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Confidence Grows in Start-Up Economy as Venture Capitalists and CEOs Predict Industry & Economic Improvement in 2011

NVCA and Dow Jones Venture View Survey Shows Renewed Optimism in U.S. Investments and IT, Uncertainty Around Fund Raising

WASHINGTON D.C. (Dec. 21, 2010) – Venture capitalists predict venture firms will invest more and chief executive officers of venture-backed companies expect to hire more, sell more and get paid more in 2011, according to results of the 2011 Venture View predictions survey, conducted by the National Venture Capital Association (NVCA) and Dow Jones VentureSource. While optimism about the venture industry and the national economy prevailed, VCs were divided on how fundraising will trend in the forthcoming year.

The annual Venture View survey reflects responses from more than 330 venture capitalists in the U.S. and 180 CEOs of U.S.-based venture-backed companies collected between Nov. 29 and Dec. 10, 2010.

"At this time last year, the venture capital industry was optimistic, but cautiously so," said Mark Heesen, president of the NVCA. "The market was so troubled in 2009, the sentiment was that things had to get better in 2010. It turns out our predictions were correct and in the past year we have moved beyond the financial crisis and returned to doing what we do best – building great companies. The improving exit market and a renewed excitement in the IT sector have engendered a confidence among VCs and the CEOs of the companies in which we invest that promises to propel the start-up community forward in 2011. While the venture industry will continue to evolve, and likely contract, the companies we fund will continue to grow, innovate and drive the U.S. economy."

Investments Predicted to Rise

More than half (51 percent) of VCs expect venture capital investment to pick up in 2011 while about one-quarter (24 percent) expect investment to remain the same. Twenty-four percent of VCs expect investment will decrease. Optimism prevails across stage of development with 51 percent of the VCs predicting increases in later-stage investment, 49 percent in expansion and seed investment, and 46 percent in early-stage investment. Of those VCs who invest in the earlier stages, 30 percent plan to co-invest more with angels.

CEOs are even more hopeful as 58 percent predict an increase in venture investing. Of those CEOs polled, 64 percent plan to raise a round of financing in the year ahead.

VCs Focus on Technology

In a departure from recent years when asked about their predictions for industry sectors, more VCs expect investments in Information Technology (IT) to increase than in the Life Sciences and Cleantech sectors. Investments in Consumer Internet & Digital Media (82 percent), Cloud Computing (80 percent) and Mobile/Telecom (66 percent) are anticipated to increase in the year ahead. However, VCs also say Consumer Internet & Digital Media (69 percent) and Cloud Computing (47 percent) are the two sectors most likely to see investment "froth," a term used among the venture community to suggest over investment.



National Venture Capital Association

Dow Jones VentureSource

Fear of a Cleantech bubble may be subsiding as only 28 percent of VCs identified the sector as likely to see investment froth in the year ahead. Only 38 percent expect increases in energy investment.

Optimism was also prevalent in the Healthcare IT sector, where 77 percent of VCs expect investment to increase. There was no clear consensus on how Medical Devices and Biopharmaceuticals investments would fare as VCs were split almost evenly as to whether investment in both sectors would increase, decrease or remain the same.

Asia Prime Target for Overseas Investors

While 53 percent of VCs do not intend to invest in start-ups outside the U.S. in 2011, those who do view Asia as a prime target. Of the VCs who plan to invest outside the U.S., 26 percent are looking at China and 18 percent are interested in India. Western Europe ranked just above India with 19 percent planning investments there. Eleven percent of VC's indicated they will invest in Latin America in 2011, giving credence to a region that has not been recognized previously for venture capital investment opportunities.

VCs Divided on Fund-Raising Direction, Agree LPs Have Advantage

VCs are divided on whether fund-raising will increase, decrease or hold steady with about one-third predicting each scenario. Yet there is overwhelming agreement that limited partners (LPs) have an advantage in negotiations, as 76 percent expect fundraising terms to favor LPs. Forty-eight percent of VCs also expect more funds to see foreign limited partners in the coming year.

On the issue of firm size, 70 percent of VCs believe small venture firms will have an advantage in 2011 but CEOs are split on whether small (48 percent) or large (52 percent) VC firms will fare better.

Exits On The Rise

More exits are on the horizon according to both VCs and CEOs. Two-thirds of VCs and 44 percent of CEOs anticipate more venture-backed companies going public while 81 percent of VCs and 82 percent of CEOs expect more acquisitions in 2011. More than half of both groups expect IPO and acquisition quality to improve or remain steady in the coming year. Technology companies are expected to fare the best in the exit market, according to a majority of VCs, with predicted increases in both volume and quality in IPOs and acquisitions. Interestingly, just four percent of CEOs expect to engage in the IPO process in 2011, while 37 percent are considering an acquisition by a public company.

VCs also anticipate an uptick in the number of exits on the alternative markets. Fifty-five percent see increases in sales to private equity firms; 53 percent expect increased transactions in the secondary markets and 48 percent predict more private-to-private sales.

Signs of National and Regional Economic Improvement

Sixty-three percent of VCs and 64 percent of CEOs expect the U.S. economy to improve in 2011. CEOs also believe corporate technology spending will increase (66 percent), plan to increase headcount (82 percent) and foresee their compensation packages improving (50 percent).

"An anticipated rise in venture investment and improvement in the national economy are closely linked," said Jessica Canning, global research director of Dow Jones VentureSource. "Venture investment is meant to be spent – on employees, technology, office space and other expenses – which means it reverberates throughout the economy. Raising capital also gives companies an opportunity to grow, adding to their headcount and spending power as they try to become the next Google or Apple."



National Venture Capital Association



CEOs are more upbeat about company valuations than VCs. Seventy-seven percent of CEOs believe their company valuation will increase next year, but only 50 percent of VCs see start-up valuations rising.

When asked to name a region outside of Silicon Valley, New York and New England that is poised for growth in 2011, VCs cited Southern California (21 percent), the Rocky Mountain region (16 percent) and the Mid Atlantic region (14 percent) as most promising. In contrast, CEOs were bullish on the Midwest and Southwest (15 percent each) and the Southeast (14 percent).

Charts showing the results of the entire predictions survey are available at www.nvca.org/VentureView11_slides.

Additionally, this year we asked survey respondents to offer a 2011 headline about the start-up ecosystem. A list of all the headlines submitted can be found at: www.nvca.org/VentureView11_headlines.

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About NVCA

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.

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About Dow Jones VentureSource

The Dow Jones VentureSource database tracks the activity of private investment firms and venture-backed companies in all industries and stages of development, worldwide. For information, visit <http://www.dowjones.com/privatemarkets/>.

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