

MIND THE GAP

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Quarterly Gap Funding Activity Report
Q2 (April-June), 2013

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2012/2013 Q1 GAP FUNDING ACTIVITY REPORT

Investment Stage Analysis

In Q2 CY2013, participants reported 42 projects funded for a total of \$2.5M, adding to the 68 projects for \$3.7M for YTD .The activity was primarily directed at proof of concept projects with almost 93% of the projects and 60% of funding.

Fund Type	2012		2013 (YTD)		2013(Q2)	
	Projects Funded	\$US (000)	Projects Funded	\$US (000)	Projects Funded	\$US (000)
Technology						
Translational Research	11	494	0	0	0	0
Proof of Concept	87	5,157	63	2,580	39	1,484
Start-up						
Business Formation	2	110	5	1,080	3	1,020
TOTAL ACTIVITY	100	\$5,762	68	\$3,660	42	\$2,504

Technology Area

Technology Area	2012	2013 (YTD)
Drug Design/Delivery	15%	9%
Material Science	14%	10%
Eng-Chem	7%	9%
Software	1%	14%
Agriculture	7%	7%
Biotech	10%	4%
Diagnostics	10%	4%
Eng-Comp/Elec	4%	10%
Imaging	6%	6%
Sensors	4%	6%

Industries of Interest

Industry	2012	2013(YTD)
Biotech/Pharma	39%	17%
Agriculture	10%	17%
Manufacturing	12%	13%
Electronics	9%	13%
Energy	9%	11%
Medical Device	13%	7%
Software/Internet	1%	7%
Aerospace/Defense	0%	7%
Bus/Consumer P&S	2%	1%
Transportation	2%	1%

2012/2013 Q1 GAP FUNDING ACTIVITY REPORT

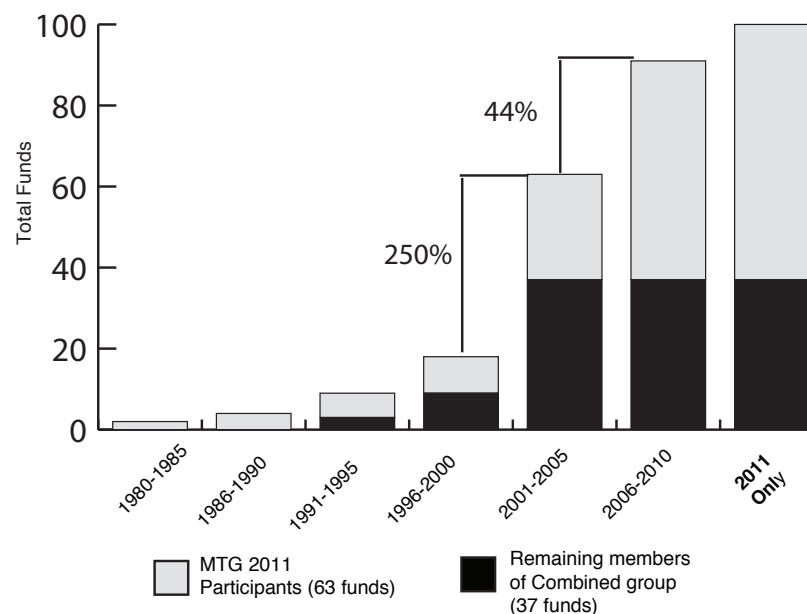
“Best in Gap Funding” Showcases

Forefathers of Gap Funding

In our most recent **Mind the Gap Report**, a program-level look at 63 funds from 40 universities and affiliated organizations, we were able to identify some leading programs based on their historical activity and emerging tactics as they relate to gap funding and associated programs. Each quarter we will share leading gap fund programs based on different activity measures and also spotlight a best in practice program.

From our experience, the proliferation rate of gap fund programs sky-rocked between the years 1998-2005 (see right), as early stage capital was aligning itself with the realities of the post-bubble era.

In this report, we showcase five institutions that lead the charge in creating gap funding programs. These programs, still alive today, represent 125 years of gap funding experience.



**Proliferation of gap funding, based on the vintage years of 100 research funds*

Vintage Year	University	Name of Fund(s)
1981	University of Wisconsin	Technology Innovation Fund
1985	Purdue University	Trask Fund
1988	University of British Columbia	Prototype Development Fund
1990	New York University	Applied Research Support Fund
1996	California Institute of Technology	Grubstake Fund

2012/2013 Q1 GAP FUNDING ACTIVITY REPORT

Pilot Participants

Florida State University
Inovent (Turkey)
Iowa State University
Michigan State University
Oklahoma State University (Cowboy Technologies)
Purdue University
University of Arizona
University of California System (10)
University of Illinois-Chicago
University of Illinois-Urbana Champaign
University of Kansas
University of Massachusetts System (5)
Worcester Polytechnic Institute

The **Gap Funding Activity Quarterly Report pilot** will extend through 2013 and focus on expanding the participant group in order to establish a two year set of activity and develop ongoing longitudinal data year-to-year. In addition to program exposure and access to our investor/corporate network, participants receive complimentary reports and associated resources to support the development of their gap funding programs.

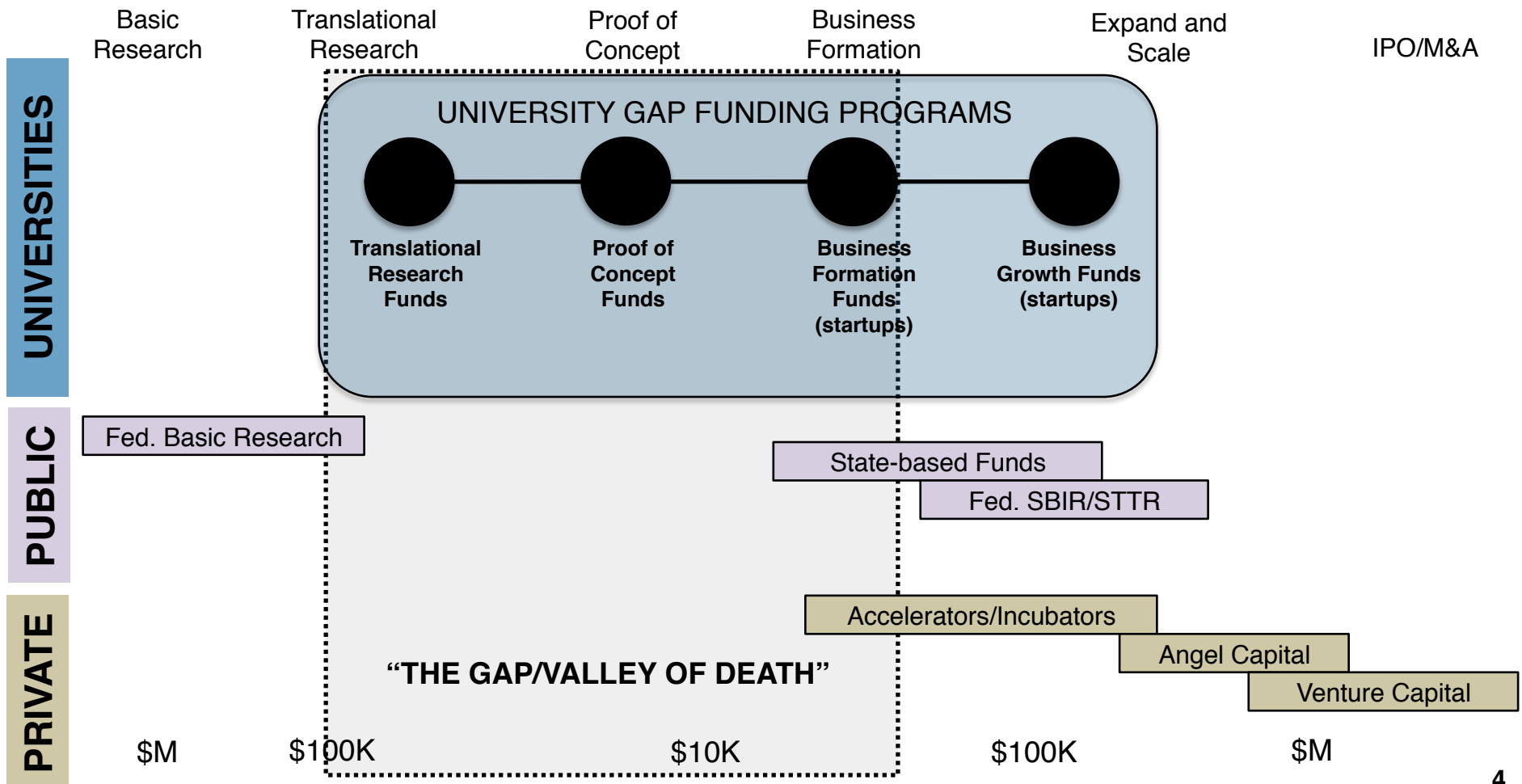
Interested in becoming a participant? Contact us at connect@innovosource.com to learn more

GAP FUNDING OVERVIEW

The Role of Gap Funding in the new capital continuum

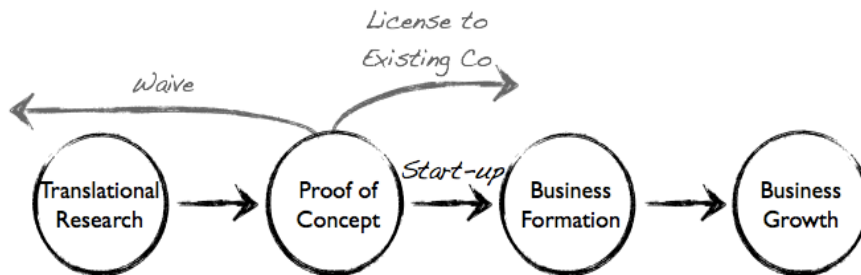
With fleeting sources of early-stage capital in the commercialization pathway, a “valley of death” or “gap” emerges that threatens the development of university technologies and start-ups. Universities utilize gap funding as a solution to this barrier to innovation.

COMMERCIALIZATION PATHWAY



GAP FUNDING OVERVIEW

Types of Gap Funds



Translational Research

Translational Research gap funds enter after traditional sources of investment in basic research cease, and support the promising projects that require additional applied development. The ultimate goal is to get the technology to a point where it can be assessed for commercial potential, or aligned with the priorities of an external partner willing to develop the technology further

Proof of Concept

Proof of Concept (POC) gap funds evaluate commercial potential, demonstrate the value of the technology, and generally de-risk it (or perception of risk) for commercial partners or investors. By developing the commercial groundwork, including prototypes, IP/competitive landscaping, and application evaluation, these funds aim to identify and secure a route to commercialization (license to existing company or spin-out). POC gap funds also act as a process filter by identifying weakness in the technology for further development, or by deciding not to pursue the technology which saves often larger resource requirements later in the process (a common recommendation in most new product development literature)

Business Formation

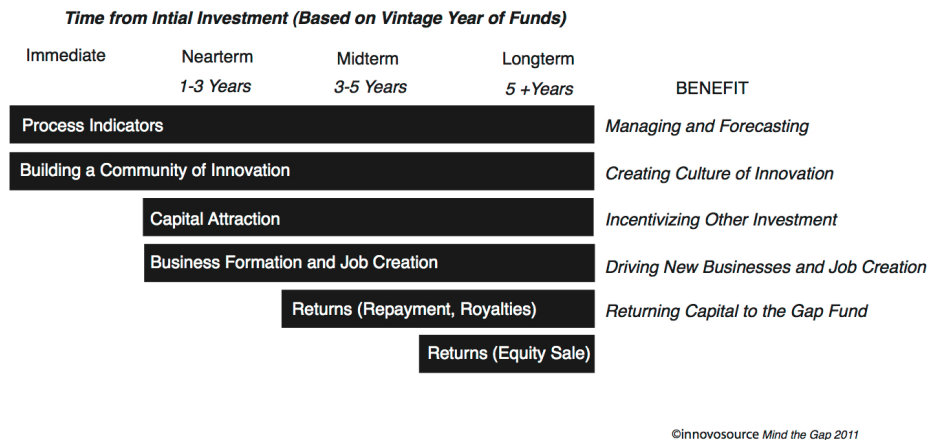
This emerging gap fund type assists in the early formational steps of new company creation – often prior to it becoming a legal entity. Business Formation funds can be seen as a start-up-focused extension of proof of concept funding (post route-to-market decision) that develops the business application of the technology through market research, product development, business development, management, space, and equipment

Business Growth

As scalability and growth become major objectives, some research universities have created, spun out, or partnered with seed funds and accelerators, both public (government) and private (corporations, investors), to fill a void in early stage capital. The main goal of Business Growth funds is to scale an attractive business that creates jobs, produces a risk-worthy return on investment, and attracts capital by leveraging other external investors

GAP FUNDING OVERVIEW

Impact of Gap Funding



In our recent program level report of 63 programs at 40 universities (www.gapfunding.org), we started to look at the impact of gap funding. The complexity of the situation lies in the fact that these funds do not just measure themselves in purely financial terms. The funding vehicle (often grants), the stage of technology (early), and the organizational missions inhibit this narrow focus. Instead, many refreshingly take a comprehensive approach and identify gap funding with its ability to catalyze the entire innovation ecosystem. Therefore, we have developed the following four areas (with an example of associated measures) to establish the impact of gap funding:

Process indicators: Measures to track and forecast the process of gap funding and eventual commercial outcomes:

- Yield rates, or projects proposed vs funded, were observed at up to 41% depending on fund type. This of course is much higher than the traditional investment sources and demonstrates the ability of these funds to give more technologies an opportunity and capability to develop

Building a Community of Innovation: An overlooked benefit of the funds is the associated gap support programs that engage members of the innovation community in the evaluation, commercialization, and funding process.

Business Formation and Job Creation: Impact of these gap funds in tech-based economic development

- 395 new start-up companies (44 reporting funds)
- 7,732 confirmed jobs (27 funds), at an average gap investment of \$16,300/job
- 70% survival rate of reporting start-ups over five years old compared to 51% of SBA all new firms

Returns to the Gap Funding Organization and Capital Attraction:

- While still early to capture complete outcomes, reporting funds experiences up to a 5x return of proof of concept type funding through, with an average of 2x for seven reporting funds
- \$2.8B reported attracted third-party capital on \$162M vested gap fund projects, 30 funds reporting

VISION FOR GAP FUNDING QUARTERLY REPORTS

The goal of the **Gap Funding Activity Quarterly Report** is to advocate for and inform practitioners and the general public on the importance of this funding mechanism to the future of technology and start-up development. Through this report, we will establish the first and most comprehensive set of activity data through close partnership with university-affiliated gap funds.

This process is currently in a pilot phase that will extend through CY 2013 and focus on expanding the participant group in order to establish a two year set of activity. We will use this time to develop the report and assess information of value, including:

- Positioning of university-affiliated gap funding with other traditional forms of funding like angel, venture capital
- Market-level info on investment activity and funding levels
- Technology areas of investment
- Targeted industry sectors
- Best practice fund examples
- Impact of gap funding activity

Please share this report with your networks and contact us with feedback. With your help, we can develop this into a resource that will support the relevancy and development of university-affiliated gap funding.

Interested in becoming a participant?

In addition to program exposure and access to our investor/corporate network, participants receive complimentary reports and associated resources to support the development of their gap funding programs.

Contact us at **connect@innovosource.com** to learn more

MIND THE GAP

the resource for those

Research Universities
Laboratories and Hospitals
Early-stage Investors
High-tech Companies
Government Agencies

interested in
university-affiliated
translational research,
proof of concept,
and pre/seed
gap funds

Objectives

inform.

Expand knowledge and create access to best-practices for current/aspiring gap fund managers and stakeholders

advocate.

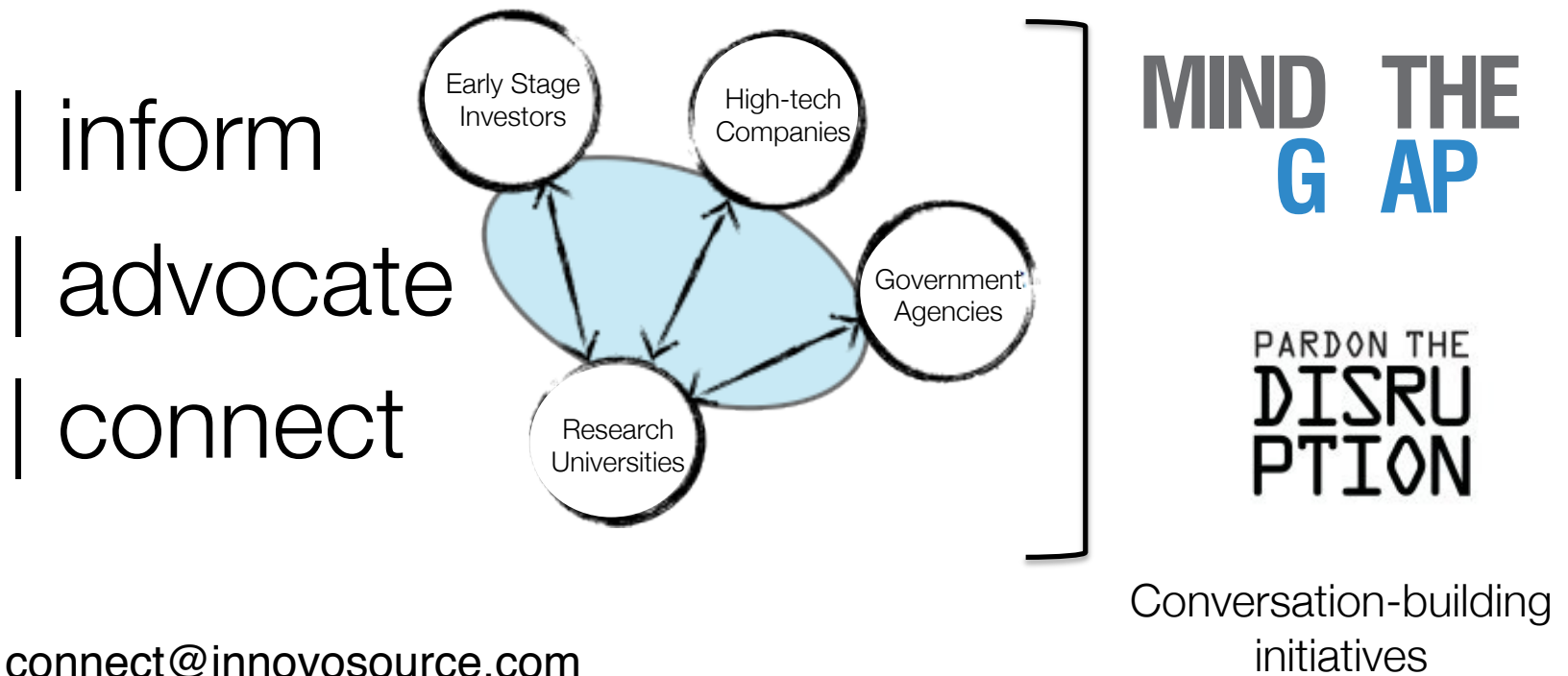
Increase awareness of the capital gap for early-stage, university/lab technology and advocate for solutions, including gap funding

connect.

Connect university/lab proof of concept technologies and start-ups to sources of early-stage capital (venture, angel, crowdfunding), talent, and other peer support

innovosource

an awareness firm that works with **research universities** and their key innovation partners (**high-tech companies, early stage investors, and government agencies**) to



Contact: connect@innovosource.com

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