Testimony of Rich Palmer
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On behalf of Angel Capital Association

House Committee on Small Business
"Assisting Entrepreneurs: Examining Private and Public Resources Helping Small Businesses."

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Chairman Williams, Ranking Member Velazquez, and distinguished members of the Committee, thank you for the opportunity to testify before the Committee today. My name is Rich Palmer. I am the Managing Director of Launchpad Venture Group, and I appear today on behalf of Angel Capital Association (ACA). I am happy to be here to discuss how Congress can improve the federal government's engagement with angel investing to better facilitate the flow of capital to small businesses.

ACA is a professional society of member-accredited angel investors who make up the world's most prolific early-stage investment class. ACA represents more than 15,000 accredited angel investors and 250 angel groups, accredited platforms, and family offices. Together, ACA's members deploy more than $950 million in early-stage capital every year, supporting more than 30,000 entrepreneurial companies in our investment portfolios.

I have spent nearly twenty years focused on entrepreneurship and marshalling resources to help small businesses. After receiving a dual major Bachelor of Science in Information Technology and Economics from Rensselaer Polytechnic Institute, I began my career on Wall Street, where I led product development at Relationship Science. I was also head of portfolio analytics for S&P CapitallQ's quantitative intelligence team.

I then co-founded and served as the CTO of Gravyty, the leading AI company for social good. This position garnered me awards, patents, and accolades, including placement in the Boston Business Journal's 40 Under 40 list and Babson College's Entrepreneurship Award. I continue to serve as an Entrepreneur-in-Residence at Babson College, I have invested in dozens of promising startups, and I advise and speak regularly on entrepreneurship.

In 2022, I became Managing Director of Launchpad Venture Group. A proud member of ACA, Launchpad Venture Group is a leading, nationally recognized angel network. Launchpad pools human capital for purposes of sourcing, conducting due diligence, and negotiating terms, but Launchpad's members make their investment decisions individually, with each investor's name on the capitalization table. Unlike groups structured as funds, Launchpad takes no management fees, nor does it earn carried interest on profits.

Launchpad currently has more than 185 active angel investors building individual portfolios by providing human and financial capital to help entrepreneurs build successful companies. Each Launchpad member is qualified as an accredited investor as defined under Rule 501 of the SEC regulations. Since 2001, Launchpad members have invested over $125 million in more than 150 startups. Some of Launchpad's largest investments include stakes in Zipcar, EZCater, and Clean Fiber. We are the most active angel network in New England and one of the top three most active angel networks in the United States.

Each year, Launchpad invests $8 to $10 million in approximately 30 to 40 rounds of financing, both in new opportunities and in supporting our growing portfolio of companies. Thus, Launchpad exemplifies the power of angel investing as a driver of entrepreneurship.

Angel investing supports small businesses in four distinct ways.

First, angel investors provide crucial funding to startups and early-stage companies that may have difficulty accessing traditional sources of capital. Angel investors bridge the gap between a company's initial seed funding and subsequent rounds of venture capital or other forms of financing. This early-stage funding is often vital for entrepreneurs to develop their ideas, build prototypes, hire key personnel, and bring their products or services to market.

Second, angel investors provide invaluable mentorship and guidance to entrepreneurs. Angel investors typically have a wealth of experience and expertise in the industry or sector they invest in. Therefore, they are uniquely qualified to offer valuable mentorship, guidance, and strategic advice to entrepreneurs. This support helps startups navigate challenges, make informed decisions, and increase their chances of success. Moreover, angel investors often have extensive networks which they can leverage to the benefit of small businesses they invest in.

Third, angel investors provide essential "risk capital" to startups. Angel investors are willing to take on higher risks compared to traditional investors like banks or financial institutions. They understand that startups and early-stage companies face significant uncertainties and may have a higher failure rate. By providing risk capital, angel investors enable entrepreneurs to experiment, iterate, and pursue innovative ideas that have the potential for substantial growth.

Fourth, angel investment can lend credibility to a startup. When a reputable angel investor invests in a company, it signals to other investors, customers, and stakeholders that the business has potential and is worth considering. Consequently, angel investment can increase an entrepreneur's chances of attracting further investment from venture capitalists or other sources.

The facts speak for themselves. Desert Angels conducted a study that found every dollar invested by an angel investor has a multiplier effect of 21. The average initial investment from Launchpad, specifically, is $25,000, which creates economic value worth more than half a million dollars — per investor. Launchpad's members team up to put together rounds of between $500,000 and a million for pre-seed funding, and up to $3 million for seed rounds.

Because the market knows that angel investors provide crucial due diligence, the angel investment model delivers returns that are two times better than traditional investments, and companies with an angel on their board of directors earn returns 2.5 times higher than companies without.

The importance of angel investing is further augmented by the reality that existing federal resources oriented toward small businesses, such as the Small Business Agency (SBA), fail to capture the entire innovation ecosystem. The SBA is undoubtedly an important organization. The SBA's importance was underscored during the COVID pandemic, when it was tasked with the monumental endeavor of overseeing the Payment Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program. However, the SBA does not focus on the early-stage innovative companies that angel investors concentrate on. Rather, the SBA focuses on traditional, established small businesses such as local restaurants and flower shops. Therefore, SBA funding fails to reach an entire segment of innovation in our economy.

The Small Business Innovation Research (SBIR) program, specifically, measures success based on deployment of federal funds, not on a business's ultimate commercial viability. This is misguided, and represents a failure to understand and capitalize on the innovation ecosystem. SBIR encourages small businesses to engage in federal research and development (R&D) with the potential for commercialization by providing funding opportunities for small businesses to conduct R&D projects that align with the specific technology needs and priorities of participating federal agencies. These agencies include the National Institutes of Health (NIH), the National Science Foundation (NSF), and the Department of Defense (DoD). The narrow focus of this program on these agencies' particular needs and priorities disregards the thousands of innovative startups whose priorities are not aligned with these agencies' — companies that have high-growth, job-creating potential on a national or international scale.

In light of the failure of public resources to adequately capture the entire innovation ecosystem, SBA should begin to leverage local angel groups and our know-how in order to get more capital to entrepreneurs and small businesses. Angel investors are present in every community in the United States. Importantly, although more than 16 million Americans qualify as accredited investors, only about 16 thousand who are active angel investors. SBA could help narrow that disparity by developing programs that leverage private individual capital to invest in early-stage startups. By deepening its engagement with angel investors, SBA could play an important role in harnessing more private capital for small businesses and innovative startups. Such an initiative would especially benefit entrepreneurs of color, who cannot leverage family connections or family wealth, and thus particularly depend on professional angel investment.

Moreover, angel investing will be essential to the fulfillment of Congress's and the President's industrial policy goals. The CHIPS and Science Act of 2022, for example, seeks to reestablish the semiconductor industry in the US by returning leading-edge chip manufacturing to the US, expanding the US's capacity to make current chips and critical supplies, reinforcing the US's strengths in chip design and equipment, and growing an American semiconductor workforce. Though Congress has allocated important funding for this ambitious legislation, that funding cannot reach the CHIPS Act's goals without support from more capital creation and innovation. Angel investing is uniquely suited and ready to drive that innovation, bolster the American economy, and support the US government.

My colleagues and I are ready and willing to serve as resources of information and feedback as you pursue legislative solutions to making capital more readily available to our nation's entrepreneurs. Thank you again for this opportunity to share my experience with you. I look forward to your questions.