

The State of the Venture Capital Industry

Presentation to Tech Columbus Innovation
Summit

14 May 2009

 **ERNST & YOUNG**
Quality In Everything We Do

Overview

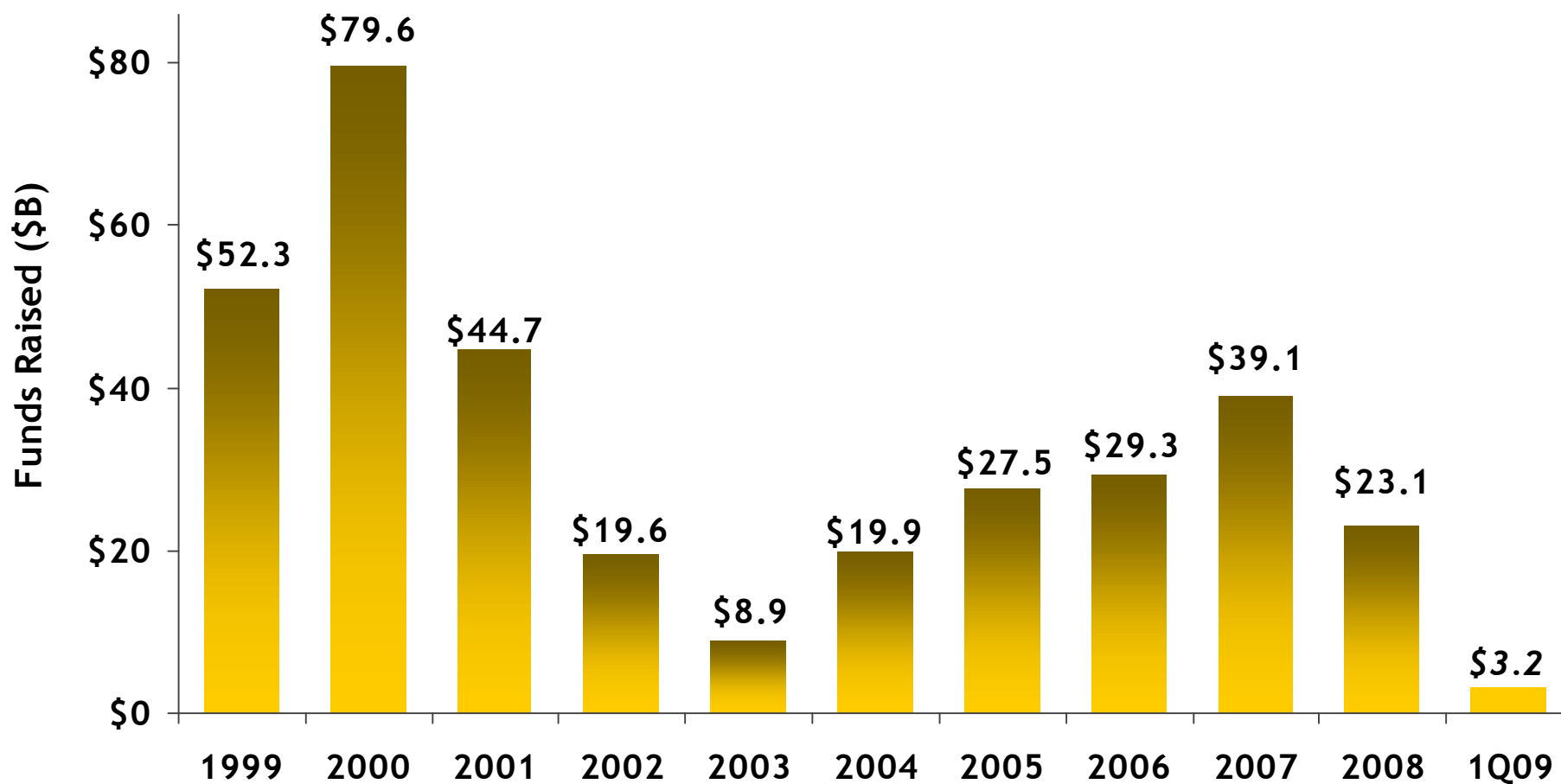
- ▶ The State of VC Funds in the US
- ▶ The Pool of VC-Backed Companies in the US
- ▶ How does Ohio fare?
- ▶ Where has the deal flow and money been focused?
- ▶ What are the areas to watch?
- ▶ Political, Regulatory & Business Environment changes

The State of VC Funds in the US – A Not So “Perfect Storm”!

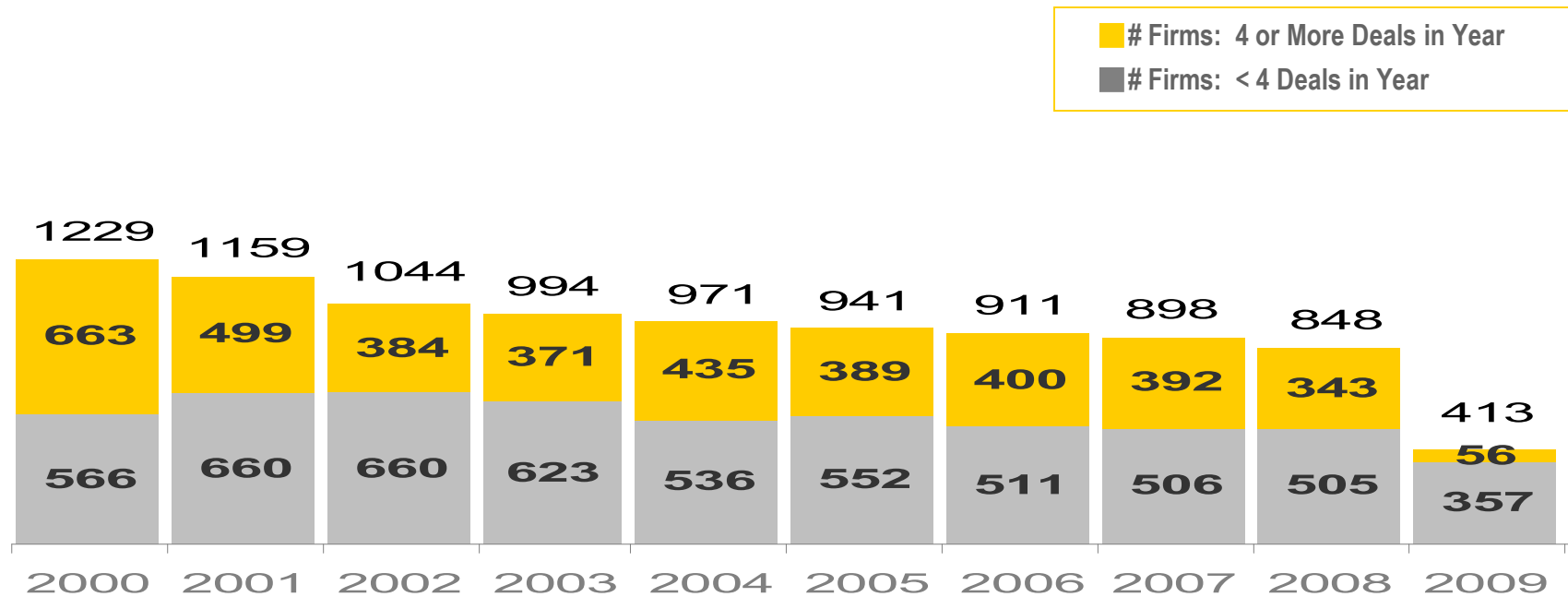
- ▶ External pressures will force consolidation in the VC Industry
 - ▶ Institutional LPs have traditionally been the “life-blood” of VC Fund investment – typically has been a part of “Alternative Assets”
 - ▶ Public equity market corrections caused most LPs to be “over-weighted” in VC fund investments resulting in fewer new VC Fund investments
 - ▶ In some cases LPs have had to transfer positions to secondary buyers and have not had liquidity to honor “capital calls”
 - ▶ Lack of M&A (median now 8 years) or IPO (median now 9 years) exits mean great difficulty demonstrating IRR for LPs or making distributions – “bumping up” against 10 year typical fund term
 - ▶ Cambridge Assoc. US VC Index 1 year (-.9%); 3 & % year (~ 10%)
 - ▶ Result is a “flight to quality” and “buying IBM” behavior

U.S. VC Fundraising Starts Slow in 2009

Commitments to Venture Capital Funds

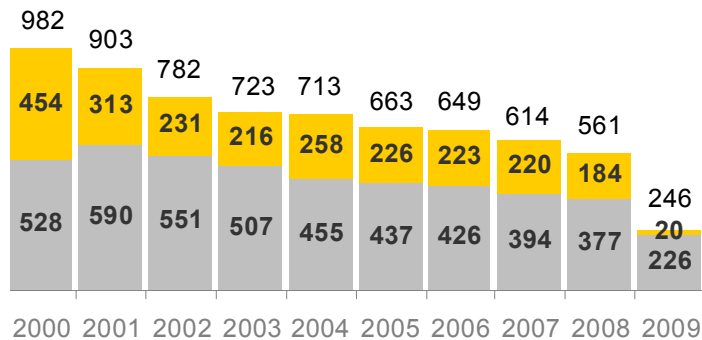


Number of Venture Capital Investors Investing In All Industries With at Least One Investment Per Year, 2000-1Q09

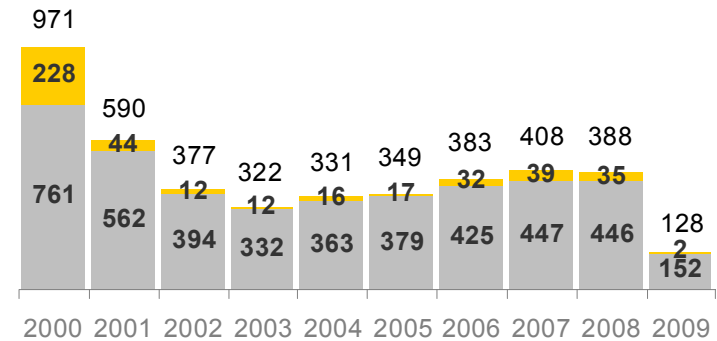


Number of Venture Capital Investors Investing by Segment With at Least One Investment Per Year, 2000-1Q09

IT

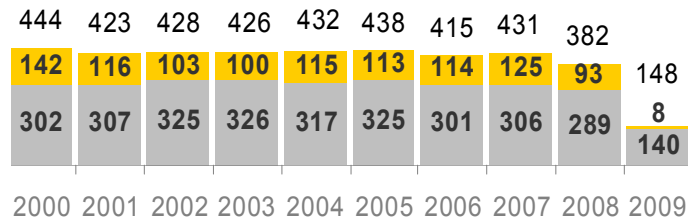


BCR

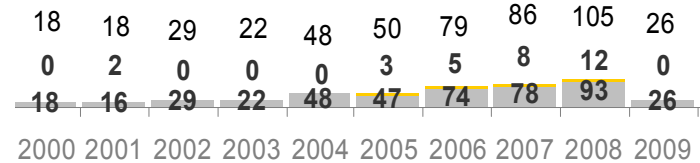


■ # Firms: 4 or More Deals in Year
■ # Firms: < 4 Deals in Year

Healthcare



Energy



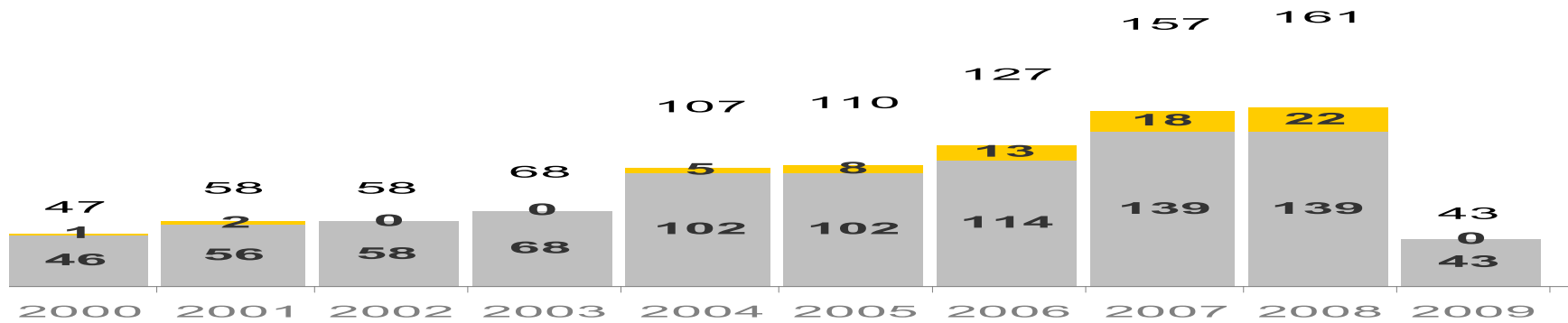
Source: Dow Jones VentureSource

Note: Investors are not unique and can be counted in more than one industry group.

Number of active venture capital investors 2000-1Q09

Cleantech

■ # Firms: 4 or More Deals in Year
 ■ # Firms: 1-3 Deals in Year

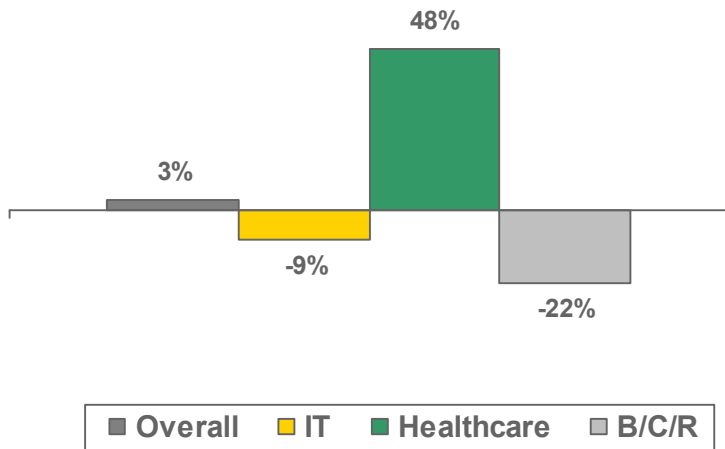


The Pool of VC-Backed Companies in the US

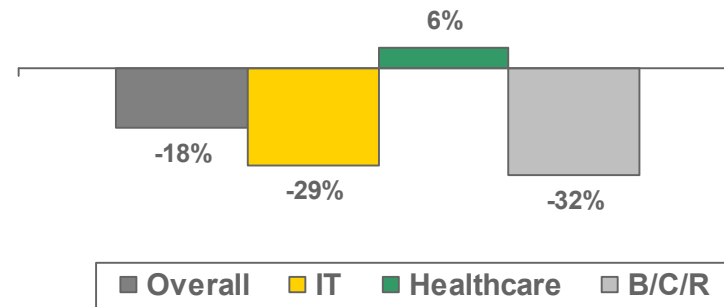
**Private and independent venture-backed companies that have received at least one round of financing in the prior six years*

Change in the number private VC-backed companies with at least one round of financing in the last six years

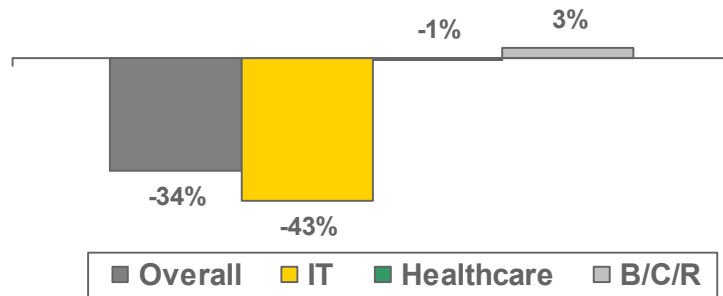
United States: 2002-2009



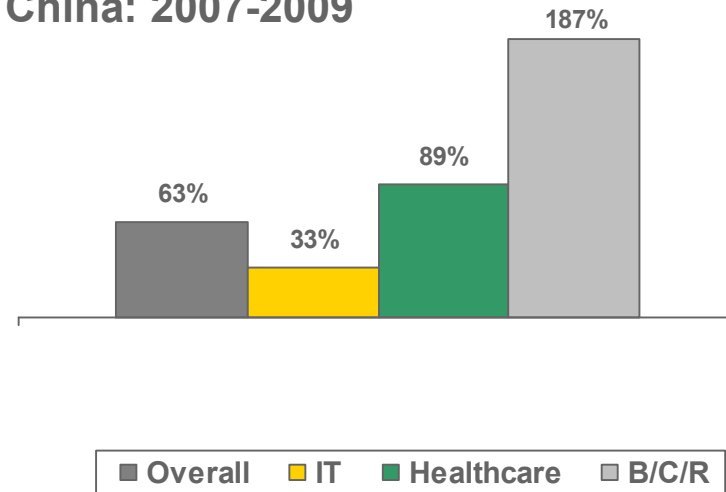
Europe: 2003-2009



Israel: 2004-2009

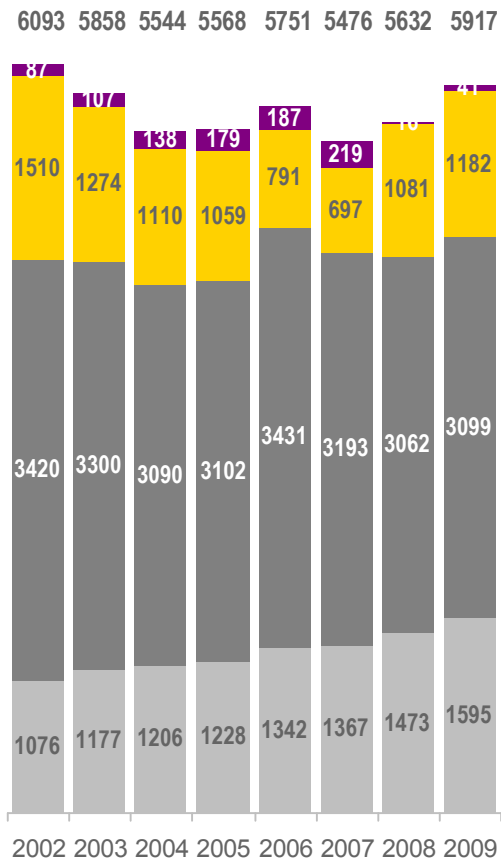


China: 2007-2009

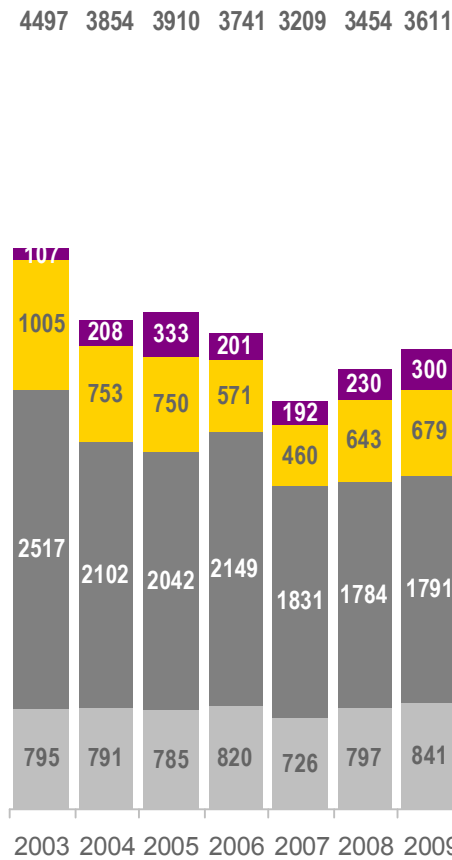


Total number of private VC-backed companies* in the pool by geography

United States



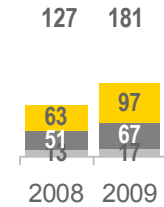
Europe



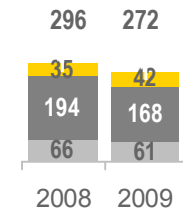
Note: chart scales vary for clarity

*Private and independent VC-backed companies that received at least one round of financing in the last six years

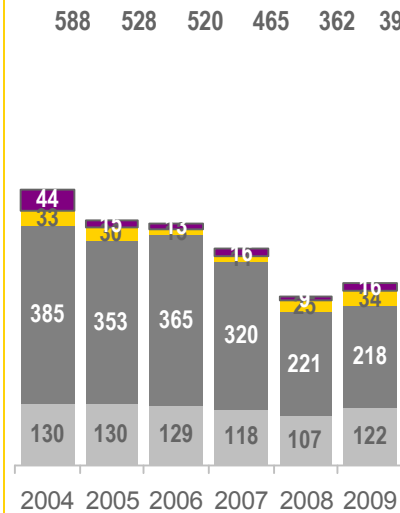
India



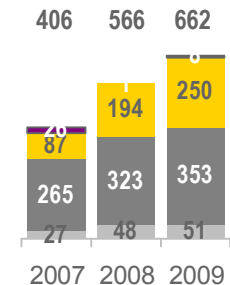
Canada



Israel



China

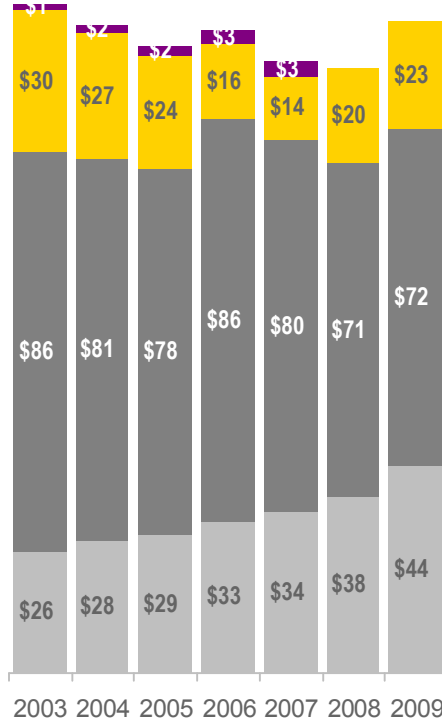


Source: Dow Jones VentureSource

Total cumulative capital invested in the pool of private VC-backed companies*

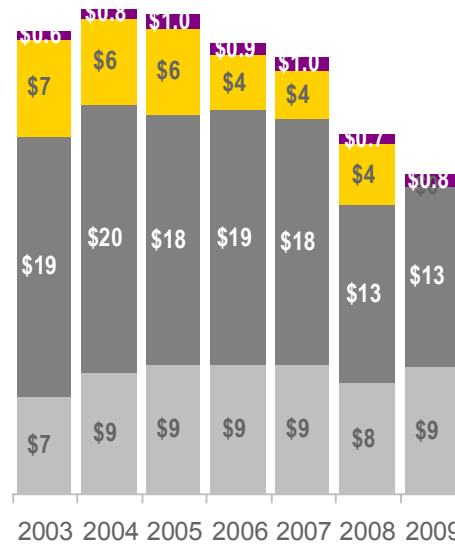
United States (US\$B)

\$143 \$138 \$134 \$137 \$131 \$129 \$139



Europe (US\$B)

\$34 \$35 \$35 \$33 \$32 \$26 \$23



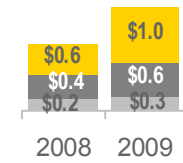
■ Healthcare ■ IT ■ BCR ■ Other

Note: chart scales vary for clarity

*Private and independent VC-backed companies that received at least one round of financing in the last six years

India (US\$B)

\$1 \$2



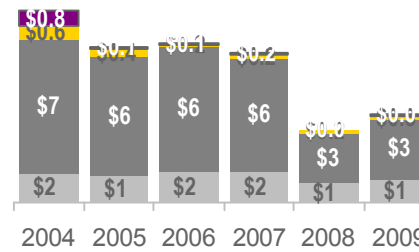
Canada (US\$B)

\$4 \$4



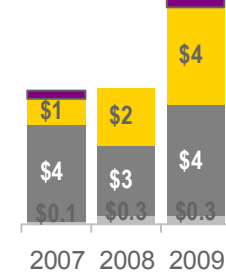
Israel (US\$B)

\$10 \$8 \$8 \$8 \$4 \$4



China (US\$B)

\$5 \$5 \$9

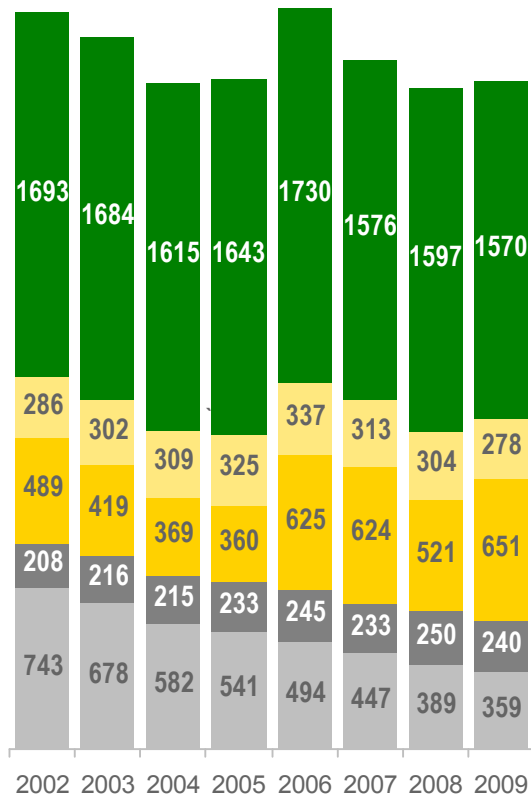


Source: Dow Jones VentureSource

IT: Total number of private VC-backed companies* in the pool by geography

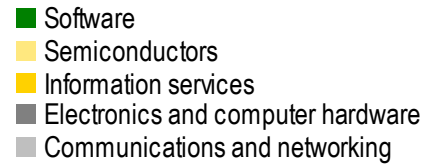
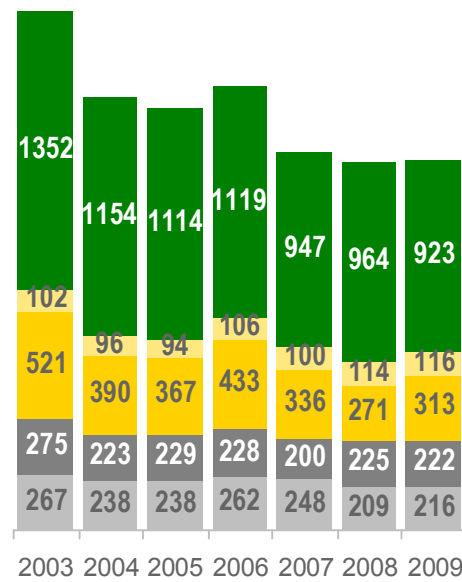
United States

3419 3299 3090 3102 3431 3193 3061 3098



Europe

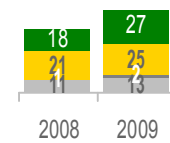
2517 2101 2042 2148 1831 1783 1790



Note: Chart scales vary for clarity
*Private and independent VC-backed companies that received at least one round of financing in the last six years

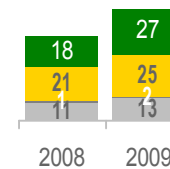
India

51 67



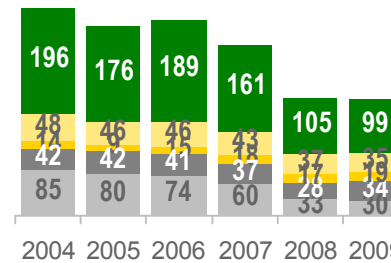
Canada

194 168



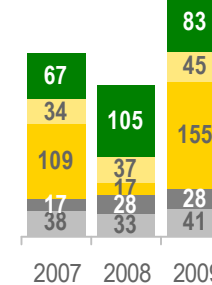
Israel

385 353 365 319 220 217



China

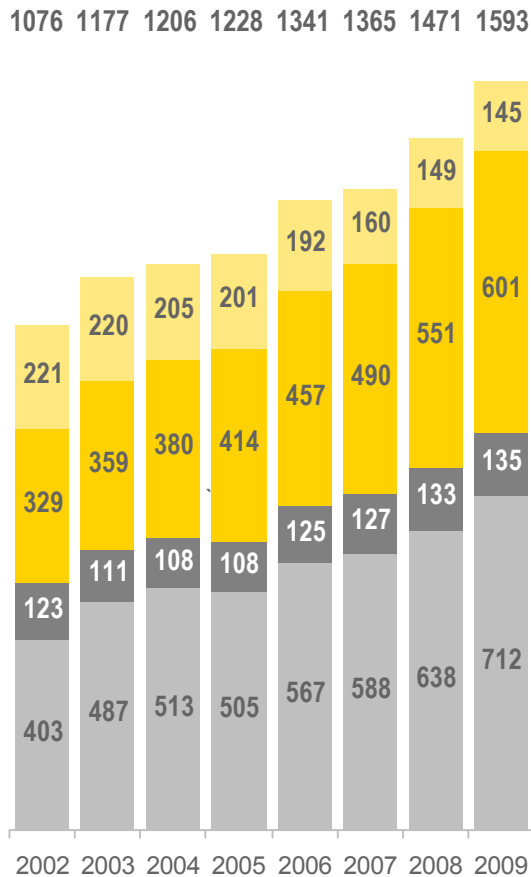
265 220 352



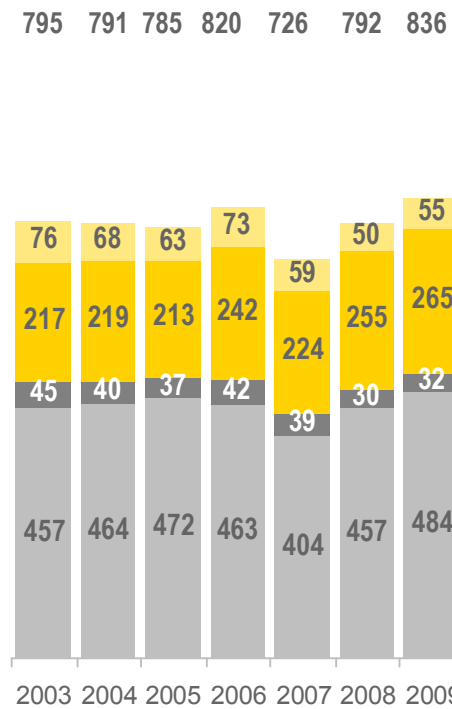
Source: Dow Jones VentureSource

Healthcare: Total number of private VC-backed companies* in the pool by geography

United States



Europe

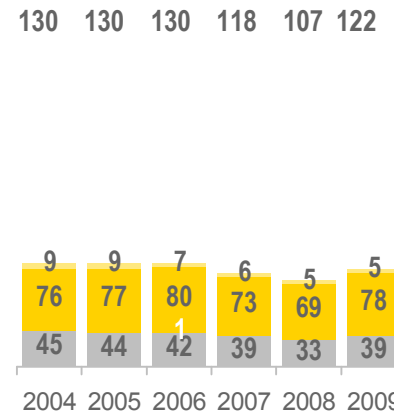


- Medical software and info. services
- Medical devices/equipment
- Healthcare services
- Biopharmaceuticals

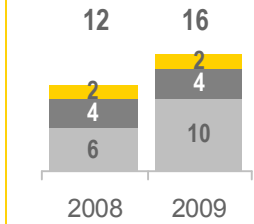
Note: Chart scales vary for clarity

*Private and independent VC-backed companies that received at least one round of financing in the last six years

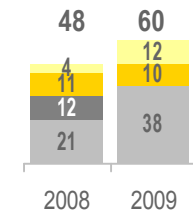
Israel



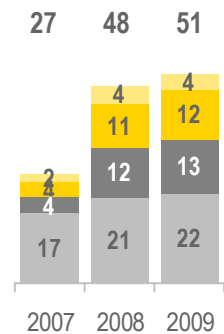
India



Canada



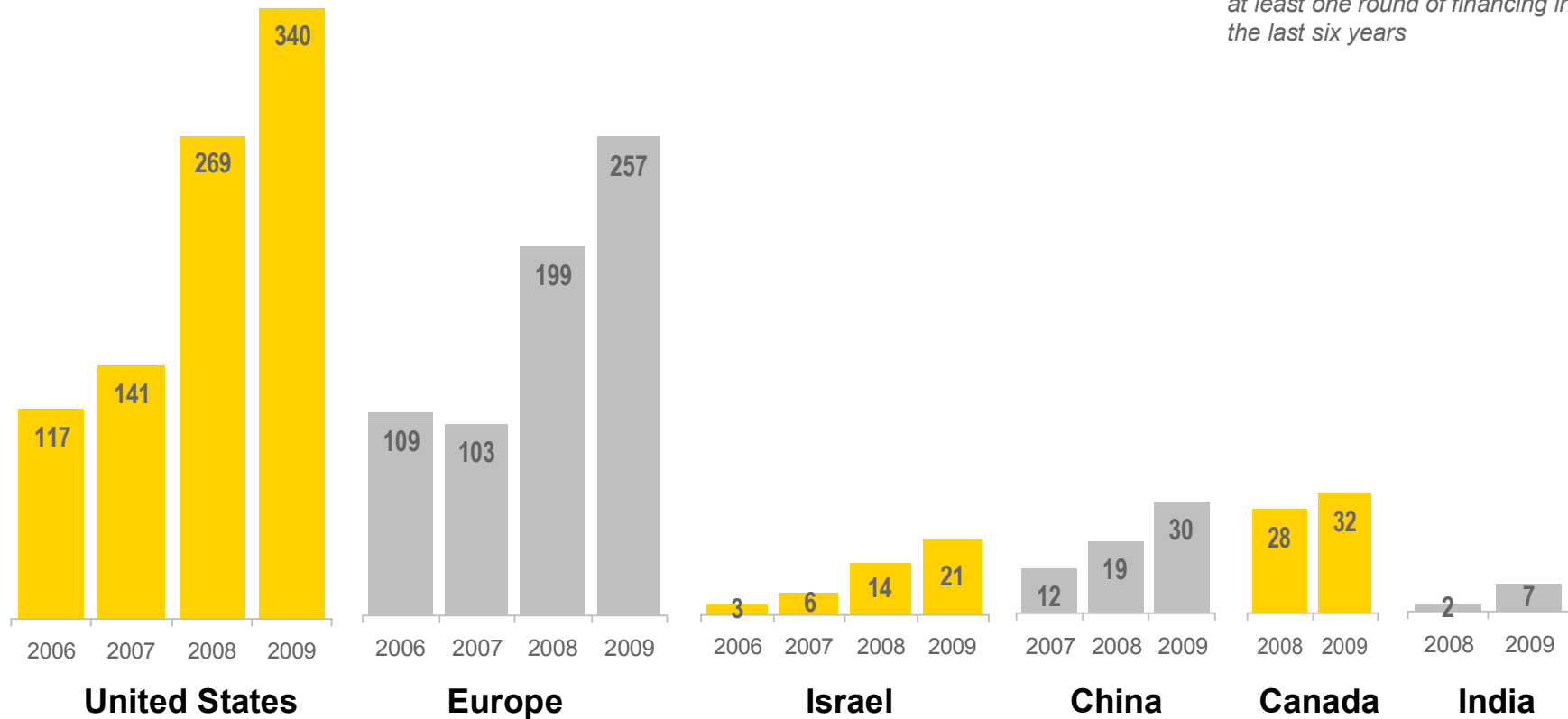
China



Source: Dow Jones VentureSource

Total number of private VC-backed cleantech companies* in the pool by geography

Note: chart scales vary for clarity
*Private and independent VC-backed companies that received at least one round of financing in the last six years

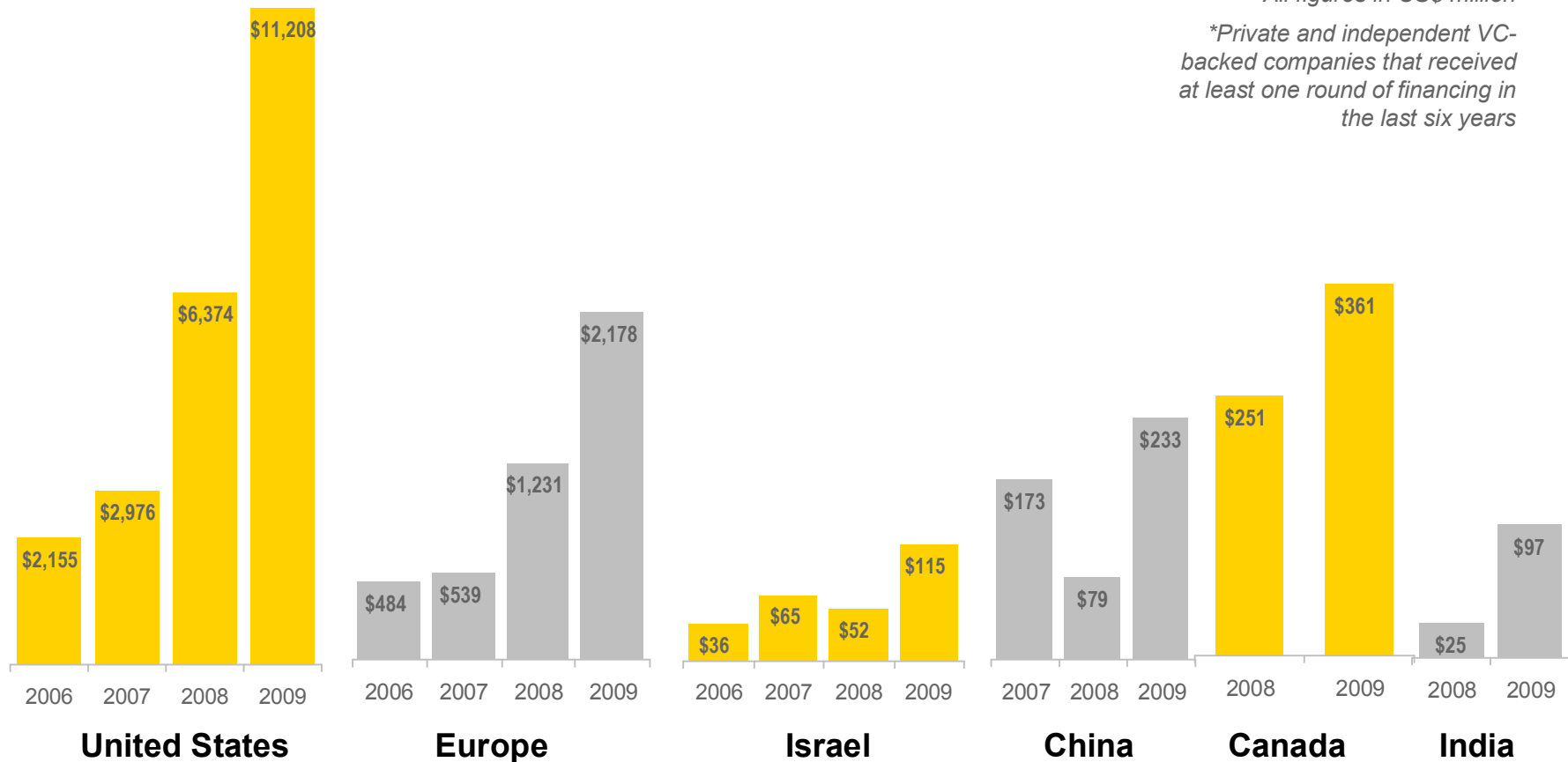


Source: Dow Jones VentureSource

Cumulative capital invested in the pool of private VC-backed cleantech companies* by geography

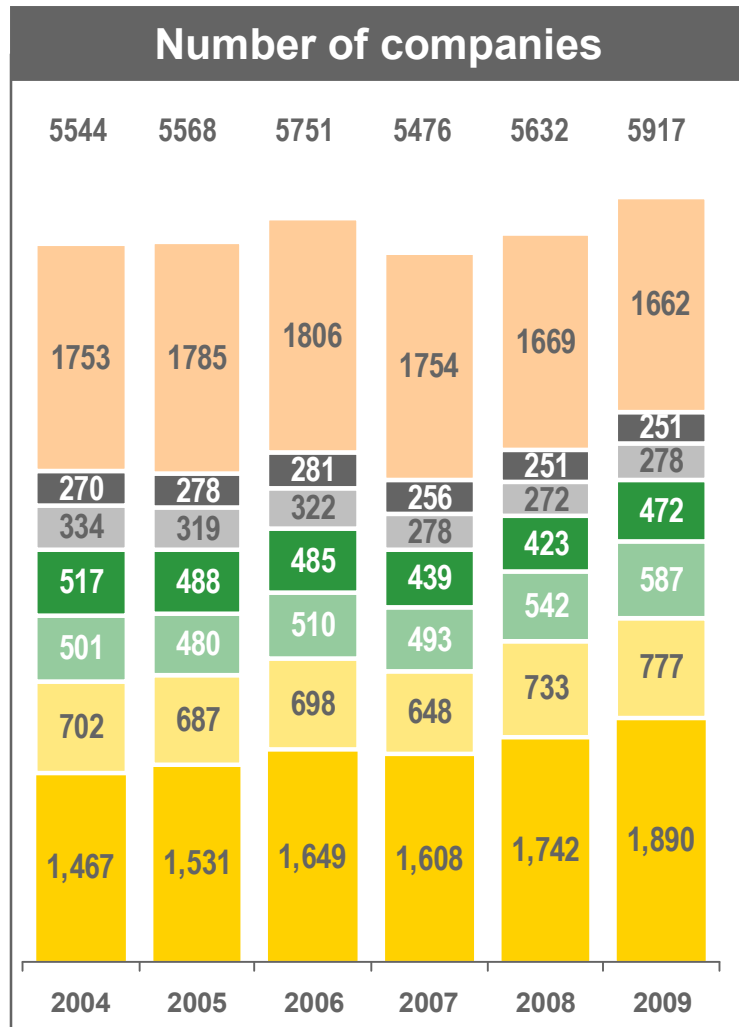
Note: chart scales vary for clarity
All figures in US\$ million

*Private and independent VC-backed companies that received at least one round of financing in the last six years



Source: Dow Jones VentureSource

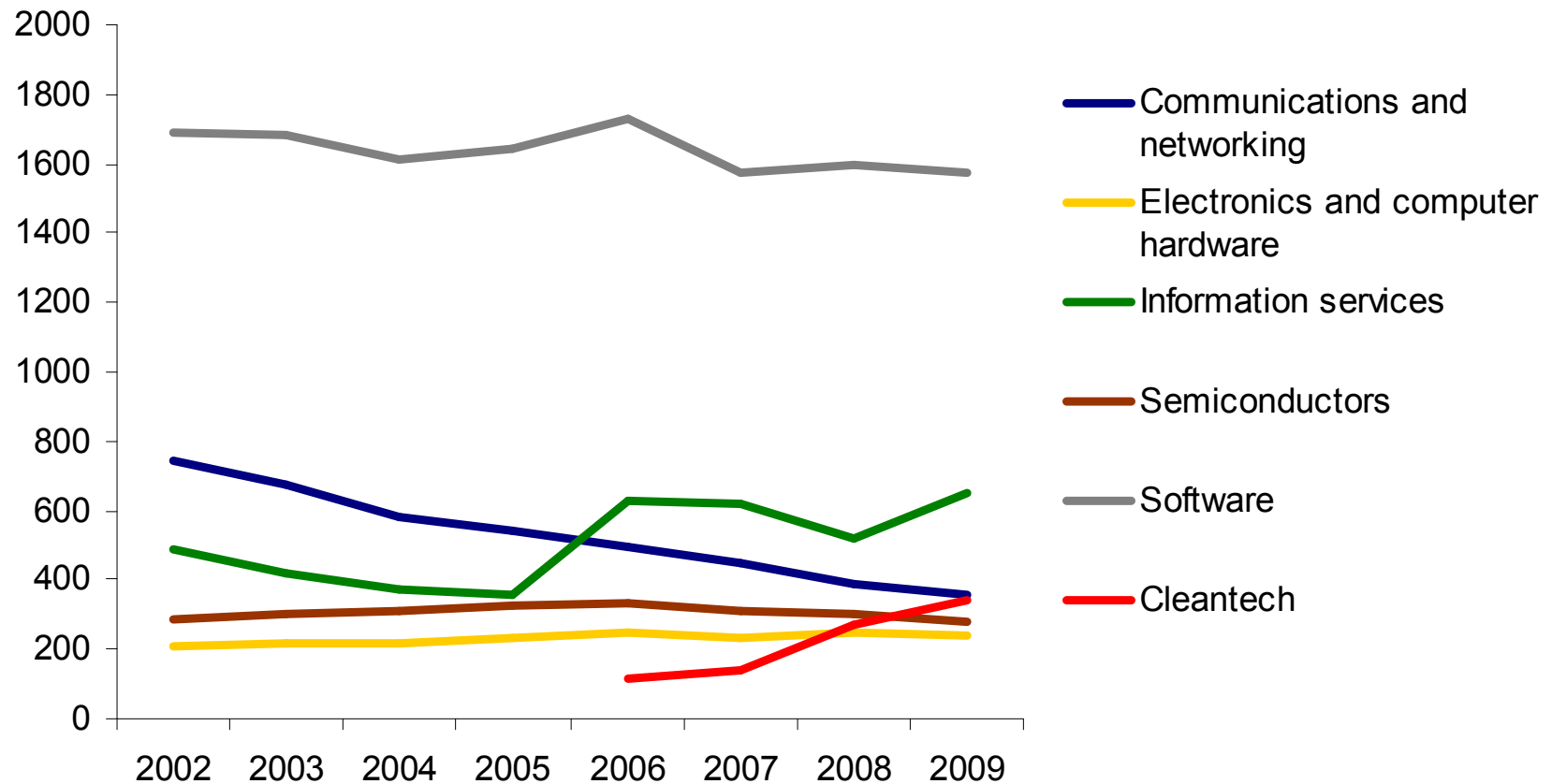
Pool by major regions: United States



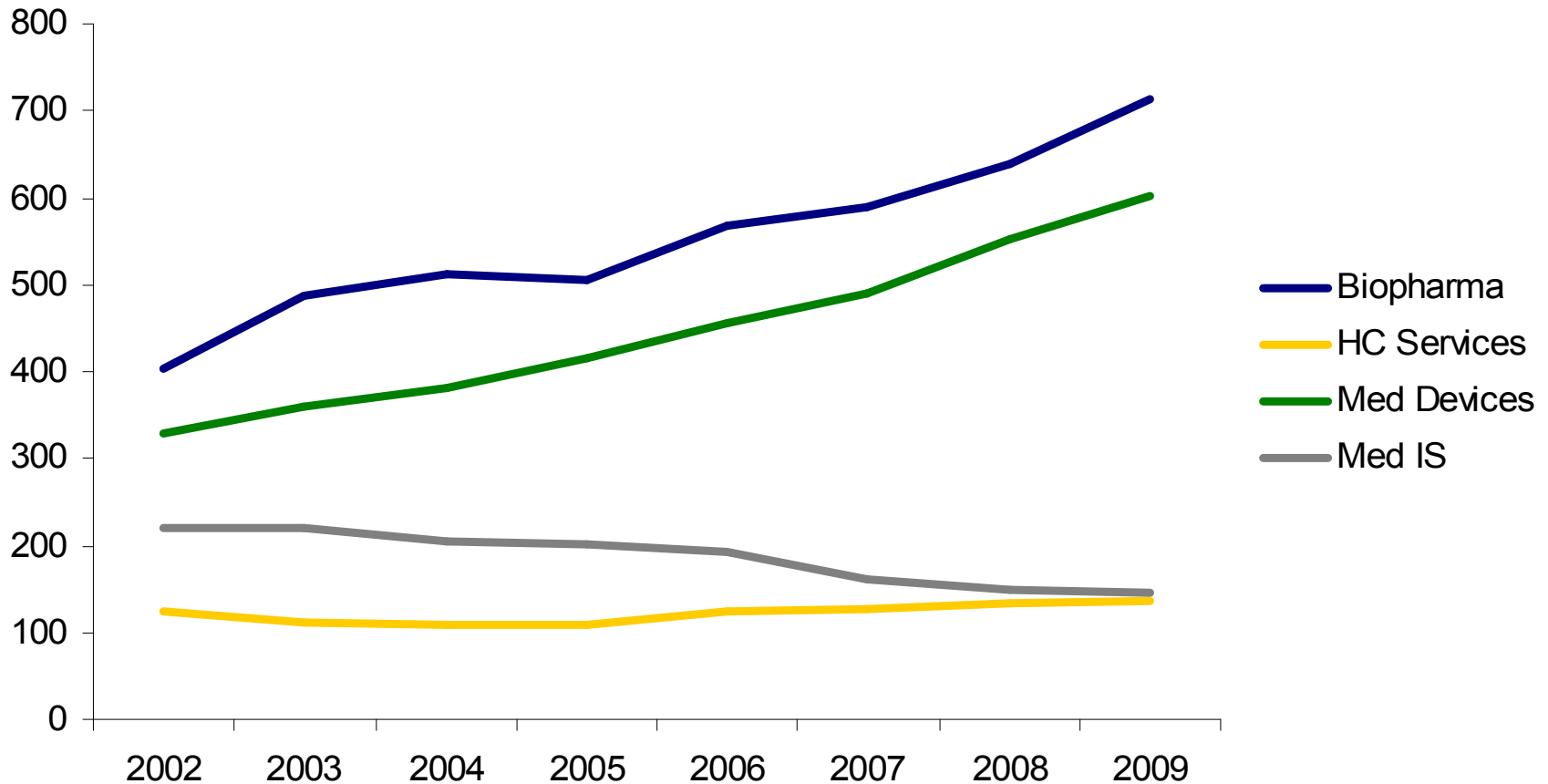
- Other US
- Potomac
- Texas
- NY Metro
- Southern CA
- New England
- Bay Area



Total number of private VC-backed Information Technology companies in the pool in the US



Total number of private VC-backed Healthcare companies in the pool in the US



How does Ohio fare?

Ohio VC Firm & Investment Profile

Most Active Ohio-based VCs

16 VC Firms in Ohio – range from \$8 - \$554 M

12 have done deals in Ohio companies that are still “Private & Independent”

Firms with most investments are:

- ▶ *TechColumbus (23)*
- ▶ *Early Stage Partners (15)*
- ▶ *Reservoir Venture Partners*
- ▶ *Blue Chip Venture Company*
- ▶ *River Cities Capital Fund*

Most Active “Out-of-state” VCs investing in Ohio-based co’s.

Total of 86 VCs have investments in Private & Independent companies in Ohio – 9 of top 20 are Ohio-based VCs

Out-of-state most active VCs are:

- ▶ *Draper Triangle – PA (6)*
- ▶ *Vivo Ventures – CA (3)*
- ▶ *Beecker, Petty, O’Keefe, Chrysalis, CID Capital, DCM, Industrial Technology Ventures, Kearney Venture Partners, NEA, Norwich Ventures, Psilos Group (2 each)*

Industry Breakdown of Ohio-based VC-backed companies (Raising >\$5M since 2001)

42 companies

Medical Devices		9
Cons & Bus Products & Services	9	
Software		6
Biotech		5
Healthcare Services/HC IT	3	
Alternative Energy		3
Advanced Specialty Materials		3
Electronics & Computers		2
Communications & Networking		1
Information Services		1

What are the areas to watch?

To get funded in today's environment companies must be able to demonstrate:

- ▶ Strong management team with track record of execution
- ▶ Capital efficient business model
- ▶ Clear and focused value proposition to customers
 - ▶ Short pay back period (ideally < 12 months)
 - ▶ Ease of integration and use – corporate workforces are stretched
 - ▶ Must clearly “save costs” or “generate revenue”
 - ▶ “Must have” not “nice to have”
- ▶ Reasonable likelihood of being “#1 or #2” in the market

Political, Regulatory & Business Environment changes impacting VCs & PCs

For Funds

- ▶ Potential change to taxation of “carried interest” as ordinary income vs capital gains
- ▶ LP environment

Funds & Companies

- ▶ Exit environment –
 - ▶ IPO - NVCA “Four Pillar Plan” – increased focus on developing “Buy Side” and “Boutique Investment Banks” etc.
 - ▶ M&A – Corporate buyers will need to begin to come “off the sidelines” – little sense of urgency to act now – “falling knife”
- ▶ Collaborative environment
 - ▶ Many large corporations realizing that they are too dependent upon “internal innovation: and are moving to increase access to “external innovation” – VC relationship building, CVC, academia etc.
- ▶ Government funding as a business driver
 - ▶ Cleantech, Healthcare IT/Services etc.