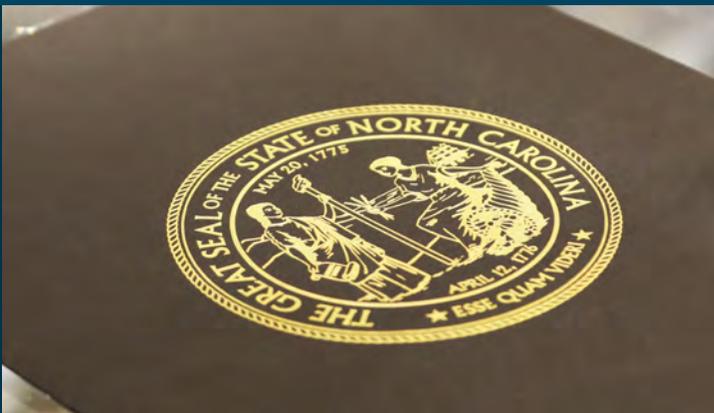


KENAN INSTITUTE CONFERENCE PROCEEDINGS



November 1, 2017

NORTH CAROLINA INVESTMENT FORUM

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Exploring ways the private sector, state government
and academic institutions can work together to
grow the North Carolina economy.



EXECUTIVE SUMMARY

The Frank H. Kenan Institute of Private Enterprise hosted its inaugural North Carolina Investment Forum (NCIF) November 1, 2017, at the Kenan Center on the campus of the University of North Carolina at Chapel Hill. The forum brought together investors, top state government officials, representatives of economic development groups and leading academics to discuss how North Carolina can promote private sector business growth. The group identified a host of actionable items. As an immediate next step, the Kenan Institute is working with its partners to form an NCIF Executive Committee, which will coordinate and oversee the work of a task force charged with developing and executing a plan for specific initiatives, including:

- Promoting creation, launch and investment in new businesses;
- Providing resources for growth of established businesses; and
- Stimulating private sector employment in economically distressed communities.

OVERVIEW AND REMARKS BY DEAN DOUG SHACKELFORD AND GOVERNOR ROY COOPER

Doug Shackelford, dean of UNC Kenan-Flagler Business School, opened the first-ever forum by challenging participants to build a community of private sector investors and business executives who will support North Carolina business expansion. Central to this goal, he said, is seeking innovative methods for providing resources and expertise available in the investment, government and academic communities to businesses with strong growth prospects. Dean Shackelford noted that all North Carolinians benefit by attracting and enhancing investment in N.C.-based businesses.

Governor Roy Cooper delivered the forum's keynote address. Cooper noted that he started his own small business, a law practice, before he entered the state legislature. Now as governor, he is seeking to attract visionary dreamers to North Carolina, as well as enhance opportunities for homegrown talent. To do so, Cooper's overarching goal is to build a North Carolina "whose citizens are better educated, healthier, have more money in their

pockets and have more opportunities to live a more purposeful and abundant life” than previous generations. To help achieve these objectives, Governor Cooper has assembled the state’s most diverse cabinet and expert advisors and tasked them with helping him accomplish these goals. Among his advisors attending the forum were North Carolina Commerce Secretary Tony Copeland and Napoleon Wallace, Deputy Secretary for Rural Economic Development and Workforce. Additionally, North Carolina State Treasurer Dale Folwell played an active role in the day’s events.

Cooper noted that businesses need a skilled workforce to grow, and lauded North Carolina as the first state to found a public institution of higher education. The governor said that while North Carolina has historically invested significant resources in its 53 universities and 58 community colleges, the state has cut its investment in public education by 10 percent during the past decade.

Cooper shared his goal for North Carolina to be ranked in the top ten most educated states by 2025, and said that to achieve this, the state must raise its high school graduation rate from 85 percent to 91 percent and increase accountability within K-12 schools through better assessments. Moreover, he called on North Carolinians to do more to lift up the teaching profession at a time when schools of education are seeing reduced enrollment rates. Finally, he said, the state must ensure more children have access to quality pre-K programs. A number of CEOs in North Carolina have echoed this sentiment, and together, the governor’s office and the private sector are aiming for 55 percent pre-K enrollment among eligible children across the state.

Returning to higher education, Governor Cooper underscored the value global companies place on diversity. He insisted that North Carolina’s universities not be complacent with their success but continue to seek and recruit talented and diverse students, noting that the state’s historically black colleges and universities are a wellspring of talented minority students. Cooper urged the business community to become galvanized on embracing and promoting increased diversity.

Next, Governor Cooper emphasized the need for a strong tax base in order to invest in North Carolina’s citizens. He noted that some other states that have cut taxes dramatically now face significant burdens in meeting their students’ educational needs and supporting other public services. Moreover, he said, a larger tax base would give North Carolina the ability to be nimble when attacking pressing economic and social challenges such as the opioid addiction epidemic, which he is helping to address as a member of the federal task force focused on the crisis. On the subject of the prominent N.C. rural/urban divide, he noted that government and private enterprise must work to ensure that all regions of the state benefit from investment to decrease economic disparity.



Governor Cooper’s overarching goal is to build a North Carolina “whose citizens are better educated, healthier, have more money in their pockets and have more opportunities to live a more purposeful and abundant life” than previous generations.

[N.C. Governor Roy Cooper](#)

Global companies today want a workforce that is highly educated, healthy, diverse, entrepreneurial and fosters an atmosphere of non-discrimination. Cooper argued that the 2016 House Bill 2 damaged North Carolina’s reputation and that the state is still recovering from the negative press it received. According to Cooper, the state lost more than 150,000 potential jobs in the wake of the bill signing. He added that since its partial repeal, the Indian high-tech firm Infosys announced an expansion into Wake County, and other global companies, like Amazon, are considering investing in the state. Cooper emphasized the need for North Carolina to continue to demonstrate its innovative talents. He noted the state is second in the country for solar energy use, and said North Carolina is suited to serve as a leader in renewable energies. He concluded that North Carolina is poised to take off and that we must find consensus despite the state’s political divisions so its citizens can have the abundant and purposeful lives they deserve.



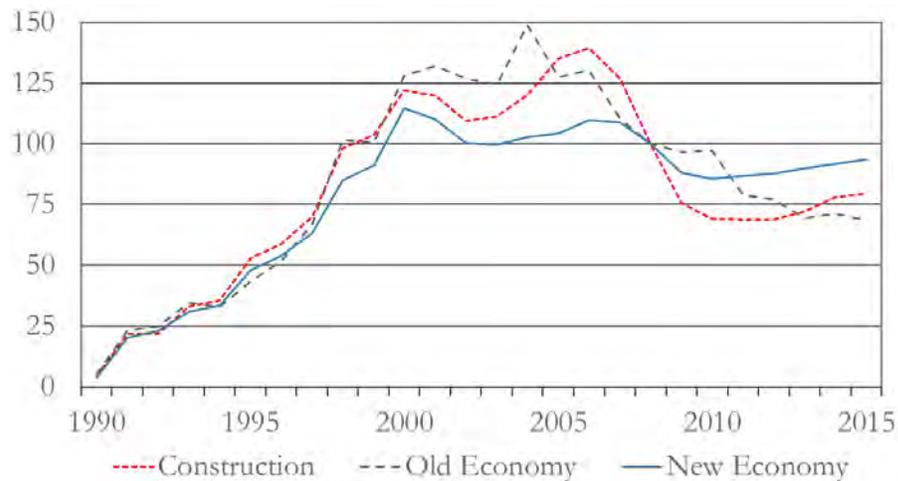
The challenge is to foster a better business environment for the state, but to do so North Carolinians must understand and provide an economic environment that nurtures growth.

Greg Brown
 Director, Kenan Institute of
 Private Enterprise

FORUM WORKSHOP PRESENTATIONS AND DISCUSSION

Greg Brown, director of the Kenan Institute for Private Enterprise, opened the working session with an analysis of new firm formation and economic competitiveness of U.S. major metropolitan areas. He noted that entrepreneurial activity has been depressed nationally since the Great Recession of 2007-2009. He argued that, on average, “new economy” companies, like those in the technology and health care services industries, are growing steadily, while “old economy” companies, such as those in manufacturing and agriculture, remain in decline (see Figure 1). The challenge is to foster a better business environment for the state, but to do so North Carolinians must understand and provide an economic environment that nurtures growth.

Figure 1: U.S. Employment at Firms 0-3 Years Old (Indexed to 2008=100)



Brown also showed the forum data scoring North Carolina cities on start-up activity and overall business environment. The data are organized into five aspects of new firm

operations and business conditions, which are combined to create the *Start-Up Activity and Environment Index*. The five sub-indices measure:

- New business formation and growth;
- Financial conditions;
- Overall business environment;
- Labor market conditions; and,
- Economic growth and resiliency.

Brown noted that three major cities with substantial tech industries top the rankings: San Francisco and San Jose, California, and Austin, Texas. Charlotte, North Carolina, was ranked 16th and the Raleigh-Durham area came in at 26th overall. The research also created a *New Firm Efficiency Index* to measure the level and quality of economic activity by young firms relative to what would be expected given the pre-existing economic, business and financial conditions in a city. By this measure, Charlotte and Raleigh-Durham dropped in rank to 32nd and 41st, respectively, indicating that these cities are not utilizing the broader economic business environment for launching successful new companies as efficiently as most other large cities (See Figure 2).

Figure 2: Start-up Activity and Environment (SAE) Index

SAE Rank	City (MSA)	New Firm Activity	Financial Conditions	Business Environment	Labor Market Conditions	Economic Energy
1	San Francisco	7	4	8	1	1
2	Austin	11	12	5	3	3
3	San Jose	22	3	1	5	4
...						
16	Charlotte	28	17	27	12	10
...						
26	Raleigh-Durham	6	30	30	7	39
...						

Exploring this issue, Kel Landis of Plexus Capital noted that private investors can help North Carolina promote itself as a premiere destination for starting and growing businesses. He urged for more collaboration between the N.C. Department of Commerce and private capital providers. Noting a representative from the U.S. Small Business Association was present at the forum, Landis called on private capital lenders to say to their counterparts in government, “Let’s do it—I’m in!” Landis also remarked on the urban/rural economic disparity in the state while noting that most venture capital investment is focused on the

life sciences and high-tech industries, which are less likely to operate in rural communities. After the introduction of the attendees, Landis noted that the private capital market in North Carolina had great depth and breadth and the capacity to foster all levels of investment, from early-stage angel investment to more mature investments in middle-market debt and growth capital. He further noted that the average age of North Carolina’s workforce is 31, indicating it is both energetic and able to grow.



Recognizing that the North Carolina business sector includes a wide range of industries, Landis introduced representatives from two diverse companies to highlight the challenges each faces. Mark Velleca, CEO of G1 Therapeutics – a clinical-stage biopharmaceutical company spun out of oncology research conducted at UNC – noted that an idea and data are far from a finished product. Drug development requires capital investments at each stage of the product timeline, and new drugs sometimes take more than a decade to reach the marketplace. Velleca emphasized that there is high quality, local talent available in North Carolina and that he has found that out-of-state prospective

employees are eager to relocate to the state. G1 Therapeutics currently employs 45 people and is located in the Research Triangle Park.

David Hunt, COO of Global Value Commerce, offered the perspective of a retail-oriented enterprise that incorporates state-of-the-art e-commerce practices. GVC is golf’s leading e-commerce expert and the top sales center of pre-owned golf clubs worldwide. Hunt noted that his company has faced difficulties in securing financing and capital investment at various stages of its growth, but now has more than 130 employees. GVC is headquartered in Raleigh, with four additional shipping and retail locations. The company now maintains the world’s largest inventory of pre-owned clubs.

With the needs of these diverse industries presented to the forum, Brown framed the working session around three main discussion points:

WHAT TYPE OF INVESTMENT IS MOST NEEDED IN NORTH CAROLINA? WHICH VOICES NEED TO BE BROUGHT INTO THE CONVERSATION?

The consensus of forum participants was that early-stage investments of a half million to 2 million dollars are the most difficult for companies to secure. Resident, early-stage capital is critical for companies’ success, but many early-stage companies are not profitable, which increases the risk to investors and significantly limits the set of investors willing to consider deals. Forum participants noted that rural job loss and fostering economic development outside the major urban areas is a challenge. They said solutions could include training stronger management teams that can be deployed in under-capitalized areas and industries, as well as focusing on investing in education in rural counties, such as developing coding skills at schools and promoting new technologies in older industries.

Private investors can help North Carolina promote itself as a premiere destination for starting and growing businesses.

Kel Landis
Plexus Capital

Additional proposals included developing a clearinghouse where companies can register their capital needs and collaborating with the state to assist companies in acquiring capital. The need to grow capital beyond the influence of major universities was also mentioned. Moreover, there is a perceived deficit of talented senior executives to take North Carolina companies to the next level of growth. Serial entrepreneurs are a valuable, but scarce, commodity in North Carolina. Finally, forum participants noted that private capital must promote diversity at all levels of employment and leadership.

HOW CAN PRIVATE CAPITAL INVESTORS IN NORTH CAROLINA WORK MORE CLOSELY WITH STATE LEADERSHIP TO SUPPORT AND GROW ECONOMIC DEVELOPMENT?

Forum participants listed a number of factors that have inhibited economic growth in the state. These include the passage of House Bill 2 as well as continued decline in rural areas. State Commerce Secretary Tony Copeland noted that his department, under the previous administration, was divided in order to shift much of the business development work previously done by the department to the Economic Development Partnership of North Carolina. This division, he said, has led to some challenges in terms of coordination and responsibility between the two entities. Copeland also noted difficulties facing older industries. He cited the closure of the Pillowtex Corporation, which was the largest single-day layoff in North Carolina history, as an example of the painful transition from an old economy to a new one that the state is undergoing.

The question was posed regarding the appropriate role of the state in incentivizing new industries and promoting the creative disruption that keeps an economy vital. N.C. Representative William Brawley, who serves as senior chairman of the House Finance Committee, noted that instead of bipartisan strategies to address these challenges, solutions must be found in nonpartisan approaches to state government and business partnerships. Additional strategies for growing economic development include encouraging entrepreneurs who have left North Carolina for other entrepreneurial hubs such as Silicon Valley to return now that the state is better positioned for growth and investment.

WHERE DO WE WANT TO SEE NORTH CAROLINA'S INVESTMENT CULTURE A YEAR FROM NOW? WHAT SPECIFIC ACTION ITEMS CAN WE TAKE IN THE NEXT 12 MONTHS TO ACHIEVE THAT VISION?

Forum participants identified a number of action items that the state and private capital investors should address. These include:

- Creating targeted educational programs to develop management talent;
- Identifying and recruiting of more women and under-represented minorities for senior decision-making roles in private sector business;

- Retaining a higher percentage of top university students in the state;
- Developing clearinghouse databases for capital and senior management talent
- Expanding business development resources for general industry (i.e., beyond life sciences and technology), including improved partnerships with state government to create targeted investment programs that support the launch and growth of NC-based businesses;
- Educating business owners and entrepreneurs about how private capital makes investment decisions; and,
- Instituting an organizational structure for convening additional forums and working groups to keep these ideas at the forefront of capital investors' and policymakers' minds.



NEXT STEPS

NORTH CAROLINA INVESTMENT FORUM EXECUTIVE COMMITTEE

In consultation with attendees in the weeks following the forum, several participants volunteered to serve on a newly created North Carolina Investment Forum Executive Committee. The committee will operate with two main objectives:

- Determine the purpose and viability of a permanent structure for the North Carolina Investment Forum. Forum participants expressed a desire for ongoing interactions among the group and suggested the Kenan Institute coordinate a committee of private sector, government and academic leaders to propose a structure for NCIF by fall 2018.
- Oversee the work of the NCIF Business Growth Task Force, which will work during the coming year to research and evaluate recommendations for fostering business activity in North Carolina. (Details on the operations of the task force are provided below.)

The Kenan Institute will provide administrative support to both the committee and task force. Initial members of the NCIF Executive Committee will include private capital investors, entrepreneurs, government representatives and academics.

NCIF BUSINESS GROWTH TASK FORCE AND WORKING GROUPS

The task force will coordinate efforts among business leaders, universities and representatives of state and local government, including the Office of the Governor, the North Carolina General Assembly, the Department of State Treasurer, the Department of Commerce and the Economic Development Partnership of North Carolina.

Task force issue areas include, but are not limited to, delivering the following:

- A development plan for clearinghouses for capital exchange and executive talent;
- Actionable methods for improving the diversity of forum members;
- Codifying priorities and operations of the forum so it remains positioned as a neutral and objective resource for the private sector and government decision makers; and,
- Building a distribution channel for sharing relevant articles and research relating to the topic of venture and growth capital investment and economic development.

The task force will have three working groups with distinct mandates:

- **The New Ventures Working Group** will focus on the needs of start-ups and new companies and will consider strategies for the following initiatives, among others:
 - Skill development for CEOs to grow new companies, which is especially critical for companies attempting to transition from start-up to profitable growth status;
 - Specific methods for populating a comprehensive database of seed and venture capital providers, as well as historical investment information for North Carolina-based start-ups; and,
 - Methods for expanding financing opportunities for entrepreneurs and small business owners.
- **The Growth Company Working Group** will focus on helping profitable companies with growth potential as well as assisting the state with efforts to recruit companies to North Carolina. The group will consider strategies for the following initiatives, among others:
 - Opportunities for better coordination among university, private sector investor and state government initiatives in enhancing business development and recruitment initiatives;
 - Identification of best practices for coordinated recruitment of relocating or expanding businesses;

- Feasibility and design of a senior management mentoring program;
 - Evaluation and recommendations on reducing regulatory barriers to growth and capital investment; and,
 - Advice and recommendations on specific methods for populating a comprehensive database of growth capital providers willing to invest in North Carolina.
- **The Distressed Communities Working Group** will examine opportunities to promote business and employment growth in these communities. The group will consider strategies for tackling the following objectives, among others:
 - Identifying methods for targeting highest-potential business growth opportunities. (For example, how can communities best determine the types of businesses that would be best suited for their specific geography, infrastructure and labor force?);
 - Clarifying high-priority investment needs as well as institutions (and individuals) willing to invest in distressed communities; and,
 - Developing a funding model for expanding technical assistance to businesses and local governments.

The task force will seek to complete a preliminary report by September 2018.

FUTURE MEETINGS

The North Carolina Investment Forum plans to hold a workshop session for obtaining feedback on the task force's initial findings in spring 2018. The forum will reconvene that fall to share findings of the report and consider implementation strategies.

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The Frank Hawkins Kenan Institute of Private Enterprise is a nonpartisan business policy think tank affiliated with the University of North Carolina Kenan-Flagler Business School. Founded in 1985, the nonprofit institute facilitates collaboration between the private, public and nonprofit sectors to build a greater understanding of how entrepreneurship, economic development and global commerce can work for the public good. It leverages best-in-class research to develop market-based solutions to today's most complex economic challenges; in doing so, the Kenan Institute aims to better the lives of people in North Carolina, across the country and around the world. For more information, please visit kenaninstitute.unc.edu.



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