

EDITION 6.0

# Venture Impact

The Economic Importance of  
Venture Capital-Backed Companies  
to the U.S. Economy





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# Introduction



**Mark Heesen**  
President  
National Venture  
Capital Association

For a decade now, NVCA has used data collected by IHS Global Insight to tell the story of venture capital's outsized impact on U.S. job creation and economic growth. I am pleased to report that this sixth edition of *Venture Impact* only reinforces the narrative. The percentage of total U.S. private sector employment generated by venture capital-backed companies (past and present) grew from 2008, as did their percentage of overall U.S. revenue.

That this increase occurred amid one of the toughest recessions in U.S. history speaks volumes about venture capital's importance to our economy — both today and for the future. Even so, the numbers within this report tell only one part of the story.

Venture capital's role in driving U.S. innovation tells us more. No other investors assume more risk, employ more patience or partner more closely with entrepreneurs to bring breakthrough ideas and technologies to the marketplace. Over the last four decades, these products have changed the way we live and work in profound and countless ways.

Moreover, such innovations drive the U.S. economy's evolution by spawning new high-growth companies and, in many cases, entire new industries. Here, venture capitalists play a lead role by persistently identifying and funding only those ideas with this transformative potential — in good economic times and bad. Venture has proven itself to be the most effective mechanism for rapidly deploying capital to the most promising emerging technologies and industries — moving nimbly to where the **future** opportunities lie. The result has been millions of jobs, trillions of dollars in revenue, and immeasurable economic value that otherwise might never have come into being had these bright ideas not been initially funded and nurtured to sustainability.

That's why we must continue to recognize this aspect of venture capital's impact when we tackle critical economic and public policy issues. If we do, I believe the U.S. venture capital community will continue to drive our economy toward a more prosperous tomorrow.

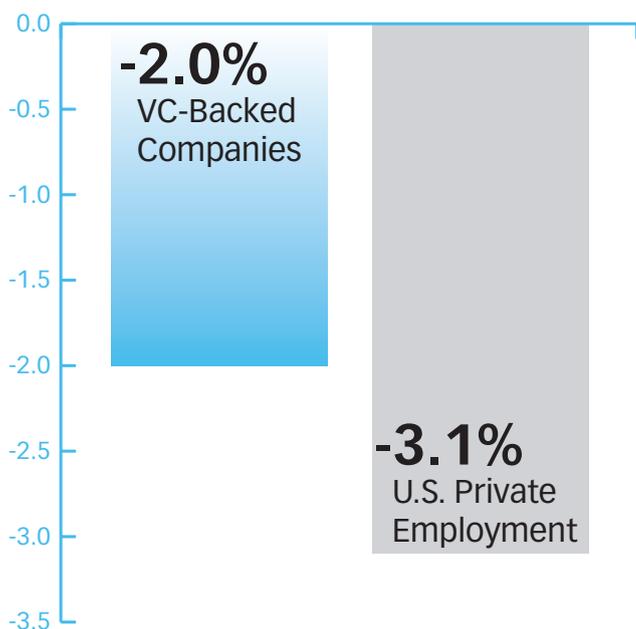
A handwritten signature in black ink, appearing to read 'M Heesen', written in a cursive style.

Mark Heesen  
President, National Venture Capital Association

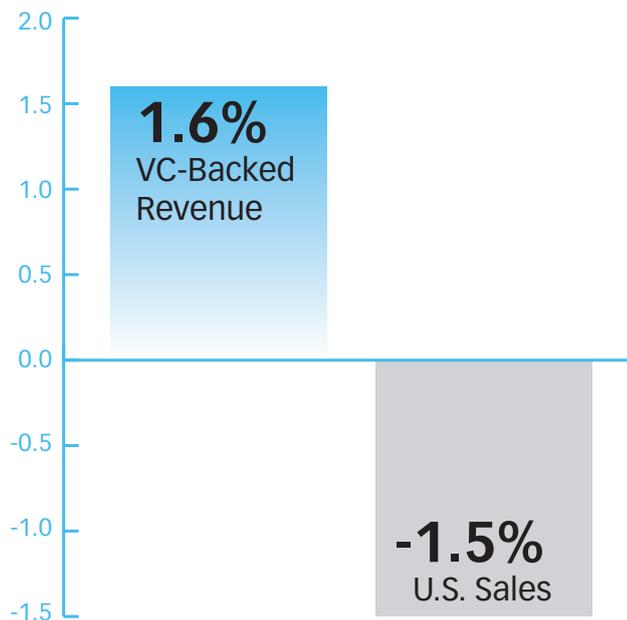
# Venture Impact At-A-Glance

## Venture-Backed Companies Outperformed Total U.S. Economy 2008 – 2010

### Employment Growth



### Revenue Growth



For every dollar of venture capital invested from 1970 to 2010, \$6.27 of revenue was generated in 2010.

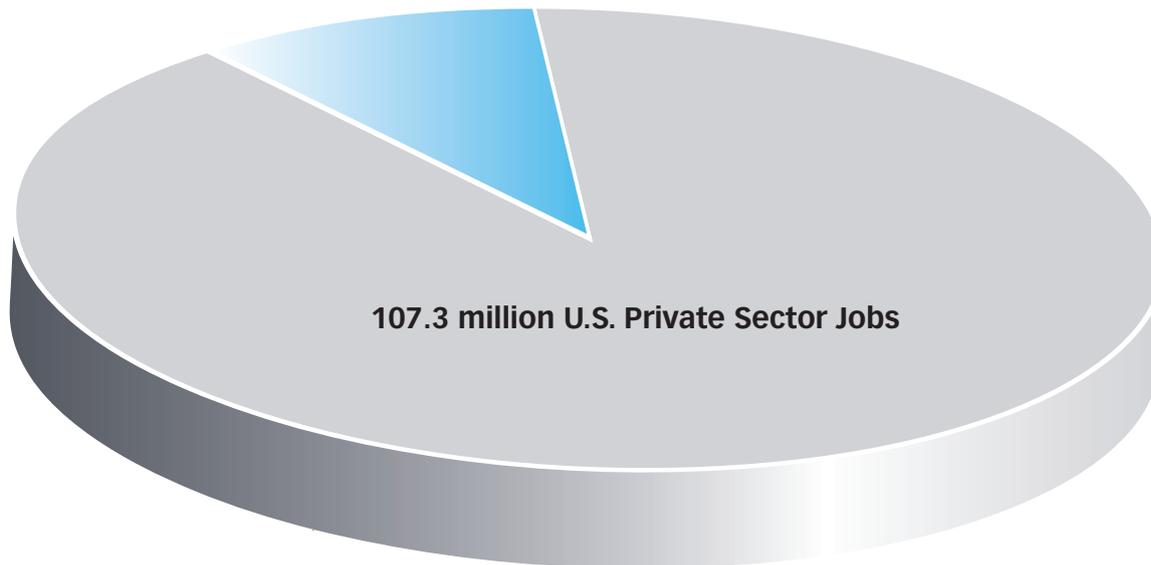


Annual venture investment equals less than 0.2 percent of U.S. GDP. Annually, VC-backed companies have generated revenue equal to 21 percent of U.S. GDP.

## Venture-Backed Jobs – 2010

**11%**

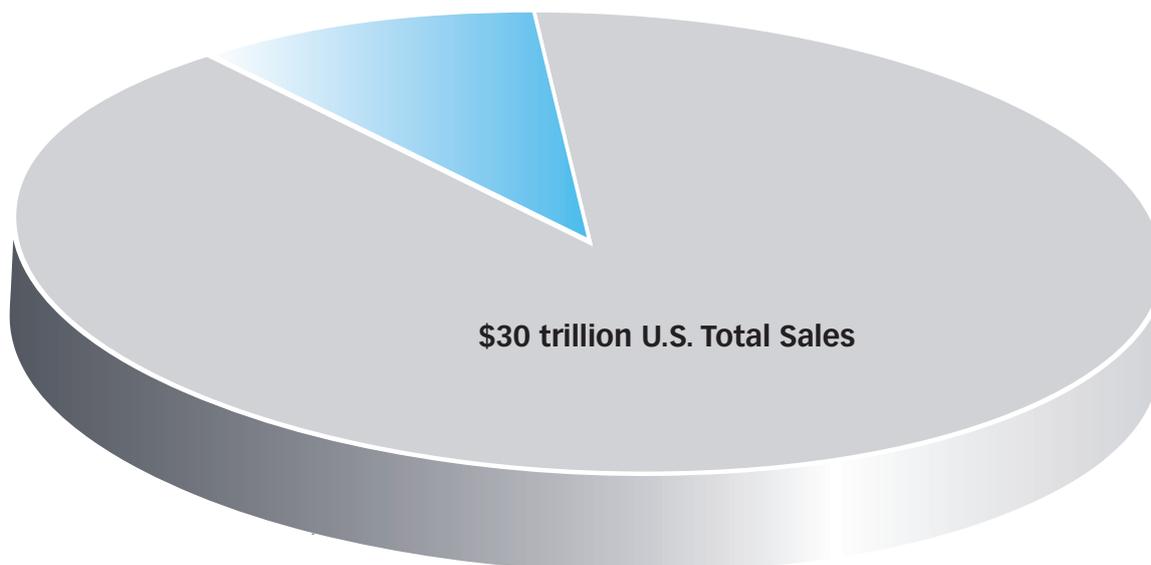
11.9 million venture-backed jobs =  
11% of U.S. Private Sector Employment



## Venture-Backed Revenue – 2010

**10%**

\$3.1 trillion in venture-backed revenue =  
10% of Total U.S. Sales



# Venture Capital Grows U.S. Jobs and Revenues

The venture capital community's positive impact on the U.S. economy far outweighs its relative size.

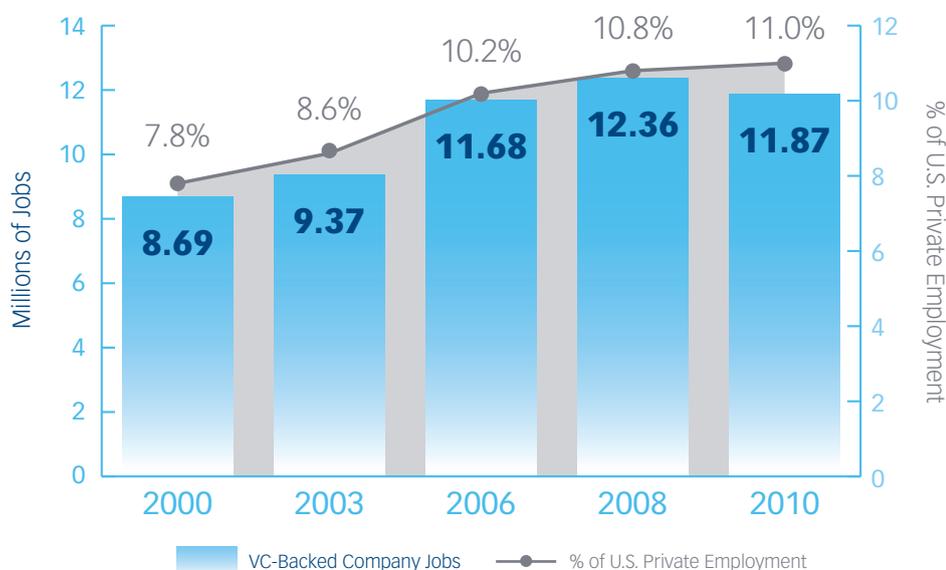
While investment in venture-backed companies only equates to between 0.1 percent and 0.2 percent of U.S. gross domestic product each year, these companies employed 11 percent of the total U.S. private sector workforce and generated revenue equal to 21 percent of U.S. GDP.

While total employment and revenue for venture-backed companies contracted during the 2008-2010 downturn, both did so at lower rates than in the larger U.S. economy. As a result, venture-backed companies actually increased their percentage shares of total U.S. activity in both categories.

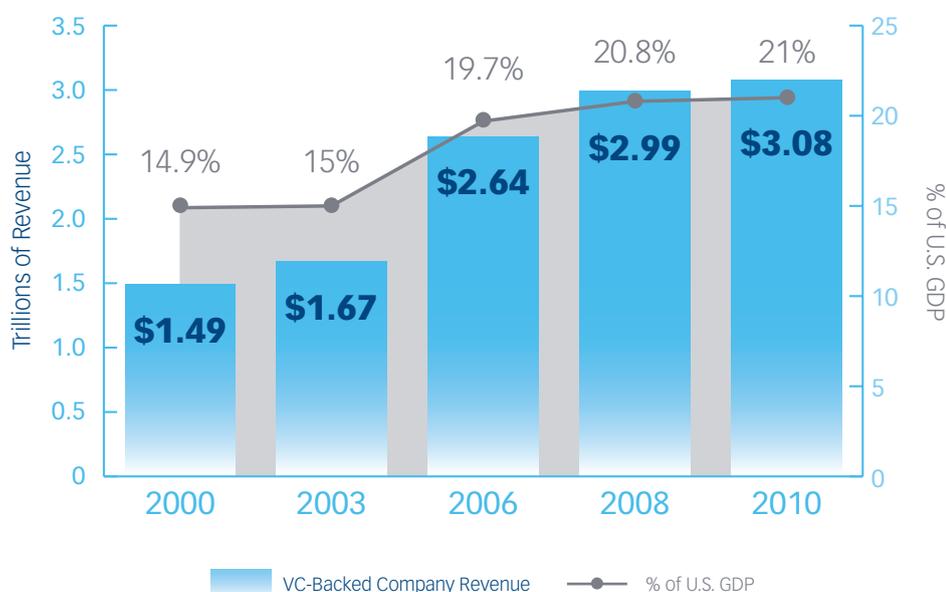
This ability of VC-backed companies to outperform their non-venture counterparts — during good times and bad — flows from venture capital's focus on highly innovative, emerging growth companies. The 500 largest public companies with venture roots increased their collective market capitalization by approximately \$700 billion, rising from \$2.1 trillion in 2008 to \$2.8 trillion in 2010.

Looking forward, venture capital's impact on the U.S. economy will likely grow even larger. That's because many of the fastest growing venture-backed companies in the U.S. today have yet to go public. IHS Global Insight research suggests that 92 percent of job growth for young companies occurs after their initial public offerings. This fact underscores the importance of America's IPO market and of ensuring that our most innovative young companies can access the capital they need to grow.

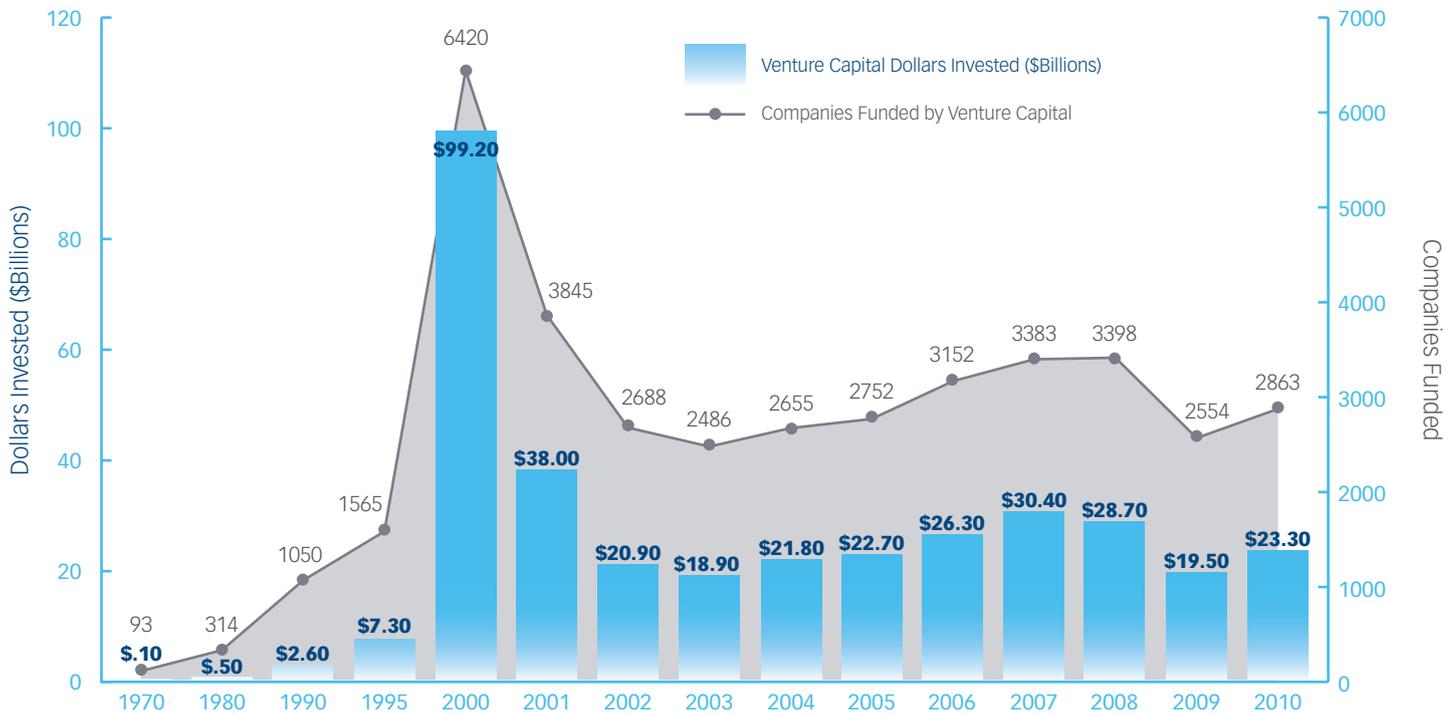
## U.S. Venture-Backed Company Employment 2000 – 2010



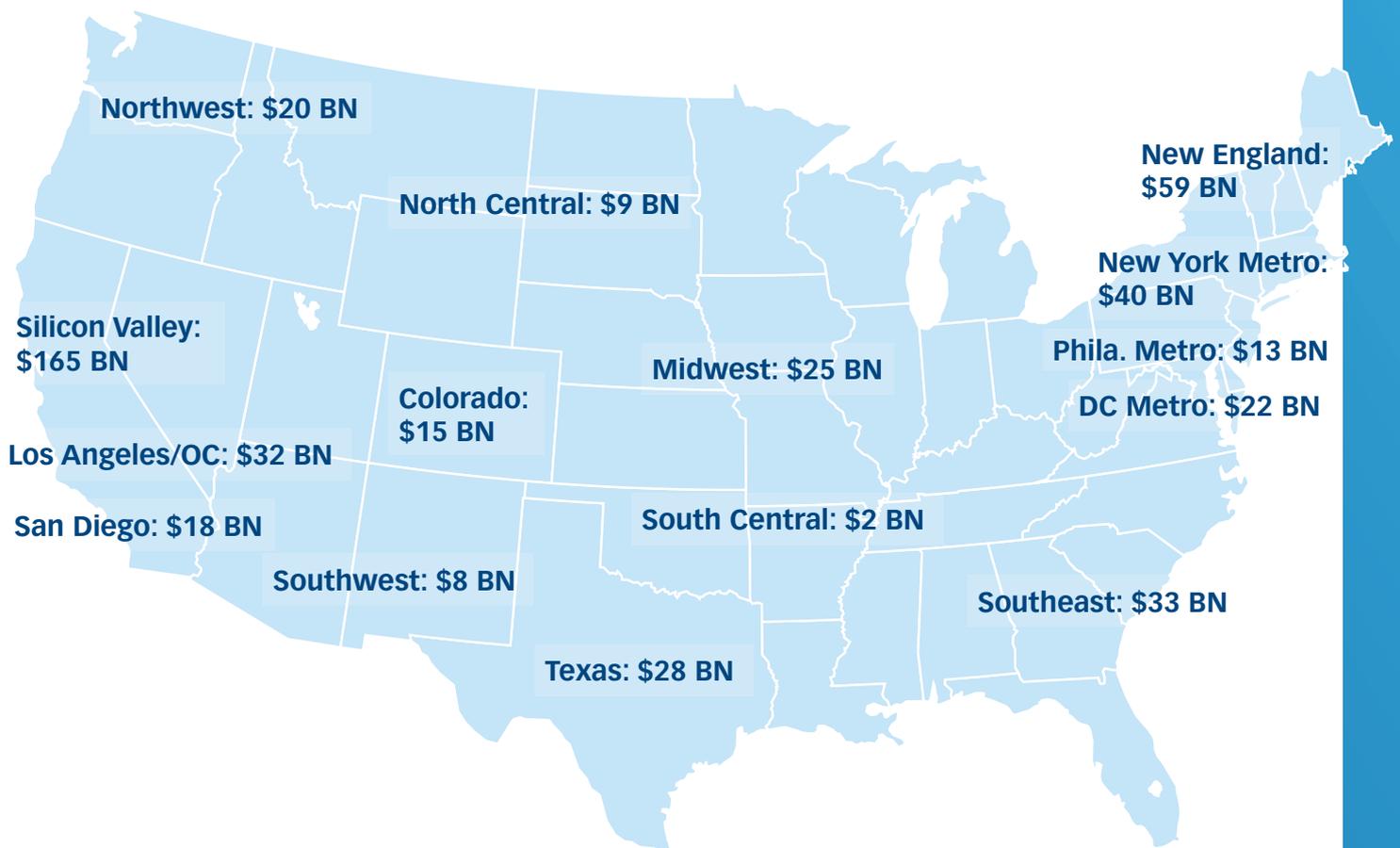
## U.S. Venture-Backed Company Revenue 2000 – 2010



## Venture Capital Investment in the United States 1970 – 2010

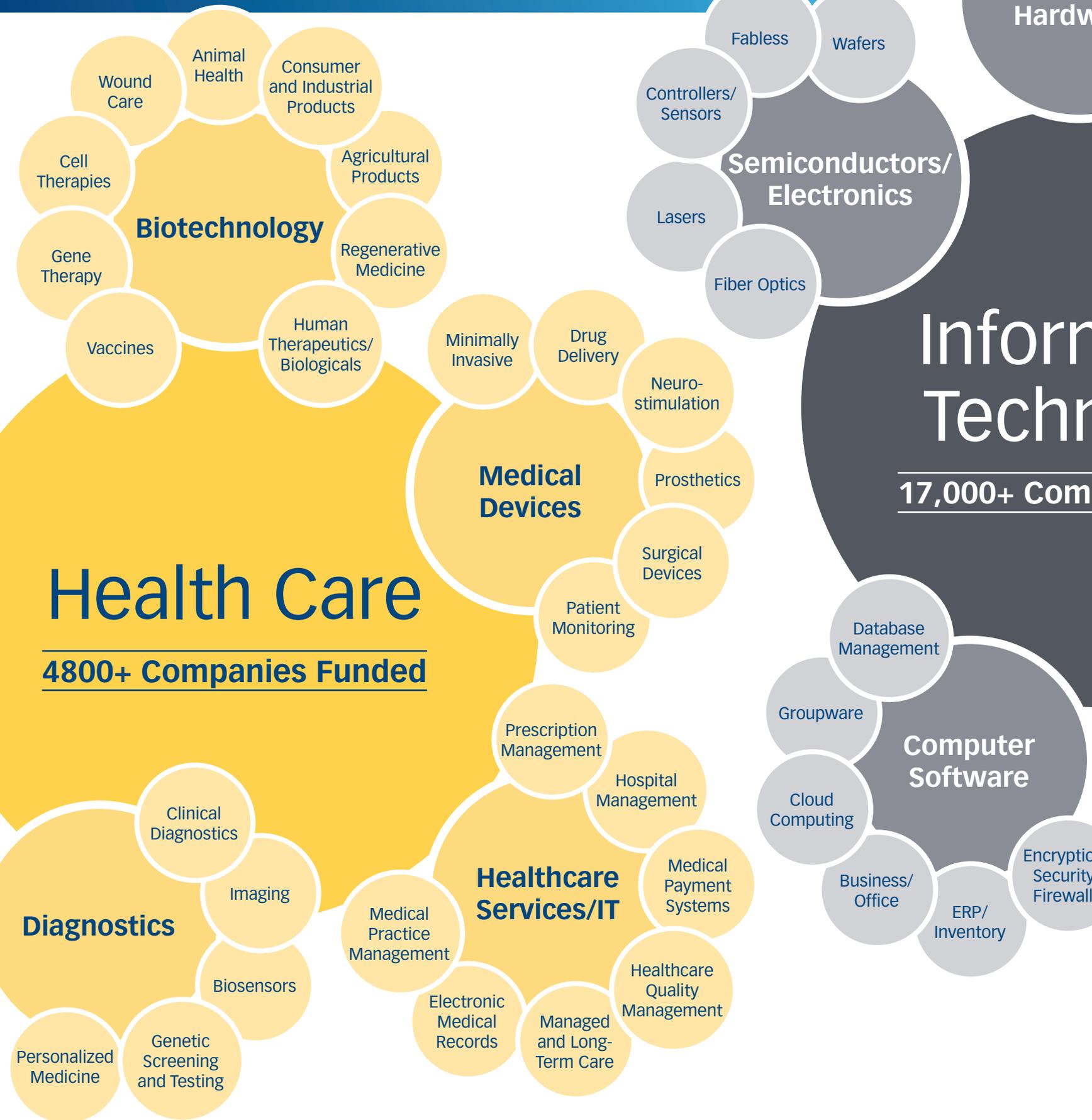


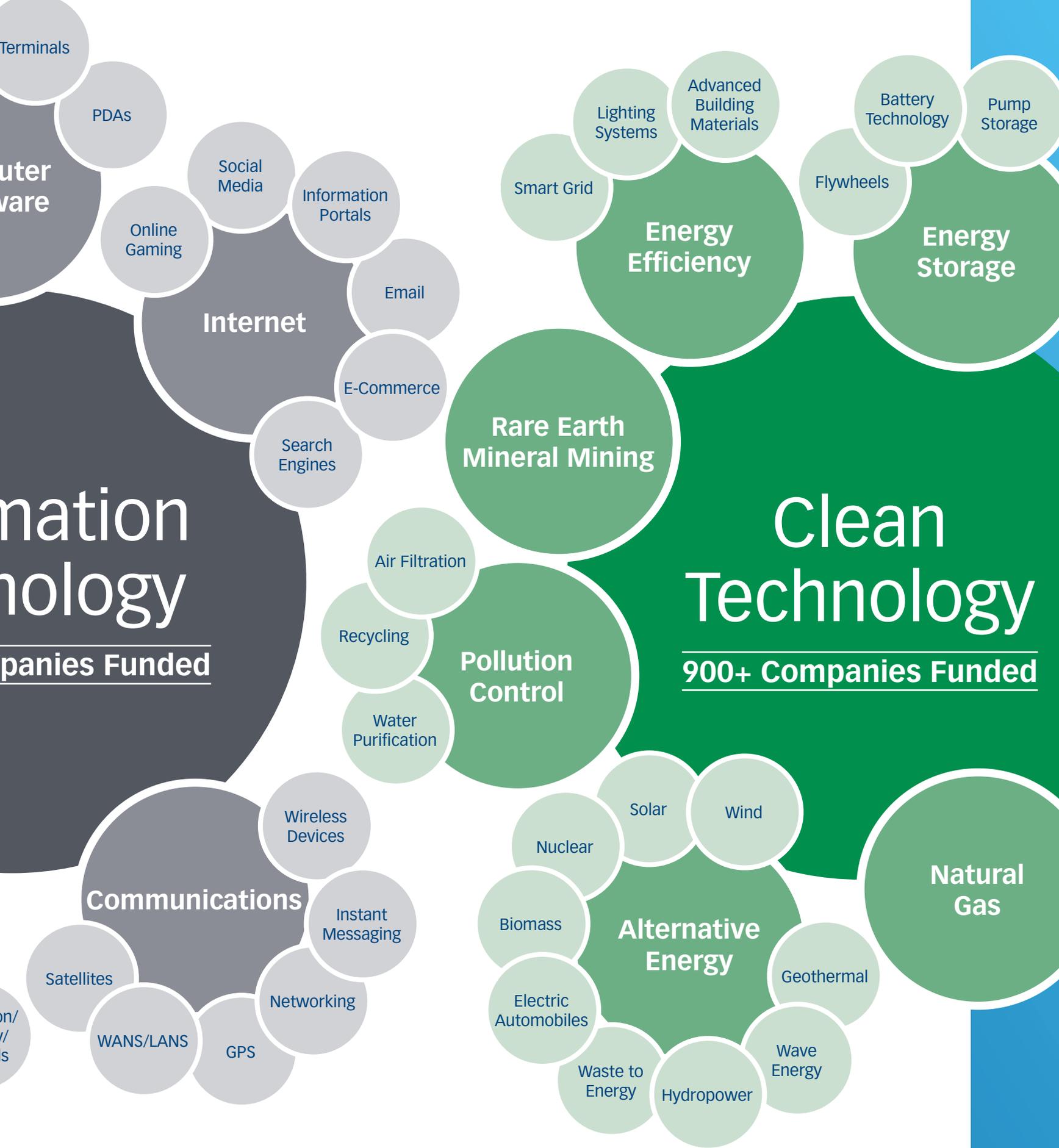
## Venture Capital Investment by Region 1970 – 2010



Source: The MoneyTree Report by PwC and NVCA based on data from Thomson Reuters

# Venture Capital Creates New Industries





Throughout its history, venture capital investment has built entire industry sectors by funding ground breaking innovations. From biotechnology to information technology to clean technology, thousands of startups have been brought to life, improving the way we live and work each day.

# Venture Capital Drives the Hi-Tech Sector

## VC-backed companies keep growing faster than their peers — even after their venture investors exit.

Over the past half century, venture-backed innovations have consistently spawned not only life-changing technologies but entire new industries. These include semiconductors, the Internet, biotechnology, medical devices and clean technology, which in turn have spawned exciting subsectors of their own (pp.6-7). Such evolutions create virtuous circles of innovation, job creation and revenue growth that benefit all Americans.

Venture-backed companies typically go on to fuel these new industries in terms of employment and revenue share. With their focus on innovation, high-growth potential and entrepreneurial spirit, these companies set themselves on a unique, positive trajectory that prevails long after the venture capitalist exits the investment.

The recession of 2008 saw employment losses nationally, but less so with venture-backed companies. From 2008 to 2010, as U.S. private sector employment fell 2.6 percent, venture-backed company employment fell by only 2.0 percent — 23 percent less than the overall decline. In terms of revenue compound annual growth rate, while total U.S. sales fell 1.4 percent, venture-backed company revenue grew at 1.5 percent and VC-backed companies outperformed their overall industries in 12 of 16 sectors from 2008 to 2010.

## Percent of VC-Backed Jobs In Major Industry Sectors

90% Software

734,064 VC-BACKED JOBS

74% Biotechnology

427,353 VC-BACKED JOBS

72% Semiconductors/Electronics

620,773 VC-BACKED JOBS

54% Computers

1,179,287 VC-BACKED JOBS

48% Telecom

445,596 VC-BACKED JOBS

## Percent of VC-Backed Revenue In Major Industry Sectors

88% Semiconductors/Electronics

\$234.4 MILLION VC-BACKED REVENUE

80% Biotechnology

\$161.6 MILLION VC-BACKED REVENUE

46% Computers

\$402.3 MILLION VC-BACKED REVENUE

40% Software

\$226.5 MILLION VC-BACKED REVENUE

39% IT Services

\$22.5 MILLION VC-BACKED REVENUE



## Venture capitalists do this by providing the funding and guidance — and by assuming the risks — necessary for building high-growth companies capable of bringing these innovations to the marketplace.

Many venture capitalists come to the industry after successful careers as scientists, engineers, doctors or entrepreneurs. Working through tight-knit firms, they raise money from pension funds, endowments, foundations and high-net-worth individuals to form a venture fund. This fund is then invested in the most promising startup companies (which become part of the VC's "portfolio"), typically over the course of 10 years.

Vcs focus exclusively on companies developing significant innovations — be it a new piece of software, a life-saving cancer drug, or a new model for consumer sales. Unless the company is poised for significant growth, a VC won't invest. Making investments at the earliest stages of a company's development — often before a product or service is more than just an idea — involves significant entrepreneurial risk, which severely limits capital sources for such companies. Yet, venture capitalists assume this risk alongside the company founders by providing capital in exchange for an equity stake in the company.

During this investment stage, a venture capitalist provides more than just money to the company. Typically, the VC takes a seat on the board of directors and participates actively in company operations. This commitment often includes providing strategic counsel regarding development and production, making connections to aid sales and marketing efforts, and assisting in hiring key management. As

part of this process, the venture capitalist also guides the company through multiple rounds of financing. At each point, the company must meet certain milestones to receive fresh funds for continued growth. If the company fails to meet these goals, the VC's responsibility to his investors may require him to walk away.

The VC's goal is to grow the company to a point where it can go public or be acquired by a larger corporation (called an "exit") at a price that far exceeds the amount of capital invested. Approximately one-third of portfolio companies fail, so those that do succeed must do so in a big way. Typically, when a venture-backed company exits the portfolio, the VC distributes the profits to the fund's investors and eventually leaves the portfolio company's board of directors. Once all the investments of a particular fund have been exited and the proceeds have been distributed, the fund ends. In many cases, however, the institutional investors reinvest these earnings in a new crop of funds and the process begins anew.

These elements — the patience, the hands-on guidance, the willingness to take on risk and fail — make venture capital unique as an asset class and enable it to drive U.S. economic growth faster and generate more jobs than other asset classes. Historically it has helped set the U.S. economy apart from our international competitors.

# The Characteristics of Successful Regional VC Ecosystems

Most venture capital hubs start with a steady flow of early stage innovations — often generated by scientists or entrepreneurs at top-flight research universities, government laboratories or existing startups.

The presence of at least one established, innovative, venture-backed anchor company that draws talent to the area (e.g. Dell in Austin or Medtronic in Minneapolis) and spins out entrepreneurs also helps seed the ecosystem.

In addition to capital, these entrepreneurs need ongoing counsel from lawyers, accountants and other business professionals to get their ideas off the ground. Such support networks build up over time and provide startups and VCs with specialized services such as intellectual property protection, IPO registration compliance and human resources support.

Encouragement from state and local government in the forms of favorable tax and investment policies, common-sense regulatory structures and funding of basic research provide a third essential component. Healthy infrastructure, which includes a strong transportation network, affordable housing, high-quality schools and a robust cultural scene, completes the system.

By assembling and pursuing these elements smartly, states and regions can establish favorable environments for venture-backed companies to grow and contribute to the local economy in meaningful ways.

## Top 5 States for U.S. VC-Backed Company Employment

RANK	STATE	VC-BACKED COMPANY EMPLOYMENT
1	California	2,887,063
2	Texas	1,129,551
3	Pennsylvania	783,527
4	Washington	778,579
5	Massachusetts	775,151

## Top 5 States for U.S. VC-Backed Company Revenue

RANK	STATE	VC-BACKED COMPANY REVENUE
1	California	\$845,601,000
2	Washington	\$256,081,000
3	Texas	\$242,608,000
4	Pennsylvania	\$238,383,000
5	Massachusetts	\$189,722,000

# Methodology

IHS Global Insight created a database comprised of 23,623 venture capital-backed firms. This database, created from four unique databases, measures venture-backed employment and sales revenue across states and industries for the 2008 to 2010 period. The previous update in 2009 used the 2009 Venture Capital Database. From this catalog, the top 500 companies in terms of 2008 revenue were identified. Revised 2008 employment and revenue estimates were updated as available. Current 2010 employment and revenue estimates were entered into the database as available for the Top 500 companies as well. For the remainder of the companies in the database, 2010 employment and revenue figures were projected using industry growth rates. Every company in the database is assigned a MoneyTree and a VEIC code which IHS Global Insight mapped to a specific North American Industry Classification Code System (NAICS) code. Using IHS Global Insight's Business Market Insights<sup>1</sup>, sales and employment growth figures for the 2008 to 2010 period were estimated. These growth rates were applied to the 2008 sales and employment observations to obtain estimated 2010 employment and sales.

Three databases were subsequently added to the 2009 Venture Capital Database to generate the current database consisting of 23,623 venture capital-backed firms. The databases consisted of companies that offered IPOs, received venture capital-backed investment funds, or were part of mergers or acquisitions during the January 1, 2009 to February 14, 2011 period. For all of the companies investigated in these three databases, 2008 and 2010 sales and employment numbers were entered as available. Careful cross-checking and research were conducted across all four databases to avoid redundancy.

Venture-backed companies which were acquired were reviewed further. To ensure proper counting, if a venture-backed company was acquired by another venture-backed company it was removed from the database because its jobs and revenue were already included in those of the acquirer. If an acquirer was not venture-backed, if the acquired companies comprised more than 50 percent of the acquirer, it was prorated. If the acquired company comprised less than 50 percent of the acquirer, the company was deleted from the database. While this likely understates the totals, no obvious methodology was identified to track these minority components going forward.

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1. IHS Global Insight's Business Market Insights provides historical and forecast data projections for nominal sales, real sales, employment, and establishments at the national, state, and metro geographies for six-digit NAICS codes.



## About NVCA

Venture capitalists are committed to funding America's most innovative entrepreneurs, working closely with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. As the voice of the U.S. venture capital community, the National Venture Capital Association (NVCA) empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community's preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its 400-plus members through a full range of professional services. For more information about the NVCA, please visit [www.nvca.org](http://www.nvca.org).