Building a Fund as Big as Texas

One VC hopes to make business commerce a Lone Star specialty.

by Loren Fox

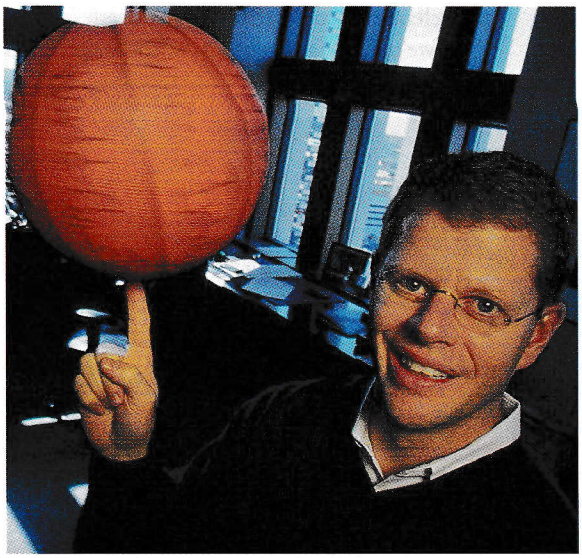
Austin, Texas, has long been known as a place for manufacturing semiconductors and making software. But VC John Thornton is passionate about the city's Internet business-to-business companies.

The most notable example is Vignette, a maker of Internet-based relationship-management software. Vignette's stock has risen more than 6,000 percent since its February 1999 initial public offering.

Thornton is a general partner at Austin Ventures, a leading venture-capital firm that helped fund the growing Internet scene in the capital of Texas (see "Austin Stands Apart," February 2000, page 183). Austin Ventures was the lead investor in Vignette back when the company consisted of two men who needed $250,000. The firm has invested a total of about $9 million in Vignette over the years; as of Jan. 7, 2000, its 8.4 million shares were worth $1.47 billion.

With $1.6 billion under management, Austin Ventures is one of the largest VC firms between the East and West Coasts, the traditional bastions of venture capital. Over the past 15 years, the firm's average annual returns, weighted by fund size, have exceeded 70 percent. One-half to two-thirds of its investments are Texas-based companies, mostly in Austin. "We have bet our careers to some degree that Austin is the 'third coast,' " Thornton says.

These days, such a wager rests increasingly on business-to-business electronic-commerce plays such as Vignette and call-center company Motive Communications (see "The Play for On-Click Support," March 2000, page 104). Thornton focuses on application and infrastructure companies, and he's particularly excited about application service providers (ASPs), companies that rent out software over the Internet rather than license it.



VC John Thornton sees Austin as the "third coast."

ASP infrastructure. Thornton prefers newer companies that have grown up around the ASP concept to established companies that are trying to become ASPs. Thornton's firm has invested in such ASPs as Hire.com, an Austin startup that hosts the job-recruiting piece of a corporate Web site, and Houston-based Altra Energy, which operates an electronic marketplace for trading energy products.

In addition, Thornton likes companies that create products supporting the ASP business model.

For example, one company in Austin Ventures' portfolio, MetaSolv Software, based in Plano, develops applications for telecommunications companies to manage the orders for service from their customers. MetaSolv, went public in November.

Room for consumers. Austin Ventures isn't ignoring consumer-oriented Internet companies, though. It was the lead investor in Austin-based Garden.com, a gardening-interests site that went public in September.

But Thornton echoes many VCs when he declares, "The momentum has shifted from business-to-consumer to B-to-B."

The success of Vignette and similar companies has raised the profile of Austin the city and has increased the size of Austin Ventures' portfolio. The firm closed its seventh fund, totaling $825 million, on Nov. 22, 1999, and has grown to the point where it's more difficult to make smaller investments, such as a $250,000 stake.

That's why last October, the firm created AV Labs, a $60 million fund for early-stage investing that's been spun off from Austin Ventures. Besides funding, it offers recruiting, benefits, real estate, and other services.

AV Labs is another sign that Austin is joining the big leagues but Austin Ventures is bringing in the money, and it's helping fuel the hottest sector of high tech, B-to-B e-commerce.

Says Thornton, "Everything that's interesting on Sand Hill Road is in Austin on some level." ■

Loren Fox is finance editor for UPSIDE.

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