

Venture investments grow in 3Q from last year

October 19 2011, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Venture capitalists invested more money in more U.S. startups in the third quarter than they did a year earlier - especially in the software industry.

Compared with the previous quarter, however, there were declines in both the amount of money invested and the number of deals made. This suggests that investors may be getting more cautious about the economy and the volatile stock market, which has caused many companies to hold off on going public - when many [venture capitalists](#) get their payoff.

According to a study out Wednesday, [startup](#) investments rose 31 percent in the July-September period, to \$6.95 billion from \$5.31 billion a year earlier. Compared with the second quarter of this year, venture capital investments declined 12 percent from \$7.88 billion.

The money in the latest quarter was split among 876 startups - up 3 percent from last year, but down 14 percent from the second quarter.

The study is conducted each quarter by the [National Venture Capital Association](#) and PricewaterhouseCoopers and is based on data from Thomson Reuters.

The [software industry](#) received the highest level of funding, with \$2 billion invested during the quarter. That is up 23 percent from the second quarter and represents the highest quarterly investment in the sector in nearly a decade, according to the study.

The [biotechnology industry](#) was in second place in terms of dollars invested, with \$1.1 billion. That's down 18 percent from the previous quarter. Part of the reason was the difficult and unpredictable nature of the approval process at the [Food and Drug Administration](#), said Tracy Lefteroff, global managing partner of PricewaterhouseCoopers' [venture capital](#) practice.

The uncertain economy and the volatile stock market have resulted in fewer [initial public offerings](#) of stock and fewer big acquisitions. As a result, [venture capital firms](#) have kept companies in their portfolios longer before they can profit from them. Online deals site Groupon Inc. filed its initial IPO papers in June, but it still hasn't made its public debut. After a strong start to the year, IPOs slowed down considerably in August, with companies withdrawing at a pace not seen since December 2008.

Forty-nine percent of the money invested went to companies at the early or the even earlier "seed" stage of funding. The average seed deal was \$2 million, down from \$3.3 million in the [second quarter](#), and the average early stage deal was \$5.7 million, down slightly from \$5.8 million.

The average "expansion" stage deal was \$9.6 million, up slightly from the prior quarter. The average later stage deal was \$12.5 million. That is up from \$11 million in the previous quarter and represents the largest average deal size for this stage in a decade.

Among companies, Reata Pharmaceuticals Inc. got the largest investment of the quarter, \$300 million. Founded in 2002, the company develops oral anti-inflammatory drugs. Cvent Inc., a provider of Web-based software for the event-planning industry, came in at second place with \$136 million. Airbnb Inc., an online community that connects travelers with people renting out their homes, raised \$112 million.

Tumblr Inc., which runs an online publishing system, and HelioVolt Corp., a maker of thin-film solar products, each raised \$85 million.

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