

BrightStar Wisconsin Foundation has helped create more than 1,500 jobs, seed more than 70 startups

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BrightStar Wisconsin Foundation Inc. business manager Fred Raasch, BrightStar executive chairman Tom Shannon and BrightStar executive director Todd Sobotka.

With entrepreneurship comes risk. It's because of this risk that startup founders often find themselves in the conundrum of needing funding to support their work or research, but not having enough evidence to prove their idea is profitable in order to garner an investment.

That's where Milwaukee-based **BrightStar Wisconsin Foundation** has found its sweet spot. BrightStar uses a "venture philanthropy" model to solicit donations and deploy them into early-stage startup companies that could create jobs in Wisconsin.

The organization's goal is to spur economic development. Donations are used to invest in equity stakes in rapid-growth startups.

BrightStar announced this month that since its creation, the organization has invested more than \$10 million in more than 70 tech startups. Its portfolio companies have gone on to create more than 1,500 jobs in Wisconsin. BrightStar normally invests between \$50,000 to \$250,000 into each startup.

“We’ve done exactly what we’ve said we would do. We’ve deployed capital and been the most active. We’ve shown successes,” said **Todd Sobotka**, executive director of BrightStar. “There’s no doubt the model has proven itself out now. It’s an incredible weapon/asset for the state that no one else has.”

When **Tom Shannon**, executive chairman of BrightStar, decided to tackle the issue of job creation in the state a decade ago, he opted to rely on the goodwill of Wisconsin’s philanthropists as opposed to the “old school” business community that’s typically more risk averse.

During most of 2013, when BrightStar was founded, Shannon was dedicated to lining up initial capital support from the foundation’s founders, building out the structure of the organization, and creating a unique nonprofit model that gained approval from the IRS.

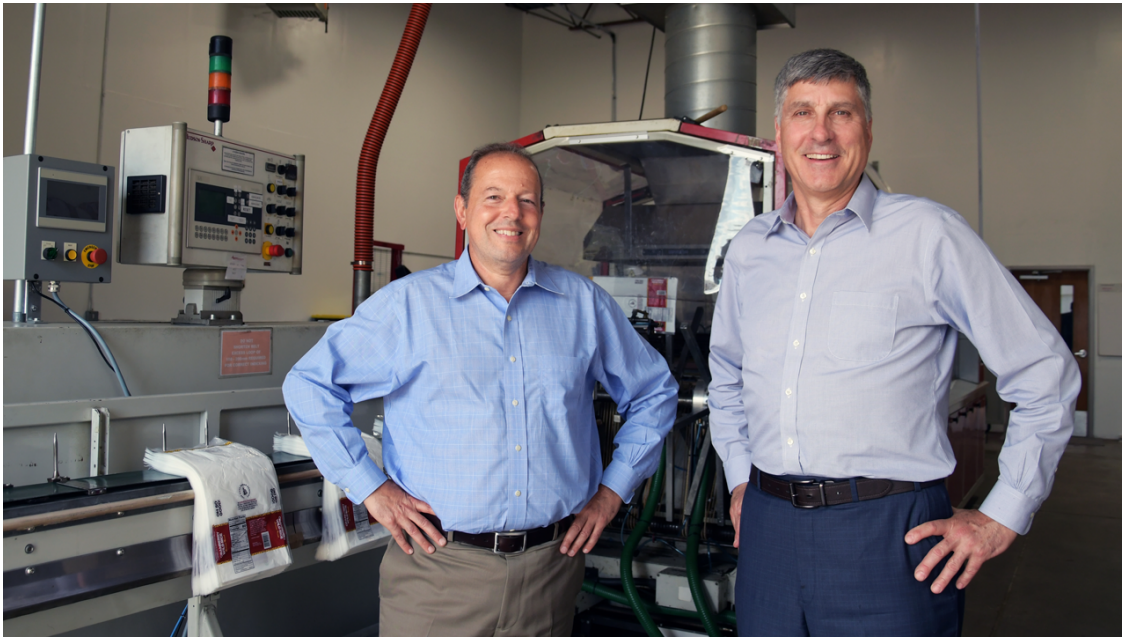
“All the raw materials (for job creation) were here and all the research was here but Wisconsin was full of very conservative investors,” said Shannon. “The corporate establishment not only wanted revenue, but profits. Todd and I put \$50,000 into COnovate just to give them a machine so they could prove that they could make carbon monoxide into something solid. These people would never consider doing something like that.”

Today, BrightStar’s portfolio of companies includes everything from med tech to software startups. Wisconsin unicorns Shine Technologies and Fetch Rewards have also received investments from BrightStar.

“We’re willing to take on some of that risk disproportionately to get a startup going and if they’re doing what they’re supposed to be doing, the capital will follow,” said Shannon.

Seeding Wisconsin startups

In 2017, **SoFresh** co-founder and chief executive officer **Toby Thomas** found himself taking a buyout package and leaving his corporate job at Pactiv Evergreen. He was a research and development manager who had identified extending the shelf life of food products as an unmet need for companies.



*SoFresh, Inc. founders Toby Thomas and Bill Belias
Credit: Lila Aryan*

Thomas had just begun working on building SoFresh when he spotted an ad for BrightStar's HATCH program, a pitch competition created to give entrepreneurs outside of Wisconsin's major cities a platform to present their businesses, in the local newspaper. SoFresh ended up winning the pitch competition, as well as a \$2,000 prize. That money was used to formalize SoFresh's first patent, which will be published in the next two to three months.

"BrightStar didn't know it, but they had funded our first patent of this idea of how to reduce food waste," said Thomas.

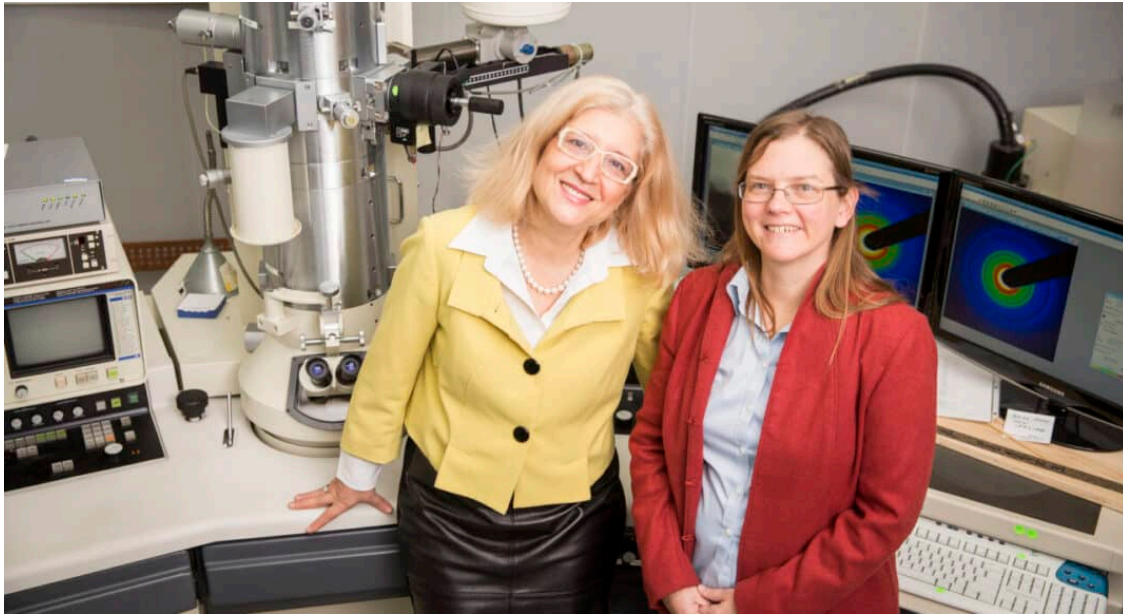
As SoFresh has continued to develop as a company, BrightStar has remained an out-of-sight partner. SoFresh closed its seed funding round worth \$1.3 million last year. Thomas raised about \$1.2 million before he approached BrightStar for the remaining funds needed to close the round.

"They said we'd love to put \$200,000 into your company, and at the time I only needed \$100,000 to close the round," said Thomas. "That helped us get the equipment that we needed to make the product that got us our trials and now we're manufacturing here in Kenosha on that same equipment."

A crucial component to how BrightStar invests in startups is the use of SAFE agreements. SAFE funding is not debt but an agreement that states an investor will get stock at a later date in exchange for the cash investment now.

"It's a great way to give the entrepreneurs the freedom to spend money without the liabilities of typical debt," said Thomas. "The SAFE just made everything very easy and quick."

Dr. **Carol Hirschmugl**, co-founder and chief executive officer of Milwaukee-based **CONovate**, agreed that SAFE funding was key to keeping the startup running.



*The CONovate team. Marija Gajdardziska-Josifovska and Carol Hirschmugl
(Photo: Derek Rickert, UWM Photo Services)*

CONovate is a UWM spinoff. Hirschmugl and her co-founder **Marija Gajdardziska** are the developers of a new advanced composite material for lithium-ion battery anodes, called COphte.

“We had always thought someone would come take what we learned and make something useful with it. We found out that no one was going to do that,” said Hirschmugl.

That’s the reason for forming CONovate: to take the duo’s patented idea and make it into a product. The startup’s funding has mostly come through SBIR and STTR grants, which are also strictly non-dilutive.

“We were a spinoff from the university just getting our feet underneath us, paying to use equipment,” said Hirschmugl. “We needed to buy equipment we couldn’t afford.”

BrightStar gave CONovate its first angel funding, a total of \$50,000, which allowed the startup to purchase the equipment it needed to begin producing COphte.

“When we discovered this, the size of material was smaller than the end of your hair,” said Hirschmugl. “Today, we make 10 kilograms, which is like filling up four flour bags of material. That’s 13 orders of magnitude. We could not have done that without the equipment we bought.”

CONovate is working to prove its composite material can be used in large-format batteries.

Strengthening connections

Another thing both Hirschmugl and Thomas can agree on: BrightStar's support runs deeper than the organization's initial investment. They both said the connections they've made through the BrightStar team continue to be some of their strongest business relationships.

"I would encourage young entrepreneurs to get involved early on with BrightStar," said Thomas. "They have a lot of resources at your disposal."

Looking forward to the next 10 years, Sobotka said the organization will be looking for better ways to leverage the connections it has across the state. He added the organization could be a bit more aggressive when it comes to being a leading investor early on to help accelerate a company's growth.

"We've quietly gone about our business the last 10 years proving it out but we're just still scratching the surface as far as being a brand that's known across the state," said Sobotka.

Since 2013, BrightStar has raised \$8 million from donors with an expected return of between \$20 million to \$24 million. The organization is once again gearing up to raise money from donors, although an exact amount has yet to be determined.

"It is amazing to see the positive changes that have taken place over the past 10 years in the Wisconsin early-stage ecosystem, and we are proud to have been a key player in advancing so many of them," said **Jeff Harris**, BrightStar's co-founder. "We are betting on Wisconsin, its people, its ideas and its work ethic. These investments are paying off as we have already invested substantially more than has ever been donated. Each charitable gift grows over time to further support more and more Wisconsin businesses."

Ashley Smart

Ashley covers startups, technology and manufacturing for BizTimes. She was previously the managing editor of the News Graphic and Washington County Daily News. In past reporting roles, covering education at The Waukesha Freeman, she received several WNA awards. She is a UWM graduate. In her free time, Ashley enjoys watching independent films, tackling a new recipe in the kitchen and reading a good book.



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