



National Venture Capital Association



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VENTURE-BACKED IPO VOLUME PLUMMETED IN Q3 2006

Acquisitions Also Slowed Considerably According to Exit Poll Release

New York, NY- October 3, 2006 -- Only eight venture-backed companies raised \$934.2 million through Initial Public Offerings (IPOs) in the third quarter of 2006 reflecting the slowest quarter since 2003, according to the Exit Poll report by Thomson Financial and the National Venture Capital Association. (NVCA). This figure represents a significant decrease from the second quarter of 2006 when nineteen venture-backed companies went public and raised more than \$2 billion. The results continue to disappoint when comparing the statistics to the same period last year, when nineteen venture-backed companies went public and raised nearly \$1.5 billion. Venture-backed acquisitions reported in the quarter also fell in volume with 74 companies acquired for a disclosed value of \$2.7 billion.

Venture-Backed Liquidity Events by Year/Quarter, 2001-2006

Quarter/Year	Total M&A Deals	M&A Deals with Disclosed Values	*Total Disclosed M&A Value (\$M)	*Average M&A Deal Size (\$M)	**Number of IPOs	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2001	353	165	16798.9	101.8	41	3,489.9	85.1
2002	318	152	7916.4	52.1	24	2,473.5	103.1
2003	293	123	7726.1	62.8	29	2,022.7	69.7
2004-1	80	45	3921.0	87.1	13	2,721.1	209.3
2004-2	89	48	4514.6	94.1	29	2,077.8	71.6
2004-3	87	47	4142.8	88.1	24	3,225.6	134.4
2004-4	84	46	2862.2	62.2	27	2,990.4	110.8
2004	340	186	15440.6	83.0	93	11,014.9	118.4
2005-1	82	46	4364.9	94.9	10	720.7	72.1
2005-2	80	36	4791.0	133.1	10	714.1	71.5
2005-3	98	47	4374.8	93.1	19	1,458.1	76.7
2005-4	86	39	2563.7	65.7	17	1,568.1	92.2
2005	346	168	16094.4	95.8	56	4,461.0	79.7
2006-1	104	48	5384.4	112.2	10	540.8	54.1
2006-2	91	37	3747.6	101.3	19	2,011.0	105.8
2006-3	74	34	2758.6	81.1	8	934.2	116.8
2006	269	119	11890.6	99.9	37	3486	92.2

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*Only accounts for deals with disclosed values

**Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile.

“The venture-backed IPO volume has fallen to alarmingly low levels, suggesting that the public markets are not the destination they once were for emerging growth companies,” said Mark Heesen, president of the NVCA. “The few companies that are going public today are doing so successfully, which should be encouraging to those in and considering registration. However, the IPO path remains risky and expensive from a regulatory and market perspective, and currently there are not enough companies pursuing this exit strategy to keep the US economy humming.”

IPO Activity Highlights

The largest IPO of the third quarter was the \$270 million offering from Mindray Medical International Limited. Based in Shenzhen China, the medical equipment manufacturer priced 20 million ADR’s (American Depository Receipts) at \$13.5 a share. Backed by Goldman Sachs, Mindray also posted the largest first day gains of any venture-backed company that went public during the quarter, jumping 30% to close at \$17.55 a share.

All industry categories experienced steep declines in volume. The perennial sector leader, Technology raised \$480 million in public offerings, followed closely by the Life Sciences industry which captured \$359 million. The Non-High-Technology sector priced one IPO that accounted for \$95 million.

While the overall volume levels were dismal, the performance of the third quarter offerings were encouraging. As of September 29, 2006, seven of the eight venture-backed companies that priced in the quarter were trading over their initial offering price. For the rolling 12month period, 58% of the venture-backed companies that went public are currently trading above their offering price. The statistics also revealed that the average offering size as well as the average post-offering values were at their highest levels since the third quarter of 2004.

In addition to the IPOs completed this quarter, there are currently 51 venture-backed companies “in registration” with the United States Securities and Exchange Commission. These companies have filed with the SEC in 2005 or 2006 and are now preparing for their initial public offerings. This compares favorably to the 41 companies in registration at the end of the second quarter of 2006.

Industry Breakdown

		Q3 2006	
		*Number of Venture-Backed IPOs in the U.S.	Total Venture-Backed Offering Size (\$M)
Industry			
Technology	Internet Specific	2	172.80
	Computer Software	2	306.71
	TOTAL	4	479.51
Life Sciences	Medical/Health	2	349.19
	Biotechnology	1	10.20
	TOTAL	3	359.39
Other	Non-high Technology	1	95.31
	TOTAL	1	95.31
TOTAL		8	934.21

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Merger and Acquisition Overview

The third quarter continued the trend of the previous quarter in which acquisition volume declined. The average disclosed deal size was \$99.9 million, a slight decrease from second quarter's average, but in line with the average deal size for third quarter 2005. Median deal size remained strong in the third quarter, with a median disclosed value of \$60.0 million. This compares to a median disclosed deal size of \$56.0 million in the first quarter, and \$48.1 million in the second quarter 2006.

“We hope that the lower acquisition volume is a quarterly aberration and reflective of a slower summer business climate,” Heesen remarked. “We would like to see the number of transactions increase 15-20% next quarter as investors cannot enjoy the quality rates of return if the two major paths to liquidity are not open to them.”

The Technology sector continued to dominate the venture-backed M&A landscape with 52 deals and a disclosed value of \$1.6 billion. Within Technology, the Computer Software sector had 17 transactions, followed by the Internet Specific sector with 13 deals. Fifteen Life Sciences companies were acquired in the third quarter with a disclosed deal value of \$802.7 million.

The largest disclosed deal of the quarter was the deal was the \$365 million acquisition of Corus Pharma, Inc., a company that develops therapeutics to treat severe respiratory diseases, by Gilead Sciences, Inc. The second largest deal was R2 Technology, which develops analytical software aids for mammographic screening, being acquired by Hologic, Inc. for 237.1 million.

Venture-Backed M&A Industry Breakdown

		Q3 2006		
Industry		Number of Venture-Backed M&A deals	Number of Venture-Backed M&A deals with a disclosed value	Total Disclosed Venture-Backed Deal Value (\$M)
Technology	Communications/Media	10	5	231.6
	Internet Specific	13	6	452.6
	Computer Software	17	7	434.2
	Semiconductors	5	3	221.3
	Computer Hardware	7	4	301.2
	TOTAL	52	25	1640.9
Life Sciences	Medical/Health	11	4	700.4
	Biotechnology	4	2	102.3
	TOTAL	15	6	802.7
Other	Non-high Technology	7	3	315
	TOTAL	7	3	315
TOTAL		74	34	2758.6

Source: Thomson Financial & National Venture Capital Association

Acquisitions which returned more than 10x the amount of the original venture investment comprised 21% of the disclosed transactions for the quarter. At the opposite end of the spectrum, 38% of the disclosed acquisition deals returned less than the total venture investment. An equal percentage of deals – 38% returned 1-4x investment for the quarter.

Analysis of Transaction Values versus Amount Invested

Relationship between transaction value and investment	Q3 2006
Deals where transaction value is less than total venture investment	13
Deals where transaction value is 1-4x total venture investment	13
Deals where transaction value is 4x-10x total venture investment	1
Deals where transaction value is greater than 10x venture investment	7
Total Disclosed Deals	34**

Source: Thomson Financial & National Venture Capital Association

** Disclosed deals that did not have a disclosed total investment amount are not included.

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The National Venture Capital Association (NVCA) represents approximately 480 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 United States 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.