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## **Venture capital investment level in 2005**

**JAN. 24 12:18 A.M. ET** The pace of venture capital investment remained unchanged during 2005 as the financiers of new business ideas continued to tread carefully, hoping to avoid the missteps that led to the dot-com bust.

Venture capitalists invested \$21.68 billion last year, just \$44 million more than in 2004, according to statistics to be jointly released Tuesday by Thomson Venture Economics, PricewaterhouseCoopers and the National Venture Capital Association.

Investments tapered off late in the year, with venture capitalists committing \$5.08 billion to startups during the fourth quarter, a 10 percent decline from the same time in 2004.

Venture capital investment has been hovering around the same level for the past four years as the industry gradually recovered from the losses that piled up after a slew of high-tech startups failed during 2000 and 2001.

Although the market conditions have improved, venture capitalists remain cautious. That restraint has been heartening to venture capitalists like Kate Mitchell, managing director of BA Venture Partners in Foster City, Calif.

"We really like the steady pace versus the bubble (mentality) we have seen in the past," Mitchell said Monday. "Instead of irrational exuberance, we are seeing healthy, rational optimism."

Lackluster demand for initial public stock offerings also has tempered the venture capital industry's enthusiasm. Venture capitalists rely on IPOs to help them reap profits from their investments, but Wall Street hasn't been particularly receptive since the stocks of so many unprofitable businesses evaporated a few years ago.

A total of 194 companies made their stock market debuts last year, a 10 percent drop from 2004, according to Renaissance Capital, a Greenwich, Conn. research firm. In 2000, more than 400 IPOs were priced.

Not even the success of online search engine leader Google Inc., whose market value has nearly quintupled since its August 2004 IPO, has helped revive the market, said Tracy Lefteroff, PricewaterhouseCoopers' global managing partner of venture capital. "It certainly didn't live up to a lot of folks' expectations that it would take everyone with it in its tail wind."

The temptation for venture capitalists to accelerate their investment pace may be growing.

In a sign of the apparent restlessness mounting within the industry, hundreds of venture capitalists swarmed into Las Vegas for a major consumer electronics show earlier this month. That marked a notable departure from recent year when only a couple dozen venture capitalists showed up for the annual display of digital gadgetry.

The stockpile of money held by venture capitalists also is swelling.

The industry raised \$25.2 billion in 2005, marking the first time in five years the amount of money flowing into venture capitalists had outstripped the total invested, according to data compiled by Venture Economics and the National Venture Capital Association.

At the height of the dot-com boom in 2000, venture capitalists raised \$107.3 billion from their partners and invested \$104.7 billion.

The gap between the industry's fundraising and investments isn't "necessarily out of whack, but you better believe we will be watching it very closely," said John Taylor, the National Venture Capital Association's vice president of research.

Based on the industry's past behavior, Mitchell believes it's likely that venture capitalists are likely to pour too much money in certain high-tech sectors, creating an oversupply of startups that will eventually lead to another shakeout.

As it has for years, the software industry remained venture capital's biggest investment magnet, drawing \$4.7 billion in 2005, a 10 percent decrease from 2004.

Venture capitalists invested \$3.9 billion in biotechnology last year, a 7 percent decline from 2004.

With Internet bellwethers like Google and Yahoo Inc. continuing go grow rapidly, venture capitalists stepped up their interest in the Web last year by investing \$2.93 billion in the sector. That was the most venture capital committed to Internet startups since 2002 when \$3.7 billion poured in.

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On The Web:

<http://ventureeconomics.com>

PricewaterhouseCoopers: <http://www.pwcmoneytree.com>

National Venture Capital Association: <http://www.nvca.org>

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