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Craig Collins, chief executive of Perminova



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Over the past two years, La Jolla's tiny Perminova has fought to carve a niche for itself by developing software to manage scheduling, workflow and medical data related to heart surgeries.

But when the doctors who developed the system picked a new chief executive, they chose someone whose background was neither in software nor medicine. His main experience: marketing and raising venture capital.

Craig Collins, who held marketing positions at Cardinal Health and Daou Systems, had raised more than \$40 million in venture capital for other firms. After initially looking at Perminova as a good investment opportunity, Collins put together a management team including new heads of sales, marketing, customer experience, information technology and strategy and finance. It was largely a volunteer effort, with the managers contributing time and money as they tried to position the company for future growth.

"We were working for the honor of working," said Collins. "We figured we'll all invest our money and then work like mad and then get it funded. We were paying to be here."

The strategy worked. In November, an angel investor pumped \$3 million into the company, backed by a \$4 million line of credit. But Collins says there are plenty of challenges for entrepreneurs who want to follow in his footsteps.

Below, Collins discusses the current climate in venture capital.

Q: How is the market for attracting venture capital these days?

A: It's getting better. At the depth of the recession in 2008 and 2009, it was like nuclear winter. I wrote a business plan for a startup then and worked to help them raise capital. As part of that project, I put together a database of all 770 or so VCs (venture capitalists) in the country. I then personally called and emailed every single one. I was relentless and was finally able to land a term sheet from one VC. And this was for a company with a good line of business, providing molecular imaging for major pharmaceutical firms doing preclinical trials. But only one firm out of 770 was interested. It was pretty crazy.

Most VCs still don't have much money to invest, but they won't tell anybody, so they still look at deals, which means entrepreneurs spend a lot of time talking to people who can't fund them. Probably less than half the VC firms in the country right now - and maybe even less than a quarter - have money to invest. Many have become mezzanine finance companies, providing late-stage add-on investments for companies that have already found other investors.

Q: So how did you get backing for Perminova?

A: First, we got the business in order - stabilizing the operations and paying the bills - and then we knocked on doors, called friends and family, talked to people in Rancho Santa Fe and set up investors meetings until finally we had enough traction to attract the attention of an angel investor. He was intrigued enough to sit down and let us give him a pitch.

Getting a company funded is not a hobby. The mistake a lot of entrepreneurs make is not realizing how committed you have to be, especially in this environment. There's an old joke about how in a ham-and-egg breakfast, the chicken may have been involved with the meal, but the pig was committed. That's the level of commitment you need.

Q: What made you pick Perminova?

A: I used to go to places like Tech Coast Angels or Connect (a support group for the local tech industry) and listen to people pitch their companies. Some would say, "We need funding for product development," which was code for not having a product. Others would say, "We need funding for marketing and sales," which was code for having no customers. And others would pitch products that aren't really unique or don't have a big niche in the marketplace. Investors in this market are not big risk takers. They know that if you don't have a product, you'll need a lot more money to develop it than you think you do. But when I heard about Perminova, I saw that it had a product that worked and it actually had some customers, including the UC San Diego Health System and Mount Sinai Hospital in New York. And it's right at the convergence of three major trends: health care information technology, health care analytics and cloud computing.

Q: Do you see the venture capital climate improving anytime soon?

A: Things have already improved considerably from three years ago, but we're not out of the woods yet. It's kind of like the old country-western song: "I've been down so long that it looks like up to me." The stock market has a huge effect on venture capital. Once the Dow Jones gets back to, say, 13,000 or 14,000, some bigger companies will start doing acquisitions, the bigger fish will eat the smaller fish and the investors will get enough money to seek out new investments. For every acquisition, there will be a host of early stage VCs, angel investors and entrepreneurs who will enjoy a "liquidity event." Typically, a large multiple of their initial investment will be returned to them in cash. They'll then pocket some profits, turn around, and plow the rest back into new ventures. Additionally, many of the entrepreneurs will go on to become investors themselves or perhaps drive innovation at another startup.

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