Call it a corporate gold rush.

New sources of capital have sprung up across the Austin landscape in the past few years, giving Central Texas entrepreneurs many more options for extracting precious early-stage capital.

Alongside the traditional venture capitalists and banks that have propped up new businesses for decades, the region now includes hyperactive angel investment groups, hybrid investment companies, online crowdfunding sources, business accelerators with capital on hand. Entrepreneurs can even solicit unaccredited investors nowadays online or in person.

Even with these new options, some local entrepreneurs still cite a dearth of growth-stage sources of capital. Early-stage capital has indeed improved but Central Texas startups are sometimes forced to solicit Silicon Valley or Massachusetts venture capital firms for Series B or Series C financings.

That's an economic problem for Austin, but in this entrepreneurial city a big focus has always been put on early-stage sources. Those sources have ramped up to take up any slack caused by the diminished Texas Emerging Technology Fund and the shift by Austin Ventures LP — the largest local VC firm — to pour more than $100 million into roll-up deals such as RetailMeNot Inc. rather than traditional startups.

A critical mass of local startups has generated the conditions for such startups to grow. Austin has a symbiotic relationship in which startups are thriving, and that dynamic has provided the incentive for more funding sources to enter the Austin market. It has created a "perfect storm of great opportunities," said Rick Timmins, chairman of the Central Texas Angel Network. Still, there is...
much to be done.

"We have more and more seed-stage funds, but we need more," he said. "More Series A- and Series B-round companies move to the East Coast or the West Coast for good sources" of late-stage capital.

**Paying it forward**

In the VC world, Austin has always been a small player compared to markets such as San Jose, Calif., or Boston. Consider this: $512.7 million worth of venture capital flowed into Austin companies during 2013. That same year, companies in the San Francisco Bay Area racked up $12.6 billion in venture capital, while Boston companies attracted $3.4 billion.

That's a big reason why the new sources of capital are welcomed with open arms.

One of the newest sources of capital is ATX Seed Ventures I LP. The Austin firm was founded in early 2014 as a "nimble boutique investment fund," according to manager Christopher Shonk's online profile and the firm's website.

He's tight-lipped about where the money will go until all of it is raised but expect tech-focused startups to be targets. In mid-2014, ATX Seed Ventures raised $5.5 million of a planned $25 million financing from 16 investors, according to a filing with the U.S. Securities and Exchange Commission.

Around that same time in mid 2014, LiveOak Venture Partners LP — a technology-focused venture capital firm — closed its first fund at $109 million. The Austin-based firm founded in 2012 by three former Austin Ventures investors plans to invest in 15-17 new companies operating in information technology and technology-enabled services.

Investment in each portfolio company will be $6 million to $8 million, General Partner Krishna Srinivasan said.

In Austin, business success begets business success. The city is gaining a critical mass of successful entrepreneurs who capitalize on that success by investing expertise and capital in other local startups.

For example, former Bazaarvoice Inc. CEO Brett Hurt established an investment venture called Hurt Family Investments that is backing dozens of early-stage ventures — two-thirds of which are based in Austin.

Hurt Family Investments has completed 33 startup investments. Twenty-two of the 33 startups in which the firm is involved are based in Austin, Hurt said.

He attributes the surging sources of capital to liquidity events such as initial public offerings and mergers and acquisitions for Austin companies.

"So net-net, we are better off than ever before," Hurt said, "and that reflects both the progress
Austin has made as well as the overall startup economy in the U.S."

**Hatching with cash**

Incubators and accelerators are contributing more than advice to startups these days.

The Capital Factory, the downtown co-working space and incubator venture, is syndicating with smaller angel investors to back up a projected 15 deals per year. The venture, which typically invests $50,000 in startups, plans to syndicate deals as part of the financings. Investors can contribute as little as $1,000 per startup.

Back in 2013, Managing Director Josh Baer said Capital Factory planned to take a 2 percent stake in promising local technology startups. At the time, it had raised $2 million of a $9 million fund to invest in such companies.

In February 2014, Austin-based Silverton Partners and California-based Floodgate Fund LP agreed to invest in startups backed by the Capital Factory. The two firms disclosed plans to invest $25,000 apiece to Capital Factory portfolio companies. The deal was designed to provide each early-stage company with $150,000 in financing when mentors also invest an additional $25,000 apiece, Baer said at the time.

UnLtd USA, a nonprofit incubator designed to back socially conscious entrepreneurs with seed funding and other resources, quietly opened a local office in February 2014 and began taking applications in May.

Instead of an expected 50 applicants, UnLtd received more than 80 and began whittling them down in June, said Cristina Diodati, the group's search and selection associate.

Another local company, MicroVentures Marketplace Inc., developed in 2009 a user-friendly platform designed to connect investors and seed-stage startups. It now claims 200,000 investors and raised more than $50 million for its portfolio companies.

MicroVentures provides startups and existing small businesses early-stage capital or small investments. The firm, which employs 12 workers in Austin and San Francisco, has completed more than 80 investments.

Founder Bill Clark has said Texas companies represent about 10 percent of the firm's investments.

Meanwhile, the Central Texas Angel Network has reported significant growth activity since it was founded in 2006. The Austin-based network made investments of $7.3 million during the first six months of 2014 compared with $4.7 million during the same period last year — a 55 percent increase.

CTAN, which includes more than 130 members who have already made small fortunes in the business world, ranked as the nation's No. 4 angel group in terms of deal flow.

Texas ranked No. 3 in the nation among the most active regions completing angel investments.
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during the second quarter of 2014.

In early 2014, Hill Country Angel Network & Venture Management Partners launched with a plan to form three local chapters of 40-50 members apiece.

The angel group plans to build a new network of accredited investors and sponsors that will meet at various venues in the Texas Hill Country. The goal is to provide potential investment deals to area residents who don't want to drive downtown but want to be closely involved with local startups, Managing Director Kelly Hill said.

Corporate crowdpleasers

Austin startups — from movie producers to food trucks to app developers — have flocked to websites such as Indiegogo.com and Kickstarter.com. As this week's edition of ABJ went to press, 2,611 Austin entrepreneurs were seeking capital from the crowd just via Kickstarter.com, according to the site.

Expect more entrepreneurs in the future to wade into the crowds for money now that the Texas State Securities Board approved rules to regulate the way startups and investors conduct equity crowdfunding. Last October the board approved restrictions designed to enable unaccredited investors to invest as much as $5,000 a year in startups without requiring proof of high-income levels — in exchange for equity.

The demand for capital by credible entrepreneurs is fueling the diversification of funding models, said MicroVentures Chief Marketing Officer Paul O'Brien.

"I think it has more to do with the increasing amount of expertise and talent outside of Silicon Valley," he said. "We're now getting financing and capital to catch up with other parts of the country."

PayPal Inc. co-founder Peter Thiel thinks concerns about access to capital in Austin are overrated.

"My bias is that the challenges that people have in different communities is that they slightly over-attribute the [role of] financial capital... the only thing we need is more investors and all our problems would be solved," said the Silicon Valley icon during a recent trip to Austin.

"I think we live in a world in which there's no shortage of capital but there is a tremendous shortage of good ideas. That's much more of a negating factor."

Christopher Calnan covers technology, finance and clean energy for the Austin Business Journal. Subscribe to the Energy Inc. newsletter