

VENTURE CAPITAL

AUSTRALIA

EMBARGO: 11.30AM (CANBERRA TIME) MON 23 JUN 2003

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- For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Glyn Prichard on Canberra 02 6252 6257.

NOTES

INTRODUCTION

Venture capital is high risk capital directed towards new or young businesses with prospects of rapid growth and high rates of return. Venture capital is an investment not only of money but also of skills and time. This publication presents aspects of both financial and non-financial contributions to venture capital investments.

There has been considerable growth and interest in venture capital markets in recent years. The Federal government and various state governments have introduced schemes to foster the sector, including changes to tax regimes.

ABS undertook the first survey of venture capital for the period 1999-2000 and has now undertaken surveys for 2000-01 and 2001-02, at the request of and with the financial support of the Department of Industry, Tourism and Resources and the Department of Communication, Information Technology and the Arts.

ABS conducted these surveys with the advice and assistance of users, industry bodies and data providers.

ABOUT THIS ISSUE

This issue contains the results of the 2001-02 Venture Capital survey and compares results with the two earlier surveys (2000-01 and 1999-2000).

EFFECTS OF ROUNDING

Any discrepancies between totals and sums of components in the tables are caused by rounding.

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ABBREVIATIONS

\$b billion (thousand million) dollars

\$m million dollars

ANZSIC Australian and New Zealand Standard Industrial Classification

AVCAL Australian Venture Capital Association Limited

IPO Initial Public Offer

LBO leveraged buyout

MBI management buyin

MBO management buyout

R.W. Edwards

Acting Australian Statistician

SUMMARY OF FINDINGS

OVERVIEW

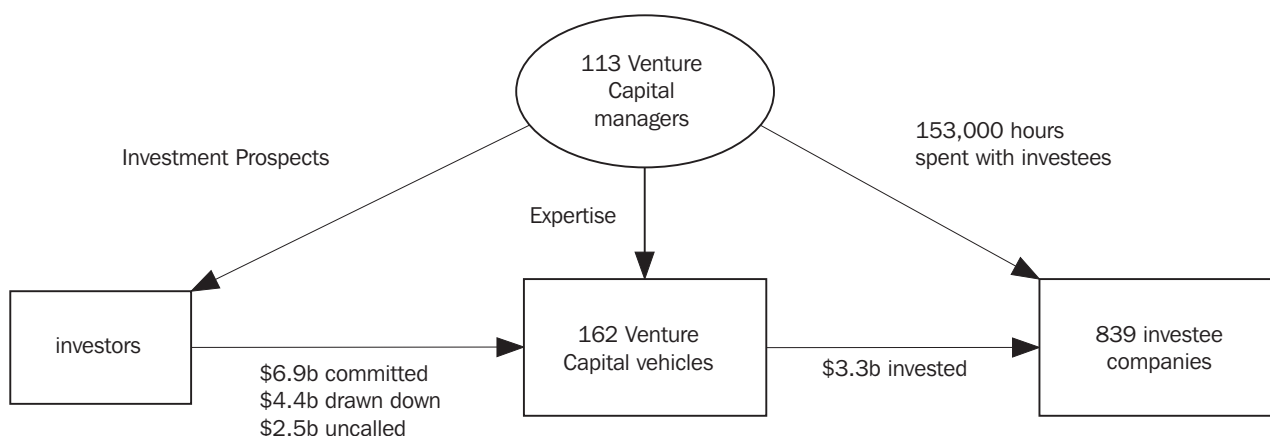
The results of the third Venture Capital survey show further strong growth occurred during 2001-02. As at 30 June 2002, investors had \$6.9b committed to venture capital investment vehicles which were either specialised venture capital funds or corporations which directly invest their venture capital. This compares with \$5.7b at 30 June 2001. Investors had \$4.4b of committed funds drawn down at 30 June 2002, an increase of 21% on a year before (\$3.7b at June 2001), leaving \$2.5b of committed funds yet to be called on (\$2.0b at June 2001). See Table 1 for details. Most of these funds were sourced domestically, with 91% of the total investment from Australian investors (little changed from June 2001 or June 2000).

The selection of investee companies (into which venture capital is invested) was an intensive process. A total of 113 venture capital managers reviewed 10,732 potential new investments during 2001-02 and conducted further analysis on 1,087 of those, with 152 (just over 1% of those initially considered) being sponsored for venture capital. These managers spent a total of 153,000 hours with the investee companies (182,000 hours in 2000-01 and 180,000 hours in 1999-2000), advising and assisting in the development of the enterprises.

The 162 venture capital investment funds and companies (150 in 2000-01) reported investments held in a total of 839 investee companies (up by 4.1% on 2000-01). After deduction of fees and other expenses, exits and allowing for holdings of liquid assets, the \$4.4b drawn down resulted in \$3.3b (\$2.7b at June 2001) invested in the 839 investee companies. There was an increase of 10 (12.3%) on 2000-01 in the number of funds registered with a government sponsored program (mainly Pooled Development Funds); 56% of all vehicles are now registered with a government sponsored program.

During 2001-02, the venture capital sector recorded a profit through exit sales of about \$53m. The following diagram summarises key findings for venture capital in 2001-02.

KEY FIGURES 2001-02



SUMMARY OF FINDINGS *continued*

ANALYSIS OF RESULTS

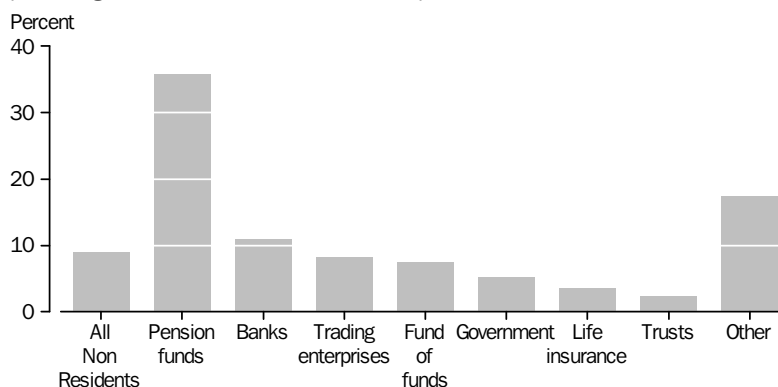
Investors

Venture capital investors are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in venture capital investment vehicles organised as either trust funds or corporations. Venture capital trust funds obtain investment commitments from investors, which are drawn down over time. They must return capital plus profit (minus loss) as investments are realised. On the other hand, venture capital vehicles organised as corporations are able to choose to make distributions to investors (including parent corporations) or to retain capital for further investment. Investors in corporations may liquidate their investment by sale on the secondary market. Drawn down funding from investors in corporations can be estimated from paid up capital and borrowings, but the ability of corporations to reinvest retained earnings and the tradability of investor equity in corporations makes analysis of investment by type of investor difficult. Certainly the concept of commitments by type of investor is less clear-cut, by comparison with trust funds.

At June 2002 investors had \$6.9b committed with venture capital investment vehicles. This compares with \$5.7b at June 2001 and \$5.0b at June 2000. See table 1 for detailed source of funds data. Of the \$4.4b drawn down at June 2002, 66% was by venture capital trust funds while corporations accounted for the remainder (34%).

The following graph analyses drawdown investment for venture capital investors by type of investor. The graph shows that the largest source of funds in terms of drawdowns for venture capital vehicles was domestic pension funds with 36% of total drawdowns by venture capital vehicles. Non-resident pension funds accounted for 2% (9% for all non-residents) of the total drawdown value.

DRAWDOWN INVESTMENT IN VENTURE CAPITAL FUNDS BY INVESTOR TYPE, percentage of total investment in venture capital vehicles, June 2002



Venture capital managers and investment vehicles

The venture capital manager is generally a skilled business person and financial analyst. The gathering of commitments from investors takes a considerable amount of time as does the process of undertaking an initial evaluation of potential investees and later due diligence. The survey identified 113 active venture capital managers who were managing 162 venture capital investment vehicles. This compares with 107 active managers managing 150 vehicles in 2000-01.

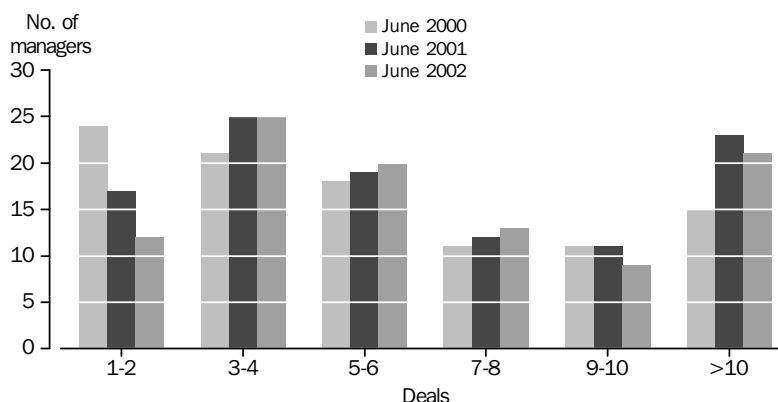
Venture capital fund managers spent 153,000 hours with investee companies (tables 2 and 3) and received income in the form of management fees (\$96m), see table 4. In 2001-02, fund managers spent on average 2.1 days a month per investee company. This compares with 3.2 days 2000-01 and 4.0 days in 1999-2000.

SUMMARY OF FINDINGS *continued*

Venture capital managers and investment vehicles continued

The decline in average days spent on deals in 2001-02 was reflected in deals involving all activities except Biotechnology, Pharmaceuticals and Health which increased slightly over the previous year (see Table 2).

NUMBER OF INVESTMENT DEALS BY VENTURE CAPITAL MANAGER



Venture capital managers typically had between three and six deals in June 2002 (a deal is an investment which may include advising and assisting an investee company). There has been a proportional shift from 1 or 2 deals to 3 or 4 over the three years of the survey, with just on 25 of the 113 venture capital managers (22%) being involved with three or four deals at June 2002. A further 21 (19%) were involved in more than 10 deals.

Of the 162 venture capital vehicles, 17 did not have any investments active during 2001-02 but were involved in preparatory activities such as sourcing funds, selecting investments and other endeavours. The remaining 145 vehicles reported a total of 839 active deals during the year.

For a number of the smaller investment vehicles, the managers were involved in a range of business activities in addition to the management of the investment vehicles.

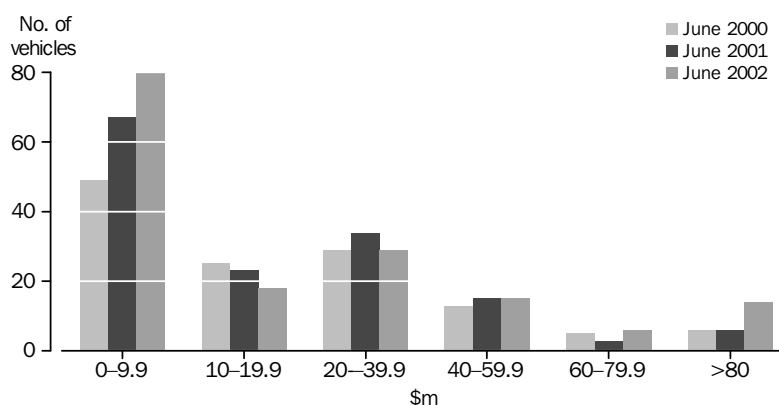
Venture capital investment vehicles had net assets of \$3.7b at June 2002 compared with \$3.1b in June 2001 and \$2.7b in June 2000 (see Table 5). Most venture capital investment vehicles were either trusts (funds) or corporations. Table 6 indicates that, of the 162 vehicles operating in 2001-02, 100 were companies. Of these, 74% were not listed with the Australian Stock Exchange. At June 2002, about 38% of venture capital vehicles were trust funds, this compares with 39% a year earlier and 35% at June 2000.

Many venture capital investment vehicles participated in government-sponsored programs. Table 7 indicates that 91 of the 162 venture capital investment vehicles were participating in a government program at June 2002, an increase of 10 on June 2001 and 36 on June 2000. Most of the participating investment vehicles were with the Federal government's Pooled Development Fund (PDF) program.

SUMMARY OF FINDINGS *continued*

Venture capital managers
and investment vehicles
continued

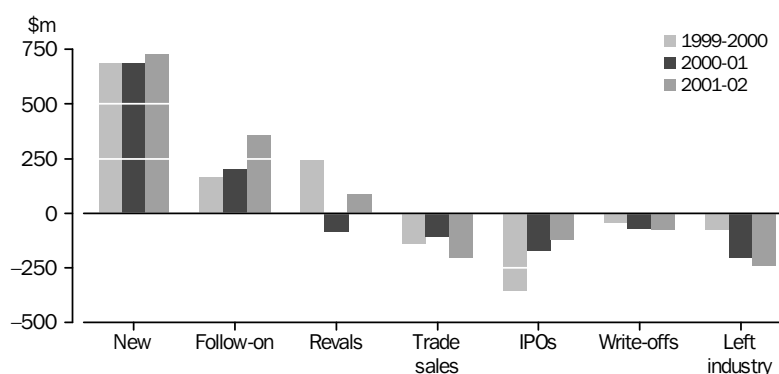
INVESTMENT VEHICLES BY VALUE OF ASSETS HELD



The range of total assets held by investment vehicles was widely dispersed, from 80 investment vehicles having less than \$10m in assets to 14 with more than \$80m in total assets (see the preceding graph). A proportional shift from the number of vehicles with \$10m to \$19.9m in assets to less than \$10m in assets has occurred over the three years of the survey.

Table 8 shows the financial flows of venture capital investment vehicles over the survey period. Most return on investment to investees is through exits from investments. The main form of exits was through trade sales or initial public offers (floats). The total value of all exits through trade sales, IPOs and buybacks amounted to \$379m in 2001-02 (representing \$326m of investment and \$53m profit over the lives of these investments). The following graph also illustrates the investment flows for deals by the venture capital industry over the three survey years. From this it can be seen that investment in new deals increased in 2001-02, while follow-on investment increased over the three years, with significant increases in 2001-02 (\$155m, or 77%). The use of trade sales became more significant over 2001-02 as a means of exiting (\$197m not including buybacks which were another \$9m). This compares with initial public offers which have declined over the three survey years to \$120m for 2001-02. The value of deals by vehicle that have dropped out of the Australian venture capital industry was again significant in 2001-02 (\$240m). The reasons for leaving the industry include re-location overseas, enterprises going into liquidation, or enterprises that have left venture capital for longer term private equity arrangements.

CHANGE IN INVESTMENT BY VENTURE CAPITAL VEHICLES IN INVESTEES



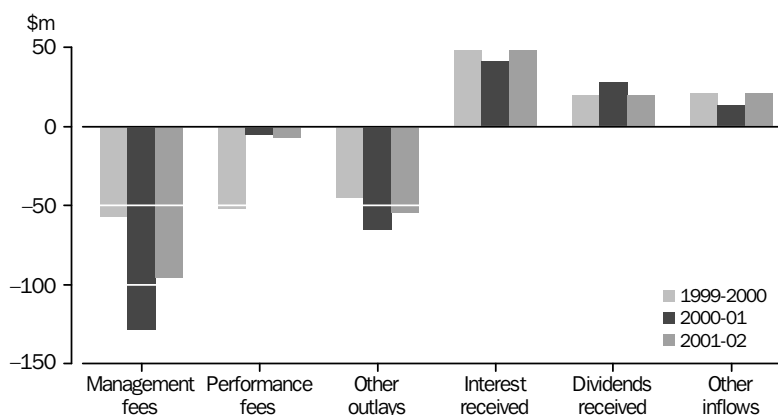
Note: Trade sales includes buybacks in this graph

SUMMARY OF FINDINGS *continued*

Venture capital managers and investment vehicles continued

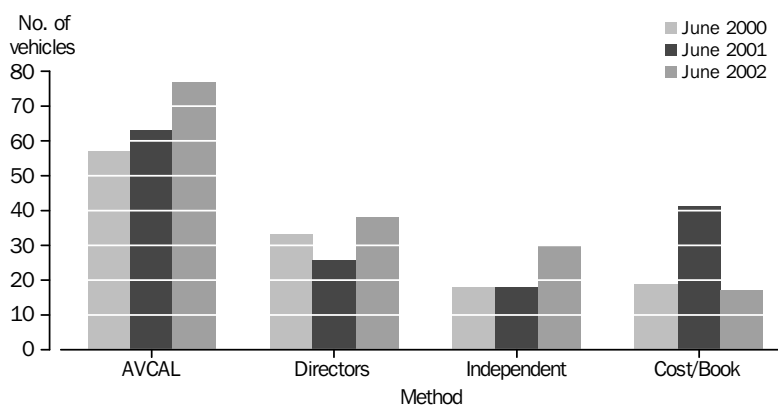
Table 4 indicates that investment vehicles had total expenditures of \$157m in 2001-02, mainly in management fees, which totalled \$96m, down by 26% over the previous year's expenditure (\$129m). Performance fees at \$7m were still significantly down on the \$52m recorded in 1999-2000 (\$5m in 2000-01).

INCOME AND EXPENDITURE OF VENTURE CAPITAL VEHICLES



Venture capital funds used various valuation methods. The Australian Venture Capital Association Ltd method was most frequently used, with 77 vehicles using this method, followed by directors (38) and independent (30) valuation methods.

VALUATION METHODS USED BY VENTURE CAPITAL FUND VEHICLES



Investee companies

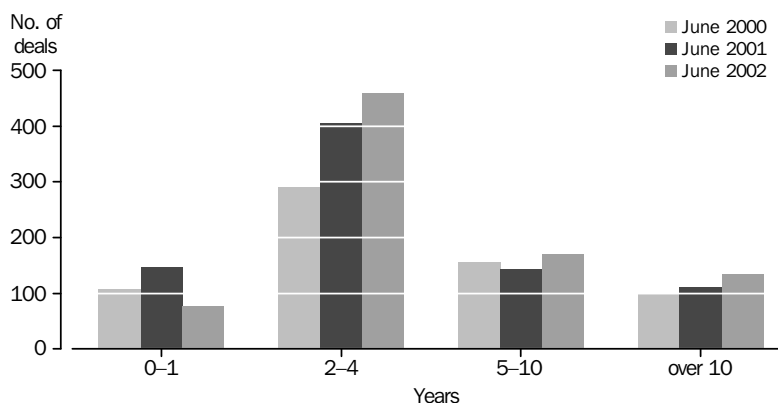
Of the \$3.3b that had been invested in the 839 investee companies at June 2002, \$725m was invested in new projects during the 2001-02 financial year (up by 5.8% on 2000-01), with additional investments in existing projects of \$357m (see Table 8 for more details).

SUMMARY OF FINDINGS *continued*

Investee companies

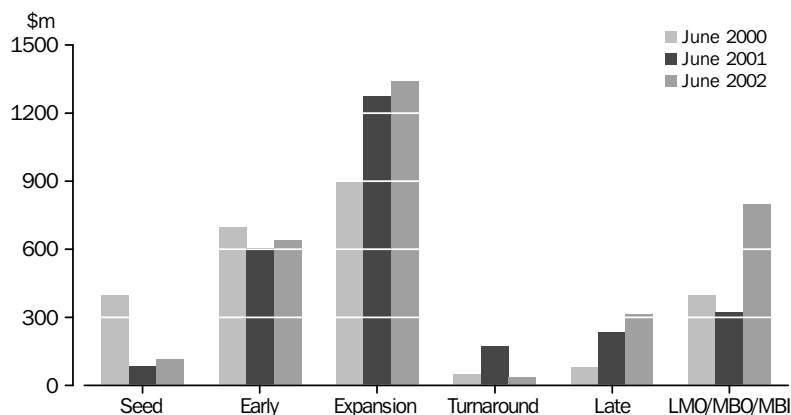
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NUMBER OF DEALS BY AGE OF INVESTMENT



There was an increase in the proportion of venture capital investment arrangements in place for between two and four years. At 30 June 2002, 54.7% of investments were 2 to 4 years old. The number of investment arrangements in place for less than 2 years declined.

VALUE OF INVESTMENT BY INVESTEE STAGE



See paragraph 11 of the Explanatory Notes for a definition of the venture capital stages referred to in the above graph.

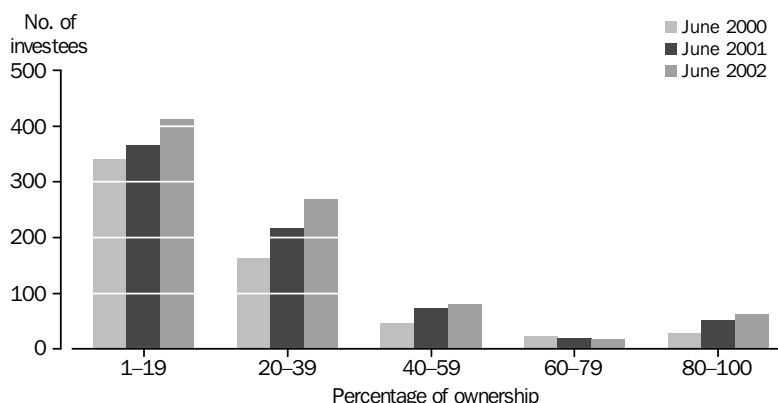
Investments for all three survey periods were predominantly at the expansion stage, with \$1.3b or 41% of total value at June 2002. The value of early stage investments was also significant, with 20% of total investment at June 2002. The more developed stages such as expansion, late and management related exits increased over the three years, while less developed stages, such as seed and early, declined from the 1999-2000 levels. Note that the age of the investment is not necessarily a reflection of its stage; some investments may go from seed to expansion within a two year period, yet others will stay in the seed stage for a number of years.

SUMMARY OF FINDINGS *continued*

Investee companies

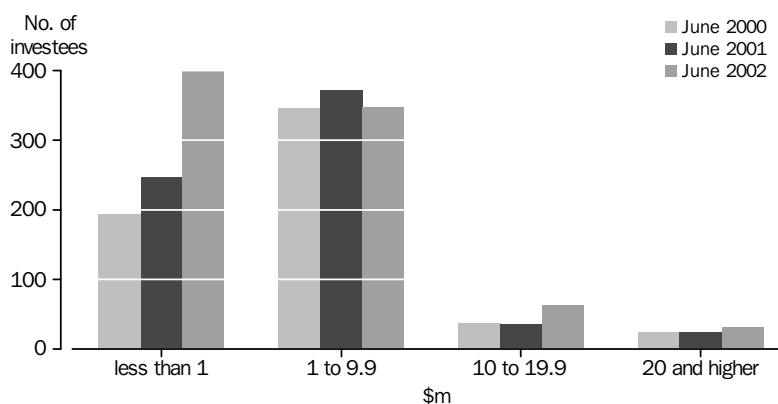
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PERCENTAGE OF INVESTEE COMPANY OWNED BY VENTURE CAPITAL VEHICLE



Venture capital arrangements typically do not involve a level of controlling equity by a single venture capital vehicle in investee companies, with most having less than 40% ownership, as the above graph illustrates. However, it is worth noting that more than one fund manager may invest in the same investee company. For example, an investment vehicle manager may invest at the seed/start-up stage and receive 10% of the business and another investment vehicle manager could arrange the next round of funding and also receive 10% of the company.

VALUE OF INVESTMENT BY NUMBER OF INVESTEES



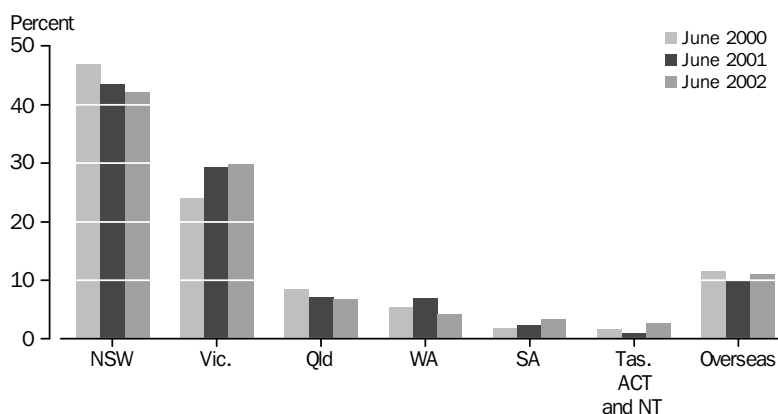
The above graph shows the distribution of value of investment placed by venture capital managers in individual investee companies. Most deals attracted less than \$10m from any one investment vehicle and the proportion receiving less than \$1m has been steadily increasing over the three survey years.

SUMMARY OF FINDINGS *continued*

Investee companies

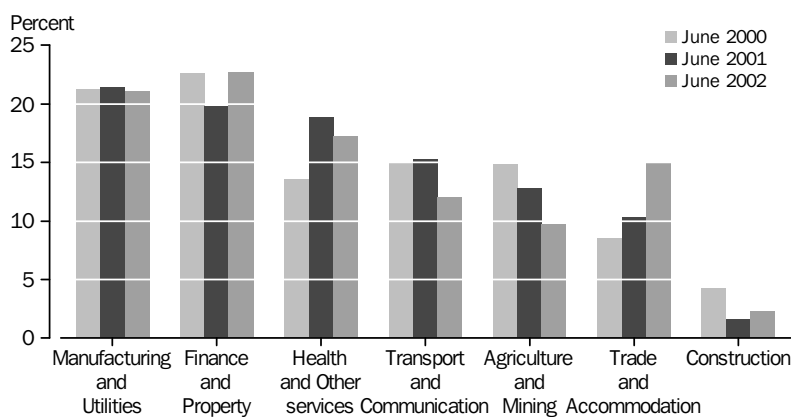
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PERCENTAGE OF TOTAL INVESTMENTS BY LOCATION OF INVESTEE



The above graph indicates that most of the venture capital funds continued to be invested in investee companies with head offices in NSW and Victoria (42% and 30% respectively at June 2002). Table 9 shows that \$2.3b was invested at June 2002 in these two states in 545 investment deals. This compares with investment of \$2.0b in 546 deals at June 2001 in these two states. Victoria and South Australia experienced steady increases over the three survey years, while New South Wales and to a lesser extent Queensland experienced relative declines over the same period. Overseas investment remained significant and relatively steady over the survey years, while Western Australian investments eased from June 2001. Investment in Tasmania and the territories strengthened in 2001-02 over the subdued levels of the previous year.

PERCENTAGE OF TOTAL INVESTMENT BY INDUSTRY OF INVESTEE

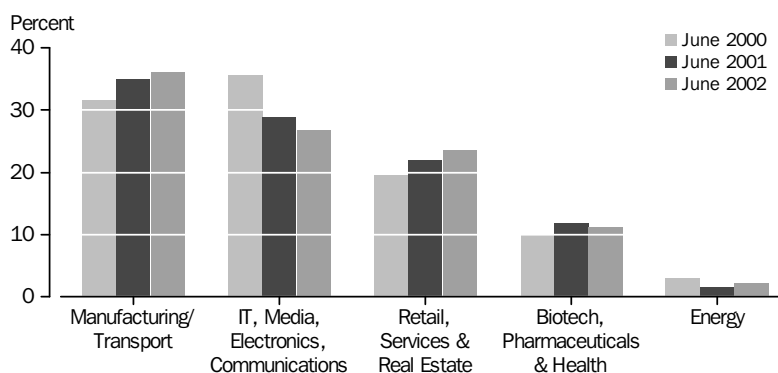


Venture capital investment was undertaken in investees in a wide range of industries and activities. Of the total value of \$3.3b invested, Finance and Property attracted \$737m (23% of the total, a similar percentage to June 2000 but up on June 2001). Manufacturing and Utilities amounted to \$685m or 21% of investment in all industries at June 2002; these industries were steady in proportional terms over the three survey years. Health and other services had \$555m of investment or 17% of total investment at June 2002, down on June 2001 in relative terms, but still ahead of June 2000 investments. See Table 10 for details of investment by industry.

SUMMARY OF FINDINGS *continued*

*Investee companies
continued*

PERCENTAGE OF VALUE OF INVESTMENT BY ACTIVITY OF INVESTEE



Note: Based on Standard and Poors activity classification

When activity, as defined by the Standard and Poors Activity Classification, is analysed, the above graph shows that the Manufacturing and Transport related activities attracted the largest share of investment, with \$1,172m or 36% of total investment in June 2002. These industries have been steadily growing in relative terms over the three survey years. IT, Media, Electronics and Communication related activities attracted \$882m of investment or 27% of total investment in June 2002. These industries have declined in relative terms over the period of ABS venture capital surveys, in line with the decline in the fortunes of the broader technology sector.

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SOURCE OF FUNDS OF INVESTMENT VEHICLES

	COMMITMENTS BY INVESTORS			DRAWDOWNS FROM INVESTORS			UNUSED COMMITMENT		
	June 2000	June 2001	June 2002	June 2000	June 2001	June 2002	June 2000	June 2001	June 2002
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Funds									
Non-residents									
Pension funds	24	78	92	21	28	84	3	50	8
Other	1 010	511	443	293	325	312	717	186	131
Residents									
Pension funds	1 783	1 819	2 668	895	1 078	1 582	888	741	1 086
Banks	340	165	746	229	122	482	111	43	264
Trading enterprises	483	192	530	284	100	360	198	92	170
Fund of funds	336	372	626	183	197	337	153	175	289
Governments in Australia	120	535	441	60	206	228	61	329	213
Life insurance offices	183	290	243	92	138	158	91	152	85
Trusts	88	188	195	50	66	103	38	122	92
Other residents	617	324	904	542	174	766	75	150	138
Not stated (a)	na	1 220	na	na	1 220	na	na	—	na
Total	4 984	5 694	6 888	2 649	3 654	4 412	2 335	2 040	2 476

na not available

— nil or rounded to zero (including null cells)

(a) Detailed source of domestic corporate funding not collected separately in 2000-01 survey.

2

DAYS SPENT BY INVESTMENT MANAGER, By activity of investee

AVERAGE DAYS PER MONTH(a)

	1999-2000	2000-01	2001-02
Manufacturing & Transport	4.4	2.9	2.0
IT, Media, Electronics & Communications	3.6	3.2	2.1
Retail, Services & Real estate	5.2	3.7	1.8
Biotech, Pharmaceuticals & Health	2.3	3.2	3.3
Energy	2.5	2.6	1.6
Total	4.0	3.2	2.1

(a) Weighted by value of investment.

Note: Based on Standard and Poors activity classification.

3

DAYS SPENT BY INVESTMENT MANAGER, By stage of investee company

AVERAGE DAYS PER MONTH(a)

	1999-2000	2000-01	2001-02
Seed	3.1	4.4	2.0
Early	5.4	3.4	2.2
Expansion	4.4	3.8	2.1
Turnaround	2.3	2.5	1.0
Late	2.2	2.3	1.8
LBO/MBO/MBI	3.9	1.7	2.3
Total	4.0	3.2	2.1

(a) Weighted by value of investment.

SELECTED INCOME AND EXPENDITURE OF VENTURE CAPITAL INVESTMENT VEHICLES

	<u>1999- 2000</u>		<u>2000-01</u>		<u>2001-02</u>	
	no.	\$m	no.	\$m	no.	\$m
Expenditure						
Management fees	76	57	100	129	96	96
Performance fees	10	52	9	5	6	7
Interest payments	11	3	12	5	15	8
Wages & salaries	na	na	32	11	36	14
Taxation	na	na	26	12	31	8
Professional services	na	na	101	17	100	11
Other outlays	67	42	79	20	77	13
<i>Total</i>	<i>164</i>	<i>154</i>	<i>359</i>	<i>199</i>	<i>361</i>	<i>157</i>
Income						
Interest receipts	70	34	103	41	106	48
Dividends received	—	—	39	28	36	20
Other inflows	44	148	13	13	44	21
<i>Total</i>	<i>114</i>	<i>182</i>	<i>155</i>	<i>82</i>	<i>186</i>	<i>89</i>

na not available

— nil or rounded to zero (including null cells)

BALANCE SHEET OF VENTURE CAPITAL INVESTMENT VEHICLES

	<i>June 2000</i>	<i>June 2001</i>	<i>June 2002</i>
	\$m	\$m	\$m
Assets			
Resident assets			
Cash & deposits	310	443	362
Debt securities	212	289	286
Listed equities	392	345	252
Unlisted equity	1 351	1 596	2 174
Other Venture Capital funds	67	106	188
Other equity	56	58	82
Other financial	75	121	142
Non-financial	12	55	36
<i>Total resident assets</i>	<i>2 476</i>	<i>3 013</i>	<i>3 522</i>
Non-resident assets			
Unlisted equity	198	204	294
Listed equity	74	58	66
Other	41	12	167
<i>Total non-resident assets</i>	<i>313</i>	<i>274</i>	<i>527</i>
Total assets	2 790	3 287	4 049
Liabilities			
Borrowings	30	40	51
Other	80	124	258
<i>Total liabilities</i>	<i>110</i>	<i>164</i>	<i>309</i>
Total net assets	2 680	3 123	3 740

INVESTMENT VEHICLES AND ASSETS, By type of legal organisation

	<i>June 2000</i>		<i>June 2001</i>		<i>June 2002</i>	
	no.	\$m	no.	\$m	no.	\$m
Listed company	18	565	20	734	17	678
Unlisted company	59	780	68	816	74	883
Trust	45	1 366	59	1 712	62	2 357
Other	5	80	3	25	9	132
Total	127	2 790	150	3 287	162	4 049

ASSET AND INVESTMENT BY PROGRAM PARTICIPATION OF INVESTMENT VEHICLES

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>	
	no.	\$m	no.	\$m	no.	\$m
Participation in a Government Assistance Program						
Pooled Development Program	48	569	63	837	65	762
Other	7	91	18	422	26	511
Subtotal	55	660	81	1 259	91	1 273
No participation in a Government Assistance Program	72	2 130	69	2 028	71	2 776
Total	127	2 790	150	3 287	162	4 049

INVESTMENT BY VENTURE CAPITAL INVESTMENT VEHICLES IN INVESTEE COMPANIES

	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>
	\$m	\$m	\$m
Investments at beginning of year	1 998	2 480	2 729
Additions to investment value during year			
New vehicles and projects	684	685	725
Follow-on investments	165	202	357
Unrealised gains in investee companies (includes revaluations)	245	-84	86
Exits and other decreases in value (at balance sheet valuations)			
Trade Sales	137	87	197
Initial public offers	353	171	120
Buybacks	na	21	9
Write-offs	45	72	78
Left the industry	77	203	240
Investments at end of year	2 480	2 729	3 253

na not available

INVESTMENT BY LOCATION OF INVESTEE COMPANY HEAD OFFICE

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>	
	no.	\$m	no.	\$m	no.	\$m
NSW	245	1 164	323	1 184	324	1 370
Vic.	204	598	223	798	221	970
Qld	43	210	64	196	77	222
WA	66	137	89	189	63	138
SA	16	46	22	66	28	112
Tas., ACT and NT	21	41	20	26	32	83
Overseas	56	284	65	270	94	358
Total	651	2 480	806	2 729	839	3 253

INVESTMENT IN INVESTEE COMPANIES, By industry

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>	
<i>ANZSIC industries</i>	no.	\$m	no.	\$m	no.	\$m
Agriculture & Mining	84	367	94	349	80	314
Manufacturing & Utilities	149	526	158	586	163	685
Construction	25	105	9	43	10	75
Trade & Accommodation	66	212	70	280	82	489
Transport & Communication	106	373	149	418	148	400
Finance & Property	142	560	191	539	194	737
Health & Other services	79	338	135	513	162	555
Total	651	2 480	806	2 729	839	3 253

INVESTMENT IN INVESTEE COMPANIES, By activity

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>	
	no.	\$m	no.	\$m	no.	\$m
Manufacturing & Transport	193	787	204	966	225	1 172
IT, Media, Electronics & Communications	262	884	313	789	326	882
Retail, Services & Real estate	109	487	144	605	127	765
Biotech, Pharmaceuticals & Health	63	246	112	328	138	364
Energy	24	76	33	41	23	70
Total	651	2 480	806	2 729	839	3 253

Note: Based on Standard and Poors activity classification.

EXPLANATORY NOTES

THE SURVEY

1 This publication contains venture capital statistics for the period 1 July 1999 to 30 June 2002.

2 The venture capital survey is partly funded by the Department of Industry, Tourism and Resources and the Department of Communications, Information Technology and the Arts. The survey was first conducted for the 1999-2000 reference period, with results released as a Special Article in the Managed Funds, Australia (ABS cat. no. 5655.0) December quarter 2000 issue. Additional data was incorporated in a subsequent release on the ABS Web site <<http://www.abs.gov.au>>.

3 The population of investment managers included in the survey was constructed from lists of participants in government programs (Pooled Development Fund, Innovation Investment Fund), membership of the Australian Venture Capital Association Ltd (AVCAL), the Australian Venture Capital Guide, business directories and venture capital journals. The survey is, in fact, a census of the venture capital vehicles that were able to be identified by ABS. The investment managers reported on behalf of the venture capital investment vehicles they controlled.

SURVEY RESPONSE, 2001-02

	<i>Investment Managers</i>	<i>Investment Vehicles</i>
<i>Response Type</i>	no.	no.
Out of Scope	49	—
Operating in Year	113	162
Total	162	162

— nil or rounded to zero (including null cells)

SCOPE AND COVERAGE

4 The Venture Capital Survey aimed to cover all investments in enterprises that met the following definition of venture capital, which is based on leading industry sources (principally AVCAL).

5 Venture capital was defined as high risk private equity capital for typically new, innovative or fast growing unlisted companies. A venture capital investment is usually a short to medium-term investment with the potential of high capital gains on divestment (rather than long-term investment involving regular income streams). The venture capital sector is part of the infrastructure of a well developed private equity capital market.

6 As venture capitalists invest in a business, they become part owners and may require a seat on the company's board of directors. They tend to take a minority share in the company and usually do not take day to day control, but provide support and advice on a range of management and technical issues to assist the company to develop its full potential.

7 While most venture capital involves new, innovative or fast growing private companies, our scope did not exclude other high risk involvement such as turnaround investment. Turnaround investment is where venture capitalists provide management expertise, often in conjunction with appropriate investment, in failing established enterprises with the intention of turning them around through astute restructuring, capital stock renovation or other improvements.

EXPLANATORY NOTES *continued*

SCOPE AND COVERAGE

continued

8 However, some organisations which were not considered venture capital funds for the purposes of this survey included Incubators and entities set up by either a State Government or by way of a Commonwealth grant. The incubator's principal activity is to facilitate seed enterprises in their efforts to get their business into a position of growth. The incubator may offer grants, seed funding, reduced office rental, mentors, marketing contacts and access to office equipment.

9 Similarly, non-government organisations offering non-financial support to seed industries in the form of assistance in preparing business plans, identifying suitable employees or board members etc were not included. In addition, non-institutional investors such as business angels (private individuals investing in private equity) were not included.

FURTHER CHARACTERISTICS

10 The following are typical characteristics of venture capital activities.

- The venture capital industry receives a large number of approaches from individuals and groups of individuals who have what they believe to be good business propositions.
- A small or a specialist fund manager will receive between 5 and 20 approaches each month for funding; of those 2 or 3 may receive more thorough examination, and out of those perhaps 1 per quarter will get funding.
- The medium sized organisations will receive anything from 20 to 400 approaches in a month. Even though they are medium in size by the amount of capital they are raising and disbursing, their offices typically have a small number of highly trained staff. There may be 5 or 10 approaches that are investigated thoroughly or undergo due diligence. From these perhaps 2 or 3 will receive funding in a quarter.
- There are a small number of organisations that are large and receive upwards of 400 approaches a month. These offices are still run with a small number of highly trained and focussed staff. The culling process is very similar to the medium sized organisations, with perhaps 5 to 7 enterprises receiving funding in any one quarter.

11 The following describes various stages at which a venture capital vehicle may make investments.

- Seed: product is in development. Usually in business less than 18 months.
- Early: product in pilot production. Usually in business less than 30 months.
- Expansion: product in market. Significant revenue growth.
- Turnaround: current products stagnant. Financing provided to a company at a time of operational or financial difficulty.
- Late: new product or product improvement. Continue revenue growth.

12 Finance for small to medium sized enterprises from start-up to mature operations tends to follow various stages as they grow:

- at the beginning of an enterprise there is a product or an idea that has potential to become commercially viable. To take the enterprise towards commercialisation, finance is generally provided by the principals, and relatives and friends of the principals;
- as an enterprise develops further, finance, management and other skills may be provided by 'business angels', independent business people who can see potential in the business, and who essentially prepare the business for professional financing;

EXPLANATORY NOTES *continued*

FURTHER CHARACTERISTICS

continued

- as the enterprise demonstrates a product and market, full commercialisation will follow. At this stage a number of venture capitalists not only provide financial resources, usually via a fund or company, but also provide more specialised management and business skills to ensure the future growth and prosperity of the enterprise. The venture capitalists often provide the funds through venture capital investment vehicles which may be Pooled Development Funds, Innovation Investment Funds, or other specially created vehicles operated by specialised venture capital managers. In other cases corporations provide investment directly into venture capital deals;
- venture capitalists exit their investment by initial public offering (IPO), management buy-out / buy-in, or trade sale. At this point the enterprise is mature enough to be reliant on its own resources and skills;
- each year venture capital vehicles enter the industry and a number leave. Reasons for leaving the industry include relocation overseas, enterprises going into liquidation or those that leave venture capital for longer term private equity arrangements.

ACCOUNTING BASIS

Methods of valuation

13 The Venture Capital industry uses a variety of valuation methods for the equity they hold in the investee companies. The valuation methods may vary from one organisation to the other. However, the AVCAL method (described below) is widely used by their members in reporting the value of the private equity holdings.

ASSETS VALUED BY THE AVCAL METHOD

14 This method is well documented by AVCAL and Venture Economics and states that all assets should be valued at cost for the first 12 months and thereafter valued at market value or Directors' Valuation.

ASSETS VALUED BY DIRECTOR'S VALUATION

15 Assets may be valued by the Directors taking care to undertake valuations with integrity and based on a common sense approach. This will need to be logically cohesive and subject to a rigorous review procedure under the direction of senior management and possibly non-executive Directors.

ASSETS VALUED BY INDEPENDENT VALUATION

16 The fund may choose to engage a registered independent valuer who will then value the asset based on the current market movements and environment.

ASSETS VALUED AT COST/BOOK VALUE

17 This method is preferred at least for the first 12 months and it is the cost of the asset at time of purchase by the Fund.

RELATED STATISTICS

18 Related ABS publications which may also be of interest include:

- *Venture Capital Australia, 2000-2001* (cat. no. 5678.0)
- *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5204.0)—annual
- *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0)—quarterly
- *Australian National Accounts: Concepts, Sources and Methods* (cat. no. 5216.0)—latest issue, 1990
- *Australian National Accounts: Financial Accounts* (cat. no. 5232.0)—quarterly
- *Managed Funds, Australia* (cat. no. 5655.0)—quarterly
- *Australian National Accounts, National Balance Sheet* (cat. no. 5241.0)—latest issue, 2000-01
- *Standard Economic Sector Classifications of Australia (SESCA) 1998* (cat. no. 1218.0)—latest issue, 1998

EXPLANATORY NOTES *continued*

RELATED STATISTICS *continued*

19 Non-ABS data sources:

- Australian Venture Capital Association Limited website <<http://www.avcal.com.au>>
- Venture Economics website <<http://www.ventureeconomics.com>>
- Australian Venture Capital Guide 2003, Australian Venture Capital Journal; website contact <<http://www.vcjournal.com.au>>

20 Data available on request

The ABS may be able to provide additional data for this survey on request.

FOR MORE INFORMATION . . .

- INTERNET** www.abs.gov.au the ABS web site is the best place to start for access to summary data from our latest publications, information about the ABS, advice about upcoming releases, our catalogue, and Australia Now—a statistical profile.
- LIBRARY** A range of ABS publications is available from public and tertiary libraries Australia-wide. Contact your nearest library to determine whether it has the ABS statistics you require, or visit our web site for a list of libraries.
- CPI INFOLINE** For current and historical Consumer Price Index data, call 1902 981 074 (call cost 77c per minute).
- DIAL-A-STATISTIC** For the latest figures for National Accounts, Balance of Payments, Labour Force, Average Weekly Earnings, Estimated Resident Population and the Consumer Price Index call 1900 986 400 (call cost 77c per minute).

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ISSN 1448 319X

RRP \$20.00