

Agency of Commerce and Community Development

Report on Financing and Networking Events

In Response to Act 199, Sec. 7, Networking Initiatives

January 15, 2015

Prepared by Lisa Gosselin, Commissioner of the Department of Economic Development

I INTRODUCTION

In 2014, the Vermont State Legislature passed Act 199. One area of focus of this important act was how to better connect Vermont's emerging businesses and entrepreneurs with the financing they need. Among many other things, Act 199 provides new tools for financing, including the Entrepreneurial Lending Fund and the Vermont Small Business Offering Exemption (VSBOE). It asks for the Department of Financial Regulation to examine crowdsourcing and to report on events held to educate the public about the VSBOE. And it tasks the Agency of Commerce and Community Development to work with its partners to improve the outreach and communication around these new tools and, via its partners, to support networking both between and among capital providers, investors and entrepreneurs.

Specifically:

** * * Connecting Capital Providers and Entrepreneurs * * **

Sec. 7. NETWORKING INITIATIVES

(a) The Agency of Commerce and Community Development shall support networking events offered by one or more regional economic development providers designed to connect capital providers with one another or with Vermont entrepreneurs, or both, and shall take steps to facilitate outreach and matchmaking opportunities between investors and entrepreneurs.

(b) The Agency shall submit to the House Committee on Commerce and Economic Development and to the Senate Committee on Economic Development, Housing and General Affairs a report on or before January 15, 2015 concerning the structure of

networking initiatives, the relevant provisions of governing performance contracts, the benchmarks and measures of performance, and the outcomes of and further recommendations for the program.

The following is a report on the activities that have been undertaken in the last six months since the act was passed and recommendations for going forward.

II SITUATION

Vermont is a state that is known for its entrepreneurial activity. The 2012 Kauffman Index for Entrepreneurial Activity ranked Vermont fifth among all states, with “520 per 100,000 adults creating jobs each month.” According to the JOBSIMPACT Small Business Crowdfunding Index, Vermont is among the top 3 states for crowdfunding, behind Washington, DC and New York, and ahead of Oregon, California, and Colorado. This past year saw Slow Money, the organization that promotes investing in local and sustainable enterprises, open a chapter in Vermont. And in December 2014, *Inc. Magazine* put Burlington-based social media start-up Ello on a list next to Uber as one of the 9 Most Significant Venture Deals of 2014.

Some of the state’s largest and fastest-growing businesses today —Keurig Green Mountain Coffee, Dealer.com, MyWebGrocer, Vermont Teddy Bear, Mack Molding, Against the Grain Gourmet, Vermont Hard Cider – were started here by visionary entrepreneurs. These businesses have grown to employ thousands. And as they have grown, the number of new small businesses and start-ups has grown too. Today, according to the Department of Labor, 78% of Vermont’s 22,751 establishments employ fewer than 10 people, accounting for 20% of the workforce.

The state recognizes the critical importance of these small businesses, and the resilience and vitality they bring to both our economic and social environment. It has sought to support them in numerous ways, most critically to ensure that they have access to the three key factors that determine the growth or death of an early stage company:

- Advice and mentoring
- Financing and capital
- Talent – in the workforce and in leadership

To provide any one of these three alone without the others is like providing water, but neither air nor soil for a plant to grow. All three are available but in limited supply. If anything, in Vermont the financing is the most easily accessible element: in general, there is supply. Yet, like water, financing can drown a company if it is not carefully applied and calibrated to their needs. Or, without care, it can evaporate within a matter of weeks. In Vermont 2020, the first statewide Comprehensive Economic Development Strategy, the first of four key action areas identified is providing better access to “Finance and Capital” with a target of bringing in more than \$200 million in new investment instruments to the state by 2020.

While this report focuses on networking events that help connect entrepreneurs with investors and capital, it will also take into account the technical assistance and mentoring many organizations provide.

III THE CHALLENGE

“I have a great idea but I can’t get financing.”

That’s the cry that set in motion this report and a push to find ways to provide better access to capital. It also prompted the Department of Economic Development to conduct an informal survey to better understand why. After speaking with start-ups, technical assistance providers, venture capital firms, individual investors, banks and lending institutions, a number of recurring answers surfaced. The most frequently heard comments were:

- The business was a viable idea but did not have a good business plan
- The business was not a viable idea, and probably should not be financed or encouraged
- The business owner did not have a strong track record as an entrepreneur
- The business did not have enough fixed assets to serve as collateral
- The business did not know whom to ask for what type of financing
- The business was not scalable.

As one partner of the Department of Economic Development put it, “by saying ‘no’ to an entrepreneur who is truly not prepared, we are saving mortgages and marriages.” In other words, if the business idea does not have legs, it is in everyone’s best interests to encourage the prospective business entrepreneur to reformulate his or her plan.

Yet, to breed a higher rate of success, Vermont also has to create a higher tolerance for risk and failure. The challenge is to educate entrepreneurs on how to write and present better business plans and learn whom to ask for what. The challenge is also to help traditional lenders understand new and unconventional businesses. Historically, Vermont has a track record of being good at this. After all, two self-proclaimed hippies started an ice cream company (Ben & Jerry's) that is now worth millions. And one gentleman with a background building EZ-Wider rolling papers created a highly successful coffee roasting company (see Bob Stiller, Keurig Green Mountain). Yet today we also need to better educate financial lending institutions on how to gauge the success of new "digital economy" ventures that often have no fixed assets, few employees and often work in a virtual market that can go viral or go bust in minutes.

It is those efforts to not only physically better connect the entrepreneur and "investor" but to help the two entities better understand each others' needs and situation that the Department of Economic Development sets out to foster and will report on here.

IV SUMMARY OF ACTIVITY

Since the end of the legislative session, the Agency of Commerce and Community Development and partners {including the Vermont Center for Emerging Technologies (VCET), the Regional Development Corporations (RDCs), the Vermont Small Business Development Center (SBDC), the Small Business Administration (SBA), the Vermont Sustainable Jobs Fund (VSJF), the Vermont Economic Development Administration (VEDA) and others} supported more than 25 networking events around the state focused on connecting investors and entrepreneurs. The events reached more than 700 businesses and entrepreneurs (*see Appendix 1: FY15 Calendar of Events*) and helped educate them as to the opportunities available for financing, the types of financing and capital available, and how to best access it.

In 2014, the Agency of Commerce and Community Development strengthened requirements in its performance contracts with the Regional Development Corporations (*Appendix 2: Example: Mid-Year Report from Addison County Economic Development Corporation*). For FY 2015, contracts include provisions that the RDC must host a networking event focused on access to financing and capital. The current benchmark is participation with the goal of increasing participation from year to year.

This is the first year the requirement is in place and this report only reflects the first six months of the year-long contract. The Agency has requested reports on progress and outcomes based on these events. While there have been some direct results, financing is not something that happens overnight and results may not be apparent for some time. As is noted in Vermont Center for Emerging Technology (VCET) annual report:

“The investment process from initial screening to closing can range from 8 weeks to 2 years, depending on the readiness of the business proposition, team, coinvestors required for a sufficient round of finance and signals of market traction/demand for its products or services. The process averages about 35 months from start to closing.”

Outside of pitch events where financing or prize money is directly tied to the outcome of the event, it is difficult to directly attribute a measurable outcomes. Yet, we will do our best to paint an aggregate picture.

V. PRIMARY PARTNERS

While there are numerous lending partners throughout the state, included here are the key partners the Agency of Commerce works directly with or supports via grants and/ or sponsorship.

A. VCET/Vermont Seed Capital Fund

In 2010, the Vermont Seed Capital Fund, LP (“Fund”) was created to provide early stage, high risk technology companies with risk capital in the form of equity or convertible debt to start, create wealth and grow next generation employment opportunities. Since then, the fund’s administrator, the Vermont Center for Emerging Technology has assisted more than 900 entrepreneurs and now has 43 firms in its portfolio. The companies in VCET’s technical assistance and capital portfolio have generated \$72 million in revenue, \$54 million in payroll and \$76 million in capital. In 2013, VCET was named the 11th best college or university-based incubator in the world by the Stockholm University Based Incubator Index.

“Start-ups Wanted” reads the home page of VCET’s web site. Among the 18 start-ups VCET has financed are Pwnie Express, the cyber security firm; BityBean child carriers, Faraday (which just won a Department of Energy \$1 million grant), mobile app Yonder (which also received a \$1M investment from Monster.com) and many others.

VCET’s outreach and networking events called “Techs@s” take place at its new office space in Burlington’s Fairpoint building, its Middlebury co-working space and in outposts around the state, ranging from Bennington College to Montpelier’s Local64 co-working space to White River Junction’s Tip Top Cafe. In the past 12 months, VCET has held approximately 7 networking events attended by more than 400 and met with more than 212 entrepreneurs and start-ups.

The \$2.8 million VCET has invested has attracted more than \$35 million in additional financing. Each dollar invested by the fund has seen a 4.7X capital leverage at initial investment and nearly 13x investment in subsequent rounds.

VCET Director David Bradbury shares the following observations about the entrepreneurial scene in Vermont:

- *“Never has there been more venture or high risk financing in the U.S. and in Vermont than in recent years. The data shows that more teams get funding and that these fundings are growing in size. This certainly reflects our experience at the Vermont Seed Capital Fund and my personal experiences*
- *Vermont start-ups have record, unfettered and multiple points of access to people, networks, angel groups, accelerators, incubators, Econ Dev professionals around financing and for financing both in Vermont and regionally than ever before.*
- *We find that the 1:1 counseling for entrepreneurs around financing (let alone other aspects) is the most effective and impactful. The large event or panel forums are fine but generally a teaser to someone requiring a more substantive discussion with experts.*
- *With the rise in entrepreneurship and start-up interest following 2008-09 recession, more teams, ideas and efforts have begun. Consequently, more teams and start-ups are funded and many more go not funded. This is just math.*

- *Angel investors are more limited and aging. Our state needs a greater number and a greater diversity of high net-worth people who want to gamble on start-ups and early stage teams. That is the limitation in the family, friends and angel investors.”*

Increasingly, and with full support of the Department of Economic Development, VCET is reaching outside of Chittenden County to explore new partnerships. The Department worked with VCET to support its grant application this past fall to the federal Economic Development Authority Innovation Grants to engage in more outreach and investing around the state, and identified this project as a top priority in our Vermont 2020 Statewide Comprehensive Economic Development Strategy (CEDS).

Bradbury outlines the two following challenges for VCET moving forward:

1) *“We need more professionally-managed seed capital to invest in ready, prepared teams with high potential for success. While the Fund is still making new investments, the pace and amount will be less as we work with the current portfolio to grow, succeed and then return capital to the fund for reinvestment.*

2) *Our region lacks a professional investor able to consistently fund \$750k - \$1.5M investments per transaction to lead syndicates in the \$3M-\$10M range. This impacts high tech firms and manufacturers that require more capital and longer time horizons.*

B. Small Business Administration

The U.S. Small Business Administration guarantees loans made by banks and credit unions so that they can make loans to small businesses whose loan requests fall outside the bank or credit union’s normal lending policy, for example with respect to collateral or term needed. Nearly every bank and the larger credit unions in the state use SBA.

Vermont’s SBA also lends money to microlenders such as Community Capital of Vermont (CCofVT), Vermont Community Loan Fund (VCLF) and Northern Community Investment Corporation (NCIC) who make SBA microloans up to a maximum of \$50,000 each. Microloans are particularly important to the Vermont economy because they fund many of the start-ups that banks and credit unions are not able to fund due to lack of collateral or limited track record or credit history.

The Vermont Economic Development Authority and NCIC are both important partners to SBA. They offer SBA 504 loans which are for equipment and real estate and allow a low equity injection of only 10%. NCIC is also an SBA Community Advantage lender and microlender. The Vermont Economic Development Authority (VEDA) was just approved by SBA to offer another SBA loan program, a loan guarantee wherein VEDA can apply an SBA guarantee on loans up to \$250,000 such as those they approve under their entrepreneurial loan program.

In the past six months, the Small Business Administration hosted or participated in more than 14 events around the state, often in partnership with the regional economic development corporations (RDCs). A list of these and other events is attached in *Appendix 1: FY 15 Calendar of Events*.

Both 2013 and 2014 were record years in the number of microloans made. Many went to agribusinesses and to a younger demographic of entrepreneurs. In 2014, the Vermont SBA office approved 272 small business loans for a total of \$39,200,154. This is a 30.14% increase in the number of SBA small business loans over 2013, and a 25.38% increase in the dollar amount of total small business SBA loans approved. In 2013, VT SBA approved a total of 209 loans for \$31,263,057. Please see the attached chart *Appendix 2: SBA Lenders*, for the intermediaries who made these SBA loans.

Next year, Vermont hopes to put in place the US SBA Emerging Leaders program (US SBA has made a commitment for this) which is an intensive entrepreneurial training program focused on growth for businesses that have revenues of at least \$400,000 and have been in business 3 years. It is a 7-month program for 15 to 20 businesses, two sessions per month and with CEO mentoring and business networking via a national network. This program will not have a fee and the state does not have to provide any match. Emerging Leaders has been operated across the country since 2008 in large cities. It will be very significant for Vermont to provide this intensive entrepreneurial training at no cost to the businesses. It has been a proven program for job creation as well as revenue growth.

C. The Vermont Economic Development Authority

The Vermont Economic Development Authority (VEDA) has typically provided low-interest loans and financing to many of Vermont's growing businesses, businesses ranging from Logic Supply and Clarendon Solar Farm to Black River Produce and Freedom Foods to Graham Farms Partnership and Green Mountain Distillers. This year VEDA was armed with the new Entrepreneurial Loan Program which was created in 2014 under Act 199 as a means to provide new and growing Vermont businesses access to working capital and capital-asset financing. The program is aimed at businesses in seed, start-up or early growth stage that do not meet the underwriting criteria of other public and private entrepreneurial financing source.

To qualify, businesses should have innovative products or services that have the potential for long-term organic growth and must demonstrate potential to create/retain employment opportunities for Vermonters. The proceeds may be used to purchase capital assets and/or for working capital or to refinance existing company debt in early stage companies, in certain cases. The term of the low-interest loan is based on assets being financed. Preference may be given to:

- *Businesses that create jobs in strategic sectors, such as the knowledge-based economy, renewable energy, advanced manufacturing, wood products manufacturing, and value-added agriculture.*
- *Businesses located in a designated downtown, village center, growth center, industrial park or other significant geographic location recognized by the State.*
- *Businesses that adopt energy and thermal efficiency practices in their operations or otherwise operate in a way that reflects a commitment to green energy principles.*
- *Businesses that will create jobs that pay a livable wage and significant benefits.*

VEDA, the Agency of Commerce and its partners have worked to publicize this new loan program. In the first half of FY15, VEDA used this new tool to provide \$1,305,000 in loans to 8 businesses. In addition, during this same period VEDA has provided \$5,832,788 in financing to more than 30 small businesses. Six months into FY15, VEDA has nearly matched the dollar volume (\$6,841,875) of loans to small businesses it did for the entire 12 months of FY14.

VEDA DIRECT COMMERCIAL LOAN APPROVALS						
	FY 2013		FY 2014		FY 2015 (HALF YR)	
	#	TOTAL	#	TOTAL	#	TOTAL
TOTAL APPROVALS	80	\$28,010,422	84	\$31,088,989	71	\$16,584,227
BY PROGRAM:						
COMMERCIAL	28	\$20,279,949	15	\$17,028,584	18	\$6,391,423
SMALL BUSINESS	48	\$6,729,495	55	\$6,841,875	30	\$5,832,788
ENERGY	4	\$1,000,978	14	\$7,218,530	15	\$3,055,016
ENTREPRENEUR ^A	2	\$375,000	0	\$0	8	\$1,305,000

^AThe VEDA "Technology Loan Program" ended in FY 2013; VEDA started it's "Entrepreneurial Loan Program" in FY 2015.

D. Vermont Sustainable Jobs Fund and Flex Capital Fund

The Vermont Sustainable Jobs Fund's Flexible Capital Fund offers a new kind of flexible risk capital that brings with it instant access to Peer-to-Peer networks, mentorship and technical assistance to sustainable businesses. The Flex Fund provides growth stage financing for value-added agriculture, forestry and clean technology businesses. It is the only licensed lender in Vermont that offers innovative royalty (or revenue-share) financing that allows for income and upside to investors while preserving ownership and mission for Vermont's founder entrepreneurs. The Flex Fund raised \$3.7 million in private capital (equity) and an additional \$600,000 in US Treasury Funds to invest in Vermont's growing working lands businesses. Since 2012, the Fund has invested over \$1.5 million in 6 growth stage businesses who have since then created or maintained over 79 jobs and leveraged over \$15 million in additional financing.

The Flex Fund and VSJF participate in numerous outreach efforts including the Peer to Peer Collaborative, a CEO advisory program that pairs three proven Peer Advisors (at the CEO, COO and CFO level) with businesses for a 12 to 18 month period to help them accelerate growth and navigate financing and other growth challenges. The Agency of Commerce is currently working with the VSJF to map a continuum of technical and financial assistance available to small businesses. The VSJF's initial work can be seen in *Appendix 4: VSJF Capital Continuum*.

E. Technical Assistance Partners

The Agency of Commerce works most closely with the 12 Regional Development Corporations and the regional counselors of the Small Business Development Center to provide technical

assistance and outreach to businesses around the state. Their role is to help connect businesses with the appropriate financial partner and raise awareness of financing opportunities. RDCs may also act as lenders.

1. Vermont Small Business Development Center

The Vermont SBDCs operate in tandem with the Regional Development Corporations (RDCs) to assist small businesses, especially start-ups, in all aspects of growth. Since June, 2014, the SBDC counselors have held 14 “Starting Your Own Business Workshops” and reached more than 80 entrepreneurs. Two of the events were held this year at Community National Bank, and put lenders directly in touch with entrepreneurs. Each workshop is four hours and includes one hour devoted to all the financing aspects of a start-up.

2. Regional Development Corporations (RDCs)

The Regional Development Corporations often work as regional lenders or as connections to lenders. The Agency of Commerce and Community Development has performance contracts with the Regional Development Corporation and for FY 2015, has included provisions that the RDC must host at least one networking event focused on access to financing and capital. *Appendix 1: FY15 Calendar of Networking and Financing Events* details what events each RDC participated in, often in conjunction with the SBA, SBDC and other partners. The current benchmark is participation with the goal of increasing entrepreneur participation from year to year.

One notable event that was deemed highly successful by participants was the Financing the Working Landscape event put on by the Addison County Economic Development Corporation in November. (*Appendix 5: Financing the Working Landscape Agenda*). This event, geared to businesses at various stages, drew more than 100 participants and allowed entrepreneurs to present the challenges they face and receive coaching. This event will be repeated next year in the Northeast Kingdom region and rotated around the state.

Another example of indirect, yet positive outcomes, of these events: During a Lamoille County financing and networking event, Morrisville retailer Power Play Sports learned of an opportunity to pursue a government contract. With help from the Department of Economic Development' Procurement Technical Center, Power Play won the \$46,000 contract to supply lacrosse gear to the Coast Guard.

Moving forward, the Agency has requested that RDCs and the Small Business Development Centers (SBDCs) begin work now to identify and help prospective entrepreneurs prepare business pitches for upcoming FY 16 pitch contests such as Road Pitch, Peak Pitch, Launch VT, StartUp Vermont, Slow Money Vermont and others.

What is not documented here are the many smaller and more targeted organizations and lenders that provide financing opportunities and events focused on certain smaller sectors such as agriculture, clean energy and forestry.

It should be noted as well that the Vermont Investors Forum, an annual forum that for 15 years matched entrepreneurs and equity investors, is no longer being organized and that is a gap here. The Agency will work with partners over the next six months to determine how to best address this.

G. Business Plan and Pitch Contests

Pitch contests have become an increasingly valuable way for entrepreneurs to connect with investors, to perfect their business pitches and to learn from and connect with each other. In 2014, the Agency of Commerce and Community Development encouraged and/or supported the following events:

1. LaunchVT

This business plan competition pairs entrepreneurs with mentors and investors over a series of seminars that help them prepare for a pitch "finals." There, the winner collects \$25,000 in cash and an additional \$45,000 in in-kind donations from businesses that can offer legal, marketing, accounting and other expertise. In 2014 LaunchVT was invited to present at the Massachusetts Sandbox Summit as an innovative way Vermont is

connecting entrepreneurs and investors. While the program began under the auspices of the Lake Champlain Chamber of Commerce, it has attracted businesses from around the state. The 2014 winner, IrisVR, is a developer of a virtual reality tool that allows architects and others to view their designs in three dimensions. It was started by two 23-year-olds from Middlebury College. Among the six other finalists are notable new businesses that have gained from the exposure this contest brought them to attract additional investment from individuals and organizations, including BityBean, Notabli, Localvore, Recess, Wintersmith, and Airshark. The Agency of Commerce has been the lead sponsor of this event, contributing nearly half the prize money. Three seminars are organized between now and the final competition to be held on May 7 in Burlington.

2. Peak Pitch/Road Pitch

The Agency has also been a lead sponsor in Peak Pitch, an annual event held in March at Sugarbush Resort and organized by Fresh Tracks Capital. Peak Pitch directly pairs entrepreneurs with investors by giving them the opportunity to ride up on a chairlift with the investor and make the pitch. The investors then rate the best pitches that are presented to the group. Now in its ninth year, the 2014 Peak Pitch attracted more than 60 investors and advisors. Finalists included Bitybean child carriers, Rocket Listing, Waterotor Energy Technologies, Faraday, For My Odds and the American Continuing Education Institute. Since then, Middlebury-based Faraday has gone on to secure a \$1 million grant from the Department of Energy and is seeking to hire 6 new employees.

As a summer follow-up to Peak Pitch, Fresh Tracks Capital's Cairn Cross organized an innovative motorcycle tour around the state dubbed Road Pitch in August, 2014. The tour of venture capitalists and investors, RDC representatives and entrepreneurs went through 11 of Vermont's 13 counties and heard pitches from more than 40 entrepreneurs at seven stops along the way. The Agency has asked RDCs and SBDCs to help the Road Pitch team organize pitches and pitch locations in each of their regions for the 2015 summer event.

VI CONCLUSION AND NEXT STEPS

The Department of Economic Development will be working with all its partners to assess what gaps and challenges remain in the system. It is also working with the Vermont Sustainable Jobs

Fund to further map the spectrum of technical assistance that is available to small businesses and financing opportunities, including grants, loans, crowdsourcing and others. The Agency of Commerce is currently in the process of upgrading its web site and when completed, will present the findings online and work with partners to raise awareness.

In addition, the Agency will be working with its partners to better educate entrepreneurs on what lenders are looking for and to better understand the valuation of their businesses. It will also work to educate lenders on how to better assess the risk of investing in knowledge-based businesses.

APPENDICES

Appendix 1: FY15 Calendar of Networking and Financing Events

Appendix 2: Sample Mid-Year RDC Report from Addison County Economic Development Corporation

Appendix 3: SBA Lenders

Appendix 4: VSJF's Capital Continuum Map

Appendix 5: Agenda for the Financing the Working Lands Conference

