



## GEORGIA STATE SENATE

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## THE FINAL REPORT OF THE SENATE STUDY COMMITTEE ON VENTURE CAPITAL INVESTMENTS

### COMMITTEE MEMBERS

**Senator Brandon Beach – Chair**  
District 21

**Senator Judson Hill**  
District 32

**Senator Elena Parent**  
District 42

**Senator Michael Williams**  
District 27

**Sean Banks**  
Chair, FinTech Society of TAG

**Sam Burch**  
General Counsel,  
University System of Georgia

**Chris Carr**  
Commissioner of GDEcD

**Gardiner Garrard**  
TTV Capital

**Hala Modellmog**  
Metro Atlanta Chamber

**Jeff Muir**  
Fulcrum Equity Partners

**Blake Patton**  
Tech Square Ventures

**Lynne Riley**  
Commissioner, Department of Revenue

Prepared by the Senate Research Office

2016

## COMMITTEE FOCUS, CREATION, AND DUTIES

The Senate Study Committee on Venture Capital Investments was created by Senate Resolution 1132 to study the feasibility and possible benefits available for increasing allocated funding to the Invest Georgia Program, as well as a review of the venture capital industry in the State of Georgia

Senator Brandon Beach of the 21<sup>st</sup> chaired the Committee. The other members included Senator Judson Hill of the 32<sup>nd</sup>, Senator Elena Parent of the 42<sup>nd</sup>, Senator Michael Williams of the 27<sup>th</sup>, Chris Carr from the Georgia Department of Economic Development, Hala Modellmog from the Metro Atlanta Chamber, Lynne Riley from the Georgia Department of Revenue, Gardiner Garrard from TTV Capital, Jeff Muir from Fulcrum Equity Partners, Blake Patton from Tech Square Ventures, Sam Burch from the University System of Georgia, and Sean Banks from the FinTech Society of the Technology Association of Georgia.

The Committee held three meetings in total. The first meeting was held on October 6, 2016, at the State Capitol, where the Committee heard official testimony from the following: Knox Massey, Executive Director for Invest Georgia; Gardiner Garrard, TTV Capital; Jeff Muir, Fulcrum Equity Partners; and Blake Patton, Tech Square Ventures.

The second meeting was held on October 26, 2016, at the offices of LCG in Cobb County, Georgia, where the Committee heard official testimony from the following: Catharine Burkett, LCG Associates; Cam McElroy, LCG Associates; Ed Johnson, CEO of LCG Associates; Eric Cromwell from Cromwell Schmisser; Dan Schmisser from Cromwell Schmisser; Mike Becker, Venture Atlanta; and Andrew Dorman, Venture Atlanta.

The third meeting was held on December 12, 2016 at ATDC at Georgia Tech's "Tech Square," where the Committee heard official testimony from the following: Chris Downing, Vice President for Enterprise Innovation Institution at Georgia Tech; and John Foster, from the Georgia Department of Revenue.

## COMMITTEE FINDINGS

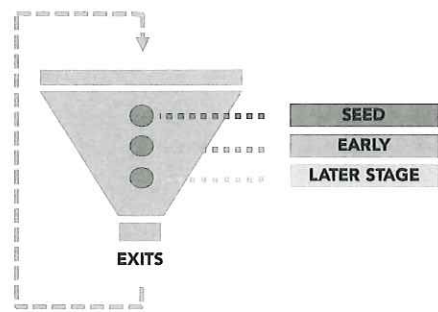
### Invest Georgia

The Invest Georgia Program was created by House Bill 318 in 2013 to help grow Georgia-based venture capital funds, as well as Georgia businesses that are incubated and growing within the state. This is done by providing venture capital funding to these businesses from Georgia-based venture capital funds, thus bridging the capital gap that exists for companies in the early and growth stages. These Georgia companies might otherwise struggle to survive without the help of these venture capital funds, who provide needed funding while also consulting these businesses as they transform from entrepreneurial entities to job-producing Georgia companies. In turn, successful exits expand the base of experienced entrepreneurs, investors, and talent that contribute to a healthy cycle of "creation, expansion, exit, creation..." experienced by other leading technology hubs.<sup>1</sup>

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<sup>1</sup> Taken from testimony given by Blake Patton to the Committee on October 6, 2016. This information is also found in a report titled "Recommendations to the Georgia State Senate Venture Capital Study Committee," which was submitted by Ms. Hala Modellmog and Mr. Blake Patton to the committee on December 12, 2016

Diagram of the Business Creation Cycle



2

Invest Georgia is structured as a “fund of funds” and is allowed to invest in other Georgia-based venture capital funds, which are encouraged to invest allocated capital primarily in Georgia companies. Potential Georgia venture funds are examined by an independent third party, LCG Associates, an investment consulting firm based in Georgia. LCG Associates provides the due diligence on any potential Georgia-based fund by looking at the history of the fund, its managerial structure and skillsets, the fund’s historical investment into Georgia companies and other factors which will give an indication as to its future performance. After this due diligence is performed, the Invest Georgia Board of Directors votes on whether to invest in the fund.

The structure of the Invest Georgia fund ensures that any allocations of funding which it receives is converted to capital on a one-to-one basis. This process both ensures that any investment helps build up companies in this state, while also ensuring that it also brings in a return on their investment. The fund also benefits from being managed by experts in the field.<sup>3</sup>

This program has thus far received \$10 million in funding in 2015, and \$10 million in 2016. Under O.C.G.A. § 10-10-16, the program is eligible up to \$100M with potential scheduled funding of \$15 million in 2017, \$25 million in 2018, and \$35 million in 2019.

### **State of Venture Capital Funding in Georgia**

Georgia has many of the key ingredients necessary to become a leading technology hub, such as the state’s research universities, large high-tech talent pool, an increasing number of angel investors and early stage venture firms, Venture Atlanta, and numerous entrepreneurial hubs and support programs such as ATDC. Georgia also leads in technology-based industries such as the financial transactions industry.<sup>4</sup> Nonetheless, in order for Georgia to continue to grow and lead in these areas, it must have a vibrant venture capital investment community supporting these industries.

Though venture capital investment activity in Georgia has increased in recent years, Georgia lags other leading technology hubs, including some southeastern states. The state is currently considered a Tier 3 state for venture capital investing (with Tier 1 indicating the best states to invest in).<sup>5</sup> In 2015, US-based companies raised \$73.4 billion of venture capital. Of that total amount, 1.3 percent was invested in Georgia companies. Georgia also had 101 venture capital deals in 2015, which represented 1.4 percent of all deals in the nation. In each of these areas, Georgia lags behind other states such as California, New

<sup>2</sup> All charts are taken from the report submitted by Ms. Hala Modellmog and Mr. Blake Patton to the committee on December 12, 2016

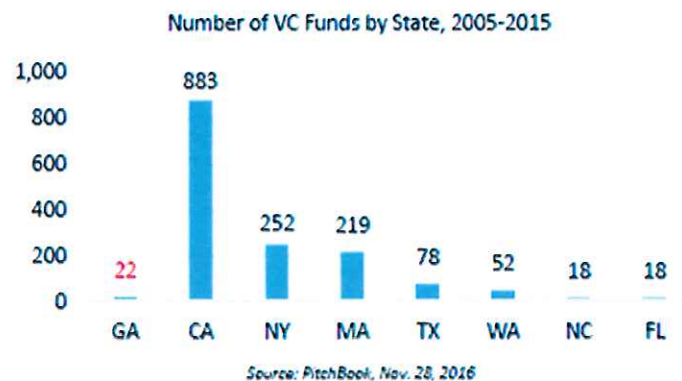
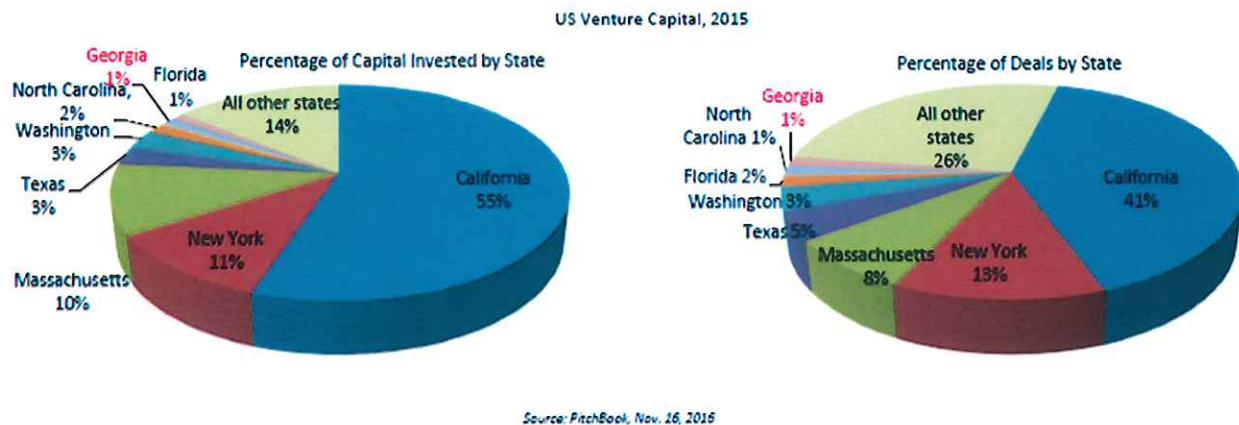
<sup>3</sup> Taken from testimony given by Eric Cromwell and Dan Schmisser, October 26, 2016

<sup>4</sup> Taken from testimony given by Gardiner Garrard, October 6, 2016

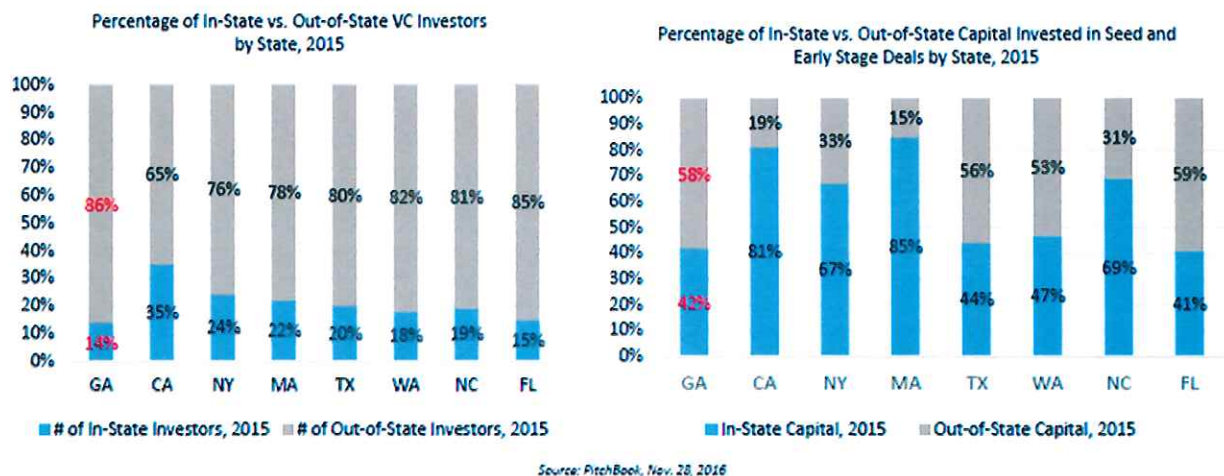
<sup>5</sup> Taken from testimony given by Knox Massey, October 6, 2016



York, Massachusetts and Texas.<sup>6</sup> Likewise, California has more than 40 times as many venture capital funds than Georgia, while Texas has over three times as many.

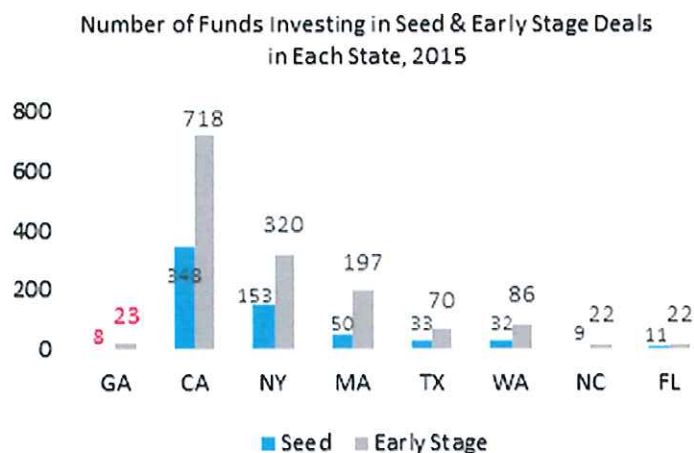


With less local capital available inside the state, companies in Georgia must look outside for investors. As a result, 86% of the investors in Georgia venture capital deals in 2015 were located outside of Georgia. When the investors in a fund (or the fund itself) are from out of state, profits generated from successful company exits leave Georgia, and are less likely to be returned to the state economy through re-investment or other mechanisms.



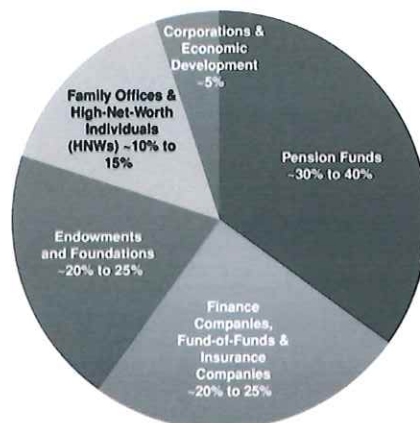
<sup>6</sup> See note 1

This lack of local capital makes it challenging for new, high-growth companies to start and stay in Georgia. Seed and very early stage investing are a local business.<sup>7</sup> Working long distance with a business places a strain on investors, who wish to work ‘hands on’ with these companies. Only 22.2 percent of all venture capital exists outside the Silicon Valley, Los Angeles/Orange County, New York Metro, or the Boston area. This concentration of venture funding in these areas puts pressure on new companies seeking investors, as investors will frequently demand that these businesses relocate into these areas to receive funding.<sup>8</sup>



*Source: PitchBook, Nov. 28, 2016*

Georgia’s low ranking for venture capital investing is due in part to the perception the rest of the world has of Georgia, as investors question whether the state can produce top-tier returns and multi-billion dollar company exits. This perception is reinforced by the lack of state funding in venture capital funds, as well as the state’s lack of institutional investors (such as from Georgia corporations, pensions, or university endowments).<sup>9</sup> Eighty percent of the money invested in venture funds comes from pension funds, endowments, foundations, finance companies, fund-of-funds, and insurance companies. Institutional investors typically contribute larger sums of money to venture funds, which leads to the creation of larger funds capable of investing higher dollar amounts in later stage companies.



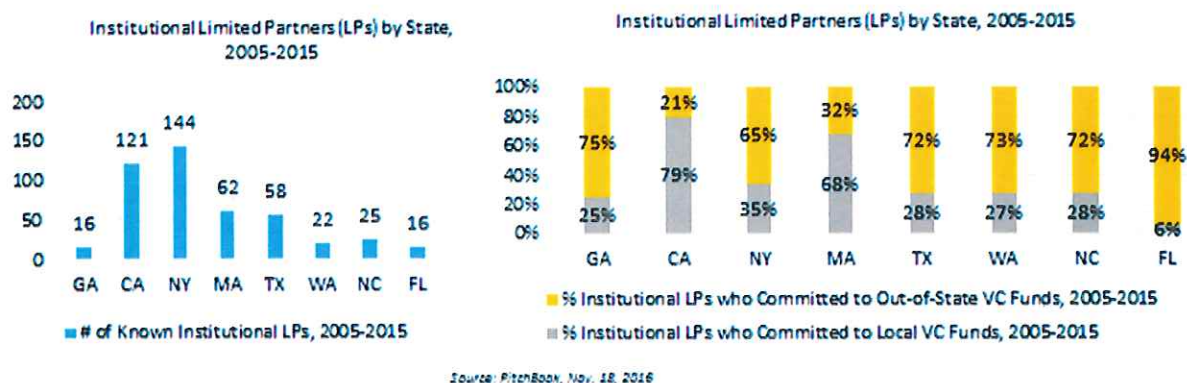
*Source of money in VC funds; The Business of Venture Capital*

<sup>7</sup> See note 1

<sup>8</sup> According to testimony given by Eric Cromwell and Dan Schmisser, October 26, 2016

<sup>9</sup> Taken from testimony given by Knox Massey, October 6, 2016

Increasing the investments from Georgia corporations and pensions would signal to other investors that Georgia is a credible state to invest in.<sup>10</sup> While recently passed legislation allows investment of public funds in alternative assets, as well as a fund of funds strategy in the form of Invest Georgia, there are still fewer Georgia-based institutional limited partners (LPs) investing in local funds compared to other leading technology hubs. Not only do the leading states for investment have more institutional LPs, but those LPs invest heavily in their local funds.<sup>11</sup>



Funding for these businesses currently only originates on the state level. Although the federal government does provide loans and funding to small businesses, these programs do not assist companies in the formation stages, but after companies have left the early stages of growth.<sup>12</sup>

Additional venture capital investments would help to grow Georgia's economy at a crucial time of its growth. The information technology industry is currently in the synergy phase of its lifespan, which involves high growth due to the creation of new, innovative, and potentially disruptive applications of already existing technology. Georgia has and can continue to benefit greatly from this period of growth, due in large part to the current size of the financial transactions industry in the state.<sup>13</sup> Investments in these businesses today will help to develop a larger economy in Georgia for the future.

<sup>10</sup> Taken from testimony given by Knox Massey, October 6, 2016

<sup>11</sup> See note 1

<sup>12</sup> Taken from testimony given by Eric Cromwell and Dan Schmisser, October 26, 2016

<sup>13</sup> Taken from testimony given by Gardiner Garrard, October 6, 2016

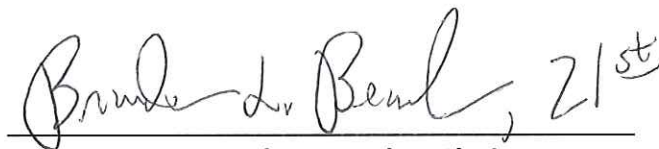


## RECOMMENDATIONS

- Fully fund the Invest Georgia program in aggregate amounts up to the allowed \$100 million over the next several legislative sessions.
- Investigate allocating unused or unallocated tax credits from existing tax credit programs in Georgia to incentivize Georgia-based corporations to invest in Georgia-based venture capital funds.
- Encourage and Increase other institutional investments into Georgia-based venture funds. These funds are key to venture capital growth in Georgia. Doing so will encourage other Georgia-based institutional investors (such as Georgia-based corporations, endowments, foundations, fund-of-funds, state pension plans) to invest in local venture firms, so as to increase access to capital for Georgia companies.
- Support increased engagement of large Georgia-based companies as sources of early customers, talent, capital, and potential acquirers for startups and growth stage Georgia companies, as well as leveraging their traditional strengths (e.g. scaling, distribution networks, marketing, and branding, etc.) and their current focus on innovation.
- Maintain the current quality of investments from Invest Georgia.
- Create a year round Venture Capital Task Force. Duties could include:
  - Provide updates on the Invest Georgia program from the venture capitalist perspective;
  - Provide updates on venture capital activity in the state. This would include all capital under management in Georgia; capital invested in Georgia-based companies, whether from Georgia based venture capitalists or venture capitalists outside of Georgia; all exists of Georgia-based venture capital-backed companies; and commitments from Georgia based companies, foundations, etc., in Georgia venture capital firms;
  - Provide updates on venture capital activity, including in State programs, regionally and nationally;
  - Discuss macro-economic trends in venture capital investing; and
  - Advance public relations for venture capital investing in the state.

Respectfully Submitted,

**THE SENATE STUDY COMMITTEE ON VENTURE CAPITAL INVESTMENTS**

A handwritten signature in black ink that reads "Brandon L. Beach, 21<sup>st</sup>". The signature is written in a cursive style and is positioned above a horizontal line.

**Senator Brandon Beach – Chairman  
District 21**