

# The Outlook for Venture Capital Investing:

There are Clouds on the Horizon – As the VC Industry Restructures and Right Sizes

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For the California Capital Summit

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# A Traditional Venture Capital Fund

## Presentation Outline

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- 2010 Industry Highlights
- The Problem
- VC Industry Trends
- Where the money is going?
- Liquidity – The Exit Environment
- Summary of Trends
- What does it mean - Where are we headed?
- Southern California - Planning for Success
- The Solution - New Models
- Summary

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## 2010 Highlights

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- Venture Capital Investment Activity
  - \$21.8 billion invested in 2010
    - 19% increase over 2009
  - 3,277 deals in 2010
    - 12% rise versus 2009
  - Seed stage investments decreased by 2%
  - Software and IT dominate as an investment sector
    - Healthcare Services & Retailing remain at the bottom of the tier

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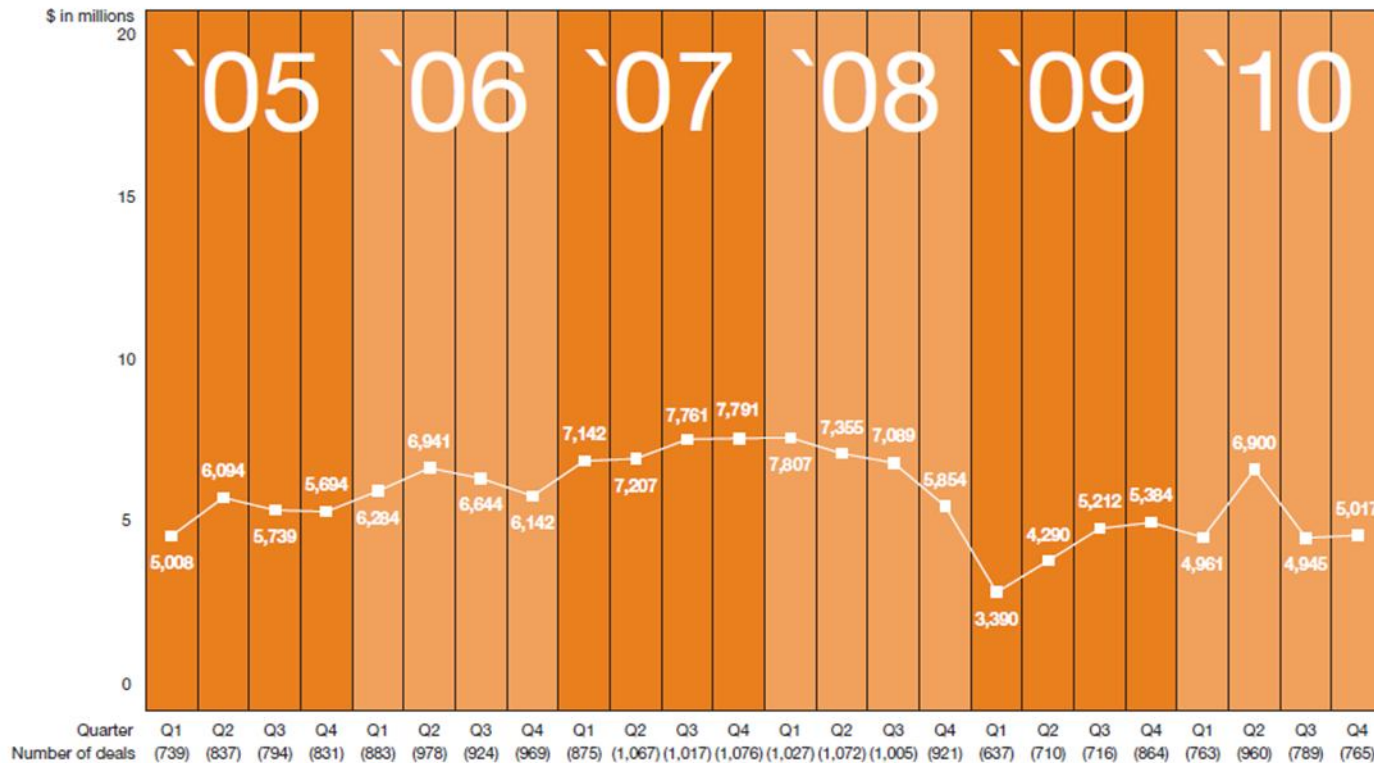
## 2010 Highlights

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- Venture Exits
  - 420 venture-backed M&A deals in 2010
    - Disclosed value at \$18,307.2 million (35% increase)
    - 273 M&A transactions in 2009
  - 72 exits via IPO in 2010
    - Valued at \$7,017.5 million
    - 12 venture-backed IPOs in 2009
    - Heavy China IPOs
- Fund Commitments
  - \$12.5 billion raised in 2010 between 157 VC funds
  - A 25% **decrease** from 2009 and 61% **decrease** from 2006
  - 2009 (\$16.3B), 2008 (\$26.1B), 2007 (\$31.1B), 2006 (\$31.9B)

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## 2010 Increasing Capital Investments



- Trend demonstrating an uptick in capital investments moving forward in 2011
- 3,277 deals in 2010 versus 2,927 in 2009
- An 12% increase in the number of deals
- A 19% increase in dollars invested

Source: PricewaterhouseCoopers and National Venture Capital Association

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## 2010 Declining Funds Raised

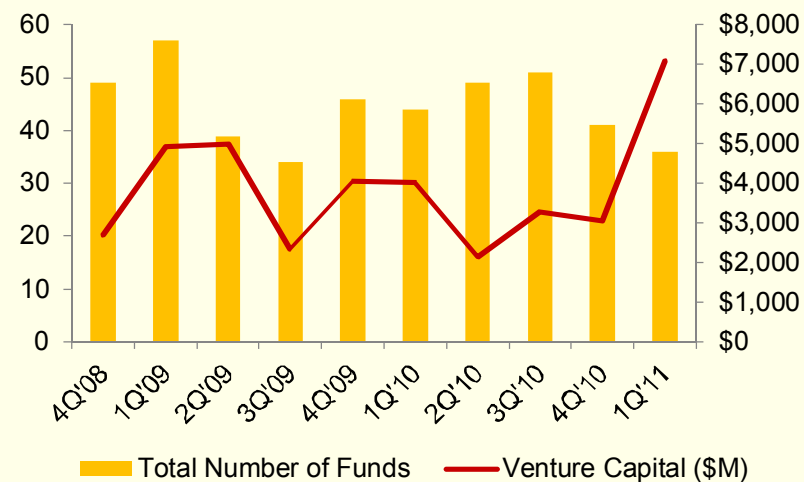
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- Four consecutive years of declining venture capital fundraising
  - 2010 lowest level since 2003
- 4Q 2010 is 27% less than 4Q 2009; 6% less than 3Q 2010
- 157 funds have raise \$12.5B in 2010
- Per average allocation by fund, 2010 is 26% less than 2009
- 2010 had 52 new funds with 105 follow-on funds
- 4Q 2010 had 5 fewer new funds; 5 fewer follow-on funds raised versus 3Q2010
- Total number of funds raised is down 80 from 2007 but up 6 from 2009
- 1Q 2011 has a big upswing -
  - Three major players \$1B+ fundraising commitments (Bessemer Venture Partners VIII, Sequoia Capital, JP Morgan Digital Growth Fund)

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## 2010 Declining Funds Raised

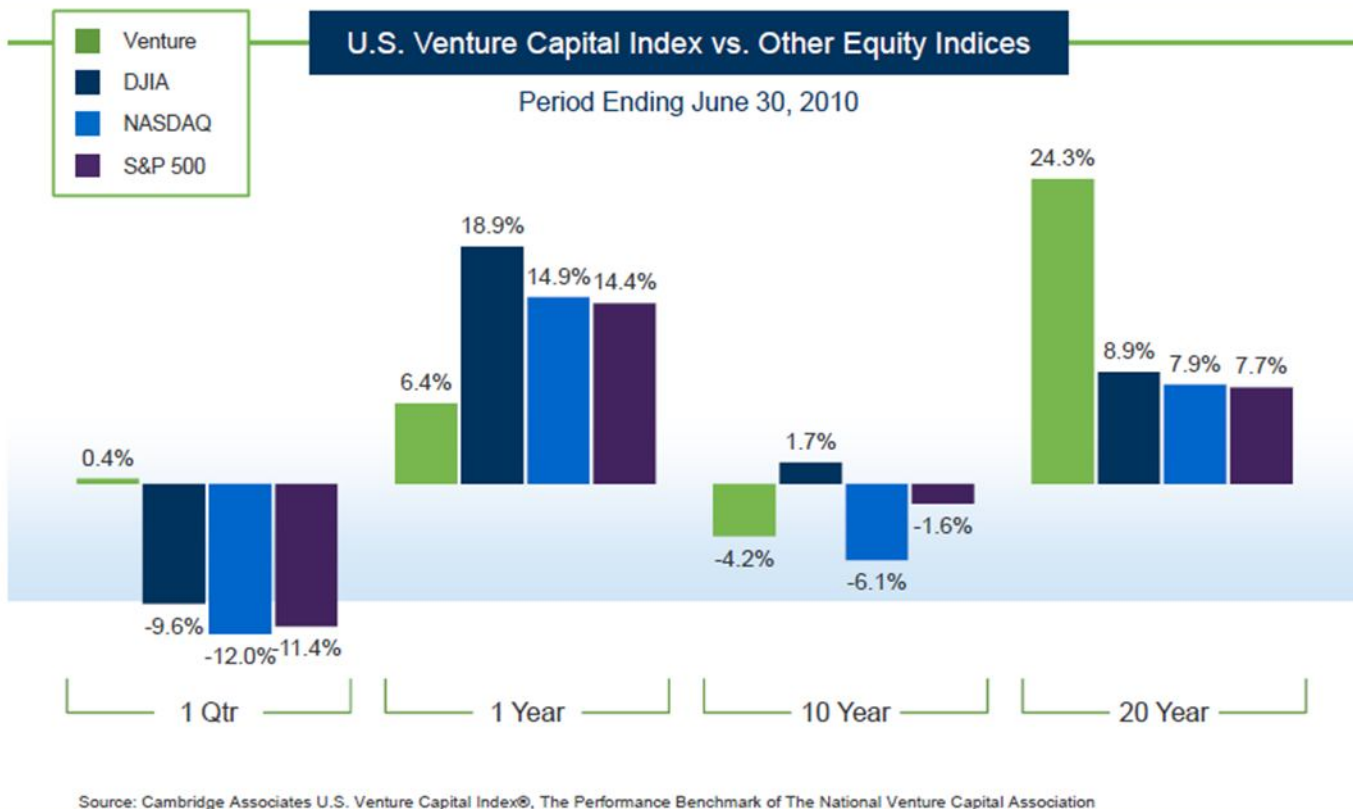
Year/Quarter	No. of New	No. of Follow-on	Number of Total Funds	Venture Capital (\$M)
2005	54	180	234	30,759.6
2006	63	172	235	31,860.9
2007	79	158	237	31,091.7
2008	66	149	215	26,089.1
2009	44	107	151	16,315.8
2010	52	105	157	12,511.6
2011	11	25	36	7,091.4
4Q'08	17	32	49	2,709.1
1Q'09	10	47	57	4,940.9
2Q'09	14	25	39	4,993.2
3Q'09	14	20	34	2,332.0
4Q'09	14	32	46	4,049.8
1Q'10	15	29	44	4,023.6
2Q'10	19	30	49	2,152.8
3Q'10	19	32	51	3,281.4
4Q'10	14	27	41	3,053.8
1Q'11	11	25	36	7,091.4



Source: Thomson Reuters and National Venture Capital Association

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## Venture Capital Performance



- Venture Capital hasn't performed well the past 10 years
- 20 year returns are heavily weighted by the past "gold rush" or "golden years"
- Venture capital has not been in the 5x plus return territory for some time now

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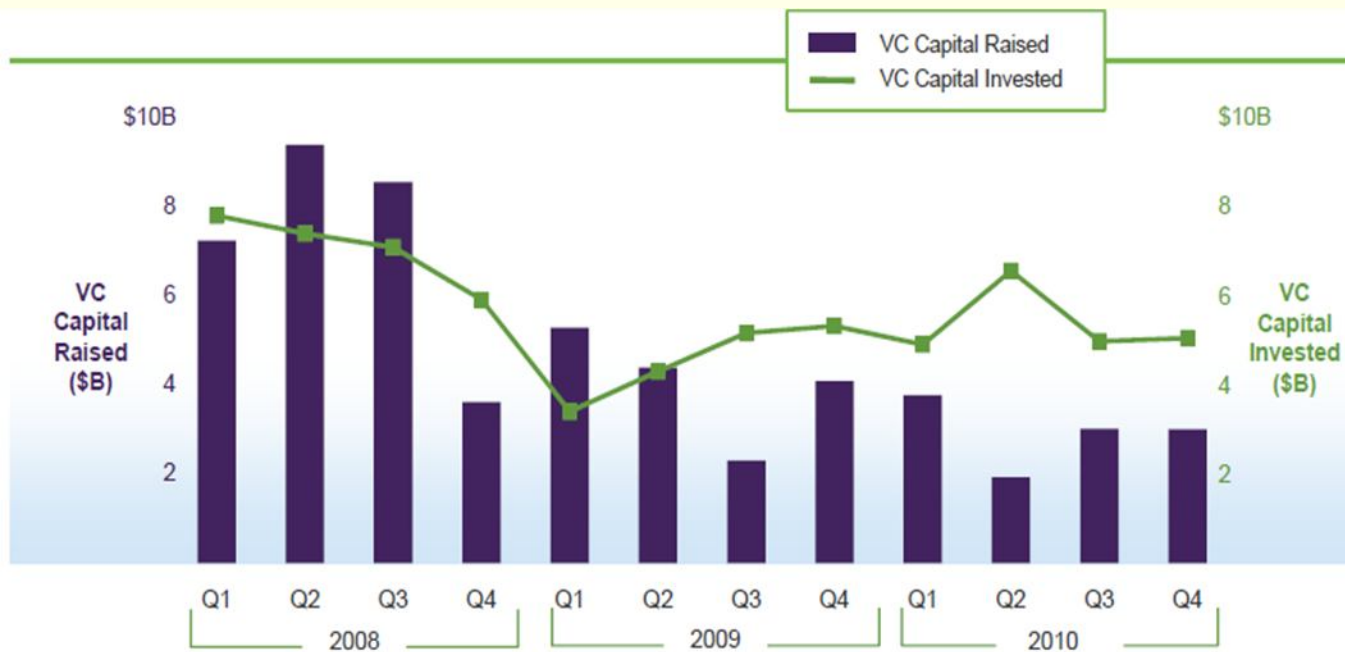
## The Problem

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- Too many VC funds raised too much capital last decade
- The VC Industry has underperformed for 10 years
- Most LPs in VC are not interested in the asset class
- Less capital has been raised by VC funds than deployed
- Exit environment has been challenged, but is slowly improving providing liquidity and distributions to LPs
- Current funds that have not returned investor capital are not able to raise new funds
- SoCal region is too dependent on outside capital determining our future success and long-term destiny

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## VC Industry Trends



1Q08 – 4Q10 Cumulative Capital Raised	\$56B
1Q08 – 4Q10 Cumulative Capital Deployed	\$67B
Difference “Underhang”	\$11B

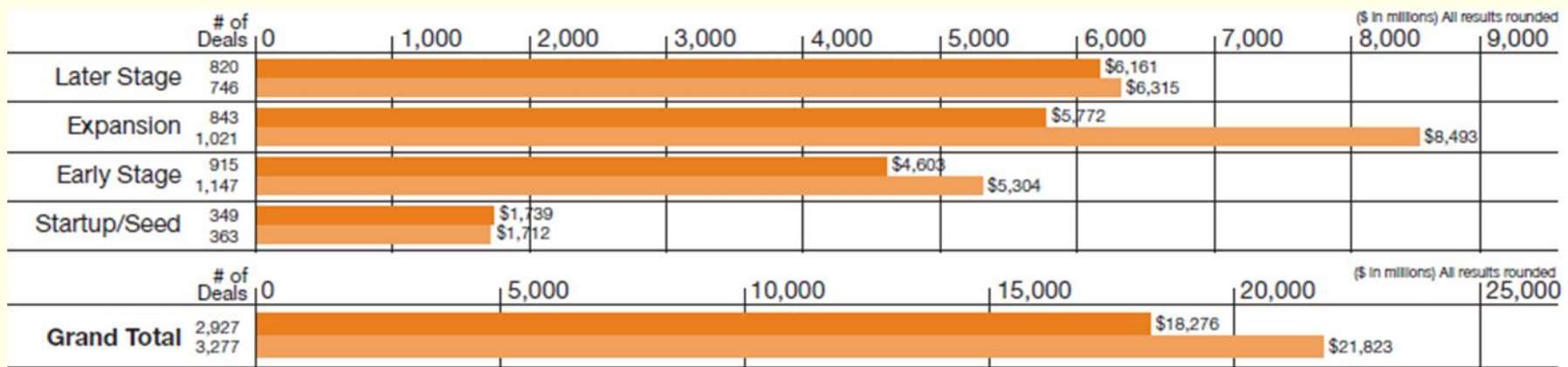
- Major concerns exist in the venture capital industry –
- the ability to gain venture rates of return on current funds,
- and the difficulty raising new funds.
- An estimated \$11B gap is present and is not sustainable.
- GPs and LPs need increased liquidity events, and an improved exit environment

Source: National Venture Capital Association

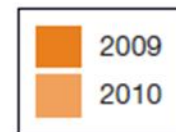
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## Where the Money is Going?



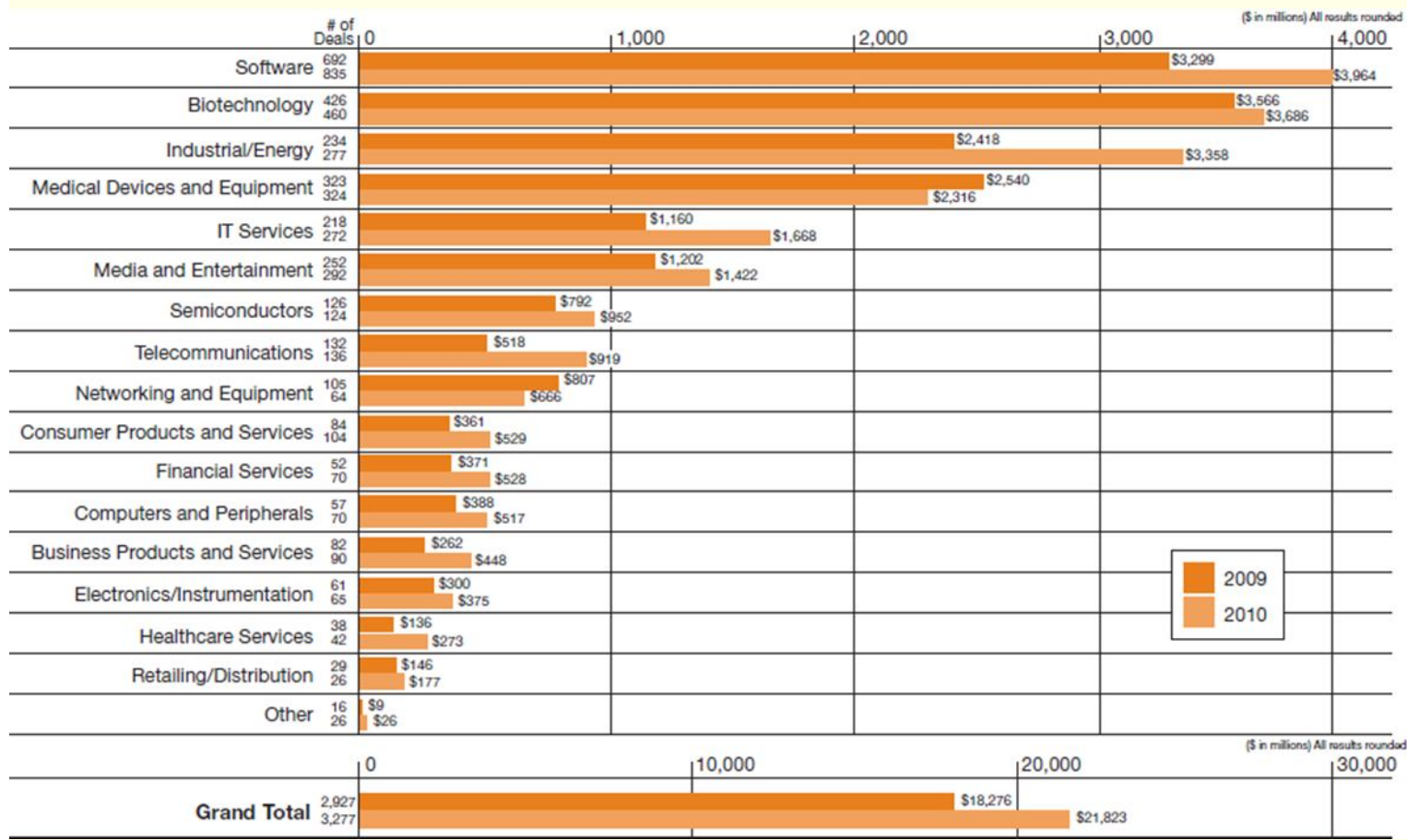
Definitions of the Stage of Development categories can be found on MoneyTree™ web site at [www.pwcmoneytree.com](http://www.pwcmoneytree.com)



Source: PricewaterhouseCoopers and National Venture Capital Association

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## Investments by Industry



- Software is number one followed by Biotechnology
- Largest growth from the Energy sector
- Medical Devices/Equipment and Networking & Equipment presented decreased investment activity

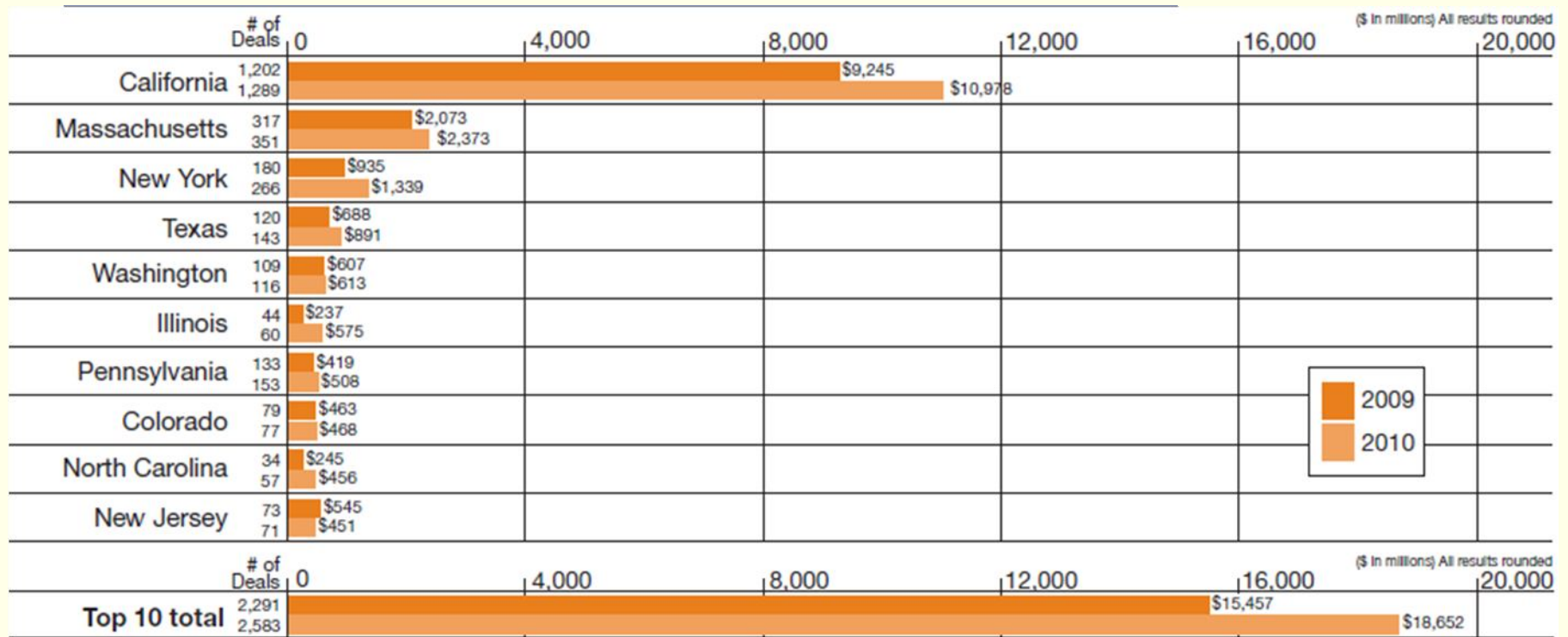
Source: PricewaterhouseCoopers and National Venture Capital Association

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## Investments by State

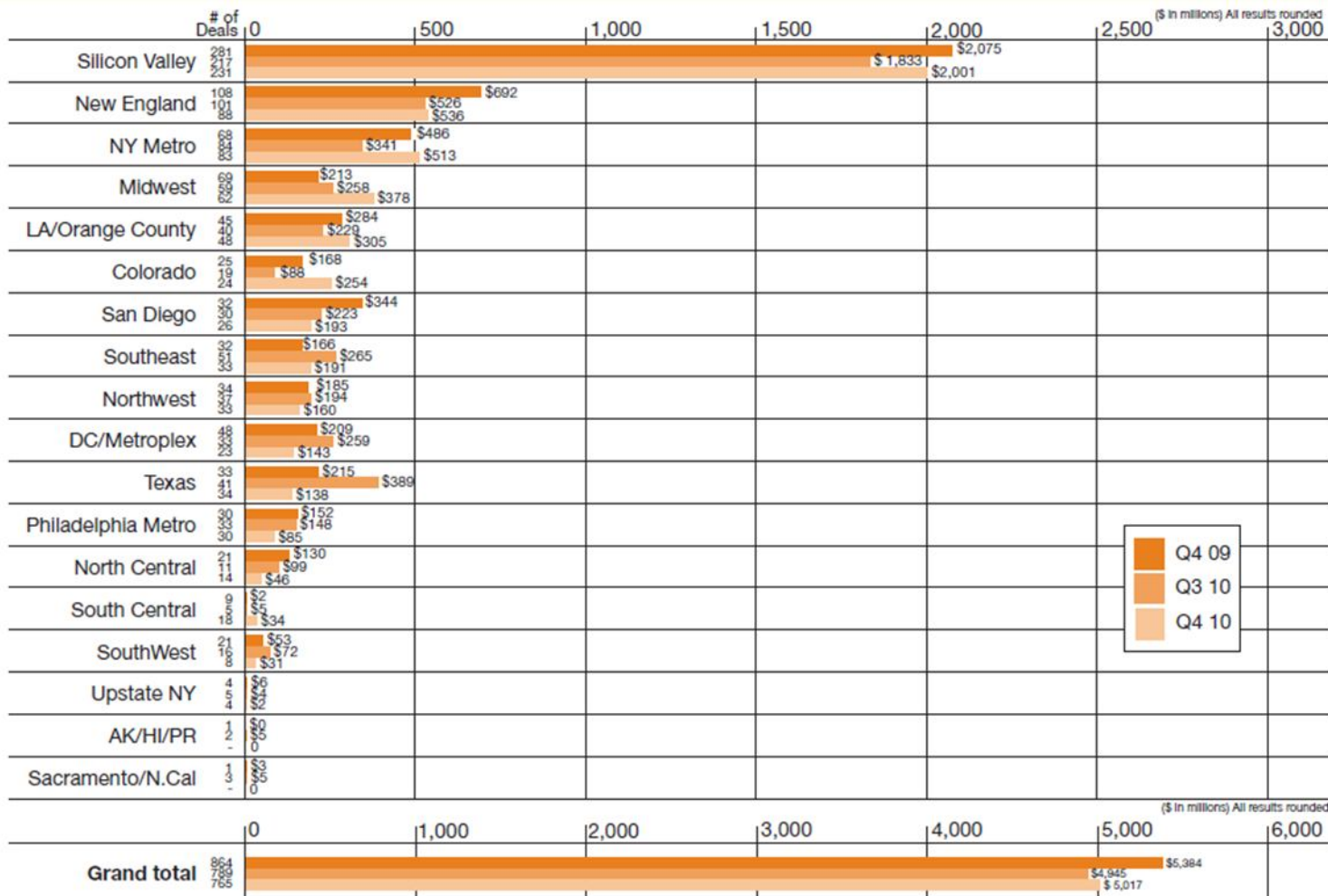


Source: PricewaterhouseCoopers and National Venture Capital Association

- California is leading the way!
  - \$10,978B between 1,289 deals
  - 19% investment increase over 2009

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## The Valley is Still Game On



- Silicon Valley is still the epicenter for VC activity
- As a region (SoCal) is slipping behind New England - down 20% Q4 10 to Q4 09 in dollars, and 15% fewer # of deals
- LA/Orange County is showing improvement in Q4 10
- San Diego is down Q4 vs. Q3

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## Silicon Valley Dominates

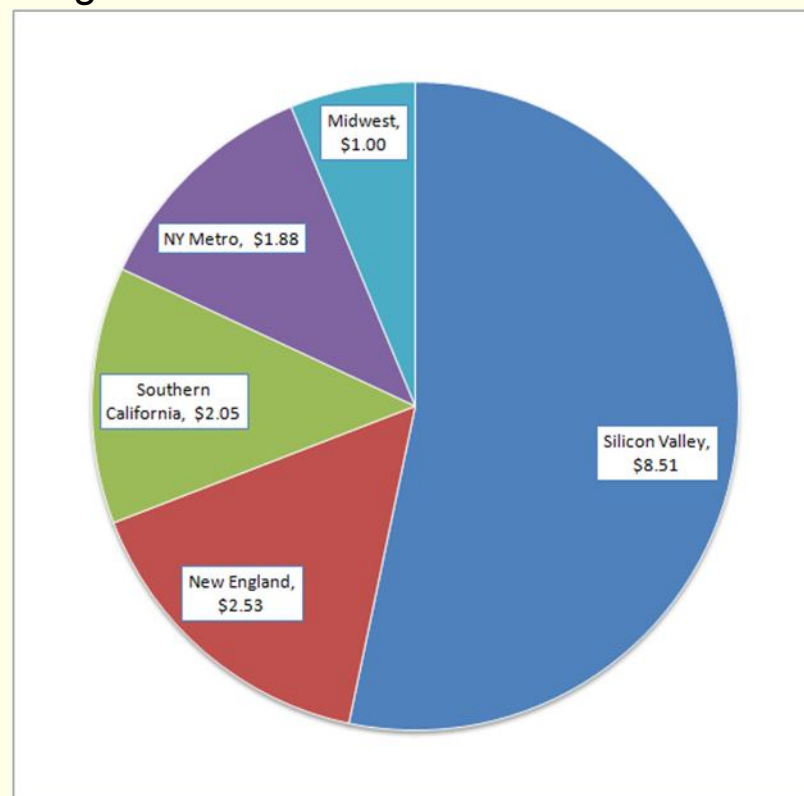
- 2010 Top Five Ranking for Investments by Region

1. Silicon Valley (\$8.51B)
2. New England (\$2.53 B)
3. NY Metro (\$1.88B)
- 4. LA/Orange County (\$1.2B)**
5. Midwest (\$1B)

- San Diego #8 at \$0.85B

- 2010 Top Five Realistic Ranking

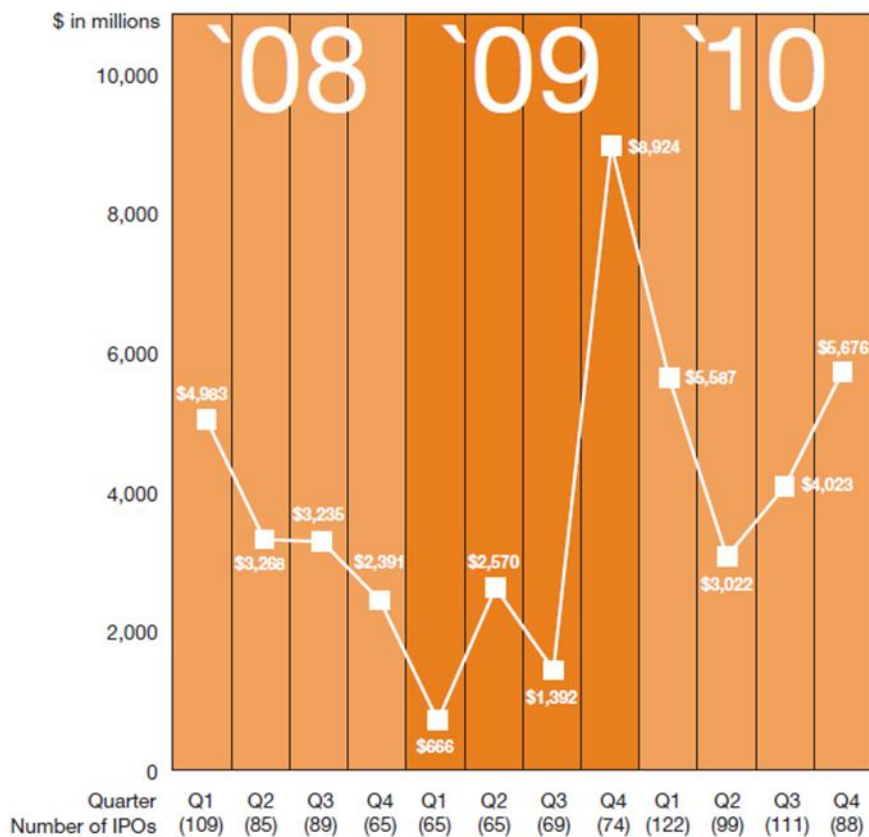
1. Silicon Valley (\$8.51B)
2. New England (\$2.53B)
- 3. Southern California (\$2.05B)**
4. NY Metro (\$1.88B)
5. Midwest (\$1B)



Source: National Venture Capital Association

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## Liquidity – The Exit Environment



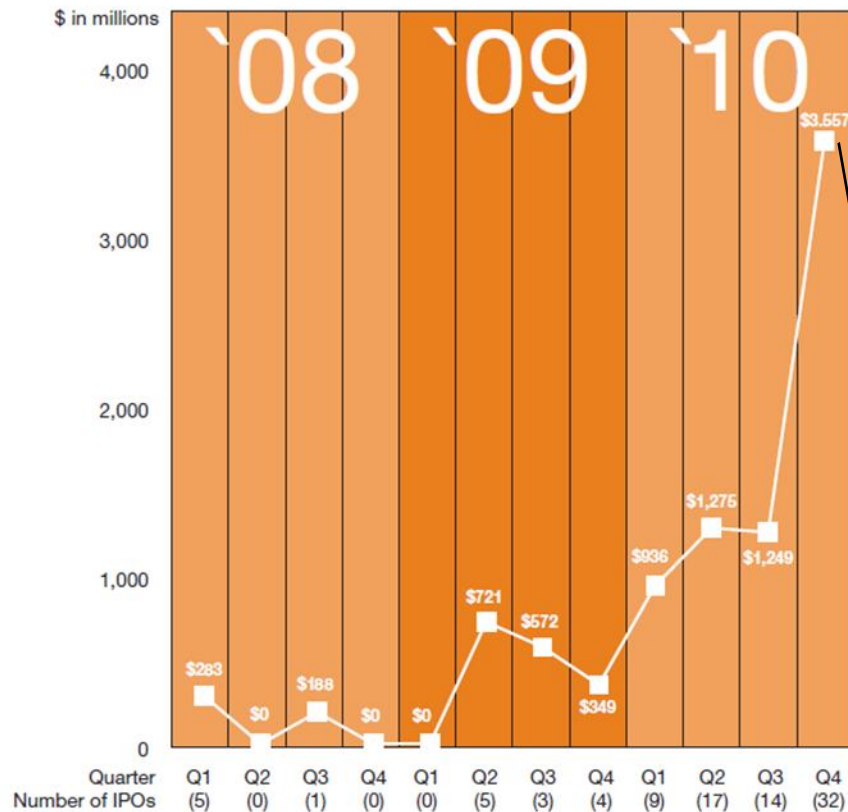
- 420 venture-backed M&A deals at a disclosed value of \$18,307.2 million
  - 2009 had 273 M&A transactions estimated at a value of \$13,552.9 million
- Trend is moving upwards!
  - Larger sized average deals
- Many top corporations are on an acquisition spring
  - Google
  - HP
  - Oracle
- Down market reversal
  - Companies who slashed R&D during tough economic times are increasingly looking to acquire their innovation going forward

Source: Thomson Reuters & National Venture Capital Association  
Data current as of January 03, 2011

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## The Key – Exits are King



- 72 IPO exits valued at \$7B in 2010
  - Only 12 IPOs in 2009
- Strong IPO showing in 2010 over the past years
- CHINA effect
  - 17 of Q4 offerings were Chinese based
- Q1 2011 great improvement over Q1 2010

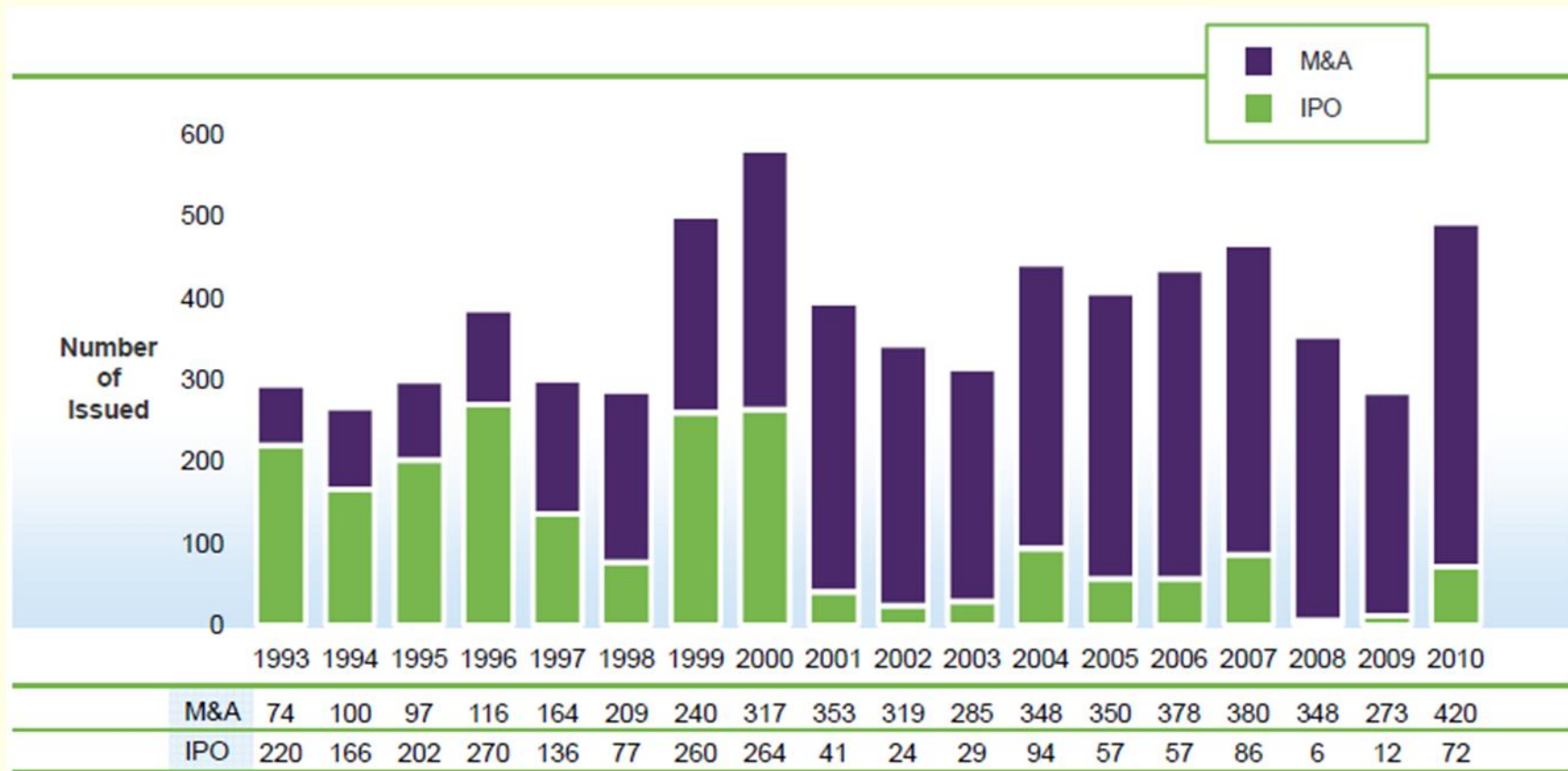
Q1 2011  
\$1.38B  
(14)

Source: Thomson Reuters & National Venture Capital Association  
Includes all companies with at least one US VC investor that trade on US exchanges, regardless of domicile  
Data current as of January 03, 2011

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## Exits – M&A vs. IPO



Source: National Venture Capital Association

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## Exits – IT Leading M&A

Venture-Backed M&A Industry Breakdown

		Q1 2011		
		Number of Venture-Backed M&A deals	Number of Venture-Backed M&A deals with a disclosed value	Total Disclosed Venture-Backed Deal Value (\$M)
Industry				
Information Technology	Internet Specific	28	12	2265.3
	Computer Software and Services	35	7	820.3
	Communications and Media	4	1	95.0
	Semiconductors/Other Elect.	3	1	75.0
	Computer Hardware	4	2	52.2
		<b>74</b>	<b>23</b>	<b>3,307.8</b>
Life Sciences	Medical/Health	17	12	1,524.9
	Biotechnology	6	5	650.5
		<b>23</b>	<b>17</b>	<b>2,175.3</b>
Non-High Technology	Consumer Related	3	2	248.0
	Other Products	5	1	115.0
	Industrial/Energy	4	2	45.0
		<b>12</b>	<b>5</b>	<b>408.0</b>
<b>TOTAL</b>		<b>109</b>	<b>45</b>	<b>5,891.2</b>

- Information Technology leading the way in M&A deals in Q1 2011
  - 74 deals
- Q1 2011 had 109 M&A deals
  - 45 disclosed value at \$5.9B
  - 5% increase over Q1 2010
- Life Sciences followed IT with 23 deals
- Biotech has only 6 M&A deals

Source: Thomson Reuters & National Venture Capital Association

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## Exits – IT Leading IPOs

Venture-Backed IPO Industry Breakdown

		Q1 2011	
		*Number of Venture-Backed IPO's in the U.S.	Total Venture-Backed Offering Size (\$M)
Industry			
Information Technology	Computer Software and Services	2	312.1
	Communications and Media	1	264.9
	Internet Specific	1	151.3
	Semiconductors	2	145.5
	Computer Hardware	1	85.8
		<b>7</b>	<b>959.6</b>
Life Sciences	Biotechnology	4	292.3
	Medical/Health	2	82.0
		<b>6</b>	<b>374.3</b>
	Consumer Related	1	42.0
		<b>1</b>	<b>42.0</b>
<b>TOTAL</b>		<b>14</b>	<b>1,375.8</b>

- Information Technology leading the way in IPO's in Q1 2011
  - 7 deals valued at \$960 million
- Q1 2011 had 14 M&A deals
  - Valued at \$1,375.8 million
  - 47% increase over Q1 2010
- Life Sciences followed IT with 6 deals
- Only one IPO outside these industries

\*Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile

Source: Thomson Reuters & National Venture Capital Association

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## Summary of Trends

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- Exit environment seems to be on a rebound
- Liquidity improving, primarily through M&A
- Concern over “under-hang” in VC industry
  - Fundraising is not becoming easier
  - Underperforming funds are facing challenges
- Software, Biotech, and Energy are showing the most support from the VC community
  - Parallel to exit environment through M&A or IPO
- California dominates (Silicon Valley still strong)
- SoCal region is slipping in \$’s and # of deals

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## What does it all mean - Where are we headed?

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- Limited number of VC firms will be able to successfully raise new funds in 2011 (LPs are still reducing allocation to the asset class)
- Fund sizes will typically be smaller (fewer LPs in asset class)
- Back to traditional fund models that work and brand name funds
- An opportunity now for new VC fund models and strategies --
  - Leverage top-tier VC fund relationships
  - Focus on less capital intensive deals and exits
  - Roll up your sleeves and add value to portfolio companies
- Focus on most innovative and capital efficient companies
- Focus on talented, been there “done it before,” management teams

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## Southern California - Planning for Success

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- Develop new funds, strategies, and models focused on SoCal region
- Angels and seed funds must continue to fill the pipeline for new deals
- Leverage relationships with top-tier VCs, and corporate partners/investors for leading investments and acquisitions
- VCs must perform by sourcing top deals, sitting on the Board and adding value, and exiting deals providing real venture rates of return
- Entrepreneurs must perform by being capital efficient, flexible and adaptable, and moving quickly to seize market opportunities you own
- Improved performance in the VC asset class will draw Institutional LPs back to venture capital investing for the high rates of return
- VCs with strong track records of making their investors lots of money will be able to raise new funds helping create more success in SoCal

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## Solution – New Models

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- Need to establish new funds in SoCal to prosper in the years ahead
- Back to smaller VC funds that focus on serving the entrepreneurial community with not just capital, but know how and connections
- Funds with seasoned VCs that have had real-world operating experience and have faced many business issues first-hand
- VCs that actually roll up their sleeves, solve issues your company is facing, and get to work adding real value for your Company
- VCs that leverage their top VC fund and corporate investor relationships to open doors for companies improving their value

# A Traditional Venture Capital Fund



- **Moore Venture Partners** is a traditional venture capital fund investing alongside top-tier venture capital firms
- **Industry Focus:** Technology and Life Sciences
- **Development Stage:** Early, Growth, and Expansion-Stages
- **Target Fund Size:** \$10 million
- **Focus Area:** the underserved Southern California region

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## Value Proposition and Strategy

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- Moore Venture Partners leverages its' strong working relationships with top tier VCs, and corporations to help our top tech and life science companies in Southern California raise their next rounds of capital.
- Moore Venture Partners works with your company to fine tune your strategy, polish up your investor presentation, and identify the right VC partners at the right stage for leading your next round of financing.
- Moore Ventures invests along-side these top-tier VCs in these transactions. VC funds that most LPs can't access.

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- Founded and managed by Terry W. Moore, a seasoned VC with a great track record of investing (former MD of HamiltonTech Capital Partners)
- Chairman and founder of The VC Roundtable; Founder, developer, and former Executive Director of the Morrison & Foerster Venture Network
- Extensive long-term venture capital, and corporate investor relationships for partnering, investing, and acquiring our top portfolio companies
- Diversified across industry sectors (tech and life sciences) and development stages (early, growth, and expansion) for mitigating risk
- First deal - Syndicate partner with Domain Associates, Delphi Ventures, and J&J Development Corp in Astute Medical - Series B round (\$26.5 million)

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## Summary

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- The VC Industry is not broken, but it is going through a restructuring
- VC Funds that haven't performed will eventually go away
- Brand name VC funds and VC funds that have performed will be able to raise new funds
- Companies seeking VC will have an even tougher time ahead
- An improved exit environment and more liquidity events will help to turn the industry around
- It might take some time until we see Institutional LPs return to the asset class (LPs want to see venture capital perform first)
- New VC funds and VC fund models will appear to fill in the gap
- Providing exciting times and a great opportunity for investors to get in at the bottom of the VC cycle, and ride it back up again!

# The Outlook for Venture Capital Investing:

There are Clouds on the Horizon – As the VC Industry Restructures and Right Sizes

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