THE VENTURE CAPITAL COMMUNITY: 
Myths and Realities

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The Venture Capital Community: Myths and Realities

Outline

- This information will make you successful in dealing with Venture Capital
  
  - Definition and Description
  
  - International, National & Regional Trends
  
  - Myths and Realities
What is Venture Capital/Private equity

- **Venture Capital**: Typically financing for growth and expansion in select private companies provided by institutions (funds) and individuals for pre-public stages of growth
  - Can be institutional (venture funds, etc.) or informal (Angels, entrepreneurs, family, etc.)

- **Private Equity**: tends to be equity capital for LBO/MBO
  - Traditionally for more mature companies or divisions with proven cash flows
  - Transactions tend to be larger, leveraged, and returns are made through financial engineering, build-ups, etc.
  - Certain funds do both (Noro-Moseley)
Private Equity Community: The Players

- The Private Equity community consists of a number of players which are generally categorized as either sell-side or buy-side

- **Sell-side**
  - Investment bankers - an investment banker advises an issuer on raising capital or represents a Company on a merger/acquisition transaction

- **Buy-side**
  - Informal Investors - Individual who provides equity capital to an early stage/start-up company. These investments are generally from the personal capital of the angel investor, the entrepreneur his/herself or the entrepreneur’s friends and family, and are typically in smaller amounts than the funding that a firm would receive from an institution
  - Institutions - Entities with significant amounts to invest, such as investment companies, mutual funds, brokerages, insurance companies, pension funds, and endowment funds. Institutional investors are protected by fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves. They account for a majority of overall private equity volume
Institutions: Further Categorization

- Institutions can be further categorized by the nature of their investments. Specifically, there is a significant difference between venture capital and buyout capital.

- Venture Capital is equity capital typically invested in a Company with exceptional growth potential.
  - VC is generally invested in the early to mid stages of the Company’s lifecycle
  - VC is generally invested on a minority, or non-control, basis
    • This does not mean the firm’s management is free to spend the money as they please
- Buyout Capital is equity capital invested in a firm on a controlling basis
  - Buyout Capital is sometimes referred to as private equity, but should not be confused with Private Equity, which encompasses buyout and VC
  - Buyout Capital is generally invested in the later stages of a Company’s lifecycle
Venture Capital Headlines 1st Half 2004

- Approximately $23.9 billion of Private Equity and Venture Capital was invested in North America in the first half of 2004
- At least $24.7 billion were raised in North America in the first half of 2004
- At least $9.3 billion was invested in technology investments in North America in the first half of 2004- accounting for 83% of all VC investment
- At least $2.6 billion was invested in start up and early stage companies in the first half- accounting for 23% of all investment
- At least $12.8 billion as invested in buyouts in the first half of 2004

Source: PriceWaterhouseCoopers Global Private Equity Report 2004
International Venture/Buyout Trends

Investment: Compound average growth rate = 10.41%
Buyout: Compound average growth rate = 19.13%

North American Private Equity and Venture Capital Investment and Fund Raising Trends

Investment: Compound average growth rate = 8.27%
High-Technology: Compound average growth rate = 1.14%

Source: The PricewaterhouseCoopers / Venture Economics / National Venture Capital Association MoneyTree™ Survey / Venture Economics Buyout Newsletter / Private Equity Analyst / CVCA Annual Statistical Review
North American Investment Trends by Stage

Investment: Compound average growth rate = 8.27%
Expansion: Compound average growth rate = -1.80%
Buyout: Compound average growth rate = 17.90%

North American Stages of Investment

Total Invested (Billions)

2003

Total Equity Investments into Venture-Backed companies

Source: PriceWaterhouseCoopers Moneytree Report 2004
Investments by sequence of financing 2003-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Investments by Industry 2003-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Investments by stage of development 2003-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Venture-backed initial public offerings 2002-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Most Active Fund Stats 2004

- The most active venture investors in the U.S. closed 16 or more deals during 2004
- These funds accounted for approximately 21% of the total venture transactions
  - The top 10 firms accounted for 4% of the deals completed
- 99 funds closed 16 or more deals
  - New Enterprise Associates closed the most deals –73
  - 8 different groups closed 16 deals (min required to attain most active status)
  - Mean: 27

Source: PriceWaterhouseCoopers Moneytree Report 2004
Investments by regions 2003-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Investments by state 2003-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
Funds Raised by venture capital firms 2002-2004

Source: PriceWaterhouseCoopers Moneytree Report 2004
# Local Funds

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Current Fund Size</th>
<th>Total Assets Under Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noro-Moseley Partners</td>
<td>$320M</td>
<td>$580M</td>
</tr>
<tr>
<td>CGW Southeast Partners</td>
<td>$404M</td>
<td>$750M</td>
</tr>
<tr>
<td>Roark Capital Group</td>
<td>$413M</td>
<td>$1B+</td>
</tr>
<tr>
<td>Cordova Ventures</td>
<td>$41M start-up technology fund, $50M expansion/late stage technology fund</td>
<td>250M+</td>
</tr>
<tr>
<td>Arcapita (formerly Crescent)</td>
<td>N/A</td>
<td>$7 Billion/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$300 Million</td>
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</tbody>
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Myth

Venture Capital firms finance most or many younger companies

Reality: only 1 in 10,000 start ups are seeded with VC
Myth

Venture Capital community is a good source of financing for great ideas and start-ups

Reality: entrepreneurs, their families, and friends provide most of the start-up, early stage capital

Note: entrepreneurs 4x as likely to provide informal VC

Source: GEM 2004 Financing report
Myth

Venture Capitalist typically want a controlling or Majority position

Reality: Traditionally, VCs do not seek control, though they do usually have protective provisions
Myth

Venture capitalists want to run the business

Reality: No, they want to back and counsel capable and proven entrepreneurs

They seek the “been there, done that” type
Myth

Venture capitalists are readily accessible

Reality: VCs seldom review unsolicited business plans, don’t like book sized presentations, prefer referrals from prior partners

Silicon Valley types take “club” or “keiretsu” approach and back the same groups repeatedly
Myth

Venture capitalists are homogenous, “herd-like”

Reality: Yes and No
Myth

You just need a little money (a few hundred thousand to a few million) so this should be easy to raise.

Reality: More money ($25 million to $100 million) is easier to raise than a little money.
Summary
The Venture Capital Community: Myths and Realities