

Can Venture Capital Come in from the Cold?

Allegis Capital and a handful of boutique firms are eyeing new investments amid a crisis of confidence among Silicon Valley VCs

By [Spencer E. Ante](#)

These days, many venture capitalists resemble mice, afraid to invest in the rough economy. But a few firms remain upbeat and aggressive, ready to pounce like a tiger.

One is [Allegis Capital](#), a 12-year-old Silicon Valley VC firm that's smelling opportunity amid a fearful market. Allegis doesn't have a marquee name, but it's put together one of the most impressive track records of any venture firm in recent memory.

Last July, Allegis sold Ribbit, a telecommunications provider it backed, to BT Group ([BT](#)) for \$105 million. In 2007, it sold computer security company IronPort Systems to Cisco Systems ([CSCO](#)) for \$830 million. Over the past four years, six companies in which Allegis has invested have sold for a total of \$2.1 billion. "Venture capital is not broken," says Allegis Managing Director and co-founder Robert R. Ackerman Jr. "Innovation is alive and well."

Questioning the VC Playbook

That's not the conventional wisdom in [venture investing](#). The market for taking startup companies public has ground to a halt. The [value of startups has fallen](#). And avenues for selling companies to corporate acquirers have narrowed while fundraising is scarce. Some investors have asked whether the venture capital playbook of raising large sums of cash and betting on a few home-run deals is in need of revision.

Yet smaller funds such as [First Round Capital](#), [Maples Investments](#), and angel investor Ron Conway's [Baseline Ventures](#) continue to invest amid the economic downturn.

Allegis has pursued a strategy based on mergers and acquisitions, not initial public offerings, since the tech bust of 2001. The company eschews the traditional VC approach of storing lots of capital. Allegis invests out of a \$110 million fund that closed in 2006. It typically invests a few million dollars in a startup and targets a 20% ownership stake in the company. The approach has proved prescient.

No Hail Mary Passes

Ackerman doesn't throw Hail Mary passes downfield as much as other Valley VCs, says Scott Weiss, the former CEO of IronPort and a Cisco vice-president. Instead, Ackerman practices a conservative running game, Weiss says. "Bob is not flamboyant. It's 10 yards up the middle. It's not a moon shot and goose egg" approach.

Ackerman, a big friendly bear of a man, co-founded Allegis in 1996 after founding a startup that eventually sold to Cisco for \$300 million. Since Allegis' focus is on matchmaking young companies with potential suitors, he and his team spend days hunkered down in the labs of AT&T ([T](#)) and other companies trying to divine their needs. Allegis works closely with a group of 35 companies, including Boeing ([BA](#)), [Fujitsu](#), and [Société Générale Group](#) to help select investments.

Some even become limited partners in Allegis' funds. Société Générale has invested with Allegis because of the VC firm's tight connections with corporations, says Richard Hababou, managing director of corporate venture investments for the French bank. "We are able to detect the new technologies in advance," he says.

Allegis: Still Betting on Startups

For startups, Ackerman & Co.'s sweat equity can mean lines into new customers. IronPort's Weiss says Ackerman introduced him to several companies that ended up buying IronPort's products, including NTT ([NTT](#)) and Chevron ([CVX](#)). "Bob swung open the door," says Weiss. "He's not afraid to roll up his sleeves."

During a fallow period for venture investing, Allegis is still making bets on startups. In January, it was part of a group that invested \$10 million in [IMVU](#), an online 3D community.

In March, it led a \$5.3 million investment in [DriverSide](#), a Web site that helps car owners lower their costs, by recommending garages and expected payments for parts and services. "Bob really understands the challenges and ups and downs that an entrepreneur goes through on a day-to-day basis," says DriverSide CEO Jad Dunning. Ackerman has introduced him to a large auto-parts supplier, and Dunning hopes a partnership will result.

For Ackerman, it's all part of trying to understand where the markets of companies in his portfolio are heading. "Each one of our companies needs to be relevant to a potential acquirer," he says. In a venture capital industry that's questioning where tomorrow's paydays will come from, that's advice worth heeding.

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