IPOs Hit a 30-Year Low

But the guy who took Google and Netscape public is not concerned

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Initial public offerings are to the venture capital business what summer blockbusters are to Hollywood. They're extraordinarily lucrative -- but also hard to pull off. For all of the hoopla about IPOs, only 3,643 venture-backed companies have gone public over the past three decades, for an average of just 30 a quarter.

Still, 30 is a lot compared with zero -- and that's the number of VC-backed companies that went public in the second quarter of 2008. It's the first time since 1978 that the industry posted a goose egg, and it represents a huge drop from the 25 companies that went public during the same period in 2007. The latest data have the National Venture Capital Association warning of a "capital markets crisis." NVCA president Mark Heesen is also concerned that the total value of merger and acquisition deals, another key outlet for VC-backed companies, was 40 percent less in the second quarter than in the same period in 2007.

VCs blame a bum economy and a regulatory environment that has shooed fast-growing companies away from t he public markets. To reverse the trend, Heesen's group is urging policymakers to rethink Sarbanes-Oxley, the 2002 securities-reform law that created new accounting and governance standards for public companies. Along the way, Sarbanes-Oxley also raised the cost of executing an IPO.

Not everyone is convinced that red tape is the problem. "This is going to work itself out on its own," says William Hambrecht, a pioneering underwriter whose eponymous investment bank helped take Google (NASDAQ:GOOG) public in 2004. Hambrecht says the weakness in the market dates back to 2001 and primarily has to do with changes in the way a newly public company's stock is bought and sold. After the dot-com bust, he says, many top investment bankers -- the people who had been selling IPOs -- jumped to hedge funds, where they became buyers of IPO stock. Having pumped up valuations during the boom, they were suddenly inclined to push them down again. Meanwhile, individual investors, generally the least savvy stock pickers, stopped looking at IPOs altogether.

Hambrecht says VCs and entrepreneurs have been delaying offerings in the hope that the market would regain confidence and valuations would creep back up. But because VCs are in the business of paying off their investors, they won't be able to avoid IPOs for long. "There's going to be tremendous pressure in the coming years to liquefy venture portfolios," Hambrecht says. Just don't bank on any Google-style blockbusters.

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