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The VC model isn't broken in Kalamazoo

By Ron Kitchens

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There's a debate raging in venture capital circles about whether or not the VC model is broken.

When serial entrepreneur Adeo Ressi recently wrote, "The Canary is Dead: Something is Wrong in Venture Capital" on his Web site TheFunded.com, the blog post burned across Silicon Valley and other venture capital hotspots like wildfire.

Here in Kalamazoo, we feel a bit like Mark Twain who quipped when false rumors were flying: "The reports of my death are grossly exaggerated." Our Southwest Michigan First Life Science Fund is alive and well, thank you very much.

Established in 2005 as a limited-partnership venture fund to invest in early-stage life sciences companies, the \$50 million fund is believed to be the largest sum of community-based private capital ever to be raised and managed by an economic development organization. The fund announced six company investments during 2008, adding to the four already announced.

Two cornerstones set our venture fund apart from other venture capital or seed funds. First, the SMFLSF has a dual bottom-line approach. Not only does it seek to turn a profit for its investors, but it only invests in companies that already have a presence or are committed to establishing a presence in southwest Michigan. Case in point is our most recent announcement: Redmond, Wash.-based Micro-nics Inc. plans to set up headquarters and more in Kalamazoo for the medical devices it is developing.

The fund's focus on location is highly unique, if not unprecedented. We believe it is one of the things that makes our venture fund work so well. With a 125-year history in life sciences that dates back to when W.E. Upjohn patented a pill that could be swallowed and Homer Stryker invented some of the nation's first orthopedic devices, we know Kalamazoo has what it takes for life sciences to flourish.

That brings us to the second key differentiator for the fund. To ensure we would invest in quality firms with solid prospects, Southwest Michigan First recruited a high-powered scientific advisory board with world-class credentials. Members range from former heads of the National Institutes of Health Vaccine Research Center and of research

and development at Pharmacia to the retired senior vice presidents and chief scientific officers from Fortune 500 companies.

The board typically takes six to nine months to examine each opportunity, rather than the six weeks spent by most others. This extreme due diligence, coupled with the deep experience of the board, has made a big difference in the fund's excellent track record.

The SMFLSF also hews closely to its core philosophy: Companies need to have unique intellectual property, strong management, a marketable product and the possibility of an exit in three to five years. Initial investments can range from \$500,000 to \$3 million.

The fund is not bent on populating its portfolio with one particular science or segment. Rather, it looks for diversity and science with commercial value.

For most companies, money has only been part of the lure of the fund. The promise of savvy stewardship has been a big draw. As it invests, the fund takes seats, typically two, on the company's board to provide advice and guidance. The fund helps the portfolio companies recruit executives, professionals and outside board members and aligns them with local firms as they grow and develop.

So if a life sciences company came to Kalamazoo in the guise of a "canary in a coal mine," to use Ressi's metaphor, it wouldn't die. It would find plenty of oxygen to sustain it, to foster their growth and to take flight. Indeed, the VC model and other life sciences initiatives in Kalamazoo are working wonders.

Ron Kitchens is president and CEO of Southwest Michigan First and CEO of the Southwest Michigan First Life Science Fund.