

# UNDER THEIR WINGS

## Angels Invest in, Help Guide Entrepreneurs

By Symone C. Skrzycki

Addictive. Rewarding. Risky.

These traits are all part of the angel investing process, according to serial entrepreneur Oscar Moralez.

He's managing director of VisionTech Partners (providing management consulting services for early stage technology companies) and co-manager of its investing arm, VisionTech Angels.

"Angels are accredited investors who have the wealth and in theory, the level of understanding and sophistication to make these high-risk investments primarily in start-up companies," Moralez explains. "These angels can either work individually or they can work as a group."

The goal, he reveals, is to invest their dollars "in the hopes that these companies are going to grow and prosper and then ultimately sell or have some sort of a liquidity event that results in returns that are certainly significantly higher than the market."

But the reality, he confides, is very different.

"Statistics vary a little bit, but somewhere between 50% and 70% of all of your investments are going to go belly up and you're going to

lose 100% of your money."

The key is to build a portfolio of successful companies that can offset the other losses.

"One or two companies out of, in theory, a portfolio of say 20 that have exceptional returns will more than make up for all the losses you have such that your returns overall across the entire portfolio exceed the market traditional returns," he maintains.

VisionTech Angels has five chapters: Bloomington, Fort Wayne, Greater Lafayette, Indianapolis and a virtual chapter.

Angel investing comes in a variety of forms. Other groups that have developed include the Regional Angel Investment Network (RAIN Indiana) in northeast Indiana and MAGNET Investors in the Michiana area (specifically Elkhart, Marshall and St. Joseph counties).

### Lighting the way

Larry Garatoni is a proverbial firecracker.

Throughout his career, he has demonstrated passion, wit and a wealth of business knowledge. Among his endeavors is helping start the South Bend Career Academy in 2011.

Garatoni co-founded MAGNET Investors with Jim Larkin, who he calls its driving force.

"MAGNET Investors is a group of local business people. At the



Riley Gibb (right), president of VisionTech Angels' Greater Lafayette chapter, says it's critical to harness innovation that's emerging from Indiana's research and universities.

# Investment Process



time it was initially set up, we had probably 15 qualified investors and the intent was to focus on companies that could create more higher-paying jobs, that had a chance of becoming very successful and whose business idea could be scalable,” he details.

MAGNET Investors provides financial backing to businesses within 50 miles of South Bend.

“One of the common challenges is their lack of knowledge over the whole broad aspects of what it takes to start and run a company,” he reflects. “That’s one of the reasons we said they had to be within 50 miles of South Bend, so we could participate or would be in a position to give them advice on an ongoing basis.

“The other thing we’ve come to the conclusion (about) is that we will not invest in a company until they have customers. They need to have evolved their growth to the point where they have some customers who are actually using their products or services and are able to help them evolve their company.”

Thus far, MAGNET Investors has helped finance 12 to 15 companies. Investments range from \$75,000 to approximately \$400,000.

“The driving force for Jim and I was to try to help the economic growth of our area, because when we started this seven or eight years ago, there really wasn’t a lot of economic activity going on in our region. But since then, there’s been a tremendous amount of activity. Jim and I are both extremely delighted with the change in the economic development of our area, and with the entrepreneurship and the spirit and culture of what’s going on up here.”

## Not just start-ups

Established in 2009, RAIN Indiana concentrates on distressed companies.

“Angel investing isn’t limited to start-ups. And it’s not limited to tech organizations. That’s where you hear the most about it,” emphasizes managing member Mark Hagar.

“We’re always interested in distress: virtually every sector. By definition, financial

distress would be a company that has been successful and then for whatever reason is having difficulties – established companies that fall on more difficult times (not necessarily related to the economy).

“When we seek out distressed businesses – at least the deals we seek out – it’s usually not an economic condition of the broad



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*Oscar Morales, co-manager  
VisionTech Angels*

economy. It’s much more firm specific. It’s a strategic error they’ve made or operational errors they’ve made that put them in a position where they can’t continue that creates their financial distress typically.”

RAIN Indiana’s primary focus is manufacturing and distribution; however, it’s started to invest in some technology start-ups.

Hagar has a keen interest in assisting distressed businesses.

“I love everything about it!” he declares. “I understand how it works ... having that deep understanding of the process and possibilities so if somebody brings you a distressed situation, to be able to see a pathway out of that is very exciting for me.

Saving companies is very exciting for me. Saving jobs is rewarding for me.

“That’s why I was drawn to that side (when he co-founded RAIN Indiana). To this day, it’s much more interesting and more fun than the tech start-up side. When you make an investment in tech, you write a check and kind of wait around to see if any money comes back. When I make an investment in distressed (businesses), I get to work and see results almost immediately. You get some sense – even though the money may not come back right away – of if it will and when it will and how much might come back. It’s just a lot more fun for me personally.”

## Sealing the deal

VisionTech Angels reviews approximately 400 applications for funding each year. Typically, it invests in between four to six. Combined investments by the group usually range from \$200,000 to \$500,000 or more.

“In our group, we see (individual) ranges from as low as \$5,000 per deal to \$50,000 to \$100,000 collectively per deal,” Morales comments.

VisionTech Angels looks at three things when evaluating whether to back or discount a deal (in this order): the market, the team and the product.

“It’s got to be in a big market because of the returns we expect,” Morales remarks. “If you think about it, we’re putting \$500,000 into a company – or even a quarter of a million dollars. We’re really expecting 20 times our money back when we ultimately get paid back. And that’s to make up for all of the companies we know we’re going to lose all of our money on.

“We look for 20-time returns on every single deal.”

VisionTech Angels is comprised of 100-plus angel investors. Riley Gibb, director of collaborations at the Purdue Foundry (an entrepreneurship and commercialization hub) is president of the VisionTech Angels’ Greater Lafayette chapter.

“We’re trying to connect angel investment opportunities across the state. Lafayette is one of the bigger, more affluent

regions in the state. It makes sense to have a chapter there. We can tap into different resources. There's a lot of medical and hospital resources there. There's obviously the university and lots of commerce in general.

"The way VisionTech works is about every other month, they have this roadshow. A couple of companies will go through and spend one night in Lafayette, one night in Indianapolis, one night in Bloomington, one night in the other areas and then the group comes together as a whole ... there could be a company from down south by Bloomington and they get exposure clear up to Fort Wayne and opportunities that they wouldn't necessarily be able to find on their own."

### Hitting home

Aside from the economic return on investment, there's something else that compels angels to take a leap of faith.

"Angel investing – a lot of times, it's a passionate investment," Moralez imparts. "You feel impassioned about either the team or the technology because it strikes a nerve. Especially when you start talking about health care and life sciences types of deals (such as) a medical device that potentially could treat some sort of disease or problem. You may have had personal experience with that, so you want to support something like that."

He adds this parting thought about angel investing: "It's kind of addictive. I hate to lose money. Anybody hates to lose money. But it's



Gibb, who also serves as director of collaborations at the Purdue Foundry, talks with a potential investor about clients commercializing ideas in the life sciences area.

also really nice to see that you're helping companies, that you're helping the economy. You're creating jobs through your investments in these companies. And you're helping these companies directly through your experience. Not only writing a check – but also through your experience. It's rewarding in a lot of different ways for angels."

**RESOURCES:** Oscar Moralez, VisionTech Partners/VisionTech Angels, at [www.visiontech-partners.com](http://www.visiontech-partners.com) | Riley Gibb, VisionTech Angels and Purdue Foundry, at [www.visiontech-partners.com](http://www.visiontech-partners.com) or [www.purduefoundry.com](http://www.purduefoundry.com) | Larry Garatoni, MAGNET Investors, at [www.magnetinvestors.com](http://www.magnetinvestors.com) | Mark Hagar, RAIN Indiana, at [rainindiana.com](http://rainindiana.com)

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