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Strategies and Techniques for Venture Investing

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The beginning and end of any process are the places with rich lessons in how to improve the outcome. If we can find indications of success or failure in the potential businesses we look at before they are started, this can be an effective way to help allocate capital. Similarly, gains we can make in the IPO process can have a big effect on our returns—both prior to and after going public.

In this issue, we take you before the starting line of a new business to explore what preparation really makes a difference. We then review the exit phase, when a business is taken public, and study the types of returns our public investors can expect as well as what happens when we get into litigation. We close this issue with a review of India and its quickly growing venture capital industry and where it fits when compared with other venture markets around the world.

We begin with preparation. Cooper and Mehta review the files of nearly 3,000 firms to assemble data sets to analyze a series of straightforward questions about preparing to start a business. Does it matter how much time a person spent in preparing to start her or his business? Is it better if the idea for the new business came from a prior business? Some say timing is everything. How important is timing when starting a new business? Does it matter if the founder quit their job only so they could start the new business? And how important was the role of professional advisors in the start-up? If any of these questions seem interesting to you, take a look at our lead piece.

Fast forward now to the endgame, after the company is public. Starting first with the performance of shares on a public market: How will they perform? Bergström, Nilsson, and Wahlberg present the performance of a data-set of 152 private-equity-backed IPOs against 1,370 non-private-equity-backed firms in London and Paris between 1994 and 2004. Have these firms been underpriced by their issuers? Do private-equity-backed IPOs outperform their non-private-equity-backed counterparts? And how do these two groups fare against indexed performance?

Kooli, L'Her, and Suret analyze 141 Canadian IPOs from the period 1986 to 2000 and take a different approach. They question the method of how to measure long-term performance and

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whether other analysts are using the right benchmark. The issue is whether to use a value-weighted or equally-weighted portfolio to compare returns. Their review will help sharpen the measurement issues as you measure your own portfolio's performance.

Sticking with an analysis of the situation postdeal, Liu, Paeglis, and Walker take us into the scary world of SEC lawsuits thrown at venture-backed public companies. Does the strong reputation of a venture firm appear to attract litigation due, perhaps, to the deep pockets of the organization? That's a scary thought, and these authors test it. Are the lawsuits frivolous or do they appear to have merit? Do firms continue to fund companies after the imposition of litigation? Do venture firms named in lawsuits tend to keep or lose their reputational rankings? Can you avoid lawsuits by monitoring your portfolio firms more intensively? We thought you might be interested in some of these provocative questions.

Our final paper in this issue by K.B. Subhash takes us deep inside the Indian venture business for both an historical tour and a comparison with other nations. Although small, India has been growing fast and appears to have significant potential. Ignore India at your peril—or better yet, learn more about it in this issue.

James E. Schrager, Editor
Chicago, Illinois