

VENTURE CAPITAL FLOWING

ENTREPRENEURSHIP THRIVES IN PITTSBURGH DESPITE TECHNOLOGY, DOT.COM DOWNTURN

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Across the nation and here in Western Pennsylvania, many people have been quick to write the obituary of the so-called "new economy." Technology stock prices have all but collapsed, "dot.coms" are dying by the dozen, and venture funding has dried up. Yet almost unnoticed, here in Western Pennsylvania entrepreneurship and venture investing are on a marked upswing. What's going on?

Pittsburgh's technology economy has not collapsed in the same dramatic fashion as we have seen elsewhere in the country because it never rose to unsustainable heights fueled by frivolous business models. True, the region's Internet icon, FreeMarkets, has seen its stock price fall by over 90 percent since its dramatic 1999 IPO, but its market capitalization today still approaches \$1 billion, and it has distanced itself in the market from its many one-time competitors.

The majority of local innovation is truly technology-based, significantly advancing or creating new functionalities in telecommunications, medical devices and many other areas. In general, these companies sell to corporate buyers, not consumers. My theory is that our "new economy" mirrors our "old economy": Both make intermediate products or services -- be it ATM switches, online materials procurement, steel or aluminum -- used by other businesses to produce their wares. Old and new are both fundamentally "B2B." We just don't see many "DogfoodOnline.com" type companies here.

More than \$1 billion of venture capital has been invested in more than 100 Western Pennsylvania companies in the past two years -- this in a climate of severe retrenchment elsewhere in the country. According to National Venture Capital Association statistics, in this time period Allegheny County alone was the beneficiary of more venture funding than Philadelphia and its six surrounding counties. More nationally prominent venture funds than ever are investing here. For example, one of Silicon Valley's most prominent venture funds, Mohr Davidow Ventures, opened an East Coast office in northern Virginia recently, but then did its first deal in Pittsburgh.

The University of Pittsburgh and Carnegie Mellon University are both stepping up the pace of technology transfer and are beginning to win national attention as centers of world-class, commercial-grade intellectual property. At least one West Coast venture fund is recruiting local graduate students to help source on-campus opportunities.

Further evidence of local entrepreneurial vitality was seen recently at the Three Rivers Venture Fair held at Heinz Field. Innovation Works, the Pittsburgh Technology Council, and the Pittsburgh Venture Capital Association jointly sponsored the fair, bringing together more than 400 institutional investors, entrepreneurs and technology pundits for two days of investment pitches, keynote speeches by industry luminaries, and networking. While venture fairs are a mainstay of the national early-stage private equity market, Pittsburgh has never before hosted an affair of this scale and ambition. Despite a general depression throughout the venture community, more than 100 people

flew to Pittsburgh to attend this inaugural event. The draw was the opportunity to visit and learn about this underinvested, opportunity-rich market.

America's first big fortunes were made right here in Pittsburgh by risk takers in steel, banking, oil and railroads. As Glen Meakem noted in his address to the Three Rivers Venture Fair, the cocky *nouveau riche* industrialist character in the movie "Titanic" was from Pittsburgh. He really couldn't have been from anywhere else: This is where venture capital was invented. (Of course, modern venture capitalists are much nicer people than he was.)

Yes, get-rich-quick investors and entrepreneurs have gotten their well-deserved comeuppance in the past two years, but they are not representative of a larger, much more important cadre of serious, dedicated, driven people who are shaping the future. Not all of them will be successful. Those who are will be richly rewarded, and many of those who fail will learn from their setbacks and strive again to make their mark. These people are significant contributors to making the American economy the most robust in the world. They are equally necessary -- indeed vital -- players in growing Western Pennsylvania's economy.