



Travels to Silicon Valley: Venture Capital Firms Are Looking Southeast

By John Yates, Special To LTW

Editor's note: This is the first of a two-part series relating to John Yates' recent visit to Silicon Valley where he delivered a speech at a national Computer Law Institute and visited a dozen venture capital firms. Yates chairs the Technology Group of the law firm Morris, Manning & Martin, LLP.

ATLANTA - Silicon Valley has changed since my first visit in 1982. In my recent three-day trip to the Valley, I reflected on my past visits and looked for current trends in the venture capital market – or at least as many trends as you can discern by meeting twelve venture capital firms.

Interestingly, there are several important issues for technology companies in the Southeast to recognize.

1. There's money ready to be invested in our region – All of the venture funds (except one) that I met acknowledged an interest in investing in the Southeast. The one exception, Kleiner Perkins, was clear about their requirement for investing in California-based businesses (or moving the company to California).

2. Several funds have investments in the Southeast and often visit the region – The visits are frequently coordinated around Board meetings. Too often, the venture funds come to town, attend a Board meeting and fly immediately back home. We are working to encourage these funds to spend more time in the region to meet other growing companies that meet their investment profile.

3. There are still some early-stage VC investors – A few of the funds that I visited (four in total) will still make investments in early-stage companies. However, in these cases, the Silicon VC will almost always require a local venture partner.

4. Management still counts – A strong management team is critical to the willingness of most West Coast VC firms to invest in our region. All of the funds were unanimous in their position that a strong management team was a prerequisite before investing in any early-stage businesses.

5. Funds like serial entrepreneurs- For decades, Silicon Valley has created a community of serial entrepreneurs who have been funded by venture capitalists in the Valley. For the first time, the Southeast is experiencing the same phenomenon – but on a smaller scale. We need to encourage our serial entrepreneurs to meet with the West Coast venture funds when they're in our region.

6. All of the venture firms like computer security – Every VC fund acknowledged an interest in making investments in security companies in the Internet and computer areas. Atlanta is particularly attractive to these funds as a result of the large number of new Internet security startups, many of which have been established by former executives from Internet Security Systems.

7. Preference for “Last Money” in the deal – A number of funds have carved out a niche focused on being the last money in the deal before a sale or public offering. These funds generally have a minimum investment level of \$10 million.

8. Referenceable customers are important – All the funds stressed the importance of referenceable customers and a strong pipeline. Unless the management team includes a successful serial entrepreneur, a strong base of customers may be required as a prerequisite before obtaining an investment.

9. Funds still like the financial service sector – Several of the funds focus on portfolio companies that are in the financial services sector. Alternatively, they may invest in companies that sell to banks and financial institutions. The Southeast is seen as a center for these companies. Also, many of the Silicon Valley venture funds have limited partners or investors in our region (predominantly the major financial institutions in Charlotte and Atlanta).

10. Business Services and BPO are still hot – Most of the funds indicated an interest in investing in business process outsourcing companies. They were generally not interested in service companies focused solely on IT offshore outsourcing services.

In summary, the good news from my trip – West Coast venture funds are interested in doing deals in the Southeast.

The better news – our region has a group of serial entrepreneurs who are attractive to the Silicon Valley investment community.

The best news – all but one of the venture funds that I visited is interested in spending more time in the Southeast and developing contacts in the region.

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