

C

BUSINESS

Thursday,
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2000

C3

C4

funds C5

odities C6

can stocks C6

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Venture firms backing the weak, expert says

■ High-tech hype has cash flowing to some unworthy startups, panelist says

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John Thornton: Predicts declining fortunes are ahead for venture capitalist.

In a frank assessment of the impact that his industry is having on U.S. technology companies, a leading Austin venture capitalist said Wednesday that venture firms are backing some companies that don't merit it, in part because they're spending somebody else's money.

John Thornton, a general partner at Austin Ventures, said the United States has a glut of entrepreneurship but a shortage of true entrepreneurs. He also said the "hype machine," fueled in

part by new publications dedicated to coverage of high-tech culture and high-tech wealth and investing, has made the likes of Marc Andreessen, Netscape's co-founder, a more recognized icon than Major League Baseball's Mark McGwire.

"In case you hadn't noticed it, guys like me are running amok," Thornton said.

He was the final of four panel members speaking at Interactive-Texas, a three-day conference at

the Austin Convention Center that is focusing on e-commerce. At times, Thornton's comments verged on cynicism, but the 10-year veteran of the venture-capital industry tempered his comments with self-effacing humor.

Referring to the disclaimers that executives of public companies routinely recite when talking about their performance, Thornton showed a slide at the start of his talk that drew chuckles from his audience of about 100 people.

"This talk contains a number of forward-looking statements, none of which is likely to be accurate," the slide cautioned.

But Thornton was dead serious when he predicted that there will be a significant drop during the next five years from the triple-digit returns that some venture firms

See Funding, C2

Venture capital too available, expert says

Continued from C1

take for granted because of widespread excitement about the Internet. Moreover, he cautioned the audience not to assume a venture-capital investment in a startup is a "stamp of approval" suggesting the company is a good place to work.

"A lot of companies that shouldn't get funded are still getting funded," Thornton said. "There is just too much venture-capital money out there."

As an example of money that is pouring into venture funds, Thornton noted that in 1990 the entire industry raised \$1.5 billion for investments. In the past 24 months, 14 venture firms have raised at least \$1.5 billion each, he said.

When told of Thornton's comments, Don Keller, managing director of PricewaterhouseCoopers' Austin office, said he generally agreed. The success of scores of successful entrepreneurs who have become venture capitalists has had a two-fold effect on the current startup environment.

"Not only do you have more money, you have less capable people going into these (startups)," Keller said.

Traditionally, it was believed that 20 percent of venture-backed businesses fail, 60 percent turn out to be "so-so" investments, and only 20 percent are what Thornton termed "great." But even that record overstates the facts, according to data from the National Venture Capital Association, a trade group for the 2,200 venture capitalists in the United States.

Thornton said as an industry average, 10 percent of companies account for 95 percent of portfolio value. Venture capitalists are getting rich, despite their mediocre performance. They get fees for managing funds for investors such as pension funds, and ballooning funds bring in bigger fees.

Interviewed after his talk, Thornton said his comments pertained to the industry overall, not a specific venture firm.

"I'm just skeptical that life in VCland will be as good in the next



Ralph Barrera/AA-S

John Thornton, left, of Austin Ventures shares a laugh Wednesday with Jeff Skilling, president and chief operating officer of Enron Corp. Skilling was the keynote speaker on a panel at InteractiveTexas, a three-day conference at the Austin Convention Center.