

January 1999

Discussion Following the Remarks of Mr. Bartlett and Mr. Doyle

Discussion

Follow this and additional works at: <https://scholarlycommons.law.case.edu/cuslj>

 Part of the [Transnational Law Commons](#)

Recommended Citation

Discussion, *Discussion Following the Remarks of Mr. Bartlett and Mr. Doyle*, 25 Can.-U.S. L.J. 205 (1999)
Available at: <https://scholarlycommons.law.case.edu/cuslj/vol25/iss/31>

This Speech is brought to you for free and open access by the Student Journals at Case Western Reserve University School of Law Scholarly Commons. It has been accepted for inclusion in Canada-United States Law Journal by an authorized administrator of Case Western Reserve University School of Law Scholarly Commons.

DISCUSSION FOLLOWING THE REMARKS OF MR.
BARTLETT AND MR. DOYLE

QUESTION, MR. ROBINSON: I just have a very short question for Jim Bartlett. I was listening with regret to his comment that almost all of his investments are in the United States, and the rest are in Europe. Please come to Toronto. As you heard from Mr. Doyle, we are desperate for venture capital. Why do you not look at the Canadian high-tech emerging companies?

COMMENT, MR. DOYLE: I just talked him into coming to Ottawa. Come to Ottawa where the action is.

ANSWER, MR. BARTLETT: So far, Denzil has paid for my coming down here, so I am going to take Denzil up on it.

Let me answer the question, though. It is a very specific answer. Unfortunately, we have assembled and managed four different venture funds. We currently invest in Primus Venture Capital IV, and each of the predecessor funds had a specific exclusion in the documents preventing us from investing outside of the United States. We have taken this fourth fund to an international level. As I mentioned, we have a couple of investments in Europe, and we are going to be looking to invest in Canada. We really enjoy Canada. We have two terrific limited partners, Canada Life and Hospitals of Ontario Pension Plans. We are already in Toronto, and we will soon be in Ottawa. There is a great affinity between Canada and the upper Midwest in the United States. We feel like near cousins and enjoy very much our relationships with our Canadian partners, and we think there is a big opportunity up there. Quite frankly, I am amazed that more people in our business have not been trying to find opportunities to get into Canada. Canada is also a good bargain.

COMMENT, MR. ROBINSON: That is because it is not real money, only Canadian dollars.

COMMENT, MR. BARTLETT: Yes, that is right.

COMMENT, MR. ROSEGGER: In Western Europe, the American venture capital market is envied. Everybody agrees that that is what is needed, even politicians admit that.

COMMENT, MR. BARTLETT: Amazing.

QUESTION, MR. ROSEGGER: What is holding up the indigenous development of that kind of market if everybody agrees that it would be a tremendously dynamic factor in the development of technology-driven companies?

ANSWER, MR. DOYLE: I do not know. We do seem to have the mentality in Canada that, if it is worth doing, it is worth the government getting

involved in and somehow or other controlling the flow of everything. I was just telling Jim some of the nonsense that goes on with the labor-sponsored ventures. We raise most of our money in February because people put these things in their Registered Retirement Savings Plans (RRSPs), which is the equivalent of your 401(k) pension plans down here. So, if we raise ten million dollars in the month of February, we actually have to invest something like ninety percent of that before the year is out. That is crazy.

We get calls from some level of government, whether it be the provincial or the federal level, almost on a monthly basis wanting us to fill out yet another form showing how many jobs we have created. I do not know how you have managed to build a venture capital industry down here without that level of government involvement. If you are going to build one in Europe, for God's sake, keep the government out of it. Let them make very simple rules.

COMMENT, MR. BARTLETT: Amen to that. Let me just add a couple of things. In Europe, a lot of changes have taken place in the last decade along the lines of mobility of management, with people becoming willing to leave larger, theoretically more secure, companies to live in different countries. One of the things that really has driven the industry here is the flexibility of management. The entrepreneurs who are willing to literally leave Kentucky and go to California or leave Chicago and go to Boston to be part of a start-up management team in an industry really know how to build a company. That is just now starting to happen more freely in Europe.

Also, I think the road map that the United States has now created is one that can be, and is being, replicated. The United Kingdom has been very aggressive, and now France and Germany are following suit. I think it is going to happen in a much bigger and broader way, as it is happening, for example, in the Asian markets. So, it will come more quickly now that some of these things that used to be inhibitors are changing.

QUESTION, PROFESSOR SHANKER: Mr. Harris, I am Professor Shanker. On your list of sectors that you were willing to finance, you included education sectors. What kind of venture activity in education makes real money?

ANSWER, MR. BARTLETT: We have two in our portfolio. One is a company called DeVry, which is now on the New York Stock Exchange. They have a Canadian campus in Toronto, and there are another fifteen campuses in the United States.¹ This is a very successful for-profit degree-granting school or college, if you will. It fills a very interesting niche in the United States and Canada. The Canadian operation is very successful. This is

¹ DeVry Institute is one of the largest private higher-education systems in North America. For more information about DeVry, see *Welcome to DeVry Inc.* (visited July 22, 1999) <<http://devry.com/sub/about.html>>.

a program for the high school graduate who does not have any aspirations to be the Chief Executive Officer of General Motors, but wants to have a better job than his parents had. Typically, the DeVry student comes out of a blue-collar background and cannot really afford to go to a large state university. But, he really wants an education. His goal is perhaps to become a Plant Manager for Hewlett Packard or to run an assembly operation for IBM.

These students are trained for middle management positions. If you visit a DeVry campus, you will see what a marvel it is. The first indication is in the parking lot. The cars are not new, but they are all neat and clean and shined. When you go into the school, every student looks scrubbed. The men are not wearing long hair or earrings, and when you go to a classroom, everybody is on the edge of their seat paying attention. When you go out and look at the bulletin board at which companies are coming to interview, they are companies like Motorola, IBM, Hewlett Packard, and Xerox. These companies want this kind of motivated student who is being educated for that particular management level. It has been a very successful pattern, and DeVry is a hugely profitable business.

We have another investment with a company called Corinthian Colleges, which just went public at a very interesting valuation.² They are at a different level in society. One of the many things they do is train health care people, for example, for work in nursing homes. These students are not registered nurses, but they are people who do paramedical work in clinics and hospitals and doctor's offices. There is a great demand for that kind of trained person. Again, these are high school graduates. They are not getting a college degree, but they are getting a certificate. They get trained well and they earn a very decent living in a good, solid middle-income job. There is a huge demand for that in this country.

QUESTION, MR. SHANKER: How do these colleges differ from the so-called junior colleges and the community colleges?

ANSWER, MR. BARTLETT: They probably do not differ that greatly, but DeVry and Corinthian Colleges are for-profit and they are well-managed enterprises. One thing that we do, for example, for which the U.S. government and Department of Education love us, is to work on eliminating defaults on student loans. We are very diligent in how we proceed with that process. We have extremely low default rates because we really follow up with our students.

² "Corinthian Colleges, Incorporated provides jobs-oriented training in high-growth, high-technology areas of business and industry." For more information about Corinthian Colleges, Incorporated, see Corinthian Colleges, Incorporated Homepage (visited July 22, 1999) <<http://www.cci.edu>>.

QUESTION, PROFESSOR KING: I had a question in connection with Mr. Bartlett's presentation. We heard a speaker from Ford Motor Company who said basically the center of the information universe is in Silicon Valley. You mentioned Route 128. In terms of spread, is this wealth that is being created by venture capital geographically disparate, or is it all focused in one or two particular areas?

ANSWER, MR. BARTLETT: It is highly concentrated. In the United States, in the venture capital sector, seventy-five to eighty percent of the capital is in California and New England. It is also in New York and Boston, and Chicago is also a money center. So, four out of every five dollars are concentrated in these areas, but the money is pretty catholic in terms of where it goes. We have investments in California, but we are based in Cleveland. We have California firms who are partners of ours in investments in Ohio. We have partners in Boston who invest with us in the Midwest, and we in turn invest there.

There are some firms that invest solely within their geographic area. I visited a firm in Denver this week that will not invest outside of a hundred-mile radius of Denver, Colorado in anything but telecommunications. That is their particular focus. That is a rarity. More often than not, good investors will go where the good management and the good deals are, and it becomes almost global in that regard.

QUESTION, PROFESSOR KING: How does Jim Bartlett's outfit fit in terms of what Mr. Doyle feels is very much a part of the whole puzzle? Where do you fit into the idea phase of this?

QUESTION, MR. DOYLE: Who does the heavy lifting for you?

ANSWER, MR. BARTLETT: I was going to say we are the wimps on the other end of the spectrum here. We do early-stage investing. Rarely do we invest in somebody who literally comes into our shop from off the street, tells us they have a great idea about how to turn something into an anti-gravitation device, and wants two million dollars to do the research to prove that this is going to work. It is just not in our character to do that. We get involved when there is a commercial product that looks like it has a market.

I think the nearest thing to what Denzil is talking about might be a company like Steris Corporation here in Cleveland.³ We met first with the management. They had a wooden mock-up of a tabletop sterilizer for orthoscopic devices to be used in hospital operating rooms. They had a sterilant that they said worked, but it turned out that it did not. So, we had to go through a whole series of events to get from ground zero to a commercial success. But

³ Steris Corporation is a leading provider of infection and contamination prevention to health care and scientific industries worldwide. For more information about Steris Corporation, see Steris Homepage (visited July 22, 1999) <<http://steris.com/steris/frames.htm>>.

the idea was beyond the prove-out stage. It was something that you could take to a clinical setting and ask, if we can deliver a product at a good price that does what this product does, do you want it done? And the answer was yes.

QUESTION, MR. DOYLE: But who got them that far? That is the question. There were some angels involved.

ANSWER, MR. BARTLETT: Absolutely. I subscribe to your ratio. I think the underground economy in angels in this country is amazing. I have seen figures that indicate that there is as much as \$500 billion of angel money available in this country at any one time, but who knows what the real number is.

In the case of Steris, you are absolutely right, Denzil. There was a group of individuals here in Cleveland who put together a small, informal partnership, and they put the seed capital behind these two crazy guys, a microbiologist and an engineer who put together the first prototype of what they said they were going to make. They got the prototype made and got the sterilant developed. Then they came to us and told us that they were ready to build a company.

QUESTION, PROFESSOR KING: Are there scads of angels around?

ANSWER, MR. BARTLETT: Yes, there are, as a matter of fact. One of the interesting things that has happened, and Denzil alluded to this, is that capital begets capital. Because of this, there has been an enormous wealth creation in this country in the last two decades. As a result of that, there have been a lot of people who have been successful entrepreneurs or made money doing other things, who have built and sold their companies, but who want to stay in the game. In the Cleveland area, I can name three or four handfuls of individuals with net worths probably in excess of fifty million dollars who are very, very active in the angel end of the spectrum.

QUESTION, MR. ROBINSON: This is a question for Denzil. You listed pension funds way down towards the right side of your spectrum or continuum of venture capital, suggesting that they only get in at the public company stage. I had thought, or maybe just hoped, that they were coming in a little earlier. We have some very big ones in Quebec.

Do you think there is a possibility, notwithstanding our wretched capital gains tax system, that some of the managers of these large pools of pension money can be persuaded to take maybe two percent of the fund and put it into a genuine venture capital/crap-shooting bunch of money so that we can get some of this wealth in Canada? We have a desperate need, as you have pointed out.

ANSWER, MR. DOYLE: Certainly, they are putting their toe in the water, but what tends to be happening is they are trying to do it themselves, and

I do not think it has been that successful, and they are building up a lot of bureaucracy.

I think they would be far better off subcontracting that activity. In fact, that is what our management company is trying to do at this point in time. We are trying to sell ourselves, but the difficulty we have is that, as you know, most of the pools of pension capital are all in Toronto, and they do not come to Ottawa very much. But it is a funny dynamic there as well. I do not know what it would take. I think, if there is a challenge for the Canadian government, it is to tap into that pool of pension money, but to do it by subcontracting with someone such as ourselves who knows how to do it rather than build up their own bureaucracies. They just drive the entrepreneurs crazy when they go someplace and they see armies of bureaucrats trying to play venture capitalist. That is not what it is all about.

ANSWER, MR. BARTLETT: Denzil is absolutely right. That is the pattern that they followed here in the United States. The large pension funds, to use Denzil's word, do contract out because otherwise it is too management-intensive. Some of them occasionally try to do it themselves. It is kind of an eruption of zaniness. Suddenly, you will find a pension fund invested in some companies on a one-off basis, and when something goes wrong in one of them, it might cost them one-tenth of one percent of their entire portfolio, and guess what happens at the governing board? That particular investment gets all the attention, and fur starts to fly all over the room and people yell and scream. It is just ugly. They should not be doing it. They ought to just lay off and then let us make money for them.

COMMENT, MR. McILROY: We will go to Michael and we will have one last question from Jim. Both of them are from Ottawa, so I think I know where the question may be directed.

QUESTION, MR. WOODS: I think the comment that was just made anticipates the question and perhaps even addresses it briefly. Anyway, how do we put the bureaucrats on the side of the angels?

In both Canada and the United States, the government, for a long, long time, tried to play, sometimes with success, the role of the primer of the pump, putting money in, and trying to influence and improve productivity. Do you have any specifics on how the government and the angels could get together a little bit more effectively?

And the other question is – my daughter would want me to ask this because she watches the show with those three angels on it – how do I know an angel when I meet one?

ANSWER, MR. DOYLE: The real problem with the angel market in Canada is that we have no constituency. There is no constituency for an unborn company. We have very active high-tech associations. We have got the

Canadian Association of Advanced Technology, and we have the Information Technology Association of Canada and, many, many trade associations, but their clients are the existing clients of the associations. They are not at all interested in unborn companies because very often those unborn companies might create competition for their existing members. So it is a really complicated issue.

In Canada, the people who really want to make technology happen are the economic development officers at the municipal level. Most of these development officers really do want to make technology happen, but they have no power to do it. They have industrial parks and that kind of thing, which do not amount to a hill of beans in this high-tech game.

If we can somehow or other get these development officers lobbying for this issue in Canada, I think that it might get us someplace. I am a lone voice up there. I am appearing in front of the Senate Committee on Equity Financing next week. I have done it five times in the last ten years, and my pleas go in one ear and out the other.

ANSWER, MR. BARTLETT: I do not believe the government should have a role in what we do. I think that the overlay of bureaucracy is absolutely the hand of death when it comes to what has to be done in a new enterprise. You need swiftness, quick reaction, and people who can help you. If you have to spend one minute filling out a form as opposed to trying to make the product better, that is a wasted minute. Unfortunately, bureaucracies have a way of overlaying their systems of government on you and your company and it can be stifling.

For example, I think it is absolutely ludicrous that the Small Business Administration (SBA) has a program to finance small enterprises that involves charging interest. If you are in this program, you have to pay interest on what should be equity in the company for the first few years of its life. The Small Business Investment Company is in the same position; they have to pay interest on current borrowings from the SBA. To me, that is just ludicrous.

We think debt in a business, short of a positive cash flow and a very healthy company, is absolutely the wrong place to be. We only like to see the government involved when they have a specific industry that they have targeted to help and they are willing to give grants to help that industry grow. We have seen this take place, particularly with the National Institutes of Health and the Veterans' Administration in the fields of medicine and biotechnology. They have been, by and large, pretty creative and healthy in terms of their involvement.

But, good Lord, if you get the dead hand of government laying on top of you, you have had it, as far as I am concerned. That is a personal point of view.

QUESTION, MR. O'GRADY: This is for Mr. Doyle. I just wanted to follow up on your comment about the Canadian banks. I think you said you do not think it is sensible to expect them to participate in this, but I notice Mr. Bartlett was saying that the American banks are among the institutional investors who do participate here.

In Canada, there is constant talk about how the banks are, or should be, helping small business, but I have never seen much evidence of it except for businesses that are fully collateralized. You do not see much bank participation in speculative small business. Can you think of any role at all that the banks could play or any model in which they might be able to play?

ANSWER, MR. DOYLE: I do not think they should play much of a different role than what they are playing now. The only difference is that I would like to see us produce better products to take to the banks so that the companies can have a choice of bank and financing options, as opposed to the other way around.

What is happening at the moment is that, by the time a high-tech company gets to the point where it should be dealing with the banks, because of their need for financing, they should not be dealing with the banks unless they have some kind of a balance sheet. The problem in Canada is that they have been so poorly funded all the way up, not only by the angels, but by the venture capitalists. So they go and they try to use the banks for financing. The banks look at their balance sheet and say they might do business with you, but they are going to charge a \$2,000 per month advisory fee, and on and on and on. So, they really do have them by the short hairs.

My scenario would be to build better products so that, in fact, the banks are crawling all over one another to get at those companies, which by now have decent balance sheets. I am not a bank basher. I think the banks are doing exactly the job they should be doing in Canada. Now, in response to all of this heat they are getting from the Canadian government, they have set up their own venture capital companies. Many of those venture capital companies are operating, unfortunately, a little bit like banks, and this is a different business than banking.

ANSWER, MR. BARTLETT: What has been successful in the States is that these large bank holding companies have really diversified financial management institutions. They take a relatively small percentage of their assets, detach them from the whole commercial banking operation, set them up as a free-standing private investment vehicle, and then they act largely independently of the commercial bankers. Those are the people with whom

we deal. They are really funded by the holding company as a part of a diversified portfolio of private investments.

COMMENT, MR. CRANE: Several Canadian banks have done that as well. Royal Bank of Canada, the Bank of Montreal, and the Bank of Commerce all have subsidiary venture capital.

COMMENT, MR. BARTLETT: Yes, they do.

COMMENT, MR. McILROY: I would like to thank both of our speakers. I was very intrigued to hear Mr. Doyle point out that the difference between Canada and the United States appears to lie in our taxation system. That is our next topic.

