Panelists seek to ‘unlock the value’ in the changing investment landscape at the 2010 Private Equity and Venture Capital Conference

By Sara Langen

2/18/2010 - While the current economic climate still inspires caution among investors, Tenaya Capital Managing Director and co-founder Brian Paul ’94 believes the venture capital market is beginning to show considerable growth.

“It’s amazing how far we’ve come compared to where we were a year ago,” Paul said. “We’re seeing big deals, like Zappos being acquired by Amazon. We’re starting to see some of these wallets opening up, and we’re going to continue to see that. Most [venture capitalists] I talk to are fairly optimistic about what’s going to happen in 2010.”

Paul addressed the outlook for the venture capital industry Feb. 10 during a panel discussion at the Kellogg Private Equity and Venture Capital Conference at the University Club of Chicago. A near-capacity crowd of 330 students, alumni and corporate professionals attended the event, which featured the theme “Partnering Through Uncertainty: Unlocking Value in a Changing Landscape.”

Fellow panelist Eric Young ’80, general partner and co-founder of Canaan Partners, shared Paul’s optimistic view of the industry’s future. One of the keys to surviving bad economic environments is avoiding the pitfall of short-term thinking, he said.

“It really is a matter of having good, consistent behavior,” he said. “If you want to keep pressing forward, but your co-investor doesn’t want to, it makes it very difficult. You have to find someone with a similar outlook who is willing to look at the long-term view.”

Some industries have been favored and some disfavored by the recent economic crisis, moderator and partner at K&L Gates LLP Craig Bradley noted. Panelist Andrew Perlman, co-founder, president and CEO of GreatPoint Energy, said that clean energy technologies were among the industries that initially took a hit from the recession, but are bouncing back.

“It definitely slowed down some of the new technologies being developed in the clean tech space,” he said. “Now, it’s starting to ramp up again, but it was an unfortunate slowdown during a critical time in the industry.”

Clean technologies and energy storage are both hot investment areas right now, Perlman said. Gabriel Venture Partners Managing Partner Scott Chou agreed, noting that vehicle electrification is his company’s clean tech investment piece. Smart phone “ubiquitization” is another up-and-coming investment area, he said.

“Everyone is going to have a smart phone eventually,” he said. “So we’ll look at low-cost versions, what things could be built, new apps, components, etc.”

A future-forward outlook was also the focus of the private equity panel discussion “An Industry in Transition: What the Last 24 Months Mean for the Future of Private Equity,” moderated by Andrew Ross Sorkin, chief mergers and acquisitions reporter for The New York Times. Private equity firms are adjusting their expectations in response to the current...
economy, said panelist William “Bill” V. Glastris Jr. ’84, founding principal of Prospect Partners.

“For years, we wanted to make five times our money in five years,” he said. “That was our mantra. Let’s be honest, that’s seriously deteriorating.”

Investors are more cautious now as they search for safer deals, 21st Century Group LLC Partner W. Kelvin Walker ’86 said.

“You can still make three times your money, but you have to find the deals that really make sense,” he said. “You have to let some deals go by before you find that opportunity.”

Being cautious is understandable, but investors should still try to make a good return, Prophet Equity CEO and Managing Partner Ross Gatlin ’93 said.

“The right answer is not to lower our return expectations,” he said. “We need to look at smaller deals. Eventually, the larger deals will open up again.”

Ropes & Gray Strategic Development partner David Chapin also participated in the panel. Other private equity sessions included a keynote address by TSG Consumer Partners co-founder, managing director and CEO Chuck Esserman. New Enterprise Associates co-founder and general partner Dick Kramlich (NU ’57) gave the venture capital keynote address.