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# High-Tech Advisor

## Inside the Mind of a VC

### Whither PNW Venture Capital? No Way!

There's an old saying I rather like: "Conventional wisdom is always conventional, and almost always wrong." So it seems when talking about early-stage venture capital in the



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Pacific Northwest. The conventional wisdom in the local press and among many pundits is that startup investing is dead. But it turns out that that "wisdom" is not only conventional, but very wrong, too!

If you were to believe the nay-sayers, you would have no choice as an entrepreneur with a bold new business idea but to claw your way to millions of dollars in sales

before VCs will deign to give you a passing glance. If you were to believe the nay-sayers, venture capital being raised and put to work today is at some historical nadir. And if you believed the nay-sayers, the Pacific Northwest is somehow devoid of any reasonable number of active, early-stage venture investors. Wrong, wrong, wrong!

At a macro level, people point to the dramatic fall in U.S. venture partnership fundraising as clear proof of the assertions above. What they don't seem to notice is that while inflows to VC funds have indeed plummeted from their peak in 1999 and 2000, today they are at levels we saw in about 1997. For those of us who were investing then, we can tell you that 1997 was a very good year! It was a good year to raise VC partnerships and a good year to raise money from VCs. How-

ever, it was not (yet) a year when all you had to do was put a ".com" on the tail end of your business plan to obtain \$10 million in instant cash. People are still focused on the bubble time as some sort of "norm." Present times are much closer to the norm than those ever were.

Of course, we are still working through the aftermath of the bubble's burst, and some VCs who were thrown from their horses are having difficulty getting up the courage to get on and ride again. Obtaining venture capital is hard, as it should be. We see between 100 and 200 proposals for every deal we make. That is true now, was true during the bubble, and was true before the bubble. Remember, no one deserves venture capital—no founder, no company, no industry sector, no region, no state. Everyone has to earn it, just as all of us who manage venture partnerships have to earn our investors' support. Every time I hear someone talk about how much money a venture "deserves," the hair on my neck stands up. So here's some straight talk. Great deals get funded – period. In this world of open communications, smart money will find the terrific deals. Middle-of-the-road deals don't have nearly as much luck, nor should they.

Let's back up my assertions with concrete data and some anecdotal evidence at the micro level. Below is a table indicating the approximate "Free Cash To Invest In New Companies" available from the four largest Pacific Northwest venture funds. The simple-

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<u>Fund</u>	<u>1997 Fund or before</u>	<u>1997 Free Cash</u>	<u>Pre-2003 Fund</u>	<u>Estimated 2003 Free Cash</u>
OVP	1997 - \$60M	\$60M	2002 - \$185M	\$150M
Ignition	none	\$0	2001 - \$285M	\$190M
Madrona	none	\$0	1999 - \$250M	\$60M
Voyager	none	\$0	2000 - \$215M	\$60M
Total Free Cash		\$60M		\$440M

(Note: there are many fine VC firms in the PNW – the four largest ones were used here for simplicity.)

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OVP Venture Partners is a leading technology-focused venture capital firm in the Pacific Northwest. The firm makes equity investments in early-stage companies primarily in the western third of North America, with a leading market-share position in the Pacific Northwest. OVP's emphasis is on firms in software technology, infrastructure, communications infrastructure, and process solutions.

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