



Rainbow Seed Fund™

Venture Perspective on the Downturn

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European Technology Venture

- 2008 end of year cumulative volume was €2.3bn compared to €2.2bn in 2007, which itself was a record year since 2002. The top end of the market in terms of deal size is livelier than the market as a whole.

Go4Venture January 2009

Amadeus co-founder talks of 'dire' VC market

Hermann Hauser, the co-founder of venture firm Amadeus Capital Partners, has said venture capitalists are enduring the toughest conditions for 20 years

Hauser commented, 'It's dire out there. We are reducing burn rate and extending the runway [for an exit] for when the economy gets better.'

Hauser said refinancing a company in the current economic climate demanded an effort nothing short of 'heroic', he claimed there were some compensating factors.

'I have never seen higher quality proposals on my desk; the entrepreneurs are also there to execute these ideas,' he stated.

Growth Business January 14th 2009



Market View of IP

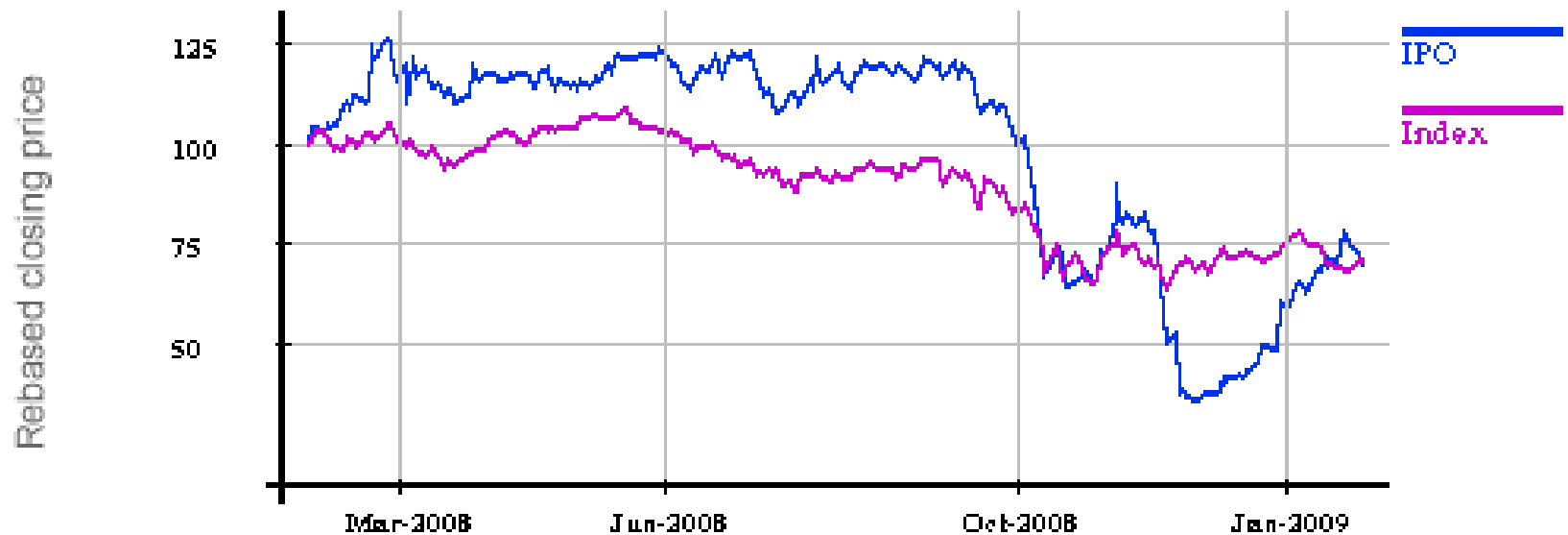
Historical Chart - Mozilla Firefox



<http://www.londonstockexchange.com/LSECWS/IFSPages/HistoricalChartPopup.aspx?ti=IPO>

Share price performance chart

IP GROUP PLC ORD 2P



A blue-tinted background image of a microscope, with the lens and eyepiece visible in the upper left and lower right corners. A semi-transparent blue banner is at the top, and a thin red and orange line runs horizontally across the bottom.

Impact on Investors

- Exits, especially IPOs, are delayed
- Later stage opportunities, which would previously have access to IPO/ debt, become available
- More cash reserved for existing portfolio companies which are taking longer to become cash positive
- New funds harder to raise
- Limited partners may default on drawdowns
- Coinvestors are harder to find
- Angels may be different: interest rates vs liquidity



A blue-tinted background image of a microscope, with the lens and eyepiece visible on the right side and the base on the left. The image is partially obscured by a semi-transparent blue bar at the top and a white bar at the bottom.

Impact on Companies

- Valuations down- “Flat is the new Up”
- Capital moving away from high risk early stage to revenue and cash positive companies
- Fewer funds active and some investors removed from the scene (e.g. hedge funds)
- Rounds will be smaller but runway should be at least 12 months
- Expect to see liquidation preferences etc
- Revenue forecasts will be hard to meet
- Need to reduce burn rate



Opportunities for Portfolio Companies

- Stronger companies can acquire weaker
- Good people available for hire (but may be more risk-averse)
- Some verticals are less vulnerable: clean tech, materials
- Some of the best companies were started in a downturn (but not Google!)
- Find the investors who still believe in early stage opportunities



What Can You do

- Focus on quality and a real value proposition to customers (not just nice to have)
- Find customers especially paying customers even before forming a company
- Chase grant and collaborative income and incubate
- Focus on licensing and service opportunities- and consider raising a little capital to develop these
- Keep structures simple, valuations realistic and share risk with your investors (e.g. equity not royalty)
- Ask DIUS to increase the investment limit of the PSRE funds from its current £250k