



2003-04

5678.0

VENTURE CAPITAL

AUSTRALIA

EMBARGO: 11.30AM (CANBERRA TIME) FRI 26 NOV 2004

CONTENTS

	<i>page</i>
Notes	2
Summary of findings	3
Analysis of results	4

TABLES

List of tables	11
Investors	12
Managers and investment vehicles	13
Investees	17

ADDITIONAL INFORMATION

Explanatory notes	19
-------------------------	----

INQUIRIES

- 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.

NOTES

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.

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.

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 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 2003-04 Venture Capital survey and compares results with the four earlier surveys (1999-2000 to 2002-03). This is the fourth annual release of ABS Catalogue 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 (Cat. no. 5655.0).

REVISIONS THIS ISSUE

This issue contains revisions to previously published data for the 2002-03 and 2001-02 results. The revisions have mainly resulted from coverage improvements, consultation with users and providers about clarification and correction of a number of reporting errors.

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

SUMMARY OF FINDINGS

OVERVIEW

The results of the fifth Venture Capital survey show that there was strong growth in funds committed to venture capital investment vehicles during 2003-04. As at 30 June 2004, investors had \$9.0b committed to venture capital investment vehicles, an increase of 19% on the \$7.5b committed as at 30 June 2003. Investors had \$5.1b of committed funds drawn down at 30 June 2004, an increase of 8% on the previous year end (\$4.7b at June 2003). This left \$3.9b of committed funds yet to be called on, up 38% on the \$2.8b of unused commitments as at June 2003. See table 1 for details. Most of these funds were sourced domestically, with 93% of the total investment from Australian investors (up slightly on June 2003).

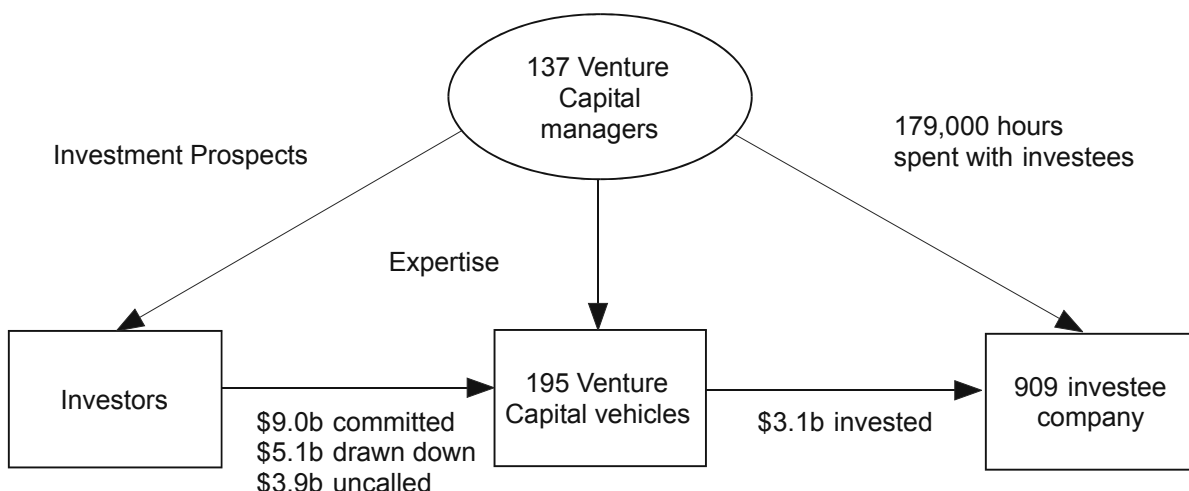
While both commitments and committed funds drawn down both increased strongly to the end of June 2004, the value of investments by venture capital investment vehicles at the end of 30 June 2004 (\$3.1b in 909 investee companies) is down 7% compared with the end of June 2003 (\$3.3b in 889 investee companies). This level of investment, derived after deduction of fees and other expenses, exits and allowing for holdings of liquid assets, decreased mainly due to 2003-04 being a successful year for exits in the venture capital industry. During 2003-04 the total value of all exits through trade sales, sale of shares (including IPOs) and buybacks amounted to \$1,460m (representing \$729m of investment and \$731m profit over the life of the investments).

New and follow-on investments during 2003-04 contributed \$627m to this June 2004 total, down 6% on investments made during 2002-03. Investments in these 909 investee companies were reported by 195 venture capital investment funds and companies (177 in 2002-03).

The selection of investee companies (into which venture capital is invested) was an intensive process. The total of 137 venture capital managers reviewed 10,530 potential new investments during 2003-04 and conducted further analysis on 1,067 of those, with 181 being sponsored for venture capital. These managers spent a total of 179,000 hours with the investee companies (190,000 in 2002-03), advising and assisting in the development of the enterprises.

The following diagram summarises key findings for venture capital in 2003-04.

KEY FIGURES 2003-04



ANALYSIS OF RESULTS

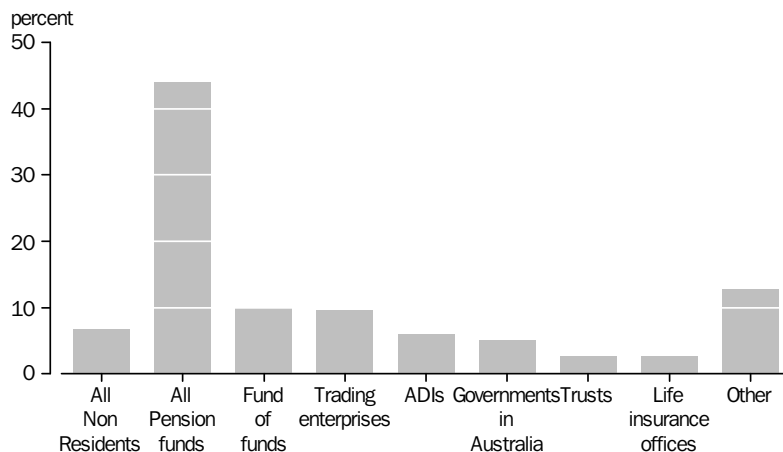
INVESTORS

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. Certainly the concept of commitments by type of investor is less clear-cut, by comparison with trust funds.

At June 2004 investors had \$9.0b committed with venture capital investment vehicles. This compares with \$7.5b at June 2003 and \$6.8b at June 2002. See table 1 for detailed source of funds data. Of the \$5.1b drawn down at June 2004, 67% was by venture capital trust funds while corporations accounted for the majority of the remainder (31%).

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 44% of total drawdowns (up from 39% at June 2003) by venture capital vehicles.

DRAWDOWN INVESTMENT IN VENTURE CAPITAL FUNDS BY INVESTOR TYPE, percentage of total investment in venture capital vehicles, June 2004



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 137 active venture capital managers who were managing 195 venture capital investment vehicles. This compares with 136 active managers managing 177 vehicles in 2002-03.

ANALYSIS OF RESULTS *continued*

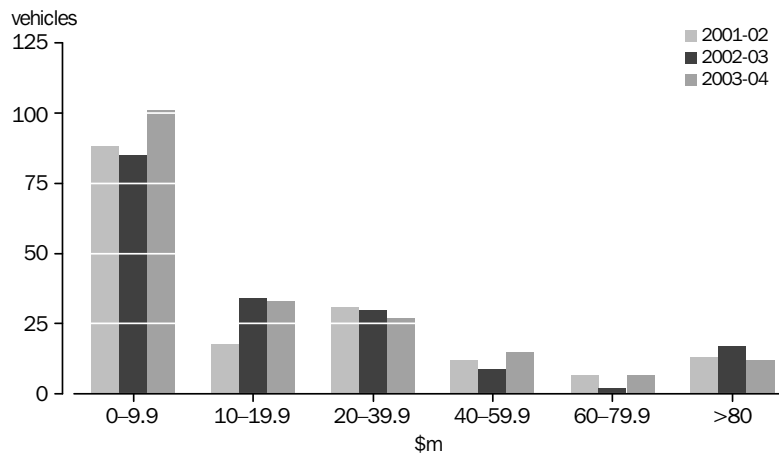
VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

Venture capital fund managers spent 179,000 hours with investee companies (tables 2 and 3) and received income in the form of management fees (\$105m). In 2003-04, fund managers spent on average 3.0 days a month per investee company. This compares with 2.9 days in both 2002-03 and 2001-02. The average days spent with investee companies with Biotechnology, Pharmaceuticals and Health related activities increased for the fourth consecutive year. Decreases were recorded in 2003-04 in the average days spent with investee companies with Manufacturing and Transport related activities as well as those with Information Technology, Media, Electronics and Communications activities.

Venture capital investment vehicles had net assets of \$3.7b at June 2004 compared with \$3.8b in June 2003 and \$3.6b in June 2002 (see table 5). Most venture capital investment vehicles were either trusts (funds) or corporations. Table 6 indicates that, of the 195 vehicles operating in 2003-04, 102 were companies. Of these, 82 were not listed with the Australian Stock Exchange. At June 2004, about 43% of venture capital vehicles were trust funds, this compares with 41% in June 2003 and 37% in June 2002.

Many venture capital investment vehicles participated in government sponsored programs. Table 7 indicates that 93 of the 195 venture capital investment vehicles were participating in a government program at June 2004, an increase of 1 on June 2003 and an increase of 3 on June 2002. Most of the participating investment vehicles were with the Federal government's Pooled Development Fund (PDF) program, with the other significant government programs being the Innovation Investment Fund (IIF) program and the Building Information Technology Strengths (BITS) program.

INVESTMENT VEHICLES BY VALUE OF ASSETS HELD



The range of total assets held by investment vehicles was widely dispersed, from 101 investment vehicles having less than \$10m in assets to 12 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. The following graph shows investment flows for deals by the venture capital industry over the past three survey years. From this graph it can be seen that total investments by venture capital investment vehicles fell slightly (down \$39m, -6%) in 2003-04, decreasing from \$666m in 2002-03 to \$627m in 2003-04. This decline was driven primarily by the fall in follow-on investments (down \$32m, -16%) over the course of 2003-04.

ANALYSIS OF RESULTS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

Most return on investment to investees is through exits from investments. As shown below, 2003-04 was a successful year for exits in the venture capital industry. There was a total of 133 investee companies exited through trade sales, sale of shares (including IPOs) and buybacks amounting to \$1,460m in 2003-04 (representing \$729m of investment and \$731m profit over the life of the investments). This compares to the total value of all exits of \$331m in 2002-03 (comprised of \$212m of investment and \$119m in profits). The value of vehicles that have dropped out of the Australian venture capital industry (\$144m in 2003-04) was lower than the level recorded in the previous three years. 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

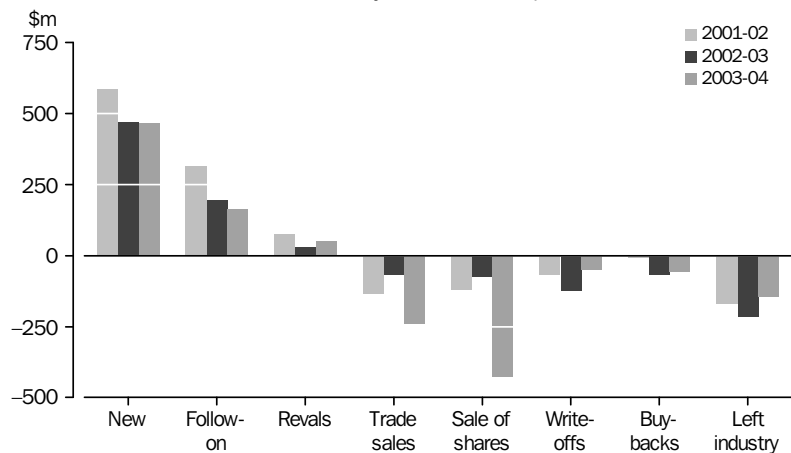
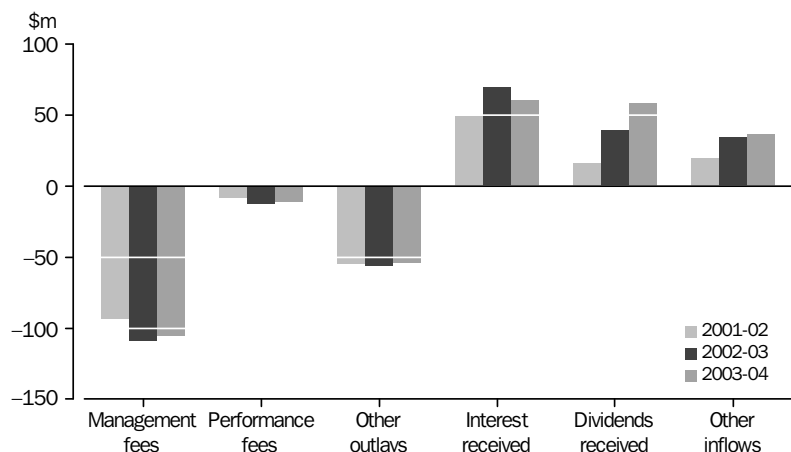


Table 4 indicates that investment vehicles had total expenditures of \$170m over 2003-04, mainly in management fees, which totalled \$105m, down slightly on the previous year's expenditure (\$178m over 2002-03). Total income increased to \$154m, with the increase driven mainly by a large increase in dividends received from \$39m in 2002-03 to \$58m in 2003-04.

INCOME AND EXPENDITURE OF VENTURE CAPITAL VEHICLES

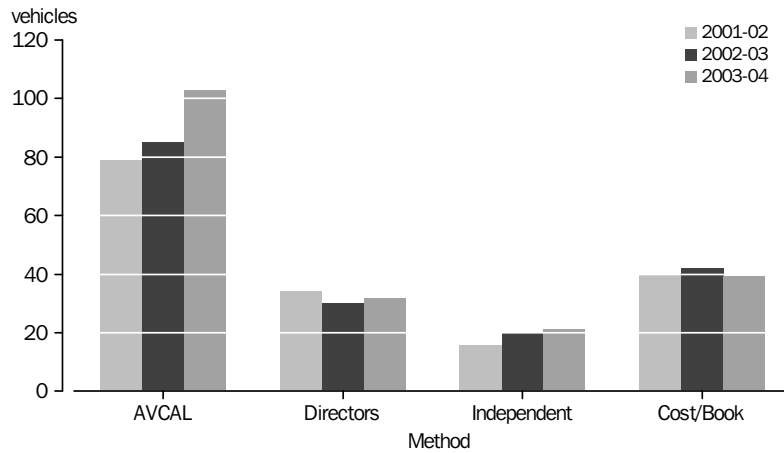


ANALYSIS OF RESULTS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

Venture capital funds used various valuation methods. The Australian Venture Capital Association Ltd method was most frequently used, with 103 vehicles using this method, followed by book value/cost (39) and directors (32) valuation methods.

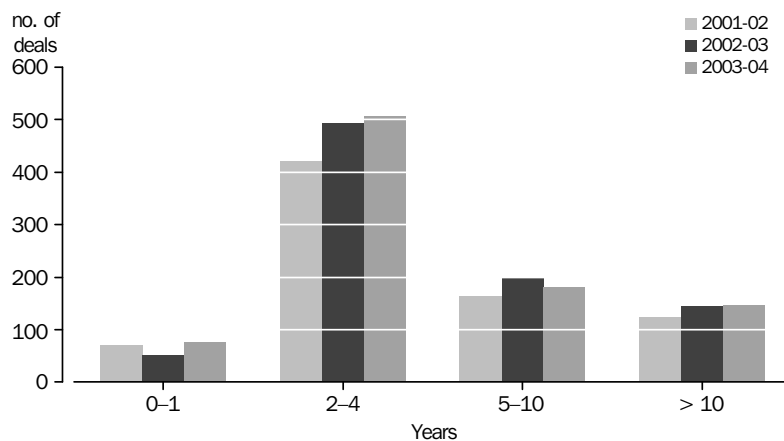
VALUATION METHODS USED BY VENTURE CAPITAL FUND VEHICLES



INVESTEE COMPANIES

Of the \$3.1b that had been invested in the 909 investee companies (deals) at June 2004, \$465m was invested in new projects during the 2003-04 financial year (down by \$7m or 1% on 2002-03), with additional investments in existing projects of \$162m (down \$32m or 16%) (see table 8 for more details).

NUMBER OF DEALS BY AGE OF INVESTEE COMPANY

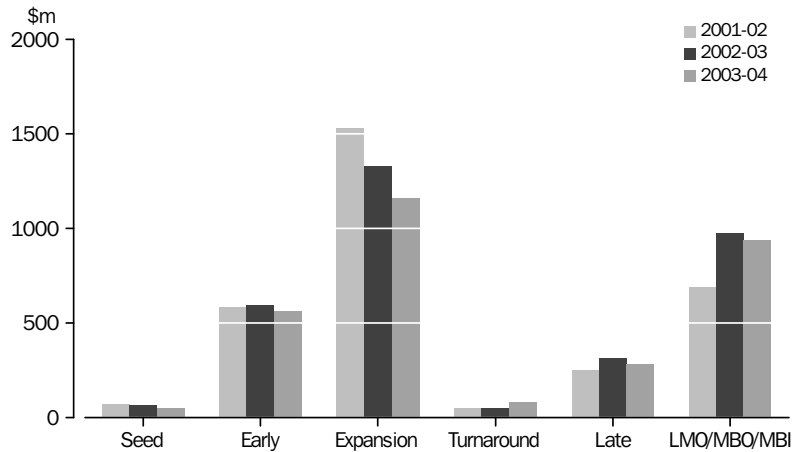


The preceding graph indicates that the number of deals by age of investee company in 2003-04 is in similar proportions to that recorded in 2002-03. The majority of deals remain in the 2 to 4 year category (56%).

ANALYSIS OF RESULTS *continued*

INVESTEE COMPANIES *continued*

VALUE OF INVESTMENT BY INVESTEE STAGE

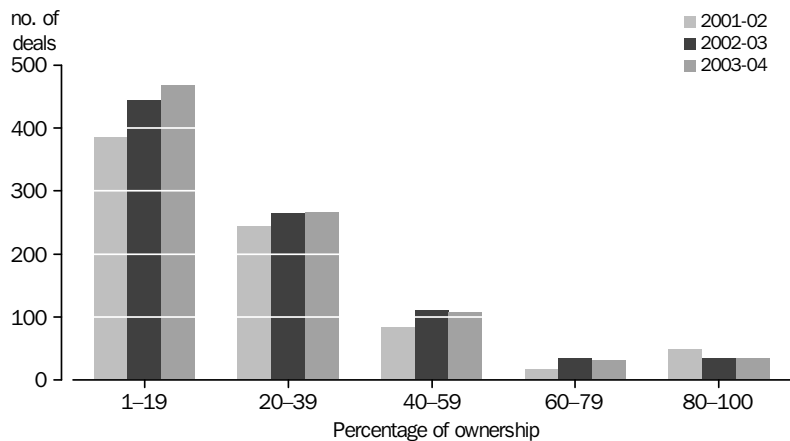


See paragraph 11 of the Explanatory Notes for a definition of the venture capital stages referred to in the above graph.

While investment as at the end of the financial year continues to be predominantly at the expansion stage, with \$1.2b or 38% of total value recorded for the 2003-04 survey, expansion stage investment has declined significantly for the second consecutive year. During 2003-04 this was due to significant exits at this investment stage.

Management related exits maintained its position as the next most significant stage, with 30% of total investment in 2003-04. The more developed stages of investment such as management related exits, late and turnaround are higher than 2001-02 levels, while less developed stages, such as seed and early, have declined from the 2001-02 levels. See table 12 for details of investment by investee stage.

PERCENTAGE OF INVESTEE COMPANY OWNED BY VENTURE CAPITAL VEHICLE



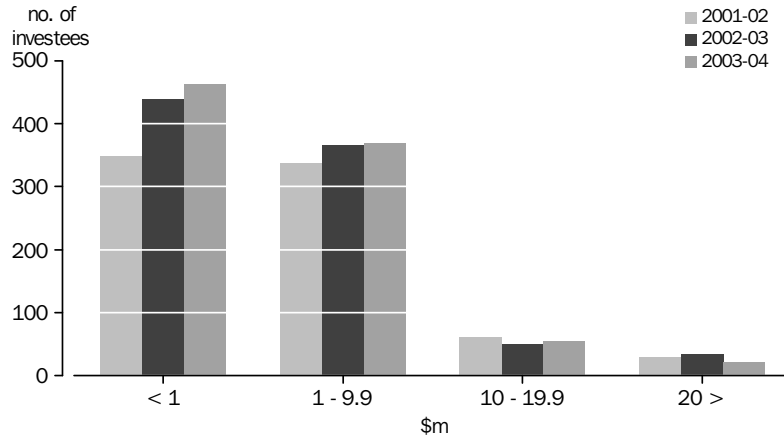
Venture capital arrangements typically do not involve a level of controlling equity by a single venture capital vehicle in investee companies, with most deals having less than 40% ownership by any one investment vehicle, as the above graph illustrates. However, it is worth noting that more than one fund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

ANALYSIS OF RESULTS *continued*

INVESTEES COMPANIES *continued*

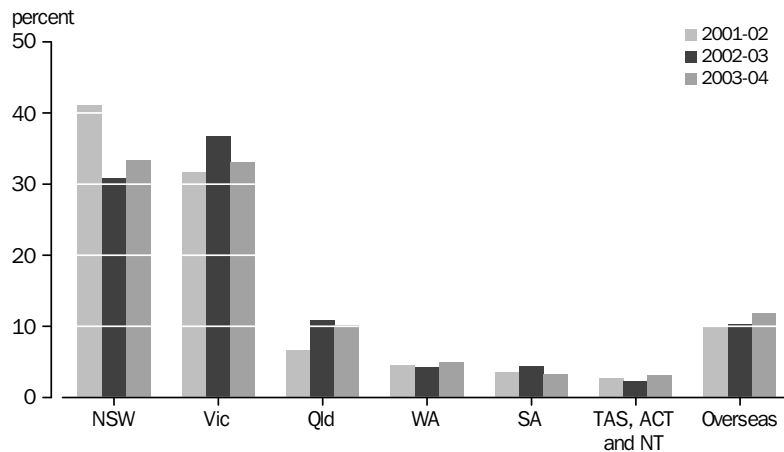
stage and receive 10% of the business and another investment vehicle manager could arrange the next round of funding and also receive 10% of the company.

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 past three survey years. The number of investees receiving at least \$20m is the only category to decline, mainly due to some large deals being exited in 2003-04.

PERCENTAGE OF INVESTMENT VALUE BY LOCATION OF INVESTEES

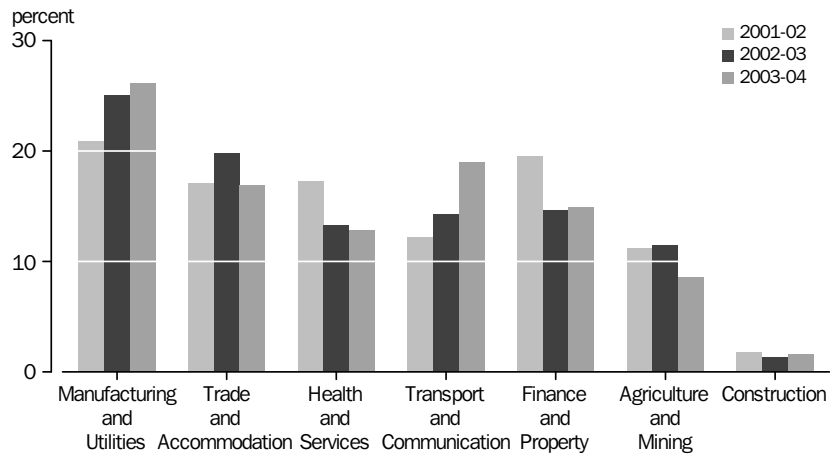


The above graph indicates that most of the venture capital funds continued to be invested in investee companies with head offices in NSW and Victoria (both states with 33% at June 2004). Table 9 shows that \$2.1b was invested as at June 2004 in these two states in 524 investment deals. This compares with investment of \$2.3b in 527 deals for 2002-03 in these two states. Victoria (down \$202m, or 16%) declined significantly after two consecutive years of strong growth, mainly due to significant exits by investee companies located in Victoria during 2003-04. New South Wales stabilised its position after a strong decline in 2002-03. Overseas investment remained significant and relatively steady over the survey years.

ANALYSIS OF RESULTS *continued*

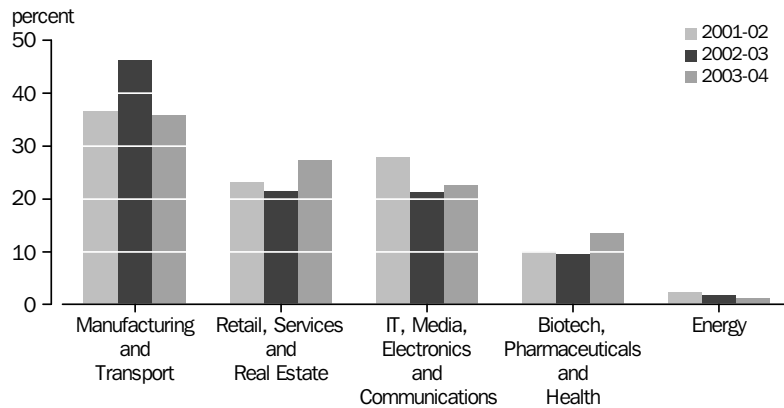
INVESTEE COMPANIES
continued

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 \$3.1b invested, Manufacturing and Utilities continued to be the predominant industry of investment, with investments at the end of the year of \$810m (26% of the total). There were decreases recorded for Trade and Accommodation (down \$138m), Agriculture and Mining (down \$118m) and Health and Other Services (down \$48m). Transport and Communication (up \$109m to 19% of total investments) increased significantly in absolute terms. 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, the Manufacturing and Transport related activities attracted the largest share of investment, with \$1,103m or 36% of total investment as at the end of June 2004. Significant exit activity in these industries resulted in total investments falling significantly in 2003-04 (down \$437m, or -28%) after steadily growing in relative terms over the first four years of this survey. Partially offsetting this fall were increases for Retail, Services and Real Estate (up \$129m, or 18%) and Biotech, Pharmaceuticals and Health (up \$95m, or 30%).

LIST OF TABLES

page

INVESTORS

1	Source of funds of investment vehicles	12
----------	--	----

MANAGERS AND INVESTMENT VEHICLES

2	Days spent by investment manager, by activity of investee company	13
3	Days spent by investment manager, by stage of investee company	13
4	Selected expenditure and income of venture capital investment vehicles	14
5	Balance sheet of venture capital investment vehicles	15
6	Investment vehicles and assets, by type of legal organisation	15
7	Investment vehicles and assets, by program participation of investment vehicles	16
8	Investment in investee companies, stocks and flows	16

INVESTEES

9	Investment in investee companies, by location of investee company head office	17
10	Investment in investee companies, by industry of investee company	17
11	Investment in investee companies, by activity of investee company	18
12	Investment in investee companies, by stage of investee company	18

SOURCE OF FUNDS OF INVESTMENT VEHICLES

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

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

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

— 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
Manufacturing and Transport	4.4	2.9	2.5	2.9	2.5
IT, Media, Electronics and Communications	3.6	3.2	2.5	2.5	2.1
Retail, Services and Real estate	5.2	3.7	3.4	2.7	3.0
Biotech, Pharmaceuticals and Health	2.3	3.2	3.8	4.2	5.4
Energy	2.5	2.6	2.6	4.0	5.3
Total	4.0	3.2	2.9	2.9	3.0

(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
Seed	3.1	4.4	3.2	2.1	2.5
Early	5.4	3.4	2.6	3.9	3.2
Expansion	4.4	3.8	3.3	2.7	2.4
Turnaround	2.3	2.5	2.0	1.8	4.3
Late	2.2	2.3	2.0	2.3	4.0
LBO/MBO/MBI	3.9	1.7	2.5	2.8	3.1
Total	4.0	3.2	2.9	2.9	3.0

(a) Weighted by value of investment.

SELECTED EXPENDITURE AND INCOME OF VENTURE CAPITAL INVESTMENT VEHICLES

	1999-2000		2000-01		2001-02		2002-03		2003-04	
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>
Expenditure										
Management fees	76	57	100	129	97	93	115	109	127	105
Performance fees	10	52	9	5	6	8	6	13	9	11
Interest payments	11	3	12	5	15	6	16	3	16	6
Wages and salaries	na	na	32	11	41	16	35	11	30	11
Taxation	na	na	26	12	32	7	28	7	35	7
Professional services	na	na	101	17	105	11	122	14	128	13
Other outlays	67	42	79	20	84	15	97	21	112	17
Total	164	154	359	199	380	156	419	178	457	170
Income										
Interest receipts	70	34	103	41	109	49	120	70	131	60
Dividends received	—	—	39	28	31	16	37	39	48	58
Other inflows	44	148	13	13	42	19	57	34	62	36
Total	114	182	155	82	182	84	214	143	241	154

— nil or rounded to zero (including null cells)

na not available

5

BALANCE SHEET OF VENTURE CAPITAL INVESTMENT VEHICLES

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

6

INVESTMENT VEHICLES AND ASSETS, By type of legal organisation

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

7

INVESTMENT VEHICLES AND ASSETS, By program participation of investment vehicles

	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003		JUNE 2004	
	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
Other	7	91	18	422	19	194	22	202	22	200
Subtotal	55	660	81	1 259	90	880	92	835	93	798
No participation in a Government Assistance Program										
	72	2 130	69	2 028	79	2 909	85	3 142	102	3 276
Total	127	2 790	150	3 287	169	3 789	177	3 977	195	4 074

8

INVESTMENT IN INVESTEE COMPANIES, Stocks and flows

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

na not available

9

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

	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003		JUNE 2004	
	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
Vic.	204	598	223	798	201	1 009	235	1 224	229	1 023
Qld	43	210	64	196	74	210	109	364	108	315
WA	66	137	89	189	76	147	80	145	80	150
SA	16	46	22	66	27	112	37	146	41	103
Tas., ACT and NT	21	41	20	26	48	88	58	79	66	100
Overseas	56	284	65	270	71	315	78	347	90	367
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092

10

INVESTMENT IN INVESTEE COMPANIES, By industry of investee company

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

11

INVESTMENT IN INVESTEE COMPANIES, By activity of investee company

Activity of investee company	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003		JUNE 2004	
	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
IT, Media, Electronics and Communications	262	884	313	789	324	892	348	708	333	697
Retail, Services and Real estate	109	487	144	605	111	737	144	715	174	844
Biotech, Pharmaceuticals and Health	63	246	112	328	127	323	160	316	179	411
Energy	24	76	33	41	23	76	27	59	26	37
Total	651	2 480	806	2 729	780	3 194	889	3 338	909	3 092

12

INVESTMENT IN INVESTEE COMPANIES, By stage of investee company

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

EXPLANATORY NOTES

THE SURVEY

- 1** This publication contains venture capital statistics for the period 1 July 1999 to 30 June 2004.
- 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 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, Building Information Technology Strengths), 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 that were able to be identified by ABS. The investment managers reported on behalf of the venture capital investment vehicles they controlled.

SURVEY RESPONSE—2003-04

<i>Response Type</i>	<i>Investment Managers</i>	<i>Investment Vehicles</i>
	no.	no.
Out of Scope	30	—
Nil	43	—
Operating in Year	137	195
Total	210	195

— 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** 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.
- 8** 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,

EXPLANATORY NOTES *continued*

SCOPE AND COVERAGE *continued*

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 In addition, non-institutional investors such as business angels (private individuals investing in private equity) were also 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;
- 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;

EXPLANATORY NOTES *continued*

FURTHER CHARACTERISTICS

continued

- 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

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.

Methods of valuation

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, 2001-02 and 2002-03* (Cat. no. 5678.0)
- *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.

19 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 2004, Australian Venture Capital Journal; web site contact <<http://www.vcjjournal.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).

INFORMATION SERVICE

Data already published that can be provided within five minutes will be free of charge. Our information consultants can also help you to access the full range of ABS information—ABS user pays services can be tailored to your needs, time frame and budget. Publications may be purchased. Specialists are on hand to help you with analytical or methodological advice.

- PHONE* 1300 135 070
- EMAIL* client.services@abs.gov.au
- FAX* 1300 135 211
- POST* Client Services, ABS, GPO Box 796, Sydney NSW 2001

WHY NOT SUBSCRIBE?

ABS subscription services provide regular, convenient and prompt deliveries of selected ABS publications and products as they are released. Email delivery of monthly and quarterly publications is available.

- PHONE* 1300 366 323
- EMAIL* subscriptions@abs.gov.au
- FAX* (03) 9615 7848
- POST* Subscription Services, ABS, GPO Box 2796Y, Melbourne Vic 3001



2567800007038

ISSN 1448 319X

RRP \$21.00