

Venture capital investments and initial financings

Spotlight: Global and Europe | 2008



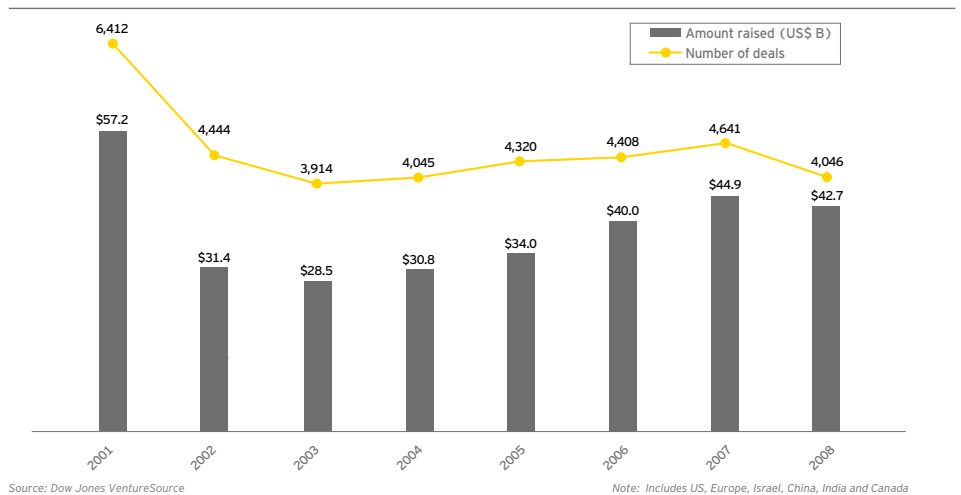
Despite the financial crisis, 2008 experienced the second-highest investment total of the last 7 years. Fast-growing cleantech investment in the United States bolstered global VC investment totals. While IPO transactions declined substantially in light of challenging capital markets, M&A valuations remained strong overall. Median financing round valuations continued to grow in 2008 with a shift to larger, later stage investments, particularly in cleantech. The median time from initial VC financing to M&A or IPO exit continues to grow, increasing the importance of capital efficiency and effective capital management.

Initial financings have grown substantially since 2002, although the number of exits has not. 9,910 companies have received initial VC financing globally since 2002 and US\$124 billion has been invested in them to date. Many of these will become market leaders in new transformative industries, such as cleantech, and become the future billion dollar exits. It is an open question, however, whether capital

markets conditions and capital markets infrastructure will be sufficient to provide exits to historical levels. Very few investors have participated in an M&A or IPO exit involving a company initially financed in 2004 or later. Firms that did not invest through the downturn of 2001-2003 will likely have difficulty in showing a positive post-bubble track record - and may face fundraising challenges as a result.

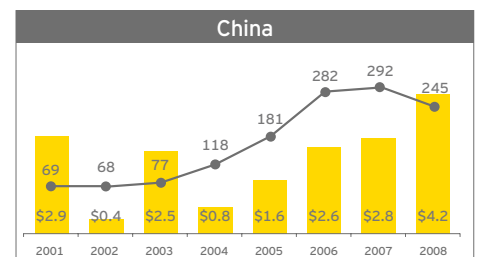
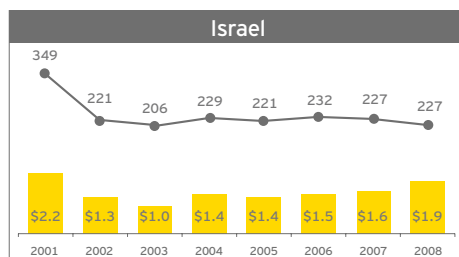
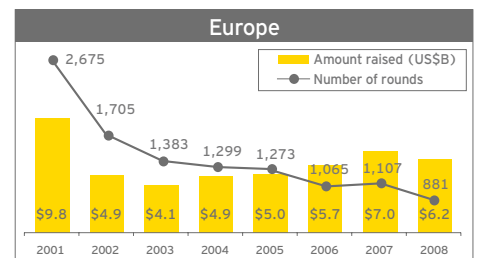
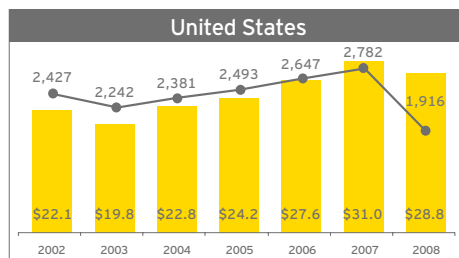
Despite the financial crisis, 2008 experienced the second-highest investment total of the last 7 years. Global venture capital investment reached \$42.7 billion with 4,046 deals completed. Venture investment and deal flow decreased for the first time since 2003, although only slightly.

Global venture capital investment

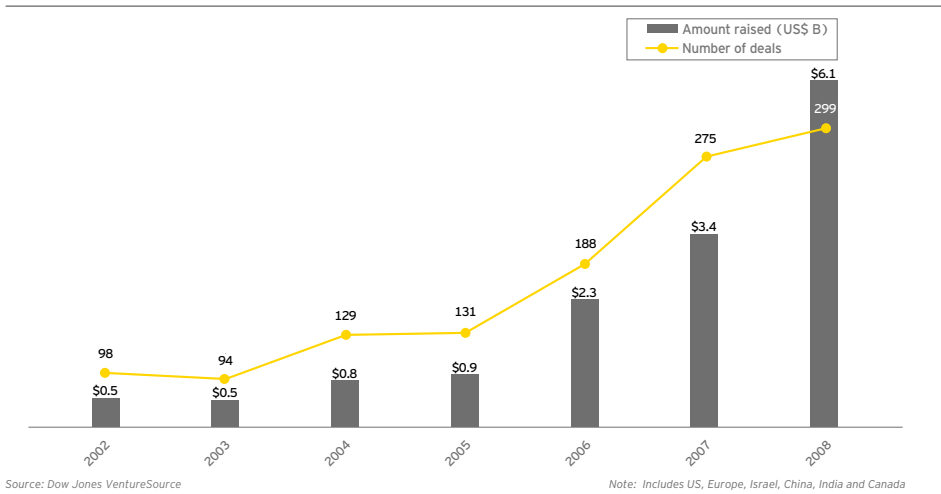


Whereas the US and Europe saw a slowdown in venture capital investment in 2008, Israel and China saw an increase, although only on the amount invested, not in deal flow. The US saw a slump in the number of deals of 31%, Europe of 20%. Israel increased its venture capital financings by 19%, whereas China saw an upward jump of 50% in amount invested.

Global VC investments by geography

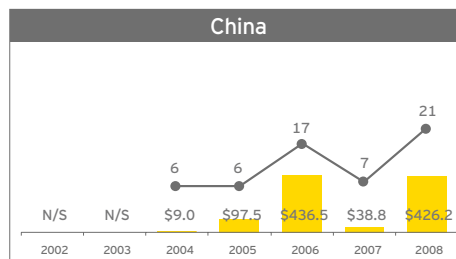
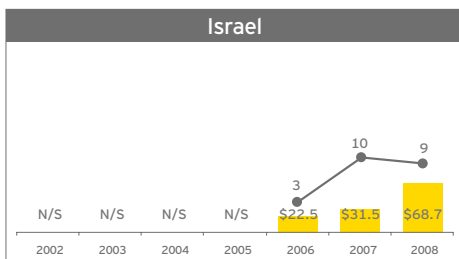
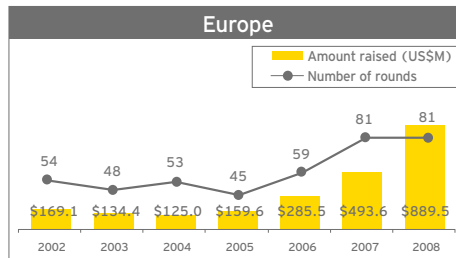
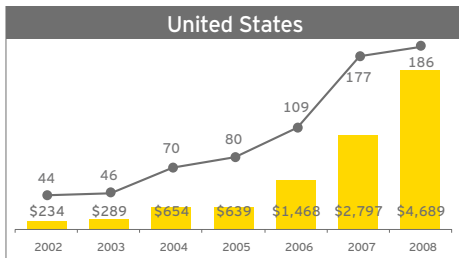


Global venture capital investment in cleantech



Venture capital investments in cleantech reached record levels in 2008 with \$6.1 billion raised in 299 financing rounds - a 79% increase in annual capital invested and a 9% increase in annual financing activity. The amount of venture capital committed to cleantech in 2008 represents an investment milestone. Since 2002, when cleantech companies raised an annual total of \$0.5 billion in venture capital globally, investment in the cleantech market has increased at a compound annual growth rate of 52% to reach the \$6.1 billion invested in 2008. Cleantech now represents 14% of global VC investment.

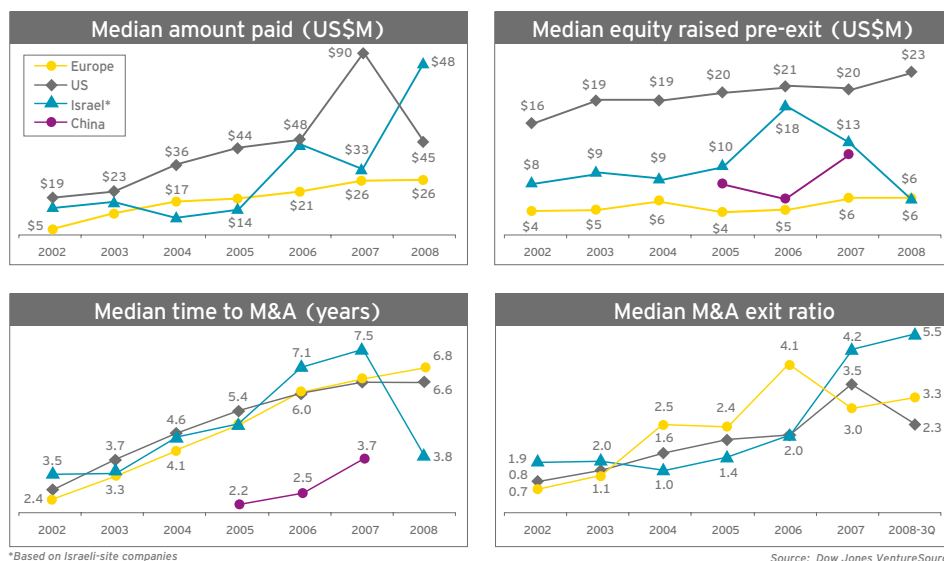
Global cleantech VC investments by geography



The United States continues to be the main driver of global venture capital investment in cleantech companies, surpassing the figure of last year by 68% in terms of capital raised and 5% in terms of financing activity. The European market remains in second position globally with an increase of 80% compared to 2007, whereby deal flow kept a constant level of 81. China saw a surge in cleantech investments, reaching \$426.2 million with 21 deals completed. Israel jumped to \$68.7 million in venture capital cleantech investments, more than doubling its figure of 2007 whereby the number of deals remained nearly the same.

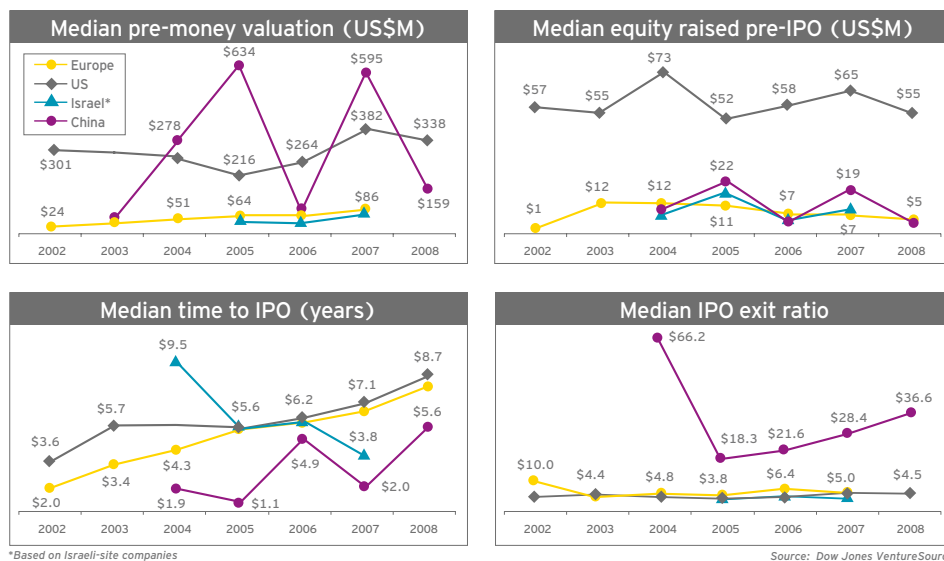
Global venture-backed M&A: Amount paid, time to liquidity, equity investment, and exit ratios

Looking at venture-backed M&A in the US, Europe and Israel along several measures shows that median transaction values continued to rise in Israel and Europe, but fell substantially in the US. Median equity raised has grown gradually in the US and Europe, but has fallen sharply in Israel. The median time to exit continues to lengthen in the US and Europe, approaching a median of 7 years. Exit ratios are declining in the US and Europe but increase in Israel, thanks to falling capital requirements and diminishing.

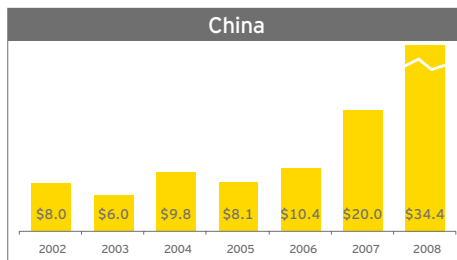
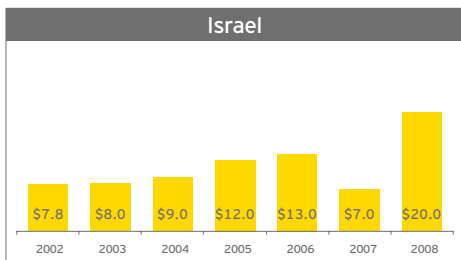
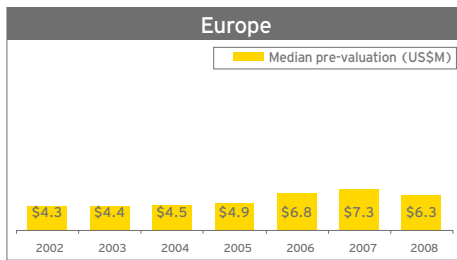
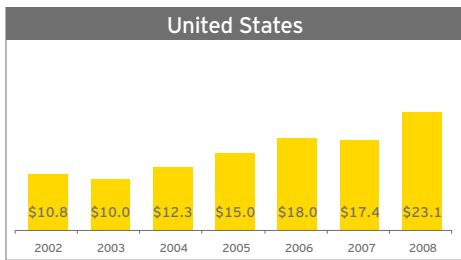


Global venture-backed IPOs: Valuation, time to liquidity, equity investment, and exit ratios

The global venture-backed IPO activity shows that Chinese pre-money valuations are peaking significantly higher than the US. Looking at the median equity raised prior to IPO, US companies raise substantially more venture capital prior to exit than their counterparts in other geographies. The median time from initial VC financing to IPO continues to lengthen, stretching now beyond 8 years in the US and Europe - it is significantly shorter in China, however. Exit ratios are highest in China, thanks to low capital requirements and a relative short time from initial financing to exit.



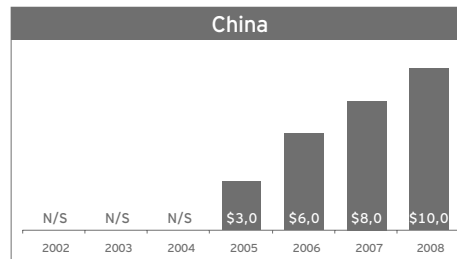
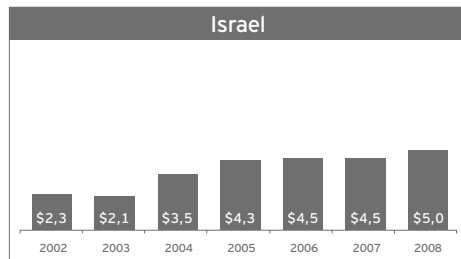
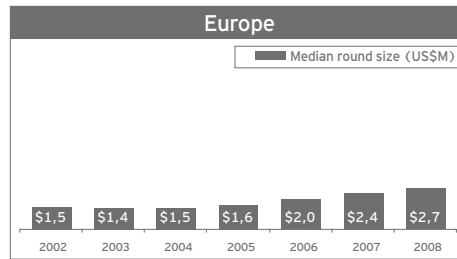
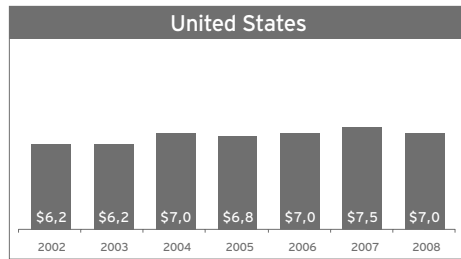
Global median pre-money valuations



Source: Dow Jones VentureSource

The global median pre-money valuations saw a continuing growth in the US, Israel and China. Europe saw a slight decrease. In particular China and Israel saw a surge in pre-money valuations.

Global overall median round size



Source: Dow Jones VentureSource

The global overall median round size increased in every geography except in the US. The highest increase was observed in China where the median round size went from \$8 million in 2007 to \$10 million in 2008. Israel's median round size rose to \$5 million in 2008. The median round size in Europe grew slightly to \$2.7. Of all geographies under consideration, only the US saw a decrease by 7% from \$7.5 million to \$7 million.

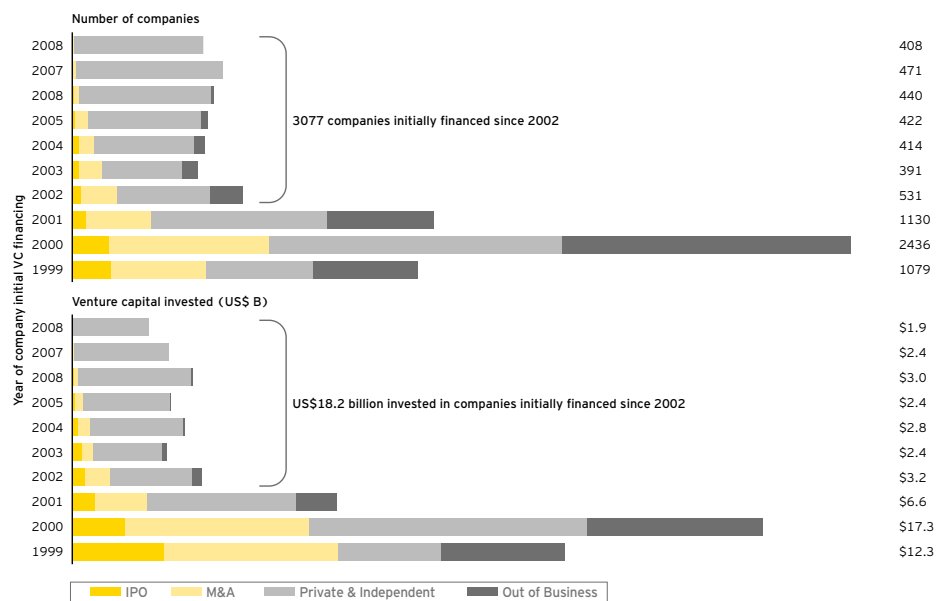
This section analyzes the current disposition of the companies initially financed by VCs in a given year. We look at whether they have gone public, been merged or acquired, are still private and independent, or have gone out of business. We also look at how much venture capital capital has been invested in those companies to date according to their current status. This allows us to compare different class years of initial financings in terms of total population, exits and capital efficiency.

The massive new financings in 1999-2000 are clearly visible. In 2000 alone, over 2,400 companies were added to European VC portfolios, nearly equaling the US, though not in capital invested. New financings began to accelerate modestly in 2003, peaking in 2007 with 471 new VC portfolio companies. 2008 has seen a slight slowing in new financings.

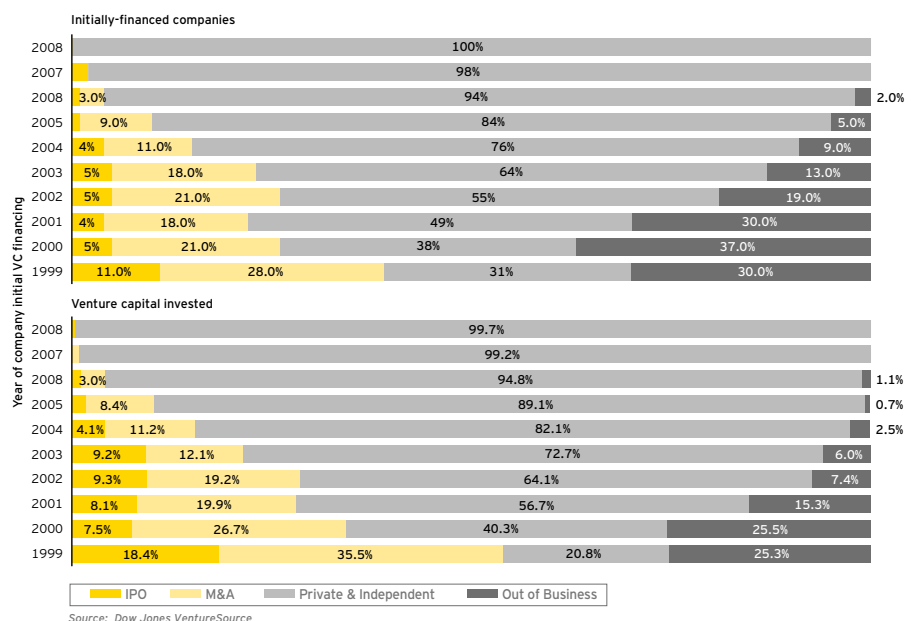
European venture capitalist have invested US\$18 billion in 3,000 initially financed companies since 2002. This is half the companies and a fifth of the capital than in the comparable period in the US. This raises the question whether Europe is better calibrated to the post-bubble environment, or whether it is under-financing its companies

The next chart shows the percent distribution of European companies and capital invested according to their year of initial financing and current status. Significant percentages of the companies initially financed 1999-2001 remain private and independent. These are also the largest cohorts of initially financed companies. It remains to be seen whether the remaining bubble-vintage private companies can be effectively moved through the European acquisition and IPO pipeline.

Europe: Current status of VC-backed companies by year of initial financing

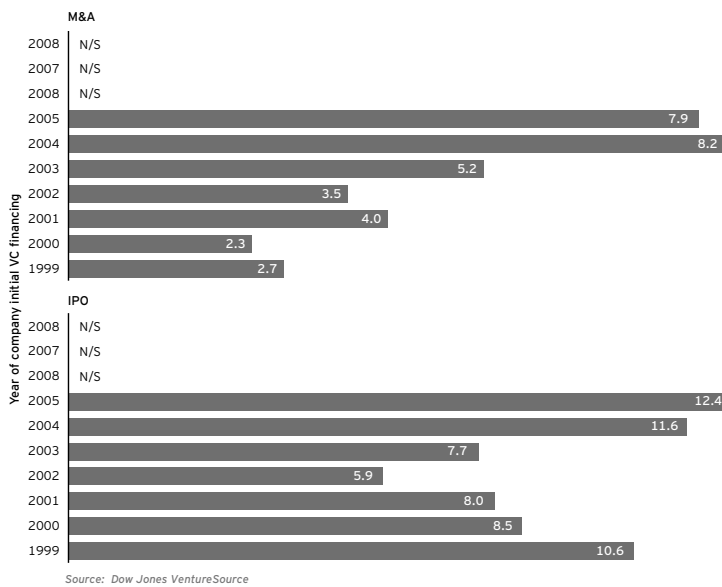


Europe: Current status of VC-backed companies by year of initial financing



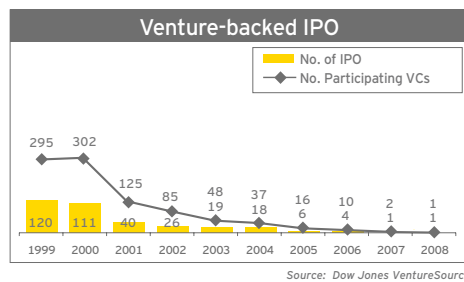
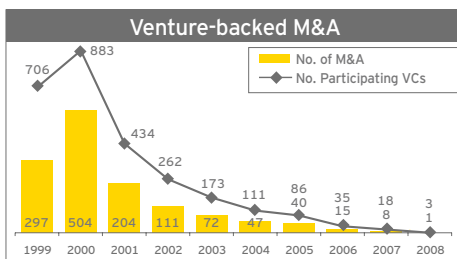
Source: Dow Jones VentureSource

Europe: Median exit ratios by year of initial financing



The following chart shows the median exit ratio for the European companies initially financed in a given year. The exit ratio equals the M&A valuation or IPO pre-money valuation divided by total VC invested prior to exit. This gives a broad indication of money-out compared to money-in. The companies initially financed in the most recent years will naturally have a higher exit ratio because they exited very quickly with little VC financing. The premium on IPO valuations during the bubble can clearly be seen in the exit ratios of companies initially financed between 1999 and 2001.

Europe: Number of investors participating in exits by year of initial financing



Here we analyze the number of unique investors that participated in a European portfolio company M&A or IPO exit, according to the company's year of initial financing. It is important to note that the count of investors includes both European HQ investors and international investors. Very few investors who made an initial investment in 2004 or later have experienced any kind of exit. Firms that did not invest through the downturn of 2001-2003 will have little to point to. With a post-bubble track record remaining hard to prove, the question arises what the prospect for some VC firms will be to raise their next fund.

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