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VENTURE CAPITAL

Economy/Reactions Will Guide Funding

Carrie McIndoe

The future of venture capital is difficult to predict and will be fascinating to watch. Lucrative investment opportunities in this high-risk/high-profit potential industry will continue to spark interest.

There are many current trends acting as indicators of what lies ahead. As we approach 2001, the economy and market reactions, in particular, will establish the guidelines for future venture financing.

It's a world for entrepreneurs. Now that the craze of new versus old has passed, the concept of matching qualified venture capital with experienced management and a stable, scalable and profitable business model can be reestablished.

Being properly capitalized can mean the difference between staying in business or not. Having a cohesive board of directors, outside legal council and professional accountants will help round out a formidable management team. Investors are looking for committed management teams to ultimately provide liquidity and a return on their investment at realistic valuations.

The current trends indicate that professional investors are investing larger sums of capital in fewer deals. The length of time required to provide an exit is determined by the strength of the public markets. Unlike the immediate past, venture capitalists will have to anticipate investing additional rounds of capital.

The early stage, angels, corporate funds and incubators will require a different internal skill set than the later stage funds.

Alliances between the two will increase. Early stage funds will do more screening, request more equity participation and will anticipate many financing rounds. Later stage funds will want security of due diligence and the ability to fund their investment until exit.

The risk to reward ratio will be adjusted as companies reach benchmarks in executing their business plan. Investors taking the largest risk will require higher returns on their investment.

Conversely, those taking less risk will expect their returns to be in line with their level of risk. While venture capitalists seek solid returns and are patient long-term investors, the larger funds investing larger sums will make the most profit.

Others will have to alternatively consider creative exit strategies such as redemption of convertible stock, repayment on convertible, and acquiring or merging with other companies.

Venture capital will continue to do well in technology investments, telecommunications and wireless applications, as the demand for these sectors increases. Moore's Law will apply for the next 10 years before alternative nanotechnology (molecular quantum computing) eventually takes over.

Federal funds are being invested and combining these government labs, software expertise and biotechnology will be a powerful industry in the years ahead. Venture funds also will be interested in diversity and investments outside their core competency.

Additionally, venture-backed companies will emphasize a global perspective. Successful investors will have portfolio companies that are located within foreign countries or will work with foreign companies. They will be mindful of cultural differences and will operate within other political environments and follow foreign regulations.

Finally, women-owned and backed companies will access venture capital at an increased rate. More focus will be directed to this sector, stimulated by women forming their own networks. Women will become more visible in boardrooms as well as in key management positions.

Carrie McIndoe is president of Strategic Capital Resources Inc., a strategic planning and consulting firm that assists early stage companies in obtaining equity financing.