

# N.H.'s high-tech economy is charging back

By Jim Cook and Matt Benson



New England's high-tech economy continues to rebound after several anemic years – a welcome occurrence for business owners who have struggled to gain access to investment capital, and for workers who have been faced with a job market that had all but dried up.

Perhaps surprisingly, New Hampshire is leading the region's recovery. According to the New Hampshire Business Resource Center, "the Granite State's economy is slated to grow faster than both the New England region and the nation."

Leading the way to New Hampshire's recovery is the high-tech segment. New Hampshire is among the nation's leading states for employment among the fastest-growing technology firms. Furthermore, job growth in the state is among the highest in the nation, as is New Hampshire's level of venture capital spending relative to gross state product. The level of investment in the state is more than double the amount being invested in Maine, Vermont and Rhode Island combined.

New Hampshire offers a number of the advantages that entrepreneurs look for when starting a business. For one, the state boasts a better-educated workforce than most. For another, the New Hampshire quality of life is, of course, a big attraction.

## Cash is king

Access to capital is key for any entrepreneurial venture. While New Hampshire enjoys a better funding environment than most states, finding money is not easy and requires persistence – even with a good team of people, market opportunity and technology.

Where can that funding be found? Not surprisingly,

bank financing often isn't a good fit for a young high-tech venture, as the company has little in the way of tangible assets (other than its employees) and the cash flow is likely quite tight. This was true during the last technology expansion, and it is equally true today.

Venture capital firms were the investor of choice during the "dot-com" heyday, particularly with a hot initial public offering market that provided an exit for many of their investments. Today, venture capital firms are not only still around, many of them have raised significant amounts of money that is available for investment in entrepreneurial companies.

However, VC firms are very selective in their investments, and many of them are putting their focus on later-stage companies. In some cases, this is a result of investment experiences during the "dot-com" bust and its aftermath, when many of their portfolio companies continued to require additional investment without a clear exit strategy for the investors. In other cases, the VC firms have raised significant dollars from their investors, which means that they need to put more money to work in each of their investments.

While substantial VC investments are made in some early-stage companies (for example, life science companies), many VC firms now favor investments in companies that have a track record and need capital for growth expansion.

Interestingly, these types of investment opportunities also may attract other types of investors, such as the growing phenomenon of private equity firms, which make it less certain that the VC firms will win as many of those types of deals as they may have in the past.

## Bootstrapping and angels

While some venture capital firms do focus on investing in start-up and early-stage companies, these companies' needs for investment capital far outstrips the available pool of dollars available from those VC firms. That has brought things full circle – back to the ways in which high-tech businesses were typically funded before the high-tech IPO frenzy.

Early-stage funding historically began with, and once again today typically begins with, the founders' personal resources, arrangements made with suppliers and customers, and other creative

bootstrapping methods.

The availability of Small Business Innovation Research grants and other government research dollars also has been a plus for many young companies; although more could certainly be done in this area.

As additional capital is required, these companies increasingly turn to angel investors for capital. In some cases, angel investors may supply all of the investment capital that is needed, while in others an initial angel financing round may later be followed by one or more rounds of venture capital, corporate or other investment.

Angel investing is still the largest source of seed and start-up funding for high-tech entrepreneurs, and that trend promises to continue as the state's technology economy continues to thrive. In addition, these individual investors may be part of an angel networking group, which enhances the possibility of finding other investors who might have an interest in a particular investment opportunity.

One downside of this for entrepreneurs is that the typical investment terms offered by angel investors are now much more closely modeled on the typical venture capital terms (preferred stock, with various bells and whistles) than they used to be, which means that angel investment transactions are more complicated than they were a number of years ago.

Angel investors can offer a second advantage to start-ups: Angel investors commonly become very involved in the companies in which they are investing, often serving on the boards of those businesses and helping to make key business-to-business connections. This type of investor can serve an invaluable role as counselor to the small business owner, who may have a terrific idea for a new type of technology, but who may not have the sales, marketing, planning or financial skills that are equally important to success.

For New Hampshire's technology start-ups, the landscape is more promising than at any time since the technology bubble burst. Investors are active. And funding, while not easy to find, is available to entrepreneurs with a strong team, market opportunity and technology, along with a bit of thick skin and perseverance. **NBR**

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