

TESTIMONY OF MIKE STUBLER
DIRECTOR, PITTSBURGH VENTURE CAPITAL ASSOCIATION
MANAGING DIRECTOR, DRAPER TRIANGLE VENTURES
BEFORE THE PA HOUSE FINANCE COMMITTEE
APRIL 23, 2013

Mr. Chairman and members of the Committee, thank you for taking the time to engage in a dialogue regarding the proposed Innovate in PA legislation and for inviting me to testify on behalf of the Pittsburgh Venture Capital Association (“PVCA”) and Draper Triangle Ventures. The PVCA has worked for over 25 years to support entrepreneurship, capital formation and economic development in southwestern Pennsylvania. Its members include venture capital firms, angel investors, entrepreneurs, universities, venture development organizations (e.g. Innovation Works- the southwest PA Ben Franklin Technology Partner, Pittsburgh Life Science Greenhouse) and service providers, all working to create a vibrant technology start-up ecosystem and jobs in the region.

I am a co-founder and Managing Director of Draper Triangle Ventures. We are a Pittsburgh-based, early stage, technology venture capital firm with approximately \$165 million under management. We have been the most active early stage technology investor in western Pennsylvania over the past 12 years, with over \$80 million invested in 26 start-up technology companies. Many of these companies received earlier funding from Innovation Works. Our investments include success stories such as Renal Solutions, Carnegie Learning, BodyMedia, Aethon, Plextronics and BitArmor. These companies collectively have hundreds of employees and would likely not be located in southwestern Pennsylvania today if not for a vibrant funding ecosystem in the region over the past ten years, including locally based venture development and early stage venture capital firms.

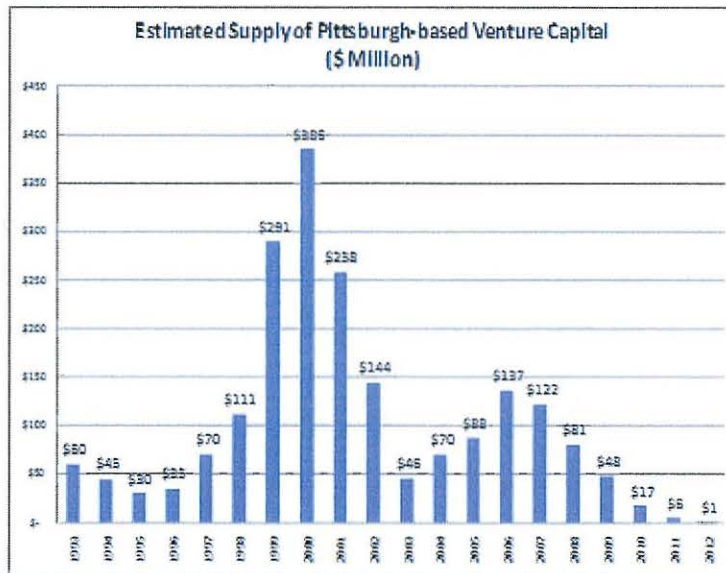
The creation and development of innovative technology companies is critically important to the long-term success of Pennsylvania's economy. The last century has shown that innovation-driven breakthroughs (smart phones, personal computer, internet, microprocessor, cloud computing, search engines, big data etc.) fundamentally change society and become significant drivers to the U.S. economy. Locally, we have all felt the lasting impact that entrepreneurs like Andrew Carnegie and George Westinghouse have had on our region – or present day examples like Gerry McGinnis (Respironics), Steve Heilman (Medrad, Lifecoe, Vascore), Ron Bianchini (Avere, Spinnaker, FORE Systems) and Pete DeComo (Renal Solutions, ALung). Today, economists are increasingly highlighting the importance of small business and innovation to our nation's economy. A 2009 report from the Kauffman Foundation and others tell us that over 75% of the new jobs in our economy are created by small businesses.¹ The Pittsburgh region has rebounded over the past 20 years due in large part to the growth of a vibrant technology start-up community that is leveraging the research and education assets of our institutions such as Carnegie Mellon University, The University of Pittsburgh and UPMC. The vibrant technology start-up community has also been fueled and made possible by the venture capital and venture development organizations that have provided early stage funding to start-up companies.

A current threat to the progress that has been made is the fact that the supply of early stage venture capital based in the Pittsburgh region has reached historic lows in recent

¹ Dane Stangler and Robert E. Litan, *Kauffman Foundation Research Series: Firm Formation and Economic Growth, Where Will the Jobs Come From* (Nov. 2009), p. 9

years. According to Innovation Works data, 2011 marked the lowest supply of Pittsburgh-based early stage venture capital on record. The closing of a \$40 million fund in 2012 reversed the downward trend. While this is a positive sign, it still represents a very modest supply of capital given the region’s growing supply of technology companies. By comparison, Pittsburgh’s total pool of available early stage venture capital in 2012 (\$29.3 million) would equal only 23% of the average size of a single venture capital firm in the United States (\$149 million in 2010 as reported by the National Venture Capital Association). The chart below estimates the amount of available capital at Pittsburgh-based venture capital firms:

Indigenous Venture Capital at Historically Low Levels

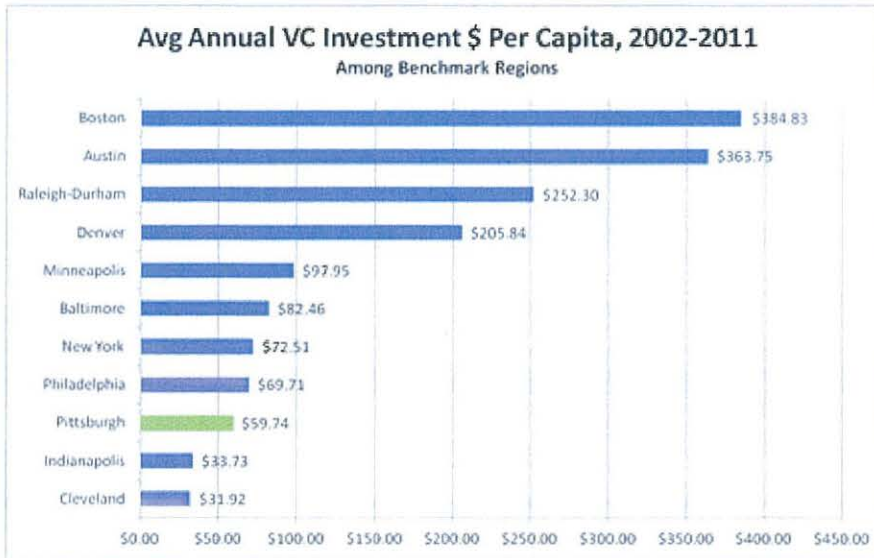


Source: Innovation Works

Note: The 2012 figure has been revised to \$29.3 million following the close of a \$40 million fund

In addition, Pennsylvania, as measured in Philadelphia and Pittsburgh, has lagged other benchmark regions in recent years in the amount of venture capital investment:

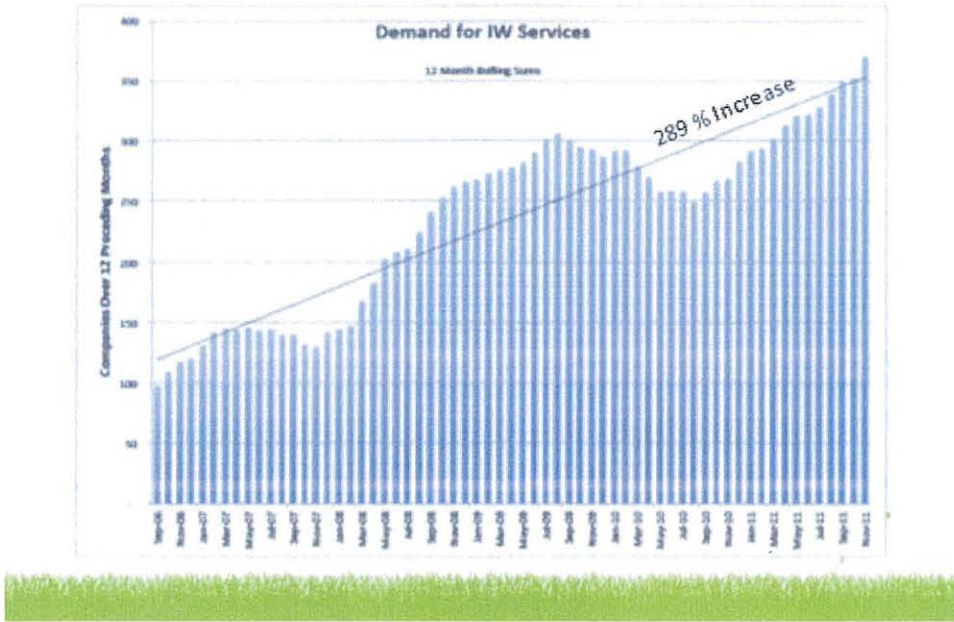
Pennsylvania Has Less Investment Per Capita than Other Regions



Source: Innovation Works, Inc. using data from the PWC MoneyTree Survey

Unfortunately, this shortage of early stage venture capital has occurred at a time when demand has reached new highs. The level of activity at regional venture development organizations has never been higher. Technology commercialization activities at CMU, Pitt andUPMC, in part, have created record demand for early stage capital and service of organizations like Innovation Works. This activity at the venture development stage has created high demand for early stage venture capital at a time of a shortage in the region. Following is a graph depicting the demand for Innovation Works services and funding in recent history:

Demand for IW Services is Increasing



One of the unfortunate results of the shortage of early stage venture capital has been the loss of multiple promising companies from the region. Several promising technology companies have relocated out of the Pittsburgh region in recent years as they were not able to obtain local venture capital funding and were forced to relocate out of state to obtain funding. This followed these companies receiving assistance and funding from regional venture development organizations. We must work to maintain and enhance all stages of the funding continuum in order to keep these promising companies in the region.

Another consideration is that our neighboring states to the west have all created programs in recent years to enhance the availability of early stage venture capital. We risk falling behind these states in attracting entrepreneurs and the commercialization and job creation

that follows. For example, the Permal Ohio Midwest Partners fund, a fund-of-funds sponsored by Ohio PERS, has committed \$102 million to venture capital with an Ohio focus. This follows a previous \$100 million fund. In Michigan, the Venture Michigan Fund II committed \$120 million to venture capital funds in 2011 with a focus on investments in Michigan. This follows two other earlier State sponsored funds totaling \$215 million created to promote venture capital and early stage investment in Michigan. In March of this year the Indiana Investment Fund II was announced. This is a \$150 million fund with a focus on investing on companies located in Indiana or who are willing to relocate to the State.

On behalf of Pennsylvania's technology and entrepreneurial community, I urge you to support the Innovate in PA bill. The entrepreneurs supported through this program create high-paying jobs, raise investment to grow Pennsylvania's economy, help retain key talent in our region and help solve key challenges facing our society. Together, we can help keep Pennsylvania on the path of fostering development, commercializing technology, creating companies and jobs while keeping these promising companies in Pennsylvania.

I greatly appreciate the opportunity to present to this committee. I look forward to the opportunity of continuing the dialogue on how we can create an increasing number of globally-competitive and fast-growing companies in Pennsylvania.