



National Venture Capital Association



Contacts:

Channa Luma, The Weiser Group for NVCA, 202-641-6959, cluma@weisergroup.com

Lisa Peterson, Porter Novelli for PricewaterhouseCoopers, 512-241-2233, lisa.peterson@porternovelli.com

Adam Reinebach, Thomson Venture Economics, 917-408-5268, adam.reinebach@thomson.com

## **VENTURE CAPITAL INVESTING RISES 19% TO \$5.8 BILLION IN Q2 2005**

**-- Later Stage Investing Hits 4-Year High; Earlier Stage Jumps on Large Deals --**

**-- Life Sciences Returns to Prominence --**

**Washington, D.C., July 26, 2005** – Venture capitalists invested \$5.8 billion in 750 companies in the second quarter of 2005, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Funding increased over Q1 2005 of \$4.9 billion, and approached Q2 2004 of \$6.1 billion. For the first half of 2005, investing totaled \$10.6 billion, tracking closely to full year 2004 of \$21 billion. Over the past two years, quarterly investing has ranged from \$4.6 billion to \$6.1 billion.

Later stage funding reached a four-year high at \$2.4 billion in Q2 2005; and investments in Start-up and Early stage companies increased to \$1.3 billion, a three-year high, on the strength of two very large deals. After a dip in the first quarter of 2005, Life Sciences investing regained the dominance it has held for the past two years with \$1.5 billion in Q2 2005.

Mark Heesen, president of the National Venture Capital Association, said: “The strength at the early and late stage ends of the venture spectrum indicates where we are in the current investing lifecycle. Many venture capital firms are deploying the final portions of current funds into late stage rounds while those that have recently raised new funds are focusing more on earlier stage deals. We expect to see the scales tip towards early stage as we move through the next 18 months. We are encouraged to see investment levels remain within the ‘RIPE’ zone of \$4-6 billion as this continues to reflect a sustainable pace.”

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, observed: “We’re seeing both consistency and diversity. Consistency in the overall level of investing and in the overall ranking of industry sectors. At the same time, we have diversity across stages of company maturity, and first-time versus follow-on rounds. The largest deals of the quarter demonstrate diversity on all counts. It’s a healthy balance.”

## **Stage of Development and 12-Month Average Valuations**

Continuing a trend that began late last year, Later stage funding increased to \$2.4 billion in Q2 2005, the highest dollar amount in the past four years. For the first six months of 2005, Later stage investing amounted to 41% of all dollars, far above the 2004 average of 34% and a 10-year high. However, the average post-money valuation slipped to \$59.9 million for the 12 months ending Q1 2005 compared to \$63.5 million for the Q4 2004 period. (Note that valuation data lags investment data by one quarter.)

Funding for Start-up and Early stage companies jumped to \$1.3 billion in Q2 2005 compared to \$830 million in the prior quarter on the strength of a \$311 million deal – the largest single round in the last five years. Even excluding the large deal, dollar investing in these companies still rose in the second quarter. Year-to-date, 473 Start-up and Early stage companies have garnered \$2.1 billion, or 20% of all dollars invested, similar to 2004. Average post-money valuations of Early stage companies were essentially flat at \$13.6 million for the 12 months ending Q1 2005 compared to \$14.2 million for the period ending Q4 2004.

Investing in Expansion stage companies held steady with 287 companies receiving \$2.1 billion in the second quarter. For the first half of 2005, Expansion companies accounted for 38% of all venture capital dollars, well below last year's average of 46%. Average post-money valuations dropped slightly to \$54.3 million versus \$58.2 million for the prior period.

According to Adam Reinebach, vice president at Thomson Venture Economics, "Even when you exclude the \$311 million deal, the largest Early stage deals in Q2 were, on average, much bigger than the top Early stage financings in Q1. With fundraising picking up, and with venture capitalists still being fairly selective, the most promising early stage companies could see larger rounds in the future."

## **Sector and Industry Analysis**

The Life Sciences sector (Biotechnology and Medical Devices industries, together) bounced back to \$1.5 billion invested in 154 companies compared to \$1.0 billion invested in 135 companies in Q1 2005. For the first half of 2005, Life Sciences accounted for 25% of all venture investing, in line with its dominant position over the past two years.

The Software industry continued to be the largest single industry category with 231 companies capturing \$1.3 billion, slightly above the prior quarter. During the first half of 2005, Software represented 23% of all venture capital dollars and 30% of all deals, virtually the same proportions as in 2004.

Telecommunications, buoyed by a large follow-on deal, hit a two-year high with \$562 million in 53 companies in Q2 2005. For the first half of 2005, Telecommunications accounted for 9% of all venture capital dollars, consistent with 2004 levels. The Networking industry turned up to \$469 million in 51 companies including two sizeable follow-on rounds. Year-to-date, Networking remained close to its recent norm with 7.6% of all dollars.

The largest single deal of the quarter was in the Financial Services industry. It catapulted the category to a four-year high of \$340 million. However, Financial Services will likely return to historical norms in the coming quarters.

Other major industry categories were generally consistent with investment activity seen over the prior year.

### **First-Time Financings**

First-time financing settled in at its highest level in two years with 218 companies receiving \$1.4 billion in Q2 2005, roughly the same as the prior quarter. For the first half of 2005, first-sequence financings accounted for 25% of all dollars, the highest aggregate proportion since calendar year 2000. So far this year, 427 companies got their first round of institutional venture capital, on pace with 2004.

The most first-time deals were in the Software industry and Life Sciences sector with 63 companies and 41 companies, respectively. While this essentially mirrored the pattern of overall industry investing, the first-time industry ranking deviated thereafter.

Following with 15 companies each were Semiconductors and Consumer Products & Services including nutrition, health, and beauty products. Industrial/Energy including several solar energy companies was next with 14 companies. Telecommunications companies, many in the wireless arena, followed with 13 deals.

Remaining deals were spread across other industries. Networking and Healthcare Services were last, each with two companies receiving first-time financing.

# # #

### **Note to the Editor**

When referencing information included in this release or other venture capital investment information produced by the three MoneyTree Alliance partners, the information should be cited in the following way: “The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association”, or

“PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey”. After the first reference, subsequent references may refer to PwC/TVE/NVCA MoneyTree Survey, PwC/TVE/NVCA or MoneyTree Survey. Charts and tables displaying the data are sourced to PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey. After the first reference, subsequent references may refer to PwC/TVE/NVCA MoneyTree Survey, PwC/TVE/NVCA or MoneyTree Survey.

### **About the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey**

The MoneyTree™ Survey measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. 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 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 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. 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.

MoneyTree Survey results are available online at [www.pwcmoneytree.com](http://www.pwcmoneytree.com), [www.ventureeconomics.com](http://www.ventureeconomics.com), and [www.nvca.org](http://www.nvca.org).

The **National Venture Capital Association (NVCA)** represents approximately 475 venture capital and private equity firms. 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 2004 Global Insight study, venture-backed companies accounted for 10.1 million jobs and \$1.8 trillion in revenue in the U.S. in 2003. 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](http://www.nvca.org).

The **PricewaterhouseCoopers Private Equity & Venture Capital Practice** is part of the Global Technology Industry Group, [www.pwcglobaltech.com](http://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](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 138 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

Unless otherwise indicated, “PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership. PricewaterhouseCoopers LLP is a member firm of PricewaterhouseCoopers International Limited.

**Thomson Venture Economics**, a Thomson Financial company, is the foremost information provider for equity professionals worldwide. Venture Economics offers an unparalleled range of products from directories to conferences, journals, newsletters, research reports, and the Venture Expert™ database. For over 40 years, Venture Economics has been tracking the venture capital and buyouts industry. Since 1961, it has been a recognized source for comprehensive analysis of investment activity and performance of the private equity industry. Venture Economics maintains long-standing relationships within the private equity investment community, in-depth industry knowledge, and proprietary research techniques. Private equity managers and institutional investors alike consider Venture Economics information to be the industry standard. For more information about Venture Economics, please visit [www.ventureeconomics.com](http://www.ventureeconomics.com).