

Florida Trend

The Rules Have Changed

By Robyn A. Friedman

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Chad Corneil had no problem raising \$3 million in initial funding for Allidex, a Boca Raton provider of information technology integration services. The company used the money for research and development. But that investment was nearly a year ago. Times have changed, and Corneil faces tough sledding as he tries to land an additional \$5 million to commercialize his service.

These days, almost all entrepreneurs are finding it difficult to raise venture capital. It's not that VC firms don't have money; they're just spending most of it on companies they've previously invested in to help them survive. That leaves less for new investment, and VC firms have a whole new set of criteria they're using in order to decide which ventures to fund.

"We have seen tremendous tightening in the markets," says **John M. McDonald**, managing director of Tampa-based **Hyde Park Capital Partners**. "In spite of the fact that the number of deals is down, there exists a tremendous amount of capital still looking for quality deals; it's just that the more speculative unproven business plans are not getting funded."

According to preliminary results from the latest Money Tree survey conducted by Pricewaterhouse-Coopers and Venture One, only 12 Florida deals were funded in the second quarter of 2001, generating \$260.7 million in investment capital. Compare that to the 24 deals funded in the second quarter of 2000 that generated \$276.5 million.

So what are venture capitalists looking for now?

Fundamentals. Companies without a strong management team and a business plan that lays out a product or service with a competitive edge don't have a chance.

Later-stage companies. "Start-ups are having trouble," says McDonald. "The institutions that used to play at that earlier stage are being more selective and making less investments. They're looking for more developed companies."

Revenues. After being burned by investments in dot-com companies whose revenue models didn't work, venture capitalists are seeking companies with at least a minimal amount of revenues to prove that the proposed business model works. "Some VCs that may have been inclined to take risks by investing in earlier-stage companies have pulled

back and now are saying they want to see a better revenue picture,” says Marty Donsky, marketing manager for the Florida Technology Practice of PricewaterhouseCoopers.

Near-term profitability. VCs want to see how close you are to profitability, says Donsky.

Even if a business does attract a venture capital firm’s interest, it can expect a long due-diligence period — much longer than during the internet boom, when investors were chomping at the bit to fund new ventures. “People are slow to pull the trigger,” says Dan Aronson, an attorney with Greenberg Traurig’s Fort Lauderdale law office. “You’ll see a much more involved discussion about valuation and a longer negotiation than before.”

Perhaps the most important prerequisite for funding is the existence of a real business and a realistic business plan. Says McDonald: “With the dot-com craze, everybody forgot that companies exist to make profits for their shareholders. You’ve got to have a real business with a real business plan that makes money, not just cool technology and an unproven revenue model.”