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**VENTURE CAPITAL INVESTMENTS IN  
MICHIGAN COMPANIES IN 1996**

by

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A research paper submitted in fulfillment of the requirements for 3 credits,  
GRADUATE INDEPENDENT RESEARCH PROJECT Winter Term 1997,  
Professor Mary Campbell, Faculty Supervisor.

Faculty Comments

GOOD



Signature of Faculty Supervisor

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## **Introduction**

Recent studies have indicated that the state of Michigan's venture capital industry lags behind the rest of the midwest and the nation.<sup>1</sup> For example, Illinois has 37 active venture capital firms, while Michigan only has one.<sup>2</sup> The amount of venture investment in Michigan firms clearly exceeds the amount of financing available from Michigan venture capitalists, however, indicating that a number of out-of-state venture firms are active in Michigan. Utilizing a number of data sources that track venture investment, this paper identifies Michigan firms that received venture capital in 1996. These data sources indicate that 19 Michigan firms received approximately \$66 million in funding from 24 venture capital firms in 1996.<sup>3</sup>

The remainder of this paper describes the various data sources that collect and report venture capital investments and summarizes information on Michigan investments for 1996. The appendix to this report provides

<sup>1</sup> Governor Engler's Venture Capital Task Force. Michigan Private Equity Strategy, January 1995.

<sup>2</sup>Bradford Benz, "Critical Success Factors for Venture Capital in Michigan, " page 3.

<sup>3</sup>This paper represents one of my independent study activities for Ms. Mary Campbell, adjunct Professor of Corporate Strategy and General Partner, Enterprise Development Fund. My other activities involved conducting due diligence on specific firms in the state of Michigan. Given the confidential nature of the due diligence work, my activities in this area are not reported in this paper.

additional details on the data sources, such as contact names and web site addresses.

### Data Sources

A number of organizations collect information on venture capital investments. The four major sources investigated for this paper are:

- **Price Waterhouse National Venture Capital Survey.** Price Waterhouse tracks venture capital investments in U.S. companies by surveying venture capital firms on a quarterly basis. Price Waterhouse reports a total U.S. venture capital investments of \$9.5 billion in 1996. The survey is available free of charge.
- **Coopers & Lybrand Money Tree Report.** This survey is very similar to the Price Waterhouse survey; Coopers identified 2,163 financings nation-wide in 1996, worth a total of \$10.1 billion dollars. The survey is also available free of charge.
- **Venture Source.** This database, compiled by VentureOne (San Francisco, California), is based on more than 6,000 venture-backed companies throughout the U.S. VentureOne contacts investees directly to obtain relevant information, unlike the Big 6 surveys. The database is licensed to venture capital firms; the data cited in this report are the result of a free trial of the database.

- Security Data Corporation. Located in New Jersey, this firm is known for providing industry statistics to the Venture Capital Journal. SDC was reluctant to release information on Michigan investments; thus, no data from this source is included here.

Finally, Paul Rice of the State of Michigan, Alternative Investments Division, provided specific information on three deals executed by the state.<sup>4</sup>

### **Venture Capital Investments in Michigan**

Based on GNP and civilian employment, Michigan's economy is the 8th largest in the nation. Relative to the size of total economic activity, the amount of venture capital investment is rather small, however. For instance, Coopers & Lybrand's Money Tree database ranks Michigan 32nd in total venture capital investment in 1996, down from 19th in 1995 (see Exhibit 1).<sup>5</sup>

<sup>4</sup> I was unable to confirm if the investments provided by Mr. Rice were part of a syndicate or stand-alone State of Michigan investments. If the latter, they should be excluded from the results presented below. Excluding them would not affect the summary statistics presented in the first paragraph of this report.

<sup>5</sup> Coopers reports the total investment in Michigan companies at \$39.6 million in 1996, as compared to the \$66 million figure provided in this report. At \$66 million, Michigan would rank 26th in the Coopers survey.

Exhibit 2 summarizes data collected all sources on investments in Michigan companies, including information on the business, the location, the characteristics of the investment and the source(s) of the data. It is interesting to note that for a number of the firms listed in Exhibit 2, only one of the two major data sources (Price Waterhouse or Venture Source) has included the investment in their database. The most active venture firms in the state are Enterprise Development Fund (four investments in 1996) and CID Venture Partners (three investments in 1996). Further, a number of large buyouts were executed by firms outside of the state; for example, TA Associates (Boston, MA) executed a \$15 million buyout of Unique Instruments, Inc. In total, buyouts accounted for \$28 million of the \$66 million invested in Michigan firms in 1996. Seed/Startup investments also totalled \$28 million in 1996.

## Exhibit 1

### VENTURE CAPITAL INVESTMENTS BY STATE

# of Deals	\$ in Millions		\$ in Millions	# of Deals
734	\$3,211.3	California	\$2,157.7	517
308	1,067.4	Massachusetts	537.4	180
101	595.3	Texas	360.5	70
62	400.5	Colorado	179.2	44
45	375.9	Florida	109.9	26
47	343.9	Illinois	226.1	37
51	314.7	Connecticut	93.2	36
99	307.0	Pennsylvania	202.3	95
61	295.5	Washington	179.2	34
46	279.0	Ohio	93.2	25
44	275.7	Virginia	140.3	22
60	264.3	New Jersey	305.4	59
27	261.5	Tennessee	144.0	19
46	255.7	New York	180.9	48
32	191.4	Georgia	226.9	24
62	161.7	North Carolina	199.5	40
17	161.0	Wisconsin	42.2	7
56	123.9	Minnesota	185.9	74
5	119.0	Mississippi	0	0
13	107.4	Utah	5.6	3
19	106.6	Kansas	3.2	2
24	98.2	Arizona	76.9	14
31	89.3	Maryland	137.7	29
5	75.8	Delaware	3.0	2
22	69.8	Missouri	133.1	14
14	58.7	South Carolina	106.7	12
19	55.8	Oregon	30.8	13
6	48.4	Rhode Island	28.9	5
8	44.1	Indiana	32.7	10
6	43.0	Louisiana	26.6	6
25	39.6	New Hampshire	14.2	11
16	36.7	Michigan	102.1	12
5	31.1	Montana	1.0	1
5	29.2	Iowa	5.7	5
7	19.3	DC	6.9	3
6	18.1	Maine	29.2	3
10	16.7	Vermont	22.1	4
2	11.0	Alabama	65.0	10
3	6.2	Oklahoma	25.3	5
1	0.8	New Mexico	0.1	1
3	0.7	Kentucky	33.7	6
0	0	Nebraska	31.8	4
10	132.2	Other	162.5	11
<b>2,163</b>	<b>\$10,143.4</b>	<b>Total</b>	<b>\$6,648.6</b>	<b>1,543</b>

Source: Coopers & Lybrand Money Tree database.

**Exhibit 2**  
**VENTURE CAPITAL INVESTMENTS IN MICHIGAN IN 1996**

<b>FIRM</b>	<b>BUSINESS</b>	<b>CITY</b>	<b>DATE OF: FIRST INV LAST INV</b>	<b>AMOUNT OF LAST INV \$(000)</b>	<b>INVESTORS (LATEST INVESTMENT)</b>	<b>STAGE</b>	<b>SOURCE</b>
Aastrom Biosciences	Biotech	Ann Arbor	Jan '89 Jan '96	\$6,000	NW Ohio Venture Fund, State of MI, SBIC Partners	Fifth	VS, EDF
Omni Link Communications, Inc. (formerly ADAK Communications)	Telecomm	Lansing	Oct '89 1st Q '96 <sup>1</sup>	\$1,000	Advent Int'l Corp, Gateway, Adams Capital Management, Patricof & Co.	Bridge	PW, VS <sup>2</sup>
ArborText	Software	Ann Arbor	Nov '96	\$7,000	Norwest Venture Capital	First <sup>3</sup>	PW, VS
Auxein Corp	Biotech	Lansing	Sept '96	\$1,650	NW Ohio, Enterprise Development Fund, CID	First	PW, VS
A & W Resturants	Retail				Mich Retirement System		RICE
Cambridge Communications	Services	W. Bloomfield	June '96	\$5,200	Burr Egan Deleage, BancBoston Ventures, Housatonic Partners, Esquire Capital Management	First	VS
ComfortCare of Michigan Healthcare <sup>4</sup>	Home Healthcare	Troy	Unknown 1st Q '96	\$130	Linc Capital Partners		PW
Connor AGA	Maple Sports Floors	Amasa	Unknown 4th Q '96	\$5,915	Code Hennessy & Simmons	Buyout	PW
Great Lakes Health Plan	Health Care	Southfield	March '96	\$12,000	Montreux Equity Partners, Eos Partners <sup>7</sup>	First	VS
Imageware	Software	Ann Arbor	Dec '95 Aug '96	\$1,000	CID Venture Partners	Third	VS

FIRM	BUSINESS	CITY	DATE OF: FIRST INV LAST INV	AMOUNT OF LAST INV \$(000)	INVESTORS (LATEST INVESTMENT)	STAGE	SOURCE
Matrigen Inc.	Biotech	Ann Arbor	3rd Q '96	\$300	Enterprise Development Fund, Falcon Ventures, Arch Venture Fund	First	PW
Microwave Component Enterprises, Inc	Communications	Ann Arbor	Unknown 3rd Q '96	\$7,000	Hanifen Imhoff Mezz Fund, National City Capital Corp <sup>5</sup>	Buyout	PW
MS Acquisition	Manufacturing				Mich Retirement System		RICE
Northwest Broadcasting Communications	Telecomm	Okemos	Nov '95 Dec '96	\$250	Burr Egan Deleage & Company	Bridge/ Mezza- nine	PW, VS
Origen Inc.	Biotech	Lansing	June '96	\$450	Enterprise Development Fund	First	PW, EDF
Penninsula Capital Fund	Financial Services				Mich Retirement System		RICE
Synthon Corp	Pharmaceuticals	Lansing	Jan '94 Nov '96	\$1,125	Seaflower Health and Tech, Enterprise Development Fund, Venture Invest. of WI	Second	PW, VS
Trans2	Vehicles	Livonia	June '94 Sept '96	\$2,000	CID Equity Partners	Fifth	VS
Unique Instruments, Inc	Man. of Medical Devices	Bridgeport	Unknown Dec '96	\$15,000	TA Associates	Buyout	PW, VS

*Tom*  
Sources: VS: Venture Source; PW: Price Waterhouse; EDF: EDF II Annual Report and Valuation Book; RICE: Information provided by Paul Rice, State of Michigan, Alternative Investments Division.

**Notes:**

1. Reported in Venture Source as a August '95 deal.
2. Reported in Venture Source as a '95 deal.
3. PW categorizes this investment as second stage.
4. Acquired by Health Care Solutions, Inc. in 1997.
5. PW also incorrectly lists Enterprise Development Fund as a co-investor.

## APPENDIX

### DETAILED INFORMATION ON VENTURE CAPITAL DATABASES

**Price Waterhouse Venture Capital Survey.** This survey, sponsored by the Price Waterhouse Technology Industry group, tracks venture capital investments in U.S. companies on a quarterly basis. Copies of the report, distributed free of charge, can be obtained by contacting Don McGovern at (408) 282-1288. Additional information on the scope and methodology is available from Kirk Walden at (214) 754-8927.

The easiest way to access summary information from the survey is via Price Waterhouse's web page: <http://www.pw.com/vc>. This web page contains summary information (e.g., total investments by particular industry) as well as firm-specific information from the last quarter. An example of the format for a particular firm is provided in Exhibit 3. The only way to access firm-specific information from this database for an entire year is to use the San Jose Mercury News web page, which contains the raw data from the Price Waterhouse survey organized by company by zip code.<sup>6</sup> The web page which contains this information is:

<http://cgi.sjmercury.com/business/venture>.

<sup>6</sup>The San Jose Mercury News publishes a regular feature on venture capital investment, given the high level of venture investment in Silicon Valley. They regularly report the results of the Price Waterhouse survey.

Exhibit 3

EXAMPLE OF THE PW QUARTERLY REPORTS

Price Waterhouse



F U N D E D   C O M P A N Y

Origen Inc.

Lansing, MI Industry: Biotechnology

Company stage of development: Start-Up/Seed

Business Description: Veterinary vaccines and vaccine production technologies including proprietary cell lines

Amount of Round: \$375,000

Type of financing: Initial/Seed

Investors:

Enterprise Development Fund

Last Updated: 20 Feb 1997

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The Coopers & Lybrand Money Tree Report. This report is a similar survey <sup>?</sup> conducted by Price Waterhouse. Summary information (but not firm-specific information) is available from Larry Buchsbaum at (617) 478-5325, or Coopers & Lybrand's web page, <http://www.colybrand.com>. Coopers also has forged a relationship with Upside Magazine; certain information from the survey can also be found at:

<http://www.upside.com/companies/mini/coopers/tree/96q4>.

Venture Source. Venture Source is a proprietary database of VentureOne corporation, an investment research firm serving the Venture Capital community, based in San Francisco, California. Additional information on VentureOne is available via their web page: <http://v1.com>. The information provided in this paper was obtained during a free demonstration of the product (marketing contact at VentureOne: Kevin Buckley, 415-538-2650).

The annual cost of licensing the Venture Source database is \$16,500. A discount of \$2,000 is provided for "one office" firms, and an additional discount of \$2,000 is provided for firms that "participate" in the research process (e.g., supply information to VentureOne on a regular basis). A subscription also includes a quarterly publication called Venture Edge and a monthly publication, Venture Profiles, that profiles venture-backed companies that are currently seeking additional private equity funding.

**Security Data Corporation.** This firm, based in New Jersey, provides information on venture investments to the Venture Capital Tournal. No SDC data are provided in this report. My understanding is that the data are proprietary; they were still considering supplying information on Michigan investments at the time this paper was completed. A contact at SDC is Toby Walters (201-622-3100)<sup>7</sup>

<sup>7</sup> Summary data in the Venture Capital Tournal reports lower VC investment figures than reported by the Big 6 surveys. I was unable to fully establish the reasons for this difference. Toby Walters did mention that the Venture Capital Tournal deadline was in January of each year, hindering their ability to collect full information on the previous years' activity prior to publication.