National Venture Capital Association

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VENTURE CAPITAL INVESTING HITS $25.5 BILLION IN 2006

Highest Level of Investment in Five Years, with Relative Strength in Life Sciences, Expansion Stage Companies

Washington, D.C., January 23, 2007 – Venture capitalists invested $25.5 billion in 3,416 deals in 2006, realizing a 10 percent increase in deal volume and a 12 percent increase in dollar value, according to the MoneyTree Report by PricewaterhouseCoopers and the National Venture Capital Association, based on data from Thomson Financial. The year, which marked the highest level of investment since 2001, saw quarterly investment levels remain steady in the $5- to 6-billion dollar range, as the venture industry invested in the traditional technology and life sciences sectors and began a deliberate foray into the energy sector.

The year was characterized by significant growth in the life sciences sector, with biotech and medical device investing both reaching record high levels. Other areas of growth included Media/Entertainment, Energy and Internet-Specific companies. Seed and Early-Stage companies received more financing and dollars in 2006 but the largest gains were in the Expansion Stage deals during the year. First-time financings reached the highest level since 2001.

Investments in the fourth quarter of 2006 totaled $5.7 billion in 802 deals, down from $6.6 billion in the third quarter of 2006, but were well within the range of $4.3 to $6.9 billion investments seen over past five years.

Mark Heesen, president of the National Venture Capital Association, said, “While top-line investment levels in 2006 were relatively steady overall, the increases in investment were in all the right places: early stage investing, first time financings, and industry sectors such as clean tech and life sciences that have room to scale. And while there is considerable growth in these areas, we are pleased that, to date, quarterly investment levels have remained prudent and no major overfunding has occurred.”

Sector and Industry Analysis

The Life Sciences sector (Biotechnology and Medical Devices industries, together) set the pace for investing in 2006 with $7.2 billion in 731 deals compared to $6.0 billion going into 647 deals in 2005. The increase was driven equally by significant increases in the Biotechnology and Medical Device sectors, both of which had record high levels in 2006. For the year, Life Sciences accounted for 28 percent of all venture capital invested, consistent with historical percentages**.** Life Sciences was also the number one investment sector for 2006.

Software investing remained relatively flat in 2006, with $5.0 billion going into 865 deals compared to $4.8 billion going into 869 deals in 2005, but still remained the largest single industry sector for the year and the fourth quarter in terms of both deals and dollars.

The Industrial/Energy sector experienced a sharp gain of more than 107 percent in dollars invested in 2006 with 183 companies receiving $1.8 billion, compared to 136 companies in 2005 receiving $851 million. The alternative energy subsector accounted for 40 percent of the dollars invested in this category.

The Media and Entertainment sector saw more venture capital dollars in 2006, with $1.6 billion going into 299 deals compared to 2005 when $1 billion went into180 deals. Telecom companies also saw an increase, although less substantial, with 294 deals getting $2.6 billion dollars in 2006 compared to 263 deals receiving $2.5 billion in 2005. The wireless subsector accounted for 44 percent of the Telecom sector in terms of dollars, with 128 deals garnering $1.2 billion during 2006.

Internet-specific companies received $4.0 billion in 645 deals in 2006, a notable increase over 2005, when these companies received $3.2 billion in 494 deals. ‘Internet-specific’ is a discrete classification assigned to a company whose business model is fundamentally dependent on the Internet, regardless of the company’s primary industry category. These deals accounted for 16 percent of all venture capital dollars in 2006.

Other major industry categories that experienced increases in dollars were Electronics/Instrumentation, Business Products and Services, and Consumer Products and Services. The year had decreases for Networking and Equipment, Computers and Peripherals, and Financial Services.

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers LLP, observed, "It's encouraging for both the industry and entrepreneurs across multiple sectors to see the increased level of investment activity this year. In addition, investors are spreading their dollars across wider geographic regions."

Stage of Development/Funding for Seed and Early Stage companies

Funding for Seed and Early Stage companies increased by 16 percent in deals and 11 percent in dollars, with $5.0 billion going into 1,176 deals in 2006 compared to $4.4 billion going into1,018 deals in 2005. The percentage of total deals in the Seed and Early-Stage was 34 percent in 2006. Average post-money valuations of Early Stage companies fell to $12.14 million for the 12 months ending Q3 2006 compared to $14.59 million for the period ending Q3 2005. (Valuation data lags one quarter.)

Expansion Stage companies saw a significant increase in both deals and dollars in 2006, with $11.2 billion going into 1,283 deals, compared to 2005 when $8.6 billion went into 1,092 deals. The increase reflects a higher confidence level in companies that reached the expansion stage. Expansion deals accounted for 38 percent of the total deals done in 2006. Average post-money valuations were $67.56 million for 12 months ended Q3 2006 versus $61.88 million for the year-ago period.

Later Stage Investing decreased in deals and dollars on both an absolute and relative basis in 2006. Venture capitalists invested $9.3 billion in 957 companies this past year, compared to $9.7 billion in 990 companies in 2005. Later Stage deals accounted for 28 percent of all deals in 2006. Average post-money valuations were $108.32 million for Q3 2006 versus $77.61 million for the year-ago period.

First Time Financings

First-time financings increased in deals and dollars to the highest levels since 2001, with 1,093 companies receiving $5.8 billion in venture capital for the first time. This marks an increase of 10 percent in the number of companies entering the venture-financed arena.

The top industries for first-time financing growth in 2006 were Software with 234 deals valued at $1.2 billion, followed by Biotechnology with 127 deals for $773 million. This follows 2005's pattern, when 249 Software companies garnered $1.2 billion.

Seventy percent of first time financings in 2006 were in the Seed/Early Stage of development, followed by Expansion Stage companies at 23 percent and Later Stage companies at 7 percent.

International Investing

In 2006, U.S.-based venture capitalists invested $856 million in 71 deals in India and $1.1 billion in 105 deals in China. These figures are reported separately and are not included in the aggregate totals above.

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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 Financial" or "PwC/NVCA MoneyTree™ Report based on data from Thomson Financial." 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 Financial." 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 Financial. The survey includes the investment activity of professional venture capital firms with or without a US 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 US 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 Financial. 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.

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

The **National Venture Capital Association (NVCA)** represents approximately 480 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2004 Global Insight study, venture-backed companies accounted for 10.1 million jobs and $1.8 trillion in revenue in the U.S. in 2003. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.

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