian Sibley, an account manager with Baron & Company, one of the group’s sponsors. “I think there is really a need for (the angel group). We’re getting a lot of people who are moving to this community from places like Seattle and Northern California, and you’re getting a lot of sophisticated businesspeople.”

Typically, the Bellingham Angels will invest between \$25,000 and \$250,000 in projects, and individual members can expect to invest between \$10,000 and \$100,000 per year, MacCormack said. Because the stakes are high, trust is important, he said.

“When we go to meetings, we don’t wear name badges because everybody knows each other,” he said. “They know each other because a lot of them have lived all their lives in Bellingham. That kind of rapport is important when you are going to be making funding decisions of \$25,000 and upwards with some other person.”

Nancy Jordan, executive director of the Bellingham Whatcom Economic Development Council, said the group is an asset to the community.

“This is a group of highly successful professionals with great integrity,” Jordan said. “They understand the importance of encouraging and investing in entrepreneurs with solid but more risky ventures — not only with funds but with their time as mentors and/or partners.”

While most members do live in Whatcom County, the membership does include two Canadians. In addition to financial support, members also offer professional guidance to selected applicants.

“The (selected company’s) management team also needs to be coachable, so that if we have some expertise and can help them, (an investor) can join their advisory board or something and nurture that company along, not just with money, but with experience,” MacCormack said.

Aside from investment opportunities, the organization co-hosts educational events. Last year, the group sponsored two workshops for investors and entrepreneurs.

“When you set up an Angel Group, you don’t expect all of your people to be sufficiently well-versed,” he said. “Some of them are practiced and experienced, and others aren’t.”

Who gets the green?

When he first helped start the group, MacCormack — who came out of retirement with IBM and currently runs a consulting company that supports early-stage, startup companies in the area — said he was told his role as chairman would be limited.

“I was told not to worry, that it would only be about four hours per week, and that it wouldn’t take up too much of my time,” he said. “This was a gross exaggeration.”

Essentially, the position has become a second job, as he said he puts in an average of 12 to 15 hours per week. It’s not surprising, considering what’s at stake.

In addition to assisting startup companies, MacCormack said he has to keep the investors interested — which means finding good applicants is key. While the ultimate goal of the group is to limit funding to businesses in the designated three-county area, this is sometimes more difficult than it may seem.

“If we don’t feel that there are sufficient companies in our presentation lineup for any one meeting to come out of this area, we will go further (out),” he said. “And we will go and look at some companies in the Seattle area or the Vancouver area, and invite them to come in to apply.”

Occasionally, he said the group joins forces with another Angel group to jointly-fund a project, a process known as syndication. Eventually, the group hopes to “compress,” and focus more locally, MacCormack said.

“We’d ideally like to think there is enough interest and enough capable companies in the three-county area for us just to be able to support the local community,” he said. “But until that happens — which will happen through more people being aware of us — we have to sort of extend ourselves a bit.”

Companies interested in applying to the group must apply online at the angel Web site (www.bellinghamangels.com), where the application is processed by the angel screening committee, which reviews the applications and determines which companies are invited to the general member presentation to make a 15-minute presentation at a Bellingham Angel Group bi-monthly meeting. Last year, of 18 presentations, five businesses were funded — a ratio MacCormack considers high. Of the 18 presentations, 16 companies went through due diligence process.

Companies who received investment funding represent a variety of industries, ranging from the technology to energy. Last year, two Canadian companies — MailChannels is in Vancouver, B.C., and Sweet Power in Victoria, B.C. — and Seattle-based companies MicroGreen and Novinium were all provided with angel funding. The fifth company was Bellingham’s AudienceCentral. Investor meetings usually include three to four applicant presentations, and MacCormack said the investors know what they are looking for.

“There is a niche we are particularly interested in,” he said. “No. 1, the profile of the company that we look at is that they are early stage, startup companies who are hopefully beyond the concept point. If they have customers already, that would be terrific. That tells us that their product is viable.”

People — not products — are the key, he said.

“Before anything else, we don’t care about the product,” he said. “We care about the management team. Is the management team sufficiently equipped and capable of making this business work?”

Issues, such as solid business plans, intellectual property value safeguards, investment exit strategies and projected growth also way heavily, he said.

“We look for the fact that their business has real growth potential,” he said. “If they expect to be a \$1 million company in three year’s time, we’re not interested in them. They have got to be a \$30 million company or something worthwhile over a five-year period.”

The reason for high expectations is simple, he said.

“It’s a very high-risk, high-return business,” he said. “That means that only one out of two investments are likely to succeed. Some of the others will break even or they will just fall flat. If you are investing in several companies, you know that maybe only one or two (will succeed). Your risk is high, so the rewards need to be high.”

Dorr said it’s up to the company to be ready to present.

“You get one chance with the angel network,” Dorr said. “If you’re not prepared, you don’t get a second chance.” MacCormack said the Bellingham Angels do not charge companies for the process.

“Unlike other angel groups, we at this stage do not make any charge for applications nor do we

make any charge to their company to present,” he said.

After the presentations are given, investor members may talk with the businesses, and perhaps will ask the companies for more information, arrange for another visit to a company’s premises or look at a business plan. The angels may collaborate on due diligence, but make individual investment decisions, and investors not necessarily invest as a group.

“Angel groups prefer to be in the first round (of investment) because that is the time when your term sheet can be far more demanding, and your investment level is going to be higher,” he said.

The bottom line, he said, is that localized investments lead to strong local economies — and better quality of life.

“We want to support the community,” he said. “And you can see how the whole progression extends past consulting and helping people with their business plans to having an incubator to actually now finding them money so they can get that startup really happening.”