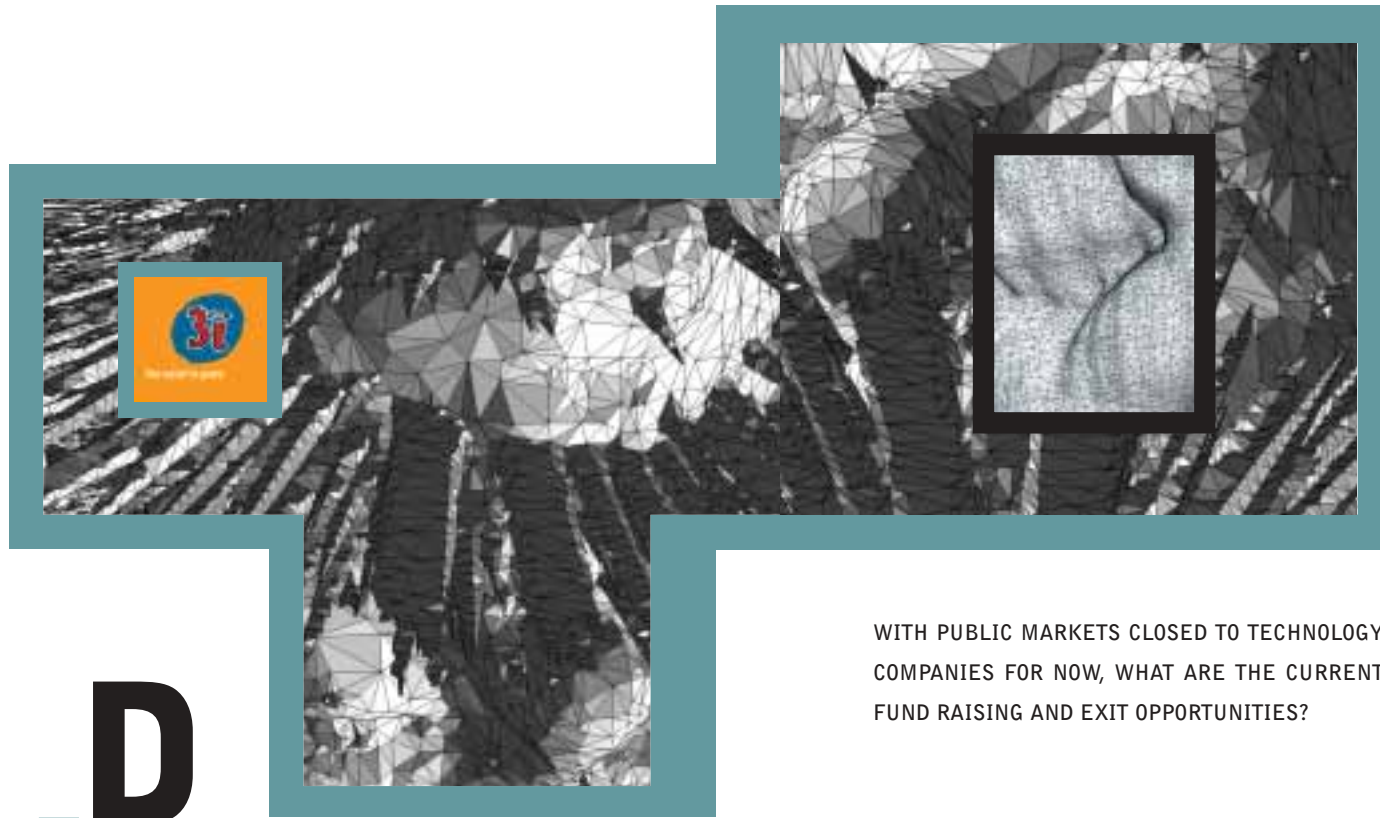


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# THE IPO IS DEAD

“THE **ONLY** COMPANIES THAT SHOULD BE RAISING MONEY NOW ARE THOSE THAT ARE ON THE BRINK OF **DEATH.**”

A financial investor, March 2001



## WITH PUBLIC MARKETS CLOSED TO TECHNOLOGY COMPANIES FOR NOW, WHAT ARE THE CURRENT FUND RAISING AND EXIT OPPORTUNITIES?

A dramatic quote, but one that typifies the sentiment of some financial investors in the quoted technology sector. The current environment for technology companies wishing to raise finance or realise their value is a difficult one, to say the least. The public and private equity markets are in a state of flux as a result of the downturn in the economic cycle and the re-valuation of the technology sector. However, despite this there are opportunities for those companies that can differentiate themselves from the “madding” crowd.

### >SO HOW BAD IS IT?

Technology indices around the world have fallen dramatically over the last 18 months, wiping billions of dollars from the valuations of many companies. For instance, the NASDAQ market has fallen over 71% from its high in March 2000, the techMARK has fallen 80% and the German Neuer Markt even further at 87%. Specific technology sectors have been hard hit; IT hardware down 93% from its peak whilst software and telecoms are down 88% and 71% respectively from their highs.

### >GETTING OVER THE BAR...

The opportunity to float is still available for those companies that recognise that the new environment is not just a rejection of the hype that surrounded the dot.com phenomenon, but more importantly, a return to the fundamentals of building successful businesses. Rather than being easy access to further funding for companies that have yet to reach profitability, the market now expects mature and seasoned management with an interesting and workable technology, tackling the fundamentals of giving customers products and services that they want, at a price that will generate profits. Indeed profitability and cash generation are prized by investors.

### >THE RIGHT STUFF!

An example of such a company would be one of the three technology companies world-wide that floated in March 2001, and the only one in the UK, 3i backed Marlborough Sterling. A provider of back office software to the mortgage, investment, life and pensions sectors, Marlborough Sterling's blue chip customer base, market leading products, experienced and complete management team, combined with a track record of profitable growth enabled it to float in extremely difficult market conditions.

### >QUALITY STILL SHINES THROUGH...

For those businesses which don't hit all the buttons yet, but whose prospects are so bright as to shine through today's fog, further funding will be available. These stars, with truly innovative technology and strong market prospects, will find their VC investors keen to support them. Even here, however, there will be much greater focus on execution of the business plan.

### >YOU DANCING? YOU ASKING?

For those who either cannot or do not want to continue as independent businesses, the obvious next step is sale to or merger with another business. As IPO fades as an exit option, consolidation within sectors has become a key feature of the business landscape, and is expected to continue for at least the next year. This is especially so in crowded markets with several companies competing for shrinking customer spend. Those companies which give acquirers a key technology or market position will be popular targets and, for some acquirers, “must have” purchases for strategic reasons.

Yet even these companies will be expected to show their new owners a path to profits in the short to medium term, with quoted companies opening themselves up to a fall in their share price, unless results are delivered quickly.

### >THE THIRD WAY...

One alternative coming to the fore in today's market is minority share investment by larger corporates who in past times might have been outright buyers. For the corporate a minority stake can often bring many of the strategic benefits purchase would have brought, but without the need to fund that purchase or consolidate trading results. This approach provides the technology business with funds and a partnership, often a strong route to market or customer relationships, without having to crystallise the value of the company today.

### >BUSINESS AS USUAL...

In the current climate, security, stability and comfort are the watch words for many investors, with companies that wish to go public needing to be both profitable and cash generative. However, these characteristics are not confined to the IPO market – it is simply a return to the sensible, tough and challenging environment that pre dated the dot.com hysteria. An environment that will allow disruptive technology companies to create value for themselves and their investors, irrespective of public or private equity market conditions today.