



# Venture Capitalists Turn Their Gaze Toward Software

**FINANCE: Local Funding Falls; Investors Still Drawn To Solid Ideas and Markets**

By **MIKE ALLEN**

Monday, December 5, 2011

San Diego-based Mellmo Inc., a provider of mobile applications aimed at smartphone users, has been busy lately.

The two-year-old business opened two new international offices, in London and Shanghai, and is looking to expand into Australia and possibly Brazil, says Dave Becerra, the company's co-founder and vice president of business development.

Total employment has increased to about 100 people, including 75 in San Diego, up from about 50 a year ago.

It's also launching a new product called the Roambi Flow that allows users to download all manner of data and graphics and create and share magazine-style reports via the Apple Inc. iPad.

Mellmo's moves were made possible in part through an equity investment of \$30 million led by Sequoia Capital, the company's first round of institutional funding.

That investment was one of 21 fundings of local firms totaling \$202 million in the third quarter, according to the latest PricewaterhouseCoopers MoneyTree report.

## **An Unusual Twist**

About half that amount, \$98 million, went toward companies in the software sector such as Mellmo. Other software businesses obtaining money in the previous quarter included Awarepoint Corp., \$27.4 million; Zeebo Inc., \$17 million; and Daylight Solutions Inc., \$15 million.

The spurt of software investment is unusual because in the past most of the local venture funding went to companies in the biotech and life sciences sector, said Bill Molloie, a partner in PwC's pharma/life sciences unit.

“But I struggle with looking at a single quarter and drawing any conclusions,” Molloie said. “Year to date, the biotech sector (combined with medical devices group) still got about 60 percent of the deals and the dollars.”

The salient fact revealed in this MoneyTree report as well as those in recent years is San Diego remains a bastion of fledgling entrepreneurship measured by the venture money aimed at startup and early stage companies, Molloie said.

Of the 82 local investment deals announced this year, 40 of them valued at \$253 million went to companies in the startup or early stages of development, he noted.

There were 23 local companies in the expansion phase that obtained a total of \$165 million, and 19 companies in the later stage of development which got a total of \$150 million, he said.

San Diego’s total VC funding of \$568 million is down 13 percent from the dollars invested during the first three quarters of last year; the 82 deals are down 14 percent from the like period of 2010, the MoneyTree report said.

### **Slump Follows Second Quarter**

Nationally, venture capitalists poured \$6.95 billion into 876 deals in the third quarter. That compared with a total of \$7.89 billion invested into 1,015 deals during the second quarter of this year.

David Titus, president of the San Diego Venture Group, a nonprofit serving the investment community, said he was encouraged by the fact that local early stage companies are still attracting venture funding in a constrained funding environment.

In the post-recession era, money flowing into the venture capital firms has fallen considerably from the halcyon days before 2007, Titus said.

Citing data provided by the MoneyTree report, he noted that nationally in 2007, the total venture capital funds raised were \$30.7 billion. The following year funding slowed to \$25.8 billion, and last year it fell to \$13.3 billion.

Through Sept. 30, the total funds raised were \$12.2 billion.

Fewer local venture funds are making investments, including two of the largest in San Diego: Enterprise Partners and Mission Ventures.

But the great majority of VC money received by local companies comes from firms outside San Diego, Titus said. There are still companies attracting investment money, but it’s much harder to find than it was four years ago.

“The bar is high now,” he said. “Three guys with a harebrained idea who spent two days working on it don’t get funded, but if you’ve got a good product in a good market with a good management team, there’s capital available.”