

February 2007

Private Equity Statistics

This special edition of our market commentary provides a semi-annual update on statistics outlining the conditions for fundraising, valuations and exits in the venture capital and leveraged buyout sectors. Our analysis highlights these points:

- **Average fund size for both VC and LBO funds grew for the fourth consecutive year.** Average VC fund size reached its highest level since 2000, reflecting a shift by many firms toward later stage investments, which tend to require larger average investments. LBO fundraising was at an all-time high, topping the record set in 2005. Seven of the ten largest LBO funds of all time were raised in 2006.
- **VC pre-money valuations rose for the third consecutive year, likely for several reasons:** (1) the increase again reflects the shift by many firms toward later stage investments, which generally are (should be) at higher pre-money valuations than early stage investments, (2) a growing economy and increasing public valuations and (3) many VCs are holding companies for a longer period of time and completing more financing rounds (often at increasing valuations) than they have in the recent past. Both tech and healthcare pre-money valuations rose to their highest levels since 2000, although healthcare valuations only increased slightly compared to 2005.

Implications for Investors:

- Early stage VC has a place in every well-diversified private equity portfolio, but investors must be patient given the prolonged times to liquidity.
- Investors must be increasingly knowledgeable and selective when committing to late stage VC funds as more firms shift to this strategy and competition intensifies.
- Quality lower middle market buyout firms should be able to take advantage of exit-multiple expansion and generate strong returns.
- Despite the frothiness of the current environment, new opportunities for mega LBO funds continue to emerge: larger public-to-private deals (e.g., \$20+ B), a maturing tech and healthcare sector, India, China, etc.

- **As for LBO valuations, M&A purchase price multiples remained high (near 1997-1998 levels).** New entrants to the high yield market increased demand, which allowed borrowers to raise relatively cheap debt with few covenants and generally more attractive terms. As a result, target companies were able to support greater debt loads. So far in 2007, high yield markets have continued to be receptive to new offerings. Also of note, spreads between market segments have increased. Consequently, firms that purchase small companies should benefit from exit-multiple expansion if they sufficiently grow those companies.
- **2006 VC-backed IPO activity was slightly higher than last year but remains well below pre-bubble IPO levels.** A combination of Sarbanes Oxley and investors' preference for more mature companies drove the median company age at IPO for VC-backed companies to over eight years (the highest level since 1990). Meanwhile, LBO-backed IPOs enjoyed another banner year as dollar volume grew to record levels and the number of deals roughly doubled the historic pace. The surge of LBO-backed IPO activity over the past three years underscores the shift of investor appetite away from the potential growth opportunities offered by tech and early stage healthcare companies in favor of more mature, revenue-producing companies.
- **VC-backed M&A volume remained steady, although average deal size increased for the third consecutive year.** Again, this suggests that VCs are holding companies longer and many are unable to access the public markets (and the historically higher valuations they had received pre-bubble). **LBO volume and average deal size are also increasing,** driven by continued economic growth and increased activity by strategic acquirers and their cash-laden corporate balance sheets.

We hope you find this information valuable as you evaluate your private equity investments. We welcome your questions and comments.

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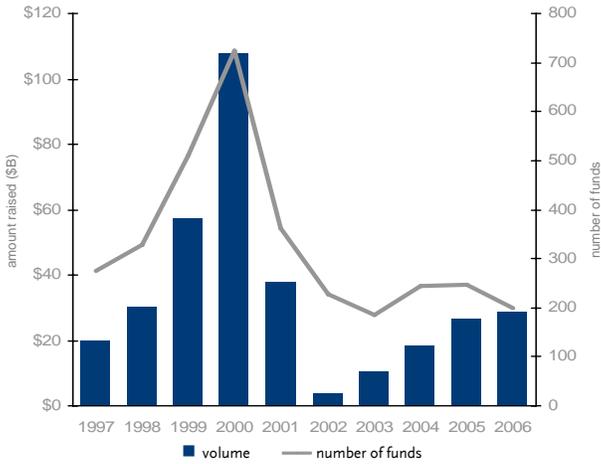
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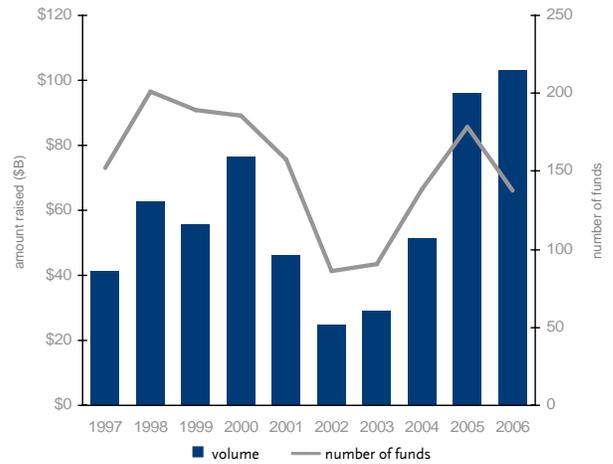
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Fundraising

Venture Capital (1997 – 2006)



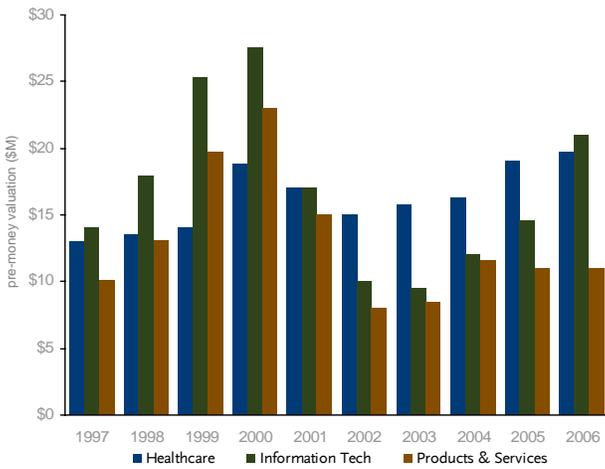
LBO* (1997 – 2006)



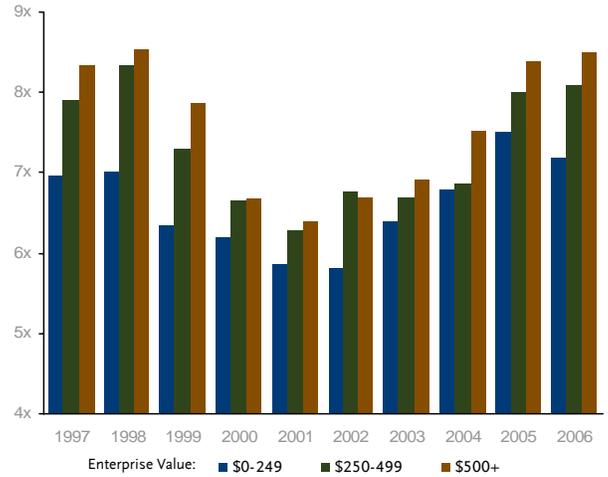
* This category includes LBO, Mezzanine, Turnaround and Recapitalization-focused funds.

Valuations

VC Median Pre-Money Valuations (1997 – 2006)

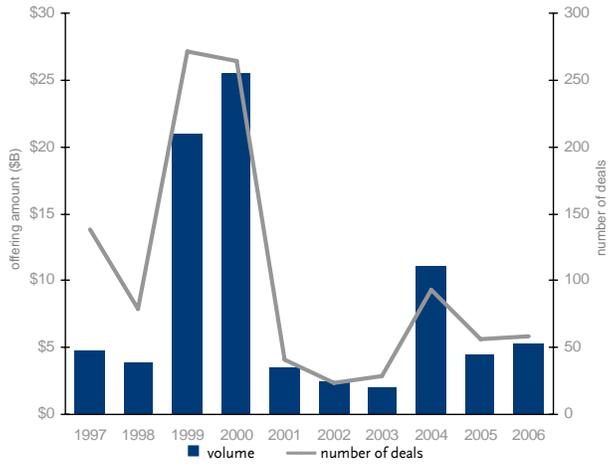


Avg. LBO Purchase Price (Multiple of EBITDA) (1997 – 2006)

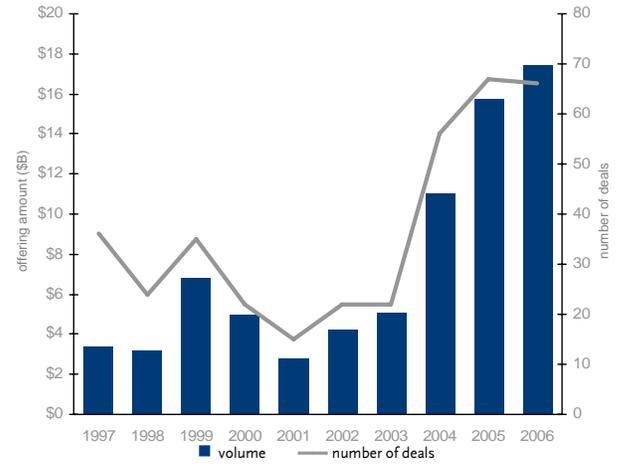


Exits

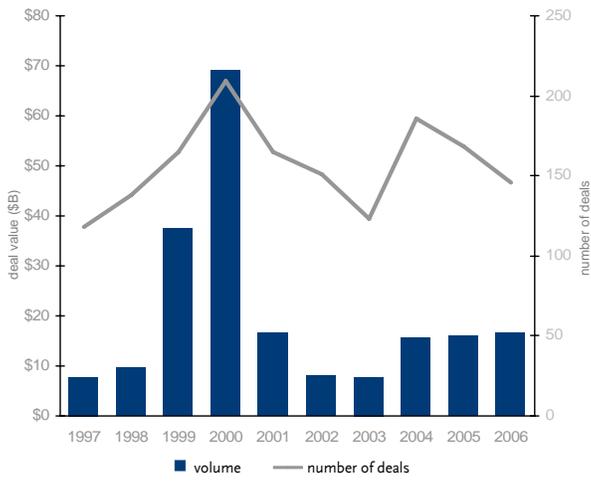
VC-backed IPO Market (1997 – 2006)



LBO-backed IPO Market (1997 – 2006)

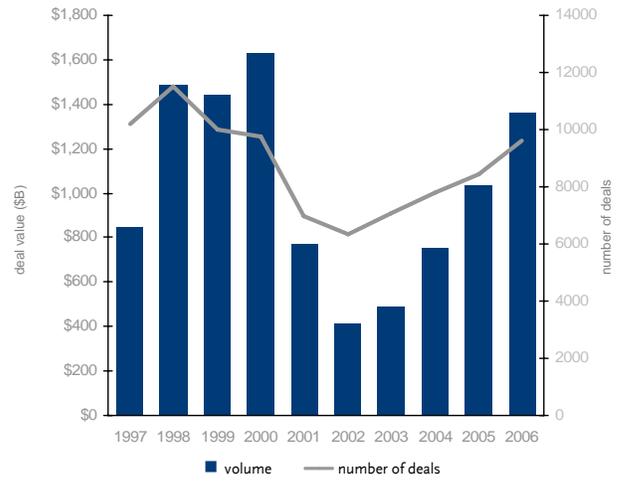


VC-backed M&A Market (1997 – 2006)



Data only includes disclosed deals

M&A Market (1997 – 2006)



Data only includes disclosed deals

Sources: Thompson Venture Economics, National Venture Capital Association, Securities Data Company and Standard & Poor's Q4 Leveraged Buyout Review. All data as of 12/31/06, run as of 2/23/07.