Overview of Venture Capital Programs with State Small Business Credit Initiative Funding

Education · Advocacy · Research · Resources · Networking

September 22, 2021
Speakers

Nicole Washington
Boralogix
Angel Capital Association

Clay Rankin
North Coast Ventures
Angel Capital Association

Maryam Haque
Venture Forward

Justin Field
National Venture Capital Association
Speakers

Karl Fooks
U.S. Department of the Treasury

Katie Kramer
Council of Development Finance Agencies

Rachel Reilly
Aces & Archers
Council of Development Finance Agencies
Agenda

- What is equity capital?
- Why is equity capital investment important?
- How is equity capital invested?
  - Angel Investment
  - Venture Capital Investment
- SSBCI 1.0 experience with equity programs.
What is equity capital investment?

*Common structure, unique results*

Equity investment into company, new ideas

- That couldn’t be financed with traditional bank financing
- With high-growth trajectory that threaten to established products/services or creates new sectors
- That take 8-10+ years to reach maturity

There is little/no actual company value unless it’s acquired or goes public
What is equity capital investment?

*Common structure, unique results*

Economic alignment among all stakeholders

- Value/success is **not** driven by quick returns, financial engineering, debt, or transaction fees
- Founder benefit: appreciated stock/stock options
- Employee benefit: stock options
- VC investor & LPs split the gains
- LP benefit to their constituents (endowments, foundations, pensions)

Failure is inherent: most equity-backed startups fail!

- Strong ecosystems help startups survive
- Industry standard investment practices generate success
Equity capital-backed startups drive net job creation

Startups in operation for 1-5 years and those growing to have 20+ employees play a large role in community net job creation; employment concentrated in businesses with high levels of STEM employees.

Source: Congressional Research Service, 2021

Cannot be financed with traditional bank financing. Typically require 5 - 8 years (or longer!) to reach maturity.
Equity capital + founder build companies from scratch

Five of the largest public companies today by market cap
- Apple
- Alphabet
- Microsoft
- Facebook
- Amazon

Disrupting traditional industries/creating new industries
- Uber
- Box
- Twitter
- OpenTable
- Stitch Fix
- Tesla
- Intel
- Cisco
- Airbnb
- eBay
- Netflix
- LinkedIn

Life-saving technologies
- Gilead
- Juno Therapeutics
- Genentech
- Moderna
- Clovis Oncology
Capital continuum

Equity capital is a continuum of investment that turns an idea into a startup and grows it into a company.
Equity capital investment path is long

Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors
Equity capital’s vital role in startup growth

More than money

**IDEA / START-UP**
SEED/ANGEL INVESTOR
• CONCEPT → PRODUCT
• PRODUCT RISK
• SMALL CASH NEED
• NO REVENUE

**EARLY DEVELOPMENT**
EARLY STAGE VC
• BUILD TEAM & Co.
• MARKET RISK
• LARGER CASH NEED
• NO PROFITS

**GROWTH**
LATE STAGE VENTURE
• SCALE Co. → EXIT
• EXIT RISK
• HIGH CASH NEED
• PATH TO PROFITS
Type of startup suitable for equity capital investment

**INNOVATIVE**
Product or service with potential to disrupt a market

**TALENT**
Management team able to execute the business model

**HIGH GROWTH**
Able to reach/capture a large market segment

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Angel Capital Association

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World's largest association of accredited angel investors

- 14,000 investors
- 270+ Angel groups
- Accredited platforms
- Family offices
- Individual angels
- Every U.S. state & 5 Canadian provinces

Mission: Fuel success of angel groups and accredited investors, as well as the early-stage companies they support

www.angelcapitalassociation.org
The Impact of ACA Angels

Entrepreneurs can find funding from many sources, but money alone cannot create success. Angels are unique, wrapping needed funding around crucial seasoned mentorship and industry connection. This proven formula drives true growth and success.

ACA is the largest supporter of investment (of both start-up capital and pro bono expertise) in entrepreneurship. Annually, ACA's 14,000 members provide:

- More than 1 million pro bono hours to entrepreneurs.
- Almost $2 billion of after-tax financing to over 3,000 high growth companies annually. These investments are leveraged approximately 5.5X from other capital sources.
Angels fund the majority of startups in the USA

Angels Provide ~90% of Outside Equity for Startups

Angel Investors
- $23.9 billion
- 63,730 deals
  - 23,580 seed
  - 27,400 early stage
  - 12,750 expansion
  - > 320,000 individuals

Venture Capital
- $156+ billion
- 321 mega deals
- 250 SPACs
- 3500+ Early Stage

Sources: Center for Venture Research UNH 2019; NVCA 2020 Yearbook
What is an Angel Investor?

Angel investors are high net worth individuals who invest their own money into seed stage startup companies, providing much-needed capital to bring new companies to market.

- Angels can be anyone in the US that meet the following criteria:
  - Annual income of $200,000 ($300,000 if married) or $1m in net worth minus your home. (New Sophistication rules pending)

- Angels also give of their time (1,000,000 volunteer hours every year to start ups).

- Angels care about Entrepreneurs and their local community.

- “Entrepreneurs are the engine for economic growth and Angels are the fuel for that engine.”
Types of Angel Investors

**SOLO ANGELS**
Individual investors, independent investment decisions, conduct own due diligence, "Lone Wolves"

**NETWORKS**
Group vetting of companies, individual investment decisions, membership fees, training opportunities (Atlanta Tech Angels, Golden Seeds, Pipeline Angels)

**FUNDS**
Committed capital over a period of years, pooled investments, investment decisions made by management team or fund members (North Coast Ventures, The Jump Fund)
Why do people become Angel Investors?

- Help build innovation in their local community.
- Help job creation.
- Utilize skills and expertise developed over a lifetime.
- Generate financial returns.
Angel Group deal flow process

1. Referral
   - Online Application

2. Pre-screening

3. Screening
   - Member Interest
   - Lead Investor
   - Alignment on Terms

4. Final Term Sheet & DD Report

5. Due Diligence

6. Herd Investors

7. Syndication with Others

8. Close Fundings (1%-5% of Deals)
Diversity, Equity and Inclusion progress

We celebrate progress.
At the same time, we see ongoing inequities and a trove of missed opportunities.

- ACA has shown its ability to advance women in Angel investing and entrepreneurship - Women Angels grew from just 5% to 27% in the past decade

- Started programs with investors and entrepreneurs in other underrepresented groups in an equally focused manner.

- We see the opportunity to increase prosperity while narrowing persistent wealth gaps.
Speakers

Maryam Haque  
Venture Forward

Justin Field  
National Venture Capital Association
About NVCA & Venture Forward

Empowers the next generation of American companies that will fuel the economy of tomorrow.

As the voice of the U.S. VC and startup community, NVCA:
- Advocates for pro-startup public policy
- Is the leading resource for venture capital data
- Convenes participants in the startup ecosystem to generate peer-led initiatives, facilitate networking, and provide practical education

About the NVCA SSBCI Working Group:
- Working group of ~50 NVCA member funds who provide expertise and analysis regarding SSBCI implementation
- Workflows include providing comments on the Treasury policy guidelines and crafting a best practices document for state economic development officials regarding industry standards and other recommendations for equity programs
About NVCA & Venture Forward

Drives the human capital, culture, values, and narrative of venture capital to promote a strong and inclusive community that will fuel the economy of tomorrow.

501(c)(3) supporting organization to NVCA

Focus on:
- Diversity, equity & inclusion (LP Office Hours)
- Education (VC University)
- Research (VC Human Capital Survey)
- Industry history (Partnership with Computer History Museum)

Impact stats:
- Educated 1,400 new, aspiring & early-career VCs
- Collected & reported DEI data from 375+ VC firms
Equity capital for high-growth businesses

Founder + VC = Growth
Venture capital investors partner with entrepreneurs

### Frequent VC contact with portfolio companies

- Every day: 1%
- Once a month: 10%
- 2-3 times a month: 26%
- Less than monthly: 2%
- Multiple times a week: 27%
- Once a week: 34%

### Advice VCs provide to portfolio companies

<table>
<thead>
<tr>
<th>Type of Advice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic guidance</td>
<td>87%</td>
</tr>
<tr>
<td>Connect investors</td>
<td>72%</td>
</tr>
<tr>
<td>Connect customers</td>
<td>69%</td>
</tr>
<tr>
<td>Operational guidance</td>
<td>65%</td>
</tr>
<tr>
<td>Hire board members</td>
<td>58%</td>
</tr>
<tr>
<td>Hire employees</td>
<td>46%</td>
</tr>
<tr>
<td>Other</td>
<td>20%</td>
</tr>
</tbody>
</table>

Venture capital fund structure
Venture capital cycle

**Fundraising**
VCs raise capital for funds from LPs.

**Investment**
VCs typically invest in young, high-growth companies in need of capital to scale.

**Company Growth**
VCs provide active management and act as advisors & mentors, taking board seats, providing strategic advice, facilitating introductions.

**Exit**
After about 5-10 years of creating a high-growth company, the VC exits its stake via an acquisition or IPO. IPOs have more advantages: greater capital raised, higher returns, local job creation.

**Returns**
In addition to companies benefiting, VCs and LPs make a profit on their investment. High-quality jobs are created, more capital is available for university research, retirees have more for retirement, foundations have more resources to fund their work.

**Re-investment**
The fund ends when all investments have been exited and proceeds have been distributed to LPs. LPs can then reinvest earnings in a new crop of funds.
Venture capital investors at a glance

Active Investor Count in 2020 Deals by Investor HQ State

At end of 2020:

- **2,500** active US VC investment firms
- Managing **$550B** in assets & 2,000 funds
- About **2/3** of firms manage **< $100M**
- **$25M** = Median fund size out CA, MA & NY (vs. **$100M** in CA, MA & NY)

Source: NVCA 2021 Yearbook, Data provided by PitchBook
Note: This map breaks out active VC investors by their HQ state. Note that active VC investors headquartered outside of the US are not included in this map.
VC-backed companies

Innovation and impact

- 11,000 companies raised an aggregate of $164B in VC funding in 2020
  (30 companies raising $450M each day)

- Sectors with most VC in 2020:
  - Software (31%)
  - Biotech & Pharma (17%)

- 50% of US IPOs since 1978 have been VC-backed companies
  Those VC-backed companies account for 92% of R&D and 77% of market cap

Diversity, Equity, and Inclusion

Challenges and opportunities

% of investment partners among each group

- Hispanic: 3% (2018), 4% (2020)
- Black: 3% (2018), 3% (2020)
- Asian/Pacific Islander: 15% (2018), 15% (2020)
- White: 80% (2018), 78% (2020)
- Female: 14% (2018), 16% (2020)
- Male: 86% (2018), 84% (2020)

2020 VC Assets Under Management for Firms Headquartered in CA+NY+MA vs. Rest of U.S. ($B)

- CA+MA+NY: $83, 15%
- Rest of U.S.: $465, 85%

2020 VC Investment into Companies Headquartered in CA+NY+MA vs. Rest of U.S. ($B)

- CA+MA+NY: $44, 27%
- Rest of U.S.: $120, 73%
Speakers

Karl Fooks
U.S. Department of the Treasury
Equity capital programs in SSBCI 1.0

- 35 States implemented an equity capital program
  - 24 implemented Direct Investment Programs
  - 8 implemented Fund Investment Programs
  - 3 implemented both
- $431mm or 30% of total SSBCI Allocation was for equity capital programs
- Equity Capital Programs were able to exceed the 10:1 Leverage Ratio goal.

<table>
<thead>
<tr>
<th>Program Type</th>
<th>SSBCI Allocation ($millions)</th>
<th>SSBCI Funds Expended ($millions)</th>
<th>Total New Financing Leveraged including Subsequent Private Financing ($millions)</th>
<th>Total Subsequent Private Financing ($ millions)</th>
<th>Leverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Access</td>
<td>$40</td>
<td>$28</td>
<td>$640</td>
<td>$0</td>
<td>22.54:1</td>
</tr>
<tr>
<td>Collateral Support</td>
<td>$269</td>
<td>$238</td>
<td>$1,325</td>
<td>$0</td>
<td>5.57:1</td>
</tr>
<tr>
<td>Loan Guarantee</td>
<td>$246</td>
<td>$182</td>
<td>$1,395</td>
<td>$0</td>
<td>7.66:1</td>
</tr>
<tr>
<td>Loan Participation</td>
<td>$474</td>
<td>$419</td>
<td>$3,157</td>
<td>$270</td>
<td>7.53:1</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>$431</td>
<td>$327</td>
<td>$4,171</td>
<td>$2,035</td>
<td>12.76:1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,460</strong></td>
<td><strong>$1,195</strong></td>
<td><strong>$10,688</strong></td>
<td><strong>$2,305</strong></td>
<td><strong>8.95:1</strong></td>
</tr>
</tbody>
</table>

Source: SSBCI: Summary of States’ 2016 Annual Reports
State Venture Capital

Direct company investment

States used Co-investment Programs to implement direct investments
State Venture Capital

Fund Investment

STATE LEVEL

FUNDS LEVEL

COMPANY LEVEL

Limited Partner
Limited Partner
Limited Partner
Limited Partner
Limited Partner
Limited Partner

Manager
Fund/Entity
Manager
Fund/Entity
Manager
Fund/Entity

Company
Company
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Company
State program design considerations

- Equity Capital Programs are effective when they address gaps in the financing continuum
  - Understand your startup ecosystem
    - Entrepreneurs
    - Startup Events/Pitch Competitions
    - Venture Development Organizations
    - University commercialization programs
    - Angel Investor networks
    - Venture Capital Funds
    - Service providers, including media partners

- Ability to reach Socially and Economically Disadvantaged Individuals
State program capacity considerations

- State/program regulatory constraints – able to invest?
- Expertise – ability to recruit/retain team?
- Procurement process – RFP?
- Decision making process – Fast?
- Monitoring and reporting process
Q & A

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