



2002-03

5678.0

VENTURE CAPITAL

AUSTRALIA

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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 Darren Page on Canberra (02) 62526731.

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 and the Department of Communications, Information Technology and the Arts.

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 2002-03 Venture Capital survey and compares results with the three earlier surveys (2001-02, 2000-01 and 1999-2000). This is the third 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 edition of Managed Funds (Cat. no. 5655.0) and also included on the ABS web site at <<http://www.abs.gov.au>>; select Australia Now; then select Financial System; then select Special Article - Venture Capital Survey 1999-2000.

REVISIONS THIS ISSUE

This issue contains revisions to previously published data, mainly to 2001-02 results. The revisions have mainly resulted from coverage checks, consultation with users and providers about classification 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
- ANZSIC Australian and New Zealand Standard Industrial Classification
- AVCAL Australian Venture Capital Association Limited
- IPO Initial Public Offer
- LBO leveraged buyout
- MBI management buyin
- MBO management buyout

Dennis Trewin
Australian Statistician

SUMMARY OF FINDINGS

OVERVIEW

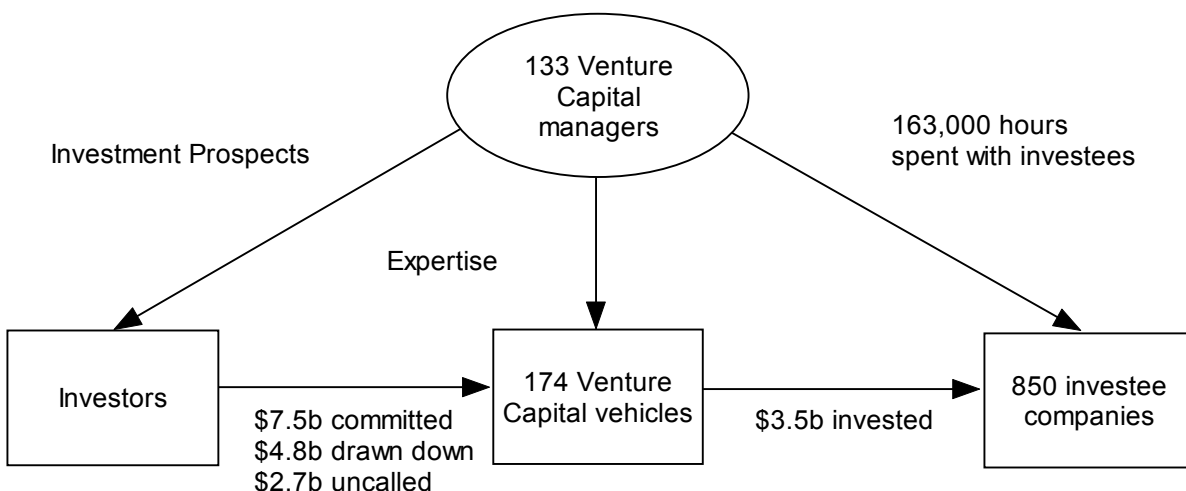
The results of the third Venture Capital survey show that growth evident in 2000-01 and 2001-02 slowed during 2002-03. As at 30 June 2003, investors had \$7.5b committed to venture capital investment vehicles which were either specialised venture capital funds or corporations which directly invest their venture capital. This compares with a revised \$6.9b at 30 June 2002. Investors had \$4.8b of committed funds drawn down at 30 June 2003, an increase of 10% on the previous year end (\$4.4b at June 2002), leaving \$2.7b of committed funds yet to be called on (\$2.6b at June 2002). See Table 1 for details. Most of these funds were sourced domestically, with 93% of the total investment from Australian investors (up slightly on previous years).

The \$4.4b of committed funds drawn down resulted in the value of investments by venture capital investment vehicles at the end of 30 June 2003 equal to \$3.5b in 850 investee companies. This level of investment, derived after deduction of fees and other expenses, exits and allowing for holdings of liquid assets, remains at a similar level to the end of June 2002. New and follow-on investments during 2002-03 contributed \$658m to this June 2003 total, down 38% on investments made during 2001-02. Investments in these 850 investee companies were reported by 174 venture capital investment funds and companies (170 in 2001-02). The number of funds registered with a government sponsored program (mainly Pooled Development Funds) decreased by 1 to a total of 88 (or 51%) of all vehicles.

The selection of investee companies (into which venture capital is invested) was an intensive process. A total of 133 venture capital managers reviewed 9,512 potential new investments during 2002-03 and conducted further analysis on 1,088 of those, with 132 (just over 1% of those initially considered) being sponsored for venture capital. These managers spent a total of 163,000 hours with the investee companies (160,000 in 2001-02), advising and assisting in the development of the enterprises.

During 2002-03, the venture capital sector recorded a profit through exit sales of about \$128m. The following diagram summarises key findings for venture capital in 2002-03.

KEY FIGURES 2002-03



SUMMARY OF FINDINGS *continued*

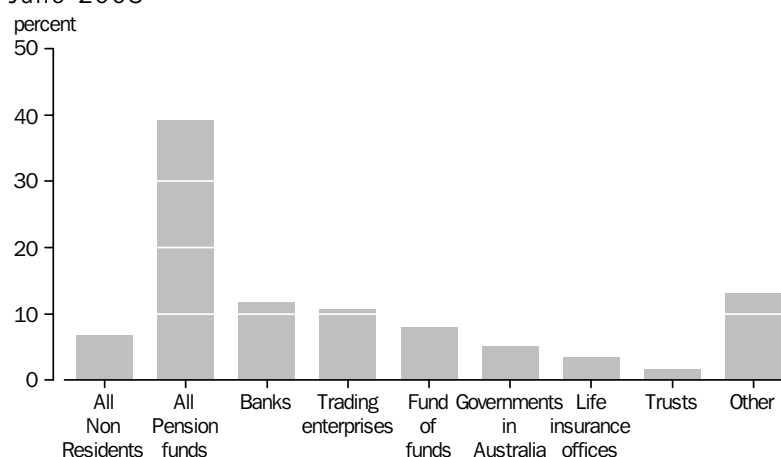
INVESTORS

Venture capital investors are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in venture capital investment vehicles organised as either trust funds or corporations. Venture capital trust funds obtain investment commitments from investors, which are drawn down over time. They must return capital plus profit (minus loss) as investments are realised. On the other hand, venture capital vehicles organised as corporations are able to choose to make distributions to investors (including parent corporations) or to retain capital for further investment. Investors in corporations may liquidate their investment by sale on the secondary market. Drawn down funding from investors in corporations can be estimated from paid up capital and borrowings, but the ability of corporations to reinvest retained earnings and the 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 2003 investors had \$7.5b committed with venture capital investment vehicles. This compares with a revised \$6.9b at June 2002 and \$5.7b at June 2001. See table 1 for detailed source of funds data. Of the \$4.8b drawn down at June 2003, 68% was by venture capital trust funds while corporations accounted for the remainder (32%).

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 39% of total drawdowns by venture capital vehicles.

DRAWDOWN INVESTMENT IN VENTURE CAPITAL FUNDS BY INVESTOR TYPE, percentage of total investment in venture capital vehicles, June 2003



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 133 active venture capital managers who were managing 174 venture capital investment vehicles. This compares with 137 active managers managing 170 vehicles in 2001-02.

SUMMARY OF FINDINGS *continued*

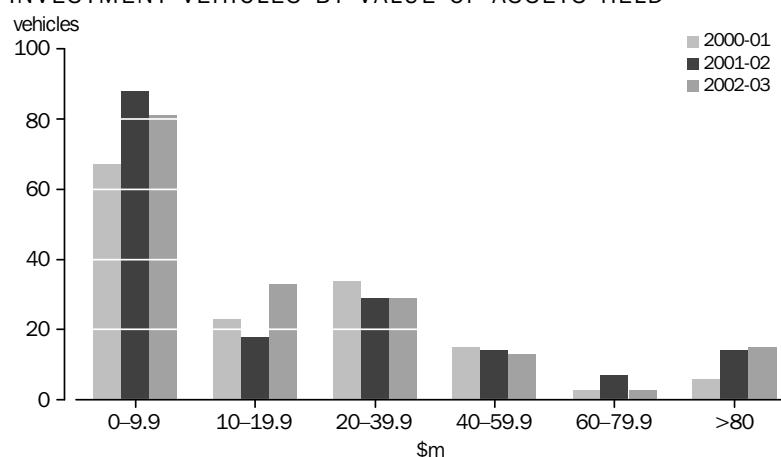
VENTURE CAPITAL MANAGERS AND INVESTMENT VEHICLES *continued*

Venture capital fund managers spent 163,000 hours with investee companies (tables 2 and 3) and received income in the form of management fees (\$110m). In 2002-03, fund managers spent on average 2.7 days a month per investee company. This compares with 2.6 days in 2001-02 and 3.2 days in 2000-01.

Venture capital investment vehicles had net assets of \$3.9b at June 2003 compared with \$3.8b in June 2002 and \$3.1b in June 2001 (see Table 5). Most venture capital investment vehicles were either trusts (funds) or corporations. Table 6 indicates that, of the 174 vehicles operating in 2002-03, 102 were companies. Of these, 79 were not listed with the Australian Stock Exchange. At June 2003, about 41% of venture capital vehicles were trust funds, this compares with 37% in June 2002 and 39% in June 2001.

Many venture capital investment vehicles participated in government sponsored programs. Table 7 indicates that 88 of the 174 venture capital investment vehicles were participating in a government program at June 2003, a decrease of 1 on June 2002 and an increase of 7 on 2000-2001. Most of the participating investment vehicles were with the Federal government's Pooled Development Fund (PDF) program.

INVESTMENT VEHICLES BY VALUE OF ASSETS HELD



The range of total assets held by investment vehicles was widely dispersed, from 81 investment vehicles having less than \$10m in assets to 15 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. Total investments during the year by venture capital investment vehicles fell by \$399m (or 38%) in 2002-03, decreasing from \$1,057m in 2001-02 to \$658m in 2002-03. This decline was driven by falls in both new investments (down \$176m or 28%) and follow-on investments (down \$223m or 52%) over the course of 2002-03. Most return on investment to investees is through exits from investments. The total value of all exits through trade sales, initial public offers and buybacks amounted to \$334m in 2002-03 (representing \$206m of investment and \$128m profit over the life of the investments). The value of vehicles that have dropped out of the Australian venture capital industry was again significant in 2002-03 (\$193m). 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.

SUMMARY OF FINDINGS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

CHANGES IN INVESTMENT, by venture capital vehicles in investees

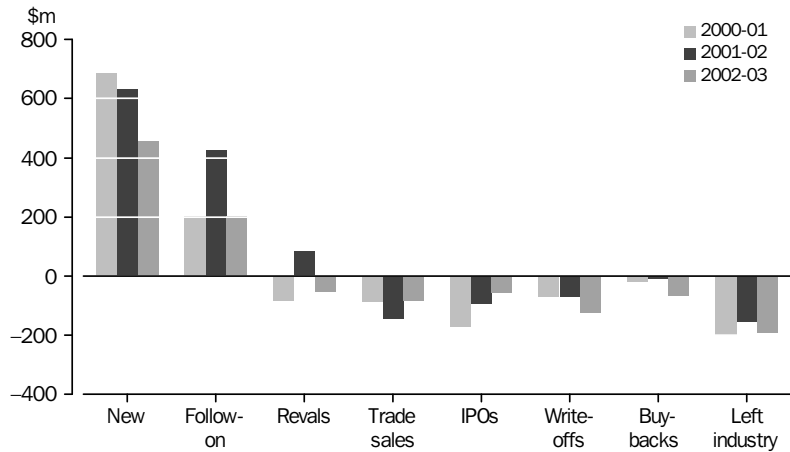
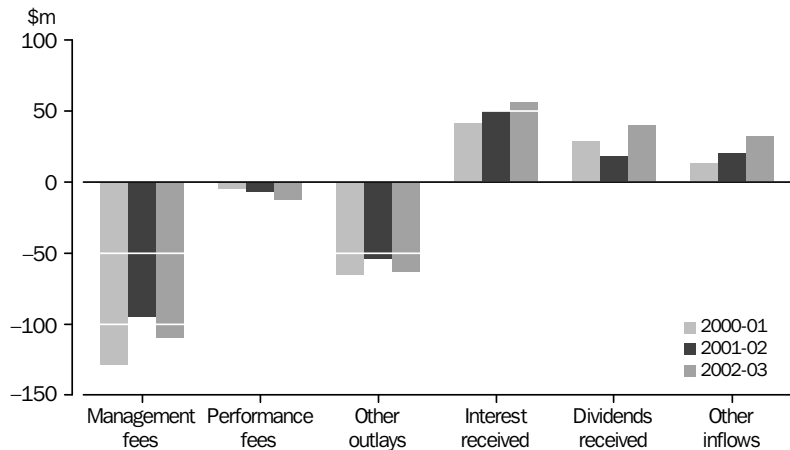


Table 4 indicates that investment vehicles had total expenditures of \$186m over 2002-03, mainly in management fees, which totalled \$110m, up by 15% over the previous year's expenditure (\$96m over 2001-02). Total income increased to \$127m, with the increase driven mainly by a large increase in dividends received from \$18m in 2001-02 to \$40m in 2002-03.

INCOME AND EXPENDITURE OF VENTURE CAPITAL VEHICLES

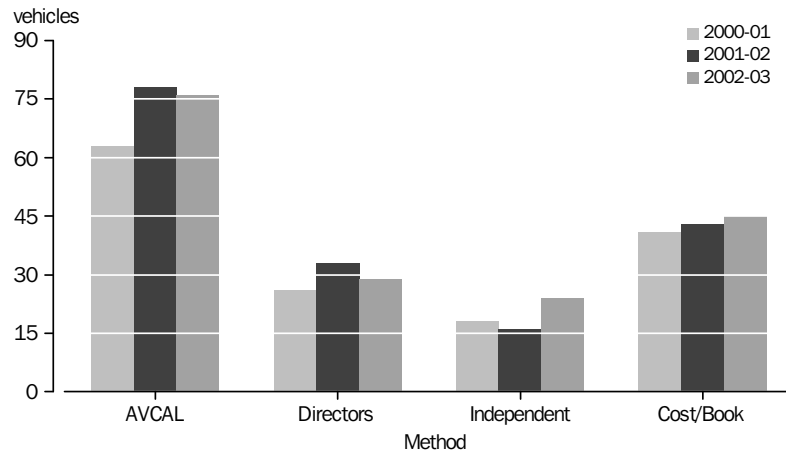


Venture capital funds used various valuation methods. The Australian Venture Capital Association Ltd method was most frequently used, with 76 vehicles using this method, followed by book value/cost (45) and directors valuation methods (29).

SUMMARY OF FINDINGS *continued*

VENTURE CAPITAL
MANAGERS AND
INVESTMENT VEHICLES
continued

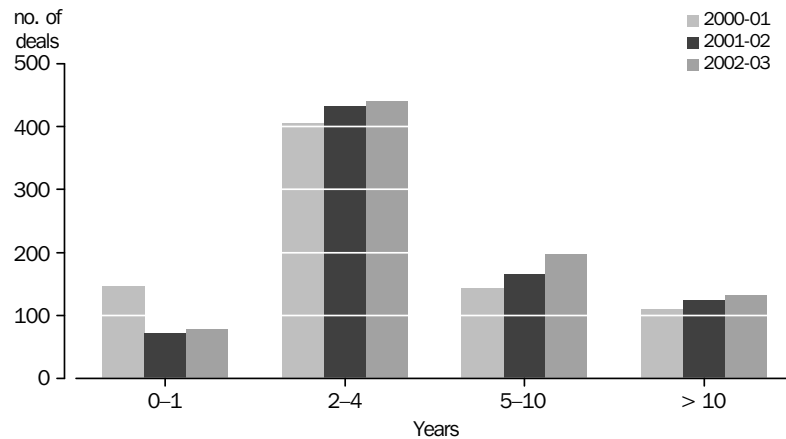
VALUATION METHODS USED BY VENTURE CAPITAL FUND VEHICLES



INVESTEE COMPANIES

Of the \$3.5b that had been invested in the 850 investee companies (deals) at June 2003, \$456m was invested in new projects during the 2002-03 financial year (down by \$176m or 28% on 2001-02), with additional investments in existing projects of \$202m (down \$223m or 52%) (see Table 8 for more details).

NUMBER OF DEALS BY AGE OF INVESTMENT

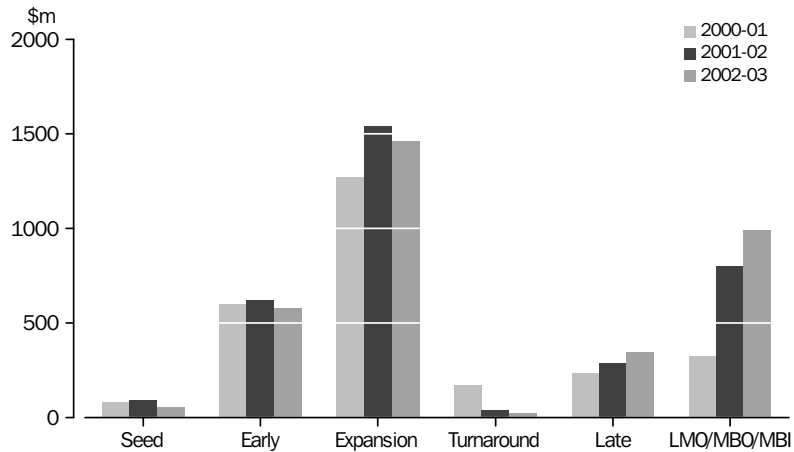


The preceding graph indicates that the number of deals by age of investment in 2002-03 is in similar proportions to that recorded in 2001-02. The majority of deals remain in the 2 to 4 year category (52%).

SUMMARY OF FINDINGS *continued*

INVESTEE COMPANIES *continued*

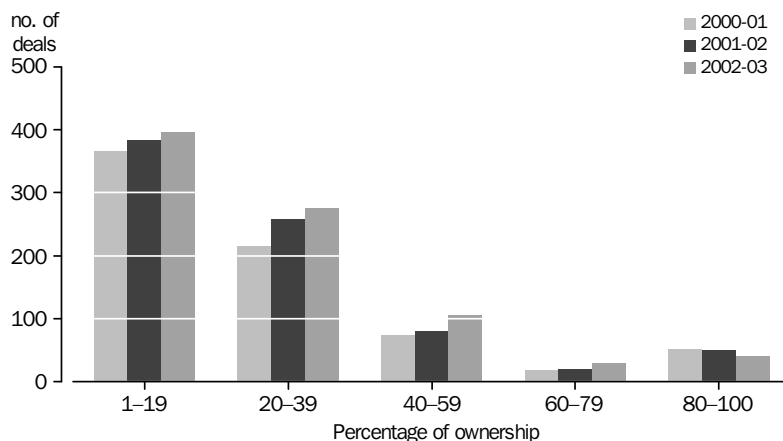
VALUE OF INVESTMENT BY INVESTEE STAGE



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

Investments for the past three survey periods were predominantly at the expansion stage, with \$1.5b or 42% of total value recorded for the 2002-03 survey. The value of early stage investments was also significant, with 17% of total investment in 2002-03. The more developed stages such as expansion, late and management related exits increased over three years, while less developed stages, such as seed and early, declined from the 2000-01 levels. Note that the age of the investment is not necessarily a reflection of its stage; some investments may go from seed to expansion within a two year period, yet others will stay in the seed stage for a number of years.

PERCENTAGE OF INVESTEE COMPANY OWNED BY VENTURE CAPITAL VEHICLE



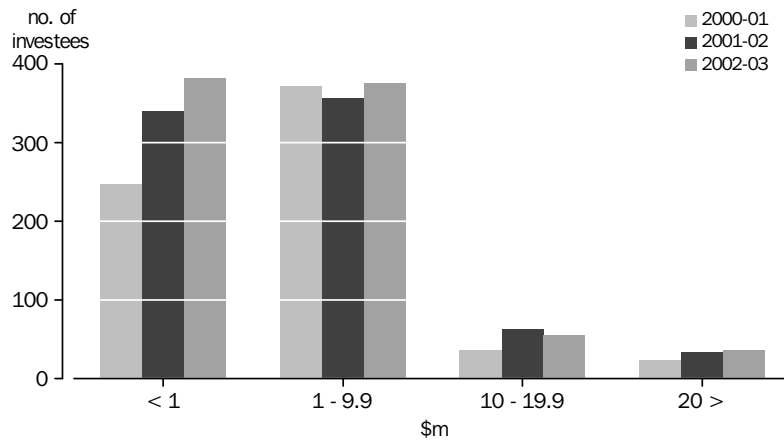
Venture capital arrangements typically do not involve a level of controlling equity by a single venture capital vehicle in investee companies, with most deals having less than 40% ownership, as the above graph illustrates. However, it is worth noting that more than one fund manager may invest in the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

SUMMARY OF FINDINGS *continued*

INVESTEES COMPANIES

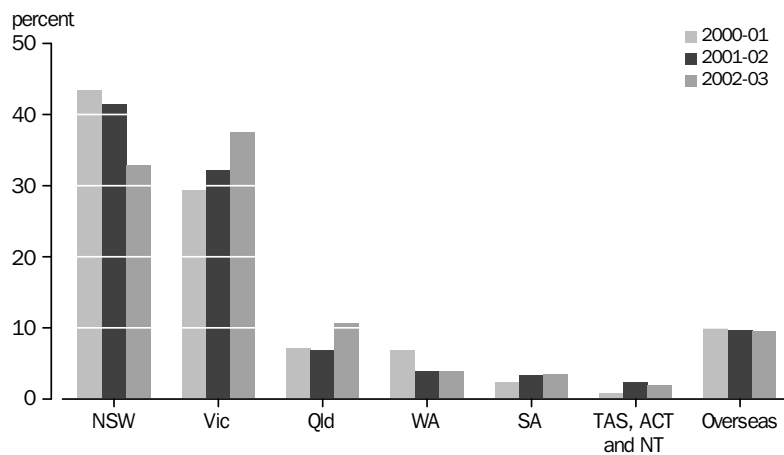
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VALUE OF INVESTMENT BY NUMBER OF INVESTEES



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.

PERCENTAGE OF INVESTMENT VALUE BY LOCATION OF INVESTEES

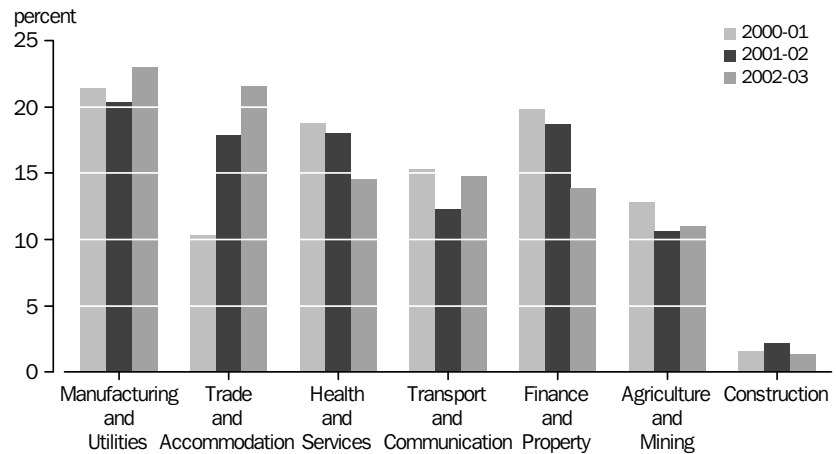


The above graph indicates that most of the venture capital funds continued to be invested in investee companies with head offices in NSW and Victoria (33% and 37% respectively in 2002-03). Table 9 shows that \$2.4b was invested as at June 2003 in these two states in 538 investment deals. This compares with investment of \$2.5b in 507 deals for 2001-02 in these two states. Victoria (up \$215m, or 20%) and Queensland (up \$139m, or 60%) showed strong growth for the second consecutive year. New South Wales declined in 2002-03 (down \$265m, or 19%), partly due to venture capital investment vehicles leaving the industry (including relocating overseas). Overseas investment remained significant and relatively steady over the survey years.

SUMMARY OF FINDINGS *continued*

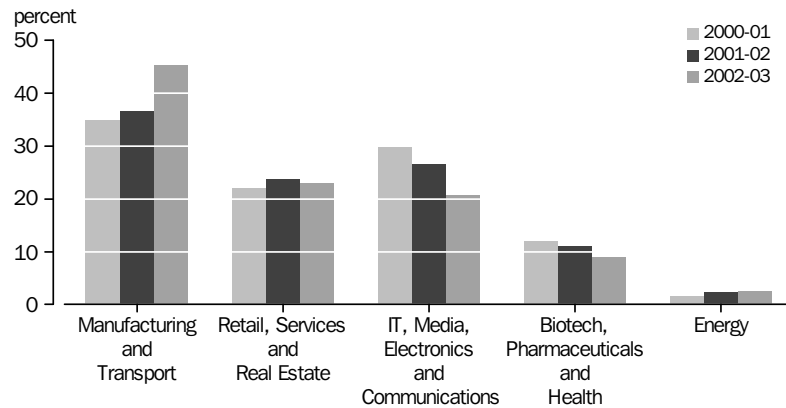
INVESTEE COMPANIES *continued*

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 had investments at the end of the year of \$799m (23% of the total, up from 20% of the total at the end of 2001-02). There were also significant increases in Trade and Accommodation (up \$141m, to 22% of total investments) and Transport and Communication (up \$97m, to 15% of the total. Decreases were recorded for Finance and Property (down \$151m) and Health and Other Services (down \$108m). 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 \$1,565m or 45% of total investment as at the end of June 2003. These activities have been steadily growing in relative terms over the four years of this survey. Retail, Services and Real Estate with \$797m (23%) and IT, Media, Electronics and Communication with \$717m (21%) also attracted large shares of the total investments as at the end of June 2003.

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INVESTEES

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1

SOURCE OF FUNDS OF INVESTMENT VEHICLES

	COMMITMENTS BY INVESTORS				DRAWDOWNS FROM INVESTORS				UNUSED COMMITMENT			
	June	June	June	June	June	June	June	June	June	June	June	June
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Funds												
Non-residents												
Pension funds	24	78	92	91	21	28	84	84	3	50	7	7
Other	1 010	511	419	398	293	325	258	244	717	186	161	153
Residents												
Pension funds	1 783	1 819	2 755	3 270	895	1 078	1 608	1 880	888	741	1 148	1 390
Banks	340	165	746	825	229	122	482	567	111	43	265	257
Trading enterprises	483	192	646	644	284	100	455	516	198	92	191	128
Fund of funds	336	372	612	632	183	197	328	380	153	175	284	252
Governments in Australia	120	535	413	410	60	206	211	238	61	329	202	173
Life insurance offices	183	290	245	242	92	138	158	170	91	152	87	71
Trusts	88	188	195	134	50	66	103	83	38	122	92	51
Other residents	617	324	820	822	542	174	681	628	75	150	140	194
Not stated(a)	na	1 220	na	na	na	1 220	na	na	na	—	na	na
Total	4 984	5 694	6 944	7 468	2 649	3 654	4 368	4 792	2 335	2 040	2 576	2 676

— 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

Activity of investee company	AVERAGE DAYS PER MONTH(a)			
	1999-2000	2000-01	2001-02	2002-03
Manufacturing and Transport	4.4	2.9	2.2	2.4
IT, Media, Electronics and Communications	3.6	3.2	2.5	2.4
Retail, Services and Real estate	5.2	3.7	2.7	3.1
Biotech, Pharmaceuticals and Health	2.3	3.2	3.3	4.0
Energy	2.5	2.6	2.6	2.7
Total	4.0	3.2	2.6	2.7

(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
Seed	3.1	4.4	2.7	1.4
Early	5.4	3.4	2.6	3.8
Expansion	4.4	3.8	2.8	2.3
Turnaround	2.3	2.5	2.0	2.1
Late	2.2	2.3	2.1	3.6
LBO/MBO/MBI	3.9	1.7	2.3	2.3
Total	4.0	3.2	2.6	2.7

(a) Weighted by value of investment.

SELECTED INCOME AND EXPENDITURE OF VENTURE CAPITAL INVESTMENT VEHICLES

	1999-2000		2000-01		2001-02		2002-03	
	<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	96	95	109	110
Performance fees	10	52	9	5	6	8	6	13
Interest payments	11	3	12	5	15	8	17	6
Wages and salaries	na	na	32	11	39	14	38	17
Taxation	na	na	26	12	31	8	24	7
Professional services	na	na	101	17	102	11	117	13
Other outlays	67	42	79	20	82	14	91	19
<i>Total</i>	<i>164</i>	<i>154</i>	<i>359</i>	<i>199</i>	<i>371</i>	<i>156</i>	<i>402</i>	<i>186</i>
Income								
Interest receipts	70	34	103	41	108	50	109	56
Dividends received	—	—	39	28	33	18	35	40
Other inflows	44	148	13	13	41	20	51	32
<i>Total</i>	<i>114</i>	<i>182</i>	<i>155</i>	<i>82</i>	<i>182</i>	<i>88</i>	<i>195</i>	<i>127</i>

— 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
	\$m	\$m	\$m	\$m
Assets				
Resident assets				
Cash and deposits	310	443	349	293
Debt securities	212	289	291	240
Listed equities	392	345	253	158
Unlisted equity	1 351	1 596	2 126	2 414
Other Venture Capital funds	67	106	331	323
Other equity	56	58	85	40
Other financial	75	121	123	138
Non-financial	12	55	25	28
<i>Total resident assets</i>	<i>2 476</i>	<i>3 013</i>	<i>3 583</i>	<i>3 633</i>
Non-resident assets				
Unlisted equity	198	204	295	304
Listed equity	74	58	66	30
Other	41	12	167	54
<i>Total non-resident assets</i>	<i>313</i>	<i>274</i>	<i>528</i>	<i>389</i>
Total assets	2 790	3 287	4 111	4 022
Liabilities				
Borrowings	30	40	53	36
Other	80	124	251	95
Total liabilities	110	164	304	130
Total net assets	2 680	3 123	3 807	3 892

6

INVESTMENT VEHICLES AND ASSETS, By type of legal organisation

Legal organisation	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Listed company	18	565	20	734	18	596	16	462
Unlisted company	59	780	68	816	80	874	79	796
Trust	45	1 366	59	1 712	63	2 381	72	2 606
Other	5	80	3	25	9	260	7	159
Total	127	2 790	150	3 287	170	4 111	174	4 022

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PROGRAM PARTICIPATION OF INVESTMENT VEHICLES, By asset levels

	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Participation in a Government Assistance Program								
Pooled Development Program	48	569	63	837	68	652	68	595
Other	7	91	18	422	21	483	20	402
Subtotal	55	660	81	1 259	89	1 135	88	997
No participation in a Government Assistance Program	72	2 130	69	2 028	81	2 976	86	3 025
Total	127	2 790	150	3 287	170	4 111	174	4 022

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INVESTMENT BY VENTURE CAPITAL INVESTMENT VEHICLES IN INVESTEE COMPANIES

	1999-2000	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
Investments at beginning of year	1 998	2 480	2 729	3 390
Additions to investment value during year				
New vehicles and projects	684	685	632	456
Follow-on investments	165	202	425	202
Unrealised gains in investee companies (includes revaluations)	245	-84	82	-54
Exits and other decreases in value (at balance sheet valuations)				
Trade sales	137	87	146	82
Initial public offers	353	171	94	57
Buybacks	na	21	10	67
Write-offs	45	72	71	122
Left the industry	77	203	156	193
Investments at end of year	2 480	2 729	3 390	3 474

na not available

INVESTMENT BY LOCATION OF INVESTEE COMPANY HEAD OFFICE

	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m
NSW	245	1 164	323	1 184	300	1 407	301	1 142
Vic.	204	598	223	798	207	1 088	237	1 303
Qld	43	210	64	196	82	233	106	372
WA	66	137	89	189	67	137	62	135
SA	16	46	22	66	28	114	22	123
Tas., ACT and NT	21	41	20	26	34	81	47	68
Overseas	56	284	65	270	76	330	75	331
Total	651	2 480	806	2 729	794	3 390	850	3 474

INVESTMENT IN INVESTEE COMPANIES, By industry

<i>ANZSIC industries</i>	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003	
	no.	\$m	no.	\$m	no.	\$m	no.	\$m
Agriculture and Mining	84	367	94	349	79	361	84	380
Manufacturing and Utilities	149	526	158	586	156	687	174	799
Construction	25	105	9	43	8	74	5	47
Trade and Accommodation	66	212	70	280	77	607	80	748
Transport and Communication	106	373	149	418	142	417	150	514
Finance and Property	142	560	191	539	176	633	171	482
Health and Other services	79	338	135	513	156	611	186	503
Total	651	2 480	806	2 729	794	3 390	850	3 474

INVESTMENT IN INVESTEE COMPANIES, By activity

	JUNE 2000		JUNE 2001		JUNE 2002		JUNE 2003	
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>
Manufacturing and Transport	193	787	204	966	205	1 240	217	1 565
IT, Media, Electronics and Communications	262	884	313	789	314	903	321	717
Retail, Services and Real estate	109	487	144	605	121	803	133	797
Biotech, Pharmaceuticals and Health	63	246	112	328	131	369	152	309
Energy	24	76	33	41	23	75	27	86
Total	651	2 480	806	2 729	794	3 390	850	3 474

Note: Based on Standard and Poors activity classification

EXPLANATORY NOTES

THE SURVEY

- 1 This publication contains venture capital statistics for the period 1 July 1999 to 30 June 2003.
- 2 The venture capital survey is partly funded by the Department of Industry, Tourism and Resources and the Department of Communications, Information Technology and the Arts. The survey was first conducted for the 1999-2000 reference period, with results released as a Special Article in the Managed Funds, Australia (ABS cat. no. 5655.0) December quarter 2000 issue. Additional data was incorporated in a subsequent release on the ABS Web site <<http://www.abs.gov.au>>.
- 3 The population of investment managers included in the survey was constructed from lists of participants in government programs (Pooled Development Fund, Innovation Investment Fund), membership of the Australian Venture Capital Association Ltd (AVCAL), the Australian Venture Capital Guide, business directories and venture capital journals. The survey is, in fact, a census of the venture capital vehicles that were able to be identified by ABS. The investment managers reported on behalf of the venture capital investment vehicles they controlled.

SURVEY RESPONSE, 2002-03

	<i>Investment Managers</i>	<i>Investment Vehicles</i>
<i>Response Type</i>	no.	no.
Out of Scope	23	—
Operating in Year	133	174
Total	156	174

— 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 astute restructuring, capital stock renovation or other improvements.
- 8 However, some organisations which were not considered venture capital funds for the purposes of this survey included Incubators and entities set up by either a State Government or by way of a Commonwealth grant. The incubator's principal activity is to facilitate seed enterprises in their efforts to get their business into a position of growth.

EXPLANATORY NOTES *continued*

SCOPE AND COVERAGE

continued

The incubator may offer grants, seed funding, reduced office rental, mentors, marketing contacts and access to office equipment.

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

FURTHER CHARACTERISTICS

10 The following are typical characteristics of venture capital activities.

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

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

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

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

- at the beginning of an enterprise there is a product or an idea that has potential to become commercially viable. To take the enterprise towards commercialisation, finance is generally provided by the principals, and relatives and friends of the principals;
- as an enterprise develops further, finance, management and other skills may be provided by 'business angels', independent business people who can see potential in the business, and who essentially prepare the business for professional financing;
- 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 and 2001-02* (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 website <<http://www.avcal.com.au>>
- Venture Economics website <<http://www.ventureeconomics.com>>
- Australian Venture Capital Guide 2003, Australian Venture Capital Journal; website contact <<http://www.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).

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