

InnoVenture Conference

Thursday, May 20, Noon – Hyatt Regency, Greenville

Background:

- MS will give keynote address at the first annual InnoVenture conference in Greenville. The conference brings together venture capitalists and high-impact companies that are looking for additional investment in order to expand, increase their services and product lines.
- During the day, nine companies will present their business plans to the audience, made up of venture capitalists. MS will speak during lunch for 20-25 minutes about initiatives the state is undertaking to transition SC into the knowledge based economy in general and in particular the need for venture capital investment in South Carolina

Logistics:

- Lunch program will begin at noon. MS will be seated at a round table near the front of the room with John Warner, chairman of the conference. Warner will introduce MS.
- MS will speak from a raised platform from a podium into a PA.

Audience:

- About 300 representatives from venture capital companies will be in the audience, as well as representatives from local and regional economic development organizations.

Attachments:

- Talking Points
- Agenda
- Background Articles

Talking Points:

Theme: Investments

Overall Message: SC is open for business – we're ready for your help in developing a new generation of high-impact companies in this state

Major Point One – South Carolina has already invested in a new philosophy

- South Carolina is ready to move to the “Third Phase” of economic development
- Old Way – cheap land, cheap labor, right to work
 - Now, if you want really cheap land or really cheap labor, you're going to go to Mexico, China, India or Central America
- The New Way (Three Phases)
- **Phase 1 – Skilled workers and world-class manufacturers**
- We developed a successful model here with our tech schools – literally the best in the country – we've used that asset to lure some of the world's best manufacturers / companies
- Perfect examples here in the Upstate – BMW, Reliable Sprinkler, Michelin – have created 1000's of jobs and hundreds of millions in capital investment
- **We've been very successful in phase one – In fact, we're #2 in the entire country in foreign direct investment**
- Now, while we're continuing to work on attracting world-class “economic engines,” but we've begun to focus more attention on “Phase 2” of economic development
- **Phase 2 – Research Centers and Clustering (ties in to attracting top talent)**
- Working toward developing the notion of clustering talked about by Dr. Porter in the Monitor Report
 - How do we leverage those companies like BMW and Michelin into even more jobs and more capital investment?
- Perfect example here in the Upstate – I-CAR
 - **I-CAR** -- \$15 million in state matches is already going toward three endowed chairs at ICAR. BMW has provided \$10 million with a commitment to help raise \$5 million from its suppliers. IBM and Michelin have also jumped on board with our mission there, to become the automotive hub of the Southeast

- **National Laboratory designation at SRS** – As a national laboratory, SRS is poised to draw down hundreds of millions in federal research dollars. On top of that, SRS has been dealing for four decades with tritium, a radioactive hydrogen isotope, so the facility has developed significant hydrogen handling and storage technologies. Potential for collaboration between USC and SRS
- USC has the National Science Foundation Industry / University Cooperative Research Center for Fuel Cells (NSF Center for Fuel Cells), whose mission is to help industry commercialize fuel cells by performing research and educating students. Fuel cells are anticipated to become commercially viable in vehicles within five to ten years.
- **What all of these things have in common is that they have the potential to attract the best, brightest, top talent to South Carolina**
- We have the potential to do even more, and we'll continue to develop these partnerships as we go forward with existing companies
- **Phase 3 – Ready for Venture Capital Investment**
- South Carolina is no longer going to be a state that exports our top talent – we're going to be a magnet for top talent
- That talent is going to be attracted to and cultivated by our research universities and our private sector research centers
- That's where you folks, venture capitalists come into the picture – being positioned to make an investment in the talent we're drawing to South Carolina

Major Point Two -- Today is about an investment in these companies

- On an obvious level, today is about whether you folks in the audience decide to invest in these companies – is one of these companies going to be the next Microsoft or the next Pfizer?
- **What are some venture firms in SC that have been successful?**
 - ScanSource -- founded twelve years ago, has a market capitalization over \$600 million.
 - The South Financial Group has created a market capitalization over \$1.7 billion sixteen years after its founding.
 - Extended Stay America was founded nine years ago and recently sold for \$2 billion.

- **Story:** Near the turn of the 20th century, former US Senator Chauncey Depew told his nephew not to invest \$5,000 with Henry Ford, then an unknown ex-bicycle repairman with big ideas. He said: “Nothing has come along that can beat the horse and buggy.”
- About that same time, in 1903 President of the Michigan Savings Bank advised Horace Rackham (Henry Ford's lawyer) not to invest in the Ford Motor Company, 1903. He said: “The horse is here to stay, but the automobile is only a novelty -- a fad.”
- By 1908, Ford’s Model T car carried a price tag of \$840, while a car with every part hand-designed would carry a \$9,000 price tag. By 1926, the price of Ford's car dropped to \$248. By that time, nearly 15 million Model T's had been sold, and the automobile had been converted from a luxury item for the rich to a replacement of the horse.
- Ford, like the owners of these companies, was an entrepreneur. The term "entrepreneur" originally meant a person who led a military expedition. The folks in this room who have started companies would probably tell you in some cases, the word still means that (the battle to start a viable company)
- If there’s one thing we need more of in this state, it’s entrepreneurs; and we’ve got to have people that can recognize that top talent and invest in those entrepreneurs
- **Venture Capital Investments: In 2002, venture capital investments were at \$3 per worker. That’s compared to the national average of \$155 per worker**
 - Clearly, if we’re ever going to be successful in “phase three,” we need your help.

Major Point Three – What we’re doing to invest in SC’s “Soil Conditions”

- By investing in these companies, you’re really investing in South Carolina – South Carolina is not a place known for venture capital
- South Carolina hasn’t reached its potential in terms of attracting intellectual capital and transitioning into the knowledge-based economy
- Your help on that front is vital in helping us improve the underlying soil conditions for economic development in SC – creating an entrepreneurial infrastructure
- We’re working hard on a state level to make SC more competitive on that front
- **Income tax proposal** – one of the biggest detriments to any small business is that fact that they’re on an even playing field with large business – 7 percent compared to 5 percent

- **Venture Capital Bill** – (Part of Life Sciences, but we support the clean version)
There's recently been a venture capital fund set up on the state level through the Commerce Department to do exactly what you folks do, invest in companies that show promise. Our fund is set up to distribute as much as \$50 million in venture capital
- **Capital Access Program** – For making higher-risk loans to small businesses. In South Carolina, initial state CAP funding of \$2.5 million could result in loans of \$24 million (at a minimum) and \$56 million (at a maximum). The House of Representatives has passed the Capital Access Program. It is currently pending in the Senate
- **Other reforms** – Small Business Regulatory Relief Act, Tort Reform. All of this goes back to the need to make sure businesses have the tools they need to start, grow and be successful

Wrap up --

- All of the companies represented here today are companies with vision
- Likewise, we have our own vision for growing the economy and keeping South Carolina competitive in the 21st century
- Our vision is about raising income levels in SC (currently 80.5 percent of the national average) and about keeping South Carolina home to future generations through creating opportunity for our children and their children
- Based on that vision, we're already well positioned to take advantage of some emerging clusters, provided companies have the tools they need to join these clusters, as well as establish new clusters that haven't even been envisioned yet
- **With your help in the success of these companies and others like them, we can make sure South Carolina is retooled to compete in the next century**

InnoVenture – Venture Capital Background from John Warner

North Carolina and Georgia have similar demographics and history to South Carolina. Beginning in the early to mid 1980s, they began developing an entrepreneurial infrastructure that could support the growth of high impact companies in their states. This infrastructure included things like the Noro-Moseley venture fund in Atlanta and InterSouth Partners in Raleigh, one of first VC firms in each state. It also included things like the Council for Entrepreneurial Development in Research Triangle Park, which has grown to be the largest entrepreneurial development organization in the country with over 5,000 members, and the Advanced Technology Development Center in Atlanta, which has resulted in over 100 companies spinning out of Georgia Tech since 1990.

The bottom line is that since 1995, over \$6 billion of venture capital has been invested in Georgia, and over \$5 billion has been invested in North Carolina. Less than \$500 million has been invested in South Carolina, and most that is in two companies: New South Communications and NuVox Communications in Greenville. Almost 1000 companies received a venture investment in Georgia, and over 800 in North Carolina, while less than 100 South Carolina companies received a venture investment in the same time period.

We have the talent and innovations to create high impact companies in South Carolina. We can leverage the entrepreneurial infrastructures that exist in North Carolina and Georgia.

Getting the southeastern VCs to South Carolina to introduce them to our talent and innovations is what InnoVenture is all about.

What is the status of venture capital investments in SC, and what is Commerce's overarching strategy for venture capital?

- The status of venture capital investments is weak compared to many of the states in the nation. When the Department of Commerce worked with Michael Porter to study the state's strengths and weaknesses, it discovered that South Carolina's 2002 Venture Capital funding was at \$3 per worker. This was well below the national average of \$155 per worker. This glaring statistic was a wake-up call for South Carolina's leadership. For the state to be successful in developing technology within the state and creating jobs above the national average, it must overcome this deficiency in venture capital.
- With the Sanford Administration aware of the shortfall of venture capital, the Department of Commerce made a concerted effort by working closely with the existing equity providers and statewide leadership to resolve the issues of the lacking equity investments within this state. This Innoventure Conference is just one example of the many things the state is doing to improve the situation.

What are 3-5 specific things Commerce is doing to encourage the type of entrepreneurial start-ups that may be ripe for venture capital investment?

- One of the first tasks the Governor assigned to Commerce was the creation of a Small Business Ombudsman. The role is to provide resource support to entrepreneurs and small businesses. The goal of this ombudsman is to make access to information more streamlined for business development opportunities.
- To better understand the needs of small businesses throughout the state, the Secretary of Commerce provided a Small Business Listening Tour with 6 stops across South Carolina. These tours allowed small businesses and entrepreneurs to share the needs and issues that directly affect their companies.
- The Secretary of Commerce is also an active board member of EnGenuity, a non—profit organization developed by public and private leadership in the Greater Columbia area. The key focus is to create knowledge-based companies by linking innovations from research institutions, creating an entrepreneurial business environment and by developing appropriate sources of investment capital to grow these companies.
- Commerce is involved with the Small Business Development Center in the active support of the SBIR FAST Program (Small Business Innovative Research Grants). The FAST Program provides technical expertise in assisting companies with the SBIR application process. The SBIR program generates entrepreneurial opportunities and encourages value-added technology development.
- Commerce is working with local communities to develop a culture of entrepreneurship throughout the state. By working closely with community

Response to Questions Submitted by Joel Sawyer

leaders, the agency is partnering with many foundations recognized nationally for their entrepreneurial training and development programs. These programs will help educate and prepare entrepreneurs and local leaders in developing environments where growing businesses can succeed.

- All of these activities and resources will enable entrepreneurs to create successful investment opportunities and deal flow for the venture capital community in South Carolina.

What are 3-5 things Commerce is doing to bring more venture capital investment into SC?

- Commerce is working closer with the equity investors within the state on viable deal flow that may meet their investment parameters. By directing deal flow to various investors, this enables entrepreneurs the opportunities to meet investors they may have overlooked and improve the investment opportunities from venture capitalist throughout the state.
- The Department of Commerce also recognizes the importance of angel investors in developing companies for venture capital investments. Early stage investments typically seek angel investments and later move towards find other rounds of financing from the venture capital community. To improve the viability of our early stage companies, Commerce is working with existing and developing angel groups to grow their membership of qualified investors and direct early stage investment opportunities to these groups.
- The South Carolina Venture Capital Investment Act enables the state to raise monies for investment into venture capital funds. The program, housed at Commerce, will be an active fund-of-venture funds for the state. The purpose of this act is to encourage the development and investment of Southeastern venture capital in South Carolina. This important piece of legislation will help South Carolina enhance venture capital investment, grow emerging technology and create jobs above the national average.
- With these efforts, it is the goal of Commerce to raise the state's venture capital investments above the national average.