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# Midcontinent Venture Capital— Growing in Leaps and Bounds

Aziz Gilani, Class 14

Lauren-Kristine Pryzant

In my original *KFR* article in 2012,<sup>1</sup> I argued that venture capital in the midcontinental United States was poised for growth—a prediction that has been well supported over the past four years<sup>2</sup> (figure 1). Not only have Midcontinent pioneers Texas, Illinois, and Colorado enjoyed sustained growth in their innovation ecosystems, but two new states are quickly ascending the ranks. Ohio and Michigan—regions with a rust-belt heritage—have rallied to a refreshing start.

Nationwide, growth in angel and VC activity has been triggered by a variety of factors, including an increase in seed accelerators and a renaissance of angel investment activity.<sup>3</sup> Both seed accelerators and angel investors offer support at the earliest stages of the startup

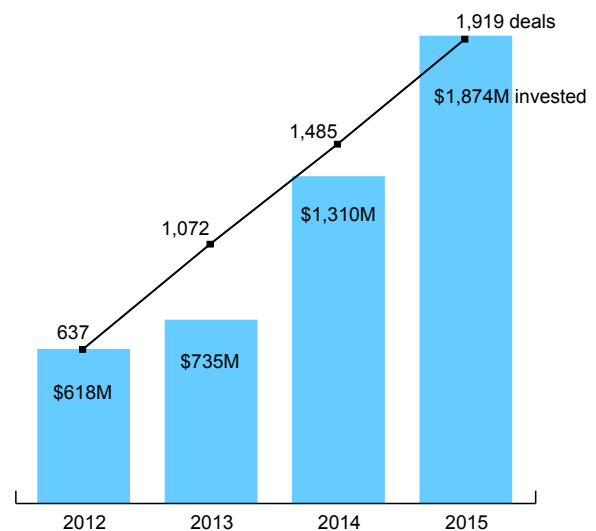


Figure 1: Deals and Capital Invested for Companies Headquartered in the Midcontinent that Received Pre/Accelerator/Incubator or Angel Funding, 2012–2015.

Author's figure; Pitchbook data.

lifecycle and provide entrepreneurs with a catalyst (funding, knowledge, community, or a combination of all three) to overcome the initial challenges of starting a company. Thanks to co-working spaces and cloud computing resources, there is also a lower cost basis for startups.

between 2008 and 2014. See “Accelerating Growth: Startup Accelerator Programs in the United States,” *Brookings*, 17 February 2016, “Startup Accelerators in the United States,” para. 3, <https://www.brookings.edu/research/accelerating-growth-startup-accelerator-programs-in-the-united-states/>.

<sup>1</sup> Aziz Gilani, “Successful Venture Capital...in the Midcontinent,” *Kauffman Fellows Report* (Spring/Summer 2012), [http://www.kauffmanfellows.org/journal\\_posts/successful-venture-capital-in-the-midcontinent/](http://www.kauffmanfellows.org/journal_posts/successful-venture-capital-in-the-midcontinent/).

<sup>2</sup> PwC/NVCA MoneyTree™ Report, Data: Thomson Reuters, <https://www.pwcmoneytree.com/HistoricTrends/CustomQueryHistoricTrend>; Jeffrey Sohl, *The Angel Investor Market in 2012: A Moderating Recovery Continues* (Center for Venture Research, 25 April 2013), [https://paulcollege.unh.edu/sites/paulcollege.unh.edu/files/2012\\_analysis\\_report.pdf](https://paulcollege.unh.edu/sites/paulcollege.unh.edu/files/2012_analysis_report.pdf); and *The Angel Investor Market in 2015: A Buyers' Market* (Center for Venture Research, 25 May 2015), <https://paulcollege.unh.edu/sites/paulcollege.unh.edu/files/webform/Ful%20Year%202015%20Analysis%20Report.pdf>.

<sup>3</sup> According to Ian Hathaway at the Brookings Institute, the number of accelerators in the United States increased by about 50% per year

With more capital funding cheaper startups, an explosion of growth was inevitable.

Although the Midcontinent has benefited from this growth, it has been unevenly distributed, favoring localities that have embraced their startup communities and assisted them with seed accelerators, co-working spaces, and thriving angel networks. In 2012 I reported that Texas, Colorado, and Illinois led the Midcontinent in terms of entrepreneurial activity. In the last four years these regional leaders were joined by Ohio and Michigan to take an ever-increasing share of regional investment dollars and funded startups. In 2012 these five states accounted for 47% of the angel and pre/accelerator/incubator dollars invested into startups in the Midcontinent region, but this percentage increased to 62% by the end of 2015.<sup>4</sup>

All five of these states are growing at disproportionate rates thanks to engaged communities. Brad Feld thoroughly documented the “Boulder Thesis” in his book *Startup Communities*.<sup>5</sup> The Boulder Thesis is applicable to other cities across the Midcontinent where we have seen community participants band together to support entrepreneurs. Chicago and Austin have both grown their entrepreneurial communities substantially; Austin has benefited by the angel and co-working behemoth Capital Factory,<sup>6</sup> and Chicago has been aided by its showcase center of entrepreneurial activity at 1871.<sup>7</sup>

Whereas the previous three examples show successful communities becoming more successful, Ohio and Michigan’s ecosystems have really come out of nowhere during this period (figure 2).

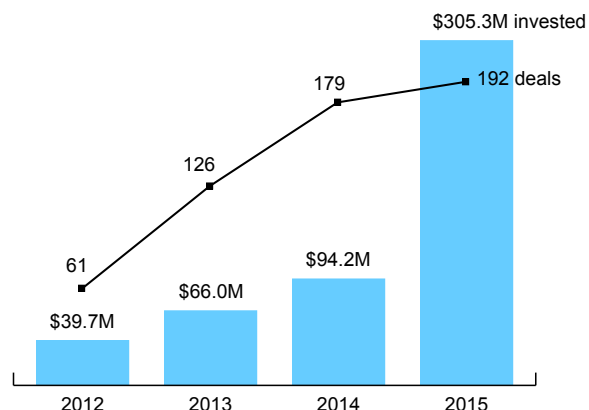


Figure 2: Deals and Capital Invested for Companies Headquartered in Michigan and Ohio that Received Pre/Accelerator/Incubator or Angel Funding, 2012-2015. Author’s figure; Pitchbook data.

In Cincinnati a thriving community featuring The Branderly,<sup>8</sup> Cintrifuse,<sup>9</sup> CincyTech,<sup>10</sup> and the Queen City Angels<sup>11</sup> has aligned to promote a startup culture producing tangible results. A prominent example is the \$410 million acquisition of Assurex Health by Myriad Genetics earlier this summer. The Cincinnati community supported Assurex Health from its inception; the company received initial funding from Queen City Angels and additional seed capital from local seed fund CincyTech.<sup>12</sup> In Michigan a similar constellation has formed with Techstars Mobility<sup>13</sup> and the University of Michigan’s Center for Entrepreneurship,<sup>14</sup> girded by the state’s commitment to venture investment through its Renaissance Venture Capital Fund.<sup>15</sup>

As investors in the Midcontinent, we are deeply supportive of these growing entrepreneurial ecosystems. We’ve seen our portfolio mimic the development of our startup

<sup>4</sup> Pitchbook data on companies headquartered within the Midcontinent that received pre/accelerator/incubator or angel funding (number of deals and total capital invested), 2012-2015.

<sup>5</sup> Brad Feld, *Startup Communities: Building an Entrepreneurial Ecosystem in Your City* (Hoboken: Wiley, 2012).

<sup>6</sup> <https://capitalfactory.com/>.

<sup>7</sup> <http://www.1871.com/>.

<sup>8</sup> <http://brandery.org/>.

<sup>9</sup> <http://www.cintrifuse.com/>.

<sup>10</sup> <http://cincytechusa.com/>.

<sup>11</sup> <http://www.qca.com/>.

<sup>12</sup> Anne Saker, “The Story Behind One of Cincy’s Biggest Startup Exits,” *Cincinnati.com*, 8 August 2016, <http://www.cincinnati.com/story/money/2016/08/05/how-assurex-healths-deal-came/88074438/>.

<sup>13</sup> <http://www.techstars.com/programs/mobility-program/>.

<sup>14</sup> <http://cfe.umich.edu/>.

<sup>15</sup> The Renaissance Venture Capital Fund (<http://www.renvcf.com/>) was started by Business Leaders for Michigan (<https://businessleadersformichigan.com/>) in 2008 to attract additional venture capital funding to Michigan and create jobs in the state.

communities, and **witnessed firsthand the impact a startup community can have**. We are encouraged by the communities in Colorado, Illinois, Michigan, Ohio, and Texas leading the way in the Midcontinent, and we hope other cities take note.

As Midcontinent economies seek further diversification and growth, robust startup activity becomes even more important. Looking to the future, **we predict additional growth spurts in these regional leader states** as startups successfully exit. Success breeds success, and these exits would mean capital returned and reinvested into the entrepreneurial community. In addition, exits create **a new cohort of angels and mentors to further accelerate the next generation of Midcontinent startups**. By fully embracing co-working, regional startup accelerators, and angel networks, the Midcontinent can continue to build and foster an environment where entrepreneurs thrive.



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Aziz is a Partner at Mercury Fund where he invests in companies focused on enterprise software, mobile platforms, DevOps, and eCommerce. Aziz received his BBA from the University of Texas, his MBA from Northwestern University's Kellogg School of Management, and is a graduate of the Kauffman Fellows Program through the Center for Venture Education. He serves in advisory roles for TechStars, the Kellogg School of Management's Seed Accelerator Rankings, the Knight Foundation, and TIE Houston. Kauffman Fellow Class 14. [aziz@mercuryfund.com](mailto:aziz@mercuryfund.com)



#### **Lauren-Kristine Pryzant**

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### The Future of VC in Spain: Time for a Track Record

Liz Fleming • Spain’s venture capital industry has seen rapid growth in recent years with public and private investors playing a key role. To encourage more private funding, the author maps the LP landscape in Spain, reviews recent positive exits, and describes the rising stars of Spain’s tech industry.

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