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THE VENTURE CAPITAL COMMUNITY:
Myths and Realities

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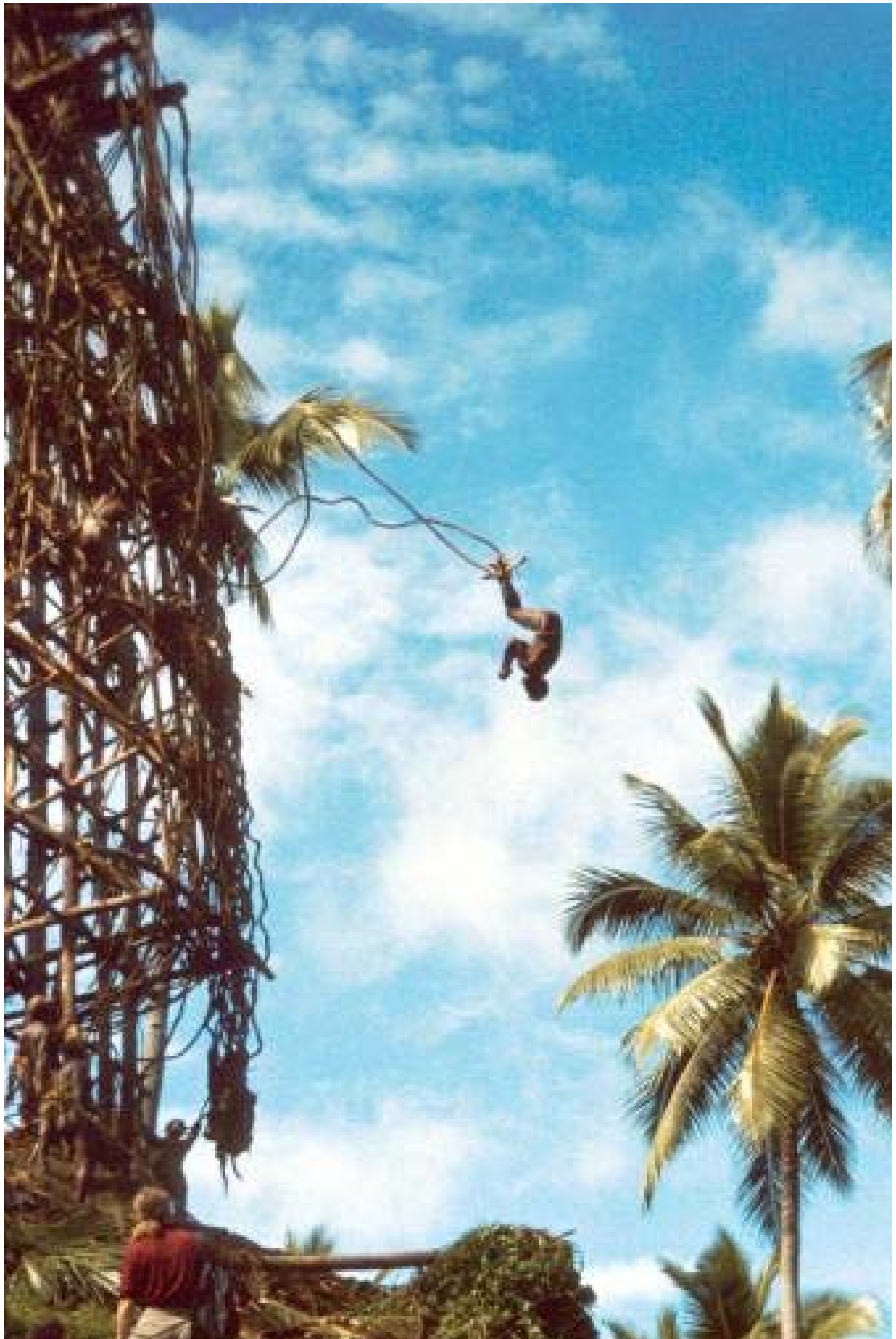
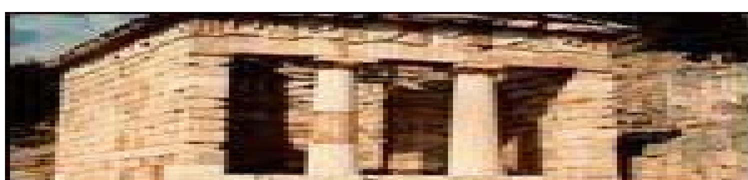


Outline

- **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

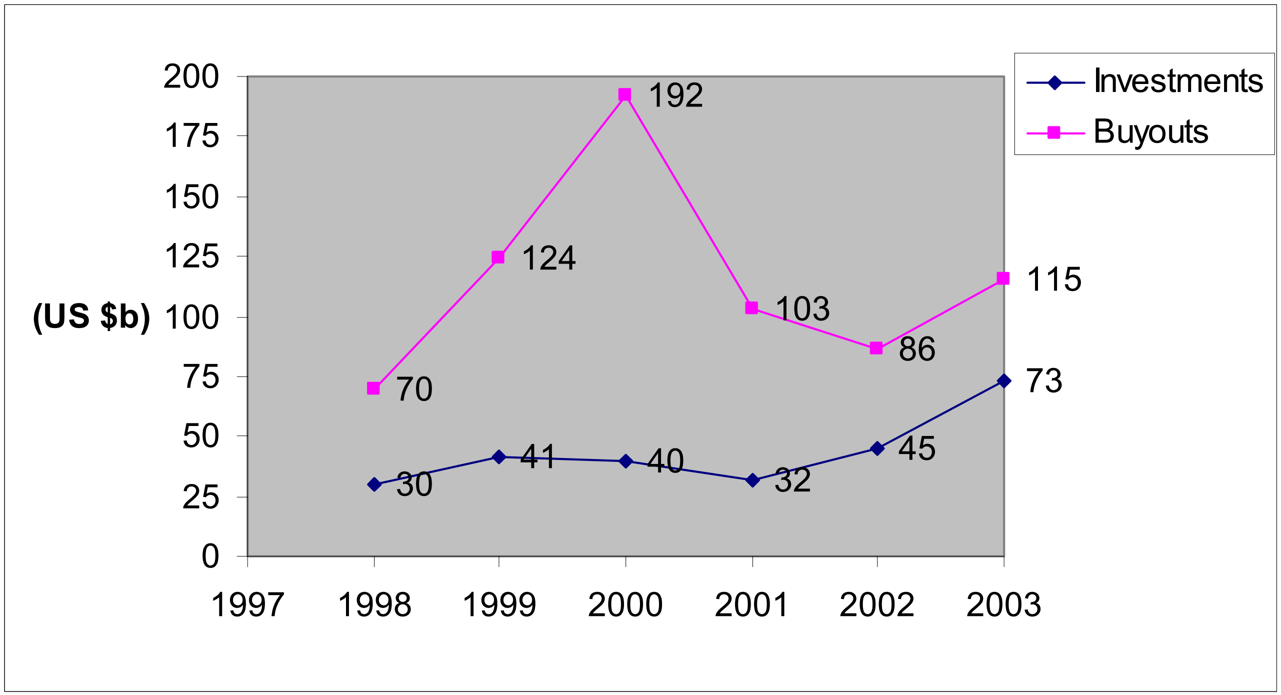
- Approximately $23.9 billion of Private Equity and Venture Capital was invested in North America in the first half of 2004
- At least $24.7 billion were raised in North America in the first half of 2004
- At least $9.3 billion was invested in technology investments in North America in the first half 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%

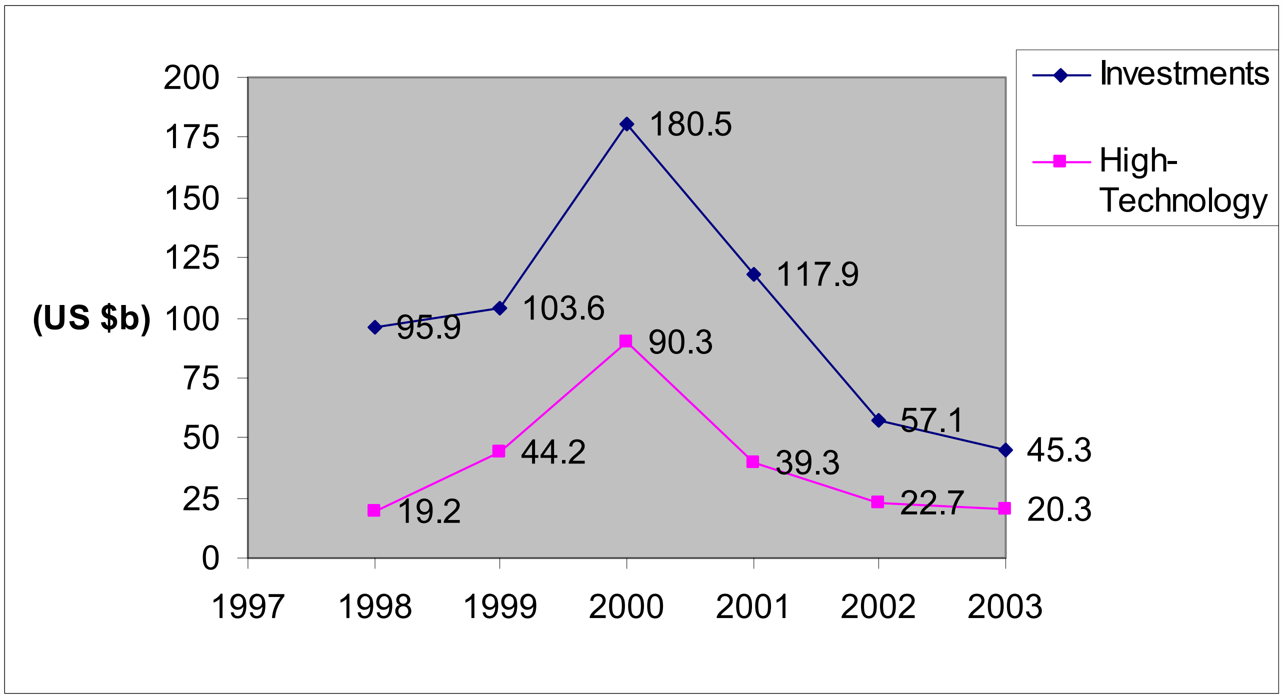
Buyout: Compound average growth rate = 19.13%



Source: The PricewaterhouseCoopers / Venture Economics / National Venture Capital Association MoneyTree™ Survey / Buyout Newsletter / Private Equity Analyst / CVCA Annual Statistical Review / EVCA Yearbook / AVCJ Guide to Venture Capital in Asia

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%



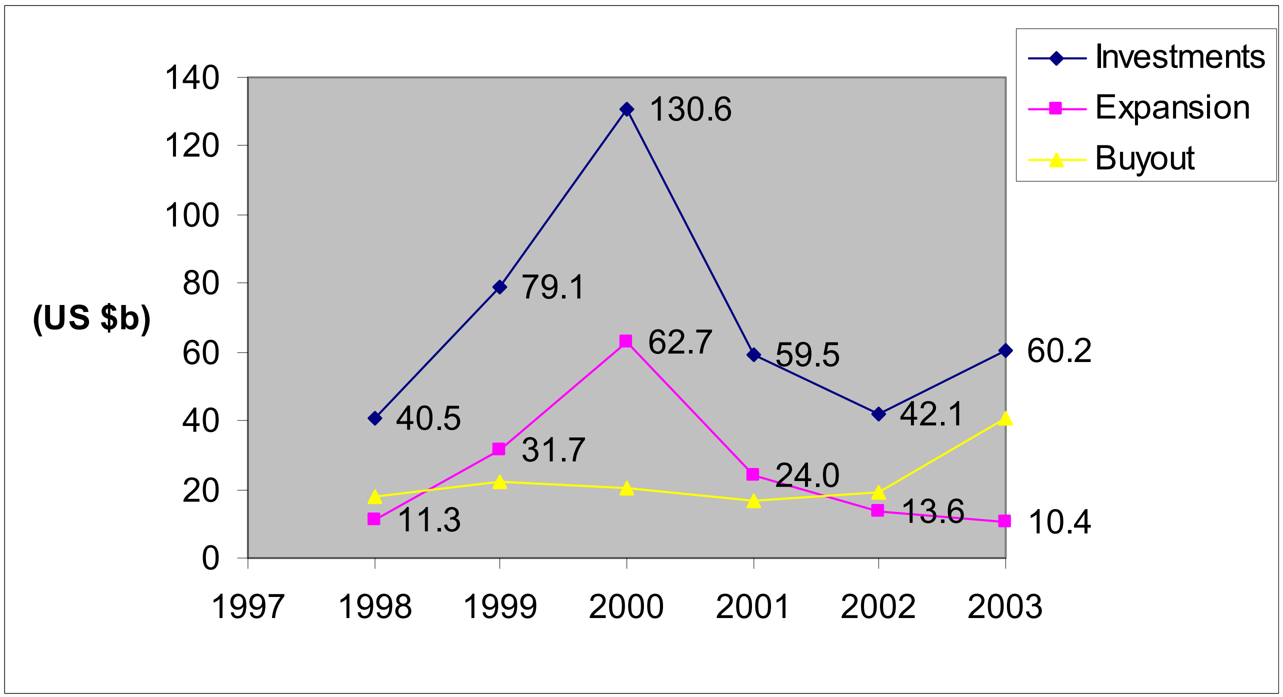
Source: The PricewaterhouseCoopers / Venture Economics / National Venture Capital Association MoneyTree™ Survey / Venture Economics Buyout Newsletter / Private Equity Analyst / CVCA Annual Statistical Review

North American Investment Trends by Stage

Investment: Compound average growth rate = 8.27%

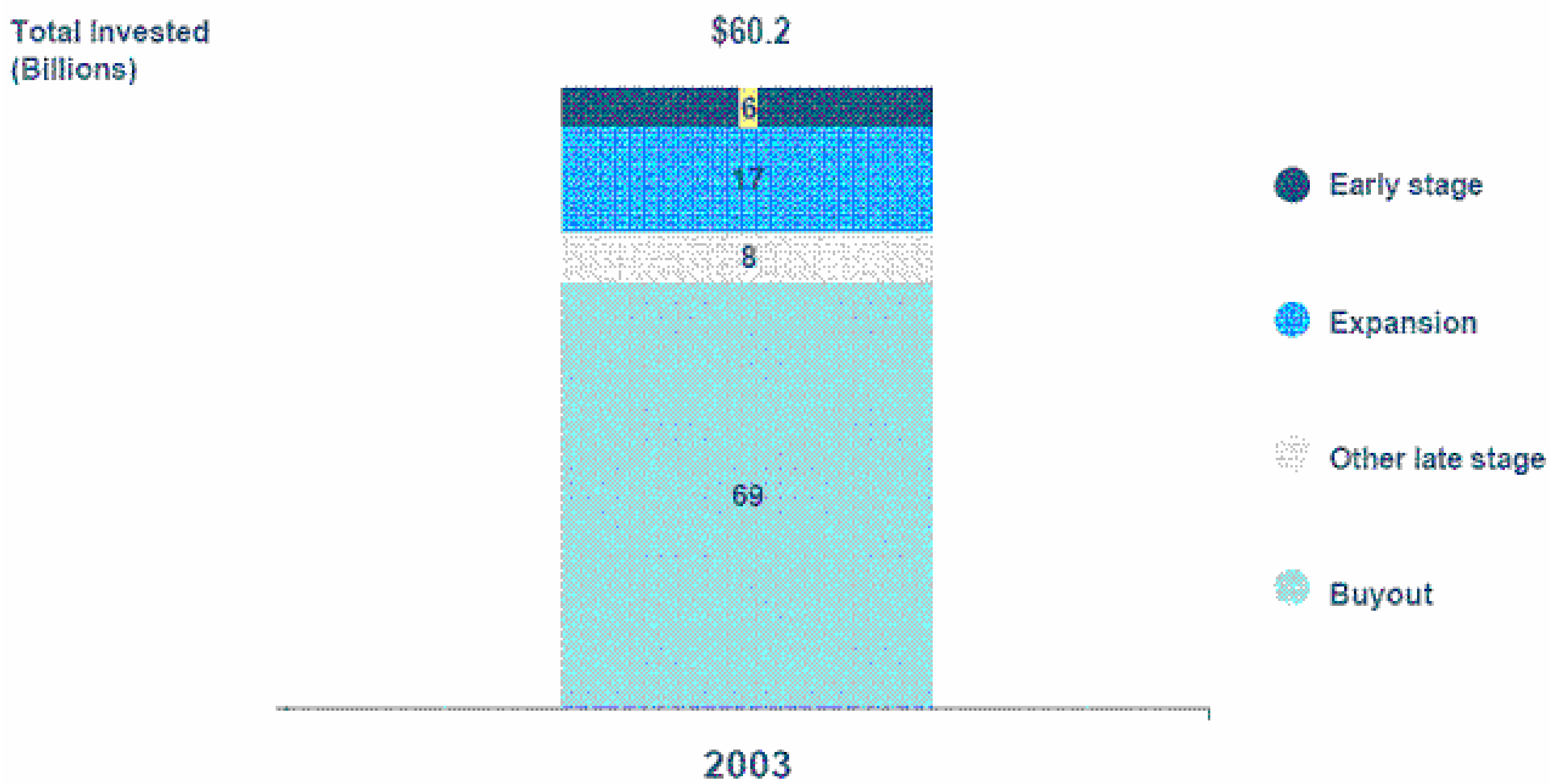
Expansion: Compound average growth rate = -1.80%

Buyout: Compound average growth rate = 17.90%



Source: The PricewaterhouseCoopers / Venture Economics / National Venture Capital Association MoneyTree™ Survey / Venture Economics Buyout Newsletter / CVCA Annual Statistical Review

North American Stages of Investment

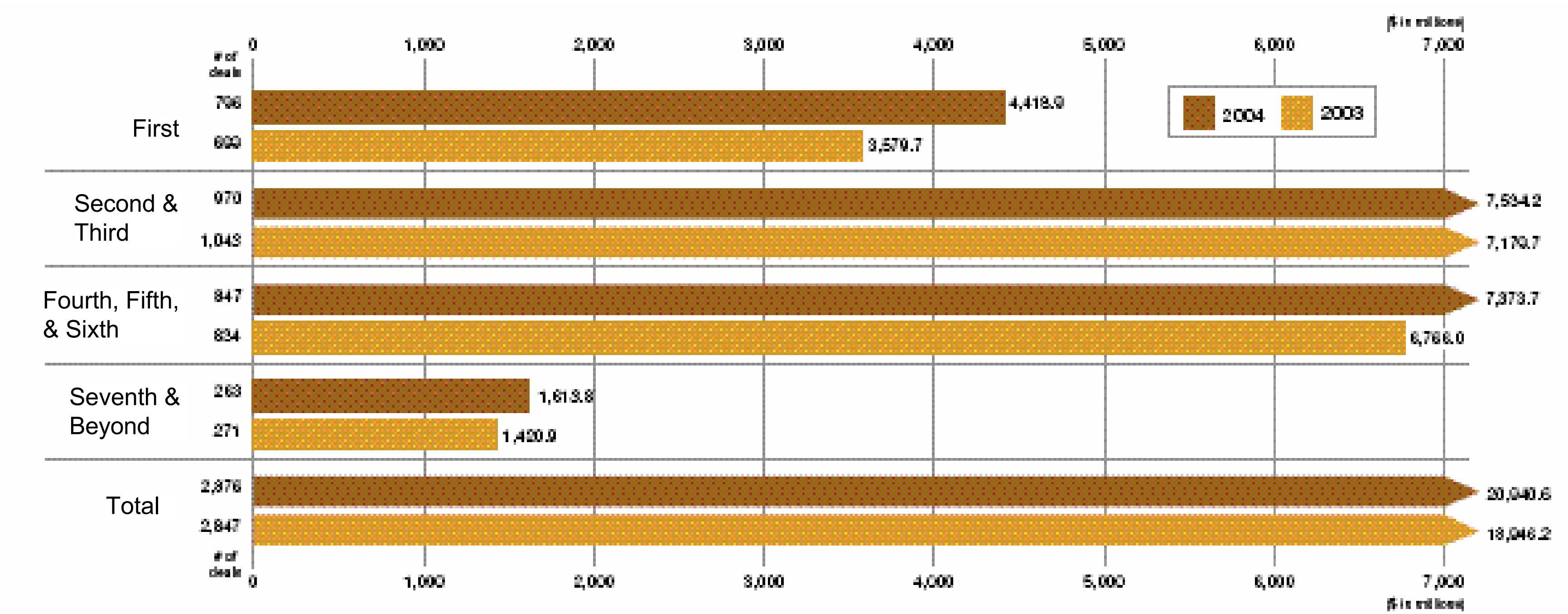


Source: The PricewaterhouseCoopers / Venture Economics / National Venture Capital Association MoneyTree™ Survey / Venture Economics Buyout Newsletter / CVCA Annual Statistical Review

Total Equity Investments into Venture-Backed companies

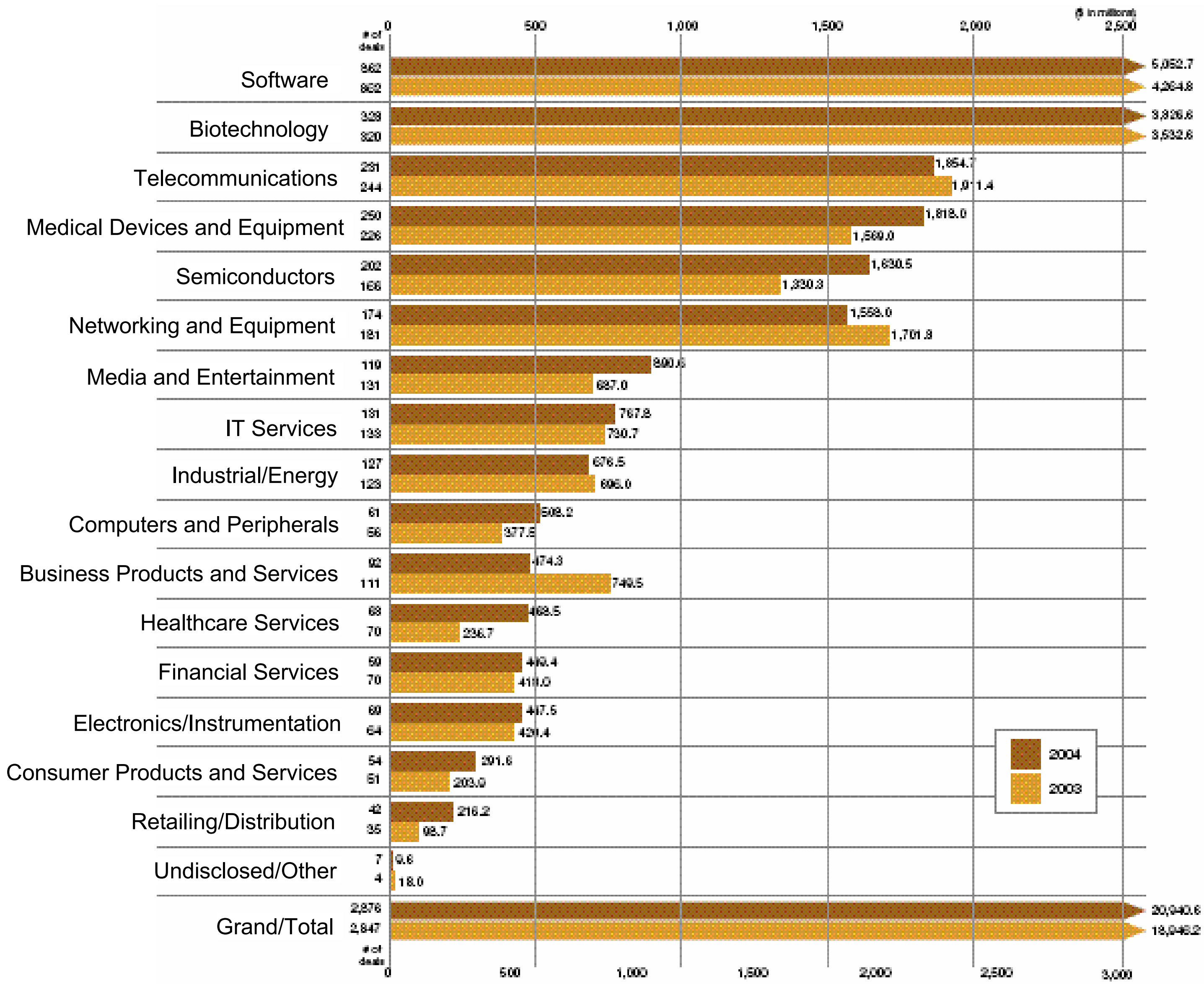
Source: PriceWaterhouseCoopers Moneytree Report 2004

Investments by sequence of financing 2003-2004

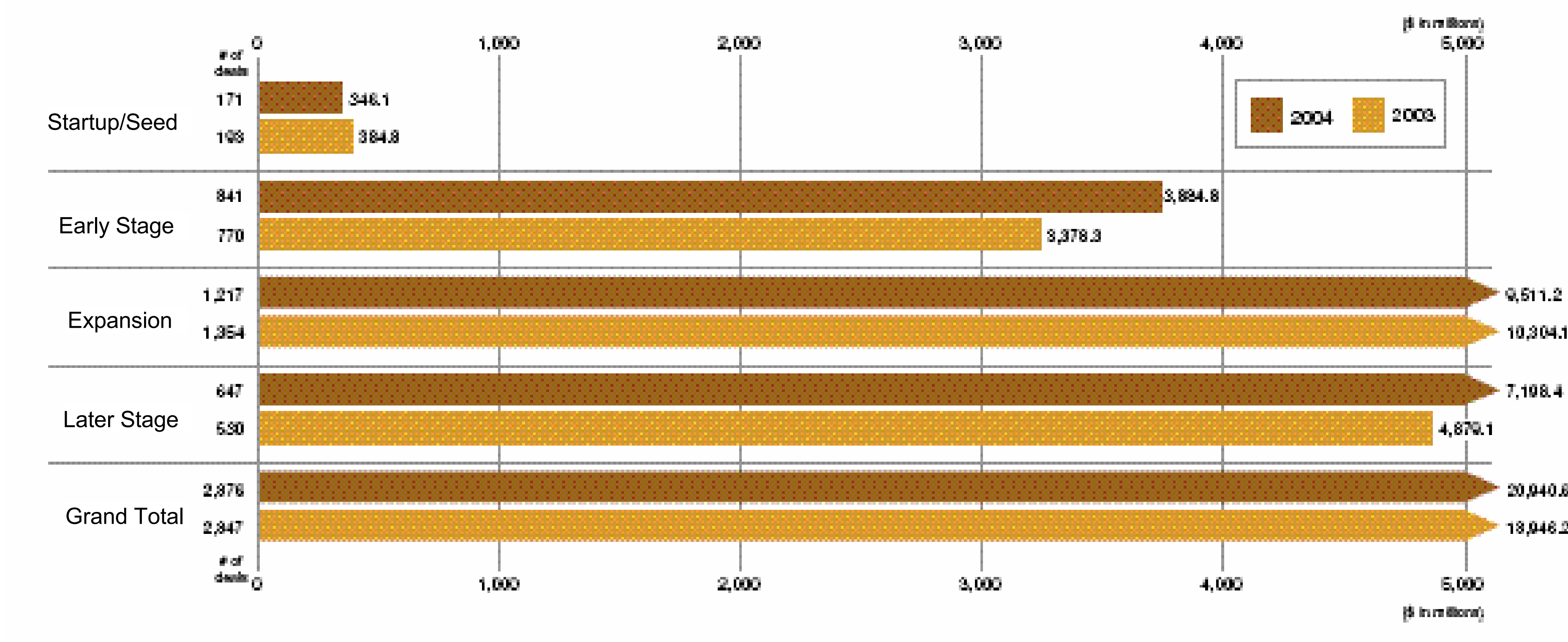


Source: PriceWaterhouseCoopers Moneytree Report 2004

Investments by Industry 2003-2004



Investments by stage of development 2003-2004

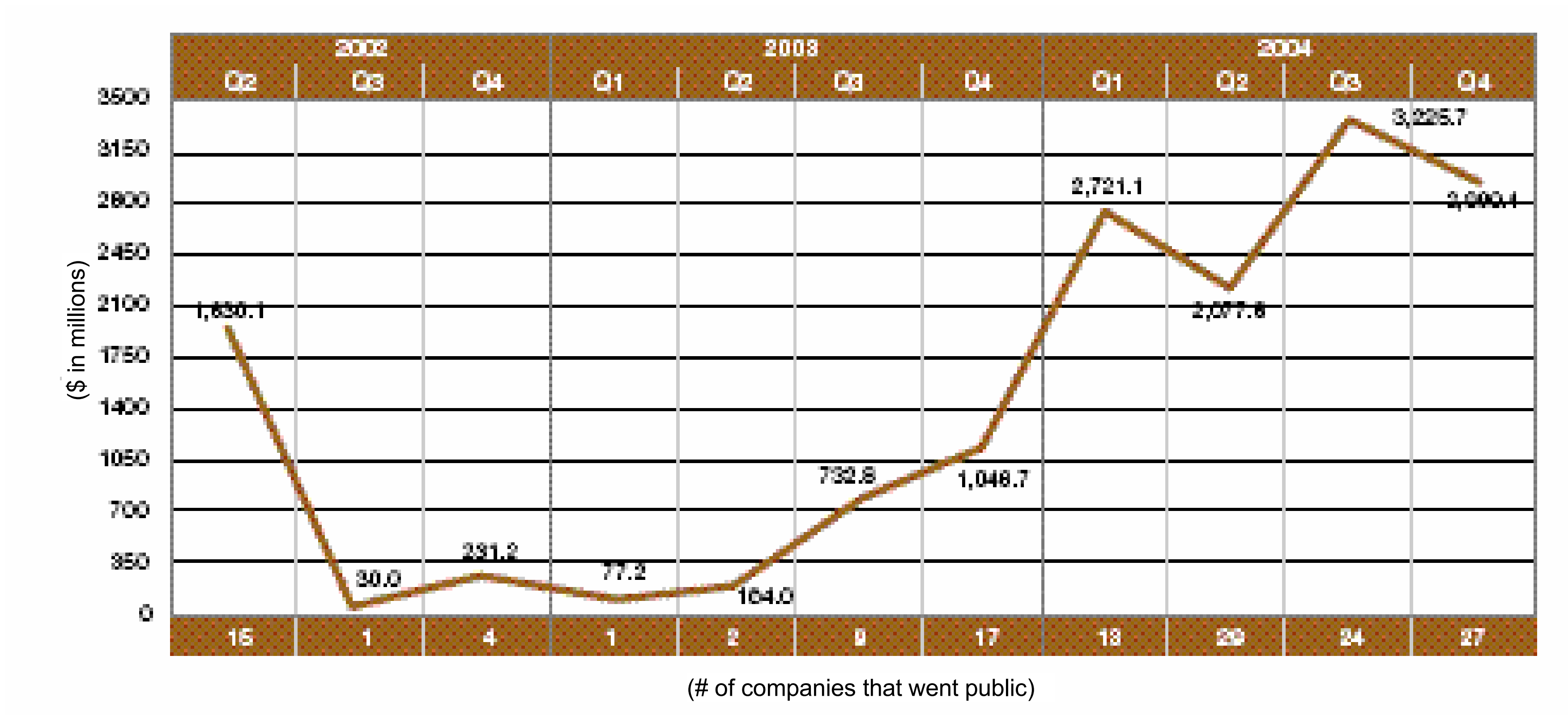


Source: PriceWaterhouseCoopers Moneytree Report 2004

LEGACY

Georgia State University

Venture-backed initial public offerings 2002-2004



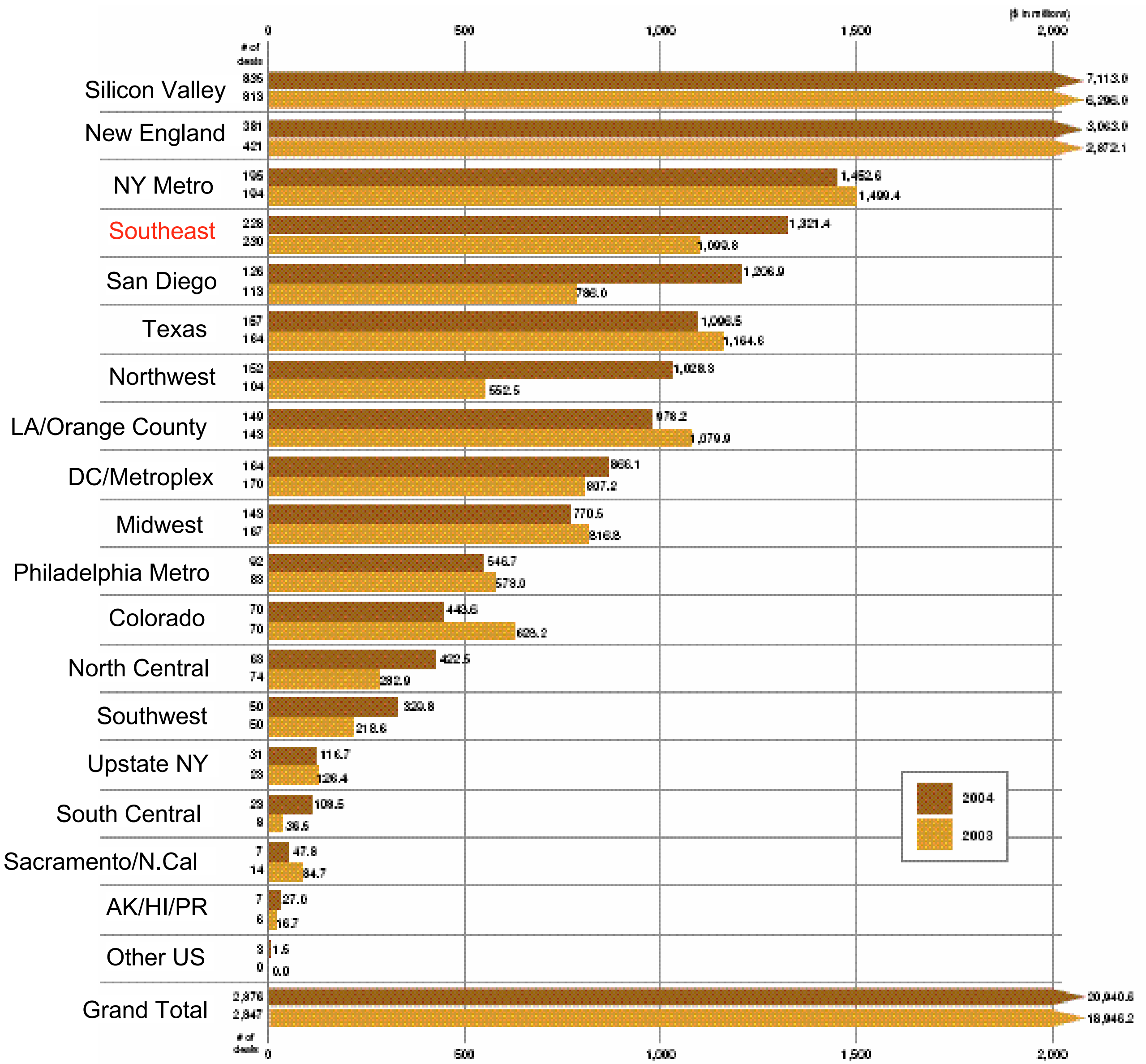
Source: PriceWaterhouseCoopers Moneytree Report 2004

Most Active Fund Stats 2004

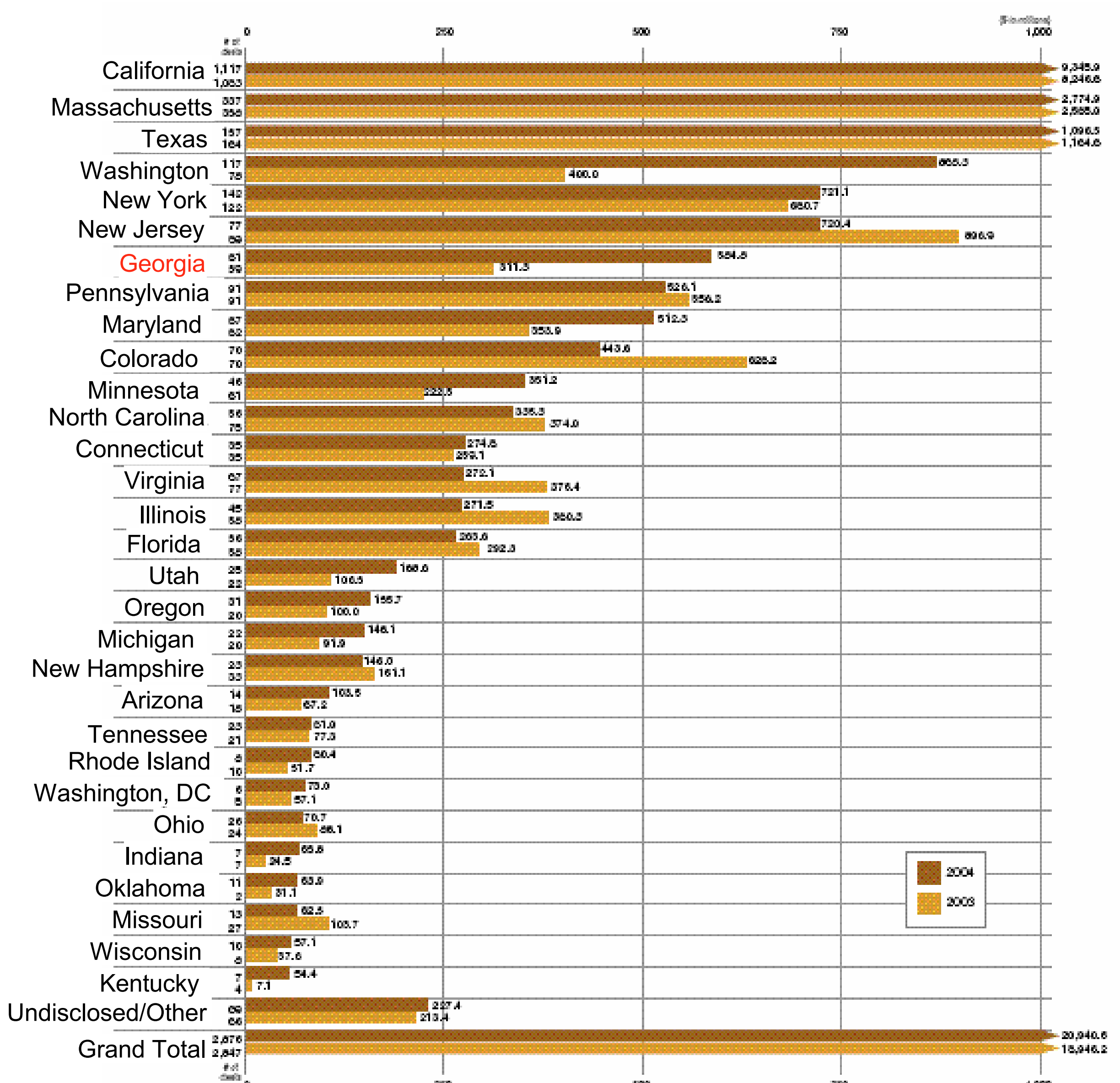
- The most active venture investors in the U.S. closed 16 or more deals during 2004
- These funds accounted for approximately 21% of the total venture transactions
  - The top 10 firms accounted for 4% of the deals completed
- 99 funds closed 16 or more deals
  - New Enterprise Associates closed the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

Source: PriceWaterhouseCoopers Moneytree Report 2004

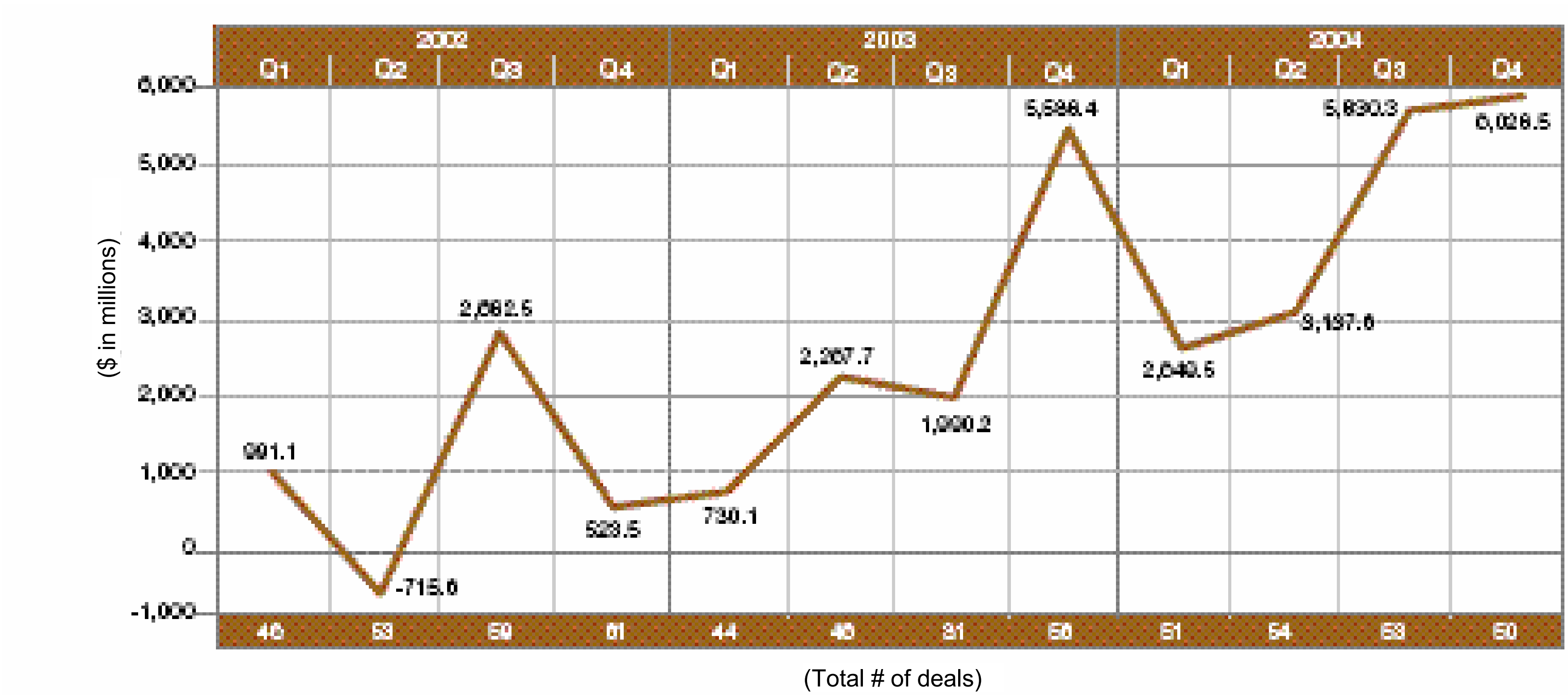
Investments by regions 2003-2004



Investments by state 2003-2004



Funds Raised by venture capital firms 2002-2004



Source: PriceWaterhouseCoopers Moneytree Report 2004

Local Funds

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

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 controlli
or Majority position

**Reality: Traditionally, VCs do not see
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

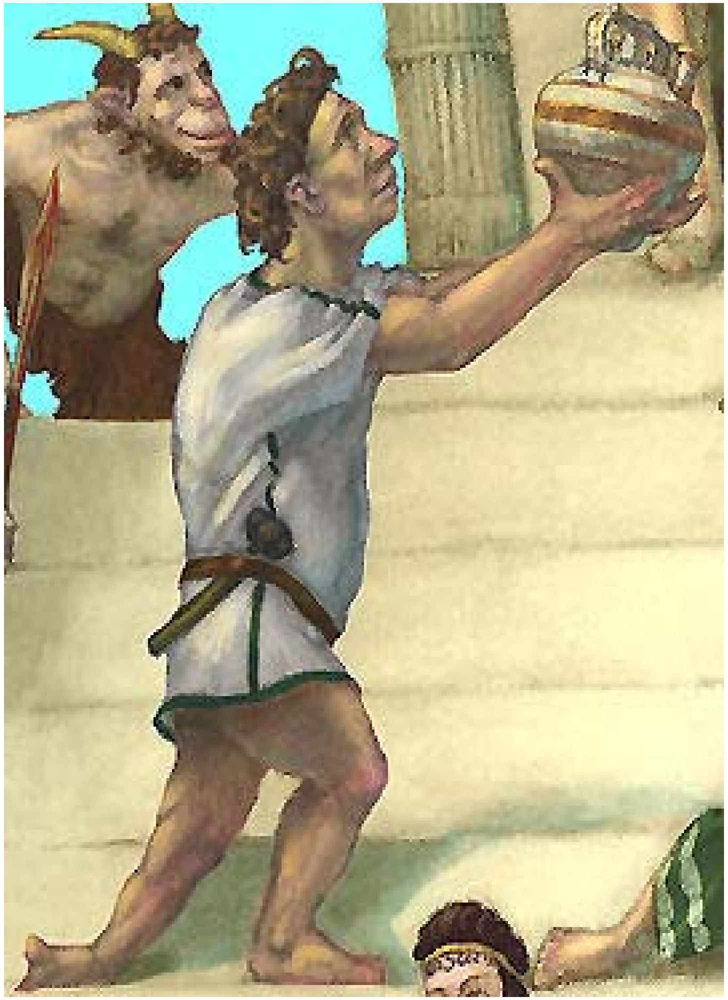
Myth

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