



Midas '08

Venture Firms Peek Out Of Silicon Valley

Claire Cain Miller 01.24.08, 6:00 PM ET

BURLINGAME, CALIF. - In 2000, when John Neis, co-founder of Madison, Wis.-based Venture Investors, tried to convince venture capitalists on the West and East Coasts to fund **TomoTherapy**, a Wisconsin cancer-radiation company he had seeded, they weren't interested. "It was not in the comfort zone for them," he says. So he returned to Wisconsin and pulled together a group of Midwestern investors.

TomoTherapy (nasdaq: [TTPY](#) - [news](#) - [people](#)), which makes a device that bombards tumors from thousands of angles while avoiding healthy tissue, went public in May and is now worth \$775 million. That deal launched Neis onto the Midas List, and might have coastal investors wondering why they didn't join in.

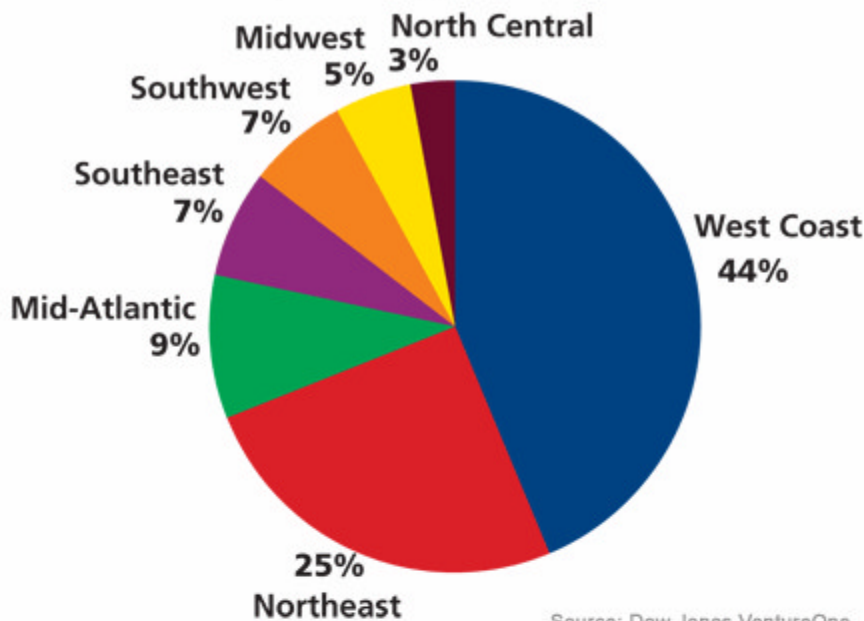
Venture capital is slowly going national. The most well-known names on the Midas List still come from the two poles around which the venture capital world revolves--Sand Hill Road in Palo Alto, Calif., and Route 128, near Boston. But impressive ideas from across the country are providing bountiful opportunities for deal makers at regional VC firms. In addition to TomoTherapy, last year's exits included **MetroPCS Communications** (nyse: [PCS](#) - [news](#) - [people](#)) from Texas, Reliant Pharmaceuticals from New Jersey and Berkeley Data Systems from Utah.

Several regional firms have proved that investors can be successful outside of the venture hubs. Chrysalis Ventures in Louisville, Ky., has become a go-to firm for health care start-ups. Noro-Moseley Partners in Atlanta has \$580 million under management, most of it going to Southeastern start-ups. Village Ventures manages \$750 million in funds focused on 14 small cities across the country, from Boise, Idaho, to Tucson, Ariz.

"The dominance of Silicon Valley in the total venture industry is not going to last forever," says Village Ventures co-founder Matt Harris.

Still, most coastal firms have been more willing to open offices in India or China than elsewhere in the U.S. Within the U.S., most deal makers stick with what they know--tech and life-science companies in the Silicon Valley and Boston. Fourteen billion dollars, almost 50% of all capital invested in the U.S. in 2007, went to California, and 70% of that went to the Bay Area, according to Dow Jones VentureSource. Boston came in second, with \$4 billion invested. (See pie chart.)

Venture Deals by U.S. Region, 2001-2007



The biggest benefit in looking between the coasts: There are untapped opportunities everywhere you turn. "If you're at Stanford and you go out to lunch, you're likely to bump into a couple of VCs at the restaurant. Unlike Sand Hill Road, that's not going to happen in Madison, so there's a lot of cream sitting at the top," says Neis. His firm culls eight states for deals; most come from research done at the University of Wisconsin-Madison and the University of Michigan. "We've got an enormous amount of world-class science coming out of these universities, and very few people paying attention to them."

Regional investors say they also escape the herd mentality that can pervade Silicon Valley, so there's less risk of investors chasing me-too companies to find the next YouTube or Facebook.

That means it's cheaper to invest, too. Without competing firms ratcheting up prices, regional investors can get in at lower valuations. Village Ventures often invests at prices 50% below Silicon Valley or Boston, says General Partner Matt Warta, who's based in Denver. The median amount invested in young Bay Area companies is \$10 million. It falls to \$8 million in Texas and \$6.5 million in New York, according to Dow Jones VentureSource.

A feel-good side benefit of investing regionally is that investors get to see firsthand the impact on their communities of the companies they help build. TomoTherapy created 700 high-paying jobs in Madison, Neis says, a big deal in a city of 200,000. Similarly, after **Google** (nasdaq: [GOOG](#) - news - people) bought Village Ventures-backed SketchUp, which makes 3D-modeling software, the search giant opened an office in Boulder, Colo.

There are downsides to investing far outside the valley. Unlike the small cities where Village Ventures makes most of its investments, "In Silicon Valley, it's frictionless to build a company. You have an idea Monday, a CEO Wednesday, venture investors Friday and by the end of the week you're in business," says Harris of Village Ventures.

Step two--finding a talented management team, one of the most important offerings venture firms bring to the table--is much more difficult for regional firms. Even when Neis can convince managers to move to Wisconsin, he says, the candidates often worry about what they'll do if the company fails. "What are the chances of me finding my next opportunity in Madison without having to uproot my family again?" they ask him.

One solution: move start-ups to the CEOs. Warta is working on a health care information technology deal with entrepreneurs in Southern California and Dallas. He thinks he has a great chief executive in Boise, so he plans to build operations there.

Deborah Farrington, founding partner of StarVest Partners, which is based in New York with investments from Texas to Ohio, has a similar philosophy: "You go where the teams are." She backed Insurance.com in Cleveland partly because the city is home to several insurance companies with seasoned executives, and she's currently looking at an agricultural tech company in Saskatoon, Canada, because that's the center of the industry. Similarly, North Carolina is overflowing with biotech experts, while Houston is the energy capital of the country.

Next time Neis approaches coastal investors with a company idea, he probably won't have as much trouble getting them onboard. "More and more firms are thinking that if they want differentiated deal flow, they need to look outside of Silicon Valley," says Harris. "Their first reaction if they see a deal in Indiana or Albany is: 'Wow, not everyone on Sand Hill Road is looking at that--and that's a good thing.'"