A photograph showing several clear glass test tubes arranged in a row. Each test tube contains a small amount of water and a seedling with a green stem and a small root system. The background is a soft, out-of-focus light green.

Capital Formation and Strategic Advisory Services for Entrepreneurial Stage Technology Businesses

Cleantech - Information Technology - Telecom - Digital Media

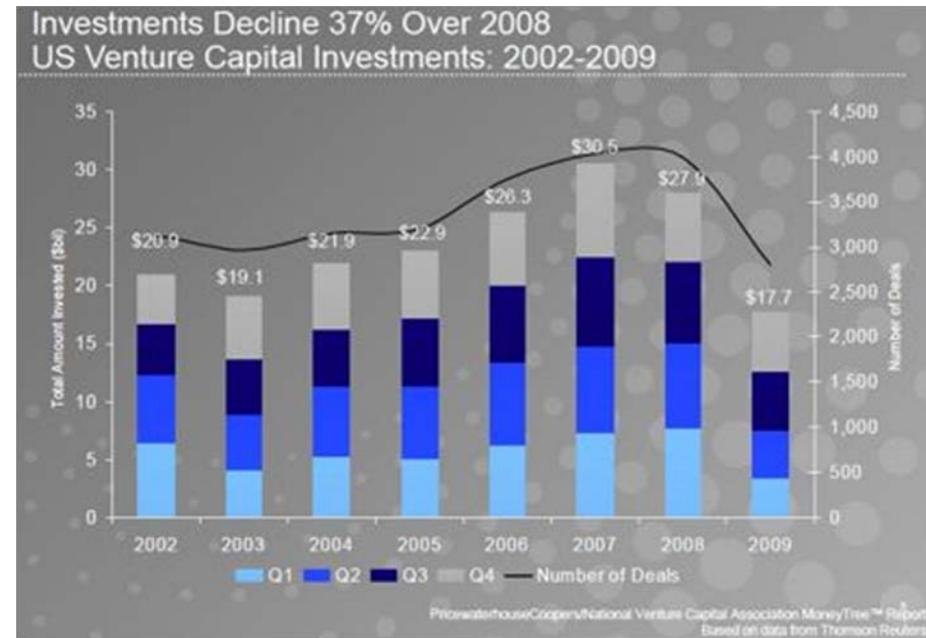
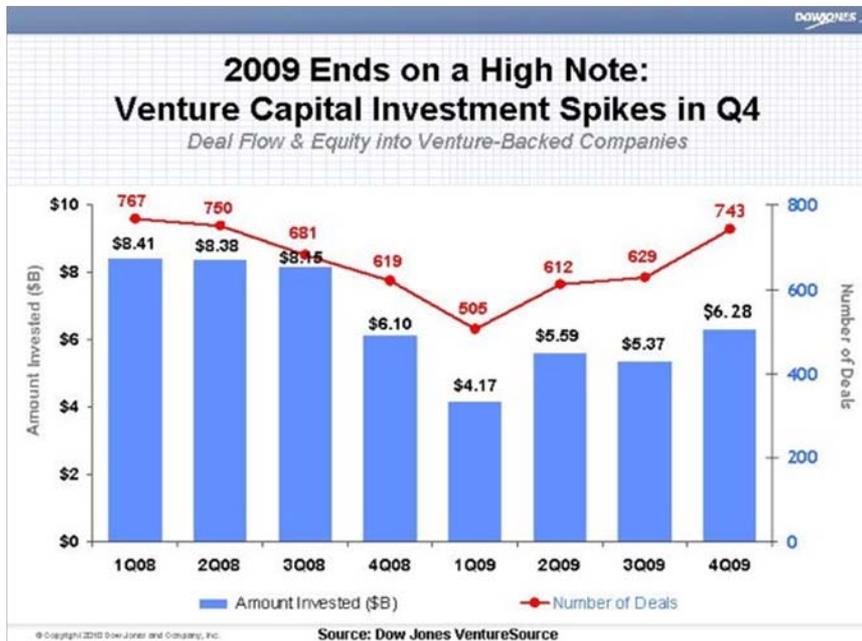
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Finding Venture Financing in a Down Market Tri Cities Entrepreneur Network 1.26.10

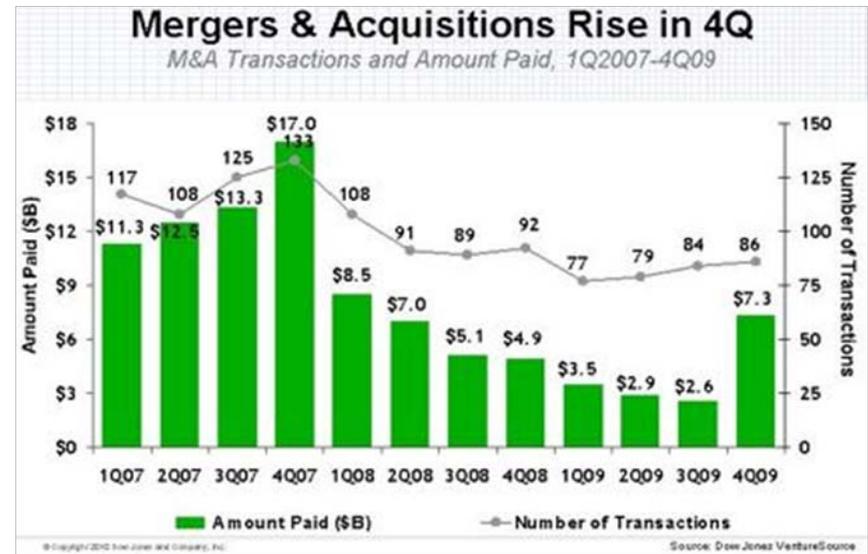
- Current state of market for venture investing
- Deal dynamics – Valuation and Terms
 - Is this a good time to start a company?
- Perspective on some of today’s “hot” sectors (cleantech overview)
- What does it take to find \$\$ in this difficult environment
 - Deal trends and issues
 - Challenges of finding \$’s in a non top-tier metro market

State of Market

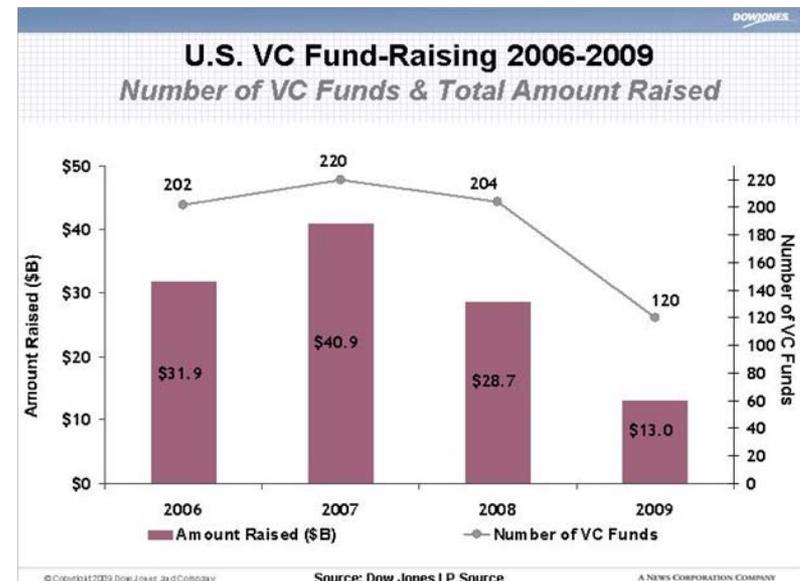
- It's been real ugly --- but getting better
 - Lowest level of VC investment since 1997



- Liquidity (venture exits) hovering at historically low levels
 - Longer time horizon for liquidity – more funds reserved for existing portfolio – fewer new deals
 - But, signs of improvement (particularly in m&a)



- Other contributing factors in the downturn
 - General economic downturn and related instability
 - Portfolio triage (few new deals done)
 - Uncertainty in how to value companies in shifting landscape -- gave pause/caution
 - VC LP challenges
 - 2009 was lowest VC Fund raising period since 1993
 - Less dry powder
 - Trickle down to slower deal environment for years to come



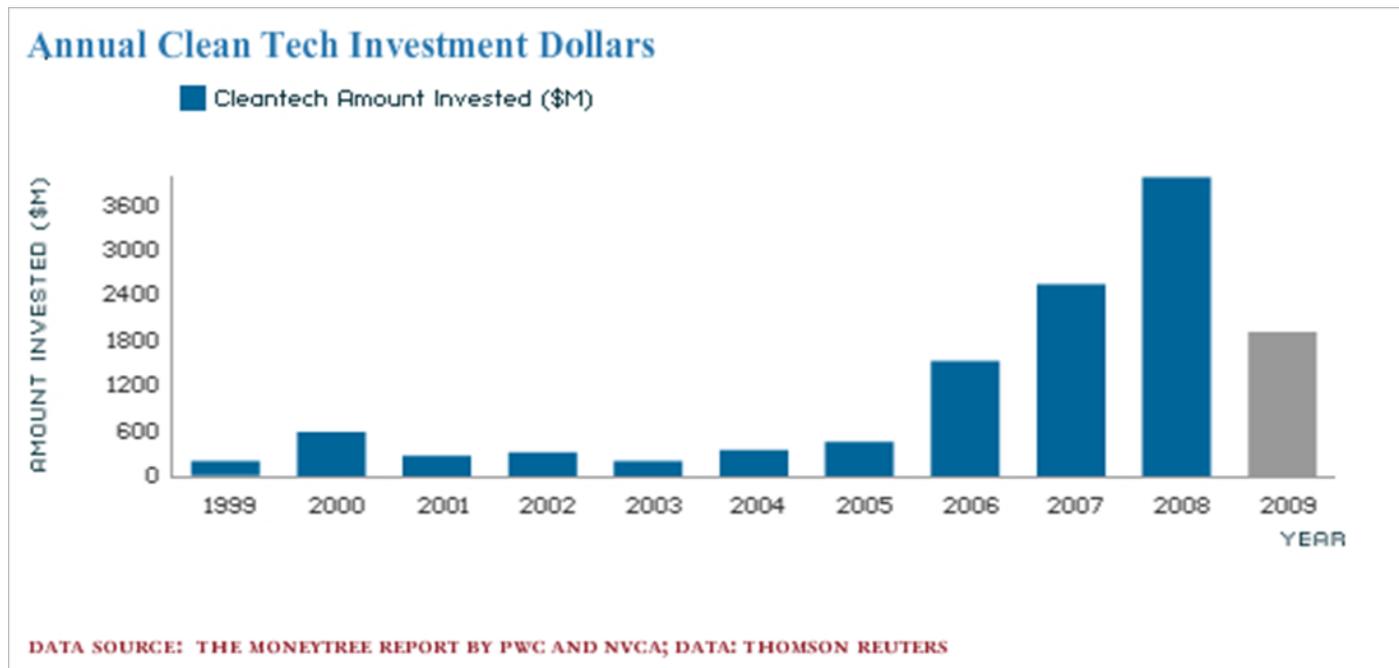
- Very difficult environment to raise \$
- Timeframe to raise \$ elongated
- Valuations down (“Flat is the new up”)
- Flight to later stage (less risky) deals
- Focus on follow-on rounds (supporting existing portfolio/triage)
- Not a lot of “new” deals done
 - *2009 marked the lowest level for first round deals in 15 years*
- Deal terms became more punitive
 - Valuations (lots of down rounds and extension of old rounds)
 - Liquidation Preference
 - Anti-dilution
- Migration to smaller deals (per stage)

- Gradual improvement in deal environment (Q409 strongest of year)
- Exits anticipated to improve
 - Q4 shows many more firms in registration (IPO) going into 2010
 - Expectation that M&A should improve substantially (saw strong Q409 and Q1 looking good)
- Valuations “gap” deteriorating and expectations coming more in line
- Time to raise \$ starting to normalize
 - From 6-12 months to 4-6 months
- Seeing a rise again in first round deals
- More interest in smaller rounds (capital efficiency)
- Deal terms normalizing
 - Liquidation Preference
 - Anti-dilution
- Strong entrepreneurs who have weathered the storm (flight to quality)
- Cautious optimism for 2010

- Cleantech (more detail to come)
- Virtualization/Cloud Computing
- SaaS Models
- Mobile (LBS, Payment, Advertising)
- Search
- Tech improving online ad monetization
- Virtual payment

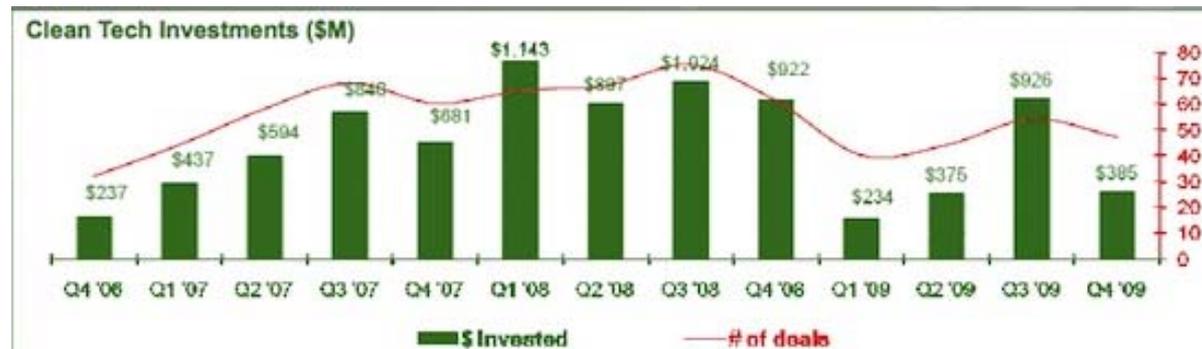
Rise of Cleantech

- Meteoric emergence in last few years
 - Big problems to be solved with world's energy issues
 - Government support globally for sector
 - Many new VCs entered into sector (some now retrenching)
 - Q309 cleantech became largest investment category eclipsing software and biotech
 - Sector became somewhat prone to hype



Rise of Cleantech

- But not immune to the economic downturn
 - Precipitous drop in 2009 investment
 - But drop in cleantech not as pronounced as other sectors
 - Other sectors reset to 2003 levels; cleantech to 2007 levels (NVCA)
 - Q3'09 anomaly with a few mega deals (otherwise relatively flat q-over-q for yr)
 - Movement towards more capital efficient deals and smaller rounds
 - Project finance market shut down
 - Very difficult for renewables projects requiring plants/equipment



Price Waterhouse Coopers / National Venture Capital Association MoneyTree Report . Based on data by Thomson Reuters

A Tale of Two Years

- Situation A - Late 2007
 - Cleantech deal – energy/generator efficiency
 - Spin-out of National Lab
 - Pre-customer, pre-revenue
 - Bench scale testing, but no system level testing or theoretical modeling
 - High risk, high reward deal
 - Raised \$8 million venture round
- Situation B – Late 2008/Early 2009
 - Cleantech deal – engine efficiency
 - Pre-customer, pre-revenue
 - Working prototype, but lacked 3rd party validation and theoretical modeling
 - High risk, high reward deal
 - No VC deal done (continued reliance on angel \$)
 - Interest from top tier investors – but required more progress/3rd party validation

- Sector activity
 - Traditionally solar and biofuels have dominated VC \$'s (mega deals)
 - 2009 strong year for transportation technology
 - Electric Vehicles, Battery, Improved Efficiency
 - Sectors attracting strong interest currently
 - Green building and building efficiency; smart grid/efficiency; advanced lighting
 - Project finance still very difficult

Top Venture Capital Clean Technology Sectors in 2009		
Technology Sector	Amount Invested	% of total
Solar	\$1.2 billion	21%
Transportation (including electric vehicles, advanced batteries, fuel cells)	\$1.1 billion	20%
Energy Efficiency	\$1.0 billion	18%
Biofuels	\$554 million	10%
Smart Grid	\$414 million	7%
Water	\$117 million	2%

Source: Cleantech Group (cleantech.com)

The Environment You Are Facing

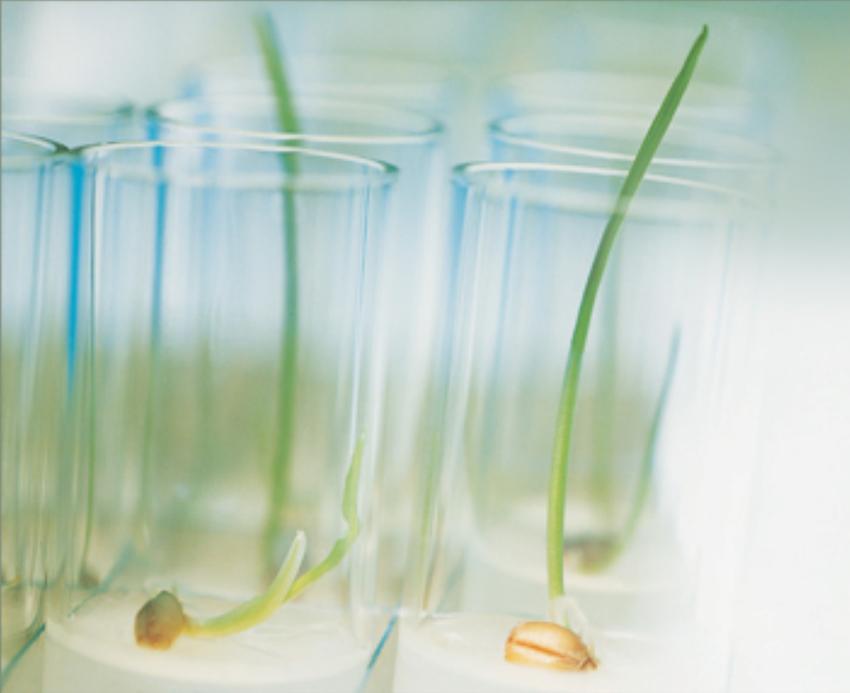
- Bar is high (more validation/traction required)
- Investors still very cautious, slow to make decisions, tracking progress
- But investors are working on deals in earnest
 - And deals are getting done again
 - Including first round deals
- Desire for capital efficient opportunities (minimize risk)
 - Do more with less \$

Getting Early Stage Deals Done

- Requires extraordinary effort (hand to hand combat)
- Rigorous management of fund raising process
- Preparation in manner that enhances success
- Create and maintain deal momentum (go hard)
- Target best investors by industry domain and stage
- Cast your net a bit wider
 - Find (best) investors for your deal where ever they may be
 - Local, Silicon Valley, Boston, NY, DC, LA, Chicago, International, Strategic
 - In some sectors (cleantech), International is a viable option
- Hit your milestones and market them aggressively during the process
- Drive desire and competition for the deal (negotiation leverage)

Thoughts For Entrepreneurs in Non Top Tier Metro Markets

- Entire NW falls into category to some degree
- Harder yet in smaller population regions
- Need to work that much harder
- Often require more progress/traction
- Quality of team even more important
- Get out of region to find partners (stretch comfort zone)
- It can be done!

A photograph showing several glass test tubes in a row. Each test tube contains a small amount of water and a seedling with a green stem and a small root system. The background is a soft, out-of-focus light blue and green.

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