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National Venture Capital Association

## NEWS RELEASE

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### **Venture-Backed Exit Market Improves Marginally at Year End**

#### **M&A Exits See Highest Average Value Since Fourth Quarter 2007 While IPO Market Shows Preliminary Signs of Life**

**New York, New York, January 4, 2009** – Venture-backed company exit activity showed promising signs of life during the fourth quarter of 2009 but fell far short of historical norms for the year, according to the Exit Poll report by Thomson Reuters and the National Venture Capital Association (NVCA). The year ended with 13 venture-backed Initial Public Offerings (IPOs) and 262 M&A transactions.

While there were five venture-backed IPOs in the fourth quarter, a slight uptick from the third quarter of 2009, the last two years have been the slowest consecutive years for US venture-backed IPO activity since 1974-1975. The tally of M&A exits as of the last day of the quarter was 67 with 36 disclosed deals averaging \$215.9 million, the highest quarterly average since the fourth quarter of 2007.

“While 2009 was a year many venture capitalists and entrepreneurs would choose to soon forget, the fourth quarter offered signs of hope for the coming year in terms of improved exit activity,” said Mark Heesen, president of the NVCA. “Clearly, we have a long way to go towards a full recovery but we are encouraged by the increasing acquisition values and the number of companies that have filed a registration with the SEC to go public. We expect to see a gradual but marked improvement in 2010 and hope to have exponential improvements this time next year.”

**Venture-Backed Liquidity Events by Year/Quarter, 2003-2009**

| Quarter/Year  | Total M&A Deals | M&A Deals with Disclosed Values | *Total Disclosed M&A Value (\$M) | *Average M&A Deal Size (\$M) | **Number of IPO's | Total Offer Amount (\$M) | Average IPO Offer Amount (\$M) |
|---------------|-----------------|---------------------------------|----------------------------------|------------------------------|-------------------|--------------------------|--------------------------------|
| <b>2003</b>   | <b>285</b>      | <b>120</b>                      | <b>7,521.1</b>                   | <b>62.7</b>                  | <b>29</b>         | <b>2,022.7</b>           | <b>69.8</b>                    |
| <b>2004</b>   | <b>348</b>      | <b>188</b>                      | <b>16,043.8</b>                  | <b>85.3</b>                  | <b>94</b>         | <b>11,378.0</b>          | <b>121.0</b>                   |
| <b>2005</b>   | <b>350</b>      | <b>164</b>                      | <b>17,342.6</b>                  | <b>105.7</b>                 | <b>57</b>         | <b>4,485.0</b>           | <b>78.7</b>                    |
| <b>2006-1</b> | 107             | 52                              | 5,607.5                          | 107.8                        | 10                | 540.8                    | 54.1                           |
| <b>2006-2</b> | 107             | 40                              | 4,018.5                          | 100.5                        | 19                | 2,011.0                  | 105.8                          |
| <b>2006-3</b> | 96              | 44                              | 3,538.0                          | 80.4                         | 8                 | 934.2                    | 116.8                          |
| <b>2006-4</b> | 65              | 27                              | 5,745.8                          | 212.8                        | 20                | 1,631.1                  | 81.6                           |
| <b>2006</b>   | <b>375</b>      | <b>163</b>                      | <b>18,909.8</b>                  | <b>116.0</b>                 | <b>57</b>         | <b>5,117.1</b>           | <b>89.8</b>                    |
| <b>2007-1</b> | 88              | 31                              | 4,640.3                          | 149.7                        | 18                | 2,190.6                  | 121.7                          |
| <b>2007-2</b> | 90              | 37                              | 3,912.1                          | 105.7                        | 25                | 4,146.8                  | 165.9                          |
| <b>2007-3</b> | 107             | 54                              | 11,113.7                         | 205.8                        | 12                | 945.2                    | 78.8                           |
| <b>2007-4</b> | 93              | 45                              | 9,645.8                          | 214.4                        | 31                | 3,043.8                  | 98.2                           |
| <b>2007</b>   | <b>378</b>      | <b>167</b>                      | <b>29,312.0</b>                  | <b>175.5</b>                 | <b>86</b>         | <b>10,326.3</b>          | <b>120.1</b>                   |
| <b>2008-1</b> | 108             | 42                              | 4,885.2                          | 116.3                        | 5                 | 282.7                    | 56.6                           |
| <b>2008-2</b> | 87              | 27                              | 3,321.2                          | 123.0                        | 0                 | 0.0                      | 0.0                            |
| <b>2008-3</b> | 89              | 32                              | 3,080.2                          | 96.3                         | 1                 | 187.5                    | 187.5                          |
| <b>2008-4</b> | 64              | 18                              | 2,390.9                          | 132.8                        | 0                 | 0.0                      | 0.0                            |
| <b>2008</b>   | <b>348</b>      | <b>119</b>                      | <b>13,677.4</b>                  | <b>114.9</b>                 | <b>6</b>          | <b>470.2</b>             | <b>78.4</b>                    |
| <b>2009-1</b> | 63              | 14                              | 657.3                            | 46.9                         | 0                 | 0.0                      | 0.0                            |
| <b>2009-2</b> | 64              | 13                              | 2,570.1                          | 197.7                        | 5                 | 720.7                    | 144.1                          |
| <b>2009-3</b> | 68              | 22                              | 1,262.4                          | 57.4                         | 3                 | 572.1                    | 190.7                          |
| <b>2009-4</b> | 67              | 36                              | 7,765.4                          | 215.9                        | 5                 | 649.3                    | 129.9                          |
| <b>2009</b>   | <b>262</b>      | <b>85</b>                       | <b>12,255.18</b>                 | <b>144.2</b>                 | <b>13</b>         | <b>1,942.1</b>           | <b>149.4</b>                   |

Thomson Reuters & National Venture Capital Association

\*Only accounts for deals with disclosed values

\*\*Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile.

**IPO Activity Overview**

There were five venture-backed IPOs valued at \$649.3 million in the fourth quarter of 2009, a slight increase from the third quarter of 2009. With 13 venture-backed initial public offerings during full year 2009, the annual total more than doubles activity in seen 2008, by



dollars raised and number of offerings. However, the last two years have been the slowest consecutive years for US venture-backed IPO activity since 1974-1975.

Two of the five IPO exits for the quarter were in the information technology sector, accounting for a total of \$236.2 million. Within this sector, Sunnyvale, California-based, Fortinet, Inc, a developer of network protection systems, raised \$156.3 million. Echo Global Logistics, a Chicago-based provider of transportation management solutions began trading on October 2<sup>nd</sup> and raised \$79.8 million in the communications and media sector.

**Venture-Backed IPO Industry Breakdown**

| Industry               |                            | Q4 2009                                     |  |
|------------------------|----------------------------|---|--|
|                        |                            | *Number of Venture-Backed IPO's in the U.S. | Total Venture-Backed Offering Size (\$M) |
| Information Technology | Computer Software/Services | 1   | 156.3                                    |
|                        | Communications and Media   | 1   | 79.8                                     |
|                        | <b>TOTAL</b>               | <b>2</b>                                    | <b>236.1</b>                             |
| Life Sciences          | Medical/Health             | 1   | 45                                       |
|                        | Biotechnology              | 1   | 68.2                                     |
|                        | <b>TOTAL</b>               | <b>2</b>                                    | <b>113.2</b>                             |
| Non-High Technology    | Other Products             | 1   | 300                                      |
|                        | <b>TOTAL</b>               | <b>1</b>                                    | <b>300</b>                               |
| <b>TOTAL</b>           |                            | <b>5</b>                                    | <b>649.3</b>                             |

\*Includes all companies with at least one U.S. VC investor that trade on U.S. exchanges, regardless of domicile

In the biggest IPO of the quarter, KAR Auction Services, an automotive services holding company based in Carmel, Indiana raised \$300 million via a listing on the New York Stock Exchange.

There were no initial public offerings by US venture-backed companies on a foreign exchange in the third quarter.

Of the five IPOs in the third quarter, two were trading at or above their offering prices as of 12/30/2009. For the year, nine out of the thirteen IPOs were trading at or above their offering. Twenty-nine venture-backed companies are currently filed for an initial public offering with the SEC.

**Mergers and Acquisitions Overview**



As of December 30, 2009, 67 venture-backed M&A deals were reported for the fourth quarter, 36 of which had an aggregate deal value of \$7.8 billion. The average disclosed deal value was \$215.7 million.

The information technology sector led the venture-backed M&A landscape, with 48 deals and a disclosed total dollar value of \$4.7 billion. Within this sector, internet specific and communications and media companies accounted for the bulk of the targets, with 26 and 11 transactions, respectively, across these sector subsets. The life sciences sector saw the next highest level of activity with 14 deals and a combined disclosed value of \$2.8 billion.

**Venture-Backed M&A Industry Breakdown**

|                               |                                | Q4 2009                            |   |   |
|-------------------------------|--------------------------------|------------------------------------|---|---|
|                               |                                | Number of Venture-Backed M&A deals | Number of Venture-Backed M&A deals with a disclosed value | Total Disclosed Venture-Backed Deal Value (\$M) |
| Industry                      |                                |                                    |   |   |
| <b>Information Technology</b> | Internet Specific              | 15                                 | 7   | 2238.1  |
|                               | Communications and Media       | 11                                 | 9   | 1352.0  |
|                               | Computer Software and Services | 17                                 | 7   | 629.9   |
|                               | Semiconductors/Other Elect.    | 4                                  | 3   | 467.1   |
|                               | Computer Hardware              | 1                                  | -   | -   |
|                               | <b>TOTAL</b>                   | <b>48</b>                          | <b>26</b>   | <b>4,687.1</b>                                  |
| <b>Life Sciences</b>          | Biotechnology                  | 9                                  | 4   | 1773.3  |
|                               | Medical/Health                 | 5                                  | 4   | 1061.0  |
|                               | <b>TOTAL</b>                   | <b>14</b>                          | <b>8</b>  | <b>2,834.3</b>                                  |
| <b>Non-High Technology</b>    | Industrial/Energy              | 2                                  | 1   | 120.0   |
|                               | Other Products                 | 3                                  | 1   | 124.0   |
|                               | <b>TOTAL</b>                   | <b>5</b>                           | <b>2</b>  | <b>244.0</b>                                    |
| <b>TOTAL</b>                  |                                | <b>68</b>                          | <b>37</b>   | <b>7,803.7</b>                                  |

Source: Thomson Reuters & National Venture Capital Association

In the biggest venture-backed deal of the quarter and the year, Amazon.com Inc acquired Zappos.com Inc, a Henderson, Nevada-based online shoe retailer for \$930 million. In the year's second biggest M&A deal, Onyx Pharmaceuticals acquired Proteolix, Inc., a biotechnology company specializing in cancer and immune diseases, for \$851 million in October.

Deals bringing in the top returns, those with disclosed values greater than four times the venture investment, accounted for 20 percent of the total in the fourth quarter of 2009,



Venture-backed M&A deals returning less than the amount invested accounted for 23 percent of the quarter's total, compared to 50 percent of the total in the previous quarter.

**Analysis of Transaction Values versus Amount Invested**

| Relationship between transaction value and investment                | Q309 M&A** | Q409 M&A** |
|--|------------|------------|
| Deals where transaction value is less than total venture investment  | 11         | 8          |
| Deals where transaction value is 1-4x total venture investment       | 2          | 9          |
| Deals where transaction value is 4x-10x total venture investment     | 7          | 10         |
| Deals where transaction value is greater than 10x venture investment | 2          | 7          |
| <b>Total Disclosed Deals</b>   | <b>22</b>  | <b>34</b>  |

Source: Thomson Reuters & National Venture Capital Association

\*\* Disclosed deals that do not have a disclosed total investment amount are not included.

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**About National Venture Capital Association**

The National Venture Capital Association (NVCA) represents more than 400 venture capital firms in the United States. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy and support entrepreneurial activity and innovation. According to a 2008 Global Insight study, venture-backed companies accounted for 12.1 million jobs and \$2.9 trillion in revenue in the United States in 2008. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit [www.nvca.org](http://www.nvca.org).