

Fund raising specialists play the middle

Say you're an entrepreneur. You've invented a new high-tech golf range, with microchips embedded in the golf balls and computers tracking each drive. You need venture capitalists to fund development. Who are you going to call? Your lawyer?

Well, maybe. As private equity takes off in Europe, with venture capital and buyout funds pouring into the region and entrepreneurs waking up to the New Economy, there's a growing number of self-styled "private equity specialists" looking to get in on the action. Lawyers, bankers, accountants, and consultants are lining up as intermediaries to help "facilitate" the fund-raising process.

"There's a whole range of consultants out there who have understood the volume of private equity investing. They see it's a serious marketplace and understood the volume of the fees that they can realize," says Tim Farazmand, a director of Royal Bank Development Capital in London, the private equity arm of Royal Bank of Scotland.

The story of that microchip-enhanced golf ball is a case in point. When British brothers Steve and Dave Jolliffe and their partner Geoff Emmerson were looking for funding to develop their idea of a computerized golf range, they enlisted their London-based lawyer, Gideon Nellen, to conduct the search. Mr. Nellen describes his firm, Nellen & Co., as specializing in private equity for fast-growing companies, modeled on Venture Law Group in Silicon Valley.

"VCs are looking for larger and larger deals (but) the business angel community is growing, and smaller companies are keen to tap into it. We're trying to fill that gap," says Mr. Nellen. Mandated by his clients to help find money, Mr. Nellen invited a number of his wealthy City of London acquaintances to his West End office for a presentation of the TopGolf concept. Since then, the golfing entrepreneurs have raised GBP 6 million from 15 investors. "(Using Mr. Nellen) proved cost effective," says Peter Allport, commercial director of World Golf Systems Ltd., the company developing TopGolf.

Whether you consider such intermediaries as pilot fish swimming ahead of the whales, or savannah birds picking bits out of crocodiles' teeth, they are all part of Europe's emerging entrepreneurial ecosystem. "If they've emerged, it's because there's a need for them," says Shakir Merali, a senior associate at venture-capital firm Geocapital Partners in London. He reckons about one in every three pitches that he receives for new funding comes from intermediaries. Moreover, he estimates that the number of intermediary pitches has tripled in the last year and a half.

Like many VCs, he has nothing against intermediaries, in principle. "It ultimately boils down to a reputation issue," he says. "A number of these guys are just as bad as the companies they are representing. But some in the market are very well connected." So far, he hasn't taken up their offers, but he doesn't rule it out. "They're irritating," he says, "until you get a deal you want to do."

Taking a fee from entrepreneurs on the money raised might be lucrative, but some intermediaries aim to be partners alongside venture capitalists. Jamie Mitchell, founder of U.K. Internet intermediary e-start, sniffs at rivals who simply hustle for their entrepreneur clients. Instead, e-start tries to work closely with a small handful of VCs. "We get an opportunity to invest alongside (the venture capitalists) and we prefer that to the rather dirty game of brokerage," he says. But while e-start has concluded fund-raising rounds for seven companies and co-invested in them, those transactions provide little or no immediate revenue stream to support the business.

"Today, revenues are fairly low. We're in a build-up phase," acknowledges Mr. Mitchell. In fact, he concedes, e-start is currently looking at how to extend its limited network of "partner VCs" to a broader relationship with a larger number of "associate partners" across Europe. This, Mr. Mitchell notes, is a "strategy in development."

A European veteran in the go-between game is **Christophe Chausson** in Paris, who over the last five years has raised about one billion French francs for some 70 high-tech entrepreneurs. He considers a strategy of singling out certain VCs as preferential partners would prove "anti-economic" and maintains close relations with almost all Paris VCs. "I call 95% of them 'tu'," he says, referring to the more intimate French word for "you" that is sparingly used in business circles.

Of course, it's not just the entrepreneurs who are using intermediaries. Some VCs are turning to their services too. Mr. Chausson says he has been mandated by some VCs to conduct searches for second- or third-round financing of portfolio companies. And a growing number of private equity consultants are also on hand to help the VCs sift through the vast pile of potential deals that arrive on their desks each week. "What I appreciate most," says Mr. Farazmand of Royal Bank Development Capital, "is when they've helped us not invest."