



Rachael Qualls tries to bring early-stage investment into the Facebook Age

It often follows that upstart exuberance and a tendency to flout convention are the folly of youth. Such qualities are anathema in the comparably stolid investment world. Granted, venture capitalists aren't as stiff as econometrics professors, but they're typically not receptive to the avant-garde, at least not where money is concerned.

So when Rachael Qualls founded Angel Capital Group last year at age 28 with the unstated subtext of changing the traditional mindset that frames this particular area of finance, the fact she was a young woman without a dump-truck load of experience in the field was possibly the least of her problems, if not the least of her concerns. Qualls' entry into the investment game earned her a lot of skeptical glances and quips from the business community, including this magazine. To her credit, Qualls understands the skepticism.

"It's acceptable for them to be skeptical," she says. "I'm only 29 years old. [But] that's why I established an incredible advisory board when I launched."

ACG advisors include Aegis Sciences Corp. founder and Chairman David Black, and his wife, State Sen. Diane Black; Michael Krause, CEO of Nashville -based networking solutions company Dolphini; Debbie Gordon, founder and CEO of Snappy Auctions, the leading brick-and-mortar eBay franchise; and intellectual property attorney and legal author Chris Sloan of Boulton, Cummings, Conners & Berry's Nashville office.

"Much of my practice is dealing with companies that are looking for angels," Sloan explains. "I helped [Rachael] think through some of the ways she's trying to put deals together."

PHOTO BY MATTHEW WILLIAMS

Qualls is attempting to standardize a funding mechanism for the otherwise mottled class of startup business deals too small to entice venture-capitalist interest. To fund those embryonic companies, she's pitching angel investors almost an opposite-order concept: instead of the hyperlocalization typical to angel investing, ACG's hallmark model offers a broad investor network that could stretch across the state (and even the country).

"In terms of the entrepreneurial capital market, when you get past the seed stage, it's pretty well structured, and most will be similar from deal to deal," Sloan says. "In the early stages, the deals tend to be all over the map."

To help bring it all together, Qualls is relying on the world's networking panacea—the Internet. But maybe more intriguing than her fascinatingly forward model is where she is based. She's not doing this from some techno-centric, hipster warehouse district in one of Tennessee's metropolitan areas, but rather from bucolic Sumner County.

It's not Mayberry—it's not even all that far from Nashville—but, nonetheless, Sumner's startups have difficulty pinpointing where angel investors can be found. And as Qualls points out, it's not all their fault. Most of the area's potential angel investors, she says, don't even know they qualify. Hence she spends a lot of time just spreading the gospel of angel investing and pointing out that money is available.

"The great thing about economic cycles: what goes down, comes up, and when public markets are down, angels really need to diversify; when public companies are struggling, it lowers the barriers of entry to investment capital for smaller companies," she explains. "There's always money to be made somewhere."

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— RACHAEL QUALLS
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The ACG model matches up companies needing between \$100,000 and \$500,000 to move into prototype phase with angel investors, who are either local or a combination of local and outlying angels. For investors, ACG offers either a network fee of \$2,500 or entry to the microfund for \$15,000. After they sign on, they can pick investment projects as far afield as they like via ACG's partnership with the Inception Micro Angel Funds Family of Funds (IMAF). North Carolina-based IMAF provided ACG its model of standardization methods (deal flow, term sheets, etc.), and the opportunity to tap into deals and early-stage investors across the country through the U.S. Capital Highway—something of a social/business networking device for entrepreneurs and angels.

If it works, ACG could syndicate into other rural areas, offering entrepreneurs access to otherwise unavailable angels. So far, though, the firm has only moved into major metro regions—Nashville and likely Knoxville. Qualls is also negotiating with investment firms in Memphis, which doesn't have an angel network. Her proposal to early-stage investor forum LaunchMemphis about collaborating with ACG is still being considered, says LaunchMemphis member, Mercury Technology Labs' Eric Mathews.

"The way her business model works, she'll take a seed, but if the deal gets placed, she wants a carried interest of 20%," he explains. So if the deal is liquidated, funds are distributed back to investors, less ACG's 20% for legal and administrative services.

"It's yet to be seen if investors will be receptive to that amount of a cut," says Mathews, who, despite his qualms about aggregating angels on a national level, is nonetheless impressed with Qualls' efforts to lower the economic barrier for angel investment.

"With my model, I can serve any angel in any town in the world," Qualls says. "Angels can even bid on companies they want to invest in."

Essentially, ACG via IMAF has incorporated three of the most successful business models on the Internet—offering members angel eBay, providing entrepreneurs Facebook for startups and in turn becoming the Match.com of the entrepreneurial world.

Or so Qualls hopes. For each of those Internet bonanzas, there are scores of well-funded, failed forerunners and also-rans. **tn**

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