

You Don't Have to Be No. 1

When it comes to discussing where most of the venture capital money is found, most people know to turn their attention to the sunny climate of California. The state is far and away the No. 1 place to be in the United States for companies looking to get in on venture. More than 1,400 businesses in California received an average of \$11.33 million in venture funding in the first four months of this year, according to the National Venture Capital Association. Those numbers dwarf the No. 2 state, Massachusetts, which comes in with 367 businesses receiving a little more than \$10 million each.

Charley Polachi, a partner and co-founder of executive search firm Polachi & Co., confirms that California and the Boston area continue to be the hotbeds of venture capital and private equity recruitment. He says New York City is also on the rise again.

"All of the old media has finally figured out how to do new media," explains Polachi. "While Silicon Alley went up and out like a rocket, Silicon Alley 2.0 is doing a lot better."

That may be true, but just because there are pockets of the country receiving most of the attention from investors it does not mean there aren't other unexpected places in the country that are moving up the ladder. Polachi points out he is working with a private equity client in Kansas and that Minneapolis is a growing market. He explains that venture firms are benefiting from family-owned businesses that that are experiencing generational transitions where the children of entrepreneurs do not want to take over the family business. These companies are developed and earning steady revenue. As a result, private equity firms are there to fill the void and take over the businesses.

Kansas and Minneapolis are not the

You know the names of the top venture capital markets, but there are a number of other players

only areas in the Midwest that are picking up steam in the venture capital hunt. Indiana is garnering a lot of attention these days, particularly when it comes to the life sciences sector. The state has moved to being in the middle of the pack in most of the national life sciences ranking of venture capital statistics from being dead last in the last few years, according to David Johnson, president and chief executive officer of BioCrossroads, a market-driven collaboration of Indiana's corporate, university, government and entrepreneurial leaders in the life sciences industry. The group formed the Indiana Future Fund I, a \$73 million venture capital pool that provides early-stage venture capital to Indiana life sciences companies. The fund was created in October 2003 and is managed by Credit Suisse. Investors include Indiana's public pension funds as well as 10 corporate and academic institutions.

The NVCA's overall statistics for venture capital show that Indiana lines up with Johnson's assertion about the state's life sciences expertise. The state is ranked No. 26 out of 49 on the trade group's list. What's more, according to numbers provided by BioCrossroads, venture investing in Indiana in 2005, coming in at \$95 million, represented a 40% growth from 2004 and was nearly four times as much as the numbers from 2003.

Johnson attributes the growth in Indiana's venture investing to the corporate and university powers pooling their efforts in creating a capital market

for the life sciences sector. Johnson says the state has been effective in persuading pharmaceutical companies to license molecules that are not a focus of the company to smaller Indiana companies. For instance, there are companies in the state that are working on anti-migraine therapeutics, antibiotics, diabetes proteins and medical device technologies.

According to BioCrossroads, Indiana saw more than \$60 million in venture investments in the first half of 2007, with more than \$43 million coming in during the second quarter alone. That's the highest amount since tracking was begun six years ago. Of that, biopharma represents more than \$30 million.

BioCrossroads' focus is multi-pronged by launching new life sciences businesses, providing money and support to existing life sciences businesses, expanding collaboration among Indiana's life science collegiate institutions and increasing education and awareness of the state's life sciences industry.

The odds are pretty good that the current leaders in venture investing, such as California, Massachusetts and New York will continue to steer the asset class, but that is not to say there are not interesting stories being told elsewhere in the country. Wisconsin, Michigan and Ohio are other Midwestern states in the thick of it. While the top areas continue to dominate, there are a handful of other places getting involved.

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