

# Michigan Venture Capital

2017 Annual Research Report



10<sup>th</sup>  
ANNIVERSARY

Choosing the  
right partner is a  
**BIG deal.**

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## Growth Stage Investing in the Great Lakes



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## Dear Readers,

We are pleased to present the 10th MVCA Annual Research Report, reflecting Michigan's venture capital community in 2016. This year also marks the 15th anniversary of the Michigan Venture Capital Association and we've never been prouder to represent the 33 venture firms in Michigan, all of whom are willing to take chances on tomorrow's big ideas today. Our members clearly reflect optimism, reporting almost unanimous confidence in Michigan's entrepreneurial and investment community and their ability to find and retain top talent here. To learn more about how venture investors feel about the Michigan market, MVCA conducted its first Partners Survey, the results of which are included in the report.

Indeed, our Michigan venture capital investment community, with \$4 billion capital under management and \$222 million invested in 2016, is impressive. Michigan's venture investors are a crucial piece of almost every early-stage deal done in the state, making them a critical funding source for 141 venture-backed companies in Michigan and launching the high-growth, high-potential businesses that will keep Michigan's economy moving forward.


In 2016, we celebrated the many achievements made by our members' portfolio companies, including an initial public offering and multiple acquisitions. We're thrilled to feature a few of the most compelling venture-backed companies in this report, although they're just a fraction of the many extraordinary startup stories in Michigan.

This year, MVCA looks at mobility investment as its own sector. Michigan sits at the crossroads of automotive ingenuity and the spirit of entrepreneurship, and this year's research lays the baseline for future measurement in this exciting, emerging area of expertise.

While there is much to celebrate in Michigan's fast growing world of entrepreneurship, there are signs the market is refining. Notably, total venture capital funds under management in Michigan decreased 24% compared to the previous year, creating an access-to-capital challenge for startups in Michigan. And while Michigan welcomed several national firms interested in building stronger relationships within the Michigan entrepreneurial and investment community, for the past two years, Michigan has experienced a decrease in venture firms located here. These are the first decreases seen in 15 years.

Fortunately, all indications point to the long-term vitality of the entrepreneurial community in Michigan, but we still have work to do to ensure there remains a robust capital continuum for Michigan's entrepreneurs and their growing companies. The ability to adequately fund companies at all stages of growth is an important milestone our community will strive to meet in the coming months and years. We must build on the momentum our member firms have created in fundraising and deal pipeline development to keep Michigan a premier Great Lakes Region, and, indeed, a national venture capital center of excellence.

All the best,



Maureen Miller Brosnan  
Executive Director





## A Strategic Plan for Funding Michigan's Entrepreneurs

Momentum 2021 is the Michigan Venture Capital Association's (MVCA) five-year strategic plan. It's a comprehensive roadmap designed to guide MVCA's future. From policy and advocacy, to communication and marketing, to events and member engagement, the plan establishes MVCA as a vital voice and advocate for the entrepreneurial and investment community. Momentum 2021 is the blueprint that will enable MVCA to expand opportunities for venture and angel investors in support of the growth of entrepreneurs in Michigan.

### We Believe

- The future success of the entrepreneurial and investment community in Michigan is dependent on two things: capital and talent.
- As venture and angel investors, we exist because of and for entrepreneurs.
- Our advantage in Michigan is the investment community collaborates and cooperates better than in any other state.
- Michigan can be a top 10 entrepreneurial economy.
- Michigan's entrepreneurial and investment community has had many wins in the past five years but is not yet nationally competitive.

### Mission

As the voice of the Michigan entrepreneurial and investment community, MVCA:

- serves as the trusted resource for venture capital and angel investment data;
- advocates for policies that encourage innovation and reward long-term investment;
- convenes the entrepreneurial ecosystem and connects its community members through communications, marketing, and member engagement; and,
- grows and sustains a vibrant and resilient venture and angel investment community.

### Vision

To increase the amount of capital and talent available to venture and angel investors so we can fund Michigan's most innovative entrepreneurs and work closely with them to transform breakthrough ideas into new companies and industries that drive Michigan job creation and economic growth.



## MVCA 2017 Board of Directors and Staff

### Executive Committee

#### Chairman

Tony Grover  
RPM Ventures

#### Treasurer & Chairman-Elect

Mark Olesnavage  
Hopen Life Science Ventures

#### Immediate Past Chairman

Jim Adox  
Venture Investors

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Maureen Miller Brosnan

#### Associate Director

Emily Heintz

#### Events & Program Manager

Molly Theis

#### Marketing & Communications Manager

Amber Pineda

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MK Capital

Hugo Braun

North Coast Technology Investors

Patti Glaza

Invest Detroit

Mark Horne

Plymouth Growth Partners

Sara Kruse

Jaffe Raitt Heuer & Weiss

Jon Lauckner

GM Ventures

Doug Neal

eLab Ventures

Jeff Rinvolt

Renaissance Venture Capital Fund

Ted Serbinski

Techstars Mobility

Tom Shehab, M.D.

Arboretum Ventures

Jody Vanderwel

Grand Angels

Ryan Waddington

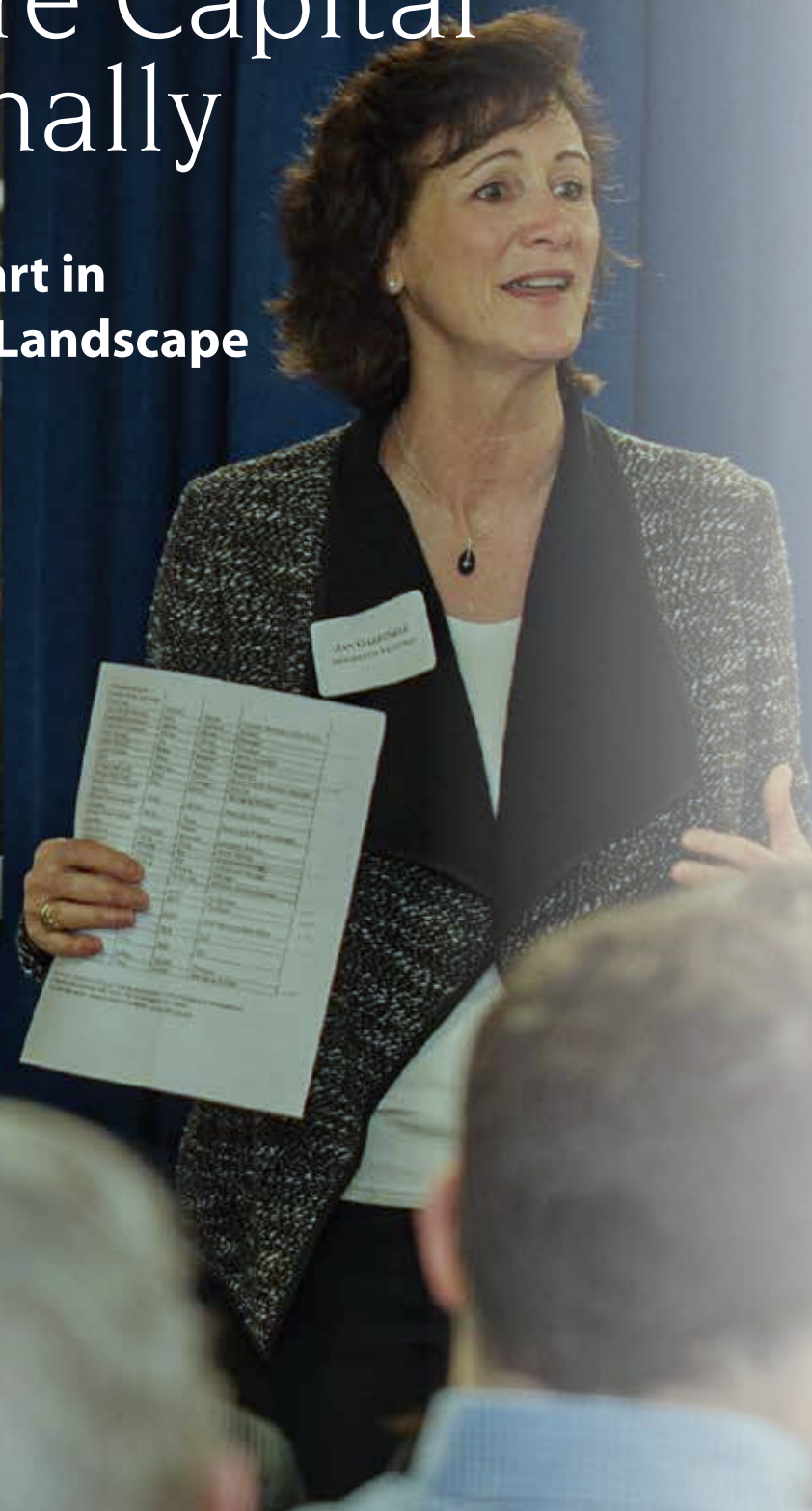
Arsenal Venture Partners





# Venture Capital Nationally

## Michigan's Part in the National Landscape



Michigan has positioned itself as a state capable of driving innovation, and we've successfully created an attractive environment for early stage investing. So, when the market is strong nationally, it's even stronger in our growing early stage investment community. But, if the market is declining nationally, Michigan reacts with slightly sharper declines. We've seen this pattern evolve from 2011 to 2016 and expect that, as Michigan's entrepreneurial and investment community matures, the ebbs and flows will be less dramatic.

### NATIONAL VENTURE CAPITAL STATISTICS<sup>1</sup>

	2011	2012	2013	2014	2015	2016
Number of VC Firms in Existence	815	844	869	898	906	898
Total Capital Under Management (\$B)	\$272.3	\$267.2	\$267.9	\$288.5	\$315.2	\$333.5
Average Venture Capital Under Management per Firm (\$M)	\$225	\$216	\$213	\$218	\$234	\$244
Average Venture Capital Fund Size (\$M)	\$203	\$195	\$190	\$195	\$206	\$214
# of Startups Receiving Venture Capital	6,233	7,365	8,548	7,656	9,742	7,751
Venture Capital Investment (\$M)	\$4,430	\$4,063	\$4,482	\$6,886	\$7,926	\$6,911

<sup>1</sup> National Venture Capital Association 2017 Yearbook

### MICHIGAN VENTURE CAPITAL STATISTICS<sup>2</sup>

	2011	2012	2013	2014	2015	2016
Number of VC Firms in Existence	20	20	23	26	25	25
Total Capital Under Management (\$B)	\$1.5	\$1.5	\$1.6	\$1.7	\$2.2	\$2.4
Average Venture Capital Under Management per Firm (\$M)	\$75	\$75	\$70	\$67	\$88	\$96
Average Venture Capital Fund Size (\$M)	\$41	\$43	\$42	\$38	\$45	\$50
# of Startups Receiving Venture Capital	38	34	40	51	74	54
Venture Capital Investment (\$M)	\$191	\$242	\$120	\$204	\$282	\$222

<sup>2</sup> Venture Capital Firms Headquartered in Michigan

### FIVE YEAR TRENDS

Nationally					
10%	22%	8%	5%	24%	56%
# of Venture Capital Firms in Existence	Total Capital Under Management	Average Venture Capital Under Management per Firm	Average Venture Capital Fund Size to Date	# of Startups Receiving Venture Capital	Venture Capital Investment
25%	60%	28%	23%	42%	16%
Michigan					



## 2016 Venture Investment Activity

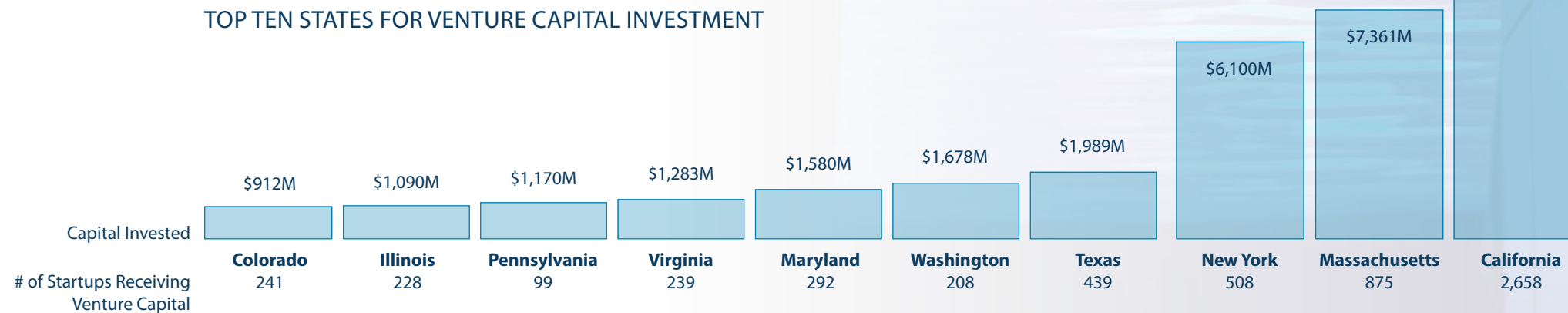
- In 2016, the national venture capital community invested **\$69 billion** across 7,751 startup companies, an increase of 56% in capital invested and a 24% increase in number of startup companies in the last five years, according to the National Venture Capital Association's 2017 Yearbook.
- The top ten states had approximately a billion dollars or more in venture investments annually and accounted for **89%** of the nation's venture capital activity.
- The Great Lakes Region was home to 7% of the startups receiving venture capital in 2016. These 579 startup companies received **33%** of the venture capital invested in 2016, a total of \$23 billion.
- According to the National Venture Capital Association, Michigan had \$253 million in venture capital invested in 73 startup companies. Many of the deals included in the national data represent pre-seed and economic development organization investments that are excluded from MVCA's data. More targeted data collection by MVCA shows that the total investment in Michigan was \$222 million dollars in 54 startup companies.

89%

33%

\$69,000,000,000

TOP TEN STATES FOR VENTURE CAPITAL INVESTMENT



“Although Michigan might be best known as the nexus of the U.S. auto industry, it is also home to an up-and-coming startup scene. It makes sense, because the state has many of the components needed to build such a community. Top-tier universities provide a pipeline of engineering talent to diverse, post-industrial cities whose innovation heritage is built on hustle and grit.”

National Venture Capital Association

# 2016 Impact by the Numbers

The following is a snapshot of the investment, activity, and impact resulting from the venture capital community's dedication to Michigan's entrepreneurial community.



**33**

Venture Capital Firms

**\$4B**

Total Capital Under Management



**93**

Venture Capital Professionals

**\$568M**

Venture Capital Available for New Startups



**\$1**

Every Invested in a Michigan Startup by a Michigan-Based Venture Capital Firm Attracts

**\$4.61**

of Investment from Outside of Michigan

**141**

Venture-Backed Companies in Michigan

**343**

Venture Capital Firms from Outside of Michigan have Invested in Startups in Michigan



**\$222M**

Venture Capital Invested in Michigan Startups in 2016

**54**

**\$504M**

Demand for Venture Capital by Michigan's Venture-Backed Startups

**141**

**\$424M**

Venture Capital Reserved for Follow-on Financing into Existing Portfolio Companies





# Venture Capital in Michigan

## An In-depth Look at Michigan's Venture Capital Activity

# 94%

of venture capital firms believe that the entrepreneurial and investment community has either stayed the same or improved in the last three years.

# 85%

of venture capital firms that are currently raising or plan to raise another fund between now and 2019 are confident they will be successful. On top of this, 92% believe they can raise this fund while maintaining an office in Michigan.

*However, 44% of venture capital firms are less than confident they could raise it from Michigan LPs.*

# 73%

of venture capital firms are confident in their ability to find and hire top tier talent to work at their firm's Michigan office.

*However, 71% of venture capital firms are less than confident they can attract top tier talent for their Michigan portfolio companies.*

## Michigan's Venture Capital Firms

There are **33 private venture firms** operating in Michigan. Twenty-five are headquartered in Michigan and an additional eight are headquartered elsewhere with a Michigan office. There are also two fund of funds and four corporate venture funds in Michigan. All together, these firms employ a total of **115 investment professionals** in Michigan.

115  
25 + 8 = 33

### Venture Capital Firms Headquartered in Michigan

Apjohn Ventures  
Arbor Partners  
Arboretum Ventures  
Augment Ventures  
Beringea  
BioStar Ventures  
Detroit Innovate  
Detroit Venture Partners  
EDF Ventures, LLC  
eLab Ventures  
First Step Fund  
Fontinalis Partners  
Hopen Life Science Ventures  
Huron River Ventures  
IncWell  
Ludlow Ventures  
Michigan Accelerator Fund I  
North Coast Technology Investors  
Plymouth Growth Partners  
Resonant Venture Partners  
RPM Ventures  
Tamarind Hill  
TGap Ventures  
Wakestream Ventures  
Western Michigan University  
Biosciences Research & Commercialization Center

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

Arsenal Venture Partners  
Baird Capital  
Cultivian Sandbox Ventures  
Draper Triangle Ventures  
Mercury Fund  
MK Capital  
Three Leaf Ventures  
Venture Investors

### Michigan-Based Venture Capital Fund of Funds

Renaissance Venture Capital Fund  
Venture Michigan Fund

### Corporate Venture Funds

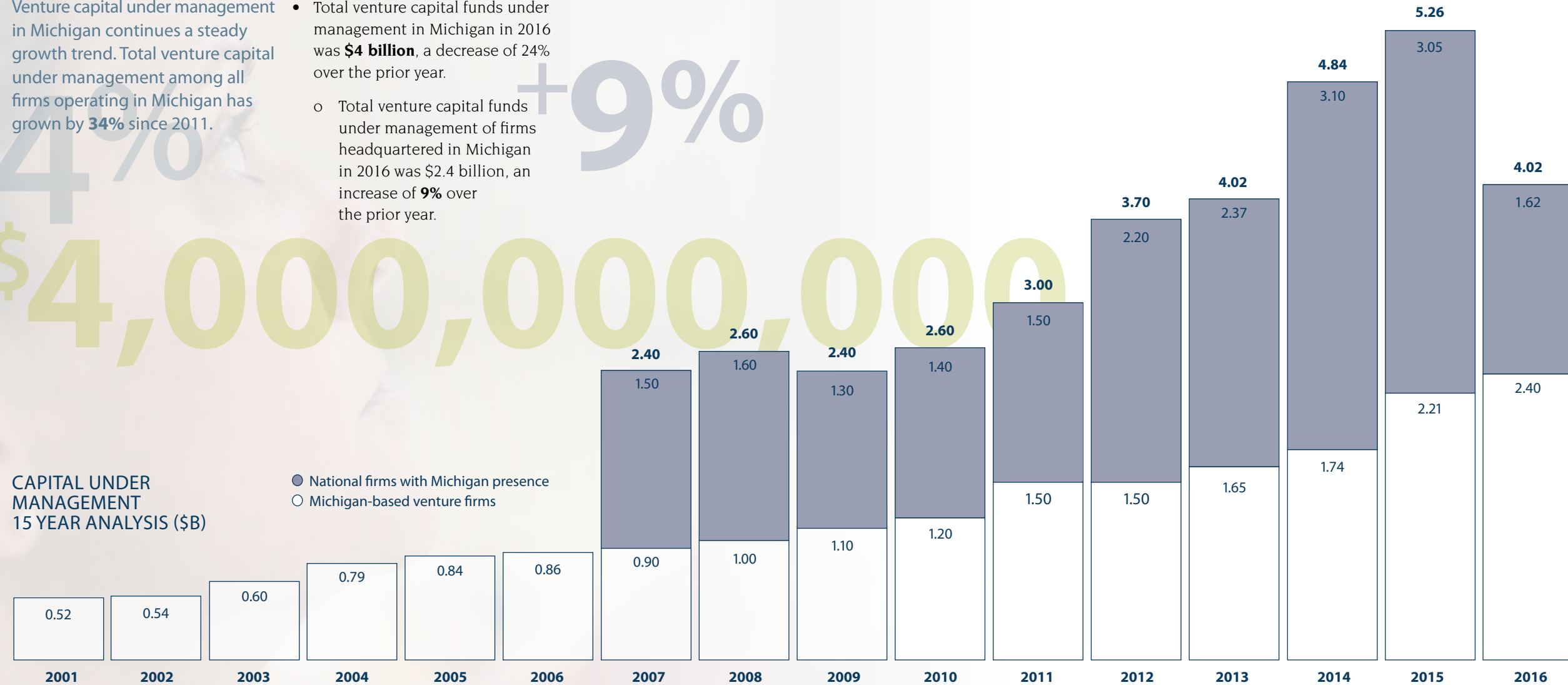
Dow Venture Capital  
Eighteen94 Capital  
General Motors Ventures  
Spectrum Health Ventures



## Capital Under Management

Venture capital under management in Michigan continues a steady growth trend. Total venture capital under management among all firms operating in Michigan has grown by **34%** since 2011.

- Total venture capital funds under management in Michigan in 2016 was **\$4 billion**, a decrease of 24% over the prior year.
- Total venture capital funds under management of firms headquartered in Michigan in 2016 was \$2.4 billion, an increase of **9%** over the prior year.



CAPITAL UNDER MANAGEMENT 15 YEAR ANALYSIS (\$B)

● National firms with Michigan presence  
○ Michigan-based venture firms

“The investment and expertise from our Michigan investors was pivotal to our company’s growth as we matured by enabling us to broaden our technology platform and bring our clients new innovations.”

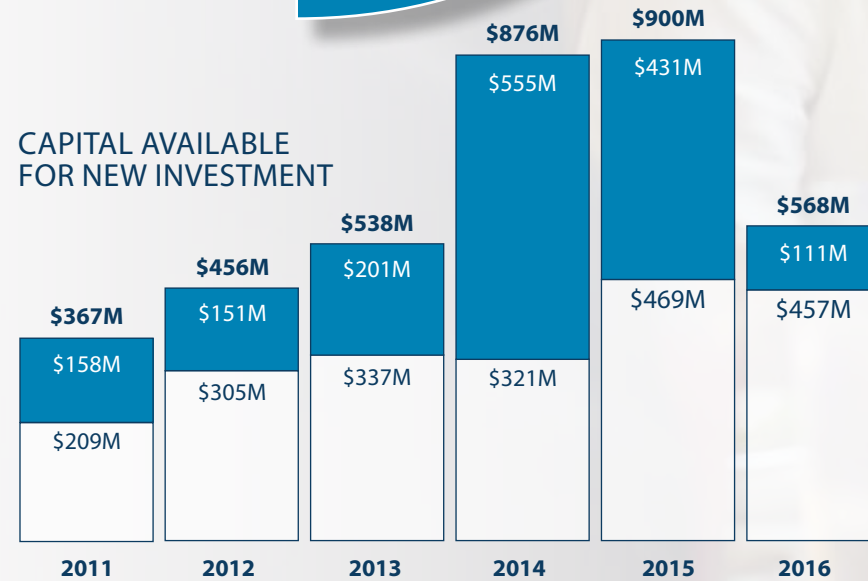
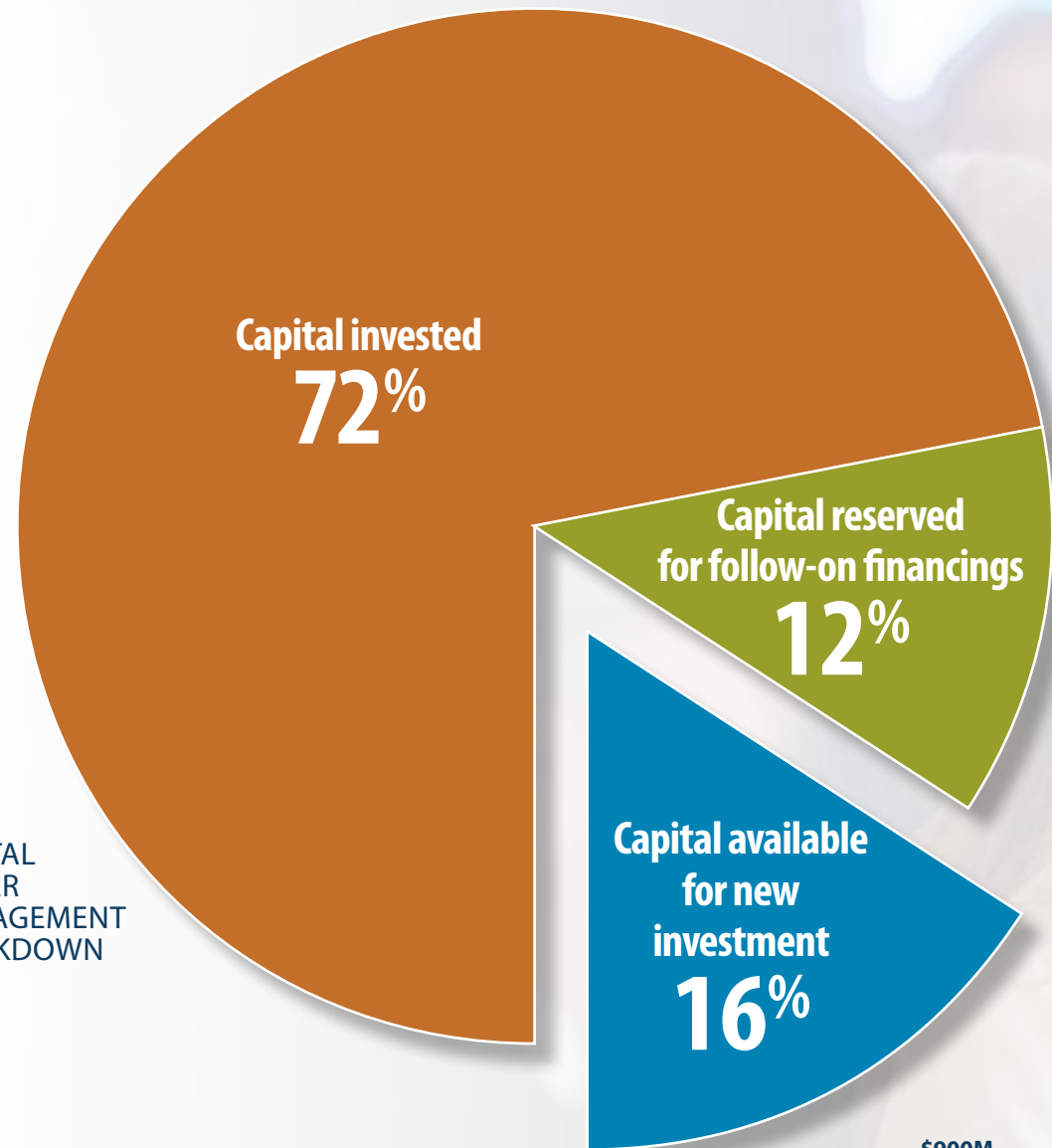
Shawn Geller, CEO of Quikly

### Quikly

Quikly is a Detroit-based information technology startup that offers a digital marketing platform for retailers that provides limited time deals and discounts. This startup company secured investment from Detroit Venture Partners and went on to receive additional support from Plymouth Growth Partners.

Being able to adequately fund companies at all stages of growth is critical to developing businesses in Michigan, keeping them in Michigan, and ensuring Michigan’s long-term economic health. This growing Michigan company currently employs 25 people in the state, is rapidly building its sales and marketing teams, and is continuing to enhance its innovative technology.

CAPITAL UNDER MANAGEMENT BREAKDOWN 2016



● National firms with Michigan presence  
 ○ Michigan-based Venture Firms

### Capital Under Management

*continued*

- Out of the total \$4 billion under management in Michigan, much of the capital has already been invested in promising startup companies. A small amount is reserved for follow-on investment in existing Michigan companies and a portion is available for new startups seeking venture capital.
- Available capital for new investments in 2016 was \$568 million, an increase of 55% since 2011. This capital is available for new investment opportunities across all stages, industry sectors, and geographical regions. Although there has been an overall increase in the last five years, there was a 37% decrease in available capital from the prior year due to out-of-state firms closing their Michigan offices and slow fundraising activity among venture capital firms with offices or headquarters in Michigan.
- Approximately \$424 million is reserved for follow-on financings for existing Michigan-based portfolio companies, an increase of 10% from last year. MVCA survey respondents estimated actual follow-on demand in the state over next few years will approach **\$504 million**, reflecting the need for additional funds to help Michigan's many venture-backed companies succeed.

# \$504,000,000

#### Varsity News Network

Varsity News Network is a Grand Rapids-based information technology startup that provides a web-based platform enabling schools to post content about their sports programs. This startup company secured investment from several Michigan-based angel and venture capital investors to support its growth since being founded in 2012. Venture capital investment at all stages of growth is critical to building and keeping businesses in Michigan to sustain its economy. This growing Michigan company currently employs 73 people in Michigan and is serving 1,750 schools and over 7 million users across the United States.





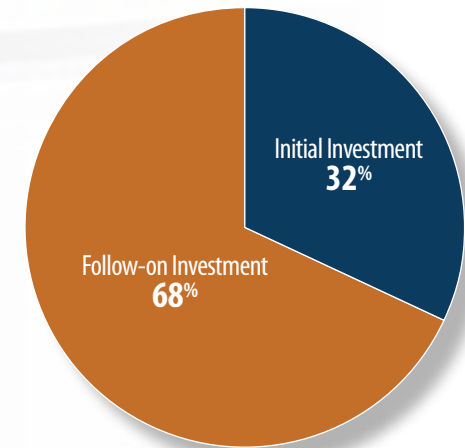
## 2016 Venture Investment Activity

Strong Michigan venture firms are a critical factor in the success of Michigan startups. With Michigan venture investors backing nearly every Michigan venture-funded startup, the health of our state's entrepreneurial economy hinges on our ability to provide capital to high-growth, high-potential companies.

- In Michigan, 54 startups received more than **\$222 million** from venture capital firms in 2016; this is a 42% increase in the number of startups in the last five years (a 315% increase in the last ten years).

# \$222,000,000

- In 2016, 32% of startups received venture capital funding for the first time, while the remaining 68% received continued support from a Michigan venture capital firm.



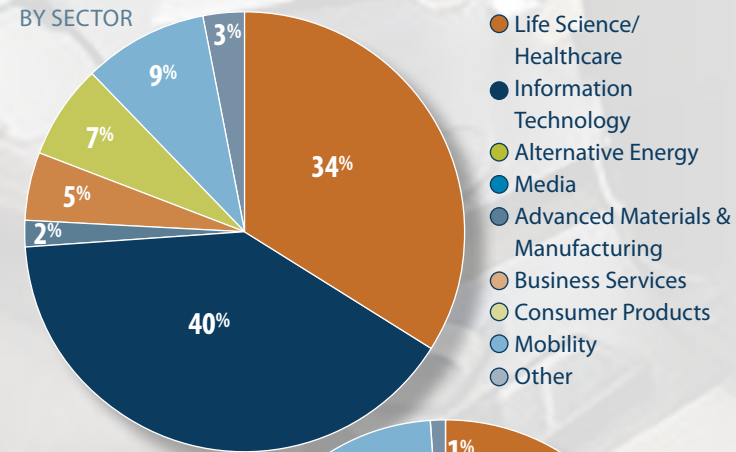
### ANNUAL VENTURE CAPITAL INVESTMENT IN MICHIGAN

- Amount of venture capital startups are receiving (in millions)
- Number of Michigan startups receiving venture capital investment each year

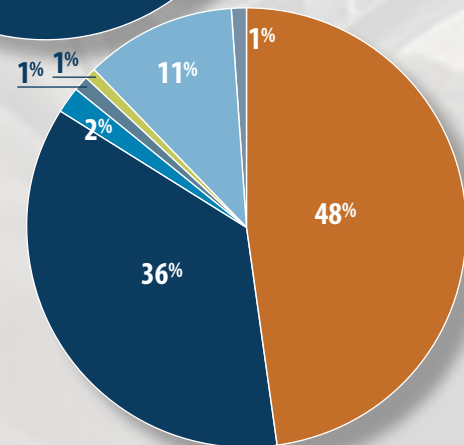


- There are **141 venture-backed startup companies** growing and hiring in Michigan, an increase of 48% in the last five years.
- While Michigan venture funds invest in a wide variety of sectors, the life science and information technology sectors continued to be the focus of capital deployment in 2016. Of the startups that received venture funding in 2016, 34% were life science companies and 40% were information technology companies.

### NUMBER OF STARTUPS RECEIVING CAPITAL IN 2016 from Michigan Venture Capital Firms



### AMOUNT INVESTED IN 2016 by Michigan Venture Capital Firms



### 54 companies in Michigan received more than \$222 million in venture capital funding in 2016.

#### Consumer Products

Banza  
Exo Dynamics

#### Information Technology

Above the Treeline  
AdAdapted  
Amplifinity  
Are You a Human  
Blue Medora  
ChoreMonster  
Cribspot  
eAgile  
FarmLogs  
Larky  
Marxent  
New Vital Signs  
Nutshell  
Passage  
PeachWorks  
Pixel Velocity  
Programax

Quikly  
reach | influence  
Seamless Accelerator  
Sight Machine  
Sillo  
Sportsman Tracker  
StockX  
Varsity News Network  
Waymark  
Workit Health

#### Life Science / Healthcare

3T Medical Systems  
Ablative Solutions  
Akadeum Life Sciences  
Algal Scientific  
ArborMetrix  
Armune BioScience  
CytoPherx  
Delphinus Medical Technologies  
ENT Biotech Solutions

Gemphire Therapeutics  
Genomenon  
Magnesium Development Company  
Metabolic Solutions Development Company  
Millendo Therapeutics  
MSDC  
NanoBio  
NeuMoDx Molecular  
Octeta Therapeutics  
ONL Therapeutics  
Resonant Therapeutics  
RespondWell  
Strata Oncology  
Swift Biosciences  
Tolera Therapeutics  
Vestaron

#### Mobility

Techstars Mobility

# 54



## Diversity in the Entrepreneurial & Investment Landscape

Michigan's entrepreneurial and investment community has seen success and profits from funding and employing diverse professionals, but more progress can be made. MVCA's research suggests companies led by under-represented group members may still be systemically underfunded. In 2016, just 8% of total venture capital invested in Michigan went to startups led by diverse CEOs. Although Michigan meets or exceeds the national rates on diversity investment, the state has the opportunity to exceed these standards and set a benchmark for the industry. Venture capital professionals can help build a more diverse community in Michigan by committing to mentor at least one person from an underrepresented group. This assures the most capable entrepreneurs and investors have opportunities to succeed regardless of race, gender, and sexual orientation.

Diverse companies are often better positioned to "win top talent and improve their customer orientation, employee satisfaction, and decision making, and all that leads to a virtuous cycle of increasing returns."<sup>1</sup>

# \$16,900,000

### Total Capital Invested in Michigan

In 2016, Michigan venture capitalists invested \$222 million in 54 Michigan startup companies. Of that, \$16.9 million was invested in four Michigan startup companies led by a diverse CEO.

- \$16.9 million invested in woman-led startups
- \$14 million invested in minority-led startups
- \$1.7 million invested in LGBTQ-led startups<sup>2</sup>



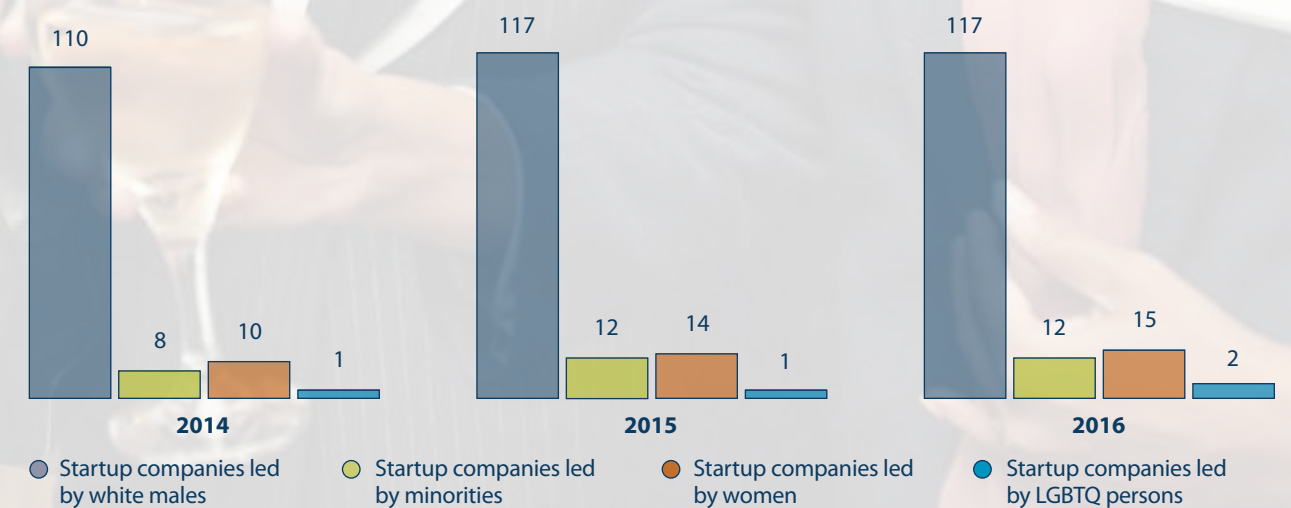
The Michigan Venture Capital Association collaborated with Corina McIntyre and Brian Arnfelt from the University of Michigan Law School to analyze MVCA's diversity data against other state and national population, entrepreneurship, and venture capital statistics and trend data.

### Diversity in Michigan's Entrepreneurial Community

In 2016, Michigan venture capitalists are investing more in startup companies led by diverse CEOs.

- 9% of CEOs of Michigan venture-backed startups were minorities, outpacing the approximately 4% of CEOs of Fortune 500 companies nationally. However, Michigan's venture-backed CEO population still looks much whiter and more male than the rest of the U.S. labor force, which 21% of workers are a minority.<sup>3</sup>
- 11% of Michigan venture-backed startups were led by a female CEO, nearly four times the national average of 3%.<sup>4</sup> Research shows that 63% of startup companies with a woman on their founding team outperform all-male founding teams, giving investors an economic reason to value diverse founding teams in their investment decision-making processes.<sup>4</sup>
- 1% of Michigan venture-backed startups were led by an LGBTQ CEO, while LGBTQ people represented an estimated 4% of the state and national population<sup>5</sup>

### DIVERSITY IN MICHIGAN'S ENTREPRENEURIAL COMMUNITY <sup>2</sup>



<sup>1</sup> www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

<sup>2</sup> If a CEO falls into more than one category, the total may be greater than the sum of the parts

<sup>3</sup> Bureau of Labor Statistics

<sup>4</sup> First Round Capital



## Diversity in the Entrepreneurial & Investment Landscape

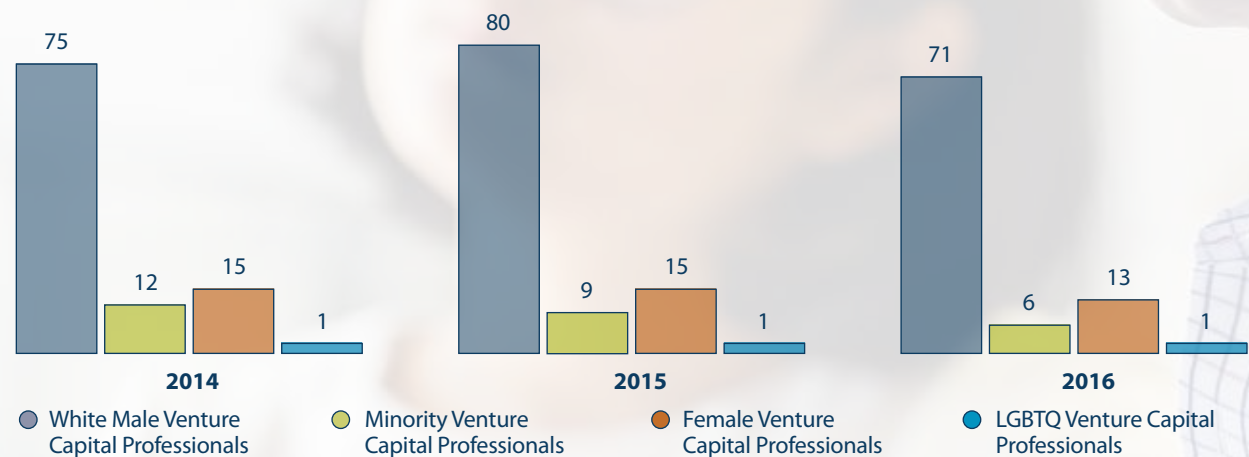
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### Diversity in Michigan's Venture Capital Community

While investing in startup companies led by an underrepresented group member or members is important, employing diverse investment professionals is equally essential. It provides venture capital investors access to diverse perspectives and allows for a wide variety of ideas to be injected into the due diligence and overall fund management process. In addition, the lack of diversity among capital's gatekeepers trickles down to create a less diverse entrepreneurial and investment community.

- The percentage of female venture capital professionals in Michigan has remained consistent from year to year at just above **14%** of the total community. Michigan is more diverse in this regard than the national venture capital investment community. Nationally, only 11% of venture professionals are female, despite women comprising over 46% of the U.S. labor force. In Michigan, 36% of women hold managerial/professional occupations.<sup>6</sup>
- Nationally, **26%** of venture professionals were minorities in 2016, a major increase from the 13% reported in 2015.<sup>7</sup> Michigan remains below the national average and saw a slight decrease in the number of venture capital professionals who were minorities from 9% in 2015 to 7% in 2016.

DIVERSITY IN MICHIGAN'S VENTURE CAPITAL COMMUNITY<sup>2</sup>



**“As a women-founded and women-led company, our team knows the importance and power of community. There are a lot of societal, gender, and socio-economic barriers in the tech space that we will continue to take in stride with the support of the local Michigan community.”**

Lisa McLaughlin, CEO of Workit Health

<sup>2</sup> Movement Advancement Project; Williams Institute (UCLA School of Law)

<sup>6</sup> NVCA; U.S. Department of Labor; Status of Women in States

<sup>7</sup> 2016 NVCA Diversity Report

### A Commitment to Diversity in the Entrepreneurial and Investment Landscape

Venture capital as an industry needs to continue valuing diversity and committing to initiatives such as those embraced by NVCA and MVCA. One of the biggest hurdles to a diverse workforce is the lack of a clear career path to become a venture capitalist. To help change that, we challenge Michigan venture capital professionals to actively seek out ways to mentor and connect with women, minorities, and LGBTQ individuals who want to be involved with the entrepreneurial and investment community. Opportunities to increase diversity include offering internships and fellowships, participating in impact investing and pitch competitions, and partnering with university programs. Funds that focus on increasing diversity in the Michigan entrepreneurial and investment community will pave the way for everyone to experience the exceptional return on investment that diversity can bring.

#### Workit Health

Workit Health is an Ann Arbor-based information technology startup that offers a 90-day digital counseling program for substance abuse. This startup is supported by multiple Michigan investors and local partners and is attracting national attention. The co-founders, Lisa McLaughlin and

Robin McIntosh, designed Workit to provide more affordable and accessible treatment through technology. With their personal and professional experience with overcoming addiction, the entrepreneurs have a unique strength that ultimately led to the development of their innovative platform that addresses a deep market need. With support from Michigan investors, Workit plans to build their care teams, including psychiatrists and nutritionists, so that

they can enable remote access to rehabilitation services. The company is also collaborating with researchers in Michigan, including the University of Michigan's School of Social Work as well as the university's depression center to expand its programs.

As startup companies grow and thrive, Michigan's economy becomes increasingly diverse. Having a full pipeline of businesses at all stages of growth, across many industry sectors, and with a broad diversity of leadership creates a breadth of opportunities within Michigan's economy. Michigan also provides an exceptional opportunity to grow the company because telemedicine laws are progressive, social work is prevalent, and there is an abundance of clinical partners available. This growing startup currently employs 19 people and plans to expand its clinical, engineering, and sales teams in Michigan.



## Attracting Capital to Michigan

Michigan's venture capital community plays a critical role in attracting and leveraging outside investment capital. Local firms are often the first to identify strong Michigan-based investment opportunities, and can then provide deal leadership and connections to potential out-of-state syndicate partners.

**141** **141 Companies Growing**  
 There are currently 141 venture-backed startup companies growing and hiring in Michigan, an increase of 48% in the last five years.

### Future Need for Venture Capital

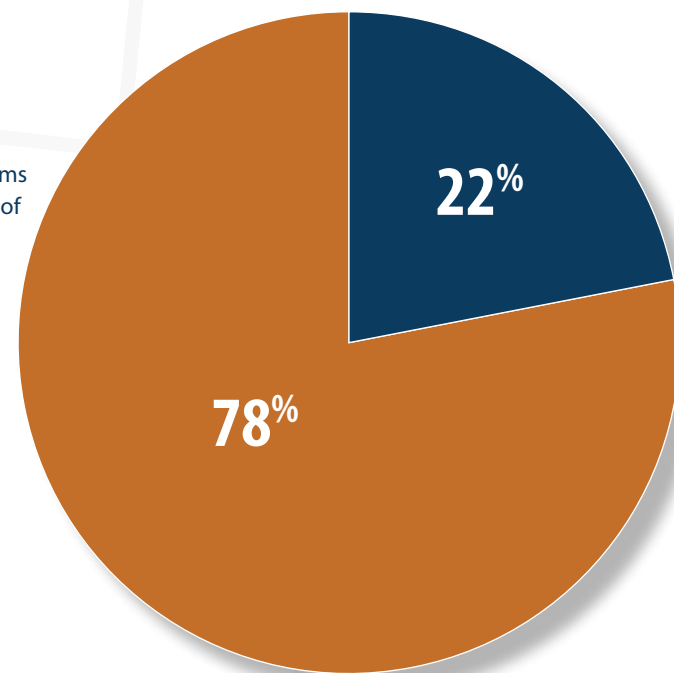
An estimated \$504 million of additional venture capital will be required to adequately fund the growth of Michigan's 141 startup companies in the next two years.

**\$504,000,000**

Michigan venture capital firms contributed 22% of the total capital invested in Michigan startups in the last year. The remaining contributions came from venture capital funds outside of Michigan, illustrating the importance of attracting investments from beyond the state's borders.

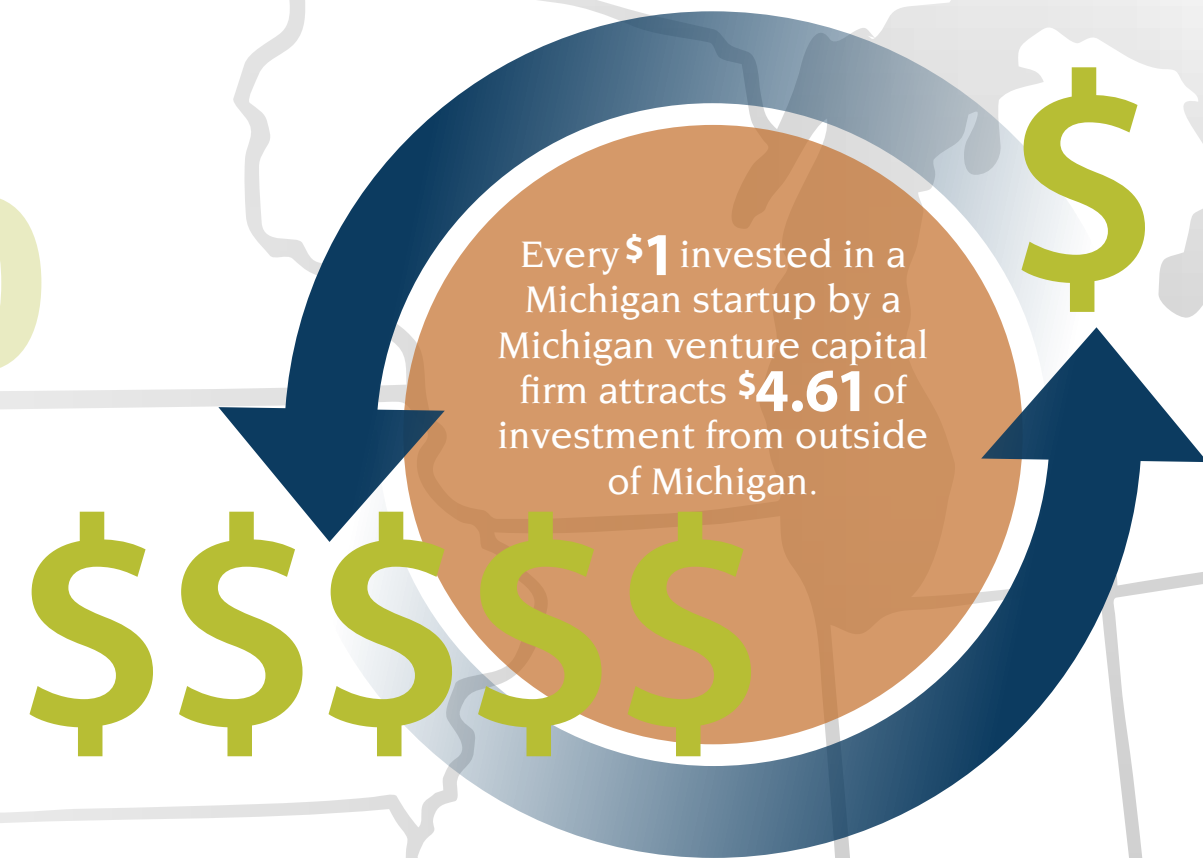
### CAPITAL RAISED BY MICHIGAN STARTUPS IN 2016

- Amount of Capital from Michigan Venture Capital Firms
- Amount of Capital from Out of State Venture Capital Firms



**343**

Venture Capital Firms from Outside of Michigan Have Invested in Startups in Michigan.



### FarmLogs

FarmLogs is an Ann Arbor-based information technology startup that provides software and analytics to farmers worldwide to enable them to monitor their crops, predict profits, and manage risks through satellite technology. Venture capital investment was critical for the company to expand operations and hire people in Michigan. FarmLogs now serves over 64 million acres of farmland, one-third of farms in the United States, and employs 60 people in Michigan.



## Diversifying Michigan's Economy

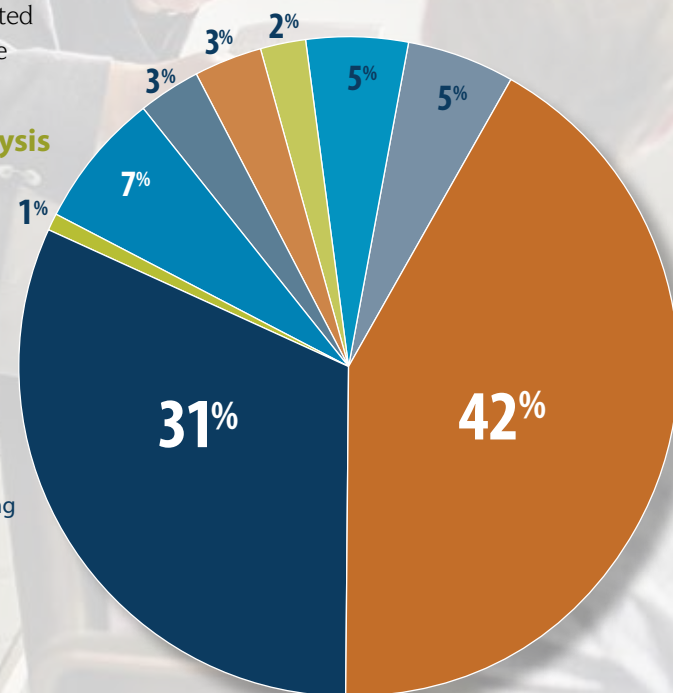
Venture capital investors in Michigan support startup companies in a wide variety of sectors, stages, and backgrounds. As startup companies grow and thrive, Michigan's economy becomes increasingly diverse. Having a full pipeline of businesses at all stages of growth, across many sectors, and with a broad diversity of leadership creates a breadth of opportunities for the people and businesses in Michigan.

- While Michigan venture funds are investing in a variety of sectors, the life science sector continues to be the focus of capital deployment with 42% of total capital invested. This sector has seen a 44% decrease in the last year. Healthcare services and medical device startups accounted for 59% of all investment made in the life science sector.
- The information technology sector is 31% of total capital invested. This sector has seen a 7% increase over the prior year. Software companies accounted for nearly 83% of all investments made in the information technology sector.

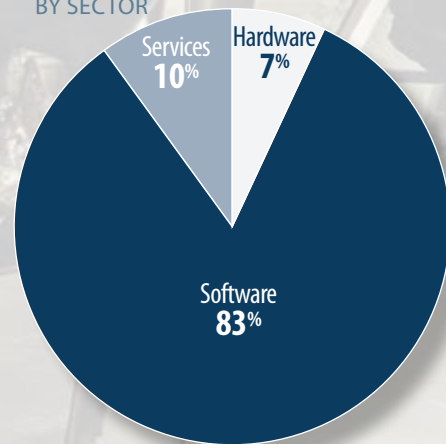
### Sector Diversification Analysis by dollars invested

CAPITAL INVESTED by All Venture Firms in Michigan BY SECTOR

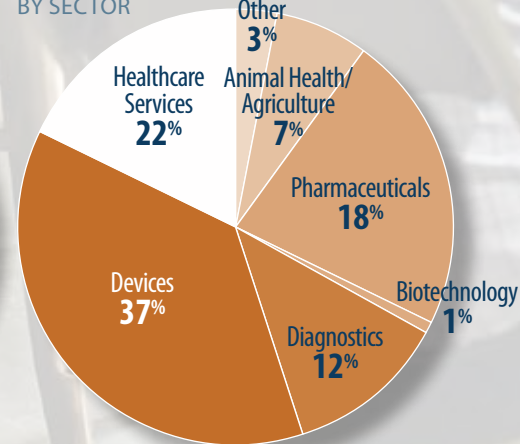
- Life Science/Healthcare
- Information Technology
- Alternative Energy
- Media
- Advanced Materials & Manufacturing
- Business Services
- Consumer Products
- Mobility
- Other



INFORMATION TECHNOLOGY BY SECTOR



LIFE SCIENCE/HEALTHCARE BY SECTOR



## Michigan: The State of Mobility

A startup in the mobility sector is a company who is building technologies that impact how people and goods move across all modes of transportation (including pedestrian). Mobility encompasses a wide range of industries including automotive, transportation, smart city, energy, logistics, supply chain, and travel. Technologies include software and hardware using artificial intelligence, machine/deep learning, virtual reality, augmented reality, robotics, and modes of transportation characterized as autonomous, electric, shared, and connected.

Increasing trends in mobility-related investment in Michigan caused MVCA to add it as its own sector of study in the research report. Prior, investment in mobility startups were included in "other" for research purposes, but the sector's new level of significance in recent years led us to examine it as a "stand alone" category along with our other standard sectors: Life Science / Healthcare, Information Technology, Alternative Energy, Media, Advanced Materials & Manufacturing, Business Services, and Consumer Products.

With help from technology accelerators around the state that provide support to start-ups and entrepreneurs, Michigan has seen a 48% increase in the number of venture capital-backed companies over the last 5 years. And since Michigan has the highest research spending-to-venture capital investment ratio in the country, Michigan is the ideal place to pursue ideas in mobility.

**5%** Mobility startups account for 5% of total capital invested by Michigan venture capital firms. **6%** Mobility startups account for 6% of all companies receiving investment from Michigan venture capital firms.

"I want to optimize Michigan's wealth of automotive talent to build high-growth, high-potential enterprises that create world-changing technologies. Over the past year, I've funded two entrepreneurs out of the University of Michigan and one team out of Techstars Mobility and plan on doing much more over the coming 12 months."

Reilly Brennen, Founding Partner, Trucks.VC

### Techstars Mobility

Techstars Mobility invests \$120k in 10-12 mobility startups from around the world each year. The program brings the startups companies to Detroit for 90 days, where Techstars Mobility mentors and staff work with the founders to accelerate their company's growth. **In the last 18 months, Techstars Mobility has invested in 22 startups that have raised \$20M in total and are collectively valued at over \$100M.** Its eight corporate innovation partners, including Ford, Verizon, Honda, Next 47 (a division of Siemens), Bosch, Munich Re, Dana, and Michelin, offer mentorship and support to program participants.



## Capital Analysis

All indications point to the long-term vitality of the entrepreneurial community in Michigan, but there is still work to do to ensure there remains a robust capital continuum for entrepreneurs and their growing companies. The ability to adequately fund, build and keep companies at all stages of growth is critical to ensuring the state's economic health in the long run.

MVCA's analysis of capital availability and need by stage explores the funding challenges that face growing companies as they advance from ideas to mature companies.

**Venture capital firms typically invest in startup companies when they are in the seed, startup/early, and growth/expansion stages.**

### seed

- least amount of capital available for new investment opportunities
- largest differential between the availability and need for follow-on investment capital

### startup/early

- availability of capital for new investment opportunities far exceeds the need for capital
- highest need for follow-on investment opportunities, exceeding the amount of capital available
- highest area of deployment each year

### growth/expansion

- availability of capital exceeds the need for both new and follow-on investment opportunities



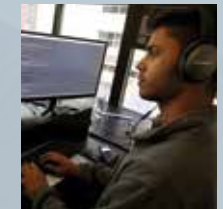
#### Retrosense Therapeutics

RetroSense Therapeutics is an Ann Arbor-based life science startup that develops gene therapies to cure eye diseases.

Recently acquired by Allergan for \$555 million, the company employs one person in Michigan. Michigan pre-seed stage investors, Blue Water Angels, MEDC, and Ann Arbor SPARK, supported this growing Michigan company.

#### Lunar Labs

Lunar Labs is a Detroit-based mobility startup that offers a pay-as-you-go smartphone service to reduce prices for the average user. The company grew out of the Techstars Mobility accelerator and employs seven people in Michigan. Michigan seed stage investors, Detroit Venture Partners and Fontinalis Partners, supported this growing Michigan company.



#### RespondWell

RespondWell is a Grand Rapids-based life science startup that provides a telerehabilitation platform for physical therapy. Recently acquired by Zimmer Biomet, the company employs 20 people and plans to expand operation in Michigan. Michigan startup/early stage investors Three Leaf Ventures and Michigan Accelerator Fund, among others, supported this growing Michigan company.



#### Millendo

Millendo Therapeutics is an Ann Arbor-based life science startup that develops novel therapeutics for the treatment of endocrine diseases caused by hormone dysregulation. This startup employs 13 people in Michigan and set a state record by raising \$62 million in 2016 from Michigan growth/expansion stage investors Renaissance Venture Capital Fund.



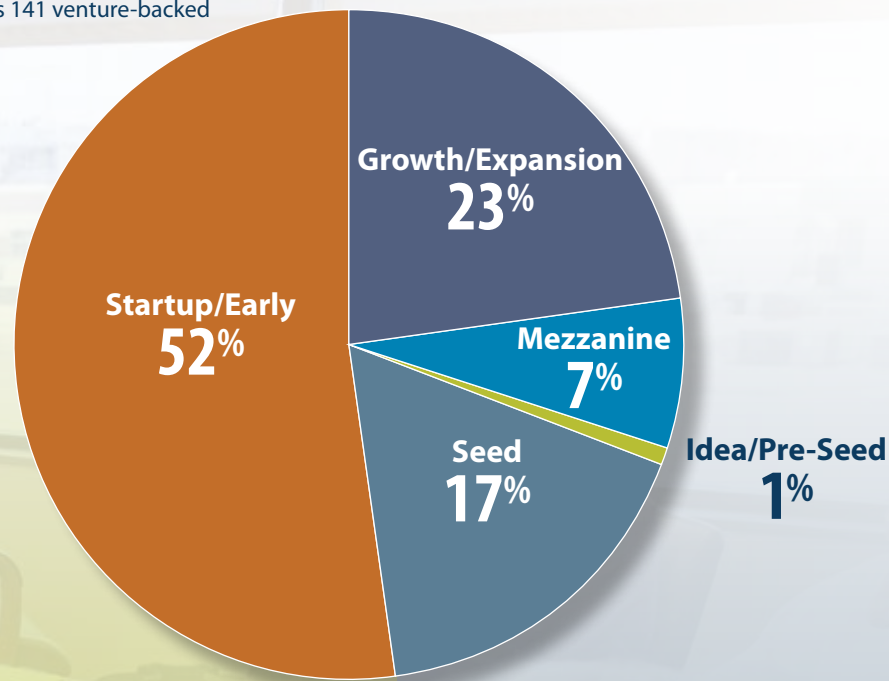
#### Duo Security

Duo Security is an Ann Arbor-based information technology startup that protects users, data, and applications from credential theft and breaches. This startup employs 350 people in Michigan and plans to double their workforce in the next three years. Michigan venture capital firm Resonant Venture Partners supported this growing company.

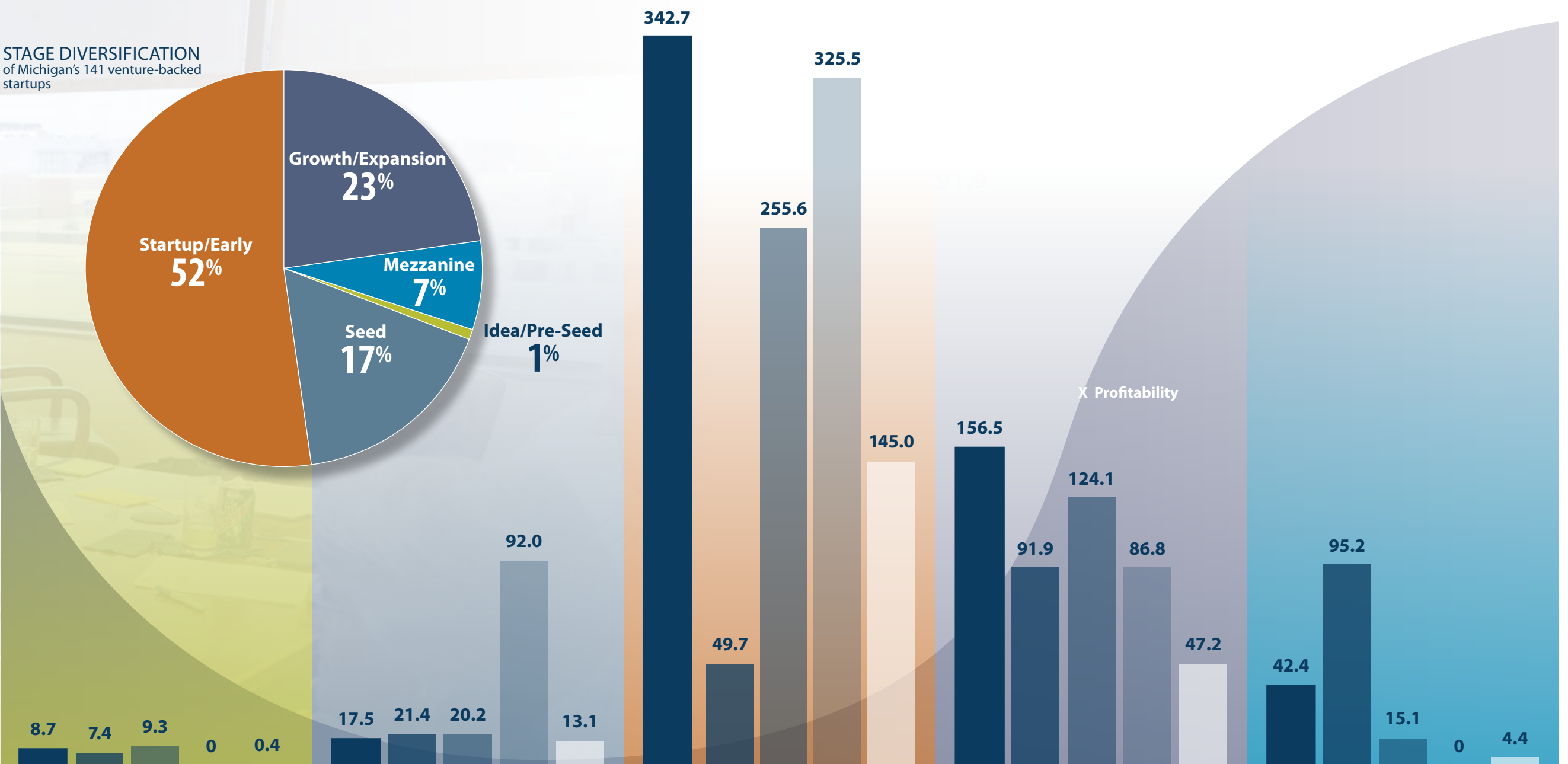




**STAGE DIVERSIFICATION**  
of Michigan's 141 venture-backed startups



AMOUNT OF CAPITAL in millions



	Idea/Pre-Seed	Seed	Startup/Early	Growth/Expansion	Mezzanine
<b>Number of Michigan Venture Capital Firm's that Invest in this Stage</b>	7	22	29	19	4
<b>Number of Venture-Backed Startups in Michigan Currently in this Stage</b>	1	24	73	33	10

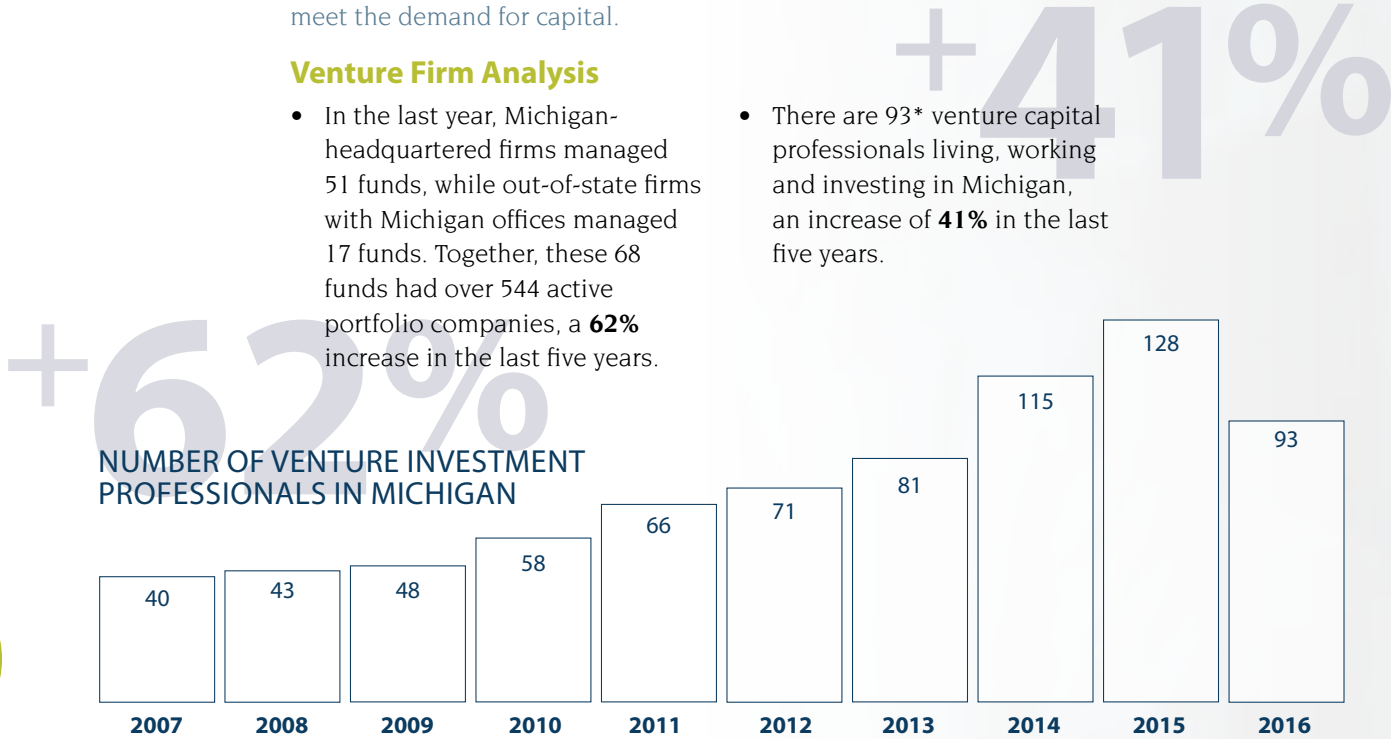
<p><b>Idea/Pre-Seed</b></p> <p>Startups without a commercial product or service are in the Idea/Pre-Seed Stage. Capital comes from family, friends, and perhaps angel investors. Typically, these companies are trying to reach specific early milestones before raising their first official round of financing in a year or less.</p>	<p><b>Seed</b></p> <p>Startups in the Seed Stage have investments from founders, family, friends and perhaps angels, and now seek to raise venture capital, develop prototypes, and identify customers.</p>	<p><b>Startup/Early</b></p> <p>Companies who fund activities with earlier types of capital and start to earn revenues from operations but are not yet cash flow positive are considered to be in the Startup/Early Stage.</p>	<p><b>Growth/Expansion</b></p> <p>Startups who fund activities with earlier types of capital, start to earn revenues from operations, and are cash flow positive with the potential to obtain bank financing, they are in the Growth/Expansion Stage</p>	<p><b>Mezzanine</b></p> <p>In the Mezzanine Stage, startups fund activities with earlier types of capital, earn revenues from operations, are cash flow positive, with the potential to obtain bank financing or private debt.</p>
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# Fundraising Analysis

The 33 venture firms in Michigan estimate that funds needed for new investments, coupled with the need for follow-on funding for their 141 Michigan-based startups, exceed what is currently available. To encourage statewide business development, venture firms are actively fundraising to meet the demand for capital.

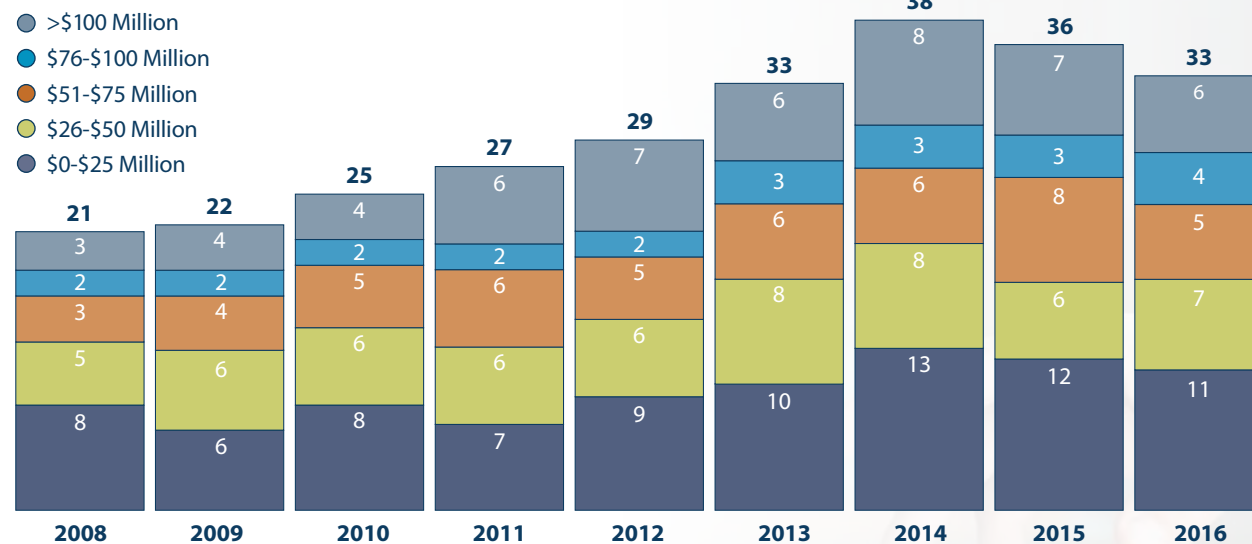
## Venture Firm Analysis

- In the last year, Michigan-headquartered firms managed 51 funds, while out-of-state firms with Michigan offices managed 17 funds. Together, these 68 funds had over 544 active portfolio companies, a **62%** increase in the last five years.
- There are 93\* venture capital professionals living, working and investing in Michigan, an increase of **41%** in the last five years.



- The average venture capital fund size among Michigan-based firms is \$50 million. If out-of-state funds with a Michigan office are included, the average fund size is \$61 million.

## DISTRIBUTION OF MICHIGAN VENTURE CAPITAL FUND SIZES



\*One Michigan venture investment organization was determined not to have met the definition of a "venture capital firm" for 2016 reporting purposes. This organization's 20 employees have been included in this data point in past reports, but are now excluded.

## Venture Firm Experience

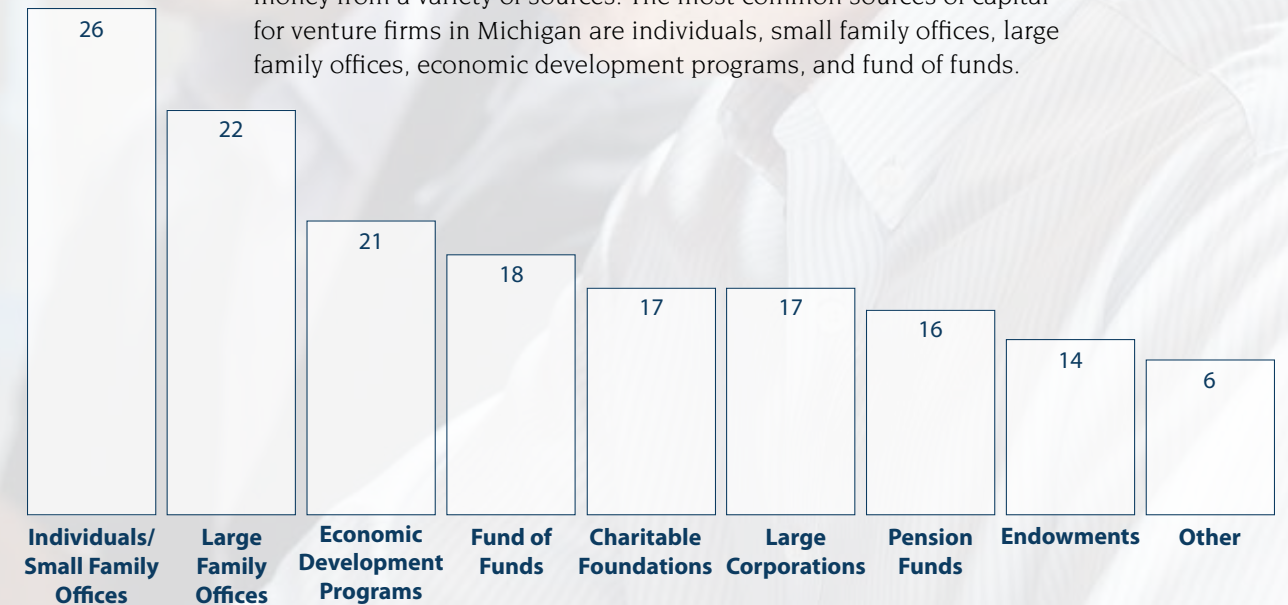
- Most venture capital firms in Michigan have managed fewer than five funds, with most venture capital firms having managed only two funds.

**2.5** Venture firms with headquarters in Michigan have managed an average of 2.5 funds

**3.1** Venture firms with an office in Michigan but headquarters elsewhere have managed an average of 3.1 funds

## Popular Sources of Capital for the 33 Venture Firms in Michigan

- Ten of the existing venture firms in Michigan are currently fundraising. The average target fund size is just over \$65 million.
- The 33 venture firms with headquarters or an office in Michigan raise money from a variety of sources. The most common sources of capital for venture firms in Michigan are individuals, small family offices, large family offices, economic development programs, and fund of funds.

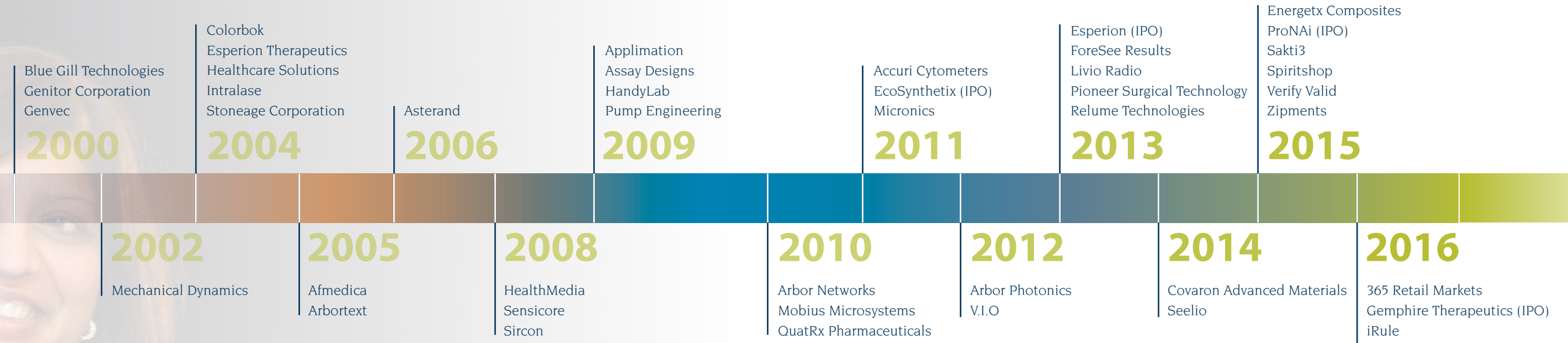


## Fundraising Targets

- In 2016, venture firms with a presence in Michigan were targeting to raise a total of \$520 million. The total amount reported to have been raised in 2016 was \$179 million, which was 66% less than targeted.
- Michigan has experienced a decrease in venture firms located here for two consecutive years, the first decreases seen in 15 years. In a relatively young entrepreneurial and investment community, disappointing news about a high-potential startup company, economic development organization budget cuts, or unfriendly entrepreneurial policy can damage potential fundraising plans. If firms aren't able to raise the capital they need in Michigan, they slow their rates of investing, cease operations, or focus their resources elsewhere. This creates a dire lack of access to capital for startups in Michigan.



# A Timeline of Michigan Successes



## 2016 Exits by Michigan Venture Firms

### Alternative Energy

Virent	Madison, WI	Venture Investors
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### Business Services

LaunchKey	Las Vegas, NV	Ludlow Ventures
Worklife	San Francisco, CA	Ludlow Ventures

### Consumer Products

Monica Vinader	England	Beringea
mophie	Kalamazoo, MI	Beringea
MyOptique Group	England	Beringea
Product Hunt	San Francisco, CA	Ludlow Ventures

### Information Technology

365 Retail Markets	Troy, MI	Plymouth Ventures
Big Data Partnership	England	Beringea
Filament Labs	Austin, TX	Mercury Fund
Glyde	Menlo Park, CA	RPM Ventures
iRule	Detroit, MI	Detroit Venture Partners
LevelEleven	Detroit, MI	First Step Fund
Linkdex	New York, NY	Beringea
Mesify	Houston, TX	Mercury Fund
OwnThePlay	Detroit, MI	IncWell
Peerius	England	Beringea
Pipp Mobile Storage Systems	Walker, MI	Beringea
Preo	New York, NY	IncWell
Sidecar	Ann Arbor, MI	First Step Fund

### Life Science / Healthcare

Alfalight	Madison, WI	Venture Investors
CD Diagnostics	Claymont, DE	BioStar
Domain Surgical	Salt Lake City, UT	BioStar
Ellipse Technologies	San Diego, CA	BioStar
Gemphire Therapeutics	Northville, MI	Detroit Innovate, WMU BRCC
IntelliCyt	Albuquerque, NM	Arboretum Ventures
Interventional Spine	Irvine, CA	BioStar
NeuWave Medical	Madison, WI	Venture Investors
RespondWell	Grand Rapids, MI	Michigan Accelerator Fund I, Three Leaf Ventures, Wakestream Ventures, WMU BRCC

Specialty European Pharma Limited (SEP)	England	Beringea
Tangent Medical	Ann Arbor, MI	Arboretum Ventures
TransCorp Spine	Ada, MI	Hopen Life Science Ventures, Michigan Accelerator Fund I, WMU BRCC

Uptake Medical	Seattle, WA	Arboretum Ventures
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### Media

Campden Wealth	England	Beringea
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### Mobility

Geometric Intelligence	New York, NY	Fontinalis Partners
Telogis	Aliso Viejo, CA	Fontinalis Partners



# Michigan Venture Capital Association



## Overview

As the MVCA reaches its 15-year anniversary, we celebrate our association's success as a catalyst for growth of the venture capital and angel investor community. The MVCA board and staff are dedicated to expanding opportunities for growth of entrepreneurs and venture and angel investors through the following programs, services and publications.

### Research

MVCA develops and distributes an annual research report, which offers a comprehensive summary of venture capital investment activities across Michigan. MVCA works with the National Venture Capital Association, Pitchbook, the U.S. Census Bureau, and the Angel Capital Association to analyze Michigan's entrepreneurial and investment activities relative to national trends. The annual research report is the critical source of quantitative information used to unite the Michigan entrepreneurial and investment community into a common voice to drive initiatives that encourage its growth in Michigan.



### Advocacy

Core to MVCA's mission is serving as the statewide voice for Michigan's growing entrepreneurial and investment community. To advance this objective, MVCA educates, advocates, and communicates to legislators, the media, and the general public on entrepreneurial and investment opportunities, challenges, and successes in Michigan.



### Events

MVCA facilitates the development of a strong network within the Michigan entrepreneurial and investment community and builds connections with out-of-state angel and venture investors through targeted meetings and events.





## Programs

MVCA provides program development assistance to Michigan's entrepreneurial and economic support organizations on matters targeting Michigan's talent and capital gaps. In this role, MVCA collaborates with organizations by facilitating research, providing direction, and assembling feedback within the proposed programs' scope to help shape the ultimate goals and desired outcomes of the programs, so that they best suit the true needs of Michigan's entrepreneurial and investment community.

MVCA offers several programs funded by the Michigan Economic Development Corporation. These programs have played a critical role in building Michigan's entrepreneurial and investment landscape:

- **The Michigan Venture Fellows Program** provides grant funding toward salaries to increase the number of venture professionals in Michigan and accelerate the fundraising and deployment of capital into early-stage companies. Venture Fellows are hired for two years by a Michigan-based venture firm and are expected to continue their careers with the firm after the fellowship.
- **ExeConnect** helps organizations and executives better navigate Michigan's entrepreneurial and investment community. Program users can simplify the path to a meaningful connection by using the Michigan Entrepreneurial & Investment Landscape Guide and Map available in both a printed and web-based interactive, searchable form. Users can also take advantage of the deep connections the MVCA team has in the entrepreneurial and investment community.

## Outreach

MVCA broadens the reach of the Michigan entrepreneurial and investment community by building relationships and educating national partners on opportunities and trends in Michigan.

- **Immersion Days** are a customized series of all-day meetings, tours and social events intended to familiarize out-of-state investors with the wealth of resources, partnerships and entrepreneurial ideas available in Michigan.

- **Outreach Trips** meet with out-of-state investors to share key research report findings, opportunities and successes. These trips build relationships that can be leveraged by Michigan investors.



## Nurturing the Spirit of Innovation

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**DRIVING THE MICHIGAN ECONOMY  
INTO A NEW ERA.**

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