



## **Venture Capital Investment Holds in US\$7 Billion Range in 3Q2008 despite Turmoil in the Financial Markets According to the MoneyTree Report**

*PricewaterhouseCoopers, National Venture Capital Association and Thomson Reuters*

Venture capitalists invested US\$7.1 billion in 907 deals in the third quarter of 2008, according to the MoneyTree™ Report from PricewaterhouseCoopers (PwC) and the National Venture Capital Association (NVCA) based on data provided by Thomson Reuters. Quarterly investment activity was down 7% compared to the second quarter of 2008 when US\$7.7 billion was invested in 1033 deals. Despite the turmoil in the global financial markets in the US, venture capital investing remained within historical norms in the third quarter of 2008.

"While overall venture investing hasn't yet been impacted by the turmoil in the financial markets, as evidenced by the US\$7 billion plus invested in 3Q, we do expect to see a dip in investing over the next several quarters," said Tracy T Lefteroff, global managing partner of the venture capital practice at PwC. "We also do not expect venture funding to dry up. Venture capitalists have slugged through difficult economic times before and this one should be no different. They are long-term investors and won't jump ship just because the times are tough. They may tighten their belts and those of their portfolio companies but they still have money in their coffers and will continue to make investments."

"The financial crisis in October was not reflected in the third quarter venture capital investment levels," said Mark Heesen, president of the NVCA. "We will be watching the mix of first-time versus follow-on rounds closely in the coming months for any notable decline. If venture-backed companies can't exit due to continued poor market conditions, venture firms will have to commit additional time and unplanned follow-on rounds of financing to those existing portfolio companies, which will channel resources away from new deals. During the next year, venture capital investment levels will be driven significantly by the clean technology sector, which will continue to grow despite economic woes and could become the top investment sector for the venture capital industry by 2012."

### **Industry Analysis**

The biotechnology industry inched out the software industry for top billing as the number one industry sector in terms of dollars in the third quarter with US\$1.35 billion invested compared to US\$1.34 billion invested in software companies. Based on number of deals, however, software remained the top industry with 214 companies receiving funding in the third quarter compared to only 114 biotechnology companies. Industrial/energy companies, driven by clean technology investment, captured the third highest level of funding in 3Q with US\$1.2 billion going into 96 deals.

The life sciences sector (biotechnology and medical devices combined) saw a 10% increase in VC investing in the third quarter with US\$2.2 billion going into 207 deals, an 8% drop in deals from the second quarter of 2008. This decrease is attributed to declining investment levels in the medical devices sector. Investments in life sciences companies represented 31% of all investment dollars and 23% of all deals in the third quarter.

The clean technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, saw an increase in investment in the third quarter with US\$1.0 billion dollars going into 73 deals. This level of investment is 14% higher than the second quarter when venture capitalists invested US\$887 million into 68 deals. This quarter is the second quarter in which clean technology investment has exceeded US\$1 billion. Additionally, four of the top ten deals for the quarter, including the top two deals, were in the clean technology sector.

Internet-specific companies received US\$1.1 billion going into 194 deals in the third quarter, a 36% decline in dollars over the second quarter of 2008 which was a seven-year high with US\$1.6 billion going into 251 deals. This quarter marks the ninth consecutive quarter of more than US\$1 billion being invested into Internet-specific deals. 'Internet-specific' is a discrete classification assigned to a company with a business model that is fundamentally dependent on the Internet, regardless of the company's primary industry category.



Industrial/energy was essentially flat in the third quarter with US\$1.2 billion going into 96 deals compared to the second quarter when US\$1.2 billion went into 94 deals. The semiconductor industry rebounded slightly from the prior quarter's drop, rising 7% over the prior quarter to US\$396 million going into 50 deals. The telecommunications industry, with US\$323 million invested into 45 deals, sunk to its lowest investment level since 3Q1997.

### **First-Time Financings**

The dollar value of first-time deals (companies receiving venture capital for the first time) declined 12% to US\$1.5 billion in the third quarter. The number of deals also declined, dropping 20% to 259, down from the 322 receiving venture capital for the first time in the prior quarter. First-time financings accounted for 21% of all dollars and 29% of all deals in the third quarter, compared to 22% of all dollars and 31% of all deals in the second quarter. The percentage of dollars going into first-time financings is the lowest since the second quarter of 2004 when 20% of total investments went to companies receiving venture capital for the first time. The percentage of deals is at the lowest level since the first quarter of 2004 when 27.2% of deals went to companies receiving venture capital for the first time.

Companies in the industrial/energy, software, and biotechnology industries received the highest level of first-time dollars in 3Q. Other industries seeing an increase in first-time financings in 3Q include semiconductors, networking & equipment, and healthcare services when compared to 2Q.

The average size of the first-time deal in the third quarter was US\$5.7 million compared to US\$5.2 million a quarter ago. Seed/early stage companies received the bulk of first-time investments garnering 55% of the dollars and accounting for nearly three-fourths of the deals.

### **Stage of Development**

Seed/early stage investing fell slightly in the third quarter to US\$1.7 billion into 350 deals compared to the second quarter of 2008 when venture capitalists invested US\$1.8 billion into 378 deals. Seed/early stage deals accounted for 39% of total deal volume in the third quarter, up from 37% in the second quarter of 2008. The average seed deal in the third quarter was US\$3.5 million, down from US\$3.9 million in the second quarter; the average early stage deal was US\$5.5 million in 3Q, up from US\$5.2 million in the prior quarter.

Expansion stage dollars dropped slightly in the third quarter, with US\$2.7 billion going into 263 deals. The number of deals, however, dropped 18% compared to the 321 deals funded in the second quarter. Overall, expansion stage deals accounted for 29% of venture deals in the quarter, the lowest level in the history of the survey. The average expansion stage deal was US\$10.1 million, up notably from US\$8.0 million in the second quarter of 2008.

Investments in later stage deals dropped 14% with US\$2.8 billion going into 294 deals and accounting for 32% of total deal volume. In the second quarter of 2008, US\$3.3 billion went into 334 deals. The average later stage deal in the third quarter was US\$9.6 million, slightly lower than the prior quarter when the average later stage deal size was US\$9.8 million.

### **International Investing**

In the third quarter of 2008, US-based venture capitalists invested US\$526 million into 51 deals in China, a slight decline from the second quarter when US\$574 million went into 52 deals. Venture investment into India by US venture capitalists declined significantly in the third quarter, falling 43% to 271 million into 28 deals compared to US\$473 million going into 40 deals in the second quarter. These figures are reported separately and are not included in the aggregate totals above.

*MoneyTree™ Report results are available online at [www.pwcmoneytree.com](http://www.pwcmoneytree.com) and [www.nvca.org](http://www.nvca.org).*

*The National Venture Capital Association (NVCA) represents approximately 450 venture capital firms in the US. NVCA's mission is to foster greater understanding of the importance of venture capital to the US economy, and support entrepreneurial activity and innovation. The NVCA represents the public policy interests of the venture capital community,*



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