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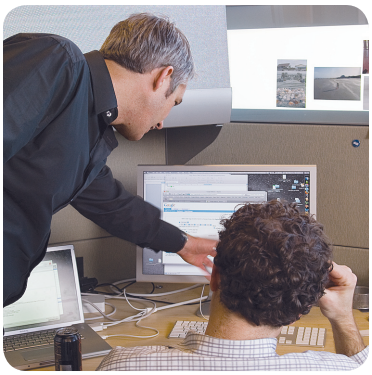
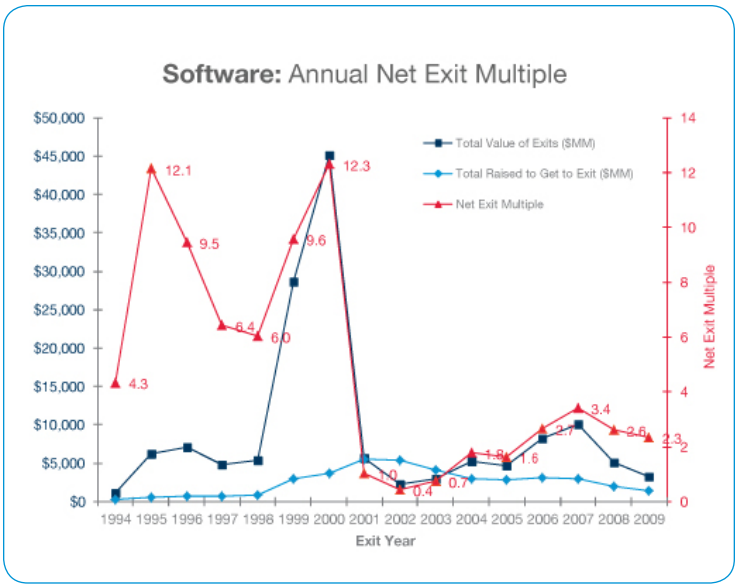
Venture Capital's Software Batting Average



> "Baseball is the only field of endeavor where a man can succeed three times out of ten and be considered a good performer."
>
> Ted Williams
> American Baseball Player, 1918 –2002

We respectfully disagree, Mr. Williams; the other field of endeavor would of course be venture capital. As our proprietary research will clearly demonstrate, a 0.406 batting average in venture capital performance would land you in the VC Hall of Fame.

We have analyzed data over the last 15 years for venture capital investing and the performance related to those activities. While it is clear from this analysis that the halcyon days were from 1994-2000, there are some very positive signs that the industry is still very much an attractive asset class. In a field where most investment managers don't even strive for a single, VC regularly scores doubles, triples and even the coveted home run. The returns on these home runs are so large as to forgive any strikeouts industrywide.



Source: VentureSource, SVB Analytics

The chart above looks at the total amount of dollars returned from exits in any particular year by companies classified as software. It also plots the total equity dollars invested in those exiting companies since their inception. These two numbers divided by each other give us the net exit multiple, providing a proxy for the health of the software investing industry. It demonstrates a high net return or exit multiple of 12.1x on the total equity dollars invested in companies exiting in 1995. This was primarily driven by five big exits: Netscape at $929 million (exit multiple of 34), Objective Systems Integrators at $488 million (exit multiple of 49), CitiTrends at$289 million (exit multiple of 16), Persistence Software at $216 million (exit multiple of 33) and Remedy at $137 million (but high exit multiple of 91). The average multiple over the 16-year period is 3.65x, showing that on average venture investing more than returns capital over the long run.

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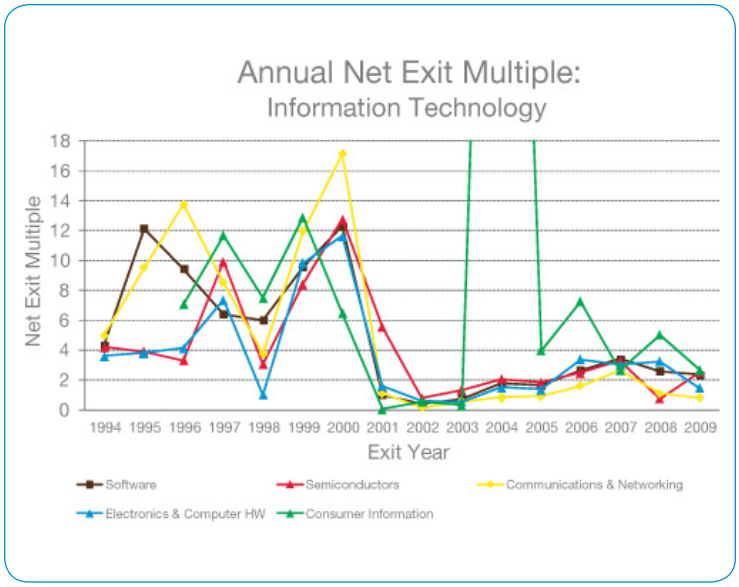

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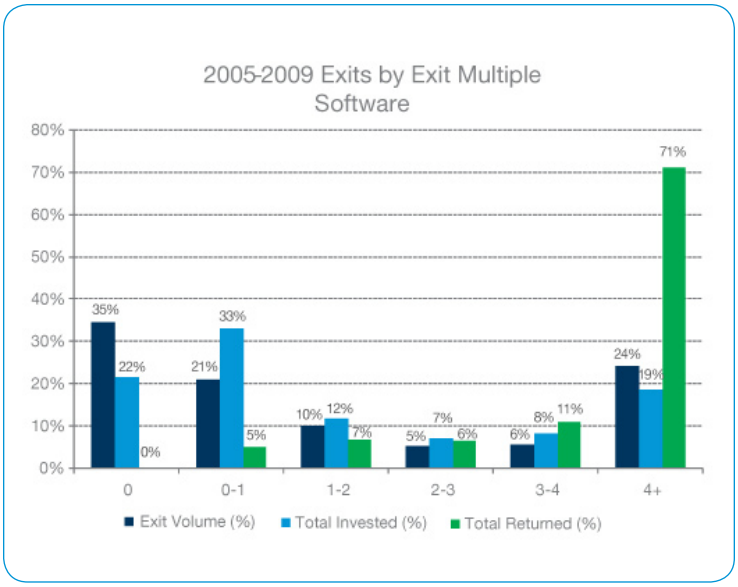

Source: VentureSource, SVB Analytics

The chart above aggregates the net exit multiple across a number of investment verticals including software, semiconductors, communications and networking, electronics and hardware, and consumer information. We can see very quickly that on average all industry verticals return a multiple greater than one over the 15 years of data analyzed. In fact, in all IT areas analyzed we note:

- An average 16-year exit multiple of 4.01 times (or 3.81 times exclusive of Google).
- An average 9-year exit multiple of **1.72** times (or **1.45** times exclusive of Google) over the course of the 2001-2009 period or post 2000 economic downturn.
- An average 5-year exit multiple of **2.21** times over the course of the 2005-2009 period.

In our view, this clearly demonstrates venture capital as an attractive long term asset class worth IT investing despite significant economic downturns.

So, where do the returns come from? When we analyze the data for software exits in the 2005-2009 time period, we see an almost perfect example of the 80/20 rule. Looking at the chart above, we can see that 71 percent of all money returned came from exits that had a multiple of 4x invested capital or greater. These companies however only account for 19 percent of total dollars invested and are 24 percent of the number of companies in total. This is indeed good news. Equally good news, however may be found on the left side of the same chart which demonstrates that only 22 percent of all venture capital invested in that five-year period has a zero-return outcome.

In summary, Ted Williams knew a lot about baseball, but venture capital … not so much! Our research at SVB Analytics clearly demonstrates that venture capital investing is a profitable enterprise. One that not only returns multiples of capital, but also fosters innovation and leads in new job creation in the U.S. and internationally. Unlike baseball, it is a field of endeavor where a person can succeed two times out of 10 and be considered a great performer!

SVB Analytics has completed extensive analysis and research on the data set discussed. Should you wish a full presentation of the detailed analysis please contact the author at mgallagher@svb.com.

The analysis is based on data from VentureSource and is primarily survey or self-reported data.

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