



Venture Capital Outlook Survey  
Third Quarter 2009

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## Venture Capital Outlook Survey Third Quarter 2009

Venture Capitalists, financing Washington's early-stage investments, were polled as part of the Washington Technology Industry Association's quarterly Venture Capital Outlook Survey --- an ongoing look at the Venture Capital investing climate in Washington State.

This survey queries top, local VC firms about indicators for the coming quarter and explores such topics as projected deal quality, deal quantity, expected exits, and portfolio-company condition --- all in comparison to the preceding quarter.

The WTIA worked closely with the local VC community to both develop this survey and obtain their commitment to participate on a quarterly basis. It is believed this information will be helpful to Washington State investors, entrepreneurs, and governmental institutions as they seek to understand the Venture Capital investment climate as viewed by those who make local investments.

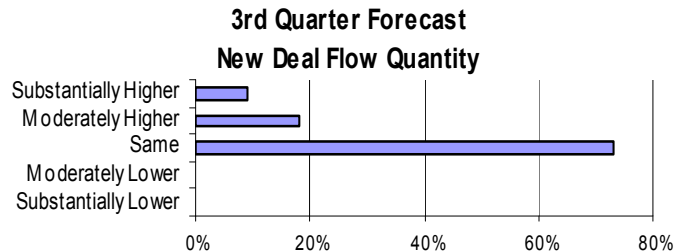
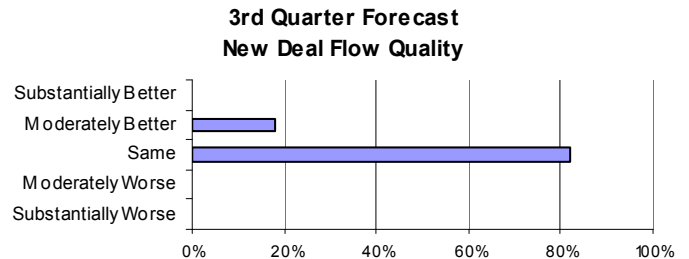
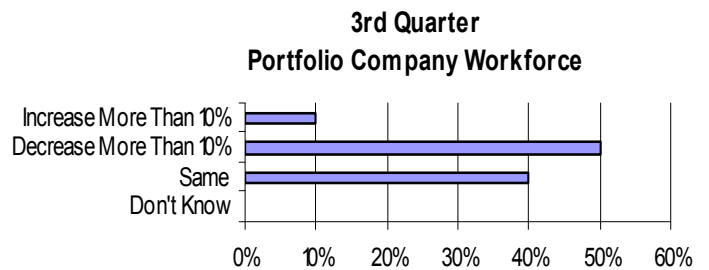
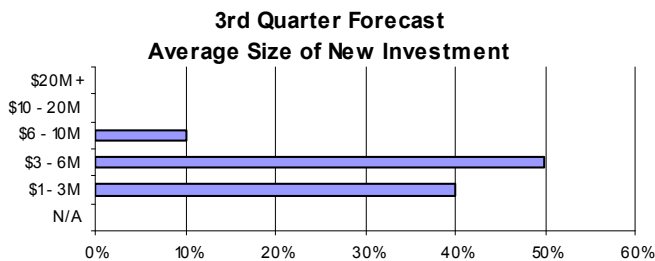
### Third Quarter 2009 Survey Highlights:

**Current portfolio companies continue to lay off employees; are still challenged by national economic conditions.**

- Respondents predict a sharp increase in portfolio-company layoffs. Fifty percent of respondents predict their portfolio companies will *decrease their workforce by more than 10%* - that's compared to only 14% last quarter. However, 10% of respondents predict an *increase of more than 10%* of their companies' workforce - that's up from zero last quarter.

**VCs see better deal flow quality and quantity for the following quarter but valuations continue to slide.**

- No drastic movement in both *New Deal Flow* and *Deal Flow Expected to Close*. However, all predictions are more positive compared to the previous quarter. This is the first time this year no participant predicts a worse or lower expectation for the following quarter. One VC is quoted, "We've seen unprecedented deal flow this past year as a result of the difficult economic climate."



- Average size of new investments is decreasing. Participants predict 40% of new investments will fall in the \$1-3M range compared with last quarter where VCs predicted 71% would fall in the \$3-6M range.

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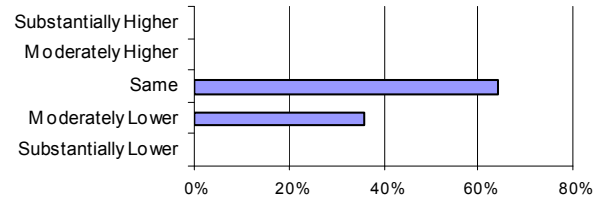


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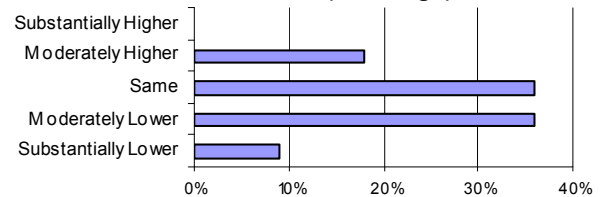


- Expectations for *deal valuations* continue to trend lower across all investment stages with some upward valuations in the mid- and late-stage compared to last quarter. The biggest quarter-to-quarter difference comes in late-stage investment when last quarter 85% of participants predicted a lower deal valuation compared to only 27% this quarter. One VC states, “Valuations for new investments in early-stage deals will continue to be low—a good opportunity for making new investments.”
- Biggest challenges for the investing climate in the third quarter include macro-economic conditions; exit opportunities; and follow-on financings. Also, there’s a concern that the lack of public market support of new companies will lead to more private investments in later-stage opportunities, which may dampen the future for early-stage, start-up companies seeking capital.
- Most challenging issues facing portfolio companies continue to be *national business conditions* and *overall market growth*. While, *local business conditions* are of least concern moving into the third quarter. *Competition* and *attracting and retaining senior leadership and staff* are also low priority for portfolio companies.
- Eighty percent of participants plan on making *one to two new investments* in Washington State companies in the third quarter.
- No VC sees any of their portfolio companies going public this quarter.

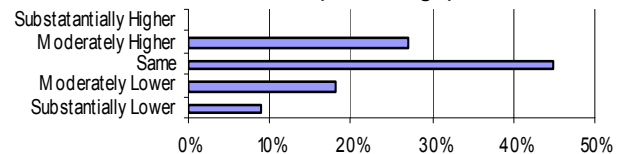
3rd Quarter Forecast  
Deal Valuations for New Investment  
(Early-Stage)



3rd Quarter Forecast  
Deal Valuations for New Investment  
(Mid-Stage)



3rd Quarter Forecast  
Deal Valuations for New Investment  
(Late-Stage)



The Washington Technology Industry Association publishes the results of this survey on a quarterly cadence and believes the value of the data will only increase over time. We appreciate the time and support of the participants.

The full report is available at [www.washingtontechnology.org](http://www.washingtontechnology.org) which includes the percentile responses by each of the 21 questions explored in this survey. For questions or comments please contact David Kosciuk at (206)448-3033 x134, [dkosciuk@washingtontechnology.org](mailto:dkosciuk@washingtontechnology.org). Media inquires may be directed to Kevin Pedrava, Sterling Communications at [kpedraja@sterlingpr.com](mailto:kpedraja@sterlingpr.com).

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