Venture Capital Investment Sinks

By CLAIRE CAIN MILLER

Venture capital investment in the first quarter dropped to lows not seen since before the dot-com bubble, according to an analysis of Thomson Reuters data.

Venture capital firms invested only $3 billion in 549 young companies in the first quarter, the lowest investment level since 1997, according to the analysis, done by the National Venture Capital Association and PricewaterhouseCoopers.

The amount invested was down 47 percent from the fourth quarter of 2008 and 61 percent from the first quarter last year.

Though investment in every major technology sector had double-digit declines, investment in clean-technology start-ups, which reached record highs last year, took the steepest dive.

In the first quarter, only $154 million went into 33 companies, an 84 percent decline from the fourth quarter and the lowest level since 2005, just before clean technology began to take off.

The roller-coaster ride of clean-technology investment resembles earlier bubbles in genomics and the Internet, said Noubar Afeyan, chief executive of Flagship Ventures.

“As is the case in hot sectors in venture, too much money goes into too many companies,” he said.

Though investors remain interested in new alternative-energy ideas, the drought in initial public offerings and the seized-up credit markets have made them wary.

“We are continuing to see a lot of innovation coming out of universities and government labs, but the big challenge looming is how any of these will be scaled and who will pay for them to see the light of commercial day,” Mr. Afeyan said.

Software companies received $614 million, a drop of 42 percent from the fourth quarter of last year. Quadriserv, which makes market data software for securities lending, was the biggest deal recorded in the sector, raising $34 million.
Internet companies raised $556 million, down 31 percent. The biggest deals were Obopay, a mobile phone payment service, and Twitter, the microblogging site, which each raised $35 million.

Biotechnology and medical device companies raised $989 million, a decline of 40 percent. Five of the 10 biggest deals in the quarter were medical companies, the biggest of which was Anacor Pharmaceuticals, which makes drugs for inflammatory and infectious diseases and raised $50 million.

Investors are most interested in technologies that save doctors and patients money, like devices that detect disease early or cost-efficient drugs, Mr. Afeyan said.

Venture firms have been bruised by the economic crisis, which has made initial public offerings of venture-backed companies almost impossible and acquisitions much harder to come by.

As a result, investors are funneling time and money into existing portfolio companies instead of a new generation of start-ups. Only 132 start-ups raised money for the first time, the lowest number in 15 years.

Though venture capital funds raised $4.3 billion in the first quarter to invest in new companies, most are doing so slowly, waiting to see if the markets improve.