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**KEYNOTE ADDRESS**

**KTEC PIPELINE**  
**“Innovator of the Year”**

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Thank you, Joni. Give it up for the great Joni Cobb. Thanks for all you do to build a stronger Kansas. And I want to recognize my friend, Tom Thornton. Illinois' loss is surely Kansas's gain. Good to see you...and congrats to all the folks who are participating in the KTEC Pipeline...

It is a great honor to be asked to speak before this group, which is filled with so many fellow travelers on the road to sustainable growth through entrepreneurship and innovation. While that road is often hard--and we sometimes get weary--it is the only road worth taking.

Joni has asked me to let my hair down, to speak from the heart...to provide you with my unvarnished feelings in light of the market crash of this past year...To be big, not small, in the thoughts I am about to express to you. Because these are big times.

And after perusing my resume, she told me to stay away from any cheap partisan political shots. There will be some big Republicans in the crowd, she told me.

Well, OK, then. You've got nothing to worry about from me. I will try to be big. And I will keep cheap partisan shots to an absolute minimum. God bless all of you who are here. It takes two wings to fly. And when it comes to building entrepreneurial capacity, when it comes to building a stronger Kansas, we are united in a common cause.

We need to be, because these are challenging times. But I am here to bring tidings of hope.

I'm here to tell you that this meltdown just may be the best thing that ever happened to entrepreneurship, seed and early stage investing, or technology-

based economic development, or whatever you want to call the stuff that most of the people in this room work on day in and day out.

Because all of you are about to be moved from the back of the bus to the front row. Have you ever been to a sporting event where some guy and his family, seated in the nosebleed row of the stadium, is moved from those seats to the best seats in the house, thanks to Domino's Pizza or Pepsi or some stadium advertiser. It's one of my favorite in-game attention-grabbers. I like it better than those car races or hotdog races. But I digress.

Those of us who are business builders are about to be brought front and center into a national debate over what constitutes honest capitalism, how to best promote genuine entrepreneurship, how to reconnect hard work, achievement, and accountability in this great country of ours. Sounds like a Kansas way of thinking to me

I don't think I've ever quoted a French President before. Especially not one who is married to a supermodel. But I think Nicolas Sarkozy got it right the other day when he said that the current "financial crisis is not a crisis of capitalism. It is the crisis of a system that has distanced itself from the most fundamental values of capitalism."

Let me repeat that... "it is the crisis of a system that has distanced itself from the most fundamental values of capitalism."

I think that this is exactly right. We've become a subprime nation. No money down. Push the bills out into the future. We became a subprime nation when it comes to housing, of this we are now certain; but we've also become a subprime nation when it comes to energy, when it comes to the way we feed ourselves, even or especially, when it comes to our politics.

And it is time that we get reconnected to the fundamental values of capitalism and small d , democracy.

I was reading the editorial page of The Wall Street Journal the other day—yes, that's right, not The Huffington Post, The Wall Street Journal, and came across a rather remarkable piece written by an economist named Judy Shelton. I do not know Judy Shelton from a hole in the ground. I can't tell you a thing about her politics. But I thought it was a pretty remarkable piece.

Professor Shelton issues a ringing appeal for honest capitalism. She lambastes the exotic financial derivatives that, in her words, “gamble on the anomalies of the global economy—currency movements, interest-rate disparities, governance incongruities, which mock the very concept of investment...which is to generate higher returns in the future from production.”

We need an economy she says, that accords primacy to the entrepreneurs...the true heroes of capitalism...folks who have the courage to start a business from scratch, the fidelity to pay their taxes, and the dedication to provide real goods and services to their fellow men.

Ladies and gentlemen, that’s where we live, isn’t it?? That’s what we are celebrating tonight, isn’t it?

Let me tell you how I made the journey from politics to the world of venture capital. I grew up in southeastern Ohio, Appalachian Ohio, specifically Athens, Ohio; the son of a geography professor and a piano teacher...we were not poor, far from it, but I would have had to have been deaf, dumb, and blind to grow up where I grew up and not be aware of the economic challenges that confront the folks who live in those hills.

They are hardworking people, so different from the hillbilly image of lazy folks fueled by moonshine. In reality, they have done way more than their fair share of building up this country.

First it was the iron industry. The people of the Appalachian foothills cut down every tree they could to fuel the furnaces that made the iron that gave the North the edge in the Civil War. Some people got rich, the nation prospered, and mansions were built in cities like Pittsburgh. But the people of southeastern Ohio didn’t get a slice of the pie.

Then it was coal’s turn. No people on the face of the earth worked harder, under more difficult conditions, sacrificing their health and all too often their lives, to mine the coal that fueled the economic development of our nation. Again, some people got rich. The nation prospered. Mansions were built. But the people of southeastern Ohio didn’t get a slice of the pie.

Now Walmarts and sometimes prisons are sprinkled throughout the landscape. Wealth is created, but not shared. Wealth is created, but it is not

sustained and is not sustainable...as in the case of coal and iron, which contained the seeds of their own ultimate demise.

And so I considered this and concluded that the only way to break out of this cycle of poverty and dependency is to rely on ourselves—our very own selves—our own drive, talent, business ideas—and do what we could to create a new regional mindset that contemplated the possibilities of entrepreneurship.

So with Ohio University as our lead investor and limited partners that include National City, Fifth Third, Huntington, AEP, WesBanco, BB&T, Key Bank, and the State of West Virginia, we raised a \$35 million fund...a number that includes over \$7 million for operational assistance for companies in the region. Not the world's largest...but we love it anyway.

And since there are relatively few Bain Capital offices or McKinsey offices in SE Ohio...OK, there are none...

Folks, this is Appalachian Ohio!! We've got an early stage fund, a seed fund, a university-based operational assistance consulting company, folks ready to join angel networks...we at Adena Ventures are an investor in a textbook distribution company that has gone from \$0 to \$50 million in revenue and is now the third largest employer in Nelsonville, Ohio. We are an investor in a retail furniture company that has stores throughout the Ohio River Valley, ground zero of the mortgage meltdown, but succeeding nonetheless, and looking to grow through acquisitions. I could go through our entire portfolio, but I will spare you. But it's our little miracle.

We are going to make money and we are going to make money with a fund in which every single portfolio company is located in a low-income census tract.

Now Kansas is doing a little better than Ohio is doing these days. But there are similarities. A big agricultural economy. An economic history that involves extraction of natural resources, aviation, and a lot of manufacturing. A political history marked by tension among regions and a split between the rural and urban parts of the state. And hardworking people, with solid Midwestern values. Remarkably similar, indeed.

Sometimes, though, you need to have somebody from the outside to tell you things that may not be quite so obvious from the inside.

So here it is, the “What’s right with Kansas?” section of my talk.

I will tell you what’s right. Here you are, right smack in the middle of fly-over America and

You are ranked 8<sup>th</sup> in the country when it comes to jobs created by “gazelles”—the fastest growing early stage companies—companies with revenue growth in excess of 20% for four years in a row.

Are you kidding me?? You are 34<sup>th</sup> in terms of population, but 8<sup>th</sup> in terms of gazelle-related jobs...and, by the way, these gazelles are responsible for 80% of the jobs created by entrepreneurs.

Are you kidding me? That is nothing short of amazing. You really should tell somebody about it. Most states would kill for these numbers.

You are ranked as a “top mover” when it comes to “fastest growing firms” and you are among the top ten states in the nation in terms of immigration of knowledge workers.” Get out of here. These are huge numbers. You really ought to tell somebody.

These numbers help explain why Kansas is home to some of the greatest entrepreneurial success stories in recent American history—Garman, Sprint, Pizza Hut, Koch Industries, all the aviation stuff over in Wichita...clearly, there’s something in the water out here. Now we know why the Kaufmann Foundation is based out here. It’s all coming together for me now.

But the reality is...it’s not the water.

I used to work for a guy, who once was the governor of Arkansas.

And he would say, in a very Arkansas way, that when you see a turtle on a fencepost, it didn’t get there by accident...I’m going to let you think about that for a little bit.

Someone had to put it there.

Kansas did not become the 8<sup>th</sup> leading state in terms of gazelle jobs by accident. You are reaping the benefits of initiatives launched a long time ago. And a program that is viewed a model of best practice by peers around the country.

Since its inception in 1987, Ktec has created 20,000 technology jobs, generated sales revenue of \$2 billion, and...has generated nearly \$500 million in private investment and more than \$700 million in federal investment right here in the state of Kansas.

Damn right, you say. It didn't happen by accident. This is hard work!! I'm not complaining. No one in this room is complaining. This is rewarding work. I don't know if most of us gathered here tonight will ever get super rich off this stuff...if all we wanted to do was to get super rich, then the deal (until very recently) was to go out and trade paper that was a derivative of actual economic activity...But that day is changing.

Here's my point. This stuff deserves to be lifted up. The work that all of you in this room are doing deserves to be lifted up. Your story deserves to be told. And so I'm telling it. You Kansans are doing it the right way...the old fashioned way. Hands on work with actual companies and owners. Real connections with real people. Blood, sweat, and tears go into every investment you do. So different from what our economy has been telling us we ought to be doing, if all we cared about were monetary rewards.

After all, it's risk taking; it's innovation—more than any other factor—that represents America's competitive advantage internationally. We're not the cheapest place to do business—and we don't want to be; it's not our education system or our system of health care that are the envy of the world; no, it's our entrepreneurial capacity, our capacity to innovate, and our ability to bring new products and new companies to the market that give us an edge.

Yet what's been happening in the U.S. over the past ten years...money has flowed like crazy into later-stage deals, LBOs, and the like...last year, the largest 12 private equity funds accounted for 28% of all private equity commitments in the United States. Not to mention the explosion of funding of something called credit default swaps.

Meanwhile, the share of institutional dollars going to seed stage businesses plummeted.

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Folks, this is bad for America.

Moreover, this funding gap represents such a disconnect from the way we view ourselves. The true hero in the American story is the entrepreneur. Just look at a recent poll commissioned by the Kaufmann Foundation in the midst of the economic meltdown: when asked “who do you have more faith and confidence in to guide the U.S. economy,”

56% said “the owner of a successful small business”

14% said “the CEO of a successful Fortune 500 company”

14% said “a Member of Congress.”

Just proves you can get 14% of the American people to say almost anything!! Notice there was no support for former campaign managers!

70% agreed that “the success and health of the economy depends on the health of entrepreneurs” and 80% agree that “the American government should encourage more entrepreneurship.”

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And so we have another disconnect...between the primacy accorded entrepreneurs by the American public and the short shrift given entrepreneurs by our political elites. It is rare to hear the benefits of an innovation economy touted by the presidential candidates of either party, despite what seems to be overwhelming public support for this idea...perhaps the word “ideal” is more appropriate. Although I’m starting to hear it from our new President, Barack Obama.

Here’s the real deal. The American people have it right. For all the talk about stimulus and what America needs to do right now to get back on the right track...

How about loosening up financing for start-ups? For new businesses. Because part of an economic recovery program should recognize the important recession-fighting power of entrepreneurs. Here are some facts:

The number of start-ups remained strong during the last major recession our country endured.

Companies started during recessions have an equal or even greater chance of becoming large companies than do companies started during periods of economic growth.

Returns to early stage VC have been higher during the past two economic downturns than during periods of economic growth.

Microsoft, FedEx, IHOP, CNN, Hyatt, Wikipedia, GE, and Burger King are all examples of companies that were founded in the midst of recessions.

So for all of you who are entrepreneurs and who are tired of hearing, you're doing what? Now? Are you crazy? Rest assured, you are crazy like a fox.

Of this much I am certain. The people in this room are the Main Street of the next economy. We represent the heroes. We are the true guardians of the entrepreneurial spirit. We are the authentic defenders of America's competitive advantage. The next President and the next Congress will listen to us.

Now we are entering a period of great national self-analysis. And I believe the pendulum is about to swing back our way in a big way. Subprime America was bad for our industry; a new American economy that insists upon a more honest, transparent, entrepreneurial form of capitalism will be good for us.

Look, I'm no Pollyanna when it comes to stuff like this. I'm a realist. I know we may very well be headed for a prolonged recession. I know that such an event will drive some seed and early stage businesses out of business. Businesses that are burning too much cash, that are too far away from profitability, that rely too heavily on revenues from buyers that will be hardest hit...businesses that don't have the nimbleness to make changes that will allow them to weather the recessionary storm...are in trouble. I get that. Bad news for folks living high on the hog. Bad news for folks that had gotten soft, because it was so easy to always go back to the capital markets for a little more cash. Bad news for folks anticipating valuations that were never sustainable and are no longer realistic. Bad news for folks anticipating an IPO. Bad news for Silicon Valley and Boston and places where money has always been plentiful.

But I wonder whether those of us in flyover America – right here in Kansas - will be hit quite as hard. We've always had a preference for running a tight ship, for short runways to profitability. We've always had a welcome focus on revenue. The idea of patience as a virtue is not a new one. IPOs have never been an integral part of our exit strategies. And our expectations with regard to price have never been too grandiose (as the founder of Village Ventures points out, companies in America's nonfinancial centers are priced about a half of what they would be priced in the VC capitals of our land).

These are the worst of times. But they may become the best of times.

But the big changes that will empower the people in this room go beyond the usual cyclical stuff. Because I think America just received a huge wakeup call. The days of easy credit and huge debt are over. The days when financial engineering takes precedence over managerial excellence are over. The days when 40% of all Harvard undergrads want to be investment bankers are over. The days when such a disconnect exists between the primacy given entrepreneurship in the American story and the short shrift it is given in the public policy of our nation, I believe, are over.

There will be other factors at work in the coming months and years. A demand for transparency. A movement toward things regional or local. A growing sense that the business models driving our food industry and our energy industry are fundamentally flawed. And a growing belief that the only way to resolve them are through the advance of new technologies and an explosion of entrepreneurial fervor on par with other great transformations in our history.

All good for the people in this room.

So, I got into this business because I wanted to do something that held out the hope of creating shared wealth and sustainable growth in the region of the country I grew up in.- just like KTEC and those that work with these wonderful entrepreneurs are doing here in Kansas.

I guess Kansas was ahead of the curve!! I stand before you convinced that our country will return to the fundamentals, to an authentic form of capitalism that reconnects hard work, monetary reward, and accountability. There's no problem facing this country so great that a new burst of entrepreneurship and technological advancement can't solve it.

So, I'll tell you what I'm going to do over the next few months. I'm going to double down. I'm going to go out into the marketplace, along with my partners, and raise a new fund. I'm going with a regional strategy and an early-stage strategy. When others are pulling back, that can be precisely the time to move forward. That is what all of you in the room tonight already know – supporting our talented entrepreneurs with time, talent, resources, funding – is critical right now. The work all of you here are doing to support them, is critical right now. You are making tremendous strides – and it couldn't be more important than now to keep it up.

This is the time for all of your work to be held up and singled out as a key part of our economic recovery. Our country needs these talented entrepreneurs – and they need you!

So to close, let me return to my new friend Nicolas Sarkozy, that keen observer of the American scene (did I mention he was married to a supermodel?)

“America did not tell the millions of men and women who came from every country in the world and who—with their hands, their intelligence, and their heart, built the greatest nation in the world: Come and everything will be given to you. We said, ‘Come, and the only limits to what you’ll be able to achieve will be your own courage and your own talent.’”

That's my sense of America. I know it's your sense of America. These are tough times. We've faced tougher. Thanks for everything you do. Let's get to work.