

## PRIVATE EQUITY PARTNERS | MARKET UPDATE

## October 2004

*This is the next installment in our private equity updates. Last month we discussed VC and LBO fundraising activities, as well as new investment conditions. This month we will focus on liquidity opportunities—specifically the IPO market.*

**Conditions for Exit (Liquidity)**

The IPO window appears to have opened somewhat, although investors have set a higher bar for new offerings compared to a few years ago. The last time there were more than 20 VC-backed IPOs in a quarter was Q4 2000. After encouraging signs began to emerge in Q4 2003 (17 deals), VCs were able to once again chalk up 20 or more deals in both Q2 and Q3 of 2004 (29 and 24 VC-backed IPOs, respectively). So far this year, there have been 66 VC-backed IPOs, compared to 29 in 2003 and just 24 in 2002. Notable VC-backed deals this year include Salesforce.com (CRM software), 51Job (basically the “Monster.com” of China), Volterra (semiconductors), Jamdat Mobile (global wireless publisher) and, of course, Google (search engine). While Google may not have been quite the catalyst some analysts predicted, VCs have been able to liquidate several of their Bubble-years portfolio companies in the last 12 months. Nevertheless, many other VCs have yet to exit these newly public companies due to a combination of a choppy stock market and standard lock-up agreements (where underwriters prohibit large shareholders from selling their shares until typically 180 days post-IPO in order to reduce downward pressure on the offering price). On the positive side, the lack of immediate liquidity is helping to keep valuations low for private equity investments being made today.

**Venture-Backed IPO Market**

Year	Number of Deals	Amount Raised (\$Millions)
2004*	66	8,023
2003	29	2,022
2002	24	2,474
2001	41	3,490
2000	214	20,011
1999	245	18,796
1998	78	3,838
1997	138	4,954

\*Data for 2004 is recorded as of 6/30/2004. Source: Thomson Venture Economics & National Venture Capital Association

Investor response to IPOs had been tepid earlier this year, with many deals pricing below their expected range. Similarly, IPO performance following the offering had been lackluster. As of late August, approximately 50% of all IPOs (not just VC-backed deals) for the year were trading below their initial offering prices. However, by early October prices had recovered, with Piper Jaffray sources showing a 15% positive return for all IPOs year-to-date. VCs are cautiously optimistic for the growing number of companies they have in registration for IPOs during the coming months.

Next month, we will comment on the M&A environment for both VC and LBO firms, including the re-entry of corporate acquirers like Cisco that are once again actively buying VC portfolio companies.

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