



#### Contacts:

Clare Chachere, PricewaterhouseCoopers, 512-867-8737, <a href="mailto:clare.chachere@us.pwc.com">clare.chachere@us.pwc.com</a>
Lisa Peterson, Porter Novelli for PricewaterhouseCoopers, 512-241-2233, <a href="mailto:lisa.peterson@porternovelli.com">lisa.peterson@porternovelli.com</a>
Emily Mendell, National Venture Capital Association, 610-565-3904, <a href="mailto:emendell@nvca.org">emendell@nvca.org</a>

# VENTURE CAPITAL INVESTMENT PLUMMETS IN Q1 2009 TO 12 YEAR LOW, ACCORDING TO THE MONEYTREE REPORT

All Major Industry Sectors and Stages of Development See Significant Declines

WASHINGTON, April 18, 2009 – Venture capitalists invested just \$3.0 billion in 549 deals in the first quarter of 2009, according to the MoneyTree<sup>TM</sup> Report from PricewaterhouseCoopers (PwC) and the National Venture Capital Association (NVCA), based on data provided by Thomson Reuters. Quarterly investment activity was down 47 percent in dollars and 37 percent in deals from the fourth quarter of 2008 when \$5.7 billion was invested in 866 deals. The quarter, which saw double digit declines in every major industry sector, marks the lowest venture investment level since 1997.

"It's no surprise that venture capital investing dropped in the first quarter," said Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers LLP. "Given the economic turmoil that began in the third quarter of 2008 and continued on into 2009, it's not unexpected that the VCs would pause to assess the impact on their portfolio companies before again looking forward to their next investment."

Mark Heesen, president of the NVCA remarked, "These numbers clearly demonstrate that the venture capital industry is not immune from the current economic downturn. Venture capitalists have slowed their investment pace in order to work with existing companies that are not able to exit the venture portfolio due to the shuttered IPO window and the weakening acquisitions market. That said, those venture firms that have the ability to invest at this time are doing so as there remain entrepreneurs with game changing technologies waiting to be funded. While this drop in investment is significant, we are not forecasting levels to continue to fall further. We would expect a mild and steady increase in investment throughout the rest of the year, particularly if the exit pipeline is allowed to clear."

## **Industry Analysis**

Declines in the first quarter of 2009 were spread across almost every industry sector in both the level of dollars and number of deals. The Software sector received the highest level of funding with \$614 million going into 138 rounds, a drop of 42 percent in dollars and 34 percent in deals compared to the fourth quarter of 2008.

The Life Sciences sector (Biotechnology and Medical Devices combined) experienced a 40 percent decline in terms of dollars and a 31 percent drop in deals with \$989 million going into 133 rounds. Investment in Biotechnology fell 46 percent to \$577 million in the quarter, while Medical Device investments fell 27 percent to \$412 million. Investments in Life Sciences companies represented 33 percent of all investment dollars and 24 percent of all deals in the first quarter, which is in line with historical norms.

The Clean Tech sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, saw a substantial drop in investment levels with \$154 million going into 33 deals in the first quarter. This represented an 84 percent decline in the dollar level in the Clean Tech sector from the fourth quarter of 2008 when \$971 million went into 67 deals. This quarter marks the lowest investment level for the Clean Tech sector since 2005. In a departure from past quarters, the clean tech sector had only one of the top ten largest deals in the first quarter.

Internet-specific companies garnered \$556 million going into 123 deals in the first quarter, a 31 percent decrease in dollars over the fourth quarter of 2008 when \$804 million went into 180 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.

Other industry sectors that experienced significant investment dollar declines in Q1 2009 included Telecommunications (72 percent decline) Media and Entertainment (45 percent decline) and Networking and Equipment (47 percent decline). The only industry sector which experienced an increase in both dollars and deals in the first quarter of 2009 was Financial Services. This sector garnered \$108 million into 17 deals, an increase of 26 percent and 21 percent in dollars and deals respectively.

## **Stage of Development**

Seed and Early stage investing fell 45 percent in terms of dollars and 40 percent in terms of deals in the first quarter of 2009 with \$852 million invested into 204 deals, compared to the fourth quarter when venture capitalists invested \$1.6 billion into 338 deals. Seed/Early stage deals accounted for 37 percent of total deal volume in the first quarter, down from 39 percent in the prior quarter. The average Seed deal in the first quarter was \$3.6 million, up slightly from \$3.4 million in the fourth quarter; the average Early stage deal was \$4.3 million in Q1, down from \$5.1 million in the prior quarter.

Expansion stage dollars experienced the steepest decline in the first quarter, falling 60 percent in dollars and 47 percent in deals to \$820 million into 146 deals. Overall, Expansion stage deals accounted for 27 percent of venture deals in the quarter compared to 32 percent in the fourth quarter of 2008. The average Expansion stage deal was \$5.6 million, down notably from \$7.5 million in the fourth quarter of 2008.

Investments in Later stage deals fell 35 percent in dollars and 22 percent in deals to \$1.3 billion going into 199 rounds. Later stage deals accounted for 36 percent of total deal volume in Q1 compared to 29 percent in Q4 2008 when \$2.1 billion went into 254 deals. The average Later stage deal in the first quarter was \$6.7 million, which was down from the prior quarter when the average Later stage deal size was \$8.1 million.

## **First-Time Financings**

The dollar value of first-time deals (companies receiving venture capital for the first time) declined by 48 percent to \$596 million going into 132 first rounds, compared to the fourth quarter of 2008 when \$1.1 billion went into 246 first-time deals. First-time financings accounted for 20 percent of all dollars and 24 percent of all deals in the first quarter compared to 20 percent of all dollars and 28 percent of all deals in the fourth quarter of 2008.

Companies in the Biotechnology, Industrial/Energy and Software sectors received the highest level of first-time dollars. The average first-time deal in the first quarter was \$4.5 million compared to \$4.6 million one quarter ago and \$5.2 million one year ago. Seed/Early stage companies received the bulk of first-time investments garnering 59 percent of the dollars and 70 percent of the deals.

MoneyTree Report results are available online at <a href="www.pwcmoneytree.com">www.pwcmoneytree.com</a> and <a href="www.nvca.org">www.nvca.org</a>.

## **Note to the Editor**

Information included in this release or related venture capital investment data should be cited in the following way: "The MoneyTree<sup>TM</sup> Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters." or "PwC/NVCA MoneyTree<sup>TM</sup> Report based on data from Thomson Reuters." After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA or MoneyTree Report. Charts and tables displaying the data are sourced to "PricewaterhouseCoopers/National Venture Capital Association MoneyTree<sup>TM</sup> Report, Data: Thomson Reuters." After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA, MoneyTree Report or MoneyTree.

PwC/NVCA MoneyTree Report, PwC/NVCA, MoneyTree Report or MoneyTree.

#### About the Pricewaterhouse Coopers/National Venture Capital Association Money Tree $^{\rm TM}$ Report

The MoneyTree™ Report measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. 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, recapitalizations, 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 United States.

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 recognized corporate venture capital groups are included in venture capital industry rankings.

The National Venture Capital Association (NVCA) represents approximately 460 venture capital firms in the United States. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2007 Global Insight study, venture-backed companies accounted for 10.4 million jobs and \$2.3 trillion in revenue in the U.S. in 2006. 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 <a href="https://www.nvca.org">www.nvca.org</a>.

The PricewaterhouseCoopers Private Equity & Venture Capital Practice is part of the Global Technology Industry Group, www.pwcglobaltech.com. The group is comprised of industry professionals who deliver a broad spectrum of services to meet the needs of fast-growth technology start-ups and agile, global giants in key industry segments: networking & computers, software & Internet, semiconductors, life sciences and private equity & venture capital. PricewaterhouseCoopers is a recognized leader in each industry segment with services for technology clients in all stages of growth.

**PricewaterhouseCoopers** (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

© 2009 PricewaterhouseCoopers LLP. All rights reserved

## **About Thomson Reuters**

Thomson Reuters is a leading source of information for businesses and professionals. Through a wide range of products and services, Thomson Reuters helps clients make better decisions, be more productive and achieve superior results. Thomson Reuters has headquarters in New York and employs more than 50,000 people worldwide.