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## **Q3 VENTURE CAPITAL INVESTING OF \$5.3 BILLION SETS PACE TOWARD FOUR-YEAR HIGHS IN 2005**

### **Later Stage Dollars, Life Sciences and Wireless Investments, First-Time Deals On Track to Hit Record Levels of Last Four Years**

**Washington, D.C., October 25, 2005** – Venture capitalists invested \$5.3 billion in 714 companies in the third quarter of 2005, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Venture investment decreased from Q2 2005 of \$6.1 billion, but surpassed Q1 2005 of \$5.0 billion and Q3 2004 of \$4.6 billion. For the first nine months of 2005, investing totaled \$16.3 billion compared to \$15.9 billion for the first nine months of 2004. Total venture capital investing in calendar 2005 could meet or exceed 2002's \$21.7 billion which is the highest level in the prior three years. Over the past three years, investing has ranged from \$4-\$6 billion per quarter.

The quarter evidenced continued strength in sectors that have performed well thus far in 2005. Investments in Later stage companies rose to \$2.6 billion – a four-year high -- following the upward trend that began in late 2004. Life Sciences continued its dominance with \$1.6 billion in Q3, on track to equal or better calendar 2004 which was a three-year high. Within the Telecommunications industry, the Wireless sub-category jumped to \$455 million, also a four-year high. The 215 companies receiving venture capital for the first time in the third quarter represented 30% of all deals, and is in line with the prior two quarters and the rate over the last three years.

Mark Heesen, president of the National Venture Capital Association, said, "Are we concerned about a growing frothiness here? The answer is absolutely not. There is simply not enough money coming into the asset class to support the kind of exuberance we saw in the late 1990's, and that's a good thing. That said, we are beginning to look more closely at early stage investment levels, which have not risen at the pace we would have expected. It appears to be taking slightly longer for some firms to deploy and announce these early deals – in some cases due to stealth practices. We will be tracking this closely in the coming quarters."

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, observed, "There is no flood of capital floating all boats. Money follows opportunity. Clearly, certain industry segments are more attractive than others right now. And, longer-term prospects are being balanced with shorter-term ones as venture capitalists invest in both early and late stage companies."

"While fluctuating somewhat quarter to quarter, investment activity has in fact been pretty stable for the past eight quarters. However, with fundraising on the rise again, we might reasonably expect to see firms deploy a bit more quickly in the months ahead," said Mary Macdonald, vice-president of Thomson Financial.

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

The sustained dominance of Later stage investing over the past 12 months reflects venture capitalists continued support of existing portfolio companies via additional follow-on rounds. In the third quarter, Later stage funding rose slightly to \$2.6 billion going into 248 companies. Year-to-date 2005, Later stage amounted to \$7.2 billion, approaching full-year 2004 figures of \$7.6 billion which was a three-year peak. Commensurately, the average post-money valuation rose to \$78.9 million for the 12 months ending Q2 2005 compared to \$63.2 million for the Q1 2005 period. (Note that valuation data lags investment data by one quarter.)

Funding for Start-Up and Early stage companies fell back in Q3 to \$1.0 billion in 216 companies, but still above the first quarter. However, the year-to-date 2005 totals of \$3.2 billion and 697 deals are on track to match full-year 2004 of \$4.3 billion and 1028 deals. Average post-money valuations of Early stage companies were essentially flat at \$14.4 million for the 12 months ending Q2 2005 compared to \$14.2 million for the period ending Q1 2005.

Investing in Expansion stage companies fell to its lowest point of the year in the third quarter; \$1.6 billion in 250 companies. Year-to-date figures of \$6.0 billion and 825 deals point to a full-year 2005 that will be significantly lower than 2004 of \$9.7 billion and 1,217 deals. Average post-money valuations dropped to \$46.2 million versus \$53.3 million for the prior period.

### **Sector and Industry Analysis**

The Life Sciences sector (Biotechnology and Medical Devices industries, together) outpaced the prior quarter with \$1.6 billion invested in 155 companies in the third quarter. For the first nine months 2005, Life Sciences accounted for \$4.2 billion or 26% of all venture investing. At the current rate, Life Sciences will meet or exceed 2004's total of \$5.8 billion.

Although the Telecommunications industry category has languished in recent years, the Wireless sub-category has shown steady growth. Year-to-date, 114 wireless-related companies received \$984 million compared to full-year 2004 of 135 companies and \$1.1 billion. Notably, the two largest deals of the quarter were wireless-related companies. All Telecommunications investing in Q3 totaled \$605 million in 65 companies; a level similar to the prior quarter. So far this year, Telecommunications stands at \$1.6 billion and 185 deals making it likely to finish 2005 at a three-year high point.

The Software industry dipped in the third quarter, but retained its position as the largest single industry category with 185 companies capturing \$1.0 billion. Year-to-date, Software amounted to \$3.5 billion in 627 companies, lagging full-year 2004 with 881 companies and \$5.2 billion.

After a jump in the second quarter, the Networking industry returned to recent historical levels with \$339 million going to 34 companies. Year-to-date, Networking remained near its recent norms with 127 companies accounting for \$1.2 billion compared to 180 companies and \$1.5 billion in full-year 2004. Other major industry categories were generally consistent with or slightly below investment activity seen over the prior year.

### **First-Time Financings**

Venture capitalists continued to make new investments at a steady clip in the third quarter. A total of 215 companies got their first-ever round of institutional venture capital which amounted to \$1.1 billion. Year-to-date, 653 companies received their first venture capital for a total of \$4.0 billion. Full-year 2004 figures of 854 companies and \$4.6 billion were both three-year highs, putting 2005 on track to a four-year high. Year-to-date, the most first-time financings, 69%, went to Start-Up and Early stage companies. Expansion stage companies were 26% and Later stage 5%.

The most first-time deals were in the Software industry and Life Sciences sector with 46 companies in each. For the first nine months 166 Software companies got institutional venture capital for the first time, or 25% of all first-time deals. Life Sciences followed closely with 120, or 18%.

First-time Telecommunications investing reached a four-year high with 26 deals, reflecting renewed interest in the wireless arena. Media & Entertainment and Industrial/Energy followed with 13 deals each. First sequence investing in other industries generally mirrored the pattern of overall industry investing.

### **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).

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