“Equity Finance: Catalyst for Small Business Growth”
April 19, 2012

Testimony of:
Angela Jackson
Co-Founder and co-Managing Director, Portland Seed Fund
Director, Portland State University Business Accelerator
Portland, Oregon

Before the:
Committee on Small Business,
Subcommittee on
Economic Growth, Tax and Capital Access

Chairman Walsh, Ranking Member Schrader, and members of the Committee: Thank you for inviting me to present my testimony today. My name is Angela Jackson, and I am fortunate to be involved in the entrepreneurial ecosystem in a few ways- as co-Founder and Managing Director of Portland Seed Fund; Director of Portland State University's Business Accelerator, and as the local chapter president of the Keiretsu Forum, a global angel network. Over the past decade, I have placed seed or angel investments in more than 50 companies and have advised hundreds more on their growth and financing plans. Nearly all of these companies have contemplated whether to sell equity in their company as a means of raising capital. In the end, some opt to bootstrap their company, trading outside investment for slower, organic growth. There are good reasons to raise, and not to raise, capital, through equity financing, and I am pleased for the opportunity to talk about it here today.

While few would argue that certain economic indicators are slow to rebound, I can report from the startup trenches that this leading edge of the economy is robust, growing and creating jobs, thanks in part to increased access to seed and venture capital in recent months. I'd like to shed a light on the trends we are seeing take shape in Portland, Oregon.

PORTLAND SEED FUND

As co-founder and Managing Director for Portland Seed Fund, I, along with my partner Jim Huston, began devising a strategy in 2010 to grow the local economy by sourcing, nurturing and funding capital-efficient, scalable companies with high growth potential - a handful at a time. We believed that by following the discipline of angel investing plus formalized coaching, we could generate superior economic growth by building a business rigor in those companies that would not exist if those entrepreneurs were left on their own. Our model was not brand new. We watched and learned from predecessors Y Combinator and Techstars operating in other cities, noting their ability to invest very small amounts of capital to achieve order-of-magnitude superior returns to those experienced by the venture asset class over the same time. We applied certain aspects of the model, such as a heavy emphasis on mentoring, but also made Portland Seed Fund our own, injecting follow-on capital into the model for top performers, and recruiting both private angel investors and public entities to invest in our $3 Million fund.

To date we have graduated our first class of eight companies, who since July 2011 has created 60 jobs, despite that our initial investment in each is barely enough to sustain one job. Half of those quickly secured follow-on investment from other angels or institutional venture capital, despite the fact that many were so early they were not even incorporated as businesses when we took them into the program.

We have since invested in our second class of nine companies, which will graduate at Investor Demo Day on June 6. Our capital-efficient, scalable selection screen means we don't invest in retail or service-heavy models. We are software/mobile dominant in our selections, but by no means exclusive. To that point, we have two consumer product investments, each which leverages a local economic cluster – green building and apparel.

Our "catalyst and crucible" approach means that yes, our money has strings attached. With investment we require full participation in our intensive 90-day bootcamp. For the entrepreneur, the mix of peer group learning, access to a great mentor/investor network, subject matter teachings, one-on-one weekly meetings with fund managers and the publicity/credibility that comes with being a Portland Seed Fund company are far more valuable than the $25,000. For fund managers, there is no better due diligence than what we call experiential due diligence – our hundreds of hours in the trenches with these companies during those 90 days. We quickly learn each entrepreneur's appetite for the 24-7 focus a growth company demands, who has resilience when things go wrong (which they will – this is often the only thing we are sure of). We also get a read on which entrepreneurs are natural born leaders, which can be developed, and who may need to get out of the way of their own success. In short, we leave the 90-day bootcamp with a keen sense of trajectory of each company and a unique position to influence it.

While it is too early in the Portland Seed Fund life cycle to measure success through liquidity events, the indicators we are seeing at this stage are very positive, as measured by hiring, revenue, market prognosis and capital attracted. $4+ million in additional capital has been placed in our companies alongside our initial $500,000 outlay, with more to come. We will begin raising Portland Seed Fund II in Fall 2012.
www.portlandseedfund.com

PORTLAND STATE UNIVERSITY (PSU) BUSINESS ACCELERATOR
What's in the water at 2828 SW Corbett? A Portland Business Journal reporter posed this question to me last November after he pulled all the Regulation D filings in Oregon for a story on venture capital financing trends in the state. His investigative work revealed that the 25-30 resident bioscience, tech and cleantech companies at the PSU Accelerator were the most successful attractors of private venture capital to the State over the past three years.

In fact, Accelerator companies over the past five years have attracted $128 Million of mostly out-of-state funds to Oregon at a time when we lacked a strong native venture capital infrastructure. Funds are put to work immediately with hiring, and the high-performance startups at the Accelerator tend to create higher-paying jobs such as software developers and lab personnel, with the obvious and immediate benefits to the local economy and the taxpayer. As I write, with a national unemployment rate of 8.2%, our Accelerator companies have posted two years of double digit employment growth and as I write there are 15 unfilled positions posted on our website, http://psba.pdx.edu.

KEIRETSU FORUM

Keiretsu Forum is the world's largest angel investment network with 23 chapters on three continents. Today, the global membership is 800+ accredited investors, and this organization is uniquely poised to lead the implementation of crowdfunding-related reforms nationally, with already-in-place infrastructure for quality deal screening and due diligence by its members, no matter how geographically dispersed. I am president of the Portland chapter, which is part of a Northwest circuit of four chapters, including Seattle and Kirkland, Washington and Boise, Idaho. In 2011, 240 member angels at those four chapters alone invested $24 Million in 36 companies. This is an astonishingly important source of private capital fueling the startup economy. Deals range from technology, consumer product and life sciences to real estate investment and hard lending. http://k4northwest.com/

SUMMARY AND RECOMMENDATIONS

The critical role that startup companies and their investors play in creating wealth and growing the economy – in down times as well as boom times – has been well documented. Private investors are back in the game and active at the seed, angel and venture stages. Recent passage of the JOBS Act is likely to help small companies attract new investors through crowdfunding, but until rulemaking is complete it is too early to know the real impact of this legislation. More material and immediate is the easing of the non-solicitation ban in Regulation D, making it easier in future for angel groups to market, attract and retain a base of accredited angel investors who will (see Keiretsu example above) continue to pour much-needed capital startup companies. True to the risk profile of young companies, many of those will fail – but some will succeed, and succeed big.

With the JOBs Act passed, opportunity still remains on the Federal level to both reduce friction for emerging startups and increase incentives to angel investors who put risk capital to work stimulating the economy. There are a number of proposals to amend the tax code to reward investors through tax credits and/or capital gains treatment that could be effective, fair and compelling. Similarly, the tax code provides a way to reward the job creating companies themselves with tax cuts and/or deductions.

Finally, from my vantage point at the leading edge of the startup economy, there are two potential upstream choke points that we need to address in order to continue the progress we have made at the seed and angel stages. First, we need to ensure that loans are available to promising companies who need working capital and/or inventory financing. While banks today are proclaiming their increased lending to small businesses, I see little evidence of it. The lending standards for a portion of commercial loans must be significantly streamlined for the most promising early stage companies. Second, there is a shortage of highly-skilled technical talent to fill the growing number of positions open in the software/mobile economy. We need to both increase resources to expand training programs here and enhance our means to attract this talent from abroad through appropriate immigrant visas.

I look forward to taking your questions.

angela@portlandseedfund.com
twitter @ABJackson
@PSUAccelerator
@pdxseedfund

Portland Seed Fund office: 503-419-3007
PSU Accelerator office: 503-725-2312