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Europeans Retreat on Venture Investing

By **CLAIRE CAIN MILLER**

European venture capitalists are investing less money in fewer companies, mirroring a trend seen in financing for American start-ups, according to a report Tuesday by Dow Jones VentureSource.

Venture capital firms in Europe invested in 167 young companies in the second quarter, 42 percent fewer than in the period last year. Venture dollars invested declined 35 percent, to \$1.3 billion. The quarter was the worst since at least 2000, when VentureSource started tracking European data.

“If there is a prolonged lag in investment and if the liquidity environment continues to be constrictive, then it is concerning for the venture capital industry,” said Jessica Canning, director of global research for Dow Jones VentureSource.

The information technology and health care sectors had the biggest drop, while investments in energy companies reached new highs. In Britain, long the leader in European technology innovation, venture investment fell 49 percent last quarter, while Germany vaulted to the head of the list because of a single large investment in a solar technology firm.

The European slowdown tracks similarly tight conditions in the United States. Investments by United States venture firms fell 19 percent in the second quarter.

The difficulty of cashing out of start-ups through the sale of the company or a public stock offering is making venture capitalists more reluctant to invest, according to venture experts. Only two venture-backed technology companies have gone public in the United States this year.

Europeans are wary of investing in start-ups until the United States markets stabilize and economic and political uncertainty recedes, said Ram Srinivasan, a venture partner with European firm Wellington Partners. “That’s what’s causing a slowdown in funding.”

Mark Thuszc, co-founder of Mangrove Capital Partners, said the slowdown was a short-term phenomenon. “As I look for deals and talk to people, I have never seen a time in Europe when there are so many good, young companies being started,” he said. “I’m not overly worried.”

He attributed the investment downturn to the fact that many European firms are raising new funds this year, which takes their focus off investing, and that poorly performing firms left from the tech boom have been closing.

As entrepreneurs shift their focus from information technology and health care to energy and information services, some investors are cautiously watching from the sidelines, Ms. Canning said.

“There is a lot of innovation in the energy sector right now, and investors are trying to educate themselves on the types of companies out there before investing in everything,” she said.

Early-stage investments accounted for 46 percent of European venture deals in the first half of the year, the

highest level since 2001.

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