



National Venture Capital Association

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## **VENTURE CAPITALISTS PREDICT 2008 TRENDS**

*NVCA Annual Survey Forecasts CleanTech Upswing, Departing Firms, and More IPOs for the Coming Year*

**Washington DC, December 17, 2007** – Venture capitalists are forecasting an active year for the industry with high growth in the CleanTech sector, an improving IPO market and fewer venture firms in 2008. These predictions are among the top line findings of the NVCA 2008 Predictions Survey. The results also show concerns about global investments in certain regions including China. Additionally, the industry believes fund sizes will become larger and returns for limited partners of venture capital funds will improve in both the short and long term horizons.

“For venture capital firms, 2008 will be the year we begin to see larger funds raised at a faster pace, as many firms in the industry will focus on sectors that have increasing capital requirements such as life sciences and clean technology,” said Mark Heesen, president of the NVCA. “These sectors will not be exclusively US-based, but have a world-wide platform which will require more time and more capital than ever before. That said, the other end of the spectrum -- seed and early stage investment and smaller, regionally focused firms -- will also be very active, particularly in the Internet and new media spaces. By its very nature, venture capital investment is long term so the ultimate winning strategy won't be clear for some time,” Heesen added.

The NVCA survey was conducted in early December and includes the predictions of more than 170 venture capitalists from across the United States.

### **Investment Trends**

Venture capitalists are predicting moderate investment growth next year with 71 percent of respondents pegging 2008 venture investment levels to be between \$20-29 billion, with the average forecast at \$27 billion, which would be on par with 2007 investment levels. A quarter of the respondents predict venture capital investment will be higher, in the \$30-39 billion range.

Venture capitalists overwhelmingly predict (80 percent) that the CleanTech sector will attract higher levels of venture financing in 2008. However, 61 percent of respondents also believe that CleanTech sector will be overvalued next year. Other sectors of growth include media and entertainment (65 percent predict higher levels), biotech, and Internet specific companies (55 percent respectively). Investment in the medical devices and wireless telecom are expected to grow moderately with more than half the respondents predicting static or declining investment in these sectors. Fifty percent of venture capitalists

predict a decline in semiconductor investing while 21 percent see declines in software. Accordingly, both industries are most projected to be undervalued in 2008.

In terms of international investing, while there is a general assumption that global markets will continue attracting U.S. venture dollars, domestic venture capitalists are skeptical about quality deal opportunities in pockets of the world. Thirty-seven percent of respondents say they are leery about investing in South America while 28 percent are hesitant to invest money into China next year. Eastern Europe also causes concern for 17 percent of the venture capitalists surveyed.

### **Venture Capital Fundraising**

Most respondents believe the industry will consolidate further in 2008 with 57 percent predicting the number of venture firms will decrease next year. Those that remain will be raising the same size or larger funds according to 84 percent of venture capitalists polled. Only 16 percent believe funds will be smaller next year.

### **Venture Backed Exits – IPO s and Acquisitions**

While 59 percent of the venture capitalists are predicting further IPO market recovery, 44 percent see that recovery taking place at the same or a slower pace than 2007. Twenty-two percent see a flat IPO market and 19 percent believe the market will weaken for venture-backed companies.

Most venture capitalists still see the U.S. exchanges as holding the greatest promise for venture-backed company listings. Seventy percent cited NASDAQ as has holding the most potential for venture-backed listings in 2008; 19 percent say AIM has most promise followed by the Hong Kong (16 percent) and Shenzhen Exchanges (15 percent).

In the acquisitions market, the venture industry is split on how deal values will trend. Thirty-five percent say valuations will be higher; 27 percent say lower; and 38 percent say they will remain the same. However, the majority of respondents (55 percent) believe deal *volume* will increase.

### **Alternative Asset Performance**

When asked about short term performance of other alternative asset classes, large majorities of respondents forecast a dip in returns. Venture capitalists overwhelmingly agree that short term performance will decline in the real estate (78 percent), buyout (70 percent), and hedge fund (73 percent) industries. However, most are optimistic about short term venture returns. Seventy-seven percent of venture capitalists believe their industry's short term performance will improve.

A significant number of survey participants predict declines in the long term performance of the buyout and hedge fund industries. Forty-three and 51 percent predict declines in these respective industries over the long term. However, forty-seven percent of the respondents say real estate long term returns will improve. Also, most venture capitalists are optimistic about the venture industry's long term performance with 80 percent predicting an improvement in the next 5 to 10 years.

### **US Economic and Political Predictions**

With a sharp eye on the future, venture capitalists have a unique view of national economic and public policy. On the economic front, venture capitalists are skeptical for 2008. When asked about the state of the U.S. economy, 60 percent believe it will decline, 21 percent predict it will stay the same and 19 percent are betting on an improvement. However, 60 percent of venture capitalists say the sub prime credit woes will be contained in 2008.

Fifty-five percent of respondents expect the price of oil to be above \$92 per barrel next December with 41 percent calling for oil prices below \$92. Additionally, 61 percent of venture capitalists believe the value

of the U.S. dollar will remain the same or decline with 39 percent forecasting an increase in value in 2008.

Looking ahead to the U.S. presidential election, 39 percent of respondents predict Hillary Clinton will be voted into office followed by Rudy Giuliani (21 percent), Barack Obama (16 percent), and Mitt Romney (11 percent).

## **NVCA Member Predictions for 2008**

### **On IT Spending**

*“The recent market disruptions have started to ripple through financial leaders and find their way into spending. In January, we predicted IT spending growth of 6.1 percent for 2007. It now looks like growth will be 3.5 percent at year end. Similarly, expectations for next year, based on FTVentures IT Outlook, are projected to continue to grow but at the slower rate of 3 percent since volumes are down (mortgages, derivatives, trading) in the second half. Explicit spending planned for growth will drop but in part will be replaced by software spending for compliance and risk management.” – Jim Hale, Founding Partner, FTVentures*

### **On Corporate Venture Capital**

*“We expect the positive development of the corporate venture capital market to continue in 2008. New businesses will be implemented, exciting start-ups will be funded. As a corporate investor we take a hands-on approach to our investments in the field of industry, energy and healthcare. Support to entrepreneurs means more than investing capital. In addition to our financial commitment, we play an active role in the nurturing of our portfolio companies by providing strategic management guidance and access to Siemens' global network of internal and external resources.” - Dr. Ralf Schnell, president and CEO, Siemens Venture Capital*

### **On the U.S. Economy**

*“Consensus views predicting the continuing demise of the dollar and an anemic American economy will be proven wrong by continued global growth in technology spending fueled by innovation from emerging U.S. companies, particularly venture-backed companies that successfully go public in 2008.” – Pascal Levensohn, Managing Partner and Founder, Levensohn Venture Partners*

*“Slower GDP growth, a tightening in consumer spending, more pain on the sub-prime mortgage front, but corporate earnings growth, while likely to slow, will ensure the United States stays out of a recession.” – Walter Kortschak, General Partner, Summit Partners*

### **On CleanTech Investment**

*“CleanTech will continue its pace as the fastest growing venture category of the past several years. In its quest to solve some of the most important energy and water issues of the 21<sup>st</sup> century, the sector will also attract the interest of some of the best and brightest entrepreneurs, executive teams, and technologists. Finally, the diversity and breadth of the CleanTech sector will evolve such that areas beyond solar and biofuels will capture more venture dollars over the coming year than ever before.” – Ira Ehrenpreis, General Partner, Technology Partners and Chairman, 2008 Clean-Tech Investor Summit*

### **On Global Investment**

*“In 2008, U.S. venture activity overseas will continue to grow, driven by the continuing need to expand the base. Emerging economies in regions like Brazil, Russia, Vietnam, Poland, and Romania will be seeded by technology investors over the next 18 months. Global interest in greentech will enable companies in unexpected geographies to establish themselves as competitive players in the global market. In addition, Asian markets will continue to set the pace for the convergence of wireless, mobile, and broadband services, with biotech, gaming and rich media among the stronger vertical segments. Capital will follow the innovations, despite their locations.” - Claudia Fan Munce, Managing Director, IBM Venture Capital Group, Vice President, IBM Corporate Strategy*

### **On Life Sciences**

*"The antiquated way of diagnosing and treating disease will become a thing of the past. Dramatic changes coming from gene-based knowledge and genomic advances will move us further away from one-size-fits-all diagnosis and treatment. We're on the cusp of a new generation of molecular or personalized medicine. That's good for patients, payers and physicians." -- Michael Goldberg, MDV-Mohr Davidow Ventures General Partner*

*“During 2008, we will continue to see heightened concerns on the part of the FDA about drug safety. Venture-backed companies using repurposed drugs to address different health conditions will be able to leverage previous experience with these drugs, so they may more efficiently achieve FDA approvals. As a result, there will be an increase in clinical innovation in healthcare, and more M&A activity from companies seeking to add to their late-stage and marketed pipelines.” - Lou Bock, Managing Director, Scale Venture Partners*

*"As the broader markets remain shaky, venture-backed medical device and biotechnology companies will continue to seek alternative financing sources to an IPO. This approach will result in private companies continuing to grow and mature under the radar. When these companies do surface, they will be strong commercial entities. The net result, fewer but bigger exits. Billion dollar exits in healthcare? Never say never." -- Mike Carusi, General Partner, Advanced Technology Ventures (ATV)*

### **On the Exit Market**

*“Exits will dry up significantly in 2008 – by at least 50 percent - because there’s going to be an economic downturn; as a result, IPOs will essentially disappear. Similarly, when there’s*

*uncertainty in the economic environment, the acquirers fold their tent, too; and, for those acquirers who stay in the market, it means that the value of deals will drop. The net result of this is that LP distributions will drop sizably.” – Don Caldwell, CEO, Cross Atlantic Partners*

*“I expect that 2008 will see a continuing change in the nature of exits for venture capital backed companies. While merger and acquisition exits will still be the predominate form of liquidity for venture backed companies and the IPO opportunity will exist for many more mature companies much as it did in 2007, we expect to see that the sales shares held by VC firms in companies to late stage and secondary investors will increase dramatically in 2008 as an alternative form of liquidity - much like buyout firms sold their portfolio companies to other larger buyout firms as an alternative to a strategic sale.” – Ken Sawyer, Managing Partner, Saints Venture Capital*

### **On Advances in Technology**

*“In 2008 we will experience another strong year for venture funded startups. Never believe the negative predictions from professional prognosticators of pervasive pessimism - they sound like a broken record. The benefits of technology continue to spread through all aspects of the economy and around the world, across many sectors such as biotechnology, materials science, advanced computing, telecommunications and energy technologies”. – Patrick Ennis, Managing Director, ARCH Venture Partners*

### **On Angel Investing**

*"2008 will be the year that the impact and importance of angel investors is embraced by traditional VCs. Angel groups are rapidly professionalizing and structuring their organizations. They are important providers of funding and advice to seed-stage companies. Angels help fuel our country's innovation economy and in 2008 they will emerge from the shadows to take a more prominent and visible role.” – David Spreng, Managing General Partner, Crescendo Ventures*

### **On the Technology Sector**

*“We continue to be bullish about the market for both IPOs and IP spinouts in the technology sector. Companies are looking at ways to maximize their R&D investments and spinning out innovative IP into successful private and public companies is an extremely lucrative option.”  
- Bart Schachter, Managing Director, Blueprint Ventures.*

### **On Public Policy**

*“As we move closer to the next election the pressure for a more “progressive” tax code will greatly intensify.” - Roger Novak, Founding Partner, Novak Biddle Venture Partners*