Best city for monster returns in venture capital? Chicago

By John Pletz June 09, 2016

If you want to make money doing the most deals as a venture capitalist, Silicon Valley is the place to be. But if you want to make the most money on your deals, come to Chicago.

Chicago had the highest rate of home runs over the past 10 years, according to **data from PitchBook,** a Seattle-based research firm. PitchBook analyzed venture-backed startups that raised at least $500,000, and were sold or went public for more than the amount invested, calculating the rate of return on the money put in by investors.

Chicago didn't have the highest overall rate of return—but it had the highest percentage of really big returns when it comes to exits.

PitchBook says 45 percent of Chicago deals produced returns of more than 10-fold. The closest competitor, Los Angeles, had 29 percent of that magnitude.

Eighty-one percent of Chicago exits provided returns of 3x to 10x, the bread and butter of venture returns. The closest competitors were Raleigh, N.C., and New York, at 77 percent.

In terms of overall returns, Chicago ranked fourth, with an average of 8.17 times the amount invested. Washington, D.C., was highest at 11 times, followed by Los Angeles and the Bay Area.

In venture investing as in baseball, it's not hitting for average but hitting for power that counts. Washington has a high percentage of walks and singles; Chicago is respectable in terms of base hits, but crushes it in the home run department.

We're the opposite of Austin, where 22 percent of exits produced 1x-2x returns but 16 percent topping 10x. Chicago showed 13 percent of deals pulling in 1x-2x and 45 percent over 10x.

What were the best Chicago exits for investors? Mostly recent tech IPOs such as Grubhub, which produced a 24x return and Paylocity, which was 23x.

The top deal was a little-noticed acquisition in 2012 of Etherios, a tech-consulting firm specializing in Salesforce integrations, which was sold for $20 million to Digi, a cloud-computing company from Minnetonka, Minn. Venture backers invested just $750,000, according to PitchBook data.

Etherios was sold again last year—to Chicago-based consulting firm West Monroe Partners **for an undisclosed price**.

Other deals near the top of the list **include Accertify**, which was bought for $150 million by American Express in 2010 after raising $7.5 million in outside funding; and Echo Global Logistics, a trucking broker started by Brad Keywell and Eric Lefkofsky, which went public in 2009 in a $300 million deal after raising $17.4 million. It's worth about $700 million. Textura, which is being bought by Oracle for $663 million, was eighth.

Braintree, which sold for $800 million to PayPal, was 12th, followed by Groupon, which went public in a $12.8 billion deal but now is worth $1.9 billion.

The data potentially point to a benefit of something Chicago startups too often are derided for: being too cautious and overly focused early on profits versus potential market opportunity, and for too often toiling with boring technology for business instead of sexy consumer plays. Chicago companies also are frugal, both out of necessity and culture.

Of course, Chicago benefits from the law of small numbers. It remains a small pond in which to fish.

Chicago had just 31 total exits during the period, equal to Raleigh. Austin, Texas, had 86; Washington, D.C., saw 87; New York posted 98; and the San Francisco Bay Area recorded 613. While Chicago had 14 deals that produced returns of more than 10-fold, San Francisco had 153 such deals.

Still, VCs should take notice of Chicago.