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#### ABOUT THE DATA

Data in this report are from the PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey. The MoneyTree™ Survey measures cash-for-equity investments for private emerging companies on an on-going basis. The data in this report are current as of August 9, 2004. The MoneyTree™ Survey undergoes periodic updates where previous years' data are sometimes revised. For a complete description of the survey and methodology, visit [www.pwcmoneytree.com](http://www.pwcmoneytree.com). In addition, some data are gathered from a Global Insight report prepared for the National Venture Capital Association.

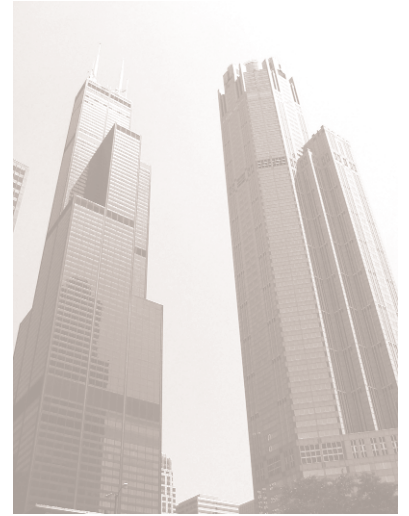
#### ABOUT THE ILLINOIS VENTURE CAPITAL ASSOCIATION

This report was commissioned by the Illinois Venture Capital Association (IVCA), a non-profit trade organization for Illinois venture capital and private equity professionals who work together to create a community that can share best practices and investment opportunities.

# EXECUTIVE SUMMARY

*Venture Impact Illinois* provides an overview of the enormous economic benefits resulting from venture capital investments in Illinois. Venture-backed companies such as Nanophase Technologies Corporation, Open Road Technologies, Inc., Centerpost Corporation, Sportvision, and Optobionics Corporation are just a few prominent examples of the many successful ventured companies that create jobs and wealth across the state. These investments span the entire industry spectrum from financial services and software to healthcare and biotechnology. Venture capital investments support the long-term growth of Illinois' economy by fueling innovation and entrepreneurship.

- Venture capital investments in Illinois totaled nearly \$350 million in 2003, compared to \$307 million in 2002.
- Venture capital investments in Illinois grew by \$41 million between 2002 and 2003, an increase of 13 percent.
- Venture backed companies in Illinois employed 236,000 workers in 2003.
- Venture backed companies in Illinois generated \$34 billion in sales in 2003.
- Illinois is the anchor for venture capital funding in the Midwest, garnering more than twice the amount of venture capital as second ranked Missouri in 2003.
- Illinois needs to adopt policies to attract and retain venture capital funding in the state, including policies to reduce the costs and regulations of starting a business in Illinois.



## WHAT IS VENTURE CAPITAL?

Venture capital addresses the funding needs of entrepreneurial companies that do not generally have the size, assets, and operating histories necessary to obtain capital from more traditional sources, such as public markets and banks.

Far from being simply passive financiers, venture capitalists foster growth in companies through their hands-on involvement in the management, strategic marketing, and planning of their portfolio companies. Venture capitalists invest alongside management and employees through equity financing and the practice of using stock option plans to motivate all workers. They are entrepreneurs first and financiers second.

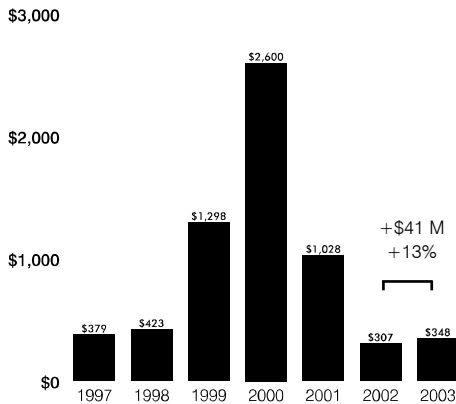
As equity owners and board members, venture capitalists succeed when the portfolio company succeeds. Many successful venture capitalists will readily point out that often their most successful companies ended up with a business or product model that was quite different from the original business plan. This morphing of a business from a fledgling startup to a successful company is the key role of the venture capitalist.

Venture capital firms are generally private partnerships or closely held corporations funded by private and public pension funds, endowment funds, foundations, corporations, wealthy individuals, foreign investors, and the venture capitalists themselves.

When an investment is made, a percentage ownership in the company is given to the venture fund in exchange for the capital that is provided. The expectation is that at least some of the investments will prove to be extremely profitable even if others eventually fail. Typical exits for successful investments include sale to public markets through an initial public offering (IPO) or acquisition by a larger company.

# VENTURE CAPITAL INVESTMENTS ARE GROWING AGAIN IN ILLINOIS

VENTURE CAPITAL INVESTMENTS  
IN ILLINOIS  
1997 - 2003  
(in millions)



Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

Venture capital investments in Illinois rose dramatically in 1999 and 2000, peaking at \$2.6 billion. Despite dropping to \$307 million in 2002, venture capital investments are growing again in Illinois. Venture capital investments jumped by \$41 million, or 13 percent, totaling \$348 million in 2003. This is especially encouraging because while venture capital investments in Illinois grew in 2003, on a national level, venture capital investments declined. Illinois needs to adopt policies to nurture these investments.

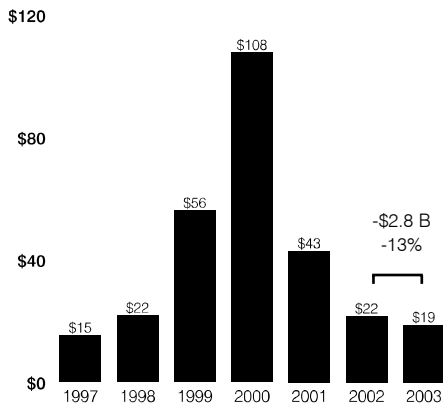
## VENTURE CAPITAL PLAYS AN IMPORTANT ROLE IN THE ILLINOIS ECONOMY

The Illinois economy has benefited directly from investments made in its businesses by venture capitalists. These investments extend well beyond high-technology companies. Venture backing has fueled businesses in such diverse industries as financial services, software, and biotechnology. Venture capital investments in Illinois' companies totaled nearly \$350 million in 2003.

Venture capital investments in Illinois were concentrated in the financial services industry. In fact, over 40 percent of all venture capital funding in Illinois were invested in financial services ventures, receiving \$144 million in 2003.

Venture capital financing is often provided in lump sum payments and, as a result, payments to some industry sectors vary significantly from one year to the next.

VENTURE CAPITAL INVESTMENTS  
IN THE UNITED STATES  
1997 - 2003  
(in billions)



Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

### ILLINOIS VENTURE CAPITAL INVESTMENTS IN SELECT INDUSTRIES RANKED BY 2003

INDUSTRY	2000	2002	2003
Financial Services	\$146 million	\$27 million	\$144 million
Software	\$458 million	\$87 million	\$32 million
Business Products and Services	\$127 million	\$8 million	\$31 million
Biotechnology	\$50 million	\$17 million	\$23 million
Telecommunications	\$285 million	\$11 million	\$20 million
Networking and Equipment	\$172 million	\$2 million	\$19 million
Consumer Products	\$268 million	\$22 million	\$18 million
Other Industries	\$1,094 million	\$132 million	\$62 million
<b>ILLINOIS TOTAL</b>	<b>\$2,600 million</b>	<b>\$307 million</b>	<b>\$348 million</b>

Note: Data are rounded.

Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

# VENTURE CAPITAL INVESTMENTS CREATE JOBS AND WEALTH IN ILLINOIS

Venture capital funded companies are an integral part of the Illinois economy. The dollars and cents contribution to the venture capital industry goes well beyond the objective economic contribution. It continually reinforces the entrepreneurial spirit of Illinois-based companies. And in doing so, the venture capital industry becomes a catalyst for change. Venture capital investments help Illinois' entrepreneurial businessmen and women reach their full potential.

Venture capital investments often have far reaching effects on jobs and economic output. According to a recent study by Global Insight for the National Venture Capital Association, venture backed companies in Illinois supported some 236,000 jobs and generated \$34 billion in sales in 2003. These Illinois-headquartered ventured firms were some of the few companies to experience job growth during the recession, adding some 4,000 jobs nationwide between 2000 and 2003.

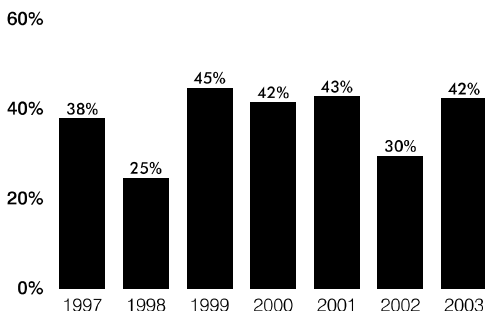
## ILLINOIS ANCHORS VENTURE CAPITAL FUNDING IN THE MIDWEST

As the financial center of the Midwest, Illinois is a magnet for venture capital investments with its rich pool of intellectual talent and resources. Companies are drawn to Illinois because of its strong research universities, qualified workforce, and innovative businesses in industries such as biotechnology, information technology, and financial services. Illinois' commitment to innovation ensures its place as both a regional and national leader in venture capital investments.

Venture capital in Illinois is exemplified by several unique Midwestern characteristics: a fierce sense of independence, a willingness to take a risk, a conservative reliance on sound business fundamentals, and a commitment to building profitable enterprises.

Illinois is the Midwest anchor for venture capital funding. It ranks first in the Midwest by venture capital investments, far exceeding second place Missouri with \$123 million. Venture capital investments in Illinois trailed the national trend between 2000 and 2003, declining by 87 percent.

ILLINOIS AS A PERCENT OF MIDWEST VENTURE CAPITAL INVESTMENTS 1997 - 2003

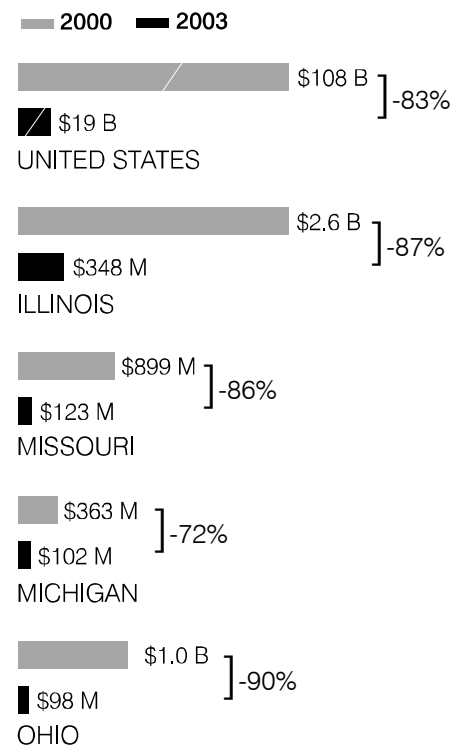


Note: The midwest includes: Illinois, Missouri, Indiana, Kentucky, Ohio, Michigan, and western Pennsylvania  
Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

### Facts About Illinois Venture Backed Companies

- 236,000 jobs in 2003
- +4,000 jobs between 2000 and 2003
- \$34 billion in sales in 2003

VENTURE CAPITAL INVESTMENTS IN SELECT MIDWESTERN STATES 2000 vs. 2003



Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

# VENTURE CAPITAL LUBRICATES THE WHEELS OF INNOVATION IN ILLINOIS



## SELECT VENTURE BACKED COMPANIES IN ILLINOIS

Company	Industry
Adeptia, Inc.	IT Services
Clarus Therapeutics, Inc.	Medical Devices
Forkless Gourmet	Retail
Heritage Crystal Clean, LLC	Industrial
Knightsbridge Solutions, LLC	IT Services
netRegulus, Inc.	Software
OptionsXpress, Inc.	Financial Services
United Asset Coverage, Inc.	Business Services
ZuChem	Biotechnology

Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey

Venture capital lubricates the wheels of innovation by deliberately taking on projects that are far too risky for more traditional financiers. Venture capital funding is a high-risk investment activity. The industry's mandate is to invest in small innovative companies, headed by newly structured management teams, using unproven and rapidly changing technologies with a payoff period of typically 5 to 7 years. Simply put, venture capital is a high risk, high return business – you can't have one without the other.

Venture capital plays a key role in helping entrepreneurs bear the financial risk of commercializing their innovations. Companies need to bring their ideas to market. Often, the key generators of innovation are smaller companies that cannot typically afford the risk and capital involved. When other financial options, such as bank loans or angels, are not viable, venture capital can fill the gap.

The goal of the venture capitalist is to identify the most promising activities among its portfolio of investments and to help an innovating company to the point where it can stand on its own as an independent organization. Even in the best of circumstances, many of these investments will fail. Yet, many also succeed, sometimes even creating entirely new industry sectors. When these businesses flourish, so does the Illinois economy and its people.

Because venture capital investments benefit the entire state of Illinois, policy makers need to do more to encourage investment in Illinois companies. Venture capital creates companies, jobs, and wealth. Illinois needs to protect and nurture venture capitalists.

## CASE STUDY: OPTOBIONICS CORPORATION

Optobionics develops opto-electronic implants to restore vision in blind patients. The artificial silicon retina (ASR), or bionic eye, developed by Dr. Alan Chow and his brother Vincent, an electrical engineer, is the first wireless and solar-powered artificial retina in the world.

The company was founded in June 1997 in suburban Chicago with just \$768,000 in seed financing provided by local venture capital firm, ARCH Venture Partners, with two other venture firms participating. To date, the company has received more than \$113 million in private equity and employs 30 people in its Naperville, Illinois facility. In January 2000, less than three years from its founding, Optobionics became the first company to receive FDA approval for human testing on its subretinal implant device, and the ASR has been surgically implanted into six blind patients, all with visual function improvements.

# ABOUT THE ILLINOIS VENTURE CAPITAL ASSOCIATION

Founded in May 2000, the IVCA has assembled an impressive membership of leaders and professionals in the venture capital and private equity industries. The IVCA is comprised 60 percent of venture capital/private equity investor firms and 40 percent service providers including banks, law firms, accounting firms, consultants, and executive recruiters who support the private equity industry.

The IVCA exists to foster the development and growth of business enterprise, which will enhance the vitality of Illinois' venture capital/private equity community.

The IVCA will accomplish its mission through the following:

## **Networking Events**

The IVCA hosts quarterly networking events for its members. These events are informal and designed to nurture the camaraderie of the venture capital/private equity community.

## **Educational and Business Events**

The IVCA sponsors educational programming for its members as needs are identified. These events have included a CFO Summits; LBO Educational Events; the Midwest Venture Summit, Limited Partner Panels; and the Annual Awards Dinners.

Efforts will be made to complement events hosted by relevant trade groups including NVCA and NASBIC. The IVCA works with various other associations and professional firms to provide programs and events of interest to the venture capital/private equity industry for our members.

## **Government Affairs**

IVCA members work together to provide a strong unified voice to local and state government on important issues that impact the private equity industry.

IVCA's mission here is to help foster an environment that is more favorable for investments by Illinois' venture capital/private equity professionals. The IVCA focuses attention on key issues affecting the industry and urges our government leaders to address the needs and concerns of our industry. Governmental affairs efforts include monitoring legislation and working with the governor and state cabinet agencies, the mayor of the city of Chicago, key city and county governments across the state, constitutional officers, the legislature, and their staffs to support initiatives of the industry. The IVCA also works with the NVCA, NASBIC and statewide groups that support our positions on key issues.

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## **ABOUT THE COMPILATION OF THIS REPORT**

*This report was compiled and prepared by Content First, LLC, a full-service research firm based in Washington, DC. It provides research services to trade associations, businesses, law firms, consulting firms, and the public affairs community. Content First utilizes a unique process that melds solid research and analysis with presentation and communication to bring data to life. For more information about Content First, visit [www.contentfirst.com](http://www.contentfirst.com).*



