

# Understanding Venture Capital

Venture capitalists believe innovation is the foundation of Michigan's growing economy. As a result, over the last 15 years, the venture capital industry has become a significant driver in funding Michigan's brightest entrepreneurs.

## What is Venture Capital?

Venture capital is money invested in high-tech, high-growth companies that are too early in their development to secure traditional funding from banks. Venture capital firms raise money from a variety of individuals, family offices, large corporations, etc. and reinvest that pool of money into companies in return for a percentage of ownership. Venture capitalists bring investing knowledge and operating experience that is as valuable as the capital they provide. The goal is that as the company grows in size and value, the percentage of ownership becomes more valuable. When the company is eventually purchased by a larger organization or goes public, the venture capital firm is then able to sell their percentage of the company at the new value, pay back their investors, and start a new pool of money for future investing.

### DID YOU KNOW?

Michigan is home to **27** venture capital firms and has total capital under management of \$3.7B.

## WHO USES VENTURE CAPITAL?

Companies funded by venture capital firms are most often high-tech companies that have the potential to grow quickly into a much larger and more valuable company within three to five years.

### A couple examples are:

- Information technology companies such as Facebook (social media platform) or Oculus Rift (virtual reality headset)
- Life science companies such as Juno Therapeutics (immunotherapy for cancer treatment)
- Mobility companies such as Uber (ridesharing app)

Overviews and contact information for venture capital firms located in Michigan can be found in MVCA's Landscape Guide at [www.MichiganVCA.org](http://www.MichiganVCA.org)

# 2019

## Impact by the Numbers

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 our high-tech, high-potential companies.

140

Venture-Backed  
Companies  
in Michigan

Every  
**\$1 Invested** in a  
Michigan Startup by  
a Michigan-Based Venture  
Capital Firm **Attracts \$7.85**  
of Investment from  
Outside of Michigan

\$3.7B

Total Capital  
Under  
Management

\$52M

Angel Capital  
Invested in 84  
Michigan Startups  
in 2018

533

Venture Firms from  
Outside of Michigan  
have Invested in  
Michigan-Based  
Startups

85

Venture Capital  
Professionals

27

Venture  
Capital Firms

859

Angel  
Investors

\$385M

Venture Capital  
Invested in  
**61 Michigan  
Startups**  
in 2018

The Michigan Venture Capital Association (MVCA) is a nonprofit trade association founded in 2002 to increase the amount of capital and talent available to venture and angel investors for the funding of Michigan's most innovative entrepreneurs.

Additional information about Michigan's entrepreneurial and investment community can be found at [www.MichiganVCA.org](http://www.MichiganVCA.org) or connect with us on Twitter and Facebook at [@MichiganVCA!](https://twitter.com/MichiganVCA)



# Funding Michigan Entrepreneurs

The ability to adequately fund high-tech, high-potential companies as they mature is critical to growing companies in Michigan, keeping them in Michigan, and ensuring Michigan's economic health in the long run.

## Available funding

There are 140 existing venture-backed startup companies growing and hiring in Michigan.

## The need to attract 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 partners.

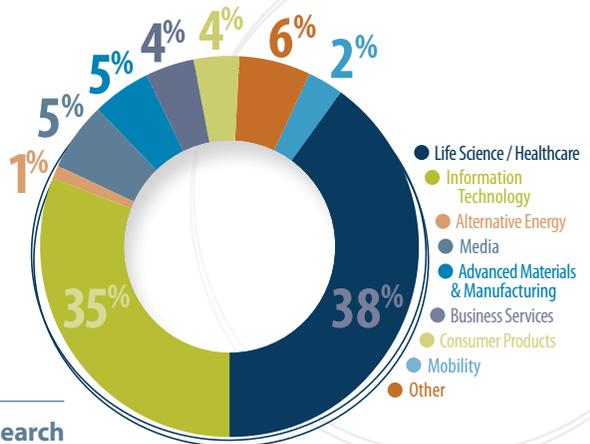
An estimated **\$967 MILLION** of additional venture capital is required in the next two years to adequately fund the growth of Michigan's existing venture-backed startups.

**\$334 MILLION** of venture capital is available in Michigan for existing companies.

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.



Every **\$1 Invested** in a Michigan Startup by a Michigan-Based Venture Capital Firm **Attracts \$7.85** of Investment from Outside of Michigan



See pages 20-23 of the **2019 MVCA Research Report** for more information on this topic.

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# Promoting Diversity

For the last five years, MVCA has studied the presence and role of women, individuals identifying as LGBTQ+, and racial minorities within Michigan's entrepreneurial and investment community. MVCA believes it is important to examine trends pertaining to diversity investment and entrepreneurship to identify policy and program needs.

## Total Capital Invested in Michigan

In Michigan, 61 startups received nearly \$385 million from venture capital firms in 2018. Of that, \$53 million was invested in 16 Michigan startup companies led by a CEO who is a member of an underrepresented group.

### Diversity in Michigan's Entrepreneurial Community

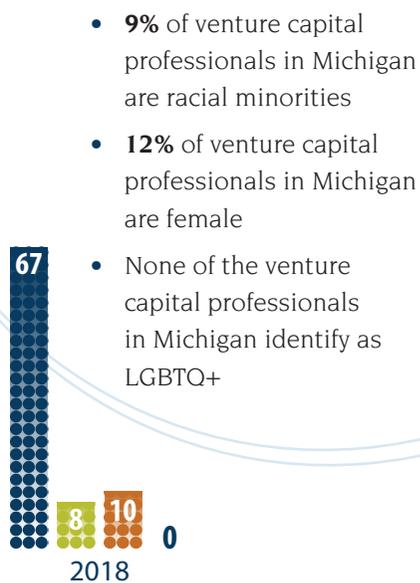
There are currently 140 venture-backed startup companies in Michigan.



- **13%** of Michigan venture-backed startups were led by a CEO who is a racial minority
- **10%** of Michigan venture-backed startups were led by a female CEO
- **1%** of Michigan venture-backed startups were led by a CEO who identifies as LGBTQ+

### Diversity in Michigan's Venture Capital Community

There are currently 85 venture capital professionals in Michigan.



- **9%** of venture capital professionals in Michigan are racial minorities
- **12%** of venture capital professionals in Michigan are female
- None of the venture capital professionals in Michigan identify as LGBTQ+

● White, male   ● Racial minority   ● Female   ● LGBTQ+

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# Growing Michigan's Economy

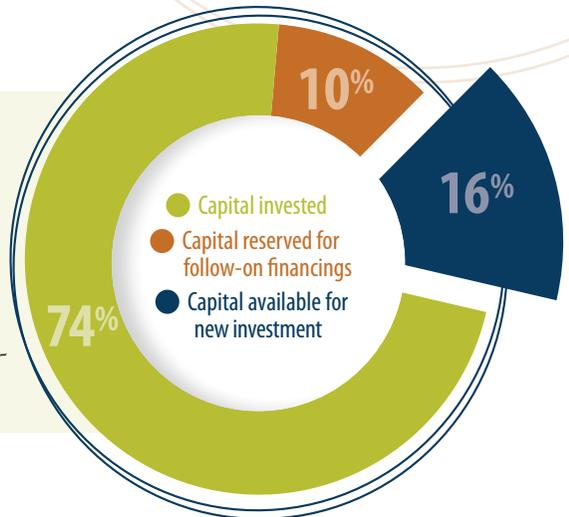
Michigan is becoming an increasingly popular place to launch high-tech, high-growth companies. As the number of startup companies in Michigan grows, so does the demand for venture capital. To encourage and support statewide business development, Michigan venture firms are actively fundraising to increase capital availability. Successful fundraising by Michigan venture capital firms is critical to the continued growth of Michigan's economy.

There were **140** active venture-backed startups in Michigan in 2018, which is a **37% increase** over the last five years.

- Venture capital firms often look to university funds, economic development funds, and angel investors to find high-growth, high-potential companies for investment.
- **84** startups received funding from angel investors in 2018.
- **47** startups received funding from university and economic development-related funds in 2018.

- Last year, venture firms with a presence in Michigan raised 47% less than targeted, making it difficult for startup companies to obtain the capital they need to grow and hire in Michigan.
- To support the demand for capital from new high-tech companies launching in Michigan, **11 venture firms are targeting to raise \$722 million in 2019.**

- Total venture capital funds under management in Michigan is \$3.7 billion. Of this, **84% has already been invested into companies or is reserved for existing companies**, leaving \$545 million available for new startup companies - a 10% decrease from the prior year.



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