

Venture Capital Funds Look at Valley

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By George Nelson

GIRARD, Ohio -- Area companies haven't had much success in attracting investment compared with companies in higher-growth areas of the country, but investment fund managers say that could be an asset in attracting venture capital in the future.

Representatives of investment funds joined local business and development leaders this month for a program focusing on economic development opportunities in the Mahoning Valley. Presented by Credit Suisse and the Ohio Public Employees Retirement System, the event was sponsored by the Regional Chamber in Youngstown, JumpStart Inc. of Cleveland, and the Youngstown Business Incubator.

Among the topics discussed was the Ohio-Midwest Fund, which has \$100 million from the Ohio Public Employees Retirement System and \$2 million from Credit Suisse. The fund was created to encourage the growth of small business within Ohio and the surrounding Midwest.

So far, the fund has committed \$51 million for private fund managers to invest, with the managers drawing down on the money as needed, explained Melford Carter, Credit Suisse investment specialist. About \$25 million has been invested to date, with a return on investment of \$84 million and impacting more than 2,000 jobs.

The Midwest and Ohio are attractive for capital investment for a couple of reasons, Carter said, the first being the number of opportunities. About two-thirds of first-round capital investment goes to either the Silicon Valley or Boston, compared with about 5% of venture dollars in the Midwest – and only about half a percent to 2% in Ohio. "The dollars don't match the opportunities," he said.

The second, he noted, is that Ohio has "admitted it has a problem" and determined it wants to do things differently, with initiatives like JumpStart and the state's Third Frontier program.

JumpStart provides money to high-growth businesses and works with their founders to develop them into venture-ready entities. Ray Leach, its chief executive officer, said he has never been more excited about the progress he sees in Northeast Ohio. "I'm seeing more ideas that have the potential to attract equity capital," he remarked.

Over the past 41 months, JumpStart has met with more than 4,500 entrepreneurs, whittling those down to a group of 160 on which the agency has done a reasonable degree of due diligence, and made investments in about two dozen. The remaining entrepreneurs from that 160 are able to come back to JumpStart and ready to seek other venture capital help.

Entrepreneurship in the region faces two challenges, he said. The first is that there aren't a lot of entrepreneurs around who have "been there and done it" to serve as a model or provide help to new entrepreneurs. The second is that there are so many companies at the early stages there isn't enough early seed capital. The first challenge has been addressed in part by the creation of TechLift Inc., a Third Frontier program that provides assistance and mentorship to technology entrepreneurs in Northeast Ohio.

Another challenge is building a critical mass of the kinds of companies that can spawn other related firms, said Bill Mulligan, managing director of Primus Capital Funds in Cleveland. Mulligan offered the example of Steris Corp. in Mentor, which was founded by a former employee of American Sterilizer Co, who developed an operating room sterilizer. The firm went public and is now worth in excess of \$1 billion and has built a number of feeder companies, he remarked.

"It's the chicken and the egg problem, for sure," he said. "If you look at the successful hotbeds of entrepreneurship, whether it be northern California or Boston or the Research Triangle, success breeds success." In Northeast Ohio, he sees potential for health care and business services.

Jack Nestor, vice president of the Riverside Co, an investment group in Cleveland, noted that his firm is seeing a shift to investments in those sectors in northeast Ohio, and away from heavy industry and manufacturing.

In evaluating candidates for potential investments, Nestor said his firm favors companies that have at least positioned themselves to move to the next level, by investing in key management or adding people to prepare for growth. Also favored are companies that, if not leaders in their field, have some way to distinguish their product or service.

Smith, in response to a question from Carter about what incubator firms need, asked that potential investors take a hard look at companies that deserve one, as well as to point out any shortfalls they see from the review.

"One of the reasons we are here is there are things happening," Carter said.

One of the assets Carter cited was attractive to Jay Katarincic, a managing director with Draper Triangle Ventures of Pittsburgh.

"We always enjoy going into markets where there are a number of exciting things happening but not a lot of people looking," he said. "It's great to go into an underserved area for capital where there are a lot of interesting things happening, whether it's through the efforts of the Youngstown Business Incubator or JumpStart."

In northeast Ohio, Katarincic identified medical device technology and information technology as sectors of particular interest, and noted that the Mahoning Valley" is "more IT-focused." The market also is well positioned geographically to a number of manufacturers that are "big buyers" of IT, whether on the software side or the automation side.

"That's one of the reasons we like what the Youngstown Business Incubator is doing with their focus, because they're delivering products that have a clear customer

demand and they're able to get what we call the 'voice of the customer' involved early in the process," he continued. "You're not just developing a technology for technology's sake. You're really developing technology for the market that's out there."

Out of the 120 companies Primus has invested in, 50 are in Ohio, Mulligan reported. "We haven't done a whole lot" in terms of raw market due diligence to profile firms and the proactively call on them, he said, relying on a network of intermediary relationships in northeast Ohio to direct prospects to his firm. "Our deal flow has been so strong we just haven't felt the need to do it," he said.

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