



Deployment of Risk Capital in Agriculture

White Paper

A summary of discussions at the October 2019 Unconference on Agricultural Entrepreneurship, Ames, Iowa.

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March 2020

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The third annual Agricultural Entrepreneurship Unconference met on October 17, 2019 in Ames, Iowa. The event was co-sponsored by the [Iowa State University Agricultural Entrepreneurship Initiative](#) and the [Ag Startup Engine](#).

This white paper attempts to summarize presentations and discussions that took place at the Unconference, though surely falls short of the richness and insight of the dialogue that occurred. The aim is to provide, for those who did not attend, a glimpse into the Unconference discussions which centered on the deployment of risk capital in agriculture.

Background – Deployment of Risk Capital in Agriculture

Question: Is the amount of risk capital deployed determined only by location?

National Venture Capital Association Pitchbook data show that venture capital invested in the United States was \$136.5 billion in 2019 (43.1% angel and seed, 33.6% early venture capital and 21.6% later venture capital). That number is down slightly from the 2018 total of \$140.2 billion, but 5 times larger than ten years prior, as depicted in Fig. 1.

Figure 1. U.S. Venture Capital Deal Activity, 2009 to 2019. NVCA Venture Monitor.



Venture capital deal activity in the U.S. is heavily concentrated in three states, with California netting 47% of venture dollars invested in 2019, New York 20% and Massachusetts 8%. Those three states accounted for 75% of all dollars in 2019, down from 80% in 2018 but consistent through time with these three states accounting for 60 to 80 percent of total U.S. venture capital investments since 2006.

The Midwest had \$6.5 billion in venture capital invested in 2019, 4.8% of the U.S. total. Close to 25% of U.S. population resides in the region, but it accounts for a significantly lower percentage of venture capital investment. This has been persistent through time, ranging from a low of 4.2% to a high of 7.7% of U.S. venture capital investment since 2006. The proportion of the total number of deals, however, with the Midwest garnering about 10% of venture capital deals in 2019.

Figure 2. Midwest Venture Capital Investment. NVCA Venture Monitor.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Investment (billions)	\$2.23	\$3.54	\$2.77	\$2.54	\$4.13	\$4.31	\$3.22	\$4.32	\$6.05	\$6.55
% of US Investment	7.1%	7.7%	6.7%	5.3%	5.7%	5.1%	4.2%	5.0%	4.3%	4.8%
% of US Deal Number	9.4%	10.4%	10.8%	10.2%	9.9%	10.0%	10.2%	9.7%	10.4%	9.9%

Midwest states include Iowa, Minnesota, North Dakota, South Dakota, Nebraska, Kansas, Missouri, Illinois, Indiana, Ohio, Michigan and Wisconsin.

On the surface, it appears that the amount of venture capital deployed is a function of location. Three metropolitan areas in the U.S., in particular, dominate venture capital deal activity; the San Francisco Bay area, New York City and Boston.

An alternative hypothesis, however, is that risk capital is a higher order function rather than a first order function. In mathematics and computer science, a higher-order function is a function that takes one or more functions as arguments and returns a function as its result. All other functions are first-order functions.

Risk capital deployment is a function of location, but location is function of other functions. These other functions may include:

1. Access to risk capital – A location where risk capital has generated returns has additional risk capital for deployment.
2. Networks of know-how – It takes considerable experience to effectively deploy risk capital that generates positive returns and results in a growing pool of risk capital. That expertise comes from deep networks of investors, mentors, businesses, institutions and entrepreneurs.
3. Agglomeration - Economies of agglomeration, or agglomeration effects, are cost savings arising from concentration of networks of people, firms and institutions, most often considered an urban phenomenon. This concept relates to the idea of economies of scale and network effects.

Location plays a significant role in the amount of risk capital deployed, but factors such as these three underlie location. For a region to increase deployment of risk capital, entrepreneurial activity and economic development, it must target factors such as these.

With respect to the Midwest, there have been notable efforts to increase entrepreneurial activity and deploy risk capital. One example is Steve Case's [Rise of the Rest Seed Fund](#), which invests catalytic capital in the most promising seed-stage companies located outside of Silicon Valley, New York City, and Boston and has attracted considerable press attention.

A crucial opportunity for the Midwest lies in one of its most important sectors, agriculture. The brand of the region is closely related to agriculture. The depth of expertise spans the region and ranges from farms, agribusinesses, land grant universities, and industry organizations.

The opportunity for the Midwest is to be the global hub for risk capital in agriculture.

Question: Is there untapped capacity for deal flow?

It's the chicken-and-egg question for risk capital. If there is more risk capital, will there be good businesses/deals to invest in? If there are more good businesses/deals, will there be risk capital to be invested?

It is a single case, but the results at the intersection of the [Agricultural Entrepreneurship Initiative](#) and the [Ag Startup Engine](#) in Iowa indicate there is considerable deal flow to be built and leveraged. A network of entrepreneurs developed in a program at a land grant university have, in three years, leveraged seed investments of \$25k to \$50k into more than \$20 million of follow-on capital, have created more than 120 jobs, and have generated returns for investors in the form of an exit (Raven Industries acquisition of Smart Ag, November 2019).

Transformative ideas, innovations and businesses are a derivative of human imagination, and there is no limit on human capacity for imagination.

There is significant opportunity for creation of more transformative ideas, innovations and businesses in agriculture.

Question: Is there untapped capacity for more risk capital?

Venture capital invested in the Midwest, although a small proportion of the total in the U.S., has nevertheless increased by 4.7 times from 2006 to 2019. In Iowa, funds or programs that are either new or larger have increased, including [Iowa Farm Bureau Rural Vitality Fund](#), [Next Level Ventures](#), [Ames Seed Capital](#), [Iowa Agritech Accelerator](#), [Ag Ventures Alliance](#), and the [Ag Startup Engine](#). Regional funds and programs deploying risk capital in agriculture have also appeared, such as [Innova Memphis](#), [Yield Labs](#), [Lewis and Clark Ventures](#), [Germin8](#), [Cultivian Sandbox](#), [Ag Launch](#) and [Tech Stars Farm to Fork](#).

With the rise of more funds for Series A type venture investments, one question is whether there is enough early-stage capital available – angel, seed, or other – to provide a good funnel of deals? Can early-stage investment networks and funds be developed locally? Is the

perception true that Midwesterners who qualify as accredited investors are more reluctant than those from other parts of the U.S. or too conservative for higher risk investments?

Another case drawn from the [Ag Startup Engine](#) may again be informative. In brief, one investor slot in this investment fund was filled by a small syndicate of farm and agribusiness accredited investors, Farmers Fund. The finding was that there is a willingness of accredited investors with little experience in early-stage investing to put \$5,000 annually toward this type of investment. But the power of the finding was not so much in the money to invest, but in the willingness of these types of investors to engage in mentoring, evaluating deals, introducing their network, testing innovations, etc.

We believe this is an indicator of untapped risk capital investment and mentoring capacity. We estimate there are, for example, 6,000 accredited farm and agribusiness investors in Iowa that are willing to consider early stage investments. If each deployed \$5,000 per year in risk capital, that's \$30 million in untapped risk capital in a single state. Extrapolating to the Midwest, that's \$450 million in untapped risk capital that could be deployed annually.

There is significant untapped early-stage risk capital for agriculture.

While the opportunities are significant, there are good and not-so-good ways and models for developing entrepreneurs and innovations and deploying risk capital to grow businesses. The 2019 Unconference was about exchanging thoughts, ideas, plans and actions about how to do it in successful ways.

Session Summary: Angry Agtech Entrepreneurs: Why is it so hard to fund my Brilliant Idea?!

Moderator

Joel Harris, [Ag Startup Engine](#)

Panelists

Casey Niemann, Founder of [AgriSync](#)

Steven Brockshus, CEO and Founder of [FarmlandFinder](#)

Kyle McMahon, CEO and Founder of [Tractor Zoom](#)

Michael Koenig, President of [ScoutPro](#)

Dr. Jenny Filbey, CEO and Founder of [Mazen Animal Health](#)

Dr. Wayne Freese, President of [Cambridge Technologies](#)

Entrepreneurs comprised the panel during the Unconference morning session, with discussion centered on ideas about raising risk capital. "Why is it so hard to fund my brilliant idea?" Asked from an entrepreneur's viewpoint, the dialogue offered up several themes for fundraising success.

"Goals should be set prior to visiting with investors."

-- Steven Brockshus, FarmlandFinder

Although an entrepreneur's goals vary, it is important to remain realistic and practical about what can be accomplished throughout the entire fundraising process. Don't speak with a potential investor unless you receive a warm introduction and ask direct questions to find out if investors are truly interested and a potential fit. Refrain from sending your pitch deck before you meet with a potential investor, as this can keep you from engaging with the wrong people who may not have the right mindset for your company. Adhering to these guidelines will help you avoid a slow or silent "no" from investors and will instead put you in front of the right audience more quickly.

"Raising funds always takes longer than you intend."

-- Jenny Filbey, Mazen Animal Health

Hurried patience is key, as raising funds will take longer than anticipated and typically occupies more of the founder's time than anticipated early-on. If entrepreneurs don't have a concrete, intelligent plan for the deployment of capital, they should not ask for it. Some investors want to see revenue-traction, for example, though capital may be needed before revenue is generated. Where possible, test your solution for product-market fit. Once that has been accomplished, it is easier to demonstrate for investors realistic milestones and planned use of capital. Waiting for first conversations with certain investors can pay off.

Entrepreneurs should be motivated to complete funding rounds efficiently so that management focus can return to the business. Raising funds is not a benchmark of success, building a business that is sustainable is a benchmark of success.

"Find the right investor depending on what type of product you are offering (R&D, software, physical good, etc.). There are different expectations for raising capital in each segment."

-- Casey Niemann, AgriSync

You will attract different investors depending on the product that you are building. Analogous to a marriage, your company's goals should mesh with your investor's goals. Investors tend to invest in what they understand. As an entrepreneur, be mindful of whom you are pitching to and what they require in terms of return. Put yourself into the shoes of the investor. They want to be sure that you are capable and have the ability to build the business. The more you understand the investor's perspective, the more efficient you will be at raising capital.

"Raise the right amount of money, not the most money."

-- Kyle McMahon, Tractor Zoom

Set milestones and ask yourself, "What milestone do I need to reach to protect and preserve existing shareholder value?" As an entrepreneur, it is essential to have clarity, conviction, and clear milestones laid out. Progress needs to be made such that value is being created with each funding round. If you hit milestones, how does that affect revenue and the valuation of the business? Have a plan in place and know the direction your company is headed. Your investor should not be the one to lay out a plan for the business.

“The world is a diverse place. Make friends with people who understand the things you don’t.”
-- Casey Niemann, AgriSync

Most entrepreneurs figure out one or two things, but they are curious about a hundred things. Locate strategic advisors in adjacent markets who can help you understand more clearly what you don’t know. An entrepreneurial ecosystem thrives because it is diverse. Everyone has accomplished different things. An impactful way to make a difference as an entrepreneur is to be outrageously successful and mentor others. Those who have built large, successful businesses are the ones who have shaped today’s entrepreneurial ecosystem.

Session Summary: Annoyed Angel and Institutional Investors: Why does the founder think their company is investable?

Moderator

Kevin Kimle, [Agricultural Entrepreneurship Initiative](#) and [Ag Startup Engine](#)

Presenters

Joel Harris, [Ag Startup Engine](#)

Dr. Wayne Freese, [Cambridge Technologies](#)

Nathan Katzer, Investment Manager at [Iowa Farm Bureau Rural Vitality Fund](#)

Melinda Dittmer, Managing Member, [FIN Capital](#)

Jan Bouten, [Innova Memphis](#)

Zane Hendricks, [Midwest Growth Partners](#)

Mark White, [Prairie Crest Capital](#)

Spencer Stensrude, [Ag Ventures Alliance](#)

Cliff Smith, [Global Vet Link](#)

A discussion with angel and institutional investors was featured during the afternoon session. Approached from an investor’s perspective, the conversation focused on tips and tools for entrepreneurs as they approach potential investors.

“Entrepreneurs can be so trained to “pitch for money” that when an investor asks them to give them a customer pitch, they don’t actually know the value proposition.”
-- Jan Bouten, Innova Memphis

Be knowledgeable about your company, not only from an investor’s perspective, but from a customer’s perspective. Investors become frustrated when the value proposition cannot be articulated within the first five to ten minutes of conversation. A successful value proposition should be relevant and explain how your product solves a problem. It should qualify and quantify the value of your proposition and enable the investor to understand the specific benefits. Finally, it should differentiate your product from the other product choices on the market. Know who you are as a company before ever asking for funding: this can impact not only the amount raised, but the type of investor who will sit on your board and influence the

future of the company. Ensure that your company's business plan and goals align with the investor's goals before leaving the meeting.

"Don't give the investor a fluffy feel-good speech. Get to the point, share the steps that will move your business forward, and let us know the challenges you have already worked through."

~ Melinda Dittmer, FIN Capital

Be prompt and courteous when interacting with investors. Be timely with investor calls, appointments, and emails. Condense your company's story down to the key metrics to keep it simple. Be able to summarize your business and plan for using risk capital in five minutes. There is no need to drag a discussion out. Investors want to hear where you have been, where you are going, where you've overcome challenges and where you have already encountered success. Even though you may check all of the other boxes, if you leave a bad first impression, the relationship between investor and entrepreneur will likely not recover.

"Communicate. Be clear when you need money."

~ Joel Harris, Ag Startup Engine

Investors need to communicate clearly with entrepreneurs. As an investor, be candid. If the value proposition doesn't fit your investment criteria or you've already spent your allotted amount for that period, be open and honest with the entrepreneur. After the investment has been made, the communication should not stop. Communication channels can take a variety of forms including monthly round table discussions, slack channels, regular emailing and phone conversations, and casual social events. Entrepreneurs must keep in mind that investors are there for financial support and mentorship but are not to be used as a shoulder to cry on.

"Deliver what you agreed to deliver."

~ Joel Harris, Ag Startup Engine

Be respectful as an entrepreneur. Respond to constrictive criticism in a positive and receptive manner. Investors are much more open to hearing a pitch from an entrepreneur who is coachable and open to suggestions. If you closed a round of funding, don't seek more funds until you have accomplished what was planned for those funds.

"Perform the role that best suits you and your expertise."

~Clifford Smith, GlobalVetLINK

Be flexible and accommodating. As the CEO of a business, you need to be able to interact with customers, pitch to investors, hire quality employees, build a valuable network, and more. Investors often ask if they could envision themselves working contentedly for the founder of a company before investing. As an entrepreneur, you do not need to be a gifted public speaker, but you do need to be able to communicate clearly with investors. Entrepreneurs should know how to delegate and have a capacity for team-building.

“As an investor, you want to see the vision the entrepreneur has and be able to get behind it.”
~ Spencer Stensrude, Ag Ventures Alliance

Be passionate and share your excitement and vision with the investor. Be dynamic as you thoroughly explain what your product or service’s “wow” factor is. If the product is unique, novel and defensible, the entrepreneur will command attention throughout the delivery of the value proposition.

“Entrepreneurs often bring their companies to market without a clear plan or a clear set of objectives for what they want out of their capital transaction.”
~ Zane Hendricks, Midwest Growth Partners

Be specific as you interact with investors. Relate the exact amount that you want to raise, the exact things you want to do with those funds, and how you plan to grow your business. Signal to investors that you are looking for detailed feedback after a pitch. As an entrepreneur, be open about what an ideal transaction would look like. If you are looking for industry expertise, technical knowledge, or strategic guidance in addition to financial support, be clear with those requests. Are you looking for an investor who will stay high-level or someone who will be engaged more deeply in the business? Do you want your investor partner with similar or different experiences? Asking these questions will change the way your investor views your transaction and will put you in front of the right investors more quickly, ultimately decreasing the time it takes to raise capital.

Partial 2019 Unconference Attendee List

<u>First Name</u>	<u>Last Name</u>	<u>Organization</u>	<u>First Name</u>	<u>Last Name</u>	<u>Organization</u>
William	Adamowski	Iowa State University	Carl	Lippert	FeedX
Atty	Bailey	Iowa State University	Kevin	Maher	Vet Measure
Dave	Biedenbach	Iowa State University	Jason	McCollough	Alpha Tech
Andy	Brudkuhl	National Pork Board	Scott	McEntee	Farmers Mutual Hail
Craig	Chase	Iowa State University	Kyle	McMahon	Tractor Zoom
Melinda	Dittmer	Fin Capital Unity Point Health	Luke	Mohrhauser	McKee, Voorhees & Sease
Austin	Duke	Ventures	Al	Myers	Ag Leader Technologies
Nate	Easter	ISU Research Park	Curt	Nelson	EDC
Mark	Edelman	Iowa State University	Casey	Niemann	Agri Sync
Marcie	Fahn	Iowa State University	Michael	Perrin	Next Level Ventures
Jenny	Filbey	Marzen Animal Health	Amos	Petersen	Farr Pro
Rebecca	Frantz	Iowa State University	Nick	Peterson	Alliant Energy
Zach	Gates	LWBJ	Mike	Podoll	
Rachel	Geilenfeld	Sukup Manufacturing	Dale	Polson	Boehringer Ingelheim
Nadilia	Gomez	AgriTech Accelerator	Jim	Register	Iowa Innovation Corp.
Adrienne	Greenwald	Venture Net Iowa	Nigel	Reuel	Skroot Labs
Hank	Harris		Rafael	Roldan	Seed Biome
Joel	Harris	Ag Startup Engine	Chris	Sackett	Brown Winick
Scott	Hoekman	Next Level Ventures	Nabil	Salem	University of Chicago
Craig	Ibsen	Next Level Ventures	Emily	Schmitt	Sukup Manufacturing
Mads	Jensen	Manchester Story	Korbin	Sesker	Next Level Ventures
Kris	Johansen	ISU Startup Factory	Clifford	Smith	Global Vet Link
Candi	Karsjens	NIACC	Mallory	Stanek	Venture Net Iowa
Liz	Keehner	Venture Net Iowa	Spencer	Stensrude	Ag Ventures Alliance
Karen	Kerns	Iowa State University	Mlkayla	Sullivan	KinoSol
Yones	Khaledian	Iowa State University	Tom	Swartwood	Iowa State University
Todd	Kielkopf	Kielkopf Advisory	Joe	Sweeney	Eagles Catch
Erin	Kimle	Ag Startup Engine	Denis	Tamiev	Iowa State University
Jackson	Kimle	Kimle Aquaculture	Brian	Tulley	Low Mu Tech
Kevin	Kimle	Iowa State University	James	Wahrenbrock	
Michael	Koenig	ScoutPro	Zachary	WareJoncas	Leah Labs
Adam	Koppes	Iowa Farm Bureau	Matt	Warrens	Unity Point Health Ventures
Dave	Krog	Cirrus Partners	Mark	White	Prairie Crest Capital
Joanne	Kuster	Dyna Minds Publishing	Alan	Wilson- Langman	Dronsar
Chuck	Kuster	Dyna Minds Publishing	Kyle	Woiwood	LWBJ
Andrea	Larssen	Ag Startup Engine	Diana	Wright	Iowa State University
Phil	Lawler		Tim	Zarley	Zarley Law Firm