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REPORTER'S NOTEBOOK: Numbers prove spinoffs' worth

By [Tom Henderson](#)

It's not a surprise to investors in **Arboretum Ventures LLC's** first two funds that **University of Michigan** spinoffs are good places to invest. Nor is it a surprise to investors in other area firms that have invested in UM startups, including **EDF Ventures** and **Avalon Investments**, Gov. Rick Snyder's former company.

There has been a series of very lucrative exits by UM spinoffs recently, including the sale of **Accuri Cytometers Inc.** for \$205 million, **HandyLab Inc.** for \$275 million and **HealthMedia Inc.** for about \$200 million.

Tim Petersen, one of Arboretum's managing directors, chortled in 2008 that the HealthMedia deal was "a home run, a Curtis Granderson shot to deep right field." (Before Granderson started hitting on behalf of the **New York Yankees**.)

Those sales amount to anecdotal evidence. But **Osage Partners**, an investment firm based in Bala Cynwyd, Pa., has put numbers behind the anecdotes.

Several years ago, Osage decided it might want to raise a fund targeting spinoffs at research universities, so it spent a year crunching the numbers at 45 research schools in the U.S. to see what the rate of return would have been had Osage invested in each investment round of each company.

Based on strong returns, according to managing partner Marc Singer, Osage raised \$100 million for its **Osage University Partners LP**, which will invest in spinoffs at eight top research universities: UM; the **California Institute of Technology**; **Columbia University**; the **University of Florida**; **Duke University**; the **University of Pennsylvania**; and the **University of California, Berkeley** and another that Singer said he is prohibited from naming. Singer declined to provide ROI numbers or to rank the schools, but he said he wouldn't dispute a claim by a UM source that the school's spinoffs had a rate of return 50 percent *above the average* of the top eight.

Osage and UM have signed a contract allowing it an early crack at investing in UM spinoffs. In

return, the school will share in profits not only from its spinoffs but from investments Osage makes in other institutions, too. In November, Osage announced its first local deal, joining with Arboretum in an investment of \$4.5 million in medical device maker **Tangent Medical Technologies Inc.**

Based on Osage numbers, UM President Mary Sue Coleman announced in October that the school would invest up to \$25 million from its \$7.8 billion endowment over the next 10 years in its own spinoffs.

Twelve percent of the endowment is invested in venture capital -- forward thinking, but not forward enough for local VCs, who have never received a penny from the endowment. Not even Arboretum, which fruitlessly invited the endowment to join its third fund. Previous investors happily re-upped, and the fund closed at \$140 million.