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## VENTURE CAPITAL INVESTMENTS EXPERIENCE DOUBLE-DIGIT INCREASES IN DOLLARS AND DEAL VOLUME IN Q2 2012

Internet-Specific and Early Stage Investing Jumps; Life Sciences Investing Falls

WASHINGTON, July 20, 2012 – Venture capitalists invested \$7.0 billion in 898 deals in the second quarter of 2012, according to the MoneyTree<sup>™</sup> Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA), based on data provided by Thomson Reuters. Quarterly venture capital (VC) investment activity climbed 17 percent in terms of dollars and 11 percent in the number of deals compared to the first quarter of 2012 when \$6.0 billion was invested in 809 deals.

The number of Early stage deals reached the highest quarterly total since Q1 2001, with \$2.1 billion going into 410 deals, an 18 percent increase in dollars and a 28 percent increase in deals from the prior quarter. The Internet-specific sector also saw increases during the second quarter, rising 22 percent in dollars and 31 percent in deals from the prior quarter to \$1.8 billion going into 261 deals in Q2. The Life Sciences sector (Biotechnology and Medical Devices), however, experienced a decline in funding in the second quarter, dropping 9 percent in dollars and 6 percent in deals from the prior quarter to \$1.4 billion going into 174 deals in Q2.

"The concentration of venture capital dollars in the hands of fewer firms will increasingly dictate the flow of investment," said Mark Heesen, president of the NVCA. "Currently, this translates into more funding for IT start-ups and less capital available for life sciences and clean technology. We hope to see this investment mix rebalance over time as the start-up ecosystem is better served with more diversity, not less. Additionally, we continue to watch the early stage and first time financing numbers as they are critical to the U.S. innovation pipeline. We are encouraged that these numbers were stronger this quarter and hope that this signals an ongoing commitment on behalf of venture firms to make these longer term, breakthrough investments."

"If funding levels in the second half of the year remain consistent with the first half of the year, VC investing in 2012 will fall short of the nearly \$30 billion invested in 2011 but will exceed the \$23 billion invested in 2010," remarked Tracy T. Lefteroff, global managing partner of the venture capital practice at PwC US. "Software and Internet companies continue to be attractive industries for VCs since most of these companies tend to be capital efficient and don't require large amounts of capital to operate. VCs also find the potential for profitable liquidity events to be attractive for these companies. On the contrary, given the regulatory challenges currently

impacting the Life Sciences industry and the amount of capital required to fund these companies, it's no surprise that investments in this industry have declined for the fourth consecutive quarter."

### **Industry Analysis**

The Software industry received the highest level of funding for all industries with \$2.3 billion invested during the second quarter of 2012, which is the highest investment total for the sector since the second quarter of 2001. This level of investment represents a 38 percent increase in dollars, compared to \$1.7 billion invested in the first quarter. The Software industry also had the most deals completed in Q2 with 290 rounds, which represents a 16 percent increase from the 251 rounds completed in the first quarter of 2012.

Life Sciences investing declined for the fourth consecutive quarter, most notably in the Biotechnology sector where \$697 million went into 90 deals, representing the lowest quarterly total for the industry since the first quarter of 2003. The Medical Devices and Equipment industry received the third highest investment amount in Q2 with \$700 million going into 84 deals, an 11 percent increase in deals while the dollars remained relatively flat compared to the prior quarter. Investments in the Life Sciences sector (Biotechnology and Medical Devices) fell 9 percent in dollars and 6 percent in deals, and accounted for 20 percent of all VC dollars invested for the quarter, down from 29 percent in 2011.

Internet-specific companies received the second highest level of investment in more than a decade with \$1.8 billion going into 261 deals, a 22 percent increase in dollars and a 31 percent increase in deals from the first quarter when \$1.5 billion went into 199 deals. Investment in Internet companies has surpassed the \$1 billion dollar mark each quarter for the past two years, and two of the top 10 deals for the quarter were in the Internet-specific category. 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.

The Clean Technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, also saw an 8 percent increase in dollars but experienced a 28 percent decrease in deal volume with \$1.0 billion going into 55 deals during the second quarter compared to \$962 million going into 76 deals in the prior quarter. The dollar increase in Q2 was driven by several large rounds as evidenced by four of the top 10 deals of the quarter, including the top three overall, falling within the clean technology category.

Eleven of the 17 MoneyTree sectors experienced increases in dollars invested in the second quarter, including Semiconductors (63 percent increase), Media & Entertainment (62 percent increase), Telecommunications (44 percent increase), Industrial/Energy (15 percent increase) and IT Services (12 percent increase). Additionally, 11 of the 17 sectors also experienced increases in the number of deals.

#### **Stage of Development**

Seed stage investments rose 33 percent in dollars and 15 percent in deals with \$199 million invested into 63 deals in the second quarter. Early stage investments also rose, climbing 18 percent in dollars and 28 percent in deals with \$2.1 billion going into 410 deals, the largest quarterly deal total since the first quarter of 2001. Seed/Early stage deals accounted for 53 percent of total deal volume in Q2, compared to 46 percent in the first quarter of 2012. The average Seed deal in the second quarter was \$3.2 million, up from \$2.7 million in the Q1. The average Early stage deal was \$5.2 million in Q2, down from \$5.6 million in the prior quarter.

Expansion stage dollars increased 49 percent in the second quarter, with \$2.6 billion going into 232 deals. Overall, Expansion stage deals accounted for 26 percent of venture deals in the second quarter, a slight decrease from 27 percent in the first quarter of 2012. The average Expansion stage deal was \$11.3 million, down from \$8.1 million in the prior quarter.

Investments in Later stage deals decreased 10 percent in dollars and 11 percent in deals to \$2.1 billion going into 193 rounds in the second quarter. Later stage deals accounted for 21 percent of total deal volume in Q2, compared to 27 percent in Q1 when \$2.3 billion went into 216 deals. The average Later stage deal in the second quarter was \$10.8 million, which is a slight uptick from \$10.7 million in the prior quarter.

### **First-Time Financings**

First-time financing (companies receiving venture capital for the first time) dollars increased 24 percent to \$1.1 billion in Q2, and the number of deals rose 27 percent to 282 deals in the second quarter. First-time financings accounted for 15 percent of all dollars and 31 percent of all deals in the second quarter, compared to 14 percent of all dollars and 27 percent of all deals in the first quarter of 2012.

Companies in the Software, Media & Entertainment, and IT services industries received the most first-time rounds in the second quarter. The Life Sciences sector experienced a slight drop, falling 3 percent in dollars and 4 percent in deals during the second quarter to \$130 million going into 27 companies. The average first-time deal in the second quarter was \$3.7 million, down slightly from \$3.8 million in the prior quarter. Seed/Early stage companies received the bulk of first-time investments, garnering 78 percent of the deals.

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

#### **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

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# About the PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report

The MoneyTree<sup>TM</sup> 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 U.S. 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 roll-ups, 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 U.S. 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.

## **About the National Venture Capital Association**

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. According to a 2011 Global Insight study, venture-backed companies accounted for 12 million jobs and \$3.1 trillion in revenue in the United States in 2010. 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 more than 400 member firms through a full range of professional services. For more information about the NVCA, please visit <a href="https://www.nvca.org">www.nvca.org</a>.

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