

# 2013 venture capital trends summary

## Prepared by:

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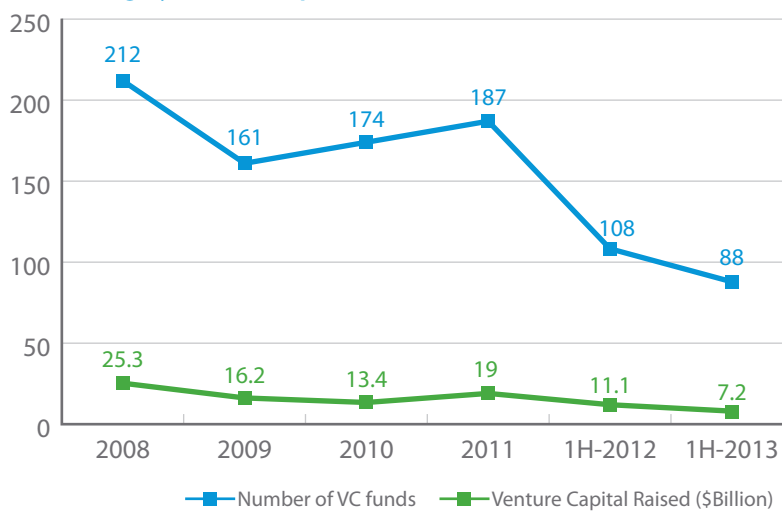
August 2013

## Fundraising by venture capital funds

In the first half of 2013, 88 venture capital (“VC”) funds raised \$7.2 billion compared to 108 VC funds that raised \$11.1 billion in the corresponding period in the first half of 2012. This marks a decrease of 35.1 percent in dollar commitments and 18.5 percent decline in the number of funds in the first half of 2013 compared to 2012. This is the slowest half for the number of VC funds being launched since the second half of 2009. The top five funds accounted for approximately 56 percent of the total fundraising in the first half of 2013. This is mainly due to lack of a strong exit market that is keeping the VC funds away from launching new funds as many of them have yet to establish a good track record of exits before they can approach new investors.

The following table shows fundraising by venture capital funds since 2008, highlighting a decreasing trend since 2008 in both the number of funds raising capital and the dollar amount raised.

## Fundraising by venture capital funds



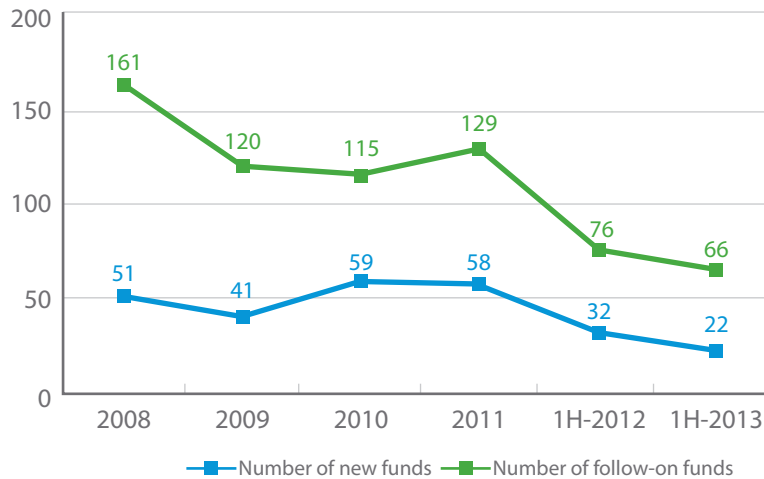
Source: Thomson Reuters and National Venture Capital Association

## New funds vs. follow-on funds

There were 22 new funds and 66 follow-on funds launched in the first half of 2013, compared to 32 new funds and 76 follow-on funds in first half of 2012. Thus, there was a decrease of 31 percent in the new funds and 13 percent in the follow-on funds being launched in the first half of 2013 compared to the corresponding period in 2012. The number of new funds being raised is at its lowest level since the fourth quarter of 2006.

The following table shows the new and follow-on funds since 2008, illustrating a decreasing trend since 2008 in both new and the follow-on funds raising capital.

### VC funds: new vs. follow-on



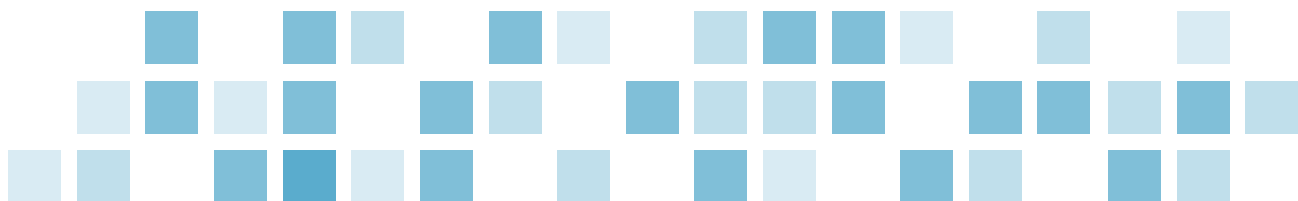
Source: Thomson Reuters and National Venture Capital Association

## Funding by industry

Investment in the life sciences industry, which comprises the biotechnology and medical devices and equipment sectors, increased in the first half of 2013 to \$3.3 billion from 202 deals, compared to an investment of \$3.0 billion from 387 deals in the first half of 2012. This represents an increase of 7.1 percent in terms of dollars and a decline of 47.8 percent in the number of deals compared to first half of 2012. Thus, this indicates an increase in average deal size from \$7.8 million in the first half of 2012 to \$16.1 million in the first half of 2013. The biotechnology sector increased from \$1.66 billion in the first half of 2012 to \$2.2 billion in the first half of 2013, signaling a 31 percent increase. However, the medical devices and equipment sector declined from \$1.39 billion in the first half of 2012 to \$1.1 billion in the first half of 2013, signaling a 21.3 percent decline.

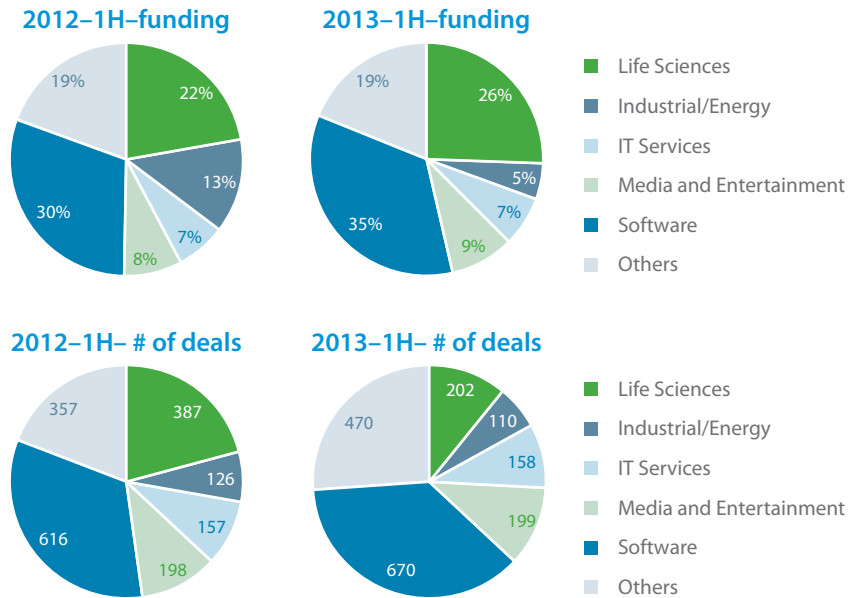
The software industry received the highest VC funding both in dollar terms and in the number of deals in the first half of 2013 which was consistent with the corresponding period in 2012. The amount invested in the software industry was \$4.4 billion from 670 deals in the first half of 2013. This was higher than the \$4.1 billion invested from 616 deals in the first half of 2012, resulting in an increase of 6.7 percent in dollar terms and 8.8 percent in the number of deals.

The information technology services industry received VC funding of \$0.90 billion from 158 deals in the first half of 2013, registering 8.8 percent decrease in dollar terms and a slight increase of 0.6 percent in the number of deals, compared to the first half of 2012 when \$0.98 billion were invested in 157 deals.



The media and entertainment industry received \$1.1 billion of funding from 199 deals in the first half of 2013, compared to \$1.2 billion of funding received from 198 deals in the first half of 2012. Thus, both the funding and the number of deals in the media and entertainment industry were relatively flat in the first half of 2013 compared to the corresponding period in 2012.

The industrial/energy industry received investments of \$0.57 billion from 110 deals in the first half of 2013, registering a 67.6 percent decrease in dollar terms and a 12.7 percent decrease in number of deals, compared to the first half of 2012 when \$1.76 billion were invested in 126 companies.



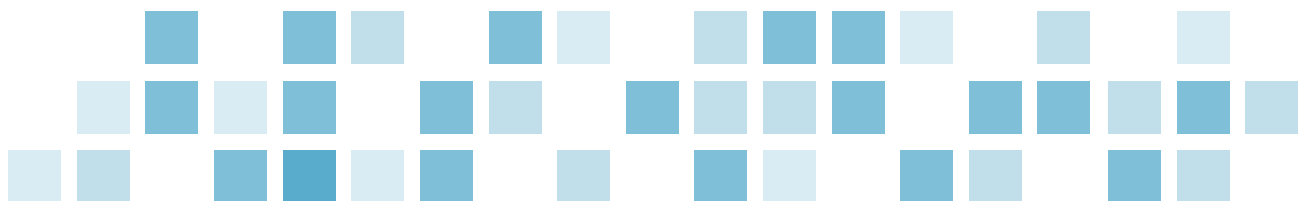
Source: Thomson Reuters and National Venture Capital Association

Thus, on an overall basis, the total dollar amount invested across various industries in the first half of 2013 was \$12.6 billion, which was lower by \$0.9 billion or 7.1 percent compared to the same period in 2012. However, the total number of deals decreased slightly by 2% from 1,841 deals in first half of 2012 compared to 2013. This indicates a decrease in the average deal size of \$7.0 billion in the first half of 2013 compared to an average deal size of \$7.4 billion in 2012.

There has been a shift in the industry trend in 2013 where the appetite for investing in medical devices and equipment companies, industrial/energy companies, information technology services companies and media/entertainment companies have decreased by over 21 percent, 68 percent, 9 percent and 4 percent, respectively compared to 2012. In comparison, software companies and biotechnology companies received additional funding of approximately 7 percent each during the same time period.

### Funding by stage of development

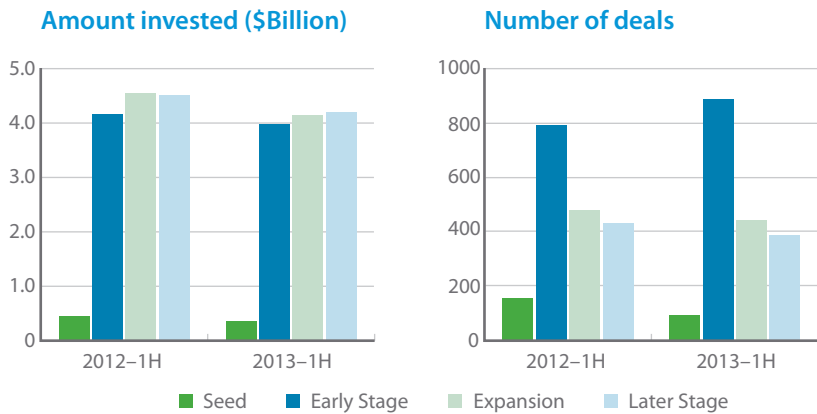
**Seed stage:** Investments in seed stage companies in the first half of 2013 decreased to \$336 million compared to \$412 million in the first half of 2012, registering a decrease of 18.5 percent. Also, the number of deals in the first half of 2013 decreased to 89 deals compared to 148 deals in the corresponding period in 2012, registering a decrease of 40 percent. Thus, this indicates an increase in the average deal size of \$3.77 million in 2013 compared to \$2.78 million in 2012.



**Early stage:** Investing in early stage companies registered a decrease of 3.9 percent in the first half of 2013 at \$3.98 billion compared to \$4.2 billion for the same period in 2012. However, the number of deals in the first half of 2013 increased to 888 deals compared to 794 deals in the corresponding period in 2012, registering an increase of 11.8 percent. Thus, this indicates a decrease in the average deal size of \$4.5 million in 2013 compared to \$5.2 million in 2012.

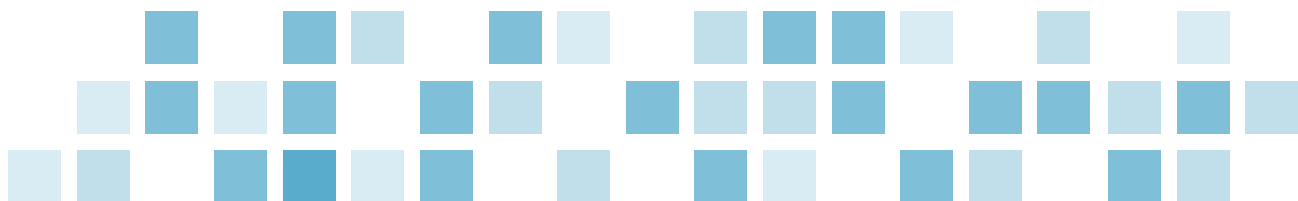
**Expansion stage:** Investments in expansion stage companies decreased to \$4.1 billion in the first half of 2013 compared to \$4.5 billion in the first half of 2012, registering a decrease of 8.8 percent. The number of deals also decreased to 444 deals in the first half of 2013 compared to 472 deals in the corresponding period in 2012, registering a decrease of 5.9 percent. Thus, this indicates a slight decrease in the average deal size of \$9.3 million in 2013 compared to \$9.6 million in 2012.

**Late stage:** Investments in late stage companies in the first half of 2013 decreased to \$4.2 billion from \$4.5 billion in the first half of 2012, a decrease of 7.2 percent. The number of deals in the first half of 2013 decreased to 388 deals compared to 427 deals in the corresponding period in 2012, registering a decrease of 9.1 percent. Thus, this indicates a slight increase in the average deal size of \$10.8 million in 2013 compared to \$10.6 million in 2012.



Source: Thomson Reuters and National Venture Capital Association

Based on investing of the funds across various stages of development, 64 percent of the total funding was made in early stage and expansion stage companies in the first half of 2013, which was consistent with the funding in the first half of 2012. Investing in late stage companies was consistent at 33 percent of the total funding for the first half of 2012 and 2013. Thus, the focus of venture capitalists in the first half of 2013 was looking for more opportunities in the expansion and late stage companies which is consistent with the results obtained in 2012.



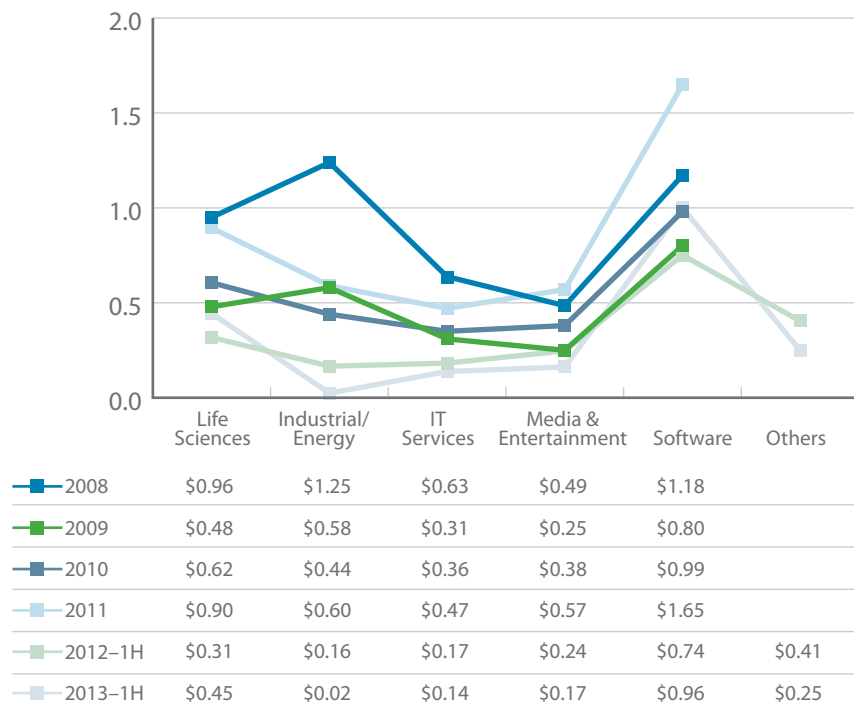
## First-time financing

First-time financing (companies receiving venture capital financing for the first time) in the first half of 2013 decreased slightly to \$1.99 billion from \$2.04 billion in the first half of 2012, registering a slight decline of 2 percent in 2013. The number of deals in the first half of 2013 were relatively flat at 577 deals compared to 574 deals in the corresponding period in the prior year. First-time financing accounted for 15.8 percent of all dollars and 31.9 percent of all deals in the first half of 2013, compared to 15.0 percent of all dollars and 31.2 percent of all deals in the first half of 2012. This indicates a slight increase in the first-time financing (compared to total financing) in the first half of 2013 both in the dollar amount invested and in the number of deals, versus the same period in 2012 as the venture capitalists were slightly aggressive in making investments in new companies compared to the prior period.

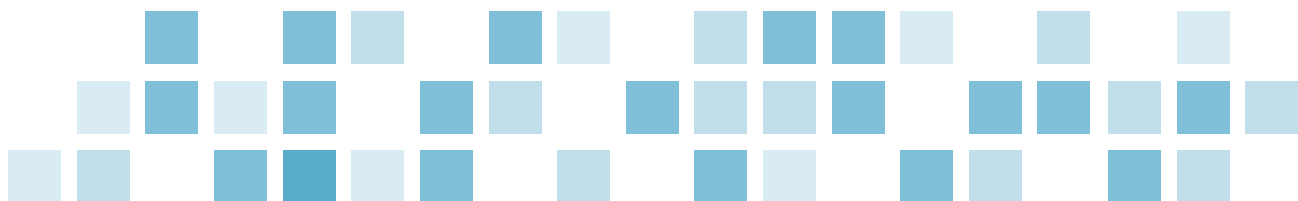
The following graphic shows the first time financing since 2008:

### Trend of first-time financing (amount invested)

Amount invested by year (\$Billion)

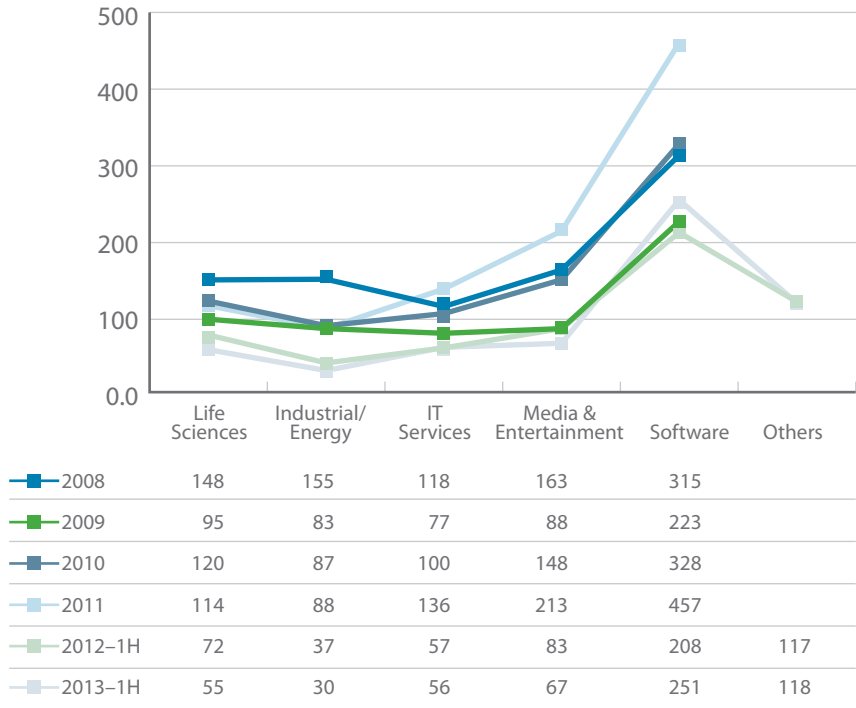


Source: Thomson Reuters and National Venture Capital Association



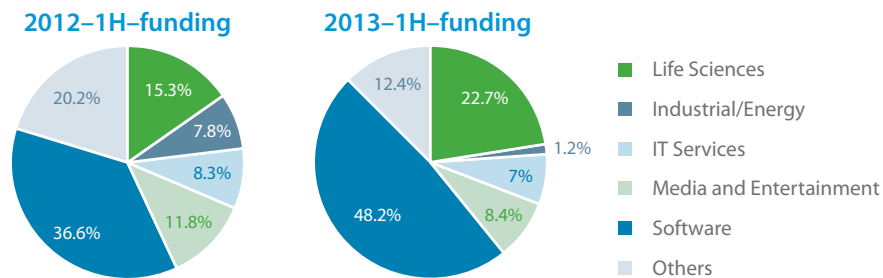
## Trend of first-time financing (# of deals)

# of deals by year

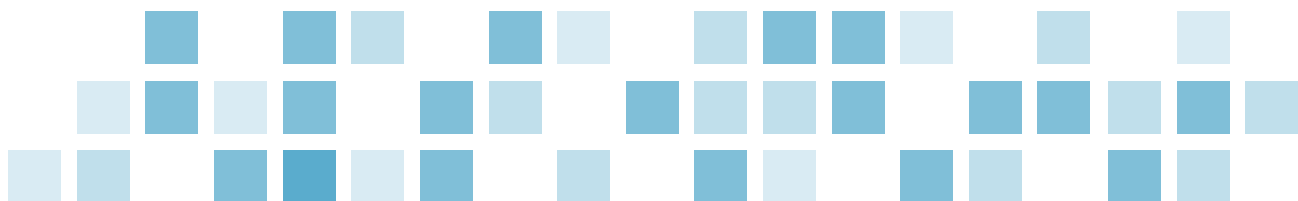


Source: Thomson Reuters and National Venture Capital Association

Companies in the software industry received the largest portion of first-time financing of 48.2 percent of the total funding in the first half of 2013 compared to 36.6 percent in the corresponding period in 2012. First-time financing in the information technology services industry slightly decreased from 8.3 percent in 2012 to 7 percent in 2013, in the industrial/energy industry it decreased from 7.8 percent in 2012 to 1.2 percent in 2013, and in the media and entertainment industry it decreased from 11.8 percent in 2012 to 8.4 percent in 2013. However, the life sciences industry experienced an increase in first-time financing of 22.7 percent in the first half of 2013, compared to 15.3 percent in the corresponding period in 2012. The results are consistent with the earlier conclusion that venture capitalists appear to have found a new appetite for companies in the software industry and to some extent in the life sciences industry compared to the other industries.

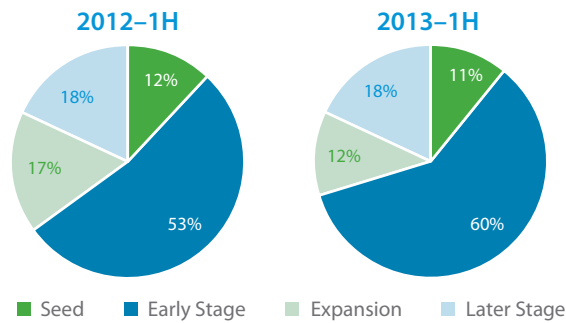


Source: Thomson Reuters and National Venture Capital Association



Early stage and late stage companies received the bulk of first-time financing in the first half of 2013, garnering 77 percent of the total dollars invested and the total number of deals, compared to 71 percent in terms of the dollars invested and 69 percent of the total deals in the first half of 2012. The financing in the late stage companies was constant at 18 percent of the total financing in both 2013 and 2012. Whereas seed stage companies received 11 percent of the total financing in the first half of 2013 compared to 12 percent in the first half of 2012, and late stage companies received 18 percent of the total financing in both 2012 and 2013. As mentioned in the “Funding by stage of development” section, although the focus of venture capitalists in the first half of 2013 was predominantly on the late stage companies, for the first time financing, the focus was more on early stage companies. This is consistent with the results obtained in the first half of 2012 where a majority of first time financing was in early stage companies.

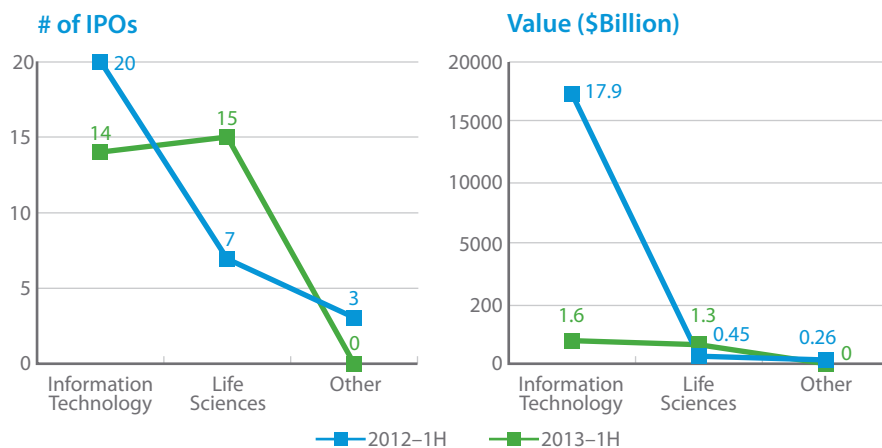
### First time financing by stage of development (amount invested)



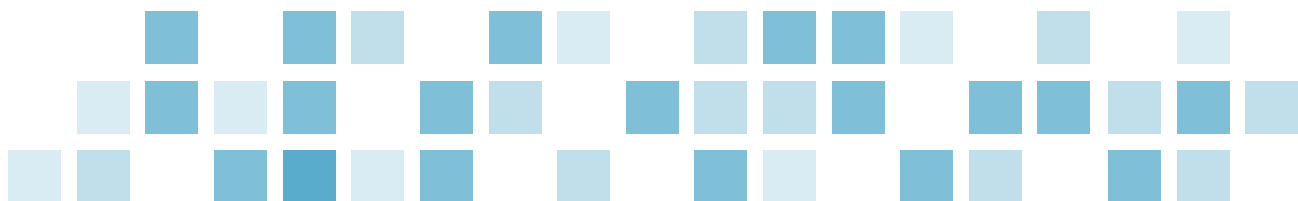
Source: Thomson Reuters and National Venture Capital Association

### Venture capital exits

Venture capital exits through an IPO process in the first half of 2013 were consistent with the corresponding period in 2012, with 29 IPOs in 2013 compared to 30 IPOs in the similar period in 2012. In terms of value, the total venture backed IPOs were valued at \$2.9 billion in 2013 compared to \$18.6 billion in 2012, which was mainly led by Facebook’s IPO of \$16 billion. Carving out Facebook’s IPO, the remaining venture backed IPOs in the first half of 2012 amounted to \$2.6 billion which is in line with the amount raised in 2013. Of the total venture capital-backed IPOs in the first half of 2013, 15 IPOs with an aggregate value of \$1.3 billion were in the life sciences industry and the remaining 14 IPOs aggregating \$1.6 billion were in the information technology industry. In the first half of 2012, there were 20 exits aggregating \$17.9 billion in the information technology industry, 7 exits aggregating \$447 million in the life sciences industry and 3 exits aggregating \$255 million in other industries.



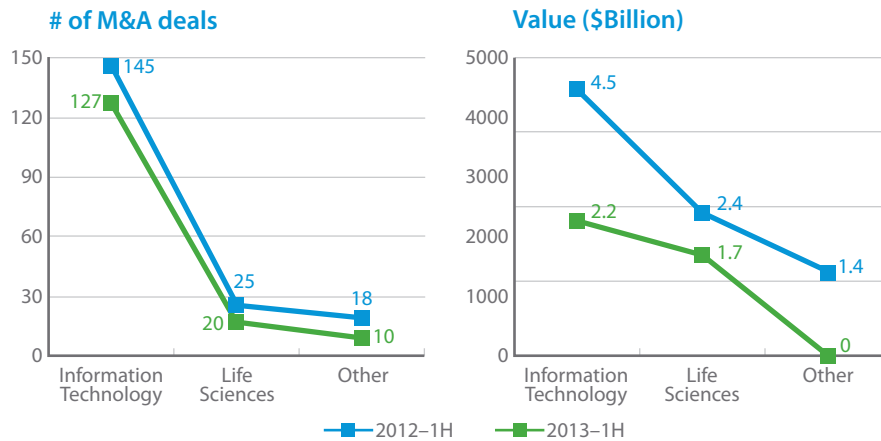
Source: Thomson Reuters and National Venture Capital Association



## M&A deals

In the first half of 2013, there were 157 M&A transactions involving venture-backed companies that aggregated \$3.9 billion, led by the information technology industry, which had 127 deals of \$2.2 billion, followed by the life sciences industry which had 20 deals of \$1.6 billion, and 10 deals of \$30 million in other industries.

For the corresponding period in 2012, there were 188 deals aggregating \$8.3 billion, indicating a decrease of 52% in deal value and 17% in the number of deals compared to 2013. The majority of deals were also in the information technology industry, comprising 145 deals of \$4.5 billion, followed by life sciences industry which accounted for 25 deals aggregating \$2.4 billion and the remaining 18 deals aggregating \$1.4 billion were in other industries. Thus, in the first half of 2013, the total M&A deal value in the information technology industry has declined by 50 percent and in the life sciences industry it has declined by 31 percent compared to 2012.



Source: Thomson Reuters and National Venture Capital Association

## Conclusion

Based on the above analysis, venture capital-backed investments in the first half of 2013 is off to a slow start as both the total deal value and the number of deals have decreased slightly by 7 percent and 2 percent, respectively, compared to the same period in 2012. This is because fewer funds were launched in the first half of 2013 with a corresponding decrease in amount of capital raised. This is correlated to the sluggish M&A exit markets that has curtailed fund managers from launching new funds unless they have demonstrated profitable recent exits which would help them raise funds from new and existing investors.

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