



# VENTURE CAPITAL AND LATER STAGE PRIVATE EQUITY

AUSTRALIA

EMBARGO: 11.30AM (CANBERRA TIME) THURS 14 FEB 2013

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## INQUIRIES

For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Robert Nocciolino on Perth (08) 9360 5129.

## INTRODUCTION

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

The Australian Bureau of Statistics (ABS) undertook the first survey of venture capital for the period 1999-2000 and has since undertaken this survey annually with the financial support of the Department of Industry, Innovation, Science, Research and Tertiary Education.

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

## REVISIONS

There have been revisions to the 2010-11 series to include the latest available survey data.

## CHANGES IN THIS ISSUE

A review of the publication has resulted in four additional tables (tables 5 to 9) appearing within the 2011-12 release, while tables for *Venture Capital and Later Stage Private Equity investments by GDP* and *Fund Manager Assets, by preferred stage of investment* can now be found in the *Summary of Findings* and *Analysis of Results* sections of the publication. The order in which tables 1 to 3 appear in the publication has also changed and care should be taken when comparing against previous issues. Tables 5 and 6 from previous publications have been removed from the 2011-12 release and are now only available on request.

Reporting of the preferred entry stage of investment for Venture Capital & Later Stage Private Equity vehicles has changed in the 2011-12 cycle, affecting the data reported in table 4. For the first time, data providers reported a proportional split against the appropriate preferred stage of investment, allowing for more accurate data. Please take this change into account when comparing movements over time.

## DATA CUBES

Additional data are available on the ABS website including longer time series for all publication tables (except table 4). For details of the additional data please refer to paragraph 24 of the Explanatory Notes.

Brian Pink  
Australian Statistician

## SUMMARY OF FINDINGS

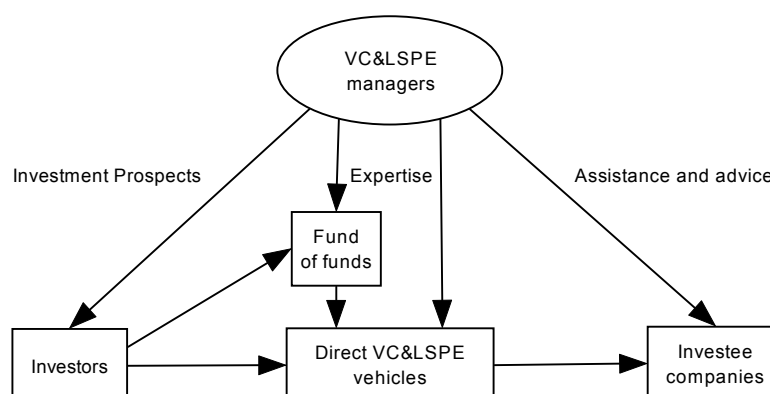
### INTRODUCTION

Investors in Venture Capital and Later Stage Private Equity (VC&LSPE) are generally sophisticated individual investors or institutional investors such as pension (superannuation) funds. Investors invest in VC&LSPE vehicles which are mainly organised in the form of either trust funds or corporations. VC&LSPE 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. VC&LSPE 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.

There are two types of VC&LSPE investment vehicles: direct VC&LSPE investment vehicles which generally place investments directly in investee companies; and vehicles that pool funds and generally place investments with direct VC&LSPE investment vehicles. These are called fund of funds.

The investment decisions of the vehicles are made by a VC&LSPE manager, who is generally a skilled business person and financial analyst. The VC&LSPE manager provides assistance and advice to the investee companies.

The usual relationship between the investors, managers, vehicles and investee companies is shown below. While this represents the usual relationship, variations can occur e.g. a fund of funds may co-invest with another fund manager.



### OVERVIEW

The value of funds committed to VC&LSPE investment vehicles increased during 2011-12. As at 30 June 2012, investors had \$17,212m committed to investment vehicles, a rise of 10% on the \$15,631m committed as at 30 June 2011. Most of the committed funds were sourced domestically, with 87% of commitments from Australian investors (residents) down from 91% as at 30 June 2011. The value of funds committed by non-residents rose \$805m (56%). Resident pension funds contributed \$9,330m to total committed capital (54% of total funds committed).

All investors had \$12,407m of committed funds drawn down as at 30 June 2012, which was an increase on the \$12,088m (2.6%) of committed funds drawn down as at 30 June 2011.

## SUMMARY OF FINDINGS *continued*

### OVERVIEW *continued*

As at 30 June 2012, \$4,805m of committed funds were yet to be called on, up 36% on the undrawn commitments as at 30 June 2011. The \$4,805m of undrawn commitments can be classified by preferred stage of investment, with only \$541m undrawn by funds which prefer to invest at the earlier stage.

The value of investments by VC&LSPE investment vehicles (\$7,066m in 792 investee companies) fell 19% on the \$8,700m reported as at 30 June 2011. Investments in these 792 investee companies were reported by 239 vehicles.

The value of investments as at 30 June 2012 represented 0.48% of GDP, down from 0.62% of GDP at 30 June 2011. Both proportions of Venture Capital investments (0.12% of GDP) and Later Stage Private Equity investments (0.36% of GDP) fell as a proportion of GDP in 2011-12.

### VALUE OF INVESTMENT BY VC & LSPE INVESTMENT VEHICLES

	2009-10			2010-11			2011-12		
	VC	LSPE	Total	VC	LSPE	Total	VC	LSPE	Total
Value of Investment (\$m)	2 772	6 140	8 912	r1 995	r6 706	r8 700	1 827	5 238	7 066
GDP(a) (%)	0.21	0.48	0.69	0.14	0.48	0.62	0.12	0.36	0.48

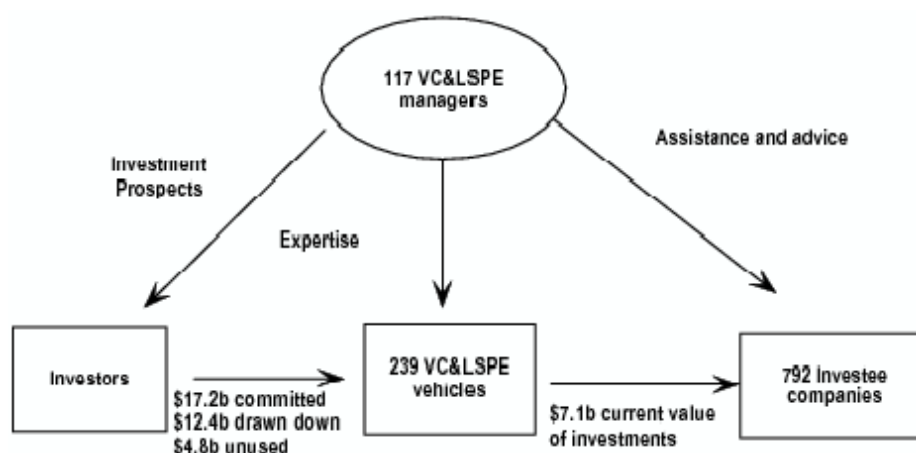
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(a) In calculating, VC&LSPE ratios, the most recently published annual GDP values (current prices, original series) were sourced from Time Series Spreadsheet Table 32 of *Australian National Accounts: National Income, Expenditure and Product, Sept 2012* (cat. no. 5206.0), released on 5 Dec 2012.

During 2011-12, the net value of all exits through trade sales, Initial Public Offers (IPOs) and buybacks amounted to \$1,696m, up 19% on 2010-11.

The 117 VC&LSPE managers reviewed 4,489 potential new investments during 2011-12 and conducted further analysis on 445 of those, with 94 (2.1% of total reviewed) being sponsored for VC&LSPE.

The following diagram summarises key findings for VC&LSPE as at 30 June 2012.



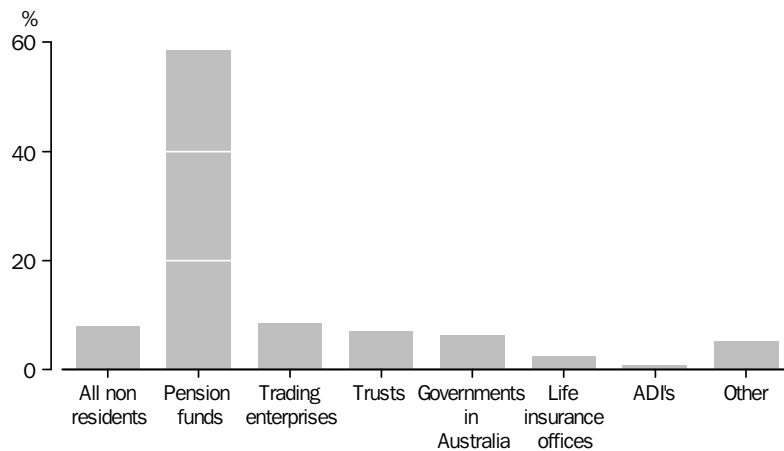
## ANALYSIS OF RESULTS

### INVESTORS

As at 30 June 2012, \$17,212m was committed to direct VC&LSPE investment vehicles, \$5,703m of which was committed via fund of funds investment vehicles. As at 30 June 2012, \$4,805m of commitments to direct VC&LSPE investment vehicles were unused, \$1,898m of which were committed via fund of funds investment vehicles.

The following graph presents drawdown investment for VC&LSPE investors by type of investor for 2011-12. The largest source of funds in terms of drawdowns for VC&LSPE investment vehicles was provided by domestic pension funds, with 59% of total drawdowns (down slightly from 61% for 2010-11).

**DRAWDOWN FROM INVESTORS BY INVESTOR TYPE, Percentage of total investment in VC & LSPE vehicles**



### VC&LSPE MANAGERS AND INVESTMENT VEHICLES

The survey identified 117 active VC&LSPE managers who were managing 239 VC&LSPE investment vehicles. Of the 117 active VC&LSPE managers, 46% of VC&LSPE managers reported that they prefer to invest in Venture Capital (VC) investments only, 23% prefer Later Stage Private Equity (LSPE) investments only and 31% prefer to invest in both VC and LSPE investments (see Explanatory Note 12 in reference to the stages of investment referred to by the terms - Venture Capital and Later Stage Private Equity).

VC&LSPE managers received income in the form of management fees (\$198m). In 2011-12, fund managers spent on average 3.6 days a month per investee company. This compares with 4.6 days in 2010-11 and 4.0 days in 2009-10 (see table 14 in datacube).

Stage of investment preference for VC&LSPE managers with total assets of less than \$10m, mostly focused on VC investments only (62%), while VC&LSPE managers with assets of \$25m or more prefer to focus on LSPE investments (44%).

## ANALYSIS OF RESULTS *continued*

### VC&LSPE MANAGERS AND INVESTMENT VEHICLES *continued*

### FUND MANAGER AND ASSETS, by Fund Managers preferred stage of investment(a)—2011–12

	VC only	LSPE only	Both VC & LSPE	Total
	no.	no.	no.	no.
Less than \$10m	32	4	16	52
\$10m to less than \$25m	12	3	5	20
More than \$25m	10	20	15	45
<b>Total</b>	<b>54</b>	<b>27</b>	<b>36</b>	<b>117</b>

(a) Refer to paragraph 12 of the Explanatory Notes

VC&LSPE investment vehicles had net assets of \$8,385m as at 30 June 2012, a fall of \$1,876m from 30 June 2011, and the lowest net asset value since 2005-06 (see table 7 in datacube).

Most VC&LSPE investment vehicles were either trusts (funds) or corporations. Of the 239 VC&LSPE investment vehicles operating in 2011-12, 64 were companies, 13 of which were listed with the Australian Stock Exchange.

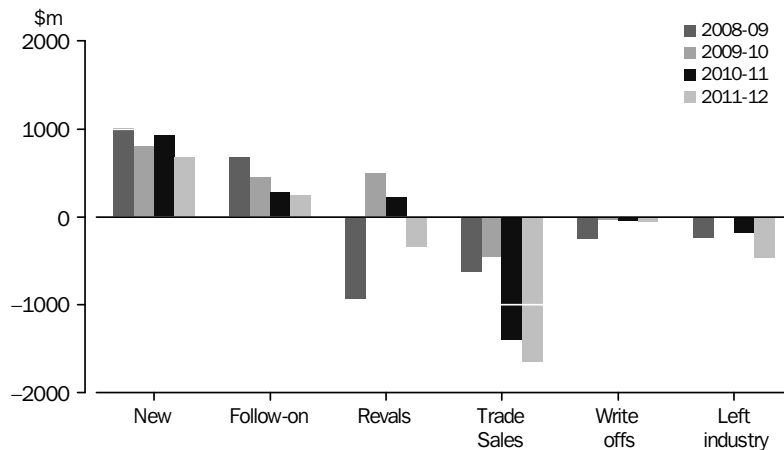
As at 30 June 2012, 87 of the 239 VC&LSPE investment vehicles were participating in a government program, the same number of participants as in 2011. Of the 87 participating VC&LSPE investment vehicles, 45 were with the Federal government's Pooled Development Fund (PDF) program, a drop of 3 participants.

The value of total assets held by VC&LSPE investment vehicles was widely dispersed, from 122 VC&LSPE investment vehicles having less than \$10m in assets, to 28 with more than \$80 in total assets.

The value of new and follow-on investments by VC&LSPE investment vehicles fell \$287m (24%) in 2011-12 to \$927m.

Most return on investment to investees is through exits from investments. The value of exits through trade sales, IPOs and buybacks was \$1,696m in 2011-12, compared with exits of \$1,427m in 2010-11.

### SELECTED ADDITIONS AND EXITS TO INVESTMENTS IN INVESTEE COMPANIES

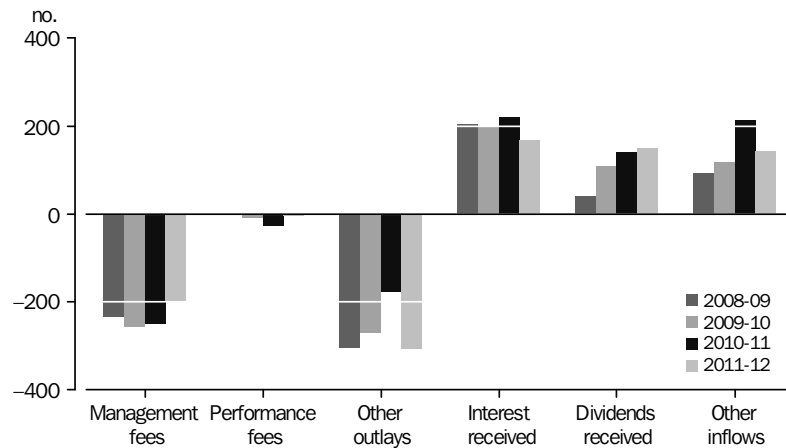


## ANALYSIS OF RESULTS *continued*

### VC&LSPE MANAGERS AND INVESTMENT VEHICLES *continued*

VC&LSPE investment vehicles had total expenditure of \$509m during 2011-12, of which the largest component was management fees (\$198m, compared to \$250m during 2010-12). Total income fell to \$459m, driven by a fall in interest receipts (\$167m in 2011-12 compared to \$220m in 2010-11) and other inflows (\$143m in 2011-12 compared to \$213m in 2010-11).

### EXPENDITURE AND INCOME OF INVESTMENT VEHICLES



VC&LSPE investment vehicles used various valuation methods (refer to paragraph 14 of the Explanatory Notes). The AVCAL method was most frequently used, with 159 VC&LSPE investment vehicles using this method in 2011-12, followed by book value/cost valuation (32), directors valuation (31) and independent valuation methods (17).

### INVESTEE COMPANIES

When interpreting these data please see the cautionary note in paragraph 19 of the Explanatory Notes.

At the beginning of the 2011-12 financial year there was \$8,700m invested in 880 VC&LSPE investee companies. During the 2011-12 financial year a further \$677m was invested in new VC&LSPE investee companies, and an additional \$250m of follow-on investment was made in existing VC&LSPE investee companies. Net of revaluations and exits this resulted in an investment as at 30 June 2012 of \$7,066m in 792 VC&LSPE investee companies.

In 2011-12, there were 94 new VC&LSPE investee companies valued at \$677m compared to 97 new VC&LSPE investee companies valued at \$928m in 2010-11. There were 176 follow-on investments made to VC&LSPE investee companies in 2011-12, valued at \$250m, compared to 172 follow-on investments worth \$286m in 2010-11.

Of the 94 new VC&LSPE investee companies in 2011-12, 67 were VC investee companies worth \$208m compared to 65 new VC investee companies valued at \$71m in 2010-11. The 27 new LSPE investee companies in 2011-12 were worth \$469m, while the 32 new LSPE investee companies in 2010-11 were valued at \$857m.

When splitting new and follow-on investments by the VC and LSPE stage, the number of new and follow-on VC investments made to VC investee companies in 2011-12 were 202 (compared to 188 in 2010-11), and valued at \$331m (\$259m in 2010-11). There were 68 new and follow-on LSPE investments made to LSPE investee companies, 13 less than in

## ANALYSIS OF RESULTS *continued*

### INVESTEE COMPANIES *continued*

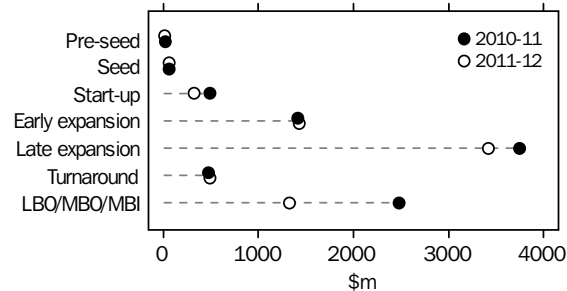
2010-11, while the value of these LSPE investments were \$596m compared to \$955m in 2010-11.

In 2011-12, there were 135 VC follow-on investments made to VC investee companies worth \$123m compared to 123 follow-on VC investments made to VC investee companies valued at \$188m in 2010-11. The 41 follow-on LSPE investments made to LSPE investee companies in 2011-12 were worth \$127m, while 49 follow-on LSPE investments made to LSPE investee companies in 2010-11 were worth \$98m, a 30% difference in the value of follow-on LSPE investments over the two years .

The largest concentration of deals held by VC&LSPE vehicles as at 30 June 2012 was with VC&LSPE investee companies established for over 10 years (37%). Investee companies in the 1 to 5 year category accounted for 32% of deals at the end of 2011-12.

In terms of the current stage of investment, total investments in the late expansion stage attracted the largest share, with \$3,422m or 48% of total value as at 30 June 2012.

VALUE OF INVESTMENT, By investee stage (a)



(a) Refer to the Glossary for investee stage definitions.

In 2011-12 as well as 2010-11, the large majority of deals (78%) attracted less than \$10m worth of investment from any one vehicle.

Most investment was in VC&LSPE investee companies with head offices in New South Wales and Victoria. The current value of VC&LSPE investee companies with head offices in New South Wales fell \$1,038m to \$2,951m compared to 2010-11, Victoria also fell \$381m to \$1,333m. The current value of investments by Australian VC&LSPE investment vehicles in offshore VC&LSPE investee companies fell \$212m to \$1,198m, accounting for 17% of total investment.

VC&LSPE investment vehicles invested in a wide range of industries. Of the total value of \$7,066m invested in 2011-12, Finance and Property was the predominant industry of investment, with investments as at 30 June 2012 of \$1,582m (22% of total investment) with a \$511m drop in the level of investment. The Health and Other Services industry with investments of \$1,296m (18% of total investment) and Manufacturing and Utilities industries with investments of \$1,149m (16% of total investment) ranked the second and third most predominant industries of investment respectively. The Manufacturing and Utilities industries had the greatest fall in dollar terms of \$673m (37%), from the level of investment in 2010-11. The Finance and Property fell \$511m (24%) and Trade and Accommodation industries fell \$370m (25%). Two industry categories reported increases in their value of VC&LSPE investee companies, with Transport and Communication

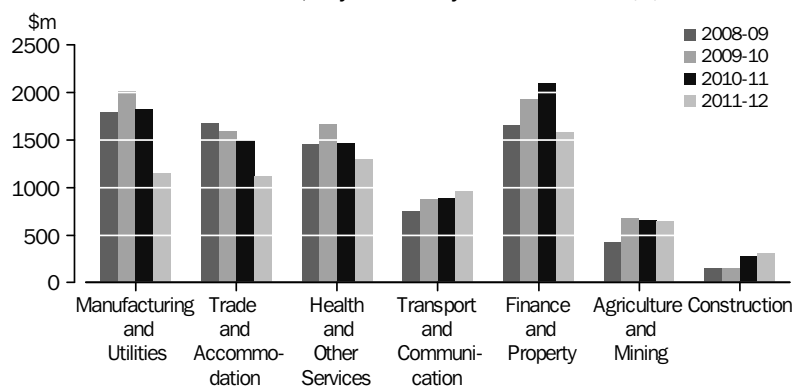


## ANALYSIS OF RESULTS *continued*

### INVESTEE COMPANIES *continued*

industry investment values rising \$76m (9%) and the Construction industry rising \$27m (10%).

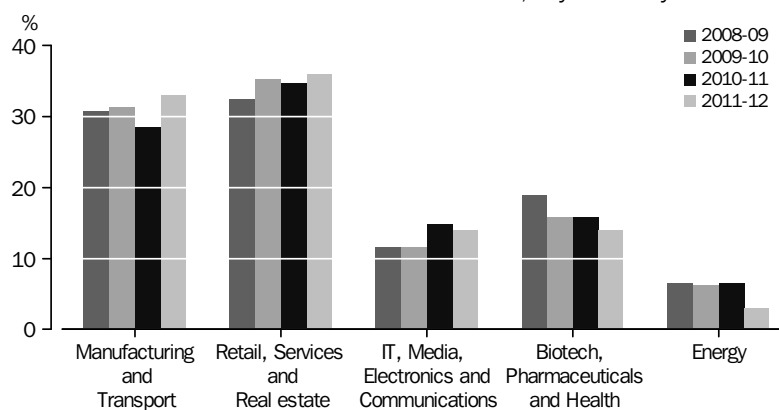
VALUE OF INVESTMENT, By industry of investee (a)



(a) Based on combined Australian and New Zealand Standard Industrial Classification 1993 (ABS cat. no. 1292.0)

When analysed by activity, as defined by the Standard and Poors Activity Classification, the Retail, Services and Real estate activities attracted the largest share of investment, with \$2,542m or 36% of total investment as at 30 June 2012. The Manufacturing and Transport activities with \$2,335m (33%) also maintained a large share of the total investments as at 30 June 2012.

PERCENTAGE OF VALUE OF INVESTMENT, By activity of investee (a)



(a) Based on Standard and Poors Global Industry Classification

**1****INVESTMENT BY VENTURE CAPITAL AND LATER STAGE PRIVATE EQUITY INVESTMENT  
VEHICLES IN INVESTEE COMPANIES**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Investments at beginning of year</b>	<b>4 665</b>	<b>6 939</b>	<b>8 315</b>	<b>7 903</b>	<b>8 912</b>	<b>8 700</b>
<i>Additions to investment value during year</i>						
New vehicles and projects	2 359	2 223	1 003	800	r928	677
Follow-on investments	446	547	675	444	286	250
Unrealised gains in investee companies	557	-438	-928	496	r224	-340
<i>Exits and other decreases in value (at balance sheet valuations)</i>						
Trade sales	392	476	618	450	r1 403	1 648
Initial public offers	360	411	—	155	np	np
Buybacks	53	12	64	81	np	np
Write-offs	40	50	249	40	r44	63
Left the industry	243	6	231	5	r179	463
<b>Investments at end of year</b>	<b>6 939</b>	<b>8 315</b>	<b>7 903</b>	<b>8 912</b>	<b>r8 700</b>	<b>7 066</b>

— nil or rounded to zero (including null cells)

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np not available for publication but included in totals where applicable, unless otherwise indicated

## NEW AND FOLLOW-ON INVESTMENT IN INVESTEE COMPANIES, By stage of investee company

	2010-11				2011-12			
	Companies		Value		Companies		Value	
	no.	%	\$m	%	no.	%	\$m	%
<b>New investments during the year</b>								
Venture capital								
Pre-seed	np	np	np	np	np	np	np	np
Seed	np	np	np	np	np	np	np	np
Start-up	r13	13.4	r23	2.5	15	16.0	82	12.1
Early Expansion	23	23.7	38	4.1	32	34.0	115	17.0
<i>Total venture capital</i>	r65	67.0	r71	7.7	67	71.3	208	30.7
Later stage private equity								
Late Expansion	r20	20.6	r549	59.2	15	16.0	294	43.4
Turnaround	np	np	np	np	np	np	np	np
LBO/MBO/MBI	np	np	np	np	np	np	np	np
<i>Total later stage private equity</i>	r32	33.0	r857	92.3	27	28.7	469	69.3
<b>Total</b>	<b>r97</b>	<b>100.0</b>	<b>r928</b>	<b>100.0</b>	<b>94</b>	<b>100.0</b>	<b>677</b>	<b>100.0</b>
<b>Follow-on investments during the year</b>								
Venture capital								
Pre-seed	np	np	np	np	4	2.3	1	0.3
Seed	np	np	np	np	34	19.3	13	5.3
Start-up	39	22.7	66	23.0	38	21.6	43	17.3
Early Expansion	61	35.5	112	39.4	59	33.5	66	26.5
<i>Total venture capital</i>	123	71.5	188	65.7	135	76.7	123	49.4
Later stage private equity								
Late Expansion	29	16.9	64	22.5	24	13.6	86	34.3
Turnaround	10	5.8	17	6.1	6	3.4	21	8.5
LBO/MBO/MBI	10	5.8	16	5.6	11	6.3	20	7.9
<i>Total later stage private equity</i>	49	28.5	98	34.3	41	23.3	127	50.6
<b>Total</b>	<b>172</b>	<b>100.0</b>	<b>286</b>	<b>100.0</b>	<b>176</b>	<b>100.0</b>	<b>250</b>	<b>100.0</b>
np	not available for publication but included in totals where applicable, unless otherwise indicated				r	revised		

## SOURCE OF FUNDS OF INVESTMENT VEHICLES

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m	\$m	\$m
COMMITMENTS BY INVESTORS						
Non-residents						
Pension funds	59	57	32	68	96	503
Other	1 335	1 826	1 500	1 163	1 333	1 731
Residents						
Pension funds	8 520	9 700	9 861	10 429	r9 230	9 330
Authorised deposit-taking institutions	466	577	374	205	149	202
Trading enterprises	941	1 290	1 434	1 416	r1 173	1 271
Governments in Australia	888	883	928	1 004	891	1 259
Life insurance offices	315	360	358	341	r341	324
Trusts	664	921	1 112	1 247	r1 050	1 031
Other residents	2 201	2 013	1 888	1 390	r1 368	1 559
<b>Total</b>	<b>15 389</b>	<b>17 627</b>	<b>17 487</b>	<b>17 262</b>	<b>r15 631</b>	<b>17 212</b>
Of which, invested through a fund of funds(a)	2 681	3 903	4 124	4 651	r5 111	5 703

DRAWDOWNS FROM INVESTORS						
Non-residents						
Pension funds	np	11	np	np	np	83
Other	842	1 017	833	663	784	922
Residents						
Pension funds	5 079	5 806	6 575	7 358	r7 384	7 268
Authorised deposit-taking institutions	np	506	np	np	np	158
Trading enterprises	728	1 013	1 162	1 132	r923	1 074
Governments in Australia	514	532	648	712	r720	790
Life insurance offices	304	331	340	331	r334	318
Trusts	406	649	796	914	r834	877
Other residents	910	1 045	987	865	r921	917
<b>Total</b>	<b>9 211</b>	<b>10 911</b>	<b>11 720</b>	<b>12 224</b>	<b>r12 088</b>	<b>12 407</b>
Of which, invested through a fund of funds(a)	1 466	2 052	2 393	2 573	r3 783	3 805

UNUSED COMMITMENT						
Non-residents						
Pension funds	np	46	np	np	np	420
Other	494	808	667	500	549	809
Residents						
Pension funds	3 441	3 893	3 286	3 072	r1 846	2 062
Authorised deposit-taking institutions	np	71	np	np	np	44
Trading enterprises	213	277	272	284	r251	198
Governments in Australia	374	352	280	292	171	469
Life insurance offices	11	29	18	10	7	6
Trusts	258	272	316	334	216	154
Other residents	1 291	968	900	525	r447	642
<b>Total</b>	<b>6 178</b>	<b>6 716</b>	<b>5 767</b>	<b>5 039</b>	<b>r3 543</b>	<b>4 805</b>
Of which, invested through a fund of funds(a)	1 215	1 851	1 731	2 078	r1 329	1 898

np not available for publication but included in totals where applicable, unless otherwise indicated  
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(a) Capital sourced from investors which were invested through a fund of funds, into a direct vehicle.

SOURCE OF FUNDS OF INVESTMENT VEHICLES, By investment vehicles' preferred stage of investment(a)—2011–12

	Earlier stages	Expansion	Later stages	Total
	\$m	\$m	\$m	\$m
.....				
COMMITMENTS BY INVESTORS				
Funds				
Non-residents				
Pension funds	np	np	368	503
Other	382	787	562	1 731
Residents				
Pension funds	961	3 259	5 110	9 330
Authorised deposit-taking institutions	np	np	116	202
Trading enterprises	176	654	441	1 271
Governments in Australia	368	375	516	1 259
Life insurance offices	np	np	172	324
Trusts	136	539	357	1 031
Other residents	205	826	529	1 559
<b>Total</b>	<b>2 319</b>	<b>6 722</b>	<b>8 171</b>	<b>17 212</b>
Of which, invested through a fund of funds(b)	376	1 438	3 889	5 703

.....				
DRAWDOWNS FROM INVESTORS				
Funds				
Non-residents				
Pension funds	np	np	29	83
Other	172	411	338	922
Residents				
Pension funds	795	2 679	3 794	7 268
Authorised deposit-taking institutions	np	np	115	158
Trading enterprises	166	581	327	1 074
Governments in Australia	276	264	250	790
Life insurance offices	np	np	169	318
Trusts	np	np	292	877
Other residents	147	503	267	917
<b>Total</b>	<b>1 777</b>	<b>5 048</b>	<b>5 581</b>	<b>12 407</b>
Of which, invested through a fund of funds(b)	300	994	2 511	3 805

.....				
UNUSED COMMITMENT				
Funds				
Non-residents				
Pension funds	—	81	339	420
Other	210	376	224	809
Residents				
Pension funds	166	580	1 316	2 062
Authorised deposit-taking institutions	—	43	1	44
Trading enterprises	11	73	114	198
Governments in Australia	92	111	266	469
Life insurance offices	np	np	3	6
Trusts	np	np	65	154
Other residents	58	322	262	642
<b>Total</b>	<b>541</b>	<b>1 674</b>	<b>2 589</b>	<b>4 805</b>
Of which, invested through a fund of funds(b)	76	444	1 378	1 898

— nil or rounded to zero (including null cells)

np not available for publication but included in totals where applicable, unless otherwise indicated

(a) Refer to paragraph 12 of the Explanatory Notes

(b) Capital sourced from investors which were invested through a fund of funds, into a direct vehicle.

## 5

## INVESTMENT VEHICLES AND ASSETS, By type of legal organisation and program participation

	2009-10		2010-11		2011-12	
	Investment vehicles	Value	Investment vehicles	Value	Investment vehicles	Value
	no.	\$m	no.	\$m	no.	\$m
<b>Type of Legal Organisation</b>						
Listed company	14	995	13	713	13	489
Unlisted company	64	416	r55	619	51	266
Trust	151	7 832	r143	r7 468	133	6 589
Other	40	1 948	r40	2 115	42	1 441
<b>Government program participation</b>						
Pooled Development Program	60	460	r48	398	45	493
Other	40	1 798	39	1 402	42	1 157
<i>Subtotal</i>	100	2 259	r87	1 800	87	1 650
No participation in a government assistance program	169	8 932	r164	r9 116	152	7 135
<b>Total</b>	<b>269</b>	<b>11 190</b>	<b>r251</b>	<b>r10 916</b>	<b>239</b>	<b>8 785</b>

r revised

## 6

## INVESTMENT VEHICLES, By valuation method and value of assets

	2009-10	2010-11	2011-12
	no.	no.	no.
<b>Valuation method</b>			
AVCAL	165	r161	159
Directors	35	31	31
Independent	25	23	17
Cost/Book	44	36	32
<b>Value of assets held</b>			
Less than \$10m	132	r128	122
\$10m to less than \$20m	36	34	31
\$20m to less than \$40m	34	26	30
\$40m to less than \$60m	17	14	16
\$60m to less than \$80m	9	10	12
More than \$80m	41	39	28
<b>Total</b>	<b>269</b>	<b>r251</b>	<b>239</b>

r revised

	2009–10	2010–11	2011–12
	\$m	\$m	\$m
<b>Assets</b>			
Non-residents			
Unlisted equity	1 011	1 120	864
Listed equity	123	309	303
Other	330	322	88
<i>Total non-resident assets</i>	<i>1 464</i>	<i>1 751</i>	<i>1 255</i>
Residents			
Cash and deposits	645	792	516
Debt securities	837	1 091	967
Listed equities	457	570	347
Unlisted equities	6 381	r5 660	5 000
Other venture capital funds	503	487	np
Other equity	24	15	np
Other financial	557	r445	234
Non-financial	323	105	63
<i>Total resident assets</i>	<i>9 726</i>	<i>r9 165</i>	<i>7 531</i>
<b>Total assets</b>	<b>11 190</b>	<b>r10 916</b>	<b>8 785</b>
<b>Liabilities</b>			
Borrowings	329	248	163
Other	657	r407	237
<b>Total liabilities</b>	<b>986</b>	<b>r655</b>	<b>400</b>
<b>Net assets</b>	<b>10 204</b>	<b>r10 261</b>	<b>8 385</b>
<b>Expenditure and income</b>			
Selected outlays			
Management fees	257	r250	198
Performance fees	9	27	5
Interest payments	23	10	20
Wages and salaries	61	26	29
Taxation	17	11	27
Professional services	37	25	44
Other outlays	132	107	187
Selected income			
Interest receipts	198	220	167
Dividends received	109	141	150
Other inflows	117	213	143

np not available for publication but included in totals where applicable, unless otherwise indicated

r revised

## SUMMARY OF INVESTEE COMPANIES

	2009-10		2010-11		2011-12	
	Companies	Value	Companies	Value	Companies	Value
	no.	\$m	no.	\$m	no.	\$m
<b>By location of investee company head office</b>						
New South Wales	328	4 016	r296	r3 989	273	2 951
Victoria	198	1 779	r188	r1 714	180	1 333
Queensland	112	767	r100	748	86	814
Western Australia	64	463	64	r403	66	426
South Australia	39	267	45	323	34	201
Tas., ACT and NT	61	129	r48	r113	35	142
Overseas	182	1 491	r139	r1 410	118	1 198
<b>By industry of investee company(a)</b>						
Agriculture and mining	67	676	58	660	63	651
Manufacturing and utilities	255	2 015	r229	r1 822	181	1 149
Construction	19	148	25	279	25	306
Trade and accommodation	98	1 592	r85	r1 489	77	1 119
Transport and communication	99	880	r78	886	72	962
Finance and property	174	1 932	r153	r2 093	153	1 582
Health and other services	272	1 668	r252	r1 470	221	1 296
<b>By activity of investee company(b)</b>						
Manufacturing and transport	217	2 789	r184	r2 480	167	2 335
IT, media, electronics and communications	241	1 031	r213	r1 285	195	987
Retail, services and real estate	208	3 139	r191	r3 011	175	2 542
Biotech, pharmaceuticals and health	256	1 396	r240	r1 361	203	993
Energy	62	557	52	563	52	209
<b>By stage of investee company(c)</b>						
Pre-seed	27	22	r31	24	22	17
Seed	89	74	r90	65	87	62
Start-up	153	559	r140	r490	123	321
Early Expansion	333	2 117	r271	r1 416	264	1 427
Late Expansion	201	2 987	r213	3 750	199	3 422
Turnaround	48	627	42	477	34	490
LBO/MBO/MBI	133	2 526	r93	2 479	63	1 326
<b>By age of investee company</b>						
Less than one year	45	236	53	339	33	58
One year to less than five years	336	2 200	257	1 637	254	1 400
Five years to less than ten years	314	1 696	282	1 587	214	1 070
Ten years or more	289	4 780	r288	r5 136	291	4 538
<b>Total</b>	<b>984</b>	<b>8 912</b>	<b>r880</b>	<b>r8 700</b>	<b>792</b>	<b>7 066</b>

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(a) Based on combined *Australian and New Zealand Standard Industrial Classification 1993* (ABS cat. no. 1292.0)(b) Based on Standard and Poors *Global Industry Classification*

(c) Refer to the Glossary section for stage of investee definitions



9

NUMBER OF INVESTEE COMPANIES, By value of investments

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
	<i>Companies</i>	<i>Companies</i>	<i>Companies</i>
	no.	no.	no.
Less than \$1m	396	r359	314
\$1m to less than \$10m	376	327	300
\$10m to less than \$20m	85	78	71
More than \$20m	127	116	107
<b>Total</b>	<b>984</b>	<b>r880</b>	<b>792</b>

r revised

## EXPLANATORY NOTES

### THE SURVEY

**1** This publication contains Venture Capital and Later Stage Private Equity (VC&LSPE) statistics for the period 2006–07 to 2011–12.

**2** The 2011-12 VC&LSPE survey was funded by Department of Innovation, Industry, Science, Research and Tertiary Education. The survey was first conducted for the 1999–2000 reference period, with results released as a Special Article in the *Managed Funds, Australia* (cat. no. 5655.0) December quarter 2000 issue.

### SCOPE AND COVERAGE

**3** The VC&LSPE survey aimed to cover all investments by resident VC&LSPE vehicles in enterprises that met the following definitions of venture capital and later stage private equity.

**4** *Venture capital* is 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 a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).

**5** *Later stage private equity* is defined as investment in companies in later stages of development, as well as investment in underperforming companies. These companies are still being established, the risks are still high and investors have a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).

**6** As VC&LSPE vehicles 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 the investment managers 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 VC&LSPE funds are also included within the scope of this survey. This type of fund pools investments from a diverse range of investors and mainly places its investments with other VC&LSPE 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.

**8** Organisations which were not considered VC&LSPE funds for the purposes of this survey included organisations with a principal activity of providing non-financial support to seed industries. For instance, incubators (typically providing office space and support) set up by either a state government or by way of a Commonwealth grant facilitate seed enterprises in their efforts to get the 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 significant equity investment in seed enterprises were included in this survey.

**9** Investments by non-resident VC&LSPE funds in Australian investee companies are out of scope of this survey, however funds sourced from non-residents and Australian funds investing in non-resident companies are in scope. In addition, non-institutional investors such as "business angels" (private individuals investing in private equity) are also excluded.

## EXPLANATORY NOTES *continued*

### SCOPE AND COVERAGE

*continued*

**10** 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 AVCAL, the Australian Venture Capital Guide, business directories and venture capital journals. The survey is a census of VC&LSPE vehicles domiciled in Australia that were able to be identified by the ABS. Investment managers reported on behalf of the VC&LSPE investment vehicles they controlled.

### CHARACTERISTICS OF VC&LSPE ACTIVITIES

**11** The following are typical characteristics of VC&LPSE activities.

- The VC&LSPE 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 specialist fund manager will typically receive between five and 20 approaches each month for funding; of those two or three may receive more thorough examination, and out of those perhaps one 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 in terms of the amount of capital they are raising and disbursing, their offices typically have only a small number of highly trained staff. There may be five or 10 approaches that are investigated thoroughly or undergo due diligence. From these perhaps two or three will receive funding in a quarter.
- A small number of large organisations receive upwards of 400 approaches a month. These offices are still run with a small number of staff. The culling process is similar to that of the medium sized organisations, with perhaps five to seven enterprises receiving funding in any one quarter.

### STAGES OF INVESTMENT

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

- Earlier stages (includes pre-seed, seed or start-up): products are in development, testing or pilot production. Investee companies may not be fully operational and may not yet be generating revenue.
- Expansion ( includes early expansion, expansion or late expansion): developed products are in the market and the investee company has significant revenue growth and may be approaching, or at, profitable operating levels.
- Later stages (includes turnaround, late, buy-out or sale): a mature investee company that may require financing for turnarounds (because of flat or declining revenue), consolidation and selling of the business.
- *Venture Capital (VC)* refers to the pre-seed, seed, start-up and early expansion stage of investment.
- *Later Stage Private Equity (LSPE)* refers to the late expansion, turnaround and buy-out or sale stage of investment.

### TYPES OF CAPITAL

**13** 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 3 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.

## EXPLANATORY NOTES *continued*

### VALUATION BASIS

**14** The VC&LSPE 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 in reporting the value of the private equity holdings.

#### *Methods of valuation*

#### ASSETS VALUED BY THE AVCAL METHOD

**15** 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 DIRECTORS' VALUATION

**16** 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

**17** 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

**18** 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.

### DATA QUALITY

**19** Care should be exercised when viewing investee company data. The number of investee companies displayed represents the number of investments that VC&LSPE investment vehicles have made, and not the total number of companies that have received funding. In some cases an individual company may receive funding from several different VC&LSPE investment vehicles.

**20** Industry and activity of VC&LSPE investee company were self classified by VC&LSPE managers at the time of reporting. Some organisations may have experienced difficulty in classifying their VC&LSPE investee companies. The ABS makes every effort to ensure correct and consistent interpretation and reporting of these data by applying consistent processing methodologies.

### EFFECTS OF ROUNDING

**21** Any discrepancies between totals and sums of components in the tables are due to rounding.

### RELATED STATISTICS

**22** Related ABS publications which may also be of interest include:

*Australian System of National Accounts* (cat. no. 5204.0)— annually;

*Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0)— quarterly;

*Australian National Accounts: Concepts, Sources and Methods* (cat. no. 5216.0)— issue, 2012;

*Australian National Accounts: Financial Accounts* (cat. no. 5232.0)—quarterly;

*Managed Funds, Australia* (cat. no. 5655.0)— quarterly;

*Standard Economic Sector Classifications of Australia* (SESCA) (cat. no.1218.0)— issue, 2008;

*Australian and New Zealand Standard Industrial Classification* (cat. no. 1292.0).

**23** Non-ABS data sources:

*Australian Private Equity and Venture Capital Association Limited website*  
<<http://www.avcal.com.au>>

*Australian Venture Capital Guide 2011, Australian Venture Capital Journal;*  
website contact <<http://www.privateequitymedia.com.au>>

## EXPLANATORY NOTES *continued*

### RELATED STATISTICS *continued*

- 24** Additional data available on the ABS website <<http://www.abs.gov.au>> includes:
- Source of funds of investment vehicles, Changes during the year
  - New and follow-on investment in investee companies, By location of investee company head office
  - New and follow-on investment in investee companies, By type of investment, By industry of investee company
  - New and follow-on investment in investee companies, By type of investment, By activity of investee company
  - Days spent by managers, By activity of investee company
  - Days spent by managers, By stage of investee company
- 25** Data available on request:  
The ABS may be able to provide additional data for this survey on request.

### ABBREVIATIONS

\$b	billion (thousand million) dollars
\$m	million dollars
ADI	Authorised Deposit-taking Institution
ANZSIC93	<i>Australian and New Zealand Standard Industrial Classification, 1993 Edition</i>
AVCAL	Australian Private Equity and Venture Capital Association Limited
IPO	Initial Public Offer
IT	information technology
LBO	leveraged buyout
MBI	management buyin
MBO	management buyout
PDF	Pooled Development Fund
VC&LSPE	Venture Capital and Later Stage Private Equity

## GLOSSARY

<b>Commitments from investors</b>	Capital pledged by investors, representing the maximum amount that the fund may drawdown from investors.
<b>Debt securities</b>	Debt securities are borrowings which may be traded on secondary markets. Short term debt securities include bills of exchange, commercial paper and promissory notes. They generally have an original term to maturity of 30 to 180 days. Long term debt securities have an original term maturity of more than one year, and include bonds, debentures, convertible notes, and non-participating preference shares. They do not include derivatives.
<b>Drawdowns from investors</b>	For VC&LSPE investment vehicles, this represents the amount of capital committed by investors that actually transferred to a VC&LSPE investment vehicle in aggregate for the life of the fund, and is also known as paid-in capital. 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 VC&LSPE investee companies, drawdowns from investors represents paid-up capital as at the end of the year.
<b>Follow-on investment</b>	A subsequent investment made by an investor who made a previous investment in the company; generally equal to a later stage investment in comparison to the initial investment.
<b>Fund of funds</b>	This type of fund pools investments from a diverse range of investors and mainly places its investments with other VC&LSPE investment vehicles who then invest in investee companies. Fund of funds may directly invest in unlisted companies, but these investments are typically undertaken as a co-investment with another VC&LSPE manager who manages the investment.
<b>IPO</b>	IPO stands for Initial Public Offering, and is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time.
<b>Late Expansion</b>	Current product improvement or new product development. Continued revenue growth. Approaching, or at, profitable operating levels.
<b>Later stage private equity</b>	An investment in companies in later stages of development, as well as investment in underperforming companies. These companies are still being established, the risks are still high and investors have a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).
<b>LBO</b>	Leveraged Buy-Out (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of an acquisition. Often, the assets of the company being acquired are used as the collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.
<b>LBO/MBO/MBI</b>	The current acquisition of a product or business from either a public or private company often utilizing a significant amount of debt and little or no equity. Includes management buy-out/in (MBO/MBI) and leveraged buy-out/in (LBO/LBI)
<b>Life insurance offices</b>	Life insurances offices must be registered with the Australian Prudential Regulation Authority (APRA). Life insurance offices offer insurance for death or disability and also offer investment and superannuation products. Generally, they have the word “life” in their legal name. They include friendly societies, but exclude insurance companies offering house, car and marine insurance.
<b>Listed shares and units</b>	Listed shares comprise shares in resident companies and units in resident trusts quoted on the ASX. Does not include equity derivatives or shares in foreign companies.
<b>Non-residents</b>	A non-resident is any individual, business or other organisation domiciled overseas. Foreign branches and foreign subsidiaries of Australian businesses are regarded as non-residents.

## GLOSSARY *continued*

<b>Pre-seed</b>	Investee company is in the process of setting up. Product is in research and development stage.
<b>Privately-owned trading companies</b>	Privately-owned trading companies are those owned and controlled by the private sector and which produce goods or non-financial services for sale at market prices.
<b>Residents</b>	An Australian resident is any individual, business or other organisations domiciled in Australia. Australian branches and Australian subsidiaries of foreign businesses are regarded as Australian residents.
<b>Sale/IPO/Listing</b>	The investment in a business with the intention of listing it on the stock exchange, eventually offering shares to the public.
<b>Seed</b>	Investee company is in the process of setting up. Product at testing or pilot production stage.
<b>Start-up</b>	The investee company is probably not yet fully operational. May or may not be generating revenue.
<b>Superannuation (pension) funds</b>	Superannuation (pension) funds are established to provide benefits for their members on retirement, resignation, death or disablement. A superannuation fund usually takes the legal form of a trust fund. Includes pooled superannuation trusts (PST), approved deposit funds (ADF) and public sector superannuation funds.
<b>Trading enterprises owned by state, territory and local governments</b>	Those businesses which are owned and controlled by state, territory or local governments and which produce goods or non-financial services for sale at market prices. These include non-privatised power authorities, housing commissions, and port authorities.
<b>Trading enterprises owned by the Commonwealth Government</b>	Those businesses which are owned and controlled by the Commonwealth Government and which produce goods or non-financial services for sale at market prices.
<b>Trusts</b>	Public unit trusts issue units to the general public within Australia and invest the pooled monies. They must have registered a prospectus with the Australian Securities and Investment Commission (ASIC). Some are listed on the Australian Stock Exchange (ASX). There are two broad types of public unit trusts: property and trading trusts; and financial trusts such as mortgage, fixed interest and equity trusts.
<b>Turnaround</b>	Current product turnover stagnant. Flat or declining revenue. Company may not be profitable. Financing provided to a company at a time of operational or financial difficulty with the intention of improving the company's performance.
<b>Unincorporated business not elsewhere covered</b>	These are trading businesses operated by persons either as sole proprietors or in partnerships with other persons. They do not operate through a company structure.
<b>Unlisted equity</b>	These include equity in resident unlisted trusts and resident unlisted participating preference shares.
<b>Unrealised gains/losses</b>	Are the change in the market value of an equity that will only be realised on the sale of the equity.
<b>Venture Capital</b>	A 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 a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).
<b>Write Offs</b>	Are a writing down of a portfolio company's holdings to a valuation of zero, with the fund receiving no proceeds from their investments.

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