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## Attracting venture capital to SLO County

Business owners are looking out for their employees and the natural world by using recycled materials and new technologies

By Julie Lynem and Ermina Karim

With about \$5 million in venture capital funding, Rick Stollmeyer believes that his fast-growing company MindBody will be able to launch a Web portal that will change the way customers find, schedule and pay for personal services — spa treatments, hair cuts or yoga classes.

Business partners Ken Pettit and Jon Beebe need \$1 million from an investor to hire computer programmers to write their software that will customize products such as coffee mugs and T-shirts.

Ed Stevens hopes to raise \$10 million to expand sales, marketing and operations for his company Shopatron, a San Luis Obispo firm that connects manufacturers, retailers and consumers.

San Luis Obispo County may never be Silicon Valley, well-known for being at the center of venture capital activity, but local entrepreneurs say it is ripe for attracting investors in search of the next hot company.

An event organized last week by the nonprofit Economic Vitality Corp. of San Luis Obispo County brought 26 local business owners including Stollmeyer, Stevens, Pettit and Beebe together with venture capitalists and "angel investors" from the Central Coast and Northern and Southern California. The event, called SLO Fast Pitch, was designed to connect businesses with the financial resources and sage advice they need to be successful.

"As the saying goes in Silicon Valley, 'Money follows talent,' so the EVC is helping investors find the many talented companies in the county," said Mike Manchak, president of the EVC, which hopes to host another forum later this year.

"Out of convenience, many VCs and angel investors in Northern and Southern California would rather deal with companies in their own back yards, but this seems to be changing because many investors are now looking for business ideas outside of the big metropolitan areas. They want to find fresh ideas outside of their traditional markets."

**County ready for capital**

For the venture capitalists and angel investors who participated in last week's event, the county's business community has the key ingredients to lure major funding sources and become even more of a hub for small businesses, potentially bringing higher-paying jobs to the area and strengthening the county's economic base.

"San Luis Obispo has a great educational infrastructure with Cal Poly and Orfalea (College of Business), it has some great companies as models, and it has an educated, ready-to-work population," said David Cremin, managing director of DFJ Frontier Fund, which invests in early-stage technology companies in California. "If you inject venture capital into the equation, the region could really be built up."

The mission of DFJ Frontier, an affiliate of the Silicon Valley venture capital fund Draper Fisher Jurvetson, is to find regions outside of Silicon Valley that have the potential for a strong technology community but receive little venture capital attention. Cremin attended the EVC event with the intention of funding attractive business opportunities.

Another panelist was Jeff Carmody, founding partner at Agility Capital, a Santa Barbara-based private fund that provides short-term loans to private venture-backed and small-cap public companies.

"As an outsider looking in, it appears that there is plenty of opportunity in San Luis Obispo," said Carmody, who examines about 250 companies annually. Of those, seven secure loans.

"There are a lot of smart people in the area — whether they are Cal Poly grads or relocated to the area for the quality of life," Carmody said. "Now it's a matter of getting others in the investment community to understand the potential."

Investors such as Rod Simon said many businesses in the county are ready for the next level.

"I've always known there was activity here," said Simon, chief executive officer of KCGI, a private capital group with offices in Palo Alto, New York, Chicago and Boston. "But I really didn't know until Monday what type of activity was going on here. I was pretty excited about what I saw and heard."

Simon, who lives in the county, was so excited that he plans to invite his partners from New York when the EVC hosts its next venture capital event. KCGI isn't a seed or angel investor group, but looks for companies that are already offering their products, goods and services in the marketplace.

"If I was going to rate (the companies at the event) to guys on the national scene, I would say they're every bit as good," he said. "Do they have the opportunity to get funded? ... Absolutely."

### **Rebound of venture money**

Now may be a good time for promising San Luis Obispo County companies to look for money. Venture capital investments totaled \$25.7 billion in 2006, a five-year high, according to a January report in The Wall Street Journal. Sectors such as alternative energy and medical technology fueled the increase of about 8 percent from 2005.

Investment funds flush with cash need to put the money to work, so they are actively seeking potential investments.

"The environment is great," Cremin said. "There is so much money out there that needs to get invested. There has been a flurry of M&A (mergers and acquisition) activity that have created exit and liquidity opportunities. Assuming that there are no significant corrections in the public markets, this trend should continue."

Local companies, however, shouldn't expect the cash to flow that easily. Venture capitalists and angel investors want to make sure that the companies they invest in have a tangible product or service.

Cremin, who evaluates 1,000 businesses a year and funds about five, said a business model should include some basics: The company should be profitable, repeatable, predictable and defensible, he said.

"We want companies that, if given capital, can grow very quickly into their growth opportunity," he said.

In the late 1990s, when many start-up companies were sprouting, people had great ideas but not much to show for it, said Simon.

"A lot of it was this smoke-and-mirror show," he said. "They had 10 (Power Point) slides for \$10 million but never had a product. We look for commercial companies already in the market with a need to expand."

The smaller the equity investor, the harder it is to get money because business owners are asking someone to put in their personal money. That's why it's imperative that the investor believe in the person driving the company, Simon added.

"The first priority, even on national scale, is to look at management and ownership of the company," he said. "The second thing they invest in is the exit strategy. They want to know what kind of return on investment am I going to get?"

### **Making the case**

Many of the companies pitching to investors last week believe they have what it takes to impress investors.

Beebe and Pettit, who opened BIG Images, a San Luis Obispo large format printing and technology company in 2003, have already followed up with several potential investors at the event.

With a \$1 million initial investment, the partners would be able to hire programmers and launch a marketing campaign for their delicious:suite software that allows users to customize any product.

"We have a good idea of where we want to take the product," said Beebe. "The more people we have behind it, the faster we'll get it there."

Stevens said his company, Shopatron, with 21 employees and revenues that have doubled every year since 2002, embarked on its fundraising initiative last week. He met three potential investors from the Central Coast and outside of the area. San Luis Obispo, which has spurred growth in the technology sector, has the potential to become a magnet for major investment and a town that has name recognition beyond the Central Coast, he said.

"What did it take to put Bentonville, Ark., (Wal-Mart headquarters) on the map?" he asked.

For Stollmeyer, whose presentation last Monday gave him a chance to meet one-on-one with Carmody and Cremin, an infusion of new funding will only accelerate his rapidly growing company.

MindBody Online, founded in 2001, already has 45 employees and 2,300 clients in 31 countries. The company, which Stollmeyer started in his garage with about \$100,000 in initial investment, ended last year with \$2 million in revenues. He expects to have more than \$100 million in annual sales in the next five years.

"San Luis Obispo is on the cusp of a renaissance in entrepreneurialism," Stollmeyer said.

Stollmeyer's advice for up-and-coming businesses: focus on the customer, create a product people are willing to pay for, invest in a good attorney and be tenacious.

"The best ideas require energetic and committed people," he said. "If you're not 100 percent committed to what you're doing, don't waste your time."

### **The money men**

- Angel investor: "Angel" or "angel investor" is an individual who provides capital to one or more start-up companies. Unlike a partner, the angel investor is rarely involved in management. Angel investors can usually add value through their contacts and expertise.
- Venture capitalist: "Venture capitalist" is a term used of an investor who provides capital to either start-up ventures or small companies that wish to expand but do not have access to public funding.

Source: [fundingpost.com](http://fundingpost.com)