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Startup Investment Buzz

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The Montgomery Tech conference, packed with 1,100 attendees, is buzzing with talk about the sectors and startups that are the bests right now. The bar is higher than ever. Investors are telling me that the best startups are well positioned to change their industries and the way people do business as a whole.

Some start up categories here make a lot of sense, like green, "clean tech" companies. These companies will benefit from government stimulus programs for environmentally friendly building. But I am surprised about some of the other hot sectors. I would have guessed that most non-essential spending would fall by the wayside, but it seems people are hunkering down at home with inexpensive entertainment, exactly what these sites provide. Other hot sectors aren't so glamorous — software as service and wireless safety and infrastructure. And, as in years past, the online advertising and web video markets continue to attract interest.

Lead-generating technology [Hydra](#) is attracting lots of attention -- one entrepreneur here confided in me that he's quite jealous of its double-digit margins. Hydra is the largest, fastest-growing CPA (cost-per-action) affiliate ad network. What that means is that Hydra finds customers for other websites, which pay per customer. It's growing fast -- with customers like "Cash 4 Gold," because it's zero risk for companies and it really works.

The Carlyle Group's Bob Grady tells me his interest is piqued by **eHarmony**, the online dating site. Grady says he'd love to invest in the private company that has over \$250 million in revenue, and is "highly profitable." Grady also singled out Seattle-based [Big Fish Games](#), which has over \$100 million in revenue and is downloading millions and millions of games each day.

James Montgomery, Montgomery & Co's CEO, is particularly optimistic about cloud computing company, Splunk, as well as IT infrastructure play, Airtight Networks, introducing me to both of their CEOs. **Splunk** is an IT search company, which helps companies to manage IT infrastructure and troubleshoot problems. With over 900 clients, from Boeing to FedEx, the company aims to make IT systems as efficient as possible. So it makes sense that companies would be eager to invest with them through the recession.

[AirTight Networks](#) ackles companies' nightmare of getting hacked through a WiFi network or even through a blackberry. Wireless security may not be sexy, but it's certainly non-negotiable in this era where execs log into "secure" systems via airport wireless networks that are anything but safe. This company also plays into the Software-as-service trend -- it's model is available as a service.

When it comes to the online ad and video space, these startups aren't hurting at all from the overall decline in ad revenue. They're flourishing as advertisers shift their spending to the web, where their ROI can be tracked. A number of the startups in the online entertainment space have been around for a while -- like [Move Networks](#), whose technology streams high-quality video

over the web, without the usual hiccups that come from streaming to a huge audience. People are also talking about **Rubicon Project**, which aims to maximize the efficiency and profitability of your online ad network. Montgomery recommends RedVentures.com, which manages customer acquisition in various vertical networks, some of which are quite narrow, like "home remodelling."

In addition to the companies everyone is talking about, I can't resist pointing out some of the funny and striking startup names I've come across here. A board listing a grid of company presentations reminds me of Silicon Valley circa 2000. There are the ones that allude to their focus -- "Vlingo", Widget Box, Connotate. Others are pure mystery: "ooyala", "Cataphora," "veveo."

If the entrepreneurs and investors here are right, these funny names could very well be the next Google.

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