

Industry Statistics Update: Is the Venture Capital Industry Experiencing A Capital Crisis?



NVCA research statistics through the first half of 2008 show an extremely challenging exit market for venture-backed companies at a time when an increasing number of companies are reaching the later stage of maturity. For the first time in 30 years, there were no venture-backed IPOs in the most recent quarter. Through August, there have only been 6 IPOs in 2008.

The percentage of later stage company deals is at record levels of almost 31%. This is not surprising given the large number of companies funded during, and just after, the technology bubble which are now attaining the sales and performance momentum to warrant an IPO or acquisition. Without exits, additional VC attention and funding must be focused on these promising portfolio companies. Is this at the expense of taking on new portfolio companies and seed/start-up investment? Possibly. NVCA data shows that the steadily growing proportion of early/new deals seen in recent quarters has stopped and/or reversed.

IPO Draught = Capital Crisis?

The chart below shows M&A acquisition and initial public offerings of venture backed companies. Following encouraging strength in 2004 (The year Google and others went public) and lesser strength in 2007, the exit markets have fallen flat.

In recent years, the number of acquisitions had been fairly steady at around 350 (although the valuations and mix of strong and weak acquisitions have remained volatile). In 2008, we are seeing a collapse of that sustained level.

IPOs have all but stopped in the first half of 2008. The handful of companies which did go public had low post-bubble average offering sizes. Full statistics are on the NVCA website along with results of an NVCA member quick poll which showed that a rapid recovery was hoped for, but not counted on or expected.

Venture-Backed Liquidity Events by Year/Quarter, 2002-2008ytd

Quarter/Year	Total M&A Deals	Total with Disclosed Values	Average M&A Deal Size (\$M)	Total M&A Disclosed Value (\$M)	Average M&A Deal Size (\$M)	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2002	318	152	52.1	7,916.4	22	2,109.1	95.9
2003	290	122	63.3	7,721.1	29	2,022.7	69.8
2004	339	186	83.0	15,440.6	93	11,014.9	118.4
2005-1	81	45	96.7	4,351.9	10	720.7	72.1
2005-2	81	34	139.0	4,725.0	10	714.1	71.4
2005-3	101	48	376.2	18,056.0	19	1,458.1	76.7
2005-4	87	39	66.5	2,594.0	18	1,592.1	92.2
2005	350	166	179.1	29,727.0	57	4,485.0	78.7
2006-1	107	52	107.8	5,607.5	10	540.8	54.1

2006-2	105	40	4,018.5	100.5	19	2,011.0	105.8
2006-3	94	42	3,894.8	92.7	8	934.2	116.8
2006-4	62	26	5,616.8	216.0	20	1,631.1	81.6
2006	368	160	19,137.6	119.6	57	5,117.1	89.8
2007-1	82	29	4,540.3	156.6	18	2,190.6	121.7
2007-2	87	36	3,972.3	110.3	25	4,146.8	165.9
2007-3	100	52	10,810.0	207.9	12	945.2	78.8
2007-4	86	43	9,084.1	211.3	31	3,043.8	98.2
2007	355	160	28,406.7	177.5	86	10,326.3	120.1
2008-1	70	28	3,602.4	128.7	5	282.7	56.5
2008-2	50	14	2,397.3	171.2	0	0.0	n/a
2008	120	42	5,999.7	142.9	5	282.7	56.5

Thomson Reuters & National Venture Capital Association

Clearly, too few companies are going public. But how many should there be? Recent analysis by the NVCA of all companies initially funded during the 1990s shows that 14% of them went public. In recent years, approximately 1,000 companies are funded for the first time each year. If 14% of those eventually go public, that suggests a run rate of 140 companies per year going public, or 35 per quarter on average. Recent years have been at levels far below that.

Venture Capital Investment Pace

The chart below illustrates the comments made above about the proportion of deals going to later stage companies rising to record levels. With the total dollars remaining relatively flat, it is not surprising that this comes at the expense of seed and start-up deals, which had been rising fairly consistently since 2002 and crossed again into double digits in 2007.

Venture Capital Investment 1995 to 2008YTD

Quarter/Year	Venture Investment \$M	% of Deals Seed/Start Up	% of Deals Later Stage	% of Deals Which Are First Rounds Into a Port Co
1995	8,031.04	23.5%	11.2%	48.2%
1996	11,265.38	19.6%	11.3%	44.4%
1997	14,872.89	16.8%	10.5%	40.8%
1998	21,081.77	18.2%	11.3%	38.7%
1999	54,055.27	14.7%	9.6%	44.4%
2000	105,009.01	8.8%	8.4%	42.6%
2001	140,566.29	6.1%	12.2%	27.2%
2002	222,007.80	5.6%	15.7%	26.8%
2003	19,764.42	6.9%	20.2%	25.8%
2004	22,432.04	6.8%	26.0%	29.8%
2005	23,105.66	7.6%	31.8%	32.3%
2006 - Qtr 1	6,422.03	8.1%	31.4%	30.7%

2006 - Qtr 2	7,095.26	8.9%	29.4%	34.0%
2006 - Qtr 3	6,750.61	12.1%	26.1%	34.6%
2006 - Qtr 4	6,366.10	9.2%	24.0%	30.7%
2006	26,634.00	9.6%	27.7%	32.5%
2007 - Qtr 1	7,458.82	9.2%	31.5%	29.7%
2007 - Qtr 2	7,366.04	11.3%	29.9%	34.5%
2007 - Qtr 3	7,784.03	11.8%	32.0%	32.5%
2007 - Qtr 4	8,081.61	11.6%	30.2%	33.9%
2007	30,690.51	11.0%	30.9%	32.8%
2008 - Qtr 1	7,499.68	11.5%	29.7%	32.3%
2008 - Qtr 2	7,387.59	9.5%	32.1%	30.4%
1H2008	14,887.27	10.5%	30.9%	31.4%

Venture Capital Investment in Clean Technology

Venture investment in clean technology companies is increasing in dollars invested and average deal size. In the first half of 2008, there were 125 clean technology company fundings for a total of \$1.8 billion at an average amount of just over \$14 million. The chart below shows that the portion of venture capital going to clean technology companies has now crossed into double-digits for the first time.

Year	\$M Invested	# Clean Tech Deals	Average per C.T. Deal \$M	Clean Tech Share of Total VC Investment
1998	107	36	2.97	0.5%
1999	203	37	5.49	0.4%
2000	563	45	12.51	0.5%
2001	365	59	6.19	0.9%
2002	391	65	6.02	1.8%
2003	260	56	4.64	1.3%
2004	437	75	5.83	1.9%
2005	524	86	6.09	2.3%
2006	1,418	135	10.5	5.3%
2007	2,587	228	11.35	8.4%
1H08	1,754	125	14.03	11.8%

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

Corporate Venture Capital Update

Corporate venture capital trends indicate some minor softening in percent of total US venture capital investment dollars provided by corporate venture groups. Corporate venture capital investment remains near post-bubble records reaching 20%+ of the deals. The corporate venture group share of total dollars peaked in 2007 (post bubble era).

Corporate Venture Capital Group Investment Analysis 1995 Through Q2 2008

Year	Count of All Venture Capital Deals	Number of Deals with CVC Involvement	Calculated Percentage of Deals with Corporate VC Involvement	Average \$M Amount of All VC Deals	\$M Average Amount of CVC Participation	Total VC Investment \$M	Total CVC Investment \$M	Calculated Percentage of Dollars Coming from CVCs
1995	1,842	136	7.4%	4.36	3.19	8,031.04	433.77	5.4%
1996	2,573	232	9.0%	4.38	3.14	11,265.38	729.41	6.5%
1997	3,157	365	11.6%	4.71	2.73	14,872.89	995.02	6.7%
1998	3,648	531	14.6%	5.78	3.26	21,081.77	1,728.61	8.2%
1999	5,504	1,324	24.1%	9.82	6.21	54,055.77	8,221.43	15.2%
2000	7,906	2,150	27.2%	13.28	7.76	105,009.01	16,680.26	15.9%
2001	4,484	1,020	22.7%	9.05	4.86	40,566.29	4,961.46	12.2%
2002	3,099	599	19.3%	7.10	3.31	22,007.80	1,984.19	9.0%
2003	2,937	468	15.9%	6.73	2.79	19,764.42	1,305.06	6.6%
2004	3,085	588	19.1%	7.27	2.67	22,432.04	1,567.70	7.0%
2005	3,153	595	18.9%	7.33	2.67	23,105.66	1,586.28	6.9%
2006	3,654	697	19.1%	7.29	2.97	26,634.00	2,071.52	7.8%
2007	3,920	820	20.9%	7.82	3.15	30,690.51	2,584.46	8.4%
<u>1H08</u>			<u>20.3%</u>					<u>7.0%</u>
8	<u>1,983</u>	<u>403</u>		<u>7.56</u>	<u>2.61</u>	<u>14,887.27</u>	<u>1,052.64</u>	
Total	50,945	9,928	<u>19.5%</u>	8.14	4.62	414,456.33	45,901.80	11.1%

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

Where to Go for the Latest Statistics

Quarterly statistics are posted on the NVCA website. There are four data releases each quarter:

- Exit Poll (IPOs and Acquisitions) - typically published a day or two after each quarter end
- MoneyTree (Money invested by VC firms in portfolio companies) - Officially known as the "PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, with data provided by Thomson Reuters." This is typically released 3-4 weeks after the close of the quarter. Shortly after that, searchable statistics and downloadable spreadsheets can be found at www.pwcmoneytree.com.
- Fundraising (Commitments) - Typically released 2nd week after quarter close.
- Performance (IRRs) - Thomson compiles venture capital IRR benchmarks and these are released with at least one quarter lag by NVCA and Thomson. Buyout and mezzanine return statistics are released directly by Thomson.