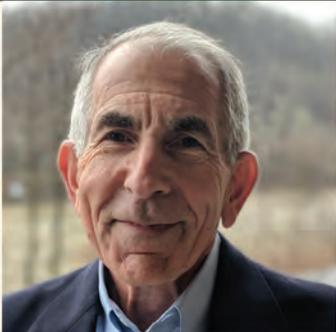




VIEW*S* & VISIONS

A publication of Bowles Rice LLP

Spring 2018



Mountain State Capital: Supporting High-Growth Startups in the Appalachian Region

Mike Green, Managing Director
Matt Harbaugh, Managing Director
Mountain State Capital

Mike Green has been an active early-stage investor and successful technology executive for more than 30 years. Notable successes include the \$4.5 billion acquisition of FORE Systems by Marconi and the \$1.6 billion acquisition of LoudCloud by Hewlett Packard.

Green founded and manages West Virginia Growth Investment, LLC (WVGI), a regional angel investment fund, and previously served as the President of the West Virginia State Board of Education.

He earned a master's degree in numerical science from Johns Hopkins University and a bachelor's degree in mathematics from Boston University. He began his career as a cryptanalyst and software developer at the National Security Agency.

Matt Harbaugh has managed, invested in, or advised more than 100 high-growth companies in the past 18 years, and has held leadership roles within organizations ranging from technology startups to a large research university. Harbaugh spent nearly a decade at Innovation Works, Inc., a \$50 million seed fund in Pittsburgh, where he served as Chief Investment Officer. He also served as the CEO of a software company that was acquired by Facebook.

Harbaugh earned JD and MBA degrees at the George Washington University, and a bachelor's degree at Duke University. He began his career as an investment banker at PNC Capital Markets. Harbaugh currently invests with Mike Green through WVGI and is also a member of the leadership team at West Virginia University, with a focus on strategy and innovation.

New Businesses Drive Job Growth and Economic Dynamism

According to a 2014 publication from the Ewing Marion Kauffman Foundation, the majority of U.S. job growth comes from new business startups. In fact, over the last 25 years, almost all of the net new private sector jobs in the U.S. have been created by businesses that are less than five years old.¹ Recognizing the importance of startups, universities and communities across the U.S. have invested significant resources over the past decade to develop entrepreneur-friendly business environments that make starting a new business easier by offering co-working and pop-up spaces, mentorship, networking groups and community prototyping facilities.

While all types of entrepreneurship may benefit a community, a 2016 Kauffman Foundation publication noted that the subset of “high-growth” startups has the largest potential to impact a regional economy. The Kauffman analysis showed that this small minority of “high-growth” startups:

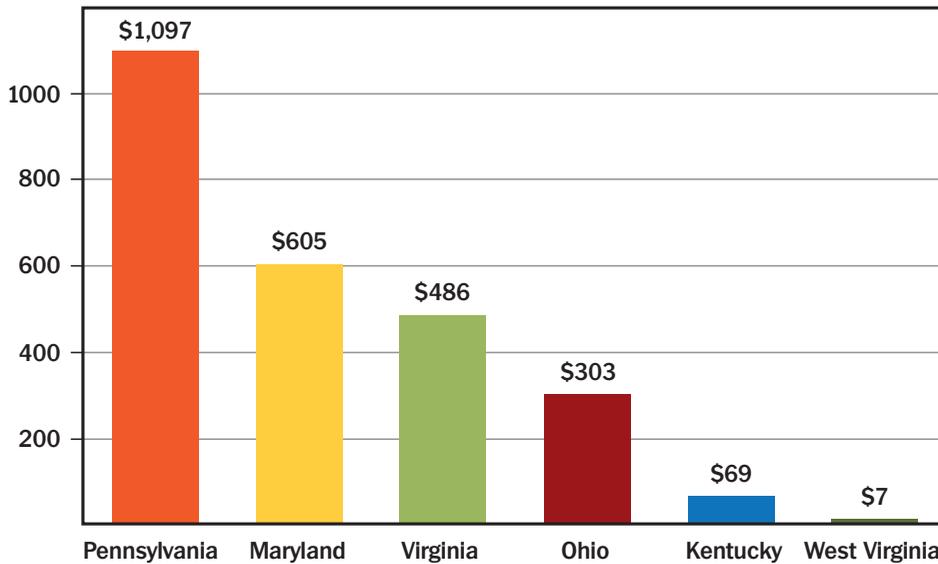
- Account for as many as 50 percent of new jobs created
- Expand not just in size but also in number of new locations – creating new opportunities in diverse geographic areas
- Have a spillover effect on their communities by indirectly encouraging job growth in other, related companies and industries²

Unique Challenges Faced by High-Growth Startups

The challenges faced by innovative, high-growth startups include all of the same challenges faced by any entrepreneur, but also include specialized questions – such as how to implement an effective patent strategy, attract equity investors and strategic partners from across the U.S., recruit and retain specialized technical or management talent, and launch a first-in-class product into a market that may not yet exist.

Furthermore, for these entrepreneurs, it's important to both think and act globally. While local or regional market dynamics may impact the startup, even more important may be the actions of competitors in San Francisco or Beijing. As a result, high-growth

2016 VC Funding (\$ Million)



Source: PitchBook

startups require specialized sources of advice and funding – ideally from mentors who have themselves raised large amounts of equity capital, competed on the global stage and managed the growth of innovative, tech-based companies.

Few Experienced Venture Capital Investors Exist in Greater Appalachia

In mature entrepreneurial ecosystems, entrepreneurs can turn to their local angel investors and venture capitalists (“VCs”) for the specialized advice, capital and connections that they need to become “high-growth.” Currently, however, these resources are concentrated primarily on the coasts. In the first half of 2017, nearly 70 percent of all U.S. venture capital deals occurred on the West Coast, in New York or in New England.³ As a result, regions in the center of the U.S. have discovered that, despite the best ecosystem-building efforts of their universities and community leaders, their local startups are unable to compete at the national level because they lack sources of experienced venture capital that can connect them to global markets and industry partners.

In West Virginia and the greater Appalachian region, this problem is especially acute.

Despite substantial investment to develop world-class research centers at WVU and Marshall, which are resulting in an increasing number of innovative startups, West Virginia still lacks a local source of private sector venture capital. As a result, the state risks losing its potential high-growth firms and the economic development benefits that flow from them.



Mountain State Capital – Enhancing the Regional Innovation Ecosystem

To aid in the development of high-growth startups in West Virginia and the surrounding greater Appalachian Region, we will launch Mountain State Capital,

a \$25 million venture capital fund, in 2018. Furthermore, to address the unique challenges faced by these high-growth entrepreneurs, Mountain State Capital will provide more than just funding. We have assembled an advisory board from across the U.S. that includes nationally renowned leaders in fields such as health care, biotech, software, energy and IT, all of whom have roots in our region. Together, with these advisors, we will find and invest in the region’s highest-potential startups, and help to connect them to global markets and industry partners.

We believe that the portfolio of companies to be supported by Mountain State Capital will play an important role in helping to diversify the economy of West Virginia and the greater Appalachian region, and we look forward to participating in the region’s continued transformation. We believe that, while few in number, these high-growth companies will have an outsized impact, and we look forward to helping them achieve their potential. W

¹Ewing Marion Kauffman Foundation, “The Importance of Young Firms for Economic Growth,” September 25, 2014.

²Ewing Marion Kauffman Foundation, “The Economic Impact of High-Growth Startups,” June 7, 2016.

³Business Insider, “This Map Shows Just How Concentrated VC Money is on the West Coast,” July 31, 2017.