

VENTURE CAPITALIST PROFILE

On His Way Out, 3i's Sandy Miller Cinches 2 Exits

BUT HIS LEGACY, RESTING LARGELY ON VONAGE'S FORTUNE, IS YET UNCLEAR

By Erica R. Davis

Sandy Miller, until last month senior partner of **3i Group PLC**, says February 8 was "definitely the best day of my venture capital career so far."

That was the day that two of Miller's portfolio companies announced long-awaited exits. Voice over Internet protocol rockstar **Vonage Holdings Corp.** registered for an initial public offering, and **SkyStream Networks Inc.**, an Internet protocol video equipment provider, announced a pending sale to Tandberg Television, a deal valued at \$80 million.

Now Miller, 56, who joined 3i five years ago to run its later-stage venture practice in the U.S., is leaving to join a firm that invests in public companies as well as private ones. (He had not announced his new employer when the *Venture Capital Analyst* went to press.)

"I am somebody who has done a lot of things – I go on to the next challenge, that's my history," he said.

The London-based firm is looking for a replacement for him and plans to continue to do later-stage deals as well as early-stage ones, according to Allan Ferguson, who runs 3i's U.S. venture operation.

But despite Miller's elation in February, the legacy of his 3i tenure remains to be seen. He still faces a challenge with his investment in Vonage, on whose board he will continue to serve.

As a late-stage investor at 3i, Miller looked for companies where the firm could invest in what it hoped would be the last round of financing for companies that generally had at least \$20 million in revenue. The firm banks on achieving liquidity within one to three years, and looks for a return multiple of two or three times money put in.

Since joining the firm, Miller made eight deals in communications, information technology and health care.

Those yet-to-exit include **Swissray International Inc.**, a digital X-ray company; **Top Layer Networks**, a network security hardware maker; and **Merchant e-Solutions Inc.**, a provider of Web-based technology and payment services. Except for Vonage, Miller hasn't determined which board seats he will keep after his move.

His first investment, Placeware, was a hit. 3i put \$7 million behind the Web conferencing services company in a first and last financing of \$30.5 million in late 2001. When Microsoft Corp. bought the company in May 2003 for about \$200 million, 3i received a return of two times, or \$14 million, on its money in less than 18 months.

The firm may not be so fortunate with Vonage. The firm put \$45 million behind the voice over IP service provider in three rounds, starting with its \$40 million Series C round in February 2004.

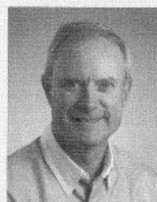
Vonage raised a grand total of \$408 million over five rounds before raising another \$250 in convertible debt. The company filed a \$250 million IPO in February. Its other backers include **Bain Capital**, **New Enterprise Associates**, **Meritech Capital Partners** and **Institutional Venture Partners**.

Soleil Securities Group analyst Todd Rethemeier is skeptical about Vonage's IPO given its run-rate of about \$250 million a year in marketing expenses alone. "My own sense from talking with people is there's not a huge appetite for this deal," he said.

Miller declined to comment about Vonage, citing the Securities and Exchange Commission's quiet period prior to an IPO.

SkyStream, on the other hand, is a successful investment for Miller and 3i. The firm, a new investor, led the company's fifth and last financing in 2003, accounting for \$10 million of the \$29 million round. Although that brought the total venture capital raised by the company to \$84 million – more than the \$80 million sale price – later-stage investors often obtain deal terms that treat them favorably in an acquisition. 3i's Ferguson said the exit is a win for the firm, declining to provide an exact return figure. Miller, who is the chairman of SkyStream, declined to comment on the deal. ●

J. Sanford Miller



Former Senior Partner, **3i Group**

Employment: Co-founder and chief administrative and strategic officer, Thomas Weisel Partners; Senior partner, Montgomery Securities; Managing director, Merrill Lynch; Managing director, Donaldson Lufkin & Jenrette; Strategy consultant, Bain & Co.; Securities lawyer, Pillsbury Winthrop Shaw Pittman LLP

Education: JD and MBA, Stanford University; BA, University of Virginia