



# 2012

**BUILDING MICHIGAN'S  
VIBRANT FUTURE**

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Dear Friends:

Michigan is once again on the radar of global innovators as a place where high-tech businesses can thrive. The Michigan Venture Capital Association and its members deserve much credit for our state's newfound reputation.

Thanks to some of the best talent in the world and an ecosystem that promotes success, companies of all sizes, but especially early to mid-stage ventures, are staking claim in Michigan.

Investors recognize these assets are unique to Michigan. They are eager to help businesses grow in the state.

Access to capital is a fundamental driver in our state's reinvention. Capital is what propels a business from idea to start-up, from start-up to commercialization, from commercialization to hiring leaders and talent.

While we are moving in the right direction, there's still much to do. The commitment of organizations like the Michigan Venture Capital Association ensures our success in growing Michigan businesses and attracting new ones here. With your support, we will continue to write the best comeback story in America.

Again, thank you to the Michigan Venture Capital Association for all you are doing to help us build a stronger state and brighter future.

Sincerely,

A handwritten signature in black ink, which appears to read "Rick Snyder". The signature is fluid and cursive.

Rick Snyder  
Governor

## EXECUTIVE SUMMARY

Venture capital activity in 2012 demonstrated that Michigan is a destination where entrepreneurs and those that back them are thriving; in fact, this year, Michigan jumped from 25th to 15th in the national venture capital ranking.

Contrary to the national trend of declining venture capital activity, in Michigan, there was consistent, steady growth in capital investment, venture capital firms and number of investment professionals.

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The deep commitment to Michigan's future is beginning to yield results. Michigan VCs invested more than \$242 million in 2012.

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Bucking the national trend shows that the efforts to change the economy in Michigan are working. People and organizations across all sectors—public, private, education, government—are committed to reinventing the state's economy.

The entrepreneurial ecosystem here is providing stable support for businesses from inception to exit. Business accelerators across the state are connecting these start-ups to critical resources, from business planning to investment. Economic development organizations at the state and local level are meeting the needs of these entrepreneurs through targeted educational programs and mentoring. Individuals are committed to sharing their expertise with fellow entrepreneurs and are building a culture of innovation in Michigan.



This combination of ecosystem and capital is the foundation on which Michigan's growing number of serial entrepreneurs are building their businesses. These fearless leaders are jumping in to start-ups in Michigan time and again, creating a culture of risk-taking and innovation. These serial entrepreneurs are key to building confidence in investors and fellow entrepreneurs to believe that Michigan has everything a business needs to startup, grow and thrive.

Start-ups and growing companies across Michigan are providing venture capitalists ample opportunities to invest in a promising business. More investors and entrepreneurs are choosing Michigan time and again, creating a solid foundation for economic growth for years to come. ■



# Ten Years of Creating and Sustaining a Vibrant Venture Capital Community in Michigan

The Michigan Venture Capital Association (MVCA) is a trade organization that was formed in 2002 to create a concerted voice for Michigan's growing venture capital industry. MVCA members include private venture capital firms, corporate venture capital firms, angel investor groups, industry service providers, economic development and entrepreneurial organizations and universities. Today, the MVCA has nearly 250 individual members and firms, and continues to provide value to the industry through its voice and activities.

Our vision states that in the year 2016, Michigan will have:

1. Abundant and accessible capital
2. Abundant and accessible entrepreneurial management talent
3. Many successful companies that have been financed by venture capital funds and angel groups residing in Michigan and by venture capital funds which reside elsewhere
4. Many successful Michigan-based venture capital funds that invest both in Michigan and nationally, as well as angel groups that invest in Michigan
5. Both venture and angel capital communities playing a meaningful role in Michigan's revitalization
6. A reputation as a nationally known top venture capital location
7. Resounding and consistent voice of venture capital, angel capital and entrepreneurs in the state of Michigan



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# THE BIG PICTURE

*How Venture Capital in Michigan Compares Nationally*



## VENTURE CAPITAL: SUMMARY STATISTICS

### NATIONAL VENTURE CAPITAL SUMMARY STATISTICS

	2012	2011	2010	2009	2008
# of VC Firms in Existence	841	842	791	794	882
# of Investment Professionals	5,887	6,125	6,328	6,828	7,497
Total Capital Under Management	\$199B	\$197B	\$177B	\$179B	\$258B
Avg. Venture Capital Under Management by Firm	\$237M	\$234M	\$223M	\$226M	\$224M
Venture Capital Funds Raised	\$20B	\$19B	\$12B	\$15B	\$28B
Avg. Venture Capital Fund Size	\$111M	\$111M	\$108M	\$106M	\$144M

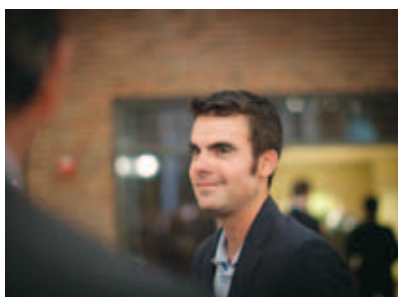
SOURCE: NVCA

### MICHIGAN VENTURE CAPITAL SUMMARY STATISTICS

	2012	2011	2010	2009	2008
# of VC Firms in Existence	20	20	19	16	15
# of Investment Professionals	62	60	53	44	43
Total Capital Under Management	\$1.5B	\$1.5B	\$1.2B	\$1.1B	\$1B
Avg. Venture Capital Under Management by Firm	\$75M	\$75M	\$74M	\$76M	\$73M
Venture Capital Funds Raised	\$15M	\$181M	\$40M	\$136M	\$173M
Avg. Venture Capital Fund Size	\$43M	\$41M	\$40M	\$39M	\$38M

SOURCE: MVCA, Data represents venture firms headquartered in Michigan.

Michigan continued to experience slow, but steady growth in venture capital in 2012. This is promising given venture capital on a national level continues to experience overall consolidation, with no growth in the number of venture capital firms and a decrease in investment professionals.



- As the numbers of investment professionals continued to decrease nationwide, in Michigan the growth trend continued in 2012. The average venture capital fund size in Michigan was similar to the national steady trend.
- After a record year for fundraising in 2011, Michigan saw a fall in fundraising in 2012. While this decline is notable, it is emblematic of the decline in fundraising occurring nationwide.

# NATIONAL AND MICHIGAN VENTURE CAPITAL

## A TIERED VIEW OF 2012 VENTURE CAPITAL INVESTMENT BY STATE

	STATE	RANK	YEAR OVER YEAR RANK CHANGE	NUMBER OF DEALS	AMOUNT INVESTED
TIER 1 \$1 BILLION+	California	1	0	1,521	\$14,089M
	Massachusetts	2	0	410	\$3,034M
	New York	3	0	331	\$1,853M
TIER 2 \$500M- \$1B	Washington	4	4	117	\$932M
	Texas	5	-1	153	\$924M
	Colorado	6	0	99	\$560M
	Illinois	7	-2	82	\$540M
	Pennsylvania	8	2	182	\$519M
TIER 3 \$250M- \$500M	New Jersey	9	0	54	\$429M
	Virginia	10	-3	81	\$375M
	Utah	11	7	43	\$304M
	Ohio	12	7	61	\$289M
	Maryland	13	1	54	\$276M
TIER 4 \$100M- \$250M	Michigan	15	10	47	\$232M
	Minnesota	16	-1	27	\$226M
	Arizona	17	-1	15	\$212M
	Florida	18	-5	34	\$203M
	North Carolina	19	-7	35	\$169M
TIER 5 0M- \$100M	Wisconsin	23	3	13	\$95M
	Indiana	25	-5	17	\$84M
	Kansas	27	0	10	\$46M

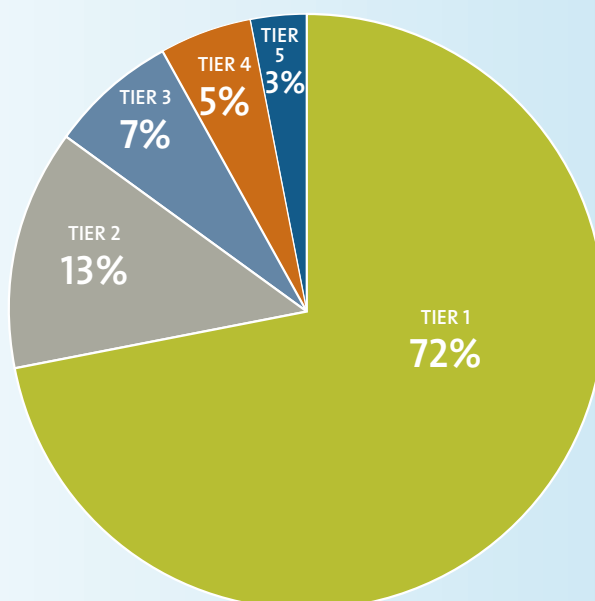
Source: NVCA

- In 2012, total national venture capital investment was \$26.5 billion in 3,698 deals. This represents a decrease of 10 percent in dollars and a 6 percent decline in deals over the prior year, according to the Money Tree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association based on data from Thomson Reuters.
- 72 percent of the national venture investment was in states that have a billion dollars or more in annual investments.
- Of states that have had increase in venture funding, Michigan has had one of the largest increases in ranks, moving up by 10 points to rank 15 from rank 25 from the prior year. Utah and Ohio also saw their ranking go up by 7 points. North Carolina, Florida and Indiana saw a drop in national ranking.
- More comprehensive data collection by the MVCA shows that the total investment in Michigan is \$242 million dollars in 33 companies. This data will be used throughout the remainder of the report.

The 2012 national venture capital association data displays Michigan moving up by 10 places from number 25 to number 15 on national rank. Investment has increased from \$82 million to about \$232 million, placing Michigan within the top 15 states for national venture investment.



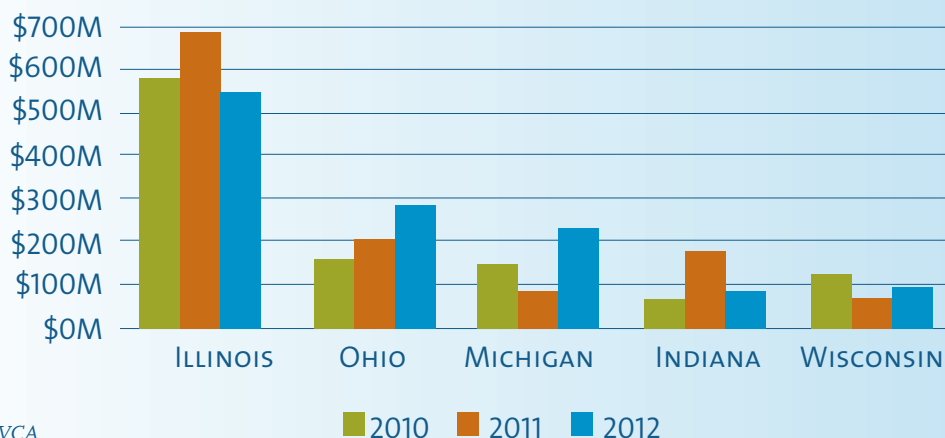
NATIONAL VENTURE CAPITAL INVESTMENT  
TIERS BY PERCENTAGE



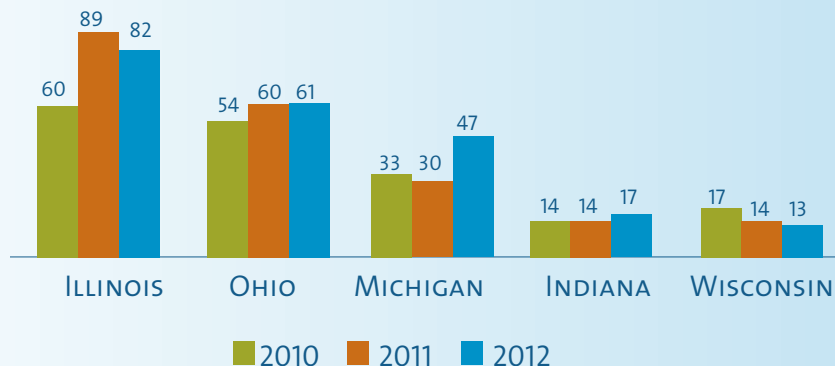
## MIDWEST VENTURE CAPITAL

Venture capital investment in the Midwest has remained relatively stable over the last three years, proving that the region offers a solid pipeline of deals that is attractive to investors and entrepreneurs alike. The data shows a consistent volume for both dollars invested and the number of deals, with some states, including Michigan, showing an increase in both of these metrics from 2011.

### MIDWEST VENTURE CAPITAL BY DOLLARS INVESTED



### MIDWEST VENTURE CAPITAL BY # OF DEALS

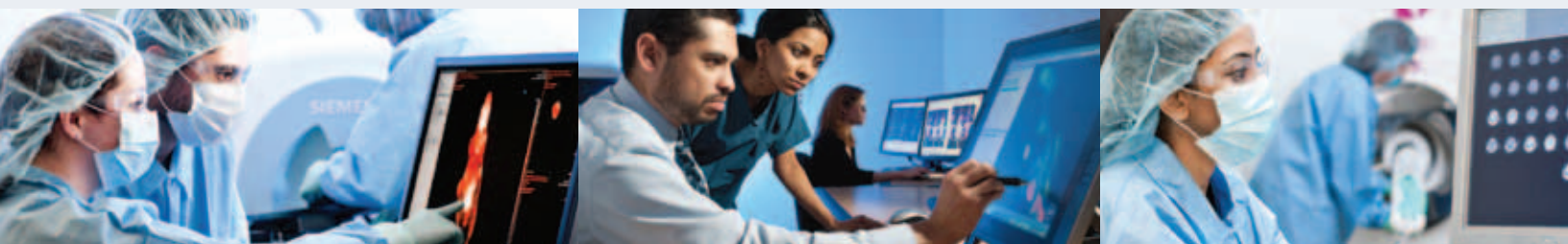


- In 2012, total venture capital invested across the Midwest was \$1.4B. This was about 5 percent of the total venture capital invested nationally. Contrary to the national trend of declining investment totals, investment in the Midwest, as a region, has remained steady.
- From 2011 to 2012, the number of VC deals across the Midwest remained consistent. Illinois continued to lead the region in terms of both number of venture capital deals and total venture capital dollars invested.



## SPOTLIGHT

# MOLECULAR IMAGING



Translating preclinical research conducted on small animals into therapies and cures for human diseases is a relatively new but growing part of the \$15 billion global pharmaceutical research market. Believed to be the only contract research organization (CRO) dedicated to small animal imaging capabilities, Molecular Imaging Inc.'s broad range of imaging modalities allows for anatomical as well as functional views of treatment and disease progression, providing more precise and robust measurements. Tom Ludlam, CEO of Molecular Imaging, says this gives his clients new capabilities. "Our technologies allow access to unique, quantitative and predictive biomarkers and end points that improve drug research, compared with reliance on traditional methods only. They allow bio-tech and pharmaceutical researchers to assess bio-distribution, safety and effectiveness of a drug or biologic earlier, faster and more accurately, contributing to a more effective R&D process."



**Molecular Imaging™**  
Your science. Our focus.™

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"We're pushing the limits of discovery beyond where we were even a few years ago, so we're energized by how fast the market is growing and our contributions to that expansion."

---

Molecular Imaging (originally known as Molecular Imaging Research) was the vision of researchers at the University of Michigan. The company was founded in 2003 and was later acquired by CRO conglomerate Charles River. Facing consolidation and relocation to the East Coast, Molecular Imaging management assembled a national syndicate of investors, including Chicago-based Baird Ventures and New York firm Arcus Ventures, who were joined by Michigan's Beringea in 2012 for an oversubscribed \$9.9 million Series A funding round. The investment

kept Molecular Imaging in Ann Arbor, facilitating the company's exit from Charles River and supporting ongoing working capital and investment needs in the business. Molecular Imaging President/CEO Tom Ludlam believes the company is poised for solid growth in 2013.

"This market is nascent, as researchers gain comfort with the application of small animal in vivo imaging and the power of the derived information. We're pushing the limits of discovery beyond where we were even a few years ago, so we're energized by how fast the market is growing and our contributions to that expansion," said Ludlam. "In 2012, we more than tripled revenue over our inaugural year 2011 run rate. In 2013, we expect to roughly double our prior year revenue and expand imaging applications to new disease areas, which is exciting." ■



# FOCUS ON MICHIGAN

*An in-depth look at Michigan's Venture Capital Firms*



## MICHIGAN'S VENTURE CAPITAL FIRMS

There are a total of 29 private venture firms operating in Michigan. Twenty are headquartered in Michigan and the other nine are headquartered elsewhere with a Michigan office. There are also two fund of funds and three corporate venture funds in Michigan. Together all of these firms have a total of 81 investment professionals located in Michigan.

### Venture Capital Firms Headquartered in Michigan

Apjohn Ventures	EDF Ventures	North Coast Technology Investors
Arbor Partners	Fontinalis Partners	Plymouth Ventures
Arboretum Ventures	GM Ventures*	Resonant Venture Partners
Augment Ventures	Hopen Life Sciences	RPM Ventures
Beringea	Huron River Ventures	Seneca Partners
BioStar Ventures	Life-Line Ventures*	TGap Ventures
Detroit Venture Partners	Ludlow Ventures	Wolverine Venture Fund
Dow Ventures*	Michigan Accelerator Fund	

\*Corporate venture capital

### Out-of-State Venture Capital Firms with Michigan Presence

Arsenal Venture Partners	MK Capital
Chrysalis Ventures	Nth Power
Early Stage Partners	Open Prairie Ventures
Flagship Ventures	Venture Investors
Fletcher Spaght Ventures	

### Michigan-Based Venture Capital Fund of Funds

Renaissance Venture Capital Fund
Venture Michigan Fund

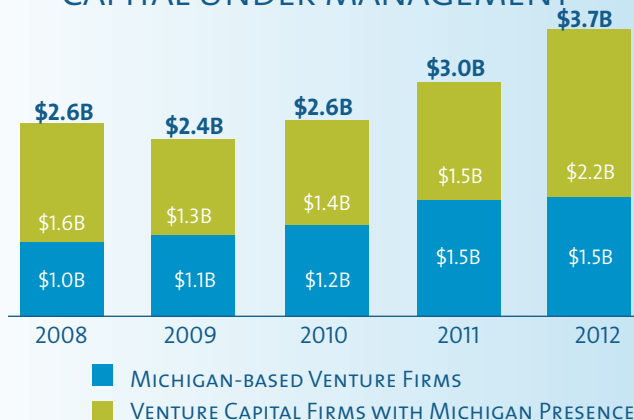


## TOTAL CAPITAL

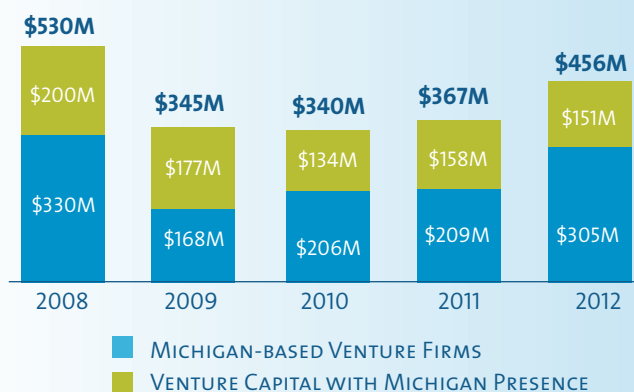
Venture capital under management among firms headquartered in Michigan has increased nearly 50 percent since 2008. As the opportunity for investment in Michigan increases, out-of-state funds are growing their presence in Michigan. Almost \$460 million is available for new investment opportunities within and outside Michigan.

- Total venture capital under management in Michigan came in at \$3.7 billion in 2012; an increase of \$700 million from 2011. This growth has primarily come from out-of-state funds opening offices in Michigan to tap into Michigan's growing deal flow.
- Available capital for new investments has increased nearly 25 percent to \$456 million since 2011. This capital is available for new investment opportunities across all stages, industry sectors, and geographical regions.
- Approximately \$160 million in capital under management is reserved for follow-on financings for Michigan-based portfolio companies. However, MVCA survey respondents estimated actual follow-on demand in the state over the next several years is approximately \$507 million. This indicates a need to continue efforts to increase capital sources in Michigan.

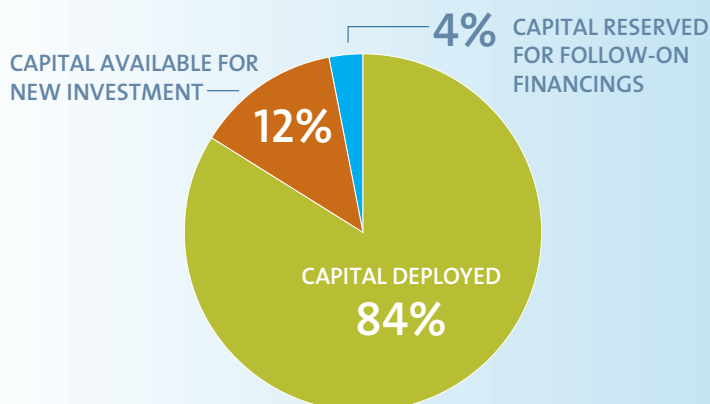
### CAPITAL UNDER MANAGEMENT



### CAPITAL AVAILABLE FOR NEW INVESTMENT



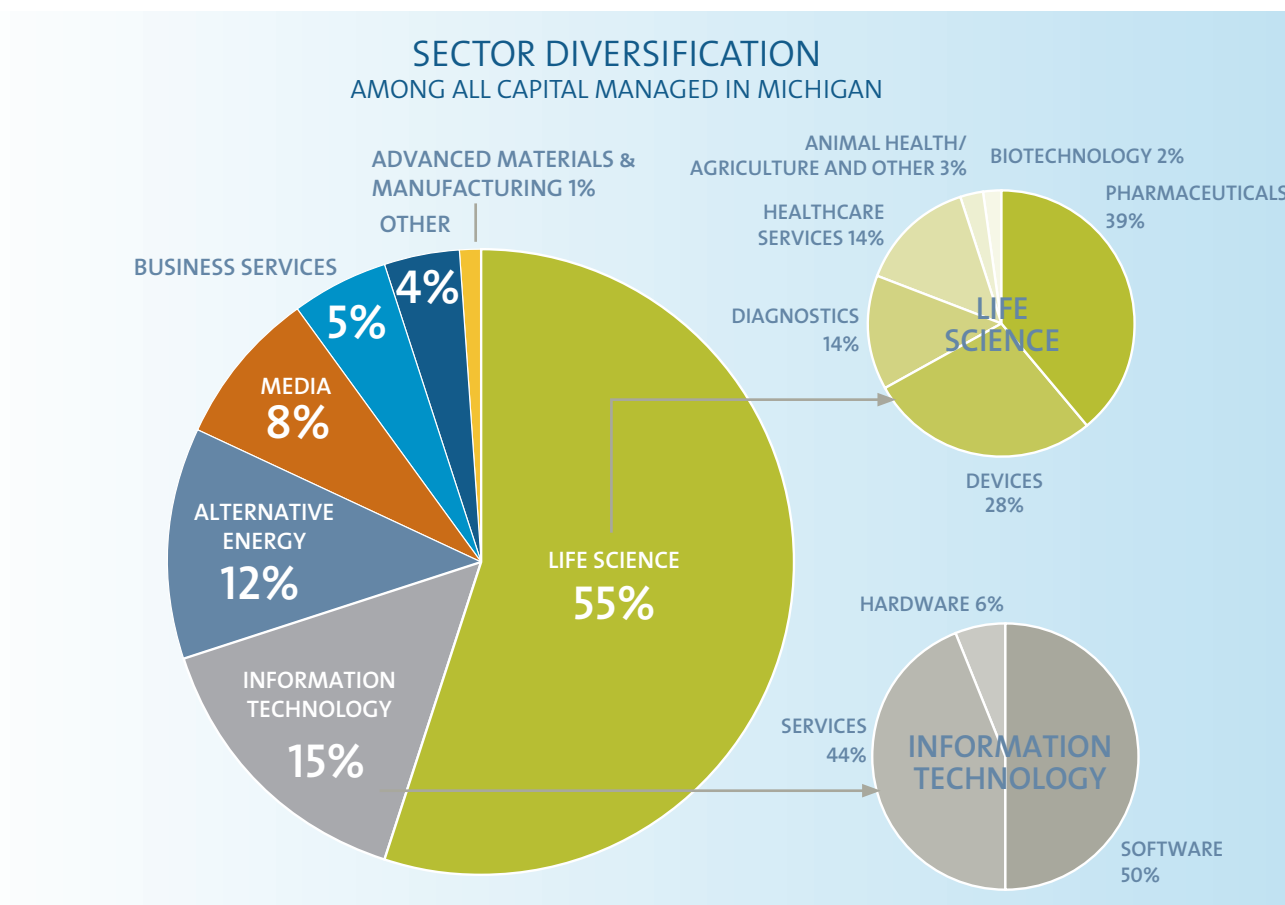
### CAPITAL UNDER MANAGEMENT BREAKDOWN



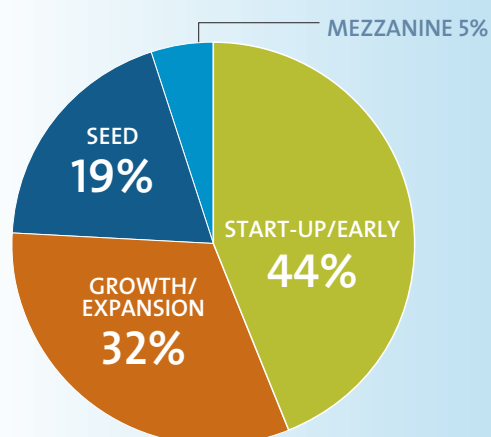


## SECTOR AND STAGE DIVERSIFICATION

Michigan's expanding venture capital community is increasing the diversity of investments by the type of start-up and stage it is in. This diversification is an indication of the robust nature of investment opportunities available in Michigan, and points to the potential for continued expansion of venture capital in the state.



### STAGE DIVERSIFICATION BY DOLLARS INVESTED



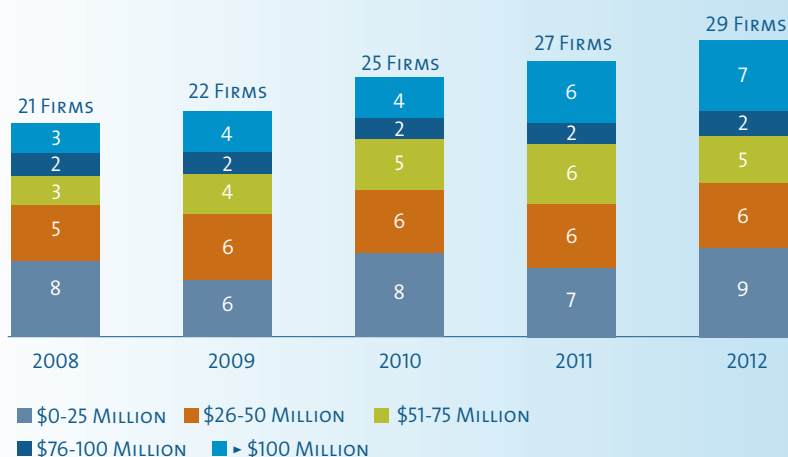
- While Michigan venture funds are investing across a breadth of all the sectors, the life science category continues to account for more than half of all venture fund investments in the state.
- Pharmaceuticals and medical devices account for nearly three quarters of all life science investments in Michigan.
- The information technology sector remains the second largest sector for investments overall. It is dominated by investments in software companies and IT services.
- Investments at various stages are becoming more evenly spread, with growth and seed funding showing significant increases from 2011 to 2012 and mezzanine funding holding steady. Despite an 11 percent decrease in 2012, investments in start-up and early stage companies continue to be the focus of Michigan venture firms.

## VENTURE CAPITAL FUNDRAISING

Michigan is continuing to see significant developments in number and size of funds. This is necessary to support the growth of our entrepreneurial economy and start-up companies.

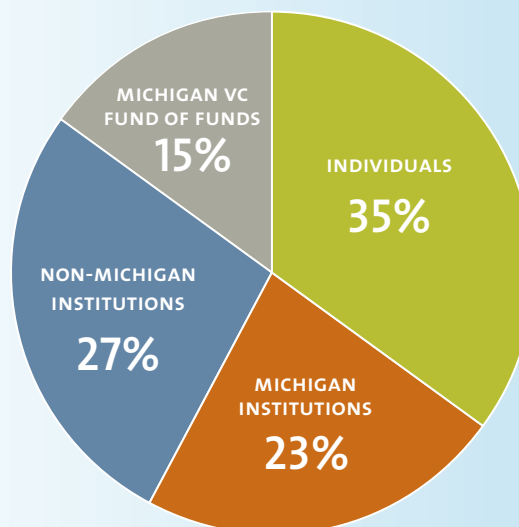
- In 2012, Michigan headquartered firms managed 35 capital funds and out of state venture firms with a Michigan office managed 18. Together these funds had over 405 active portfolio companies, an increase of 20 percent over 2011.
- The average venture capital fund size among Michigan-based firms is \$43 million and \$71 million among all funds headquartered or with an office in the state, which is a modest increase in capital over the prior year.
- Michigan venture firms' capital fund sizes increased over the past four years. In every capital category, Michigan venture firms were either consistent or increased over time. Most notably, there are seven funds greater than \$100 million operating in Michigan.
- The MVCA survey response indicates that nearly one-third of capital funds are sourced from high net-worth individuals, one-fourth from non-Michigan institutions and the remaining from Michigan-based institutions and Michigan fund of funds.
- There are currently eight venture firms in Michigan that are raising first-time funds, while another three are raising second, third or fourth funds.

### DISTRIBUTION OF MICHIGAN VENTURE CAPITAL FUND SIZES



### SOURCE OF CAPITAL FOR MICHIGAN VENTURE CAPITAL FUNDS

#### LATEST FUNDS



## SPOTLIGHT

# RENAISSANCE VENTURE FUND

With a relatively late start, Michigan's venture capital community spent the early 2000s playing catch up to the leaders of the national venture scene, not redefining it. But the 2008 creation of Michigan's first private venture capital fund of funds was so revolutionary it made waves that continue to reverberate around the country, and established our region as model for innovative venture fund creation.

Formed in association with Business Leaders for Michigan and with the backing of some of Michigan's largest corporations, the \$45 million Renaissance Venture Capital Fund I was hailed as a new model for fundraising. The private sector could improve on the long-used public economic development model, using a fund of funds vehicle to earn strong returns, increase venture capital activity in a region and improve the portfolio's chance of success by giving young companies invaluable direct access to their largest potential customers in the state—the Fund's investors.

Renaissance Venture Capital Fund CEO and fund manager Chris Rizik describes these kinds of connections as “make or break” for some of the start-ups in his fund's portfolio, allowing them to gain market traction quickly. “Venture fund managers do a great job of vetting technology but the difficult piece is validating in the market—is there a customer base out there, and can we bring in a significant customer quickly? With Renaissance Venture Capital Fund, we're actually introducing the market to the start-ups. If we find an interesting investment in the energy space, for instance, we're one phone call away from DTE Energy. A first or second customer of that size and profile can mean the difference between a slow climb or a quick ascension into viability.”

The success of Renaissance I led to the \$65 million Renaissance Venture Capital Fund II in 2012. The investors include a base of returning institutions as well as new additions like prominent Michigan businesses Meijer Inc. and La-Z-Boy; the first university to invest, Wayne State University; and three influential Michigan foundations: the Herbert H. and Grace A. Dow Foundation, the W.K. Kellogg Foundation and the McGregor Fund. Rizik



says expanding the investor profile was always the intention of the Fund's organizers. “The hope was to make this more than just a corporate-backed fund, involving Michigan institutions that represent many different stakeholders. Fund I proved that a privately-backed fund of funds model could achieve regional impact while achieving solid financial performance for investors, so we were thrilled to widen the opportunity with Fund II.”

Rizik and partner Jeff Rinvelt credit recent strong returns and exits in Michigan for the Funds' robust deal flow from all over the country, and Rizik says the Funds have doubled original targets for investment dollars attracted into the state. In fact, the Renaissance Venture Capital Fund model has been so successful that leaders around the country have sought out Renaissance and its team to help replicate the model in their region.

“Cincinnati was a region facing many of the same issues we had in Michigan. Led by executives from Procter & Gamble, a group there commissioned a McKinsey Consultants' study that suggested they replicate the Renaissance Venture Capital Fund model,” said Rizik. The managers of the resulting fund, called Cintrifuse, asked Rizik to sit on the advisory board and share best practices.

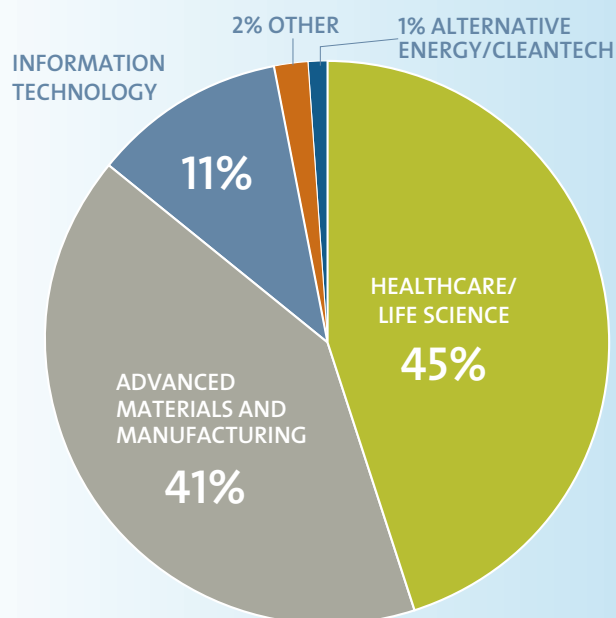
“We've helped Cintrifuse, and others who are also attempting to copy our model, because we feel it's good for us to have complementary regional fund of funds. And because we know this is a model that can make a huge difference to a geographic region that really needs it—we've seen it happen first-hand in Michigan.” ■

## 2012 FINANCINGS

Over 33 companies in Michigan have received more than \$242 million in venture capital funding in 2012.

- Thirteen new start-ups have received venture capital funding for the first time in 2012.
- Advanced materials and manufacturing venture investment has increased by \$100 million to \$113 million over 2011, driven by a few large financings. Information technology venture investment has increased by almost 20 percent, reaching a total of \$21 million in 2012.
- The life science and alternative energy sectors saw a small decrease from 2011.

2012 FINANCINGS BY INDUSTRY SECTOR  
BY DOLLARS OF INVESTMENT



### FUNDED IN 2012

#### LIFE SCIENCE COMPANIES

Ablative Solutions  
Atterocor\*  
Axonia  
Discera  
Metabolic Solutions  
Molecular Imaging  
Monteris Medical  
nanoRETE  
ProNAi Therapeutics  
Swift Biosciences  
Tangent Medical  
Tolera Therapeutics  
Vestaron

#### INFORMATION TECHNOLOGY COMPANIES

Amplifinity  
CloudAccess.Net\*  
Duo Security  
Farmlogs\*  
JobApp Network\*  
Quikkly\*  
LevelEleven\*  
Livio  
LLamasoft\*  
MBR Intentional Marketing\*  
Stik\*

#### ADVANCED MATERIALS & MANUFACTURING COMPANIES

EcoMotors  
Fusion Coolant Systems\*  
OptoAtmopsherics\*  
Protean Electric\*  
Relume

#### ALTERNATIVE ENERGY AND OTHER COMPANIES

Abe's Market\*  
Accio Energy

\* Companies receiving venture capital investment for the first time.





## SPOTLIGHT

# LLAMASOFT

With a “who’s who” customer list of the world’s largest businesses, Ann Arbor-based LLamasoft was already the established leader in advanced supply chain design technology and solutions when they approached the venture capital community in 2012. But LLamasoft founders Don Hicks and Toby Brzoznowski thought the timing was right for financing.

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“Even though it was the company’s first venture financing, this was a fully developed business in a space with good growth dynamics—a very attractive investment for us for many reasons.”

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“LLamasoft’s deep commitment to innovation and strong customer satisfaction were a major factor,” said Hicks. “We looked at our expansion plans for enterprise, cloud and mobile platforms, and felt we could better serve our customers by building out the technology in parallel paths.” Brzoznowski added, “We knew financing would enable us to better leverage our leadership position and capture market share at an accelerated pace through expanded sales and marketing coverage.”

LLamasoft board member Josh Beebe says the company was an ideal growth stage investment opportunity for his firm, MK Capital. “Even though it was the company’s first venture financing, this was a fully developed business in a space with good growth dynamics—a very attractive investment for us for many reasons. The co-founders are still with the business and have assembled a strong core management team with deep technical and domain expertise. And we believe that the growth dynamics for advanced supply chain design solutions will remain very favorable due to increasing supply chain complexity among other factors, driving a corresponding increase in the velocity of supply chain design and optimization initiatives,” said Beebe.

LLamasoft designs software and technology focused on continuous improvement of enterprise supply chains for the world’s largest organizations. In October 2012, LLamasoft closed its first institutional funding round with Michigan venture capital firms MK Capital, First Step Fund and Augment Ventures, along with Nike Corp. The company will use the capital to fund research and development and support the infrastructure needed to continue on their long-term growth trajectory. ■

# MICHIGAN'S VENTURE CAPITAL-BACKED COMPANIES

**MARQUETTE**  
Pioneer Surgical  
Company

## ANN ARBOR AREA

Accio Energy, Accord Biomaterials, Amplifinity, ArborMetrix, Attercor, Cerenis Therapeutics, CytoPherx, Discera, Duo Security, EcoDuro, Esperion Therapeutics, FarmLogs, ForeSee Results, Fusion Coolant Systems, Gema Diagnostics, HistoSonics, Hygieia, InterLink Networks, InTouch Health, Janeeva, Life Magnetics, LLamasoft, Lycera, MaxFunds.com, Molecular Imaging Research, MyBuys, NanoBio, Nanocerox, Nematron, Nymirum, OptoAtmospherics, OtoMedicine, OWN Point of Sale, Quantum Learning Technologies, ReCellular, Rubicon Genomics, Sakti3, Shepherd Intelligent Systems, Solidica, Swift BioSciences, Tangent Medical Devices, Tissue Regeneration Systems, Translume, Deepfield Networks

★ **TRAVERSE CITY**  
Abe's Market  
CloudAccess.net

**MIDLAND**  
Advanced Battery Concepts  
Fulcrum Composites

## DETROIT/ METRO AREA

Are You a Human, Beyond Gaming, CMS Technologies, Critical Signal Technologies, Danotek Motion Technologies, Delphinus Medical Technologies, DetroitLabs, EcoMotors International, Flud, gloStream, GuidePoint Systems, Gumshoe, Hired My Way, iBiquity Digital, JobApp Plus, LevelEleven, Limo-Reid, Livio Radio, MIST Innovations, Outside Hub, Plex Systems, ProNAi, Protean Electric, Quikky, Relume Technologies, Shertrack, Shopwithit, Stik, TAG A&D, Unitask, UpTo, Weathershield, Workforce Software, viSole

★ **LANSING/JACKSON AREA**  
Draths Corporation  
IDV Solutions  
NanoRETE

## WESTERN MICHIGAN

Ablative Solutions, Axonia, InforMed, Intervention Insights, Lynx, MedElite, Metabolic Solutions Development, Micro Machine Company, Monteris Medical, Mophie, NephRX, Performance Fabrics, Ranir, RealBio Technology, Tolera Therapeutics, Transcorp, Vestaron, Xanitos

#### ADVANCED MATERIALS & MANUFACTURING, ALTERNATIVE ENERGY

Accio Energy  
Advanced Battery Concepts  
Danotek Motion Technologies  
Eagle Rotary  
EcoDuro  
EcoMotors International  
Fulcrum Composites  
Fusion Coolant Systems  
Nanocerox  
NRG Dynamix  
OptoAtmospherics  
Performance Fabrics  
Protean Electric  
Relume Technologies  
Sakti3  
TAG A&D  
viSole  
Weathershield

#### CONSUMER PRODUCTS & OTHER

Abe's Market  
Discera  
iBiquity Digital  
Mophie  
Ranir  
ReCellular

#### INFORMATION TECHNOLOGY

Amplifinity  
Are You a Human  
Beyond Gaming  
CloudAccess.Net  
CMS Technologies  
Deepfield Networks  
DetroitLabs  
Duo Security  
Farmlogs  
Flud  
ForeSee Results  
gloStream  
GuidePoint Systems  
Gumshoe  
Hired My Way  
IDV Solutions  
InterLink Networks  
InTouch  
Janeeva  
JobApp Plus  
LevelEleven  
Livio Radio  
LLamasoft  
Lynx  
MaxFunds.com  
MBR International Marketing  
MIST Innovations  
MyBuys

Outside Hub  
OWN Point of Sale  
Plex Systems  
Quantum Learning  
Quikkly  
Shepherd Intelligent Systems  
SherTrack  
Shopwithit  
Solidica  
Stik Technologies  
Unitask  
UpTo  
Workforce Software

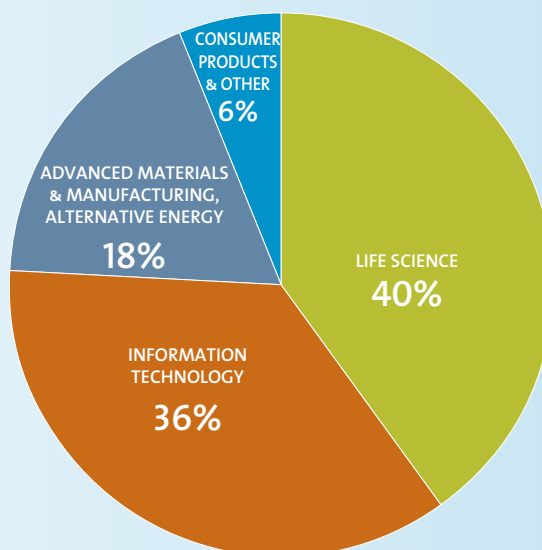
#### LIFE SCIENCE

Ablative Solutions  
ArborMetrix  
Atterocor  
Axonia  
Cerenis Therapeutics  
Critical Signal Technologies  
CytoPherx  
Delphinus Medical Technologies  
Esperion Therapeutics  
Gema Diagnostics  
HistoSonics  
Hygieia  
InforMed  
Intervention Insights

Lycera  
MedElute  
Metabolic Solutions Development  
Micro Machine Company  
Molecular Imaging  
NanoBio  
NanoRETE  
Nematron  
NephRX  
Nymirum  
OtoMedicine  
Pioneer Surgical Technology  
ProNAi  
RealBio Technology  
Rubicon Genomics  
Swift BioSciences  
Tangent Medical Devices  
Tissue Regeneration Systems  
Tolera Therapeutics  
Transcorp  
Translume  
Vestaron  
Xanitos

- In Michigan, this past year, there were 106 companies funded by local and national venture capital firms. A majority of these venture backed firms are in the life science and information technology industries. All together, these companies have created more than 1,500 direct jobs in Michigan.
- In-state venture capital firms have investments in approximately 80 percent of the companies listed above.

### INDUSTRY SECTOR DIVERSIFICATION (BY NUMBER OF COMPANIES)



20

AT A GLANCE

12

**NATIONALLY**

**841** VENTURE FIRMS | **5,887** INVESTMENT PROFESSIONALS  
**\$199B** TOTAL CAPITAL UNDER MANAGEMENT

**MICHIGAN  
2012**

**29**

VENTURE FIRMS

**70**

INVESTMENT  
PROFESSIONALS

**\$3.7B**

TOTAL CAPITAL UNDER  
MANAGEMENT

**\$460M**

AVAILABLE CAPITAL

**\$64M**

AVERAGE FUND SIZE

**106**

# OF CURRENT VC  
BACKED COMPANIES

**99**

OUT-OF- STATE VC FIRMS  
WITH MICHIGAN  
INVESTMENTS

**2012 VC FINANCINGS**

**\$242M** INVESTED IN MICHIGAN | **33** INVESTMENTS | **13** NEW COMPANIES FUNDED





MICHIGAN'S WINNING COMBO OF TALENT, CAPITAL AND INFRASTRUCTURE

# SERIAL ENTREPRENEURS

Ask a serial entrepreneur “Why Michigan?” and you’ll likely get the sense that these innovators are no strangers to hard work and boot strapping. Phrases like “work ethic,” “loyalty” and “value” carry deep meaning for those who’ve built businesses from the ground up. It also means a lot to the investors that these businesses are courting for funding.

In recent years, Michigan has seen an increase in serial entrepreneurs. Entrepreneurs are starting companies here and staying here to startup again after discovering that the state offers real benefits to growing businesses, including benefits that you can’t find on either coast. One of those benefits: Investors that are eager to back start-ups and second stage companies in the state.

Bucking the national trend, the venture capital community in Michigan is growing. Not only are investors here moving beyond initial fundraising to raising second and third funds, more and more firms from outside of Michigan are joining in on investments being made in companies that are growing in the state.

The reasons for this uptick in entrepreneurship and capital are rooted in strong, common threads that tie Michigan’s entrepreneurs and VCs together: Talent, innovation and infrastructure. Deals are getting done here because start-ups are delivering world-changing technologies to market, and have a lot of support to help them get from idea to exit.

## **Michigan is a capital-efficient, talent rich destination for businesses**

At the core of Michigan’s growing VC community is a capital efficient business climate that’s conducive to significant ROI.

“What makes Michigan a great place to invest capital is that our investment stretches two to three times farther here than on the coasts,” explained Mike DeVries, a serial entrepreneur who’s now managing director of EDF Ventures. “The cost of doing business in Michigan is significantly less on the coasts, but we aren’t sacrificing quality: Business here is being driven by serious tech talent.”



*Mike DeVries*

That serious talent is a serious factor in what makes funding a Michigan company an attractive, and smart option for investors. “The culture in the Midwest is just more favorable than building companies on the coasts,” DeVries added. “People here come to work for a start-up knowing that they don’t have another start-up across the street where they can go to work. There’s a strong loyalty and desire to see success; everyone is invested in seeing the company succeed. People ride with a company, through thick and thin, and there’s real value in that continuity.”

The deep talent pool in Michigan cuts across a wide spectrum of industries and job titles. For emerging companies, it means access to people who can build great

“All of the reasons for starting a company here are right, right now. There’s infrastructure here through organizations like MVCA, the Michigan Economic Development Corp. and Ann Arbor SPARK that are willing to work together and do what it takes to help entrepreneurs and start-ups.” Kalyan Handique, Co-founder, HandyLab

software and nearly any product that these businesses want to commercialize. From wind turbines to precision scientific equipment, Michigan start-ups are finding that the state’s rust belt heritage—which is sometimes seen by outsiders as a negative aspect of doing business in Michigan—plays a big role in bringing modern ideas to market.

For Jennifer Baird, Michigan’s talented workforce was a key factor in choosing where to locate Accuri Cytometers, a company she co-founded and later sold for more than \$200 million to Becton, Dickinson (BD). “I chose to locate my start-up in Michigan because of the great people here who had a wide range of talents, from engineering to sales and marketing to manufacturing and operations,” she said.

Even more telling: After the acquisition, BD chose to keep Accuri Cytometers in Michigan. Baird currently serves as chief executive officer of another start-up company, Accio Energy, a company that’s innovating a wind energy system. Her appreciation for what makes Michigan the ideal location to build a company—and a product—has carried over to her new venture. “Michigan is a great place to build engineering-based businesses,” Baird explained. “There’s great infrastructure here to support a growing company like Accio: Broad and deep engineering resources, manufacturing supply chain and expertise, and reasonable cost of living and doing business.”



Chris Gibbons

### Entrepreneurial ecosystem makes now the right time to innovate in Michigan

More and more, companies like Accio Energy, Shoulder Innovations, Tangent Medical Devices, and others are finding that Michigan has exactly the right mix of talent, capital and “ecosystem” to support emerging businesses. Venture capitalists agree: In Michigan, \$12.5 million in angel and pre-seed capital has been invested across 50 companies in recent years, and there are more than 100 venture capital-backed companies in the state.

“Now is a great time to start a company here,” said Kalyan Handique. Handique, who co-founded HandyLab—a start-up that was acquired in 2009

for \$287 million by BD—is currently the CEO of Denovo Sciences. “All of the reasons for starting a company here are right, right now. There’s infrastructure here through organizations like MVCA, the Michigan Economic Development Corp. and Ann Arbor SPARK that are willing to work together and do what it takes to help entrepreneurs and start-ups.”

The entrepreneurial ecosystem, comprised of business incubators, accelerator programs, access to capital and other critical resources, is a definite, positive influence on the decision to start a business—or two—in Michigan. Serial entrepreneurs cite that concentrated support for early stage companies is a key consideration in where to locate their business.

“When you talk about supporting start-ups, it’s not just capital—it’s talent, infrastructure, networking—and there are resources in Michigan that strongly support those aspects of growing a business,” said Christine Gibbons, former CFO of Sensicore, a Michigan start-up that was acquired by General Electric in 2008. Since that time, Gibbons has gone on to serve as president and chief operating officer of medical device company HistoSonics.



Jennifer Baird

### Great businesses will always find capital, experts say

For those who cite lack of capital as a stumbling block to companies achieving success in Michigan, successful serial entrepreneurs offer a different outlook.

“The capital pool might be limited, but for the right deal, the money is there,” Gibbons explained. “If you’re dedicated enough, you can keep things moving until you can get the deal done; there are definitely resources in Michigan—state funding, microloans and other investments—that can bridge the gap in the meantime.”

Jeff Williams, a successful serial entrepreneur whose resume includes engineering the sale of two Michigan start-ups—HandyLab and Accuri Cytometers—to BD, shares Gibbons’ earnest optimism. Like Gibbons, and others, Williams is bullish about the money available to companies that want to call Michigan home.

“There are a lot of Michigan-based venture funds and funding sources that will seed start-ups here,” said Williams, who currently serves as CEO of two Michigan start-ups—Tangent Medical and Molecular Systems.



*Jeff Williams*

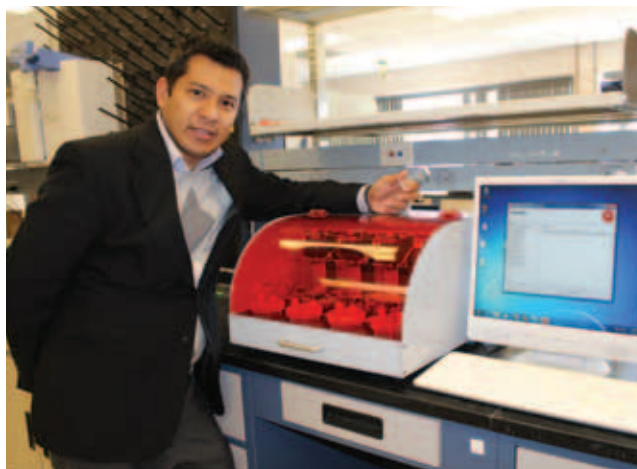
“As long as the business climate and funding opportunities are conducive to start-ups and as long as start-ups are a valued part of the local business landscape, you’ll have CEOs who will want to stay here and run companies again and again.”

“I’m not concerned that Michigan isn’t ripe with large venture funds,”

Williams added. “We’re

earning a reputation for having quality companies here, and as long as we can keep those companies here and get them seeded, coast money will follow down the road. The technology and the talent in Michigan are solid, and the valuation plans here are really reasonable compared to the coasts.”

Seasoned entrepreneurs, like Dug Song, know that investors invest in great ideas and companies, regardless of where they’re located. Song is a three-time serial entrepreneur whose start-ups include Anzen Computing, a security reseller sold to NFR, and Arbor Networks, a company acquired by Danaher for \$220 million.



*Kalyan Handique*

Dug currently runs Duo Security, a cybersecurity firm based in Ann Arbor. Duo’s investors include True Ventures, Google Ventures, Michigan-based Resonant Venture Partners and the former CEO of Verisign.

“I turned down Andreessen-Horowitz for Duo because of their insistence that it would be easier for me to build the company in the Valley. Maybe they’re right, but I don’t care,” Song said when asked about why he chooses to stay in Michigan. “Nothing worthwhile is easy. True Ventures and Google came to me preemptively to invest, and each showed up on my doorstep in the dead of winter. The best investors know how to find and value great opportunities anywhere.”

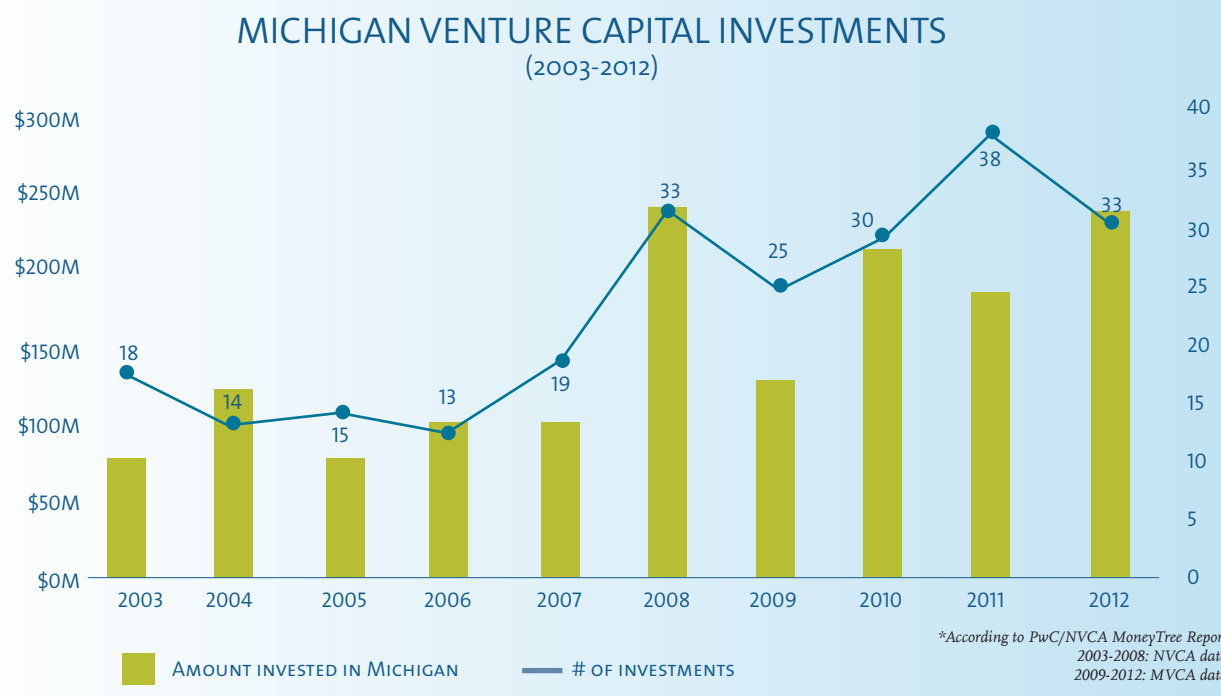
These entrepreneurs, and others in Michigan, agree that the key to future success lies in this magic mix of talented people, a willingness to take a risk and keeping your eyes on the finish line even when you hit a speed bump. For a state that’s been up and down the road of innovation many times before, it’s fitting that the entrepreneurs here remain steadfast in their commitment to being a part of Michigan’s entrepreneurial success story.

“Michigan has a history of innovation starting even before the auto industry changed the world,” said Handique. “Michigan has learned to reinvent and re-innovate itself time and again. There’s a tremendous resilience here that’s deeply rooted and offers strength to move forward in the toughest times. This resilience generates sparks that ignite the whole world.”

For entrepreneurs and venture capitalists alike, those sparks are fueling an enlightened view of Michigan’s potential—and a desire to be a repeat player in the state’s success story. ■

## ANNUAL INVESTMENT IN MICHIGAN

Total venture capital investment in Michigan during 2012 increased by 27 percent while nationally venture investment was down by 10 percent\* over 2011.



### SPOTLIGHT



Vestaron Corporation is developing a new generation of insecticides derived from peptides produced by spiders. These peptides are potent insecticides, yet are environmentally benign—the perfect blend of effective and eco-friendly. Initially targeted at the global agricultural market, specifically high value farm crops, Vestaron's innovative approach to conquering tiny pests is attracting big time investments.

In the last year, the company closed a \$10.7 million Series B investment round from Open Prairie Ventures, MAF-1, Panaea and Capital Community Angels. The funding raised through Vestaron's Series B allowed the company to submit for EPA testing, and to further develop its product pipeline. Currently, Vestaron is

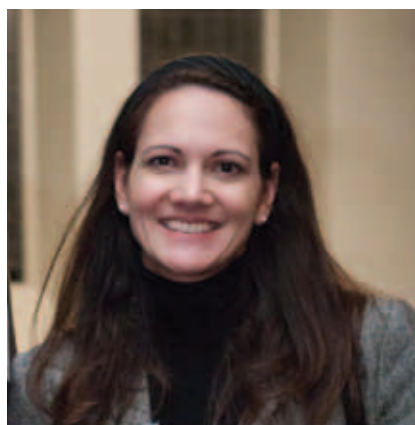
working on scaling up its product development to prove its products can be mass-produced and conducting field validation tests.

"The science team and the amount of technical progress at Vestaron is outstanding," said Steven Hartmeier, Vestaron president and CEO. Vestaron's management credits the team's commitment to research and development as a driving factor in its fundraising success. "The quality of the science and focus on the end user—science not just for the sake of science—but to develop a product that will help the environment and be of interest to the market is one of the company's biggest assets." ■

# SYNDICATES AND LEVERAGE

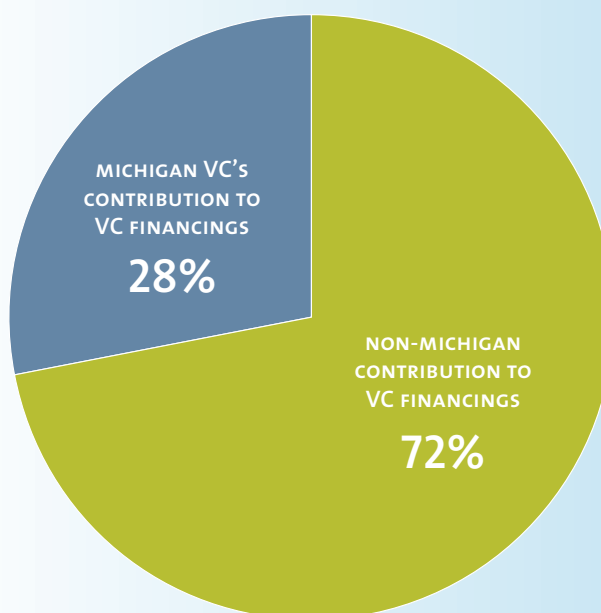
## MICHIGAN'S VITAL CONNECTION TO OUTSIDE CAPITAL

Michigan's venture capital community plays a critical role in attracting and leveraging outside start-up and investment capital. Local firms are in the best position to identify strong investment opportunities here in the state and provide growth capital through their own funds and syndicate partners.

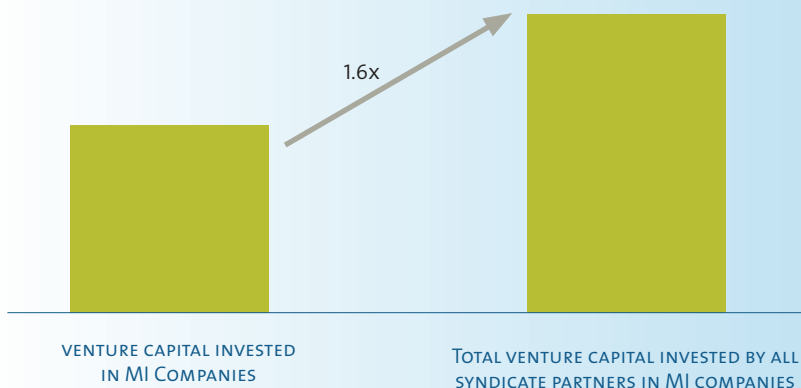


- Michigan venture capital funds participated in 82 percent of all 2012 Michigan investments contributing 28 percent of the total capital invested in those deals. The remaining 72 percent of contributions came from venture capital funds outside of Michigan, illustrating the importance of attracting investments from beyond the state's borders.
- Investments from venture capital funds outside of Michigan have continued to grow in recent years and are up by 6 percent in the past two years.
- By forming strong syndicates with non-Michigan capital funds, Michigan venture capital funds grew the overall capital invested by 1.6 times their original investment.

MICHIGAN VENTURE CAPITAL FINANCING SOURCES  
2012



LEVERAGE FACTOR  
IN MICHIGAN INVESTMENTS





# OUT-OF-STATE VENTURE CAPITAL FIRMS WITH CURRENT MICHIGAN INVESTMENTS

There are about 100 out-of-state venture capital firms active in Michigan, an 18 percent increase since 2010.

401 Capital Partners  
 5AM Ventures  
 Aisling Capital  
 Alpha Capital Partners  
 Alta Partners  
 Angel Street Capital  
 Aphelion Capital  
 ARCH Development Partners  
 ARCH Venture Partners  
 Arcus Ventures  
 Argill Venture  
 Atlas Ventures  
 Baird Venture Partners  
 Battery Ventures  
 BioFund Ventures  
 Braemar Energy Ventures  
 Catella Healthcare  
 Charter Oak Equity  
 Chrysalis Ventures\*  
 Clarus Ventures  
 CMEA Ventures  
 Concentric Equity Partners  
 Credit Suisse Group\*  
 Delta Northern Rivers Fund  
 DFJ Ventures  
 Domain Associates  
 Draper Triangle Ventures  
 Duchossois Technology Partners  
 Dunrath Capital  
 DuPont Ventures  
 Early Stage Partners\*  
 Element Partners  
 Emergent Medical Partners  
 Fidelity Biosciences  
 FirstMark Capital  
 Flagship Ventures\*  
 Flatiron Partners  
 Fletcher Spaght Ventures\*  
 Frazier Healthcare Ventures  
 Galen Partners  
 Google Ventures  
 H.B. Fuller Ventures



Hatteras Venture Partners  
 Hercules Technology Growth Capital  
 Hexagon Investments  
 Highlander Partners  
 Hopewell Ventures  
 Horizon Ventures  
 Hyde Park Ventures  
 Intel Capital  
 Interwest Partners  
 Investor Growth Capital  
 Itochu Technology Ventures  
 K1 Capital  
 Kaiser Permanente Ventures  
 Kearny Venture Partners  
 Khosla Ventures  
 Lightspeed Venture Partners  
 Longboat Partners  
 Lurie Investments  
 Menlo Ventures  
 MK Capital\*  
 MPM Capital  
 Nadal Investments  
 NGP Energy Capital Management  
 Oakwood Medical Investors  
 Open Prairie Ventures\*  
 Osage Ventures  
 Oxford Biosciences  
 Palomar Ventures  
 Panaea

Partech International  
 Pennstro Ventures  
 Perseus  
 Pfizer Strategic Investments Group  
 Pharos Capital Group  
 Qualcomm Ventures  
 Riggs Capital Partners  
 River Cities Capital Funds  
 Rocket Ventures  
 RockPort Capital Partners  
 Scale Venture Partners  
 Sigvion Capital  
 Sofinnova Partners  
 Spire Capital Partners  
 StatoilHydro Ventures  
 T.Rowe Price  
 Tera Capital  
 Thomas Weisel Venture Partners  
 Triathlon Ventures  
 True Ventures  
 TVM Capital  
 Twenty One East Victoria Investments  
 Twilight Venture Partners  
 Udata Partners  
 Venrock  
 Venture Investors\*  
 VentureLink Diversified  
 Balanced Fund  
 XR Ventures

\* Venture capital firms with Michigan offices

# A TIMELINE OF MICHIGAN'S SUCCESSES

2000

BLUE GILL  
TECHNOLOGIES  
GENITOR  
CORPORATION  
GENVEC

2002

MECHANICAL  
DYNAMICS

2004

ESPERION  
THERAPEUTICS  
HEALTHCARE  
SOLUTIONS  
INTRALASE  
STONEAGE  
CORPORATION  
COLORBOK

2005

ARBORTEXT  
AFMEDICA

2006

ASTERAND

## CAPITAL EFFICIENCY IS MICHIGAN'S DISTINCT COMPETITIVE ADVANTAGE TO DELIVER SUPERIOR VENTURE RETURNS

	TOP VENTURE MARKETS	MIDWEST	MICHIGAN
VC Dollars Invested per Company (million)	\$17.7	\$13.5	\$6.5
Average Acquisition Value (million)	\$152.4	\$131.6	\$74.1
Multiple: Average Acquisition Value/ Average VC Invested	8.6X	9.7X	11.4X
Target Market Premium	-	13%	33%

Source: Thompson One VentureXpert; 2008- 2012; Seed, Early, Growth and Later Stage. Top Venture Markets: California, Massachusetts, New York. Midwest: Illinois, Indiana, Michigan, Ohio, Wisconsin

- Michigan and Midwest venture capital-backed companies receive much less capital than coastal companies, yet achieve higher cash on cash returns.

# 2008

HEALTHMEDIA  
SIRCON  
SENSICORE

# 2009

HANDYLAB  
ASSAY DESIGNS  
APPLIMATION  
PUMP ENGINEERING

# 2010

ARBOR NETWORKS  
MOBIUS  
MICROSYSTEMS  
QUATRX  
PHARMACEUTICALS

# 2011

ACCURI  
CYTOMETERS  
ECOSYNTHETIX  
MICRONICS

# 2012

ARBOR  
PHOTONICS  
V.I.O

## 2012 EXITS BY MICHIGAN VENTURE FIRMS

COMPANY	LOCATION	SECTOR	MICHIGAN VENTURE FIRM(S)
Arbor Photonics	Ann Arbor, MI	Advanced Materials and Manufacturing	RPM Ventures
Hipster	San Francisco, CA	Information Technology	Ludlow Ventures
Infoblox	Santa Clara, CA	Information Technology	Open Prairie Ventures
Hotspur Technologies	Mountain View, CA	Medical Device	BioStar Ventures
Postling	New York, NY	Information Technology	Ludlow Ventures
Reverse Medical	Irvine, CA	Medical Device	Early Stage Partners
V.I.O	Marquette, MI	Consumer Product	Plymouth Venture Partners

## SPOTLIGHT TANGENT MEDICAL

Tangent Medical, a company that has developed and is commercializing innovative IV catheters and related products for IV therapy, has had a banner year for fundraising. Investors are attracted to the company's lead product, the NovaCath™ Integrated IV Catheter System and its solid track record of innovation.

NovaCath is based on extensive clinical immersion and research into the needs of both healthcare workers and patients. A true example of innovation that's changing the world, this next-generation system will establish a new standard in catheter design, functionality, and performance.

Last fall, Tangent completed an \$8.6 million Series B round. These funds, which included long-time investors Arboretum and Flagship Ventures as well as angel sources, also included a new investor, the University of Michigan's Michigan Investments in New Technology Start-Ups.

"After receiving FDA clearance to market last year, the Series B was raised to scale up manufacturing for a full market launch and to support building out the sales and marketing team," explained company CEO Jeff Williams. "At this point, Tangent plans for the NovaCath to be commercially available by mid-2013."

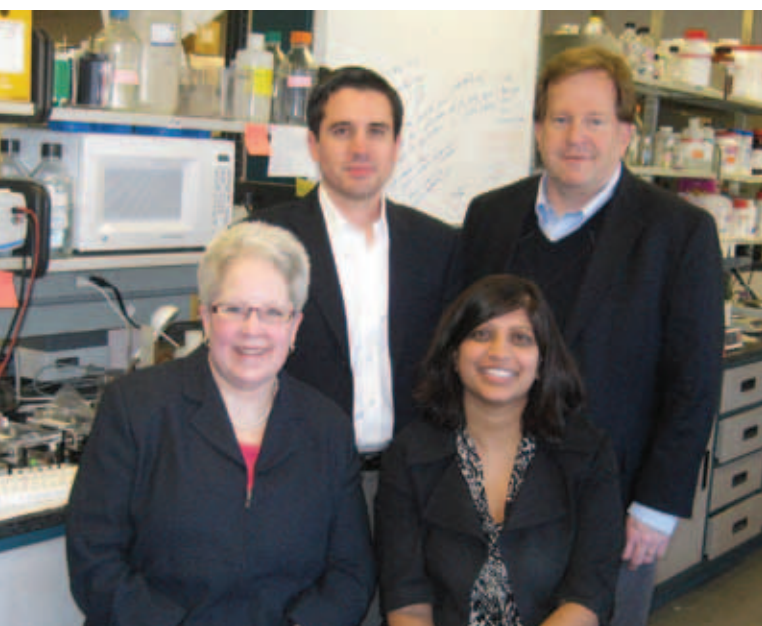
Initially, Tangent will focus on U.S. hospitals, but plans to expand internationally later this year. ■



## SPOTLIGHT



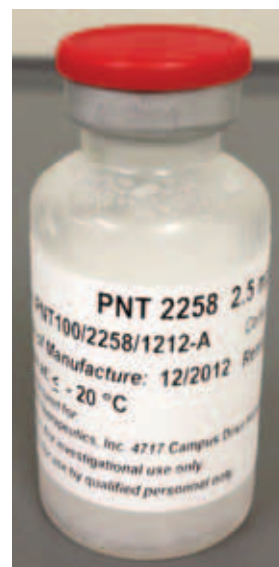
A highly acquisitive exit environment in cancer drugs, coupled with early compelling clinical data, has ProNAi CEO Mina Sooch and her team at the cancer biotech company bullish on 2013. From the company headquarters in Plymouth Township's Michigan Life Science and Innovation Center, Sooch is less than a year into her tenure as CEO of ProNAi, a position she calls "intense and great fun - a perfect fit." She and her Apjohn partners co-founded ProNAi in 2004 and her 2012 ascension to CEO shows the long-standing relationship coming full circle. "Stepping in as CEO has been more rewarding, in some ways, than being a venture capitalist,



as you can really set the strategy and execute key priorities to maximize the value when you're leading the company and not just representing as a director on the Board. I am fortunate to have such a talented team, a breakthrough product, and a very large unmet market opportunity. We've made huge advancements in the company's progress in the last year, and our team, our board, and our clinical and manufacturing partners are highly committed to seeking great outcomes for shareholders and patients."

Among those huge advancements were the results of a recent Phase I study in refractory solid tumor patients (who had failed all other treatment options) conducted in Texas. ProNAi's drug, with the working name of PNT2258, showed an unprecedented safe profile (e.g. no side effects like traditional chemotoxic drugs) coupled with successful IV delivery (e.g. long exposure times) resulting in targeted biomarker effects in all patients and stable disease in several lung cancer and sarcoma patients. Anticipating the first of several Phase II studies, ProNAi raised \$2.5 million in 2012 in Series C Bridge. The funds helped launch the study in late 2012 with Dr. Al Katib at St. John's Hospital in Detroit where PNT2258 is tested alone in refractory non-Hodgkin's lymphoma patients whose cancer is recurrent or unresponsive to other treatments. Additional clinical cancer sites in Indiana and west Michigan are scheduled for roll-out in early 2013.

Almost 90 percent of ProNAi shareholders are Michigan investors, including Grand Rapids' Grand Angels, individual angels all across the state, Blue Water Angels, Apjohn Ventures, the State of Michigan (through the Michigan Strategic Fund and the Michigan Economic Development Corp.), Amherst Fund, Western Michigan Foundation, and Sigvion. With early Phase II results, Sooch plans to raise another \$10-12 million in the Series C for a large Phase II randomized combination study, while in parallel pursuing strategic partnership deals that may range from licensing for the lead drug or pipeline candidates to a M&A exit. "The exit environment for targeted cancer drug therapy is currently the most active space of the life sciences sector. Large pharmaceutical players have been paying up to a billion dollars for treatments that are shown to be safe and effective in Phase II. ProNAi is at that inflection point, with additional positive Phase II clinical data only further raising the attractiveness of the company to acquirers." ■





The background of the cover features a detailed, textured illustration of the Seal of the Commonwealth of Michigan. The seal is circular, with an eagle perched on a rock in the center, holding a shield. Above the eagle's head is a semi-circle of stars. A banner draped across the eagle's chest reads "E PLURIBUS UNUM". The entire seal is rendered in a dark, textured, brownish-gold color. Overlaid on this background is the title "ANGEL INVESTMENT" in large, white, sans-serif capital letters.

# ANGEL INVESTMENT

*An Important Component of the Venture Ecosystem in Michigan*

## ANGEL AND PRE-SEED ACTIVITY IN MICHIGAN

The continued growth of Michigan's angel community is vital to the overall effort to foster innovation and entrepreneurship here in the state. MVCA efforts to grow the angel community in Michigan continue to be supported by the Michigan Economic Development Corporation through the Angel Network Growth Program. The grants issued through this program are designed to support angel groups within Michigan by rewarding them with additional resources to encourage and maintain further investment and growth in membership.

### Michigan Pre-Seed Capital Fund

The Michigan Pre-Seed Capital Fund is a source of matching capital for companies in the seed and early investment stages. The \$25 million equity fund is a collaborative effort with Michigan's 15 SmartZones providing investments to date to 86 companies which employed more than 500 people. Funds for the program were provided by the 21st Century Jobs Fund, a Michigan Strategic Fund program designed to accelerate the growth and diversification of Michigan's economy. The MEDC and Ann Arbor SPARK provide administrative support.

### Microloan Programs

In addition to traditional equity investment, there are several programs around the state—including the First Step Fund in Detroit, Grand Rapids Opportunities for Women (GROW) and the Michigan Microloan Fund

Program – which provide seed funding to start-up enterprises in the forms of loans and/or convertible notes. These programs assist with business incubation as well as providing critical funding as companies move from a research and development stage to commercialization.

The Detroit-based **First Step Fund** (FSF) is an industry agnostic, micro-investment fund which makes small, very early investments in high potential companies based in Southeast Michigan. The investments are usually \$50,000 in the form of convertible notes or equity. The fund leverages the incubation and venture capital network in the region whereby FSF will only invest in companies that either complete a program at one of the regional incubators (TechTown, Ann Arbor SPARK, Bizdom or Automation Alley) or are brought to FSF by a partner venture capital firm. ■

## Michigan-based Angel Investor Networks and Angel Funds

*242 high net-worth individuals participate in the Angel Networks and Angel Funds*

### ANGEL NETWORKS

- Ann Arbor Angels
- Blue Water Angels
- Capital Community Angels
- Grand Angels
- Great Lakes Angels
- Northern Michigan Angels

### ANGEL FUNDS

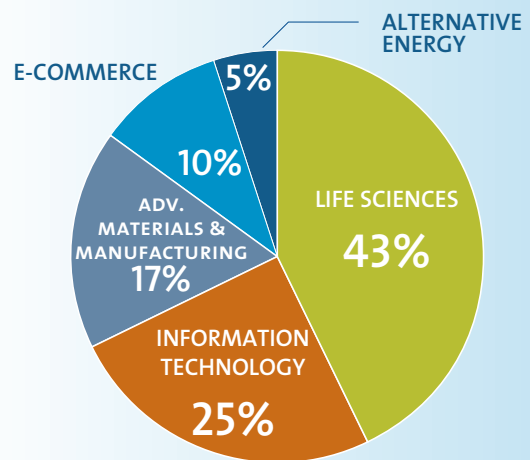
- Belle Capital
- Grand Angels Side Car Fund
- Michigan Angel Fund

## ANGEL AND PRE-SEED INVESTMENT ACTIVITY

Michigan saw increased angel activity in 2012: \$12.5 million of angel and pre-seed fund capital was invested in 40 companies. This is double the number of companies receiving these types of investments from 2010. The overall potential for investment in Michigan's start-ups is strengthening each year as the state's high net-worth individuals continue to become involved in the angel community.

- In 2012, 40 Michigan companies received total investments of nearly \$12.5 million in angel and pre-seed fund capital.
- One of the key values provided by the angel community is their ability to invest and foster growth across diversified industries here in the state. Information technology and e-commerce sectors saw increased investment by the angel community in 2012. The life sciences sector continues to represent the largest overall percentage of angel investments.
- A total of 131 companies have received angel and/or pre-seed fund investment totaling \$41.1 million in the past five years.

SECTOR DIVERSIFICATION OF ANGEL & PRE-SEED INVESTMENT  
BY # COMPANIES



ANGEL & PRE-SEED INVESTMENTS IN MICHIGAN







## MICHIGAN'S COMPANY PIPELINE

### ANGEL AND PRE-SEED ACTIVITY

*Companies that have received angel investment and/or Michigan Pre-Seed Capital Funding*

#### ADVANCED MATERIALS & MANUFACTURING

Advanced Battery Concepts\*  
Arbor Plastics Technologies  
Biophotonic Solutions  
BoroPharm  
Coliant Corporation  
Envy Modular Wall Systems  
Estrakon  
Fulcrum Composites\*  
Fusion Coolant Systems  
Grand River Aseptic Manufacturing  
Inpore  
Ix Innovations  
Jadi  
New Eagle Products  
NextCAT  
NRG Dynamix\*  
Reveal Design Automation  
SenSound  
Ventech  
XG Sciences

#### ALTERNATIVE ENERGY

Accio Energy\*  
Algal Scientific Corporation  
Clean Emission Fluids  
Current Motor Company  
Danotek Motion Technologies\*  
Global Energy Innovations  
Midland Solar Applications

#### E-COMMERCE

Altus Brands  
Ambiq Micro  
Bandals Footwear  
Functional Brands  
Grab-A-Cane  
Green Daisy  
Mandy & Pandey  
Mrs. Glee's  
Gluten-Free Foods  
Plumstone  
Saleztrack  
Xtrapickup

#### INFORMATION TECHNOLOGY

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Quikkly  
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Blue Medora  
Creative Byline  
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ePay Select  
ERT Systems  
InfoReady  
Inventure  
Janeeva\*  
Kabongo  
Law Enforcement  
Intelligent Devices  
Mock Draft Central  
OWN Point of Sale\*  
ParkingCarma  
Pixel Velocity  
Practical EHR Solutions  
RazorThreat  
Salamander  
Varsity News Network

#### LIFE SCIENCE

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Accord BioMaterials  
AFID Therapeutics  
Armune Bioscience  
Atterocor  
Aursos  
Axenic Dental  
Axonia Medical\*  
Biotechix  
Blaze Medical Devices  
Cielo MedSolutions  
Conceivex  
DeNovo Sciences  
EAD Devices  
Emiliem  
Epsilon Imaging  
First Sense Medical  
FreeStride  
Therapeutics  
Gema Diagnostics\*  
GRAM Acquisition  
Hygieia\*  
Incept Biosystems  
InformMed\*  
Innovative Surgical Solutions  
Intervention Insights\*  
MedElute\*  
Michelle's Miracle

Micro Machine\*  
Mitostem  
Nymirum\*  
OcuSciences  
OtoMedicine\*  
Oxus America  
Phrixus  
Pharmaceuticals  
ProNAi Therapeutics\*  
RealBio Technology\*  
RetroSense  
Therapeutics  
SensiGen  
Syzygy Biotech  
Tangent Medical\*  
Tolera Therapeutics\*  
Transcorp Capital\*  
Vestaron\*  
VIO\*  
White Pine Systems

\*Also venture backed

## SPOTLIGHT



Improving existing battery technology seemed like an attractive space to enter in 2008, when Advanced Battery Concepts founder Ed Shaffer started tinkering with the technology in his garage. Using savings from his 401k retirement fund, Shaffer bet that traditional lead-acid batteries weren't going away and there would be value in making them lighter, longer-lasting and cheaper to make for applications in both established and emerging markets. "Instead of trying to invent a new chemistry, why not improve what is already here?" he recalls thinking. The battery electrode technology he developed, branded GreenSeal®, enables dramatic improvements in traditional lead-acid battery performance. Then, massive federal programs aimed at advancing battery technology took the oxygen out of his nascent market. "I was down the road from Dow Chemical, who along with A123 Systems and LG Chemical and others became behemoths in advanced battery manufacturing overnight. It diluted the deal flow and ultimately made early-stage venture funding very scarce."

Despite the challenges, Shaffer and his growing team moved in to the Mid-Michigan Innovation Center, to take advantage of the Mount Pleasant SmartZone resources and infrastructure. There, they met SmartZone partner

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"I wouldn't be here without the Blue Water Angels. More than the just providing capital, they're on our board, they help with planning, attracting good talent, making sure I'm aware of programs, and connecting us to customers. A group like that is really helpful for a start-up, and Michigan is lucky to have them."

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Blue Water Angels, who Shaffer calls his lifeline: "I wouldn't be here without the Blue Water Angels. More than the just providing capital, they're on our board, they help with planning, attracting good talent, making sure I'm aware of programs, and connecting us to customers. A group like that is really helpful for a start-up, and Michigan is lucky to have them." In addition to the Blue Water Angels, Michigan investors RSVP participated in the 2012 Series A and Bridge, with funds used to create a small pilot production line in Clare, Mich. Shaffer plans to raise a Series B round at the end of 2013 to finance scaled production of their GreenSeal® battery product and achieve EBITDA or an exit. ■

### MVCA Past Board Members

We celebrated our past board chairs at the 2012 MVCA annual meeting. This group of leaders have been—and continue to be—instrumental in creating awareness and excitement in Michigan's venture capital community.

*From left to right: Jan Garfinkle, Mitch Mondry, Richard Eidswick, Mina Sooch and Tim Petersen. Not pictured: Mary Campbell and Ron Reed*





## MVCA ACTIVITIES

*MVCA delivers value to our members through relationships, education, advocacy, programs and communication.*



### ADVOCACY

Public policy issues and opportunities arise locally and nationally. The MVCA serves as an advocate for Michigan's venture capital industry by building and fostering strong relationships both in the private and public sectors. In the past, the organization and its members have been instrumental in successful passage of key legislation that directly serves the venture and early stage investing community. Nationally, the MVCA has provided a powerful voice regarding the negative impact of taxing carried interest as ordinary income.

### RELATIONSHIPS

The MVCA recognizes the value of networking within the venture capital community. The association brings together our members through a variety of networking events, such as educational roundtables, the annual awards dinner, special receptions based around legislative activity and other events. The MVCA is also a partner of the Michigan Growth Capital Symposium, the state's premier venture capital event.

### EDUCATION

Sharing the importance of venture capital to the Michigan economy is a key activity of the MVCA. Key stakeholders in the economic revitalization of Michigan as well as special interest groups and the general public are educated by the message of company and job creation that results from venture capital activity. The MVCA also strives to inform local and national limited partners about the breadth and depth of successes of Michigan's venture firms and why strong investor returns are possible. The organization's broad research activities drive the education efforts and provide a solid backbone to our message.

### PROGRAMS

Providing programs aiding in the success of venture capital-backed companies and venture capital firms in Michigan is a critical activity for the MVCA. Our programs have been successful in retaining and attracting entrepreneurial talent in Michigan, creating and expanding companies and attracting new capital and investment for Michigan companies. The MVCA will continue to monitor the needs of the venture community and develop new programs to meet new needs that arise.

### COMMUNICATION

MVCA maintains an active presence in the VC community and creates meaningful opportunities for networking and education. Our marketing and PR programs raise awareness of member activities, accomplishments and investments. Our monthly newsletter keeps members informed and engaged. ■

# Venture Upstart Programs Help Investors and Entrepreneurs Access Capital and Talent

*Grant funding from the Michigan Economic Development Corporation's report continues to provide critical support for MVCA's Venture Upstart programs.*

**The Executive in Residence (EIR) Program** builds entrepreneurial management talent in Michigan by providing experienced entrepreneurs seeking their next business venture with the opportunity to join a venture firm. The program's goal is to transition the EIR into an executive role in a new portfolio company investment of the venture firm. In 2012, Plymouth Ventures took advantage of the program and hired experienced engineering and operations executive Kevin Terrasi. "Kevin had great operations and start-up experience—he'd previously built and exited a successful venture backed business," said Mark Horne, CEO and managing partner of Plymouth Ventures. "As EIR, Kevin assisted us with new investment development and due diligence, and he ultimately joined our firm as partner, where we can utilize his

operational experience for a number of our Michigan companies."

**The CEO Placement Program** builds Michigan's entrepreneurial management talent base by assisting existing VC-backed companies in the process of recruiting CEOs. MVCA member Arboretum Ventures used the CEO Placement Program to benefit its portfolio company, ArborMetrix. "MVCA's CEO Placement Program was very helpful to ArborMetrix during our CEO recruitment process and allowed us to attract an outstanding chief executive, Brett Furst, who was otherwise looking at opportunities outside Michigan," said Arboretum Ventures' managing director Paul McCreadie.

**The Michigan Venture Fellows Program** is creating the next generation of venture capitalists

in Michigan by expanding job opportunities with VC firms. These 18-24 month fellowships are open to candidates with a minimum of three years of industry experience or deep domain knowledge. Last year, MVCA members First Step Fund and Michigan Accelerator Fund (MAF-1) were a few of the firms that benefited from the program. "I've been interested in an investment role in a Michigan-based venture capital fund for quite some time," said Adrian Fortino, MVCA Fellow. "When the First Step Fund opportunity came along, the MVCA Fellows Program helped seal the relationship."

"The MVCA Venture Fellows Program and the sponsorship in the Venture Capital Institute training provided me the opportunity to step into the daily operations of



a Venture Fund and immediately contribute,” added MVCA Fellow Linda Chamberlain, who works with MAF-1.

**The Angel Network Growth** program is designed to support angel groups in Michigan. These awards reward investment activity and provide angels with additional resources to encourage and support further investment. Ultimately, a successful angel investment helps both investors and entrepreneurs.

In 2012, the Grand Angels, a Grand Rapids-based angel group, received support from the MVCA Angel Growth program.

“The Angel Network Growth Program was a real encouragement to Grand Angels as we grew our membership and the amount of capital we invested in 2012,” said Jody Vanderwel, president. “The funds enabled Grand Angels to increase its office support and upgrade its equipment, which led to better service for our members.”

Combined, MVCA’s Venture Upstart programs assisted entrepreneurs, start-ups and investors by providing greater access to vital capital and talent throughout the state. These programs continue to make a positive, measurable impact on Michigan’s entrepreneurial ecosystem.



#### EXECUTIVE IN RESIDENCE

**Kurt Skifstad**  
RPM Ventures

**Kevin Terrasi**  
Plymouth Ventures

#### CEO PLACEMENT

ArborMetrix and Arboretum Ventures  
ProNAi, Apjohn Ventures, Grand Angels, and Amherst Fund

#### MICHIGAN VENTURE FELLOWS

**Jared Stasik**  
Detroit Venture Partners

**Linda Chamberlain**  
Michigan Accelerator Fund 1

**Sam Hogg**  
Open Prairie Ventures

**William Blake**  
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**Adrian Fortino**  
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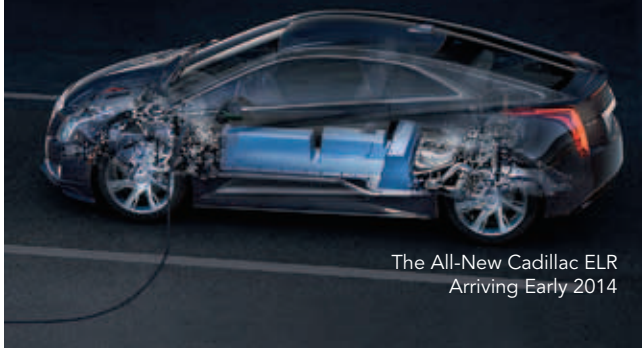
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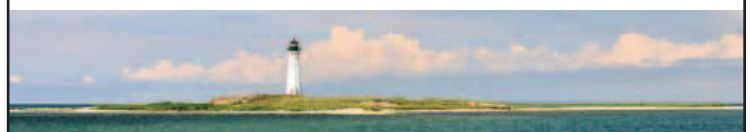
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# op·por·tu·ni·ty

noun

- a. A favorable or advantageous circumstance or combination of circumstances.
- b. A favorable or suitable occasion or time.



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