

Buyouts Are Ahead Of VC In Writedowns, Study Says

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Venture capitalists are ever the optimists, even when it comes to fund values, according to a forthcoming study.

Buyout fund managers have been more aggressive in writing down their funds than their venture capital counterparts, according to an analysis to be released by secondary intermediary NYPPEX LLC.

Venture funds with 2005-2007 vintages may have overstated their net asset values by 40.1% as of June 30, NYPPEX estimated. Buyout funds of the same vintage era may have overstated by 2.5%

NYPPEX used the NAVs of \$44 billion of venture funds and \$318 billion of buyout funds it tracks. The firm compared those figures with enterprise values to Ebitda multiples of select publicly-traded information technology companies for venture and industrial companies for buyouts.

The findings provide an interesting conflict to a previous NYPPEX report that found venture funds were finding better pricing in the secondary market, 64.1% of NAV, than buyout funds, 47.6% of NAV, through the third quarter.

"The secondary market has the wrong perception about buyout fund NAVs and venture fund NAVs," said NYPPEX Managing Member Laurence Allen.

With buyout NAVs closer to public comps, NYPPEX said this means buyout portfolio companies could be closer to exit than venture companies. The firm said buyout fund pricing in the secondary market could rise 25% to about 59.5% of NAV and venture pricing could fall 23% to 49% of NAV.

It should be noted the NYPPEX analysis isn't applicable for: venture-backed companies that are not in the information technology sector; venture capital companies that used some other metric than enterprise value to earnings before taxes, interest, depreciation and amortization (as some start-ups may not have Ebitda); and for 2006-2007 venture investments that were made at lower enterprise value to Ebitda multiples than the multiples used for new investments made in 2005, the base year for the report.

Venture funds were written up 7.3% from December 31, 2005 through June 30, 2009 and buyout funds were written down 30.4%, according to NYPPEX.

Reach NYPPEX at 203-422-5000.

<http://www.nyppe.com>