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## MARKETPLACE

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### Banks Remain Wary of Buying Into Start-Ups

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NEW YORK—After many moons, the waning of private-equity portfolios may be nearing an end. But that won't necessarily usher in renewed interest from investment banks in venture capital.

Logic would suggest that now would be a great time for investment banks to infuse cash into fledgling companies. While start-ups still need money, they require less of it to run their businesses than during the dot-com heyday. Also, as company values go down, performance can be more modest and still yield a respectable return.

But despite advantages to buying during a fire sale, observers say many banks are likely to remain cautious, having been stung by big bets a few years ago that not only deflated the value of their investments but also crimped earnings. "I think firms feel pretty burned by venture investing," said Robert H. Lessin, vice chairman of Jefferies Group Inc., who heads the part of the investment bank focused on private equity and buyout firms. "It's created nothing but sadness for about three years now."

While no one really knows whether the value of private companies has bottomed out, there are some positive signs. Although the figures for the first quarter haven't been tabulated yet, the write-downs don't seem as dramatic as they were last year based on preliminary data, said Jesse Reyes, vice president in charge of product management and research at Thomson Venture Economics. That comes after the value of venture portfolios has fallen 60% over the past two years, he said.

Over time, "we will look back, and everybody will wish they made investments in early-stage companies right now," said Mr. Lessin, who is also chairman of Dawn-treader, an early-stage technology venture fund that isn't affiliated with Jefferies.

Charley Lax, who runs GrandBanks Capital as managing general partner, agreed. "The best time to play those market-share games is times like now," he said.

Even so, there are factors making it unlikely many investment and commercial banks will get too excited about venture capital. For one thing, with the listless market for initial public offerings, and opportunities for mergers and acquisitions few and far between, they don't have much incentive to do so. "It's all about exits. If you can't see the light at the end

of the tunnel, you just don't go in because you can't get out, and that's the worst place to be," said Jeff Kohler, director of wireless-banking services at Bathgate Capital Partners LLC, an investment bank in Greenwood Village, Colo.

In addition, exposure to private equity makes banks' earnings all the more unpredictable, so some may believe that the risks outweigh the benefits at this point. "You're not trying to create more volatility in earnings," said Bob Maneri, a buy-side analyst who follows financial services for Victory Capital Management.

Observers don't expect banks to retrench completely from venture capital, but they also don't expect many of them to raise money for new funds in the foreseeable future. With existing funds sitting on piles of cash, "there's just not much point to starting a new fund," said Susan Woodward, former chief economist of the Securities and Exchange Commission and founder of Sand Hill Econometrics, a firm in San Francisco that analyzes the venture market.

Two years ago Alan Hibben, chief executive of RBC Capital Partners, would have thought that by this year the firm would be raising money from third parties for technology and telecom venture funds. "If you ask me today, I'd say we're not going to do that until 2005. It's not as if we're running out" of existing money to invest, he said. RBC Capital Partners is the private equity arm of Royal Bank of Canada.

The level of activity among investment banks in the venture-capital arena has dropped off considerably over the past couple of years, as firms have seen their portfolios decimated. Valuations for companies backed by investment banks' venture arms fell to an average of \$60 million in 2002, from a peak of \$146.5 million in 2000, according to the PricewaterhouseCoopers, Venture Economics, and National Venture Capital Association MoneyTree Survey. By contrast, the average company was valued at \$41.5 million in 1997.

Meanwhile the total dollars invested by investment banks has also fallen, to \$1.66 billion in 2002 from a top of \$10.8 billion in 2000. By contrast, in 1997 there were \$1.2 billion in total dollars invested, according to the survey.