



2017 Midwest Startup and Venture Capital Market Analysis

Hyde Park Angels Exclusive Report

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Overview

The Hyde Park Angels team conducted a deep dive analysis into the Midwest Venture Capital ecosystem by aggregating and analyzing data from Pitchbook, the U.S. Census, the Bureau of Economic Analysis, and the Illinois Venture Capital Association. We defined the Midwest, also classified as the Great Lakes Region, as Illinois, Indiana, Ohio, Michigan, Minnesota, and Wisconsin.

Our analysis uncovered many notable findings, including:

The Great Lakes Economy Is the Largest in the United States

The Great Lakes Region produced \$2.8T in GDP in 2015, placing it ahead of California (\$2.4T) and New York (\$1.43T), as well as every other region in the U.S.

The Midwest Is the Biggest Venture Capital Presence Outside of California

Chicago leads the nation with the largest number of exits that produced returns over 10x.

Chicago Leads the Midwest Venture Capital Ecosystem

At \$1.34B in dollars invested across 171 deals in 2016, Chicago startups received more investment than all other Midwest states combined.

In the Midwest, Technology Sector Investments Dominate

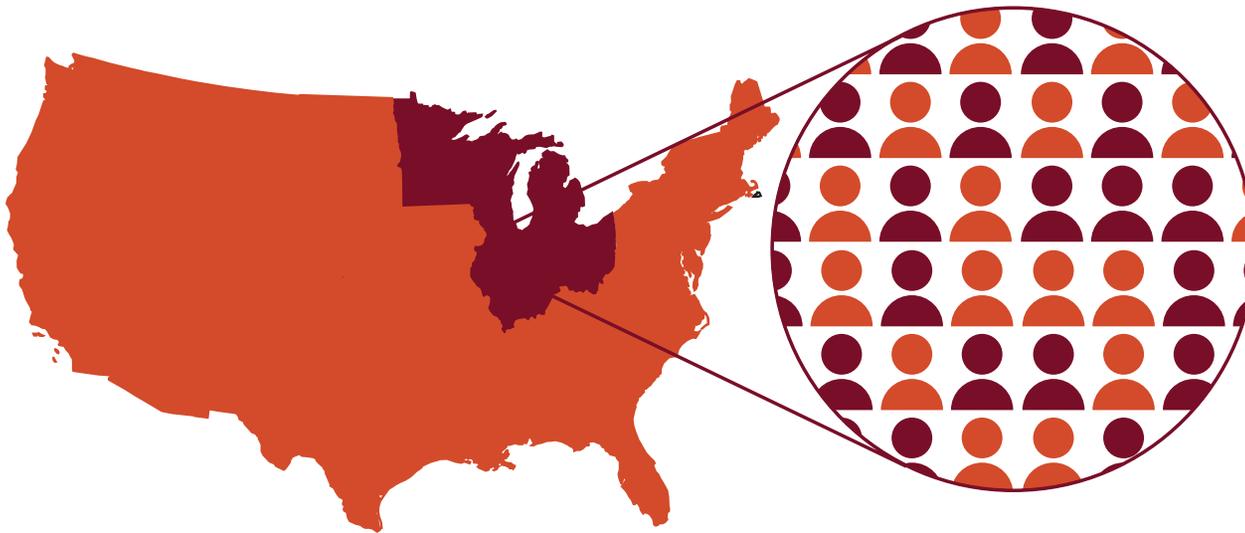
42% of all deals done in the Great Lakes region were software companies.

In Both the U.S. and Illinois, Investors Put in More Dollars in Fewer Deals

This trend has been going on since 2014 and represents a flight to quality.

The Great Lakes Economy: The Largest in the U.S.

The Great Lakes region is a powerhouse in the U.S., accounting for **\$2.88T in GDP**, serving as home to **52.3M consumers**, and housing **111 Fortune 500 companies** according to data from 2015 provided by the Bureau of Economic Analysis.



\$2.88T in GDP

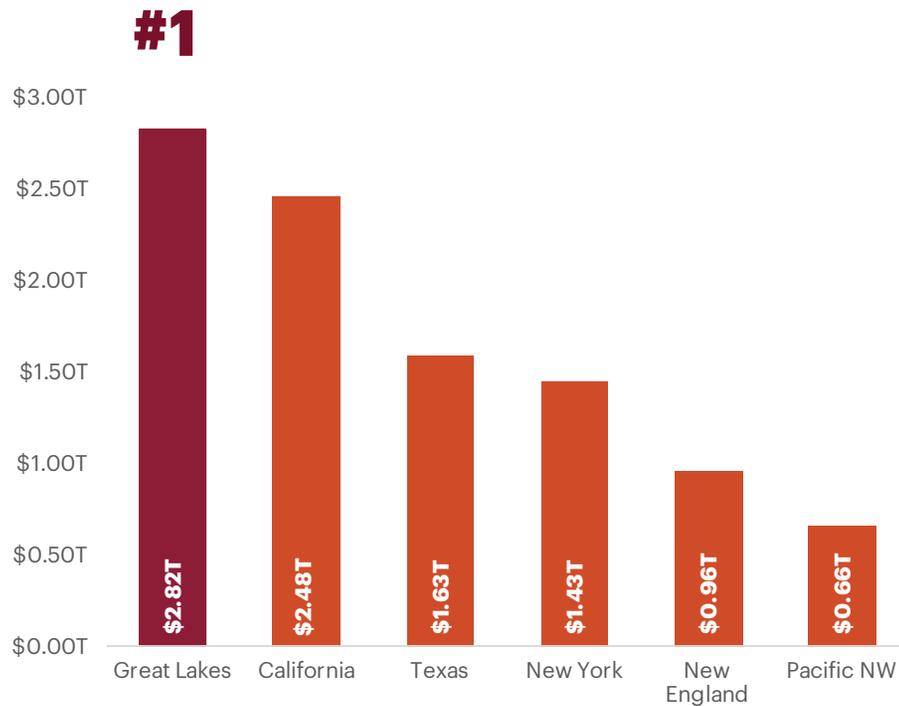
52.3M Consumers

**111 Fortune 500
Companies**

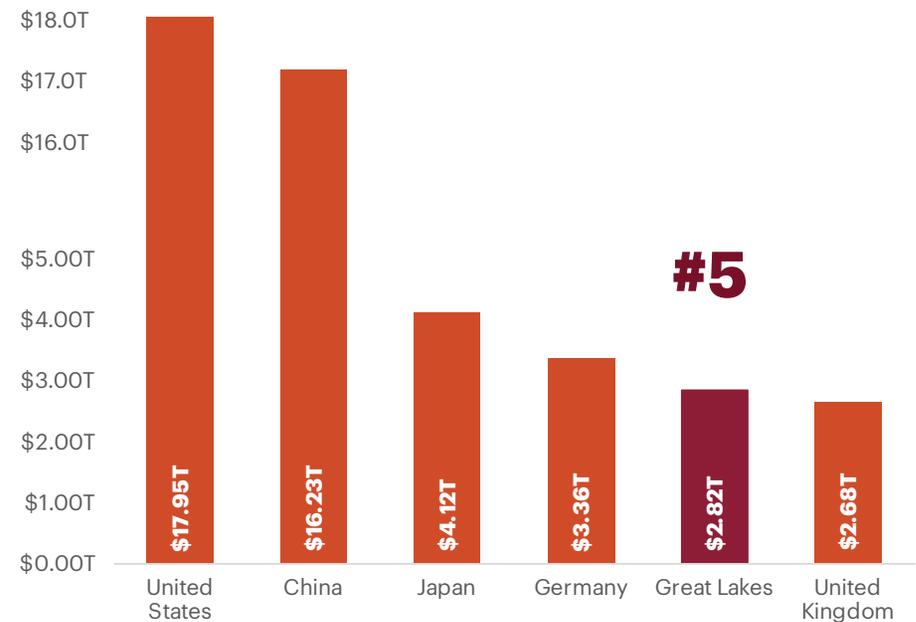
Economic Leader in the U.S. and the World

In 2015, the Great Lakes region accounted for \$2.8B in GDP, making it the **number one economy in the U.S.**, and the **fifth in the world.**

First Economy in the U.S.



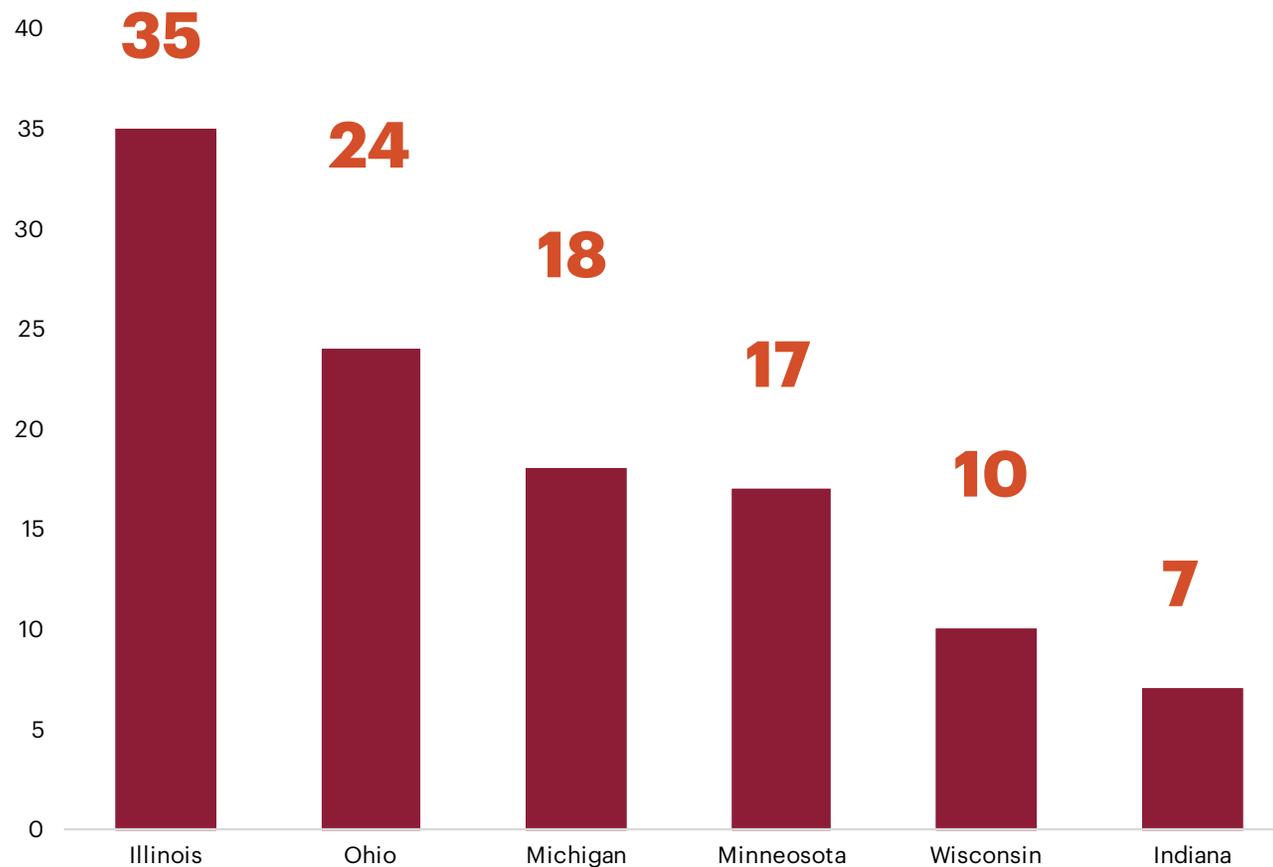
Fifth Economy in the World



* Source: Bureau of Economic Analysis, 2015 data

Number of Fortune 500 Companies in the Great Lakes

Why is the Great Lakes region such an economic powerhouse? **111 Fortune 500 companies call the region home.**



*Source: Bureau of Economic Analysis, 2015 data

Top Fortune 500 Companies in the Largest Midwest Cities

With world leaders like Walgreens, Boeing, General Motors, and Target providing opportunities as customers, acquirers, and investors, Great Lakes region companies benefit from these relationships. This is clearly shown by the companies represented within the metro areas of the following major Great Lakes cities.

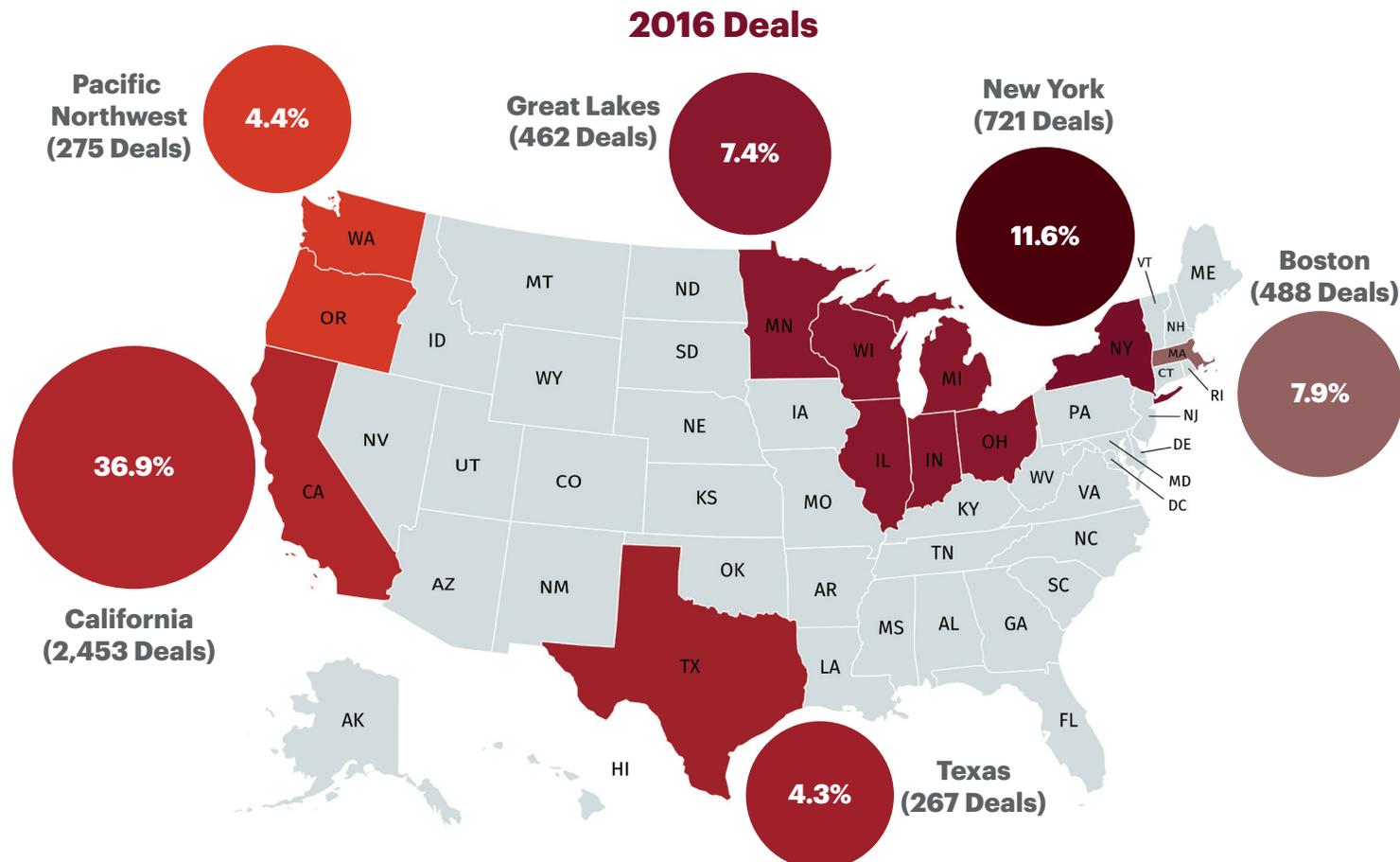
Top Fortune 500 Companies by Midwest City Metro Areas

Metro	Chicago		Detroit	Minneapolis St. Paul	Cincinnati	Cleveland	Columbus	Indianapolis	Milwaukee
	9.6M		4.3M	3.5M	2.2M	2.1M	2.0M	2.0M	1.6M
Top Fortune 500 Companies	<ol style="list-style-type: none"> 1. Boeing 2. ADM 3. United 4. Exelon 5. R.R. Donnelley 6. McDonald's 7. Jones Lang LaSalle 8. Old Republic International 9. Telephone and Data Systems 10. Walgreens 11. Mondelez 12. Baxter 13. CDW 14. Essendant 15. Univar 16. Dover 	<ol style="list-style-type: none"> 17. W.W. Grainger 18. Illinois Tool Works 19. Tenneco 20. Anixter 21. Sears 22. Navistar 23. AbbVie 24. Allstate 25. Packaging Corporation of America 26. LKQ 27. Ingredion 28. Arthur J. Gallagher 29. US Foods 30. Motorola Solutions 31. Abbott 	<ol style="list-style-type: none"> 1. General Motors 2. Ford 3. Penske 4. Lear 5. DTE Energy 6. Ally Financial 7. Autoliv 8. BorgWarner 9. Masco 10. Kelly Services 	<ol style="list-style-type: none"> 1. United Health 2. Target 3. Best Buy 4. CHS 5. 3M Company 6. US Bancorp 7. Supervalu 8. General Mills 9. Ecolab 10. C.H. Robinson 	<ol style="list-style-type: none"> 1. Kroger 2. Procter and Gamble 3. Macy's 4. Fifth Third Bancorp 5. AK Steel 6. American Financial 7. Western and Southern 8. Cincinnati Financial 	<ol style="list-style-type: none"> 1. Progressive 2. Parker Hannifin 3. Shewin-Williams 4. Travel Centers 	<ol style="list-style-type: none"> 1. Cardinal Health 2. Nationwide 3. American Electric 4. L Brands 5. Big Lots 	<ol style="list-style-type: none"> 1. Anthem 2. Eli Lilly 3. Simon Prop 	<ol style="list-style-type: none"> 1. Johnson Controls 2. Northwestern Mutual 3. Manpower Group 4. Kohl's 5. Rockwell Automation 6. Harley-Davidson 7. WEC Energy Group 8. Fiserv

*Source: Census.gov, 2015 data

The Venture Economy: The Midwest Among Top in Tier 2 Regions

Based on our analysis, in 2016 California led the nation in venture capital investments, but the Great Lakes region led the next set of most active regions. These next biggest venture capital markets (classified as Tier 2 regions) were: New York, Boston, the Great Lakes, Texas, and the Pacific Northwest.

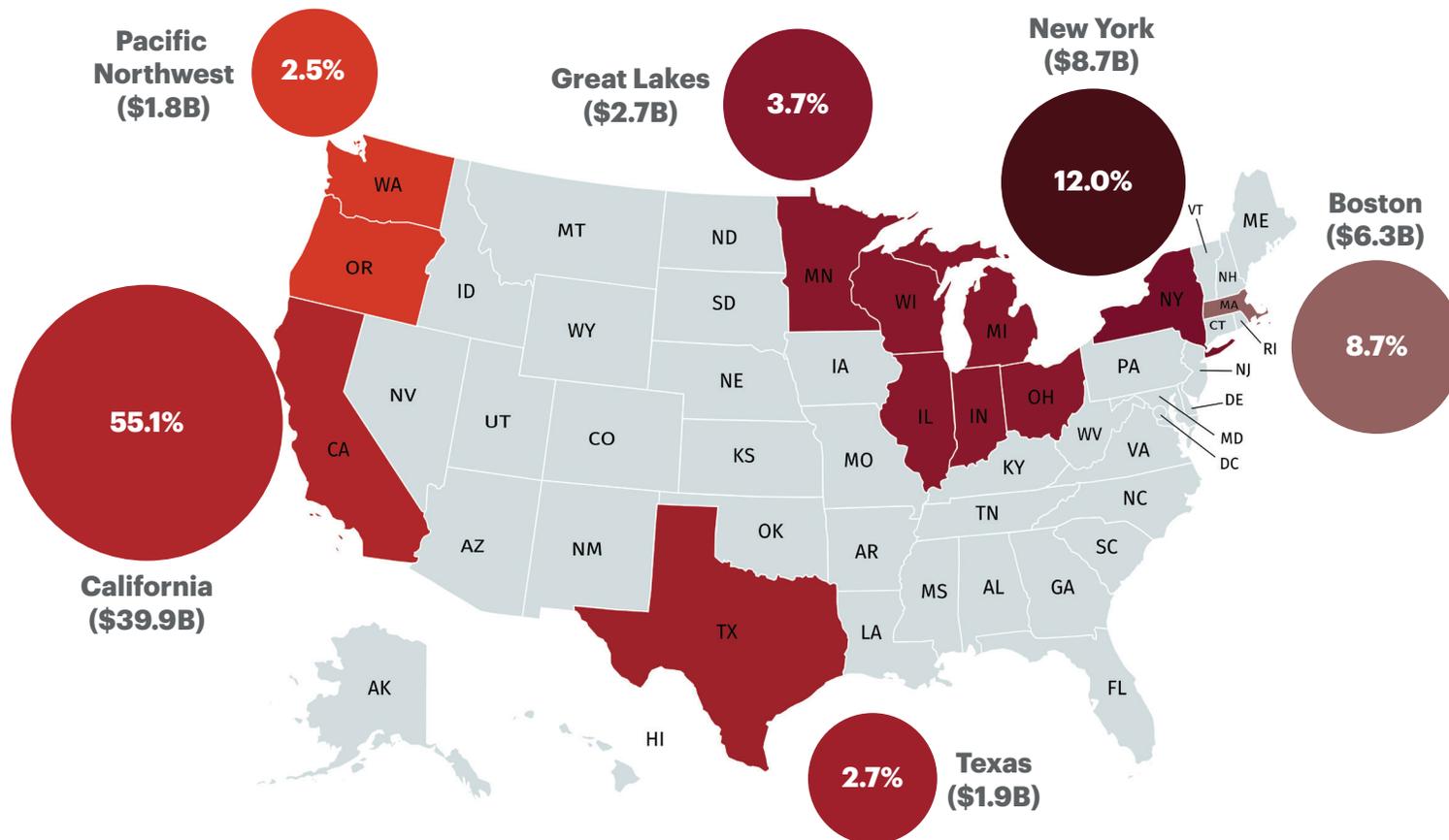


*Source: Pitchbook, 2016 data

Dollars Invested

While the Great Lakes region accounted for fewer dollars invested than deals done, our further analysis demonstrates this trend is tied to the fact that investors there receive lower valuations and greater overall value for deals done.

2016 Dollars



*Source: Pitchbook, 2016 data

Leader in 10x Returns to Investors

The Great Lakes region also **drives the most exits that deliver over 10x returns to investors**. Chicago is 1.5x more likely to return capital greater than 10x to investors than any other city in the U.S.

Head to head against other Tier 2 cities, Chicago is the leader in top exits over the last 5 years. This can be attributed to major unicorns like Grubhub, Gogo, Extenet, Cleversafe, and Fieldglass.

Percentage of Successful Exits by Multiple on Invested Capital – Last 10 Years

City	1 – 2x	2 – 5x	5 – 10x	>10x	3 – 10x
Chicago	13%	22%	19%	45%	81%
New York City	17%	26%	34%	22%	77%
Los Angeles	9%	39%	23%	29%	76%
Bay Area	15%	33%	27%	25%	72%
Seattle	11%	35%	29%	25%	68%
Boston	17%	39%	27%	17%	65%

***Source: Pitchbook, full exits in the last 10 years with more than \$500K in VC funding**

****Note: The numbers for 1x – 2x, 2x – 5x, and 5x – 10x add up to ~ 100%, and the number 3x – 10x takes those added together, extracting the companies that exited at a 2x multiple.**

Top Exits Over the Last 5 Years: Chicago vs. Seattle

Over the last 5 years, **Chicago exits have amounted to 1.3x more than Seattle exits.**

Chicago				Seattle			
Rank	Company	Year	Valuation (\$M)	Rank	Company	Year	Valuation (\$M)
1	Grubhub	2014	\$2,040	1	Zulily	2013	\$2,690
2	Gogo	2013	\$1,440	2	Juno Therapeutics	2014	\$1,870
3	ExteNet	2015	\$1,400	3	Tableau	2013	\$1,780
4	Cleversafe	2015	\$1,300	4	Apptio	2016	\$535
5	Fieldglass	2014	\$975	5	Alder Biopharma	2014	\$299
6	Trustwave	2015	\$850	6	Elemental Tech	2015	\$296
7	Paylocity	2014	\$832	7	Trupanion	2014	\$266
8	Braintree	2013	\$800	8	Impinj	2016	\$249
9	Naurex	2015	\$560	9	Turi	2016	\$200
10	AveXis	2016	\$448	10	EKOS	2013	\$180

Top 10 Total: \$10.7B **Top 10 Total: \$8.4B**

*Source: Pitchbook, 2016 data

Top Exits Over the Last 5 Years: Chicago vs. Boston

Over the last 5 years, **Chicago exits have amounted to 1.3x more than Boston exits.**

Chicago				Boston			
Rank	Company	Year	Valuation (\$M)	Rank	Company	Year	Valuation (\$M)
1	Grubhub	2014	\$2,040	1	Wayfair	2014	\$2,400
2	Gogo	2013	\$1,440	2	Acacia	2016	\$820
3	ExteNet	2015	\$1,400	3	HubSpot	2014	\$800
4	Cleversafe	2015	\$1,300	4	Trusteer	2013	\$800
5	Fieldglass	2014	\$975	5	Kiva	2012	\$775
6	Trustwave	2015	\$850	6	Intellia Therapeutics	2015	\$296
7	Paylocity	2014	\$832	7	Rapid7	2015	\$605
8	Braintree	2013	\$800	8	NeoLane	2013	\$600
9	Naurex	2015	\$560	9	Padlock Therapeutics	2016	\$600
10	AveXis	2016	\$448	10	Care.com	2014	\$506

Top 10 Total: \$10.7B **Top 10 Total: \$8.5B**

*Source: Pitchbook, 2016 data

Top Exits Over the Last 5 Years: Chicago vs. Los Angeles

Over the last 5 years, **Chicago exits have amounted to 1.2x more than Los Angeles exits.**

Chicago

Rank	Company	Year	Valuation (\$M)
1	Grubhub	2014	\$2,040
2	Gogo	2013	\$1,440
3	ExteNet	2015	\$1,400
4	Cleversafe	2015	\$1,300
5	Fieldglass	2014	\$975
6	Trustwave	2015	\$850
7	Paylocity	2014	\$832
8	Braintree	2013	\$800
9	Naurex	2015	\$560
10	AveXis	2016	\$448

Top 10 Total: \$10.7B

Los Angeles

Rank	Company	Year	Valuation (\$M)
1	Oculus VR	2014	\$2,000
2	NantHealth	2016	\$1,690
3	Lynda.com	2015	\$1,500
4	Dollar Shave Club	2016	\$1,000
5	Maker Studios	2014	\$750
6	True Car	2014	\$639
7	Rubicon Project	2014	\$521
8	EdgeCast	2013	\$390
9	AppFolio	2015	\$388
10	Gaikai	2012	\$380

Top 10 Total: \$9.3B

*Source: Pitchbook, 2016 data

Top Exits Over the Last 5 Years: Chicago vs. New York City

Over the last 5 years, **Chicago exits have been level with New York City exits.**

Chicago



Rank	Company	Year	Valuation (\$M)
1	Grubhub	2014	\$2,040
2	Gogo	2013	\$1,440
3	ExteNet	2015	\$1,400
4	Cleversafe	2015	\$1,300
5	Fieldglass	2014	\$975
6	Trustwave	2015	\$850
7	Paylocity	2014	\$832
8	Braintree	2013	\$800
9	Naurex	2015	\$560
10	AveXis	2016	\$448

Top 10 Total: \$10.7B

New York City



Rank	Company	Year	Valuation (\$M)
1	Jet	2016	\$3,300
2	Etsy	2015	\$1,775
3	OnDeck Capital	2014	\$1,323
4	Tumblr	2013	\$1,100
5	Buddy Media	2012	\$745
6	Shutterstock	2012	\$570
7	Varonis Systems	2014	\$524
8	101data	2015	\$500
9	Tremor Video	2013	\$495
10	Borderfree	2014	\$488

Top 10 Total: \$10.8B

*Source: Pitchbook, 2016 data

Greatest Value for Venture Investors

With strong performance in both deals done and dollars invested, the Great Lakes emerged as a leader within Tier 2. Particularly, the Great Lakes region saw its greatest dominance in investor value and exits.

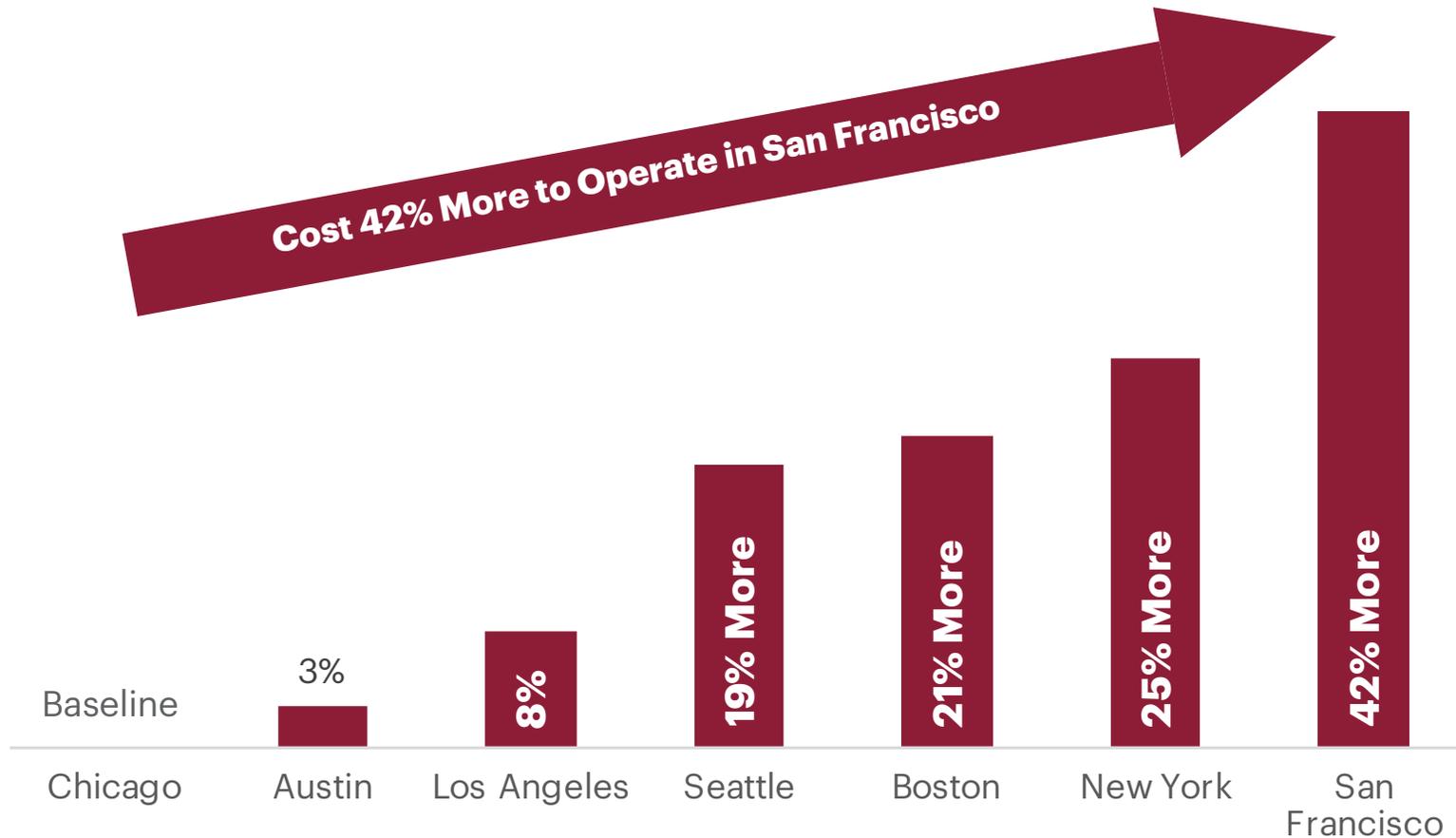
Consequently, in the Great Lakes, investors need to invest less to retain the same ownership over time. For example, an investment to retain **10% ownership from Seed to Series C requires 2.2x more capital** than in California in Chicago.



Calculations assume an investor initially obtains a 10% stake in the company during the seed round, and invests her minimum pro-rata amount to maintain the same 10% interest during each follow-on round. Based on 2012 to 2016 Pitchbook data.

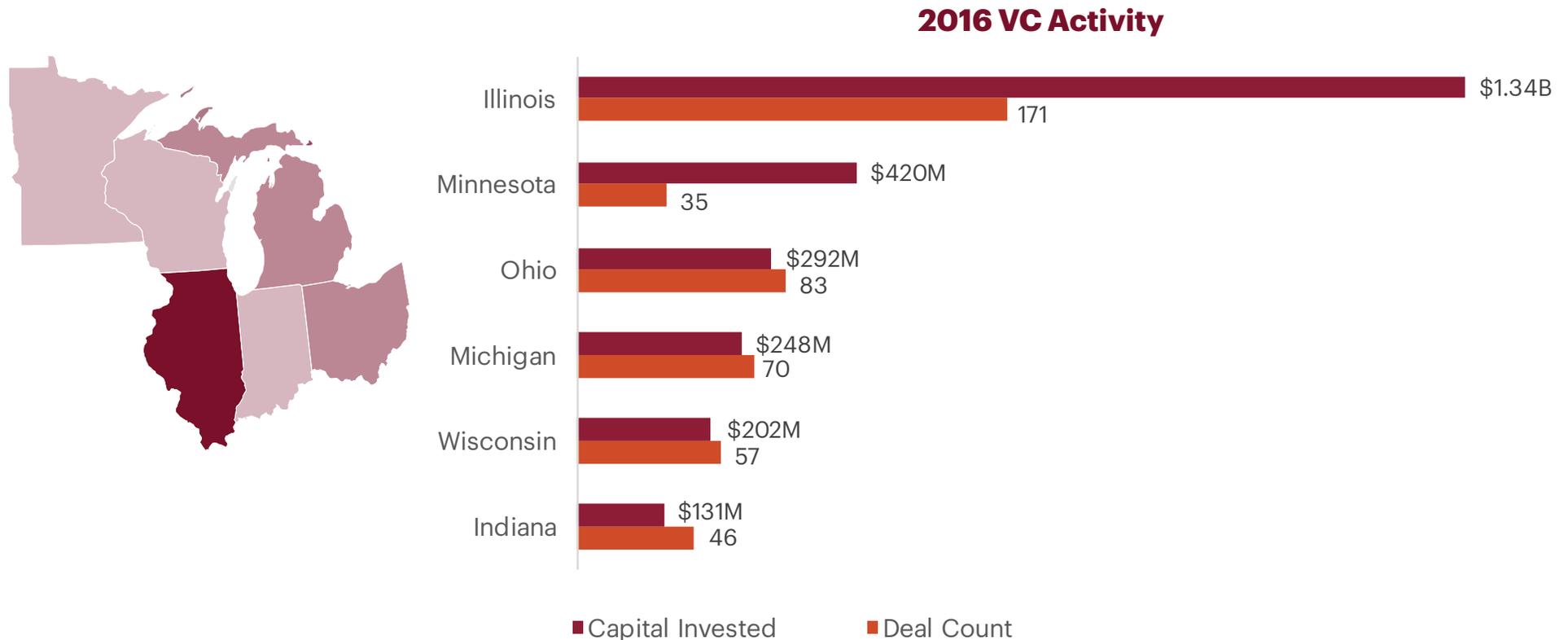
Lowest Costs for Technology Firms in the U.S.

The Great Lakes region has the lowest company operating costs of any city. For example, in Chicago, low rent coupled with low cost of living that allows for more reasonable wages, kept costs down. Meanwhile, a strong technology talent pool enabled companies to find critical players quickly and efficiently.



Midwest Investment Activity: Chicago Leads the Region

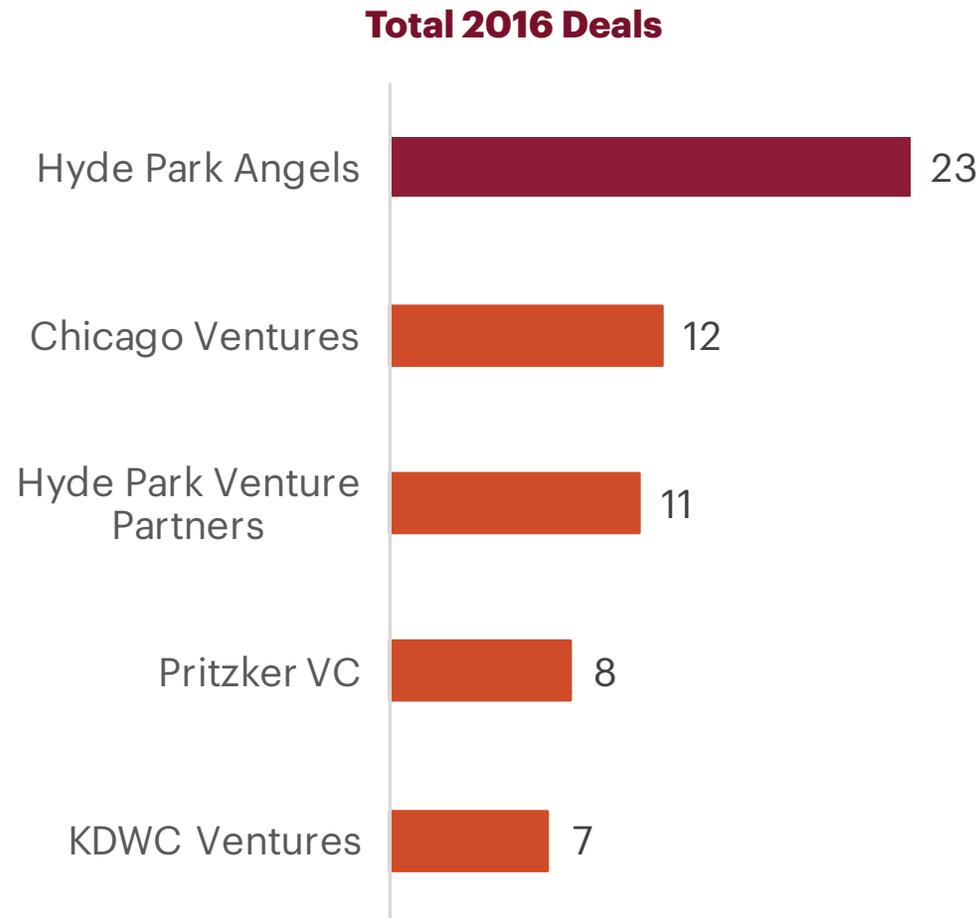
In the Midwest, the **Chicago Metro area received more venture capital investment than all other Great Lakes states combined**, with \$1.34B invested in 171 deals.



*Source: Pitchbook, 2016 data

Hyde Park Angels is the Most Active Chicago Investor

An evaluation of the most active investors in the Chicago region demonstrated Hyde Park Angels leading in new deals done **and** overall deals (a number which includes follow-on investments).



Notable Illinois VC Fundings

2016 has seen a continued push towards Series B and later investments in Chicago. Among the most notable VC-backed companies from 2016 are SMS Assist, Maestro Health, and Sprout Social.

2015 Deals

Avant (\$325M)	58 Deals from \$1M - \$5M	
	Raise (\$56M)	Insureon (\$31M)
		Centro (\$30M)
	Uptake (\$45M)	Base (\$30M)
		Reverb (\$30M)
	SMS Assist (\$45M)	Dose (\$25M)
		LaunchPoint (\$23M)
	Village MD (\$36M)	ShiftGig (\$22M)
		SpotHero (\$20M)
	111 Deals under \$1M	Apervita (\$18M)
	NextCapital (\$16M)	
18 Deals from \$5M - \$10M	10 Deals from \$10M - \$15M	

2016 Deals

SMS Assist (\$150M)	Aptinyx (\$65M)		Maestro Health (\$59M)	
	Sprout Social (\$42M)	Wickr (\$34M)	Everspring (\$28M)	Civis Analytics (\$22M)
				Swap.com (\$20M)
				SpringCM (\$18M)
	Higi (\$40M)	Endotronix (\$32M)	4C Insights (\$26M)	Geofeedia (\$17M)
				Kenna Security (\$17M)
				InContext Solutions (\$15M)
	Home Chef (\$40M)	Signal (\$30M)	ParkWhiz (\$24M)	FourKites (\$13M)
24 Deals from \$5M - \$10M	51 Deals from \$1M - \$5M	12 Deals from \$10M - \$15M	64 Deals under \$1M	

*Source: Pitchbook, 2016 data

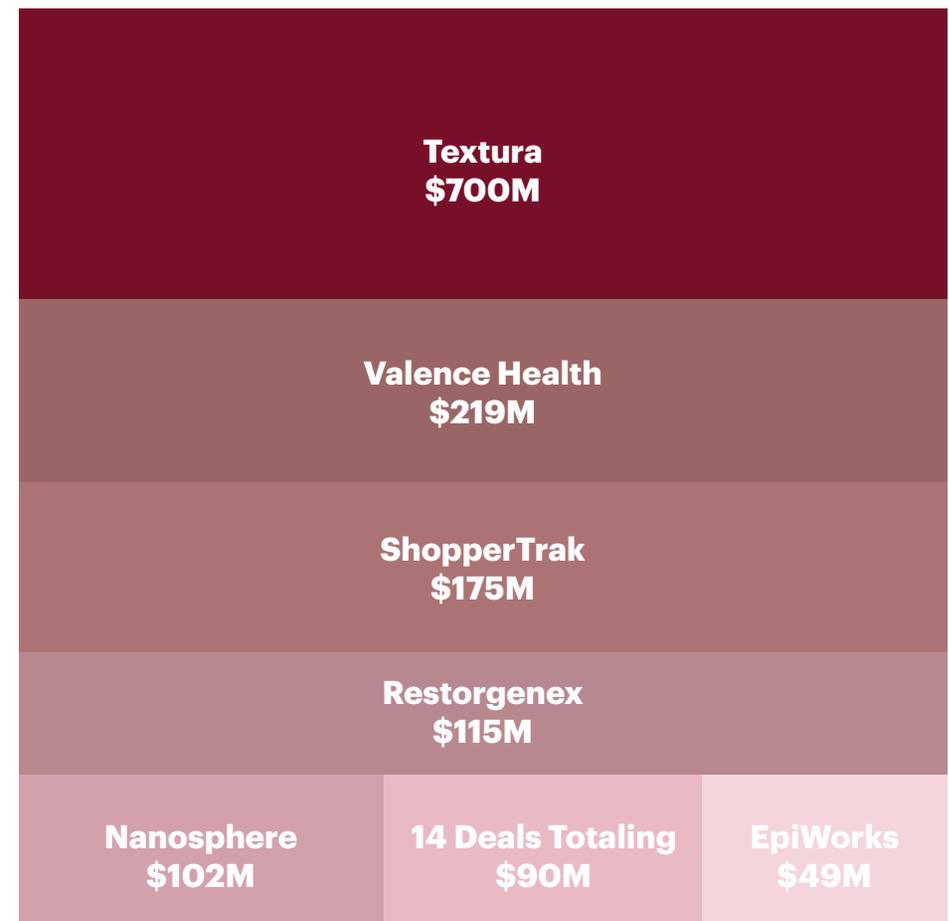
Notable Illinois Exits

Exits in Chicago also outpaced exits throughout the Midwest, with major exits in 2015 and 2016 fortifying the local ecosystem. 2015's Cleversafe \$1.3B exit to IBM created 80 new millionaires, many of whom went onto found new companies. In 2016, Textura led the pack of biggest exits.

2015 Exit Breakdown



2016 Exit Breakdown



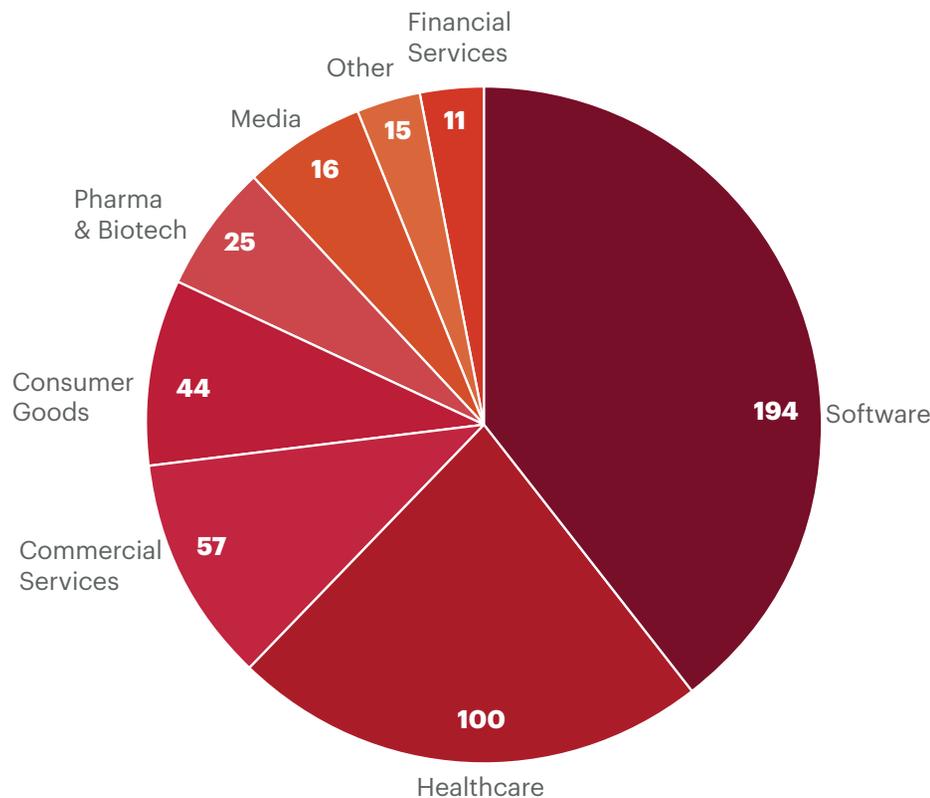
*Source: Pitchbook, 2016 data

Midwest Sector Analysis: Technology Investments Dominate

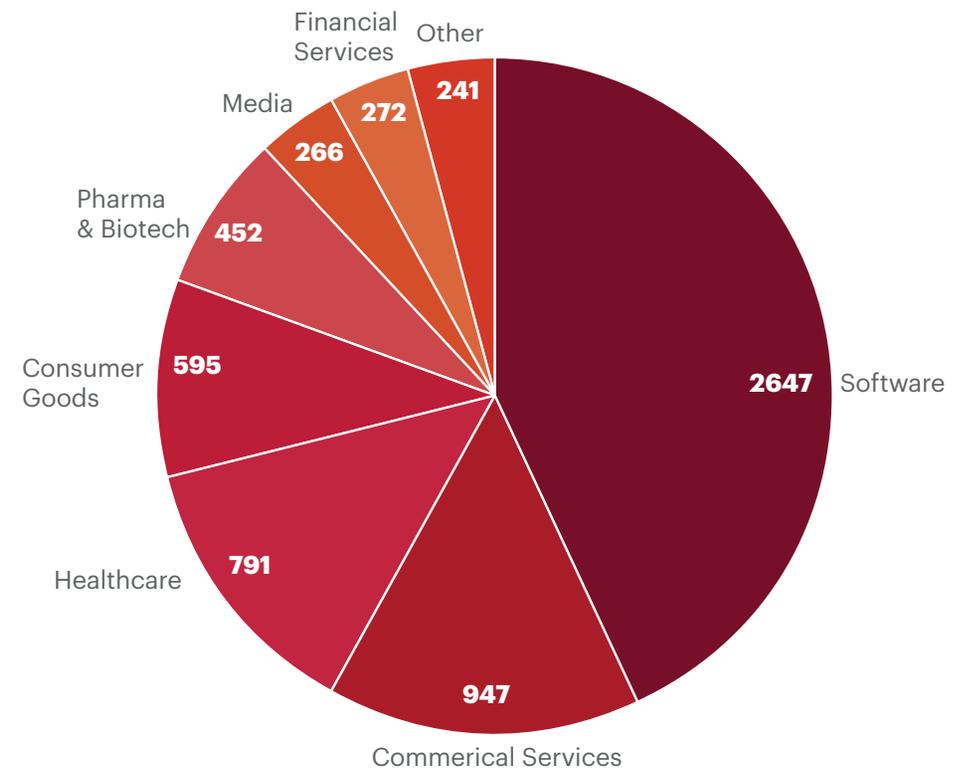
Throughout the Great Lakes region, **42% percent of deals done were in the software sector**, establishing a clear focus on technology investments. This distribution aligned with national investment trends.

The Great Lakes region generally sees a larger amount of healthcare investments compared to the entire nation, driven primarily by Minnesota.

Great Lakes 2016 Deals



U.S 2016 Deals

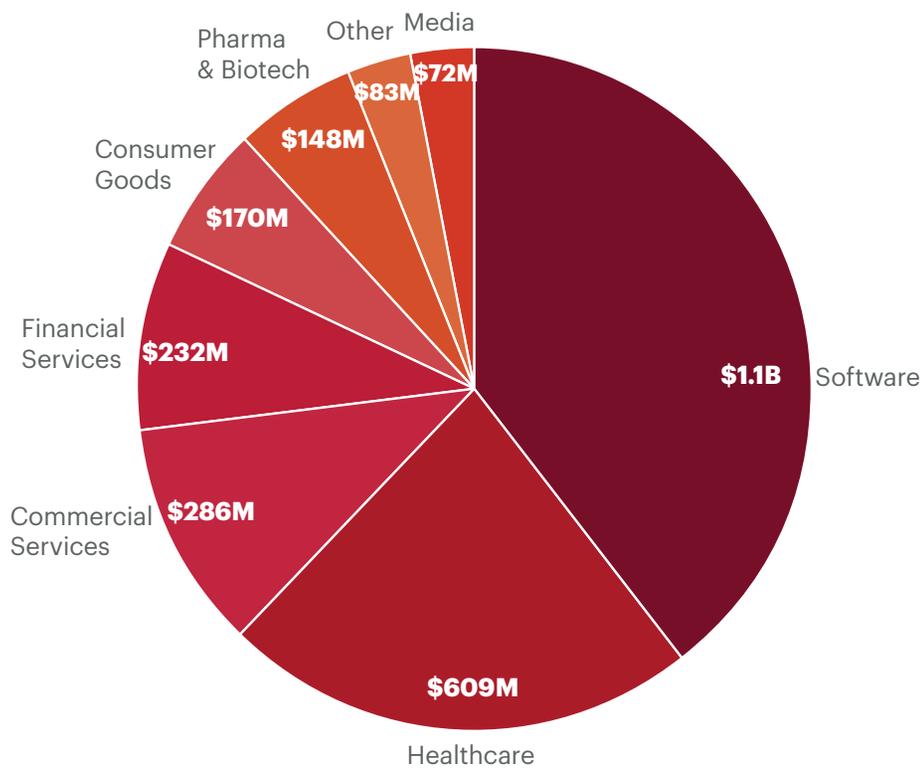


*Source: Pitchbook, 2016 data

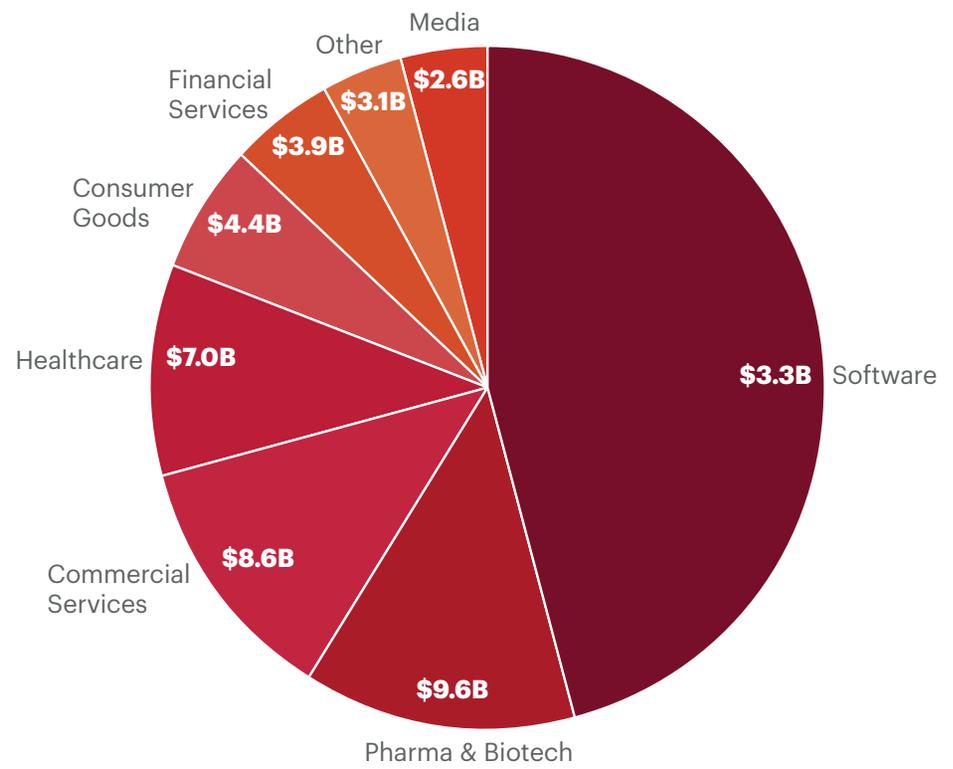
Dollars Invested

This pattern continued into dollars invested, with **40% of all venture capital in the Great Lakes region going into software companies.**

Great Lakes 2016 Dollars



U.S 2016 Dollars

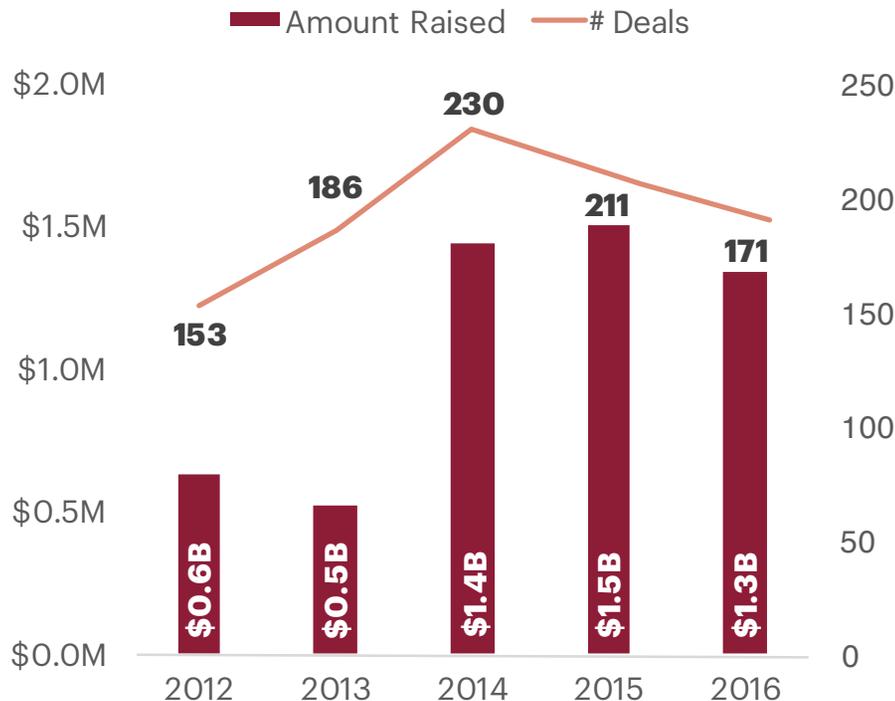


*Source: Pitchbook, 2016 data

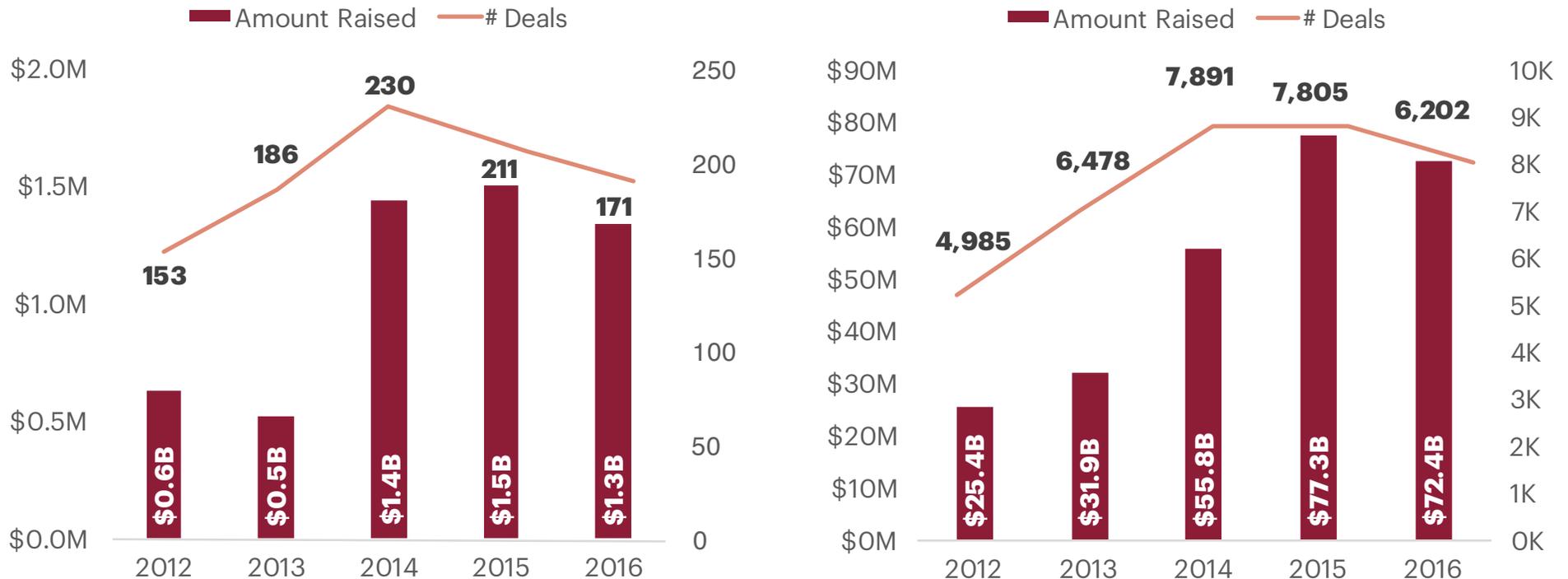
U.S. and Illinois Venture Capital Trends: More Dollars, Fewer Deals

Across the U.S., venture capitalists have been investing more dollars in fewer deals since 2014. This flight to quality marks a focus on injecting more capital into top-performers, a trend which has also manifested in Illinois deals. Chicago in particular has seen the greatest decline in number of deals in the seed rounds, further supporting a flight to quality thesis.

Illinois Deal History



U.S Deal History



Conclusion

Based on the trends and patterns we analyzed in this study, we believe there will continue to be a strong influx of capital into the Midwest venture capital ecosystem in both the seed and later stages throughout 2017. We expect more capital to flow into top-performing companies, with the flight to quality greatly and beneficially impacting investment returns and exit values, as well as strengthening the overall technology space locally, regionally, and nationally.

For more insights into venture capital in the Midwest, subscribe to the Hyde Park Angels newsletter and visit our website.

 hydeparkangels.com/newsletter

 hydeparkangels.com

About Hyde Park Angels

Hyde Park Angels is transforming early-stage investing by taking a people first approach. By matching our members' expertise with entrepreneurs' needs, we help develop top-performing companies that are delivering extraordinary results. Our approach has led us to become the largest and most active angel group in the Midwest.