

## Venture capital investment in 2010 grew for first time in three years

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After two straight years of declining venture capital investment, 2010 saw an increase in deal flow compared with the previous year.

Venture funds collectively increased their investments by 19 percent over 2009 to \$21.8 billion. The number of deals made grew by 12 percent to 3,277. Even though growth slowed in the last two quarters of the year, it was still the industry's first positive year-to-year growth since 2007.

"We were clearly in recovery mode," said Mark Heesen, president of the National Venture Capital Association in Washington, D.C. "We hope this continues in 2011."

The news came courtesy of the latest MoneyTree Report, produced by the NVCA and PricewaterhouseCoopers with data from Thomson Reuters.

Last year started off big, with a robust first quarter in nationwide venture funding and an even better second quarter. The third quarter, however, saw a lull as the recession showed its tenacity.

In the final quarter, venture capitalists poured \$5 billion into private companies. That was a slight increase over the previous quarter but still well below Q2, when \$6.2 billion was invested.

As usual, Silicon Valley scored the largest share of venture deals and dollars. The \$2 billion invested here last quarter was 40 percent of the national total, a slight uptick over the previous quarter.

One of the most encouraging signs in last year's data was the 30 percent increase compared with 2009 in the number of companies receiving venture funding for the first time. Tracy Lefteroff, global managing partner of PricewaterhouseCoopers' venture capital practice, said the trend shows VCs are expanding their scope -- and bodes well for the national economy.

Software companies took home the largest slice of the venture pie last year, with \$4 billion spread across 835 firms. Both numbers represented about a 20 percent increase compared with 2009. Software deals perked up especially in the fourth quarter, marking the sector's best quarter in more than three years.

Investments in clean technology firms grew 76 percent in terms of total dollars and 37 percent in the number of deals compared with 2009. But investment in the sector remained below 2008's all-time high. Five of the top 10 venture deals last quarter were in the cleantech sector, though none were in Silicon Valley.

The valley could, however, claim bragging rights as home of the quarter's biggest venture deal by far: the \$200 million Kleiner Perkins and other investors put into microblogging site Twitter. (Also in the top 10 last quarter was Pearl Therapeutics, a biotech company in Redwood City that landed \$38 million from four VC firms.)

The Twitter investment was the nation's second-largest of the year, eclipsed only by the \$350 million Palo Alto-based cleantech firm Better Place landed in January from Morgan Stanley Private Equity, Vantage Point Venture Partners and two undisclosed firms.

Five of 2010's 10 biggest venture deals were in California, and four of them were in the Bay Area. And half of the year's top 10 deals were in cleantech.

Biotech investments increased modestly in 2010 compared with the previous year, but dipped in the final quarter. But a decline in dollars going into medical device companies helped drag down the life sciences sector overall; such deals represented 28 percent of all venture activity in 2010, compared with 32 percent the year before.

Networking and equipment also grew slowly last year, but every other industry sector enjoyed double-digit increases in investment versus 2009, including telecom (77 percent) and information technology services (44 percent).

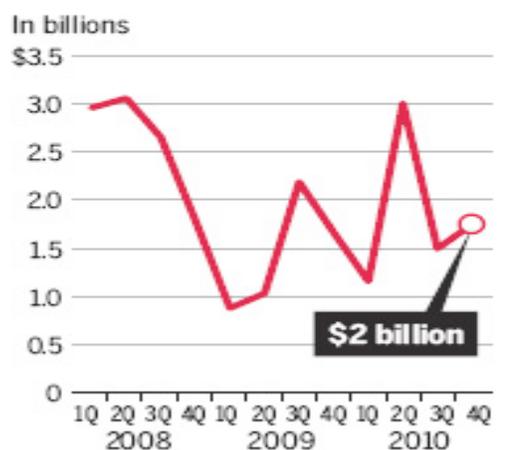
"Internet specific" companies like Facebook and Twitter saw 28 percent more dollars and a 14 percent increase in deals made compared with 2009. Those numbers were even higher in the fourth quarter, with \$1.2 billion going into 190 deals.

John Taylor, vice president of research at the NVCA, says he expects similar companies to get attention from investors in the current quarter, but he doesn't project a big uptick in venture funding for the time being, since the market for initial public stock offerings has yet to fully recover.

He said, "I'm not seeing economic factors right now that would significantly move total dollars up or down or change the sector mix dramatically."

## Bay Area funding climbs

Venture funding in Bay Area companies climbed during the 2010 fourth quarter, up 11 percent from the quarter before and was up 4 percent from the same quarter the year before.



Sources: PricewaterhouseCoopers/  
National Venture Capital Association  
MoneyTree report based on data  
from Thomson Reuters

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