

Venture Investors' Confidence Steady, But Still Not Stellar

by Timothy Hay

While the mood in Silicon Valley may still be a far cry from the Gold Rush mentality that was common in the late 1990s, many investors there believe that the worst of the global recession has passed.

In its quarterly Silicon Valley Venture Capitalist Confidence Index, researchers from the University of San Francisco's business school found that of the 35 venture investors surveyed, most believe the economy is on the mend.

On a confidence scale of 1 to 5, with 5 indicating high confidence, investors have registered a 3.37 for the second fiscal quarter in a row, USF researchers said. The figure marks a continued rebound from a low of about 2.8 in the first quarter of 2009, but hovers lower than the 4.5 rating achieved before the recession, in the first quarter of 2007.

"It all starts with small moves, based upon confidence," said Robert Ackerman of Allegis Capital, echoing the sentiments of most investors surveyed.

While deal pace remains slow, investors are optimistic that the exit markets -- both for initial public offerings and acquisitions -- are beginning to pick up. The most encouraging sign, several investors said, is that public tech companies are beginning to bargain hunt among privately held developers of various technologies.

"The tone of the market has significantly improved," said Sandy Miller of Institutional Venture Partners. "The big, cash-rich technology companies are moving aggressively to acquire premier private tech companies after a long quiet period."

And what they are finding are a good number of VC-backed companies with modest valuations and high revenue, investors said.

While many investors lamented that the IPO market is still below par, the report points out that the eight venture-backed IPOs logged in the last two quarters is more than were seen in all of 2008.

And certain emerging, disruptive technologies have the potential to outperform other sectors of the economy going forward, many investors said.

"Invention never has a recession," said Venky Ganesan, managing director of Globespan Capital Partners. "We see many interesting ideas around the Internet, mobile and cleantech sector."

Other investors cited cloud computing, video delivery and gaming as fast-growth areas.

Of the 35 investors surveyed, most referred to glimmers of light at the end of a tunnel -- but no one denied that venture investing is still inside the tunnel.

Venture capitalists, exhibiting caution over the past year or so, have provided more insider rounds and bridge financings than what is traditional for Silicon Valley.

And while this may have helped some portfolio companies through lean times, some investors, like Jay Watkins of De Novo Ventures, are wondering aloud what will happen next year, when insider support is stretched thin. If investors have not increased their appetite for risk by then, the industry could be heading for trouble, several VCs said.

And many VCs said they fear the whole industry might be shrinking, as allocations of capital have become harder to come by.

Access the full report from <http://www.usfca.edu/sobam/nvc/pub/svvcindex.html>.