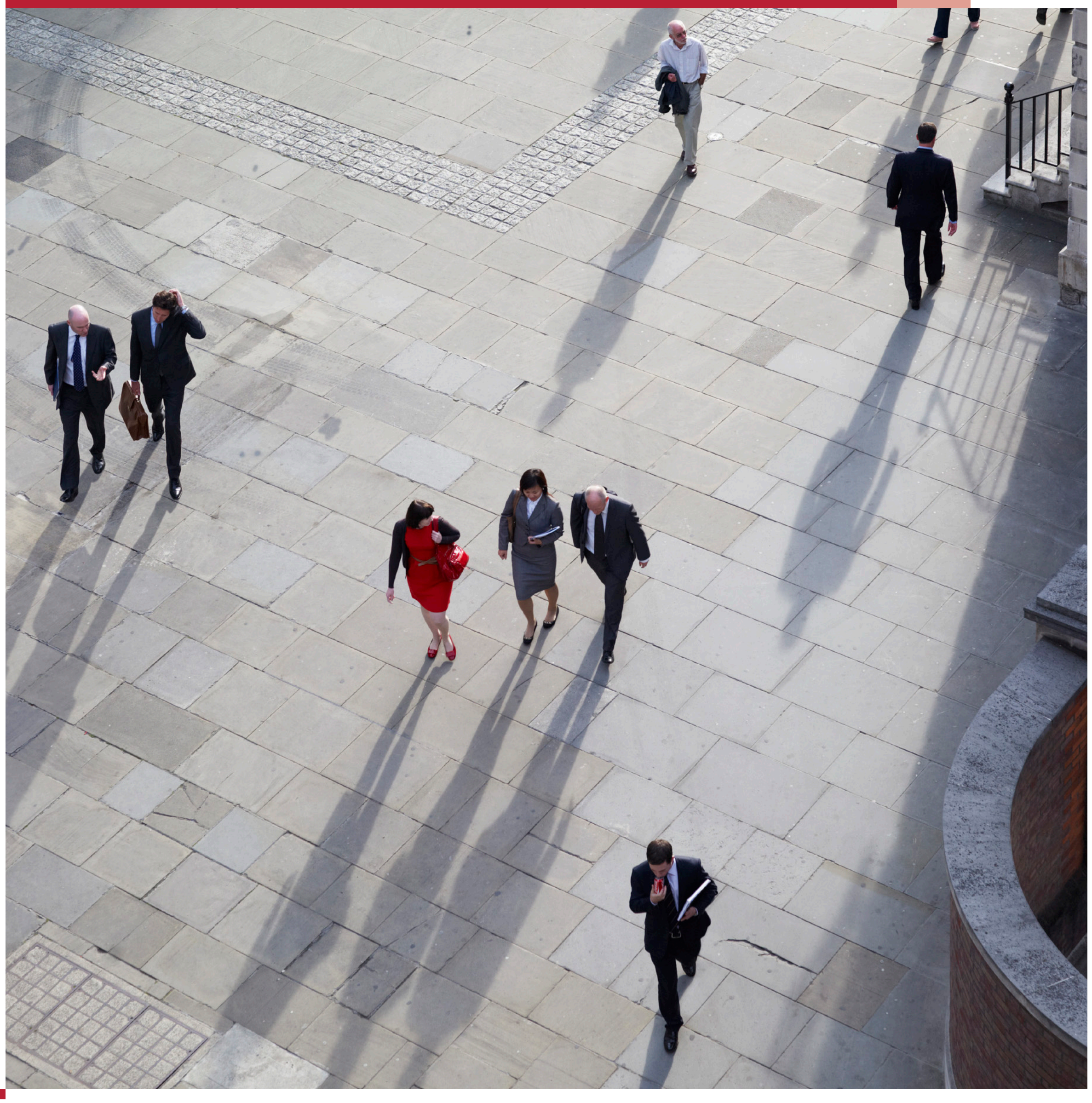
Moving Ahead

Third-quarter Technology venture capital investment increased 33 percent year-over-year but decreased 6 percent quarter-over-quarter

October 2011



pwc

US venture capital funding for the Technology sector[1] was $3.8 billion in 550 deals during the third quarter of 2011, according to findings from the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. Technology investment was up 33 percent in dollars and up 11 percent in the number of deals from the third quarter of 2010. For all industries, US venture capitalists invested $7.0 billion in 876 deals during the third quarter of 2011.

Internet-Specific[2], which consists of companies that have a business model dependent on the Internet but are part of multiple industries, received $1.6 billion in 231 deals in the third quarter of 2011. Internet-Specific venture capital funding dollars increased 68 percent year-over-year in the third quarter of 2011. The number of deals increased 24 percent from the third quarter of 2010. (Internet-Specific can include companies from industries such as technology, e-commerce retail, healthcare, financial services, etc.)

Cleantech[3], which consists of companies that have a business model dependent on clean technology but are part of multiple industries, received $891 million in 80 deals in the third quarter of 2011. Cleantech funding dollars increased 40 percent year-over-year in the third quarter of 2011, and increased 31 percent in deal volume over the same period. (Cleantech includes companies from industries such as Energy, Biotechnology, Transportation, Technology, etc.)

1 The MoneyTree Technology sector includes Software, Semiconductors, IT Services, Networking and Equipment, Media and Entertainment, Telecommunications, Computers and Peripherals, and Electronics/Instrumentation industries.

Software includes producers of bundled and/or unbundled software applications for business or consumer use, including software created for systems, graphics, communications and networking, security, inventory, home use, educational, or recreational. Also included is software developed for specific industries such as banking, manufacturing, transportation, or healthcare.

IT Services includes providers of computer and Internet-related services to businesses and consumers including computer repair, software consulting, computer training, machine leasing/rental, disaster recovery, Web design, data input and processing, Internet security, e-commerce services, Web hosting, and systems engineering.

Networking and Equipment includes providers of data communication and fibre optics products and services, including WANs, LANs, switches, hubs, routers, couplers, and network management products, components, and systems.

Media and Entertainment (included because a significant portion of this investment category goes to technology and Internet businesses) includes creators of products or providers of services designed to inform or entertain consumers, including movies; music; consumer electronics such as TVs/stereos/games; sports facilities and events; and recreational products or services. Online providers of consumer content are also included in this category (medical, news, education, legal).

Electronics/Instrumentation includes electronic parts that are components of larger products and specialized instrumentation, including scientific instruments, lasers, power supplies, electronic testing products, and display panels. Also included are business and consumer electronic devices such as photocopiers, calculators, and alarm systems.

2 The MoneyTree 'Internet-Specific' sector crosses traditional MoneyTree industries and is a classification assigned to a company with a business model that is fundamentally dependent on the Internet, regardless of the company's primary industry category.

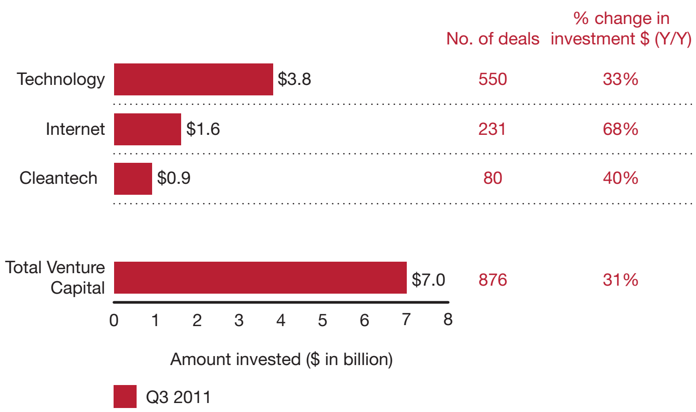
3 The Clean Technology sector crosses traditional MoneyTree industries and comprises alternative energy (including bio fuels), pollution and recycling, power supplies, and conservation.

Venture capitalists invested $7.0 billion in 876 deals in the third quarter of 2011. Quarterly venture capital investment activity decreased 12 percent in terms of dollars and 14 percent in the number of deals compared to the second quarter of 2011, when the $7.9 billion invested in 1,015 deals was the fourth-highest in the last 10 years.

Although a decrease from the previous quarter, the quarterly investment level for Technology represents the second-highest total in a single quarter since the second quarter of 2008. The deal count for the first three quarters of 2011 (1,638 deals) is higher than that seen in the first three quarters of 2010 (1,503 deals), while the $11.2 billion invested in the first three quarters of 2011 represented a 33 percent increase over the $8.4 billion invested in the first three quarters of 2010.

David Silverman, national co-leader of the Emerging Company Services practice at PwC, noted: “The third quarter of 2011 shows venture capital funds are still cautiously optimistic, investing more than the previous year, but less than the previous quarter. The excitement over the exit environment in technology has dampened, but early-stage investments point to continued momentum in the sector.”

Figure 1: Technology, Internet-Specific, Cleantech funding 3Q11



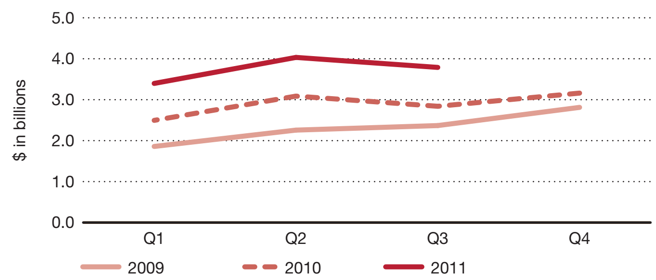
Technology

Technology funding

On a year-over-year basis, Technology funding has grown for seven consecutive quarters after declining for the prior seven quarters. The $3.8 billion in funding was an increase of 33 percent from the same quarter in 2010, but a decrease of 6 percent compared to the previous quarter.

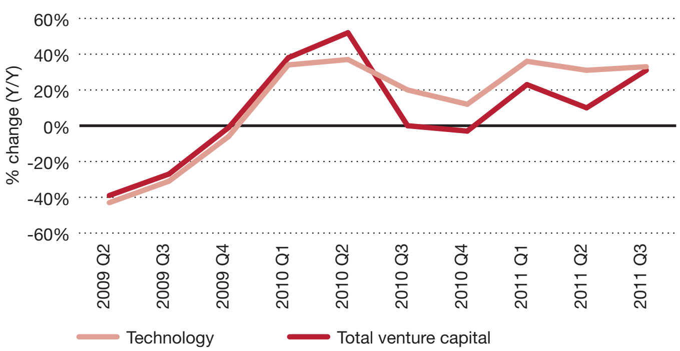
David Silverman, national co-leader of the Emerging Company Services practice at PricewaterhouseCoopers, noted: “Although funding declined from the previous quarter, funding levels are still near recent highs. VCs are still seeing growth opportunities in the sector, especially in the social media space where investment levels continue to increase.”

Figure 2: Technology funding trends by quarter, 2009–2011



Technology investments continued to perform better than total venture investments, which increased 31 percent year-over-year compared to Technology’s increase of 33 percent over the same period.

Figure 3: Growth in Technology funding compared with total venture funding

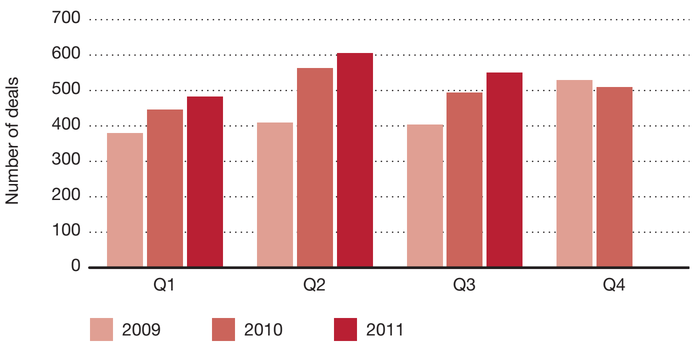


Technology deal volume

Compared to the third quarter of 2010, deal volume increased 11 percent in the third quarter of 2011, to 550.

The Software industry continued to attract most of the deals, with 263 transactions in the third quarter of 2011, which represented a 16 percent increase compared to the third quarter of 2010.

Figure 4: Technology deal volume by quarter, 2009–2011



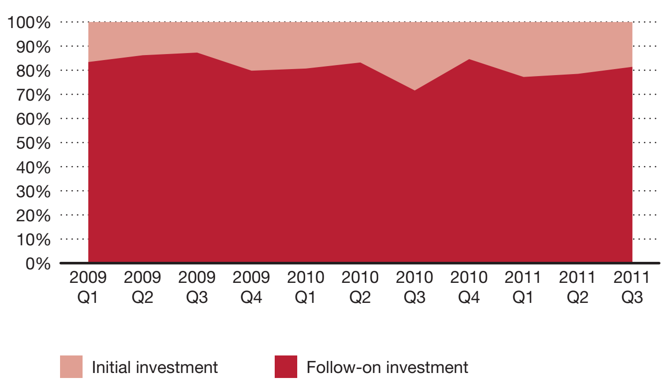
The average deal size in the third quarter of 2011 was $6.9 million, an increase of 20 percent over the same period in 2010.

First-time funding compared with follow-on funding

First-time funding decreased by 12 percent to $705 million compared to the third quarter of 2010, while follow-on funding increased 52 percent to $3.1 billion over the same period.

First-time deals in the Technology sector averaged $3.7 million per deal during the third quarter of 2011, a 26 percent decrease from the third quarter of 2010. Average deal size of follow-on funding was $8.6 million, an increase of 41 percent from the third quarter of the prior year.

Figure 5: Technology follow-on compared with initial investments, 2009–2011



Technology funding by stage

Early-stage[4] deals received funding of $994 million in the third quarter of 2011, increasing 31 percent year-over-year.

Late-stage[5] investment reached $2.8 billion in the third quarter of 2011, a 34 percent increase year-over-year.

Early-stage average deal size, at $3.8 million, increased 2 percent year-over-year, while late-stage average deal size, at $9.8 million, increased 36 percent year-over-year.

Figure 6: Technology funding by stage, 2009–2011

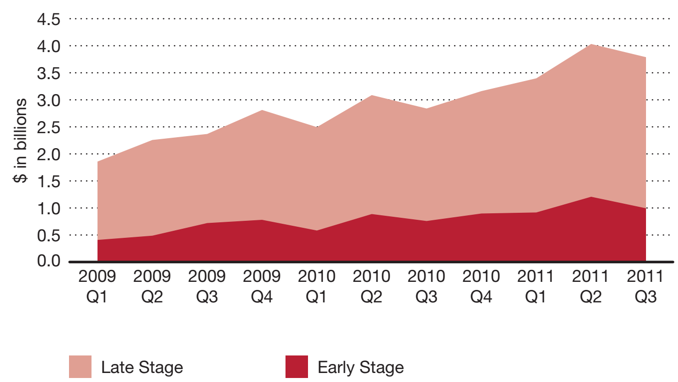


Table 1: 2011 third-quarter sequential growth factors (Q/Q growth)

	% Change in deal volume	% Change in avg. deal size	% Change in investments
Early Stage	-7%	-11%	-18%
Late Stage	-11%	11%	-1%

Technology funding by subsector

Subsectors showing increased funding from the third quarter of 2010 were:

- Media & Entertainment, 141 percent to $682 million
- Software, 79 percent to $2 billion
- Electronics/Instrumentation, 97 percent to $152 million
- IT Services, 5 percent to $547 million

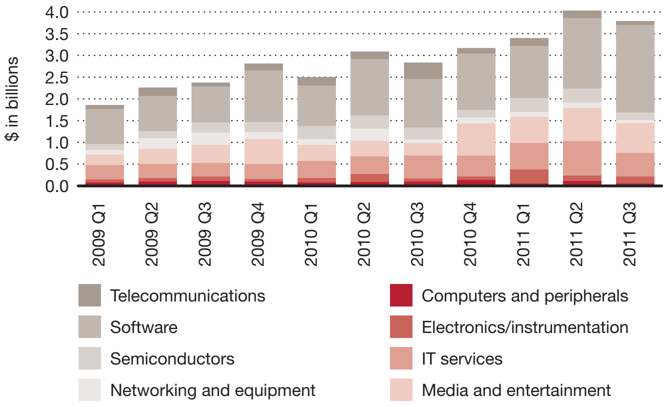
4 Early stage combines MoneyTree categories Start Up/Seed and Early Stage

5 Late stage combines MoneyTree categories Expansion and Late Stage

Subsectors showing declines in funding from the third quarter of 2010 were:

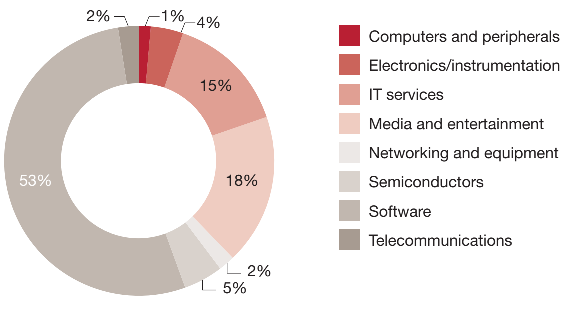
- Telecommunication, 77 percent to $89 million
- Computers & Peripherals, 42 percent to $55 million
- Semiconductors, 31 percent to $183 million
- Networking & Equipment, 19 percent to $72 million

Figure 7: Technology funding by subsector, 2009–2011



For the third quarter of 2011, Technology included six of the top 10 deals, with the $135 million invested in a Web-based enterprise software company capturing the largest funding for the Technology sector in the quarter (second-largest deal of all sectors).

Figure 8: Technology funding by subsector, third-quarter 2011



Regional funding trends

Silicon Valley[6], New York Metro, SoCal[7] , New England, and DC/Metroplex received the most Technology venture capital dollars during the third quarter of 2011. Silicon Valley received $1.7 billion, with $947 million going into software.

Figure 9: Top five regions fourth quarter 2011

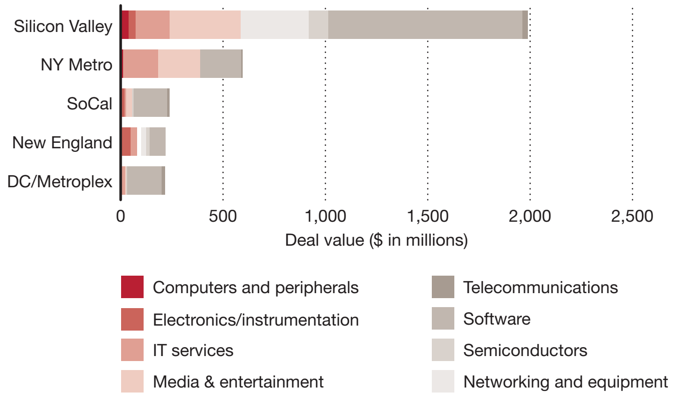
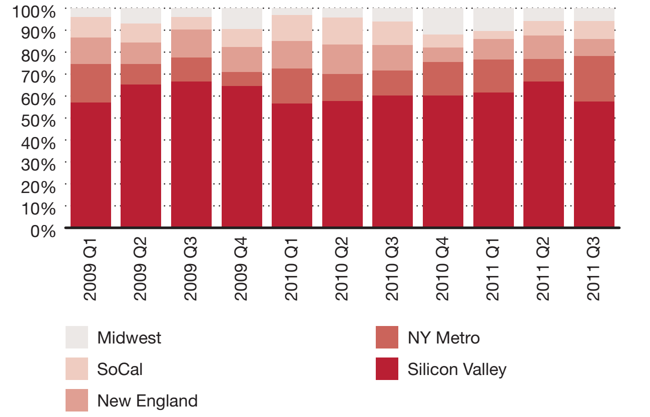


Figure 10: Funding trends in top five regions, 2009–2011



6 Silicon Valley includes San Francisco and San Jose

7 SoCal includes LA, Orange County, and San Diego

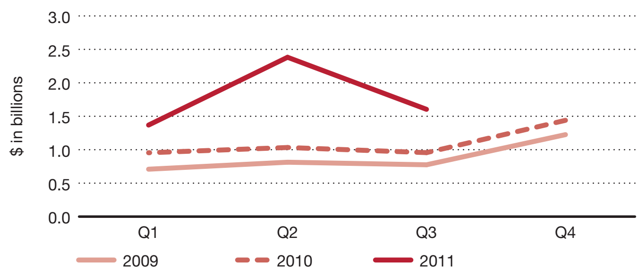
Internet-specific

Internet funding

The $1.6 billion invested in the third quarter of 2011 was an increase of 68 percent over the same period in the previous year.

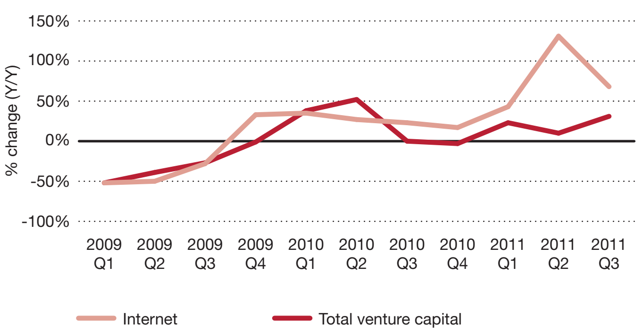
"Coming off one of the strongest quarters on record, VCs investment in Internet companies continues to grow," said David Silverman, national co-leader of the Emerging Company Services practice at PwC. "Although exit opportunities for the moment have lessened, there is still ample opportunity for VCs to get value for their investments. Early-stage funding remains one of the strongest quarters on recent record, boding well for future investments."

Figure 11: Internet funding trends by quarter, 2009–2011



Internet funding performed much stronger than total venture funding in 3Q11, on a year-over-year basis. Funding dollars were the third-highest since the fourth quarter of 2001, and deal volume was the fifth-highest since the fourth quarter of 2001. Strong growth in both early-stage and late-stage funding led to this strong performance in the quarter. The funding for late-stage Internet deals was the second-highest since second quarter of 2008.

Figure 12: Growth in Internet funding compared with total venture funding

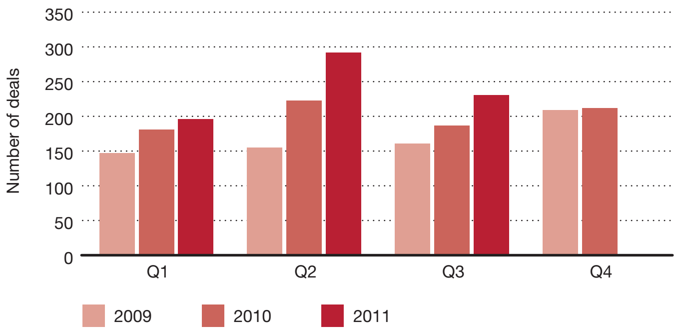


Internet deal volume

Compared to the third quarter of 2010, deal volume increased 24 percent in the third quarter of 2011, to 231 deals.

In the third quarter of 2011, Internet average deal size was $6.9 million, an increase of 36 percent year-over-year.

Figure 13: Internet deal volume by quarter, 2009–2011

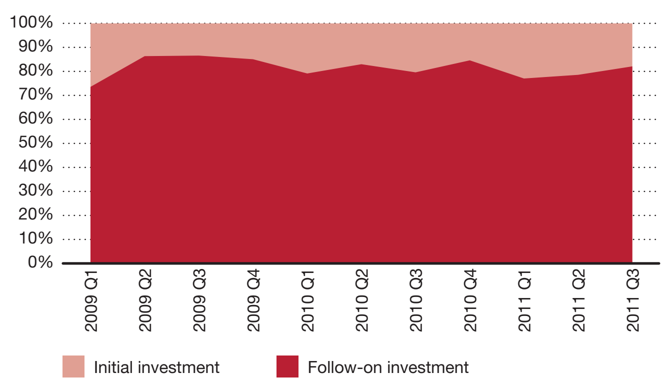


First-time funding compared with follow-on funding

Funding this quarter for follow-on deals reached the second-highest level of the last 10 years (follow-on funding for the last quarter was the highest of the last 10 years). First-time funding increased 47 percent compared to the same period last year to $287 million, and follow-on funding increased 73 percent over the same period to $1.3 billion.

First-time deals in the Internet sector averaged $3.2 million in 90 deals during the third quarter of 2011, as compared to an average deal size of $9.3 million in 141 deals for follow-on funding.

Figure 14: Internet follow-on compared with initial investments, 2009–2011



Internet funding by stage

Investment for early-stage companies increased 91 percent year-over-year to $565 million.

Investment in late-stage opportunities reached $1 billion in the third quarter of 2011, a 57 percent increase year-over-year.

In the third quarter of 2011, early-stage average deal size was $4.1 million, an increase of 32 percent year-over-year. Over the same period, late-stage average deal size was $11.2 million, an increase of 56 percent year-over-year.

Figure 15:Internet funding by stage, 2009–2011

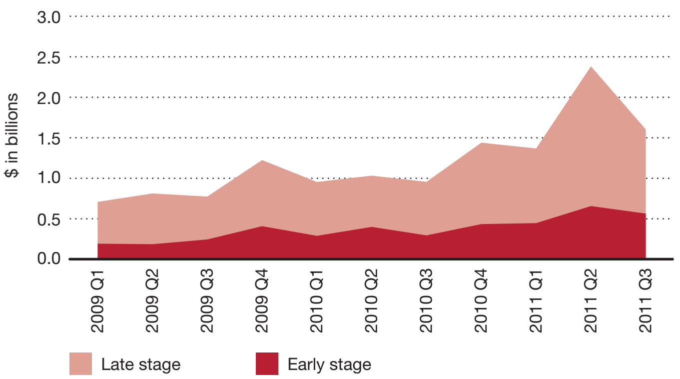


Table 2: 2011 third-quarter sequential growth factors (Q/Q growth)

	% Change in deal volume	% Change in avg. deal size	% Change in investments
Early stage	-17%	3%	-14%
Late stage	-26%	-18%	-40%

Internet funding by subsector

Internet subsectors receiving increased funding in the third quarter of 2011 compared to the prior-year period:

- Internet Content, 239 percent to $578 million
- Internet E-Commerce, 103 percent to $409 million
- Internet Services, 45 percent to $349 million
- E-commerce Technology, 11 percent to $90 million
- Internet Software, 3 percent to $102 million

Internet subsectors receiving decreased funding in the third quarter of 2011 compared to the prior-year period:

- Internet Communications, 57 percent to $65 million
- Internet Programming, 1 percent to $12 million

The Web Servers segment did not receive any funding in the quarter.

Figure 16: Internet funding by subsector, 2009–2011

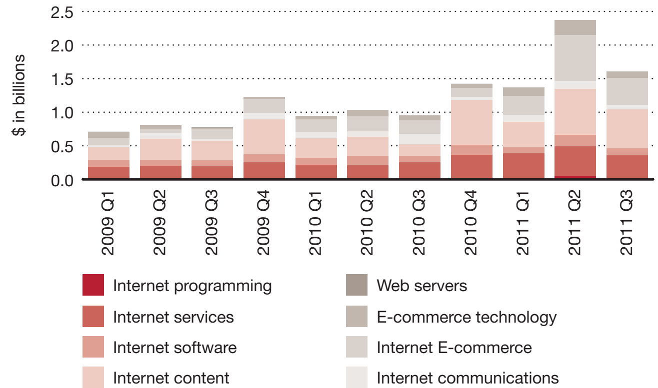
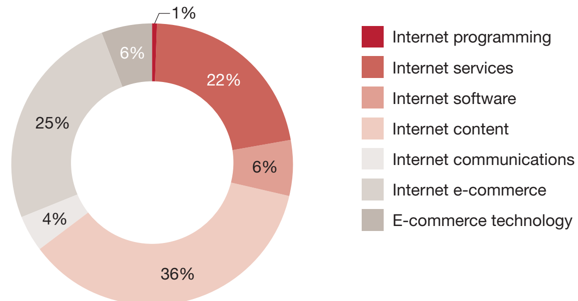


Figure 17: Internet funding by subsector, third-quarter 2011



Regional funding trends

Silicon Valley, New York Metro, Southeast, SoCal, and Northwest received the most Internet venture capital dollars during the third quarter of 2011. Silicon Valley received $614 million, with $285 million going to Internet Content.

Figure 18: Top five regions, third-quarter 2011

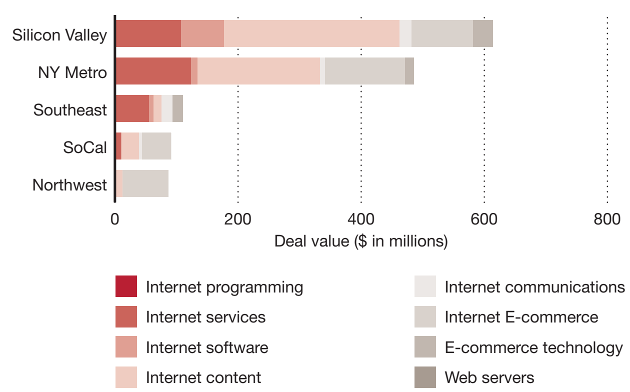
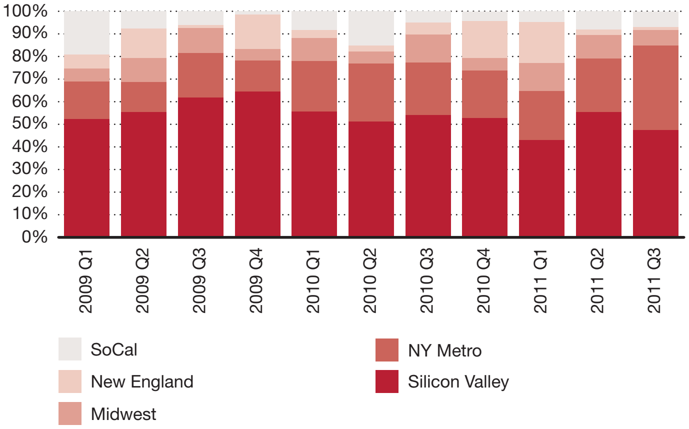


Figure 19: Funding trends in top five regions, 2009–2011



Clean Technology

Cleantech funding

The Clean Technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies, and conservation, saw funding of $891 million, a 40 percent increase compared to the third quarter of 2010.

"Despite the recent negative views on some areas of Cleantech there is still healthy interest in the sector; evidenced by continued growth in Cleantech early-stage funding this quarter," said Danny Wallace, national co-leader of the Emerging Company Services Practice at PwC. "The number of deals also remains strong."

Figure 20: Cleantech funding trends by quarter, 2009–2011

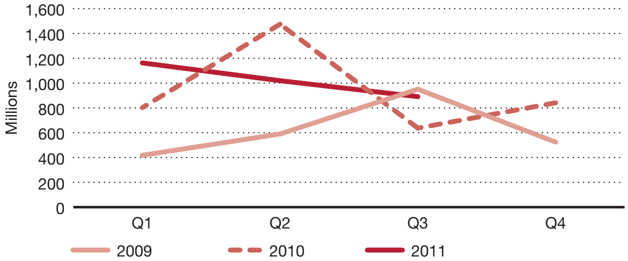
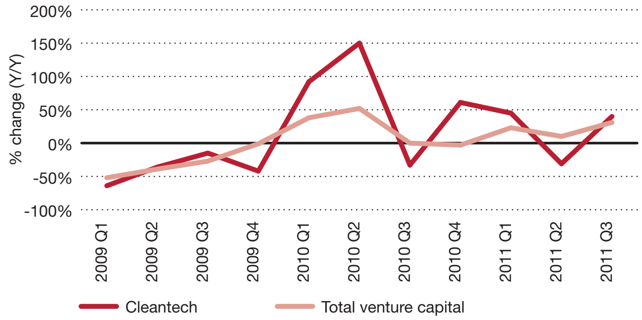


Figure 21: Growth in Cleantech funding compared with total venture funding

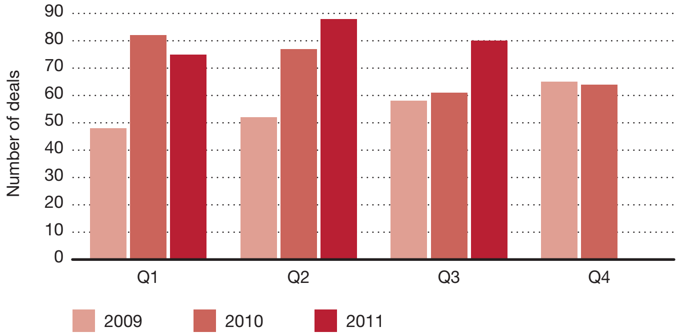


Cleantech deal volume

Compared to the third quarter of 2010, deal volume increased 31 percent in the third quarter of 2011 to 80 deals.

Average deal size in the third quarter of 2011 was $11.1 million, which was an increase of 7 percent year-over-year.

Figure 22: Cleantech deal volume by quarter, 2009–2011



First-time funding compared with follow-on funding

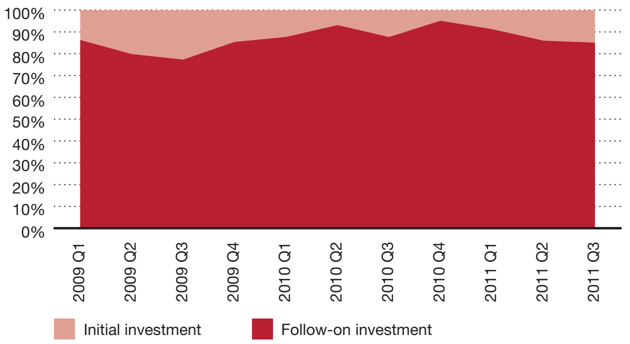
Compared to the third quarter of 2010, first-time funding increased 69 percent to $133 million in the third quarter of 2011.

On a year-over-year basis, follow-on funding increased 36 percent to $758 million in the third quarter of 2011.

First-time deals in the Cleantech sector averaged $7.4 million during the third quarter of 2011, an increase of 50 percent year-over-year.

Follow-on funding average deal size was $12.2 million, a 2 percent decrease from the same period in the previous year.

Figure 23: Cleantech follow-on compared with initial investments, 2009–2011



Cleantech funding by stage

Early-stage investment was $320 million during the quarter, an increase of 145 percent compared to the third quarter of 2010.

Investment for late-stage opportunities increased year-over-year by 13 percent to $571 million in the third quarter of 2011.

Early-stage average deal size, at $9.4 million, increased 109 percent year-over-year, while late- stage average deal size, at $12.4 million, decreased 22 percent over the same period.

Figure 24: Cleantech funding by stage, 2009–2011

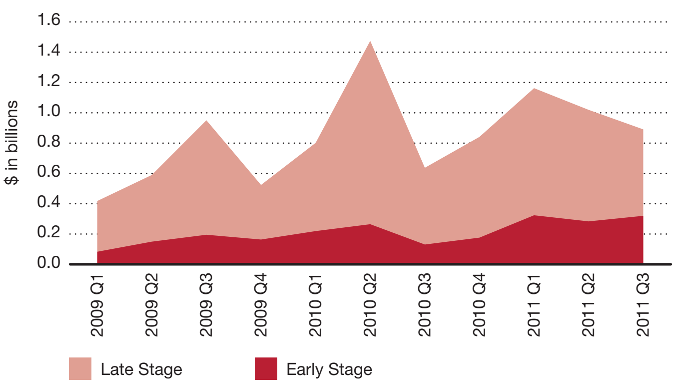


Table 3: 2011 third-quarter sequential growth factors (Q/Q growth)

	% Change in deal volume	% Change in avg. deal size	% Change in investments
Early stage	-11%	26%	13%
Late stage	-8%	-16%	-22%

Cleantech funding by subsector

Cleantech venture capital segments with increased funding in the third quarter of 2011 compared to the same period in 2010 included:

- Alternative Energy (Wind, Geothermal), 21,073 percent to $53 million
- Solar Energy, 243 percent to $279 million
- Other Cleantech, 97 percent to $265 million
- Transportation, 50 percent to $84 million

Cleantech venture capital segments with decreased funding in the third quarter of 2011 compared to the same period in 2010 included:

- Alternative Fuels, 55 percent to $63 million
- Pollution and Recycling, 45 percent to $35 million
- Smart Grid and Energy Storage, 31 percent to $111 million

The large jump in Alternative Energy (Wind, Geothermal) funding occurred because of a $35 million investment (large for the sector) in a wind turbine company in 3Q11.

Figure 25: Cleantech funding by subsegment, 2009–2011

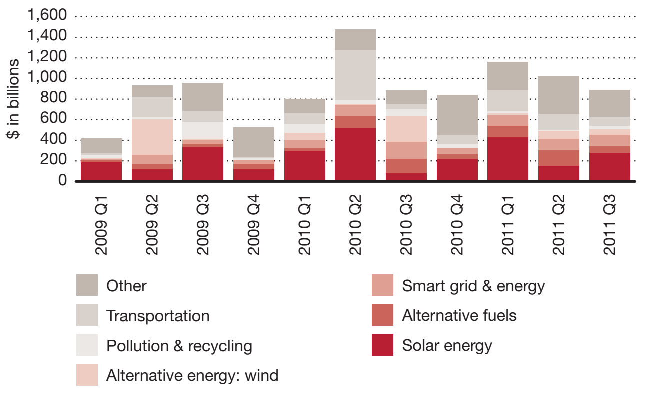
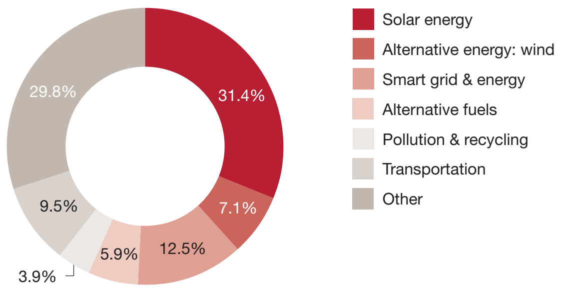


Figure 26: Cleantech funding by subsector, third quarter 2011



Regional funding trends

Silicon Valley, SoCal, Texas, Northwest, and Midwest received the most Cleantech venture capital dollars during the third quarter of 2011. Silicon Valley received the most funding, with $261 million.

Figure 27: Top five regions, third-quarter 2011

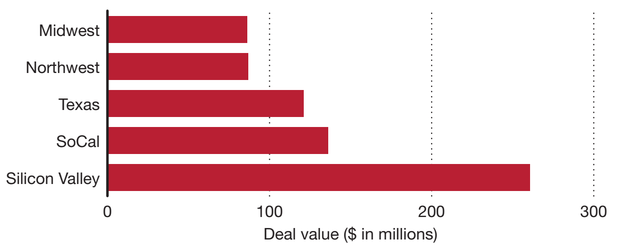
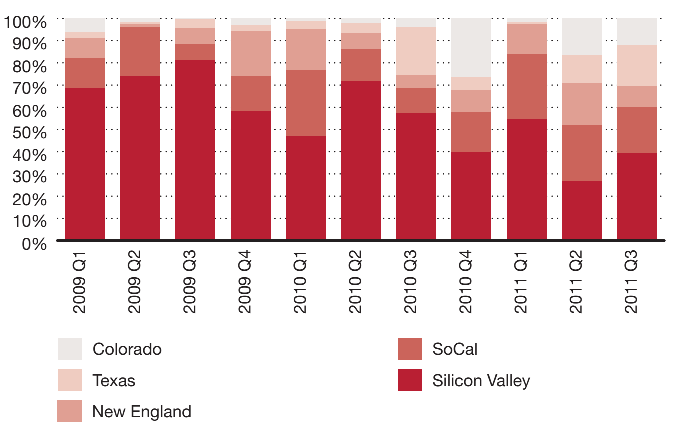


Figure 28: Funding trends in top five regions, 2009–2011



Venture capital outlook

IPO activity

Venture-backed IPOs during the third quarter of 2011 had their weakest showing since the fourth quarter of 2009. Only five companies went public, down 77 percent from the second quarter of 2011 and 64 percent from the third quarter of last year, according to the Exit Poll report by Thomson Reuters and the NVCA. Four of the five IPOs in the quarter represented the information technology (IT) sector, which remains the most active sector with 14 of the 21 IPO exits for the second quarter as well.[8]

M&A activity

As of September 30, 2011, 101 venture-backed M&A deals were reported for the third quarter. The information technology sector led the venture-backed M&A landscape with 86 of the 101 deals of the quarter, and had a disclosed total dollar value of $3.66 billion. This was up over 33% from 2Q11. Within this sector, Internet-specific and Computer software and services accounted for the bulk of the targets, with 37 and 34 transactions, respectively, across these sector subsets.[9]

Fundraising

"Venture fundraising levels are the lowest they have been in nearly a decade, so it is reasonable to expect investment levels to decline in the coming years," said Mark Heesen, NVCA president. "Despite the challenges, the industry continues to fund new companies, because history has shown us that innovation always prevails, and there remains significant promise across all industry sectors for these emerging growth companies."[10]

Wallace agreed that there is still untapped potential in the Technology sector that will continue to attract investors. "The increased importance of mobile devices will continue to drive innovation in the Technology space. In Cleantech, government regulations worldwide are increasing the need for investments in the sector," he said.

8 Thomson Reuters and NVCA news release, "Venture capital investments decline in dollars and deals volume in Q3 2011," October 19, 2011.

9 Thomson Reuters and NVCA news release, "Venture-backed IPO activity at lowest level in seven quarters; acquisitions continue to show strength amidst difficult economic times," October 3, 2011.

10 Op. Cit.

About PricewaterhouseCoopers' Emerging Company Services (ECS)

PricewaterhouseCoopers Emerging Company Services practice delivers a broad spectrum of services to meet the needs of fast-growth technology start-ups in key industry segments: Software, Semiconductor, Internet, New Media, Clean-Tech, Telecommunications, Networking, Mobile Applications, and Life Sciences. As a recognized leader in each industry segment, the ECS practice provides services for technology clients at all stages of growth in areas such as compliance, controls, access to cash flow, expansion, exit strategies, succession, wealth management, and the many areas that can help build long-term success and value.

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