PitchBook nvca

Venture Monitor

Q2 2020

In partnership with

svb Silicon Valley Bank

CERTENT

Nearly $47B has been invested in late-stage deals through Q2 2020
Page 11

Exit count tracking for lowest year since 2011
Page 29

VC fundraising has reached $43B, adding to already high level of dry powder
Page 31

The definitive review of the US venture capital ecosystem

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Executive summary

The second quarter of 2020 was truly unprecedented for the venture capital (VC) industry, as the COVID-19 pandemic, nationwide lockdowns, stay-at-home orders, and a major economic downturn shook the entire country. The lockdowns majorly disrupted general business practices in the VC industry, as investors have traditionally relied heavily on in-person meetings before making new investments. Venture firms generally became much more conservative around dealmaking as the pandemic hit the US in March and early April, leading to a downturn in both VC invested and number of deals completed in Q2. Portfolio companies followed suit, adopting an understandably cautious outlook as they sought to reduce their burn rate through layoffs, cost-cutting, and curtailed expansion plans.

With all that said, the impact on aggregate VC activity was hardly apocalyptic. Much of the slowdown occurred during the early part of the quarter, when uncertainty over COVID-19's impact on the economy was at its height. After the initial month and a half of exercising caution, triaging, and focusing primarily on stabilizing their own portfolio companies, VC investing began to pick up in May. While some sectors have been heavily affected by the pandemic, many startups, especially in the software and biotech sectors, have fared relatively well during the COVID-19 crisis, offering solutions to the healthcare, digital enterprise, and consumer services needs of the country.

More eager investors have resumed seeking opportunities outside their current portfolios, adopting virtual methods to source deals, meet with founders, and execute investments. Valuations have not dwindled as much as many industry professionals expected, and the ample dry powder in the industry has allowed VCs to continue making investments—even large ones—during the second quarter.

A combination of fiscal stimulus and monetary easing can be credited for much of the resilience in the broader economy. For the VC industry, the most direct form of government support came via the Paycheck Protection Program (PPP). VCs and startups were cautious about applying for and taking PPP funds, carefully evaluating whether they fit the program's criteria, whether they had other sources of capital they could tap instead, and if the need was truly great enough. For many VC-backed startups and other companies that deemed it necessary to receive PPP funds, the money proved impactful and helped to bridge financing gaps and support employees as COVID-related impacts rippled through the economy.

Despite several positive trends in the latter half of Q2, uncertainty will persist in the next few quarters. There are still dark clouds looming on the horizon; whether they fade away or collect into a new storm could determine how the rest of 2020 unfurls for the entrepreneurial ecosystem.

NVCA policy highlights

NVCA empowers the venture industry by advocating for policies that encourage innovation and new company formation, as well as by delivering resources and programs to help VC investors succeed. We are committed to advancing policies that foster entrepreneurial activity and investment across the country. We are proud to represent an industry that is furthering solutions to tackle today's greatest challenges and advance the possibilities of tomorrow.

The second quarter of 2020 continued to see unprecedented policy challenges as NVCA advocated on behalf of the VC industry and the entrepreneurial ecosystem around the many policy responses to the COVID-19 pandemic and its economic ramifications. Many VC-backed startups have been significantly affected by these events, and NVCA has been strongly advocating to and engaging with policymakers to ensure economic stimulus legislation and regulations will help the entrepreneurial ecosystem.

Below are key policy updates for VCs and VC-backed startups:

COVID-19 policy & startups combating COVID-19:

- *Paycheck Protection Program:* After the passage of the CARES Act in late March, NVCA worked with the Treasury Department and the Small Business Administration (SBA) to address issues around the affiliation rules so that VC-backed companies could apply for and gain access to the Paycheck Protection Program (PPP). Many startups have used PPP loans to keep employees they would otherwise have to let go and, in some cases, to keep the company in operation when they might otherwise have gone under. NVCA also worked with a team of attorneys to put together a step-by-step guide to the PPP and analysis of the applicable affiliation rules, developing a memo for VC portfolio companies to navigate the PPP.
- *Monetizing startup tax assets:* NVCA developed and submitted a proposal to legislative leaders to allow startups to monetize tax assets, including allowing startups to monetize up to $100 million worth of eligible net operating losses (NOLs), doubling the value of NOLs for work related to COVID-19, and making R&D credits temporarily refundable. We are working to have this proposal included in the next economic relief package.
- *Startups Combating COVID-19 campaign:* We launched a Startups Combating COVID-19 campaign to highlight VC-backed startups helping address COVID-19 to policymakers and the general public. This campaign includes a tracker of companies on our website, several blog posts, and letters to US House and Senate leadership illustrating the critical work that VC-backed startups are undertaking to advance cures, treatments, and products needed to fight COVID-19.

Get the latest information and resources on how the federal response to COVID-19 can affect startups and VCs on our COVID-19 page.

CFIUS: NVCA commented on the Treasury Department's recent draft rulemaking on modifications to mandatory filing rules. Due to the Foreign Investment Risk Review Modernization Act (FIRRMA), a CFIUS filing is mandatory if a foreign person invests in a US company that: A) designs, builds, or tests a critical technology and B) operates in one of 27 industries (based on NAICS codes). In our comments, we caution against changes that would cause confusion for innovative US companies or that would necessarily require many US startups raising VC to complete CFIUS filings.

Immigration: NVCA expressed its strong opposition to President Donald Trump's immigration order that suspended new H-1B visa issuances through the end of 2020. We articulated that the US should be headed toward immigration policy that brings in entrepreneurs to start new companies and brilliant scientists and technologists who can tackle healthcare challenges.

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 American companies. Based in Washington, D.C., with an office in San Francisco, NVCA acts as the voice of the US venture capital and startup community by advocating for public policy that supports the American entrepreneurial ecosystem.

Volcker Rule: NVCA was thrilled to see a final rule released by several agencies intended to remove a needless regulatory barrier that has limited bank participation in VC funds. The revisions to the Volcker Rule will once again allow banks to invest in VC funds. The rule appears to be a great win for entrepreneurship, innovation, and American communities. This reform to the Volcker Rule, which will go into effect on October 1, is especially important to small and regional VC funds who have greater challenges raising the capital needed to build businesses, and will put capital to work building startup communities around the country.

Overview

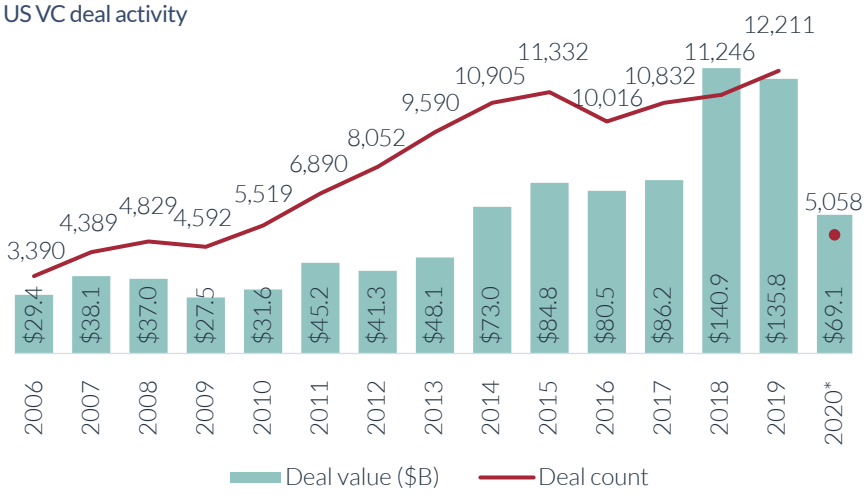
- **The top 15 funds raised in H1 2020 totaled $22.7 billion, making up over half of all VC fundraising in the year so far.** VC mega-funds ($500 million+) have been especially prolific in 2020 with 24 closed so far, which nearly equals the full-year number for 2019. While many of these funds likely began fundraising before the uncertainty of the pandemic affected the markets, closing these massive vehicles over the last two quarters remains an impressive feat. Notable large funds that closed in Q2 include General Catalyst with a $2.3 billion vehicle and a trio of Lightspeed Ventures funds each over $890 million.

- **Length of pandemic's effect crucial for VC exit environment.** The first half of the year has seen a more subdued market for VC liquidity than what we recorded in 2018 and 2019. Exit count in 2020 is tracking to be the lowest since 2011, and value is pacing to drop back toward the levels seen pre-2017. The short-term aspect of this drop in liquidity is crucial, as an extended economic decline would change some longer-term behaviors around commitments to VC. This is even more crucial now that funds are taking longer to liquidate and have higher proportions of unrealized value than in the past, which adds more risk than what it implied during the GFC.

- **Overall deal count dips while late-stage financings sustain strength in aggregate capital investment.** Late-stage VC deal count uncharacteristically outpaced the early stage in Q2, with particular strength in mega-deals as companies take advantage of high capital availability and investors looking to protect their largest and best investments. Contrasting with this trend, first-time financings have fallen sharply, dropping to multi-year lows as a proportion of overall VC activity.

Deal value continues strong even as deal count lags in H1 2020

US VC deal activity



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COVID-19-related dip seen in Q2 deal count

US VC deal activity by quarter

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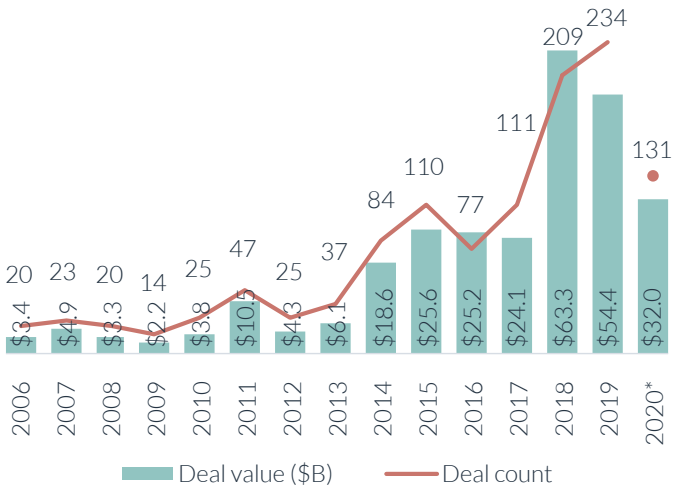
Mega-deals have flourished in H1

US VC mega-deal activity



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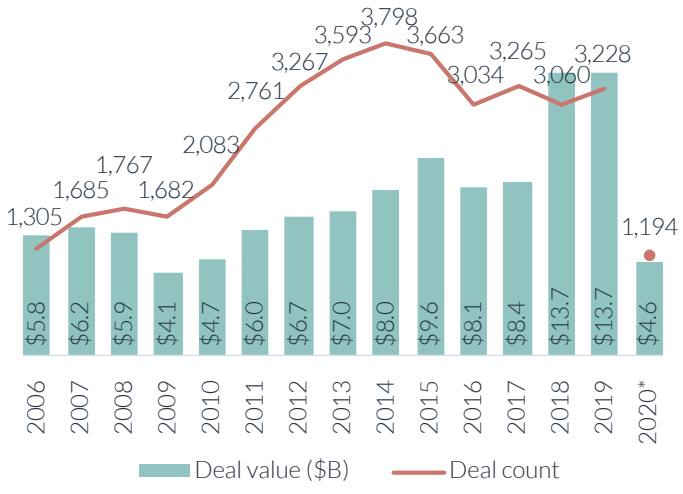
Initial investments start on slower pace

US first-financing VC deal activity



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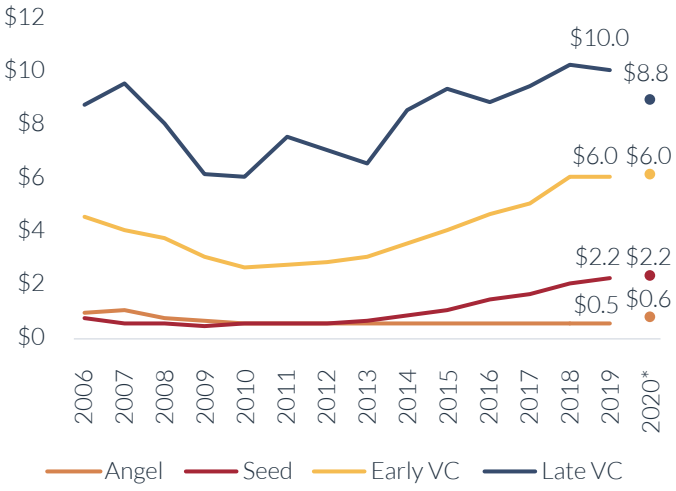
Broadly, median sizes have remained the same

US VC median deal size ($M) by stage



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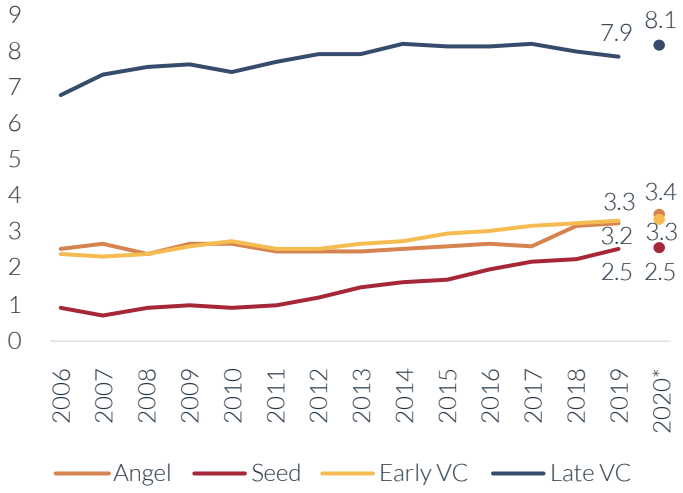
Companies continue to stay private longer

US VC median years since founding by stage



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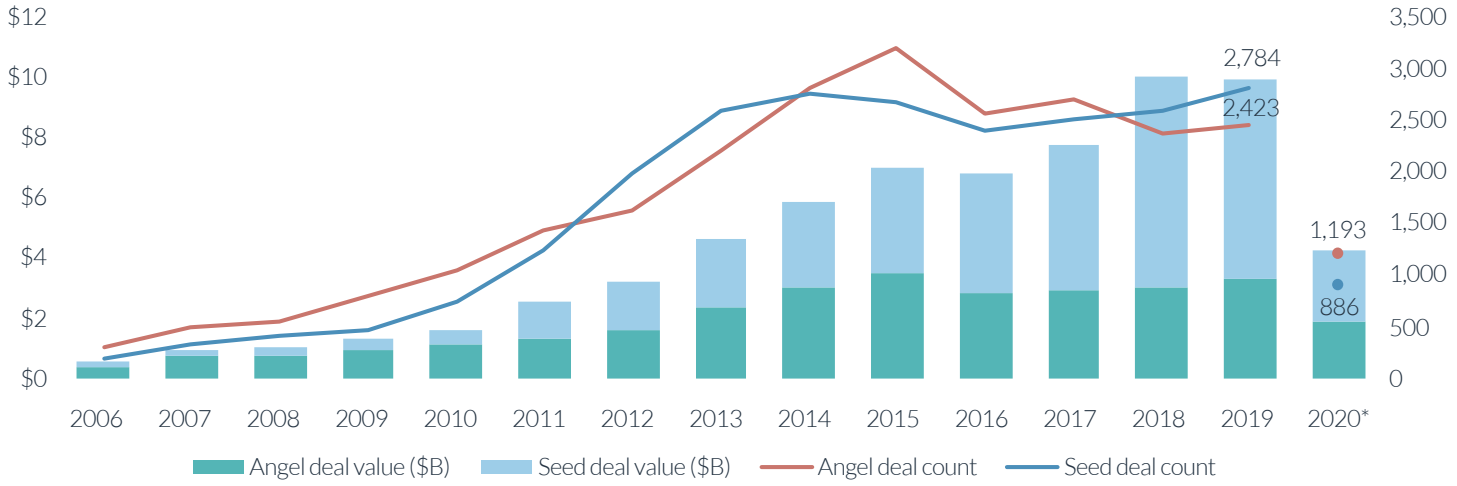
Angel, seed & first financings

Seed activity has been more heavily affected by the pandemic

US VC angel & seed deal activity



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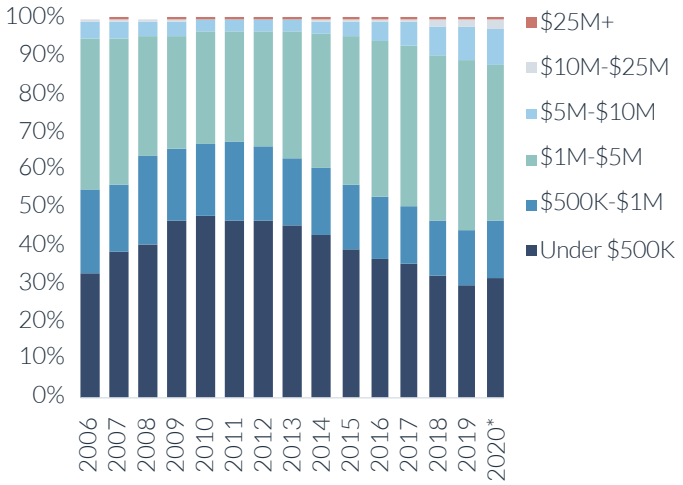
For much of the past decade, angel and seed deal counts have largely moved in tandem. Recently, we have noted deviations occurring between these two deal types over the past few years, especially when it came to trends in deal sizes. The COVID-19 pandemic has continued to show this divergence. For one, angel deal count in Q2 2020 has stayed relatively steady, helping companies begin their venture lifecycle. Nearly 550 angel financings were completed in the second quarter—only a slight decline from Q1—and that number will likely top 600 as we collect more data. On the other hand, completed seed deals have seen a massive slowdown, resulting in just 316 completed seed financings during Q2, a significant decline from the average of roughly 650 completed seed financings each quarter over the past year. Despite this bifurcation, deal sizes of both angel and seed deals rose, reaching medians of nearly $580,000 and $2.2 million, respectively. As recent as 2012, these median deal sizes were equal at $500,000.

Relative strength of angel deals stops trend toward larger deals

US angel & seed deals (#) by size



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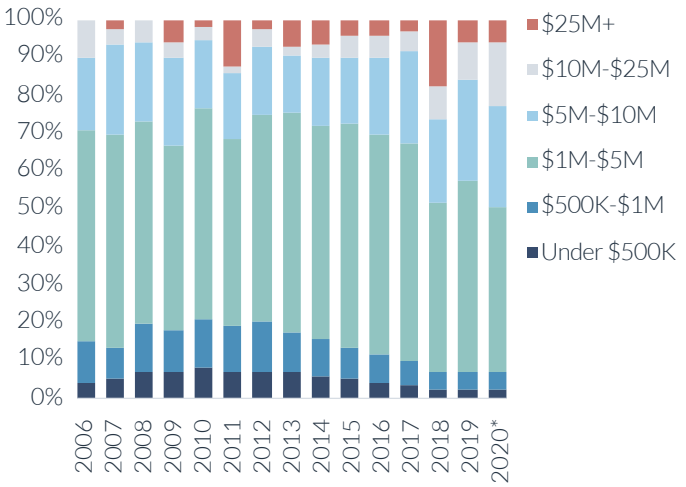
Outsized seed deals continue to drive value

US angel & seed deals ($) by size



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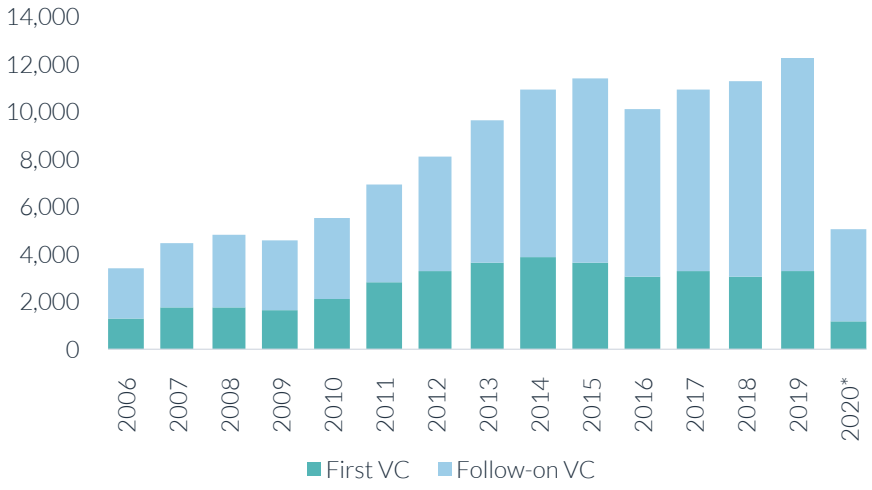
We expected an overall decline in seed financings in Q2. Sourcing and due diligence programs have come upon tough times as a lack of startup events and the inability to meet in person with ease have caused VC firms to rethink their approach to deal flow. Many venture firms have also turned their attention inward to their existing portfolio companies and making sure current investments are set up to survive.

Over the past few years, the seed stage has grown more institutionalized, with larger firms moving upstream to take advantage of the more developed companies coming to market at seed. These larger firms bring along portfolios that span various levels of exposure to later stages. Full portfolio assessment is time consuming, and more attention is placed on investments further along in their venture lifecycle. Though we don't believe the economic downturn will push these investors away from the seed stage in the long term, the immediate nature of the pandemic and subsequent economic disruption has likely slowed new seed investments for the near future.

Stability in angel investments illustrates how risk-tolerant these investors can be. The high market volatility near the end of Q1 caused a fear that angel investors would pull back spending on private deals because of some wealth loss for these investors. However, the illiquid nature of angel deals likely helps insulate the allocations to the industry from short-term fears. Angel investments are often more formulaic than later stages as well, with less leeway over price and round size. There are also avenues that angels can use to alleviate potential deal sourcing and due diligence problems. Angel groups have grown significantly over the past few years, providing more robust deal flow, but also helping with certain due diligence practices. Syndication opportunities also provide cost relief to angels unable to fully fund deals, with lower limits to participation allowing angels to continue making deals, if at smaller check sizes.

VCs continue to focus on follow-on financings

US VC first and follow-on deals (#)



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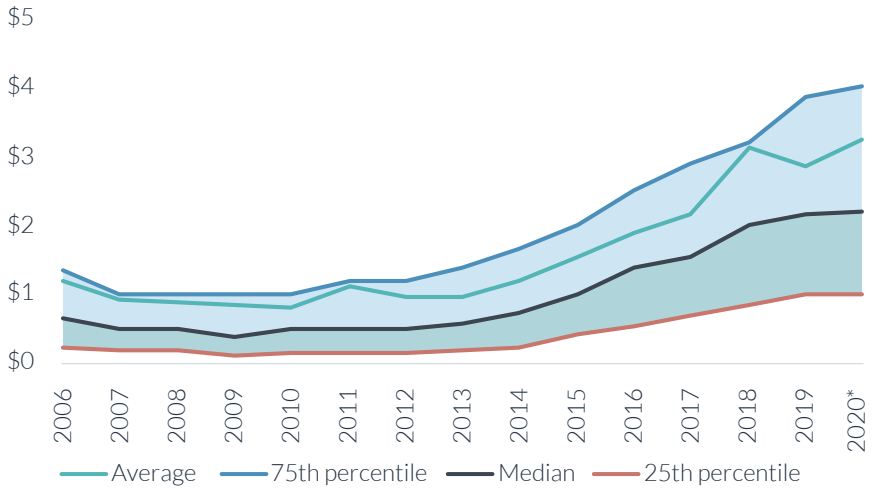
Seed deal sizes plateau as volume falls

Quartile distribution of seed deal sizes ($M)



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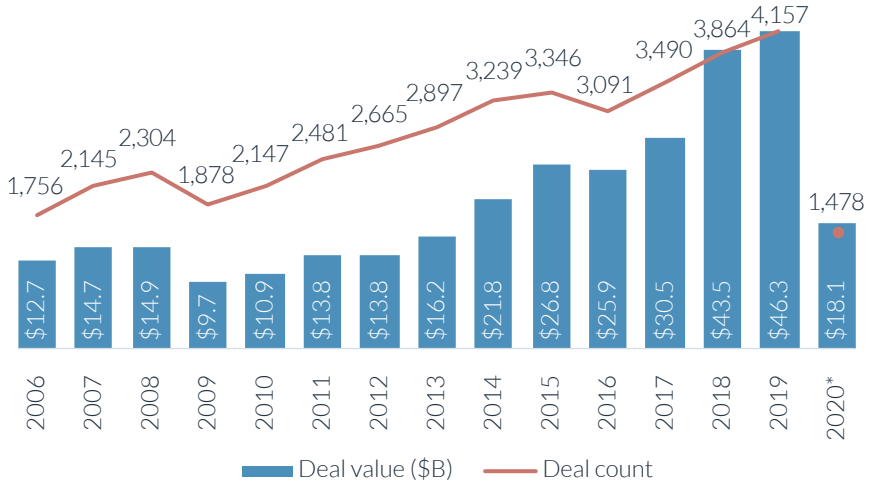
As we move through to the second half of 2020, seed financings will rely on the return of investors to bounce back. Sourcing challenges will also likely begin to subside as investors build out new programs and capabilities and become more comfortable with the techniques they need to employ to ensure strong deal flow. Investors will likely become more comfortable with not meeting founders in person should the pandemic continue to inhibit networking events. We believe these factors will lead seed counts back toward recent normal levels, especially if lockdowns are able to ease across much of the country.

Early-stage VC

Quarterly early-stage VC deal activity in Q2 2020 reached $7.8 billion across 630 deals, totaling $18.1 billion across 1,478 deals YTD. At its current pace, it is unlikely that 2020 will complete the hat-trick of a third consecutive year of early-stage VC investments exceeding $40 billion. The exceptionally strong numbers coming out of 2018 and 2019—$43.5 billion across 3,864 deals and $46.3 billion across 4,157 deals, respectively—are likely to represent a peak in early-stage VC deal activity for the foreseeable future as investors reevaluate their portfolio and shore up their balance sheets for the quarters to come. We anticipate deal count in 2020 will likely contract 25% to 30% as VCs double down on higher-performing portfolio companies and quickly cut their losses on troubled startups, eliminating many of the early-stage deals they might have completed otherwise. Our data shows that follow-on financing activity heavily outweighed first-time financings during Q2.

2020 unlikely to be third consecutive year exceeding $40 billion total

US early-stage VC deal activity



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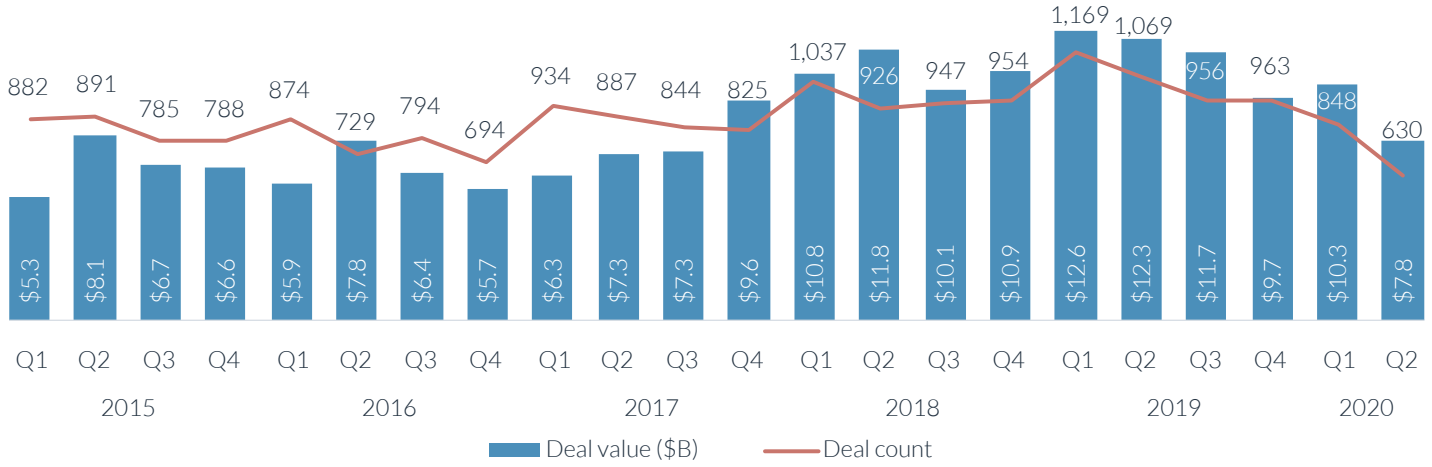
The uncertainty surrounding both the COVID-19 pandemic and the macroeconomic market conditions are beginning to take a toll on early venture investments; Q2 was the first full quarter to bear the headwinds of shelter-in-place and work-from-home policies across the United States. We have spoken to many investors who have yet to make an investment via teleconference, particularly in sectors that require more rigorous and hands-on due diligence. Given how pivotal Series A and B financings can be for a startup's trajectory, some investors have also been wary of making investments in founders they were not acquainted with before the pandemic.

The largest early-stage VC deal from Q2 was a $435 million Series B round in

Full quarter of pandemic effects show in deal counts

US early-stage VC deal activity by quarter



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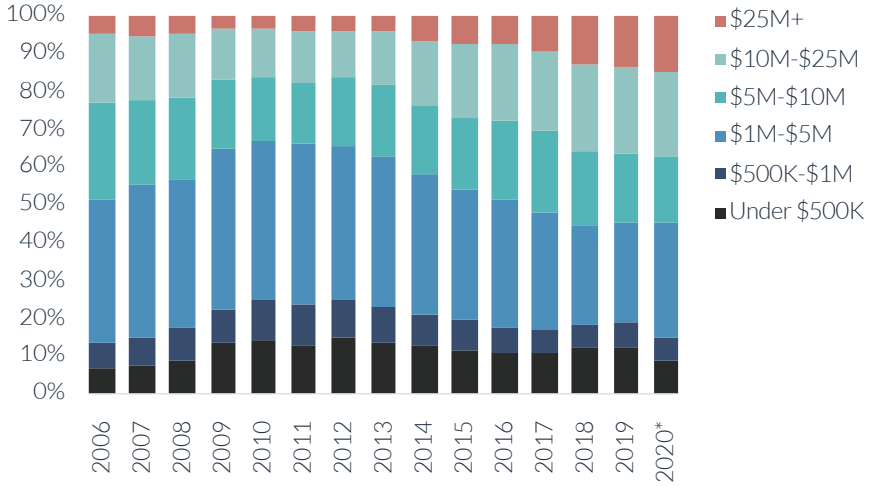
Sana Biotechnology—a Seattle-based biotech company developing a new class of engineered cell therapies. VC-backed biotech companies require painstaking due diligence processes and explaining the nuances of drug mechanisms can be difficult via teleconference. With that said, the negative cash flow and high burn rate business model indicative of early-stage biotech startups nearly immunize them from the broader macroeconomic forces that have devastated travel- and hospitality-focused startups. Our data indicates that 16 out of the top 25 largest early-stage VC deals in Q2 were in the biotech & pharma sector, compared to only 10 out of the top 25 in Q2 2019. This is the sector's largest proportion of the top 25 largest early-stage VC deals in the last five years.

The proportion of early-stage VC deals exceeding $10 million has also continued to grow, bringing 2020's YTD total to a record level of 37.5%, up from 2019's 36.6% total. Furthermore, the proportion of deals exceeding $25 million has also continued to grow to a record level of 15.0% in H1 2020. Even though the pace of deals has slowed, larger early-stage deals have continued to close throughout Q2. Interestingly, on the far end of the spectrum, the proportion of early-stage VC mega-deals ($100 million+) in H1 2020 has hit its lowest point since 2014, making up only 18.3% of total VC mega-deal activity due to the strength of late-stage VC mega-deal activity.

While some early-stage VC firms have been taking advantage of the chaos caused by the pandemic, other investors are cautious about writing checks for new investments. One reason is that early-stage valuations have not dropped as much as investors would like. In fact, the YTD median pre-money valuation for early-stage VC deals have continued to climb to $30.0 million, albeit at a slower pace than in previous years. Investors' fear of overpaying during this period of uncertainty has certainly contributed to deal activity's slower pace in Q2.

Proportion of early-stage investments exceeding $10 million has continued to grow

US early-stage VC deals (#) by size



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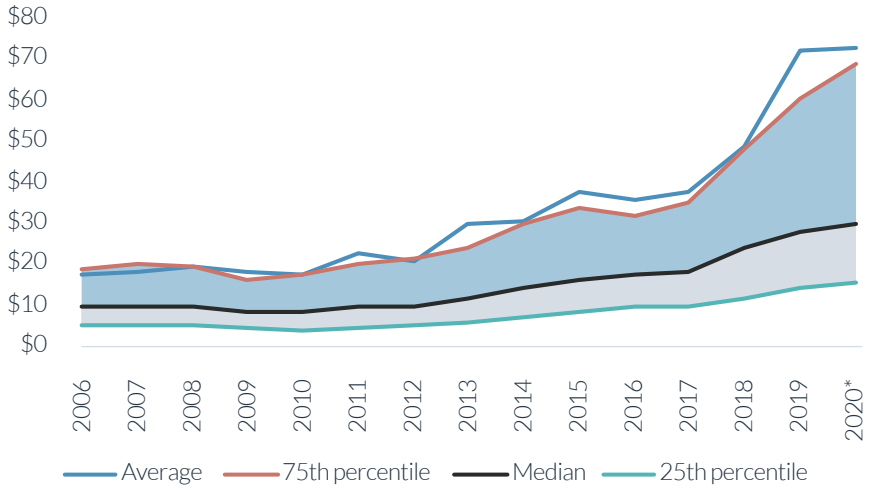
Median early-stage VC pre-money valuation continues to climb

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



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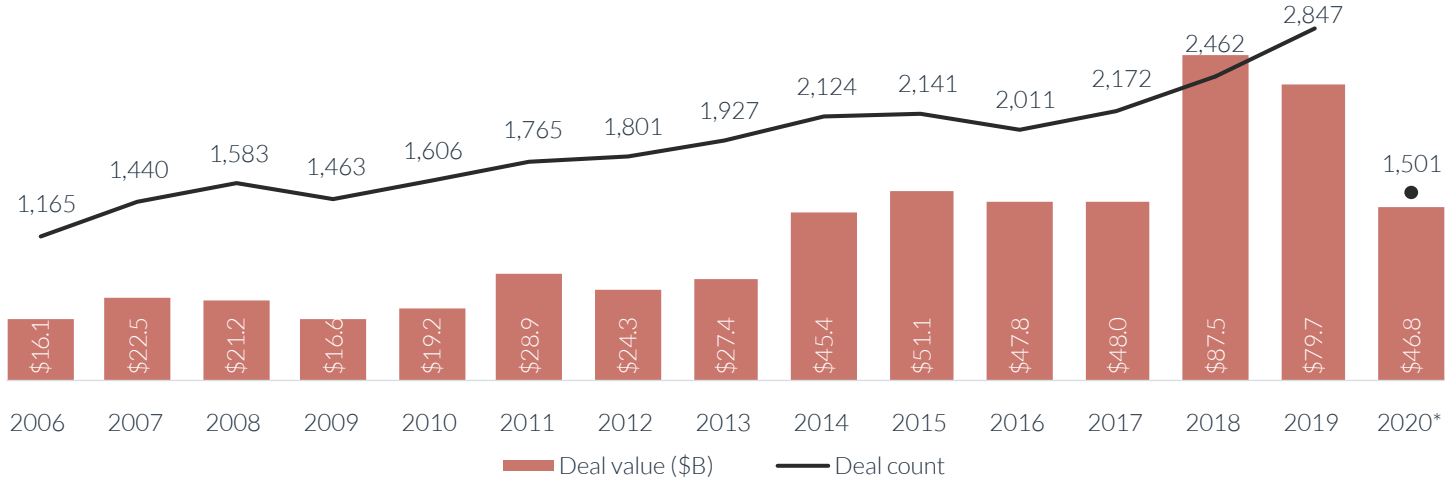
Late-stage VC

Late-stage deal count remains relatively resilient

US late-stage VC deal activity



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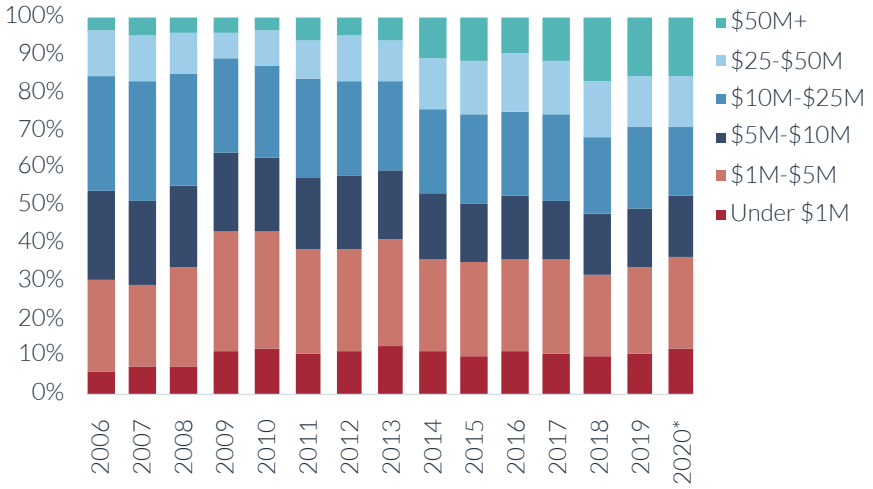
Distribution of late-stage deals holds steady

US late-stage VC deals (#) by size



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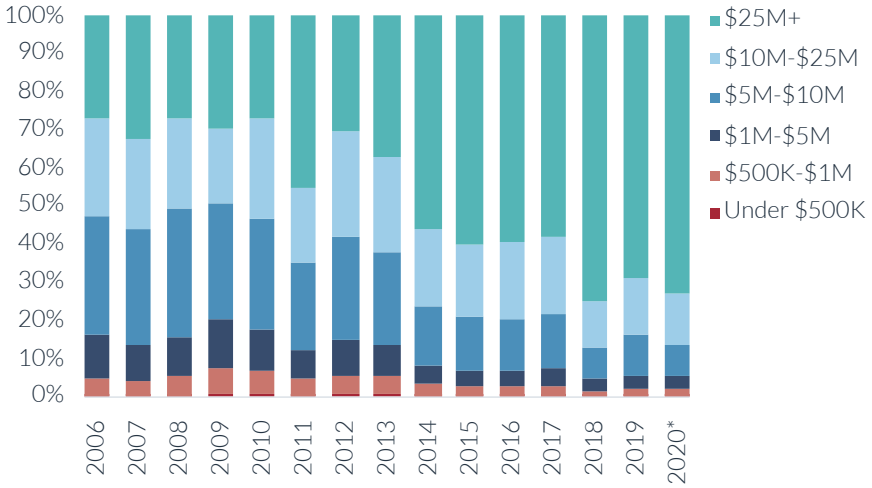
After the steep decline in public markets near the end of Q1, we have seen a quick recovery to new highs. Of any venture stage, the late-stage is most exposed to market volatility as public comparables are often used to price new financings for these companies, and the prospects for exit are at top of mind for most investors and founders. Somewhat unexpectedly, there has not been a drop in late-stage activity. In fact, almost the opposite has occurred. Through Q2, late-stage VC deal count is tracking at a higher pace than in 2019, which set a record number of completed late-stage VC financings in the US. 1,501 late-stage deals have been completed YTD, well above the figure reported in the Q2 2019 edition of this report. In addition, nearly $47 billion has been invested into late-stage companies, setting late-stage VC deal value on pace to reach a new yearly high. These high figures are the product of several factors. For one, certain sectors have realized newfound growth in this market, and companies within those sectors are looking to capitalize on capital availability and are raising rounds while the opportunity is there. On the opposite side of the table, many sectors have seen a disruption to growth and some companies are needing to raise unplanned rounds to weather the market downturn.

In Q2, more late-stage VC deals were financed than were early-stage investments, a strong statement by investors looking to protect their largest investments and portfolio companies most likely to achieve a successful exit. DoorDash, which filed confidentially for IPO in February, has raised more than $800 million in debt and equity during 2020 as it takes advantage of the accelerated food delivery market. This extra cash provides more fuel to capitalize on the unexpected opportunity and market growth COVID-related lockdowns

have provided, bolstering growth figures before the company finally moves toward the public market. While DoorDash is an instance where a company benefitted from the pandemic, not all deals have been made into companies seeing a boost from COVID-19, and emergency financings have helped push up deal count numbers at the late stage. Credit startup Brex raised $150 million in rainy-day financing to bolster its balance sheet in case of an extended downturn, and rental marketplace Vacasa raised $108 million less than a year after it raised $319 million. Each of these companies had raised large rounds in 2019 (Brex raised several) reaching unicorn valuations. Market turmoil added downward pressure on near-term growth and revenues, requiring new financing rounds to shore up their balance sheets and prepare for extended economic impact.

Larger deals continue to dominate late stage

US late-stage VC deals ($) by size



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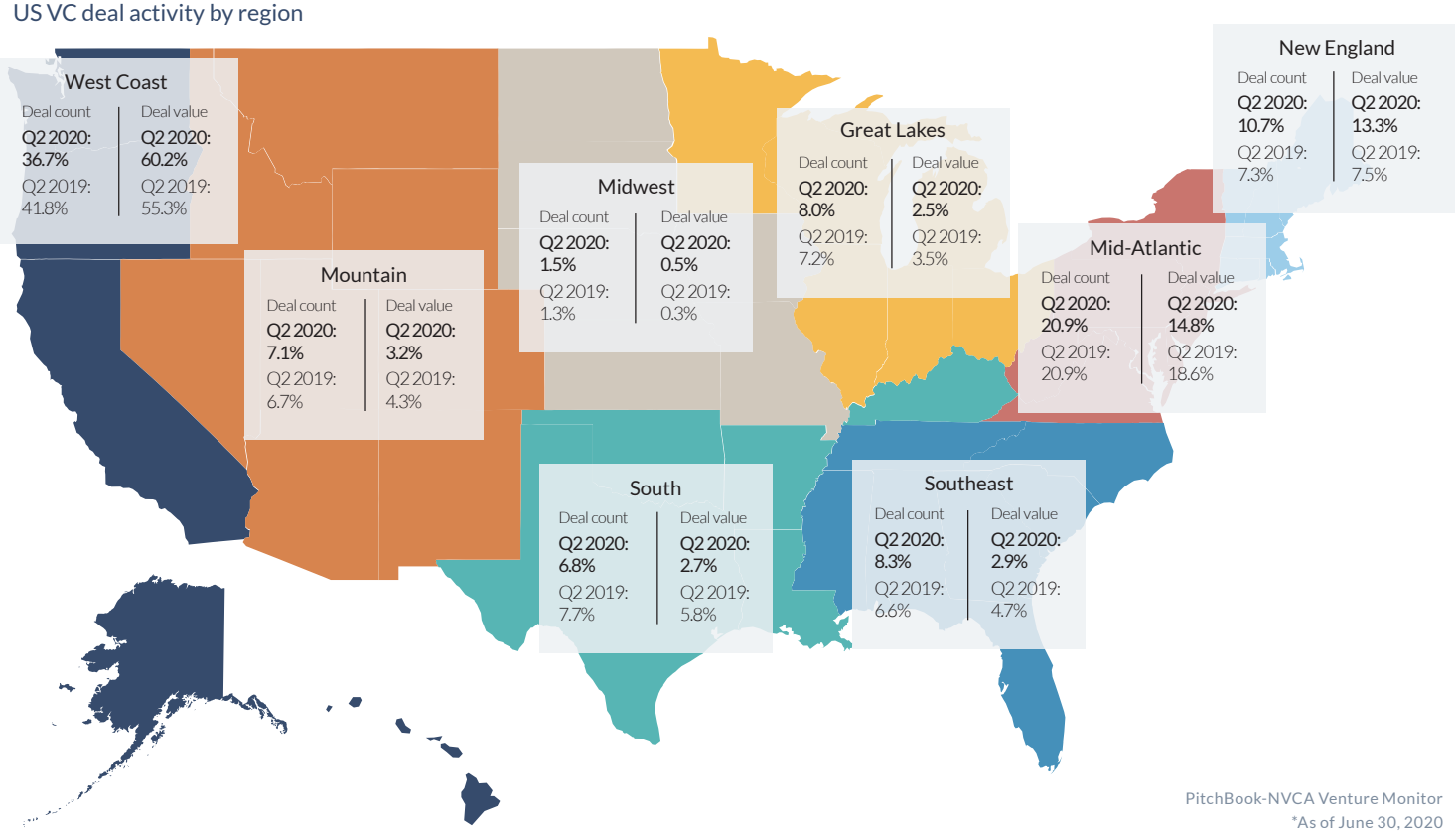
At the late stage during Q2, 57 mega-deals ($100 million+) were financed, and now 2020 has seen more than 100 late-stage VC deals of this size, easily on track to surpass the 175 late-stage VC mega-deals closed in 2019. Many of these deals are companies likely on track to IPO, though given the unknown appetite for tech unicorns by public investors, it has become prudent for these companies to raise more private capital. Stripe, Robinhood, Waymo, Samsara, and DoorDash all raised over $400 million each in Q2. Three companies, including SpaceX, raised capital at post-money valuations above $30 billion, but overall the median valuation step-up multiple for late-stage VC mega deals has dipped to just 1.70x, well below the 1.88x figure in 2019. We attribute this to unplanned or emergency financings that were simply completed at the same share price as the previous round. Through Q3 2019 (the most recent available data), the US venture industry was sitting on more than $120 billion in dry powder, the highest amount ever tracked in our dataset. We have calculated this amount to be roughly 3.3 years of investment from these investors by comparing with annual capital call data.

While parts of the industry slowed to evaluate the damage caused by COVID-19, this dry powder primed VC firms with the ability to aggressively pursue deals. Though biotech companies have continued to complete public offerings, the unknown outcome of the recent run-up in public markets amid a backdrop of horrid unemployment figures has caused caution among late-stage companies planning on an IPO. While some sectors have seen massive declines in customers and revenues, others, such as Instacart, have seen quite the opposite, making now a good time to raise private capital, bolster balance sheets, and increase firepower for growth before testing public market waters in a more stable time.

Deals by region

New England sees jump in proportion of deal value while smaller regions struggle

US VC deal activity by region



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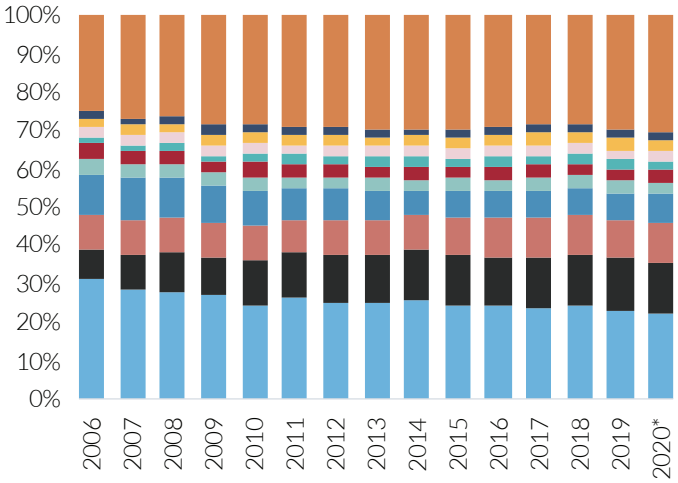
Count of deals across regions fairly constant

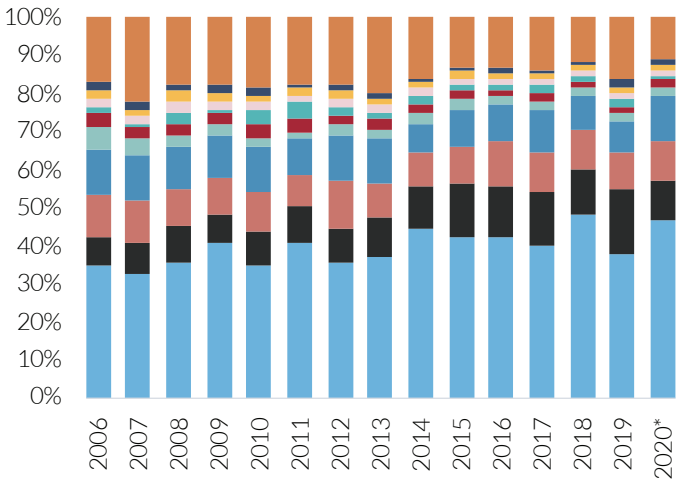
US VC deals (#) by CSA



PitchBook-NVCA Venture Monitor
*As of June 30, 2020

Bay Area resurges after lower proportion of dollars during 2019

US VC deals ($) by CSA



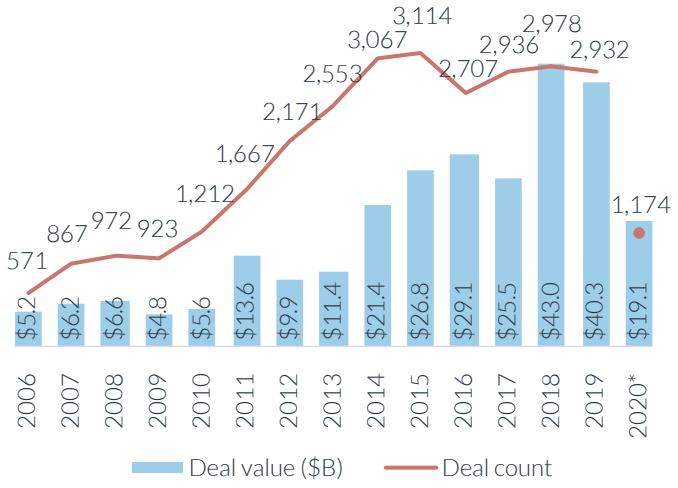
Other · Philadelphia · Denver · San Antonio · Chicago · Washington, DC · Seattle · Boston · Los Angeles · New York · Bay Area

PitchBook-NVCA Venture Monitor
*As of June 30, 2020

Deals by sector: B2C technology

B2C experiencing deeper slowdown than B2B

US VC B2C tech deal activity



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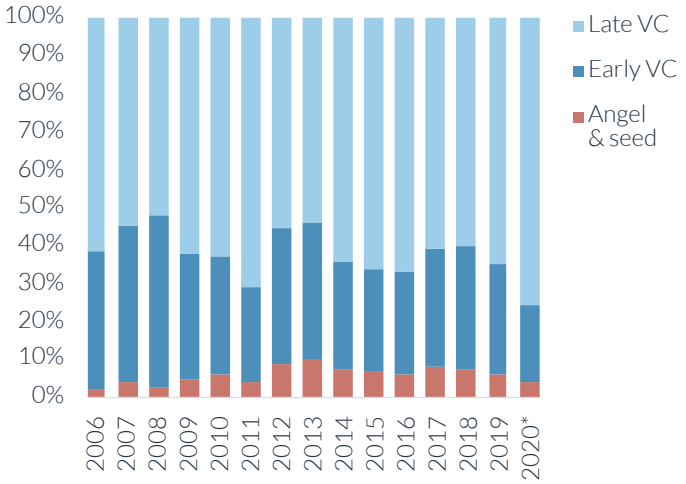
Share of B2C capital invested in seed & early-stage in steep decline

US VC B2C tech deals ($) by stage



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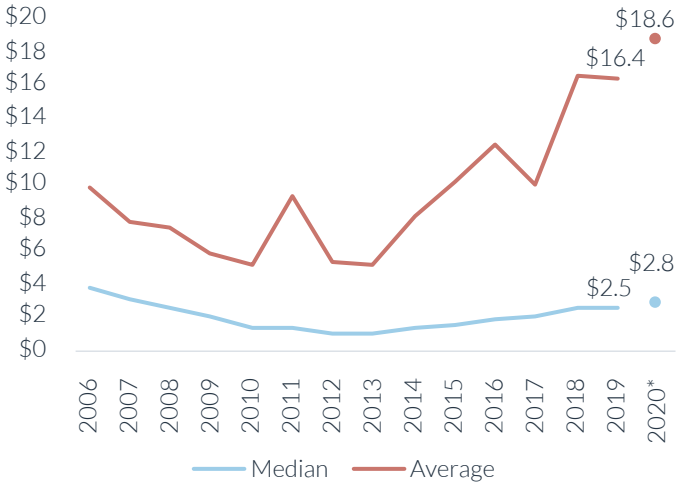
*As of June 30, 2020

Deal sizes remain strong amid market slowdown

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



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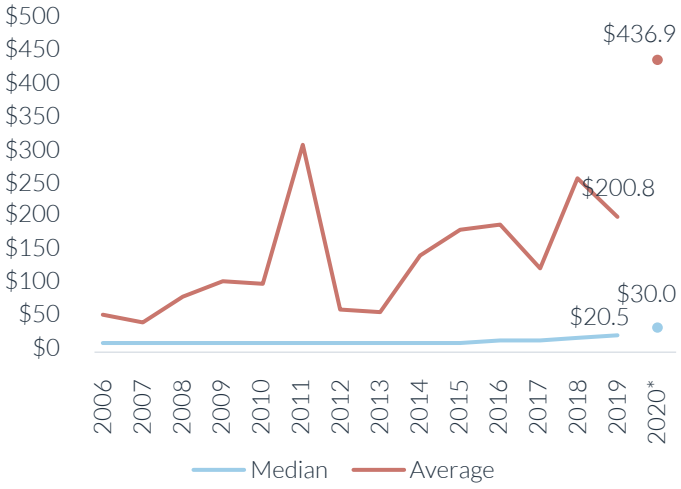
*As of June 30, 2020

Valuations have remained high

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



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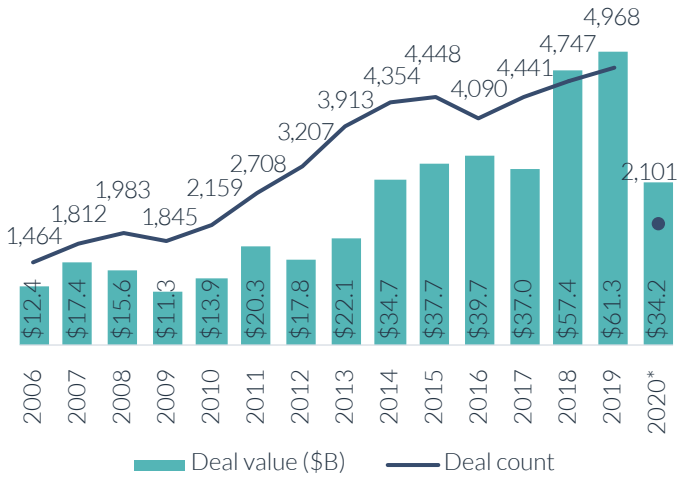
Deals by sector: B2B technology

Limited activity slowdown in B2B

US VC B2B tech deal activity



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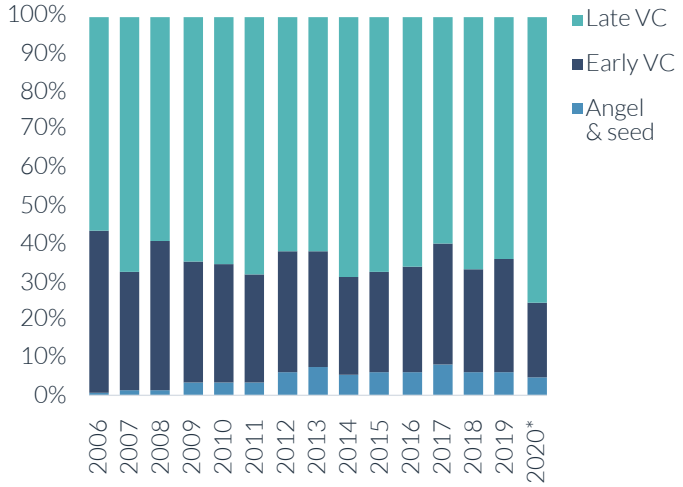
Early-stage B2B deals receiving smaller portion of VC dollars

US VC B2B tech deals ($) by stage



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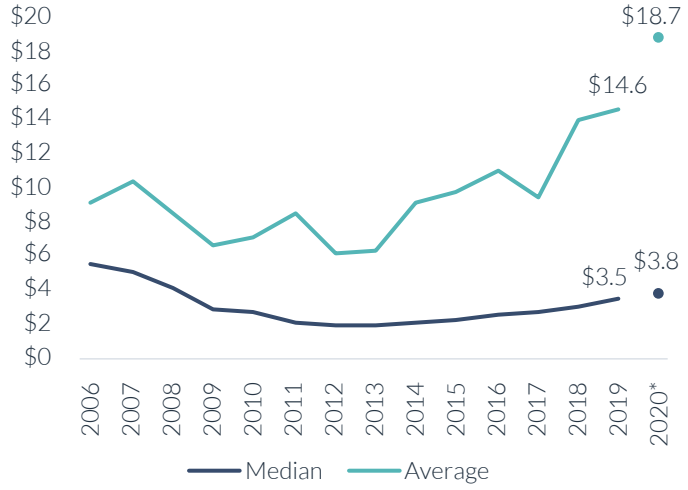
Median following recent growth trend

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



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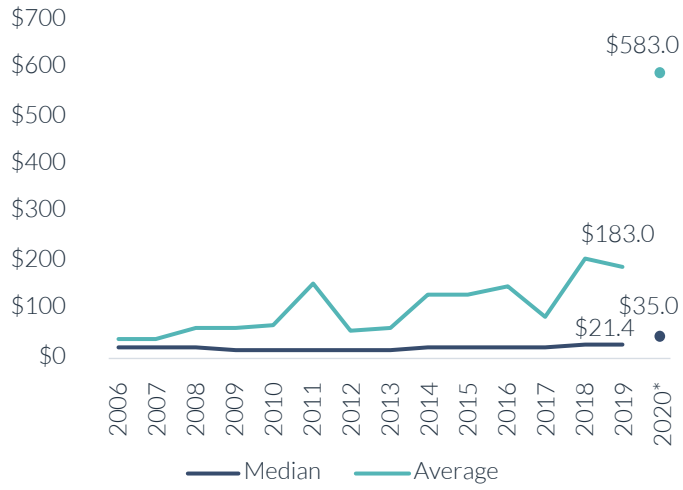
Enormous average likely to revert toward long-term mean

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



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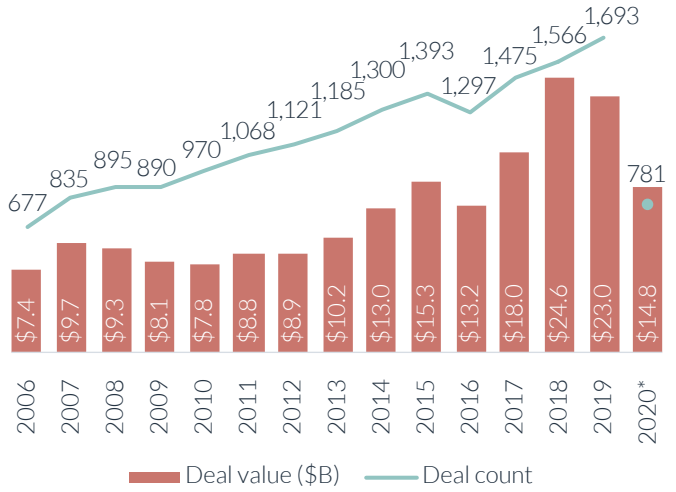
Deals by sector: Life sciences

Momentum already high before pandemic

US VC life sciences deal activity



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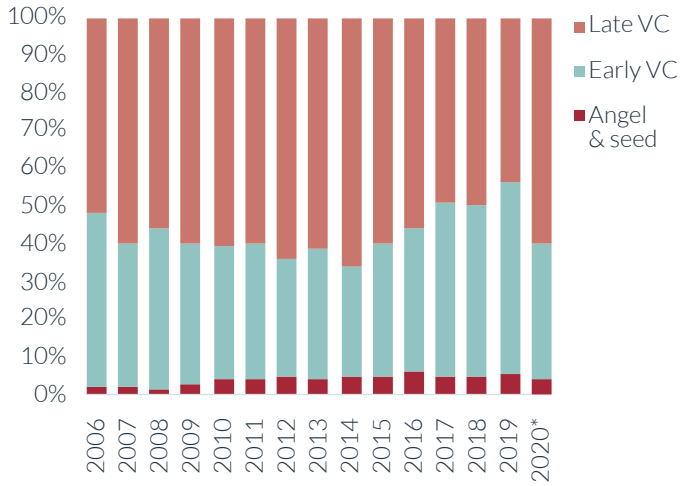
*As of June 30, 2020

After contracting in recent years, share of late stage deal value surges

US VC life sciences deals ($) by stage



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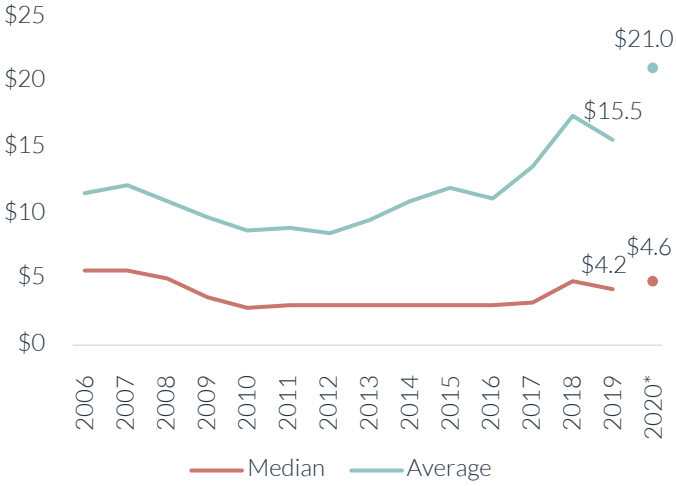
Outsized deals pushing average higher

Median and average US VC life sciences deal sizes ($M)



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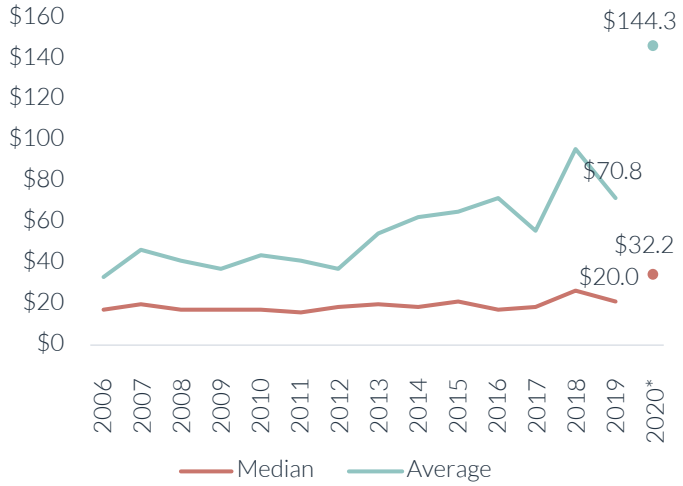
Valuations show massive growth

Median and average US VC life sciences pre-money valuations ($M)

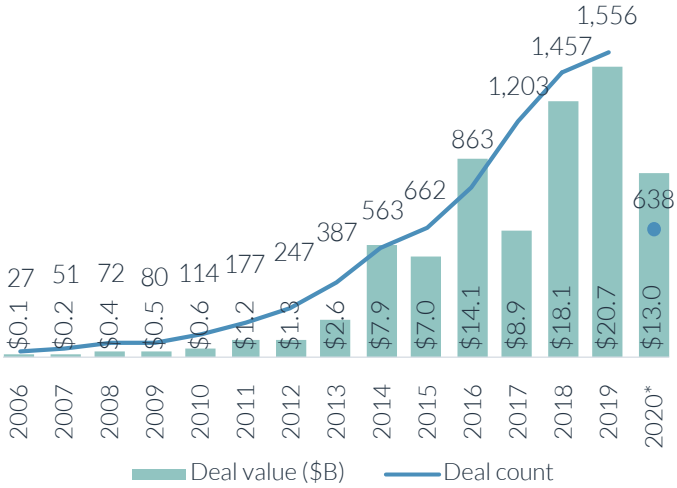


PitchBook-NVCA Venture Monitor
*As of June 30, 2020

Deals by sector: AI/ML

AI/ML seeing mixed activity

US VC AI/ML deal activity



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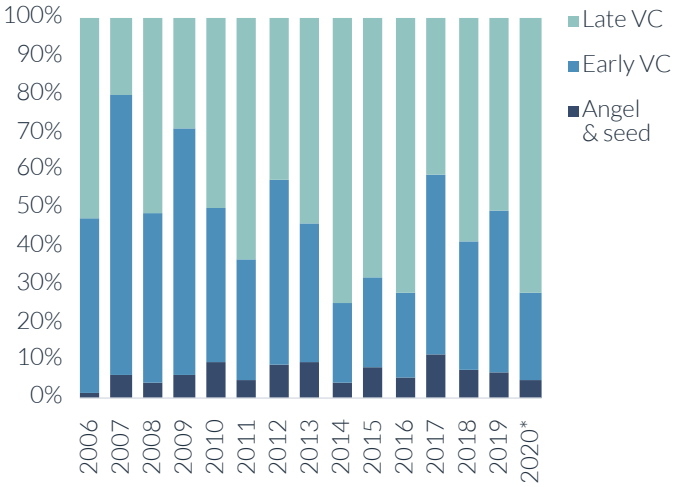
*As of June 30, 2020

Seed capital flow has slowed

US VC AI/ML deals ($) by stage



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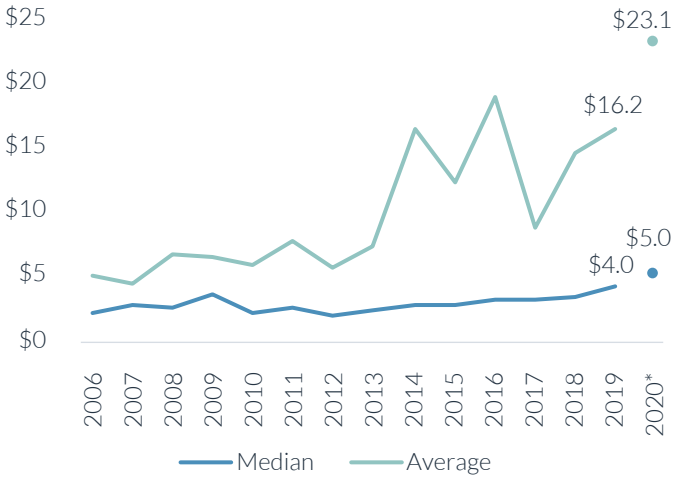
*As of June 30, 2020

Deal sizes moving to new highs

Median and average US VC AI/ML deal sizes ($M)



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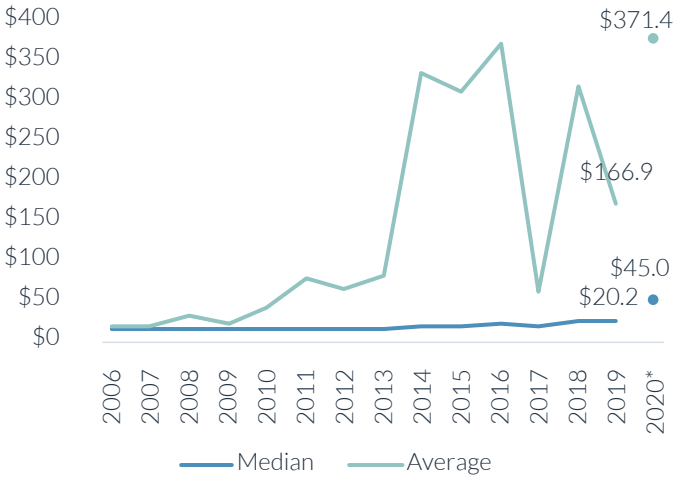
*As of June 30, 2020

Valuations more than double 2019 figures

Median and average US VC AI/ML pre-money valuations ($M)



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*As of June 30, 2020

SVB: Adaptation and acceleration in VC

Q&A with Jennifer Friel Goldstein

Given where we've been, what is your best outlook for the rest of 2020?

If there is a constant in 2020, it is change. While uncertainty makes doing business harder no matter the sector, the tech industry often proves itself more adaptable than most. We don't yet know the full impact from layoffs, the slowdown in global connectedness and shifting capital dynamics or the life-changing impacts of the pandemic and our demands for social justice, but there are strong signals that the broader tech economy is pulling out of a tumultuous first half of 2020 in good shape. From our perspective, the first four months of 2020 continued the 2019 trajectory of strong capital raising—then we hit a major inflection point. What was going to happen to fundraising starting in April? Apparently, it continued to cruise ahead. We saw continued closure of many mega-funds. True, most of the capital raised in Q2 2020 was already well into the diligence pipeline before catastrophic global events had to be factored in; however, we believe 2020 will still shape up to be a plentiful year in terms of dry powder and fresh capital ready to deploy into the innovation economy.

Where is the capital being invested?

Most investors have triaged their portfolios, targeting 18 or more months of cash for their winners and streamlining as best as possible their "non-winners." Now, many investors are watching and waiting for valuations to settle down. They are making opportunistic investments in their top portfolio companies and getting in touch with high-quality companies and founders to explore new deals. While terms have largely shifted to favor investors, the most exciting deals are still proving competitive. Many strong companies, thanks to their 18+ months of runway, don't have to play ball with unattractive terms…yet.

So, what do we know? Core fundamental businesses are still highly prized and have deeper cash reserves than we saw in past downturns. There is also still plenty of dry powder on the sidelines, waiting to be deployed. The guessing game is where that capital goes: to tried-and-true businesses that are ramping growth, disruptive new businesses building for the "new normal," or somewhere in between. Can investors realistically bet on a public exit, or do they need to reserve capital for new ventures for a longer time horizon? What will M&A activity look like? As investors weigh these predictions against their own portfolio construction, we will see shifts in funding from certain profiles to others. But for now, the money still seems to want to flow into the tech ecosystem.

What other shifts in investor sentiment do you see?

First, what has not changed: VCs with capital want to put it to work. They are excited to get in at today's (or tomorrow's) lower valuations, with streamlined business models focused on core disruption and minimizing burn. There was initial resistance to committing new capital, in part because in-person due diligence was hampered by shelter-in-place rules, but we are seeing workarounds. Investors and entrepreneurs are getting creative with new ways to get to know one another. That's not to say it's easy to raise money right now. Investors want to see data and hard performance metrics; they don't want to pour capital into in-the-moment business plans that may not prove durable. Mostly, they want to be strategic in not just whom to bet on but when to make the bet.

Strategic investors, particularly those who have been through down cycles, are looking for companies that are focused on innovating over the long term. They're seeing it as a chance to look at deals they may have passed on a few months ago because of terms or valuation sensitivities. These investors are quick to remind us about successful fintech companies, such as Venmo and Square, that were born from the ashes of the 2008 global financial crisis. Now, we hear excitement around the potential of infrastructure security, healthtech and care delivery, distributed workforce, remote learning, and e-gaming. I've personally heard more discussions around education and the creative arts (both traditionally analog sectors). The future looks bright for new revenue models and consumption modalities.

JENNIFER FRIEL GOLDSTEIN Head of Business Development, Technology & Healthcare

Goldstein helps innovators and their partners drive new business and enact change within the innovation ecosystem.

She brings 20 years of finance, business development, strategy and a biotechnology background to the SVB team. She is a three-time graduate of the University of Pennsylvania and she was recently named a director of Venture Forward.

What are corporate venture investors thinking now?

Several consumer and manufacturing trends that were already accelerating before the pandemic are moving at warp speed. Corporate America is realizing, if it hadn't already, that it's innovate or die. Corporate venture is a logical path to gain access to new technology and visibility into the future, and it may be a good time to double down. But gaining the support of the CEO and board, especially if you are in the middle of layoffs or other cost-cutting

moves, may be difficult. I do think corporate venture activity will become more closely aligned with the core business, as there will be less tolerance for exploring true white space well outside the primary business of the parent company.

How are emerging managers and small investors navigating this environment?

My SVB colleague Jim Marshall, head of the Emerging Manager Practice, believes that the fourth wave of venture—generally investors who have more diverse backgrounds and networks—is well underway. We think there are several reasons to be optimistic. Many of these managers have closed funds in the last 18 months, seeking to weather last year's predictions of a 2020 downturn. They have become more "institutional" in their thinking and structure, and many are serial entrepreneurs who have unique perspectives on what the future may bring. Emerging managers, by their nature, don't have legacy portfolios with large cost structures to manage. This allows for more flexibility and the ability to pivot. But raising capital is hard and we envision more collaboration among this critical class of investors.

You are on the board of the newly formed Venture Forward, a nonprofit arm of NVCA focused on diversity initiatives. What does the industry need to do?

In a word, change—and I don't say that lightly. Progress has been too slow. To solve the world's biggest problems, we need the brightest minds, the best ideas, and the most disruptive viewpoints we can find—and that won't come from staying only in the lanes we're used to. If there is one thing successful investors know, it is that breakout opportunities are most likely to be found where everyone else is not looking.

Venture Forward is exploring ways to make sure the venture community gets connected to the widest sources of disruptive innovation by educating and training the next generation of investors, improving diversity in the industry, and expanding venture activity to new regions. Key drivers are to set goals, measure progress and insist on transparency. And it must include accountability. I believe that there are outsized economic returns for people who embrace broader perspectives, markets and sources of disruption. Learn more about Venture Forward.

What have you taken away from the past few months that gives you confidence in the industry?

Many of us have new insights into human interaction and balancing work and home life. Merging work and personal life isn't easy, but there are some surprising positives. You have a new window on the world of your colleagues, and your family has a new window on you: how you balance responsibilities and divvy up chores, resolve issues and process highs and lows. It can be uncomfortable, but on balance it leads to more honest conversations, which, not coincidentally, is a great way to start a discussion about diversity and belonging in our industry.

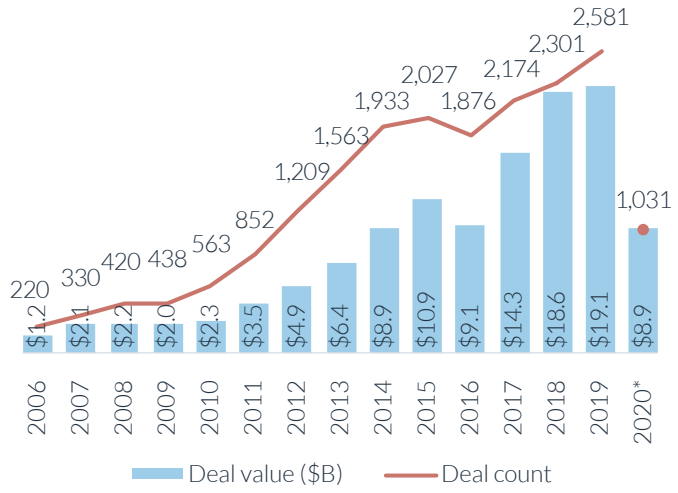
Businesses and investors that understand how to incorporate and maximize diverse points of view will create new opportunities for themselves, their employees and their partners. At SVB, we are committed to fostering a more diverse, equitable and inclusive environment within the bank and across the innovation economy. I hope the experiences of 2020 help more people want to look beneath the surface, appreciate different viewpoints, and see the world—sometimes quite literally—through a different lens.

Let's grab the opportunity.

Female founders

Female-founded company deal activity unlikely to reach new high in 2020

US VC deal activity for female-founded companies



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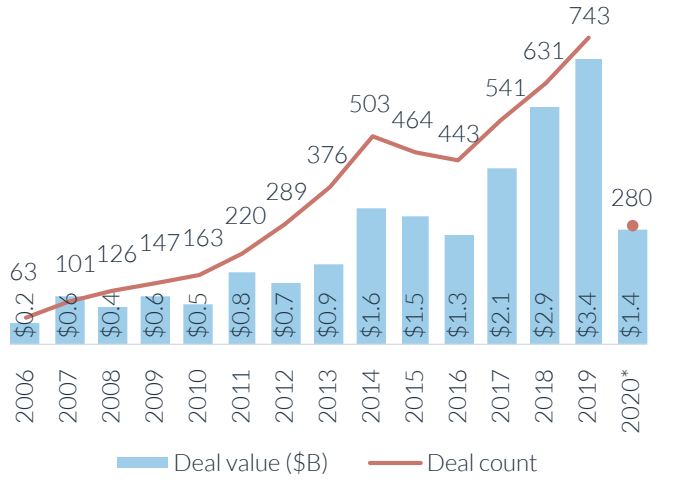
*As of June 30, 2020

Deal activity for all-female founded companies slowing with difficult H1 2020

US VC deal activity for companies with all female founders



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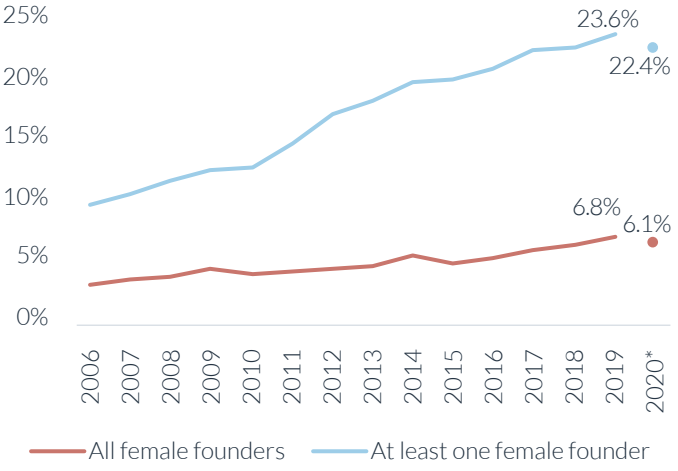
*As of June 30, 2020

Deal count proportion falls slightly for companies with female founders

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



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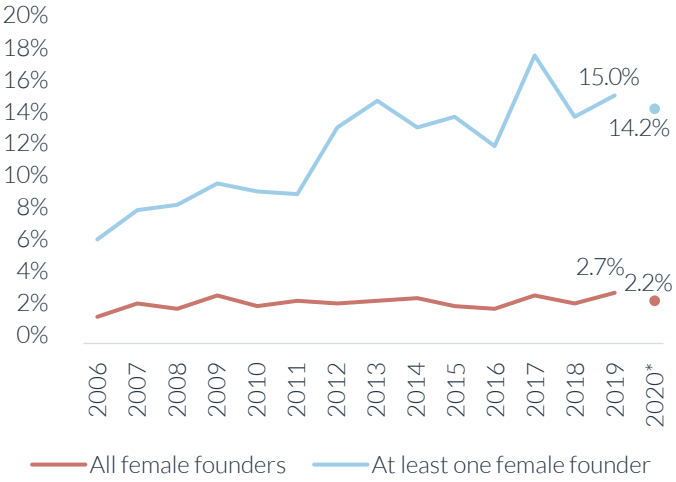
*As of June 30, 2020

Proportion of total deal value remains steady

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



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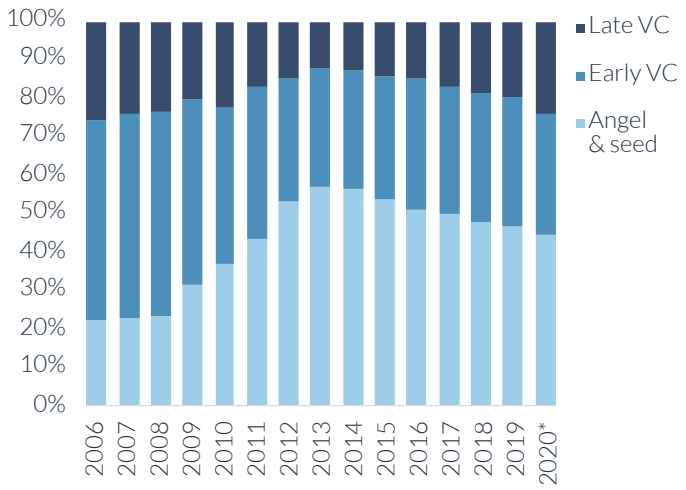
Deal activity continues shift to later stages

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



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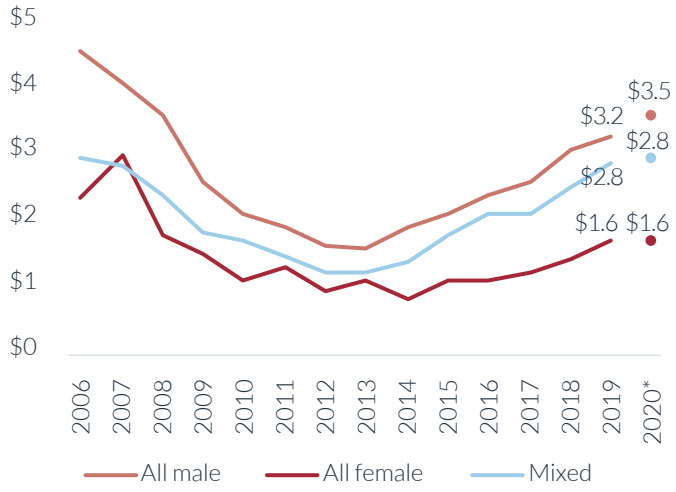
Median deal size growth has stalled in 2020

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



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Top 5 US CSAs by capital raised ($) for companies with all female founders (2006-2020)*

Combined statistical area	Capital raised ($B)
Bay Area	$5.34
New York	$4.74
Boston	$1.87
Los Angeles	$1.72
Seattle	$0.75

PitchBook-NVCA Venture Monitor
*As of June 30, 2020

Top 5 US CSAs by deal count (#) for companies with all female founders (2006-2020)*

Combined statistical area	Deal count
New York	1036
Bay Area	987
Los Angeles	553
Boston	310
Seattle	212

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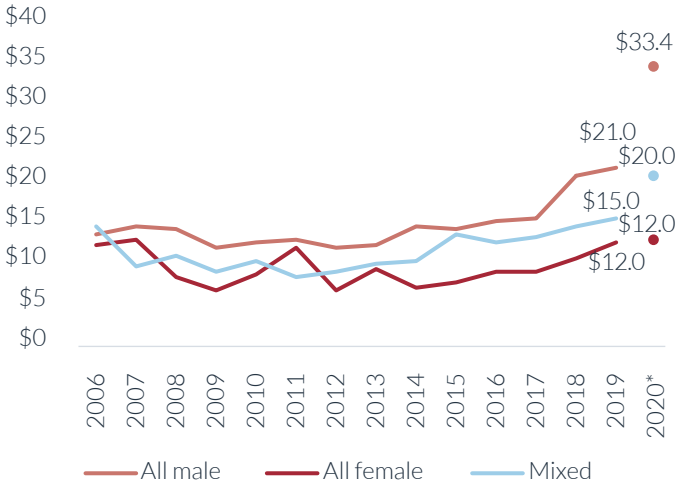
*As of June 30, 2020

Valuations of female-founded and all-female-founded companies continue to lag

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



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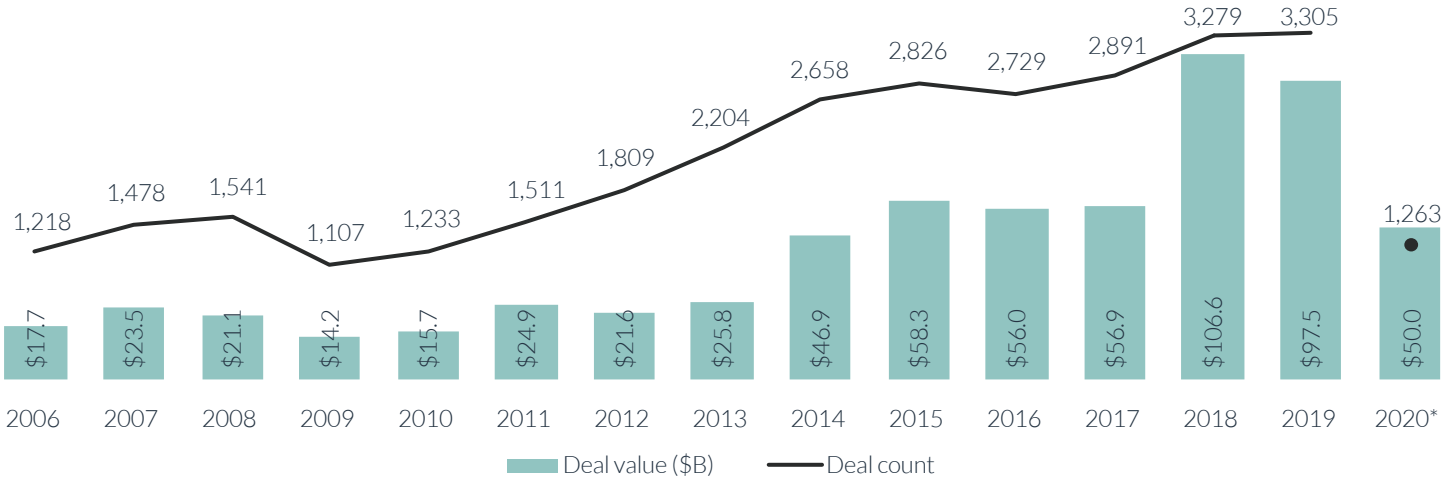
*As of June 30, 2020

Nontraditional investors

Nontraditionals have slowed investment pace less than many had expected

US VC deal activity with nontraditional investor participation



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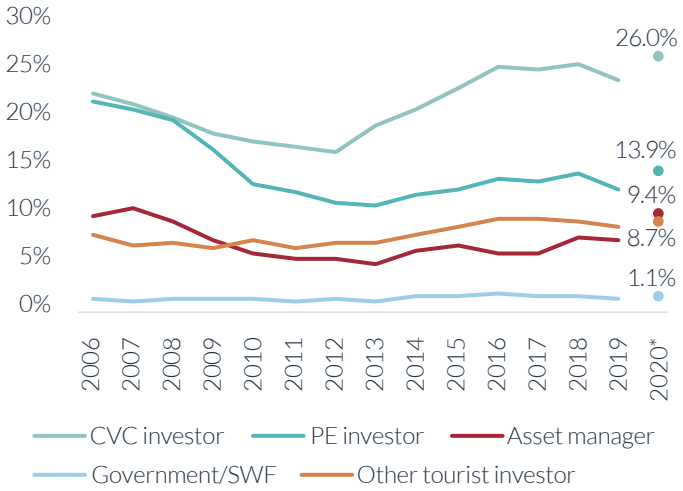
*As of June 30, 2020

While much has been said about the dry powder levels of US VC firms, nontraditional investors have provided a huge amount of capital to the industry in recent years. Using the gap between recent VC fund contributions and annual deal value data, along with certain model assumptions, we estimate between $240 billion and $340 billion of nontraditional capital is available for deployment to the global VC industry. Though this figure is a rough estimation, the amount highlights nontraditional investors' potential influence on the venture ecosystem. Nontraditional participation did not subside through Q2, either, proving that alongside the firepower, these investors also have developed staying power and view venture as more than a secondary option to deploy capital. Participation rates have risen over 2019 levels across each different cohort of nontraditional investor. Corporate VCs (CVCs) have participated in 26% of all US VC deals, a new high, in a year that many suggested the industry would see a large

Nontraditional investor participation continues to rise

Proportion of US VC deals (#) with nontraditional investor participation by type



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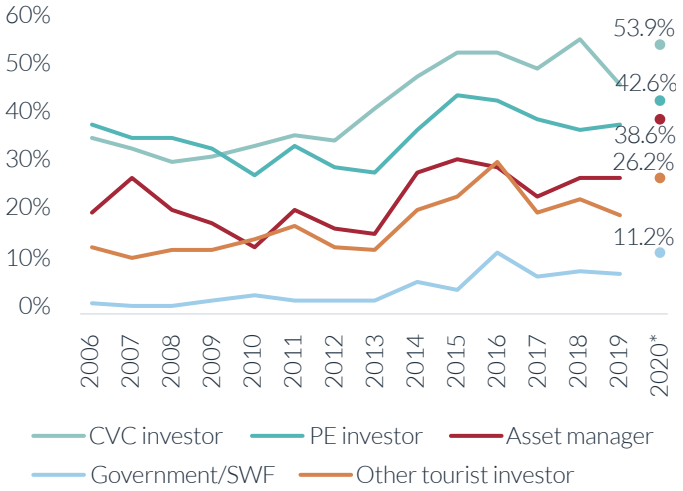
Over half of deal value in H1 included CVC participation

Proportion of US VC deals ($) with nontraditional investor participation by type



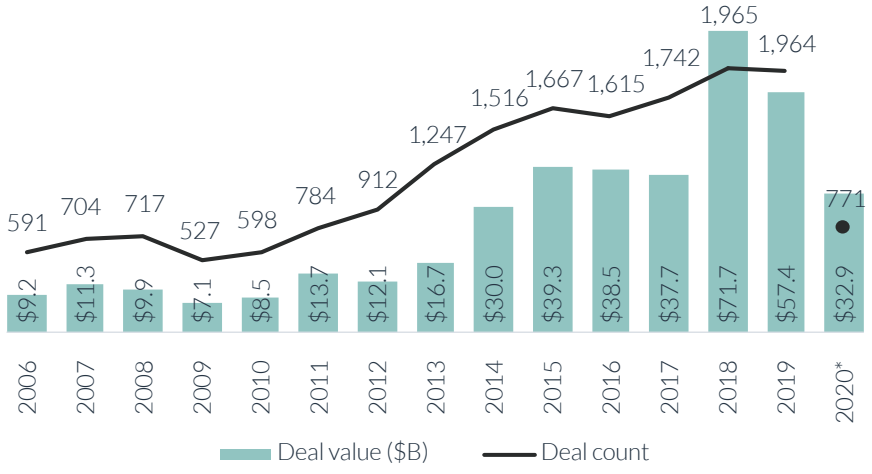
PitchBook-NVCA Venture Monitor
*As of June 30, 2020

retreat by these investors. PE firms have been investors in 13.9% of VC deals, a higher level than any previous full-year figure.

The penchant for nontraditional investors to prefer late-stage VC deals is apparent in their deal value participation as well. Nontraditional investors have participated in more than $50 billion in deal value so far in 2020 and have been involved in many of the VC mega-deals mentioned in the previous section. Though nontraditional investors have participated in VC for some time, the dearth of public offerings and the perceived opportunities to invest in distressed situations within VC incentivized these firms to continue and increase their exposure to venture. Lime, which was valued above $2 billion in previous financings rounds, raised a massive down round led by Uber in May that pegged the company's valuation at just above $500 million. Magic Leap, which has raised over $3 billion and was once valued at near $7 billion, announced plans to significantly reduce its workforce and pivot from its consumer-facing platform before raising an additional $350 million to push off the planned layoffs and focus its strategy moving forward. The company's existing investor base includes several nontraditional firms including the sovereign wealth funds (SWFs) Saudi Arabia Public Investment Fund and Temasek.

Industry to watch: CVC activity in 2020

US VC deal activity with CVC participation



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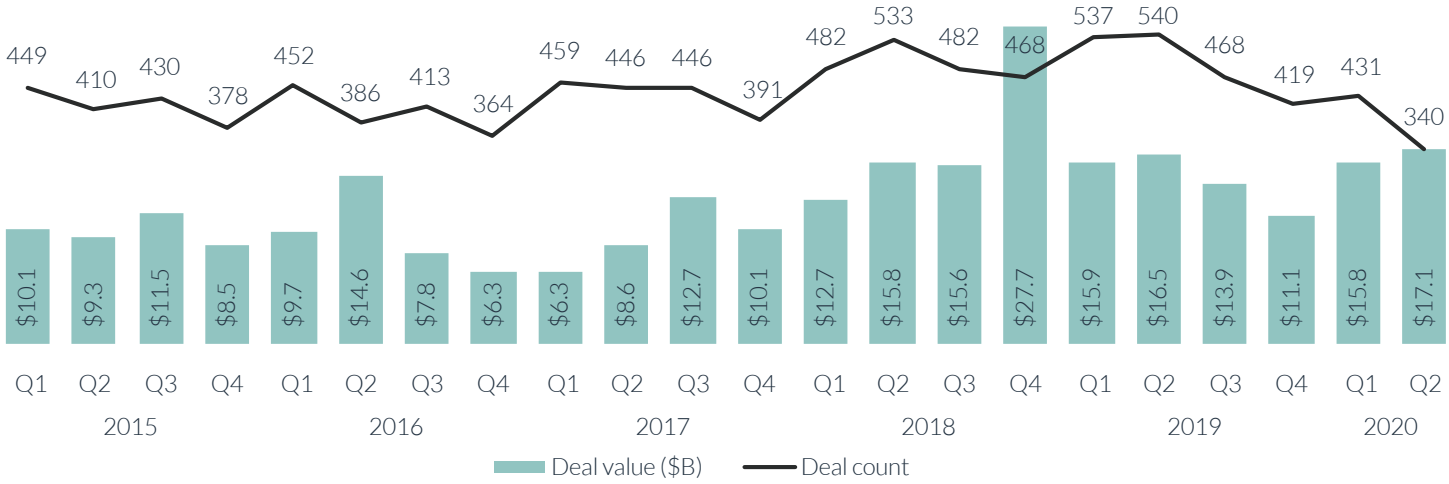
*As of June 30, 2020

During the global financial crisis (GFC), nontraditional investment dropped by 28% from 2008 to 2009, a decline that many felt signified what to expect from nontraditional investors amid this crisis. So far, this has not been the case, especially with corporate VCs. The industry has seen its share of new CVC arms announced over Q2, including from Amazon and Facebook. CVC activity has remained strong and may record a new high level of deal activity participation in 2020. In particular, CVC investment in healthcare has been especially strong during the COVID-19 pandemic. Corporate investment in private-backed pharma & biotech companies is pacing for a new record in 2020. As we have spoken of in the past, corporate venture has become an important piece of overall R&D programs, providing access to data and technologies.

Recent decline has followed broader VC trends

US VC deal activity with CVC participation by quarter



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Certent: Venture in the COVID-19 era

Q&A with Jorge Martin, Ryan Stroub, and Matthew Lee

What are the broad sentiments among your venture-backed clients as we head into the middle of the year?

Ryan: Although it has been difficult for investors to back entirely new prospects, deals are still closing. Some segments are even more popular than before, such as fintech and consumer-facing businesses that were able to shift to remote use cases.

Jorge: In terms of purchasing cycles at private companies, later-stage businesses have been able to move forward with new software contracts, while earlier-stage companies are prioritizing cash conservation. That is indicative of where sentiment is at across the capital stack; for example, cash spend is being closely scrutinized by the firms with the most runway.

Matt: Anecdotally, I have seen angel & seed-stage investors pick up activity; however, that indicates more opportunism than anything else, especially as valuations have begun to favor investors. Down and flat rounds are occurring, while investors are paying more heed to overall capital structures.

Ryan: Particularly for larger private companies, debt may be a useful and inexpensive option relative to equity.

What are the tactics the venture-backed companies you work with have been employing when managing their financials? What usage trends that were in place prior to the impact of the pandemic have accelerated, and what are brand-new?

Ryan: The key for venture-backed companies in this environment is extending their cash burn, whether it be by slowing hiring, laying off or furloughing nonessential employees, or through other measures aimed at recurring costs. On the liquidity front, we're also seeing exercise periods being significantly extended for employees that are laid off due to these unprecedented circumstances—from one to even five years—so they can still exercise their vested options. That obviously leads to option modifications overall, with highly complex expensing scenarios.

Matt: There's additional reliance on equity plans—some peers have observed a huge uptick in equity awards at private companies but with longer vesting periods to avoid monthly exposure, as well as other variations depending on the tranche.

Regarding cap table and general equity management, how are investors and companies collaborating to help maintain liquidity?

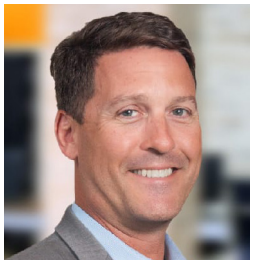
Matt: Interestingly, before COVID-19, I observed a few instances where a mid-stage venture-backed company in the middle of its growth cycle did not offer any anti-dilutive terms in its preferred rounds. This means if a down round happened later, initial preferred investors did not get an adjustment in their conversion ratio. Consequently, those investors ultimately owned less, so once the pandemic hit, those businesses had to get creative. Equity kickers through warrants—modeling out what an equivalent anti-dilutive mechanism would result in—have been the usual tactic in response to that eventuality during the current environment.

Ryan: We've seen an uptick in tender offers as well, so employees can get liquidity if possible.

Jorge: Our own customers have also used our tools more frequently for those scenarios as of late.

What are the primary hurdles that your clients in the realm of VC are navigating and looking to work with you to surmount? Are companies mainly looking to buy time?

Jorge: Typically, when people are asking for any type of concession, whether it be a reduction in price or an adjustment



JORGE MARTIN
Chief Executive Officer

Jorge has over 18 years of experience leading and transforming professional services, implementation, product management, marketing, relationship management and sales teams. Before joining Certent, Jorge was the VP of Shared Services for E*TRADE Corporate Services and VP of Relationship Management at Corporate Services Group. He holds an MBA from the University of California, Davis and a BA in business economics from the University of California, Santa Barbara.

RYAN STROUB
Chief Financial Officer

Ryan is an accomplished financial executive with over 12 years of experience guiding the financial strategies of leading technology and financial consulting companies. Before joining Certent, Ryan served as Chief Financial Officer at SharesPost, Inc. and Thomas Weisel Partners and was a Global Corporate Controller at E*TRADE Financial. He holds a BS in finance with an accounting emphasis from the University of California, Santa Barbara.

MATTHEW LEE,
Product Manager, Equity Management

Matthew has 15 years of experience in multiple finance and financial technology firms at various levels, including divisional oversight, technical sales, equity research, auditing and valuations. Matthew is currently a Product Manager focusing on private market initiatives. Matthew is a CFA charter holder and is currently pursuing a master's in finance from Indiana University.

downward in planned price increases, the duration is usually a year. For existing customers, it's more a case of weathering the storm through the rest of the year.

Ryan: In most cases, companies are looking for short-term relief, targeting getting through the next six to 12 months. And those businesses are primarily concentrated in the hardest-hit sectors as they try to acquire the resources to survive while they look to restructure and eventually land on firmer ground.

Matt: Investors are still figuring out how to most efficiently get comfortable with new prospects. Many firms are taking a more defensive strategy, exhibiting more conservatism in due diligence and negotiations.

Regarding Certent's perspective, have usage trends changed, and if so, why? What tools are being used more in response to the pandemic? Does it parlay into any broader trends toward outsourcing and increasing digitization?

Jorge: Historically, our customers utilized our software for compliance purposes, either for reporting to investors or for preparations for audits and regulatory scrutiny. If anything, the current environment has encouraged a closer focus on such preparation. However, what has changed is how people have collaborated utilizing our, or really any other such tools. It's more difficult to communicate remotely for some, so maintaining effective collaboration across all our tools—on our side and on the side of the consumer—will be a clear priority going forward.

Looking forward, what traits among the VC-backed companies you work with stand out the most as inspiring confidence and indicating resilience? What are the biggest sources of issues?

Jorge: Being nimble comes first to mind, along with frequent communication to backers of any areas of significant risk for the business. For example, B2B software companies should be very focused on their renewals. Collections and receivables for any company reliant upon recurring revenues have also been a top priority on the part of the most successful businesses, as they've been able to keep their cash relatively well-stocked. Last, the sales pipeline must be scrutinized, as buying behavior in this environment can turn on a dime. Those areas and in general closer monitoring of anything that could directly affect cash such as expenses, have been the top priorities of the best-placed companies we've worked with throughout this period.

What actions and broader trends among the venture landscape have surprised you the most, or seem to have accelerated or come about because of the COVID-19 pandemic?

Matt: A few SaaS-model, B2B-focused companies that are very early in terms of revenue are still going all out. Their value propositions are so compelling that their potential customers are also not slowing in terms of engagement. Even in this climate, some early-stage, pre-revenue companies are likely still able to fire on all cylinders, and arguably can garner more attention than they would in normal circumstances and hopefully close some deals from investors.

Jorge: Based on a few other anecdotes and some data samples, we saw a definite disparity between the companies that were focused on selling to other businesses and those that were more exposed to consumers. The latter saw much more churn even earlier than people may expect in their overall customer base. It stands to reason that some consumer-facing businesses that were geared to a home-centric customer base benefited, but by and large, companies are still feeling the ripple effects of so many classic consumer-dedicated enterprises facing trouble or shutting down. Nice-to-have consumer goods producers are going to continue experiencing significant pressures.

Any closing thoughts?

Matt: Perhaps the most surprising thing is that, for quite a few of our heavy users and clients, things seem to be proceeding somewhat normally. For the remainder of 2020, many of our customers are proceeding or prepared to proceed as close to business-as-usual. Some hurdles we previously mentioned had to or will have to be handled—furloughs, somewhat of a reduction in revenues—but many clients are still trying to hit the same targets as they feel they now have a plan to manage those challenges.

Ryan: From our perspective, like all the good companies we've talked about already, we are trying to be as cautious as possible in our forecasts. Clients may come to us for shifts in terms or deferrals, so we are happy to work with them on the relevant scenario planning and continue to adapt as need be.

Jorge: Whether there are brand-new awards with different vesting schedules, or new down financings, or changes to capital structures, all such issues can represent significant amounts of work for not only our clients but all venture-backed businesses. Regardless of how easy your software provider makes the user experience, expertise in niche use cases will be required; especially in times like these, unique challenges are bound to arise. So, we are significantly invested in ensuring we can help our clients with these challenges because across the venture landscape more businesses have come to us asking for how to navigate this novel scenario.

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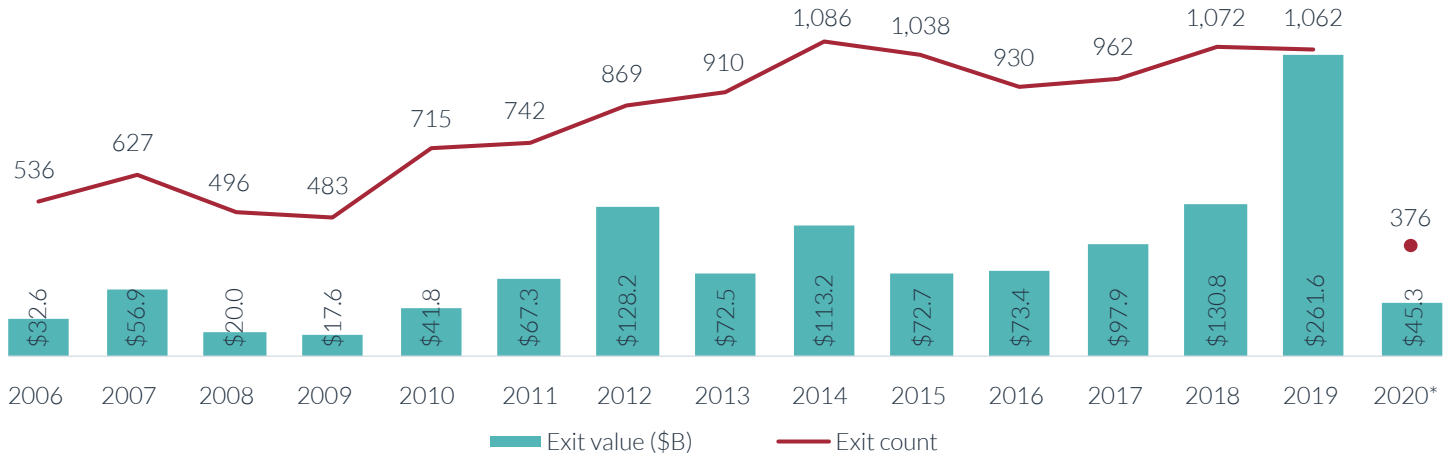
Exits

Exits continue to struggle during the pandemic

US VC exit activity



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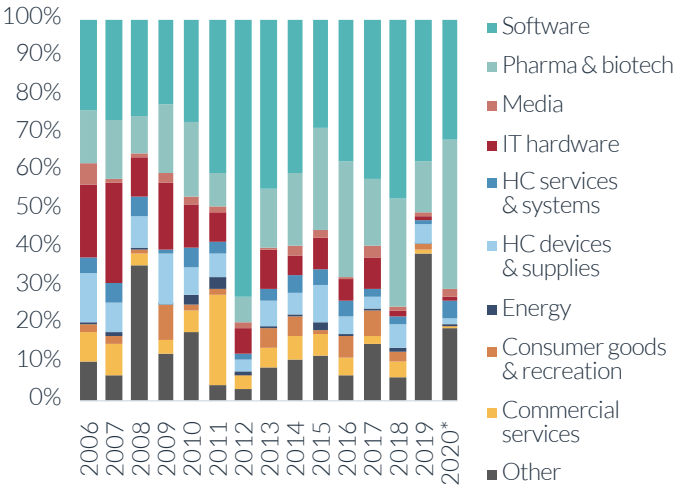
*As of June 30, 2020

Q2 2020 maintained the slower pace of VC exits that began with the onset of COVID-19 in the US in March. Q2 saw only 147 exits close with a value of $21.2 billion, bringing the half-year total capital exited to $45.3 billion. Measuring this against 2019 is a tough comparison given the massive IPOs that closed last year, but exit count in 2020 is tracking to be the lowest since 2011, and value is pacing to drop back toward the levels seen pre-2017. This is a significant reduction in the number of companies that are achieving liquidity for investors, which could have serious implications for the rest of the VC ecosystem, especially if the pandemic doesn't subside in the near term. The exit market provides the release valve to the massive amount of capital that has built up in VC, and without that functioning pathway to liquidity, the whole industry could suffer. Secondary markets offer one solution to this conundrum with a couple of major announcements in Q2 of private secondary trading platforms such as CartaX and the merger of Forge and Sharespost, which should spur more secondary activity.

Biotech capital exited surpassed software in H1 2020, first time in 10 years

US VC exits ($) by sector



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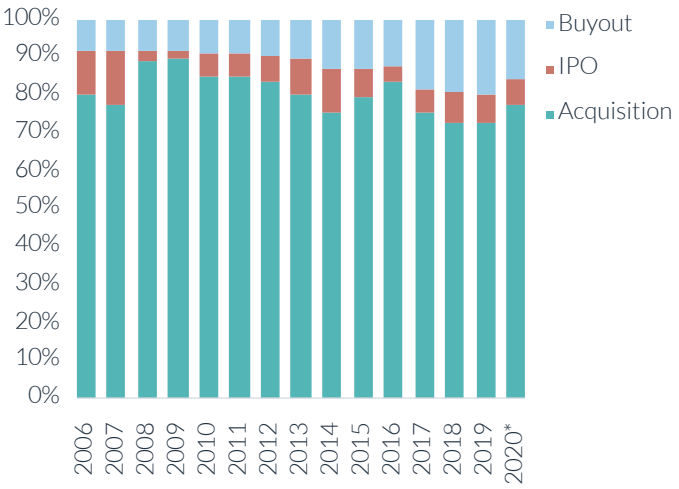
Buyouts and IPOs pull back slightly during pandemic

US VC exits (#) by type



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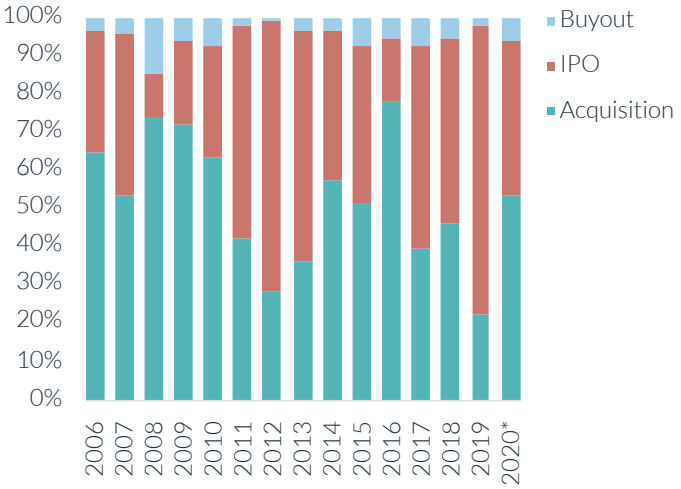
IPOs' proportion of total value returns toward 10-year average

US VC exits ($) by type



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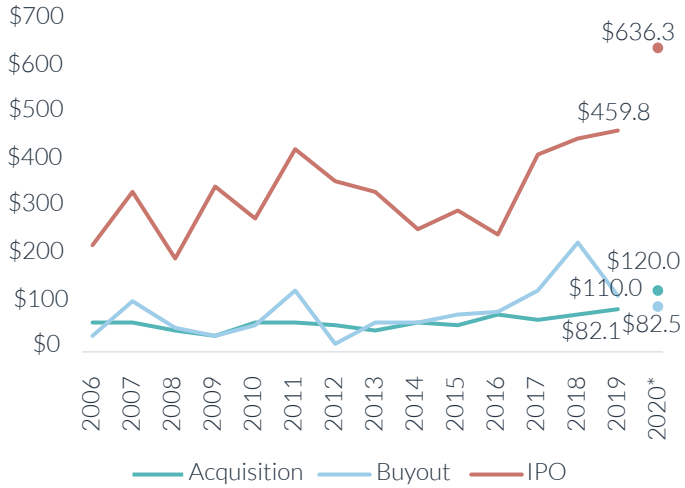
Larger companies still finding ways to exit

US VC median post-money valuation ($M) by type



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Although the COVID-19 pandemic's effects on potential liquidity haven't yet reached the dire levels we saw from 2008 through 2010, the next couple of years still hold plenty of uncertainty that may further depress activity.

We have seen the sharpest drop in the less common VC exit types, with the count of both IPOs and buyouts of VC-backed companies trending to only reach about 50% of 2019's totals. The public market downturn in March and April effectively halted IPOs for a short while and PE firms may be waiting for a shakeout of the startup landscape to find a deal rather than rushing into a risky transaction. Despite the bleak results of H1, there are signs this decline could be a short-term disruption in VC liquidity. In IPOs specifically, we saw some positive momentum toward the end of Q2 with companies outside of the biotech industry or special purpose acquisition companies (SPACs) completing or filing for public listings. While we believe this is more tied to the rebound in public equity prices and government stimulus rather than a full recovery, it still breeds some optimism for IPOs, especially for large companies such as Palantir and Asana that still plan to list.

As mentioned in the late-stage section, some companies are choosing to return to private markets for large fundraises to help delay a public listing. IPOs have been a critically important part of the VC exit market over the last few years as one of the main pathways to liquidity for massive, multibillion-dollar startups that have flourished in the current environment. The Vroom IPO provides the main example in Q2 for a reopening of this exit route; the exit valued the car selling platform at just over $2 billion. This deal is especially notable because it occurred in the automobile space, which has been seriously impacted by the pandemic, potentially implying that the IPO window could be open for a wide swath of startups.

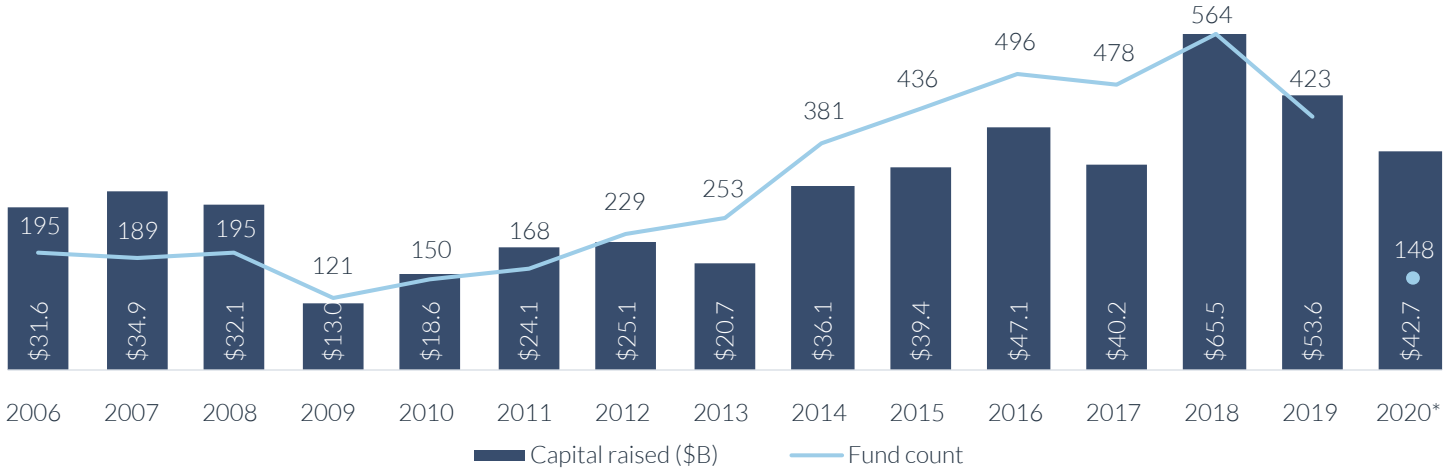
While the valuation step-up of an IPO against a company's last private valuation is a distinct focus from the VC point of view, an IPO is not the end of a company's journey, but another financing event on its path To create a more holistic way to follow companies after an IPO, we created a VC-backed IPO index which tracks the performance of formerly VC-backed business for the two years after they go public. We presented this on both a market cap- and equal-weighted basis to provide insight on blockbuster tech IPOs and at the market more democratically, giving extra weight to the plethora of small biotech IPOs. The performance over the last year for both weighting methodologies outperformed the broader stock market indices with the equal-weight version, looking especially strong even over the longer term. However, over the five- and 10-year horizons, the market-cap weighted index has not fared as well, with some significant underperformance relative to the S&P 500.

The strength of VC in both exits and fundraising over the past few years has built up a large stockpile of dry powder and net cash flows to LPs. This wealth has developed a material amount of goodwill in the industry, which should allow many GPs to weather a short-term blip in liquidity. The short-term aspect is crucial here, as an extended economic decline would change some longer-term behaviors around commitments to VC. This is even more crucial now that funds are taking longer to liquidate and have higher proportions of unrealized value than in the past, which adds more risk than what it implied during the GFC. For example, 2012 vintage funds still have a pooled RVPI of 1.34x at the seven-year mark, whereas that value is less than 0.90x for every vintage before 2006.

Fundraising

Robust six months for capital raised by VCs

US VC fundraising activity



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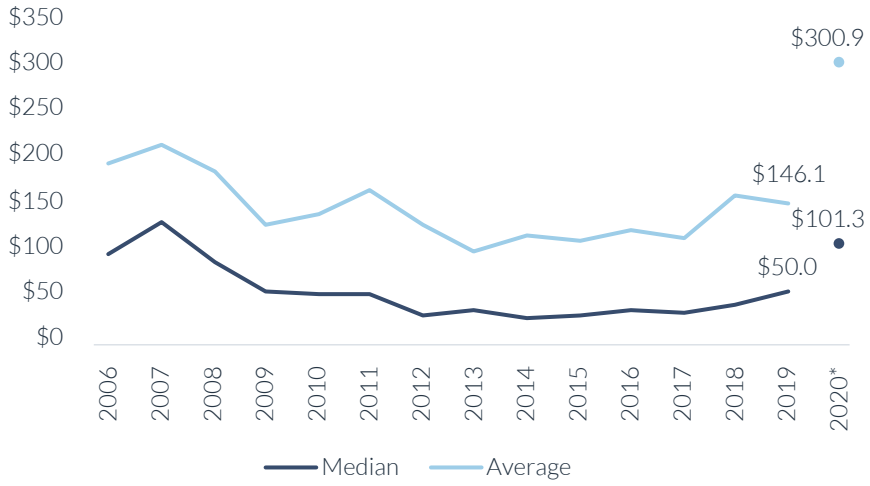
Despite external economic headwinds, fundraising data exhibited more strength in Q2 2020. Through Q2 2020, US VCs closed 148 funds totaling more than $42.7 billion, which already surpasses the full-year total for every year of the decade apart from 2016, 2018 and 2019. As has been a standard theme of this report for the last couple of years, this lofty VC fundraising total was dispersed over a relatively smaller number of funds. VC mega-funds ($500 million+) have been especially prolific in 2020 with 24 closed so far, which nearly equals the full-year number for 2019. While many of these funds likely began fundraising before the uncertainty of the pandemic affected the markets, closing these massive vehicles over the last two quarters remains an impressive feat. Notable large funds that closed in Q2 include General Catalyst with a $2.3 billion vehicle and a trio of Lightspeed Ventures funds each over $890 million.

This explosion of outsized funds drove the 2020 median fund size back over $100 million for the first time since 2007. The large cohort of VC mega-funds also contributed to a spike in the average fund size to $300.9 million; in fact, the top 15 funds raised in H1 2020 totaled $22.7 billion,

Flurry of large funds drive median and average higher

US VC median and average fund sizes ($M)



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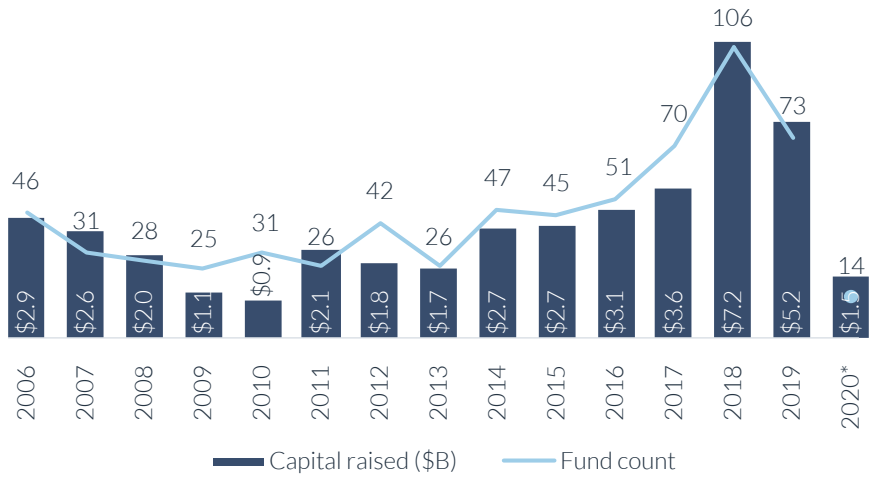
making up over half of all VC fundraising in the year so far. This is an extension of the trend around LPs consolidating manager relationships and investing in top-quartile managers to truly get "venture-like" returns. Lightspeed Venture's three funds raised in Q2 illustrate this trend; LPs were able to allocate massive amounts of capital into venture by utilizing different strategies—all with the same fund manager.

Much of the success of established VCs has to do with their positive historical performance and name recognition, which has been particularly helpful in a period when no face-to-face meetings are taking place. First-time funds have seen a noticeable drop in new closed funds through Q2 2020, likely due to their inability to capitalize on existing investor relationships. These newcomers raised only $1.5 billion across 14 funds in H1. Given the growth in median and average fund size so far in 2020, it is no surprise that the percentage of micro-funds (sub $50 million) raised has dipped below 40% for the first time since 2008, as younger VC firms and less experienced investors tend to raise funds of this size. We don't expect first-time fundraising activity to rebound in 2020, as economic uncertainty will encourage a flight to safety for LPs. If the pandemic lasts long enough, this flight could cut down on new allocations to VC, especially to unproven managers.

Pandemic has severely depressed first-time fundraising

US VC first-time fundraising activity



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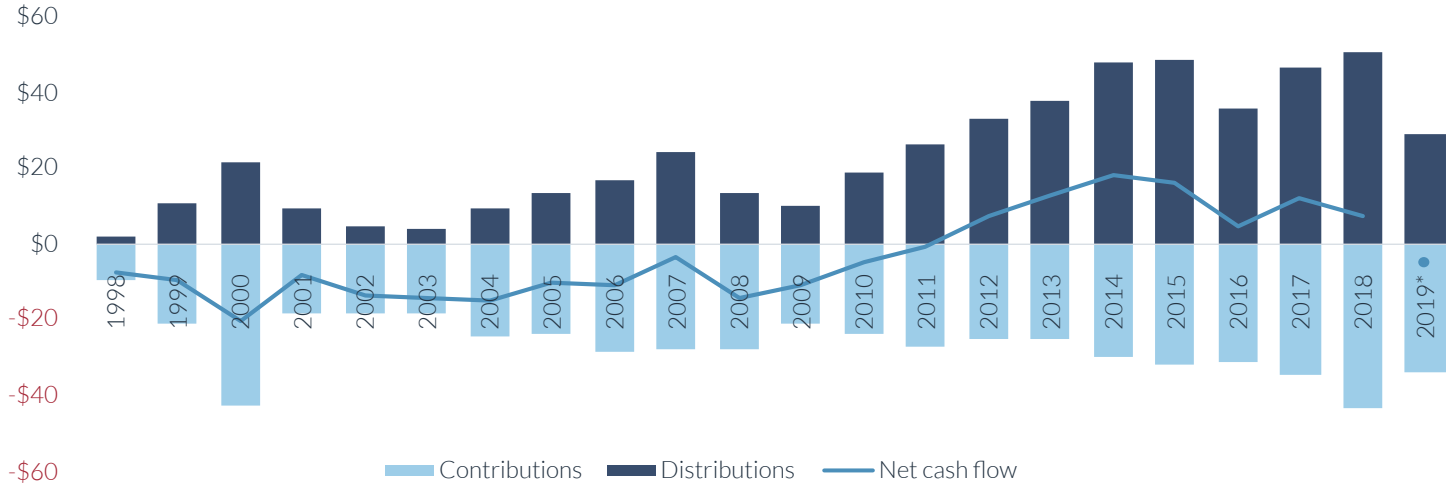
In the past few years, strong returns by VC funds and distributions back to LPs have allowed GPs to raise larger funds and encourage larger allocations to VC. However, as of Q3 2019, net cash flow moved into negative territory for the first time since 2011, potentially signaling future changes. Fundraising in the quarters since this data has been robust, but if cash flows remain in negative territory for the rest of 2019 and 2020, some institutional investors could tap the brakes on VC. The dip in distributions also coincides with an active period in the exit market in 2019; it remains to be seen if this will cause a bump over the next few quarters of gathered data. Much of this return may have also been collected by nontraditional investors given their heavy participation in the unicorn market. The data from the rest of 2019 and the beginning of 2020 will be important when analyzing the true effects of the COVID-19 pandemic on the venture ecosystem and to see if the capital committed to the space is as indomitable as it seems.

Net cash flows dip negative in 2019 for the first time since 2011

US VC cash flows ($B)



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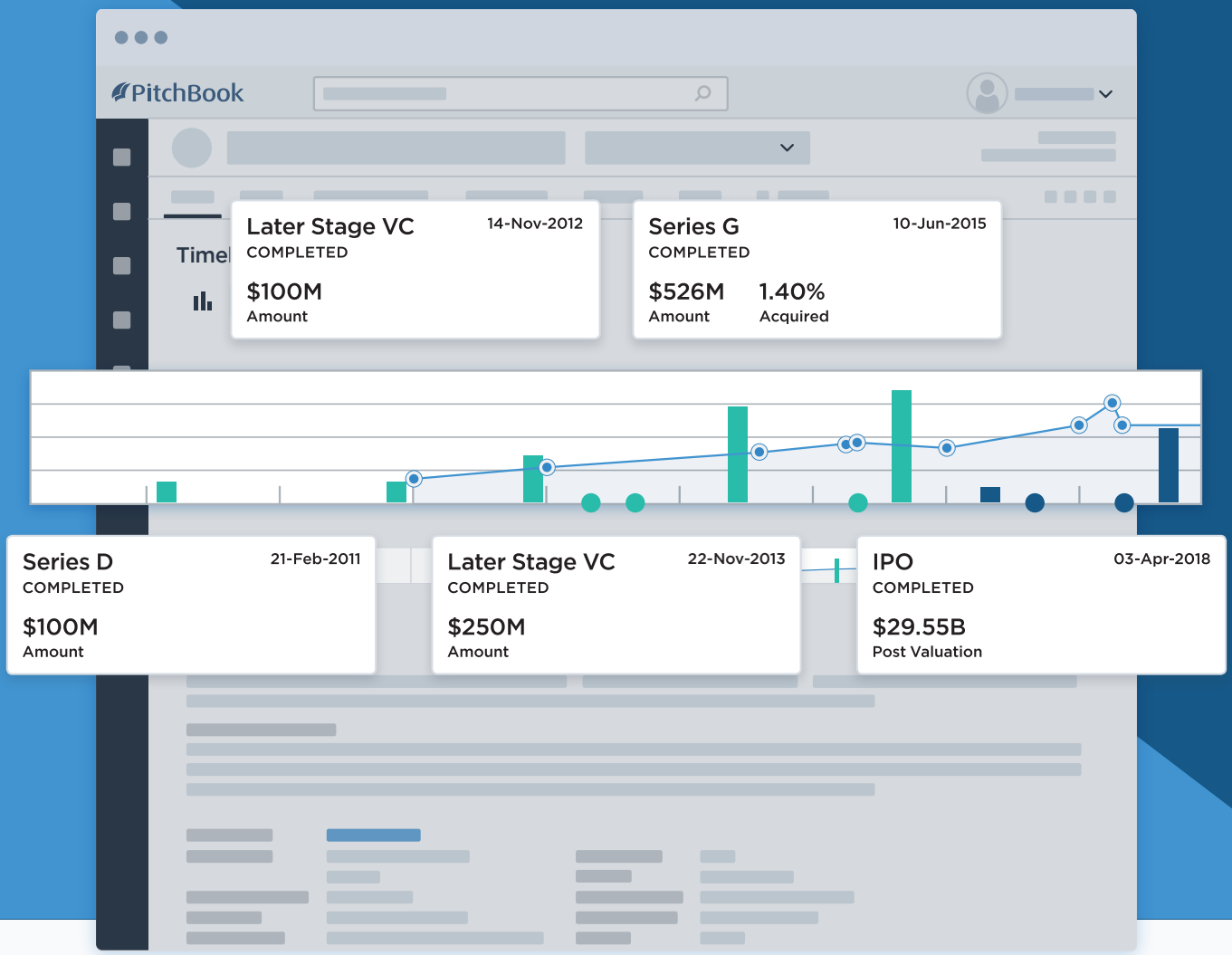

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Methodology

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.

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.

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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.

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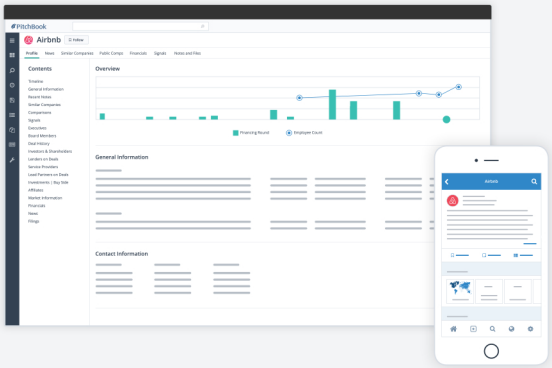

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