



Venture Capital Outlook Survey
Fourth Quarter 2009

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Venture Capital Outlook Survey Fourth 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.

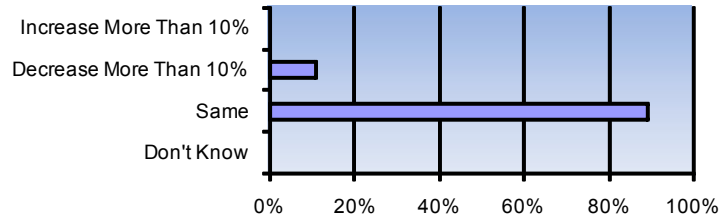
Portfolio companies slow layoffs; see overall market growth and national business conditions as top concerns.

⇒ Respondents predict a sharp *decrease* in portfolio-company layoffs. Large-scale layoffs appear to be ending. Last quarter fifty percent of respondents predicted their portfolio companies would *decrease their workforce by more than 10%* - this is compared to only eleven percent this quarter. Portfolio companies appear to have stabilized their workforce moving toward the end of 2009 with zero respondents predicting any new hiring in significant numbers.

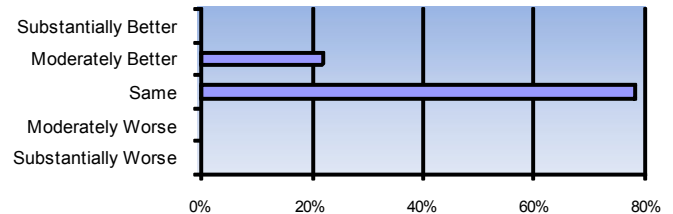
⇒ New and follow-on investments in Washington State companies remain basically unchanged from last quarter: seventy-eight percent plan on making *one to two* new as well as follow-on investments. Twenty-two percent plan on *zero* new investments in the fourth quarter. Twenty-two percent also plan on *three to five* follow-on investments.

⇒ One company is predicted to go public in the fourth quarter.

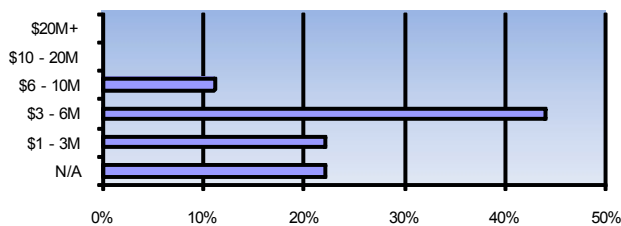
4th Quarter Forecast
Portfolio Company Workforce



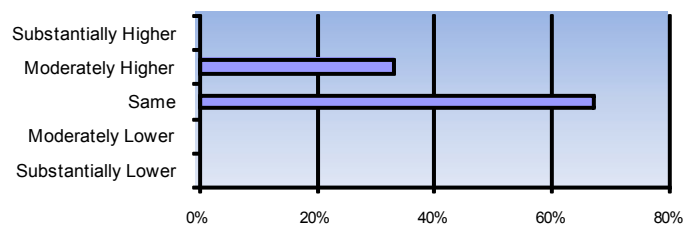
4th Quarter Forecast
New Deal Flow Quality



4th Quarter Forecast
Average Size of New Investment



4th Quarter Forecast
New Deal Flow Quantity



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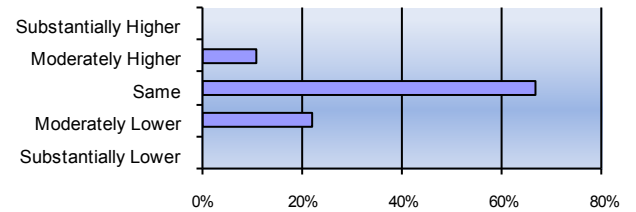


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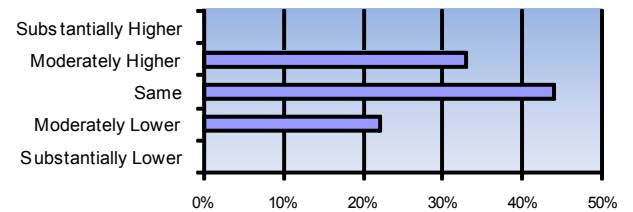


- ⇒ The biggest movement in quarter-over-quarter predictions is in the number of late-stage new investments. Sixty-seven percent of participants predict moderately higher late-stage early investments—up from twenty seven percent last quarter. This is the most optimistic forecast among all stages all year.
- ⇒ Outside of overall market growth and national business conditions, the main challenge VCs see facing their portfolio companies is attracting and retaining senior leadership.
- ⇒ Venture Capitalists are predicting more investments in mid-stage opportunities relative to last quarter. Thirty-three percent of participants predict moderately higher new investments in this category—up from just eighteen percent last quarter. Twenty-two percent of participants predict moderately lower early-stage investments but that's down from 36% last quarter.
- ⇒ No drastic movement in both *Quality of New Deal Flow* and *Quality of Deal Flow Expected to Close*. However, all predictions are more positive compared to the previous quarter—this marks three straight quarters of more positive predictions over previous quarter. Majorities see confidence levels staying the same for both *Quantity of New Deal Flow* and *Quantity of Deal Flow Expected to Close*.

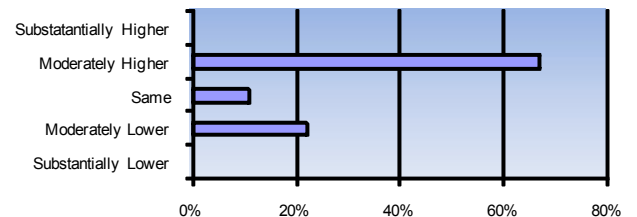
4th Quarter Forecast Deal Valuations for New Investment (Early-Stage)



4th Quarter Forecast Deal Valuations for New Investment (Mid-Stage)



4th 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 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. Media inquires may be directed to Kevin Pedraja, Sterling Communications at kpedraja@sterlingpr.com.

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