

Will venture capitalists sit on big assets in '04?

BY MARK REILLY
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The future for venture capital looks brighter; that much experts agree on. But it's still a little hazy, partly because industry officials aren't sure what the present looks like.

Some investors look at the decline in investments in recent years, and the Scrooge McDuck-sized piles of cash that larger funds are sitting on, and conclude that a strong rebound is in the cards as that money is moved into new deals.

Others view the decline as a return to normalcy. "If you look at the 25-year trend of venture investments, we're pretty much right where we should be," said Rick Brimacombe, a partner at Edina-based Sherpa Partners.

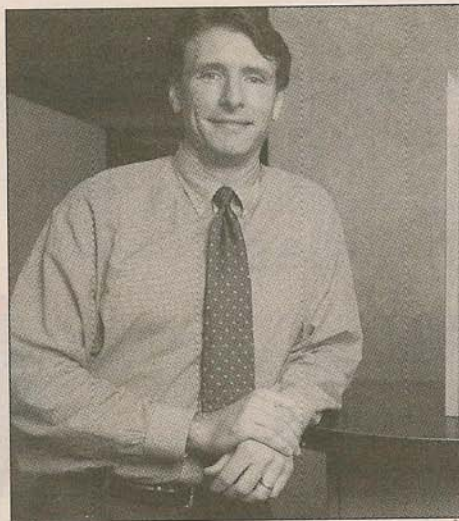
That said, most in the sector believe conditions are improving.

"Venture investors have been heavily affected by the lack of liquidity through IPOs and M&As over the last two years," said Michael Gorman, managing general partner at St. Paul Venture Capital in Eden Prairie. But such deals are starting to show signs of life, he said.

Several venture-backed Twin Cities companies — such as Adaytum, Sistina Software and HighJump Software — were acquired by larger firms in 2003. Those deals enabled the VC firms backing the companies to free up capital for new deals, while raising optimism that new investments could pay off as well.

The IPO markets, which had been affected far

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Michael Gorman said venture capital activity follows Nasdaq, which is up.

worse than M&A deals, may also be opening up.

Gorman noted that venture deals traditionally closely track the Nasdaq market, and the Nasdaq has performed well over the past year.

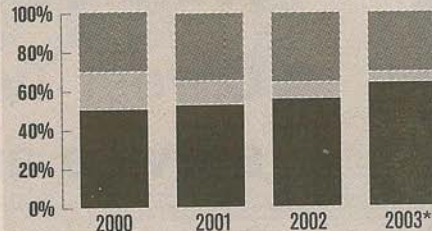
Paul Knapp, president and CEO of Space Center Ventures in Roseville, still expects the immediate beneficiaries of VC optimism to be larger, profitable companies rather than raw startups — investors aren't that optimistic yet.

Biotech investment lags here

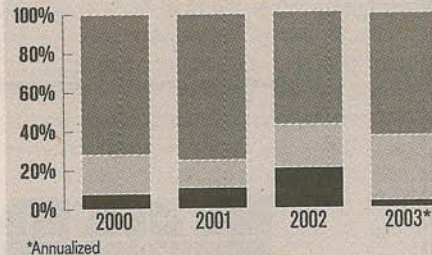
This chart, which shows capital investments in health care industries by percentage, indicates Minnesota investment in biotech is relatively small.

Key: ■ Biotech ■ Services ■ Devices

Nationwide



Minnesota



Companies that offer network infrastructure technology or "anything to do with information security" are probably most appealing, he said.