

Venture capital can be a means to different ends

By Deborah Held Maslia
CONTRIBUTING WRITER

Venture capital is nothing if not misunderstood. "Venture capital is a word that people use about raising any kind of money," said Clinton Richardson, a partner in the corporate and securities practice group and managing member of the Atlanta office of Womble Carlyle Sandridge & Rice PLLC and author of numerous business growth books. "But ... it's only applicable to just a small percentage of the population."



Richardson
Womble Carlyle Sandridge & Rice PLLC

Specifically, venture capitalists are interested in deliberately funding high-return investments; businesses that will grow very quickly and experience a "huge increase in value," said Richardson. Not every business is designed to grow that quickly, he said. "Usually they are businesses that have some dramatic ... advantages, like a patent, or a novel technology, or a dramatic new way of doing business."

"We're looking for returns of 25 to 35 percent" at the growth or early stage of investment, said Ramsay Battin, a director in Atlanta for global Arcapita Ventures. The earlier the



Battin
Arcapita Ventures

investment, said Battin, the greater the likelihood for more massive business growth and investment return. Getting the attention of the venture capitalist means getting an early start, said Richardson, so the entrepreneur should think about the ways that he can get his fast-growing business noticed. One way is by growing that business even more quickly, and showing returns or projected returns at a rate higher than 25 percent. A business growing its value rapidly is on the right path to getting itself noticed, he said.

As soon as possible, the business owner should begin putting together the presentation he will give to potential venture capitalists, once their interest has been piqued. The key to such a presentation is to leave the potential investor with the sense that investing in this company is an opportunity, said Richardson.

"If it's not an opportunity it won't sell," he said.

Companies need investment from the inside of the business first, said Richardson. Gaining the confidence of insiders is a positive sign and yet another way to help attract outside attention.

"Then you're ready to go," he said.

Entrepreneurs should take time to speak to qualified advisers, said Richardson, to verify figures, calculations and to check on securities issues.

Utilize business and professional connections that could lead to funding. In early-stage funding, said Battin, 90 percent of investments are made from referrals.

While it may sound tempting, "cold-calling doesn't work," said Battin, "and it shows they don't know how this works, and that reflects on the whole business."

While there are investment bankers who can assist in a match-up, the fees are substantial and should be weighed against whether or not they will be more likely to lead to better investors or make fundraising more likely, said Richardson.

In the end, the venture capitalist is interested in return on investment, and the person most likely to convince him of this possibility is the business owner himself.

"By definition, as an entrepreneur you're a scrappy person anyway, who does a lot with a little," said Battin. "The easy part is getting in front of the capitalist. The hardest part is having the business they want to fund."

Historical capital efficiency will be evaluated, he said, as will the expertise level of the company's current management team.

"Ultimately, they will invest only if they like the management team," said Richardson.

And while an entrepreneur's trademark enthusiasm is certainly a good thing, an element of realism is necessary to temper that excitement. "You need to be able to talk about your company in a realistic manner; both the good and the bad," said Richardson.

While the business owner should be able to talk about all aspects of his company, marketing and execution are areas ripe for stumbling, Battin said. "I'd much rather have my money used for a sales force than to build the product," he said. "The hardest transition is going from a product-focused company to a sales and marketing company."

Once the capital is invested, entrepreneurs need to be prepared to have at least one board seat for the venture capitalist.

"Investigate the people you're asking for money," advised Richardson.

The experts agree that venture capital should be a last resort, sought after borrowing money or changing management tactics.

Though it's indeed "a means to an end," said Battin, the need indicates that the business owner must take a closer look at his company because he doesn't have enough capital to keep it going and growing.

"People should understand the risk," said Battin. "The second you bring in outside money, you're no longer 100 percent in control of your business. The world is full of entrepreneurs who took venture capital and lost their companies."

HOW TO

FIND VENTURE CAPITAL

Helpful hints resources to aid the search:

Questions to ask:

- ▶ Is this company right for venture capital?
- ▶ Does my presentation convey a great opportunity to the venture capitalist?
- ▶ Is this the investor to whom I wish to give a board seat in my company?

Expected annual rate of return:

- ▶ Seed or startup VC: 25 percent to 35 percent or more per year
- ▶ Late first or second stage: 20 percent and higher
- ▶ Late stage: 15 percent

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WEEKLY ONLINE SURVEY

Atlanta Business Chronicle surveyed online readers from June 20-30 about Barack Obama, John McCain and business and received 1,658 responses.

The Pulse Pie Poll Results

Which candidate do you think would be better for business?

