

## ***CAPITAL SOLUTIONS NEWSLETTER...***

July, 2010

Recent numbers on venture capital fundraising detail a forest when all the action is in the trees; the tech IPO might be on it's way back, or it might just be an acquisition in disguise; and our recommended reading compares the founding of nations and companies -- and the end of men (hey - just in time for football season!). And individual software programmers hoping for quick profits off smart phone applications -- well, there may not be an app for that.

---

### **Venture Voodoo, all over again...**

[Exactly a year ago](#) we saw media reports on venture fundraising that contorted themselves, depending if the half they saw was empty or full. So here we go again, but now it's not even clear how much water the glass holds. The WSJ uses data from Dow Jones to report 2010 venture fundraising to date of [\\$7.5 billion](#) -- which is up 13.5% YOY -- and posits a possible industry rebound, even as they acknowledge 10-year venture fund returns performing like a bad checking account, but without the free toaster. Then a day later came the [NVCA report](#), which detailed just \$5.6 billion in venture fundraising, and noted that Q2 had the distinction of being the lowest quarterly total in seven years.

Truth is that rather than try to solve the nearly \$2 billion discrepancy, it's better to worry less about the view from the airplane, and focus more on ground fundamentals: venture is changing, but it is still viable. Quality companies showing growth or exceptional promise will still get interest -- but it will require more time and a broader search, and terms will continue to favor funds, not companies.

Perhaps more interesting than fundraising statistics is the shifting dynamics of the venture industry, particularly the rise of seed funds and the so-called super angels. Rob Go, who recently left a traditional venture firm to go micro, provides a [brief primer](#) on this trend (most of which which should be highly familiar to readers of this newsletter). And the stutteringly named Simeon Simeonov, an EIR at General Catalyst, [runs some numbers](#) on angel investing and sees the value of a highly diversified, volume-attentive portfolio approach that somewhat counters the broader belief that traditional venture firms should narrow their focus. All this activity has [various implications](#) for the industry overall, with Mark Suster providing a [very cogent summary](#).

Roughly two years into the seismic shifts in the capital markets and it's apparent that the traditional metrics of venture fundraising are less and less relevant as the industry both [consolidates](#) and reinvents itself. The trends we have been following for some time -- increased capital efficiency, faster product cycles, increased network effects, smaller investments -- are shaping the new landscape. And the best view into the venture markets is not from the airplane, it's from the ground.

---



---

## Software Profits: where's the App for that?

The phenomenon of the iPhone can't be disputed, with about 9 million sold and growing, with a reach and influence that has made Apple the most valuable technology company [in the world](#). The primary driver is the "i" not the "Phone" -- the versatile and expanding universe of individual applications available on the device. This, and the competitive expansion of Google's android OS gives individual software programmers unprecedented opportunities to sell their products, ushering in a realm of newfound riches, right?

So what kind of economic windfall are these software developers enjoying? According to [one long analysis](#), not much. Plugging some data holes and with a few assumptions, this piece calculates that the average revenue per paid (not free) application is just over \$3,000 per year. And because this is the average, with the bulk of revenues devoted to just a few apps, median revenues per paid application is estimated at a mere \$682 a year. That's about the cost of two iPhones -- before one factors in software development costs or any other expenses. In fact, it makes the old-fashioned lemonade stand look like a real bargain.

---

### Alexander Ooms | Managing Partner

[alex@clearcreekpartners.com](mailto:alex@clearcreekpartners.com)

303.731.2960

*ClearCreek Partners provides **Capital Solutions to Emerging Companies**. We are a financial advisory firm that works with entrepreneurs and CEO's of private companies on capital raises and strategic transactions ranging from \$3 to \$30 million. Our clients range from pre-revenue companies looking for their first institutional investor, to established firms with positive cash flow. Securities offered through [Colorado Financial Service Corporation](#), member [FINIRA](#) / [SIPC](#)*