

VC freeze thawing as funds stock up

Third Frontier bolsters coffers

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by [Dan Eaton](#)

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Central Ohio was awash in venture capital six years ago, but those investment sources largely dried up with the end of the Internet boom.

Now the region's tech community has learned that if you want something done right, do it yourself. So state and Columbus-area leaders have been working on generating additional funding sources, the results of which are materializing.

Ohio's Third Frontier Project, aimed at building the state's based of tech businesses, recently doled out grants totaling \$3.4 million for TechColumbus and NCT Fund Management LLC. Combine that with two funds of funds poised to deploy \$151 million statewide, plus the work of private investment groups to generate funding, and the region's money pot for tech creation is growing.

"Historically, Central Ohio has a good track record of attracting investment from out of state," said Mark Butterworth, principal of Innovation Forward LLC, a venture capital consulting firm in Columbus. "Now, all the investment is going in their backyards."

Seed sowers

March's Third Frontier grants totaled \$1.5 million for TechColumbus' regional commercialization fund for business incubation. Columbus-based NCT got \$1.9 million to help form and grow 10 to 15 companies.

TechColumbus will add \$750,000 to the state contribution to create a \$2.3 million fund designed to replace its \$1.1 million First 50 fund, which had a similar aim at early-stage seeding.

The First 50 fund was tapped out after 11 investments in the last three years, said Dave Cattey, TechColumbus' senior vice president. Those investments generated \$8 in additional investment for every \$1 from the fund.

"One thing we learned is that \$50,000 does not go as far as it used to," he said. "We want to invest larger amounts of money, but we'll attach milestones to it. We'll write smaller checks based on accomplishments."

Cattey put potential investments for individual companies at between \$125,000 and \$150,000, though TechColumbus will entertain requests for smaller investments. No more than 10 percent of the money can be put into one company.

NCT Managing Partner Rich Langdale said most of his fund's work has been with its money and the state infusion will be kept in a separate fund. Targets likely will be in biosciences and energy technology, he said.

The group, he said, is being introduced to as many as 300 potential deals a year.

Such activity may be good for NCT, but it is indicative of an lingering market shortfall.

"We see more, better deal flow now than ever before," Langdale said. "Funding lags seriously behind the deal flow."

Funding funds

The situation is improving, though, starting with two new capital sources for VC.

Last year, the Ohio Public Employees Retirement System put \$51 million into the Ohio-Midwest Fund, which will invest in six to eight VC, mezzanine capital and buyout firms with a presence in the Ohio.

Mel Carter, who runs the Ohio office for fund manager Credit Suisse First Boston LLC, said the group is close to unveiling its initial investments.

"We have a different perspective but, looking at funds across the state, there seems to be an increase in deal flows," he said.

The state-run Ohio Venture Capital Authority formed the \$100 million Ohio Capital Fund, aimed at early-stage investment firms. It is run by Buckeye Venture Partners LLC.

Other venture capital funds are stepping up efforts as well.

Athens-based Adena Ventures LP is gearing up for a second fund. Managing Partner Lynn Gellerman said the group's initial \$34 million fund is expected to last through early 2007, but it plans to begin putting together a \$75 million to \$100 million fund within the next 12 months. That fund would enable the group to expand its investing to 13 Appalachian states, including a wider focus on Ohio.

Meanwhile, Columbus-based Reservoir Venture Partners LP is raising money for a second fund - the newest one targeted at \$50 million. Its first fund totaled \$32 million.

Central Ohio had attracted \$311 million in out-of-state venture funding in 2000, Butterworth said, but last year it pulled in a meager \$2 million - and that was an upswing from recent years.

Butterworth said plenty needs to be done before VC funding is sufficient for Central Ohio.

"There is capital, but there is not enough," he said. "There are people with good ideas, but what they lack is the skill to turn the products into something people will buy."

Organizations such as TechColumbus and NCT Ventures have the experience and know-how to help companies gain that skill. Butterworth said TechColumbus' bid to lead a regional Entrepreneurial Signature Program to be funded by Third Frontier would be another step in the right direction.

TechColumbus CEO Ted Ford said a full award of \$22.5 million over three years from Third Frontier, including a local match, would be a big boost to the region's tech-development efforts. Decisions on the funding could come by fall.

"Local money still lags a little behind the deals, but we're seeing an increase in venture capital," Ford said. "I'm encouraged by what I see. We're going in the right direction."