

## **Cash bar**

**Smaller companies looking for that first round of VC often find more than a few obstacles to clear**  
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Ed Gildea, CEO of newly public Converted Organics, believes timing might have been against him when he sought venture capital for his startup three years ago.

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Ed Gildea needed money.

It was 2004. And while these days an innovative, environmentally friendly startup would likely have venture capitalists seeing green, the landscape was far different just three years ago. Gildea pitched Converted Organics Inc., which turns food waste into fertilizer, to one VC group after another -- all to no avail.

So Gildea chose a route that would have given pause to many other startups: He took Converted Organics public. The company (Nasdaq: COINU) raised \$9.9 million in an IPO in February. The four-person startup has a market capitalization of \$15.4 million.

"When we were first looking to raise equity we did not find venture capital groups who felt they were in a position to provide us with money. A lot of fund raising is affected by timing," Gildea, the company's CEO, said in a recent interview with the Boston Business Journal, which wrote about Converted Organics' IPO last month.

"If we had been able to raise the money in the private markets, we most certainly would have," he said shortly after the IPO.

Gildea's story underscores the slew of challenges that entrepreneurs can face in their quest to secure venture capital funding.

Although the venture capital community has lots of cash to spend --venture capital funds raised a record \$28.6 billion last year, according to the National Venture Capital Association -- it doesn't mean the cash is easy to get. Entrepreneurs have to run something of a minefield to attract the right investors. And any mishap along the way -- from the initial courting of venture capital firms to the final selection of a firm -- can cause the whole process to blow up in their faces.

In fact, it is the fact that funds have so much money they need to deploy that can make early-stage funding -- between \$1 million and

\$5 million, say -- something of a rarity.

"There is a ridiculous amount of money out there, which is probably what makes it more frustrating for people who want funding and can't get it," said Alex von der Goltz, a partner at Boston Capital Ventures. "There's a trend towards later-stage investments. The majority (of VCs) have increased their fund size and have not increased their staff. The easy math is, take the fund size divided by the number of partners. That number is how much each partner is responsible for and you'll find that number is pretty large."

When a firm is looking to put larger chunks of money to work, some companies may have to look harder for a firm that is willing to handle smaller deals.

"Some of the VC firms really like to put a lot of money to work," said David Hughes, CEO of Reflexion Networks Inc., an antispam software provider in Woburn. "We are trying to raise \$4 million to \$5 million -- and that's too small for some firms."

Reflexion has so far raised \$4 million from investors that include Boston Capital Ventures. Hughes wants to add new investors to his existing ones, and he says he expects to approach about 50 investors before the process is through.

"You have to talk to a lot of people to find the right ones," said Hughes. "Raising money ... is arguably the most important role of the CEO. Persistence is a big part of it -- and your determination to move the company forward."

Ron Lipof wishes he had to talk to only 50 likely investors.

The serial entrepreneur -- who by day serves as CEO of the Wellness Community in Newton -- is trying to raise \$5 million for an as-yet-unnamed startup that will specialize in medical practice software. So far, he has talked to 76 local venture capitalists.

"When approaching a VC ... you've got to make a case that the opportunity fits with their strategy," he said.

The area that the startup is in can also work for or against a company. If an area is new or untested, investors may shy away. Conversely, if an area becomes too popular, investors may become skittish the company is not unique enough.

"The other challenge you have is, 'Are they really innovators?'" said von der Goltz. "If they're not, I don't blame the VCs for not funding them."

Perhaps the toughest part about snagging VC cash is getting that first meeting. Referrals are gold when it comes to getting an introduction; entrepreneurs should never e-mail their business plans and expect a response.

However an alternative approach for young entrepreneurs who don't have a lot of connections would be to attend VC events and chat with an investor after his panel presentation, according to Eric Hjerpe, a partner at Atlas Venture in Waltham.

"I always tell them, first do your research -- not only about fund sizes, but about individual partners," said Hjerpe. "If you pitch a consumer business to a semiconductor guy it wastes everybody's time."

Entrepreneurs should also look beyond VCs to strategic investors, angels and hedge funds to create a "multithreaded" process in order to maximize their chances for funding, according to Hjerpe, who gets between five and 10 referrals each week and does about one deal a year.

"You want to keep the process open, because as an entrepreneur, you just want to raise the capital to get the business going," said Hjerpe.