



National Venture Capital Association



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## VENTURE BACKED M&A VOLUME HOLDS STEADY; VALUATIONS RISE AGAIN IN Q2 2005

**New York, NY, August 8, 2005** –Venture-backed merger and acquisition volume in the second quarter held steady as disclosed valuations continued to rise, according to Thomson Venture Economics and the National Venture Capital Association (NVCA). Over the course of the quarter 75 companies were acquired, with 32 reporting a combined value of \$4.4 billion and an average disclosed value of \$136.7 million.

These figures represent a 3.9% increase in the combined disclosed value over last quarter’s \$4.2 billion spread across 45 disclosed value deals. However, the quarterly average deal value rose 46% from the first quarter to the highest level in four years. The \$136.7 million average was the highest since Q1 2001, which had an average deal value of \$207 million. The Q2 2005 median disclosed deal size of \$68.8 million was the highest since the last quarter of 2000, which had a median value of \$77 million.

### Venture-Backed Liquidity Events by Year/Quarter, 2000-2005

Quarter/Year	Total Deals	Deals with Disclosed Values	Total Disclosed Value (\$M)	*Average Deal Size (\$M)	Number of IPOs	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
<b>2000</b>	<b>315</b>	<b>202</b>	<b>68,353.1</b>	<b>338.4</b>	<b>264</b>	<b>25,499.4</b>	<b>96.6</b>
<b>2001</b>	<b>353</b>	<b>165</b>	<b>16,798.9</b>	<b>101.8</b>	<b>41</b>	<b>3,489.9</b>	<b>85.1</b>
<b>2002</b>	<b>316</b>	<b>151</b>	<b>7,874.4</b>	<b>52.2</b>	<b>24</b>	<b>2,473.5</b>	<b>103.1</b>
2003-1	69	21	1,453.3	69.2	1	77.2	77.2
2003-2	73	27	1,841.9	68.2	2	164.0	82.0
2003-3	77	41	2,127.7	51.9	9	732.8	81.4
2003-4	71	34	2,303.2	67.7	17	1,048.7	61.7
<b>2003</b>	<b>290</b>	<b>123</b>	<b>7,726.1</b>	<b>62.8</b>	<b>29</b>	<b>2,022.7</b>	<b>69.7</b>
2004-1	80	45	3,921.0	87.1	13	2,721.1	209.3
2004-2	89	48	4,514.6	94.1	29	2,077.8	71.6
2004-3	85	44	3,916.1	89.0	24	3,225.6	134.4
2004-4	84	46	2,862.2	62.2	27	2,990.4	110.8
<b>2004</b>	<b>338</b>	<b>183</b>	<b>15,213.9</b>	<b>83.1</b>	<b>93</b>	<b>11,014.9</b>	<b>118.4</b>
2005-1	79	45	4,209.9	93.6	10	720.7	72.1
2005-2	75	32	4,373.9	136.7	10	714.1	71.5
<b>2005 (1st Half)</b>	<b>154</b>	<b>77</b>	<b>8,583.9</b>	<b>111.5</b>	<b>20</b>	<b>1,434.8</b>	<b>71.7</b>

Source: Thomson Venture Economics & National Venture Capital Association  
\* Only accounts for deals with disclosed values

“Given the lackluster IPO market, we are encouraged by the continued relative strength of M&A activity, which has been the brighter light in the 2005 exit picture for venture-backed companies,” said Mark Heesen, president of the NVCA. “There are companies that were funded in 1999 and 2000 which are just

now entering maturity and we will be watching to see how they fare. Transaction volume is in line with historical norms and we expect to see another year of 300 or more deals. It is critical however, that valuations continue to strengthen, as the ultimate measure of success is the number of emerging companies acquired at a significant multiple of their total venture investment.”

The half year totals reinforce evidence of a stable M&A market, registering slight gains over the first half of 2004. Seventy-seven deals out of 154 in the first half of 2005 reported a total value of \$8.6 billion, a 1.75% increase over the first half of last year when 93 deals out of 169 reported a total of \$8.4 billion. While the average deal size increased in 2005 from 2004’s \$90.7 million to \$111.5 million, the median value declined from \$48.8 million to \$42.5 million in 2005.

The second quarter saw a substantial decline in deal values in the Software industry. While still preeminent in the number of deals closed, 10 of the 23 deals reported just \$509.9 million in combined value. That \$51 million average deal size was the third lowest across all sectors, followed only by Healthcare Services (\$35 million average) and Business Products and Services (\$9.7 million average).

The largest deal of the quarter was in the Industrial/Energy sector. Antero Resources, a natural gas and oil producer was acquired by XTO Energy for \$842.9 million. This was also the largest deal since the \$2.8 billion acquisition of data communications company Cyras Systems in the first quarter of 2001.

Biologics developer Angiosyn completed its acquisition by Pfizer for \$527 million, making it the second largest deal of the quarter and accounted for most of the \$767 million brought in by Biotechnology targets. Rounding out the top three for the quarter was the Internet-era company Shopzilla, a shopping-focused search engine. It was bought by EW Scripps for \$525 million.

Daniel Benkert, senior analyst at Thomson Venture Economics sees mixed signals in the quarterly results:

“Aggregate valuations this quarter were up across the board, with particularly impressive gains in average and median deal sizes,” said Benkert. “However, the top 10 deals of the quarter accounted for almost 80% of the disclosed total. That figure is more reminiscent of the post-bubble lean period when the top 10 ranged between 70 and 90% of quarterly totals as opposed to the 60% range of 2004. This suggests that while the best deals are getting larger, the remaining deal values are much more static. One year into the recovery the industry is still shedding underperforming investments.”

#### Analysis of Transaction Values versus Amount Invested

Relationship between transaction value and investment	2004 (1st Half)	2005 (1st Half)
Deals where transaction value is less than total venture investment	30	24
Deals where transaction value is 1-4x total venture investment	29	27
Deals where transaction value is 4x-10x total venture investment	19	16
Deals where transaction value is greater than 10x venture investment	14	9
<b>Total Disclosed Deals</b>	<b>92*</b>	<b>76**</b>

Source: Thomson Venture Economics & National Venture Capital Association

\* In 2004 (1st Half), 93 deals had disclosed values, but one of these targets did not have a disclosed total investment amount.

\*\* In 2005 (1st Half), 77 deals had disclosed values, but one of these targets did not have a disclosed total investment amount.

A ratio analysis of company acquisition price to the total venture investment shows similar success patterns in the first half of 2004 and 2005. Approximately one third of the transactions yielded less proceeds than the venture investment; one third returned 1 – 4X investment; and one third return more than 4X investment.

#### About Thomson Venture Economics

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#### About NVCA

The National Venture Capital Association (NVCA) represents approximately 475 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](http://www.nvca.org)