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Testimony on House Bill No. 2045
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Dear Chairman Tarwater, Vice Chairman Long, Ranking Minority Member Clayton and Members of the Committee,

Thank you for the opportunity to testify in support of renewal of Kansas Angel Investment Tax Credit Program. In 2015, the Kauffman Foundation released a report titled “The Importance of Young Firms for Economic Growth”. Using Census Bureau statistics, the authors showed that new businesses account for nearly all net new job creation in the US. Unfortunately, the report also showed that new business startup activity has been declining nationally over the last four decades, indicating a long-term problem for US economic growth, which has been further exacerbated by the loss of nearly 30% of all small businesses in the US in 2020 during the COVID-19 pandemic. In these challenging economic times, Americans have responded with grit and resiliency, pushing new business applications up more than 40% over 2019, according to the US Census Bureau. As the Kauffman Foundation report showed, some of these new and innovative businesses are likely to grow rapidly, producing new jobs and economic growth. The Kauffman report also highlighted how state laws can affect an individual’s ability to start a high-potential new business, and how policymakers at the state level can help create an environment more conducive to new business formation and growth.

I grew up in Franklin County, went to the University of Kansas as an undergraduate, and attended the University of Kansas Medical School. I then trained as an interventional radiologist at Johns Hopkins Hospital and in 2000 I came back home and have founded several life sciences companies in Kansas making new medical devices and drugs for the treatment of patients with kidney failure, stroke, and cancer with the potential to save lives and generate billions of dollars in global sales. God and the FDA willing, we are planning to launch our first commercial product in 2021 and transition from a research and development company to a commercial company making new products available to physicians and patients worldwide. We are also currently working on a new 50,000 square feet headquarters and manufacturing facility that we are planning to build in Kansas.

Looking back, building these companies has been a long, hard effort. As most entrepreneurs running early stage, high growth potential firms will tell you, raising capital is the single most important factor in determining

success or failure. Thankfully, we have had the support of the Kansas Legislature and the Kansas Department of Commerce, through the Kansas Angel Investor Tax Credit Program. Absent that, I don't think our companies would have survived passage through the "valley of death" that life sciences firms often travel on the way to rapid growth and profitability. Most of our investors made their personal decision to invest, in part, on knowing that some of that risk would be mitigated by the State of Kansas through the KAITC program. While Kansas citizens and taxpayers gain tremendously from the jobs and economic growth created by rapidly growing companies like Garmin, Cerner and Koch, it is the earliest investors in these companies that bore the majority of the risk in getting them started. The KAITC program steps into that breach, mitigating some of the risk and providing incentives for these individual investors to use their savings to help drive the growth of these high potential firms.

I would like to highlight two things about the KAITC program that I believe make it special. First, it broadens opportunity for Kansans. Having grown up in rural Kansas with limited access to capital, the program helps me to compete and win in the global economy. Second, the KAITC program is extraordinarily efficient. Despite a small staff and low administrative costs, the program provides \$6M of support each year to dozens of high growth potential new businesses. Rather than building a bureaucracy to source and evaluate new investment opportunities, make investments, and manage an investment portfolio (as many states have), the KAITC program provides resources alongside private investors that are making market-based decisions with their own capital. In this way, the KAITC program helps new businesses grow in a very efficient way, while leaving the job of picking winners and losers to the market. Also, when firms supported by the KAITC program are successful in raising capital, they feel good about the help they received from the State of Kansas. When these firms are not successful in raising capital, they generally appreciate the offer of help they received and tend to own the failure themselves.

In closing, I would say that if the House, Senate, and Governor do not support the renewal of the KAITC program they may be able to "book" some savings in the next few years but the net effect of lost economic growth and tax revenue over time may be much, much larger.

Thank you very much for your time and attention.

Sincerely,



F. Nicholas Franano, MD
President and CEO, Artio Medical, Inc.