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VENTURE CAPITAL INVESTMENTS DECLINE IN DOLLARS AND DEAL VOLUME IN Q3 2011

Life Sciences and Clean Tech Investing Falls as Software Surges to a 10-Year High

WASHINGTON, October 19, 2011 – Venture capitalists invested \$6.95 billion in 876 deals in the third quarter of 2011, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA), based on data provided by Thomson Reuters. Quarterly venture capital (VC) investment activity fell 12 percent in terms of dollars and 14 percent in the number of deals compared to the second quarter of 2011 when \$7.9 billion was invested in 1,015 deals.

For the first three quarters of 2011, venture capitalists invested \$21.2 billion into 2,725 deals, representing 20 percent more dollars and three percent more deals as the first three quarters of 2010. The Life Sciences (biotechnology and medical device industries combined) and Clean Technology sectors saw marked decreases in both dollars and number of deals while the Software sector enjoyed its strongest quarter in almost 10 years.

"Challenges in the regulatory environment for Life Sciences companies are prompting VCs to look to other industries to put their money to work for a faster return on their investment as indicated by the notable increase in Software investments," remarked Tracy T. Lefteroff, global managing partner of the venture capital practice at PwC US. "Accordingly, over the past two quarters, we've seen a clear shift in Life Sciences investments from Seed/Early Stage companies over to more Later Stage companies. VCs are continuing to support the companies in their pipeline but appear to be curbing their investments in new Life Sciences companies. Despite the dip in Life Sciences and in the overall investment total for Q3, 2011 is still on track to exceed the \$23.3 billion invested in all of 2010."

"Given the tremendous impact that venture capital has on company creation, it is easy to forget that our industry is small and highly susceptible to the many market forces presently at work," said Mark Heesen, president of the NVCA. "Public policy challenges in the life sciences and clean technology sectors are impacting investment levels this quarter as is the IPO market that basically came to a screeching halt in August. 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. Yet 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."

Industry Analysis

The Software industry received the highest level of funding for all industries with \$2.0 billion invested during the third quarter of 2011. This level of investment represents a 23 percent increase in dollars, compared to the \$1.6 billion invested in the second quarter, and the highest quarterly investment in the sector since the fourth quarter of 2001. The Software industry also had the most deals completed in Q3 with 263 rounds, which represents a one percent decrease from the 267 rounds completed in the second quarter of 2011.

The Biotechnology industry was the second largest sector for dollars invested with \$1.1 billion going into 96 deals, falling 18 percent in dollars and 20 percent in deals from the prior quarter. The Medical Devices and Equipment industry also experienced a decline, dropping 18 percent in Q3 to \$728 million, while the number of deals declined 21 percent to 74 deals. Overall, investments in the Life Sciences sector (Biotechnology and Medical Devices) fell 18 percent in dollars and 21 percent in deals, dropping to the second lowest quarterly deal volume since the first quarter of 2005. To the contrary, Healthcare Services investments surged with \$152 million going into 11 deals, a 200 percent increase in dollars and 38 percent increase in deal volume over the second quarter.

Investment in Internet-specific companies fell in the third quarter to \$1.6 billion going into 231 deals. This level of investment represents a 33 percent decrease in dollars and a 21 percent decrease in deals from the second quarter when \$2.4 billion went into 292 deals, a ten-year high. Internet-specific is a discrete classification assigned to a company with a business model that is fundamentally dependent on the Internet, regardless of the company's primary industry category.

The Clean Technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, saw a 13 percent decrease in dollars to \$891 million in Q3 from the second quarter when \$1.0 billion was invested. The number of deals completed in the third quarter also declined nine percent to 80 deals compared with 88 deals in the second quarter.

Fourteen of the 17 MoneyTree sectors experienced decreases in dollars invested in the third quarter, including Telecommunications (49 percent decrease), Semiconductors (44 percent decrease), Consumer Products & Services (51 percent decrease), and Media & Entertainment (11 percent decrease).

Stage of Development

Seed stage investments fell 56 percent in dollars and 26 percent in deals with \$179 million invested into 89 deals in the third quarter. Early stage investments also fell seven percent in dollars and six percent in deals with \$2.0 billion going into 341 deals. Seed/Early stage deals accounted for 49 percent of total deal volume in Q3, compared to 48 percent in the second quarter. The average Seed deal in the third quarter was \$2.0 million, down from \$3.3 million in the second quarter. The average Early stage deal was \$5.7 million in Q3, down from \$5.8 million in the prior quarter.

Expansion stage dollars increased two percent in the third quarter, with \$2.5 billion going into 260 deals. Overall, Expansion stage deals accounted for 30 percent of venture deals in the third quarter, up from 26 percent in the second quarter of 2011. The average Expansion stage deal was \$9.6 million, up from \$9.2 million in the prior quarter.

Investments in Later stage deals decreased 20 percent in dollars and 30 percent in deals to \$2.3 billion going into 186 rounds in the third quarter. Later stage deals accounted for 21 percent of total deal volume in Q3, compared to 26 percent in Q2 when \$2.9 billion went into 265 deals. The average Later stage deal in the third quarter was \$12.5 million, which increased from \$11.0 million in the prior quarter and represents the largest average deal size for Later stage companies since the third quarter of 2001.

First-Time Financings

First-time financing (companies receiving venture capital for the first time) dollars decreased 22 percent and the number of deals fell 18 percent with \$1.2 billion going into 269 deals. First-time financings accounted for 17 percent of all dollars and 31 percent of all deals in the third quarter, compared to 20 percent of all dollars and 32 percent of all deals in the second quarter of 2011.

Companies in the Software, Media & Entertainment, and IT services sectors received the most first time rounds in the third quarter. There was a significant decline in the number and dollar level of first time rounds in the Life Sciences sector. The average first-time deal in the third quarter was \$4.5 million, down slightly from \$4.7 million in the prior quarter. Seed/Early stage companies received the bulk of first-time investments, garnering 74 percent of the deals.

MoneyTree Report results are available online at www.pwcmoneytree.com and www.nvca.org.

Note to the Editor

Information included in this release or related venture capital investment data should be cited in the following way: “The MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters” or “PwC/NVCA MoneyTree™ Report based on data from Thomson Reuters.” After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA or MoneyTree Report. Charts and tables displaying the data are sourced to “PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters.” After the first reference, subsequent references may refer to PwC/NVCA MoneyTree Report, PwC/NVCA, MoneyTree Report or MoneyTree.

About the PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report

The MoneyTree™ Report measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. It is based on data provided by Thomson Reuters. The survey includes the investment activity of professional venture capital firms with or without a U.S. office, SBICs, venture arms of corporations, institutions, investment

banks and similar entities whose primary activity is financial investing. Where there are other participants such as angels, corporations, and governments, in a qualified and verified financing round the entire amount of the round is included. Qualifying transactions include cash investments by these entities either directly or by participation in various forms of private placement. All recipient companies are private, and may have been newly-created or spun-out of existing companies.

The survey excludes debt, buyouts, recapitalizations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are primarily intended for acquisition such as roll-ups, change of ownership, and other forms of private equity that do not involve cash such as services-in-kind and venture leasing.

Investee companies must be domiciled in one of the 50 U.S. states or DC even if substantial portions of their activities are outside the United States.

Data is primarily obtained from a quarterly survey of venture capital practitioners conducted by Thomson Reuters. Information is augmented by other research techniques including other public and private sources. All data is subject to verification with the venture capital firms and/or the investee companies. Only professional independent venture capital firms, institutional venture capital groups, and recognized corporate venture capital groups are included in venture capital industry rankings.

About the National Venture Capital Association

Venture capitalists are committed to funding America's most innovative entrepreneurs, working closely with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. According to a 2011 Global Insight study, venture-backed companies accounted for 12 million jobs and \$3.1 trillion in revenue in the United States in 2010. As the voice of the U.S. venture capital community, **the National Venture Capital Association (NVCA)** empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community's preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its nearly 400 members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

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