Final R3

National Venture Capital Association

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VENTURE CAPITAL INVESTING FLAT IN Q4 2002
FULL YEAR 2002 FINISHES AT 1998 LEVEL

-- Life Sciences Sector Shows Extraordinary Resilience --

Washington, D.C., January 28, 2003 – The steady decline of venture capital abated in the fourth quarter of 2002 with total investments of $4.2 billion, essentially flat from the prior quarter of $4.5 billion, according to the PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree Survey. A total of 692 entrepreneurial companies received funding in the fourth quarter compared to 671 companies in the third quarter.

Venture capital investing has continued to decline since the unprecedented run-up that peaked in 2000. For full year 2002, venture investing totaled $21.2 billion, approximately half of 2001's $41.3 billion. Investment levels in 2002 were similar to 1998, the last pre-bubble year, when $21.6 billion went to entrepreneurs.

Tracy Lefteroff, global managing partner of the venture capital practice at PricewaterhouseCoopers, said: "We may finally be near the bottom. This level of investing is more realistic and more sustainable. By historical standards, the current run rate is healthy for venture capitalists and entrepreneurs alike. If the public markets and liquidity opportunities improve in 2003, we could see the return to a more stable venture capital market."

"The level of investment seen today is appropriate considering current private company valuations and long-term exit opportunities," explained Mark Heesen, president of the National Venture Capital Association. "Venture capitalists are taking calculated risks on new companies, but realize that these new relationships will likely span many years and may require several additional rounds of capital before exit opportunities become available."

Industry And Sector Analysis

The Life Sciences sector (Biotechnology and Medical Devices) was the bright spot for the fourth quarter and the full year 2002. Life Sciences increased 15% to $960 million in the fourth quarter compared to the third quarter. For the year, Life Sciences totaled $4.7 billion, accounting for 22% of all venture capital investing, up from 13% in 2001, and the highest proportion of total venture capital in seven years. Separately, the Biotechnology industry attracted $2.8 billion in 2002 and the Medical Devices industry accounted for $1.9 billion in 2002.

All other major industries experienced declines for the quarter and the year. Software, perennially the leading industry category, maintained its ranking in 2002 with 799 deals attracting $4.3 billion, or 20% of all venture investing. Telecommunications followed with 335 deals accounting for $2.9 billion, or 14% of the annual total. Investments in the Networking industry fell to $2.2 billion in 209 companies, or 11% of the total.

First-Time Financings

A total of 169 companies received venture capital for the first time in Q4 2002, about the same as the 166 in the third quarter. For full year 2002, 756 companies got first-time funding, down 35% from the 1,178 companies in 2001. However, these companies commanded a slightly larger share of overall investment dollars in 2002, capturing $4.3 billion or 20% of the total compared to 18% in the prior year.

In general, these companies mirrored the overall industry category trends. For full year 2002, 158 companies in the Life Sciences sector (Biotechnology and Medical Devices combined) garnered $943 million, or 22% of all first-time financings, up from 14% the prior year. As a stand-alone industry category, Software accounted for the most deals and dollars in 2002 with 209 companies receiving $880 million, or 21% of all first-time financings, unchanged from 2001. Only 61 Telecommunications companies received venture backing for the first time in 2002, amounting to $355 million. This represents 8% of all first-time investments, compared to 15% in Telecommunications the prior year.

Stage of Development

Venture capitalists continued to fund early stage companies at a steady pace. In the fourth quarter, these companies attracted $743 million or 18% of total investing, about the same proportion as in each of the three prior quarters of the year. For full year 2002, early stage companies received $4.1 billion, or 19% of the annual total, down slightly from 22% of the total in 2001.

Following historical norms, expansion stage companies attracted the largest percentage of venture capital. In calendar year 2002, they accounted for $13.3 billion, or 63% of the total, a slight increase over 58% of the total in the prior year. The proportion of investing in late stage companies was essentially unchanged: 17% in 2002 versus 18% in 2001.

According to Jesse Reyes, vice president at Thomson Venture Economics, "Venture investors continue to move toward life cycle investing – balancing investments in start-up and early stage companies with expansion and later stage funding – in order to mitigate risk and find more favorable valuations in companies that are more mature and potentially profitable. In 2002, for every dollar invested in new financings, a little over four dollars was invested in follow-on deals. That can be contrasted to 1999, when one dollar of new financing was accompanied by two and one-half dollars of follow-on. This life cycle approach reflects VC's existing portfolios and the maturity of the market segments they are investing in."

For charts, please visit www.pwcmoneytree.com

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: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey. After the first reference, subsequent references may refer to PwC/VE/NVCA MoneyTree Survey, PwC/VE/NVCA or MoneyTree Survey. Charts and tables displaying the data are sourced to PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey. After the first reference, subsequent references may refer to PwC/VE/NVCA MoneyTree Survey, PwC/VE/NVCA or MoneyTree Survey.

About the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association Money Tree 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.

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

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