

Early-Stage Capital in the U.S.

Moving Research Across the Valley of Death and the Role of SBIR

Improving Access for Women and Minorities

The Minority Angel Investor Network Experience

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Terrence Hicks

V.P. Investment Group, BFTP, Founder Minority Angel Investor Network

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Partners of Southeastern PA & Evolution of Minority Angel Investor Network

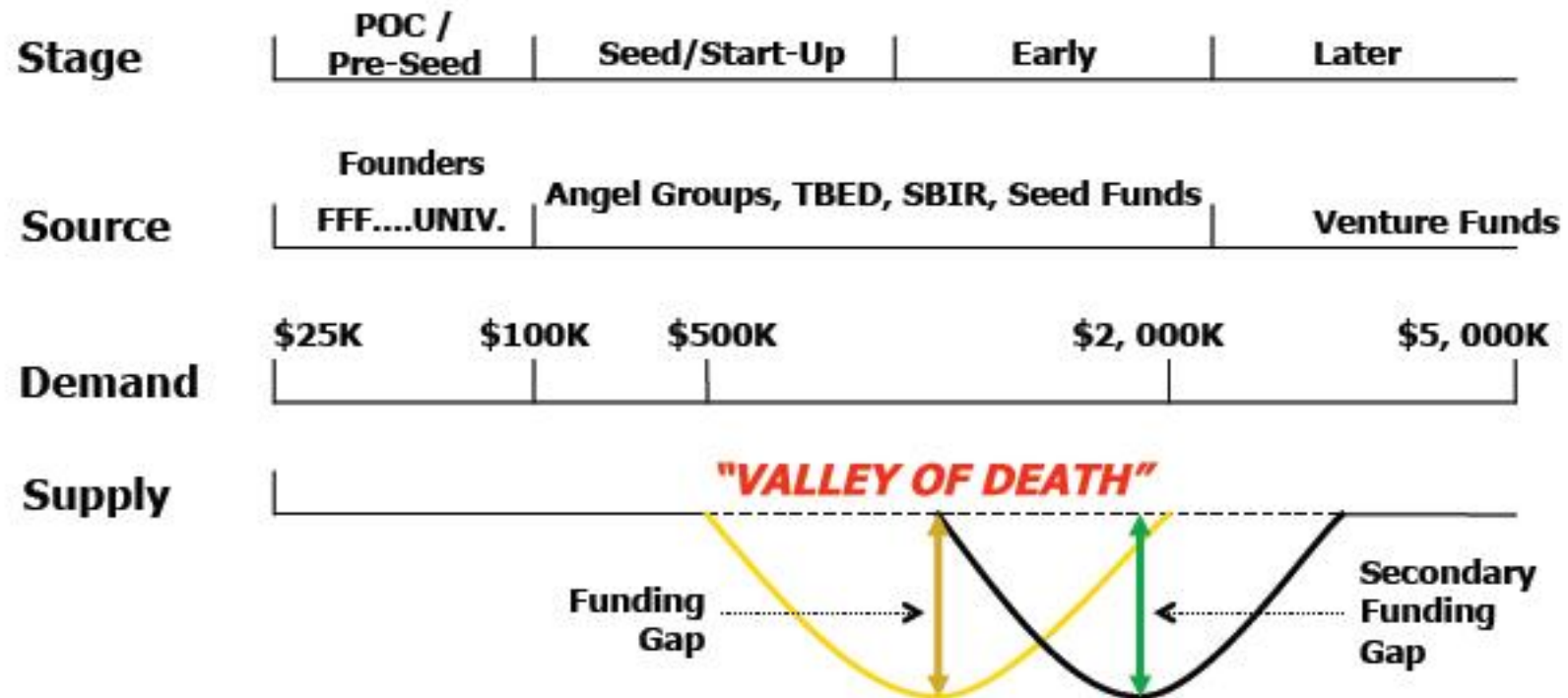
- 27 year old PA based economic development organization
- Network of 4 organizations serving entire Commonwealth
- Mission to stimulate economic growth => innovation, entrepreneurship, development & adoption of new technologies
- Provides early stage capital and business development support to PA based technology companies
- Portfolio of 120 companies – one of largest seed portfolios in country
- *Entrepreneur Magazine* – Top 100 Venture Capital Firm Early Stage Cos, 2007
- ***Today's portfolio approximately 13% minority (15 cos); 4 with SBIR***

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- 10 years ago => Startlingly low # minority companies!
- Realization of Capital Gap /Valley of Death
 - Inability to access capital for company growth
- Milken Institute study revealed, even after accounting for factors such as education, experience, industry and location, ***minority firms receive less capital and on less advantageous terms***
 - Minority Capital Gap

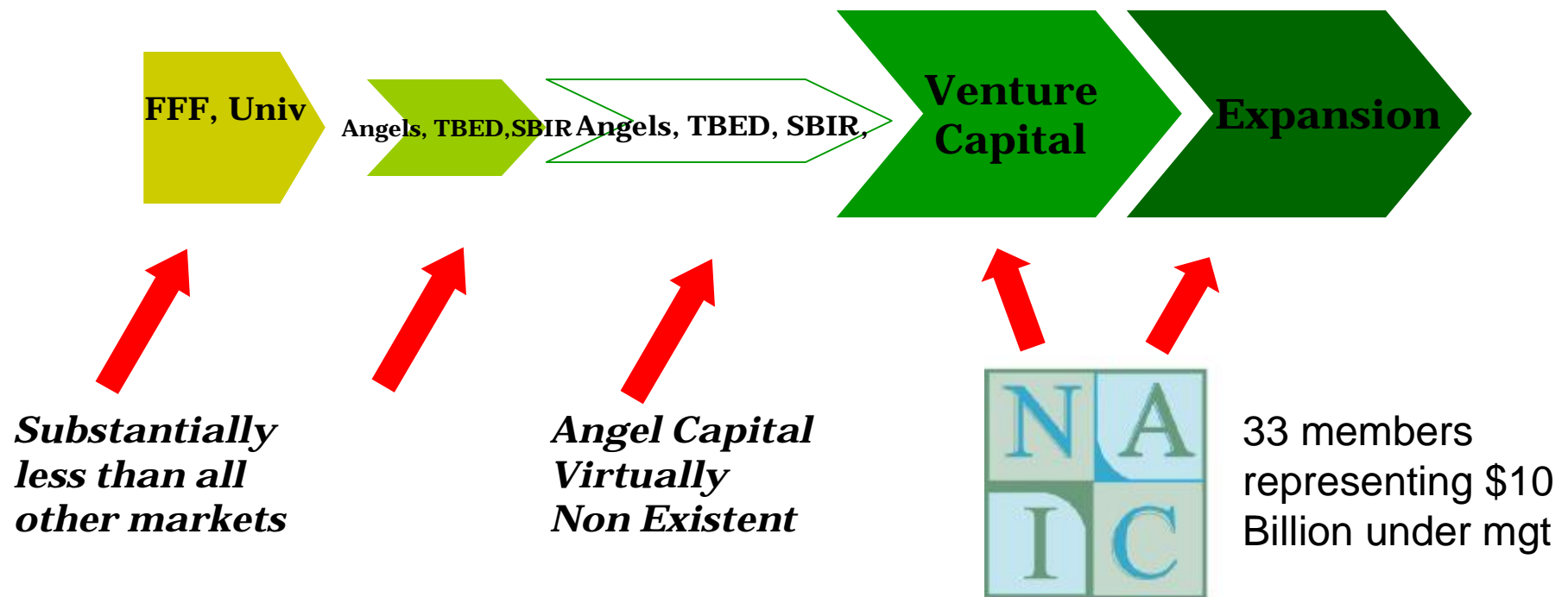
“Valley of Death”.....later is better



The Capital Continuum



The Minority Capital Continuum



Minority firms tend to start businesses with lower levels of personal wealth and face barriers when tapping traditional sources... Robb & Fairlie, 2006 UNC Chapel Hill

The Angel Landscape for Minorities (2009)

- Minorities seriously under-represented in angel investing and angel groups
 - Minorities: 3.5%
- Small percentage of minority deals presenting to angel groups
 - Minorities: 6.2%
- Small percentage of minority deals presenting are securing investments
 - Minorities: 14.2%

Source: University of New Hampshire, Center for Venture Research

The Angel Landscape for Women & Minorities

- Most angel groups comprised of white males, with investments awarded to firms owned by white males
- Currently at least 6 all women angel groups exist, with interest expressed in about 10 other North American metro regions (e.g., Phenomenelle Angels, Golden Seeds)

Source: Kauffman Foundation, April 2006

- Currently only 1 organized angel group comprised primarily of minority angels with a focus on investment in high growth minority owned or led companies
 - Minority Angel Investor Network - Phila

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2004 – Extensive involvement with angel investors through co-investment with portfolio companies (>50% receive angel investment)

Conclusion

- ***Attract more qualified minority companies => form minority focused angel group***

The Minority Angel Investor Network

1st 12 months

- Focus group held in February 2004
- Consensus to form group
- Press launch and reception in June 2004 (**NAIC endorsement**)
- Recruited approximately 10 members over summer 2004
- Decision to focus primarily on minority owned or led technology companies
- Held first member meeting in November 2004
- Received early support from Kauffman Foundation and State of PA in form of planning grants of \$75K and \$25K respectively

The Minority Angel Investor Network

Today

- 20 investments - \$2.3MM
 - 6 companies; all technology
 - 2 – Software
 - 3 – Drug /vaccine development
 - 1 - Telemetry
 - 2 in early stage venture funds (1- woman led)
 - Investment ranges \$25K to \$400K
- 20 members => 16 men, 4 women
- Racial Profile: 7 Caucasian, 4 Asian Indian, 9 African American
- Professional Profiles: professional investors, surgeon, attorneys, C-level mgrs, and former entrepreneurs
- Robust deal flow via website/member referrals; not all minority: not all high growth

SBIR — BFTP/Minority Angel Investor Network

- Non-minority BFTP Portfolio Cos
 - Percentage SBIR = 15% (16 of 105)
 - Highest in Life Sciences
- Minority BFTP Portfolio Cos
 - Percentage SBIR = 27% (4 of 15)
 - All in Life Sciences
- OVERALL BFTP = **17%**
- Minority Angel Investor Network
 - Percentage SBIR = **17%** (1 of 6)
 - Life Sciences

– Insufficient data points to support notion of significant disparity between access to and familiarity with SBIR with minority/non-minority companies

– ***Reasonable to presume a disparity given limited access by minorities to other forms of early stage capital***

Why Should A Disparity Matter?

- Renewed investor interest driven in part by recognition that changing U.S. demographics => significant increase in minority purchasing power & bus. dev. By minority owned firms
- Over next 40 years, 85% of U.S growth => non-white ethnic groups
- Current size of U.S. Hispanic and African-American consumer market is larger than GDP of all but 9 countries
- Minority firms' sales are growing 34% per year – more than twice the rate of other firms
- Woman-owned firms, particularly among ethnic women, increased at rate 5 times greater than all firms. Rate of African-American women owned firms increased by 12% annually vs 2% for all firms, and just under 4% for all women-owned firms
- Minorities and Venture Capital: A New Wave In American Business,” a 2003 study conducted by Tim Bates and William Bradford, “...minority enterprise venture capital is very profitable..”

Resolving the Disparity

- What can be done to promote and to secure more early stage capital for high growth minority owned/led companies, including SBIR?