



# 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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## Ben Franklin Technology

**Partners of Southeastern PA & Evolution of Minority Angel Investor Network**

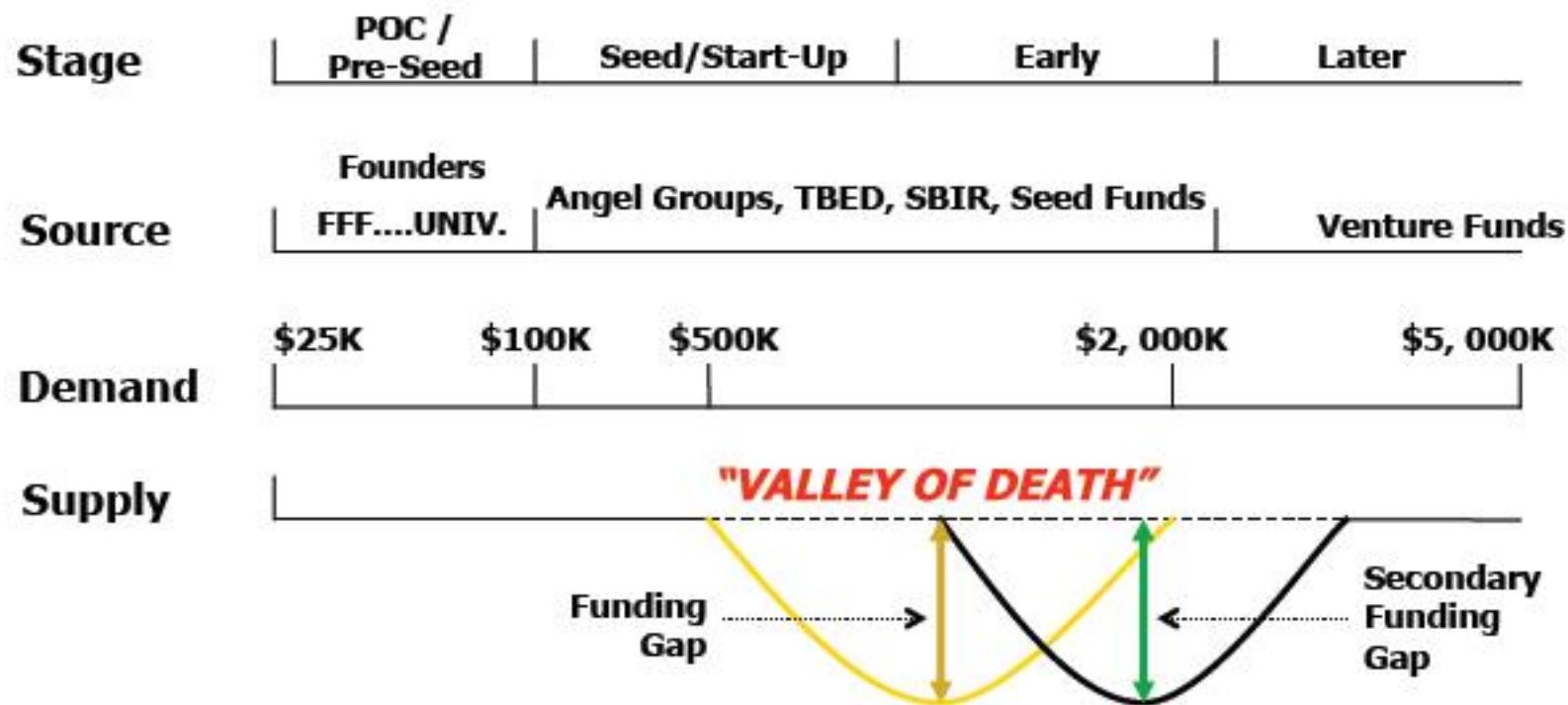
- 27 year old PA based economic development organization
- Network of 4 organizations serving entire Commonwealth
- Mission to stimulate economic growth => innovation, entrepreneurship, development & adoption of new technologies
- Provides early stage capital and business development support to PA based 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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## *Partners of Southeastern PA & Evolution of Minority Angel Investor Network*

- 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

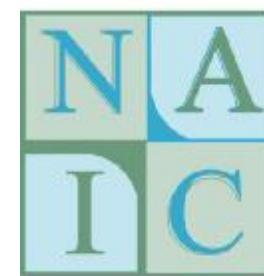


# The Minority Capital Continuum



*Substantially  
less than all  
other markets*

*Angel Capital  
Virtually  
Non Existent*



33 members  
representing \$10  
Billion under mgt

*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

## Ben Franklin Technology

***Partners of Southeastern PA & Evolution of Minority Angel Investor Network***

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

1<sup>st</sup> 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?