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## ENTERPRISE

# Angel Groups Spread Their Wings Beyond Tech

## Investors Fund Firms In Varying Industries That Meet a Mission

By KELLY K. SPORS

In 1998, when Paul Conforti and business partner Kim Moore started Finale Dessert Co., an upscale dessert restaurant chain in Boston, no angel investor groups had the appetite to fund it.

"We were not even remotely appealing to organized angel groups, because they were all funding tech and Internet firms," Mr. Conforti says.

### HEAVENLY HELP

- The Situation:** Angel investor groups are expanding their reach beyond hot tech start-ups.
- What's In:** Newer groups fund firms, regardless of sector, that serve a certain mission -- including minority or women-led businesses and those that help a certain cause. Other groups that focused on high tech are now branching out to other sectors as well.
- The Caveat:** While funding is more available, small firms still have to show they have a viable business model.

But since 2005, Finale Dessert, now with four restaurants in the Boston area, has raised nearly \$1 million from three different angel groups. The company plans to open four more restaurants in the next 18 months, and several angel groups are already clamoring to help, he says.

### More Widely Available What changed?

Angel investment groups -- wealthy individuals who band together to invest in companies, often for an equity stake -- used to concentrate almost exclusively on hot high-tech start-ups considered able to produce fat investment returns in about seven years or less. But a potentially dramatic shift in the funding landscape is emerging.

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As more angels with varying backgrounds link up, a growing number of these groups are aligning themselves with a mission and funding all sorts of businesses that support the cause. Investments include food and beverage makers, consumer-product firms and retail stores -- all sectors once considered too risky or stodgy to bet on. And even some angel groups that once funded only tech firms are adding nontechnology companies to their portfolios as a way to diversify and accommodate investors with backgrounds in other industries.

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But while angel money is more widely available, businesses still need to look primed to produce big returns and have an exit strategy so

that angels can eventually cash out.

"I think people are just looking for other areas to put their money in," says Sharelle Klaus, founder and chief executive of Dry Soda Co., a Seattle company that makes flavored sodas meant to be paired with foods that are sold at upscale grocery chains and restaurants. When Ms. Klaus needed to raise \$1.5 million last year, she found angel groups willing to chip in about \$350,000. One group funded women-led businesses, and the other was an angel group that mostly funded technology that was looking to branch out.

The number of angel groups is growing rapidly. There are about 265 groups, up from just under 100 in 1999, according to the Angel Capital Association, a Kansas City, Mo., membership group. A directory of angel groups, along with links to their Web sites, is available at [www.angelcapitalassociation.org](http://www.angelcapitalassociation.org).

### **Meeting Their Mission**

Among the missions newer angel groups are focusing on are spurring economic development in a distressed region, funding women- or minority-led businesses, or helping a social or environmental cause. And mission-based groups are often willing to fund companies in any sector as long as they fit the group's criteria.

"We already feel like we have a niche, and we don't want to further narrow it down," says Erica Duignan Minnihan, executive director of Golden Seeds, a New York-based angel group started in late 2005 that invests only in companies where a woman holds a central role. About one-third of Golden Seeds' investments are consumer-product companies. The group is close to providing funding to a diaper company.

Ms. Duignan Minnihan says while high-tech firms still tend to be the "most scalable," meaning they can produce the high returns and fast exit angels generally seek, other types of companies can be just as

lucrative if they have the right business plan and leaders.

Artemis Woman LLC, a Wilton, Conn., firm that sells its beauty-care products through Wal-Mart and other chains, has received about \$1 million in funding from Golden Seeds since 2004. Co-founder Ann Buivid says she and her partner were fortunate to find an angel group that understood women and the selling potential of their products. "When I show microdermabrasion products to men, they say 'I don't know what that is -- will it wax my car?'"

Other mission-based groups include 12 Angels Investment Group, started in 2005, which invests in firms that help prevent or treat addictions, such as alcoholism. The Los Angeles group's first and only investment, so far, was a drug and alcohol rehabilitation center.

### Branching Out

Even some angel groups that once exclusively funded tech start-ups are branching out to other types of companies because many new members come from nontech backgrounds.

Launchpad Venture Group of Boston was the first angel group to invest in Finale Dessert in 2005, after a member saw Mr. Conforti speak at a forum and was impressed with him and his business plan. It was the angel group's first nontech investment.

Launchpad is now trying to add other nontech investments as a way to diversify its portfolio and appease its growing membership base with backgrounds in sectors like retail and real estate, says managing director Hambleton Lord.

What's more, angel groups traditionally provided early-stage funding, but many are now funding later stages of growth and competing with venture capitalists on deals of \$1 million or more. A consumer-product firm or retail store is more attractive to angels once there's some proof the concept is successful.

"Once you hit profitability," says Ms. Buivid of Artemis Woman, "they're a lot more interested."

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