

Report: Michigan's VC funds hampered by small scale

by Nathan Bomey | Ann Arbor Business Review

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Michigan's 15 venture capital firms have nearly \$1 billion under management, but most may continue to experience difficulty raising money until they pass the \$100 million threshold, according to a new study.

In 2007, Michigan ranked 25th among the 50 states in new venture capital investments with investments totaling \$105 million, according to the Michigan Venture Capital Association's first VC report.

That figure represents 0.4 percent of the total VC invested last year in the U.S. California dominated the VC market in 2007, securing 47.3 percent of nationwide investments with about \$14.1 billion. Massachusetts ranked second with 11.8 percent, or \$3.5 billion.

Michigan still lags far behind the nation's VC leaders, but the state is gaining ground. The amount of VC managed by Michigan-based firms increased 73.1 percent since 2001, when seven firms were managing \$520 million. Today, Michigan VC firms have about \$900 million under management.

"It's a reflection of the fact that the VC market continues to mature in Michigan," said David Parsigian, managing partner of law firm Honigman Miller Schwartz and Cohn's Ann Arbor office, which has VC clients. "And what you're seeing is what we should see, which is the funds are small and it's going to take time to mature."

Michigan's VC firms - 10 of which are based in Ann Arbor - have an average of about \$40 million under management.

Venture experts predict that if Michigan's VC firms can increase their funds to at least \$100 million, it would make fundraising easier.

Institutional investors such as university endowments often don't consider investing in venture funds unless the funds meet the \$100 million threshold, according to the report. Seven of Michigan's VC firms are in the midst of fundraising efforts. They have raised 22 percent of their combined goal of \$505 million, according to the MVCA report.

LeAnn Auer, executive director of the MVCA, said Michigan VC firms' fundraising goal isn't overly ambitious.

"Not all venture firms meet their target but they come close," Auer said. "So we could probably say 400 to 500 million is pretty close."

Although Michigan's VC firms have \$900 million under management, only \$100 million is available for new investments. But that number is likely to increase next year.

"A number of funds are raising money right now, and so I think you'll find if you look at this report next year that that number is up dramatically," Parsigian said.

Auer too said the state would have more money available for VC investments next year. She said perhaps 30 percent to 50 percent of that money could land at Michigan firms.

"There's going to be a lot more money available to invest and a whole new group of investments," Auer said.

The state's efforts to boost the VC community will continue to play a role in giving a financial lift to VC funds.

The \$95 million Venture Michigan Fund has committed about \$53.5 million to seven VC funds. The \$109 million 21st Century Investment Fund has contributed about \$68.8 million to eight funds.

Michigan's VC firms invest most heavily in life sciences companies. About 11 of Michigan's firms invest in life sciences; nine invest in information technology; five invest in manufacturing and advance materials; three invest in business services; three invest in alternative energy; two invest in media; and two invest in consumer products.

Michigan companies that had VC backing at one time in their history produced \$13.1 billion in revenue in 2005, according to the report. They employed 100,202 workers in the state.

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