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## FINANCE

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### Saints March In

Firms offer exit for aging portfolios.

Venture firms weary of waiting for their portfolio companies to bear fruit are increasingly turning to specialized companies that buy stakes in companies and portfolios in the secondary market.

Firms such as San Francisco-based Saints Capital and a handful of others, including W Capital Partners in New York City, patrol this market which only started developing after 2001, when the dot-com bubble had burst.

For VCs and their limited partners, a secondary market

can mean fresh capital for investing in new ideas, a cleaner portfolio with less administrative duty, and a path to exit funds nearing their typical 10-year life span.

Though the National Venture Capital Association has no statistics on the direct-secondary market, the organization's president, Mark Heesen, says limited partners, the wealthy individuals and institutions that fund VC firms, have become more open to shopping their portfolios. "Anecdotally, there has been a larger interest by the LPs in selling off some of the pieces of their portfolios on the secondary market," he says. "It shouldn't come as a surprise that we have a lot of funds that have matured."

Kenneth Sawyer, managing director of Saints Capital, says the direct-secondary market almost doubled to \$1 billion in 2006, from \$541 million in 2005, at least according to his company's estimates. He attributes the



Kenneth Sawyer, managing director, Saints Capital

growth to a longer incubation period for startups, a weak U.S. IPO climate, and consolidation in some key markets—all factors that add up to fewer potential buyers of startups.

While companies once could attract buyers or stage an initial public offering after about four years, today's investors want to see stronger financials, pushing the timeline to about seven years, he says.

Citing nondisclosure agreements, Saints shies away from discussing specific portfolio deals with VCs. The company's

holdings, however, run to stakes in 150 companies, including travel site SideStep (acquired from its founders), digital marketing firm ClearGauge (from Primedia), and Motley Fool (from Softbank).

Despite recent gains, Mr. Heesen says growth in the direct-secondary market may simply reflect a cyclical business where funds maturities are stretched. When conditions change, he says, "I don't know if you're going to see more secondaries."

—Ken Schachter