

## Capital flowing again Entrepreneurs finding money more available

By Brian Monroe | Reporter, Florida Today  
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For the first time since 2000 -- the heady times of the dot-com frenzy -- venture-capital spending is up from the previous year in Florida and across the nation.

Experts say the economy gathering momentum and many startups bringing more-mature business models to potential investors -- a lesson learned from the crash of Internet and telecom companies -- helped buoy venture-capital funding in 2004.

Last year, nearly 2,900 investment deals attracted \$20.9 billion in venture capital, up from \$18.9 billion in 2003, according to the National Venture Capital Association, Thomson Venture Economics and PricewaterhouseCoopers. Still, that is a sliver of the \$105.9 billion invested in 2000.

Consumers benefit on several fronts from more venture capital flowing to more companies. In many instances, these small, agile firms can come up with breakthrough technologies or pharmaceuticals faster and more efficiently than their larger, corporate counterparts, helping improve electronics, quality of life and even drive down costs.

For local companies -- or entrepreneurs with big ideas and small wallets -- this means more opportunities to get something off the ground, garner additional funding for expanding the company or even gear up for an acquisition. That also leads to more jobs in the local economy.

Many Melbourne companies -- including AirNet Communications Corp., AuthenTec, DTx Inc., Security Innovation and others -- have needed venture funding in recent years to grow revenues or continue operations.

Gauging the takeover potential of other companies is exactly the reason Melbourne-based DTx was at the recently held Florida Venture Capital conference in Orlando. The company, founded in 1991, designs and builds microprocessors that get embedded into medical devices.

### **DTx President Art Schmitt said he is lobbying for about \$1.5 million in funding.**

That isn't because the company isn't profitable -- he says it is -- but because it's part of the business plan to make "strategic acquisitions. When we find the opportunity, we will be ready. Rather than negotiate from a point of negativity, we want to negotiate from a point of opportunity."



**High-tech job.** Delores Herring installs touch sensors into an LCD monitor at DTx Inc. in Melbourne. DTx has been a beneficiary of venture capital funding in recent years. Michael R. Brown, FLORIDA TODAY

Securing more venture funding is part of DTx's aggressive growth strategy to increase revenues of \$20 million last year to \$28 million in 2005 and an expected \$40 million in 2006. Schmitt also wants to increase employment from 50 to 70 this year.

Mainly, his firm is focusing on the embedded processing equipment in blood analyzers used by hospitals and clinics. These devices, which can range in size from a desk to a car, are supposed to last five years to 10 years, but individual components can break down in only two years.

That's where DTx comes in. It finds ways to build a better a component. That way, the companies making the blood analyzers can focus on designing a better overall product, not devote more time and funding to fix a specific troublesome part.

The growth at DTx has been a boon to Steve Beck, a sales engineer who got hired at the company five years ago after working at Sea Ray boats.

"I really like what I do," he said, adding that he was able to move to his current job from a position in product engineering. "I am very pleased we are growing so rapidly. That gives me a feeling of job security."

## **Top role for CEOs**

Schmitt estimates the market he is going after at \$500 million, a figure he quotes to potential investors to show the growth prospects of his company. Wooing venture investors is the "most-important job a chief executive officer has," said Scott Moody, president and chief executive of AuthenTec. The company makes computer chips that use a person's fingerprint to restrict access to cellular phones, computers and personal digital assistants.

Venture funding is "critical for us to continue operations," he said, adding that the company captured \$15 million in venture capital last year and \$63.5 million since it spun from Harris Corp. in 1998.

"It's the lifeblood of a startup," Moody said. "Right now, venture capital is helping continue toward profitability."

With AuthenTec having shipped more than 3 million of its fingerprint-sensor chips, some venture firms solicit the company.

But, usually, it's the opposite, and a new company has to solicit 50 or more venture firms before it gets one to commit, Moody said.

Venture firms have still-painful memories of being burned on Internet companies, Moody said.

So that that means, if you are an "early-stage or pre-revenue company, with no product or a new product, it's very difficult to raise money," Moody said. "It's exponentially more difficult to raise kind of money if you are a company in Florida" because there are so few large venture investors in the state.

That's why AirNet, which makes equipment to increase the range and clarity of cellular communications, has had to go out of state to Tecore Wireless Systems of Columbia, Md., and SCP Private Equity Partners, an investment firm with offices in Pennsylvania and New York, for much of its venture funding.

AirNet has yet to show a profit, and uses venture funding and stock sales to help keep operating.

## **Improving climate**

Security Innovation, which provides services and technology to software vendors, government customers and financial-service firms, also was trying to snare some venture-funding at a recent forum in Orlando. But the state is improving in nabbing more venture capital for companies, said Ravi Ugale, a partner at West Palm Beach-based Crossbow Ventures and chairman of the Florida Venture Forum.

The reason for the uptick in venture funding is "the global and national economy is doing better . . . and there are larger venture funds" investing in Florida companies.

He added that, nationally, there were 242 initial public offerings of stock last year, which nearly equaled 2001, 2002 and 2003 combined.

Of course, there are more IPOs because these firms have survived the high-tech boom and bust and are "more mature and stable," Ugale said. They have stronger management teams, which makes it easier to look at their business plan. They have proof . . . that it is working."

These smaller startups and medium-sized venture-backing firms growing has a wide-reaching impact on the national scale because "small businesses drive the growth of the economy. All you hear from the big guys is they are cutting jobs."

Still, the outlook for venture spending is unclear, and could drop from an average of \$20 billion a year in the last few years to as low as \$10 billion, said John Taylor, vice president of research at the Arlington Va.-based National Venture Capital Association.

"There are only so many excellent companies out there," he said, adding that venture firms are both trying to keep watch of the current companies in their portfolio, and also spending an equal amount of time "looking for the next big thing . . . from the future crop of companies."

The hottest sectors for funding are easily biotechnology and security, Taylor said.

These smaller, nimbler firms can be more creative and efficient than larger companies at coming up with the "next big discovery," he said.

Even if overall funding dwindles in the next five years, there is "still a lot of opportunities for small companies with good ideas," Taylor said.

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