



National Venture Capital Association



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**VENTURE CAPITAL DECLINED IN Q3 2004
WITH \$4.3 BILLION INVESTED**

-- 2004 Still Expected to Surpass 2003 --

Washington, D.C., October 26, 2004 – Venture capital investing dipped in the third quarter of the year with investments of \$4.3 billion going into 601 companies according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. That figure was below the prior quarter of \$5.9 billion in Q2 2004, but equal to the year-ago figure of \$4.3 billion in Q3 2003. Over the past two years, quarterly investing has floated between \$4.2 billion and \$5.9 billion. In general, the decline in the third quarter was spread proportionately across the board.

For the first nine months of 2004, venture capital investments totaled \$15.3 billion compared to \$13.3 billion for the first nine months of 2003. At the current pace, full year 2004 is expected to exceed 2003's total of \$18.7 billion.

Mark Heesen, president of the National Venture Capital Association, said: "The lower level of activity in the third quarter is not concerning. To be frank, a 25% increase in venture investment would be more alarming. The industry is setting its own pace, with no pressure to accelerate investment or pour dollars into 'hot' areas. This discipline combined with a sustainable mix of early and expansion stage deals will foster the above average returns that the asset class has historically achieved."

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, observed: "We see a market that is seeking its natural level. There is a balance between earlier and later stage investing. There is a natural mix of industry segments based on market opportunities, and a balance between risk and reward for venture capitalists and entrepreneurs alike."

Sector And Industry Analysis

The Life Sciences sector (Biotechnology and Medical Devices industries, together) continued to dominate as it has for the past nine consecutive quarters. Investments in the sector totaled \$1.26 billion or 29% of all venture capital. Proportionately, Life Sciences investing remained near historical highs. A total of 127 Life Sciences companies received funding in the third quarter.

The Software Industry remained in the top slot as the largest single industry category. Software companies garnered \$942 million going into 160 companies. Proportionately, Software companies accounted for 22% of all venture dollars; typical of its historical position.

Telecommunications continued to languish as it has for the past two years, attracting \$450 million, or 10% of all venture capital. Of the 58 companies funded, most were follow-on rounds. The Networking industry followed a similar pattern with \$314 million, or 7% of total dollars with 43 companies funded.

Most other major industry categories experienced similar, proportionate declines. The exception was an increase in the Business Products and Services industry which was entirely attributable to one very large deal.

Stage of Development and 12-Month Average Valuations

Early stage companies held their own, proportionately, in the third quarter. A total of 181 companies attracted \$840 million, or 30% of all deals and 19% of all dollars. Both percentages are similar to the prior quarter. Average funding per company was \$4.6 million, essentially unchanged from the prior quarter. Further, the average post-money valuation of Early stage companies held steady at \$12.5 million for the 12 months ending Q2 2004. (Note that valuation data lags investment data by one quarter.)

Expansion stage companies typically account for the largest total dollars and number of deals, and that trend continued in the third quarter of 2004. Expansion stage funding was \$2.1 billion going into 267 companies, amounting to 49% of all dollars and 44% of all deals; both percentages are consistent with historical norms. Average funding per company at \$8.0 million was in line with the average of the prior four quarters. The average post-money valuation for the 12 months ending Q2 2004 rose to \$55.1 million, compared to \$51.5 million for the period ending Q1 2004.

Later stage funding also conformed to historical norms. Investments in Q3 2004 were \$1.3 billion or 30% of all investing. Average funding per company was down slightly to \$9.9 million, compared to the \$10.2 million average of the last four quarters. However, the average post-money valuation held steady at \$71.8 million for the 12 months ending Q2 2004.

According to Adam Reinebach, vice president at Thomson Venture Economics, "The Expansion and Later stage focus makes sense when you consider that venture-backed

companies in sectors like Life Sciences need a considerable amount of funding to sustain their growth. If the IPO market remains open, investors will have more opportunities to exit some of these later-stage deals.”

First-Time Financings

First-time financings fared slightly better than overall venture investing indicating that venture capitalists continue to fund new enterprises while supporting existing portfolio companies. A total of 182 companies received venture capital for the first time, or 30% of all companies funded in the third quarter – proportionately higher than any time in the last two years. In dollar terms, first-timers attracted \$1.0 billion, or 23% of all dollars, also above recent norms.

Software companies accounted for the most first-time fundings with 44 companies getting \$192 million. The Life Sciences sector followed with 18 Biotechnology companies and 12 Medical Device companies receiving a combined total of \$232 million. Four other industries had 10 or more first-time financings. But, Networking continued to lag with only 4 companies attracting \$30 million.

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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 450 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.

The **PricewaterhouseCoopers Private Equity & Venture Capital Practice** is part of the Global Technology Industry Group, www.pwcglobaltech.com. The group is comprised of industry professionals who deliver a broad spectrum of services to meet the needs of fast-growth technology start-ups and agile, global giants in key industry segments: Networking & Computers, Software & Internet, Semiconductors, Life Sciences and Private Equity & Venture Capital. PricewaterhouseCoopers is a recognized leader in each industry segment with services for technology clients in all stages of growth.

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