

Venture-cap investments fall 7 percent in Q4

January 21 2011, By RACHEL METZ , AP Technology Writer

(AP) -- Funding to startups slipped in the fourth quarter of 2010 as venture capitalists funneled less money into fewer companies, with biotechnology taking the brunt of the drop-off, according to a study slated for release Friday.

For the full year, however, overall investments rose 19 percent from their 2009 level.

[Startup](#) investments fell 7 percent to \$5 billion in the October-December quarter, compared with \$5.4 billion invested in the same quarter in 2009, according to the study. A total of 765 startups snagged [funding](#), a drop of nearly 12 percent from the fourth quarter of 2009.

The study was conducted by PriceWaterHouseCoopers and the National Venture Capital Association based on data from Thomson Reuters. It indicated that fourth-quarter drop was due in large part from a decline in funding to biotechnology companies. Biotech funding rose in the first half of the year, but declined in the third and fourth quarters.

In the last three months of the year, slightly more funding went to companies in the expansion and later stages of development than in the same quarter in 2009 - \$3.4 billion - and that was split among 400 companies, down from 458 last year. As usual, those companies received the bulk of venture capital funds distributed during the quarter.

The environment for [acquisitions](#) and initial public offerings for mature startups is still somewhat rough, meaning in many cases [venture](#)

[capitalists](#) will likely have to wait quite some time before profiting from their investments.

The number of companies receiving seed funding fell 21 percent to 80 in the quarter, and the amount of funding dropped 38 percent to \$243 million. The study said \$1.4 billion in investments was split among 285 early-stage startups in the October-December period; \$1.6 billion went to 305 early-stage startups in the year-ago quarter. Investors are clearly being cautious about which companies they finance, but interest remains in working with young startups.

The amount that companies snagged in their first round of venture capital financing fell 25 percent to \$835.6 million. And 235 companies received their first financing in the quarter, which is 20 fewer than in the fourth quarter of 2009. Those deals were mostly with companies in the seed and early stages of development, which is consistent with past activity.

By industry, software companies received the most funding - \$1.2 billion - while industrial and energy startups came in second with \$853.5 million. Biotechnology startups, which usually take the second-place spot, came in third with \$684.9 million in funding.

Investments in clean-tech startups, which include alternative energy, recycling, conservation and power supply companies, climbed 74 percent year-over-year to \$765.5 million. This sector has been mercurial over the past two years, falling throughout 2009 and then rising in all but the third quarter of 2010.

The quarter's single largest fourth-quarter investment went to short-messaging service Twitter Inc., which swooped up \$200 million. The second-largest investment - \$111 million - went to solar panel maker Abound Solar Inc.

For the full year, investments rose to \$21.8 billion from \$18.3 billion in 2009. The funding went toward 3,277 startups, compared with 2,927 in 2009. This was due mainly to a jump in second-quarter investments, which included the year's largest single investment: \$350 million that went to Better Place Inc., which offers electric vehicle support services.

In a conference call discussing the results with media, Gerry Langelier, a managing director at OVP Venture Partners, called the current investing environment "fairly normal" with a nice volume of deals going through at "rational" valuations.

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