



FreshTracks Capital  
29 Harbor Rd, Suite 200  
Shelburne, VT 05482

February 15, 2017

State of Vermont  
House Committee on Commerce and Economic Development  
115 State Street  
Montpelier, VT 05633

**Re: FreshTracks Capital Testimony to the State of Vermont House Committee on Commerce and Economic Development Regarding Investing in Vermont**

Dear Chairman Botzow and Committee Members,

It is with pleasure that FreshTracks Capital has the opportunity to speak with you regarding investment in Vermont. As you may be aware, FreshTracks Capital is a Vermont-focused investment fund that uses venture capital to create positive economic and community impacts, as well as financial return for our investment partners, most of whom are based in Vermont. Across its four funds, totaling more than \$45 million, FreshTracks has invested in 30 companies employing Vermonters, and in turn has generated hundreds of high-paying jobs in business sectors including Software, Internet & Mobile Technologies, Consumer Products, Food and Beverage, Healthcare IT & Services, High-Tech Manufacturing, Energy Efficiency, Solar, and Green Technologies. FreshTracks Capital was founded in 2000 by Cairn Cross and Charlie Kireker. Today, the firm's General Partners and Managing Directors are Cairn Cross, Lee Bouyea and T.J. Whalen. FreshTracks is actively investing out of its newly launched fund, FreshTracks Capital IV and has made two investments in Vermont companies since the inception of the fund in December 2016

Over the life of our funds, we have seen a steady increase in both the quantity and quality of "dealflow," which to us indicates an improving ecosystem for entrepreneurship in Vermont. As you can see from the following data, over the past six years we have seen a significant increase in our average annual investment in Vermont companies, as well as the average number of Vermont companies funded each year.

- 2011 -- **\$375,000** invested in **2** early-stage businesses founded in Vermont
- 2012 -- **\$847,000** invested in **4** early-stage businesses founded in Vermont
- 2013 -- **\$671,500** invested in **5** early-stage businesses founded in Vermont
- 2014 -- **\$2,503,000** invested in **9** early-stage businesses founded in Vermont
- 2015 -- **\$1,915,000** invested in **11** early-stage businesses founded in Vermont
- 2016 -- **\$1,880,000** invested in **8** early-stage businesses founded in Vermont

We believe that some of the factors contributing to the overall increase quality and quantity of start-up businesses in Vermont, which relates to the increase in our venture investing activity in Vermont, include:

#### Trends specific to Vermont

- Talent spin-off from larger, more mature companies
- Maturation and evolution of local entrepreneurship ecosystem, with far greater resources/services for entrepreneurs
- Greater opportunities for entrepreneurs to receive visibility, coaching and advice, in part through events like LaunchVT, PeakPitch and RoadPitch
- Evolution of consumer trends, which favor Vermont businesses that have positioned themselves to capitalize on these trends

#### National trends, also affecting Vermont

- Continued decrease in overall start-up business costs, driven by technology
- Broader acceptance of entrepreneurship as a viable career choice, in part driven by national media coverage of start-up successes
- Continued consumer and business adoption of new technology and service offerings, which creates a market opportunity for new ideas

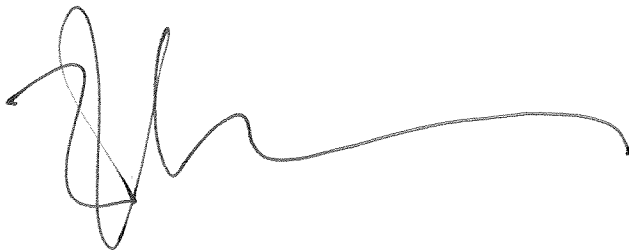
Despite these positive trends, early-stage businesses in Vermont still face many obstacles and do not have access to many of the same resources or advantages enjoyed by their competitors who operate in larger markets. It is often more difficult to recruit experienced managers, especially in more technical fields, to Vermont. Part of this relates quite simply to local business density (or lack thereof), which increases one's career risk in moving to Vermont. The State's overall cost of living, which is quite high relative to the career opportunity, further compounds this. Beyond recruitment, we see significant challenges in the overall cost of running an early-stage business in Vermont; from high rents and healthcare expenses to unclear regulatory outcomes, our early-stage companies often struggle to compete with businesses that have lower overall cost structures.

Towards this, we believe that Vermont could do more to facilitate early-stage business growth in Vermont. And further, we believe that early-stage business growth in Vermont will be one of the most efficient and effective means to address the State's long-term demographic and economic challenges. Some ideas for the Committee to consider could be:

- Expand the State's R&D tax credit program
- Incentivize recruitment of degreed technical professionals, and potentially other professional business managers
- Create a "start-up zone" where any new business incorporated would face no State income tax for a certain number of years
- Match the Federal (IRS Code section 1202) capital gains rate of 0% for investments in Qualified Small Businesses
- Repeal once and for all the licensed lender statute as it applies to commercial lending activities (8 VSA Chapter 73)

FreshTracks capital will do its part to continue investing in promising early-stage businesses (we expect to invest in at least 10 more Vermont companies from our newly opened 4<sup>th</sup> fund), but we believe we could do more if the early-stage business climate were further improved via some of the above ideas.

Respectfully,

A handwritten signature in black ink, appearing to be 'T.J. Whalen', with a long horizontal flourish extending to the right.

T.J. Whalen  
General Partner and Managing Director  
FreshTracks Capital