



Venture Funding Falls 31% in Q3 2010

October 2010 – Venture capitalists invested 31 percent fewer dollars in companies during the third quarter of 2010 compared to the second quarter, with the number of deals falling 19 percent, according to the MoneyTree report from PricewaterhouseCoopers and the National Venture Capital Association based on data provided by Thomson Reuters.

Venture capitalists invested \$4.8 billion in 780 deals in the third quarter of 2010. The decrease in dollars invested was in large part due to the absence of large rounds in the Clean Technology sector, which drove last quarter's higher investment levels. Yet with few exceptions, investment in all industry sectors slowed this quarter.

Still, venture investors continued to invest more into first-time deals versus follow-on rounds, the report says. That's a good trend, because during the recession, many VC firms keep dry powder for follow-on rounds in their portfolio companies and reduced the number of their new investments.

“While overall funding in traditionally strong sectors like Life Sciences and popular Clean Technology were down, Biotechnology continued to bring in significant funding while Software took the lead as the top generator of VC dollars in Q3,” said Tracy Lefteroff, global managing partner of the venture capital practice at PwC. “Compared to the third quarter of 2009, investing remained relatively flat; however, despite declines for the quarter, funding remains on course to pass investment levels of 2009.”

Mark Heesen, president of the NVCA, looked for positive signs in the third quarter numbers. “Despite investment declines, there are reassuring signs of stability in the third quarter numbers,” he said. “While the burgeoning clean technology industry will experience significant investment volatility as the sector matures, the established software and life sciences sectors continue to benefit from a steady commitment of venture capital dollars being put to work within meaningful pockets of innovation.”

He added, “Cloud computing, social media and security continue to show tremendous promise on the IT side while medical advances abound in biotechnology and medical device fields. But what is even more reassuring is that first time financings are holding strong, evidencing that venture investors are making a steady stream of new bets and filling the innovation pipeline, driving our industry and our future economy.”

Industry wise, software regained its position as the number one sector for investment with \$1 billion going into 190 rounds. Even that is a 13 percent decrease in dollars and a 21 percent decline in deal volume from the second quarter.

The Biotechnology industry received the second highest level of funding for all industries in the quarter with \$944 million going into 108 deals. This level of investment represents a 32 percent decrease in dollars and a 29 percent decrease in deals.

The Clean Technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, saw a 59 percent decrease in dollars to \$625 million compared to the second quarter when venture capitalists invested \$1.5 billion. The number of Clean Technology deals completed in the third quarter also declined by 26 percent to 58 deals compared with 78 deals in the second quarter.

US Venture-Backed Exits Increasing

The exit market for US venture capital-backed companies may be starting to thaw, with over 100 companies exiting via merger, acquisition or buy-out during the third quarter 2010.

According to new data from Dow Jones VentureSource, 102 venture-backed company exits were achieved over the quarter, netting \$5.7bn, an increase of over \$2bn on the 93 exits over the same quarter 2009, which brought in \$3.3bn.

The number of IPOs exits over the quarter jumped to nine, compared to two over the third quarter of 2009, but the lion's share of deal flow was achieved by mergers and acquisitions, which accounted for 96 of the exits and \$5.1bn of the capital raised.

The median amount paid for a venture-backed company in the quarter was \$27m, 23 percent more than in the third quarter 2009, with the biggest deal of the period being the acquisition of social networking games developer Playdom by Walt Disney for \$563m.

Dow Jones VentureSource global research director Jessica Canning said, "The exit markets have seen steady activity this year and solid gains over 2009's dismal numbers. Private markets deal activity is benefiting from acquisitions by traditional corporate acquirers as well as venture-backed companies such as Facebook and LinkedIn which are making strategic acquisitions."

The trend also revealed a trend for shortening investment life-spans but increasing capital requirements, with the median time to exit dropping 20 per cent to 4.8 years, but a 30 per cent increase in capital spent to \$23m.

Source: Tech Journal South reporting, PwC, Dow Jones VentureSource