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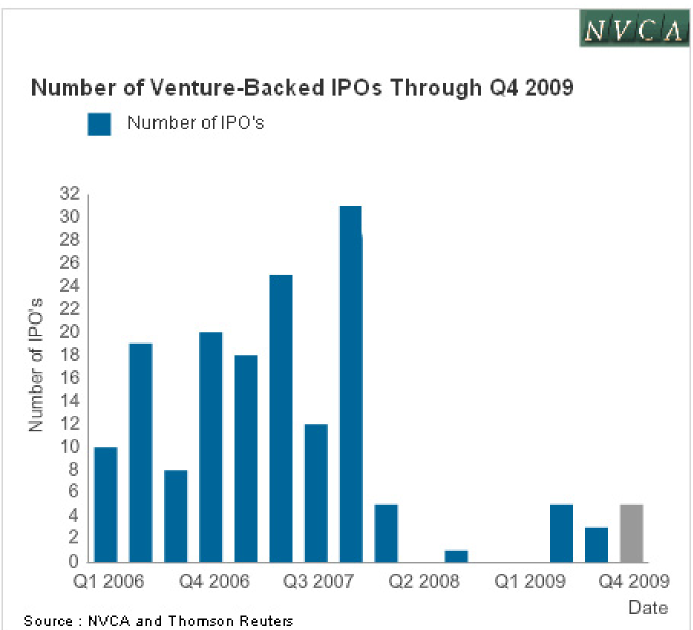
I.P.O. Market Remained Dreary in 2009

by Claire Cain Miller

As I wrote in an article in Monday's paper, venture capitalists are beginning to see signs of life in Silicon Valley.

Still, a look at the acquisitions and public offerings of venture-backed companies in 2009 demonstrates that the industry has not yet turned the corner. Mark Heesen, president of the National Venture Capital Association, called 2009 "a year many venture capitalists and entrepreneurs would choose to soon forget."

The last two years have been the worst for I.P.O.'s since 1975, according to the industry association. In 2009, just 13 tech start-ups went public, raising $1.9 billion, according to data from the association and Thomson Reuters. That is up from six start-ups that raised $460 million in 2008, the worst year on record, but down from 2007 when 86 I.P.O.'s raised $10.3 billion, a more typical year.



There were only 262 acquisitions in 2009, down from 348 the previous year and 378 in 2007. Despite the drop in sales of start-ups, the average sale price went up, but these averages can be misleading because they are skewed by unusually large deals like the $930 million purchase of Zappos.com by Amazon.com.

A rebound in initial public offerings will be needed for the venture industry to recover. Taking a company public is almost always preferable to selling it to another company. I.P.O.'s make more money for investors and founders and allow the company to continue to grow and innovate on its own. When start-ups are going public, it also boosts acquisition prices.

A small surge in I.P.O.'s could happen. Five of the 13 I.P.O.'s came in the fourth quarter, and investment bankers say there could be as many as 50 I.P.O.'s this year, including big-name companies like Facebook or Tesla Motors. There are 29 venture-backed companies that have already filed with the Securities and Exchange Commission to go public.

Still, the venture industry and the broader economy are still too shaky to make a turnaround in 2010 inevitable.

"If the global economy holds up, then 2010 is going to be an excellent year in the venture business on pretty much all fronts," said Todd Chaffee, a partner at Institutional Venture Partners. "If we get a hiccup or a downdraft, it will be a more challenging year."