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Venture capitalists see sparse returns from IPOs

PALO ALTO, Calif. (Dow Jones/AP) -- The number of U.S. venture-backed companies staging initial public offerings in the first quarter rose 63 percent from a year ago, but the median amount raised by these companies has plummeted to a new low.

According to newly released data from Dow Jones VentureOne, the median value raised in venture-backed IPOs during the quarter was just \$33.75 million, the lowest total since at least 1999 when VentureOne began the study. In fact, during the past seven years that figure has never fallen below \$40 million in a quarter.

A further sign of weakness in the IPO market: the median pre-money, or pre-IPO, valuation of these venture-backed companies in the first quarter was \$98.7 million, down from \$150.5 million in the first quarter of 2005, and the lowest total by far since at least 1999. The previous low was \$124 million in the fourth quarter of 2002.

Nick Sturiale, a partner with venture capital firm Sevin Rosen Funds in Palo Alto, said the sparse returns from going public is grim news but not surprising. However, Sturiale said that "the cold winter is showing signs of spring," based on anecdotal evidence in the investing community in Silicon Valley, and that "there is a building inventory of companies of a mature bent where going public is on the front burner."

Sturiale acknowledged that while he predicts an uptick in IPO values, "it's a pretty low place to start."

The total number of venture-backed IPOs jumped, however, to 13 from eight during the year-earlier period, raising \$599 million in total versus \$371 million a year earlier. On average, there were 10.25 IPOs per quarter last year for a quarterly average total of \$560 million.

Meanwhile, the overall value of acquisitions of U.S. venture-backed companies during the quarter also appeared lackluster, bolstered only by windfalls from acquisitions of information technology companies. Across all sectors, 92 venture-backed companies either merged or were acquired in the first quarter for a total deal value of \$7.52 billion, versus \$7.45 billion and 93 companies.

Within information technology, 63 companies were acquired for \$4.25 billion in the first quarter, versus 53 companies for \$2.7 billion a year ago. The median value of these deals shot up to \$41.3 million from \$27.2 million a year ago.

Peter Rip, a partner with early-stage venture-capital company Leapfrog Ventures in Menlo Park, Calif., suggested that it was a promising sign that the median deal value surged 52 percent. "You either want to sell or have to sell -- and if you have to, those scenarios don't lead to an uptick" in values, Rip said.

While overall IPO news was ho-hum, a bright spot came via biopharmaceuticals companies. Seven of the 13 IPOs during the quarter were biopharmaceuticals companies, nearly twice the amount as in the year-ago first quarter. It also marks the highest biopharmaceutical IPO total since the second quarter of 2004, when the industry saw 13 such companies hit the public markets.

Standish Fleming, a partner with Forward Ventures in San Diego, said the rise in biopharmaceuticals IPOs may be due to more realistic expectations. Fleming's portfolio company Acorda Therapeutics Inc., a maker of products for the central nervous system, went public on Nasdaq in February.

Fleming said life sciences investors, and the bankers who underwrite their IPOs, have been waiting for a rebirth of bubble-era boom times, when they could raise upward of \$300 million in an offering. During the past two years, he said, "they thought well, if I hold on it will get better. But by 2006 they're finally saying that that time has come and gone."

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