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## **NVCA Unveils Wide-Ranging Plan To Thaw Frozen IPO Market**

The National Venture Capital Association is looking inward - and to Washington - to restore liquidity to the venture industry.

A four-point plan announced today at the NVCA annual meeting in Boston incorporates a wide range of elements, some of which the trade group has talked about for a while. They range from encouraging small IPOs led by boutique investment banks to preserving tax breaks for long-term capital gains.

The absence of a robust public market for its companies has plagued the venture industry since the Internet bubble burst in 2000. In the 1990s, there were more IPOs than mergers and acquisitions of venture-backed companies - 56% versus 44% - but in this decade the IPO rate has wilted to 13%.

"We were headed back in the right direction when we got intercepted by the meltdown," said outgoing NVCA Chairman **Dixon Doll**. Although M&As can generate attractive returns, most VCs think that a strong IPO market is essential to getting acquirers to pay top dollar.

While a general economic recovery is needed to improve the exit climate, the NVCA believes it must be ready to promote IPOs of \$50 million or less, which is what most venture-backed companies need to fuel their growth. This means rebuilding a network of boutique investment banks interested in taking small companies public and connecting with investors willing to hold stock for years instead of flipping it for a quick profit.

Several VCs from large venture firms said they are committed to persuading portfolio companies that they don't need to chase after large, brand-name investment banks to have a successful IPO. "It's frankly an education process," said General Partner Tom Crotty of Battery Ventures. Crotty said the NVCA hopes to convene a meeting in the next few months of managing general partners from leading venture firms to present a message that they can take back to their partnerships.

"It's kind of deprogramming all the guys in the business who didn't think you had a good IPO unless you had a bulge-bracket firm," Crotty said. The NVCA suggested that VCs might want to demonstrate their commitment to newly public companies by agreeing to hold their stock for two or three years, beyond the normal six-month lockup.

The NVCA also wants VCs, who have too many portfolio companies for even a robust IPO market to accommodate, to do more to get their own houses in order. This includes combining portfolio companies to achieve critical mass and exploring other liquidity options such as foreign stock exchanges and secondary markets for private company stock.

"We're trying to be our own harshest critic," Doll said.

But the NVCA also asserted that government has a key role to play in the areas of taxation and regulation. The entire private equity industry has been roiled by proposals to tax carried interest - essentially the VCs' profits - as ordinary income instead of capital gains.

While NVCA President Mark Heesen said he doesn't expect any major tax legislation until next year, the trade group rolled out several proposals to preserve the status quo and perhaps add some incentives. It suggested a one-time incentive providing a 10% capital gains tax rate for IPO investors who held shares for two or three years.

The NVCA also wants to see corporate governance and accounting rules eased for small companies, which could be a tough sell at a time when the federal government seems likely to increase regulation of the financial industry.

“We’re clearly in a time now when there is a sentiment in this country to control dangerous, destructive speculation,” said General Partner Paul Maeder of Highland Capital Partners. “What we don’t want to do, with respect to unintended consequences, is at the same time damage constructive investment because only through constructive investment in innovation are we going to get out of this recession.”