

Does Angel Investing in Startups

make a
difference?

*Jobs,
more jobs
and
more Steve Jobs*



By Tim Cartwright

Startup companies create jobs. Not just a few jobs, but all new net jobs.

This is not conjecture, rather the findings of a study entitled "The Importance of Young Firms for Economic Growth", published by the Ewing Marion Kauffman Foundation in Kansas City. The Kauffman Foundation, a \$2 billion charitable organization focused on entrepreneurship, reports that over a 30-year study period, large companies created jobs when the economy was growing and eliminated jobs when the economy weakened. "Both on average and for all but seven years between 1977 and 2005, existing firms are net job destroyers," writes authors Jason Wiens and Chris Jackson.

Startups, the very earliest stage companies, defined in the report as "firms less than one year old" accounted for three percent of total employment from 1980-2005, which seems a modest number. Yet, given that the average annual net employment growth over the same period was 1.8 percent, the data suggest without the jobs from startups, employment growth would be negative.

If the question before us is 'How do we generate economic development and diversification?' (in other words, jobs), then the clear answer is startups. However, that answer begs the question, 'How do we generate startups?'. In order to solve the proverbial chicken and egg paradox, which comes first the startups or early stage capital, our region should rely on our trump card, Southwest Florida's retired and semi-retired high net worth individuals. Collier County lays claim to the highest per capita concentration of accredited investors across all 67 counties in Florida.

Southwest Florida needs to leverage this advantage and engage Southwest Florida's private capital to invest in startups and create more Angel Backed Companies ("ABC", see inset). Once the capital is organized, then we can depend upon the natural instincts of startups to follow the scent of money to its origin, like a bull shark finding a meal in the Gulf of Mexico. The Tamiami

ABC Lessons

*Google is an
Angel Backed Company ("ABC")*

In August 1998, the most famous angel investment in recent years was a \$100,000 check that Sun Microsystems co-founder Andy Bechtolsheim made out to Google. The German native dropped out of a Stanford PhD program to co-found Sun Microsystems around his design for a new type of computer workstation, which quickly revolutionized computing. After watching Larry Page and Sergey Brin demonstrate their search-engine software, Bechtolsheim gave the pair critical startup fuel for their search engine, even before they had chosen their now-famous name. The check was not cashable at first—as a legal entity, Google didn't exist yet—but once the company's incorporation papers were completed and filed, the money enabled Page and Brin to move out of their dorm rooms and into the marketplace. In a later e-mail, Bechtolsheim admitted and confirmed that the check has netted him

Assessment Recommendation

•**There is a need and a means for the establishment of a Regional Angel Fund in Southwest Florida.**

Participating Organization

Ave Maria University	Florida Gulf Coast University	Glades County Economic Development Council	Edison State College <i>(Florida SouthWestern)</i>
Hodges University	Regional Business Alliance of Southwest Florida	Charlotte County Economic Development Office	Economic Development Council of Collier County
Gulf Coast Venture Forum	Lee County Office of Economic Development	Hendry County Economic Development Council	Economic Development Corporation of Sarasota County

Angel Funds, a family of Angel Funds organized to invest in early stage high potential, accelerated growth companies, embarked on this mission almost six years ago.

The first Angel Fund in Southwest Florida

In 2007, the Florida Chamber and Enterprise Florida worked to pass important legislation increasing the availability of seed and early-stage venture capital for emerging businesses in the state. Part of that legislative package, House Bill 83, created the “Florida Opportunity Fund” to invest seed and early-stage venture funds in emerging business opportunities with Florida-based companies. A total of \$30 million was invested in the Fund with oversight provided by Enterprise Florida. Later that same year, a group of concerned community and economic development leaders in the Southwest Florida region convened to discuss the creation of a coordinated strategy for developing new economic opportunities. The assembled group sought input on regional economic priorities through a series of meetings and ultimately commissioned a formal study to focus on the feasibility of a Regional Angel Fund and potential partnership with the Florida Opportunity Fund. Instead of discussing a replication or “Me2” strategy, the assembled group stated their number one priority was to forge a path toward regional, organic innovation.

On October 25, 2008, The Southwest Florida Regional Angel Fund Assessment (“RAFA”) was published. The consensus recommendation of that Assessment provided a bold new vision. Quoting from the RAFA, “Therefore, the Southwest Florida Regional Angel Fund Assessment

Team concluded that, though the obstacles to creating an Angel Fund are numerous, they can be overcome and the establishment of a Regional Angel Fund should be pursued.” While inspirational in its sentiment, there was still a mountain climb worth of work yet to be accomplished.

At that time, the headwinds of the Great Recession were strafing Southwest Florida’s prevailing industries and leaving our regional economy in a nose dive. Buffeted by this global free fall, twelve regional non-profit economic development organizations and higher education institutes committed themselves to implement the recommendation. During the next two years, in arguably one of the most difficult fund raising periods in decades, a small team pressed forward, to establish the Tamiami Angel Fund I, LLC (“T1 Angel Fund” or “T1”) on August 10, 2010. This would become the first angel fund ever raised in Southwest Florida and totaled of \$2.05 MM in committed capital.

On August 30, 2013, the T1 Angel Fund had fully deployed its capital, making 9 investments in six companies. Five of the six companies were Florida headquartered companies and, inclusive of the add-on investment from the fund members, attracted a total of \$3.01MM. As of today, of the six portfolio companies, the Fund has yet to experience an exit, maybe more surprisingly, neither has it experienced a failure.

The largest Angel Fund in Florida

Chasing alpha, or pursuing outsized returns, which is the holy grail of this asset class, must, accordingly, be approached with high tolerance for failure. Failure will happen, and statistically speaking, will happen more often than success.

Against these odds, new angel investors have emerged and joined forces with T1 to form our second iteration, the Tamiami Angel Fund II, LLC (“T2”). Southwest Florida is now home to the largest Angel Fund ever raised in the State of Florida at \$4.4 MM of committed capital.

The T2 Angel Fund is currently active having made 6 investments in 5 companies already. Combining the fund’s and member’s add-on investment over \$1.75MM has been deployed in the past year.

Getting back to the chicken and egg paradox, now that the capital has been organized, where are the startups? A great place to find startups is an Accelerator. Accelerators act as incubators for startups, helping promising entrepreneurs through the early days of a company’s founding with mentoring, technical assistance and often office space. Locally, we have VentureX, a co-working spot at Mercato, and the recent launch of the Catalyst Accelerator Network - Collier by the Economic Development Office of Collier County. The end goal of an Accelerator is to help founders polish their business plans and build investor ready companies. Investor ready companies are sustainable companies with disruptive and scalable business plans that hire smart hard working young people. This in turn attracts the interest of angel investors and their funds creating ABCs.

Fortunately, our region is blessed with a renewable abundance of smart young people. Between Florida Gulf Coast University, Florida Southwestern State College and Ave Maria University, there are about 30,000 college students in our region. This is the ultimate renewable economic resource – 7,000 freshly minted minds every year. When combined with

experienced entrepreneurs and great ideas, this becomes an immensely valuable resource enabling and staffing startup formation.

Investing in startups and creating more Angel Backed Companies will encourage the brightest minds to launch their companies and careers in Southwest Florida. It will engage one of Southwest Florida's most overlooked natural resource, angel investors, into diversifying our regional and state economy. It will attract entrepreneurs to bring their startups here and create more jobs. Who

knows, maybe... we will even find the next Steve Jobs. 🌀

Timothy J. Cartwright is Chairman of the Tamiami Angel Fund I & II, a member managed Florida Angel Fund organized to allow High Net Worth Individuals and Family Offices an opportunity for active involvement in a diversified capital investment process with a portfolio of emerging growth companies. Tim is a Partner at Fifth Avenue Advisors and the Managing Director of Compass Advisory Group, LLC, a merger & acquisition consultancy. He currently serves on the boards of Florida

Gulf Coast University Foundation, Golisano Children's Museum of Naples, Florida Institute for the Commercialization of Public Research and Florida Venture Forum. His former board positions include Economic Development Council of Collier County, BioFlorida - SW Florida chapter, SW Florida Regional Technology Partnership and the Gulf Coast Venture Forum. He holds a Bachelor of Science (BS) Degree in Economics from the University of Wisconsin and a Masters in Management (MM) in Finance and Accounting from the J.L. Kellogg Graduate School of Management at Northwestern University.

Tamiami Angel Fund I & II Portfolio Companies	
	Removes risk for manufacturers, retailers and service fulfillment companies who provide services to residential consumers.
	Conveyor belt sushi restaurant chain offering "retail theater" in super-regional malls.
	MassiveU specializes in turning traditional educational content into digital products focused on project-based learning for students.
	Digital photo framing images directly onto glass for millions of novice and professional photographers.
	A cloud-based student/audience engagement platform for educational institutions.
	A system that allows for customers to easily and automatically collect their FedEx and UPS late-shipment refunds.
	A sales motivation engine that creates focus & energy around crucial sales behaviors like booking meetings, building pipeline & closing deals
	Motivates movement in groups through simple & affordable activity products and programs.
	A technology company applying the latest techniques in machine learning and big data analytics to generate real-time semantic graphs around users and media..

ABC Lessons
Starbucks is an Angel Backed Company ("ABC")

In 1986, Howard Schultz raised an initial \$400,000 in seed capital and another \$1.25 million in equity for Schultz's espresso-bar concept named Il Giornale. He made presentations to 242 potential angel investors, 217 of whom said no. Many who heard Schultz's hour-long presentation saw coffee as a commodity business that lacked any basis for sustainable competitive advantage. In March 1987, Jerry Baldwin and Gordon Bowker decided to sell their Starbucks operation in Seattle, WA. It took Schultz about three weeks to raise the \$3.8 million required to buy the company and change the name of his espresso-bar concept to Starbucks.

You may download a copy of the Southwest Florida Regional Angel Fund Assessment for free.

Visit www.tamiamiangels.com and click 'Becoming an Angel'.