

IDG Ventures Boston Entrepreneurs' Network April 4, 2006

Michael A. Greeley
mgreeley@idgventures.com
(617) 534-1200

IDG Ventures Boston

Partnering with great entrepreneurs to build great companies



One Exeter Plaza, Boston MA 02116
Phone : 617-534-1200

IDG Ventures Boston - Overview

- A “next-generation” firm created by experienced investors and operators with strong personal networks and domain expertise
 - \$100M fund formed in late 2001
 - \$180M fund formed in April 2005
 - Limited Partners include IDG, Yale, Princeton and other outside limited partners
- Pursuing a differentiated strategy that resonates with entrepreneurs and co-investors
 - **Team**: four experienced, hands-on general partners
 - **“Capital gap”**: focus on early-stage, capital-efficient start-ups
 - **IDG**: Strategic relationship to assist portfolio companies
- Independent partnership with focus on investing in high-growth, early stage information and healthcare technology companies

IDG Ventures: Global \$1 Billion Network of Funds

- Current Funds
 - Boston \$280M, 2 funds (2001 and 2005)
 - China \$800M, 4 funds (1992, 2000 and 2005 x 2)
 - Europe \$100M, 2000
 - San Francisco \$120M, 1996
 - Vietnam \$100M, 2004
- Each fund is operated as an autonomous unit
 - Dedicated pools of capital
 - Local decision making
 - Local economics

IDG Ventures Boston Team

- David Aronoff, General Partner
 - Greylock, General Partner
 - Attitude Network, Co-founder/VP
 - Chipcom, Director of Engineering
 - AT&T Bell Labs
 - BS University of Vermont, MS USC, MBA Harvard
- Michael Greeley, General Partner
 - Polaris Venture Partners
 - GCC Investments, Mng. GP
 - Wasserstein Perella, VP
 - BA Williams, MBA Harvard
- Jeff Busgang, General Partner
 - Upromise, Co-founder/President
 - Open Market, VP/exec team
 - The Boston Consulting Group
 - BA Harvard, MBA Harvard
- Chip Hazard, General Partner
 - Greylock, General Partner
 - Bain & Company
 - BA Stanford, MBA Harvard



Each partner has broad-based business training plus either
10+ years of investing experience or senior operating
experience in start-ups



- \$2.4 billion in revenue
- 13,500 employees

Publications



*300 publications
in 85 countries*

Research



*World's leading
provider of IT,
Health/IT intelligence*

Events



*168 conferences
in 35 countries*

DB/LeadGen



*IDG websites,
database*

Reaches 120 million IT buyers worldwide,
representing 95% of worldwide IT spending

Investment Strategy

	Startups (75%)	Emerging Winners (20%)	Recapitalizations –Restarts (5%)
Criteria	Strong founding team with differentiated product/market vision	Strong team and existing VC support, GA/beta product w/significant pipeline/momentum	New team and vision around existing product asset with significant historic investment
\$ Invested	\$1-3M initial, \$6-10M in aggregate 20-30% ownership target	\$3-6M initial, \$6-10M in aggregate 10-20% ownership target	\$2-6M initial, \$6-10M in aggregate 15-25% ownership target
IDG Role	Lead or co-lead	Lead or co-lead	Lead or co-lead

Operating Principles

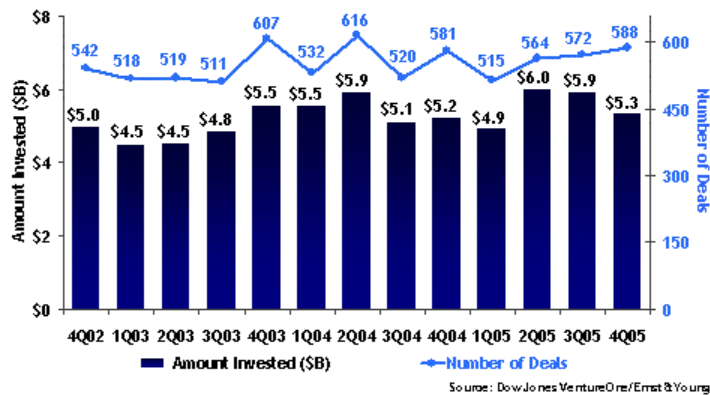
- Entrepreneur as partners
 - Responsible, committed, helpful board members
 - Clean term sheets; fair valuations
- Clear, issues-driven due-diligence
 - Transparent process: “you know where we stand”
- Understand motivations of existing VC or angel investors when coming into later round opportunities
 - Will set valuation and lead round to galvanize followers and insider commitments

Current Sector Focus

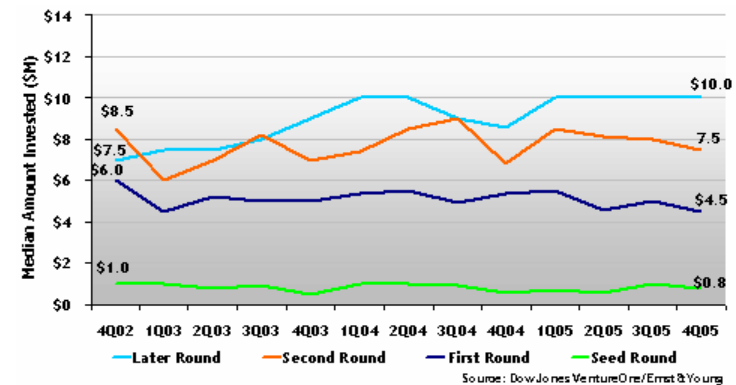
- Computing at the edge
 - Web Services
 - Wireless Applications
 - Wireless Infrastructure
- Enterprise IT
 - Datacenter Virtualization
 - Open Source
 - SaaS
- Managing in an Insecure World
 - Information Security
 - Compliance
 - Physical and Homeland Security
- IT-Life Sciences Convergence
 - Tools for Life Sciences
 - Smart Devices
 - Health IT
- Consumer Infrastructure
 - Technology-enabled Marketing
 - E-commerce
 - Financial Services/Payments
- Platform Semiconductors & Related Technologies
 - Digital Home Convergence
 - Next Generation Computing
 - Imaging and Displays

Venture Statistics

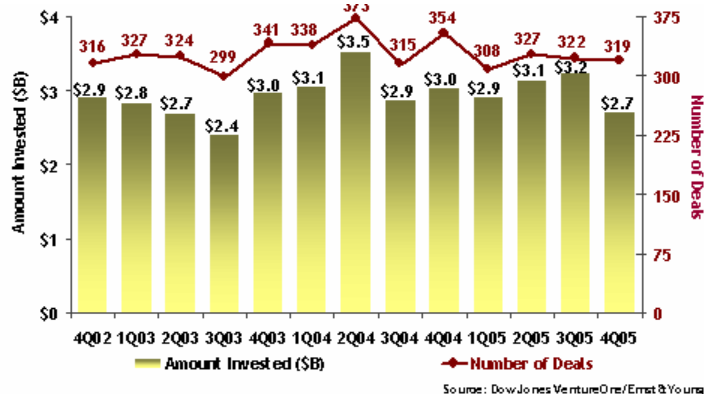
Equity into Venture-Backed Companies (quarterly)



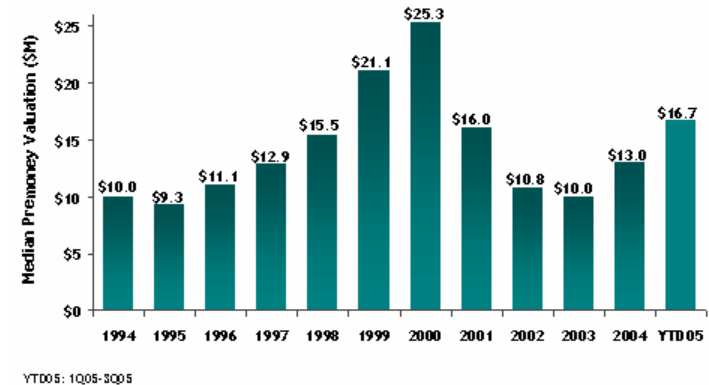
Median Amount Invested by Round Class



Equity Investment in Information Technology Companies



Median Premoney Valuations by Round Class



Investments & round size down; valuations up

Venture Environment



The Good...

- Changing environment conducive to us establishing a leadership position in the New England market
 - Capital gap still exists
 - Many funds still in transition
 - Entrepreneurs welcome new entrants
- Few practitioners of true early stage investing, overall number of practicing VCs declines 2004 & 2005 for first time since 1991
- Many pockets of innovation
 - Wireless
 - Med Tech
 - Consumer Internet
 - Digital Home
 - Open Source
 - Cleantech / Advanced materials / Nano
- Emphasis on capital efficiency understood by (most) entrepreneurs
- Good ingredients for company-building (experienced teams, nimble service providers, fairly robust macroeconomic environment)
- Signs of life in M&A market (Tech M&A up 19% y/y, prices 2.7x revenue)

The Bad...

- Mediocre equity returns expected across public equity asset class
- Returns generated by a few large winners
- Investment opportunities that “check all the boxes” see heavy competition
- VC fundraising of \$25.2bn, up from \$17.3bn in 2004
- Median valuations up 28% 2005/2004
- Lake Wobegon problem: great dispersion in returns, but everyone is convinced (ourselves included!) they are above average

...And The Ugly

- Bill Sahlman observations at HBS, January 2006
 - Industry is “structurally unattractive” (too much capital, little barriers to entry, high barriers to exit, fierce rivalry)
 - Median rate of return will be 0%
- IPO market remains all but closed to VC-backed companies less than 6-10 years old and \$80M+ in revenue and visibility to near term profitability
- Acquirers in each category are few, resulting in reverse auction risk and dearth of “stupid multiples”

Advice From the “Cheap Seats”

- Preparation, preparation, preparation...
 - business plan, references (customers/personal), pitch
 - advisors
- Milestone funding strategy: “2 plus 3” rule
- Be on message: How do you uniquely solve market need?
- You are always fundraising
- Venture capital is expensive/onerous/burdensome – but it works!