TrueBridge

MARKET ANALYSIS - 2022

State of the Venture Capital Industry

On the web at

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Each year we look at the most significant trends in the venture industry, highlighting the key takeaways and statistics. Let's take a look at what happened in 2021 and what we should watch out for in 2022.

2021 was a big year in the venture capital industry – a record year in many respects. Are we beginning to sound like a broken record?

As we settle into 2022 and consider whether venture capital will continue full steam ahead (or not), let's look at some of the key statistics from 2021 that support the claim that it was perhaps the most remarkable year yet for the US venture market.

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FUNDRAISING

Venture capital fundraising smashed records in 2021

While US venture capital firms raised a similar number of funds in 2021 when compared to 2020, the amount raised was far greater.

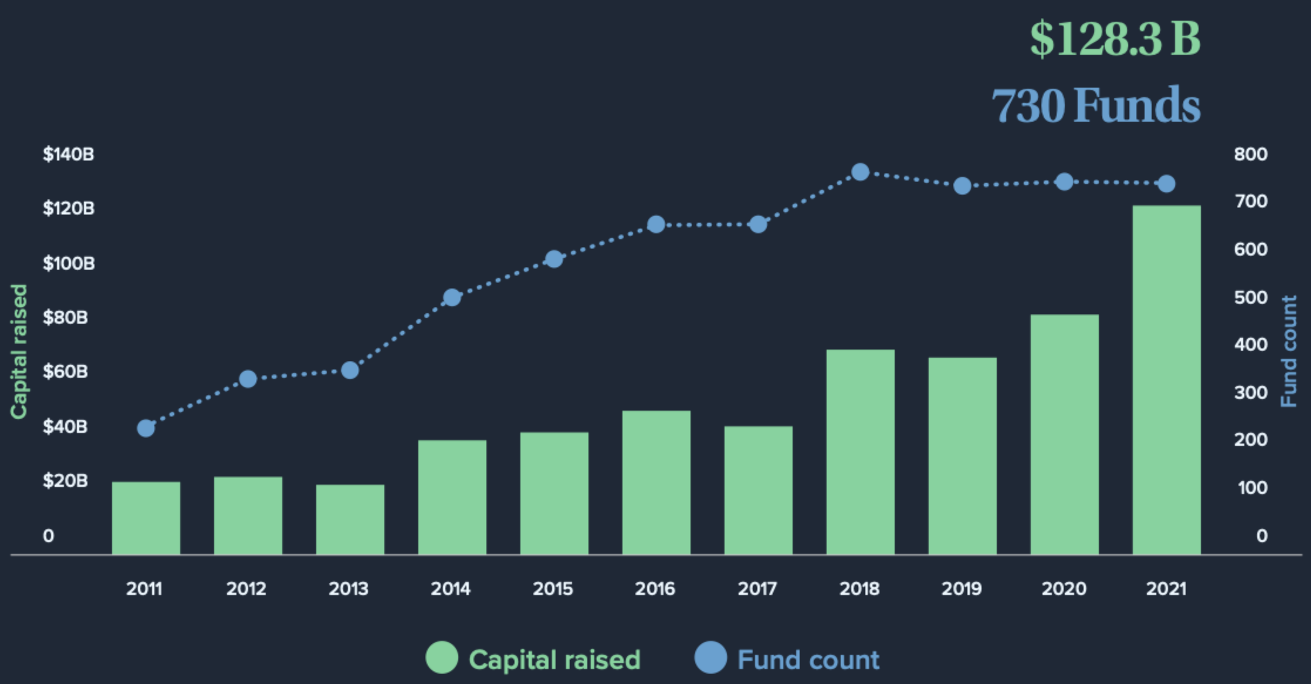
Nearly half the number of funds raised in 2021 were under $50 million in size, matching a peak set in 2018, yet 39% of the capital raised went to funds that were $1 billion or larger. A record 23 funds sized over a billion dollars closed in 2021, up from 14 in 2020.

2021

23

$1B+ funds raised

Total US venture capital raised



Source: Pitchbook as of December 31, 2021

The $128.3 billion raised last year by 730 funds was more than 1.5x the amount raised the prior year, which was at that time record breaking. A new all-time fundraising record was thus set in 2021, bringing cumulative dry powder in the industry to an all-time high of $222.7 billion.

All-time fundraising record

2020	2021
$73.6B Raised	**$128.3B** Raised
	730 Funds +
	1.5x +

Familiar trends persist in fundraising efforts.

These record-breaking fundraising statistics are fueled by trends that have been in place for several years. One can only predict that these trends will continue through the market volatility in early 2022.

Trends that continue to fuel fundraising:

- Limited partner demand for the asset class
- The growing opportunity set as technology companies stay private longer and continue to scale in the private markets
- Venture firms becoming “full stack” investors that invest across all stages of a startup’s life cycle, creating a competitive advantage

The concentration of capital among a set of large, established venture firms also persisted.

The concentration of capital among a set of large, established venture firms also persisted. The number of first-time funds raised fell to a seven-year low with more experienced managers (defined as those with four or more funds) accounting for almost 70% of the total raised.

It was not surprising to see the average fund size continue its steady climb since a trough in 2013, while the average time between fundraises continued its gradual decline, from 3.3 years in 2013 to 2.5 years in 2021. Anecdotally, limited partners can relate to these statistics – the sense that managers have been coming back to market more quickly with larger funds has become quite common. And in fact, the median step-up in fund size between fundraises was a record high in 2021 at 64%.

Fund sizes increase while fundraising cycles decrease

Median step-up in fund sizes

64%↑

Fund sizes

Avg. time between fundraises

1.2↓

Years

INVESTING

VC deployment set records

Venture firms raised record amounts of money in 2021 and they put that money to work in record amounts, as well.

Compared to 2020, 2021 saw 27% more deals, and capital invested increased by a whopping 98% to nearly $330 billion. In fact, each quarter in 2021 outdid the last, with four new quarterly deal value records set in succession.

Year-over-year increases in deal count and deal value were seen across all stages, with the increases in capital invested at the early and later stages being the most pronounced. The number of mega rounds of over $100 million rose from 335 to 819 and had an outsized impact on the increasing amounts of early stage and later stage capital invested.

2021

819↑
Mega rounds

98%↑
Increase in capital invested

27%↑
Increase in deals

The frenzied pace of activity was propelled by:

- Virtual deal making
- Compressed due diligence processes
- Condensed time between financings, with many companies raising capital annually

Trends driving investment activity, particularly at the later stages:

- Companies staying private longer, inviting more private capital to fuel their growth
- Increased competition and valuations
- Increased participation from non-traditional investors
- A robust IPO market for high-growth technology companies

"Last year, VC funding poured into the market from every angle as the ecosystem accepted multi-billion-dollar financings, $100 million Series A deals and "mango" seed rounds as the new normal."

Becca Szkutak, Forbes

The cross-over investor was a hot topic in many investor circles last year.

Tiger Global's practices of pre-empting rounds, moving expeditiously through due diligence, paying above-market prices, rapidly deploying capital, and not insisting on board seats is viewed as aggressive by some, and disruptive by others. Either way, the cross-over investor was a hot topic in many investor circles last year.

335
Deals financed

The industry is paying close attention to Tiger and other late stage and cross-over investors amidst an early 2022 sell-off in the stock market to see if the feverish investing environment continues or abates.

2021

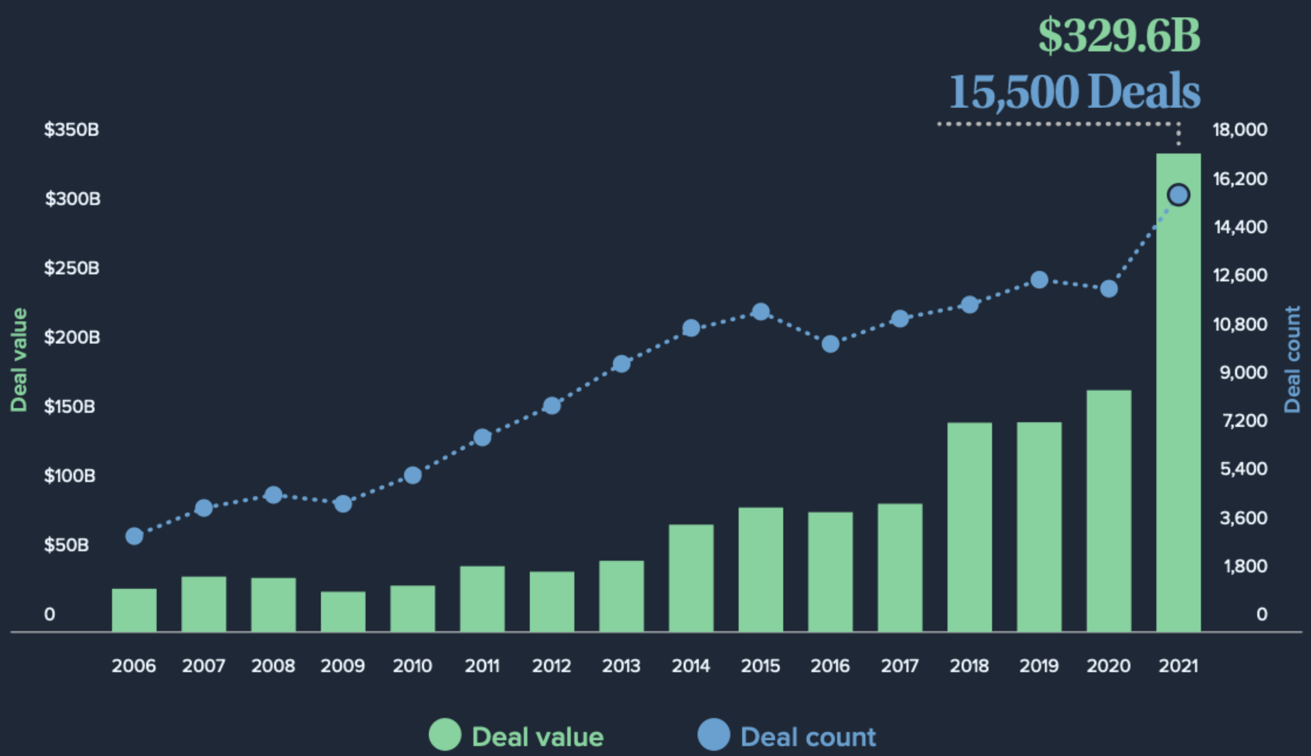
$15.5B
Capital raised

2
Funds closed

"Tiger has introduced a new play style centered around velocity to disrupt the market and exploit their competition's tendency to cling onto stale rules/norms. Tiger offers founders a new product that takes the exact opposite stance [from a typical venture/growth fund's product]. I call Tiger's product for founders Better/Faster/Cheaper Capital."

Everett Randle, Founders Fund

Total US venture capital invested



Source: Pitchbook as of December 31, 2021

WEB3

Easy for skeptics to dismiss, impossible for enthusiasts to ignore.

The sector is attracting more interest from developers, investors, and consumers than ever before.

Surpassed all prior years combined

$32B
Invested in the blockchain sector

2K+
Startups

VC outperforms for three years strong

Limited partners continue to clamor for high-performing venture capital exposure in their portfolios.

In a strong year for large technology IPOs, Limited partners continued to see exits and healthy liquidity across their portfolios, enabling them to reallocate to the asset class. US venture capital returns of 50.1% in 2021 ranked second only to 1999.

LPs remain excited about a growing and dynamic market opportunity, and the ability to fund truly transformational companies.

2021

50.1%
VC Returns

90%
LPs maintain commitment to VC

The persisting COVID-19 global pandemic has been a tailwind for certain sectors, continuing to make way for a new era of disruptive opportunities. 90% of investors plan to maintain or increase venture exposure over the next year.

VALUATIONS

2021 saw the highest valuations since last decade

As with all things venture, 2021 was also a record year for company values. Valuations across all stages continued to rise throughout the year.

Late stage pre-money valuations increased the most of any stage, reaching a record high of $114.5 million, while valuations for early stage startups also hit a record high of $46 million.

$114.5M↑

Valuations for late stage startups

$46M↑

Valuations for early stage startups

Seed and angel valuations rose as well.

When compared to one- and five-year periods, seed and angel valuations rose more modestly than other stages.

Seed valuations could come under additional pressure in the coming years given how late stage investors are continuing to push into the capital stack earlier and traditional multi-stage firms are raising dedicated seed funds to help them compete in an increasingly crowded market. Sizable seed-focused funds were raised by Index, Khosla, Greylock, Sequoia and Andreessen Horowitz in 2021.

Index
$200M ↑

Khosla
$400M ↑

Greylock
$500M ↑

Sequoia
$195M ↑

Andreessen Horowitz
$400M ↑

Late stage valuations saw a meteoric rise

Source: Pitchbook as of December 31, 2021

"Unicorns are so common that the term is by now clearly a misnomer."

Gil Dibner, Angular Ventures

As of January 2022

960

Unicorns

$1B+ valuation

51

Decacorns

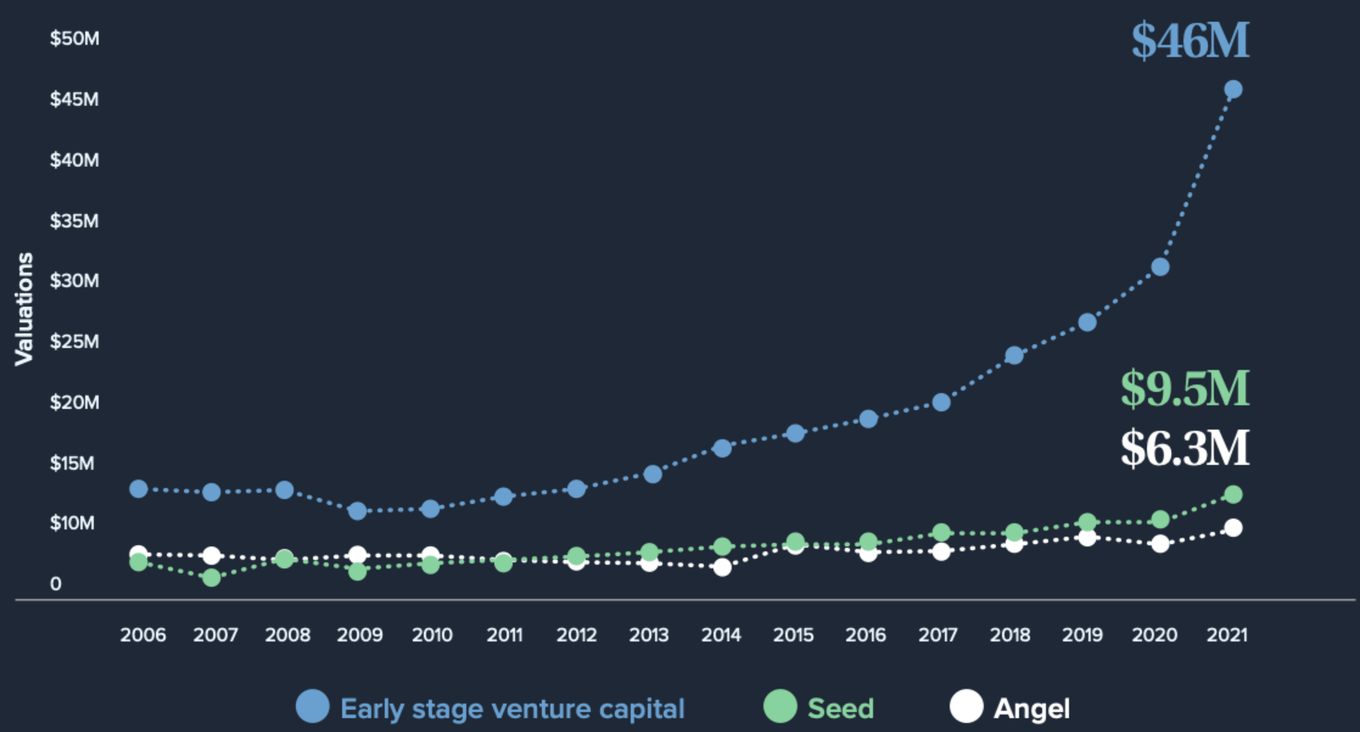
$10B+ valuation

Outcomes and exits have grown commensurately larger.

Valuation inflation has gone hand-in-hand in recent years with the abundance of capital chasing founders and a highly competitive environment.

But valuations, particularly at the late stage, also reflect the immense scale that a new generation of technology companies can reach in the private markets. Although investors are paying higher prices compared to several years ago, the outcomes and exits have grown commensurately larger as well.

Early round valuations also saw increases, though tempered at the angel and seed stages.



"With the influx of capital, the number of $1B+ outcomes in venture continues to increase, and we believe the size of those outcomes will continue to grow as well. [It once] was commonplace to talk about how we needed to get into the 15 deals a year that would eventually generate a $1B+ outcome. That was VC wisdom at the time, and in just ten short years, that number has grown exponentially. I don't believe this trend stops anytime soon as we are in the early innings of AI, crypto, cloud and the digital transformation inside the enterprise. These are all massive software shifts that will take 10-15 years to mature. Combined, we could be looking at an opportunity set that is larger than one trillion dollars!"

A Capital

EXITS

Total exit value was 2.7x greater than in 2020

We described 2020 as an epic year for IPOs, and it was — until 2021 came along.

Total exit activity, inclusive of IPOs, mergers and acquisitions, and buyouts, reached a new record by count and value in 2021.

US crypto exchange Coinbase made a big splash during the first half of the year after its public debut valued the company at $86 billion, well above its last private valuation of $8 billion. The IPO marked the largest-ever direct listing. Gaming platform Roblox went public at a $30 billion valuation, and South Korean e-commerce company Coupang, valued at $114 billion on opening day, also captured headlines in early 2021.

Exits by venture-backed companies

$774.1B

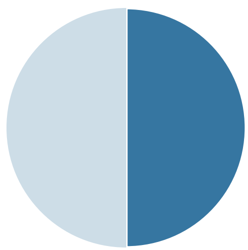
296 venture-backed IPOs

88%

Total exit value

The busiest quarter for US IPOs since 2000.

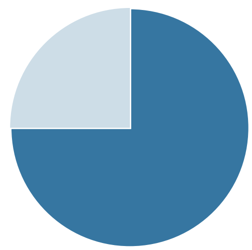
Despite robotic process automation specialist UiPath's $31 billion IPO coming in below its last private round and some public market jitters, the second quarter was the busiest quarter for US IPOs since 2000.



2021

50%

Exits were software companies

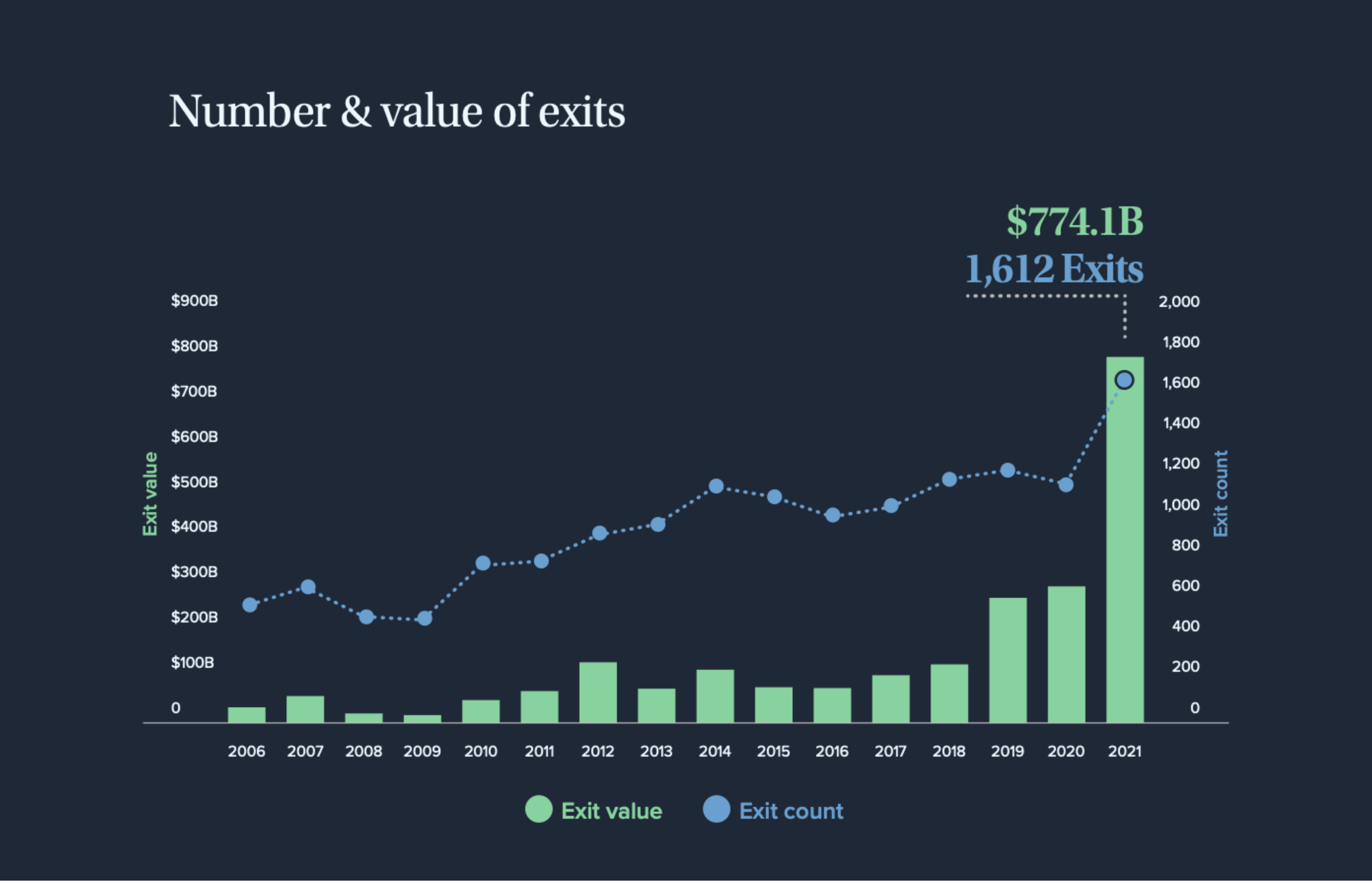


2021

75%

Venture-backed IPOs valued at $1B+

> *"The IPO window isn't just open. The glass has been smashed and the framing has been removed."*
>
> **Dan Primack, Axios. June 2021**



Source: Pitchbook as of December 31, 2021

"SPACs aren't dead – but amid increased scrutiny from regulators, a drop in investor confidence in the class as a whole, and a shifting economy, many investors in the field should be ready for some pain."

Lucinda Shen, Term Sheet

The IPO window remained open throughout 2021.

High profile public debuts in the second half of the year included trading platform Robinhood, valued at $32 billion, and restaurant point-of-sale software provider Toast, valued at $20 billion.

Q2 High profile public debuts

$32B	$20B
Robinhood	Toast

But post-IPO performance for many companies in the 2021 cohort proved to be lackluster, if not disappointing, by year end. According to Renaissance Capital, IPOs for venture-backed companies generated a negative return from offer, worse than the average return for all IPOs in 2021 and well below the positive return for the S&P 500.

2021

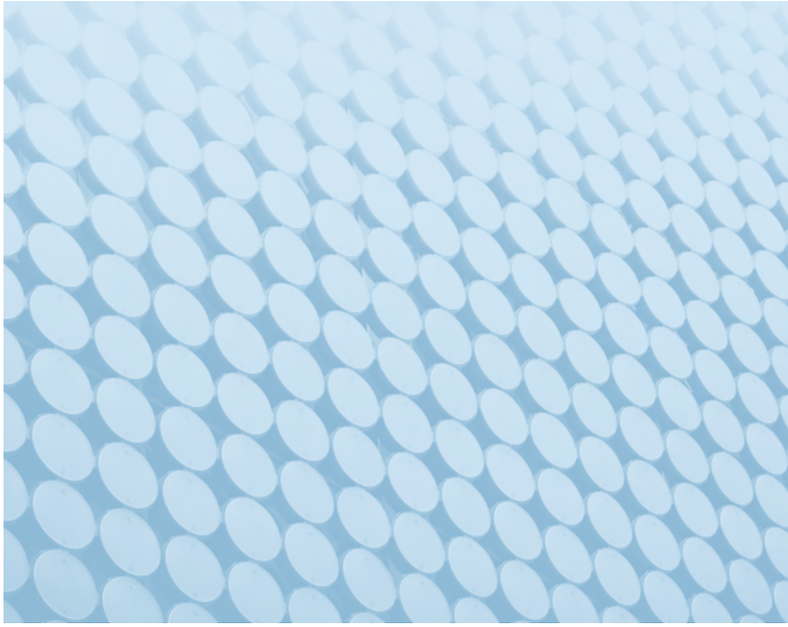
600

New SPACs launched

We can't finish our discussion of exits without mentioning the SPAC frenzy that continued in early 2021 with record filings and mergers. By early March 2021, SPAC merger volume had already surpassed volume for all of 2020, and by year end, approximately 600 new SPACs had launched.

Although Southeast Asia ride-hailing company Grab became the largest company ever to close a SPAC merger in December at a valuation of $40 billion, the SPAC market generally cooled as the year progressed, leaving many already listed SPACs still looking for merger targets.

With the public markets pulling back in late 2021 and early 2022, the IPO story for 2022 may be written differently. On the heels of HR software company Justworks postponing its IPO due to market conditions, time will tell whether the likes of social media company Reddit, digital banking provider Chime, and grocery delivery service Instacart – among many other high-growth, maturing technology companies – see their IPO ambitions come to fruition this year.



CONCLUSION

Despite the ongoing global COVID-19 pandemic, 2021 was a remarkable year

Capital raised and invested reached all-time highs, and pre-money and exit values set new records. Yet 2022 started out on wobbly ground as the sands might be shifting.

"We are in the early innings of a software, data, and technology revolution that will make technology the core of every company in every industry. Technology has shifted from its own vertical to a horizontal that now touches every company."

BoxGroup

The sell-off in the public markets has created some investor nervousness, as we've heard that late stage investors could be slowing their investment pace, taking more time for due diligence, and repricing deals.

Will the frenetic pace of activity settle down in 2022? Will there be a valuation correction that many have been expecting – or even hoping for – for years? Or will this be a minor blip in what has been a long, secular bull market for technology?

We don't have the answers, but what we can say with confidence is that markets will cycle, and investor sentiment – especially at the later stages – will ebb and flow.

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