

Online Seminar: Into the Cloud: Trends in Software Investments and Exits

March 23, 2011

SVB Analytics

Panelists

- Chris Stedman, Head of Relationship Management, Venture Capital Group, Silicon Valley Bank (moderator)
- Dave Krimm, Head of Strategy and Research, SVB Analytics
- Russ MacTough, Technology Sector Lead, SVB Analytics
- Dan Zaelit, Research Associate, SVB Analytics
- Maha Ibrahim, General Partner, Canaan Partners
- Steve Bird, Cofounder and General Partner, Focus Ventures

Agenda

- 01 SVB Analytics Benchmarking

- 02 Benchmarking Demonstration

- 03 2010 Year in Review

- 04 SVB Research: Internet Media & Service Exits

SVB Analytics Benchmarking

*Dave Krimm,
Head of Strategy and Research
SVB Analytics*

SVB Analytics Benchmarking

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A new information service that enables a private company to benchmark its financial performance against an aggregate of truly relevant peers. It features:

Proprietary Data: Subscribers have access to eight quarters of SVB Analytics' unique aggregate performance data for similar companies. The data may be viewed on the Web, or downloaded into Excel or PDF format for offline analysis.

Customizable Reports: Subscribers can create a benchmark peer group and select from multiple criteria including: industry, sector, geographic location, revenues (by range), assets (by range) and corporate profile. Sophisticated distribution and median analysis tools can identify quantitative outliers and instantly filter them out of peer groups for finer-grained analysis

Personalized Analysis: Use one or more of the 24 distinctive quantitative filters, including revenue, assets, net worth and expense ratio filters, to create highly precise, individualized benchmarks.

User-Friendly Interface: Colorful and easy-to-read graphs, tables, bookmarks, and sticky notes help you get views instantly and work with your data more easily.

Secure, Confidential System: Individual client data is never shared, although you can compare your company's financial statements and ratios with the benchmark if you have contributed your data. Our aggregate benchmarks contain financial statements from at least five companies to ensure that information is not identifiable to a specific competitor.

Benchmarking Demonstration

2010 Year in Review

A data-based perspective on VC activity in the technology sector

Russ MacTough, CFA
Director and Technology
Sector Lead
SVB Analytics

SVB Analytics' Valuation Group Overview

Purpose

SVB Analytics was formed in 2006 in response to repeated requests from SVB Financial Group's clients for assistance with valuation services.

Focus

The team is comprised of a mix of highly experienced valuation and finance professionals with deep sector expertise.

- **Technology**

- Software and Internet
Software and Services
- Hardware

- **Life Sciences**

- Biotechnology
- Pharmaceuticals

- **Medical Devices**

- **Clean Tech**

SVB Analytics' Valuation Group Overview

Market Leader

To date, SVB Analytics has performed over 2,600 valuations for venture-backed companies.

SVBA's valuation team includes extensive Big 4 experience, and has passed hundreds of audits successfully with the Global 6 accounting firms, and many with the SEC (as part of the IPO process).

SVBA leverages this large footprint to conduct proprietary research into venture capital financings, valuations and trends.

Services

- **Financial and Tax Reporting**

- Common Stock Valuations for Option Grants (i.e. 409a)
- Purchase Price Allocations
- Goodwill and Intangible Impairment Testing
- Fair Value Measurements (i.e. FAS 157)

- **Purchase price allocation/
good will and Intangible
Asset Impairment analyses**

- General Business Valuations
- Corporate Development
- Whatever finance/valuation-based questions our clients need answered

Setting the Stage...

Data Sources

- Detailed Capitalization Tables
- Articles of Incorporation
- Historical and Projected Financial Statements
- Management interviews
- Investor interviews
- Board and Investor Decks

Data Scope

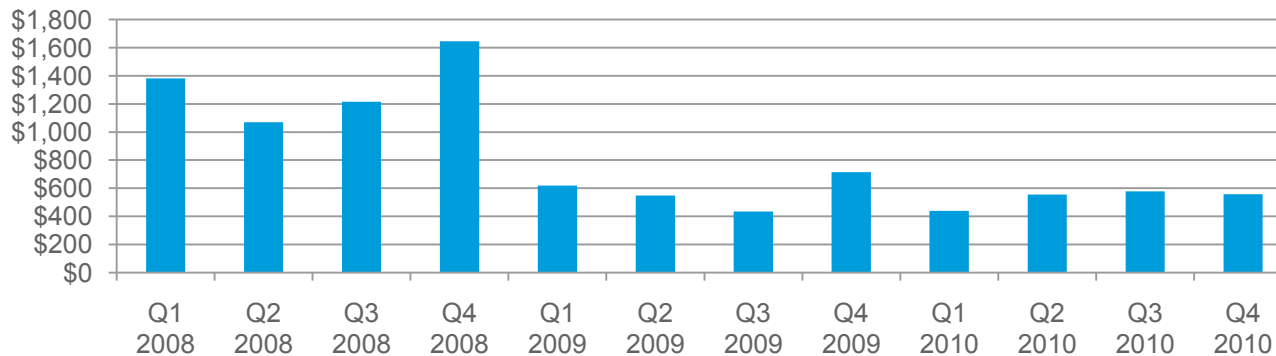
“Software” stats for 2007 - 2010

- Unique rounds of financing by year
 - 2007 – 187
 - 2008 – 157
 - 2009 – 190
 - 2010 – 176* (they’re still coming in)
- New Financings by year
 - 2007 – 55
 - 2008 – 43
 - 2009 – 50
 - 2010 – 60* (ditto)

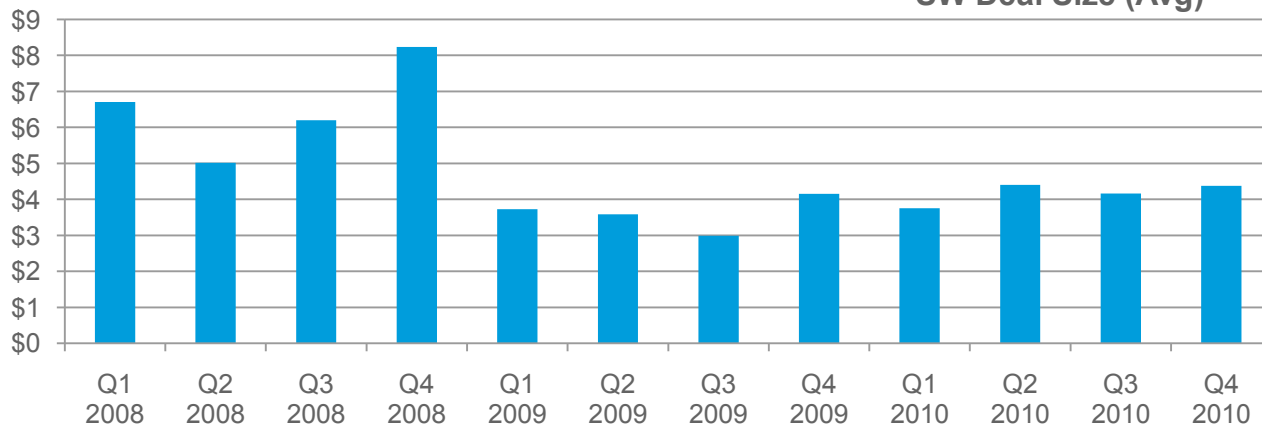
...Like it's 1999?

A valuations bubble? *Maybe* if you're Groupon or Foursquare, but overall, average deal size and dollar volume in the entire industry is down from 2008 levels.

Software Dollar Volume



SW Deal Size (Avg)

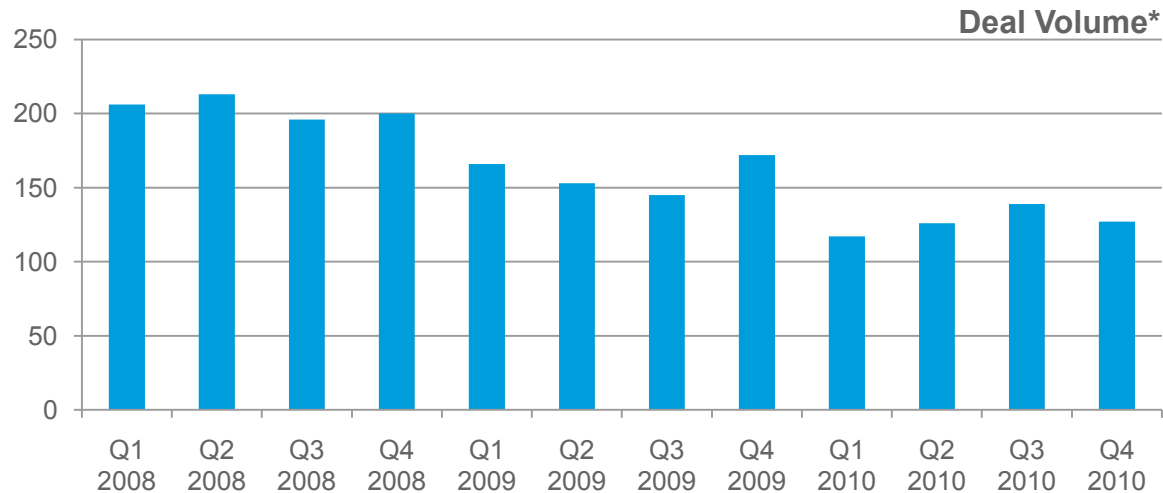


An additional area of particular "frothiness":
Storage – next gen/flash, 'cloud' – the 3PAR effect

Source for these charts is CapitalIQ, representing all US VC investments in the Software industry over the last 12 quarters

Certainly, More Deals are Getting Done, Right?

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Questions raised:

1. Are VCs focusing more on providing a company at Series C sufficient capital to take great user metrics and turn them into something bigger?
2. Harvest and redeploy capital?
3. Have VC's simply moved down-market into traditional "angel" space to a) target higher returns at lower entry points and/or b) give the capital intensive late-stage market up to PE/Corporate?

Don't ask the valuations guy...ask Maha and Steve!

*Source for this chart is CapitalIQ, representing all US VC investments in the Software industry over the last 12 quarters

Fundraising Estimates by Round...

Metrics compared to 2009 data:

Pre-moneys on Series A and B essentially flat. However, in 2009 the average Series C was heavily dilutive and pre-moneys < Series B post moneys.

Round sizes on Series A and B are smaller, Series C round are up.

Series A	
Pre-Money	\$9.8 M
Raise	\$4.2 M
Post-Money	\$14.0 M
Ownership	30 %
Participation Rights (% non-participating)	54%

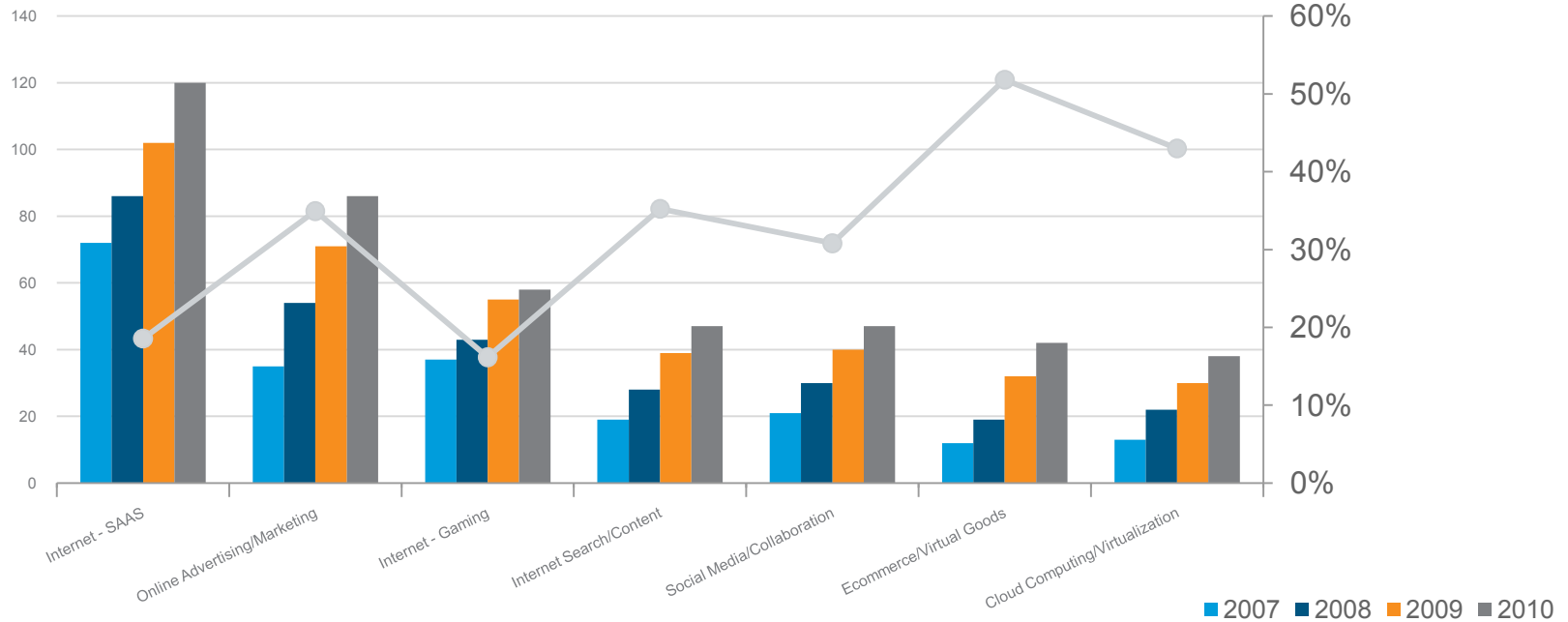
Series B	
Pre-Money	\$20.0 M
Raise	\$7.0 M
Post-Money	\$30.6 M
Ownership	20.5 %
Participation Rights (% non-participating)	50%

Series C	
Pre-Money	\$54.9 M
Raise	\$18.7 M
Post-Money	\$77.4 M
Ownership	23 %
Participation Rights (% non-participating)	80%

Cumulative Rounds and Growth by Niche

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Cumulative Rounds

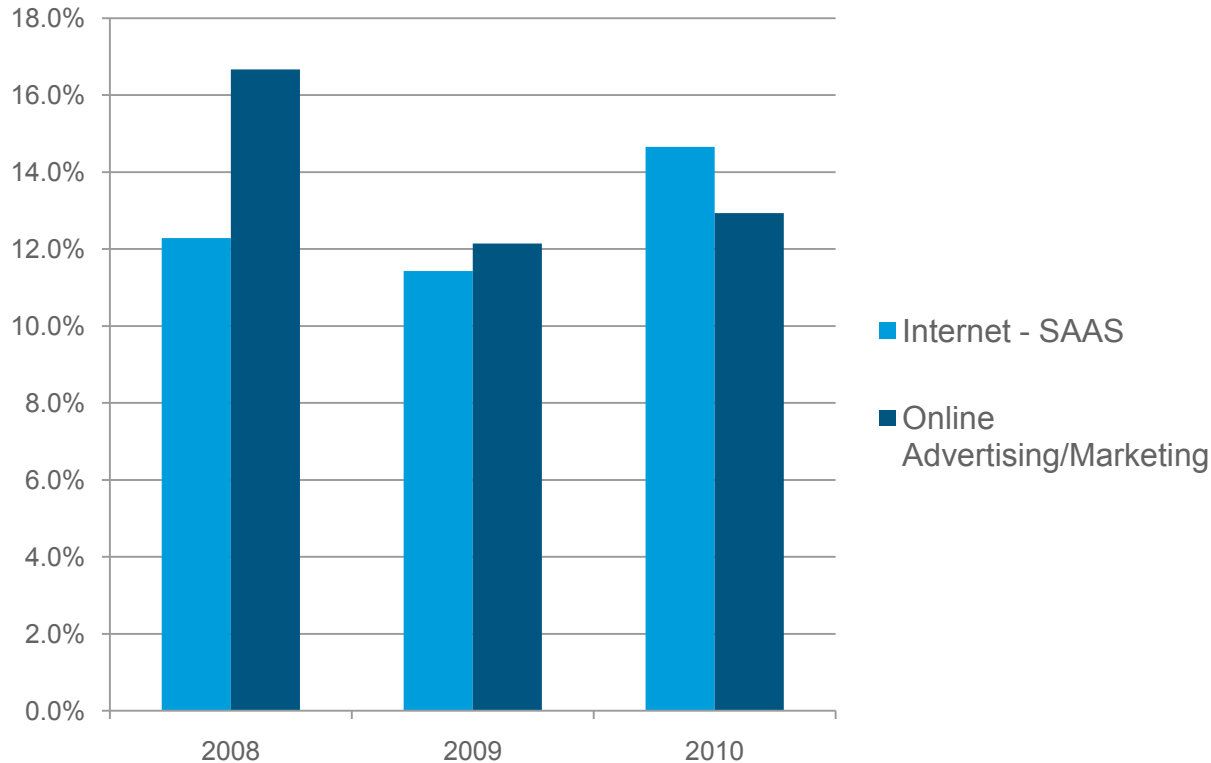


4 Year Compound Annual Growth Rate (CAGR) : a measure of the year over year growth in the number of rounds for a given sector/year that exist in our database.

- **eCommerce** and **Cloud** have shown the strongest growth
- The most rounds are still in **SaaS**
- **Gaming** is falling behind
- **Social Media/Collaboration** – surprising...sector definition, poaching by eCommerce?
Doesn't social happen in the cloud?

Checking in on Sector Strength

% of total deal flow by year



Good to see SaaS and Online Advertising coming back after very tough 2009s

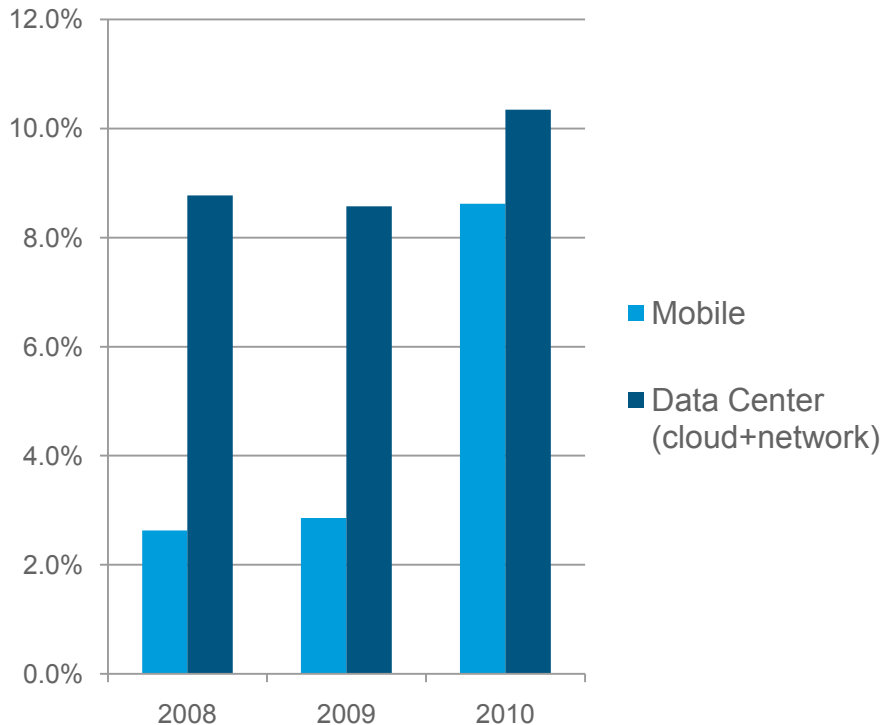
- A lot of money already put in
- A lot of “flight to quality” in 2008/2009

Checking in on Sector Strength Continued

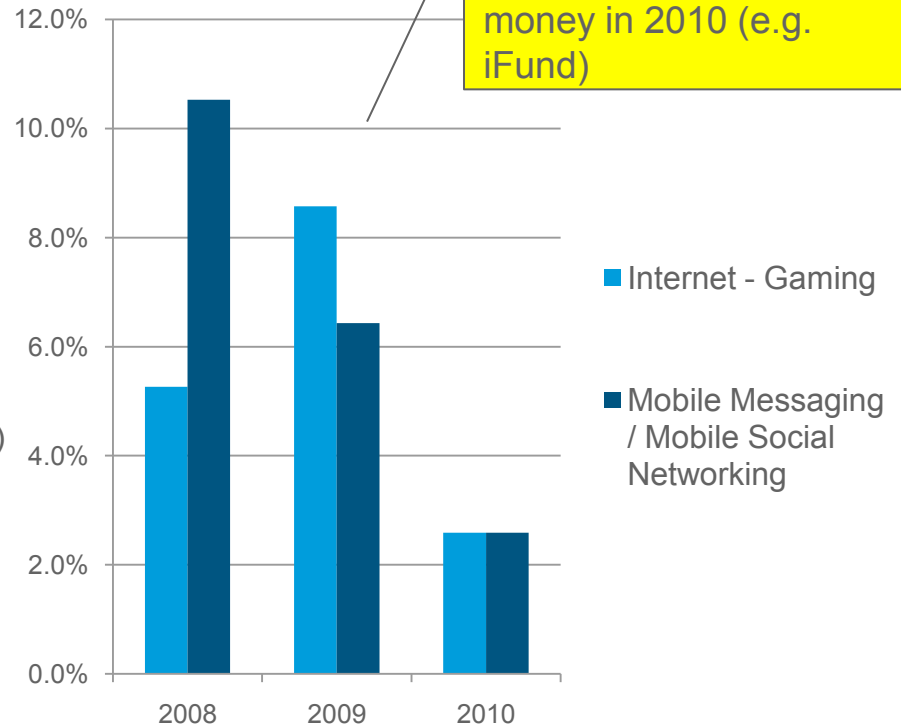
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% of total deal flow by year

2010 Winners?



2010 Losers?



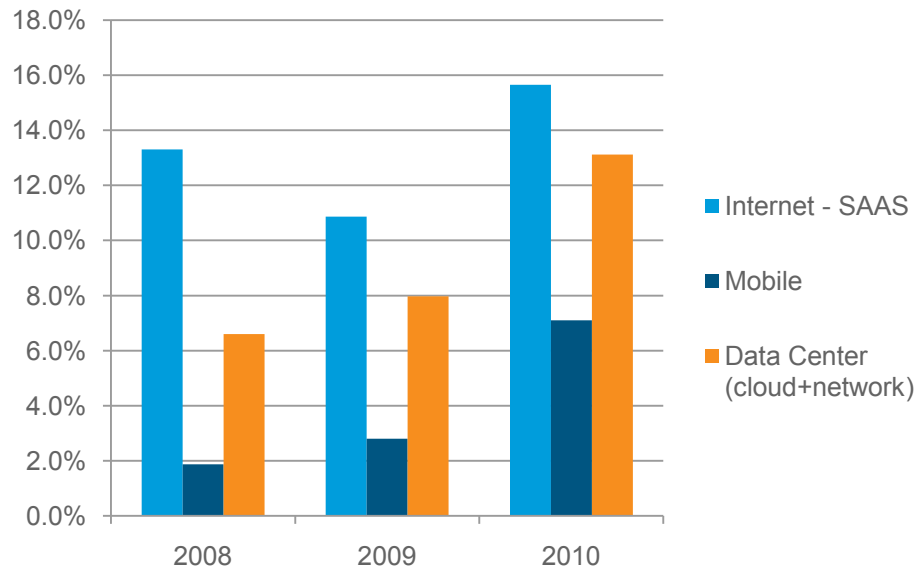
Note, if deal flow was high in 2008/2009, then it's entirely possible these companies didn't need money in 2010 (e.g. iFund)

Checking In on Sector Strength

% of total dollar volume by year

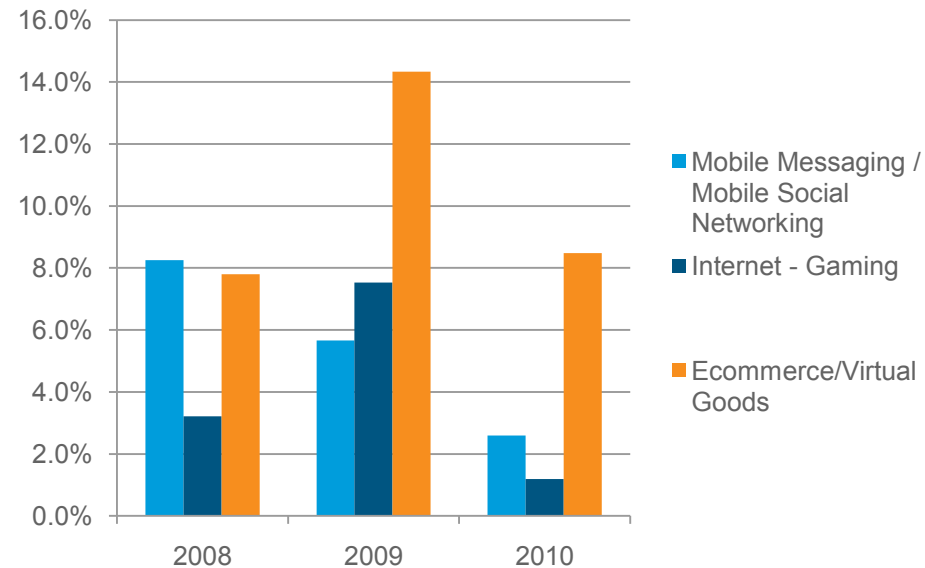
2010 Winners?

Dollar Flow by Year
(as % of total)



2010 Losers?

Dollar Flow by Year
(as % of total)



A fairly consistent story...

- **SaaS, Mobile** and **Cloud** lead the pack
- **Gaming** is trailing off (or perhaps the definition of gaming is changing?)
- **Ecommerce** looks weak (too strong in 2009?)

Some Thoughts From Management Teams...

- **Certain markets are proving to (for now) be very large, as evidenced by Groupon, Living Social, Gilt etc.**
 - In a market with perceived low barriers to entry, new entrants are appearing rapidly
 - Low user engagement (deals are pushed to users) means that stickiness is low
 - Customer retention is problematic, both at the advertiser level and user level
 - To retain users, companies are trying to find ways to boost engagement (UGC, social)
- **The lines between gaming, virtual worlds, social media continue to blur and shift**
 - Online gaming companies raced to Facebook. Then Facebook increased its rake
 - While you were gone, iPad and its kin were dominated by mobile focused developers (PopCap, Clickgamer, the iFund)
 - Consumers spending more time on smartphones, companies competing for “air time”
 - Games, eCommerce, Communication, Social Discovery and Interaction

Some Thoughts From Me (*not necessarily SVB Analytics)

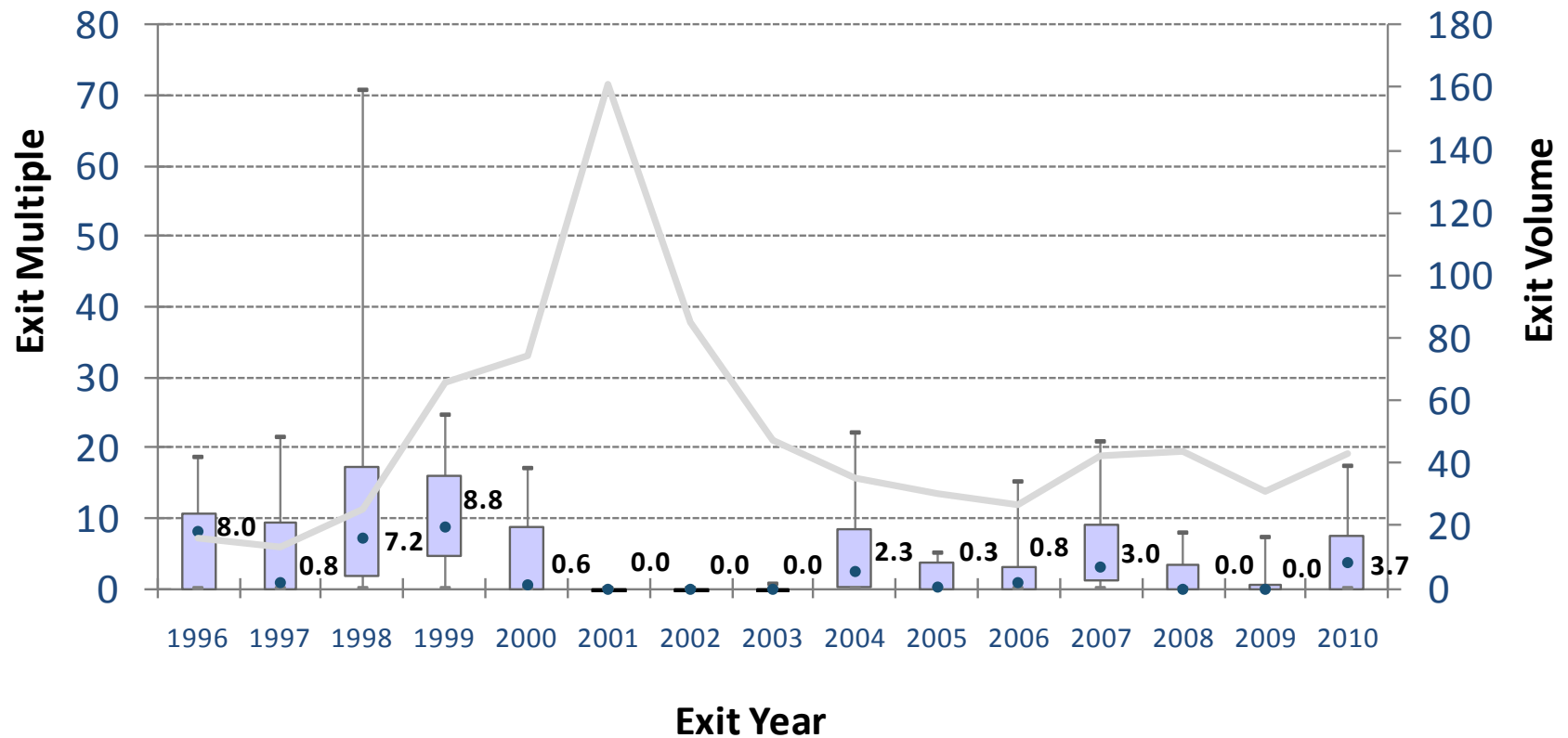
- **In certain markets, we see large step-ups in value with very company-friendly terms:**
 - New investors coming in “pari passu”
 - Non-participating stock
 - A complete flip-flop in operating philosophies
 - 2008/2009 – revenue and profit margins
 - 2010/2011 – revenue and profit are irrelevant, user engagement and growth is king
 - A look at LinkedIn’s S-1 tells us that with great user engagement and growth, revenue and profit margins can grow quickly
- **Other market are being completely redefined. Older, larger Series D/E companies are struggling to keep up**
 - Inertia
 - Capital intensity, risk/return profile leads investors to earlier-stage deals
 - Prime for consolidation:
 - Enterprise SaaS
 - Gaming
 - Online Advertising

SVB Research: Internet Media & Services Exits

Dan Zaelit
Research Associate
SVB Analytics

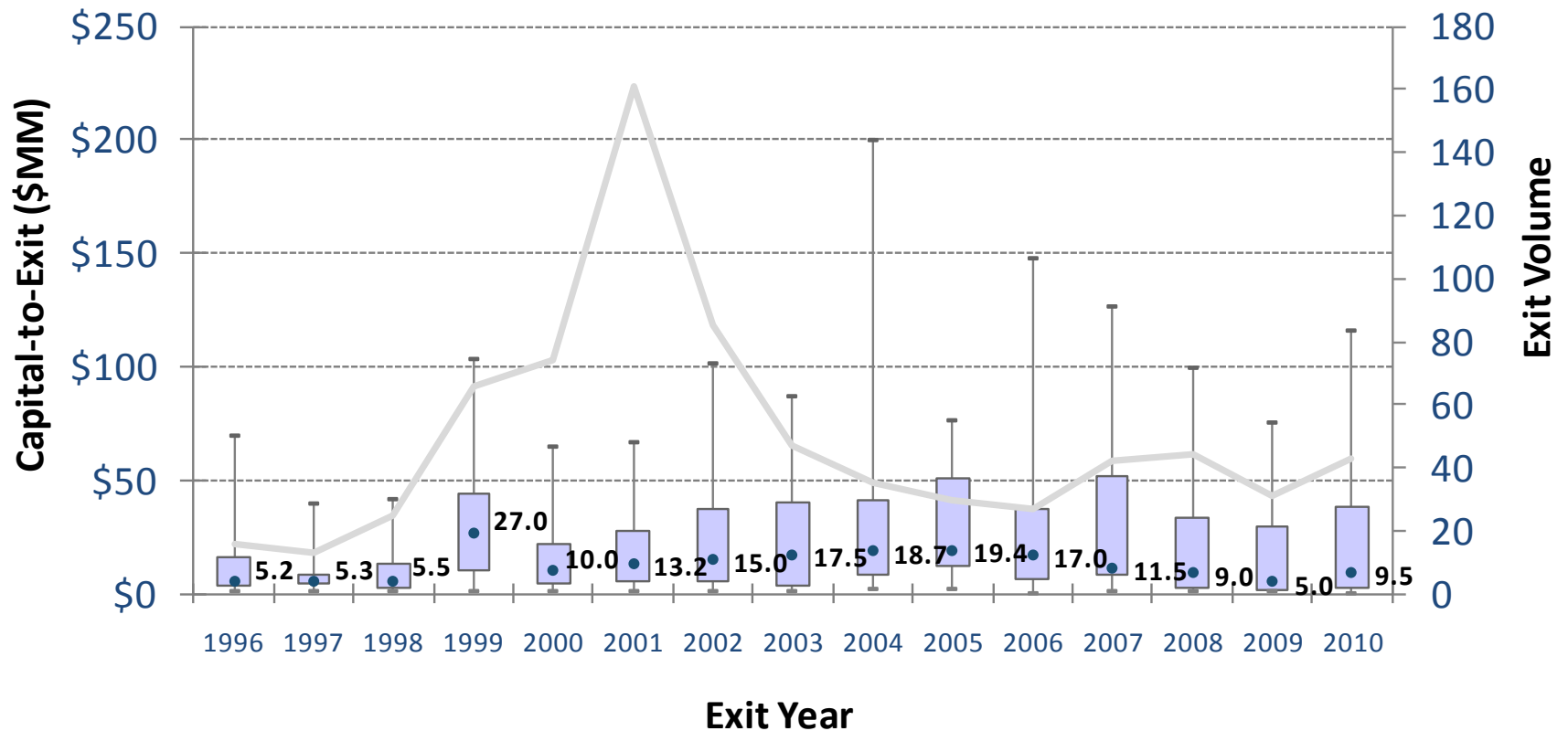
History-at-Glance: Exit Multiples

Exit Multiples: Internet Media & Services



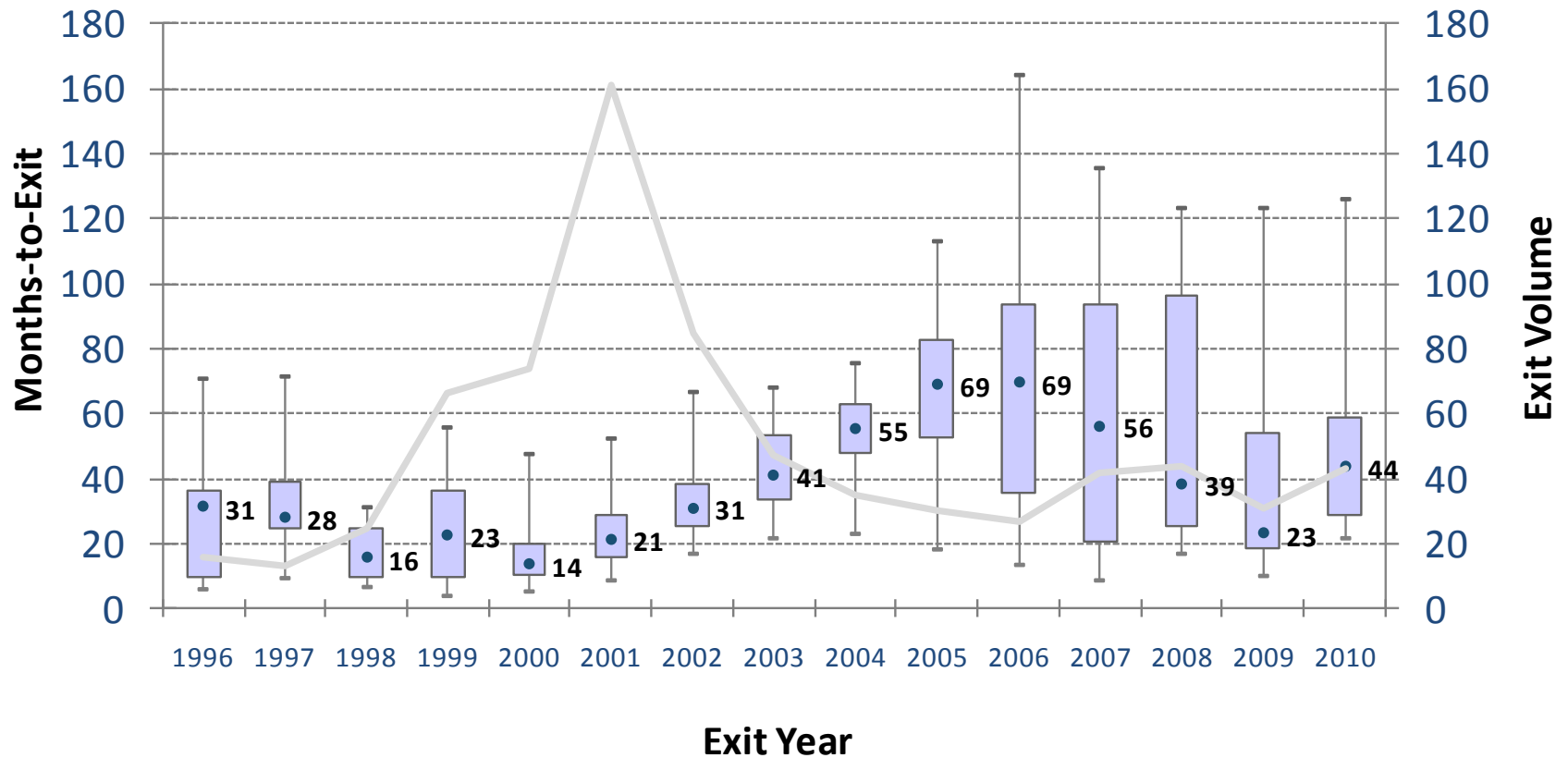
History-at-Glance: Capital-to-Exit

Capital-to-Exit: Internet Media & Services



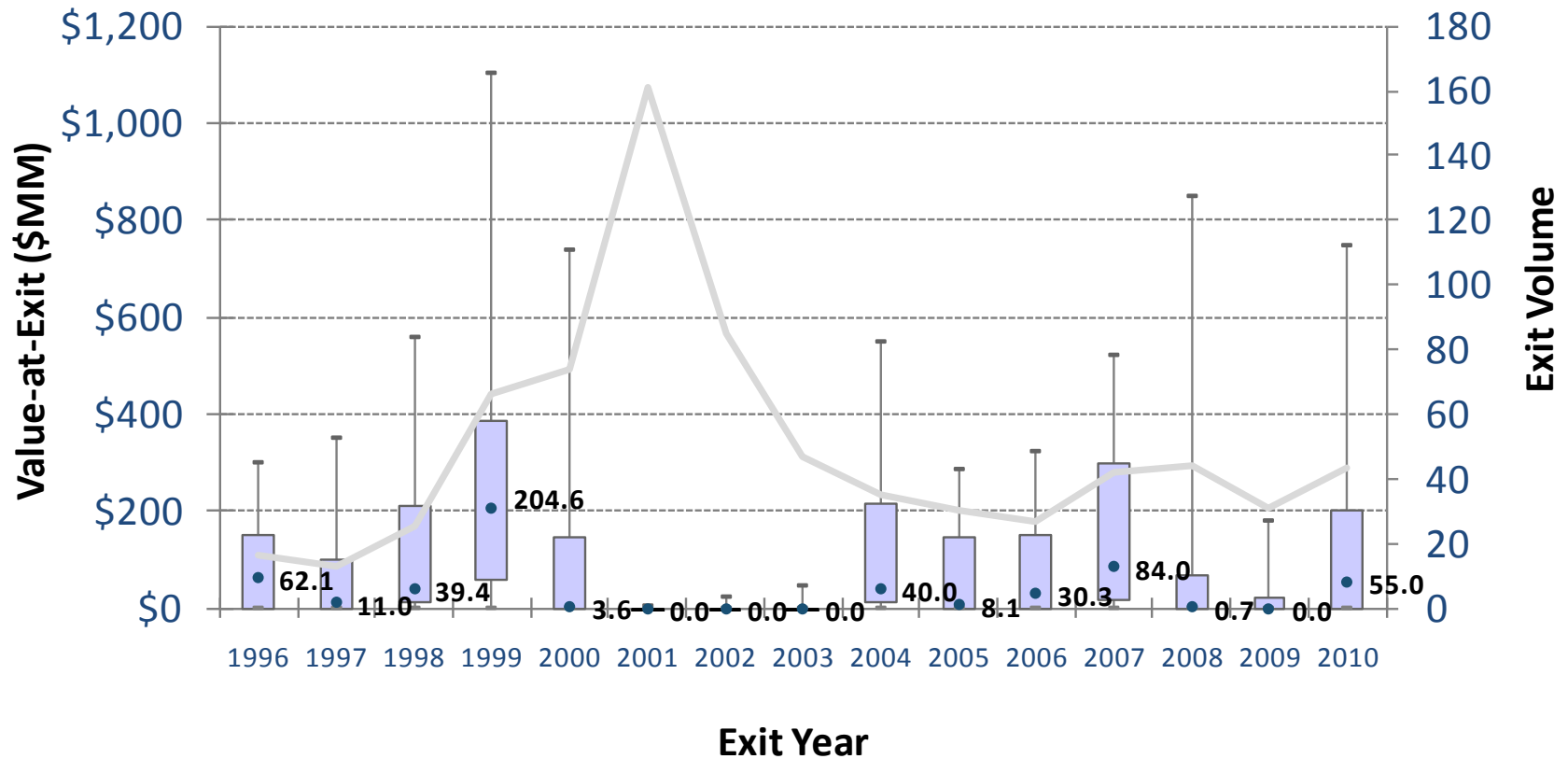
History-at-Glance: Time-to-Exit

Months-to-Exit: Internet Media & Services



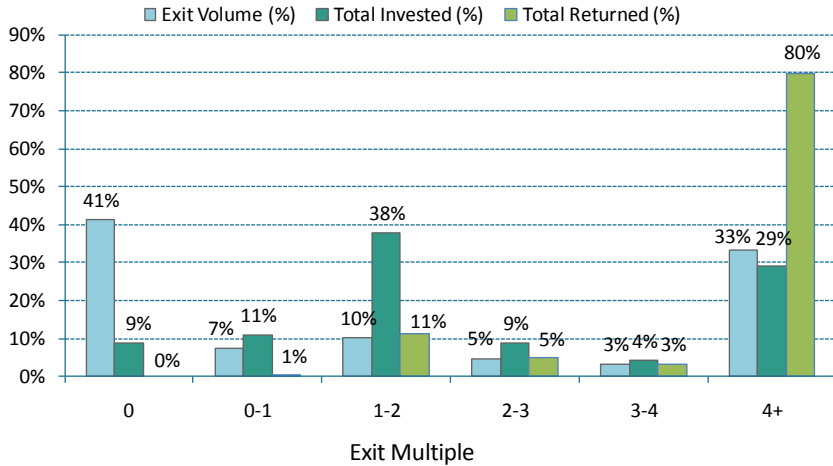
History-at-Glance: Value-at-Exit

Value-at-Exit: Internet Media & Services

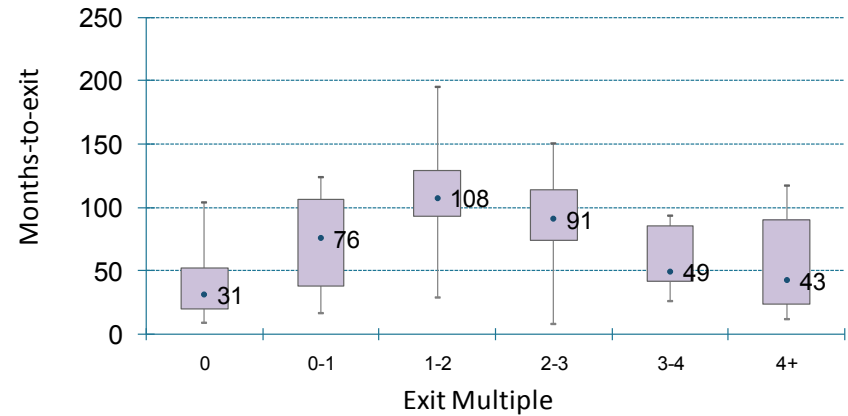


A Look at Recent History - Exits by Exit Multiple

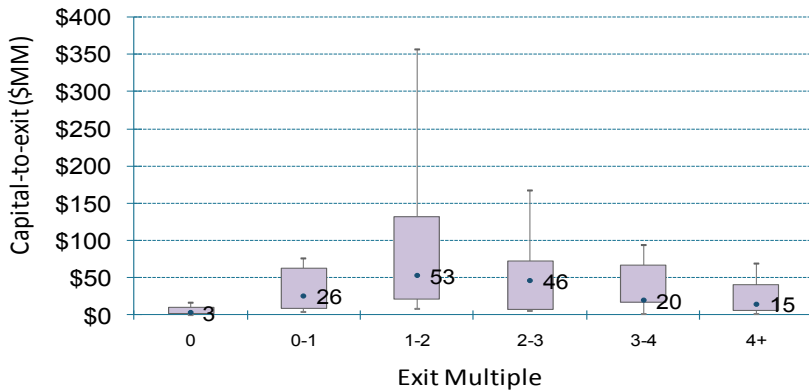
2006 - 2010 Exits by Exit Multiple:
Internet Media & Services



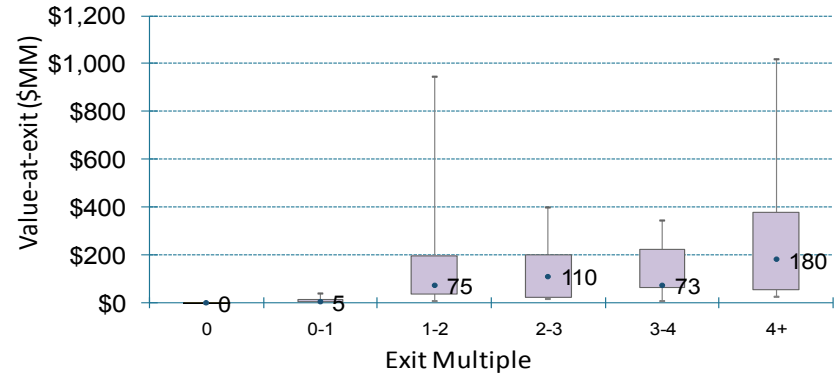
2006-2010 Exits: Range of **Months-to-exit**
Internet Media Services



2006-2010 Exits: Range of **Capital-to-exit**
Internet Media & Services

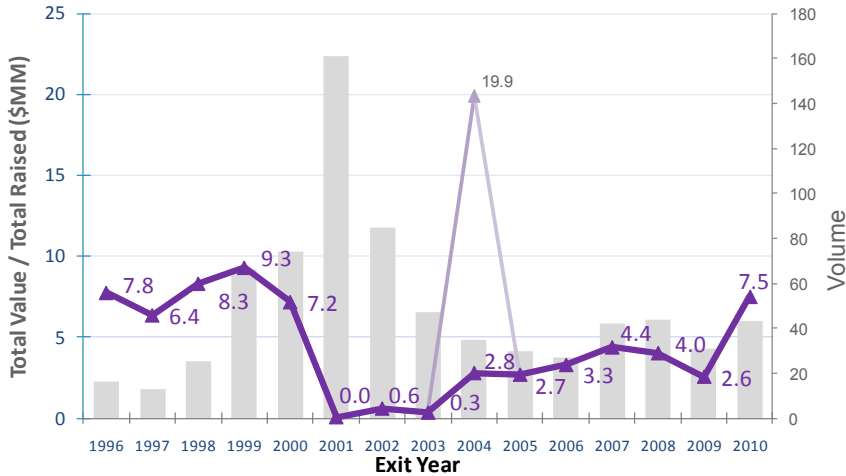


2006-2010 Exits: Range of **Value-at-exit**
Internet Media & Services

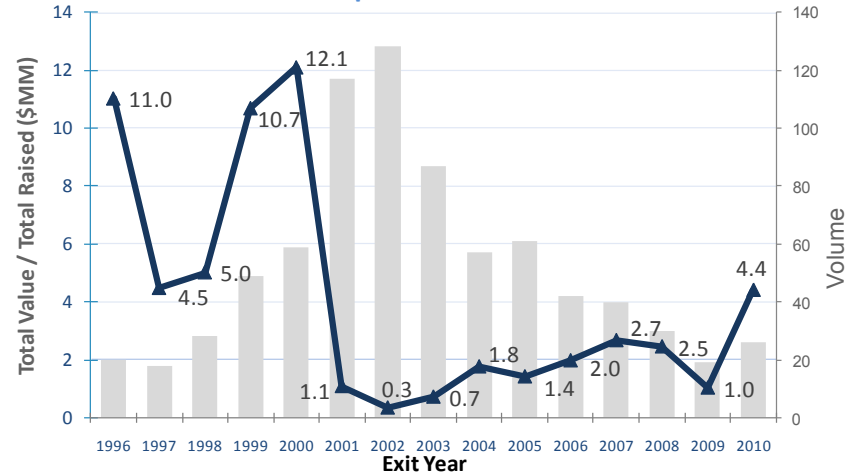


Annual Exit Multiples: Comparing Sectors

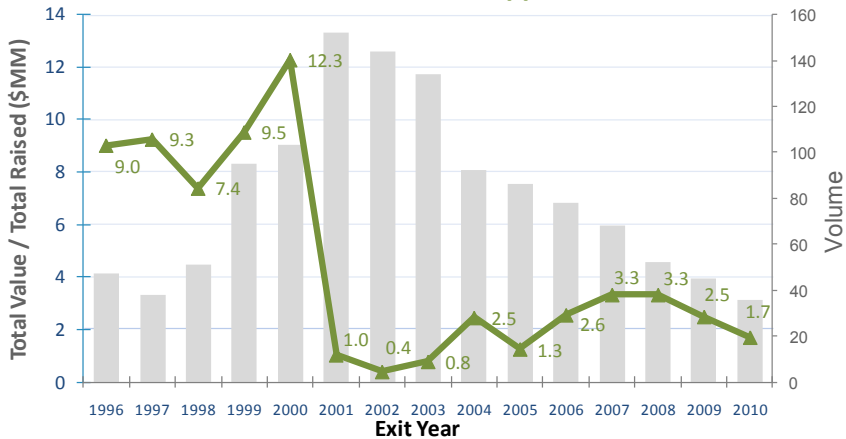
Internet Media & Services



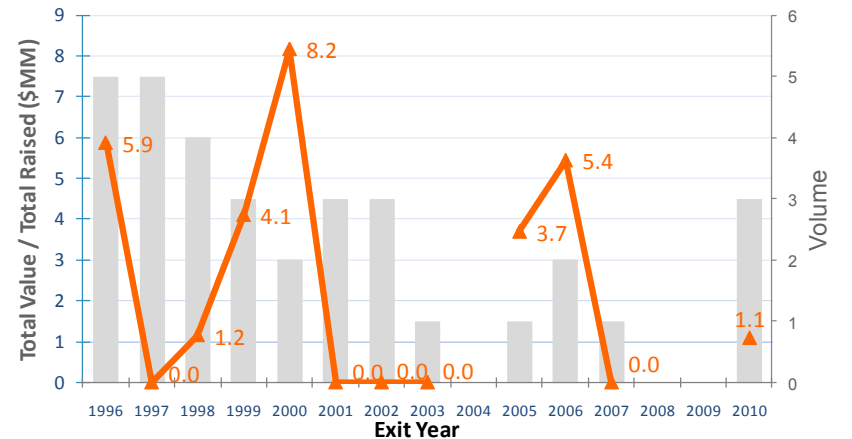
Enterprise Software



Software Tools & Apps



Consumer Software



Questions?

Biographies

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Chris Stedman is head of SVB Capital's venture capital and private equity relationship management team. In this role he manages the company's network of relationships with venture capital and private equity firms and their partners.

Stedman has held various leadership roles within SVB Financial Group. Most recently, he was a senior credit officer for Silicon Valley Bank. In this position he helped manage a multibillion dollar loan portfolio for SVB's western division.

Previously, as head of relationship management for Silicon Valley Bank's western division, Stedman was responsible for the sales teams in the technology and life science segments across California. During his 12 year tenure at SVB, Stedman held various additional leadership and sales roles within the organizations focused on technology and life science companies.

Before joining SVB, Stedman worked in CIBC's Corporate Finance group, specializing in the issuance of high yield debt, syndicated bank debt, leveraged transactions and corporate advisory arrangement.

Stedman is on the advisory board for the Entrepreneurs Foundation, a non-profit, which guides companies' corporate citizenship and philanthropic efforts. He also sits on the board of NextDoor Solutions, the largest nonprofit serving victims of domestic violence in Santa Clara County.

Stedman holds a bachelor's degree in finance from University of California, Santa Barbara and has received the Chartered Financial Analyst (CFA) designation.

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Dave Krimm is head of strategy and research for SVB Analytics, which includes oversight responsibility for product management and marketing.

Most of Dave's career prior to SVB has been devoted to building new products and new businesses at Charles Schwab & Co., Intuit, Hambrecht & Quist and J.P. Morgan. Most recently, at J.P. Morgan he was the COO for the LabMorgan division, with responsibility for all business development, marketing and operations functions for this strategic technology advisory group within JPMorgan's Investment Bank. At Hambrecht & Quist he was Director of Marketing for the investment bank; and President of H&Q Fund Management, in which role he created a new mutual fund business, launching the H&Q IPO & Emerging Company Fund in October 1999.

At Intuit he was Director of Business Development & Marketing for the Automated Financial Services division, and President of Quicken Investment Services, the firm's Registered Investment Advisor subsidiary. And at Charles Schwab & Co. Dave was Vice President of the 401(k) business, which he launched in 1990; he also created the first no-transaction-fee mutual fund program in the industry, which was operated for the 401(k) business until it was broadened in 1992 to the full retail client base as the OneSource program.

Dave holds an MBA from the Yale School of Management and a BA from Brown University.

Russ MacTough, CFA

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Russ MacTough is the Technology Sector Lead for SVB Analytics. His group specializes in the software, internet software and services, software-as-a-service, and hardware sub-sectors. He has been with SVB Analytics since 2007, performing hundreds of complex valuations for venture-backed technology companies. He also leads research and thought leadership initiatives in the Technology sector for SVB Analytics. MacTough's background extends beyond the finance world, as he has first-hand experience in designing, coding, and supporting hosted software applications in an entrepreneurial environment.

Prior to joining SVB Analytics, MacTough served as a special agent with the Federal Bureau of Investigation (FBI), where he leveraged both his technical and financial expertise in investigating violations of federal law.

Before joining the FBI, MacTough was a senior consultant with FactSet Research Systems in Boston, Mass., where he specialized in designing customized database systems, quantitative models, and application development tools for investment managers. MacTough led the first implementations of FactSet's hosted application development platform-as-a-service, involving database design and administration, UNIX-based data processing and production, quantitative financial modeling in an object-oriented environment, and front-end interface design. In this role, MacTough was responsible for sales support, technical consulting, programming and design of complex financial and econometric models, and managing his clients' mission-critical data production processes.

Prior to FactSet, MacTough was part of the Risk Analyst program at American International Group (AIG). At AIG, he conducted due diligence, risk assessments, and assisted with the underwriting of AIG Environmental commercial insurance policies.

MacTough earned a bachelor's degree in economics from Boston College. He earned the Chartered Financial Analyst (CFA) designation in September 2006 and is a member of the CFA Society of San Francisco. MacTough is currently pursuing his MBA in his spare time.

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Dan Zaelit is a research associate with SVB Analytics, based in San Francisco, CA. His role at SVB Analytics is to uncover trends in venture capital and the software and life science private sectors via quantitative analysis.

Zaelit joined SVB Financial Group in January 2004 and worked in Finance for a number of years prior to moving into research.

He earned a bachelor's degree in both Mathematics and Economics from the University of California, San Diego.

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Maha Ibrahim invests in innovative cloud, mobile, and digital media companies with the potential to become global market leaders. Maha is known in the venture industry for her ability to spot technology trends early, foster growth at her portfolio companies through hands-on operational guidance, and achieve profitable exits for entrepreneurs and investors.

Maha joined Canaan's Menlo Park office in March 2000. Early on, she led the firm's investment in Tacit Networks, helping the company negotiate a partnership with Brocade and a later acquisition by Packeteer Networks. Maha also established Canaan as a lead investor in Mobilitec (acquired by Alcatel-Lucent) and MiNO Wireless. Maha led Canaan's investments in social media application providers PicksPal (acquired by Liberty Media) and Kabam, as well as Virsto, which has pioneered an entirely new approach to improving storage in virtualized environments; SenSage, leading provider of log management and security information management systems; and eBillme, the leading cashbased alternative payment option online available today. Maha has won numerous industry awards, including The Silicon Valley Business Journal 40 Under 40 award, and is frequently invited to speak at industry conferences. She has spoken at, among others, GigaOm Structure, Ernst & Young Strategic Growth Forum, Web 2.0 Expo, Under the Radar Cloud Computing, Digital Hollywood, CTIA Wireless, AlwaysOn Stanford Summit, and Global Tech Forum.

Prior to joining Canaan, Maha held numerous executive-level roles at Qwest Communications, including Vice President of Business Development and Vice President of eBusiness and Internet Operations. While at Qwest, her keen networking skills helped the company forge relationships with Netscape and Microsoft. Earlier in her career, Maha was a management consultant with both the Boston Consulting Group and Price Waterhouse.

Maha holds a B.A. in Economics and an M.A. in Organizational Behavior from Stanford University and a Ph.D. in Economics from MIT. She currently sits on the boards of 3Crowd, eBillme, MiNO Wireless, SenSage, Virsto and Kabam. Previous board seats include PicksPal, Tacit Networks and Mobilitec. Maha is an active member of the MIT/Stanford Venture Lab (VLAB), a non-profit organization dedicated to promoting the growth and success of high-tech entrepreneurial ventures by connecting ideas, technology and people. She lives in the San Francisco Bay Area with her husband and two young sons.

Steve Bird

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Cofounder & General Partner
Focus Ventures

Steve is a cofounder and General Partner of Focus Ventures. Steve focuses on investments in the enterprise software and electronic commerce areas. He has led successful investments in Broadbase (acquired by Kana), FrontBridge (acquired by Microsoft), Mimosa (acquired by Iron Mountain), and Entropic, Interwoven and ShoreTel, all of which became public companies. He currently leads the Focus investments in Buzz Media, Hara Software, MarkMonitor, RGB, SAYMedia, Sojern, Turn and WebVisible.

Prior to cofounding Focus Ventures, Steve was a Managing Director at Comdisco Ventures where he provided debt and equity capital for emerging growth companies. Previously he was a General Partner at First Century Partners, a \$100 million venture capital fund affiliated with Smith Barney. Successful investments at First Century and Comdisco included Aspect Development, Elantec, Summit Design Technology, SuperMac Technology, and US Web. Steve was a Manager at Bain & Company, a management consulting firm where he worked in the communications, software, and semiconductor industries. Steve began his career as a Senior Development Engineer working in software development at Battelle Northwest Laboratories.

Steve holds an MBA from the Stanford Graduate School of Business, where he graduated as an Arjay Miller Scholar, and MS and BS degrees, with distinction, in Mechanical Engineering from Stanford University.

Disclosures

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