

GORGES AND BRIDGES

LEVERAGING THE ASSETS OF WASHINGTON'S INVESTOR AND START-UP COMMUNITIES



TechAlliance



ISSUE OVERVIEW

Washington state is home to 10 Fortune 500 companies¹ and - as of the end of 2016 - 503 new start-ups². We are a state rich with corporate largesse as well as entrepreneurial and research depth. At the same time, Washington generally ranks below other top peer innovation-driven states in terms of total capital invested. But what if we could better leverage and connect our corporate leaders with our start-up entrepreneurs - might this change? What if we better understood both where and in what Washington-based venturers were investing and what Washington-born ideas and technologies were most attractive to investors? This short summary looks at capital inflow, outflow and raw assets of the Pacific Northwest and how we might better leverage our strengths and improve our standings as a leading tech economy.

Entrepreneurial & Research Strength		
Metric	Data Point	National Rank
Patent filers per 1000 workers ³	23.3	2
Number of deals closed ⁴	311	5
Total capital invested ⁵	\$1.6B	6
Public R&D funding per worker ⁶	\$1667	9
R&D input index ⁷	78.25	7

FINDING ONE

WA has a strong corporate investing base as 34% of our 230 registered investors are corporate.⁸

FINDING TWO

Among the top 10 CVCs making the most investments in WA companies, only 1 is from this region. Our local corporations are not finding what they need here.

FINDING THREE

On average, CVCs are investing in the same verticals that are representative of the WA-based start-ups receiving the most VC & CVC funding.

INVESTOR	HQ LOCATION
Qualcomm Ventures	San Diego, CA
Sony Innovation Fund	Tokyo, Japan
SoftBank Capital	New York, NY
Sinclair Digital Ventures	Seattle, WA
Microsoft Ventures	San Francisco, CA
Johnson & Johnson Innovation JJDC	New Brunswick, NJ
Honda Strategic Venturing	Mountain View, CA
Hearst Health Ventures	San Francisco, CA
GXP Investments	Kansas City, MO
Galvanize Ventures	Denver, CO

RANK	NATIONAL	WASHINGTON
	Deals with CVC Investment	Local start-ups attracting the most \$
1	Software 42% of deals	Software 60% of funding
2	Pharma/Biotech	Other
3	Other	Pharma/Biotech
4	Media	Healthcare
5	IT Hardware	Manufacturing
6	Healthcare	Energy
7	Energy	

¹ <https://www.mapsofworld.com/answers/economics/fortune-500-companies-in-washington/>

² Pitchbook (Q2 2017).

³ US Patent and Trademark Office, US Resident Inventors and Their Utility Patents (2012-15). Analysis from itif.org/technation.

⁴ NVCA 2017 Yearbook, (2016) Data Provided by Pitchbook.

⁵ Ibid.

⁶ itif.org/technation

⁷ Rank is based on 18 R&D indicators in these categories: Federal R&D expenditures; Industry R&D expenditures; Academic R&D expenditures; National Science Foundation (NSF) funding; Small Business Technology Transfer (STTR) awards; and Small Business Innovation Research program (SBIR). <http://statetechandscience.org/State-Technology-and-Science-Index-2016.pdf>

⁸ Pitchbook 2017.

TOUGH QUESTIONS

The Tech Alliance's earlier white paper -**The Rebels, Gurus and Gamblers of Corporate Venture Capital**, revealed that for every million of revenue, Washington Fortune 500 companies only spend \$.25 on corporate venturing, compared to Massachusetts' \$3, California's \$6.4 or even Texas' \$.54. And now we see that it is not only about making the financial commitment, it is also about looking in our own backyard. We have the corporate funding base (if at a lower level than would be expected) and the diversity of start-ups that most investors are looking for, so why do only 10% of the local deals involve a local corporate investor? And how can we build a research and startup pipeline that is better positioned to meet the innovation and venturing interests of our local corporate base?

EASIER ANSWERS

Washington's entrepreneurial ecosystem continues to grow with great support from our research institutions, local Angel investors, and multiple out-of-state venturers, both VC and CVC. But we need to be intentional about connecting this startup pipeline - both established and upstream (in our universities, incubators and accelerators) with local venturing companies. Where appropriate, let's daylight common strategic objectives of Washington's companies (as has been done with reverse pitch sessions) at the same time that we create more visibility for our corporate venturers of the startup pipeline. And let's think beyond just the role of our corporate investors, let's explore other investment tools and approaches from collaborative angel investing, more locally-based VCs, and consideration of creative public funding models.

TAKING THE NEXT STEP(S)

We are not satisfied with a fifth or sixth ranking in deals closed or total capital invested, or knowing that only 10% of CVC deals in this region involve a PNW corporate venturer. To keep this conversation moving forward, the Tech Alliance will do the following three things to strengthen the region's entrepreneurial climate.

- 1** Use **research and events** to daylight the strengths and opportunities of the region's tech ecosystem
- 2** **Create a community** of both PNW-based and PNW-interested investors of various types
- 3** Explore bringing **additional investors** to the conversation - corporate, VC, and public

The Tech Alliance is committed to strengthening this region's innovation-driven economy. Join with us -
www.technology-alliance.com.

HOW DO
OUR
HOMETOWN
CVCs
INVEST?

\$26m
EXPEDIA
INVESTS
\$26M IN
ALICE (NY)

\$10m
ZILLOW
INVESTS
\$10M IN
HUTCH (CA)

\$50m
AMAZON
ALEXA FUND
INVESTS
\$50M IN
TRACKR (NY)

\$22.5m
\$30m
MICROSOFT
VENTURES
INVESTS
\$22.5M¹ IN
ZIPWHIP (WA)
& \$30M² IN
OUTREACH.IO
(WA)



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¹Crunchbase. Investors: OpenView, Microsoft Ventures, Voyager Capital. Sept. 6, 2017. <https://www.crunchbase.com/funding-round/522a9934b1104bc33bb7bc8a8c5fe150>

²Crunchbase. Investors: DFJ Growth, Four Rivers Group, Mayfield Fund, MHS Capital, Microsoft Ventures, Trinity Ventures. May 23, 2017. <https://www.crunchbase.com/funding-round/ead8c9f19d8df324f2589c5da7147d1>