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Venture capitalists bet on Bay Area

Investors are more willing to take chances on fledgling firms than in recent years, study shows

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KRISTOPHER SKINNER/STAFF

OPERATIONS MANAGER Scott Farling, left, and **Research Manager** Brian Riise look through plastic parts from shredded electronics that await processing at the MBA Polymers facility in Richmond on Monday. The company captured \$20 million of financing in the second quarter.

Venture capitalists bet on Bay Area

High tech companies ruled the roost for venture capital funding in the Bay Area during the second quarter, but life science and green companies also have begun to assume a more regal bearing.

Venture capitalists placed an aggregate bet of \$2.53 billion on privately owned startups located in the Bay Area in the April-June period, a MoneyTree survey showed. That was 5 percent above the year before. PricewaterhouseCoopers and the National Venture Capital Association helped create the survey.

Overall, the level of venture financing in the Bay Area and elsewhere around the country looks healthy.

"There is plenty of venture money around," said Randy Hawks, managing director with Oakland-based Claremont Creek Ventures. "Promising young companies are getting financing."

The industry that captured the most venture money in the Bay Area was software. Private firms in the nine-county region landed \$669 million in the second quarter.

Software, though, did not grow as quickly as smaller sectors that attracted fewer dollars. Financing for the software industry in the region grew about 12 percent in the second quarter compared with 2006.

Venture financing for Bay Area biotech firms totaled \$299 million. But that was 41 percent more than the prior year. Networking companies doubled their funding.

Yet some new kids on the block -- green companies -- have harvested a growing level of venture money. Bay Area companies in a category that includes green tech, the energy and industrial industry, landed \$168 million in financing. That was up 48 percent from the year before.

"Clean tech looks like a real category, an emerging category, and one that has legs," said Steve Bengston, a Pricewaterhouse managing director. "You not only have a chance to make money, but you can do something positive for the world."

Richmond-based MBA Polymers is one green industry company that landed a large amount of financing in the second quarter. The company, which recycles plastics, captured \$20 million.

"We had gone to the market before to raise money," said Michael Biddle, MBA's chief executive officer. "We have never seen a response before like this one." The company now has two

VENTURE PIE SHARE

The chart shows the Bay Area industry groups that received venture capital financing during the second quarter of 2007, ranked by the total funding obtained. Bay Area-based privately held companies received \$2.53 billion during the April-June period.

Industry	Amount raised (in millions)	Percent change in funding from year ago
Software	\$669	+11.8
Biotechnology	\$299	+40.6
Medical devices/equipment	\$285	-5.2
Semiconductors	\$283	+0.7
Networking	\$249	+101.3
Industrial/Energy	\$168	+47.9
Media and entertainment	\$138	-31.3
Telecommunications	\$138	-37.9
Computers and peripherals	\$80	-27.4
IT (technology) services	\$51	-51.6
Electronics	\$43	-26.5
Financial services	\$41	-1.1
Consumer products/services	\$33	+170.2
Business products/services	\$23	+274.8
Misc.	\$15	N/A
Health care	\$10	+11.4
Retail	\$3	-74.9
Total	\$2,527	+5.0

Sources: PricewaterhouseCoopers, Thomson Venture Economics, National Venture Capital Association

recycling plants, one in China and one in Austria. MBA Polymers intends to use the money to expand further in Europe and Asia by building more plastics recycling centers.

Biddle said many green companies have begun to land on the radar screens of more investors.

"Clean tech companies are being looked at more seriously than they were in the past," Biddle said.

The outlook for the venture industry in the Bay Area looks more promising these days.

The aftermath of the dot-com meltdown eroded the financial results of many privately held high-tech companies contained in venture portfolios. Lately, the performance of more venture-backed companies in the Bay Area has perked up, said Pete Solvik, a managing director with the San Ramon office of venture firm Sigma Partners.

"The percentage of companies that are meeting or exceeding their plan has shifted dramatically from a few years ago," Solvik said. "It is common now for companies to exceed their plan significantly."

Venture capitalists have also intensified investments in early-stage firms. In recent years, investors concentrated on existing portfolios. Now, they have again begun to shower cash on baby firms.

"New ideas, new companies, new technologies, are always very good for the venture industry," said Tracy Lefteroff, a global managing partner with Pricewaterhouse. "It keeps them on the leading edge of innovations."

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