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\$500 million invested in Northeast Ohio starts

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Plain Dealer Reporter

In the past three years, nearly 100 Northeast Ohio companies received equity investments totaling more than \$500 million from venture capital and private equity firms.

That's half a billion dollars.

"That is quite stunning," said Baiju Shah, a member of the NorTech Venture Capital Advisory Task Force, which is publishing a report on the region's venture investing activity from 2004 through 2006.

"I think that will surprise many regional observers."

It even surprised Shah, who, as president of BioEnterprise Corp., the regional development organization for health care companies, routinely meets with national and international venture capital managers in his quest to match them with budding biomedical companies in Northeast Ohio.

In terms of venture capital, though, Shah sees only part of the Northeast Ohio picture.

Putting all the pieces together for the first time took thousands of hours and probably 300 telephone calls, said Ray Leach, chief executive of JumpStart Inc., the venture development organization in Cleveland.

"The biggest takeaway surprises are, one, deal activity is high, in terms of early and seed investments," Leach said. "Two, the breadth and depth of engagement from investors who are coming into our region are greater than JumpStart had envisioned at this point."

Leach and Shah gathered much of the data for 2006 Greater Cleveland Venture Capital report, which the NorTech task force hopes will be updated annually.

Also from the report:

Forty-one national venture firms have made follow-on investments in the region's companies since 2004. The NorTech task force calls this an "unprecedented number."

Medical device companies got the largest number of investments - 24 - in the past three years. Health care information technology and services got the greatest percentage of investor money in that time - 28 percent.

Institutions in the region conduct more than \$600 million in research and more than 550 clinical trials for new therapies each year.

Over the past five years, Northeast Ohio has received more than \$300 million from the Ohio Third Frontier program.

The good news: The region's funding and entrepreneurial support community has developed a continuum of support from pre-seed stage to exit event.

This funding activity has done its part to create a pipeline of companies in various stages of development that are attractive to venture capital and private equity financiers.

The not-so-good news: This activity has created another funding gap. Over the next five years, the NorTech task force expects the region to need more than \$1.2 billion in venture capital to meet the market's needs.

Can we generate or attract that kind of money?

"It's a challenge, no question," Shah said.

"California gets that in a year," said Dorothy Baunach, president and chief executive of NorTech.

Our region probably will need \$375 million in seed and early stage funding during the next five years to keep the company development pipeline primed, the task force estimates.

Seed funding, which usually is the earliest money invested in companies by outside investors, is likely to be the hardest to get. "That is going to be more of a challenge for us to address as a region and a state," Shah said.

In 2005, the NorTech task force made its first guess at the amount of venture capital the region would need: \$300 million in seed and early stage money in the following five years.

That year, the Ohio General Assembly created the \$150 million Ohio Capital Fund to help answer this need for early money. Soon after, the Ohio Public Employee Retirement System created the Ohio-Midwest Fund to do the same thing.

On average, 20 companies in the region have received seed funding in each of the past three years, according to the report.

"We're going to need more support from foundations, institutions, endowments and high-net-worth families," Shah said.

The NorTech report also might start conversations in Northeast Ohio. "It's a foundation to have a conversation that most individuals in this community have never had the data to have," Leach said.

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