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Membership Committee

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David Burwen
Brian Frenzel
Michael Geilhufe
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Dinner Details

Date: Wed., September 20, 2006

Place: Los Altos Golf and Country Club

Time: 6:15 - 9:00 pm

RSVP: 650.321.0854
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Introduction

Normally languid August was uncharacteristically robust for the Band. In yet another small sign of vigor returning to the Valley, 42 people attended the August Band dinner; compare this to the 23 who attended in 2003! Many reports confirm a more vigorous Valley: according to Fenwick and West, VC funding in the last quarter was up 10% to \$6.7B. In just the Silicon Valley, \$2.42B was invested—a 27% increase over Q105. Up rounds in Q206 exceeded down rounds for the 10th quarter in a row, and the average price increase for these uprounds was 34%. Rents are up (we’re still looking for space in downtown Palo Alto by the way, let us know of anything!) and traffic is worse. All the renewed activity is the grist of a boom-like flurry of positive chit-chat in the media.

But the \$64,000 question (really \$6.4B question) is, what happens to the venture capital model if the IPO market remains as anemic as it is. There were 16 venture backed IPOs in Q206 in the whole USA—and 10 of these were healthcare companies! The M&A market perhaps? According to the Fenwick data, during the first half of 2006 there were 195 transactions totaling \$15.5B. This sounds large at first but consider that this is just \$80M/company. The median pre-money valuation of Series B is \$20M; how does a \$300M VC fund make money when the IPOs are few, and its M&As exit at \$80M? Bear in mind that there are 866 NVCA firms, managing 1,576 venture funds, totaling \$259B, which made 2,527 investments in 2005. Clearly, with numbers like these (~400 exits a year with ~2,500 investments a year), something has to either change in the exit market, or in the size, number, or activity, of VC firms.

But a troubling picture for big VCs might not be so for small funds and especially angels. The VentureOne data report on valuations notably highlights that Series B valuations increased to \$20M in H106 from \$12.5M in H105. But Series A valuations have not increased, remaining steady at \$6M between H105 and H106. Combined with the average size of M&As this suggests that Series A may be the place to be. If the average M&A is \$80M, then a \$1M investment owning 12.5% of the company will return 10x. Bear in mind that this \$1M must include all follow-ons; assuming two rounds of up financing for the company (\$10M invested total), my math suggests a target investment by angels of \$500k at an initial pre-money of \$2.25M with “reserved capital” of another \$500k for the future financings. Over the past two years the Band has been investing at lower and lower valuations and eschewing making bridge loans; this math supports this trend as the path to making angel investing profitable as well as fun!

This month we have a healthcare company presenting, a new member with a life science background and our member talk will be given by one of our healthcare experts. More than half of the Band’s nine IPOs have been healthcare related and Dr. Norm Sanders thought a basic primer on regulatory issues might interest Band members. Finally, we have a number of discounts to conferences for Band Members only; be sure to check the Events section at the end of the newsletter.

- Ian