

# Hartford Business Journal

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## Despite pandemic, CT companies post strongest venture fundraising year in nearly two decades

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[By Sean Teehan](#)

Last year Cromwell financial-technology firm Payveris LLC raised \$6.7 million in venture capital investment — more than the previous three years combined.

CEO Ron Bergamesca said Payveris, which provides digital-payment products to banks and credit unions, will use that money to hire up to 25 new workers and boost marketing efforts.

Entrepreneurs in Connecticut have long lamented the difficulties in getting attention from VC firms, but Bergamesca said Payveris' location hasn't stymied its ability to raise money.

"The [VC] interest level was more in 2020 than it was prior," Bergamesca said. "I think Connecticut is primed well [for future investment]."

Bergamesca's bullish outlook isn't just steeped in blind optimism.

In fact, Connecticut companies in 2020 had a banner year in securing venture investment, despite challenges posed by the pandemic.

Connecticut businesses — mostly technology and healthcare-related firms — collectively raised \$707.3 million in venture funding last year, up 27% from 2019 and the most money raised in a single year in nearly two decades, according to data from the latest PwC/CB Insights MoneyTree Report.

Experts say the higher-than-usual funding level likely isn't just an aberration. It seems to reflect a nationwide increase in venture capital expenditures and investors' increasing willingness to bet on companies outside tech strongholds like Silicon Valley.

That, along with serious state- and private-sector led efforts to boost entrepreneurship in recent years, could bode well for Connecticut's future. However, the state still has a long way to go to compete with bigger markets.

For example, while Connecticut companies had a strong fundraising year in 2020, the total amount raised was dwarfed by what Massachusetts-based firms pulled in: \$14.2 billion.



Micheal Brooder

"We do have a maturing ecosystem," said Matt McCooe, CEO of Connecticut Innovations, the state's quasi-public technology-investment arm, which helped finance about 100 deals in its 2020 fiscal year, which ended June 30. "What [VCs] are really looking for are places where there's a steady flow of talent, commitment from the government, and where VCs think they can recruit great people."

### **Developing ecosystem**

The state's maturing startups ecosystem didn't happen on its own. Public and private stakeholders in recent years have been making serious efforts to bring in new companies from outside the state and cultivate them from within.

Startup accelerators established in hubs like Hartford, New Haven and Stamford are mentoring entrepreneurs, and opening doors to deals and partnerships with major corporations, which makes them look more credible to VC investors, said Michael Brooder, Hartford office managing partner for national accounting and advisory firm Marcum LLP.

Dozens of startups have now been through the seven Greater Hartford accelerators — such as Upward Labs and Stanley + Techstars — and about 40 from outside Connecticut subsequently established a presence in the state over the past three years, according to Launch[H]artford, a nonprofit that works as a go-between for startups, government officials and corporations in the city.

"For the last couple of years there has been infrastructure put in place for emerging companies," said Brooder, who works with both large public companies and emerging tech companies. "I do think it's a big piece, these companies are coming through these programs learning how to pitch."

Private and public sector actors are also working to spread the word about viable companies here, said Michael Cocuzza, president and chief technology officer at Enviro Power, a Hartford-based green tech company that makes environmentally-friendly boilers.

Enviro Power raised more than \$1.5 million in VC investment last year, and closed on \$4.1 million in series A investment from CI and Pennsylvania-based Burnham Holdings — which invests in HVAC companies — at the tail end of 2019. The company in 2016 went through the nonprofit accelerator reSET, which works with local socially-conscious startups.

"There is a support network in Connecticut," Cocuzza said. "If you can demonstrate there's a product market fit, ... CI and [others] will get you in front of investors."

CI has played a leading role in Connecticut startups receiving venture capital. In fiscal year 2020 alone, it invested \$43.2 million in about 100 Connecticut companies, a nearly 10% increase from the year-ago period.

But CI's investments can also create an entourage effect in which VC investors are more willing to put money into a company if someone else appears comfortable taking that risk.

McCooe said the use of CI's pocketbook sends a signal to other prospective investors. Any VC investment is a risk, McCooe said, but losing money on an unknown company based in a location without a history of successful startups is harder for investors to explain than losses from companies in San Francisco or New York.

"You don't want to be the first person trying to make your hay in, say, Norwalk," McCooe said.

### **By the numbers**

The VC money rolling into Connecticut is largely going to companies in the healthcare/bioscience and tech spaces. Healthcare-related companies in the state raised \$492 million in VC funds in 2020, according to PwC, while internet-related tech companies raised \$102.6 million.

The next three top money-attracting sectors — consumer products and services, software and food and beverages — received a combined \$93.5 million in 2020.

Venture investment is also going disproportionately toward southeastern Connecticut, data show. The 10 Connecticut companies that received the most VC investment last year were all located in New Haven or Fairfield counties.

One company with Greater Hartford ties, bioscience startup Rallybio, actually raised the most money in 2020 — \$145 million.

Rallybio, which is developing a portfolio of pharmaceutical technologies to treat severe and rare disorders, had been headquartered at UConn's Technology Incubation Program facility in Farmington, but moved to New Haven to be closer to the Elm City's bioscience cluster.

The increase in Connecticut VC money makes sense to Tim Shannon, a general partner at Westport-based early-stage investment firm Canaan. The levels of VC investment nationwide are about five times what they were a decade ago, Shannon said.

U.S.-based companies raised a record \$130 billion in 2020, up 14% from a year earlier, according to the PwC/CB Insights MoneyTree Report.

Shannon said the industries and geographic locations VCs are favoring in Connecticut match what he'd expect to see. Tech and health care — including biotech, medical devices and digital health — are hot markets everywhere. Further, Fairfield County is right next door to New York City, and New Haven hosts Yale University and all the talent and resources it attracts.

There is room for Hartford to establish itself as a tech hub, Shannon said, and efforts to attract tech startups to the city are a positive sign. But it will take a while before VCs associate Hartford with tech the way they associate New Haven with life sciences.

"For an area like Hartford to really provide a tech presence, it's a 10-year commitment. It's not going to happen overnight," Shannon said. "Do I think it could happen? Absolutely."

## **Beyond Silicon Valley**

Eric Rosow, CEO of Farmington-based Diameter Health, said being based in Greater Hartford hasn't deterred investor interest in his medical-technology company, which helps health information exchanges, IT vendors, care providers and payers consolidate and better assess clinical data.

Diameter raised \$18 million in VC funding last year.

Rosow is no newcomer to growing successful tech companies. He started Diameter about six years after selling his software firm, Premise Corp., to Atlanta-based medtech firm Eclipsys Corp. for \$38.5 million. He said he finds investors are much more interested in whether the people running a company are capable than where they're located.

"I think there are a lot of [VCs] that are interested in the best team, whether you're in Connecticut or not," Rosow said.

Some VCs are actually beginning to see investing in Connecticut companies preferable in some ways to putting more money in Silicon Valley.

Howard Mergelkamp, a managing partner at San Francisco-based VC firm Mosaik Partners, said while there's a higher volume of tech and entrepreneurial talent in his backyard, it's also much more expensive to invest in that hyper competitive market compared to places like Connecticut. Mergelkamp, whose firm invested in Payveris, also noted that CI provides Connecticut companies funding, mentorship and access to an investor network so that they're ready for prime time.

"When a company has a Connecticut Innovations or similar type of state-sponsored [fund] backing it, it does two things: it gets the company further along before it has to find that venture capital and gives the company connections," Mergelkamp said.

Connecticut startups have been showing results, too, McCooe said. At least seven Connecticut firms were acquired for at least \$1 billion over the past five years, McCooe said.

And Norwalk-based software firm Datto raised \$594 million last October in a high-profile IPO. Payveris CEO Bergamesca said other VC investors like Mergelkamp will increasingly see Connecticut as a good place to invest, especially if the state continues to lean into supporting startup development.

"I don't know too many states that are as supportive as Connecticut," Bergamesca said. "The extent that the state is behind us and companies like Payveris makes it a very attractive place to have your headquarters."