

Attention, Angels and Your Networks: Survey Needs Your Input

By John Yates, Special To LTW

Editor's note: John C. Yates Chairs the Technology Group of the law firm Morris, Manning & Martin, LLP.

ATLANTA - There are dozens of angel networks in the Southeast, many of them groups of investors informally joined together by a common interest – being a part of the growth of entrepreneurial ventures.

As a service to entrepreneurs in the region, we will be surveying these angel networks to obtain information regarding these investors and sharing this information with our readers. To our knowledge, this is a first for organizing this information in the Southeast.

Importantly, the survey data will allow entrepreneurs to target sources of capital in the region. To date, this process has usually been random and unorganized, based largely on word of mouth. For example, the entrepreneur talks to a lawyer, who talks to an accountant, who reads about an angel investor who may (or may not) be interested in an investment opportunity. This system is inefficient, incomplete and burdened with wasted time and effort.

The following is a sampling of the questions we will be asking of angel investors in our region. If you are an angel or a member of an investment group, please contact us (survey@mmmlaw.com). We'll forward the full survey to you for review and completion.

Sample questions from the survey include:

1. How many angel investors are in your network?

Our guess is that most networks are fairly small – but we are prepared to be surprised!

2. What type of companies are of interest to your angel network?

This survey will include a broad list of options. We expect the largest number of responses to cover:

- Medical devices and bio-materials
- Supply chain solutions (especially directed to specific vertical markets)
- Outsourcing and service businesses (particularly the one-two-many model adopted by many business process outsourcing companies)

Frankly, we don't expect too many angel groups to be interested in computer hardware, e-commerce solutions, dotcoms or application software.

3. How do you attract business plans and entrepreneurs to your network?

The list of choices will include the network's website, word of mouth, affiliation with local universities, and nominees from members of the angel network.

We expect most respondents to reply that they are gathering their interested entrepreneurs from contacts acquired through their angel members. If this trend is correct, then the survey results could significantly enhance the efficiency of matching the entrepreneur with the right network – and an interested source of capital.

4. Will you invest in life science or biotech companies?

The expected answer is – maybe. Most angels are averse to investing in early stage ventures that will require significant equity rounds before there are paying customers. This rules out most drug discovery companies. Where regulatory approval is a protracted process, angel investors will likely be scared off by the uncertainties.

On the other hand, we expect medical products and bio-materials to be attractive to our surveyed audience. Especially in the case of medical devices, regulatory approval may be accelerated and animal testing may be a less expensive way of determining initial viability. The overall cost structure for developing a medical product is far less than most drug development efforts. My experience is that angels are more likely to be attracted to start-ups in the medical device area than most other businesses. We'll see what the results of the survey reveal.

5. Will you invest in a common stock round (versus preferred stock)?

In the early days of start-up investing, angels felt fortunate (sometimes even honored) to be investing in new entrepreneurial businesses. Those days are over. Now, the formerly naïve angel has become the sophisticated investor – unwilling to settle for common stock. Too many angel investors have been washed out in later down rounds of financing. As a result, the sophisticated angel investor now insists on preferential treatment and legal protection from being diluted to oblivion.

We expect the survey results to confirm this belief. While some angel investors may agree to buy common stock, we expect them to impose strict limitations on the start-up's ability to raise additional financing. These limitations may be unduly burdensome, making it practically impossible to dilute the angels in later equity rounds.

The survey will also include a dozen more questions designed to categorize the Southeastern angel network in a way that will make it easier for start-up companies to locate early stage investors who meet the entrepreneurial's profile for a suitable long-term shareholder.

If you're interested in the final results of the Southeastern Angel Survey, please send me your contact information and the name of your angel network to jcy@mmmlaw.com.

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