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Venture Capital Fundraising in 2002 Reflects Key Industry Trends
108 Firms Raise $6.9 Billion

February 10, 2003 – Newark, NJ – According to Thomson Venture Economics and the National Venture Capital Association (NVCA) commitments to venture capital funds experienced an expected sharp decline in 2002 as the venture capital industry continued its "rightsizing" in response to fewer but higher quality investment opportunities, lower private company valuations, continued economic uncertainty and the unprecedented amount of capital already committed to venture capital funds but not yet invested. In 2002, 108 venture funds raised $6.9 billion compared to 331 venture funds raised $40.7 billion in 2001. The fourth quarter of 2002 was particularly slow with 31 venture funds raising $1.2 billion compared to the fourth quarter of 2001 when 92 venture funds received commitments of $5.5 billion.

Several large venture capital funds reduced their fund sizes in an attempt to balance their deal flow, staffing and exit prospects. In 2002, 26 venture capital funds downsized their funds by approximately $5 billion. Accordingly, after taking these downsized funds into account, net fundraising for 2002 was $1.9 billion, a level that has not been seen since 1991. Venture capitalists are working diligently to align expectations with economic reality in order to ensure respectable long-term results.

	Venture Capital		**Buyout, Mezzanine & Other Private Equity**	
Year/Quarter	**# of Funds**	**Venture Capital ($ Millions)**	**# of Funds**	**Buyout/ Mezzanine & Other PE ($ Millions)**
1991	44	2,048.7	32	5,494.9
1998	297	31,350.9	185	74,064.7
1999	459	61,910.7	172	70,500.3
2000	653	106,933.2	180	86,826.2
2001	331	40,713.0	147	59,821.0
2002	108	6,884.9*	64	31,573.8
1Q'02	29	1,311.9	19	6,462.0
2Q'02	37	2,138.9	31	9,604.1
3Q'02	34	2,156.4	17	4,436.2
4Q'02	31	1,277.7	19	11,071.5

Thomson Venture Economics/National Venture Capital Association
**1.9 billion after accounting for downsized funds*

There are several factors that are constraining commitments to venture capital funds. Chief among them are the recent phenomenon of large funds returning previously committed capital back to their limited partners; the inordinately large overhang of previously committed capital that has yet to be invested; a lengthening of the fundraising process; lower private company valuations and a shift in industry sectors and investment opportunities that correspond to emerging national priorities.

As stated earlier, several large funds decided to relieve limited partners of previous commitments in order to align their fund size to better balance their internal resources and expected investment opportunities moving forward. A combination of significantly reduced private company valuations and the volume of investment opportunities have forced venture firms to alter their investment strategies.

The significant overhang of committed capital not yet invested, estimated to be $80 billion as of 9/30/2002, also has impacted the number of firms raising new funds. Most venture capital firms are not ready to raise new funds as they have sufficient resources to support existing portfolio companies and to invest in new opportunities for the immediate future.

While it was once standard practice to close a fund in a matter of months, it is now common for the fundraising process to stretch over multiple quarters, with several closings. Budgetary constraints, extensive due diligence and the desire to invest in more established firms with strong track records are impacting the way Limited Partners invest their money.

Interesting developments in the life sciences sectors as well as funds addressing emerging national priorities related to homeland security, military applications, and protecting the population from various threats are also impacting commitments made to venture capital funds. For example, at least three funds raised in the fourth quarter of 2002 are dedicated entirely to these endeavors: Healthcare Ventures VII LP, Burrill Life Sciences Capital Fund LP, and 5AM Ventures.

The largest venture capital fund that closed in 2002 is also dedicated to the life sciences sector. MPM Bioventures III LP, and its parallel funds, closed on $900 million making it the largest venture capital fund targeting the healthcare industry. The fund will invest internationally in all stages of companies in the biotechnology and medical technology fields, as well as private equity investments in public entities.

The prevailing trends seen in the venture capital industry are also affected Buyout funds. During the fourth quarter of 2002, there were only nineteen buyouts funds raised, down from 47 in the fourth quarter of 2001. Like the venture capital market, buyout fundraising has stayed relatively conservative for the year, with smaller and fewer funds being raised. An exception is the J.P. Morgan Partners Global Investors Fund LP, which raised a towering $7.7 billion, but well below the target of $13 billion. However, the overwhelming majority of that amount is being supplied directly by J. P. Morgan Partners, with the balance of $1.8 billion coming from outside limited partners. The fund will invest in a wide variety of areas including telecommunications, real estate, consumer and retail services, financial, industrial, information technology, media, and healthcare.

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