



Menlo Park, Calif.

## InsideVenture Links Late-Stage Cos. To Key Backers

By Tomio Geron 11/18/2008

While venture capital firms wait for the frozen IPO market to thaw, several of them are putting their financial muscle behind a new venture designed to better connect late-stage portfolio companies with institutional investors.

InsideVenture Inc. has launched with venture backing to provide live road shows and conferences for qualified institutional buyers to meet executives of select companies, while also providing Web access to confidential company data for these firms to decide whether to invest.

The idea is to get the qualified institutional buyers - generally, large purchasers of securities who have undergone regulatory screening procedures - to buy in before the IPO, which provides them more access to shares, while giving companies more long-term investors to mitigate a slide in stock price. It also provides companies with more visibility for mezzanine rounds while the IPO window remains virtually closed off in the current environment.

InsideVenture has received equity investments from Domain Associates, DCM, New Enterprise Associates, Venrock Associates, Versant Ventures and Frazier Healthcare Ventures. Silicon Valley Bank is a strategic partner and sponsor of the InsideVenture's conference in March. T. Rowe Price and Wasatch Advisors are institutional investor members with InsideVenture and will also have a role reviewing companies.

InsideVenture accepts companies to apply to be a part of its service. The companies are reviewed by a panel of venture investors and other experts. Companies that are selected can get their information made available to InsideVentures' qualified institutional buyers.

Some of the experts who have agreed to review companies include Dixon Doll, general partner at DCM; James Blair of Domain Associates; Charles Newhall III and Scott Sandell of New Enterprise Associates; Harry Kellogg of Silicon Valley Bank; Hugh Evans, vice president at T. Rowe Price; Bryan Roberts and Ray Rothrock at Venrock; and Jeff Cardon of Wasatch Advisors.

Companies can then attend private conferences - the first of which is in March -

that InsideVenture is organizing for investors to meet the companies. The company charges for its services but does not act as a broker and does not take a commission on deals.

The vetting process is "very rigorous," to ensure that the companies are top quality, said Mona DeFrawi, chief executive of InsideVenture. Investors also are screened and must be qualified institutional buyers, DeFrawi said.

The company also has a Web-based service that enables investors to view information about companies that have been selected. Companies provide information that will be confidential and only available to that investor pool.

For start-ups, this provides an opportunity to find mezzanine or pre-IPO investors, or just pre-IPO exposure. The idea is that start-ups want to find long-term institutional investors, who ideally will not unload their shares as soon as they can after an IPO. By getting these investors in early prior to the IPO there is a greater chance of them staying long term, DeFrawi said.

This could also be a welcome move for start-up employees, many of whom count on stock options to pay off for years of hard work, said Mark Heesen, president of the National Venture Capital Association. Long-term institutional investors will give more confidence to employees that their options will eventually be worth something, Heesen said.

For qualified institutional buyers, there have been a number of problems in investing in venture-backed IPOs, even before the most recent downturn in the IPO market.

For example, many qualified institutional buyers don't get the allocation of a company they want during an IPO. InsideVenture will give these firms the opportunity to invest before the IPO. They also can get a discount to what they would get in a public offering.

In addition, many start-ups that are about to go public often just have a one-hour meeting with qualified institutional buyers right before the IPO.

"That's not conducive for long-term quality buyers, because they want to get to know the company long before [the IPO] and be in direct contact with management. We're here to build relationships to mitigate risk and improve the whole opportunity to invest," DeFrawi said.

Companies such as T. Rowe Price, one of the largest IPO buyers, have average holding periods of about five to six years, DeFrawi said.

Despite the bleak outlook for IPOs at least in the near term, qualified institutional buyers are still interested in investing in venture-backed companies, DeFrawi said.

"There are no IPOs out there to buy, so folks have money to target IPO allocations, unless they changed their business model completely," DeFrawi said. "Everything I know from folks signing up [with InsideVenture] is, yes, they are interested in this, long term."

For long-term investors, there are good buying opportunities, DeFrawi said.

"Yes there's uncertainty, but it could be an opportunity to get in now," DeFrawi said. "We have client companies we're talking to now that don't need to do rounds. They're profitable with live revenue coming in...The big story is that there's huge value in the venture industry now. It's just a communications issue."

To what extent large institutional players use InsideVenture to jump into the venture market remains to be seen. However, it's clear that the venture industry needs to try new things to get liquidity flowing, Heesen said.

"We have only had six venture-backed IPOs the entire year. Anything will help at this point," Heesen said. "I think this is actually an extremely good idea that a lot of venture capitalists will be excited about."

The NVCA is holding previously announced regional meetings in Boston, New York and San Francisco to discuss the liquidity and IPO challenges facing the industry, Heesen said. After suggestions and ideas are compiled, the NVCA will present recommendations to the new Congress and the Obama Administration early next year, Heesen said.

There are some other efforts to provide late-stage funding. Nasdaq announced its Portal Alliance last year to provide an open market for trading of 144A securities.

Also, Advanced Equities Financial Corp. earlier this year launched a market for private investors to invest in late-stage companies.