



## VC Outlook 2009: Looking Down the Money Trail

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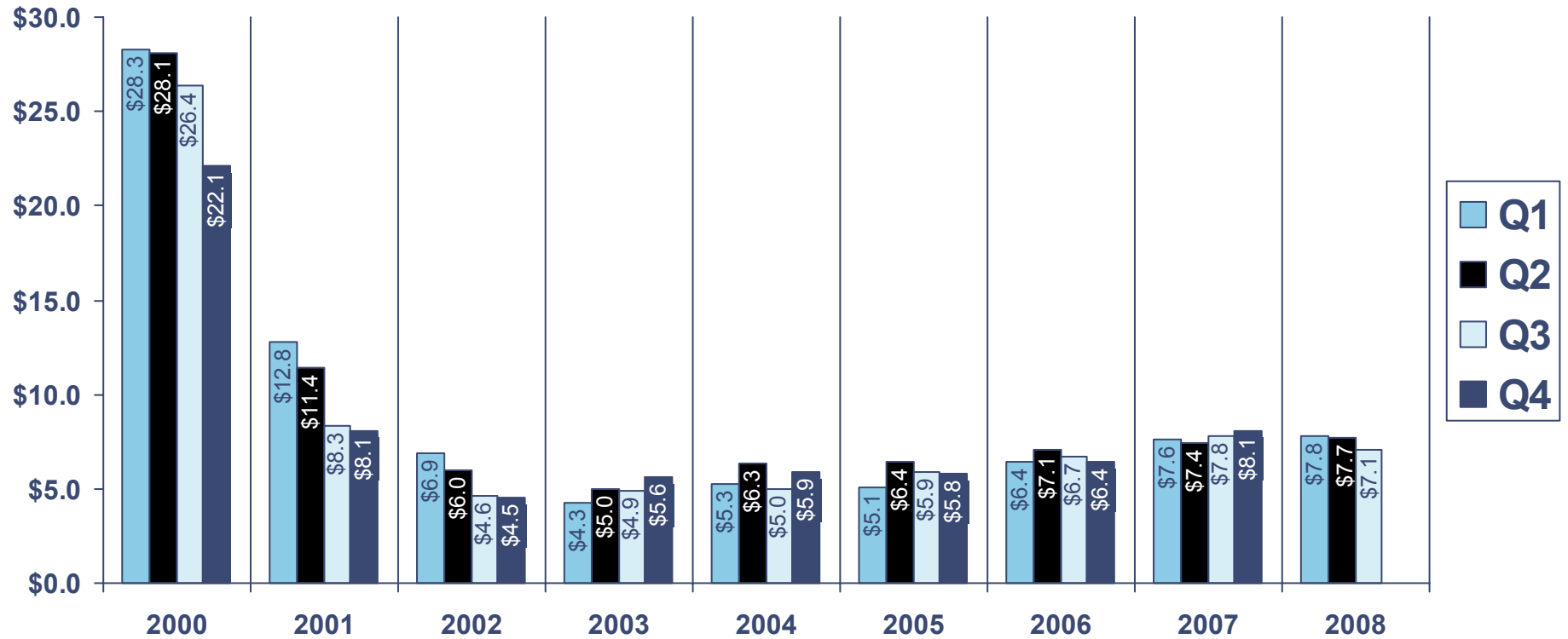
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PricewaterhouseCoopers/ National Venture Capital  
Association MoneyTree™ Report  
based on data from Thomson Reuters

PRICEWATERHOUSECOOPERS 

# MoneyTree Total Investments: Q1 2000 – Q3 2008

(\$ in billions)

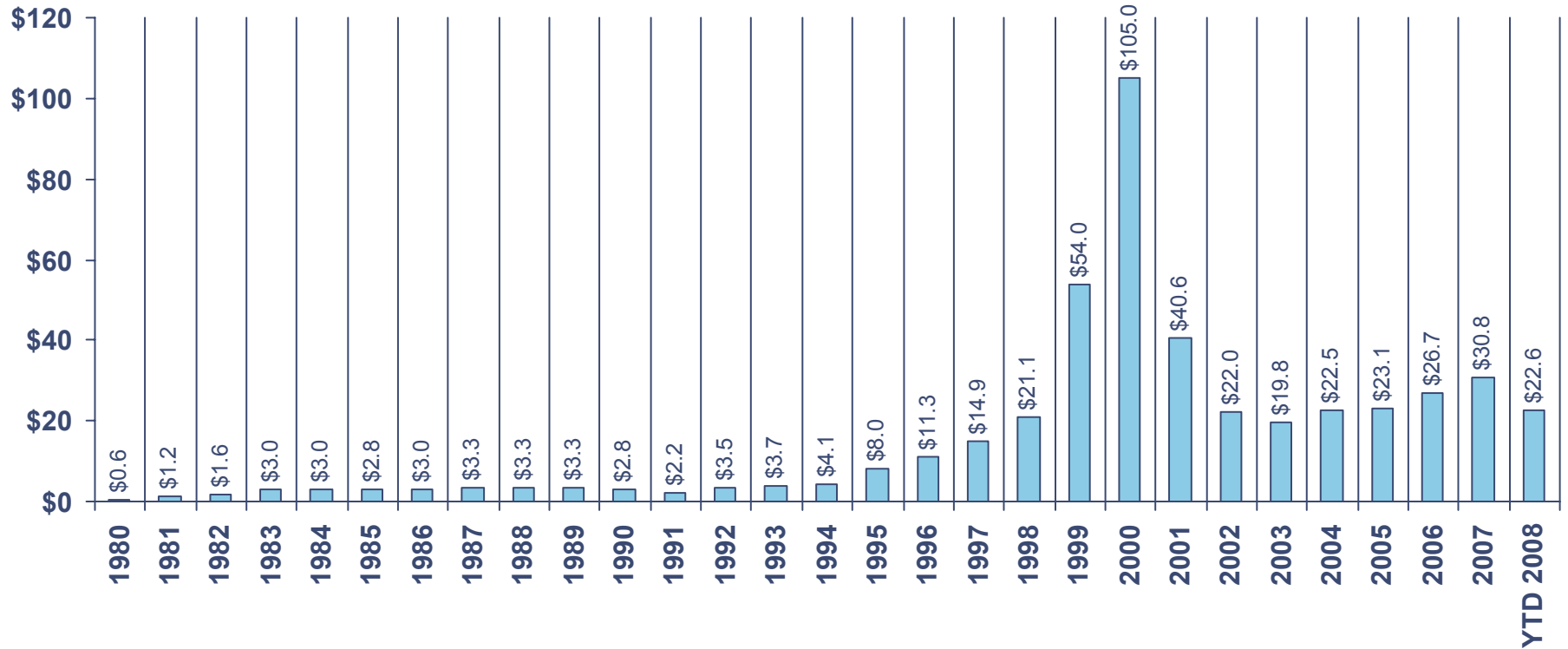


# of Deals	2000				2001				2002				2003				2004				2005				2006				2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3				
	2128	2105	1927	1743	1283	1218	1004	980	839	853	690	719	700	740	715	785	713	846	691	840	731	825	788	810	873	948	904	936	863	1036	983	1049	990	1033	907

# MoneyTree Total Investments: 1980 – YTD Q3 2008

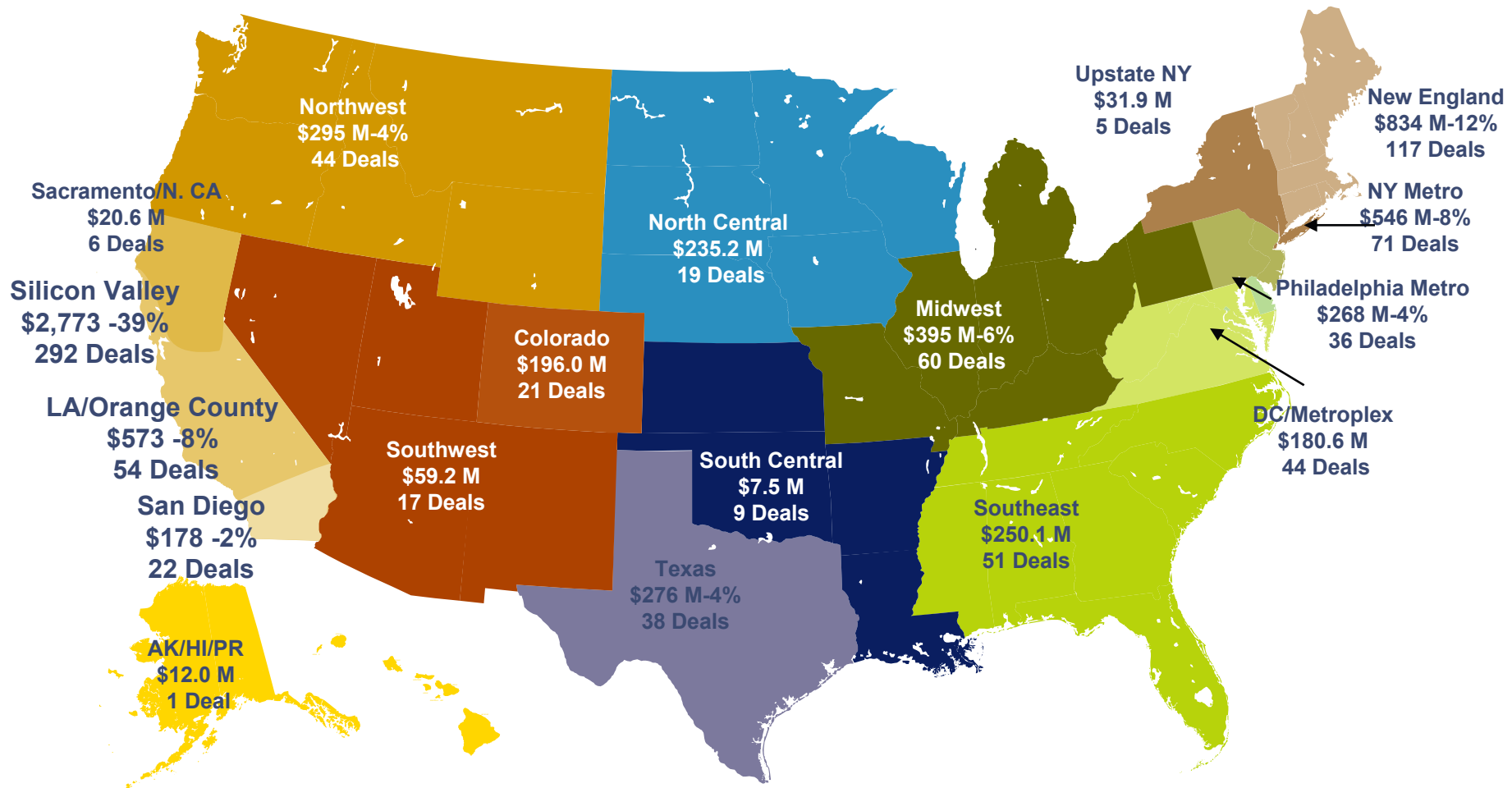
(\$ in billions)

Annual Venture Capital Investments  
1980 to YTD Q3 2008



# Investments by Region: Q3 2008

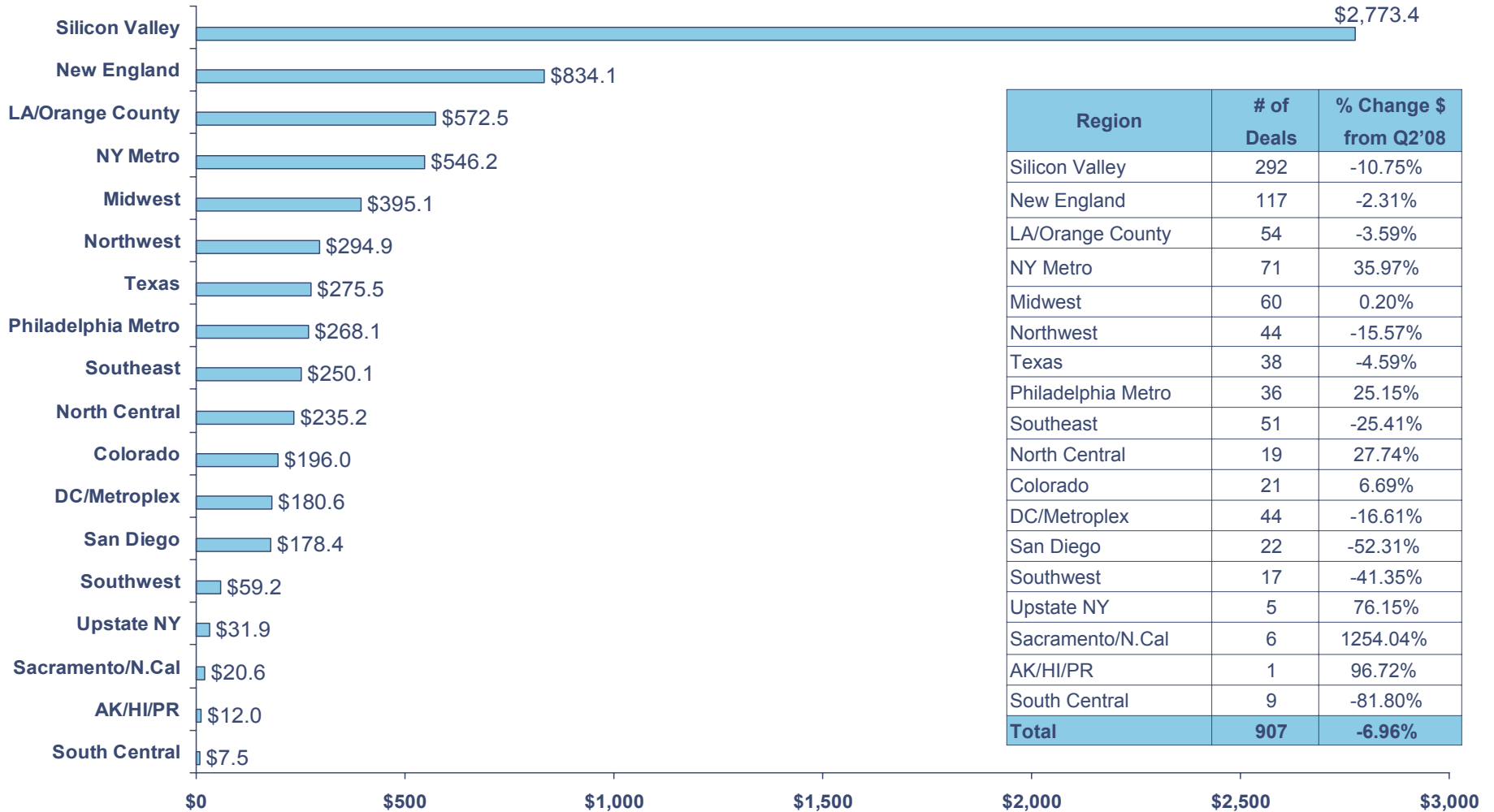
(\$ in millions)



**Q3 2008 Total Investments - \$7,131.3 million in 907 deals**

# Investments by Region: Q3 2008

(\$ in millions)

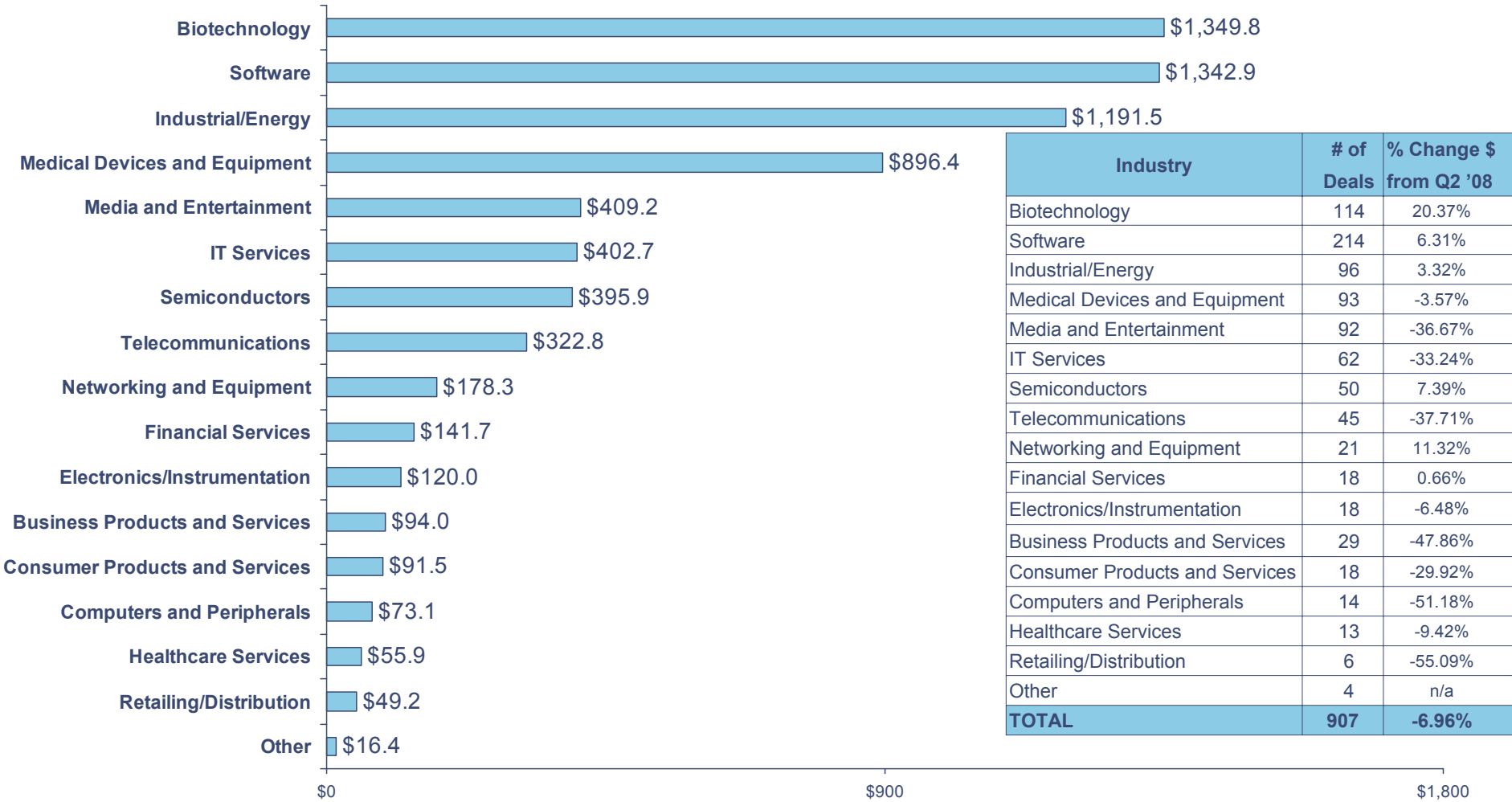


Region	# of Deals	% Change from Q2'08
Silicon Valley	292	-10.75%
New England	117	-2.31%
LA/Orange County	54	-3.59%
NY Metro	71	35.97%
Midwest	60	0.20%
Northwest	44	-15.57%
Texas	38	-4.59%
Philadelphia Metro	36	25.15%
Southeast	51	-25.41%
North Central	19	27.74%
Colorado	21	6.69%
DC/Metroplex	44	-16.61%
San Diego	22	-52.31%
Southwest	17	-41.35%
Upstate NY	5	76.15%
Sacramento/N.Cal	6	1254.04%
AK/HI/PR	1	96.72%
South Central	9	-81.80%
<b>Total</b>	<b>907</b>	<b>-6.96%</b>

**Q3 2008 Total: \$7,131.3 million in 907 deals**

# Investments by Industry: Q3 2008

(\$ in millions)



**Q3 2008 Total: \$7,131.3 million in 907 deals**

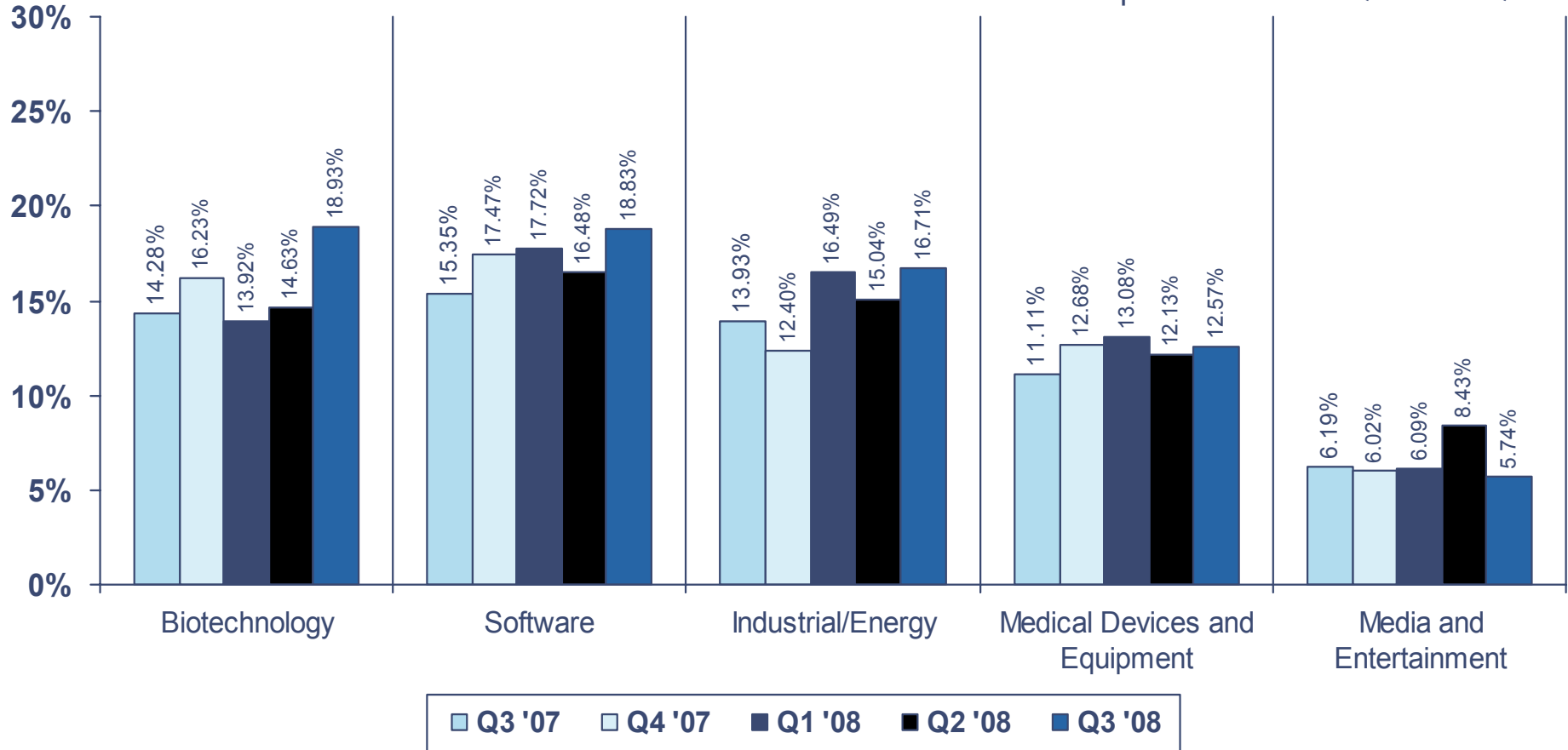
Visit [www.pwcmoneytree.com](http://www.pwcmoneytree.com) for Industry definitions

PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report based on data from Thomson Reuters

# Investments by Industry – Quarterly Percent of Total U.S. Investments

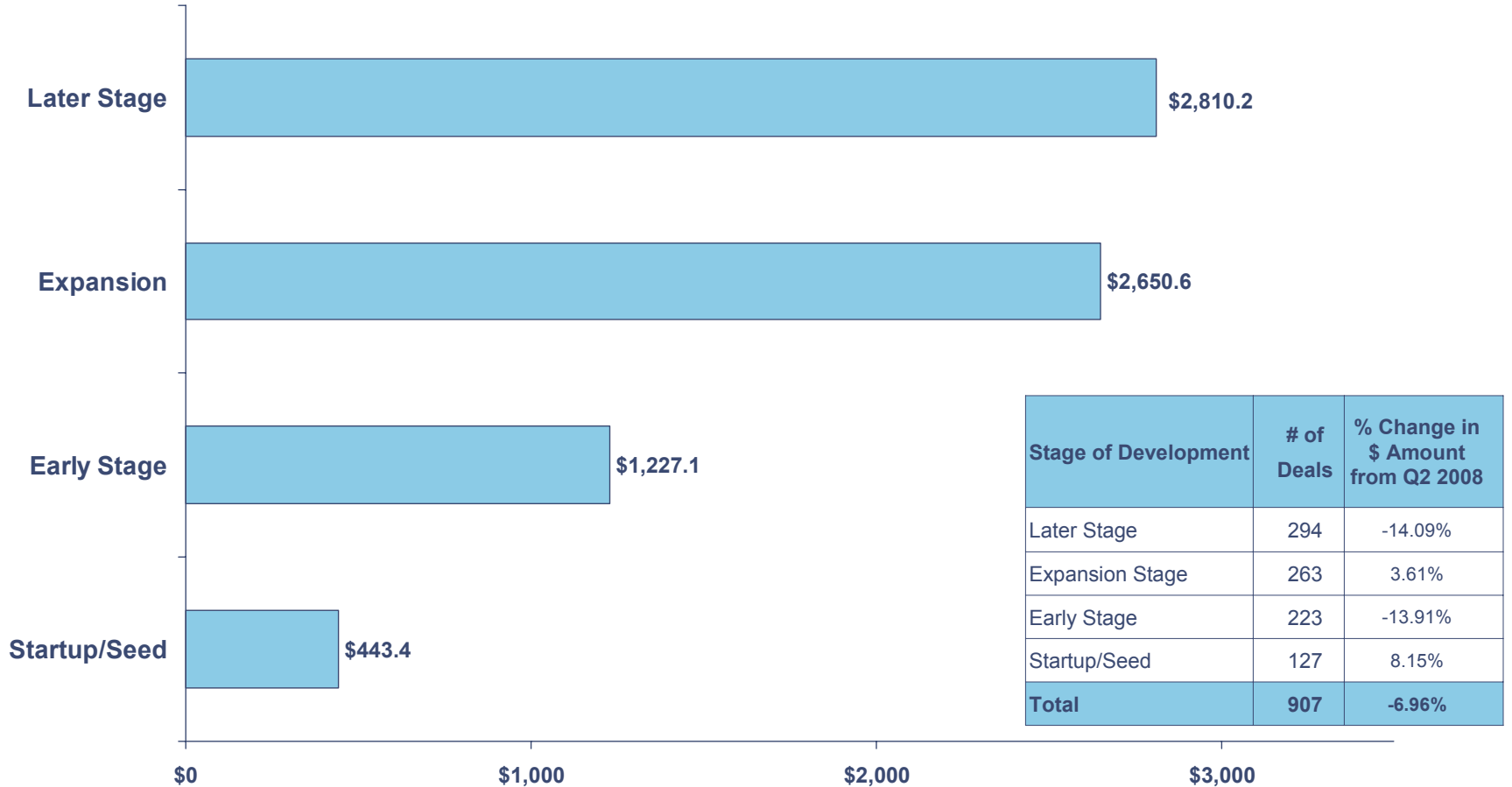
(% of Total Dollars)

Top 5 Industries – Q3 '07 to Q3 '08



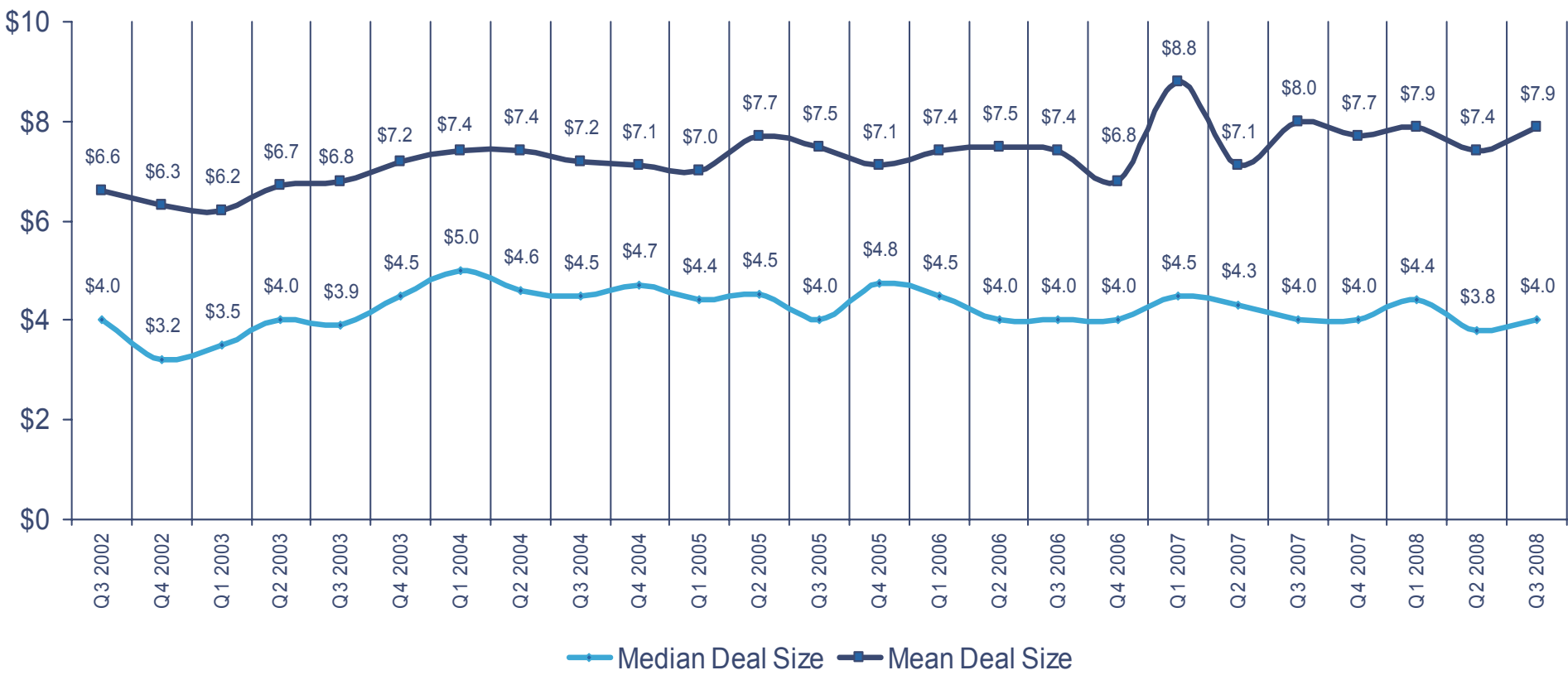
# Investments by Stage of Development: Q3 2008

(\$ in millions)



**Q3 2008 Total: \$7,131.3 million in 907 deals**

# Median Deal Size vs. Mean Deal Size – Quarterly Total U.S. Investments



## Top 10 Deals : Q3 2008 (\$ Millions)

Solar Reserve	Santa Monica	Cleantech	140
AVA Solar	Ft. Collins, CO	Cleantech	104
Pacific Biosciences	Silicon Valley	Cleantech	100
CVRx	Minneapolis	Med Device	84
Proteolix	Silicon Valley	Biotech	79
Recurrent Energy	Silicon Valley	Cleantech	75
Trion World	Silicon Valley	Software	70
Proto Labs	Maple Plain, MN	Cleantech	67
Fisker Automotive	Irvine	Cleantech	65
Portola Pharmaceuticals	Silicon Valley	Biotech	60

## Q3 2008 – Most Active Venture Investors

Venture Capital Firm	Location	Total Deals
Draper Fisher Jurvetson	Menlo Park, California	26
Intel Capital	Santa Clara, California	20
New Enterprise Associates	Baltimore, Maryland	19
Kleiner Perkins Caufield & Byers	Menlo Park, California	18
Sequoia Capital	Menlo Park, California	17
U.S. Venture Partners	Menlo Park, California	17
Greylock Partners	Waltham, Massachusetts	14
InterWest Partners	Menlo Park, California	14
Polaris Venture Partners	Waltham, Massachusetts	14
Sigma Partners	Menlo Park, California	14
Menlo Ventures	Menlo Park, California	13
Accel Partners	Palo Alto, California	12
Advanced Technology Ventures	Waltham, Massachusetts	12
Canaan Partners	Westport, Connecticut	11
CMEA Ventures	San Francisco, California	11
Venrock Associates	Palo Alto, California	11

# Thomson Reuters' U.S. Private Equity Performance Index (PEPI)

(Investment Horizon Performance through 06/30/2008)

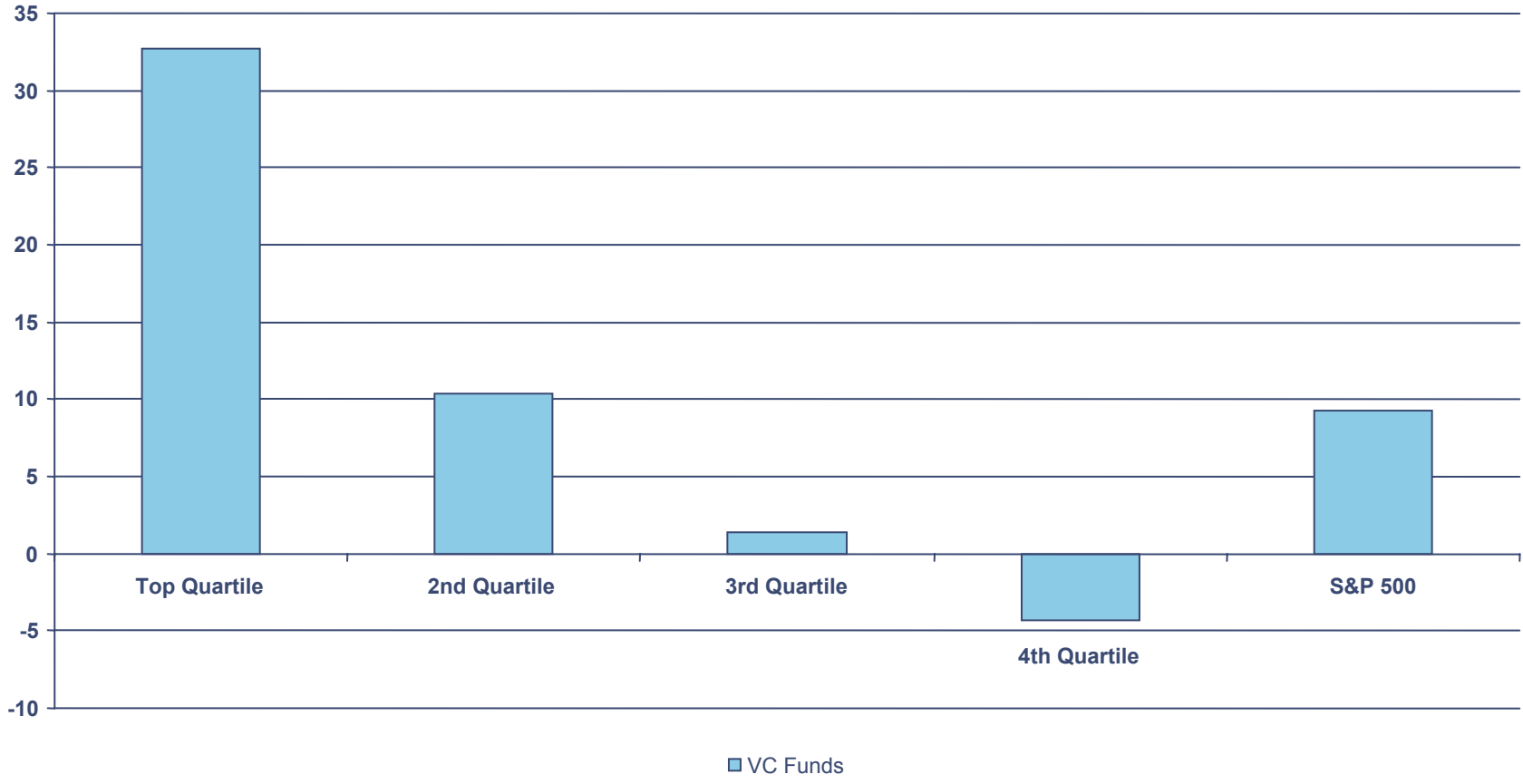
Fund Type	1 Year	3 Year	5 Year	10 Year	20 Year
Early/Seed VC	2.1	4.9	5.0	32.9	21.4
Balanced VC	2.5	10.8	11.9	14.4	14.7
Later Stage VC	15.3	12.4	11.1	8.5	14.5
All Venture (through 03/31/08)	13.3	9.6	9.0	17.2	16.8
All Venture (through 06/30/07)	25.5	11.3	5.1	19.3	16.4
NASDAQ	-11.1	3.6	7.0	1.9	9.2
S&P 500	-13.8	2.4	5.5	1.2	8.0

Source: Thomson Reuters/National Venture Capital Association

\*The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Reuters' Private Equity Performance Database analyzing the cashflows and returns for over 1941 US venture capital and private equity partnerships with a capitalization of \$828 billion. Sources are financial documents and schedules from Limited Partner investors and General Partners. All returns are calculated by Thomson Reuters from the underlying financial cashflows. Returns are net to investor after management fees and carried interest.

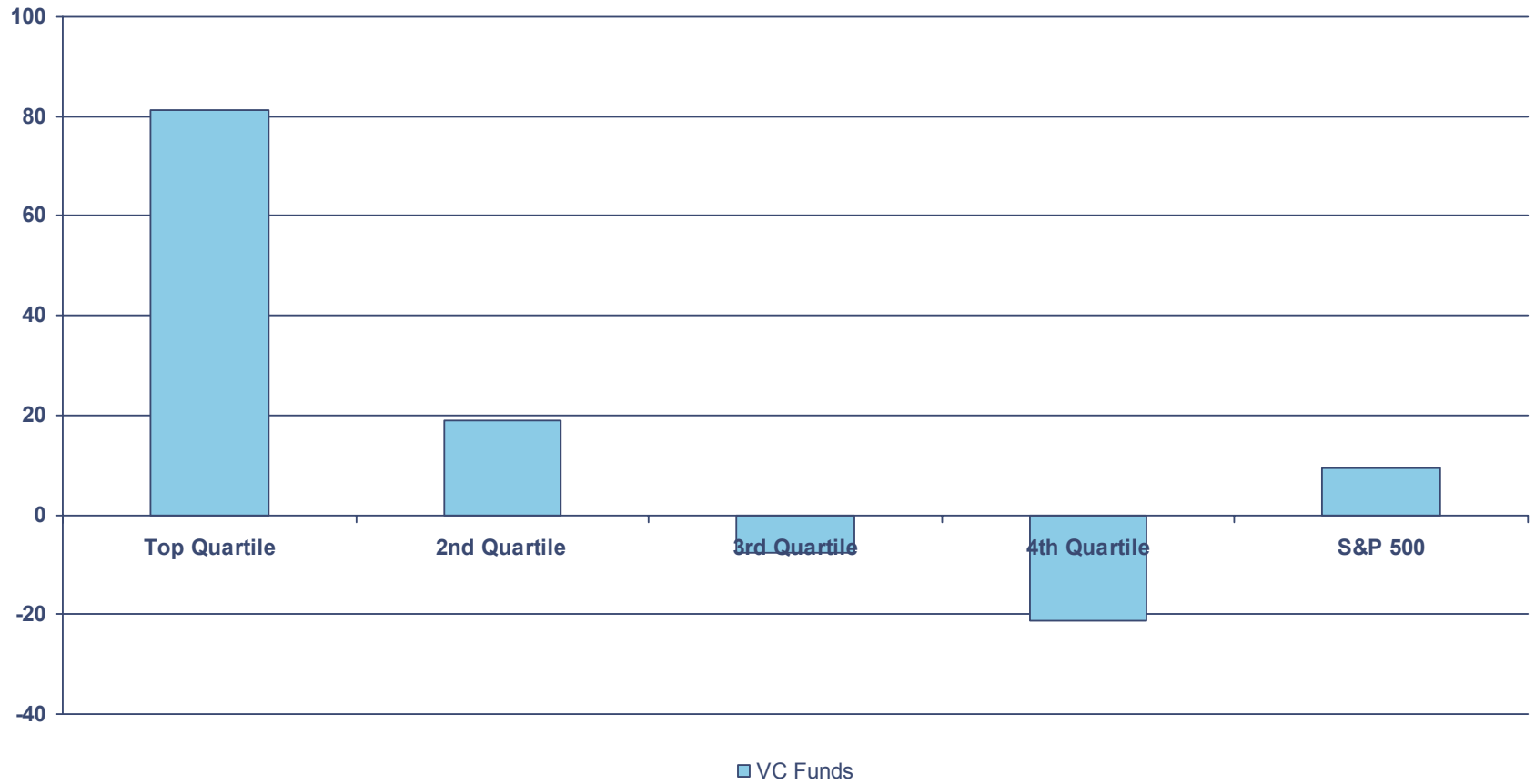
# Annual VC Returns (IRR), 1983-2002

Source: Venture Economics



# Annual VC Returns (IRR), 1990-2003

Source: Cambridge Associates, reported by Georganne Perkins at Stanford



# Analysis of Venture-Backed IPO and M&A Activity

Date	Number of IPOs*	Total Venture-Backed Offering Size (\$M)	Average Venture-Backed Offering Size (\$M)	Number of Venture-backed M&A deals	Average M&A deal size**
2003	29	2,022.7	69.8	284	62.7
2004	94	11,378.0	121.0	345	85.1
2005	57	4,485.0	78.7	351	104.9
2006	57	5,117.1	89.8	369	116.8
2007 Q1	18	2,190.6	121.7	83	156.6
2007 Q2	25	4,146.8	165.9	86	110.3
2007 Q3	12	945.2	78.8	102	207.9
2007 Q4	31	3,043.8	98.2	88	211.3
2007	86	10,326.3	120.1	359	177.5
2008 Q1	5	282.7	56.6	70	128.7
2008 Q2	0	0.0	n/a	71	197.7
2008 Q3	1	187.5	187.5	58	146.4

\* Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile

\*\*Only accounts for deals with disclosed values

Source: Thomson Reuters and National Venture Capital Association

# Venture Capital Fundraising\*

Year	First Time Funds	Follow-On Funds	Total Number of Funds	VC Raised (\$M)
2003	53	98	151	10,622.8
2004	56	154	210	19,144.8
2005	61	171	232	28,557.0
2006	53	185	238	31,756.4
2007	60	190	250	36,105.7
YTD 2008	36	142	178	24,326.1
Quarter				
Q1 '07	21	62	83	6,636.8
Q2 '07	16	67	83	8,641.9
Q3' 07	16	62	78	8,595.5
Q4' 07	25	60	85	12,231.5
Q1' 08	10	60	70	6,959.2
Q2' 08	22	54	76	9,247.7
Q3' 08	10	45	55	8,119.2

\*These figures take into account the subtractive effect of downsized funds

Data current as of October 13, 2008

Source: Thomson Reuters & National Venture Capital Association

# Summary: Best of Times

Full Year 2008 looks like \$30 B, 4<sup>th</sup> biggest ever  
 29 straight quarters from \$4.3-8.3 B/qtr

Fundraising > Investment. Money Abundant

- Silicon Valley 3.3 x #2 New England
- California gets roughly 50% US VC investment
- VC's raised \$8B in Q3 from LP's

VC backed public companies = 18% US GDP (10 m jobs)

Advertising \$ to Internet/Mobile just begun (7%)

- Worldwide Ad Spending \$600B
- 21% media time Internet/Mobile
- Top 100 US Adv. Moved \$1B from TV/news to Web in '07
- Primary News Source: 48% Internet, 29% TV, 11% radio, 10% newspaper
- US Media Mkt-Growth %:
- TV 70B:1%, Newspaper 42B:-(7)%, Radio 24B:5%
- Internet 19B:19%, Magazines 14B:7%
- No huge advertiser has switched yet
- 13% US marriages 2005 met online

Cisco acquiring again...	
SignalWorks	\$ 14M
Linksys	500M
Arroyo Video Solutions	92M
Actona	82M
Reactivity	135M
P-Cube	200M
Navini Networks	330M
Pure Networks	120M
Post Path	215 M
Securent	100M
NetSolve	128M
FineGround Networks	70M
Dynamicsoft	55M
IronPort Systems	830M
Perfigo	74M
Meetinghouse	44m
Orative	31m
Protego Networks	65M
Sheer Networks	97M
Airespace	450M
Scientific Atlantic	6900M
Topspin	Q250M

# Summary: Not So Good Times

- IPO mkt weak
  - 6 vc backed IPO's in US in '08, lowest since 1977, down 93% vs '07, raised \$0.5B vs \$10.3B
  - 0 vc backed IPO's in Q2'08 & Q4'08
  - 1 vc backed IPO in Q3'08
- 2002-08: 19,300 companies received funding, 351 IPO's
- Time to IPO:                    '01 '02 '03 '04 '05 '06 '07 '08  
# Years from Series A: 4.5 3.3 5.7 5.7 5.6 6.2 7.1 8.3
- M&A weak
  - 260 deals (down 27%), \$13.9B (down 51%) in '08 vs. '07
  - 40% drop in '08 to \$300B
  - 32 deals >\$1B in '08 vs 80 in '07
  - Median M&A about \$80M
- \$24 B exit value '08 vs \$58 B in '07, lowest since '03
- \$4 Trillion mkt cap lost on US exchanges in last 12 months, e.g.
  - Citigroup: \$130B gone, AIG: \$150B
  - Fannie Mae/Freddie Mac: \$105B (\$1B left)
- US Homeowners lost \$2 Trillion equity last 12 months
  - 12 Million homes worth less than mortgage

# Summary/Facts/Predictions

- VC's stop funding many portfolio companies
- More layoffs/cost cutting, unemployment up
- New Deals must be perfect
- All Deals Series A, lots of down rounds
- Fewer Deals per fund, higher reserves
- Need to get cash flow positive
- 2009 is the new 2001

# Liquidity Dries Up: US VC \$Inv & Exits 2001-2007

	01	02	03	04	05	06	07
# Deals	4478	2892	2922	3082	3118	3630	3813
# M&A	353	318	291	339	347	363	305
# IPO	41	22	29	93	56	57	86
Total # Liquidity	394	340	320	432	403	420	391
% # Deals	9%	12%	11%	14%	13%	12%	10%

# Globalization Marches On

- China VC\$ up 50% = \$2.5B 2007, 10% of US, 73% \$ foreign
- % Int'l: 70% PC, 86% Internet, 92% Mobile
- China surpass US for most Internet users in '08
- In China: Ten Cent, Baidu, Sina > Microsoft, Google, Yahoo
- India VC\$ up 500% in '07 to \$1.0B, \$200M '06, \$320M '05
- Top GDP & Est. '09 % Change: US 0.2%, Japan 0.8%, China 8.5%, Germany 0.6%, UK 0%, France 0.8%, Italy 0%
- India population surpass China by 2020

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