

U.S. SECURITIES AND EXCHANGE COMMISSION

40TH ANNUAL SMALL BUSINESS FORUM

Thursday, May 27, 2021

1:00 p.m.

U.S. Securities and Exchange Commission

100 F Street, N.E., Washington, D.C.

via Eventbrite

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C O N T E N T S

1		
2		PAGE
3	Call to Order and Opening Remarks	4
4		
5	Small Cap Insights: Perspectives on	8
6	Smaller Public Companies:	
7	With Panelists:	
8	SUE WASHER, Applied Genetic	
9	Technologies Corporation	
10	THOMAS HENSE, Fidelity Investments	
11		
12	Concluding Remarks	45
13		
14	Adjournment	48
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 P R O C E E D I N G S

2 MS. RIEGEL: Hi, I'm Jenny Riegel. Welcome to
3 the SEC's 40th Annual Small Business Forum. Today's
4 discussion will focus on smaller public companies,
5 drawing insights from both small cap investors and
6 company leadership, including Tom Hense of Fidelity
7 Investments and Sue Washer from Applied Genetic
8 Technologies Corporation.

9 Let's dive right in.

10 MS. MILLER: Thank you, Jenny, and welcome
11 everyone to the SEC's 40th Small Business Forum.
12 Welcome back for those who were with us earlier this
13 week, and thank you for those joining us anew today.

14 I'll add the disclaimer that the views that
15 are expressed today by participants in the forum are
16 those of the individuals and not the organizations that
17 they represent. With that lovely caveat, I am thrilled
18 today to introduce Commissioner Caroline Crenshaw to
19 share opening remarks and to kick off day four, our
20 final day of the 2021 forum.

21 Commissioner Crenshaw, the floor is yours.

22 COMMISSIONER CRENSHAW: Good afternoon, and
23 thank you, Martha, for that warm introduction. And I
24 really appreciate when you do the disclaimer. That's
25 really helpful. So thank you for doing that.

1 It's wonderful to be here. I really truly
2 have enjoyed hearing from all the panelists over the
3 last several days, and I'm particularly interested in
4 today's discussion focused on smaller public companies.

5 You may not know this about me, but I'm the
6 very proud sister of an entrepreneur. My brother
7 started his own business before the pandemic started,
8 ideal timing. And he is the -- everything from the
9 chief executive to the chief financial officer to the IT
10 and customer service departments to figure out how to
11 deal with the intellectual property. So I know how
12 challenging it is to start and run your own business.

13 I also know successful small businesses are
14 critical to our economy. In 2019, the Small Business
15 Administration noted that small businesses were
16 responsible for over 40 percent of U.S. economic
17 activity. Small businesses accounted for more than 60
18 percent of new private sector jobs from 2005 to 2019.

19 Because small businesses are so important to
20 the health of our economy, it's critical that the
21 Commission and its staff hear from small business
22 owners, investors, and advisors about their experiences.

23 We need your input on what's working and what is not.
24 We need your ideas about regulatory changes that could
25 promote greater equity in capital access. We need your

1 feedback about the process for initial public offerings,
2 and we need to tell -- and we need you to tell us about
3 any other issues faced by smaller public companies today
4 and the potential regulatory changes that could help
5 them continue to grow and succeed.

6 In past forums and discussions on this topic,
7 we have heard that there is a need to promote greater
8 liquidity in secondary trading markets for securities
9 of smaller public companies. I'm interested in hearing
10 whether market structure changes could help address
11 liquidity issues and encourage greater investment in
12 these companies.

13 In 2019, the Commission issued a statement
14 noting that concurrent trading of securities on multiple
15 exchanges may be limiting liquidity for smaller public
16 company stocks. Would suspending unlisted trading
17 privileges for these companies facilitate greater
18 liquidity?

19 And prior small business forums have also
20 addressed the 40-year-old regulatory framework for
21 transfer agents, the entities that facilitate the
22 transfer issuance and cancellation of securities. Would
23 a modernized regulatory framework allow smaller public
24 companies, other issuers, and investors to work with
25 transfer agents more effectively? If so, what

1 disclosure requirements and internal controls are needed
2 in today's markets?

3 Finally, are there process improvements that
4 could create efficiencies for smaller public companies
5 and their investors?

6 I could continue to pose questions, but you
7 have a lot on the agenda today, and I don't want to
8 stand in the way. Thank you all for being here, and I'm
9 really looking forward to today's discussion and all of
10 your input. I appreciate you letting me make opening
11 remarks. Thank you.

12 MS. MILLER: Thank you very much, Commissioner
13 Crenshaw. We share that in common, the proud sisters of
14 entrepreneurs. We've talked about that a few times
15 outside of these fun public events, but it brings a
16 unique perspective when a part of your family really is
17 working so hard as an entrepreneur and figuring out how
18 to make all the different aspects of their business
19 happen.

20 Before we dive into today's panel, I want to
21 provide a framework for you, our audience members, on
22 how you can engage. You can start asking questions now
23 for our audience, and the Q and A, we're going to wait
24 and ask those at the end of the discussion, but don't
25 you wait until the last minute to send in your questions

1 because that makes it really hard for us to get those
2 into the queue and over for our panelists.

3 I want to thank you for submitting thoughtful
4 policy suggestions in advance for consideration today.
5 If you've got additional policy suggestions that you
6 would like to have considered later, please feel free to
7 chat those into the team. After the panel discussion
8 and the Q and A, you're going to get a chance to vote on
9 the recommendations that you think the Commission and
10 Congress should prioritize. The poll on those
11 recommendations is going to be visible throughout the
12 discussion for reference, but the voting will actually
13 open once the Q and A has ended.

14 It is now my pleasure to introduce our Deputy
15 Director of our office, Sebastian Gomez Abero, to lead
16 the next panel. And I have to give a special thank you
17 to Sebastian. He has been an incredible leader of our
18 team and made it possible for me to step away for a few
19 months with a newborn and have the team in wonderful
20 shape. It would not be our office without you.

21 So, Sebastian, please take it away for the
22 team.

23 MR. ABERO: Thank you, Martha. And a huge
24 thank you to this team that has been able to put
25 together this amazing program this week. I am delighted

1 and super excited about the fact that we're able to have
2 this conversation today about small cap insights and
3 provide a perspective on small public companies.

4 So, many companies have the goal of conducting
5 an initial public offering, listing on an exchange, and
6 becoming a public company. It is my pleasure to spend
7 the last day of the forum with two thought leaders in
8 this small cap state. I am joined today by Tom Hense.
9 He's the Chief Investment Officer at Fidelity, and Sue
10 Washer, the Founder and CEO of Applied Genetic
11 Technologies Corp.

12 I'm going to let my panelists introduce
13 themselves before we jump into -- directly into the why
14 of today's discussion. So, without further ado, Sue,
15 would you kick us off by telling us a little bit more
16 about yourself?

17 MS. WASHER: Well, I'm happy to introduce
18 myself. I'm going to make it short since I know
19 everyone has access to a full bio. But I have a
20 background in biochemistry and a degree -- an MBA in
21 marketing. I spent a great number of years at very
22 large companies, large pharma companies like Abbott and
23 Eli Lilly before I jumped into the small space. I had a
24 number of opportunities to learn about the differences
25 between big and small companies before taking the helm

1 at AGPC where I raised several rounds of private
2 financing, took the company public and did some follow-
3 on financing, and now we're really in late stage
4 clinical development and pointing our products towards
5 being able to make them available to patients. So I'm
6 really -- it's a pleasure. It's a pleasure today to
7 work with you.

8 MR. ABERO: Thank you, Sue. And I'm looking
9 forward to delving a little more onto your past to where
10 you are now. But before we do that, Tom, could you tell
11 us a little more about yourself?

12 MR. HENSE: Sure. Good afternoon. Thank you,
13 Sebastian. Good afternoon, Sue.

14 Yes. I've been involved in the small cap
15 market literally my entire career. So I joined Fidelity
16 in 1993, and since that time, I have been an analyst,
17 director of research, a portfolio manager for our small
18 cap value fund, and then since 2008, I've been chief
19 investment officer. So I've had oversight of our
20 investment teams for quite a period of time now. So I
21 look forward to answering all of your questions.

22 MR. ABERO: Thank you, Tom. And I -- I
23 couldn't think of a better person then to get us started
24 today. In particular, on the discussion of why small
25 caps, and maybe if you can walk through from an investor

1 perspective what small cap companies bring to the market
2 and why investors have historically been interested in
3 investing in small cap companies.

4 MR. HENSE: Sure. Well, you think about it,
5 small cap companies have historically been the fastest
6 growing, most dynamic and most innovative companies that
7 you can invest in. You know, virtually all companies
8 past and present, all the great companies that we've
9 seen, they started small. They started small as an
10 entrepreneur had an idea for a new product, a new
11 service, a way to improve quality of life or -- or a way
12 of disrupting a way of doing something that's already in
13 existence today. And so it's always been a very
14 exciting part of the market to invest in. And then from
15 a -- you know, an investor's perspective, all of this
16 innovation creates the opportunity, but it also comes
17 with risk. And so investors look to this area for a lot
18 of return. And so typically they think of this as an
19 area where you can earn a premium to investment in -- in
20 larger cap stocks which tend to be more stable. And so
21 when we go back and look at the data, there was a lot of
22 studies done back in the early '80s, and you look from
23 1927 up to the 1980 period, they discovered the small
24 cap premium. It was like a three percent return. And
25 so that was a very attractive relative return on an

1 annual basis that people were attracted to. But it has
2 been an interesting phenomenon. Since that time, we've
3 actually seen the small cap premium dissipate. And so
4 from 1980 up until now, it's been about an equal race
5 between small caps and larger cap stocks. And then in
6 the last decade, we've actually seen larger cap stocks
7 out perform smaller cap stocks.

8 And so it's -- it's really been a shift that
9 way, but we think it remains a very attractive part of
10 the market, but you do need to be more selective, and so
11 what we've been seeing from an investor perspective,
12 people are more selective on their allocation to the
13 asset class, and then within the asset class, people are
14 more selective on which companies that they are going to
15 invest in because they're really looking for those --
16 those exceptional return type profiles that can be --
17 that can be found here.

18 MR. ABERO: Sounds, Tom, like, in other words,
19 it has made your -- your job a little harder.

20 MR. HENSE: It has made it a little bit more
21 difficult over this past decade, yes.

22 MR. ABERO: Sue, I -- I wanted to -- to jump
23 to something that you alluded to, and that is the many
24 steps you have taken your company through. You were
25 instrumental in -- in building this company from a small

1 academic spin-out to what is now a leader in the field.
2 And you led this company through raising venture
3 capital financing, initial public offering on NASDAQ.
4 You did subsequent on the written public offerings. You
5 had two major partnerships. But I guess what I wanted
6 for you to share today if you could walk us through the
7 journey and, in particular, why did an IPO make sense
8 for Applied Genetic Technology?

9 MS. WASHER: Well, thank you for having me on
10 the panel, Sebastian, and I'm happy to talk about that.
11 The journey I did touch on in my introduction. So AGTC
12 was a small academic spin out started by some
13 researchers at the University of Florida and also some
14 from Johns Hopkins University about an idea for a new
15 way to treat diseases that are caused by genetic
16 defects. So this is a big idea. This is a sea change
17 in how we think about producing products to treat
18 patients who have no opportunity at this time, no
19 treatments for them at this time. And so they were
20 quite excited. The world has become very excited about
21 these new kinds of genetic treatments.

22 But what you must realize as even a very small
23 company, when I first joined the company, I was employee
24 number two. So we truly were the definitions of small
25 with only two people. What you must realize is that to

1 get a product to treat a human disease from that idea
2 all the way to patients takes a very long period of time
3 and a great deal of money, and it is very common for
4 biotech companies, as we are a biotech company, to first
5 go through some grant rounds where we get some grant
6 funding from places like the NIH, from places like the
7 FDA, to really make those initial experiments, to get
8 funding from patient advocacy groups, to get sometimes
9 co-sponsored funding from the academic groups that we
10 work with such as the University of Florida and Johns
11 Hopkins, and then to go to the venture capital firms to
12 raise money to really do some seminal work with animal
13 studies, toxicology studies, maybe even the phase one,
14 the one of three parts of clinical trials that you have
15 to do. But at some point, for every biotech company,
16 the amount of resources you need to be able to develop
17 very safe products, to manufacture the safe products, to
18 conduct a -- a comprehensive clinical trial and to prove
19 that your products work just takes so much money that
20 going public is really the answer. You just can't
21 continue to attract grant funding at that level, to
22 continue to get private funding at that level, and
23 really going IPO becomes the only alternative to get the
24 amount of resources you need to take the company
25 forward. And so that's what we did is we undertook an

1 IPO and were successful, as you said, in that IPO. And,
2 as I said in my intro, we're now poised in the very last
3 stage of clinical development for our lead product
4 candidate and really knocking on the door of being able
5 to get our product to our patients.

6 MR. ABERO: Congratulations, Sue, on that. I
7 know that it's been quite a journey. And, speaking of
8 journey, Tom, you alluded at the beginning of your
9 remarks about how you've seen a change in the landscape
10 with respect to small caps, and I wanted to -- to use
11 the next part of our conversation to talk about this
12 evolution of the small cap market.

13 And from the investor perspective, before I
14 jump back to -- to Sue, as someone who lived and
15 breathed the -- the raising of capital at a small -- a
16 smaller company. I wanted to -- to get that investor
17 perspective.

18 And so you've been in this -- in this phase
19 for a while, and you've seen this market grow and evolve
20 in different ways, and I wonder if you could take a few
21 more minutes to delve a little deeper into some of those
22 changes that you've seen in the landscape over the last
23 20 years and how it has impacted you as an investor in
24 the small cap space looking for those returns to make
25 the space outweigh some of it at a risk that you said

1 that comes with investing in the small cap space.

2 MR. HENSE: Sure. I'd say probably the most
3 notable change that we've seen is just the decline in
4 number of public companies. When I think back to that
5 2000 period, there were 9,000 public companies from our
6 count and probably 1,000 private equity sponsored
7 companies, and over time, what we've seen is companies
8 go through a natural life cycle, a natural S curve. And
9 what we've been seeing is more and more companies have
10 gone private or have merged or have, you know, just gone
11 out of business just naturally than have been coming
12 into the market via the IPO entre into the marketplace.

13 And so we go back to that 2000 time frame. It
14 was like 9,000 public companies and 1,000 private
15 companies. Today there are less than 3500 public
16 companies and over 10,000 private equity sponsored
17 companies, and so there's been a real shift with more
18 and more companies accessing the private market but then
19 staying private longer, longer in their life cycle, and
20 when they do come public, they tend to come public at a
21 -- at a larger marker cap. And so that's had a real
22 impact just overall on the small cap market.

23 We -- you know, we go through -- we think of
24 the small cap today as the Russell 2000. So we've got
25 the Russell 1000 are the largest companies, and the next

1 2000 are the Russell 2000. And when we were back in
2 2000, we thought of that range of companies being a, you
3 know, \$100,000,000 market cap to maybe a billion and a
4 half to two billion. And so think of that as like a 15
5 to one ratio. And then every year, the index
6 rebalances, and we would have like this 30, 35 percent
7 turnover with new companies coming in via IPO or smaller
8 companies that would be growing large enough to make it
9 into the index. And today that's shifted quite a bit
10 where the range is now I think \$250,000,000 on the small
11 end but seven billion plus on the high end. So those
12 are just vastly different type of companies. So think
13 of that range of 30 to 1, and then from a turnover
14 perspective, because we're not getting as many companies
15 coming in, the turnover isn't as great. And so that
16 turnover is like less than 20 percent today. And so
17 it's just -- it's not nearly as dynamic of an
18 environment that we had been seeing, but it has been
19 changing in the last six to nine months where we -- I
20 think we've had close to 500 IPO's. And so we are
21 starting to see a little bit of a shift in that market,
22 but definitely we've seen a preference for companies to
23 stay private longer and then come public at a larger
24 valuation.

25 So, where we can, we do try and invest in

1 companies now that have not come public yet. So we do
2 try and invest in companies that have not come public
3 yet. So we do try and access some of those private
4 opportunities when they're at that pre-IPO stage, just
5 to try and increase the opportunity set that we do have.

6 MR. ABERO: And, before I jump to Sue and the
7 next question, maybe to drill a little more on the
8 changes you've seen, have you noticed a change on the
9 type of company? So Sue, for example, is with a biotech
10 company. Have you seen a shift on the type of industry
11 that are within that category of small cap companies?

12 MR. HENSE: Yes, we have. I would say over
13 that same time frame, we've seen more evolutions towards
14 pre-earnings more entrepreneurial companies. So you go
15 back to that 2000 time frame, 80 percent of the
16 companies in the Russell 2000 were profitable. Today,
17 only 60 percent of them are profitable. And so what's
18 happening is we are getting more pre-earnings pre-
19 entrepreneurial type companies, and perhaps that has to
20 do with what's gone in the overall economy where we've
21 seen a lot more innovation and disruption going on.
22 Just the advent of the Internet and the cost of
23 computing just coming down dramatically has set off just
24 a wave of tools of innovation that have just had an
25 impact across many many different industries. And so

1 we've seen more of the old line type industries and
2 businesses consolidate and then more of the innovative
3 entrepreneurial type companies coming out.

4 MR. ABERO: Thank you for that, Tom. And,
5 Sue, I want to continue this theme of the -- the
6 evolution. But, rather than the evolution of the
7 market, I want to talk a little bit about the evolution
8 of you company. So, as we mentioned, you had your
9 initial public offering in 2014. And I wanted to see if
10 you could walk us through some of the unexpected
11 successes and challenges that you experienced going
12 public and, in part, what has been the most surprising
13 thing to you?

14 MS. WASHER: Yes. So before I start that, I
15 just want to comment on a couple of things that -- that
16 Tom said. First of all, I would agree with him that the
17 stage that a company is going public, especially in my
18 space of biotech, is getting earlier and earlier in
19 their development. It wasn't that long ago that to go
20 public as a biotech company, you really had to have some
21 promising human clinical trial data, and now it's very
22 common for companies to go public that are just
23 preclinical, and some of them are going public when they
24 just have some kind of idea about a great new
25 technology, and that was really unheard of even like 10

1 -- 10 years ago. So companies are going public earlier
2 and earlier, and investors are very interested in these
3 brand new technologies. I think that's what gets
4 investors excited, especially in my little world. I
5 know it's not easily transferrable to in general across
6 small companies, but in my little world of biotech, it's
7 that

8 -- that new thing, what new technology are you working
9 on, what new twist are you working on. It's that
10 innovation, as Tom said, that is really garnering the
11 attention of investors.

12 So we --

13 MR. ABERO: I want to --

14 MS. WASHER: Go ahead.

15 MR. ABERO: -- jump in there because I think
16 that that's fascinating because it seems like what we're
17 seeing is we're seeing two different trends here. On
18 the one hand, in the biotech sector, as you mentioned,
19 we're seeing companies that are doing that initial
20 public offering much much earlier, but I think, Tom,
21 that you were saying before in other sectors we're
22 seeing the companies staying private longer, which means
23 that by the time they actually do their initial public
24 offering, they are more mature. So it seems like in
25 some ways, it's somewhat dependent of what industry

1 you're in.

2 MR. HENSE: I think it's dependent upon the
3 industry and what your capital needs are. So some of
4 the companies that can stay private are not very capital
5 intensive. They may be a software company or something
6 like that that doesn't require the same amount of
7 capital to develop the product that -- say, in biotech.
8 And so there are just differences that way.

9 They also may not want to go public and kind
10 of provide the transparency to their potential
11 competitors as to what they're doing and what they're
12 disrupting and what their innovation is. And so it may
13 -- they may want to stay private for a longer period of
14 time to gain more of a competitive note around their
15 product so that someone else couldn't come in and
16 disrupt them as well versus -- we see the same thing in
17 biotech, that earlier and earlier stage. We've adapted
18 our investment team so that we have very specialist type
19 analysts and investors focused on that area of the
20 market. They're very involved in the science. They get
21 involved in companies very early, and then we take a
22 different approach to investing in them also where we
23 will invest in more of them but just in smaller
24 increments than we would say a larger type company where
25 we have greater visibility on where the business is

1 going and what the earnings potential will be.

2 MR. ABERO: And sorry, Sue, that I interrupted
3 because I think -- I think that was a fascinating point
4 you made because often we tend to paint with a broad
5 brush, and we think of all smaller public companies to
6 be the same, and I think this conversation has
7 highlighted how there's differences among the smaller
8 public companies, and we shouldn't be thinking about
9 them all through the same lens.

10 So I go back to you now more specifically on
11 your company and those challenges and successes that you
12 have experienced since going public.

13 MS. WASHER: So just to put a fine point on
14 how small we were when we went public, at our IPO, we
15 had 13 employees. We had -- and none of us had ever
16 taken a company public. So it was -- to us, our big
17 surprise was that we were able to accomplish that, and
18 we really were able to accomplish that through putting -
19 - through putting a good board together, hiring up our
20 accounting firm, a very experienced accounting firm that
21 -- that had worked with public companies before. We
22 transferred to a different account -- legal firm to make
23 sure we really had the right legal expertise and really
24 put together the outside consultants we needed to
25 augment our -- we knew our technology. We knew our

1 product base. We knew who our patients were going to
2 be. We could talk about that all day, but the mechanics
3 of the IPO was very very new to us. And so, you know,
4 we were very pleased with how the IPO went. We had a
5 very fast follow on, maybe not even four or five months
6 later, where we were able to have a fast follow on because
7 of the excitement that people had over what we were
8 doing and where we were going.

9 I have to say that some of the challenges --
10 and this is probably across the board. This is probably
11 more across the board for all small companies, is that
12 when you're a small public company, it's -- you
13 sometimes are under the radar of the very investors that
14 you really want to get in contact with. There are --
15 even -- even 3500 public companies is a lot, and not --
16 and analysts can't keep track of 3,500 companies. And
17 so if you're smaller, you have to work harder to get
18 their attention and to -- even when you're producing
19 very good news and moving your product forward in a good
20 way, if your market cap is not higher, then you
21 sometimes struggle to get the attention in the voice and
22 the mind share of investors. And so I think that's
23 something that everybody going into the market as a
24 small company needs to address.

25 I think the other thing is -- is the biggest

1 surprise for me and something that we still struggle
2 with as a small company -- and I think even big
3 companies sometimes struggle with this -- is the
4 surprise to me was I went from a period of knowing who
5 every single one of my investors were and being able to
6 message to them specifically, have them call me up, I
7 can address their concerns, I can call them up and talk
8 to them, to a place where I have no idea most of the
9 time who my investors are. I don't know who owns my
10 stock. I don't know if the person that participated in
11 the last investment still owns those shares. And the
12 only way for me to get any kind of visibility is through
13 the quarterly 13(f) filing. So, you know, not to dive
14 into acronyms and everything, but this is the way that
15 some investors are required to report their holdings,
16 but that only comes out quarterly, and there are certain
17 parameters under which people might not have to report
18 under 13(f). So that's been the biggest surprise and is
19 a small, very high-tech, high-science company who would
20 really like to be able to engage with the investors and
21 explain what's going on with the company, really
22 understand their concerns and communicate with them.
23 You know, not really knowing who they are at any given
24 time is something that I think many many small business
25 owners struggle with.

1 MR. ABERO: And, Sue, we certainly have heard
2 about some of the challenges that -- that you address.
3 In fact, we had comments in the chat now addressing some
4 of the issues that you raised, and then I hope to get to
5 some of those questions later on.

6 But I think it's -- it's important that we
7 think about not just the -- the going public, the
8 initial public offering but, going to Tom's point of
9 decreasing number in public companies, it is so
10 important for those companies to remain public once they
11 do the initial public offerings.

12 So now that you are in the situation where you
13 are a public company, are there certain changes that you
14 would like to see to the rules that would help more
15 public companies like yours navigate the rules?

16 MS. WASHER: Well, certainly one of the main
17 reasons that we were able to go to public in such a
18 small company was the Jobs Act. I mean, the Jobs Act
19 made a sea change in -- in -- especially in biotech, and
20 there were many many many companies that went public
21 under the Jobs Act that would never have been able to do
22 it before. The rules and the ability to relax some of
23 the reporting requirements, relax some of the internal
24 controls for companies -- you can imagine that for a
25 company with only 13 people like I had going IPO never

1 would have been able to fulfill the standards -- the
2 full standards of accounting that would have been in
3 place without the Jobs Act. I mean, you know, we had a
4 accounting person, a controller on staff. And so I
5 think that that was -- was very important, and I think
6 continuing to allow young, innovative companies to have
7 some of those capabilities are -- is important.

8 I think that 13(f) that I mentioned earlier
9 have -- you know, broadening the requirements of
10 reporting and broadening the ability of companies to
11 understand their shareholder base and not have shares
12 traded through, you know, sometimes very large numbers
13 of shares traded through agencies that we have no
14 visibility to, I think that would be very helpful on
15 average for -- for small companies.

16 You know, I certainly think that 404(b) --
17 sorry, another acronym, but a 404(b) is a -- is a
18 standard of reporting an internal accounting compliance
19 that I think is important. But for small companies,
20 innovative companies where what the investors care about
21 is what is your next clinical milestone, what is the
22 status of your IP, they really don't care how many
23 people are checking off on your accruals, on your
24 contracts. That's not material to the company. And so
25 I really think making sure that we continue to push on

1 404(b) requirements so that small companies can meet
2 them, we really thank the SEC for -- for adjusting and
3 putting in the revenue text because that's been very
4 helpful, and we think that that's a good basis to -- to
5 build upon.

6 But another thing that's kind of unique to the
7 biotech space is that because we're working on things
8 that can become very heated and very exciting, like you
9 release some clinical data and a new indication that
10 there's no other product for and the data looks very
11 good, you can be a small company, like 50, 60 people,
12 and have a valuation that looks to the world like it's
13 huge. Oh, this is a huge company. They have a \$2
14 billion market cap. But it's because of the interest
15 and the excitement about what the future of that company
16 is. So even with a huge market cap, we may have
17 liquidity problems, and the company may still be very
18 small and can't meet 404(b) at that time. It would be
19 just really incredibly difficult. And so I think this
20 speaks to something you commented on before, Sebastian,
21 that not all small companies are created equal, and I
22 think you have to look not just on what the market cap
23 is or what the valuation is but what is the size -- what
24 is truly the size of the company, you know. And I think
25 that the resources the company has to try and attempt

1 doing what they're doing has to be somewhat taken into
2 account, because I think there's tons of small companies
3 out there that many people wouldn't label small
4 companies because they have higher valuations, and most
5 of those are in the tech or the biotech space because of
6 the promise of what we could bring to the future.

7 MR. ABERO: Sue, I just wanted to -- you went
8 through a list of some great items there, and you
9 mentioned understanding the shareholder base, and I just
10 want to let you know at the beginning of the session, we
11 did a poll for the audience, and that was the number one
12 issue that was flagged by the audience as priority for -
13 - for public companies. So I think you have your finger
14 on the pulse of our audience.

15 And, speaking of audience, this -- this week
16 we've had almost 600 people register for this forum. So
17 I wanted to -- to switch a little bit here and -- and
18 get your thoughts and advice for those in the audience.

19 And, Tom, starting with you first, what advice
20 would you have for smaller companies looking to attract
21 interest from funds like yours and other institutional
22 investors?

23 MR. HENSE: Yeah, I -- listening to Sue, I
24 definitely understand the challenge of understanding who
25 your shareholders are at any one point in time and then

1 having that constant communication with them because
2 you're constantly feeling like you're -- you're selling
3 yourself and needing to be in front of people.

4 The one thing I would say is investors have
5 become more and more digital over time. And, you know,
6 what do our investors do on a daily basis? Well, they
7 spend a lot of time reading. They spend a lot of time
8 reading up on companies. And so one of the things that
9 we advise people to do is invest in your website. Have
10 a state-of-the-art website, and on that have your
11 corporate presentation there and have it completely
12 updated, your latest presentation on what your
13 addressable market is, what the value proposition is.
14 Lay out everything in that so that anyone who's spending
15 the time reading up on your company -- and they will be
16 doing that because that's where we go. That's the first
17 thing we will do is go and look at that and access that.

18
19 And then increasingly, ES and GS become a -- a
20 topic that's increasingly important, and we need to
21 understand that. And so lay out what your principles
22 are on that and where you stand on each of these
23 elements. Lay out your governance model. Have a
24 diverse board of directors and management team. Have
25 all those elements, and have it all laid out so that

1 when that investment analyst comes in looking at your
2 company, it's all laid out for them. All the work is
3 there for them. They don't have to anything or they
4 have to do very little to get to know your company. And
5 that -- that makes it quite streamlined.

6 I think also you do have to keep up a steady
7 cadence of communication which is, you know, you do a
8 quarterly conference call. There are also investment
9 conferences. So I know there are some very prominent
10 biotech conferences that Sue probably attends. But when
11 they're in person, they're actually -- it's a lot for a
12 smaller company both from time and -- and dollar
13 investment to attend some of these conferences. I would
14 say during the pandemic, what we've seen is more virtual
15 conferences like what we are doing right here, and I
16 think that's been a bit of an equalizer for small cap
17 companies because their ability to access investors is
18 that much easier. It doesn't cost as much, and it
19 doesn't cost as much time. And so I think that's going
20 to be something going forward.

21 But other than that, communication, laying out
22 what your game plan is and having that communication,
23 then you've just got to go and execute on your plan.
24 And hitting those milestones is what's going to move
25 your stock and what's going to draw investors in. And

1 the -- the adage from Ben Graham is in the short term
2 the market is a voting machine, and in the long run,
3 it's a weighing machine, and when you start to put up
4 results when you hit your milestones, the market starts
5 to find you, and they'll want to invest in your stock
6 then.

7 MR. ABERO: Great advice, Tom, for all of
8 those in the audience, because it's an issue that we
9 hear frequently here in the office, smaller public
10 companies who -- who feel like they're just not getting
11 the traction with funds and institutional investors.

12 MS. WASHER: I would just -- I would just jump
13 in and highlight one thing that Tom said, and that was
14 news flow. I think that that is really important. It's
15 something we thought about when we -- even when we were
16 planning to go public is what was going to be our news
17 flow after that IPO, and I think that especially for
18 very early stage companies, having enough news flow can
19 be challenging, you know. And in the biotech space,
20 some clinical trials take two or three years. So what
21 do you do in between saying you started the trial and
22 here's the data from the trial in that two to three-year
23 time frame, and I think you really have to -- you really
24 have to think that through. And so I would just echo
25 Tom's statement about -- about news flow.

1 MR. ABERO: Thank you, Sue. And I wanted to
2 get your advice also on a slightly more personal topic,
3 and that is that I am delighted that we have your
4 perspective today, but the reality is we all know that
5 the number of women and executive officers of public
6 companies does not match the potential in the market.

7 So I was wondering for those female
8 entrepreneurs that are in the audience, what advice do
9 you have for them when they're seeking to build their
10 careers?

11 MS. WASHER: Well, first of all, thank you for
12 bringing up this topic. I think it's a very important
13 topic not just for women entrepreneurs but for minority
14 entrepreneurs of any sort. And so I would apply my
15 advice kind of equally. You know, I happen to be very
16 lucky. Maybe it's because I became a CEO when the
17 company was very very small. So it was a more of a who
18 did I know and that I knew the inventor of -- you know,
19 one of the inventors of the technology. And then we --
20 our board has myself and two other women on my board.
21 So we have a very good diversity of the board, and I'm
22 very very proud to say that over 50 percent of our
23 employees are also women, and we have a very good
24 percentage of Hispanic and Black Americans as well.

25 I think this is something you have to work at.

1 You have to work at being inclusive. You have to force
2 your recruiters and -- and people that you're talking to
3 to bring you diverse candidates. You have to be willing
4 to look outside the box as to the character of this
5 person that might be missing a specific experience that
6 you thought you wanted but they have a breadth of
7 experience.

8 And then my advice to women and other
9 minorities is network. You have to be aggressive in
10 your networking. You have to be the one that walks up
11 and introduces yourself and -- and asks -- and asks
12 another person's name. You have to not network -- don't
13 -- I mean, I always give this advice. There's lots of
14 women only networking groups out there, and I think
15 they're fine. But that's not going to get you thrust
16 into the thick of things. You have to network outside
17 of your comfort zone. You have to network with the
18 people that are going to be on the other side of the
19 table from you. And then, you know, another thing is is
20 to be persistent. Don't give up. Never let somebody,
21 you know, dismiss you. Try another avenue. Try another
22 angle or find another person in that space.

23 I think that also making sure you have broad
24 experience, you know, taking different jobs. I mean,
25 it's kind of like -- this is kind of old fashioned, but

1 in big companies, the old fashioned way to get ahead was
2 to have a stint in operations, a stint in sales, a stint
3 in finance and then that -- that broad cross-functional
4 experience would help you -- would raise up the ladder.

5 I think the same thing can be said in
6 entrepreneurship. The more different kinds of skills
7 that you can add, the more attractive you become, and
8 that kind of overwhelms maybe that you're in a minority
9 position. And this also goes for education. You know,
10 I have a degree in biochemistry and a degree in
11 marketing. So it's very different sides of the spectrum
12 but means that I have a -- a well rounded outlook and
13 different ways to look at things.

14 And then I think the final thing -- and this
15 can be hard, especially -- we've talked about on the
16 Small Business Advisory Council before that many times,
17 as a minority, raising money in the -- in the venture
18 world or even raising money in the public markets,
19 everyone on the other side of the table from you doesn't
20 look like you. And it can be somewhat intimidating.
21 But you have to learn how to make the ask, stick up for
22 yourself, ask for their investments, ask for them to be
23 on your board, ask for them to provide you some advice.

24 And sometimes that's all it takes is for that
25 persistence, that networking, that broad educational

1 background, and don't forget to make the ask.

2 MR. ABERO: I love this discussion, Sue. And
3 what reminds me is of how some of the schemes just have
4 -- move across throughout the four days of the forum. I
5 mean we hear about the networking and the challenges of
6 networking for -- for women and under represented
7 founders as -- as a challenge that we've heard
8 throughout the -- the four days of the forum. So it
9 shows how it's a topic that transcends the size of a
10 company in this space.

11 We're almost out of time, and we're getting
12 questions from the audience.

13 MR. HENSE: If I could just add --

14 MR. ABERO: Yeah, go ahead, Tom.

15 MR. HENSE: If I could just add a comment
16 there because we look at this also, and all the research
17 shows that a diverse company with a diverse leadership
18 team and a diverse board is a better performing, better
19 functioning, better company to invest in also. All the
20 research shows it.

21 MR. ABERO: And I echo that, Tom. And in our
22 -- in our annual report, we had some data on that that
23 actually goes to echo that same point.

24 As I was saying, I do want to get to audience
25 questions, but I wanted to finish with a little bit of -

1 - just in the interest of time, making it a lightning
2 round.

3 And, Tom, I'll start with you, and I'll pose
4 the same questions to both of you. And I wanted to --
5 to get a sense from you of what would you have done
6 differently in your journey or -- or if you -- if you
7 actually did everything perfectly the first time around,
8 what advice do you have for others that are considering
9 an IPO or an investment in small cap companies? And,
10 Tom, I'll start with you.

11 MR. HENSE: I mean, the journey I've been on
12 is the journey I set out on. So it's been -- it's been
13 pretty spectacular for me personally, but definitely as
14 an investor, we have to constantly look forward, but you
15 also look back and learn from your mistakes. And so I
16 look back at the opportunities that I didn't take or the
17 things I didn't stick with, and so it kind of leads me
18 to -- you know, I give myself this advice, you know, my
19 former self this advice, but I also give it to my
20 younger colleagues that I mentor. I say take more risks
21 both professionally and personally. You have nothing to
22 lose.

23 MR. ABERO: Thank you, Tom.

24 And, Sue?

25 MS. WASHER: So, you know, I talked a lot

1 about the IPO and that it was successful, and we put
2 this great team around us to be -- to make sure -- we
3 knew it was going to be a challenge for us, and we put
4 this great team around us to make that successful.

5 I think that one of the things looking back
6 that I wish I had done is put together a team for -- to
7 help us be successful after the IPO, and looking further
8 down the road and saying, "What do we need to do as a
9 small public company to remain successful," and to have
10 paid as much attention to that as we paid to the actual
11 mechanics of the IPO.

12 And I think part of that was the -- if I was
13 to look back at myself at that point in time in the IPO,
14 what I would tell myself would be to hire people for
15 where you want the company to be in the future. Hire
16 the people you need five years from now. Don't hire the
17 person that you need right now, because things happen so
18 fast, and things emerge so fast, and the person that you
19 need five years from now is going to see the path to
20 that. The person you need right now maybe isn't going
21 to see the path to that -- that future. So I think that
22 that would be something that I would really advise
23 myself from my experience.

24 MR. ABERO: That is a terrific piece of
25 advice, Sue. And, like I promised, I do want to get to

1 some of the audience questions.

2 And, Tom, I want to direct this one to you. A
3 question came in the chat from Faith in New York, and it
4 relates to research analyst coverage, and her question
5 is, "To what extent have small cap companies been
6 adversely effected by a reduction in research analyst
7 coverage, and what do you think the SEC should do about
8 it?"

9 MR. HENSE: Yes, there has been a reduction in
10 research coverage I would say from the large established
11 investment banks. So there has been some reduced
12 coverage that way, but I think there has been more
13 coverage then made up from smaller boutique research
14 shops that have come out of that, and then, you know, I
15 think a disruptive technology, the Internet and the
16 Internet communities that have developed out of it also
17 create their own research. And so whether it's
18 individual investors or other institutional investors
19 like myself that are part of these online forums, they
20 also create a significant amount of conversation and
21 with that, research coverage also. So I don't know that
22 it's really had a significant impact on small companies.

23 It's just changed, and the investor base is adapting to
24 that.

25 I don't think of it that we go out and seek

1 research coverage and then based upon that research
2 coverage we are going to be making investment decisions.

3 We want the information, and we can get that from the
4 company. We'll get it from the Internet. We will get
5 it from our own -- our own work, and I think that's very
6 accessible to many many people, not just us. So I'm not
7 sure that there is anything to be -- to be done there.
8 I don't think it's been a barrier to investment at all.

9 MR. ABERO: And, Sue, I see you shaking your
10 head. How has it been the experience for you?

11 MS. WASHER: Yeah, I would agree with
12 everything that Tom has said. You know, we're a small
13 biotech company. We have six research analysts covering
14 us, and certainly what we see is that investors will
15 scan what the research analysts are saying. They're
16 scanning to look for consistency of message and that
17 there's not some disconnect between the analysts or
18 between what the analysts are saying and what the
19 company are saying. But I don't see that there's been
20 any issue with research analysts coverage affecting
21 small companies.

22 MR. ABERO: And I wanted to -- to get to a
23 different question, and this one I'm not going to direct
24 it to either of you. I'll let you take a stab at who
25 wants to answer it, and the question came up in the

1 context of your discussion, Sue, of taking the company
2 public and the mechanics of that, and one of the other
3 alternatives that we've seen recently of becoming public
4 that has gotten a lot of press is the direct listings
5 and the -- the SPACs.

6 And the question we got from Sherry in San
7 Francisco is what are the impacts of this recent trend
8 on small cap companies? What are you seeing? If you --
9 if you could read the tea leaves, what do you expect to
10 see going forward? Like I said, I open it to both of
11 you if you have thoughts on this.

12 MS. WASHER: Well, I'll just make a short
13 comment and then punt this to Tom for sure. I am not an
14 expert on SPACs. I would say that as an entrepreneur,
15 you're still going to have to go through diligence,
16 through the investors that put the money into this SPAC.
17 You're still going to have to have all of the reporting
18 requirements afterwards and be on the public market.
19 So that part of it isn't different, and, you know, I
20 think that the attractiveness of the SPAC originally is
21 that it is thought that it's a lower cost for a company
22 to go public through the SPAC than through the
23 traditional IPO method, but I think that there's going
24 to eventually be some -- some changes there and some
25 additional concerns.

1 But, Tom, I'm sure you're much more educated
2 on this subject than I.

3 MR. HENSE: Well, definitely we have seen a
4 significant increase in SPACs just in the last nine
5 months. They've been present for a longer period of
6 time, but suddenly there's just a lot of interest in it,
7 and I don't know if it's just because the markets are as
8 ebullient as they are and it's allowing people to raise
9 this money, but they -- like Sue said, I think it's an
10 easier way for a company to go public, and it's a way
11 for investors to invest with a management team, but
12 there's also a cost to it to investors. There's a, you
13 know, significant promote that goes to the sponsor of
14 the -- the SPAC. And then, you know, if you invest in
15 it in its initial offering, you really don't even know
16 what you're buying. You're just invested in this
17 company and giving them cash, and they're going to go
18 out and try and buy something over the next two years.
19 And so you don't really know what you're going to be
20 getting in the end, and I don't know if that's really
21 investing or not, but, you know, and so I think the -- I
22 think the jury's still out on the success of that, but I
23 understand why people are doing it. But, you know, from
24 our perspective, we want to know what we're investing
25 in. And so we'll oftentimes wait until they have

1 actually identified the company, do our due diligence on
2 it and then look through the economics of the deal,
3 including that promote that's involved there and whether
4 or not we want to participate.

5 MR. ABERO: Super interesting. We have time
6 for -- for one last question, and I wanted to talk about
7 the market volatility that we saw earlier this year
8 which, of course, can have an impact on the cost of
9 capital.

10 And, Sue, you mentioned in your industry in
11 particular how capital intensive it is. How are you
12 thinking about volatility and cost of capital from the
13 standpoint of your company? And then, if I may pose a
14 slightly different question for Tom, what are you seeing
15 from a big picture perspective as an investor?

16 MS. WASHER: So I would say that we certainly
17 are very concerned about market volatility from two --
18 from two different perspectives. One, it is certainly
19 true in my experience and in talking to others that
20 market volatility tends to affect small companies even
21 more, especially in the biotech space. And also there
22 has been specifically in the biotech space increased
23 volatility right now because, you know, I think that
24 with the positive news of the economy opening back up
25 and the biotech industry having developed a vaccine that

1 has really proven to be very efficacious, people who
2 have put money into the biotech market thinking that was
3 an engine of innovation, some of them are rebalancing,
4 and there's a lot of money had went out in the early
5 part of the year came out of biotech. So it's a small
6 biotech, even a mid-size or large biotech. We're
7 usually in the -- in the kind of cadence of having to
8 raise money every year. You usually raise money about
9 once a year.

10 And so this volatility for this year and going
11 into early '22, I think all of us are concerned about
12 that and -- and thinking very carefully about funding
13 mechanisms over the next 12 to 18 months and watching
14 the market very very carefully.

15 MR. ABERO: And, Tom, from your perspective as
16 an investor, how does volatility impact your thought
17 process?

18 MR. HENSE: Well, definitely with the onset of
19 COVID, you've pushed the entire global economy into a
20 severe recession, and the stock market reacted to that.

21 And so the most cyclical economically sensitive
22 businesses really -- really traded significantly lower.

23 And then as investors, then you -- you start to look at
24 your overall portfolio, and this is why I think Sue was
25 seeing some rotation out of certain type of growth

1 stocks that are viewed with a longer duration into the
2 more cyclically sensitive names that got knocked down,
3 you know, 50 percent plus because they were a better
4 value in the marketplace. So that's a natural
5 rebalancing that the market will do.

6 And now what we're seeing is taking place is
7 the market is seeing that the economy is going to
8 reopen. It is going to get better, and so cyclical
9 stocks have rallied pretty significantly, and they'll
10 probably continue to as long as the economic growth
11 continues at its pace.

12 But at some point, we'll see that rebalancing
13 coming back towards either more growth oriented names or
14 more, you know, stable type businesses.

15 And so for, you know, businesses that need to
16 raise capital on a regular basis, that is something that
17 needs to kind of be taken into account in your capital
18 structure, the what if if we do have an exogenous event
19 that happens in the economy in the market that's going
20 to limit our ability to access that capital that we
21 need, and so that type of planning I think just needs to
22 be built into a capital structure.

23 MR. ABERO: Well, I wanted to thank the two of
24 you for this fantastic panel. I couldn't think of a
25 better -- better perspectives to cap this week-long

1 small business forum and, in particular, just looking
2 at the chat, wanted to highlight for you how much the
3 audience has appreciated your insights and, in
4 particular, Sue, your comments about diversity and
5 inclusion as well as, Tom, your notes on the economic
6 importance of diversity.

7 So very much thank you for this insightful
8 discussion today, and I am going to now invite Martha to
9 close it out for -- for the week. Martha.

10 MS. MILLER: Thank you very much, Sebastian.
11 You did a fantastic job.

12 And, Sue, and Tom, I could not think of a
13 better way for us to wrap up day four. Your insights
14 were spot on on everything from the most technical of
15 securities matters to big picture advice on diversity
16 and inclusion with actual takeaways that I think we can
17 all learn from.

18 One of the hallmarks of our forum is that you
19 have an opportunity to influence capital raising policy
20 and weigh in.

21 This is not a Webinar where you just passively
22 listen. This is something where you get to talk to us
23 about policy.

24 The poll that you see on the right-hand side
25 of your event page shows feedback that has been

1 submitted by you and other audience members in advance,
2 as well as during today's event, which our team has
3 consolidated to present to you in an easy to use polling
4 format.

5 As a reminder from the first few days of the
6 forum, based upon your feedback from prior years, we
7 changed the structure of the forum to be more inclusive,
8 as well as efficient with your time.

9 So, rather than having a long series where
10 people come on and off mute and talk about
11 recommendations, we ask for you to send us ideas in
12 advance. We have consolidated those, put them in a
13 poll, and all you have to do is take a few minutes to
14 vote on those.

15 With the polling module, we're asking you to
16 rank the recommendations that you think Congress and the
17 Commission should prioritize to your top five and rank
18 them in order with one being the most important. The
19 poll is going to remain open for 30 minutes, even after
20 the video stream ends, so that you have time to go
21 through those recommendations and make your selections.

22 Final policy recommendations from you will be
23 sent in a report to Congress later this summer. And, as
24 a registered attendee, you will automatically receive an
25 emailed copy, and it will also be posted on our website.

1 As you get started with voting, I want to
2 thank you, our audience members, and our wonderful
3 speakers who have committed time this week to improving
4 capital formation policy. As I highlighted on Monday,
5 40 years of the small business forum is a testament to
6 the value that you bring, as well as entrepreneurs and
7 their investors building the markets that we want to be
8 a part of.

9 While Time Magazine's Man of the Year as the
10 personal computer in 1982 was somewhat of a
11 foreshadowing, I doubt that anyone thought that in 1982
12 that 40 years later, we would all be sitting in front of
13 our computers, whether in an office, on the sofa, in
14 your personal home setup that might be in your bedroom
15 in the midst of a pandemic or from a vacation
16 destination, all miles apart yet collaborating in
17 realtime.

18 Entrepreneurs and their investors made that
19 happen. You've had a role in making that happen by
20 weighing in on policy. So I want to thank you for
21 spending time with us this week.

22 In closing, I also want to thank those who
23 made this event happen, including our commissioners, our
24 colleagues within the Commission, and our Advisory
25 Planning Group.

1 And, most importantly, I want to recognize our
2 team who you see on the screen. They made this happen.

3 Thank you to the team. You're a complete delight to
4 work with, and I cannot imagine a world without you as
5 colleagues, even if we are all far apart.

6 If you have ideas or suggestions for next
7 year's forum, I want you to reach out to us. Tell us.
8 We take them into consideration, and we would love to
9 make sure that this remains an impactful event. Email
10 us at smallbusiness@sec.gov. And, as always, don't be a
11 stranger. You have advocates in D.C. here who are
12 working for you.

13 Thanks everyone, and have a wonderful rest of
14 your week.

15 (Whereupon, at 2:01 p.m., the meeting was
16 adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: 40th Annual Small Business Forum
Date: Thursday, May 27, 2021
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 forum.

_____ 6-4-2021

REPORTER'S CERTIFICATE

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I, Tara Jauregui, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the forum indicated, held on 5-27-21, at Washington, D.C., in the matter of:
40TH ANNUAL SMALL BUSINESS FORUM.

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

6-4-2021