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Lehman Brothers' VC arm in talks to spin off

Tomio Geron of VentureWire
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Lehman Brothers' venture capital arm plans to spin off as an independent firm, and is in "advanced discussions" with current limited partners and secondary firms to buy out Lehman Brothers' interest in the fund, VentureWire has learned.

On Monday, Bain Capital and Hellman & Friedman announced an agreement to purchase most of the businesses within Lehman Brothers Holdings Inc.'s Investment Management Division, including its Neuberger Berman unit for \$2.15bn. That deal includes certain private equity funds.

However, Lehman Brothers Venture Partners, with about \$800m in assets under management, elected not to be included in that transaction and is instead attempting to spin off as an independent firm, according to an email sent Monday morning by a partner at Lehman Brothers Venture Partners to its portfolio companies and to other venture capital firms. The email was provided to VentureWire by a partner at one of these venture firms, on condition of anonymity.

"Instead, we are in advanced discussions with both our own limited partners as well as a couple of secondary firms, to buy-out Lehman's interest in our fund," the email stated.

Lehman Brothers Holdings has a 20% stake in the firm's Fund V and about 50% of Fund IV, according to the email. The latest fund closed in September 2007 with \$365 million and included 13 new limited partners, including insurance companies, pension plans and endowments, according to a VentureWire story at the time. That story reported Lehman Brothers Holdings committed \$75 million to the fund. Since 1995, Lehman Brothers Venture Partners has invested more than \$717 million in over 84 companies, according to its Web site.

"In this case, we would become a traditional, independent stand-alone venture fund with ~\$800 mm in assets, managed by five partners, including myself," the email stated.

Operations continue as normal for the venture firm in the meantime, the email said.

Josh Steinitz, chief executive of Nile Project Inc., which received an \$8 million Series B funding in June that included Lehman Brothers Venture Partners, said the news is good for his company.

"The point is they will essentially be a standalone fund and have standalone funding, which is good news for us," Steinitz said. The changes "don't affect us. The reason we work with them is because of [General Gartner] Ben Boyer, not because of Lehman."

Lehman Brothers did not immediately return a call for comment. Lehman Brothers Merchant Banking is also excluded from the Neuberger Berman deal.

The spin-off could be similar to a move made by Bank of America Corp., which in 2007 spun off its venture operations to form Scale Venture Partners and sold off its limited partner interests.

"It's a good team with a good portfolio," said Hans Swildens, principal at secondary firm Industry Ventures, adding that his firm could be interested in the Lehman portfolio. "That's interesting in the secondary market... B of A did the same thing last year."

Ken Sawyer of secondary firm Saints Capital said his firm could also be interested. "We're hoping to consider that as a potential transaction," he said.

While secondary purchases have become more common in recent years, the scale and nature of this deal could make it more complicated, Sawyer said. Lehman Brothers Holdings filed for bankruptcy protection earlier this month.

"We haven't seen this type of massive bankruptcy that I can recall," Sawyer said.

He added that his firm has previously acquired assets from bankruptcy, such as Saints' acquisition of assets from the mutual fund Amerindo Internet Fund Plc in 2006.



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