

Building strength

*Fourth-quarter Technology
venture capital investment
increased 10 percent year-
over-year, but decreased 15
percent quarter-over-quarter*

January 2012



US venture capital funding for the Technology sector¹ was \$3.3 billion in 524 deals during the fourth quarter of 2011, according to findings from the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. In 2011, Technology venture funds invested \$14.7 billion in 2,220 deals, an increase of 28 percent in dollars and 9 percent in deal volume. In 4Q11, Technology investment was up 10 percent in dollars and up 1 percent in the number of deals from the fourth quarter of 2010. For all industries, US venture capitalists invested \$6.6 billion in 844 deals during the fourth quarter of 2011.

Internet-Specific², which consists of companies that have a business model dependent on the Internet but are part of multiple industries, received \$6.9 billion in 997 deals in 2011, an increase of 68 percent in dollars and 24 percent in deal volume from 2010. Venture funds invested \$1.3 billion in 239

deals in the fourth quarter of 2011. Internet-Specific venture capital funding dollars increased 3 percent year-over-year in the fourth quarter of 2011. The number of deals increased 13 percent from the fourth quarter of 2010. (Internet-Specific can include companies from industries such as technology, e-commerce retail, healthcare, financial services, etc.).

Cleantech³, which consists of companies that have a business model dependent on clean technology but are part of multiple industries, received \$4.3 billion in 323 deals in 2011, an increase of 12 percent in both dollars and volume. Venture funds invested \$1.2 billion in 73 deals in the fourth quarter of 2011. Cleantech funding dollars increased 50 percent year-over-year in the fourth quarter of 2011, and increased 16 percent in deal volume over the same period. (Cleantech includes companies from industries such as Energy, Biotechnology, Transportation, Technology, etc.).

1 The MoneyTree Technology sector includes Software, Semiconductors, IT Services, Networking and Equipment, Media and Entertainment, Telecommunications, Computers and Peripherals, and Electronics/Instrumentation industries.

Software includes producers of bundled and/or unbundled software applications for business or consumer use, including software created for systems, graphics, communications and networking, security, inventory, home use, educational, or recreational. Also included is software developed for specific industries such as banking, manufacturing, transportation, or healthcare.

IT Services includes providers of computer and Internet-related services to businesses and consumers, including computer repair, software consulting, computer training, machine leasing/rental, disaster recovery, Web design, data input and processing, Internet security, e-commerce services, Web hosting, and systems engineering.

Networking and Equipment providers of data communication and fibre optics products and services, including WANs, LANs, switches, hubs, routers, couplers, and network management products, components, and systems.

Media and Entertainment (included because a significant portion of this investment category goes to technology and Internet businesses) includes creators of products or providers of services designed to inform or entertain consumers, including movies; music; consumer electronics such as TVs/stereos/games; sports facilities and events; and recreational products or services. Online providers of consumer content are also included in this category (medical, news, education, legal).

Electronics/Instrumentation includes electronic parts that are components of larger products and specialized instrumentation, including scientific instruments, lasers, power supplies, electronic testing products, and display panels. Also included are business and consumer electronic devices such as photocopiers, calculators, and alarm systems.

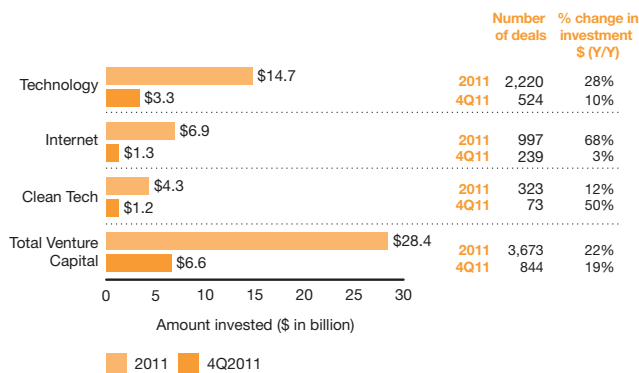
2 The MoneyTree 'Internet-Specific' sector crosses traditional MoneyTree industries and is a classification assigned to a company with a business model that is fundamentally dependent on the Internet, regardless of the company's primary industry category.

3 The Clean Technology sector crosses traditional MoneyTree industries and comprises alternative energy (including bio fuels), pollution and recycling, power supplies, and conservation.

Venture capitalists invested \$28.4 billion in 3,673 deals in 2011, an increase of 22 percent in dollars and a 4 percent rise in deals over the prior year, according to the MoneyTree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. The amount of venture dollars invested in 2011 represents the third-highest annual investment total of the past decade. Investments in the fourth quarter of 2011 totalled \$6.6 billion in 844 deals, a 10 percent decrease in dollars and an 11 percent decrease in deals from the third quarter of 2011, when \$7.3 billion went into 953 deals.

David Silverman, national co-leader of the Emerging Company Services practice at PwC, noted: “The fourth quarter of 2011 shows venture capital funds are still moving forward with investments and are focusing on early-stage investments to strengthen their pipelines. Overall, 2011 was a great year for VCs and they are looking forward to increased exit opportunities in 2012”.

Figure 1: Technology, Internet-specific, Cleantech funding



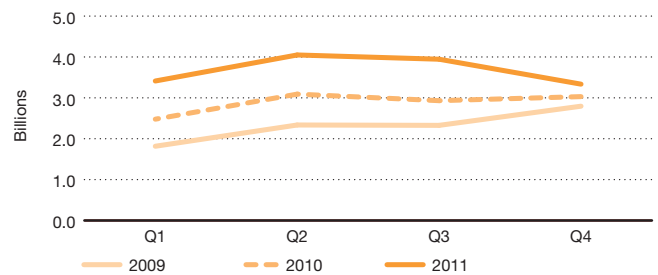
Technology

Technology funding

On a year-over-year basis, Technology funding has grown for the past eight quarters after declining for the previous seven quarters. The \$3.3 billion in funding was an increase of 10 percent from the same quarter in 2010 and a decrease of 15 percent from the previous quarter. Compared to 2010, Technology funding increased 28 percent in 2011 to \$14.7 billion.

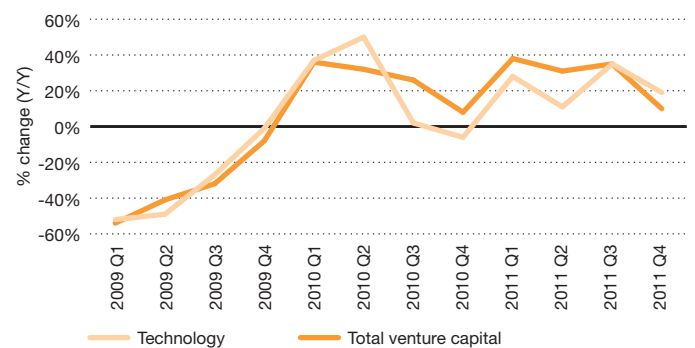
“Although funding slackened in the last quarter of the year,” said Silverman, “2011 was favourable toward technology VCs because of the strong performance in social media and emerging e-commerce models. Looking ahead, the increased investments in initial funding shows VCs are confident this sector continues to have upside in 2012.”

Figure 2: Technology funding trends by quarter 2009–2011



Technology investments, however, lagged the growth in total venture investments in 4Q11; total venture funding grew 19 percent on a year-over-year basis.

Figure 3: Growth in Technology funding compared with total venture funding

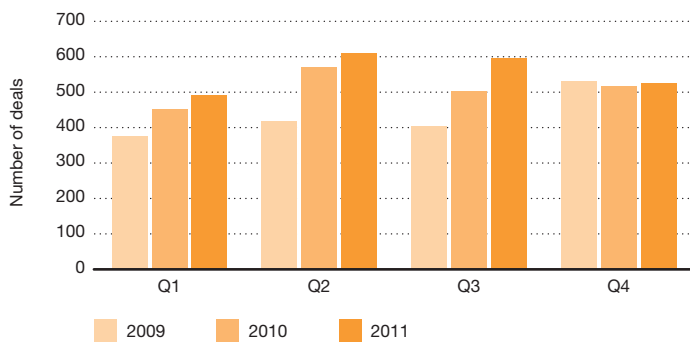


Technology deal volume

Technology deal volume increased 9 percent to 2,220 deals in 2011. Compared to the fourth quarter of 2010, deal volume increased 1 percent in the fourth quarter of 2011 to 524.

The Software industry continued to have the most deals completed in 4Q11, with 238 transactions, representing a decline of 8 percent from deals completed in the fourth quarter of 2010.

Figure 4: Technology deal volume by quarter 2009–2011



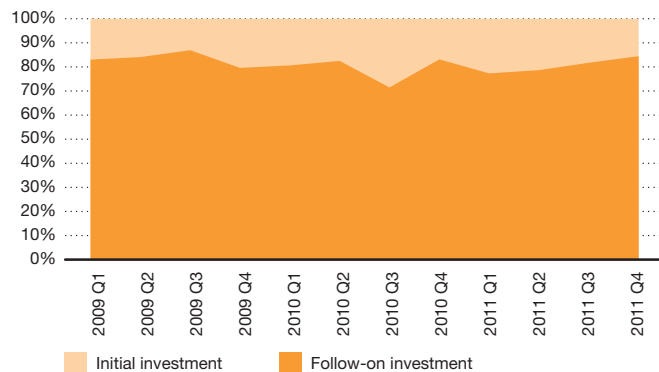
The average deal size in the fourth quarter of 2011 was \$6.4 million, an increase of 9 percent over the same period in 2010.

First-time funding compared with follow-on funding

First-time funding increased compared to the fourth quarter of 2010 by 1 percent to \$519 million, while follow-on funding increased 12 percent to \$2.8 billion over the same period.

First-time deals in the Technology sector averaged \$2.9 million per deal during the fourth quarter of 2011, a 12 percent decrease from the fourth quarter of 2010. On the other hand, average deal size of follow-on funding was \$8.2 million, an increase of 18 percent from the prior year.

Figure 5: Technology follow-on compared with initial investments 2009–2011



Technology funding by stage

Early-stage⁴ deals received funding of \$1 billion in the fourth quarter of 2011, increasing 10 percent year-over-year.

Late-stage⁵ investment reached \$2.3 billion in the fourth quarter 2011; a 10 percent increase year-over-year.

Early-stage average deal size, at \$3.6 million, decreased 5 percent year-over-year, while late-stage average deal size, at \$9.4 million increased 24 percent year-over-year.

Figure 6: Technology funding by stage each quarter 2009–2011

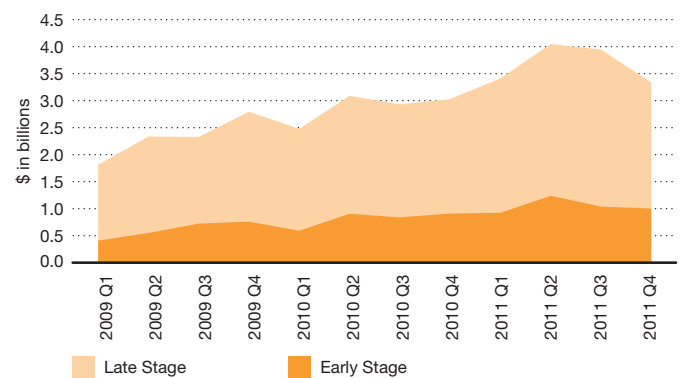


Table 1: 2011 Fourth quarter sequential growth factors (Q/Q growth)

	% change in deal volume	% change in avg deal size	% change in investments
Early Stage	-6%	2%	-3%
Late Stage	-18%	-2%	-20%

Technology funding by subsegment

Subsectors showing increased funding from the fourth quarter of 2010 were:

- Semiconductors, 73 percent to \$315 million
- Software, 32 percent to \$1.8 billion
- Computers & Peripherals, 12 percent to \$142 million
- Telecommunication, 4 percent to \$129 million

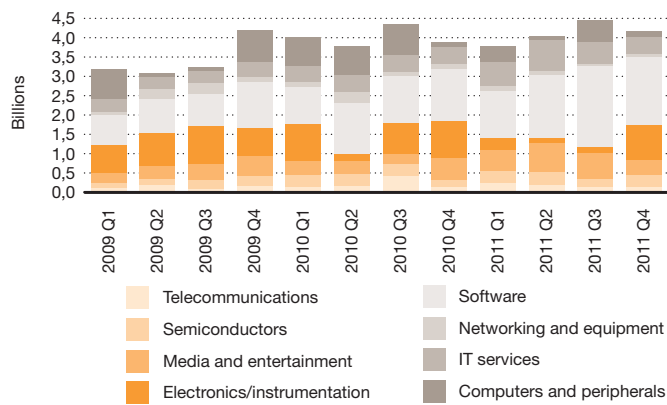
4 Early stage combines the MoneyTree categories Start Up/Seed and Early Stage.

5 Late Stage combines MoneyTree categories Expansion and Late Stage.

Subsectors showing declines in funding from the fourth quarter 2010 were:

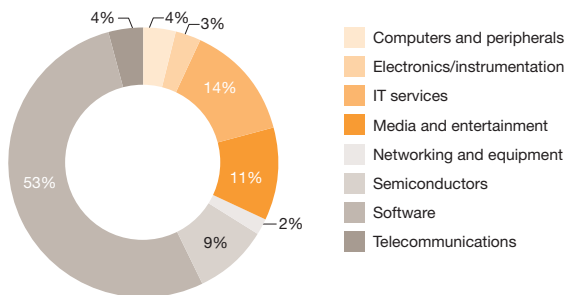
- Networking & Equipment, 48 percent to \$69 million
- Media & Entertainment, 34 percent to \$377 million
- Electronics/Instrumentation, 5 percent to \$91 million
- IT Services, 2 percent to \$449 million

Figure 7: Technology funding by subsegment 2009–2011



For the fourth quarter of 2011, Technology included three of the top 10 deals, which were also three of the largest for 2011. The largest funding of any deal in the quarter was \$250 million invested in a Software company.

Figure 8: Technology funding by subsegment fourth quarter 2011



Regional funding trends

Silicon Valley⁶, New York Metro, New England, So Cal⁷, and the Midwest received the most Technology venture capital dollars during the fourth quarter of 2011. Silicon Valley received \$1.9 billion, with \$1.1 billion going into software.

Figure 9: Top five regions, fourth quarter 2011

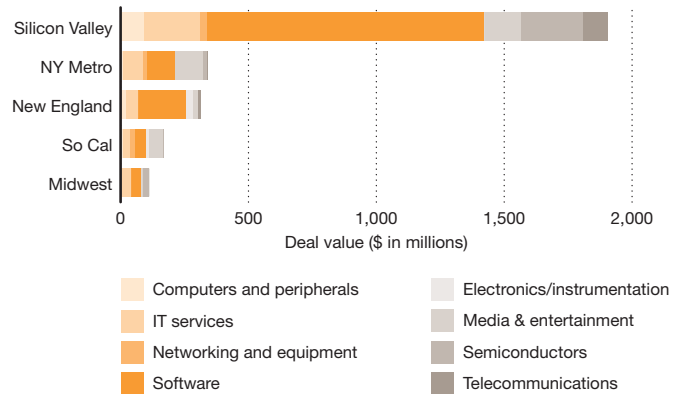
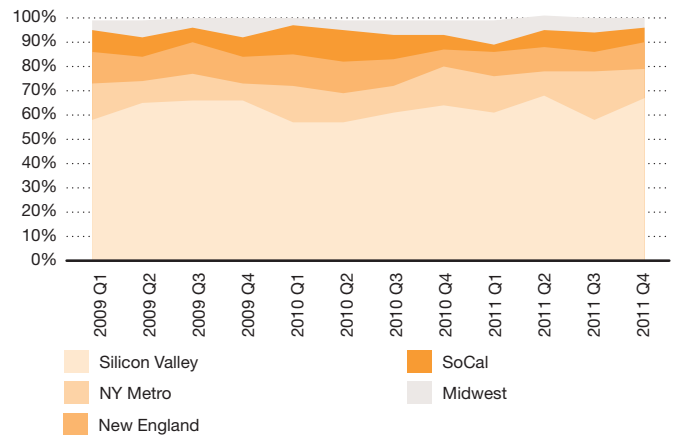


Figure 10: Funding trends in top five regions 2009–2011



6 Silicon Valley includes San Francisco and San Jose.

7 So Cal includes LA, Orange County, and San Diego.

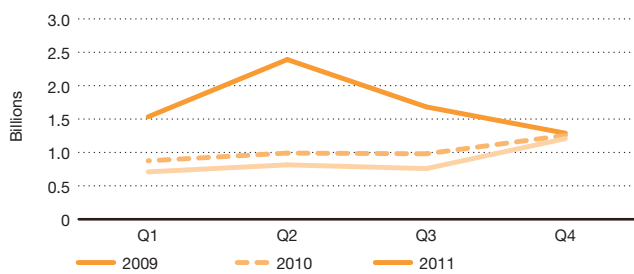
Internet-specific

Internet funding

Investment totalled \$1.3 billion in the fourth quarter of 2011, 3 percent higher than the fourth quarter of 2010. Compared to 2010, Internet venture funding increased 68 percent to \$6.9 billion in 2011.

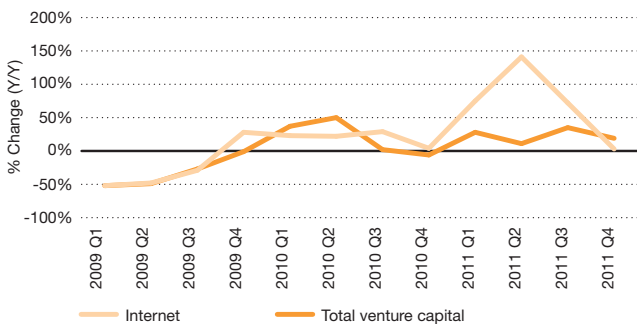
“Funding levels have decreased from their mid-year highs but still remain strong,” said David Silverman, national co-leader of the Emerging Company Services practice at PwC. “Like other Technology segments, early-stage companies in Internet are receiving plenty of attention and investment opportunities. VCs continue to balance the high volume of opportunities with the current valuations.”

Figure 11: Internet funding trends by quarter 2009–2011



Internet funding underperformed total venture funding in 4Q11, on a year-over-year basis, but outperformed it for 2011.

Figure 12: Growth in Internet funding compared with total venture funding

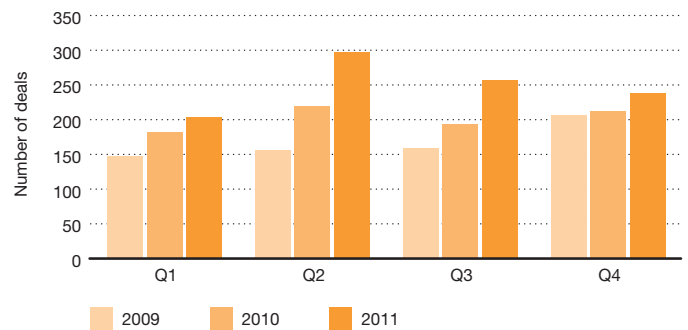


Internet deal volume

Compared to the fourth quarter of 2010, deal volume increased 13 percent in the fourth quarter of 2011, to 239 deals.

In the fourth quarter of 2011, Internet average deal size was \$5.4 million, a decrease of 9 percent year-over-year.

Figure 13: Internet deal volume by quarter 2009–2011

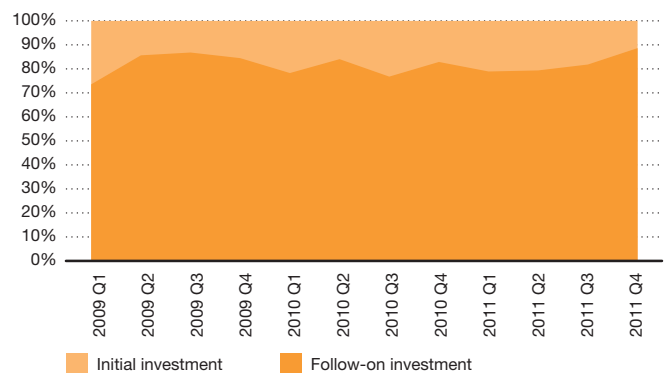


First-time funding compared with follow-on funding

Compared to the same period last year, first-time funding decreased 32 percent to \$146 million and follow-on funding increased 10 percent over the same period to \$1.1 billion.

First-time deals in the Internet sector averaged \$1.6 million during the fourth quarter of 2011 in 93 deals, an increase of 18 percent in deal volume and a decrease of 42 percent in deal size. Follow-on deals in the Internet sector averaged \$7.8 million during the fourth quarter of 2011 in 146 deals, an increase of 10 percent in deal volume, and flat in terms of deal size.

Figure 14: Internet follow-on compared with initial investments 2009–2011



Internet funding by stage

Investment for early-stage companies increased 19 percent year-over-year to \$517 million.

Investment in late-stage opportunities reached \$771 million in the fourth quarter of 2011, a 6 percent decline year-over-year.

In the fourth quarter of 2011, early-stage average deal size was \$3.4 million in 151 deals, an increase of 19 percent in volume, and flat in terms of deal size year-over-year. Over the same period, late-stage average deal size was \$8.8 million in 88 deals, an increase of 4 percent in volume and a decrease of 9 percent in size year-over-year.

Figure 15: Internet funding by stage each quarter 2009–2011

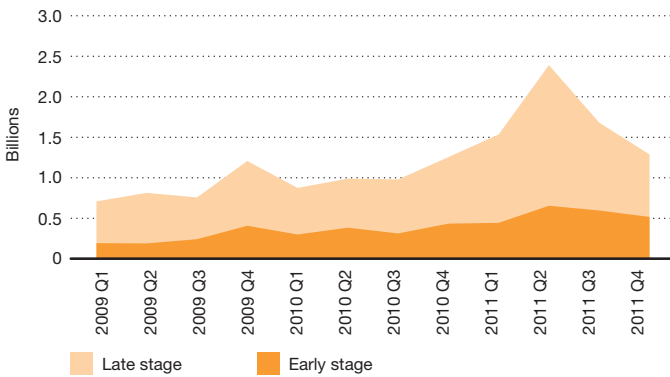


Table 2: 2011 Fourth quarter sequential growth factors (Q/Q growth)

	% Change in deal volume	% Change in avg. deal size	% Change in investments
Early stage	-5%	-9%	-13%
Late stage	-10%	-21%	-29%

Internet funding by subsegment

Internet subsectors that received increased funding in the fourth quarter of 2011 compared to the prior-year period were as follows:

- Internet E-Commerce, 218 percent to \$398 million
- Web Servers, 186 percent to \$10 million
- Internet Programming, 112 percent to \$24 million
- E-commerce Technology, 54 percent to \$98 million
- Internet Software, 14 percent to \$193 million

Internet subsectors that received less funding in the fourth quarter of 2011 compared to the prior-year period were as follows:

- Internet Content, 41 percent to \$299 million
- Internet Services, 33 percent to \$219 million
- Internet Communications, 13 percent to \$46 million

Figure 16: Internet funding by subsegment 2009–2011

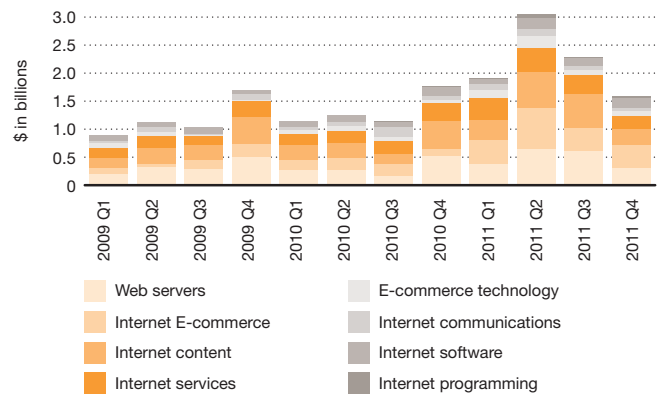
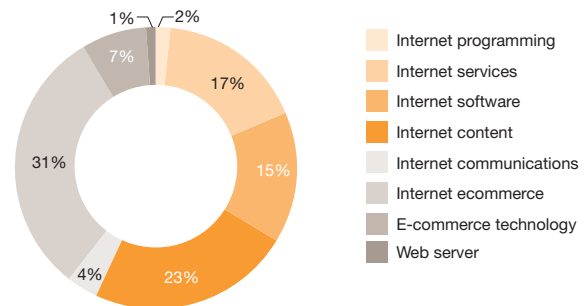


Figure 17: Internet funding by subsegment fourth quarter 2011



Regional funding trends

Silicon Valley, New York Metro, Texas, New England, and the Midwest received the most Internet venture capital dollars during the fourth quarter of 2011. Silicon Valley received \$526 million, with \$141 million going into Internet Software.

Figure 18: Top five regions fourth quarter 2011

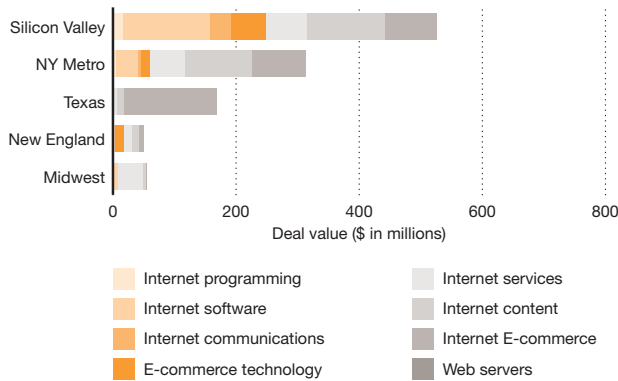
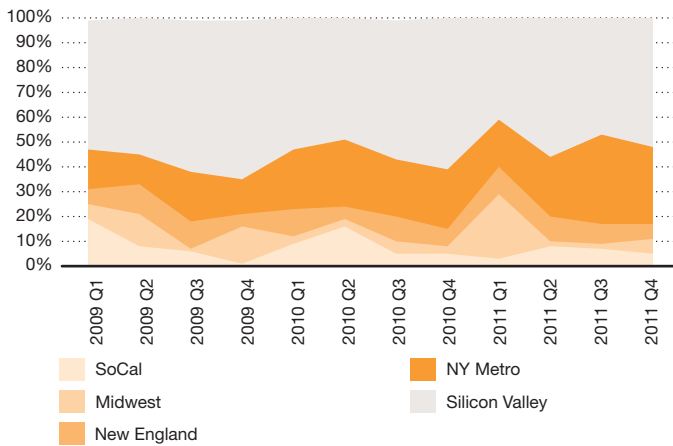


Figure 19: Funding trends in top five regions 2009–2011



Clean Technology

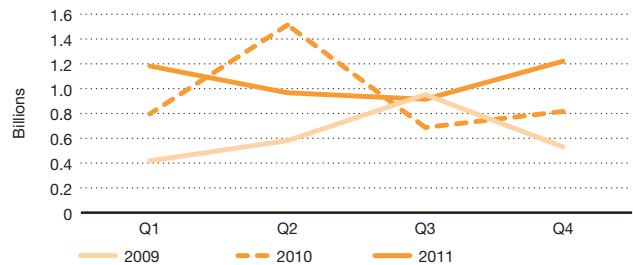
Cleantech funding

The Clean Technology sector, which crosses traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, saw a 50 percent increase in dollars over the fourth quarter of 2010 to \$1.2 billion.

Cleantech funding for the year 2011 was \$4.3 billion, an increase of 12% over last year.

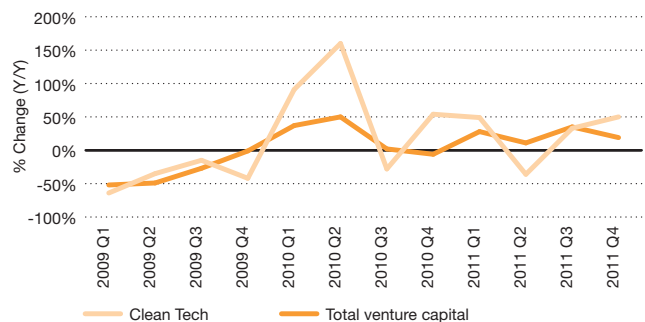
“The Cleantech sector finished the year strongly,” said Danny Wallace, national co-leader of the Emerging Company Services Practice at PwC, “with one of its best quarters on record. Early-stage investment dollars and average deal value are at historic highs. The investment levels in 2011 bode well for the continued success of the sector in 2012.”

Figure 20: Cleantech funding trends by quarter 2009–2011



Cleantech funding outperformed total venture funding in 4Q11, on a year-over-year basis, but underperformed it for 2011.

Figure 21: Growth in Cleantech funding compared with total venture funding

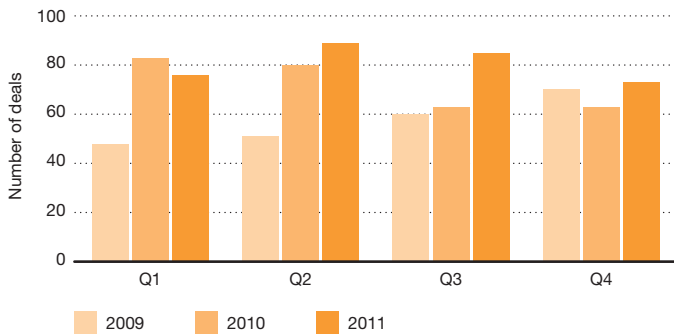


Cleantech deal volume

Compared to the fourth quarter of 2010, deal volume increased by 16 percent in the fourth quarter of 2011, to 73.

Average deal size in the fourth quarter of 2011 was \$16.7 million, an increase of 29 percent year-over-year.

Figure 22: Cleantech deal volume by quarter 2009–2011



First-time funding compared with follow-on funding

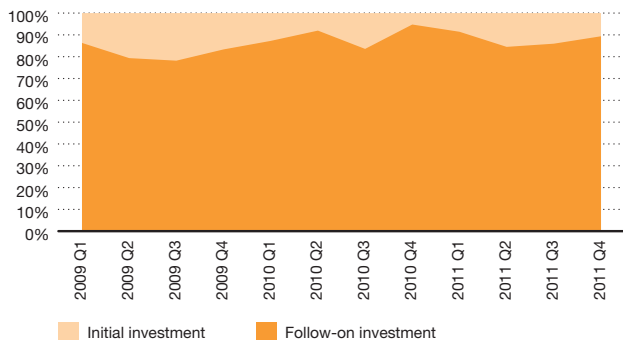
Compared to the fourth quarter of 2010, first-time funding increased 203 percent to \$130 million in the fourth quarter of 2011.

Year-over-year, follow-on funding increased 41 percent to \$1.1 billion in the fourth quarter of 2011.

First-time deals in the Cleantech sector averaged \$7.6 million during the fourth quarter of 2011, an increase of 150 percent year-over-year, in 17 deals.

In the fourth quarter of 2011, follow-on funding average deal size was \$19.5 million, a 23 percent increase from the same period in the previous year, in 56 deals.

Figure 23: Cleantech follow-on compared with initial investments 2009–2011



Cleantech funding by stage

Early-stage investment was \$423 million during the quarter, an increase of 135 percent compared to the fourth quarter of 2010.

Cleantech investment for late-stage opportunities increased year-over-year by 25 percent to \$798 million in the fourth quarter 2011.

Early-stage average deal size, at \$11.8 million, increased 83 percent year-over-year in 36 deals, while late-stage average deal size, at \$21.6 million, increased 19 percent over the same period in 37 deals.

Figure 24: Cleantech funding by stage each quarter 2009–2011

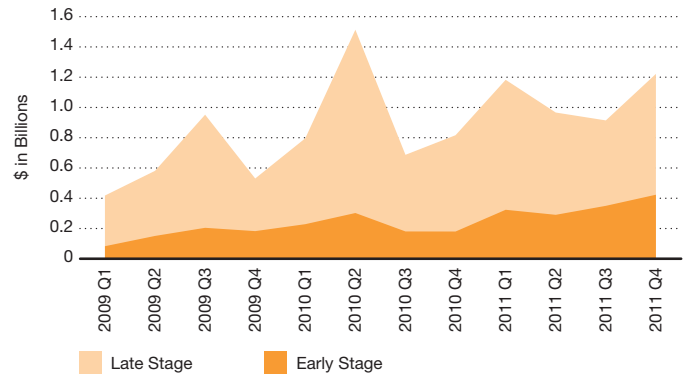


Table 3: 2011 Fourth quarter sequential growth factors (Q/Q growth)

	% Change in deal volume	% Change in avg. deal size	% Change in investments
Early stage	3%	18%	21%
Late stage	-26%	91%	41%

Cleantech funding by subsegment

All Cleantech venture capital segments (besides Alternative Energy - Wind, Geothermal, which received \$2 million in funding in 4Q11 but received \$0 in the same period in 2010) grew in the fourth quarter of 2011 compared to the same period in 2010.

- Transportation, 283 percent to \$319 million
- Alternative Fuels, 111 percent to \$100 million
- Pollution and Recycling, 50 percent to \$57 million
- Solar Energy, 34 percent to \$288 million
- Smart Grid and Energy Storage, 12 percent to \$70 million
- Other Cleantech, 4 percent to \$386 million

Figure 25: Cleantech funding by subsegment 2009–2011

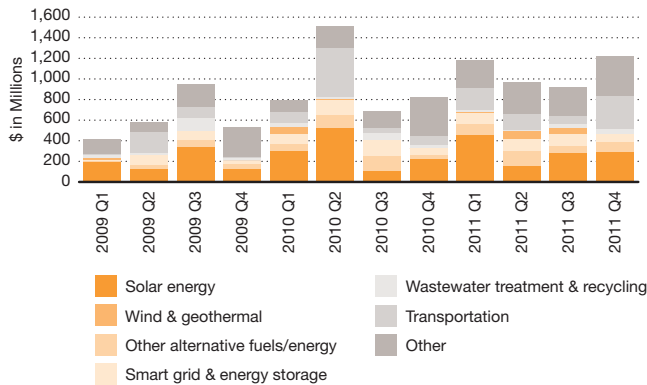
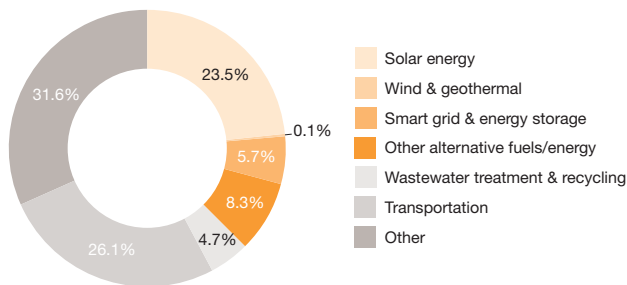


Figure 26: Cleantech funding by subsegment fourth quarter 2011



Regional funding trends

Silicon Valley, So Cal, Philadelphia Metro, New England, and Colorado received the most Cleantech venture capital dollars during the fourth quarter of 2011. Silicon Valley received the most funding, with \$645 million.

Figure 27: Top five regions fourth quarter 2011

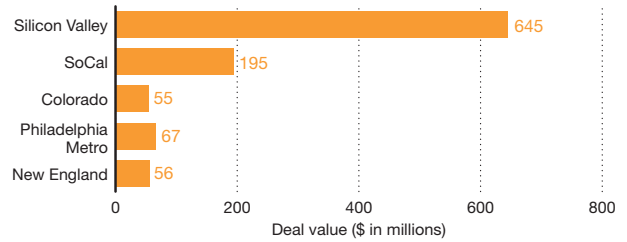
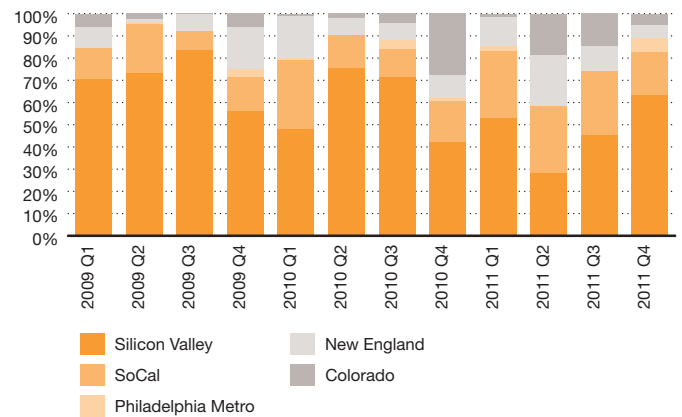


Figure 28: Funding trends in top five regions 2009–2011



Venture capital outlook

Funding

“Technology investment levels in 2011 showed improvement over the previous year and is expected to show continued increases in 2012,” said Danny Wallace, national co-leader of the Emerging Company Services Practice at PwC. “Funding for early-stage technology companies saw increases of 30 percent or better across the board in 2011, proving the continued value investors see in technology investments.”

“This past year we saw more venture capital money raised by essentially the same number of firms, a sign that consolidation within the industry is continuing,” said Mark Heesen, president of NVCA. “We also continued to invest more money in companies than we raised from our investors. Both of these trends—if they continue—suggest that the level and breadth of venture investment is starting to recalibrate to reflect a concentration of capital in the hands of fewer investors. Our cottage industry is indeed getting smaller still, and that will impact the startup ecosystem over time.”

IPO activity

Led by several large offerings, venture-backed initial public offering (IPO) activity grew in the fourth quarter, with 11 companies going public, up 120 percent from the third quarter of 2011 but down 67 percent from the fourth quarter of last year, according to the Exit Poll report by Thomson Reuters and the National Venture Capital Association (NVCA). By dollars, the quarter marked an increase of nearly five times the third quarter and a 34 percent decrease from the fourth quarter last year. For the full year, 52 venture-backed companies went public, representing a value of \$9.9 billion, a 31 percent decline in volume but a 41 percent increase in dollar value from 2010⁸

“Despite a flurry of IPO activity at the end of 2011, the venture-backed IPO market still has a considerable way to go on the road to recovery,” said Mark Heesen, president of the NVCA. “While we are encouraged by the fourth-quarter momentum, we still ended the year with fewer total IPOs than in 2010, and 25 percent of those comprising foreign companies. With a full pipeline of companies in registration and pending legislation to ease the IPO path for emerging growth companies, we could see a more robust market in 2012, but only if we can achieve a reasonable degree of global economic stability. The bottom line is that we need at least double the offerings that we saw in 2011 to declare the market back on track, and that could take some time.”

M&A activity

For the fourth quarter, 92 venture-backed M&A deals were reported, 26 of which had an aggregate deal value of \$3.9 billion, down 34 percent from the fourth quarter of 2010. For all of 2011, 429 transactions were reported, down just two percent from a record year in 2010. Annual M&A aggregate value, driven by the first nine months of 2011 reached \$23.0 billion, a 23 percent increase from 2010 and the highest level seen since 2007.⁹

About PricewaterhouseCoopers’ Emerging Company Services (ECS)

PricewaterhouseCoopers Emerging Company Services (ECS) practice delivers a broad spectrum of services to meet the needs of fast-growth technology start-ups in key industry segments: Software, Semiconductor, Internet, New Media, Clean-Tech, Telecommunications, Networking, Mobile Applications and Life Sciences. As a recognized leader in each industry segment, the ECS practice provides services for technology clients at all stages of growth in areas such as compliance, controls, access to cash flow, expansion, exit strategies, succession, wealth management, and the many areas that can help build long-term success and value.

⁸ Thomson Reuters and NVCA news release, “Venture-backed IPO Momentum in Fourth Quarter Not Enough for Recovery in 2011,” January 3, 2012.

⁹ Ibid.

Contacts

David Silverman

Partner

+1 (646) 471-5421

david.silverman@us.pwc.com

Danny Wallace

Partner

+1 (408) 817-5030

danny.wallace@us.pwc.com

Deborah Volpe

MoneyTree Project Manager

+1 (617) 530-5764

deborah.volpe@us.pwc.com