



With no IPO market, companies seek private investors

<http://www.reuters.com/article/innovationNews/idUSTRE4AH4BX20081118>

Tue Nov 18, 2008 8:26am EST

By Phil Wahba

NEW YORK (Reuters) - With the market for initial public offerings dead, institutional investors and venture capitalists are looking to invest in companies that would be going public now if the IPO market were healthy, says Mona DeFrawi, a Silicon Valley-based start-up veteran.

Companies wanting to go public are opting for private placements to tide them over until they are mature enough to launch, DeFrawi, who heads InsideVenture, said in an interview. InsideVenture is a service that will begin matching investors with later-stage pre-IPO companies this winter.

On Tuesday, InsideVenture announced it has begun recruiting qualified institutional buyers, or QIBs, to be members.

"Everything will have to be done privately for the time being because the market is dead," DeFrawi said. The U.S. IPO market has not seen a deal launch since early August, the longest such stretch in decades.

After the consolidation and disappearance of boutique investment banks following the dot-com bust at the start of the decade, the banks left over have focused mostly on large-cap companies, said DeFrawi, who has headed business development at tech companies including USinternetworking -- which has since been acquired by AT&T (T.N: Quote, Profile, Research, Stock Buzz) -- among other start-ups.

"A company can't go public with a \$250 million market cap, now it needs \$500 million or even \$1 billion," DeFrawi said.

The private placements are designed to keep funding going until the companies are larger and the IPO market more receptive, but they are also a way for institutional "buy-side" investors, which have often been shut out of IPOs by large investment banks, to get in on IPOs early, she said.

The board of InsideVenture, which was founded a year ago, includes companies such as institutional investor T Rowe Price, and venture capital firms such Frazier Ventures and Venrock.

While DeFrawi is not sure when the IPO market will reopen, she said it is inevitable. "The money is there. Fund managers are going to invest."