

Products & Services Research Report Series

An Initial Overview of the Venture Capital & Private Equity Industry



February 2011

INTRODUCTION & KEY FINDINGS

The introduction, key findings, & executive summary of this report summarizes the entirety of the report and offers a set of useful summary facts. It also serves to address the report's objectives, Tiburon's research processes, and the report's target markets.

Context Setting

The purpose of this report is to provide readers with an initial understanding of the venture capital & private equity markets, including mezzanine finance. Throughout the late 1980s, the private equity market boomed. Who can forget RJR Nabisco and other well-known LBO deals? The funds invested in these LBOs came from private equity funds. More recently, in the late 1990s, the venture capital market grew crazily. Start up companies with limited revenues, and often no products, raised significant funds. These monies came from venture capital funds. But in the early 2000s, the venture capital market fell apart with the dot com implosion, and in the late 2000s & early 2010s, the credit crisis challenged the private equity market. This is the second draft of Tiburon's research on this topic.

Tiburon's first draft of this report was published in 2000; that draft consolidated prior Tiburon research into one report and that version was actually a broad report addressing hedge funds, venture capital & private equity, real estate, & other alternative investments.

This is Tiburon's second draft of this report; this draft unbundles venture capital & private equity from Tiburon's other equally good reports on hedge funds, real estate, & other alternative investments. Furthermore, this draft included updates on the report's storyline, adds structurally to the appendix, and includes initial and/or enhanced profiles of hundreds of firms that participate in this market, including Aquiline Holdings, Foundation Capital, FTV Ventures, PFK Development Group, Red Eagle Ventures, Serent Capital, Sorin Capital Management, & Triton Pacific Capital Partners.

Tiburon Research Process

Readers should find this report to be both comprehensive and unbiased in its opinions. Tiburon is not a narrowly defined research firm and does not do research on speculation nor to earn substantial revenues selling research reports (all Tiburon reports are offered for sale at \$5,000 each, which comes nowhere close to even covering the time invested). Instead, Tiburon conducts extremely detailed research to support critical strategic consulting assignments for its financial services industry clients. As part of Tiburon's traditional consulting efforts, before focusing on customized client analyses and to get thoroughly immersed in a business segment, Tiburon typically conducts more than a half-dozen research steps:

- Summarize & organize recent industry media coverage
- Incorporate proprietary learnings from Tiburon's benchmarking tools
- Review & incorporate learnings from all key industry firms' web sites
- Conduct detailed news searches to round out company views
- Seek out research & analyst reports to compare and further develop findings
- Solicit opinions from Tiburon's executive program members
- Interview industry participants to confirm or revise findings

Tiburon will update this report in three-to-six months depending on the evolution of the market and demand for such, so the firm welcomes readers to share any feedback, input, or ideas by email, phone, or in-person. If you send comments, Tiburon will be happy to send you a revised copy of the report. In accordance with Tiburon's traditional research process, future versions of this report will attempt to take this research further, including more detailed profiles of each firm and more opinions from other industry observers that can help further explain the conclusions.

Tiburon Strategic Advisors

Tiburon Strategic Advisors was formed in 1998 to offer market research, strategy consulting, & other related services primarily to financial services firms. Three of Tiburon's core clientele groups are the CEOs and other senior executives of large US financial institutions faced with difficult strategic decisions, leading executives of foreign financial institutions trying to understand and/or enter the US markets, and a long list of venture capital & private equity firms, and investment banks, making investments in, and executing transactions in, areas where Tiburon has developed proprietary insights. The firm has served over 300 corporate clients and completed over 1,200 projects since its founding, and today, its knowledge base includes mutual fund distribution, separately managed account programs, alternative investments, wealth management, insurance products, banking services, the fee-based financial advisor market, the CPA firm market, the family office market, and various international markets.

Research Report Series

This report is part of the Tiburon Strategic Advisors Research Report Series, which is comprised of a growing number of in-depth reports covering a wide range of topics in the banking, insurance, brokerage, and investment management markets. Tiburon's Research Reports are published in two series. One series is aimed towards Financial Institutions and the other towards Financial Advisors. The Financial Institutions Series reports are macro-industry reports that cover topics such as the mutual funds industry, the full-service brokerage industry, and the registered investment advisor industry. Reports in the Financial Advisors Series are more tactical reports, which include topics such as Fee-Based Financial Advisor Best Practices and Succession Planning & the Growing Acquisition Market.

Research Report Access Program

Many long-time Tiburon clients subscribe to the firm's research report access program, which allows unlimited online access to all of its research reports for all of a company's employees for an entire calendar year for just one \$25,000 subscription. This service has helped numerous Tiburon clients share Tiburon research widely and consolidate their research purchases.

Sponsored Research Reports

Numerous Tiburon clients have sponsored research reports (\$35,000), which entitles them to widely distribute the reports to their employees and/or clients. Tiburon also retains the rights to offer these reports for sale.

Research Report Refund Policy

Periodically (far less than 1% of the time after hundreds of purchases), Tiburon research report purchasers have sought refunds, which has caused hardship and wasted time for Tiburon, hence the following policy now exists for all Tiburon research report purchases. Tiburon is unable to make any financial refunds for reports. Both fulfilling reports and

processing refunds take up Tiburon time, and given that the reports are written as a low cost accommodation service, Tiburon needs to manage its time well, prioritizing market research & strategy consulting clients. Furthermore, given that reports are delivered electronically, returns are impractical. If it helps, Tiburon will attempt to send replacement reports (either the next version of the same report or another report all together) as long as invoices are paid promptly under the terms of the original order (net 30 days). That said, please observe three suggestions before ordering any Tiburon report:

- First, be sure to look at the summaries and attached table of contents for the report(s) of interest. These are created by Tiburon research staff to best represent the reports to potential purchasers. Sending specific pages is time consuming and unreasonable but the detailed table of contents show pretty clearly the topics covered.
- Second, please ensure that no other executive at your firm has ordered the same report; Tiburon is willing to allow the internal sharing of its reports by purchasers, but purchasers need to take responsibility to confirm any prior purchases within their firms as the growing complexity of financial services firms makes it impractical for Tiburon to track any firm's subsidiaries and their respective purchases.
- Finally, please remember that the totality of the report is the offering. If there is a graph that is unreadable because of the smaller font size required for printing, please bring it to the firm's attention and a full-size version will be sent, but please do not seek a refund on a report purchase that you have received.

Contacting Tiburon Strategic Advisors

Tiburon Strategic Advisors is located in Tiburon, California (just over the Golden Gate Bridge from San Francisco) and can be reached at (415) 789-2540. Feel free to contact any of us.

Best of luck to all!

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Key Findings

Below is a list of summary facts from this report:

Evolution of the Venture Capital & Private Equity Industry

This chapter outlines the evolution of the venture capital & private equity industry.

Market History

This section recaps the market history of the venture capital & private equity industry.

Market Definition

This section explains market definition.

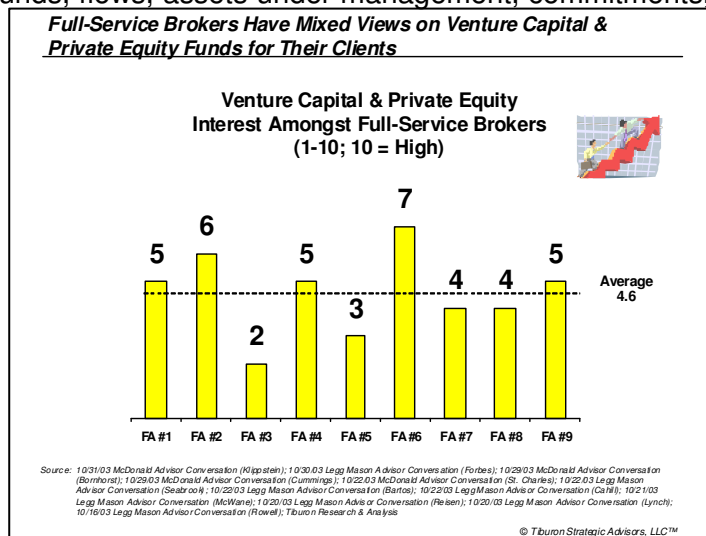
Market Growth

This section will highlight the growth in the venture capital & private equity businesses, focusing on the number of firms, funds, flows, assets under management, commitments, and committed assets.

Key Issues

This section highlights key issues in the venture capital & private equity industry.

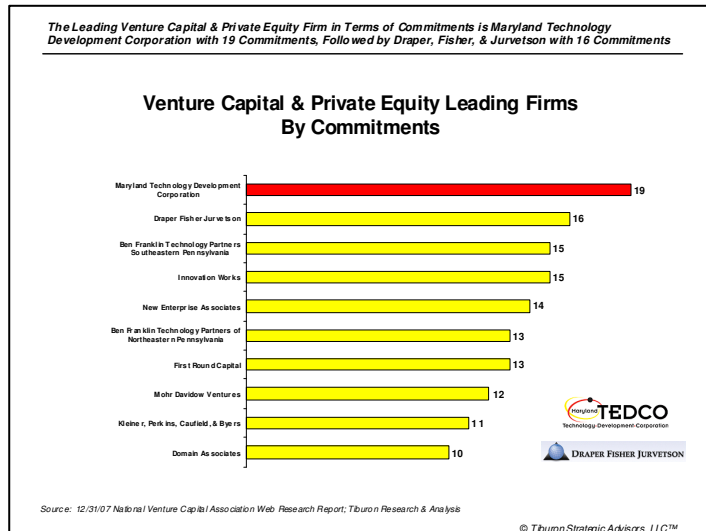
- Venture capital & private equity retailization takes place in many ways, including venture capital mutual funds and lower investment minimums
- Full-service brokers have mixed views on venture capital & private equity funds for their clients



Leading Venture Capital & Private Equity Firms

This highlights leading firms in the venture capital & private equity industry.

- The leading venture capital & private equity firm in terms of commitments is Maryland Technology Development Corporation with 19 commitments, followed by Draper, Fisher, & Jurvetson with 16 commitments



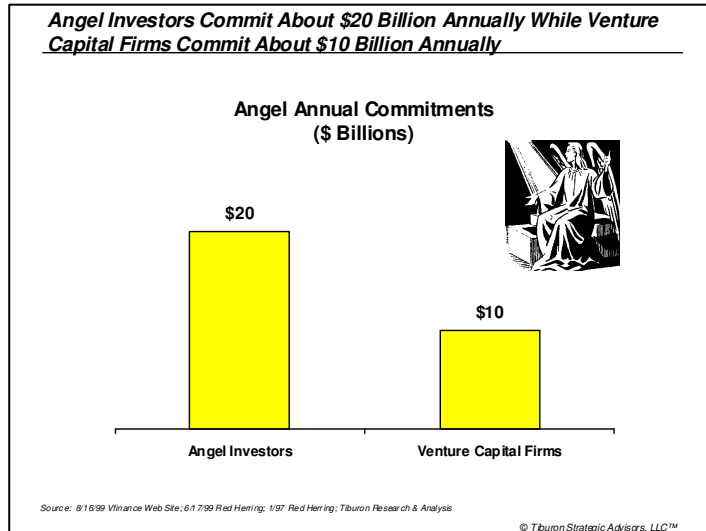
Market Segmentation

This section reviews the market segmentation of the venture capital & private equity industry.

Venture Capital

The first venture capital & private equity funding type is venture capital.

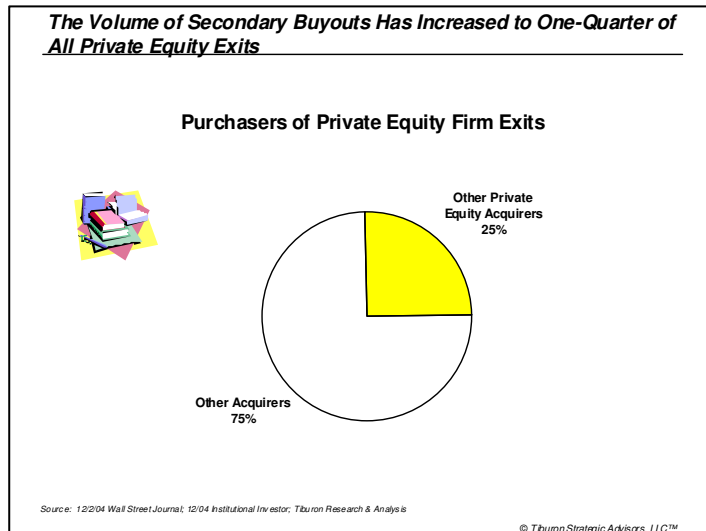
- Venture capital receives more than half of its fund flows from pension plans and the rest from other markets
- Angel investors commit about \$20 billion annually while venture capital firms commit about \$10 billion annually
- Angels commit twice as much as venture capital in start-up companies
- Venture capital fund commitments to software & Internet technology and biotechnology reach over 50%



- Many big name American banks – Credit Suisse Group First Boston, Morgan Stanley Dean Witter, JP Morgan, Goldman Sachs and Chase Manhattan bank – are investing in European start-ups

Goldman Sachs and Chase Manhattan bank – are

- Big players in Latin America include Hicks, Muse, Tate, & Furst, Chase Capital Partners, Soft Bank Latin Ventures and some foreign private equity firms



- There are a few specialized venture capital funds, including those by Allianz, Greenwich Street Corporate Growth Partners Fund, and the Women's Growth Fund

- Venture capital firms invest primarily in information technology firms, reaching about 75% of commitments
- The leading venture capital firms include Summit Partners and TA associates, each with \$5.0 billion in flows

Private Equity

The second venture capital & private equity funding type is private equity.

- The volume of secondary buyouts has increased to one-quarter of all private equity exits
- Private equity crossover hedge funds include Amphion and Spinnaker Technology
- The worldwide opportunity in private equity funds has a value of \$400 billion
- The leading private equity funds by commitments includes Texas Pacific Group and Warburg Pincus
- The key players in private equity include Kohlberg, Kravis, Roberts, & Company, TH Lee Partners, and Hicks, Muse, Tate, & Furst

Mezzanine Finance

The third venture capital & private equity funding type is mezzanine finance.

- Largest mezzanine funds include DLJ Investment Partners II, Cerberus Asla Partners, and Blackstone Mezzanine Partners

Markets & Distribution Channels

This chapter outlines markets & distribution channels of the venture capital & private equity industry.

- Pension funds provide over half of the total investments in venture capital funds

Direct Distribution

Venture capital & private equity's emerging markets & distribution channels is the first market & distribution channel.

Financial Advisor Markets

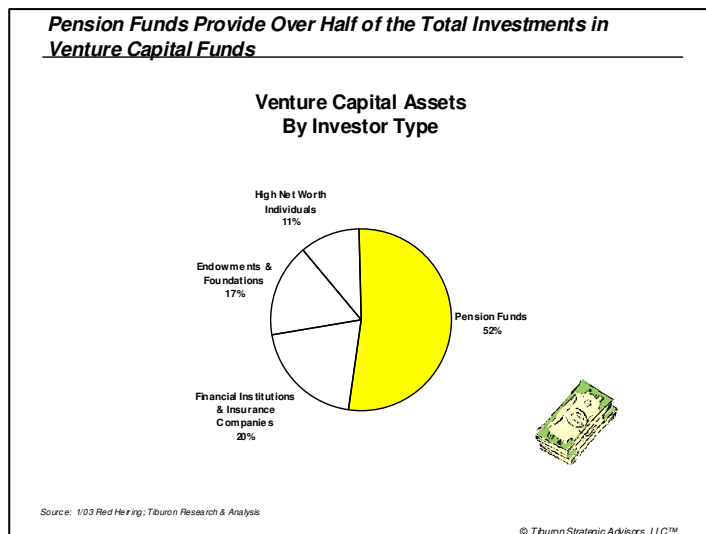
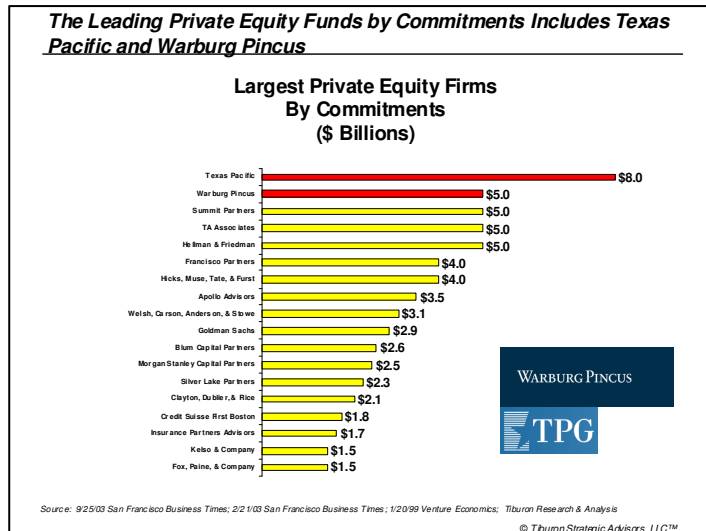
Venture capital & private equity financial advisor markets is the second market & distribution channel.

Institutional Markets

Venture capital & private equity traditional institutional market is the third market & distribution channel.

- Private equity in the average pension fund comprises 2.5% of pension fund investments

International Markets



Venture capital & private equity international market is the fourth market & distribution channel.

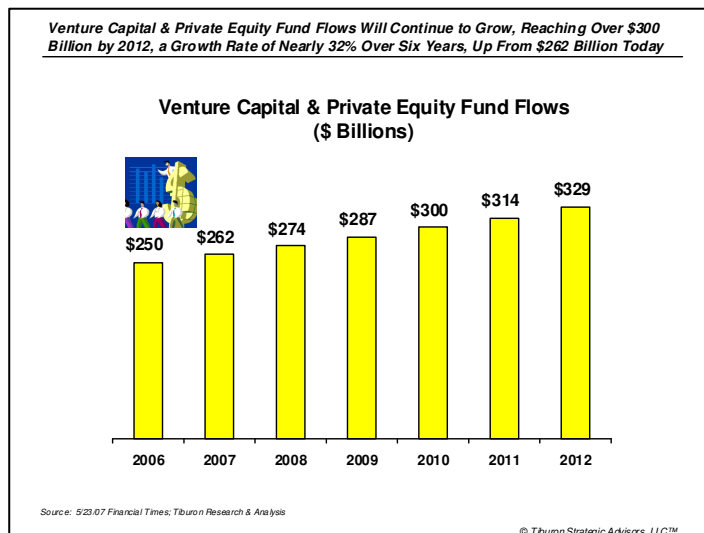
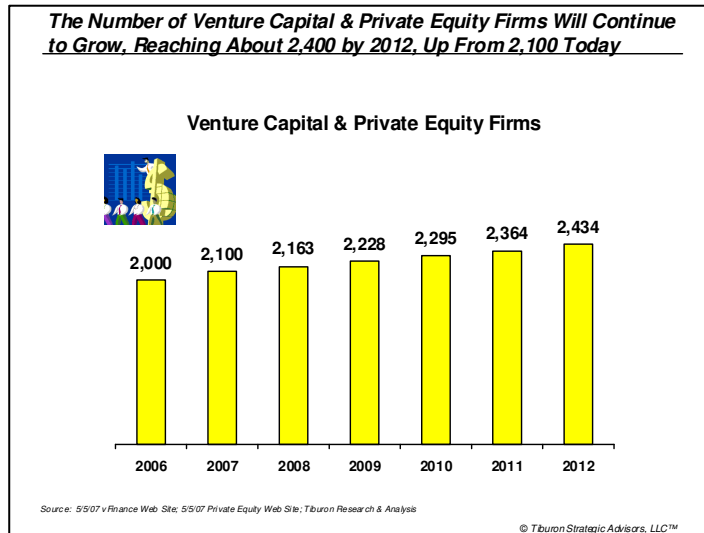
Future Predictions for the Venture Capital & Private Equity Industry

This chapter will discuss the future of the venture capital, private equity, & mezzanine finance business as it emerges as a potent force in a growing segment of the investments market.

Impressive Industry Growth

Venture capital & private equity business will likely grow substantially.

- The number of venture capital & private equity firms will continue to grow, reaching about 2,400 by 2012, up from 2,200 today
- The number of venture capital & private equity funds will continue to grow, reaching almost 5,000 by 2012, up from 4,144 today
- Venture capital & private equity fund flows will continue to grow, reaching over \$300 billion by 2012, a growth rate of nearly 32% over six years, up from \$262 billion today
- Venture capital & private equity fund assets under management will increase, reaching over \$2,500 billion by 2012, up from \$1,070 billion today
- The number of venture capital & private equity fund commitments will continue to grow, reaching almost 400 by 2012, up from 300 today



Evolving Markets & Distribution Channels

Venture capital & private equity markets & distribution channels will slowly evolve.

- Venture capital & private equity flows will increasingly come from high net worth investors, but pension plans and endowments & foundations will continue to dominate

New Fund Structures

Venture capital & private equity will likely have new types of fund structures.

- Venture capital & private equity new fund structures will include more funds-of-funds, mutual funds, & exchange traded funds

Rise of Compliance Issues

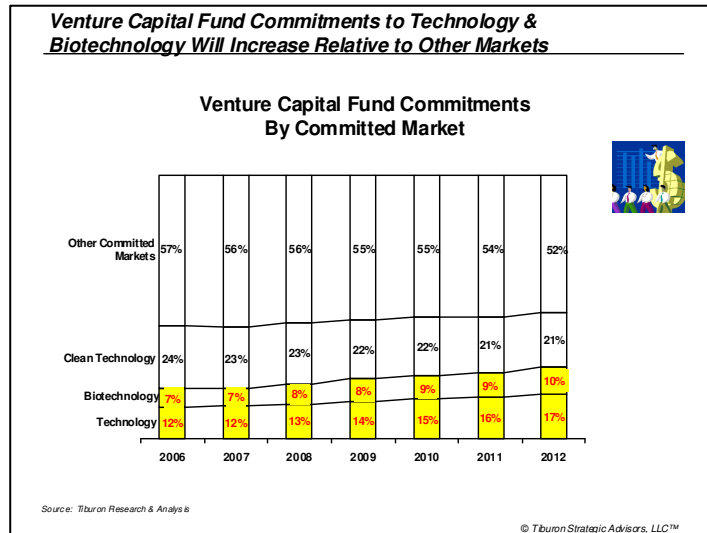
Venture capital & private equity business will experience a rise in compliance issues.

- Venture capital & private equity firms go public, forcing them to comply with securities & exchange commission regulations

Evolving Investments

Venture capital & private equity fund committed markets must be addressed separately.

- Venture capital fund commitments to technology & biotechnology will increase relative to other markets



Early Signs of Bifurcation

Venture capital & private equity business will continue to show early signs of bifurcation.



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