



Shut-down in IPOs offers opportunities

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With the door for initial public stock offerings all but nailed shut, institutional investors and Silicon Valley's latest crop of capital-hungry technology start-ups are finding alternative ways to get together.

That has fuelled the rise of a new class of investment funds, including a few that specialise in snapping up stakes in venture capital funds, direct holdings in venture-backed companies, or both. Though not solving the broader problems that have frozen the start-up financing business, backers say the new vehicles are providing a bargain opportunity for investors looking for a back-door way into venture capital.

San Francisco-based Industry Ventures' investment pool has more than tripled in three years to \$500m. "The volume in deals in our market has grown by a multiple because of all the illiquidity," said founder Hans Swildens.

Saints Capital has likewise been on a \$360m buying spree since May 2008, compared with just \$20m it invested during the previous 18 months.

Those who want to participate more directly are going further afield, working with start-ups that provide introductions to pre-screened companies or that are trying to create more formal markets for equity deals in private firms.

"There now exists an epic void in the ability of capital markets to bridge to an IPO," said David Weild, a former vice-chairman of Nasdaq.

Mr Weild last month joined the board of Silicon Valley-based Inside Venture, a matchmaker for institutions and the late-stage venture-backed companies that in ordinary times would be going public.

Many VCs argue the IPO drought is not cyclical but a delayed structural reaction to a range of issues, including post-bust regulations and the disappearance of independent investment banks.

"Without liquidity, venture capital investors will stop investing in VC funds, who will no longer be able to support entrepreneurs," said longtime VC Tim Draper, who is backing XChange out of his own pocket. "The American Dream is at risk."