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Angels Investors in Lafayette, Making a Difference Worldwide

By Sophie Braccini

When Larry Muray went to a Christmas party in Moraga last year he wasn't expecting that meeting Don Smith there could have a great impact on his business. Smith is a member of the Keiretsu Forum, the largest Angel Investor network in the Bay Area with reach across the United States and beyond. Muray, co-founder of the Lafayette- based start-up NovelX, met the right "angel" at the right time.

Angel Investors (AI) are a prime source of financing for start-ups, filling the time gap between funding from family and friends, and venture capitalists or banks with investments from \$500,000 to \$1.5 million. AIs often invest before the business is profitable, taking higher risks level, and expecting higher returns.

"Banks tend to be reluctant to invest in early stage companies that are not yet profitable," says Muray, "Angel investors understand the risk, but can also see the upside potential of an investment early on."

The Small Business Administration estimates that there are at least 250,000 angels active in the country, funding about 30,000 small companies a year. The total investment from angels is estimated at anywhere from \$20 billion to \$50 billion as compared to the \$3 to \$5 billion per year that the formal venture capital community invests.

Some AIs are wealthy individuals investing independently, others organize into groups or networks to share research and pool their investment capital. Randi Williams, the founder of Keiretsu Forum, claims his group is the largest network in the world.

"In 2000 I had decided to retire early after a successful career in real estate," he explained, "but when I started to diversify my portfolio, I started to lose money. I decided that I needed to organize a network of people that would be experts in other areas of the economy, so we could make good investment decisions together."

Williams had an already large network of wealthy friends so Keiretsu took off rapidly. Today Keiretsu comprises 750 accredited investor members (by invitation only) throughout eighteen chapters on three continents. Since Keiretsu Forum's founding in 2000, its members have invested over \$180 million in 200 companies in technology, consumer products, healthcare/life sciences, real estate and other segments.

"I joined the network three years ago," says Joao Magalhaes, a Moraga resident and investor, "it has opened new worlds for me." This retired Bechtel executive who knew everything about infrastructure now gets prime knowledge

and access to all kinds of new business adventures. "One of the unique aspects of Keiretsu is that members themselves conduct the due diligence process that leads to investment recommendations," he says.

All of the Forum's members have extensive business experience, and they have to be able to spend some time as active participants in the screening process.

"About one to three companies are selected for every fifty submissions," says Williams. Once accepted, the companies introduce themselves to the different chapters to raise the money they need. It's not Keiretsu that invests, but each individual member who decides to pitch in or not.

For companies that need funding, the process is transparent. "In January, we submitted an application and passed through several rounds of screening before we were selected to present at the monthly Keiretsu Forum Meeting - actually four presentations ... one at each of their Northern Californian Chapters," says Muray. "We are currently in the due diligence process."

As any entrepreneur in start-up time, Muray feels that nothing happens as quickly as he would like, but he found the 9-week Keiretsu process was very well organized and thorough. "It touches on all aspects of our business including our business strategy, financial model, IP position, marketing strategy as well as the background and experience of the team," said Muray, adding that the Keiretsu allocation was \$500,000 of a planned \$1.5 million round.

The money will be raised by an undisclosed number of the Forum's members. "There is no minimum investment requirement," says Williams, "in fact, new members cannot invest during the first six months of their membership, they have to participate and learn."

"I have less than 5% of my investment engaged with Keiretsu," says Magalhaes, "and I do not expect a return for three to seven years."

Keiretsu claims an average return on investment of 22% per year. According to a study by Robert Wiltbank (Willamette University) and Warren Boeker (University of Washington) published in November of 2007, "The average return of angel investments is 2.6 times the investment in 3.5 years- approximately 27 percent Internal Rate of Return." They highlight a wide range of results with 52% of all the angels studied returning less than they had invested and 7% achieving returns of more than ten times the money invested.



Randi Williams, Founder and CEO of Keiretsu Forum
Picture courtesy of Keiretsu

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