

Venture capital firms positive despite the tightening market

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BALTIMORE –

Bill Gust, like most venture capitalists, is an optimist.

The managing general partner of Anthem Capital Management's Baltimore office expects a tougher year for entrepreneurs looking for funding, but said opportunities still exist for the right ideas.

"My industry is not as directly impacted by economic upturns or downturns in the economy as others may be, but we're hardly immune from its effects," Gust said. "It will be increasingly difficult for private companies to raise capital."

A survey released last month by the Mid-Atlantic Venture Association showed an uptick in fourth-quarter investments from the previous quarter, with 89 percent of regional investors closing at least one new investment, compared with 64 percent in the previous quarter and 72 percent during the same quarter in 2006.

However, the forecast for new investments this quarter is less positive, with 77 percent of responding firms believing they will close at least one new investment.

"I'm cautiously optimistic," said Deric Emry, general partner with ABS Capital Partners in Baltimore. "We did a review of our portfolio companies, and there were few that would be impacted. We're still talking about growing companies, in this environment."

Emry's firm looks for companies with revenues of \$20 million to \$100 million and yearly growth of 20 to 30 percent in the media, software, health care and business service sectors.

"Those sectors are based on change," said Stephanie Carter, marketing partner with ABS. "Change really creates opportunities for companies to grow outside of what's going on [in the economy], if they've found a new way to do something."

Entrepreneurs seeking capital have become more confident and experienced, said Don Rainey, a general partner with GroTech Capital Group. He said the tech bubble burst and Sept. 11 terrorist attacks had a greater chilling effect on entrepreneurs than today's economy.

"The current credit crisis doesn't cause the same kind of hesitancy," Rainey said. "I think quality has been improving for a couple years; the management are more mature and experienced than they were a year ago."

Gust's firm deals with early-stage companies in the information sciences and health care sectors, and he said he has prepared his portfolio companies for some belt-tightening.

"We've been advising our portfolio companies to hunker down and stretch their existing cash as far as it will go," he said. "We may have done a financing a year ago with the expectation it would carry them for a year or 18 months, and we'd go back to financing in 2008. I think that may become a problem."

That said, Gust believes there's still a market for an idea with some upside.

"Venture capitalists, by definition, are an optimistic lot," he said.

Association head sees opportunities

Julia Spicer is the executive director of the Mid-Atlantic Venture Association, an organization representing 125 firms totaling \$100 billion under management, ranging from firms with \$10 million under management to \$75 billion. The association has offices in Timonium and Northern Virginia.

How does the economy affect venture capital firms?

Most people are interested in the public market, and our members are the same. They're very interested in the overall market. We do think we play an interesting component, inasmuch as we invest equity money in growth businesses. They are affected in different ways based on cycles on the economy.

How so?

Venture investment [is] a little different and somewhat contrary. Let's take an example, say they're investing in a specialized technology. If it's very consumer- or retail-based, it may not do well, but if it's technology that's helping an enterprise be more efficient ... then there may be an opportunity. It's not so black and white. There are investment opportunities that exist in a down market.

What are venture capitalists looking for?

We're basically building equity, we're building something, rather than just financing deals. We're coming in with the entrepreneurs, we're betting on a technology or an innovation.

There is capital there to be had. I think people are very judicious about where they're putting their capital. They're looking closely at business plans and people for good investments, but they're out there. – Aaron Cahall