

OPERATING PRINCIPLES OF THE WPI COMMERCIALIZATION FUND

As adopted on May 7, 2021

Establishment: In Fiscal Year 2013, Worcester Polytechnic Institute approved the forming of the WPI Accelerator Fund. In 2019 it was renamed the WPI Commercialization Fund, but the principals remained the same. It has a two-tiered investment strategy and the fund is an Evergreen Fund, meaning there is no time frame attached to investing the funds and the WPI portion of the liquidation of the investments would return to the fund for future investments. The Fund is fueled by donations through the WPI Advancement group. The Fund has two components, the Ignite award and the Innovation Investment. The Ignite award is up to \$10,000 in milestone driven payouts for things like prototypes or market research, usually pre company formation. The award has a 6 month time frame and the goal is, at the end, it is ready for company formation. The funds are treated like patent expense, therefore recovered from future royalties. The Innovation investment is up to \$50,000 and is an equity investment in a startup company. More details are found in the Operating Principles. The fund was functioning based on a business plan, and this document is intended to more formalize the operating principals of the Fund.

Strategic Value: Worcester Polytechnic Institute (WPI_ created the Commercialization Fund (CF) to focus on investing in WPI-affiliated companies, such as companies based on WPI-owned intellectual property, companies founded by WPI employees, students or recent graduates, with a focus on companies located in the WPI region. The purpose is several-fold in order of importance:

1. Catalyzing investment in early stage start-ups related to WPI and providing funding alongside other sources of private capital
2. Generating financial returns which will be reinvested in future start-ups
3. Accelerating the success of WPI start-ups and providing a bridge to larger financings
4. Expanding economic development in the Worcester Region
5. Recruiting and retaining innovative students and faculty to WPI
6. Supporting the development of the innovation ecosystem in key sectors and WPI centers of excellence

The CF is a pre-seed to late seed stage investment fund for promising early-stage companies to bridge from grant funding and angel investment to a Series A round of investment. It will consider investing in Series A rounds. The CF may make follow-on investments in later investment rounds. A preferred criteria for CF investment is at least a 1:1 investment match, which is also true for follow-on rounds.

The CF is a “catalyst” investment vehicle and intends to help bring co-investors to a Company to complete a round. It is also an Evergreen Fund, meaning that there isn’t a time frame when investments need to be made and the returns on these investments will be reinvested into the Fund to do future investments.

Financial Return: The CF does not have a specific financial return set based on the timeline of its investments, as the investments range across all industries and investments are made in start-ups and other early-stage companies. It aspires to create a positive return creating an evergreen investment fund.

Strategic Value Key Performance Indicators (KPIs): In addition to financial return, the CF KPIs include: investment catalyzed (for every dollar the CF invests in a round, how many additional dollars come in with the same terms in that round), how many jobs are created in total and in the region, and how much follow on investment is raised.

The CF's mandated single source for deal flow (WPI) may mean that on average its upside potential might be lower and the risk profile somewhat higher than commercial seed investment or venture capital funds.

Sector and Eligibility: The CF is technology and sector agnostic. It invests in companies that meet one of the following criteria:

1. Have a founder/inventor (a substantial equity holder on par with the other founders) who is a WPI employee, alum, or student,
2. Based on WPI intellectual property (IP) ,

For the Innovation Investment, the company should provide a minimum 1:1 match of funding from other co-investors at the same or not better commercial terms (either in an equity round or a note convertible into equity) than the CF, generally within six months before or after the decision by the Fund to invest.

Stage: The CF typically invests in pre-Series A companies (pre-seed, seed, and early growth rounds), usually in the form of convertible debt, but it will consider Series A companies with strong ties to WPI that could dramatically improve the CF's financial return.

Geography: All companies must have a substantial portion of its manufacturing, service, research and development, or office space located in the Worcester region. Companies must in some other way provide positive economic impact to the Worcester Region. Companies must be in good standing with the Commonwealth of Massachusetts.

Budget: The current target for the CF is to invest in 5 Ignite and 2 Innovation Investments per year for a total of \$150,000.

Investment Size: The CF makes investments in Ignite pre-company formation up to \$10,000, and Innovation investments up to \$50,000.

Investment Pace (#/year): The CF wants to invest in as many diverse companies from across market sectors that meet the investment criteria. It will make as many investments as possible while meeting the operating principles and governance requirements. It intends to bring on the order of 10 Ignite and 5 Innovation proposals to the Advisory Board per year and aspires to invest in 5 Ignite and 2 Innovation investments per year.

Investment Criteria: The Managing Director of the CF will seek quality investment opportunities from all areas of the WPI community. In addition to the eligibility criteria, the CF may also consider the following investment factors (depending on the industry):

1. Ability to attract follow-on investment
2. Significant market validation (note: life sciences may not have this criteria met)
3. A strong coachable management team
4. Clear, actionable milestones

6. A valuation or valuation cap of less than \$1 MM
7. Evidence of solid operating principles and practices
8. Sustainable, defensible competitive advantage
9. If a scientific investment, evidence of receipt of non-dilutive grant funding

Governance: The Director of the Office of Technology Commercialization shall be the **Managing Director** who

- manages the Fund
- is responsible for day-to-day management,
- identifies potential investment opportunities,
- performs due diligence,
- gathers expert panels,
- provides due diligence to the **Advisory Board** and the **Executive Committee**,
- assists when needed to raise co-investment,
- manages the closing process on behalf of WPI,
- communicates amongst investors, WPI personnel and candidate companies throughout the process, and reports on portfolio company performance.

The **Advisory Board** is composed of investors and entrepreneurs who are qualified as either, serial investors, fund managers, and/or entrepreneurs who invest in early stage start-ups. The Advisory Board provides non-binding advice and recommendations to CF on funding decisions. The Advisory Board must meet Conflicts of Interest requirements as stated below.

The **Executive Committee** is comprised of representatives from WPI including the Vice President of Research, Executive Director of I+E, and the Dean of the Business School. Other representatives from WPI may be invited to join the Executive Committee at the recommendation of the existing Executive Committee members. The Executive Committee guides the policy and direction of the CF and it also makes all final funding (or non-funding) decisions. It evaluates the progress of the Fund's investments.

Target Ownership: The CF invests up to \$50,000 and invests in companies typically with a valuation of \$1 MM or less. The CF often invests in the form of convertible debt which ultimately may convert into a different ownership percentage. The CF does not take standard board seats but may take observer board seats. The CF can lead or follow in investment rounds.

Benefits to WPI Entrepreneurs: Companies, whether they receive investment or not, benefit from the mentoring and due diligence provided by the CF staff and the application process itself. The intent of the CF is to help foster innovation and economic development throughout the entire system, not to serve as a passive receiver and processor of funding requests.

Conflicts of Interest: Members of the Advisory Board must disclose financial interest and/or any board positions in any company presented to the Advisory Board for investment AND in any competitor to any company presented to the Advisory Board for investment. The Executive Committee will decide whether or not there was bias in the Advisory Board discussions given perceived or actual conflict. Any discussions of perceived or actual conflicts of interest shall be noted in Advisory Board or Executive Committee minutes and shall be resolved by the Executive Committee. As concerns arise regarding perceived or actual conflicts of interest with

any Commercialization Fund personnel or process, these concerns will be addressed by the Executive Committee with assistance of the WPI General's Office as necessary.

Monitoring of Portfolio Companies: The CF will require that its portfolio companies on a quarterly basis provide: quarterly financials including cash on hand and monthly burn rate, trailing twelve months revenues by month, profit and commentary on: changes to the team, changes in go-to-market, changes/advances/pivots in the value proposition, the five milestones they are focusing on for the next 12 months, commentary on anticipated fundraising, valuation as of the end of the quarter date, commentary on what is exciting and what is keeping them up at night, jobs created, and total funds raised, not including WPI based grants. Annually, the portfolio companies must provide financial statements (audited financials, if available). These monitoring requirements will continue until the total WPI investment ownership is less than 2.5% or the company has an initial public offering.

Annual Review: The Executive Director will provide an annual report to the Executive Director and donors to the fund. The report shall document; (1) the number of companies engaging with the CF; the companies which received CF investment and the WPI investment amount and non-WPI co-investment amount that year; and (3) a cumulative, de-identified summary of the company outcomes to date for the WPI portfolio companies. In addition to this annual Investment Report, regular updates on CF investment activity will be provided to the Board of Trustees Economic Impact Committee.

On an annual basis, the Advisory Board, the Executive Committee and the Managing Director intend to review the CF existing strategy, the key performance indicators, and the performance of the fund. It agrees to update the strategy, and KPIs as it deems fit, including updating these Operating Principles.

Appendix: Due Diligence Process:

1. Managing Director sources companies via network, via website, via WPI and via partners, such as the Venture Forum, the WPI I+E group, and the WPI I-Corps site.
2. Companies provide the CF with data
3. Managing Director coordinates an Expert Panel review. These are experts in the relevant field and may include potential or existing co-investors, scientists with or without ties to the Company, and third-party reviewers from the field. Expert Panel discusses:
 - a. Problem Solved
 - b. Market and/or Product/Market fit
 - c. Technology Status
 - d. Customer Traction / Plan for Go-To-Market
 - e. Risks
 - f. Company Timeline
 - g. Management / Team
 - h. Use of Funds
 - i. Competition
 - j. Intellectual Property
 - k. Partners
 - l. Exit Opportunities
4. Based on the Expert Panel review, Managing Director creates Due Diligence Memo with a review of discussion during Expert Panel above. Managing Director sends to Advisory Board for review.
5. Company presents to Advisory Board and Advisory board asks questions of the Company and internally discusses whether or not to invest.
6. Advisory board makes recommendations. More due diligence often required to answer Advisory Board questions. Managing Director provides responses to due diligence to Advisory Board
7. Managing Director gathers all documentation and diligence including: verification of eligibility; investment agreement and verification of its approval by the WPI General's Office or others; summary of the investment opportunity; proposed CF commitment; secured non-WPI matching funds
8. Managing Director brings Companies to Executive Committee with Full Due Diligence Checklist
9. Managing Director often negotiates caveats of investment with Company
10. Executive Committee makes an investment decision.