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More regional firms get venture capital despite decline in investing

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The region's flow of venture capital declined in 2008, but the number of new companies receiving cash infusions inched up, a new report shows.

Seventy-three companies in various stages of growth drew \$259 million in venture capital last year, the Venture Capital Advisory Task Force reported Thursday.

That's a 19 percent drop in venture investing from 2007. But that year was unusually robust, task force members said, with four big deals averaging \$39 million each.

The two-year total of \$577 million puts the 21-county region well on its way to reaching a goal of \$1.2 billion in venture capital deals by 2011, the task force said.

"We're not Silicon Valley," said Scott Shane, an economics professor and member of the North Coast Angel Fund. "But we are becoming a serious player in venture capital-backed activity."

A steady flow of venture spending is key to the region's recovery. Typically, just one in 10 new companies receiving venture capital will be considered a success in 10 years, Shane said.

But those successes will be companies that employ hundreds, if not thousands.

"Only a small number will be successful," said Shane, a professor of entrepreneurial studies at Case Western Reserve University. "It's hard to determine which company it will be, so you build a pool of potential."

Health-care companies continue to receive the lion's share of venture investments.

Companies offering health services, information systems, biopharmaceuticals and medical devices and equipment drew \$158 million, or 60 percent of the capital raised.

Start-up companies leading the investment included PartsSource, an Aurora supplier of replacement parts for hospital equipment, which received \$50 million, and ViewRay Inc., an Oakwood maker of medical imaging and treatment technology, which got \$25 million.

"Health care continues to be Cleveland's flagship sector," Baiju Shah, president of BioEnterprise, said in a press release.

Ohio has 27 venture firms focused on health care, ranking the state fifth in the nation, according to Shah.

Other sectors drawing venture spending include information technology, \$27 million; retail and consumers, \$24 million; and what the task force calls "clean tech," - advanced materials, energy and environmental - \$49.5 million.

Venture capital is trending up over the last five years, since investors bet \$124 million on 42 companies in 2004, task force officials said.

Opportunities here have drawn nearly 90 investors from outside the region, said James Ireland III, task force chairman and managing partner of Early Stage Partners in Cleveland.

Investors "see potential in innovative ideas coming out of Ohio," Ireland said in a press release.

Shane predicted a dip in venture spending this year, because of the shrinking economy. But the region's strength in health care, which is somewhat resistant to recession, should help.

An increasing flow of venture capital is critical to the region's economic future, he said.

"We kind of have to be a lot better than average," Shane said. "We want to be more like Austin, Texas, or the Research Triangle."

The venture task force's annual report is published by NorTech, BioEnterprise, JumpStart Inc. and the Fund for Our Economic Future.

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