



2018 Chicago VC Ecosystem



Chicago's flagship venture capital conference, the Chicago Venture Summit brings together the strongest local, regional, national, and international venture firms with our best and brightest entrepreneurs and industry leaders.

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Foreword

U.S. News recently detailed why Chicago has become a top city for startups and entrepreneurs.¹ Behind the scenes and fueling these entrepreneurial fires are investors who see Chicago as a leader in VC opportunity. Chicago surpasses every other city in the nation—including the Bay Area—in one important metric that is key to VCs: return on investment (ROI). According to PitchBook, nearly half of Chicago investments (45%) have provided a 10x ROI, compared to 25% of investments in the Bay.

It is through these successful investment outcomes that the city's ecosystem of investors, entrepreneurs and mentors continues to strengthen. In fact, 2017 marked the fifth straight year of record-setting Chicago investments, at \$3.8 billion invested across 623 deals. The city has become a startup powerhouse—but that didn't happen overnight.

Chicago's startup scene is the result of long-term sustainability, committed reinvestment and truly diverse startup opportunities across a breadth of industries. It is particularly strong in B2B sectors, including fintech, food, software, logistics, healthcare and service industries. That breadth of opportunity is directly tied to the strength and resiliency of Chicago's overall economy, where no single industry employs more than 14% of the total workforce.

So what's helping to drive Chicago's ecosystem and high ROIs?

First, Chicago's startup scene focuses on business opportunities that tend to fly under most consumers' radars. Many of our strongest startups are in logistics, insurance, healthcare and back-office efficiencies. While these businesses don't grab broad consumer attention, they do deeply impact consumers' lives. As a result, they provide unique opportunities for investors.

Second, because the Windy City isn't as awash in capital as our coastal counterparts, investors here tended to be more conservative. Our financiers like to see signs of success before they invest, including customer acquisition, product execution and revenue. That's the opposite of the Bay Area, where investors tend to bet on promising ideas more than traction in the market. The result, as VentureBeat notes, is that our exit valuations are among the highest in the nation.² And many of the entrepreneurs behind these high-value exits continually return to the Chicago market to repeat their successes here.

Third, startups are just one part of Chicago's sprawling economy. For example, the tech industry gets roughly the same amount of press as any other industry here. In fact, our diverse economy is reflected even within the tech ecosystem itself, where there are more than 15 innovation hubs, each specializing in a different sector of technology, such as food innovation, manufacturing and healthcare.

Finally, Chicago has a ready talent pool. With the exception of Boston, Chicago has more four-year universities than any other US city. These universities are also fueling the startup ecosystem by driving entrepreneurship through accelerator and innovation programs (you can learn more about them in Forbes).³ Chicago is also a magnet for graduates of other top Midwestern universities, such as Illinois, Indiana, Michigan, Michigan State, Purdue, Northwestern and Wisconsin. We have more graduates from those universities than any other city in the world. And the lower cost of living, compared to similar US cities and particularly the Bay Area, keeps those graduates here.

Recognizing this wealth of talent (and our lower operating expenses), established tech companies like Google, Salesforce



Mark Tebbe
Chairman of ChicagoNEXT

and Facebook have grown their operations in Chicago. As a result, these well-known companies infuse even more talent, experience and success into our ecosystem, which provides our startup entrepreneurs even more reasons (i.e. resources) to set up shop and stay here.

All of these stakeholders in Chicago's ecosystem work together to help startups leverage the city's abundant resources and opportunities in the nation's most diverse economy. And we celebrate that work annually at the Chicago Venture Summit, where investors from coast to coast combine with Chicago entrepreneurs and community builders to showcase the best and brightest of the Midwest ecosystem. It's an opportunity to nurture our entrepreneurial ecosystem and recognize its growth, and it's a prime time for investors to scout new opportunities to maximize their returns.

Mark Tebbe is chairman of ChicagoNEXT, the technology arm of World Business Chicago and organizer of the Chicago Venture Summit. He has more than 30 years of entrepreneurial and startup experience, included the co-founding of two NASDAQ-listed publicly traded corporations.

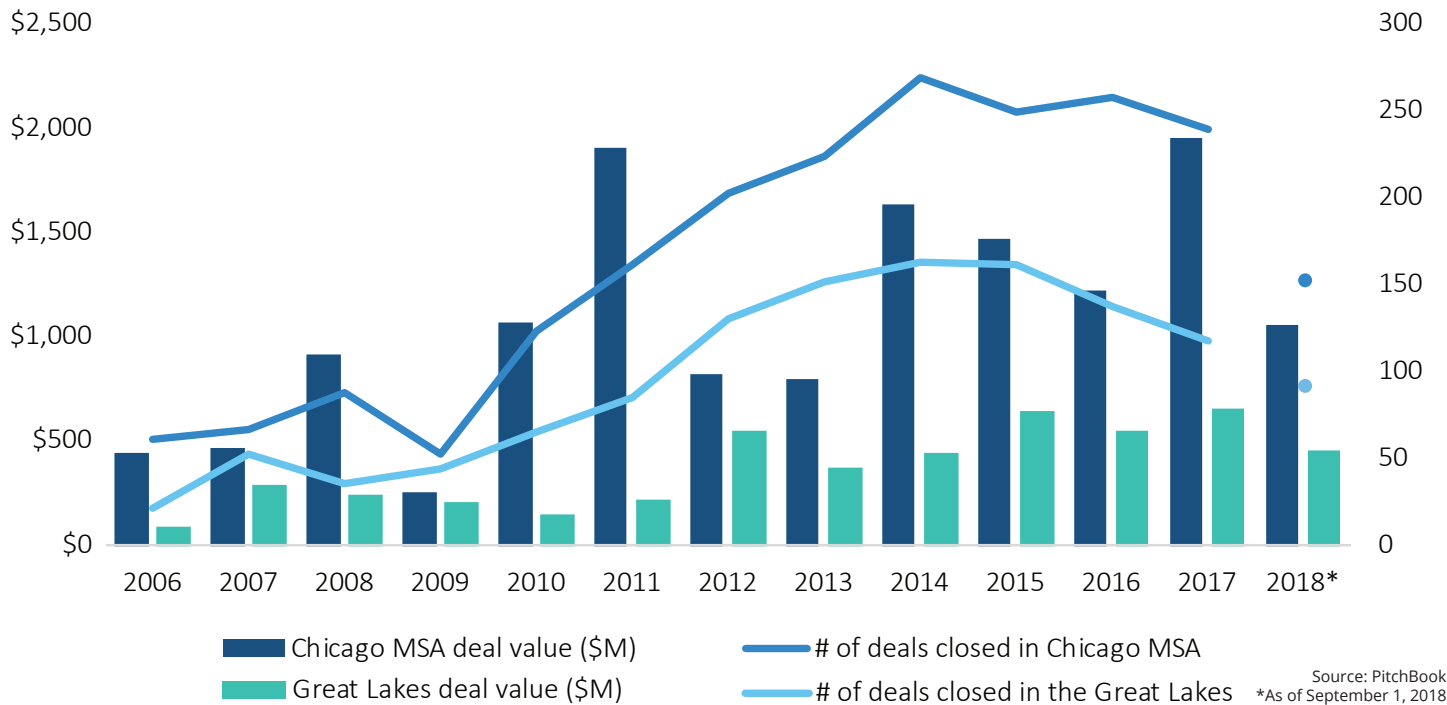
1: "Tech Companies Are Choosing Chicago," U.S. News, Anna Marie Kukec, September 20, 2018

2: "How Chicago's startup exits stack up against 4 other major cities," VentureBeat, Pete Wilkins & Hyde Park Angels, May 12, 2018

3: "How Illinois Universities Power The Chicago Startup Ecosystem," Forbes, Pete Wilkins, February 20, 2018

Investment overview

Chicago is the lodestar of the Great Lakes VC
Chicago MSA VC activity versus Great Lakes VC activity



Source: PitchBook
*As of September 1, 2018

At 155 completed rounds for an aggregate of \$1 billion+, venture activity within the Chicago MSA is on a healthy pace to have volume nearly match the tally of 2017. Moreover, VC invested looks set to eclipse \$1.5 billion handily. Chicago's venture and startup scene enjoys a slew of positive factors: significant supplies of talent, a dense nexus of flagship corporations, regional transportation hubs, relatively lower costs of living, etc. It is definitively the centerpiece of the entire Great Lakes VC scene, although it still remains within the cluster of US MSAs that are vying to join the vaunted trio of the Bay Area, New York and Boston when it comes to VC dominance.

Top MSAs by deal value (2006-2018*)	Deal value (\$B)
Bay Area	\$275.2
New York-Northern New Jersey-Long Island, NY-NJ-PA	\$72.0
Boston-Cambridge-Quincy, MA-NH	\$67.5
Los Angeles-Long Beach-Santa Ana, CA	\$41.4
San Diego-Carlsbad-San Marcos, CA	\$19.9
Seattle-Tacoma-Bellevue, WA	\$18.8
Washington-Arlington-Alexandria, DC-VA-MD-WV	\$14.4
Chicago-Naperville-Joliet, IL-IN-WI	\$14.0
Austin-Round Rock, TX	\$12.1
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	\$9.1
Dallas-Fort Worth-Arlington, TX	\$8.3
Atlanta-Sandy Springs-Marietta, GA	\$8.1
Denver-Aurora, CO	\$7.3
Miami-Fort Lauderdale-Pompano Beach, FL	\$7.3
Minneapolis-St. Paul-Bloomington, MN-WI	\$5.7

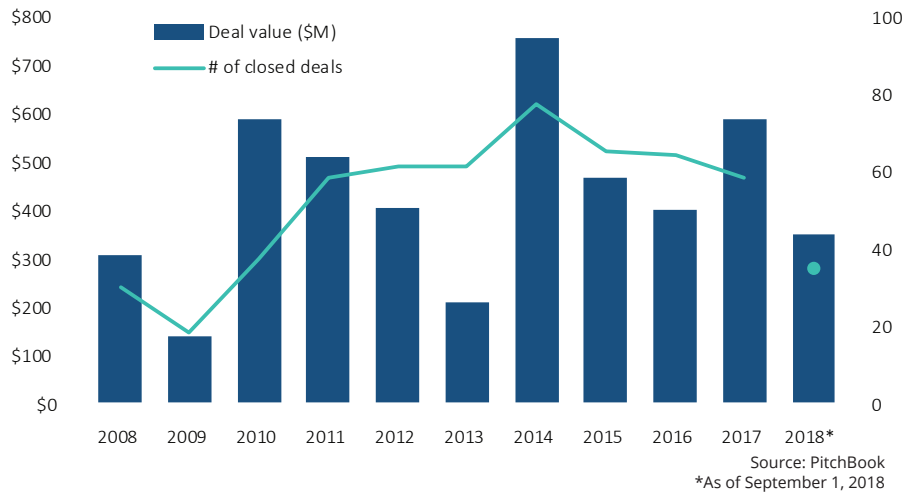
Source: PitchBook
*As of September 1, 2018

Top MSAs by deals closed (2006-2018*)	# of deals closed
Bay Area	23,461
New York-Northern New Jersey-Long Island, NY-NJ-PA	9,976
Boston-Cambridge-Quincy, MA-NH	6,767
Los Angeles-Long Beach-Santa Ana, CA	5,751
Seattle-Tacoma-Bellevue, WA	2,989
Washington-Arlington-Alexandria, DC-VA-MD-WV	2,381
San Diego-Carlsbad-San Marcos, CA	2,327
Austin-Round Rock, TX	2,265
Chicago-Naperville-Joliet, IL-IN-WI	2,151
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1,781
Denver-Aurora, CO	1,456
Atlanta-Sandy Springs-Marietta, GA	1,435
Dallas-Fort Worth-Arlington, TX	1,326
Miami-Fort Lauderdale-Pompano Beach, FL	1,085
Minneapolis-St. Paul-Bloomington, MN-WI	1,014

Source: PitchBook
*As of September 1, 2018

Investors abroad continue to exhibit interest in domestic startups

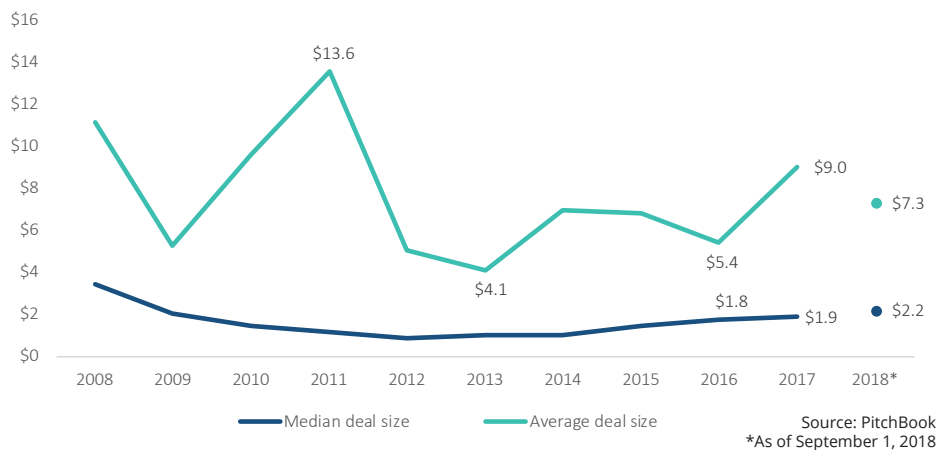
Chicago MSA VC activity with only non-Illinois-based investors



Analyzing activity within the Chicago MSA that boasted only outside investors, it is clear 2014 saw a high tide of capital from abroad. Since then, activity has remained roughly steady. The likely reason it hasn't grown is simply because the rate of participation by the local investor ecosystem has held even stronger, with volume involving at least one Illinois-based investor reaching a record 98 transactions across well over \$1 billion invested.

Local firms dominate rankings of prolificacy

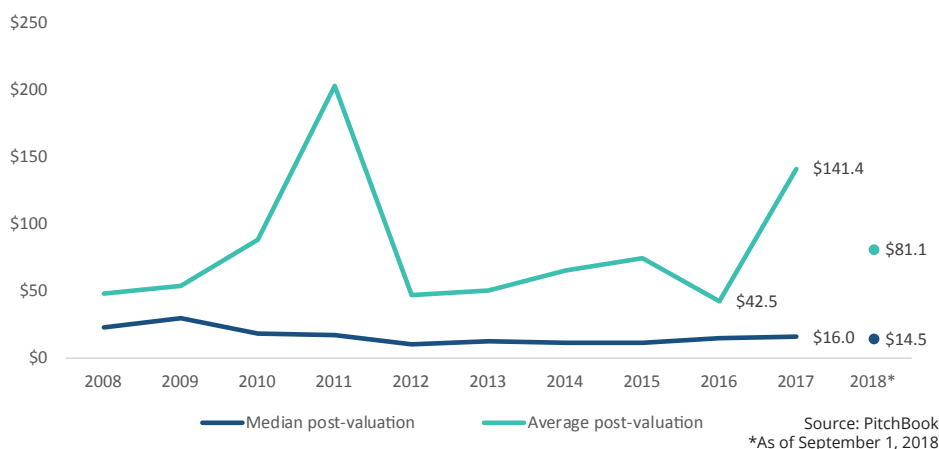
Median & average deal size (\$M) in Chicago MSA



Top 20 investors (2006-2018*)	# of deals closed
Hyde Park Angels	92
Pritzker Group Venture Capital	87
Chicago Ventures	82
Lightbank	61
Hyde Park Venture Partners	46
OCA Ventures	45
Serra Ventures	35
IllinoisVENTURES	34
Sandbox Industries	32
New Enterprise Associates	31
G2T3V	30
Origin Ventures	29
Right Side Capital Management	28
M25	28
Lon Chow	26
Tribal Ventures	23
Service Provider Capital	23
Lakewest Venture Partners	23
Jumpstart Ventures	22
KGC Capital	22
Pallasite Ventures	21
Jump Capital	21
FireStarter Fund	21
Techstars	19
TechStars Chicago	19
500 Startups	19
Listen Ventures	18
Apex Venture Partners	18
Amicus Capital	18
Cornerstone Angels	17
Bluestein & Associates	17
Math Venture Partners	16
Foundation Capital	16

Median post-valuations have stayed relatively steady

Median & average post-valuation (\$M) in Chicago MSA



Source: PitchBook
*As of September 1, 2018



In one figure Chicago tops all US MSAs—and that figure is quite telling. The median multiple on invested capital in Chicago is no less than 5.6x, outstripping the nearest competitor by a significant amount.

This is primarily due to Chicago's numerator of capital invested combining with a remarkably steady clip of exits for the past three years and counting.

Chicago's MOIC surpasses all others

Median multiple on invested capital (MOIC) by US MSA (2006-2018)*

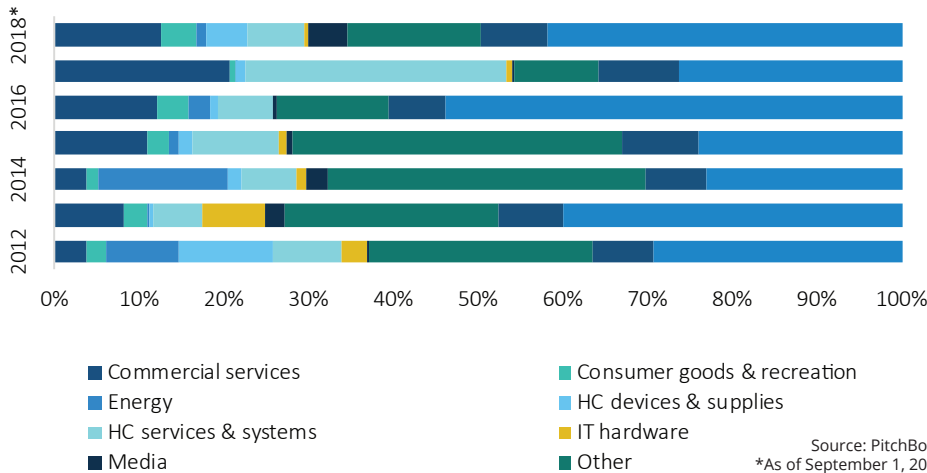
Location	Median MOIC
Chicago-Naperville-Joliet, IL-IN-W	5.6x
Seattle-Tacoma-Bellevue, WA	4.8x
Los Angeles-Long Beach-Santa Ana, CA	4.7x
New York-Northern New Jersey-Long Island, NY-NJ-PA	4.4x
Atlanta-Sandy Springs-Marietta, GA	4.2x
Bay Area	4.2x
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	3.8x
Boston-Cambridge-Quincy, MA-NH	3.6x
Austin-Round Rock, TX	3.3x
San Diego-Carlsbad-San Marcos, CA	3.1x
Washington-Arlington-Alexandria, DC-VA-MD-WV	3.1x

Source: PitchBook
*As of September 1, 2018.

Note: All US MSAs with fewer than 30 data points were excluded from the ranking.

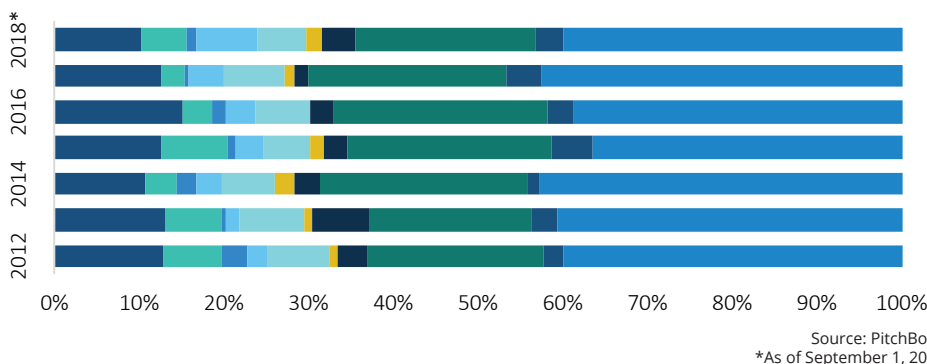
Software, commercial services and sector-blurring startups stand out

Chicago MSA VC activity (\$) by sector



The bulk of all activity has been concentrated in software

Chicago MSA VC activity (#) by sector



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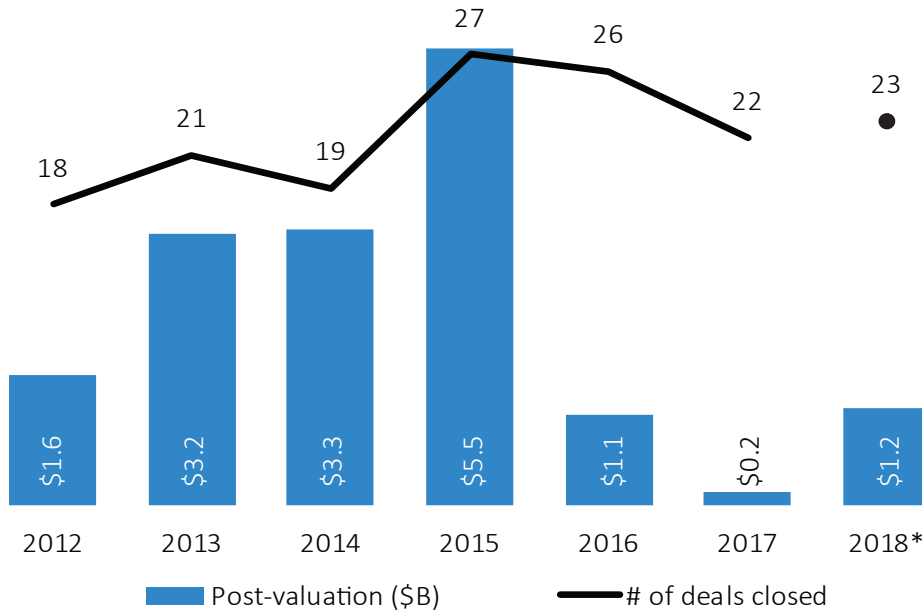
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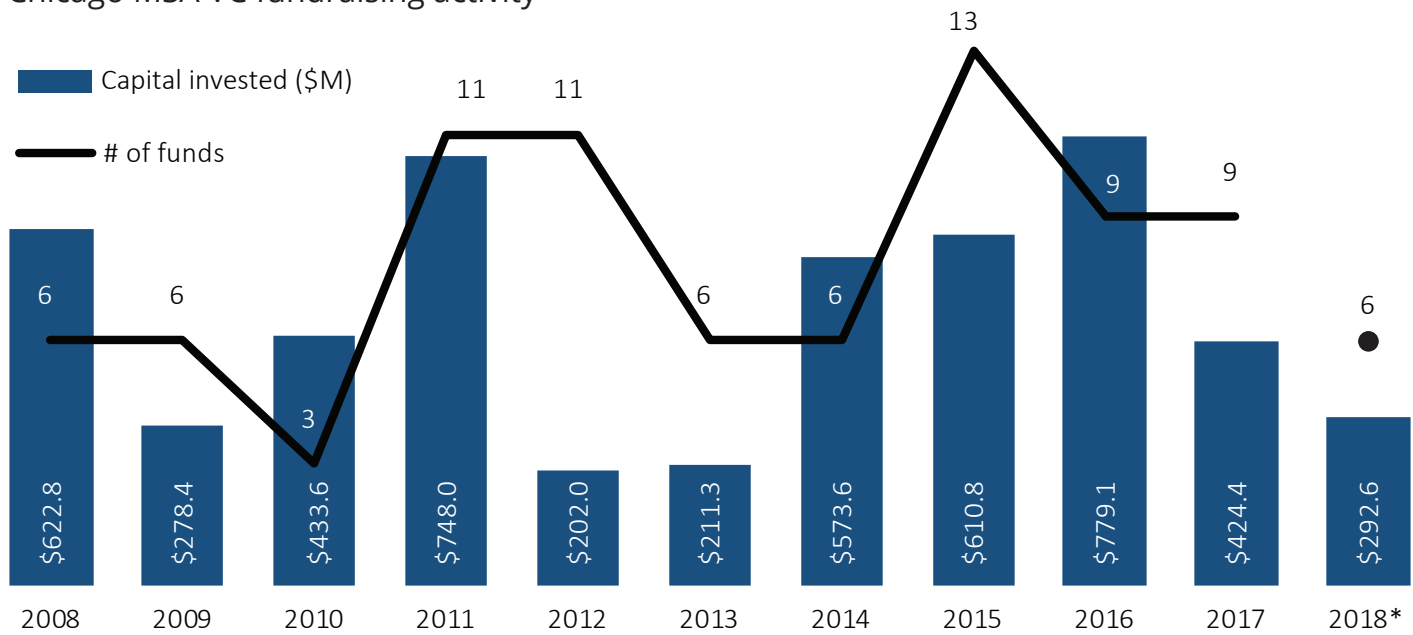
By volume, liquidity has been flowing strong in 2018
Chicago MSA VC exit activity



2018 may see the most exits ever for the Chicago MSA, as the count stands at 23 completed in the year already. It is intriguing to note that the bulk of all Chicago MSA exit value occurred from 2011 to 2015, aligning cyclically with subsequent strong fundraising and a ramp-up in the pace of dealmaking, as observed above. It should be noted that more recent exit values are not always readily disclosed and thus will affect aggregate tallies; what's more important to highlight is the sheer volume of exit activity in Chicago, which has been undeniably healthy and bodes well for capital recycling back into the ecosystem in the future.

Source: PitchBook
*As of September 1, 2018

Recent fundraising bodes well for capital supplies, still disproportionate to deal flow
Chicago MSA VC fundraising activity



Source: PitchBook
*As of September 1, 2018



The Chicago Venture Summit offers an opportunity for top-performing venture firms to convene and collaborate with the most promising entrepreneurs and industry leaders.

Learn more at <http://www.worldbusinesschicago.com/chicagonext/>