

Venture Capital Update Q1 2010

Venture Capitalists Continue to Take It Slow

The venture capital industry seems to need a bit longer to recover after last year, when Silicon Valley [froze](#) in response to the economic uncertainty.

Though there have been some [recent signs](#) of a thaw, and a sense of new activity and optimism in the Valley, it turns out that investment in start-ups in the first quarter was down.

Venture capitalists invested \$4.7 billion in 681 companies in the first three months of the year, according to PricewaterhouseCoopers and the National Venture Capital Association. That is a decrease of 9 percent in dollars and 18 percent in the number of deals compared to the fourth quarter.

The venture association tried to give the numbers an optimistic spin. Venture firms have more time to focus on new investments now that they no longer have to worry as much about older companies and the exit markets, said John Taylor, research and financial affairs executive.

Still, it continues to be difficult for brand new start-ups to raise money. While dollars invested in expanding companies increased 9 percent, investments in companies receiving venture capital for the first time dipped 14 percent.

Clean technology start-ups did very well, perhaps surprisingly, since many investors have said the sector is [overhyped](#). Meanwhile, traditional tech investments like software and the Internet suffered.

Venture firms invested \$773 million in clean tech companies, an 87 percent jump from the previous quarter. Of the 10 biggest investments of the quarter, six were clean tech, including [Fisker Automotive](#) (a competitor to Tesla Motors, the electric car company that has [filed to go public](#)), [Bridgelux](#), which [makes](#) L.E.D. lighting technology, and three solar companies.

The software industry had the fewest number of deals since 1995. Investment in Web companies sank 14 percent from the previous quarter, to \$807 million. That includes a \$75 million investment in [Ustream](#), a live-video broadcasting service.

As usual, medical technology companies received the most money, though this sector also took a hit. Investment sank 26 percent from the prior quarter, to \$1.3 billion.

Big pharmaceutical companies continue to rely on acquiring start-ups to fill their pipeline with new products, which may be one reason that the life sciences sector is healthier than others, said [Chris Christoffersen](#), a partner at Morgenthaler Ventures. Health care reform could also have a positive impact, particularly through tax credits for research, he said.

[CLAIRE CAIN MILLER](#) – NYT Business & Technology

Local Tech Wire & The Associated Press

RESEARCH TRIANGLE PARK, N.C. — Venture capitalists invested more money in U.S. startups during the first three months of 2010 compared with a year earlier, a sign of increasing optimism that the economy is improving, and North Carolina activity ranked 10th in the nation.

Last year, the sluggish economy made it harder for startups to find buyers or complete initial public offerings. That meant venture capitalists had a harder time seeing returns on their investments, so they had been less likely to invest in new companies.

But a study issued Friday found that startup investments in the January-March period, while down 10 percent from the previous quarter, rose 38 percent from a year earlier to \$4.7 billion. The amount invested was divided among 681 startups, a 7 percent increase from the same three months in 2009.

The study was conducted by PriceWaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters.

In North Carolina, nine venture investments during the quarter totaled \$87,991,100. The only Southeast state with more investment was Virginia, at \$89,310,900 from 12 investments.

The biggest investment in the Tar Heel state was just over \$20 million in Commercial Credit Group, Inc. of Charlotte, which provides commercial equipment finance and leasing services. That was \$100 larger than \$20 million invested in Liquidia Technologies, Inc. of Durham, a biopharmaceutical company. Nitronex Corp. of Durham was the third-largest investment, with \$16.5 million going into the developer and manufacturer of RF power transistors.

Across the Southeast, the NCVA data showed investments of \$174,514,700 during the quarter, spread across 36 deals.

"I think that we are likely to see at least moderate pickup in investment activity as we go through the year 2010," said Bill Wiberg, a general partner at Advanced Technology Ventures. One reason, he said "is just that the exit environment will be better in 2010 than it's been in the last 24 months. Not robust, but better, and that will bring optimism."

He said that growth should happen across different sectors, including clean technology and information technology. He also predicted that the market for acquisitions and IPOs will improve, which would breed optimism and help lead to new investment activity.

Wiberg added that his instinct based on anecdotal information is that the economic pickup under way is more than was captured by the numbers in the report.

One factor, Wiberg said during a conference call with reporters, is that "time spent on social networking is growing quite dramatically." One focus now "is on monetizing the time spent on social technology."

He predicted that within a decade, mobile Internet access time will surpass PC usage, shaping where venture capital will be drawn.

As in past quarters, biotechnology startups received the most funding during the first three months of 2010, with \$825 million in investments, up 31 percent from the same period last year.

Although investments in that sector declined last year, venture capitalists have continued to invest heavily because large pharmaceutical companies are still interested in buying startups that are developing promising drugs.

Research productivity in big pharma "has been relatively low, and the need for collaboration and M&A continues to be robust," Ralph Christofferson, a partner at Morgenthaler Ventures, said.

Investments in software companies dipped 1 percent to \$681 million, and investments in clean technology companies more than tripled to \$773 million.

Money allocated to first-round financing rose 38 percent from the first quarter of 2009 to nearly \$1 billion. This went to 208 first-time deals – up from 162 a year earlier, though down from 243 in the fourth quarter of 2009. These deals were mainly with companies in the seed and early stages of development, which is consistent with past activity and shows investors continue to be optimistic about funding new ideas.

The largest deals in the quarter included \$115 million invested in electric vehicle maker Fisker Automotive Inc. and \$100 million invested in investment management service company High Tower Advisors LLC.