U.S. Innovation Competitiveness Summit – Panel 6
“Reorienting Venture Capital to the United States: Back Where We Started”

DATE
Thursday, September 16, 2021 at 11:00 a.m. ET

FEATURING
Steve Case
Former CEO, America Online (AOL); Founder, Revolution LLC

Bobby Franklin
President and CEO, National Venture Capital Association

Bill Slattery
Partner, Deerfield

Zachary Ellis
CEO and Managing Director, New Venture Capital Fund

Bryce Butler
Managing Director, Access Ventures

Kathleen Gallagher
Executive Director, 5 Lakes Institute

CSIS EXPERTS
John J. Hamre
President and CEO, CSIS

Transcript By
Superior Transcriptions LLC
www.superiortranscriptions.com
Hello, everybody. This is John Hamre, president here at CSIS, and we welcome you to – this really is going to be a wonderful conversation. It’s the fourth day in our sequence of conferences. The first day, we focused on the imperative of innovation for America going forward, and on day two, we looked deeply in the question of intellectual property protection, and the crucial role that the government plays in helping inventors protect the rights to their ideas, and what we do about that.

Yesterday, we had a fascinating discussion about tech transfer, where these big engines of innovation – universities – how do they get their ideas into a commercial marketplace, and how do we balance that dynamic between public good and private good? And it was a very interesting day.

Today, we now round out the most – you know, whether it’s the most important – but money is always the most important, when you get right down to it, and we’re going to discuss that today, looking at the way that we bring capital to this enterprise, and how do we look at innovation in the sense of the way venture capital plays such a crucial role? We have a fascinating line-up today of speakers, and I will – I will rely on Kathleen Gallagher for running that part, and I will – but right now, we have the privilege of talking with Steve Case. And Steve, I want to say thank you for joining us today. It’s a – it’s a real privilege to have you.

You know, you are now in a very new phase of your professional journey. You’re running a company called Revolution. It’s a venture capital company with social purpose. But before we get to that, I’d like the audience to know you a little bit better. Of course, you are so famous for having founded AOL - American Online. I grew up with that iconic bell ring and “You have mail,” you know. It was – (laughs) – it was an exciting start to every morning. But before that, you were in a very different line. You were a product development guy for Pizza Hut. And so, you’ve had a very interesting journey. Would you just share a little bit of that with us for our audience?

Sure. Great to be with you, John, and thanks for hosting this whole week – obviously, important topics for the country and its competitiveness, so delighted to be part of it. In terms of my own journey, I grew up in Hawaii, and then went to college in Massachusetts and moved to Ohio – worked for Procter & Gamble, then moved to Kansas to work for Pizza Hut, which at the time was a division of PepsiCo, and then moved to Virginia to join a start-up that promptly failed, but thankfully – (laughs) – two of the people I met there and I ended up co-founding America Online in 1985. What’s that? You know, 36 years ago.

And back then, it was still pretty early days in terms of the idea of the Internet, actually, from a public policy standpoint. It’s worth noting that in 1985, it was still illegal for consumers – for businesses to actually be on the Internet. It was restricted to government agencies and educational institutions, so we had to do some work for a few years to, essentially, commercialize the Internet –
open it up to everybody. And back then, only 3 percent of people were connected, and they were only online an average of an hour a week. So, it was kind of – (laughs) – the early days of the idea of the Internet, but it’s been, you know, amazing to see what’s happened over the last, really, three-plus decades.

Mr. Hamre

You know, that’s – it’s really fascinating, but how did this now bring you to this new phase of your professional journey, to the world of venture capital? Help us understand this latest part of your trajectory.

Mr. Case

Well, the AOL journey was about 15 years, from the time we started it in 1985, and then we merged with Time Warner in the year 2000 – so, about 20 years ago. And as part of that deal, I agreed to step aside as CEO, and so then, had to figure out, OK, well, what am I going to do next? And decided, rather than just start another company, I would work to back entrepreneurs, mentor entrepreneurs, and invest in entrepreneurs, and initially did that, just, sort of, informally, and then formed Revolution about 15 years ago, and then we decided to turn into much more of an institutional platform with outside investors as well – outside limited partners, about 10 years ago.

And so, for me, it’s been a great, kind of, next chapter, because we do have the opportunity – really, the honor of working with some of the greatest entrepreneurs building some of these amazing new, you know, companies that are improving our lives, and we particularly are interested in doing that in a more inclusive way in terms of trying to back entrepreneurs – you know, not just the usual suspects who graduated from Stanford and are sitting in Silicon Valley, but, you know, trying to find entrepreneurs everywhere and back them and help them take their companies and, you know, their ideas and turn them into significant businesses.

Mr. Hamre

Steve, amplify on that. You’ve indicated that you had a different vision, you know, for Revolution, and it was – it was not just a venture capital company that was going to concentrate on the hotspots, but it was going to have a different mission. Would you amplify on that?

Mr. Case

Well, it was really for a couple of reasons. First is, just that purely from an investment, you know, kind of, returns standpoint, we believe that it’s kind of an arbitrage, because so much venture capital focuses on places like, you know, Silicon Valley, valuations there tend to be on the high side. Those some companies, if they’re in other parts of the country, valuations would be lower, but when the companies are successful and they get acquired or go public, that kind of – essentially, that regional discount kind of evaporates.

So, we think from an investment standpoint, it makes a lot of sense. And also just from an impact, kind of purpose standpoint, it makes a lot of sense. This is the whole point of your conference: We need to kind of level the playing field in this country so we have an innovation economy that is much more inclusive of different people in different places, and we think that by, you know, kind of
hitting the road and really finding entrepreneurs everywhere and not just in the obvious places, that’s the way to have an impact more broadly on the country.

Some of this evolved from the work we did, now, over about a decade ago when I was asked by – to co-lead an effort called the National Advisory Council on Information & Entrepreneurship that was part of the Commerce Department. That kind of led to the launch of an initiative at the White House called Startup America that President Obama asked me to chair. That led to joining his Jobs Council and leading some of the efforts around entrepreneurship, innovation, which led to the JOBS Act and some other things. And in the process, it really, frankly, opened my eyes to the central role startups, new companies play in job creation. It’s not the big companies; it’s actually not the small businesses, it’s the young, high-growth companies that really drive most of the job growth. That was, kind of, news to me.

So, therefore, backing more startups is critical to creating more jobs. And the other part that was striking was the fact that so much capital goes to, you know, so few places. Right now, according to the NVCA – Bobby will be on shortly – 75 percent of venture capital dollars go to three states: California, New York, and Massachusetts. So, the other 47 states have 25 percent. California alone, by the way, has 50 percent, so, you know, venture capital is, sort of the – not every company needs it or wants it, but most companies that want to grow fast and create a lot of jobs and build significant businesses do decide to raise venture capital, but it’s much, much harder to do that if you’re in, you know, Detroit or New Orleans or Atlanta or a lot of these other cities than if you’re in, you know, San Francisco or New York or Boston. So, that’s the other piece that we’re trying to focus on from a business standpoint with Revolution, as well as trying to be an advocate for public policy for a more level playing field, for a more inclusive innovation economy.

Mr. Hamre

Let me pick up exactly on that last point about having a larger public voice for all of us. You recently authored two very – I thought very important essays. One was in The Wall Street Journal, and the other one was in a newspaper called The Hill, you know, which is – really concentrates on Capitol Hill readership. We’re going to – by the way, to our audience, we’ll make those available on our website so that anybody can just look and find it with us, you know, so you don’t have to go search it out, but can I just ask – again, amplify what you were saying in those two articles, because it speaks to this question about public policy and how we should approach venture capital as being a leverage point to improve innovation and prosperity in America?

Mr. Case

Well, it really is the, you know, core of this whole conference this week, which is why, as I said at the beginning, I’m delighted you’re hosting it. You know, basically, if you look at the – you know, the data in terms of our competitiveness, America, you know, kind of, 250 years ago was just a start-up – really just an idea, kind of, a fledgling idea, and like many startups, almost hit the wall – almost didn’t make it, but the country kind of broke through and
rose to great prominence, and did that because it was a pioneering nation that was, you know, really embracing new ideas and a variety of people, and, kind of, we led the way as a nation in the whole agricultural revolution, then led the way again with the industrial revolution, more recently led the way with the technology revolution, the digital revolution. And some of that is because, as a country, we really committed to invest in the future, and in 1960, almost 70 percent of the R&D spending globally was by the United States. And that’s part of the reason we led the way and were able to invent all these wonderful things like the Internet or some of the technologies that came out of the Apollo space mission and many other things.

Now, if you look at the data, we’ve gone from nearly 70 percent of global R&D to less than 30 percent of global R&D. Other countries are figuring out that, you know, embracing the future is a good strategy and investing in R&D is a good strategy, and as others have stepped up their efforts, we’ve actually pulled back on our efforts. So, one thing that needs more attention – and this is, you know, again, part of what you’re focusing on and part of what the Congress and the administration is looking at, including with the Endless Frontier Act, is basically increasing the amount of money going into R&D so we can maintain our competitiveness and remain the most innovative entrepreneurial nation in the world. That’s number one.

Number two is, we need to do that in a more inclusive way. As I said before, right now, our innovation economy really helps a small number of people in a small number of places. Most people in most places are feeling left behind, because they kind of are being left behind. And part of the reason is because of, you know, the lack of venture capital in those places that makes it harder to start and scale companies. Therefore, a lot of people in those places leave. There’s a brain drain going from the middle of the country to the coast, because, you know, that’s where the action is. That’s where the money is, and so it makes the places like Silicon Valley super vibrant, and they continue to launch a lot of amazing companies, but many parts of the country in the last 20 or 30 years have struggled, and, you know, instead of being in growth mode, have been in, kind of, decline mode.

We have to address that. And it’s not just about the money. There are some, you know, culture aspects around creating, kind of, risk-taking, kind of, vibrant start-up communities, and there’s a lot of things that need to be done around, you know, celebrating the entrepreneurs. There’s a lot of things that need to be done around the talent side. How do you keep the people you have, and try to get back the people who left and create a place where people really want to, kind of, live?

But the capital is a key part of that. And that’s why it is so important to make an effort there, and again, some of the discussion now in Congress is around creating investments around regional hubs, which I think could be very transformative in terms of, kind of, leveling the playing field in terms of more of those places. So, we’ve got to increase our investment in R&D if we’re going
to remain, you know, kind of, you know, the leader of the pack in terms of innovation. We’ve got to do that in a much more inclusive way, and not just in terms of place but also in terms of people.

Mr. Hamre

So, my last question, because we have a marvelous panel coming but, you just mentioned your advocacy for regional hubs. You’ve been working on this a bit. If you were testifying right now in front of Congress, what do you say they should be doing to help us create regional hubs?

Mr. Case

Well, I think some of the legislation that has been introduced, particularly around investing in regional hubs – so this R&D investment spending doesn’t just go to the same places, but goes to some other places and ties in with some of the work around some of our national labs, ties in with some of the innovation happening at universities. One of your panels talked yesterday about tech transfer doing a better job of taking ideas that are invented and getting them into the marketplace, into the hands of entrepreneurs is critically important. But it starts with understanding that the country is at-risk, that there is a risk that we will lose our lead as the most innovative entrepreneurial nation unless we really step up our game, and we can’t just do that by backing, you know, more people in places like Silicon Valley. We need to do that by backing more people in other parts of the country, and do that by also backing more female entrepreneurs. Even though, you know, our country – half the population is women, less than 10 percent of venture capital goes to female-led companies – you know, 13 percent of our population are Black Americans. Less than 1 percent of venture capital goes to Black founders. So, there is a lot of work to do to really create a truly inclusive innovation economy.

So, the message to Congress is, you know, we have the opportunity to continue to lead the way. America has the opportunity to continue to be the most innovative entrepreneurial nation, but now we really need to step up our game. Others have figured out that the secret sauce that sort of powered the American story is innovation, is entrepreneurship, and it’s sort of game on. So, we have to step up our game and do it in a much more inclusive way, and focus particularly on really trying to establish this broadening of venture capital going to more places.

We’ve now visited, with our Rise of the Rest bus tours, 44 cities. Our Rise of the Rest seed fund has invested in nearly 200 companies in over 70 cities, and we’re seeing remarkable things happening in these cities. Just this week there was a company in Atlanta – Mailchimp – that got acquired for $12 billion. Most people didn’t think a company in Atlanta could create that kind of value. We’re seeing that all across the country.

So, this is a great opportunity, but we have to expand our aperture and not just do more of the same. And as we think about the pandemic, recognize it does create an opportunity now that we’re kind of unbundling – uncoupling where you live and where you work, that creates opportunity for a lot of these
different cities, and when we get through this pandemic, we don’t want to go back to normal, because normal didn’t work that well for a lot of people. We need to do better than that, and this is the opportunity to really embrace the future and really level the playing field.

Mr. Hamre

Gosh, what a marvelous introduction for this session, Steve Case. You’ve set the stage. You’ve been very inspirational. I’m very grateful that you took the time to be with us.

Now, let me turn to you, Kathleen Gallagher. Kathleen is the executive director for 5 Lakes Initiative – or Institute. Forgive me. And what a really – a dynamic thinker. I mean, I – when we were planning this conference, I looked around and asked people, and boy, your name came up all the time, Kathleen. So, we’re delighted that you’re here. Let me turn to you now, and for the rest of the panel. This is going to be fun.

Kathleen Gallagher

Thanks, Dr. Hamre. I would say I’m a dynamic information collector, not thinker. (Laughter.) So, I’ll be a good moderator.

You said you guys set the stage. I would say you set the bar really high, and this panel, I think, has the ability to take that challenge and act on it. Why don’t we start out by – I’d like each of the panelists to introduce themselves. Why don’t we start with Bobby Franklin from the NVCA? Bobby, can you tell us who you are?

Bobby Franklin

Absolutely. Thank you, Kathleen. It’s great to be with everybody. I very much appreciate it. I’m Bobby Franklin. I’m president and CEO of the National Venture Capital Association, where we represent the investors in the entrepreneurial ecosystem, but I would say our entire policy agenda is all about entrepreneurs, and what’s important for start-up and scale-up countries – companies, sorry.

Ms. Gallagher

I’m going to ask if we can get Bobby in the spotlight with me. I don’t like being here alone, and I’ll keep going to – next, we have Bill Slattery from Deerfield. Bill, can you tell us about you?

William Slattery

Well, good morning. It’s nice to be with everyone this morning. I’ve been a partner at Deerfield Management, which is a health care investment firm, for over 22 years. Prior to that, 10 years also in venture and crossover early-stage investing. Entirely in my career in the life sciences field, and life sciences is going to be a very important part of this entrepreneurial spirit as we’re experiencing today, and have for the past 20 decades. But they have some very unique aspects and obstacles that may be unique from other aspects of entrepreneurship and venture funding. So, will be a pleasure to participate in today’s conversation.
Ms. Gallagher  Thanks, Bill. And I want to say, Bill is in New York City, and Bobby is in the D.C. area. We should say where we are, because we have a geographically diverse panel. Next, we have Zach Ellis from New Venture Capital Fund.

Zachary Ellis  Hi, good morning, everyone. My name is Zachary Ellis. I have worked in the venture capital space for a little over the last 10 years, primarily in the middle of the country in places like Wisconsin and Ohio, and I have recently launched a new venture fund in Texas – it’s not yet been announced, so I can’t say too much about it, but we’re going to be focusing on underrepresented founders in South Texas.

Ms. Gallagher  Thanks, Zach. And last but not least, we have Bryce Butler from Access Ventures. Bryce, you want to introduce yourself?

Bryce Butler  Sure. Good morning from Louisville, Kentucky. So, I’m a little bit unique. I actually run a private operating foundation that does venture investing. So, we – that’s one of the things I think we need to talk about as it relates to capital, is the amount of money that sits under management and endowments and pension funds that could be used to really spur some of this innovation in mid-America through creative, kind of, structure and capital. And so, we’re trying to spearhead some of that through an initiative called Render Capital, regionally in Louisville and in Southern Indiana, as well as some of our blockchain investments as well. So, more to follow.

Ms. Gallagher  So, as we can see – is there any way to get everyone in the spotlight, just so the organizers – it’d be nice if we could look at all of us together, but I’ll keep going. Let’s start out – we’ve got this group of money people, and we all know – you know, there are initiatives going on at the federal level to get money into – oh, I’m hearing everyone can be seen – to get money into the rest of the country, and money is important, but let’s talk about other challenges that you see in parts of the country that other parts of the country might need to think about, along with, how do you use the money once you get it?

And by the way, everyone, we’re going to have a conversation – no, like, question, and then everybody answers. So, jump in, someone, and let’s keep going with each other.

Mr. Franklin  Maybe I’ll start, Kathleen. I think one of the things that’s important for different parts of the country – I mean, Zach is in Texas, and Bryce is in Kentucky. I mean, think about what it takes to support entrepreneurs in different regions. Bill is in New York. There’s a lot going on there. We just heard Steve talk about where so much venture capital is concentrated, in mainly three geographies. I think there are several aspects to this, but it’s important to think about what it takes to help entrepreneurs be successful. Capital is one part of that, but it is an ecosystem that is important, so you’ve got to have talented people to work at those companies, you need to have great ideas coming out like – it sounds like it was talked about in previous days – my apologies for being able to join all of the previous sessions, but
you've got to have great universities. You've got to have great tech transfer, commercialization, you've got to have people focused on the idea to support this very risky endeavor. Most entrepreneurs fail, right? So, how can we help the entrepreneurs who are spread out all over the country? What can we do to help them? It's not just the idea and just the capital. It's a lot of things that go into an ecosystem to help them be successful.

Mr. Slattery

And Bobby, I'd add to that observation – which is spot-on – there have been some natural hubs where the talent has been – has been aggregated. And because of – and in particular, in my field, in health care and life sciences – because the failure rate is so high, when you have an ecosystem that has optionality, it doesn't require to you to have to, you know, displace your entire family in order to find an opportunity similar to one that you have pursued. That is a major factor. It's been a major driver for why, in life sciences, there is still only two or three major hubs, and ironically, when companies get aggregated, some of those hubs go away. So, we've seen San Diego emerge and then contract. We've seen Baltimore emerge and contract. So, there is an ecosystem that has to be able to replenish itself, and that ecosystem requires that critical mass.

Mr. Ellis

You know, one point I'd like to add is, you know, in additional to the agreeance of an ecosystem that Bobby and Bill just named, culture is a big part of it, specifically, risk-taking and collaborative culture. Steve talked about this a little bit. And I don't just mean risk-taking on the part of the entrepreneur, although that's critical. A lot of the corporates who oftentimes serve as the early customers to a lot of the startups, they have to embrace a risk-taking and innovative culture and not have, a, you know, not-invented-here mentality, or, well, you know, their technology isn't as good as our technology, sort of mindset, right, and embrace the opportunity that supporting some of these startups might actually help transform and futureproof their businesses.

Ms. Gallagher

So, let me throw in though, you know, think about the Nest Thermostat. Why wasn't the Nest Thermostat brought to market by Honeywell or by Johnson Controls or by Emerson Electric? All these companies in the middle of the country that make thermostats, and instead, it was a guy in California, who, by the way, went to University of Michigan, who did it? I think it was the VCs. I think it was what the VCs helped that guy do with the company. What do you guys think? Bryce, you should talk, because you haven't yet.

Mr. Butler

(Laughs.) Yeah, I think – I would just add to the previous conversation as well. I think one of the things in mid-America that we've seen is, when we talk about supporting startups with an ecosystem, it needs to also encompass an ecosystem of the capital itself. Only 1 percent of companies ever take venture. Eighty-three percent figure out some other form of capital to scale and grow their business. The example Steve used of Mailchimp – one of the largest private exits from Atlanta across the country was a bootstrap, and so we've got to get creative – as we think about ecosystems around the structure of
capital and not assume that entrepreneurs only take venture and venture is the only form of capital to help them grow and scale.

But I think, to your question on Nest, I think you’re spot-on. I think the coasts and Silicon Valley specifically have figured out this culture of failure that is permissible. There’s a permission to fail. And when I do ecosystem tours when I’m visiting Miami or other things – I’m sure Steve would say the same with the Rise of the Rest – there’s a reticence to failure in a lot of communities because of what that means, and I think the communities that have figured out how to embrace failure as a part of the journey, as a part of the learning experience of these entrepreneurs – and I think that’s where venture capitalists come in and really support that – you see success. And so, I think that’s one of the things, as ecosystems, that I think Zach was spot-on with, is a culture, and a culture that permits failure.

Ms. Gallagher  How do you change that culture, then? I mean, that’s such a squishy thing to talk about.

Mr. Franklin  Well, one thing I think you could do is help folks in different regions understand that, you know, writ large, the United States does embrace failure far better than many other cultures, and it’s one of the reasons we have had far more innovation come out of the U.S. than our competitors around the world. So, it’s helping these local regions get what Zach and Bryce are saying. It’s like, it’s OK to fail. That’s a stepping stone toward success.

But, let me go back to your question, Kathleen, talking about an example of somebody that graduated Michigan. If we had more venture capital investors in Michigan, which I hope we can help create – which takes capital, it takes an access to education and information about venture investing – it’s why we created VC University over the last couple of years. We have people that now – we’ve democratized access to information and education about venture investing, and we want to see that expanded. We want to see more underrepresented minorities, see more women – start funds and be located closer to where entrepreneurs are, and if there had been more VCs and more capital that had been formed in Michigan, perhaps the person you talk about wouldn’t have left – wouldn’t have had to go somewhere else, right?

So, I do – I agree with the premise of your question, that when entrepreneurs and capital are connected, great things can happen. Now, looking at the question from the standpoint of Honeywell or other companies – that’s another great thing about the entrepreneurial ecosystem. To continue to disrupt, to continue to compete against incumbent players, to keep them sharp on their edge and understand that you have to continue to up your game if you’re going to be successful over a long period time. It’s why at NVCA, we have many corporate venture members. A lot of corporations have a venture arm, and they make investments into companies – sometimes to see what’s out there that might be disruptive to them. Sometimes it’s just to stay on the
cutting edge of what is happening. And I think that’s also a healthy part of a business environment and ecosystem.

Ms. Gallagher In a way, you’re making an argument that having more VCs in your community will drive some of this disruption. Do you guys agree with that?

Mr. Franklin Well, I think having more VCs in different areas will help – entrepreneurs are everywhere. Let’s just take it on face value, unless somebody wants to argue – (laughs) – that entrepreneurs are in every state and every Congressional district – those are the folks I talk to – and so you have to make sure that they have access to the capital they need to take the chance – they may fail, but that may help them come to success – to realize a dream – a new product or a new service.

Mr. Butler Yeah, and Bobby, I think you hit the nail on the head too around education. In Louisville, we see that a lot. There is – there are people that have the financial capacity to invest, but they lack the sophistication to do it, and so therefore, if I don’t understand it, and I’m going to look like an idiot if I walk into that room and I don’t know what I’m talking about, it’s easier for me to leave my money on Wall Street. And so, how do we get more of these executives working at major corporations to get personally involved, because they have the financial capacity to do it, and they need – they need the support to get in the game, and we need to be communities that encourage that.

Ms. Gallagher And how do we get our pension funds to stop sending money – (laughter) – all their alternative investments to the coasts and put some of it – I mean, it’s a chicken and egg thing, right?

Mr. Butler It is. Well, and even the funds that exist in these communities – in Louisville, Kentucky, alone, there is over $2 billion under management in the philanthropic community, and I will tell you, none of it is doing venture investing. And so, there is a problem when we have these communities that have the financial capacity to support ecosystems and the entrepreneurs that are creating jobs – we’ve got to start asking ourselves of these pension funds and these endowments, what are you doing with the 95 percent that you’re investing for returns only to support the communities that you care about and the communities that you’re supposed to be supporting?

Ms. Gallagher So, Bobby, you’re good at getting politicians to do stuff. How do you get those pension fund people to do it?

Mr. Franklin Well, it’s a great question. I guess if I knew how to do that, I might be in a different line of work. You know, I think it’s not only the LPs. Really, what Bryce said is really important. Actually, Steve Case and I have had this conversation in the past. Look at family offices. Look at wealth that’s in every state, and, you know, most of those entrepreneurs, at one time, that created wealth – maybe it’s in real estate, maybe it’s in oil and gas or something. There is this dichotomy. They’ll have a family office. They’ll make investments for a
return – get it. They’ll also give lots of philanthropic support to their region, their city, they care about it – to their state. And, you know, I wish we could find a way to help them understand that, hey, there is actually a hybrid here. You could really help your state by providing some of the support that you like helping your state with in a way that’s focused on helping support the entrepreneurs that could come up with the next great – in the entire industry, not just company, that could support your region.

So, can you think about philanthropy and investment returns in some hybrid way? I think we have to have that conversation so that the capital that is out there, in addition to the LPs, the pension funds, stuff like that – recognize the opportunity that they have in their backyard.

Ms. Gallagher  So, Bill, you’re in New York. What do you see – when you’re looking at – you look at health care deals – why are the deals in Boston better than the deals in Chicago?

Mr. Slattery  Well, there is a number of reasons, starting with the ability for those entities that come out of the Cambridge community to attract critical dollars – you know, large Series As in order to fund the very expensive platforms that they’re establishing. So, number one, you have the attention of the venture community. And number two, you have – and they’re immediately surrounding you – number two, you have a very talented pool of discoverers as a substrate in academia. So, it’s a very rich area for discovery.

And because it’s all embraced in a community of professionals that are very involved in drug discovery, you have the ability to very easily recruit talent. It’s not inexpensive, but you can recruit and retain the appropriate talent there. So, you’re bringing great ideas from great institutions that are well-supported by venture capital, that have the access to the human resource that is going to deliver the execution. But that model – just because good companies come from the Boston area doesn’t mean that that’s the only place to find good ideas. And I think some of the lessons that we’ve learned that Steve was touching on earlier is that, you know, we’ve had technologies, and we’ve also had the virtualness of, say, drug discovery.

So, the idea that an institution in the Midwest – let’s just call out, for a moment, Notre Dame – Notre Dame has an excellent biochemistry department. They have some of the best expertise on a particular type of a neurodegenerative disease that’s in the pediatric setting. Those ideas will get recognized very quickly. Now, the difficulty for the community surrounding the university in that setting is that there isn’t much of an infrastructure to support advancing those ideas. But because of this virtualness that we now have, we can engage our thought leaders virtually, in-person, or using technology. But more importantly, we can deploy a development plan across a variety of the best places – CROs that are capable of taking on the individual steps that are required, at least in my field – in drug discovery and development.
So, we’re getting more ideas – and I try to – and it kind of goes to Bobby’s point – I want to make sure that I’m not confusing regional economic development with entrepreneurialship and company creation. The ideas will come from across the country. But where they’re deployed is going to really depend on where the human resources and the expertise exists. So, that may be in New Jersey, and it may be in upstate New York, or it may be in Chicago.

Mr. Ellis

And I think one thing that we’ve alluded to but haven’t really focused on that contributes to all of this is density, right? Like, one success breeds a second success, which breed a third and a fourth, and things happen exponentially. So, you know, Boston is a great example of, you know, health care density, but, you know, there are, you know, emerging examples of that same type of success in other areas. To give a shout-out to Wisconsin, you know, all of the work that was discovered around vitamin D in Madison. In Ohio, in Columbus, there’s a lot of advancement taking place in gene therapy, a lot of success around that.

So, as you look around the country, people – you know, talent and capital tend to coalesce around density of competitive advantage, and then you grow that competitive advantage in whatever sector that is in that location. I think an interesting question would be that, in this new world of working remotely and being able to do so many things virtually, can the country become one big dense area itself? Can you simply have density of network, and that be sufficient because capital is becoming increasingly fluid? Like, I think that might be something worth exploring. And it’s probably critical, in order to continue to drive inclusion in this space.

Ms. Gallagher

I was talking recently with a coastal VC – we were talking about quantum, and I was asking him about the – Chicago has this Chicago Quantum Exchange, which is – the University of Chicago led a bunch of mid-West universities. And I said to him, what do you think of that? And he said, well, I don’t think anything of it. If it were in Boston, I would know what all the use cases were. I’d know that it would be life science’s use cases, I’d know the people who’d be working on them. I’d know what they – the Midwest is one big blob to me. I don’t know what anybody’s good at anywhere. What do you guys think of that?

Mr. Butler

I think there’s also – I think that’s – well, on one hand, I almost – it’s offensive, and somewhat of an ignorant comment, because it’s someone that’s not really done any research. But on the other hand, I think – you know, for Louisville and Kentucky and Indiana, one of the things we looked around is, you know, it’s basic, you know, asset mapping. Like, in our region, if you think about, like, we’ve got to get more specific around how we define our strengths as well. So, like, I think Governor Beshear right now is big on ag tech and making us innovative around ag tech. We actually had the first-in-the-nation accelerator on agriculture four years running. And I think one of the reasons it’s not
running anymore is because there was a lack of focus around what, within agriculture, are we specifically doing?

But what we have is, we have two of the top 10 engineering schools in the country in our region - Purdue and Rose-Hulman. In Kentucky alone, we have – 83 percent of farms are still small-shareholder farms because of tobacco and the ability for a small farmer to make a good wage. And when you compare that to India (sic; Indiana), where 80 percent of farms are still small shareholder farms, how do we actually make it more successful for businesses to – for these businesses, these small farms to be successful? And if we can do it in Kentucky, we can do it in India (sic; Indiana). And so then we can –

Ms. Gallagher I just want to push back on that a little. What I see when I look across the middle of the country – I can think of two areas that I think have really defined themselves. One is Pittsburgh with Carnegie Mellon and with robotics, and the proof of that is Uber putting a big facility there, a lab institute springing up. And the other is Wichita with that aerospace institute. And you can see that all the big aerospace companies are coming because of it. But, you know, what else is defined in the middle of the country? You know, because you define it by having all that stuff coming around it, right?

Mr. Butler Well, you do. But I think you’ve got to start – like, so for instance, we’ve been doing a lot of work around agriculture for a long time, and what you’re starting to see are companies that are co-locating because they see those asset values. So, for example, in Kentucky, Memphis is right across the border, and they have the FedEx port. In Louisville, we’ve got the UPS Worldport. And in Northern Kentucky we’ve got the Amazon port. So, when you think about –

Ms. Gallagher That seems like logistics, not ag tech.

Mr. Butler So, then if we’re thinking about agriculture, and we want to narrow and really refine it, it’s logistics supply chain management related to agriculture. So, that’s why AppHarvest, for example, that just IPO’d and is a Rise of the Rest portfolio company, is in Morehead, Kentucky, building massive greenhouses. So, I think you start to see that. St. Louis, you see Monsanto, and, you know, even in Minnesota, you start to see some food densities or seed derivation densities. So, I think you’ve got to figure out, what are those assets within the region, and how do we build density around that? How do we leverage that so that we can create the Wichitas and attract some of that?

Ms. Gallagher Anyone else know of – I mean, part of the problem is, it’s not very defined what those assets are in the middle of the country, right?

Mr. Ellis Well, I think, generally speaking, nationally, this is a relatively new topic, right? People have to understand, Silicon Valley is, you know, 50-some-odd years old, and a lot of other regions of the country are just awakening to the possibility of, you know, high-growth entrepreneurship in technology as
something that should be embraced in order to transform its local economy. And so, people are increasingly saying, yeah, why don’t we have that? Why don’t we do this? And so, as they learn, I think they then go through the exercise of mapping their ecosystems and their geographies and so on and so forth.

So, one of the things I’m trying to take advantage of with my, you know, new fund here in Texas is, preaching that same message to organizations like the Texas Medical Center, right? That’s 61 different institutions that include places like MD Anderson, Texas Woman’s, Texas Children’s and others, and preach that same message, like, look, all this medical and life science talent is in the same place. We just need to start having a more coordinated conversation about the things we want to achieve, and success will follow. So, you know, it’s simply a matter of bringing innovation – you know, in the terms that we understand and people who follow venture capital to the rest of the world, because also remember that even when Silicon Valley was on the rise, it was still a fairly elitist and esoteric and little-known thing, right? Like, it’s become more popular through the rise of companies like Google and Facebook that have come to be ubiquitous in our everyday lives, but before that, all the major successes like Genentech when it first happened were, like, all off the radar, and no one’s front-page news.

Ms. Gallagher You could make an argument that Silicon Valley has been built on consumer SaaS businesses – Facebook and Google, et cetera, and that now that that has been exploited – in the nicest way possible – it’s time to take those tools and apply them to health and to industry, et cetera, and that maybe there’s a tension going on. Like, who’s going to own that? You know, is the industrial heartland going to drive the application of these new tools to industry, or is Silicon Valley going to do it? Do you guys see that playing out, or do you have opinions about it?

Mr. Ellis In short, yes. So, I’ll speak on that, because I saw a lot of this when I was still in Ohio. So, the thought is that a lot of that enterprise SaaS-related technology gets adopted and then transforms all of our legacy industries, right? Advanced manufacturing and logistics and all the things that the heartland is known to be good at – ag tech, et cetera – because now, a pathway has been defined by those who are more specialized in software as that then permeates to people who are more sophisticated in agriculture and agronomy, now they can use those tools to advance their own industries. And so, I think it’s simply a matter of adoption and growth and, you know, expanded understanding.

Ms. Gallagher But it’s more complicated. It’s more complicated to apply those tools to agriculture than to consumer business models, and who does it? Does the agriculture industry in the middle of the country do it? Or do the tech people on the coasts do it? That’s a fun battle, right?

Mr. Ellis I think those industries are increasingly overlapping. I think people who are getting PhDs in agronomy are learning about various types of software and artificial intelligence. It’s part of their – increasingly a part of their curriculum.
You know, people who have become software engineers but grew up on a farm in Indiana are going back home and partnering with their friend, who stayed on the family farm, and they're forming companies together. I think those are the trends that we have seen, or there are proof points of those things happening, and they just need to happen enough that they become trends and then become more obvious to people who maybe aren't studying these things on a daily basis.

Mr. Slattery

Kathleen, there’s a great example in the field of life sciences – the discovery in and around CRISPR editing – the ability to manipulate genes. These discoveries early on – the main hubs of those discoveries were the West Coast, Berkeley, and the East Coast, the MIT-Harvard Community. But that technology has applications across all types of biology. And where it's being applied in terms of agriculture, those applications are occurring outside of Berkeley – well, no, not in Berkeley, not in the Cambridge community, but in the midlands. So, this is where conventional ag intersects with this, you know, emerging life sciences field, and that’s kind of the expansion that naturally occurs. So, we may see just new hubs come up, similar to what was described earlier in Memphis and across the river, where hubs naturally occur.

Mr. Butler

And if I could – I think when Zach was talking about, you know, the planning around, like, you know, it takes time – you know, Silicon Valley was around for 50 years – I think there is a danger, a lot of times – if there’s an ideological shift that has to occur – a philosophical discussion around, do we want to be Silicon Valley? I think some people do. Like, oh, that's cool, like, we need the next tech hub. The danger of that direction is, you get the Silicon Valley, which has all of its problems. You kind of joked that they've, you know, they've created a lot of problems in the Bay Area, and so, do we want that in our community? That’s a conversation I hear in mid-America. Like, is – do we actually, really want to replicate Silicon Valley?

And then, the other side of it is, should we replicate Silicon Valley, is the other question. And so, I think we’ve got to get past that, but then, what Zach was saying around, like, how do we build this? We’ve got to actually look around and say, what assets do we have, and then, how do we take those assets and build a type of ecosystem, and what’s the capital to support that ecosystem that’s good and works for us in the market that we’re trying to impact?

And so, I think the danger is cookie-cuttering Silicon Valley and saying, well, they’re doing it there. Let’s just chase that. The danger on the policy side, and at the state level – for example, in Kentucky, the only type of venture dollars that can go to companies is traditional equity. And so – and it’s on the same terms that you see in the Bay Area, and they want the same return as a Facebook or a Google, and that just doesn’t happen here. And so, we’ve got to have policy changes at the state level and the federal level to really allow for some innovation in capital to support these entrepreneurs and their growth.

Ms. Gallagher

Bobby, your bailiwick. What kind of changes?
(Laughs.) Well, I was loving the – listening to the responses here. And what it reminds me of is, you know, to me, don’t box yourself in, right? I mean, understand what you do really well. I mean, we heard the examples about being close to ports. I know – I’m from Arkansas – northwest Arkansas is known for supply chain. You’ve got Walmart headquarter there, you’ve got Tyson Foods headquarter there. You’ve got J.B. Hunt Trucking Company headquarter there. So, they – you know, my alma mater turns out a lot of supply chain management experts. And certainly, there can be innovation there, but don’t let that preclude you from just thinking about the ingredients of a healthy entrepreneurial ecosystem and imagine that something else could be created that you will be known for.

You don’t have to be stuck for what you’ve always been known for, whether it’s agriculture, whether it’s something else. If you get the right ideas, if you get that spirit of entrepreneurship in the right place – if you have capital formed, if you have investors ready to deploy capital – I mean, a lot of great things can happen. And what I hope is that general sense of, we need a healthy entrepreneurial ecosystem everywhere across the country, and let’s see what happens. That, to me, is what we have to kind of think about and adopt. And it’s a lot of different places.

So, economic development today shouldn’t be what economic development was a decade ago. It shouldn’t be about, I’m going to go recruit the, you know, new Toyota plant, come build cars here and get 1,000 jobs or whatever. It needs to be thinking about, what can we do as a region? What can we do to help foster this entrepreneurial spirit? How can we bring people together that care about this? What do they need to support them?

From a policy standpoint, you get into a lot of questions, either the state or the federal level. You think about, well, we need to be talking about benefits, and being able to have people be able to change jobs and take a chance somewhere else. In universities, we need to be thinking about, well, why shouldn’t we be encouraging professors to leave their comfortable professorship and go try to help create a company here? But if they fail, which there is a high likelihood, they perhaps can come back. Let’s look at tenure. Let’s look at conflicts of interest. Let’s look at all of the things that could be holding back an entrepreneurial spirit in different regions and in different aspects of what that ecosystem and all the players in it need to be thinking about.

So, who should be leading that discussion? What I see in the middle of the country a lot is, like, the fake people lead the discussion, and the entrepreneurs – and the successful entrepreneurs and VCs – no one listens to them. So, how do you – how do you have the right – I mean, there’s a lot of innovation theater around all this. How do you get the right discussion going, and drive the right intention?
Mr. Franklin: You have CSIS put on nice panels for a few days – (laughter) – and you have this conversation and get more people to pay attention to it?

Look, if it were easy, it would have already been done, right? It is difficult. It is tough. It is a lot of people having to re-think, kind of, their role in what it takes. It’s getting a lot of people to buy in to a vision. It’s governors, it’s state legislators, it’s federal policymakers. I mean, I’ll give you an example. There’s a bill that was signed into law earlier this year. It’s called SSBCL. There’s about to be billions of dollars sent out to states. And right now, Treasury is trying to write rules. We would have hoped that those would have already been out. Then, states are going to make applications on what they will do with this block-granted money from the federal government.

And in many cases, to get the type of return that the program’s looking at, it’s going to require venture-type equity investing. And that’s going to be a shot in the arm. We’ve been talking about, you know, capital formation in lots of states. A lot of capital is coming from the federal government. And this was done back in the Obama years, but it was less than $2 billion. Now, the overall is $10 billion. It’s already been approved. And so, you know, here comes some dollars pretty soon, starting next year, and so states and governors and economic development commissions and others are going to have to think about, how do we deploy this in the best way? How can this help our entrepreneurial ecosystem here in our state get more developed?

Ms. Gallagher: So, I’ve heard a lot of the preliminary discussions about this, and I’ve seen the way a lot of states have deployed that money in the past. I realize I’m asking a certain audience, but what is the best way for states to deal with that money?

Mr. Franklin: I mean, for me, it’s easy. It’s making sure that it has a venture capital-type equity-based model to deploy. There are also provisions in there that are – have some reserves for underrepresented minorities being able to get in here. So, we need more check-writers.

Ms. Gallagher: Well, so, the – one of the questions there is, you know, there are a lot of variations of venture capital model, and is it better – you know, in Wisconsin, for example, we have something called the Badger Fund of Funds, which was one of our successful VCs in the state. Had this vision of, we need to grow our own venture capitalists. So, he started this thing – he got $25 million from the state. There are now five new funds with new managers. They, in their 30s and 40s, came from, you know – one was recruited from Wall Street. One was working at a money management firm here, et cetera. Should states think about that? Do they need to grow their own VCs? Should they invest in VC funds that’ll put an office in the state? You know, there are a lot of ways to do it, and there are a lot of state bureaucrats who don’t know much about venture capital.

Mr. Franklin: The answer is all of the above. And we’re actually – us and the Angel Capital Association are going to be participating in a webinar for state folks just next
week to help them understand and to learn. There were a lot of learnings from
the original SSBCI program from years ago. There was a significant report
written at the end of it. So, there is a lot for folks to learn about what worked
and what didn't work.

Ms. Gallagher
And where do states – where can people that’s in states learn about that? How
do they get that information to attend?

Mr. Franklin
I don’t have the answer off the top of my head, but I will certainly look for that.

Ms. Gallagher
Awesome. Let’s switch to – you know, I know one of the other things we all
wanted to talk about is, kind of, creative ways to fund companies, and, you
know, there’s traditional venture capital, but you’ve pointed out, very few
companies get that. But Bryce, why don’t you start – you’ve got a partnership
with Wefunder. Why don’t you tell us about that?

Mr. Butler
Yeah, so Wefunder – Steve mentioned the Jobs Act. And so, the Job Act kind of
loosened what was permissible for investment into startups, and initially, you
can invest up to a million dollars through crowd-funded equity. So, platforms
like Wefunder or Republic kind of, have popped up. Recently, in April, though,
there was an adjustment that now, startups can raise up to $5 million through
crowd-funded equity, which is – which is not insignificant. I mean, a million
dollars is still, kind of, like an idea stage company. Maybe no revenue. $5
million is pretty significant, and we’ve already seen really interesting things,
like Mercury, which closed on a Series B, $100 million, led by Andreessen
Horowitz, that opened up $5 million on Wefunder to allow their customers to
invest.

And so, it’s an interesting way to, kind of – everybody wins. The community
can invest. The startup is able to access capital. And so, it democratizes access
to capital, and it democratizes the ability for people to get involved in the
game of investing. And so, Mercury was oversubscribed. They raised $7
million on their $5 million target in one hour, as one example. And so, what
we’ve done in Louisville is, we’ve tried to take some of that and we’ve created
the first in the nation match fund to try to incentivize adoption of new ways of
deploying capital. And so, if you’re raising on Wefunder, we’ll match your first
$20,000 on whatever terms you set as an entrepreneur. And now, we went
from zero companies aware of or using crowd-funded equity to now six in the
last 12 months have raised –

Ms. Gallagher
But who is “we?” Who is the “we” that’s matching?

Mr. Butler
We raised a regional investment fund that, kind of, is a strategy that has
crossed the spectrum – everything from first dollar initiative for Black and
brown founders in Louisville to patient debt financing for small businesses all
the way up through to traditional equity. It’s about a $15 million regional
strategy called Render Capital, and so, trying to look at ways to bring different
types of capital to the table and incentivize other partners. How do we get
banks re-engaged that are not – have, historically, kind of retracted from startups?

So – because I think that’s the other thing is, entrepreneurs start at different places. They don’t just build a company and go out and raise venture. An example – there’s a company in Louisville. Their first dollar was a Kiva loan at zero percent. And they literally, last year, in the last 12 months, closed on $3 million of venture. And so I think, as we think about building, driving whole entrepreneurial ecosystems, we’ve got to look at, kind of, the continuum of capital to support their growth.

Ms. Gallagher Let me push back a little. Not because I disagree with you, just for the sake of argument.

Mr. Butler Sure.

Ms. Gallagher This Badger funds that I mentioned is very investor-friendly. And that’s the complaint that a lot of the entrepreneurs have, that, you know, it’s focused completely on ROI, and investors, you know, have a really good shot at great returns. And that will probably draw in more investors, right? The kinds of things you’re talking about might not be as focused on ROI. And then, what does that do to your ecosystem? I mean, isn’t this all about making money in the end, for the people you want to put money in?

Mr. Butler I think it’s starting with, what’s the expectation of capital? And so, within Render, as a strategy, we have – we have multiple different vehicles that have different expectations of capital. And so, we try to be as honest as possible about what the goal of that capital is, and then the type of entrepreneur or type of company that’s going to support. And so, I think, as an ecosystem, we’ve got to then build a pretty robust stack of capital to support entrepreneurs, and that’s going to include below-market lending that banks aren’t doing. And so, how do we create that pool of capital? That might be a program-related investment from one of these endowments in the region that, you know, 1 percent, or even zero percent return is better than a charitable contribution that gets no return – gets a negative return – (laughs).

Ms. Gallagher So, isn’t a concern that – like, I was looking the other day at Renaissance Funds in Michigan, which, you know, get corporations to all put money in, and then they run demo days and bring in outside funds. So, they started – they’re on their fourth fund. They just raised their fourth fund. Their first was $40 million. They kept going up to, I think, $81. And now, the most recent one was $79. And, you know, I used to be a reporter. Whenever you see that a fund doesn’t raise as much the next time, you figure they had bad performance. So, don’t you run the risk of these investors kind of – you know, losing them by attrition over time if you don’t have great returns?

Mr. Butler Yeah, and that’s where I think it becomes somewhat of a marketing challenge, to be honest, because Render Capital is multiple types of capital within one
office, so to speak. And so, what we’re working on right now is, how do we actually get really thoughtful about articulating, this is our traditional equity fund within our regional strategy? This is our below-market lending fund, this is our – this is our venture debt strategy? And so then, we can go and have, you know, conversations that are apples to apples with both the investors that are open to those types of returns, and then the entrepreneurs. And so I think, you know, the pie in the sky would be, you know, we could create a strategy that’s going to support an entrepreneur across their entire journey, and that’s just not – that’s not possible, because the blended return is something that’s not going to attract the capital to grow and scale.

Ms. Gallagher

So, what do you guys think of this? Can you build an ecosystem long-term with those kinds of strategies?

Mr. Ellis

I think to part of Bryce’s point, it depends upon how honest you are about setting the expectations. And so, this is one of the topics that often comes up when we talk about being inclusive in venture capital and in tech entrepreneurship, and including women, including minorities. Suddenly, the conversation shifts to, like, oh, well, you know, it’s more like philanthropy. We’re just kind of giving everybody a chance. It’s like, well, no, like, you know, certain communities – certain groups of people have been excluded from capital and other, you know, opportunities purely based on, you know, not being in a certain circle, or not going to Stanford, or whatever the case may be.

And what the data has shown, overwhelmingly, is that when these people with the same educational opportunities, et cetera, et cetera, get an equal shot to start a business, grow a business because they’re funded and they’re supported by their ecosystem, they have the same if not greater success, right? We know that more diverse management teams yield greater results, you know, specifically due to the fact that they’ve got women on them and minorities on them, et cetera.

So, managing the expectations as to – and making sure that you’re still investing in people who have solid business plans and making sure that they have training to develop a good business plan or, you know, whatever the case may be – you know, that’s what underpins the success or de-risks the investment opportunity for capital. And so, as long as you’re going in with that explicit strategy that you’re expecting 10 percent returns as opposed to 30 percent returns, then I think everything works out.

Ms. Gallagher

So, just to pick at this, because, you know, that’s my background – picking at things – (laughter) – okay, but is that – that seems different to me from a strategy to win, a strategy to, like, build deep tech startups and have a focus, like we were talking about earlier, that competes globally. Like, I’m not saying that’s a bad thing, doing all that stuff. I’m just saying, if you want to – if we want the middle of the country to compete globally, doesn’t it have to be, like ROI-focused and figuring out where the strengths are, and all that stuff?
Mr. Ellis

Well, everyone’s got a different return profile that they’re looking for, right? Like, real estate doesn’t expect the same as venture capital, which doesn’t expect the same as a bank. So, I think you get in where you fit in and you stay in your lane, and as long as — you know, if you decide my lane is going to be venture capital, and I want genuine ventured returns, then that’s what you focus on, but you still make sure that you are giving all of the good ideas within that bucket of opportunity a fair shake to earn those dollars.

Mr. Franklin

Kathleen, let me pick up on something that I think is inherent in your question, and you’re talking about the terms, and you said something earlier about, you know, kind of, investor-friendly terms and things like that. I will say that there is — I have witnessed a conversation within our industry — people that were on the coast that actually ended up moving to the middle of the country and raising funds and investing there, brought term sheets that they were used to on the coast. And on the coast, it’s such a competitive environment. Many times, you have to have very founder portfolio company friendly terms in order to win the deal, right? To get into the entrepreneurial idea that you really want to get into.

And I have had this question to some of the folks I meet with in the middle of the country, and they’re mad that, you know, oh, I wish we had more capital and all of that stuff. And I said, well, have you looked at yourself in the mirror? Are you — you complain to me on one hand that entrepreneurs run to the coast to get money, yet isn’t it evident that sometimes your terms are less founder-friendly than the ones that you’re mad that they’re going to? So, you have to sort of be honest with yourself about some of those terms. And I think that’s a healthy conversation to have.

At the same time, I get your point that at the end of the day, if you’re going to continue to have capital come in, there has to be some expectation, and I think what, you know, Bryce and Zach are talking about is, as long as you’re transparent about what those expectations are and understand, you know, kind of, what we can do — I mean, I bet if were Steve were still on this, he would talk about — and I think he did mention in talking to John that there is a misunderstanding sometimes that there aren’t great returns in companies off the coast, because the cost for those companies tends to be a lot lower for the talent and other stuff. And so, you know, I think there’s a lot of misperceptions and biases that are built in that, you know, we all need to a better job of kind of rooting out and helping with data, helping with understanding.

You know, we now, just in terms of some of the stuff that Zach was talking about for Black and brown and others, I mean, we’re getting a lot more data now with our human capital survey to understand what’s happening in the industry. And we’ve done this now every two years for the last six years, and we’re making progress in some areas, and we’re not making progress in other areas. One of the learnings from this has been that when firms are intentional about being more diverse and about recognizing the opportunity to have diverse teams making better decisions, having better financial outcomes, then
the data follows. And so, intentionality is very important here by everybody in the ecosystem.

Ms. Gallagher

OK, so there’s – one of these Badger funds – I’m in Milwaukee, and one of them that recently closed is run by an African-American woman, engineering background, used to be at a big company. And she was able to raise money from the Greater Milwaukee Foundation, which has never put money into venture before. So, it’s interesting. I think part of it was that this was this diversity opportunity, but she is totally ROI-focused. So, maybe that’s the best of both worlds. I don’t know. I just – my frustration in this discussion is, you know, these big pension funds and all this money in the middle of the country, for the last 10 years I’d say there have been discussions about putting money into different types of vehicles, and they still don’t do it. They still just go to the coasts, where the returns are the best. So, how can you argue that – I mean, it seems like that’s what they go after, those returns. So, don’t you have to have them in the middle of the country to get those investors, or can you change their minds somehow?

Mr. Franklin

I think you do have to have it, but I think it’s a false assumption that you can’t get great returns outside the coast.

Mr. Slattery

Kathleen, we touched earlier on the entrepreneurial risk-taking culture, and one possible solution has been – and we’re trying this in some of our academic collaborations – reducing the cost of failure. So, with each idea – and if you think about what universities do well, at least in life sciences and human health – they identify novel biologies. Novel is high-risk. It’s novel; it’s just discovered. We don’t really know what it means. Or they discover better ways, different ways, novel ways to target known targets, validated targets. Sounds less risky, but it’s just the same risk.

These are all still very high-risk. If you look statistically, you know, at this stage in the university setting, if this were advanced into some kind of a drugging activity, it’s about a 2 percent chance, at that stage, that it’s going to actually work. So, if we think about building companies and the cost of building all this stuff, we have a lot of expense with a lot of failure. What if we thought about ways that we could reduce the cost of failure? And there’s no doubt the universities have lots of discoveries – discovery substrate, but if we developed a mechanism that allowed us to exploit those discoveries and do it in a highly-leveraged way, so you build and you just constantly bring it through this professional mechanism that can de-risk the program to the point where it can now stand on its own. The odds of its failure goes from 98 percent to 60 percent. You know, we’ll just imagine that. You know, these are major steps that we have within our possession today to help improve the opportunities for wherever discoveries occur. Can we reduce that cost of failure?

Mr. Butler

It’s a great point. And I think, to piggyback, the other thing is, I think it’s good to ask hard questions and say, could we get better at this? I think some of the
limitations – I think we forget that venture capital is relatively new, and so, how do we begin to question, like, are the terms sheets exclusive? How do we re-imagine what we think about in structuring this?

And to what Bobby was saying, like, just the transparency between the investors and the entrepreneurs so that we all, kind of, are going into it eyes wide open. But I also think we’ve got to ask some societal questions around the issues of private debt in America, and the impacts on people – regular peoples’ ability to start and take risk because of student debt or other private debt that’s inhibiting their ability to take that risk, or childcare. You know, the age of entrepreneurs is going up, and so, what are we doing to support entrepreneurs that might have children at home in providing these services? Early childhood education. All of those are part of the story, and those are challenges that entrepreneurs face as they’re trying to build and scale.

Ms. Gallagher

So, I nominate Bryce to be the middle of the country engineer to improve on Silicon Valley. Are you up for the challenge Bryce?

Mr. Butler

(Laughs.) I’m not sure. Need your help.

Ms. Gallagher

You can form a team. You just have to – (laughs). We had a really interesting question in the Q&A. It’s from Lisa Lorenzen, and she is actually – when we were talking about areas of expertise in the Midwest, she was talking about the Animal Health Corridor in the Kansas City area. But one of the things she said is, there’s a lot going on in the Midwest, but it’s hard to get anyone to listen even when you talk. What do you think?

Mr. Franklin

I couldn’t agree more. I mean, there’s so much noise out there, and there’s a – you’ve got to try to break through, and there are – I get to hear of examples every day from our members, and some amazing opportunities we – you know, we’ve heard several on this panel today, and from the conversation with Steve Case, about what’s happening in different parts of the country. And it does need more publicity. It does need more recognition, because I think that’s when you start to get these players of this ecosystem that you’re trying to build to see the opportunity. They have to be able to see something – a lot of people have to be able to see something. They can’t just hear about it. They have to see the success of something going on in their region, which helped them imagine what could be.

And so many players have to be able to see that to create that environment so that it just breeds more and more success. That’s part of the reason why the three epicenters of venture continue to do well, because they have so many people that can see it on a day-to-day basis, from their neighbors, from their friends, from their local press, and it just feeds on itself. And you need that, you know, positive spiral of innovation and encouragement of each player in these ecosystems.
Ms. Gallagher: I think you could argue those centers have become, almost, national media markets, too, and we don’t have those in the middle of the country.

Mr. Franklin: We do, but I really—you know, a good story is still a good story, and I think there are a lot of really good stories out there, and we need help telling them.

Ms. Gallagher: Do you think we should make a rule that every coastal panel that happens should have a middle of the country person on it? And should we call Anderson Cooper and ask him to like, kind of, you know, switch it up a little bit?

Mr. Franklin: Sure.

Ms. Gallagher: (Laughs.) Who’s going to make the call? Bryce?

Mr. Franklin: I’m always in, D, “all of the above,” right? I mean, because there is no one answer to a lot of these challenges that we’re all sort of identifying, and we’re thinking and talking about what could help these regions do better. I think it’s got to be all of the above, and I think, you know, we don’t know what the dots that are going to connect to have one region stand out more than it is today. Let’s try it all.

Ms. Gallagher: So, one of the reasons we’re talking—oh, go ahead.

Mr. Butler: I was just going to—it’s a great question, and the only thing I was going to throw out is, because there has been a void, I am also super impressed by, just, the scrappiness of people in the Midwest to, just, kind of try to fill that void. There’s a Middle Tech Podcast in Kentucky that is really growing steam, and—so, some new media outlets—Elizabeth MacBride, who has been featured in Wall Street Journal and New York Times and Forbes, she just started a new publication called the Times of Entrepreneurship to really highlight what’s happening in mid-America. So, I think some of it is, how do we get backing behind some of those efforts to really elevate these stories so that, maybe, those stories then are reposted in the national media markets in a way that really does start to do that.

Ms. Gallagher: I was a reporter at the Milwaukee Journal Sentinel, and my sister lives in Chicago. And one day, she called me and she said, oh, you know, John Smith from Dow Jones says hi. And I said, who is that? She said, oh, I saw him at a party. He says he knows you. I said, I don’t know that guy. Well, it turned out, what those people do is, they sit and read local media outlets. So, he knew me because he was reading all my stories. (Laughs.) So, you’re right. You get those stories out, and they get picked up nationally. Yeah.

I’m just looking at our Q&A, and, you know, Research Triangle—Jeffrey Alexander, who is with the Research Triangle Institute is talking about, you know, how long it took to grow Research Triangle, and can you build new centers, he’s asking, in less than two decades?
Mr. Franklin: Let’s hope so. (Laughter.)

Ms. Gallagher: Let me throw in – one of the reasons we’re doing this is because the federal government is considering putting big amounts of money into, is it 10 now, regional centers – a billion dollars each maybe, it was – I don’t – Bobby, you probably know – what would you do if you, you know – Louisville, I think, is interested in this. I mean, Louisville probably can’t absorb a billion dollars. What would you do? What are your recommendations for these centers if they get this billion dollars? What are some of your best ideas for how they should go about managing? I should say Madison, Wisconsin, is another area in my neck of the woods – (laughs) – trying to get one of these. But none of us have Chuck Schumers, right?

Mr. Butler: No. I think Louisville is interesting – one of the things I think would be really interesting for Louisville is trying to be a first-in-the-nation model for a bi-state cooperation. You talked – you see – if you look at the data and where there is a bi-state zone – business doesn’t see state boundaries. There is 1.3 million people in Louisville MSA. Thirty percent of that lives in Southern Indiana. Southern Indiana is three townships that, together, would be the third-largest municipality in the state of Indiana, and yet, we get ignored by Indianapolis because we’re not Indianapolis, we’re not West Lafayette, we’re not Notre Dame.

And so, they just kind of hand it off to Kentucky. Well, that creates a lot of problems when it comes to innovation and support through investment. And you can look at the latest data – in Indiana, for example, not a single dollar through their state-funded investment funds went to Southern Indiana. And it’s because they got enough density in Indianapolis. And so, I think for Louisville, a lot of that money should be focused on building a bi-state, kind of, regional – truly regional strategy that is independent of state boundaries, because we’re better together. Many of the strengths that Kentucky has are related to agriculture and logistics and supply chain exist in Indiana as well. And so, how can we – how can we look at the assets between those two states, or three states if you lumped in Ohio, and come up with a really interesting, innovative solution?

Ms. Gallagher: I have a growing appreciation for Bobby’s political abilities. Bobby, how would you get three states to work together?

Mr. Franklin: (Laughter.) Well, I guess it depends on the states, right?

Ms. Gallagher: Could we enroll you in trying to make that happen? Would you help us?

Mr. Franklin: Well, you’ve got to talk to my board and see if they’d, you know, let me use my non-free-time to do that.

Ms. Gallagher: I think Bryce is willing to talk to your board.
Mr. Franklin: Okay. I do think there is a lot to that. We do have to think, kind of, regionally. And as you said, the Endless Frontier becomes law and these regional tech centers come together. Now, some of it – if you look at the legislation, a lot of it is – has a focus around areas that we want to see the U.S. lead in. So, it’s not all just geography focused. Sometimes – I mean, some of it speaks to, we need to understand AI. We need to understand quantum computing. We need to understand these things. And that is going to take, you know, a coalition of many institutions and other players that are on the leading edge of the different ideas to work together. Sometimes it could be regionally and geographically; sometimes it could be from an expertise standpoint, and where the expertise is and how we can use this as a way to help the country kind of lead in so many areas.

Ms. Gallagher: You raise a great point. When you look at China, what they do is, they say, you know, this city is doing AI. And then all the AI ends up in that city, and we don’t, you know, have that kind of system.

Mr. Franklin: We don’t force our cities to just spring up and stuff like they do in China? You’re right. So, it’s harder when you don’t have a party in control of an entire country. So, it’s going to be harder. I do believe that it’s possible. I think you already see, you know, consortiums of leading universities in different areas. Bill has talked a lot about life sciences. I mean, there is a lot of working together among institutions in different areas, with CRISPR and others. I mean, there is a lot that happens and a lot is going to need to happen, and a lot is going to have a great opportunity if the Endless Frontier Act does become law. It’s got a different name now, but that’s what we’re hoping for.

Ms. Gallagher: Well, and let’s remember, two of the original sponsors on the Endless Frontier Act were representative Gallagher, R-Wisconsin – no relation, and Senator Young from Indiana. So, there are Midwestern fingerprints on it, right?

Mr. Franklin: Absolutely.

Ms. Gallagher: Bill, you’re trying to kind of address that by this – I don’t know how to – you’re almost putting together companies virtually, right, and pulling expertise out of different universities?

Mr. Slattery: Yeah, well, one of the methods that we’re using to deploy capital is to engage universities at a very vulnerable time in their discoveries. And this is usually around that moment where funding for a particular idea that’s been funded by the federal government through NIH grants no longer is eligible for that funding, and yet it’s still too early for the – for the conventional venture, or for industry for that matter.

So, you know, these ideas – we call this area the valley of death – people referred to this in life sciences before – lots of good ideas, too few people, too little capital and too little patience. So, rather than try to solve for all these
individually, we decided to create some internal capabilities for drug
discovery. We created a group called 3DC, which is the Deerfield Discovery
and Development Corp. It’s a group of very experienced drug discovery
professionals in gene therapy and small-molecule, antibody peptide therapy.
We partner with the university, and we partner in a very formal way, with a
couple of very unique distinctions. Real value creation – I’m talking about
monetary value creation – is only going to occur if there is a human benefit –
true real impact and human benefit.

So, things need to work. We need to be able to fund an idea completely
through the life cycle. So, it’s a little bit different from a conventional – where a
venture firm will start an idea, and then start to de-risk their investment by
syndicating it out. We’re going to guarantee that the program in the
universities continue to receive funding as long as the scientific merit and the
development tractability continues to support that all the way through the
exercise.

And we’re also going to create – we’ve created a model that allows the
institutions to participate in the value creation of the equity that ultimately
comes out of these ideas. And I point to a couple of examples, notably, at the
University of Pennsylvania Children’s Hospital – so Children’s Hospital of
Philadelphia – some very groundbreaking work occurred in the field of gene
therapy for – (inaudible) – led by Dr. Katherine High, and they created a
company by the name of Spark Therapeutics. Spark was eventually acquired,
and it was a very profitable payday. But Children’s Hospital was able to hold
on to roughly 10 percent of their equity stake, and that translated to about
$600 million coming back to Children’s Hospital. So, we had a human health
transforming event. We also had an economic event for Children’s Hospital
that was really great.

So, we’re trying to do this at scale in a method and a process that, getting back
to my earlier comments, and where failure rates are really high, and you want
to reduce the cost of failure. So, rather than creating all these silos, we create a
mechanism and we partner with the university in a formal way. It’s still an
experiment, so we’ll know in about 10 years how well we did, because frankly,
that’s the time frame that life science drug discovery needs to be thinking of –
10 years.

Ms. Gallagher  Right. You have a good read on who’s good at what, though.

Mr. Slattery  Well, we know that there is a lot of great discovery, and that doesn’t
exclusively reside in Boston and South San Francisco. You know, some of the
best discoveries in human medicine – Wash U, University of Illinois Chicago. I
mean, these are not conventional names that you read about that also where
venture capital hubs are situated, and yet, they've made a major financial
impact and a human health impact.
Ms. Gallagher: I want to try and get Zach to talk again, but before I do that, there is a question – Bobby, people are asking about that event you're having next week. Do you have the information about that?

Mr. Franklin: It's not my event. Something we're trying to help on. I don't have the information. I will try to get it and share it with folks at CSIS. Sorry, I don't have it.

Ms. Gallagher: Right. So, anybody who's interested can go to the CSIS people and get the information.

But Zach, you must have thoughts about the last few minutes of conversation. I –

Mr. Ellis: Yeah, you know, I've been, kind of, noodling on it, and I was trying to map out in my mind –

Ms. Gallagher: I can tell. You look pensive. (Laughter.)

Mr. Ellis: I was trying to map out in my mind how long it took for Research Triangle Park to really become renowned, and how long it took for Austin to really become known as a tech hub, and it's still probably on the order of 15 years, or, if you want to give some more grace, we could say 10 to 20. I mean, I don't necessarily know that that's a bad thing, because I think organic growth and the attraction of, you know, people to a new city and for, you know, culture to change and all that sort of stuff to happen takes a while. I don't know if you can force it in two to five years.

Ms. Gallagher: Well, but what if you get a billion dollars?

Mr. Ellis: Well, you might – you could change my mind. If you could just give it to me and then we'll see what happens. (Laughs.)

Ms. Gallagher: Well, but, I mean, it could work and it could not work, right? So, what do you do with it? What would you do if Houston got a billion dollars tomorrow?

Mr. Ellis: I think you either shore up or create whatever is missing in your particular region, right? So, we've talked about the importance of academia, for talent and research institutions, and, you know, successful companies, right? And customers, and sort of, creating opportunity for those things to collide. And so, you know, I think, you know, innovation hubs – innovation centers, like, you know, large complexes of buildings where people can come together and, you know, share ideas, hold pitch events, have elementary students come, have research labs all in one space – I think those are additive to an ecosystem.

I think large, sophisticated, you know, medical research centers are fairly additive. Yeah, and I think large research institutions within academia – I think that's where all these things start, and then organically, your, you know,
best and brightest students usually branch out, start a company, hire from within, hire – you know, as they grew, they hire more experienced talent from established companies in the region, and these things feed on themselves, and as they exit, you know, the top 15, 20 to 50, however many people then go off and spawn new things. And –

Ms. Gallagher I think what this panel has proven is, you know, if you're going to get a billion dollars tomorrow, bring VCs into the conversation. (Laughs.) There is one more question that – we've only got a couple of minutes, but someone is asking, can we expound a little on the billion dollar thing that I referred to? And I'm going to turn this to Bobby, but I do know that there is a Brookings Institution paper that kind of started the whole thing about putting a billion dollars into these markets, and there's an MIT group – is it called Jump-Start America, that has also – and they both have lists of who they think should get the billion dollars, but Bobby, why don't you provide more context around that?

Mr. Franklin Well, there is one that's already passed Congress, and there is one that's being considered by Congress. So, there's a couple of different things. What I was referring to earlier is something called SSBCI – State Small Business Credit Initiative. You can go to the Treasury website and search for SSBCI. You can get information about that. Years ago, there was a pot of money that was distributed to the states. States did stuff with it, some venture, some different. They all get to decide exactly what they're going to do and how they're going to do it, and they submit that to treasury before they get the block grant.

In March of this year, Congress passed almost $10 billion towards this program. Not all of it goes for the same thing, but it will be block-granted out to the states. So, capital is likely to come to states over the next several years that can help different areas of the country jump start a lot of this stuff. Then, the other thing that we're talking about – and Steve case mentioned it in his comments, is the Endless Frontier Act, where it's the idea of the regional centers, and looking at, you know, different types of technology and making sure that we, in the U.S., jump start the R&D that we used to spend a lot more of our GDP towards R&D than we do today. And so, this is a way to try to, you know, catch up from a generation of reduced R&D spending as a country to institutions of higher learning, around areas that we want to not cede to China or other countries around the world. We want to keep an innovative global leader position in, and that is something that is not yet –

Ms. Gallagher And Bobby, that Endless Frontiers Act turned into the U.S. – what is it called – Competitiveness Innovation Act (sic; United States Innovation and Competition Act)?

Mr. Franklin Correct.

Ms. Gallagher Which has passed the Senate, and now it's still in the House, isn't it?
Mr. Franklin: It has not become law yet. And so, that is the – people are referring to it as the China bill, people are – it has lots of different names. We had all of our, you know, advocacy when it was called the Endless Frontier Act. So, I continue to call it by its original name. (Laughs.) And that’s where, as you said, on a bipartisan basis, a lot of people came together and said, this is very important for the country to stay competitive. So, two different things. SSBCI is about $10 billion. This is much bigger than that, it’s just not yet passed.

Ms. Gallagher: So, you guys, this was an awesome conversation. Thank you for all your ideas. Thank you for putting up with my pokes, and let’s do this again some time, because – and I think the takeaway though – the big takeaway is, you know, if you’re grappling with this in the middle of the country, you’ve got to have VCs involved in this conversation. You guys know a lot about it, so thank you so much for sharing your knowledge.

Mr. Slattery: Thank you.

Mr. Ellis: Thank you for having us.

Mr. Franklin: Thank you.

Mr. Butler: Thank you.

(END)