

THE CURRENT OF DEAL FLOW RUNS STRONG IN WISCONSIN

2014 Q1 INVEST REPORT

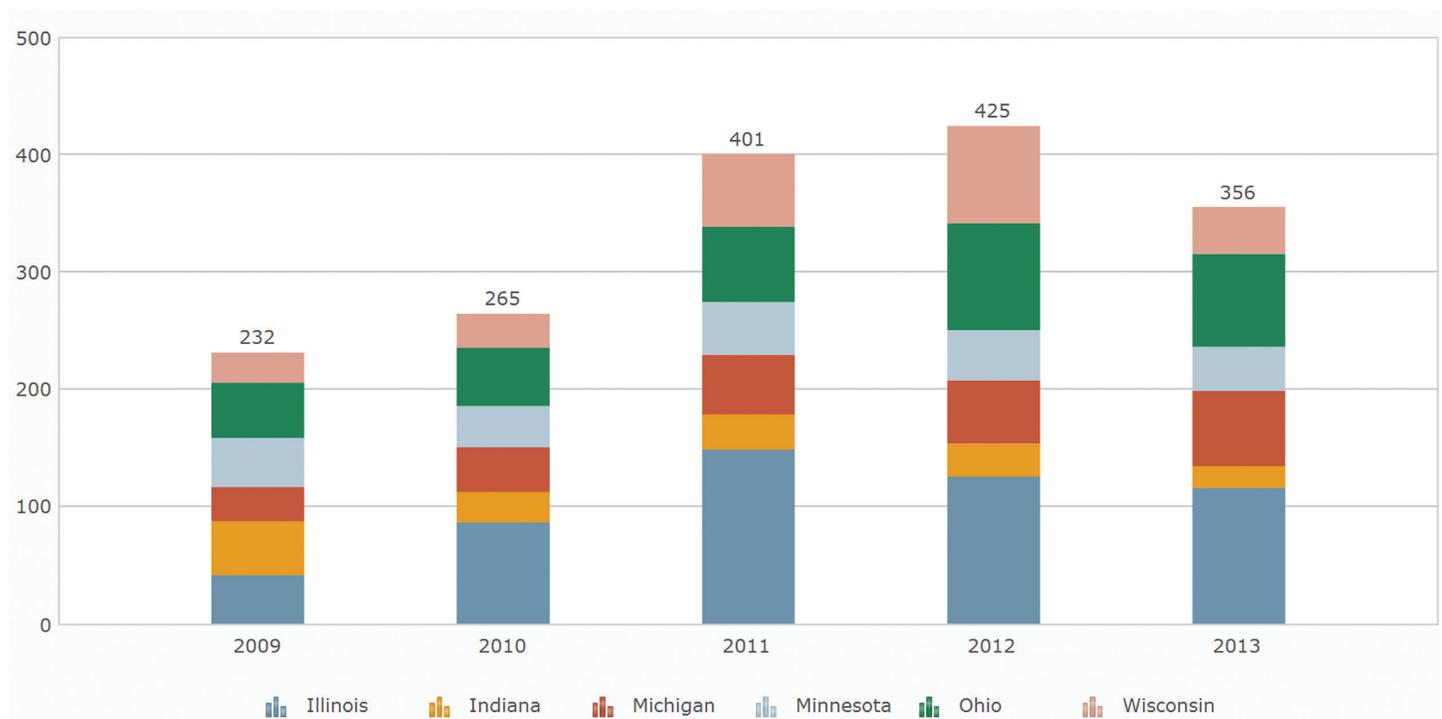


WISCONSIN VENTURE CAPITAL DEALS TOP \$80 MILLION IN 2013

Led by the health care and life sciences sector, 35 Wisconsin companies saw 40 venture financing deals in 2013 that generated \$80.9 million in financing—making it the third strongest year for venture deal flow in the past decade. Capital flows peaked in the first quarter of 2013, when \$51 million was invested. However, the second quarter saw the most deals—16.

The state's largest venture deal in 2013 was the GreenWhey Energy Inc. project in Turtle Lake, a \$28 million innovative waste water and renewable energy initiative. That project is an example of one of the emerging venture capital sectors in Wisconsin—clean technology and water technology. Health care technology systems is another sector that was on the rise in 2013.

Overall, Wisconsin's 2013 deal flow mirrored the national and regional trends. In 2013, the Upper Midwest saw a 16 percent decline in the number of venture deals compared to 2012.



SERIES B CRUNCH – YES, BUT...

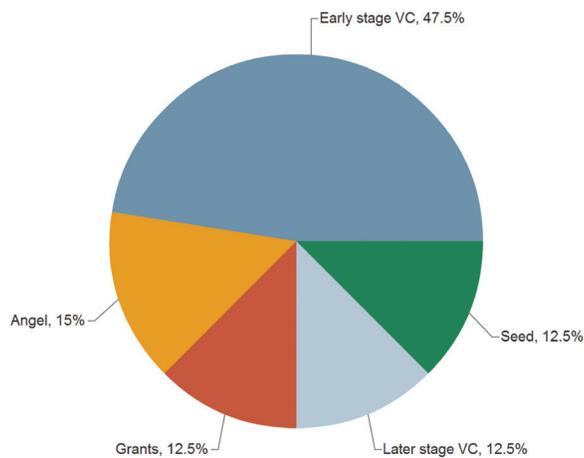
Angel-led investments continued at a strong pace in 2013 with 15 percent of the deals tracked. Similarly, seed stage deals represented 12.5 percent of the transactions. Early-stage venture capital deals represented the single largest category of investment in the state in 2013 with 47.5 percent of transactions. Later-stage VC deals accounted for 12.5 percent of the deal flow, and 12.5 percent of transactions were grants.



While companies express concern about their ability to raise a Series B round, the reality is that startup companies are facing a Series A squeeze. Seed funding for companies that are attempting to commercialize technology or start new firms continues to be as scarce as Series B rounds.

PLANTING SEEDS AND ACCELERATING GROWTH

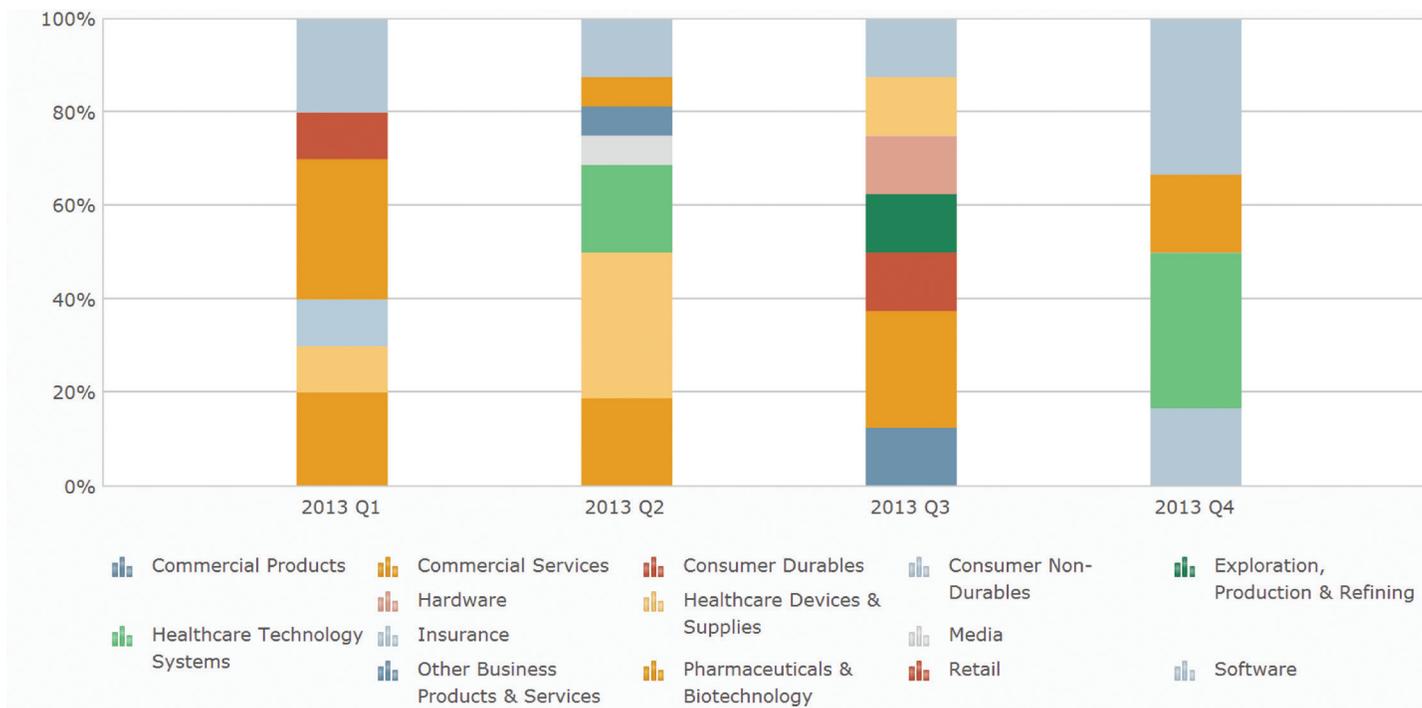
In an effort to address the seed funding shortage, the University of Wisconsin System and the Wisconsin Economic Development Corporation (WEDC) in February announced the creation of the \$2 million Ideadvance Seed Fund (www.uwideadvance.org). The fund is designed to help commercialize ideas from students and faculty at UW System campuses statewide ([See related Q&A with fund manager Idella Yamben](#)).



In a similar vein, UW-Madison in November announced the creation of the Discovery to Product Program (d2p.wisc.edu) (D2P). The intent of the program is to dramatically improve the production of innovations with high commercial potential and accelerate the transfer of those innovations to qualified external parties, including established companies and startups.

The most active accelerator in Wisconsin during 2013 was gener8tor (www.gener8tor.com). The firm has offices in both Madison and Milwaukee. During 2013, gener8tor funded 11 companies ([See Q&A below with co-founder Troy Vosseller](#)).

HISTORICAL SECTORS CONTINUE TO DOMINATE



More than 40 percent of the deals in Wisconsin in 2013 were in the health care related fields of health care technology systems, health care devices and supplies, and pharmaceuticals and biotechnology. Commercial services and software were secondary sectors that each saw 17.5 percent of the total deal flow.

Health care deals lead the pack not only in 2013, but also in 2011 and 2012. This should not come as a surprise. According to the National Science Foundation, higher education R&D expenditures for Wisconsin in biological sciences and medical



sciences from 2009 to 2012 ranged from 62 percent to 64 percent. In 2012, the total academic R&D expenditures were \$1.33 billion, with \$579 million of that in medical sciences and \$276 million in biological sciences.

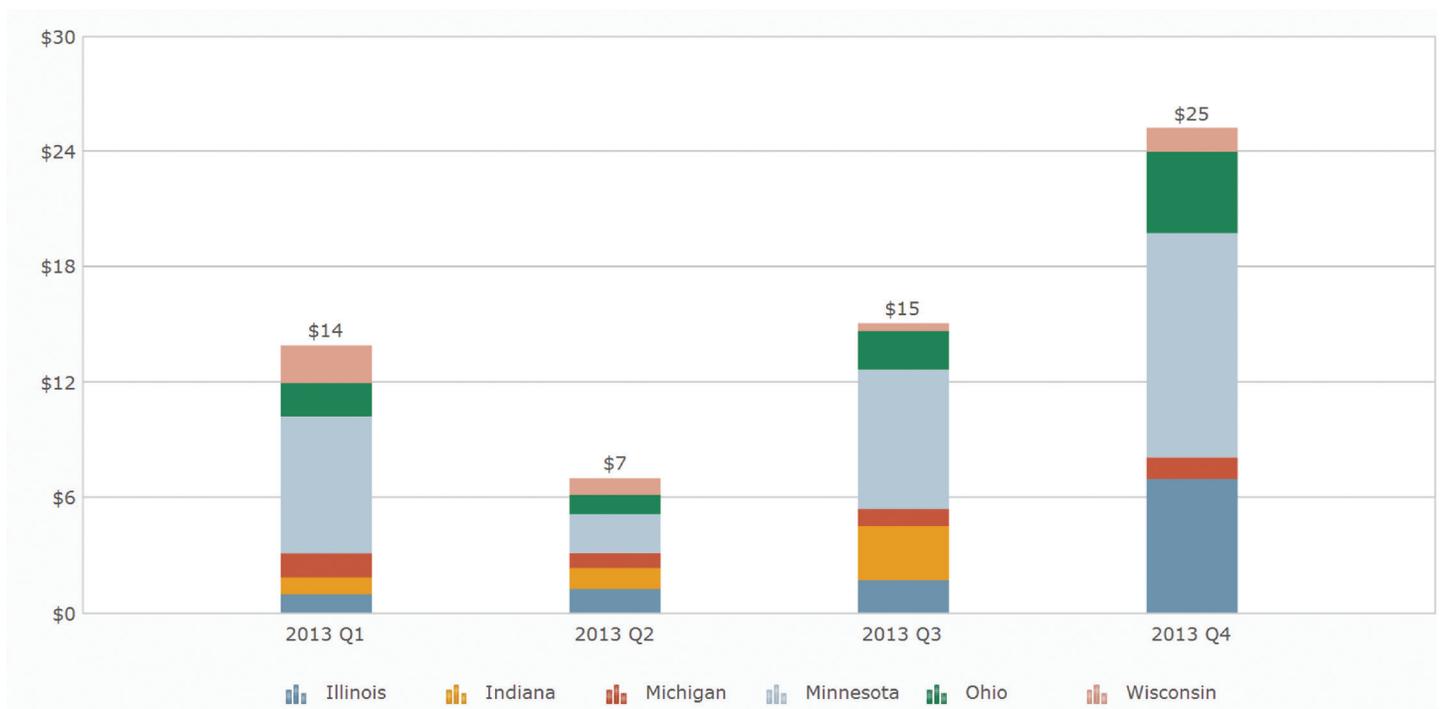
EMERGING SECTORS OFFER OPPORTUNITY

In addition to opportunities in historical sectors, there was significant activity in 2013 in two emerging sectors—health care technology systems and clean technology.

2013 heralded the launch of the Water Council’s (www.thewatercouncil.com) Global Water Center in Milwaukee’s Historic Third Ward. The Global Water Center houses laboratories from UW-Milwaukee’s School of Freshwater Science; a 440 person lecture hall; exhibition space for new prototypes and; most importantly, high-tech, shared, core facilities—including a state-of-the-art water flow lab.

In addition, the Global Freshwater Seed Accelerator (thebrew-mke.com) accepted its first class of water focused startups. The Water Council, in conjunction with WEDC, made \$50,000 seed investments in each of the five inaugural participants.

VALUATION OPPORTUNITIES VS. GREAT LAKES STATES



With later-stage investments accounting for only 12.5 percent of deals in Wisconsin, it is natural to expect lower median deal size. This was clearly the case in the state during 2013 with a median transaction size of \$1 million. This is substantially lower than Illinois, which has more later-stage deal flow, and Minnesota, which has more deals focused on FDA-regulated products.

With valuations and median deal size below regional averages (which are well below coastal averages), opportunities to invest in Wisconsin companies should be an attractive proposition to out-of-state investors.

WISCONSIN EXITS

There were two notable exits in Wisconsin during 2013. The Cellular Dynamics (www.cellulardynamics.com) IPO on the NASDAQ raised \$43 million in July. Prairie Technologies (www.prairie-technologies.com) of Middleton, a provider of microscopic imaging parts, was reportedly acquired by the Bruker Corp. for \$150 million in September.

FINAL THOUGHTS

Wisconsin continues to have significant venture investment opportunities across a variety of industries and stages. There is a clear need in the state for additional seed funds and for larger sums of capital that can provide a Series B round to growing companies.

While health care continues to lead Wisconsin's deal flow, it must be noted that FDA-regulated devices, supplies and pharmaceuticals continue to be both time- and capital-intensive endeavors. For the 402 companies that received venture capital financing in 2013 in the United States in the health care devices and supplies sector, PitchBook's data indicates that the weighted average investment for angel rounds was \$6.5 million, and the weighted average investment for first rounds was \$11.85 million.

Given the levels of capital required to launch diagnostic, therapeutic or device companies, the question that founders and early investors face is how to build networks of national investors to be able to syndicate deals that originate in Wisconsin.

To address this need, WEDC has compiled a social network analysis of more than 5,000 angel and early-stage venture transactions and can guide companies and angels who are looking for out-of-state investment partners. Companies seeking capital or investors seeking to syndicate deals can contact WEDC's investment team to learn more at invest@wedc.org.

In June, WEDC will publish its annual Qualified New Business Venture report that shows fundraising efforts (equity, debt and grants) for Wisconsin domiciled companies that received early-stage investment tax credits.

The analysis presented in this report is based on data provided by PitchBook (www.PitchBook.com) from publicly available information and was compiled in mid-January 2014. Angel transactions under \$500,000 or by individual angel investors may not be captured by PitchBook's data. If you have any suggestions, questions or comments about the data in the newsletter, please contact us at invest@wedc.org.

GENER8TOR

Q&A WITH TROY VOSELLER, CO-FOUNDER OF GENER8TOR—THE MOST ACTIVE ACCELERATOR IN WISCONSIN IN 2013

Q. Gener8tor was the most active accelerator in Wisconsin in 2013. How many companies went through your program?

A. We invested in 11 companies in 2013.

Q. What services do you offer to your portfolio companies?

A. We invest our community, capital, expertise, mentorship and network in early-stage entrepreneurs with innovative business models. We guarantee up to \$70,000 in funding (\$20,000 for 6-9 percent common stock PLUS \$50,000 convertible note). In addition, the entrepreneurs receive office space, access to paid interns, prepaid time with our in-house graphic designer and over \$915,000 in available perks via our affiliation with the Global Accelerator Network (GAN).

Q. Do you teach a specific methodology, like Lean Startup?

A. We practice Lean Startup Methodology with a focus on customer development during our accelerator programs.

Q. Do companies have to pay to participate in the Gener8tor program?

A. Companies do not have to pay to participate in gener8tor. Rather, we invest \$20,000 cash (and guarantee an additional \$50,000) in the companies that are selected to participate.

Q. Do you have a specific sector focus?

A. We invest in technology-enabled businesses, including software, IT, web, SaaS, mobile and hardware.

Q. What does 2014 hold for you?

A. In 2014, we are anxious to invest in at least 10 new companies. For our existing portfolio, we are looking forward to continued growth and traction, and hopefully our first company being acquired!

