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GLOBAL WEB 2.0 DEALS UP 14% IN FIRST HALF OF 2007 AS VENTURE CAPITALISTS SEEK TO TAP NEW MARKETS

Investors Pump More Than US$465 Million into Web 2.0 Companies, Back More Deals in Europe & Israel; New England the New U.S. Hot Spot?

SAN FRANCISCO (September 17, 2007)—It's official: Web 2.0 has gone global. What was once an industry focused almost entirely in the San Francisco Bay area has expanded into new markets within the U.S. as well as in Europe and Israel, according to new data released today by Dow Jones VentureOne and Ernst & Young LLP. The global research showed that investors directed US$464.2 million into 101 deals worldwide in the first half of the year, the highest half-year total on record for the sector and more than a 7% increase in investments over the same period in 2006.

Overall, the number of global Web 2.0 deals climbed 14% in the first half. However, this was entirely attributable to a rising interest in Web 2.0 in Europe and Israel, as U.S. investments were virtually unchanged from the first half of 2006 with 67 deals and US$357 million invested.

"Certainly, the blockbuster growth of Web 2.0 technologies has impacted every sector in the U.S. from media to retail to hospitality and consumer products," said Jessica Canning, Director of Global Research for Dow Jones VentureOne. "But we may be seeing a plateau in the number of Web 2.0 companies investors are willing to back in the U.S.—at least until a clear liquidity market arises. In the meantime, more investors are turning to Web 2.0 plays in emerging markets in Europe."

The data showed that US$52 million was put to work in 20 European Web 2.0 deals in the first half, roughly double the deals and investments seen in the same period last year. What's more, Israeli Web 2.0 companies had their best showing to date, raising US$15 million in five deals in the first half, up from two deals and US$5 million invested in all of 2006.

Within Europe, the United Kingdom posted the most activity in the first half with a record seven deals accounting for US$22 million invested. France is also on pace to have a banner year, as it saw five deals raise US$16 million in the first half of the year. The data also showed that Belgium, Ireland and the Netherlands each saw their first Web 2.0 deal completed in the first six months of 2007.

"From 2002 to 2006, literally 40% of all Web 2.0 deals were located in the Bay Area. But in the first six months of this year, that figure dropped to just 20% and seems to be related to the presence of fresh investor blood in the space," added Canning. "It seems many longtime stalwart Web 2.0 investors have filled their portfolios with Bay Area companies and are stepping aside, giving new investors opportunity to scour for promising deals in less-saturated regions."

The U.S. region that saw the biggest pick-up at the expense of the Bay Area in the first half of 2007, according to the data, was New England, which saw US$102 million invested 10 Web 2.0 deals. That is 65% more than what was invested in 12 New England Web 2.0 deals in all of 2006—and slightly more than what was invested in Bay Area companies in the first half of this year. Another region to see a surge in investor interest was Southern California, as VCs put US$59 million to work in eight Web 2.0 deals in this region, well on pace to best 2006's full-year total of US$64 million invested in 13 deals.

The data also revealed that several of last year's biggest Web 2.0 investors participated in far fewer deals during the first half of 2007. For example, in 2006, Benchmark Capital was the sector's top global investor, having participated in 16 Web 2.0 deals, many based near its home in Menlo Park, Calif.; through the first half of 2007, it backed just three deals with only one in the Bay Area. It was a similar story with Omidyar Network, Kleiner Perkins Caufield & Byers and Storm Ventures.

Most of the U.S. deals completed in the first half of 2007 focused on the so-called "Enterprise 2.0" area—companies that use Web 2.0 technologies such as mashups and online collaboration to improve traditional business functions—while deals in China, Europe and Israel had a distinct consumer bent to them. Among the largest Web 2.0 deals of the first half was the US$30 million first round for enterprise software provider n2N Commerce.

Other notable trends the data showed include:

- Despite seeing a flat first half, the U.S. still dominated the Web 2.0 market, accounting for 66% of all deals worldwide and 77% of venture financing.
- The Bay Area was the busiest region in the U.S. with 25 deals accounting for US$91 million. New England, the New York metropolitan area and Southern California are on pace to set annual records for Web 2.0 deals and investments.
- China posted just nine Web 2.0 deals, accounting for US$41 million in investment, down from the US$43 million invested in 12 deals during the same time last year.
- The median size of a Web 2.0 deal on a global basis was US$4.6 million in the first six months. For U.S. deals, the median round size reached US$5.2 million in the first half, the highest figure on record.

- The most active investors in Web 2.0 on a worldwide basis so far in 2007 are Sequoia Capital and Draper Fisher Jurvetson.

Note to editors: *VentureOne has adopted a strict research methodology for categorizing Web 2.0 companies, reviewing them on a case-by-case basis to determine if they meet specific criteria. Companies included in this study have a business model that revolves around a dynamic interface facilitating participation through such methods as user-created content, networking, and collaboration. Applications include podcasting, tagging, blogs, social networking, mashups, and wikis. Technologies used in these applications include: AJAX, RSS, SOA, CSS, XHTML, Atom, and rich Internet applications.*

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The investment figures included in this release are based on aggregate findings of VentureOne's proprietary research. This data was collected by surveying professional venture capital firms, through in-depth interviews with company CEOs and CFOs, and from secondary sources. These venture capital statistics are for equity investments into early-stage, innovative companies and do not include companies receiving funding solely from corporate, individual, and/or government investors. No statement herein is to be construed as a recommendation to buy or sell securities or to provide investment advice.

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