

# ACTION ITEM #1

## Establishment of a Medical Technology Incubator (Daniel J. Bernardo)

May 4, 2018

TO ALL MEMBERS OF THE BOARD OF REGENTS

**SUBJECT:** Establishment of a Medical Technology Incubator to support the Elson S. Floyd College of Medicine

**PROPOSED:** That the Board of Regents approve the proposed technology incubator concept and delegate authority to the President or designee to enter into operating and other agreements related to the proposed technology incubator.

**SUBMITTED BY:** Daniel J. Bernardo, Provost and Executive Vice President

**SUPPORTING INFORMATION:** The Elson S. Floyd College of Medicine (ESFCOM) proposes to create a 501(c)(3) for the Technology Incubator. Additional information is provided in the attached PowerPoint presentation.

### *Executive Summary*

- **Strategic Goal:** ESFCOM to establish a medical technology incubator utilizing elements from nationally recognized technology university hubs and incubators.
- **Criticality:** A medical technology incubator is critical to supporting ESFCOM by:
  - Supporting the strategy of the medical school and enhancing the medical student experience;
  - Providing an opportunity to evaluate relevant commercialization of medical technologies; and
  - Providing financial return to the ESFCOM and the University.
- **Timing:** An immediate launch of the incubator is critical to mitigate the on-going competitive landscape in Spokane, so as to secure necessary identified funding sources and to further the mission of the medical school during critical launch years.

- Accomplishments to Date: Considerable momentum exists, and many activities have been already accomplished, including:
  - Integration of the technology incubator with the student experience and alignment with medical school curriculum;
  - Identification of potential companies to partner with in the incubator;
  - completion of the inaugural Hackathon;
  - development of the business strategy for the incubator launch;
  - identification of a delivery team which includes both in-house WSU staff and consultative local partner to support design and launch of the incubator; and
  - identification of investors to commence partnership discussions.
- Financial Projections:
  - Launch of the incubator will be accomplished with little upfront capital, as philanthropic donations of \$750,000 have already been secured and an additional \$500,000 has been identified.
  - The financial projections indicate a net positive return to investment partners and the University over a five-year period.

*Why a WSU Medical School Technology Incubator?*

- Financial return to the institution:
  - Equity position in incubated companies that will lead to financial return to invested parties.
  - Ongoing revenue stream from royalty and related asset ownership to offset operating expenses.
  - Breakeven operating expense upon Incubator maturity.
- Competitive advantage for the Medical School:
  - Survey data from incoming students indicates company innovation as an important selection criteria.
  - WSU incubator will be differentiated by focusing on rural, underserved, community based-affiliated hospital base and related targeted therapies.
  - Further supports accreditation requirements.
  - Allows for the integration of technology into the curriculum in a unique manner.

- Eminence – accelerated innovation and commercialization of health care industry.
- Benefit to regional economic development – Increased entry of start-up companies; access to health care channels; access to talent

#### *Alignment to ESFCOM Strategy*

- Incubator model will align to the service delivery strategy for the Medical School.
- Companies will be identified that align to the four strategies for the Medical School
- Fulfillment of the state mandate to delivery care further enabled by commercialized companies supporting each of the four pillars of service delivery

#### *Operating Structure*

- 501(c)(3) Not for profit designation
  - Supports purpose of ESFCOM.
  - Allows tax free status while investing and holding equity in companies.
- Supported by independent governance board made up of members from WSU, ESFCOM, community leaders, and investors.
  - Provides guidance on investment decisions, funding sources, university relations, company exit, and external communications.
- Executive Director of Technology Incubator oversees implementation of strategy; provides financial oversight; and leads evaluation of company selection, exit, etc.

#### *5 Year Financial Pro forma*

- Preliminary pro forma projections based on diversified portfolio of incubated companies across three stages of maturity.
- Operating revenue composed of rental income and business support services.
- Investment summary considers exit + royalty stream from invested assets.

<b>Operating Summary</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Incubator Operating Revenue	\$ 20,500	\$ 234,000	\$ 396,000	\$ 492,000	\$ 522,000
Philanthropic Seed Investment	\$ 400,000	\$ 225,000	\$ 100,000	\$ 50,000	\$ -
Total Income	\$ 420,500	\$ 459,000	\$ 496,000	\$ 542,000	\$ 522,000
Operating Expense	\$ 405,000	\$ 450,000	\$ 472,500	\$ 496,125	\$ 520,931
<b>Net Operating Income</b>	<b>\$ 15,500</b>	<b>\$ 9,000</b>	<b>\$ 23,500</b>	<b>\$ 45,875</b>	<b>\$ 1,069</b>

<b>Investment Summary</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Fund Deposits	\$ 2,000,000	\$ 4,000,000			
\$ Deployed	\$ 825,000	\$ 2,112,500	\$ 1,787,500	\$ 825,000	\$ 337,500
Remaining	\$ 1,175,000	\$ 3,062,500	\$ 1,275,000	\$ 450,000	\$ 112,500
# Co's Entry into incubator	3	8	11	14	14
Company Exit	-	-	1	2	4
Exit Return	\$ -	\$ -	\$ 568,750	\$ 2,318,750	\$ 6,825,000
WSU Returns	\$ -	\$ -	\$ 113,750	\$ 463,750	\$ 1,365,000
Remaining Investment Returns	\$ -	\$ -	\$ 455,000	\$ 1,855,000	\$ 5,460,000
Royalty Revenue	\$ -	\$ 50,000	\$ 100,000	\$ 150,000	\$ 200,000
<b>WSU Incubator Investment Income</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 213,750</b>	<b>\$ 613,750</b>	<b>\$ 1,565,000</b>

<b>Cumulative 5 Year WSU Incubator Return</b>	<b>\$ 2,442,500</b>
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# BOARD OF REGENTS

## Delegation of Authority – Medical Technology Incubator

### Resolution #180504-580

WHEREAS, RCW 28B.30.095, RCW 28B.30.100, and RCW 28B.30.150 vest the governance and management of Washington State University (WSU) in the Board of Regents of WSU;

WHEREAS, the Board of Regents is authorized by RCW 28B.10.528 to delegate to the President of WSU or designee powers and duties vested in or imposed upon the Board of Regents by law and to enable the President or designee to act on behalf of the Board of Regents in matters relating to the administration and governance of WSU;

WHEREAS, the Board of Regents has determined that it is in the best interests of WSU for the President to have such authority;

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents hereby approves the proposed technology incubator concept to support the Elson S. Floyd College of Medicine and delegates authority to the President or designee to enter into operating and other agreements related to the proposed technology incubator.

DATED this 4th day of May, 2018.

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Chair, Board of Regents

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Vice Chair, Board of Regents

# ESFCOM Technology Incubator

Review for Board of Regents  
May 2018



Elson S. Floyd  
College of Medicine

WASHINGTON STATE UNIVERSITY



## Overview

Follow up Responses to Q&A from prior Regents Review

Supplementary Content

1. Alignment of the Technology Incubator with ESFCOM
2. Technology Incubator startup assumptions
3. Potential Risks and Mitigating Actions
4. Incubator Governance Model
5. Prior Regents Meeting Presentation



## Follow up from Regents Meetings of March 1<sup>st</sup> / 2<sup>nd</sup>

- During the initial review of the ESFCOM Technology Incubator at the March Board of Regents meeting, a constructive dialogue and series of questions were raised. The following table summarizes these points, and the resulting clarification and response

ID	Question Raised	Response
1	What makes this Incubator unique?	The Technology Incubator is uniquely integrated to ESFCOM and its clinical affiliate network . This will provide a significant advantage to companies that partner with the Incubator, and will support the expected financial returns to investors
2	Could the Technology Incubator pose a significant financial risk to the University?	No. The funding for the operating requirements of the Incubator, and the funds to support the initial round of investment have been identified and secured through local Spokane philanthropic and investor interest.
3	Have funding sources been identified?	Yes. Funds have been identified and will be secured once the articles of incorporation have been filed. Following final approvals for Incubator launch, letters of financial commitment will be secured. Funding has been dedicated to the Technology Incubator.
4	Is it critical that the Incubator be aligned to ESFCOM?	Yes. ESCFOM's unique strategy of supporting the rural and the underserved communities presents a very targeted and relevant channel for companies that are developing unique technologies. Alignment to this medical school is a unique differentiator for prospective incubated companies.
5	How does the Incubator align to the broader vision of the University?	The Technology Incubator and its alignment to ESFCOM support the vision of servicing the citizens of Washington State.
6	Will there be space needs that require a dedicated site to be built for the Incubator?	No. The initial launch will be housed in current space on the WSU Spokane campus. Space needs for the broader rollout of the Incubator have been incorporated into ESCFOM's building requirements
7	What actions can be taken to mitigate the risk of failure to the University?	The Incubator will have its own unique brand; will have an independent board represented by WSU management and outside parties.





## Supplementary Slides

1. Alignment of the Technology Incubator with ESFCOM
2. Technology Incubator startup assumptions
3. Potential Risks and Mitigating Actions
4. Incubator Governance Model
5. Prior Regents Meeting Presentation



## Alignment of the Technology Incubator with the Vision of the ESFCOM Medical School

- Mission of the ESFCOM: *The Elson S. Floyd College of Medicine will be a unique resource for the **State of Washington**, converging on **solutions to the health care** triple aim of improving the **patient experience of care, keeping populations healthy, and decreasing the cost of care**, all while improving the work life of health care providers. Through a culture based on valuing the individual, we will be **resourceful, agile, inventive** and generous in serving the people of the state and beyond, to develop healthier populations through research, innovation, interprofessional education and patient-centered care.*
- ESFCOM will deliver upon this mission through the following four key elements:
  1. Exceptional student education and experience
  2. Comprehensive practice plan and through simulation and hands-on learning
  3. Relevant Research and Development focus
  4. Identification and incubation of real, viable technologies and companies that solve health concerns in the State of Washington
- The Technology Incubator's role in supporting the ESFCOM mission:
  - Identify and foster companies to launch innovative health technologies in Washington State
  - Support novel solutions that address rural, underserved communities
  - Provide positive financial return to ESFCOM and to the University



## Technology Incubator Startup Assumptions

The following lists a series of operating assumptions that are or will be in place prior to launch:

- Operating funds have been committed for the first three years
- Investment funds for the initial round of investors have been identified and committed
- Year 1 will have ~3 companies selected. This will grow to upwards of 10+ by full operations
- Candidate companies have been identified and engaged
- Facility requirement options for initial launch have been identified
- Long term space needs have been included in the broader ESFCOM facility build. No dedicated building will be needed for the Incubator
- The Incubator articles of incorporation have been completed and are pending filing
- A unique brand has been created for the Incubator
- The Incubator will have the option of supporting companies through a series of in-house service offerings (legal support, financial support). These will be offered at a cost to the companies, and partners have been identified to provide these services at favorable rates.



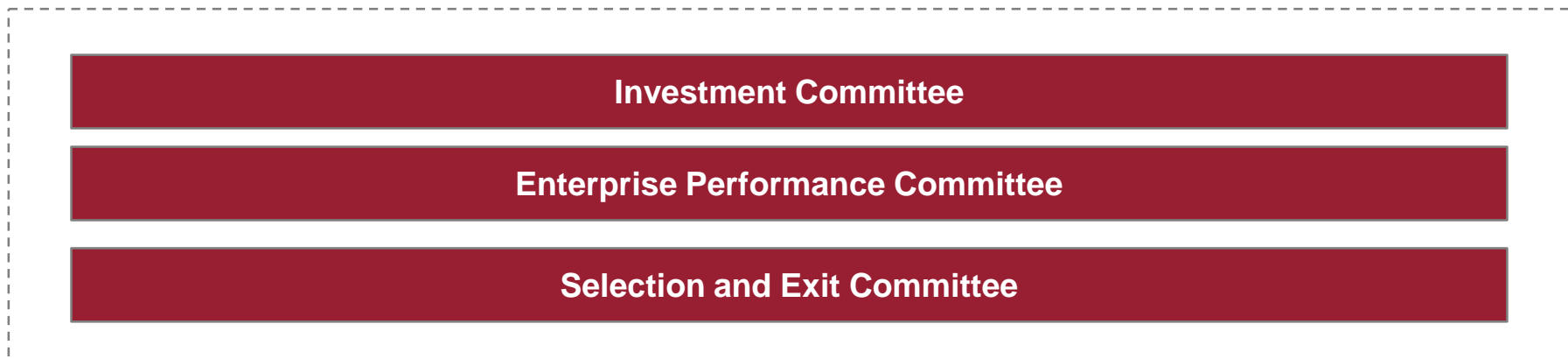
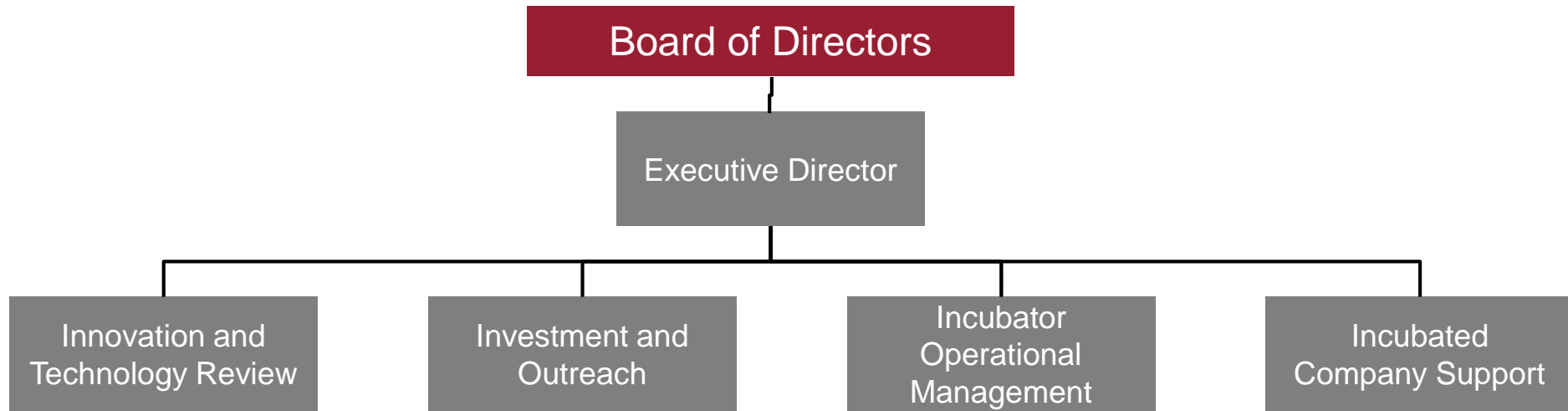
## Potential Risks and Mitigating Actions

- The following table further elaborates on the plan to mitigate risks of launching the Technology Incubator, and related mitigating actions that are being taken prior to launch

ID	Risks	Response and Mitigating Actions
1	Could the Technology Incubator pose a significant financial risk to the University?	<ul style="list-style-type: none"><li>• No. The funding for the operating requirements of the Incubator, and the funds to support the initial round of investment have been identified and secured through local Spokane philanthropic and investor interest.</li><li>• Follow on rounds will be targeted locally first, and then expanded to other geographies across Washington (Seattle, Tacoma), and the surrounding region (Portland). Investment interest has been identified in these geographies and beyond.</li></ul>
2	Will there be space needs that require a dedicated site to be built for the Incubator?	<ul style="list-style-type: none"><li>• No. The initial launch will be housed in current space on the WSU Spokane campus.</li><li>• Space needs for the broader rollout of the Incubator have been incorporated into ESFCOM building requirements</li><li>• The final space requirements at full scale are expected to be in the range of 20K sq ft.</li></ul>
3	What actions can be taken to mitigate the risk of failure to the University?	<ul style="list-style-type: none"><li>• The Incubator will have its own unique brand; will have an independent board represented by WSU management and outside parties.</li><li>• The Incubator will house and manage funds through an independent 501c3 and will have a dedicated fund management committee to review and oversee fund activities</li><li>• Potential failure and ramp-down of the Incubator is accounted for in the 501c3 bylaws</li></ul>



## Incubator Governance Model



May include individuals from outside groups along areas of expertise



## Governance Roles and Responsibilities

Function	Roles and Responsibilities
Board of Directors	<ul style="list-style-type: none"><li>• Input to Investment Decisions</li><li>• Guidance on funding sources</li><li>• Guidance on University Relations</li><li>• Guidance on Company Exit</li><li>• Input to external communications</li></ul> <b>Representation To Include:</b> <ul style="list-style-type: none"><li>• Investment Funds (s)</li><li>• University Administration</li><li>• ESFCOM Administration</li><li>• Community Leadership</li><li>• Hospital / Customer group</li></ul>
Executive Director Technology Incubator	<ul style="list-style-type: none"><li>• Oversee implementation of strategy</li><li>• Financial Oversight to P/L</li><li>• Evaluate company selection, exit</li></ul>
Innovation and Technology Review	<ul style="list-style-type: none"><li>• Evaluate emerging technology to support strategy; fit to company selection</li><li>• Evaluate opportunities for internal University Commercialization</li><li>• Input to board on focus areas for company selection</li></ul>
Investment and Outreach	<ul style="list-style-type: none"><li>• Head of investment and finance committee; lead identification of funding channels</li><li>• Identify funding partner groups</li><li>• Input to investor community on status of investment; ROI; expected returns; future needs</li></ul>
Incubator Operational Management	<ul style="list-style-type: none"><li>• Oversee operational execution of Incubator service offerings</li><li>• Oversee facility, infrastructure, location concerns to support Incubator company growth</li></ul>
Incubated Company Support	<ul style="list-style-type: none"><li>• Support and advisory input to in-house Incubator companies</li><li>• Liaison to functional support network: finance, HR, IT, marketing, etc</li></ul>



**Discussion Presentation**  
**From prior Board of Regents meeting**



## Executive Summary

1. **Strategic Goal:** ESFCOM to establish a medical Technology Incubator utilizing elements from nationally recognized technology university hubs and incubators – minimally re-creating the concept, but applying to the focus of ESFCOM
2. **A medical Technology Incubator** is critical to supporting ESFCOM by:
  - Supporting the strategy of the medical school and enhancing the medical student experience;
  - Providing an opportunity to evaluate relevant commercialization of medical technologies, and by
  - Providing real financial return to the University
3. **Timing to launch is now** – timing is critical to mitigate the on-going competitive landscape in Spokane, so as to secure necessary identified funding sources and to further the mission of the medical school during critical launch years
4. **Momentum is strong** – many activities have been already accomplished including integrating the Technology Incubator with the student experience, identifying potential companies to partner with in the Incubator, alignment with the curriculum, announcement of inaugural Hackathon, development of the business strategy for Incubator launch, and identification of potential investors to commence partnership discussions
5. **A delivery team has been identified** - which includes both in-house WSU staff and consultative local partner to support design and launch of the Incubator
6. **Minimal up-front expense** - Launch of the Incubator will be accomplished with upfront philanthropic donations already identified
7. **Positive ROI** - The financial projections indicate a net positive return to investment partners and the University over a five year period





## Why an ESFCOM Technology Incubator?

1. Financial return to the institution
  - Equity position in incubated companies that will lead to financial return to invested parties
  - On going revenue stream from royalty and related asset ownership to offset operating expenses
  - Break-even operating expense upon Incubator maturity
2. Competitive advantage for the medical school
  - Survey data from incoming students indicates company innovation as a selection criteria
  - ESFCOM Technology Incubator differentiated by focusing on rural, underserved, community based affiliated hospital base and related targeted therapies – further support accreditation requirements
  - Integrate technology into the curriculum in a unique manner
3. Eminence – accelerated innovation and commercialization of health care industry
4. Benefit to Regional Economic Development – Increased entry of start up companies; access to health care channels; access to talent



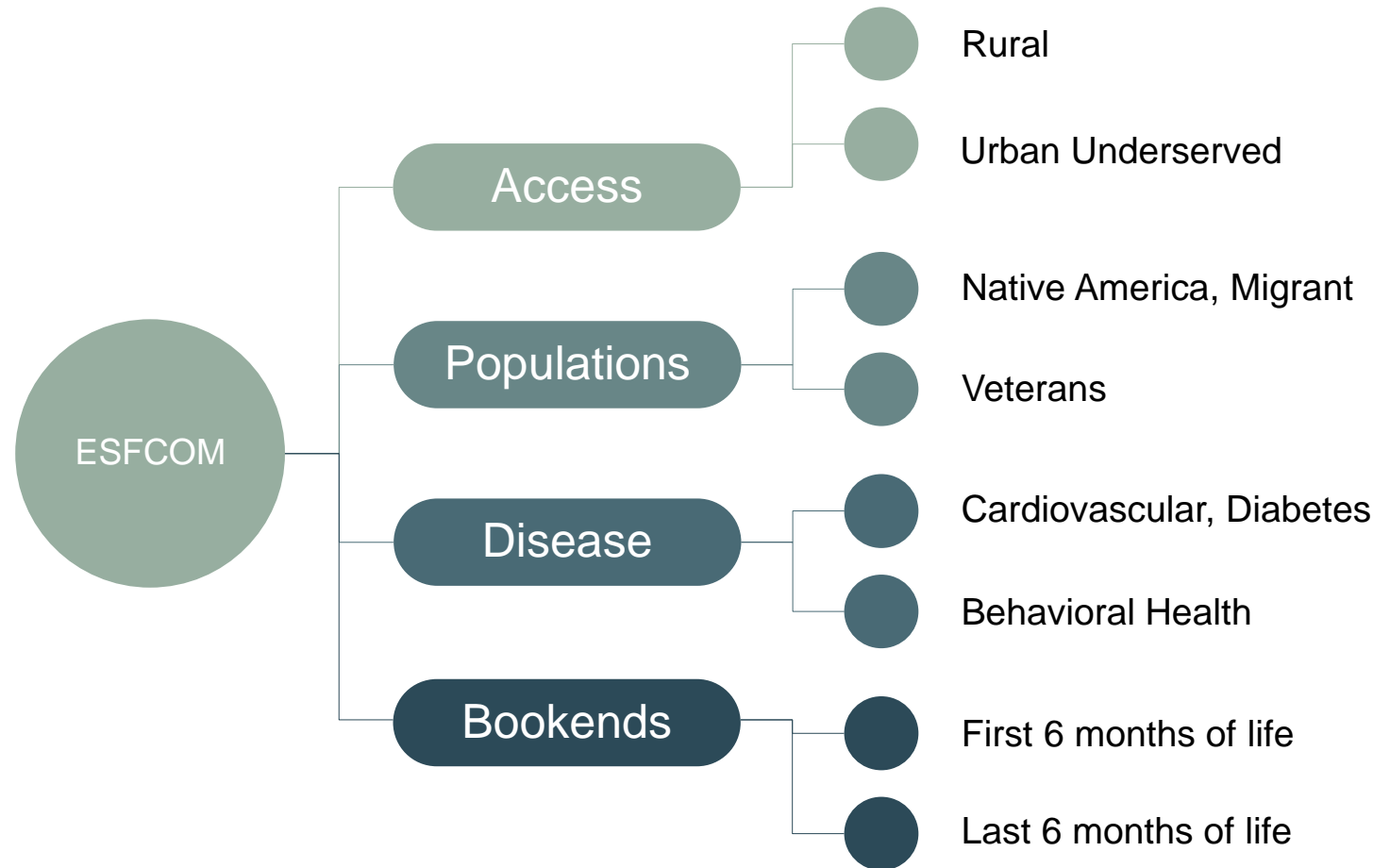
## Operating Structure

- 501c3 Not for profit designation
  - Supports purpose of ESFCOM
  - Allows tax free status while investing and holding equity in companies
  - Supported by independent governance board made up of members from WSU, ESFCOM, Community Leaders, and Investors
- Operating expenses offset by rental and philanthropic income
  - Launch expenses have been identified and secured
  - Operating break even at year 3
- Investment funds from external sources
  - Initial sources for \$2M launch fund have been identified
  - Funds to be deployed upon of formal launch of the Incubator



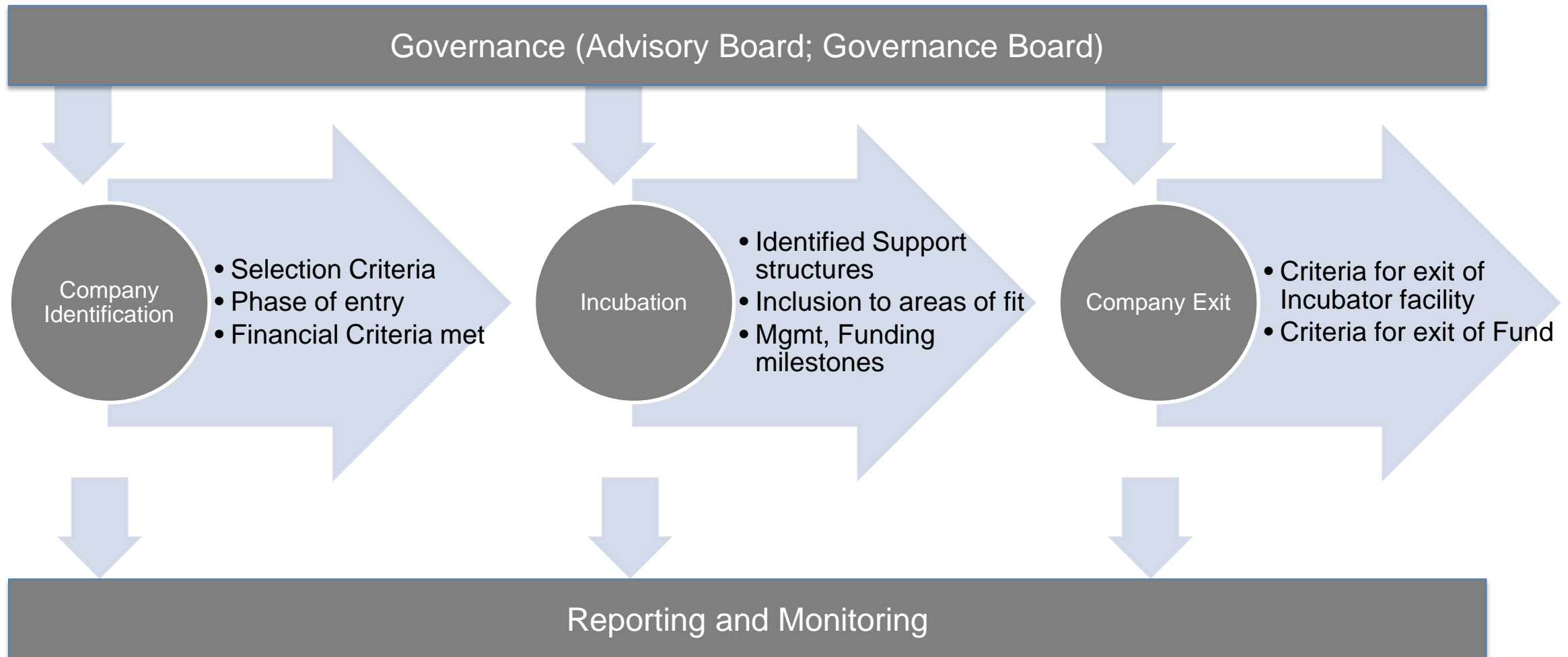
## Alignment to ESFCOM Strategy

- Incubator Model will align to the service delivery strategy for the medical school
- Companies will be identified that align to the four strategies for the medical school
- Fulfillment of the state mandate to delivery care further enabled by commercialized companies supporting each of the four pillars of service delivery





## Incubation Process Overview





## Executive Summary: 5 Year Financial Proforma

Operating Summary	Year 1	Year 2	Year 3	Year 4	Year 5
Incubator Operating Revenue	\$ 15,500	\$ 166,000	\$ 298,000	\$ 364,000	\$ 388,000
Philanthropic Seed Donations	\$ 750,000	\$ 250,000	\$ 250,000		\$ -
Total Income	\$ 765,500	\$ 416,000	\$ 548,000	\$ 364,000	\$ 388,000
Operating Expense	\$ 405,000	\$ 405,000	\$ 425,250	\$ 446,513	\$ 468,838
% Variable Expense	20%	25%	30%	35%	35%
<b>Net Income (w/ carryover)</b>	<b>\$ 360,500</b>	<b>\$ 371,500</b>	<b>\$ 494,250</b>	<b>\$ 411,738</b>	<b>\$ 330,899</b>

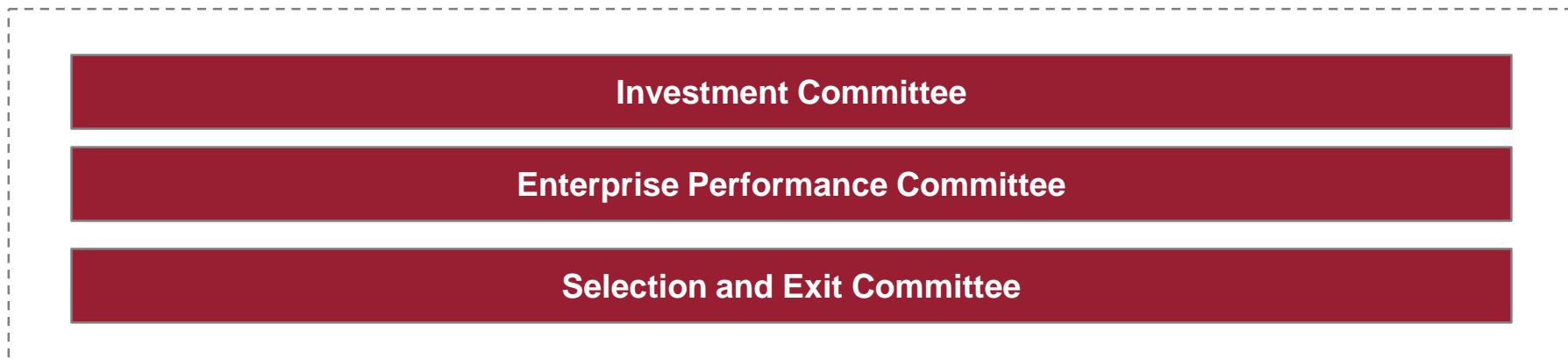
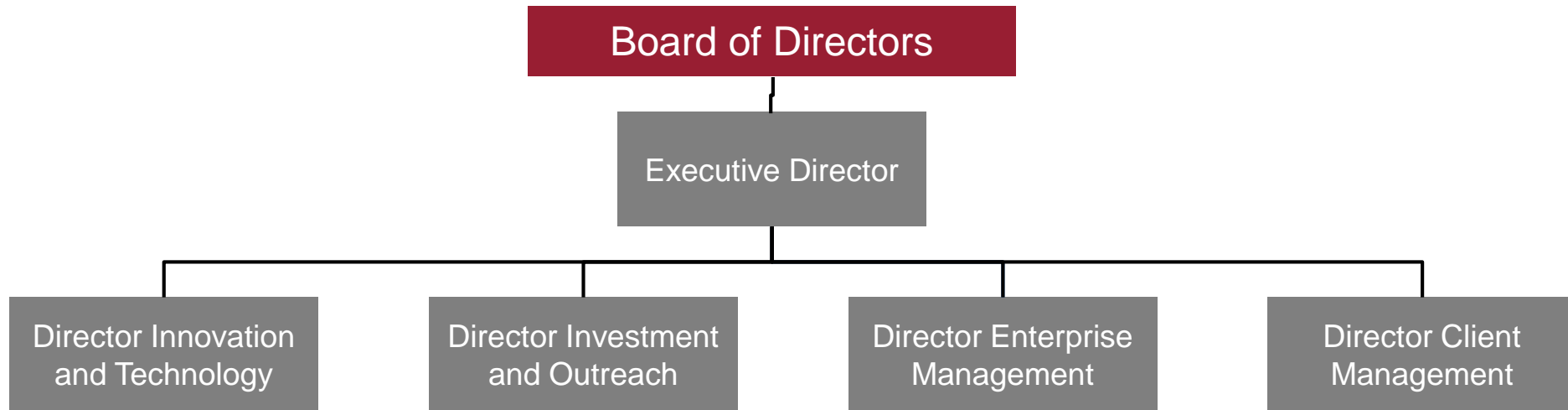
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<b>WSU Incubator Investment Income</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 213,750</b>	<b>\$ 613,750</b>	<b>\$ 1,565,000</b>

**Cumulative 5 Year WSU Incubator Return** **\$ 2,442,500**

- Preliminary Proforma projections based on diversified portfolio of incubated companies across three stages of maturity
- Operating revenue composed of Rental Income and Business Support Services
- Investment summary considers exit + royalty stream from invested assets



## Organizational Model



May include individuals from outside groups along areas of expertise



**END**