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VENTURE CAPITAL INVESTING RISES TO $21 BILLION IN 2004 AFTER THREE YEARS OF DECLINE

-- Late Stage Investing Leaps as Early Stage Remains Strong--

Washington, D.C., January 24, 2005 – Venture capitalists reversed a three-year downward trend by investing $20.9 billion into 2,876 deals in 2004, according to the MoneyTree Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. The annual investment level fell every year beginning in 2001, culminating in a six-year low of $18.9 billion in 2003. The increase in 2004 was largely attributable to late stage investments jumping to $7.2 billion in 2004 compared to $4.9 billion in 2003.

After a dip to $4.6 billion in the third quarter of 2004, investing in the fourth quarter rebounded to $5.3 billion – the approximate quarterly average of the last two years. The fourth quarter marked the 11th consecutive quarter of venture investing in the $4-6 billion range.

Mark Heesen, president of the National Venture Capital Association, said: "It is a good time to be a venture capitalist. As we enter 2005, there will be many opportunities across industry sectors, funding stages and geographies. The strengthening IPO and acquisitions markets clearly helped fuel late stage financings in 2004. Now, as venture capitalists are beginning to invest their new funds, we may well see a shift in focus back to early stage companies in the coming year."

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, added: "It's a good time to be an entrepreneur. New ideas with realistic business models will be seriously considered. New companies with customer commitments can get cash to progress. And, operating companies can access plenty of capital to accelerate growth. The watchwords for entrepreneurs are potential, prudence and patience."

Stage of Development and 12-Month Average Valuations

The most visible change in calendar 2004 was the significant increase in Later stage investing as portfolio companies receiving follow-on rounds progressed closer to maturity. Notably, this did not signal a shift away from other stages of investing. There was little or no effect on Early or Expansion stage investment levels.

Later stage funding in 2004 jumped nearly 50% over 2003 to $7.2 billion, or 34% of all venture capital. This represents the largest dollar amount for Later stage funding in three years and the largest percentage in the last 10 years. A total of 647 Later stage deals were completed in 2004. Average funding per company rose to $11.1 million compared to $9.2 million in 2003. Late stage financing is generally done in contemplation of an upcoming sale or IPO, suggesting a continued strengthening of the exit opportunities in 2005. The average post-money valuation rose to $70.2 million for the 12 months ending Q3 2004 compared to $65.4 million for the prior year. (Note that valuation data lags investment data by one quarter.)

Expansion stage investing fell slightly. In 2004, 1,217 Expansion stage deals totaled $9.5 billion, compared to 1,354 deals for $10.3 in 2003. Average funding per company was essentially flat $7.8 million. But, the average post-money valuation increased significantly to $57.2 million for the 12 months ending Q3 2004 versus $39.4 million in the prior year.

Equally encouraging, Early stage investing increased in 2004. A total of 841 deals accounted $3.9 billion, or 29% of all deals and 19% of all dollars, compared to 770 deals for $3.4 billion in 2003. In terms of both dollars and deals, Early stage investing represented a slightly greater percentage of all venture capital activity in 2004 indicating venture capitalists continue to invest for the longer term. Average funding per company was $4.6 million, virtually unchanged from 2003. The average post-money valuation of Early stage companies increased slightly to $13.9 million for the 12 months ending Q3 2004.

According to Adam Reinebach, vice president at Thomson Venture Economics, “One positive trend here is that mature startups who survived the funding drop during the early part of the decade are now getting the attention and capital they need. While a longer gestation period doesn’t necessarily guarantee positive results, there’s no question that companies with years of operating experience generally make for better exit candidates. Even Google, while not representative of all startups, was founded in 1998.”

Sector And Industry Analysis

The Life Sciences sector (Biotechnology and Medical Devices industries, together) continued to dominate the field. Investments in this sector in the fourth quarter increased to $1.5 billion. For full year 2004, the sector totaled $5.6 billion in 578 companies, the largest dollars and deals in four years. Life Sciences accounted for 27% of all venture capital dollars; hovering at its historical high.

The Software Industry hit a three-year high in calendar 2004 with $5.1 billion and remained in the top slot as the largest single industry category. Software represented 24% of all venture capital dollars, in line with historical norms. In terms of number of deals, Software was far and away the leader with 862 fundings, or 30% of all venture capital deals for the year.

Telecommunications investing continued to slide in 2004. Full year funding fell to $1.9 billion the lowest figure in eight years. Of the 231 deals, nearly all were follow-on rounds. The Networking industry followed a similar pattern falling slightly to $1.6 billion, a seven-year low.

Semiconductor investing continued its steady, if modest, recovery rising to a three-year high of $1.6 billion in 2004. Most other major industry categories were comparable to prior year levels.

First-Time Financings

First-time financings also increased over 2003, further evidence that venture capitalists continue to fund new enterprises while supporting existing portfolio companies. A total of 796 companies – in all stages of development -- received venture capital for the first time, or 28% of all financings in 2004, compared to 699 deals the prior year. In dollar terms, these companies attracted $4.4 billion, up markedly from $3.6 billion in 2003.

Industries receiving the most attention mirrored the overall industry trends. Software companies accounted for the most first-time fundings with 217 companies getting $1.1 billion. Industries in the Life Sciences sector followed with 87 Biotechnology companies and 67 Medical Device companies receiving a combined total of $961 million. Semiconductor companies ranked fourth with 59 companies and $324 million.

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MoneyTree Survey results are available online at www.pwcmoneytree.com, www.ventureeconomics.com, and www.nvca.org.

Note to the Editor
When referencing information included in this release or other venture capital investment information produced by the three MoneyTree Alliance partners, the information should be cited in the following way: “The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association”, or “PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey”. After the first reference, subsequent references may

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About the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey

The MoneyTree™ Survey measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. 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. 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.

The **National Venture Capital Association (NVCA)** represents approximately 450 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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