

## Venture Capital Industry Moves Quickly To Jump-Start IPOs

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By Scott Austin

When the National Venture Capital Association unveiled its “[four-pillar plan](#)” in late April to restore the venture-backed IPO market, it declared that its series of recommendations could only be achieved “if both the private sector and the government address the breakdowns that have occurred within their respective systems.”

Strong words, but what action has been taken in the more than 45 days since this plan was announced?

To find out, we caught up with [Dixon Doll](#), the veteran venture capitalist who as outgoing NVCA chairman helped spearhead the creation of the plan, which challenged both the venture capital market to change its behavior and the government to revise some of its regulatory and tax-related policies.



As Doll helped put this plan together, his venture firm, DCM, [surveyed](#) various chief executives and chief financial officers at venture-backed companies – 108 execs in total – to find out what their perceptions were about taking their companies public. “One of the things we discovered was a mindset that if your company wasn’t good enough to be taken public by Goldman Sachs or Morgan Stanley then they thought they had an ugly baby,” Doll said. “Certainly we didn’t think that was the case and I think a lot of entrepreneurs we talked to really don’t understand investment banking very well - it’s just not their area of expertise.”

That’s the major area that Doll says he and other NVCA board members are focused on right now – changing the mindset of entrepreneurs, venture capitalists, investment banks and others to get the ball rolling for small-cap IPOs, which the industry has shied away from in recent years.

Here’s an edited excerpt of our conversation on Monday with Doll, who on Tuesday will appear on a panel at the [Limited Partners Summit](#) in New York to talk about the state of the venture capital industry:

Q. How do you go about changing the mentality of the venture capital community?

The way you change the mentality here is to go around and educate the world at large including the potential clients of the boutique banks that there's been a very important role performed by the boutiques in the history of emerging growth companies. And it's kind of fallen off the table with the disappearance of the "Four Horseman" because they were all bought out by the large banks. So the boutique banks simply need to go out there and educate their clientele and our companies that they can, and will, make a commitment to supporting these companies. And they need to explain how there's now enough economics for the smaller banks to afford to provide ongoing research coverage...because the big banks do not have a stellar history of providing broad-based research coverage for some of the relatively young public companies sponsored by the venture capital community.

Q. Specifically, how have you and other venture capitalists taken action to encourage the recommendations of the four-pillar plan?

I've been asked by several of the boutique banks to come around and make presentations at their annual technology conferences, and all these presentations have been extremely well received by both by the bankers and by the entrepreneurs and the customers/investors in attendance. They all agree this is a valuable and useful step that we need to try and get these smaller IPOs going again.

I know there are some other initiatives taking place, like a group up in Boston - several folks on the [NVCA] board are taking the initiative to go around and educate the various venture capital firms up there about the new realities and possibilities. There's also an ongoing discussion between the boutique banks and the NVCA, which set up a few working groups including one for capital markets that will ensure that this important initiative continues to be very active for the foreseeable future and possibly beyond the regime of [new NVCA Chairman] Terry McGuire, who recognizes these issues will transcend the one-year terms of various chairmen. So three former chairmen have been added to these working groups that will focus on some of the details of implementing and refining the pillars. There's actually a call today - we've asked the boutique banks to come back to the capital-markets working group and tell us what they will do to help crank up the level of support and ongoing coverage of our companies if we would elect to use them as a co-lead in IPOs. That's a work in progress but it's one of the action steps that came out of the plan and it's moving forward. I don't have any more details to tell you because no final decisions have been made yet.

Q. Have you seen any evidence that the mindset is changing as a direct result of these efforts?

We've seen one - and I think two or three - of the bulge-bracket banks acknowledge that perhaps they have been excessively lethargic or sitting on the sidelines over the past couple of years [with regards to smaller IPOs]. At least one of the big banks that I'm aware of has actually decided to go around as a result of our four-pillar plan and start talking with the VC firms here in Silicon Valley and tell them, "Oh yes, we are open for business. We're anxious to take your companies public. We've done smaller, medium-sized IPOs in the past, and we will openly come out and deliver the message that it's not about the size of the IPO, but it's about the quality and the uniqueness and the differentiation of the company." And they're pounding the table, actually doing a selling job to try and increase the enthusiasm and potential appetite by the VCs that have later-stage companies almost ready to go public now. That's a direct positive result that I've been

hearing back from a lot of my colleagues in the industry, and I'm certain that's a byproduct of the four-pillar plan.

That's one hard data point. One other thing that is going on is that we're continuing to work with the accounting firms to get input and feedback from the new two members of the "Global Six." We haven't had a chance to meet them yet. But they're very excited and thrilled that the "Big Four" has endorsed a more competitive ecosystem here. So we're going to have a variety of meetings with them and get specific feedback that we can pass along to all of our membership and to the boards of the companies so that they understand there's more competition out there right now. We also hear the accounting firms in response to the recessionary environment have been sharpening their pencils have been getting a little more aggressive on pricing. And that's all healthy.

Q. Some venture capitalists we've talked to are skeptical, saying it's ambitious to think that lawmakers, regulators, investment banks, accountants and venture firms are all going to come together to revive the fortunes of the venture capital industry. How do you respond to that? I'm not trying to be naive at all. The reason I'm more optimistic about the things we've just talked about here is that this first pillar is in the part of the ecosystem that we can directly control. With regard to the taxation and regulation issues that are also referred to in the plan as well as to compliance, there is reason for skepticism. But I would simply say it would be irresponsible of the NVCA not to go out and give it our best shot because that's basically the primary purpose of the NVCA's existence. By and large we've been fairly successful in fighting battles while recognizing that it will take a period of time before it will show up.

Q. The NVCA wants to see corporate governance and accounting rules eased for small companies. That seems like a tough sell at a time when the federal government seems likely to increase regulation of the financial industry.

I could not agree with you more. I'm not being unrealistic, but the flip side of that is I was just listening to [President] Obama this morning and the first thing out of his speech in Chicago was we've got to create more jobs. And we have the best job creation story on the planet if you just look at the data that's all in the plan. But this is where it all starts.

Q. The four-pillar plan didn't seem to thoroughly address the fact that VCs should be shouldering some of the blame for the lack of quality companies reaching IPO registration. How much responsibility does the VC industry have in all of this?

It may not have been in there as explicitly as it should have been. If you go back and look at the chart about the current IPO system being broken (slide 17), we own up to funding too many companies that are not truly transformative. That point is made in there. So I'm agreeing with you but wanted to point out that we did state it in there. Maybe it should have received higher visibility.

Q. Do you think we going to see a pickup soon in the number of companies preparing to go public?

One of the things that we've not heard yet is any pickup in new registrations. We're hearing some discussions about companies that are filing for the fall season, but there's no hard evidence so far that the actual companies that were sitting on the sidelines and maybe on the threshold

have actually gone and filed. I think they're probably sharpening their pencils and looking at the options. The economy itself is still a major factor, and certainly an improvement in the market in the last two or three months has been a big positive. Without that rebound and the stabilization of the markets, all bets are off and nobody would think of going public. I would like to be able to tell you that there are more new filings and the pipeline is building. That hard data is not there yet. I'm hopeful that it will start to happen later this year but it's not there in the last two months.

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