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PricewaterhouseCoopers
National Venture Capital Association

Internet Rising

Q4 2013

Data provided by Thomson Reuters

February 2014

The Technology Q4 2013 MoneyTree™ results are in! This special report provides summary results of Q4 2013. More detailed results can be found on the MoneyTree™ website at www.pwcmoneytree.com

pwc

Internet rising

Fourth quarter Technology venture capital investment jumped 47% year-over-year but fell 4% quarter-over-quarter

US venture capital funding for the Technology sector [1] was $5.3 billion in 687 deals during the fourth quarter of 2013, according to findings from the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association (NVCA), based on data from Thomson Reuters. Technology investment increased by 47 percent in dollars and 4 percent in deal volume from the fourth quarter of 2012. For all industries, US venture capitalists invested $8.4 billion in 1,077 deals during the quarter.

Internet-specific [2], which consists of companies that have a business model dependent on the Internet but are part of multiple industries, received $2.4 billion in 273 deals in the fourth quarter. Funding dollars increased 56 percent year-over-year. The number of deals rose 9 percent from the fourth quarter of 2012. (Internet-specific can include companies from industries such as technology, e-commerce retail, healthcare, financial services, etc.)

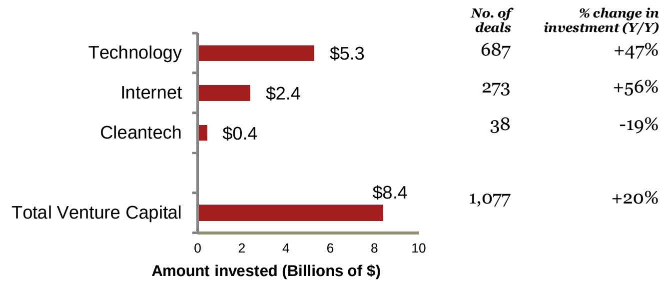
Cleantech [3], which consists of companies that have a business model dependent on clean technology but are part of multiple industries, received $418 million in 38 deals in the fourth quarter. Cleantech funding dollars decreased 19 percent year-over-year and 37 percent in deal volume over the same period. (Cleantech includes companies from industries such as energy, biotechnology, transportation, technology, etc.)

Across all sectors, venture capitalists invested $8.4 billion in 1,077 deals in the fourth quarter, an increase of 20 percent in dollars and 3 percent in deals over the prior-year period, according to the MoneyTree™ Report. For 2013, venture funding increased 7 percent to $29.4 billion in 3,995 deals.

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

"2013 was a strong year for Technology venture investing, rising 22% during the year. The fourth quarter witnessed a surge of investment in Internet-specific funding, surging 56 percent from the prior quarter. VC funds continue to move into less capital intensive industries that are highly scalable and which provide for higher potential ROI. This trend looks set to continue into 2014 which augers well for software and software enabled companies."

Figure 1: Technology, Internet-specific, Cleantech funding, Q4 '13



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 $5.3 billion in technology funding was an increase of 47 percent from the same quarter in 2012 but a 4 percent decline from the previous quarter. Funding in 2013 grew 22 percent to $18.6 billion.

"Technology funding showed significant improvement in the quarter and during the year," Silverman said. "Technology captured the top eight deals in 2013 and accounted for almost two-thirds of total VC funding in the year. Even outside of Silicon Valley, Technology investment had strong growth with New York Metro gaining 39 percent for the year and 95 percent for the quarter. The impressive performance of 2013 may be tough to replicate but the Technology sector will likely continue to be the leading venture funding destination in 2014."

Figure 2: Technology funding trends by quarter 2011-2013

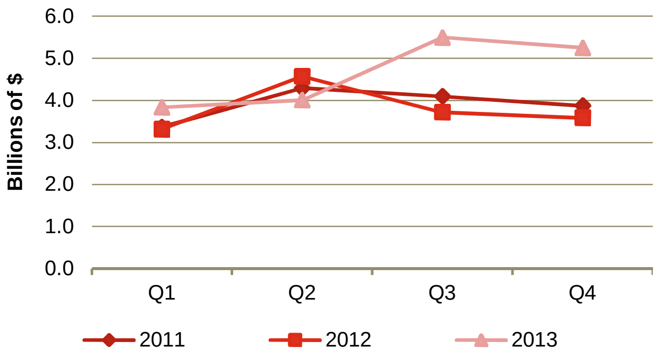
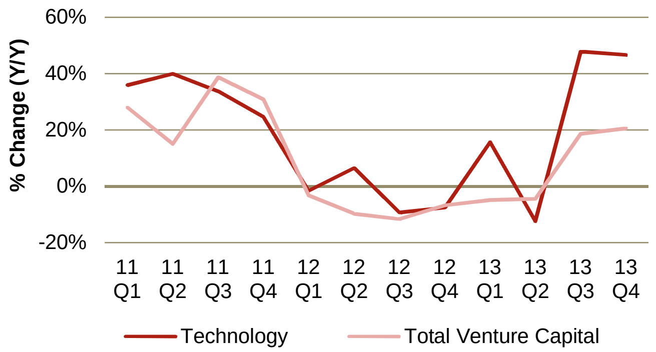


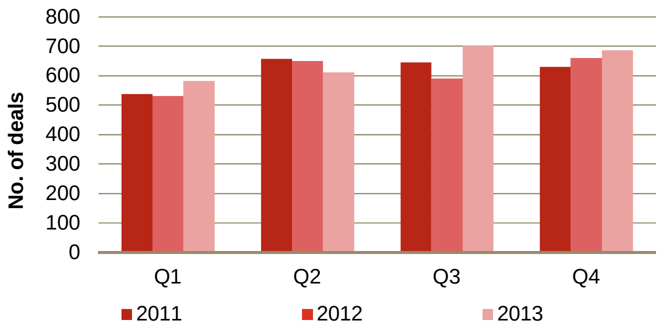
Figure 3: Growth in Technology funding compared with total venture funding



Technology deal volume

Technology deal volume increased 4 percent to 687 deals in the fourth quarter compared to the same period in the previous year. Deal volume reached 2,584 in 2013, a 6 percent increase from 2012. Technology deal volume was 65 percent of all venture deals in 2013, growing from 63 percent in 2012.

Figure 4: Technology deal volume by quarter 2011-2013



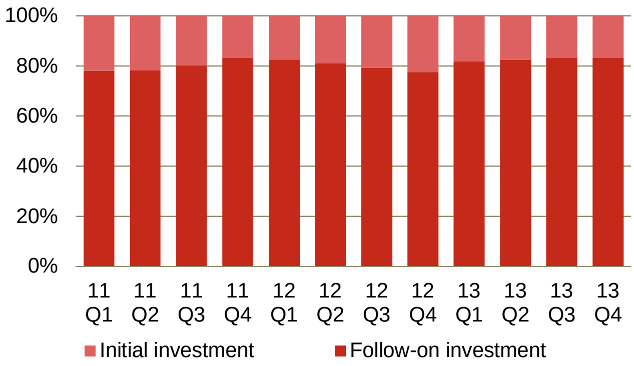
The average deal size in the fourth quarter was $7.6 million, a 41 percent increase from the same period in 2012.

First-time funding compared to follow-on funding

First-time funding increased compared to the fourth quarter of 2012 by 10 percent to $885 million, while follow-on funding improved 57 percent to $4.4 billion.

The number of first-time deals in the Technology sector decreased 7 percent to 240 deals. Deal size averaged $3.7 million during the quarter, an 18 percent increase from the fourth quarter of 2012. Follow-on-funding volume increased 11 percent to 447 deals and average deal size increased 41 percent from the prior year to $9.8 million.

Figure 5: Technology follow-on compared with initial investments 2011-2013



Technology funding by stage

Early Stage[1] deals received funding of $1.8 billion in the fourth quarter, increasing 52 percent year-over-year. Early-stage average deal size increased 43 percent year-over-year to $4.5 million, while the number of deals increased by 6 percent to 393 deals.

Late Stage[2] investment reached $3.5 billion in the fourth quarter, a 44 percent improvement year-over-year. Late Stage average deal size increased 41 percent year-over-year to $11.8 million while the number of deals increased by 2 percent to 294 deals.

Figure 6: Technology funding by stage each quarter 2011-2013

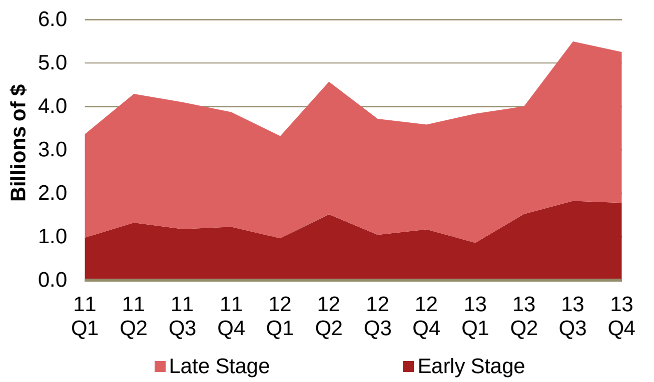


Table 1: 2013 fourth quarter sequential growth factors (Q/Q growth)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	-6%	+4%	-3%
Late Stage	+3%	-8%	-5%

Technology funding by subsegment

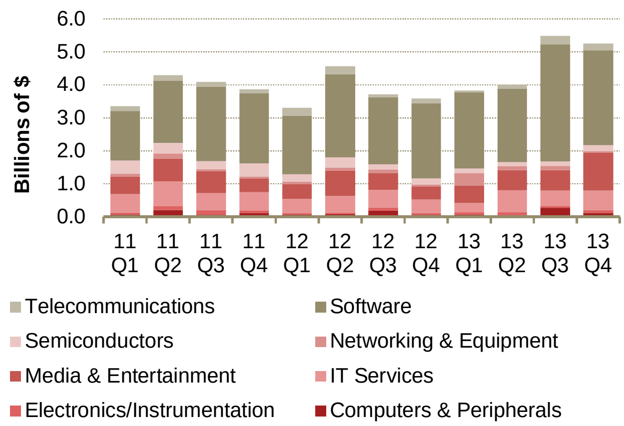
The Technology subsectors seeing an increase in funding from the fourth quarter of 2012:

- Media & Entertainment, +192 percent to $1.2 billion
- Computers & Peripherals, +124 percent to $127 million
- Telecommunications, +44 percent to $199 million
- IT Services, +43 percent to $580 million
- Electronics/Instrumentation, +30 percent to $88 million
- Software, +26 percent to $2.9 billion

Subsectors showing declines in funding from the fourth quarter of 2012 were:

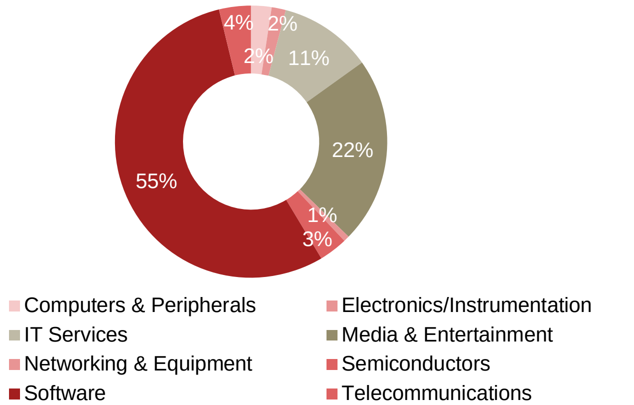
- Networking & Equipment, -30 percent to $36 million
- Semiconductors, -4 percent to $178 million

Figure 7: Technology funding by subsegment 2011-2013



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

Figure 8: Technology funding by subsegment fourth quarter 2013



Regional funding trends

Silicon Valley[3], NY Metro, New England, Northwest and SoCal[4] received the most Technology venture capital dollars during the fourth quarter. Silicon Valley received $2.4 billion, with $1.4 billion devoted to Software.

Figure 9: Top five regions, fourth quarter 2013

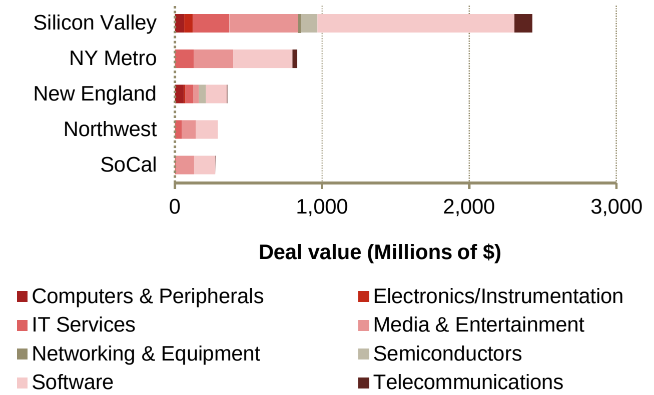
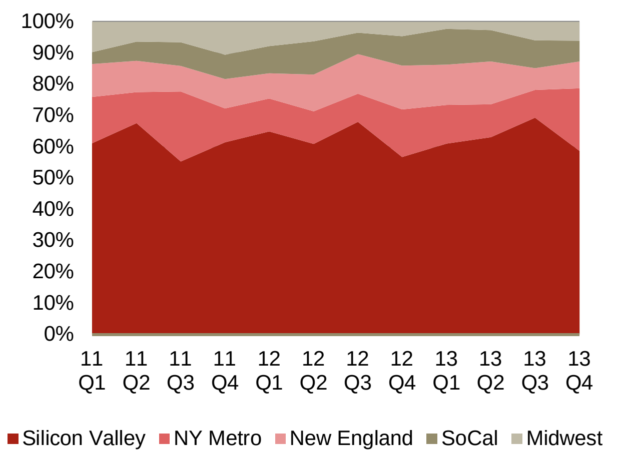


Figure 10: Funding trends in top five regions 2011-2013



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

Internet-specific

Internet funding

Investment totalled $2.4 billion in the fourth quarter of 2013, an increase of 56 percent compared to the fourth quarter of 2012 and of 52 percent compared to the previous quarter. Funding for 2013 reached $7.1 billion, an increase of 7 percent and the highest yearly total since 2001.

"Venture funding for Internet investment saw large improvements in the fourth quarter of 2013 as all subsectors grew. Internet Content – the largest subsector – improved 206% from the prior year period," Silverman said. "The strong fourth quarter pushed Internet investment up 7 percent in 2013. More than a dozen years after the bubble burst, the Internet sector continues to be a key area of VC focus. Continued growth in early-stage deals shows the sector is continuing to appeal to venture funding investors as we move into 2014."

Figure 11: Internet funding trends by quarter 2011-2013

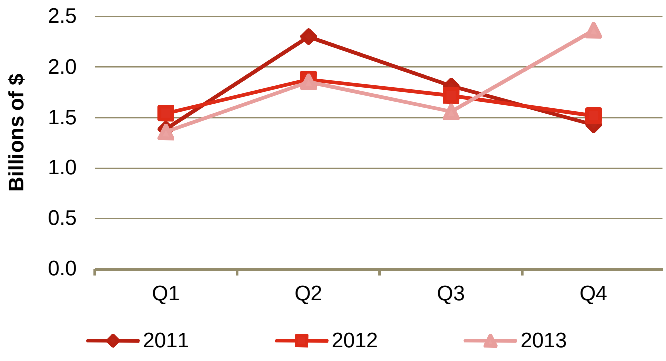
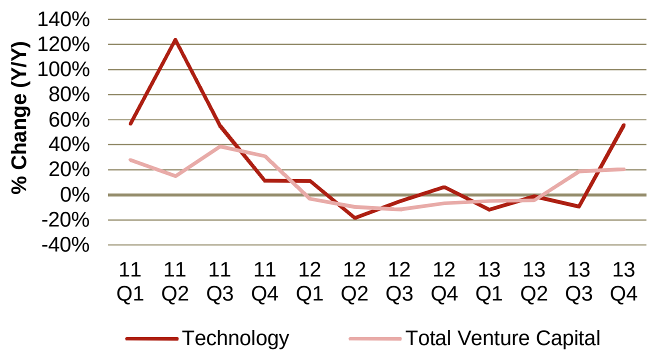


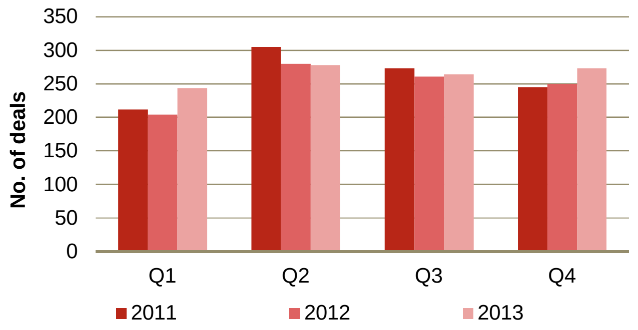
Figure 12: Growth in Internet funding compared with total venture funding



Internet deal volume

Compared to the fourth quarter of 2012, deal volume increased 9 percent in the fourth quarter, to 273 deals. Internet average deal size was $8.7 million, an increase of 43 percent year-over-year.

Figure 13: Internet deal volume by quarter 2011-2013



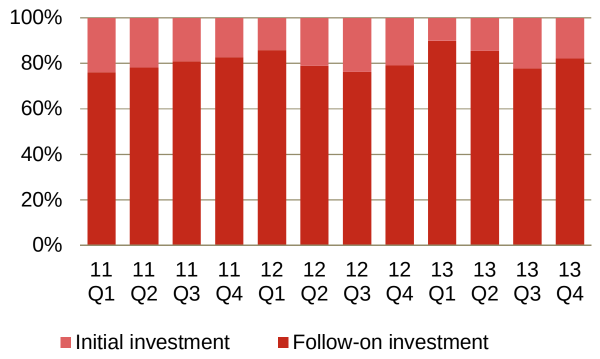
First-time funding compared with follow-on funding

Compared to the same period last year, first-time funding increased 33 percent to $423 million. Follow-on funding jumped 62 percent over the same period, to $1.9 billion.

First-time deals in the Internet sector averaged $4.2 million during the fourth quarter in 100 deals, an increase of 46 percent in deal size and a decline of 9 percent in deal volume year-over-year.

Follow-on deals in the Internet sector averaged $11.2 million during the fourth quarter in 173 deals, a increase of 31 percent in deal size and of 24 percent in deal volume year-over-year.

Figure 14: Internet follow-on compared with initial investments 2011-2013



Internet funding by stage

Investment for early-stage companies increased 150 percent year-over-year to $1 billion. Early-stage average deal size was $5.6million in 179 deals, an increase of 113 percent in deal size and of 17 percent in volume year-over-year.

Investment in late-stage opportunities was $1.4 billion in the fourth quarter, a 22 percent increase year-over-year. Over the same period, late-stage average deal size was $14.6 million in 94 deals, an increase of 26 percent in size but a decline of 3 percent in volume year-over-year.

Figure 15: Internet funding by stage each quarter 2011-2013

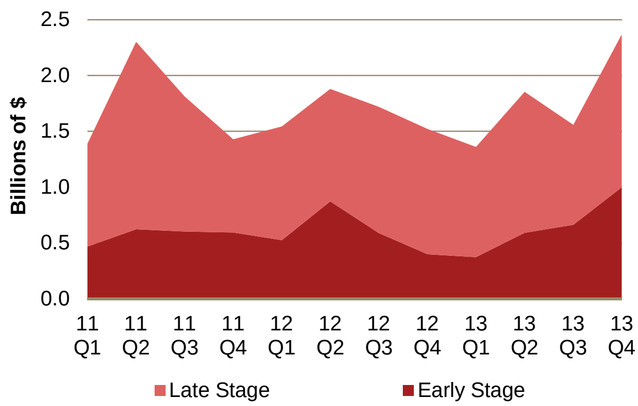


Table 2: 2013 Fourth quarter sequential growth factors (Q/Q growth)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	+10%	+37%	+50%
Late Stage	-7%	+64%	+53%

Internet funding by subsegment

All Internet subsectors received increases in funding during the fourth quarter compared to the prior-year period were:

- Internet Content, +206 percent to $895 million
- Internet Programming, +90 percent to $37 million
- Internet Communications, +83 percent to $101 million
- Internet e-Commerce, +17 percent to $675 million
- Internet Software, +16 percent to $337 million
- Internet Services, +14 percent to $279 million
- e-Commerce Technology, +7 percent to $42 million

Web Servers did not receive funding in the quarter.

Figure 16: Internet funding by subsegment 2011-2013

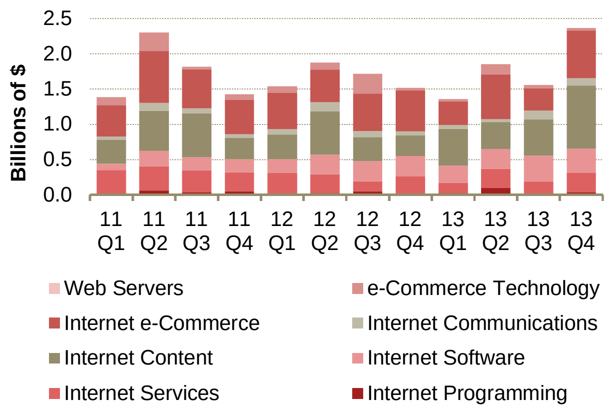
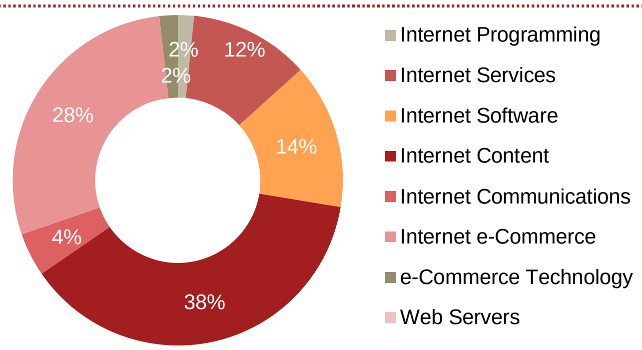


Figure 17: Internet funding by subsegment fourth quarter 2013



Regional funding trends

Silicon Valley, NY Metro, So Cal, the Northwest and New England received the most Internet venture capital dollars during the fourth quarter. Silicon Valley received $938 million, with $462 million going into Internet Content.

Figure 18: Top five regions fourth quarter 2013

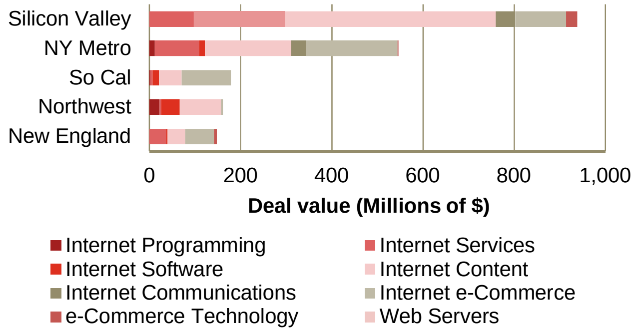
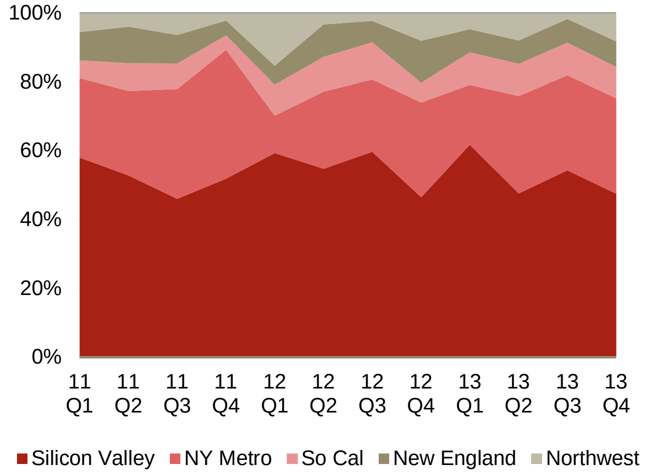


Figure 19: Funding trends in top five regions 2011-2013



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 19 percent decrease in funding from the previous year, to $418 million. For 2013, Cleantech funding declined 53 percent to $1.5 billion.

"Cleantech funding continued to see declines in funding this quarter, however, there was a 47% improvement over the third quarter of 2013. The move of VC money to quicker returns in less capital intense industries continues to impact the sector," said Danny Wallace, national co-leader of the Emerging Company Services Practice at PwC. "This quarter saw the most investment coming from Texas as opposed to the traditional leader, Silicon Valley. This move could see an increased emphasis on different subsectors within Cleantech in 2014."

Figure 20: Cleantech funding trends by quarter 2011-2013

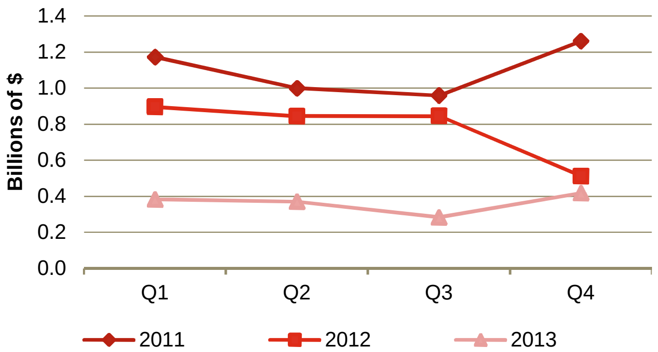
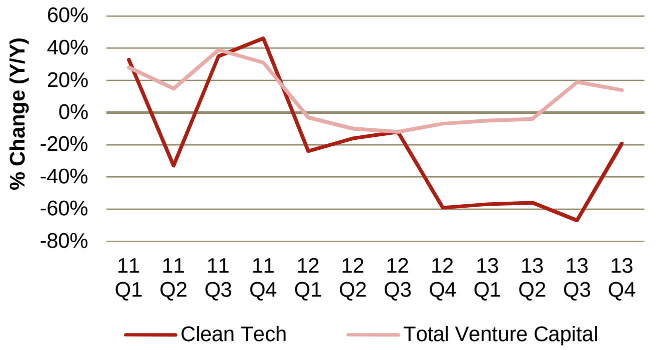


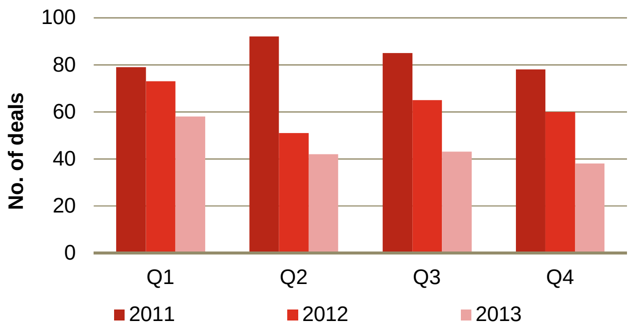
Figure 21: Growth in Cleantech funding compared with total venture funding



Cleantech deal volume

Compared to the fourth quarter of 2012, deal volume decreased by 37 percent in the fourth quarter to 38. Average deal size was $11 million, an increase of 29 percent year-over-year.

Figure 22: Cleantech deal volume by quarter 2011-2013

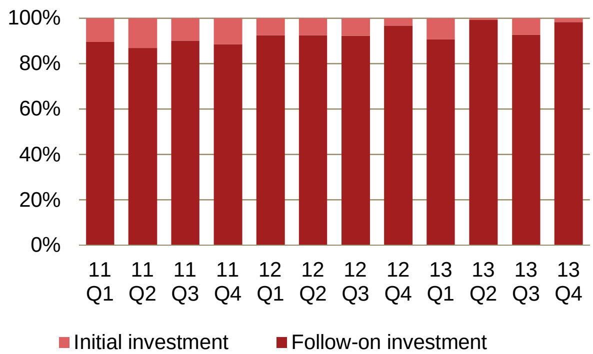


First-time funding compared with follow-on funding

Compared to the fourth quarter of 2012, first-time funding decreased 57 percent to $7.5 million. First-time deals in the Cleantech sector averaged $3.7 million during the fourth quarter, an increase of 159 percent year-over-year, in 2 deals.

Year-over-year, follow-on funding decreased 17 percent to $410 million in the fourth quarter. Follow-on funding average deal size was $11.4 million, a 10 percent increase from the same period in the previous year, in 36 deals.

Figure 23: Cleantech follow-on compared with initial investments 2011-2013



Cleantech funding by stage

Early-stage investment was $24 million during the quarter, a decrease of 69 percent compared to the fourth quarter of 2012.

Cleantech investment for late-stage opportunities decreased year-over-year by 9 percent to $393 million.

Early-stage average deal size, at $4 million, increased 22 percent year-over-year in 6 deals, while late-stage average deal size, at $12.3 million, increased 2 percent over the same period in 32 deals.

Figure 24: Cleantech funding by stage each quarter 2011-2013

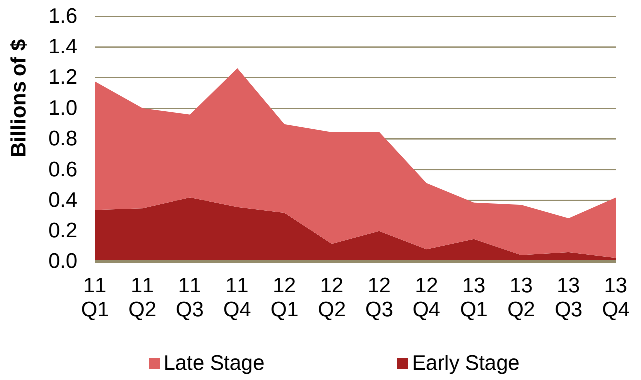


Table 3: 2013 Fourth quarter sequential growth factors (Q/Q growth)

	% Change in Deal Volume	% Change in Avg Deal Size	% Change in Investments
Early Stage	-67%	+20%	+60%
Late Stage	+28%	+38%	+76%

Cleantech funding by subsector

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

- Water & Waste Management, + 1,991 percent to $110 million
- Smart Grid & Energy Storage, + 216 percent to $127 million
- Agriculture & Bioproducts, + 20 percent to $4 million

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

- Energy Efficiency, - 67 percent to $21 million
- Solar Energy, - 65 percent to $67 million
- Wind & Geothermal, - 33 percent to $1 million
- Other Cleantech, - 23 percent to $87 million

Transportation did not receive any funding in the quarter.

Figure 25: Cleantech funding by subsector 2011-2013

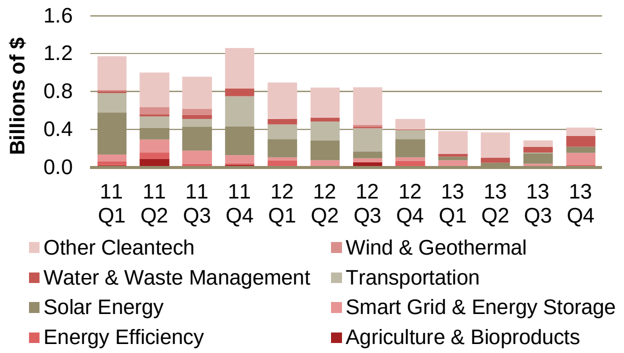
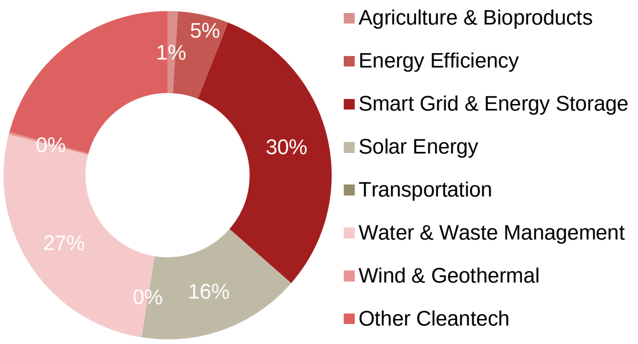


Figure 26: Cleantech funding by subsector fourth quarter 2013



Regional funding trends

Texas, Silicon Valley, New England, San Diego, and the Southeast received the most Cleantech venture capital funding in the fourth quarter. Texas received the most funding with $111 million.

Figure 27: Top five regions fourth quarter 2013

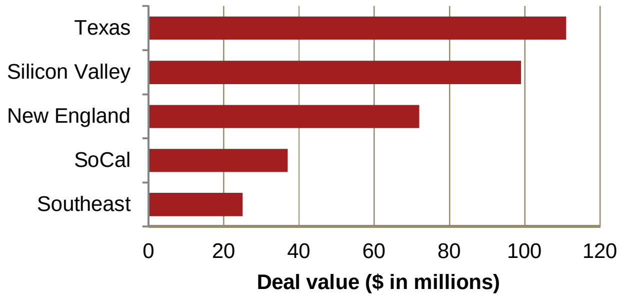
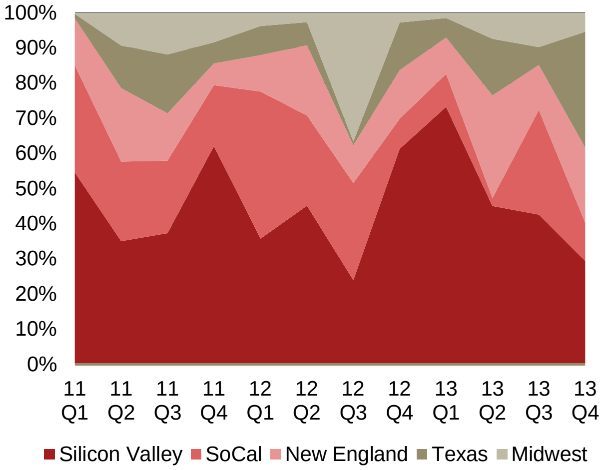


Figure 28: Funding trends in top five regions 2011-2013



Venture capital outlook

"The growth in Technology funding continues to impress. The sector grew at 22 percent in 2013 compared to VC investing as a whole at 7 percent," Wallace said. "As capital continues in technology related investments, subsectors like Internet and Software will continue to see high funding levels. The great performance and impressive returns in the sector for 2013 will continue to drive funding dollars to the sector."

Fundraising

For the full year of 2013, venture capitalists invested $29.4 billion in 3,995 deals in 2013, an increase of 7% in dollars and a 4% increase in deals over the prior year.

Venture capitalists invested $8.4 billion in 1,077 deals during the fourth quarter of 2013. Quarterly venture capital investment activity increased 6% in terms of dollars and 4% in the number of deals, compared with the third quarter of 2013, when $7.9 billion was invested in 1,032 deals.

According to Mark McCaffrey, global technology partner and software leader at PwC US, "Advances in technology continue to revolutionize how companies engage their customers on nearly every level and has changed the landscape of virtually every industry. Consumers can see how innovation is changing their lives in the internet and software spaces and are eager to embrace technology at a faster and faster rate. Combined with the high ROI being driven by the success of recent IPOs and an active acquisition market, it is no surprise that more venture capital dollars are flowing into early stage software and internet companies. In fact, investments in software companies accounted for more than one-third of all VC investing in 2013."

According to Bobby Franklin, president and CEO of NVCA, "We are hearing that this optimism is being fueled by a strong exit market, an improved economy, and as always, innovative entrepreneurs. VC investment is also being bolstered by the continued involvement of corporations in VC deals. There has been some public discussion about recent high valuation levels in private technology companies. Private company valuations follow the public markets and market-leading venture-backed companies are seeing strong interest from investors across the board. We are not hearing concerns of a return to bubble values of the late 1990s."[5]

[5] Thomson Reuters and NVCA news release, "Dollars Invested in Internet-Specific Companies Reaches Highest Total Since 2001; Software Companies Capture More than a Third of Total VC in 2013" January 17, 2014.

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.

pwcmoneytree.com

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