

## US venture capital spending plummeted in Q1

by Chris Kanaracus

The recession has taken a staggering toll on U.S. venture capital investments, resulting in a nearly 50 percent drop overall during the past three months, according to a new industry report released Saturday.

Venture capitalists pushed US\$3 billion into 549 deals during the first quarter, compared to \$5.7 billion and 866 deals in the last quarter of 2008, according to the MoneyTree Report released by PricewaterhouseCoopers and the National Venture Capital Association, which is based on data from Thomson Reuters.

All major industry sectors suffered double-digit drops and on balance, venture investment was the lowest since 1997.

Still, officials strove to put a positive spin on both the current environment and the road ahead.

"One quarter does not a trend make. We know from reports from the field that a number of deals were started in Q1, but it's taking longer to get them done and they are closing in the second quarter," said John Taylor , vice president of research for NVCA, during a conference call.

Software companies garnered the biggest chunk of venture money during the first quarter, with \$614 million over 138 deals. That represents a drop of 42 percent and 34 percent, respectively, compared to the previous quarter.

Companies with business models dependent on the Internet picked up \$556 million in 123 deals, versus \$804 million and 180 deals in the fourth quarter of last year.

Biotechnology venture dollars sank 46 percent to \$577 million, and medical devices saw a 27 percent decline to \$412 million.

The clean technologies sector fared the worst of all, with dollar investment plummeting 84 percent to \$154 million.

It was the lowest level of venture investment in clean tech since 2005, according to the study, a fact that may seem unusual in light of the strong support the sector is receiving from the administration of U.S. President Barack Obama.

The drop is likely due to the "astronomical" amount of green-tech investments during the past couple of years, said Noubar

Afeyan , managing partner and CEO of Flagship Ventures, during the conference call. "A lot of that money came in expecting a short-term pop ... which didn't happen. Having said that, I don't see it completely leaving. The most likely early beneficiary of a turnaround in the economy will be this sector."

Only financial services saw venture investment grow in the first quarter. The sector pulled in \$108 million, a 26 percent jump.

**But conditions are ripe for a broader resurgence of venture activity, according to Stephen Harrick , general partner of Institutional Venture Partners.**

**"There are plenty of great companies to finance. There's no shortage of innovation," Harrick said during the conference call. "We expect to be very active investing in next three quarters and years to come."**