



Former NVCA chairman Dixon Doll speaks on the 4-Pillar Plan to restore liquidity in the US VC industry

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What is your involvement with the NVCA?

“I started on the board of the NVCA in 2004 and was elected to the executive committee after three years. I was then asked to become chairman for the 2008/2009 term. Chairmen tend to serve one year terms, but at the NVCA Annual Meeting in April we made some changes to the terms of chairmen and board members to help address some of the issues that the industry is facing. Permanent working groups were set up and I am one of three past chairmen who have been asked to serve with the working groups. I am on the capital markets working group to work on implementing the 4-Pillar Plan.”



What is the premise of the 4-Pillar Plan?

“For the year up to my appointment as chairman, we had seen no IPOs of venture-backed companies – which was the first time this had happened in 30 years. The NVCA board decided at this point that we should develop an initiative aimed at both the public and private sector to see what we could do to help improve the capital markets for venture capital companies. We want to increase the probability of these companies going public and have a more vibrant merger and acquisition environment in an attempt to get back to where we were for most of the 1990s. Obviously we did not think we could get back to the environment we had during 1999 and 2000 – the bubble made sure of that period. For most of the 1990s, however, there were around 150 venture-backed IPOs per year and a comparable number of M&A transactions. There was a very vibrant exit market and the major investment banks were keen to take our portfolio companies public, sell their shares, support their trading and get them in the hands of growth-oriented institutional investors. All of that froze up as the markets went into their meltdowns towards the middle and the second part of last year.

The complexity of our financial system defies easy comprehension and easy fixes. Yet, after a thorough review of the venture capital ecosystem, the NVCA and members of our venture capital ecosystem have worked together and identified an action plan based on four primary pillars that we believe can reinvigorate the venture capital sector to once again impart a beneficial effect on the overall economy. We successfully introduced the 4-Pillar Plan at the NVCA Annual Meeting in April. Since then we have continued to build on the momentum and have reached out to disseminate the plan through lectures and meetings with members of the ecosystem, and generally put out a call to action. For this plan to

work, it requires involvement and commitment from all members in the venture capital ecosystem and the government. We are working diligently to further enhance and implement the plan and educate key constituencies about what everyone can do to spur robust IPOs and M&A activity as markets stabilize, and help reinvigorate one of the greatest job creation and innovation engines in the US.

We believe there is no other industry that is more important to the US economy and job creation than venture capital. The portfolio companies out there now have revenues that correspond to 20 per cent of the country's gross domestic product, the venture capital industry is responsible for more than 12 million jobs, and this is all achieved on 0.2 per cent of US GDP.

The industry is responsible for personal benefits, with one in every three Americans being positively impacted by innovations and solutions developed by venture-backed life sciences companies. The industry is also focusing on alternative energy and reducing the country's dependency on foreign energy, pushing to make us self-sufficient.

Interestingly, 92 per cent of jobs created by venture-backed companies happen after the company has gone public. If you do not have IPOs, you do not have job creation."

Are you planning on approaching the government to implement the Plan?

"The NVCA is working on a series of initiatives that involve working with the key committees in Congress that we have relationships with. One of our biggest efforts is a mission where we try to make policymakers aware of the importance of what we do for the US economy. We try to educate them about the nature of the venture capital industry and how it has become a global industry. If the US wants to remain competitive and maintain a leadership position, we will have to modify our behavior. Otherwise, a lot of other countries, including China and India, will attract entrepreneurs who want to avoid the bureaucracy and obstacles that the government has created through the passage of legislation that was well meaning, but has had significant unintended consequences.

One of the big issues is the restriction on immigration that has driven out a lot of the best and brightest that come to our graduate schools but are then not awarded Green Cards. These people go back to their countries to start up companies instead of doing so in the US. There are many examples of internet start-ups in Japan and China that are led by people who gained their degrees in life sciences and IT at America's top universities. As the co-founder of DCM, an international venture capital firm with offices in Silicon Valley, China and Japan, we work with fantastic entrepreneurs every day and we see a lot of innovation coming out of these countries.

We are also working on dealing with the Securities and Exchange Commission (SEC), though it has to be said they are facing a very challenging environment and a host of their own problems. Over the years, we have been trying to point out the fact that the Sarbanes-Oxley Act, developed by Congress on the heels of the Enron scandal, was pushed through in a hurry to prevent repeat occurrences of corporate fraud. These red tape restrictions that are now mandated to public companies have significant

consequences for small venture-backed companies that want to go public. The NVCA is not recommending that this legislation be eliminated, but for our emerging growth companies we are recommending that the scope of the legislation and the implementation requirements fit these companies, and that a series of meaningful exemptions be put in place for companies with revenues of less than \$1m. We would also like to see the long-term capital gains tax rate kept at its current globally competitive level. Finally, we advise new tax incentives for venture capital investments of certain types and sizes, such as those in cleantech and life sciences.

As it relates to Sarbanes-Oxley, we simply do not have a history of any problems that SOX was designed to prevent. Those kinds of problems have never occurred with venture-backed companies. The government has treated large corporate issues as a one-size-fits-all problem, and we have been arguing that it requires a whole series of strengths of regulation, some of which would only be relevant to large companies.”

Do you think the NVCA has enough weight behind it for the White House to listen up and take notice?

“That is a very complicated question to answer. The NVCA has a lot of weight represented in its membership. I think that the NVCA’s full-time staff in Washington has done a great job fighting a whole series of very significant battles in a highly politically charged environment. What we have done is significantly heighten the awareness of the general public and Congress about the issues that we are trying to deal with and get people to focus on.

I was encouraged recently when I was in Aspen at a series of seminar think-tank meetings. Paul Ryan, who is one of the up-and-coming people in the House of Representatives, had read the 4-Pillar Plan, thought it made a lot of sense and is working to incorporate some of our recommendations into current legislation that he is crafting. Are we doing a perfect job? No. We are doing a decent job and are turning up the heat to get more firepower focused on these really critical problems. The NVCA sees a window of opportunity right now to get people who are looking at the issue of job destruction to focus on the things that make the venture capital industry great and to remove some of the shackles and obstacles that are preventing the industry from being successful again. Hopefully we can accelerate the job creation process that we have been driving for the last 30 years.”

What can the NVCA do to ensure the recommendations in the Plan are adopted?

“The NVCA has made it very clear that we do not think our work is done with the publication of this document. The NVCA is continuing the dialogue with various members of the ecosystem, members of Congress, the SEC and the accounting firms to foster a more competitive ecosystem.

In addition to working with key government officials, we are also looking to our industry to come up with solutions that will help jumpstart the IPO engine. We need to create synergies between existing banks and the establishment of new, boutique investment banks. In addition, we need to make greater

use of global financing and fundraising vehicles as well as leverage international stock exchanges. We also recommend that venture capitalists commit to longer lock-up periods to incent greater demand for IPOs. We support emerging private market platforms to help take private companies over the final hurdle to public ownership. Venture capital firms can take important steps on their own, too, beginning with structuring roll-ups of smaller portfolio companies to help the combined firms achieve the necessary size and profitability to go public.

We have had follow-on meetings with a lot of the so-called boutique investment banks. The NVCA is campaigning to get the investment banks to make commitments about what they are going to do for venture-backed companies as they go public. We continue to push for the adoption of policies and procedures by investment banks to support companies if we select them to be in the banking syndicate when our companies go public. One very specific recommendation made in the document is for our membership and board members to consider a mix of both the conventional and very successful banks, like Goldman Sachs, and to partner them up with one or more of the smaller banks so that the economics of an IPO can be shared.

The Plan also highlights that in the late 1980s and early 1990s there were mutual funds, like Fidelity, that were eagerly purchasing shares of the emerging growth companies which entered the public market. Many of them have gotten so big that an IPO of \$50m to \$75m is too small for these players, so they are not interested in becoming initial purchasers. Therefore, a whole new generation needs to be cultivated whereby there are institutional investors who will buy and hold our securities over a longer period of time.

Another point that is made in the Plan is to expand the circle of main accountancy firms that are acceptable for the institutional banks to be used as auditors to include what we call "The Global Six": Deloitte, PricewaterhouseCoopers, Ernst & Young, KPMG, Grant Thornton and BDO Seidman. There should be more competition, as this would create a more cost-effective way of providing the auditing services that are required for our companies to go public. I have met with three of the CEOs of the large accounting firms and they agreed with the recommendation; they do not want to be accused by the government of being an oligopoly.

The idea of a more competitive ecosystem across all of these players is central to the NVCA's recommendations.

We will continue to push the ball forward. The NVCA and its members who go to Washington will continue to pound on and constructively work with people who draft legislation, and stress the need for avoiding things that will kill the goose that laid the golden egg."