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**Venture capitalists** Mark Heesen, left, Paul Knapp, Jeff Tollefson and Michael Gorman participate in a question-and-answer session Wednesday at the Pioneer Press. More than 100 investors are in the Twin Cities for the Minnesota Venture Finance Conference, one of the nation's largest such events, where ideas — and perhaps dollars — are shared.

# Venture capitalists optimistic

*Experts expect funds to flow more freely after several years of dwindling investments.*

BY SHERYL JEAN  
Pioneer Press

Minnesota companies — especially the younger ones — have had to figure out how to do more with less as venture capital dollars have dwindled. But more dollars are expected to flow from investors in coming years.

That's the prophecy from four local and national venture capital gurus who met Wednesday with the Pioneer Press to discuss investment trends in Minneso-

ta. Venture capital helps finance young businesses that can't get traditional bank financing, in exchange for a stake in the business.

More than 100 investors gathered in the Twin Cities Wednesday and today for the Minnesota Venture Finance Conference, one of the nation's largest such events, where ideas — and perhaps dollars — are shared between companies and investors.

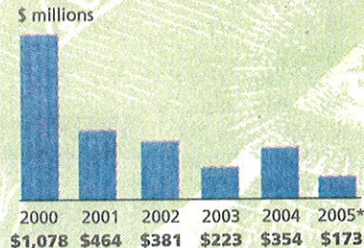
Nationally, companies can expect more early-stage investments in the next

18 months as venture capital firms raise new funds, said Mark Heesen, president of the National Venture Capital Association. He predicts U.S. firms will raise \$70 billion between 2004 and 2006. That's down from \$210 billion between 1999 and 2001, but that period was an aberration, he said.

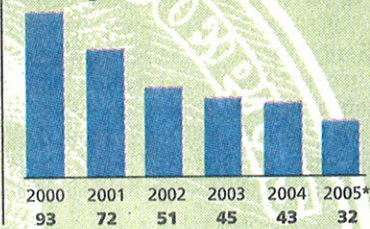
## VENTURE CAPITAL IN MINNESOTA

Venture capital dollars to Minnesota companies have declined since 2000, but experts say it's a return to a more normal investment climate.

Investment in Minnesota companies



Number of Minnesota companies receiving investments



\* For first nine months.

Source PricewaterhouseCoopers, Venture Economics, National Venture Capital Association, MoneyTree Survey

# Venture capital outlook

(continued)

Locally, Crescendo Ventures plans to raise a new fund next year and Split Rock Partners, a successor of St. Paul Venture Capital, recently raised \$275 million.

Minnesota's venture capital dollars have declined significantly since the peak in 2000. Many investors fled the venture capital market after the dot-com crash.

Thirty-two companies raised \$173 million in the first nine months of 2005, compared with 43 companies and \$354 million in all of 2004, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. In the third quarter of 2005, the state saw the fewest deals in a decade: seven.

"Is it a concern? Yes. Am I alarmed? Absolutely not," said Jeff Tollefson, general partner with Crescendo Ventures in Minneapolis, which invests in early-stage communications and technology companies. "It's a more difficult environment for raising early-stage capital."

And one of Minnesota's weaknesses is a growing seed capital gap, Tollefson said. Seed and early-stage financing, which can be investments as small as \$50,000, are critical in helping the youngest companies gain a foothold. Venture capitalists financed just eight early-stage deals this year through Sept. 30, or 11 percent of all deals, down from a high of 24 percent in 2000.

"What has changed in my eyes is that entrepreneurs have to work harder and take their idea farther than they would have in 1999 or 2000, when they could have raised \$500,000 on just a notion or an idea," said

Paul Knapp, chief executive of Roseville-based Space Center Ventures Inc., which invests in early-stage companies in Minnesota.

In the past year, however, angel investors — wealthy individuals who typically fund companies before venture capital — have started to return to the market.

Money from angels can be found. Knapp noted that Gel-Del Technologies Inc., a St. Paul-based biotechnology company, raised more than \$1 million this year from angels for an unfinished product.

Two Minnesota angel groups emerged this year. Two Rivers Angel Investment Network recently formed in Mankato to invest more than \$500,000 raised from area individuals and institutional investors in small regional businesses. Earlier this year, the Early Stage Investors Network started as a forum for angels and venture capitalists to share ideas, collaborate on deals and perhaps start an investment fund.

Venture capitalists see opportunities in niches such as digital technology and storage and Web-based innovation. "I think all of us would like to see more Minnesota-based compa-

nies built around the Internet, which is a massive trend in our society," said Michael Gorman, a founding managing director of Minneapolis-based Split Rock, which focuses on regional software and service companies.

Though Minnesota's slice of the national venture capital pie is just 1 to 2 percent, the state has advantages over many other states, the group agreed. Minnesota's medical-device industry has spawned a number of startup companies as employees of established companies strike out on their own. The state also has the management expertise and support system to nurture an entrepreneurial environment, they say.

"The idea that you have a Medtronic cannot be underemphasized," Heesen said, referring to the Fridley-based medical-device company. "It's like Dell in Austin (Texas). You need those kinds of companies to create that entrepreneurial enthusiasm and you also need (venture capital) firms that can take companies to the next level."

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