

Deseret Morning News, Tuesday, April 27, 2004

Venture capital tumbles

Only one Utah firm secured funding in the first quarter

By [Dave Anderton](#)

Deseret Morning News

Venture capital investments to Utah companies took a tumble in this year's first quarter while venture funding across the nation showed modest increases.

According to the MoneyTree Survey released Monday, only one Utah company, Facet Solutions Inc., a medical devices company, secured \$3.4 million in venture funds in the three months ended March 31, a nearly 90 percent drop compared to \$33 million raised by six Utah companies in the same period in 2003.

Nationally, total dollar value of U.S. venture investments rose to \$4.6 billion in the first quarter, up from \$4.2 billion a year ago. Yet there were just 618 U.S. venture deals, down from 674 deals a year earlier.

"If you look nationally, all the deals are down," said Steven Stauffer, senior audit manager of PricewaterhouseCoopers in Salt Lake City. "Investors are still a little apprehensive to enter into new investments. The time between rounds is longer. If a company receives a first round of funding, it's taking over a year to get another round."

By the end of last year many believed venture investments to Utah companies had started to catch up to pre-Internet bubble levels. According to the MoneyTree Survey, in 2003 venture investments totaled \$102 million, up from \$89 million a year earlier.

But an absence of initial public offerings and a shrinking number of mergers and acquisitions in Utah last year left venture capitalists with fewer exit strategies, resulting in fewer deals.

"The venture capitalists are still scrutinizing the deals very heavily," Stauffer said. "If the management team isn't right, if the valuation amount isn't correct and they have concerns about the due diligence, they're just not doing the deals."

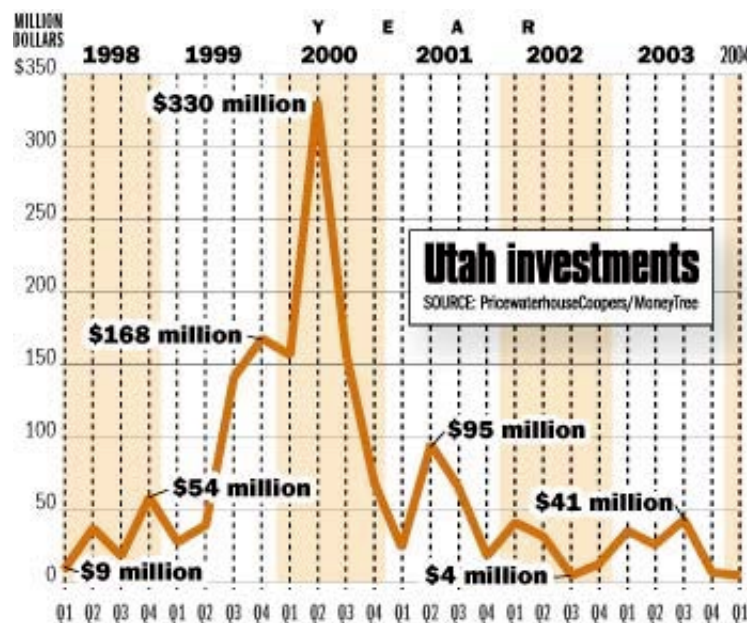
Brad Bertoch, president and chief executive officer of the Wayne Brown Institute, said he believes fewer IPOs and mergers have forced venture capitalists to invest more heavily in biotech.

"We're seeing now because of the slowness in the IPO market and mergers and acquisitions they have to be in a deal longer," said Bertoch, who added that the typical venture deal lasts three to five years in length, while a biotech deal can stretch from five to seven years.

In addition, Bertoch believes the MoneyTree Survey — a cooperative effort of PricewaterhouseCoopers, Venture Economics and the National Venture Capital Association — fails to capture many of Utah's venture deals.

Part of that may be due to a more strict methodology. The MoneyTree Survey captures only equity investments and excludes deals that involve debt, bridge loans, recapitalizations, roll ups, initial public offerings or "angel" investments.

Kevin Jessop, an officer of the MountainWest Venture Group, a Utah nonprofit organization that also tracks venture capital, said the group tracked two additional deals valued at \$8.7 million each, plus a number of smaller deals valued under \$1 million in this year's



Deseret Morning News graphic

first quarter.

Both the MoneyTree Survey and the MountainWest Deal Flow report showed double-digit gains in venture funding to Utah companies in 2003.

"MountainWest is much more local, so they get a much better pulse on the deals that happen," Bertoch said. "MoneyTree underreports on an annual basis about 60 percent. Having said that, the trends in PricewaterhouseCoopers are always good. The trends are always the same."

E-mail: danderton@desnews.com

© 2004 Deseret News Publishing Company