University of Minnesota Start-up Venture Funding Initiative

Presented to the Board of Regents Finance and Planning Committee
December 13, 2012
A Problem and a Solution to Sustaining UMN as a Leader in Start-up Generation and Job Creation

• **Problem:** financing University start-ups is difficult
  - At UMN as well as many Universities
  - Lack of seed/early stage capital affects disruptive technologies most
    - Most valuable
    - Least likely to be licensed to a big company

• **Solution:** create a University affiliated venture fund
  - Many universities taking action to fill the gap
  - Supporting creation of seed/early stage companies where needed most
  - Allowing University innovations to create jobs!
Re-engineering Technology Transfer at UMN

• 2007 – 2012
  • Venture Center formed to bring entrepreneurs into U
  • Jay Schrankler hired to lead OTC
    • Value-based systematic process now in place
    • Graduating 10 - 12 start-ups per year

• Result – “A world class tech transfer office”
  • Wisconsin, Stanford and Columbia tech transfer directors do a peer review of UMN tech transfer
Minnesota Becoming a Leader in Start-up Formation*

*External Assessment June 2011 by Stanford, Columbia and Wisconsin: “We would place the University of Minnesota amongst the top tech transfer organizations in the country...”

UMN fiscal year
University Start-ups Benefit the Economy and the University

- They are the best and often the only way to commercialize disruptive (major) technologies
- $33 billion U.S. economic value creation from ‘80 – ’99
- 280,000 spin-off jobs (same period)
- 75% of University spin-offs stay in the state
- Increased license revenue to University
- Help attract and retain faculty

Source: Scott Shane, Academic Entrepreneurship, Elgar Publishing, 2004
University Start-ups: High Success Rates!

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<tr>
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<th>Ordinary Start-ups</th>
<th>University Start-ups</th>
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<tbody>
<tr>
<td>Success Rate</td>
<td>0.07%</td>
<td>8%</td>
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<tr>
<td>Raise Venture Capital</td>
<td>1.00%</td>
<td>25%</td>
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<td>Ten Year Survival Rate</td>
<td>&lt; 20%</td>
<td>68%</td>
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The Gap or “Valley of Death”

Lack of Federal support for early development

Too early for Angel, VC or industry funding

Availability Of Funds

Funding Source:
Federal
Industry

The Gap

Years
1
5
10
15

Basic Research
Feasibility & Product Development
Production & Marketing

Technology Transfer

TECHNOLOGY PROGRESSION

Discovery
Idea Development
Start-Up
Growth Stage
Reinvention Stage

Idea
Market

Technology Progression

Source: Feasibility & Product Development

United of Minnesota
Driven to Discover
Funding Mechanisms; The Difference Between Success or Failure

- **Reinvention Stage**
- **Growth Stage**
- **Start-Up**
- **Idea Development**
- **Discovery**

**Valley of Death**
- SBIR/STTR Funds
- Angel Investors
- Traditional Venture Funds
- Company R&D Funds
- MN Seed Fund
- MN Venture Capital Fund

**Greatest Risk of Failure**
Percent of Total VC Funds Dedicated to Seed Start-ups
Major Big Ten Efforts Underway - Opportunity for UMN to Step in

- **Best Benchmark**: University of Illinois
  - “Illinois Ventures” - Currently $75MM under management
  - Started new seed/early stage fund series in 2001
  - Started 66 companies
  - Raised $500M in outside capital
  - Created 500 jobs

- **Ohio State and Ohio University**
  - $35M new seed/early stage fund for Ohio U companies
  - Recently launched, no data

- **University of Michigan**
  - Started new $25M internal later stage fund
  - Recently launched, not a “gap” solution
Minnesota Ventures – A Concept Based on “Best Practices”

- **State Investment**: $2.0M per year from 2015 Accountability Fund*
- **Goal**: Leverage U of M innovations, start companies & create new jobs
- **Return**: University of MN owns equity

- **Public/Private Partnership**: U of M and Private Investors
- **Goal**: Fund Companies
- **Return**: U of M owns equity, economic development with funded companies creates jobs and pay taxes

Major leverage by having a coupled seed and venture fund
Proposed Role of the University

- Support the formation of Minnesota Ventures that includes a seed stage and venture stage fund
- Provide funding for the Seed Fund - $2M per year for 10 years
- Make “cornerstone” investment in Venture Fund ($5M+) to create momentum and garner private investment
- Maintain and enhance OTC operations to ensure robust start-up pipeline