



CAPITAL CONCERNS

By Rebecca Patrick

Evaluating Indiana's VC Landscape

The saying “nothing ventured, nothing gained” has been around for centuries; the first record of it coming in the late 1300s from the pen of Geoffrey Chaucer, the father of English literature, in an early fable of *The Canterbury Tales*.



While the meaning isn't rooted in money, it rings as true with financial dealings as anything in life. And no one knows that better than venture capitalists (VCs), who take calculated gambles by investing in start-up companies in the hopes of an impressive return.

In Indiana, the venture capital market has begun to emerge in the last decade along with the entrepreneurial spirit that is driving start-ups. Offering their insights on where the state stands today are:

- **Mike Asem**, director, M25 Group, at m25group.com | M25 Group is an early stage seed venture capital firm that's focused on Midwest start-ups; it's based in Chicago with an office in West Lafayette.

“We're looking for companies raising anywhere from \$500,000 to a couple million dollars in total in which we would participate in,” Asem explains. “We do about two investments a month and have been doing this for about two years.”

- **Rosanne Burge**, senior partner, Elevate Ventures, at www.elevateventures.com | Elevate Ventures, the private sector partner of the state of Indiana in entrepreneurial development, invests in Indiana-based start-ups in the early stages through a variety of funds.

“The most we'll do is up to \$4 million in any one company, and we have a portfolio of companies all across the state.”

- **Kristen Cooper**, CEO and founder, The Startup Ladies, at www.thestartupladies.org | The goal of The Startup Ladies is to identify, educate, connect and increase investment in women who are building scalable companies.
- **Mike Reynolds**, CEO and founder, Innovatemap, at innovatemap.com | Innovatemap is a product agency in Indianapolis “that works with companies to dream, design and deliver better digital products. Specifically, we'll target start-ups and scale-up tech companies, either helping them bring their idea to life or taking their existing products to another level.”



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Show us the money

The group agrees there is greater access to capital today.

Reynolds, himself an entrepreneur, has been part of the Indianapolis tech scene for two decades.

“Ten years ago, I would’ve said there were maybe 50 companies in town; there’s 300 to 500 now. When I started Innovatemap, there was one or two co-working spaces; there’s now a dozen,” he explains.

“But I still think a lot of entrepreneurs feel like there’s not enough available. Ironically, we’re friends with a lot of investors and I think that they reciprocate the opposite comment that there’s not enough qualified people to invest in.”

Regarding the latter, Reynolds emphasizes the distinction of “qualified” start-ups.

“If it’s their first start-up or maybe they’ve not created a company before, I do believe they struggle to find funds.” Conversely, the qualified founder – for whom this is at minimum their second go-round – “has no challenge whatsoever. In some instances, there’s a line out the door to get to be able to fund this group, so they find seed and Series A (initial formal round money) very quickly.”

Asem sees the Midwest as having more good opportunities to invest in than necessarily high capital needs.

He praises the match program at Elevate Ventures for spurring things along.

“It really helps us as we look at Indiana-based deals that are qualified for the match – to help these rounds fill faster because we’re similar (to Elevate) in that we exclusively co-invest. We won’t come in completely by ourselves into an investment. ... We try to make it really easy for people to bring us

alongside them into good deals and help seed more companies rather than pour a lot into a select few.”

Central Indiana is frequently cited for its growing entrepreneurial momentum. Burge says for other areas of the state, it’s often the angel network in those regions that aids seed or pre-seed companies.

“That’s one of the roles of our Entrepreneurs in Residence (program), to develop those relationships with the angel investors all across the state and specifically within their region so that they can introduce companies to those angel investors.”

Participation in various technology programs, organizations and networking in general, she stresses, is also vital.

“Additionally, Elevate is in the process of developing regional partnerships. You’ll see some announcements coming in the next couple of months, but one is already up and running up in South Bend (called Start-Up South Bend-Elkhart).” A second, in southwest Indiana, was unveiled a few weeks after this discussion.

“It’s going to take several years to build up some of the regions across the state, so what we’re doing is targeting specific regions who are interested in pooling their resources to develop, for lack of a better word, an entrepreneurial ecosystem within that region.”

Good idea vs. good deal

When asked if there is enough in the innovation pipeline to lure investors, Cooper was quick to declare “there’s a limitless amount of ideas. There are a growing number of first-time founders that have never built a business before. (But) they’ve identified a problem, and they think they have a solution.”

Cooper works with women at the idea stage – where they “need to prove out the concept. That may mean they have to build a tangible product; it may mean they need to build a piece of technology and that can be expensive if you’ve not built a company before.

“You don’t have people knocking down your door to write checks.”

Reynolds says Cooper is “absolutely correct” that ideas abound, but those can be different from what investors see as “good deals.”

Specifically, he says, “If someone is walking around with no prior experience and building a business or in tech and simply has the idea, that isn’t enough. Those people do struggle and they get pressed to hit risk-mitigating milestones (product build, first customer, etc.) for an investor, which are meant to establish credibility. ... I find a lot of them struggle in that moment.”

Burge and Cooper both stress the importance of introducing first-time entrepreneurs to people who can help them – to bring in somebody that has that experience. In fact, Cooper thanked the other roundtable participants for previously taking the time to offer advice and do educational sessions through The Startup Ladies.

Acquiring that knowledge is empowering and impacts the quality of future decision-making. Burge says no act is more important than putting a good team in place.

“We’ll invest in a company pre-revenue if they’ve got a strong team. If we have a



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first-time entrepreneur who (only) has a great idea, we won’t invest until they have that first customer or are showing some revenue growth.

“If you are a first-time entrepreneur, you can build that team but you’ve got to network, you have to bring in an advisor to build out that team and bring that credibility along with you. And that’s where groups like Kristen’s really help on that and Mike (Reynolds) as well. “

Notice taken; growing pains

The sheer amount of activity taking place in Indiana around start-up companies has caught the eyes of out-of-state investors – especially those in the Midwest. (See sidebar and story on Page 28.)

“It’s ten-fold to what it was and what I observed maybe five or 10 years ago in terms of programs available, things available, community being around it,” Reynolds offers.

Burge mentions the amount of media attention and says it’s leading to “more VCs from outside of town wanting to come in and review our portfolio.

“The Indiana Chamber, the IEDC (Indiana Economic Development Corporation) and everything that they’re doing and putting out in the press ... and the state establishing the Next Level Fund, that has definitely generated a lot of interest from outside venture capital in Indiana. They’re all wondering what it’s going to look like and how can they participate in that.”

Adds Asem: “The state is making it easy with events and activities like The Innovation Showcase, Winner’s Circle and inX3 – making it easy for folks to come in from out of town and have highly productive trips and

see some of the exciting things going on in Indiana.”

That external interest is so key because securing a larger infusion of capital within Indiana for a company’s continued growth can still be difficult, if not impossible.

“Our clients that have had the opportunity to go from a start-up to a scale-up and are now seeking something around \$3 million or above, have had to go out of state (for that),” Reynolds shares.

“I wish we had more money available here to ensure that they’re staying or they’re one of Indiana’s own that had their entire ride through their success while still being in the state,” he muses.

This isn’t a problem unique to Indiana, says Asem. “From what I’ve seen in the Midwest ... what I see in Chicago, when you’re starting to talk about Series B-plus rounds in Chicago, we still see a lot of coastal investors coming in and leading those rounds.”

Asem also counters the notion that investors often want companies to relocate to their area.

“I’m seeing a lot of firms (rethink) that once they see how well a company can operate efficiently, how far the money can go in Indianapolis versus San Francisco or New York.”

He insists it’s more contingent upon the availability of local talent.

“That’s probably the main concern for an investor (in) wanting the company to move – do they have access to talent, which I think Indy’s done an amazing job of growing that talent.”

Burge foresees greater options for outside funding once more companies seeking \$3 million-plus are located here. Today, you can likely count the number of companies meeting that criteria on one hand.

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But both she and Reynolds recognize that should be changing soon.

“Indiana is on the cusp of almost having a

(good) problem with all this success we’ve had at the seed and Series A (stages). The ones that are seeking the \$1 million level is tremendously larger than it was five years ago, so some of these companies in a year or two ... (will be seeking that \$3 million-plus of capital),” Reynolds explains.

“I’m using fake numbers here, but if there’s five companies in town right now looking for a \$4 million round, it may very well be that in two years that there is 15 to 20 looking for that round just because of the success that we are seeing with some of these younger companies.”

How to move the needle more

To close, Cooper reiterated the need for better educating independently wealthy individuals on “how they can improve the economy and grow jobs in the state of Indiana and prevent brain drain by investing in start-ups at the earliest stage. Then we need to connect them (with those companies).

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Reynolds concurs. “That awareness would be amazing ... those individuals have no idea how to find that but they’re looking to do something with their income, whether it be stock or seed – anything, so that is an opportunity.”

He also wants to see the notable success stories continue to occur and motivate.

“We’ve seen that with Bill Godfrey (Aprimo founder) and Scott Dorsey (ExactTarget co-founder) and others. A win inspires others to win and then when those people are so good that they give back and they mentor and coach, then that helps the next group.”

Adds Burge, “It’s not just leaders of those organizations but the next level management team. We’re starting to see them go off and start businesses, so it’s not just the CEOs or the senior leadership team but that next level down.”

Burge separately contends Indiana is ripe for attracting start-ups – “taking companies from Chicago (and elsewhere) and bringing them over to Indiana.” An example she notes: Inscope Medical Lab, which moved this year from Louisville to Jeffersonville due, in large part, to the money provided by Elevate Ventures.

Asem finishes with his optimism for the state. “(At M25) I’m mandated at looking at about 14 states at a given time and try to evaluate ecosystems equally to get our best deals. Our largest market for our investment today is Chicago but second is Indianapolis.

“So I think that says a lot about the way that ecosystem is going and how promising it is compared to other great places like Pittsburgh, Cincinnati, St. Louis, Minneapolis, Lincoln. There’s something going right and I think people care a lot about it and are doing the right things to make it grow.”

Filling the Funding Gap

“It’s a tough area. Once you get out of the early stage (of the start-up) and the romance is gone, it gets to be tough. But that’s where we like to come in ... it’s exciting,” offers Oliver Nicklin, founder and president of First Analysis, which is based in Chicago.

That’s welcome news for Indiana start-ups since that higher level of investment – to help them grow – isn’t as widely available as it needs to be in-state.

“We are often the first institutional investor in the deal,” Nicklin continues. “(These companies) haven’t evolved to the point where they are obviously attractive investment ideas. We’re looking for companies that have the potential to be a leader in their field. The company might be around \$5 million in revenue today but have the ability to go to \$100 million.”

Extensive research is conducted and Nicklin says that for approximately every 100 companies considered, only one is selected.

To date, First Analysis has invested in two Indiana businesses – Aprimo and Scale Computing; the former is one of Indiana’s early success stories and the latter is currently being funded. But more may be added soon.

“I’d say in our deal log right now there are several Indiana names; two or three of them we are quite interested in. And there’s some competition – at least one other fund is looking at them,” Nicklin shares. “We like technology-driven names and you have a good technology base there and it’s improving all the time.”

Chris Olsen, partner at Drive Capital out of Columbus, Ohio, reveals: “We just invested in one company in Indianapolis with a \$10 million investment – in a company we’ve not disclosed yet. We’ve been looking at a lot (in Indiana), but that’s the only one so far.”

He believes there will be more and highlights the attractiveness, in particular, of central Indiana.

“You’ve got a group of people in Indianapolis who have a lot of domain knowledge in the enterprise space. In particular, you look at the successes of

companies like Compendium, ExactTarget and Angie’s List. There’s this list of successful companies that have groups of fantastic people who are now looking to go and do their next thing,” Olsen explains.

“And a lot of these folks are replicating what’s happened in companies like PayPal in Silicon Valley where you take that expertise and apply it to your next company. You’re starting to see some tremendously (experienced) entrepreneurs build the companies that are going to be worth several billion dollars.”

Olsen also contends that “while there are cities in the Midwest that are bigger than Indianapolis in size, like Chicago, I think there are areas where Indianapolis is the market leader. In software as a service and enterprise technologies, it’s hard to find a city better positioned than Indianapolis.”

As for the Midwest in general, Olsen sees similar forward momentum.

“We are probably 20% to where Silicon Valley is today. But it’s quickly catching up. ... It’s just a matter of time until you see more billion-dollar companies built in the Midwest than Silicon Valley.”



Will the Midwest – and Indiana – one day be home to more fast-growing, high-value companies than Silicon Valley?

RESOURCES: Oliver Nicklin, First Analysis, at www.firstanalysis.com | Chris Olsen, Drive Capital, at www.drivecapital.com