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VC Statistics at Odds With Tennessee Funding Experiences

They say “numbers don’t lie,” but don’t always believe it.

For example, total equity funding of venture capital deals continues to fall, according to national and regional statistics. But, even in the face of this discouraging statistic, healthcare deals in the state of Tennessee are getting done. And more are reportedly on the way.



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The “numbers” say that total private equity funding in the U.S. fell in the first quarter of 2003 to \$3.8 billion, down from the prior quarter of \$4.3 billion. Funded deals dropped to 623 for the quarter compared to 726 in the previous quarter and 816 in the same quarter last year.

U.S. venture capital investing in healthcare services companies fell in kind with the broader market in the first quarter of 2003 with total investments of \$79 million, down from the prior quarter of \$94 million, a decrease of 16 percent.

Closer to home, the southeast region had approximately \$184 million in venture capital investment, down from the prior quarter of \$368 million, a decline of almost 50 percent. Healthcare

services deals in the southeast represented 11.6 percent of the total or \$21 million in new investments.

Discouraging? Maybe on the face of it, but the reality is that deals ARE getting done and the outlook for funding new deals is probably brighter than at any time since the new millennium dawned in 2000.

Two local examples stand out. HCCA International, a staffing company recruiting nurses overseas to address the nursing shortage in the U.S., received \$11 million in venture funding late last year. One of our clients, National Renal Alliance, a start-up developer and operator of dialysis clinics with a unique non-urban niche, closed \$23 million of equity and debt funding just before the end of the year.

Others local deals are presently being shopped on the street with funding likely to be announced this quarter or next.

So, what’s the true situation? Pessimism or optimism?

Maybe some of each is appropriate but don’t let the statistics alone prevent you from seeking funding. Private equity funds all across the nation report substantial cash on hand since quality deals have been hard to find for almost three years now.

Many of these funds’ potentially

troubled deals have now worked through contingency funding requirements, so cash is no longer being hoarded to shore up struggling deals as in past quarters.

Fears of the world political situation, so unsettling since September 11, 2001 and climaxing with the long tango toward war in Iraq, have now quieted down significantly.

And, finally, although the economy may still be sputtering, the smart money is on the multiple stimulus packages enacted by Congress to start kicking in later this fall.

Good transaction opportunities characterized by experienced management, well thought out business models, highly scalable growth prospects, and (most importantly of all right now) current or very near-term positive cash flow will always receive enthusiastic receptions from funding sources. And with many entrepreneurs succumbing to the temptation to believe the statistics and delaying their new ventures, the competition for private equity dollars is not as hot as in the past.

Gentlemen and ladies ... start your companies!

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