Commonwealth Energy Fund
Virginia’s Near Equity Investment Model & Progress

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Via Conference Call at NASEO HQ

September 5, 2013
Topics

- Center for Innovative Technology (CIT)
- Commonwealth Energy Fund (CEF)
- Portfolio Co. Snapshots
- Findings, Observations & Closing Comments
CIT

- Virginia non-profit created in 1985
- Help entrepreneurs launch and grow high-growth tech companies...high-paying jobs
- CIT Entrepreneur – 1 of 4 business units
- GAP Funds - tech, life sciences and energy
- www.cit.org
GAP Funds

- Operating in VA since 2004
- Thesis => innovation centric + growth potential
- VC-style discipline: source to exit
- DNA = pro equity team + investment committee
- Instruments: convertible note, equity and grants
- Fund sweet spot: catalytic $ + value-add
GAP Funds Contributions

- 88 startups seeded … often multiple rounds
- 7 portfolio companies exited
- 13X multiple to every CIT $ in 3rd party money
- 7 federal lab and university spin-outs
- Value creation for
  - Entrepreneurs
  - Co-Investors
  - Commonwealth of Virginia
Commonwealth Energy Fund

• Launched Spring, 2011

• Nucleus - $1.8M pool targeting 8-9 investments (convertible debt only)

• 7 properties in the portfolio including 1 follow-on

• Augmented by 2 GAP investments, i.e., CIT “skin”

• Anywhere in VA yet commercially available
Portfolio Geo Location

CIT Entrepreneur
Center for Innovative Technology
Portfolio Co. Snapshots

- Sunnovations
- Wiretough Cylinders
**Innovation**: 450 KSI steel wire: better toughness than Carbon Fiber at 1/10 price: 2
Patents pending, Competitive global advantage

**Market Driver**: Abundance and low cost of natural gas, infrastructure growth

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**Table**

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<tr>
<th>TYPE</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<td>Proof of concept</td>
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<td>Preparation for funds</td>
<td>Grant $500K from Virginia for equipment etc</td>
<td>Factory in Bristol, Va; US DOT and ANSI-NGV certification</td>
<td>CIT: 200K Expected Sale $750K</td>
<td>Expected Sale $2M, 10 employee</td>
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<td>Manufacturing and certification</td>
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<td>Funding for inventory and Sales</td>
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<td>Growth</td>
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Sunnovations: Making the Pivot

• Original Plan (2010): Make Solar Thermal Easier
  ➢ “Geyser Pump”

• New Plan (2013): Make Solar Thermal Up Value
  ➢ “Ohm” Monitoring System
Findings

CEF is the investment nucleus

- Process is repeatable
- Commercial availability is a new standard
- Created enduring pipeline
- CEF foundation critical to future GAP energy funds
Observations

- Always a learning curve with new fund
- VC model repeatable but key elements needed
- Portfolio effects apply – diversification matters
- Lemons ripen first...winners often unexpected
- Integrity at all times – no directed picks
- Deep engagement start to finish
- “Genius is diligence” – it is work
Closing Comments

- The model works
- Model is different
- VC model can be applied
- Capacity to grow / evergreen
Contact

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CIT GAP Funds 7 - Step Investment Process

1. Receive Business Plans at CIT
2. CIT-Internal Screening and Review
3. Engagement of Outside Domain Experts As Needed
5. Company Presentation to Investment Advisory Board (IAB)
6. Due Diligence Checklist & Legal Due Diligence
7. Close

Due Diligence

Step 4

Initial Legal Due Diligence

Term Sheet
CIT Investment Conditions

(a) **Downstream Capital Acquisition**
Completion of specific technology or business development milestone(s), the closure of which, retire(s) sufficient risk to enable acquisition of additional angel or venture capital investment aligned with CIT’s growth and return objectives.

*and/or*

(b) **High-Value Organic Growth**
Attainment of a cash flow position obviating the need for further investment and maintaining the company on a trajectory aligned with CIT’s growth and return objectives.
Convertible Debt

- Near-equity instrument
- Aligned and compatible with investment market interests
- Initiates as Debt - downstream conversion to equity at CIT option
- Streamlined deal-making
- Balances Interests of investor and entrepreneur
- Blended Investment Strategy for superior returns and fund growth