The Third Frontier In The Midwest: An Interview With John Glazer, Director, TechGROWTH Ohio (Part 4)

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By guest authors Irina Patterson and Candice Arnold

John: We help to organize a network of angel investors in this rural area. We provide them with a professional fund manager and help them to determine their offering to each other, the agreements they have, and the processes by which they will evaluate companies and invest in them. That is a huge contribution to Appalachian Ohio.

Before us, there was no source of early stage equity capital in the region. We created it and provided it with quality applicants. The qualified investors who form the network are highly motivated. They are double-bottom-line seekers. They want to make smart investments, but they also want to make a difference in the region and grow the economy. They evaluate deal flow on both criteria.

Our region is so large that we organized this network into smaller groups around their areas. In Athens, where we're centrally located, there's a subset of the membership of the angel organization. Other subsets exist in several other cities around the region.

For deal flow that is indigenous to their areas, we bring to those different subgroups. If the subgroup sees a good opportunity, they adopt the company and advocate for it. We help the company prepare and develop itself so that they are at an angel investable stage.

Once a month, the entire angel group meets as a whole, hears presentations, and makes decisions about who goes into due diligence and who does not. We help the angel group conduct their due diligence in a comprehensive and professional way.

So, we have taken qualified investors who have varying backgrounds and experience in angel investing – some zero and some a little – and turned them into sophisticated angels.

That has been part of our program, the early stages of it, [since] 2007. We had a couple of individuals in the beginning to get organized. It took a while to build this infrastructure.

This past year, in 2010, we oversubscribed the fund. We had enough momentum, success stories, and traction to attract additional investors, more than we envisioned in the beginning. So, we opened up the fund and expanded it. I think there are now 34 or 35 investors who are in this, and we're already planning the second fund.

Irina: So, they operate like a fund?

John: Yes. They also have the opportunity, as individuals, to invest in a sidecar or co-investment. That's always possible and has happened. It has also happened the group, as a whole, decided that they did not want [a company] in their portfolio.

There are a lot of hard decisions when you have limited resources. Some of those companies that failed to achieve the organized fund's investment have achieved some of the individual members' investments outside of the fund.

Irina: What is the size of the fund now?

John: The ECOTAF fund – the angels' fund – is a $5 million fund, and the little pre-seed fund that TechGROWTH has is a $3 million fund.

Irina: What is the structure of the TechGROWTH fund?

John: Our fund is a private-public partnership where there are state dollars that have seeded our fund, and we have recruited private funds to match the state dollars. That's the formation of that fund.

Irina: What are your metrics of success?

John: Since we are in the business of acquiring resources to help companies accelerate, for every one dollar of our own that we put into play, whether it be human capital or real financial capital, just every dollar that we spend, our key metric is this: How many follow-on dollars that aren't ours and aren't the state's have we been able to raise on behalf of our companies?

So, our leverage ratio is our key metric for determining success.

We are, ultimately, in the business of trying to create jobs. So, we try to track the number of jobs. We track the number of companies. We track the number of patents. We track the number of failed companies as well . . . and the distribution of funds.

When we help a company to acquire these resources, we leverage one dollar and bring in more dollars, and there are different sources of those dollars. Some are private equity and some are federal government grants, like SBIRs [Small Business Innovation Research] or STTRs [Small Business Technology Transfer] for technology development and commercialization. Some of those are sales dollars from succeeding and bringing a company to market. We look at the balance of the dollars we are bringing in, and what we're looking for is what we call "new smart money" that validates the work we've done.

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This segment is part 4 in the series : The Third Frontier In The Midwest: An Interview With John Glazer, Director, TechGROWTH Ohio

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