

CREATING JOBS IN THE NEW ENERGY ECONOMY
PRESENTATION ON VENTURE CAPITAL
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NATIONAL VENTURE CAPITAL ASSOCIATION**

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- What is venture capital (VC) and why is important to MGA? One out of 10 workers are at a company that is or was backed by venture capital.
- In the past, this was a bi-coastal industry and the Midwest was flyover country. California is getting around 52% of all venture capital.
 - A large reason for that are the educational facilities in CA. Venture capitalists (VCs) follow the entrepreneur.
 - They (the educational institutions in CA) are open about the idea that commercialization of ideas is a good thing – other institutions in other regions do not support that in an academic institution (or with state funding).

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- We are seeing more colleges recognize the importance of the commercialization of ideas.
 - This is just as important as publishing a paper when you are on the tenure track.
 - Other important factors include: attracting the entrepreneur through academic institutions, having good cultural facilities, parks and recreation, good primary schools (private), and natural amenities.
- Think about the case of trying to move people from silicon valley (CA) to silicon forest (Oregon) – most eventually moved back to the valley.
 - Entrepreneurs were more comfortable in the silicon valley environment. The environment has to be developed over time. A good example of that development is in Research Triangle Park (<http://www.rtp.org>).

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- Research triangle park:
 - Brought their universities together to be a regional powerhouse in the high tech arena.
 - They recognized the regional challenges and dying industries; identified opportunities and strengths.
 - The entrepreneurial environment was created. They tried to build on the expertise of the dying industries that still existed. Re-trained people into another field that was a logical 'pivot'. The development remains a good example of what can be done over the long term.

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- Why clean tech? This will be the largest sector of venture capital in the next 5 years and is a large opportunity.
 - Clean tech represents the quintessential venture capital sector.
 - Questions to ask to determine venture capital potential:
 - Is this a revolutionary idea? Is it fundamentally new? Does it have market potential? Can it scale to the point that you can get the idea in to the market place in an efficient manner where the venture capitalist can make money?
 - Most states invest in this asset class: State and local pension funds, colleges and endowments, individuals, banks, insurance companies. The federal government is very important to this industry. They are a critical link in moving forward.
- Biotech: over 90% of biotech technologies have venture capital investment.

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- Clean tech defined:
 - Broadly, any type of efficient change in the energy sector (brown tech, better extraction of oil and gas, battery technology). Some people view clean tech as large projects – VCs (Venture Capitalists) view a lot of clean tech as smaller projects with higher profit turnaround. There is a lot of investment on this end in addition to the large scale projects.
- What should the Midwest do?
 - Clean tech (democratization of VC), there are people who are certain experts in these sectors who are spread out over the country.

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- Successful Midwest example:
 - Minneapolis focusing on medical devices. Venture capitalists go to Minneapolis now or the Valley.
- Over half of MI's venture capital dollars went into the clean tech sector. This is because there are experts in the energy sector – battery technologies, metals, manufacturer of wind power, adv. coal, etc.
- Need to zero in on the technologies that we have expertise in now.
 - Look at how can your colleges and universities build on that expertise.
 - Get tech transfer going.

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- Many programs in the Midwest create a venture capital program but often constrain it to one state.
 - Leveraging regional, cross-state resources is important.
 - Invest in both coastal AND local VC firms.
 - Need to be aggressive with the state universities on tech transfer
 - it is why silicon valley is what it is today.
- You have an aggressive, forward thinking state in CA.
 - Other states are 5 to 10 years behind CA – and other countries.
- Some of the successful partnerships by states – Ben Franklin partnership ('78) in Pennsylvania.
 - The program has been consistent and long-term oriented. Has taken 30 years but there are positive results from it for entrepreneurs and VCs. Maryland also has a good program.

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- Midwest example: Life sciences. Smaller biotech companies were created in the Midwest (MW) but were moved to the coasts.
 - To get to the second or third level of investment, they go to silicon valley and they are asked to leave the MW.
 - Successful example: Health care syndicate that coordinates and shares deals together so they can achieve the second or third round. In many states you can create the company but it is difficult to get over the next hurdle.

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- Triangle Park. Also a regional collaboration of SE states.
 - What are some of the results of that collaborative effort that we could learn from?
 - Indigenous VC firms were created, on the ground, to invest in local companies.
 - VCs from other regions will invest there and know the VC infrastructure is ready.
 - If there are people on the ground that VCs have faith in, they are more likely to invest in a project there.
 - The VCs have an active role in Triangle Park. There is an active role between the VCs and the universities. Their tech transfer has become easier.
- Questions to ask:
 - How do we create the culture? What are the strengths that we have that others don't? What do your schools and universities do? What cultural, social, facilities do you have that others don't have?
 - Those are very important elements to create a VC culture.

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- Need to be incredibly realistic.
 - When you have a business plan, you need to show what it will do and when in a realistic fashion and be extremely conservative.
- There is a lot of clean tech being developed in the Midwest and we are the experts, not the coasts.
 - The MW needs to promote itself.
 - UW – Madison has been effective (SWIBS).
- Are there state policies that create disincentives for VC?
 - Conversely, is there innovative state policy that support investment in clean tech?
- The Angel community is very important – farm league for the VC community.
 - Helping the Angel is the more important first step (giving them financial incentives).

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- Burn rate – money goes a lot further in the Midwest.
- Could there be a consortium to set up that provides collaboration and leveraging state strengths?
 - There is viability in that idea – has not been done before.
- Clean tech will fundamentally change how we do business in this country.
 - From a constituent angle, people would accept that this is a fundamental issue that money should be put aside for. At the end of the day, states that invest in this will profit.
- VCs are naturally attracted to areas that they have a natural expertise in. They are engineers and doctors.
 - As VCs become more proficient and hire more people with energy expertise, they will expand. Battery technologies, solar, auto tech, architectural design. Not much going into biofuels.

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- Need asset mapping of what we do have - what is unique in the Midwest.
 - Need strategic planning for asset growth to support those assets and a statement of the case for such investment.
- Important to recognize the importance of all the assets (technical expertise, cultural and other amenities).
- Ohio has organized financing past the valley of death for companies in a way that is attracting small clean tech businesses.
- Entrepreneurship assistance organizations.
 - Assistance provides mentorship and advisers and product development grants.
 - Also an equity fund (state money, invested it, leveraged with private investors) where the state takes all of the risk.