

PENNSYLVANIA: LOCAL INITIATIVE AND DRIVE FUELING VENTURE ECOSYSTEMS



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BUSINESS**

INTRODUCTION

The goal of this report was to gain insights into the private investing scene in Pennsylvania. What the report amounted to was essentially a case study of the two markets in Pennsylvania where most of the private investing activity in the state is concentrated: Philadelphia and Pittsburgh. The report aims to dig deeper into the private investing ecosystems of both cities and to shed light on the trends, strategies, opportunities, and resources in both markets.

Located about 300 miles apart, Philadelphia and Pittsburgh are two extremely contrasting cities in several ways. Philadelphia bears more of a resemblance to its East Coast neighbors such as New York City and Washington D.C., while Pittsburgh feels more like a Midwestern city. Additionally, Philadelphia's population is about five times greater than Pittsburgh's. Due to these differences and many others, it wasn't particularly surprising to find that the cities had some stark differences in their private investing scenes.

In terms of the national investing scene at the time that this research was conducted, there are some key developments to note. There was a large pullback in high-growth areas of both public and private sectors from early 2022 to the start of 2023. Tech was the hardest-hit area as public tech equities saw substantial drops and venture capital and private equity firms lowered their valuations on tech companies raising funds. These trends were exacerbated in 2023 following the collapse of several key American banks, most notably Silicon Valley Bank, First Republic Bank and Signature Bank. It's important to note that the bulk of the research for this report was conducted prior to the first notable bank collapse, which was Silicon Valley Bank in March of 2023.

To generate this report, a total of 20 firms and individuals were interviewed across Philadelphia and Pittsburgh. Interviewees consisted of a mix of venture capitalists, private equity firms, angel investors, incubators, and the press. A standardized script was utilized for all interviews to allow for proper means of data collection and comparison. Public data on additional firms was also utilized to help construct a more complete picture of the investing scenes in both markets.



Population of Philadelphia:

1.5 MILLION

Population of Pittsburgh:

300,000

Annual investments across interviewed firms:

180

THINKING LOCAL

Private companies based in Philadelphia and Pittsburgh aren't frequently the recipients of venture funds from major investing hubs such as Silicon Valley or New York City. Because both cities have been overlooked for private funding to a certain degree, they have developed a presence of locally focused investors that have aimed to not only capitalize on a market gap, but to support the economies of their respective cities.

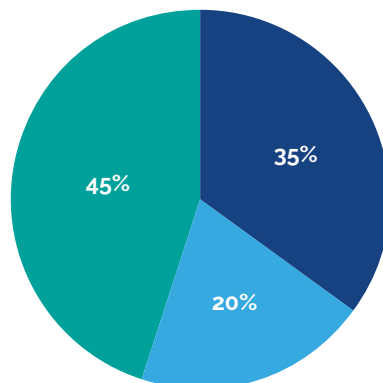
The greatest example of this initiative is Ben Franklin Technology Partners. Bolstered by the Pennsylvania Department of Community and Economic Development, the organization is primarily funded by the state, and it has four separate wings that cover select counties in the state. The largest wing is the Ben Franklin Technology Partners of Southeastern Pennsylvania, headquartered in Philadelphia and known internally as SEP. Meanwhile, Innovation Works in Pittsburgh covers Southwestern Pennsylvania. The organization focuses on early-stage companies with check sizes typically in the \$200K ballpark, investing with convertible debt funding to avoid ownership dilution for founding teams. Investment criteria stipulates that investees must have a significant business presence within one of the counties under their respective wing.

The influence of the Ben Franklin Technology Partners branches in Philadelphia and Pittsburgh is palpable in the early stage investing scenes of both markets. Their investments represent something like a seal of approval for investees and send strong indicators to other local investors.

Despite these local initiatives, there are several investment firms – especially in Philadelphia – that are focused on investments outside of their respective cities and even outside of the state. Most of these firms are focused nationally, but some are focused internationally as well. The breakdown below shows the geographic focus of a sample of firms that includes both interviewed firms and non-interviewed firms that display investment geography criteria publicly.

Geographical Focus

- Global
- Local Only
- US Only



*Additionally, 11% of firms prefer East Coast or Mid-Atlantic investments while 6% of firms have a global or US focus, with a preference for local investments.



“We look at the quality of jobs and quantity of jobs created with each investment opportunity,”

Jason Bannon,
VP Marketing and
Communications, Ben
Franklin Technology
Partners

56%

Percent of sample firms focused on early stage

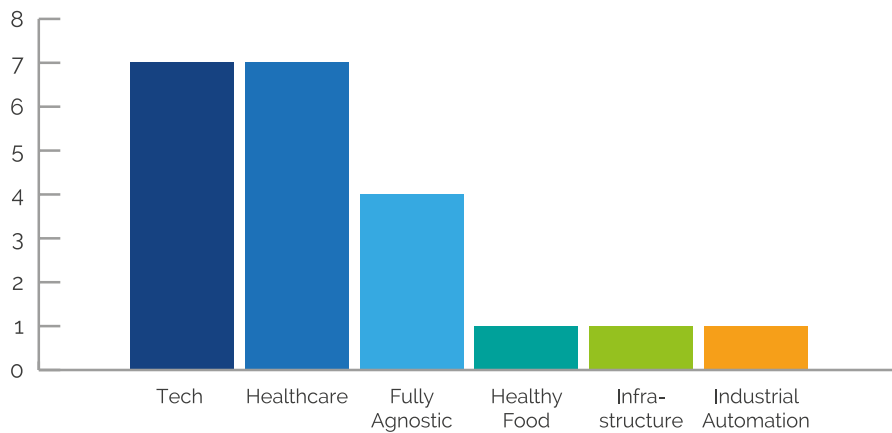
33%

Percent of sample firms focused on middle market

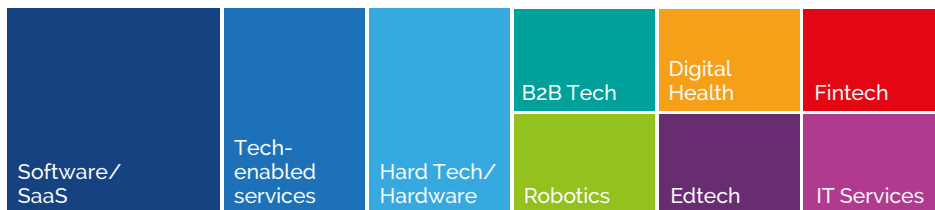
TECH & HEALTHCARE FOCUS

Among all sectors, tech and healthcare stood out as the primary targets for investors in both markets. Within tech, software as a service (SaaS), tech-enabled services and hard tech were the most frequently highlighted sub-sectors. A breakdown of all sectors and of subsectors within tech are provided below.

Sector Focus



Tech Subsector Focus



It is worth noting that this tech and healthcare trend was independent of geographic focus. Firms that were investing locally were no more likely to prioritize tech or healthcare than nationally or globally focused firms.

In terms of local tech emphasis, both Philadelphia and Pittsburgh have some strong resources available for young tech companies. Philadelphia is home to the University City Science Center, a nonprofit that is the largest research park in the United States. It's dedicated to tech and healthcare startups, providing a range of program offerings such as an incubator and a capital readiness program that prepares startups aiming to raise capital within six months. Meanwhile, Pittsburgh boasts the software accelerator AlphaLab, which has invested in over 150 startups, providing them with a directed track to reach the next stage of growth.

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Tech and healthcare sectors are the primary targets for investors

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Within tech, SaaS, tech-enabled services and hard tech are primary focuses

133

Startups supported by University Science Center in 2022

65%

Percent of AlphaLab startups that have raised a round

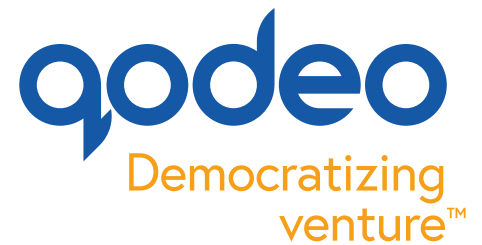
UNIVERSITY IMPACT

Philadelphia and Pittsburgh are both prominent university hubs. The University of Pennsylvania dominates the university landscape in Philadelphia alongside others such as Temple University, Drexel University, and Thomas Jefferson University. Meanwhile, Carnegie Mellon, the University of Pittsburgh and Chatham University are the major players in Pittsburgh.

The strong university presence in both cities has served as a breeding ground for innovative, forward-thinking startups in both markets. There's a high degree of collaboration between early-stage investors and universities and most of this collaboration has been focused on the two sectors highlighted in the previous section: tech and healthcare.

Carnegie Mellon's Swartz Center for Entrepreneurship provides a space for current CMU students and alumni to attain key entrepreneurial resources. The center has helped launch several successes, most notably the now global edtech company Duolingo.

Meanwhile, Philadelphia's Red & Blue Ventures, an early-stage venture capital fund, is heavily engaged in the University of Pennsylvania's entrepreneurial ecosystem. The firm exclusively invests in companies that have a tie-in to the university, whether it be through current students, faculty, or alumni or through technology developed at the university. The company is active in judging competitions on campus and in community events that revolve around educating students pursuing careers in business, tech, and entrepreneurship.



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“A lot of time is spent meeting students,”

Brett Topche, Managing Director, Red & Blue Ventures

Carnegie Mellon Student Body: Approx.

14,500

Pennsylvania University Student Body: Approx.

28,000

PHILADELPHIA'S SUPPORTIVE ECOSYSTEM

The early stage investing community in Philadelphia is extremely closely knit. As mentioned above, much of this community is driven by Ben Franklin Technology Partners of Southeastern Pennsylvania (SEP). Two of the angel groups interviewed, Robin Hood Ventures and Investors Circle, both frequently syndicate with SEP on deals. They also frequently share their due diligence on startup companies with each other.

SEP typically invests in around 50 companies per year while receiving several hundred companies through inbound deal flow annually. While SEP is eager to invest in the economic growth of Southeastern Pennsylvania, the investments team is extremely careful in evaluating potential deals. And this is a trend throughout the investing scene in Philadelphia. Deals are not abundant like they are in Silicon Valley. They are carefully considered with the team around the product being the most important factor. A breakdown of the four most important criteria for Philadelphia investors is provided below.

Most Important Factors for Investment



SEP has always been focused on economic impact, but there has recently been an increased focus on social impact factors across the Philadelphia investing scene. ImpactPHL, launched in 2018, is a nonprofit that unites the impact investing community in Philadelphia. The board of the organization is comprised of members of SEP and Investors Circle, as well as other investors and nonprofits. Investing in minority founders was noted as a key focus for a third of the Philadelphia firms interviewed for this report.

Philadelphia has developed a certain stigma as being a "second tier" or "unmodern" or even "uncool" type of city from a national perspective. To a

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“Who you take money from is very important,”

Jillian Gerstley, Manager,
Investors Circle

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“Philadelphia has been cautious about feeling good about itself for a long time and it's refused to take stock in how good it actually is,”

Jason Bannon,
VP Marketing &
Communications, Ben
Franklin Tech Partners

certain degree this stigma has been reinforced locally, through a curious resistance to come to terms with, or take advantage of, the many amenities offered by the city. "Philadelphia has everything an entrepreneur is looking for," states Eamon Gallagher, Senior Director at the University City Science Center. "You just may need to look a little harder to find it."

PITTSBURGH'S ROBUST ENTREPRENEURIAL AND WORKFORCE SUPPLY

Pittsburgh has a long and storied history of industry, building itself through manufacturing, and primarily through the steel industry. It developed its reputation as a hard-working, blue-collar type of city. Michael Matesic, CEO of Idea Foundry describes the modern workforce in Pittsburgh as being "gritty" and "willing to build and work."

The next wave in Pittsburgh's business landscape is still being developed. Now is a particularly fascinating time for the city in terms of entrepreneurship. There's a heavy emphasis on marketing entrepreneurship in the city, particularly through Carnegie Mellon's many entrepreneur-focused offerings.

Idea Foundry, Riverfront Ventures and SteelBridge Labs are among the early-stage investors based in Pittsburgh and focused on Pittsburgh area ventures. While the market may not yet be a hotbed for investments from Silicon Valley or New York City funds, there is certainly a rising trend of outside investors looking at private Pittsburgh companies and realizing their potential.

Innovation Works, the Ben Franklin Technology Partners branch that covers Pittsburgh and the rest of Southwestern Pennsylvania, has been active in recruiting investors outside of Pittsburgh. Cigdem Benam, an Associate Portfolio Executive with Innovation Works, explains that the organization has been syndicating deals with investing networks in Chicago and other areas in the Midwest and they are currently trying to engage the coasts as well. As is the case with SEP, Innovation Works sees several hundred inbound deals per year, but they typically sign more checks than SEP, investing in about 80 startups per year.

Investments in
Pittsburgh tech
companies in 2022:
approximately

\$1 BILLION

Amount of firms
making their first
investment in
Pittsburgh in 2022:

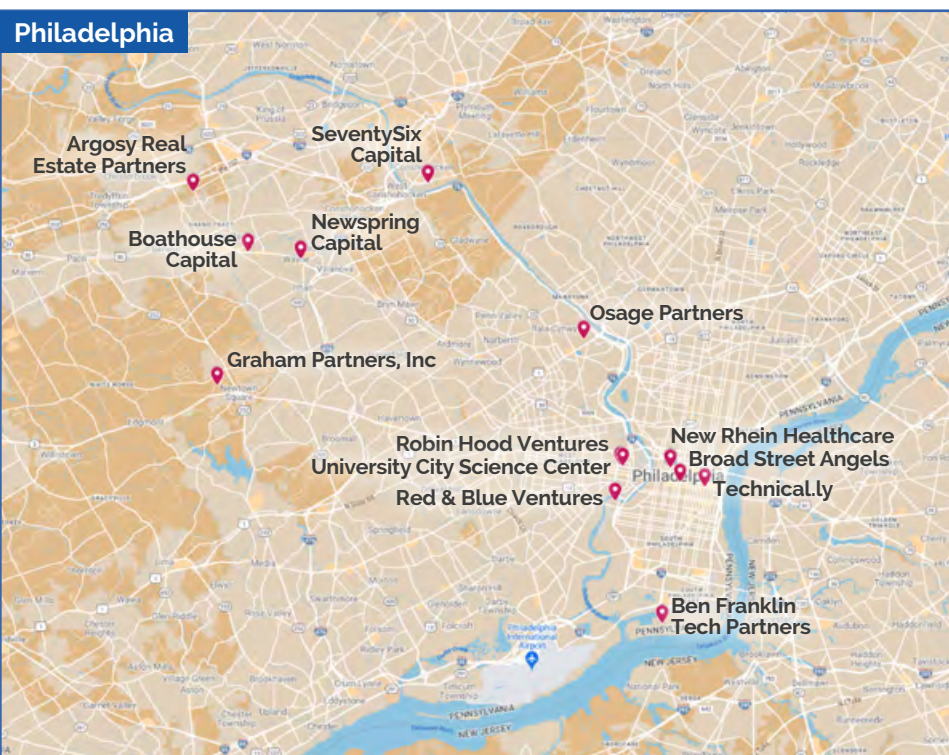
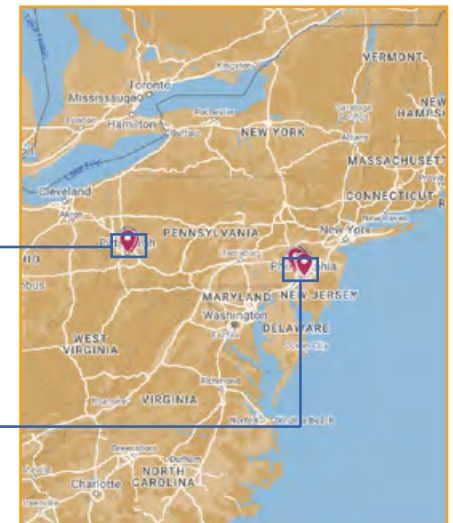
70+

FIRMS RESEARCHED



Pittsburgh

- [3 Rivers Capital](#)
- [AlphaLab](#)
- [Idea Foundry](#)
- [Incline Equity Partners](#)
- [Innovation Works](#)
- [Riverfront Ventures](#)
- [SteelBridge Labs](#)
- [Tail End Capital Partners](#)



Philadelphia

- [Argosy Private Equity](#)
- [Ben Franklin Technology Partners](#)
- [Boathouse Capital](#)
- [Broad Street Angels](#)
- [Graham Partners](#)
- [Investors Circle](#)
- [New Rhein Healthcare Partner](#)
- [NewSpring](#)
- [Osage Venture Partner](#)
- [Red & Blue Ventures](#)
- [Robin Hood Ventures](#)
- [Royer Cooper Cohen Braunfeld LLC](#)
- [SeventySix Capital](#)
- [Technical.ly Philly](#)
- [University City Science Center](#)

Click here to view interactive map

ADDENDUM

By Professor Gregory Stoller, Master Lecturer, Boston University Questrom School of Business

Our research team at the Boston University Questrom School of Business is very appreciative to have another opportunity to work with Qodeo, and 2023 certainly did not disappoint! It continues to be quite an honor to be the first school selected throughout all of New England by CEO Simon Glass and his team.

I remain pleased to see how different ecosystems are emerging from Covid, and successfully navigating these volatile, and inflation ridden, economic times. But whether in up, down or sideways markets, investment common sense continues to prevail. East Coast markets are also thriving entrepreneurially. Several years ago, venture-capital and innovation were an almost binary discussion: you're either in Silicon Valley or not. Now so many years later, up and down the Atlantic seaboard, startups are attracting investors, raising multiple financing rounds, and proceeding to successful exits.

At Boston University Questrom School of Business, experiential learning continues to remain one of the hallmarks of our educational approach. While Qodeo is one of several programs that I personally run, our faculty and staff colleagues as a whole have amassed an impressive portfolio of similar opportunities for our students, extending from our full-time and evening MBA programs, to our specialty Masters, and online offerings. Our goal, captured in our mission, is to help develop business leaders who create value for the world.

Congratulations again to our BU MBA student, Andrew Ericksen, and a heartfelt thank you to the many interviewees, editors, writers, volunteers, experts, senior administrators, and faculty and staff colleagues who have made this report and the broader Qodeo program possible at Questrom. Questrom means business.



Professor Gregory L. Stoller,
Master Lecturer,
[Boston University Questrom
School of Business](#)

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ABOUT QODEO

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