

# Venture Capital Update

Presented by William H. Newman

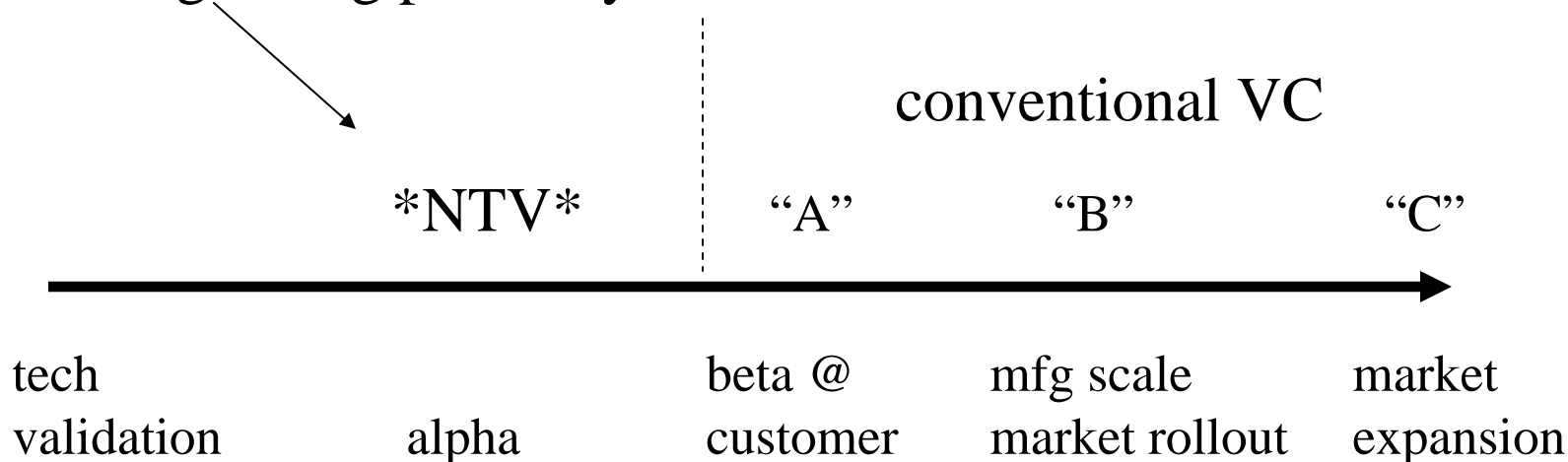
Northwest Technology Ventures

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NTV: Seed capital for technology commercialization,  
originating primarily from the research sector



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# Venture Capital

- Venture Capital
  - Specialized: <2% of businesses formed (SBA)
  - Geographic concentration: 33% Silicon Valley, 50% California, 67% California and New England (role of research institution)
  - VC \$\$: metro=99.2%; non-metro=0.8%; rural=0% (infrastructure)
  - Home run mentality: 10% = 10x, 30-50% = write-off
  - Investment characteristics: high growth potential, capital efficiency, exit potential
  - Significant investment \$\$; governance and oversight
- What is a Venture Capital Fund?
  - “Mutual fund” for private, illiquid securities with 10 year life (in general); generally unproven businesses
- Who are investors in a VC partnership?
  - Who has a 10-year investment horizon and can lose 100% of capital?
    - Pension funds, foundations, endowments, trusts, banks, insurance companies, “some” high net worth individuals, corporations

# Geographic Distribution, 2003

<b>RANK</b>	<b>\$(Millions)</b>	<b>%</b>	<b>REGION</b>
1	\$5,868.2	32.3%	Silicon Valley
2	\$2,764.4	15.2%	New England
3	\$1,388.1	7.6%	NY Metro
4	\$1,165.9	6.4%	Texas
5	\$1,100.0	6.0%	Southeast
6	\$ 983.7	5.4%	LA/Orange Co
7-10	\$2,993.4	16.5%	Midwest/DC/San Diego/CO
11	\$ 558.1	3.1%	NW (OR: \$99.0)
12	\$ 555.0	3.1%	Philadelphia Metro
	\$1,365.0	4.5%	Remainder US
<b>Total</b>	<b>\$18,186.8</b>		

# Venture Capital Investing: 2003

<b>\$ (millions)</b>	<b>Sector</b>	<b># deals</b>	<b>\$/deal</b>
\$ 5,104.6	Healthcare, biotech, medical device	571	\$8.9
\$ 2,675.5	Communications, radio, TV	375	\$7.1
\$ 4,353.9	Software, business products	866	\$5.0
\$ 1,296.1	Retail, consumer & business services	234	\$5.5
\$ 3,915.6	Computer & electronics	488	\$8.0
\$ 841.1	Other	181	\$4.6
<b>\$18,186.8</b>	<b>Total</b>	<b>2,715</b>	<b>\$6.7</b>

# The building blocks: capital, people, ideas, infrastructure

- Capital
  - Seed funding, angel financing, non-equity access
  - Money follows opportunities
- Ideas
  - Role of the research institution (or surrogate?)
- People
  - Experienced entrepreneurs, consultants, advisors
  - Contrast of technology sector (experienced business / technology professionals) with life sciences: pairing of scientist with business professional
- Infrastructure
  - Facilities, corporate base (start-up and larger)
  - Role in recruitment, talent pool, customers & suppliers

# Oregon Outlook

- Oregon
  - 1 of 50 states; 1% US population; but 0.5% venture \$\$?
- Cons
  - Remote
    - “this is really out there!” (i.e. Corvallis)
    - lack of “critical mass”, management depth, business infrastructure
  - Corporate
    - Perception of limited vision
    - Marketing/sales “DNA”
    - Large tech company support for start-ups
  - Lack of major research institution
- Pros
  - Tremendous work and life environment
  - Corporate
    - Technical, corporate management, professional base
    - Legal, banking, accounting infrastructure
  - Location (between CA and WA)
  - Growing focus on university education and research
    - Role of corporate base (Tek, HP, IBM, Intel)

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# What kind of \$\$\$? What kind of Business?

- Service
  - Personal expertise
    - Issues: scalability, marketing, expansion capability
  - \$\$: are they required?
- Sole Proprietorship / Closely-held
  - Typical small business
    - Successful, lucrative, sole proprietor
    - Exit strategy not relevant
  - \$\$: “bootstrap”, “customer financing”, loans, private equity
- Venture
  - High growth potential
    - Large market; compelling need; breakthrough & proprietary technology; exit potential mandatory
    - Highly concentrated & specialized: geographic, industry sectors
    - \$\$: pre-VC: Angels (=10x venture), non-equity sources (ie SBIR, DARPA, ...)