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**INVESTMENT FUNDS: FLUSH, BUT PICKY**

The private equity universe, it seems, has never been deeper and more populous. The last couple of years have seen wide-spread fundraising by existing groups as well as some first-time managers. In addition, countless hedge-funds have sought to expand their investment realm beyond public equities into the private realm. With these activities, the availability of venture-, private equity-, and mezzanine-capital, is now more prevalent for any sound business plan and qualified management team.

And the good news does not end there. As a result of this growing liquidity, in addition to recently low or negative returns in the public equity markets, “alternative investment” platforms (which is the industry jargon for private equity and similar vehicles) have begun to reduce their return criteria from what was the traditional mid-30s level... often leading to improved valuations, reduced dilution of existing shareholders, and less stringent structural protections for new money.

But there is a flip-side to the abundance. Diminished returns often imply diminished risk tolerance, and cash-flow positive mature businesses are clearly ahead of new ventures in securing a place in the line of investor prioritization. For pre-revenue enterprises, the backing of one or more well-established strategic partners, and ideally the co-investment of such groups in the private equity round itself, can be of paramount importance. For revenue generating but pre cash flow ventures, ability to demonstrate positive market acceptance and momentum, even if modest and supported by limited first-round funds, will be key. For any of the early-stage issuers, however, the primary goal is to prove barriers to future competition, defensibility of future (and perhaps current) profit, and the qualifications of management to execute on all of the above.

Regardless of the opportunity and business profile, however, it is very safe to suppose that its appropriate capital source is in the current market, actively seeking deal flow, probably more so than in the recent past, and that it is mainly a matter of judicious and focused approach to find it.

By Dan Ramsden Near Earth LLC
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