GLOBAL OUTLOOK OF VENTURE CAPITAL FINANCING

-SOME REFLECTIONS

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ABSTRACT

The role of man has always been to innovate and create. Since the beginning of time, mankind has progressed because of our ability to invent and adapt. As the tools available to create new things proliferate, they allow us to leverage our creative intellect further and not be bogged down with administrative and logistical tasks.

In the past few years, the venture capital industry has been globalizing at a dramatic pace. Increasingly, funds are being raised internationally and invested globally. A large part of the role of venture capital is to fuel innovation and mass adoption. This fuel comes in the form of capital, structure, access, and expertise. Each of these factors plays a critically important role in aiding start-ups and entrepreneurs– the expertise is just as important as the capital that a Venture Capital can provide and bring their plans to fruition. This article is a modest attempt to analyzes the trends in fund-raising for VC funds, the different investment patterns between the mature and emerging venture markets.

Key Words: Venture Capital, Global Investments, entrepreneurs etc,.

1. INTRODUCTION

Venture capitalists provide equity financing to private companies with rapid-growth potential for a variety of purposes, including product development, production, marketing, sales, and expansion. In essence, venture capital is high-risk, high-reward finance designed for young companies that have different asset structures, cash flows, and growth rates than mature companies.

Venture capital is a post-war phenomenon in the business world mainly developed as a sideline activity of the rich in USA. The concept, thus, originated in USA in 1950s when the capital magnets like Rockfeller Group financed the new technology companies. The concept became popular during 1960's and1970's when several private enterprises started financing highly risky and highly rewarding projects. To denote the risk and adventure and some element of investment, the generic term "Venture Capital" was developed. The American Research and Development was formed as the first venture organization which financed over 100 companies and made profit over 35 times its investment. Since then venture capital has grown vastly in USA, UK, Europe and Japan and has been an important contribution in the economic development of these countries.

Of late, a new class of professional investors called venture capitalists has emerged whose specialty is to combine risk capital with entrepreneurs management and to use advanced technology to launch new products and companies in the market place. Undoubtedly, it is the venture capitalists extraordinary skill and ability to assess and manage enormous risks and extort from them tremendous returns that has attracted more entrants. Innovative, hi-tech ideas are necessarily risky. Venture capital provides long-term start-up costs to high risk and return projects. Typically, these projects have high mortality rates and therefore are unattractive to risk averse bankers and private sector companies. Venture capitalist finances innovation and ideas, which have potential for high growth but are unproven. This makes it a high risk, high return investment. In addition to finance, venture capitalists also provide value-added services and business and managerial support for realizing the venture's net potential.

2. PROGRESS OF US VENTURE CAPITAL

It is evident from Table 1 that the Venture capital investments was $29.4 billion in 3,995 deals in 2013, an increase of 8.3per cent in dollars and a 5per cent increase in deals over the prior year. The total investments in seed capital has increased from $ 1.27 million during 1995 to 6.00 million $ during 2013 with a 8.5 per cent CAGR. Similarly, the progress of early stage investments has geared up from US $ 1.7 million during 1995 to $ 7 million by the year ending 2013 with a CAGR of 7.73 per cent in the last 19 years. The investments in expansion stage have moved from $ 3.56 million during 1995 to US $ 7.92 million during 2013 which has witness a CAGR of 4.30 per cent. On the other hand the investments in later stage have settled at $ 8.36 million by the end of 2013 from $ 1.44 million during 1995 with a CAGR of 9.7 per cent.

Table 1

Amount Invested by US Venture Capital Stage wise

Year	Seed	Early Stage	Expansion	Later Stage	Grand Total
1995	$1,273,020,600	$1,733,061,700	$3,561,691,600	$1,447,000,500	$8,014,774,400
1996	$1,279,015,000	$2,636,787,700	$5,502,961,900	$1,926,863,400	$11,345,628,000
1997	$1,367,559,100	$3,455,097,500	$7,584,081,600	$2,598,798,100	$15,005,536,300
1998	$1,766,171,400	$5,460,121,700	$10,322,525,300	$3,921,039,500	$21,469,857,900
1999	$3,625,494,000	$11,480,316,400	$29,254,719,800	$10,493,568,900	$54,854,099,100
2000	$3,156,873,500	$25,293,873,100	$59,064,160,000	$17,614,475,700	$105,129,382,300
2001	$803,509,500	$8,586,823,800	$22,898,734,500	$8,667,612,500	$40,956,680,300
2002	$340,676,400	$3,975,747,500	$12,125,558,000	$5,734,085,100	$22,176,067,000
2003	$364,899,500	$3,617,327,500	$9,801,884,800	$5,907,981,200	$19,692,093,000
2004	$966,910,900	$4,040,870,200	$9,053,641,900	$9,197,457,000	$23,258,880,000
2005	$995,571,600	$4,078,660,600	$8,576,256,000	$9,937,299,700	$23,587,787,900
2006	$1,287,638,900	$4,773,937,000	$11,140,485,600	$10,352,804,900	$27,554,866,400
2007	$1,835,227,900	$6,083,851,600	$11,076,792,300	$12,954,795,000	$31,950,666,800
2008	$1,923,083,300	$5,926,557,000	$10,697,712,200	$11,421,844,500	$29,969,197,000
2009	$1,734,190,800	$4,921,096,200	$6,828,585,500	$6,769,486,500	$20,253,359,000
2010	$1,666,278,800	$5,907,047,300	$8,665,517,300	$7,071,342,200	$23,310,185,600
2011	$1,079,604,700	$8,907,689,200	$9,761,923,600	$9,896,106,500	$29,645,324,000
2012	$819,932,500	$8,105,594,100	$9,454,876,400	$8,726,344,200	$27,106,747,200
2013	$6,000,373,700	$7,073,786,900	$7,921,604,700	$8,369,192,800	$29,364,958,100
Total	$32,286,032,100	$126,058,247,000	$253,293,713,000	$153,008,098,200	$564,646,090,300

Source: PricewaterhouseCoopers/US National Venture Capital Association Money Tree Report, **Data:** Thomson Reuters (2013)

a) Sector and Industry Analysis

Table 2 shows that the Software industry maintained its status as the single largest investment sector for the year, with dollars rising 28.6per cent over 2012 to $11.0 billion, which was invested into 1,523 deals, a10 per cent rise in volume over the prior year. This represented the highest level of investment and the largest number of deals the Software sector since 2000. Software remained the number one sector for both dollars invested and number of deals.

Biotechnology investment dollars rose 8 per cent while volume decreased 2 per cent in 2013 to$4.5 billion going into 470 deals, placing it as the second largest investment sector for the year in terms of deals and dollars invested. The Medical Device industry fell 17 per cent in dollars and 4 per cent in deals in 2013, finishing the year with $2.1 billion going into 308 deals. In the fourth quarter of 2013, $1.3 billion went into 134 Biotechnology companies while $460 million went into 94 Medical Device deals. The Life Sciences sector (Biotech and Medical Devices combined) accounted for 23 per cent of all venture capital dollars invested in 2013 compared to25 per cent in 2012.Internet-specific companies experienced a 7 per cent increase in dollars and a 6 per cent increase in deals for the full year 2013 with $7.1 billion going into 1,059 rounds compared to 2012 when$6.7 billion went into 995 deals. This marked the highest level of Internet investment since2001. For the fourth quarter, $2.4 billion went into 273 Internet-specific deals. 'Internet specific' is a discrete classification assigned to a company whose business model is fundamentally dependent on the Internet, regardless of the company's primary industry category. These companies accounted for 24 per cent of all venture capital dollars in 2013.Ten of the 17 industry categories experienced increases in dollars invested for the year. Industry sectors experiencing some of the biggest dollar increases for 2013 included: Networking &Equipment (111 per cent); Financial Services (100 per cent); and Business Products and Services(61 per cent).

Table 2
Classification of US Venture Capital Firms by Sector focus and Number of Deals

Industry	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total	%
Biotechnology	176	235	244	275	264	357	341	330	358	402	412	489	538	544	463	504	469	478	470	7,349	10.0
Business Products and Services	53	70	96	139	277	455	176	101	97	83	79	96	111	116	68	76	59	39	63	2,254	3.1
Computers and Peripherals	93	94	115	92	106	133	82	59	57	60	66	62	72	59	52	52	57	42	33	1,386	1.9
Consumer Products and Services	110	131	162	164	286	286	119	72	47	66	77	79	110	103	88	116	139	170	169	2,494	3.4
Electronics/Instrumentation	49	43	52	54	51	74	56	63	54	71	83	94	91	95	61	69	59	51	42	1,212	1.7
Financial Services	47	60	89	115	189	334	136	76	64	70	65	88	88	69	50	74	58	51	64	1,787	2.4
Healthcare Services	73	139	152	155	159	166	106	70	71	63	66	52	57	50	38	46	45	43	42	1,593	2.2
Industrial/Energy	128	155	211	185	202	254	201	128	135	157	152	223	306	358	262	302	318	257	234	4,168	5.7
IT Services	62	128	160	207	457	686	327	174	149	155	174	242	284	279	217	298	363	300	354	5,016	6.8
Media and Entertainment	138	191	217	263	701	950	372	168	129	142	210	330	402	411	279	347	438	410	452	6,550	8.9
Medical Devices and Equipment	179	213	273	297	290	296	259	236	250	284	279	354	395	398	342	345	371	322	308	5,691	7.8
Networking and Equipment	82	123	140	211	274	478	329	227	184	190	183	130	137	106	95	56	48	32	25	3,050	4.2
Other	10	9	10	9	20	12	11	3	1	6	3	2	10	4	6	11	10	13	12	162	0.2
Retailing/Distribution	54	70	91	120	231	282	84	49	31	38	40	40	41	39	35	32	64	57	49	1,447	2.0
Semiconductors	64	76	118	119	148	256	209	170	215	257	219	265	228	210	136	146	136	113	91	3,176	4.3
Software	436	688	828	987	1,420	2,167	1,303	1,006	969	952	951	1,028	1,078	1,118	831	1,061	1,257	1,384	1,523	20,987	28.6
Telecommunications	142	210	266	337	522	852	479	274	213	232	234	308	279	219	123	111	110	96	64	5,071	6.9
Grand Total	1,896	2,635	3,224	3,729	5,597	8,038	4,590	3,206	3,024	3,228	3,293	3,882	4,227	4,178	3,146	3,646	4,001	3,858	3,995	73,393	100.0

Source: PricewaterhouseCoopers/US National Venture Capital Association Money Tree Report, Data: Thomson Reuters (2013)

3. PROGRESS OF VENTURE CAPITAL IN EUROPE

In Europe, venture capital started in the early eighties. A number of European countries at present have venture capital firms operating successfully, which are members of the European Venture Capital Association (EVCA) founded in 1983.

It is evident from Table 3 overall fundraising decreased in 2012 by 43% to €24 bn compared to 2011. This reduction was driven by lower activity of larger funds. In 2012 only 13 funds were raising more than €250m compared to 26 in 2011. Funds that raised in excess of €250m in 2012 dropped in total volume by 51% compared to 2011. In contrast, the volume raised by funds smaller than €250m reduced by only 25% in the same period.

The overall amount of €37 bn invested in European companies in 2012 reduced by 19% compared to the previous year. This was due to the weak first half of 2012 coinciding with economic uncertainty in Europe. In contrast, the number of private equity backed companies remained stable at almost 5,000 European companies. Therefore, it was less capital intensive for the industry to invest in a constant number of companies in Europe. About 43% of the companies that received investment in 2012 were private equity backed for the first time. The total amount of venture capital invested reduced year on year by 14% to €3.2bn. The number of venture capital backed companies remained stable at about 2,900. For the first time more than 1,000 companies attracted growth investments despite a decrease in amount of 26% compared to 2011.

Table 3
Statement of Funds Raised, Investments and Divestments made by European Venture Capital Firms

€ billion

Years	Funds Raised	Investments	Divestments
2000	48	35	9
2001	40	24	13
2002	28	28	11
2003	27	29	14
2004	27	37	20
2005	72	47	30
2006	112	71	33
2007	80	73	27
2008	80	55	14
2009	19	25	12
2010	22	43	20
2011	42	47	31
2012	24	37	22
Total	621	551	256

Source: Dow Jones Venture Source, 2014

Table 4 shows the sector activity, in 2012 life sciences became the most invested sector by amount in Central and Eastern Europe(CEE) with 26% of the total amount invested. With €259m invested in this sector, the amount more than doubled from 2011, and it was clearly a preferred area for CEE fund managers who recognized the still significant gap in health care services compared to the rest of Europe. Despite a 32% decrease in 2012, consumer goods and retail remained a strong sector with almost €200m invested, amounting to 20% of the total amount invested in the region. With an increase of 18% by value, financial services were the third largest investment sector, with €115m of investments completed in 2012. It is fair to say that life sciences (mostly as health care), consumer goods and services and financial services, which together accounted for about 60% of all investment activity in CEE in 2012, are sought after as being part of the on-going convergence of the region's consumer behaviour to other European markets. Investments in communications, €109m in 2012, showed a 60% decrease from 2011, but still remained an important area with nearly 11% of total investments. Finally, with more than €80m of investments each, the energy & environment and business & industrial products sectors each represented more than 8% of the total amount invested, up by 69% compared to 2011 for the former and down by 23% for the latter.

Table 4
Classification of European Venture Capital Firms Investments by Sector focus

	Amount in Euro (€) thousands					
Sector Focus	**2010**	**(%)**	**2011**	**(%)**	**2012**	**(%)**
Agriculture	43794	3.4	6721	0.5	8638	0.9
Business and industrial products	46861	3.6	108845	8.8	83268	8.3
Business and industrial services	71730	5.5	41021	3.3	7107	0.7
Chemicals and materials	21822	1.7	10688	0.9	8719	0.9
Communications	165355	12.7	267043	21.5	109075	10.8
Computer and consumer electronics	97599	7.5	55680	4.5	67885	6.7
Construction	14906	1.1	30626	2.5	11552	1.1
Consumer goods and retail	330165	25.3	296028	23.8	199486	19.8
Consumer services	99619	7.6	68026	5.5	43825	4.4
Energy and environment	93962	7.2	50842	4.1	86057	8.5
Financial services	107487	8.2	97994	7.9	115283	11.4
Life sciences	158838	12.2	118418	9.5	259074	25.7
Real estate	4258	0.3	0	0.0	0	0.0
Transportation	47351	3.6	91436	7.4	7046	0.7
Unknown	0	0.0	213	0.0	0	0.0
Total Investment in Year	1303747	100.0	1243581	100	1007015	100

Source: Dow Jones Venture Source, 2014

4. VENTURE CAPITAL IN AUSTRALIA

Public institutions in Australia were supporting equity funding for new enterprises till 1980s. These institutions were Australian Industry Development Corporation (AIDC), advanced technology development fund of New South Wales, Victorian economic development corporation and enterprise investments (South Australia Limited). These institutions supplied equity capital and meet about 50 per cent of the equity capital which has pooled for early stage and development financing. There is a supportive business environment in the country, which encourages entrepreneurs in more competitive industry for innovative and risk taking activities and provides tax incentives to investors who subscribe to venture capital firms. As on 2012, venture capital fund managers were managing $29,405 million in commitments and were invested in 539 portfolio companies.

Fundraising activity among Australian VC managers picked up in the year 2012, despite the strong Australian dollar and unstable global economic climate. As may be seen from the table 5 the Australian VC market noted that year 2012 was the biggest fundraising year for Australian venture capitalists since 2008, though the majority of the new funds raised did so with support from government programmes. The overall softening of M&A activity saw total PE and VC investment in FY2013 dropping slightly to $2,760m, constituting an 8% decrease from FY2012. The total number of PE and VC investments fell by 11% year-on-year to 197.

The average size of VC investments remained steady at $1m from the previous year. The average size of PE investments rose marginally from $37m in FY2012 to $38m in FY2013. Meanwhile, a breakdown of the structure of PE and VC deals in FY2013 shows that 67% of fund capital was invested as equity, 10% as unsecured debt, 6% as secured debt, and the remaining portion as quasi-equity, mezzanine and undisclosed. PE investments saw a modest decline of 7% year-on-year to $2,649m of investments made inFY2013. The number of investments dropped to 73, from 82 in FY2012, but the number of PE firms investing remained steady at 32.

The amount invested by VC fell by 20% to $111m, with the number of investments and companies invested in likewise falling to 124 and 69, respectively. There were 98 follow-on investments, constituting 79% of all VC investments (up from 59% in FY2012).PE deals involving investment amounts between $20m and $150m constituted 42% of the total number of investments, up from 30% in both FY2011 and FY2012. Investments of over $150m accounted

for 5% of PE investments by the number of deals, and 19% of deals were in the $20m-$150m range.

Table 5
Investments by Australian VC funds and Private Equity Funds

Year	VENTURE CAPITAL				PRIVATE EQUITY				TOTAL			
	Amount (Aus $m)	No. of Investments	No. of Companies	No. of Firms	Amount (Aus $m)	No. of Investments	No. of Companies	No. of Firms	Amount (Aus $m)	No. of Investments	No. of Companies	No. of Firms
2004	119.69	105	84	21	807.43	113	96	31	927.12	218	183	52
2005	114.68	118	74	17	1400.92	126	95	32	1545.6	244	166	49
2006	136.95	104	68	12	3128.36	150	118	36	3265.31	254	182	48
2007	150.57	103	69	16	5815.26	147	105	36	5965.83	250	173	52
2008	211.57	128	77	18	4194.4	148	103	40	4405.97	276	176	58
2009	202.76	182	101	18	2271.01	144	110	43	2473.77	321	203	61
2010	191.38	203	97	21	1779.74	133	96	39	1971.12	331	187	60
2011	132.37	137	81	19	3711.12	95	82	37	3843.49	232	163	56
2012	139.49	139	87	15	2863.48	85	70	32	3002.96	224	157	47
2013	111.38	124	69	15	2649.05	73	64	32	2760.43	197	133	47

Source: Australian private equity and venture capital Activity Report –December 2013

i. Distribution of investments by current stage of Investee Company

Table 6 presents the VC distribution investment by stage level for the financial year 2013 and at all stages (start-up, seed, early and late stage) make up only 4% of total invested capital, but accounting for approximately half of all companies receiving investment in that period. Seed stage investments showed the strongest increase, rising by 103% from the previous year to $13m. The proportion of investee companies receiving later stage VC funding fell to 8%, from 12% in FY2012.

Table 6
Distribution of investments in Australia by stage

STAGE	Amount (AUD m)	% of Total	No. of Inv	% of Total	No. of Co.s	% of Total
Start-up	22.28	1	44	22	20	15
Seed	13.41	0	26	13	15	11
Other early stage	43.72	2	27	14	21	15
Late stage VC	20.96	1	16	8	10	7
Expansion/Growth capital	495.67	18	48	24	43	31
Rescue/Turnaround	53.1	2	12	6	6	4
Buyout (MBO/MBI/LBO)	1021.16	37	14	7	14	10
Other buyout	1090.13	39	10	5	8	6
TOTAL INVESTMENTS	2760.43	100	197	100	137	100

Source: Australian private equity and venture capital activity report – December 2013

ii. Distribution of investments by sector

Table 7 depicts that the consumer services, life sciences, and energy and environment sectors were the biggest recipients of PE investment in 2013. These three sectors represented 55% of PE capital invested, and 44% of companies receiving PE investment. 41% of VC capital invested went into the computer and consumer electronics sector, more than for 2012 (28%) and 2011 (24%). This sector accounted for 26% of investments based on the number of companies. Meanwhile, life sciences accounted for 39% of VC investments based on value but had the largest share of investments based on the number of companies at 51%.VC investment in the communications sector fell from 19% in 2012 to 10% in 2013.

Table 7
Distribution of investments in Australia by sector

SECTOR	Amount (AUD m)	% of Total	No. of Inv	% of Total	No. of Co's	% of Total
Business and industrial products	135.8	5	4	2	4	3
Business and industrial services	214.25	8	11	6	10	8
Communications	49.54	2	14	7	11	8
Computer and consumer electronics	78.11	3	33	17	22	17
Consumer goods and retail	343.43	12	11	6	11	8
Consumer services: other	556.16	20	8	4	8	6
Energy and environment	399.89	14	19	10	16	12
Financial services	160.38	6	5	3	5	4
Life sciences	547.78	20	82	42	41	31
Transportation	14.48	1	8	4	3	2
Other	260.6	9	2	1	2	2
TOTAL INVESTMENTS	**2760.43**	**100**	**197**	**100**	**133**	**100**

Source: Australian private equity and venture capital activity report – December 2013

5. VENTURE CAPITAL IN SOUTH KOREA

The role of the Korean government in fostering venture capital and has been quite significant, particularly in the adoption of the American model (high technology/high risk) in South Korea, making significant fiscal and regulatory changes, and directly establishing venture capital funds and other related institutions. South Korea has set up the Korea Technology Advancement Corporation (KTAC) in 1974 for implementing R&D projects, Korea Technology Development Corporation (KTDC) in 1981 to encourage technology development and Korea Development Investment Corporation (KTFC) in 1983 for technical entrepreneurship R&D project loans through venture capital financing. Table 8 shows the status of registered venture

capital companies in Korea, where the no of registered companies in the year 2002 was 128 has gradually decreased year on year and by the end of 2013 there are only 104 registered VCF were registered. On the other side table 9 shows the investment from 2002 to 2012. The total investment during 2002 in south Korea was 3,328.90 has increased to 9,383.90 by the end of 2013.

Table 8
Status of venture capital companies in Korea (UNIT: number, billion won)

Year	No. of the newly registered (deregistered)	No. of the registered	Registered cumulative total
2002	3(20)	128	1,965.10
2003	0(11)	117	1,865.10
2004	1(13)	105	1,652.80
2005	0(3)	102	1,536.80
2006	13(11)	104	1,553.70
2007	7(10)	101	1,555.80
2008	5(9)	97	1,475.80
2009	12(9)	100	1,360.80
2010	13(10)	103	1,383.80
2011	9(7)	105	1,398.50
2012	6(6)	105	1,445.50
2013	1(2)	104	1,442.30

Source: Korea Venture Capital Association

Table 9
Status of Investment in Korea

Year	Formed during the period	Amount	Dissolved during the period	Amount	Cumulative total	Amount
2002	60	629	45	353.6	411	3,328.90
2003	40	708.6	21	146.7	430	3,890.80
2004	39	645	46	289.9	423	4,245.90
2005	46	945.4	69	433.7	400	4,757.60
2006	48	876.7	98	741.8	350	4,892.50
2007	67	1,127.90	84	929.4	333	5,091.00
2008	51	975.1	48	406.3	336	5,659.80
2009	74	1,420.90	44	491.7	366	6,589.00
2010	67	1,589.90	40	550.4	393	7,628.50
2011	67	2.286.3	43	440	417	9,474.80
2012	41	747.7	46	858.6	412	9,363.90
2013	7	119.2	9	99.2	410	9,383.90

Source: Korea Venture Capital Association

6. VENTURE CAPITAL IN TAIWAN

Taiwan is poorly endowed in natural resources but rich in human resources, engineers, scientists, and technically trained personnel having overseas experience and receptive to new ways of stating new businesses. Until 1986 venture capital in Taiwan was handled primarily by three government associated institutions, such as Bank of Communication (BOC), Development Funds of Executive (DFE) Yuan, and China Development Corporation (CDC). To encourage overseas investments, additional tax incentives are provided to venture capital companies that included a live-year income tax holiday, on fulfilling certain conditions as laid down by the government from time to time to boost investment in technology-based companies.

Table 10 show that the total venture capital companies are increasing year on year from 2001 to 2012. The total venture capital companies from 114 in the year 2001 to 288 by the year ending 2012 with a CAGR of 8.3 per cent for the last 12 years. On the other side the new venture capital firms progress is not up to the mark as their performance is showing negative from 2007 onwards. The new venture capital firms in the year 2001 was 38 has crossed 48 by the year ending 2008, but from 2009 onwards the number of new venture capital firms has reduced year by year and registered only 8 by the end of 2012.

Table 10
Performance of VC Financing in Taiwan

Year	Total VC Companies	New Venture Companies	Total Operating Companies
2001	114	38	107
2002	160	46	153
2003	192	32	170
2004	199	7	176
2005	217	18	194
2006	240	23	214
2007	259	19	229
2008	268	9	231
2009	270	2	219
2010	275	5	186
2011	280	5	180
2012	288	8	183

Source: Taiwan Venture Capital Association

7. VENTURE CAPITAL IN SINGAPORE

Venture capital funds in Singapore are structured under the Companies Act (Cap185) as public companies with limited liability. They are closed-end investment companies and acquire and hold investments in private start-up companies on a medium to long-term basis. Assets under management in Singapore by 2011 have reached SGD 1.34 trillion, with more than 80% of funds managed in Singapore, raised from international sources, and 60% of such funds' are invested in the Asia-Pacific region. Table 11 shows that the number of registered Venture Capital companies has gradually decreased to 47 by 2009 from 182 companies in 2004. On the other side the venture capital investments also followed the same trend and has decreased to 319.2 SGD million by 2009 from 601.3 SGD during 2004.

Table 11
Performance of Venture Capital Investments in Singapore, 2004-2009

Year	VC Investments (SGD Million)	VC Investments GDP Ratio (%)	Average VC per Investment (SGD million)	No. of Companies invested
2004	601.3	0.38	3.3	182
2005	384.4	0.25	5.3	73
2006	155	0.1	2.4	65
2007	185	0.12	2.3	82
2008	143.2	0.08	2.7	53
2009	319.2	0.16	6.8	47

Source: Singapore Venture Capital Association

8. VENTURE CAPITAL IN THAILAND

In 1987 the business venture promotion company was promoted in Thailand by a consortium of six local commercial banks and United States Agency for International Development (USAID). US$ 6 million was provided as a soft loan by USAID and an equivalent amount was raised as equity from the six participating banks. In Thailand, venture capital companies have to involve themselves even in the preparation of business plans for prospective clients. Thai development capital fund (TDCF) was established in the year 1990 and it is active in venture financing. TDCF is managed by Hong Kong based Crosby Assets Management (CMA). Till 1994 TDCF had committed 11 investments in unlisted companies of which five had initial public offerings. Investments in unlisted portfolio offered 30 percent IRR with no write-downs. The country has an open economy, and its stock markets have been working for over 20 years and the types of venture capital financing which are available in Thailand arestartup, first stage, and second stage.

Table 12 shows the progress of venture capital in Thailand from 2007 to 2012. The paid up capital by Venture capital firms in Thailand has progressed tremendously from 2007 onwards. The total paid capital during 2007 was 58 THB Million was increased to 1160 THB Million. The average annual revenue has raised from 327 THB million in2007 to 1092 THB million 1092 THB million by the end of 2011. This industry has provided employment opportunity to the people of Thailand. The total employment opportunity provided by this industry during 2007 was 265 no of employees which have increased to 4137 employees by 2012.

Table 12
Progress of Venture Capital in Thailand from 2007 to 2012

Years	No of VC backed Firms (Cumulative Figures)	Paid up Capital by VC (Cumulative figures in THB Million)	Additional Investment by VC backed firms (THB Million)	Average Annual Revenue	Employment by VC backed Firms (No. of employees/year)
2007	7	58	171	327	265
2008	32	546	3078	458	1681
2009	51	886	3306	505	3259
2010	56	1045	1175	850	3856
2011	59	1145	905	1092	4297
2012	60	1160	2000	-	4137

Source: Thailand Venture Capital Association

9. VENTURE CAPITAL IN MALAYSIA

In 1984 Malaysia Bhd fund was set up under SEAVIP programme. There are incentives available to attract foreign direct investors although recession over the past three years had been an inhibiting factor. Malaysian venture capital companies have encountered many impediments, as in other countries of southeast Asia, such as business is mostly family controlled or oriented, market research is or inadequate, no significant evaluation of service ventures, emphasis on collateral based financing and a dearth of adequate mechanism for exit. However, in Malaysia, Permodalan National Bank (PNB) has been established by the government to manage the ASEAN fund worth US$ 40 million for investing in public offers and unlisted companies in the ASEANA region.

As may be seen from the table 13, the venture capital industry participants in the year 2008 have significantly raised from the year 2007. So it can be said that the venture capital activity in Malaysia is fostering. However, it should be noted that most of the venture capital companies are fully invested in divestment phase. If fresh funds are not injected into the venture capital industry, certain fund management companies may close down and venture capital professionals will leave the industry. This will have major adverse impact to the technology

industries in Malaysia and correspondingly economic development. So, it can be inferred that Malaysian government should take proper initiative measures to create a framework for healthy thriving venture capital industry and enforce effective guidelines. The framework (registration tax, rising of funds, use of local goods and services, audit and enforcement, de-registration etc) must be designed in such way that it would encourage proper qualified individuals to participate and drive for the growth of venture capital industry in Malaysia.

As may be seen the table 14, the Malaysian venture capital industry is showing preference towards IT and Communication. However, it also should be noted that Malaysian venture capital industry is also showing preference towards traditional sectors also.

Table 13
Malaysian venture capital industry participants

Venture Capital Industry	Year 2008	Year (2007)
No. of Registered Funds/Companies	56	52
No. of Registered VCMCs	52	46
No. of Investee Companies	450	433
No. of VC Professionals	248	132

Source: Malaysian Venture Capital Association

Table 14
Malaysian VC Firms sector focus

Sector focus	Year 2008 (%)	Year (2007) (%)
Life Sciences	18	25.9
Manufacturing	27.4	12.3
IT and Communication	18.5	15.2
Others	36.1	46.6

Source: Malaysian Venture Capital Association

10. VENTURE CAPITAL IN CHINA

China Venture Tech Investment Corporation (CVIC) is a financial institution which runs on commercial principles affiliated with PRC state science and technology commission and people's bank of china. CVIC is the only venture capital company in china. It makes equity investments in technological ventures. It serves as a vehicle to combine the creative business ideas of an entrepreneur together with the sophisticated financial and management skill, and financial resources of the venture investors for economic success. South china has business relations with Hong Kong.

Hong Kong manufacturers have access to an enormous pool of low-cost labor, vast areas of industrial and real estate in china. Hong Kong provides vital technology, market expertise and the financial infrastructure. Entrepreneurs from Taiwan and Japan are also utilizing these facilities and investing heavily in china. In addition to the above, china has recently shown remarkable progress in promoting private equity investments through various funds. However,

venture capital financing in china, which is considerably different, provides risk capital, equity, and management to small companies with sufficient collateral bases to serve the purpose of creating new industries, jobs, and wealth. Of the companies that received venture capital financing, 28 per cent are in seed stage, 53.6 per cent are in the growth stage, and 18.4 per cent are in the mature stage. However, it should be noted that angel and seed investor network is highly fragmented and many former venture capital funds have contributed for the growth of equity market, funds worth of $500 million to $1 billion was invested in consumer related goods and industrial products.

China is entering in its third phase of growth in the online software market, which will be dominated by the Internet, mobile, and cloud computing sectors. The Internet users in china are more than 338 million, and on the other side there are more than 222 million mobile Internet users nationwide. So it can be inferred that propelled by the simultaneous explosion in mobile internet and e- commerce, the venture capital industry fund focus may break the traditional investment and exploit the technological venture opportunities. China's venture capital industry set new heights in 2011 both in terms of number of investments and amount. Due to its late-stage investment focus, China will surpass Europe and may become as the second-largest venture hub globally by investment amount in the years to come.

The Government support for VC industry by issuing policies in 2010–11 to stimulate the continued rapid growth of the VC industry, has caused more investments in the middle and western regions of China and emerged as high-value-added and environment-friendly products in the fields for VC investors, such as energy conservation &environmental protection, next-generation IT, biotech, advanced manufacturing, alternative energy, innovative materials and new-energy powered vehicles. Thus, the IT and biotech sectors are likely to dominate VC activity in the years to come.

Table 15 shows that the VC industry has progressed in 2010–11. In 2011, US$5.9 billion was raised with 323 rounds. (In 2010, China saw US$5.5 billion in 315 rounds, exceeding the record peak of US$3.8 billion in 381 rounds in 2007). Furthermore, 2011 witness 73 new funds raise which is a record of US$8.1 billion investments in Chinese VC-backed companies (13% more than 2010). Twenty of the new funds raised US$100 million or more. The key growth drivers include China’s high GDP growth (at least five times higher in 2010 than in the US and Europe), a booming IPO market, high P/E multiples, strong investor demand for shares in newly

listed companies, a favorable policy climate and a huge pipeline of strong private companies looking to raise equity capital.

Table 15
Venture capital investments from the year 2005 to 2011 in China

Year	Amount in $ bn	No. of Deals
2005	$1.10	172
2006	$2.50	268
2007	$3.80	381
2008	$4.90	338
2009	$2.70	291
2010	$5.50	315
2011	$5.90	323

Source: Dow Jones Venture Source, 2011

VC financing of pre-IPO, late-stage investments dominates and continues to increase. Growth funds experienced a sharp rise in 2010 as domestic equity investors much preferred pre-IPO, revenue-generating or profitable companies. Indeed, in 2011, revenue companies made up 94% of investment, while pre-revenue companies accounted for just 6% of investment. The soaring corporate valuations of listed companies and substantial ROIs of their IPOs attracted more and more funds into pre-IPO projects. In 2011, the median pre-revenue valuation has increased to US$60.5 million (which is 30 per cent more than 2010, with US$46.4 million, and whereas it is increased to 354% from 2006, with US$13.3 million). China's valuations will be driven largely by the P/E ratios on the new local stock exchanges and by the rise of new larger funds investing predominantly into late-stage deals. Early-stage opportunities are growing as rising levels of innovation within China assist the growth of early-stage firms. Government-sponsored incubators, university R&D centers and formal business angel groups are also springing up. Furthermore, there is pressure to move investors into earlier stages, due to the very competitive late-stage environment. See table 16 for further details.

Table 16
Progress of Venture capital Industry in China

Particulars	2009	2010	2011
Invested Capital (US $ m)	$2,731	$5,481	$5,933
Investment rounds	291	315	323
Median round size (US $ m)	$5.90	$7.50	$12.50
Number of VC - Backed IPOs	45	141	97
IPO Capital raised (US $ m)	$4,484	$21,961	$15,328
Median time to IPO (Years)	2.3	2.6	2.5
Number of VC backed M & As	13	17	7
Median M&A Valuation (US $m)	$27.60	$62.70	N/S
Median time to M&A (Years)	3.5	3.6	4.1

Source: Dow Jones Venture Source, 2011

11. VENTURE CAPITAL IN BRAZIL

In Brazil, the venture capital history can be categorized into three major phases: the early 1980s to 1995 is considered the first phase, 1995 to 2005 is considered as later phase and 2005 onwards is treated as present phase. During the 1980s, venture capital companies have come up with many challenges and unfavorable environment for long-term investments, due to high inflation and very high interest rates. Since 1995, the venture capital outlook of Brazil has been improving, reduction of inflation and the likelihood of lower interest rates. Another important factor has been the privatization of public enterprises which has improved the prospects for small businesses in the country. Brazil has witnessed the first regulations of venture capital funds from CVM (the Brazilian SEC), as well as the emergence of several incubators. In 2000, the Brazilian Venture Capital and Private Equity Association VCAP) was created, bringing together industry players such as managing directors, audit firms, lawyers, investors, etc to create a more favorable environment for new entrepreneurial companies, that provided investment opportunities and thus strengthened the venture capital funds. Finally, since 2005, it was seen that a new generation of venture capital funds, the Brazilian pension funds, and other institutional investors began to dedicate more resources to venture capital funds. In addition, the Brazilian stock market was also booming, with lot of new IPOs creating a very good exit environment in the country.

However, it can be noticed that there were many factors contributing to the Brazilian growth, including the appreciation of the currency, interest rate reductions, huge infrastructure projects the government housing program, investment in the oil and gas industry, the real estate boom etc. However, there is no strong presence of foreign investors in the country's venture capital industry. Fund-raising for Brazil- targeted funds remained strong and increased nearly 170% in 2010 over 2009. Clearly Brazil continues to attract significant attention as a growing number of funds are being raised to target the country and broader region. As may be seen from the table 17, Brazilian venture capitalists are showing preference towards financial related ventures (being 55% of investments) followed by technology related (16%) and other emerging sectors.

Table 17
Brazil venture capital firms investments focus for the year 2012

Sector focus	No of investments (%)
Technology related	16
Other	15
Consumer Goods	14
Financials	55
Total	100

Source: www.ey.com

12. VENTURE CAPITAL IN ISRAEL

The success of the Venture Capital industry in Israel is through government initiatives in 1993 offering attractive tax incentives to foreign venture-capital investments in Israel. As a result between 1991 to 2000, Israel's annual venture-capital outlays rose nearly 60-fold, from $58 million to $3.3 billion and companies launched by Israeli venture funds increased from 100 to 8400, on the other side Israel's information- technology revenues increased from $1.6 billion to $12.5 billion.

According to the OECD report, Israel is ranked 1st in the world by investing on expenditure on (R&D) as a per centage of GDP. Though Israel's venture capital industry played an important role in the high-tech sector, the financial crisis of during 2007 to 2010 also affected the availability of venture capital locally. Israel's venture capital industry has approximately 70 active venture capital funds, of which 14 are international venture capital companies with offices in Israel.

Table 18 shows that in the 2012, 141 companies raised $1.6 billion from venture investors, both local and foreign. In 2011, Israeli VC funds were severely affected by the broad decline in the global and US VC industry that began in 2008. In 2011, less than US$1.8 billion was raised (compared with US$1.9 billion in 2008). Fund-raising difficulties caused many VC funds to focus on late-stage investments seeking fast exits. See figure 2.11 for further details.

US VC funds supplied most of the capital (75%) in 2012, particularly for larger Israeli companies in transactions of US$50 million or more. However, local VC funds have recently been more active and did more than half of the deals. This continues a decade-old trend of seed rounds in Israel followed by later-stage rounds in the US, where larger investments and higher valuations — often with the establishment of US operations — might be achieved. The median pre-revenue valuation in 2012 was just US$5.6 million.

Later-stage deals prevailed in 2012, accounting for 46% of deals and 69% of total capital raised. Israeli and foreign VCs are raising special funds to target larger deals or even initiate PE

activity in Israel. This will be a crucial test for whether the VC industry in Israel will support mature companies.

Table 18
Progress of Israel Venture Capital Industry

Particulars	2010	2011	2012
Invested Capital (US $ m)	$845	$1,845	$5,933
Investment rounds	166	147	1633
Median round size (US $m)	$3.00	$4.60	$141.00
Number of VC - Backed IPOs	2	2	5.1
IPO Capital raised (US $ m)	$7	$42	$24
Median time to IPO (Years)	N/S	N/S	N/S
Number of VC backed M & As	16	17	15
Median M&A Valuation (US $m)	$25.50	$30.00	$30.00
Median time to M&A (Years)	8.6	9.5	6.9

Source: Dow Jones Venture Source, 2012

Israeli seed and first-rounds accounted for 25% (33) of deal numbers and 10% (US$138 million) of capital invested in 2012, a significant change from 2007, when early-stage rounds claimed 50% of deal activity and 38% of capital raised. However, in light of the strong global internet market and impressive Israeli media exits, more traditional funds are taking risks and investing in seed capital on media companies in order to take part in the internet boom. This early-stage funding gap has led to the rise of super angels and micro VC funds. These investors target seed-stage companies that will use less capital to (often quickly) reach substantial milestones. Super angels and micro VC funds play an important role in the Israeli new investment environment, enabling VCs to invest in more mature companies, which are often relatively low-risk and have strong business models.

Table 19 depicts, IPOs are difficult due to low valuations for Israeli companies, especially in foreign markets. In 2012, IPOs worth US$24 million were completed where as in 2011, only two IPOs worth US$42 million were completed, because companies has received better valuations from acquirers. Although the Israeli high-tech market has managed to give rise to strong and mature companies in the last few years. Acquisitions are seen as the most viable exit alternative for Israeli companies and their investors. The number of deals is close to last year, with 2012 seeing 15 acquisitions versus 2011's 17 acquisitions and the previous five-year average of 23.2. At the same time, the median time from initial financing to M&A exit was just 7 years in 2012, a substantial drop from the median of 9.5 years in 2011. As a result of extensive M&A activity, many multinational new media companies now identify Israel as an innovation center and maintain R&D facilities in the country.

Table 19
Israel venture capital firms investments from the year 2006-2012

Year	Amount raised in $ bn	No. of Deals
2006	$1.30	228
2007	$1.50	243
2008	$1.90	274
2009	$2.10	267
2010	$0.80	166
2011	$1.80	147
2012	$1.60	141

Source: Dow Jones Venture Source, 2012

13. VENTRUE CAPITAL IN INDIA

The Indian Venture Capital Industry (IVCI) is just about two decades old industry as compared to that in Europe and US. In this short span it has nurtured namely ventures, mostly in SME segment and has supported budding technocrat/professionals all through. The VC industry, through its investments in high growth companies as well as companies adopting newer technologies backed by first generation entrepreneurs, has made a substantial contribution to economy. In India, however, the potential of venture capital investments is yet to be fully realized.

Table 20
Growth of Venture Capital in India

Sl. No	Year	No. of Deals	Value in US $ (Billions)
1	2000	102	0.27
2	2001	62	0.17
3	2002	36	0.16
4	2003	28	0.13
5	2004	32	0.16
6	2005	50	0.3
7	2006	70	0.6
8	2007	98	0.9
9	2008	113	1.7
10	2009	94	0.9
11	2010	109	0.9
12	2011	175	1.7
13	2012	205	1.4
14	2013	162	1.6
15	2014	173	1.7

Source: Venture Intellengence

In table 20 an attempt has been made to analyze the growth of venture capital in India. It has moved from $ 0.27 billion in 2000 to $ 1.70 billion in 2014. But when we look at the growth over the period from 2000 to 2014, there is a considerable decline in the growth during 2001 to 2004 and from 2004 onwards there was a considerable progress in Venture Capital. It downfall during 2001 to 2004 is because the apprehension of the failures of the ventures, slow-down of the economy, lack of creativity in the entrepreneurs and the poor venture capital culture in India.

14. GLOBAL VENTURE CAPITAL INVESTMENTS & NO OF DEALS FROM 2006 TO 2013

Global Venture Capital analysis was presented in the following lines with key developments in venture capital industry in select countries such as US, China, Australia, Singapore, India etc.,

Table 21 and 22 shows the progress of global annual venture capital investments, 2013 was a solid year for the global VC industry. Reversing the decline seen in 2012, investment levels rose 2% to US $ 48.5b. This somewhat flat performance masks an exceptional fourth quarter in which investment soared by 10 per cent and the number of rounds by 10 per cent reflecting improving economic fundamentals towards the end of the year and paving the way for a stronger 2014. Stronger signs of growth in the US economy, which account for 68 per cent of global VC activity, came too late in the year to make a significant impact on the overall figures. The remarkable rebound in Europe, which saw a 19 per cent rise in capital invested and 6 per cent rise in the number of deals, although highly encouraging, was not enough to drive significant movement in the global total. Europe accounts for only 15 per cent of global VC activity. China, the third largest hotbed in the global VC rankings, had a poor year in which the value of deals fell by US$1.5b, marking the lowest point for the country since 2009. In previous years, China has been a close second to Europe in terms of its global significance for VC activity, but the closure of the domestic stock exchanges during 2013 had a significant impact on the sector, as China declined from 11 per cent of global VC dollars invested in 2012 to 7 per cent in 2013.

India, fourth in the global VC rankings, saw an increase in dollars invested of 13 per cent, reflecting strong interest in its consumer services sector, although the number of rounds fell back slightly. Israel performed strongly with a US$0.6b rise in the value of investments — 55 per cent up in terms of value and 18 per cent up in terms of the number of rounds. However, with these

economies accounting for just over 7 per cent of the global industry, such improvement, while highly significant in local terms, do little to move the global needle. Canada, which accounts for 2 per cent of global VC activity, also had an extremely strong year, with volumes up 23 per cent and value up 14 per cent.

Table 21

Global Venture Capital Investments & No of Deals from 2006 to 2013 (US $ b)

Year	Deals	US	Europe	Israel	Canada	China	India	Total
2006	4991	31.1	6.3	1.5	0.7	2.5	0.6	42.7
2007	5805	34.3	7.6	1.9	1.0	3.9	0.9	49.6
2008	5435	33.3	7.8	2.2	0.8	5.0	1.8	50.9
2009	4748	24.5	5.7	0.9	0.5	2.8	0.8	35.2
2010	5349	29.3	7.1	1.9	1.0	6.1	0.9	46.3
2011	5820	36.2	7.3	1.9	1.2	6.5	1.5	54.6
2012	5741	32.8	6.2	1.1	0.9	5.0	1.6	47.6
2013	5753	33.1	7.4	1.7	1.0	3.5	1.8	48.5
Total		254.6	55.4	13.1	7.1	35.3	9.9	

Source: Dow Jones Venture Source, 2014

As economic conditions improved in many markets, increasing levels of liquidity, coupled with strengthening investor confidence and a more positive exit environment, resulted in a slight increase in the global total of Venture Capital investment compared to previous years. A number of trends emerged or gained momentum in 2013. Angel investors are becoming more significant and better organized, expanding their presence at the star-up stage as venture capital companies become more risk averse and shift their attention to later-stage investments. Technology has enabled new mechanisms such as crowd sourcing, which is changing the funding environment at the early seed stages. Corporate looking to fund innovation gaps or to reinvest surplus cash are pioneering new ways to collaborate with fast-growth businesses and with VCs. And governments in many countries are becoming more "switched on" in terms of taking positive steps to create entrepreneurial ecosystems in which venture finance can thrive.

Table 22

Venture Capital Investment by Region during 2013

Country	Invested Capital (US $ b)	% age Change (Amount Invested)	Deals	% age Change (Deals)	% of the Global VC Activity
US	33.1	9.0%	3480	-4.6%	68.2%
Europe	7.4	19.4%	1395	5.7%	15.3%
Canada	1	14.4%	176	23.0%	2.1%
China	3.5	-30.0%	314	20.3%	7.2%
India	1.8	12.5%	222	-2.2%	3.7%
Israel	1.7	54.5%	166	17.7%	3.5%
Total	48.5	1.9%	5753	2.0%	100.0%

Source: Dow Jones Venture Source, 2014

These changes have challenged VC players to change and raise their game. They have become more global in their geographic outlook, more sophisticated in their analysis of opportunities and more innovative in terms of how, where and when to invest. The result has been a trend toward consolidation among those unable to read or respond to the changing environment. It has also seen new funds established in new markets and a greater appetite for investment in rapid-growth markets.

15. CONCLUSION

As the economic pendulum swings toward the rapidly developing economies, the venture capital sector is experiencing its own paradigm shifts, reflecting an increasingly globalized world. The globalization of venture capital is taking many forms, ranging from global fund-raising and cross-border investment, to exits on foreign stock exchanges or by foreign acquisition, to VC firms opening offices overseas and helping their portfolio companies access markets in new regions. Amid the fragile economic recovery and highly volatile capital markets, the venture capital (VC) sector is becoming increasingly globalized.

A shift toward the emerging markets can be seen in geographic VC patterns and the growth of new global VC hotbeds. Although the United States will likely remain at the leading edge of VC-backe innovation for many years to come, US VC fund-raising continues its decade-long decline. Elsewhere, in China, India and other emerging markets, vibrant innovation hotbeds and entrepreneurial talents are arising, and investors are focused on less risky, later-stage deals. Although unrealistic valuations may dampen future returns, China's VC industry reached record heights in 2011 and will soon surpass Europe as the second-largest venture hub for fund-raising in the world. Both China's and India's strong VC industries are expected to continue their rapid growth and development as they capitalize on strong GDP growth, growing domestic consumption and a dynamic entrepreneurial ecosystem. At the same time, due to Europe's sovereign debt crisis and its muted medium-term growth potential, Europe's VC industry has lost some of its robustness.

The growth capital venture space in India is getting overcrowded. With about 400 VC funds in operation, this glut has driven up valuations, prompting concerns by many private equity investors.6 Yet there is still plenty of room for early-stage VC funds, especially in the almost empty pre-revenue space. The next five years should see a major shift in geographic venture investment patterns and substantial growth in the new global VC hotbeds.

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