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Some Venture Investors Fear State's Image Fading

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Some Colorado financial experts are becoming alarmed about a slowdown in the state's ability to attract venture capital.

During its go-go growth years, Colorado became known as center for venture capital—high-risk financing for startup companies that is typically raised from wealthy individuals, pension funds, banks or insurance companies.

The reputation was fueled in part by the entrepreneurial spirit of the state. The flow of funds into Colorado was only slightly behind high-tech centers such as California, Massachusetts and New York.

Venture capitalists hardly work for charity. They typically provide cash to startup companies in return for a large ownership stake.

Ventures has been key to the financing of companies in Silicon Valley, Route 128 in Boston, and even the Boulder County high-tech corridor.

Colorado is still a hub for capital raising—also known as “capital flow.” Experts figure that as much as $400 million in venture capital is under management in the state.

There is growing concern, however, on the part of some investors that the state's sluggish economy, an out-flow of talent and current stock market conditions are putting a dent in Colorado's reputation for entrepreneurship.

Venture capitalists agree the “deal flow,” or stream of business plans that come across their desks each month, has hit a slow spell. But they are divided on why the deal flow is slow and how long the slowdown will last.

One of the biggest players in Colorado venture capital is the state's $8 billion pension fund, the Public Employees Retirement Association.

Fewer deals

Partly as an economic development, gesture and partly to enhance the return for investors, it has committed about $25 million to Colorado venture capital funds since 1981. Today, some PERA executives are worried that a slowdown in Colorado deals will force them to invest in venture capital funds outside the state.

The number of new Colorado companies to invest in has diminished,” said Norm Benedict, PERA's top investment executive. Benedict and others link the shortage of deals to a downsizing in the state's economy.

Some experts believe a rising stock market and defections of talented entrepreneurs from maturing companies can revive the deal flow. But Colorado also may have to face the fact that it's star in the venture capital arena will remain in eclipse until the state stops losing talent to the East and West coasts.