



VENTURED AND GAINED

Capital experts say funds are available for the right entrepreneur with the right idea

By MARCY KREITER Special to U-T San Diego 5:07 A.M. MAY 12, 2014

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Venture capital investments in San Diego in first quarter of 2014

For the entrepreneur with a great idea, more options for obtaining seed money are available than ever before, venture capital experts in the San Diego area say.

A recent PricewaterhouseCoopers Money Tree report found that nationally there were venture capital investments of \$9.5 billion in the first quarter of 2014, the highest level since the tech bubble burst more than a decade ago. In San Diego, 23 deals totaling \$243 million were reported for the period, with biotechnology leading the way.

“A lot of the entrepreneurs feel there’s been a lot of contraction over the last several years over the number of funds and partners available,” said Don Williams, national life sciences leader at Grant Thornton in San Diego. “While that’s true, I don’t think that’s diminished the opportunity to obtain funding. If the entrepreneur has a good idea, the right idea, and provides the solution to a problem, he’ll be able to successfully find funding.”

SMALL AMOUNTS OF CAPITAL

Lee Barken, energy and clean tech practice leader for Haskell & White in San Diego, said crowdfunding also has opened up new avenues of capital formation with the added benefit of creating a supportive community.

“The real value is the affinity group that is generated around a (crowdfunding) campaign,” Barken said. “Those are the people who are going to be your cheerleaders to promote the product when it ships. They’re going to tell their friends. They’re invested. They’re connected. They’re engaged.”

“It’s not a replacement for venture capital. It’s an augmentation. It’s a great way to raise small amounts of capital to build exciting products and test ideas.”

CROWDFUNDING

Nationally, the biggest venture capital investments for the first quarter came in software (\$4 billion), biotech (\$1 billion) and information technology services (\$816 million). In San Diego, the top three were biotech (\$156 million), semiconductors (\$40 million) and health-care services (\$20 million).

Williams said the differences are not surprising.

“Around the country, the tech side of things is bigger. Software will be a much deeper investment,” Williams said. “San Diego has a concentration of (medical industry-related companies). It goes from nutraceuticals to the biotechs to the medical device companies, creating an investment-rich area for venture capitalists.”

Barken said San Diego is perfectly poised to attract investment.

“We have a really strong and vibrant entrepreneurial sector, innovative startups and a vibrant academic environment that produces cutting-edge discoveries,” **he** said. “What we don’t have is a Sandhill Road (the San Francisco area where venture capitalists are concentrated).”

That’s where crowdfunding comes in, **he** said, giving entrepreneurs a leg up to present a more-formed idea with a track record when the time comes to seek venture capital.

VENTURE CAPITAL BUBBLE

Neither **Barken** nor Williams gave much credence to fears a venture capital bubble that could hurt the economy is forming.

Williams said if there is a bubble at all, it would likely be in the software sector, especially when it comes to cloud storage.

“There’s been surprising growth in the storage area – I’m talking about storage in the cloud,” Williams said. “Two things are happening: Companies are willing to give away or provide storage capacity at a very low rate in order to grow and they’re valuing their businesses on capacity and registered users.

“So the question becomes: Is it growing in value beyond what they can generate? You can only give it away for free for so long.”

Williams said the Internet bubble that formed in the late 1990s and 2000 saw company values grow but “they were never able to commercialize it where they had a paying customer base. Companies weren’t able to turn ideas into a cash-producing business. There are the same questions about storage.”

But if you look at San Diego, the situation is very different, he said.

“Companies are still able to raise the venture capital. In 2014, already there have been more than 10 IPOs that have filed under the Jobs Act,” Williams said.

REAL-WORLD MARKET TEST

That’s where crowdfunding also fits in and what makes the current investment climate different.

“It’s kind of a real-world market test,” **Barken** said. “In some cases you’re doing a product presale where you’re offering a product as a reward or perk for a campaign to demonstrate market demand before it exists.

“It really turns the business model on its head. You used to do a business plan and pitch it to investors and hope to raise money to build something and hope people would buy it. Now you’re offering it to the crowd first, raising the dollars, building the product and shipping. It’s a different risk model. ... This is really an opportunity to leverage the strength of one’s social network with all manner of social media tools.”

Barken said crowdfunding is like “capital formation meets the Internet” and it’s changing the business model much the same way the travel and music industries had to adapt.

PASSION FOR THE PRODUCT

But one thing hasn’t really changed: the need for expertise in a product area.

“There are a lot of individuals who are experts in their own professions and fields,” **Barken** said. “Invest in what you know and who you know.”

And when it comes to teaming up with a venture capitalist, “make sure you’re getting the right venture capitalist involved,” Williams advised. “You want someone involved who has the passion for your product. You want access to that individual’s knowledge.”