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PricewaterhouseCoopers
National Venture Capital Association

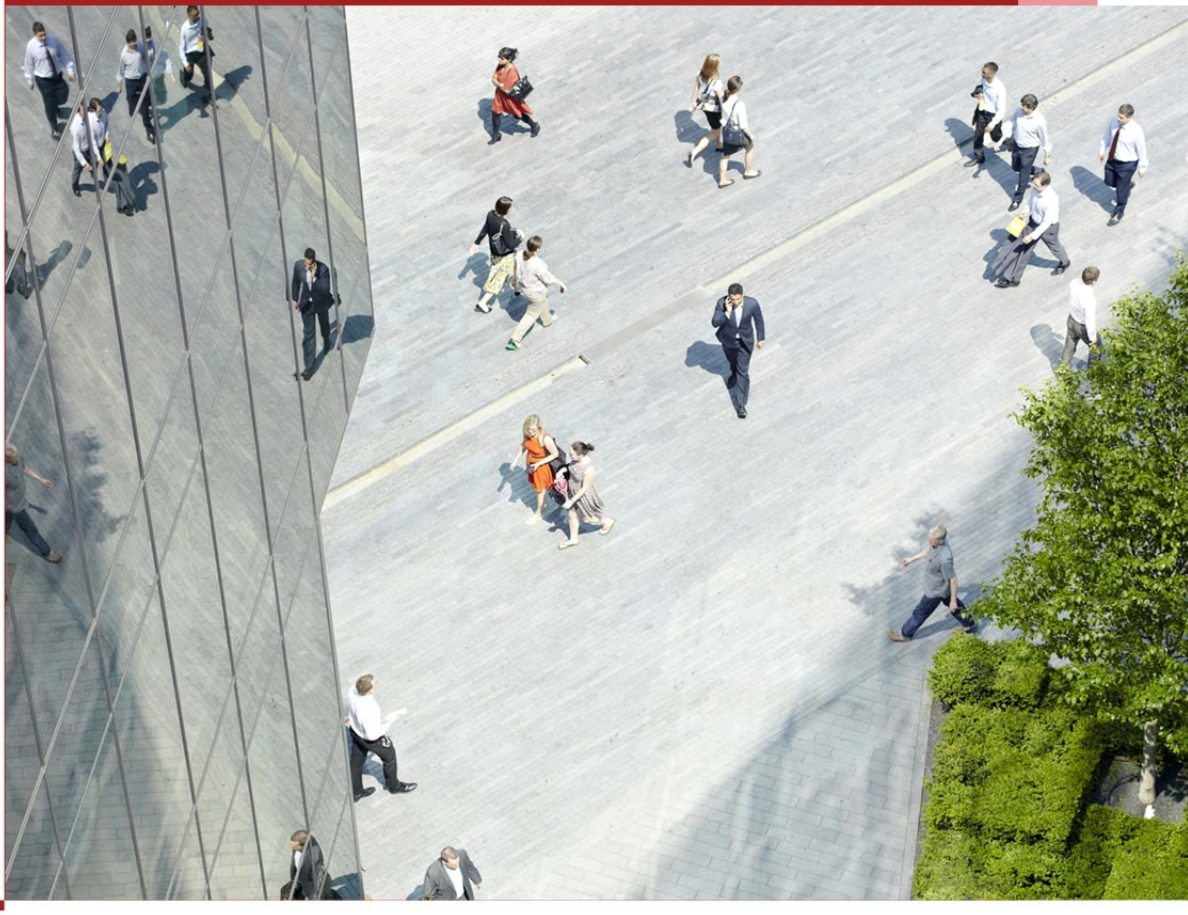
MoneyTree Report

Q3 2014

Data provided by Thomson Reuters

December 2014

The Technology Q3 2014 MoneyTree™ results are in! This special report provides summary results of Q3 2014. More detailed results can be found on the MoneyTree™ website at www.pwcmoneytree.com



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Mega deals count continues

Third quarter Technology venture capital investment increased 23 percent year-over-year but fell 25 percent quarter-over-quarter

US venture capital funding for the Technology sector [1] was $6.8 billion in 680 deals during the third quarter of 2014, according to findings from the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. Technology investments showed an increase of 23 percent in dollars, but deal volume decreased by 7 percent year-over-year.

Internet-specific [2], which consists of companies that have a business model dependent on the Internet but are part of multiple industries, received $3.2 billion in 248 deals in the third quarter. Funding dollars increased 2 percent, but deal volume decreased by 8 percent from the prior quarter, while year-over-year comparison shows a 124 percent increase in funding dollars and an 11 percent decrease in number of deals. (Internet-specific can include companies from industries such as technology, e-commerce retail, healthcare, financial services, etc.)

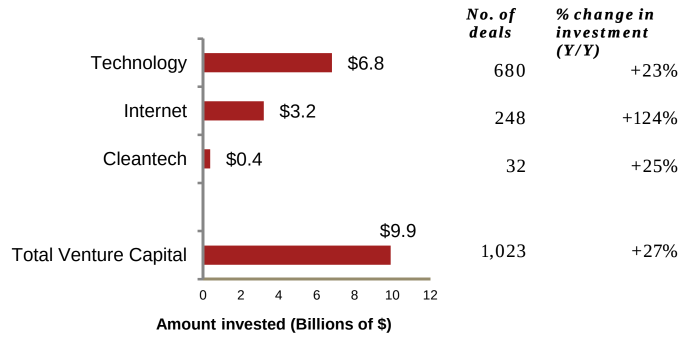
Cleantech [3], which consists of companies that have a business model dependent on clean technology but are part of multiple industries, received $366 million in 32 deals in the third quarter. Cleantech funding dollars increased 25 percent year-over-year, while deal volume decreased 27 percent over the same period. (Cleantech includes companies from industries such as energy, biotechnology, transportation, technology, etc.)

For all industries, US venture capitalists invested $9.9 billion in 1,023 deals during the third quarter of 2014, an increase of 24 percent in dollars and a decrease of 4 percent in deals over the prior-year period, according to the MoneyTree™ Report.

David Silverman, national co-leader of the Emerging Company Services practice at PwC, noted:

"Although Software experienced a 40% decrease in funding over the prior quarter, 7 of the 11 mega deals, deals at $100 million or more, in the third quarter involved Software companies. Companies with disruptive technologies continue to receive funding. Many of these companies are closing the gap between suppliers and consumers and their technology is in demand."

Figure 1: Technology, Internet-specific, Cleantech funding, Q3 '14



1. The MoneyTree™ Technology sector includes Software, Semiconductors, IT Services, Networking & Equipment, Media & Entertainment, Telecommunications, Computers & 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 & Equipment includes 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 & 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. *Internet-specific* 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. *Cleantech* crosses traditional MoneyTree™ industries and is comprised of alternative energy, energy storage, recycling, smart grid, transportation, and wastewater treatment.

Technology

Technology funding

The $6.8 billion in technology funding was an increase of 23 percent from the same quarter in 2013, but was a 25 percent decline from the prior quarter.

"The third quarter decline in investment dollars for the Technology sector was no surprise," said Silverman. "Investment levels we saw in the second quarter were extraordinary, including a $1.2 billion investment going to a transportation software company, as well as 7 other deals of $100 million or more going to technology companies. Despite the decline, VC investing remains at a very healthy level, similar to the level we saw in Q1 2014."

Figure 2: Technology funding trends by quarter Q1 2012 – Q3 2014

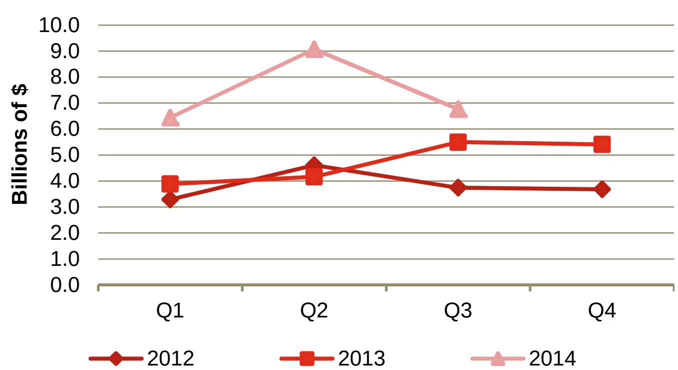
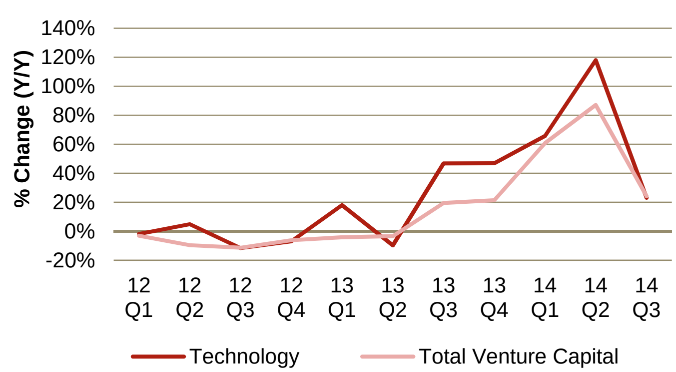


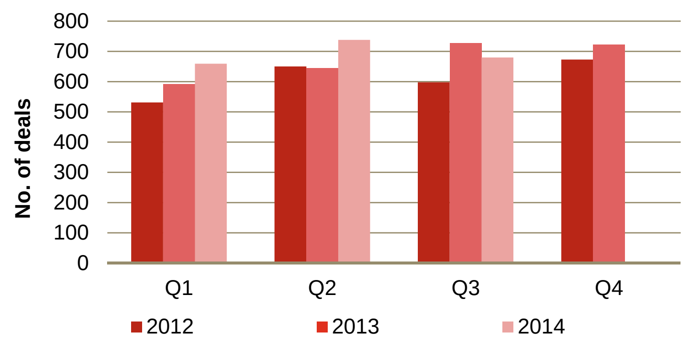
Figure 3: Growth in Technology funding compared to total venture funding by quarter Q1 2012 – Q3 2014



Technology deal volume

Technology deal volume decreased 7 percent to 680 deals in the third quarter compared to the same period in the previous year and decreased by 8 percent from the prior quarter. Technology deal volume was 66 percent of all venture deals in the third quarter of 2014.

Figure 4: Technology deal volume by quarter Q1 2012 – Q3 2014



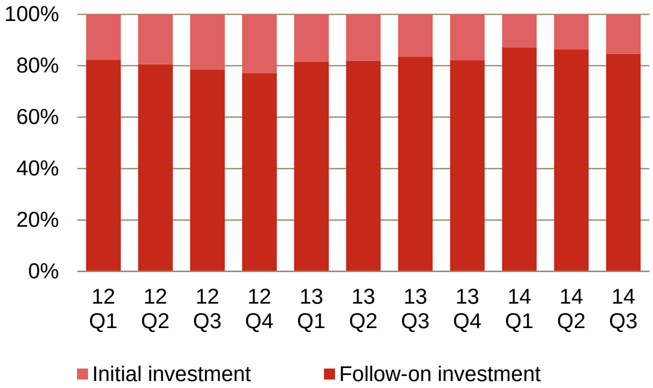
The average deal size in the third quarter was $9.9 million, a 32 percent increase from the same period in 2013.

First-time funding compared to follow-on funding

First-time funding increased compared to the third quarter of 2013 by 13 percent to $1 billion, while follow-on funding improved 25 percent to $5.7 billion.

The number of first-time deals in the Technology sector during Q3 2014 decreased 17 percent to 238 deals compared to the prior year. Deal size averaged $4.4 million during the quarter, a 38 percent increase from the third quarter of 2013. Follow-on-funding volume increased slightly by 1 percent to 442 deals and average deal size increased 24 percent from the prior year to $13 million.

Figure 5: Technology follow-on compared with initial investments Q1 2012 – Q3 2014



Technology funding by stage

Early Stage[1] deals received funding of $1.7 billion in the third quarter, decreasing 9 percent year-over-year. Early-stage average deal size increased 6 percent year-over-year to $4.5 million, while the number of deals decreased by 15 percent to 385 deals.

Late Stage[2] investment reached $5 billion in the third quarter, a 40 percent improvement year-over-year. Late Stage average deal size increased 31 percent year-over-year to $17 million while the number of deals increased by 7 percent to 295 deals.

Figure 6: Technology funding by stage Q1 2012 – Q3 2014

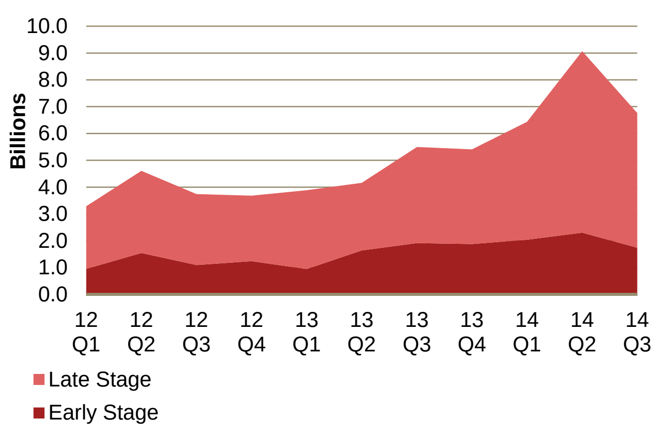


Table 1: 2014 third quarter sequential changes (Q/Q)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	-2%	-23%	-24.4%
Late Stage	+3%	-13%	-25.8%

Technology funding by subsegment

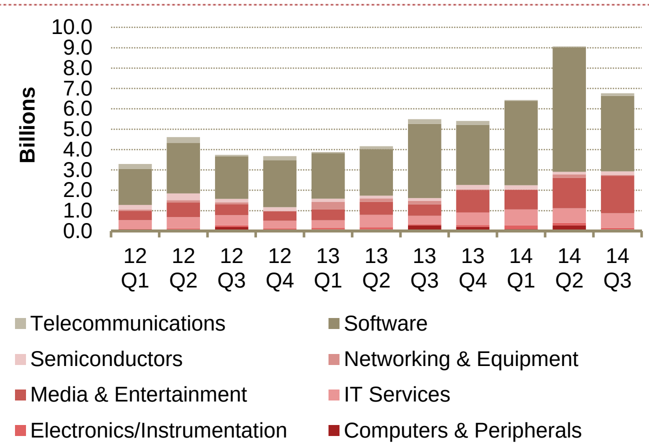
The Technology subsectors seeing an increase in funding from the third quarter of 2013:

- Media & Entertainment, +225 percent to $1.8 billion
- IT Services, +69 percent to $710 million
- Electronics/Instrumentation, +54 percent to $80 million
- IT Services, +43 percent to $580 million
- Semiconductors, +31 percent to $173 million
- Software, +2 percent to $3.7 billion

Subsectors showing declines in funding from the third quarter of 2013 were:

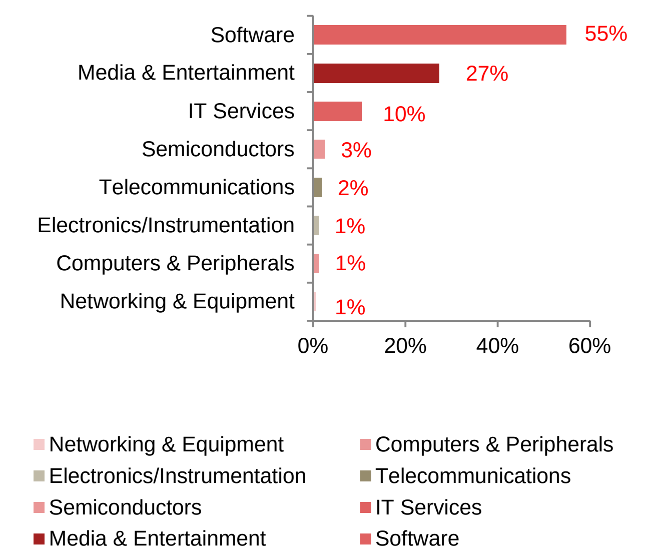
- Networking & Equipment, -76 percent to $42 million
- Computers and Peripherals, -72 percent to $78 million

Figure 7: Technology funding by subsegment Q1 2012 – Q3 2014



[1] Early Stage combines the MoneyTree™ categories Seed and Early Stage
[2] Late Stage combines MoneyTree™ categories Expansion and Late Stage

Figure 8: Technology funding by subsegment third quarter 2014, as percentage of total Technology funding



Regional funding trends

Silicon Valley[3], NY Metro, Southwest, New England and SoCal[4] received the most Technology venture capital dollars during the third quarter. Silicon Valley received $3.5 billion, with $2.3 billion going to Software.

Figure 9: Top five regions, third quarter 2014

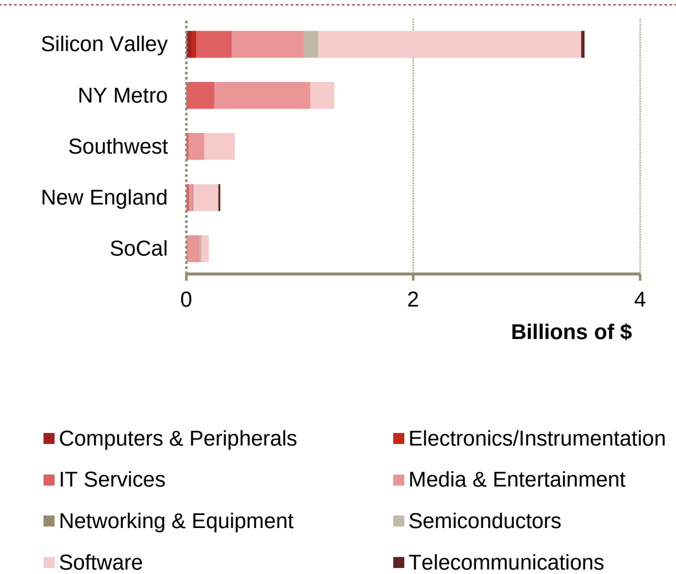
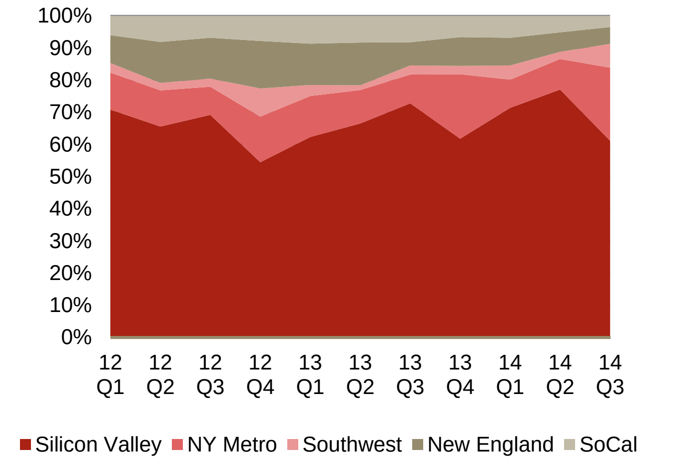


Figure 10: Funding trends in top five regions Q1 2012 – Q3 2014



[3] Silicon Valley includes San Francisco and San Jose
[4] SoCal includes LA, Orange County, and San Diego

Internet-specific

Internet funding

Investment totalled $3.2 billion in the third quarter of 2014, an increase of 125 percent compared to the third quarter of 2013 and an increase of 1.8 percent over the previous quarter.

"Investments into Internet-specific companies are at the highest level since the first quarter of 2001," said Danny Wallace, national co-leader of the Emerging Company Services practice at PwC. "In Q3, we saw a shift in investment dollars going to later stage companies, increasing by 133 percent over the prior quarter and 639 percent over the same period in the prior year."

Figure 11: Internet funding trends by quarter Q1 2012 – Q3 2014

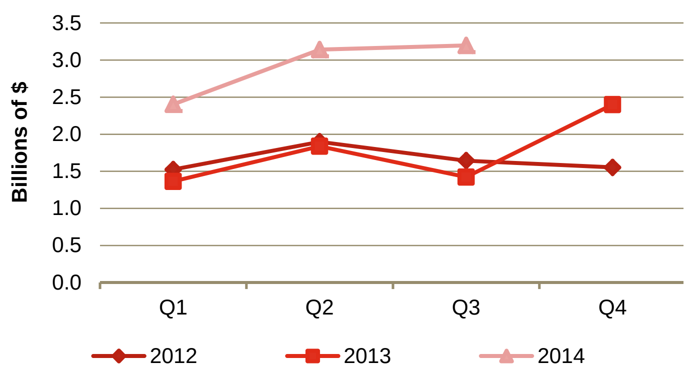
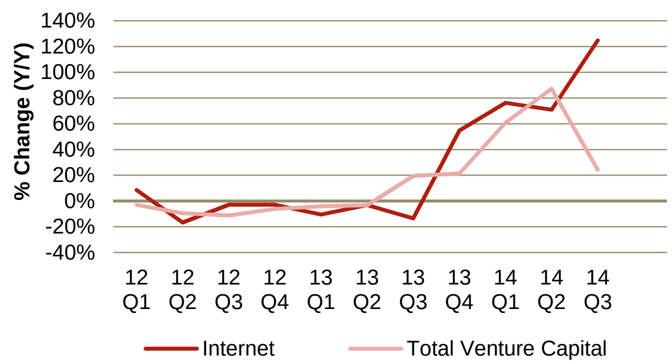


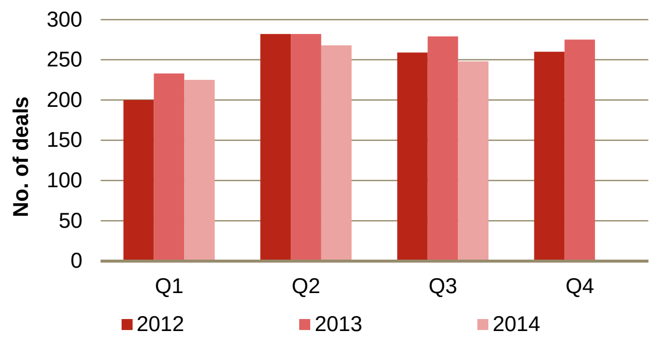
Figure 12: Internet funding compared with total venture funding



Internet deal volume

Compared to the third quarter of 2013, deal volume decreased 11 percent in the third quarter, to 248 deals. Internet average deal size was $12.9 million, an increase of 153 percent year-over-year.

Figure 13: Internet deal volume by quarter Q1 2012 – Q3 2014



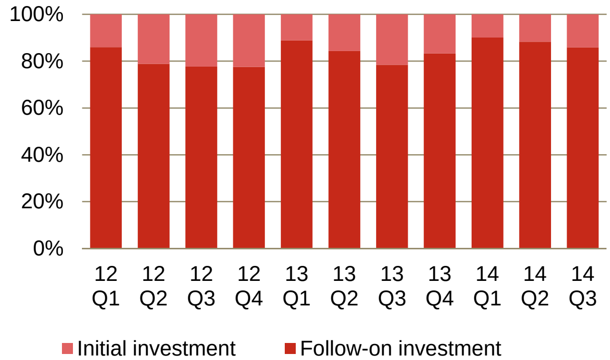
First-time funding compared with follow-on funding

Compared to the same period last year, first-time funding increased 47 percent to $451 million during the third quarter of 2014, while number of deals decreased by 24% to 83. Follow-on funding jumped 146 percent over the same period in 2013, to $2.7 billion, but the number of deals decreased slightly by 3 percent to 165.

First-time deals in the Internet sector averaged $5.4 million during the third quarter, an increase of 93 percent in average deal size year-over-year.

Follow-on deals in the Internet sector averaged $16.6 million during the third, an increase of 154 percent in average deal size year-over-year.

Figure 14: Internet follow-on compared with initial investments Q1 2012 – Q3 2014



Internet funding by stage

Investment in early-stage companies increased 34 percent year-over-year to $834 billion. Early-stage average deal size was $5.7 million in 146 deals, an increase of 67 percent in average deal size, but a decrease of 20 percent in deal volume year-over-year.

Investment in late-stage opportunities was $2.4 billion in the third quarter, a 195 percent increase year-over-year. Over the same period, late-stage average deal size was $23.2 million in 102 deals, an increase of 181 percent in average deal size and a slight increase of 5 percent in deal volume year-over-year.

Figure 15: Internet funding by stage each quarter Q1 2012 – Q3 2014

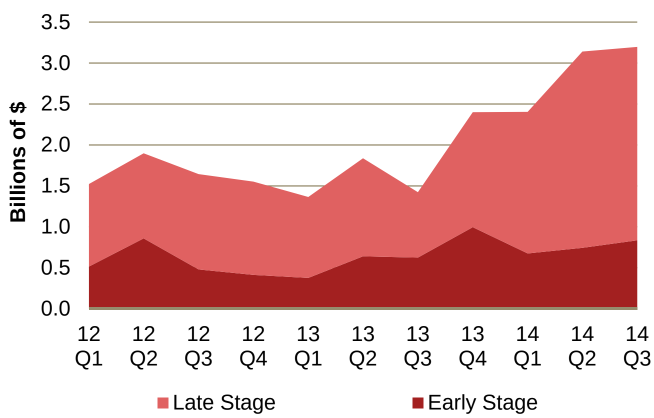


Table 2: 2014 Third quarter sequential change (Q/Q)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	+1%	+11%	+12%
Late Stage	-17%	+19%	-1%

Internet funding by subsegment

The majority of Internet subsectors received increases in funding during the third quarter compared to the prior-year period.

- Internet Programming, +8,082 percent to $65.5 million
- Internet Content, +272 percent to $1.7 billion
- Internet e-Commerce, +171 percent to $731 million
- Internet Services, +88 percent to $329 million
- e-Commerce Technology, +15 percent to $50 million
- Internet Software, -10 percent to $321 million
- Internet Communications, -81 percent to $23 million

Figure 16: Internet funding by subsegment Q1 2012 – Q3 2014

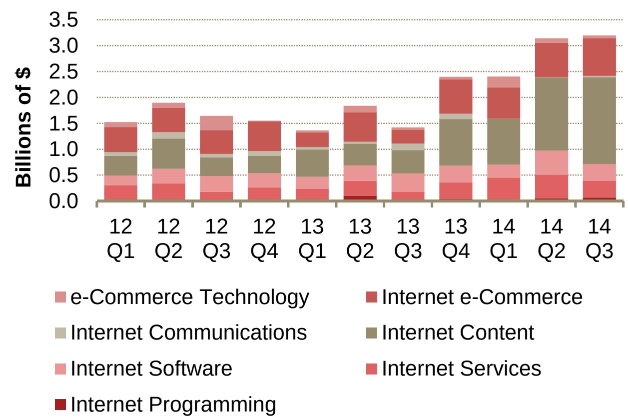
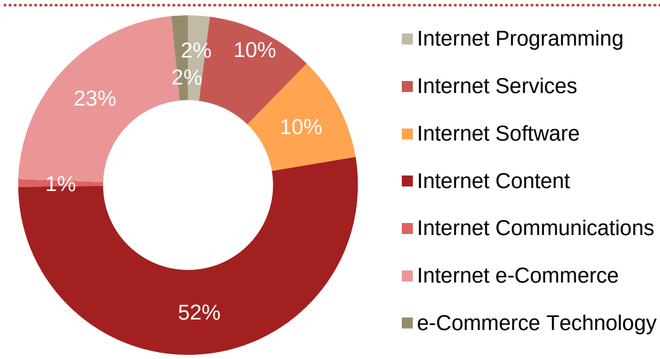


Figure 17: Internet funding by subsegment third quarter 2014



Regional funding trends

NY Metro, Silicon Valley, SoCal, Southwest, and New England received the most Internet venture capital dollars during the third quarter. NY Metro received $1.3 billion, with $843 million going into Internet Content. Silicon Valley received $1.1 billion, with $623 million going into Internet content. "This was the first time that NY Metro received more investment dollars than Silicon Valley," said Silverman. "The last time another region received more VC investment dollars in Internet-specific companies than Silicon Valley was in the second quarter of 2003, when Colorado received $182 million."

Figure 18: Top five regions third quarter 2014

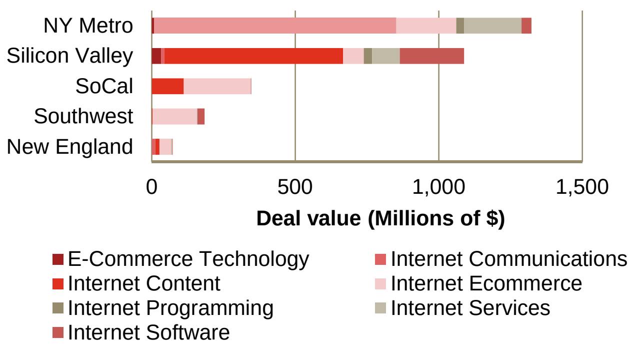
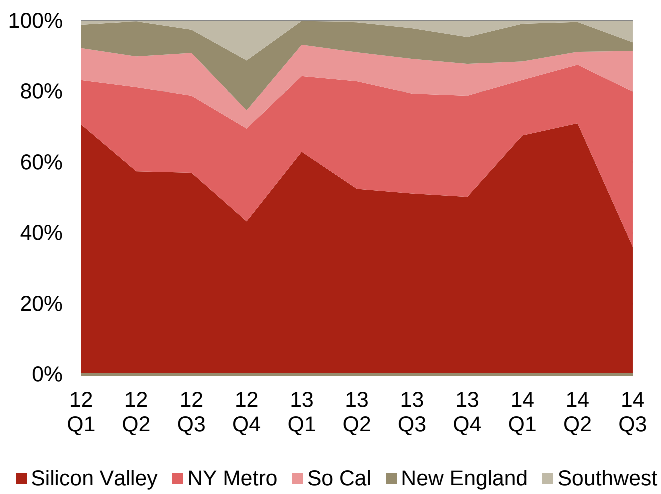


Figure 19: Funding trends in top five regions Q1 2012 – Q3 2014



Cleantech

Cleantech funding

The Cleantech sector, which crosses traditional MoneyTree™ industries and is composed of agriculture and bioproducts, energy efficiency, smart grid and energy storage, solar energy, transportation, water and waste management, wind and geothermal, and other renewables, saw a 25 percent increase in funding from the third quarter of 2013 to $366 million.

"Venture capital investments in Cleantech continue to flow more toward late-stage companies," said Danny Wallace, national co-leader of the Emerging Company Services practice at PwC. "The third quarter was the first time that early-stage companies received more than 10 percent of funding since the same period a year ago."

Figure 20: Cleantech funding trends by quarter Q1 2012 – Q3 2013

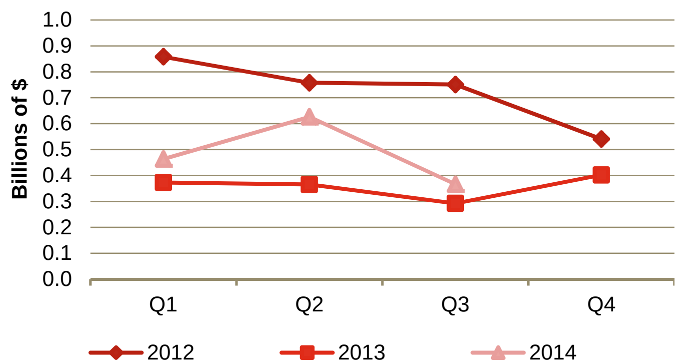
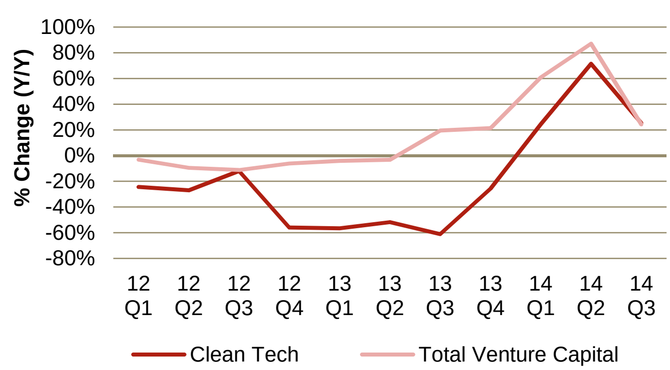


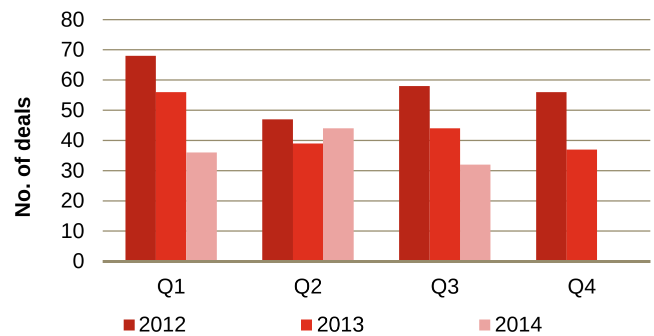
Figure 21: Growth in Cleantech funding compared with total venture funding



Cleantech deal volume

Compared to the third quarter of 2013, deal volume decreased by 27 percent in the third quarter to 32. Average deal size was $11.4 million, an increase of 57 percent year-over-year.

Figure 22: Cleantech deal volume by quarter Q1 2012 – Q3 2014

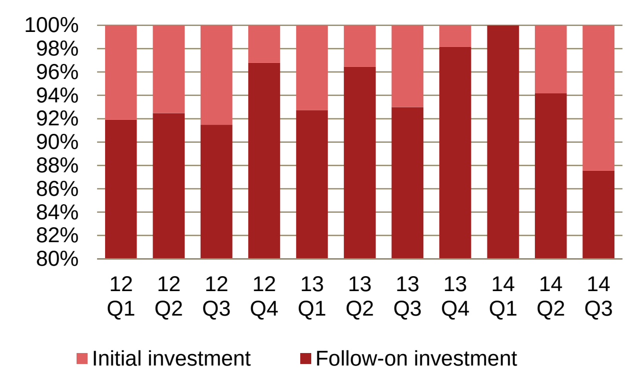


First-time funding compared with follow-on funding

Compared to the third quarter of 2013, first-time funding increased 122 percent to $46 million. First-time deals in the Cleantech sector averaged $9.1 million during the third quarter, an increase of 211 percent year-over-year, in 5 deals.

Year-over-year, follow-on funding increased 18 percent to $321 million in the third quarter. Follow-on funding average deal size was $11.9 million, a 44 percent increase from the same period in the previous year, in 27 deals.

Figure 23: Cleantech follow-on compared with initial investments Q1 2012 – Q3 2014



Cleantech funding by stage

Early-stage investment was $46 million during the quarter, a decrease of 25 percent compared to the third quarter of 2013.

Cleantech investment for late-stage opportunities increased year-over-year by 38 percent to $320 million.

Early-stage average deal size, at $9.2 million, increased 141 percent year-over-year in 5 deals, while late-stage average deal size, at $11.9 million, increased 23 percent over the same period in 27 deals.

Figure 24: Cleantech funding by stage Q1 2012 – Q3 2014

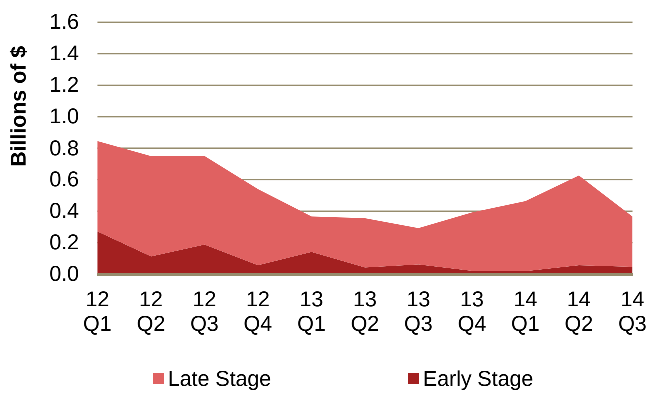


Table 3: 2014 Third quarter sequential change (Q/Q)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	-50%	+31%	-18%
Late Stage	-21%	-31%	-44%

Cleantech funding by subsector

Cleantech subsectors receiving increased funding in the third quarter compared to the prior-year period were:

- Solar Energy, increased 51 percent to $172 million
- Agriculture & Bioproducts, increased 22 percent to $32 million
- Smart Grid & Energy Storage, increased 52 percent to $46 million
- Other Cleantech, increased 140 percent to $97 million

Cleantech subsectors receiving less funding in the fourth quarter compared to the prior-year period were:

- Water & Waste Management, decreased 74 percent to $20 million

Transportation did not receive any funding in the quarter.

Figure 25: Cleantech funding by subsector Q1 2012 – Q3 2014

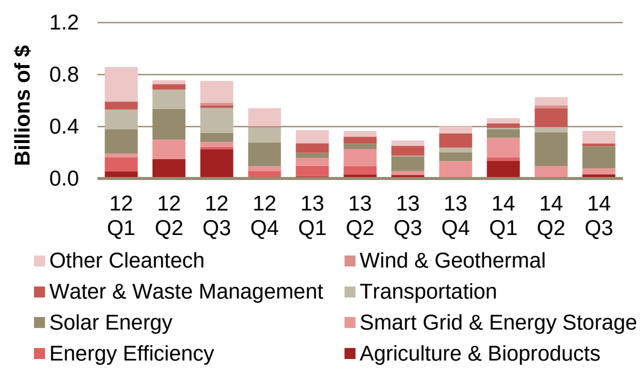
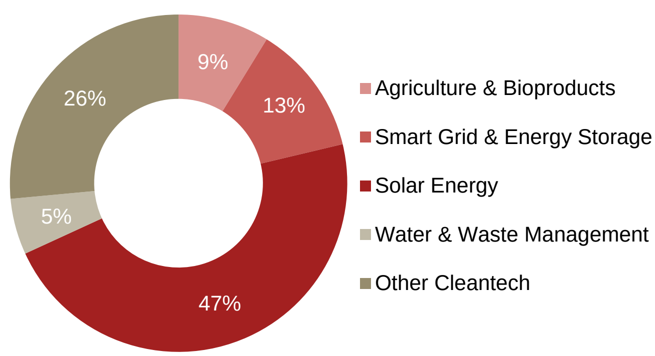


Figure 26: Cleantech funding by subsector third quarter 2014



Regional funding trends

Silicon Valley, the Midwest, South Central, LA/Orange County, and Texas received the most Cleantech venture capital funding in the third quarter. Silicon Valley received the most funding with $179 million.

Figure 27: Top five regions third quarter 2014

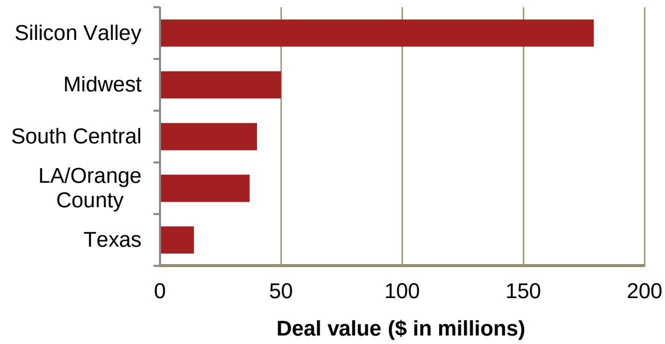
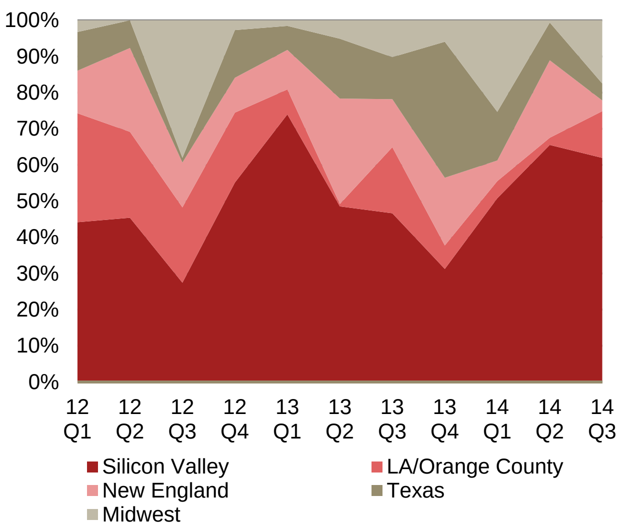


Figure 28: Funding trends in top five regions Q1 2012 – Q3 2014



Venture capital outlook

Venture capitalists invested $9.9 billion in 1,023 deals in the third quarter of 2014. Quarterly venture capital (VC) investment declined 27 percent in terms of dollars and 9 percent in the number of deals, compared to the second quarter when $13.5 billion was invested in 1,129 deals. The third quarter is the sixth consecutive quarter of more than 1,000 companies receiving venture capital investments in a single quarter.

"We're seeing real substance behind the companies receiving funding," said Wallace. "These companies have technology that is already being adopted. The question isn't about adoption, but rather which companies will rise as market leaders. Software continues to receive the lion's share of VC dollars due to high ROI and because they tend to be more capital efficient."

"Despite the drop in VC dollars in Q3, we continue to see a healthy level of investing. In fact, venture capitalists have already invested more in the first three quarters of the year than they did in all of 2013, and investments are on pace to surpass $40 billion in 2014," remarked Mark McCaffrey, global software leader and technology partner at PwC. "In addition to the continued participation of non-traditional investors, another factor driving the strong investment levels is the increasing prevalence of mega deals, deals exceeding $100 million, which we've seen over the past few quarters. We've already counted more than 30 mega deals in 2014 compared to only 16 in all of 2013."

"Driven by a strong IPO market for venture-backed companies and the rise of startups in every region across the country, we continue to see a greater number of new players joining the venture game," said Bobby Franklin, President and CEO of NVCA. "The emergence of non-traditional investors, including hedge funds and mutual funds, is contributing to the increase in venture investing this year. Another factor that can't be ignored is the changing nature of our economy, where startup companies are disrupting entrenched industries and, in some cases, creating new industries altogether. Traditional and non-traditional venture investors alike recognize this and want to get in on the ground floor of innovation."[5]

[5] PwC and NVCA news release, "Year-to-date venture capital dollars invested eclipses total dollars invested in all of 2013" - October 17, 2014.

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PwC can help

For a deeper discussion on these results, please contact one of our leaders:

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About PricewaterhouseCoopers' Emerging Company Services (ECS)

PricewaterhouseCoopers' Emerging Company Services practice delivers a broad spectrum of services to meet the needs of fast-growth technology start-ups in key industry segments: Software, Semiconductors, Internet, New Media, Cleantech, 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.

About PwC's Technology Institute

The Technology Institute is PwC's global research network that studies the business of technology and the technology of business with the purpose of creating thought leadership that offers both fact-based analysis and experience-based perspectives. Technology Institute insights and viewpoints originate from active collaboration between our professionals across the globe and their first-hand experiences working in and with the technology industry. For more information please contact Tom Archer, US Technology Industry Leader.

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