Venture Monitor

Q2 2021

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Silicon Valley Bank

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The definitive review of the US venture capital ecosystem

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Executive summary

Following a robust first quarter for the venture capital (VC) industry, the industry's strength continued in Q2, setting the stage for what could be another consecutive record-setting year. Investors established a new high-water mark in Q1 by deploying $75.0 billion to portfolio companies, and investor enthusiasm remained high in Q2 with $75.0 billion in capital going to high-growth US startups. Recent investment activity has been influenced by the COVID-19 pandemic and the permanent imprint it has left on everyday life. Many innovators and entrepreneurs are now focused on the abundant opportunities to develop technologies and build companies that address the needs of a reopening economy and a structurally different post-COVID environment.

Deal flow at all stages of the investment lifecycle appears healthy, but large and late-stage investments remain the main drivers behind overall strong deal value trends the industry continues to see. Late-stage VC investment through just the first half of the year ($108.8 billion) has almost reached the full-year 2020 total ($109.8 billion). Similarly, mega-rounds ($100 million+) in 2021 have already reached an annual record high of $85.5 billion.

Larger sums of money chasing a fixed opportunity set of investments explains most of the story, but the surge in early-stage activity merits further examination. While supply and demand considerations certainly play a role in the swell of activity in this stage, the increase in early-stage investment is also partly indicative of investors improving their ability to evaluate and make projections for companies raising their first priced rounds. Additionally, improved best practices and better, more easily accessed information have helped startups improve their ability to launch. Lastly, the disruption caused by COVID-19 has led to an influx of top caliber executive talent from all industries joining startups, increasing a talent pool that had been primarily limited to veteran technology professionals. These factors help explain the growth in the relative share of capital invested accounted for by early-stage investment in Q2.

Like investments, exit activity also continued its robust performance in Q2 with 334 disclosed venture-backed exits accounting for $241.3 billion of exit value. Q2 marks the fourth straight quarter in which exit activity has exceeded $100 billion, and all signs point toward continued strength going forward. With positive net cash flows for VC firms in 2020 and a massive $51.3 billion returned to LPs, fundraising has not slowed, and GPs have raised $74.1 billion year to date, not far from the record $81.0 billion raised last year. Ample liquidity exists in the ecosystem for further investments that should encourage strong valuations and generate an appetite for more exits. Strong IPO markets may also be leading some late-stage companies that previously had not considered going public to now reconsider that route as a viable option.

Another noteworthy trend is the increasing number of deals with non-traditional VC investors, such as mutual funds, hedge funds, corporate investors, and crossover investors. Pronounced nontraditional investor (NTI) participation in VC deals is a relatively new phenomenon that took flight in 2018 when deals with NTI participation broke $100 billion for the first time, nearly double the previous high of $59.1 billion in 2015 and the first of four consecutive years with such high levels of participation.

Interest from this set of investors is a testament to the value of VC as an asset class and investment strategy, but such enthusiasm comes with its unique set of benefits and complications. On the positive side, crossover investors with significant public market expertise can add value during late-stage investments, changing conversations in the boardroom for the better. However, applying public market discipline during early-stage investment can prove counterproductive when companies are not ready for that degree of oversight. Additionally, a lack of experience on the part of many NTIs can yield irregular deal terms and valuations that are unappealing for traditional VC investors considering follow-on investments.

While important, these latter trends should not diminish appreciation that the industry is charging full steam ahead. A question on the minds of observers and industry participants alike is how long the good times can keep rolling. From where things stand now, it seems as if the answer may be for quite some time.

NVCA policy highlights

As the Biden administration settles in, the contours of its policy priorities are beginning to take shape. We have already seen the revitalization of the State Small Business Credit Initiative and the International Entrepreneur Rule and are heavily involved in discussions around infrastructure and innovation. One of President Biden's central strategies is to use increased innovation activity to make progress on three critical societal challenges: climate change, access to economic opportunity, and competition with China. To achieve the President's vision, the plan will need the active participation of the startup ecosystem, including the VC community.

NVCA is actively advocating for the role of entrepreneurs and the startup ecosystem in our economic recovery. In particular, we are focused on:

- **Endless Frontier Act:** NVCA applauded the Senate passage of the Endless Frontier Act (EFA) in June. This bipartisan legislation includes more than $200 billion in funding that would promote new company formation and entrepreneurship by providing major investment in early research (both public and private), education and training, technology commercialization, and facilities. This bill is heading to conference with the House-passed NSF for the Future Act, which recently passed with a strong bipartisan vote.
- **Capital Gains and Carried Interest:** Taxing capital gains at ordinary income rates undercuts President Biden's own Build Back Better agenda and would put the country further behind in the race to win the future. We are actively engaged with policymakers on discussions around capital gains and carried interest policy. While there has been some significant pushback to taxing capital gains at ordinary income rates, the outcome of carried interest is an extreme unknown. We are working to present the case that large tax increases on the private investment funds currently financing new company formation, climate, and next-generation technologies is in direct contradiction to the goals of the Biden Administration.
- **Immigration Policy:** After years of fighting for the creation and implementation of the International Entrepreneur Rule (IER), which works similarly to a Startup Visa, NVCA was thrilled to see the Biden administration's recent relaunch of the rule. IER will allow talented foreign-born entrepreneurs to launch their companies in the US. Related to IER, we continue to encourage Congress to pass a Startup Visa, which would establish a separate visa category for foreign-born founders and be an improvement on IER. We recently released a report titled "Immigrant Entrepreneurs Can Drive Economic Growth in the Pandemic Recovery," about which we have been speaking with policymakers to make the case for a Startup Visa.
- **Antitrust:** NVCA is concerned about multiple bills introduced in both chambers of Congress that would negatively impact the ability of venture-backed startups to be acquired by other companies. The bill that has seen the most significant action is the Platform Competition and Opportunity Act, which is effectively a ban on acquisitions by Apple, Alphabet, Amazon, and Facebook. Introduced by Representatives Hakeem Jeffries (D-NY) and Ken Buck (R-CO), the legislation passed the House Judiciary Committee in late June but was opposed by several key members of the committee. NVCA opposed the bill and stressed the importance of acquisitions to the venture ecosystem. NVCA collaborated on a recent paper by Professor Gary Dushnitsky (of London Business School) and Professor Daniel Sokol (University of Southern California) that explains the dangers such bills pose to the entrepreneurial ecosystem.

Bobby Franklin is the President & CEO of the National Venture Capital Association (NVCA), the venture community's trade association focused on empowering the next generation of transformative US-based companies. Based in Washington, D.C., with an office in San Francisco, NVCA acts as the voice of the US VC and startup community by advocating for public policy that supports the US entrepreneurial ecosystem.

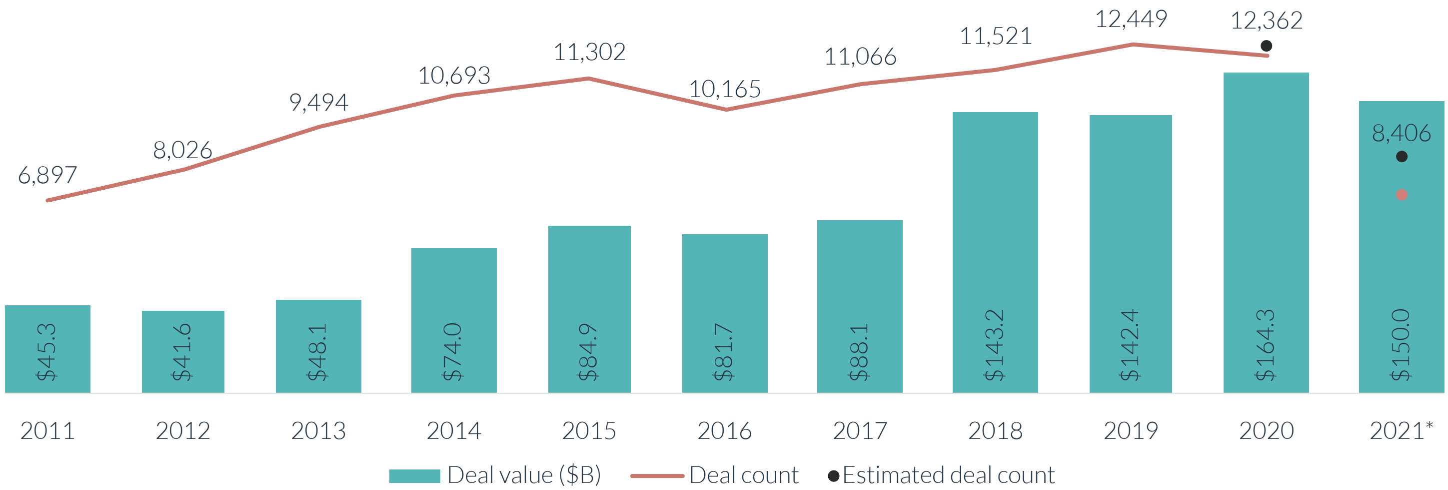
- **Climate and Sustainability:** With venture capital investing a record $12.7 billion into US climate tech startups in 2020, a new generation of companies is coming online to address the climate crisis. We are working hard on their behalf to educate policymakers on ways that policy can accelerate the climate technology commercialization process.
- **State Small Business Credit Initiative (SSBCI):** Congress passed $10 billion in funding for SSBCI to help states set up debt and equity programs to provide access to capital for small businesses. Our SSBCI Working Group provided recommendations to Treasury as they implement the program and will provide best practices to state economic development officials as well.

Our VC community and startup ecosystem are our nation's greatest economic asset. As the 117th Congress focuses on the key legislative priorities, we will continue to work with policymakers to explain how they can leverage this strength to solve long-term challenges.

Overview

2021 tracking to be venture's best year yet

US VC deal activity



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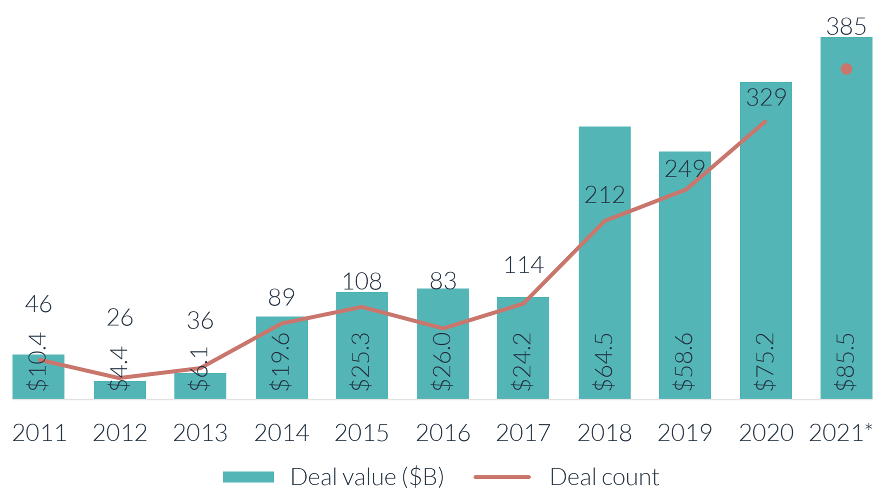
Mega-deals shatter previous records. 198 VC deals at or exceeding $100 million closed in Q2, bringing 2021's total to $85.5 billion of capital investment across 385 deals. This has already surpassed 2020's record and, with six months left in the year, will easily set a new annual record on both a count and value basis.

Crossover investor participation at unprecedented levels. Public equity asset managers have been increasingly adopting venture as a strategy, as we have detailed previously. H1 has seen an explosion in crossover investor participation, totaling $63.5 billion of capital across 524 VC deals and will likely surpass the $100 billion mark by the end of the year.

Earliest stages of the venture lifecycle are increasing their proportion of larger deal size buckets. Median and average deal sizes have shot up across all stages over the last decade. Capital availability continues to increase due to skyrocketing fundraising numbers, and startups tend to be more mature and developed when accessing institutional capital. As such, the proportion

Mega-deal activity sets new records on capital investment and deal count

US VC mega-deal activity



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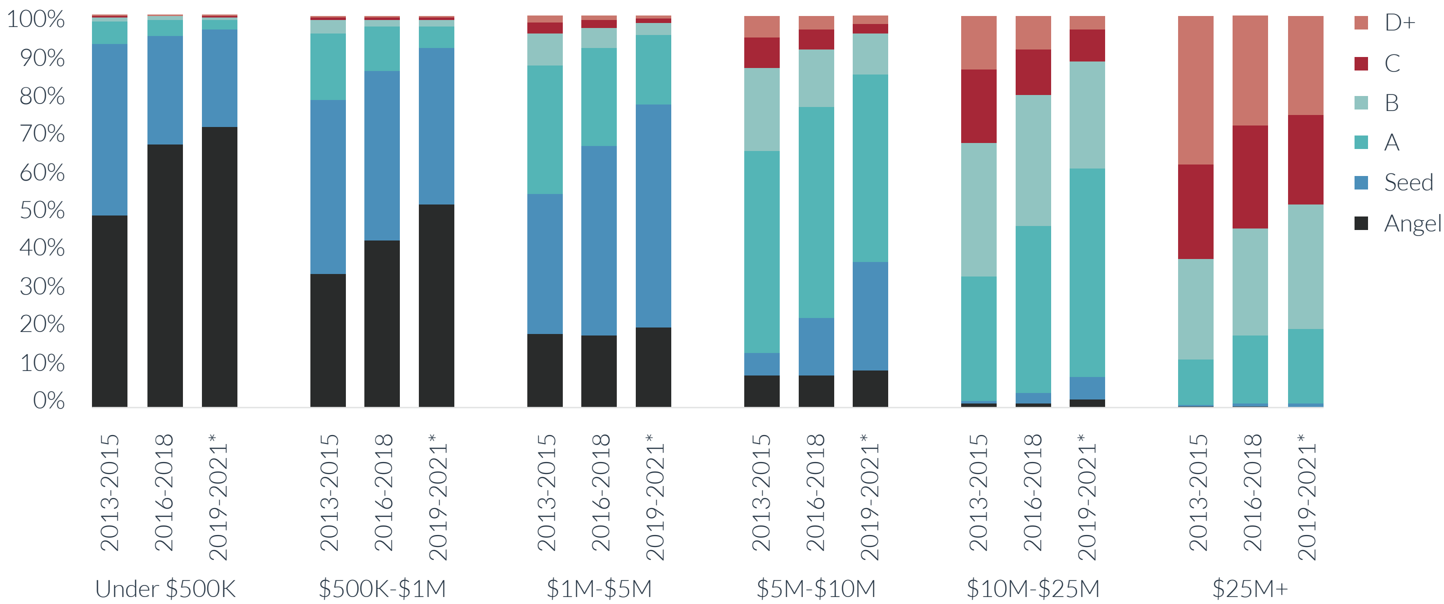
Deal size buckets shift earlier up the venture lifecycle in recent years

US VC deal count by stage and size



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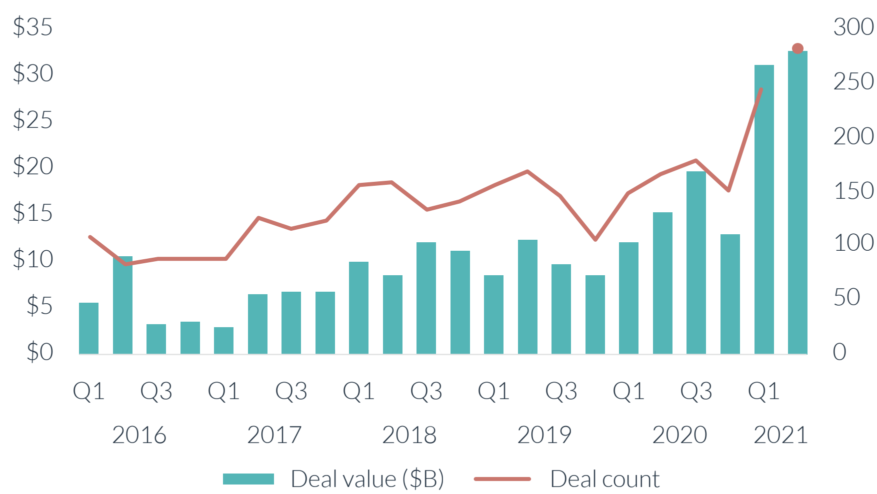
of angel & seed and early-stage rounds that make up many of the larger deal size buckets (i.e. $5-$10M and $10M-$25M) has grown substantially in recent years.

VCs have increasingly doubled down on generalist and specialist strategies. Last month, we published an analyst note on how investment style has changed in the last 15 years. VC managers with a "targeted" approach have dwindled as many either diversified their portfolios or increased specialization within a specific industry. Further, new managers tend to be more heavily weighted toward targeted and specialist styles when compared to veteran VCs.

Exit value sets new annual record in six months. Robust public listing activity and acquisitive corporations drove exit value in H1 2021 to $372.2 billion, which is already nearly 30% higher than 2020's all-time record of $287.5 billion. The direct listings of Coinbase and Roblox drove over $120 billion of this value just on their own, which speaks to the power of outliers, as well as just how large startups are able to grow in the current VC market.

Explosive growth from crossovers in H1 2021

US VC deal activity with crossover investor participation



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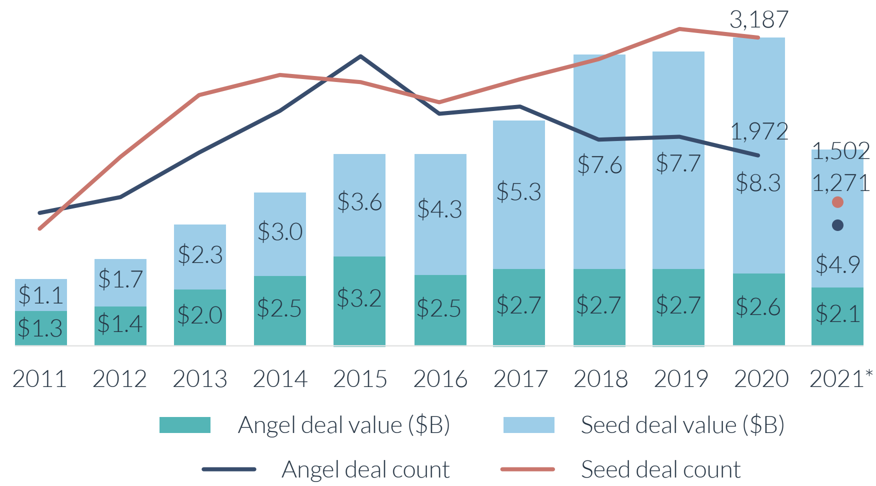
Angel, seed, and first financings

Using H2 2020's robust dealmaking activity as a springboard, the angel and seed markets have catapulted to record highs in the first half of 2021 and offer a tantalizing glimpse into future US venture dealmaking activity. Based on the elevated number of companies raising capital through Q2, we expect activity in these earliest venture stages to remain high for the foreseeable future. The first half of 2021 has seen the highest figures of angel & seed investment of any half year in our dataset. An estimated 1,733 deals were completed in Q2, which heralds a new quarterly high-water mark for the industry. While the resilience of angel & seed deals in the Zoom economy has drawn considerable attention, it is important to note the changes over the past few years that have enabled these levels of activity. The emergence of a pre-seed market has created more opportunities for companies to raise pre-VC capital and enter the venture lifecycle in a stronger position, and the growth in rolling funds and solo capitalists has increased the number of investors targeting angel- and seed-stage companies. We have also seen angel & seed deals expand beyond tech hubs, as more than 33% of completed angel or seed deals occurred outside the 10 most active combined statistical areas (CSAs). That figure drops below 19% at the late stage.

Angel and seed deals setting high pace

US angel and seed deal activity by stage



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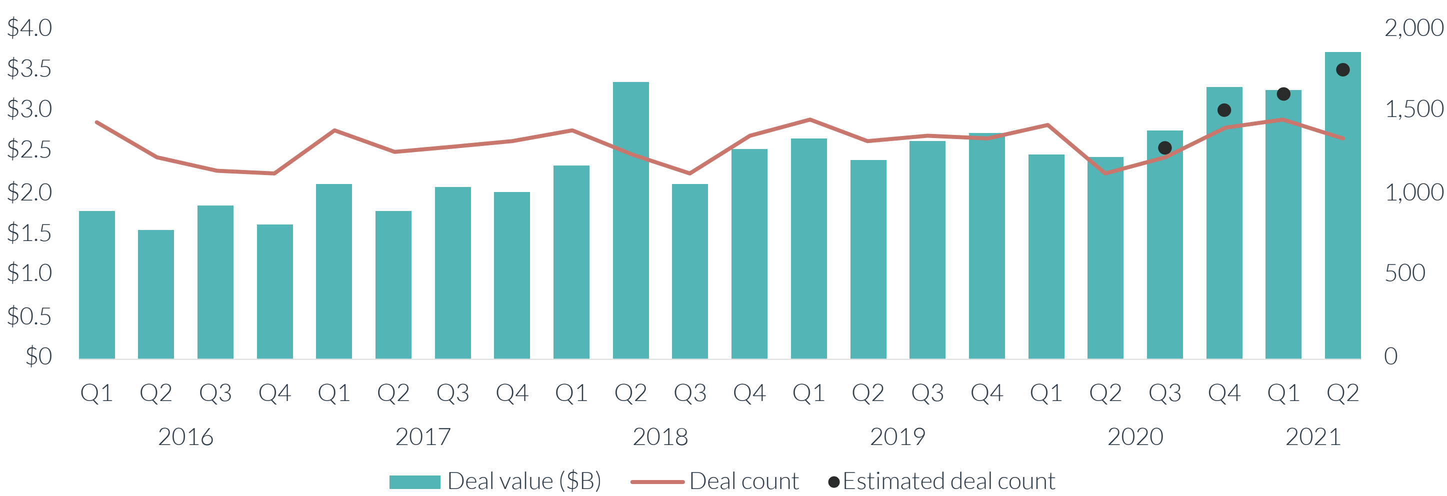
With more than $7.0 billion in capital invested across angel & seed deals, H1 2021 has already surpassed the total deal value of every year prior to 2017. The outsized capital figures at the late stage are easily traced to the growth in mega-rounds ($100 million+), but the increase at the angel and seed stages is less straightforward as growth in the median and average deal sizes have been much less pronounced. However, the seed stage continued to attract large, multi-stage institutional investors. For example, General Catalyst and Founders Fund, which combined to close more than $4.5 billion in VC funds in 2020, have joined forces to close 21 seed deals in 2021, while Sequoia, which operates the largest VC fund at $8 billion, has made

Past two quarters set highs for deal count in our dataset

US angel & seed deal activity by quarter



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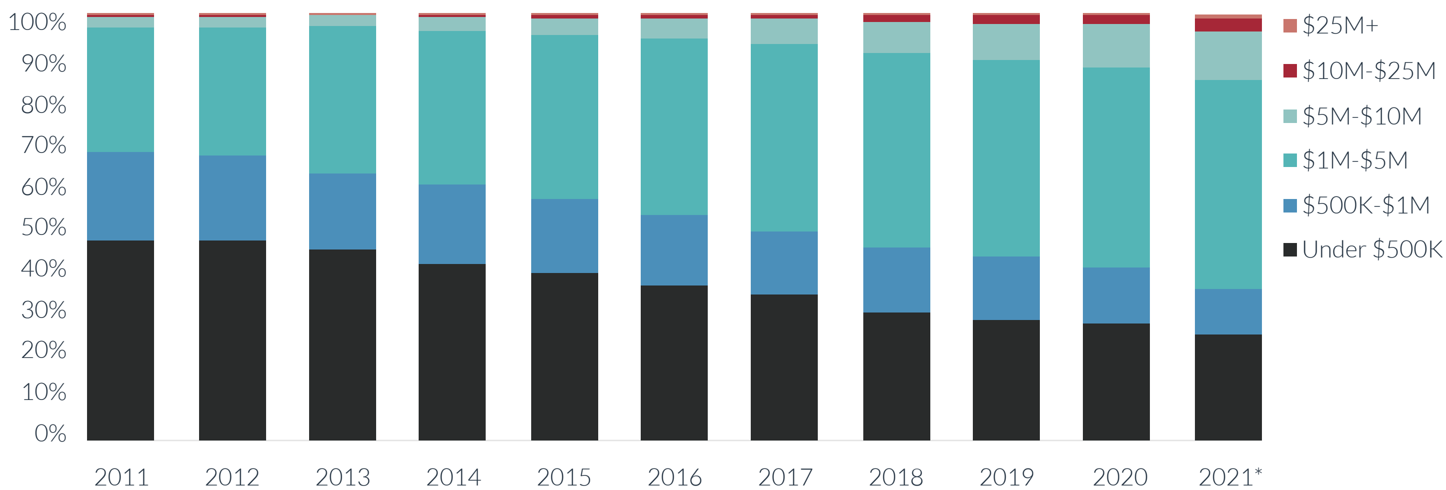
nine US seed investments this year. This has made dealmaking more competitive, as larger sums are being invested in single deals. A record 23 angel & seed deals of $25 million or higher have been completed in H1 2021—a figure that far exceeds 2020's figure. Such deals had not achieved double-digit totals until 2018, showcasing that the stage-stretching deal sizes have not just occurred at the late stage in recent years.

Although first financings are not counted as a specific investment stage, the number of companies raising their first round of VC indicates a positive trend in the first six months of 2021. Already, more than 1,700 companies have raised a first investment this year, totaling just shy of $9 billion. That the increased available capital is finding its way to new ventures is an optimistic signal that investors are still willing to invest in the riskiest companies and have confidence in the economy coming off the pandemic. Investors look to have plenty of opportunities over the next several years as these companies come back to market to raise additional capital.

Deal sizes creeping higher

US angel & seed deal count (#) by size



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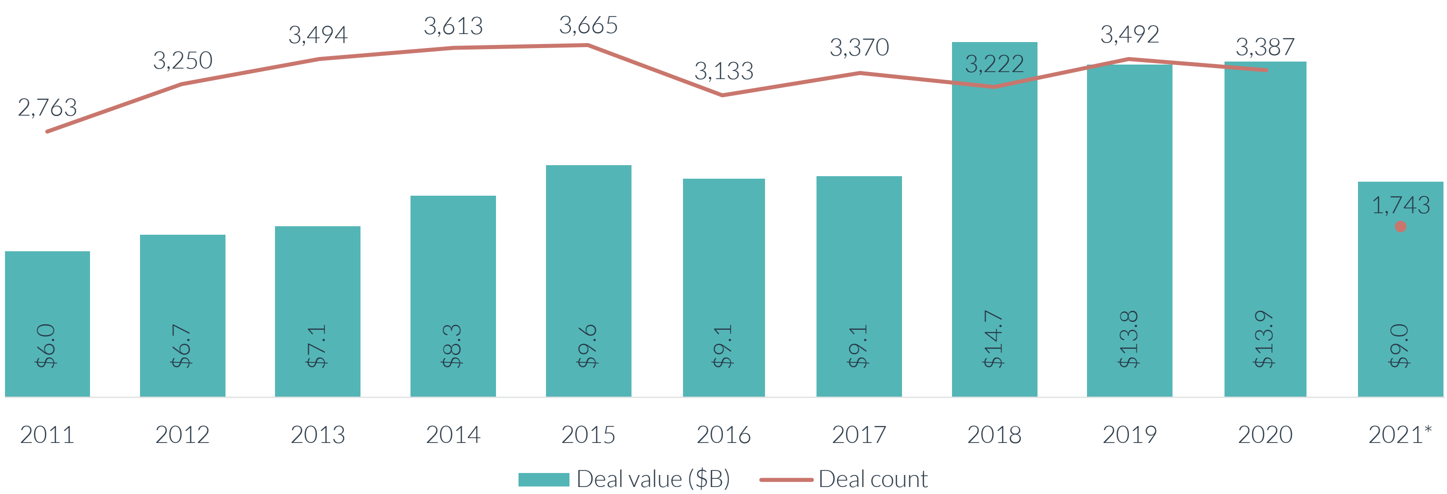
First financings strong through H1

US first-financing VC deal activity



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Early-stage VC

Following a robust start to 2021, early-stage VC deal activity surpassed expectations in Q2 as $19.6 billion of capital was invested across an estimated 1,303 deals, notching a new quarterly record. While the last three years (2018–2020) have each surpassed $40 billion in annual deal value, 2021 will likely shatter that high-water mark since, at the current pace, it would exceed $60 billion—an annual value that previously has only been observed at the late stage.

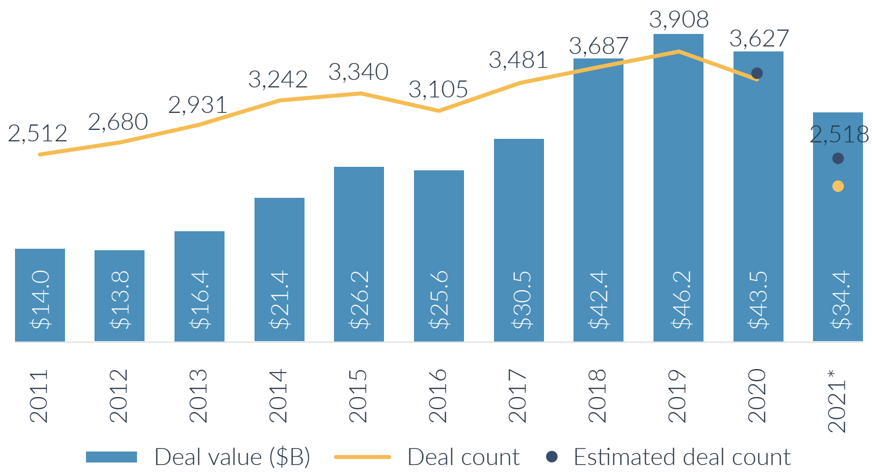
Early-stage VC is undergoing an identity crisis as deal size distribution weighs more and more heavily toward outsized financing rounds, largely due to recycled liquidity from an overactive exit environment and nontraditional investors descending to the venture lifecycle's early stage. Indeed, the proportion of early-stage deals over $10 million is approaching 50% of aggregate deal count and constitutes more than 90% of aggregate deal value YTD—a strong indicator of the shifting landscape in early-stage investing, given that deals over $10 million barely eclipsed 25% of total deal count just five years prior.

While this trend has gradually taken shape over the last several years, the run-up seen in 2021 has greatly accelerated deal distribution toward outsized deals. The median and average early-stage deal size in H1 2021 shot up to $9.5 million and $20.5 million, respectively—a sharp increase over 2020's aggregate of $6.4 million and $15.6 million. On the valuations front, the median and average early-stage pre-money valuation in H1 2021 has also drastically expanded to $42.0 million and $96.1 million, respectively—a notable jump over 2020's $30.0 million and $61.7 million. We attribute much of the expansion to the increased competition for deals in H1 2021 as the investing landscape heats up and applies upward pressure on both deal sizes and valuations.

The explosion of crossover investors—namely, buy-side public equity asset managers that also invest in privately backed companies—has dramatically increased capital availability within VC, and these investors tend to be less valuation-sensitive than traditional venture firms. Further, crossover investors that have typically focused on late-stage and growth opportunities have forayed into the early stage as they look to expand their opportunities by participating (and sometimes even leading) Series A and B rounds. In Q2, most of the largest early-stage deals included crossover investor participation. For example, Treeline

H1 deal value tracking to set a record

US early-stage VC deal activity



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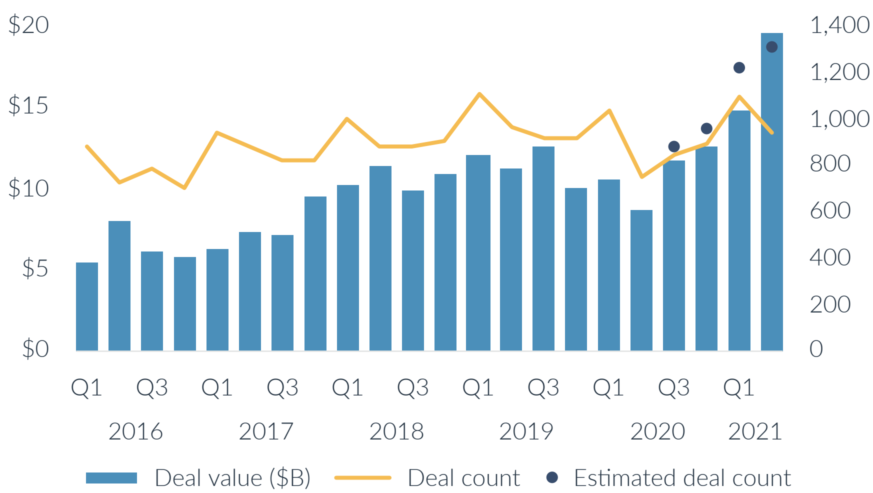
Q2 deal value notches a record $19.6 billion

US early-stage VC deal activity by quarter



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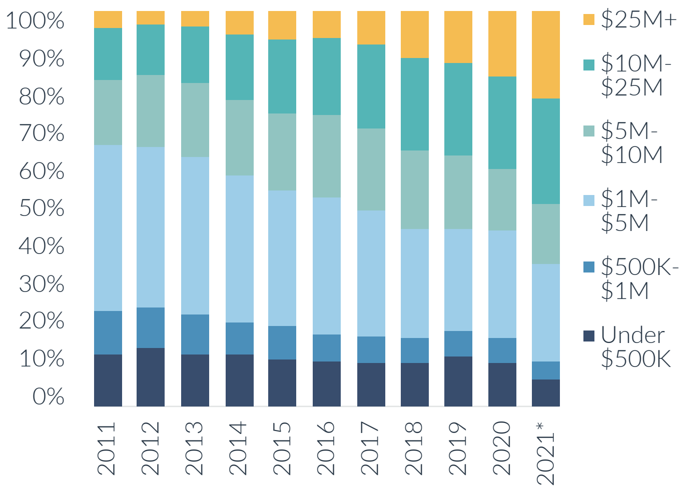
Biosciences' $735.0 million Series A included participation from Casdin Capital, GV, and Orbimed; and Homeward's $371.0 million Series B included participation from Adams Street Partners and Blackstone Alternative Asset Management.

As the industry looks toward H2 2021, VCs are still evaluating whether this level of dealmaking will persist and what its broader impact on the venture ecosystem might be. Skepticism remains whether many crossover investors are true value-adds to early-stage companies or merely sources for large cash infusions. In addition, as the demand for capital continues to be matched by oversupply, the early stage of venture is likely to be fundamentally altered for the foreseeable future.

Proportion of $10M+ rounds approach 50% of aggregate deal count

US early-stage VC deal count (#) by size



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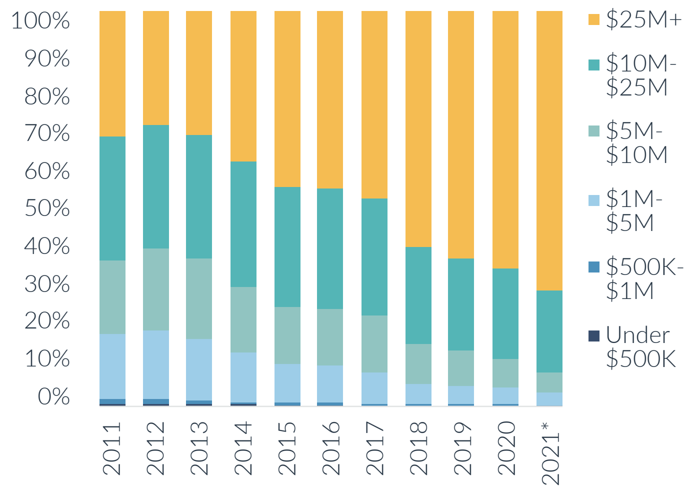
$10M+ rounds constitute over 90% of aggregate early-stage deal value

US early-stage VC deal value ($) by size



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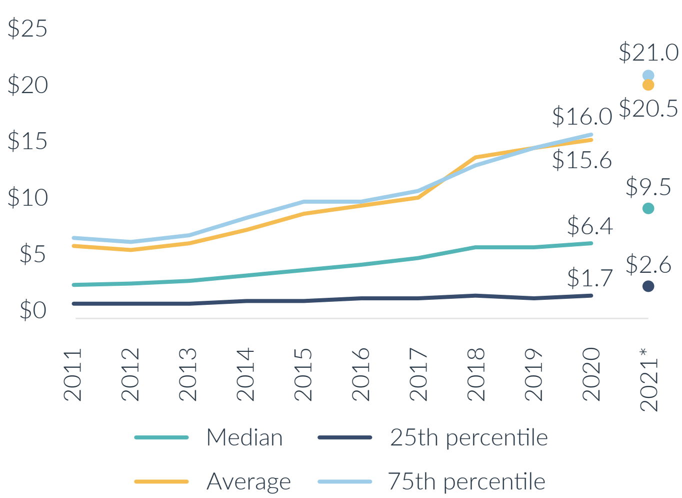
Rapid cadence of capital allocation continues to push median and average upwards

Quartile distribution of early-stage VC deal sizes ($M)



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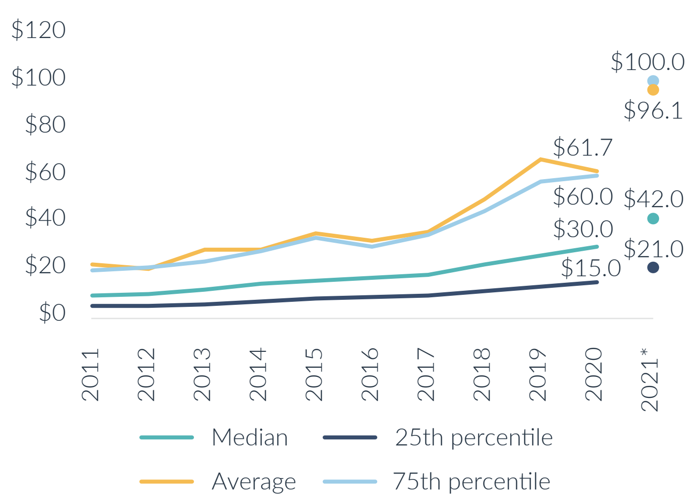
Pre-money valuations shoot upward as competition increases

Quartile distribution of early-stage VC pre-money valuations ($M)



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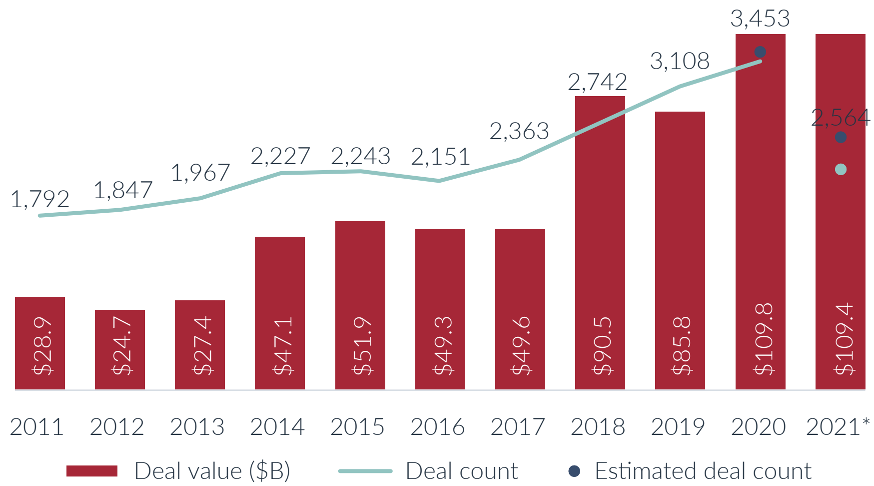
Late-stage VC

Late-stage capital investment surpassed $100 billion for the second consecutive year—this time, however, in only 6 months. At this rapid pace of dealmaking, 2021 will easily surpass 2020 as a new record year for investment into the most mature startups. Median deal sizes and valuations continue to grow, but late-stage deal counts are also on a robust trajectory through two quarters, posting a number 47.0% larger than the deal count through Q2 2020. Of course, the first half of 2020 bore the brunt of the economic slowdown brought on by the COVID-19 pandemic, so while this may be a slightly favorable comparable, 2021 is still on pace to set a new all-time record for late-stage deal count.

H1 2021 matches full year 2020 in terms of investment

US late-stage VC deal activity



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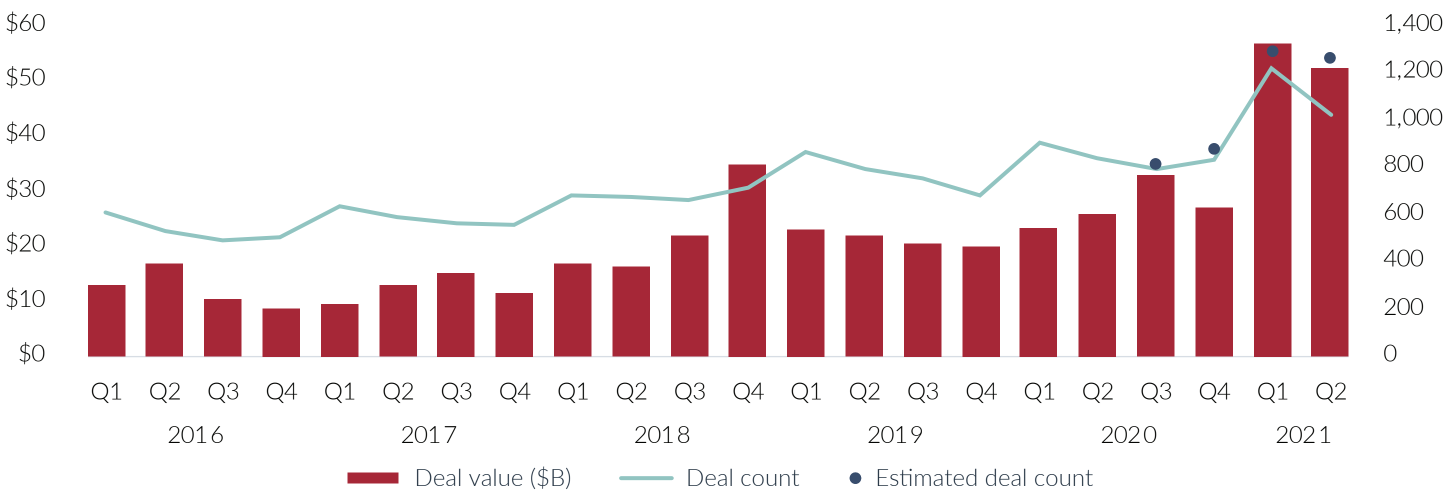
This momentum in deal count is even more pronounced with mega-deals ($100 million+), which have already set a new annual record in 2021 through only six months. 323 of those mega-deals were in the late stage, 163 in Q2 alone, which on its own is greater than any full year prior to 2018. This continues to cement the dominance of the largest companies in aggregate capital raised. To illustrate this increasing concentration of capital investment within US VC, so far in 2021 83.3% of late-stage capital raised was in rounds of more than $50 million; these deals made up just 45.1% of capital investment in 2011.

While there is a contingent of these mega-deals that are Series E or F or later, a vast majority of the mega-deals from Q2 2021 are coming at the Series C or D rounds, which we think of as the traditional late stage. While the "private-for-longer" phenomenon remains part of the overall conversation, it is no longer just companies that extend past the traditional venture time frame that are receiving these outsized funding rounds.

Capital investment at the late stage remains historically robust

US late-stage VC deal activity by quarter



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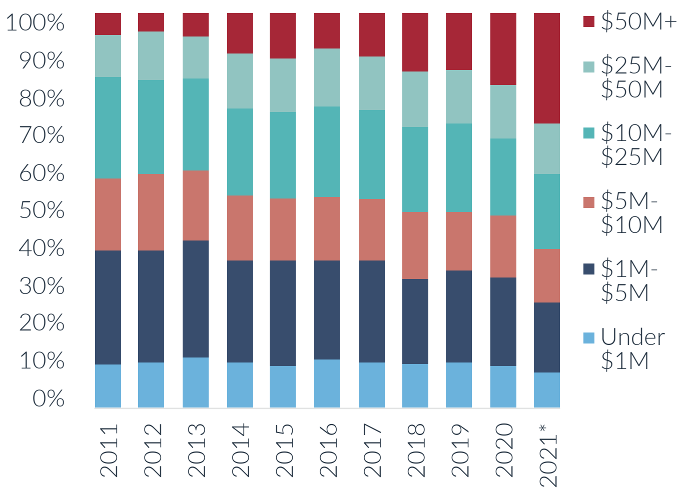
Of course, the maturity level of companies raising Series C & D rounds has changed over the past five years, as has a differentiation in business models such as the rise of as-a-service, which has allowed for more rapid scale. The total capital available to VC-backed companies continues to swell, especially at the late stage, which we see as a tailwind to these kinds of deals that should persist at least through the end of 2021. Longer-term changes in other asset classes, or broader economic shifts (such as rising inflation or interest rates) are likely to be the only factors to derail the search for growth from LPs in the VC market.

Fintech was well-represented in these top deals during the second quarter, with Plaid and Brex raising some of the largest VC deals of the quarter, each deal coming in at more than $400 million. COVID-19 has been a boon for many businesses in this space, further accelerating the digitization within financial markets, including mobile payments and trading and areas of lending such as buy-now, pay-later and real estate lending. The quick maturation of these trends has propelled many of these businesses squarely into the late stage, and with the capital intensity of many business models in the space, it follows that many of these deals fall in the top decile of deal size.

Late-stage dealmaking continues at historic pace

US late-stage VC deal count (#) by size



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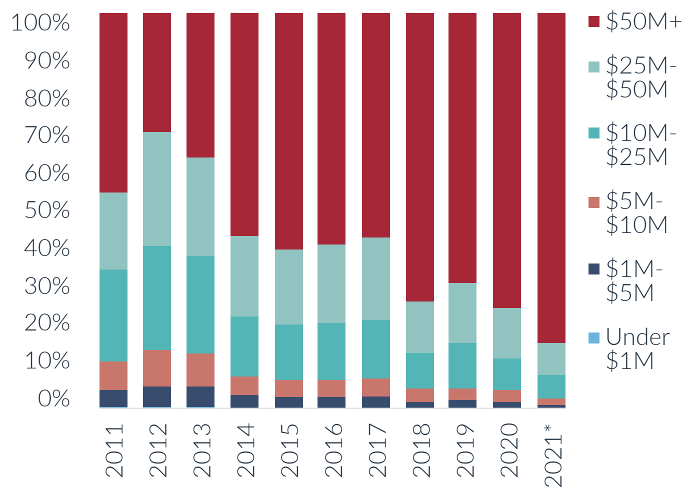
Capital investment dominated by mega-deals

US late-stage deal value ($B) by size



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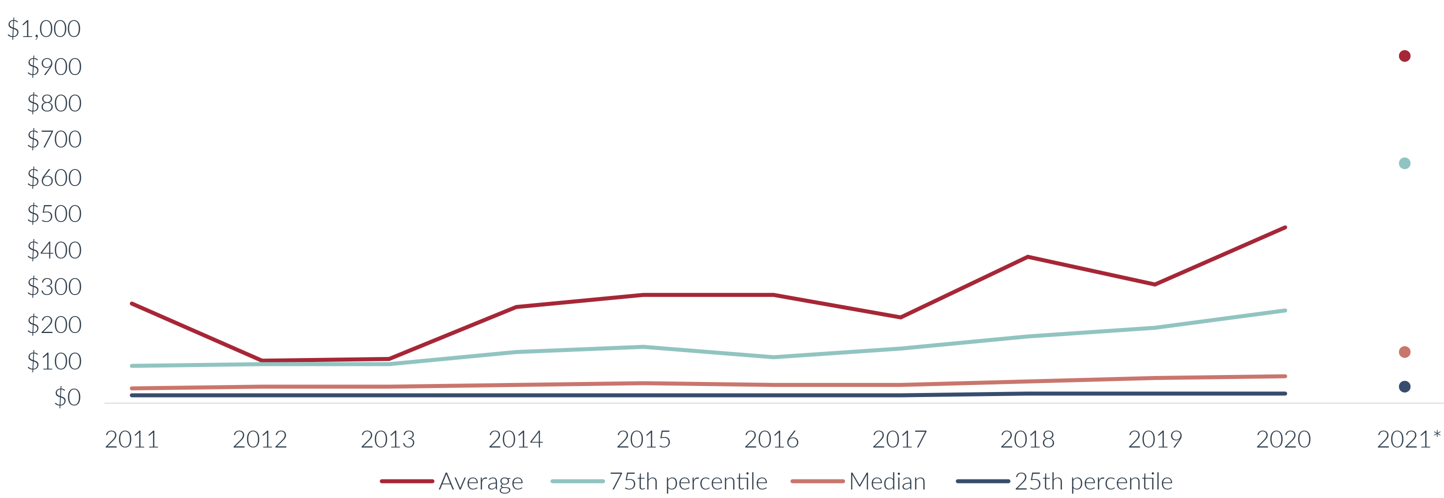
Late-stage valuations continue to soar in 2021

Quartile distribution of late-stage pre-money valuations ($M)



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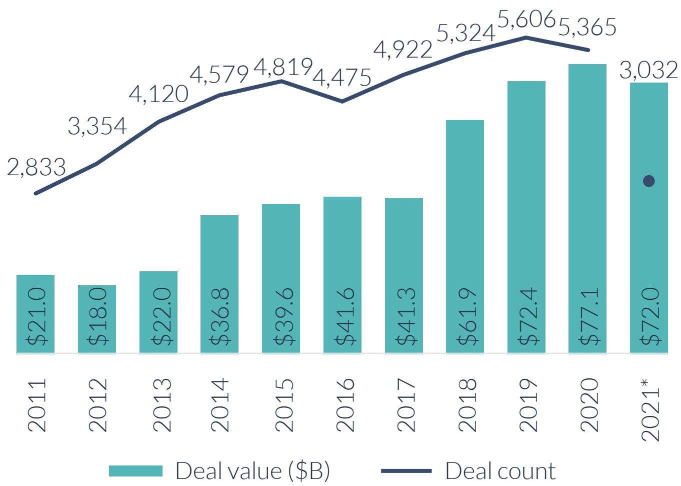
Deals by sector: B2B Tech

B2B tech nearly surpasses 2020 deal value

US VC B2B tech deal activity



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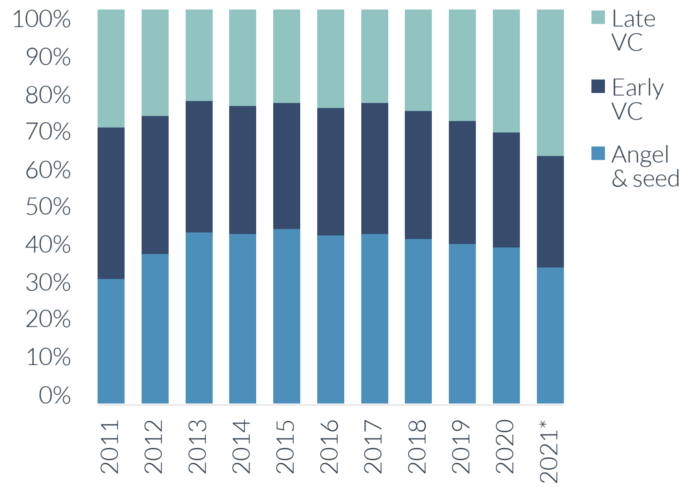
Late stage deals outpacing other stages

US VC B2B tech deal count (#) by stage



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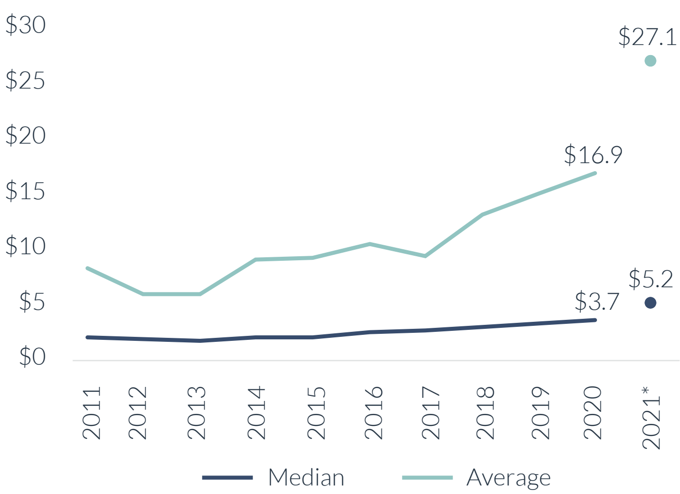
Current average 60% higher than 2020

Median and average US VC B2B tech deal sizes ($M)



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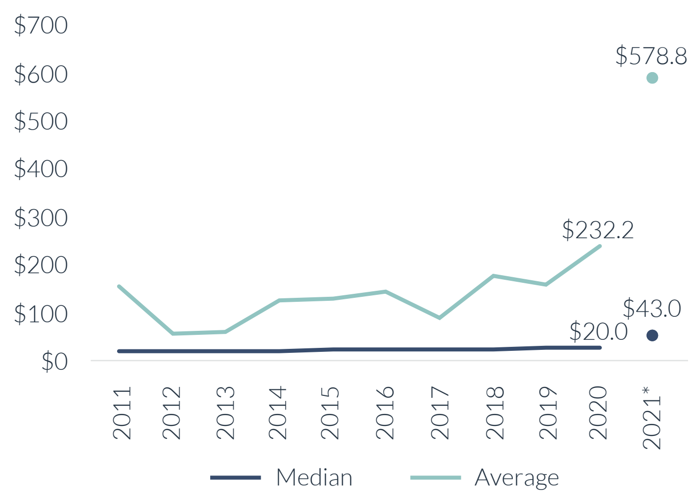
Median valuation more than double 2020

Median and average US VC B2B tech pre-money valuations ($M)



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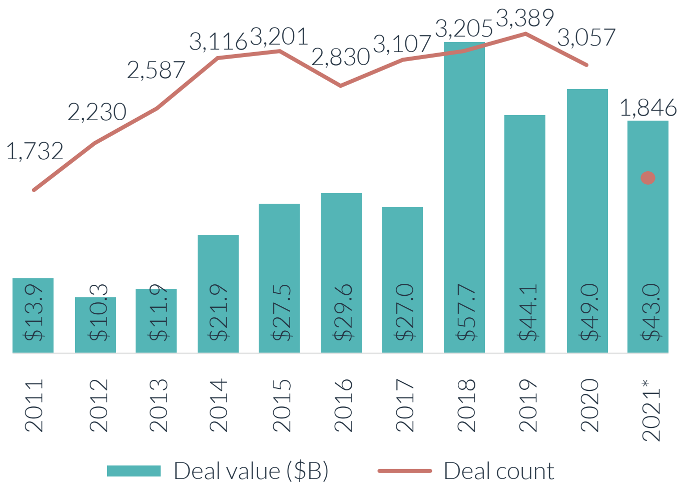
Deals by sector: B2C Tech

B2C deals pacing new record

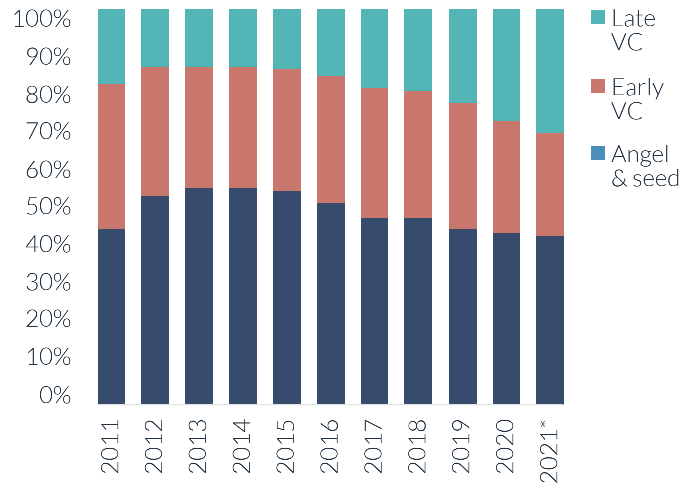
US VC B2C tech deal activity



PitchBook-NVCA Venture Monitor
*As of June 30, 2021

Each stage at record pace

US VC B2C tech deal count (#) by stage



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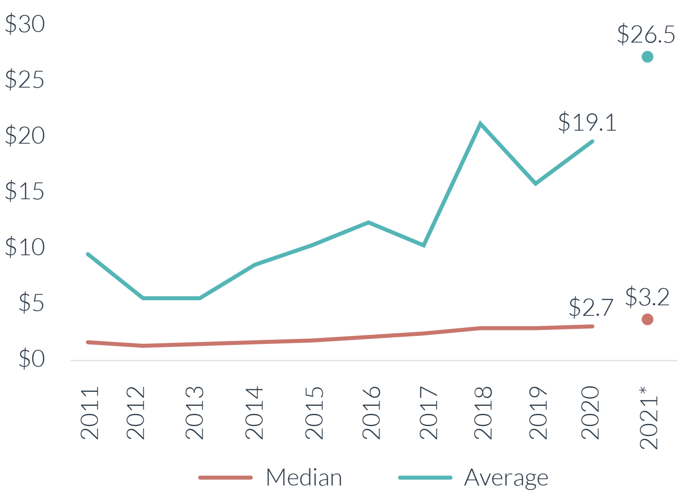
Deal sizes see bump to new highs

Median and average US VC B2C tech deal sizes ($M)



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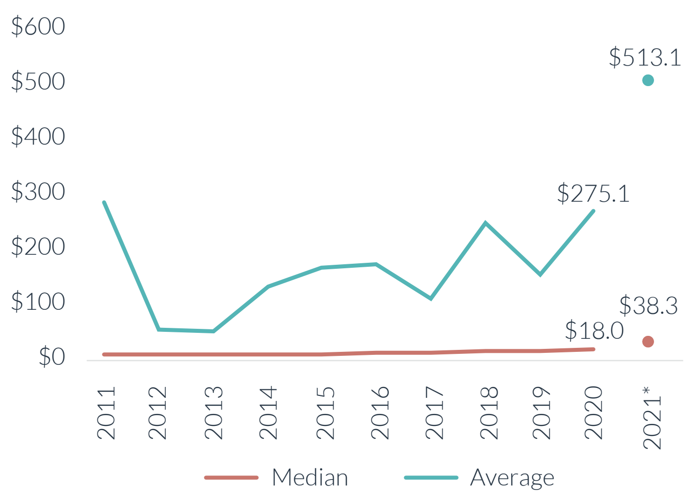
B2C valuations following trends

Median and average US VC B2C tech pre-money valuations ($M)



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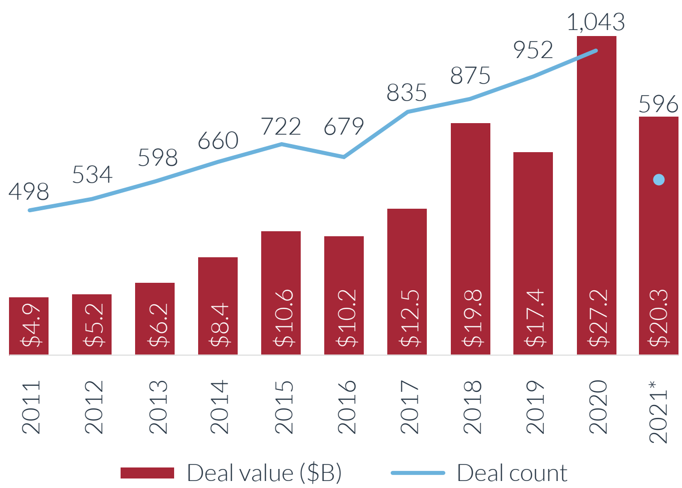
Deals by sector: Biotech & pharma

H1 biotech companies raise more than $20 billion

US VC biotech & pharma deal activity



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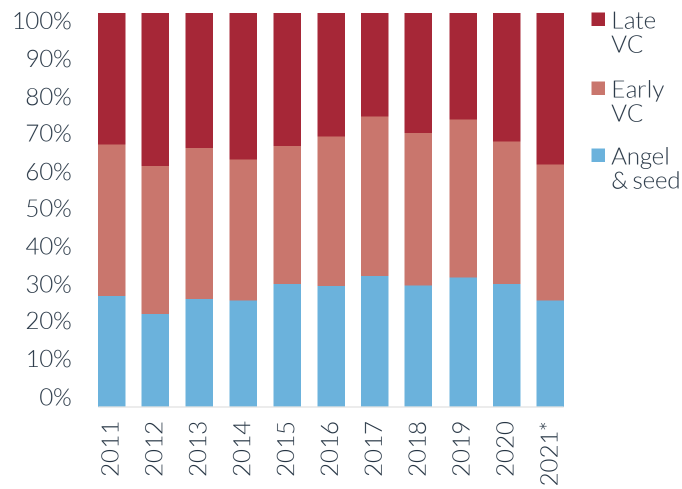
Nearly 40% of all deals at the late stage

US VC biotech & pharma deal count (#) by stage



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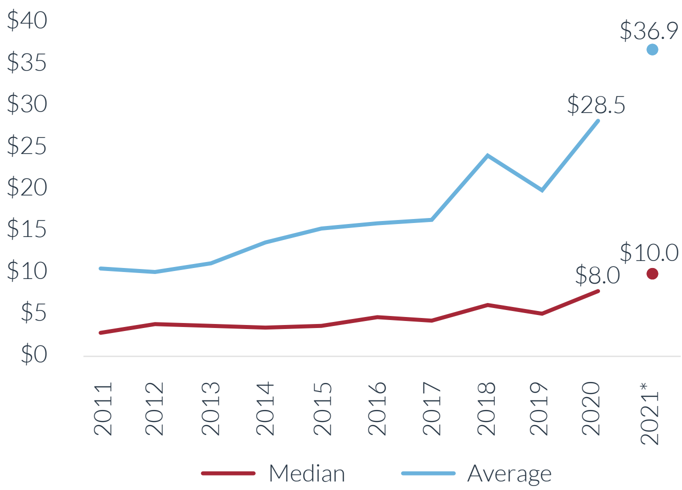
Plethora of outsized deals push median and average upwards

Median and average US VC biotech & pharma deal sizes ($M)



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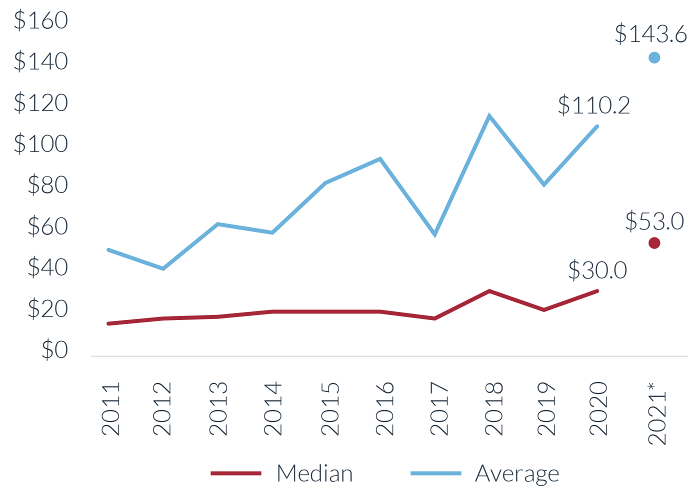
Valuations continue to soar as companies tackle unmet medical needs

Median and average US VC biotech & pharma pre-money valuations ($M)



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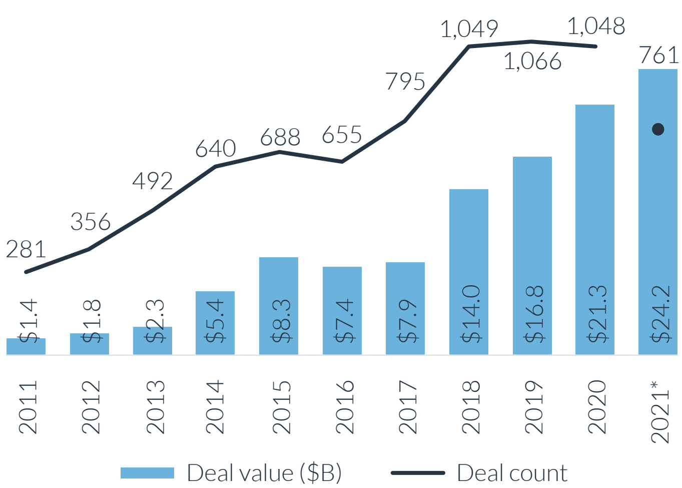
Deals by sector: Fintech

H1 fintech investment already shatters previous record

US VC fintech deal activity



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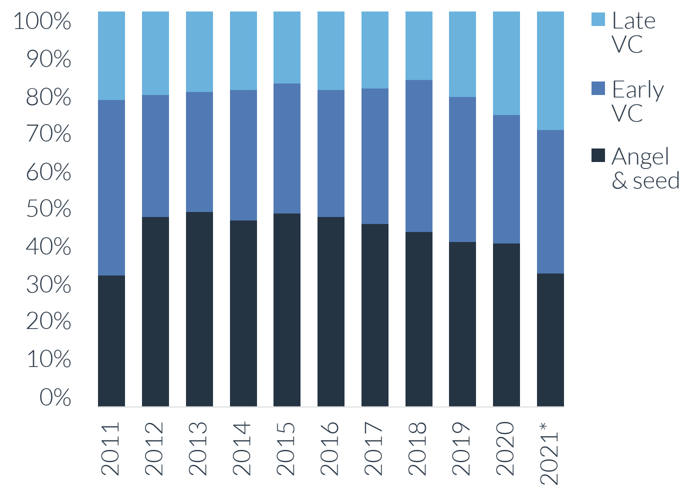
*As of June 30, 2021

Maturation and wider adoption of fintech evident with late-stage deals

US VC fintech deal count (#) by stage



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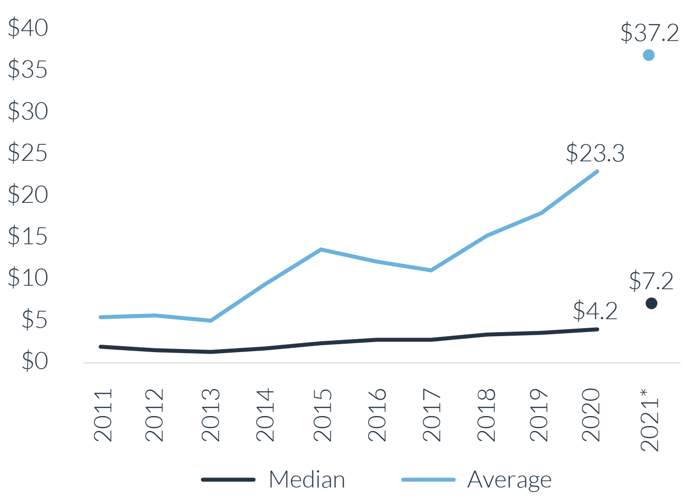
Deal sizes continue to grow larger

Median & average US VC fintech deal sizes ($M)



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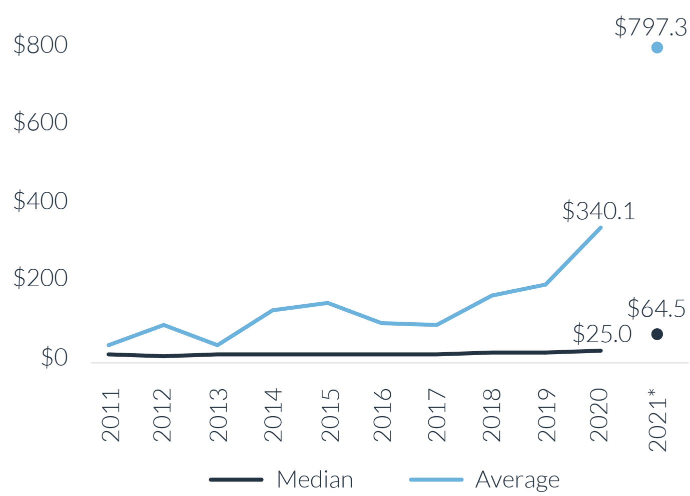
Dizzying valuations seen in H1 fintech deals

Median & average US VC fintech pre-money valuations ($M)



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SVB: How hedge funds are influencing venture fundraising

Q&A with Sunita Patel

As competition to participate in the best deals grows, a handful of hedge funds are showing greater interest in venture investments, from early stage to late stage. Even as demand is pushing up valuations, the returns are attractive for these funds. Will the trend last? Sunita Patel, Silicon Valley Bank's chief business development officer, offers her take.

What makes hedge funds competitive in this space?

Hedge funds' appetite for VC deals has increased, and some of those funds have reportedly offered to pay as much as 50% to 100% more than traditional VC competitors. Compared with VC firms, hedge funds typically place less emphasis on the ownership on the capitalization table. They often don't require a board seat, while VC firms typically do, which may be an attractive dynamic for some independent-minded founders.

What's more, hedge funds are moving faster. Now we're seeing turnarounds from hedge funds of two to three weeks. They're also offering very clean equity term sheets—sometimes only one page. These factors make it compelling for some founders to raise money from hedge funds.

In the first half of 2021, hedge funds participated in 128 US VC deals, surpassing 118 deals for full-year 2020 and 109 in 2019, according to PitchBook. Much of the activity is still focused on late-stage deals: Hedge funds, for example, participated in just 4% of US Series C deals in 2019—a figure that grew to 10% through mid-year 2021.

What conditions are pushing hedge funds to move down market?

Some hedge funds are adjusting their strategy to consider earlier-stage investments as valuations soar at their typical investment stage—the last funding round before the company goes public. Tech and life sciences sectors have shown a lot of resilience through the pandemic, encouraging hedge funds to enter the lifecycle earlier and strengthen their position for later rounds.

We're in a low-interest rate environment, so hedge funds are going to look for better returns elsewhere, including VC, where returns have reached the highest point so far in this economic cycle. And hedge funds are going after many sectors. We're seeing them trying to identify the top three to five companies in each sector and then very aggressively targeting those companies, offering valuations as high as 100x annual recurring revenue (ARR).

SUNITA PATEL
Chief Business Development Officer

Sunita Patel is the Chief Business Development Officer for Silicon Valley Bank and leads all business development operations for SVB. With more than 25 years of experience in lending to companies in the innovation economy, Sunita is a highly regarded leader with an expansive network across the venture ecosystem.

Do traditional VC and hedge fund investors have different expectations?

Hedge funds typically set higher performance goals for venture investments, and that could mean they would be less forgiving should there be a rocky patch. Unlike a VC investor, they tend to have less involvement with developing a portfolio company's strategy and may be more focused on reaching a liquidity event than the long-term potential of the company.

A core benefit for founders working with VC investors often is the firms' long-term vision and patience in developing a company over time. It's going to be interesting to see how patient hedge funds will be over time, and how they may support their companies when things aren't going well and the markets aren't as robust as they are today.

In addition, I'd offer companies looking for institutional investors two notes of caution based on SVB's experience supporting the venture fundraising ecosystem. A high initial valuation from an institutional investment may become an impediment when a company seeks its next funding round. And raising too much capital too quickly can bring premature dilution of equity ownership.

How are VC funds responding to the hedge fund competition?

We see hedge funds putting deal making pressure on some traditional Series A investors, which has resulted in these VC firms increasing their seed investing activity. VC investors are not likely to blindly follow hedge funds to compete on the highest valuation levels. They'll likely continue to focus on a certain percentage of ownership in their portfolio companies for the economics to work.

They're also more inclined to lean into their differentiators and focus on being operating partners, involving themselves in company building. Whether it's access to the VC ecosystem, customers, or talent, VCs often emphasize the added value they could bring compared with hedge funds and other nontraditional investors.

What are the implications for the fundraising ecosystem?

In the near term, we expect to see shorter periods between funding rounds and more nontraditional investors entering VC. That's likely to inflate dollar amounts for the most sought-after companies. The longer term is harder to predict. Should we have a downturn, my guess is investors will return to their comfort zones. In the past, when the market has returned to a kind of normalcy, we've seen many investors go back to their core competencies.

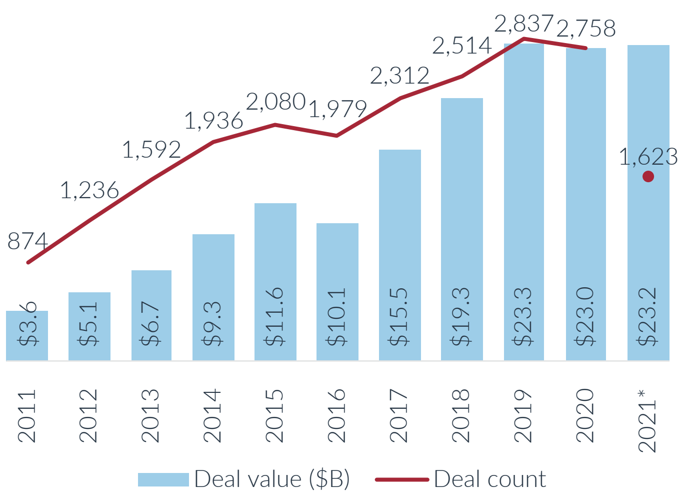
Will hedge funds continue to participate in VC deals at this pace?

How this plays out will depend on hedge fund performance and appetite for risk. At the later stages, it's all about setting valuations and achieving a 1x versus 3x return, whereas coming in as an earlier investor creates more sizable risk should the company stall or go under completely. We'll see how returns work out for these hedge funds. Stay tuned.

Female founders

H1 already on par with prior years' totals

US VC deal activity for female-founded companies



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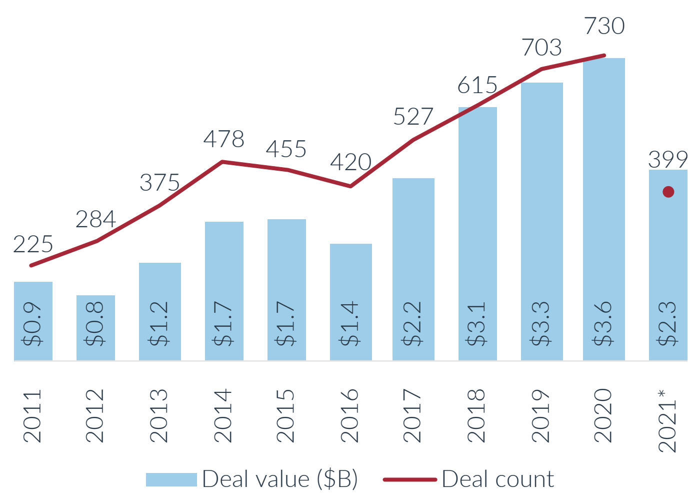
*As of June 30, 2021

Companies with all female founders raise more than $2 billion in H1

US VC deal activity for companies with all female founders



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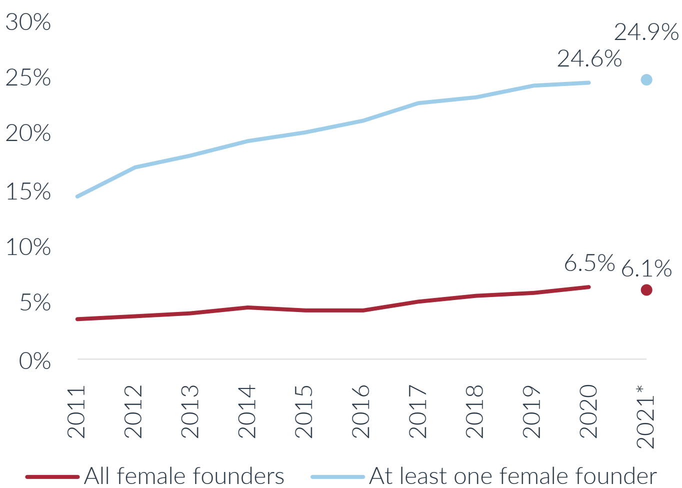
Deal count proportion on par with 2020's values

Female-founded companies as a proportion of total US VC deals (#)



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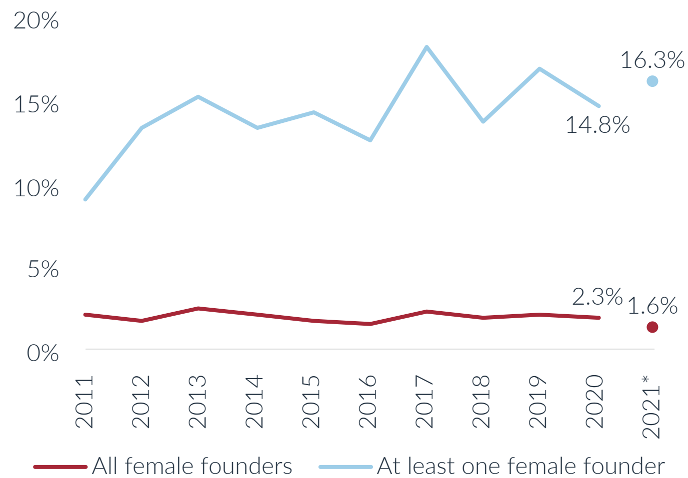
*As of June 30, 2021

Deal value proportion of companies with at least one female founder sees uptick

Female-founded companies as a proportion of total US VC deals ($)



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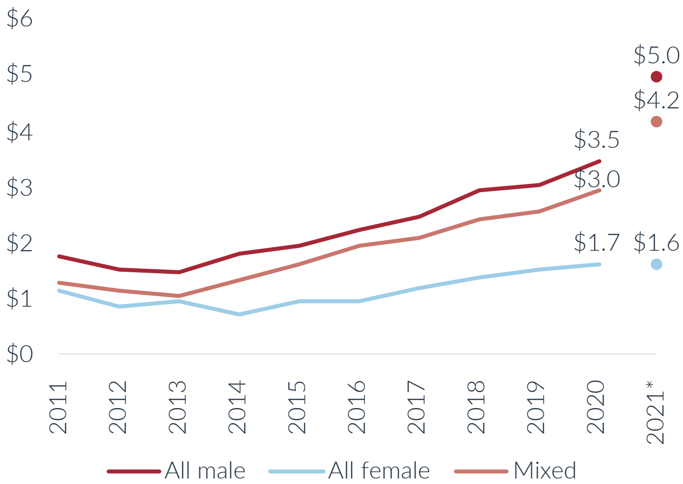
Mixed and all male founding teams see the biggest deal size jumps

Median US VC deal sizes ($M) by founder gender mix



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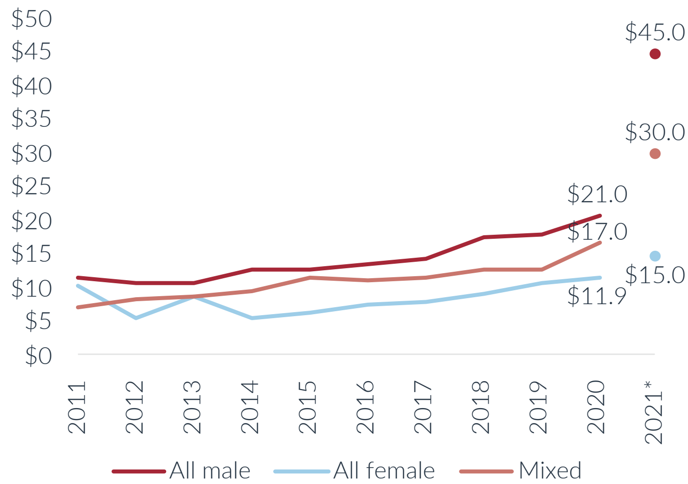
Valuations rise across the board

Median pre-money valuations ($M) by founder gender mix



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*As of June 30, 2021

Top 5 US CSAs by capital raised ($B) for companies with all female founders (2017-2021)

Combined statistical area	Capital raised ($B)
New York-Newark, NY-NJ-CT-PA	$4.2
San Jose-San Francisco-Oakland, CA	$3.9
Los Angeles-Long Beach, CA	$1.7
Boston-Worcester-Providence, MA-RI-NH-CT	$1.0
Other	$0.6

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*As of June 30, 2021

Top 5 US CSAs by deal count (#) for companies with all female founders (2017-2021)

Combined statistical area	Deal count
New York-Newark, NY-NJ-CT-PA	605
San Jose-San Francisco-Oakland, CA	535
Los Angeles-Long Beach, CA	410
Boston-Worcester-Providence, MA-RI-NH-CT	144
Seattle-Tacoma, WA	111

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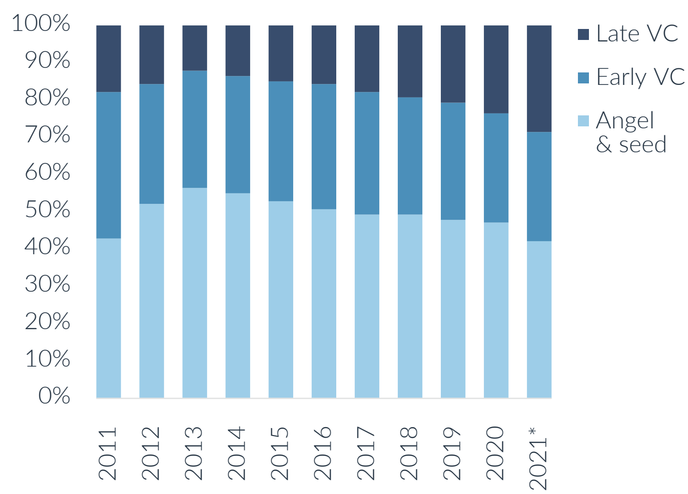
*As of June 30, 2021

Angel & seed deal count proportion continues to contract

US VC deal count (#) for female-founded companies by stage



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Nontraditional investors

Nontraditional investors are taking their venture investment strategy into “traditional” or at least “standard” territory more and more each quarter. The enormous change the market has gone through over the past decade has been predicated, at least in part, on the participation of firms and institutions not labeled as “VC firms.” Accordingly, it may be time for a rebrand of these nontraditional venture investors, as their recent activity and the outlook of their participation point to their continued, and heightened, presence within venture.

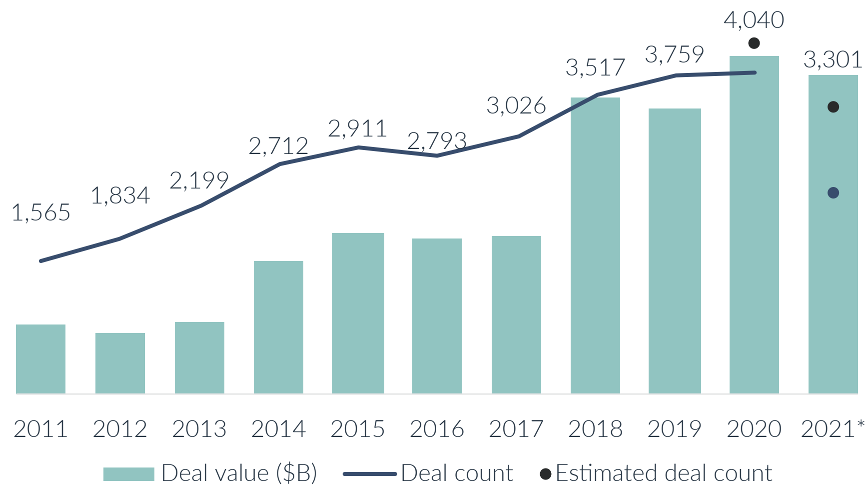
Through Q2, activity by nontraditional investors is not merely on track to reach a new high, but is also likely to set a completely new bar of expectations. An estimated 3,301 deals have received investment from a nontraditional institution (81.8% of the 2020 record high), representing $115.9 billion in deal value (nearly matching 2020’s total). While deal count participation rates for these institutions have only gently ticked upward in recent years, the deal value represented by nontraditionals has skyrocketed. The median late-stage deal size with nontraditional investor participation eclipsed $43 million in 2021, nearly $18 million higher than the same median in 2020.

PE firms, CVCs, and asset managers (including hedge funds and mutual funds) are participating in 45% or more of the total market deal value. Our past estimates have pegged the capital available from nontraditional firms north of $250 billion worldwide—essentially doubling the amount of capital available to global venture-backed companies—and that capital is being put to work at the late stage, extending the venture lifecycle for many companies. In the US, the number of unique active investors counted under our nontraditional methodology has doubled since 2013, surpassing 3,000 in each of the past three years.

The deal value attributed to rounds with nontraditional venture participation cannot be solely linked to nontraditional investors because many venture firms also participate in those deals. However, venture has become ingrained as part of these institutions’ investment strategies. The last three years have seen double the number of corporate VC deals when compared to 2013, and nearly 1,000 unique corporates have already completed a deal in 2021. Within the corporate world, CVC has been included as part of business growth programs at an unprecedented rate, as companies launch new CVC arms and experienced CVC programs are being resupplied with capital. United Airlines, Zoom, CVS, and Coupa Software are just a few of the new investment programs launched in Q2, while Toyota Ventures launched two more funds ($150.0 million each), and TDK Ventures’ second fund ($150.0 million) is set to begin investment.

Nontraditional investors leading trends across the market

US VC deal activity with nontraditional VC investor participation



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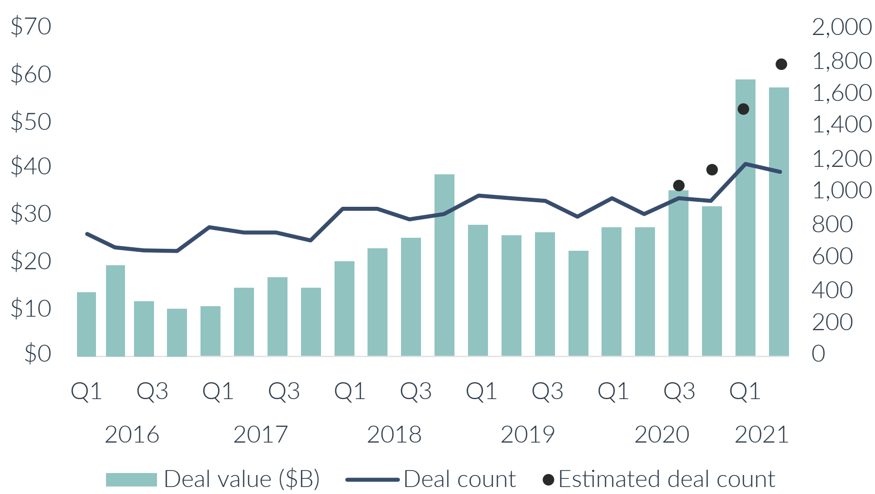
Each of past four quarters has been new record for activity

US VC deal activity with nontraditional VC investor participation by quarter



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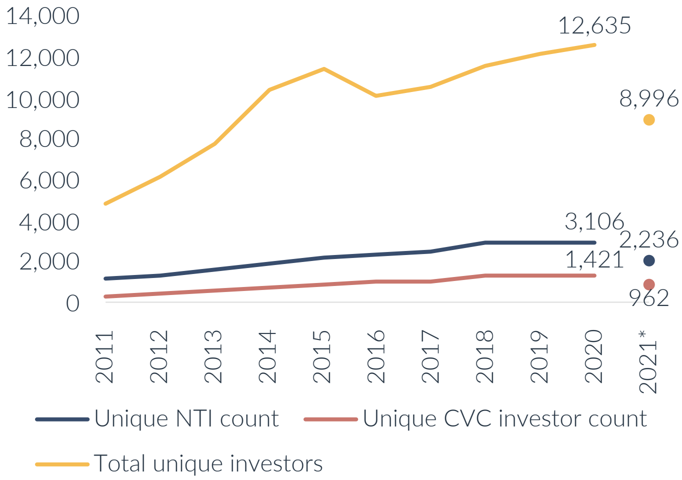
The number of these investors has grown rapidly

US VC NTI and CVC unique investor count



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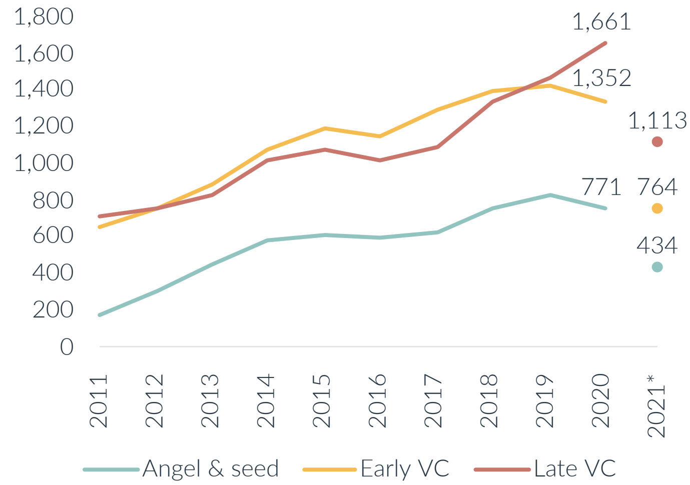
Late stage cemented as main investment type

US VC deal activity (#) with nontraditional VC investor participation by stage



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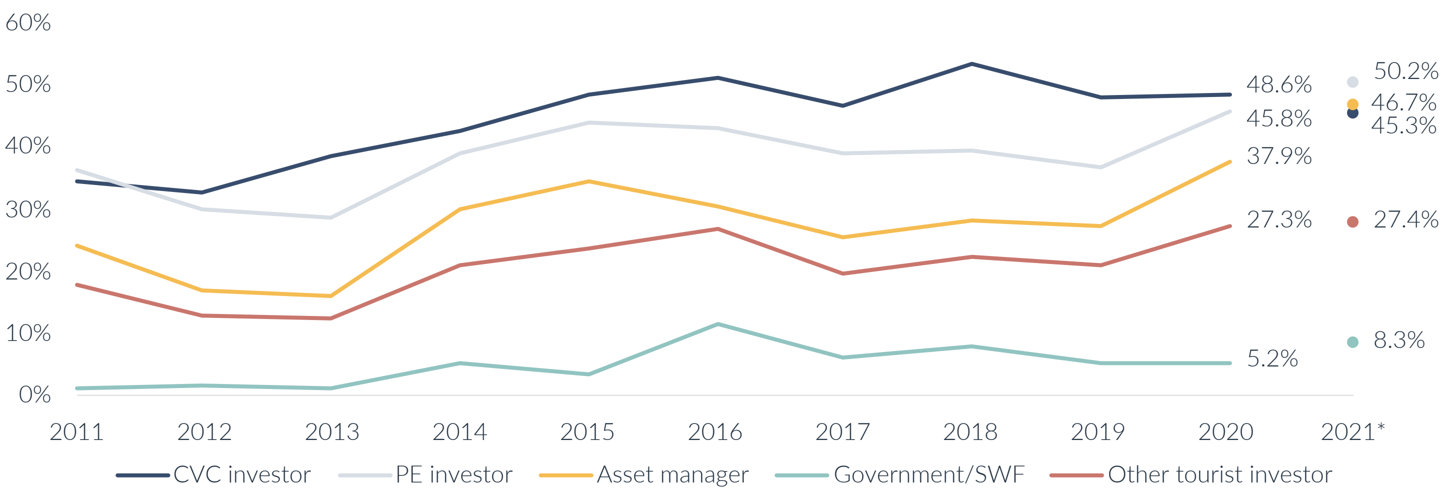
NTIs investing in larger portion of deal value

Deals with nontraditional investor participation as proportion of overall US VC deal value



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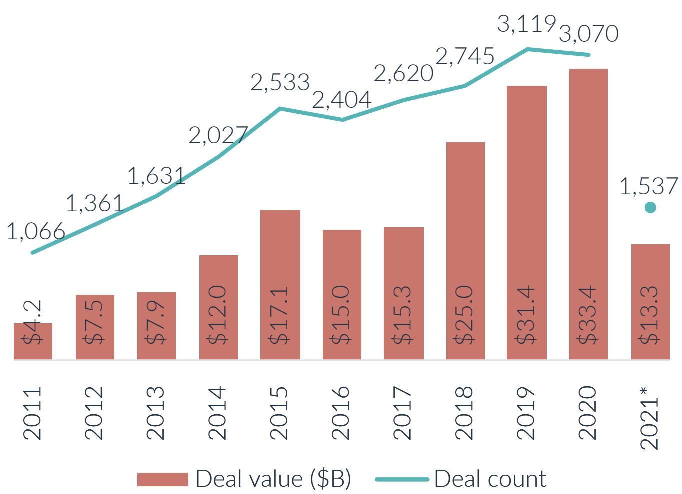
Venture debt

Venture debt deals on strong pace

US venture debt activity



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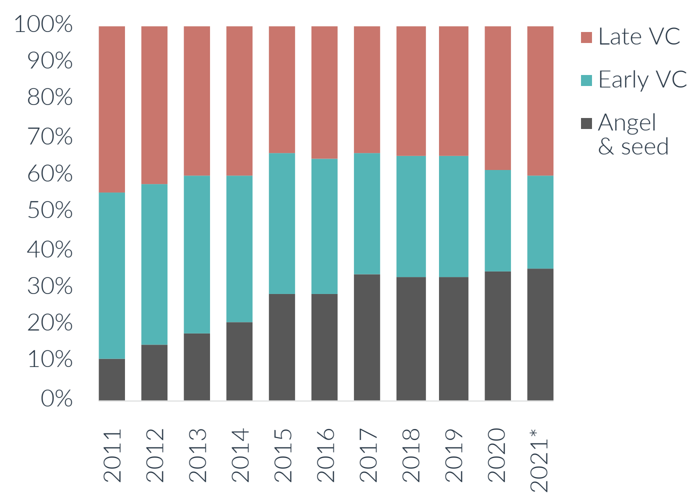
Late-stage companies taking out highest number of loans

US venture debt count (#) by stage



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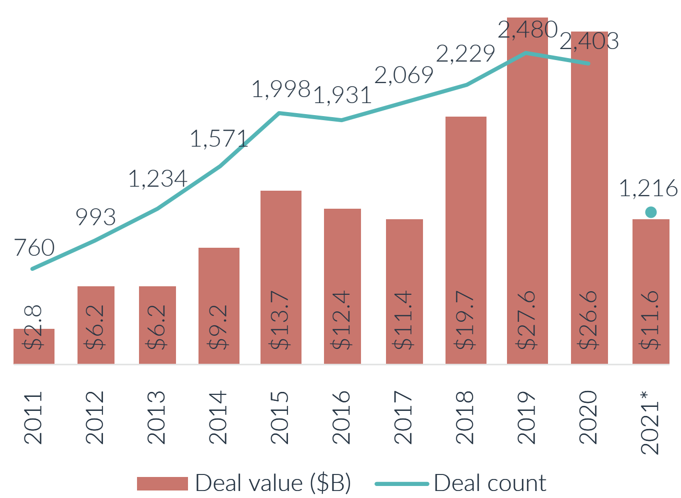
Tech venture debt pacing alongside 2020

US venture debt activity for tech



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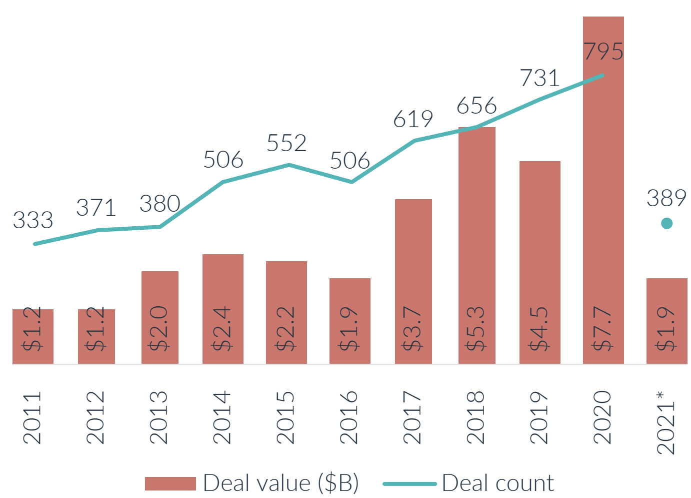
Few large loans in 2021 leaving loan value low through H1

US venture debt activity for healthcare



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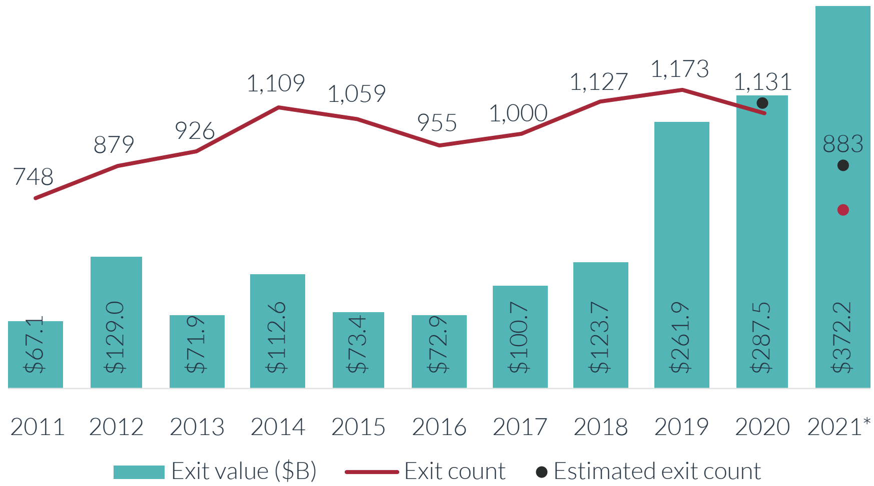
Exits

The US VC exit market was extremely robust during Q2 2021, as it seemed to be in all other phases of VC as well, continuing the trend observed over the last few years. With more than $372.2 billion of value becoming liquid in just the first six months of 2021, this year has already set a new annual record in just two quarters. Even the exit count is historically strong, with an estimated 883 deals through six months, likely to be a new record by the end of the year. It is encouraging to see a positive relationship form between exit value and count, since we've seen massive exits dominate the storylines over the last few years. More exits happening across the VC ecosystem is a broadly optimistic sign for the health of the venture market going forward, as that capital will likely be returned across a larger proportion of GPs.

2021 already sets new record for exit value

US VC exit activity



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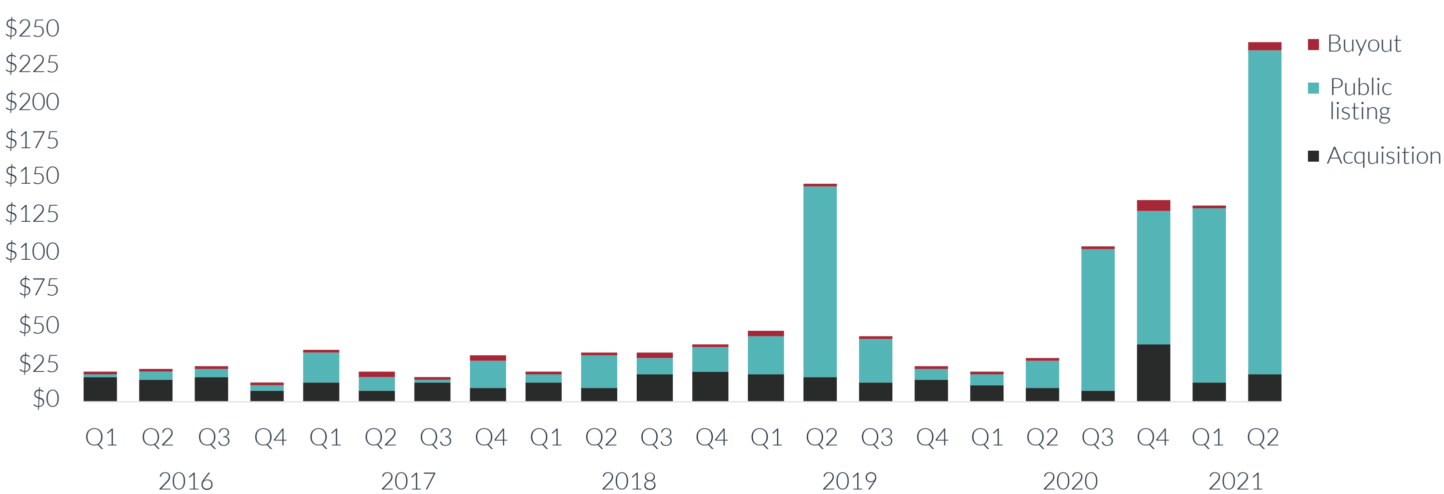
Nonetheless, outsized exits propel most of the capital distributions, and IPOs are still the story behind the elevated exit value totals. In fact, 26 of the top 30 exits by size in Q2 came in the form of public listings, reinforcing their dominance as the main route to liquidity for the largest VC-backed startups. Coinbase, UiPath and Marqeta were responsible for the top three exits of the quarter, their IPOs valued at $85.0 billion, $29.0 billion, and $14.3 billion, respectively. The depth of the IPO market extended well beyond the top two companies, however, as 123 public listings have closed so far this year, putting 2021 squarely within the sights of a new decade high for public listing count.

Undoubtedly, this public listing activity has been buoyed slightly by the special purpose acquisition company (SPAC) phenomenon that overtook the financial markets over the last 15 months or so. For context on the growth of SPACS, these reverse mergers represented 34 of the public listings in the first half of 2021 as

IPOs drive outsized aggregate exit value

Quarterly US VC exit activity ($B) by type



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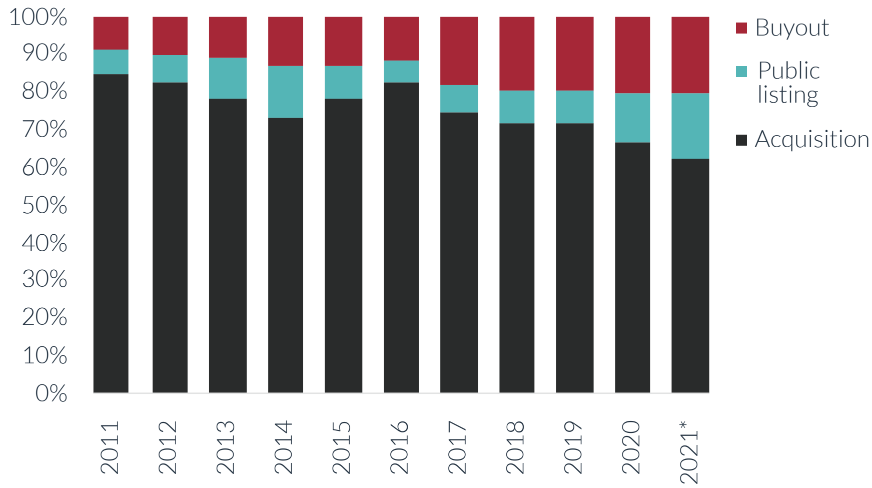
compared to 33 in all of 2020. While the IPO activity of new SPACs has cooled significantly in Q2 2021, the hundreds of active SPACs will continue to be a tailwind for VC-backed public listings for at least the rest of this year as they race against the ticking clock that accompanies a SPAC IPO to deploy their capital. Driven by the convergence of these factors, public listings so far in 2021 represent 17.6% of exits by count—the highest proportion this decade if the trend holds through the end of the year. The public equity markets have performed strongly over the past few years, which has undoubtedly helped drive the continued flow of new listings. Public market sentiment will be a key factor to watch in determining the longevity of VC-backed IPO activity. The potential for interest-rate increases and inflationary fears has introduced some volatility into the public equity markets, which currently sit at historically elevated valuations, some of which may effect plans for companies to go public if adverse volatility becomes more rampant.

M&A activity has also shown signs of strength in 2021, with a historically rapid pace of deal activity that led to 435 transactions closing in the first half. This lines up with the most active years in the last decade, all of which notched more than 800 acquisitions. Large acquisitions (those at or exceeding $100 million) have also remained quite robust, comprising 36.5% of completed acquisitions with known transaction amounts in 2021. Regarding acquisition by sector, we've seen a relatively strong diversity across the core VC sectors but with particular strength in the healthcare space. This activity has been spread across the breadth of the sector with businesses focusing on oncology, healthtech, healthcare devices, and drug discovery seeing strong interest from corporate acquirers. While biotech firms exit to the public markets via IPO relatively frequently compared to other verticals, acquisitions remain the lifeblood of most VC-backed startups in the healthcare sector, given the vast number of incumbent businesses in the space. The general economic recovery of the last few quarters and strong consumer confidence will continue to be tailwinds for acquisition activity; however, it will be important to watch these indicators for any signs of this recovery stalling or a shift in sentiment that may affect corporations' willingness to make new investments.

Public listings expand with proliferation of SPAC deals and open IPO window

US VC exit count (#) by type



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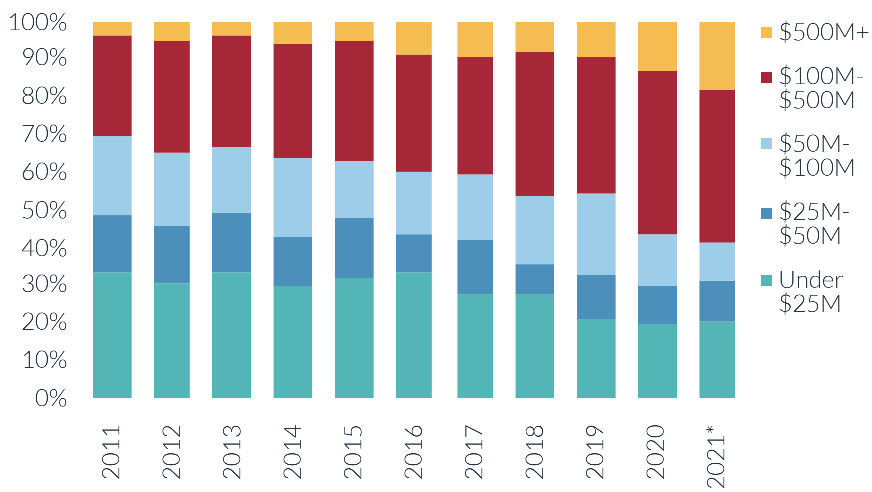
Home-run aspect of VC exits maintains importance

US VC exit count (#) by size



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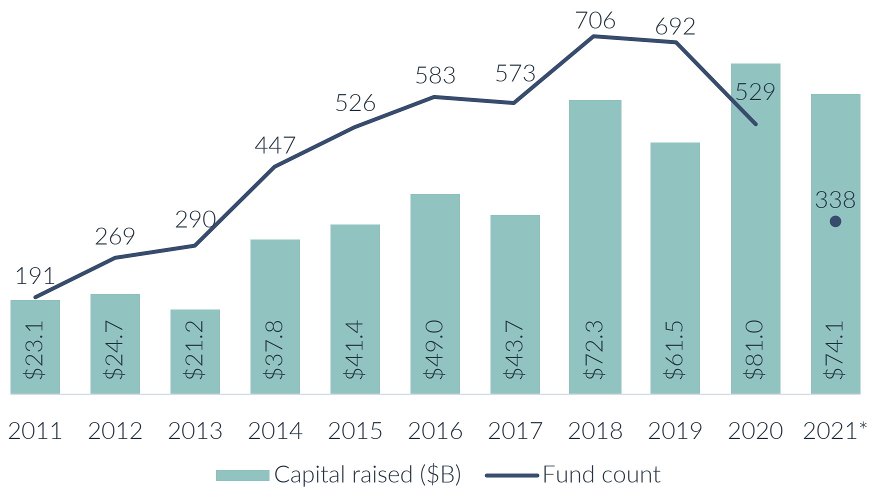
Fundraising

Coming off 2020's record-setting levels, fundraising activity did not wane in H1 2021 as $74.1 billion of new capital was raised by 338 venture funds. This half-year data comes close to last year's high-water mark of $81.0 billion annually, creating expectations that VC fundraising may clear $100 billion annually in 2021. While the fund count remains modest, this strikingly high fund value was caused by the raising of a handful of outsized new funds. Indeed, the median fund size in H1 remains relatively steady at $50.6 million, in line with 2020's median of $50.4 million; meanwhile, the average fund size in H1 has skyrocketed to $228.7 million, which represents a 22.6% YoY jump over 2020's average of $186.5 million.

Fundraising likely to clear $100 billion annually

US VC fundraising activity



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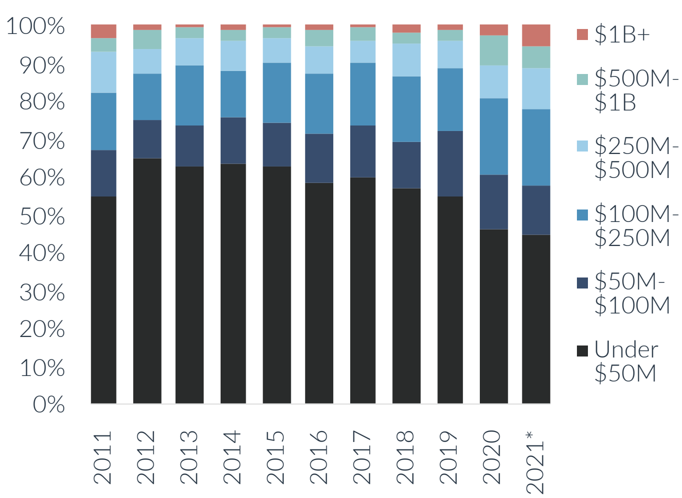
*As of June 30, 2021

The robust exit market of the last 24 months has returned record amounts of liquidity to LPs. Near-record levels of distributions have continued to drive positive cash flow back to LPs. This in turn has forced many to reassess their core portfolio allocations as VC fund performance has outperformed all other asset classes globally when comparing 1-year and 3-year horizon IRRs. GPs have certainly capitalized on this eagerness as the distribution of fund sizes in H1 2021 continues to skew more heavily toward larger funds. Funds exceeding $1 billion have taken a larger share in H1 than in previous years, accounting for nearly half of all new fundraising value. This is in contrast to the proportion of micro-funds (those under $50 million) that have hit record lows as skyrocketing deal sizes and a vibrant exit environment have shifted much of the fundraising focus to mid- to late-stage growth opportunities, especially as first-time fundraising activity continues to remain sluggish.

Notable funds that recently closed include rapid-fire dealmaker Tiger Global

$1B+ VC funds take a larger share as micro-funds hit record low

US VC fundraising count (#) by size



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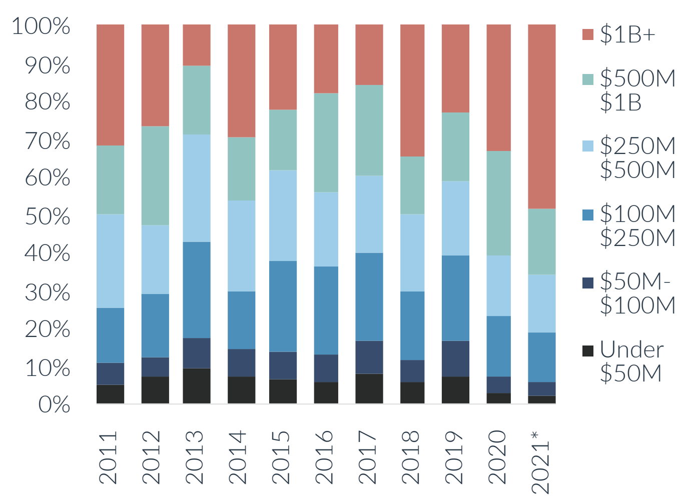
*As of June 30, 2021

$1B+ VC funds account for nearly half of all fundraising value

US VC fundraising value ($) by size



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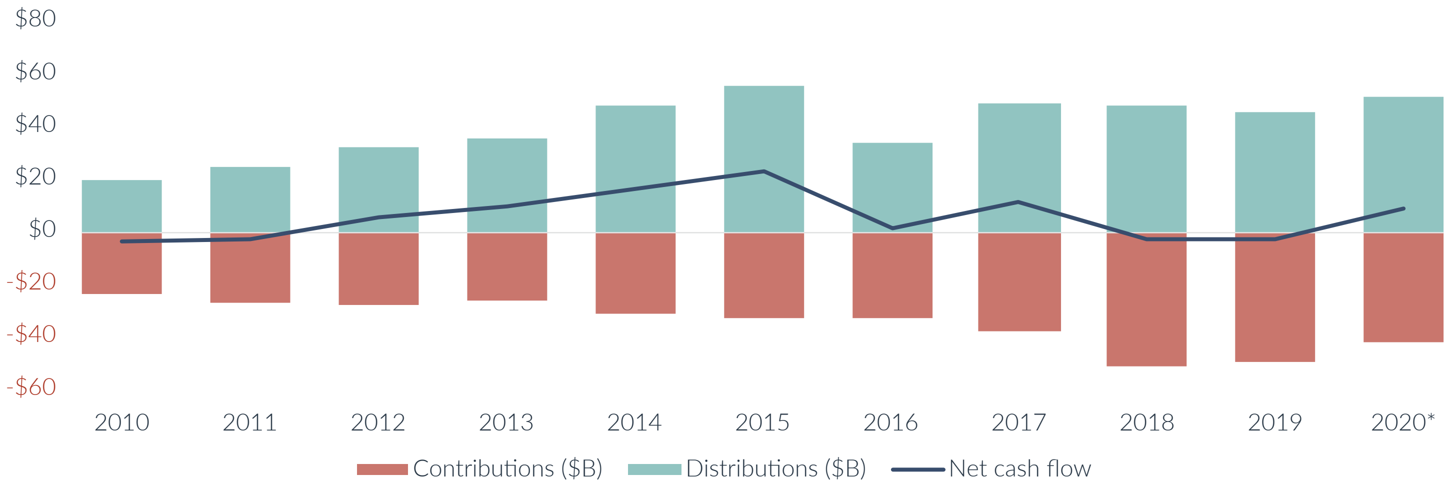
*As of June 30, 2021

Near-record distributions drive positive cash flow

US VC cash flows ($B) by type



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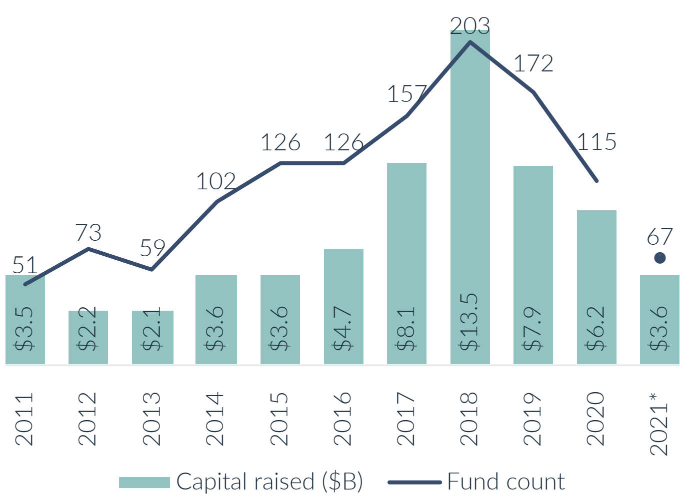
*As of September 30, 2020

Management's $6.7 billion flagship fund—the second largest venture fund ever raised after Sequoia's $8.0 billion fund in 2018—and TPG's The Rise Fund II of $2.2 billion that closed in May. Tiger Global has also begun fundraising for its next flagship fund with a targeted size of $10.0 billion, just one month after closing Fund XIV. We also saw the largest-ever dedicated biotechnology venture fund raised in Q2 as Flagship Pioneering re-opened Fund VII for a final close of $3.4 billion. Rapid investment activity in Valo Health and Inari, among others, coupled with successful vaccine development from portfolio company Moderna, has granted Flagship Pioneering a whole host of tailwinds as the broader biotech industry has seen record levels of dealmaking and fundraising over the course of the COVID-19 pandemic.

First-time funds begin to emerge post-pandemic

US VC first-time fundraising activity



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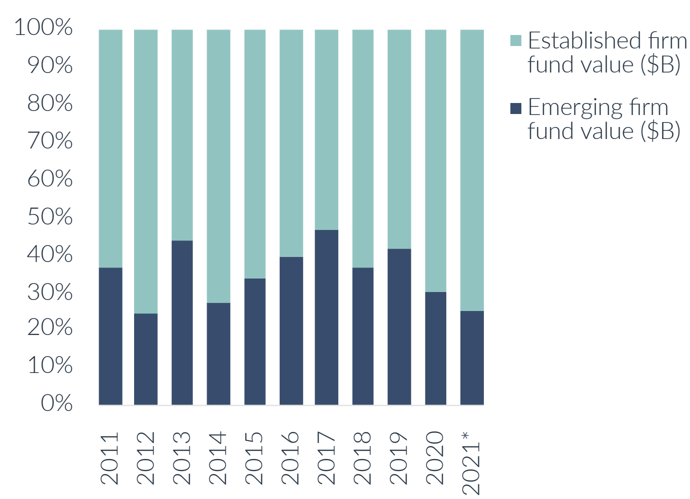
Fundraising by established firms continues to be robust

US VC funds ($) by emerging and established firms



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Q2 2021 league tables

Most active investors angel & seed

1	Plug and Play Tech Center	43
2	Y Combinator	35
3	Alumni Ventures Group	29
4	Connecticut Innovations	28
5	SOSV	26
6	Elevate Ventures	21
6	Innovation Works	21
8	Soma Capital	20
9	Knockout Capital	19
9	Techstars	19
11	10X Capital	17
12	Ulu Ventures	16
13	Mark Cuban	14
13	Revolution	14
15	Operator Partners	13
15	MaC Venture Capital	13
17	Social Starts	12
17	500 Startups	12
17	BoxGroup	12
17	Founders Fund	12
21	Lightspeed Venture Partners	11
21	Global Founders Capital	11
21	Craft Ventures	11

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Most active investors early stage

1	10X Capital	54
2	Andreessen Horowitz	47
3	Y Combinator	30
4	General Catalyst	28
4	Alumni Ventures Group	28
6	SOSV	26
7	Keiretsu Forum	18
8	Coinbase Ventures	17
8	RA Capital Management	17
8	Sequoia Capital	17
8	Khosla Ventures	17
8	GV	17
8	Greycroft	17
14	Asymmetry Ventures	16
14	Slow Ventures	16
14	Soma Capital	16
14	Accel	16
14	Craft Ventures	16
19	Lightspeed Venture Partners	15
19	Spark Capital	15
21	Janus Henderson Investors	14
21	F-Prime Capital	14
21	SignalFire	14
21	Alexandria Venture Investments	14
21	Coatue Management	14

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*As of June 30, 2021

Most active investors late stage

1	Tiger Global Management	75
2	Andreessen Horowitz	49
3	Insight Partners	47
4	10X Capital	35
5	Coatue Management	33
6	Sequoia Capital	32
7	New Enterprise Associates	31
7	SoftBank Investment Advisers	31
7	Accel	31
10	Fidelity Management & Research	30
11	GV	29
12	T. Rowe Price	28
13	Salesforce Ventures	27
14	General Catalyst	25
14	Bessemer Venture Partners	25
16	Keiretsu Forum	24
17	8VC	23
17	ICONIQ Capital	23
19	Alumni Ventures Group	22
19	Founders Fund	22

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*As of June 30, 2021

Methodology

Deals

We include equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, corporate investors, and institutions, among others. Investments received as part of an accelerator program are not included; however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US, with any reference to "ecosystem" defined as the combined statistical area (CSA). We include deals that include partial debt and equity.

Angel & seed: We define financings as angel rounds if there are no PE or VC firms involved in the company to date and we cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Nontraditional investors: "CVC" includes rounds executed by established CVC arms as well as direct equity investments by corporations into VC-backed companies. "PE" includes VC deals by investors whose primary classification is PE/buyout, growth, mezzanine or other private equity.

Exits

We include the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown. IPO value is based on the pre-money valuation of the company at its IPO price. One slight methodology update is the categorical change from "IPO" to "public listings" to accommodate the different ways we track VC-backed companies' transitions to the public markets. To give readers a fuller picture of the companies that go public, this updated grouping includes IPOs, direct listings, and reverse mergers via SPACs.

Fundraising

We define VC funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional VC firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund's investment team is based; if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

A perfect partnership: PitchBook and the National Venture Capital Association

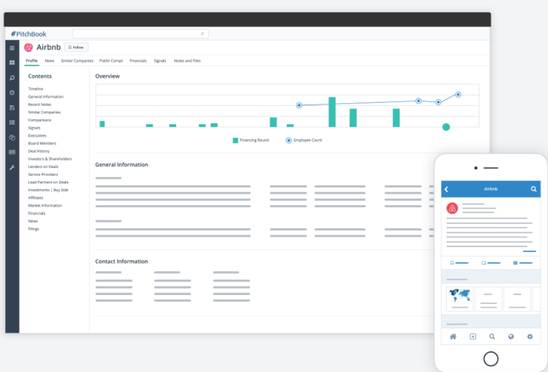
Why we teamed up

NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with PitchBook empowers us to unlock more insights on the VC ecosystem and better advocate for our evolving industry.

The PitchBook-NVCA Venture Monitor

Informed by PitchBook data, our quarterly Venture Monitors dive deep into venture capital activity and deliver insights to inform your investment strategy. PitchBook data also bolsters our annual year-in-review publication.

THE PERKS OF PARTNERSHIP



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