

CRAIN'S DETROIT BUSINESS

Detroit and Southeast Michigan's premier business news and information website

Originally Published: January 24, 2016 8:00 AM Modified: January 26, 2016 11:29 AM

2015 VC deals set record; now, 2016 takes the baton

By Tom Henderson



It was a record-breaking year for venture capital in Michigan in 2015, with 2016 starting up where last year left off.

Industry veterans point to robust deal flow, record-breaking funding rounds and notable product licensing deals for locally owned innovation as positive signs of the times.

"As we look back, 2015 was the best year ever for venture capital in Michigan. It's what we've all been waiting for," said Chris Rizik, CEO and fund manager at Ann Arbor-based **Renaissance Venture Capital Fund**, which is affiliated with **Business Leaders for Michigan**.

On Jan. 5, Ann Arbor-based **Millendo Therapeutics Inc.** announced it had raised a venture capital round of \$62 million, the largest VC round for a drug development company in Michigan history. It is testing a drug to fight adrenal cancer.

Venture capital investment totals in state history

Best years (in millions)

2000: **\$356.4**

2015: **\$328.4**

1999: **\$253.5**

2012: **\$245.7**

Best quarters (in millions)

Interestingly, the previous record for the largest VC round in the state was held by another cancer drug company, the \$59.5 million raised by Plymouth Township-based **ProNAi Therapeutics Inc.** in April 2014.

ProNAi, whose drug has shown remarkable results in human trials at fighting non-Hodgkin's lymphoma, made a very nice return for its VC investors this past July when it raised \$158.4 million in its initial public offering.

The investment in Millendo shows just how far the state has come in shedding its reputation as a fly-over state. The deal included exclusive licensing agreement with London-based pharmaceutical giant **AstraZeneca plc** to continue human trials and commercialization of a drug it had developed to fight polycystic ovary syndrome, the most common endocrine disease in women.

Then there was the broad national base to Millendo's funding. The financing was led by Chevy Chase, Md.-based **New Enterprise Associates** and joined by investors in San Francisco, Chicago, Seattle, Boston and Bala Cynwyd, Pa.

Its sole Michigan investor was Renaissance Venture Capital Fund, a fund-of-funds that normally only invests in other VC firms but made an exception this time to invest in an individual company.

"That capital is coming here from all around the country shows that this is a good place to invest," said Rizik.

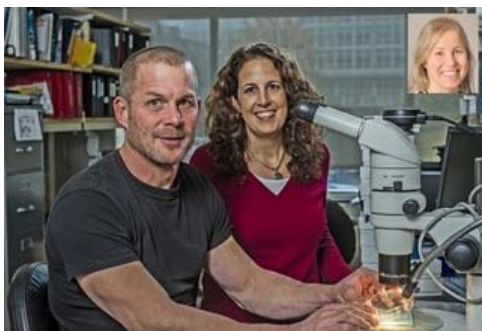


Photo by Robert Chase **Millendo Therapeutics** co-founder **Gary Hammer** and CEO **Julia Owens** with co-founder **Rauli Kerppola** (inset, top right), who lived with adrenal cancer before her death in 2013. Millendo's record-breaking deal led the way for VC activity in Southeast Michigan last year.

The previous largest fund in state history was the \$180 million Michigan Growth Capital Partners II, raised in 2013 by Farmington Hills-based **Beringea LLC**.

Charlie Rothstein, Beringea's senior managing director, credited successful exits in recent years for showing Michigan was a place investors could make money — including the sale of **Sakti3**; of Ann Arbor-based **Foresee Results Inc.** in 2013 for more than \$200 million; of Ann Arbor-based **HandyLab Inc.** in 2009 for \$275 million; of Ann Arbor-based **HealthMedia Inc.** in 2008 for \$200 million; and of Ann Arbor-based **Accuri Cytometers Inc.** for \$205 million in 2011.

"We're kicking out returns that draw national attention," said Rothstein, who was one of just a handful of venture capitalists in the state when he began investing in 1988.

1Q, 2000: **\$143.0**

2Q, 2015: **\$114.9**

3Q, 2012: **\$113.2**

4Q, 2004: **\$89.8**

Totals for Midwest, 2015 (in millions)

Illinois: **\$1,119.0**

Minnesota: **\$371.7**

Michigan: **\$328.4**

Ohio: **\$262.7**

Wisconsin: **\$87.9**

Indiana: **\$54.9**

Source: Thomson Reuters

The record-breaking deal for Millendo, a spinoff from the **University of Michigan** in 2012 when it was named **Atterocor Inc.**, followed on a string of record-breaking deals for Michigan companies:

- In September, Ann Arbor-based **Llamasoft Inc.**, a maker of supply-chain software, announced it had received an investment of \$50 million from affiliates of New York-based **Goldman, Sachs & Co.** It was the largest single investment ever in a Michigan IT company.
- In September, Plymouth Township-based **Delphinus Medical Technologies Inc.**, which uses ultrasound to make 3-D images for improved detection of breast cancer, raised a VC round of \$39.5 million, a state record for a medical device company.
- Also in September, Ann Arbor-based **Arboretum Ventures LLC** finished raising the largest venture capital fund in state history, closing Arboretum Ventures IV LP at \$220 million, above the target of \$215 million the firm had listed in filings with the **U.S. Securities and Exchange Commission**.



Photo by Carter Sherline **Arboretum Ventures** Managing Directors **Paul McCreadie** (from left), **Jan Garfinkle** and **Tim Petersen** can celebrate the record raising of the Ann Arbor venture capital

Rizik said that as those companies were sold, their CEOs and other C-suite executives for the most part remained in the state, joining other small companies and growing them, too. firm's fourth fund.

"We've shown we have the kind of CEOs who can run growing companies," he said. "For a long time, we had an executive problem. Not any more. And it's not just the CEOs we've developed, but the executives they're now training. ... It's a spider effect."

Bellwether deals

It isn't just the record-breakers that made for a strong 2015. There were a handful of other large investment rounds or licensing deals for state companies, too.

- In March, James Dyson, the British inventor who built the vacuum that bears his name, invested \$15 million in Sakti3 Inc., part of a \$20 million round that was joined by a heavyweight roster of previous investors, including Detroit-based **General Motors Ventures**, Beringea and the iconic Silicon Valley VC firm **Khosla Ventures**.

In October, Dyson's company, UK-based **Dyson Ltd.**, bought Sakti3, a maker of lithium-ion batteries, for \$90 million.

- In April, Ann Arbor-based **Duo Security Inc.**, a provider of cloud-based network security, announced it had raised a funding round of \$30 million from a handful of Silicon Valley investors, including **Google Ventures**.
- In April, it was announced that **Xenith LLC**, a maker of concussion-fighting football helmets, was moving its headquarters from Lowell, Mass., to Detroit, with front office staff taking space in the former **Kresge** building downtown and production and warehouse operations moving into a building on West Fort Street in Detroit. The announcements followed what was reported to be an investment of more than \$20 million by Dan Gilbert.
- In June, Ann Arbor-based **Lycera Corp.**, a UM spinoff that is developing drugs to fight immune-related diseases, announced that **Celgene Corp.**, a company based in Summit, N.J., was paying it \$82.5 million for an exclusive option to license a compound in phase-one testing against inflammatory bowel disease.

Another bubble?

While local venture capitalists and the string of record funding rounds say 2015 was the best VC year ever in state history, by one metric it was a runner-up year.

According to the MoneyTree Report issued Jan. 15, a report jointly issued by **PricewaterhouseCoopers LLP** and the Washington, D.C.-based **National Venture Capital Association**, based on data provided by **Thomson Reuters**, 2015 was just the second-best year in Michigan for the total amount of venture capital invested.

There was \$328.4 million invested in 54 deals in the state, up from the \$223.9 million invested in 51 deals last year, and up from the \$111 million invested in 74 deals in 2013.

The all-time record since the NVCA began keeping records in 1995 was the \$355.4 million invested in 55 deals in 2000.

But that year was an anomaly, say local VCs, investment volumes driven by the frothiness — some would say a full frenzy — that preceded the dot.com bust. Valuations proved not to be based on reality but on a group enthusiasm whose bubble exploded that April.

Venture capitalists gamely continued to live up to their funding agreements for the next few quarters before retrenching.

National figures also reflect that mania for all things Web-related.

Last year, there was a total of \$58.8 billion in venture capital investing nationwide, the second-highest total ever, and up from \$50.8 billion last year, \$30.3 billion in 2013 and \$27.7 billion in 2012.

Michigan ranked No. 18 nationally in 2015 for VC investing, up from 20th in 2014.

While things are going very well, especially given historical context, some perspective is called for.

Last year, California's deal flow was more than 100 times greater than Michigan's, with a total of \$33.7 billion invested in 1,773 deals. New York was runner-up, with \$6.2 billion invested in 462 deals.

The record for the VC industry was set in 2000, a whopping \$105 billion, which fell off the next two years to \$40.9 billion and \$22.2 billion, respectively.

But what's different this time is that values are more correctly based on business viability and less on that dangerous unbridled investor enthusiasm.

"The values now are real," said David Brophy, director of the **Center for Venture Capital and Private Equity** at the Ross School of Business at UM.

Said Maureen Miller Brosnan, executive director of the Ann Arbor-based **Michigan Venture Capital Association**: "We are on an upward trajectory, one of sustained growth. It's not a spike."

In 1979, Brophy founded the annual Michigan Growth Capital Symposium, which aimed to bring investors to Michigan to look at possible deals with early-stage companies. The symposium was seen then by many of his colleagues as tilting at windmills.

Why would anyone want to fly in from Boston or Silicon Valley to invest here?

"We're seeing the realization that there is real value being created here, by universities in particular," Brophy said. "We've got a good combination now of good science and good entrepreneurs. Look at Llamasoft. I've known the founder, Don Hicks, as man and boy for 20 years. Suddenly, he's an overnight success.

"Thirty years ago, we were asking: How can we find another way to make a living to dampen the cyclical effects of the auto industry. Now we've built a really good entrepreneurial community here."

Tom Henderson: (313) 446-0337. Twitter: [@TomHenderson2](#)

Use of editorial content without permission is strictly prohibited. All rights Reserved 2016 www.crainsdetroit.com