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VENTURE CAPITAL INVESTING STEADY AT \$21.7 BILLION IN 2005 HOLDING ON TO 2004's GAIN

Later Stage Dollars and First-Time Deals Hit Four-Year Highs Wireless and New Internet-Specific Fundings Ramp Up

Washington, D.C., January 24, 2006 – Venture capitalists matched 2004 by investing \$21.7 billion in 2,939 deals in 2005, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Full-year 2004's \$21.6 billion marked the first increase in venture capital investing after three years of consecutive declines.

Funding for later stage companies rose markedly to \$9.7 billion, while the number of companies getting venture capital for the first time increased to 901, continuing a steady year-over-year rise. Both measures were four-year highs. Some hot sectors began to emerge, though they still accounted for a relatively small proportion of overall activity. The Wireless sub-sector of Telecommunications jumped to a four-year high of \$1.3 billion. And, first-time investing in Internet-specific companies across all industry categories nearly doubled to \$840 million.

Investments in the fourth quarter of 2005 totaled \$5.1 billion in 709 deals, down slightly from \$5.4 billion in Q3 2005, but well in within the range of investments levels seen over past 14 quarters.

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, observed, "Solid levels of investing in traditional industries are being complemented by renewed interest in promising, fast-growing niches. Entrepreneurs in any area can look forward to a more receptive -- though no less demanding -- market for their ideas."

Mark Heesen, president of the National Venture Capital Association, said, "The next wave of creative destruction is upon us and it's going to take the consumer on an exciting ride. Just as venture capital dollars were heavily directed at changing the way we work in the 1990s, many of the investments made today will change the way we play and live our

lives. Not only will we witness tremendous strides in areas such as mobile computing in terms of richer, faster, more ubiquitous content, but we will also see fundamental breakthroughs in how we treat chronic and life threatening diseases. Venture capital improves lives in many different ways and the investment pace we saw in 2005 was right on target to continue doing just that.”

"This positive environment is reinforced by the fact that VCs are doing more new deals again. While continuing to manage risk by investing heavily in late stage companies, the venture community is filling the pipeline again by doing a growing number of first-time transactions. This is obviously good news for entrepreneurs." said Mary Macdonald, vice-president of Thomson Financial.

Stage of Development and 12-Month Average Valuations

The continuing shift toward Later stage investing over the past five years reflects venture capitalists ongoing support of existing portfolio companies via additional follow-on rounds. Given the lackluster IPO market, portfolio companies may be waiting longer to exit than in previous years. For full year 2005, Later stage funding rose 22% to \$9.7 billion in 952 deals compared to \$8.0 billion in 2004. More notably, Later stage accounted for 45% of all venture capital dollars, the highest proportion in the 11-year history of the MoneyTree Survey. Commensurately, the average post-money valuation rose to \$81.9 million for the 12 months ending Q3 2005 compared to \$73.0 million for the period ending Q3 2004. (Note that valuation data lags investment data by one quarter.)

Funding for Start-Up and Early stage companies slipped only slightly to \$4.1 billion in 922 deals compared to \$4.4 billion in 2004 indicating sustained interest in longer term investment horizons. Average post-money valuations of Early stage companies slipped to \$12.9 million for the 12 months ending Q3 2005 compared to \$15.4 million for the period ending Q3 2004.

As activity remained focused on opposite ends of the barbell, investing in Expansion stage companies fell to its lowest point in nine years: \$7.8 billion in 1065 deals. In 2004, 1,195 Expansion stage deals amounted \$9.3 billion. Average post-money valuations dropped to \$42.3 million versus \$53.8 million for the year-ago period.

Sector and Industry Analysis

The Life Sciences sector (Biotechnology and Medical Devices industries, together) inched up to a five-year high in 2005 with \$6.0 billion in 608 deals compared to \$5.8 billion in 589 deals in 2004. For the year, Life Sciences accounted for 28% of all venture capital investments.

Software investments slipped 10% in 2005 to \$4.7 billion in 840 deals. However, Software easily held its position as the largest single industry category with 22% of total dollars and 29% of all deals. The Networking industry continued its slide, ending at \$1.4 billion in 2005, an eight-year low point.

Although the Telecommunications industry category has languished in recent years, the Wireless sub-category has become a hot spot. For full year 2005, 152 wireless-related companies received \$1.3 billion, a 24% increase over 2004's \$1.1 billion. This increase pushed the Telecommunications category to a three-year high of \$2.1 billion in 2005.

Major industry categories that experienced increases in 2005 were IT Services, Industrial/Energy and Financial Services. Other major categories were either relatively flat or experienced modest decreases.

'Internet-specific' is a discrete classification assigned to a company whose business model is fundamentally dependent on the Internet, regardless of the company's primary industry category such as Software or Telecommunications. Internet-specific investing has grown slowly over the last three years with 2005 ending at \$2.9 billion in 450 deals, up slightly from \$2.8 billion in 2004. Companies classified as Internet-specific represented 13% of all venture dollars and 15% of all deals in 2005.

First-Time Financings

New investments by venture capitalists hit a four-year high with 901 companies receiving their first round of institutional venture capital for a total of \$5.3 billion in 2005. Last year, 865 companies attracted \$4.6 billion. The increase reflects venture capital firms' appetite for fresh ideas to balance existing investments.

The most notable jump in first-time financings was among Internet-specific companies. A total of \$840 million went to 161 companies, increases of 89% and 68%, respectively over 2004's \$443 million in 96 companies. The boost recognizes the potential of new companies across all standard industry classifications and the viability of new business models that rely on the Internet.

Among the standard industry classifications, the Software industry attracted the most first-time activity with \$1.2 billion going to 238 companies. Life Sciences followed with \$1.0 billion going to 176 companies. All figures were similar in 2004.

First-time Telecommunications investing reached a four-year high with 72 deals, directly reflecting the renewed interest in the wireless arena. Media & Entertainment increased to 64 companies compared to 43 in 2004. Industrial/Energy followed with 51 deals, roughly the same as 2004. First sequence investing in other industries generally mirrored the pattern of overall industry investing.

In terms of stage of company development, the most first-time financings in 2005, 67% of all first-time deals, went to Start-Up and Early stage companies. Expansion stage companies were 28% and Later stage 5%. All figures were in line with recent historical norms.

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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 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.

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