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# PUERTO RICO CONFERENCE

Entrepreneurship for Growth

# 2010

March 24, 2010 | Conrad San Juan Condado Plaza | 7:30 a.m. - 5:00 p.m.

P u e r t o R i c o C h a m b e r o f C o m m e r c e



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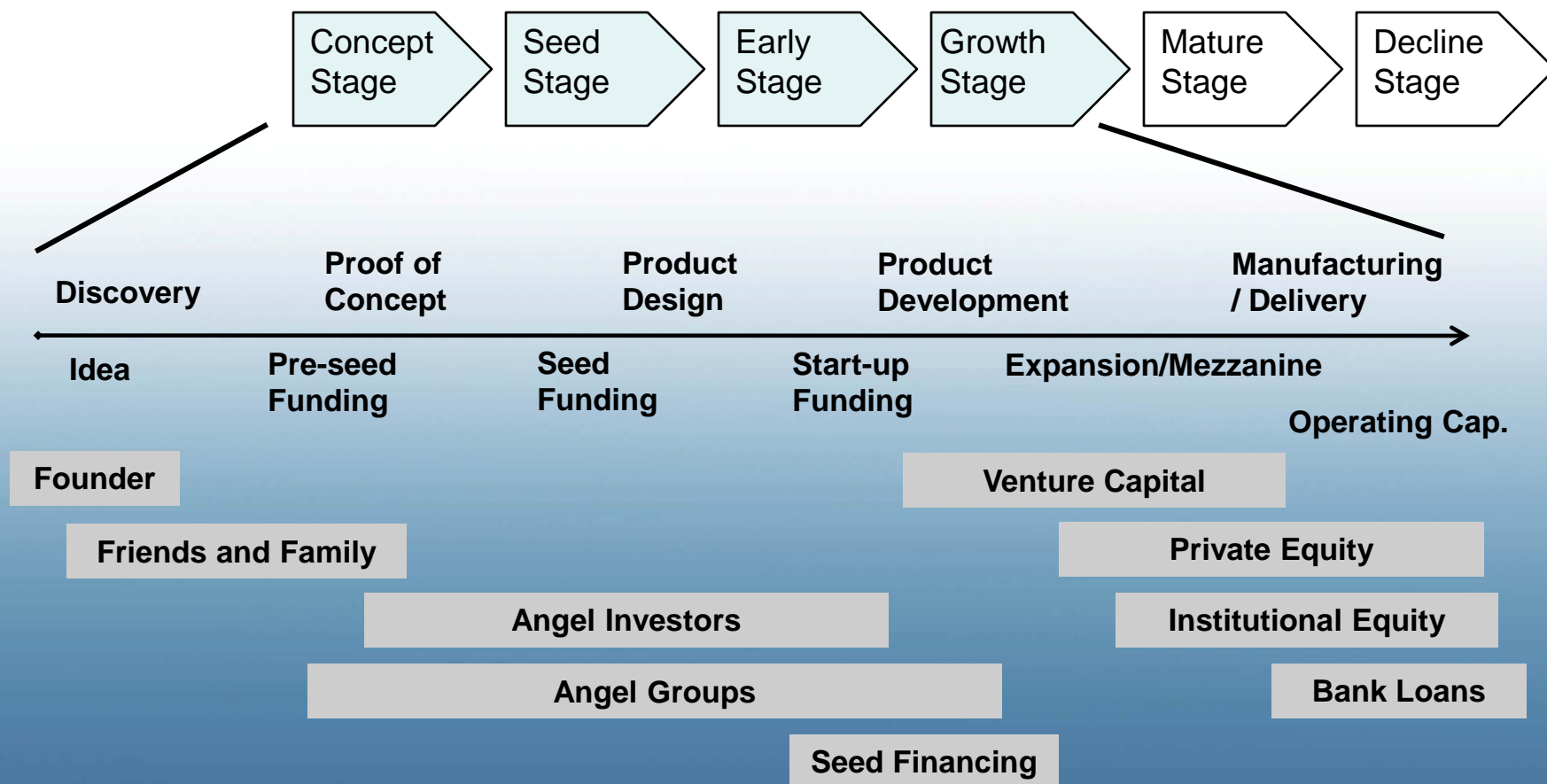
# Entrepreneurial Funding: Venture Capital and Angel Investing

**LIZZIE ROSSO TRIDAS**

President

Economic Development Bank for Puerto Rico

# Business-Financing Life Cycles



Source: Kauffman Foundation

# Angel Investing

What is Angel Investing?

“Capital raised from independently wealthy investors who are not family, or friends of the business’ founders. This capital is generally seed financing” (Preston 2006). In the US, national and local groups of Angels meet -- formally or informally -- to discuss deals and learn about the best new business opportunities.

# Angel Investing

## Angel Investors:

- actively participate in decisions of investment of their personal wealth;
- are often entrepreneurs themselves, or high level executives;
- invest alone or in networks with other like-minded Angels;
- usually invest significant time in their portfolio companies as mentors and advisors, bringing invaluable skills and experience to the new enterprise;
- are usually the first professional funding available to a starting business (Preston 2006)

# Venture Capital

## What is Venture Capital?

- “An investment in a startup business that is perceived to have excellent growth prospects but does not have access to capital markets. Statistics show that venture capital financing typically follows angel financing, or can be the first round of professional financing.” (Preston 2006)
- Sources of funds: Typically, passive institutional investors (e.g. pension plans, corporate investors and other wealthy individuals/entities) pool funds with which professional managers provide equity investments in high-growth start-up companies.



## Angel Investing and Venture Capital in PR

- In Puerto Rico, there is no formal Angel Network grouping, although there are efforts by a number of entities, e.g. Grupo Guayacan, to begin such a network. Because of the reach of Angels and Angel Networks to the entrepreneurial community, these efforts are crucial to get innovation creation and the economy of PR moving.
- In Puerto Rico, the venture capital industry, and private equity in general, is not very developed; there are only a few local institutional players.

Examples: 1. Advent Morro Equity Partners (Guayacan Private Equity Fund, LP; Venture Capital Fund Inc.)  
2. Miradero Capital Partners, Inc. (Puerto Rico Entrepreneurs Fund, LP)



## Angel Investing and Venture Capital in PR (cont.)

- The Economic Development Bank for Puerto Rico (EDBPR) has carried out a limited amount venture capital activity in the past.
  - Through direct investments (in companies' equity)
  - Through indirect investments (in funds which in turn invested in companies equity)
- It has been proven that Angel Investing and Venture Capital both help foster economic development where they invest, which is necessary in Puerto Rico today.
  - 70% of a nation's economic growth is typically attributed to entrepreneurship (2005 MIT Entrepreneurship Center)

## Angel Investing and Venture Capital

- There are major differences between an Angel Investment and a Venture Capital Investment:
  - Amount invested (\$100K to \$1 million vs. \$6 million to \$50 million)
  - Company stage (seed/start-up stage vs. growth/later stage)
  - Sources of funds (Angel's own vs. passive investors')
- On the other hand, whether an Angel Investor or a Venture Capitalist, all are looking for:
  - Unique/robust technology/service/product
  - Large and growing market opportunities
  - Attainable attractive market position, which is sustainable over time

## Angel Investing and Venture Capital (cont)

- Whether an Angel Investor or a Venture Capitalist, all are looking for (cont.):
  - Large margins (that allow for early mistakes)
  - A founder and team that can execute
  - “Stageable” risk
  - A clear exit, whether in the longer term (Angels) or shorter term (VCs)
  - Investing an amount worth their while, as time is usually the Investor’s scarcest resource
  - Participation in enterprise’s important decisions, as Director or advisor, in addition to shareholder.

## EDBPR's Lessons Learned for Investors

- The venture capital activity of the EDBPR has provided a series of important lessons for investing in PR:
  - Investor should have specific knowledge of industries in which to invest.
  - Investor should have enough time or human capital to guide and monitor portfolio companies
  - If resources are limited, it is better to focus investments in only one or two industries instead of many (unrelated) sectors.
  - True to venture capital industry's statistics, most investments either fail or fail to meet their target returns, so expect losses.
  - In a diversified portfolio, however, a few winners will provide overall positive returns.
  - It is better to co-invest with other investors, as the risk is shared and there are more resources to look after the investment.

## EDBPR's Lessons Learned for Entrepreneurs

- In PR, entrepreneurs are usually not familiar or comfortable with the venture capital investment model.
- Companies need to look at markets outside PR to attain higher volumes of sales and faster growth rates.
- The founder and the management team business skills, industry knowledge and passion are extremely important for the success of the venture.
- In PR, companies need to consider the high labor, energy and other business costs as they expand.

# Thank you

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