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Venture Capital: 'Venture buyouts' becoming popular

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By JOHN COOK

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Venture capitalists continue to look at corporate buyout opportunities. The latest entrant in that finance niche is Polaris Venture Partners, which recently invested an undisclosed amount in Ferndale-based Botanical Laboratories.

With more than 100 employees, an established line of natural medicines and nearly two decades in business, Botanical Laboratories doesn't fit the traditional profile of a venture-backed company.

Typically, venture capitalists invest early in a company's life cycle so they can share in the financial upside that sometimes accompanies fast-growing startups.

But some venture capital firms are now considering majority positions in later-stage companies that have established management teams, customers and, in some cases, profits. In the past, that has been the realm of large buyout firms such as the Carlyle Group, KKR and The Blackstone Group.

But the line between these close cousins in the financial world seems to be blurring, especially as the technology and biotechnology industries mature. Venture capitalists -- who are sitting on an estimated \$53 billion in untapped capital -- do not intend to replace the major buyout firms. But they do hope to fill a void in the market by acquiring middle-stage companies that are often overlooked by both venture capitalists and buyout groups.

A number of venture firms are currently playing with the concept -- hoping to diversify their portfolios so they are not left with a full basket of high-risk entrepreneurial ventures.

Ignition Partners, a Bellevue venture capital firm led by former Microsoft and McCaw Cellular executives, recently said that it is exploring small buyout opportunities. To help in that arena, the firm added former Microsoft Chief Financial Officer John Connors to its team last month.

Menlo Park, Calif.-based August Capital, whose partners were early investors in Visio and Microsoft, set up its new \$550 million fund to do both early-stage investing and corporate buyouts.

Other firms targeting this emerging category -- one that Harvard Management Company's Peter Dolan dubbed "venture buyouts" -- include Garnett & Helfrich Capital and Technology Crossover Ventures.

Large corporations also are indirectly involved in this new investment class, with Microsoft announcing earlier this month that it plans to license more than 20 of its established technologies to venture capital firms.

Among those participating in the carve-out program are Polaris, Ignition, OVP Venture Partners, 3i and Mobius Venture Capital.

Why all the interest in buyouts and spinouts?

T.J. McGill, who recently formed Evergreen Pacific Partners, a \$275 million Seattle buyout firm, said investment firms can more easily use debt these days to finance larger transactions.

But McGill doesn't think that is the driving force, saying that it has more to do with venture capitalists trying to augment their investment strategy.

"Part of it is dealing with portfolio construction," said McGill. "It is very rare that you will earn 20, 30 or 40 times your money in a private equity deal. But the risk is lower. It is much more challenging to lose your capital relative to a venture deal." Venture capitalists who have a strong background in corporate finance look at buyouts as a way to diversify their portfolios, McGill added.

Polaris, which manages more than \$2 billion, isn't saying much about its buyout strategy. Brian Chee, a general partner in the Seattle office, declined to comment on the deal as did Botanical Laboratories Chief Executive Jim Coyne.

MONEY FLOWING IN OREGON: It has been nearly two years since the Oregon state Legislature approved a \$100 million program to help jumpstart new businesses in the state.

But the money is finally starting to make its way into the hands of venture capitalists and private equity firms, including two Seattle-based firms.

Buerk Dale Victor and Evergreen Pacific Partners recently received money from the Oregon Investment Fund, a \$105 million "fund of funds" managed by investment bank Credit Suisse First Boston. They join Portland's Riverlake Partners and Cascadia Partners as the inaugural members in the state-backed program. Together, the four firms -- all of which must maintain an office in Oregon and commit to finding investments there -- will receive \$34 million.

An additional four to five firms will receive \$48.5 million in the next stage, with Credit Suisse First Boston managing the remaining \$22.5 million.

David Almodovar, a vice president at Credit Suisse First Boston, said that more than 150 investment firms expressed interest in the program and 27 submitted formal proposals.

State-backed venture capital programs have had a mixed record. But Almodovar is confident that Oregon's approach will pay off.

"Programs in other states are often based on economic development," said Almodovar. "Ours is not. It is focused on economic return."

Though the Seattle firms are not required to invest in Oregon, Almodovar doesn't think it will be difficult for them to find at least one or two high-quality deals in the state.

ANOTHER SILICON VALLEY?: At the peak of the Internet bubble, nearly every region with a high-tech presence attempted to brand themselves as Silicon something. There was the Silicon Prairie in Chicago, Silicon Alley in New York and the Silicon Forest in Portland.

Marketing guru Regis McKenna, who has spent the past 43 years in Silicon Valley, advising one time startups such as National Semiconductor, Apple Computer, Intel and Genentech, will discuss the impact that Silicon Valley has played in the world of technology and what it takes to create a vibrant

technology center in a talk next Tuesday at the Westin Hotel in Seattle.

McKenna -- who was chosen by the San Jose Mercury News as one of the 100 people who helped transform Silicon Valley -- doesn't see too many parallels between Silicon Valley and Seattle. In fact, the 66-year-old former general partner at Kleiner Perkins Caufield & Byers believes the biggest threat to Silicon Valley -- and the U.S. technology industry as a whole -- is southeast Asia.

"The future might be a Silicon Valley in China," McKenna said this week. "That could be real, simply because they are beginning at the base again with a huge population to fulfill their needs over the next 25 or 50 years."

For more information on the talk, visit www.wsa.org.

P-I reporter John Cook can be reached at 206-448-8075 or johncook@seattlepi.com. For more information on Seattle-area startups or venture capital firms, visit www.seattlepi.com/venture.

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