



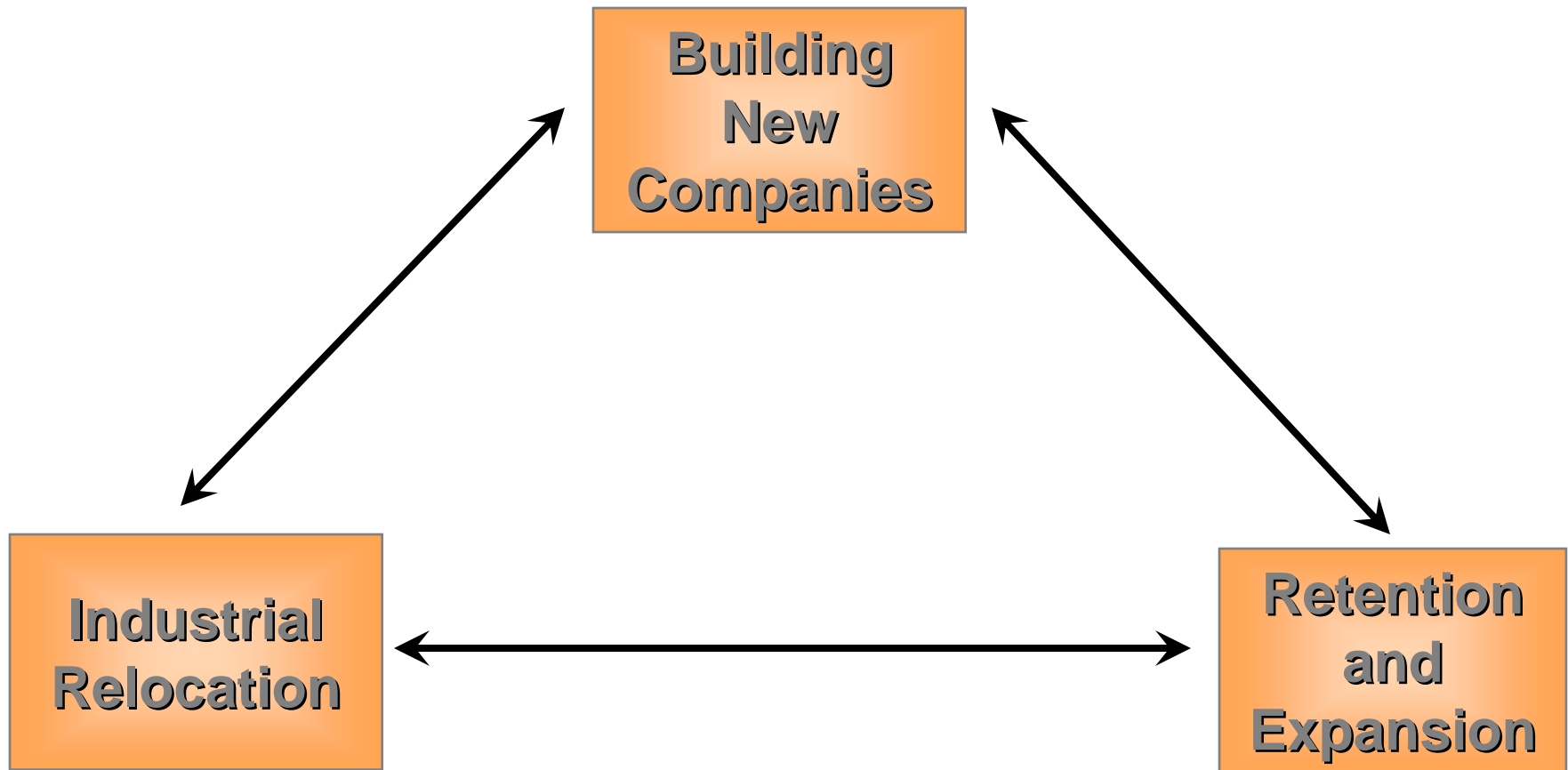
*Small Business Start-up: Venture Capital's Role*

**Leadership New Mexico**

**January 6, 2007**

[ One Framework: *The Austin Model* ]

***Three legs of the Economic Development Effort***

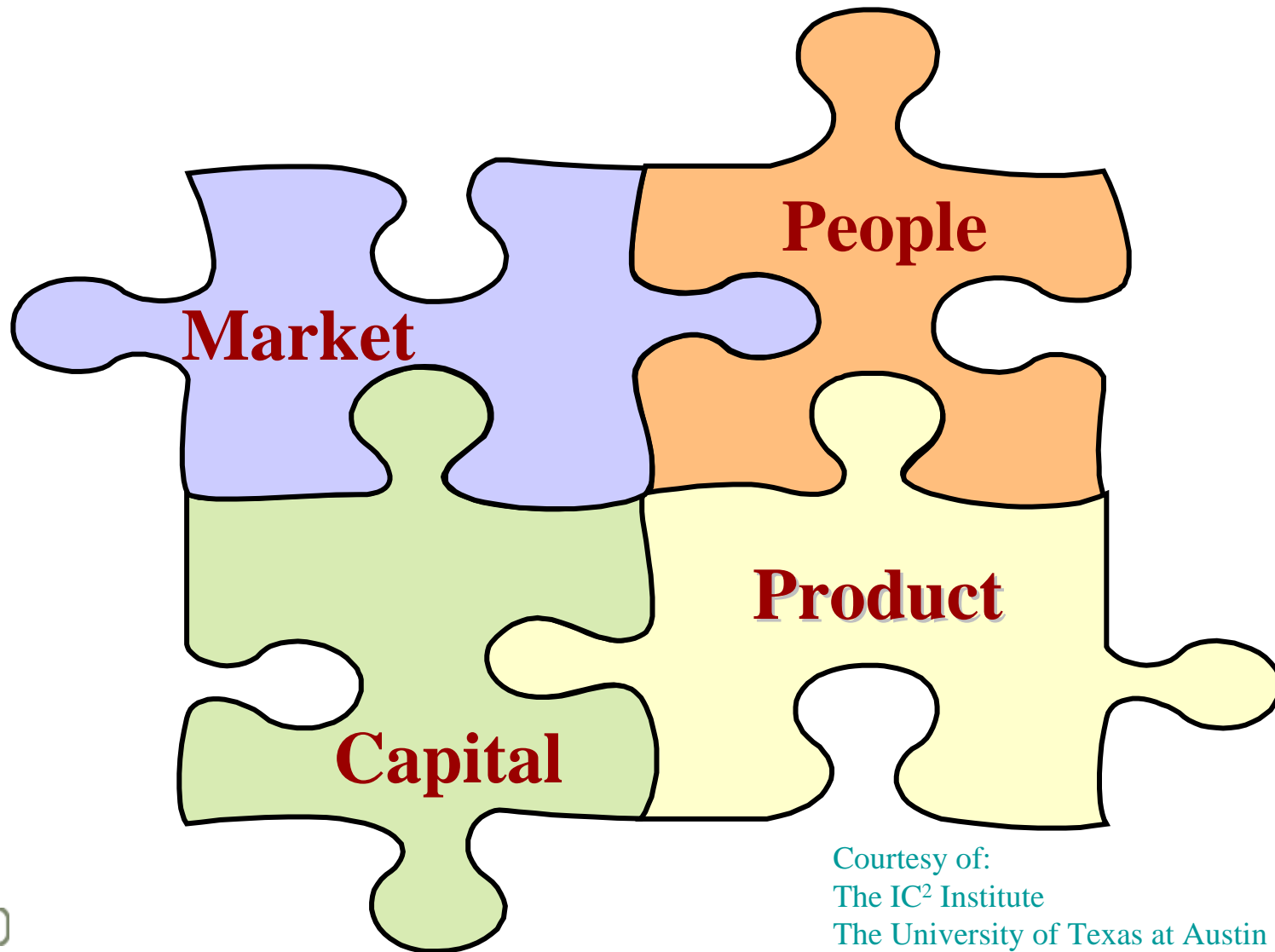


# *Entrepreneurial Company: Defined*

**en-tre-pre-neur**, n.: *one who organizes, manages, and assumes the risks of a business or enterprise*

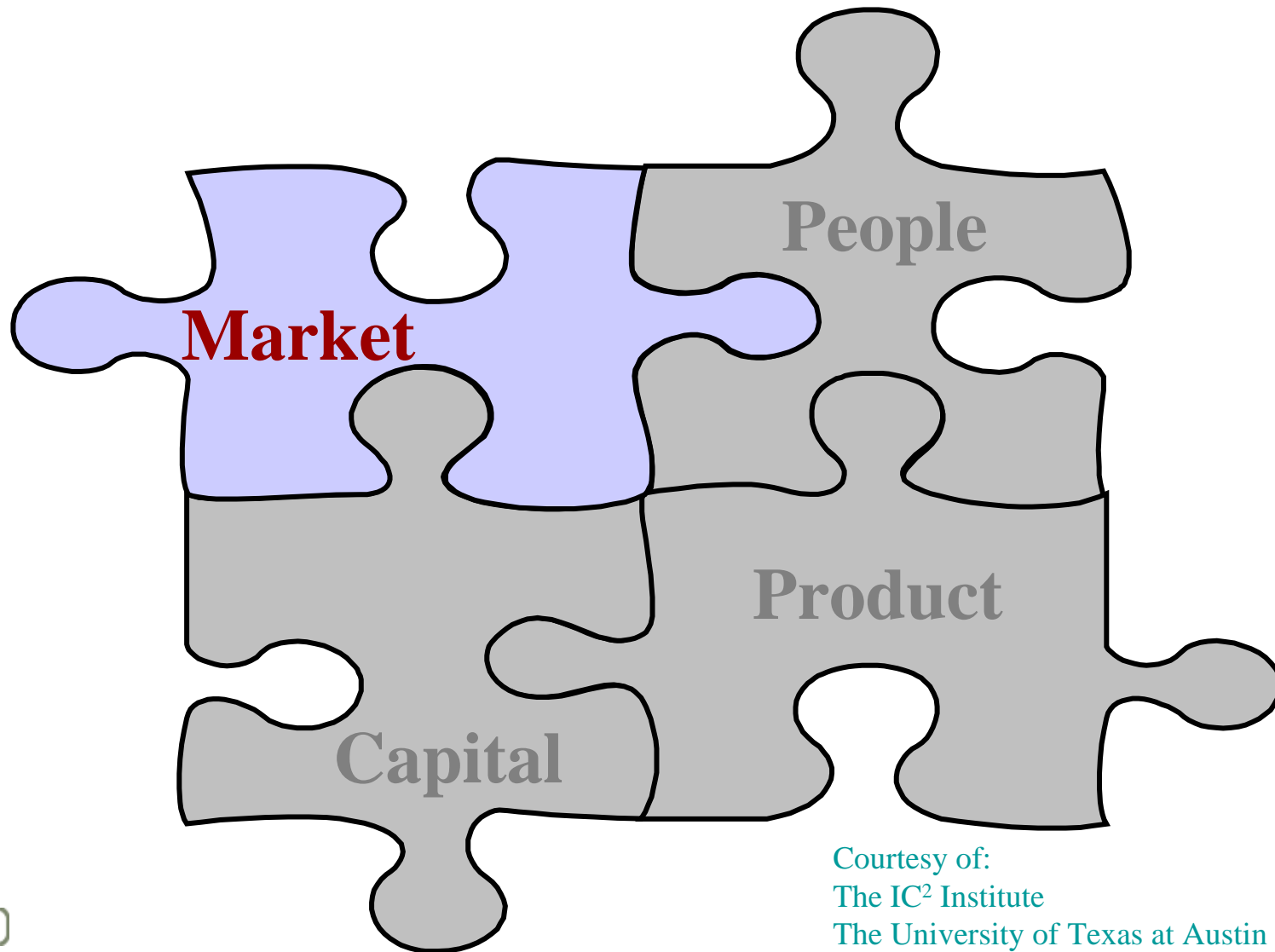
- Two types of entrepreneurial companies:
  - **Lifestyle or Legacy Company**
    - Desire to be one's own boss
    - Typically addressing a local need
    - May want to pass business on to children
  - **Growth Company**
    - Desire to take over the world
    - Typically addressing national or global markets
    - Looking to build and sell (or build and buy)

*[ Elements of a Successful Growth Company ]*



Courtesy of:  
The IC<sup>2</sup> Institute  
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# [ *Elements of a Successful Growth Company* ]

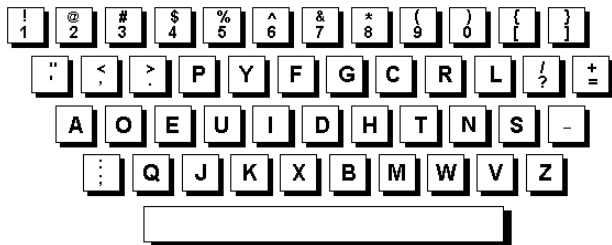


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# Slaying the Myth

*“If you build a better mousetrap, the world will beat a path to your door.”*

**WRONG!**



Dvorak Keyboard



“Qwerty” Keyboard

# *It's the Market (Strength), Stupid!*

## Size

- Required size depends upon required investment
- Proper market segmentation is key
  - Does the market number reflect a theoretical maximum for the company's sales?

## Growth

- Where the market will be is as important as where it is

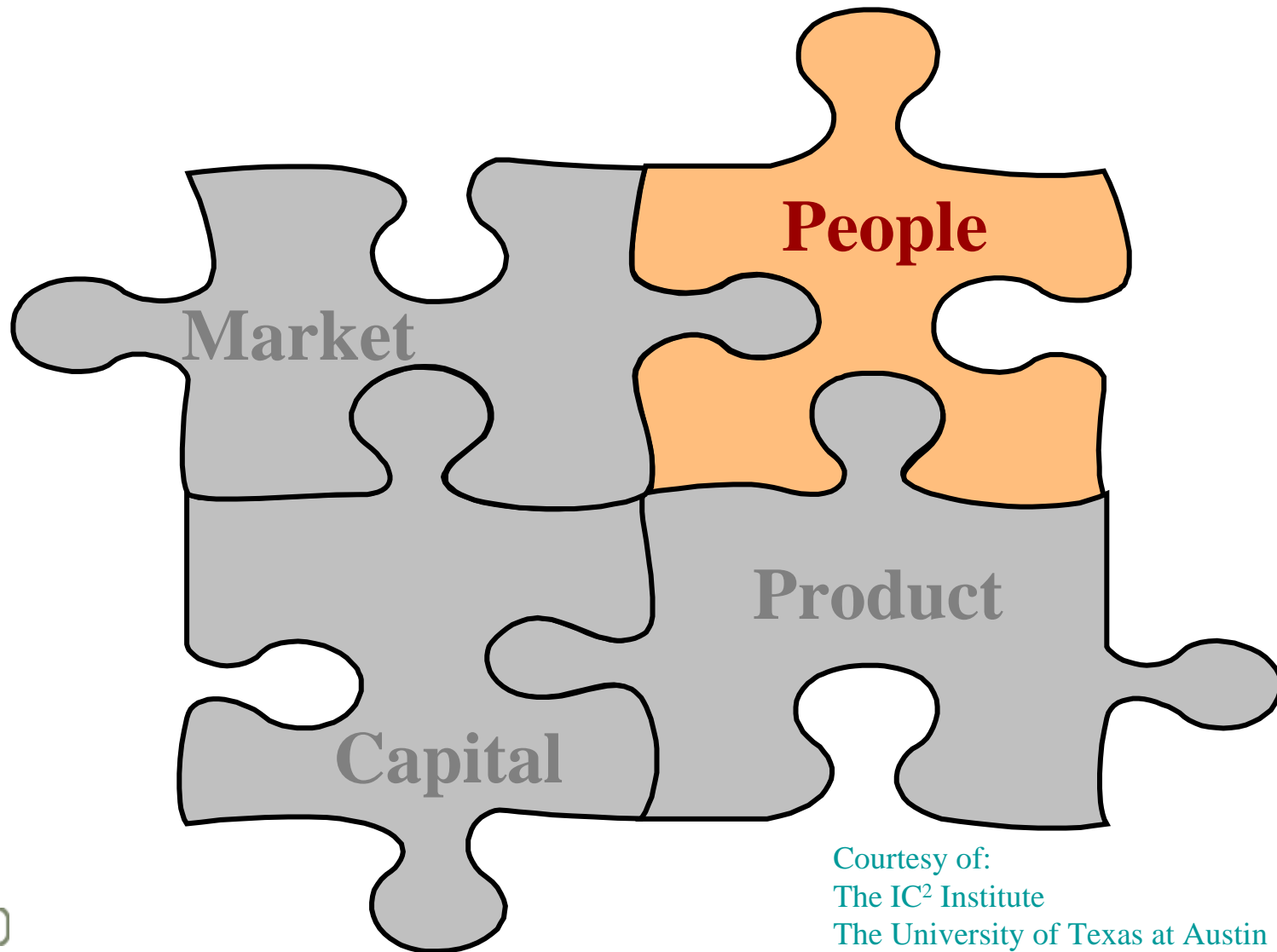
## Pain

- How badly do the customers need a better solution?
- How good are the solutions in the marketplace today?

## Competition

- Not just how many, but how big

# *Elements of a Successful Growth Company*



Courtesy of:  
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# *Find and Hire the Best People You Can*

## Entrepreneurs

- Know how to couple market needs with technology opportunities
- Want to create something: build a company, sell it for scads of cash.
- May or may not have experience

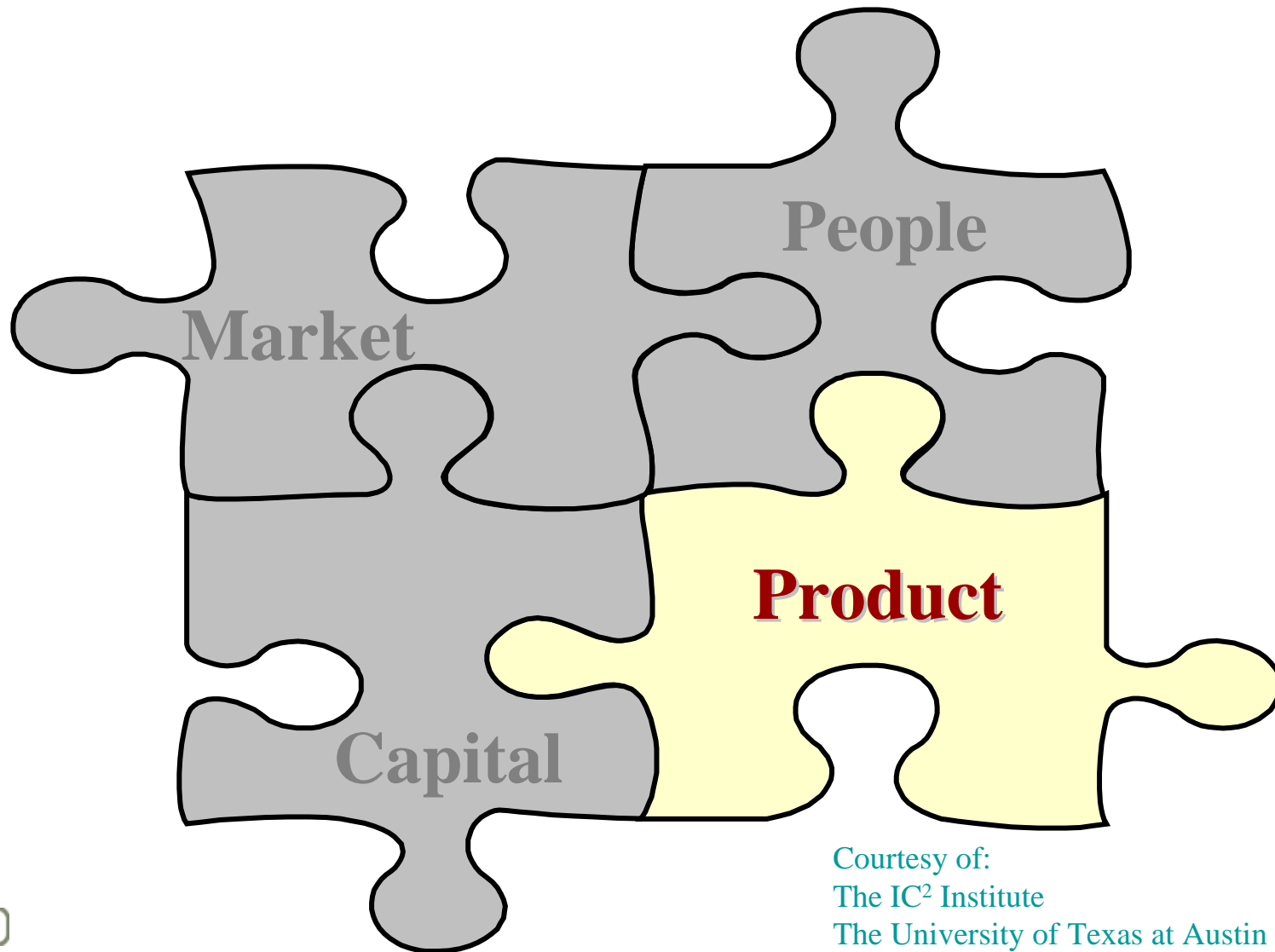
## Managers

- CEOs, CFOs, VP level individuals
  - Specific industry knowledge
  - Start-up, growth and exit experience

## Service Providers

- Lawyers, accountants, marketing firms
  - Relevant experience is key

# [ *Elements of a Successful Growth Company* ]



Courtesy of:  
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# *A Growth Company Requires Uniqueness*

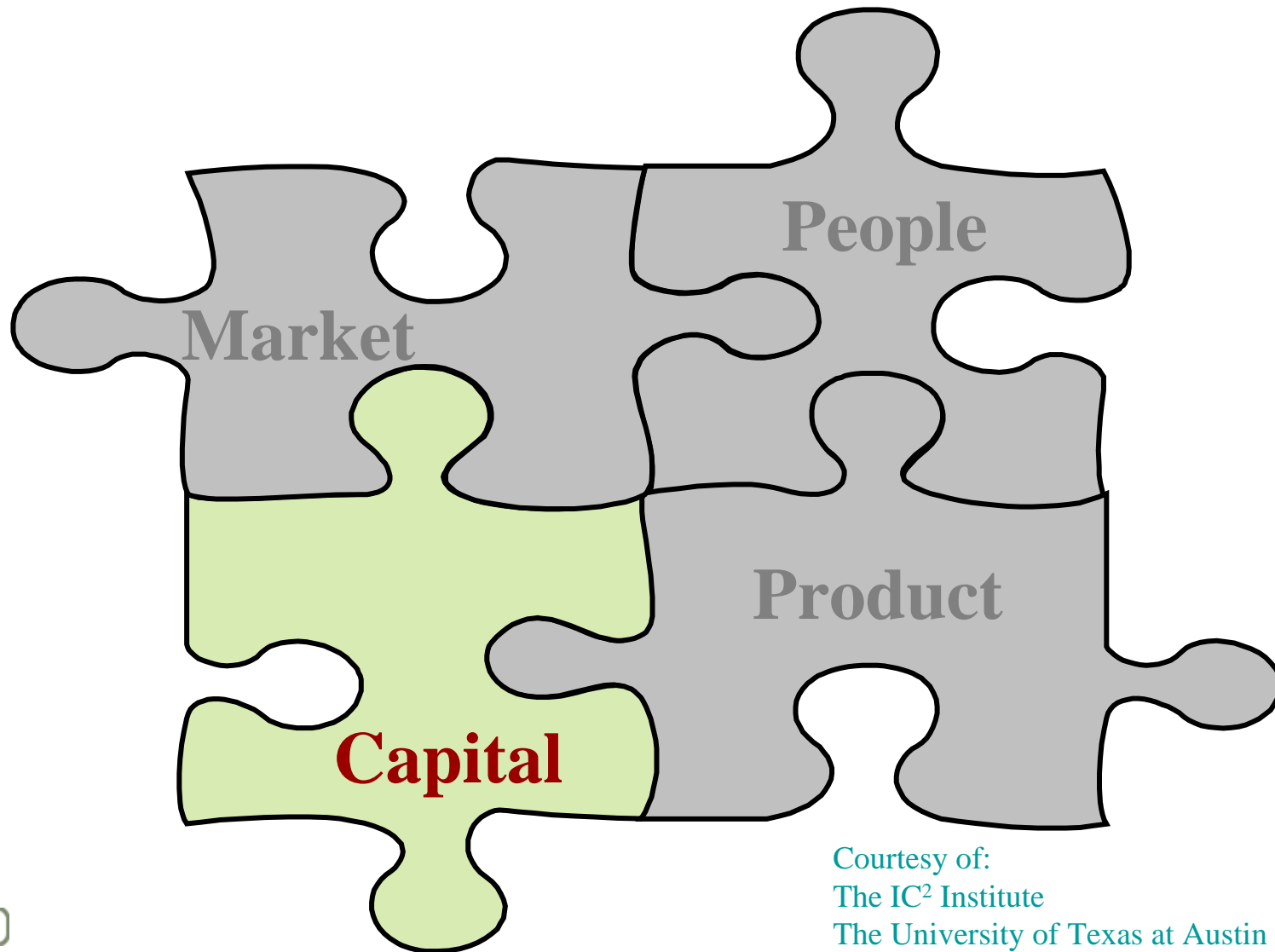
## Technology (Intellectual Property) Differentiation

- Patents
- Copyrights
- Trademarks
- Trade Secrets

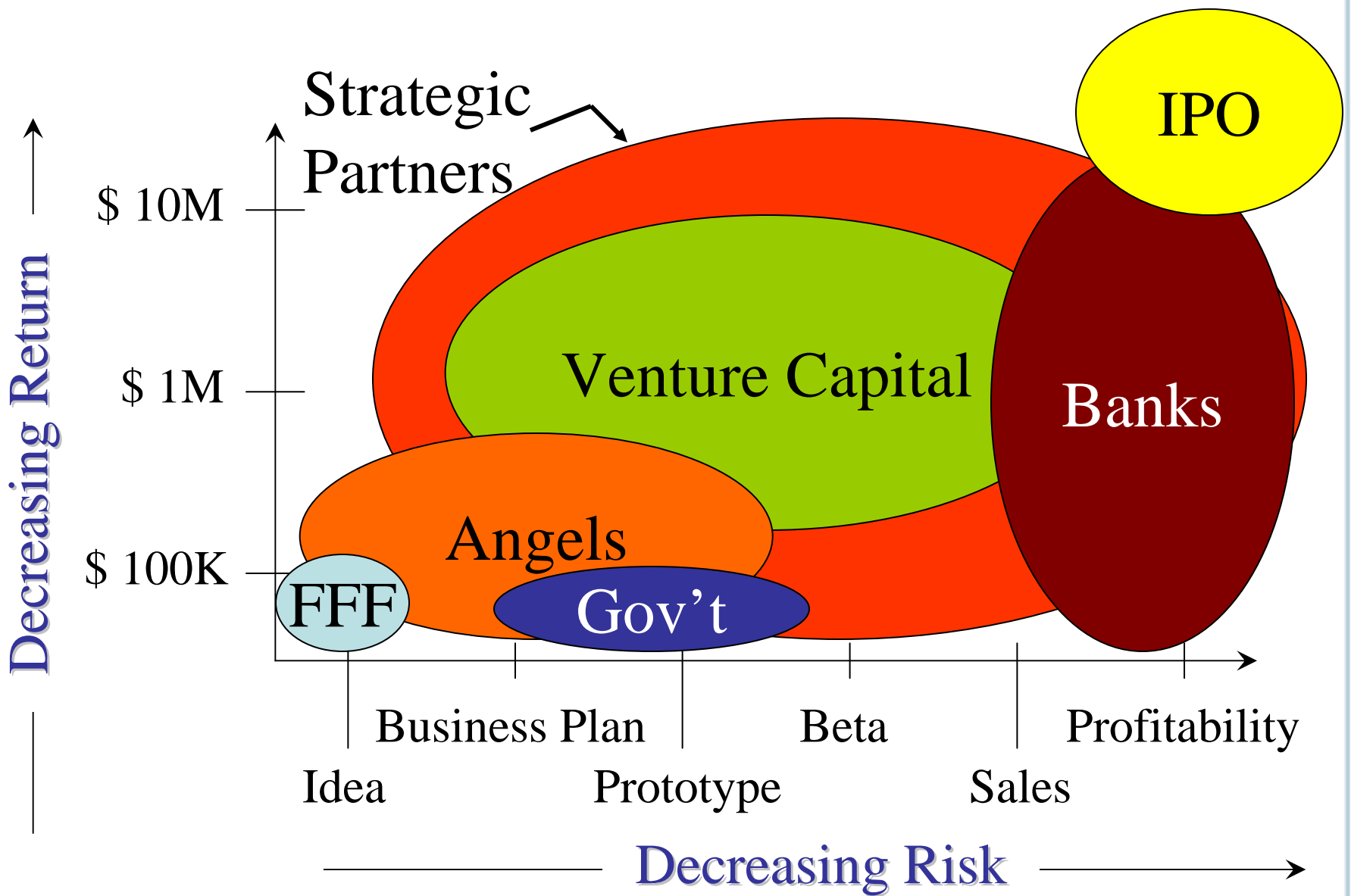
## Other Forms of Differentiation

- Novel Business Model
- Speed to Market

# [ *Elements of a Successful Growth Company* ]



Courtesy of:  
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## *Financing Sources for Different Companies*

<i>Category</i>	<i>Lifestyle</i>	<i>Growth</i>
Friends/Family/Fools	<b>Yes</b>	<b>Yes</b>
Angels	<b>Maybe</b>	<b>Yes</b>
Venture Capitalists	<b>No</b>	<b>Yes</b>
State or Fed. Government	<b>Yes</b>	<b>Yes</b>
Strategic Partners	<b>Maybe</b>	<b>Yes</b>
Public Equity Markets (IPO)	<b>No</b>	<b>Yes</b>
Commercial Banks	<b>Yes</b>	<b>Yes</b>

# Resources for Lifestyle Companies

- **Equity**
  - New Mexico Community Capital: [www.nmccap.org](http://www.nmccap.org)
  - New Mexico Private Investors: [www.nmprivateinvestors.org](http://www.nmprivateinvestors.org)
- **Debt (non-bank)**
  - ACCION New Mexico: [www.accionnm.org](http://www.accionnm.org)
  - Enchantment Land Certified Dev. Corp.: [www.elcdc.com](http://www.elcdc.com)
  - NM Community Dev. Loan Fund: [www.nmcdlf.org](http://www.nmcdlf.org)
  - WESST Corp.: [www.wesst.org](http://www.wesst.org)

*Full contact information available from the NextGen “Access-2-Capital” Resources Map at [www.nextgenclusters.net](http://www.nextgenclusters.net)*

# A Brief History of VCs

# *Early Stages of Venture Capital*

- 1950s & 1960s
  - Modern VC started with AR&D in Boston
  - Mostly East Coast
  - Old-line money moving into new industries
- 1970s
  - Birth of a Valley – Silicon Valley
  - Early VCs in Northern California
- 1980s
  - VC industry began to mature
  - Some good years, some bad
  - Rapid growth of the technology industry
- 1990s
  - **Bubble Time, Baby!**

## *Beginnings of the Bubble*

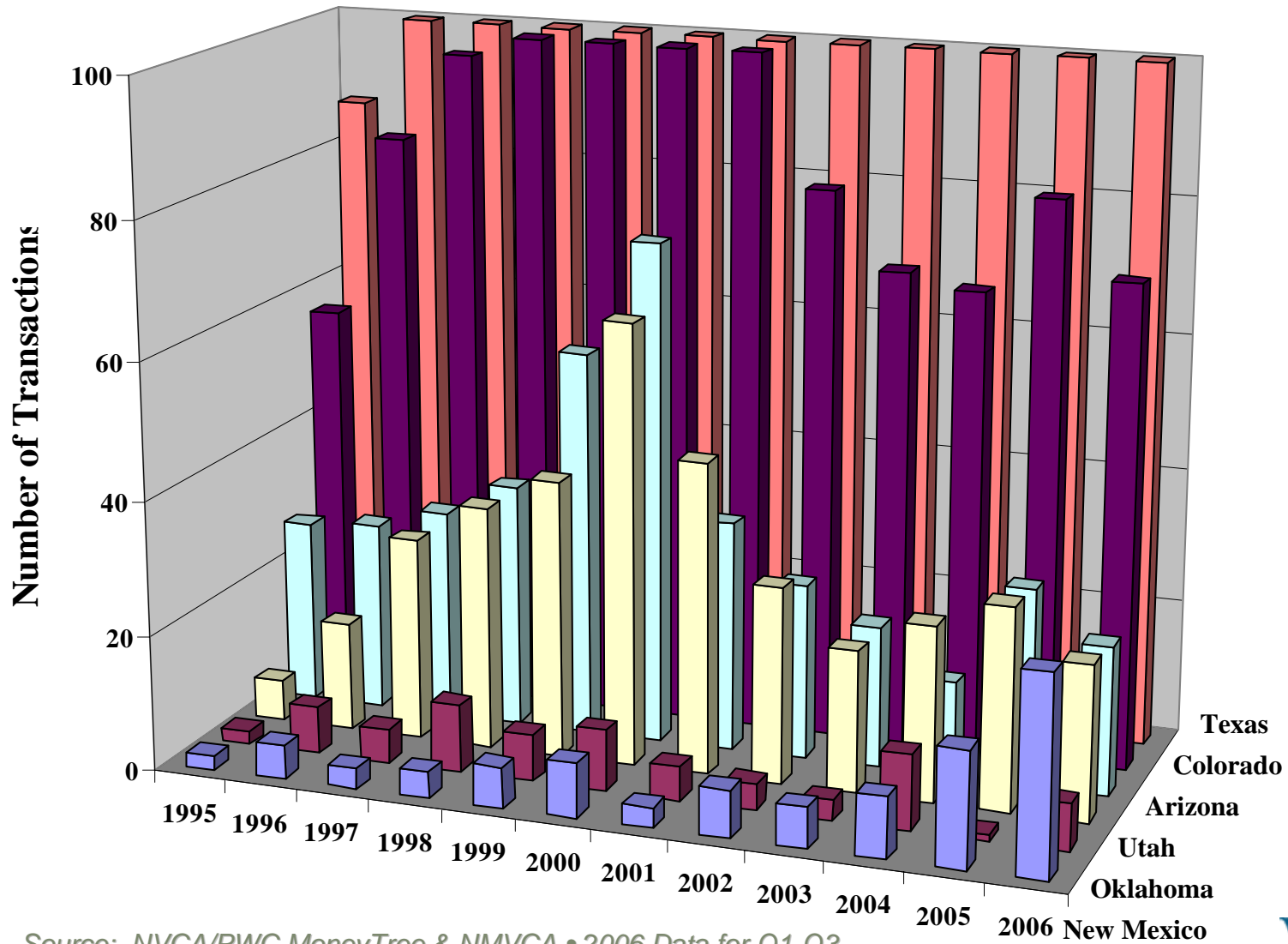
- \$\$ Invested in VC Funds grew dramatically in the late 1990s...
- Firms (and investment professionals) also grew, but not as dramatically...
- Therefore, the following went up:
  - Fund size
  - Deal size
  - Valuation

## A Tale of Two Funds

	1996	2000
Average Fund Size	<b>\$75M</b>	<b>\$175M</b>
# of Partners	<b>5</b>	<b>8</b>
# of Investments/Partner	<b>3</b>	<b>3</b>
Total # of Investments	<b>15</b>	<b>24</b>
Total \$ Invested (80%)	<b>\$60M</b>	<b>\$140M</b>
Average \$/Investment	<b>\$4M</b>	<b>\$5.8M</b>
Avg. 1 <sup>st</sup> Investment (33%)	<b>\$1.3M</b>	<b>\$1.9M</b>

# What about New Mexico?

# NM & Southwest VC Investments



## 2005 Was a Banner Year by All Accounts...

An unprecedented number of deals and dollars

	Deals	Dollars (\$M)
NMBW (11/18)	17	141.4
ABQ Journal (12/5)	-	~\$140
Stephenson	17	132.8

A diverse mix of investment rounds

Round	Deals	Dollars (\$M)
1 <sup>st</sup>	9	18.9
2 <sup>nd</sup>	3	12.8
3 <sup>rd</sup> & higher	4	85.1
Buy-out	1	16.0

[ 22 ] All Numbers include \$40M Eclipse Round

Verge

## ...2006 Appears to Continue the Trend

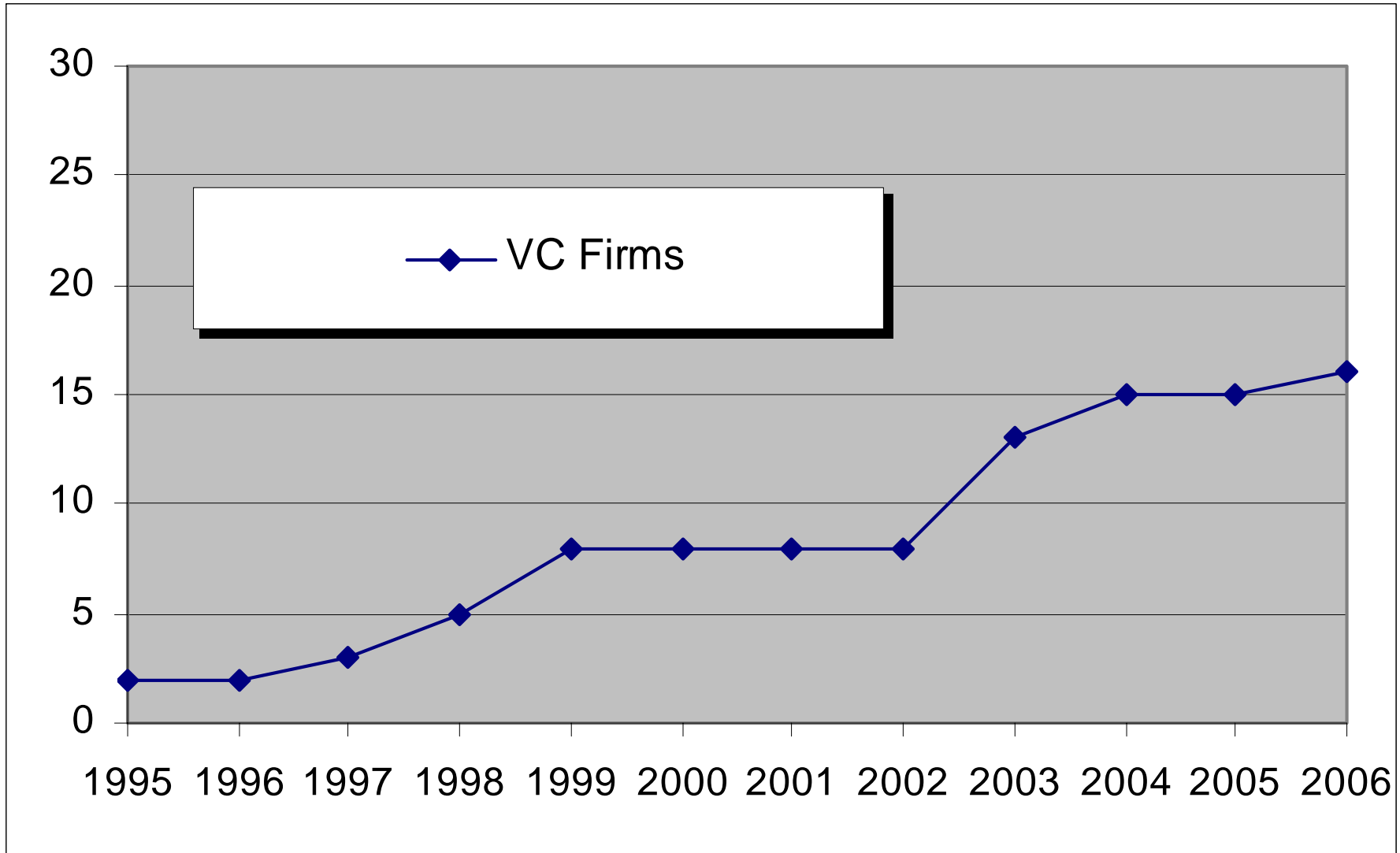
More Deals than 2005, but Fewer Dollars

	Deals	Dollars (\$M)
H1 2006	13	16.3
Q3 2006	7	24.9
<i>Total to Date:</i>	<i>20</i>	<i>41.2</i>

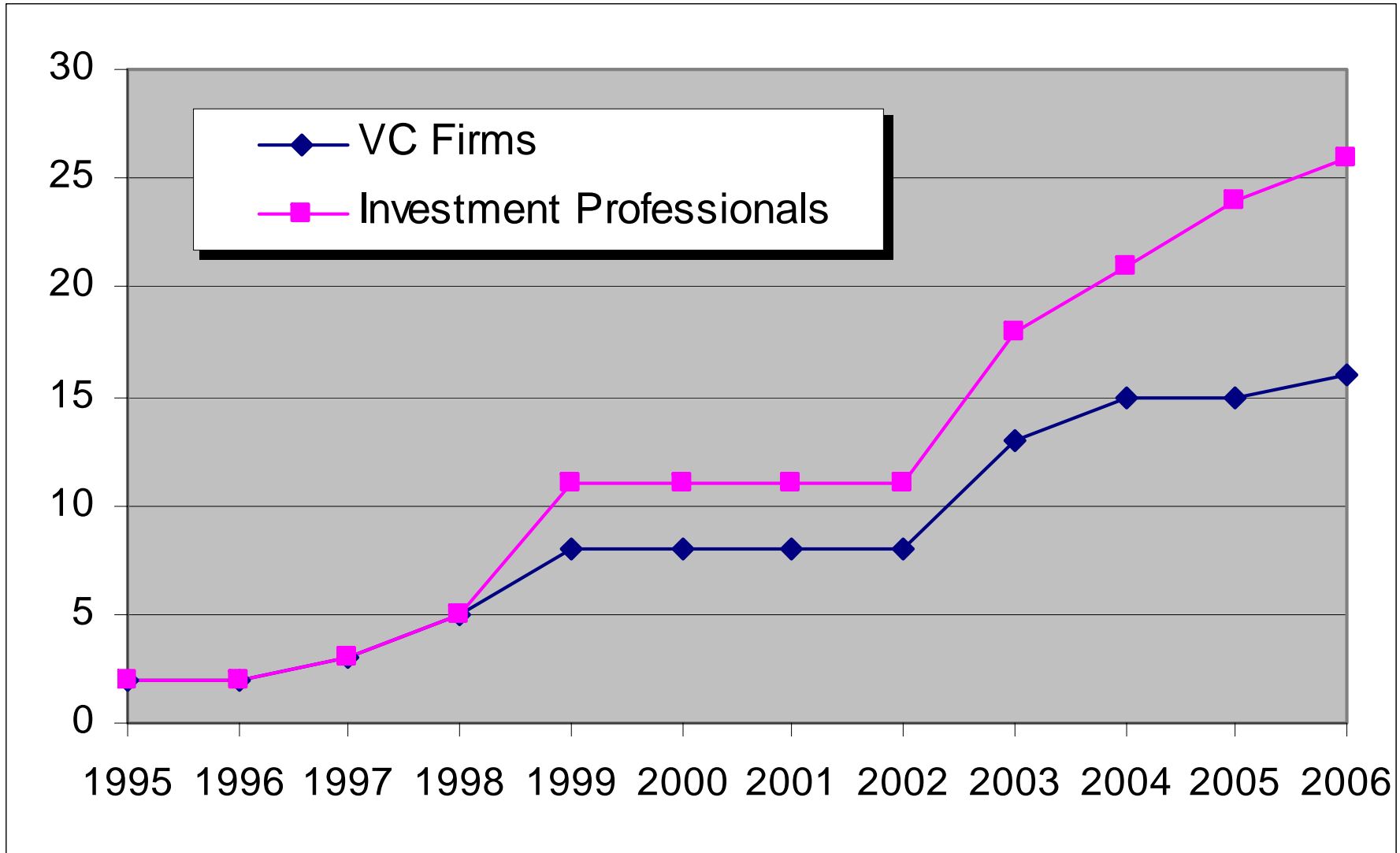
A Return to Earlier (and Smaller) Rounds

Round	Deals	Dollars (\$M)
1 <sup>st</sup> (Seed)	5	4.90
2 <sup>nd</sup> (A)	9	12.17
3 <sup>rd</sup> (B) & higher	3	22.50
Buy-out & Sub-Debt	3	1.63

# The Obvious Trend



## The More Important Trend

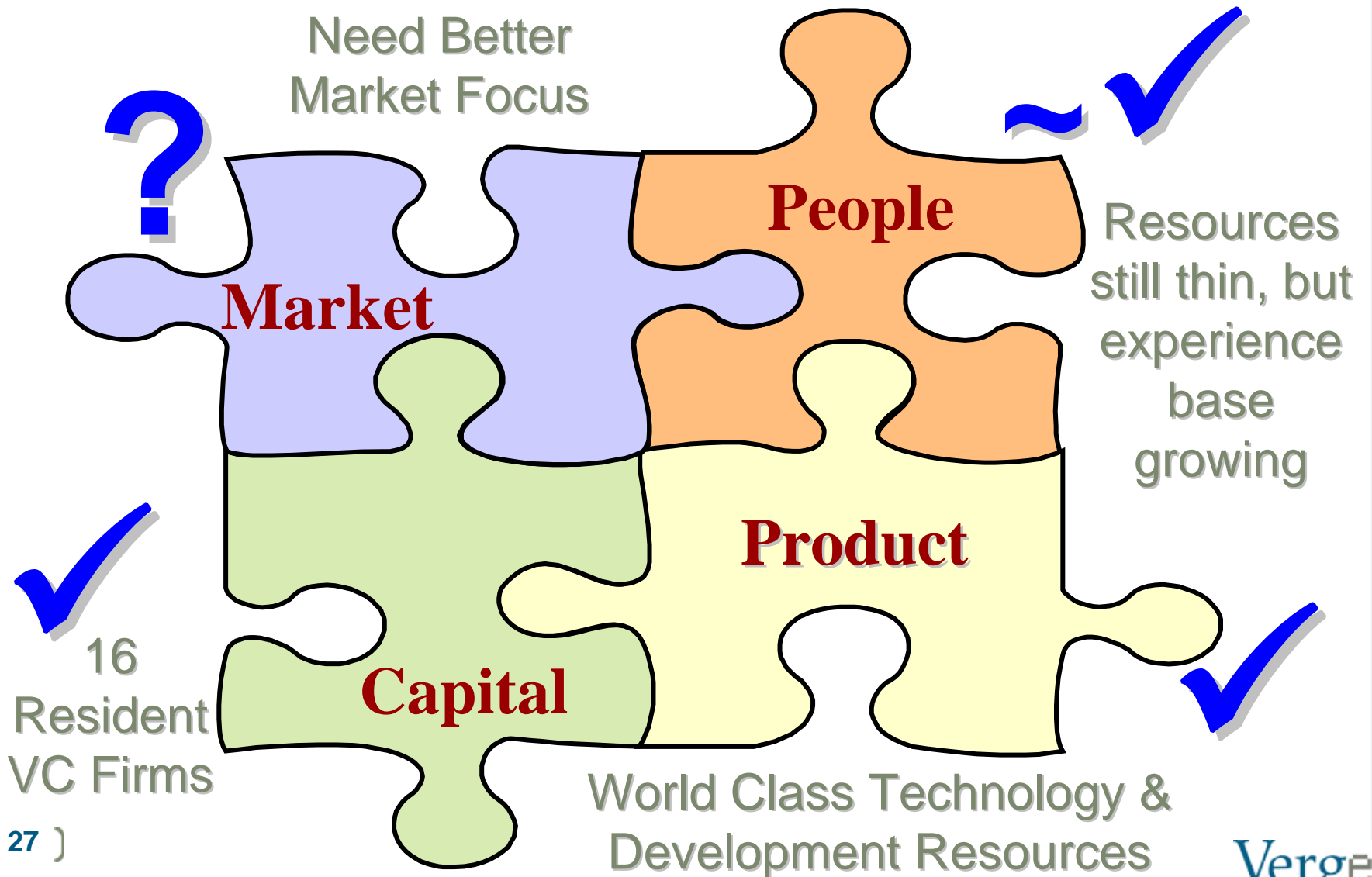


# NM VC Firms & Stage of Investment

Firm	Stage				
	Pre-Seed	Seed	Develop	Expansion	Growth
Altira Technology					
Blue Sage Capital					
<b>Flywheel Ventures (*)</b>					
Fort Washington Capital Partners					
International Venture Partners					
ITU Ventures					
<b>Mesa Ventures (*)</b>					
<b>New Mexico Community Capital (*)</b>					
<b>Technology Funding (*)</b>					
Tullis Dickerson Capital Focus					
Valley Ventures					
V Spring					
<b>Verge (*)</b>					
Village Ventures					
Wasatch Ventures					

**(\*) Indicates Primary office or HQ in New Mexico**

# How Do the Pieces Fit in New Mexico?



## Success Story: MesoFuel

- **Small scale Hydrogen generation for Fuel Cell industry**
  - Spun-out from another NM Start-up
- **Experienced entrepreneur was in place**
  - Deal represented 3<sup>rd</sup> start-up for entrepreneur
- **Formed in January, 2002**
  - Seed Financing from parent company in February, 2002
  - First VC & Angel investment in October, 2002
- **Sold in April, 2004**
  - Sold to strategic buyer in Fuel Cell space
  - Company operations continue in Albuquerque
  - Unrealized IRR of 383%

## *Success Story: HealthFirst*

- **Founded by UNM Grad Ron McPhee in 1992**
- **Successful Transition from Services to Products in 1994**
- **Received 1<sup>st</sup> investment round in June, 1997**
- **Sold to Polar Electro in 2000**
  - Cash on Cash Return multiple of ~8x
  - Realized IRR of 67.3%
  - HealthFirst operation continues to grow in New Mexico

## *More Success Stories*

- **FatCow (Acquired by Endeavor International)**
- **MesoSystems (Acquired by ICX Technologies)**
- **MicroOptical Devices (Acquired by Emcore)**
- **ProLaw Software (Acquired by Thomson West)**
- **Superior Micropowders (Acquired by Cabot)**

# Supporting Entrepreneurs into the Future

# [ *Four Strategies for the Future: One VC's View* ]

**1. Focus**

**2. Recruit**

**3. Support**

**4. Invest**

# ( *Four Strategies for the Future: One VC's View* )

## **1. Focus**

- **On markets, not on technology**
- **On creating wealth, not creating jobs**
- **On what's right for each individual community**

## **2. Recruit**

## **3. Support**

## **4. Invest**

# [ *Four Strategies for the Future: One VC's View* ]

## **1. Focus**

## **2. Recruit**

- **For the skills we want, not those we have**
- **Strategically, not opportunistically**

## **3. Support**

## **4. Invest**

# [ *Four Strategies for the Future: One VC's View* ]

## 1. Focus

## 2. Recruit

## 3. Support

- Our best local prospects, not all our prospects
- Emphasis on excellence, not emphasis on ubiquity

## 4. Invest

# [ *Four Strategies for the Future: One VC's View* ]

## **1. Focus**

## **2. Recruit**

## **3. Support**

## **4. Invest**

- **In base economic drivers**
- **In a broad range of opportunities**
- **But mostly, in ourselves**

# Contact Information

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