



What Makes an Attractive Investment for the Marquette Golden Angels?

The Marquette Golden Angels are interested in high potential, high growth business investment opportunities. We find that frequently they include these characteristics.

The People

Arthur Rock, legendary venture capitalist, in an interview in 2002¹, said:

“Well, you got to realize that I have no scientific background so, you know, all the scientific mumbo jumbo doesn't mean a lot to me.

...What I'm interested in is investing in people. And I look for people who, you know, (have) everything you could think of.

They're honest.

They have fire in their belly.

...They see things as they are, not the way they want them to be and have priorities. They know where they're going and know how they're going to get there.

So I spent a lot of time with people just trying to figure (this) out.”

People are critical to the investment decision for us. They may have business leadership experience, or not, but they always have integrity. For them, the desire to see the company succeed is the only important value. They are intellectually honest about their business assumptions, are instinctively collaborative and can work well with investors.

A positive sign, in addition to the men and women starting the venture, is the entrepreneur's choice of outside collaborators, advisors, directors and professionals he or she has selected to assist the new business. In most angel communities these outsiders are a great reference for the company and its leadership.



We like people who have a record of accomplishments (since that record is an excellent indicator of future performance) and good reputations. We like people who are prepared to respond to the inevitable adversity and who have the mettle to make the hard choices they will have to make in a startup situation. This often includes making difficult decisions about company leadership, as well.

The entrepreneur should be the chief evangelist for the company, often serving in a very strong sales role in the early stages.

The Opportunity

First of all, we are interested in companies with differentiated, scalable products in high growth markets. High growth markets are often characterized by an evolution in underlying technologies that cause rapid expansion of product or service offerings. These of-

¹ *Silicon Genesis, November 12, 2002, An Oral History of Silicon Valley, Stanford University.*

ferings frequently evolve in sophistication and focus, to the benefit of the company's customers. Successful companies that offer these products are able to command premiums based on clear value propositions. This combination of premium pricing and expanding markets often combine to allow for the possibility of explosive growth.

Differentiation

The best products in these markets are highly differentiated. Often, especially in health related fields, there is strong protection of intellectual property available to



the company. In other markets, successfully differentiated products might be based on technology that allows for superior execution, improved customer results, or trade secret protection. If an Intellectual Property (IP) position is appropriate, the company will want a "Freedom to Operate" letter from patent counsel to map the territory protected by their IP position.

Scalability

As markets grow, the business' product or service would ideally be scalable in several ways. It should be able to:

- Demonstrate high early adoption rates following product introduction,
- Grow revenues steadily without a lockstep growth in expenses,
- Be robust enough to expand to accommodate larger customers.

These characteristics help prevent the company from being trapped in a less attractive segment of the market usually characterized by smaller potential customers.

Market Growth Rate

In general terms, a market growing by 25% per year is a home run. Markets that are already large are less attractive. Why? Because a market currently² at, say, \$1.5 Billion per year has already begun to attract significant competition. The evolution in sophistication and focus is usually already well along.

Of course, disruptive technologies are a terrific solution in an already large market because they can cause customers to jump from older, higher priced, less capable solutions to newer solutions with better value propositions.³ These better solutions are often characterized by structurally lower costs and sustainable market positions. And, when the shift happens, it can be sudden and dramatic.

Sustainability

Sustainability is also important, of course. Does the proposed product have a relatively long or relatively short life-cycle? Can the life-cycle easily be extended or will it require high risk? If the company does exceedingly well for three years, but, just as it is becoming a candidate for a harvest event, a new disruptive technology flattens its sales, it is a less than optimal outcome. While it is not possible to foresee in every instance, a detailed look at market trends is an important consideration.

What Will Make The Company Grow?

In some opportunities, the team may be incomplete, the market validation not finished, the marketing or operational plan not "stress tested" or in other ways the business may not be "ready for prime time." In these cases, we want to know if the network has resources among its members that can be helpful to the business in achieving its goals. We can be very enthusiastic about businesses where we can personally add value that can increase growth and accelerate success. For this reason, our primary focus tends to be "local," meaning areas where our members live and work. For us this is primarily Wisconsin and Illinois.

² That is, a market whose most recent twelve months sales in this product were at or above \$1.5 Billion, (rather than a market with a potential of \$1.5 Billion.)

³ See *Crossing The Chasm*, Geoffrey Moore, Harper Business, 1991, ISBN 0-88730-717-

Testing: A Critical Ingredient

We are strong believers in the concept of entrepreneurial testing. It is almost always possible to engage in a series of small experiments that provide tremendous information. A new venture can therefore spend its scarce resources sparingly and, based on the testing results, move forward rapidly on the basis of proprietary information gained. This process preserves capital and positions the company for great success. We have significant expertise in this area and feel it can help our portfolio companies tremendously.

The Deal and Its Structure



Most entrepreneurs who approach angel investors, especially first time entrepreneurs who have never raised money, do not have the experience to understand the complexities of structure as

it relates to business success.

This whole topic is emotionally charged. However the process can go very well for all concerned.

Things go well when:

1. The deal structure does not cause either party to do something dumb. That is, neither the investors nor the entrepreneur are motivated to take actions that work against the interests of the company.
2. The initial valuation is not so high that:
3. Only a perfect execution of the business plan will bring satisfactory results. Any misstep will result in disappointing results for investors.
4. No new money will come in when needed without a reduced valuation because the older valuation was too high and the company had inadequate time to grow its value.
5. Smart investors avoid the deal and the company fails to enlist their support.
6. The entrepreneur is savvy enough not to “test price” the opportunity as though he were selling a used car.
7. The whole deal can be documented on twenty-five sheets of paper at a cost of less than \$10,000, in total.
8. There is no “insider” debt waiting to be paid off for accrued salaries, past due invoices for startup costs, and

the like. All of the proceeds are used to grow the company going forward.

9. The entrepreneur and co-founders have demonstrable skin in the game on the downside as well as the upside.
10. The total amount raised and the ownership percentages (again, a valuation issue) are appropriate for the stage the company is at and meet investor requirements for balancing risk and return.
11. There is a clearly defined exit strategy that all parties favor.

What Should A Business Do To Be Considered?

Many of our opportunities come from referrals from members, venture capitalists, or entrepreneurs. So, if the business or its advisors know a member of the network, that’s an excellent start. We have also received



opportunities from business service professionals - lawyers, accountants, lenders, and so forth - with very good results.

We have also made investments in companies that have simply submitted their plan for our review.

We would prefer not to see the company committing to paying some portion of the capital raised to a professional investment advisor.

We do not always expect an exhaustive business plan. However, a document that answers the important questions about the business is very helpful.⁴

We are enthusiastic about reviewing business plans with entrepreneurs. In fact our members look at more than 200 each year. Please contact us at the address below and we will be glad to review yours.

Marquette Golden Angels Network

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The Marquette Golden Angels Network is a group of alumni and friends of Marquette University interested in private equity investing in seed and early stage companies. There are about 60 members in Illinois and Wisconsin.

⁴ An excellent reference for business plan writing is *How To Write A Great Business Plan*, Wm. Sahlman, Harvard Business Review, July-August, 1997, Pps 98-108. Harvard Business School Press Reprint 97409.