

University startup efforts push forward as new capital comes available

By Nick Manes

- University of Michigan formally launches \$20 million fund
- Accelerate Blue Fund will focus on early-stage investing for university startups
- Tech transfer efforts continue forward at state's three research institutions

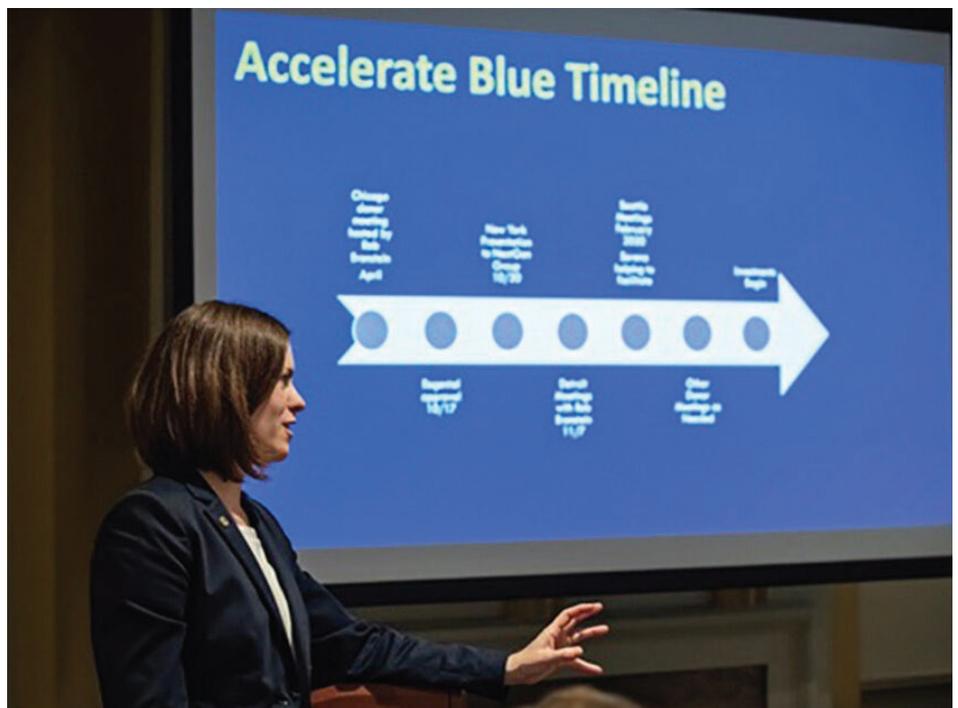
A long-planned philanthropic venture capital fund sponsored by the University of Michigan is up and running, with the goal of bolstering early stage startups in Ann Arbor and around the state.

The Accelerate Blue Fund aims to be a \$20 million fund targeted at early stage companies looking to spin out from the university. All returns the fund realizes would be reinvested.

As new startup capital comes available at UM, university executives at the state's other research institutions say the pandemic has done little to slow efforts to help startups form. If anything, the nature of the pandemic allowed for new opportunities for many college-level entrepreneurs.

The emergence of another capital option for early stage startups comes as universities, particularly amid the pandemic, see the need to take important research, often funded by entities like the National Institutes for Health and the National Science Foundation, and try to commercialize it for use beyond a university laboratory.

"So I think what you're seeing is the



Kelly Sexton with the University of Michigan's technology transfer office speaks about the Accelerate Blue venture capital fund

University of Michigan

trend that universities are recognizing that this was part of our mission," said Kelly Sexton, associate vice president at UM overseeing research, technology transfer and innovation. "This is one of our responsibilities as a recipient of research funds in the world. And this is a great way we can do it."

Having just closed on its initial \$2 million, the university has announced that the fund has made its first investment from ABF: \$150,000 into Movellus Inc. as part of a larger \$3 million capital raise for the company.

A 2014 UM spinout company focused on adding proprietary technology to boost the performance of semi-conductor chips, Movellus CEO Mo Faisal told Crain's earlier this month that the company is well-positioned given explosive demand for microchips and a global supply shortage.

The university has had other venture capital funds in the past, said Sexton, who added that some have been student-run, and others were narrowly focused on investments in areas such as biomedical technologies.

The Accelerate Blue Fund is purely philanthropic, according to the university, and has a host of donors, including Amazon. Any returns from investments will be cycled back into the fund.

Similarly, the Michigan State University Foundation operates the Red Cedar Ventures funds to help commercialize startups at the East Lansing institution. Red Cedar has assets under management of \$11 million.



Kelly Sexton

The emergence of another VC fund geared toward investments in early stage startups helps to fill a gap in the market and provides validation for investors down the road, according to Chris Rizik, the CEO and fund manager for Renaissance Venture Capital in Ann Arbor, and who also chairs the investment committee for the Accelerate Blue Fund.

"As we're trying to attract venture capital funds from around the country, they typically are not looking at the stage that Accelerate Blue is," said Rizik. "What they're looking for is stuff that is teed up."

No slowdown

Between 1996 and 2017, academic technology transfer contributed a total of \$865 billion to the U.S. GDP, and "supported" 5.9 million jobs, according to figures from AUTM, an industry trade group formerly known as the Association of University Technology Managers.

Closer to home, the Lansing-based

University Research Corridor serves as an alliance between the state's three research institutions, UM, Michigan State University and Wayne State University. While the group has not put out an updated economic impact report, URC Executive Director Britany Affolter-Caine told Crain's that research activity from the three institutions amounted to a net impact of \$19.3 billion for the 2019 fiscal year, up from \$18.7 billion the previous fiscal year.

While 2020 was undoubtedly a year of hardship given the pandemic and ensuing economic struggles, business formation at the university level has been steadily increasing, multiple sources said.

Jeff Wesley, executive director of Red Cedar Ventures, acknowledged that certainly the pandemic has hit some segments of the university tech startup sector, but many entrepreneurs were able to pivot quickly.

"People are looking at this and seeing this is an opportunity," said Wesley, adding that those with a medical device startup, for instance, went and figured out how to get the device situated for use at home.

Others, he said, took advantage of the all-virtual world many found themselves living in and sudden ability to pitch their company anywhere over Zoom.

"So it created new opportunities for them," he said.

Stephen Lanier, vice president for research at Wayne State in Detroit, also said tech transfer has remained healthy.

"Overall, deal activity and discussions have remained steady during the pandemic period as business strategies adjusted to the larger economic dynamics depending on the specific technology sector with a notable uptick in deal interest and spinouts beginning in fall of 2020," Lanier wrote in an emailed statement to Crain's.

Filling a need

Startup activity at UM has been steadily on the rise as well. As Crain's reported last September, the Ann Arbor university reported 31 startups launching from the institution in the 2020 fiscal year, a 40 percent increase over the previous year.

All of the university's startups raised a total of \$237 million in the 2020 fiscal year, while startups in the previous fiscal year raised \$643 million.

More deals at smaller values became a common theme in the angel investing community last year.

Sexton with UM's tech transfer office told Crain's that getting out of perpetual fundraising mode and building the Accelerate Blue Fund to the goal of \$20 million as quickly as possible remains a goal.

The university will use convertible notes and an investment mechanism known as SAFE, or Simple Agreement for Future Equity. Pioneered by startup accelerator Y Combinator, the instrument allows for money up front for a founder with the promise to the investor of shares further down the road once the company raises a priced round.

The university says its investments will be in the range of \$25,000 to \$250,000.

To be sure, a great many other research institutions around the country have university-sponsored venture capital funds akin to the Accelerate Blue Fund, including many of UM's rivals in the Big Ten.

Sexton said she anticipates the university investing to only increase as time goes on, particularly as much of the traditional VC community prefers less-risky, later stage companies.

"We're not the only university that's, you know, recognizing this as a need," said Sexton. "Even universities that are in some of the richest investment ecosystems in the world are seeing the need to support these tough tech startup companies with early stage, patient, risk-tolerant capital."