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VENTURE CAPITALISTS PREDICT A DIFFICULT 2009

NVCA Annual Survey Forecasts Challenges for Venture Industry in the Coming Year

Washington D.C., December 17, 2008 – U.S. venture capitalists are forecasting a difficult 2009 for the country's economy, the capital markets, and the venture industry as the global financial crisis takes its toll on the entrepreneurial ecosystem. According to the respondents of the third annual National Venture Capital Association (NVCA) Predictions Survey, the coming year will be met with a slowdown in investing across most sectors and a continued weakened exit market. However, most VCs surveyed predict a recovery in 2010 when the IPO market is expected to re-open and those companies and venture firms that weathered the storm will emerge strongly.

"2009 will be a year of anticipation for the venture capital industry as the economic turmoil will engender a fair amount of Darwinian change," said NVCA President Mark Heesen. "The recession and shuttered IPO market will place tremendous pressure on portfolio companies to tighten their belts and re-tool where necessary. We will likely see a marked slowdown of new investments as venture capitalists turn their attention to supporting these existing companies. That said, most venture capitalists will say that a down market is the best time to invest when valuations and competition are lower. There is no recession on innovation and great ideas will still get funded - especially in sectors that have more insulated demand such as clean technology and life sciences."

The NVCA survey was conducted from November 24 – December 12, 2008 and includes the predictions of more than 400 venture capitalists from across the United States.

Venture Investment Predictions

Ninety-two percent of venture capitalists are predicting a slowing of venture investment in 2009, compared to 2008, which is expected to reach the $29 to $30 billion range by year end. Sixty-one percent of respondents believe the decline will be greater than 10 percent and fall below $27 billion in 2009. However, more than half (53 percent) predict that they will invest in the same or more portfolio companies in the coming year, suggesting overall lower dollar rounds.

Despite lower investment predictions across all industry sectors, clean technology is viewed by the highest percentage of respondents as potentially growing in 2009 with 48 percent predicting increased investment and 20 percent predicting unchanged investment. The life sciences sector offered the second highest promise for investment stability and/or growth. Twenty-five percent of respondents believe biotechnology will increase and 33 percent predicted stable investment. In the medical device sector, 24 percent believe investing will increase while 38 percent predict stable investment. The strongest consensus for investment decline is predicted for the semiconductor industry with 79 percent expecting a decrease in investment. Media/entertainment and wireless communications investing are also expected to decline with 71 and 60 percent of all respondents predicting slowdowns in those sectors respectively.

Venture capitalists are predicting a slowdown in seed and early stage investment in 2009 with 60 and 64 percent of respondents indicating declines in those company stages respectively. These predicted declines are reflective of the dismal exit market and the inability of venture capitalists to make substantial new investments of time and money.

Venture capitalists are also predicting a slowdown in global investment with more than half of the respondents expecting declines in every major foreign region. The outlook is particularly grim for Europe where 74 percent of respondents believe there will be a decrease in venture investment. The outlook in other countries is split with 56 percent predicting a decline in Israel and India and 51 percent predicting declines in China.

Almost all venture capitalists (96 percent) predict it will be harder for new companies to get funded in 2009. Additionally, 93 percent of all VC respondents believe that it will be harder to sustain existing portfolio companies in the coming year.

Venture Capital Funds Outlook

While 96 percent of VCs predict that more venture firms will not be able to raise money in 2009, a lower percentage, 85 percent of respondents, believe institutional investors will reduce commitments to venture capital asset class.

“While many existing institutional investors are struggling with their allocations and future investment decisions, we will see new limited partners, many from overseas, enter the U.S. venture capital industry, said Heesen. “Despite the fodder, we do not anticipate massive failures of limited partners to make capital calls. Many will sell their positions on the secondary market out of necessity. Yet, that will just change the mix and allow other institutional investors access to funds they could not access in prior cycles. High quality venture firms will be adequately funded going forward.”

Those venture capital firms that have recently raised money in the last two years will likely not need to fund raise in 2009. However, those that were planning to fund raise this year may be re-evaluating the timing and postponing these efforts until market conditions improve.

Venture-Backed Exit Market

An overwhelming number of venture capitalists (72 percent) do not expect the IPO market to re-open for portfolio companies until 2010 or beyond. A more optimistic 18 percent see the market opening in the fourth quarter of 2009. While venture-backed acquisition volume is expected by 57 percent of venture capitalists to remain the same or increase, 87 percent of respondents predict that acquisition transaction value will decline.

These market challenges will take their toll on the venture capital industry’s performance, particularly in the short term (3-5 years) where 92 percent of the respondents surveyed believe venture returns will decline. The majority of venture capitalists surveyed (83 percent) believe performance will suffer in the longer term (5-10 years).

Venture capitalists are equally pessimistic about the overall economy with 81 percent predicting that the economy will remain the same or worsen in 2009. Only 15 percent predict that the Dow Jones index will be above 10,000 in the coming year.

"Most venture capitalists are predicting a very difficult 2009 but anticipating a much improved 2010," concluded Heesen. "Those firms and companies that can weather this storm - and there will be those that do not -- will emerge strongly. Venture capital backed companies represent a critical engine of economic recovery for this country. It is in everyone's best interest that theses companies continue to prosper, creating jobs and bringing innovation to market."

For survey charts and highlights as well as a compilation of NVCA member predictions for 2009, please contact Emily Mendell at emendell@nvca.org or Laura Cruz at lcruz@weisergroup.com.

The National Venture Capital Association (NVCA) represents approximately 450 venture capital and in the United States. 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. According to a 2007 Global Insight study, venture-backed companies accounted for 10.4 million jobs and $2.3 trillion in revenue in the United States in 2006. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.