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Indiana VC's virtuous cycle may finally be comin' round

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Here are three good reasons to be optimistic that Central Indiana is getting past its nagging lack of capital for emerging businesses: Baker Hill, Financialware and Suros Surgical.

What? Those companies all sold to owners outside Indiana in recent months. How can that be a good thing?

Let us count the ways:

Jobs. The local companies were strong enough that the acquirers agreed to keep the workers here. The local divisions likely will grow with more money from their new parents.

Money. The investors in Baker Hill, Financialware and Suros all reaped millions from the sales.

Spending the money. Those investors are likely to reinvest that money in new ventures.

It's hard to fathom that the sale of a local company is a good thing. Too often it means the loss of local jobs and influence, which diminish the area economy. There are plenty of examples of this in banking, utility and manufacturing companies.

But that's the wrong way to look at the recent sales of breast biopsy instrument maker Suros Surgical or of financial software firms Baker Hill and Financialware. We're beginning to see the start of what venture capitalists call the "virtuous cycle."

"Success breeds success," said Brian Williams of Hopewell Ventures. "The Suros people will invest their experiences and their money into new startups."

That's what Mark Hill, who founded Baker Hill, already is doing, said Steve Beck, president of the Indiana Venture Center.

"This is the kind of trend that is really important," Beck said.

The sales send the signal that there is vitality in the local market. People with good ideas are building good companies.

"People were saying, 'We didn't think you had anything going in Indiana,' " Beck said. "Now people say, 'Make sure you keep us aware of this stuff.' "

Suros President Jim Pearson knows what Beck means. Suros hosted potential investors in a rented conference room at the Omni North hotel in early 2001. Investors ponied up \$25,000 or \$50,000 at a time until the company got \$4 million.

"We figured why raise more money if the product isn't great," Pearson said. "If the product was great, the money would come."

The product was great and the money did come -- about \$12 million in the last round 20 months ago. Suros considered going public, but decided to sell for at least \$240 million instead as an exit for its 40 or so investors, most of them Hoosiers.

Suros is likely to grow from 180 people to about 240 over the next two years. It coincides with revenue growth from \$40 million to \$100 million, Pearson said. And it will happen at its Boone County headquarters.

It's happened here before. In the mid-1990s Don Brown and Scott Webber hit a similar jackpot with Software Artistry, and now both are heavily involved in developing new companies here. The increasing frequency of the deals means the effort to shift the area's economy toward technology is ripening.

"We've got smart ideas, and we've got smart people," Beck said. "We need more patient capital, but that's starting to come."

It takes time to change hardened perceptions.