



Global trends in venture capital 2009 global report



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Results analysis

Deloitte Research-Survey Advisory Services in the United States and India used a variety of research and statistical tools to provide extensive analysis and interpretation of the survey results. All charts within this report are sourced from the survey results. Percentage labels in charts have been rounded and may not add to 100 percent.

Foreword

Are venture capitalists battling the global recession blues or feeling optimistic about the new opportunities for investing in technology? We wanted to know the answers to this question, as well as what is on the minds of venture capitalists around the world as they plan their future investment moves.

The economic downturn is the financial story of the year, so it was the obvious choice as the theme of the Deloitte Touche Tohmatsu (DTT) Technology, Media & Telecommunications (TMT) industry group's 2009 Global Venture Capital Survey. Sponsored by the Global DTT TMT industry group, the survey was conducted in association with venture capital associations in the Americas, Asia Pacific, Europe and Israel.

The 2009 survey marks the fifth anniversary of this project. As in past years, it was designed to offer insights into the attitudes and intentions of venture capitalists around the globe regarding specific geographic regions and industry sectors over the next five years.

This year, we obviously hit a nerve; we received 725 responses—almost double the number compared to last year. The respondents are general partners of venture capital firms with assets under management ranging from less than \$100 million to greater than \$1 billion. Multiple responses from the same firm were allowed as the survey was a general measurement of the state of global investing from general partners, not attitudes of specific firms. Of the total respondents, 44 percent were based in the United States, 21 percent in Europe (excluding the UK), 16 percent in Asia Pacific, 10 percent in the Americas (excluding the U.S.), 7 percent in the United Kingdom, and 2 percent in Israel.

Those of us in the technology industry know that if you want to see the future, first look at what venture capitalists are thinking and doing in the present. This year, it was important to learn how the economy was affecting strategic decisions and how future investments were being planned—both by sector and region. Do venture capitalists anticipate that the size of their next funds will grow, shrink or remain the same? Who do they think their limited partners will be? What countries do they see as having the most to gain and lose in this new economy? What do they feel government should do to help spur investment in innovation?

The responses of venture capitalists around the world were illuminating. And the good news is that you will find that while the investment community is coming to grips with the hard realities of this global recession, they remain a resilient group and even an optimistic one. You'll learn which sectors they believe offer prime opportunities and what countries are the most intriguing to them. It's been a tough season for investors and entrepreneurs alike, but that may have strengthened the industry. As Mark Heesen, president of the National Venture Capital Association (NVCA), said, "The tourists have left."

At a time when we are all making critical decisions that impact the success of our businesses, I trust you will find the survey results both insightful and useful.



Jolyon Barker
Global Managing Partner
Deloitte Touche Tohmatsu
Technology, Media & Telecommunications

About the survey

The 2009 Global Venture Capital Survey was sponsored by the Global DTT TMT industry group, in conjunction with the following venture capital associations throughout the world:

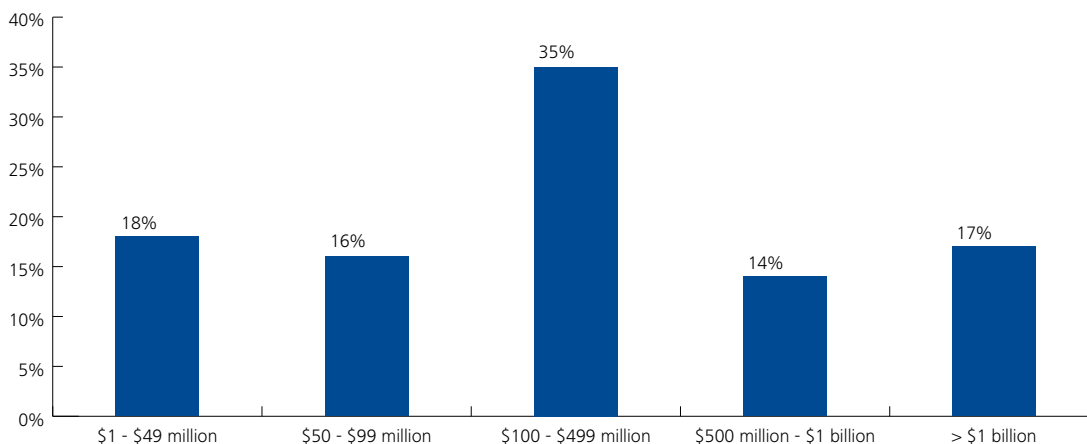
Brazilian Association of Private Equity & Venture Capital (ABVCAP)
British Private Equity & Venture Capital Association (BVCA)
Canada's Venture Capital & Private Equity Association (CVCA)
European Private Equity & Venture Capital Association (EVCA)
Emerging Markets Private Equity Association (EMPEA)
Indian Venture Capital Association (IVCA)
Israel Venture Association (IVA)
Latin American Venture Capital Association (LAVCA)
Malaysian Venture Capital and Private Equity Association (MVCA)
National Venture Capital Association (NVCA)
Singapore Venture Capital & Private Equity Association (SVCA)
Taiwan Private Equity & Venture Capital Association (TVCA)
Zero2IPO

The survey was conducted with venture capitalists (VCs) in the Americas, Asia Pacific (AP), Europe and Israel. There were 725 responses from general partners of venture capital firms with assets under management ranging from less than \$100 million¹ to greater than \$1 billion.

Multiple responses from the same firm were allowed, as the survey was a general measurement of the state of global investing from all general partners, not attitudes of specific firms. If respondents did not answer a question, the count for the question was adjusted accordingly.

The highest number of respondents—35 percent—claimed assets under management totaling between \$100 million and \$499 million. Another 34 percent had managed assets that were less than \$100 million, 17 percent had managed assets greater than \$1 billion, and 14 percent had between \$500 million and \$1 billion in assets under management.

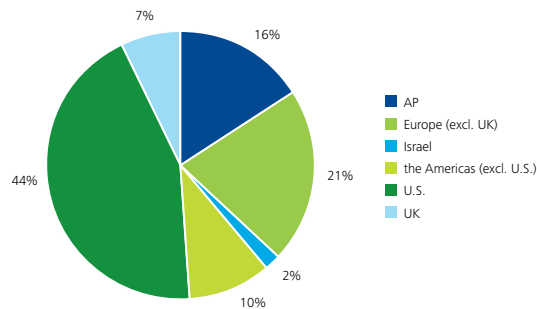
Assets under management



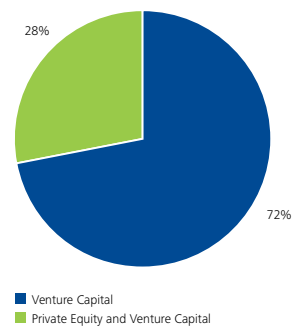
¹ All references to currency are in U.S. dollars, unless otherwise noted.

Geographically, the breakdown of responses continues to be fairly representative of both the size and location of firms in the venture capital industry around the world. Forty-four percent of the respondents were from the United States, 21 percent from European countries (excluding the UK), 16 percent from Asia Pacific countries, 10 percent from the Americas (excluding the U.S.), 7 percent from the UK, and 2 percent from Israel.

Location of respondents



Firm type



Seventy-two percent of the respondents had a primary investment focus on venture capital while 28 percent were primarily focused on private equity and venture capital. And, this year, 52 percent of venture capitalists noted that they are investing outside of their home country.

Given the severity of the current global recession, this year's survey focused on issues surrounding its impact on venture capitalists. The survey questions asked how the global recession is affecting strategy; how future investments are being planned, both by sector and region; what the anticipated size of the next fund will be and who VCs think their limited partners will be. We also wanted to know what countries they believe have the most to gain and lose in this new economy, as well as what they feel the role of government should be in fostering innovation.

This year's report looks broadly at the results in a global context, but an appendix is included that breaks out survey responses by geographic regions—the U.S., the Americas (excluding the U.S.) Europe (excluding the UK), UK, AP and Israel. If you are interested in responses of investors in a specific region, we encourage you to check the appendix for those charts.

Weathering the storm: new strategies for new global economic conditions

“The perfect storm” has become the cliché of choice to sum up the global economic recession of 2008-2009. Certainly, today’s economic environment is dramatically different than the one venture capitalists were operating in five years ago when the first Global Venture Capital Survey was launched. Five years ago, the venture capital community was recovering from the tech bubble bursting and was just beginning to see significant move towards the globalization of the venture capital industry.

Today, the economy is in a far different place. But, there are still signs of optimism. VCs are more attuned to the global economy and we’re seeing the maturation of some sectors—specifically semiconductors and telecom—while other sectors—clean technologies and life sciences—are emerging as areas with great growth potential. With this shake up in the economy, we are seeing venture capitalists make adjustments to their investment strategy in order to weather this storm and establish the foundation to thrive in the future.

“It’s been a difficult recession, but the industry is coping and making adjustments,” said Mark Jensen, U.S. national managing partner of Deloitte and Touche LLP’s Venture Capital Services. “They’re moving forward and not sitting on their hands waiting for something to happen.”

In general, VCs are decreasing their overall investing dollars, focusing on their best companies and increasing their allocation to later-stage investments.

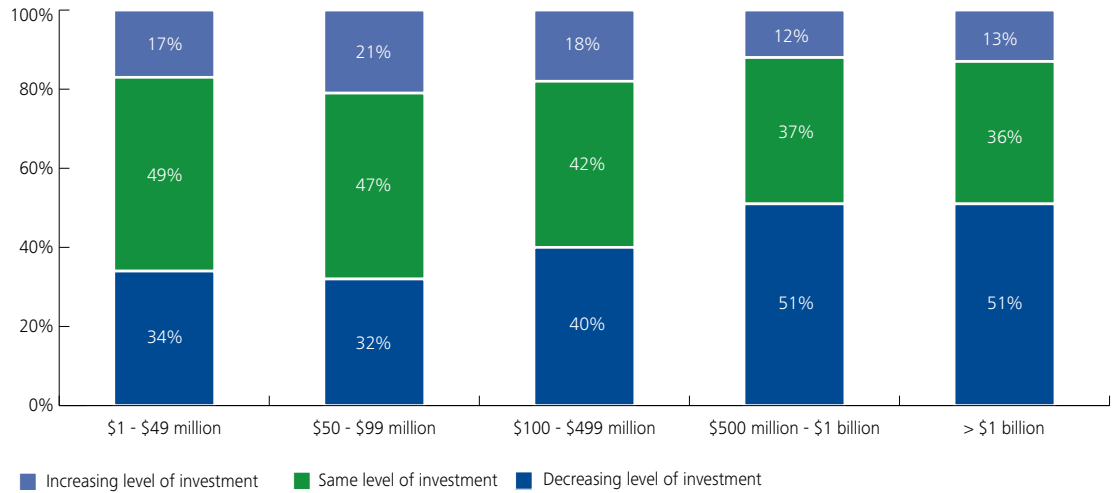
“We have not altered our fundamental strategic focus on early-stage health care investing in response to the recession,” explained Kevin Lalonde, managing director of Sante Ventures. “That said, new market realities and lingering uncertainty have factored prominently in our decisions about which specific opportunities to pursue of those consistent with our strategy. In the current environment, we are opting for fewer, more capital efficient deals in which the existing venture syndicate has enough reserve capacity to fund a company, if necessary, all the way to cash flow independence.”

Adjusting to a New Reality

In short, the tourists have left, explained Mark Heesen, president of the NVCA. “Young entrepreneurs who thought they could get rich quickly with just a good idea are now gone and those now left standing recognize the challenges and tenacity needed to establish and build a sustainable business,” he said. “Those out on the hustings trying to get funded are much more astute about the globalization of the economy and worldwide competition. They understand that the value of their company today is not what it will be six months from now and that if they want to be funded, it will likely be at a lower valuation than in the past.”

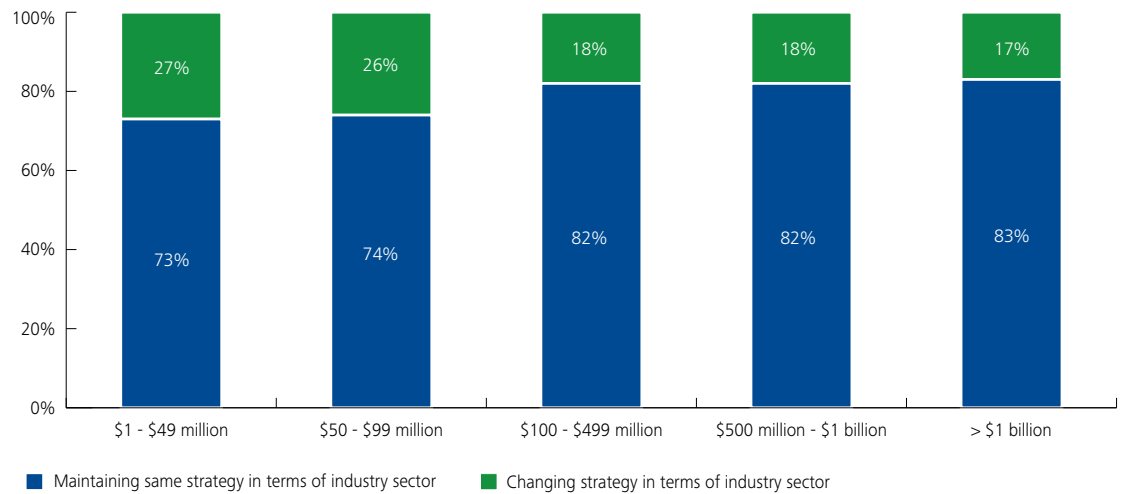
Lower valuations could present opportunities for VCs looking for a good deal. But are they spending? In fact, we see the larger firms eyeing a bigger slowdown than the smaller firms. Just more than half of respondents from firms managing \$500 million or more are decreasing their level of investment, compared to about one in three of those managing \$99 million or less.

Impact of the global recession on investment strategies – level of investment in terms of capital (by assets under management)



However, the vast majority of firms are maintaining the same strategy when it comes to industry sector. At least seven out of 10 VCs—and the percentage increases with the size of the firm—plan to maintain the same strategy in terms of industry sector.

Impact of the global recession on investment strategies – industry sector (by assets under management)

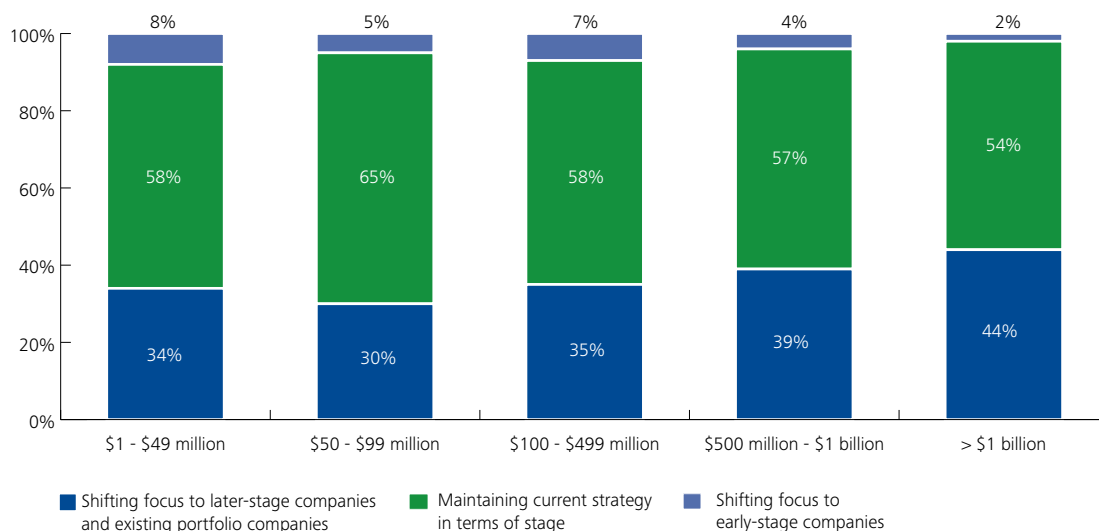


“Our firm is interested primarily in potentially great companies that already have some revenue traction,” said Patrick Sheehan, a partner with Environmental Technologies Fund. “We’re trying to find situations where we understand customer need, and it’s easier to do when there are existing customers. Our investing style hasn’t changed with the recession; it’s become more appropriate.”

What VCs are re-evaluating is the stage in which they're investing. Very few are shifting to early-stage investing. Instead, about half are maintaining their current strategy and a significant percentage are shifting their focus to later-stage and existing portfolio companies. No doubt this is due to both the strain on the capital markets and the fact that it's now taking longer for companies to be acquired and rare for them to go public. Investing in later-stage companies shortens the VC's gestation period and allows them to exit sooner.

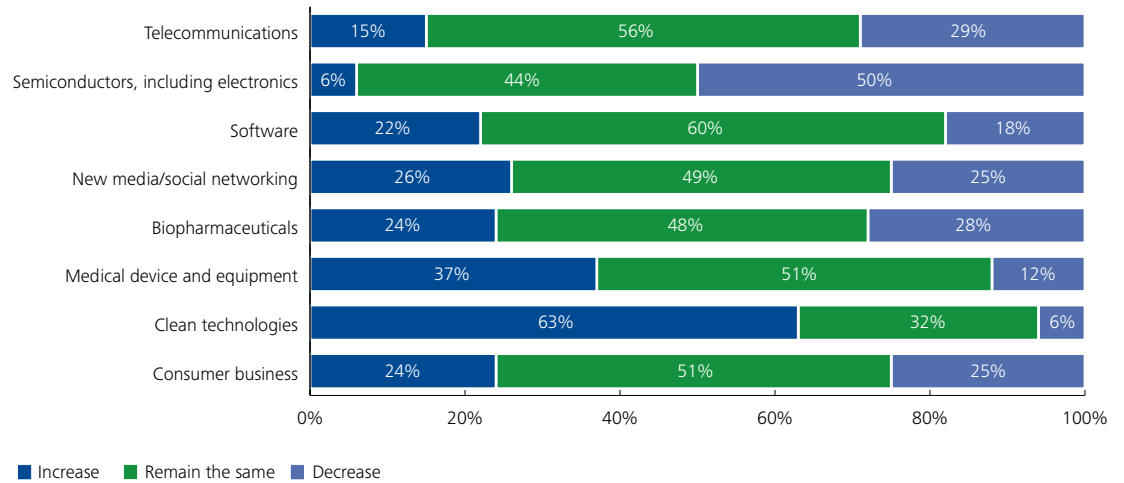
"In this environment, it pays to be either a very early-stage investor or a very late-stage investor," said Steve Fredrick, general partner of Grotech Ventures. "The classic Series B round, where a business is still finding its legs and remaining capital requirements are at best an estimate, carries more risk given higher burn rates and the climate's uncertainty around future financings. So, we're seeing reduced investment levels as firms either invest smaller sums in very early-stage companies, or invest traditional sums in fewer and much later-stage companies. The middle ground has been largely vacated."

Impact of the global recession on investment strategies – stage (by assets under management)



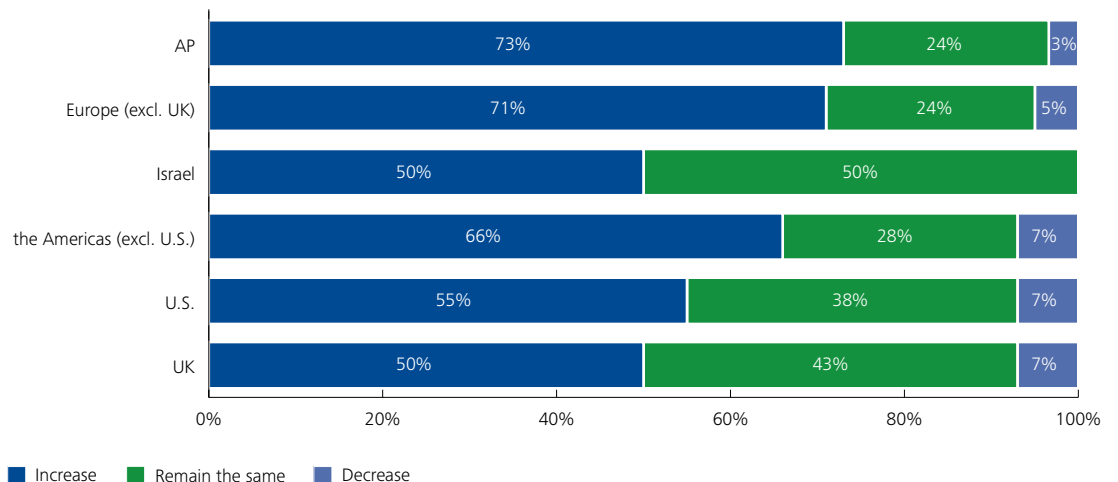
Five years ago, when the first Global Venture Capital Survey was conducted, the results indicated some interest in clean technologies and the life sciences. This year, regardless of fund size, we see tremendous interest from VCs in both of these sectors, especially clean technologies, where more than six out of 10 respondents anticipate their investment levels to increase and another three out of 10 will hold their investments at the same level.

In terms of total capital invested, anticipated level of investment change in select sectors, over the next three years



Among U.S., UK and Israeli investors, about half expect to increase their investments in cleantech, while about seven out of 10 AP respondents and European respondents expect their cleantech investments to increase. Two-thirds of respondents from the Americas plan to increase their cleantech investments. This interest could be because we're seeing an increase in government/political support for cleantech and VCs are looking more to government participation in both investments and incentives.

In terms of total capital invested, anticipated level of investment change in clean technologies, over the next three years (by location)



“Governments around the world are very supportive of creating a cleantech industry with tax credits and incentives,” said Heesen. “In the U.S., it’s now seen as an energy independence issue, a security issue and a jobs issue. And the public is more supportive of cleantech activities as more people are cognizant of the threat of global warming.”

But while this finding is significant, it’s also important to note that with a couple of exceptions where the sectors have significantly matured—semiconductors and telecommunications—VCs expect their level of investment in other industries to remain the same or increase.

Eastern Exposure

Another trend that hasn’t changed in the last five years is venture capitalists’ interest in China and India. Regardless of the size of the firm, investors are intrigued by the investment possibilities of these two countries.

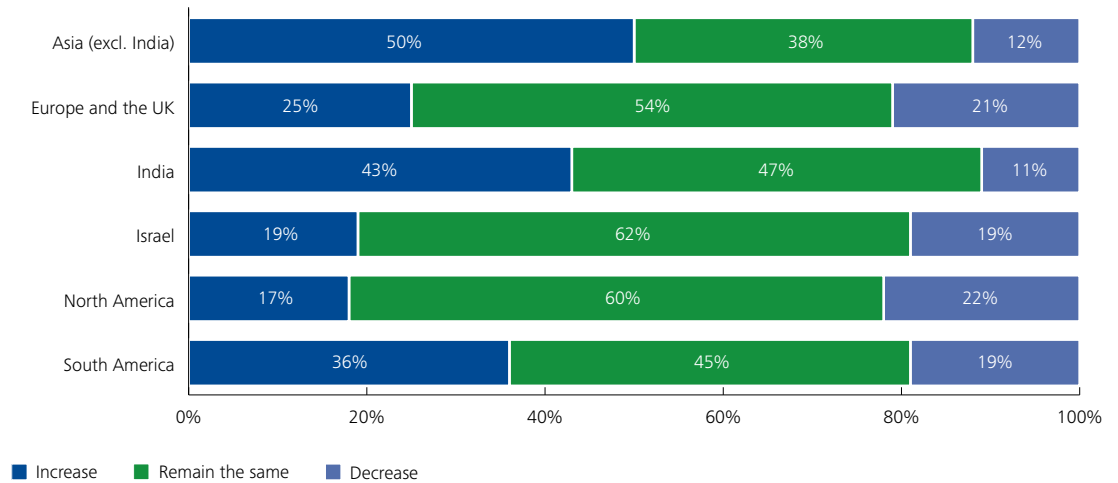
“We are lucky to be sitting at the hub of what we believe will be the most exciting venture market in the coming years—China,” said Gavin Ni, founder, president and CEO of Zero2IPO. “If you take a look at the short-term, you see China will be the first to emerge out of the worldwide downturn. China is projecting 7 percent-plus GDP growth in 2009—the highest in the world. Then, looking beyond, you see a swelling middle class—but still a minority of the population—with money in their pockets to spend. That does not even scratch the surface of the eventual buying power of the largest population in the world—1.3 billion potential consumers.”

Half of all respondents expect their investment levels to increase in Asia (excluding India), while 43 percent expect to increase their investments in India over the next three years. In 2007, 41 percent of respondents indicated an interest in expanding their investment focus in Asia Pacific. About one-third expect to increase their investment levels in South America. Only 17 percent expect to increase their investments in North America, the same as 2007.

Compared to North America, the numbers were only slightly better for Europe and the UK (25 percent) and Israel (19 percent). More than half of the respondents do intend to maintain their investment levels in Europe, while 21 percent expect those levels to decrease. This investment strategy is a change from 2007, when one-third of respondents indicated that they were interested in expanding their investment focus in Europe.

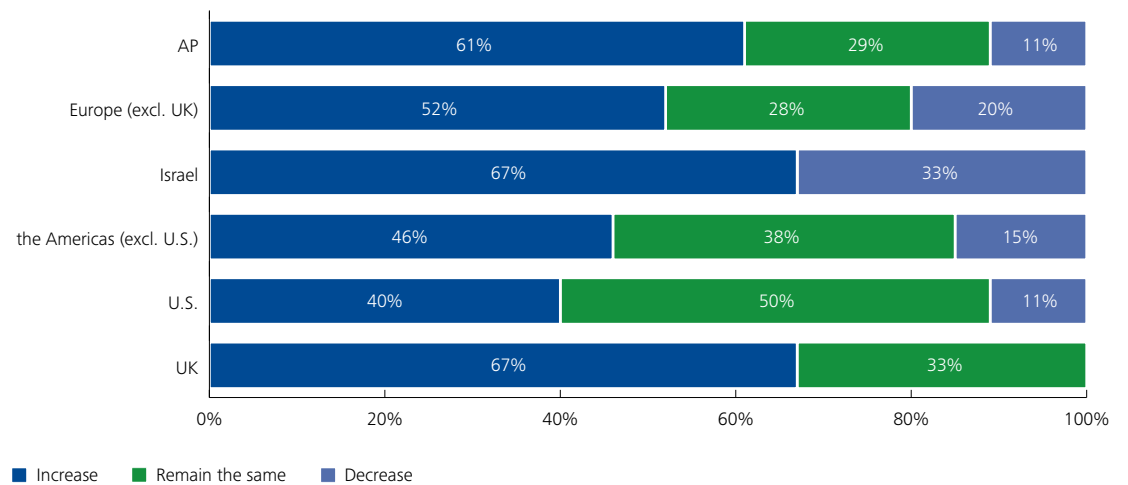
“We are lucky to be sitting at the hub of what we believe will be the most exciting venture market in the coming years—China.”

In terms of total capital invested, anticipated level of investment change in select regions, over the next three years

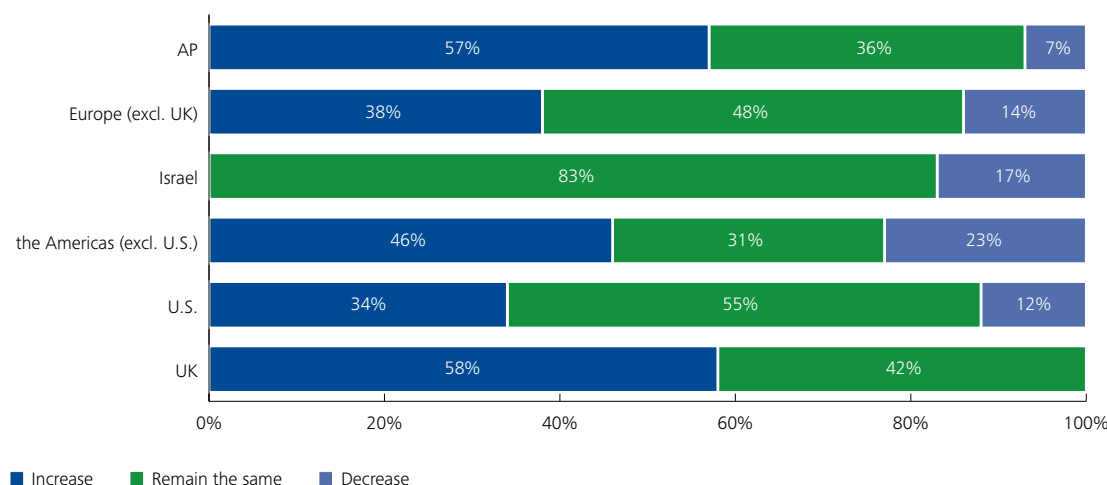


When it comes to interest in Asia and India, UK respondents are the most enthusiastic, planning either to increase investment levels (67 percent and 58 percent, respectively) or keep them at the same levels (33 percent and 42 percent, respectively). But, about nine out of 10 U.S. VCs are also increasing or maintaining their investments in Asia and India, and about the same number of respondents from Asia Pacific have similar plans.

In terms of total capital invested, anticipated level of investment change in Asia Pacific (excl. India), over the next three years (by location)



In terms of total capital invested, anticipated level of investment change in India, over the next three years (by location)



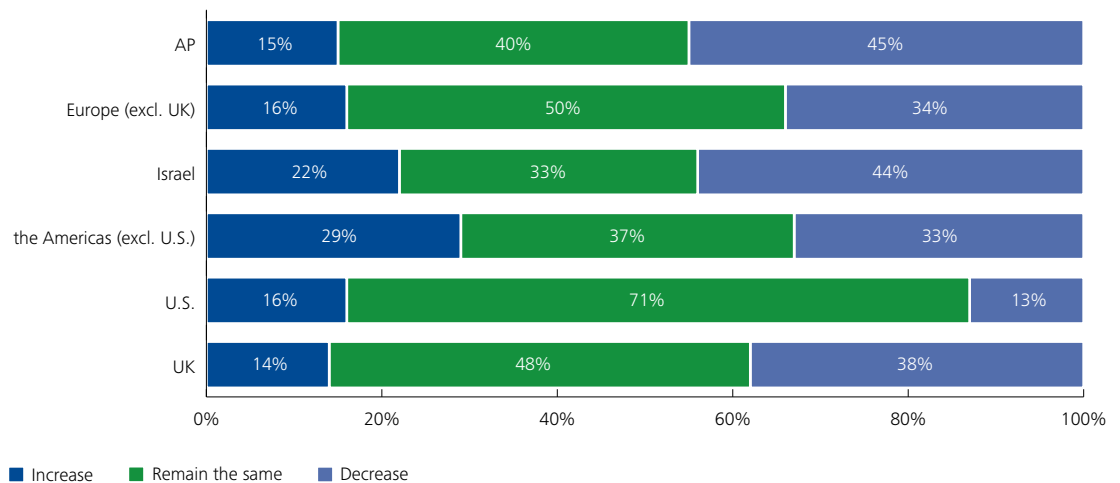
In other words, noted Jensen, “Firms are now looking at the whole world in terms of their investing priorities. The world has gone global in venture capital and the firms are adapting their strategies accordingly.”

David Chao, co-founder and general partner of DCM, agrees. “The lines between whether a company is American, Asian or European are blurring because by necessity many start-ups today have multiple offices. Entrepreneurs can start companies anywhere they want in the world and pick locations where conditions are favorable and talent pools are available at reasonable prices.”

That perspective is reinforced when you see that investment interest in North America seems to be decreasing. Only 29 percent of VCs in the Americas (excluding the U.S.) plan to increase their investments in North American countries while 37 percent expect them to remain the same. Twenty-two percent of Israeli investors plan to increase their North American investments while 33 percent expect investment levels to remain the same. European investors (excluding the UK) are looking at a 16 percent increase and half expect their investments to remain the same. Only 15 percent of Asia Pacific VCs expect to increase their investment in North American countries while 40 percent expect it to remain the same. In the UK, a mere 14 percent plan on increasing their investments but 48 percent plan on keeping their levels the same. Even among U.S. VCs, only 16 percent plan to increase their North American investing levels while 71 percent expect their investment levels to stay as they are.

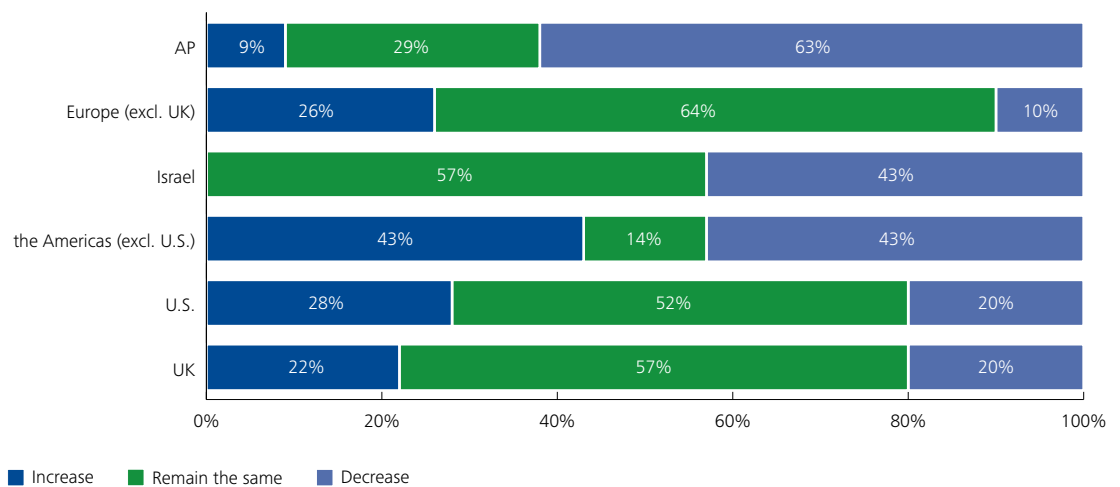
“The lines between whether a company is American, Asian or European are blurring...”

In terms of total capital invested, anticipated level of investment change in North America, over the next three years (by location)



Why is there so much interest in China and India? China and India are emerging markets compared to North America, and the U.S. specifically, with great growth potential. Also, the strained exit markets in the U.S. and the impact of recent government policies appear to be discouraging investors from increasing their risk exposure in North America.

Venture capitalists anticipated level of investment in Europe and the UK, over the next three years (by location)



At least a quarter of global VCs intend to increase their investments levels in Europe and the UK. This is mainly driven by VCs in the Americas (excluding the U.S.), among which 43 percent plan to invest more into Europe and the UK. However, another 43 percent of the VCs in that same area intend to reduce their investments in Europe and the UK. The most

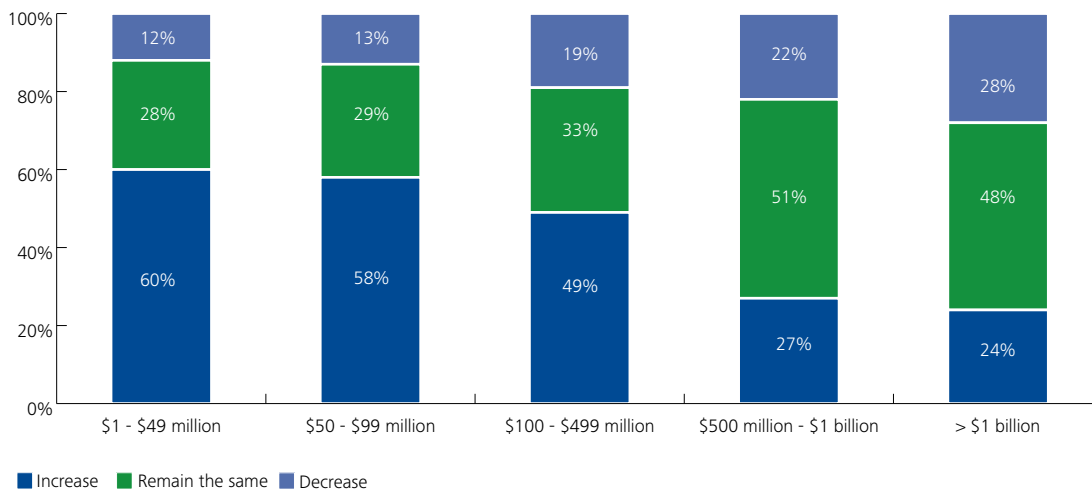
positive forecast comes from U.S. players, among which 28% expect to increase investments, while only 20% foresee a decrease. Israeli and Asia-Pacific VCs show the least interest in Europe and the UK.

Fund Raising

Despite the fact that the world is struggling with a recession, VCs are remarkably optimistic about their future funds. Most VCs believe that their next fund will be either larger than their existing fund or will be approximately the same size. And, that’s across the board, regardless of the size of the venture firm or where they’re located.

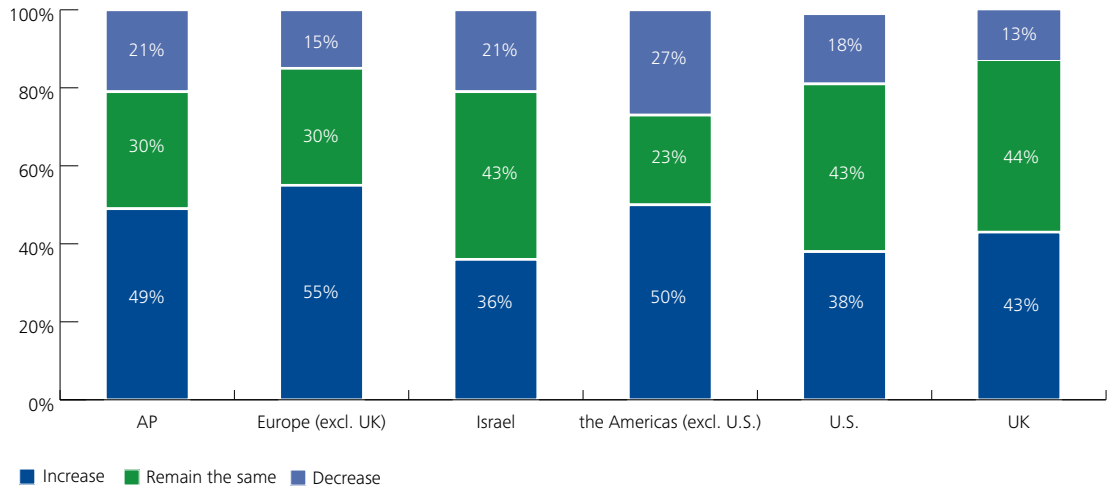
Among those managing more than \$1 billion, 24 percent project that their next fund size will increase while almost half expect it to remain the same. Less than a third anticipate a decrease. Those numbers are very close when it comes to those firms managing \$500 million to \$1 billion. As the size of the firm grows smaller, the firms grow more optimistic about the size of their next fund levels, with 60 percent of the smallest—those managing \$1 million to \$49 million—anticipating their fund levels will grow and another 28 percent stating that they’ll remain the same.

Projected fund size compared to current fund (by assets under management)



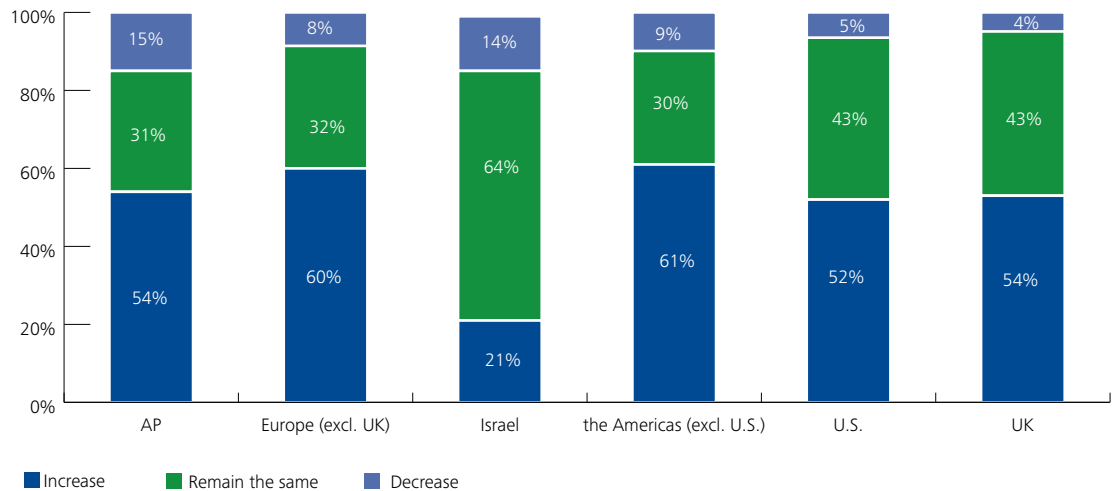
The numbers are far more consistent when you look at this question regionally. Very little decrease in fund size is projected across the board. And, those projecting increases or stasis range from the Americas (excluding the U.S.) at 73 percent to the UK at 87 percent. The region anticipating the greatest increase in their next fund is Europe (excluding the UK) at 55 percent. Europe (excluding the UK) (15 percent) and the UK (13 percent) are the regions with the lowest expectations of decreased fund size in the future.

Projected fund size compared to current fund (by location)



Where around the world is this money coming from? Over the next five years, the vast number of respondents expect that the number of their limited partner investors located outside their home country or region will remain the same or increase, again regardless of the size of the firm or their home country. UK investors, at 97 percent, appear to be the most eager to engage investors outside of their home country, but even 92 percent of those VCs responding from Europe (excluding the UK) project that the number of their limited partners located outside of their region will remain the same or increase.

Anticipated number of investors (Limited Partners) located outside the venture capitalists home country/region, over the next five years (by location)



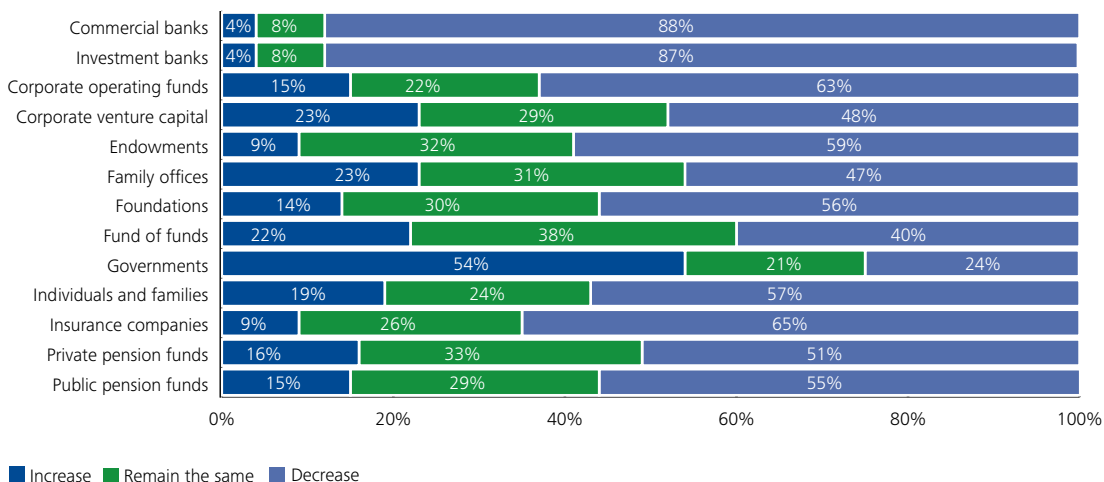
There is, however, a disconnect between the optimism these respondents expressed and where the investment funds will actually come from. We asked venture capitalists how the current economic crisis will affect the various types of limited partners' willingness to invest over the next three years, and while they plan to increase the size of their funds and level of investing, they nevertheless see their traditional investor base—commercial banks, investment banks, corporate operating funds, insurance companies and public pension funds—to be drying up.

“Limited partners were cutting their venture allocations and number of managers before this economic period began. Like all good investors, they are tracking results and culling their herd. While they may have taken more risks in years past to increase their dollars or number of investments, no doubt the jury is starting to come in,” explained Ray Rothrock, managing general partner at Venrock. “However, venture is still popular for LPs, if they can find the right groups. I would think they, like VCs seeking great entrepreneurs everywhere, are seeking great VCs everywhere. It makes perfect sense.”

Among all respondents, 88 percent see commercial bank investors' willingness to invest in venture capital over the next three years decreasing. Another 87 percent were just as pessimistic over investment banks. About six out of 10 were not sanguine about corporate operating funds, insurance companies, corporate venture capital, and endowments decreasing as limited partners.

Intriguingly, venture capitalists are looking to governments as their financial partners. More than half of VCs see an increase in governments as willing investment partners with another fourth looking at an increase by family offices.

The current economic crisis will affect the following types of limited partners' willingness to invest in the venture capital asset class, over the next three years



Looking at this issue by region, among U.S. respondents, 41 percent expect a greater involvement by governments and 22 percent by corporate venture capital, followed by fund of funds (21 percent). This is significant, given a tradition of reliance on private capital in the United States. Six out of ten Asia Pacific respondents also believe there will be an increase in activity on the part of government. Among Israeli respondents, that number is almost half of respondents, while two-thirds of those in the Americas (excluding the U.S.), Europe (excluding the UK) and the UK see government investment increasing.

Of course, these questions were being answered at a very negative point in time (February-March 2009), and with the financial challenges traditional investors are facing, it's clear that the VC community is increasingly looking to the government for assistance. But even so, it's unclear how they can assert that their funds will increase or remain the same when there are fewer limited partners and there's less capital available.

And the Winner is...

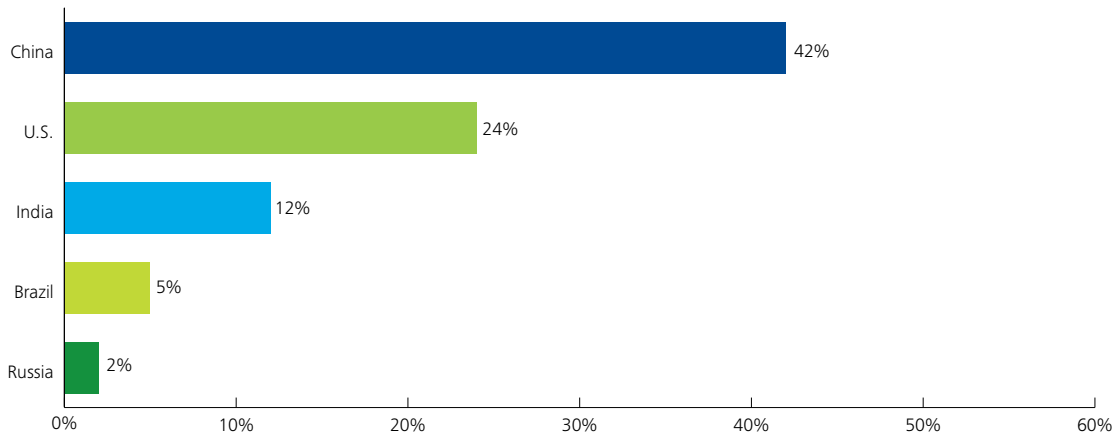
Apparently, among venture capitalists, there's China and there's everyone else. That was clearly demonstrated in response to earlier questions about where VCs plan to increase their investments.

It was further validated when VCs were asked directly which country has the most to gain in overall stature over the next three years. Most respondents from around the globe chose China either first or second on their lists.

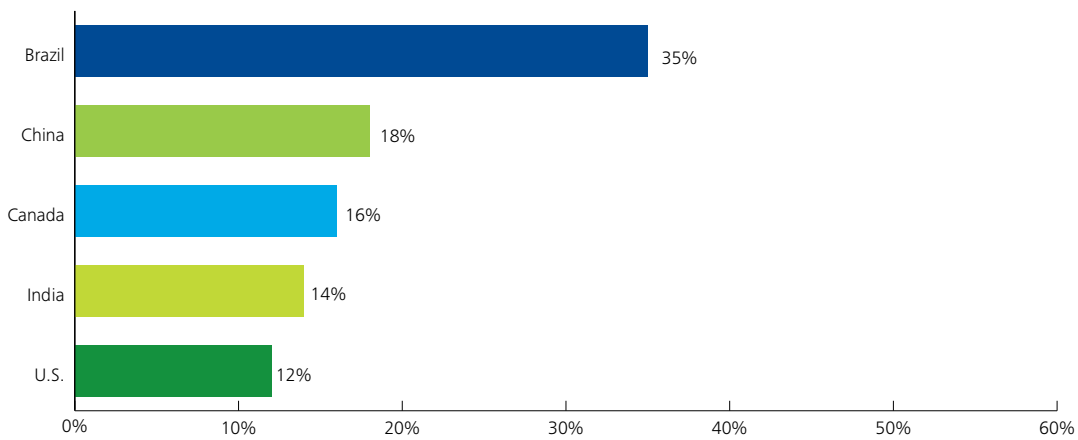
"A question I frequently get is whether China's recent growth in venture investing is sustainable. I would say, 'of course,'" said Zero2IPO president and CEO, Gavin Ni, "I interact with China's entrepreneurs everyday. There is a real drive to win, and there's no stopping until the game is won. Others see the victory and want to win, too. And, the rules of the game from China's government continue to drive strong business growth."

China was a clear favorite among U.S. investors with 42 percent of respondents believing that the country has the most to gain. Only 24 percent held that conviction for the U.S., followed by 12 percent for India, 5 percent for Brazil and 2 percent for Russia. Among VC respondents from the Americas (excluding the U.S.), 35 percent look to Brazil while 18 percent see China being a clear winner, followed by Canada at 16 percent, India at 14 percent and the U.S. trailing at 12 percent. Israeli respondents selected the U.S. with 36 percent, followed by China (29 percent), Brazil and Israel (14 percent) and India (7 percent). More than half of Asia Pacific respondents were enthusiastic about China, while 20 percent looked at India as having the most gain, followed by Japan (6 percent), the U.S. (5 percent) and Afghanistan (4 percent). Almost three out of 10 respondents from Europe (excluding the UK) see China as having the most to gain. Sixteen percent saw that potential from India and the U.S., followed by Brazil (7 percent) and France (6 percent). Finally, 35 percent of UK respondents eyed China as the clear winner, with India following at 24 percent, the U.S. at 9 percent and the United Arab Emirates at 6 percent.

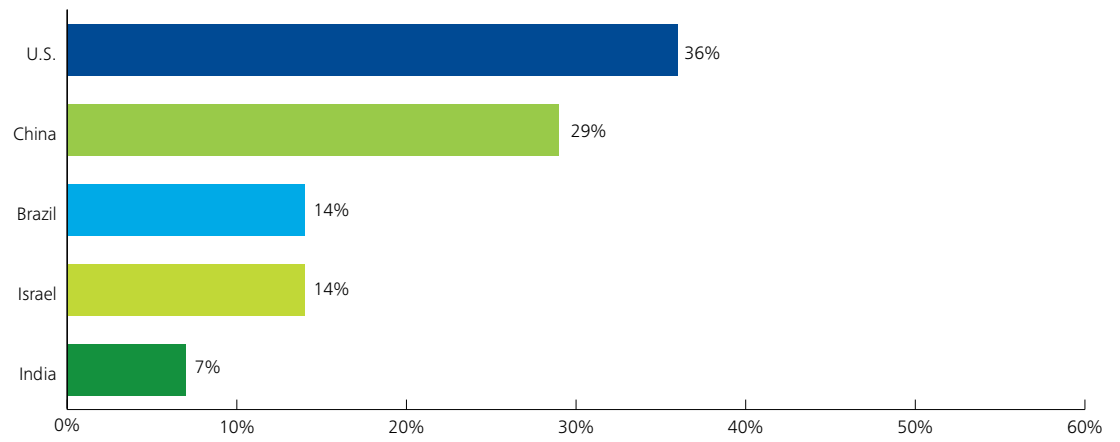
Top five locations viewed as having the most to *gain* in terms of overall economic stature, over the next three years (U.S. respondents)



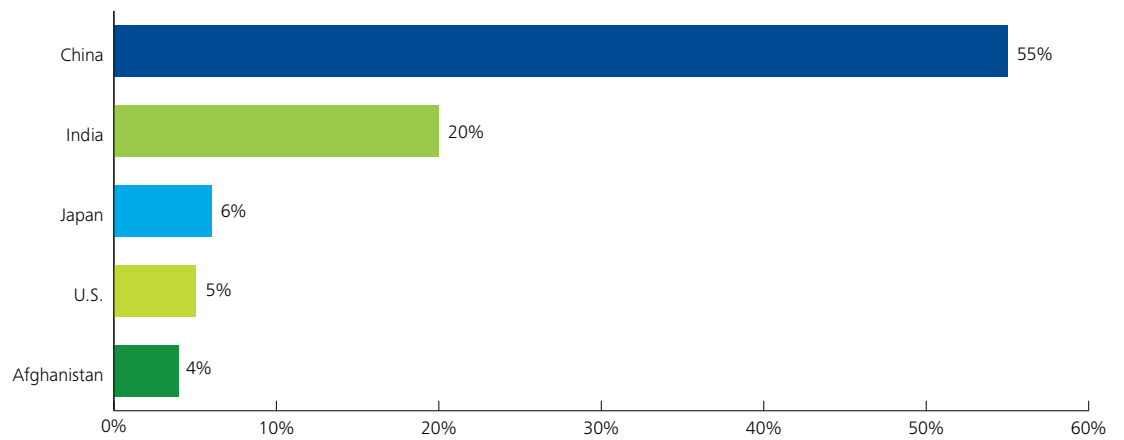
Top five locations viewed as having the most to *gain* in terms of overall economic stature, over the next three years (the Americas (excl. U.S.) respondents)



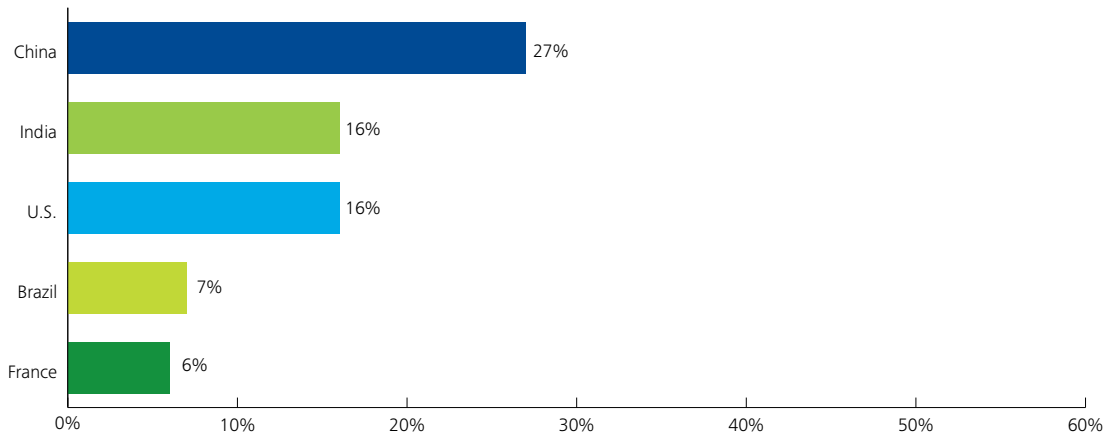
Top five locations viewed as having the most to *gain* in terms of overall economic stature, over the next three years (Israel respondents)



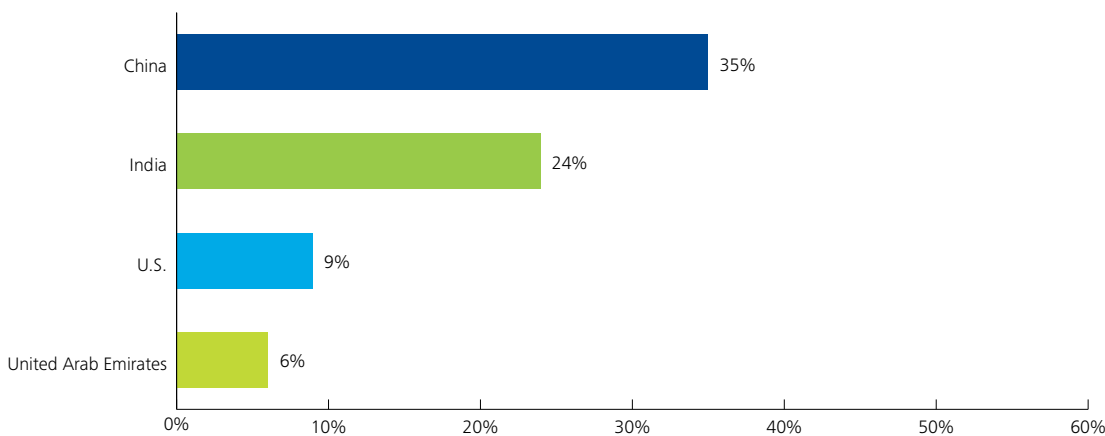
Top five locations viewed as having the most to *gain* in terms of overall economic stature, over the next three years (Asia Pacific respondents)



Top five locations viewed as having the most to gain in terms of overall economic stature, over the next three years (Europe (excl. UK) respondents)

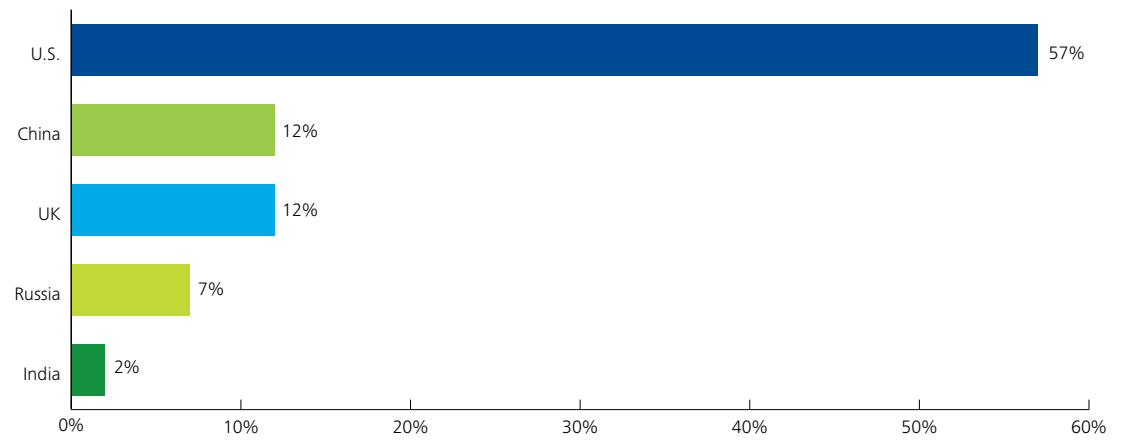


Top four locations viewed as having the most to gain in terms of overall economic stature, over the next three years (UK respondents)

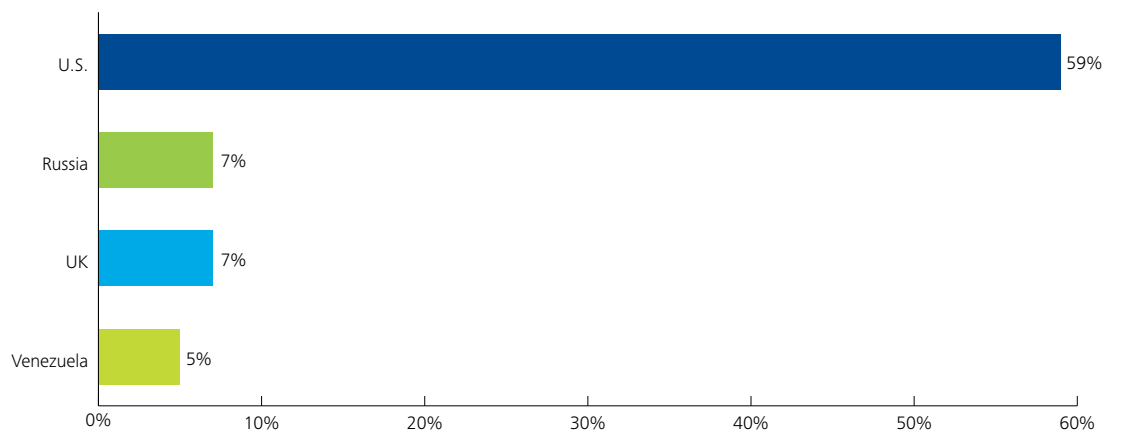


On the opposite end of the spectrum, across the board the U.S. consistently was perceived as having the most to lose in economic stature—even by more than half of U.S. respondents. This shouldn't be surprising, given that having created venture capital, the U.S. has long had preeminent status. With the rest of the world looking at the future of the industry and where people will be investing, there's no question among any respondents that the U.S.'s elevated status cannot continue to be taken for granted, particularly given this new economic environment and the entrepreneurial ecosystems that are emerging around the world.

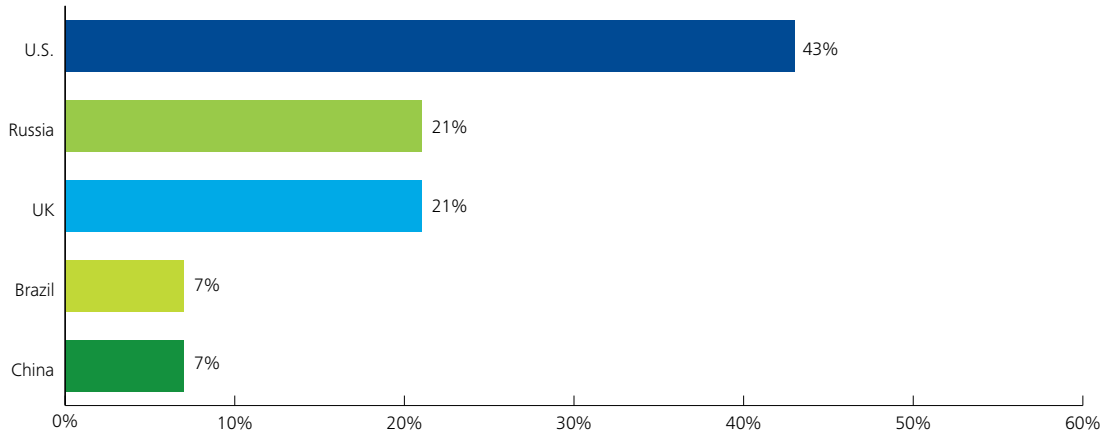
Top five locations viewed as having the most to *lose* in terms of overall economic stature, over the next three years (U.S. respondents)



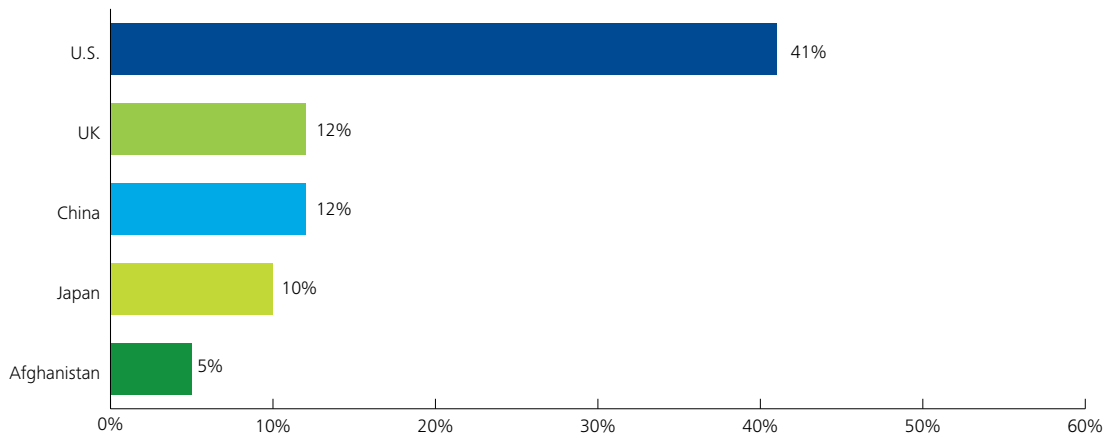
Top four locations viewed as having the most to *lose* in terms of overall economic stature, over the next three years (the Americas (excl. U.S.) respondents)



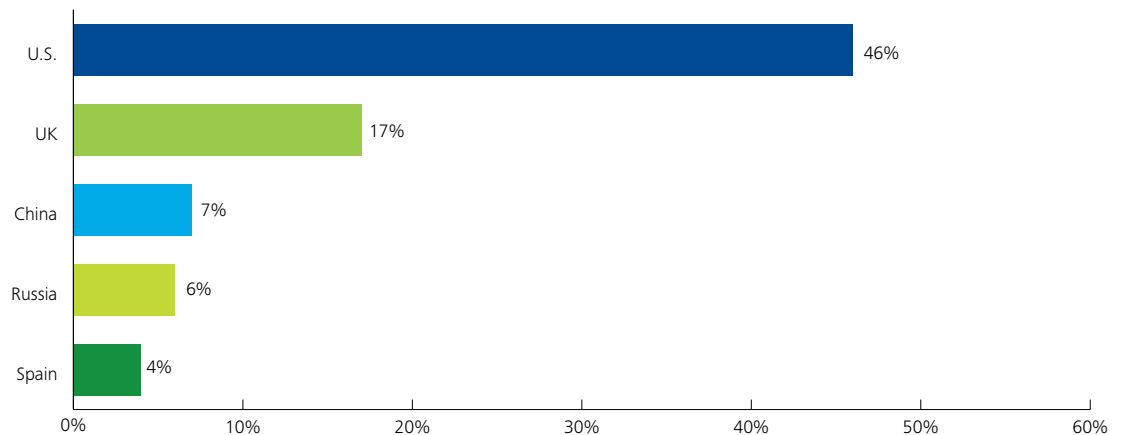
Top five locations viewed as having the most to lose in terms of overall economic stature, over the next three years (Israel respondents)



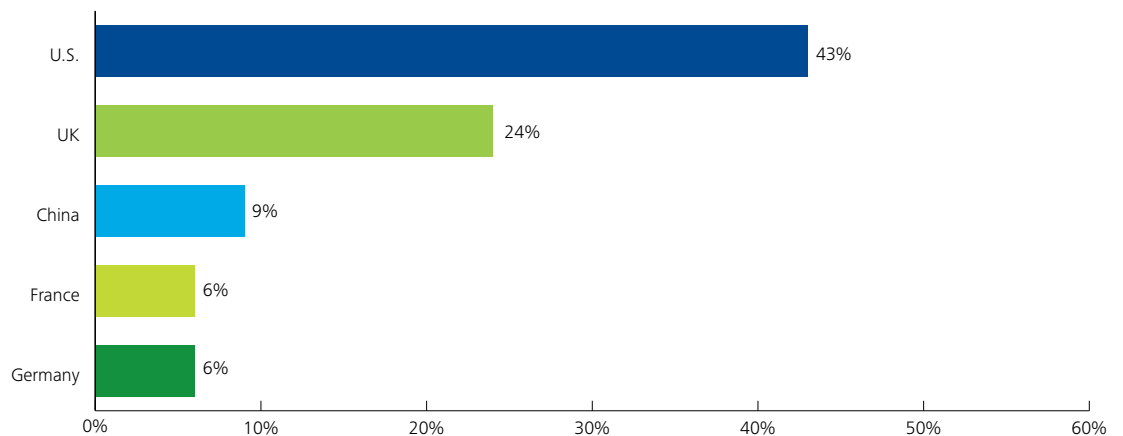
Top five locations viewed as having the most to lose in terms of overall economic stature, over the next three years (Asia Pacific respondents)



Top five locations viewed as having the most to lose in terms of overall economic stature, over the next three years (Europe (excl. UK) respondents)



Top five locations viewed as having the most to lose in terms of overall economic stature, over the next three years (UK respondents)



Looking to Government

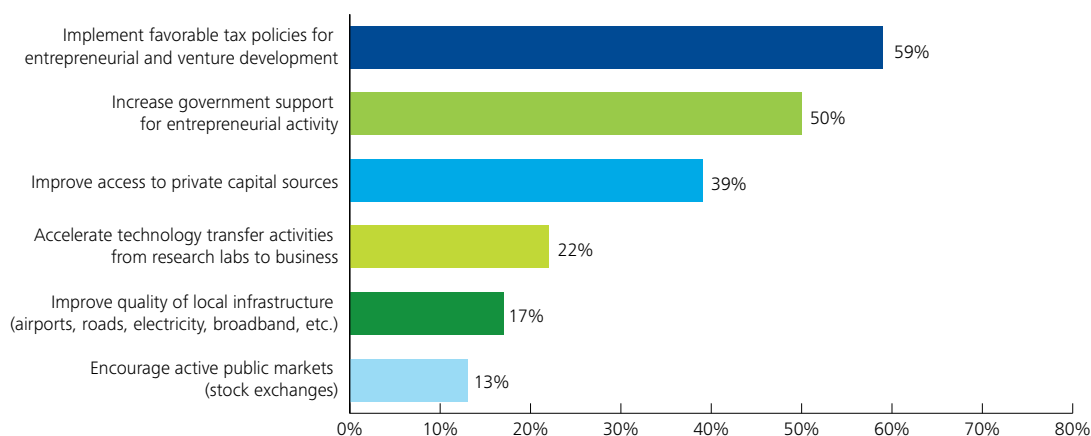
Around the world, government has been playing an important role in fostering innovation and entrepreneurship. Governments have a long history in funding research and development through universities and national laboratories, which has resulted in much of the technology that has been commercialized during past decades.

As venture capitalists increase their investment in areas like cleantech and life sciences, where there is more government regulation, VCs are more cognizant of the impact government policy can have on their future success. For instance, if there aren't sufficient tax credits or stimulus to help struggling solar and wind alternative energy companies get traction to compete with large traditional energy companies, they won't prosper. Government can influence policy in key areas such as patent protection, immigration and, of course, trade.

To some extent the success of Silicon Valley or, as a more recent example, Israeli venture capital, is the result of defense and other government sponsored research and development spending. The European Commission launched its Information and Communications Technology (ICT) strategy in March 2009, to pursue the doubling of investments into ICT research and development, by calling on member states and the industry (including private equity houses) to pool resources and cooperate more strongly.

Given the important role government traditionally has played in creating a regulatory environment which encourages venture creation, we asked respondents to identify the top two government actions, over the next 12 months, they felt would most foster innovation. Among all respondents, three out of five saw government implementation of favorable tax policies as the most significant, while half are in favor of increased government support for entrepreneurial activity—such as research grants, small business investment corporations and increased training programs for entrepreneurs. In fact, among all respondents except Israel, where it was number two, implementation of favorable tax policies was the key action respondents felt government should take in the next year.

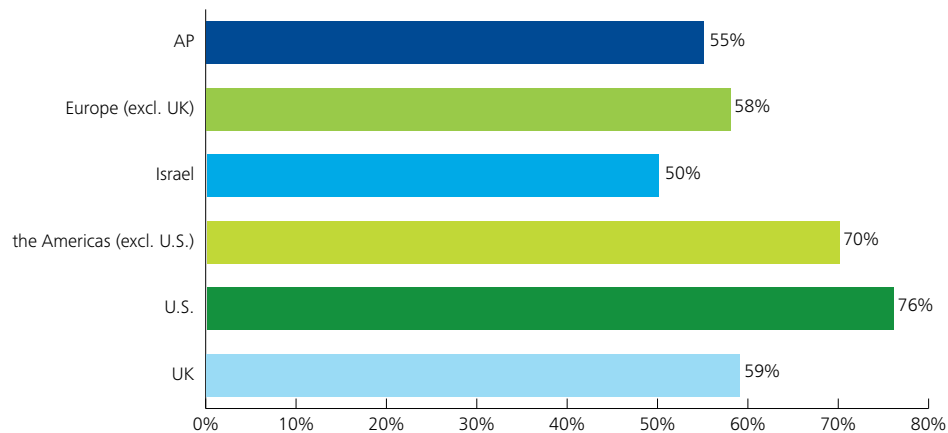
Actions governments can take to foster innovation, over the next twelve months



* Multiple responses required, total percent exceeds 100.

Strikingly, with the only exception being Israel, the most widely preferred action among the respondents was that government should foster innovation by implementing favorable tax policies for entrepreneurial and venture development. At 86 percent, Israel preferred increased government support for entrepreneurial activity as government’s most important action.

**In-depth view of the most selected action government can take to foster innovation:
Implement favorable tax policies for entrepreneurial and venture development**



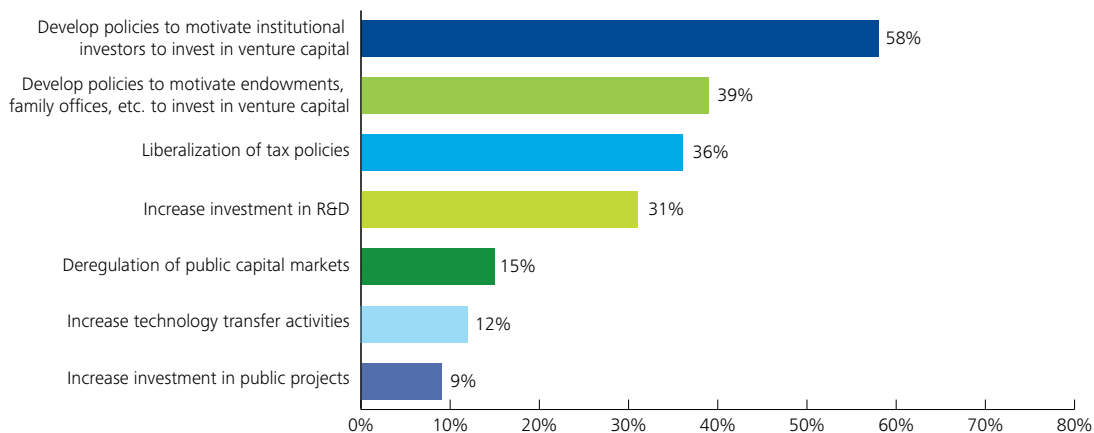
* Multiple responses required, total percent exceeds 100.

Among those regions advocating better tax policies is Europe, including the U.K. Close to two-thirds of respondents are proponents of government focusing on improved tax policies that support entrepreneurs and encourage venture development to boost innovation.

“Over the past few years, the VC industry in Europe has been growing and maturing—producing worthwhile companies, generating wealth and high-quality jobs. Increasingly, European venture is an attractive investment segment, but in spite of that there’s now a danger of it being starved of funds,” said Patrick Sheehan, a partner with Environmental Technologies Fund. “So, we believe it needs nurturing, not for the benefit of the VCs, but to ensure that can continue to help entrepreneurs grow vibrant innovative companies. As chairman of the EVCA Venture Capital Committee, I can tell you that the EVCA is working hard with government to help create that right framework of support.”

Given the current recession, the survey also asked venture capitalists what they felt government could do to improve conditions specifically for their industry. The top response by all respondents, at 58 percent, is to develop policies, presumably through tax policy, to motivate institutional investors to invest.

Actions governments can take to improve conditions for venture capitalists, over the next 12 months



* Multiple responses required, total percent exceeds 100.

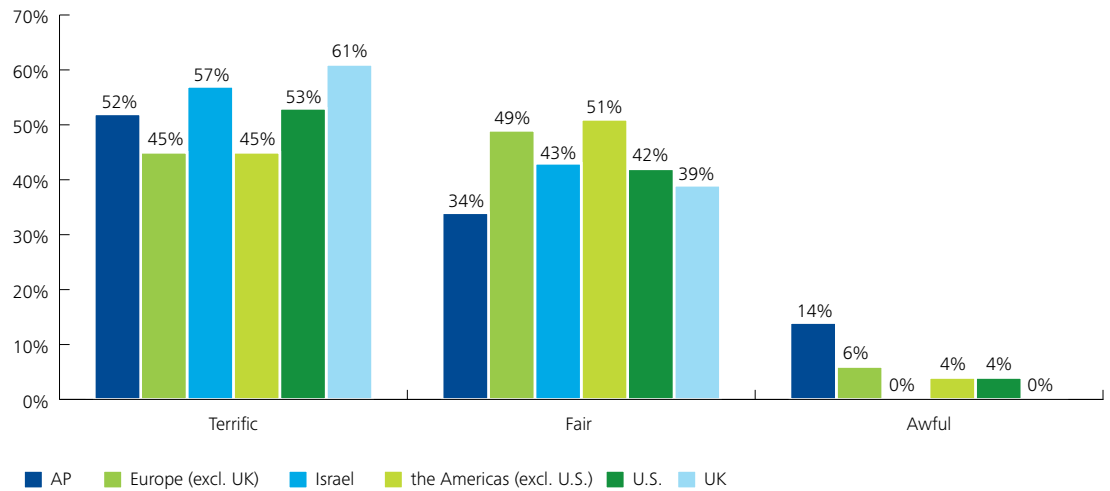
When broken down by region, with the exception of Israel, investors around the world agreed that motivating institutional investors to invest in the venture capital asset class was the most important action government could take. Israelis were more interested by far (86 percent) in increased investment by government in research and development. Among U.S. respondents, almost half were interested in encouraging institutional investors, while 41 percent were in favor of liberalizing tax policies.

It is important to note that culturally, when comparing U.S. attitudes to those held around the world that by and large, the rest of the world looks to government for a more engaged, proactive role. Even as VC markets outside the U.S. mature, that stance may not change and as VCs become more transient in both directions, they have to be aware of that distinction.

Ending on a "Terrific" Note

We concluded the survey with a general attitudinal question as a way of getting the pulse of all 725 respondents. They were asked to complete the following statement: "It is currently a ____ time to invest in promising entrepreneurial companies." Their choices were "terrific," "fair," and "awful." Despite a global recession, retrenchment of the capital markets and shifting opportunities in various regions, by far the most popular response was "terrific."

It's a _____ time to invest in promising entrepreneurial companies (by location)



The Globalization of the Venture Capital Industry Marches On

Five years ago, when the Global VC Survey was first conducted, the goal was to see if the “buzz” about investing in emerging international markets was widespread or just concentrated among a few leading venture capital firms. The results showed a small committed group of global investors with lots of interest on the sidelines. Today, globalization of the venture capital industry continues in a meaningful way, with slightly more than half of respondents stating that they are investing outside their home country.

This year, our goal was to see if the global recession was impeding this march towards globalization. Although venture capitalists are making adjustments to their strategy in response to the current recession, the survey results clearly show that this industry continues to move toward increased globalization. The current recession is not stopping venture capitalists from looking for the best investment opportunities in order to produce the best possible returns for their investors—regardless of borders.

“We continue to believe in the strength of global technology innovation and entrepreneurship,” said Arvind Sodhani, president of Intel Capital and Intel executive vice president. “Challenging economic times present an opportunity for companies to outperform their competition with cool and exciting new products and services.”

Acknowledgements

Thank you to all of the venture capitalists who extended themselves and responded to this year's survey. We also want to thank each of the venture capital associations around the world who so generously offered their assistance. The 2009 Global Trends in Venture Capital survey report could not have been produced without their help.

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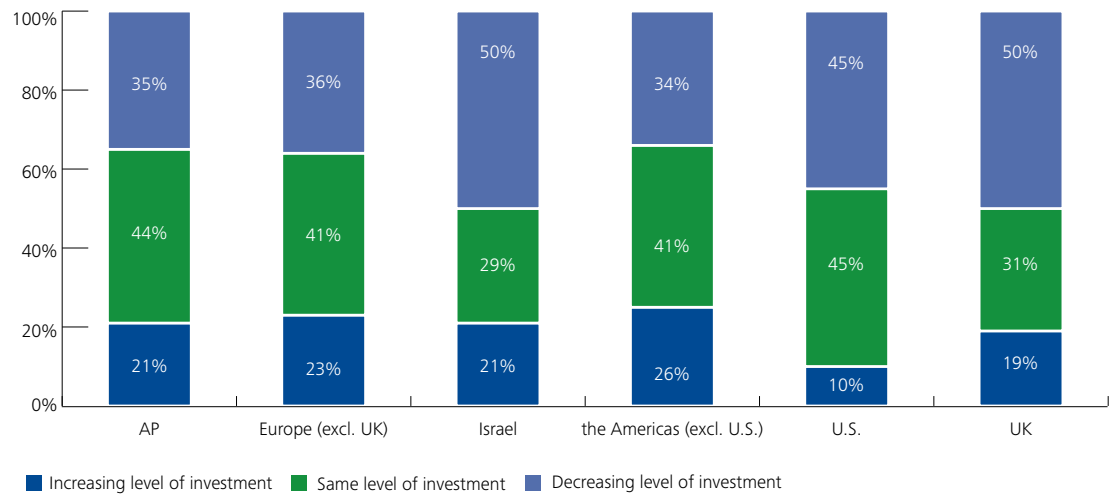
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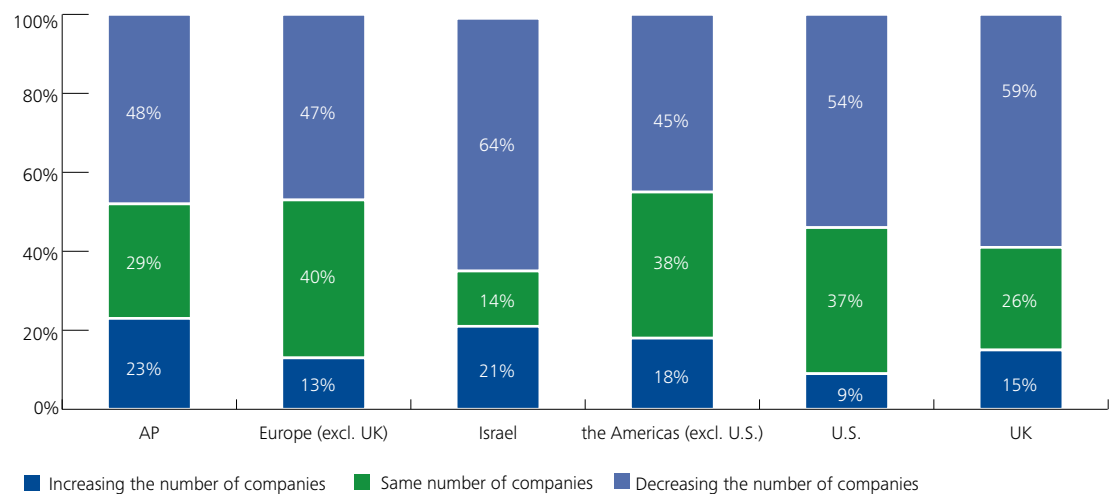
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Appendix - A closer look

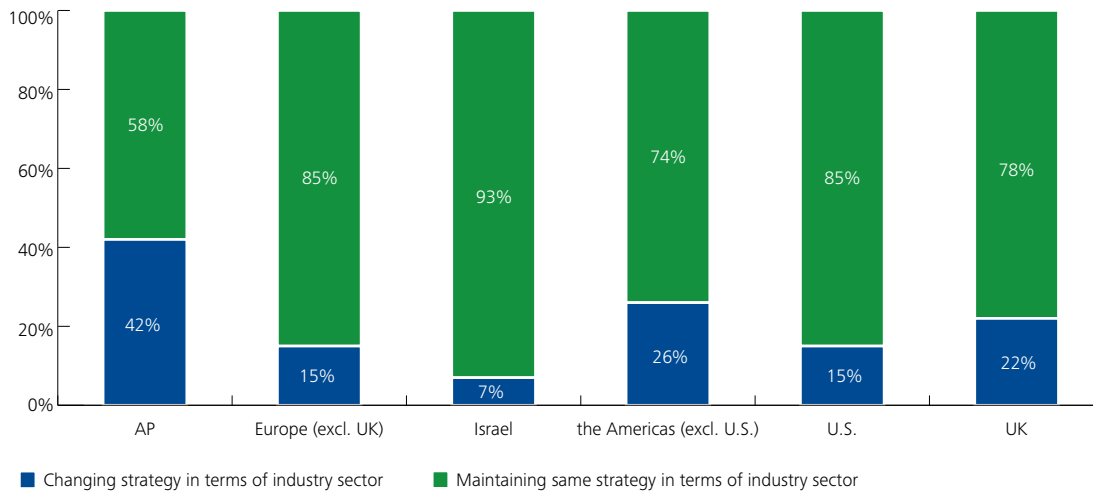
Impact of the global recession on investment strategies – level of investment in terms of capital (by region)



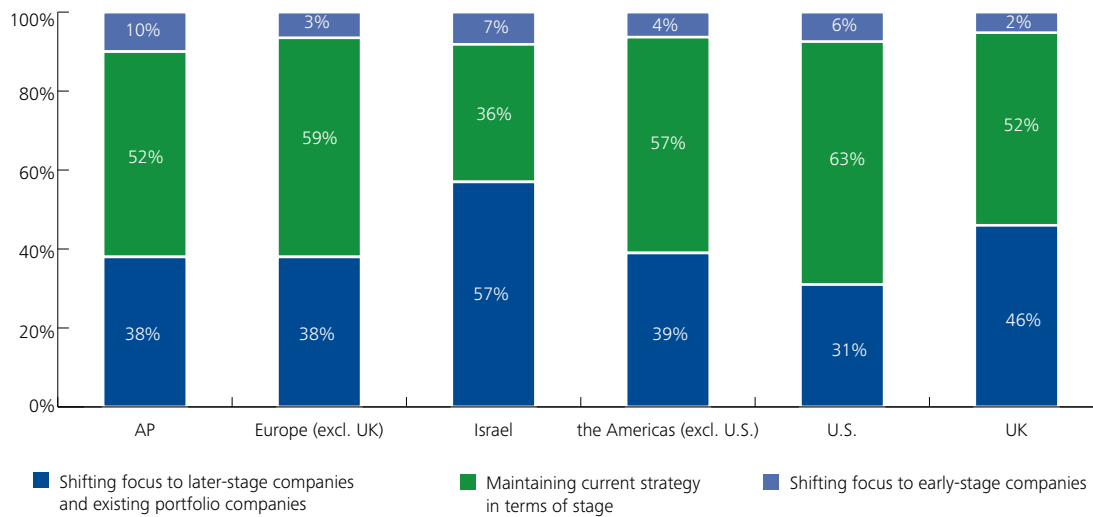
Impact of the global recession investment strategies – level of investment in terms of number of companies (by region)



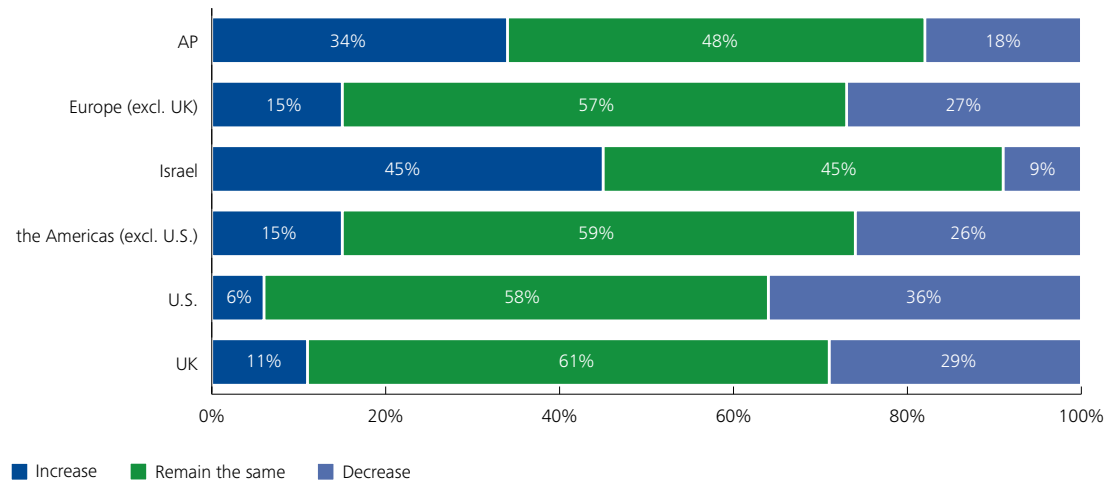
Impact of the global recession on investment strategies – industry sector (by region)



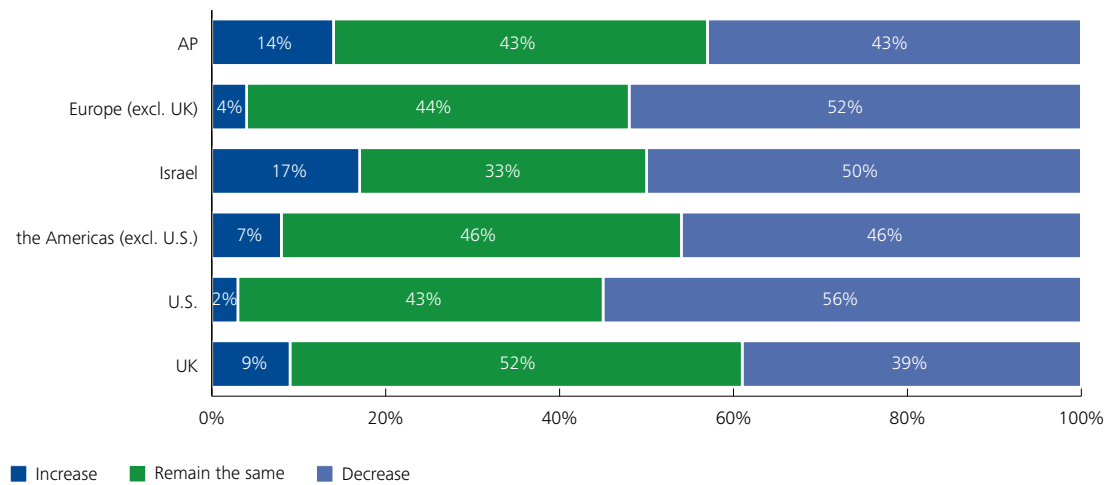
Impact of the global recession on investment strategies – stage (by region)



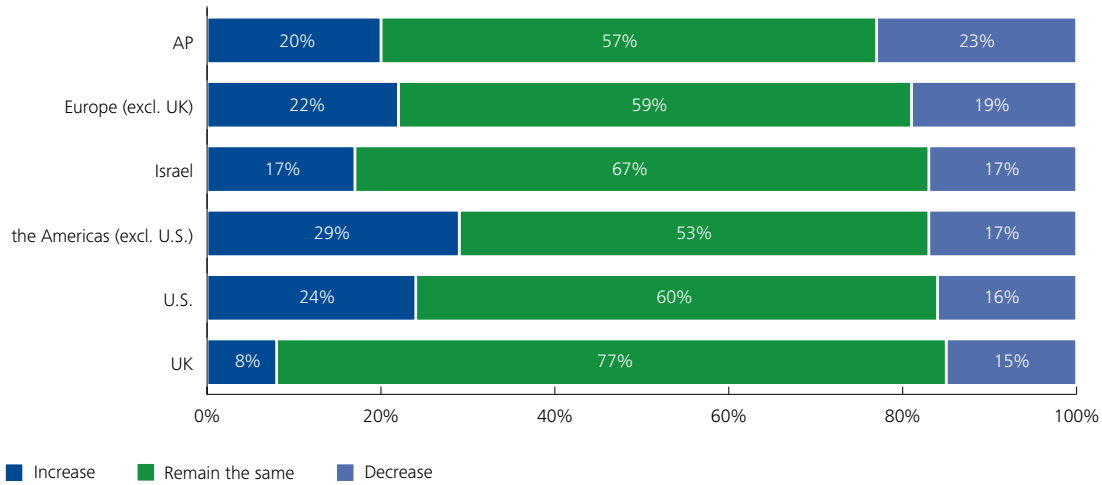
In terms of total capital invested, anticipated level of investment change in telecommunications, over the next three years



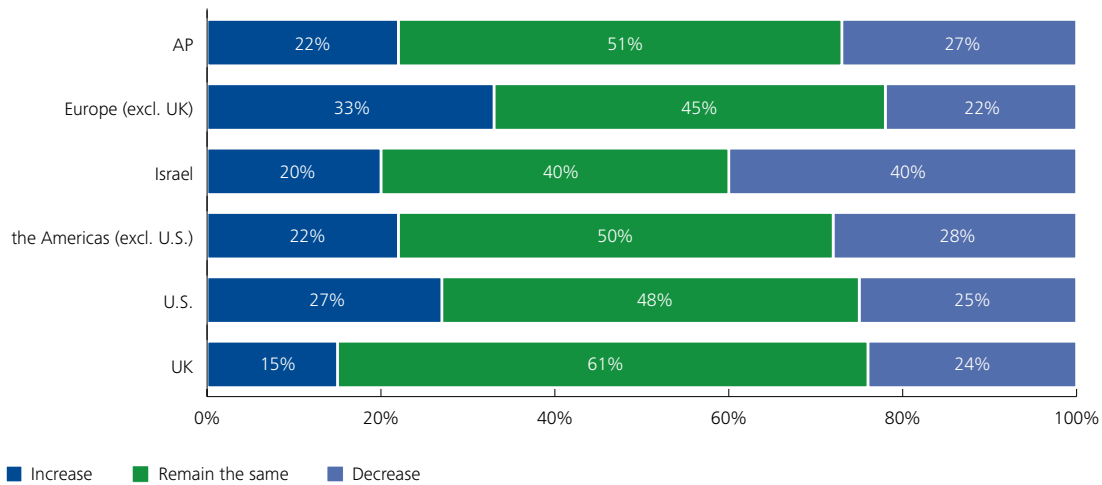
In terms of total capital invested, anticipated level of investment change in semiconductors, including electronics, over the next three years



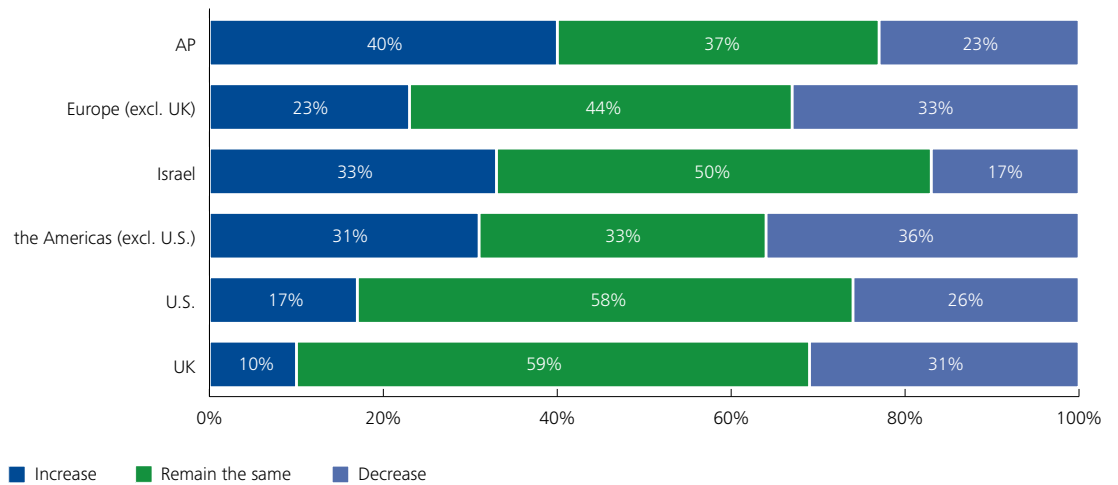
In terms of total capital invested, anticipated level of investment change in software, over the next three years



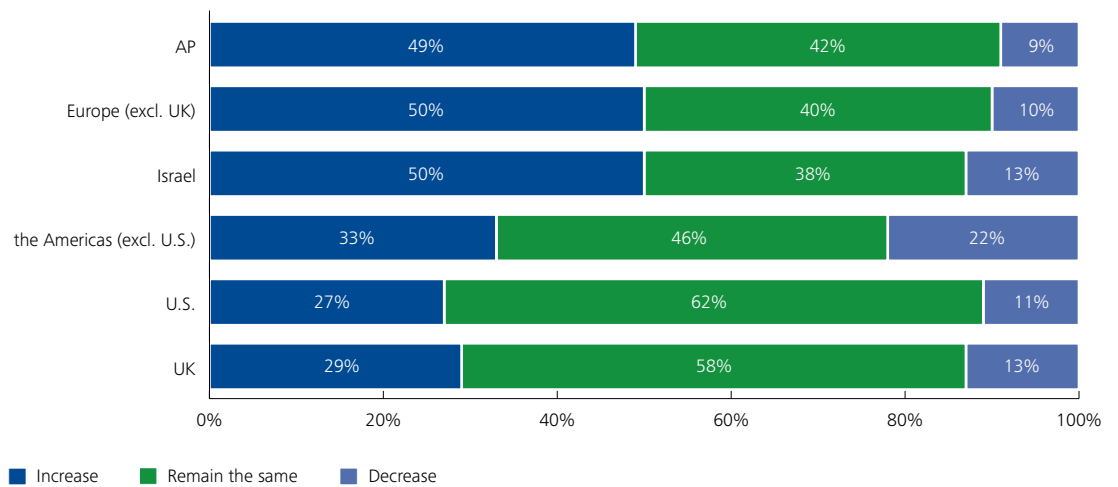
In terms of total capital invested, anticipated level of investment change in new media/social networking, over the next three years



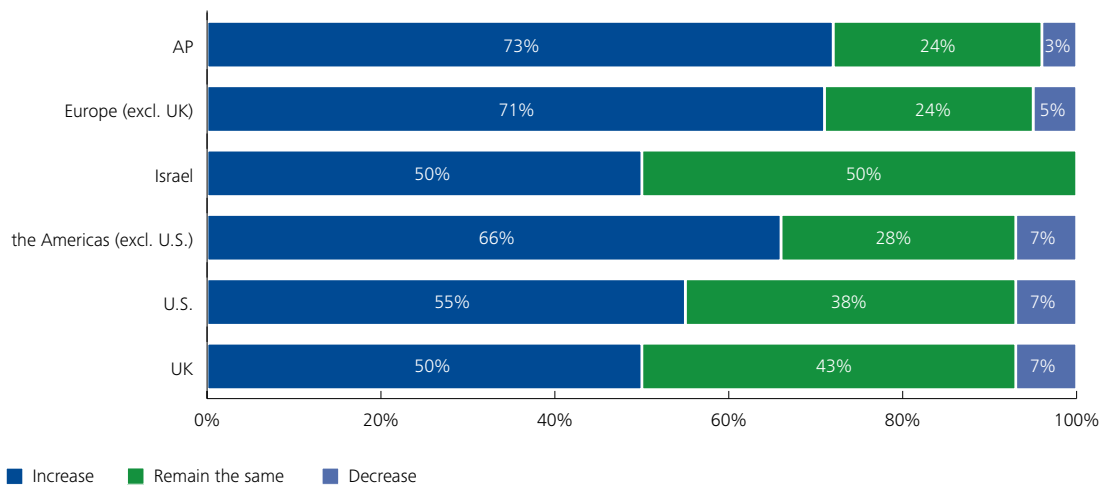
In terms of total capital invested, anticipated level of investment change in biopharmaceuticals, over the next three years



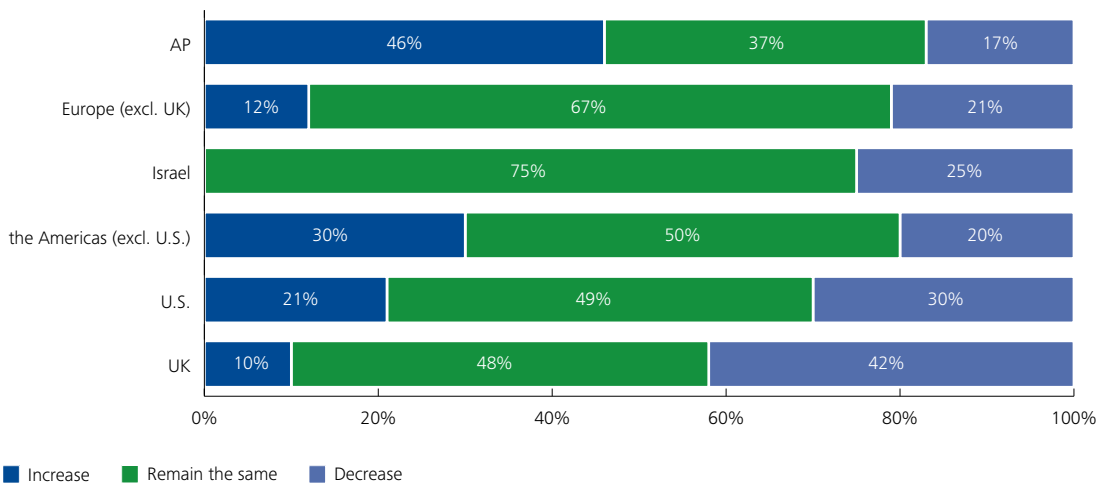
In terms of total capital invested, anticipated level of investment change in medical device and equipment, over the next three years



In terms of total capital invested, anticipated level of investment change in clean technologies, over the next three years



Venture capitalists anticipated level of investment in consumer business, over the next three years



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