

U.S. SECURITIES AND EXCHANGE COMMISSION

42ND ANNUAL SMALL BUSINESS FORUM

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100 F Street, N.E., Washington, D.C.
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P R O C E E D I N G S

INTRODUCTION

MR. GOMEZ: Hello, and welcome to the SEC's 42nd Annual Small Business Forum. My name is Sebastian Gomez, and I am part of the SEC's Small Business Advocacy Team. I am so glad you're joining us this week. This long-standing SEC event brings together small businesses, their investors, advisors and others who care deeply about the importance of small businesses to innovation in our economy. Among those registered, more than one-third identified as founders, entrepreneurs, and business leaders, while another one-third identified themselves as investors.

Among them, over twenty percent are individuals who own or invest in women-owned businesses. More than twenty five percent are individuals who own or invest in minority-owned businesses. And more than fifteen percent are individuals who own or invest in businesses located in rural areas. Over the next four days, you will hear from thought leaders with in-depth knowledge of the issues facing small businesses and their investors.

Today, we will focus on the landscape for early-stage companies including trends and strategies in capital raising. Tomorrow, we will hear about building

1 vibrant entrepreneurial ecosystems to support
2 entrepreneurs and their investors. On Wednesday, we
3 will turn to the successes and challenges facing smaller
4 funds that play such an important role investing in a
5 wide array of small businesses.

6 Thursday, we will close the forum with a focus
7 on the public markets with a conversation about becoming
8 and staying a public reporting company. I am hoping
9 that you, in our audience, will jump in and engage with
10 us this week. Please chime in with questions and
11 comments in the chat. For those of you who already
12 share policy recommendations, thank you.

13 If you have not shared your policy ideas with
14 us, there's still time. Please send us those ideas at
15 smallbusiness@SEC.gov. Finally, I hope you stay through
16 the end of each day to help shape the policy that
17 impacts access to capital for small businesses and their
18 investors. Each day, we will conclude by asking you to
19 vote to prioritize the recommendations that we have
20 received from the public. This will determine the
21 recommendations that are sent to Congress and the
22 Commission in their report from the forum.

23 Before turning it over to Amy, I want to
24 provide the standard SEC disclaimer for all of us at the
25 SEC staff that will be participating this week. The

1 views we express are our own, and may not represent the
2 views of others, the Commissioners, or the Commission.
3 I also want to extend a big thank you to our panelists
4 for sharing their insights with us, to our SEC Chair and
5 Commissioners for their support, and to the Small
6 Business Advocacy Team for their unwavering and tireless
7 work for small businesses and their investors.

8 You will meet many of our team members
9 throughout the week. It definitely takes a village to
10 put together an event like this, and a lot of work
11 happened behind the scenes. Especially, I want to thank
12 and recognize Amy, Kim and Lizzie who have worked around
13 the clock to make this event happen. Without anything
14 further, Amy, I turn it over to you.

15 MS. REISCHAUER: Thanks, Sebastian, for those
16 kind words. I am happy to help kick off the 2023 Small
17 Business Forum. We have a great line-up of panel
18 discussions focusing on various stages and perspectives
19 on capital raising for small businesses. And I'd love
20 hearing about some of the perspectives that some of our
21 audience members bring. So thank you for sharing those
22 data points, Sebastian.

23 I am looking forward to MC-ing today's opening
24 session on exploring early-stage landscape and we should
25 hear quite a bit about capital raising trends and

1 strategies today. We are also pleased to have each of
2 our SEC Commissioners participating in the forum this
3 week. And each day, we'll start with opening remarks
4 from a different Commissioner. To start off this
5 afternoon, I would like to welcome Chair Gary Gensler to
6 the screen. Chair Gensler.

7 MR. GENSLER: It's so good to be with you,
8 thank you, Amy. And do you want me to give a few
9 comments, or, great here we are. Look, I want to
10 welcome everybody to the 42nd Annual Small Business
11 Capital Forum. As you already heard, I need to note,
12 that my views are my own, and I'm not speaking on behalf
13 of the Commission or SEC staff.

14 I'm a son and a grandson of small business
15 owners. My grandparents on one side opened and ran a
16 grocery store, on the other side, well, it was a bar.
17 Both in Baltimore. My dad, Sam Gensler, started a small
18 business repairing vending machines that grew into a
19 small vending machine business. I don't think he ever
20 had more than forty employees, but it covered and served
21 hundreds of other small businesses in the process, such
22 as small diners and bars.

23 In this sense, my family's business was part
24 of a larger community of small businesses whose owners
25 were as diverse as the city of Baltimore. The SEC's

1 Office of the Advocate of Small Business Capital
2 Formation serves an important role at the Commission.
3 It represents America's small businesses like so many
4 families across America. Entrepreneurs and small
5 businesses are integral to our capital markets.

6 Over the last 25 years alone, small businesses
7 have created two out of every three jobs in America.
8 They account for a substantial amount of goods, services
9 and innovation. And even though public companies listed
10 on the stock market may dominate the daily news cycle,
11 more than ninety-nine percent of U.S. businesses are
12 small businesses. Their employees make up nearly half
13 of the work force. But you knew all these statistics
14 already. You know because you help grow small
15 businesses and sometimes you migrate from borrowing in
16 the bank market to capital markets.

17 Having that breadth and depth in our markets
18 facilitates capital formation. Sometimes you also
19 migrate from the bank markets to the private funds
20 markets, have them invest in your companies, whether
21 venture capitalists or otherwise. Or even extending
22 credit. That's why, consistent with our mission, our
23 congressional mandate, we are working to make them as
24 efficient as possible. Those markets in the middle that
25 ensure that they're as efficient as possible. Whether

1 it's for lending, or whether it's for equity, when you
2 tap those markets.

3 At the SEC, our job is to serve investors
4 building for a better future, but also for companies of
5 every size raising money to fund innovation. And we do
6 that by helping to work to make our markets more
7 efficient, competitive, transparent, fair and worthy of
8 the public's trust. And it's effectively that the
9 markets work for you, rather than you working for the
10 markets. And many of the projects that we're working on
11 every day are focused on increasing the efficiency,
12 integrity and resiliency of the markets to lower costs
13 to you, as businesses raising capital, but also increase
14 returns to investors.

15 As you discuss the various topics this week
16 from early-stage landscape and building entrepreneurial
17 ecosystems, to investing in small businesses, accessing
18 the public markets, please let us know your ideas and
19 policy recommendations. We greatly benefit from your
20 perspective, and this forum will inform a report that
21 will end up going to Congress. So rather important.
22 Further, your perspective may help the Commission
23 consider policies that benefit America's small
24 businesses. Just like my dad and granddad, they may not
25 have tapped directly the capital markets, but those were

1 different days.

2 There are many more ways to tap into the
3 capital markets these days than my family had. I'll now
4 turn it back to Amy, and I thank you so much, and I
5 certainly want to thank everybody that put this all
6 together.

7 MS. REISCHAUER: Thank you, Chair Gensler. We
8 appreciate your remarks. And it's particularly great to
9 hear about your and your family's own personal
10 connections to small business. So we really appreciate
11 that, and thanks. Next up, it is my pleasure to welcome
12 Commissioner Hester Peirce to this year's forum.
13 Commission Peirce?

14 MS. PEIRCE: Good afternoon, thank you to the
15 Office of the Advocate for Small Business Capital
16 Formation for hosting the 42nd Annual Small Business
17 Forum, and to our panelists for participating. I'm
18 excited about this forum and today's discussion on
19 early-stage companies. My views, of course, are my own,
20 and not necessarily those of the SEC or my fellow
21 Commissioners. My most recent visit to Ohio took place
22 during the height of ramp season. Ramps are an edible,
23 wild vegetable. They grow spontaneously in large
24 patches on forest floors.

25 During the short growing season, ramp

1 aficionados spread out across forest hillsides to forage
2 as the plant's onion-y smell wafts about them and makes
3 their mouths water for the meal ahead. As with all
4 things, ramps make me think about the capital markets.
5 Unlike the plentiful ramp patches that are there for the
6 sustainable picking, an early-stage entrepreneur in need
7 of funds rarely finds plentiful patches of capital
8 waiting for her to harvest.

9 Foraging for capital can be a discouraging,
10 time-consuming task with little to show for all the
11 work. The forum offers us an opportunity to hear
12 directly from founders, investors and other members of
13 the public about ways we can improve the capital options
14 for small businesses. This panel with its focus on the
15 early-stage landscape is particularly important. Early-
16 stage entrepreneurs often abandon a stable job to take
17 on the risks of starting a new business that will meet a
18 need that others in their community have.

19 With a disrupter's mindset, they are ready to
20 take on the many challenges of getting their companies
21 off the ground. Sometimes they fail, and often they
22 pick themselves up, dust themselves off and start a new
23 business. Such resilient, optimistic, problem-solving
24 people are essential to society. The least that the
25 rest of us can do, is offer early-stage entrepreneurs a

1 regulatory structure that gives them a fighting chance.

2 Too often, however, the needs of these
3 fledgling companies get lost in the press of other
4 business at the SEC, or worse, the early-stage landscape
5 suffers under the regulatory misconception that it's a
6 bastion of fraud. Regulators who think that failure is
7 synonymous with fraud might not be eager to facilitate
8 early-stage capital formation. A more accurate picture
9 of the landscape can help form the basis for good
10 policy. Good policy enables a wide range of investors
11 to participate safely in the growth of early-stage
12 companies. An educated, informed, inquisitive investor
13 with realistic expectations, an appropriate mix of
14 optimism and skepticism, and a properly diversified
15 portfolio of investments can participate safely in
16 early-stage investing.

17 The ranks of investors willing to commit time
18 and capital to new companies are thin, and I hope this
19 panel will help elucidate why. Is the uneven geographic
20 distribution of patches of capital, a problem documented
21 by the 2022 Small Business Advocate Report, a concern to
22 panelists? And how did the panelists, or the businesses
23 with which they work, find their first investors? As
24 this year's Small Business Advocate Report also noted,
25 individuals with a mentor are five times more likely to

1 plan to start a business than those without one.

2 Do the panelists find that having local
3 investors facilitates continuing mentorship as founders
4 go on and build their businesses? Regulation can
5 prevent patches of capital from growing in places they
6 otherwise might. Wealth and income measures largely
7 determine the eligible pool of accredited investors. I
8 emphatically object to telling Americans that a whole
9 sector of the economy is off limits, but measures short
10 of discarding the accredited investor paradigm probably
11 have broader appeal. For example, allowing investors
12 who had passed a sufficiently rigorous test, taken high
13 quality investing courses, or had relevant professional
14 degrees, would expand the accredited investor pool.

15 Other potential options include allowing
16 anyone to invest some percentage of her investment
17 portfolio in private companies, a technique already used
18 in the crowdfunding rules. And allowing people assisted
19 by a sophisticated financial intermediary to invest.
20 What would happen to capital availability in their
21 communities if the SEC raised the income and net worth
22 thresholds for inflation or otherwise narrowed the
23 accredited investor definition? What do panelists think
24 of expanding the accredited investor pool by adding new
25 measures of sophistication or pursuing one of the other

1 ideas I just mentioned?

2 In addition to amending our accredited
3 investor regime, we can take other steps to make it
4 easier for early-stage founders. What do panelists
5 think of a micro-offering exemption that would allow
6 companies to raise 250,000 or 500,000 without
7 registering with the SEC or the states? Now that more
8 companies are relying on crowdfunding, are there changes
9 that we should make to that regulation to make it an
10 even more practical solution for early-stage companies?
11 Or do panelists think that a sensible regulatory
12 framework for finders, for example, would be helpful in
13 matching investors with companies in their local
14 communities?

15 Thank you all for participating in this year's
16 Small Business Forum. Just as ramps do, the Forum comes
17 around every spring. Whereas the aroma of ramps, strong
18 as it is, doesn't linger, I hope that this week's
19 conversations will waft through the rest of the year and
20 spur our continued collaboration among policy makers,
21 entrepreneurs and investors. I look forward to the
22 discussion. Thank you.

23 MS. REISCHAUER: Thank you Commissioner Peirce
24 for those thoughtful remarks. And I look forward to
25 hearing more throughout the week on many of the issues

1 and questions that you've raised this afternoon.
2 Turning to today's focus, in a few minutes, I will turn
3 the mic over to Julie Davis, from our Small Business
4 Advocacy Team, who will be moderating today's panel
5 discussion.

6 But before I do that, I'd like to take a
7 minute to learn a little bit more about those of you
8 joining us today. So below me on the platform, you'll
9 see a few polling questions, we'd love to have you weigh
10 in on for us. While you're doing that, I will put in
11 another plug for the chat box. You should see that on
12 the right-hand side of your screen. If you don't see it
13 there, it may show up as an icon just below me. As
14 Sebastian noted, please feel to drop in questions or
15 comments for us or for the panelists and we'll do our
16 best to get to as many of those as possible at the end
17 of our discussion today.

18 Finally, I will echo Sebastian's thanks for
19 the policy recommendations that we've received so far.
20 If you have additional policy recommendations to submit,
21 you can email them, as Sebastian mentioned, or feel free
22 to just drop them in the chat if that's easier for you.
23 At the end of today's session, we will open up voting on
24 those recommendations. You'll find that voting in the
25 same window below where the polling questions are now.

1 I also want to note for you that we will re-open the
2 policy recommendation voting at the end of each day's
3 sessions.

4 So if you're unable to vote one day, at the
5 end of a later day's session, you'll be able to click on
6 the agenda tab on the left-hand side of your screen
7 right now. Select the day that you want, and then you
8 can access that voting window there as well. So there's
9 a lot of house keeping details, but I think we've got
10 those covered.

11 I am thrilled to welcome my colleague, Julie
12 Davis to the screen to introduce today's fabulous panel.
13 Panel One: Exploring the Early-Stage Landscape: Trends
14 and Strategies in Capital Raising

15 MS. DAVIS: Thank you, Amy. I'm really excited
16 to jump into content with our three panelists today.
17 They have great experiences to share on how start-ups
18 access funding, and also on the challenges that so many
19 entrepreneurs encounter. So first we'll have join us,
20 is Jennifer Garcia. She is the chief operating officer
21 of the Latino Business Action Network. And she's
22 joining us from San Francisco.

23 MS. GARCIA: Hi.

24 MS. DAVIS: Next we'll have Edna Martinson,
25 she's the co-founder from Boddle Learning and she's here

1 with us from Tulsa, Oklahoma. And last, but certainly
2 not least, is Laura Simao with Lendistry, where she's
3 the head of Lendistry Capital Partners and Public-
4 Private Partnerships, and she's with us from New York
5 City. So welcome, and I think we should maybe start
6 with Jennifer and just introduce yourselves, a little
7 bit of your story, and give the audience a little flavor
8 of who you you.

9 MS. GARCIA: Sure. Well, thank you, it's such
10 a pleasure to be here with you and I look forward to
11 this discussion with the panelists here. So as
12 mentioned, I am Jennifer Garcia. I serve as the chief
13 operating officer for Latino Business Action Network,
14 also known as LBAN. We're a non-profit, we got started
15 about ten years ago by a latino professor at Stanford
16 University, by the name of Professor Jerry Porras. So
17 there was a founding group of individuals who really
18 wanted to leverage the best of Stanford Graduate School
19 of Business for latino entrepreneurs across the country.

20 We knew, or they knew, that entrepreneurship
21 builds wealth. It uplifts communities, and in the
22 process, it uplifts our entire country. So today, our
23 focus and our mission, is to advance latino
24 entrepreneurship. Stanford is our biggest partner, and
25 the way we go about achieving and making our mission a

1 reality is through three specific areas. The first is
2 research, the second is education and the third is
3 ecosystem development.

4 So briefly on those three things, on the
5 research side, we have the most comprehensive research
6 on latino entrepreneurs. We survey latino businesses on
7 an annual basis to understand what is the operating
8 environment, what are the contributions, what are the
9 challenges, and what are the opportunities for these
10 business owners. We survey over 10,000 businesses,
11 fifty percent of those businesses are white-owned
12 businesses so we have a benchmark and comparison group.

13 Then of course, that data gets produced into
14 an annual report. We also host a summit every year at
15 Stanford. And the focus of that is to really inform
16 policy, like what we're doing right here. How can the
17 findings that we get from our report inform policy on a
18 federal, state, local level. But also within private
19 institutions.

20 The second area of focus for us is education.
21 We run a business-scaling program at Stanford Graduate
22 School of Business, designed for latino entrepreneurs
23 who want to scale their company. It is a national
24 program, and we're industry agnostic. It is focused
25 entirely on scale, how you take your company from one

1 level to the next. The requirements for that, is that
2 you have to be a U.S.-based company, you have to be
3 latino owned, and you have to have either a million
4 dollars in annual revenue, or 500,000 in external
5 funding. So if there's any latinos or latina founders
6 in the audience, I welcome you to explore that
7 opportunity further.

8 And then our last area of focus as an
9 organization is ecosystem development. We start with
10 our alumni base, and today we have over a thousand
11 companies that have graduated from our scaling program.
12 We take our network of mentors, a network of capital
13 providers, corporate partners, and we ask ourselves,
14 what do we need to continuously do so that we are
15 fostering and empowering the ongoing growth of these
16 companies?

17 So, certainly there is a focus on accessing
18 capital, accessing contracts, both public and private
19 contracts, accessing resources and education, and then
20 accessing sophisticated networks. So there's a lot
21 there, and I'm sure I'll share a little bit more of our
22 work throughout the conversation.

23 MS. DAVIS: Well, we look forward to that.
24 Edna, will you go next?

25 MS. MARTINSON: Yeah, absolutely. So great to

1 be here with you all. My name is Edna Martinson, I am
2 the co-founder of Boddle Learning. And Boddle is a
3 gaming platform for education, focused on kindergarten
4 through sixth grade. And our main focus is helping
5 these elementary school students tackle learning gaps
6 and master skills through fun and interactive games. My
7 co-founder, who is also my husband, him and I are really
8 passionate about that intersection of games and
9 education, and how games can really be used to inspire
10 kids to love learning. Giving that spirit of trying
11 again, and not having that fear of failure as well. And
12 we've seen it really impact lots of kids in the
13 classroom to where it's increased their student
14 engagement and they're more engaged in their math and
15 English practice.

16 So we started February 2018, we started the
17 company on Valentine's Day. And it's been great to kind
18 of see the progress. We launched early 2020, which
19 happened to be perfect timing, given that the pandemic
20 was around the corner. And to date, we've served a
21 little over four million students around the country.
22 And excited to give students both in the class and
23 outside of the classroom a fun and engaging way to
24 learn.

25 MS. DAVIS: Fantastic. Well, as the parent of

1 two kids who were doing school from my dining room
2 during COVID, I very much appreciate online, anything
3 that made it fun. So that's wonderful. So, Laura.

4 MS. SIMAO: Yes, hi, good afternoon everybody.
5 Thanks again, Julie for inviting me for this very
6 consequential discussion. And thanks to Chairman
7 Gensler and Commissioner Peirce and my fellow panelists.
8 So I'm very excited to be here. So I'm Laura Simao, I
9 am the head of Lendistry Capital Partners, and Public-
10 Private Partnerships. And just a little bit about
11 Lendistry. Lendistry is a community development
12 financial institution, or CDFI for short. But the
13 easier way to think of us, is really, we're a community-
14 based, mission-driven lender and asset allocator. Since
15 starting in 2015, we've deployed over 9 billion dollars
16 in capital, both across small business loans and grant
17 programs that we manage for different states,
18 municipalities and counties across the country.

19 84 percent of that 9 billion or so in capital
20 deployed has gone to minority communities. So we're a
21 firm believer of getting the capital where it needs to
22 flow. And I'll talk more about that as we progress in
23 our conversation. In terms of how to think about our
24 sort of overarching philosophy in terms of access to
25 capital, and I think it's particularly relevant to this

1 discussion, is what I like to call the trifecta of
2 capital. Which is, capital, commerce, and capacity. So
3 every time I talk to entrepreneurs or I have an
4 opportunity like this one to speak about access to
5 capital for undercapitalized entrepreneurs, I always
6 like to bring these three elements, because I think the
7 three of them are very relevant to the discussion.

8 So thinking in terms of capital, the right
9 type of capital, and I know Julie, you have some
10 questions for us on that, and we'll talk more about
11 that. But capital alone is not enough, right? You have
12 to think about commerce. How do you help small
13 businesses access procurement opportunities as my fellow
14 panelist Jennifer was referring to, and how do you help
15 expand commerce for small businesses so that they can
16 generate more revenues? I'm a big believer of that.

17 And then the third is capacity. We have a
18 strategic partner to our company called the Center by
19 Lendistry. It's a non-profit organization that provides
20 capacity, or so-called technical assistance, culturally
21 competent business education to small business owners.
22 So I would love to talk more about these items as we go
23 along in the conversation. Very excited to see the
24 public and private sector come together like today. So
25 very excited for the conversation. Thank you.

1 MS. DAVIS: Outstanding. Well, clearly this
2 panel brings a breadth of experience that encompasses
3 quite a range in the types of early-stage companies that
4 are out there. And geographically, we literally span
5 across the continental U.S., from San Francisco through
6 Tulsa to New York. So I encourage everyone listening in
7 today, to drop your questions and comments for these
8 great panelists in the chat. And we'll be sure that we
9 have time for questions at the end.

10 I want to kick off our questions today with
11 the big overarching question that I think is on
12 everybody's mind this week during the Forum, which is,
13 how do early-stage companies get the funding they need?
14 While the mission of the SEC, as the Securities and
15 Exchange Commission, of course, we're focused on
16 securities, which is getting capital from investors.
17 But just six percent of companies actually raise capital
18 from investors. So we really thought it was important
19 to set the stage by noting that investment capital is
20 just a sliver of the overall funding picture, and it's
21 good to see what else is out there.

22 Jennifer, you've worked with hundreds of
23 early-stage companies and you work with data every day
24 it sounds like. So can you give a broad overview of the
25 various ways that you see different early-stage

1 companies access the funding they need?

2 MS. GARCIA: Yeah, absolutely. In the work
3 that we do at LBAN, we work both with traditional
4 businesses, meaning these are your larger, more
5 established companies, as well as tech or VC-backable
6 companies. I think in the theme of this topic, and the
7 six percent that you just referenced, it's important to
8 know that, for the different type of business models,
9 different types of companies, there's different types of
10 capital available. And it's important for a business
11 owner to understand what is the capital savannah, and
12 what's the appropriate type of capital for their
13 particular needs.

14 But what we're talking about in terms of
15 equity investments, those typically come from angel
16 investors, venture capitalists and others. And those
17 companies typically have a few things in common. One,
18 it means that they have a technology or a business model
19 that really has the potential to generate outsized
20 returns. Secondly, they have a market size that is
21 usually somewhere in the billions. And then thirdly,
22 they are expected to have an accelerated growth rate.
23 So if the company meets those three at minimum, they're
24 typically a viable candidate for investment or equity
25 capital.

1 And I think it's important to just look at
2 what the landscape looks like today from a data
3 perspective. This is actually data that comes from
4 PitchBook. This is their Q1 data, and it shows that the
5 deal value in 2023 Q1 fell to 3.3 billion. That's a
6 fifty-three percent decrease from a year prior, from
7 2022 Q1. Fifty-three percent decrease. So the data's
8 confirming what we already know, that there is a
9 tightening in capital, and that these early-stage
10 companies are not immune from that tightening. And then
11 if I look at it from my lens, which again, I serve the
12 latino community, so if I look at it from the latino
13 lens, our data shows that latinos are actually outpacing
14 in tech and VC-backable companies.

15 So what do I mean by that? We know that
16 there's over five million latino businesses, nineteen
17 percent of those businesses are VC-backable type
18 companies. Tech companies, VC-backable. And in
19 comparison, there's only fourteen percent of all white
20 owned businesses are in that same category of VC-
21 backable tech companies. So we know that we are
22 starting businesses and we're outpacing in this
23 particular category, but we also know that when it comes
24 to VC capital, only less than 2 percent of VC capital
25 goes to latino or black founders.

1 And so when you dig in a little bit further,
2 and you look at latinas, or you look at black women,
3 that already small percentage only gets smaller. Now,
4 if I look at the Crunchbase. So Crunchbase and Harlem
5 Capital, they do a report every year on black and latino
6 founders. They too have found that in 2022, this is
7 looking at last year's data, latino founders raised 69
8 percent less than the year prior, so 2022 versus 2021.
9 And black-led companies raised 43 percent less. All of
10 this is pointing again to what we're experiencing, to
11 what the headlines are saying, there's a tightening in
12 the market. But the challenge when there's a tightening
13 in the market, is that those that are going to
14 experience the impact most are going to be your diverse
15 communities and your diverse founders.

16 I was actually just reading a report this
17 morning, another article by PitchBook, and they were
18 talking about these microfunds and emerging fund
19 managers that are less than 50 million. They too are
20 experiencing this challenge in raising their second
21 fund. And a lot of these microfunds are funds that
22 serve diverse communities, or that invest in or have a
23 diverse focus. So again, in summary here, when we
24 thinking about the landscape of early stage companies,
25 as we experience a macro trend of tightening of capital,

1 the bigger challenge, those that are experiencing the
2 most negative impact in this is going to be the diverse
3 communities.

4 MS. DAVIS: I love that you raised that
5 article, we were just forwarding that within our team
6 this morning, so definitely, we're always in for all
7 this data, good and bad. And so, I guess speaking of
8 data, it's probably a good time to note the results from
9 our little informal poll that participants responded to
10 at the beginning. We asked whether folks had raised
11 capital using various methods, and forty six percent of
12 those who responded had raised capital from grants,
13 loans or other non-dilutive funding. And then, I love
14 this stat on how many had raised capital from investors,
15 including friends and family, investment crowdfunding,
16 angels, VC's, or Reg A, it was 81 percent of folks who
17 responded to our poll this morning. So that's
18 interesting to know about the audience, and I love that
19 we have so many engaged folks tuned in.

20 So, Laura, you have also worked with many
21 startups from a variety of vantage points. What trends
22 and recurring themes with respect to capital raising are
23 you seeing at Lendistry and in the broader market? And
24 I would also love for you to touch on whether there's
25 industries or certain types of businesses that seem to

1 have a more challenging time.

2 MS. SIMAO: Yeah, thank you. Well, first of
3 all, I want to say, what Jennifer said is really spot-
4 on, and it's something that I would love to emphasize at
5 the top of our conversation, which is this fact that we
6 have to kind of look beyond VC. We have to understand
7 the business model that you're in as an entrepreneur,
8 and whether or not you are VC-backable, right? So, I'm
9 a big proponent of sort of that thinking outside the box
10 and thinking about different options that you have
11 available.

12 As I like to say, when you're an early-stage
13 entrepreneur, and I'm sure Edna will have thoughts on
14 this too, is there's more than one way to define
15 success, in terms of your fundraising. And so if
16 there's one thing I would love for the audience to take
17 away from this, and those that watch the recording
18 later, is to understand who you are as an entrepreneur.
19 And I love the term that Jennifer used, the savannah of
20 capital, meaning there's a wide spectrum of capital
21 available. Just to give you an example, at Lendistry,
22 we offer a startup financing product for entrepreneurs.
23 So if you are an entrepreneur, if you're under two years
24 of age in operation as a company, you have anywhere
25 between 50k to a million dollars in revenue, we can

1 provide you with a business advisor that can help you
2 think through your business model and your business in
3 general.

4 And we can provide you with capital to
5 essentially kind of start your business as an early-
6 stage source of capital. In addition to that, and this
7 is actually something, that I would love for us to take
8 a step back a little bit, is to think about the good
9 news, right? Because we think a lot about what's wrong,
10 but I also want to maybe emphasize a little bit of the
11 zeitgeist that we're living through in this moment in
12 time. Because it kind of ties back to the topic of
13 public/private conversations such as the one we're
14 having today.

15 I think that we live in, we're living through,
16 a very unique point in time, where you have a confluence
17 of programs and trends that are actually trying to
18 divert more capital to where it needs to go. So just to
19 raise a few examples, things like the State Small
20 Business Credit Initiative out of Treasury, as you all
21 probably know, a portion of that is going towards equity
22 programs at the state level. So if you are an
23 entrepreneur, one of the things I would urge you to
24 explore is, are there any SSBCI, which is the State
25 Small Business Credit Initiative abbreviated, are there

1 any SSBCI equity programs or equity-like programs that I
2 could tap into in my state?

3 And then you have things like, recently the
4 SBA announcing the extension of SBLC, small business
5 lending companies, which essentially means that more
6 non-bank SBA lenders will exist, and that's good news
7 for startups, right? Because it allows them to talk to
8 lenders outside of the traditional banks that have
9 possibly tighter underwriting criteria.

10 And then, lastly, and it ties back to your
11 second point of your question, Julie, which is
12 industries that are facing more challenges, and
13 industries that are poised to grow. I would stay with
14 the positive and focus on industries that I think are
15 really poised to grow. I think Edna represents here one
16 of those industries, with what she's bringing to life
17 with her venture. You have a massive piece of
18 legislation in the Inflation Reduction Act, which has a
19 lot of capital geared towards climate programs, climate
20 change programs.

21 And I think that alone tells you this is a
22 generational type legislation that can really move the
23 needle, and allow diverse entrepreneurs to enter into
24 industries that are, to Jennifer's point, high growth,
25 VC-backable industries, like Greentech, and other types

1 of industries that are in the climate space. So again,
2 I want to emphasize, as a parting thought here, is this
3 notion of definition of success. And thinking outside
4 the box. You may think the only path for you is to
5 raise capital from a VC fund, and I would urge you to
6 think outside of the VC box and think about sources such
7 as mission-driven lenders. Lendistry is one of many
8 such lenders in the country.

9 The key is to really to look for an ethical
10 and responsible capital provider that can stay with you
11 for the long run.

12 MS. DAVIS: That's good advice. Edna, I loved
13 Laura's focus on the positive and tying that into you,
14 because I really do think you have a story that's a
15 positive one. So maybe before we get into your
16 observations on accessing funding, I think folks in the
17 audience might really enjoy hearing more of your story
18 as an entrepreneur. Would you share just a little bit
19 of the background behind starting your business and then
20 talk about how you funded Boddle's growth along the way?

21 MS. MARTINSON: Yeah, absolutely. So I had
22 mentioned earlier, my husband and I's passion between
23 that intersection of games and education. We were in
24 Kansas City at the time, and we actually had a lot
25 friends who are teachers. And we would hear this a lot

1 from teachers, I've got a classroom with twenty plus
2 kids, and the teachers' responsibility is to make sure
3 all the kids are on grade level when they pass their
4 grade and get to the next grade. But all the kids are
5 coming into their classroom, and are all on different
6 learning levels.

7 So it was hard for the teachers to facilitate
8 learning for students. You have a fourth grade student
9 who is still on a third or second grade math and reading
10 level, and they're completely disengaged in the
11 classroom. And so they're going to move up to fifth
12 grade even more disengaged and with tons of learning
13 gaps. And so we saw a real opportunity to use a medium
14 that we know kids love, which is gaming, and to do it in
15 a way that really helps teachers facilitate learning,
16 and meets states' standard requirements.

17 So we started piloting it in Kansas City to
18 start, and started exploring different accelerator
19 programs. I think a big one was an AT&T accelerator
20 program that really opened up our network to be more
21 national, and had us realize, wow, this isn't just a
22 Kansas City issue, really it's a national issue.

23 And I know every two years, the National
24 Report Card comes out, and that's where we can really
25 see the impact that learning gaps are having in the

1 classroom, and how students of color are
2 disproportionately affected as well by these learning
3 gaps. And so we knew that there was a real pain point
4 there, both in the classroom and outside the classroom.
5 And once COVID happened, that's when we really saw our
6 usage accelerate. Because not only are we meeting a
7 need, in a classroom setting, but when the kids still
8 need to get through classroom work outside in remote
9 settings, this was a tool that they could easily use.

10 MS. DAVIS: Fantastic. Can you tell us a
11 little bit about your funding path?

12 MS. MARTINSON: Yeah. So, I like that you
13 polled everyone to see how folks have generated capital
14 so far, and you'd mentioned people going through grants
15 and non-dilutive, that was a lot of our early journey
16 when we first launched the company. It was, how many
17 pitch competitions could we attend, and what funding
18 could we find there? And so, in Kansas City, they had
19 LaunchKC, which is a city-wide initiative for a \$50,000
20 grant, and that was a big one that really helped us kick
21 off development.

22 We applied to, I mentioned the AT&T Aspire
23 Accelerator, that was equity-based actually, because
24 there was a convertible note attached to the funding.
25 But after, it was lots of grants, accelerator programs,

1 and then in 2020, that was the first time we got our
2 first VC check in, which was from Atento Capital in
3 Tulsa. And that was a big learning experience for me,
4 having not gotten any VC funding to date. And so just
5 navigating that, and learning a lot about that funding
6 landscape. Learning a lot about the national ecosystem,
7 players in the VC space, and I found a lot of success
8 with firms that, one, were really intentional about
9 funding founders of color and women founders, and those
10 that are also focused on social impact. Because we're a
11 very mission-driven company.

12 And so we knew we had something that could
13 bring really big returns, and also have this big social
14 impact lens to it as well. So that's where we kind of
15 found our good market for VC.

16 MS. DAVIS: Excellent, so you started to
17 mention that in the beginning, this was new to you, and
18 some of the resources that you might need to enter into
19 the kind of complex language of capital raising. You
20 have an MBA, and clearly, lots of experience and
21 knowledge, but I have to say, our office hears from a
22 lot of entrepreneurs like you, even those who have been
23 successful at finding investors, that the terminology
24 surrounding capital raising is confusing, complex, and
25 the language is not something that's familiar, even to

1 the most savvy business person. It's not the thing
2 they're doing every day, they're not out raising
3 capital, they're building their business. So can you
4 talk a little bit about what it was like navigating
5 those complex waters in the beginning?

6 MS. MARTINSON: Oh yeah. It was definitely a
7 challenge. And it's so easy for somebody to say, go
8 read this book, Venture Deals, and you'll know
9 everything you need to know about VC, but it's a lot
10 harder when you're in it, and you just wish somebody
11 could look at this term sheet that I've been given, and
12 I've never got a term sheet in my whole life, and
13 somebody explain line to line. But also, I don't have
14 money to just hire a lawyer, because I'm trying to get
15 the money. And so that was definitely a challenge, lots
16 of Googling and trying to talk to other founders as
17 well.

18 And eventually, we did have a really awesome
19 lawyer that kind of walked us through things. But I
20 think there was definitely, especially at that point,
21 we'd done so many accelerator programs, but a lot of
22 them kind of walked us through, this is how you create a
23 pitch deck, and this is how you pitch to investors. But
24 for us, and maybe they are out there, but for us, what
25 was missing was something that just walked us through,

1 okay, you are going into that space of getting venture
2 capital dollars. This is the terminology, this is what
3 this means for your valuation, and how much equity
4 you're giving up. This is all the terms on the term
5 sheet and what they mean. That would have been really
6 valuable at the time.

7 MS. DAVIS: Well, I just have to take this
8 opportunity, because, I'm going to put in a little plug
9 for the resources we put out there, because we hear from
10 a lot of folks like you. We have a capital raising hub,
11 and I'm hoping Sarah can drop a link to it in the chat.
12 But it's got a glossary with terms like dilution, angel
13 investor, common stock, preferred stock, general
14 solicitation. Lots of different terminologies. The
15 list is long, but we're always adding to it. And then
16 we also having building blocks on that same page that
17 are kind of one-pagers on the different pathways that
18 are available, what's the role of accredited investors,
19 different types of investors.

20 So more for folks at home, take a look at
21 that, because we hear from a lot of folks on resources
22 that would have been helpful, if only I'd known. Or I
23 would have loved to have known this before I started.
24 So take a look, and I also encourage folks to the extent
25 you get on that page and look around and, oh, there's a

1 term you're missing or this is the thing I didn't know,
2 but I don't see it on your website. We're constantly
3 adding to those resources, so just email us, or even
4 drop a link in the chat today.

5 Laura and Jennifer, back to you guys. Are
6 there resources you point entrepreneurs to or that you
7 wish existed?

8 MS. SIMAO: Yes, I'll just be quick. I was
9 hearing what Edna was saying, I was smiling, because
10 it's the story we hear a lot, I just got this terms
11 sheet, can somebody just break this down? Just break
12 this down, what does this mean to me? Yes, so we do
13 have resources available to entrepreneurs. And
14 typically, what I like to do is point them out to our,
15 as I mentioned, our non-profit partners, strategic
16 partner, the Center by Lendistry. We have business
17 advisors, you can be paired with a one-on-one business
18 advisor. And then the next time you get a term sheet,
19 although now I'm sure you know it backwards, but feel
20 free to give us a call and we'll walk you through it.

21 And so I would say, all kidding aside, looking
22 for those types of resources that are intentional, and
23 dedicated to supporting women entrepreneurs,
24 undercapitalized entrepreneurs, minority entrepreneurs,
25 I think is important. Also, looking for the sort of

1 culturally competent type advice. In other words, I
2 remember in my previous role, I was working to
3 facilitate access to capital, but at the same time, also
4 technical assistance to entrepreneurs. And what we
5 realized is, wait, there are fourteen different
6 languages spoken in the City of Los Angeles. How are we
7 going to be able to speak with everyone? We've got to
8 translate this into every single possible language that
9 we can.

10 Just little things like that, that can really
11 help get the message to the people that need it the
12 most. And then the last thing I would say, one thing
13 Edna mentioned that I would be remiss if I didn't
14 mention is, the grants. So having the ability to find
15 programs that you can access as an early-stage
16 entrepreneur, grant programs. And that's something that
17 we are very proud of managing for several different
18 states, state of New York, Colorado, et cetera.

19 I think that is an actual very viable and
20 significant source of capital for entrepreneurs that
21 they should definitely look for those. And I would say,
22 looking for SBDCs, or Small Business Development Centers
23 in your jurisdiction, it's a huge, huge step that you
24 can take. So SBDCs, they have chapters all over the
25 country. And we work with dozens and dozens of them,

1 and I would say they've been instrumental in helping us
2 get grant capital for early-stage companies.

3 So public sector capital that's flowing to
4 early-stage companies. SBDCs have been instrumental in
5 helping us get the capital to those entrepreneurs.
6 Diverse, women entrepreneurs. So those would be my two
7 pieces of advice.

8 MS. DAVIS: That's really good advice. And I
9 want to stick with you Laura, if that's okay. Edna
10 mentioned that some of Boddle's first investors were VC
11 funds that had kind of a similar stated focus to some of
12 the goals you're laying out of investing in women and
13 minority founders. We've heard a lot of talk over the
14 last few years about investors wanting to boost their
15 investments in underrepresented founders, but as
16 Jennifer, and you've all pointed out today, the data
17 still shows women and minority founders' share of VC
18 funding really remains minuscule compared to the overall
19 amount of capital raised.

20 So we talk about these challenges, and that's
21 a very important first step, but we'd love to hear your
22 thoughts, Laura, on how we can shift that conversation
23 more into direct action, to materially improve capital
24 access for women and minority entrepreneurs.

25 MS. SIMAO: Yeah, no, that's a great question.

1 Let's get ready, let's expand this Forum by another two
2 hours.

3 MS. DAVIS: We can spend all day.

4 MS. SIMAO: We can talk all day about this.

5 No, no, but I mean, there's a few things. So one topic
6 that was mentioned by Commissioner Peirce about
7 accredited investor definition, I know we might touch on
8 that later, I think that's a significant conversation
9 that touches on this challenge, Julie. I also think,
10 again, going back to my earlier point is this notion
11 that we ought to look for the funding gaps. Where are
12 the gaps? Because VC capital is not right for everyone.

13 And when that is the case, there is a gap,
14 right? There is a capital gap that needs to be filled
15 by another capital source. And I think that's where I
16 find the most interesting playground for us to come in
17 and understand how can we play a role in filling that
18 gap. When I think about the conversation of access to
19 capital for minorities or entrepreneurs of color, women
20 entrepreneurs, I always tie it back to wealth creation.
21 Because when you are an entrepreneur in your early
22 stage, assuming you're not VC-backable, you really are
23 best served by keeping ownership of your company, from a
24 wealth creation standpoint.

25 So I really urge entrepreneurs in the

1 audience, and beyond, to really think about the right
2 type of capital. I know that sounds over-simplistic,
3 but really take a hard look at your business model, and
4 look at the three aspects that Jennifer was just
5 describing, and understand, am I really going after VC
6 capital here? Or am I better served going after grants,
7 or am I better served trying to find an SSBCI supported
8 program in my city, or am I better served to find some
9 other type of equity like tight financing?

10 One of the things that we're seeing, many
11 ethical players coming to the table to start exploring,
12 is this notion of developing equity-like products like
13 revenue-based financing, purchase order financing. In
14 other words, financing that is again, long-term growth
15 capital. So it's capital that's going to stay with you,
16 it's patient capital, and it's flexible. As an example,
17 for revenue-based financing, you only pay if you make
18 revenues. If you don't make revenues, you don't pay.
19 So, because again, capital like that, as I mentioned, is
20 patient, is flexible, it's non-dilutive, which again,
21 plays back to the wealth creation aspect.

22 I have this sort of hypothetical that I come
23 up with as an example, but it really illustrates
24 situations that we see all over the place with
25 entrepreneurs, is you have this woman entrepreneur,

1 she's starting her company, it's about two years old.
2 She's about to be able to get into a contract with a
3 large retailer, but she has to raise capital to deliver
4 on that order and that inventory. And then she's asset
5 light, right? She doesn't have a lot that she can put
6 out as collateral. And her only alternative, or so she
7 believes, because she hasn't seen this Forum, is that
8 her only option is to go ahead and raise equity capital
9 and sell a piece of her company at a valuation that
10 values her pre-large contract with large retailer.

11 And so right there and then, this entrepreneur
12 left wealth on the table, quite literally, because she
13 had to give up a piece of her company in order to raise
14 capital to fulfill that order. So that's the kind of
15 stuff that we at Lendistry Capital Partners, we've been
16 trying to play with in our heads. How can we create a
17 product that's ethical, responsible and that fulfilled
18 these gaps? Where it's not quite VC that's going to do
19 the trick, it's not traditional that's going to do the
20 trick, what can we come up with that's in-between, a
21 hybrid that can solve the problem, the capital problem
22 for that entrepreneur.

23 MS. DAVIS: Well, that is a very worthy
24 search, and keep it up. Because we hear a lot about
25 those gaps. Jennifer, can you drill down on this

1 question and tell us what you're seeing for latino
2 businesses and what more might be able to be done to
3 improve access to capital for them?

4 MS. GARCIA: You know, when I think about
5 access to capital, I really distill that back to access.
6 Just access. Specifically, when we're talking about
7 diverse communities, this is exactly what I was
8 describing. I need access to people who understand, how
9 do you synthesize a terms sheet, how do I connect with
10 VCs that are not my neighbor, didn't go to the same
11 schools that I went to? How do we get access to
12 founders that are across the country, that come from
13 diverse communities?

14 I'll tell you a quick story. Just last week,
15 I was at a conference here at Stanford. It was their
16 Building Momentum Conference. And one of the panelists
17 spoke about his journey. He was a Stanford GSB alum,
18 third-time founder. And he talked about his journey of
19 failing, of raising capital, of being successful, of
20 having his company acquired. And as he shared his
21 journey, he probably dropped the name Stanford, I don't
22 know, maybe ten times. And what I took from that, is
23 that there was such value in his experience, because he
24 met people, he got connected to people, got connected to
25 Silicon Valley capital. But not everybody has that

1 access or that ability to be part of those networks.

2 So when I think about the role that LBAN
3 plays, and the role that so many other networks and
4 organizations play, is bringing access to founders, to
5 business owners across the country. So what does that
6 look like for us? We're saying, how do we bring access
7 to what Stanford offers to the content and the
8 professors at Stanford, to business owners across the
9 country. So that they could learn, in a safe
10 environment, before they have to make critical decisions
11 on evaluating the term sheet. How do we connect capital
12 providers and VCs and angel networks to business owners,
13 not necessarily in the Bay Area, but in Tulsa, Oklahoma
14 or anywhere else across the country? Exactly what Laura
15 was describing, all of these different funding vehicles.

16 If we don't know about them, then we go back
17 and we default to our traditional, I didn't get accepted
18 at a national bank, so what's my option now? I really
19 do believe it's all about access. And what I'd like to
20 pose, is that we all have access, right? As an
21 organization leader, I have access that I can offer and
22 extend to other people. Founders and business owners,
23 you have access, purely through your own experience, but
24 also through the network that you've built up. And so
25 my kind of motto recently is, how do we extend access to

1 each other? The access that I hold, how do I open that
2 up, and give access to other people, other communities
3 that don't have the same inherent access?

4 And then the second thing, in terms of how do
5 we improve access to capital. I really do believe it's
6 part of this bigger picture of scaffolding. How do we
7 enable diverse communities and diverse founders to take
8 healthy risks, to fail, to get back up, jump again, and
9 know that they can step out and be bold because they
10 have the entire scaffolding that's going to protect
11 them. So that they have the networks, they have the
12 mentors, they have strategic partners, they have capital
13 providers that are going to say, you really had some
14 great learning and I believe you're the right person to
15 do it again.

16 And so thinking about how we partner with
17 public and private institutions to create an ecosystem
18 that's going to support founders in their long-term
19 journey, not just in their first two-year stint. But
20 really support this market that is crucial to our
21 innovation, the market that is solving some of the
22 biggest problems that we see today.

23 MS. DAVIS: That's fantastic. And you're
24 talking about ecosystems, I'd love to get a little bit
25 from Edna on Tulsa, has really, a lot to be proud of

1 right now in terms of building its ecosystem. Can you
2 talk a little bit about why you moved there and what you
3 found?

4 MS. MARTINSON: Yeah, absolutely. I loved
5 Jennifer's point on how ecosystems can really wrap
6 themselves around entrepreneurs, because that's really
7 what we found in Tulsa. So, our first VC check was from
8 Atento Capital and they're located in Tulsa, Oklahoma.
9 Along with investing in us, they were like, you should
10 really move down here, build a company here. At the
11 time, we were in Kansas City. I'd never been to Tulsa,
12 it was also the middle of the pandemic. So everywhere
13 in America was shut down, and so there wasn't much going
14 on in Tulsa.

15 But we decided to go visit, and we just heard
16 so much about all of these ecosystem initiatives that
17 were in the works. Not launched yet, but in the works.
18 And I think we really believed in the vision of what
19 Tulsa could be. And now we are almost three years in to
20 living here, and it's been incredible. I think having
21 those ecosystem players who are there to support
22 entrepreneurs from every single stage. We have Tulsa
23 Idea Challenge and Builders and Backers, where it's
24 like, okay, I have this idea, I haven't launched
25 anything off the ground, how do I properly navigate

1 that? Having the resources around that. And then when
2 you finally launch, having the resources around finding
3 your first customers, all the way to, okay, maybe you
4 are not going down the VC route, but how do we have
5 support around small businesses that can grow through
6 other funding methods?

7 And then if you are going down the VC route,
8 there are incredible VC firms here that have supported
9 us. It felt like we moved, Tulsa's a lot smaller than
10 Kansas City, so there was that worry of, we're moving to
11 a smaller city. But truly, it feels like moving here
12 just opened up our network considerably. And we have
13 now raised five million dollars and it's been great
14 because the support wasn't just the money, but having
15 just the complete support around, okay, now you're
16 building a team. You're scaling, what does that look
17 like? How do you have the proper support around you?
18 And Tulsa's been a great ecosystem for that. I sound
19 like a Tulsa commercial, but it really is great, you
20 all.

21 MS. DAVIS: I've talked to a lot of folks who
22 sound like a Tulsa commercial, so I understand that. So
23 I want to make sure we have time to get to the Q and A
24 from the audience. But real quick, I know we always get
25 a lot of questions on accredited investor definitions.

1 So I just wanted to quickly move into that, as you may
2 know, the Commission's rule-making agenda includes
3 looking at potential amendments to those who qualify as
4 accredited investors. And this is the definition that
5 is essentially the principal test for determining who is
6 eligible based on their income or net worth to invest in
7 private companies.

8 So for any who wants a plain language cheat
9 sheet on the accredited investor definition, we have one
10 of those building blocks I mentioned earlier that
11 provides that. So the perennial policy debate on this
12 topic is that on the one hand, there's those who
13 advocate that you should increase the definition's
14 income and net worth thresholds and it should be harder
15 to meet. And I think this was something Commissioner
16 Peirce was saying she's opposed to, that it'd be harder
17 to meet, so that the risk of loss would be reduced to
18 those who can best afford it.

19 But then, on the other hand, there are lots
20 who argue that wealth is not a good proxy for
21 sophistication and because of the racial wealth gap, the
22 definition has a disproportionately negative impact on
23 investors and founders of color. And therefore, it
24 shouldn't determine who can and can't participate in
25 these investments. So some in those camp would like the

1 SEC to, at the least, leave those thresholds where they
2 are. And maybe even actually expand the pool of
3 eligible, accredited investors by adding alternative
4 ways to demonstrate sophistication in order to qualify
5 as accredited.

6 So, for example, things that have been
7 mentioned, like a test that anyone can take to qualify.
8 So, we'd love to hear the panel's thoughts on this
9 definition. Going back to you, Jennifer, what impact
10 might changes to the definition have on the latino-owned
11 businesses and angel investors that you work with? For
12 anyone, are there changes that might improve access to
13 capital?

14 MS. GARCIA: Yeah, so maybe I'll start by
15 sharing the role that angel investors play for early-
16 stage companies.

17 MS. DAVIS: That'd be great.

18 MS. GARCIA: And why I think any policy
19 recommendation really needs to consider the impact to
20 the founders in general and maybe even a special lens
21 towards diverse founders. So when markets tighten, as
22 we're seeing today, capital is tightening, capital
23 typically flows to what is perceived. I'll emphasize
24 that, what is perceived as less risky. Those companies
25 or those founders that have a track record, second-time

1 founder, third-time founder, those with elite networks,
2 because that's your safe zone. It comes with some
3 inferred credibility.

4 So typically, we see capital flowing to those
5 areas. But the Angel Capital Association, and this is
6 an association of a bunch of different angel networks,
7 they put out a report. And I really loved this
8 statistic that they found, is that angel investors
9 consistently back new CEOs. Seventy-one percent of
10 their investments were in first-time CEOs. Seventy-one
11 percent of their investments. And when you look at
12 specifically for latinos, their report showed that on
13 average, their initial investment is trending upward.
14 In 2020, their average initial investment was 132,000.
15 In 2021, it was 416,000. That's a huge part of a cap
16 table, when you're talking about this early-stage, pre-
17 seed, friends and family round.

18 Angel investors, they play an important role
19 there, because they're bringing this access to capital.
20 It's arguably more important for diverse founders, and
21 why is that? Because when you're in this friends and
22 family, if latinos are a reflection of my family, we
23 don't have the tios and tias, the aunts and uncles that
24 are going to fund me a couple hundred thousand, right?
25 They don't have the sophisticated networks that are

1 going to introduce them to the VC that's just going to
2 write them that million dollar check, because we went to
3 the same school, and I just really believe in what
4 you've got. We just don't have that network. And so
5 angel investors really do play an important role for
6 these early-stage founders. I'll pause there and see if
7 anybody else wants to add to that.

8 MS. SIMAO: Yeah, I agree with everything you
9 said, Jennifer. I certainly think that increasing the
10 bar for net worth, it would hurt probably the most
11 vulnerable of entrepreneurs out there. If you just
12 think about the statistics around, for example, black
13 Americans, right? So only about 1-2 percent of the 40
14 million black Americans are currently considered
15 accredited investors. So if you think about Jennifer's
16 point about how you invest in people that are like you,
17 in the same demographics group, you are by definition,
18 going to inadvertently sort of pull away capital from
19 the more diverse families.

20 I also think, and I keep going back to the
21 same point, because it's so important, is also the
22 ability to be an accredited investor is important to
23 understand the impact on diverse founders. That's
24 absolutely the case. But also the impact on the
25 families that want to become investors. Investing in

1 early-stage companies that you believe in is a major
2 source of wealth generation. So I think focusing on
3 sort of one metric for accredited investors such as net
4 worth, is sort of a bit in my mind, too narrow-minded.
5 I would argue to what Commissioner Peirce mentioned in
6 the beginning, is sort of thinking about expanding,
7 infusing different metrics of financial sophistication.
8 So I am definitely for expanding the definition.

9 MS. DAVIS: Great.

10 MS. MARTINSON: Can I add one last thing to
11 that? Just to kind of put it into perspective, there's
12 a founder I know who, her main business is she has
13 products for curly hair, black girls. And she's talked
14 about how she's talked to several investors, and
15 sometimes in the room, they're like, is there really a
16 market for this? But when she talks to black investors,
17 of course, they know, they're like, this is incredible.
18 And so it does show that if you increase, or you base it
19 off the wealth, it will have an effect on entrepreneurs
20 who can have a huge impact if they receive the capital
21 that they need but won't be able to if that's the
22 criteria for angel investors.

23 MS. DAVIS: This is so great. And we had more
24 questions planned and almost everything, everyone said I
25 thought, oh, I want to add this, but I want to make sure

1 that we get to audience Q and A. So stay here, we're
2 going to let Amy come join us back on the screen to
3 bring in some of the questions that have been coming in,
4 in the chat. And hopefully, we'll get to a few more of
5 those really great points.

6 MS. REISCHAUER: Hi, thanks Julie. Jennifer,
7 Edna and Laura, I really appreciate the different
8 perspectives you brought to the table, the platform
9 today. Whether that's the ways companies are finding
10 funding, or outside of that kind of six percent of
11 investment capital that Julie mentioned. And then just
12 creative ways to tackle the challenges. Whether that's
13 the terminology or the network access. So really, thank
14 you for all of that. Those stories are super helpful
15 because they provide a great way for us to inform
16 potential policy changes. And so we love to hear those
17 stories, and we want to keep listening to them.

18 But for the audience, now is your opportunity
19 to ask some questions of our panelists. So go ahead and
20 drop those in the chat, and I will do my best to bring
21 them here to the platform so we can chat about them
22 live. We have had a couple of questions come in so far.
23 The Faith and Gilbert in the chatroom raised the issue
24 of unregistered finders and had a number of suggestions.
25 I will in fact give Julie and our panelists a moment to

1 catch their breath or grab a sip of water. And I'll
2 take this one, I just wanted to share for folks wanting
3 to engage on that issue.

4 In 2020, the SEC proposed an order to
5 establish exemptions from broker registration
6 requirements for certain finder activities. But that
7 order has not been finalized. We do hear frequently in
8 our outreach events, about the challenges that small
9 businesses and their investors face because of a lack of
10 certainty in this area, around what finders can and
11 can't do before triggering broker registration
12 requirements. And this is the reason why providing
13 clarity in this space has been a recommendation from our
14 Small Business Advocacy Team, dating back to our very
15 first set of recommendations. And we continue to call
16 for that clarity.

17 You can learn more about our recent
18 recommendations in our most recent Annual Report. You
19 can find that, if you're on the platform with us today,
20 you can find that down below. You see a little picture
21 of it. I also believe that Sarah from our team dropped
22 that into the chat, so you can find it there as well.
23 So, I also wanted to note that we received a number of
24 recommendations on founders and those will appear in the
25 list of recommendations that will be voted on tomorrow

1 when we talk about building ecosystems. So if you are
2 interested in weighing in on that, Faith, Gilbert or
3 others interested in that space, please join us tomorrow
4 when you can vote on those recommendations.

5 So, moving to one of our next questions from
6 the chatroom. Keith from New Jersey noted that he wants
7 to learn of new ways that he can grow the company. That
8 is a question we hear about a lot. Like what pathway to
9 raise capital is going to make the most sense for me?
10 What are my next steps? How can I determine these kinds
11 of things? Julie, I'm actually going to throw this one
12 to you. We have developed a number of resources to help
13 with that question. I know Julie mentioned some of
14 those earlier. But do you mind, maybe quickly sharing
15 your screen and showing them, and showing folks what
16 kind of tools we have and how they might be able to kind
17 of navigate some capital raising options?

18 MS. DAVIS: Sure. I'm happy to share my
19 screen. I think it should come up here in a minute.
20 Oh, great. So this is our Small Business Capital
21 Raising Hub. I think I mentioned it earlier, I talked
22 about the glossary you can link to here. And our
23 building blocks which are the one-pagers with various
24 topics that folks ask us about. And we have a whole
25 slew of resources. But I think the one that most goes

1 to this question, would be, we call it our navigator, or
2 our choose your own adventure. And it asks eight simple
3 questions. I won't go through all of them now, because
4 you can play with it on your own at home. But you click
5 through and answer the questions. How much do you want
6 to raise? Do you know your investors? Are you in or
7 out of state with your various investors? Are they
8 accredited or not? And then, at the end, it gives you
9 some results. And these are some of the exemptions from
10 registration that might be applicable to you.

11 We do this based on data of what other
12 companies use. So we really encourage you to take a
13 look at it. It's pretty straightforward. And to the
14 extent that you answer certain things that may route you
15 to resources that you may find helpful. So we get a lot
16 of good feedback on this. I like playing around with
17 it, just to see, choosing my own adventure, like the
18 books I read to my kids. I think it's pretty helpful.
19 So hopefully, that will be something that can be useful
20 to folks. So Amy, do you have more questions?

21 MS. REISCHAUER: That's great. Yeah, we have a
22 couple more coming in. Brian in the chatroom noted that
23 investors tend to invest in people who look like
24 themselves. And we hear a lot about pattern matching.
25 I know that Jennifer and Laura touched on it, a little

1 bit during the panel.

2 Brian suggested that the best way to diversify
3 who gets funded is to diversify who does the funding,
4 who is allocating the capital. And one of his
5 suggestions was to expand the investor base beyond
6 wealthy investors.

7 I wanted to throw that back to the panel and
8 see if anyone on the panel wanted to build on what we
9 talked about a little bit earlier and share your views
10 on democratizing access to capital.

11 MS. SIMAO: I mean, I'll say a couple of
12 things. I'm sure Edna and Jennifer probably have very
13 similar views, but I think, yes, this kind of goes back
14 to the theme that we were discussing when we talked
15 about the definition of accredited investors, right?

16 It's just expanding the pool of capital that's
17 available by diversifying those that are allocating
18 capital. Those that are able to make the investment
19 decisions. And I also like thinking about creative
20 ideas to democratize access to capital. Just because
21 you've become an accredited investor, doesn't
22 necessarily mean that you have direct access to the
23 networks to make the investment.

24 So I also think, if we move towards an
25 expansion of the definition in augmenting the pool of

1 capital that's available, there's two things that I
2 think are important. One, look for ways in which your
3 capital can be coupled with public sector capital. As I
4 mentioned, there is a ton of programs out there under
5 SSBCI, as an example.

6 And one of the mandates for that capital is to
7 find private sector leverage, right? So as an investor,
8 you can team up with a community-based, a locally-based
9 SSBCI equity capital provider and execute your strategy
10 that way, as an investor.

11 And then I also think about ways, such as for
12 instance, creating carve-outs for accredited investors
13 that are interested in investing in community-based
14 initiatives, right?

15 So in other words, to Edna's point, if you
16 expand the pool of accredited investors in Tulsa, you
17 might actually find folks that just want to invest in
18 businesses that are made in Tulsa. So I think having a
19 sort of more expansive, and more sort of grassroots
20 approach to how investing is done, is one way in which
21 we could democratize access to capital for all.

22 MS. GARCIA: And I would also add that for
23 individuals who perhaps have interest in getting into
24 the investment space, but don't have the track record or
25 the background or the experience, there's ways to get

1 into it.

2 Specifically, on the VC side. You don't have
3 to come in and start your own fund, and be a partner or
4 a principal, but you could get started at an associate
5 level.

6 And there's boot camps that help individuals
7 that are interested into going into VC to learn about
8 the terminology, to learn about what the VC world is
9 like, in preparation, so that you can join existing VC
10 funds at different levels within the fund.

11 So I would certainly explore that, because I
12 think the question is spot on. When you have
13 representation at the table, those are allocating and
14 making the investment decisions, you will have more
15 diverse portfolio companies and investments.

16 MS. REISCHAUER: Thanks for that, so clearly
17 an important conversation. And one we hope to continue
18 with you, the panelists, with you in the audience, over
19 time. But we should probably wrap things up so we can
20 get to some of our policy recommendations.

21 To help us with that, I'd like to turn the mic
22 and the platform over to Kim Dinwoodie, another member
23 of the Small Business Advocacy Team. Kim.

24 MS. DINWOODIE: Hi, I'm Kim Dinwoodie with the
25 SEC Small Business Advocacy Team. I want to thank you

1 for spending time with us today.

2 It's been great hearing about the trends and
3 challenges folks are seeing in the early-stage
4 landscape.

5 I especially want to thank our panelists for
6 sharing their valuable perspectives.

7 Join us tomorrow at 1:00 p.m. Eastern for a
8 discussion about how to lay the groundwork to grow and
9 support fertile, entrepreneurial ecosystems. We now
10 invite you to review the policy recommendations that
11 have been submitted, and to vote to prioritize the
12 recommendations that are most important to you. You'll
13 find those just below me on the event platform. Thanks
14 for being part of the forum.

15 (Whereupon, at 2:21 p.m., the meeting was
16 adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: 42nd ANNUAL SMALL BUSINESS FORUM

Witness: N/A

File No: OS-0001

Date: Monday, April 24, 2023

Location: Washington, D.C.

This is to certify that I, Christine Boyce,
(the undersigned), do hereby certify that the foregoing
transcript is a complete, true and accurate
transcription of all matters contained on the recorded
proceedings of the meeting.

(Proofreader's Name)

4-27-2023

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I, Tristan Freeman, reporter, hereby certify that the foregoing transcript is a complete, true, and accurate transcript of the meeting indicated, held on Monday, April 24, 2023, in the matter of 42nd ANNUAL SMALL BUSINESS FORUM.

I further certify that this proceeding was recorded by me, and the foregoing transcript has been prepared under my direction.

4-27-2023