

# Michigan Innovation Fund - \$105M

*A fund to grow Michigan's entrepreneurial and innovation ecosystem, to grow and diversify the economy and create jobs, and to build a strong network to support startup companies*

**Goal:** Create a strong and sustainable ecosystem that supports early-stage startups and innovation, leading to broader economic growth and a diverse economy for Michigan. By providing both immediate and long-term investment into startups, as well as ensuring an ongoing cycle of reinvestment, Michigan can create a robust and dynamic environment for entrepreneurship.

The Michigan Innovation Fund supports this goal by helping to ensure Michigan has at least 5 self-sustainable evergreen funds that provide early-stage venture funding now and in the future as well as providing increased funding to key partners in the ecosystem that support startup companies, founders, and funds.

## The Challenge

- Michigan is losing significant jobs, talent, and investment opportunities due to the lack of early-stage investment capital to support startups
- In Michigan, new early-stage venture capital has decreased significantly over the past several years
- Early-stage funding rounds remain extremely challenging for high-potential Michigan startups
- Most investment institutions in the state do not have the capacity or sustainability models to develop high-growth potential companies from pre-seed through Series A – the most challenging stage of growth.

## How does Michigan compare?

- Startups in the Great Lakes Region take an average of 2 years longer to raise their first \$500K than startups on the coasts.
- For every \$149 of academic research expenditures in Michigan, there is \$1 of VC investment. In California, the ratio is \$7 of academic research expenditures to \$1 of VC. This represents a significant under-investment in intellectual property generated in Michigan.
- From 2020-2022, UM startups raised \$2B in total investment, however almost 1/2 of startups left MI, and raised almost 4x as much. Of those who stayed in MI – 80% of their funding came from out-of-state investors. Only 4% (\$82M) of all U-M companies that raised venture capital originated from MI investment dollars.
- Out of a sample of 231 high-tech startups originally founded in Michigan, nearly half (50%) left the state.
  - Those companies created over 4,300 jobs and had venture capital and liquidity events totaling \$3.6B.
  - In comparison, the sample of companies that stayed in Michigan created 2,300 jobs and had venture capital and liquidity events totaling \$1.4B.

## What are other Midwest states doing?

- Ohio has 11 early-stage, pre-seed funds of which 6 are fully-funded evergreen funds
- Ohio continues to fund its early-stage ecosystem at about \$75M annually
- From 2016 and 2020, Ohio awarded \$221M to the six regional venture development organizations to help support early-stage investment and their evergreen funds
- During the same period, Michigan has invested about \$24M in early-stage, pre-seed capital

## What is early-stage, pre-seed venture capital?

Early-stage funding, also known as pre-seed funding, typically represents the first significant investment in a startup and is both the hardest to secure and the most risky. Despite these challenges, it is crucial for a startup's initial development and future success. As we look around the country, this funding often comes from public funding, private foundations, or sometimes corporate foundations.

## What is a venture evergreen fund?

Considering venture capital, one might envision traditional funds where returns are distributed to investors following successful company performances. In contrast, evergreen funds represent a unique model. These funds, frequently overseen by non-profit organizations or universities, reinvest profits into emerging early-stage startups rather than distributing them back to investors. This approach fosters a cycle of continuous investment within the ecosystem. Early-

stage evergreen funds usually need to deploy at least \$60M in investments to become self-sustaining. Michigan is currently home to 5 existing funds with proven teams and track records with strong potential to become evergreen.

### What is the MI Innovation Fund?

The MI Innovation Fund is a \$105M fund to provide funding and programming that:

- Creates a fund to award grants to existing nonprofit/ university-backed, early-stage venture funds that are building their funds to an evergreen status. This means the exit returns are continuously reinvested into Michigan startups for perpetuity and that the fund is operationally self-sustaining.
- Provide funding to strengthen Michigan's entrepreneurial ecosystem by supporting organizations that provide programming, technical assistance, or other support to promote the growth and development of startup companies, founders, and funds to support an innovation ecosystem in this state.

### How will we fund the MI Innovation Fund?

The **Venture Michigan Fund I** and II (VMF) were created via Public Act 296 of 2003 to “promote Michigan’s economic health by assisting in the creation of new jobs, new businesses and new industries in Michigan” and to “invest in venture capital managers with a focus on Michigan-based early-stage companies.” **The Fund has seen recent returns resulting in over \$105M cash available today.** We are recommending that the current available and future returns be reinvested in the MI Innovation Fund to continue supporting Michigan’s startup community. The goals of the MI Innovation Fund align with the original goals of the VMF to support MI early-stage companies.

### How will the funds be used in 2024?

We recommend the current \$105M of funding create the MI Innovation Fund and be disbursed in 2024 as follows:

- 85% to support the state’s existing evergreen-focused funds to support long-term sustainability goals. The funds will be required to allocate at least 80% for financial investments in startup companies but can use up to 20% for admin/operations and programming, including technical assistance, coaching, and mentoring.
- 15% to support venture, founder-focused, and support organizations in the ecosystem.

### What will future funding look like?

The VMF is expected to have additional returns available in the future and the funding will continue to support the MI Innovation Fund goals and ecosystem programming, as well as additional startup investments. The funding split includes:

- 40% to the state’s evergreen funds for early-stage investing,
- 40% to other investment fund programs to support existing and emerging funds
- 20% to entrepreneur and innovation ecosystem programming.

### Historical Impact of Michigan’s 5 Active Evergreen Funds

- **Total Amount Invested:** \$107M
- **Total # of Companies Invested:** 660
- **Leveraged Amount:** \$4.2B
- **Total Gross Returns:** \$37.8M
- **Total Jobs Created:** 5,409

### Potential Future Impact for Active Evergreen Funds with MI Innovation Fund Support (Summary)

If the same funds receive this initial round of evergreen funding, the following impact is possible:

- **Five self-sustaining evergreen funds**
- Investments in at least **500 additional Michigan-based startups/companies**
- Creation of **5,000 new, high-paying, full-time jobs**
- Leverage of at least **\$5B in additional investment**
- **Growth of** state and local tax revenue
- A stronger sustainable startup community for Michigan

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