

# Will the IPO Market Make a Comeback?

*Venture Capital Update*

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Since the early days of Genentech and Apple, the venture capital ecosystem has been a vital contributor to and enabler of economic growth in the United States. Venture capitalists have invested nearly \$430 billion since 1990 into innovation-rich industries such as information technology, medical devices, software and biotechnology.<sup>1</sup> Venture-backed jobs accounted for 11 percent of private sector employment in 2008, and revenues from venture-backed companies represented approximately 21 percent of U.S. GDP.<sup>2</sup>

However, the 12 months ending September 30, 2009 were some of the most difficult on record for initial public offerings (IPOs) of venture-backed companies. During this time only eight such firms went public, with five in Q2 of this year. These public offerings raised only \$1.3 billion with a median amount raised of \$124 million.<sup>3</sup> While the paltry

number of public offerings by venture-supported companies has come at the same time as the economic recession, the reasons for the low number of IPOs is much more complex. To be sure, the venture industry has been struggling with a tepid exit market since the end of the tech boom in 2001.

Investors, academics and policymakers have proposed numerous solutions to bring the exit market back to life. The National Venture Capital Association (NVCA) has advanced a four-point proposal to restore liquidity in the industry. While the plan is timely and has been well-received by many venture capital firms, the government must now follow through in the next stage by actively collaborating with various stakeholders to correct the structural issues that have discouraged venture-backed companies from going public.

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By teaming with the innovators, investors and other experts who understand well the issues that traverse technology, entrepreneurship and the capital markets, Congress and the administration will be in a better position to design and implement meaningful solutions to address the exit challenge. A coordinated partnership between the federal government and private players along the entire innovation spectrum will be crucial to ensuring that the venture-backed IPO market — and growth in the innovation economy — does not languish on the sidelines.

This issue of *Venture Capital Update* assesses different arguments that seek to explain why the venture market has had historically few public offerings during the 2000s. After taking a critical look at each of these explanations, the article discusses current initiatives that may help revitalize the IPO market.

## IPOs MATTER

Venture capital returns are dependent on home run exits which provide outsized returns to limited partner and general partner investors alike. Historically, these outsized returns have come mainly from companies that went public on U.S. exchanges. Arguably, the largest returns in the history of venture capital have been from investments in eBay, Google, and Yahoo!, all of which went public. eBay is reported to have returned more than 700 times the capital invested and

Google returned more than 300 times the investment of its initial backers. Two of these public offerings — eBay in 1998 and Yahoo! in 1996 — occurred during the dot-com boom, when many companies sought public offerings even before they were profitable. The IPO market hit its peak in 1999 in terms of volume and number. Only Google went public outside the boom in 2004 with an offering price of \$85 per share. The magnitude of the Google IPO may have set a precedent for other companies seeking to go public during this period, when fewer firms exited but at higher values than during the 1990s.

Companies realize important advantages when they go public. A listing on an exchange such as NASDAQ empowers a firm to raise capital more easily because investors can move in and out of investments without penalty. It also heightens the firm's profile and allows employees to take active part in its growth through purchase and sale of company stock. The exit market also plays a critical part in economic growth. "Liquidity builds confidence in the financial markets," says Tim Draper, founder and managing director of venture firm Draper Fisher Jurvetson, "allowing more financial risk-taking, thus generating more innovation."

Strong evidence suggests IPOs not only matter to venture capital investors, but they also matter to the U.S. economy.

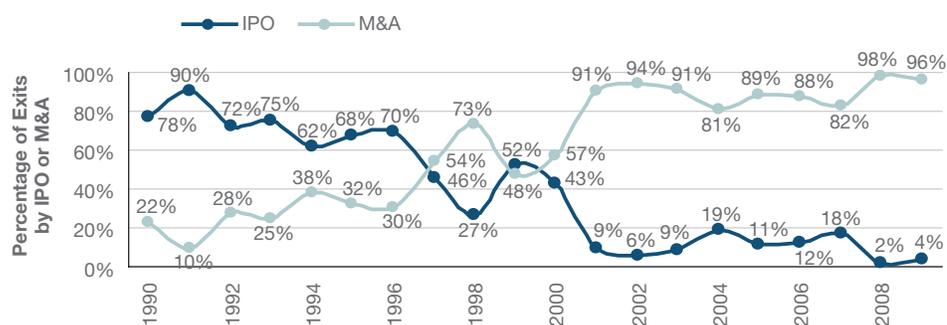
In a recent study of the economic impact of venture capital, IHS Global Insight, an economics consultancy, found that 92 percent of job growth at venture-backed companies takes place after they enter the public markets.<sup>4</sup> A vibrant and sustainable IPO market in the U.S. is crucial to job market and economic recovery.

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For almost the past ten years, the majority of venture-backed companies have exited through a merger or acquisition, as seen in the chart. In each year since 2001, IPOs have not accounted for more than 19 percent of the total number of venture-backed exits in the United States. In comparison, IPOs accounted for the majority of all exits between 1990 and 1996.

Although the number of strategic acquirers has increased over the long term, in more recent years that number has pulled back due to consolidation among various industry sectors. As the number of tech IPOs has diminished during this decade, there has been an

As M&As have exceeded IPOs since 2000, venture capital returns have fallen



Source: Thomson Reuters

attendant contraction in the number of publicly-traded companies in key technology sectors. Within these sectors, this trend has reduced the number of buyers with the requisite capital to effectively pursue ongoing merger and acquisition (M&A) strategies.

Past data show that exits via M&As are more robust when the IPO market is also strong. Potential acquirers must compete with the alternative that the public market offers to companies whose prospects are promising. With a second exit option, venture-backed companies are able to bid up their acquisition price in lieu of going public. As the IPO market has weakened since 2001, the returns to venture capital investors have also fallen. In short, a vibrant M&A market is dependent upon and tightly linked to a healthy environment for IPOs.

Why has the public exit market been tepid in the last eight years after the bubble burst? A compelling explanation is that the lackluster market has primarily been driven by changes in the regulatory landscape that have discouraged institutional players from providing sustainable support to venture-backed companies both during and after an exit.

### REGULATORY CHANGE HAS SHIFTED ECONOMICS AWAY FROM IPOs

In the first few years of this decade, a number of regulatory events led investment banks to reduce their focus on IPOs for more lucrative trading opportunities in areas such as hedge funds. In 2001, U.S. stock markets moved away from the use of fractional increments and into decimal pricing, which eliminated most of the margins

collected by stock traders that in turn helped to support research. Another key event was the Global Settlement, an agreement that was reached in 2003 by bodies including the SEC, NASD (NASD and NYSE consolidated in 2007 to become FINRA), NYSE and the nation's largest investment firms. As a result, securities firms were required to separate their investment banking and equity research arms. Since research departments' budgets had largely been supported by investment banking, the settlement led to a critical decline in coverage and support of small cap stocks.

Two years later, the SEC proposed Regulation NMS, which aimed to restructure the securities markets but also introduced greater compliance costs to broker-dealers covering the small cap and growth segments. Quantitative trading systems became more sophisticated, and more trading began to take place on unlisted exchanges, rather than public exchanges. Overall, these regulatory changes led to greater difficulty in securing analyst coverage (especially for small-cap stocks), a rise in speculative trading and a reduction in the number of long-term investors.

Compliance with the Sarbanes-Oxley Act has often been mentioned as a primary contributor to the weak exit market. While its passage in 2002 brought greater transparency to the capital markets, the

regulatory burden on companies of all sizes discouraged many would-be issuers from listing in the U.S. Public companies with under \$1 billion in annual revenues spent an average of \$2.8 million in 2006 to ensure that they were in compliance with Sarbanes-Oxley.<sup>5</sup> However, the exit market had begun to falter considerably even before the rules were implemented, and many private companies have viewed the lack of institutional and market support, in addition to costs associated with Sarbanes-Oxley, as reasons for not going public.

### THE CURRENT INVESTMENT BANKING LANDSCAPE DOES NOT SUPPORT A VIBRANT EXIT MARKET

In the 1990s, technology-focused boutique banks underwrote a large portion of companies that went public. The most prominent of these were the so-called Four Horsemen, comprised of Alex. Brown & Sons, Hambrecht & Quist, Montgomery Securities and Robertson Stephens & Co., each of which specialized in providing pre- and post-offering analyst coverage to institutional investors. None of these firms exist today, and mid- to large-size investment banks have not adapted to take over the myriad roles that these firms played during the 1990s technology boom.

In recent years, mid-size boutiques have sought to become lead underwriters for small-cap technology companies hoping to

exit. Firms such as Jefferies & Company, Piper Jaffray, RBC Capital Markets and WR Hambrecht + Co. have been instrumental in leading the IPOs of companies that eventually became global brands. However, these firms have not been able to underwrite as many IPOs as the tech-focused banks did during the 1990s.

Today, venture capital firms continue to actively favor larger, brand-name investment banks to serve as lead bookrunner for their portfolio companies. The majority of the eight venture-backed companies that have exited in 2009 were underwritten almost entirely by major players such as JP Morgan, Morgan Stanley and Credit Suisse. According to Frank Quattrone, chief executive officer of merchant banking boutique Qatalyst Group, firms such as Morgan Stanley and Goldman Sachs have a “choke hold” on lead-managing IPOs for the industry. Indeed, syndicates of large banks have been active in arranging for the exits of a large number of the venture-backed companies that filed Form S-1 with the SEC in the first six months of 2009.<sup>6</sup>

On the other hand, the marriage between investment banks and venture capital-supported companies has not always benefited the latter. There is evidence that companies underwritten by Wall Street and that go public do not always receive the analyst coverage critical to aftermarket success.<sup>7</sup> Large investment banks are not reciprocating in the commitment that venture capital

firms make to them, says Paul Deninger, vice chairman of securities firm Jefferies & Co. With more lucrative economics coming from servicing mutual funds, hedge funds and other more complex financial instruments, the big players find less reason to allocate resources to small, new companies that will not “move the needle” on their bottom line. Further, big banks often require larger valuations of their prospective issuers than is sometimes necessary in order to meet the stock allocations of their large institutional clients.<sup>8</sup>

Today, companies need to be on rock-solid footing, have healthy business models and show evidence of strong market leadership. Jim Anderson, president of SVB Analytics, states, “In the current environment, companies that go public have to be much larger and much more profitable than before in order to be good candidates for exit.” Although the “bigger is better” view favors large investment banks that are more willing to underwrite larger issues, companies must be careful about going public with magnified valuations that may not be in line with actual expectations.

### PRIVATE EXCHANGES PROVIDE ALTERNATIVE LIQUIDITY SOLUTIONS

The lengthy drought in the exit market has prompted the growth of alternative platforms that seek to match sellers and buyers of the assets of venture-backed

companies. A number of firms, such as SecondMarket, SharesPost, XChange, NYPPEX and Portal Alliance have emerged to provide secondary transaction solutions for illiquid assets.<sup>9</sup> These firms offer differentiated services that address the liquidity interests of private companies and their employees, institutional investors or venture capital funds. Some of the methods these companies are developing to facilitate the sale of stock of venture-backed companies include, but are not limited to, person-to-person sales of shares, hybrid private-public offerings and Dutch auctions.

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The trading models that have been developed have generated considerable attention over the past few months and continue to evolve. Managers at these firms are exploring solutions to more efficiently incorporate the features and advantages of public market trading into private exchange markets. As the market for private exchanges continues to evolve, companies are pursuing creative solutions to address some challenges. Thomas Foley, founder and CEO of XChange,

says that the major inefficiencies are caused by high cost, low information, poor transferability and a lack of quality products. “What we’ve really spent our time on is solving each of these puzzle pieces,” he explains.

The private exchanges are gaining traction, and the concept has support from the NVCA. “The firms that LPs are invested in now have a real exit option in the private secondary markets,” says Adam Oliveri, managing director of Private Company Market at SecondMarket. “There is now a scalable platform for those transactions to take place.” By facilitating the trading of ownership interests of venture-backed companies and venture capital funds, private exchanges offer a viable and alternative solution to limited exit opportunities.

### ARE ENTREPRENEURS’ EXIT AMBITIONS ON THE REBOUND?

The average time for venture-backed companies to exit via IPO is now approaching eight years. In 2007 the CEO of Facebook stated that he had no desire to take the company public, but instead, to turn it into a huge company.<sup>10</sup> Some in the venture industry believe that comments like this influence the ambitions of entrepreneurs so that others in the industry decide that it is better to remain private than to go public.

**Although market movements may induce optimism, this does not mean that large numbers of venture-supported young companies will find it easy to issue public offerings.**

During the IBF Venture Capital Investing conference in San Francisco in June, Bill Gurley from Benchmark Capital claimed that the tepid IPO market stems from the lack of supply of companies seeking to go public. “Silicon Valley has lost its love affair with the IPO,” he said. Whereas entrepreneurs used to dream about taking their companies public, some feel this is no longer true. When well-known, successful private companies openly state that they don’t want to go public, it influences many other entrepreneurs to hold the same opinion.

However, recent market trends are challenging this notion. In late September, investors cheered the debut of battery developer A123 Systems, sending the company’s stock up 50 percent on its opening day. Technology-focused private equity firm Silver Lake Partners is currently leading an investor group to acquire a 65 percent stake in Skype from eBay. While the deal signals greater confidence in the M&A environment, it may encourage entrepreneurs at smaller

companies to seek exits via public offering.

“Essentially, there’s an incredible amount of pent-up demand,” says Matt Regan, managing director at WR Hambrecht + Co. “VCs are under a great amount of pressure by their LPs to create value, and this is a tremendous time for really good companies to go public.” Dixon Doll, a co-founder of venture capital firm DCM, believes that better earnings and reduced volatility in the current environment herald a more vibrant exit market for IPOs in 2010.<sup>11</sup> Further, filings of S-1 forms — which sponsored companies file with the SEC to register their securities — appear to be on a rebound after dropping to a three-year low in the first quarter of 2009.<sup>12</sup>

Although market movements may induce optimism, this does not mean that large numbers of venture-supported young companies will find it easy to issue public offerings. To return to a state where dozens, if not hundreds of venture-backed companies go public every year will require a sea change in the regulatory and financial environment.

**Solving the exit crisis will require strong partnership between the venture capital industry and Washington.**

## TO FIX THE SYSTEM, GOVERNMENT NEEDS TO LEAD

Since the beginning of 2009, the U.S. government has taken unprecedented steps to increase regulation of the financial markets in order to improve the economy. However, many of these efforts have burdened investors, entrepreneurs and service providers with increased costs and have steered promising companies away from a path to liquidity. Further, the venture capital industry has been host to fragmented, competing views on ways to revive the market from its slumber. Past solutions have addressed various parts of the issue only, and Washington needs to ensure that its current efforts reflect an understanding of the role and value of venture capital to the economy

Solving the exit crisis requires strong partnership between the venture capital industry and Washington. To date, the NVCA has designed and promoted a variety of policies that will improve the financial and regulatory environment for venture-funded companies. Government commissions such as the Science Subcommittee on Technology and Innovation within the House of Representatives focus on matters relating to intellectual property policy, technology transfer and small business competitiveness. Until now, however, there have not been any advisory committees that prioritize concerns related solely to innovation and entrepreneurship.

In late September, Secretary Locke of the Commerce Department announced two new initiatives that will harness the federal government’s resources to energize and promote entrepreneurship. The National Advisory Council on Innovation and Entrepreneurship will advise the administration on solutions to creating and sustaining successful entrepreneurship ecosystems.<sup>13</sup> The council will be comprised of entrepreneurs, venture capital professionals, angel investors and non-profit leaders. Another pending initiative is the Office of Innovation and Entrepreneurship, which will focus primarily on identifying programs and policies that are important to entrepreneurs. These may include designing solutions that provide entrepreneurs with better access to capital or policy incentives that support investors.

Both initiatives demonstrate an increasing understanding at the federal level of the role of innovation to economic growth. The government will need to actively follow through on these efforts and maintain open dialogue with industry so that successful, venture-backed companies can continue to grow and generate new businesses and jobs.

Venture capital is crucial to retaining and strengthening America’s competitiveness. Rankings of global innovation — which assess countries based on inputs such as R&D penetration, competition policy

and the financing environment — already show that the United States is expected to slip behind other developed nations in the next few years, while China and India make broad strides.<sup>14</sup> As the contraction of the industry takes place, the stronger, more experience-driven players that survive will need to work with private and public stakeholders to find ways to address long-term structural issues. Ultimately, as is exhibited by the essence of venture capital itself, all players in the current ecosystem must be driven to innovate.

## TELL US WHAT YOU THINK

Send your comments and suggestions for topics to Jason Liou at [jliou@svb.com](mailto:jliou@svb.com).

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<sup>1</sup> Thomson Reuters.

<sup>2</sup> "Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy," IHS Global Insight, September 2009.

<sup>3</sup> Thomson Reuters.

<sup>4</sup> "National Venture Capital Association Releases Recommendations to Restore Liquidity in the U.S. Venture Capital Industry," National Venture Capital Association, April 29, 2009.

<sup>5</sup> Thomas E. Hartman. "The Cost of Being Public in the Era of Sarbanes-Oxley," Foley & Lardner LLP, June 15, 2006.

<sup>6</sup> Capital IQ.

<sup>7</sup> Olaf de Senerpont Domis. "As good as it gets?" *The Deal*, September 4, 2009.

<sup>8</sup> Mark Veverka. "Does the IPO Market Shun Smaller Companies?" *Barron's*, August 10, 2009.

<sup>9</sup> NYPPEX was founded in 1998.

<sup>10</sup> Laura Locke. "The Future of Facebook," *Time*, July 17, 2007.

<sup>11</sup> "Why VC Dixon Doll Wants More Start-Ups Shut Down," SiliconBeat.com, September 21, 2009.

<sup>12</sup> Capital IQ.

<sup>13</sup> "Commerce Secretary Locke Announces New Commerce Initiatives to Foster Innovation and Entrepreneurship," Office of Public Affairs, United States Department of Commerce, September 24, 2009.

<sup>14</sup> "A new ranking of the world's most innovative countries" report, Economist Intelligence Unit and Cisco, April 2009.

## Second Quarter 2009 U.S. Private Equity Snapshot

### U.S. Venture Investing Activity



Source: Dow Jones VentureSource

### Most Active Venture Investors

| Firm Name                        | Assets Under Mgmt<br>\$( MILLIONS) | Number of Deals* |
|----------------------------------|------------------------------------|------------------|
| New Enterprise Associates        | 10,650                             | 17               |
| Canaan Partners                  | 3,000                              | 14               |
| U.S. Venture Partners            | 3,825                              | 13               |
| Kleiner Perkins Caufield & Byers | 3,305                              | 11               |
| Domain Associates                | 1,977                              | 10               |
| Sequoia Capital                  | 4,033                              | 10               |
| First Round Capital              | 172                                | 9                |
| North Bridge Venture Partners    | 2,647                              | 9                |
| Polaris Venture Partners         | 3,049                              | 9                |
| Venrock                          | 2,200                              | 9                |
| Accel Partners                   | 6,000                              | 8                |
| HLM Venture Partners             | 500                                | 8                |
| Alta Partners                    | 1,871                              | 7                |
| ARCH Venture Partners            | 1,500                              | 7                |

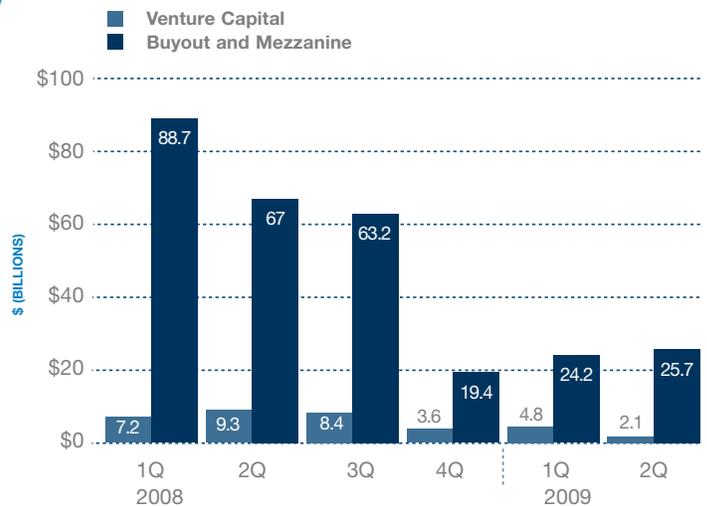
Source: Dow Jones VentureSource  
\* U.S.-based portfolio companies only

### Venture Investment by Region, All Industries

| U.S. Region         | Num of Deals | Num of Investing Firms | Average Per Deal<br>\$(M) | Sum Inv.<br>\$(M) |
|---------------------|--------------|------------------------|---------------------------|-------------------|
| Bay Area            | 180          | 252                    | \$11.7                    | \$1,943.9         |
| New England         | 85           | 115                    | 7.8                       | 659.5             |
| New York City Metro | 44           | 75                     | 10.1                      | 402.9             |
| Midwest             | 39           | 70                     | 7.8                       | 297.6             |
| Colorado            | 14           | 27                     | 21.1                      | 295.8             |
| Washington State    | 40           | 64                     | 7.0                       | 275.9             |
| San Diego Metro     | 25           | 47                     | 9.5                       | 225.8             |
| South               | 23           | 36                     | 9.2                       | 215.3             |
| Philadelphia Metro  | 22           | 28                     | 6.1                       | 131.3             |
| Los Angeles Metro   | 22           | 20                     | 5.5                       | 116.8             |
| Research Triangle   | 9            | 25                     | 12.6                      | 101.2             |
| Potomac             | 17           | 26                     | 5.8                       | 97.6              |
| Texas               | 19           | 23                     | 4.3                       | 81.5              |
| Oregon              | 3            | 7                      | 5.9                       | 17.6              |

Source: Dow Jones VentureOne

### Fundraising by U.S.-Based Venture and LBO/Mezzanine Firms



Source: Thomson Reuters

### IRR Performance (%) by Vintage Year (U.S.)

| Vintage Year | Num of Funds | Cap Wtd Avg | Pooled Avg | Upper Quartile | Median | Lower Quartile |
|--------------|--------------|-------------|------------|----------------|--------|----------------|
| 1996         | 36           | 59.2        | 83.0       | 113.9          | 33.4   | 1.4            |
| 1997         | 62           | 46.0        | 49.4       | 59.6           | 20.0   | (1.0)          |
| 1998         | 76           | 23.4        | 18.0       | 10.7           | 1.2    | (3.8)          |
| 1999         | 110          | (7.1)       | (5.7)      | 0.6            | (6.2)  | (15.1)         |
| 2000         | 125          | (0.7)       | 0.2        | 1.9            | (3.2)  | (7.4)          |
| 2001         | 57           | 0.9         | 2.1        | 7.1            | (0.3)  | (4.6)          |
| 2002         | 20           | (0.1)       | 1.3        | 2.6            | (1.5)  | (3.4)          |
| 2003         | 17           | 5.3         | 4.8        | 8.4            | 4.7    | 1.3            |
| 2004         | 23           | -           | 0.7        | 5.4            | (2.3)  | (7.3)          |
| 2005         | 19           | 0.9         | 3.8        | 6.5            | (1.0)  | (3.8)          |
| 2006         | 29           | (6.9)       | (5.7)      | 1.4            | (6.3)  | (17.2)         |
| 2007         | 20           | (13.6)      | (6.5)      | (3.7)          | (16.8) | (23.5)         |
| 2008         | 5            | (44.3)      | (42.4)     | (32.1)         | (34.9) | (46.1)         |

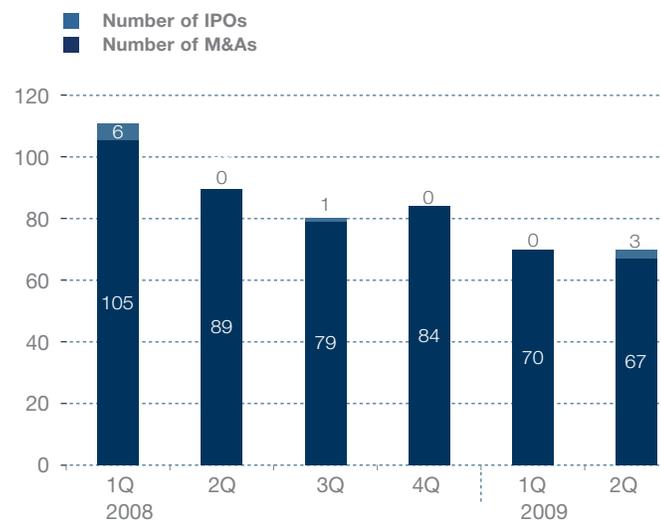
Source: Thomson Reuters. Data are as of March 31, 2009.

### Cumulative IRR Performance (%) by Stage (U.S.)

| Fund Type                 | Num of Funds | Cap Wtd Avg | Pooled Avg  | Upper Quartile | Median     | Lower Quartile |
|---------------------------|--------------|-------------|-------------|----------------|------------|----------------|
| Early/Seed VC             | 606          | 7.6         | 18.7        | 14.6           | 2.5        | (5.2)          |
| Seed Stage VC             | 68           | 2.3         | 9.2         | 13.7           | 5.7        | (1.4)          |
| Early Stage VC            | 538          | 7.9         | 19.6        | 14.8           | 2.4        | (5.9)          |
| Balanced VC               | 456          | 7.2         | 13.5        | 14.5           | 5.2        | (1.0)          |
| Later Stage VC            | 205          | 6.5         | 13.2        | 14.8           | 4.9        | (1.1)          |
| <b>All Venture</b>        | <b>1,267</b> | <b>7.3</b>  | <b>15.2</b> | <b>14.7</b>    | <b>4.1</b> | <b>(2.8)</b>   |
| Small Buyouts             | 182          | 8.6         | 15.4        | 17.3           | 7.2        | 0.0            |
| Med Buyouts               | 118          | 11.1        | 17.0        | 21.4           | 8.7        | (1.1)          |
| Large Buyouts             | 98           | 8.6         | 11.5        | 14.7           | 6.3        | (1.2)          |
| Mega Buyouts              | 138          | (7.7)       | 8.6         | 12.7           | 3.6        | (4.9)          |
| All Buyouts               | 536          | (3.6)       | 10.7        | 16.5           | 6.6        | (1.1)          |
| Mezzanine                 | 72           | 5.1         | 7.7         | 12.0           | 7.1        | 1.0            |
| Buyouts and Other PE      | 702          | (2.5)       | 10.1        | 14.8           | 6.6        | (0.9)          |
| <b>All Private Equity</b> | <b>1,974</b> | <b>0.0</b>  | <b>12.3</b> | <b>14.7</b>    | <b>4.9</b> | <b>(2.0)</b>   |

Source: Thomson Reuters. Data are as of March 31, 2009. Figures for all funds in database, vintage years 1969-2008.

### U.S. IPO Vs M&A Transactions For Venture-Backed Companies



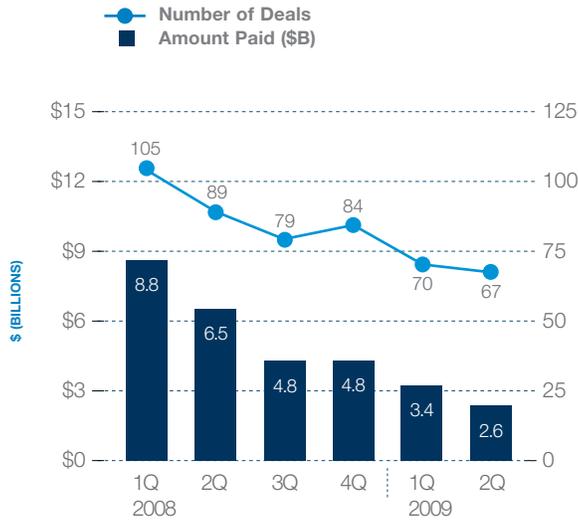
Source: Dow Jones VentureSource

### US. Venture Liquidity Events by Industry

| Industry                   | 2007      |            | 2008     |            | 1H 2009  |            |
|----------------------------|-----------|------------|----------|------------|----------|------------|
|                            | IPO       | M&A        | IPO      | M&A        | IPO      | M&A        |
| Business and Fin. Services | 6         | 76         | 0        | 40         | 0        | 10         |
| Cons. Goods and Services   | 5         | 27         | 1        | 13         | 1        | 8          |
| Energy and Utilities       | 2         | 6          | 0        | 0          | 0        | 0          |
| Biopharmaceuticals         | 18        | 29         | 1        | 29         | 0        | 7          |
| Healthcare Services        | 2         | 9          | 1        | 7          | 1        | 0          |
| Medical Devices            | 10        | 20         | 2        | 13         | 0        | 12         |
| Medical Software and IT    | 3         | 10         | 0        | 8          | 0        | 3          |
| Ind. Goods and Materials   | 1         | 5          | 0        | 4          | 0        | 1          |
| Comm. and Networking       | 10        | 42         | 0        | 30         | 0        | 12         |
| Elect. & Computer Hardware | 3         | 12         | 0        | 16         | 0        | 6          |
| Information Services       | 4         | 33         | 1        | 31         | 0        | 16         |
| Semiconductors             | 6         | 23         | 0        | 27         | 0        | 10         |
| Software                   | 7         | 173        | 2        | 139        | 1        | 52         |
| Other                      | 0         | 0          | 0        | 0          | 0        | 0          |
| <b>TOTAL</b>               | <b>77</b> | <b>465</b> | <b>8</b> | <b>357</b> | <b>3</b> | <b>137</b> |

Source: Dow Jones VentureOne

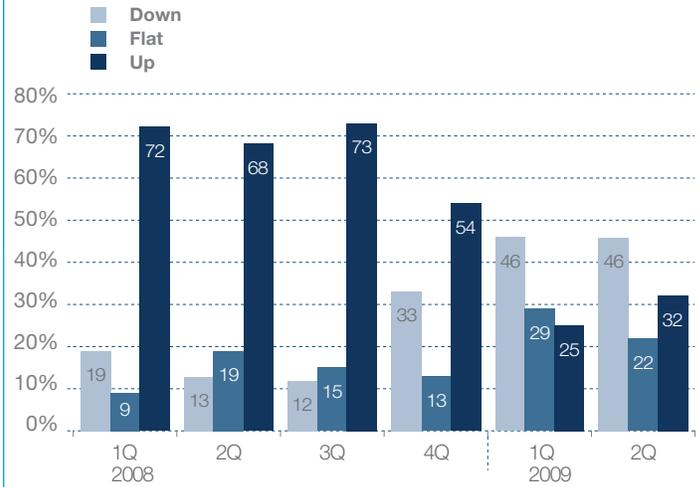
### U.S. Venture-Backed M&A Activity



Source: Dow Jones VentureSource

### Price Change

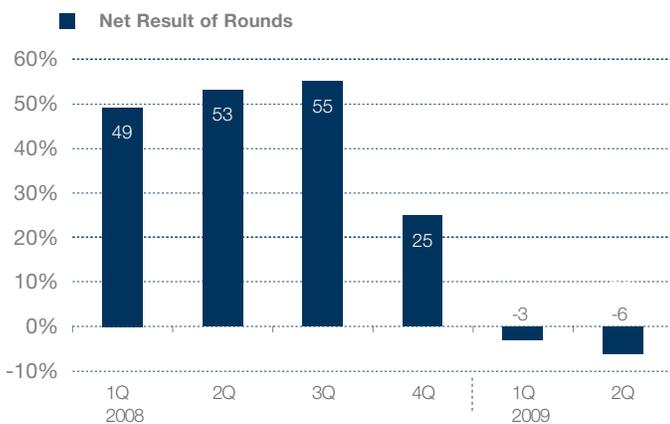
The direction of price changes for 89 San Francisco Bay Area companies receiving financing, as compared to their previous rounds.



Source: Fenwick & West L.L.P.

### Venture Capital Barometer™

Average per share % price change from previous round of Silicon Valley companies receiving VC investment in the applicable quarter. Complete report available at <http://www.fenwick.com/vctrends.htm>



Source: Fenwick & West L.L.P.

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