

San Francisco Chronicle

Firm tries different approach toward IPOs

Deborah Gage, Chronicle Staff Writer
Tuesday, November 18, 2008

Taking startups public has become nearly impossible in the current economy, and investors are being forced to become ever more creative.

Take Inside Venture, a new organization from Silicon Valley that plans to match qualified institutional buyers with startups that normally would be headed for an initial public offering.

The group is backed by Silicon Valley Bank in Santa Clara and will screen health care and technology startups with help from several Silicon Valley venture capitalists who have joined the board, including DCM, Venrock and NEA.

T. Rowe Price and Wasatch Advisors also have board seats, and the group is seeking additional investor members.

Since startups stopped going public, the system for matching companies with long-term investors is broken, said Inside Venture CEO Mona DeFrawi.

It's harder for investors to get good information on private companies, she said.

One idea behind Inside Venture is that investors will get to know companies as long as two years before an IPO so they feel comfortable enough to stick with them, she said.

It's also hard for private investors to get adequate shares in companies - because entrepreneurs don't want to give up too much - and for venture capitalists to unload their shares without other investors thinking the company has problems, said Scott Sandell, a general partner at NEA in Menlo Park who's on Inside Venture's board.

"In the boom times, nothing was a problem because all stocks were going up, and who would be crazy enough to sell?" he said.

Ideas like Insight Ventures have been tried before, said Ron Lissack, a managing partner at Catapult Advisors, an investment bank in San Francisco that's not affiliated with Inside Venture. But the problem of getting late stage

capital has persisted. Big institutional investors don't pay as much attention to smaller Silicon Valley startups because they don't have time to get to know them, he said.

"This is a very different world than what existed 10 or 15 years ago," he said.

Inside Venture will begin featuring startups in January and will offer virtual and live road shows, a virtual data room and conferences to its members, DeFrawi said.

E-mail Deborah Gage at dgage@sfchronicle.com.