



Venture capital investing flat in '05

Late-stage companies 'stay in school another year'

By Dan Gallagher, MarketWatch

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SAN FRANCISCO (MarketWatch) -- Venture capital investing remained flat in 2005 compared with the previous year as investment firms focused mainly on later-stage companies awaiting an acquisition -- or an IPO opportunity.

John Taylor, vice president of research for the National Venture Capital Association, made the analogy during a conference call Monday of a class of college students who -- upon looking at the job market near their pending graduation -- choose to stay in school for another year.

"These students say to their parents 'I need a 5th year so I can see what the market conditions are like a year from now, and by the way tuition has gone up, and I'm bigger and my expenses are a bit bigger,'" Taylor said, comparing the students to companies that are facing a tough market for public offerings and elect to take more funding from their venture capital backers.

And more money they got. Venture capital firms poured about \$9.73 billion into later-stage investments during 2005, according to the MoneyTree survey from the NVCA, Thomson Financial and PricewaterhouseCoopers. That's up nearly 22% from the \$7.98 billion invested into this category during the previous year.

Even more notable is that -- as a percentage of total venture capital investing -- late-stage deals hit a record high in 2005, taking in about 45% of the total VC investments during the year, according to the MoneyTree report released Tuesday.

Late-stage investing accounted for only 37% of the VC total in 2004. During the venture capital sector's record year in 2000 -- when more than \$104 billion was invested -- only 15% went to companies in the late-stage phase.

Total investments flat during the year

For 2005, total venture capital investments were \$21.7 billion, compared with \$21.6 billion invested in 2004. Venture investing has picked up slightly from the post-Tech-bubble low of \$19.6 billion in 2003.

Deal activity remained flat as well, with 2,939 venture capital deals inked during the year. The

previous period saw 2,966 venture cap deals secured.

During the fourth-quarter, total venture capital investments were \$5.1 billion, down from the \$5.4 billion reported for the third quarter and below the \$5.8 billion seen in the same period the previous year.

The sharp growth in late-stage investments came at the expense of companies in the so-called expansion stage. This segment raised only \$7.8 billion in venture cap during the year, down 16% from the \$9.3 billion raised during the previous year.

"This is a phase where the technology is usually proven, but the marketability and business model may not be," said Kate Mitchell of BA Venture Partners, which specializes in expansion-stage companies.

Companies in the startup and early-stage phases raised a total of \$4.1 billion during the year compared with about \$4.4 billion in the previous year.

Tech takes the lion's share; wireless a hot spot

As usual, high-tech continued to be the most popular segment for venture capital investors. The software sector raked in about \$4.7 billion during the year - down about 10% from its level last year but still counting as the most popular segment for investors.

Biotechnology firms raised nearly \$3.9 billion during the year compared with \$4.1 billion in 2004. The medical device sector raised \$2.1 billion in 2005 compared to \$1.7 billion the previous year.

Sharp growth was seen in the wireless segment, which raised \$1.3 billion during the year. That's 18% above the \$1.1 billion raised in this group in 2004.

Venture Capital Investing 2000-2005

year	No. of deals	Total amount raised
2005	2,939	\$21.7 billion
2004	2,966	\$21.6 billion
2003	2,865	\$19.6 billion
2002	3,057	\$21.7 billion
2001	4,456	\$8.1 billion
2000	7,809	\$104.7 billion

Source: MoneyTree Survey