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Tech Coast Angels Founder: ‘Process’ Was Key to Success

by Graeme Thickins

“They told me it couldn’t be done,” said Luis Villalobos, of the angel network he founded in Southern California. “When I first brought it up, my friends on the Orange County Business Council said I was crazy – there wasn’t enough interest in our area for such a network.”

That was in the late ‘90s, but Luis hardly let such talk stop him. Today, Tech Coast Angels (TCA), which he officially launched in 1997, is the largest such network in the U.S. Its 270 members have personally invested \$80M in 124 companies over the past decade, and have helped these portfolio companies attract an additional \$778M in capital. The group actually consists of four geographic networks, in Los Angeles, Orange County, San Diego, and Westlake/Santa Barbara.

At the DEMO 07 conference in early February in Palm Desert, CA, I had the opportunity to sit down with Luis and get his personal recount of TCA’s beginnings and some of the lessons he and his organization learned along the way.

“Pooling” a Dying Model

First of all, Tech Coast Angels is not a fund, I learned, and does not invest as a group. Villalobos, in fact, thinks the so-called pooling approach is declining as a model for angel networks. TCA has never used that model, he said. Its members collaborate on due diligence, but make individual investment decisions under common valuation and terms. Fundings include closings with VC-like transaction documents. (More information is available at www.TechCoastAngels.com.)

Villalobos began his quest in 1997 by brainstorming his ideas on a whiteboard with his Orange County business associates. His own personal background had included founding two firms in the 1980s, Conographic and Harvil, both of which had raised angel and VC funds. In his research, he soon hooked up with the late Hans Severiens, who had founded the renowned Band of Angels (www.bandangels.com) in Silicon Valley in 1994. Villalobos said this experience was extremely valuable for him, with Severiens willingly sharing with him what his network had found to be successful.

The Big “Ah-Ha”

The key thing Villalobos learned in all his studying and research was that *process* was key to the success of the VC model. “So,” he said, “I followed that lead.” He was one of the key participants in a series of annual Angel Summits, which began in 2000, with the objective of disseminating best practices of groups like his to smaller networks. These meetings ultimately led to the creation of the Angel Capital Association in 2002, “The heads or administrators

of nine angel groups, including TCA, were the driving force behind the creation of this association, did all the work, and comprised the board of the ACA,” said Villalobos. The Kauffman Foundation provided financial support.

Luis also brought back ideas from these meetings to TCA. “For example,” he said, “the concept of ‘active deal flow’ – wherein a network’s members could develop a relationship with a university lab or other deal flow source, and actively seek deal flow before ventures were even formed.”

I went on to ask Luis more about the process TCA has developed over the years, and how its members learn and practice it. TCA’s formal funding process has three parts: pre-funding, funding, post-funding. Very basically, pre-funding includes (1) exploratory contact, (2) the online application, (3) pre-screening, (4) the screening session, (5) due diligence, and (7) plan revision. The funding part of the process includes (1) the term sheet and valuation, (2) the dinner presentation, (3) developing the deal docs, assuming there is sufficient member interest, and (4) the closing. Post-funding includes (1) monitoring, (2) mentoring, (3) facilitating resources, and (4) harvesting.

“The process is best learned by new members by observation and participation,” said Villalobos. “They attend a screening session and see how it works. Invariably, we get rave reviews about how powerful the process is, especially the screening sessions. Nothing like having about 25 angels, most of whom have CEO experience, firing questions at the entrepreneurs. Then, in the private lunch that follows each screening, they discuss in a constructive but totally candid way, what we thought of the venture and the team.”

Rules Beget Trust

What about the rules of your organization, I asked? How do these rules play out in practice for the members? “The rules are formal,” said Villalobos, “They are fundamentally meant to define what the role of TCA as an organization is, and how members should behave relative to TCA and to each other.” A core part, he said, is that each member agrees to each be responsible for his or her own due diligence and investment decisions. “We have a covenant not to sue any other member over any TCA-related transaction,” Villalobos added. “That said, due diligence and the other parts of our process are completely collaborative, and we divide diligence tasks and share what we find, including conclusions and recommendations.”

He continued: “Trust has developed in our process and mutually among our members, so cooperation could hardly be better. Really, the rule about responsibility for our own due diligence is more about providing freedom to share information and results, without fearing someone later suing you if you made a mistake or a bad call. So, it really has the opposite effect – to allow complete sharing of due diligence among the members.”

One question I was curious to ask Luis was this: how often do more than one of the four geographic groups of the Tech Coast Angels invest in the same deal? “I believe that almost all – certainly more than 90% – of our deals include investments from members of 3 or even all 4 groups,” he said. “Even though we have the four networks, the process is meant to work, and does, across all of them. One of our rules is that deals are to be presented to all the networks. The screening sessions for a venture often happen within the same week: Orange County has Wednesday screenings, Santa Barbara/Westlake on Tuesdays, San Diego on Fridays, and LA on Thursdays.

Building a Winner

So, what's this founder's overall take on his creation? "I believe that creating the core model and kicking off some of the core processes, and then involving other members extensively, has been key," said Villalobos. "We have very active members who take leadership roles and have been instrumental in building TCA to where it is today. It's a true group effort. I'm a student of venture capital and angel investing, and bring what I learn back to TCA. I participate in workshops on valuations, IP and patents, deal terms, and how to lead a deal. And I also frequently do 15-minute presentations at our dinner meetings on a particular topic or point."

Just how involved is Villalobos in his organization today? "I remain extremely active and sit on our Board of Governors, which includes the president and a representative from each network, the chair, vice chair, and the most recent past chair, and me as founder. This board sets all policy for TCA and oversees our web site. I'm also on the executive committee of the Orange County network."

And how involved is Villalobos to this day in actually investing? "I attend almost all of the Orange County screening sessions, and I have personally invested in six TCA deals in the past 14 months."

What about TCA members serving on the boards of portfolio companies? "We invariably take at least one board seat – on the regular board of directors, not just an advisory board role – and at times two, or occasionally three, board seats," said Villalobos. "But we never control the board of any of our companies. I'm currently on three boards, and may be about to join a fourth. Usually, the deal lead is the one that takes a board seat, and the second or third seats for TCA are members who bring particular value to that venture – in market knowledge, domain expertise, technology expertise, or whatever is most needed by that venture."

It's clear the vision Luis Villalobos had back in 1997 was the start of something big. A decade later, he can rightfully be proud his Tech Coast Angels organization has launched so many successful new ventures. The process he conceived and perfected with his many fellow angels had built an enviable amount of shareholder value indeed.

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About the author: Graeme Thickins had been helping new technology ventures launch for more than 25 years. He writes regularly on startup issues and technology trends at www.GraemeThickinsOnTech.com, and has written for a variety of other media outlets. His consulting business is at www.gtamarketing.com.