

New Jersey Innovation Evergreen Fund Venture Roundtable

(NJIEF session 2 of 2)

January 2022



About the NJ Economic Recovery Act

Governor Phil Murphy signed the **New Jersey Economic Recovery Act of 2020 (ERA)** into law on January 7, 2021.

The ERA creates a package of **tax incentive, financing, and grant programs** that will build a stronger, fairer New Jersey economy.

The ERA is both a broad-based **recovery bill and reform bill** that will better position New Jersey to recover from economic crisis caused by the COVID-19 pandemic, while remaining true to the NJEDA's commitments to transparency and accountability.

Visit the NJEDA's website at www.njeda.com/economicrecoveryact to learn more about each of the programs within the ERA, or to provide general ERA feedback.

Executive Order No. 63

Pursuant to Governor Murphy's Executive Order No. 63, the NJEDA is providing opportunities for groups and stakeholders to engage with the NJEDA in crafting rules around the New Jersey Innovation Evergreen Fund.

We welcome constructive input on how to ensure new programs created through the ERA are structured and administered in a manner that drives opportunities for all residents and communities.

The NJEDA will begin the session with a presentation to summarize the information – opportunity for public feedback will be available following the NJEDA's presentation. It is expected that the entirety of the session will take up to 120 minutes.

Recording of Public Feedback Sessions

Members of the public can submit written feedback on the New Jersey Innovation Evergreen Fund via www.njeda.com/program-specific-feedback through January 14th

Both New Jersey Innovation Evergreen Fund (“NJIEF”) public feedback sessions will be recorded and posted on www.njeda.com/program-specific-feedback so that members of the public unable to participate in a virtual session have the opportunity to review.

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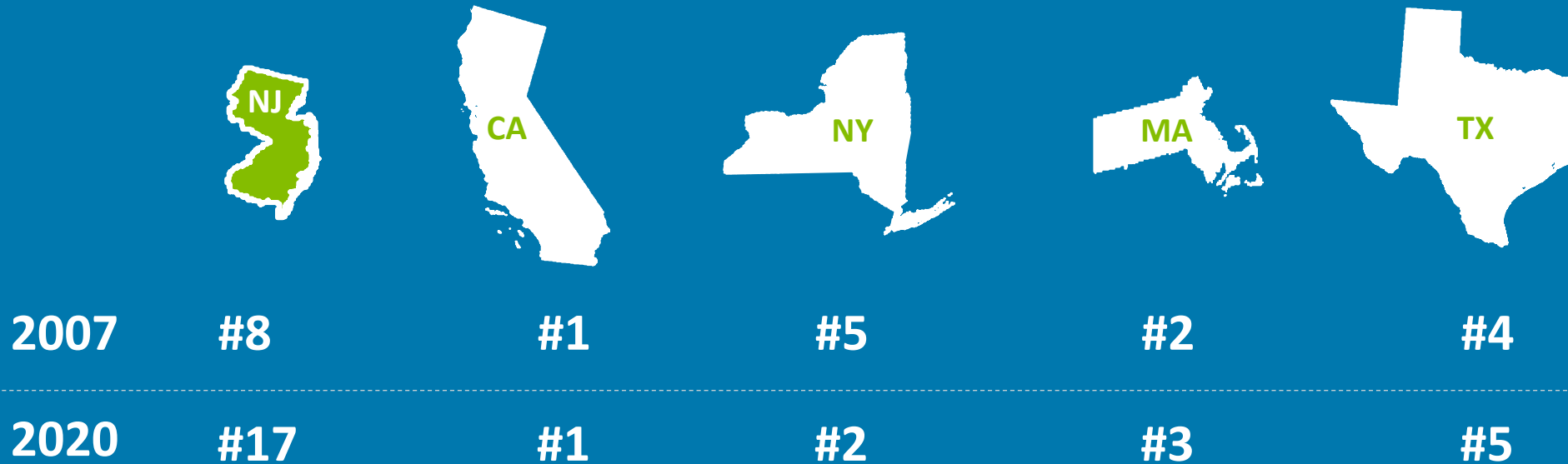
Venture Capital Investment

Venture capital serves two critical functions, it helps

- ▶ commercialize, test, and scale research and ideas that can truly transform the economy
- ▶ attract and retain budding entrepreneurs

PROXIMITY and **ACCESS** to funding is a key value driver for the development of an entrepreneurial ecosystem

NATIONAL RANKING OF VENTURE CAPITAL INVESTMENT



2020 Investment Landscape

State	Median Valuation (MM)	VC Funding (Series A-E)	Total Exit Value 2020	Multiple of Exits vs. Investments
New Jersey	\$10	\$ 1.2 B	\$55.4 B	47.4 x
California	\$11.49	\$ 48.3 B	\$239.6 B	4.96 x
New York	\$10.5	\$ 11.1 B	\$ 78.3 B	7.08 x
Massachusetts	\$14.89	\$ 12 B	\$ 101.4 B	8.43 x
Texas	\$10.73	\$ 3 B	\$49.3 B	16.4 x

**INVESTMENTS IN
NEW JERSEY WERE
MADE UP OF**

219
INVESTORS

ACROSS

30+
COUNTRIES

AND

35+
STATES

**ONLY 6 INVESTORS WERE
FROM NEW JERSEY**

SOURCE: "VC Funding" provided by Crunchbase. "Median Round Valuation" and "Exit Value" data provided by Pitchbook. Exit values consider all of IPO, Secondary Offering, Buyout, Secondary Buyout, Investor Buyout by Mgt., Merger/Acquisition, Merger of Equals, Reverse Merger, Dividend Recap, Share Repurchase, Bankruptcy.

Investors are doubling down across NJ's targeted industries

BlockFi

BlockFi raised \$350MM in Series D in 2017. Investors included, Paradigm (Crypto Fund), Bracket Capital, and more

jet

Investors included Catapult VC, Alibaba Capital Partners, Palm Drive Capital, Bain Capital Ventures, and more
Acquired by Walmart (2016) for \$3.5B

Misfits Market

Raised \$200MM (2021) from Series C funding investors included Accel and D1 Capital Partners, and more

audible

Investors included Intel, KPCB, AT&T, New York Life, and more. **Acquired by Amazon for \$280MM (2008).**

Celgene

Investors included Asseily Ventures, CHL Medical Partners, Edelson Tech Partners, BB Biotech, and Ridgeback Capital. **Acquired by Bristol Myers Squibb for \$80B (2019).**

EAGLE CREEK RENEWABLE ENERGY

Raised \$100MM in venture funding and was **acquired by Ontario Power Generation (2018) for \$298MM**



What is the New Jersey Innovation Evergreen Fund?

Established under the Economic Recovery Act of 2020, the New Jersey Innovation Evergreen Fund (NJIEF) will partner with the private sector to raise and invest funds in New Jersey-based companies. The NJIEF directly addresses our state's major shortfalls in venture capital funding and creates the conditions necessary for our entrepreneurs to succeed by...

CREATING a connection between corporate partners, venture managers, and start-ups in New Jersey

FOCUSING on job creation and ecosystem building

TARGETING the State's priority sectors

INCREASING funding and support for start-ups

Program expires in December 2026 after which program will be self-sustainable

“

The New Jersey Innovation Evergreen Fund is a bold new idea that will connect New Jersey startups with the funding they need to grow and foster a vibrant innovation ecosystem while generating new revenues for the State.

— GOVERNOR
PHIL MURPHY

Why Evergreen Now?

The Evergreen Innovation Fund will...



PROVIDE A WAY TO CONNECT FUNDERS AND STRATEGIC PARTNERS TOGETHER

Large corporate citizens, early-stage businesses and qualified venture capital investors can come together to support a symbiotic cycle of innovation in the state.



FOSTER INNOVATION THROUGH ACTIVE ENGAGEMENT

Host networking events and annual meetings to promote collaboration and networking among entrepreneurs, university partners and investors.



BUILD ALONGSIDE A PHYSICAL PRESENCE AT “THE HUB”

Accessible via public transportation and will be built-out with various conference and coworking spaces to drive business growth and innovation.

INNOVATION CAN OCCUR ANYWHERE, BUT IT MAY HAVE THE GREATEST CHANCE OF SUCCESS WHEN BORN AND FOSTERED WITH THE COLLABORATION OF INTERESTED PARTNERS.

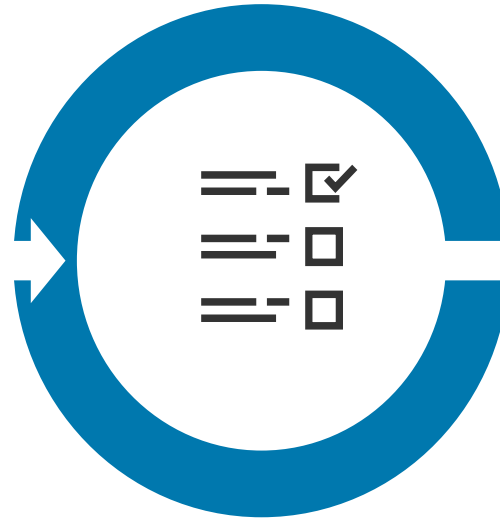
Key Features of the Evergreen Program



STEP 1 | RAISING \$500M TO CAPITALIZE THE NJIEF

- Public money, raised through tax credit auctions, will be matched by private funds, putting the fund at over \$500M
- Auctions will run once a year through 2026 for \$60M of corporate tax credits if available funding is below \$15M unallocated

“Focus of this session”



STEP 2 | SELECTING QUALIFIED VENTURE FUNDS

- State to partner with institutional investors that can be formally approved for access to the NJIEF



STEP 3 | Selecting Qualified Investments

- A qualified venture fund can access up to \$10M per year in matching funds from Evergreen to invest into NJ-based companies

STEP 1: Raising \$500M // THE AUCTION

What does the bidding process look like?

- 1** Corporations bid on tax credits **and** put forth a strategic commitment into the state
Minimum bid: \$500K
Auction Floor: \$0.75
- 2** Bids are reviewed by NJEDA staff for initial evaluation
- 3** Bidders will be able to increase their submission for a best and final offer
- 4** Awards will be allocated on availability based on value of the combined bid.

What is a strategic commitment?

A strategic commitment is part of the corporate bid and is a **commitment to support New Jersey's innovation ecosystem**. It can take the following forms*:

- **PEOPLE** (develop talent)
- **ECOSYSTEM** (commit to holding start-up events and programs)
- **INVESTMENT** (provide resources, access to customer channels or distribution networks, monetary support)
- **MARKETING** (promotes Evergreen and provides public relations message around the support of innovation in New Jersey.)

*Additional Examples: <https://www.njeda.com/evergreen-corporate-tax-credit-bidder-january-2022/>

Benefits to Corporate Partners



STEP 2: Qualifying Venture Firms

How will the EDA select venture firms to participate in the process?

A qualified venture firm may include a venture capital fund, a family office fund, or a corporate investor fund.

Venture firms must meet minimum criteria, including:

1. An equity capitalization, net assets, or written commitments of more than \$10M in the form of cash or cash equivalents
2. More than two principals or persons employed to direct the qualified investment of capital who have at least five years of money management experience



EDA will evaluate the following minimum criteria when qualifying a venture firm:

1. Management structure and experience
2. Investment strategy
3. The location of a venture firm

How will qualified venture firms access capital from the NJIEF?

Once a venture firm is qualified into the program, it is eligible to access capital from the fund for up to two qualified investments, not exceeding \$5M in initial investment each calendar year.

Benefits to Venture Funds



STEP 3: Investing in NJ Companies

Qualified venture funds will have access to capital for up to two qualified investments each calendar year into high growth businesses.

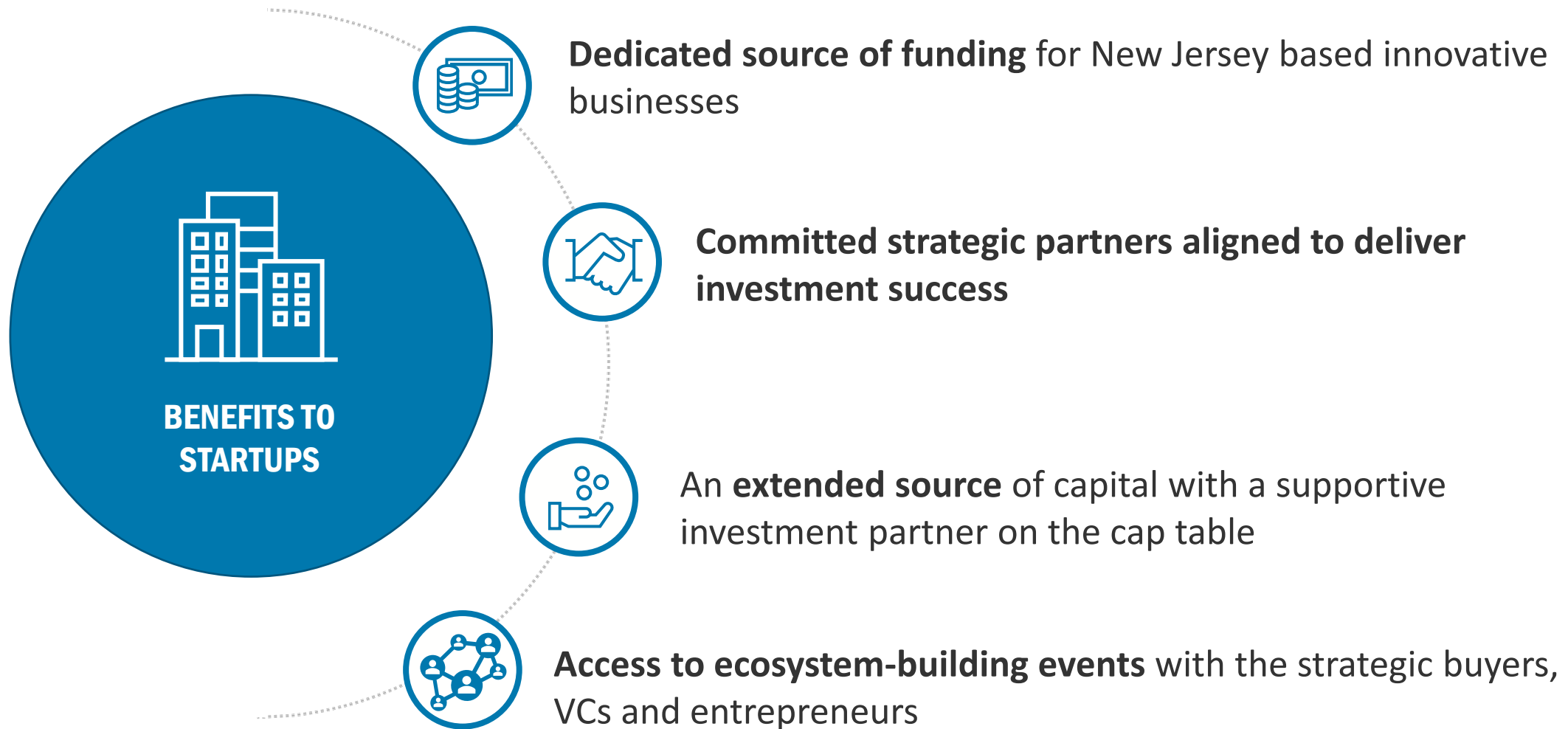
Qualified Investments must be made in one of the following industries:

- Advanced Transportation and Logistics
- Advanced Manufacturing
- Aviation
- Autonomous and zero-emission vehicle R&D
- Clean Energy
- Film and digital media
- Finance and Insurance
- Hemp processing
- Information and Technology
- Life Sciences
- Non-Retail Food and Beverage
- Other disruptive industries
- Professional services

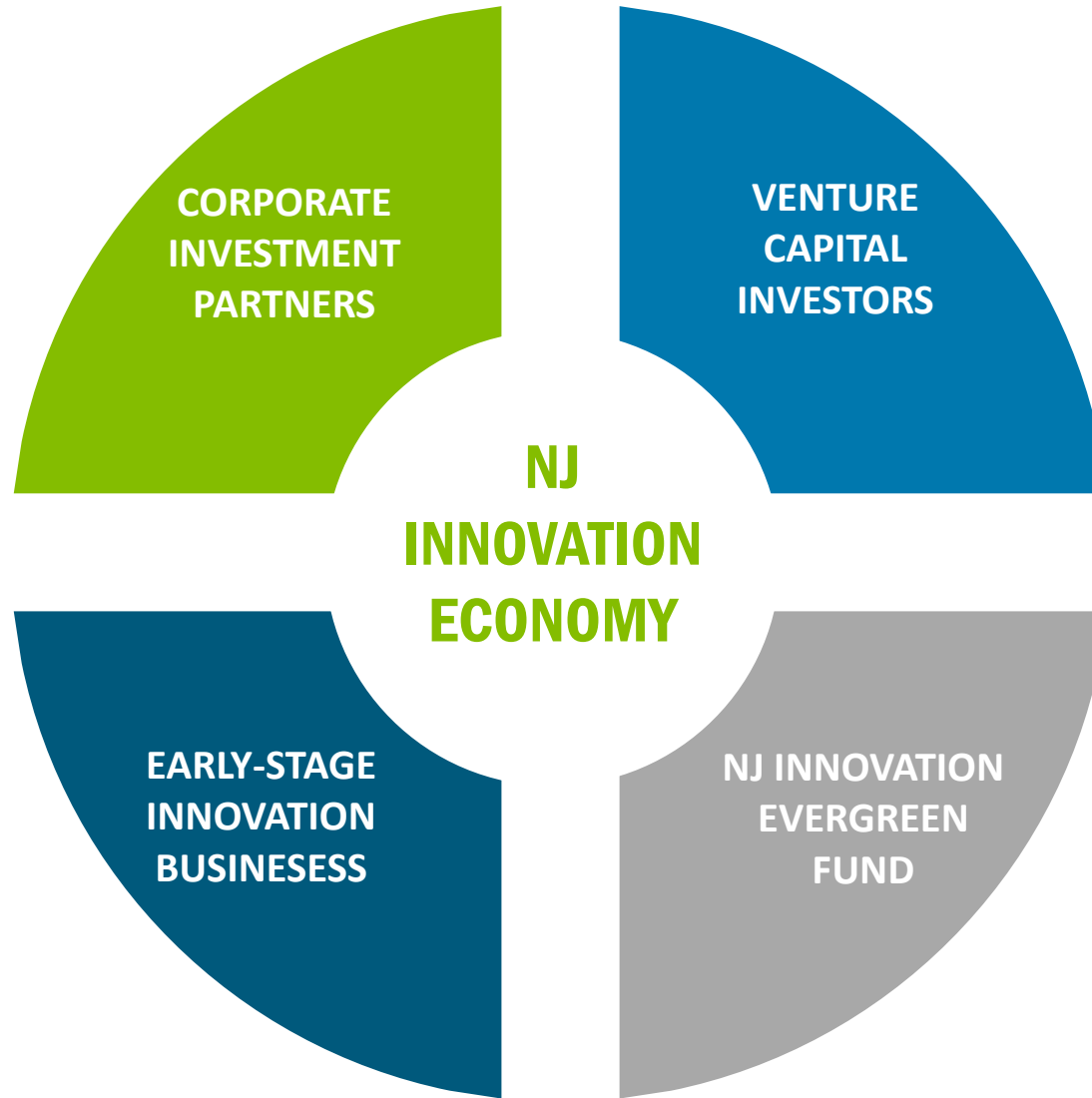
*Initial investment cap is extended to \$6.25M for qualifying businesses such as companies certified by the state as women- or minority-owned, companies that use intellectual property developed at a NJ university at the core of their business model, or a NJ university spin-off business.

UP TO
\$5M
in initial
Investment*

Benefits to Startups



NJ Innovation Economy



Please Note

NJEDA staff will summarize the information and provide context.

To access a copy of the slide presentation please visit www.njeda.com/program-specific-feedback.

For this presentation, please note the following:

Text highlighted in light green indicates areas where the NJEDA has exercised discretion to add clarity to the legislation.

Non-highlighted text is written into law which NJEDA does not have discretion to change.

Program Attributes

- 1 | QUALIFYING VENTURE FIRMS**
- 2 | QUALIFYING BUSINESSES FOR INVESTMENT**
- 3 | REPORTING AND COMPLIANCE REQUIREMENTS**
- 4 | PARTICIPANT FEEDBACK AND QUESTIONS**

When to Apply?

Venture firms may apply for program participation at any time, before or after they have identified an investment for the program.

- ▶ **Option 1**: Apply to become a qualified venture firm **first, without an investment identified**
 - Will allow for a faster approval process when a firm does find an investment opportunity

- ▶ **Option 2**: Apply to become a qualified venture firm **in conjunction with an application for an investment**

Applications will be reviewed on a first come, first served rolling basis.

Process of Qualifying a Venture Firm

- ▶ Venture firms **must meet several mandatory eligibility requirements** and **receive a minimum score on the program's evaluation framework** to qualify

- ▶ **Evaluation framework** based on:
 - Management structure and experience;
 - Investment Strategy;
 - Location of Venture Firm and Investments (incentive areas)

- ▶ **Similar to NJEDA's current venture fund review**; Criteria will be public for transparency and efficiency

- ▶ **NJEDA Board will approve all Qualified Venture Firms**

Qualifying a Venture Firm: Mandatory Requirement Checklist

- At least 2 principal investors** with at least 5 years of professional money management experience
- \$10M in equity capitalization, net assets, or committed capital**
- Registered and **in good standing with the NJ** government sister agencies
- If NJEDA is an LP in a fund managed by a qualified venture firm, the **firm must be current on all reporting requirements**
- Satisfactory results of **background and legal debarment checks**

Qualifying a Venture Firm: Proposed Evaluation Framework Weighted Criteria

- Existence of a DE&I Policy and prior success meeting DE&I goals
- Performance track record
- Experience of senior investment team working together
- Succession or continuity planning
- Prior experience investing in NJ startups
- Industry standard fees and carried interest rates
- Assets under management
- Regional geographic investment policy
- Policy to invest in NJ incentive areas
- Prior experience with NJEDA programs
- Office located in a NJ incentive area
- Senior investment team experience operating in targeted industries
- Office located in NJ
- Fundraising status of fund to invest alongside the NJIEF
- NJ business registration

Qualifying a Venture Firm: Proposed Initial Documents Required for Evaluation

- Audited financial statement(s) across all currently managed fund(s)
- Most recent investor pitch deck for fund that will co-invest alongside the NJIEF
- List of prior NJ start-up investments and location of company headquarters (when available)
- Limited Partnership Agreement for fund that will co-invest alongside the NJIEF
- Updated organizational chart and professionals' biographies
- Investment policy to invest in NJ incentive areas (when available)
- Executed subscription documents from fund that will co-invest alongside the NJIEF (when available)
- Address of NJ office and copy of lease agreement (when available)
- Current and historical DE&I investment policies and evaluation metrics (when available)
- List of NJEDA programs and dates of participation (when available)

Program Attributes

- 1** | **QUALIFYING VENTURE FIRMS**
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- 4** | **PARTICIPANT FEEDBACK AND QUESTIONS**

Process of Qualifying an Investment

- ▶ NJIEF will **begin accepting qualified investment applications with a draft term sheet** between the Qualified Venture Firm and the business

- ▶ NJEDA Staff will **review diligence by qualified venture firm and assure alignment with rules for program eligibility**
 - Staff will not underwrite investments

- ▶ Applications will be **reviewed on a rolling basis** considering the availability of capital
 - Availability will be updated continually on the EDA website

- ▶ **Board Approval required for investments**

Qualifying an Investment: Mandatory Requirement Checklist

To qualify for a NJIEF investment, businesses must meet the following criteria:

- ❑ **NJ Residency requirement**
 - 50% of employees of qualified business must reside in NJ at time of investment, or
 - 50% of payroll of qualified business must go to employees that reside in NJ at time of investment
- ❑ **Qualified businesses must operate in a targeted industry**
- ❑ **NJIEF investment capital must be (at least) matched by an investment from the qualified venture firm (min. \$100K investment – max. \$5M (or \$6.25M) investment)**
- ❑ **If a beneficial owner of a qualified venture firm participates in a NJIEF tax credit auction, that venture firm may not make an investment through the NJIEF in the relevant tax year**

Qualifying an Investment: Mandatory Requirement Checklist

To qualify for a NJIEF investment, businesses must meet the following criteria:

- A business must meet one of the following tests to **meet the high-growth business requirement**:
 1. Revenue growth > 25% per year
 2. Customer growth > 25% per year
 3. Valuation growth > 25% since last fundraising round (will accept third-party valuation)

- Must have fewer than 250 employees**

- Must be registered to do business in NJ**

Proposed Required Documents at Time of Investment – Qualified Venture Firm

- Audited financial statement(s) of current fund(s) managed by the venture firm (if applicable)
- Indication of amount reserved for follow-on investments
- Limited Partnership Agreement of fund that will co-invest alongside NJIEF SPV
- List of beneficial owners of the investment firm with an ownership stake above 15%
- Copy of executed term sheet (or draft term sheet if completing a pre-qualification application)

Proposed Required Documents at Time of Investment – Qualified Business

- Employee log (NJEDA form document) and NJ WR30
- Articles of incorporation
- NJ Business Registration of the company
- Indication of targeted industry and description of primary revenue and expense streams
- Financial statements for most recent period and period 12 months prior, or*
- Customer list for current period and period 12 months prior* (only required if a company does not meet the “high-growth” requirement for revenue or valuation growth)
- Term sheet for current and previous financing round or results of third-party valuation*
- Copies of any patents or copyright agreements
- NJ state certification as “minority business” or a “women’s business” (if applicable)
- Copy of lease agreement for NJ office (if applicable)
- TTM revenues by office location (if applicable)
- Number of employees by office location and date of establishment of offices (if applicable)

*Relevant to ascertain and verify “high-growth business”.

Establishment of Special Purpose Vehicle

Once an investment is approved, qualified venture firms will establish an SPV for the purpose of NJIEF co-investments. Program will use a standardized SPV agreement.

- ▶ **Principal terms, such as management fee and carried interest rates, will mirror those in the qualified venture firm's managed fund co-investing alongside the NJIEF SPV**
 - Standard NJIEF SPV agreement will clarify select additional terms for the qualified venture firm such as compliance and reporting requirements; non-indemnification
- ▶ **Venture firms that do not complete their annual reporting requirements in a timely fashion will not receive management fee payments until reports are completed**
- ▶ **Will enter into agreement with business to clarify compliance requirements for NJIEF investments**
 - Venture firms may report businesses' information on their behalf, however the NJEDA may engage directly with business if reporting requirements are not fulfilled by qualified venture firm

Follow-on Investment Policy

The NJIEF will reserve for follow-on investments in lockstep proportion with the qualified venture firm and will require lockstep investment rights.

- ▶ **NJIEF will update its reserves annually after receiving updated reserve projections from the qualified venture firm**
 - Reserves will be capped for any given fundraising round at \$5M, or \$6.25M for qualifying investments
 - Aggregate investments in any business will be limited to 10% of the sum of NJIEF invested and uninvested capital
 - Aggregate investments with any qualified venture firm will be limited to 15% of the firm's total assets under management

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Remain in NJ Compliance Requirement

What happens if a qualified business leaves New Jersey after accepting an investment by the NJIEF?

- ▶ If a qualified business fully leaves NJ before the end of the qualified venture firm's fund life, the business may be required to purchase, or facilitate a purchase of, NJEDA's shares at greater of cost or fair market value
 - Sales of shares will be at NJEDA's option, with exceptions to exercising option requiring NJEDA Board approval

- ▶ If a qualified business partially leaves NJ, before the end of the qualified venture firm's fund life the business will be given one year to revert to compliance before triggering the penalty detailed above

- ▶ **Must meet one of the following requirements to remain in compliance (tested annually):**
 1. at least 50% of full-time non-retail employees reside in NJ, OR
 2. at least 50% of wages are paid to full-time non-retail employees who reside in NJ, OR
 3. at least 50% of full-time non-retail employees work in NJ, OR
 4. at least 50% of wages are paid to full-time non-retail employees who work in NJ

Qualified Venture Firm (QVF): Annual Reporting Requirements

- Audited financial statement(s) of the fund co-investing alongside the NJIEF and of the NJIEF SPV
- Rate and amount of annual fees and carried interest charged
- Updated reserves for follow-on investments related to NJIEF investments
- Report detailing investment net profits of NJIEF SPV and fees and carried interest taken
- DE&I policies and progress towards related goals (if applicable)
- List of NJ companies vetted over past year and sourcing activities related to potential NJ investments
- Updated organizational chart and investor biographies
- NJ incentive area investment policy and progress towards related goals (if applicable)
- Executed subscription documents from fund that will co-invest alongside the NJIEF (if applicable)

**Some information will be included in report submitted to Governor and Legislature every other year. All information may be subject to open public records act.*

Annual Reporting Requirements for Qualified Businesses

Qualified businesses are required to report the following documents to the NJEDA each year to remain in compliance. Qualified venture firms may report this information on behalf of a qualified business.

- ▶ CPA certified employment logs, including employees' office of employment, state of residency, and payroll

- ▶ NJ business registration documents
 - Businesses that fail to comply with reporting requirements will be given a one-year cure period before it is assumed they have left NJ and the related penalty is triggered

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NJEDA Questions for Market Participants

We welcome market participant feedback, especially on any of the following topics:

- Put Option: We welcome any suggestions about our policy on how the NJIEF will respond if businesses leave NJ.
- Timing: How long do co-investors typically have to decide about participating in an investment? Is there a better option to begin the timing of the pre-qualification process for qualified businesses?
- High-growth business definition: Do the 25% growth requirements for revenues, customers, or valuation rounds seem reasonable? How can we assess growth of pre-revenue companies that have not raised prior rounds? Will any types of businesses be unintentionally left out of the program?
- Reserves: Does your firm typically reserve for follow-ons at the time of initial investment? How often does your firm update its reserves for a particular investment?
- Reporting Requirements: Will investors take issue with the NJEDA contacting businesses directly to complete reporting requirements? Were any of the reporting requirements for qualified venture firms or businesses problematic? What documents can investors provide to document committed capital and assets under management?
- SPVs: Is it more common for limited partners to establish a unique SPV for each co-investment transaction or maintain a single SPV to invest in all businesses alongside a single fund vehicle? Does each SPV need its own bank account?

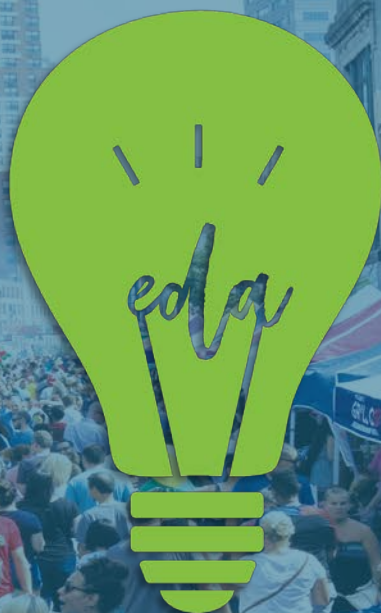
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