



**Life Science Venture Capital Valuation Survey
San Francisco Bay Area
(2006)**

- **Background** – We analyzed the terms of venture financings for 79 life science companies headquartered in the San Francisco Bay Area that reported raising money in 2006.
- **Overview**

The results of our third annual San Francisco Bay Area Life Science Venture Capital Valuation Survey show a continuation of the positive trend in the life science venture environment. The highlights of the survey are as follows:

- Up rounds outpaced down rounds 79% to 15%, with 6% flat, an improvement over 2005 where up rounds outpaced down rounds 65% to 21%, with 14% flat, and better than the results posted by non-life science companies in 2006, which were 67% up, 22% down and 11% flat.
- The Fenwick & West Life Science Barometer™ showed a very healthy 50% average price increase for life science companies receiving venture capital in 2006 compared to such companies' prior financing round. This was an improvement over the 43% increase for life science companies in 2005 and the 27% increase in 2004, although a bit less than the 55% increase for non-life science companies in 2006. The non-life science company results benefitted from a larger number of companies with extraordinarily high price increases, primarily in the Web 2.0 and related fields.
- Medical device valuations increased a bit more than pharmaceutical valuations in 2006 (55% vs. 41%), with software/e-commerce (which includes Web 2.0) and "all others" (which includes clean tech) reflecting slightly larger increases in valuation and hardware/electronics/semiconductor being about the same.
- Other life science venture industry-related results for 2006 include the following:
 - Venture capital investment in U.S. health care companies was up solidly in 2006 compared to 2005 (\$8.2 billion vs. \$7.4 billion). Health care's share of total U.S. venture investment increased slightly from 31% in 2005 to 32% in 2006.¹
 - U.S. medical device/equipment companies raised approximately \$2.6 billion in 2006, the best year ever for that sector.¹

- There were 28 health care company IPOs in 2006, raising \$1.4 billion, compared to 21 IPOs raising \$1 billion in 2004. Health care company IPOs accounted for half of all venture-backed IPOs in 2006.¹
- There were 74 acquisitions of health care companies in 2006, with an aggregate purchase price of \$6.6 billion. This was a decline from 2005 when there were 82 health care company acquisitions with an aggregate purchase price of over \$9 billion.¹
- **Price Change** – The direction of price changes for life sciences companies receiving financing in the first and second halves of 2006, and the aggregate price changes for all of 2006, in each case compared to their previous round, and comparisons with the results for life science companies in 2005 and 2004, and with non-life science companies in 2006, 2005 and 2004, are as follows:

Price Change	Life Science 1H '06	Life Science 2H '06	Life Science All '06	Life Science All '05	Life Science All '04	Non-Life Science All '06	Non-Life Science All '05	Non-Life Science All '04
Down	11%	18%	15%	21%	23%	22%	27%	29%
Flat	7%	6%	6%	14%	24%	11%	10%	13%
Up	82%	76%	79%	65%	54%	67%	63%	58%

- **The Fenwick & West Life Science Barometer™ (Magnitude of Price Change)** –Set forth below is (i) for up rounds, the average per share percentage increase over the previous round, (ii) for down rounds, the average per share percentage decrease over the previous round, and (iii) the overall average per share percentage change from the previous round for all rounds taken together. Such information is provided for the first and second halves of 2006 and in the aggregate for all of 2006, and is compared to the results for life sciences companies in 2005 and 2004, and for non-life science companies in 2006, 2005 and 2004. In calculating the “net result” for all rounds, “flat rounds” are included. For purposes of these calculations, all financings are considered equal, and accordingly the results have not been weighted for the amount raised in a financing.

Percent Change	Life Science 1H '06	Life Science 2H '06	Life Science All '06	Life Science All '05	Life Science All '04	Non-Life Science All '06	Non-Life Science All '05	Non-Life Science All '04
Up rounds	+42%	+96%	+71%	+80%	+68%	+99%	+81%	+67%
Down rounds	-52%	-32%	-38%	-45%	-45%	-49%	-53%	-56%
Net result	+29%	+67%	+50%	+43%	+27%	+55%	+37%	+23%

- **The Fenwick & West Industry Segment Barometer™ (Magnitude of Price Change)** –Set forth below is the Fenwick & West Barometer™ comparing the up round, down round and overall average price change information for 424 companies that reported raising venture capital in the San Francisco Bay Area in 2006, separated into five different industry segments.

Industry Segment	No. of Financings	% Up Rounds	% Down Rounds	% Flat Rounds	% Price Change All Rounds	% Price Change Up Rounds Only	% Price Change Down Rounds Only
Biopharm	31	85%	10%	5%	+41%	+53%	-42%
Medical Devices	48	76%	17%	7%	+55%	+81%	-37%
Software; E-Commerce	155	67%	23%	10%	+61%	+109%	-54%
Hardware, Electronics, Semiconductor	144	66%	24%	10%	+48%	+88%	-42%
All Other	46	68%	14%	18%	+56%	+95%	-53%
TOTAL	424	69%	21%	10%	+54%	+93%	-47%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.fenwick.com/vctrends.htm. The contents of this report are not intended, and should not be considered, as legal advice or opinion.

¹ Information in this paragraph obtained from Dow Jones VentureSource.