



## 096. DEAR JANET

Gov. Janet Napolitano recently spoke to the Tucson-based Desert Angels, an investment group, on the subject of capital formation. I enthusiastically applaud the Governor's values, efforts and ideas on this subject. Now, I think we need to put a sharper point on it.

BY RICK GIBSON

AS AN ACTIVE MEMBER and board member of the Desert Angels, and a limited partner in the Solstice Capital II venture capital fund, I know firsthand that capital formation for early-stage companies is vitally important to the state of Arizona.

Simply put, we need more fast-growing companies and they all need money to get started and grow. Then, these companies help create new jobs and capital that fuels further growth companies in Arizona. Look at how Hewlett-Packard and others influenced the economy around Menlo Park and Stanford, Calif., and how a few remarkable growth companies turned San Diego into a biotech haven.

### “Who is going to pay to get these great companies started, so we can get them ready for venture capital?”

Gov. Napolitano says that the Arizona economy is at a tipping point and we need to grow our knowledge-based businesses or languish with a service-oriented economy. Our primary goal is not to attract Fortune 500 companies, but to have small- and medium-sized companies locate and move here, and let them grow—to be big companies.

For the 21st century, technology-transfer is key. Legislation is well on its way to foster more research by further incentivizing universities with equity participation. Napolitano has asked for, and gotten, a voter referendum on the 2004 ballot to amend the state constitution. Voters now need to approve it with a resounding “Yes.”

Napolitano also talked about formation of the Governor's Council on Technology and Innovation. She plans to see that a great deal more technology-transfer does happen, that the infrastructure is there to support these new businesses, and that there is access to capital to fund these companies. Also, there is

already support for \$400 million in new funds for research buildings in Arizona. This is great fuel to build a strong economic base.

But we need to go further. Consider my Seven-Point Plan. If I were king, here's what I'd proclaim:

#### 1. Stop the whining. Instead, we should celebrate Arizona's progress.

Many of us who lived here 10 years ago had to do business out-of-state, but that has changed. We are blessed with three great universities (UA, ASU and NAU) and several outstanding community colleges. There's a new buzz of activity and deal-making in groups like AZ Tech Council, Desert Angels, Arizona

of affiliations, relationships and formal agreements with important clinics, institutions, foundations and banks including Mayo, Banner, Scottsdale Healthcare, St. Joseph's, Flinn Foundation, State of Arizona, City of Phoenix, APS and many more. TGen will ultimately have more of an effect on Arizona's knowledge-based economy than anything else imaginable.

#### 2. The missing link? We need more seed capital.

It looks like there's a new wave of great science on the way. And it seems like we're starting out with an adequate supply of VC to fund it. (Add up the Arizona-based firms and what more we can coax from California venture firms, and there's probably a few hundred million dollars.) Hopefully there will be more venture money later as we make good use of investors who make money in Arizona and look for other investments.

So, let's picture a couple of scientists getting together, on the way to curing one disease or treating another—they need to keep the lights on, pay for patents, hire technicians, do more testing, gain FDA approval and much, much more. The problem is, proving science and early-stage trials is not what VCs like to do. VC firms prefer to look for experienced management teams who've done it before, and who have a validated science and a revenue history.

Well, there are simply not enough private (angel) investors in Arizona to fund early-stage companies—and they are most likely to invest in areas where they are knowledgeable. So, a cure for HIV, cancer or a science-based company is too pie-in-the-sky for most angels. Thus, we have a vicious cycle... who is going to pay to get these great companies started, so we can get them ready for venture capital?

#### 3. Build a new \$5 million to \$10 million technology seed fund.

Let's picture a new fund with a \$5 million initial budget: \$200,000 average per business could be used to seed 15 new companies, with sufficient money leftover for some fol-

low-up funding and operating costs. Perhaps we could call it the Arizona Technology Seed Fund, or ATSF; it would work primarily to fund science with great potential. We would stimulate management to develop business plans and strategic relationships to get their momentum going full-speed. Then, ATSF would use its contacts to bring several of the companies to VCs it already knows in Arizona and California. (By the way, a \$10 million to \$20 million fund would work even faster.)

#### 4. Bolster Arizona's future economy with life-sciences companies.

Write this down. Here are the 10 ingredients in the magic recipe for building a successful technology company. One: an immense market need that already exists. Two: a scientific asset that has been proven to solve that need. Three: freedom to operate. ("FTO" is being able to run your business without being sideswiped by the competition. This means good patent and trademark protection, no contest to legal ownership, etc.) Four: a distribution strategy that we know really works. Five: the ability to execute marvelously with agility and speed. Six through 10: good luck, good luck and so on.

#### 5. Stop dissing the talent here in Arizona!

It baffles me to no end when I hear people say we don't have enough talented people to build companies in Arizona. To start, there are scores of great scientists in our universities and around the state. In regard to finding CEOs, I am introduced to a few great candidates almost every month—and that's without looking for them. Better yet, we only need one CEO at a time. Don't worry, as we hire them, more will pop up. The problem isn't finding CEO talent, the problem is getting companies through the seed stage, to be eligible for real venture capital.

#### 6. Now, let's go get the funds.

Gov. Napolitano mentioned the following methods used in other states to generate a seed fund: state employee retirement funds, insurance companies getting tax credits for investing, and the state's general fund. She is open to all suggestions. Still, we need to stop talking and get started—form this seed fund so we can attract more private capital. While it's clear we don't have money sitting around in Arizona's general fund, it would be a mere rounding error for the retirement fund. So I say we leverage some of the money from the fund.

And, if insurance companies are the only ones with enough cash flow to pump up our state's future, then let them share in the upside. Next, let's give tax credits to investors who take a little risk. With my royal scepter, I command those people who jealously find fault in every plan, to either help us or get out of the way.

#### 7. Pssst... don't even think of cutting K-12 budgets. (And let's find ways to shore up funding to the universities.)

Kudos to the Governor for stopping cuts in K-12 school funding. As she said, education is No.1 in our new, knowledge-based economy. Next, we have to find ways to maintain and improve the quality of our universities and community colleges. Let's stop losing talent to other places, and start to invest our state budget in building a strong knowledge-based labor pool, instead of moving our state backward with selfish, shortsighted budget cutting. Anyone who isn't with us is against the future of Arizona.

The buck starts here. 

*Rick Gibson (rick@hotventures.com) is managing director of Tucson-based HOTventures LLC (hotventures.com), a "mentor capitalist fund" for the Southwest U.S.*



**DO YOU KNOW HER?**

**Bizfusion**

**SHE IS YOUR CUSTOMER.** Growing businesses know that effective sales and marketing starts with accurate knowledge.

With BizFusion you'll discover unique characteristics of your customers, create targeted prospect lists based on your customers' descriptions, and evaluate the business potential of market areas. As a result, you have the powerful information you need to make smart business decisions, increase the effectiveness of your sales and marketing, and grow your company while saving time and money.

Visit us at [www.copperkey.com/ckSite/ad](http://www.copperkey.com/ckSite/ad) and use the online demo to see how BizFusion will work for your business. Or call us at **877-628-4258**.

