NEWS

GSV Capital

BARRON'S

DECEMBER 3, 2011

One-Stop Shopping for Zynga, Facebook and Twitter

GSV Capital offers an interesting play on promising IPO candidates. But its shares could be very volatile.

By MARK VEVERKA

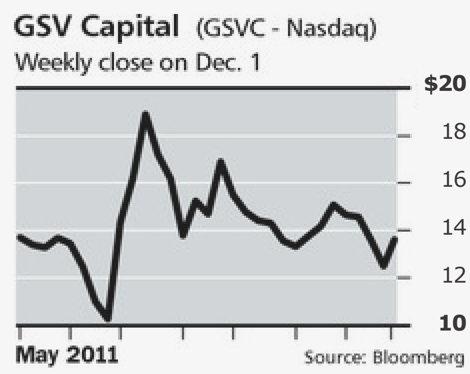
If you want to make sure you don't miss out on Zynga's initial public offering, you don't have to worry. GSV Capital's got you covered.

GSV (ticker: GSVC) is a unique public company formed by San Francisco investment banker Michael Moe. It already owns stakes not only in Zynga, but also Facebook, Twitter and 15 other blue-chip venture-backed companies.

GSV was created as a business-development company, a structure used to invest in emerging companies. In the case of GSV, it can buy privately held shares directly from a fledgling company or on one of the growing number of secondary markets for these stocks. As a result, shareholders of GSV, whose stock has been volatile since it went public in April, have a stake in its portfolio.

Moe, 49 years old, is trying to take advantage of some of the changes underway in the venture-capital and IPO markets. Traditionally, the big payday for an entrepreneur like Bill Gates or Jeff Bezos was going public. But higher regulatory-compliance costs for public companies, waning Wall Street coverage of small companies and these new exchanges for private shares have stretched the incubation period between venture-capital investment and IPO to nine years from three years a decade ago. GSV gives investors a chance to participate during this time period.

"The characteristics of private companies going public have changed drastically, and some of these changes are permanent," Moe says. GSV has even invested in one of the secondary markets, SharesPost. (See Barron's, "Where to Buy Facebook Shares," Jan. 31.)



The Bottom Line

GSV shares are worth watching, but valuing the investment portfolio is nearly impossible.

Moe learned that the hard way. He launched a boutique investment bank called ThinkEquity in 2001, aimed at filling a void left by the acquisitions of West Coast tech specialists Hambrecht & Quist, Robertson Stephens and Montgomery Securities. But tech banking and the IPO market never returned to pre-dot-bomb levels. Moe sold ThinkEquity in 2007.

"I realized that I was wrong, and what I thought was a cyclical downturn was actually a secular change in the market," Moe says.

A business-development company, or BDC, makes a lot of sense.

GSV, which did a $29.6 million secondary offering in October to supplement $50 million in IPO proceeds, is a liquid Nasdaq stock that an investor can buy or sell any time. In contrast, a venture-capital fund generally ties up an investor's money for several years. And—just as important for retail buyers—a venture-capital fund requires accredited investors. That means a $1 million minimum or at least $200,000 in annual income. A BDC has no such requirements. The vehicles offer a chance for capital gains and are mandated to pass along at least 90% of their gains as dividends.

As Moe puts it: "We are democratizing the process, which we think is pretty cool and compelling."

The structure also appeals to companies because the BDCs offer a permanent source of money. A mutual-fund structure would have to sell investments to meet redemptions, which isn't easily done in an illiquid private market.

In addition to social media, GSV seeks prime IPO candidates in green technology and education, as well as in cloud and mobile computing and software services. Moe relies on his advisory board, which includes Intuit Chairman Bill Campbell, Hewlett-Packard PC chief Todd Bradley and venture capitalist Bob Grady, to use relationships with leading venture capitalists to stoke deal-making.

Whether this makes for a good investment opportunity is a tougher question. GSV went public at $15.10, fell to $9.75, then more than doubled after it reported that it had bought Facebook shares. It since has come down to $14.

Conservative investors should be warned. Valuing GSV's portfolio holdings is nearly impossible, since they are young, private entities with uncertain futures. GSV, which has almost no Wall Street coverage, has a market cap of about $80 million. Moe suggests investors monitor underlying revenue growth. GSV estimates that total revenues of its 15 holdings were about $3.8 billion in 2010. It expects that revenues will more than double to $9.7 billion in 2011 and double again to about $20 billion in 2012. IPOs, of course, add credibility. Groupon's (GRPN) offering valued GSV's 80,000 shares at about $1.5 million.

A big part of what you're buying, aside from accreditation, is Moe's knowledge, contacts and labor. GSV shareholder Andrew Cupps, president of Cupps Capital Management, says, "Mike is putting some shoe leather into this in order to capture these securities." Cupps is willing to give his investment some time. "Let's crawl before we walk. It's difficult to put the right value on these shares," says Cupps.

Just ask anyone considering Zynga. ■

What's in the GSV Portfolio?

Hot IPO candidates dominate the firm's holdings.

Company	Industry	Net Asset Value
Twitter	Social Communication	16.6%
Facebook	Social Networking	14.3
Chegg	Textbook Rental	8.2
Gilt Groupe	E-Commerce Flash Sales	7.5
PJB Fund (Zynga Synthetic)	Social Gaming	5.5
ZocDoc	Online Medical Services	4.8
Kno	Digital Textbooks	3.1
SharesPost	Online Finance Marketplace	3.1
Groupon	Online Deals	2.8
Grockit	Social-Learning Games	2.7

Data as of 11/28/11 Source: Company reports