Appendix D – Qualified Investment Evaluation

Overview of Process

Venture firms may apply for qualified investment funding immediately after (or simultaneously with) certification as a qualified venture firm. Investment applications will be screened by NJEDA staff to ensure businesses meet all program requirements. Staff will not independently underwrite investment opportunities. The Program will rely on the expertise of the qualified venture firms to select strong investment opportunities, and then approve those applications that meet the programmatic requirements.

Similar to the venture firm application process, the deal evaluation process is objective. Staff will ensure qualified business applicants meet all minimum requirements with required supporting documentation. An applicant may have an opportunity to submit the missing components of their application. Applications for investment will have two parts: 1) business qualifying questionnaire and 2) qualified venture firm additional requirements at the time of investment. However, qualified venture firms may submit applications on businesses' behalf. In all cases, the CEO of a business applicant must attest to the truthfulness of all application materials.

Qualified investment applications that meet the Program's requirements will be submitted to the Board of the Authority for approval of investment. Qualified investment approvals will provide delegated authority to staff to provide follow-on funding to qualified businesses at the NJEDA's option, pursuant to program regulations. Once an investment into a qualified business is approved by the Board of the Authority, the qualified venture firm will have 90 days to establish the relevant special purpose vehicle and call the capital for investment.

Part 1: Business Qualifying Questionnaires

The Program's minimum eligibility requirements are detailed in Section 25.8 of the Program rules and in Table 1 below. The investment qualifying questionnaire will be made publicly available to allow potential applicants to self-assess alignment with program requirements and likelihood of qualification.

In addition to the criteria listed in Table 1, qualified businesses must meet the requirements of a high-growth business. Qualified venture firms will submit the information required to confirm businesses qualify as a high-growth business under the Program through the venture firm investment application detailed in Table 4.

Table 1: Business Qualifying Questionnaire

Criteria Number	Qualifying Question
1	Does the qualified business applicant have a valid tax clearance certificate and New Jersey business registration?
2	Is the qualified business applicant in substantial good standing with sister agencies?[1]

3	Were the results of a legal debarment check satisfactory?[1]
4	If the qualified business applicant has participated in any other NJEDA program, is the business current on all reporting requirements?[1]
5	Does the qualified business applicant have a place of business in New Jersey?[1]
6	Is the qualified business applicant located in an opportunity zone?[2] *Not a program requirement, however data will be tracked to measure success against Program opportunity zone investment goal.*
7	Do at least 50% of full-time employees of the qualified business applicant reside in New Jersey?
8	Does at least 50% of the qualified business applicant's payroll go to employees that reside in New Jersey?
9	Does the qualified business applicant operate in a Program targeted industry?
10	Does the qualified business applicant utilize intellectual property that is core to its business model and was developed at a NJ-based college or university?[3] *Only a requirement for investments above $5,000,0000.*
11	Is the qualified business applicant a university spin-off?[3] *Only a requirement for investments above $5,000,0000.*
12	Is the qualified business applicant currently certified by the State as a "minority business" or a "women's business"?[3] *Only a requirement for investments above $5,000,0000.*
13	Applicants may be required to provide any other information deemed necessary by the NJEDA.

Note[1]: Additional requirements added to the legislative requirements through NJIEF rules.
Note[2]: Not a program requirement, however data will be tracked to measure success against Program opportunity zone investment goal.
Note[3]: Not a program requirement, but applicants requesting funding between $5,000,000 and $6,250,000 must meet one of the associated criteria.

The majority of qualifying questions listed in the business qualifying questionnaire are required by the NJIEF statute. However, select additional criteria were added through Section 25.8 of the Evergreen program rules to bolster the program's legal and compliance standards. These additional criteria are as follows:

- **Is the qualified business applicant in substantial good with standing sister agencies?** This requirement was added to Program rules to ensure any business that receives capital from the NJEDA is in good standing with sister agencies.

- **If the qualified business applicant has participated in any other NJEDA program, is the business current on all reporting requirements?** This check ensures no applicants that may be in default of requirements of other NJEDA programs are provided NJIEF capital.
- **Does the qualified business applicant have a place of business in New Jersey?** This requirement was added to the Program rules to address a requirement in Section 30 of the statute, which states Program capital to be used by qualified businesses to support its business operations in the State.
- **Has the qualified business applicant certified to the truthfulness of the application?** Business applicant CEOs will certify to the truthfulness of their application under the penalty of perjury. Any business that misrepresents information on their application will be subject to the Program's redemption policy.

Qualified Business Requirements at the Time of Follow-on Investment

Qualified businesses must also meet the requirements of a 'yes' or 'no' qualification checklist to qualify for Program follow-on investment funding. This checklist will retest several business qualifying requirements previously tested at the time of initial investment, including questions 1-8 and 13-14 from Table 1 above. Additionally, businesses may meet the New Jersey requirement at the time of follow-on investment by maintaining at least 50% of employees working in the State or by paying 50% of total wages to employees working in the state, in addition to the principal business operations requirement tested at the time of initial investment.

Part 2: Business Applicant Required Document Checklist

The following list represents initially recognized forms of documentation which may verify answers. Additional forms of verification may be accepted if sufficient. The required documents may either be submitted by the qualified business applicant, or by the qualified venture firm submitted on behalf of the businesses. To support the evaluation of an application for a qualified investment, the following information (or similar) about the business is required: CEO certified employee residency and payroll records, Forms NJ-WR30 and Federal 941, employee offer letters, description of target industry, valid NJ tax clearance certificate and business registration, lease agreement, capitalization table, current and prior unaudited or audited income statements (if applicable), current and prior customer lists (if applicable), prior financing round stock purchase agreement (if applicable), patents or copy right agreements (if applicable), description of affiliation with NJ-based college or university (if applicable), NJ state certification as minority or women-owned (if applicable), and any other information deemed necessary by the Authority.

Part 3: Additional Venture Firm Requirements at the Time of Initial Investment

Qualified venture firms must meet additional requirements at the time of application for investment. Additionally, firms that may have been previously certified as a qualified venture firm must demonstrate they still meet the minimum program requirements that were previously tested at the time of certification as a qualified venture firm. These minimum requirements at the time of initial certification are listed in

Table 1 of Appendix C. Below, Table 4 lists the additional requirements firms must demonstrate adherence to at the time of investment.

Table 4: Venture Firm Qualifying Questionnaire at Time of Investment

Criteria Number	Additional Qualifying Questions at Investment
1	Is the qualified venture firm requesting an amount of at least $100,000?[1]
2	Is the qualified venture firm requesting an amount no greater than $5,000,000?
3	If not, is the qualified venture firm requesting an amount no greater than $6,250,000?
4	Would the qualified venture firm's current co-investment into the qualified business applicant be the firm's first investment into the business?[1]
5	Does the amount being invested by the qualified venture firm into the qualified business applicant at least match the desired investment from the NJIEF?
6	Would the proposed investment size bring the aggregate NJIEF investments made with the qualified venture firm above 15% of the firm's total assets under management? [1]
7	Is the qualified venture firm beneficially owned (at least 15%) by a tax credit purchaser that purchased Program tax credits in the past 12 months?[1]
8	Has the qualified venture firm agreed to the terms of a stock purchase agreement with the qualified business applicant?[1]
9	If not, has the qualified venture firm begun negotiations over a draft term sheet with the qualified business applicant?[1]
10	Is the current valuation of the qualified business candidate at least 25% greater than the valuation of the prior funding round?[1]
11	Did the qualified business applicant record year-over-year revenue growth of at least 25%?[1]
12	Does the qualified business candidate have year-over-year customer growth of at least 25%?[1]
13	Does the qualified venture firm certify that the business has had less than one year of prior revenues and customers and has not previously raised third-party equity capital?[1]
14	Do the base case projections prepared by the qualified venture firm indicate the qualified business applicant will grow revenues by, or record a compound annual growth rate of, at least 25% in any of the next three to five years?[1]

15	Do the base case projections prepared by the qualified venture firm indicate the qualified business applicant will grow customers by, or record a compound annual growth rate of, at least 25% in any of the next three to five years?[1]
16	Do the base case projections prepared by the qualified venture firm indicate the qualified business applicant will grow valuation by, or record a compound annual growth rate of, at least 25% in any of the next three to five years?[1]
17	Applicants may be required to provide any other information deemed necessary by the NJEDA.

Note[1]: Additional requirements added to the legislative requirements through the Program regulations.

As with the requirements at the time of initial certification, select additional criteria were added to the statutory minimum requirements for venture firms at the time initial investments in Section 25.8 of the NJIEF regulations. These additional criteria are as follows:

- **Is the current valuation of the qualified business candidate at least 25% greater than the valuation of the prior funding round?** A 25% growth in valuation represents the average median growth rate for later stage venture capital investments between 2006 and 2017[v], representing a significantly faster growth rate than the average economy, as required by the statute.
- **Did the qualified business applicant record year-over-year revenue growth of at least 25%?** A 25% growth rate represents the average revenue growth rate across select public market indices that most closely represent the Program's investment universe. While the companies in these indices may be more mature and thus slower growing than privately owned startups, they also represent the best companies in their peer group and are still a valuable comparison group.
- **Does the qualified business applicant have year-over-year customer growth of at least 25%?** A 25% customer growth rate of new and unique customers was selected based on industry research which indicates most startups experience customer growth of at least 20% in the year of their initial public offering.[vi] This peer group again represents a later-stage, but best in class, pool of companies and is a valuable comparison group to determine a significantly faster growth rate than the average economy.
- **Does the qualified venture firm certify the business has less than one year of revenue or customers, and has not previously raised third-party equity capital?** This is not a requirement for all investments. However, in cases when a business is too early in its life cycle to utilize historical data to meet the Program's high-growth requirement, qualified venture firms may submit base case projections prepared by the firm and used in the firm's own underwriting analysis of the investment to forecast revenue, customer, or valuation growth over the three-to-five-year period following the date of investment application.

In these cases, businesses must meet one of the following requirements of a high-growth business: 1) annual revenue growth of at least 25%, or a compound annual growth rate of at least 25%, in any year over the next three to five years, 2) annual customer growth of at least 25%, or a compound annual growth rate of at least 25%, in any year over the next three to five years, 3) valuation growth of at least 25%, or a compound annual growth rate of at least 25%, in any year over the next three to five years.

- **Is the qualified venture firm requesting an amount of at least $100,000?** A minimum transaction size was introduced to the Program regulations to ensure investments justify the administrative costs associated with approving, executing, and monitoring a NJIEF investment.
- **Is the qualified venture firm's current co-investment into the qualified business the firm's first investment into the company?** To prevent firms from using NJIEF capital to buttress faltering portfolio companies, any Program investment must represent the firm's first investment into the business.
- **Would the proposed investment size bring the total NJIEF investments made with the qualified venture firm above 15% of the firm's total assets under management?** Qualified venture firms may only receive aggregate Program investments up to 15% of the firm's assets under management, which will help mitigate concentration risk by ensuring NJIEF capital does not represent too high of a percentage of a firm's assets under management.
- **Is the qualified venture firm beneficially owned (at least 15%) by a tax credit purchaser that purchased tax credits through the Program in the past twelve months?** To ensure no undue financial advantage inure to tax credit purchasers, qualified venture firms cannot receive an investment from the Program for a given year if any beneficial owner of the venture firm purchased Program tax credits within the past 12 months.
- **Are any members of the senior management team owners of a management company of a venture firm that has completed any investments with the NJIEF this calendar year?** Qualified venture firms can only make two investments through the Program per calendar year. To ensure venture capitalists do not exceed this limit by investing through multiple firms, staff will ensure members of a senior management do not own other venture firms that have participated in the program. If cross ownership is identified, they will be treated as one firm with regards to the limit of two Program investments per calendar year.
- **The qualified venture firm must have at least begun negotiations over a draft term sheet with the qualified business applicant.** To ensure the NJIEF approval process can move quickly enough to successfully participate in startup financing rounds, staff may begin reviewing applications before investment transactions are finalized between

qualified venture firms and the businesses. In all cases, an executed stock purchase agreement must be submitted by qualified venture firms before any Program capital is disbursed to a qualified venture firm.

Venture Firm Requirements at the Time of Follow-on Investment

Follow-on investments will be approved by NJEDA staff with delegated authority from the NJEDA Board, based on the successful completion of a 'yes' or 'no' requirement checklist for qualified venture firms and qualified businesses. Qualified venture firms will not be reevaluated through the qualified venture firm weighted criteria scoring matrix at this time. The venture firm follow-on investment qualifying questionnaire checklist will retest several qualifying requirements previously tested at the time of initial certification and investment, including criteria 1-5 and 7-9 in Table 1 of Appendix C and criteria 2-3 and 5-9 in Table 4 of Appendix D.

The size of follow-on investments will be limited to $5,000,000 for most qualified businesses, or $6,250,000 for businesses that qualified for additional investment funds above $5,000,000 at the time of initial investment. Qualified venture firms will be limited to one follow-on investment per qualified business per 12-month period, unless the Board of the Authority determines additional follow-on investments are in the best interest of the State and approves additional follow-on investments in a 12-month period for that qualified venture firm.

At the time of follow-on investments, capital invested by the Program will also be limited by two concentration limit tests. First, the concentration limit which caps aggregate NJIEF investments with any qualified venture firm to 15% of the firm's total assets under management at the time of initial investment will also be tested at the time of follow-on investments. Additionally, The NJIEF regulations permit the Program to limit aggregate investments in any qualified business to up to 15 percent of Program invested and univested capital. Staff is recommending that the Board approve setting this cap initially at 10 percent to limit concentration risk to ensure a broad disbursement of investment funds at the outset of the program while market learnings are accumulated. This metric will be evaluated annually and staff will seek Board approval to revise it up or down as program intelligence is accumulated. As is the case for initial investments, qualified venture firms must at least match all follow-on investments from the Program.

The Evergreen Fund will not make follow-on investments alongside venture firms that fail to meet these and any other Program requirements, unless such investments are deemed to be in the best interest of the State and are approved by the Board of the Authority.

Part 4: Venture Firm Required Document Checklist at Time of Investment

The following list represents initially recognized forms of documentation which may verify answers. Additional forms of verification may be accepted if sufficient. To support the evaluation of an application for investment by a qualified venture firm, the following information (or similar) is required by the qualified venture firm: Limited Partnership Agreement of fund to co-invest alongside the NJIEF, description of follow-on reserves and follow-on reserve policy, list of beneficial owners of the investment firm with an ownership stake above 15%, draft term sheet (if applicable), investment analysis and supporting documentation and certification of reasonableness of projections, and any other information deemed necessary by the Authority.