

# SVB>Financial Group

**Helping entrepreneurial companies to succeed**

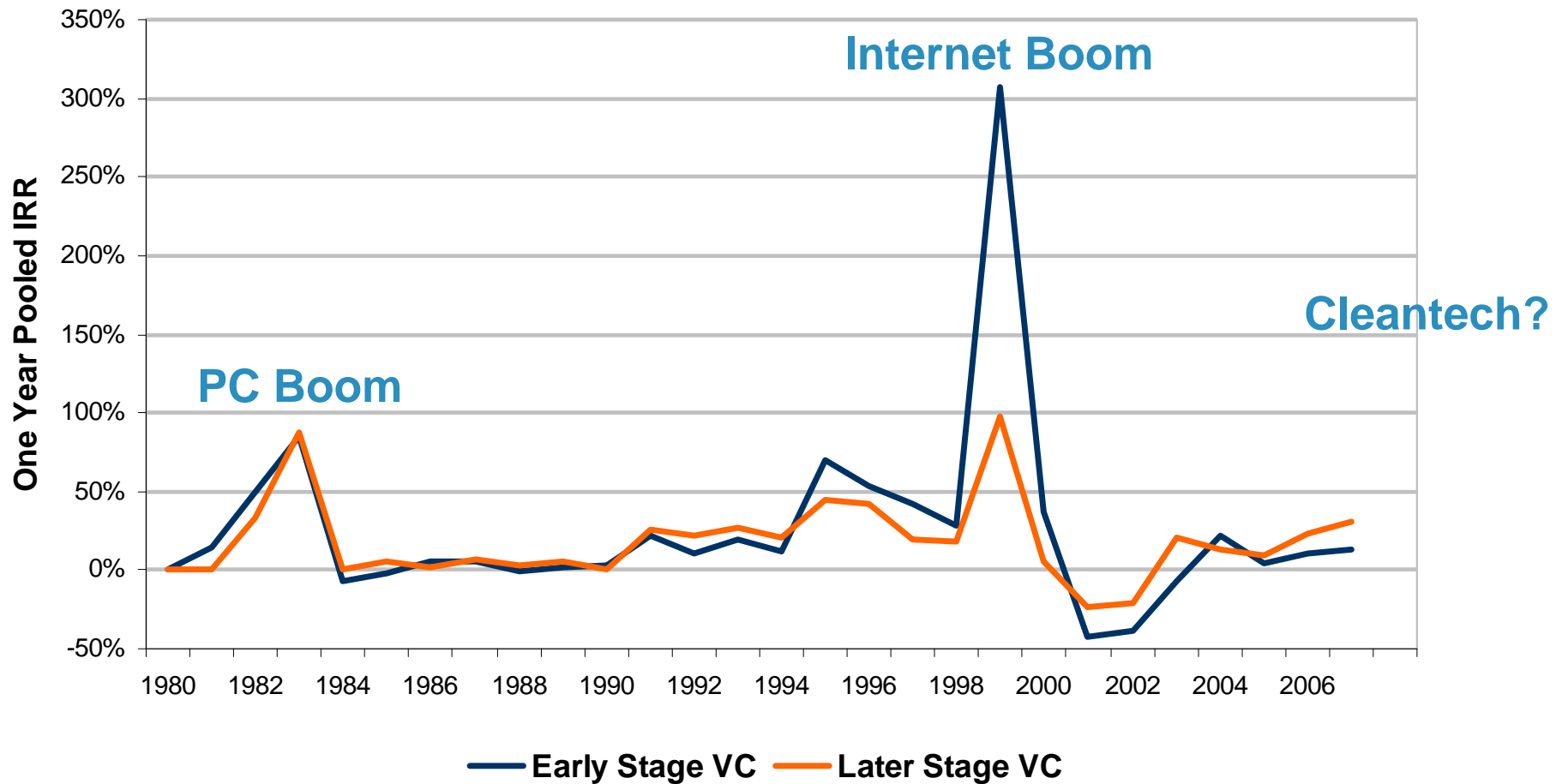
John E. Dominguez  
Partner, SVB Capital

---

# Where is Venture Capital Today?

---

# Venture cycles can take a long time to develop...



Source: ThomsonOne

# Venture Capital Industry Performance - NVCA

## Thomson Reuters' U.S. Private Equity Performance Index (PEPI) Investment Horizon Performance through 9/30/2008

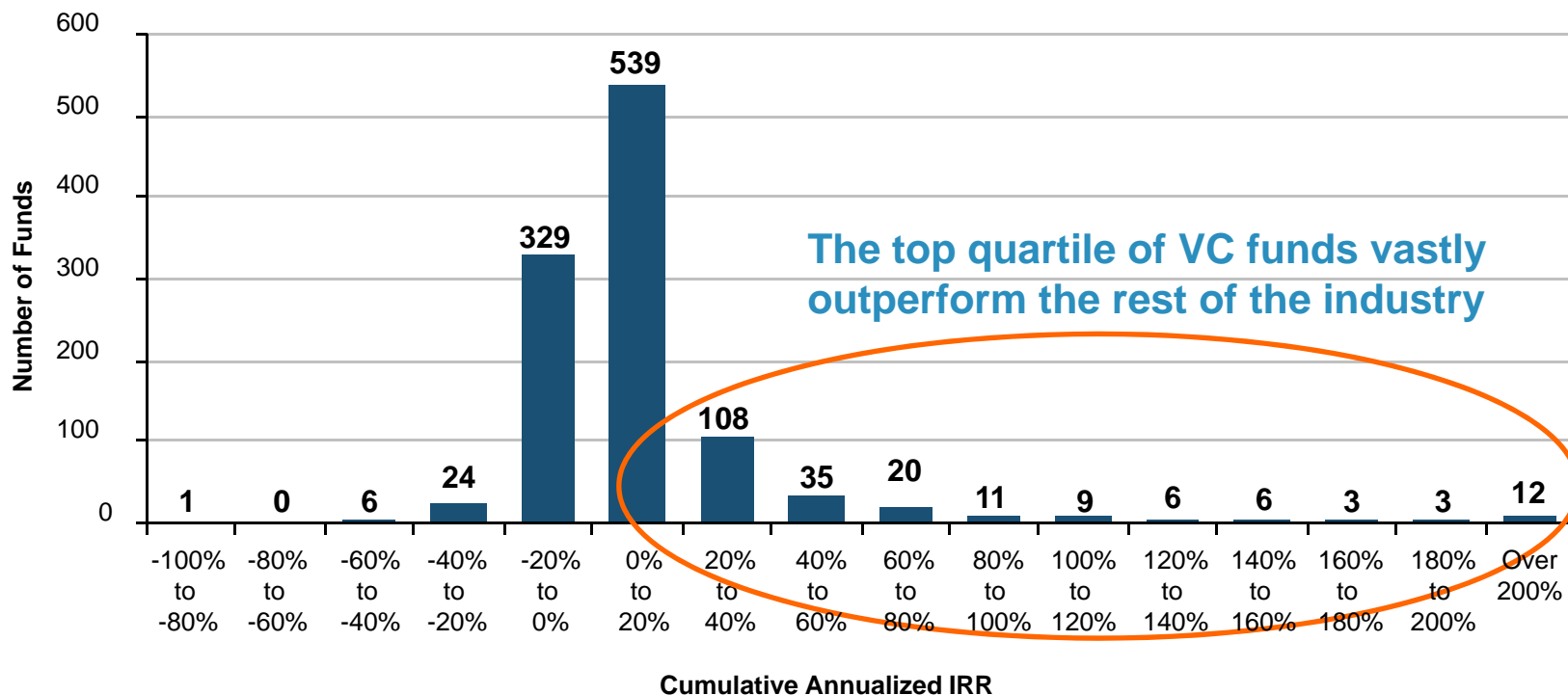
<u>Fund Type</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>20 Year</u>
Early / Seed VC	0.2	3.8	5.1	37.2	21.6
Balanced VC	-6.4	7.4	11.5	14.9	14.7
Later Stage VC	8.6	12.0	10.5	8.9	14.7
All Venture	-1.6	6.6	8.6	17.3	17.1
NASDAQ	-21.4	-1.1	3.1	2.1	8.7
S&P 500	-22.0	-1.7	3.2	1.4	7.5
<b>All Venture (through 6/30/2008)</b>	<b>5.3</b>	<b>8.5</b>	<b>8.8</b>	<b>16.5</b>	<b>16.9</b>
<b>All Venture (through 9/30/2007)</b>	<b>26.6</b>	<b>11.0</b>	<b>6.8</b>	<b>17.8</b>	<b>16.4</b>

Source: Thomson Reuters/National Venture Capital Association

\* The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Reuters' Private Equity Performance Database analyzing the cashflows and returns for over 1941 U.S. venture capital and private equity partnerships with a capitalization of \$828 billion. Sources are financial documents and schedules from Limited Partners investors and General Partners. All Returns are calculated by Thomson Reuters from the underlying cashflows. Returns are net to investor after management fees and carried interest.

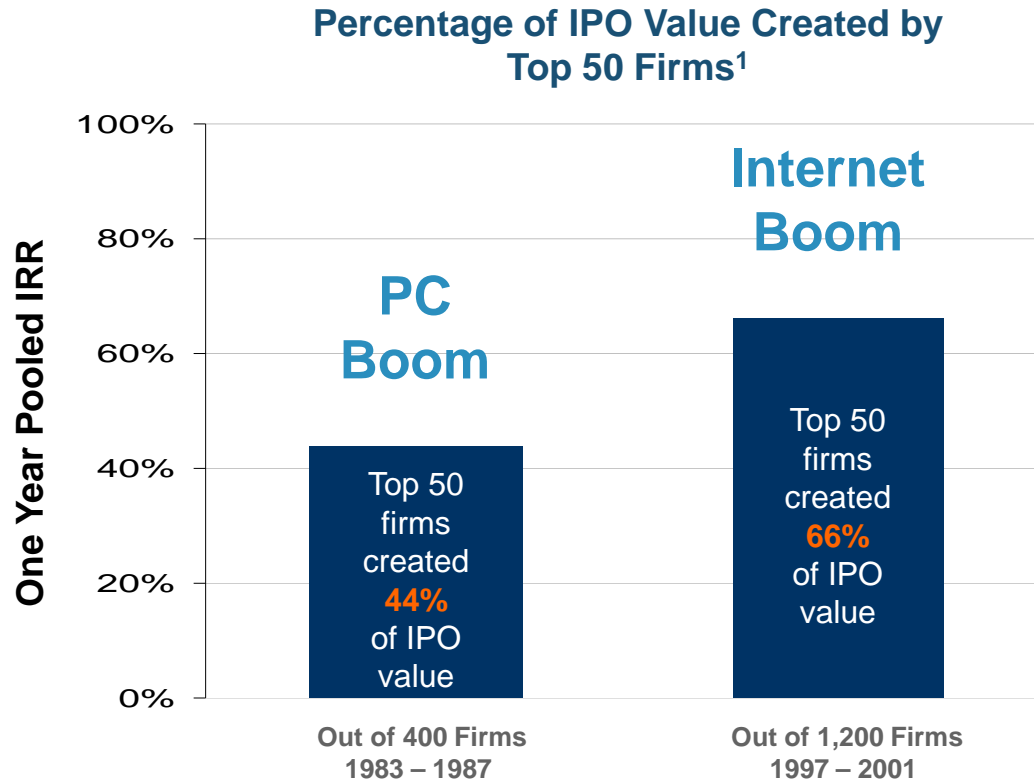
# Venture performance is characterized by a large dispersion of returns

Dispersion of Cumulative IRR Returns for Funds in VentureXpert as of 9/30/2008 (Vintage Years 1980-2003)



Source: Thomson Reuters VentureXpert

# Top-tier firms drive most of the wealth creation



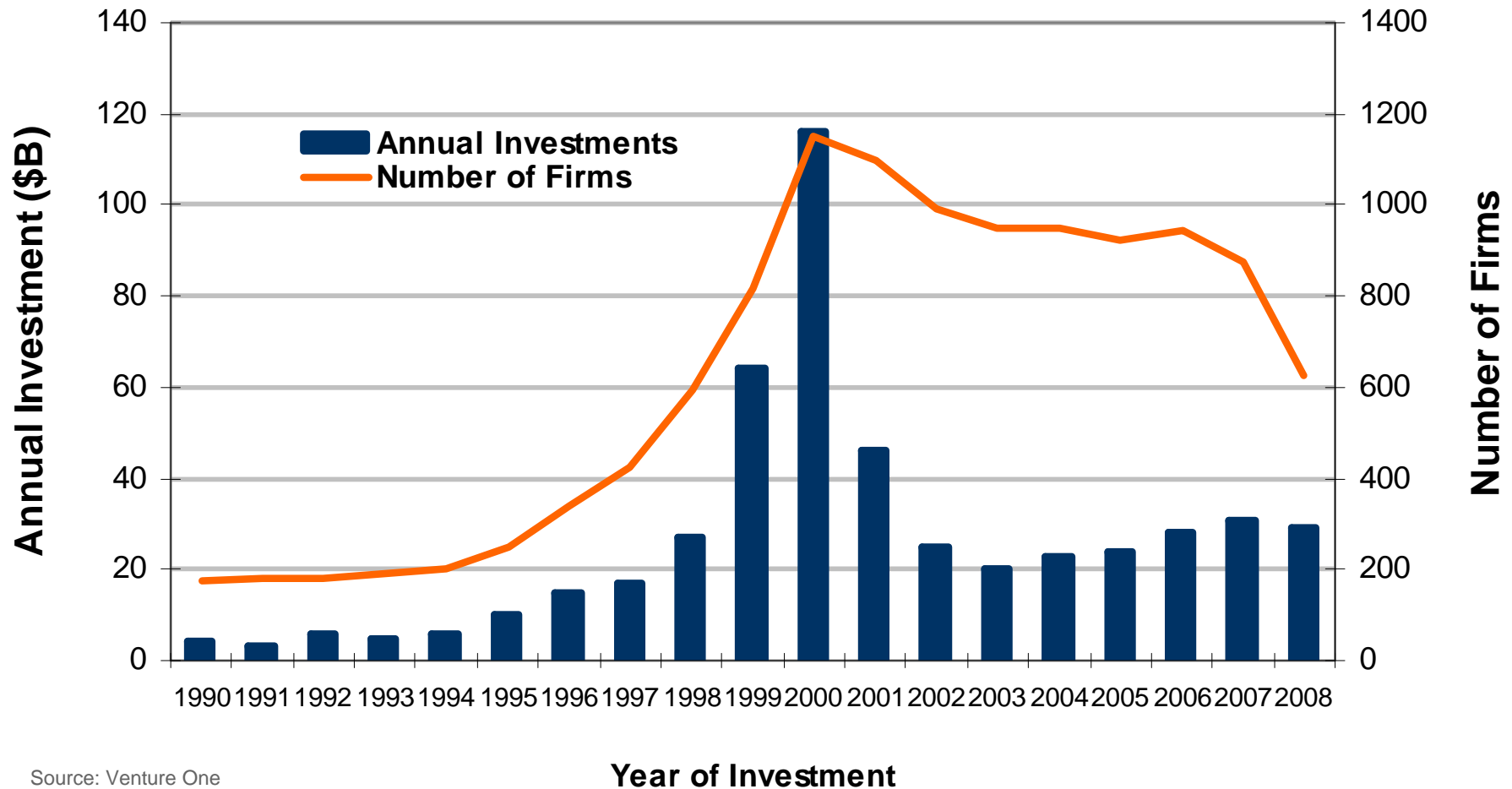
**38 firms were among the top 50 in both periods**

<sup>1</sup> "Private Equity...or Personal Equity? Why Who You Know Still Drives Venture Capital Returns," Focus Ventures, July 2005.

# Recent (since 2001) +\$1 billion exits

2004 IPO		Sequoia Capital, Kleiner Perkins
2005		Benchmark Capital
2006		Sequoia Capital
2007 IPO		Accel Partners, Battery Ventures
2007		Bessemer, DFJ
2007 IPO		
2008		Versant Ventures
2008		Charles River Ventures, Sigma Partners
2008		Venrock Associates, Greylock Partners

# Fewer firms but venture capital remains a competitive business



Source: Venture One

# Looking ahead – Predictions for 2009 from NVCA

## NVCA Survey Of Members - Dec 2008:

- Only 19% believe the economy will improve in 2009
- 85% believe fundraising will decline in 2009
- 72% believe the IPO market will not reopen until 2010 or later
- Majority believe acquisition volumes will remain stable but valuations will be lower
- Most expect to maintain or decrease their pace of investment – only 19% plan to increase

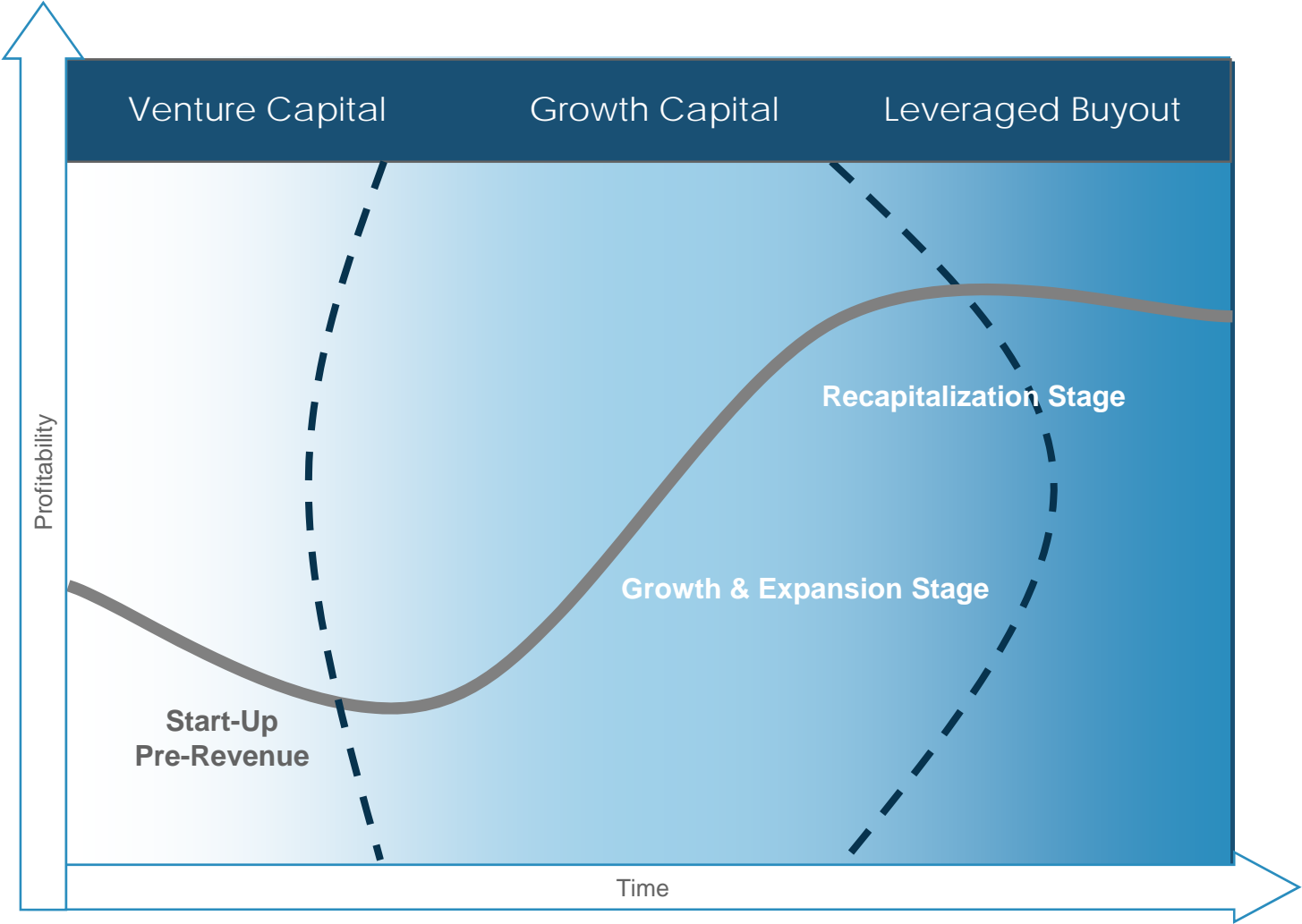
*"It is likely that venture capital fundraising will decline in 2009, but the irony is that venture funds launched in the first or second years following a recession have been among the best vintages. Since the variance between the top quartile funds and the mean tends to be the largest for those vintages, the logical conclusion is that now could be an opportune time for investors attempting to access those top tier venture funds."*

*Dixon Doll, General Partner of Doll Capital Management and NVCA Chairman*

# Where is Growth Capital Today?

---

# How Growth Capital differs from Venture Capital



# Defining Growth Capital

	Venture Capital	Growth Capital	Leveraged Buyout
<b>Enterprise Value</b>	~\$1MM to ~\$50MM	~\$10MM to ~\$250MM	~\$25MM to .....
<b>Typical Investment</b>	\$0.5MM to \$10MM	\$5MM to \$100MM	\$10MM to \$500MM
<b>Level of Control</b>	10 – 40%  Minority ownership Board seat	25 – 65%  Mix of minority and control holdings preferred equity round or full buyout.	65 – 100%  Generally controlling, majority positions
<b>Typical Capital Structure</b>	Common Equity Preferred Equity Bridge Loans Venture Debt	Common Equity Preferred Equity Bridge Loans Bank Debt Mezzanine Debt	Common Equity Preferred Equity Bridge Loans Syndicated Bank Debt Mezzanine Debt High-Yield Bonds Second Lien “Stapled Financing”
<b>Leverage Multiples</b>	None  Venture capital companies do not typically generate cash flow (EBITDA) sufficient to support debt.	1 to 3X EBITDA  Leverage is NOT a primary driver of investment return in these companies	3 to 8X EBITDA  Leverage is OFTEN a primary driver of investment return in these companies

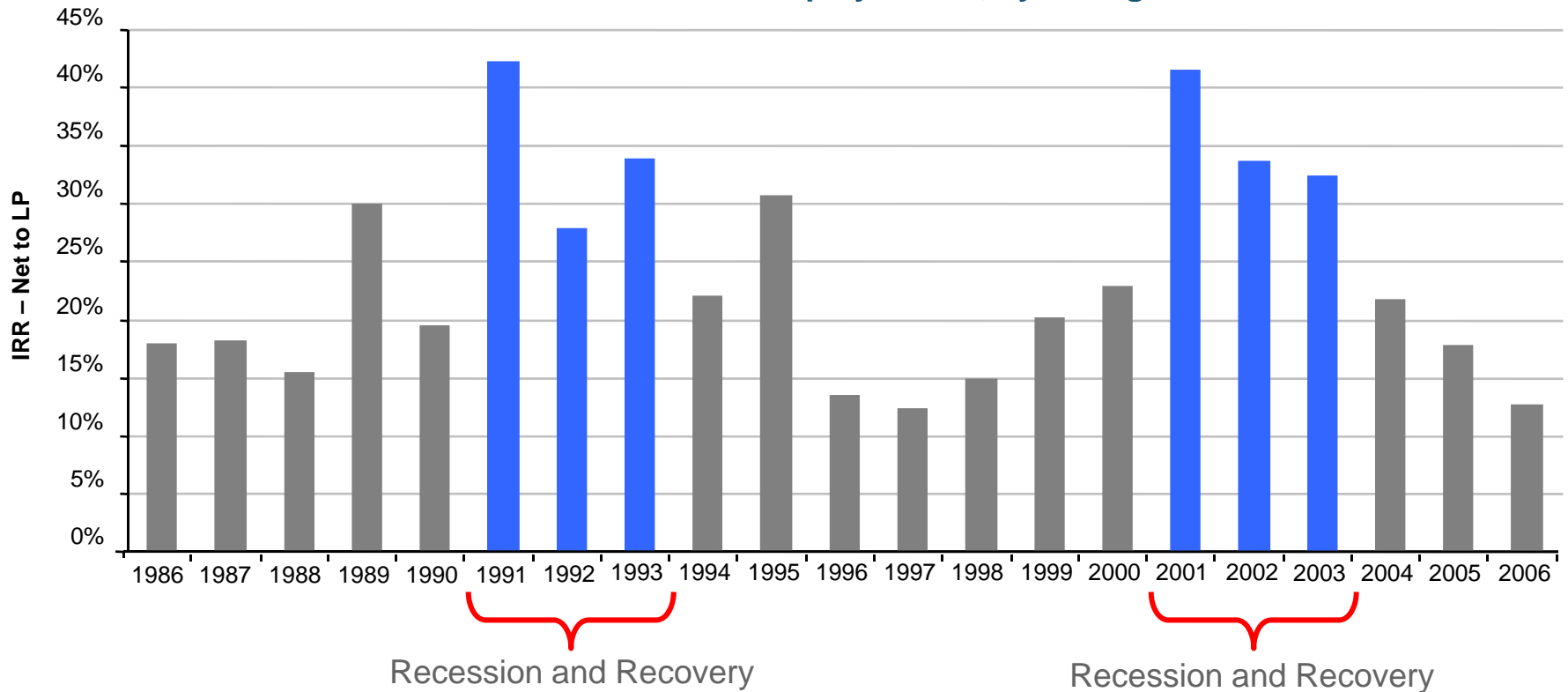
# Growth capital investors apply venture-like skills to mature, profitable, high-growth companies

- Similar to venture firms, growth capital managers need industry knowledge/domain expertise to invest successfully
- Value is achieved through operational engineering rather than financial engineering
- Growth capital investors do not rely on debt (financial leverage) to generate returns
- Growth capital firms focus on high-growth sectors of the economy such as IT, software, healthcare and consumer products



# Private equity performance during recessionary periods

## Performance of U.S. Private Equity Funds, by Vintage Year\*



\* Cambridge Associates Vintage Year Upper Quartile Benchmark Statistics as of June 30, 2008. Recession and Recovery periods include recession years 1991 and 2001 and the two years of recovery afterward.

# SVB▶Financial Group

---