

COMING INTO OUR OWN

Successes Enhance Financing Landscape

By Charlee Beasor



Not often – or possibly ever – in 16 years of *BizVoice*® roundtables has the discussion turned to marijuana. But when you analyze the field of entrepreneurial financing and where it stands today, all industries and avenues should be, and are, considered.

Kevin Hitchen, co-founder of Indianapolis-based crowdfunding company Localstake, mentions that new and upcoming markets and industries – including marijuana (in states where it is legal), as well as brewing and distilling – are getting more funding opportunities through local crowdfunding, the practice of a group of investors pooling their money together to support a cause or a business.

“I think (marijuana is) a very popular area for a lot of investors now, because (it’s been) traditionally unbankable. It’s a very interesting opportunity for some investors. They see where it could go if it gets taken nationally,” he says.

“And as I’ve talked to some people about it, it’s kind of like brewing and distilling. They’re not as interested in the retailing side of things. They’re more interested in the infrastructure side of things, the software that the growers use or things like that.”

Don Aquilano, managing director of Carmel’s Allos Ventures, an early-stage venture capital firm, acknowledges the company has seen some Colorado deals (referencing the state that legalized marijuana in 2013).

Hitchen adds, “I think, once again, the consumer trends, changes of laws, can affect the investment opportunities out there.”

It’s just one example of how business financing has and is changing. *BizVoice* brought together three members of Indiana’s growing entrepreneurial community for the discussion, including:

- Don Aquilano, Allos Ventures (www.allosventures.com), Carmel
- Kevin Hitchen, Localstake (www.localstake.com), Indianapolis
- Dustin Sapp, TinderBox (www.gettinderbox.com), Indianapolis

Building an ecosystem

Sapp, who first heard the entrepreneurial calling in starting NoInk Communications while he was in college at Rose-Hulman Institute of Technology, has found Indiana’s funding landscape to be more mature with his most recent venture, TinderBox. The company has digitized the proposal creation and deal closing process and has experienced steady growth over four years.

“Fifteen years ago you had to know a select three or four people to get the ball rolling, if they were a seasoned technology angel. Now the number of options are greater, with the more success we’ve had recently, and the appetite is greater than it was,” Sapp explains.

A gap in the seed stage of funding for companies was a problem 15 years ago, he recalls. That’s not the case today.

“There wasn’t an ecosystem in general. Forget funding. There wasn’t a supportive ecosystem to create companies (in Indiana),” he contends. “You also needed an infrastructure, really, to help nurture you to get to the next level. So even having more seed funding wouldn’t have solved that problem.”

“We’ve seen both of those things increase very rapidly over the past decade.”

The boon to the entrepreneurial ecosystem, Sapp shares, is the number of success stories that have come out of Indianapolis in the last few years.

“Today, I receive at least a call or email every week (from the coasts inquiring about companies to fund). Some weeks I’ll receive several, because the city’s profile has risen to such a great extent with ExactTarget and Aprimo and Angie’s List,” he says. “Inbound activity

for us is the highest I've ever seen."

Aquilano, whose company has invested in TinderBox, agrees that forces around the state – including Indiana's universities, the Indiana Economic Development Corporation (IEDC), venture capital firms and angel investors – are bolstering the opportunities for funding.

Another tool is various tax incentives from the state, including the Venture Capital Investment Tax Credit. That credit didn't exist 15 years ago.

"Every time there are deals that we syndicate with local angel groups, that's the first question (are there tax credits?), and it does make a difference. It makes a difference to a lot of our Indiana investors as well," Aquilano maintains. "And so what that's led to, and it's very symbiotic, is some great early stage technology success stories."

Like Sapp, Aquilano contends that those success stories have contributed to building the ecosystem in Indiana.

"It actually turns into a greater virtuous cycle, because you have wealth creation from the value creation of those companies. Even more importantly, from our perspective, is you've got a significant increase in the amount of experienced entrepreneurial management," he adds.

Growth over time

Everyone knows the coasts are where to



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– Dustin Sapp, TinderBox

go for venture funding. At least, that's the way it used to be. Today, direct flights to San Francisco from Indianapolis, advances in technology, as well as those impressive Midwest successes, have earned Indiana more attention from the coastal venture capital firms.

"I would say 10 years ago I never got phone calls that said, 'Hey, what are you guys looking at, anything we should be talking about?' Now I get those calls every couple of weeks from folks that we have co-invested with, folks who have invested in other companies here locally (and) successfully," Aquilano grants. "And there are folks who are reading about and hearing about the success stories who are saying, 'Wow, what's going on in Indiana?' You cannot ignore the success over the past couple of years."

Sapp agrees, but offers a word of caution: Don't slow down.

"Which means we need to continue to invest and create more of those successes, right? I think the last session like this we were at, everybody was touting how great we've done over the past few years," he recalls. "And somebody said, 'Well, wait a second. That's great; we should celebrate that. But let's not assume we're there.' We need to continue to invest locally; we need to continue to innovate."

More flexibility with the venture capital tax credits – such as making them assignable for out-of-state investors – would keep momentum building.

"Right now I can't take an angel investment from outside of the state and allow them to have any benefit out of that tax credit. So it's not attracting external dollars at the earliest stage," Sapp emphasizes.

"If I can continue to attract those dollars and continue to invest in those early-stage companies, then the likelihood of having bigger successes continues to increase because I have a larger pool. There are more companies receiving more investments."

Where does the money come from?

Local or out of state, funding is funding for start-up companies. And while Sapp agrees that local investments help breed partnerships, national dollars are also necessary.

"The reality is, the money is being invested in Indiana. I care much less about where it's coming from, from a pure financial standpoint. I care more about the partnership side and where I'm growing my business,"



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he affirms.

Hitchen, bringing up the example of ExactTarget and the 2013 sale of the company to salesforce.com, notes that sometimes out-of-state venture funds have pushback because those dollars leave the state when companies are sold. But there's another side to that coin.

"When you look at things like the Facebooks, the LinkedIns and things like that, it's the employees that actually had a lot of the effect of reinvesting in the community. They're the ones who had options, stock options and things like that," he mentions.

"So that's staying in Indiana, or in California, or wherever it is, when that company gets sold ... and you're starting to see that with ExactTarget. Employees who had ownership, they're starting to sell and they're reinvesting in earlier stage companies in Indiana, for the most part."

Sapp once again points to the ecosystem.

"If we continue to build great companies, that money comes back. It all comes back to investing in that ecosystem, keeping those entrepreneurs here, keeping that talent here and continuing to build great companies," he expresses.

"People shouldn't invest in this state just because they're Hoosiers. They should invest because they're good investment opportunities. If you don't create good investment opportunities, don't whine about not getting investment. Create the opportunity for investment and it will come."

Aquilano agrees that Allos Ventures wouldn't be located here if there weren't investment opportunities.

"Great ventures and great entrepreneurs

who are building those ventures are our lifeblood,” he says. “The quality and magnitude of our deal flow is better now than it has ever been since 2000. And it’s being noticed by others. And that’s a good thing, that there’s other capital looking to invest in the state as well.

“If there is a deal that we don’t do that is very successful, I’m still the loudest cheerleader on the sideline, because that only helps everything else in our environment for what we do.”

Crowdfunding twist

While traditional venture capital and angel investing remain major players in the funding landscape, crowdfunding has emerged as a new entry in the field.

Hitchen describes that crowdfunding started out very small around six or seven years ago, primarily by people investing in films, music, art and other types of rewards-based opportunities.

Yet in 2013, \$5 billion of pledges went through crowdfunding; popular site Kickstarter hit over a billion in pledges, he outlines.

“It’s not like it’s small change anymore. That’s a lot of money going through. And it’s not slowing down ... it continues to grow,” Hitchen declares. “People saw the success of rewards-based crowdfunding and now they’re starting to think, ‘Can this change how other kinds of concepts are funded?’ One of those being small businesses.”

Whereas banks want to see collateral, he explains (which is less common in an increasingly technology-driven world), individuals don’t seem to mind investing in an idea. Lending practices have also evolved over time and are more flexible.

“I think you definitely see a group of people who want to kind of democratize, if you will, or kind of get rid of that intermediary of who normally chooses who gets financed and say, ‘Well, let’s have the business and the people who want to support that business be the lenders or the investors of that company,’” Hitchen affirms.

It can change the way companies get their start-up money.

Aquilano explains, “I always think there’s going to be angel investors; there’s going to be VCs (venture capital firms). I think investment crowdfunding is going to change how friends and family and bank

financing is getting done.”

And Hitchen allows that some things are better left to field experts, such as life sciences and some technology companies.

“The average person won’t understand whether this new pharmaceutical drug is actually going to make it or not, right? Leave that up to people who have Ph.D.s and are venture capitalists that are in that industry,” he describes. “Understanding if a brewery is going to make it in my area, a lot of people can understand that.”

University support

Aquilano notes an increased effort by Indiana universities to reach out to the entrepreneurial and investment communities.

“I think all of the universities are doing a better job today than they were in 2000. Part of it is recognition of wanting to be sort of more business friendly with this ecosystem,” he shares, while also potentially filling the investor role.

“Continued improvement along those dimensions, to me, will only make them stronger and ultimately translate into more viable ventures that come out of universities.”

Sapp observes that more could be done on the university level, however, and recalls one past experience as an example.

“I had very supportive professors. I also had very unsupportive professors when I was in school that believed school was for academia and to learn and get a good grade, not to prepare me to succeed in life, necessarily,” he remarks.

“In fact, I got a 20% knock on a test grade because I had to be at a sales call with the CIO (chief information officer) of Eli Lilly that same day. That was a non-supportive professor. I think that’s pretty clear. But I had some that invested in me because they knew that that was the right path for success.”

Hitchen also acknowledges that universities are focusing more on entrepreneurship, yet opening those programs up outside of the business school is something more coastal schools are doing.

“It’s always been siloed in the business school, or just one of the schools. I think you’ve got a little bit of that changing, which I think is really good, because that’s ultimately bringing students with different backgrounds together on one team,” he observes.



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Five years from now

Positive and optimistic is how Hitchen and Aquilano describe their feelings toward the future of entrepreneurial financing in Indiana.

“I think we have got resources. I think we’ve got to continue to see successes. I don’t think we’ll ever get to where the coasts are, because Hoosiers have a different mentality on risk, on investing. It’s a completely different thing,” Hitchen offers.

Aquilano expects to see continued successes.

“I think we will see more investment gradually come into the state. I would predict more investment firms located in Indiana, and I expect more new ventures to be started from folks who have helped build recent success stories,” he notes. “And what I can see going on now leads me to the conclusion that that is only going to get better.”

Sapp is “cautiously optimistic,” as long as Hoosiers don’t take their foot off the gas pedal – and shed that Hoosier humbleness.

“I was watching an interview that took place about six months ago in Chicago. ... They were interviewing a successful entrepreneur that’s starting a new venture. And the moderator said something to the effect of he is on track and really looking to create the first billion-dollar technology success story out of Chicago,” he recalls.

“Well, Indianapolis has already done that. We have all the key ingredients. We often don’t give ourselves enough credit for it. We’ve got to shed the humble pie piece. We’ve got all the key ingredients, and now it’s all about executing and making sure we – I guess to continue that metaphor – make the right cake.”