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Tape 4 – Charles Lea

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00:00:00 [Beginning of Recorded Material]

Interviewer: Just so we have it on tape, give me the correct spelling of your first and last name and your firm or affiliation.

00:00:47 Charles Lea: My-my first name is Charles, C-H-A-R-L-E-S, and my last name is Lea, L-E-A. And I'm retired. I'm a former managing director of Dillon Read & Company. And I left th-them back in 1997. So that's been a long time ago.

Interviewer: A good place to start, Charlie, is how venture capital is different from other asset classes. What makes this industry unique?

00:01:20 Charles Lea: Well, the venture capital business is something -- you don't just write a check. You go in and-and-and involve yourself in the business that you're investing in for a small part or a great deal. It may -- the success or failure of the f-firm may depend on what you do. And I think that puts us quite different than a-a money manager in a stock firm or a bond manager or whatever.

Interviewer: How had the industry changed from when you first started to when you retired in '97?

00:02:00 Charles Lea: Well, it had a tendency to grow. And, uh, the size of the transactions we're involved in were -- got very large compared to where we started. For example, in the 1950s, uh, putting a venture capital deal together that might be $750,000, uh -- you might have to pass the hat to two or three other organizations to put in a-a -- some money to create -- complete the transaction.

00:02:36 It was quite a collegial business in the early days, and you developed a lot of pretty good friends i-in those times who knew you and you knew them, and you depended on their good judgments in bad times, and they depended on you from time to time as well. It was a fun business to be in in the early days. As the business grew, the transactions grew. And, um-um, just for example, in 1973, when, um, we were starting the National Venture Capital Association, and I had the, um, privilege or the -- or the misfortune to become the principal lead investor in the Federal Express company.

00:03:28 And that took -- the equity in that was in the neighborhood of -- the first round was $23 million, and the bank borrowings ran to 90 million. And, um, so it was -- even by today's standards was a fairly significant transaction, which meant that we were way out of the leagues of the $750,000 deals that I'd described back in the '50s.

Interviewer: Let's talk a little bit about your investment in Fed Ex. When you see one of those trucks go by, I mean, you got to feel something. Right? I mean --

00:04:06 Charles Lea: Well, it was, um -- it was, uh -- high-risk operation. And, uh, it was a high risk for us. And I spent five years of my life making it work. And, uh, when I first got there, uh, the thing that appealed to me most was the-the quality of the people involved. Uh, the-the founder -- leader of it was a f-young fellow by the n--28 years old by the name of Fred Smith.

00:04:41 He'd had two terms of, uh, marine core duty in Vietnam, first as a grunt, an infantry soldier -- and I-I knew what that was all about, because I'd been one -- and then as a pilot. And, um, I just had a sense that he'd been through enough difficulties so that he would understand that we were dealing with a very difficult, uh, project that was going to take a lot of emotional and physical strain on all of us.

00:05:15 But, um, after several years of really learning what the business was all about, we put the combination of people together. And particularly the chief financial officer, Peter [Wilmont], I have to take a -- my hat off to. And Fred was just incredible, uh, in terms of the hours he spent and the intelligence he brought. And I just sort of was the glue in the works.

00:05:44 I sort of found the money when we had to and when -- at the last moment, um, we made it work. And finally, uh, one day we woke up to the fact that those little airplanes flying all over the country were generating a positive cash flow, and we could pay our bills. And two years later, I guess, we went public. And the company, for multiple years, let's say five or six years, just did fabulously.

00:06:16 And, um-um, I'm happy I was there. But a lot of times, I was very unhappy that I was there.

Interviewer: Let's talk about what you see as the components of success for a relationship between an entrepreneur and a VC. What's got to be there to make it work?

00:06:36 Charles Lea: It's got a lot -- to be a lot of very good chemistry, because you're going to go through a lot of very tough times together. And you have to know this person, and you have to like him. You have to have a sense of community and regard and, uh -- and you have to know when to leave him alone and when to -- you have to jump into his rumble seat, if you will. And, um, you have to know what's required. And having been through this process any number of times, you kind of have an innate sense of what's going to happen.

00:07:17 And, uh, you have to be ready for what happens, because most of it isn't very good news.

Male Voice: I'm sorry. We're going to have to do that again, because he didn't mention the relationship between a venture capitalist and an entrepreneur. [unintelligible]

Interviewer: Okay. I'm going to ask you the question again. Give it to me in a complete sentence. They won't hear my voice, only yours. So how would you describe what the key components are to a successful relationship between a VC and an entrepreneur.

00:07:52 Charles Lea: It is, um -- it's a-a very close, uh, personal relationship that's focused primarily on the-the objectives of the business, of course. But also, when you invest in a high-risk situation, you're also investing in him and his family, and he's really almost part of yours, in that -- you've got to bring all those component parts together.

00:08:22 You have to understand each other. It's like being in combat. You have to have a pretty intimate knowledge of who your partners are and what they're doing.

Interviewer: What's the most difficult part of the job?

00:08:40 Charles Lea: In a lot of ways, the most difficult part is saying goodbye. You've, uh, spent your -- a lot of hours and a lot of days, weeks, months, years on a project, and it's had its ups and downs. And then suddenly one day you arrive at that scene where it's-it's time to say goodbye and where you're going to be selling your interests or merging it or whatever, and you say goodbye to a-a whole group of people that you've become totally involved with.

Interviewer: Other than Fed Ex, what are some of your other investments that really make you proud or you're delighted to have been a part of?

00:09:34 Charles Lea: Well, there are a number. I've been involved with many companies. Um, I can't -- I believe there's got to be easily a hundred at one -- o-of one kind or another. But I-I was a founding director of Amgen, for example. And this has been a successful biotechnology company. And I didn't remain a director for terribly long, but, uh, I was there at the beginning, and I'm very proud of having done that.

Interviewer: What advice would you give to VCs who are just now starting out?

00:10:11 Charles Lea: I would say that they're looking at a very difficult environment. And my advice is that, um -- make sure your-your chinstrap on your helmet is pretty fastened, because you're going to go for a bumpy ride for awhile. And, um -- but the-the thing that brings you through is your ethics, your transparency with your partners, telling the truth, and-and putting in the time and effort that you have to put in to make this thing a success.

00:10:55 Because it's on your broad shoulders that the enterprise may-may rise or fall. And you've got to be prepared to take that role of leadership.

Interviewer: Is there anything that you think is important for us to capture that my questions haven't brought out, anything that you'd like to share?

00:11:19 Charles Lea: Well, the-the -- I -- when I was asked to come here, I-I felt a little bit like Rip Van Winkle in that I haven't -- this is 35 years ago when we started this project in a rainy hotel room in O'Hare Field in Chicago, where three people sat down and-and we were in great difficulty in our business, and, um, we sat down and tried to figure out what we had to do.

00:11:53 And we-we went to Washington, D.C. and began that trudge down the halls of Congress. And that's what people have to do today. They have to get the -- personally go down and-and get themselves involved in the process. Somebody else is not going to do it for them. And that was-that was -- we didn't want to go to Chicago and have this meeting, uh, the three of us, but we knew that nobody else was going to do it, so that's why we went.

00:12:28 And that's what people are have -- going to have to do today.

Male Voice: I would just -- can you ask him -- I mean, there was a group of characters that -- who got together. What was the common thread? What were you guys like? What --

Interviewer: I'll just repeat Charles's question. We've heard the same names come up in terms of the founders of the NVCA. Could you describe a little bit of the shared passion and the energy and the common thread that ran among all of you?

00:13:04 Charles Lea: The-the common thread was that each of us either had raised or committed a very substantial amount of capital to a fund or funds, um, that we were responsible for. And we were looking at a -- an environment in 1973 that was pretty desolate. And we knew that if we were going to raise the -- have the kind of returns that we'd led people to expect from us, that we were going to have to change that environment. And we did.

Interviewer: Excellent. Thank you.

00:13:53 [End of Recorded Material]