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Introduction

After the success of our 2017 Midwest Startup and Venture Capital Market Analysis, we sought out to investigate the venture and startup landscape in the region once more, paying special attention to where the market has most significantly changed. In our analysis, we uncovered a number of new patterns and trends, many of which demonstrate an increased strengthening of our ecosystem.

Specifically, the Great Lakes region has seen an increase in both dollars and deals since last year. In particular, Illinois experienced a marked increase in investment and deal activity, with $1.94B invested in 227 deals in 2017 versus $1.34B in 171 deals in 2016.

We hope these new insights will help contextualize the market in our region and create more opportunities for growth and opportunity.

–The Hyde Park Angels Team
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, the Illinois Venture Capital Association, and proprietary sources. 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 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.

**Illinois Leads the Midwest Venture Capital Ecosystem**
At $1.94B in dollars invested across 227 deals in 2017, Illinois startups received more investment than all other Midwest states combined.

**Illinois Sees Greater Investor Returns and Lower Company Operating Costs Than Rest of Nation**
This trend has been going on since 2014 and represents a flight to quality.
The Great Lakes Among Top in Tier 2 Regions

Based on our analysis, in 2017, California led the nation in venture capital investments, but the Great Lakes region was one of the most active regions outside of California. In fact, the Great Lakes increased its deal activity from last year, jumping from 462 deals last year to 623 this year.

*Source: Pitchbook, 2017 data*
**Dollars Invested**

While the Great Lakes region accounted for fewer dollars invested than deals done, further analysis demonstrates this trend is tied to the fact that investors there receive lower valuations and greater overall value for deals done. Additionally, the percentage of dollars invested in the Great Lakes went from $2.7B in 2016 to $3.8B in 2017, accounting for a sizeable $1.1B increase.

*Source: Pitchbook, 2017 data*
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 $1.94B invested in 227 deals in 2017. This was a marked increase from 2016, where $1.34B was invested in 171 deals.

*Source: Pitchbook, 2017 data*
Hyde Park Angels is the Most Active Chicago Investor

In 2017, Hyde Park Angels continued to lead in new deals done and overall deals (a number which includes follow-on investments) after topping the list in 2016. From 2016 to 2017, Pritzker increased its investments, moving from fourth to second place, while OCA Ventures and Method Capital made their first appearances on the list.

*Source: Pitchbook, 2017 data
**This data reflects investment groups with fund sizes over $15M.
Notable Illinois VC Fundings

2017 has seen a continued push towards Series B and later investments in Chicago. Among the some of the most notable VC-backed companies from 2017 are Uptake and Tempus, both funded by Lightbank.

**Source: Pitchbook, 2018 data**

**Outcome Health raised $500M in May of 2017, but was charged with falsifying data by its investors. Reports in 2018 confirmed that the lawsuit had been dropped and the investors, founders, and lenders were recommitting at least $159M to the company.**
Notable Illinois Exits

Exits in Chicago also outpaced exits throughout the Midwest, with major exits in 2016 and 2017 fortifying the local ecosystem. In 2017, Naurex and Vivid Seats were the biggest Illinois exits.

**2016 Exit Breakdown**
- Textura $700M
- Valence Health $219M
- ShopperTrak $175M
- Restorgenex $115M
- Nanosphere $102M
- 14 Deals Totaling $90M
- EpiWorks $49M

**2017 Exit Breakdown**
- Naurex $1.7B
- Vivid Seats $1.5B
- RXBar $600M
- Bravo Solutions $218M
- 2 Deals Totaling $58M

*Source: Pitchbook, 2018 data*
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.
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

<table>
<thead>
<tr>
<th>City</th>
<th>1 – 2x</th>
<th>2 – 5x</th>
<th>5 – 10x</th>
<th>&gt;10x</th>
<th>3 – 10x</th>
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<tbody>
<tr>
<td>Chicago</td>
<td>13%</td>
<td>22%</td>
<td>19%</td>
<td>45%</td>
<td>81%</td>
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<td>34%</td>
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<td>25%</td>
<td>72%</td>
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<tr>
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<td>35%</td>
<td>29%</td>
<td>25%</td>
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<tr>
<td>Boston</td>
<td>17%</td>
<td>39%</td>
<td>27%</td>
<td>17%</td>
<td>65%</td>
</tr>
</tbody>
</table>

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

*Source: CBRE, 2016 data*
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 2018. 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 early-stage investment group in the Midwest.