

## VCs predict boost in funds tied to increased deal flow

After months of inactivity, Michael Gorman, managing general partner for St. Paul Venture Capital, is finally seeing signs of life.

Gorman has overseen the acquisition of two Minnesota companies -- HighJump Software Inc. and Sistina Software Inc. - in the past three months.

That, he and others say, is good news for the future of venture capital activity in Minnesota and across the country.

"Companies are starting to feel bullish," said Gorman. "The lack of liquidity over the last three years has been a significant constraint on the market. But now, mergers and acquisitions are returning."

Activity in mergers and acquisitions has a big impact on venture capital activity. When venture capitalists make an investment, they are looking for an exit strategy -- in most cases an acquisition or a public offering. But in the past few years, mergers, acquisitions and IPOs all have declined. That means the venture capital that was invested in companies stayed there and wasn't available for new deals.

"It is all a matter of confidence. Raising money has been a lot easier in the last six months or so than it has been in the past two years," said Paul Crawford, president and CEO of Minneapolis-based Crawford Capital Corp.

Some venture capitalists are wary, for example Paul Knapp, senior vice president of Roseville-based Space Center Ventures Inc.

"I think for at least the next year we'll continue to see fewer investors, less money and see the focus on emerging companies achieving a positive cash flow," he said. "It's on the uptick, but it's a long way from anything approximating the brisk exits that occurred in 1999 and 2000."

According to the MoneyTree survey, conducted for PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association, 58 Minnesota companies received \$203.8 million in venture capital in 2003. That is the lowest dollar amount that has flowed into the state since 1996 and represents about 1.1 percent of the nation's total venture capital pot.

But experts say that the environment is finally changing.