

Committee Name:

Senate Select Committee – Job Creation (SSC–JC)

Appointments

03hr_SSC–JC_Appt_pt00

Committee Hearings

03hr_SSC–JC_CH_pt00

Committee Reports

03hr_SSC–JC_CR_pt00

Clearinghouse Rules

03hr_SSC–JC_CRule_03–

Executive Sessions

03hr_SSC–JC_ES_pt00

Hearing Records

03hr_ab0000

03hr_sb0000

Misc.

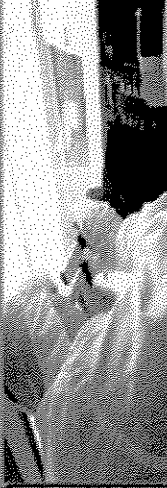
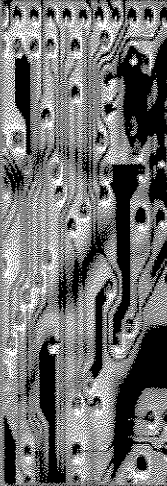
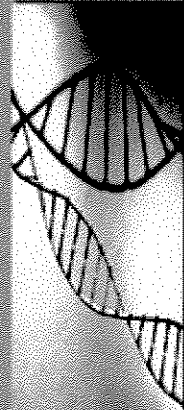
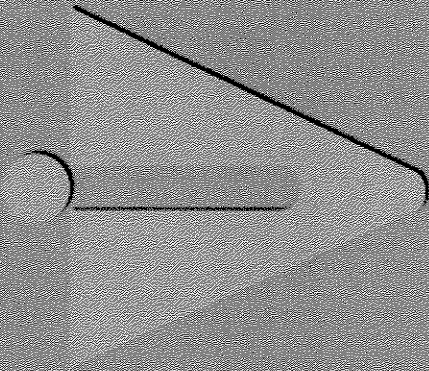
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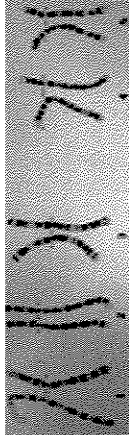
Record of Committee Proceedings

03hr_SSC–JC_RCP_pt00

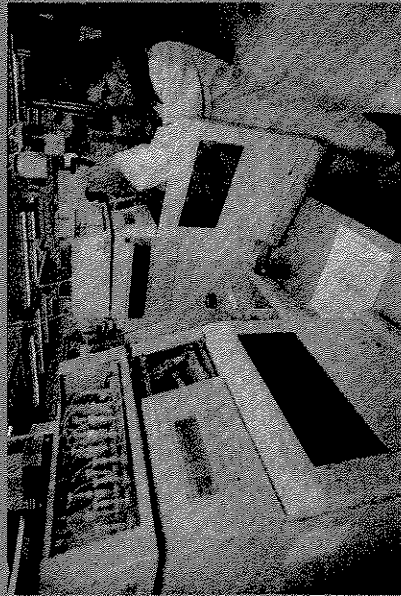
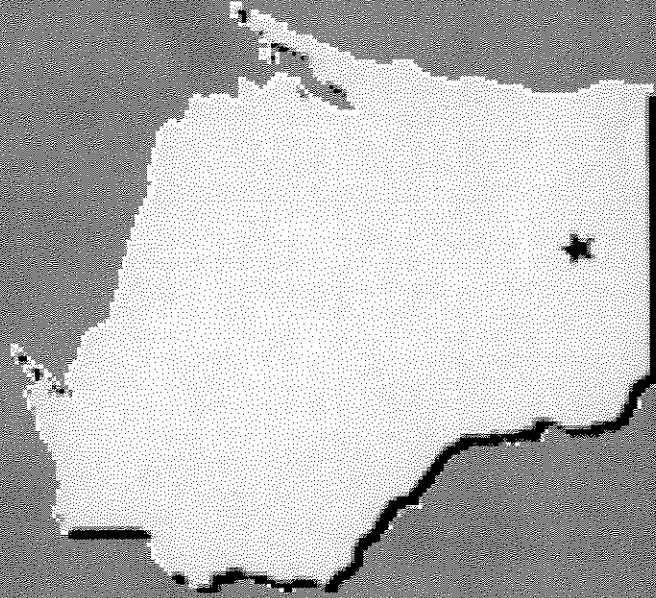
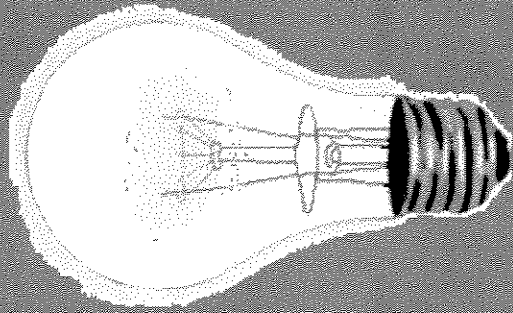
VENTURE INVESTORS

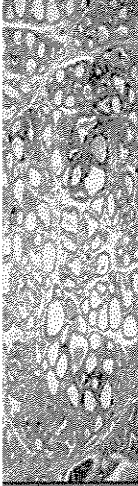
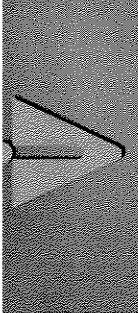
Visionary Investments





What does a state need to generate economic heat in the high tech sector?





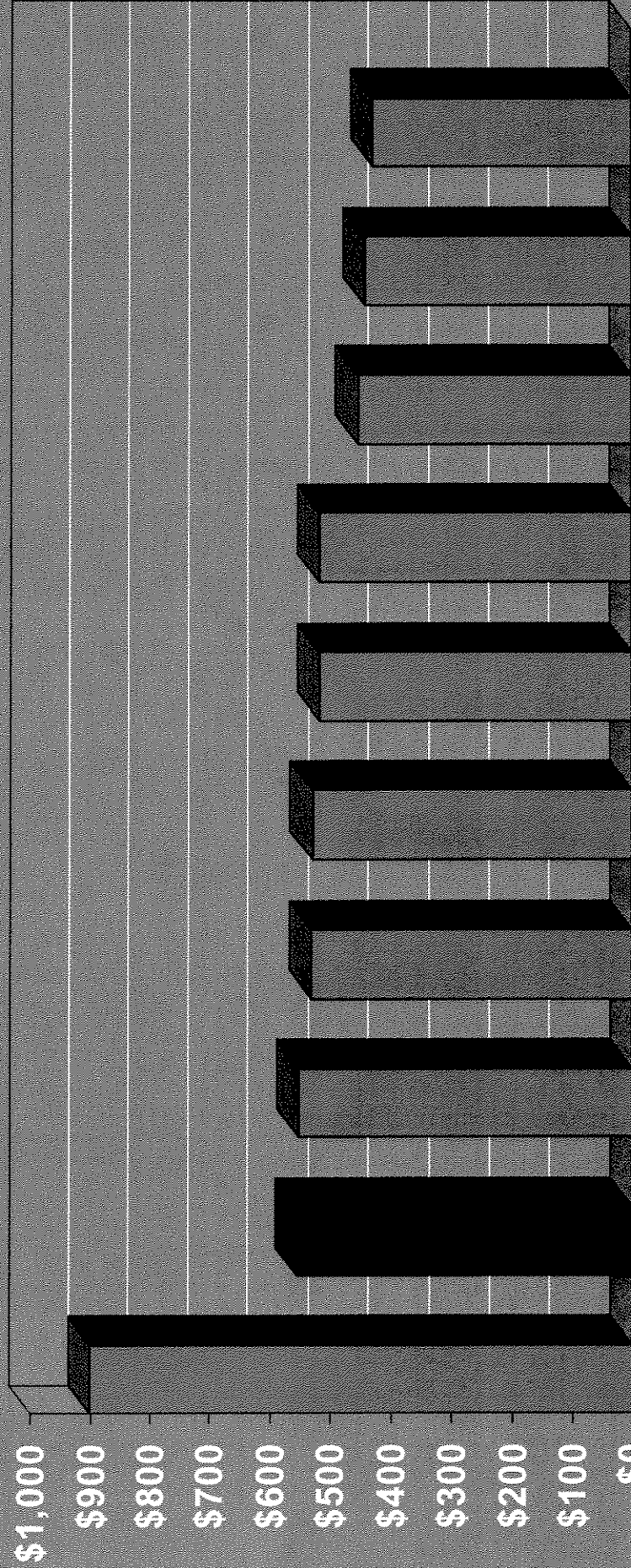
Our Crown Jewel:
University of Wisconsin-Madison



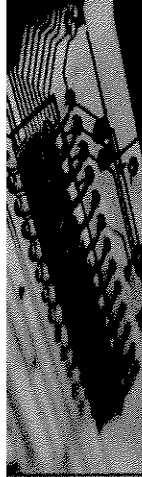


Top Institutions **Total Research and Development Spending**

Fiscal 1998 R&D Spending (Millions) in Science & Engineering



Johns Hopkins Wisconsin Michigan UCLA Washington UCSD Berkeley Stanford UCSF Penn
Source: National Science Foundation



We have a high tech talent pool

High tech growth will stop the brain drain

- **UW-Madison was second in science and engineering doctoral degrees granted in 2000 with 495**
 - 1st in life sciences with 190
 - 3rd in physical sciences with 64
- **Wisconsin's quality of life is an attraction**
 - Our communities have high rankings in surveys
 - Once they establish roots, they want to stay
- **Two major obstacles in executive recruiting**
 - Don't want to join under capitalized companies
 - Want critical mass (is there a next opportunity without moving?)

Wisconsin's Venture Capital Shortfall:
No Capital to Capitalize on the Opportunity

Wisconsin compared to the Nation	Wisconsin's Percent	Wisconsin's Rank
Population	1.95%	18th
R&D spending at Universities	2.24%	13th
Venture capital under management	0.04%	32th
Wealth	1.30%	41st

Sources: US Census Bureau, National Science Foundation, National Venture Capital Association, Wisconsin Tax Payers Alliance.

Ranking the States:

Per Capita Venture Capital

1. District of Columbia	\$9,512.83
2. Massachusetts	\$7,209.77
3. Connecticut	\$3,453.38
4. California	\$2,762.20
5. New York	\$2,266.58
9. Minnesota	\$637.79
15. Illinois	\$330.19
27. Michigan	\$62.83
35. Wisconsin	\$17.90
U.S. Total	\$889.44

18th ranked state has \$1,546,300,000 VC under management

Venture Capital Constraints:

Can't we just attract capital from the coasts?

- **Coastal investors need going concerns**
 - Can't take active early stage role from 2000 miles away
 - Seek management, facilities, early customers
 - Still prefer a local investor to assist and monitor the deal
- **Big opportunities have big capital appetites**
 - Competing nationally and internationally
 - Average round nationally was \$6.99 million in 2002
 - Average venture fund nationally has \$140.8 million
 - Need competitive vc sources - \$16.6 million funds inadequate
- **Initial rounds will principally come from regional investors**
 - Need to have local lead investors with meaningful participation
 - Need to reserve for follow on, so additional capacity needed

CAPCO has had a role in some of Wisconsin's biggest VC financings:
We need capacity to fund big ideas

Company	Total Venture Capital Financing Required	CAPCO Role
Third Wave Technologies	\$82,835,424	Indirect
AlfaLight	\$49,287,387	Direct
NimbleGen Systems	\$30,270,000	Indirect
Soft Switching Technology	\$27,137,654	Direct
TomoTherapy	\$22,735,057	Direct
Gala Design	\$22,133,333	Direct

Indirect considers role of Advantage Capital assisting in formation of Venture Investors Early Stage Fund III
 Source: Advantage Capital

A Powerful Economic Development Tool

The CAPCO Program works

- **CAPCOs will raise capital, even in tough economy**
 - Every program in eight states has been oversubscribed
 - Attracts in-state and out-of-state capital
- **CAPCO uniquely demands investment in Wisconsin**
 - Geographic constraints avoided by traditional VC investors
 - 100% invested here with 3 & 5 year benchmarks
- **CAPCO program has leveraged access to capital**
 - Helped in formation of a fund with traditional VC investors
 - Lead role of CAPCO funds has attracted coastal investors
- **CAPCO funds are backing the companies of tomorrow**
 - High growth companies with high paying jobs
 - Investment in people and facilities means they will stay

A Unique Financial Instrument Matching Investor Needs:
Similarity and Scale Makes CAPCOs Attractive

STATE	Total Requested Since Inception of CAPCO Program (Industry-wide)	Total Allocated Since Inception of CAPCO Program (Maximum available)
Florida	\$ 274,850,000	\$ 150,000,000
Louisiana *	\$ 1,121,000,000	\$ 721,000,000
Missouri	\$ 317,800,000	\$ 140,000,000
New York	\$ 758,200,000	\$ 280,000,000
Wisconsin	\$ 150,000,000	\$ 50,000,000
Colorado	\$ 454,000,000	\$ 100,000,000
Alabama	Not yet allocated	Not yet allocated
Total	\$ 3,075,850,000	\$ 1,441,000,000

*Estimated: amount available was unlimited prior to 1998.

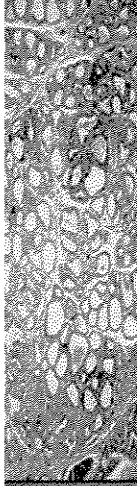
Source: Advantage Capital



Kick Starting Wisconsin's Venture Capital Climate:

Building VC on a CAPCO Foundation

- **Only CAPCO requires 100% of capital invested in Wisconsin**
 - Geographic constraints rule out most investors (ruling out good deals across the border constrains returns)
 - All funds consume a portion of capital in fees, only CAPCO requires funds to be rolled over until 100% invested
 - In contrast, only some of SWIB program to be invested here
- **Only CAPCO has defined timetables for investment**
 - 30% within 3 years, 50% within 5 years
 - Highly motivated to put the money to work
 - Advantage and Wilshire hitting 5 year goal in 4 years



The Benefits of Being a Credible Lead Investor:

Critical mass can be attained through CAPCO

- **CAPCO enabled us to raise a side-by side fund**
 - Promised a portion of gains to side-by-side investors
 - Aligned interests of funds, overcame constraints
 - Deal sweetener differentiated our fund offering
 - Helped draw traditional VC investor, including tax exempts
- **Critical mass helps us be viewed as a trusted local lead**
 - Invest like a peer and be viewed as a peer
 - CAPCO has been a magnet for net investment into state
- **We can attract coastal investors, especially in later stages**
 - Local capital a necessity, especially in early stages



Capital Magnet:
Local Capital has a Multiplier Effect

Multiplier effect for CAPCO Program (dollars in millions)	Advantage Capital	Stonehenge Capital	Wilshire Capital	Total ¹
Amount invested by Wisconsin CAPCOs	\$7.9	\$5.5	\$7.4	\$20.7
Co-investment by other Wisconsin investors	\$30.8	\$14.2	\$1.3	\$35.5
Co-Investment by out-of-state investors	\$86.3	\$15.3	\$0.1	\$89.0
Total invested in Wisconsin companies	\$125.0	\$34.9	\$8.7	\$145.1
Multiplier of invested capital	15.9 x	6.4 x	1.2 x	7.0 x
Amount managed by CAPCO	\$16.7	\$16.7	\$16.7	\$50.0
Side-by-side venture capital fund raised	\$37.1	0.0	\$0.0	\$37.1
Total raised	\$53.8	\$16.7	\$16.7	\$87.1
Multiplier of venture capital managed	3.2 x	1.0 x	1.0 x	1.7 x

Source: Venture Investors, Advantage Capital, Stonehenge Capital, Wilshire Capital

¹ Numbers do not total across because of common investments of CAPCOs

Stopping the Brain Drain:

Creating great jobs, building our tax base

Employment growth at CAPCO backed companies

	Advantage Capital	Stonehenge Capital	Wilshire Capital	Total
Wisconsin based employees at time of investment	141	163	29	273
Wisconsin based employees as of 3-31-2003	247	208	44	430
Average annual salary	\$71,521	\$51,723	\$149,941	\$69,885
Total Payroll	\$17,666k	\$10,758k	\$6,597k	\$30,051k
Est. annualized Wisconsin income tax revenue	\$1,218,934	\$742,334	\$455,221	\$2,416,491

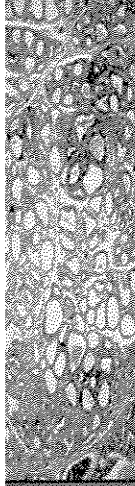
Sources: Venture Investors, Advantage Capital, Stonehenge Capital, Wilshire Capital
 Estimated annualized tax revenue assumes a 6.9% tax rate.

- **Average salary more than double the statewide average**
- **Half of credit offset by income tax today**
- **Does not consider sales tax, property tax, capital gain tax, or multiplier effect**

CAPCO is exceeding expectations:

Compelling individual company stories

- **Diversity in companies receiving CAPCO financing**
 - Biotech, semiconductor, medical device, software, internet
 - In locations ranging from Milwaukee to Eau Claire
 - 10% minority employees in Advantage backed companies
- **Two companies saved from failure are now thriving**
 - Gala Design and Silicon Logic Engineering
- **Creating High Tech manufacturing jobs**
 - Gala Design, TomoTherapy, Alfalight
 - Deep roots established with specialized facilities
- **Attracting large companies to Wisconsin**
 - Cardinal Health has option to acquire Gala Design



It is least expensive to reposition Wisconsin in a down market:

Why is more CAPCO funding needed now?

- **Funds near 50% invested, limited capacity for new deals**
 - Need to reserve for follow-on
 - Will need to roll over on exit to get to full 100%
- **Funds are too small to show full potential**
 - Potential demonstrated
 - Need to maintain momentum (and retain professionals)
- **Need a large enough program to alter the landscape**
 - Expect 4-5 Wisconsin focused funds
 - Funds have to be large enough to lead big deals
 - Tax credits deferred to next biennium, investment now
 - Entrepreneurs and skilled managers follow the money

Summary

- Wisconsin has a world class university, but historically lacked venture capital
- The CAPCO Program has been a catalyst for capital formation in Wisconsin
- Companies are creating high tech, high paying jobs
- Companies are establishing firm roots with specialized facilities in Wisconsin
- State budget neutrality achievable in near term (individual and corporate income taxes, property taxes, capital gains taxes, sales taxes) without considering multiplier effect
- Success will pave the way for future success