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National Venture Capital Association

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Private Equity Performance Continued Positive Growth in Q1 2004

Shorter Venture Capital Returns Improved; Longer Term Performance Held Steady

NEW YORK, NY, July 21, 2004 – According to Thomson Venture Economics and the National Venture Capital Association (NVCA), the first quarter of 2004 posted a double digit positive venture capital one-year return, 15.7 percent, for the first time since year-end 2000. Three year venture capital returns, though still negative, improved to -13.3 percent up from -18.9 percent in the prior quarter. Five, ten and twenty year returns remained steadfast at 22, 26, and 15.7 percent respectively. The total private equity asset class (venture capital, buyouts and mezzanine funds) posted a 23.4 percent one year performance in the first quarter representing the second consecutive quarter of continuous growth.

“While these numbers do not yet reflect the most recent flurry of IPO activity, it is a continued validation that the venture capital and buyout industries are getting healthier,” said Jesse Reyes, vice president of Global Research at Thomson Venture Economics. “The 13 venture backed companies that went public in the first quarter was a considerable improvement over the most recent quarters. Given the correlation between venture and public market returns, the industry has been the beneficiary of good public equity markets and healthier company exits.”

In addition to the improving health of the IPO market, the venture capital industry is also experiencing higher valuations in acquisition activity. Yet, despite the uptick, industry experts do not see these signs as an indication of another bubble, especially given the maturity of the companies that are exiting. Stronger portfolio companies are now entering the public markets with stronger management teams and well-defined strategies. However, not all indicators are yet positive. Many companies that received funding in 1998-2000 still face challenges building momentum. For example, many IT companies funded during this period continue to encounter sustainability problems despite recent improvements in revenue generation and higher valuations for the companies themselves.

Mark Heesen, president of the NVCA noted, “While we are pleased to see an improving IPO and acquisitions market, and increasing distributions being made to limited partners today, we must remember that venture capital is a long-term commitment where 5, 10 and 20 year returns are the most meaningful. These are the horizons that investors use to measure success. Long term performance and growth, not short term gains, are what investors demand and will serve as the basis for determining which firms will be successful in raising new funds in 2004-05.”

An increase in returns translates in larger distributions to limited partners back from the general partners. Such distributions are a positive shift from recent quarters in which general partners were faced with a challenging exit market for their investments. As the private equity market increases its fundraising activity this year, higher returns will be helpful to firms looking for new commitments. The five-year and ten-year venture capital returns remain a good indicator that venture capital investment is strong alternative to the general public markets.

Venture Economics' US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 03/31/2004

Fund Type	**1 Yr**	**3 Y**	**5 Yr**	**10 Yr**	**20 Yr**
Early/Seed VC	-2.9	-19.8	47.1	37.9	19.1
Balanced VC	20.5	-9.4	17.5	20.8	13.6
Later Stage VC	38.0	-6.9	7.1	17.1	14.0
All Venture	**15.7**	**-13.3**	**22.0**	**26.0**	**15.7**
Small Buyouts	15.1	-1.1	1.3	9.0	26.6
Med Buyouts	10.5	-1.8	4.7	9.6	17.7
Large Buyouts	21.1	-0.6	2.6	9.7	13.3
Mega Buyouts	33.7	0.7	2.4	7.1	8.7
All Buyouts	28.8	0.1	2.6	8.1	12.4
Mezzanine	18.1	2.0	5.9	7.6	9.6
All Private Equity	**23.4**	**-3.6**	**6.8**	**12.8**	**13.7**
NASDAQ	**48.7**	**2.7**	**-4.1**	**10.4**	**12.7**
S & P 500	**32.8**	**-1.0**	**-2.6**	**9.7**	**13.1**

Source: Thomson Venture Economics/National Venture Capital Association
**The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Venture Economics' Private Equity Performance Database analyzing the cashflows and returns for over 1750 US venture capital and private equity partnerships with a capitalization of $585 billion. Sources are financial documents and schedules from Limited Partners investors and General Partners. All returns are calculated by Thomson Venture Economics from the underlying financial cashflows. Returns are net to investors after management fees and carried interest. Buyout funds sizes are defined as the following: Small: 0-25 $Mil, Medium: 25-50 $Mil, Large: 50-100 $Mil, Mega: 1,000 $Mil +*

Investment Benchmark Series:
In addition to these publicly reported quarterly results, a more comprehensive analysis on fund performance can be found in Thomson Venture Economic's *Investment Benchmark Series, The 2004 Investment Benchmarks Report: Venture Capital* and *2004 Investment Benchmarks Report: Buyouts and Other Private Equity*. The *IBR:VC* has over 1,000 partnerships formed from 1969 to 2003 representing over 400 firms while the *IBR:Buyouts* has 550 partnerships formed from 1976 to 2003 representing over 270 firms. Performance statistics are provided by vintage year (year of fund formation), by composite portfolio (multiple vintage years) and by time horizons (1,3,5, years...) analyzed by stage, fund size and sequence. Also, both publications provide correlation analysis to indicate how the private equity asset classes interact with other types of equity and debt investments. For more information, please contact Rob Mills at 646-822-3045.

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About NVCA
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. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provide reliable industry data, sponsor professional development, and facilitate interaction among its members. For more information about the NVCA, please visit www.nvca.org.

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