

Newsmaker Q&A

Ohio fund supports venture-capitalist investments

Sunday, August 8, 2010 02:58 AM

ONN-TV

Barbers turn to other barbers when they need a trim. Doctors consult other doctors when they get inexplicable aches and pains. And lawyers — well, we all know the adage about the wisdom of lawyers who represent themselves.

But what about venture capitalists, the people who provide seed funding to early-stage companies with big ideas but small, or even nonexistent, bank accounts? Where do venture capitalists go to get venture capital?

They look to other venture capitalists, of course.

In 2005, the state of Ohio created the Ohio Capital Fund — “a fund of funds” — to help promote and facilitate that process. Simply put, the Ohio Capital Fund issues taxpayer-backed bonds to raise private money to invest in other venture-capital funds, in Ohio and elsewhere. Those funds, in turn, invest in fledgling companies.

The only caveat: At least half of the Ohio money has to go to fledgling companies in Ohio.

To date, the Ohio Capital Fund has committed money to 22 venture-capital funds, eight of which didn't have a presence in Ohio previously. All told, those 22 funds have invested more than \$250 million in 45 companies that, together, now employ more than 1,600 people in the state.

By design, the Ohio Capital Fund operates largely behind the scenes. But Regional Director Paul Cohn discussed the fund — and the role it plays in the state's economy — with Mike Kallmeyer, host of ONN-TV's *Ohio Means Business* program. An edited excerpt:

Q: An early-stage company is defined as what — a company just in the idea stage only?

A: Not only the idea stage. Early-stage companies are generally companies that are still developing a product, but, sometimes, they're also into their early revenues.

The common denominator for all these companies is that they're losing money — and they're losing money intentionally. They're losing it because they are developing their product or they are scaling (up) their marketing efforts, and they need venture capital to really super-charge that growth.

Q: A lot of your funds are channeled to these early-stage companies, but some also can go to a more established company, correct?

A: They can go to a more-established venture-capital-backed company. These aren't Fortune 500 companies. These are still young companies that are losing money, and they need capital to accelerate their growth.

Q: Why is venture capital so important to Ohio?

A: Well, we all know what the economy has been like for the last couple of years, and we know that Ohio is a state that was based on entrepreneurship. We had entrepreneurs who developed our auto industry, entrepreneurs who developed our tire industry, and we're going to need the next generation of entrepreneurs here to build the next generation of great companies for Ohio.

Q: You have an interesting phrase that you use in your office: *entrepreneurial ecosystem*. What does that mean?

A: It's all about what the state of Ohio has built that really no other state in the country has, and it begins with the Third Frontier Program, which funds companies at their earliest stages — frankly, before they're companies.

It funds companies at the idea stage. If a researcher at a university has an idea, he can get some funding from the Third Frontier Program. Then, he can go on to get funding from someplace like TechColumbus that will fund a project to determine whether there's a market for his idea.

Then, if the angel community steps up — high-net-worth individuals who invest in companies, also backed by the Third Frontier Program — then a company, at that point, may be at the stage where they need venture capital. And the Ohio Capital Fund, and the funds that we back, step up then.

The ecosystem is about that whole range of capital and services that Ohio has.

Q: These companies can go outside Ohio's borders to get their funding, but the incentive is to get Ohio funds.

Why does that work out better for both parties?

A: Well, it's particularly important at the early stages. Companies can get capital elsewhere, but, at early stages, those venture capitalists like to invest in companies that are local, because they require a lot of love and care, and venture capitalists are very active with the companies when they're so young.

Two things can happen (with out-of-state money): Either, one, the (Ohio-based) company doesn't get venture capital because (the venture capitalist) is not local, or, two, the venture capitalist makes the company move to where they are — potentially out of the state of Ohio — to get that venture capital.

So, having local venture capital is very important.