

Venture investing hits lowest level in over a decade

Venture capitalists busy keeping existing firms afloat; Clean tech deals tumble

by John Letzing

Venture capitalists, who make it their business to seed successive generations of companies, retreated during the first quarter of this year to their lowest level of investment since 1997, according to a report published early Saturday.

Total U.S. venture capital investing tumbled to \$3 billion in the quarter, compared to \$5.7 billion in the prior period, according to the quarterly PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report.

The total number of individual deals in the quarter also fell to 549 from 866, while the rawest, early-stage start-ups were generally passed over in favor of more established portfolio companies in need of further cash infusions, according to the report.

In addition, clean technology, recently a red-hot sector, saw investment slip to \$154 million, an 84% decline from the prior period.

"Raising money in this new environment from new investors is a daunting challenge" said Noubar Afeyan, a managing partner at Cambridge, Mass.-based Flagship Ventures. Afeyan said many investors have been forced to spend more time lately tending to the health of existing portfolio companies, rather than scouting new deals.

Afeyan, whose firm focuses on clean technology investments, cautioned that the steep decline in that particular sector is a natural reaction to excessive deal making in prior years. "People are realizing they shouldn't just be pushing money into this sector," Afeyan said. "In the last couple of years, those [clean technology] numbers were astronomical."

NVCA vice president of research John Taylor said the need to pay more attention to older investments at the expense of new deals is a reflection of broader economic upheaval, and in particular the poor state of public markets. "These later-stage companies ... in other times would be going public," Taylor said.

Venture capital investment in Internet-specific companies also fell sharply in the first quarter, slipping 31% to \$556 million compared to the prior period, according to the report. One particular deal that skewed the numbers for that sector,

however, was the \$35 million round committed to Twitter Inc. in February.

Twitter, which allows users to post brief, spontaneous online updates, has grown increasingly popular, stirring speculation that it might see an acquisition offer from a larger Internet player such as Google Inc.

Steve Harrick, a general partner at Menlo Park, Calif.-based Institutional Venture Partners, which participated in the February funding round for Twitter, said one reason for the low level of investment in the first quarter was a general impasse over deal terms.

While venture capitalists have generally been pressing for valuations of start-ups that grant them larger ownership stakes, entrepreneurs have been holding out for deals that allow them to give up less equity while still gaining access to greater amounts of cash. There's been "a disconnect a bit on valuation," Harrick said, adding that, "many entrepreneurs are deciding to wait on a round."

One recent bright spot for young technology companies was the successful initial public offering of stock in language-teaching software maker Rosetta Stone Inc.

"It's good to see some positive reception from the public markets," Harrick said of the Rosetta Stone IPO.

However, Harrick also noted that Rosetta Stone was not a venture capital backed company. The Arlington, Va.-based company was owned by private equity firms ABS Capital Partners and Norwest Equity Partners.