Capturing Value
Centre for Entrepreneurial Learning's Enterprise Tuesday

Bill Janeway, Warburg Pincus
Teri Willey, Cambridge Enterprise Limited
A conversation about capturing value

• Aligning interests
• Value
• Rewards
• Capturing rewards
• Examples
• Funding and equity
• Role of venture
• Investment in science
Capturing value – aligning interests
Vital to the development of new technology companies is a source of investment that is poised and willing to:

- take the first step
- back long term, high risk projects
- invest for a societal return as well as financial reward.

“Let me tell you what I believe. It will be the doers and grafters, the inventors and the entrepreneurs who get this economy going.” David Cameron, Prime Minister

The Discovery Fund enables technology to bridge the funding chasm that lies between research and commercial development, launching a company that can attract smart management and follow-on investment.

The Discovery Fund is an opportunity to help the University to be the best it can be at disseminating its research into real products that transform tomorrow.

Help us reach our £5m donated fund to safeguard the future of seed funding in the University. The impact of your gift will be far in excess of the amount donated.
Capturing value – aligning interests

Impacting the entrepreneur’s return

• Type of capital
• Terms
• Exit options
• Current investment climate
Table I: Venture Fund Performance Summary

The following table summarises the performance of the 205 venture funds in the database by IRR. To highlight the skewness of the data and the influence of a select group of high performing funds, these metrics are also presented when the top decile and quintile of performing funds are excluded. Finally, the performance of the funds is summarised across different periods of time.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Med.</th>
<th>St. Dev.</th>
<th>25\text{th} percent</th>
<th>75\text{th} percent</th>
<th>Max.</th>
<th>Min.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IRR</strong></td>
<td>47%</td>
<td>24%</td>
<td>72%</td>
<td>2.74</td>
<td>9%</td>
<td>61%</td>
<td>-94%</td>
</tr>
<tr>
<td><strong>Top decile only</strong></td>
<td>215%</td>
<td>193%</td>
<td>92%</td>
<td>1.97</td>
<td>155%</td>
<td>254%</td>
<td>515%</td>
</tr>
<tr>
<td><strong>Excluding top decile</strong></td>
<td>27%</td>
<td>20%</td>
<td>35%</td>
<td>0.69</td>
<td>7%</td>
<td>41%</td>
<td>125%</td>
</tr>
<tr>
<td><strong>Excluding top quintile</strong></td>
<td>18%</td>
<td>16%</td>
<td>24%</td>
<td>-0.46</td>
<td>6%</td>
<td>31%</td>
<td>76%</td>
</tr>
<tr>
<td><strong>1980-1984</strong></td>
<td>17%</td>
<td>9%</td>
<td>23%</td>
<td>2.10</td>
<td>4%</td>
<td>20%</td>
<td>92%</td>
</tr>
<tr>
<td><strong>1985-1989</strong></td>
<td>23%</td>
<td>19%</td>
<td>26%</td>
<td>2.06</td>
<td>11%</td>
<td>32%</td>
<td>155%</td>
</tr>
<tr>
<td><strong>1990-1994</strong></td>
<td>42%</td>
<td>37%</td>
<td>40%</td>
<td>-0.37</td>
<td>17%</td>
<td>64%</td>
<td>125%</td>
</tr>
<tr>
<td><strong>1995-2006</strong></td>
<td>86%</td>
<td>55%</td>
<td>107%</td>
<td>1.48</td>
<td>4%</td>
<td>136%</td>
<td>515%</td>
</tr>
</tbody>
</table>
Table II: Venture Fund Performance Relative to the NASDAQ

Fund Multiple and IRR measures of performance are estimated for a hypothetical set of funds that are created assuming that each terminated fund in the database made an equivalent investment in the NASDAQ. The Public Market Equivalent (PME) is a measure of the total disbursements to a fund expressed relative to the total distributions to the hypothetical fund. This data is also summarised excluding the top decile and quintile of funds.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Med.</th>
<th>St. Dev.</th>
<th>Skew</th>
<th>25&lt;sup&gt;th&lt;/sup&gt; percent</th>
<th>75&lt;sup&gt;th&lt;/sup&gt; percent</th>
<th>Max.</th>
<th>Min.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nasdaq Multiple</td>
<td>2.42</td>
<td>2.38</td>
<td>0.83</td>
<td>0.39</td>
<td>1.96</td>
<td>2.82</td>
<td>5.05</td>
<td>0.63</td>
</tr>
<tr>
<td>Excluding top decile</td>
<td>2.23</td>
<td>2.27</td>
<td>0.63</td>
<td>-0.69</td>
<td>1.92</td>
<td>2.71</td>
<td>3.27</td>
<td>0.63</td>
</tr>
<tr>
<td>Excluding top quintile</td>
<td>2.12</td>
<td>2.21</td>
<td>0.58</td>
<td>-0.90</td>
<td>1.86</td>
<td>2.58</td>
<td>2.92</td>
<td>0.63</td>
</tr>
<tr>
<td>Nasdaq IRR</td>
<td>16%</td>
<td>15%</td>
<td>10%</td>
<td>-0.24</td>
<td>11%</td>
<td>21%</td>
<td>45%</td>
<td>-24%</td>
</tr>
<tr>
<td>Excluding top decile</td>
<td>14%</td>
<td>14%</td>
<td>8%</td>
<td>-1.50</td>
<td>11%</td>
<td>19%</td>
<td>28%</td>
<td>-24%</td>
</tr>
<tr>
<td>Excluding top quintile</td>
<td>13%</td>
<td>13%</td>
<td>7%</td>
<td>-2.02</td>
<td>11%</td>
<td>17%</td>
<td>23%</td>
<td>-24%</td>
</tr>
<tr>
<td>Nasdaq PME</td>
<td>1.59</td>
<td>1.00</td>
<td>3.67</td>
<td>10.33</td>
<td>0.57</td>
<td>1.68</td>
<td>42.36</td>
<td>0.14</td>
</tr>
<tr>
<td>Excluding top decile</td>
<td>1.02</td>
<td>0.93</td>
<td>0.57</td>
<td>0.66</td>
<td>0.57</td>
<td>1.33</td>
<td>2.48</td>
<td>0.14</td>
</tr>
<tr>
<td>Excluding top quintile</td>
<td>0.88</td>
<td>0.83</td>
<td>0.43</td>
<td>0.44</td>
<td>0.54</td>
<td>1.19</td>
<td>1.85</td>
<td>0.14</td>
</tr>
</tbody>
</table>
Table III: Venture Fund Performance (IRR) Relative to the IPO Market

The performance of the sample of venture funds, as measured by the IRR, is summarised by market and exit conditions indicators.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Med.</th>
<th>St. Dev.</th>
<th>Skew</th>
<th>25th percent</th>
<th>75th percent</th>
<th>Max.</th>
<th>Min.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market conditions &lt; -1</td>
<td>22%</td>
<td>4%</td>
<td>52%</td>
<td>1.28</td>
<td>-15%</td>
<td>39%</td>
<td>141%</td>
<td>-30%</td>
</tr>
<tr>
<td>Market conditions = -1 to 1</td>
<td>51%</td>
<td>27%</td>
<td>77%</td>
<td>2.75</td>
<td>9%</td>
<td>65%</td>
<td>515%</td>
<td>-94%</td>
</tr>
<tr>
<td>Market conditions &gt;1</td>
<td>41%</td>
<td>20%</td>
<td>60%</td>
<td>2.52</td>
<td>10%</td>
<td>32%</td>
<td>256%</td>
<td>-10%</td>
</tr>
<tr>
<td>Exit conditions &lt;2</td>
<td>19%</td>
<td>9%</td>
<td>42%</td>
<td>1.60</td>
<td>-7%</td>
<td>29%</td>
<td>155%</td>
<td>-34%</td>
</tr>
<tr>
<td>Exit conditions = 2 to 3</td>
<td>33%</td>
<td>24%</td>
<td>42%</td>
<td>1.93</td>
<td>11%</td>
<td>40%</td>
<td>237%</td>
<td>-94%</td>
</tr>
<tr>
<td>Exit conditions &gt;3</td>
<td>106%</td>
<td>76%</td>
<td>110%</td>
<td>1.56</td>
<td>22%</td>
<td>167%</td>
<td>515%</td>
<td>-6%</td>
</tr>
<tr>
<td>Year</td>
<td># of Funds</td>
<td>$B raised</td>
<td>$B managed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>------------</td>
<td>-----------</td>
<td>------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>52</td>
<td>2.0</td>
<td>2.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>121</td>
<td>4.0</td>
<td>11.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>87</td>
<td>3.2</td>
<td>22.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>172</td>
<td>9.9</td>
<td>33.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>653</td>
<td>105.0</td>
<td>184.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>235</td>
<td>28.8</td>
<td>229.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>120</td>
<td>15.2</td>
<td>176.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010: 1-3</td>
<td>124</td>
<td>9.1</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: National Venture Capital Association
Table V: U.S. VC Index Returns

<table>
<thead>
<tr>
<th></th>
<th>For the period ending 3/31/2010</th>
<th>NASDAQ Composite</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 year</td>
<td>3 year</td>
</tr>
<tr>
<td></td>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>1 year</td>
<td>6.5%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

Source: Cambridge Associates LLC.
Table VI: U.S. VC Index

For the period ending 3/31/2010

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. VC Index</td>
<td>6.5%</td>
<td>-0.7%</td>
<td>4.9%</td>
<td>-3.7%</td>
<td>38.2%</td>
</tr>
</tbody>
</table>

NASDAQ Composite

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>56.9%</td>
<td>0.3%</td>
<td>3.7%</td>
<td>-6.3%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: Cambridge Associates LLC.
British Venture Capital

• Private Equity and Venture Capital firms invested £7.5 billion globally in 2009, compared to £19.5bn invested in 2008 and £31.6bn in 2007.

• In 2009, 987 companies received private equity or venture capital backing, in contrast to 1,672 in 2008 and 1,680 in 2007.

• Venture capital investment in the UK fell to £296m in 2009, a drop from the £359m invested in 2008 and significant decline from 2007, which saw £434m invested.

• The number of companies financed fell from 455 in 2008, to 388 in 2009.

• Regionally, London and the South East saw investment levels fall to just over £1.8bn, compared to £4.9bn last year. Proportionally, Scotland maintained its strong investment levels, with 11% of the total amount invested in the UK, down from 12% in 2008.

Source BVCA Private Equity and Venture Capital Report 2009
## Investment by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of companies</th>
<th>% of companies</th>
<th>Amount invested (£m)</th>
<th>% of amount invested (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>834</td>
<td>1,278</td>
<td>1,330</td>
<td>84</td>
</tr>
<tr>
<td>United States</td>
<td>40</td>
<td>150</td>
<td>73</td>
<td>4</td>
</tr>
<tr>
<td>Cont. Europe</td>
<td>103</td>
<td>214</td>
<td>248</td>
<td>11</td>
</tr>
<tr>
<td>Other overseas</td>
<td>10</td>
<td>30</td>
<td>29</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>987</strong></td>
<td><strong>1,672</strong></td>
<td><strong>1,680</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: BVCA Private Equity and Venture Capital Report 2009
## Overseas investment by financing stage

<table>
<thead>
<tr>
<th>Financing stage</th>
<th>Number of companies</th>
<th>% of companies</th>
<th>Amount invested (£m)</th>
<th>% of amount invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>0</td>
<td>21</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Start-up</td>
<td>6</td>
<td>17</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Early stage</td>
<td>22</td>
<td>78</td>
<td>59</td>
<td>14</td>
</tr>
<tr>
<td>Later stage venture</td>
<td>18</td>
<td>n/a</td>
<td>n/a</td>
<td>11</td>
</tr>
<tr>
<td>Total venture capital</td>
<td>46</td>
<td>116</td>
<td>82</td>
<td>29</td>
</tr>
<tr>
<td>Expansion capital</td>
<td>39</td>
<td>97</td>
<td>91</td>
<td>25</td>
</tr>
<tr>
<td>Bridge Loan</td>
<td>5</td>
<td>7</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Total expansion</td>
<td>44</td>
<td>104</td>
<td>104</td>
<td>28</td>
</tr>
<tr>
<td>Replacement capital</td>
<td>3</td>
<td>24</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Secondary buy-out</td>
<td>2</td>
<td>24</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>PIPE</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Refinancing bank debt</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total replacement capital</td>
<td>16</td>
<td>30</td>
<td>39</td>
<td>10</td>
</tr>
<tr>
<td>Management buy-out</td>
<td>26</td>
<td>64</td>
<td>121</td>
<td>17</td>
</tr>
<tr>
<td>Management buy-in</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total MBO/MBI</td>
<td>28</td>
<td>67</td>
<td>121</td>
<td>18</td>
</tr>
<tr>
<td>Public to private</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rescue/turnaround</td>
<td>5</td>
<td>87</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>18</td>
<td>87</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Total other stage</td>
<td>24</td>
<td>87</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Grand total</td>
<td>153</td>
<td>394</td>
<td>350</td>
<td>100</td>
</tr>
</tbody>
</table>
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- Aligning interests
- Value
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