Venture capital investments decline in 4th qtr

January 22 2010, By RACHEL METZ , AP Technology Writer

(AP) -- Venture capitalists invested less money in U.S. startups in the fourth quarter and showed signs of spreading out those fewer dollars among more companies, reflecting continued caution amid uncertainty about the economy.

The shaky economy has meant that startups are less likely to find buyers or complete initial public offerings. Venture capitalists, in turn, have a harder time seeing returns on their investments, making them less likely to invest in new companies.

According to a survey being released Friday by PriceWaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters, total startup investments fell to $5.02 billion in the October-December period, a 2 percent drop from the previous quarter and down 14 percent from a year earlier.

Those investments went to 794 startups during the quarter. That's a drop of 13 percent from the previous year, but a gain of 15 percent from the summer, meaning that on average, each company is getting a smaller share of a smaller pie.

Tracy Lefteroff, global managing partner of PricewaterhouseCoopers' venture capital practice, offered a positive spin. Although the numbers show that venture capitalists have been less willing to fork over huge investments in early rounds of funding, he said, they've been working to make the companies they invest in more financially efficient.

Jeff Fagnan, a partner at venture capital firm Atlas Venture, said venture capitalists focused on their existing portfolios in 2009.

"I think 'triage' was the most overused word in venture capital in 2009," he added, explaining that firms were assessing their current investments to decide where to put more money and where to cut off investments.

Biotechnology startups continued to get the most funding in the fourth quarter, with $1.01 billion in investments, a 7 percent drop from the year-ago period. Investments in that sector have declined, but venture capitalists continue to invest heavily because large pharmaceutical companies are still interested in buying startups that are developing promising drugs.

Software company investments fell 9 percent year-over-year to $959 million, while investments in clean technology companies sank 58 percent to $385 million.

Investments in companies whose business models depend mainly on the Web remained essentially flat, with $908 million in fourth-quarter investments.

Companies that received the most financing included Silver Spring Networks Inc., a smart-grid technology company in Redwood City, Calif., that snagged $105 million, and XOJET Inc., a San Carlos, Calif., private plane company that got $100 million.

The amount of money for first-round financing dropped 5 percent from the year-ago quarter to $1.11 billion. That was funneled into 230 first-time deals, down from 262 last year and up from 168 in the third quarter. Most of those deals were with companies in the seed and early stages of development.

For the full year, investments fell 37 percent to $17.7 billion - the lowest level since 1997, and a fraction of the $100 billion invested at the peak of the dot-com bubble in 2000. There were 2,795 deals completed during 2009, compared with 3,985 in 2008.

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