

San Jose Mercury News

InsideVenture offers antidote to weak IPO market

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Mercury News

Posted: 11/18/2008 09:00:00 PM PST

InsideVenture, a Sand Hill Road startup that came out of stealth mode on Nov. 1, aims to help venture-backed companies find late-stage funding at a time when the market for initial public offerings has slammed shut.

Silicon Valley is famous for its technological innovations, but it innovates on business models as well. Think back a year: The IPO market was straining, but not exactly staggering, when investment industry veteran Mona DeFrawi began conceiving InsideVenture. Then the second quarter of 2008 passed without a single venture-backed IPO, and later came financial industry crisis and the recession.

Along the way, InsideVenture gained support from several venture firms and institutional investors such as T. Rowe Price and Wasatch Advisors.

The idea is basically simple. In normal times, the IPO process gave firms like Price, Wasatch, Morgan Stanley and Fidelity an inside track on acquiring stock in mature venture-backed companies. Without a viable IPO market, InsideVenture, as the name implies, creates an exclusive marketplace that will enable 100 select venture-backed companies to strut their stuff — revenues, milestones, product road maps — to a qualified group of prospective buyers. In addition to institutional investors, these may include late-stage venture capital firms, private equity firms and large strategic buyers, such as Microsoft or Google.

"We're not a broker-dealer. We're not an investment bank," DeFrawi said. "We're sort of like a Facebook for the venture and buy-side industries."

InsideVenture will operate a members-only Web site that will provide "a virtual road show" to replace the actual tours in which IPO-bound companies previously made presentations to investment firms.

Institutional investors have been leery of making direct investments in private companies because of a lack of data. Changes in the financial industry, hastened by the Sarbannes-

Oxley reforms, eliminated the boutique investment banks that facilitated many IPOs and also reduced the amount of independent research on startups. InsideVenture will help close the information gap, DeFrawi said.

Venture firms now have "a huge backlog" of strong companies that would be positioned for IPO in a normal market, DeFrawi said. Dixon Doll, founder of the DCM venture firm and chairman of the National Venture Capital Association, said that most "quality" VCs estimate that between 10 percent and 15 percent of their portfolio companies could make Wall Street debuts in a normal market.

InsideVenture, Doll said, is a partial antidote to the weak IPO market. The NVCA is preparing to announce new legislative objectives early next year to revitalize the startup economy.

One company that won't need InsideVenture is Finjan. The Web gateway security firm, which last year moved its headquarters from Israel to San Jose, announced late Tuesday it has secured \$22 million in late-stage venture capital financing.

Its announcement is odd on a few levels. For starters, it's very late-stage funding — a "series E" (or fifth-round) for a 13-year-old company that seems to be hitting its stride as the world lurches into recession. But mostly, its beaucoup dinero when money seems in such short supply.

"We're selling stuff that's unique and needed to combat a vast wave of crimeware," CEO John Vigouroux said, adding that Web security may not be recession-proof but is at least "recession resistant."

Despite a slowing economy, Finjan has been thriving, recording 85 percent year-over-year growth, he said.

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