

VENTURE

Growing Wings

VC Eric Di Benedetto launches a new angel firm.

Silicon Valley venture capitalist Eric Di Benedetto says it's been a long time since he consistently saw the 10x returns that once marked his industry. Angel investing, he believes, will give him the power to get there again. The risk is higher, he says, but the payoff can be much sweeter.

The 41-year-old co-founder of Menlo Park, California-based VC firm Convergence Partners has been quietly funding software startups over the past three years, but as of this month he's officially launched his angel firm, Active Starts. The theory behind it is that the garage stage is the best time to seed technology startups.

His first investment, three years ago, was in Clairmail, a mobile services firm that eventually garnered about \$8 million in venture fund-

ing. He then funded Visible Path, an early social networking firm that was later backed by Kleiner Perkins Caufield & Byers.

At some point, he says, "what I was doing on the side became the focus of my attention."

Active Starts now has a portfolio of a dozen companies, in which he has invested anywhere from \$50,000 to \$200,000. The money comes out of Mr. Di Benedetto's own pocket, though he often co-invests with Rob Wilmot, a limited partner he has worked with for many years.

Thanks to open-source coding, offshoring, and cheaper options for online marketing, the cost of starting up a tech company is plummeting (see "Doubling Down," p. 18). In response, investors of all stripes are putting their faith in companies at the early end of the spectrum.

Last quarter, U.S. venture capital investment in seed- and early-stage companies increased by 60 percent—from

56 to 90 deals, according to a report by PricewaterhouseCoopers and the National Venture Capital Association. The amount invested nearly tripled, from \$114.3 million to \$329.2 million.

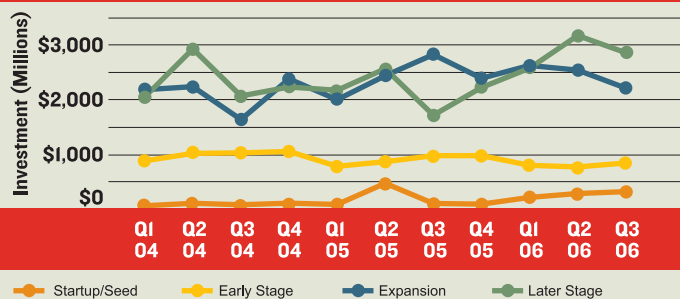
Later-stage deals still outnumber seed- and early-stage fundings by about three to one, but the trend is that they are declining in number and amounts invested. Last quarter, there were 219 late-stage venture fundings, compared with 276 in 2005—a 20 percent decrease. The amount invested also

dropped by about the same amount, from \$2.8 billion to \$2.2 billion (see chart.)

The last boom and bust cycle, of course, wasn't kind to angels—many of whom came away with their wings severely singed. Mr. Di Benedetto says he'll bring a level of professionalism to angel investing, leaving the bad old days far behind. Now he has the flexibility to fund the companies he thinks have the greatest potential, rather than balancing the needs of a multitude of limited partners. After all, it's his money. **RH**

Boom Time

Startup venture funding in 2006 rises as seed rounds grow.



Source: PricewaterhouseCoopers, National Venture Capital Association

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