

Northern Indiana

Regional Entrepreneurship Action Plan

EXECUTIVE SUMMARY



prepared by  jumpstart

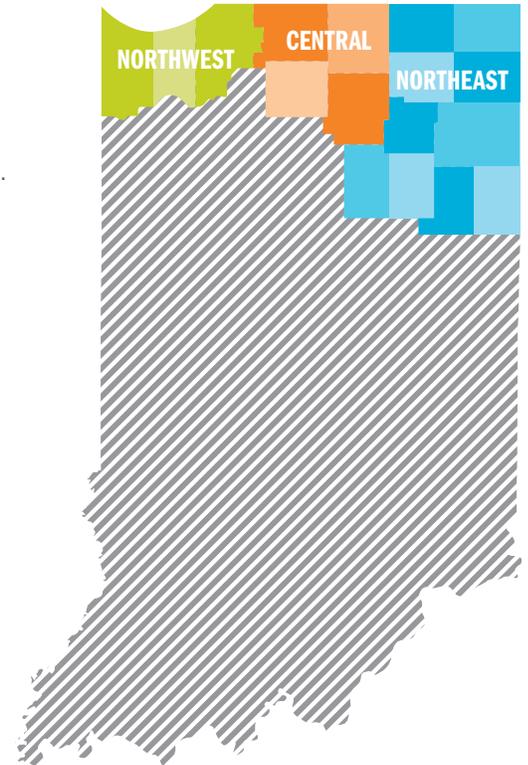


Introduction

This Executive Summary outlines the Regional Entrepreneurship Action Plan (REAP or “Plan”), which will be executed by Elevate Ventures, a newly formed 501(c)(3) venture development organization (VDO) headquartered in Indianapolis with staff located in Northeast, North Central, and Northwest Indiana.

The three Northern Indiana regions¹ consist of 17 counties and 2.1 million people. By aggregating VDO operations and leveraging the expertise and resources of Elevate across the entire Northern Indiana region (the “Region”), far more can be accomplished via this unique cross-regional collaboration. The collaboration will provide entrepreneurs with a range of services, expertise, and capital that far exceeds those that any single region could fund and deliver on its own. Through this remarkable partnership, Elevate will provide needed expertise and capital to help drive the success of High Potential Startups and Potential Gazelles. For purposes of Elevate’s investment activities, the term “High Potential Startups” refers to companies that are too early in their commercial development to attract investment capital from mainstream angel or venture capital investors. “Potential Gazelles” are small companies (under \$25 million in revenue) that operate in large, fast growing industry sectors, and have the potential to achieve accelerated revenue growth (greater than 20% per year for 4+ years).

The Plan is the result of a unique public/private partnership that included funding and intensive efforts by federal, state, and local government leaders; national and local foundations; regional economic development organizations; and private industry and individuals. The U.S. Economic Development Administration (EDA), the John S. and James L. Knight Foundation, and the Surdna Foundation provided project funding for the Northeast and Northwest regions. Recognizing the greater leverage and impact of a Plan that covered all of Northern Indiana, the Indiana Economic Development Corporation (IEDC) and a group of public, private, and corporate leaders from North Central Indiana raised the funds necessary for JumpStart to include North Central Indiana in the project. The Plan is the result of over 12 months of intensive effort and represents the culmination of the first phase of the project’s three phases.



¹ The Northeast region includes Adams, Allen, DeKalb, Huntington, LaGrange, Noble, Steuben, Wabash, Wells, and Whitley counties, and the city of Fort Wayne. The North Central region includes Elkhart, Kosciusko, Marshall, and St. Joseph counties, and the cities of South Bend, Warsaw, and Elkhart. The Northwest region includes Lake, LaPorte, and Porter counties, and the cities of Gary, Hammond, East Chicago, Merrillville, and Valparaiso.



The many partners in this project have now begun the second phase of capitalizing Elevate to implement the Plan. JumpStart—through its JumpStart America initiative—Elevate, and regional partners are now actively seeking to raise \$18 million to fund the first three or more years of operations. With these resources, Elevate will be able to provide entrepreneurs with the resources they need to transform their ideas and young companies into successful, high growth enterprises, and engage in a range of activities to catalyze the Region's entrepreneurial ecosystem development. JumpStart America will assume primary responsibility for raising \$9 million from national foundations and other sources located outside the Region. Elevate will allocate another \$6 million in funds from the 21st Century Fund, while regional partners will raise an additional \$3 million.

Already, Elevate and its regional partners have raised \$1.6 million to fund a one-year bridge strategy to the REAP, titled Quick Start. Quick Start is demonstrating the potential impact of the entrepreneurial programs recommended in the Plan and is maintaining the momentum generated in the regions during the REAP planning process. Under Quick Start, Elevate deployed five Entrepreneurs-In-Residence across Northern Indiana who are currently identifying High Potential Startups and Potential Gazelles and helping them prepare to attract investment capital.

Quick Start is tangible evidence of the regional and statewide commitment to entrepreneurship. Since the beginning of the program in August 2011, Elevate's Entrepreneurs-In-Residence have provided over 3,000 hours of assistance and have generated over 30% of the deal flow received by Elevate from the entire state. As part of the Quick Start program, Elevate has also launched its Economic Gardening program. The program provides sophisticated technical assistance to Potential Gazelles. A strategic Research Team from the National Center for Economic Gardening will provide these services. Before the end of the Quick Start initiative, 75 companies located throughout the Region will have received assistance.

The Opportunity and Challenge

Entrepreneurship is the Key. Entrepreneurship and High Potential Startups are the answers to the following questions: i) How will the United States create the 25 million jobs necessary over the next 10 years to recover from the recession and firmly establish itself as the world's leading economic engine in the 21st Century; and ii) How will regions create the fast growing and competitive economies necessary for long term growth and success? Recent studies show that over the last three decades, companies less than five years old created 44 million jobs and accounted for all net new jobs during that period. Furthermore, High Potential Startups are more likely to create the technology and knowledge-intensive jobs that attract and retain an educated workforce. Together with Potential Gazelles, they are also more likely to keep and grow their enterprises in the regions where they originated. In short, to achieve long term economic success, regions must invest in and establish high performance entrepreneurial ecosystems.

Regional Assets. Similar to regions throughout the upper Midwest, Northern Indiana's economy relied on heavy manufacturing to drive its economy for decades. The entrepreneurial culture that created the successful manufacturing companies atrophied as generations relied on the presence of these companies for their livelihoods. When globalization robbed these regions of their primary economic engines, they lacked the entrepreneurial cultures, resources, and ecosystems to respond rapidly. In Northern Indiana, the relatively low population and population density added to the challenge. Fortunately, the Region is home to a substantial foundation of valuable assets.

First on the list of valuable assets is leadership—specifically, the willingness of public, private, and philanthropic leaders to consider and invest in true regional and cross-regional solutions. At a time when state budgets were stretched to



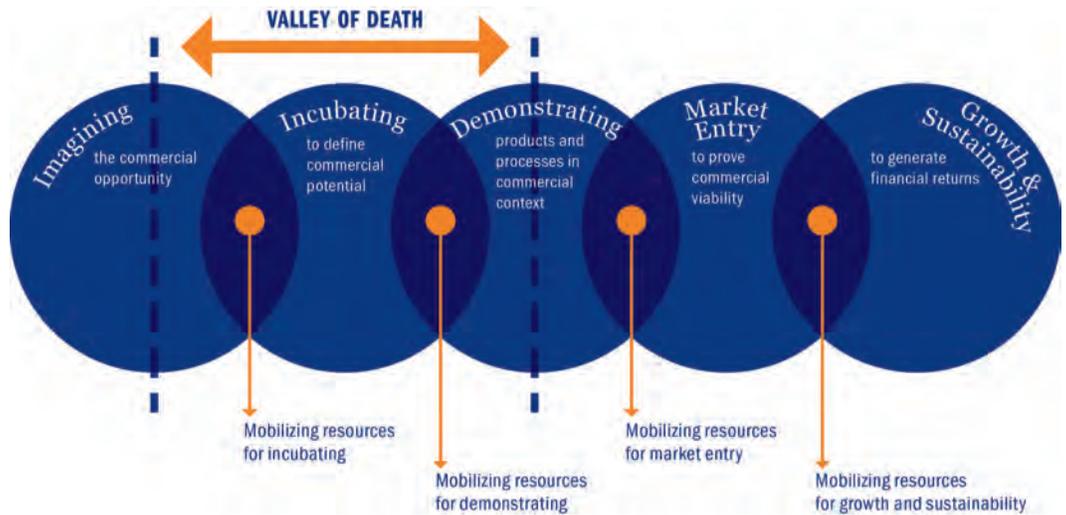
their breaking point, the State of Indiana created and funded Elevate Ventures, an organization uniquely positioned to aggregate and share specialized, high value resources—resources necessary to the success of the Region’s wide range of technologies, markets, and industries represented by existing and potential entrepreneurial activity. Northern Indiana leaders demonstrated tremendous foresight by considering and developing solutions that transcend their political and geographic boundaries.



Among the other valuable assets located in the Region are the main and regional campuses of universities and colleges such as Notre Dame, Purdue University, Indiana University, Ivy Tech, and Valparaiso University. Each of these institutions has recently increased their commitment to research, technology commercialization, and collaboration among themselves and private individuals and companies. Centered in Warsaw, Indiana, the Region also includes one of the world’s leading clusters of orthopedic device manufacturing companies and their related supply chain. In addition, the Region is home to a number of well-established innovative sectors. Examples include automotive suppliers in the Northeast region, the RV industry in the North Central region, and steel manufacturers in the Northwest region. These assets contributed to the estimated historic deal flow across Northern Indiana of approximately 275 deals per year, most of which fall into the category of High Potential Startups. Each of the three regions is also home to well over 500 small (under \$5 million) and young (under 5 years old) companies that operate within high tech or high growth markets. Together, they represent the pool of Potential Gazelles.



Needed Resources. Even with the State and regional commitments to form Elevate and fund Quick Start, Northern Indiana still lacks the investment capital and expert assistance necessary to capture more than a small fraction of High Potential Startup or Potential Gazelle opportunities. Regional entrepreneurs, investors, and others active in the entrepreneurial ecosystem agreed that too many of its entrepreneurs cannot find the capital and expertise they need to bring their High Potential Startups through the “Valley of Death”—the period that begins when the entrepreneur runs out of “friends and family” money, and ends when the company becomes a quality investment for angel investors, venture capitalists, or other for-profit investors.



Although not generally referred to as the “Valley of Death,” Potential Gazelles face a similar resource challenge. Constraints on time, expertise, and capital prevent the owners of Potential Gazelles from identifying and acting on



opportunities to achieve accelerated growth, profitability, and success. As with many regions around the country, the lack of these resources is a matter of degree and focus. Northern Indiana benefits from the efforts of a number of quality organizations to assist entrepreneurs and second stage companies, but these efforts are underfunded, not consistently available throughout the Region, and not supported or integrated by an entrepreneurial ecosystem of investors, expert advisors, educators, and related support organizations.

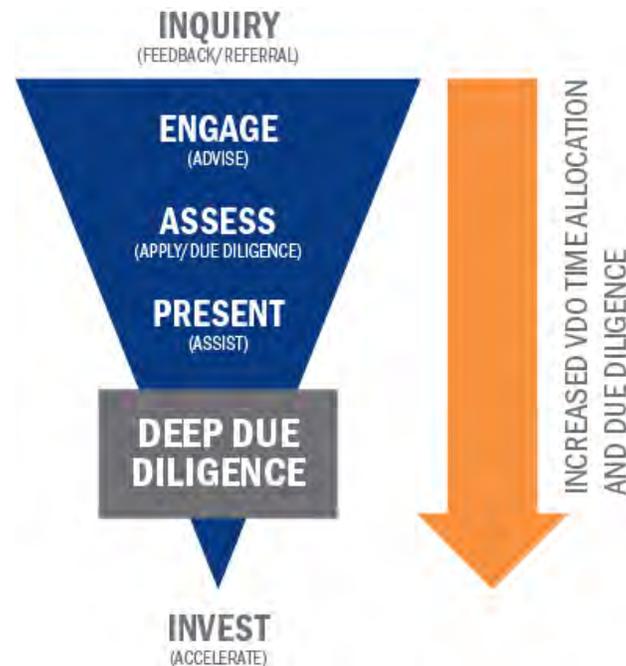


Elevate—The Solution

To help capture the value of a greater number of High Potential Startups and Potential Gazelles, and help the Region build or attract the complementary resources to create and grow a thriving entrepreneurial ecosystem, Elevate will provide three essential categories of support: *Investing*, *Assisting*, and *Catalyzing*. As an investor, Elevate will provide a select group of High Potential Startups and Potential Gazelles with a combination of the investment capital and intensive expert entrepreneurial assistance. This pairing will prepare companies to achieve the technical and commercial milestones essential to attracting follow-on investment, revenue, and customers. Elevate will identify deal flow, promote entrepreneurs and entrepreneurship, create and strengthen formal and informal connections among regional assets, capture and share data and related analyses, serve as an information resource for in-region entrepreneurs, and help complementary resource providers secure the financial support necessary to generate and sustain their efforts to transform the regional ecosystem. With these actions, Elevate will catalyze the development of the regional ecosystem while increasing the breadth and depth of resources available to entrepreneurs.



Investing and Assisting. Northern Indiana-based High Potential Startups will have an opportunity to present to the Indianapolis investment team if they possess the following characteristics: *a protectable idea or technology, a large potential market, a clear value proposition and the core of a qualified management team*. Elevate anticipates it will invest an average of \$200,000 to \$250,000 in each company, and that half of those companies will qualify for a follow-on investment of up to \$250,000.





Currently, subject to the ability of JumpStart, Elevate, and the regional leaders to raise matching funds, the State of Indiana has agreed to make available up to \$6 million of investment capital from Indiana's 21st Century Fund and from Indiana's allocation under the federal State Small Business Credit Initiative (SSBCI) program. Elevate will also form business partnerships with regional banks and new angel investors to help finance the growth of Potential Gazelles.

Assisting Companies. Elevate will deploy experienced entrepreneurs to provide assistance to new entrepreneurs and startup companies. These individuals will have firsthand knowledge of what is needed to advance a company through its life cycles and to acquire investment capital. Elevate plans to locate three to four Entrepreneurs-In-Residence in each of the three Northern Indiana regions. Additionally, Elevate will hire specialized personnel who will work across all three regions to support key industry and technology sectors including information technology, medical technology, advanced energy, and advanced manufacturing.

Catalyzing the Ecosystem. Elevate will also provide a variety of programs and shared services to increase collaborations and connections among entrepreneurial resource providers, improve and streamline the entrepreneur's pursuit of valuable assistance, and catalyze entrepreneurial ecosystem development. The following are examples of services that Elevate will make available to entrepreneurs, collaborators, and the ecosystem: talent acquisition, inclusion programming, marketing/promotion, deal flow generation, diligence, metrics collection and analysis, intake and CRM systems, and fundraising support to sustain the regional entrepreneurship resources. By sharing these services and systems, Elevate hopes to reduce the Region's overall cost and increase the resources that can be directly invested in startups.

IdeaCrossing. To accelerate expansion of the entrepreneurial network and the creation of productive connections and collaborations, Elevate will facilitate the customization and rollout of IdeaCrossing (www.ideacrossing.org), JumpStart's online community that connects entrepreneurs with the resources necessary to turn innovative ideas into viable businesses. IdeaCrossing offers Elevate, its regional partners, and their marketing partners the following services: i) a promotional vehicle to generate awareness and connect regional marketing partners' websites; ii) a mechanism to connect entrepreneurs, investors, service providers, and mentors; iii) private workspaces that entrepreneurs can use to collaborate with their networks of mentors, investors, service providers, business partners, and others; iv) a low cost, online means for many participants in the entrepreneurial ecosystem to find and engage with each other in a manner consistent with their relationship; and v) a cost effective mechanism to reach rural entrepreneurial teams and enable them to collaborate.

IdeaCrossing will provide Northern Indiana with customized landing pages and reports of online activity. Elevate will work with JumpStart, regional collaborators, and regional marketing partners to reach targeted markets using a combination of traditional marketing and IdeaCrossing's unique capabilities.



Economic Inclusion and Diversity

Elevate is committed to inclusion and diversity in its staffing, operations, programming, outreach, and processes. Based on proven inclusion practices and programming implemented by JumpStart, Elevate will utilize its resources in a manner designed to ensure it identifies and supports as many High Potential Startups and Potential Gazelles as possible, including those owned or run by women and minority entrepreneurs or located in distressed inner city areas. Elevate will engage in specific outreach and engagement activities provided by a diverse network of experienced, trusted entrepreneurs. Inclusion efforts will not materially alter the investment criteria that Elevate uses to provide capital or assistance to entrepreneurs, but will help ensure that all women and minority entrepreneurs involved in High Potential Startups and Potential Gazelles are aware of the opportunities, encouraged to participate in the deal flow pipeline, have access to resources, and are supported effectively as they apply for services or investment from Elevate and its collaborators.

JumpStart will continue to advise Elevate as it begins to implement its inclusion practices and programs.

Returns and Evergreen Fund

Elevate is a nonprofit venture development organization. Its role and objectives are more ambitious and complex than those of a traditional for-profit fund. In connection with High Potential Startups, Elevate's role is to fill a gap—to provide funding and support for Valley of Death opportunities that are generally insufficiently developed to attract for-profit investors. These companies are months and sometimes years away from achieving the technical and commercial results required by for-profit investors. Given the inherent risk in Valley of Death investing, it is unlikely Elevate will generate a traditional return in five to seven years as targeted by venture and angel investors. The same is true for expert assistance and related resources that Elevate will provide to Potential Gazelles. In most cases, Potential Gazelles do not have the expertise to recognize their potential, let alone take the steps to achieve it. As a result, Elevate must rely on philanthropic, governmental, and related contributions to fund a large portion of its investments and operations. However, as Elevate moves companies from idea to market and assists them in acquiring additional follow-on funding, it will continue to seek investments that will generate a return for its funders. As described below in *Metrics*, Elevate will measure its success based on the amount of follow-on funding attracted and revenue generated by portfolio companies and others that have received substantial assistance. The ratio of follow-on funding to Elevate's investment is known as the "leverage ratio." Elevate expects to generate a leverage ratio of 3X by its third anniversary and at least 10X by its 10th anniversary.

Metrics

Elevate will measure its performance against a well-defined set of process and outcome metrics. Examples of process metrics are traffic to Elevate's website, regional press coverage, and attendance at outreach events. These provide a first level productivity measure of marketing and promotional efforts. Elevate will also track process metrics such as the number of companies that receive assistance, the time required to move a company from first contact to investment, and the time required for a portfolio company to attract a follow-on investment. Elevate will track the effectiveness of its marketing and outreach efforts in securing participation from women and minority entrepreneurs, and will also measure portfolio companies against specific value-creating milestones, and monitor cash flow against plan.

Follow-on funding and new revenue by portfolio companies are two of the most important outcome metrics. Elevate will target a leverage ratio of two-to-three times the total funds expended during the first three years of operation, five times



by the end of the fifth year, and in excess of ten times by the tenth year. Elevate will annually publish its targets, results, and overall economic impact. Elevate will retain an independent expert to prepare an Annual Economic Impact Report of the programs across Northern Indiana. Elevate will continuously monitor its performance and adjust its programs and assistance in accordance with results and emerging market needs.

Projections

To ensure that Elevate achieves its goals, Elevate must ultimately secure funds to sustain its efforts beyond the initial 36-month period, and possibly for as long as 10+ years. Elevate must therefore establish long term funding relationships with a variety of sources, which will require a productive development effort sustained throughout the organization’s existence. This development group will also assist complementary resource providers in their fundraising efforts.

Initially, Elevate, with JumpStart’s assistance, intends to raise a total of \$18 million to fund the first 36 months of operation. JumpStart will use its best efforts to secure up to \$9 million from public, private, and national philanthropic organizations located outside Northern Indiana. JumpStart will work with regional leadership to raise the remainder from in-region public, private, and philanthropic sources.

The \$18 million budget breaks down into these major categories: i) investments; ii) programs and services for entrepreneurs; iii) program reserve; and iv) management and fundraising.

The following is a summary of Elevate’s budget over the first 36 months of operations:

	YEAR 1	YEAR 2	YEAR 3	TOTAL	% OF TOTAL
investment	\$2M	\$2M	\$2M	\$6M	33%
programs & services	\$2.7M	\$2.7M	\$2.7M	\$8.1M	45%
program reserve	\$0.5M	\$0.5M	\$0.5M	\$1.5M	8%
management & fundraising	\$0.8M	\$0.8M	\$0.8M	\$2.4M	13%
TOTAL	\$6M	\$6M	\$6M	\$18M	100%



Next Steps

Elevate has recruited a Board of Directors with representation from each of the three Northern Indiana regions, secured their 501(c)(3) status, and formed Advisory Groups in each of the three Northern Indiana regions. Elevate has retained an experienced CEO and hired five Entrepreneurs-In-Residence who are currently located in each of the three regions. Elevate has also hired an experienced entrepreneur and investor to launch efforts to increase the activity of angel investment funds and individual angel investors. Elevate has secured \$1.6 million of State and regional funding for the Quick Start program and, together with regional leaders and JumpStart, is actively raising the funds required to initiate full scale operations. As noted, subject to the ability of Elevate, JumpStart, and regional leaders to raise matching funds, the State of Indiana, through Elevate, has committed at least \$6 million of investment funds from Indiana's 21st Century Fund and the SSBCI program. JumpStart is also engaging with national philanthropic organizations who are candidates to contribute half of the \$18 million to fund Elevate's first 36 months of operations.

