

PR firms prep clients for VC fund raising – carefully

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STAFF REPORTER

Five years ago, using public relations to attract investors was so popular that Beth LaBreche and her partner Jerry Murray decided to launch the Minnesota Seed Capital Network — an organization designed to teach small tech firms how to communicate with a venture capital audience.

The initiative was immensely popular, but when the economy fell into recession and funding from VCs seemed to disappear, PR became unnecessary and financially unfeasible for these little companies.

Today, as VCs loosen their grip on their money, a new crop of tech startups are coming out of the woodwork and contacting firms like LaBreche's. Leaders of these companies say they need help honing their marketing strategy, generating name awareness and developing presentations for the VC audience as they prepare to seek funding.

"We've gotten a couple of calls and have a proposal to one tech company in the start-up phase," said LaBreche, president of Minneapolis-based LaBreche Murray

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Quarter	No. of deals	Amount
Q1 2003	3	\$1.2 million
Q2 2003	2	\$18 million
Q3 2003	1	Undisclosed
Q4 2003	3	\$6.8 million
Q1 2004	0	NA

Source: PricewaterhouseCoopers/Thomson Economics/National Venture Capital Association MoneyTree Survey

public relations. "They understand that they should lead with PR to get their name out there."

Ann Garrity, president of The Garrity Group in St. Paul, said she too has seen an uptick.

"We saw about two years of people not pursuing anything because they felt the VC folks would not be receptive to what anyone was selling," Garrity said. "We're now seeing a resurgence of [companies] that are positioning themselves and talking to VCs."

To promote or not to promote

If a company is seeking to generate name



Garrity

awareness via media relations, they usually must do so before they begin fund raising. The Securities and Exchange Commission precludes companies from talking publicly about the sale of their private stock while in the midst of fund raising.

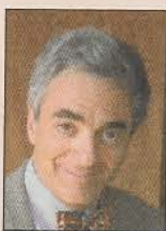
"The basic rule is companies selling securities privately can't sell them using either general solicitation or general advertising," said Bruce Machmeier, a partner in the corporate finance group at Oppenheimer Wolff & Donnelly in Minneapolis. "If your thought is, 'I'm going to [promote myself] for a while then flip to private placement, then you might have some trouble with the law.'"

Machmeier suggested companies speak to their lawyers before they begin any sort of promotion.

If a startup is in a position to begin talking to VCs, public relations can be a useful tool in attracting venture capital firms, industry insiders said.

"There is some truth to the idea that getting exposure in business magazines and newspapers helps validate a company's proposition in the minds of investors," said Paul Knapp, president and CEO of Space Center Ventures Inc., a venture capital firm in Roseville. "It makes the deal look substantial and can open doors to some investors that might not otherwise been open."

One of Garrity's clients, Guidance Interactive Health Care, a Delano-based medical device company, is a prime example. The founder, Paul Wessel, started the business with one product — a glucose monitor for children that encourages them to test their glucose level by rewarding them with downloadable video games. Through The Garrity Group's efforts, that company has been featured in local and national press. One story on CNN generated a number of calls from investors as far away as California.



Schneck

Josh Schneck, CEO of Minneapolis-based Snow Communications Inc., said he too has seen how media relations can garner attention from investors.

"We had a [startup tech] company that was in the money-raising mode and before they started they did some PR and got some stories placed across the country," Schneck said. "Pretty soon they had investors calling from California and the east coast who were interested in their business."

The art of presentation

While publicity can help a company, an article in a business publication is only one, small step, Knapp said.

"It's a door opener, but not a deal closer," he said. "There still has to be a good, solid story in order to get the investor to invest."

It's equally important to know how to present that message to a venture capital firm should a company ever get a face-to-face meeting with a VC firm.



Knapp

"I'm an ardent proponent of the notion of getting professional help in crafting an investor presentation," Knapp said, listing The Carideo Group and Spoken Impact, both of



FILE PHOTO

Beth LaBreche helped launch the Minnesota Seed Capital Network five years ago, before VC funding dried. She's seeing a renewal of pre-fund raising PR.

Minneapolis, as a few firms that can help with presentations.

"A lot of times the CEO of a company like

this is the guy who created the product," Garrity said. "They go in [to a presentation], and they are very excited and passionate. ...

Companies have to be careful because if you go talk to a VC firm and talk about it with that emotion, you can shut half of the managers in the firm down. It's important that the CEO takes a step back and work with an agency that can help them hone the message."

Schneck and Garrity both said their firms can help leaders prepare to meet VCs.

"We know when VCs ask [a company] how they are different from other firms in that same arena, [that company] has to be able to give information about the market and how there is room for growth," Schneck said. "We tell them to be ready. Don't just wait for a challenge from VCs."

A hesitancy among vendors

While small tech companies might be ready to invest more in public relations again as they seek venture capital funding, not all PR firms are prepared to invest in them.

Schneck said his firm shifted its focus during the recession and now, instead of working primarily with small startups, he is working with big companies including 3M because he knows they are more stable.

LaBreche Murray has adopted a similar philosophy.

"We're a little gun-shy," said LaBreche, explaining the firm has a former client from before the recession that still owes money. "In the recession what we did is we buckled down and subscribed to the notion that cash is king. We made a pact that we weren't going to change our thinking even when things got better."