

San Francisco Business Times - December 22, 2008  
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## SAN FRANCISCO Business Times

Friday, December 19, 2008 | Modified: Monday, December 22, 2008

# Saints Capital goes marching in, buys startups

VC firm rises with recession

San Francisco Business Times - by [Patrick Hoge](#)

When venture capitalists get desperate, they may appeal to Saints.

Founded with \$11 million just before the Internet bubble exploded at the beginning of the millennium, **Saints Capital** has become a \$1.3 billion colossus by snapping up the assets of strapped venture funds, limited partners and other investors in alternative assets, often at pennies on the dollar.

Now, with the nation in recession, history is repeating itself, and Saints is buying baskets full of startup companies from investors seeking liquidity and freedom from ongoing cash-call commitments.

"I feel like a mosquito at a nudist colony," said Ken Sawyer, founder and managing director of the San Francisco-based firm. "There are so many assets up for sale, it's a really good investment opportunity for us."

Saints is not alone.

Around the world, secondary investors have been busy acquiring assets from distressed investors of all kinds, including Wall Street investment banks.

Lake Street Capital in San Francisco, which only buys direct investments in companies from both institutions and individuals, is fielding more sales offers than at any time since it was founded in 2003, said Eric Garcia, a managing member of Lake Street.

Sellers are typically early investors, company founders or executives who don't see a potential for cashing out their stock in the near future and are willing to accept discount prices, he said. "Obviously, given the economic situation, we're seeing tremendous demand," Garcia said. "There's no IPO market. There's limited M&A options. But there's a lot of private companies that are still doing well," he said.

Garcia said his company does not publicize its purchases.

"We tend not to announce many of our deals," he said. "Typically, people are sensitive to insiders selling stakes of their companies."

Sawyer said that the opportunities for a secondary investor are even more widespread now than during the dot-com bust because the credit crisis is so broad-based, affecting financial institutions, universities, automobile companies, insurance companies, pension funds — many of which hold alternative assets they need to shed for a variety of reasons. Some, for example, must maintain certain proportions of asset types by law or policy; others simply do not want to have to come up with more cash or they need cash for their own purposes.

Saints is actively studying the potential for buying assets from many of the big name firms weakened by the credit crisis. It has registered interest, for example, with those supervising the dissolution of bankrupt **Lehman Brothers**.

"We are looking at just about everything on the market today," Sawyer said.

Before founding Saints in 2000, Sawyer spent three years helping lead mergers and acquisitions activities at Volpe Brown Whelan & Co., a private investment bank focused on emerging companies in technology and health care. It was the height of the dot-com boom. Sawyer said he was fired from Volpe shortly after it was sold to Prudential in 1999, and hoping to ride the Internet wave, he raised \$11 million for a venture fund that closed in early 2000. The market turned south shortly after.

And then Sawyer found his calling.

"It became pretty obvious immediately that we weren't going to be able to invest in a traditional venture capital model," he said.

So Saints started buying other people's assets, and did very well, posting an overall internal rate of return above 50 percent for all exits, according to Sawyer.

Saints did its first secondary investment on Sept. 11, 2001 — right as the terrorist attacks and dot-com collapse sent venture capital into a tailspin. Saints bought shares from a founder of a startup network security company called **Trusecure Corp.**, which later became Cybertrust, which was acquired by Verizon Business in 2007 for just under a half-billion dollars, Sawyer said.

Today, Saints Capital has investments in 175 companies, 133 of them added in 2007. The firm has more than doubled in size in terms of overall dollars under management in the last three years.

In 2006, Saints was one of two firms that bought 40 companies from disgraced **Amerindo Investment Advisors**, whose co-founders



Paolo Vescia

Sawyer: "There are so many assets up for sale, it's a really good investment opportunity for us."

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Alberto Vilar and Gary Tanaka were convicted in November in Manhattan federal court on charges relating to a multimillion-dollar scheme to defraud investors. Both men await sentencing.

Saints last year was one of the most active venture investors in the United States, placing 149 investments, Sawyer said. The firm also enjoyed major exits, with seven companies in which Saints invested having initial public offerings — 20 percent of all Nasdaq information technology IPOs, he said. Other portfolio companies were sold for hefty profits, including **TellMe Networks**, which **Microsoft** bought for roughly \$800 million.

This year has also been busy on the acquisition front.

In March, Saints said it had bought six companies from **Safeguard Scientifics Inc.** of Pennsylvania for \$100 million and \$31.5 million in assumed debt guaranties.

In June, Saints said it would buy interests in 54 companies from the **Boston Scientific Corp.** of Massachusetts for about \$100 million.

In September, Saints bought interests in 10 companies from Innovacom Gestion, a Parisian venture capital firm, for an undisclosed sum.

And this month, Sawyer said Saints is spending roughly \$100 million to buy portions of positions held in 27 companies — including LoopNet, the San Francisco-based commercial real estate firm — from the Chandler Family Trust. The trust is the only limited partner in **Rustic Canyon Partners**, the largest Southern California-based venture capital firm with \$800 million in assets under management. The general partner of Rustic Canyon was a co-investor with Saints in that deal. The Chandler Family Trust is the former controlling owner of the **Times Mirror Co.**, which previously ran the Los Angeles Times and other properties.

Sawyer expects to continue buying assets at a rapid clip into 2009.

“We are finding opportunities much like we found in the time period after the 2000 crash,” he said.

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