NVCA
National Venture Capital Association

The Principles of Venture Capital

Venture capital is money that is invested alongside management in young, private, emerging growth companies. Venture capital funds are capitalized by institutional investors such as private and public pension funds, endowments, foundations, high net worth individuals and the venture capitalists themselves.

Venture capital promotes US economic growth.

- Venture capital investment of $ 28.6 billion only accounted for 0.2% of GDP in 2006.
- Companies that received venture capital between 1970 and 2006 accounted for 10.5 million US jobs and $2.3 trillion in revenues in 2006.
- Venture backed companies accounted for 17 percent of GDP and 9 percent of all US jobs in 2006.
- Venture-backed companies outperformed their non-venture counterparts in job creation and revenue growth from 2003 – 2006 in nearly every industry sector.

Venture capital fosters innovation across all industry sectors.

- Venture capital investment is responsible for the development of many high-technology industries in the United States included biotechnology, medical devices, network security, on-line retailing, RFID and web-based services.
- Venture-backed companies know for their innovative products and business models include: Genentech, Microsoft, Google, Apple, Starbucks, Staples, eBay, and FedEx.

Venture capital is a high risk endeavor.

- Economic success is only achieved when a company has a strong public offering or is acquired at a price 4 times greater than the original investment.
- Most venture-backed companies fail. Of approximately 2040 companies first funded in 2001-2002, only 3 percent went public; 21 percent were acquired; the remaining 76 percent have either failed or are still private.
- Of the disclosed transaction values for venture-backed acquisitions in 2006, 28 percent were acquired for less than the total venture investment. Only 18 percent were acquired for more than 10 times the original investment.

Venture capital is a fully engaged, long-term investment.

- Venture capitalists become actively engaged in the management of a young company, typically taking a seat on the Board of Directors until such time as the company goes public or is sold.
- The average age of a venture-backed company going public in 2006 was 10 years.
- About 50 percent of all venture funds are active for 16 + years, with VCs managing companies within the portfolio during that time.

Venture capital funds are **not designed to:**

- Meet short term liquidity needs
- Invest in public markets, securities or derivatives
- Take short or long positions
- Be accessible through brokers
- Allow the investor control over liquidity