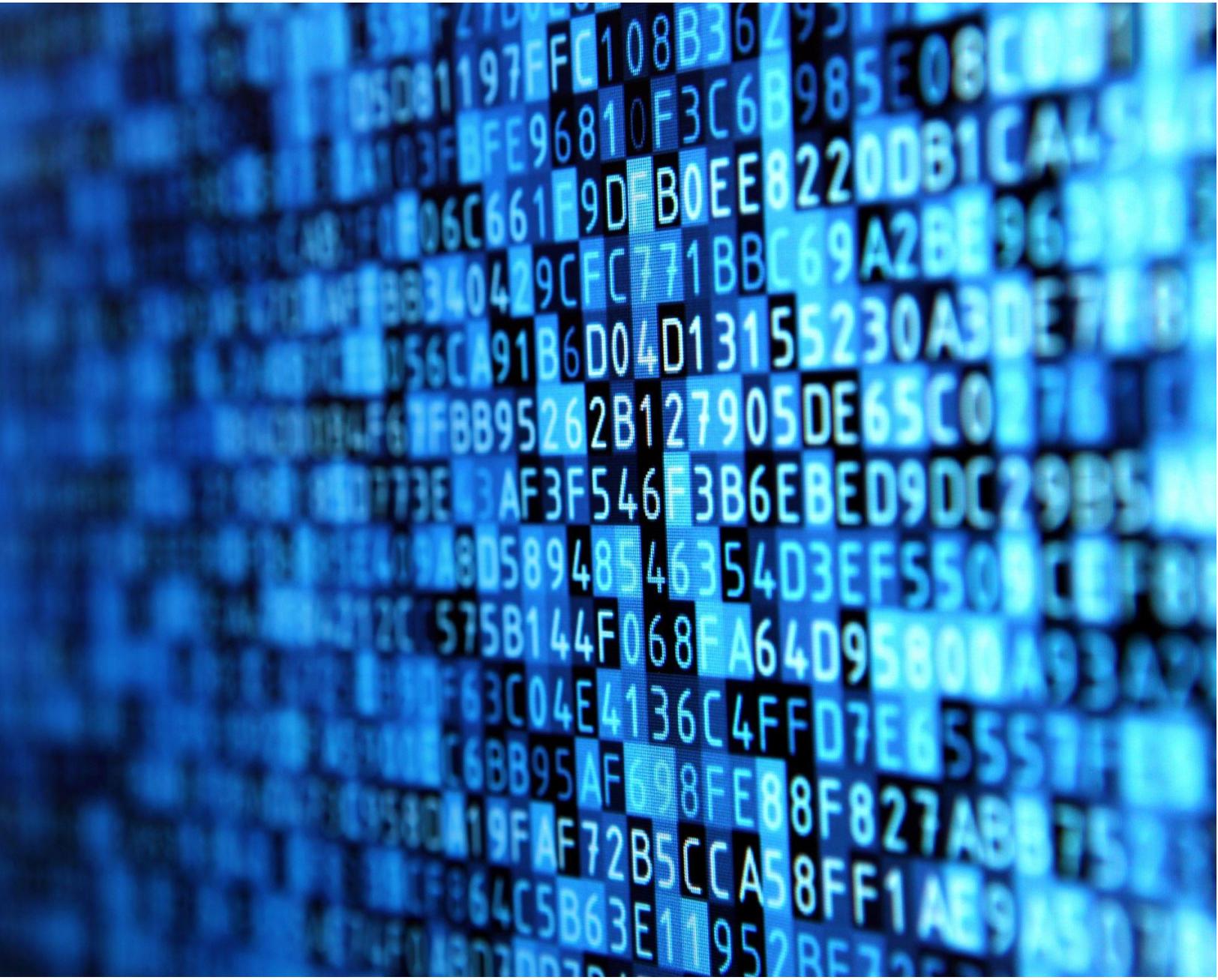


MICHIGAN INNOVATION FUND

Summary of Fund Data

Updated April 9, 2024



Public Policy Associates is a public policy research, development, and evaluation firm headquartered in Lansing, Michigan. We serve clients in the public, private, and nonprofit sectors at the national, state, and local levels by conducting research, analysis, and evaluation that supports informed strategic decision-making.



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THE STARTUP LANDSCAPE

Supporting Michigan’s Startup Community. A policy-research scan conducted in May 2023 by Public Policy Associates highlighted that Michigan’s venture funding has been increasing faster than other states’; however Michigan still trails neighboring states—most notably Ohio and Indiana. The report recommended that to be more competitive, the State of Michigan needed to invest more public funding into its startup ecosystem. It also found that there was a “sweet spot” for funding, and to be effective, an evergreen fund needed to be both large and patient.¹

“A well-designed, well-resourced, and well-run evergreen fund would produce more long-term jobs and economic growth than traditional industry recruitment strategies at a lower cost than other state programs.”

Michigan Startup Evergreen Fund: Landscape Scan, May 2023

The Good News
Michigan
\$67 M

Since 2011, the State of Michigan has invested over \$67 million² in early-stage, pre-seed capital to bolster the state’s entrepreneurial ecosystem.³

The Bad News
Ohio
\$221 M

Just between 2016 and 2020, the State of Ohio awarded \$221 million to six regional venture development organizations.

Ohio’s Impact. Over the course of just five years, it was estimated that the impact of Ohio’s investments contributed *\$10 billion* to the state’s economy, returning *\$66 for every \$1 in public funding*, and *creating 10,570 jobs* at a cost of *\$12,914/job* across six regional partners. Ohio plans an additional \$156 million from 2021 through 2025.⁴

¹ Providing a large initial capital allocation that gives investment managers time to work with companies on expected returns. The report also noted that pressure to report the production of jobs, tax income, or other economic impact sooner than a growth-oriented company is capable of running is contrary to the long-term and patient investment philosophy of an evergreen fund.

² The investments in the figures above are specifically from state-funded investments since 2011 and not the sum of all investments from venture funds across the state.

³ *Between 2016 and 2020, state-funded investments were just \$23.7 million* (this figure was verified with self-reported information from recipients to reflect the same period as the report from Ohio).

⁴ State of Startups: Ohio (2022), <https://www.bizjournals.com/columbus/partner-insights/state-of-startups-ohio/2022>



Michigan’s Potential Impact. Based on a review of historic data provided by five⁵ Michigan nonprofit funds with proven experience and track records, it was estimated that for every \$1 invested in a company, funding in Michigan had leveraged almost \$40. Additionally, the data suggest that if *\$100 million* were to be invested in Michigan, an evergreen fund could help support over *500 companies*, create more than *5,000 jobs*,⁶ and would likely leverage at least another *\$4 billion*.

Other Investments. In comparison, the state’s Strategic Outreach and Attraction Reserve (SOAR) fund for largescale projects—to attract manufacturers to Michigan—has spent (as of fall 2023) *\$585 million* in state funding on three new electric vehicle battery factories that are estimated to produce *a combined total of 6,150 jobs*.⁷

⁵ As reported by SPARK Capital (Ann Arbor SPARK), ID Ventures (Invest Detroit), Michigan State University Research Foundation, the University of Michigan Accelerate Blue Fund, and Biotechnology Research Commercialization Corridor (BRCC) at Western Michigan University.

⁶ Over the long term, startups can result in higher wages across a more diverse range of industries as compared to traditional economic development efforts more narrowly focused on attracting manufacturing.

⁷ In Big Rapids, \$175 million will go toward Grotion’s plant, creating an estimated 2,350 jobs. Meanwhile, Ford’s scaled-back plant in Marshall (\$100.8 million) is now estimated to create 1,700 jobs. Our Next Energy (Van Buren Township) received another \$200 million to add 2,100 jobs.

INTRODUCTION

To address the growing need for early-stage, pre-seed funding in Michigan, a coalition of nonprofit funds with proven experience and track records recommended in spring 2023 that the State of Michigan create an evergreen fund—investing more than \$100 million to support nonprofit early-stage funds in Michigan. The coalition included the following: SPARK Capital – Ann Arbor SPARK,⁸ ID Ventures (Invest Detroit),⁹ Michigan State University Research Foundation,¹⁰ The University of Michigan Accelerate Blue Fund,¹¹ and Biotechnology Research Commercialization Corridor (BRCC) at Western Michigan University.¹²

The coalition is seeking to provide venture organizations with at least 10 years of deployment capital to support Michigan startups, with the returns going back to the local fund(s) to support the goal of becoming evergreen.¹³ This type of funding supports long-term investment capital to Michigan’s early-stage startups, growing and diversifying the economy, creating new jobs, and helping to strengthen a network to support and sustain the startup ecosystem.

To address some of this need, in June 2023, the Michigan Strategic Fund (MSF) board created the Michigan Innovate Capital Fund (MICF), which is not evergreen, but is intended to support Michigan’s venture ecosystem. The MICF was seeded with \$23 million from the Jobs for Michigan investment fund. Recently, in October 2023, four funds (ID Ventures, Ann Arbor SPARK, BRCC, and Invest UP)¹⁴ received a total of \$18 million from the MICF with Michigan Economic Development Corporation (MEDC) slated to award an additional \$5 million in pre-seed funds later in 2023.¹⁵ According to the MEDC, an additional \$11.5 million more funded through the MICF is planned in 2024.

In May 2023, to better understand the potential impact of additional early-stage, pre-seed funding on Michigan, ID Ventures (Invest Detroit) contracted with Public Policy Associates

⁸ SPARK Capital is a statewide co-investment fund managed by Ann Arbor SPARK.

⁹ ID Ventures is the venture capital program of Invest Detroit.

¹⁰ Michigan Rise and Red Cedar Ventures are both part of the MSU Research Foundation.

¹¹ The Accelerate Blue Fund (ABF) is an early stage venture fund that exclusively invests in University of Michigan (U-M) licensed startups.

¹² The BRCC provides startup and gap funding to promising Michigan-based life sciences and medical device ventures entering the commercialization phase of development.

¹³ An evergreen fund has an open-ended structure with no termination date with capital being raised, repaid, or transferred on an ongoing basis. An evergreen fund is sometimes used to describe a fund with no end-date. The funds recycle or revolve allowing the funds to have additional impact beyond the initial investments. Source: <https://www.investopedia.com/terms/e/evergreenfunding.asp>

¹⁴ Invest UP is not part of the coalition advocating for the Michigan Innovation Fund.

¹⁵ The Michigan Innovate Capital Fund (MICF) program will provide a total of \$23 million to nonprofit investment organizations that provide early-stage capital to startups. Those currently funded include Ann Arbor SPARK, \$5 million; BRCC, \$5 million; InvestUP, \$3 million; and ID Ventures, \$5 million. The remaining \$5 million were awarded through the Michigan University Innovation Capital Consortium.

(PPA) a Lansing-based research and evaluation firm, to investigate and aggregate publicly funded venture capital (VC) programs across the Midwest region and in key selected states.

The first stage of this work resulted in a public-facing policy-research scan and report of best practices in the development of venture capital ecosystems in select Great Lakes, Midwestern, and other states; this research consisted of a review of publicly available impact data and a series of stakeholder interviews with state and local leaders.

The report concluded that for Michigan to increase job creation and spur more economic development, the state needed to generate more opportunity for entrepreneurs by providing more public funding in its startup ecosystem.

For a second stage of related research, PPA has gathered additional data and research directly from the coalition's partners and from the MEDC. What follows in this document is an aggregated nonprofit fund data report.

The goal of this report is to provide insights regarding the collective impact of the coalition and highlight the limited amount of public funding allocated to date to support the startup ecosystem in Michigan. This document is an aggregated summary analysis of data from this second stage of related research.

PRELIMINARY ANALYSIS

The following section provides the total aggregated deployed data (from both private and public funding) from companies supported and as reported by SPARK Capital (Ann Arbor SPARK), ID Ventures (Invest Detroit), Michigan State University Research Foundation, the University of Michigan Accelerate Blue Fund, and Biotechnology Research Commercialization Corridor (BRCC) at Western Michigan University.

Total # of Companies Invested:	660
Total Amount Invested or Deployed:	\$108 million
Average Investment Per Company:	\$162,221
Total Gross Return¹⁶:	\$37.8 million
Leveraged Amount:	\$4.2 billion
Investment Leverage Ratio:	39-to-1
2022 Annual Revenue:	\$650.2 million
Number of Jobs Created (FTEs):	5,409
Number of Patents¹⁵:	869
Originated by a University¹⁷:	18%
Diverse Founder(s)¹⁸:	34%
BIPOC-Owned¹⁷:	20%
Woman-Owned:	11%

¹⁶ These data were not reported by the MSU Research Foundation in this category.

¹⁷ The top five originating universities include The University of Michigan (95), Michigan State University (8), Wayne State University (7), Michigan Technological University (4), and Western Michigan University (2). Data were not reported by the MSU Research Foundation in this category.

¹⁸ These data were not reported by BRCC in this category.

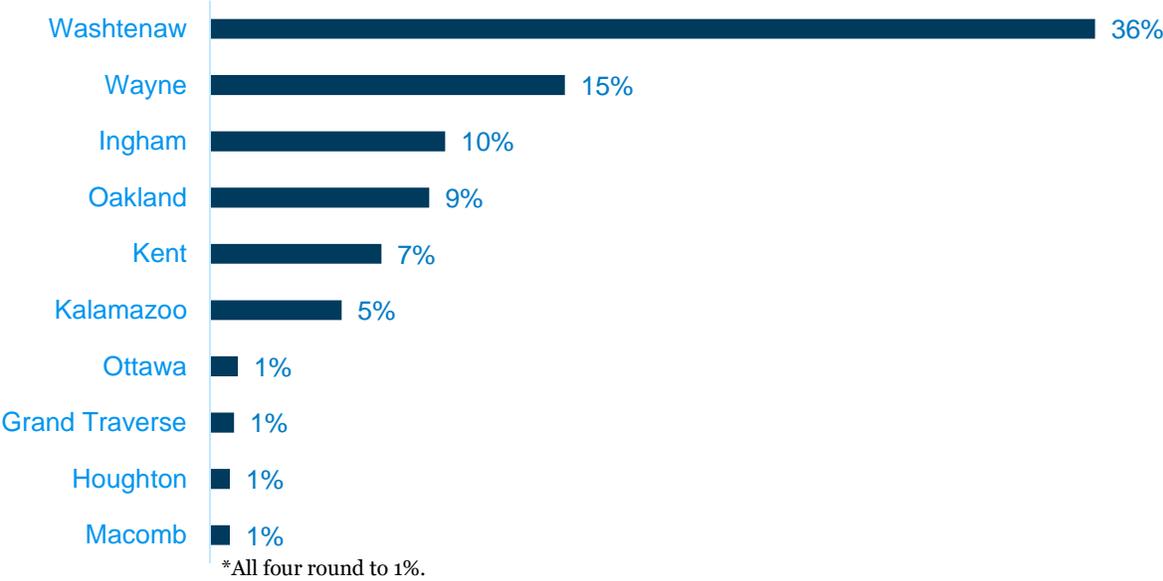
STATE IMPACT REPORTED

89% of Companies have Remained in Michigan

The Top 3 States Companies Leave Michigan for



Figure 1 (below): Top Ten Michigan Counties (by percent) with Invested Startups¹⁹



¹⁹ 613 total businesses in the sample included the county in which they were located. The total number of counties represented was 54 out of Michigan’s 83 counties or 65% of all Michigan counties. Washtenaw county represents the largest percentage of those reported, hosting 222 businesses, or 36% of businesses for which county data were available.

STATUS & INDUSTRIES REPORTED

Figure 2: Status of Invested Startups, Active vs. Inactive (n=460)²⁰

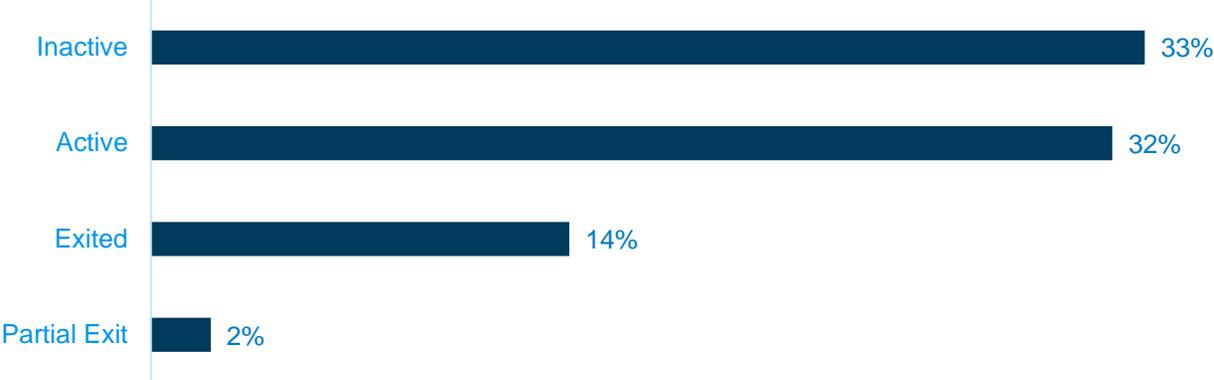
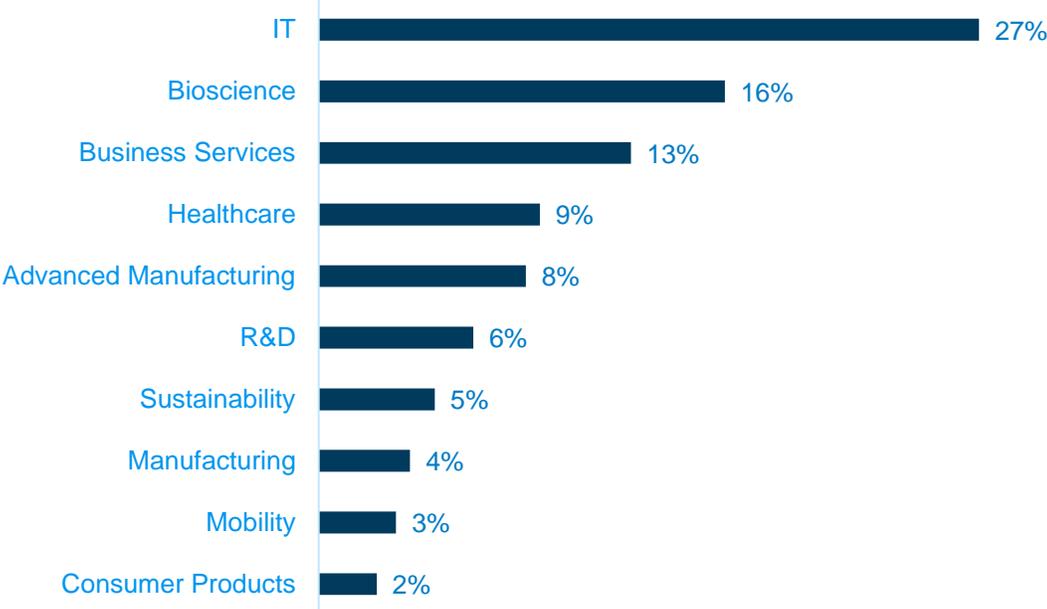


Figure 3: Invested Startups Top 10 Sectors (n=900)²¹



²⁰ The percentages in this figure reflect the actual percentages of the total sample with missing data included and not the “valid percentage.” Some categories were collapsed to produce these estimates.

²¹ The total number of companies exceeds the number of companies reported because many companies encompass more than one industry. Industries not shown, each of which accounted for 1% or less of the total, include: agriculture, packaging, education, energy, defense, marketing & advertising, other, food & beverage, and publishing.

AGGREGATED FUND DATA REPORTED

The following table shows nonprofit funds raised and deployed to date.²²

Table 1. Nonprofit Funds

Name of Fund	Year Created	Amount Raised to Date	Amount Raised from Private Funding	Amount Raised from Public Funding	Total Deployed to Date
MSU Research Foundation	2014	\$42,166,000	\$19,666,000	\$22,500,000	\$27,254,097
SPARK Capital – Ann Arbor SPARK ²³	2006	\$25,470,000	0	\$25,470,000	\$29,685,840 ¹⁵
BRCC at WMU	2004	\$16,300,000	0	\$16,300,000	\$18,800,000
ID Ventures	2009	\$36,950,000	\$27,200,000	\$9,750,000	\$29,100,000
The U-M Accelerate Blue Fund	2021	\$15,600,000	\$5,100,000	\$10,500,000	\$3,249,998
TOTALS		\$136,486,000²⁴	\$51,966,000	\$84,520,000²⁵	\$108,089,935²⁶

²² The data presented in this table were submitted directly to Public Policy Associates by each fund.

²³ For the Ann Arbor SPARK figures presented in the table, the total amount deployed to date is different from the amount raised because Ann Arbor SPARK has redeployed some funding from returns it has received on its original investments. For the other five funds, the amount raised to date is the sum of the amounts raised from private and public funding.

²⁴ This amount includes both investment capital and operational support.

²⁵ The investments in the figures above are specifically from state-funded investments as reported by the recipients (all time periods included) and not the sum of all investments from venture funds across the state.

²⁶ This amount includes actual dollars invested and not future funding or round commitments.

MEDC-REPORTED EARLY-STAGE FUNDS

In June 2023, MEDC reported to the Michigan Strategic Fund Board that **between 2011 and 2023** it had awarded \$55.2 million in funding to five pre-seed, early-stage funds supporting Michigan startups (including BRCC, MSU Research Foundation, and Invest Detroit).²⁷ This total did not include additional funding prior to 2011 (\$6.8 million to Ann Arbor SPARK)²⁸ or funding awarded after June 2023 (\$5 million to the MSU Research Foundation).²⁹

The reported cumulative total since 2011 from MEDC was \$67,008,000.

Table 2. MEDC Reported in June 2023

Name of Fund	Years	Amount Received
BRCC Pre-Seed Fund	2011-19	\$3,830,000.00
SPARK Pre-Seed Fund	2011-19	\$10,170,000.00
<i>Invest Michigan Pre-Seed Fund</i> ³⁰	<i>2014-19</i>	<i>\$15,208,000.00</i>
Invest Detroit First Capital Fund ³¹	2017-20	\$8,500,000.00
MSU Research Foundation: Michigan Rise Pre-Seed Fund (Active) ³²	2020-	\$17,500,000.00
TOTAL³³		\$55,208,000.00³⁴

²⁷ Memo, dated June 27, 2023, from Fredrick Molnar, Senior Vice President, Entrepreneurship and Innovation, MEDC, to Michigan Strategic Fund Board, regarding “Creation of the Michigan Innovate Capital Fund Program, Adoption of Program Guidelines, Allocation of Funding and Delegation of Authority,” accessed October 18, 2023, <https://www.michiganbusiness.org/4a616a/globalassets/documents/msf-board/msf-board-packets/msf-board-packet-june-2023.pdf>.

²⁸ Ann Arbor SPARK received an additional \$6,800,000 from the Statewide Pre-Seed Fund in 2009.

²⁹ Mark Sanchez, “State approves additional \$5M for MSU-backed fund targeting high-tech startups,” Crain’s Grand Rapids Business, July 25, 2023, accessed October 12, 2023, <https://www.craingsgrandrapids.com/news/banking-finance/state-approves-additional-5m-for-msu-backed-fund-targeting-high-tech-startups/>.

³⁰ Invest Michigan has received state funding but is not part of the coalition advocating for the Michigan Innovation Fund.

³¹ This amount includes \$3 million from the “Tech Startup Stabilization Fund,” a subprogram that provided COVID-19 relief funds to 58 companies within a three-month period.

³² A total of \$22.5 million has been awarded to the MSU Research Foundation.

³³ This total previously reported by MEDC only includes funding from 2011 to 2023. An additional \$23 million—which is not evergreen—from the Michigan Innovate Capital Fund (MICF) has been approved, which includes \$18 million for Ann Arbor SPARK, Biosciences Research and Commercialization Center (BRCC), Invest Detroit and InvestUP, as well as \$5 million for the establishment of the Michigan University Innovation Capital Consortium.

³⁴ *Between 2016 and 2020, state-funded investments were just \$23.7 million* (this figure was verified with self-reported information from recipients to reflect the same period as the report from Ohio).



Pre-seed Funding Programs

The following is a summary of data from pre-seed funding programs as reported by the MEDC **from 2006 through 2023**, with results in terms of job creation and product commercialization. The pre-seed funds represented here are Ann Arbor SPARK, BRCC, Invest Detroit, the Michigan State University Foundation, and *Invest Michigan*.³⁵

Total Funding Approved³⁶:	\$67,008,000
Follow-On Funding:	\$730,036,233
Number of Companies Invested:	341
Jobs Reported:	2,195
Products Commercialized:	283

³⁵ Invest Michigan has received state funding and is reported here but it is not part of the coalition advocating for the Michigan Innovation Fund.

³⁶ The \$55,208,000 reported in Table 2 (on page 7) only includes funding from 2011 to 2023. The aggregate total includes an additional \$6,800,000 that was previously awarded to Ann Arbor SPARK from Statewide Pre-Seed Fund in 2009 and an additional \$5,000,000 awarded to the MSU Research Foundation as part of the Michigan Rise Pre-Seed Fund that was not included in a June 27, 2023, memo to the Michigan Strategic Fund Board. *Between 2016 and 2020, state-funded investments were just \$23.7 million* (this figure was verified with self-reported information from recipients to reflect the same period as the report from Ohio).



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