Care needed but ‘model works’

Katja Bührer
TrueBridge Capital general partner Mel Williams has defended the returns of venture capital and says he doesn’t agree that the venture capital model is broken.

Given public markets failed to meet investor return expectations, and venture capital returns were relative to those markets, it was not surprising that returns underperformed, he said.

In future, Mr Williams said firms would have to be more careful in the bets they made and spend more time working on existing unsuccessful companies to recover maximum returns.

Managers focused on technology would have the most success attracting funding, because this tended to be the market that generated the highest returns, he predicted. Exits in this industry typically occur via mergers and acquisitions.

The top three industries receiving venture capital investments in 2009 were life sciences at 35 per cent; computer and consumer electronics at 31 per cent; and communications at 16 per cent, AVCAL data show.

The venture capital market is one-tenth the size of the private equity industry and was hit hard by the financial crisis.

Last year, funds raised by venture firms fell by 19 per cent from the previous year to $263 million.

None of the new venture capital commitments in 2009 were for seed investments, meaning there is a gap in the innovation pipeline.

Sierra Ventures managing director David Schwab said a rebound in venture capital over the next decade was “very very possible” and stressed that it was not the exit environment holding the industry back but the large size of funds.

He said a recovery was likely “if the results allow a feedback system to drive fund sizes down this will result in less capital, smaller funds . . . but a tighter sector focus”.

In turn, this would improve the supply of capital, drive efficiencies and ensure less competition, he said.

The Australian Financial Review

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