



Venture Investment in Clean Technology Accelerates Significantly in 2008 Despite Economic Uncertainty

National Venture Capital Association (NVCA) and PricewaterhouseCoopers

Venture capitalists invested US\$28.3 billion in 3,808 deals in 2008, marking the first yearly decline of total investments since 2003, according to the MoneyTree Report by PricewaterhouseCoopers and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. Venture investments in 2008 represented an 8% decrease in dollars and a 4% decrease in deal volume from 2007. Investments in the fourth quarter of 2008 totalled US\$5.4 billion in 818 deals, the lowest amount of dollars invested since the first quarter of 2005 and a 26% drop from the US\$7.3 billion invested in the third quarter of 2008.

The decline in investments over the prior year is spread across industries and stages of development, with some notable exceptions. Dollars invested in the clean technology sector grew more than 50% in 2008. Companies in the seed stage of development also received more money in 2008, reaching the highest level seen since 2000.

"As we emerge from an extremely difficult year, the venture capital industry is holding its own and taking steps to adjust to the new reality," said Mark Heesen, president of the NVCA. "The quarterly decline in investment was not unexpected as market uncertainty took its toll on venture activity. Venture capitalists are being cautious with their dollars which, in this environment, is the right strategy. We are encouraged by the strength of the clean technology sector which continues to grow at a considerable rate. The stability of seed and early stage deals as a percentage of total deal volume suggests that venture capitalists are continuing to fund very young companies, giving credence to the philosophy that an economic downturn is a time ripe with opportunity."

Tracy Leteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, observed, "Even though we saw a significant drop in funding during the fourth quarter, we still note that the US\$28 billion invested in 2008 is the fifth highest annual investment total in the 14 years the MoneyTree Report has been tracking venture capital. At this point, venture capitalists are doing what everyone else is doing – assessing and reassessing their capital outlays and each and every investment carefully in order to make prudent decisions on what companies have the brightest outlook for the long-term. The silver lining is that history has proven that true innovation can surface under very challenging circumstances."

Sector and Industry Analysis

The dip in fourth quarter investing impacted virtually all industries, with the majority of sectors experiencing double-digit percentage declines in both dollars and deals. The life sciences sector (biotechnology and medical device industries together) dropped 15% in 2008 to US\$8 billion, compared to US\$9.3 billion invested in 2007. However, the number of life sciences deals did not experience as big of a decline, dipping only 3% to 853 deals in 2008 from 883 deals in 2007. The declines were more pronounced in the fourth quarter of 2008, with dollars going into the sector dropping 33% from the third quarter to US\$1.6 billion and the number of deals dipping to 185, a 22% drop from the prior quarter. For the year, life sciences accounted for 28% of all venture capital invested and retained its position as the number one investment sector for 2008.

Software investing dropped in the fourth quarter to US\$1.0 billion, the lowest quarterly investment level in ten years. The number of deals also declined to 194, the fewest software companies funded since the second quarter of 1997. The annual declines were much smaller with US\$4.9 billion invested into 881 companies in 2008, representing declines of 10% and 7%, respectively, from 2007. For the year, software remained the largest single industry category both in terms of deals and dollars.

The clean technology sector, which represented seven of the ten largest deals of the year, experienced significant growth in 2008 with US\$4.1 billion invested in 277 deals. This investment level represents a 52% growth in dollars and a 16% growth in deal volume over 2007 when US\$2.7 billion was invested in 238 companies. Clean technology investing accounting for 15% of all venture capital investing in 2008 compared to 9% in 2007. In the fourth quarter, venture capitalists invested US\$909 million into 62 deals, a 14% drop in dollars and 19% drop in deals from the third quarter of 2008 when US\$1.1 billion went into 77 deals. Clean technology crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation.



Venture investment in Internet-specific companies of US\$4.9 billion going into 851 deals in 2008 was relatively flat from 2007 when US\$5 billion went into 825 deals. For the fourth quarter, Internet-specific investment fell 26% in terms of dollars and 20% in terms of deals with US\$787 million going into 170 deals compared to US\$1.1 billion going into 212 deals in the third quarter of 2008. 'Internet-specific' is a discrete classification assigned to a company whose business model is fundamentally dependent on the Internet, regardless of the company's primary industry category. These companies accounted for 17% of all venture capital dollars in 2008, approximately the same percentage as in 2007.

The media and entertainment industry increased 3% to US\$2 billion going into 407 deals in 2008, an increase of 9% from the prior year. Investments in IT services also jumped in 2008, rising 17% in 2008 to US\$1.8 billion invested into 262 deals, a 16% increase from 2007. Both telecommunications and semiconductor investing, both at US\$1.7 billion fell to 11- and 6-year lows, respectively.

Stage of Development

Investments into seed stage companies increased substantially in 2008, jumping 19% from the prior year to US\$1.5 billion going into 440 companies, compared to US\$1.3 billion going into 450 companies during 2007. This marks the highest annual total of dollars captured by seed stage companies since 2000.

Early stage investments remained relatively flat in 2008 with US\$5.3 billion going into 1,013 deals, compared to US\$5.5 billion invested into 1,036 deals in 2007. Investments in early stage companies dropped 3% from the prior quarter to US\$1.3 billion in the fourth quarter going into 240 deals, a 4% drop from the prior quarter. Despite the drop in investing during the fourth quarter, the percentage of total deals in seed and early stage investments combined was 29% in 2008, up from 25% in 2007.

In 2008, US\$10.8 billion was invested into 1,177 later stage deals, declines of 13% and 3%, respectively. For the fourth quarter, US\$1.8 billion went into 235 deals, which represent declines of 38% and 23%, respectively, from the third quarter of 2008. They accounted for 34% of all deals in the fourth quarter, down from 40% in the prior quarter.

Expansion stage investments decreased in 2008 with US\$10.6 billion going into 1,178 deals drops of 9% and 6%, respectively, from the prior year. Expansion funding plunged in the fourth quarter, dropping 25% to US\$2 billion from the prior quarter. The number of deals also fell during the quarter, declining 6% to 257, down from 273 in the third quarter of 2008. Expansion stage deals accounted for 37% of the total deals in the fourth quarter of 2008 compared to 36% in the third quarter.

First-Time Financings

First-time financings dollars dropped in the fourth quarter to US\$1.1 billion, down 28% from the prior quarter, the lowest level invested since the first quarter of 2004. The number of companies receiving venture capital for the first time in the fourth quarter also dropped by 17% from the prior quarter to 236, the lowest number in three years. On an annual basis, the declines were smaller with dollars dipping 18% to US\$6.1 billion and the number of deals only dropping 10% to 1,171 companies receiving funding for the first time in 2008.

Industries receiving the most dollars in first-time financings in 2008 were industrial/energy with 149 deals valued at US\$1.2 billion, followed by software with 240 deals for US\$903 million and biotechnology with 127 deals for US\$834 million.

Fifty-seven percent of first-time financings in 2008 were in the seed/early stage of development, followed by expansion stage companies at 27% and later stage companies at 16%.

MoneyTree Report results are available online at www.pwcmoneytree.com and www.nvca.org.

The MoneyTree™ Report measures cash-for-equity investments by the professional venture capital community in private emerging companies in the US. It is based on data provided by Thomson Reuters. The survey includes the investment activity of professional venture capital firms with or without a US office, SBICs, venture arms of corporations, institutions, investment banks and similar entities whose primary activity is financial investing. Where there are other participants such



as angels, corporations, and governments in a qualified and verified financing round the entire amount of the round is included. Qualifying transactions include cash investments by these entities either directly or by participation in various forms of private placement. All recipient companies are private, and may have been newly-created or spun-out of existing companies.

The survey excludes debt, buyouts, recapitalisations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are primarily intended for acquisition such as rollups, change of ownership and other forms of private equity that do not involve cash such as services-in-kind and venture leasing.

Investee companies must be domiciled in one of the 50 US states or DC even if substantial portions of their activities are outside the US.

Data is primarily obtained from a quarterly survey of venture capital practitioners conducted by Thomson Reuters. Information is augmented by other research techniques including other public and private sources. All data is subject to verification with the venture capital firms and/or the investee companies. Only professional independent venture capital firms, institutional venture capital groups and recognised corporate venture capital groups are included in venture capital industry rankings.

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, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.

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