

“TH Lee Scores Big in Liquidnet Sale”

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Though profit distributions are rare in today’s venture capital market, limited partners in early-stage investor TH Lee Putnam Ventures are about to collect a handsome payout thanks to a **record-setting transaction this week.**

In a hard-fought bidding contest, Summit Partners and Technology Crossover Ventures agreed to pay TH Lee and others \$250 million for a minority stake in Liquidnet, an electronic stock-trading platform designed for institutional investors. **The sum is the highest price that venture firms have ever paid** for a minority stake in a technology company—prompting market players to call Liquidnet the next Google.

The New York company, launched in April 2001, is owned by co-founders Eric LeGoff and Seth Merrin, along with a small group of individual investors and early backer TH Lee.

“Liquidnet is very rare in that it is a closely held company, yet its valuation was robust enough to support this sale,” said a source familiar with the deal, **which valued the company at an eye-popping \$1.8 billion-plus.**

The sale, which was arranged by boutique investment bank **Financial Technology Partners**, will allow Liquidnet to return some money to its founders and investors at a time when distributions are still relatively rare for partners in venture capital funds. The company plans to go public within the next 18 months. In the meantime, sources say management wants to continue to build the company in a private setting, away from the scrutiny of the public markets.

“It’s expensive to take a company public these days,” said a West Coast venture capitalist. “This way, instead of putting money in, they can get liquidity out without having to jump through hoops in the public market.”

Liquidnet’s immense value limited the number of bidders that took part in the auction. As it was, Summit and TCV had to join forces to afford the lofty price. TCV typically takes a year to deploy \$250 million.

While many firms will stretch their resources to buy a majority stake in a coveted business, it is extremely unusual to see anyone pay so much for a minority stake. “Buyout firms like to have control,” the West Coast venture capitalist said. “When you’re laying down hundreds of millions of dollars, you generally expect to be in a control position at the end of it.”

No doubt Summit and TCV will be hoping for a Google-type outcome. Their later-stage investment, however, is unlikely to yield the returns enjoyed by Kleiner Perkins and Sequoia Capital, which parlayed a combined \$26 million early-stage investment into a multi-billion dollar payout in one of the most profitable private equity deals on record.

In the case of Liquidnet, TH Lee is best positioned for the big score. The Boston firm has led three rounds of venture funding for Liquidnet, starting in March 2000. The firm, which has invested around \$350 million in Liquidnet over the years, sold some of its stakes last week, allowing it to make rare distributions to its shareholders.