

# The 2010 Central Ohio Innovation Capital Report

An Overview of  
Funding Trends  
Within Central Ohio's  
Knowledge Economy  
2005-2010

PREPARED BY



# Record-Setting Year for Innovation Capital Advances Central Ohio's Knowledge Economy

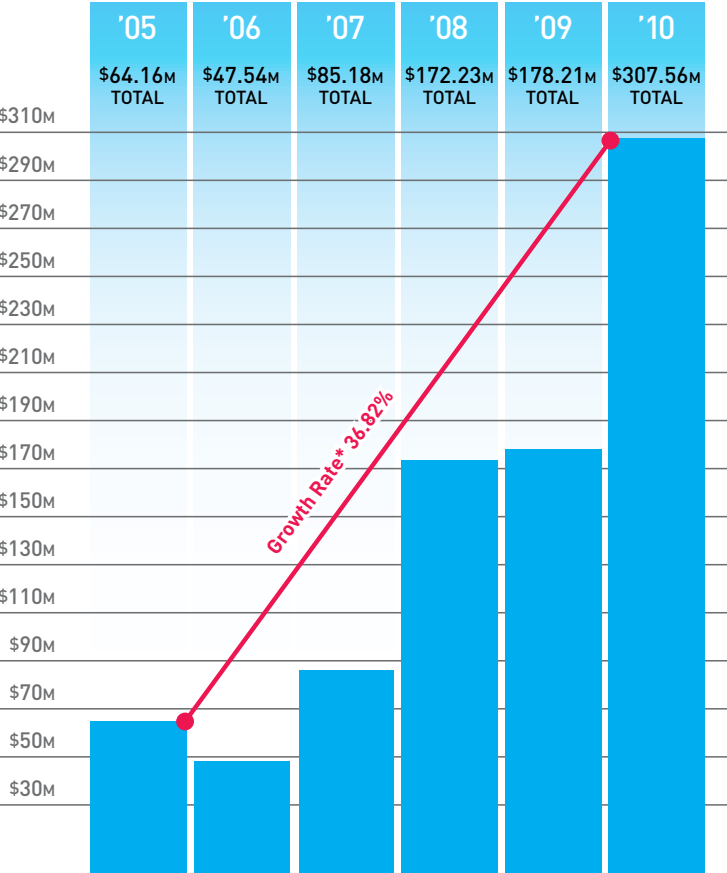


Central Ohio is building a globally competitive, knowledge-based economy that each year continues to gain the attention, acknowledgement and accolades of leaders around the nation. *Forbes* named Columbus to its list of smartest cities in America and to its list of best places for business and careers. A recent Brookings study indicates the region is one of only eight American metros that has begun to stem the "brain drain" and show growth in the number of young professionals choosing to pursue their careers and their lives in the knowledge-based and creative economy that is Central Ohio.

As another indicator, in 2010 funding for entrepreneurial activity reached new heights as a record-setting 117 promising young companies received \$307.56 million in innovation capital to fuel the growth of their businesses. This is a 72.58 percent increase over 2009 and, when excluding the outlier Skybus, is the largest increase in innovation capital on record. More companies, distributed across all stages of growth, received funding in 2010 than ever before. The region saw a dramatic increase in exit funding as seven companies received \$194.50 million in later-stage capital in 2010.

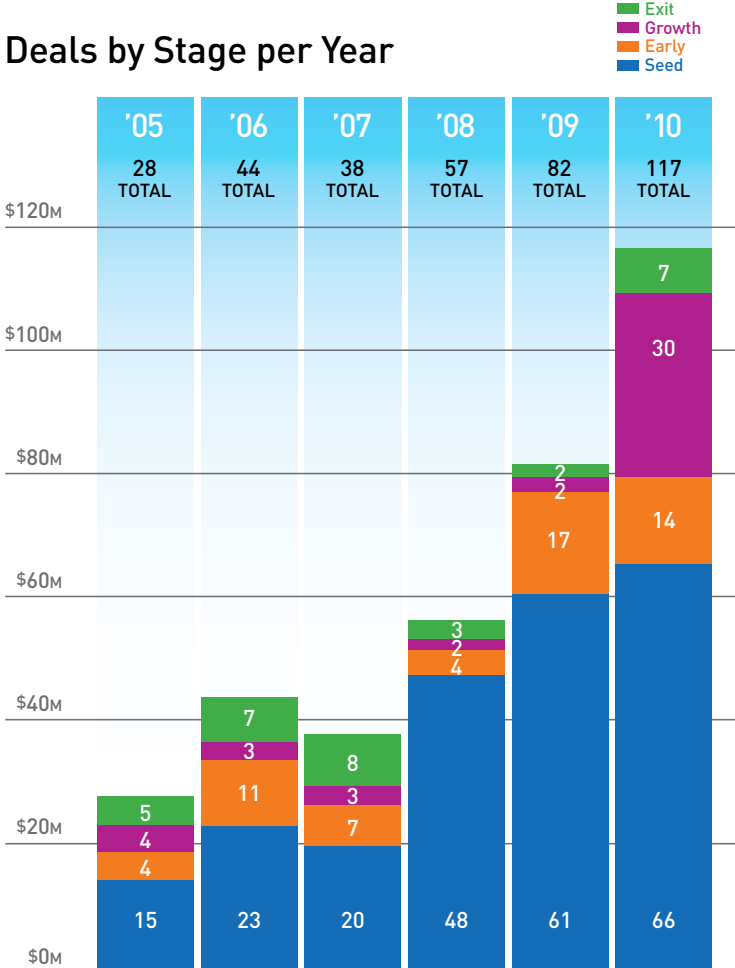
**Innovation capital represents all sources of funding – venture capital, angel investments, loans, grants, mergers and acquisitions – that support the formation, acceleration and growth of entrepreneurial-driven, innovation-based private companies.**

## Innovation Capital per Year 2005-2010



\* Compound Annual Growth Rate (CAGR)

## Deals by Stage per Year



# Innovation Capital Hits 6-Year High

**Innovation Capital Up 72.58%**

\$307.56M – up from \$178.21M in 2009

**Deals Funded Up 42.68%**

117 Companies Funded – up from 82 in 2009

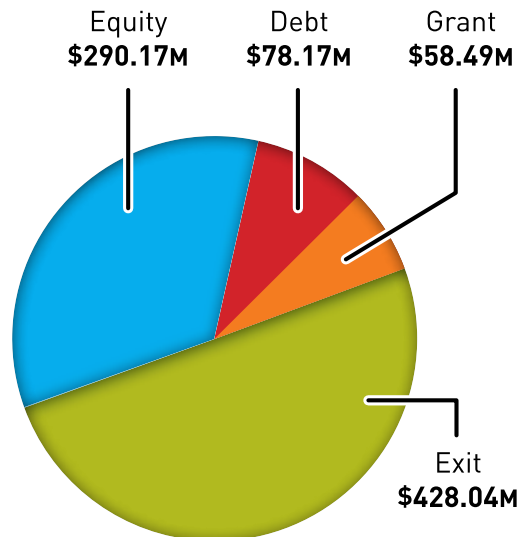
**Earliest-Stage Investments Up 44.56%**

\$113.06M – up from \$78.21M in 2009

Building a knowledge economy requires capital – human, institutional and financial. This report, while focusing primarily on financial capital, also highlights the unique corporate, public/private, academic, and human assets that contribute to the region's entrepreneurial ecosystem. Assets that include:

- Leading research institutions such as The Ohio State University, Battelle and others that account for more than **\$2 billion annually in managed research and development.**

## Innovation Capital by Type 2005-2010



- A university system that includes 18 colleges and universities that attract annually more than 100,000 students and scores of internationally prominent faculty and researchers to the area, **continually increasing the region's talent base with knowledge workers and creating a concentration of college students second only to Boston.**
- One of the highest concentrations of large corporations in the US with **15 Fortune 1000 companies among its corporate citizens.**
- A history of industry clusters, such as finance and insurance, that rely heavily on advanced information processing, thus giving rise to **one of the strongest pools of IT talent in the nation** and some of the earliest commercial applications on the World Wide Web. From this legacy grew **a class of knowledge workers that represent many of the region's modern-day serial entrepreneurs and innovators.**
- A commitment by its citizens to the continued advancement of the region's knowledge economy as demonstrated by **72 percent of Franklin County voters voting Yes on State Issue 1 in 2010 to extend the Ohio Third Frontier** for another four years and \$700 million.

- **A vibrant and active angel and venture community**, including Ohio TechAngels, the largest angel investment group in the nation, that works collaboratively with corporate, institutional and academic partners to share deal flow, discuss opportunities and **make sure that the best and the brightest entrepreneurs and their ideas have access to the capital necessary to grow their businesses.**

- A regional strategic economic development plan, **Columbus 2020!**, that brings together corporate, academic, public/private and civic stakeholders with the goals of **increasing jobs creation, per capita income and capital investments in the region over the next ten years.**

**Advancement of the region's knowledge economy depends on continued leveraging of these assets, as well as an ever increasing flow of innovation capital.**

This will ensure the region remains fertile ground for creating and incubating the technology-driven, high growth companies that drive the continued prosperity of the region, its knowledge workers and those who invest financially in Central Ohio.



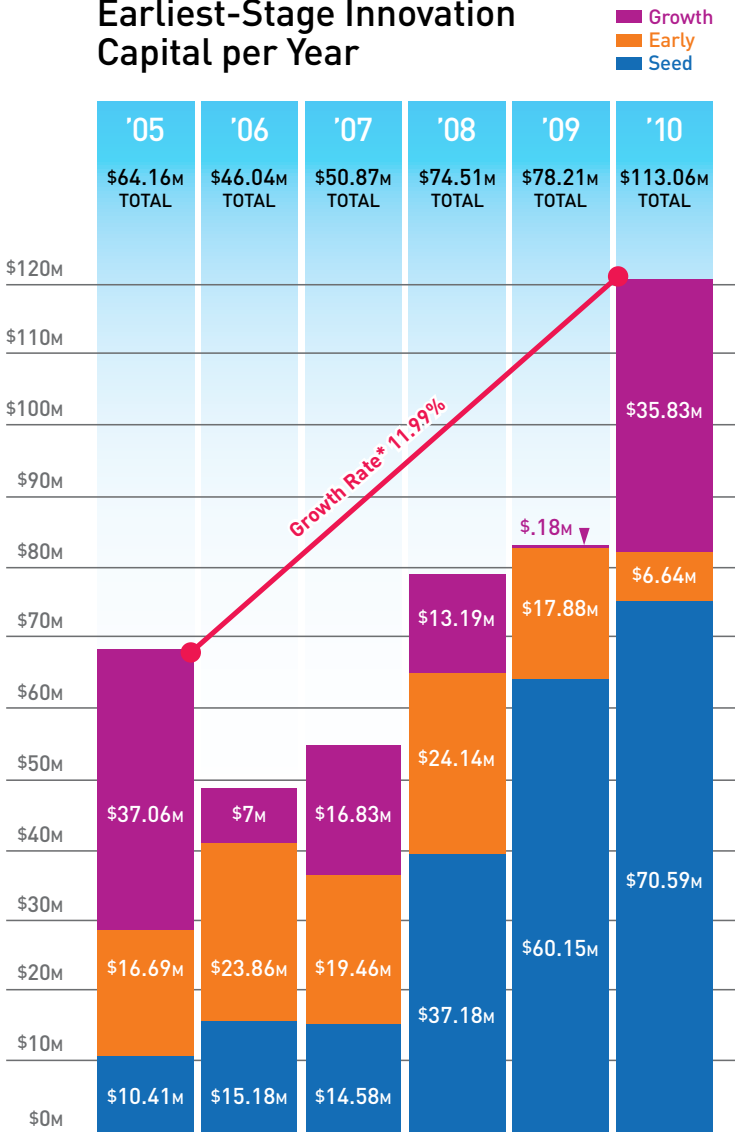
## Increased Funding of Earliest-Stage Companies Fosters Escalation of Central Ohio Deal Flow at All Levels

In 2010, support for Central Ohio's earliest-stage companies—those in seed, early and growth stages—was clearly demonstrated through a number of key metrics.

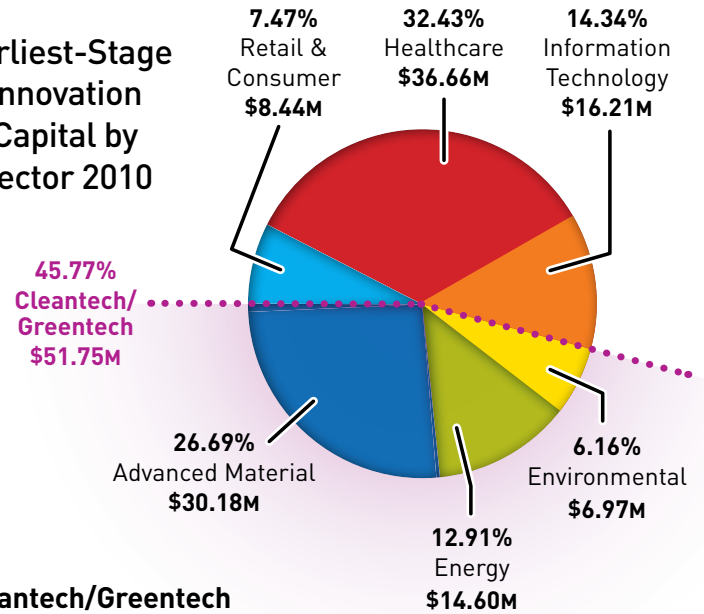
- Of the total 2010 innovation capital, \$113.06 million went to earliest-stage companies, representing a 44.56 percent increase over 2009 (\$78.21 million).
- Venture and angel investments totaled \$48.39 million, with Central Ohio investors committing 45.38 percent to these rounds (\$21.96 million). More than half (51.12 percent) of these earliest-stage investments were led by Central Ohio investors, particularly Ohio TechAngels, the largest angel investment group in the nation.
- The region's entrepreneurs demonstrated personal drive and commitment by sourcing nearly \$64.67 million from a number of federal and state grant programs, loans, debt and other sources of non-dilutive capital.

There were 66 seed-stage deals funded in 2010. This is not only the largest number on record, but when compared to previous years, tells an impressive story about the progression of deal flow in Central Ohio. In 2005, 15 seed stage deals accounted for \$10.41 million (average deal: \$.69 million), compared with 2010 when 66 seed-stage companies received \$70.59 million (average deal: \$1.07 million). Increased support of these seed-stage companies has fostered escalation of deals at all stages.

### Earliest-Stage Innovation Capital per Year



### Earliest-Stage Innovation Capital by Sector 2010

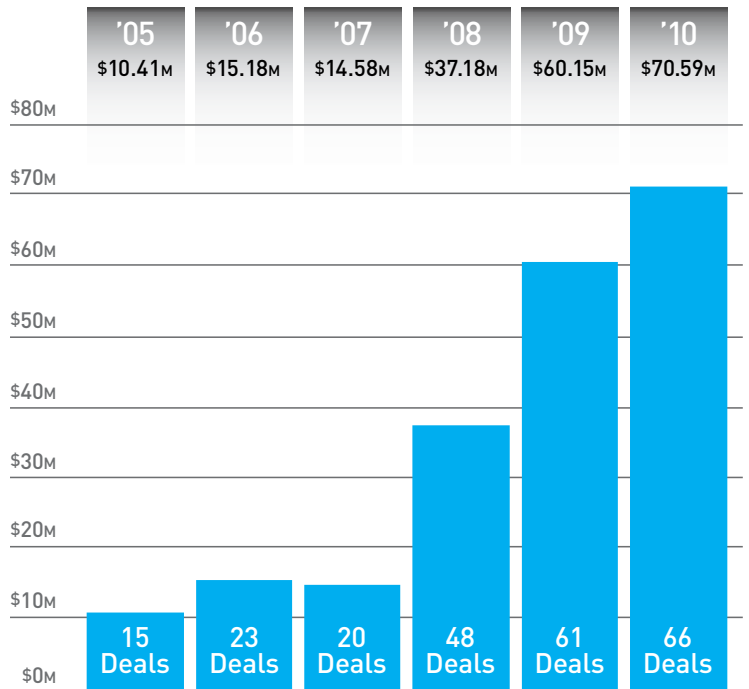


### Cleantech/Greentech Shows Promise as Key Sector in Central Ohio's Knowledge Economy

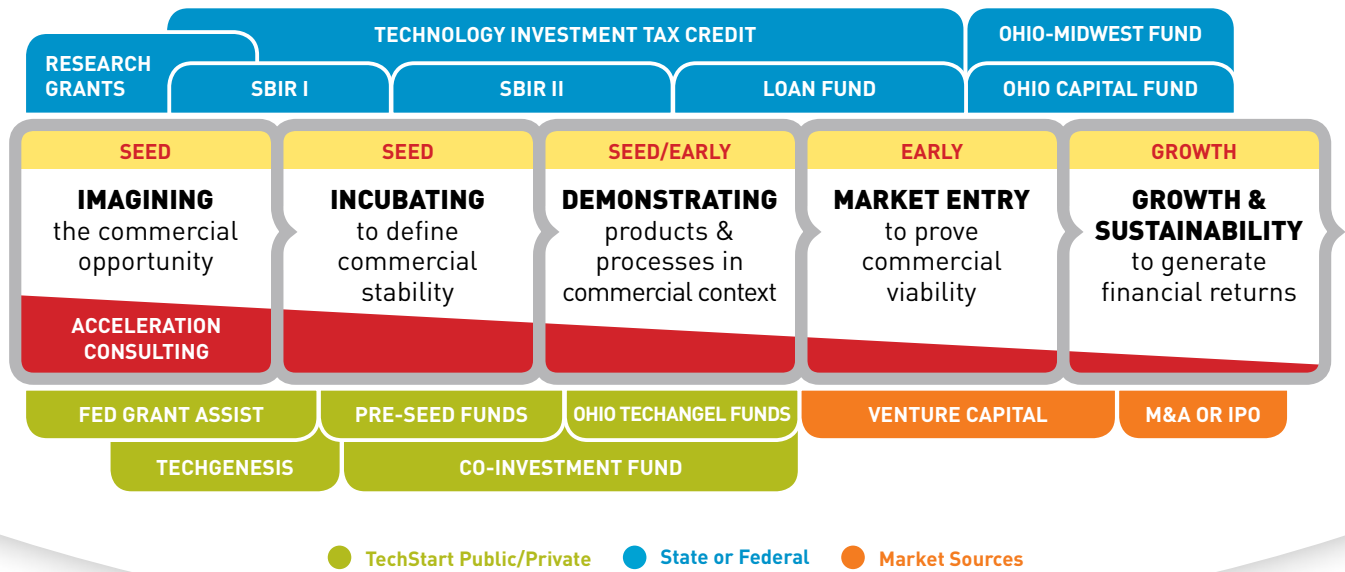
Not surprisingly, because of Central Ohio's long-standing legacy in both advanced information processing and medical research, funding for the IT and healthcare sectors remained mainstays within the region.

However, 2010 saw significant funding for companies involved in what is becoming known as Cleantech/Greentech – namely Energy, Environmental and Advanced Materials. Combined, these three sectors accounted for \$51.75 million or 45.77 percent of earliest-stage innovation capital. As Cleantech/Greentech continues to be a determining factor in US global competitiveness, Central Ohio, with its demonstrated support of earliest-stage companies in this sector, is poised to lead the nation in leveraging these market opportunities. In fact, as the designated Hub of Innovation and Opportunity for Energy Manufacturing Solutions, Central Ohio is already advancing this critical industry sector.

### Seed-Stage Innovation Capital per Year



# Acceleration Consulting and Innovation Capital Funding Continuum



## SEED STAGE

# CardiOx

CardiOx is commercializing a patented, non-invasive procedure for detecting right-to-left cardiac shunts, a congenital condition that can be present in as much as 20 percent of the population. If undiagnosed, this condition can lead to debilitating or life-threatening strokes or heart attacks. Currently undergoing clinical trials, this procedure represents a non-invasive, lower-cost diagnostic method that can be performed in-office by doctors or nurses.

CardiOx is the sixth company founded by Philip Eggers. In the past, Mr. Eggers had to go to the East and West Coasts to raise the more than \$80 million needed to fund his prior companies and the more than \$80 million raised through an IPO for ArthroCare, which he co-founded in 1993. In 2006, when he launched CardiOx, Mr. Eggers found the availability of innovation capital and resources within the region had progressed to the point where it was not only possible, but advantageous, to headquarter his newest venture in Central Ohio. CardiOx has raised Series A and B funding from TechColumbus, venture and angel capital sources, as well as innovation capital from programs such as the Third Frontier Ohio Biomedical Program and the IRS Therapeutic Discovery Project.

## EARLY STAGE

# mid

minimally invasive devices

Minimally Invasive Devices (MID) develops, commercializes and manufactures innovative surgical devices that address the significant need for uninterrupted and clear vision during laparoscopic surgery. Its flagship and FDA approved product line, FloShield®, is the first device ever that prevents debris and fluids from attaching to the lens of the laparoscope so as to preserve visual acuity. The surgical team can maintain a clear view of the anatomy without constant interruption.

In addition to angel and venture funding, MID has received innovation capital and business acceleration services from Ohio Third Frontier-backed programs such as the Global Cardiovascular Innovation Center, the Innovation Ohio Loan Fund and the TechColumbus TechStart program. With a 2009 and 2010 infusion of venture capital, MID is currently developing new product line extensions, investing in a southwest Ohio manufacturing facility and working toward launching in Europe.

MID is one of seven startups launched through the OhioHealth Research & Innovation Institute, which formally encourages and supports research and commercialization efforts by doctors, nurses and other clinical care innovators within this leading Central Ohio health system.

## GROWTH STAGE

# Znode®

Znode is a pioneer and industry leader in multi-store e-commerce. The company's flagship product, Multifront®, is an industry leading .NET e-commerce software that enables retailers to quickly launch multiple Web and mobile stores using a single integrated system.

Znode targets a large middle tier market, offering a valued service and software suite bridging the gap between low-cost commodity hosted storefront offerings and the large, complex internally developed infrastructures required by major Internet merchandisers such as Amazon. Using advanced source code and standards-based .NET architecture, Znode's platforms enable developers to build complex custom-tailored solutions in less than 50 percent of the time it takes when compared to competing platforms.

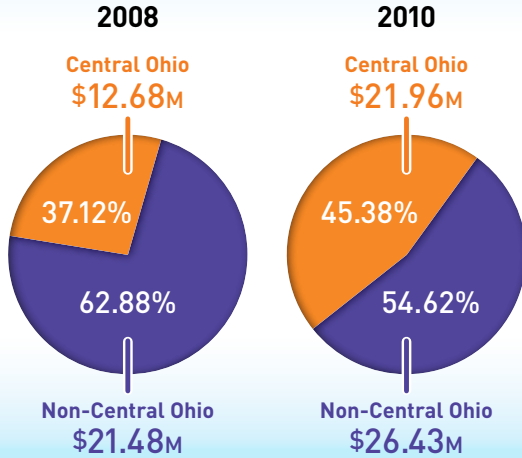
Angel and venture investments in 2010 are supporting the company's rapid revenue growth (100 percent annually over the last two years) as well as the continued rollout of its new platform, Marketplace, which offers companies the ability to provide multiple vendors, distributors or merchants with their own custom-branded e-commerce storefronts.

## More Funding Needed to Continue the Growth of Central Ohio's Knowledge Economy

The year 2010 was record-setting for innovation capital in the region. More companies received funding, and those companies were more widely distributed across all stages of growth, than in any previous year. Given the steady progression of companies through the funding continuum, even more innovation capital is expected to be infused into the region over the coming years. But in order to attract critical later-stage capital, more seed, early and growth funding is needed to help an ever increasing supply of young companies progress through the pipeline.

Concentrated efforts over the past three years to increase local investments are beginning to show results as earliest-stage investments from Central Ohio angel and venture sources increased more than 73.19 percent from 2008 to 2010 (\$21.96 million as compared to \$12.68 million). But even as investment activity both within and from outside the region continues to gain momentum, there is still significant need for venture capital to continue the trajectory of Central Ohio's knowledge economy.

### Sources of Capital Central Ohio Earliest-Stage Investments



## Collaboration Among Key Regional Stakeholders Increases Deal Flow and Leads to Market-Driven Funding Decisions

In a style akin to Monday morning partner meetings held at venture capital firms across the nation, TechColumbus regularly convenes a unique gathering of venture capitalists, angel investors, domain experts and other commercialization specialists for the Deal Flow Assessment Committee (DFAC). The DFAC brings together local sources of deals and capital for deal sharing, collaboration and enhanced communication.

DFAC members evaluate potential opportunities from grass roots and institutional sources and determine the best steps and resources to help an idea or company advance to the next stage of formation.

One of the key responsibilities of the DFAC is to initially screen all startups in contention for TechGenesis and TechColumbus Pre-Seed Funding and to make recommendations to the TechColumbus Investment Committee as to which of these startups represent the strongest promise for yielding high-growth companies. Even those companies who don't receive funding



## Venture Sources Central Ohio innovation capital originates from across the world.

### NORTHEAST

ABS Ventures  
Apax Partners Worldwide  
Apollo Management  
BancBoston Robertson Stephens  
Battelle Ventures  
Berkshire Partners LLC  
Bessemer Venture Partners  
Bruckmann, Rosser, Sherrill & Co.  
Cerberus Capital Management, L.P.  
Cerca Group  
Commonwealth Associates  
Dresdner Kleinwort Wasserstein  
Enhanced Capital Partners, LLC  
Fletcher Spaght Ventures  
Fountainhead Capital Ltd

GE Equity  
Gemini Investors  
Goldman Sachs Group  
Harvest Partners, LLC  
Heritage Partners  
Insight Venture Partners  
INVESCO Private Capital  
J.P. Morgan Partners  
Key Venture Partners LLC  
Lehman Brothers  
MDT Advisers  
MedEquity Investors LLC  
Merlin Nexus  
Moon Capital SB Acquisitions  
Morgan Stanley Private Equity  
Nautic Partners LLC  
Oak Hill Capital Partners II, L.P.  
Oak Investment Partners

Platinum Partners  
Prism Capital  
Psilos Group Managers, LLC  
RBS Citizens  
RFE Investment Partners  
Seaport Capital  
Sprout Group  
Wafra Partners, LLC  
Warburg Pincus, LLC  
Wellspring Capital Management, LLC.  
Weston Presidio

### WEST COAST

Bluestar Holdings  
Crosscut Ventures  
Huntington Capital  
Integral Capital Partners  
Intel Capital  
InterWest Partners  
Kleiner Perkins Caufield & Byers  
Levensohn Venture Partners LLC  
Manitou Ventures, LLC  
MedVenture Associates  
Menlo Ventures  
Montecito Capital  
Morgenthaler Ventures  
Oaktree Capital Management, LLC  
Pacific Capital, L.P.  
Pacific Corporate Group  
Panorama Capital  
Presidio STX  
Silver Lake Partners

### MID-ATLANTIC

Allied Capital Corporation  
Broadline Capital  
Cardinal Partners  
Core Capital Partners  
Genesis Partners  
Inverness Capital  
Partners LP  
Lincoln Investment  
Management  
SCP Vitalife  
Sterling Partners  
TL Ventures  
Update Partners



benefit from the process of presenting before this diverse group of experts. Through this experience they refine their business plans and gain introductions to the connections that may eventually help them successfully reach their next goal in launching their startup.

This unique collaboration helps ensure that funding decisions are market-driven and based on the broad expertise, judgment and perspectives of all DFAC members. It has further led to a marked increase in the number of promising young investable companies that have launched in the region.



## Methodology & Analysis

This report, prepared by TechColumbus with assistance from Ohio TechAngels, provides a more complete and accurate reflection of the state of innovation capital in Central Ohio than what may be available through national databases. Research suggests that more than 50 percent of funding for startups is not accurately reported, either because of under-reporting, or the exclusion of individual (angel) investors.

This report is a compilation of data from several reliable sources, including national venture databases and records from the State of Ohio's Technology Investment Tax Credits (TITC) program. It has been further supplemented with local deal flow data from venture capital, angel, private equity and market debt sources as well as regional economic development entities including BioOhio, SciTech, the TechColumbus TechStart program and other resources in the region.

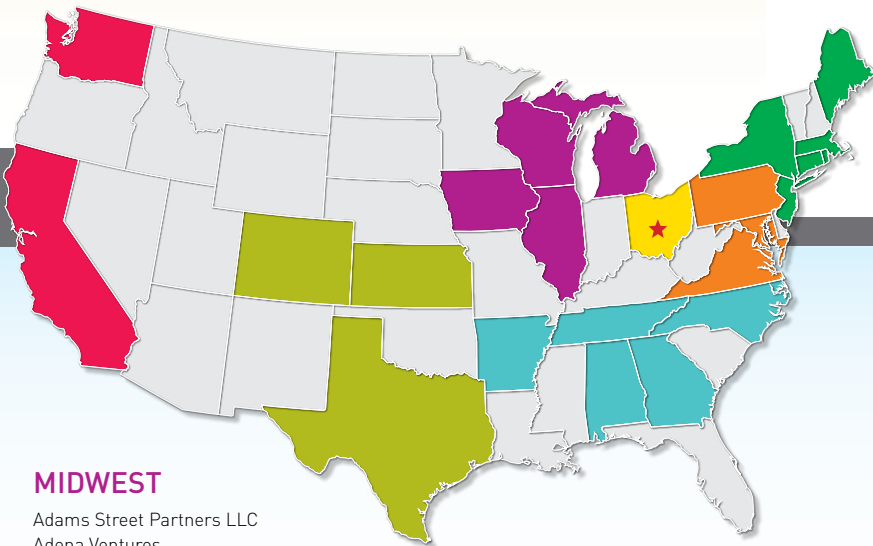
This data collection effort and analysis has been aimed at presenting a detailed and accurate snapshot of the state of innovation capital funding and venture investments in Central Ohio.

## About TechColumbus

TechColumbus accelerates the growth of Central Ohio's knowledge economy by providing vital resources and assistance to people and enterprises that depend on technology and innovation to achieve their business goals. TechColumbus' mission is to support the advancement of Central Ohio by:

- Connecting the region's world-class tech assets
- Leading strategic regional initiatives
- Developing and growing new companies and nurturing young companies
- Creating ways for all tech and tech-enabled companies to collaborate, share experiences and access resources
- Providing management and administrative services for Ohio TechAngels

TechColumbus is the only organization that has this mission. It succeeds when the Central Ohio business and technology communities bring accelerated economic growth to the region.



### MIDWEST

Adams Street Partners LLC  
Adena Ventures  
Allsop Venture Partners  
Athenian Ventures  
Battelle Ventures LP  
Berlin Financial Ltd.  
Blue Chip Venture Company  
Capvest Venture Fund  
Charter Life Sciences  
Chrysalis Ventures  
CID Ventures, L.P.  
Desco Capital Partners  
Dow Chemical Company

Draper Triangle Ventures  
Early Stage Partners, L.P.  
Frontenac Company  
Fusion Capital Limited  
GTCR Golder Rauner LLC  
IEG Venture Management  
IllinoisVENTURES  
Isabella Capital LLC  
Jordan Company  
NCT Ventures

North Coast Technology Investors, L.P.  
Norwest Venture Partners  
Open Prairie Ventures  
Plymouth Ventures  
PNC Equity Management  
Primus Venture Partners, Inc.  
Reservoir Venture Partners  
River Cities Capital Funds  
RPM Ventures  
William Blair Capital Partners VI, L.P.

### SOUTHEAST

Aurora Funds, Inc.  
DSV Partners  
Hickory Venture Capital Corporation  
HIG Capital  
InvestAmerica Venture Group, Inc.  
MidSouth Investor Fund, LP

### SOUTHWEST

Anschutz Investment Company  
Capital Southwest Corporation  
Dell Ventures  
Kansas Venture Capital  
Main Street Capital  
Marquette Venture Partners  
Stonehenge Capital Company

### INTERNATIONAL

BioMedPartners, AG  
(Basel, Switzerland)  
Genesis Partners (Israel)  
LMS Capital plc (UK)  
SCP Vitalife (Israel)  
Trois I Investments Industriels  
Internationaux S.A. (Luxembourg)

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