Podcast Interview

Susan Shows,
Senior Vice President,
Georgia Research Alliance (GRA)
Interviewed by: Rhiannon Skipper &
John Slanina, SSTI

2007 Excellence in TBED Award Winner:
Commercializing Research

Ms. Skipper: Hello, this is Rhiannon Skipper and John Slanina with SSTI. The following recording is an interview with Susan Shows, Senior Vice President of the Georgia Research Alliance. GRA's VentureLab Program was the recipient of the 2007 Excellence in TBED Award in the category: Commercializing Research.

VentureLab seeks out university based research innovations, assesses their commercial potential and provides resources to suitably address the management, market, and technology risks associated with new venture formations.

Can you further explain the three funding phases of your program, specifically the amount of awards, and what type of entities are eligible to receive these grants?

Ms. Shows: In the VentureLab Program we have three phases of grants that we provide. The six research universities that are members of the Georgia Research Alliance are eligible to receive these grants on behalf of specific technologies, specific intellectual property that they've developed. They want to find out, want to determine does it make sense to start a company around this particular technology. Phase one award is up to $50,000 to the university, and the purpose of that is really to validate the technology. In most cases, phase one awards are at the pre-company stage. The companies have not been incorporated and some cases the invention disclosure hasn't even been filed.

The question that we want to ask was answered with that phase one award is: does this represent an opportunity for a potential company, or not? If the answer is yes, as determined by a panel of external reviewers made up of savvy investors that come in and work with us, then the university is eligible to apply for phase two award of up to $100,000 that goes to the university on behalf of that technology. The purpose of phase two is to achieve company formation, meaning they'll incorporate and negotiate a license with the university.

Activities that we cover that we're paying for with that $100,000 are generally further product development, further testing, more visits to potential customers, strategic partners, suppliers, those sorts of things. With a phase two award we require the company to demonstrate external market validation by having matching funds that they don't give to the university, but they use inside their company. It could be SBIR funds, STTR Funds, it could be angel investment. Just some demonstration that somebody other than the Georgia

Research Alliance and the university says this is a worthwhile project and has some commercial potential.

If they successfully complete phase two, if they're able to get some matching funds, and if they have Georgia based management in place. Some sort of a launch CEO, somebody that's going to attend to the business day-to-day, in addition to the faculty members. Then they are eligible for a phase three grant, which is really a loan that is made directly to the company. The state gratuity law in Georgia prohibits us from giving a grant to a company, but we can make a loan to them with very favorable terms it involves a balloon payment at the end, and we have some repayment triggers that are friendly to the company.

The loan is up to $250,000. We see the loan being something that bridges the gap to funding that maybe they're trying to close on a term sheet, or they're trying to get a big contract with a customer. They need some cash to tide them over. Our external reviewers, these investors that we work with have said to us: it's critical, it's not a lot of money, but it can come in at a critical time for a company's development.

That's the three stages of investments that we do at the VentureLab today.

Ms. Skipper: Do you have an estimate on the length of time in general it takes for companies involved in VentureLab to go from one phase to another?

Ms. Shows: Typically, a phase will take from six to twelve months. A phase one will take six to twelve months for the project to move through the milestones that we set for a given phase.

Ms. Skipper: Can you provide us with an example of a successful company, including information about when each award phase was given?

Ms. Shows: The Company that I picked to talk about is in our technology phase or communication phase. I'm not going to tell you the name of the company because I'll share some details that are fairly confidential. This is a project that came into our program in December 2005. We awarded a phase one grant of $50,000 to the team at that point. They were doing some technology validation, looking at the technology. They did a good job; our external reviewers were pleased with the progress they made, so in August 2006 we gave them a phase two grant of $100,000. They had received some angel funding as their match. What happened at the same time in the spring of

2006, we identified somebody who was coming out of a venture capital environment. He was leaving the venture capital firm that he worked for and he was really looking for an opportunity to go into a startup. This is somebody who had a history of working in startups. We brought him into the university, gave him a desk and a phone and a very modest stipend and said, go out and find your next deal. This particular company is the one that he latched onto and because he's so highly regarded by the investment community, an investor was willing to step up and say, if this individual will sign on as the launch CEO, I'll provide the matching funds for that phase two.

This particular company is probably one of our first true nano-technology spin-outs. It's in a very hot area, has lots of potential, but we knew that it had the risk of relocating to California, because that's where a lot of the equity investment would be coming from. This is why finding a launch CEO based here in Georgia was so critical to making that phase two award. The team met all their phase two milestones, which were mostly product development in nature. The external reviewers were very pleased with their progress in phase two, so in July of 2007 we made a phase three award to them and it was a loan.

The company was asking for that loan because they were trying to negotiate a term sheet and they needed cash to pay their staff. They had less than 10 people on board, but they needed additional cash to help pay their staff and employees while they were negotiating that term sheet. The good news is that last month they did receive a term sheet that looked very good. We think that our phase three fund bridged the investment gap, and helped them make their payroll. That's the kinds of things we are trying to do with our dollars.

Again all of our companies are very early stage. This particular company still has less than 20 employees.

Ms. Skipper: Great, thank you Susan. I think John is going to go into some questions now on the specifics of program mechanics.

Mr. Slanina: Thanks Rhiannon. A unique component of the VentureLab program is the fellows that you've identified help with the management of the companies. I'm curious about how exactly does your program find the individuals, the CEOs and others who help the fledgling companies with their management positions?

Ms. Shows: By and large it's word of mouth. Our venture fellows recruit each other basically. We get ideas from our incubators, we get CEOs and C-level people that are in those incubator companies as they merge, or are acquired, or have some liquidity event, and they're ready to go do their next deal. Then they come to us and say, tell me what you've got in the early infancy. A lot of these entrepreneurs that are good at starting things, they just want to keep on doing that over and over again, rather than stay with one deal for a long time. We get them from local industry that also is having downsizing projects or mergers/acquisitions.

More recently, we have to import some of this talent and we're working with executive recruiters. We're working with the Alumni Associations of our research university, and trying to really target people that we see have a high propensity for wanting to come back to Atlanta, or to Georgia, to Athens, Augusta. We're going after those folks. A common characteristic of our VentureLab fellows is that they are financially self-sufficient, at least for a short term. Many of them have left a company and have a package that will last for a year or two. It gives them the flexibility and the breathing room to go out and explore opportunities.

Mr. Slanina: An ongoing debate that we see a bit in the TBED community when funding companies is sometimes taking an equity stake or not taking an equity stake. GRA's position has been not to take one. Can you elaborate why you found that important to have that position?

Ms. Shows: Well first of all, the dollars that we receive from the state for investment in the VentureLab Program, those are economic development dollars. Not really intended to be equity investment dollars. More importantly the private equity investors, the VCs that work with us, tell us that if we were to take an equity stake in our company it would only complicate the issue of ownership. When they get ready to come in and invest, they say it's easier and cleaner for them to repay our debt than it is to have to deal with the dilution of what we own. Right now I think that we ask our loans to be repaid at a 5% rate, and we're happy to do whatever it takes to keep the investment community wanting to follow us in with their own dollars.

Mr. Slanina: When you first started the VentureLab Program a few years ago as just a smaller pilot program, can you describe that process? What are the ways that you analyze your pilot program to say, we want to take this to a much larger level, spreading it across the different universities throughout the state of Georgia?

Ms. Shows: We really did not have funding in our budget to go launch the big VentureLab Program. The obvious choice for us is to try a test case and see how it works. We selected one university, that's Georgia Tech. They have a history of being very entrepreneurial, and creating spin-outs and technology that formed the basis of startup companies. We partnered with the technology incubator at Georgia Tech. They have staffing; they're in the incubator that could help us. We said let's go out, select some labs that we know are prolific in terms of generating IP. Our hypothesis was we believed that inside those labs there were ideas that people did not know about. They didn't know their commercial value, or they didn't know the ideas even existed necessarily. There was faculty that had no clue about the commercial potential of their discoveries.

In all, the team from Georgia Tech created a laundry list of over 120 technologies that initially they said these warrant more investigation. We looked at it as something of scavenger hunt. We went into labs one-on-one, met with faculty, met with research directors and came up with this laundry list of 120. The first path of those 120 led us to carve out about 20 or 25 that we said after more evaluation; these really do have some commercial potential, let's focus on those. Right away we created three companies. Then at that point we said our hypothesis is true. These were all ideas that would never have come to the incubator without some pre-incubator help that a program like VentureLab could provide. We said this is worth looking at, really raising some funds from the state and carrying it to other campuses as well. In order to manage our growth, we really expanded the program one campus at a time.

Mr. Slanina: Then as you're moving forward into the other campuses across the state of Georgia, how are you marketing the VentureLab Program to other scientists within those universities?

Ms. Shows: At each campus we have what we call a VentureLab Director, somebody that's the central point of contact for the VentureLab Program. We partner with our university for everything we do. So the staff here at GRA is very small. We have one dedicated person for the VentureLab Programs. The intentional kind of marketing that goes on occurs within the campus. That campus VentureLab Director invites us in very often and we'll do a seminar, or we'll host a lunch, or a reception, and answer questions for the various faculty members. Indirectly it's word of mouth. Faculties talk to each other about it, entrepreneurs talk to each other about it, and the investment community is talking about it as well.

It's more indirect marketing than anything. We're looking at a budget of less than $5 million. Going across five campuses we only have so many dollars, and we're trying not to over hype the program with what we're able to fund in a given year.

Mr. Slanina: Do you see that you're coordinating you're efforts for the VentureLab Program within specific scientific fields?

Ms. Shows: We will look at any opportunity coming from any of our universities. There is a firm requirement that we have at the Georgia Research Alliance, and that is we have to make sure that the company is based on a technology that has a natural home here in Georgia. For example, semiconductor manufacturing by and large is done somewhere else. If we have a technology that must have semiconductor manufacturing as part of its business model, that's probably not going to happen here in Georgia. It maybe something that a university needs to pursue because it's their intellectual property; it's not something that we should put our economic development dollars into.

Mr. Slanina: How do you see yourself plugging into the rest of the state's technology strategies as far as where you fit in the long progression of the economic development programs produced by both the state and the GRA itself?

Ms. Shows: Well the Georgia Research Alliance is not a state agency; we're a 501C3 private corporation. We're treated like a state agency in most aspects, because we do raise money from the state. We're close partners with for example, our state's Department of Economic Development, with Board of Regents that manages and oversees our state universities. We're partners with the Department of Community Affairs. These are all the other service providers in it today that help recruit new industry, help provide services to growing companies.

We're a very close partner. One thing that maybe different about Georgia than some other states are that there is a ton of collaboration among service providers here. It really is friendly collaboration as opposed to competition.

Mr. Slanina: What we're trying to establish is thinking about the replicability of this program to other states and regions. Are there any components of your VentureLab Program that you just see as so absolutely essential that if leaving those out, the program could not be replicated in other areas?

Ms. Shows: The key ingredient from my perspective is rigor in the selection of projects, and companies that you will fund. You cannot afford to become a source of easy money. You can't afford to become a source of last resort funding. Nobody else will give me any money. Therefore, let me go to Georgia Research Alliance, they'll fund me. That's where our external reviewers are so important to our process. We have about 20 industry folks. Some of them are investors, some of them are CEOs, some of them are CTOs, CFO's who sit with us and spend a day a quarter having our projects come in and present to us. They tell us, this is a great lifestyle company, but it's not scalable. This is one that is venture fundable. This one is a science project, drop it now, it's never going to be anything more than an employer of one faculty member and two graduate assistants.

That's the way that you really leverage your investment is making sure you're assuming a lot of risks, but you're assuming smart risks in the very earliest stages of development.

Mr. Slanina: Are there any other additional lessons learned from your experience with this program that you would like to share with the listening audience?

Ms. Shows: For people, who might be considering launching some pre-incubator services, just know that it is much more hands on in nature than an incubator program would be. You don't have management in place a lot of times. You just have to be prepared to staff it so that your university or whoever the host organization is has people who can sit down with the faculty members and very methodically work through the issues. Be prepared to hold their hand and go slowly, because faculty are new at this. They're not skilled at starting companies. Again I'll repeat that the project selection criteria have to be very rigorous.

More information about GRA's VentureLab is available at: http://www.gra.org/. For more information about the Excellence in TBED awards, please visit: http://www.sstiawards.org/.