

Deloitte.

Venture capital goes global.

Key findings from the 2005 Global Venture Capital Survey

Audit. Tax. Consulting. Financial Advisory.

Contents

Foreword	1
Executive summary	2
Introduction	3
US firms are leading the global charge – especially in China and India	3
Non-US firms are also investing abroad – particularly in the United States	4
Impediments to investing abroad	4
Common strategies for global VC investment	5
Energy/environment is the hottest sector	6
VC firms investing in foreign VC funds – not just start-ups	7
Conclusion	8
Contacts at Deloitte Touche Tohmatsu and its member firms	9
About TMT	10
Recent TMT thought leadership	10



Foreword

The Deloitte Touche Tohmatsu (DTT) Technology, Media & Telecommunications (TMT) Industry Group, made up of the TMT practices of DTT's member firms, is pleased to present the results of its 2005 Global Venture Capital Survey. The survey, conducted between February and April 2005, provides an insider's view of the worldwide venture capital (VC) market – highlighting the key challenges, strategies, sectors, and markets that VC firms expect to be focusing on over the next five years.

This year, the DTT TMT Industry Group has consolidated regional data into a single global report, which can be used to compare and contrast VC trends and strategies from around the world.

This annual survey is based on responses from partners at venture capitalists in Europe, Middle East and Africa (EMEA), the Americas and Asia Pacific (APAC). Qualifying respondents manage assets ranging from less than \$100 million to more than \$1 billion. Of the 545 total respondents, 257 are based in the Americas, 141 in EMEA and 147 in the APAC region.

Igal Brightman.

Igal Brightman
Global Managing Partner
Technology, Media & Telecommunications

Executive summary

The venture capital industry is globalizing in line with the global economy. According to this year's survey, venture capital (VC) firms in every region of the world surveyed plan to significantly increase their cross-border investments over the next five years. The Internet is one factor driving globalization – transcending time zones and geographic boundaries to create a single global market. But on a more fundamental level, the expansion from local to global VC investing simply reflects similar changes in the overall business environment. As companies and markets become increasingly global, the investment opportunities for VC firms naturally do the same.

US firms target China and India. Of the 222 US venture capitalists surveyed, 20 percent plan to increase their investments in China over the next five years, while 18 percent plan to increase their investments in India. Advantages cited include low cost structure, a highly educated workforce and sheer size. By contrast, among the 248 non-US respondents, only five percent plan to increase their investments in China, and only four percent in India.

Other firms target the United States. Most non-US venture capitalists consider the United States the most attractive investment target due to its maturity and established investment community. Accordingly, 16 percent of respondents say they plan to expand their investments in the United States between now and 2010. Most of that increase will come from firms in Canada, Asia Pacific (primarily Taiwan), the Middle East (primarily Israel) and Europe.

Obstacles to global investment are significant but manageable. Venture capitalists planning to expand their geographic focus face numerous impediments. Apart from obvious concerns about travel time and effort, survey respondents cited a number of significant obstacles, including: lack of deals that fit their investment profile; lack of experienced investors; intellectual property issues; and potential difficulty exiting the market.

VC firms around the world have common strategies to overcome global investment barriers. Despite significant concerns, the world's VC firms are clearly committed to increasing their cross-border investments. Consequently, they are pursuing several strategies to overcome the impediments, including: opening new offices in foreign markets, only investing in companies with a local presence, and requiring partners in the firm to travel more.

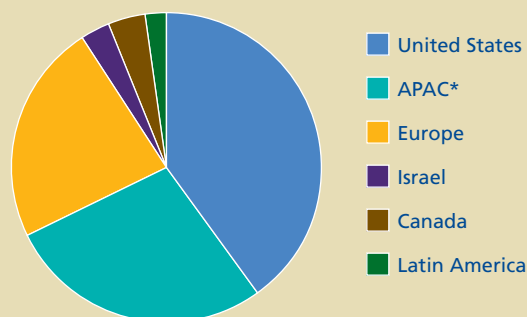
Energy/environment is the hottest sector. Global demand for energy is skyrocketing – often outstripping supply – drawing VC firms to the sector in droves. At the same time, venture capitalists expect to continue searching for prime opportunities in every industry, from software, semiconductors and biopharmaceuticals to communications, networking and consumer business.

VC firms are investing in foreign VC funds – not just start-ups. Many VC firms are electing to invest abroad by partnering with in-country venture capital funds, rather than directly investing in foreign start-ups. For example, nearly half of US respondents said they are seeing increased interest from overseas VC firms looking to partner on investments in the United States. The majority of firms surveyed expect this trend to continue on a global basis throughout the next five years.

About the survey

The 2005 Global Venture Capital Survey, conducted by the DTT TMT Industry Group between February and April 2005, targeted venture capitalists in the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC). Of the 545 total respondents, 257 VC firms are based in the Americas, 141 in EMEA and 147 in APAC. The chart below illustrates the regions represented in the survey, along with their percentage of the total respondents.

Respondent profile



* Taiwan comprises 82 percent of APAC respondents, and Israel comprises 100 percent of EMEA respondents.

Source: DTT, 2005

Introduction

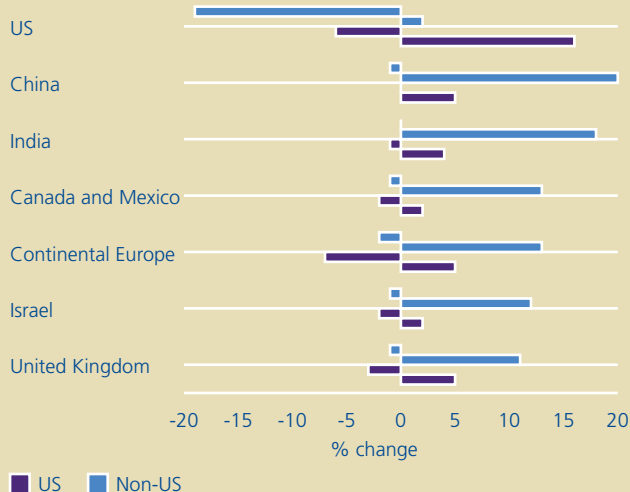
Venture capital firms have traditionally focused on opportunities in their local market. But with business becoming increasingly global, it's only natural for business investments to follow suit. In the DTT TMT Industry Group's 2005 Global Venture Capital Survey, globalization was clearly the dominant trend. Venture capital firms around the world are reaching beyond their borders, looking for untapped opportunities and devising creative strategies to expand their local presence abroad. This report looks at the major trends that are emerging as the venture capital industry goes global.

US firms are leading the global charge – especially in China and India

According to DTT TMT Industry Group's survey, US-based venture capital firms are leading the way when it comes to global investing (see figure 1). About half of the VC firms based in the United States expect to be investing globally by 2010. Of those firms, 19 percent expect to reduce their investments at home, while the other 31 percent plan to maintain their current level of investment in the United States while expanding their investment efforts abroad. This is relatively good news for the US economy in general – and US entrepreneurs in particular – suggesting only minor reductions in the availability of venture capital.

Among the US venture capital firms that are going global, 20 percent identified China as their most significant target, while 18 percent cited India as their primary objective. Venture capitalists were initially attracted to China and India by cheap labor and low costs; however, most VC firms understand the two nations cannot sustain their cost advantages forever. Today, more and more firms are choosing to invest in China and India for their impressive supply of human talent, unmatched entrepreneurial spirit, and extraordinary opportunities to create value.

Figure 1 – Change in investment focus in the next five years by geography (all respondents)



Notes

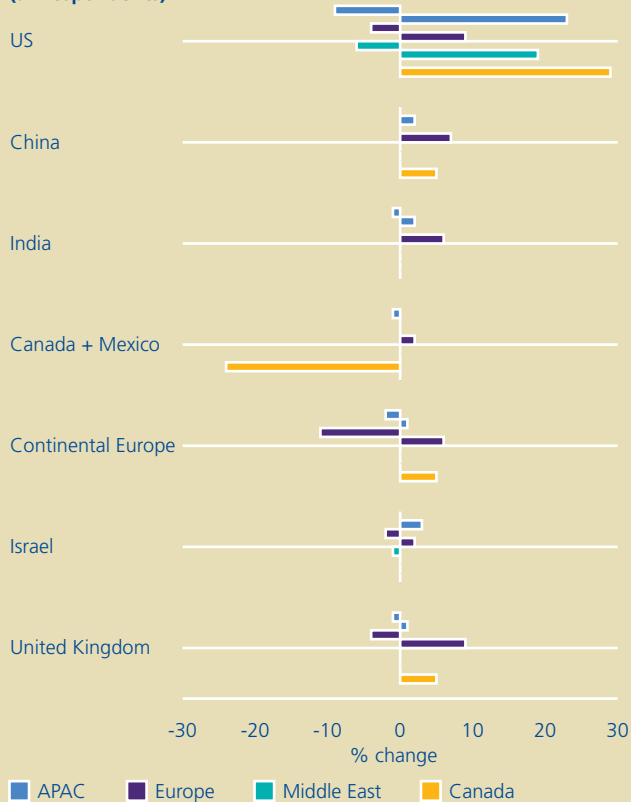
- Missing bars indicate no change in investment focus by respondents.
- Countries with little or no change in current investment focus in the next five years include South & Central America, Taiwan, Japan, Australia and Other Pacific Rim.
- US VCs plan to maintain their investments in the US; however, because they are also now planning to invest more globally, this figure indicates an expected decline.
- US VCs are clearly expanding to a global focus in all major geographies.
- China and India are leading destinations for US VCs.
- However, as noted before, there is significant interest in investing in the US by non-US VCs.

Source: DTT, 2005

Non-US firms are also investing abroad – particularly in the United States

Most venture capital firms in Asia Pacific, Europe, the Middle East and Canada also plan to expand beyond their home markets (see figure 2). For these firms, the United States is clearly the destination of choice. Most of the increase is likely to come from Canada, Taiwan, Israel and Europe. Foreign VC firms view the United States as a mature, proven marketplace, and are particularly attracted by its experienced investment community.

Figure 2 – Change in investment focus in the next five years by geography – non-US (all respondents)



Notes

- Missing bars indicate no change in investment focus by respondents.
- All sectors indicate an interest in increasing investment focus in the US.
- Canada and Mexico indicate a decreased focus in overall investments. This is primarily due to Canadian interest in increasing investments in the US.

Source: DTT, 2005

Impediments to investing abroad

The survey suggests that VC firms around the world are committed to investing wherever opportunities arise. However, they also recognize the unique and significant challenges of investing abroad. In general, their most common concerns were:

- travel time and effort;
- lack of deals that fit their investment profile;
- difficulty in achieving successful exits;
- intellectual property laws; and
- lack of experienced local investors.

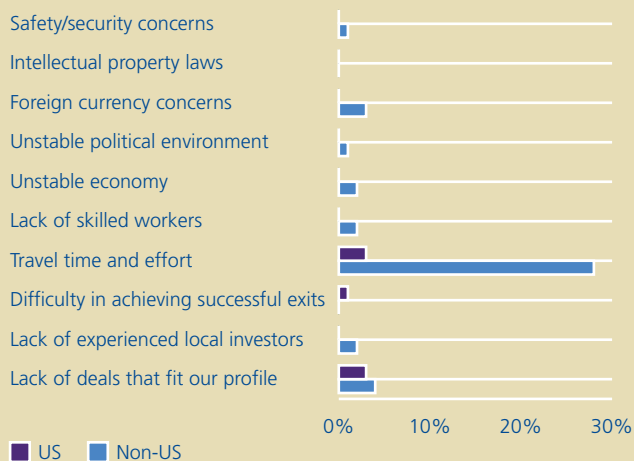
Issues of less concern included:

- unstable economy;
- unstable political environment;
- safety/security;
- foreign currency risk; and
- lack of skilled workers.

Perceived impediments varied depending on the firm’s home location – and its partners’ evaluation of a given market – but in most cases were not considered insurmountable. In general, VC firms believe the United States presents the fewest obstacles, while South America and Mexico present the most.

Figure 3 provides a closer look at the major concerns in key markets and regions regarding investment in the US:

Figure 3 – Impediments to investing in the United States (all respondents)



Note

Missing bars indicate respondents stated there were no impediments to investing.

Source: DTT, 2005

China – Although there is significant worldwide interest in China, venture capital firms surveyed see significant impediments to investing in the China market. Firms in Canada, Israel, Europe and APAC rated **intellectual property laws** as their top concern, followed closely by **difficulty in achieving successful exits**. They were also concerned about China's **lack of experienced investors**. US firms rated **travel time and effort** as the primary impediment to investing in China.

India – Firms in all regions surveyed expressed significant concerns about **achieving successful exits** and **intellectual property laws** in India. However, US firms had other concerns as well. Nearly half of the US respondents cited **travel time and effort** as the biggest impediment, twice as high as firms in other regions. US firms also expressed significant concern about **lack of experienced investors** and **lack of deals that fit their profile**.

Europe – **Travel time and effort** was cited as the top impediment to investing in Europe by VC firms based outside the region – particularly firms in Canada. **Lack of deals that fit their firm's profile** was also a major concern, particularly for Israel VCs.

Canada – For firms based outside of North America, **travel time and effort** was far and away the biggest impediment to investing in Canada. US firms shared that concern, but viewed **lack of deals that fit their profile** as an even greater obstacle. It's worth noting that Canada's own VC firms expressed concerns about those same issues, although not to the same degree.

South America and Mexico – According to the survey, this region presents the greatest impediments to investment (see figure 4). **Travel time and effort** was cited as the biggest obstacle, followed by a lack of deals that fit the firm's profile. Firms also expressed serious misgivings about the **unstable political environment**, **unstable economies in the region**, and **difficulty in achieving successful exits**. On average, each of these issues was rated as a significant concern by at least a third of non-US respondents – much higher than other regions.

Figure 4 – Impediments to investing in South America and Mexico (all respondents)



Source: DTT, 2005

Common strategies for global VC investment

Leading VC firms around the world recognize the challenges of foreign investment, as well as the need to understand the unique forces that shape local markets (see figure 5). That's why most are working hard to establish a local presence, or partnering with local VC firms that already know the territory. In this year's survey, most firms reported pursuing at least one of the following business strategies:

- investing only with other investors that have a local presence;
- requiring partners in the firm to travel more often;
- developing strategic alliances with firms based in the region;
- opening new offices in the destination region.

The first three strategies were each cited by roughly 40 percent of the US respondents, while the fourth strategy was cited by 30 percent.

The least popular strategies were:

- relocating portfolio companies closer to the VC firm's home office;
- requiring partners in the firm to transfer to the destination region.

These two options were each cited by roughly ten percent of US respondents.

Figure 5 – Geographic expansion over the next five years



Notes

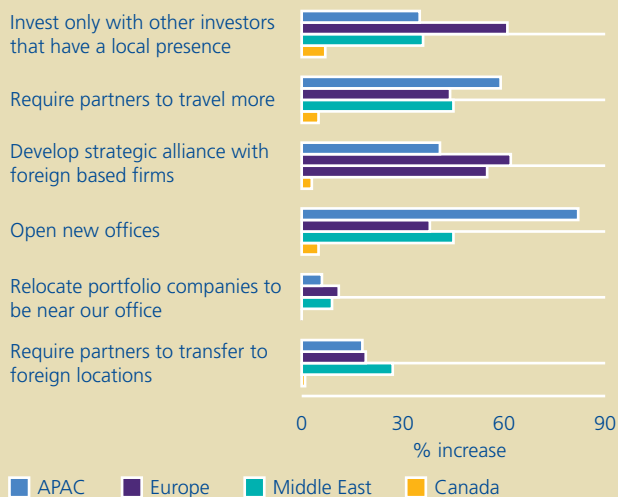
- Most US VCs plan for global expansion by investing with other investors that have a local presence and requiring partners to travel more.
- Non-US VCs primarily plan for global expansion by investing with other investors that have a local presence and developing strategic alliances with foreign based firms.

Source: DTT, 2005

Responding firms outside of the United States also favored the four most popular strategies noted above, but the mix varied from region to region. Firms based in Asia Pacific favored opening new offices (82 percent) and partnering with locally-based investors (35 percent) (see figure 6). Israel firms favored strategic alliances with foreign-based VCs (55 percent), opening new offices (45 percent), and requiring firm partners to travel more frequently (45 percent). European firms favored partnering with locally-based investors (61 percent), developing strategic alliances with foreign-based VCs (62 percent), requiring firm partners to travel more (44 percent), and opening new offices (38 percent).

Figure 6 – Geographic expansion over the next five years

Business practice



Note

Missing bars stated there were no impediments to investing.

Source: DTT, 2005

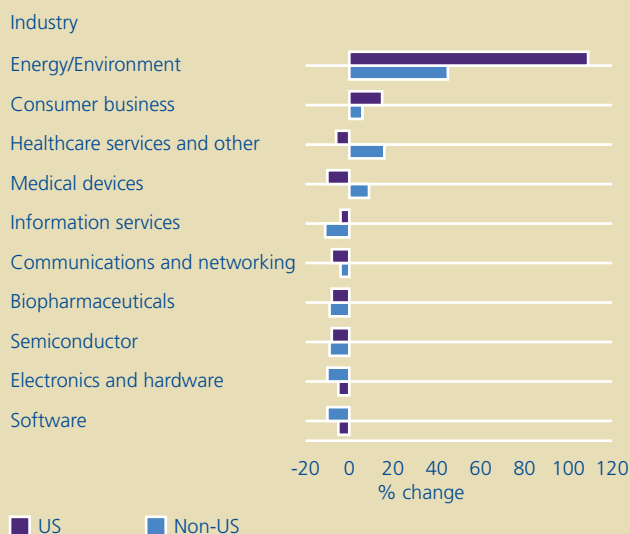
Energy/environment is the hottest sector

The DTT TMT Industry Group asked VC firms to identify which industry sectors they believe will attract the most new funding over the next five years. The overall survey results suggest the funding mix will remain relatively stable between sectors, with continued investment across a broad spectrum of industries, including:

- biopharmaceuticals;
- communications and networking;
- consumer business;
- electronics and hardware;
- energy/environment;
- healthcare services;
- information services;
- medical devices;
- semiconductors; and
- software.

The one sector that is expected to attract the most new interest globally is energy/environment (see figure 7).

Figure 7 – Industry investment – all respondents interested in sector investment in five years



Notes

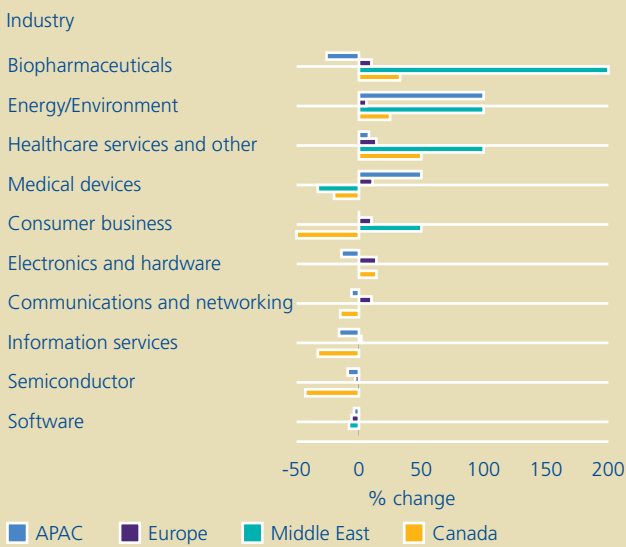
- Energy/Environment are areas of significant new interest by both US and non-US VCs.
- Traditional sectors (i.e. technology and biopharmaceuticals) show marginal decrease.
- Similar attitudes in US vs. non-US respondents in all sectors except healthcare and medical devices, which shows continued interest by non-US VCs.

Source: DTT, 2005

Non-US survey respondents expect VC interest in this sector will increase by 45 percent over the next five years. Firms based in the United States, Asia Pacific and Israel are even more enthusiastic, expecting to increase their focus in energy/environment by approximately 100 percent over the same period.

Regionally, a number of other sector-based trends emerged (see figure 8). For example, Israel firms expect to increase their interest in the healthcare sector by 100 percent, and in the biopharmaceutical sector by 200 percent over the next five years. During the same period, firms in Asia Pacific expect their interest in the medical-device sector to rise by 50 percent.

Figure 8 – Industry investment – all respondents interested in sector investment in five years



Notes

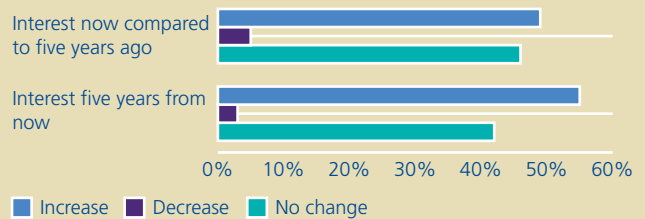
- Missing bars indicate no change in industry investment focus.
- Sector focus "status quo" in Europe.
- Energy/Environment increases in APAC and Middle East.
- Biopharmaceuticals and Healthcare significant in Middle East.
- Medical device significant in APAC.

Source: DTT, 2005

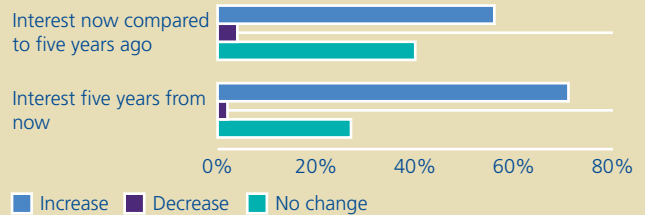
VC firms investing in foreign VC funds – not just start-ups

Many VC firms are making cross-border investments in other VC funds with a local presence, in addition to (or instead of) directly funding start-ups on their own. As figure 9 shows, the level of interest by foreign investors in US and European funds has increased over the last five years, while interest in Asia Pacific and Israel funds has slightly declined.

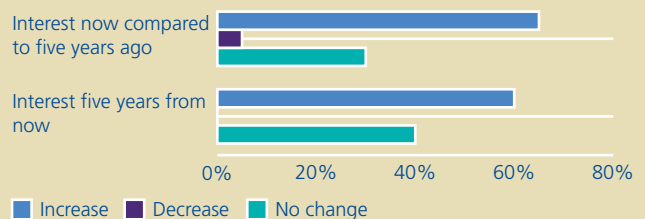
Figure 9
Increasing foreign investor interest in US investment funds



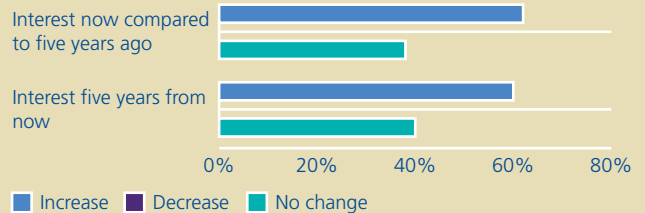
Increasing foreign investor interest in European investment funds



Increasing foreign investor interest in APAC investment funds



Increasing foreign investor interest in Middle East investment funds



- Missing bars indicate no change in foreign investor interest.

Source: DTT, 2005

Conclusion

Although global investing introduces many new complexities for venture capital firms – including diverse currencies, cultures, supply chains and legal systems – it's a natural by-product of an increasingly global business environment. It's also a catalyst for global development, leading to improved competitiveness, efficiency, and quality. Venture capitalists have started to accept global investing as their future, and many leading firms are aggressively positioning themselves to succeed in the global arena.



Contacts at Deloitte Touche Tohmatsu and its member firms

Igal Brightman

Israel

Global Managing

Partner, Technology, Media & Telecommunications

+972 3 608 55 00

ibrighman@deloitte.co.il

Americas

Alberto Lopez Carnabucci
Argentina
+54 11 4320 2700
alopezcarnabucci@deloitte.com

Marco Antonio Brandao Simurro
Brazil
+55 11 5186 1232
mbrandao@deloitte.com.br

Garry Foster
Canada
+1 416 601 6173
gafoster@deloitte.ca

Arturo Platt
Chile
+56 2 2703 361
aplatt@deloitte.com

Edmundo Beltran
Colombia
+ 571 546 1821
ebeltran@deloitte.com

Francisco Silva
Mexico
+ 52 55 5080 6310
fsilva@dtmx.com

Manuel Cámbara Moreno
Peru
+51 1 211 8533
mcambaramoreno@deloitte.com

Phillip Asmundson
USA, Deloitte & Touche LLP
+1 203 708 4860
pasmundson@deloitte.com

Europe/Middle East/Africa

Gerhard Feuchtmueller
Austria
+43 1 537 00 4800
gfeuchtmueller@deloitte.at

Andre Claes
Belgium
+32 2 600 6670
aclaes@deloitte.com

Jiri Polak
Central Europe
+420 22 489 5322
jipolak@deloitteCE.com

Gennady Kamyshnikov
CIS & Russia
+7 095 787 0600
gkamyshnikov@deloitte.ru

Kim Gerner
Denmark
+45 36 10 20 30
kgerner@deloitte.dk

Jari Matula
Finland
+358 40 740 3530
jmatula@deloitte.com

Eric Morgain
France
+33 1 5561 2798
emorgain@deloitte.fr

Andreas Gentner
Germany
+49 711 1655 47302
agentner@deloitte.de

Dieter Schlereth
Germany
+49 211 8772 2638
dschlereth@deloitte.de

Tom Cassin
Ireland
+353 1 417 2210
tcassin@deloitte.ie

Eyal Hendler
Israel
+972 608 5522
ehendler@deloitte.co.il

Alberto Donato
Italy
+39 064 780 5595
adonato@deloitte.it

Dan Arendt
Luxembourg
+352 451 452621
darendt@deloitte.lu

Piet Hein Meeter
Netherlands
+31 20 582 4351
pmeeter@deloitte.nl

Jorn Borchgrevink
Norway
+47 2327 9210
jborchgrevink@deloitte.no

Carlos Freire
Portugal
+351 21 427 511
cfreire@deloitte.pt

Danie Crowther
South Africa
+27 12 482 0140
daniecrowther@deloitte.co.za

Eduardo Sanz
Spain
+34 91 514 5000
edsanz@deloitte.es

Tommy Maartensson
Sweden
+46 8 506 711 30
tommy.maartensson@deloitte.se

Oktay Aktolun
Turkey
+90 212 339 8524
oaktolun@deloitte.com

Jolyon Barker

United Kingdom

+44 20 7007 1818

jbarker@deloitte.co.uk

Asia Pacific

Ian Thatcher
Australia
+61 2 9322 7640
ithatcher@deloitte.com.au

Charles Yen
China
+86 10 8520 7000
chyen@deloitte.com.cn

N. Venkatram
India
+91 22 5667 9125
nvenkatram@deloitte.com

Yoshitaka Asaeda
Japan
+81 3 6213 3488
yoshitaka.asaeda@tohmatsu.co.jp

John Bell
New Zealand
+64 9303 0853
jobell@deloitte.co.nz

Shariq Barmaky
Singapore
+65 6530 5508
shbarmaky@deloitte.com

Hyun Chul Jun
South Korea
+82 2 6676 1307
hjunc@deloitte.com

Clark C. Chen
Taiwan
+886 2 2545 9988 x3065
clarkcchen@deloitte.com.tw

About TMT

The Deloitte Touche Tohmatsu (DTT) Technology, Media and Telecommunications (TMT) Industry group consists of the technology, media and telecommunications practices organized in the various member firms of DTT and includes more than 5,000 member firm partners, directors and senior managers supported by thousands of other professionals dedicated to helping their clients evaluate complex issues, develop fresh approaches to problems and implement practical solutions. There are dedicated TMT member firm practices in 45 countries and centers of excellence in the Americas, EMEA and Asia Pacific. DTT member firms serve nearly 85 percent of the TMT companies in the Fortune Global 500. Clients of DTT member firms' TMT practices include some of the world's top software companies, computer manufacturers, wireless operators, satellite broadcasters, advertising agencies and semiconductor foundries – as well as leaders in publishing, telecommunications and peripheral equipment manufacturing.

Recent TMT thought leadership

- "The trillion dollar challenge: Principles for profitable convergence"
- "Knowledge is power: Technology, Media & Telecommunications Global Industry Group"
- "The hundred year storm: Wireless disruption in telecommunications"
- "Television networks in the 21st century: Growing critical mass in a fragmenting world"
- "Rational exuberance: 2005 Global Survey of CEOs in the Deloitte Technology Fast 500"
- "Reconnected to Growth: Global Telecommunications Industry Index 2005"
- "TMT Trends: Predictions, 2005 – A focus on the media sector"
- "TMT Trends: Predictions, 2005 – A focus on the technology sector"
- "TMT Trends: Predictions, 2005 – A focus on the mobile and wireless sector"
- "TMT Trends: Predictions, 2005 – A focus on the wireline sector"
- "Getting off the Ground: Why the move to VoIP is a decision for all CXOs"
- "Changing China: Will China's technology standards reshape your industry?"
- "Moore's Law and electronic games: How technology advances will take electronic games everywhere"
- "Making the off-shore call: The road map for communications operators"
- "Be prepared: Imperatives for TMT executives, 2005-2010"

For more information, please contact

Noel J. Spiegel

United States
Deloitte & Touche LLP
Partner in Charge of DTT TMT Marketing
+1 212 492 4135
nspiegel@deloitte.com

Amanda Goldstein

United States
Deloitte & Touche USA LLP
Director of DTT TMT Marketing
+1 212 436 5203
agoldstein@deloitte.com

Hiro Notaney

United States
Deloitte Services LP
Director of North America TMT Marketing
+1 408 704 2464
hnotaney@deloitte.com

Helen den Held

Netherlands
Director of EMEA TMT Marketing
+31 10 272 1030
hdenheld@deloitte.nl

Steven Dow

China
Director of Asia Pacific TMT Marketing
+852 2852 5638
sdow@deloitte.com

The information contained herein is provided by Deloitte Touche Tohmatsu and is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). Accordingly, the information is not intended to constitute accounting, tax, legal, investment, consulting or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

The information contained herein is provided as is, and Deloitte Touche Tohmatsu makes no express or implied representations or warranties regarding the information contained herein. Without limiting the foregoing, Deloitte Touche Tohmatsu does not warrant that the information contained herein will be error-free or will meet any particular criteria of performance or quality. Deloitte Touche Tohmatsu expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, noninfringement, compatibility, security, and accuracy.

Your use of the information contained herein is at your own risk and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Touche Tohmatsu will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of the information contained herein. If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas—audit, tax, consulting and financial advisory services and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu" or other related names.

© Deloitte Touche Tohmatsu 2005. All rights reserved.

Designed and produced by The Creative Studio at Deloitte & Touche LLP, London.

Member of
Deloitte Touche Tohmatsu