

The Journal of **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

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There can be little debate that the valuation of small and medium sized growth businesses is one of the most critical issues facing anyone involved in the equity or venture capital arenas. In this issue, we present a group of articles each taking a piece of this puzzle and providing data to help us discern patterns in the haze.

We begin with an article by Joseph W. Bartlett discussing how the terms of the deal affect value. What are the vital issues from the entrepreneur's perspective? Where should the finance source stay vigilant? What terms have an out-sized effect when the deal goes well? Which ones are most important when a deal fails? These and many other issues impact deal values, and this article provides a worthwhile review prior to your next deal, regardless which side of the table you sit on.

The next article, by Steve Kam and Dave Witherow, takes a comprehensive look at the pricing of IPOs for high technology and life sciences companies between early 1993 and mid-1997. These data present a valuation methodology decidedly different from that traditionally used to estimate value. This data-rich report follows young companies through several financing rounds, starting with seed and going through first, second, third, and mezzanine rounds on the way to IPO. It examines development stages (start-up, development, shipping, and profitability) across several industries including electronics, semiconductors, software, communications, biotechnology, and medical devices. Which companies consume the most capital? Which provide the highest returns? Which are the riskiest?

Everyone agrees that any reasonable determination of company value must include a careful analysis of personnel. Geoffrey H. Smart completed an extensive study of venture capitalists and has constructed an interesting picture of how VCs use various methods to assess management talent. The analysis is centered on the following five techniques: analysis of prior jobs, review of personal and professional accomplishments via documents, interviews centered around prior achievements, reference interviews, and work samples. How useful was each of these activities? How accurate were the people judgments of the 115 VCs in this study?

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Timothy G. Kelly examines values outside of the venture capital world and attempts to quantify return levels among different sized “Middle Market” operating companies. How much money has been raised to purchase these private companies? What are their purchase price multiples? How does the value vary when the buyer is either strategic or financial in nature? What are return rates for buy-out funds over a twenty-year time horizon?

How about building value in a foreign land? We couldn’t report on value without including a glimpse of how different and similar things are elsewhere. The article by Daozhi Yuan and Li Bai explains how giant multinational companies have handled high technology start-up operations, sometimes on a grand scale, in China.

Our final article is a double set of ten rules — the first guiding venture capital seekers, and the second set for companies entering the queue for a public offering. These lists serve as a ready reference for parties on both sides of either a venture funding or an IPO.

James E. Schrager
Editor

EDITOR’S ERRATA

In the Winter 1999 issue of *The Journal of Private Equity*, we published an article by Kamal Mustafa about growth capital alternatives to IPOs. This article was based on a presentation by Mr. Mustafa to the New York Venture Group at their regular Thursday breakfast meeting in New York. We failed to credit Burt Alimansky and the NYVG as the source of this article, and we regret the error. NYVG can be reached at www.nybusinessforums.com.