

\$7B Flow of Venture Investments Eases Prolonged Dry Spell

FINANCE: Climate Still Challenging for Funds, Startups Seeking Money

By MIKE ALLEN

Everyone talks about all the cash sitting on the sidelines, but a big chunk of money got off the bench and got into the game in the first quarter.

A report from the National Venture Capital Association and Thomson Reuters found that more than \$7 billion was invested into 36 venture funds in the past quarter, a startling 76 percent above the dollars committed in the first quarter of 2010.

It was the best start for venture investment since 2001, according to the report released April 11.

But before proclaiming the long drought in venture funding over, one longtime fund director said to wait awhile.

"It's a huge amount of money, but a disproportionate amount of that is concentrated in a handful of firms. About \$5 billion of that first quarter money went to four firms," said David Titus, managing director for San Diego-based **Windward Ventures** and newly appointed president of the San Diego Venture Group, a trade association for the local VC community.



David Titus

In fact, when the number of funds that received the new money are compared with the number in recent years, there's a clear lag in the most recent quarter. Projected over the full year, this year's total would be 13 less than the 157 funds that received VC investment in 2010. Yet on a dollar basis, that \$7 billion is a major shift from the lackluster years of 2010 and 2009, when VC investment was \$12.5 billion and \$16.3 billion, respectively.

Local Infusions

Though the NVCA report didn't provide local numbers, San Diego-based **Avalon Ventures** closed its ninth fund for \$200 million in January. It was oversubscribed by 33 percent.

The biggest local infusion, albeit during the fourth quarter, came when **JMI Equity**, with offices here and in Baltimore, closed its seventh and largest fund ever for \$875 million, bringing the total raised to about \$2.1 billion.

Two of the area's largest VC funds weren't among the beneficiaries of the latest cash infusions. **Mission Ventures**, with about \$500 million under management, reportedly hasn't raised new money since 2004, although it had plans to do so. **Enterprise Partners**, with about \$900 million under management, is also focusing on managing its current portfolio of companies, and hasn't sought new investments.

Calls and e-mails to both VC firms were not returned.

Mission continues investing, including a \$2 million bet on **KidZui**. Last year, its investors enjoyed a big payout when **Max-Linear Inc.**, a Carlsbad fabless maker of semiconductor chips, conducted its initial public offering and raised \$90 million.

Peter Shaw, a longtime venture investor and now managing director of **Procopio Business Advisors**, said a contraction in the number of VC firms in the past decade has hurt startups and early stage companies based in San Diego because many firms are reluctant to invest too far afield.

Difficult Environment

Shaw said while the overall trend in venture funding and liquidity events for companies with VC money has improved recently, it's still hard for both the funds raising money, and the companies that are seeking it.

"A lot of limited partners (in VCs) are tapped out ... and they're being more circumspect in what they invest in, and not taking as many chances," Shaw said.

Jeb Spencer, managing partner of **TVC Capital LLC**, a local VC with about \$60 million under management, had a more optimistic view of the industry due to an increase in liquidity events (sales or IPOs).

"As the recent data suggest, venture capital firms have been able to raise more money in 2011 than in the last three to four

years," Spencer said. "The reason for that is there's been an increase in M&A (mergers and acquisitions) and IPO activity from the highest levels such as **Facebook** down to small private transactions."

He cited the sale of **TVC Capital's** companies, **Accordent Technologies Inc.**, based in El Segundo, to **Polycom Inc.** for \$50 million in cash. TVC invested about \$4 million in Accordent, which generated an approximate return of four to five times, Spencer said. Once investors see a growing number of sales and IPOs occurring and are rewarded, they are more inclined to invest again, Spencer said.

Hefty Payoffs Anticipated

The IPO market is improving, and San Diego has a few companies that could pro-

duce hefty payoffs for investors when they issue common stock sometime this year, said Titus. Among the better known local businesses in the IPO pipeline are **The Active Network Inc.**, which filed its registration statement in February for a possible common stock offering of \$150 million; **Peregrine Semiconductor Corp.**, which filed for an offering of up to \$100 million in November; and **Fallbrook Technologies Inc.**, which said about a year ago that it planned a \$50 million stock offering.

In a separate report by the National Venture Capital Association and Thomson Reuters, there were 14 venture backed IPOs with an aggregate value of \$1.4 billion in the first quarter of 2011. That compared with nine IPOs with a value of \$936 million in the first quarter of 2010.