

Venture Capital And Corporate Venturing State of the Market



Top-line growth. Bottom-line results.

**Thinking About Seeking Venture
Capital Funding?**

**Wondering About The Current
Industry Climate Post .com?**

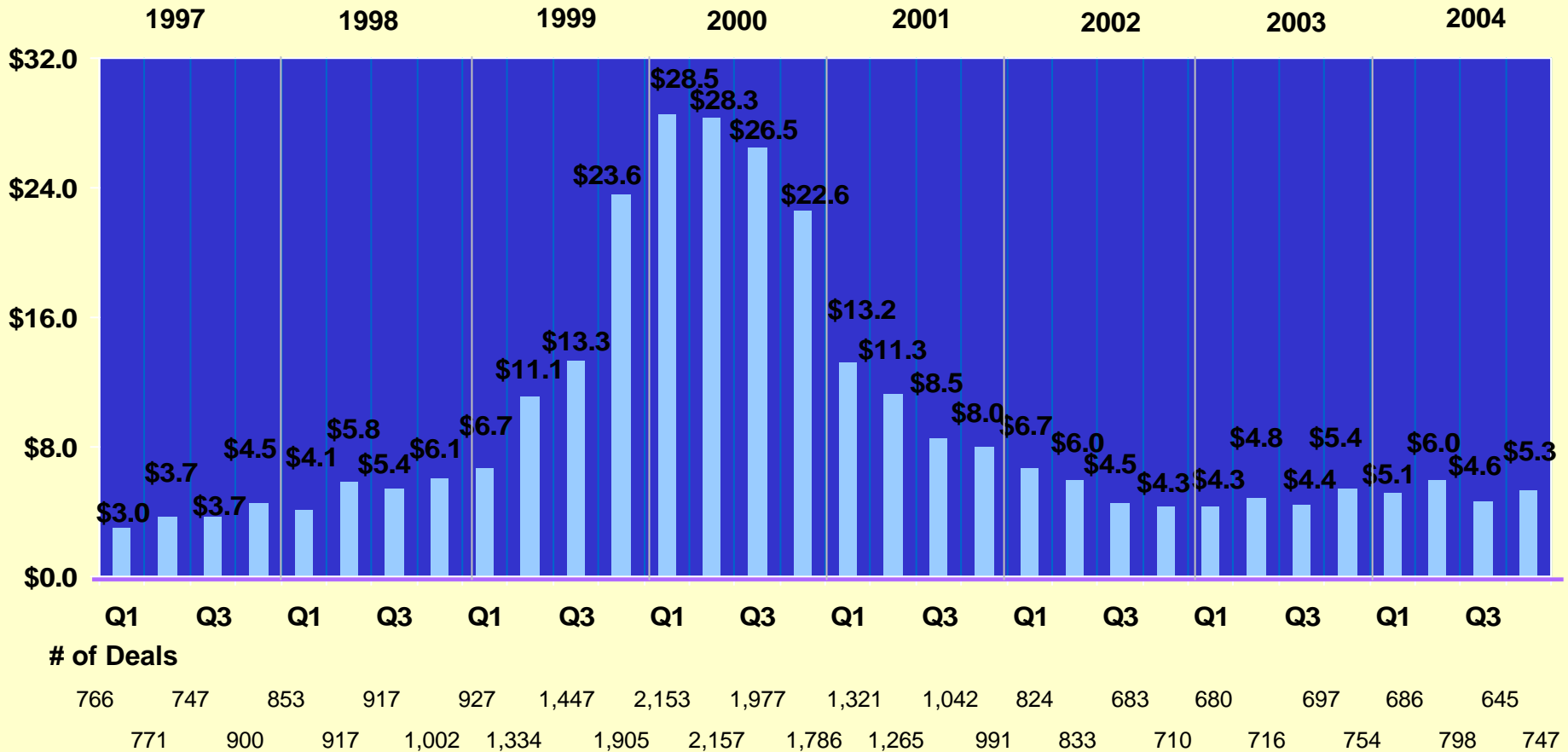
Here You Go: Balance Restored.



MoneyTree Total Investments

Q1 1997 – Q4 2004

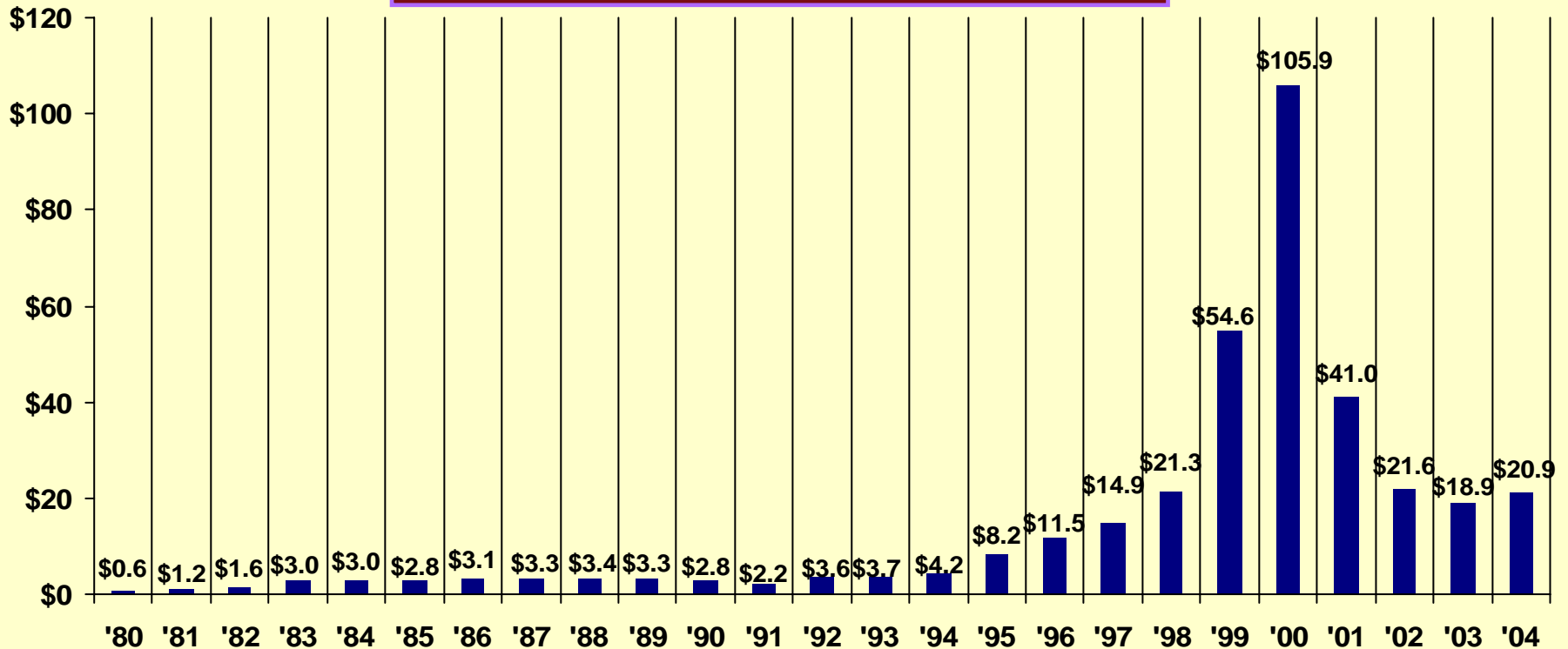
(\$ in billions)



MoneyTree Total Investments 1980 – 2004

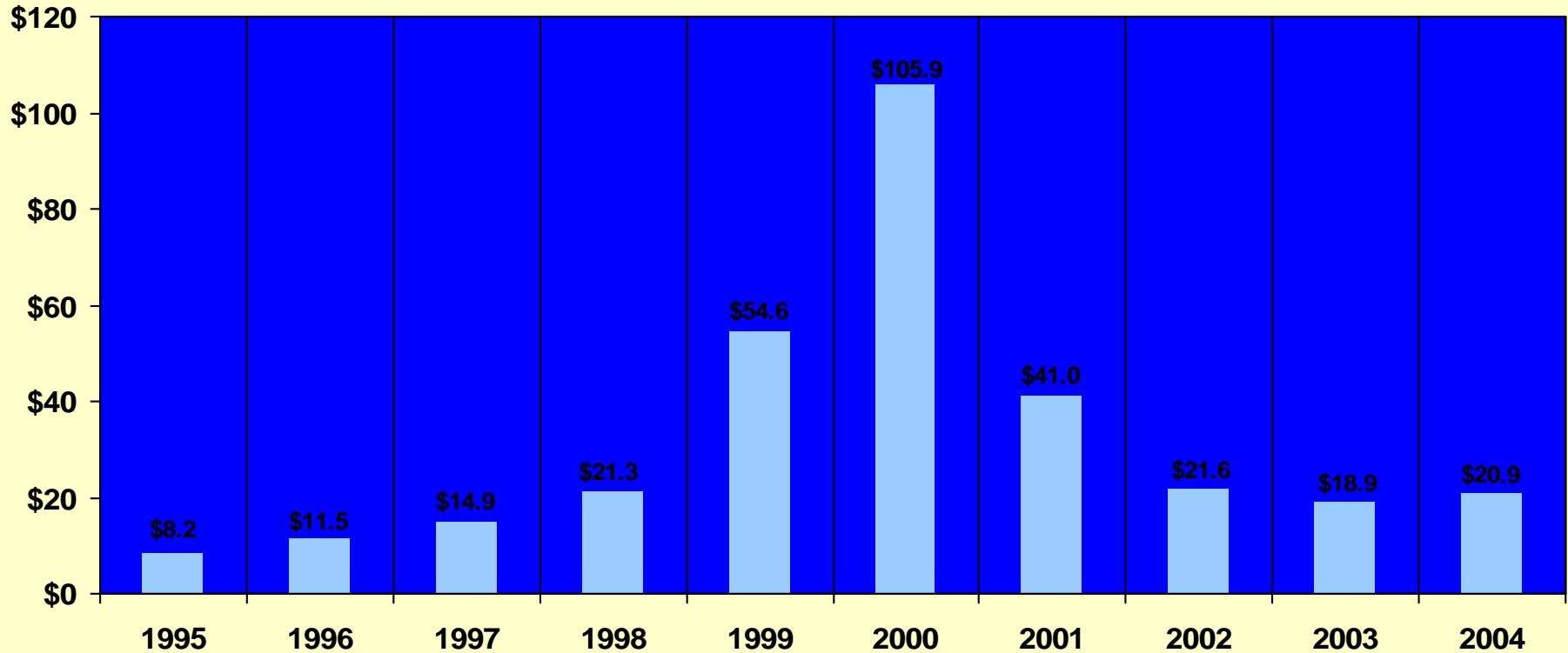
(\$ in billions)

**Annual Venture Capital Investments
1980 to 2004**



MoneyTree Total Investments 1995 – 2004

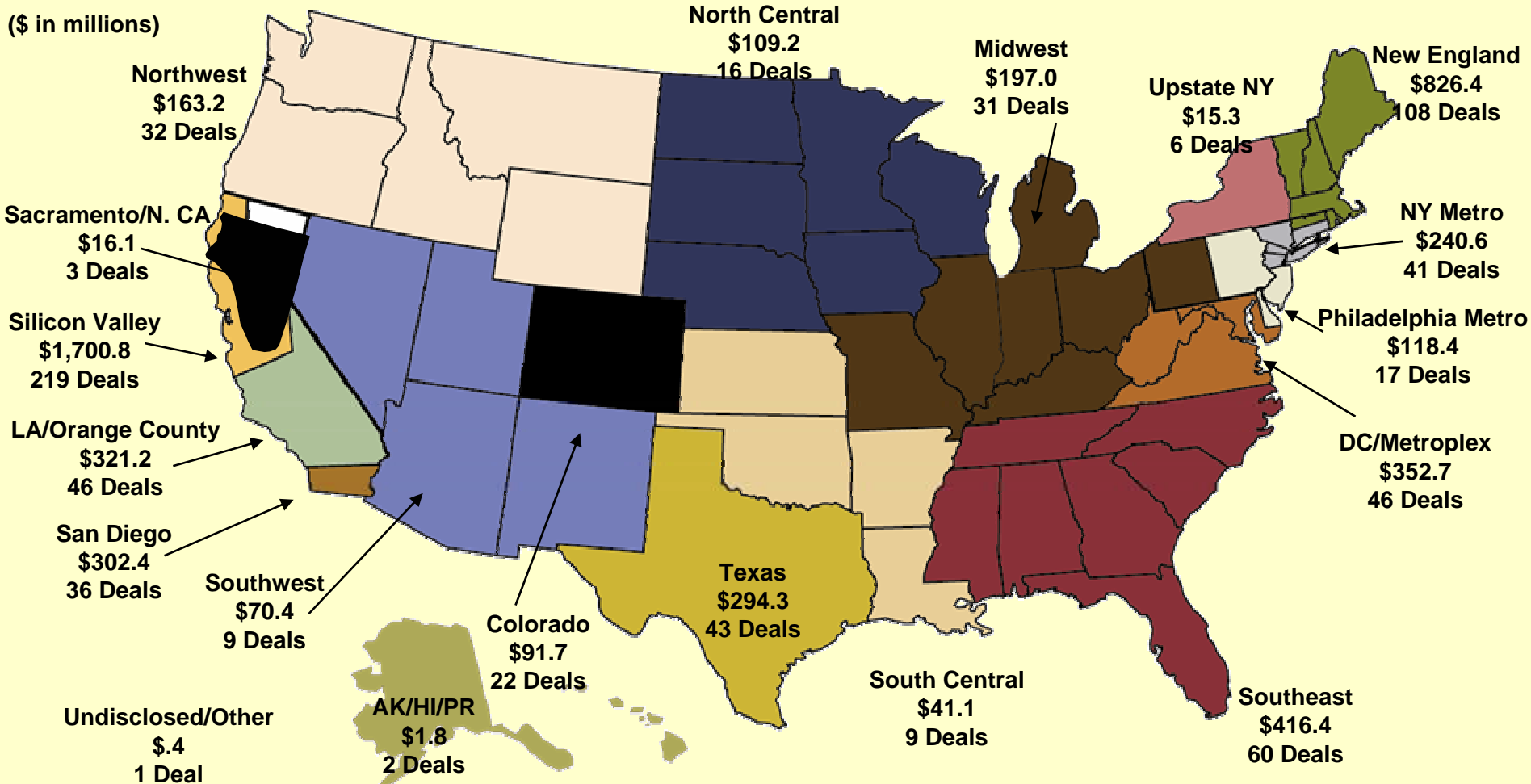
(\$ in billions)



Investments by Region

Q4 2004

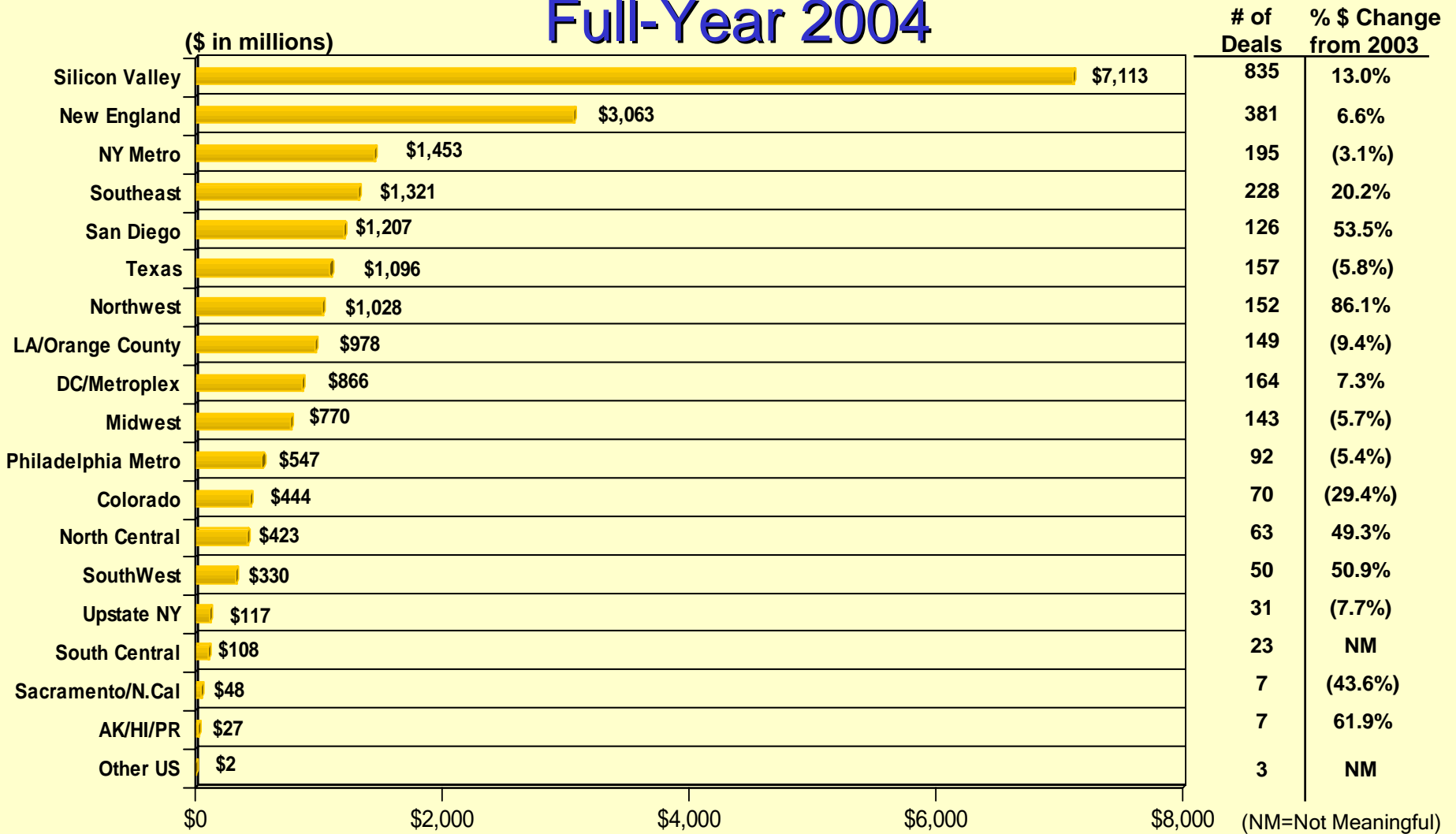
(\$ in millions)



Q4 2004 Total Investments - \$5,280



Investments by Region Full-Year 2004



Full-Year 2004 Totals: \$20,941

2,876 11%

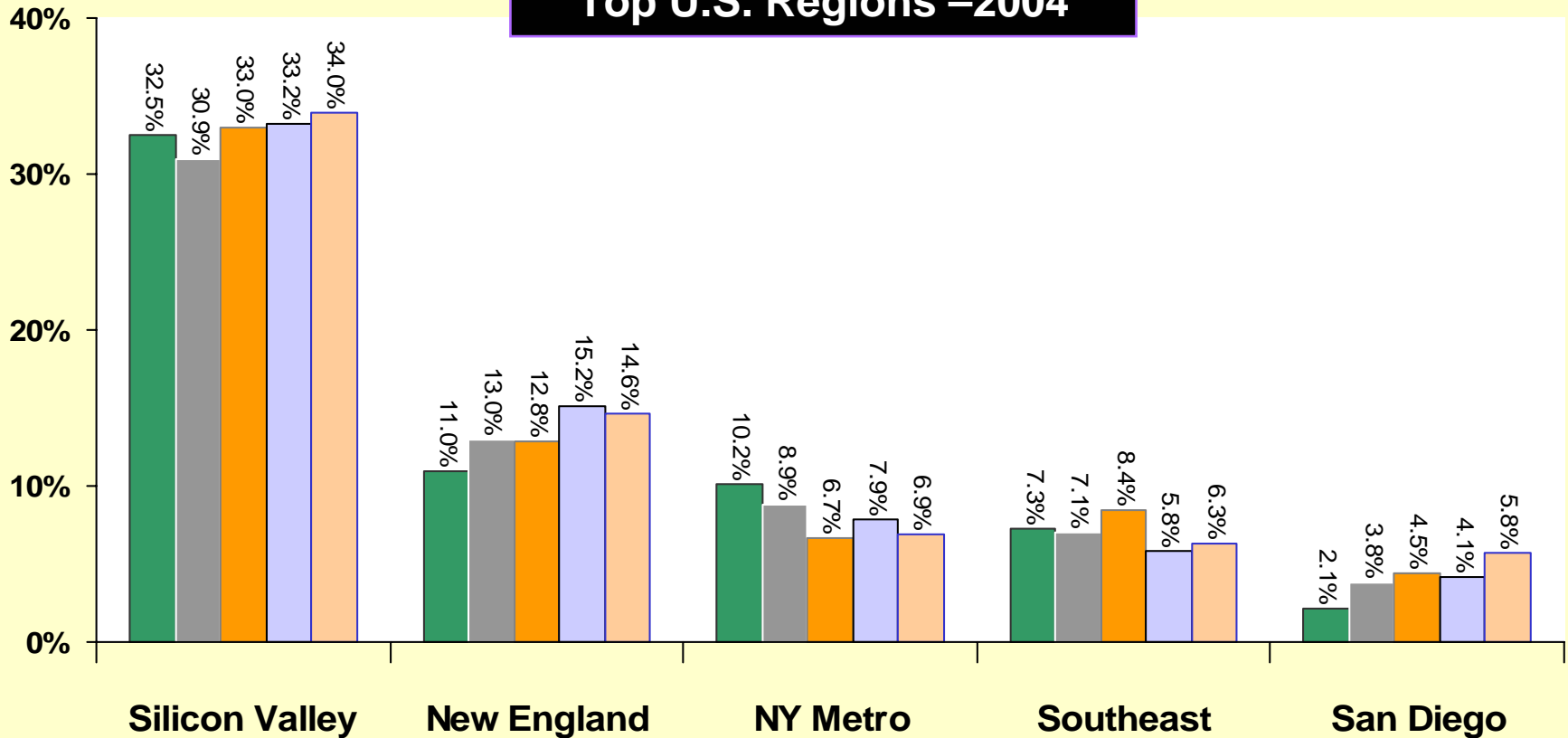


Investments by Region - Annual Percent of Total U.S.

Investments

(% of Total Dollars)

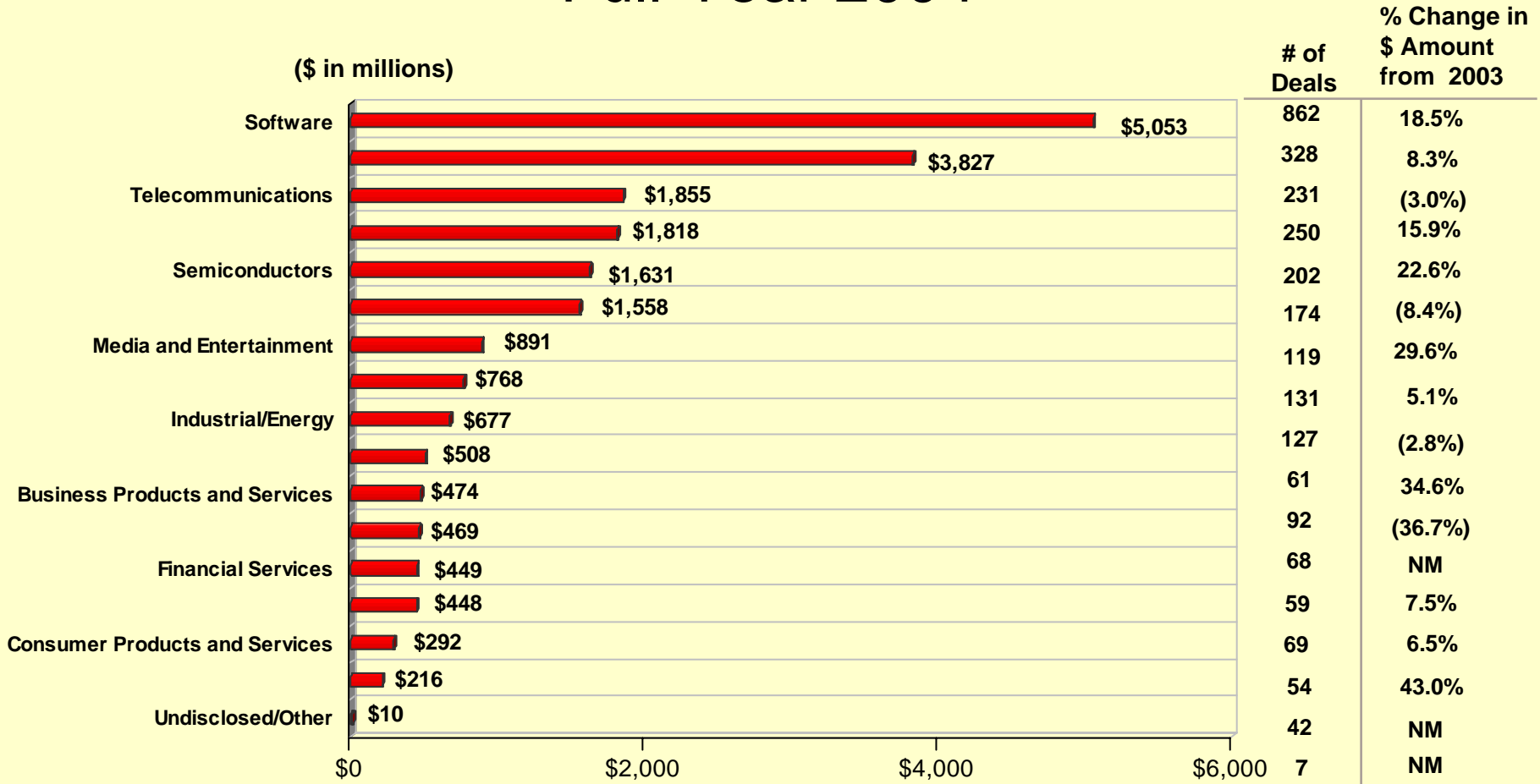
Top U.S. Regions - 2004



2000 2001 2002 2003 2004

Investments by Industry Full-Year 2004

(\$ in millions)



Full-Year 2004 Totals: \$20,941

2,876 11%

(NM=Not Meaningful)

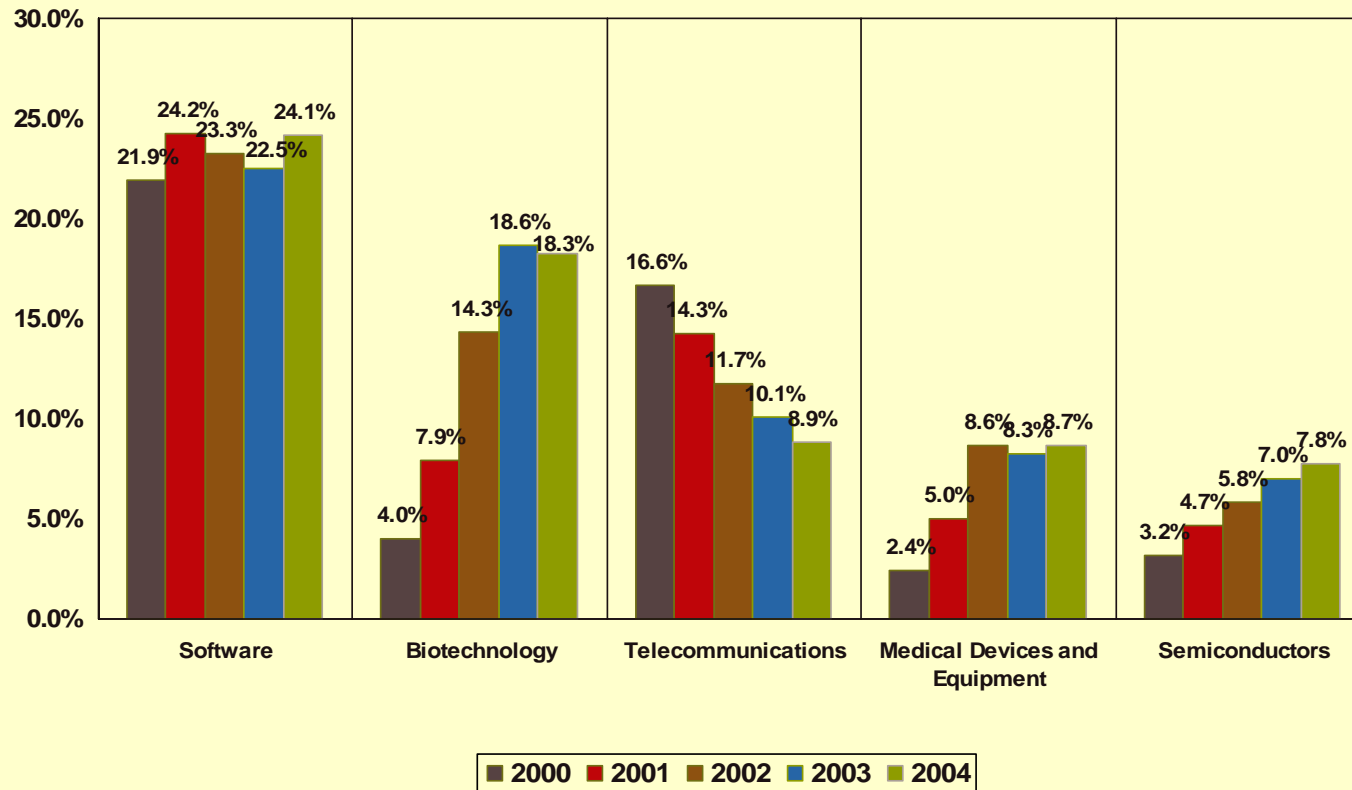
Visit www.pwcmoneytree.com
for Industry Definitions



Investments by Industry - Annual Percent of Total U.S. Investments

(% of Total Dollars)

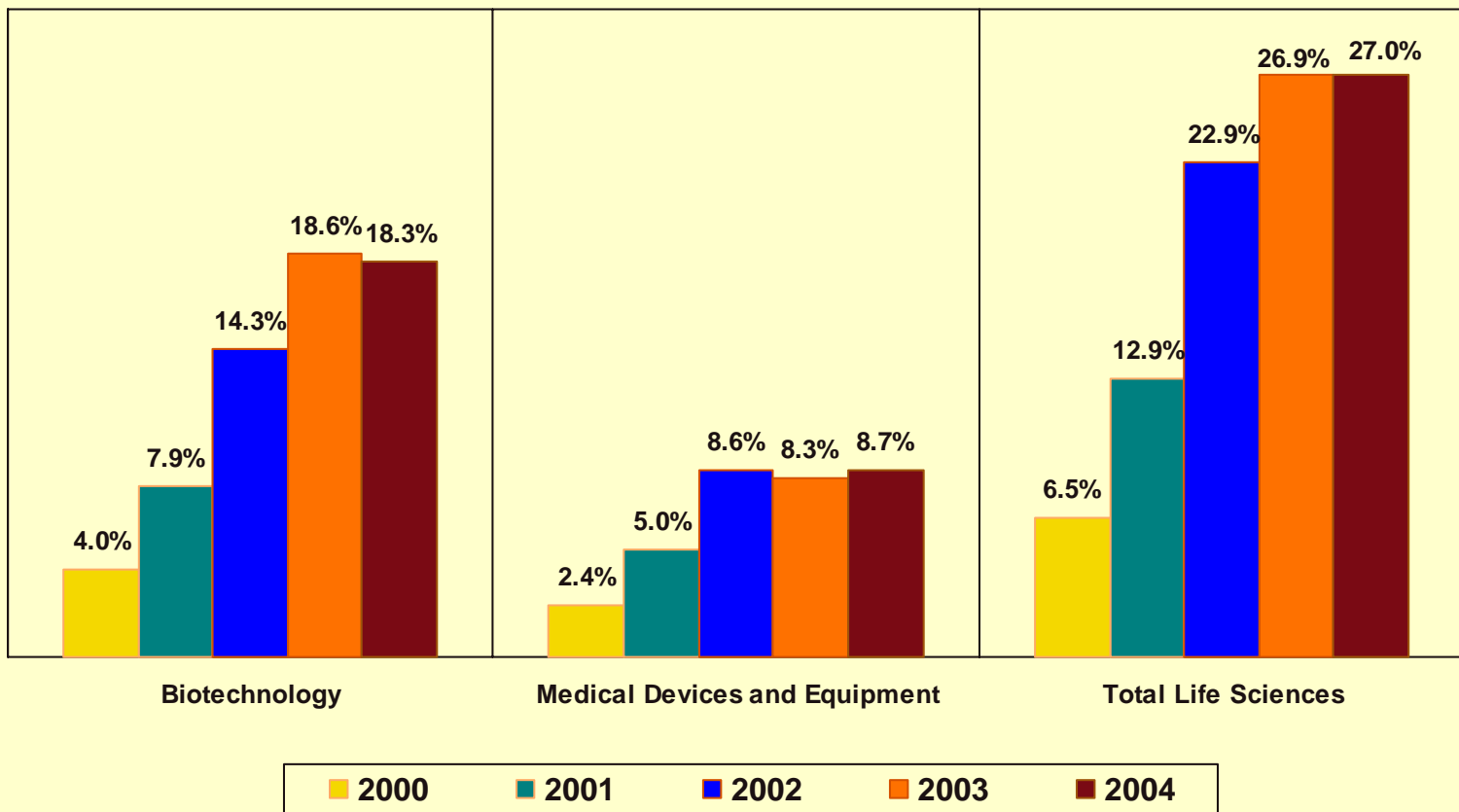
Top 5 Industries – 2000 to 2004



Life Science Investments - Percent of Total U.S. Investments

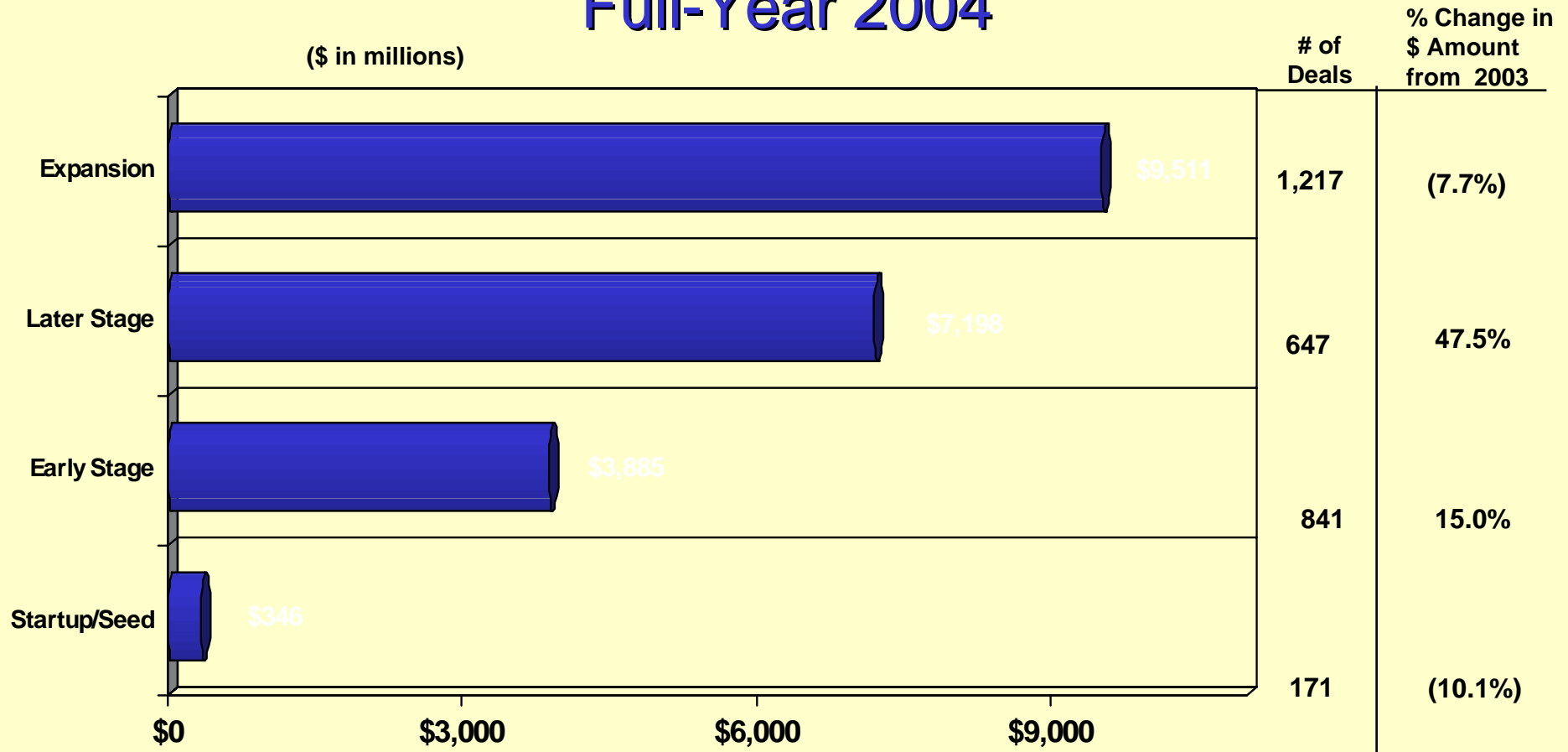
(% of Total Dollars)

Life Science Sectors –2000 to 2004



Investments by Stage of Development - Full-Year 2004

(\$ in millions)



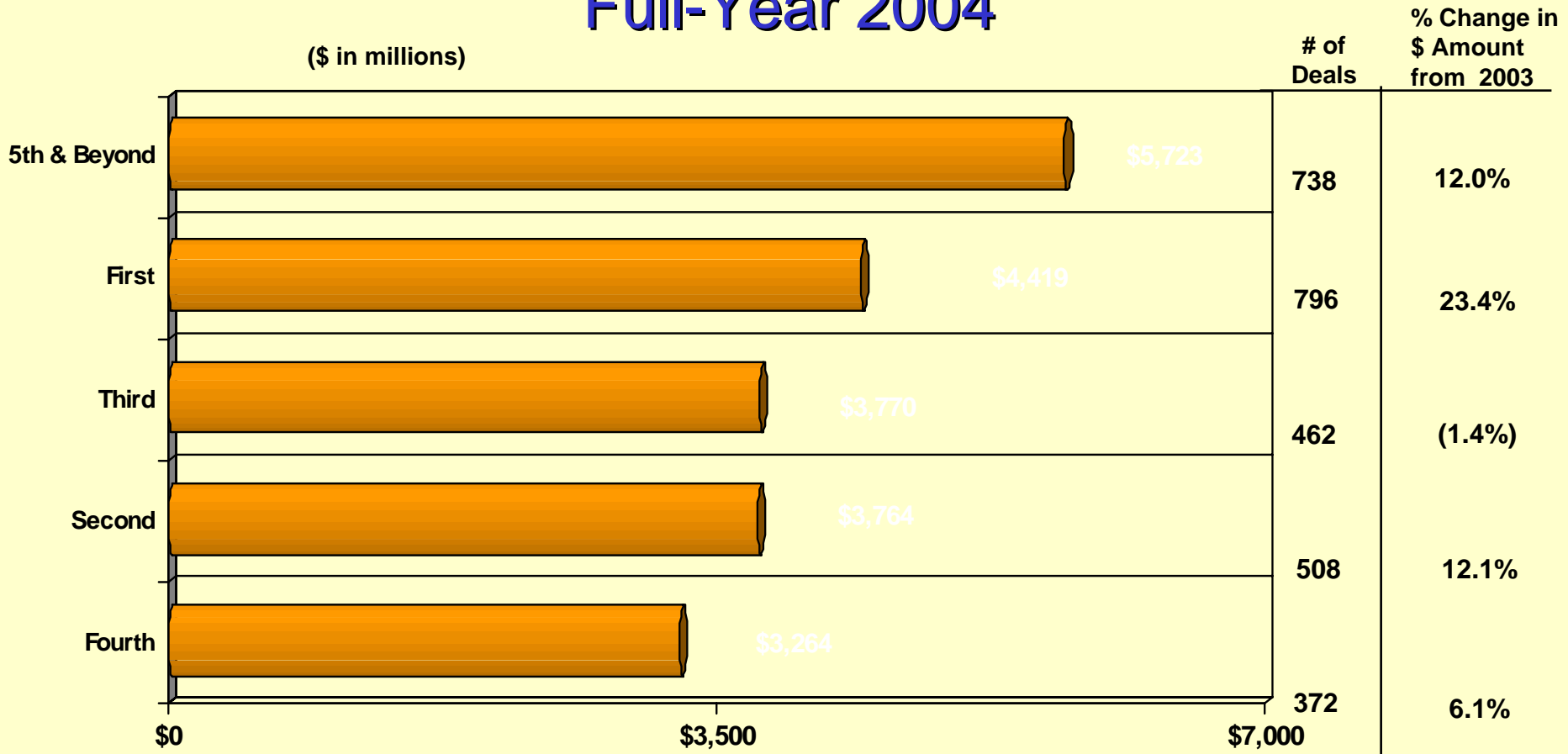
Full-Year 2004 Totals: \$20,941

2,876

11%



Investments by Sequence of Financing - Full-Year 2004



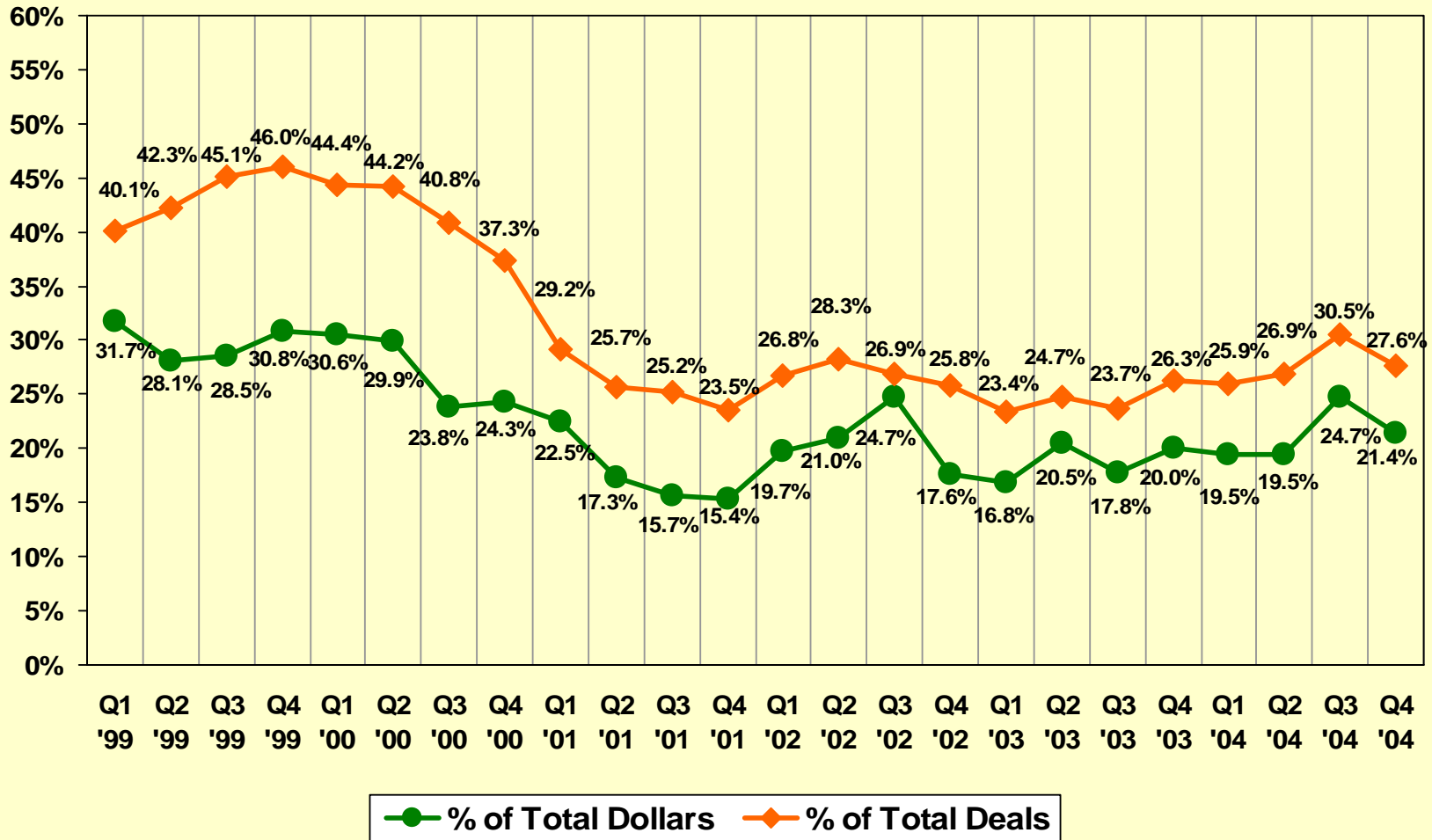
Full-Year 2004 Totals: \$20,941

2,876

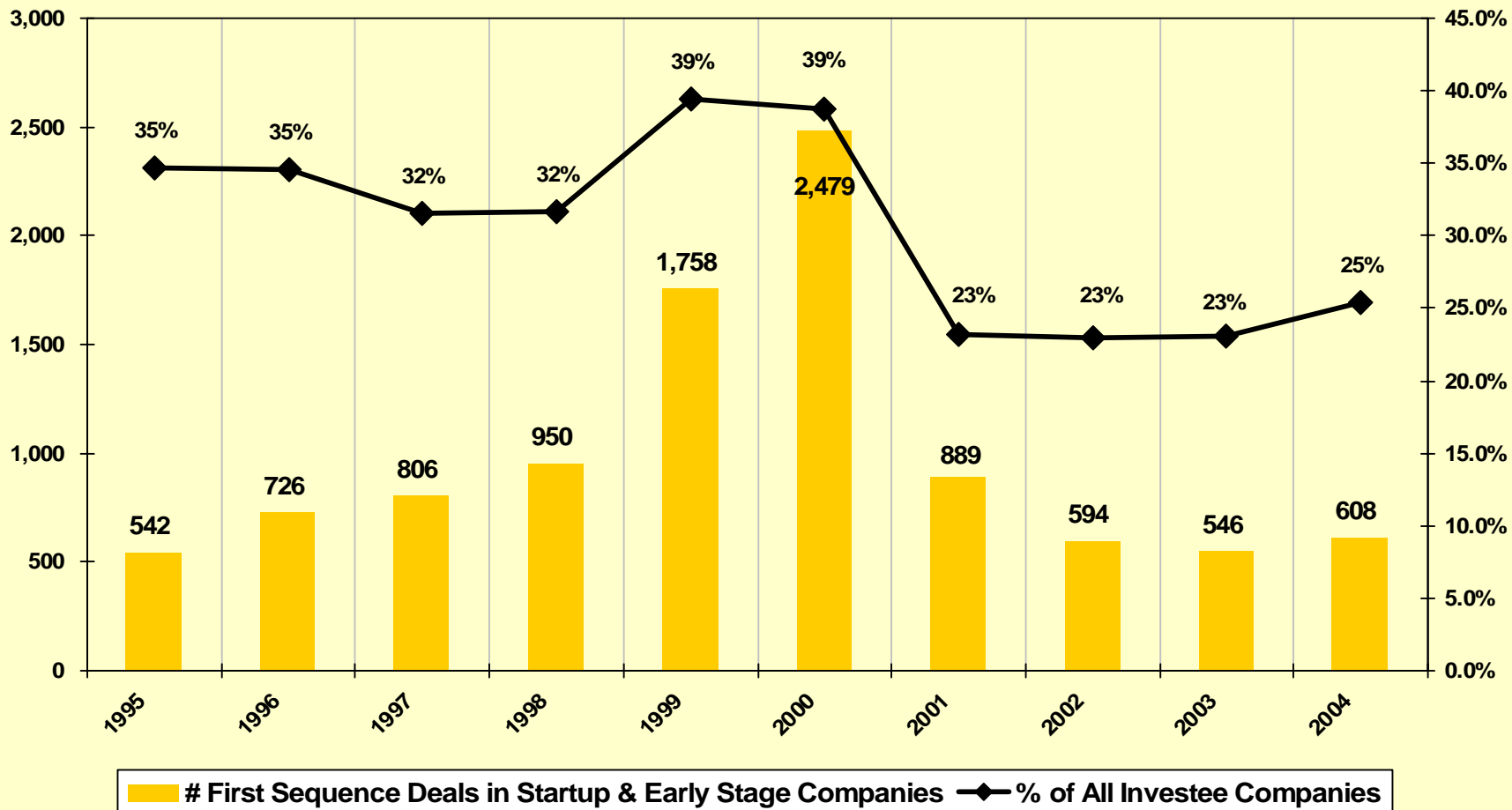
11%



First Sequence Financing - Percent of Total U.S. Investments

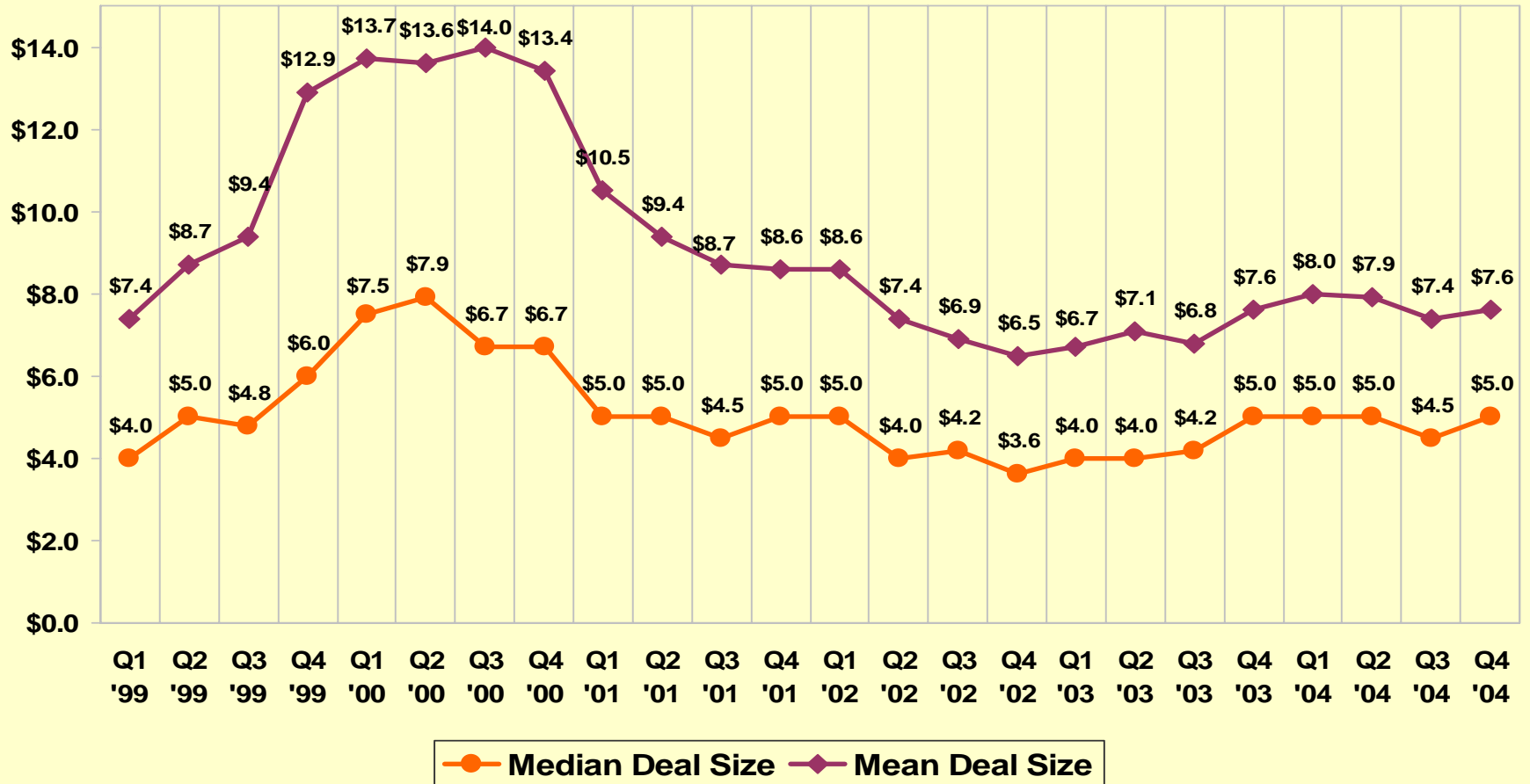


First Sequence Deals in Startup & Early Stage Companies

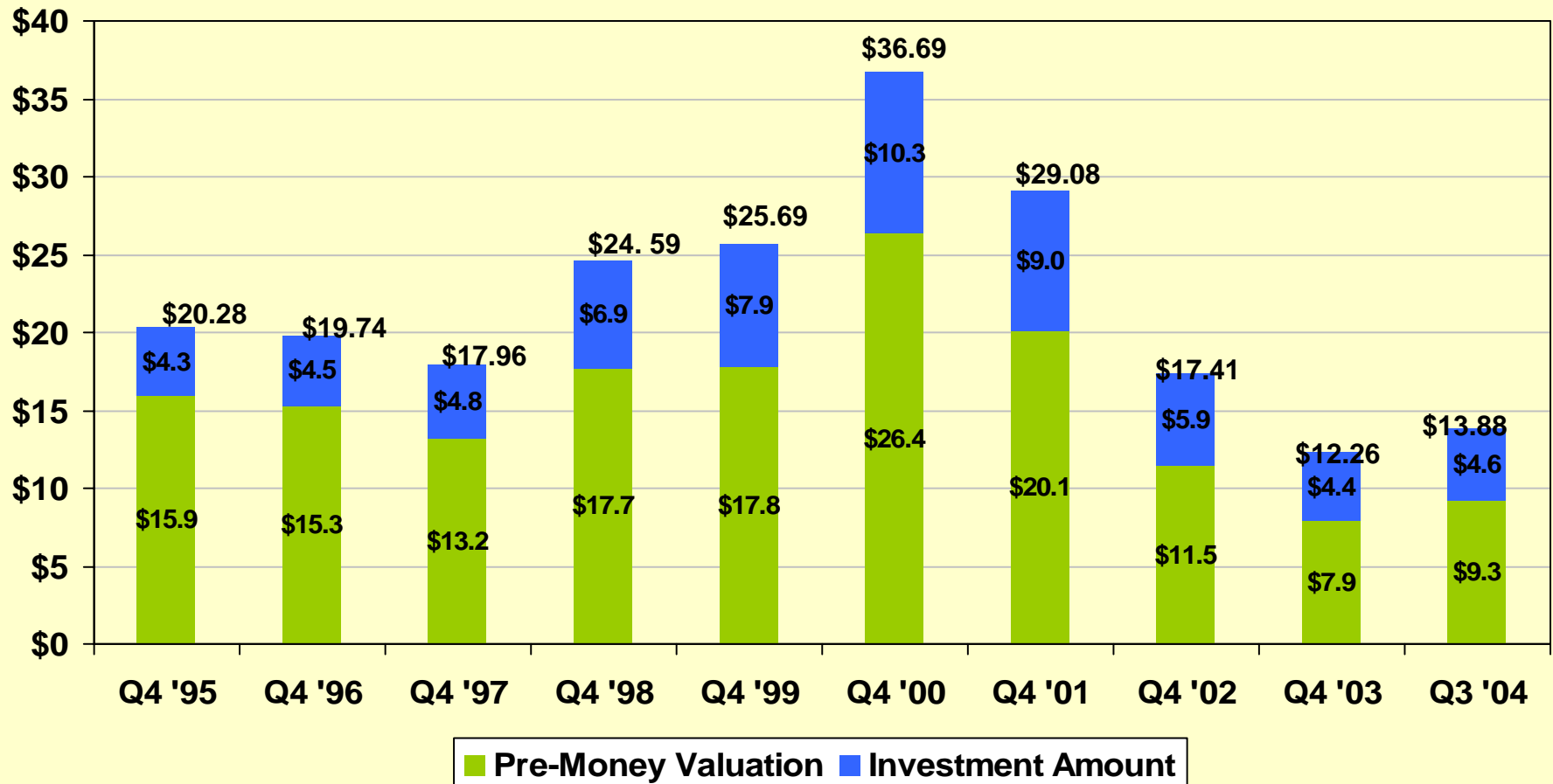


Median Deal Size vs. Mean Deal Size - Quarterly Total U.S. Investments

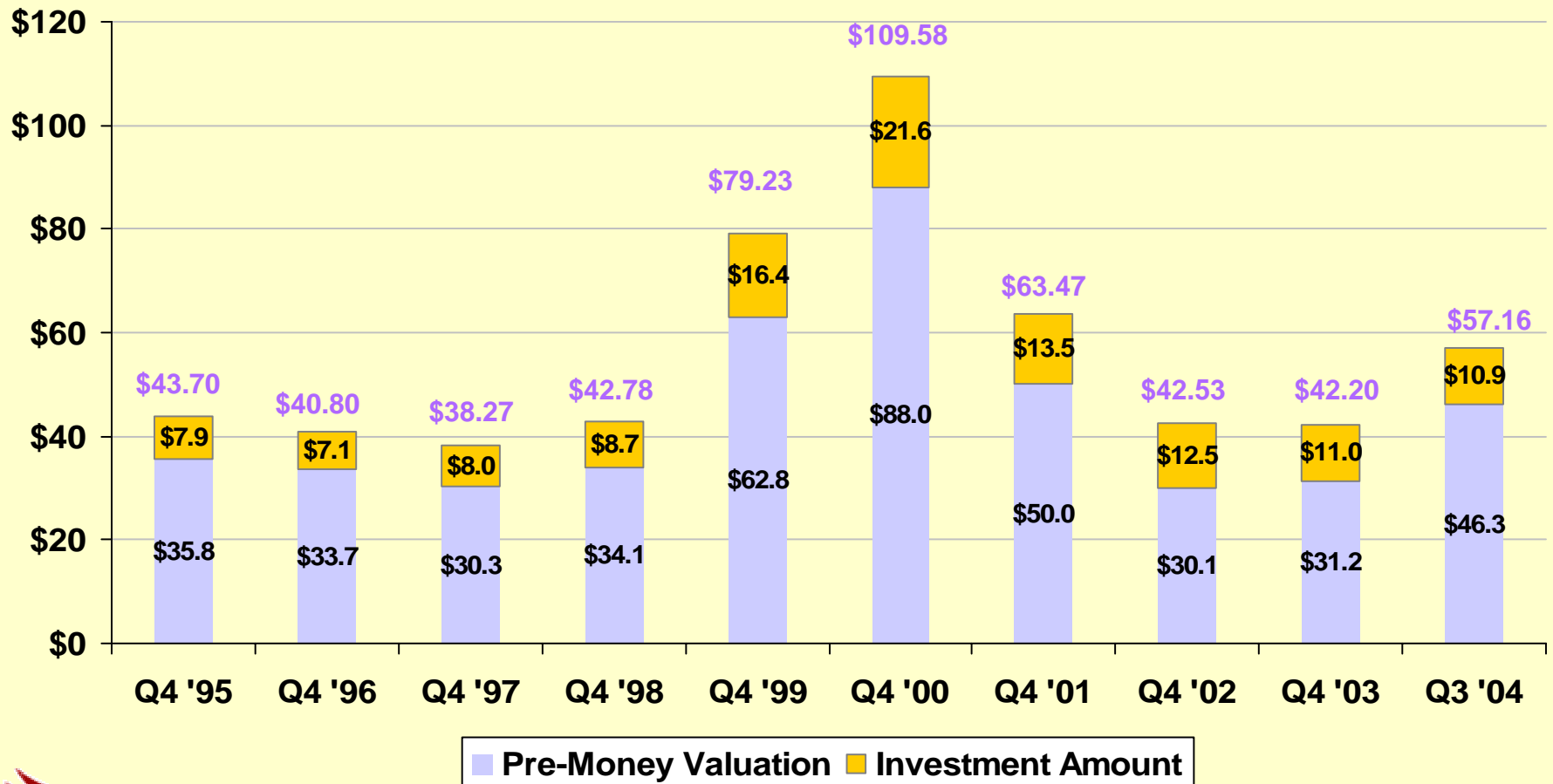
(\$ in millions)



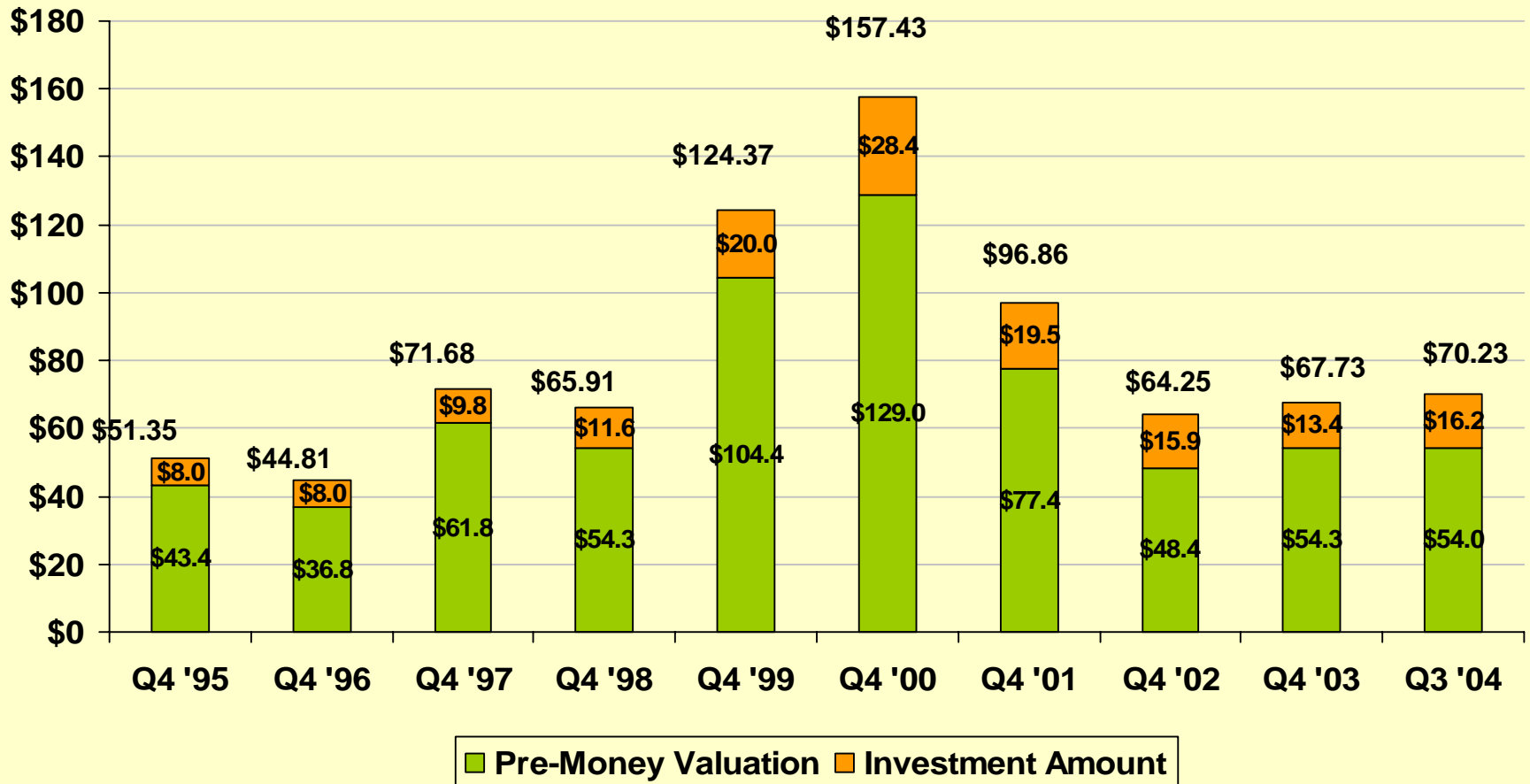
Post-Money Valuations – Early Stage Companies 1995 – 2004 (12-month average)



Post-Money Valuations – Expansion Stage Companies 1995 – 2004 (12-month average)



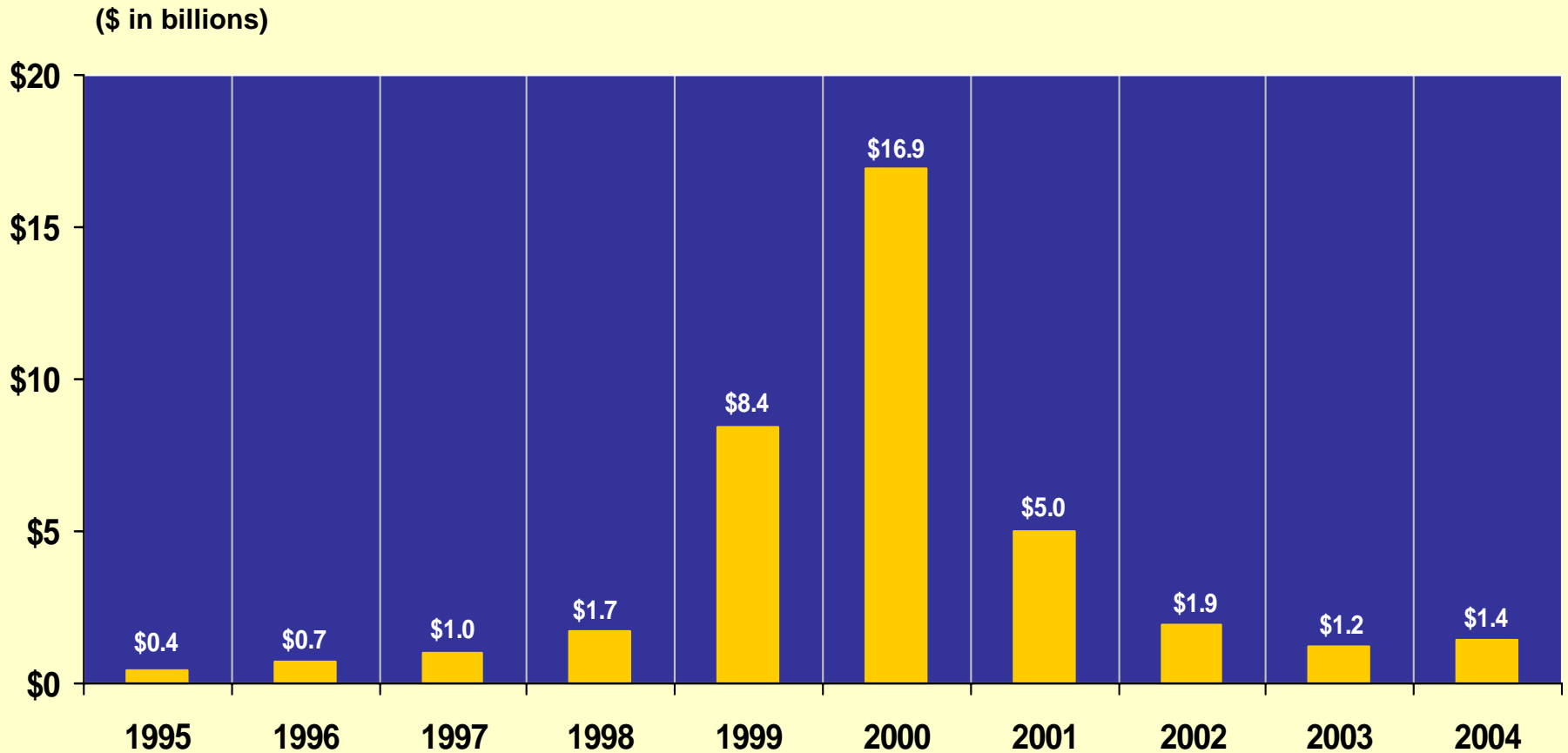
Post-Money Valuations – Later Stage Companies 1995 – 2004 (12-month average)



Corporate Venturing – Rebounding?...



Corporate Venture Capital Investments 1995 – 2004



So, What's it all Mean...



Summary

- **Capital In-Flows Up Significantly**
 - \$17.5B In New Commitments in 2004 (1998 Levels)
 - \$10.8B in 2003 -- \$3.7B in 2002
- **Capital Out-Flows Grow and Moderate**
 - \$20.9B in New Investments (\$18.1B in 2003)
 - 110% of 03' -- 97% of 2002 -- 51% of 2000 -- 20% of 2000
 - At 1997 to 1998 Levels
 - Approx \$40B Still in the Pipeline
- **Corporate Venture Capital Stabilized**
 - \$1.4B (\$1.2B in 2003)
 - 1997-1998 Levels
 - Select New Entrants to the Market

Information Sources:
Thomson Venture
Economics/National Venture
Capital Association/PWC
Moneytree



Summary - continued

- **Path to Liquidity is encouraging “Start-Ups”**
 - **Growing Confidence**
 - 2004 – 27% Series A Financings (21% of Capital)
 - 2003 – 20.7% Series A Financings (8.4% of Capital)
 - 2002 – 15% Series A Financings
 - Indications that trend line is positive – **24% Year over Year Increase in Deals**
 - Historically In the Range of 30-35%
 - “Seed Corn” for Follow-On Financings
- **Capital Flowing to the Early and Expansion Rounds**
 - Follow-On Financings to the Series A of 2001/2002
 - 72% of Investments in 2004 (79% of Capital)



Looking Forward...



What to Expect

- **Venture Capital Industry “Reorganization” Continues**
 - Restructuring Leading to New Firms
 - Venture Industry **continue to Grow**
 - Institutional Investors are Consolidates (25% Fewer Firms)
 - **Capital Inflows** Back (with too much money)
 - 2005 - \$22B in New Commitments?
 - **Over Capitalization??**
- **Funds Return to Basics**
- **It’s not like a “Mutual Fund”**
 - \$250M will be a “good sized” fund for early-stage VC (\$400M the upper limit?)
 - Focus on “experience” in VC Professionals
 - “Hands-On” attitude/expectation for Investors
 - Collaboration becomes a required skill
- **Excess Capital will push firms to Early-Stage Investing**



What to Expect - continued

- **M & A Activity Continues to “Heat-Up”**
 - Renewed Confidence on the part of “Buyers” – Cash Surplus
 - \$22.6M Avg in 2004 -- \$12.9M in 2003
 - Consolidation in to Sales Channels
- **Public Market Stabilizes – IPO’s Return**
 - 2004 – 93 VC-backed IPOs raising \$11B
 - 2003 – 29 VC-backed IPOs raising \$2B
 - The Bar will continue to lower **SLOWLY** if the market remains strong – 12 months out
- **Patience**
 - Time to M & A Exit – 4.7 Years
 - Time to IPO Exit - 5.7 Years (\$73.2M)



In Closing...



Re-Building on a New Foundation...

- **2004 – The Fundamentals “Restored”**
 - Capital Flows into VC Fund approaching \$20B
 - VC Investments stabilize around \$20B
 - IPO Window and Increased M & A activity renews cycle of positive returns
- **The Venture Community**
 - Consolidation continues – still adopting to the new “Reality”
 - Venture Firms still at the low-end of the historical “experience curve”
 - Syndication – rediscovery of the lost art
- **Corporate Venture Investors**
 - Institutionalization
 - The next cycle “starts” – Globalization pushing Accelerated Innovation



But, Caution is The Operative Word...

- **The Path to *Liquidity* is *Limited***
 - Caps the *Potential* for Returns
- **While Capital *In-Flows* Continue to *Grow***
 - Over-Capitalization in the Pipeline
- ***Returns* (next generation funds) *Under Pressure?***
 - Push to Earlier-Stage Investing
 - VC Experience – A Potential Blind Spot
- ***Bubbles* are *Building***
 - China – The Real Deal but a Very Rocky Road (ala Internet)
 - “Group Think” continues to plague the Industry



*Good Luck And
Good Venturing!*



Top-line growth. Bottom-line results.