



National Venture Capital Association



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VENTURE CAPITAL INVESTING SETTLES BACK TO \$4.6 BILLION IN Q1 2005

-- First-Time Funding Continues Strong --

-- Life Sciences Investing Slows --

Washington, D.C., April 26, 2005 – Venture capitalists invested \$4.6 billion in 674 companies in the first quarter of 2005, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Funding was below Q4 2004 of \$5.4 billion, but matched Q3 2004 of \$4.6 billion. Over the past two years, quarterly investing has floated between \$4.4 billion and \$5.9 billion.

First-time fundings inched up near a two-year high of \$1.2 billion in 197 companies on the strength of relatively more mature companies receiving their first round of venture capital. And, Life Sciences investing abated for the first time in two years.

Mark Heesen, president of the National Venture Capital Association, said: “Venture investment was indeed down this quarter, but it still fell within the \$4-6 billion range that we consider to be at a rational, investable, performance-driven equilibrium. We would like to see the industry stay within this ‘RIPE zone’ for the remainder of the year, as a \$20-\$23 billion annual investment level is a logical place to be considering market conditions. We are also looking for a noticeable up tick in the percentage of earlier stage deals which has yet to occur, but we anticipate taking place as venture capitalists begin to deploy recently raised new funds.”

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, added: “We’re seeing a natural ebb and flow in the level of investing. This quarter, the breadth of investing in industry segments and in companies at varying stages of maturity indicates a healthy balance between short and long term opportunities. The slow down in Life Sciences also reflects this balance as venture capitalists remain conscious not to over-fund specific sectors.”

First-Time Financings

First-time financings have been trending slightly upward over the last two years. The increase to \$1.2 billion in the first quarter compared to an average of \$1.1 billion last year is notable in that it accounts for 26% of all venture capital funding compared to 21% last year. This was the highest proportion since 2000.

The strength in Q1 2005 was attributable to a diverse mix of companies receiving venture capital for the first time. Companies in the Early stage of their development typically account for the bulk of first-time investing. While that remained true in Q1 2005, several companies in the Expansion stage of development secured significant initial venture capital. And, these companies generally require larger investments. In the first quarter, 123 Early stage companies attracted an average of \$4.5 million per company for their first round of funding, while 36 Expansion stage companies got an average of \$11.4 million, and 9 Later stage companies an average of \$20.1 million each.

Further, first-time investing encompassed a wide range of industry categories including Financial Services, Industrial and Healthcare Services alongside the expected Technology and Life Sciences companies.

Sector and Industry Analysis

After two years of dominance, the Life Sciences sector (Biotechnology and Medical Devices industries, together) fell significantly in Q1 2005 to \$1.08 billion, compared to \$1.6 billion in Q4 2004 and the lowest amount since Q1 2003. A total of 129 Life Sciences companies were funded versus 162 in the prior quarter. The sector accounted for 19% of all deals and 23% of all dollars during the period – still a solid level, reflective of recent market conditions.

The Software industry remained the largest single industry category with 198 companies capturing \$1.1 billion. Though both figures were down slightly from the prior quarter, Software represented 24% of all venture capital dollars, and 29% of all deals, in line with historical norms.

Telecommunications investing continued to slide with 58 companies garnering \$371 million, well below its average over the last two years. The Networking industry turned up slightly to \$348 million in 40 companies, but still languished below its two-year average.

IT Services bounced to two-year high of \$302 million on the strength of a single large deal. For the same reason, Industrial/Energy increased in the quarter. Both industries are likely to hew closer to historical norms in the coming year. Other major industry categories were generally consistent with investment activity seen over the prior year.

Stage of Development and 12-Month Average Valuations

Funding by stage of development saw Later stage decrease slightly in Q1 2005 to \$1.8 billion. This amount still represented 40% of all venture capital, the same proportion as last quarter and a 10-year high. However, the average post-money fell to \$60.6 million for the 12 months ending Q4 2004 compared to \$70.2 million for the Q3 2004 period. (Note that valuation data lags investment data by one quarter.)

Of particular note, the 16% of all venture capital investing going to Early stage companies in Q1 2005 fell only slightly from the 18% in the prior quarter. The dollar amount of funding decreased to \$752 million in Q1 2005 versus \$958 million in Q4 2004. A total of 200 Early stage companies received funding, representing 30% of all deals, the same proportion seen in the last year. Average post-money valuations turned down slightly to \$14.9 million for the 12 months ending Q4 2004 compared to \$16.0 million for the period ending Q3 2004.

Investing in Expansion stage companies dropped slightly versus the prior quarter to \$2.0 billion in Q1 2005. This represented 43% of all venture capital, slightly below the average over the past year. Average post-money valuations increased slightly to \$58.6 million versus \$55.9 million for the prior period.

According to Adam Reinebach, vice president at Thomson Venture Economics, “Stage preferences have been fairly stable over the past year or so. Many of the companies being funded today got their first rounds during the boom years and made it through the dry period of 2002-2003. Given the VC market’s emphasis on management experience, as well as exit conditions, it’s not surprising to see the continued trend toward Late and Expansion stage deals.”

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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, www.ventureeconomics.com, and www.nvca.org.

The **National Venture Capital Association (NVCA)** represents approximately 460 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.

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