



INCITE Seed Fund Proposal

Summary

As the INCITE Fund winds down on March 31st, Launch Tennessee has developed a proposal to create a statewide seed fund utilizing current exit proceeds and capital returned from future liquidation events. The Launch Tennessee Seed Fund will provide investment capital necessary to early stage founders and help plug a significant gap in available funding in Tennessee today. The fund also provides Launch Tennessee a significant opportunity for long-term sustainability generated from the profits associated with the fund.

Current Fund

As of 2/24/17, the current proceeds from the INCITE fund sits at **\$1,678,083**. There are 27 active companies in the INCITE portfolio, 9 acquisitions/mergers, 6 dissolved companies, and 2 “walking dead” companies. Companies are currently responding to the annual INCITE survey to determine health of the current portfolio and their latest valuation. An updated portfolio valuation will be provided once the survey has been finalized.

Investment Structure

Given the size of the current fund, Launch Tennessee believes the best use of those funds are reinvesting them in seed stage Tennessee companies to provide additional opportunities for promising entrepreneurs and technologies.

- **Launch Tennessee Seed Fund I Proposal**
 - **\$1.678m total fund**
 - 2 year investment timeline
 - 10% annual management fee, no carry on the fund
 - Additional INCITE proceeds from legacy fund would not be touched until the fund refills to a minimum of \$1.5m
 - When initial funds are exhausted, the current investment strategy will be re-evaluated based off performance and the additional proceeds accrued from legacy fund
 - Seed fund would focus on investing in early stage technology and life science startups in Tennessee. Life science investment will be driven by partnerships with Tennessee universities around commercialization efforts for grant funded research
 - LTN investment would be contingent on the company joining LTN mentor networks, accelerator cohorts or participating in other programmatic activities

- **Investment Details**
 - Investment amount - \$100k to \$250k check size
 - Total Deals - 6-10 investments in first tranche
 - Total Round size - \$400k to \$1m
 - Ownership percentage target 3% to 6%
 - Investment structure can consist of convertible notes, SAFE notes, or equity rounds

- **Investment Size and Matching Requirements**
 - New seed fund would continue to incorporate matching mechanism from legacy INCITE fund.
 - LTN will never be the sole investor in a company, but LTN could commit (but not invest) to a deal allowing an entrepreneur a better opportunity to attract additional private dollars.
 - Investments would match outside investors at a 33% rate
 - **Minimum investment \$100k, Maximum investment \$250k, ~\$175k average check**

- **Investment Matrix**

Total Fundraise	Private Investment	Match	LTN Seed Investment
\$400k	\$300k	x 33%	\$100k
\$600k	\$450k	x 33%	\$150k
\$800k	\$600k	x 33%	\$200k
\$1m	\$750k	x 33%	\$250k

Seed Fund Fills Gap/Focuses on Economic Development

Launch Tennessee's role in the investment landscape is to seed as many promising Tennessee entrepreneurs as possible to increase the likelihood of success. The best use of this small fund is to reinvest the money back into Tennessee's entrepreneurial ecosystem. Ultimately the goal of an LTN investment is to help get a company to revenue via capital and programmatic support and make the company attractive additional follow on capital. It's a model that at least 18 other states have followed across the country in order to keep promising companies from leaving the state in search of early stage funding.

Comparable Venture Development Organizations

For states with similar public/private startup ecosystem development organizations such as Launch Tennessee, the majority have seed funds. Research identified at least 18 states with venture capital programs actively managed by venture development organizations similar to LaunchTN.

LTN in the process of reaching out to the following organizations to discuss diligence processes and best practices for building a seed fund:

- Examples:
 - **Invest Nebraska** (Lincoln)
 - Statewide, 501(c)3 public-private partnership formed in 2002 with the mission to support entrepreneurs and their high-growth businesses
 - [Nebraska Innovation Seed Fund](#) “provides capital to the state’s innovative businesses” with investments ranging from \$50,000 up to \$500,000 and requiring participating co-investors at a 33% match
 - From 2012 - 2016, Invest Nebraska invested \$9,332,200 in 51 companies which was matched by co-investors in the amount of \$26,673,760 and followed on by \$36,943,150. [\[source\]](#)
 - **Jumpstart** (Ohio)
 - [Evergreen Fund](#) “invests pre-seed and seed capital in the highest potential companies in the 21 counties of Northeast Ohio”, with investments starting at \$250,000
 - Prior to investing, JumpStart enhances deal flow quality by working with high-potential companies, such as by providing coaching and other support needed to prior to a pre-seed investment.
 - **i2e** (Oklahoma City)
 - 501c3 public / private partnership with the Oklahoma Center for the Advancement of Science and Technology
 - More than \$50 million of investment capital under management
 - [Oklahoma Seed Capital Fund](#) is a \$7.025 million state-supported venture capital fund that matches with private sector co-investment funds to provide concept, seed and start-up equity investments to the state’s innovative businesses.
 - Investments range from \$100,000 to \$1,000,000 and require participating co-investors
 - **Rev1** (Columbus)
 - 501c3 / public-private partnership
 - Seed-stage venture development organization that combines the support of an accelerator with the funding of a VC firm
 - Rev1 currently manages 7 funds and \$46.4 million, and has secured over \$1 billion in follow-on and co-investment
 - [Rev1 Fund I](#) - designed to provide critical Seed and Seed Plus Stage capital to high-growth potential companies in Central Ohio with average check sizes between \$250k to \$1m.