

Understanding Alaskan Angel Investors

By Kevin Wiley

In an effort to better understand the characteristics and behaviors of Alaskan angel investors, Alaska InvestNet recently conducted a survey of this small but growing group of folks who take calculated investment risks on up-and-coming ventures. 17 local accredited* investors responded to the survey, each with significant net worth and with interest or experience in early-stage private equity transactions. Below is a summary of some of the key findings.

Local Investors' Experience:

- Held President or CEO position (at some point in career) – 15 out of 17
- Held 'C-level' position (i.e. COO, at some point in career) – 17 out of 17
- Founded own company (at some point in career) – 14 out of 17
- Are currently entrepreneurs or key executives – 12 out of 17

Quick Takeaways: Alaskan angels are “been-there, done-that” investors. They understand not only the management skills it takes to run a company, but the risk and excitement of founding one. As an entrepreneur, these are exactly the type of investors you want, as they bring much more to the table than just passive dollars – they bring seasoned expertise, as well.

Local Investors' Investments

- Over last 5 years, invested in average of 5 companies
- Due diligence time frame – average of 4-8 weeks
- Of 61 reported early-stage investments, 40 were between \$10k-100k each (6 investments were above this range, and 6 were below it)
- Willing to syndicate investments with other angels – 9 out of 11 respondents

Quick Takeaways: Alaskan investors are doing about a deal a year, less than half the national average for active angels. However, they like to move fairly quickly when researching a company. If it takes more than 8 weeks to get a feel for a deal, the opportunity is usually dismissed. Alternately, none stated that they'd made investments after just one meeting. Entrepreneurs will need to get their venture as tight as possible prior to seeking funding, and if they're looking for more capital than that individual sweet spot of about \$50k, they should be ready to build a team of investors.

Why Invest? (listed in ranking order)

- ROI (84% considered this critically important)
- Excitement/fun on entrepreneurial investments
- Desire to help entrepreneur succeed
- Create jobs and wealth in Alaska, for Alaskans
- Diversification of investment portfolio
- Tax-sheltered income

Quick Takeaways: Hey, even angels are human. Making money is the driving force behind taking the risk of backing early-stage companies. But there's also an almost philanthropic side to private investing in Alaska. Many local investors would love to see an innovation, start-up economy develop in this State. If for no other reason, high-

paying, intellectually stimulating, clean technology jobs will inevitably help reduce brain drain in Alaska and keep more Alaskan kids and grandkids from chasing the global economy somewhere else.

Most Important Criteria in a Company (listed in ranking order)

- Management Team (92% considered this most important)
- Potential ROI
- Specific product of service
- Market size
- Well-written business plan
- Patents or other intellectual property
- Geographic location of company

Quick Takeaways: If Alaskan angels are “been there, done that” investors, they expect the entrepreneurs they back to be equally experienced. There’s an old adage that sits at the front a sophisticated investors mind – “I’d rather back an A-team with a B-product, than the other way around.” An A-team will make the company work by reacting to market demands and adapting the business model to turn a profit. A B-team could lose money on a patent for a teleportation device. If you, as a founder, don’t have what it takes to get the company where it needs to go, be sure to identify the management gaps and be ready to fill those positions with qualified folks when investors get involved – even if that position is your own!

Other Interesting Points to Consider

- Most investors state that the minimum estimated return on investment to conduct further due diligence is 5-to-10 times what was invested, and expect to get that return 3-to-7 years after investing
- 85% of respondents stated that they prefer to back companies in the “start-up stage” (i.e. ventures completing product development and initial marketing); less than a 25% would back a company still in the product R&D stage
- While 50% would not back a company without a complete business plan, 75% prefer to read only a 5-page executive summary prior to meeting with founders
- Approx. 60% prefer equity deals, the rest like to see debt-based investments with options to convert to equity in the future
- 50% want a seat on the Board of Directors of companies they back, and 75% are willing to consult or provide expertise as needed
- Less than 25% of investors only fund ventures based in Alaska
- 16 of our 17 respondents of this survey were male

To view the complete results of this survey, which includes a lot more interesting data on Alaska’s private investor community, visit www.alaskainvestnet.org. All details are anonymously listed and in aggregate form.

(*Accredited investors, as defined by the Securities Exchange Commission.)