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InsideVenture to feed IPO pipeline

NVCA to organize four roundtable discussions on the IPO market, with one set for this month

In an effort to resuscitate feeble demand for technology and life sciences IPOs, a Silicon Valley group is launching a program to connect pre-IPO companies with buy-and-hold-oriented institutional investors.

InsideVenture, based on Sand Hill Road in Menlo Park, Calif., is looking to arrange a series of meetings early next year between executives of leading venture-backed companies and large asset managers. In preparation, the group is seeking nominations of companies in the technology and health care industries that are strong IPO candidates.

The organization's long-term plan is to create a forum in which institutional investors familiarize themselves with pre-IPO companies and do deeper diligence before committing to buying shares.

"Everybody wants the IPO market back," **says Mona DeFrawi**, founder of InsideVenture. The former investor relations executive started the group last year to resolve what she sees as a market disruption caused by too few long-term investors securing large allocations for IPO companies.

Year-to-date in 2008, only six VC-backed companies have gone public, with only one in the past two quarters combined. In comparison, 86 venture-backed companies launched an IPO last year. The median number of annual VC-backed IPOs from 1970 to 2008 is 68, with an all-time high of 368 venture-backed offerings in 1986. The Internet bubble year of 2000 saw 265 venture-backed companies go public.

The lack of IPOs is so dire that **the National Venture Capital Association (NVCA)** plans to organize four roundtables on the IPO crisis, with the first set to happen later this month. The meetings will include attorneys, investment bankers and stock exchange representatives, along with venture capitalists, all given a broad mandate to brainstorm ways to repopulate the VC-backed IPO pipeline.

"Anytime where the markets are lousy it's very bad for IPOs, but there's something worse than all this that's in play," **says Dixon Doll**, general partner at DCM and chairman of the NVCA.

While new offerings of venture-backed companies are at a multi-decade low, DeFrawi says that the problem is more about distribution than demand. She says institutional investors are interested in taking stakes in emerging growth companies, but aren't getting sufficient flow.

DeFrawi says it's crucial for newly public companies to attract investors who plan to hold on to their shares for a long period. While such investors typically were large buyers of IPOs, active traders have been buying more new issues in recent years. The result is highly volatile share prices.

"The [venture] investors can't take a company public and then dump their stock the next day," she says. "The new investors in an IPO don't have that same requirement, so it's important when you bring in your investors that they share your vision."

This month, InsideVenture is planning a road show for buy-side investors in at least four cities. In January, the group is looking to begin taking companies on live road shows. It's hoping to hold its first investor conference in late March.

InsideVenture describes itself as an "industry-sponsored enterprise," essentially something in-between a stand-alone company and a trade group. It has a board, consisting of VCs and institutional investors. It also offers membership, for a fee, to qualifying late stage venture firms, institutions and strategic investors.

InsideVenture's investment process starts with nominations. Anyone is free to nominate a company as a strong IPO candidate, and venture board members select the best submissions. The ones viewed as most promising are presented to institutional investors.

"They have told us that being conservative investors, the one-hour road show is not conducive to making a

long-term decision,” DeFrawi says of institutional investors. She says investors have expressed interest in meeting with companies that are looking to go public within the next six to 18 months.

InsideVenture will earn revenue from delivering confidential due diligence and pre-qualified deals, for which there’s a subscription fee, DeFrawi says. She did not specify the cost.

To date, InsideVenture has put together a 21-member board consisting of seven health care and seven technology VCs, as well as seven buy-side representatives, including both strategic and **institutional investors**.

Scott Sandell, **general partner at New Enterprise Associates**, and James Blair, **partner at Domain Associates**, will chair the group’s technology and health care selection boards, respectively. Other board members **include** Doll; Sam Colella, **managing director at Versant Ventures**; Alan Frazier, **managing partner of Frazier Healthcare and Technology Ventures**; Nicholas Galakatos, **managing director at Clarus Ventures**; Bryan Roberts, **managing general partner at Venrock Associates**; Charles Newhall, **general partner at NEA**; and Dennis Purcell, **senior managing director at Aisling Capital**.

Institutional **members include** Wasatch Advisers and T. Rowe Price. Silicon Valley Bank has joined as a sponsor and strategic partner.