

Venture-cap investments decline 7 percent in 3Q

October 15 2010, By RACHEL METZ , AP Technology Writer

(AP) -- Venture capitalists poured less money into U.S. startups in the third quarter and split this among more companies, signaling that investors are trying to be more economical with their funds.

According to a study set to be released Friday, startup investments declined 7 percent to \$4.8 billion in the July-September period, compared with \$5.2 billion invested during the same three-month period in 2009. A total of 780 startups received funding during the quarter - 9 percent more than the 716 companies that took slices of the investment pie last year.

The study, which was conducted by PriceWaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters, said that much of the decline stemmed from a drop in large investments in [clean technology](#). Funding in clean-tech startups, which include [alternative energy](#), [recycling](#), conservation and power supply companies, has been mercurial lately. It fell every quarter last year compared with the previous year, but has been climbing this year - until the third quarter.

Despite the third-quarter funding drop, though, funding for the full year still looks to be higher than it was in 2009. So far this year, venture capitalists have invested \$16.7 billion in 2,497 startups; in all of 2009, \$18.3 billion was funneled into 2,916 startups.

More startups in the expansion and later stages of development got

funding than last year, and, as usual, companies in these two stages received the bulk of funding. This comes as the market for [acquisitions](#) and initial public offerings for mature startups continues to be rough, which means [venture capitalists](#) are likely to be waiting for quite some time before profiting from their investments.

The number of startups in the seed stage that got funding dropped 11 percent. Companies in the early stage of development that got funding climbed 21 percent. This seems to show that investors are being more cautious about investing in wholly new ideas but remain interested in putting money toward younger companies that still have a lot to prove.

The study said that first-round financing rose nearly 60 percent to \$1.2 billion, and 255 companies got their first financing in the quarter, compared with 176 in the third quarter of 2009. Most of these deals were with companies in the seed and early stages of development, which is consistent with past activity.

By industry, software startups got the most funding in the quarter - \$1 billion - while biotechnology startups came in second, garnering \$943.7 million. Investments in clean technology, which was higher last quarter at \$1.5 billion than any quarter since the study began keeping track of investments in 1995, fell to \$625.2 million - a drop of 32 percent from the same quarter in 2009.

Trilliant Inc., which makes wireless equipment for utilities to manage smart grids, snagged the quarter's biggest single investment of \$106 million. The second-biggest investment, \$75 million, went to Merkle Inc., which offers database marketing services.

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