

Venture-capital investments down 33 pct in 3Q

October 20 2009, By RACHEL METZ , AP Technology Writer

(AP) -- Venture capitalists' investments in U.S. startups rose in the third quarter when compared with the first two quarters of the year, suggesting increased confidence in the economy. When compared with the year-ago period, however, they marked a fifth consecutive quarter of decline.

As the [economic downturn](#) has dragged on, venture capitalists have become increasingly cautious about investing in startups.

The dismal economy has made it less likely that startups can find a buyer or complete initial public offerings. That means venture capitalists have more difficulty seeing returns on their investments, leaving them less likely to pour money into new companies.

That caution was reflected in the survey released Tuesday by PricewaterhouseCoopers, Thomson Reuters and the National Venture Capital Association. It found that, during the July-September period, total investments dropped 33 percent from a year ago to \$4.8 billion.

And the number of deals completed dropped to 637 - 357 fewer than the year-ago period.

The last time investments and deals rose year over year was in the second quarter of 2008.

Still, the amount of funding was higher in the third quarter than in the

first and second quarters of the year.

The group that put together the survey attributed the increase primarily to several large deals in clean technology.

Tracy T. Lefteroff, global managing partner for PricewaterhouseCoopers' venture-capital practice, said the pace of overall venture-capital investments may climb in the next few quarters as the economy improves, assuming the market for IPOs and [acquisitions](#) also gets better.

Biotechnology continued to receive the most venture capital in the quarter, with \$905.1 million in investments, down 25 percent from the year-ago quarter. Though investments in this field have dropped, venture capitalists have continued to invest heavily because large pharmaceutical companies are still interested in buying startups that are developing promising drugs.

Investments in clean technology - which includes alternative energy, recycling, conservation and power supply companies - totaled \$897.5 million, down 14 percent year over year.

Internet company investments fell 22 percent year over year to \$842.6 million, while software company investments sank 52 percent to \$622.4 million during the period.

Beyond the drop in overall financing, the amount of money that went to startups receiving their first round of venture-capital financing fell 59 percent from the year-ago quarter to \$633 million - the lowest level since the survey began in 1995.

There were 155 first-time deals in the third quarter, down from 287 last year, and essentially consistent with the first two quarters of this year.

The majority of these deals were with companies in the earlier stages of development.

Nonetheless, the average price of each deal - \$4 million - "suggests that's a healthy commitment of new capital to new companies," said John S. Taylor, vice president of research for the venture capitalists' group behind the survey.

The costs of starting certain types of companies - such as those that are primarily Web-based - have also declined over time, which can help keep innovation bubbling when funding is harder to come by.

Later-stage startups received \$1.6 billion in investments in the quarter, down 45 percent from the same three months of 2008.

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