

Preliminary

What are Firms? Evolution from Birth to Public Companies

by

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Abstract

We study how firm characteristics evolve from early business plan to initial public offering to public company for 49 venture capital financed companies. The average time elapsed is almost 6 years. We describe the financial performance, business idea, point(s) of differentiation, non-human capital assets, growth strategy, customers, competitors, alliances, top management, ownership structure, and the board of directors. Our analysis focuses on the nature and stability of those firm attributes. Firm business lines remain remarkably stable from business plan through public company. Within those business lines, non-human capital aspects of the businesses appear more stable than the human capital aspects.

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Introduction

Since Coase (1937), economists have attempted to understand why firms exist and what constitutes firms.¹ Despite the long history of theory and empirical work, there is little systematic evidence concerning what constitutes a firm at birth and how a firm evolves from birth to mature company. In this paper, we provide such evidence by studying 49 venture capital-financed firms from early business plan to initial public offering (IPO) to public company (three years after the IPO).

Examining the initial characteristics of firms and how they evolve also can help shed light on questions concerning the nature and stability of firm assets and businesses. For example, a firm's assets play a crucial role in economic theories of the firm. Hart (1995) focuses on human versus non-human assets. To Hart, "a firm's non-human assets, then, simply represent the glue that keeps the firm together, whatever this may be ... Control over non-human assets leads to control over human assets... If non-human assets do not exist, then it is not clear what keeps the firm together." (p. 57). Holmstrom (1999) comes to a similar conclusion, but argues that firm ownership of non-human assets allows the firm to structure internal incentives and to influence external parties (e.g., suppliers) who contract with the firm. Wernerfelt (1984) and Rajan and Zingales (2001b) focus on critical resources which may be "an idea, good customer relationships, a new tool, or superior management technique." Such resources, therefore, may include specific human capital. In fact, Zingales (2000) suggests that in today's corporations "human capital is emerging as the most crucial asset." As these examples suggest, there is some ambiguity, if not disagreement among theories of the firm concerning both the nature of a firm's assets and the relative importance of those assets.

¹ Both Holmstrom and Roberts (1998) and Gibbons (2004) describe and summarize some of this work.

Closely related to the theoretical question concerning firm assets is an old and ongoing debate among venture capitalists (VCs). Some VCs believe that the company's product and market are the key determinants of success while others believe that the key determinant is the company's management team. While VCs try to invest in companies with both strong products and strong management (see Kaplan and Stromberg (2004)), different VCs claim to weigh one or the other more heavily at the margin. For example, Donald Valentine of Sequoia Capital, the VC investor in Cisco, is a well-known proponent of the product / market view. Others favor the best available management team view. Quindlen (2000) discusses these two views from the VC perspective (p. 33-35). This debate is often characterized as whether one should bet on the jockey (management) or bet on the horse (the product / market).

Our analysis also sheds light on the "new firms" described in Zingales (2000) and Rajan and Zingales (2001a). They argue that today's new firms differ from the old, traditional firms of the (early) 20th century. Old firms are "asset-intensive and highly vertically integrated ... [their] boundaries are clear cut and sufficiently stable that one can take them for granted." New firms, on the other hand, tend to be "non-vertically integrated, human capital intensive organizations operating in highly competitive environments." Rajan and Zingales (2001a) argue that alienable assets – assets that can be assigned or pledged to other firms – have become less important relative to human capital and non-alienable assets (for example, business processes or knowledge).

Our analysis begins with the identification and classification of firm characteristics when the firms are very young (at an early business plan). For each sample firm, we describe the evolution of financial performance, the business idea, point(s) of differentiation, non-human

capital assets and technology, growth strategy, customers, competitors, alliances, top management, ownership structure, and the board of directors.

We then consider how firm financial measures and firm characteristics evolve by describing the firms at the time of the IPO and at the third annual report after the IPO. We pay particular attention to measuring which characteristics remain constant or elemental, which change, and which disappear. From the perspective of the property rights theories, we try to identify the “glue” that holds firms together. From the perspective of the critical resource theories, we try to identify the critical resources upon which the firms base their growth.

Our results can be summarized as follows. The typical company in our sample experiences dramatic growth in revenue, assets, and market capitalization, but does not become profitable. While the companies grow dramatically, their business models or core businesses appear remarkably stable. Only one firm changes its core line of business over the sample period in the sense that the company produces a different product or service or abandons its initial market segment to serve a different one. Instead, offerings within market segments broaden or stay the same over time. The firms also sell to similar customers and compete against similar competitors in the three stages of the life cycle we examine. This suggests that the sample firms begin with some specialized or core assets that they maintain over time.

Almost uniformly, firms claim that they are differentiated by a unique product, technology or service at all three stages of the life cycle we examine. The points of differentiation also tend to be stable over time. At the business plan, roughly half of the firms also stress the importance of expertise (which one might interpret as human capital). The stated importance of expertise, however, declines to less than 15% by the time of the IPO and third annual reports. Firms stress the importance of proprietary intellectual property (IP), patents, and

physical assets in all three stages. Patents and physical assets become increasingly important over time.

While the points of differentiation, alienable assets, customers, and competitors remain relatively constant, the human capital of the sample firms changes substantially. At the time of the annual report, one-half of the CEOs at the business plan remain; only one-quarter of the next four top executives remain.

Overall, the results appear strongly consistent with the property rights view of the world. Physical assets, patent assets, and IP assets exist in these firms, are relatively stable, and do not disappear as human capital assets turn over.

The results are less clear cut concerning the view that human capital is the critical resource. On the one hand, proprietary, but non-patentable intellectual property is critical to many firms suggesting that effective human capital is important to the success of the companies. On the other hand, the firms operate and thrive while the specific human capital changes substantially.

Using ownership stakes just before the IPO, we estimate the percentage of value that founders retain for their ideas rather than for incentive purposes. Our estimates suggest that founders retain an upper bound of 11.8% to 14.6% of the value of the pre-IPO equity for their human capital assets specific to the company.

One caveat to the mixed results for the view that specific human capital is a critical resource is the possibility that VCs choose to fund only those companies in which specific human capital is relatively unimportant. While this is possible, VC-funded firms represent a substantial fraction of all IPOs (at least 39%). Our results suggest that specific human capital is

relatively less important for that large fraction of IPOs. A logical avenue for future research is to consider whether our results hold for non-VC backed firms.

From a practitioner perspective, the greater stability of the lines of business in our sample relative to that of management teams favors the product / market view of VC investing over the best available management team view. The results suggest that VCs are regularly able to find management replacements or improvements for good businesses. At least in our sample, we do not find cases in which VCs invest in good managers who find business replacements.

Our work is closely related to three other research efforts. Bhide (2000) studies 100 companies from Inc. Magazine's list of 500 fastest growing companies in 1989. Based on interviews with founders, Bhide finds that over 70% of those companies are founded by people who replicated or modified an idea encountered in their previous employment. They do relatively little planning before starting the business. Partly as a result, these companies frequently adjust their business plans as they operate. Bhide contrasts these companies to VC-funded companies which he argues are more likely to "have innovative ideas and a verifiable record of ... achievement (p. 111)." Our study complements his in that we focus on VC funded companies. While such companies are clearly selected, VC funded companies typically comprise a substantial fraction of young companies that go public in any given year. In addition, we focus more on the nature of the initial attributes of a company, how those attributes evolve, and how those attributes affect outcomes.

Our work also is related to the papers that emerged from the Stanford Project on Emerging Companies (Baron and Hannan (2002), Baron et al. 1999, Baron et. al. 2001; and Hannan et al. 2000). Like we do, they study a panel of young firms – high technology firms in Silicon Valley – but they ask a different set of questions. Baron and Hannan (2002) summarize

the findings of these papers as showing that initial employment models are important and tend to persist. When they are changed, employee turnover increases and performance declines.

Finally, Santos and Eisenhardt (2004) provide a case-based study of five new information technology firms. They study how those firms attempted to claim their initial market, how they demarcated that market, and how they used acquisitions to consolidate that market.

The paper proceeds as follows. Section I describes our sample. Section II describes the initial financial characteristics, business idea, point(s) of differentiation, assets and technology, growth strategy, customers, competitors, strategic alliances, management, ownership structure, and board of directors of the sample firms and their evolution. Section III summarizes and discusses our results.

I. Sample

The sample consists of forty-nine companies that went public in an IPO and for which we obtained an early business plan or business description at the time of a VC financing. We obtained twenty-nine of the companies from the sample of VC financed companies in Kaplan and Stromberg (2003). We obtained an additional twenty companies by asking several VCs to provide business plans of companies they had financed that had subsequently gone public.

For all of the companies in the sample, we have copies of the business plans and / or the venture capitalist investment memos that describe the company at the time of venture capital funding. (In what follows, we drop the distinction between these two types of documents and collectively refer to them as business plans.) As a result, we are able to identify the early (and often initial) characteristics of these firms. For all of the sample companies, we also have detailed descriptions of the companies at the time of their IPOs. We obtain IPO descriptions

from S-1 registration statements and 424B prospectuses filed with the SEC. When available, we collect the company's annual report that is closest to 36 months after the IPO. We choose 36 months because it is roughly equal to the time from the business plan to the IPO. If an annual report is not available 36 months after the IPO, we collect the latest annual report that is at least 12 months after the IPO. We obtain annual report descriptions from SEC form 10-K filings.

For ten companies, we do not record an annual report observation: three companies were taken over and one company went bankrupt less than one year after the IPO; five companies are public, but have not filed an annual report more than twelve months after the IPO; one company is a Canadian firm which does not file annual reports with the SEC. We retain as part of our sample the business plan and IPO observations for all forty-nine firms.

A. Description

Table 1 presents summary information for our sample. The median company is 24 months old as of the business plan, so these documents describe the companies when they are young. As we document below, these companies are early stage businesses at the time of the business plan; the median company had no revenue in the most recently ended fiscal year at the time of the business plan.

The median time elapsed between the business plan and the IPO in our sample is 34 months, with a further median gap of 33 months between the IPO and the annual report observations. The IPO observation is therefore quite close to the midpoint of the business plan and annual report observations. The median total time elapsed is 63 months; the average is 68 months. Since the median total time elapsed is more than twice the median company age at our

first observation, our 3 observations should be sufficiently spaced in time to have the opportunity to observe meaningful time series variation in company characteristics.

Of the 48 companies whose founders we were able to identify, 21 have one founder, 16 have two co-founders, and 11 were co-founded by three or more individuals.

The frequency distributions in table 1 show that the bulk of the sample companies were founded in the early-to-mid nineties while the business plans describe the companies in the mid-to-late nineties. Thirty-one of the forty-nine IPOs took place in 1998, 1999, or 2000, at the height of the technology boom. The industry breakdown of our sample is heavily weighted towards high-technology firms: 17 in biotechnology, 15 in software/information technology, 3 in telecom, 5 in healthcare, 5 in retail, and 4 in other industries, of which 3 are high-tech companies. It is worth noting that the time frame of the sample also corresponds to the period in which “new firms” emerged as described in Zingales (2000) and Rajan and Zingales (2001).

Finally, table 1 shows our companies’ status as of August 31, 2004. 29 are still active, independent companies. 13 have been acquired, and 7 have failed and gone bankrupt.

B. Sample selection issues

In this section, we discuss potential selection issues. Most importantly, our sample includes only VC-backed firms because it is from our VC contacts that we were able to obtain the necessary data. VC-backed firms represent only a small fraction of all entrepreneurial firms and are unlikely to be representative of the typical entrepreneurial firm because of various constraints, conditions, and practices governing venture capitalists’ selection of their portfolio companies. For example, VCs typically invest several million dollars in any given company. For such an investment to make sense, the VC must expect the portfolio company to be able to

use the capital and offer a return that is a multiple of the VCs' investment. Typical mom-and-pop stores or other low-risk, low-reward start-up firms are not in a position to do this.

Even though they are not representative of all start-ups, VC-backed start-ups are an interesting subject for study because they tend to include the most promising start-ups that end up having a disproportionate impact on the economy. In particular, VC funded companies typically comprise a substantial fraction of young companies that go public in any given year. According to the National Venture Capital Association (2004), almost 39% of all IPOs from 1993 to 2003 are VC-financed companies. This understates the fraction of IPOs of young companies that are VC financed because some of the non-VC financed IPOs are mature companies such as divisions of public companies (spin-offs or equity carve-outs) or companies returning to the public markets after having gone private. We discuss results that may be special to VC-backed firms as we come to them in the paper and in the conclusion.

Among the VC-financed universe of firms, our sample of portfolio companies and financings is not a random sample in that we obtained the data from VC firms with whom we have a relationship. The 29 companies from Kaplan and Stromberg (2003) are taken from a sample of 119 VC-backed companies. As Kaplan and Stromberg (2003) do not find any obvious bias in the 119 companies, we do not think there are any obvious biases in the 29 companies that went public. The additional 20 companies provided by VCs at our request represent those companies that the VCs had financed and subsequently taken public. The VCs who agreed to participate provided all the relevant business plans they could find so there should not be a selection bias for any particular VC. While it is possible that there is some bias in the VCs who decide to participate, such a bias would affect our result only if those VCs invest in companies

with atypical initial assets that evolve in an atypical way. We have no reason to believe the participating VCs are atypical in this sense.

The industries of the sample firms are representative of the industries that VCs invest in. At the same time, however, investments in biotechnology and healthcare are over-represented – 45% of our sample versus roughly 20% of the overall VC market – while investments in software, information technology and telecom are under-represented relative to the overall VC market (see National Venture Capital Association (2004)). Because biotechnology companies, in particular, are oversampled and potentially different from other types of companies, we report most of our results separately for biotechnology and non-biotechnology firms.

II. Results

A. Financials and Employees

Table 2 summarizes the financial and employment histories of our companies. Consistent with the goal of describing the companies at an early stage, revenues, assets, and employees of the sample companies are small at the time of the business plans. They increase by orders of magnitude between the business plan and the annual report. Negative profits are the norm at the business plan. Despite increases in revenues, assets, employees, revenue per employee, and market capitalization, the median company does not become profitable through the post-IPO annual report.

A.1 Revenue

At the time of the business plan, the median company (and twenty-four of forty-seven) reports no revenue in the prior fiscal year. Average revenue is \$5.5 million, reflecting seven companies with revenues exceeding \$10 million.

At the IPO, the median and average revenue figures increase dramatically to \$7.2 million and \$40.4 million. Four companies go public with no revenue in the latest fiscal year; another nine have less than \$1 million in revenues. By the annual report, revenues increase by another order of magnitude, to a median of \$35.1 million and an average of \$179.0 million. The huge percentage changes are consistent with the revenue levels. Both the biotech and non-biotech firms experience substantial growth, but the biotech firms begin from a smaller base.

The extremely rapid revenue growth exhibited by our sample suggests that they are successful in supplying products and services to quickly growing segments of the economy. We believe that the evolution of company characteristics we consider in this paper is particularly interesting in light of this rapid growth. Rapid revenue growth into the millions of dollars per year is characteristic, according to Bhide (2000), of the types of start-ups VCs try to select.

A.2 Employees and revenue per employee

The median company has 22 employees at the business plan, 124 at the IPO, and 378 at the annual report. Because retail companies tend to be more labor-intensive than others in our sample, panel B provides employee statistics excluding the five retail companies. The median number of employees for non-retail companies is 18, 102, and 256 at the business plan, IPO, and annual report.

Revenue per employee also increases dramatically over time, from a median of 0 at the business plan to \$50.5 thousand at the IPO and \$124.6 thousand at the annual report. The increase for the non-retail subsample is similar to that of the overall sample.

A.3 Assets

Asset growth for the sample parallels revenue growth, suggesting the need for large investment outlays to generate such rapid growth. The median company's book assets at the business plan, IPO, and annual report are, respectively, \$2.6 million, \$19.6 million, and \$96.7 million; the average company's are \$5.9 million, \$44.3 million, and \$274.9 million.

A.4 Earning Before Interest and Taxes (EBIT)

Our companies are unprofitable at the time of the business plan – when we can measure profitability. The losses increase from the business plan through the IPO and annual report. This is consistent with the patterns for recent IPOs described in Fama and French (2003), particularly for young firms. The median company's EBIT for the fiscal year prior to the business plan, IPO, and annual report are, respectively, -\$0.78 million, -\$6.7 million, and -\$25.6 million. Bhidé (2000, p. 155) writes that “the financial projections of VC-backed firms usually anticipate negative cash flows for several years.” These projections are borne out in our sample -- only 17%, 18%, and 15% of firms, respectively, are profitable at the business plan, IPO, and annual report. The patterns of medians are similar for both biotech and non-biotech firms. However, biotech firms are less likely to be profitable, with 13%, 6%, and 0%, respectively, profitable at the business plan, IPO, and annual report.

A.5 Market capitalization and market-to-assets ratio

We calculate market capitalization at the business plan as the value of the company after a VC financing that occurs within six months of the date of the business plan. Market capitalization at the IPO is calculated as the first trading day's closing price times the number of shares outstanding following the offering. Market capitalization at the annual report is the average of the high and low stock prices during the last quarter of the year covered by the annual report times the number of shares outstanding as of the issue date of the report. We do not have a market capitalization figure at the annual report for one company whose shares were delisted.

The median market capitalization increases sharply from \$17.9 million at the business plan to \$204.9 million at the IPO, and then declines to \$176.9 million at the annual report. The corresponding median market-to-assets ratios are 5.4, 11.9, and 1.8. The market capitalization figures indicate a roughly tenfold increase in value from business plan to IPO, a period of roughly 3 years. These companies, despite their negative profits, are highly valued. The increased market capitalization to the IPO followed by the decline after the IPO is consistent with (and likely driven by) the technology stock boom of the late 1990s, and the subsequent decline in prices in 2000 to 2002.

B. Business

1. Line of business / business model

Panel A of table 3 presents a description of each company's business as described in each of the three relevant documents. For each company, we determine if the description of the business changes from one point in time to the next. We categorize the changes in two ways. First, we consider whether firms change their basic business model. The business model changes

if the firm sells to a completely different set of customers or if the firm markedly changes the products or services it offers. Second, we consider whether firms broaden, narrow, or maintain their initial business model or line of business. These comparisons admittedly have a subjective component to them. We report the individual descriptions to give the reader a sense of the type and magnitude of these changes.² If Microsoft were in the sample, we would classify Microsoft as having the same business model it had when it started – personal computer software sold to the same customers – but with a line of business that had broadened – from only operating system software to operating system and application software.

At the end of panel A, we report the percentage of companies that fall into each category. One notable result emerges quickly in this table. While we observe broadening or narrowing of business focus, only one of the forty-nine companies in our sample changes its line of business or basic business model. For example, a biotechnology firm may decide to narrow its focus from drug development in general to focusing on a specific disease (company 41). Or an e-commerce firm might broaden its e-commerce offerings to include more services and infrastructure offerings (company 31). We do not observe any of the companies undertaking, for example, acquisitions unrelated to the original business. We also do not observe radical shifts in focus such as a medical equipment company switching to drug development. Company 49 undergoes the greatest change in our sample, moving from offering a new computing platform to a new operating system to a suite of software programs, each time dropping the previous idea, but even in this case there is a general focus on personal computing.

This result suggests that the initial business lines and / or the accompanying attributes of those businesses do not change and, therefore, appear to be core to our sample firms. The result

² In some cases, the descriptions have been coarsened to protect the anonymity of the portfolio companies and VC firms. We base our measurements and conclusions on the more detailed descriptions that we have access to.

also is consistent with the assertion of Bhide (2000, p.155) that “VC-backed firms face less pressure to change their plans than do [other] promising start-ups.”

For the most part, companies tend to broaden or at least not reduce their offerings within markets. For the 48 companies that did not change their line of business, panel A of table 3 shows that only 13% narrowed their lines of business between the business plan and IPO, 8% narrowed between the IPO and annual report, and only 13% had narrower offerings at the annual report than at the business plan. Over the corresponding periods, 42%, 42%, and 37%.of the companies keep their offerings roughly the same, while 46%, 50%, and 50% broaden their offerings.

Non-biotech firms differ from biotech firms in that non-biotech firms rarely narrow their line(s) of business while biotech firms are substantially more likely to narrow and less likely to broaden their line(s) of business.

2. Origin of business idea

Panel B of table 3 classifies the origin of the business idea. Of the 34 companies for which we were able to find a definitive source, 5 were formed as spin-offs or joint ventures of already existing companies, 15 were started to exploit an idea the founder(s) had as a result of previous jobs, and 14 were based on academic research. Again, there is a clear difference for biotech firms which are more likely to be based on academic research while non-biotech firms are most likely to be based on ideas from previous jobs.³

³ See Gompers et al. (2005) who study the background of founders in a large sample of venture-backed start-ups. The margin between forming new ventures as start-ups (entrepreneurship) or within established firms (intrapreneurship) has been analyzed to some extent (e.g., Gromb and Scharfstein 2002). However the role of non-

3. Business strategy

Panel B also classifies our companies' business plan strategies into the categories of Baron, Hannon, and Burton (1999). Innovators are companies striving to create novel products for new, undeveloped markets. Enhancers are companies striving to improve upon products for already developed markets. Marketers are companies whose core competency lies in the marketing, distribution, and sales of their products. Technology/marketing hybrids are companies that share characteristics of the marketers as well as innovators/enhancers. Cost refers to companies who compete primarily by providing their product at low cost. We classify 24 firms (49%) as innovators, 11 (22%) as enhancers, 5 (10%) as marketers, 6 (12%) as technology/marketing hybrids, and 3 (6%) as cost. This distribution is quite similar to that of Baron, Hannon, and Burton's larger sample of 149 companies: 50%, 19%, 13%, 11%, and 7%, respectively.

C. Point of differentiation

In table 4, we classify how the sample firms differentiate themselves from their competitors over the sample period. We rely on the distinguishing characteristics stated by the companies themselves. We mention one caveat in interpreting these results. It is possible that the descriptions in the public documents – IPO prospectuses and Annual Reports – differ from those in the business plan because of legal liability concerns rather than business reasons.

By far the most important factor, cited by 100%, 98%, and 92% of companies, respectively, at the business plan, IPO, and annual report, is a belief that the company offers a unique product and/or technology. This is consistent with the description of VC-backed

profit academic institutions as stakeholders (typically, in our sample, holding rights to patented technology) in for-profit entrepreneurial firms seems under-researched.

companies provided by Bhide (2000), who writes that VCs invest predominantly in companies with proprietary products and services. It also is consistent with non-human capital being an important or critical resource of the firm.

A small number of firms – 6%, 12%, and 13% – cite the comprehensiveness of their products as differentiating at the three relevant dates.

Customer service becomes an increasingly important source of differentiation over time, increasing from 8% to 16% to 26% as a differentiating factor, respectively at the business plan, IPO, and annual report. Not surprisingly, customer service is relatively more important in the non-biotechnology firms.

Alliances and partnerships are of modest importance throughout with 12%, 12%, and 8% of the firms referring to them at the business plan, IPO and annual report.

At the business plan, 45% of companies cite the expertise of their management and other employees as distinguishing characteristics. While this suggests that specific human capital also plays an important role in many of these companies, it is notable that more than half the firms fail to mention employee or management expertise. There is not much difference in the importance of expertise between biotechnology and non-biotechnology firms. Curiously, the percentage of firms that cite expertise declines to 14% at the IPO and 13% at the annual report. This result is suggestive of a more important role for non-human capital than for specific human capital, particularly as companies mature.

A small number of firms – 4%, 2%, and 5% – also cite scientific advisors, another human capital related resource – as important.

Finally, a small number of firms – 6%, 8%, and 8% – cite reputation as important. This may reflect human or non-human capital reputation.

The transition percentages shown in table 4 indicate that self-reported company distinguishing characteristics are generally stable over time. The columns labeled “yes to no” and “no to yes” show the percentage of firms for which a given characteristic was (was not) cited at one time but was not (was) cited at a later time. The one exception is the large reduction in firms citing management or employee expertise as a differentiating characteristic from the business plan to the IPO.

Overall, then, self-reported distinguishing characteristics suggest that non-human capital assets are more important than specific human capital assets initially, and that the relative importance increases over time.

D. Assets and Technology

In table 5, we describe the types of assets owned by our companies. We note whether each company mentions patents, physical assets, and / or non-patented intellectual property as important or central to the business. For example, while all companies have some physical assets, those physical assets do not necessarily differentiate or add value to the business. In particular, specific physical assets are generally not critical to software or biotechnology businesses.

We classify the patents and physical assets as alienable assets because they can potentially be sold or assigned to other companies. We classify non-patented intellectual property as some kind of process, technique, or knowledge that the company believes is an important asset, but is not patented or assignable. Such non-patented intellectual property may or may not be tied to specific human capital.

A firm can have both patented and non-patented intellectual property. In the table, when we refer to proprietary intellectual property, this includes both patented and non-patented intellectual property. The distinction does not affect the percentages because all firms with patented intellectual property also claim to have non-patented intellectual property.

Table 5 indicates that patents and physical assets become increasingly important from the business plan to the IPO to the annual report. At the business plan, 29% of companies own or are the exclusive licensees of patents; at the IPO, 49%; and at the annual report, 62%. While patents and exclusive licenses are most important for biotech firms, they also are important for non-retail, non-biotech firms.

Physical assets are relatively unimportant for biotech firms and always important for retail firms. Physical assets become increasingly important for non-retail, non-biotech firms, going from 11% to 26% to 39% from business plan through IPO. When patents and physical assets are combined as alienable assets, we find that 43%, 67%, and 82% of the sample firms have such assets, respectively, at the business plan, IPO, and annual report.

Proprietary intellectual property is important for almost all of the non-retail firms – both biotech and non-biotech. Intellectual property, therefore, whether patented or not, is substantially more important than physical assets. This implies that the non-retail companies in the sample are based largely on ideas or knowledge rather than physical capital. This is consistent with arguments in Zingales (2000) that firms are increasingly defined by intellectual capital rather than physical capital.

E. Growth strategy

In table 6, we document the elements and evolution of the companies' growth strategies. At all times, the firms are strongly oriented towards internal growth. The most cited strategies at the business plan, IPO and annual report are to produce new or upgraded products (59%, 82% and 72%, respectively), followed by obtaining additional customers through increased market penetration or market leadership (49%, 71%, and 56%, respectively). Companies also plan to expand geographically (20%, 43%, and 21%, respectively). All three types of internal growth peak at the time of the IPO. It is worth noting that the emphasis on internal growth and, particularly, new products, is consistent with the result in table 5 that these companies rely heavily on differentiated products and technologies.

External growth through alliances and partnerships or through acquisitions becomes relatively more important over time. At the business plan, 29% and 2%, respectively, of the firms look for growth through alliances or acquisitions. By the time of the third annual report, this has increased to 51% and 28%, respectively. At all times, biotech companies are more likely to pursue alliances – typically with large pharmaceutical companies for the development, testing, and / or distribution of their products.

The transition percentages show that growth strategies tend to broaden between the business plan and IPO. The percentages in the “no to yes” column are all considerably larger than those in the “yes to no” column. By the IPO, companies are trying to grow along more dimensions than at the business plan.

Surprisingly, growth strategies seem to narrow somewhat between the IPO and annual report. Except for acquisitions, the percentages in the “yes to no” column are larger than those in the “no to yes” column. Two explanations are possible. Perhaps some of the growth

strategies cited at the IPO were unsuccessful and, therefore, abandoned. Another explanation is increased conservatism due to the decrease in market capitalization and net income.

F. Customers

In table 7, we describe the evolution of our companies' customers. At the business plan, only 47% actually have customers at the business plan; by the IPO, 90% have customers; and by the annual report, 95% have customers. At all stages, biotechnology firms are less likely to have customers than the non-biotechnology firms. All of these percentages are consistent with the revenue results presented in table 2.

Roughly 85% of the sample companies target businesses as customers while 15% target consumers as customers. These percentages are stable through all stages consistent with the results on the stability of the business model in table 3.

We characterize the evolution of company customer bases as broadening, narrowing, or staying about the same. An example of a broadening customer base would be a company that targets its products to medium-sized businesses at the business plan, but targets its products to both medium-sized and large (Fortune 500) companies at the IPO. The majority of the companies address a similar customer base over time, consistent again with the stability of the business models in the sample. Roughly one-third of the firms broaden their customer bases. About one-quarter broaden from business plan to IPO and another 15% broaden from IPO to annual report. A small fraction of the sample firms narrows their customer base.

These results suggest that the dramatic revenue increases in table 2 are primarily driven by selling more to an initial customer type either through increased market penetration or by

selling additional products. The revenue increases are likely driven secondarily by selling to new types of customers.

G. Competitors

Table 8 describes the competition faced by the sample companies. At the business plan, 84% of the companies note that they face competition in their target markets. Typically this competition includes other startups as well as established firms. Of the other 16% of companies, 10% do not mention competition while 6% (three companies) claim that their product or market niche is so unusual that they face no real competition. All 49 companies note that they have competition by the IPO.

The type of competition named remains fairly stable with 56% of the firms claiming to face similar competitive threats over all three stages. Roughly 40% see a broadening in the types of companies they compete with while one company sees a narrowing. Again, this result seems consistent with the stability of the business model found in table 3.

H. Strategic alliances and other partnerships

The use of strategic alliances provides some evidence regarding firm boundaries because such alliances allow firms to contract to cooperate and share resources without merging. Table 9 summarizes the use and evolution of strategic alliances and other similar partnership arrangements by the sample companies.

The use of strategic alliances increases from business plan to IPO and then is approximately flat from IPO to annual report. The increase is particularly large for the biotech firms. At the business plan, 35% of the companies mention strategic alliances. This increases to

67% at the IPO and 69% at the annual report. For biotech companies, 18%, 82%, and 82%, respectively, have alliances at the business plan, IPO and annual report; for non-biotech companies, the corresponding percentages are 44%, 59%, and 64%. Among companies with strategic alliances, the median (average) number of alliances increases over time from 2 (2.2) at the business plan to 3 (3.3) at the IPO to 4 (5.4) at the annual report.

Although strategic alliances are not as common before the IPO, those that do exist are more stable through the IPO. Among companies with strategic alliances at the business plan, a median (average) 67% (60%) of those alliances still exist at the IPO. Among companies with strategic alliances at the IPO, only 42% survive to the annual report. Overall, only a median 20% (average 39%) of alliances at the business plan still exist at the annual report.

I. Management

The previous tables have focused largely on the non-human capital elements of the sample companies. We now turn our attention to the human capital elements of the firms.

Panel A of table 10 characterizes the top five executives described in the business plan, IPO prospectus, and annual report. At the time of the business plan, the management teams are incomplete, particularly the biotechnology firms: six of the companies (12%), five of which are in biotechnology, do not have a CEO; only 42% list a chief financial officer (CFO) as one of the top five executives; and only 38% list a sales or marketing executive (CMO). Consistent with the importance of technology, 77% of the companies list a Chief Scientist, Chief Technical Officer, Vice President of Engineering (CTO), or similar as a top five executive.

By the time of the IPO and annual report, CFOs have become increasingly important, with 80% and 85% of the companies listing a CFO as a top five executive. The importance of

sales and marketing remains fairly constant over time with 38%, 37%, and 41% of companies having a VP of marketing or similar as a top five executive at the business plan, IPO, and annual report. Biotechnology companies are much less likely to have such a person as a top five manager. The importance of a chief technology or science officer is stable at the IPO (at 77%), but declines substantially (to 47%) by the third annual report

Panel A also provides information on the involvement of founders. Founders are heavily involved with the companies at the time of the business plan. We can identify a founder as the CEO of 77% of the 43 companies with a CEO, or 33 of the 49 companies. We also can identify a founder as being on the board in 92% of the companies in which the founder is not the CEO and we have board information. A founder is a top five manager or on the board of all 47 companies for which we have board and management data at the time of the business plan.

Involvement of founders declines steadily over time. By the time of the IPO, only 57% of the CEOs are founders while 92% of the firms still have a founder as a top executive or a director. By the time of the annual report, 46% of the CEOs are founders while only 72% of the firms still have a founder as a top executive or a director. This suggests that over time, founders move from operating positions to board positions to no involvement with the company.

Panel B describes the previous backgrounds of the top five executives listed in the business plan. We characterize 42% of these executives with a background in general management, 25% in technical or technology management, 16% in science or other technical jobs, 9% with marketing backgrounds, and 8% with backgrounds in finance or accounting. The biotechnology company executives are more likely to have a technical management or science background while the non-biotechnology company executives are more likely to have a general management background. Nevertheless, for both types of firms, it seems, then, that a fairly

broad set of skills are employed to manage our sample companies, even when they are very young. These companies employ the skills of experienced professionals fairly early on.

In panel C, we address the stability of human capital in more detail. CEO turnover is relatively low from the business plan to the IPO with 84% of the CEOs remaining in place. Turnover of the other top executives is greater with only 55% remaining in place from business plan to IPO. Turnover of both the CEO and the other top five executives is more common after the company has gone public. Only 59% of the CEOs retain their jobs between the IPO and the annual report while only 36% of the other top five executives remain the same. Overall, therefore, turnover is substantial. From the business plan to the annual report, exactly 50% of the CEOs and only 25% of the other top five executives remain the same.

J. Ownership

In the previous we described the evolution of human capital. In this section, we consider how the providers of that human capital are rewarded and incentivized. Table 11 summarizes company ownership. Ownership data at the business plan reflects 33 firms as we do not have ownership data at that time for 16 firms.

Panel A shows the evolution of ownership by the founders (taken as a group) and the CEO at the different company stages. We report ownership at the business plan immediately after the VC financing for which we have data. We report ownership both immediately before and immediately after the IPO.

Founder ownership declines sharply from a median of 28.9% at the business plan to 12.4% just before the IPO to 8.8% immediately following the IPO. Because founders typically are not allowed to sell any shares until six months after the IPO, this suggests that founders give

up a substantial fraction of their ownership stakes in order to attract VC financing and / or outside management talent. Founder ownership continues to decline over the company's public life, to a median 5.3% at the annual report. This decline reflects founder stock sales as well as issuance of additional stock.

CEO ownership also declines as the firm ages: the median CEO owns 15.9% of the company at the business plan, 5.4% post-IPO (6.7% pre-IPO), and 3.6% at the annual report. CEOs who retain their position from the business plan to the (pre-) IPO see their percentage ownership decline by 38%.

The six CEOs who are not founders own a median of 5.5% of the company at the time of the business plan. The twenty-one non-founder CEOs at the time of the IPO own a median of 4.2% of the company just before the IPO. One can interpret these results as indicating that VC-financed companies allocate roughly 5% of the company's equity to attract and provide incentives to an outside CEO.

Panel A also breaks out the companies by biotech and non-biotech firms. Biotech and non-biotech founders own roughly the same percentage of the companies at the business plan. At the time of the IPO, however, biotech founders own less of the firms than non-biotech founders. Biotech CEOs own less of the firms than non-biotech CEOs both at the business plan and at the IPO. These results suggest that specific human capital is less important in biotech companies. There are at least two possible explanations. First, it may be easier to patent or assign the intellectual property of these companies. Second, these companies may require more financial capital.

It is worth noting that the CEOs in our sample own an average of 9.8% of the pre-IPO (7.5% of the post-IPO) equity of the sample companies. This is less than the 19.1% pre-IPO

(14.0% post-IPO) reported in Baker and Gompers (1999) for a sample of 433 venture capital-backed firms that went public between 1978 and 1987. Part of the reason for the difference is that our sample includes relatively more biotech firms which have relatively fewer founder CEOs. However, even for non-biotech firms, the CEO only owns 10.6% pre-IPO (8.2% post-IPO). Surprisingly, this suggests that human capital may have become less important rather than more important over time.

Panel B of table 11 reports how the ownership of the firm is divided immediately before the IPO. VCs, in exchange for capital and, potentially, business knowledge, own a median of 52.6% of the median company at the IPO. Founders retain a median 12.4%. When non-founders, CEOs own a median 4.2%; non-founder managers other than the CEO collectively own a median 2.2%. Business partners, such as original parent companies and strategic alliance partners, own none of the median firm and 3.8% of the average firm. Others, which include non-VC investors and non-founder employees, collectively, own a median of 22.7. Panel B also indicates that the founders and management team have smaller equity positions in biotech firms than in non-biotech firms.

The last column of panel B calculates the dollar value of the founders' equity stakes using the first trading day's closing price, finding a median value of \$25.6 million and an average of \$122.0 million. The dollar value of non-biotech founders' holdings are substantially higher than those of biotech founders.

Using the ownership stakes just before the IPO in panel B, we can obtain three estimates of the percentage of value that founders retain that is not related to ongoing incentives. The first is the founders' average ownership percentage of 14.6% (median 12.4%). This is an upper bound, because some of this ownership is present for incentive purposes and would be given to

non-founding managers. It is also an upper bound because the founders may have contributed non-human capital.

The second estimate begins with the ownership of founders and the top five managers that equals an average of 20.3% (median 16.3%). In the six cases in which there are no founders among the top five managers, their average ownership is 6.0% (median of 6.2%). The 6.0% ownership provides an estimate of how much equity is required to attract a new management team to replace the existing one. The difference of 14.3% provides another estimate of an upper bound on the value of the specific human capital that the founders provided.

A third measure calculates the equity needed for ongoing incentives by adding the average ownership of non-founder CEOs, 5.0%, to the average ownership of other non-founder, non-CEO top managers, 3.5%, to get a total of 8.5%. Subtracting this 8.5% from the ownership of founders and top five managers of 20.3% yields an estimate of 11.8% as the value of the specific human capital provided by the founders.

Overall, then, our estimates suggest that founders retain an upper bound of 11.8% to 14.6% of the value of the pre-IPO equity for their human capital assets specific to the company.

K. Boards of directors

Table 12 documents the size, composition, and turnover of the boards of directors of our companies. The median board size is 5 seats at the business plan, 7 seats at the IPO, and 7 at the annual report. Insiders, defined as founders and current or past company managers, hold a constant median of 2 seats at each of the business plan, IPO, and annual report. VCs hold a median of 2 seats at the business plan, 3 at the IPO, and 1 at the annual report. This pattern

reflects additional VC investment between the business plan and IPO, and profit-taking once the company has issued shares to the public. Meanwhile, the board presence of non-VC outsiders, who are generally either industry experts and / or experienced executives of other firms, increases from a median of 1 seat at the business plan to 2 at the IPO to 3 at the annual report.

Director turnover also increases after the company goes public. While 71% of directors at the business plan are still directors at the IPO, only 57% of the directors at the IPO are directors at the annual report. Only 40% of the directors at the business plan remain at the annual report.

III. Summary and Discussion

In this paper, we have studied the evolution of firm characteristics from early business plan to initial public offering to public company for 49 VC financed companies. The typical company in our sample experiences dramatic growth in revenue, assets, and market capitalization, but does not become profitable. While the companies grow dramatically, their business models or core businesses appear remarkably stable. Within core businesses, firm activities tend to stay the same or broaden over time. The firms also sell to similar customers and compete against similar competitors in the three stages of the life cycle we examine.

Almost uniformly, firms claim that they are differentiated by a unique product, technology or service at all three stages of the life cycle we examine. The points of differentiation also tend to be stable over time. At the business plan, roughly half of the firms also stress the importance of expertise (which one might interpret as human capital). The stated importance of expertise, however, declines to less than 15% by the IPO and third annual reports. Firms stress the importance of proprietary intellectual property (IP), patents, and physical assets

in all three stages. Alienable assets – patents and physical assets – become increasingly important over time.

While points of differentiation, alienable assets, customers, and competitors remain relatively constant, the human capital of the sample firms changes substantially. At the time of the annual report, one-half of the CEOs at the business plan remain; only one-quarter of the next four top executives remain.

Overall, we interpret the results as strongly consistent with the property rights view of the world articulated by Hart (1995) and Holmstrom (1999). Lines of business, physical assets, patent assets, and IP assets exist in these firms, are relatively stable, and do not disappear as human capital assets turn over. Specific human capital is clearly less important over time.

The results also are consistent with the critical resource view of Wernerfelt (1984) and Rajan and Zingales (2001b) in that sample firms appear to begin with some specialized or core assets that they maintain over time.

The results are less clear cut concerning the view that human capital is the critical resource. On the one hand, proprietary, but non-patentable intellectual property is critical to many firms suggesting that effective human capital is important to the success of the companies. Using ownership stakes just before the IPO, we estimate that founders retain an upper bound of 11.8% to 14.6% of the value of the pre-IPO equity for their human capital assets specific to the company (and not for incentive purposes). On the other hand, the firms operate and thrive while the human capital changes substantially. This implies that human capital is important in the sense that intellectual property is critical, but the intellectual property typically does not seem to be tied to specific individuals.

Our analysis also sheds light on the argument in Zingales (2000) and Rajan and Zingales (2001a) that today's "new firms" differ from the old, traditional firms of the (early) 20th century in that alienable assets – assets that can be assigned or pledged to other firms – have become less important relative to human capital and non-alienable assets (for example, business processes or knowledge). This argument implies that human capital should retain a larger fraction of the value of these "new firms." The ownership results in our (admittedly small) sample do not support this implication. Founders retain a smaller fraction of their firms at the IPO than the founders in IPOs of the 1980s studied in Baker and Gompers (1999).

From a practitioner perspective, the greater stability of lines of business in our sample relative to the stability of management teams favors the product / market / horse view of VC investing over the best available management team / jockey view. The results suggest that VCs are regularly able to find management replacements or improvements for good businesses. At least in our sample, we do not find cases in which VCs invest in good managers who find business replacements. An initial strong management team, therefore, is neither necessary nor sufficient. An initial strong business model may not be sufficient, but appears necessary.

Some practitioners have suggested that business plans do not matter much – if a VC puts in a great management team in a mediocre business, the team will figure out what to do. Our results suggest that the business plan – whether or not it is written down – is very important.

Finally, we end with a cautionary note. An important caveat to the mixed results for the view that specific human capital is a critical resource is the possibility that VCs choose to fund only those companies in which specific human capital is relatively unimportant.⁴ It also is possible that VCs do not allow managers to change the business. While possible, VC-funded

firms represent a substantial fraction of all IPOs (at least 39%). Our results suggest that business lines are relatively stable and specific human capital is relatively less important for that large fraction of IPOs. A logical avenue for future research is to consider whether our results hold for non-VC backed firms. Whether or not the results generalize, however, we view the results in this paper as an early empirical look at important questions that clearly merit further research.

⁴ Even if so, the view that human capital is more important now than in the past is challenged by the fact that founders of VC funded firms capture a lower fraction of firm value in our sample than in the earlier period studied by Baker and Gompers.

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Table 1 – Sample Summary

Median, average, and standard deviation of (i) the age of the firm in months as of the date of the business plan (BP), (ii) the time elapsed in months between the business plan and the IPO, (iii) the time elapsed in months between the IPO and the annual report (AR), and (iv) the time elapsed in months between business plan and the annual report for 49 VC-financed companies that subsequently went public. The table also reports frequency distributions of the number of founders, the dates sample firms were founded, the dates of their business plans, IPOs, and annual reports, the industries in which they operate, and their status as of August 2004.

	<u>Age (months) at Business Plan</u>	<u>Months between Business Plan and IPO</u>	<u>Months between IPO and Annual Report</u>	<u>Months between Business Plan and Annual Report</u>
Median	24	34	33	63
Average	40	38	32	68
St. dev.	51	23	8	23
Num. Obs.	49	49	39	39

Number of companies with Business Plan dated prior to or concurrent with first VC financing: 19

Number of companies with one founder: 21

Number of companies with two co-founders: 16

Number of companies with three or more co-founders: 11

	<u>Number firms founded</u>	<u>Number BPs</u>	<u>Number IPOs</u>	<u>Number ARs</u>
1975-1980	3			
1980-1984	2			
1985-1989	5	4	1	
1990	1	1		
1991	4			1
1992	3		2	
1993	2	3		
1994	7	1		1
1995	9	8	3	1
1996	5	11	3	
1997	2	9	3	2
1998	6	9	5	3
1999		2	14	1
2000			12	9
2001		1		5
2002			1	9
2003			1	6
2004			4	1

Industry breakdown:

	<u>Biotechnology</u>	<u>Software/IT</u>	<u>Telecom</u>	<u>Healthcare</u>	<u>Retail</u>	<u>Other</u>
#firms	17	15	3	5	5	4

Status as of 8/31/2004:

	<u>Active</u>	<u>Acquired</u>	<u>Bankrupt</u>
#firms	29	13	7

Table 2
Financials and Employees

Median, average, and standard deviation of revenue, assets, earnings before interest and taxes (EBIT), net income, market capitalization, EBIT to revenue ratio, market capitalization to book assets ratio, number of employees, and revenue per employee at the business plan (BP), IPO, and annual report (AR) for 49 VC financed companies that subsequently went public. Revenue, net income, and assets are reported as of the end of the prior fiscal year. Panel A reports statistics broken out by all sample firms, biotechnology firms, and non-biotechnology firms. Panel B reports some statistics for non-retail firms.

Panel A

<u>Revenue (\$M)</u>	<u>All firms</u>			<u>Biotechnology firms</u>			<u>Non-biotechnology firms</u>		
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	0	7.2	35.1	0	2.9	20.7	0.6	12.7	97.5
Average	5.54	40.5	179.0	0.7	4.9	30.1	8.3	59.5	241.4
St. dev.	13.6	154.5	332.7	1.6	5.3	14.8	16.5	189.4	376.0
Num. Obs.	47	49	39	17	17	11	30	32	28
<u>Revenue percentage change</u>									
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	390	408	2,591	140	419	209	607	397	2,094
Average	2,954	3,569,242	63,255	131	18,249	821	3,378	5,131,678	74,273
St. dev.	7,593	21,400,000	234,524	224	56,443	1,229	8,081	25,700,000	253,878
Num. Obs.	23	36	20	3	11	3	20	25	17
<u>Number of employees</u>									
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	22	124	378	10	71	134	31	209	561
Average	92	340	1,267	17	87	195	138	475	1,688
St. dev.	202	659	2,320	13	67	141	246	785	2,630
Num. Obs.	42	49	39	16	17	11	26	32	28
<u>Number of employees percentage change</u>									
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	515	100	1,519	528	62	1,170	500	125	2,023
Average	720	277	3,848	579	128	1,803	806	336	4,700
St. dev.	808	492	7,617	544	183	1,970	935	562	8,896
Num. Obs.	42	39	34	16	11	10	26	28	24

Table 2 (continued)
Biotechnology firms

<u>All firms</u>			<u>Biotechnology firms</u>			<u>Non-biotechnology firms</u>			
<i>Revenue per employee (\$thousand)</i>									
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	0	50.5	124.6	0	48.9	87.7	9.9	53.5	136.3
Average	29.5	63.3	139.4	5.8	45.9	97.7	44.0	72.5	155.8
St. dev.	58.5	64.5	98.7	16.4	40.0	66.9	69.8	73.3	105.2
Num. Obs.	42	49	39	16	17	11	26	32	28
<i>Revenue per employee percentage change</i>									
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	51	116	374	-17	111	163	63	120	453
Average	269	217,486	1497	-17	6,685	163	304	310,239	1,687
St. dev.	518	1,290,494	3815	113	20,714	237	539	1,548,924	4,059
Num. Obs.	18	36	16	2	11	2	16	25	14
<i>Assets (\$M)</i>									
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	2.6	19.6	96.7	1.8	18.5	91.7	2.9	20.8	108.9
Average	5.9	44.3	274.9	3.3	23.7	96.7	6.7	55.4	345.0
St. dev.	10.8	69.6	663.0	3.9	18.3	64.5	12.3	83.5	773.9
Num. Obs.	35	49	39	9	17	11	26	32	28
<i>Assets percentage change</i>									
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	430	287	2,498	689	361	1,077	396	274	3,253
Average	2,570	913	52,605	1,231	646	3,505	3,057	1,018	65,526
St. dev.	6,137	1,812	158,013	1,557	994	5,877	7,090	2,053	176,211
Num. Obs.	30	39	24	8	11	5	22	28	19
<i>EBIT (\$M)</i>									
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	-0.8	-6.7	-25.6	-1.4	-10.3	-32.8	-0.8	-5.4	-22.4
Average	-1.6	-7.7	-48.6	-1.9	-11.7	-30.4	-1.5	-5.6	-55.8
St. dev.	2.5	13.5	93.3	2.0	7.5	18.1	2.6	15.5	109.2
Num. Obs.	36	49	39	8	17	11	26	32	28
% positive	17%	18%	15%	13%	6%	0%	18%	25%	21%

Table 2 (continued)

EBIT percentage change

	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	159	156	996	538	239	755	120	154	1,046
Average	1,149	-2,129	9,818	969	182	2,938	1,199	-3,037	11,694
St. dev.	2,978	15,320	43,675	1,554	212	6,157	3,292	18,091	49,258
Num. Obs.	32	39	28	7	11	6	25	28	22

Market capitalization (\$M)

	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	17.9	232.4	176.9	14.1	254.9	265.8	18.7	218.8	163.5
Average	29.0	697.7	470.8	16.2	388.3	257.6	33.3	862.0	557.7
St. dev.	32.9	1920.3	1378.6	11.9	368.2	216.2	36.5	2357.8	1630.9
Num. Obs.	40	49	38	10	17	11	30	32	27

Market capitalization percentage change

	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	1,586	-55	496	2,064	-53	2,370	1,409	-57	417
Average	7,778	98	10,492	7,101	14	2,830	8,005	132	13,250
St. dev.	108865	362	37,055	16,631	139	3,146	19,813	418	43,066
Num. Obs.	40	38	34	10	11	9	30	27	25

Market capitalization to assets ratio

	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Median	5.4	13.9	1.8	2.3	13.6	2.2	7.1	15.6	1.6
Average	8.9	23.6	2.3	5.1	22.1	2.8	9.9	24.5	2.0
St. dev.	10.1	25.2	2.1	5.6	21.1	2.5	10.8	27.4	1.9
Num. Obs.	25	49	38	5	17	11	20	32	27

Market capitalization to assets ratio percentage change

	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Median	80	-89	-61	110	-91	-38	62	-89	-74
Average	328	-65	-23	694	-79	120	237	-60	-57
St. dev.	588	73	162	1015	25	354	420	85	52
Num. Obs.	25	38	21	5	11	4	20	27	17

Table 2 (continued)
Panel B – Excluding retail firms

	<u>BP</u>	<u>IPO</u>	<u>AR</u>	Percentage Change		
				<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
<i>Number of employees</i>						
Median	18	102	256	523	96	1,519
Average	56	179	582	726	258	3,958
St. dev.	115	216	991	821	493	8,056
Num. Obs.	38	44	34	38	34	30
<i>Revenue per employee (\$thousand)</i>						
Median	0	43.6	121.7	51	164	409
Average	23.2	55.3	135.0	309	252,558	1,908
St. dev.	54.3	53.8	96.5	580	1,390,606	4,369
Num. Obs.	38	44	34	14	31	12

Table 3
Lines of Business

Stated business at the business plan, IPO, and annual report, as well as the percentage of companies whose stated lines of business broaden, narrow, or stay the same over those periods for 49 VC financed companies that subsequently went public. Panel B categorizes the origin of each company's business idea, according to the business plan, as an existing business, academic research, a previous employer of the founder(s), or unknown. Panel B also categorizes business strategies as of the business plan according to the Baron, Hannan, and Burton (1999) classification system.

Panel A

Companies whose line of business stays about the same over time

<u>Company</u>	<u>Business Plan</u>	<u>IPO</u>	<u>Annual Report</u>
1	●Development of analgesics	●Development of analgesics	●Development of analgesics
2	●Chemical analysis instrumentation and research services	●Contract research and development services	●Contract research and development services
3	●Specialty supermarkets	●Specialty supermarkets	●Specialty supermarkets
4	●Customer information management software	●Enterprise relationship management software	●Enterprise customer relationship management software
5	●Category-dominant specialty retailer	●Specialty retailer	●Specialty retailer
6	●Sustained-release drug delivery systems	●Sustained-release drug delivery systems	●Sustained-release drug delivery systems
7	●Non-invasive cardiac surgery	●Non-invasive cardiac surgery	●Non-invasive cardiac surgery
8	●Production of nanocrystalline materials	●Development and marketing of nanocrystalline materials	●Engineering and manufacturing of nanocrystalline materials
9	●Telecom service provider	●Telecom service provider	●Telecom service provider
10	● Superstore specialty retailer	● Full-line specialty retailer	● Full-line specialty retailer
11	●Office supply stores	●Office supply stores	● Office supply stores
12	●Digital prepress equipment	●Digital prepress equipment	
13	●Maps and mapping-related products, services, and technology	●Mapping products and services	
14	● Therapeutic products for cancer and infectious diseases	● Therapeutic products for cancer and infectious diseases	
15	● Small business equipment leasing	● Small business equipment leasing	

Table 3 (cont.)

Companies whose line of business broadens/narrows between the business plan and IPO but not between the IPO and the annual report

<u>Company</u>	<u>Business Plan</u>	<u>IPO</u>	<u>Annual Report</u>
16	<ul style="list-style-type: none"> ●Implantable hearing devices 	<ul style="list-style-type: none"> ●Implantable and semi-implantable hearing devices 	<ul style="list-style-type: none"> ●Implantable and semi-implantable hearing devices
17	<ul style="list-style-type: none"> ●Wireless data communications 	<ul style="list-style-type: none"> ●Wireless communication and information systems for health information 	<ul style="list-style-type: none"> ●Wireless health information communication systems
18	<ul style="list-style-type: none"> ●Drug screening and discovery 	<ul style="list-style-type: none"> ●Drug candidate development 	<ul style="list-style-type: none"> ●Drug candidate development
19	<ul style="list-style-type: none"> ●Drug target discovery 	<ul style="list-style-type: none"> ●Drug target discovery and small molecule drug development 	<ul style="list-style-type: none"> ●Small molecule drug discovery and development
20	<ul style="list-style-type: none"> ●Web-based enterprise application software 	<ul style="list-style-type: none"> ●Live business collaboration software and services 	<ul style="list-style-type: none"> ●Application software and services for real-time enterprise collaboration
21	<ul style="list-style-type: none"> ●Products for the treatment of abnormal uterine bleeding 	<ul style="list-style-type: none"> ●Surgical systems for the diagnosis and treatment of gynecological disorders 	<ul style="list-style-type: none"> ●Surgical systems for the diagnosis and treatment of gynecological disorders
22	<ul style="list-style-type: none"> ●Products and services to accelerate drug discovery 	<ul style="list-style-type: none"> ●Creating drug candidates through innovations in chemistry 	<ul style="list-style-type: none"> ●Creating small molecule drugs through the integration of chemistry, biology and informatics
23	<ul style="list-style-type: none"> ●Experimentation platform for a wide range of biological analyses 	<ul style="list-style-type: none"> ●Tools for large-scale analysis of genetic variation and function 	<ul style="list-style-type: none"> ●Tools for large-scale analysis of genetic variation and function
24	<ul style="list-style-type: none"> ●Internet-based micropayments system and incentive currency 	<ul style="list-style-type: none"> ●Internet-based direct marketing and advertising services combined with programs that reward consumers with cash 	
25	<ul style="list-style-type: none"> ●Combinatorial chemistry 	<ul style="list-style-type: none"> ●Computational drug discovery 	
26	<ul style="list-style-type: none"> ●Treatment for psychotic major depression 	<ul style="list-style-type: none"> ●Drug development for severe psychiatric and neurological diseases 	
27	<ul style="list-style-type: none"> ●Discovery and development of drugs for memory-related disorders 	<ul style="list-style-type: none"> ●Development of drugs for a broad range of central nervous system disorders 	
28	<ul style="list-style-type: none"> ●Development of treatments for pulmonary inflammatory diseases 	<ul style="list-style-type: none"> ●Discovery and development of treatments for allergies, infectious diseases, and chronic inflammatory diseases 	
29	<ul style="list-style-type: none"> ●Software and services to industries transformed by human genome research 	<ul style="list-style-type: none"> ●Software products and services to accelerate drug discovery and development 	

Table 3 (cont.)

Companies whose line of business broadens/narrows between IPO and annual report but not between business plan and IPO

<u>Company</u>	<u>Business Plan</u>	<u>IPO</u>	<u>Annual Report</u>
30	<ul style="list-style-type: none"> •Diagnostic imaging and treatment of cancer and cardiovascular disease 	<ul style="list-style-type: none"> •Diagostic imaging and treatment of cancer, artherosclerosis, and other diseases 	<ul style="list-style-type: none"> •New drugs to treat cancer and artherosclerosis
31	<ul style="list-style-type: none"> •Internet data delivery software 	<ul style="list-style-type: none"> •Internet data delivery software 	<ul style="list-style-type: none"> •E-business infrastructure software and services
32	<ul style="list-style-type: none"> •Sales and marketing automation software 	<ul style="list-style-type: none"> •Sales, marketing, and customer support automation software 	<ul style="list-style-type: none"> •Customer relationship management software
33	<ul style="list-style-type: none"> •Microfluidics 	<ul style="list-style-type: none"> •Microfluidics 	<ul style="list-style-type: none"> •Novel assay chemistry solutions for drug discovery and development
34	<ul style="list-style-type: none"> •Upscale, casual ethnic restaurants 	<ul style="list-style-type: none"> •Upscale, casual ethnic restaurants 	<ul style="list-style-type: none"> •Upscale, casual ethnic restaurants and casual ethnic diners

Companies whose line of business broadens/narrows between both the business plan and IPO and the IPO and annual report

<u>Company</u>	<u>Business Plan</u>	<u>IPO</u>	<u>Annual Report</u>
35	<ul style="list-style-type: none"> •Internet marketing software 	<ul style="list-style-type: none"> •Internet marketing and data aggregation software 	<ul style="list-style-type: none"> •E-business products and services
36	<ul style="list-style-type: none"> •Internet communication services 	<ul style="list-style-type: none"> •Internet system and network management 	<ul style="list-style-type: none"> •Internet infrastructure outsourcing
37	<ul style="list-style-type: none"> •Website production software 	<ul style="list-style-type: none"> •Web content management software 	<ul style="list-style-type: none"> •Enterprise content management software
38	<ul style="list-style-type: none"> •Hotel reservation and commission collection system 	<ul style="list-style-type: none"> •Transaction processing services for the worldwide hotel industry 	<ul style="list-style-type: none"> •Hotel reservation and representation services for the global hotel industry
39	<ul style="list-style-type: none"> •E-commerce solutions 	<ul style="list-style-type: none"> •E-commerce and direct marketing services 	<ul style="list-style-type: none"> •Technology infrastructure and services
40	<ul style="list-style-type: none"> •Market research 	<ul style="list-style-type: none"> •Market research and polling 	<ul style="list-style-type: none"> •Market research and consulting
41	<ul style="list-style-type: none"> •Novel antimicrobial compounds 	<ul style="list-style-type: none"> •New antibacterial and antifungal drugs 	<ul style="list-style-type: none"> •Prevention of ventilator-associated pneumonia
42	<ul style="list-style-type: none"> •Semiconductor laser diodes and related systems and subsystems 	<ul style="list-style-type: none"> •Semiconductor optoelectronic integrated circuits and high power semiconductor lasers 	<ul style="list-style-type: none"> •Semiconductor circuits and lasers; fiber-optic systems
43	<ul style="list-style-type: none"> •Local switched telecommunications services 	<ul style="list-style-type: none"> •Competitive local exchange carrier 	<ul style="list-style-type: none"> •National communications provider
44	<ul style="list-style-type: none"> •Basic local telephone services 	<ul style="list-style-type: none"> •Facilities-based competitive local exchange carrier 	<ul style="list-style-type: none"> •Facilities-based operator of a fiber optic communications infrastructure
45	<ul style="list-style-type: none"> •Customer interaction software 	<ul style="list-style-type: none"> •E-business infrastructure software 	<ul style="list-style-type: none"> •Enterprise software vendor
46	<ul style="list-style-type: none"> •Disease prevention 	<ul style="list-style-type: none"> •Live-virus vaccines 	<ul style="list-style-type: none"> •Disease prevention through vaccine technology
47	<ul style="list-style-type: none"> •Sterilization systems for medical instruments 	<ul style="list-style-type: none"> •Sterile processing and infection prevention systems 	<ul style="list-style-type: none"> •Infection prevention, contamination control, microbial reduction, and critical care support products and services
48	<ul style="list-style-type: none"> •Disease gene discovery 	<ul style="list-style-type: none"> •Gene and drug target discovery, database, and information technology products and services 	<ul style="list-style-type: none"> •population genetics company developing drugs and DNA-based diagnostics

Companies whose line of business changes between both the business plan and IPO and the IPO and annual report

<u>Company</u>	<u>Business Plan</u>	<u>IPO</u>	<u>Annual Report</u>
49	<ul style="list-style-type: none"> •New computing platform 	<ul style="list-style-type: none"> •Computer operating system 	<ul style="list-style-type: none"> •Software solutions for Internet appliances

Table 3 (cont.)

All Firms	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP/IM to AR</u>
Percent whose business model changes	2	3	3
Number observations	49	39	39
All Firms	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP/IM to AR</u>
<u>Percent whose line of business</u>			
Stays about the same	42	42	37
Broadens	46	50	50
Narrows	13	8	13
Number observations	48	38	38
Biotechnology Firms	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP/IM to AR</u>
<u>Percent whose line of business</u>			
Stays about the same	29	55	18
Broadens	47	27	45
Narrows	24	18	36
Number observations	17	11	11
Non-biotechnology Firms	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP/IM to AR</u>
<u>Percent whose line of business</u>			
Stays about the same	49	37	45
Broadens	45	59	52
Narrows	6	4	3
Number observations	31	27	27

Panel B

Origin of Business Idea:

	<u>Existing business</u>	<u>Previous employer</u>	<u>Academic research</u>	<u>Out of the blue or unknown</u>
All firms	5	15	14	15
Biotech	1	2	10	4
Non-Biotech	4	13	4	11

Baron et al. (1999) classification of business plan strategy:

	<u>Innovator</u>	<u>Enhancer</u>	<u>Marketing</u>	<u>Tech/marketing hybrid</u>	<u>Cost</u>
All firms	24	11	5	6	3
Biotech	12	4	0	1	0
Non-Biotech	12	7	5	5	3

Table 7
Customers

Percent of companies that have customers at the business plan, IPO, and annual report for 49 VC-financed companies that subsequently went public. We also report whether the customer base is primarily businesses or consumers, and whether the customer base broadens, narrows, or stays about the same over time.

	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
	<i>All firms</i>			<i>Biotechnology firms</i>			<i>Non-biotechnology firms</i>			<i>Retail firms</i>			<i>Non-biotechnology, Non-retail firms</i>		
Has customers (%)	47	90	95	12	83	82	66	94	100	100	100	100	59	93	100
Primarily businesses (%)	86	86	85	94	94	91	81	81	82	20	20	20	93	93	96
Primarily consumers (%)	14	14	15	6	6	9	19	19	18	80	80	80	7	7	4
Number of observations	49	49	39	17	17	11	32	32	28	5	5	5	27	27	23
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>			
	<i>All firms</i>			<i>Biotechnology firms</i>			<i>Non-biotechnology firms</i>								
Customer base similar (%)	73	77	62	88	100	82	66	68	54						
Customer base broader (%)	24	15	33	6	0	9	34	21	43						
Customer base narrower (%)	2	8	5	5	0	9	0	11	4						
Number of observations	49	39	39	17	11	11	32	28	28						

Table 8
Competitors

Percent of companies who have competitors at the business plan for 49 VC-financed companies that subsequently went public. We also report the percent of companies whose competitor base broadens, narrows, or stays about the same over time.

Number of observations: 49 Lists competitors as of business plan (%): 84

	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
	<i>All firms</i>			<i>Biotechnology firms</i>			<i>Non-biotechnology firms</i>		
Competitor base similar (%)	63	79	56	47	82	36	72	79	64
Competitor base broader (%)	35	21	41	53	18	64	25	21	32
Competitor base narrower (%)	2	0	3	0	0	0	3	0	4
Number of observations	49	39	39	17	11	11	32	28	28

Table 9
Strategic alliances and other business partnerships

Percent of companies that explicitly mention strategic alliances or other business partnerships as elements of their business for 49 VC-financed companies that subsequently went public. For those that do report alliances, we report the median, average, and standard deviation of the number of reported alliances or partnerships; the number and percent of alliances or partnerships that remain over time; and the number of new alliances or partnerships over time.

	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
	<i>All firms</i>			<i>Biotechnology firms</i>			<i>Non-biotechnology firms</i>		
Alliances mentioned (%)	35	67	69	18	82	82	44	59	64
Num. Obs.	49	49	39	17	17	11	32	32	28
<i><u>Number reported alliances</u></i>									
	<i>All firms</i>			<i>Biotechnology firms</i>			<i>Non-biotechnology firms</i>		
Median	2.0	3.0	4.0	2.0	3.0	4.0	2.0	3.0	6.5
Average	2.2	3.3	5.4	2.0	3.1	4.0	2.3	3.5	7.1
Standard deviation	1.3	2.1	4.6	1.0	1.7	2.6	1.5	2.5	6.1
Num. Obs.	11	26	18	3	13	10	8	13	8
				<u>BP to IPO</u>	<u>IPO to AR</u>		<u>BP to AR</u>		
<i><u>Number alliances still existing</u></i>									
Median				1.0	1.0		1.0		
Average				1.0	1.6		0.7		
Standard deviation				0.7	1.4		0.8		
Num. Obs.				9	14		7		
<i><u>Percent alliances still existing</u></i>									
Median				67	42		20		
Average				60	46		39		
Standard deviation				44	38		46		
Num. = 100%				4	3		2		
Num. = 0%				2	3		3		
Num. Obs.				9	14		7		
<i><u>Number new alliances</u></i>									
Median				2.0	3.0		4.0		
Average				2.5	4.0		5.5		
Standard deviation				2.2	3.8		4.6		
Num. Obs.				20	15		13		

Table 10
Management

Percent of companies whose top 5 managers include a chief executive officer (CEO), a chief technologist, scientist or similar (CTO), a chief financial officer (CFO) or similar, and a marketing or sales director or similar (CMO) for 49 VC-financed companies that subsequently went public. The table also reports whether a founder is the CEO or, if not, a director; the extent of executive turnover; and the backgrounds of the business plan management team.

Panel A:

	<u>All firms</u>			<u>Biotechnology firms</u>			<u>Non-biotechnology firms</u>		
	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>	<u>BP</u>	<u>IPO</u>	<u>AR</u>
Has a CEO(%)	88	100	100	71	100	100	97	100	100
Num. Obs.	49	49	39	17	17	11	32	32	28
CEO is a founder (%)	77	57	46	75	53	36	77	59	50
Num. Obs.	43	49	39	12	17	11	31	32	28
A founder is a director if none is the CEO (%)	92	71	48	83	75	71	100	69	36
Num. Obs.	12	21	21	6	8	7	6	13	14
A founder is a top 5 manager or a director	100	92	72	100	94	82	100	94	68
Num. Obs.	47	49	39	16	17	11	31	32	28
Has a CFO or similar (%)	42	80	85	35	71	100	45	84	79
Num. Obs.	48	49	39	17	17	11	31	32	28
Has a CMO or similar (%)	38	37	41	12	12	9	45	50	54
Num. Obs.	48	49	39	17	17	11	31	32	28
Has a CTO or similar (non-retail) (%)	77	77	47	76	82	55	77	74	43
Num. Obs.	43	44	34	17	17	11	26	27	23

Table 10 (continued)

Panel B:

	<u>General mgmt</u>	<u>Technical mgmt</u>	<u>All firms</u>		
			<u>Technical</u>	<u>Marketing</u>	<u>Finance</u>
Top 5 business plan executives' background (%)	42	25	16	9	8
Num. Obs.	47	47	47	47	47

Biotechnology firms

	<u>General mgmt</u>	<u>Technical mgmt</u>	<u>Technical</u>	<u>Marketing</u>	<u>Finance</u>
Top 5 business plan executives' background (%)	26	42	27	1	4
Num. Obs.	16	16	16	16	16

Non-biotechnology firms

	<u>General mgmt</u>	<u>Technical mgmt</u>	<u>Technical</u>	<u>Marketing</u>	<u>Finance</u>
Top 5 business plan executives' background (%)	50	16	10	13	11
Num. Obs.	31	31	31	31	31

Panel C:

	<u>All firms</u>			<u>Biotechnology firms</u>			<u>Non-biotechnology firms</u>		
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
CEO remains the same (%)	84	59	50	92	64	56	81	57	48
Num. Obs.	43	39	36	12	11	9	31	28	27
Next 4 top execs remaining (%)	55	36	25	41	36	22	63	36	27
Num. Obs.	49	39	39	17	11	11	32	28	28

Table 11
Ownership

Panel A reports common stock ownership of company founders (taken as a group), CEOs, and non-founder CEOs at the business plan, immediately before the (pre-) IPO, immediately after the (post-)IPO, and at the annual report, as well as percentage changes in these variables. Percentage changes are from business plan to pre-IPO. Ownership at the business plan is after the financing round. Panel B summarizes the division of firm ownership pre-IPO.

Panel A – Beneficial ownership of common stock

	<u>All firms</u>				<u>Biotechnology firms</u>				<u>Non-biotechnology firms</u>			
<u>Founder(s) (%)</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>
Median	28.9	12.4	8.8	5.3	28.9	4.3	3.5	5.1	31.7	13.1	10.3	5.3
Average	36.0	14.6	11.2	7.2	34.4	11.4	8.6	8.0	36.7	16.4	12.6	6.8
St. dev.	25.4	12.4	9.7	7.5	30.8	12.7	9.5	9.2	23.6	12.1	9.7	7.0
Num. Obs.	31	49	49	37	9	17	17	10	22	32	32	27
<u>Founder(s) percentage change</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>		<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>		<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	
Median	-45	-51	-77		-51	-49	-63.8		-38	-53	-86	
Average	-39	-54	-72		-42	-52	-64.1		-37	-55	-75	
St. dev.	40	40	27		46	20	26.1		38	45	27	
Num. Obs.	31	36	25		9	10	7		22	26	18	
<u>CEO (%)</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>	<u>BP</u>	<u>Pre-IPO</u>	<u>Post-IPO</u>	<u>AR</u>
Median	15.9	6.7	5.4	3.6	6.8	4.3	3.1	3.2	17.4	8.0	6.4	3.8
Average	20.1	9.8	7.5	5.7	15.5	8.2	6.2	6.1	22.0	10.6	8.2	5.6
St. dev.	15.8	9.0	7.0	6.6	14	9.9	7.1	8.7	16.5	8.6	6.9	5.9
Num. Obs.	27	49	49	38	8	17	17	10	19	32	32	28
<u>CEO percentage change</u>	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>		<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>		<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>	
Median	-38	-50	-78		-19	-36	-72.2		-38	-55	-79	
Average	-31	-40	-69		-15	-48	-62.9		-38	-37	-71	
St. dev.	37	70	26		45	27	32.8		32	80	23	
Num. Obs.	27	38	23		8	10	7		19	28	16	

Table 12
Board of Directors

Summary statistics on the size, composition, and turnover of the boards of directors at the business plan (BP), IPO, and annual report (AR) for 49 VC-financed companies that subsequently went public.

	<u>BP</u>	<u>IPO</u>	<u>AR</u>
<i><u>Board Size</u></i>			
Median	5.0	7.0	7.0
Average	5.0	6.9	6.8
St. dev.	1.3	1.4	1.5
Num. Obs.	29	49	39
<i><u>Number Insiders</u></i>			
Median	2.0	2.0	2.0
Average	2.2	1.9	1.8
St. dev.	1.0	0.8	0.8
Num. Obs.	28	48	39
<i><u>Number VCs</u></i>			
Median	2.0	3.0	1.0
Average	1.6	2.8	1.7
St. dev.	1.2	1.2	1.6
Num. Obs.	28	48	39
<i><u>Number non-VC outsiders</u></i>			
Median	1.0	2.0	3.0
Average	1.3	2.2	3.2
St. dev.	1.3	1.4	1.1
Num. Obs.	28	48	39
	<u>BP to IPO</u>	<u>IPO to AR</u>	<u>BP to AR</u>
Percent directors remaining	71	57	40
Num. Obs.	29	39	21