



National Venture Capital Association



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Venture Backed M&A Valuations Rose 50% in Q1 2005

New York, NY, May 4, 2005 –Disclosed valuations for venture-backed mergers and acquisitions rebounded in the first quarter of 2005 to the highest average deal size since 2001, according to Thomson Venture Economics and the National Venture Capital Association. The most recent figures show that, at 77 companies, slightly fewer deals were closed than in the previous quarter. The total reported value for the quarter jumped significantly with 44 companies reporting an aggregate transaction value of \$4.2 billion. In the fourth quarter 85 deals closed, with 47 accounting for \$2.8 billion.

Venture-Backed Liquidity Events by Year/Quarter, 2000-2005

Quarter	Total Deals	Deals with Disclosed Values	Total Disclosed Value (\$M)	*Average Deal Size (\$M)	Number of IPOs	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2000	316	202	68,353.1	338.4	264	25,499.4	96.6
2001	354	166	17,660.9	106.4	41	3,489.9	85.1
2002	316	151	7,874.4	52.1	24	2,473.5	103.1
2003-1	69	21	1,453.3	69.2	1	77.2	77.2
2003-2	75	27	1,841.9	68.2	2	164.0	82.0
2003-3	77	41	2,127.7	51.9	9	732.8	81.4
2003-4	71	34	2,303.2	67.7	17	1048.7	61.7
2003	292	123	7,726.1	62.8	29	2,022.7	69.7
2004-1	78	44	3,900.0	88.6	13	2721.1	209.3
2004-2	88	48	4,514.6	94.1	29	2077.8	71.7
2004-3	85	43	3,888.1	90.4	24	3225.6	134.4
2004-4	85	47	2,883.2	61.3	27	2990.4	110.8
2004	336	182	15,185.9	83.4	93	11,014.9	118.4
2005-1	77	44	4,203.9	95.5	10	720.7	72.1

Source: Thomson Venture Economics & National Venture Capital Association

These figures represent a 50% increase in disclosed M&A valuations over the fourth quarter. When compared to the first quarter of 2004, when 44 deals out of 78 attracted \$3.9 billion, it is a 7% increase in aggregate value. This increase occurred amidst a lackluster IPO market in Q1 when only 10 companies went public for \$720.7 million, the lowest level of IPO activity since the third quarter of 2003.

“Now more than ever, venture-backed companies are looking at the M&A market as the more viable exit option,” said Mark Heesen, president of the NVCA. “This strategy is driven by strong valuations as evidenced in this last quarter, as well as higher regulatory and market hurdles in the IPO market. If a company can return four times or more the original investment by being acquired, this exit makes a tremendous amount of sense. If this trend line continues, it will be a very solid year for M&A.”

Software companies continued to comprise the majority of the deals, with 28 out of 77. Compared to the fourth quarter this sector experienced a turnaround in terms of total reported value, increasing to \$846.1 million over last quarter's \$401.1; and in average deal sizes, this quarter's \$52.9 million average over the fourth quarter's \$28 million. The quarter's largest software deal was also the sixth largest across all sectors – infrastructure analysis software developer System Management ARTs was acquired by EMC Corporation for \$260 million.

The Biotechnology sector accounted for the largest portion of the quarter's total disclosed value, with 4 deals out of 5 reporting \$1.2 billion. This is a massive jump from last quarter when 5 targets reported only \$241 million in total transaction value. The sector's performance is directly attributable to the attractiveness of pharmaceutical targets. Three of the top five deals of the quarter were in pharmaceuticals. The largest deal was ESP Pharma at \$485.8 million; Xcel Pharmaceuticals was fourth with \$324 million, Syrrx was fifth at \$270 million. Rounding out the top five were Airespace Inc, second at \$450 million and Viva Inc, third at \$415 million.

Venture-Backed M&A Activity by Industry Sector, Q1 2005

Industry	Deals	Disclosed Value Deals	Total Purchase Price (\$M)	Average Purchase Price (\$M)
Biotechnology	5	4	1,231.9	308.0
Software	28	16	846.1	52.9
Telecommunications	8	4	576.0	144.0
Financial Services	3	2	530.0	265.0
Networking and Equipment	5	3	526.0	175.3
Medical Devices and Equipment	6	4	203.2	50.8
Healthcare Services	4	1	100.0	100.0
Computers and Peripherals	2	2	64.0	32.0
Semiconductors	6	2	37.4	18.7
IT Services	3	2	29.4	14.7
Industrial/Energy	1	1	25.0	25.0
Media and Entertainment	3	2	22.0	11.0
Consumer Products and Services	2	1	13.0	13.0
Business Products and Services	1	N/A	N/A	N/A
	77	44	4,203.9	95.5

Source: Thomson Venture Economics & National Venture Capital Association

Daniel Benkert, Senior Analyst at Thomson Venture Economics stated, "The late decline in activity in 2004 was an aberration. The first quarter total reported value and average deal valuations suggest a continued strengthening of the M&A market. The life sciences sector performed particularly well, as an acquisition is in many cases a more viable strategy, given recent IPO performance for the industry. Still, it was the broad-based increase in deal values across *all* sectors that point to sustained activity in this market."

Analysis of Transaction Values versus Amount Invested

Relationship between transaction value and investment	2004	Q1 2005
Deals where transaction value is less than total venture investment	61	13
Deals where transaction value is 1-4x total venture investment	63	18
Deals where transaction value is 4x-10x total venture investment	37	8
Deals where transaction value is greater than 10x venture investment	20	4
Total Disclosed Deals	181*	43**

Source: Thomson Venture Economics & National Venture Capital Association

* In 2004, 182 deals had disclosed values, but one of these targets did not have a disclosed total investment amount.

** In Q1 2005, 44 deals had disclosed values, but one of these targets did not have a disclosed total investment amount.

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About NVCA

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