

Venture-cap investments rise in 1Q

April 15 2011, By RACHEL METZ , AP Technology Writer

(AP) -- Funding to U.S. startups climbed during the first three months of the year, with venture capitalists putting more money into fewer companies, according to a study scheduled to be released Friday. Despite the decline in deals, the growth may indicate an improvement in the health of the venture investment market.

For the January-March period, [startup](#) investments rose 14 percent to \$5.9 billion, compared with \$5.2 billion invested during the same quarter in 2010, according to the study. In all, 736 startups received funding, which is down nearly 7 percent year over year and marks the smallest amount of companies to be funded since the third quarter of 2009.

The study is conducted each quarter by the National Venture Capital Association and PricewaterhouseCoopers, and is based on data from Thomson Reuters. This quarter, the NVCA said two changes were made to the way data are collected in an attempt to more accurately reflect market trends: The study now includes financing rounds to startups that have previously received funds earmarked for an acquisition (though it won't count the funding round that enabled the acquisition). And it also includes corporate investments in startups that have received venture funding in the past.

As usual, most of the quarter's funding went to companies in the expansion and later stages of development. This was higher than in the same quarter in 2010: \$4.0 billion was split among 407 expansion and later-stage companies in the [first quarter](#) of 2011, compared with \$3.7 billion spread among 445 companies last year. Seed and early-stage

startups received a total of \$1.9 billion, which was divided among 329 companies; last year, \$1.51 billion was divvied up to 342 early and seed-stage companies.

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 that snagged seed funding declined nearly 36 percent to 56 in the quarter, and the amount of funding for this stage sank nearly 72 percent to \$120.5 million. However, the study also indicated that 273 early-stage startups received a total of \$1.7 billion in funding - compared with the 255 startups that received \$1.1 billion in funding last year.

During a conference call to discuss the results with media, Philip Bronner, a general partner with Novak Biddle Venture Partners, said that the market for seed-stage investments is still "very active," but he believes a lot of companies are being financed by a rising tide of angel investments.

A total of \$987.1 million went to companies getting their first round of venture funding, compared with \$1.1 billion last year. This money went to 221 companies, down seven companies from the year-ago quarter. Most of them were in the seed and early stages of development, which is consistent with past activity.

Software companies, regularly one of the most well-funded categories, received the most in the quarter - \$1.1 billion - while industrial and energy startups took the No. 2 spot with \$1.0 billion. Biotechnology startups were No. 3 with \$784.2 million in funding.

Investments in clean-tech startups, which include alternative energy, recycling, conservation and power supply companies, rose 36 percent to \$1.0 billion - a mark it only passed once in 2010. The sector has been mercurial lately: It fell throughout 2009, rose in all but the third quarter of 2010, and now appears to be climbing once again.

Also on the call, Ira Ehrenpreis, a general partner at Technology Partners, said this sector's growth was a "profound validation that clean tech is here to stay." He added that it shows corporations are focusing more on clean tech, both on making it part of their own practices and on investing in clean-tech startups.

The quarter's largest investment went to solar power plant company BrightSource Energy Inc., which received \$201.7 million. The second-largest investment - \$200 million - went to plastic display company Plastic Logic Ltd., while the third-largest investment - \$111.9 million - went to electric vehicle maker Fisker Automotive Inc.

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