

# FAIRVIEW

## CAPITAL

### THE EMERGENCE OF THE REAL-TIME WEB

#### FAIRVIEW NEWS

► Fairview is pleased to announce that Alan Mattamana was promoted to Principal in September. Alan has been an invaluable member of Fairview's investment team since joining the firm in January of 2009 as Senior Associate. He has been involved in a broad set of activities, including due diligence, investment monitoring, and business development. Prior to joining Fairview, Alan was with Polaris Venture Partners, where he focused on investment opportunities in the medical technology, healthcare services, information technology, digital media, consumer, and business services industries. Alan obtained a B.S. in Chemical Engineering from Princeton University and an MBA from Harvard Business School.

► We would like to share two new additions to the Fairview family:

Alan is the proud new father of a baby girl. Please join us in welcoming Maya Mattamana—born September 16<sup>th</sup>, 2009—into the Fairview family.

Fairview is also delighted to share that Receptionist Tatiana Conception is a proud new mother. Kayden Howell was born on September 30<sup>th</sup>, 2009.

Both Maya and Kayden are doing well and are in good health.

From 2008 to 2009 the number of active users of the social networking and micro-blogging service Twitter doubled from 6 million to 12 million, and it is estimated that in 2010 the number will increase to 18 million. This extraordinary increase in active users in such a short period of time places Twitter among the fastest growing Web services of all time. Why has Twitter been able to grow so rapidly? The service, which enables its users to send and read short messages of up to at 140 characters via the Twitter website, SMS or external applications, has been able to tap into a new source of data that has never before existed on the internet: genuine opinions, data and news reporting from real individuals in real time. In doing so, Twitter has become the poster child for what has been dubbed the "real-time Web."

Real-time has become a major buzz phrase within the technology community and like previous buzz phrases, real-time is part authentic technological development, but also part marketing and hyperbole. Broadly, it can be defined by services that allow users to interact immediately with new information. Over the past few years several developments have come together to allow these immediate interactions that make the Web more of a real-time experience: the widespread adoption of high-speed internet connections, a growing number of mobile devices with full Web browsing capabilities, and new Web technologies that have enabled the instantaneous transmission of information and data.

Furthermore, the idea of real-time computing has been evolving for some time. It first emerged within individual processors and later microprocessors. Next we saw real-time data shared within

local area networks such as financial trading rooms. Now, for the first time, we are able to share data and information instantaneously across the entire internet. This is the framework for real-time Web.

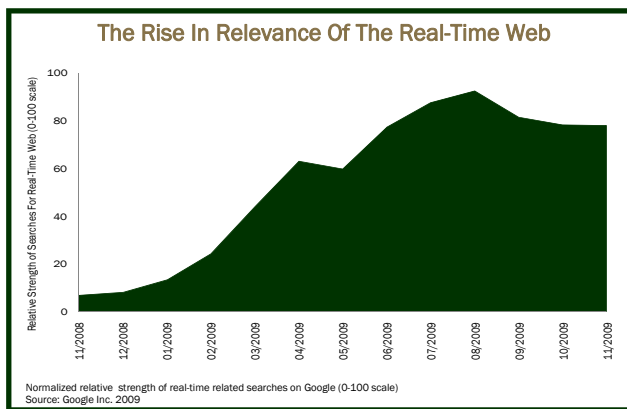
As the ability to share and access information instantaneously is growing, so too is the amount and breadth of information available. Sources of new information have grown dramatically in recent times, exemplified by the increased use of computers, cell phones, digital cameras and other data capturing devices. Coupled with novel ways to share this data - such as tweets, Facebook and MySpace status updates, and the sharing of news and links through countless other platforms - an entire new level of information is now able to be shared broadly and acted upon in real-time.

The most critical example of how powerful the real-time Web can be is its early use in emergencies. Blogs, maps, photo sites and instant messaging systems armed with real-time data have consistently shown they can do a better job of conveying critical information more rapidly than either traditional news media or government emergency services. For instance, Twitter has been used to deliver timely information and receive updates during California wildfires; it was the means through which first-

hand accounts of the 2008 Mumbai attacks were delivered; and through which the first reports of the US Airways flight 1546 crash in the Hudson River came. Real-time notification of important events is just one of the uses of real-time channels and represents just the tip of the iceberg when it comes to the power and potential value of the real-time Web.

A mass of real-time information is most useful and valuable when relevant and persistent data, trends, and opinions can be drawn from it - for example, being able to draw out information relevant to the aforementioned emergencies. Because of this, one of the prime untapped opportunities remains in real-time search. Services like Twitter are creating a huge quantity of data, but it still needs to be mined more efficiently, across multiple services, and ideally the entire Web. Traditional Google searches, which tap indexed Web pages, are much too static to capture real-time data. Only recently has Twitter allowed Google and Microsoft access to its feeds, but there are still huge swaths of real-time data that need to be organized and mined - a significant opportunity for start-ups.

Another area where large opportunity exists with the real-time Web is in gathering and analyzing market intelligence. With individuals constantly creating or sharing text, photos and videos, an unprecedented amount of data is available for marketers and advertisers to tap, in real-time nonetheless. This new information, once it can be effectively searched and analyzed, creates a whole new means by which customers can be targeted and serviced. What adds even more value to real-time data for marketers is that it can often be tied to



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## THE EMERGENCE OF THE REAL-TIME WEB

### ELEMENTS OF EXCELLENCE SERIES

#### A Web Conference on Successful Private Equity Business Practices

The Fairview Capital team was pleased to host the first web conference as part of our Elements of Excellence Series on September 23rd, 2009. The conference provided a novel platform for participants to share elements of successful private equity business practices through three unique panel discussions focusing on brand building, portfolio construction and lifecycle management, and investor communications. The event featured distinguished panelists representing funds in the Fairview portfolio, all of whom brought unique perspective to each session.

We thank all who were able to attend and participate in the event. A comprehensive review of each session/panel discussion as well as the event presentation can be found in the News & Research section of our website. Please feel free to contact us for additional information regarding the event.

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a potential customer's demographic information (from social network profiles) or information on their location (from mobile devices). Examples of the potential utilization of real-time market data include lead generation, providing instant discounts, targeting ads to individuals based on their recent mentions, or even the entertainment industry adapting content to real-time demand.

In addition to notifications, search and advertising, there are plenty of additional opportunities for value creation for start-ups entering the space. These include: micropayments; commerce - including virtual goods; authentication of users and information; and enterprise applications.

Because it is not yet clear where value will truly emerge and how business models will work in the real-time Web, some investors have kept to the sidelines. But others, such as angel investor Ron Conway, one of the most prolific and successful investors in new Internet companies, have shifted much of their attention to real-time Web. In fact, Conway has shifted nearly all his attention to real-time data companies, predicting that the market will experience astronomic growth and a value reaching at least a billion dollars within three years. The potential for new industries to be built

on this new platform is perhaps the strongest since the advent of the internet. Major players such as Google, Yahoo, Microsoft and AOL will go after real-time aggressively, if they have not already started to do so. Much of their growth in the space could be fueled by acquisitions - making start-ups in the space even more attractive to venture capitalists.

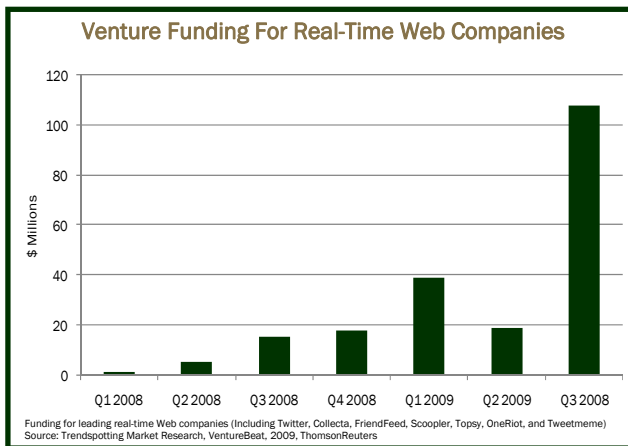
The emergence of the real-time Web not only creates new investment opportunities for venture capitalists, it also changes the way they approach and manage traditional investments. As immediacy of data becomes more important, traditional information technology and internet companies will need to incorporate real-time features to remain competitive. For example, software will need to incorporate and deliver real-time data; media will need to take into account trends in real-time; and on-line social activity will have to become more and more

immediate in nature. Other sectors, too, will be impacted by the proliferation of the real-time Web. Examples include smart grid clean technology companies that analyze real-time energy consumption data and trends, or financial services companies that must incorporate real-time data and sentiment into products and services.

Fairview invests with some of the leading venture capital firms in the world who have reputations for being at the cutting edge of innovation. Furthermore, information technology has traditionally been the leading area of investment for Fairview, representing almost 50% of our venture capital portfolio. As such, we have been able to develop an early and significant exposure to some of the leading companies taking novel approaches to developing real-time Web applications or leveraging real-time data. Fairview's portfolio contains over a dozen companies with a real-time Web focus,

including microblogging, wiki, social media, real-time search, real-time analytic, and related companies. We are optimistic about the future of these companies as well as the positive impact the emergence of the real-time Web will have on growth and value creation prospects for all information technology and internet start-ups.

Sources: eMarketer, April 2009, ReadWriteWeb 2008-2009



## VENTURE CAPITAL MARKET UPDATE

Amid an economy exhibiting signs of recovery, venture capital fundraising continues to struggle. In the third quarter of 2009, U.S. venture capital fundraising dropped to the lowest point in 16 years. A total of just 17 funds raised \$1.6 billion, the smallest number of funds raising capital since 1994. Undoubtedly, many limited partners are reeling from a tough year which has them reassessing their long-term strategies and allocations.

The decision of whether or not to makes new commitments to venture capital funds has not been made any easier by the continued struggles in the exit market for

venture-backed companies. In the third quarter of 2009 there were just three venture-backed IPOs. Although the total number of venture-backed IPOs for all of 2009 - eight - has now eclipsed the full-year total from 2008, activity is still significantly short of historical norms.

On the M&A front, the total number of deals through the third quarter is down over 20% from 2008, and furthermore, the average M&A deal size involving the acquisition of a venture-backed company is just \$92 million, down from an average of \$121 million a year ago. The number of deals with transaction values less than the total amount

of venture investment is up as well - the result of a pressing need for liquidity.

On the investment side, after the first quarter set a 12 year low for venture capital investing, the second and third quarters of the year have managed to post consecutive increases. In the third quarter, investment activity increased 17% over the second quarter to \$4.8 billion invested across 637 deals. The rise was driven by a number of large clean technology investments as well as biotechnology deals, which in aggregate received the highest level of funding across all industries. Notably, investment in software has continued to fall - the

third quarter total for software investment was the lowest since 1996.

Underlying these industry trends is a continued rise in later stage, follow-on deals coupled with a drop in first-time financings. Within first-time financings, there has been a recent surge in less costly early and seed stage deals. These shifts are indicative of a longer-term philosophy being taken by venture capitalists which should have them positioned well for the future.

Data: NVCA, and the PwC/NVCA MoneyTree™ Report based on data from Thomson Reuters

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