IVCA SERVING THE VENTURE CAPITAL AND PRIVATE EQUITY INDUSTRY

Association News

Highlights from the May 19th 2010 IVCA/NVCA Luncheon with speaker Steve Kaplan of the University of Chicago

May 26, 2010 11:59 PM -

CHICAGO – In the stately Chicago Club at the corner of Van Buren and Michigan Avenue, the annual IVCA/NVCA Luncheon took place on May 19th. The event brought together the IVCA and NVCA membership and featured a presentation by Steve Kaplan of the University of Chicago Booth School of Business. Also in attendance were Illinois State **Senator Kwame Raoul** and **State Representative** (and Illinois Comptroller candidate) **David Miller.**

Maura O'Hara, Executive Director of the IVCA, kicked off the proceedings by acknowledging the sponsors of the event, Baker Tilly and Ropes & Gray. Both sent representatives to provide a few remarks for the gathering.

Greg Metz, Partner of the Private Equity Group at **Ropes & Gray**, introduced the global law firm that just opened their Chicago office in 2008. “We have been meeting a lot of the members of the IVCA community and we certainly look forward interacting more in the days ahead,” he remarked.

Tom Walker, Managing Director **of Baker Tilly**, remarked on the depth of locations around the country of the firm and concluded by saying, “Private Equity and Venture Capital are very important to us and our clients, therefore we're in complete support of these special events and organizations like the IVCA.”

Next up was a representative from the **NVCA**, **Janice Mawson**, the VP of Membership. She updated the luncheon regarding the efforts of NVCA President Mark Heesen to work with national legislators. Regarding options on the tax structure now being debated in Congress, she passed along this information, “...the fact that legislation has not yet been written is evidence that members of Congress are indeed considering alternatives to a straight move from capital gains to ordinary income. We very likely could see an agreement reached this week, which we believe would raise the revenue that Congress needs for programs it deems critical, while preserving the idea that long term investments merits special attention in the tax code.”

Concluding the opening remarks was **IVCA Chairperson Ellen Carnahan**. She provided four updates for the attendees.

First, she spoke of the IVCA changing from a more of a defensive and reactive organization to being more proactive. “We need each of us to ask ourselves the question, ‘what's it going to take for Illinois to be a force in growth businesses?'” she said.

Secondly, she brought up ”Invest in Illinois,” a theme in the IVCA to highlight those proactive activities. “In short we want to encourage Illinois based investors to invest in Illinois funds,” she said. The first efforts are within the legislature, she went on to say, working with them to get the second Technology Development Account established, after the first one was a rousing success, both in jobs and tax revenue raised.

Third, another point on the legislative agenda was mentioned. An amendment has been forwarded to the current Pension Ethics Reform Law. The amendment is Senate Bill 3162, which has passed the Senate. Under the current law, fund-to-fund has to follow the current procurement code. The impact of that is it's very difficult for funds to accept Illinois state pension fund investments, because the offerings has to be tailored to the procurement code. The amendment takes away those requirements.

Lastly, she announced a change to the annual awards dinner in December, by adding a new award called the "Portfolio Company of the Year." This will be preceded by the "Portfolio Company Hall of Fame," a group of inductees that will be named to emphasize the additional new award at the dinner.

The featured speaker was **Steve Kaplan of the University of Chicago, Professor of Entrepreneurship and Finance, from the Booth School of Business.** His topic was "Venture Capital and Private Equity: Where Have They Been, Where are They Going." During the 45 minute presentation, he spoke of the background of the VC/PE industry, the reaction of the marketplace in the recent boom/bust cycle and the future growth potential.

Some highlights from the talk follow...

On the fact that very few companies get VC funding – 1/6 of 1% of companies started each year:

"The model works - looking at IPOs, the venture backed share is 60%. In other words, a VC backed initiative is 360 times more likely to go public."

On comparing the S&P 500 to a Venture Capital investment:

"As a Limited Partner, it is important to understand how your private equity is doing relative to the public equity market. Looking at all funds weighted equally, the net PME was very positive and net performance has VC funds beating the S&P, the caveat is that figures are through 2001. Even afterward in the last decade, venture has been the same, or a little bit better, than the stock market."

On the future of Venture Capital:

"The lack of IPOs actually has been a positive, because the VC returns still have been comparable to public markets despite the lack of IPOs."

"The VC model is not broken. Returns have been reasonable at historical levels and given that fundraising is low in 2009-10, I would be optimistic about Venture Capital returns"

On Private Equity Myths and Facts:

"All empirical evidence of academics who have studied private equity have found positive results at the portfolio company level."

"PE funded companies do grow less jobs when compared to other industries, but it does grow employment, by making companies more efficient which is consistent with operating data."

"Both valuated and equalated Private Equity was a little lower than the S&P 500 before 2001, post that time data is inconclusive, but the PME for the vintages 2000-2004 probably are greater than the public market."

"Even though there was a pretty bad recession, there were relatively few defaults. The reason is the capital structures were safer than the late 1980s, and the companies and firms responded very quickly to the downturn."

On the Future of Private Equity:

“Private Equity is one of the few asset classes where the duration of the capital matches the duration of the assets.”

“PE returns need to beat the stock market, and with that market down 20% in 2006-07 the PE vintages will look good if only down 10%.”

“PE investors are looked on now as partners not raiders.”

“In conclusion, PE industry will undoubtedly and necessarily contract, but in the medium term, the PE industry will survive.”