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VENTURE CAPITALISTS ARE OPTIMISTIC FOR 2010 DESPITE PREDICTIONS FOR INDUSTRY CONTRACTION

NVCA Venture View Survey Forecasts Improvement in Investments and Exits Amidst Fewer and Smaller VC Funds

Washington D.C., December 16, 2009 – Venture capitalists are cautiously optimistic about the improving nature of their ecosystem in the coming year, yet are realistic about an inevitable contraction of industry resources, according to Venture View 2010, the annual predictions survey conducted by the National Venture Capital Association (NVCA). According to respondents, the venture industry will begin to see gradual increases in investment levels and exit transactions in 2010, but the asset class will continue to shrink in size over the next five years. Specific areas of optimism include clean technology investing, growth equity and later stage companies, and ongoing opportunities overseas.

"It is readily understood by the venture capital community that our industry is going to contract in size going forward," said Mark Heesen, president of the NVCA. "That will mean fewer firms, for sure, but not necessarily fewer companies funded. There is a great deal of innovation taking place and venture capitalists who have the track record to raise funds will be well positioned to build companies. Most venture capitalists will agree that a smaller industry is a better one."

The NVCA survey was conducted from November 30 – December 8, 2009 and includes responses from more than 325 venture capitalists across the United States.

2010 Investment: More Dollars into More Companies

Most respondents predict more venture dollars going into more portfolio companies in 2010. Sixty-three percent of all respondents expect venture investment dollar levels to remain the same or increase from 2009 with 44 percent forecasting a level between $21-25 billion. Half of the respondents predict more companies will receive venture financing, while one-third believes the number of portfolio companies will remain the same.

Clean Technology Continues to Garner Optimism

Clean Technology is the industry where most VCs predict growth with 54 percent forecasting higher investment levels in 2010. Other favorable industries include Internet (46 percent predicting higher investment levels), Media and Entertainment (33 percent) and Software (32 percent).

Opinions on life sciences investing in 2010 are closely split, both in Medical Devices and Biotechnology. Respondents are almost equally divided as to whether investment in Biotechnology will increase, decrease, or stay the same. In Medical Devices, 38 percent expect investment levels to stay the same while roughly one-third each predict levels to increase or decrease.

The Semiconductor industry is the sector in which most VCs believe we'll see a decrease next year. Sixty-four percent predict lower investment levels in 2010. Many venture capitalists believe that the Wireless sector will experience declines with 37 percent predicting lower levels for next year as well.

More Venture Dollars to Flow to Asia

A majority of respondents believe that there will be more investment in Asia with 70 percent of VCs anticipating growth in China-based investments and 58 percent seeing greater investment levels in India in 2010. To the contrary, most VCs (53 percent) believe investments in Israel will decline in the coming year. Forty-five percent of respondents believe that VC investment in Europe will remain the same.

Later Stage Investment Predicted to Increase

According the survey, most VCs expect the Growth Equity stage of development to increase with 55 percent of all respondents predicting increased investment there in 2010. Fifty-three percent see growth in Later Stage investing; 49 percent in Expansion stage investing. Fewer VCs think the number of younger company investments will grow with 45 percent of respondents predicting growth in Early and Seed stage investments.

“Of all the predictions put forth this year, a collective lack of enthusiasm for seed and early stage investing is the most concerning,” said Heesen. “The weak exit market combined with proposed tax policy which would discourage long term investment puts tremendous pressure on our industry to move towards later stage investing. Yet, seed and early stage companies represent a pipeline that must be supported if our country is to continue building new and innovative companies. We need the environment to improve for these early stage investors.”

Improving Exit Signs

On the exit market front, most VCs predict a mild improvement in the number of venture-backed IPOs in 2010. Seventy-four percent of the respondents believe there will be more than 20 IPOs next year with the average forecasted IPO volume at 26.3 offerings. Only 10 percent of VCs predict more than 50 IPOs.

More VCs are optimistic about the acquisitions market with 91 percent believing the number of deals will increase and 63 percent of respondents predicting the value of those deals will be higher.

A Contracting Industry

Respondents were consistent in their predictions for a smaller venture capital industry over time. Eighty-seven percent believe that funds raised in 2010 will be on average smaller than previous funds. Respondents also predict a changing limited partner base with 48 percent predicting more foreign LPs investing in U.S. venture funds in the coming year.

An overwhelming percentage of VCs (90 percent) predict that the number of venture capital firms will decline over the next five years. Most of these respondents (72 percent) believe the industry will contract between one and 30 percent.

Despite these longer term predictions for consolidation, most VCs do not anticipate significant "in-house" changes during the next year. Sixty-three percent believe the number of investment professionals within their firms will stay the same and 71 percent say there will be no change in staffing at the administrative level.

"The consolidation of the venture industry will not occur overnight," said Heesen. "This process will be a gradual one as fewer firms than has been the case historically will be able to raise funds. Those funds that are raised will generally be smaller and over time, the firms will contract accordingly. Venture capitalists will have to do more with less."

Most venture capitalists predict that they will remain in their geographic footprint in 2010, with only 20 percent predicting an increased number of deals outside their immediate region. Seventy-two percent expect to maintain their current investment strategy from a geographical standpoint.

For More Information

As part of this year's survey, the NVCA asked the respondents to share something the VC or firm will do differently in 2010, in 140 characters or less. Read selected responses here: www.nvca.org/predictions2010_quotes.pdf. For complete survey results including charts, please visit: www.nvca.org/predictions2010_presentation.pdf

About the National Venture Capital Association

The National Venture Capital Association (NVCA) represents more than 400 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 2008 Global Insight study, venture-backed companies accounted for 12.1 million jobs and $2.9 trillion in revenue in the United States in 2008. 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.