

## Newsletter Q2 2021

Investors, Entrepreneurs and everyone who is finally emerging from their apocalypse shelters only to discovered they don't have enough gas to go anywhere:

In the world of innovation and startups, the second quarter has been a mixed bag. I'll discuss these bags in three sections; the good, the bad and the mixed blessings.

### The Good

We are back working out of the office some and hope to officially open the lab again on June 1st. We made follow-on investments in portfolio companies: MapMyCustomers, Element451, Revibe, Slope, Feedtrail and Automation Intellect. Fund II portfolio company, WAAM, was acquired by The St. James and Fund I company ParkMyCloud (after merging with Turbonomics) was [acquired by IBM](#).



There have been several major positive developments this quarter for entrepreneurship at both the Federal and State levels. The Biden administration [announced](#) that it will fully launch the International Entrepreneur Rule (IER) allowing foreign entrepreneurs who have raised significant working capital to keep their ventures in the US. I have been a [vocal critic](#) of the previous policy but once again the best and brightest from around the world can bring their innovation, technology and jobs to the USA! For more on this see Forbes [Biden Revokes Visa Ban saying It Harms the US](#).

Between the [American Rescue Plan](#) and the [American Jobs Plan](#), NC could be receiving literally billions of dollars in Federal aid to help struggling businesses and nearly all aspects of our economy. And it just keeps getting better as state judges are starting to [decline to grant motions](#) from big Internet service providers to delay implementation of net neutrality rules. This gives smaller companies and startups a level playing field in securing and paying for internet bandwidth.

The [big news](#) in NC is the possible reinstatement of the [NC Qualified Business Venture tax credit](#). This is a credit that disappeared in 2013 for early stage investors. It has big advantages for both entrepreneurs and investors thus encouraging these much-needed seed-stage investments in NC. It helps entrepreneurs attract capital and lowers risk for investors by offering up to a 25% tax credit on their investments. The new iteration of this incentive would increase the total cap from \$7.5M to \$10M and include a 10% Diversity Bonus for investors that invest in companies located in rural counties or opportunity zones. Many of us have been

campaigning for this incentive for years to put NC back on par with other states. I am working with the Raleigh Chamber and will be speaking with some legislators in the coming weeks about the importance of this incentive in encouraging early stage innovation and entrepreneurship in North Carolina.

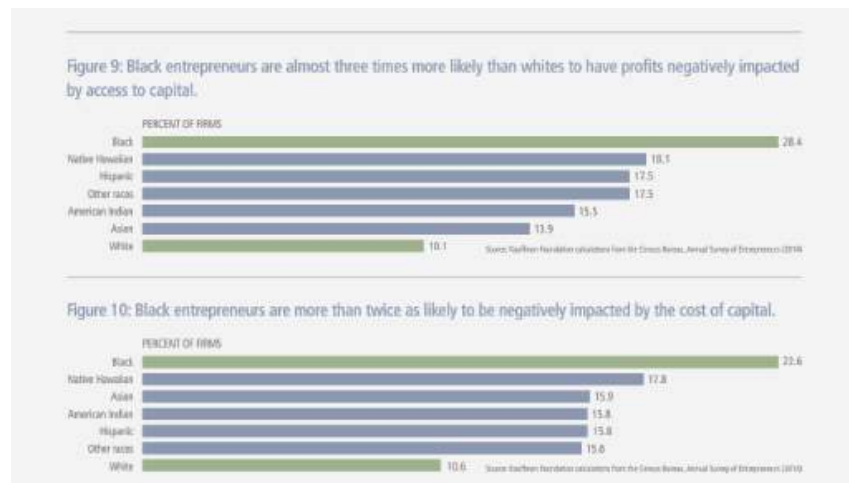
And the good just keeps coming as my parents have finally learned how to use Zoom for family meetings....well, *mostly!*



## The BAD

Just when we thought we were making progress in the areas of diversity, equality and inclusion on the venture front, a new DSI SocSend [Report](#) found that in venture fund raising gender and race discrepancies persisted and even grew in 2020. Female entrepreneurs are now raising

70% less capital than their male counterparts. It was very telling to learn that venture capitalists were 27% less likely to agree to a meeting with a female founder and spent up to 58% less time reviewing the products being pitched by female and minority entrepreneurs in general. Not without irony, the study also found that teams that were more diverse sexually and racially outperformed more homogeneous teams.



The Kauffman Foundation published another [Report on Startup Financing Trends by Race](#) supporting these findings. Cofounders Capital supported and signed an [Engine](#) open letter to Janine Scianna of the Office of Governmental Affairs encouraging diversity in investing.

## The MIXED

It has been widely reported that President [Biden seeks a significant increase in the Capital gains tax](#). Depending on their income bracket, investors currently pay around 20% on long term investment earnings but the proposed increase would nearly double that rate to 39.6%. Although this tax increase will fund much needed infrastructure and other programs, some are concerned that it will be a disincentive to venture investing.

I put this in the *mixed* section because of a silver lining we may reap. Pitchbook found that although VC funding continues to climb in 2021, 75% of all invested capital deployed still goes to late stage deals. Late stage companies are typically not where innovation takes place and there continues to be a growing shortage of early stage funding. Biden has pledged to keep the 1202 tax incentive in place which allows early stage investors to **pay zero federal tax** on most early stage investments held for five years or more. See my article [What's better than making money on a startup - paying no taxes on the gain](#). While the higher capital gains rate may discourage some later stage investing, it is my hope that some of those investment dollars will find their way back to early stage investments for the amazing tax breaks still to be had there.

And finally on the *Mixed*...we are starting to crawl out of our shelters and see each other in person again even cautiously touching elbows a little! While the pandemic continues and meetings can be a risk, especially for the unvaccinated, it's just great to get back to the office some. As much as I love these guys it is wonderful to not have this as the only view from work!



## Our New Investments

We have not yet made any new investments since my [Q1 Newsletter](#) but we have signed term sheets and are in final diligence now with two promising early stage ventures: [ViewStub](#) and [Certificial](#). Assuming we close on these opportunities, it will be our 13th and 14th investments out of Fund II. We are not making new investments out of Fund I but continue to make follow-on investments in our existing portfolio companies out of Fund I and our Fund I Sidecar Fund.

## Current Entrepreneur Spotlight

[Ardis Kadiu](#), (seen here between the two guys wearing VC pants) has been in the news a lot this past month. The founder and CEO of Element451 was featured in a TBJ article [Raleigh education startup sees quick rebound from pandemic](#).

Shortly after receiving his first \$1M investment from Cofounders Fund II, Ardis found himself trying to sell his student recruitment and engagement CRM to universities that were for the most part closed by the pandemic. He acted decisively right sizing his organization, applying for PPP funds and continuing to build features into his technology.

[Element451](#) is now thriving again and well ahead of plan with university customers seeing up to 169% increases in enrollment using his platform. [Element451 closed on \\$3M](#) in new funding last month from a strategic investor and higher ed VC, Cultivation Capital, more than quadrupling his company's valuation. Ardis has hired and now continues to hire dozens of new employees creating good-paying jobs in Raleigh and helping our universities and community college grow and educate the populace.

Born in Albania, Ardis came to the US when he was 14 years old on a I20 student visa. He earned full academic scholarships to an elite high school and NYU graduating with a BS in computer engineering, a masters degree in digital media and a MBA.



Ardis's parents legally migrated to the US while he was a student. His father was a respected judge who found political asylum here after the fall of the Albanian government. Ardis's father worked construction in the US to support his family.

After graduating from NYU, Ardis continued to teach there for several years before co-founding a technology consulting services company helping universities with IT integrations.

Ardis is married with two kids, 8 and 6 years old. He and his wife live in Raleigh.

## Previous Entrepreneur Spotlights: “Where are they now?”



[Karly Pavlinac's](#) LinkedIn profile is not very long. In fact, she never had an employer after graduating from NCSU a few years ago. She caught the startup bug talking with [Lewis Sheets](#) at the [Andrews Launch Accelerator](#) on campus. She started her venture shortly after graduating and raised \$500K from Cofounders Fund II working out of our free Lab space in Cary.

Karly believed that people wanted access to the best exercise trainers and classes anywhere in the world without having to drive to a gym. She built a mobile app that empowered trainers to offer their classes to anyone, anytime, anywhere. Her company was called [WAAM](#) which stands for “We Are A Movement”.



WAAM was [acquired](#) last month by the [St. James Company](#) where Karly now has her first employment ever as the Director of Digital Product Development. Tobi Walter took over my board seat at WAAM and did an amazing job helping to navigate the company to a successful exit.

The NCSU Poole College of Management recently featured Karly in their news [WAAM Finds New Home in The St. James](#). Karly is a good example of how our entrepreneurial ecosystem is working together to foster young first-time entrepreneurs.



Then came [David Gardner](#), [Timothy McLoughlin](#), and [Tobias Walter](#) at CoFounder's Capital. Thank you for believing in me and investing in WAAM. Working with you all has been more than the money. The weekly meetings (thanks Tobi) and overall help you put in to help me learn and grow as an entrepreneur.

## Cofounders Capital in the News

We work hard to keep our name out there as a “must stop” for all early stage entrepreneurs in North Carolina. You can read all of the past news about Cofounders Capital on the news page of our [website](#). Here are a few of the articles that included us since our last newsletter.

**TBJ:** [Why Triangle could benefit as Biden Revives Foreign entrepreneurs program](#)

**Fortune Magazine:** [Pattern Health Raises \\$1.5M from Cofounders Capital](#)

**TBJ:** [How a Durham tech firm is embracing working from home](#)

**WRAL TechWire:** [Resources deepen in the Triangle for Startups](#) - *Tim's new podcast*

**WRAL TechWire:** [Tweeners raised Capital in 2020](#) - *Cofounders Companies added to list*

**TBJ:** [Triangle Expansion good and not good for Startups?](#)

**WRAL TechWire:** [Cash flowing to ventures but early-stage money remains a challenge](#)

**TBJ:** [Is Downtown Cary the next coworking hub?](#)

**TBJ:** [Triangle financiers thrive in hot market for pharma tech](#)

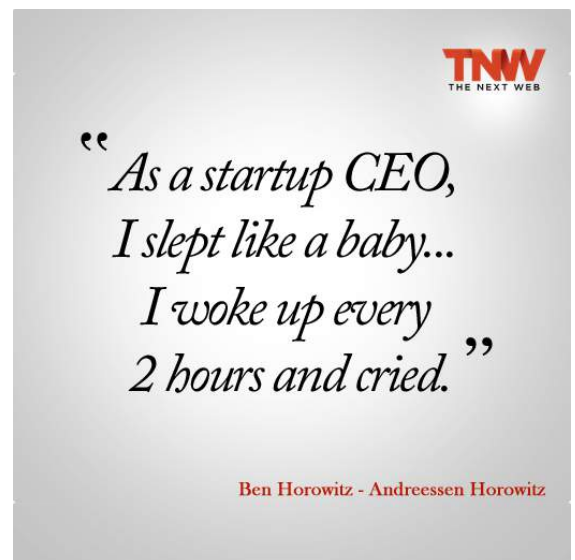
## Our Publications and Podcasts this Quarter

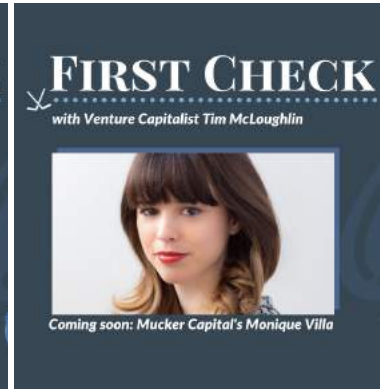
We try to contribute regularly via articles and podcasts on topics that we feel are important to our NC entrepreneurial ecosystem. We spend all day everyday working with entrepreneurs and startup companies and feel that we have our finger on the pulse of NC innovation. You can see many of our previous publications and podcasts on our [website](#).

WRAL Techwire: [What's a VC looking for in a Startup CEO](#) - Gardner (*Taken from our CEO evaluation form*)

WRAL Techwire: [Was 2020 a Crushing Year for Startups - Let's look at the data](#) - Gardner

WRAL Techwire: [Are Corporate Accelerators a good choice for new ventures](#) - Gardner





**First Check Podcast:** Tim's new podcast series on EarFluence has been a big hit. Use this link to subscribe and listen to recorded episodes. And below...here's what Tim's podcast studio really looks like.



Co-written by Donald Thompson including interviews from Tim McLoughlin: [Transforming Venture Capital and Private Equity Through Diversity, Equity, and Inclusion \(DEI\)](#)

**Atlanta Startup Podcast** Interviews Tim McLoughlin: [Why Cofounders Capital has written dozens of First Checks](#)

**Net Effect National Podcast** with Les Ottolenghi: Interviews David Gardner [here](#).



# Leading Entrepreneurs of the World



## Innovation and Entrepreneurship in the Information Age

**David Gardner**  
Founder & Managing Partner  
Cofounders Capital



Powered by **1BusinessWorld.**  
One World, One Business World

**1 Business World Podcast:** Innovation and Entrepreneurship in the Information Age - *Watch the [video here](#).*

How This Venture Capital Firm Has Pivoted and What's Next with CoFounders Capital's Tim McLoughlin

Watch later Share

**B2B founder**  
PODCAST WITH BRETT TRAINOR

How This Venture Capital Firm Has Pivoted and What's Next

with CoFounders Capital General Partner **TIM MCLOUGHLIN**

EPISODE **094**

B.T. BRETT TRAINOR

Watch on YouTube

**B2B Founder Podcast** with Tim McLoughlin: [Episode 94: How this VC has pivoted and what's next for Cofounders Capital](#)



## Our Events

We host, attend, judge, moderate or speak at several events each month. Our goals are to promote entrepreneurship and innovation, encourage local investing and to ensure that we see every startup company in NC that might be a fit for our fund and expertise. Since quarantine, our events have been limited to those that could be done virtually.

**Venture Summit:** Tobi was the featured investor.

**Raleigh Charter High School's "Fish Tank Event"** Tim surprised a group of students at their startup & investment club with a presentation and brought in Jon Hayes, a real Shark Tank winner.

**NC IDEA grants** Tim is in his 13th cycle as a core reviewer.  
[Press Release](#)

**Duke:** David spoke to this MBA Strategy Class

**UNC:** Tim has been guest lecturing a UNC Kenan-Flagler's MBA Business School

- Guest lecturer at UNC Kenan-Flagler's class taught by Mitch Mumma MBA817: Venture Capital Valuation and Deal Structure
- Guest lecturer at UNC Kenan-Flagler's Business Plan Analysis course taught by Scott Albert and Dave Neal
- Guest Speaker at UNC Kenan-Flagler's Startup UNC MBA-848D course taught by Scott Albert and Tim Flood

**CED:** Venture Connect Summit for VC: Tim was a Q&A panelist

**Duke:** Tobi mentored the Duke VCIC team this year

[NC Labs Program:](#) Tim served as a mentor for this program

**VENTURE SUMMIT**  
VIRTUAL CONNECT / WEST

Where Innovation Meets Capital™

March 16 - 18, 2021

Hosted by **youngStartUp**

**Tobi Walter**  
Cofounders Capital

Featured Investor

*The Exploit/Explore Portfolio Balancing Act*

**Exploit** | **Explore**

THE BALANCING ACT

**Exploit Matrix:**

High Growth	Low Growth
High Risk	Low Risk

**Explore Matrix:**

High Growth	Low Growth
High Risk	Low Risk

**Return:**

- Year over Year Market Share Growth
- Year over Year Revenue Growth
- Year over Year Cost Structure Shrinkage
- Year over Year Profitability Improvement
- Year over Year Productivity Improvement

**Risk:**

- Potential/Timing for External Core Business Disruption
- Potential/Timing for Internal Core Business Issues/Disch

**Expected Return:**

- Number of Opportunities in Portfolio in each category
- Distribution across Discovery/Validation/Acceleration/Rounds
- Number of Aging Items Identified (vs Progress to Exploit Portfolio)

**Risk:**

- Testing Volume and Progression Rates
- Failed to meet Key Risk Tests:
  - Adaptability: Business cannot adjust to environment
  - Desirability: Customers are not interested
  - Feasibility: Business cannot manage scale/local capabilities
  - Viability: Business cannot generate sufficient financial return



[iStart Valley](#): David served as a judge for this event

[Pitch Black Student-Founder Competition](#): Tobi mentored two of these teams.



[Duke Equity Matters Virtual Symposium](#) - David

[Greppy Awards](#): Tim served on the nomination committee for this inaugural event

[Pitch Space Live](#): Tobi spoke at this event

[Duke 2021 Plug and Play Alumni Sessions](#) David was a judge

[Valor Ventures](#): Tim served as a judge for the [Startup Runway](#)

[LystenLab Gen-Z Demo Day](#): David served as a judge for this event.

[How DEI is Transforming VC and PE](#): Tim spoke at this event hosted by The Diversity Movement.



**Lauch.io 2021 Accelerator Class:**  
David judged this competition

**HBCUs & Black Founders Pitch Event:** - David served as a judge for this event

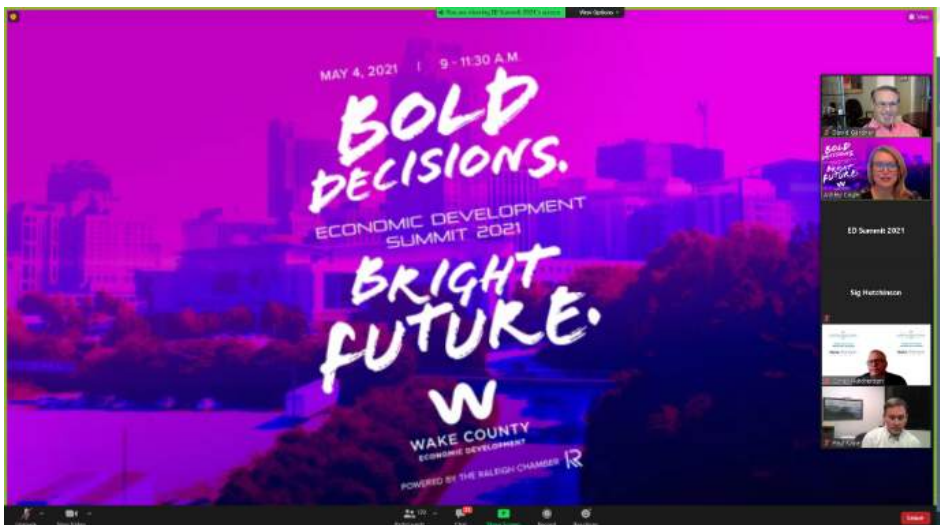
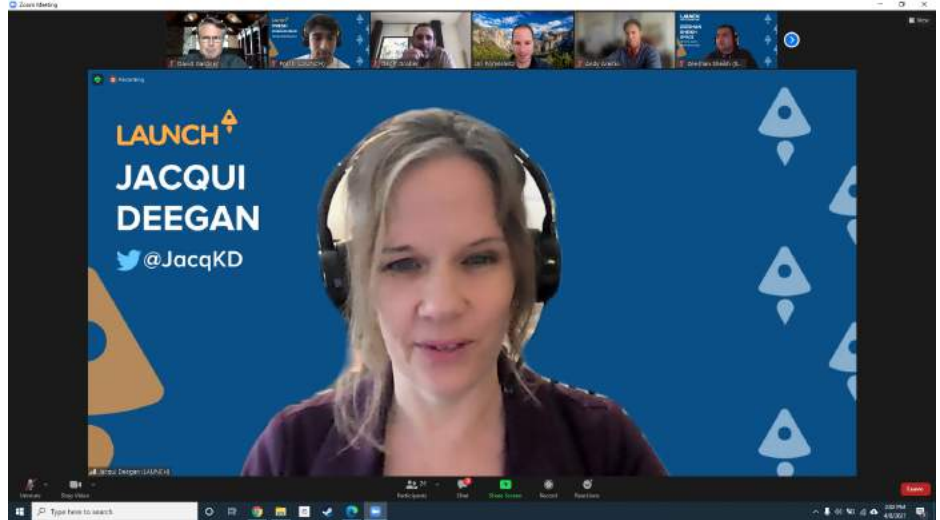
**Charlotte (TER) Technology Executive Roundtable:** Tobi is on the advisory board for this group which will be hosting a [Tech Startup Compensation Survey Presentation](#) on May 18th.

**Flywheel's New Ventures Accelerator** is taking [applications](#) for its new cohort and \$50K non-dilutive Venture Winston grants.

**NCSU Entrepreneurship Games:** David served as a judge again this year for the annual e-games which provide winning teams with \$100K in prize money.

[Capital Connects 2021 Pitch Competition in the Triad:](#) Tim served as a judge for this event

**Raleigh Chamber Wake County Economic Development Summit**  
*David spoke on what the State could be doing to better foster innovation and entrepreneurship.*





**NCSU Chancellor's Innovation Fund:** David served for a sixth year on this selection committee awarding grants to NCSU professors and teams with promising science and technology.

## Ways You Can Help

As always, the best way to help our startups right now is to send us candidates especially those with software development or sales expertise. With major new tech employers moving to the Triangle it is more important than ever to help our companies find solid technical expertise. You can find all of our portfolio company's jobs listed at [Cofounders Portfolio Companies Job Links](#). Please share this link with any viable candidates you encounter.

## With Appreciation



Each quarter we highlight one of our investors, advisors, vendors or ecosystem partners that we feel has really stepped up to the plate and consistently given the extra effort to help not only Cofounders but the NC funding ecosystem in general.



This quarter I'd like to recognize [HPG](#) in Raleigh. Since our inception HPG has been our CPA firm making sure that taxes get filed accurately and our fund investors get their 1099's on time. Besides being super knowledgeable and responsive, HPG has also been a good partner to our startup ecosystem offering special pricing and bundled services to early stage startups. Not to mention, they also give a free copy of my book to their startup clients.

We would also like to thank our new interns joining for the summer: [Alex Hunter](#), [Shri Kolanukuduru](#) and [Raahil Madhiwala](#). Tim finally let us add a NCSU undergraduate to the team! These interns work extremely hard especially when we are in diligence with two companies simultaneously.

## Closing

This year is shaping up to be a great one. Deal flow is amazingly strong and our portfolio companies, for the most part, are on track again, raising money and greeting value.

Since our press photos were starting to look as ridiculously young as our Facebook profiles, we had some new ones taken. Although only partially vaccinated at the time, we decided to drop the masks but I'm fairly certain that Tobi was still holding his breath the entire time.

