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National Economic Slowdown Concerns Local Venture Capitalists

Washington Technology Industry Association VC survey indicates slowing investment climate

SEATTLE – (May 12, 2008) – Concerns about the national economy have cooled investment enthusiasm among venture capital firms in Washington State according to the quarterly Venture Capital Outlook Survey conducted by the Washington Technology Industry Association.

VCs said the nation's sputtering economy and its effect on revenue growth of current portfolio companies has moved ahead of attracting and retaining talent as the No. 1 near-term concern.

These broader economic concerns are expected to also impact financing, according to survey respondents. Said one VC: "Any company requiring leverage will have trouble raising money or re-financing."

The survey queries more than a dozen of the state's venture capital firms about quarterly indicators and explores topics such as projected deal quality and quantity, portfolio company condition and expected exits in comparison to the preceding quarter.

Other highlights from the survey, which is sponsored by Ernst & Young and Perkins Coie, include:

- VCs are less bullish about Q2. Most respondents expect flat to moderate growth in quantity and quality of deals.
- Deal valuations will decline in Q2 compared to Q1. Nearly 60 percent of respondents expect lower early-stage valuations and 80 percent expect lower mid-stage (revenue up to \$10MM) and late-stage (\$10MM+) investment valuations.
- All respondents said they would make one to two new Q2 investments, and 60 percent said they would make between three to five follow-on investments. Interestingly, respondents said they expect every investment to include at least one out-of-state co-investor.

“It’s not surprising given the slowing national economy that there would be an impact on the near term revenue growth of early stage companies,” said Ken Myer, president and CEO of the Washington Technology Industry Association. “It appears that venture deal flow is still strong --- although valuations are taking a hit in what we hope will only be the short term.”

The full results, as well as a summary of the survey, are available on the association’s web site at www.washingtontechnology.org.

About the Washington Technology Industry Association

The Washington Technology Industry Association, founded in 1984, is the largest statewide association of technology companies, IT departments and individual technology professionals in North America. With more than 1,000 member companies representing more than 100,000 employees in Washington State, the association is a catalyst for sharing expertise, fostering collaboration, delivering key business services and advancing the value and global impact of technology companies doing business in Washington. The association’s global partners are Davis Wright Tremaine LLP, Microsoft, Regence BlueShield, The Hartford and Wells Fargo Insurance Services. The association’s funding partners are AH&T Insurance, Blink Interactive, Inc., Comerica Bank, GrapeCity Inc., and RealNetworks. For more information, go to www.washingtontechnology.org.

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