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Looking for VC Action? The Mid-Atlantic Offers a Rich Hunting Ground

By John C. Yates, Special To LTW

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ATLANTA - During a recent trip to visit my colleagues in Washington, DC, I met with a handful of venture capitalists in the Northern Virginia and Washington, DC area. The meetings were illuminating from many perspectives. They also highlighted several interesting differences between the technology communities in the Mid-Atlantic area (the District, Northern Virginia and Maryland) and other sections of the Southeast.

1. Number of funds: There are simply more venture capital funds in the Mid-Atlantic region than in the rest of the Southeast. Dozens of venture funds have congregated in the Tysons Corner area along with law firms and accountants. And other sections of the Mid-Atlantic have similar pockets of VCs and service providers. The critical mass is evident.

2. DC venture funds seem to have weathered the storm: Unlike other sections of the Southeast, the DC area funds seem to have survived largely intact through this economy. This is in contrast to Atlanta, where several venture funds have downsized or closed up shop (for example, Gray Ventures which has shut down except to maintain its existing portfolio companies).

3. The DC area funds are generally larger: The size of the DC funds are generally larger than those in RTP, Atlanta or Florida. Many of the DC funds have large institutional limited partners with deep pockets to meet capital commitments. Of course, funds like Intersouth and Noro-Moseley are on equal footing with the DC area funds. But there are fewer of these large funds in the Southeast after you travel south of the DC beltway.

4. The Federal Government is an asset: The DC area venture funds have benefited substantially from increased federal government spending. With the adoption of a homeland security budget, new start-ups in the DC area are being established. My guess is there may be more start-up ventures in the DC area than in any other section of the country. And the growth is being fueled by government spending. Additionally, the concentration of government agencies in Washington allows start-ups to have a maximum impact without excess spending on travel and entertainment. Look for continuing growth in this sector.

5. Absence of a major engineering university: During my visits with VC firms in DC, several of them mentioned the absence of a major engineering school in the area. They were complimentary of Georgia Tech, UNC/Duke/NC State and other sections of the country where an engineering school provides an ongoing pool of talent to the community. This is a problem that the DC funds have to accept, since there's little they can do to address this hurdle.

6. Life Science continues to grow: Thanks to Johns Hopkins, the National Institute of Health and other government sponsored organizations, life science continues to prosper in the Mid-Atlantic area. Several venture funds have committed significant portions of their capital to investments in biotech and life science businesses. Still, most funds have limited expertise in the life science area and are reliant on VC firms outside the region (Boston and Silicon Valley) to provide the lion's share of the expertise and capital for biotech start-ups.

7. The Mid-Atlantic may be the hub of VC activity in the Southeast: Following the recent downturn, the Mid-Atlantic is becoming a hub of venture activity in the Southeast. This conclusion is based on several facts:

- The recent Mid-Atlantic Venture Association (MAVA) Capital Connection Conference attracted VC firms from throughout the region and a number of newcomers.
- Presenting companies at the conference included many from outside the DC area - - including one of Atlanta's hottest start-ups (which is receiving funding through contacts at the conference).
- New venture funds are emerging in the DC area (for example, Valhalla Partners) unlike the contraction taking place elsewhere in the Southeast.

8. More start-up capital: Several DC venture funds indicated a continuing interest in investing in start-up companies and providing early stage capital. A new venture fund even indicated an interest in spending more time assisting start-ups (especially since the new fund is unburdened by struggling existing portfolio companies). Many of the funds indicated a renewed interest in introducing start-up companies to the fund's limited partners.

9.The rise of private equity groups: The DC area clearly has more private equity groups (PEGs) than other sections of the Southeast. These PEGs are generally interested in funding buyouts and are not limited to the technology vertical. Rather, these funds are larger and are seeking to make financial investments in such opportunities as family-owned businesses and consolidations. With the demise of the IPO, these PEGs play a vital role in providing liquidity to founding shareholders and capital to fund large acquisitions.

The good news is the Southeast *continues* to have available sources of capital, especially in the DC area. The challenge is to make sure the DC funds are aware of our hottest technology companies in the region and turn their sights southward to RTP, Atlanta and Florida.

This column is presented for educational and information purposes and is not intended to constitute legal advice.

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