

Dry Faucet

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IN THE NOT-SO-DISTANT PAST, venture capital faucets ran freely, and supplied the nation's technology startups with all the capital they could stand, and more. When the dot-com bomb came crashing down, that faucet dried up overnight, leaving many firms floundering as the venture capitalists retreated to lick their wounds.

Since then, those financiers have gotten smarter, but they haven't gone away. Sure, we don't hear about too many multi-million-dollar early-stage investments any more, mainly because venture capitalists have set their sights on firms with established track records, good profit potential and clear exit routes.

By the Numbers

The latest PricewaterhouseCoopers MoneyTree Survey shows that Florida companies attracted \$29.3 million on nine venture capital deals during the second quarter of 2005 – a 37-percent decrease compared to the 14 deals that brought in \$46.8 million during the same period in 2004. Two Tampa Bay companies were among those firms netting the capital: health management provider Health Integrated of Tampa was awarded \$7.4 million, while cultured diamond manufacturer Gemesis Corp. of Sarasota took home \$500,000.

Nationally, venture capitalists invested \$5.8 billion in 750 companies in the second quarter of 2005, according to the survey. At the top of the heap was the Silicon Valley region, which claimed 36.3 percent of the deals (or 208), with the Southeast ranking sixth on the list with 52 deals valued at \$272 million. It's a far cry from the year 2000, when Florida alone was responsible for 173 deals totaling \$2.6 billion.

The latest numbers aren't exactly encouraging for Tampa Bay companies looking for early-stage capital. Even so, Scott Miller, co-founder and managing director of venture capital firm Lovett Miller & Co. in Tampa, says that for the right firms, there is money to be had. He segments the region into two different markets: companies that already have a product

in the marketplace and customer acceptance (regardless of profitability), and those that are still "just an idea," and that are seeking early-stage investments.

Venture capital is a difficult find except for companies with established track records and good profit potential. Early-stage investing is even tougher.

For the latter, finding venture capital has become tantamount to locating a needle in a haystack. "They're having a hard time getting capital from either the angel investment community (which, at one time, was largely known for its willingness to invest in untested ideas) or the venture capital firms," says Miller, whose firm is actively seeking out both Florida-

based and national firms to invest in.

"We're looking at a number of companies in the Tampa Bay area right now," says Miller, "as well as companies in Atlanta, Research Triangle Park, NC, and Austin, TX." Top of mind for Miller as he pores over proposals are those companies with the potential to create an attractive return on capital, and that are already serving a large (and growing) national and international market of satisfied customers.

Key Players

In addition to Miller's firm are three others that have already proven their salt in this market – Stonehenge Capital Co. LLC, Ballast Point Ventures and Inflexion Partners. Joining these four "large" players, according to Robin Kovaleski, executive director of Tampa-based Florida Venture Forum (FVF), are smaller funds like Quantum Capital Partners of Tampa and Bioinformatics of Sarasota.

Kovaleski says the area's venture capital community is "quite active" right now, based on feedback received by her group, which assists entrepreneurs in identifying sources of venture capital. "There's a lot of activity, particularly in the Tampa Bay area, and a lot of term sheets being negotiated," she says.

The FVF, which runs annual, statewide conferences that link those entrepreneurs and venture capital firms, has recorded \$33 million in venture funding for Florida firms in 2005, to date. None were from the bay area.

Like Miller, Kovaleski has seen a shift in venture capital attitudes towards the firms they invest in. Investors want to see



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revenue streams, prior funding, proprietary technology applications and strong management teams – particularly those that include serial entrepreneurs who have built successful businesses in the past. “A lot of investors got burned with the bubble,” says Kovaleski.

John Hill, senior managing director at private investment bank Hyde Park Capital in Tampa, helps firms position themselves for maximum interest from investors. He then markets those “deals” to the private equity community, including venture capitalists that manage portfolios of \$1 billion to \$5 billion and that are looking to invest in established firms that are expanding.

“For a company to accept that kind of capital, they generally have to have \$5 million to \$10 million in revenues already,” says Hill, who sees a gap in the market for newer, smaller firms that haven’t reached that level, or that need funding to get there. He also sees a disconnect in the number of Florida firms seeking funding and the small pool of venture capitalists operating in the state.

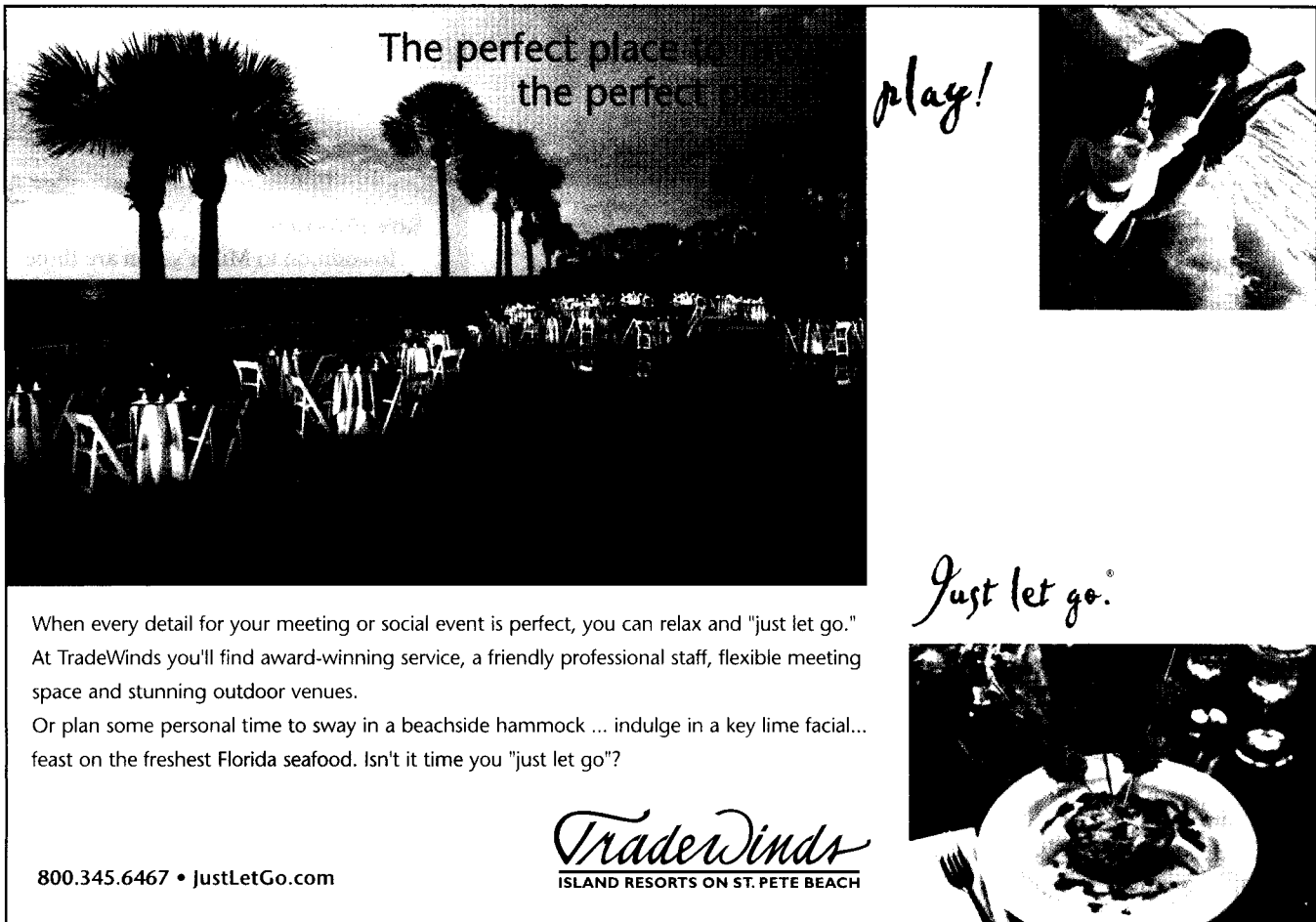
Citing numbers from the National Venture Capital Association (NVCA), Hill says only 6 percent of the money invested here actually comes from Florida. “We’re the only state in the

nation that has the imbalance,” says Hill.

As a result, Hill says it’s often more difficult for Florida-based firms to raise capital, since they have to look to areas like Boston and Silicon Valley. The challenge hits early-stage firms particularly hard, says Hill, since they generally lack a national presence and the marketing dollars to get themselves noticed on a national stage.

Caroline Popper, president of Sarasota-based Popper & Co., sees opportunity in reversing that trend, and is planning an early-stage, life-science venture fund that will roll out in early 2006. As yet unnamed, the fund will be “deeply rooted” in the state, according to Popper, and all founding principals will be state-based and focused on early-stage Florida companies in the life sciences sector.

Popper says the impetus behind her fund is simple – the sheer number of those firms that need capital to make it through the first few critical startup years. “Everyone believes that there’s a lot of money out there, but it’s mainly later-stage funding,” says Popper. “There’s a big vacuum for early-stage, pre-profitable firms. We see a lot of business opportunity there, and plan to offer financing as well as expertise on how to get these enterprises to the next level.” ☐



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