

Commonwealth **Energy Fund**

Virginia's Near Equity Investment Model & Progress

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Via Conference Call at NASEO HQ

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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



Portfolio Co. Snapshots



- Sunnovations
- Wiretough Cylinders

Sunnovations: Making the Pivot

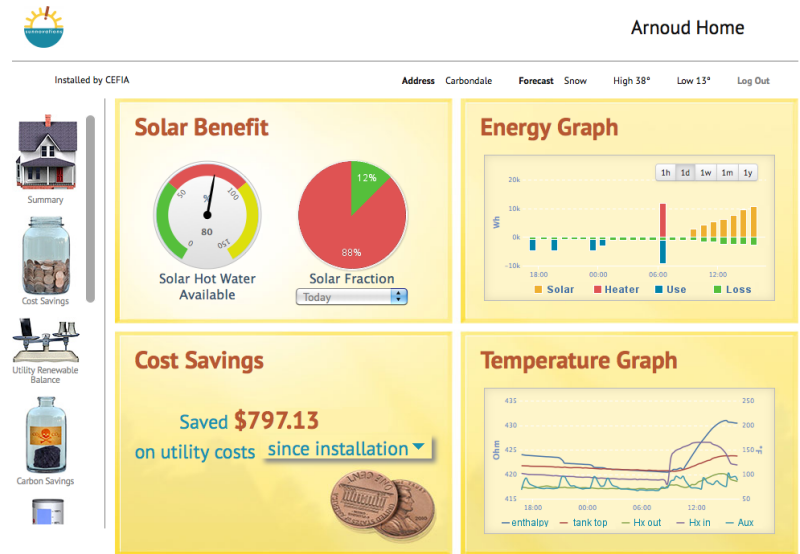
- Original Plan (2010):
*Make Solar Thermal **Easier***

➤ “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

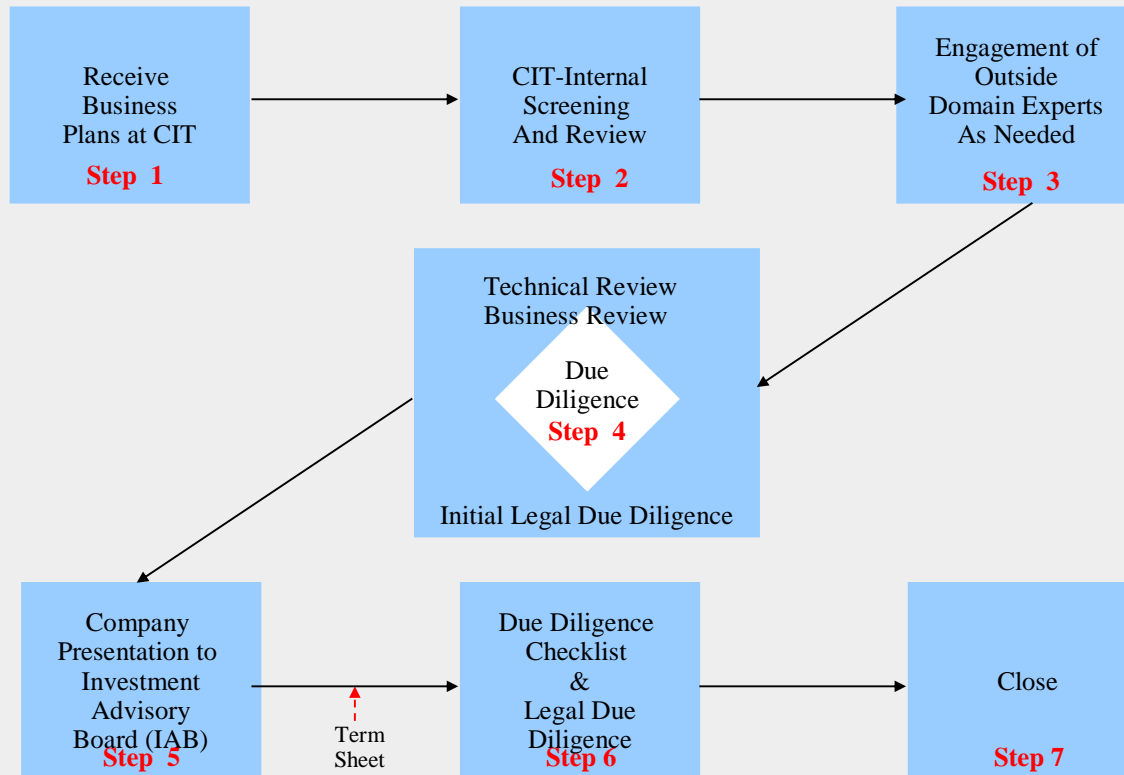


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Process

CIT GAP Funds 7-Step Investment Process



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