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## Venture capital investing rebounding in Austin

*Lori Hawkins: Plugged In*

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Last year, Austin venture capital firm S3 Ventures didn't make a single investment.

"We just didn't see the deals we wanted to do," said managing director Brian Smith.

In 2010, S3 has invested in three companies and could do a couple more deals by year's end, he said.

"There's more deal flow this year, and we're seeing a lot that we like," Smith said. "It feels like there's more activity right now — more entrepreneurs with new ideas, and more VCs investing."

S3 is one of a number of venture firms — here and on the East and West Coasts — back in the game this year. After sliding to a 13-year low in 2009, venture investing in Austin companies rebounded sharply in the first half of 2010, according to a report released last week.

A total of \$164.8 million was invested in 37 Austin deals, according to the report by the National Venture Capital Association and PricewaterhouseCoopers.

That's an increase of 141 percent from the first half of 2009, when \$68.4 million went into 23 Austin deals. That means nearly \$100 million more raised by Austin companies in the first half of this year than last.

"What's great is that ripple effects will be felt in Austin over the next 12 to 18 months," said Kirk Walden of Walden Consulting, an Austin-based firm that advises startups and venture firms. "Companies will spend some money immediately, on hiring, on new equipment, maybe new office space. But the impact will continue to be felt over a period of time."

Nationwide, venture investments also rose sharply in the first half of the year, thanks in large part to a robust showing by clean-technology and life sciences companies. Investors put \$11.4 billion into 1,646 deals, 49 percent more money than in the same period last year, the report said.

"Venture capitalists are feeling more positive about the economic outlook for investment, based on the jump we saw in VC funding this quarter," said Tracy Lefteroff, global managing partner of

PricewaterhouseCoopers' venture capital practice. "If the markets remain positive, we'll likely continue to see robust investment levels for the remainder of the year."

In a promising sign for Austin entrepreneurs, the number of companies raising money for the first time increased significantly in the second quarter. Eight companies received a total of \$38.4 million — compared with a total of one company, which received \$800,000, in the same quarter last year.

Among those raising their first round of venture capital was Social Agency, whose Spredfast service helps customers manage their social media efforts. Spredfast's software lets clients plan, execute and monitor online campaigns across multiple social media outlets, including Facebook, Twitter, LinkedIn and blogging platforms.

The company, which launched in January and has 15 employees, raised \$1.6 million from Austin Ventures in April.

Co-founder Kenneth Cho said he knew raising money for a company without a track record would be challenging, so he began networking with investors two years before Social Agency needed investment.

"We got on their radar and set up meetings and shared our trials and tribulations," Cho said. "They gave us some really great advice, and we built relationships. When we were ready to ask for money, they knew us."

Cho said Social Agency was pursued by a number of Silicon Valley and East Coast investors but chose Austin Ventures because it wanted a local partner. Still, the company is staying in touch with the other firms.

"Even though they didn't invest, you never know how we might work together in the future," Cho said. "They might have a portfolio company they're looking to roll up, or know the right person for a position we're filling. The thing we learned is it is never too early to start introducing yourself and getting out there."

Meanwhile, Smith of S3 said he plans to continue to look for promising companies that need funding for expansion. His firm invests in early-stage technology companies but focuses on startups that are beyond the idea stage.

Of its three investments this year, two are established companies with products and customers: Austin-based LibreDigital, which provides digital services to the publishing business; and Richardson-based data communications company Siper Systems Inc.

S3's third investment, which has not yet been announced, will be in a startup preparing to launch its first product.

"Based on what we're seeing, investment in Austin isn't slowing down," Smith said. "Everyone has come through a tough time economically, but it feels like now we're all ready to push forward."

**Courtesy of JB Goodwin**