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VC & STARTUPS

Boutique VCs are back in vogue

By [Julie Landry](#)

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Dado Banatao was sitting pretty at the [Mayfield Fund](#), a top-tier VC firm. He had cofounded two successful companies -- S3 (now SonicBlue), and Chips and Technologies (which Intel acquired for \$420 million in 1997) -- so he was a shoo-in to become a general partner.

But after two years as a venture partner at Mayfield, he jumped off the fast track. Wanting to run his own show, he opened his wallet and started boutique firm [Tallwood Venture Capital](#).

Mr. Banatao's move is emblematic of a growing concern that the VC industry has strayed from its roots. Many top-tier firms have grown so large -- with funds in excess of \$1 billion -- that they can't spend adequate time with their companies or make true early-stage investments, critics say. That's driving a small but growing number of new and veteran VCs to build small, hands-on funds.

Besides Tallwood, the new kids on the block include [Authentic Ventures](#), started by Bill Tai of Institutional Venture Partners; [De Novo Ventures](#), founded by four life sciences entrepreneurs; [Skymoon Ventures](#), started by chip guru Mike Farmwald; and [Storm Ventures](#), founded by five StrataCom alumni.

BACK TO BASICS

The numbers and investment style hark back to the pre-1995 days, when early-stage VCs put a little money and a lot of sweat into their companies. That bodes well for the success of these new firms.

"The next generation of name-brand rock-star VCs is going to come from this investment space, because that's where they came from last time around," says Sean Foote of early-stage firm [Labrador Ventures](#).

The care-and-feeding model is what got firms like [Benchmark Capital](#) and [Kleiner Perkins Caufield & Byers](#) to where they are today. (Both now manage more than \$2 billion each.) By staying small, the new boutiques can avoid the bureaucracy that often bogs down bigger organizations. "I could decide within an hour that I like [a particular deal]," says Mr. Banatao.

A quick decision could be disastrous, but not if it's made by someone with deep domain expertise. You'll find plenty of that at the new firms. Skymoon founder Mike Farmwald founded four chip companies: Chromatic Research, Epigram, Matrix Semiconductor, and Rambus.

VC STYLE

The new firms also ooze operational experience. Richard Ferrari

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and John Simpson of De Novo have run five companies between them, including Perclose (acquired by Abbott Laboratories), Cardiovascular Imaging Systems (acquired by Boston Scientific), and CardioThoracic Systems (acquired by Guidant).

That experience enabled De Novo to make a quick investment decision on CryoVascular Systems, a cardiovascular device company. Although gigafund U.S. Venture Partners provided initial funding, only De Novo was able to lend CryoVascular one of its partners (Mr. Ferrari) as an interim CEO for six crucial months, in which he raised a second round and found a full-time CEO.

Network Robots, a programmable router maker, wouldn't even have its current business plan or product design without investor Storm Ventures, says CEO Junaid Islam. Three of Storm's partners helped Mr. Islam design a product to fulfill his vision of reducing the number of boxes a service provider needs. They also raised a \$20 million first round for the company.

One of the challenges for the new VCs is that the cash-intensive demands of today's startups could outstrip a boutique fund's kitty. "The small guys are going to be much more dependent on finding outside investors, which isn't easy in this market," says Ken Lawler of Battery Ventures.

Believers in these "super angel" funds say they can make them work. It's not just because nearly all of them have tight connections with larger funds, like Authentic's Mr. Tai, who is still a general partner at Institutional Venture Partners, or Mr. Farmwald, a venture partner at Benchmark. "The metrics should revolve around which companies you invest in, not how many," says Mr. Tai. He claims to have a ten-year cumulative internal rate of return of more than 100 percent, in contrast to the industry average of 30 percent.

If Mr. Tai and his boutique brethren can replicate that success, more successful VCs may ditch brand-name firms to do their own thing.

BOUTIQUE INVESTMENT AT A GLANCE

AUTHENTIC VENTURES

General partner: Bill Tai

Total under management: \$10 million to date

Focus: Communications

Portfolio sample: RLX Technologies (server maker), KineticTide (content distribution software)

DE NOVO VENTURES

Managing general partner: Frederick Dotzler

Total under management: \$100 million

Focus: Life sciences

Portfolio sample: CryoVascular Systems (cardiology devices), Point Biomedical (drug delivery)

SKYMOON VENTURES

General partners: Mike Farmwald, Neal Margulis, Dan Kohn

Total under management: \$100 million

Focus: Semiconductors, wireless, memory, and telecommunications

Portfolio sample: Cambia Networks (wireless Internet gateway devices), Matrix Semiconductor (fabless semiconductor maker)

STORM VENTURES

General partners: Ryan Floyd, M. Alex Mendez, Sanjay Subhedar, Tae Hea Nahm, Dick Moley (founding venture partner)

Total under management: \$306 million

Focus: Network bandwidth technology

Portfolio sample: Amber Networks (carrier infrastructure), Calient Networks (switching systems)

TALLWOOD VENTURE CAPITAL

General partner: Dado Banatao

Total under management: \$50 million. Mr. Banatao plans to invest \$200 million more by 2003.
Focus: Communications and technology-intensive life sciences companies
Portfolio sample: Atrium Networks (broadband), Inphi (chips)

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