



National Venture Capital Association



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## **Venture Capital Returns Outperformed NASDAQ, S&P for 5, 10, and 20 Year Horizon in Q2 2004**

*Private Equity Performance Remained Positive, Unchanged*

**NEW YORK, NY, October 12, 2004**— Venture capital performance surpassed both the NASDAQ and the S&P 500 as measured at the close of the second quarter of 2004, posting double-digit returns for the long-term investment horizons, according to Thomson Venture Economics and the National Venture Capital Association (NVCA). The five-, ten- and twenty-year horizon returns for venture capital in the quarter were 14.4%, 26.7%, and 15.6%, respectively. Long-term returns for all private equity remained largely unchanged from the previous quarter at 5.7%, 12.9%, 13.7% for the same time horizons. Three-year venture capital returns still remained negative, but saw a small improvement from -13.3% at the end of Q1 2004 to -12.2% at the close of Q2.

"Venture capital returns were not only aided by the improving economy, which helped increase valuations, but also by increasing distributions from realizations of investments," said Toby Walters, Research Editor for Thomson Venture Economics. "The industry seems to be reaping the benefits of the strategy of focusing more on later stage financing of its healthier portfolio companies".

The second quarter reflected an improved exit market for venture-backed companies. During the quarter, there were 29 Initial Public Offerings (IPO) and 86 acquisitions. In the acquisitions market in the first half of 2004, more than half of the transactions were greater than 4x the venture capital invested, a phenomenon almost completely absent in the first half of 2003. A strong exit market translates into high valuations for mature companies, which drives industry performance. Despite the uptick in this activity, shorter term venture capital returns are still expected to fluctuate in the next year as certain funds invested during the 1999 – 2000 tech bubble realize losses and certain funds before and after that time realize significant gains.

"Undoubtedly we will see some swings in 1-5 year performance numbers during the next 18 months because we will have some sizable wins and substantial write offs coinciding," said Mark Heesen, president of the National Venture Capital Association. "That dynamic is precisely why the industry and its limited partner investors focus on longer term numbers to measure success. Those numbers look solid today."

As the private equity market looks to increase its fundraising activity this year, stable returns will be helpful to firms looking for new commitments from prospective limited partners. In raising new capital commitments, venture capitalists can use private equity returns to show that the alternative asset class is a stronger option than the public market indexes over the expected life of the fund.

**Venture Economics' US Private Equity Performance Index (PEPI)**  
Investment Horizon Performance through 06/30/2004

<b>Fund Type</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>20 Yr</b>
Early/Seed VC	-2.0	-18.3	25.7	39.8	19.1
Balanced VC	11.9	-8.0	13.2	21.4	13.6
Later Stage VC	18.7	-7.0	4.6	16.8	13.8
<b>All Venture</b>	<b>7.4</b>	<b>-12.2</b>	<b>14.4</b>	<b>26.7</b>	<b>15.6</b>
Small Buyouts	14.7	-1.2	1.0	8.7	27.2
Med Buyouts	14.2	-0.6	4.1	10.2	17.8
Large Buyouts	19.3	4.2	4.1	10.5	14.2
Mega Buyouts	26.3	2.4	2.9	7.3	9.1
All Buyouts	23.7	2.2	3.1	8.5	12.7
Mezzanine	13.7	1.4	5.2	7.4	9.5
<b>All Private Equity</b>	<b>18.8</b>	<b>-2.0</b>	<b>5.7</b>	<b>12.9</b>	<b>13.7</b>
<b>NASDAQ</b>	<b>26.2</b>	<b>-1.9</b>	<b>-5.3</b>	<b>11.2</b>	<b>13.2</b>
<b>S &amp; P 500</b>	<b>17.1</b>	<b>-2.3</b>	<b>-3.6</b>	<b>9.9</b>	<b>13.5</b>

Source: Thomson Venture Economics/National Venture Capital Association

\*The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Venture Economics' Private Equity Performance Database analyzing the cashflows and returns for over 1750 US venture capital and private equity partnerships with a capitalization of \$585 billion. Sources are financial documents and schedules from Limited Partners investors and General Partners. All returns are calculated by Thomson Venture Economics from the underlying financial cashflows. Returns are net to investors after management fees and carried interest. Buyout funds sizes are defined as the following: Small: 0-250 \$Mil, Medium: 250-500 \$Mil, Large: 500-1000 \$Mil, Mega: 1 Bil +

**Investment Benchmark Series:**

In addition to these publicly reported quarterly results, a more comprehensive analysis on fund performance can be found in Thomson Venture Economic's *Investment Benchmark Series*, *The 2004 Investment Benchmarks Report: Venture Capital* and *2004 Investment Benchmarks Report: Buyouts and Other Private Equity*. The *IBR:VC* has over 1,000 partnerships formed from 1969 to 2003 representing over 400 firms while the *IBR:Buyouts* has 550 partnerships formed from 1976 to 2003 representing over 270 firms. Performance statistics are provided by vintage year (year of fund formation), by composite portfolio (multiple vintage years) and by time horizons (1,3,5, years...) analyzed by stage, fund size and sequence. Also, both publications provide correlation analysis to indicate how the private equity asset classes interact with other types of equity and debt investments. For more information, please contact Rob Mills at 646-822-3045.

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#### **About NVCA**

The National Venture Capital Association (NVCA) represents approximately 450 venture capital and private equity firms. NVCA's mission is to foster a 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](http://www.nvca.org).