

VENTURING OUT

Out-of-State VC Firms See Value in Indiana

By Matt Ottinger

Along with the unveiling of new uniforms, the Indiana Pacers announced an updated marketing slogan this summer: “We grow basketball here.”

Corn, beans and vice presidents are also among the precious commodities that sprout from our fertile grounds. Yet when it comes to venture capital, especially at the later stages, a drought is evident.

Outside of Carmel-based Allos Ventures, maturing Indiana companies have few places to turn.

Fortunately, venture capital is a very regional endeavor and organizations throughout the Midwest see value in Indiana investments.

Pure funding

Maitlan Cramer traversed the great frontier out West when he called San Francisco and Denver home for a time. Like many Midwesterners though, the Michigan native felt a calling to return home. Now a principal at Grand Rapids-based Grand Ventures, he welcomes the opportunity to help facilitate growth in Midwestern innovation. He recalls a recent visit to Indianapolis for the inaugural inX3 innovation and entrepreneurship event, and he walked away with a favorable impression of the Circle City.

“I was blown away by what the city has done in the local firms to build around software start-ups in Indy,” Cramer explains. “It had been a decade since I’d been there and it’s completely changed. There’s a vibrant scene with restaurants and nightlife. They’re doing a great job of trying to attract the next generation of workers. You have to build a local community if you want to retain people long term and not lose them to New York or San Francisco.”

At the time of this writing, Grand Ventures – just formed early this year – had announced its first deal (in Cincinnati) and is poised to start investing in Indiana.

“We could be doing our first Indianapolis deal in the next 30 days,” Cramer shares. “We’re very bullish on Indianapolis and it’s a core

target city for us, and we’re very excited about this company that we’re looking at right now.”

Ann Arbor-based Plymouth Growth Partners has already dipped its toes in central Indiana’s tech scene by supporting IoT powerhouse ClearObject and Kinney Group, a cloud solutions integrator.

“What’s interesting to us is there’s not a lot of venture capital indigenous to Indiana,” relays partner Jeff Barry. “Outside firms have to fill the gap because you have a good number of quality technology companies that have gotten to \$2 million to \$3 million of revenue on very little capital. You’re able to see companies when they’re capital efficient, which makes it easier for us to make a good return, and they’re appreciative of us being there because they don’t have a whole lot of options without going out of state.”

Investments also have a broader impact on the Midwest than simply advancing some technology companies, according to Cramer.

“Twenty-five percent of all computer science degrees are awarded by Midwestern universities,” Cramer reports. “That’s thousands of quality engineers a year, but the problem is a lot of them are leaving for the coasts. They can work for a fast-growing software company and make more money.”

Gateway to capital

Salesvue (Indianapolis), Emplify (Fishers) and Cheddar (Bloomington) are all supported by Cultivation Capital – a St. Louis-based early stage investor in the tech and life science sectors.

John True, general partner and a St. Louis native, compares the two regions.

“If you look at the three prongs that drive the entrepreneurial community: availability of capital; availability of entrepreneurs; and management/tech talent, Indy is a bit ahead of St. Louis because there are no shortcuts to entrepreneurial talent,” he contends. “What drives that primarily are these generations of entrepreneurs that pop out of successfully exited companies (citing ExactTarget, Aprimo and Angie’s List as examples). Indianapolis has had a nice run in the last eight years or so.”

He believes St. Louis, however, is farther along in terms of resident venture capital, citing more local technology venture funds and more money raised.



Jeff Barry (second from right in a panel discussion at this summer’s inX3 conference) of Plymouth Growth Partners saw success in Michigan with the introduction of state resources similar to the Next Level Indiana Fund.

Close to home

Venture capital investing is often a hands-on endeavor, which is why many firms want to be in drivable proximity.

“We won’t just hand over a check and be passive,” Cramer affirms. “We take a board seat or (serve as a) board observer on every deal we do because we want to help. We want to be able to open up our Rolodex if they’re looking for a VP of sales or CTO (chief technology officer) and we can help them find quality talent. From a business development standpoint, if they’re trying to sell into a large company in Grand Rapids or Detroit, or we have (connections in many companies throughout the country), we view our investments as a partnership.”

Barry concurs.

“We want to be able to get a call from a CEO at 2 p.m. who wants us to be at interviews on a moment’s notice,” he says.

Investing in the Midwest also begets a consideration of scale.

“We also like the Series A stage because it’s not like a \$20 to \$40 million Series A on the coast,” Cramer reveals. “It’s a \$3 to \$5 million Series A round here in the Midwest. It allows us to make sure we can get our ownership targets that we try to get internally, but also to get other great co-investors here in the Midwest.”

He adds that working relationships with other quality firms build a rising tide in the region.

“In the Midwest, it’s a more collaborative nature,” Cramer offers. “It’s not a sharp elbows approach where people are trying to box each other out. We all see the 10- to 30-year vision.”

To the ‘Next Level’

The Next Level Indiana Fund, which was approved by the Legislature in 2017 and modernizes the Next Generation Trust Fund, will allow the state to invest in higher-risk opportunities via venture capital firms. The fund’s potential pool is \$250 million, and out-of-state firms with a record of supporting Hoosier businesses are eligible.

“It’s smart they invest alongside funds ... the No. 1 criteria for successful investing is a disciplined, due diligence process,” True notes.

Barry shares True’s enthusiasm for the program, recalling a similar effort in Michigan.

“We saw what (Venture Michigan Funds I and II) did for the technology and VC ecosystem in Michigan,” he relays. “It was incredible. When they started those funds, there was a very small tech and VC scene in Michigan with a lot of gaps in types of financing. ... I used to say good deals didn’t always get funded in Michigan. But now, if a good deal is looking for funding, it will get funded. I attribute almost all of this to the success of those funds.”

Barry adds that these programs haven’t succeeded in all states in which they’ve been tried, but reiterates his excitement to see it happen in Indiana.

Bumps in the crossroad?

When asked about challenges in investing in Indiana, those interviewed had few reservations.

“I’d say the top challenge in Indy is, as a general rule, getting larger funds to come and help scale-up companies,” True offers. “I think the East Coast funds are more apt to invest in Indianapolis because the West Coast funds like to invest close to home. It takes a unique entrepreneur or unique relationships with board members to get the VC firms there.”

He offers optimism, however, noting some larger funds are putting offices in Indiana to build a long-term pipeline.

“There is such a profound shortage of equity rounds here of \$1 (million) to \$3 million, and there are only a dozen funds actively able to write checks big enough to fill those rounds in the Midwest,” Cramer adds.

While the tech scene in Indianapolis remains a focal point, it’s not the only city in the state that’s drawing attention. Cramer notes that Grand Ventures has met with companies in Fort Wayne.

Plymouth Group is also exploring beyond the state capital.

“Most of the companies we’re looking at are in Indianapolis,” Barry concludes, adding, “I don’t want to show my cards too much, but we are actively looking at companies in other parts of the state.”



Springbuk, one of the first companies to move into The Union 525 space in downtown Indianapolis, is among the beneficiaries of out-of-state venture capital with an investment from Lewis & Clark Ventures in St. Louis.

RESOURCES: Jeff Barry, Plymouth Growth Partners, at www.plymouthgp.com | Maitlan Cramer, Grand Ventures, at www.grandvcp.com | John True, Cultivation Capital, at www.cultivationcapital.com