

## I.P.O. Crisis Could Have Lingering Effect on Start-Ups

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Despite the [dreary news for venture-backed start-ups](#) hoping to go public, some venture capitalists are optimistically looking forward to the day the public markets open up again.

But what will happen when the pipeline eventually does open? Venture investors are worried that, when companies that are lingering in the I.P.O. pipeline eventually do go public, returns will take a severe hit.

Many think start-ups won't have a shot at an I.P.O. until 2010. If the United States is in a recession that lasts through 2009 and if the credit markets remain closed, only a very high-profile company would be able to make its debut, said Scott Sweet, senior managing partner at I.P.O. Boutique, a research and advisory firm for individuals and hedge funds. However, he added, "the I.P.O. market is highly dynamic and can change on a dime."

Venture investors who had planned to take companies in their portfolios public this year are left spending money and time keeping these mature companies alive, instead of investing in new start-ups. Many are raising small funds to add on to their existing funds because they have realized that they will need to spend much more on their current crop of start-ups than they had expected.

MedVentures Associates, a medical technology venture firm, recently raised one of these annex funds. "The markets shut down like this and you have to just go back to the well," said Annette Campbell-White, founder of MedVenture.

Her firm had a company it hoped to take public this fall. When it could not, it considered taking debt, but the terms get worse everyday, Ms. Campbell-White said. Instead, the company is raising money from insiders to stay alive, which will dilute MedVenture's stake.

StarVest Partners, a [New York firm that invests in Internet companies](#), is facing a similar challenge with a company that it had planned to take public this year. Instead, it is raising new capital in the hopes of going public in 2010.

The start-up can use that time to grow and become a more profitable company, said Deborah Farrington, a StarVest co-founder. At the same time, she added, time is the enemy of returns.