



Small Business Tech Toolkit

## Top 10 Sectors Venture Capital Likes Right Now

Christopher Steiner, 04.01.10, 3:00 PM ET

Investors write checks because they hope to get a decent return on their money. The way venture capitalists reap those returns is by taking their companies public, or perhaps selling them to other companies. That's a tough game when demand for IPOs is anemic, as it was in 2009.

Demand hasn't been robust in 2010, but things are thawing. As of this writing, eight companies had done IPOs thus far this year—the same amount for all of last year, according to [CB Insights](#), a Manhattan firm that tracks private-company funding trends (including venture capital, private equity and government-backed deals).

"The venture funding and M&A activity we've observed so far in 2010 suggests that this year's venture funding levels will be higher than last year, but still below those highs of a few years ago," says Anand Sanwal, a CB Insights founding partner.

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The money men themselves aren't exactly ebullient. According to a study just completed by Pepperdine University's Graziadio School of Business and Management, 46% of venture capitalists believe the funding environment will remain the same as 2009, and only 7% expect it to loosen further. Just 41% of funds are expected to raise money in the next 12 months.

At least budding entrepreneurs should feel lucky. Early stage ("Series A") investments in the fourth quarter of 2009 accounted for 31% of the largesse, more than any later-stage investment. Series B rounds, sought by slightly more developed companies, soaked up 28%. As for location, California won the money-grab handily, capturing 21% of all funding in the fourth quarter, followed by Massachusetts, with 8%.

Being in the right sector can make all the difference. John Haag, chief operating officer of San Francisco's CMEA Capital, says there's a clear recovery taking place right now in the biotech arena. The data bear that out. According to CB Insights, health care was the most popular sector among venture capitalists in the fourth quarter, attracting \$1.8 billion spread over 167 deals. **On the watch list of promising companies: Intuity Medical of Sunnyvale, Calif. Intuity is developing an advanced glucose monitoring system for diabetes—and it raised \$64 million from Venrock, Emergent Medical Partners and Investor Growth Capital, among others, to pull it off.**

Here are handful of other sectors the VC crowd likes right now. For a list of the top 10, ranked by dollars invested, [check out our slideshow](#).

#### The Internet

Funds invested in the fourth quarter: \$1.5 billion

Deals done: 227

The Web continues to snare more seed money. **Watch list:** San Francisco's Zynga, the maker of social-network games such as the cultish FarmVille, raised \$180 million from Digital Sky Technologies, among others. Second place went to ExactTarget, an Indianapolis company that makes email-marketing software, which bagged \$75 million from Technology Crossover Ventures.

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#### Software (non-Internet/mobile)

\$490 million

66 deals

Software promises what VCs will always crave: scale. (As the cost to sell that next copy of any program falls, profits soar.) **Watch list:** SilverSpring Networks, a Redwood City, Calif., firm that writes code for managing smart electrical grids, bagged \$100 million from Google Ventures, Kleiner Perkins Caufield & Byers, Northgate Capital and Foundation Capital.

#### Mobile and Telecommunications

\$388 million

59 deals

Apple's iPhone has spawned an ecosystem of software makers. **Watch list:** Bling Nation, in Palo Alto, Calif., devised code that lets customers pay for purchases with their phone. It snagged \$20 million from a consortium including Balderton Capital and Lightspeed Venture Partners.

#### Electronics

\$284 million

36 deals

In good times and bad, VCs never stop hunting for the next Cisco or LG. **Watch list:** Aquantia, which develops high-speed switching hardware for data networks, was the whale in this sector. The Milpitas, Calif., company raised \$44 million from New Enterprise Associates, Lightspeed, Greylock Partners, Pinnacle Ventures and Venture Tech Alliance.

#### Energy and Utilities

\$260 million

30 deals

The buzz surrounding the energy grid has calmed since the economy tanked, but VCs still see promise here. Solar generation, with the Chinese pushing the world hard, remains a hot topic. **Watch list:** Amonix, a Torrance, Calif., manufacturer of high-concentration photovoltaic systems (which convert sunlight into electricity), raised \$40 million from MissionPoint Capital Partners in the fourth quarter.

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