

\$eeds of Change

Missouri Embarks on Venture-Capital Adventure

by Bill Beggs Jr.

First, the not-so-good news: Missouri lags behind other states in attracting venture capital. And now, the good: A bold new statewide initiative to jump-start its growth and development is under way and gaining momentum.

The initiative, Grow Me State, is a concerted effort to help shrink the capital formation gap Missouri faces. Chambers of commerce and economic development organizations throughout the State are behind the initiative.

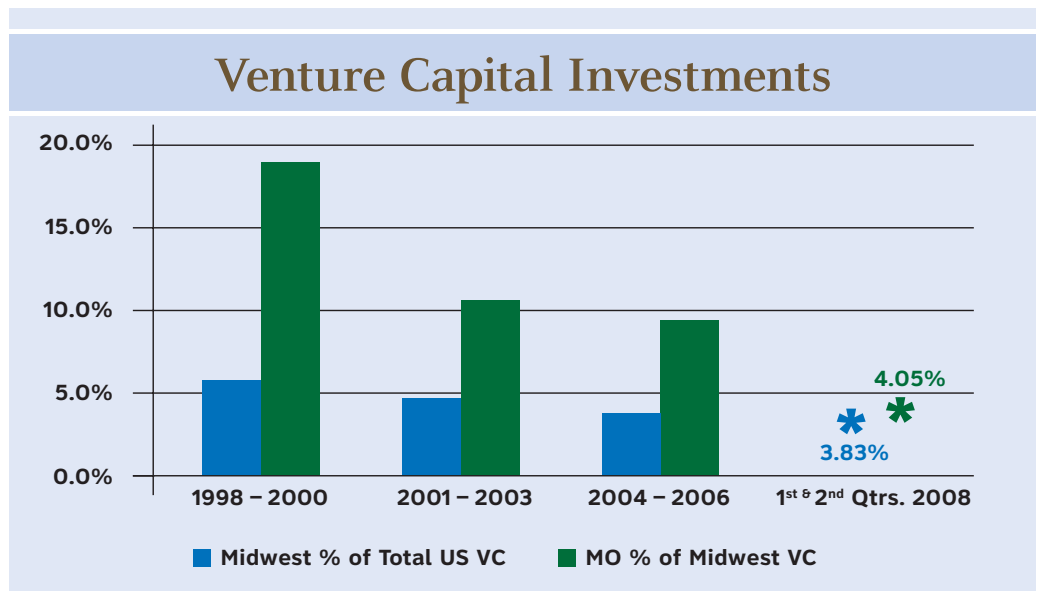
Analysis has shown that Missouri is among the top states in attracting research dollars; for example, from the National Institutes of Health (NIH). But harvesting the fruits of that labor has been slow. The State as a whole, and the St. Louis region in particular, has not been as adept at converting the ideas born in the university environment into startup companies and then

commercially viable businesses, as many of the states with whom Missouri competes.

For the last 10 years, the State has been falling behind its Midwestern neighbors, according to research conducted by Mark Parry, Ph.D., of the University of Missouri-Kansas City. While the State ranks 12th nationwide in securing NIH

grants and is 9th overall in federal research and development grants, Missouri is only 30th in university-based start-up companies.

The relative decline in Missouri's venture capital since 2000 has been of concern as well. From 1998 to 2000 the state was attracting nearly 19 percent of all venture



capital invested in the Midwest. However, examination of the first two quarters of 2008 indicate, despite an increase in the presence of venture capital funds based here, Missouri's share of venture capital in the Midwest has dwindled to just 4 percent—a decrease of more than four and a half times.

This astonished Jay DeLong when he joined the Regional Chamber and Growth Association (RCGA, the publisher of this magazine). DeLong is VP of New Ventures and Capital Formation.

"Because of the strength of our universities we have a lot of R&D, but we're in the bottom half of the class in terms of university startups," DeLong says. "With the concentration of capital and entrepreneurs in Boston and California, I don't think it's particu-

larly threatening that we compare poorly to those regions. What's troubling to us is that Missouri is substantially declining relative to the rest of the Midwest."

Through the third quarter this year, Minnesota has attracted 10 times the amount of private venture capital into life-sciences startups than Missouri. This is an especially stark contrast when one considers that

Minnesota has considerably fewer NIH dollars on which to build.

Meanwhile, the amount of private venture capital invested in Missouri has declined from a year ago. Along with Minnesota, this year Ohio, Michigan, Illinois, Indiana and Wisconsin all have raised more private capital than Missouri to grow life-sciences startups.

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- Jay DeLong, vice president new ventures & capital formation, RCGA



"Those states are co-investing and proactively engaged in maturing their ventures to the point that they are then attractive to private equity investors," DeLong says.

Regarding commitments to capital formation programs, the State of Missouri's per capita spending is 10 cents, according to the UMKC study. Neighboring states commit an average of \$2.79. Missouri's neighbors—Arkansas, Iowa, Illinois, Kansas, Kentucky and Oklahoma—are not all that far behind states with traditionally strong commitments to technological development. Arizona, Indiana, Michigan, Minnesota, North Carolina, Ohio and Wisconsin, tech-similar states average a per-capita commitment of \$2.94.

"Why is the rest of the Midwest doing a better job? They're doing a better job of

investing state resources into a spectrum of programs for economic development," DeLong points out. "This has simply been a vacuum for us."

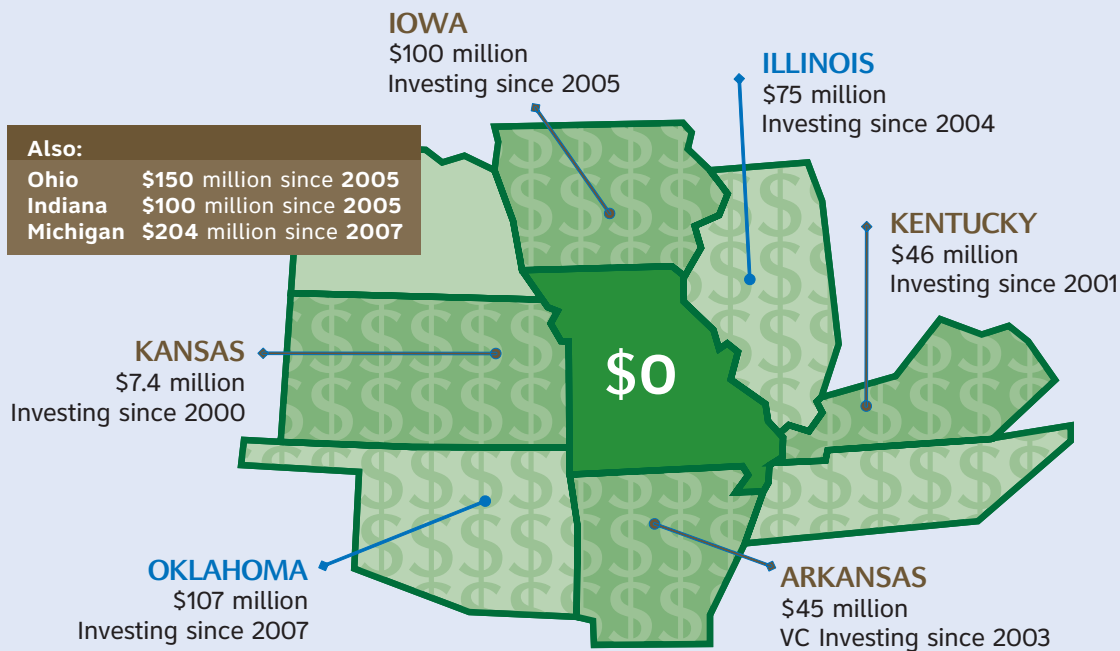
The steering committee of Grow Me State recommends an annual \$17.2 million investment, or \$2.94 per Missouri resident, to start bringing the state in line with benchmarking states. This would be raised in part via a \$5 million angel tax credit program to help bridge the gap in equity funding for start-up businesses to reach their next level of growth. Accredited investors would be eligible to receive a 30 percent tax credit (40 percent in rural and distressed areas) for investing in a qualified small business.

Two other important aspects of Grow Me State are the Seed Capital Technology Business

Finance Program and the Proof of Concept Technology Business Finance Program. The Seed Capital Technology Business Finance Program is designed to help seed-stage or early-stage advanced tech businesses that have a high potential for growth. This fund would start at \$10 million annually, enabling it to make up to 20 investments per year at an average of \$500,000 each. And the Proof of Concept Technology Business Finance Program is designed to assist advanced technology small businesses that have a high potential for growth, but have yet to reach full production. Approximately 25 awards of \$50,000 each, in the form of forgivable loans, would be available annually, totaling \$1.25 million. Repayments from successful enterprises would cover the unsuccessful ones, enabling the fund to be self-sustaining.

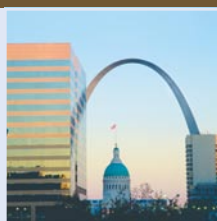
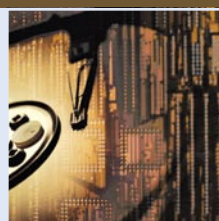
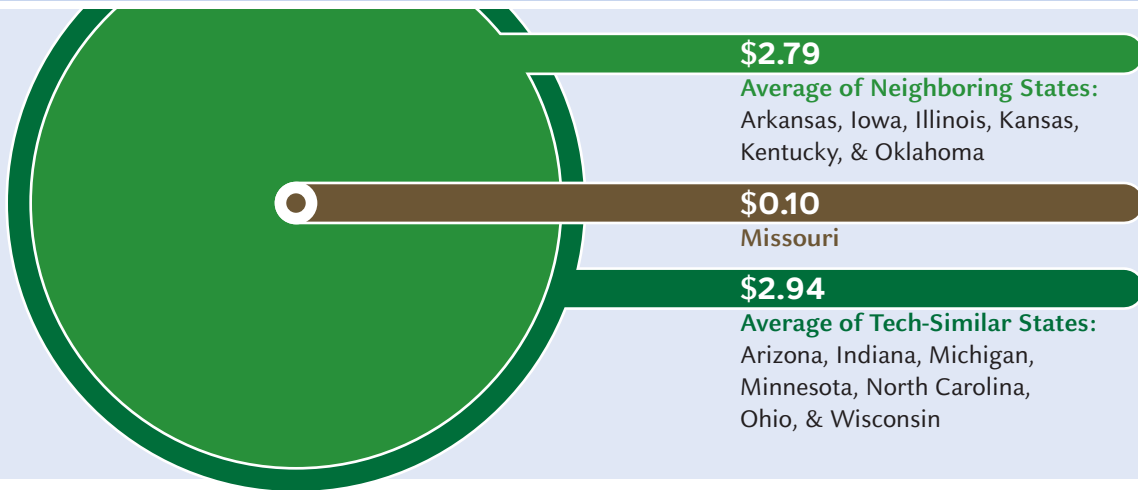


State Venture Capital Funds



Source: NASVF, February 2008

2006 NASVF Survey of Commitments to Capital Formation Programs



In addition, Grow Me State seeks increased funding for the Missouri Technology Corp (MTC). MTC is a private, not-for-profit corporation established to help businesses collaborate with universities to solve technical and productivity issues, and to facilitate technology transfer from the lab to the marketplace. Although the Lewis & Clark Discovery Initiative has provided a modicum of financial assistance, MTC remains in dire need of \$1 million for staffing and programs.

In the past few years, several venture capital firms have set up shop in the Gateway City, but local investment opportunities have been fewer and farther between than hoped for. Established here because of the potential for regional business, the VC firms' rainmakers are having to venture farther afield to find fledgling companies to back.

"These are folks who'd much rather drive to an appointment with a Missouri company than fly to an appointment elsewhere," DeLong points out. Firms based in St. Louis that belong to the statewide steering committee include Advantage Capital Partners, Commerce Bank,

Prolog Ventures, Prairie Capital Management and Stifel, Nicolaus & Co.

With the University of Missouri system as a strong, committed partner at each of its four campuses, Grow Me State also has economic development groups strongly behind it in Cape Girardeau, Columbia, Kansas City, St. Louis and Springfield.



grow me state initiative

"Each chamber has teed this up as their most important initiative," DeLong says. "Venture capital is a means, not an end, but it is a critical indicator of future employment opportunities."

Indeed, regional economic development execs statewide have pulled the drivers out of their golf bags, and are aiming straight down the fairway toward Jefferson City. Mitch Robinson, executive director of Gape Girardeau MAGNET, and Bob Marcusse, CEO of Kansas City Area Development Council, both emphasize the

necessity of convincing legislators that tech-based development is essential to Missouri's future. Without accelerating efforts to shape a knowledge-based component, Missouri's economy will only lag farther behind.

This study is the first comprehensive look at the reality of what works in Missouri, what needs improvement, and what path will take us to where we need to be," says Marcusse. "Missouri's future will either be bright and better, or cloudy and worse, based upon the tough decisions we make today."

The initiative, adds Robinson, "is an aggressive plan to provide entrepreneurs the critical capital they need to create jobs, and will provide Missouri legislators a great guideline in developing new tools and programs for entrepreneurs."

For his part, DeLong is a Jefferson City native who spent the first part of his career in tech-savvy California, where he witnessed first-hand how business can build.

"In California they have the luxury of serial business-starters," he says. "Here we have sunshine all day, and plenty of water, but we're not planting any seeds." ■