Graziadio Business Report
A Journal of Relevant Information and Analysis

2008, Volume 11, Issue 1

Venture Capital

Audio interview with Luis Villalobos, Founder of the Tech Coast Angels

Nancy Dodd, MPW, MFA

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Nancy Ellen Dodd: I'm Nancy Ellen Dodd, editor of the Graziadio Business Report. Today we are interviewing Luis Villalobos. In 2007, Mr. Villalobos received Hans Severance Memorial Award for outstanding contribution to Angel Investing. He sits on the Board of the Paul Mirage School of Business at the University of California Irvine and is Executive in Residence at he Graziadio School of Business and management at the Pepperdine University. Conducting our interview is David Sumethasorn, an MBA student at the Graziadio School of Business at Pepperdine and President of the Entrepreneurship Club. Welcome to Pepperdine University gentleman.

David Sumethasorn: Mr. Villalobos, thank you for coming out. My name is David Sumethasorn from Pepperdine University and we'll be conducting an interview about Tech Coast Angels. And for our audience out there, some general information. What should we know about an angel investor? What is an angel investor and who are the Tech Coast Angels?

Luis Villalobos: Well, starting with an angel investor, that's an individual who invests their personal capital into a high risk venture. That's my definition. There isn't really a generally accepted definition, which is unfortunate so there's a lot of confusion because there's about 10 million individuals that put money into so called entrepreneurial ventures each year. And different people think of those or sub-segments of those as angels or not.

David Sumethasorn: What led to the formation of the Tech Coast Angels and how large has the organization grown?

Luis Villalobos: IO was asked by our local business council to do something for capital formation for Orange County. So I convened a small group of us and we brainstormed on a white board and one of the ideas that I had heard about was the Band of Angels in Silicon Valley. SO, we each took one of the ideas. I took that one. I called the founder of the Band of Angels and I must have talked to him a dozen times in a week. How do you do this? How do you do that? And I came back just absolutely amazed because they'd been operating three and a half years. They typically had one or two ventures present for funding at a dinner meeting. And the staggering part was they had funded better than half of the ventures that presented in that three and half year period. So, I came back ad told my little group, "I'm done. I want to go start an angel group." And that was the genesis of Tech Coast Angels. And you said how big? We're now spread- we have a network in San Diego, Orange County, Los Angeles, Santa Barbara, West Lake and we're just starting one in the Inland Empire. And we're approaching 300 members.

David Sumethasorn: What is the average profile of the average investor at Tech Coast Angels?

Luis Villalobos: As one of our members said, we're not gainfully employed otherwise. So somebody that's got enough time to really spend with ventures, both the process part and then once you fund them, working with them so that you can keep them from falling off the rails.

David Sumethasorn: What is the difference between a typical investor in Tech Coast Angels and Uncle Charlie who has $10,000.00 to $20,000.00 to put on a business plan?

Luis Villalobos: Well, your Uncle Charlie starts to sound close to an angel. The more typical Uncle Charlie is the one that puts in $500.00 or $1000.00 and that's what often is called Friends or Family. Some people add a third 'f', friends, family and fools. But that's a big segment in terms of the numbers I told you, there's probably about seven and a half million individuals that put in less than $3000.00 a year. So, that's a large number and that's probably the biggest difference. Typically, they're not going to be active in the venture. They're not going to try to help you and coach you. It's like you say, your Uncle Charlie says, "Okay, here's $10,000.00 and God bless you. Let me know what happens." They usually often don't even ask what they're getting from the venture or how much stock or what ownership or anything.

David Sumethasorn: With the Tech Coast Angels we had over 140 ventures so far, 86 million in member and capital, 812 million external; mostly IVC. Could you explain what the 812 million is for the external and the IVC?

Luis Villalobos: It's mostly what people traditionally call Venture capital firms. So when we invest- that's money that comes in occasionally the same time with us but mostly after we fawned and the company is doing well. Then we attract venture capital to help them grow in scale.

David Sumethasorn: What specifically should an aspiring entrepreneur know about the Tech Coast Angels?

Luis Villalobos: Well, the first part is where to look. We have a website that has a big public face to it. And it pretty well tells an entrepreneur what we're looking for, what our criteria for funding. It includes an online application. But in general, what hey should be- they should have a business plan. Something that they thought out fairly well as to what kind of service or offering product their delivering to somebody that would see value in it. So, it's all about bringing value to some customer and then revenues and profits will follow that.

David Sumethasorn: What type of legal issues or challenges does accounting or labor in their business plan-- How would that work out between the angel investor and the entity that gets funded?

Luis Villalobos: Well, as investors, we take nothing from the entrepreneur in terms that we charge no fees. There is no consulting fees, no charges for anything other than our capital. And then with the capital, we just negotiate what percent of the company we'll get for that amount of capital. And typically, we invest somewhere between $200,000.00 and a million dollars. We'll be getting somewhere in the 20% to 35% of that venture.

David Sumethasorn: That percentage goes up and down depending on the venture?

Luis Villalobos: It never goes up in the sense that-- And that's an interesting question because a lot of entrepreneurs think that their starting with a fixed pool and just re-dividing it. You just keep issuing more stock. So when we say we got 25% of your venture, then when you bring in a Board member for example, you may give him additional shares. So our 25% continually is eroding and when you do the next round of financing, when you take a lease and give some warrens to the leaser, so our shares in percentage-wise continually drop. And usually as a rule of thumb by the time you have an exit so that you sold your company or did an IPO, our percentage is cut by about a fourth.

David Sumethasorn: What about control of the business plan? Do the angel investors occasionally get on board and become part of the Board of Advisors?

Luis Villalobos: We usually insist on having at least one Board seat on the regular Board. But control is very different. We rarely if ever have control. We don't want it. It's not our role. In other words, we expect the entrepreneur to be the one that is directing the venture and executing and I guess in some of the workshops I do I call it the Rocket Ship Paradigm. If you think of one of the big NASA rockets, the entrepreneurs are the big rockets that get you out of gravity. And once you're outside of gravity then you have the tiny little attitude jets that change the direction of that rocket. And that's what I think should be the relative relation between the angel and the entrepreneur. They do all the heavy lifting and we're hopefully from our past experience helping them to not make the same mistakes we did when we were entrepreneurs. So, we're the little attitude jets that correct the trajectory of that venture.

David Sumethasorn: What is risk capital for high growth ventures?

Luis Villalobos: Well, that's really what separates in my mind what a professional angel investor is from a lot of the other people that put money in. The first part is the risk capital. There's some ventures that are relatively low risk as opposed to high risk. For example, your neighbor may have a print shop that's been operating for ten years. He needs or she needs $50,000.00 to add another machine into the shop. It's a very well established business. It's been profitable. So, that's not typically what we would consider high risk or an angel investment. It's still investing in a direct investment into an entrepreneurial venture so some people would still call that angle investing. The high growth is the other side of it for us to make the returns that we're looking for, the venture needs to be able to grow, otherwise we're not going to get our return. If we buy 25% of a venture and five years later it's doing a million dollars, there's no way we're going to make money.

David Sumethasorn: Three major segments of providers of venture capital such as IVC firms, professional angel groups and professional angels. Is there any debt or leasing? Will they invest in small companies that don't expect a high growth?

Luis Villalobos: Well, the three that you mentioned, the institutional venture capitalist; they differ from angels in that they use somebody else's money. That's where the institutional part comes for venture capital. So if I'm an institutional venture capital, I would go raise money from a pension fund from Stanford's Pension's fund or any of the various pension funds or insurance companies or high net worth individuals. And then I invest that money for them in exchange for getting a management see and a share of the profits, which is called carry. And they usually put in a lot more money. They're typically investing in the three to five million and even much higher. The angels then you mentioned two categories; the ones that just freelance as individuals and come together in various ventures but aren't organized and then the angel groups, which is relatively new. They've probably been around now about 14 years starting with a Band of Angels. And that's an organized process where the angles meet. They share the process. They share the term sheet. They share the work. But it really is much more in my opinion, a much more cost effective way and capital efficient way to deploy capital.

David Sumethasorn: What is your opinions on why do angels accept lower returns than that of venture capital?

Luis Villalobos: Well, the simple answer is I don't think they do. I would also kind of question the pother word, 'accept'. We have to earn it both as VCs and angels. It'd be nice if we could almost like buying a bond, accept a given rate. But it really is going to be- the rate we get of return is highly dependent on how good a job we do in helping that venture to succeed. But in general, we seek higher returns than traditional or institutional venture capitalists do because we typically are in earlier, take more risks and take longer to get an exit.

David Sumethasorn: Potentially dangerous of course.

Luis Villalobos: Oh, we typically will lose about half the ventures we fund.

David Sumethasorn: Some VCs are raising a fund to collaborate with angel groups. This is a new model. Do you see that becoming perhaps a wave of the future or an evolution of the current angel investment community?

Luis Villalobos: I believe so. And let me spend a little bit of time on that because it's really a very important point. Early stage investing, which is really what we all need to do in this country and that's what has made this country really boom and the economy great; is you have to start with getting those small ventures to grow. It's very, very tough. When you're investing in an early stage venture, typically there's no revenues. Certainly there's no earnings. There's very few metrics to measure it. The management team may be incomplete or inexperienced or both. So, you have to do a lot of work and it's very hard. And it's very time consuming. And then when you consider the other side of it, those ventures really it's not prudent to put a lot of money into them. They really can't absorb it productively. So, here you've got a situation where it takes a lot of work with a lot of uncertainty to deploy a tiny amount of money. Well, it's very, very hard. And so what's happened is the traditional source of that capital, which was the institutional venture capital funds, have gone later stage. So, they wait till the venture's already got traction, has revenues, even profits and then they put in tons of money. So, that's created this big gap and that's what angel groups particularly are starting to fill. But even they don't have enough capital. So, what I think is going to be the wave of the future, is to take the leverage that the angels in angel groups provide because- say Tech Coast Angels. We don't charge a penny. We don't get compensated for doing any of the work. Well, if somebody else can leverage that talent and it's very, very expensive talent. Most of us have been CEO of ventures that have been successful. WE could be charging $300, $400, $500, or $1000.00 and hour for our services but instead we donate essentially all that time for the success of the venture. So, coupling that with an external source of capital I think is the way to go because otherwise this gap that is existing right now, is never gonna really be filled.

David Sumethasorn: It sounds like you are having a lot of fun doing it though.

Luis Villalobos: Oh, we do. Certainly we do and by the way I should disclose, I am one of the people that is starting a fund to collaborate with Angel Groups. I'm in the fundraising part of that process.

David Sumethasorn: For an entrepreneur who doesn't have a lot of money to start himself off but has a fantastic idea, what should that entrepreneur be doing to gain angel support?

Luis Villalobos: well, the first part is to understand what an angel looks for and looks at. So the first part is very hard to invest in something that doesn't have at least a proven concept. So, as an entrepreneur what I would suggest the entrepreneur focus on is how can I really be entrepreneurial and spend either little or no cash to get to some kind of a proof of concept? Fortunately these days when you have a Web 2.0 business, it's very easy. You just get a couple of buddies from the computer science department. Round up a little team and say, "Hey, let's start a venture." And of course, you need some idea and some concept about what you're gonna do but the core idea would be to get some traction. Get something that shows that this has a likelihood to work. For example, up here there was a company that right now I believe is pretty well known; Make It Work. They service computers. They come to your house. And they actually hands-on fix your computer without you having to do anything. Well, before they came to Tech Coast Angels, they had that sense. SO, they first started here in Santa Barbara. Made the business work. Showed that they could make it work in one community then came to us and said, "Gee, look. It works. Here's the model. What we need is capital to scale it now and take it to Southern California", which they have very successfully and they're gonna be huge. So, that's a very good model. In fact, when they came to us were more advanced than most of the ventures that we see.

David Sumethasorn: Further on down the line, proven concept.

Luis Villalobos: Yes, proven concept; more than proven concept. They actually had revenues.

David Sumethasorn: A profitable concept.

Luis Villalobos: A profitable concept in a small little area. It was basically we can do this here, now we can scale it.

David Sumethasorn: What is the most successful venture you ever saw?

Luis Villalobos: Well, if you mean saw?

David Sumethasorn: Or you are still seeing.

Luis Villalobos: Of the ones I've invested in, probably two. One is Gadzooks Networks that in three and a half years, we took from the angel investment round to an IPO that was 101 times our share value from investments. And that was before the bubble so it wasn't the bubble baby. There's been a couple of others that I've invested in that have spectacular returns like that. There's one I'm currently investing in and sit on their Board that is still in stealth mode but should make a big splash at the CES Show in a few weeks. And I think that's going to be one of the big huge ones.

David Sumethasorn: When venture ideas fail, what seems to be the common weaknesses?

Luis Villalobos: Well, if you take what people say is obvious is they run out of money. But that is about as insightful as saying that usually a skiing accident happens on the last run of the day. Well, because you're disabled. It's not because they run out of money. The real question I think you're asking is why do they run out of money. And it's lack of focus is one of the big issues. They try to do way too much and there's just not enough capital to do that. Another thing that really hurts is they don't recognize- they are overly optimistic about projecting revenues. They say okay, we're going to get revenues in the fourth month and then start growing from there. This is our expense rate. What Angels or investors call burn rate, which is the actual net cash that you're consuming each month and they said okay, with this net/burn rate that we're projecting, your million dollars will last us 18 or 19 months. Well, what happens then is revenues don't materialize when they thought they would. And you show up at a Board meeting and say we're running late on revenues but we have cut back. But they never cut back enough so that the burn rate still allows them to operate for the 18, 19 months. That's another probably key factor. Third, sometimes they just don't understand their market.

David Sumethasorn: What is the outlook for angel investing here in the coming years?

Luis Villalobos: Oh, we're probably if you looked at it historically, this is probably one of the best times ever. And for some of the same factors I described where the venture capitals, the professionals are going to later stage; it's leaving this gap. So, if you look at valuations, the valuations of later stage venture capital are approaching what was in the Internet bubble. And if I had to bet I think we're going to see a repeat somewhat similar to that. The valuations that are so called expansion stage venture capital are maybe at about 60% of where they were at peak. But if you look at the valuations of early stage, they've actually haven't reached bottom yet. They've just been coming straight down from the- not sharply but they're sort of flat but still trending slightly downward. So, if you look at then as an angel investor, the bet you're making is that if you help the venture to succeed, you push them up to the next stage. The VCs some in with an expansion stage. We used to expect about a 2 ½ to one step up of valuation. Now it's running almost nine to one. So, from a valuation side, it's tremendous. There's very little competition so you can take your time and find the good deals and work with them. And certainly our economy seems to be doing very well. So, on almost any front, it couldn't be better.

David Sumethasorn: Ever have the idea of perhaps expanding the Tech Coast Angels to foreign markets?

Luis Villalobos: We get a lot of interest in that. In fact, just last week from one of the graduate students at the Paul Mirage School was approaching me about China and saying can we do a Tech Coast-- It's hard for several reasons. One, the travel is difficult. But probably more the cultures and cultures more in the entrepreneurial sense. Whether you take Latin America, Europe of Asia, and I think Asia is probably the most promising of those. Take Latin America; the culture is just failure is a central part of entrepreneurship in this country. You fail and you try again. It's not bad. In fact you learned a lot and investors respect that. In a lot of countries, Latin America, Europe; failure is considered a stain on your reputation on your family honor. And that's not good. It's not good. So it's very hard. There are other things that are cultural too. For example, again, in Latin America, they don't like to distribute ownership. So, if I start a venture in Mexico for example and I've seen business plans. The owner has 95% and he is not a working owner. He's just a passive owner. The operating team has a general manager that runs the business and the rest of the team will share 5% of the ownership. Well, that's not a lot of opportunity or potential to entice the kind of entrepreneurs you'd like. So, I think the reason I think it's difficult is the same reason you see very little venture capital other than late stage venture capital in other than the U.S. The cultures of entrepreneurship just aren't there.

David Sumethasorn: What kind of philosophy or attitude should an entrepreneur have here in the U.S?

Luis Villalobos: I think the focus should be on-- What really excites me is an entrepreneur that is extremely passionate about delivering some service or product; bringing value to some customer. Not about profits, not about revenues. Those will follow and that's a surprise to many entrepreneurs I talk to. Oh, we're gonna make you the best venture investment you've ever had. That's not what I want the focus to be. I want them to be really passionate about something that they're going to deliver to somebody. And invariably, a company is going to run through hard times and you want those entrepreneurs to go through walls if they have to. Do whatever it takes. Of course ethically; that's a key consideration. But whatever it takes to make that venture succeed. And often I tell the entrepreneurs and again, they think I'm joking. I say if your venture doesn't come before your mother, your wife and your children, you're going to be in trouble. <Laughs> And that's really tough and they think I'm kidding but if you don't have the support- if you are married and you don't have the support of your spouse, one of the two is going to suffer; your venture or your marriage. Many in the entrepreneurs are better doing it young and single.

David Sumethasorn: Fortitude and commitment appear to be two of the biggest things, especially in the long run.

Luis Villalobos: Absolutely. Perseverance. You just have to keep going at it.

David Sumethasorn: Any opportunities for MBA graduates from Pepperdine to get in with interning or assisting Tech Coast Angels to get an idea of what they should do to get their business plans off the ground?

Luis Villalobos: Well, there's lots of opportunities, especially with Tech Coast Angels. We use interns all the time. The way our process works, the core part of it is what we call a screening session. And we hold two screening sessions a month at each of our networks. And a screening session is comprised of four companies, each making a 15 minute PowerPoint presentation and then having 15 minutes of Q&A. And we typically have 20 to 25 members at each of those sessions. If you sit in on one of those and see what happens and what questions get asked and the presentations; and many of the presentations have already been coached. So the information that the entrepreneurs present and the questions that they ask; then we kick them all out but interns at most of our networks are allowed to stay for the lunch session and then hear the investors, the angel investors discuss what they like, what they didn't, about each of those ventures. The feedback we get is that's a better learning experience than almost any class that that intern has taken. We also let them help in the due diligence, take on assignments doing Internet research or whatever. There's some schools that will set up courses where they have teams of students take on a business and do a project for them, often marketing. There's lots of opportunities for any MBA that wants to get involved with Tech Coast Angels to do so. Now, there's no compensation for it typically.

David Sumethasorn: If I was an entrepreneur at an MBA program, I would easily take this to gain the experience.

Luis Villalobos: Certainly I wish I had had that in my career; that opportunity. And all the feedback we get is tremendously positive.

David Sumethasorn: Where else can you go about getting mentorship and financial support?

Luis Villalobos: Well, most of the communities that we work within have other organizations. I'm more familiar with the Orange County ones for example but we have the Orange Coast Venture Group, OCVG. They typically meet once a month, have a program with speakers and they'll draw 200, 300 people. There's usually some government financed small business development company that gives mentorship and coaching to the entrepreneurs how to do a business plan. It's just asking around and finding out who are the resources. And the angels themselves; we do a lot of outreach in our communities so we're often speaking. Like here at Pepperdine, I've probably done four or five workshops here for MBA students. And probably the biggest thing as we said is my definition of entrepreneur is someone that doesn't know something is impossible and then goes and does it. And is that mental attitude and I couldn't stress enough that you really should be looking at something that you're passionate about doing. And often young people, they get out of school and they think what am I going to do? Well, if you haven't found something yet, if you haven't found that thing that just keeps you awake nights wanting to just be driven to go execute, take a job. Take an ordinary job. Ordinary in the sense whether it's a large company or a small company. Get some experience until suddenly you get that light that lights up inside you and you say, "Ah! I want to do this!" And if you look at all the recent successes whether it's Facebook or Yahoo! or Google, it's typically somebody in the garage or in a dorm that says, "You know? This would be really cool for me or for our group here to do." And then they suddenly find that there's a lot of other people that appreciate it and they start scaling. And then it becomes something. But they didn't start- if you look at eh history of those, they didn't start with the idea, I'm going to start a venture. They all started with the idea, "Hey, this is gonna be cool." I'd love to have this or I'd love to have other kids in our dorm have it. Or I'd love to have my friends it, share our pictures, share whatever it is. And these days it's so inexpensive to do an Internet venture, that that's what I would recommend. But as I say, wait until you've really found that something that you're passionate about. It doesn't take but one venture to be hugely successful and whether you are doing it in college or five years after you got out, it probably doesn't matter that much. Just so you aren't so far ahead in life that you now have kids and so many obligations that you can't spend 100 hour weeks on your job.

David Sumethasorn: When you were 20 to 30 starting out on your ventures, what do you wish you knew then that you know now?

Luis Villalobos: Certainly, I wish I'd known then how capital works; venture capital, angel capital. A little bit more about ventures. I was lucky enough that I did what I'm suggesting and I hadn't even thought of it that way. I ended up working as a consultant for about five years and then joined a little start-up and then split from that when I became passionate about doing my particular venture. Certainly, probably more to the point, if I'd known 20 years ago what I know now, Tech Coast Angels I started ten years ago. If I'd known what I know now, I would have started it 20 years ago. Angel investing in a group is so much more capital efficient and fun than investing on your own. I should have done it as soon as I had a chance.

David Sumethasorn: What are the top five mistakes entrepreneurs make?

Luis Villalobos: Well, I must say it's happened enough that I actually compiled a list. And I really broke it into categories. Probably we look at the top overall mistakes; and I'll do like Letterman does and start from the bottom up. Number five would be a failure to state evaluation. And that's very controversial. Some consultants will tell a venture don't tell- don't state a valuation because you'll be leaving money on the table. Wait till you start negotiating. To me that's a big mistake. Imagine that you've been successful enough and now you're buying cars. And you're buying Porches and you're a collector. You see an ad that says 1965 Porsche for sale. No price. Well, you have no idea if it's an old clunker that you could pick up for $1000.00 or if it's a prime car that may cost- maybe selling for a quarter million dollars. And that happens to all of us. If you don't get a sense of what is the price for something, you don't begin to engage. And so I think in my opinion, entrepreneurs that don't state some valuation range or their first stake in the ground and be willing to negotiate, is a big mistake. You hide your light under a bushel would be number four. You don't explain what your venture is about. You can't articulate it. It's amazing how many people you see present at our screening sessions and after a 15 minute presentation the first question that one angel asks is, "I'm sorry, I still don't know what your venture does." That's just inexcusable. You should be able to articulate that immediately. Probably number three would be surprise your Board or your investors. They're there to help you. If something is going wrong, if you lost the biggest account you had, the contract you expected isn't going to happen, whatever it is; you want them on your side. You want to tell them as soon as you find out so they can begin helping you work out a solution as opposed to think oh my god, I can't tell them that because they're going to be angry or upset or whatever. Probably number two would be a failure to execute where you literally see companies that snatch defeat from the jaws of victory. That are going along brilliantly and then they just stumble over something. In one case, the company I told you that was hugely successful, Gadzooks; the founder, CTO, he was the initial CEO, they brought in a professional CEO. Got tremendous amount of venture capital. Had done an IPO. And then he realized that the technology had changed and he wanted to modify the technology they used. He could not get the Board or the CEO to buy into that. They first pushed him into a skunk works because after all, he was the founder and had a lot of shares. And eventually he quit in disgust. The company that did what he wanted to do is called Brocade. They're a multibillion dollar company. Gadzooks Networks was sold a few years ago to BroadCom for five million dollars. And here was a company that had an almost three billion dollar valuation at its peak. So, here they took the best company, the ones they had defined in the storage area network, SAN. He came up with the architecture, defined the terminology and yet they ended up losing. And probably the top one is lack of integrity. I can't tell you enough, any sophisticated investor, the moment they see anything that suggests a lack of integrity will just run from that entrepreneur. Because you know if that person cuts a corner here or there, you're next. Or maybe if not next, at some point, you run that risk. Let's look at he top fundraising mistakes. One of the things I mentioned before was how when you're an angel investor, your percentage of that company's ownership keeps getting diluted because more shares keep getting issued. Entrepreneurs don't understand that a lot of times so they start and say I'll sell you 10% of my venture for a million bucks and in five years, it'll be worth 200 million and your 10% will be worth 20 million. Well, it's not true. Even if they build that venture to where they sell it to somebody for 200 million, that early investor is not going to keep their 10%. They'll be lucky to have two, two and a half percent. Whenever an entrepreneur will hyper exaggerate, it doesn't serve him well. A third would be they want an NDA. My technology is special. And they should understand, very few venture firms, venture capital firms or angel investors will sign a nondisclosure agreement. Now, to be sure, if you get far enough in due diligence and you do have an exotic technology and it is essential to the success of the venture, then somebody might sign a very narrow NDA for that one specific thing. Or agree to have a third party patent firm or consulting firm do that analysis. But expecting secrecy or confidentiality is a mistake. And it's simple. We look at probably for every venture we fund, we look at 30. A VC firm for every venture they fund will look at 100. If any of us started signing nondisclosure agreements, we'd become paralyzed very quickly and could not look at very many ventures. Number two on that would be inability to answer questions directly. You'll hear at one of our screening sessions and the entrepreneur starts dancing and instead of just either saying I don't know or saying the answer that they're uncomfortable with, they try to act as if somehow they can dance away from that question. And the final one would be not having an elevator pitch. Back to what I said before is that the concept of an elevator pitch comes from you suddenly find yourself in an elevator with one of the top venture capitalists and you've got from the first floor to the eighth floor to tell him about your venture. So, it may take 20 seconds, a minute; something like that. Can you do it? You are supposed to by the time you've got to the eighth floor, you've barely given him your name and told him nothing to excite him about your venture. So, the concept of an elevator pitch is you'll run into a lot of people and you want to have something that's very succinct that gets them excited to want to know more. But that's generally the top mistakes.

David Sumethasorn: What are the current hot markets for angel investing?

Luis Villalobos: Well, the visible ones, and they're very hot; social networking, Web 2.0, anything in those spaces where you can get something like Facebook that with virtually no money then got to the point where they raised an evaluation of 15 billion dollars. They took a small amount of money, 240 million from Microsoft for a couple of percent. And I understand they took in a quarter billion from two other equity funds. But still, that was unheard of even ten years ago. So, that's very, very hot because something to the investor that you can scale to a tremendous valuation in very little time. Another area that should be very hot but isn't yet getting all the attention is data mining; is one word for it. It's a very popular- well, it's becoming a popular book called Super Crunching. Essentially what you can do with data in analyzing that and converting that to value is amazing. And the third is what used to be called Artificial Intelligence where computers are getting better and better and better. If you believe Kurzweil and his book the Singularity somewhere in the next ten, 20 years, they'll smarter than us, which is scary but there's a lot of money to made in any of those three areas.

David Sumethasorn: Could you talk about the Entrepreneurs Conference?

Luis Villalobos: This is something that one of the most successful VCs, venture capitalists in Orange County started back about 23, 24 years ago. Bob Hoff of Crosspoint Ventures put together a little half day session to talk about ventures. He put it together and invited me. I was his right hand guy that helped him do all the stuff. Then I ran the second one. And that became the Entrepreneurs Conference and we were both from Harvard Business School so it's the "Harvard Business School Alum Association Entrepreneurs Conference". It's become probably the biggest entrepreneurial event in Orange County. It's now a full day. We deliberately make it to be great value so entrepreneurs- I think that it costs less than $100.00 to attend. We do make a lot of money from it but we plow that back into giving scholarships to the local business schools, the local business school programs. But it's something I would encourage. It's usually in May and it will be again this year. And it's something that's open to attendance for anybody. And it's an amazing program where we have very prominent keynote speakers and then there's sessions of workshops that you typically get to pick from four different workshops at each session.

David Sumethasorn: Is there a website address?

Luis Villalobos: You can go to HBS; that's for Harvard Business School. AOC, Association of Orange County. Org. So it's HBSAOC.org.

David Sumethasorn: What about the fast pitch competition?

Luis Villalobos: Well, that was something that I started for Tech Coast Angels and now we're into our seventh year. And now initially- we just held it separately but now we hold it jointly with the evening of the

Entrepreneurs Conference and at the same venue we hold a fast pitch competition. That one we're really trying to help entrepreneurs develop that art of doing an elevator pitch. So, anybody can submit an application for it and then we have four coaching sessions leading up to it. And through those coaching sessions, and they're all free. And through those coaching sessions, we have you prepare. You get 60 seconds exactly. Like last year, we got about 87 applications and we called them down to the top 12. And then the top 12 do a live pitch at the actual event. And we literally shut off the mikes at the end of 60 seconds. And it's a lot of fun. It's great practice. It's tremendous value to the entrepreneurs. We combine that with the networking, what I call a walk around dinner. Carve roast beef, shrimp on ice. Pretty fancy but it's great value and a lot of entrepreneurs both learn from watching the fast pitches as well as from participating in the competition. And now we're doing that at each of our networks so LA has one I think in February. San Diego in fall. So, we have it all over. And one thing I might mention, one of our members in Orange County does some terrific podcasts. He's well over 100 now. He interviews angels, entrepreneurs and other people involved; venture capitalists. Other people involved in angel investing and venture capital. And it's called the Frank Peters Show. Again, you can just download one of his podcasts or any of them or all of them and listen to them. They're a terrific education as well as the Tech Coast Angel website on angel investing.

David Sumethasorn: We will certainly be incorporating this information into the Pepperdine network.

Luis Villalobos: Thank you for having me.

David Sumethasorn: Thank you for coming out. I'm sure you've increased the knowledge substantially of all the future entrepreneurs and current entrepreneurs going to Pepperdine and we will be putting this information to work.

Luis Villalobos: And good luck with your entrepreneurs club. I think that's a wonderful institution.

David Sumethasorn: Thank you very much.

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