

Leveling the rocky road for venture-capital firms

Enterprise Partners combines growth, profitability

By **JERAN WITTENSTEIN**, The Daily Transcript
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Although it's been more than six years since the high-flying days of the dotcom era came crashing down, the climate for venture-capital firms looking to raise money for technology-centric funds is just returning to normal, according to Bob Conn, a managing director at the La Jolla-based **Enterprise Partners Venture Capital** firm. While colossal leveraged buyouts in the private-equity world and the piles of money hedge-fund managers reportedly earn consistently garner headlines, the venture capitalists have maintained a low profile.

"There's a lot of competition among the asset classes for money," said Conn from his airy office just down the street from the La Jolla Beach and Tennis Club. "The venture model is one where I think people are returning to ... but you have to keep changing the areas in which you think you can create value."



Bob Conn is a managing director at the La Jolla-based Enterprise Partners Venture Capital firm.

Photo: J. Kat Woronowicz

Creating value is a theme commonly used in the venture-capital vernacular.

If the investment universe was portrayed in a comic book, and hedge funds were characterized as tech savants and leveraged buyout firms were the schoolyard bullies, then venture capitalists might be wealthy, wise old uncles inclined to adoption.

While hedge funds attempt to milk gains from newfangled trading systems and irregular investments and private-equity firms look for undervalued or ill-managed companies to load up with debt or streamline and resell on public markets, venture capital funds continue to build wealth the old-fashioned way: by spotting young companies with potentially hot products and aiding their growth.

The business model is geared around creating value not only by investing capital, but also by providing the expertise and networking connections needed to succeed.

And along the way the goal is to make money -- a lot of money, preferably.

The venture business is a "home run game," according to Conn, with firms aiming for 1,000 percent profitability on their investment, also known as "10x." The reason for such lofty expectations, according to Conn, is that most companies aren't highly lucrative investments.

Although Conn wouldn't reveal the fees Enterprise Partners charges its strictly institutional clients, Conn said the fee structure is similar to the so-called two and 20 model -- 2 percent of total assets under management and 20 percent of profits -- commonly invoked in the hedge-fund world.

"I think it would be hard to motivate anybody for much less than that," Conn observed.

He was dean of the Jacobs School of Engineering at the University of California, San Diego, for 8 years before he joined Enterprise Partners in 2002.

Enterprise Partners, which employs about 20 people, specializes in investing in early stage businesses within the biotechnology to high technology markets. Since 1985, the firm has raised more than \$1.2 billion for its six funds.

The firm is currently preparing for fundraising on its seventh fund, which Conn said will be geared mainly toward biotechnology.

During the past year, Enterprise Partners has beefed up its expertise on biotechnology and biopharmaceutical companies with the hiring of two new managing directors.

Last July, Enterprise Partners brought onboard Kleanthis Xanthopoulos, former founder and CEO of **Anadys Pharmaceuticals**.

In February, Marios Fotiadis joined the firm. Prior to joining Enterprise Partners, Fotiadis worked with the Life Sciences Venture team at **Advent International**.

Conn said that in the dot-com era, Enterprise Partners was able to create great value with telecommunications and Internet infrastructure companies.

"That is largely done," Conn said.

Now, traditional industries such as semiconductors, which are undergoing fundamental changes based on technology adaptation, are hot spaces, according to Conn.

"Whole new markets are developing because you need new solutions," he said.

Conn is optimistic about the venture atmosphere over the next one to three years. He said the environment for exits, or equity events such as public offerings, looks especially favorable.

During the past five years, value investments have been the emphasis with investors being more interested in the size of their dividends rather than the future growth of the company, Conn said.

"All of the value investing is done and now people are beginning to return to combining growth with profitability," he added.