

News Release

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Deloitte, National Venture Capital Association Study: Stronger IPO Activity Vital to Health of Global Venture Capital Industry

NEW YORK, June 22, 2011 — Venture capitalists from around the world say the current level of IPO activity is too low to support the health of the venture capital industry in their respective countries, according to the 2011 Global Venture Capital Survey sponsored by Deloitte and the National Venture Capital Association.

More than 80 percent of global venture capitalists surveyed stated that current IPO activity levels in their home countries are too low. The survey, conducted annually, reveals that venture capitalists believe high returns generated by IPOs are critical in providing superior returns to limited partners and growth capital to developing portfolio companies.

Venture capitalists in the United States, China, Brazil, India and France found it most important to have an active IPO market in their home countries, followed closely by the United Kingdom, Canada, Germany and Israel. In the U.S., where there has been a large and active venture capital and entrepreneurial community for many years, 91 percent of venture capitalists deemed the U.S. IPO market a critical element of the U.S. venture capital industry. In contrast to the global trend, only 36 percent of U.S. venture capitalists said that IPO markets in other geographies were essential to the success of the U.S. venture capital industry.

Globally, 87 percent of respondents selected NASDAQ as one of the three most promising stock exchanges for venture-backed IPOs; 39 percent selected the New York Stock Exchange (NYSE), and 33 percent cited the Shanghai Stock Exchange. The vast majority of venture capitalists around the world still look to the U.S. exchanges to provide a healthy and vibrant market, yet 87 percent of U.S. venture capitalists believe that the current level of IPO activity is too low.

“Clearly the industry continues to feel the ripple effects of the global economic downturn -- most notably in the form of limited exit opportunities,” said Mark Jensen, partner, Deloitte & Touche LLP and national managing partner for venture capital services. “However, with signs of improvement in the economy and easing of the liquidity crisis, the tide may be turning. Innovation continues to be an important driver in our economic health and a strong exit marketplace is critical to the venture capital ecosystem driving much of that innovation.”

Mark Heesen, president of the National Venture Capital Association, said, “The venture-backed IPO market has been an extraordinary creator of economic value in countless ways. Not only have millions of jobs been created, but superior returns have been delivered to pension beneficiaries, endowments and charitable foundations for decades. Entire industries have been formed, pushing innovation forward, and changing the way we live and work for the better. The recovery of the IPO market, both here in the U.S. and abroad, is not a nicety but a necessity for the future health of the global economy.”

The slowdown in IPO activity is attributed to a lack of several key drivers that are necessary for a vibrant capital markets system. According to survey respondents the most important factors are a strong investor appetite for equity in public companies (83 percent); the need for a stable economic environment (52 percent); and the need for more adequate stock analyst coverage (32 percent). In the U.S., venture capitalists also cited the need for a competitive investment banking community (30 percent) for IPOs and easier reporting for newly public companies (33 percent).

“There is no doubt that the limited IPO market impacts investors and limited partners, but it’s important to remember that it affects entrepreneurs as well,” said Scott Tobin of Battery Ventures GP and head of the firm’s Israel office. “When I talk to these folks, whether in the U.S., Israel or anywhere in the world, they dream of solving big problems and building long-lasting public companies that survive beyond their tenure as CEO. You need a healthy IPO ecosystem to encourage that innovation and ensure that these incredibly smart and talented individuals truly reach for the stars.”

Despite capital markets challenges, tremendous promise remains for the venture capital industry globally. Of those who are investing outside their home countries, more than half (57 percent) plan to increase this activity during the next five years and an additional 35 percent plan to maintain their level of investment.

The survey also shows a tremendous amount of excitement around IT, healthcare services and clean tech innovation globally. Approximately 69 percent of respondents cited a surge in investment in cloud computing, while 65 percent plan to increase investment in social and new media. Clean technology remains attractive with 62 percent of respondents planning to increase investments in this area and an additional 26 percent planning to maintain their levels of clean tech investment. In China and India, there is considerable interest in both biopharmaceuticals and healthcare services.

"The recent run of global IPOs shows that innovative companies can come from anywhere," said Deepak Kamra, general partner of Canaan Partners. "Some of the companies with the strongest potential to become profitable global leaders have a multinational focus from the beginning - leveraging R&D in Israel, manufacturing in China, services in India, and partnerships in the U.S. -- and this is driving investors to increase their global coverage."

About NVCA

Venture capitalists are committed to funding America’s most innovative entrepreneurs, working closely with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. According to a 2011 Global Insight study, venture-backed companies accounted for nearly 12 million jobs and \$3.1 trillion in revenues in the United States in 2010. As the voice of the U.S. venture capital community, the National Venture Capital Association (NVCA) empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community’s preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its 400 plus members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

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