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VC funds - have money, will lend

Business Courier of Cincinnati - by Steve Watkins, Staff Reporter

Take everything you've heard about scarce capital and throw it aside. Cincinnati's venture capital funds are pumping money into the economy, with the recent flurry of investment activity as heavy as many can remember.

River Cities Capital Funds, for example, has completed five new investments in the last couple of months. The Fourth Street firm, with \$390 million under management, has three more deals in the works.

"That's certainly more than we've ever done," said Dan Fleming, a managing director at the 14-year-old company.

Blue Chip Venture Co., Cincinnati's oldest and largest VC firm, also has been writing a lot of checks. The 16-year-old company, based downtown, with \$556 million under management, has invested in 12 companies for \$10 million so far this year. Most are follow-on investments in firms in which it was already an investor. It has a few other similar follow-on deals in the works likely to be completed by year-end.

"There may be as much activity as we've seen in any time period since we started, with the exception of the bubble years," said Jack Wyant, co-founder and managing director of Blue Chip, referring to the frantic 1999-2000 tech bubble era.

River Cities' deals include Atlanta-based medical products firm EndoChoice Inc. and Akron-based OrthoHelix Surgical Designs Inc. It also made a new investment in NineSigma Inc., in which Blue Chip already had been an investor. That software company, which connects inventors with companies seeking new technologies, came out of Procter & Gamble Co.'s development program.

Life sciences fund Triathlon Medical Ventures Fund, downtown, has completed five deals this year involving new capital, with three more in the works, said Suzette Dutch, a managing partner. Those are targeted to be done by September. Triathlon has about \$90 million under management.

Triathlon made a \$3 million commitment to Cleveland-based Tolera Therapeutics Inc. last month and brought in other investors. It also added to its investments in Indianapolis-based CoLucid Pharmaceuticals Inc. and Minnesota-based Celleration Inc. in the past two months.

Supply-demand equation

That bucks the trend of national venture capital activity. The dollar volume of investments slowed by 5 percent in the first quarter, to \$7.1 billion, according to the PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report.

Why all the local activity, especially given that capital is tougher to come by as banks tighten lending standards due to the slow economy and the flow of institutional investment dollars slows?

The supply-demand equation might have something to do with it. Entrepreneurs almost always need capital. But as fewer investors have spare cash to pump into venture capital funds nationally, the firms have less money to invest, Fleming said. So there's less competition from those with the money to lend.

The local funds certainly have that. River Cities just completed raising a \$120 million fund, and Blue Chip is investing out of a \$190 million fund. Triathlon still has money from its first \$105 million fund.

"It is a very good time to have a new fund," Fleming said. "There's more scarce supply, and at minimum, the same level of demand."

CincyTech helps get firms ready

Jennifer Wolfe, owner of Blue Ash-based law firm The Wolfe Practice, said a lot of businesses happen to be reaching the point in the cycle where they need venture funding. She credited CincyTech, a regional group backed by the state that aims to help young tech companies grow, for helping companies get to that point. BioStart, which backs life sciences startup firms, and the Queen City Angels early-stage investment group also help. And Blue Chip's own Validation Fund invests in companies before they reach the point of being ready for venture capital, Wyant said.

"Particularly for early-stage entrepreneurs, there never have been more resources available than there are today," Fleming said.

And while the credit crunch hurts big companies that raise debt, smaller companies that need equity aren't impacted as much.

"Equity investments continue on, regardless of the banks," Wyant said.

And then, some of it is just luck.

"I think part of it is the serendipity of the timing," Fleming said.

National activity was even slower on the exit side of things, with venture capital funds having a tough time cashing out of their investments by selling their portfolio companies or taking them public. There were no venture-backed initial public offerings in the second quarter, marking the second-longest drought in the 20 years that statistic has been tracked, according to Dow Jones VentureSource. And exits through acquisitions fell by 47 percent in the quarter from a year ago.

That can make it tough on business owners. Wolfe said her first question to entrepreneurs is, "Who's going to acquire you?" That's what investors want to know.

"These aren't investors looking for a steady, long-term business that pays a nice dividend," Wolfe said.

Slow exit activity can make fundraising difficult, too. Triathlon plans to raise another fund in about a year, Dutch said. Blue Chip is in the midst of raising a \$100 million fund. It's cut that back from previous plans to raise \$150 million to \$200 million.

"That's a case where the overall economy is a factor," Wyant said. "I would say it's challenging."

Blue Chip was able to complete an exit at the end of June. It more than tripled its money, getting \$10 million back from a \$3 million investment in Lansing, Mich.-based insurance industry software company Sircon Corp., Wyant said. It held that investment since 2000.