Media contacts:

Joshua Radler
Thomson Venture Economics
Tel: 212-806-3146
E-mail: joshua.radler@thomson.com

Emily Mendell
NVCA
Tel: 610-359-9609
E-mail: emendell@nvca.org

Venture Capital Commitments Soared by 67% in 2004

Firms' Fundraising Success Expected to Carry Over into 2005
Performance Dependent Upon Discipline in Staying Within Target Range

New York, NY, January 31, 2005 – A robust fundraising climate in the fourth quarter capped off the most active year for venture capital commitments since 2001, according to Thomson Venture Economics and the National Venture Capital Association. Over the course of the quarter 50 venture funds raised just over $6 billion. The entire year saw 170 funds raise $17.6 billion, $3.4 billion more than the previous two years combined. Buyout and mezzanine funds experienced an even more impressive boost in activity in 2004, with 103 funds attracting $45.8 billion. These figures represent the highest level of private equity commitments since 2000.

	Venture Capital		Buyout & Mezzanine**	
Year/Quarter	Number of Funds	Venture Capital ($M)	Number of Funds	Buyout & Mezzanine ($M)
2000	635	106,081.70	160	76,729.30
2001	305	37,960.90	117	44,684.60
2002	165	3,661.50	84	26,621.80
2003	135	10,585.40	86	29,625.40
2004	170	17,645.90	103	45,792.20
4Q'03	54	5,588.40	30	15,565.30
1Q'04	48	2,649.50	24	3,402.60
2Q'04	53	3,137.60	31	16,614.20
3Q'04	52	5,830.30	40	12,731.70
4Q'04	50	6,028.50	34	13,043.70

Source: Thomson Venture Economics/National Venture Capital Association
**The figures above do not take into account downsized funds*
*** This category includes LBO, Mezzanine, Turnaround and Recapitalization-focused funds.*

Mark Heesen, president of the National Venture Capital Association commented that the strength of the fundraising market needs to be taken seriously.

"We expect the quarterly increases in venture capital commitments to continue into the first half of 2005. Many established firms are still out there fundraising successfully," said Heesen. "But as an asset class, we should be looking for an eventual leveling off this year so that we do not raise more money than the industry can support. Thankfully, most firms are continuing to raise smaller funds and are staying within their original targets, despite temptation to take more."

Venture commitments in 2004 represent a 66.7% increase over 2003, when 135 funds raised $10.58 billion. Early and Seed Stage funds dominated fourth quarter fundraising. Thirty-one such funds raised $4.2 billion or 69.4% of the quarter's total. Fourteen Balanced funds raised $1.3 billion, 22.3% of the total.

The fundraising gap between these stages narrowed over the course of the year. In 2004, 101 Early and Seed funds raised $9.2 billion and 49 Balanced vehicles attracted $6.2 billion. These figures represent 52.4% and 35.3% of the year's total, respectively.

Three venture funds raised more than $500 million in 2004. Oak Investment Partners XI raised $1.5 billion in the third quarter, and was the largest raised in 2004. Two other funds raised $600 million each – Interwest Partners IX (Q3) and U.S. Venture Partners IX (Q4). The Oak Investment Partners' fund is self designated as Balanced, while the other two are Early stage investment vehicles.

Follow-on funds remained predominant in 2004, accounting for 73.5% of all venture funds raised. In the quarter, these funds made up 78% of the total raised. New funds are funds raised by new venture firms, although the principals of the firms may be industry veterans.

VC Funds: New vs Follow-On*

Year	No. of New	No. of Follow-on	Total
2000	245	390	635
2001	106	199	305
2002	57	108	165
2003	45	90	135
2004	45	125	170

Source: Thomson Venture Economics/National Venture Capital Association
** With commitments during the time period shown*

During 2004, the venture capital industry invested $21 billion into emerging companies, the first upswing in three years according to the MoneyTree Survey by Pricewaterhousecoopers, Thomson Venture Economics and the National Venture Capital Association. Though not directly correlated, this figure provides a context for the capital required by the venture industry.

Leveraged Buyout, Mezzanine, Turnaround and Recapitalization-focused funds witnessed a modest bump in total commitments during the fourth quarter. Thirty-four of these funds raised just over $13 billion, up from the third quarter's $12.7 billion. However, figure for the entire year signified a drastic departure from the previous two years which were marked by decline or unexceptional gains. During 2004, 103 funds raised $45.8 billion, a 54.5% increase over 2003. A major factor in the increase was the success firms experienced in raising mega funds – 11 funds raised $1 billion or more for a total commitment of $25.8 billion.

Two mega funds were raised in the fourth quarter. American Securities Partners IV attracted $1 billion in the quarter, while Carlyle Partners IV took in $4.9 billion. The Carlyle fund was the largest raised in 2004.

Sandra Ribeiro, Research Director at Thomson Venture Economics stated "Buyout funds have had an outstanding year keeping pace with the venture capital commitments. Traditionally, buyout and mezzanine funds together out-raise venture capital funds 3:1. It appears as if we are returning to historical patterns."

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About NVCA

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