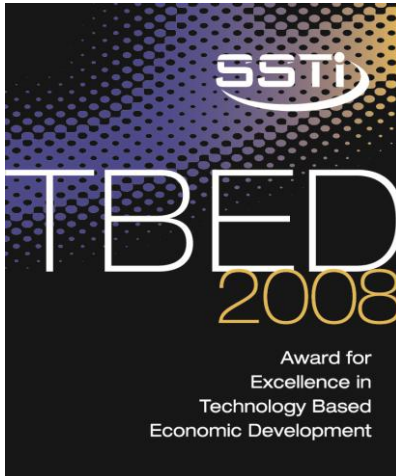


# Podcast Interview



Rich Lunak, President and CEO,  
Innovation Works  
Interviewed by: Phillip Battle,  
SSTi

*2008 Excellence in TBED Award Winner:  
Increasing Access to Capital*

Mr. Battle: Hi, this is Phillip Battle with SSTI. I'm speaking today with Rich Lunak, President and CEO of Innovation Works. Innovation Works Seed Fund was the 2008 recipient of SSTI's Excellence in TBED Award in the category: Increasing Access to Capital.

Hi Rich, thanks for talking to us.

Mr. Lunak: Great to be here.

Mr. Battle: Maybe you could start by giving us a little bit of background on Innovation Works.

Mr. Lunak: Sure, we're the Ben Franklin Technology Partner of Southwestern PA. We provide investment business assistance and hands-on support for regional technology entrepreneurs. So we're primarily working with companies in the Pittsburgh region. Our flagship program is probably our seed fund which since late 1999, has invested over \$40 million into about 120 original startups.

Mr. Battle: How did that seed fund fit into the strategy of what you're doing in the Pittsburgh region?

Mr. Lunak: Here locally I think we have a lot key assets that we believe for years have not been leveraged to their fullest extent. We have some top research universities in Carnage Mellon, University of Pittsburgh, a fair number of anchor corporations and the like. Here locally our seed fund is the largest seed stage investor in our region. We invest in high potential technology companies with the greatest likelihood of success, and we invest purely off the merits of the opportunities so we don't target any particular sector. Each year we may see about 150 new companies from industry, university partners, or affiliate organizations. Over the years we've targeted those with the best opportunity – I'd say about 54% are in the software and IT sector. About 26% in life sciences and the remainder from advanced electronics – advanced materials and robotics. If you look at the makeup of our research strengths and that of many of our anchor companies, I think that reflects a lot of the best attributes of our region. On average we invest about \$350,000 per company.

Mr. Battle: When you say you're technology neutral, and you're just looking for the companies with the best chances of success. Do you have any other type of companies that you target for investment?

Mr. Lunak: Yes. Our strategy is to invest very early so we don't compete in any with the private sector. If you think about the early stage entrepreneurs and those first dollars that are so tough to come by, the average company that we invest in at

the time of our investment has about four employees, and maybe 6% are pre-revenues. We've seen from our data that on average we come in about two years prior to an early stage VC investing in those companies, and about six months prior to significant angel round. I think one of the key things we do is try identifying the likely growth strategies for those companies. With our help really target the use of our funds and our assistance to help those companies get to value creating milestones that enable them to attract interest from those private sector investors.

Mr. Battle: What's an average investment for you guys?

Mr. Lunak: It's about \$350,000, it's typically tranching based on performance milestones. We have some companies that receive more than that funding and obviously some that receive less.

Mr. Battle: How are you working with those portfolio companies to help them raise the additional funding?

Mr. Lunak: I think that really the key is in our up-front due diligence and assessment is really understanding the company, the markets it's going after, and the likely pro-solvent investor that would invest in that company and in making sure that the company's strategy, and in particular fund raising strategy, is consistent with that profile's investor and that we did buy in from the entrepreneurs. Then we work hard to really, over the years, become a trusted source of deal flow for those investors. It wasn't something easy to do, particularly as a non-profit. One of the ways we do that is by having a team that's comprised of successful former entrepreneurs, prior investors, and other professionals that sort of have street cred with the investor community. As a result I think they are able to go out, understand the investor's profile and investment thesis and then present companies that may interest that investor.

It's not uncommon for us in any given day to have a handful of investors come through our office. In fact, oddly enough, tomorrow we have the demo day one of our programs called Alfa Lab. We expect over 50 investors to be there to basically see a half dozen companies present and pitch. Building that investor network has been very important for us.

Mr. Battle: How successful have your portfolio companies been in raising additional funding?

Mr. Lunak: Since about 2000, our portfolio out of our seed fund, so this is just the companies just outside of our seed fund, have attracted over \$600 million in follow-on investment – that later stage investment that's coming from a variety

of different investors coming in to our companies. It's critical, because if you think about it, our dollars alone are typically not enough to get these companies to cash flow positive. As economic development professionals, we obviously want to have these companies grow, and create job growth, and economic benefits for our region. As an important element is those companies having the kind of resources they need to grow, particularly in the form of capital. So this is a key part of what we do. In fact we generally see fund raising successes as a leading indicator, if you will, to job growth.

A key element also is it's not just one or two companies that have contributed to that number. As an example, last year alone we had 26 of our portfolio companies raise over \$1 million and 10 over \$5 million. The sources of those roughly as a breakdown: about 48% of that investment has come from VCs, 18% from individual angels, 6% from angel groups or angel funds, 9% from placement agents, about 10% from strategic or corporate investors, 5% from federal dollars, and the rest coming from other state or local economic development dollars. We actually track all of the rounds and data very closely, because we think that influences our strategy and the types of relationships we seek to build and cultivate here in the region.

Mr. Battle: I understand Pittsburgh has posted some really impressive venture capital numbers in the last few years. Can you talk a little bit about the role the seed fund has played in the Pittsburgh region? What sort of impact you guys are having?

Mr. Lunak: I think we've played a very important role, or pivotal role. I just talked about the follow-on fundraising. It's important about two-thirds of that \$600 million is actually from outside our region. I can remember years back when we talked to out-of-town investors, Pittsburgh is what you might term was commonly a flyover state back then. We would walk around with our portfolios, spreadsheets and information about our companies and have to give investors sort of Pittsburgh 101 in why they would want to even consider looking here. I think a lot of that has changed. About 70% of all the venture capital bills this past year came out of the Innovation Works portfolio. I think that speaks very highly to the success we've had, that it's such a large percentage of the regional venture activity. I think it speaks to the fact that we are able to select high potential companies when you consider that on average we're going in about two years prior to those early stage VCs. I think they are doing a good job of using our funds, and our assistance to get the meaningful points.

As a measure of how we've performed on a national basis, last March the Pittsburgh Venture Capital Association looked at regions across the country and all of the top MSAs and named our region as the second fastest growing region

in the country over the last ten years. We're very proud of that fact, and see some good momentum building here.

Mr. Battle: What are you doing to let people know about those successes?

Mr. Lunak: I think we do some of the traditional things that organizations like ours do in terms of issuing annual reports, having a website, having annual meetings. But, we've also made sure that the people on our team are really integrated into the community, they frequently lecture, or serve on boards of partner organizations. They are professors at local universities, our staff frequently speaks regularly. In some cases I think we've worked hard for some of our programs to almost serve as a focal point in the entrepreneurial community for companies to rally around. That's helped I think get the word out about the benefits the companies can have working with us, but also I think help to drive some of the PR media interest in this sector, which at the end of the day we're trying to cultivate a thriving entrepreneurial community here. Part of that is getting the rest of the community to understand how important these companies are as future engines of growth for our region, and also to know what great opportunities there are out there.

Mr. Battle: We touched briefly before on the importance of having a team of entrepreneurs working to do this. You're an entrepreneur who started the company with the help of economic development funds. What sort of influence does that have on the work that you do?

Mr. Lunak: I think the key element is that I've sort of walked in the shoes of the entrepreneur. I know what it's like to struggle to meet payroll, to commercialize products, to manage your board, to do fundraising, to try and build a key team. I think those experiences are critical because like a lot of mid-west regions many of the entrepreneurs we work with are first time entrepreneurs. Understanding the struggles that they are going through, and then applying lessons learned I think are key. I also think that in my experience the company that I helped get off the ground with the help years back of Innovation Works money, has grown to be a very large local technology employer with about 2,000 employees, and several hundred million dollars in revenues. In my role there as a group president managing a division, ultimately for a large public company that acquired us, I also got involved in acquiring other businesses and understanding how corporations look at MNA activities and run strategy and other growth initiatives. As our companies looked at their companies, or look at corporate partners, we can offer a lot from experience of that side of the table too which comes in handy.

Mr. Battle: What about the rest of your team? Did they have backgrounds in entrepreneurship?

Mr. Lunak: Yes. We have a variety of individuals; probably the core team that works with our entrepreneurs is our Executive-in-Residence Team. There we try to target former entrepreneurs, CEOs, and technology executives who again have walked in the shoes of the entrepreneur, raised capital, founded companies, commercialized technology, and that group can offer a lot of assistance to the entrepreneurs we work with. For example if we run into a company that's trying to commercialize a medical device, I have a former CEO from Phillips Electronics that ran a division there that's familiar with taking products through a 5-10 K approval process, reimbursement issues, etc. I have a former Silicon Valley veteran and entrepreneur in a software and IT space. I have an entrepreneur who has been a tech transfer licensing officer for a university and then founded a company with a professor from that university raised millions of dollars in investment commercialized products that were sold to large industry partners like Motorola or Intel, even a CEO that's taken a company public. I think that helps gives us street cred with the community we work with, and certainly helps them offer a lot of expertise.

Mr. Battle: Well that's certainly something valuable. How do you keep talented individuals like that around?

Mr. Lunak: Oddly we think that if we are attracting the kind of talent and the individuals that we want, that they're probably not going to stay here a long time. That's not a bad thing. Our executives-in-residence, many of them have over the years left to take senior positions in entrepreneurial companies. Since having key talent is such an important element of growing companies, that's not a bad thing. We also have a strategic HR consulting role on our staff, which as you thinks about it, having technology and funding is just two elements, but building a world class team to commercialize and grow with a company is key. We actually have a person that helps our company identify talent needs and place top talent. Over the last 18 months to 2 years, we've placed around 43 senior executives into a local company. All of that is a way that we know of to solve one of the key elements in our region, which is acquiring the right kind of talent to grow businesses.

Mr. Battle: Rich, do you have any advice for organizations trying something similar in their regions?

Mr. Lunak: Yes. I think that first of all hiring a great team, and in particular one that has private sector experience in the entrepreneurial sectors is probably the most important element. At the end of the day I think the number one resource an

organization has is their talent, and that's been key. I think that making sure you're investing in businesses and not technologies is key. At the end of the day really want to understand the value proposition, and go to market strategies, and really the business of the companies we are investing in and not get too wrapped up in intriguing or types of technologies, that's been key.

Selecting deals with funding strategies consistent with the type of investors that are most likely to be attracted. I think a common mistake is assuming every company's going to be on a venture path, when in fact it's a minority of companies that ultimately attract venture capital. Really understanding the wide variety of funding sources, and then targeting, and making sure that companies have strategies consistent with that. Lastly, understanding the investors that you're trying to target, and work hard to build up that network and become a trusted deal source. That's taken us years to do, but at present is really a key element to our success, and I think will serve us well not only today, but in the future.

Mr. Battle: Well Rich, thank you for talking to us. If our listeners want any more information about Innovation Works, I believe they can find it at [www.innovationworks.org](http://www.innovationworks.org).

Mr. Lunak: That's correct.

Mr. Battle: More information about the SSTI Excellence in TBED Awards is available at [www.sstiawards.org](http://www.sstiawards.org). Thanks again Rich.

Mr. Lunak: I appreciate it, thank you.