

HOUSE BILL NO. 2689 KANSAS ANGEL INVESTOR TAX CREDIT PROGRAM

Oral Testimony for February 20, 2020
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I am Tammie Wahaus, CEO of ELIAS Animal Health, LLC (“ELIAS”). ELIAS has developed a novel immunotherapy for the treatment of cancer in companion animals, primarily dogs. It is beginning to commercialize its treatment, particularly in osteosarcoma, a cancer that has had poor outcomes from the historical treatment of surgery and chemotherapy. ELIAS is achieving better results in both length of survival and quality of life for dogs and their owners. In addition, ELIAS is beginning clinical trials in other cancers to demonstrate that our product has the potential to be effective as a treatment for many cancer types. ELIAS has benefited from the KAITC program as it has raised significant angel capital since 2015 and looks forward to not only the extension but also the improvements in the program that are included in House Bill No. 2869.

The Kansas Angel Investment Tax Credit (“KAITC” or “Tax Credit”) program is an important tool to grow the Kansas economy through the creation of jobs and businesses. Small businesses create most of the new jobs in any economy. The KAITC program helps remove barriers to capital access that is critical to create new companies and jobs. Angel investors in Kansas continue to be the most prevalent, non-institutional source of early stage funding needed to start and continue to grow these businesses. Although the existing KAITC program has been successful, there have been some barriers to maximizing the effect of the program. Several of these barriers are either removed or lessened by House Bill No. 2689.

Some benefits of the changes to be provided by House Bill No. 2689 include the following:

1. Extension of the program through 2026 and increasing the dollar amount of tax credits in future years will allow both companies and angel investors to create a longer-term strategy for raising capital and making investments than if the program were to expire after 2021.
2. ELIAS, like many early stage Kansas companies, has supportive and committed investors that are able to invest more dollars in the company as a result of the availability of tax credits but they are limited to an annual maximum of \$50,000 of credits for a \$100,000 investment. Increasing the annual amount to \$100,000 of credits per company

investment will make it more likely that an investor will invest more in a particular year. Thus, the company is likely to be able to raise more capital to accelerate its business plan and the creation of additional jobs.

3. ELIAS has a Kansas resident investor that has invested in every round of capital raise since 2015 and has invested in other Kansas companies that have had tax credits available. As a result, he has accumulated many more tax credits than he can use on his Kansas individual income tax return in a single year. He can carry over the credits for use on his Kansas tax returns in future years but it is likely to take many years to use all of his credits, particularly if he continues to invest in ELIAS and other companies that have tax credits. Under current rules, he cannot sell any of his tax credits which could be done if he was not a Kansas resident. Thus, investors that do not live in Kansas have an advantage over Kansas residents in that they can sell their credits if they have no Kansas income tax for the prior three years and do not expect to have any this year. This Kansas resident angel investor is concerned that he might not live long enough to use all his accumulated credits, which currently cannot be inherited by his heirs. Thus, this investor in ELIAS and similar investors are reluctant to make more investments and add to accumulated credits that might not be used for a long time or not ever used. A change in House Bill No. 2689 will allow this and similarly situated investors to sell new credits that are obtained from new investments in ELIAS and other companies that have tax credits. The benefit of this change is obvious and will generate more investments in Kansas companies.

In summary, the KAITC program plays an important role in the decision-making process of investors who are choosing between many exciting investment opportunities. Startups are high risk investments for investors and the incentive provided by the KAITC program is a key element in attracting the investment dollars that will grow and sustain the startup community in Kansas. This program has successfully helped put more than \$7 million of investment capital to work in Kansas with ELIAS Animal Health to develop a better cancer treatment with applicability not only to companion animals, but importantly, has the translational capability to become a better cancer treatment for humans. Approximately one-third of that \$7 million was raised from accredited investors who reside in Kansas and two-thirds of was raised from accredited investors residing outside of the Great State of Kansas. When our cancer product is fully commercialized, ELIAS is projecting to generate more than \$125 million in revenue from products that will be primarily exported to the other 50 United States and Canada. Without the support of investors, we couldn't achieve our goal of providing a safe, more effective cancer treatment to the veterinary sector and changing the way that cancer is fundamentally treated. And in the process of achieving that goal, we can expand the Kansas economy by putting critical investment dollars to work in Kansas and growing a successful business.