

CAPITAL SOLUTIONS NEWSLETTER...

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A growing crush of venture-backed firms expected to be looking for the exit door suggests that M&A activity will pick up in 2010; a venture firm makes some suggestions on how to become more alluring. An online assault on the angel groups who charge companies to present claims a scalp. At least one firm is willing to suggest a roadmap for the venture industry to make it through winter. Lastly, when Google asks you in a job interview to explain the significance of dead meat, how do you avoid being the answer?

The Acquisition Option

With venture funding down and the market for IPOs still anemic -- just eight venture-backed companies so far this year, compared to an annual average of 64 from 2003-2007 -- emerging companies hoping for an exit are increasingly on the lookout for suitors. Several trends indicate a potential upswing in M&A activity early in 2010.

First, as Montgomery & Co [points out](#) (slide 4), there is a growing traffic jam of venture-backed firms who will be looking for an exit. At the end of 2008, there were about 800 companies with venture investment dating at least 10 years. Due to significant increases in venture investments starting in 1999, this number will double by the end of 2010. Secondly, as a [WSJ article](#) noted, more companies are holding cash than at any time in the last 40 years, with the 54 largest IT firms holding a combined \$280 billion in cash (Google leads the pack with \$22 billion in hand at the end of Q3).

With an excess of companies looking to be acquired and numerous suitors with pockets stuffed full of cash, how do you mix the ingredients to bake a premium valuation at exit? At least one Venture firm shares [advice](#) on how to entice potential acquirers. Chief among this strategy is something very simple: prioritize business development partners who could be strategic buyers. And remember to keep a little something under the kimono.

Pay to Pitch

An online brouhaha broke out over angel groups that charge startups to pitch potential investors. Led by media entrepreneur [Jason Calacanis](#), and with an echo from [Fred Wilson](#), soon a full chorus was reciting a litany of [painful experiences](#). The revelations are exacerbated as these "pay to pitch" sessions -- questionably effective in the best of times -- coincide with angel funding that continues to [nose dive](#).

Personally, I've never believed entrepreneurs should pay just for the privilege of an audience; nor vice versa. This isn't theatre. I've always thought the right business model requires some actual investment -- the group should take a small percentage of any money that actually changes hands.

This would require the facilitators both to provide innovative companies and serious investors. What is meaningful to both groups is quality, not quantity.

And with the pressure building, it looks like there might even be some impact (well, sort of) as the Keiretsu Forum asked its local chapters to stop charging pitch fees for early-stage companies raising less than \$500k. It's not clear how many of the local chapters (or the other firms that were called out) decided to waive fees but reception was lukewarm. So Calacanis launched [his own](#) angel organization. Stay tuned.

VC Rebound

It is basketball season, and an intriguing [white paper](#) looks at the Venture industry and suggests a strategy to rebound to premium returns. The authors note recent conflicting trends of larger fund sizes and a decline of IPOs, and argue that the future lies in smaller fund size, considerable consolidation among funds, and exits through M&A.

Most interesting in the analysis is the segmentation of Venture firms by fund size: in the 1980s, funds of less than \$250M accounted for 75% of the total; today this group comprises less than 33% of the industry. The 1990s also saw VC-backed companies almost twice as likely to IPO (60%) than to be acquired. However in 2000-2008 that trend had reversed, as IPOs slowed to under one in five (20%). The latter exits were also more modest, as an IPO exit value averaged \$407M, while an acquisition yielded \$110.

The paper has the hint of convenience to it, since it's hard to imagine any scenario under which fund sizes don't shrink. And while the authors also list an impressive group of companies who raised less than \$10M -- eBay, Oracle, Cisco, Apple, Microsoft, Adobe and VMware -- they skip over that all are public companies who found the IPO window. Still, any paper portending a rebound is worth a quick read, even if they don't sneak in a single [Dennis Rodman](#) reference.

Not "*Do you want fries with that*"?

An enterprising job coach collected [actual questions](#) from interviews at Google. My personal favorite: "*Explain the significance of dead beef.*" Answers fortunately provided.

Access to capital is sent irregularly, and generally not more than once each month. All content and any errors are mine exclusively, while the occasional sharp insight is probably borrowed. As always, feel free to contact me at the number below if you have any questions, or just to catch up.

Regards,
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