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Tuesday, November 6, 2012

Venture-backed companies providing more data to investors, survey finds

Higher percentage of pre-IPO companies are sharing data about visitors, subscribers

By David Ruiz

Venture capital-backed U.S. companies have begun to share more metrics data with investors, according to a report on corporate governance practices released last week by Wilson Sonsini Goodrich & Rosati PC.

Metrics data includes information such as unique visitors to a website, number of subscribers to a service and statistics about purchases.

The study surveyed the 45 venture capital-backed companies involved in the largest initial public offerings from July 2011 to June 2012, which included Facebook Inc., Zynga Inc., Groupon Inc. and wireless network hardware developer Ubiquiti Networks Inc. Also included were several pharmaceutical and medical research companies.

'Funds that invest in IPOs for tech companies are increasingly demanding greater visibility into business models and looking for drivers that will create future growth.' - Louis Lehot

Of the 45 companies, 21 released key metric data in their IPO prospectuses - about 47 percent. Last year, only 26 percent of the top 50 venture-backed companies to IPO did so.

Palo Alto-based Wilson Sonsini corporate partner Richard Cameron Blake, the report's primary author, said metrics provide a method of evaluation for internal management that can be beneficial when shared with investors.

"In some cases, those metrics help to show trends and directional movement better than pure finances can show," Blake said. "As online systems get more sophisticated and companies are able to provide different perspectives from different metrics, then companies will share that information with investors and analysts because it tells the broader story."

Sheppard, Mullin, Richter & Hampton LLP corporate partner Louis Lehot, who was not involved in the research, said the increase in data disclosure is due to demands from portfolio managers of large investment funds.

Many tech companies will do a final round of financing with a large venture capital firm before conducting an IPO in an attempt to "dress itself up" with a high valuation, Lehot said. He said late-stage investors then demand a certain investment rate of return to justify the high value estimate.

In response, portfolio managers are demanding more data for evidence of potential growth factors within a business.

"Funds that invest in IPOs for tech companies are increasingly demanding greater visibility into business models and looking for drivers that will create future growth," Lehot said. He said this includes comparing mobile to online users and analyzing what medium has greater potential for revenue.

"Investors are no longer interested in only eyeballs," Lehot said. "They're looking at subscribers - both online and mobile - transactions processed, and more."

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Venture-backed companies seeking to exit through a public offering or an acquisition may be discouraged by the latest numbers collected by the National Venture Capital Association and Thomson Reuters.