



11/14/18  
12:27 PM

November 8, 2018

William Welch, Clerk of the Senate  
Massachusetts Senate  
24 Beacon Street, Room 335  
State House  
Boston, Massachusetts 02133

Dear Mr. Welch:

I am pleased to present to you the results of the operations of MassVentures, also known as Massachusetts Technology Development Corporation (“MTDC”, “MassVentures” or the “Corporation”) for the fiscal year ended June 30, 2018. In June 2012 MTDC started doing business as MassVentures to better reflect the organization’s commitment of supporting promising entrepreneurs developing high-growth, technology-driven companies.

Presented below are the significant actions and accomplishments of MassVentures during this past fiscal year. In addition, accompanying this letter are the annual audited financial statements for MassVentures, which are included as part of this annual report that we are submitting pursuant to the requirements of MGL 40G, Section 6.

This report includes the following highlights:

- [Overview of MassVentures’ role in the Commonwealth](#)
- [The MassVentures’ START program to fuel previously funded SBIR companies](#)
- [MassVentures’ investment cycle and harvest plan](#)
- [The economic benefits](#)
- [Our investment programs](#)
- [Our exit strategy and financial returns](#)
- [Conclusion](#)

### **Overview of MassVentures’ Role**

Since the commencement of its investment program in FY80, MTDC has played a consistent and effective role in the Commonwealth’s economic development strategy by assisting the start-up and expansion of promising Massachusetts-based technology companies. These firms provide both direct jobs and indirect employment for local vendors who sell products and services to these companies.

MassVentures’ contributions to the Massachusetts’ economy have been accomplished without annual appropriations from the Commonwealth. The Corporation is an “evergreen” organization that is largely funded by the gains generated from past investments. Over its 40-year history, MassVentures has

received \$13.75 million in state funding and \$3 million in federal funding. With those funds and its gains from realized investments, MassVentures has invested invest \$90.4 million in 149 Massachusetts companies. Further, the job creation from these Massachusetts' companies is measured in the thousands. The 20 current portfolio companies together with the eight former portfolio companies that are still doing business in the Commonwealth, employed 2,858 people in Massachusetts.

### **MassVentures START Program**

In 2012, the Corporation entered into an agreement with The Massachusetts Growth Capital Corporation ("MGCC") to administer the SBIR Targeted Technologies ("START") Program. The START program is designed to assist in the commercialization of technologies that were previously awarded federal SBIR grants. Under the terms of the program, MGCC funded the program with \$6,450,000 to be dispersed in three phases. In 2015 that program was extended for an additional 2 years with \$6.45 million in funding. The program was extended again in 2017 and 2018 with an additional \$3.225 million of funding in each year. In 2018, MassVentures awarded \$1,000,000 of Phase I, \$1,000,000 of Phase II and \$1,000,000 of additional Phase III grant awards to 17 Massachusetts' companies.

In 2017, the Corporation also entered into an agreement with the Massachusetts Clean Energy Technology Center ("MassCEC") whereby MassCEC funded the program with \$400,000 to be used to award \$200,000 in Phase I grant awards and \$200,000 in Phase II grant awards. This inter-agency agreement was extended in 2018 whereby MassCEC again funded the program with \$400,000 to be used to award \$200,000 in Phase I grant awards and \$200,000 in Phase II grant awards.

Between the MGCC and the MassCEC awards, in 2018, MassVentures awarded \$3,400,000 in awards to 19 Massachusetts' companies.

### **Fiscal 2018 Investment Activity**

MassVentures initial investment into companies is most often that company's first round of funding. MassVentures then has the ability to continue to support its portfolio companies in subsequent rounds of financing, up through the company's exit. This investment cycle follows the general pattern of most early-stage venture capital firms. The Corporation applies a portfolio approach, spreading its investment risks across a number of companies in different industries. As an early stage investor, MassVentures expects that financial returns will generally be realized 7 to 10 years after initial investment in a company and as with typical venture capital returns, the majority of proceeds will come from a small percentage of these investments. Historically, these gains provided over 80% of MassVentures' funding.

In fiscal 2018, MassVentures closed three investments into new portfolio companies and seven follow-on investments into existing portfolio companies, totaling \$1,791,230 from its Traditional Investment Fund Program and \$635,904 from its Commonwealth Fund III program into the following companies:

- ClearGov, Inc. of Hopkinton
- Content Raven of Framingham
- FairMarkIT of Boston (new investment)
- Edaris Health, Inc. of Waltham
- Horsepower Technologies of Lowell (new investment)
- Jebbit, Inc. of Boston
- Life Image of Newton
- Machine Metrics, Inc of Northampton

- OwnerIQ, Inc. of Boston
- Spiro Technologies of Boston (new investment)

### **Economic Benefits**

The principal objective of MassVentures' Investment Program has been to assist early-stage technology companies start-up and/or expand in the Commonwealth by commercializing technology developed in local corporations and research institutions. These new Massachusetts firms can become aggressive competitors in the global marketplace very early in their life cycles. By investing at early stage, MassVentures provides seed capital to emerging companies which is critical capital necessary to:

- Create jobs in the Commonwealth;
- Leverage the Commonwealth's intellectual assets to help create the leading companies of tomorrow;
- Drive growth of and employment in the Commonwealth's Economic Target Areas; and
- Build growing companies that are able to leverage outside capital to help drives sustained growth and success.

As a largely self-funded instrumentality of the Commonwealth, MassVentures, through its investment gains, has leveraged \$13.7 million of state funding into \$90.4 million of its own investment into 149 companies. These companies, with the support of MassVentures, have been able to leverage MassVentures' seed capital and commitment to:

- Gain the support, through capital investment, of over 50 venture funds and angel groups; and
- Raise over \$1.6 billion in capital from third party investors

These early-stage companies provide significant employment growth opportunities and long-term value to the Massachusetts economy. As of December 31, 2017, it was estimated that:

- 28 current and former portfolio companies still doing business employed 2,858 people in the Commonwealth.
- This employment equates to an estimated Massachusetts annual payroll for these companies of \$259 million, and annual estimated payroll-related tax revenue of \$61 million to the Federal government and \$13 million to the State.

Importantly, MassVentures not only provides valuable seed and early stage capital but also management assistance, technical assistance, and mentorship to Massachusetts early-stage technology companies. The entrepreneurs launching these companies are usually experienced technologists, but inexperienced business people. Therefore, MassVentures' Management Assistance Program focuses on strategies to increase the visibility and successful presentation of these companies to potential investors. Our active involvement with these management teams, helps them develop the skills and experience necessary to become effective business leaders. We also work with them to help provide introductions to prospective capital providers, customers, business partners and senior management talent. These introductions and partnerships help in the development of a seed-stage company, comprised of a founding team and raw technology, to a successful Massachusetts enterprise with a growing employee base and revenue source for the Commonwealth.

### **MassVentures Commonwealth Fund Investment Program**

The Commonwealth Fund Investment Program (CF) serves as a vehicle for MassVentures to help finance the growth stage of new technology enterprises in the Commonwealth while at the same time seeking attractive financial returns. Under the CF, MassVentures manages an investment pool comprised of funds from MassVentures and private co-investors. MassVentures distributes a share of net realized gains from its portion of the Program to the General Fund of the Commonwealth of Massachusetts.

The CF has previously raised two investment pools with outside private co-investors. The Commonwealth Fund I Program I was launched in FY1995 with \$2,000,000 of outside capital. Since that time the funds have been fully invested and the investments exited. That program is now closed.

During FY2001, the Commonwealth Fund Investment Program II was launched with the goal of creating a \$15 million investment pool. MassVentures committed \$12 million, BancBoston Investments Inc. committed \$2 million and Essex Regional Retirement Board committed \$1,000,000. This program has two remaining investments, with invested capital of approximately \$1.0 million.

In FY2012, MassVentures announced that it was launching Commonwealth Fund III in collaboration with MassDevelopment's Emerging Technology Fund whereby MassDevelopment committed \$5 million to the program. The objective of the program is to fill capital gaps not adequately served by the private investment community such as: (1) emerging market segments; (2) first-time entrepreneurs; and (3) companies transitioning from seed to Series A funding. The program is in the process of deploying its \$5.1 million of committed funds.

### **Exit Strategy and Financial Returns**

As of June 30, 2018, MassVentures had exited or begun to exit, 130 of the 149 companies in which it had invested. Positive returns came from 18 companies that had become publicly traded and 41 had either been merged with or had been acquired by other firms, settled through litigation, or bought back their securities from MassVentures. Losses were realized from 30 companies that were acquired and 41 that ceased operations. The active portfolio at year-end included 19 companies.


MassVentures' total realized and unrealized loss in FY18 totaled \$1,778,859. Cumulative realized gains on investments since 1980 totaled \$77,409,081 while cumulative realized losses totaled \$40,627,345, for total realized net gains of \$36,781,736. The funds provided from these realizations continue to support the Corporation's operating expenses and replenish the Investment Fund such that MassVentures can continue to invest in promising seed stage technology companies in the Commonwealth and further support its mission.

### **Conclusion**

MassVentures continues to play a unique role among the economic development organizations of the Commonwealth. The financial performance of the MassVentures Portfolio has provided the Corporation with a base level of investment funds to continue to support the growth of Massachusetts-based companies and to create jobs. MassVentures has continued to accomplish this successful endeavor for the Commonwealth of Massachusetts with limited state funding.

Additional funding would enable MassVentures to expand its reach and impact in the innovation economy. As such, MassVentures continues to explore new funding sources through expansion of the Commonwealth Fund program and additional funding by the State. By steadily pursuing its long-term investment strategy, MassVentures continues to successfully serve its shareholders, the citizens of the Commonwealth.

Sincerely,

  
Walter M. Bird  
President

Enclosure

cc: MassVentures Board of Directors