

VC investments plunge 51 pct to \$3.7 billion in 2Q

July 21 2009, By MICHAEL LIEDTKE , AP Business Writer

(AP) -- Venture capitalists cut their U.S. investments in half during the spring, the second-consecutive quarter to mark a more than 50 percent decline, leaving the money flowing to startups at the slowest trickle in 12 years.

Nearly \$3.7 billion poured into 612 venture-capital deals in the three months ending in June, according to statistics released Tuesday by PricewaterhouseCoopers, Thomson Reuters and the National Venture Capital Association.

The dollars invested represented a 51 percent drop from more than \$7.5 billion during the same period last year. The erosion followed the first quarter's year-over-year decline of 58 percent to \$3.2 billion.

It's the first time U.S. venture capitalists have invested less than \$7 billion during the first half of a year since they anted up \$6.5 billion from January through June in 1997.

After that, the dot-com boom unleashed a flood of venture capital that culminated in the dot-com bust in 2001. Venture capitalists been investing between \$9 billion and \$15 billion during the first halves of the years since then.

Venture capitalists have become more cautious as the worst U.S. [recession](#) since World War II has unfolded. The horrible economy has made it tougher for startups to complete initial public offerings of stock

or find buyers. The paucity of IPOs and buyouts have made it increasingly difficult for venture capitalists to cash out of their existing investments, giving them less incentive to finance new deals.

"We desperately need the IPO market to come back, but I'm not looking for it yet," said David Jones Jr., managing director of Chrysalis Ventures in Louisville, Ky.

With more startups forced to remain private, entrepreneurs with fresh ideas are having trouble lining up financing.

Later-stage startups accounted for about one-third of the venture capital deals completed in the second quarter.

Biotechnology received the most venture capital in the quarter at \$888 million, down 16 percent from the same time last year. Venture capitalists are still gravitating toward biotechnology because large pharmaceutical companies remain interested in buying startups that are developing promising drugs.

Interest in the Internet has cooled, with [venture capitalists](#) curtailing their second-quarter investments in the sector by 68 percent to \$524 million.

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