

VENTURE CAPITAL

AUSTRALIA

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I N Q U I R I E S

For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Darren Page on Canberra (02) 6252 6731.

INTRODUCTION

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

The growth of, and interest in, venture capital markets continues. Federal government and various state government schemes introduced to foster the sector, including changes to tax regimes, also continues.

Australian Bureau of Statistics (ABS) undertook the first survey of venture capital for the period 1999–2000 and has since undertaken this survey annually at the request of, and with the financial support of, the Department of Industry, Tourism and Resources.

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

ABOUT THIS ISSUE

This issue contains the results of the 2004–05 Venture Capital survey and compares results with the five earlier surveys (1999–2000 to 2003–04). This is the fifth annual release of ABS catalogue no. 5678.0. The initial 1999–2000 survey data was first published in the Special article – Venture Capital Survey, 1999–2000 released in February 2001 in the December quarter 2000 edition of Managed Funds (ABS cat. no. 5655.0).

CHANGES IN THIS ISSUE

Electronic spreadsheet versions of the tables will be available on the Ausstats service for the first time. This issue also sees the introduction of six additional tables available in electronic format only. These additional tables contain data for 2004–05 only. Page 3 contains a list of tables available in electronic format additional to the equivalents to the printed tables.

EFFECTS OF ROUNDING

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



ABBREVIATIONS

- \$b billion (thousand million) dollars
- \$m million dollars
- ADI Authorised Deposit-taking Institution
- ANZSIC Australian and New Zealand Standard Industrial Classification
- AVCAL Australian Venture Capital Association Limited
- IPO Initial Public Offer
- IT information technology
- LBO leveraged buyout
- MBI management buyin
- MBO management buyout

Dennis Trewin
Australian Statistician

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TABLES ON AUSTATS

TABLES AVAILABLE ON AUSSTATS

Data available on the ABS web site <<http://www.abs.gov.au>> include:

- additional tables listed below:

13 Source of funds of direct venture capital investment vehicles

14 Source of funds of investment vehicles, changes during the year

15 New and follow-on investment in investee companies, by location of investee company head office

16 New and follow-on investment in investee companies, type of investment by industry of investee company

17 New and follow-on investment in investee companies, type of investment by activity of investee company

18 New and follow-on investment in investee companies, by stage of investee company, type of investment

SUMMARY OF FINDINGS

OVERVIEW

The results of the sixth Venture Capital survey show that there was strong growth in funds committed to venture capital investment vehicles during 2004–05. As at 30 June 2005, investors had \$11.2b committed to venture capital investment vehicles, an increase of 25% on the \$9.0b committed as at 30 June 2004. Investors had \$6.1b of committed funds drawn down at 30 June 2005, an increase of 20% on the previous year end (\$5.1b at June 2004). This left \$5.1b of committed funds yet to be called on, up 32% on the \$3.9b of unused commitments as at June 2004. See table 1 for details. Most of the committed funds were sourced domestically, with 94% of the total investment from Australian investors (up slightly on June 2004).

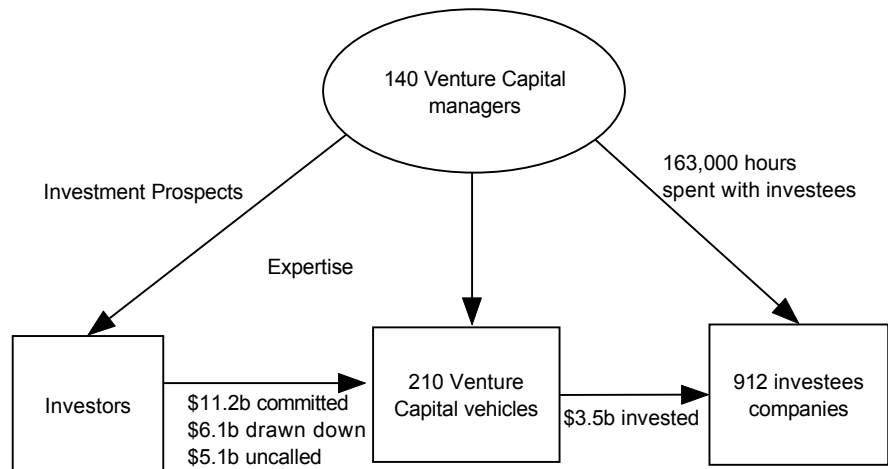
While commitments and committed funds drawn down both increased strongly to the end of June 2005, the value of investments by venture capital investment vehicles at the end of 30 June 2005 (\$3.5b in 912 investee companies) increased at a slower rate (14% on the \$3.1b at the end of June 2004). Investments in these 912 investee companies were reported by 210 venture capital investment funds and companies (195 in 2003–04). The increase in the level of investment, derived after deduction of fees and other expenses, exits and allowing for holdings of liquid assets, was due mainly to the contribution of new and follow-on investments during 2004–05 (\$1,022m, up 63% on investments made during 2003–04).

During 2004–05, the total value of all exits through trade sales, sale of shares (including IPOs) and buybacks amounted to \$1,043m (representing \$572m of investment and \$471m profit over the life of the investments).

The selection of investee companies (into which venture capital is invested) was an intensive process. The total of 140 venture capital managers reviewed 10,199 potential new investments during 2004–05 and conducted further analysis on 1,094 of those, with 176 being sponsored for venture capital. These managers spent a total of 163,000 hours with the investee companies (179,000 in 2003–04), advising and assisting in the development of the enterprises.

The following diagram summarises key findings for venture capital in 2004–05.

KEY FIGURES 2004–05



ANALYSIS OF RESULTS

INVESTORS

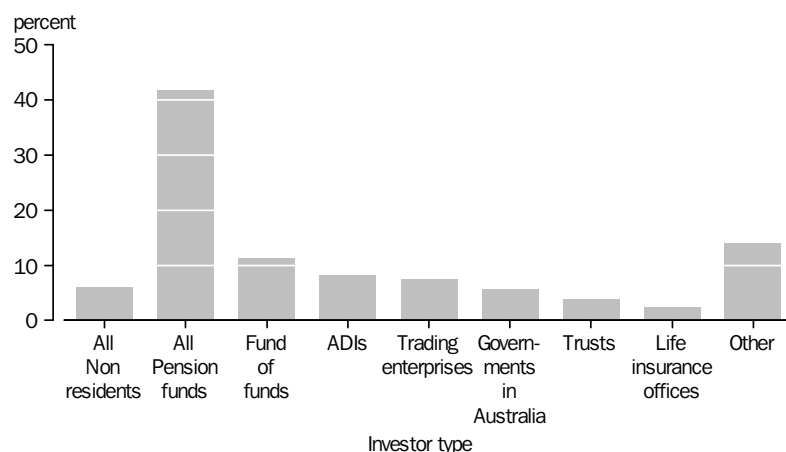
Venture capital investors are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in venture capital investment vehicles which are mainly organised in the form of either trust funds or corporations. Venture capital trust funds obtain 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 tradeability of investor equity in corporations makes analysis of investment by type of investor difficult. The concept of commitments by type of investor is less clear-cut by comparison with trust funds.

At June 2005, investors had \$11.2b committed with venture capital investment vehicles. This compares with \$9.0b at June 2004 and \$7.5b at June 2003. See table 1 for detailed source of funds data. During 2004–05, new commitments of \$2.8b to venture capital investment vehicles were made, of which \$0.8b was committed by domestic pension funds. See table 14 for details.

Venture capital investment vehicles include both direct venture capital investment vehicles which place investments directly in investee companies, and fund of fund investment vehicles which mainly place investments with direct venture capital investment vehicles. At end of June 2005, \$9.7b was committed to direct venture capital investment vehicles, \$1.2b of which was committed via fund of fund investment vehicles. At end of June 2005, \$3.7b of funds committed to direct venture capital investment vehicles was unused, \$0.5b of which was committed via fund of fund investment vehicles. See table 13 for more details.

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 42% of total drawdowns (down from 44% at June 2004) by venture capital vehicles.

DRAWDOWN INVESTMENT IN VENTURE CAPITAL FUNDS BY INVESTOR TYPE, percentage of total investment in venture capital vehicles, JUNE 2005



ANALYSIS OF RESULTS *continued*

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 140 active venture capital managers who were managing 210 venture capital investment vehicles. This compares with 137 active managers managing 195 vehicles in 2003–04.

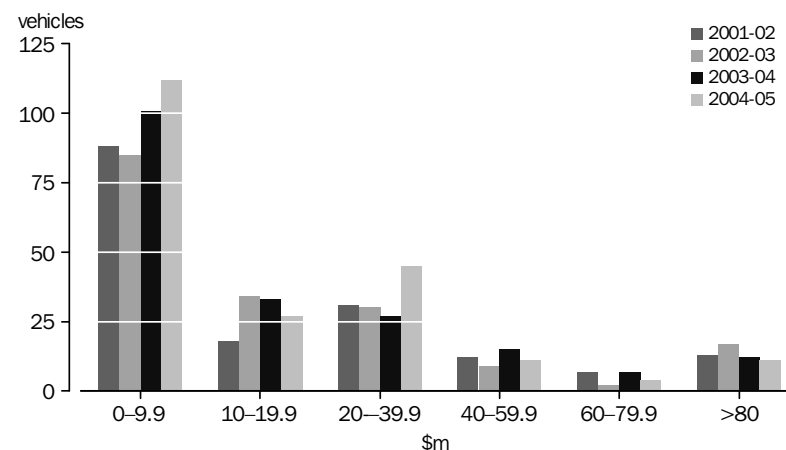
Venture capital fund managers spent 163,000 hours with investee companies and received income in the form of management fees (\$123m). In 2004–05, fund managers spent on average 2.5 days a month per investee company. This compares with 3.0 days in 2003–04 and 2.9 days in 2002–03. The average days spent with investee companies with Biotechnology, Pharmaceuticals and Health related activities fell, reversing the increases for the four previous years. See tables 2 and 3 for more details.

Venture capital investment vehicles had net assets of \$4.2b at June 2005 compared with \$3.7b in June 2004 and \$3.8b in June 2003 (see table 5).

Most venture capital investment vehicles were either trusts (funds) or corporations. Of the 210 vehicles operating in 2004–05, 101 were companies, and of these, 81 were not listed with the Australian Stock Exchange. See table 6 for details.

At the end of June 2005, 94 of the 210 venture capital investment vehicles were participating in a government program, a slight increase on the number of 2004 and 2003 participants. Most of the participating investment vehicles were with the Federal government's Pooled Development Fund (PDF) program. Other significant government programs were the Innovation Investment Fund (IIF) program, the Venture Capital Limited Partnerships (VCLP) program and the Information and Communications Technology Incubator Program (ICTIP). See table 7 for details.

INVESTMENT VEHICLES BY VALUE OF ASSETS HELD



The value of total assets held by investment vehicles was widely dispersed, from 112 investment vehicles having less than \$10m in assets, to 11 with more than \$80m in total assets (see the preceding graph).

Table 8 shows the financial flows of venture capital investment vehicles over the survey period. New investments by venture capital investment vehicles rose strongly (up \$374m, 80%) in 2004–05, increasing to \$839m in 2004–05.

ANALYSIS OF RESULTS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

Most return on investment to investees is through exits from investments. There was a total of 154 investee companies exited through trade sales, sale of shares (including IPOs) and buybacks amounting to \$1,043m in 2004–05 (representing \$572m of investment and \$471m profit over the life of the investments). This compares to the total value of all exits of \$1,460m in 2003–04 (comprised of \$729m of investment and \$731m in profits). The value of vehicles that have dropped out of the Australian venture capital industry (\$215m in 2004–05) was higher than the level recorded in the previous year and was almost the same as for 2002–03. The reasons for leaving the industry include relocation overseas, enterprises going into liquidation, or enterprises that have left venture capital for longer term private equity arrangements.

CHANGES IN INVESTMENT, by venture capital vehicles in investees

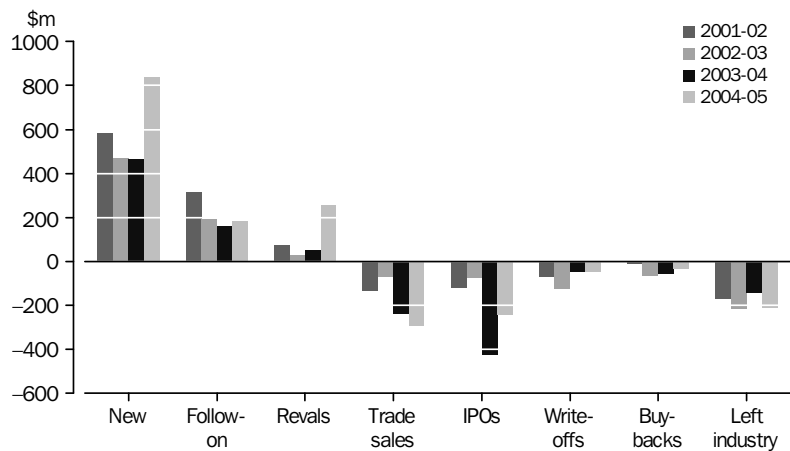
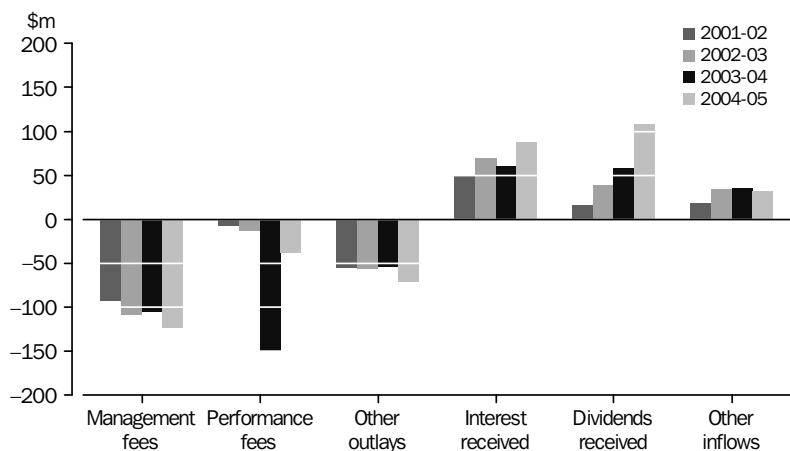


Table 4 indicates that investment vehicles had total expenditures of \$233m during 2004–05, more than half of which was for management fees (\$123m, compared to \$105m during 2003–04). Total income increased to \$221m, with the increase driven mainly by a large increase in dividends received (\$58m in 2003–04 to \$108m in 2004–05).

INCOME AND EXPENDITURE OF VENTURE CAPITAL VEHICLES

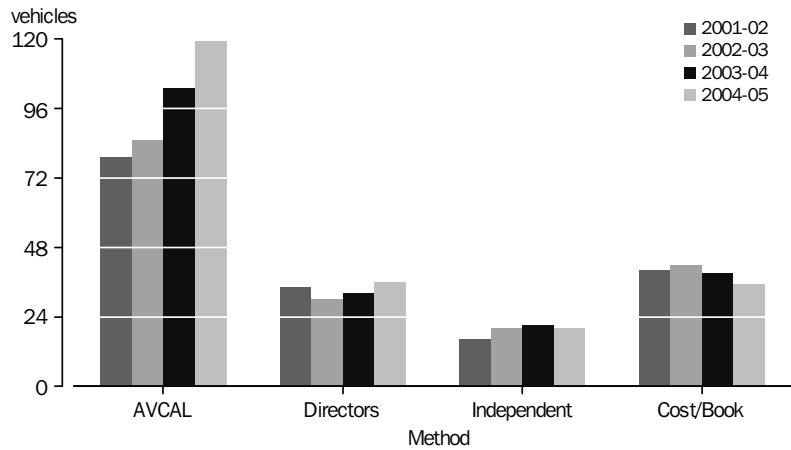


Venture capital funds used various valuation methods. The AVCAL method was most frequently used, with 119 vehicles using this method, followed by directors' valuation (36) and book value/cost valuation methods (35).

ANALYSIS OF RESULTS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

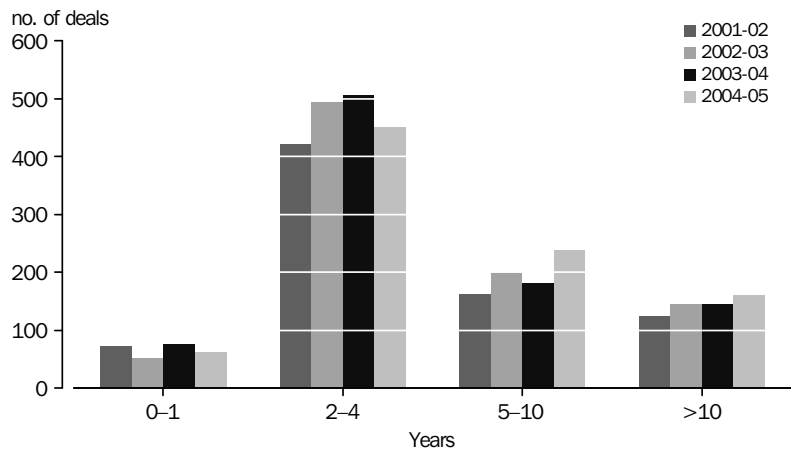
VALUATION METHODS USED BY VENTURE CAPITAL FUND VEHICLES



INVESTEE COMPANIES

Of the \$3.5b that had been invested in the 912 investee companies (deals) at June 2005, \$839m was invested in new projects during the 2004–05 financial year (up by \$374m or 80% on 2003–04), with additional investments in existing projects of \$183m (up \$21m or 13%). See table 8 for more details.

NUMBER OF DEALS, by age of investee company



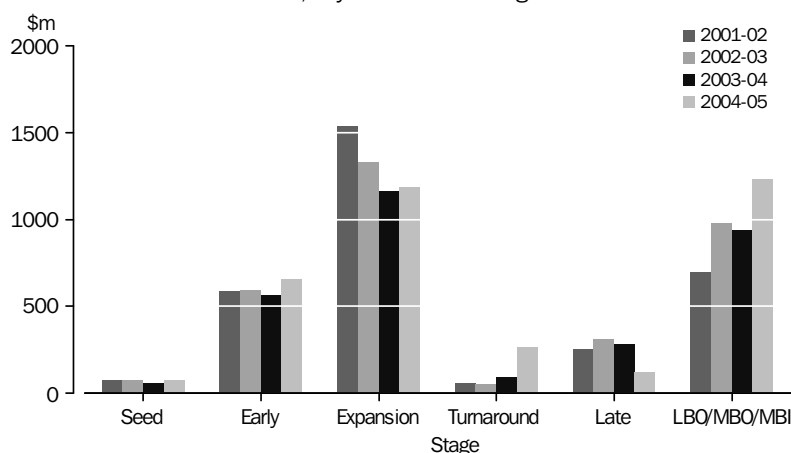
The preceding graph indicates that the number of deals by age of investee company in 2004–05 is in similar proportions to that recorded in previous years. The majority of deals remain in the 2 to 4 year category (49%). The 5 to 10 year category accounts for 26% of deals.

ANALYSIS OF RESULTS *continued*

INVESTEE COMPANIES

continued

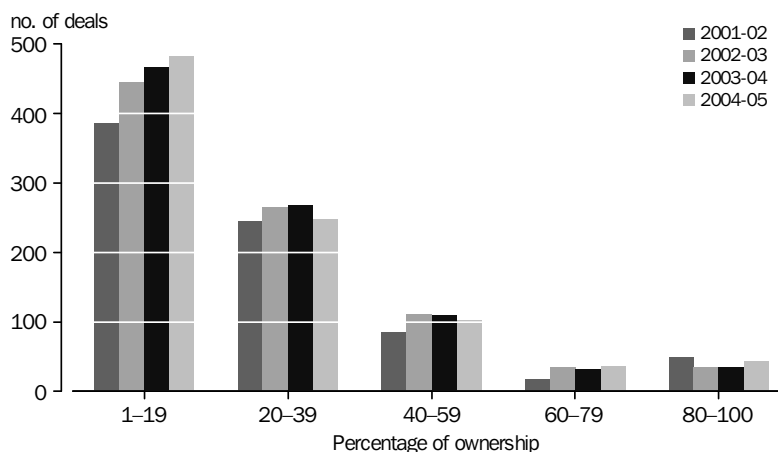
VALUE OF INVESTMENT, by investee stage



See paragraph 12 of the Explanatory Notes for a definition of the venture capital stages referred to in the above graph.

In terms of the current stage of investment, total investments in the LBO/MBO/MBI stage attracted the largest share, with \$1.2b or 35% of total value as at the end of June 2005. This was mainly due to new investments during 2004–05 of \$303m (see table 18 for details of investments during 2004–05 by stage). The expansion stage also increased in value, to \$1.2b as at the end of June 2005.

PERCENTAGE OF INVESTEE COMPANY OWNED BY VENTURE CAPITAL VEHICLE

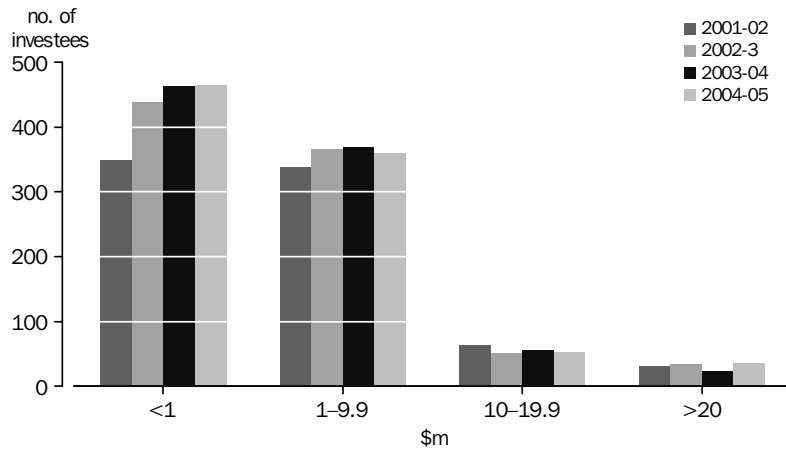


Venture capital arrangements typically do not involve a level of controlling equity by a single venture capital vehicle in investee companies, with most deals having less than 40% ownership by any one investment vehicle, as the above graph illustrates. However, it is worth noting that more than one fund 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 company and another investment vehicle manager could arrange the next round of funding and also receive 10% of the company.

ANALYSIS OF RESULTS *continued*

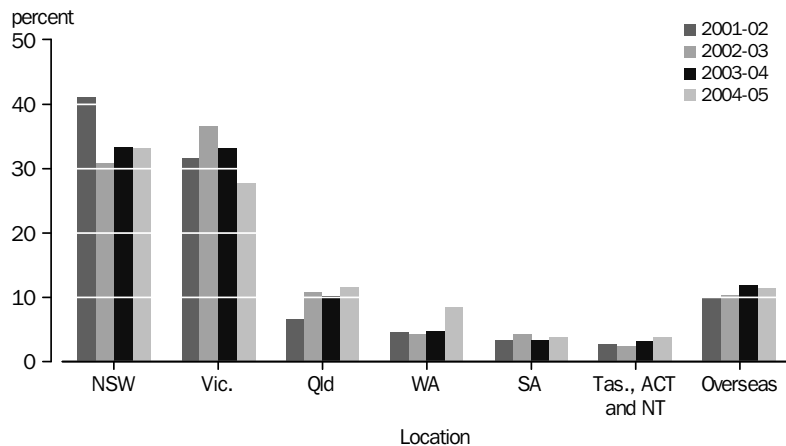
INVESTEE COMPANIES *continued*

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 number of investees receiving less than \$1m has been steadily increasing over the past four survey years. The number of investees receiving at least \$20m increased from the 2003-04 level to around the level recorded for 2002-03.

PERCENTAGE OF INVESTMENT VALUE, by location of investee



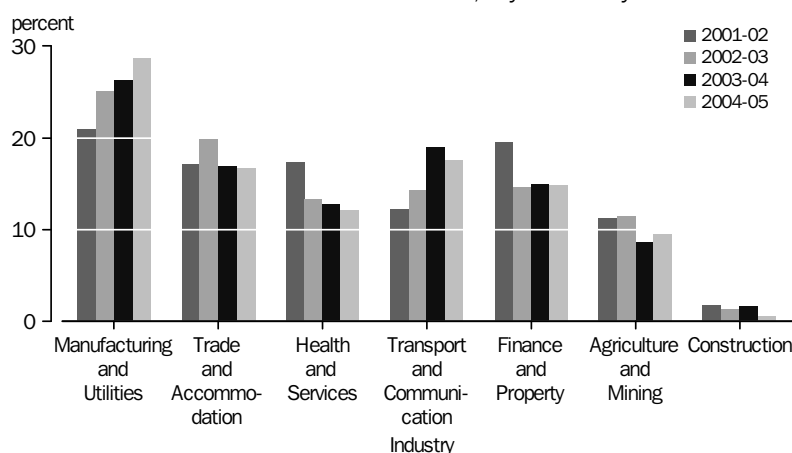
The above graph indicates that most of the venture capital funds continued to be invested in investee companies with head offices in NSW and Victoria (with 33% and 28% respectively at June 2005). NSW increased by \$140m compared to June 2004, due mainly to new and follow-on investments during 2004-05 of \$369m (see table 15 for details of investments during 2004-05 by location). Victoria fell (down \$45m) for the second consecutive year. Overseas investment remained significant and relatively steady over the survey years.

ANALYSIS OF RESULTS *continued*

INVESTEE COMPANIES

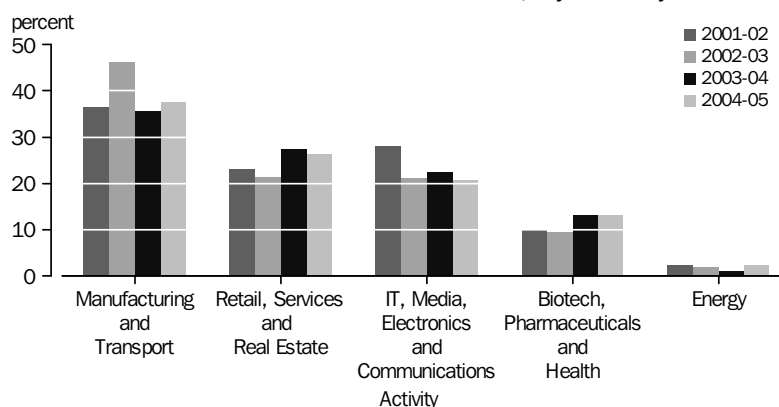
continued

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 \$3.5b invested, Manufacturing and Utilities continued to be the predominant industry of investment, with investments at the end of the year of \$1,015m (29% of the total, up from 26% of the total at the end of 2003–04). Most other activities recorded increases in absolute terms, but fell in terms of their share of total value (notably Transport and Communication) with the exception of Agriculture and Mining (up \$69m, to 10% of total investments) and Construction. See table 10 for details of investment by industry.

PERCENTAGE OF VALUE OF INVESTMENT, by activity of investee



Note: Based on Standard and Poors activity classification

When analysed by activity, as defined by the Standard and Poors Activity Classification, Manufacturing and Transport related activities attracted the largest share of investment, with \$1,323m or 38% of total investment as at the end of June 2005. Total investments in these activities rose significantly from the end of June 2005 (up \$220m, 20%). Retail, Services and Real Estate with \$932m (26%) and IT, Media, Electronics and Communication with \$728m (21%) also attracted large shares of the total investments as at the end of June 2005.

SOURCE OF FUNDS OF INVESTMENT VEHICLES

	June 2000	June 2001	June 2002	June 2003	June 2004	June 2005
	\$m	\$m	\$m	\$m	\$m	\$m
COMMITMENTS BY INVESTORS						
Funds						
Non-residents						
Pension funds	24	78	27	27	27	27
Other	1 010	511	420	550	649	657
Residents						
Pension funds	1 783	1 819	2 799	3 235	4 346	4 996
Authorised Deposit-taking Institutions	340	165	750	679	462	637
Trading enterprises	483	192	631	648	818	1 000
Fund of funds	336	372	619	662	994	1 193
Governments in Australia	120	535	431	561	456	781
Life insurance offices	183	290	245	242	161	179
Trusts	88	188	195	174	257	452
Other residents	617	324	720	755	807	1 319
Not stated(a)	na	1 220	na	na	na	—
Total	4 984	5 694	6 837	7 533	8 977	11 241

DRAWDOWNS FROM INVESTORS						
Funds						
Non-residents						
Pension funds	21	28	20	20	20	21
Other	293	325	259	396	326	343
Residents						
Pension funds	895	1 078	1 648	1 867	2 246	2 561
Authorised Deposit-taking Institutions	229	122	486	421	310	504
Trading enterprises	284	100	442	525	491	460
Fund of funds	183	197	335	390	515	688
Governments in Australia	60	206	216	264	262	336
Life insurance offices	92	138	150	162	141	150
Trusts	50	66	103	102	143	226
Other residents	542	174	606	586	653	852
Not stated(a)	na	1 220	na	na	na	—
Total	2 649	3 654	4 265	4 733	5 107	6 141

UNUSED COMMITMENT						
Funds						
Non-residents						
Pension funds	3	50	7	7	7	6
Other	717	186	161	154	323	314
Residents						
Pension funds	888	741	1 151	1 368	2 100	2 435
Authorised Deposit-taking Institutions	111	43	264	258	152	133
Trading enterprises	198	92	189	123	327	540
Fund of funds	153	175	284	272	479	505
Governments in Australia	61	329	215	297	194	445
Life insurance offices	91	152	95	80	20	29
Trusts	38	122	92	72	114	226
Other residents	75	150	114	169	154	467
Not stated(a)	na	—	na	na	na	—
Total	2 335	2 040	2 572	2 800	3 870	5 100

— nil or rounded to zero (including null cells)

na not available

(a) Detailed source of domestic corporate funding not collected separately in 2000-2001 survey.

2

DAYS SPENT BY INVESTMENT MANAGER, By activity of investee company

Activity of investee company	AVERAGE DAYS PER MONTH(a)					
	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
Manufacturing and Transport	4.4	2.9	2.5	2.9	2.5	2.4
IT, Media, Electronics and Communications	3.6	3.2	2.5	2.5	2.1	2.3
Retail, Services and Real estate	5.2	3.7	3.4	2.7	3.0	2.5
Biotech, Pharmaceuticals and Health	2.3	3.2	3.8	4.2	5.4	3.4
Energy	2.5	2.6	2.6	4.0	5.3	2.4
Total	4.0	3.2	2.9	2.9	3.0	2.5

(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

Stage of investee company	AVERAGE DAYS PER MONTH(a)					
	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
Seed	3.1	4.4	3.2	2.1	2.5	3.2
Early	5.4	3.4	2.6	3.9	3.2	3.3
Expansion	4.4	3.8	3.3	2.7	2.4	1.8
Turnaround	2.3	2.5	2.0	1.8	4.3	2.8
Late	2.2	2.3	2.0	2.3	4.0	1.3
LBO/MBO/MBI	3.9	1.7	2.5	2.8	3.1	3.0
Total	4.0	3.2	2.9	2.9	3.0	2.5

(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>		<u>2002-03</u>		<u>2003-04</u>		<u>2004-05</u>	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
<i>Expenditure</i>												
Management fees	76	57	100	129	97	93	115	109	127	105	132	123
Performance fees	10	52	9	5	6	8	6	13	r12	r150	12	38
Interest payments	11	3	12	5	15	6	16	3	16	6	21	4
Wages and salaries	na	na	32	11	41	16	35	11	30	11	29	16
Taxation	na	na	26	12	32	7	28	7	35	7	20	11
Professional services	na	na	101	17	105	11	122	14	128	13	153	25
Other outlays	67	42	79	20	84	15	97	21	112	17	115	16
Total	164	154	359	199	380	156	419	178	460	309	482	233
<i>Income</i>												
Interest receipts	70	34	103	41	109	49	120	70	131	60	150	88
Dividends received	—	—	39	28	31	16	37	39	48	58	53	108
Other inflows	44	148	13	13	42	19	57	34	62	36	69	25
Total	114	182	155	82	182	84	214	143	241	154	272	221

— nil or rounded to zero (including null cells)

r revised

na not available

5

BALANCE SHEET OF VENTURE CAPITAL INVESTMENT VEHICLES

	June 2000	June 2001	June 2002	June 2003	June 2004	June 2005
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Resident assets						
Cash and deposits	310	443	359	322	489	530
Debt securities	212	289	264	239	331	290
Listed equities	392	345	244	185	328	485
Unlisted equity	1 351	1 596	2 039	2 237	2 021	2 151
Other Venture Capital funds	67	106	330	374	282	243
Other equity	56	58	67	33	55	63
Other financial	75	121	125	204	226	248
Non-financial	12	55	22	28	14	15
Total resident assets	2 476	3 013	3 450	3 622	3 746	4 025
Non-resident assets						
Unlisted equity	198	204	256	260	203	263
Listed equity	74	58	66	31	96	81
Other	41	12	17	64	29	22
Total non-resident assets	313	274	339	355	328	366
Total assets	2 790	3 287	3 789	3 977	4 074	4 390
Liabilities						
Borrowings	30	40	34	35	65	86
Other	80	124	102	98	283	142
Total liabilities	110	164	138	133	348	228
Total net assets	2 680	3 123	3 649	3 843	3 726	4 163

6

INVESTMENT VEHICLES AND ASSETS, By type of legal organisation

Legal organisation	June 2000.....		June 2001.....		June 2002.....		June 2003.....		June 2004.....		June 2005.....	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Listed company	18	565	20	734	18	485	17	434	20	581	20	878
Unlisted company	59	780	68	816	80	720	80	889	82	1 026	81	759
Trust	45	1 366	59	1 712	62	2 324	73	2 495	84	2 382	99	2 581
Other	5	80	3	25	9	260	7	159	9	85	10	172
Total	127	2 790	150	3 287	169	3 789	177	3 977	195	4 074	210	4 390

7

PROGRAM PARTICIPATION OF INVESTMENT VEHICLES, By asset levels

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>		<u>June 2003</u>		<u>June 2004</u>		<u>June 2005</u>	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Participation in a Government Assistance Program												
Pooled Development Program	48	569	63	837	71	686	70	633	71	598	66	600
Other	7	91	18	422	19	194	22	202	22	200	28	354
Subtotal	55	660	81	1 259	90	880	92	835	93	798	94	954
No participation in a Government Assistance Program	72	2 130	69	2 028	79	2 909	85	3 142	102	3 276	116	3 436
Total	127	2 790	150	3 287	169	3 789	177	3 977	195	4 074	210	4 390

8

INVESTMENT BY VENTURE CAPITAL INVESTMENT VEHICLES IN INVESTEE COMPANIES

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m
Investments at beginning of year	1 998	2 480	2 729	3 194	3 338	3 092
Additions to investment value during year						
New vehicles and projects	684	685	586	472	465	839
Follow-on investments	165	202	314	194	162	183
Unrealised gains in investee companies (includes revaluations)	245	-84	73	29	50	254
Exits and other decreases in value (at balance sheet valuations)						
Trade sales	137	87	135	69	241	291
Initial public offers	353	171	120	76	428	246
Buybacks	na	21	10	67	60	35
Write-offs	45	72	71	123	50	49
Left the industry	77	203	172	216	144	215
Investments at end of year	2 480	2 729	3 194	3 338	3 092	3 532

na not available

INVESTMENT IN INVESTEE COMPANIES, By Location of investee company head office

	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>		<u>June 2003</u>		<u>June 2004</u>		<u>June 2005</u>	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
NSW	245	1 164	323	1 184	283	1 313	292	1 033	295	1 034	301	1 174
Vic.	204	598	223	798	201	1 009	235	1 224	229	1 023	216	978
Qld	43	210	64	196	74	210	109	364	108	315	112	413
WA	66	137	89	189	76	147	80	145	80	150	81	300
SA	16	46	22	66	27	112	37	146	41	103	30	133
Tas., ACT and NT	21	41	20	26	48	88	58	79	66	100	75	133
Overseas	56	284	65	270	71	315	78	347	90	367	97	401
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092	912	3 532

INVESTMENT IN INVESTEE COMPANIES, By industry of investee company

<i>ANZSIC industries</i>	<u>June 2000</u>		<u>June 2001</u>		<u>June 2002</u>		<u>June 2003</u>		<u>June 2004</u>		<u>June 2005</u>	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Agriculture and Mining	84	367	94	349	79	357	90	385	78	267	73	336
Manufacturing and Utilities	149	526	158	586	147	666	193	839	209	810	211	1 015
Construction	25	105	9	43	8	57	6	45	6	49	4	18
Trade and Accommodation	66	212	70	280	71	546	79	661	85	523	83	590
Transport and Communication	106	373	149	418	138	391	141	478	163	587	150	623
Finance and Property	142	560	191	539	179	623	181	486	179	460	213	524
Health and Other services	79	338	135	513	158	554	199	444	189	396	178	426
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092	912	3 532

11

INVESTMENT IN INVESTEE COMPANIES, By activity of investee company

Activity of investee company	June 2000		June 2001		June 2002		June 2003		June 2004		June 2005	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Manufacturing and Transport	193	787	204	966	195	1 166	210	1 540	197	1 103	197	1 323
IT, Media, Electronics and Communications	262	884	313	789	324	892	348	708	333	697	298	728
Retail, Services and Real estate	109	487	144	605	111	737	144	715	174	844	198	932
Biotech, Pharmaceuticals and Health	63	246	112	328	127	323	160	316	179	411	192	463
Energy	24	76	33	41	23	76	27	59	26	37	27	86
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092	912	3 532

Note: Based on Standard and Poors activity classification

12

INVESTMENT IN INVESTEE COMPANIES, By stage of investee company

Stage of investee company	June 2000		June 2001		June 2002		June 2003		June 2004		June 2005	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Seed	132	255	74	84	78	72	128	69	115	56	145	65
Early	195	624	245	623	254	586	278	596	315	564	313	665
Expansion	222	865	310	1 286	288	1 533	297	1 328	286	1 162	265	1 183
Turnaround	11	63	47	174	27	56	24	55	33	87	34	118
Late	30	138	85	237	73	253	88	313	80	285	65	267
LBO/MBO/MBI	61	535	46	326	60	694	74	977	80	938	90	1 234
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092	912	3 532

EXPLANATORY NOTES

THE SURVEY

- 1 This publication contains venture capital statistics for the period 1 July 1999 to 30 June 2005.
- 2 The venture capital survey is partly funded by the Department of Industry, Tourism and Resources. 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 were 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 (including Pooled Development Fund, Innovation Investment Fund, Venture Capital Limited Partnerships, Information and Communications Technology Incubator Program), 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 venture capital vehicles domiciled in Australia that were able to be identified by ABS. The investment managers reported on behalf of the venture capital investment vehicles they controlled.

SURVEY RESPONSE, 2004-05

	<i>Investment Managers</i>	<i>Investment Vehicles</i>
<i>Response Type</i>	no.	no.
Out of Scope	31	—
Nil	39	—
Operating in Year	140	210
Total	210	210

— nil or rounded to zero (including null cells)

SCOPE AND COVERAGE

- 4 The venture capital survey aimed to cover all investments by resident venture capital vehicles 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 Fund of funds which invest mainly in other venture capital funds are also included in the scope of this survey. This type of fund pools investments from a diverse range of investors and mainly places its investments with other venture capital funds who then invest in unlisted companies. Direct investments in unlisted companies may occur, but are typically undertaken as a co-investment with another fund manager who manages the investment.

EXPLANATORY NOTES *continued*

SCOPE AND COVERAGE

continued

8 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 restructuring, capital stock renovation or other improvements.

9 Organisations which were not considered venture capital funds for the purposes of this survey included organisations with a principal activity of providing non-financial support to seed industries. For instance, incubators set up by either a state government or by way of a Commonwealth grant 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. Only those incubators with equity investment in seed enterprises were included in this survey.

10 In addition, non-institutional investors such as business angels (private individuals investing in private equity) were also not included.

FURTHER CHARACTERISTICS

11 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.

12 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.

13 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.

14 The following definitions of the type of capital sourced from investors are used in this survey.

- Commitments from investors: capital pledged by investors, representing the maximum amount that the fund may drawdown from investors. Committed capital shown in table 1 of this publication is cumulative.
- Drawdowns from investors: for funds, this represents cumulative called capital. This is the amount of capital committed by investors that has actually transferred to a venture capital fund in aggregate for the life of the fund, and is also known as paid-in capital. Calls made, but not yet received, are excluded. Capital returned to investors that is available to be called from investors is excluded from the balance at the end of the financial year. For companies, drawdowns from investors represents paid-up capital as at the end of the year.

ACCOUNTING BASIS

Methods of valuation

15 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

16 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

17 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

18 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

19 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.

EXPLANATORY NOTES *continued*

RELATED STATISTICS

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

- *Venture Capital Australia*, 2000–2001, 2001–02, 2002–03, and 2003–04 (Cat. no. 5678.0)—issued annually;
- *Australian National Accounts: National Income, Expenditure and Product* (Cat. no. 5204.0)—issued annually;
- *Australian National Accounts: National Income, Expenditure and Product* (Cat. no. 5206.0)—issued quarterly;
- *Australian National Accounts: Concepts, Sources and Methods* (Cat. no. 5216.0)—latest issue, 2000;
- *Australian National Accounts: Financial Accounts* (Cat. no. 5232.0)—issued quarterly;
- *Managed Funds, Australia* (Cat. no. 5655.0)—issued quarterly;
- *Standard Economic Sector Classifications of Australia* (SESCA) 2002 (Cat. no. 1218.0)—latest issue, 2002.

21 Non-ABS data sources:

- Australian Venture Capital Association Limited web site <<http://www.avcal.com.au>>
- Venture Economics web site <<http://www.ventureeconomics.com>>
- Australian Venture Capital Guide 2005, Australian Venture Capital Journal; web site contact <<http://www.vcjournal.com.au>>

22 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* This service now provides only current Consumer Price Index statistics call 1900 986 400 (call cost 77c per minute).

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