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Venture Monitor

Q3 2021



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affinity

Capital investment shatters
prior annual record with
\$238.7 billion YTD
Page 5

Exit value surpasses \$500
billion for the first time ever
Page 31

VC fundraising breaks
previous yearly record, on
track to clear \$100 billion by
year's end
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The definitive review of the US venture capital ecosystem



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Executive summary

Eighteen months into the COVID-19 pandemic, the VC industry has continued to prove its resiliency while also directly supporting the country's economic recovery and strengthening public markets. VC-backed public listings have eclipsed previous annual records and generated \$513.6 billion in exit value YTD for limited partner investors, founders, and employees. Those VC-backed IPOs also accounted for more than two-thirds of the total US listings YTD, emphasizing VC's contribution to the health of public markets. The VC industry continued to build on the strength of previous quarters as it roared ahead, setting records in Q3 and putting 2021 on track for another record-breaking year for venture investment, exit activity, and fundraising, despite mixed macroeconomic signals and a prolonged pandemic.

\$82.8 billion in capital was deployed across 3,518 deals in Q3, following similarly strong performance during Q1 and Q2, leading to a total of \$238.7 billion invested YTD. Investment activity was healthy across angel & seed, early, and late stages with deal size increasing for the latter two, continuing a long-term trend. \$49.5 billion was invested in mega-rounds (\$100 million+), bringing the YTD total invested in mega-rounds to \$136.5 billion, nearly double the record \$76.7 billion invested in 2020. The growing participation of well-resourced nontraditional investors such as mutual funds, PE, hedge funds, and crossover investors in the venture space has contributed to the rise in deal size and valuations, reshaping the industry landscape in the process.

\$187.2 billion in exit value was realized in Q3, contributing to a total of \$582.5 billion YTD—already 101.6% higher than 2020's record of \$289.0 billion. IPOs are having a blockbuster year with 221 occurring YTD. Among sectors, software experienced boom times in Q3 with 156 exits—following earlier quarterly records of 163 and 171 exits for Q1 and Q2, respectively. This rising tide also appears to be lifting boats for female founders, who have realized \$57.7 billion in exit value YTD, nearly double the previous annual high of \$24.1 billion in 2020. As for SPACs, 413 vehicles raised a combined \$109.4 billion through Q3, and mergers continue to occur, although the broad selloff since February and underperformance by many SPAC combinations raise questions concerning the viability of these vehicles as a long-term alternative to IPOs.

Returns generated from high exit values in recent quarters have enabled limited partners to put capital back to work via new VC allocations, which, coupled with rising deal sizes, ensured that fundraising among venture funds remained strong with \$96.0 billion raised this year, already an annual record high. Concentration of capital continues to trend as more capital is being raised by a smaller number of VC funds. Mirroring the growth in deal size, average fund size reached a record of \$194.7 million YTD, eclipsing the previous record of \$165.9 million in 2020. Already in 2021, 19 funds of \$1 billion or more have been raised—more than in any previous year. These 19 funds together represent some \$38.7 billion in capital, or 40.4% of all funds raised YTD. However, new fund managers have not witnessed the same boom in capital commitments. The decline in first-time fundraising, by both fund count and capital raised, has continued in 2021.

If there are any clouds on the horizon for the industry, they may come in the form of the evolving pandemic, as well as economic and policy uncertainty. The spread of the highly contagious Delta variant has made the trajectory of the domestic COVID-19 outbreak uncertain despite healthy levels of vaccination in parts of the country. And while positive macroeconomic signals have brought some optimism—real GDP grew at an annual rate of 6.6% in Q2, and the unemployment rate has fallen to 4.8%—six million fewer workers remain employed compared to this time last year, employers are grappling with supply chain disruptions and worker shortages, and inflation is running at a 30-year high.

Policy changes are also looming. Trillion-dollar spending packages making their way through Congress could contain provisions that change the tax code in ways that may alter investor behavior and alignment of interest, influencing investment decisions going forward. As well, tapering of asset purchases by the Federal Reserve could impact interest rates and valuations in the public markets, which would have implications for exit activity. How these uncertainties are resolved in Q4 should make for an exciting bookend to another historic year for VC.

NVCA policy highlights

Legislative activity in DC is focused on implementing President Biden's policy agenda: a budget reconciliation package being considered on a party-line basis and the Bipartisan Infrastructure Framework. One of the central strategies of the American Jobs Plan is to use increased innovation activity to make progress on three critical societal challenges: climate change, access to economic opportunity, and competition with China.

To achieve President Biden's vision, the plan will need the active participation of the startup ecosystem, including the venture capital community. NVCA is making the case in Washington on how the programs in these legislative packages can bridge the lab-to-market divide and deliver jobs and innovation to the American public. At the same time, we are warning against the counterproductive consequences of misguided tax policy, such as proposals to increase taxes on carried interest capital gains. Below is a breakdown of the issues on which we are focused.

Capital gains tax policy in reconciliation package

There are a number of tax increases on capital gains and other income included in the House reconciliation package. The top capital gains rate would be increased to 28.8%; there would be a 3% surtax on all income earned over \$5 million in a given year; the carried interest hold period would be moved from 3 to 5 years (with major drafting issues); and Qualified Small Business Stock (QSBS) sold after September 13 would be limited to a 50% exclusion from capital gains taxes, as opposed to 100% under current law. We are heavily engaged in fixing the issues in the House carried interest provision and fighting against Senate Finance Committee Chairman Ron Wyden's (D-OR) AUM tax proposal; engaging on QSBS; and working to make sure that the capital gains rate increase does not go further.

Other programs in the reconciliation package

The tax issues represent an existential threat to the startup ecosystem, but there are other promising proposals in the reconciliation package for which NVCA has advocated.

These include:

- Providing a direct pay mechanism for the clean energy tax credits and adding a new energy storage credit.
- Committing \$7.5 billion for National Science Foundation research grants, technology commercialization support, and scholarships.
- Creating a new micro-small business investment company (SBIC) program.
- Earmarking \$30 billion for workforce development, including for technology skills.

Bipartisan Infrastructure Framework

The Bipartisan Infrastructure Framework includes dozens of programs to incorporate technology into a range of infrastructure-related systems, accelerate research and technology demonstration projects, and reshore advanced technology manufacturing. Examples include:

- A \$7.5 billion program to build out alternative fuel recharging infrastructure that includes the acquisition of charging and storage technology.
- A \$1 billion program to address cybersecurity risks and threats.
- A \$3 billion commitment to the Smart Grid Investment Matching Grant Program to support the deployment of technologies that enhance electric grid flexibility.

We will continue to identify any policies that may unintentionally exclude startups and growth companies. Should either bill become law, various federal agencies will be responsible for implementation, including writing the rules that will stand up the programs. To achieve legislative objectives, program rules and procurement processes must emphasize the most promising and best technologies. They must be clear and timely to fit with commercial practices and provide a level playing field for technologies developed with equity financing.

Other policy issues:

- **Antitrust and acquisition restrictions:** Multiple bills introduced in Congress would negatively impact larger companies' ability to acquire venture-backed companies. The bills are part of a larger effort to limit the size and influence of large technology companies. NVCA opposed the Platform Competition and Opportunity Act, which would effectively ban acquisitions by a few large technology companies and therefore harm startups that see an acquisition as their best opportunity. The bill ultimately passed the committee on a fractured vote, but dissension by key committee members has sent a strong signal that the bill should not be considered by the full House. Our attention is now focused on the Senate and educating its members of the important role acquisitions play in the startup ecosystem and why certain proposals are harmful.
- **Startup Visa:** NVCA was thrilled to see Rep. Zoe Lofgren (D-CA) introduce the Let Immigrants Kickstart Employment (LIKE) Act, which would establish a Startup Visa. The LIKE Act would create both a nonimmigrant (temporary) and immigrant visa (permanent) for foreign-born founders. It also establishes a nonimmigrant visa for essential startup employees to ensure young, high-growth companies can attract top talent to grow their companies in the US. NVCA has long been the leading organization in support of a Startup Visa, and we are making the case on Capitol Hill for why Rep. Lofgren's legislation is needed.

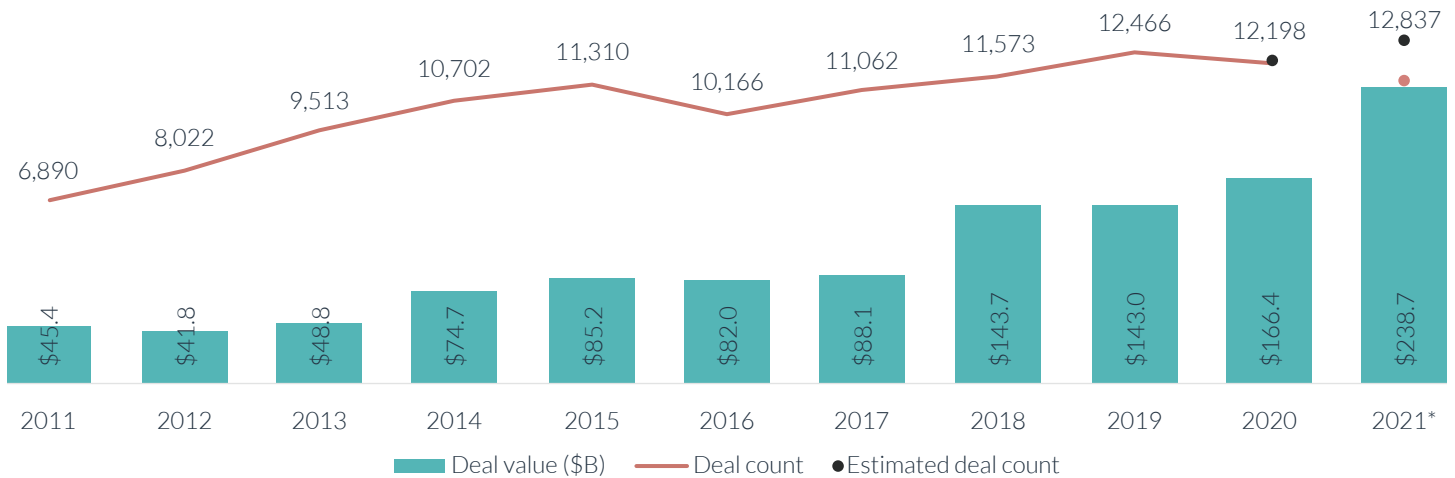
The next several months of policymaking will be incredibly impactful for the future of the venture industry. NVCA will keep a watchful eye for proposals that would harm our ecosystem and work closely with policymakers to grow our innovation economy.

– Bobby Franklin, President & CEO of the National Venture Capital Association (NVCA)

Overview

Capital investment hits new record through just three quarters

US VC deal activity



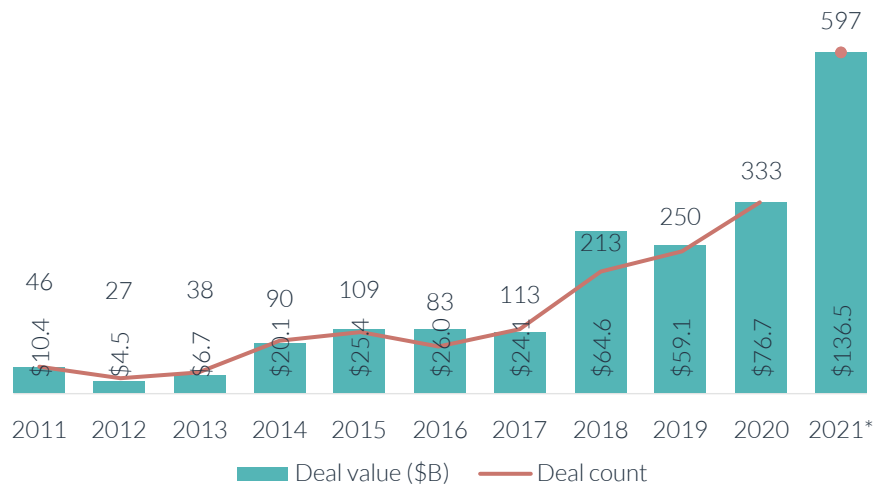
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*As of September 30, 2021

Demand for mega-deals persists, which has helped bolster capital investment totals. In 2021 YTD, 597 US VC deals at or over \$100 million have closed, 207 of which were in Q3 alone. These outsized deals have begun to drive a significant majority of capital investment—57.2% in 2021—making these deals seem essentially commonplace in the current market.

Nontraditional investors continue to double down on VC investing, already surpassing previous yearly highs through three quarters of 2021. The capital these institutions bring to the venture ecosystem has driven capital investment trends, and more than 76.9% of the total capital amount that has found its way into closed deals this year has been within a deal receiving nontraditional investor backing.

Explosion of mega-deals reaches new level

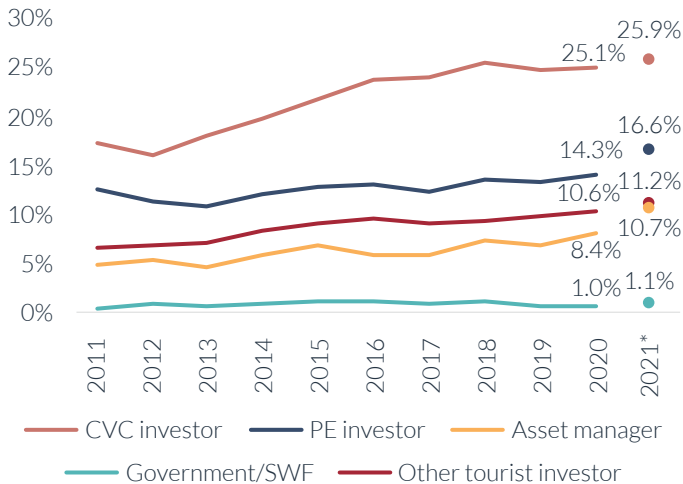
US VC mega-deal activity



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Nontraditional participation rates remain near record highs

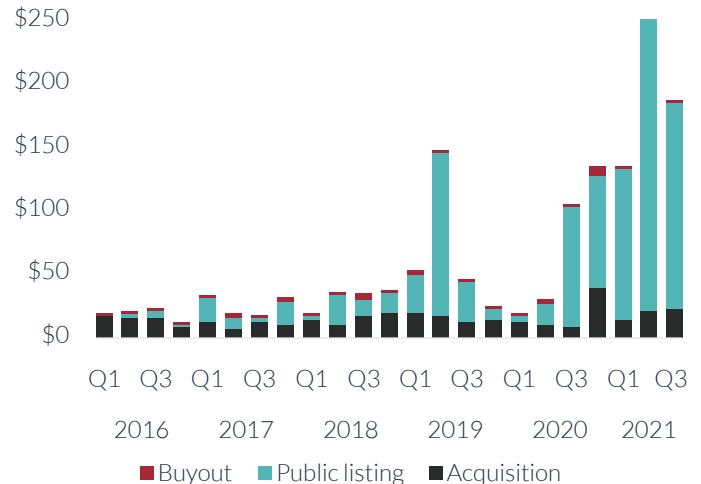
Deals with nontraditional investor participation as share of overall US VC deal count



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

Open IPO window and SPAC combinations contribute to strong year for public listings

Quarterly VC exit value (\$B) by type



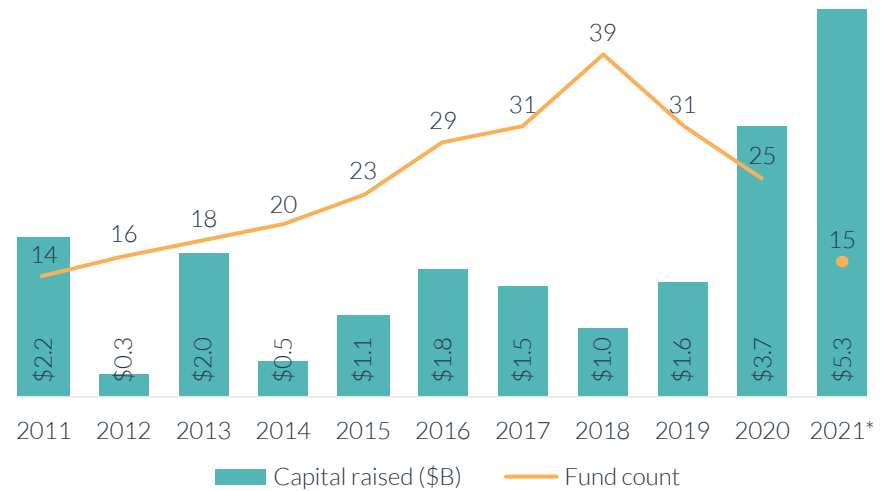
PitchBook-NVCA Venture Monitor
*As of September 30, 2021

Exit value smashes through the \$500 billion level in a single year. Most of this total exit value has been dominated by public listings, which accounted for 88.2% of total exit value with \$513.6 billion. An open IPO window and increase in SPAC business combinations pushed the Q3 public listing total to 93, making it the most active quarter of the year so far. As greater uncertainty about the future creeps into financial markets, there seems to be a sense of striking while the iron is hot in the IPO market as the volume of new listings continues at historically high levels.

Funds adapt to compete in the current VC environment. As has been the story with exits and deal value in 2021, bigger continues to be better. Outsized funds still dominate the fundraising landscape. So far, a record 19 \$1B+ funds have closed in 2021. Interestingly, only one of those \$1B+ fund closed in Q3—IVP's Fund XVII at \$1.8 billion. With the sustained robust fundraising levels of late, it's entirely possible that LPs are hitting the upper limits of their allocation to venture and fundraising could potentially slow or plateau in coming quarters.

Dramatic increase in impact capital raised seen in 2021

US VC impact fund activity

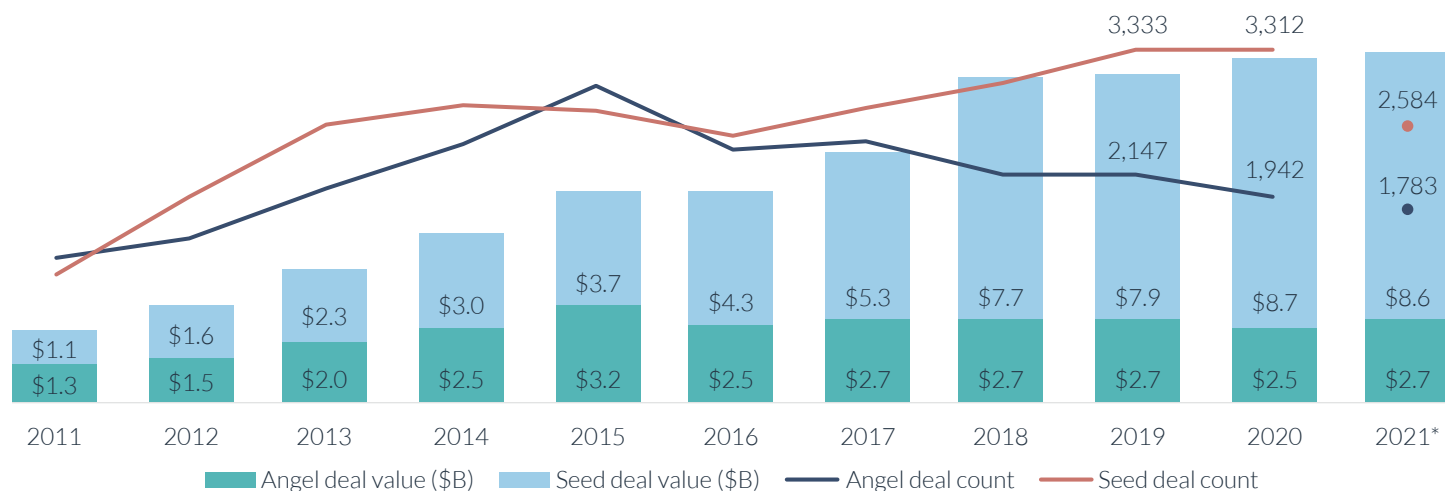


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Angel, seed, and first financings

Angel and seed more active than ever

US angel and seed deal activity

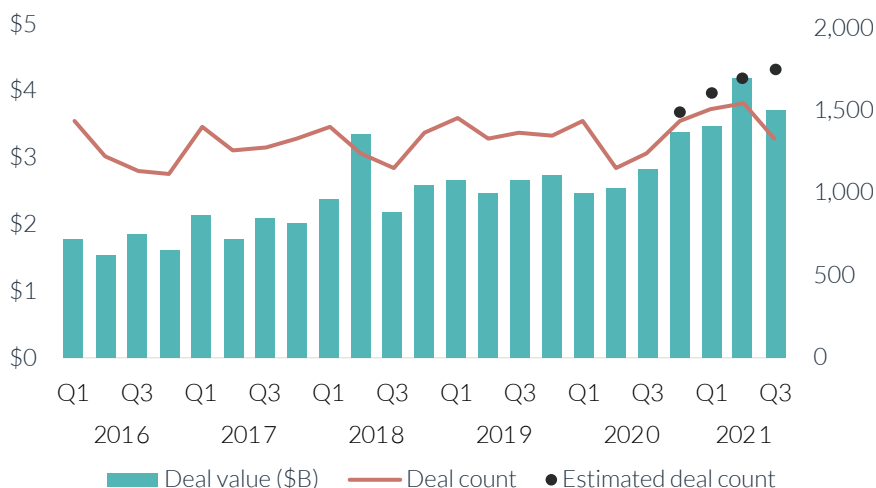


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So far through Q3, angel and seed activity has nearly reached an estimated 5,000 completed financings and surpassed \$11 billion in deal value for the YTD. Those figures already approach record full-year totals. Deal counts have grown each quarter since Q2 of last year—despite heightened uncertainty in the wake of COVID-19. The outlook for angel and seed investments also continues to shine bright. More than \$2.7 billion has already been put into angel investments, matching the highest yearly totals of the past five years and showcasing that wealthy individuals continue to have a strong appetite for risky companies. In addition, 240 micro-funds (under \$50 million) have already closed this year, putting 2021 on course for a new record in this category.

Estimates put Q3 at record deal count

US angel and seed deal activity



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The trend of large, multi-stage investors getting involved sooner in the venture lifecycle has also moved from hyperbolic commentary to a solidified datapoint. During Q3, both Andreessen Horowitz and Greylock announced new seed-focused funds of \$400.0 million and \$500.0 million, respectively. While seed investments aren't a new strategy for these firms—a16z participated in 20 seed deals in 2020, and Greylock participated in 6—the size of these dedicated seed vehicles are much larger than

typical seed funds, which will give these firms wide flexibility when it comes to the number of portfolio companies in which they invest, as well as the size and valuation of their deals.

Neither of these firms are likely to have trouble attracting target companies at any stage throughout venture. But as the late and growth stages become more and

more crowded with nontraditional capital and valuations continue to rise, moving to securing stakes in top companies as early as possible can help drive returns. Launching a seed-stage fund is also a diversification strategy to attract new LPs, or at least provide differentiated risk profiles across funds to existing backers.

Greylock stated that its seed fund would invest in deals up to \$20 million, a hefty sum for any seed-stage company.¹ In 2021 there have been 28 seed deals of this size or larger, more than any prior year. These have helped push the average seed deal to \$3.8 million, a more than 20% hike from last year's record high. Valuations at seed have also bumped up from the previous record highs. Through Q3,

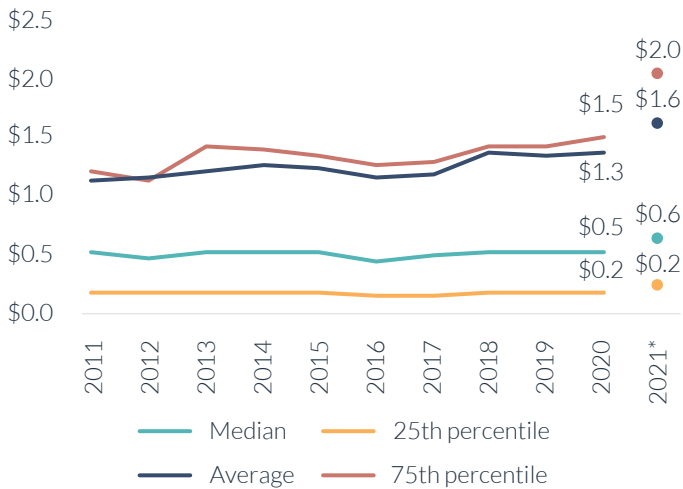
median seed-stage pre-money valuations have hit \$9.0 million, well above the \$7.0 million valuation from last year.

We have kept a close eye on first financings throughout the pandemic, relying on the data to show the number of companies entering the VC lifecycle. This year there have already been more than 3,000 of these investments,

and lagged data collection will likely show that closer to 3,500 first-time financings have been completed through Q3. Even when looking at full-year totals, this level has only been surpassed four times since 2006. The healthy pipeline of companies will be met with a record amount of dry powder currently contained in US-based venture funds.

Spread in angel deal sizes growing

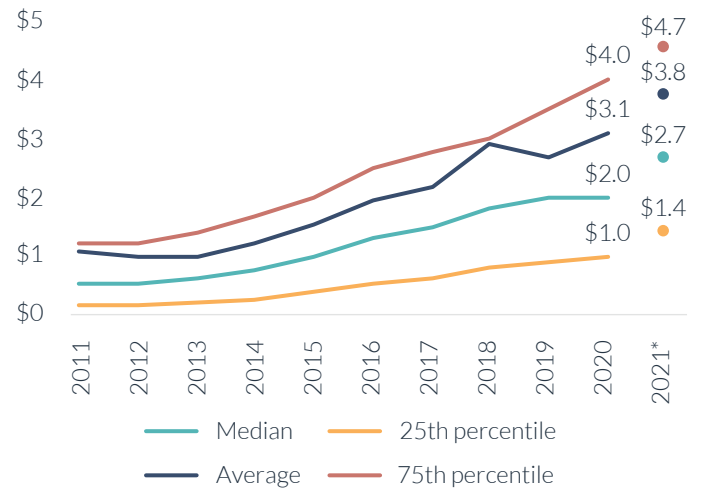
Quartile distribution of angel deal sizes (\$M)



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Seed growth steady

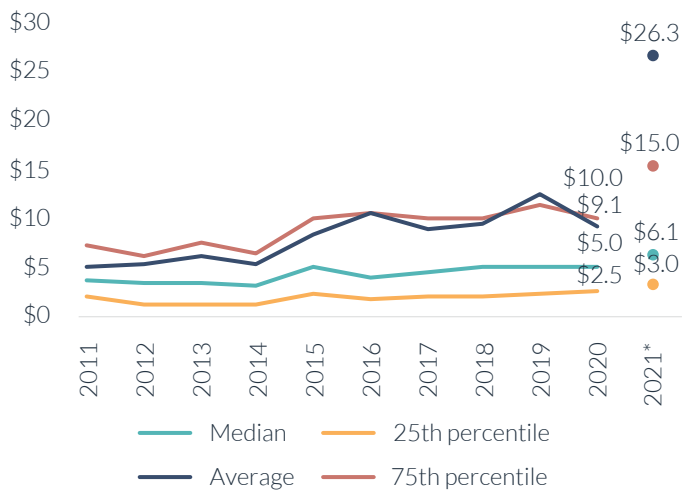
Quartile distribution of seed deal sizes (\$M)



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Average angel valuation spikes in 2021

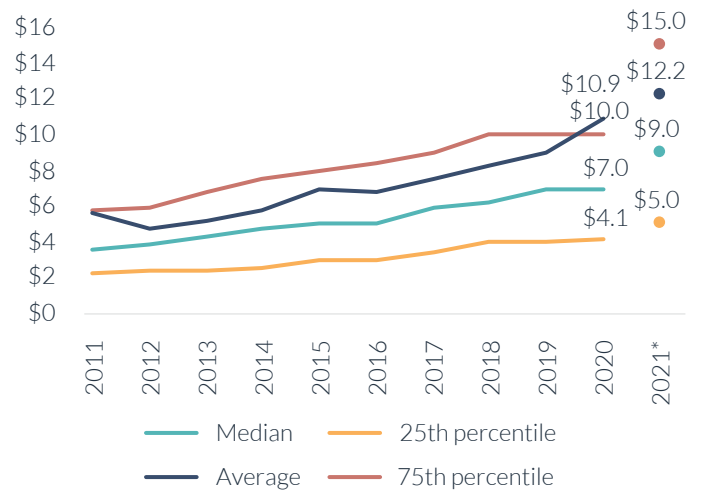
Quartile distribution of angel pre-money valuation (\$M)



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Seed valuations grow across all quartiles

Quartile distribution of seed pre-money valuation (\$M)



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1: "\$500M for Seeds: Greylock Raises Largest Pool of Capital Dedicated to Day One Investment," Greylock Partners, September 13, 2021.

Early-stage VC

The early stage showed exceptional signs of strength in Q3 as the quarter notched \$19.7 billion of deal activity across an estimated 1,542 deals, bringing 2021's YTD total to \$54.7 billion across 3,996 deals. This phenomenal cadence of deal activity in the first nine months of 2021 has already surpassed 2019's full-year total—the previous high-water mark—on both a count and value basis. Q3's early-stage VC deal value total is also only the third quarter on record to eclipse the \$15 billion mark.

Many VC investors argue that venture is undergoing a fundamental shift when it comes to deal sizes and valuations. The accelerated pace of investments has spurred frenzied competition among investors to identify and fund promising early-stage startups. Furthermore, the rising prevalence of crossover investors coming earlier in the venture lifecycle in the last 9–12 months has pushed deal sizes upwards and skewed the distribution of deal sizes toward the larger end. Nearly half—49.6%—of all early-stage VC deals in 2021 exceeded \$10 million, bringing the YTD median and average early-stage VC deal size to \$10.0 million and \$20.6 million, respectively.

To note, a record 44 early-stage mega-deals (those at or exceeding \$100 million) were completed in Q3, bringing 2021's YTD total to 104. This is a significant jump from the previous full-year record of 61 early-stage mega-deals in 2020, showing signs of the inflationary pressure in deal sizes from the abundance of capital within venture. Crossover and other nontraditional investors tend to be less price-sensitive than traditional VCs and offer less stringent deal terms, often not even insisting on a board seat.

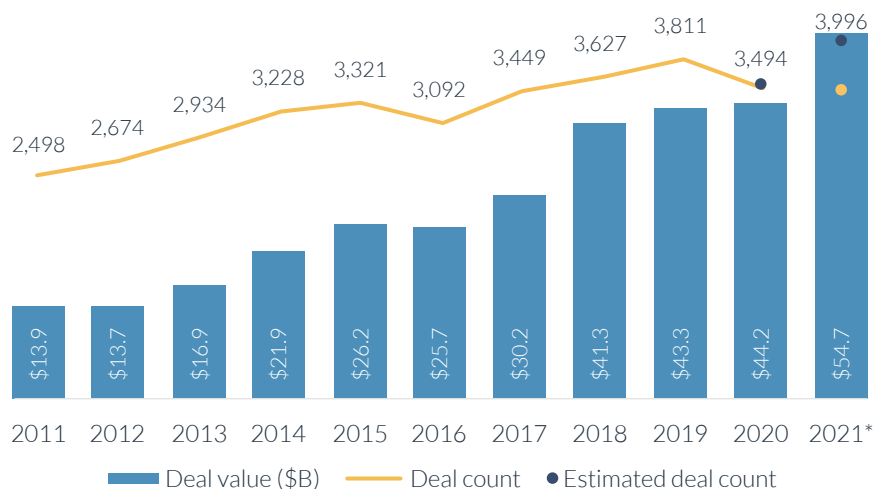
This has further blurred the lines between the traditionally distinct seed, early, and late stages as valuation multiples have skyrocketed to dizzying heights. So far in 2021, the YTD median and average early-stage pre-money valuations have hit new records of \$45.0 million and \$109.1 million, respectively, with sharp increases observed

across all quartiles. Furthermore, Q3 saw a record-tying 11 early-stage VC deals completed at unicorn valuations (those at or exceeding \$1 billion in post-money valuation). This brings 2021's YTD total to a record-setting 23 early-stage unicorn transactions, besting 2020's 13 and 2019's 12 financings, the next-best two years within our dataset. Because founders can

build and grow more while bootstrapped than in prior years due to the ubiquity of cloud computing, non-dilutive funding sources, and other third-party resources, startups seeking early-stage capital are presenting stronger metrics and are able to achieve growth earlier, thus drawing significantly higher valuations.

New records set on both a count and value basis

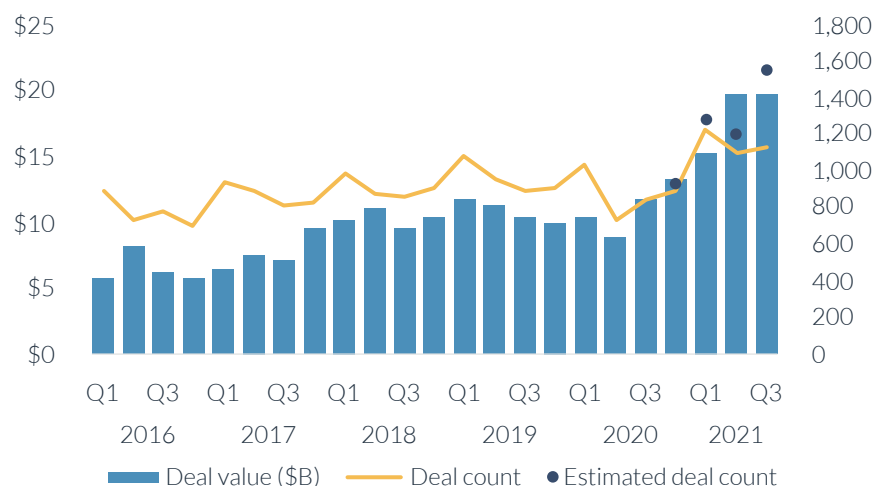
US early-stage VC deal activity



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*As of September 30, 2021

Q3 eclipses the \$15 billion mark for only third time ever

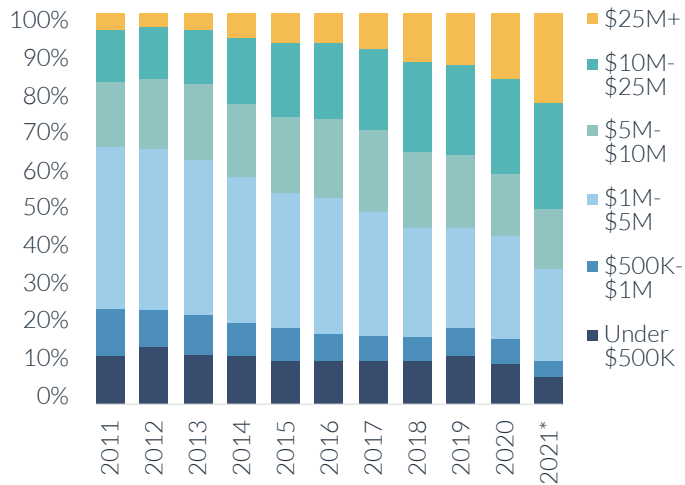
US early-stage VC deal activity by quarter



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Nearly half of all 2021 deals exceeded \$10 million

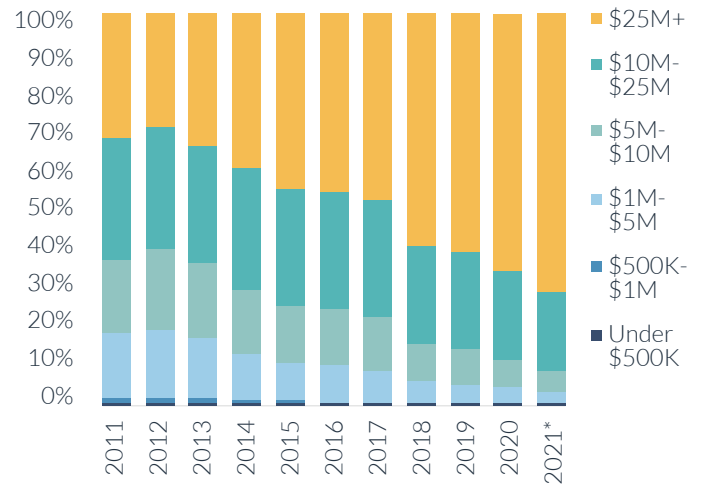
US early-stage VC deal count by size



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Over 90% of deal value attributed to deals exceeding \$10 million

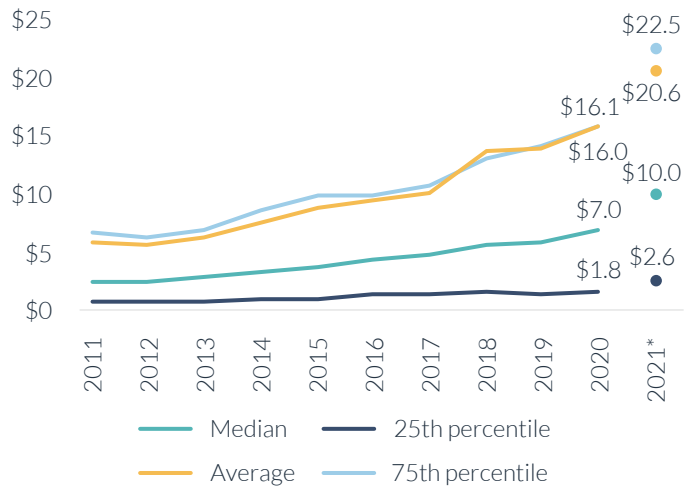
US early-stage VC deal value (\$) by size



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Mega-deals push the median and average deal size to new heights

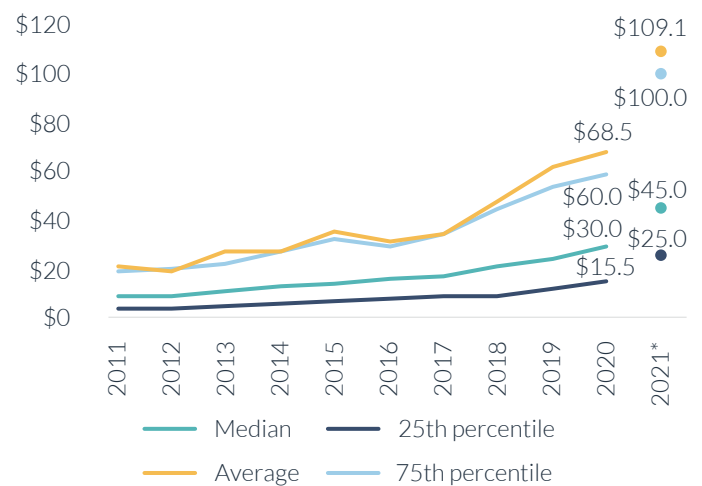
Quartile distribution of early-stage VC deal sizes (\$M)



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Sharp rise in valuations seen across all quartiles

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



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Late-stage VC

Q3 has shown more of the same, rapid late-stage dealmaking that we recorded in the first half of the year. Through just nine months of the year, late-stage VC deal activity has easily set a new annual record for capital investment with \$172.6 billion raised, a full 55.5% higher than 2020's record total. Even deal count has matched this record pace with a projected 3,865 late-stage deals closing through Q3 2021, besting the 3,407 in 2020. While the massive amounts of capital investment will likely grab headlines, surpassing a full-year deal count through just three quarters in 2021 speaks just as much to the swelling demand from the market for late-stage growth opportunities.

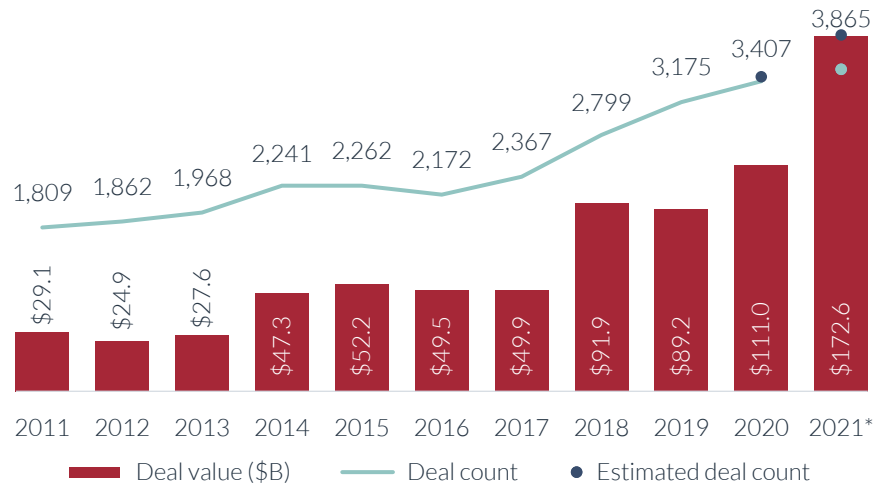
Mega-deals are still seeing plenty of interest at the late-stage, which has helped bolster capital investment totals. In 2021 YTD, 491 late-stage deals over \$100 million have closed, 162 of which were in Q3 alone. These outsized deals have begun to drive a significant majority of capital investment—57.2% in 2021—making these deals seem essentially commonplace at the

late stage in the last few years. The true outliers in the current VC space are those deals that surpass \$1 billion, although those are now also increasing in regularity with a record 12 deals of this size closing so far

this year. The expansion of available capital at the late stage has been the consistent driver behind the growth in deal sizes and valuations since most of the marginal capital entering the VC strategy has been

Momentum persists at the late stage

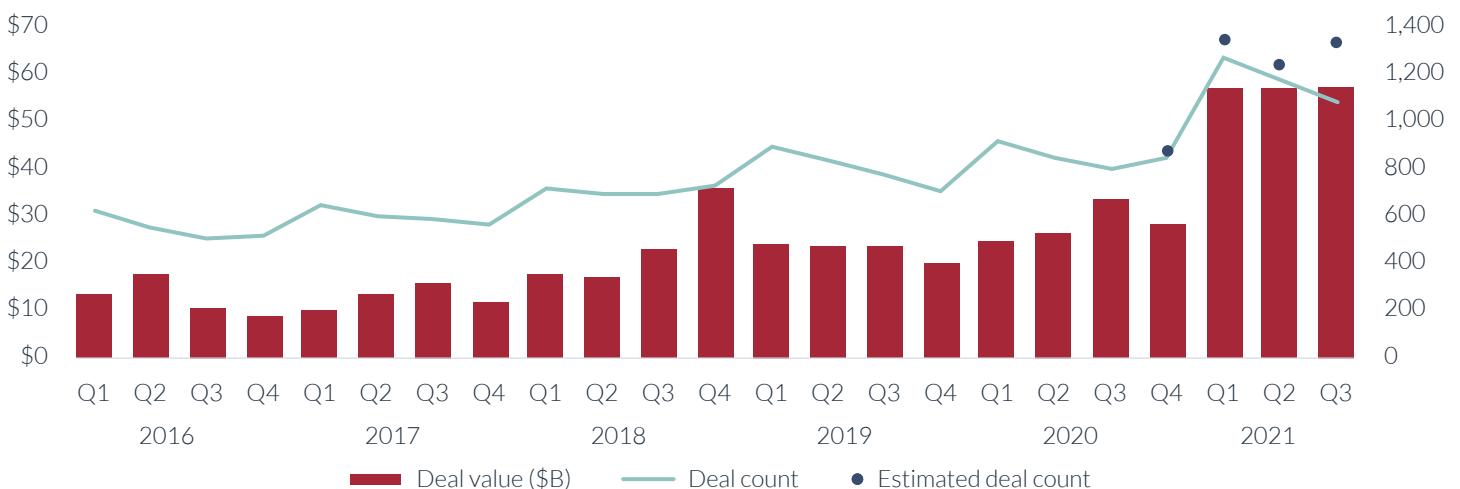
US late-stage VC deal activity



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Q3 sustains rapid pace of capital investment

US late-stage VC deal activity by quarter



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allocated to the more mature startups. Undoubtedly, the growth in nontraditional involvement has been a critical factor driving this pricing phenomenon given these investors' deep pockets and ability to expedite deal closing by offering a more hands-off approach. The sustainability of the increased capital flow from LPs or

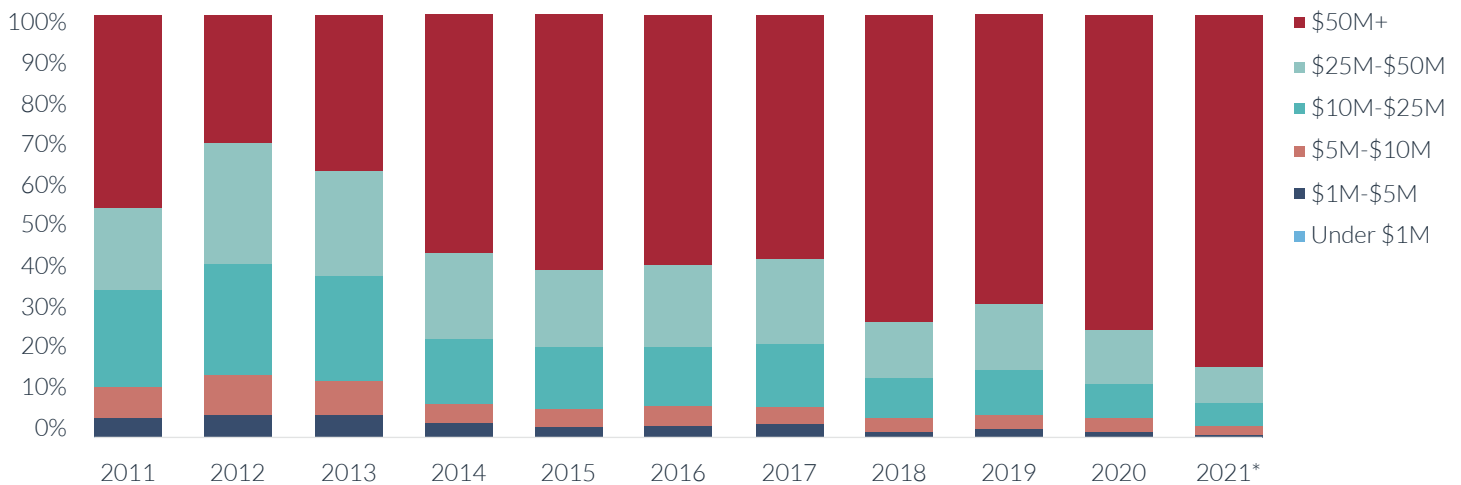
nontraditional investors into venture is something we plan to monitor because LP allocations to VC are likely elevated and will probably trend back toward realistic limits.

Notable late-stage deals this quarter comprise a relatively diverse group including electric truck maker Rivian,

which raised \$2.5 billion; sustainable infrastructure platform Generate, which collected \$2.0 billion; and Databricks, which secured \$1.6 billion to continue building out its data analytics software and prepare for a potential public listing.

More than ever, the largest deals are driving trends

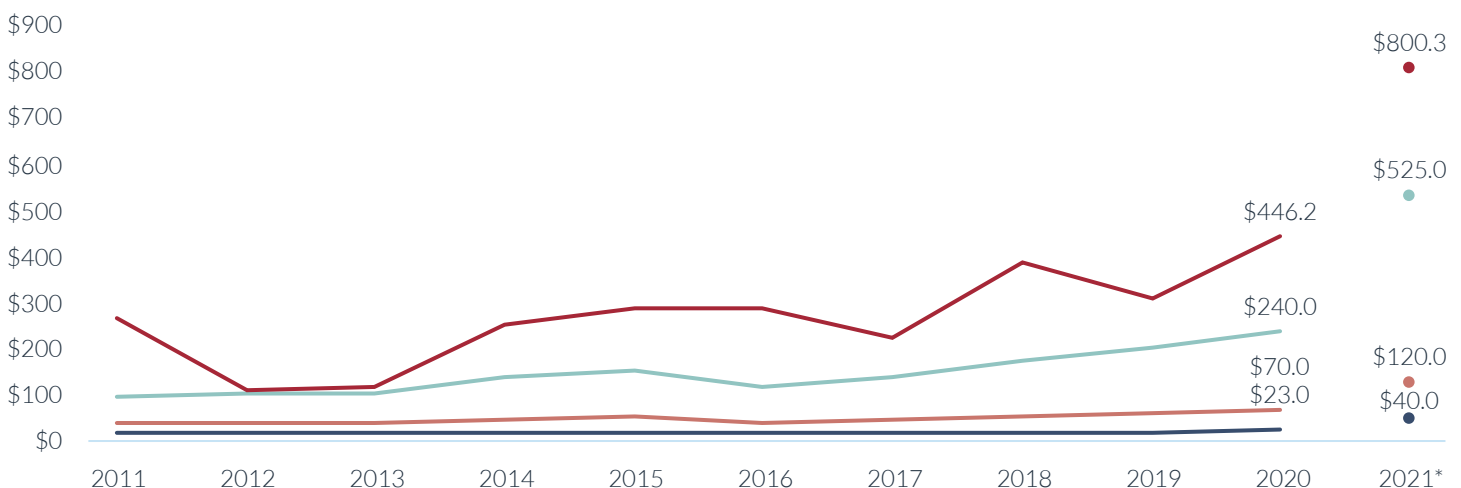
US late-stage VC deal value (\$B) by size



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Late-stage valuations continue their ascent

Median late-stage VC pre-money valuation (\$M)



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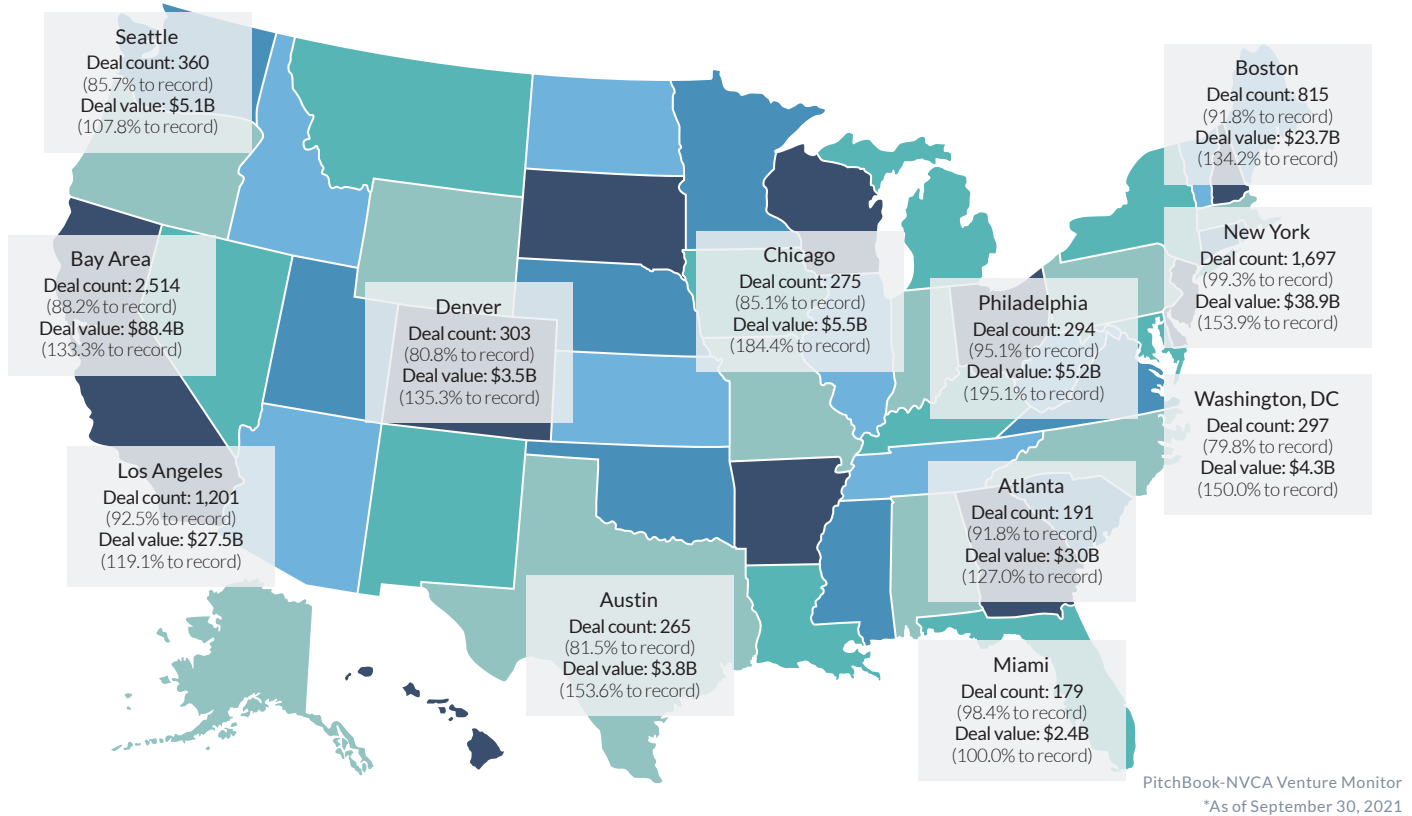


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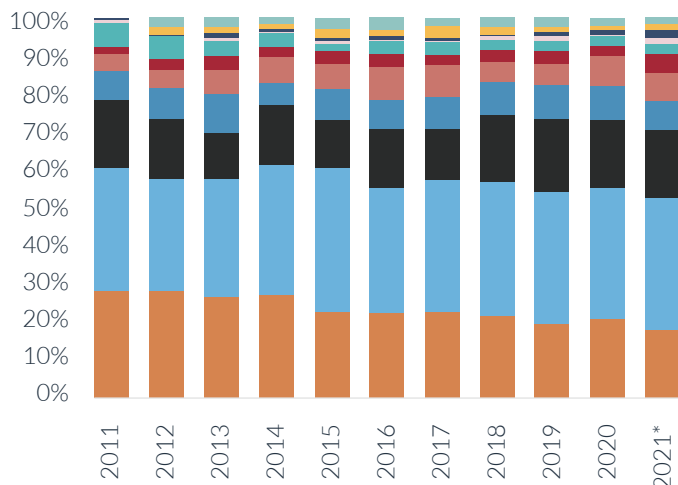
Regional spotlight

2021 deal activity by ecosystem



Funds closed remain consolidated to few ecosystems

US VC fundraising activity (#) by CSA

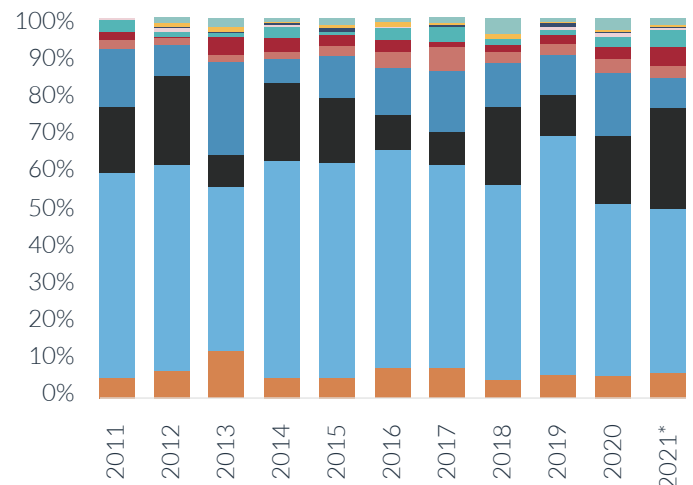


Atlanta Denver Miami Chicago Washington, DC
Seattle Boston Los Angeles New York Bay Area Other

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Bay Area and NY cementing fundraising dominance

US VC fundraising activity (\$) by CSA

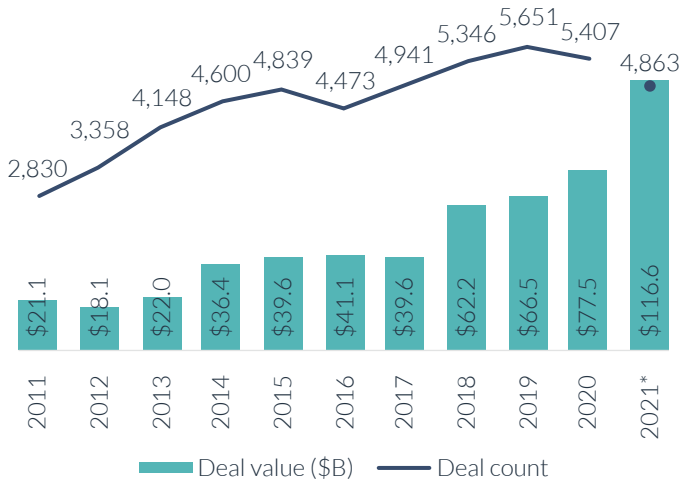


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*As of September 30, 2021

Enterprise tech

Nearly half of deal value has gone to enterprise tech

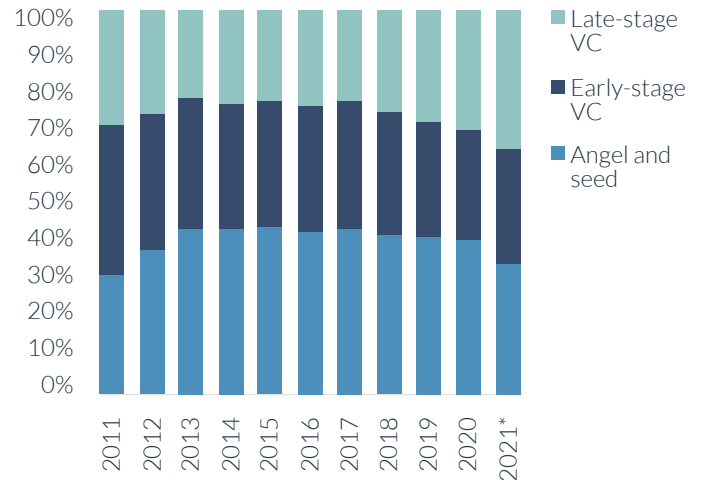
US VC enterprise tech deal activity



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Deals split across stages

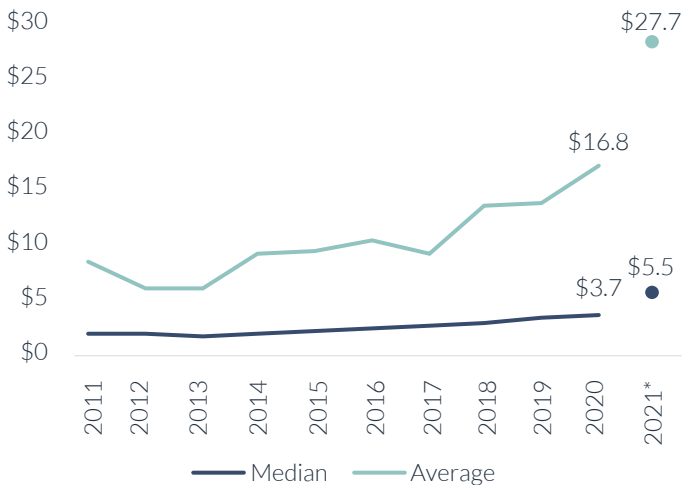
US VC enterprise tech deal count by stage



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Enterprise tech deals growing larger

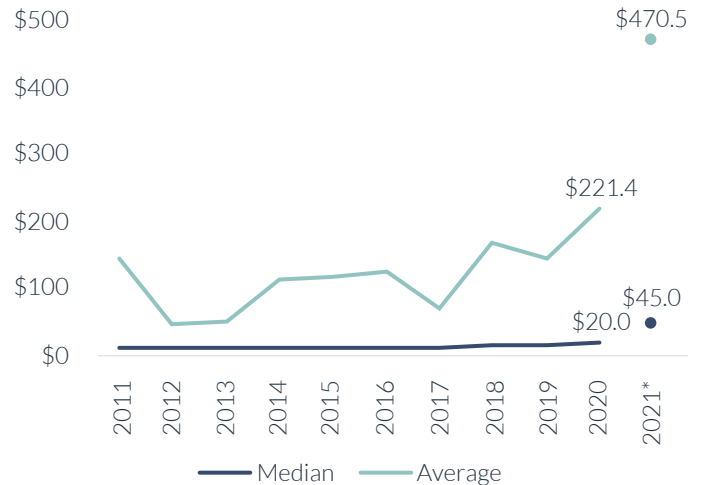
Median and average US VC enterprise tech deal sizes (\$M)



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

Average valuations spike

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

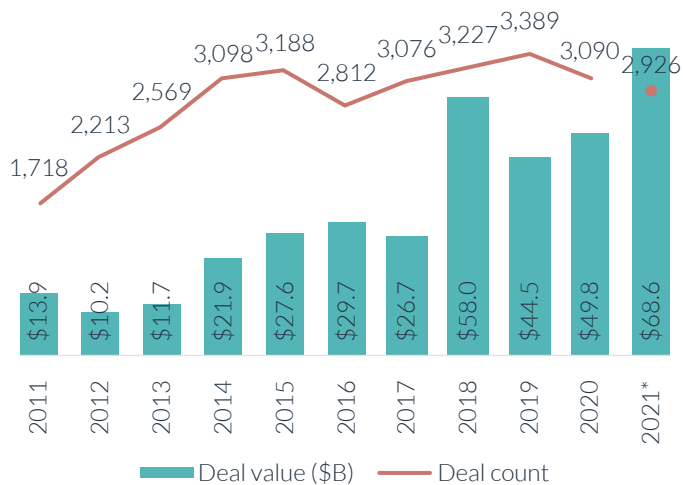


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Consumer tech

Consumer tech investment setting records

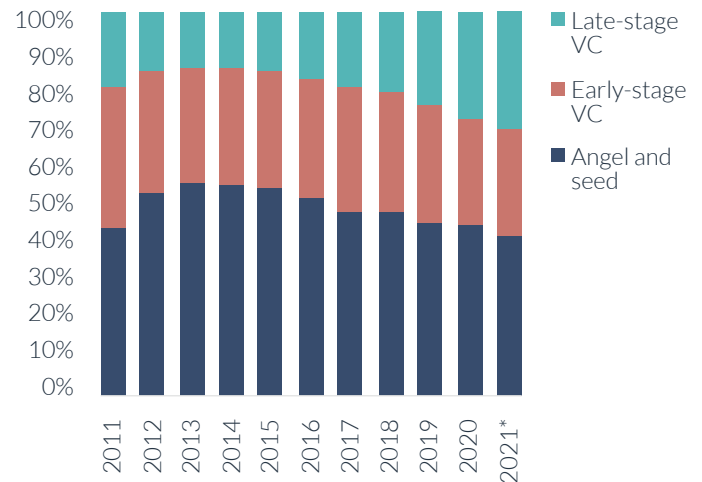
US VC consumer tech deal activity



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New consumer tech companies entering VC at high rate

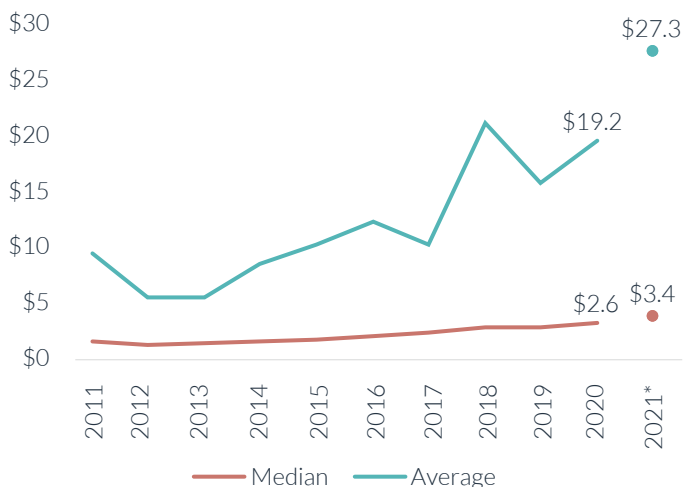
US VC consumer tech deal count by stage



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Increasing investment, increasing deal sizes

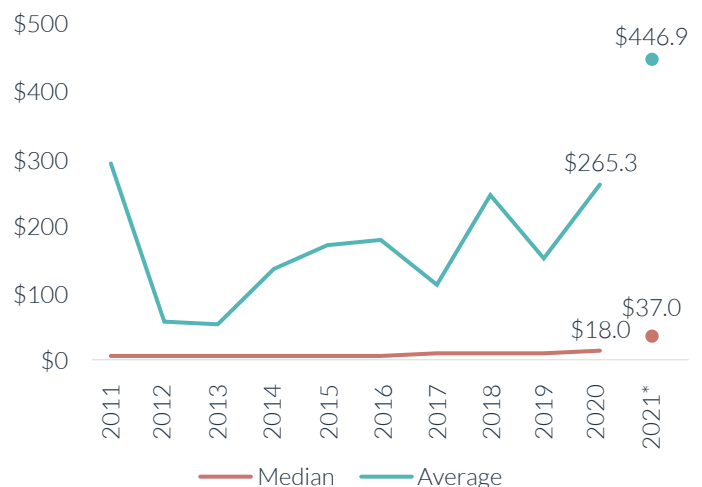
Median and average US VC consumer tech deal sizes (\$M)



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Average valuation \$180 million larger than 2020

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

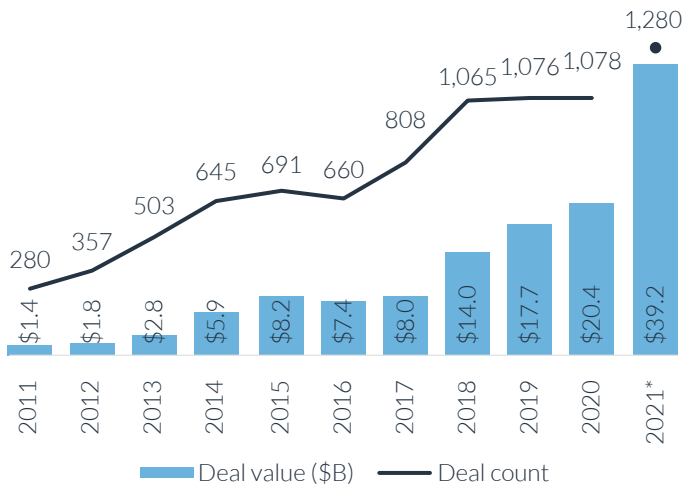


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Fintech

Fintech reaching new heights in 2021

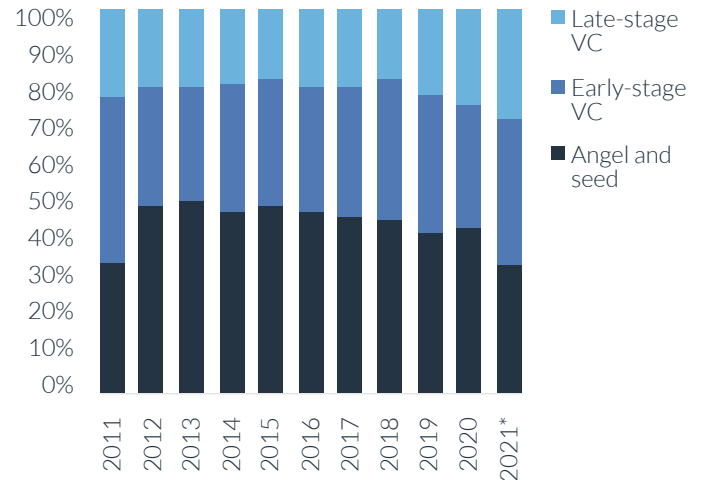
US VC fintech deal activity



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Late-stage growth shows fintech a maturing market

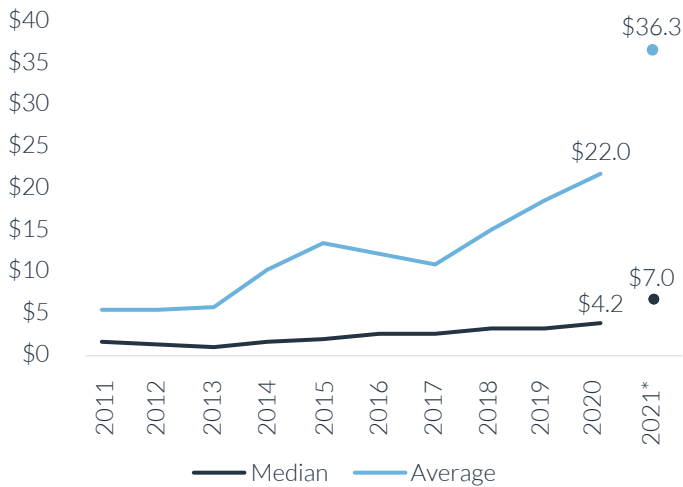
US VC fintech deal count by stage



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Median deal size grows 67% in 2021

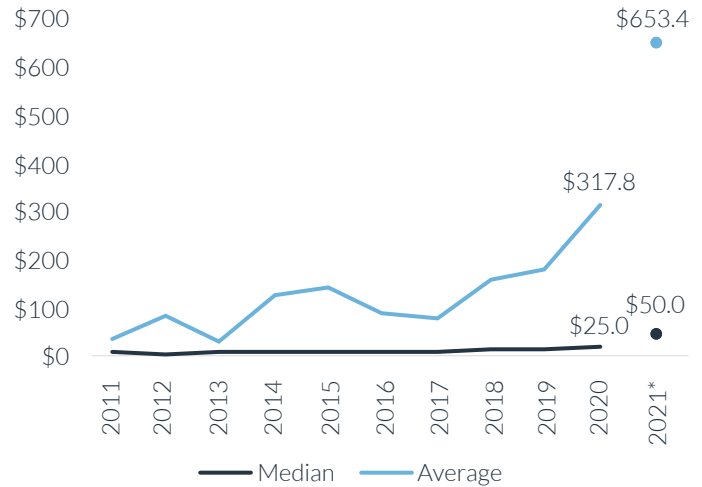
Median and average US VC fintech deal sizes (\$M)



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

Average valuation more than doubles

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

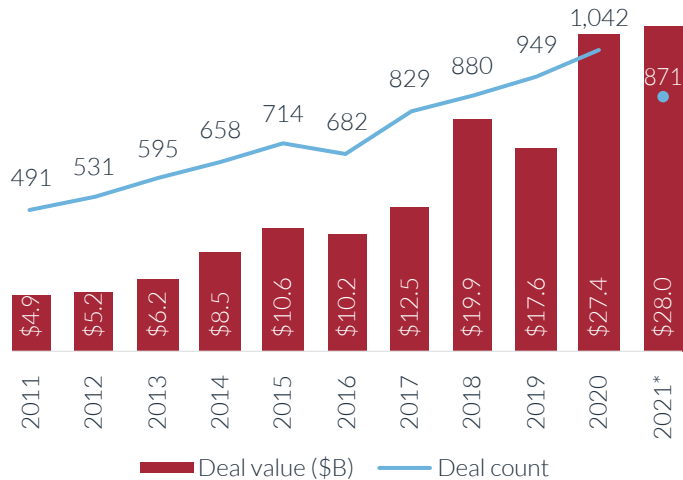


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Biotech & pharma

Biotech & pharma deal value surpasses 2020

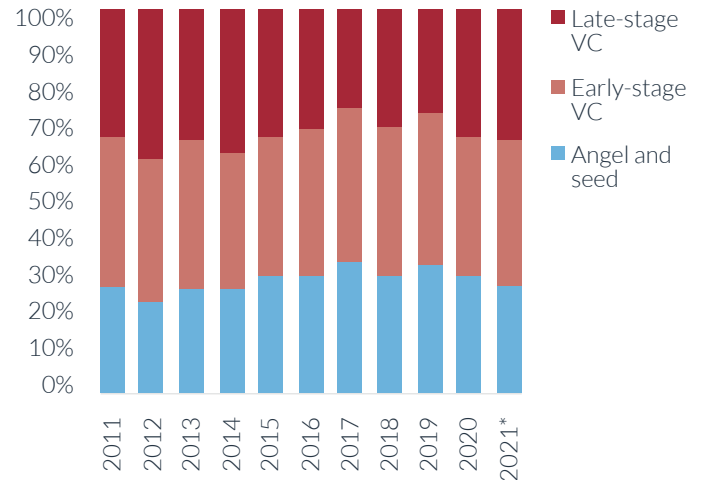
US VC biotech & pharma deal activity



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Early stage receiving highest proportion of deals

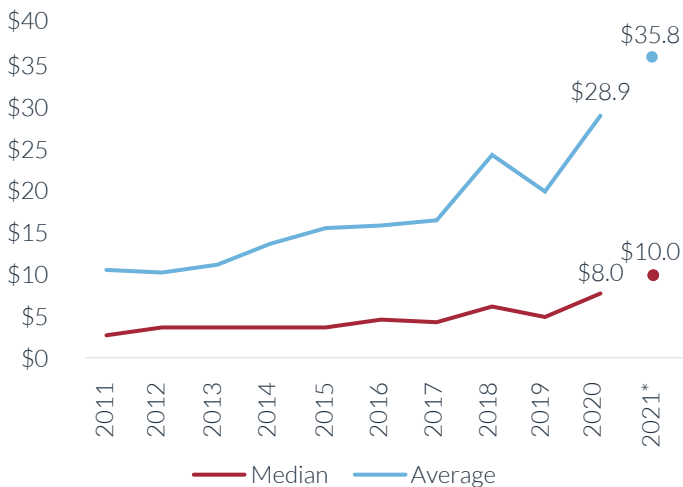
US VC biotech & pharma deal count by stage



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

Deal size growth more modest than in tech

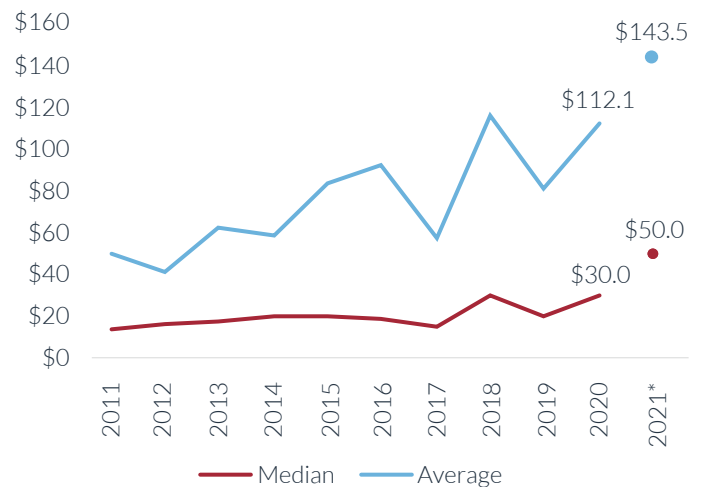
Median and average US VC biotech & pharma deal sizes (\$M)



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

Valuations reach highest in our dataset

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



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

SVB: The Future of VC: Solo Capitalists and Global Venture Firms Grab Larger Stakes

Q&A with Rob Freelen

Large venture capital (VC) funds have become even larger in recent years, prompting firms such as Andreessen Horowitz and Sequoia Capital to lead mega-rounds of \$100 million or more. At the same time, solo venture capitalists—such as Elad Gil, the entrepreneur and ex-Google and Twitter employee, and Lachy Groom, a former product manager at Stripe—are becoming increasingly prominent, writing headline-making checks from the seed stage to late rounds. What do these trends mean for the investors of the future? Rob Freelen, Head of Venture Capital Relationship Management, shares his thoughts.

How would you characterize the latest evolution in the venture capital ecosystem?

If you were to map the industry on a scatter plot by size of firm, you would see two distinct and growing groups at either end. Several very large firms—Tiger Global Management, Coatue Management, Sequoia Capital, Andreessen Horowitz, and others—are adding fund complexes and assets under management at staggering speeds. Funds of more than \$1 billion now represent 47% of US VC fundraising—28 percentage points higher than in 2015—according to SVB analysis.

At the other end of the spectrum are solo general partners. These are not angel investors putting their own money into the earliest rounds; they are general partners raising funds from limited partners and, these days, often writing substantial checks into startups at all stages. According to PitchBook

data, solo capitalists' 25 largest deals to date in 2021 were spread across Series A through E; and Gil, for instance, is currently raising a \$620 million fund—the largest amount ever raised by a solo fund manager for a single fund.

Do entrepreneurs have more power in this environment?

Absolutely. Over the last few decades, founders have gained more ability to control their companies. As an example, look no further than the successfully negotiated classes of stock with super voting power.

Based on their needs, founders can build their capitalization table with the type of investor they prefer—and do so in record time. Many US VC firms are feeling intense competitive pressure to compress their decision timeframe from a couple of months to a couple of days.

How do these trends affect VC firms that are not global brands or solo VCs?

There are plenty of players larger than solo capitalists that have strong brands, impressive portfolios, and excellent track records. But without global brand recognition and the corresponding staff size, they sometimes struggle to compete for the best deals.

The mid-sized firms that will be most successful will have a specialty in a particular stage or sector, such as Basis Set Ventures in seed stage enterprise AI, and Emergence Capital in enterprise SaaS. It's noteworthy that top investors such as a16z, Founders Fund, Accel, and Tiger Global Management have followed



Rob Freelen
Head of Venture Capital Relationship Management

Rob Freelen is head of venture capital relationship management for Silicon Valley Bank. The VCRM team serves as the primary point of contact for SVB's most active VC investors in the US. The specialized team coordinates across SVB and SVB Capital to deliver the full platform of commercial banking: venture debt, corporate cash management, foreign exchange, investment banking, private banking and wealth planning.

on into the same companies that Basis Set identified and backed in earlier rounds. Emergence Capital is another example of a firm that has quickly earned one of the very top spots in VC by focusing on the narrow niche of enterprise cloud services.

What implications do these shifts have for entrepreneurs?

Top entrepreneurs are in the driver's seat today. They often have their choice of firms, valuation, and terms. That said, entrepreneurs often choose their investors based on the skills, expertise, networks, and perspectives of the specific partner or firm.

For some entrepreneurs, a firm such as Tiger Global is the perfect equity partner: They and some other large global investors often do not take board seats or get involved in helping operate the business. Some consider this to be a flaw in their model, but others applaud their conviction and find Tiger's pitch to be tremendously enticing because it affords entrepreneurs access to capital with less investor oversight.

Critics of the VC-without-board-seat model argue that the partners at hands-on firms such as Sequoia Capital and Andreessen Horowitz are willing to talk, text, or Slack entrepreneurs at any hour of the day or night.

The pressure being exerted by board-free investors on the company-building, board seat-taking firms has dramatically

affected the pace of deal making. With more investors chasing deal flow—and solo capitalists able to make investment decisions without the input of other partners—entrepreneurs can ink deals far more quickly than they have in the past.

How should up-and-coming investors think about these changes in the venture ecosystem?

Equity investors are long-time partners. Entrepreneurs choose solo capitalists when they have directly applicable industry experience, expertise in the discipline of scaling, or a strong reputation for being a trustworthy partner.

How might a person position or prepare themselves for a career in venture?

Working for an established firm, large or small, can be a great fit for some investors, but "Scaling solo capitalism is really tough," said Jeff Clavier, founder and managing partner at Uncork Capital. "At some point, doing it all by myself—sourcing, investing, adding value—I was just drowning and not delivering on what entrepreneurs needed. Investing is easy; building is the real challenge."

As pre-partners and junior partners explore which of these firm models is most appealing, I see the best outcomes happen for VCs who know themselves and match their skills to the firm they're joining. The good news for all those looking to join VC firms is that the VC asset class is attracting record amounts of capital year after year, with no signs of systemic slowdown on the horizon.

Affinity: Relationship intelligence: The future of customer relationship management for VC firms

An interview with Affinity co-founders Shubham Goel and Ray Zhou

Affinity develops technology specifically for the VC industry. What are the biggest technological challenges that VC firms are facing?

Ray: Finding technology to manage their dealmaking process that's efficient, intuitive, and supports the way they actually do business. And finding technology that frees them from endless manual data entry while still providing the insights they need to close deals.

Shubham: Exactly. Our customers tell us all the time that traditional CRMs are a complete mismatch for their needs and their workflow. A lot of software has been built for transactional relationships and transactional sales, but nothing had been designed for what we at Affinity have come to see as the relationship-driven economy or the relationship-driven deal.

So, what do you see as the difference between transactional sales and relationship-driven sales?

Shubham: They are two completely different animals. The transactional relationships of the retail and consumer goods world are very different from the long-standing relationships that power VC dealmaking or industries such as investment banking and real estate. And different kinds of relationships need to be managed differently.

Ray: You can think about transactional relationships as short term—they're funnel driven, linear, and commoditized. VC relationships are ongoing, unstructured, and collaborative. VCs don't do transactional sales; they put

together deals by relying on connections made through long-term relationships. And you never know where your next deal is going to come from.

Shubham: Exactly. The woman you were introduced to over coffee with some colleagues might enable the biggest deal of your life.

You've identified a technology gap. What are some of its consequences?

Shubham: At the highest level, missed opportunities and lost productivity.

Ray: I'd add difficulty with business planning. Traditional CRMs are hard to use, contain features that no one needs, and lack the functionality VCs really want. And every bit of information must be entered manually. People get frustrated with them, so they're used sporadically. Or people wind up relying on their own jerry-rigged solutions such as shared spreadsheets—systems that are held together with masking tape and glue—that frequently lose and silo valuable information.

Shubham: And that brings up another issue: No one has the time to enter data anyway, so there ends up being no foundation for generating any kind of insights that help people make decisions about how to leverage their networks. Crazy enough, guesswork and memory have remained the gold standard for doing business in the 20 years since CRM was invented. And you'll understand this if you've ever used—or tried to get your team to use—Salesforce, or played the guessing game of “who knows who” on LinkedIn. We all have thousands of



Shubham Goel and Ray Zhou co-founded Affinity while the two were at Stanford and fellows at Pear Garage, a program that fosters next-generation entrepreneurs. They were inspired by fundamental flaws they found in the platforms then available for customer relationship management. Their goal was to create a platform that enables anyone to harness their personal network to further the success of their business. Today, Shubham leads Affinity's business teams and is broadening the range of industries Affinity supports, while Ray leads Affinity's technical teams in building the future of relationship intelligence.

connections, but we lack any deeper understanding of them—whether two people are connected because they met at a dinner party three years ago or because they talk to each other every day.

And that's how traditional CRMs fall short?

Ray: Yes, but it's more than that. Dealmaking is built around bringing the right people together under the right circumstances. That kind of information doesn't live inside a static system such as a typical CRM or a contact manager such

as LinkedIn. It lives in the passive streams of “data exhaust” that everyone in the world already generates but few think about. Email exhaust, calendar exhaust, public data exhaust about people and companies: These are massive, ubiquitous data sources containing relationship insights they could not get anywhere else.

So, what does a VC-specific solution to customer relationship management look like?

Ray: A CRM that is lightweight, easy to integrate, and easy to use, with intuitive workflow tools for managing the deal pipeline transparently. It also automatically captures the data exhaust that would otherwise go unused or need to be manually entered. Affinity’s platform also captures historic data—pre-existing data exhaust, if you will—so that a VC’s previous information can continue to be built upon.

Shubham: There’s a huge advantage to being able to sort, drill down into, and slice and dice that data in a single interface. It saves time, and it provides an immediate, comprehensive understanding of the companies you want to do business with and the people who work at them. We call it “relationship intelligence.”

Tell me more about relationship intelligence, and where it comes from.

Shubham: Basically, relationship intelligence is the insight into your team’s network, business relationships, and interactions that help you find, manage, and close deals. The “intelligence” includes hundreds of data points, such as who has the best relationship to a contact who can advance a deal, whether anyone on your team knows anyone at a target organization, or whether that organization has new hires to build new relationships with.

Ray: It’s what underlies the difference between transactional sales and doing business successfully in the nonlinear way that VCs work. The insights themselves are generated by AI-driven algorithms that analyze all your data exhaust and enrich it with information about the people and companies themselves from sources including Clearbit and, of course, PitchBook.

What benefits do VCs get from relationship intelligence?

Shubham: It lets VCs gauge their own network’s strength while also leveraging the networks of all of their colleagues—anyone with an email-based connection to Affinity. They can make fewer cold calls and find warm introductions more easily. And they can see not only who knows who, but also what type of relationship those people have: how long they’ve known each other, how well they know each other, who else they know, when they last spoke, even what they spoke about. Together, this information allows them to make informed decisions about who can help them pursue their next deal.

How has relationship intelligence improved the way VCs work?

Shubham: Our clients see their networks as just as or even more important than their other business development tools and tactics. Affinity helps them stay connected to key people in their network and leverage previous relationships to close future deals more easily.

Ray: Our clients also tell us that Affinity helps them keep track of their networking. They can prioritize their time better, set up initial meetings faster, and ensure the meetings they take will be productive. They also get on the radar of companies that go on to become some of their biggest opportunities and success stories.

Shubham: And the transformation from manual data entry to automated data capture has been huge: It frees their staff to concentrate on dealmaking rather than information tracking. Clients have told us they’ve increased their contacts database by 25% or even 50% by centralizing all of their business development information. For larger teams, this also means improved transparency, so they avoid duplicate work and overlaps in communication.

Have you thought about what the next generation of relationship intelligence will look like?

Shubham: From the very beginning, our goal was to give VCs the insights and technology they need to do business more successfully. But we also want to create a world where anyone can cultivate and fully harness their network of personal and business contacts. And this kind of technology could unlock a whole new class of products that will power the entire relationship-driven economy, far beyond VC. That might look like a relationship intelligence platform that follows you throughout life, such as Facebook or LinkedIn. Or integrating new datasets into the Affinity platform to further broaden the scope of people who use it.

Ray: Or deploying machine learning models that will transform that data into new insights, and even embedding those insights seamlessly into every app that dealmakers use to build relationships and create deals.

One last question: Do you use your own platform?

Shubham: Absolutely. Everyone on staff at Affinity has access to our own instance of the platform, and we use Affinity to do all our fundraising, including our Series C round, which we announced in September.



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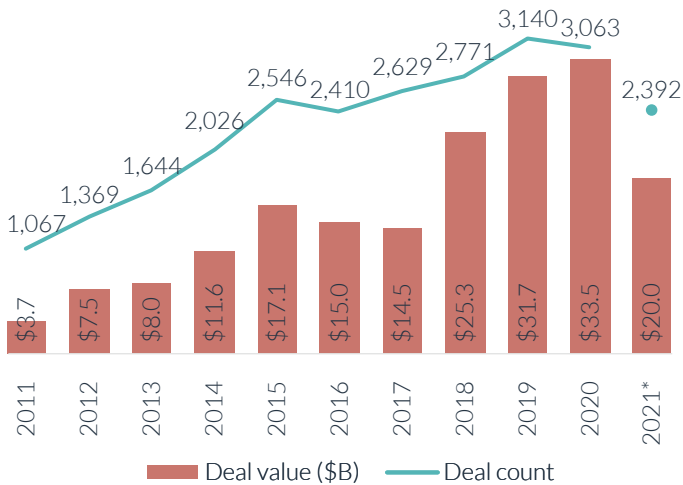
affinity.co



Venture debt

Venture loans unlikely to reach record

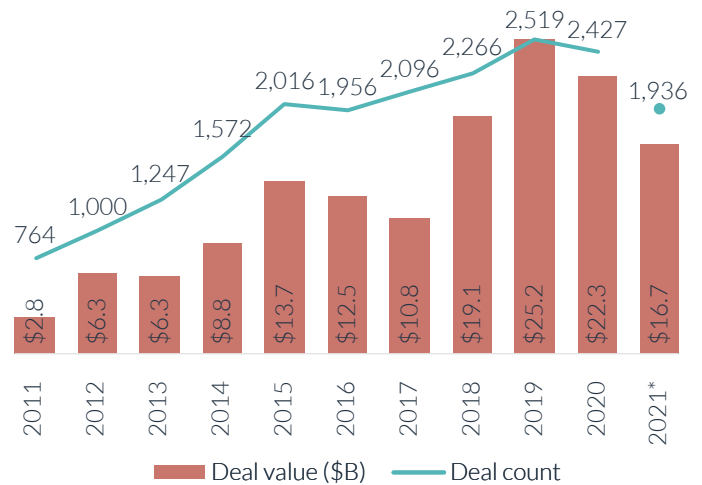
US venture debt activity



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*As of September 30, 2021

Tech lending remains strong

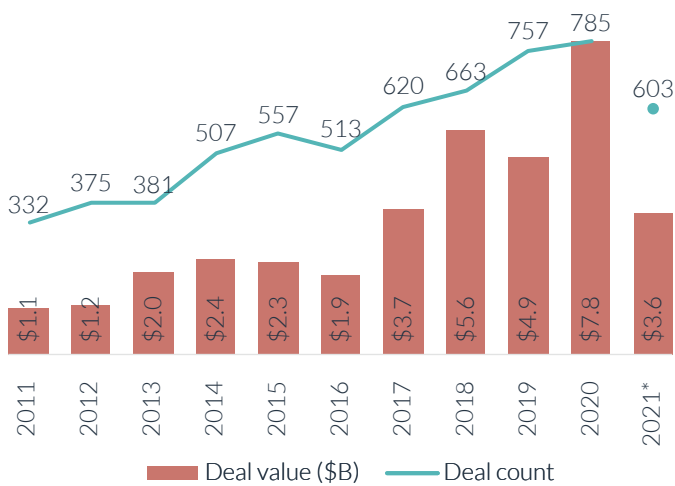
US tech venture debt activity



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Healthcare loan value has slowed

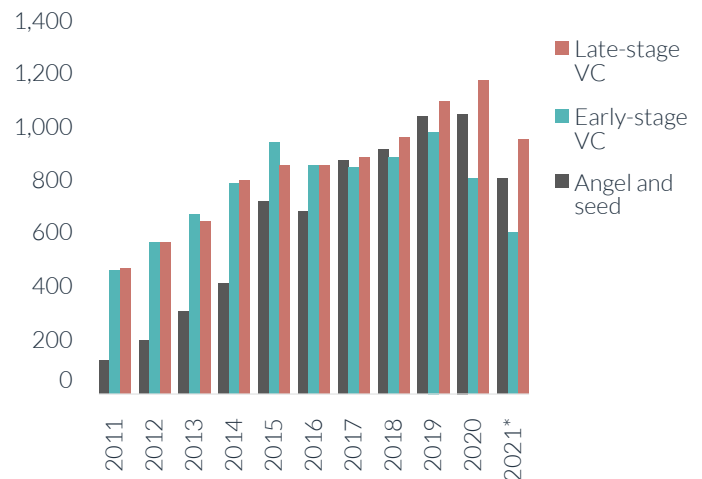
US healthcare venture debt activity



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Late-stage lending set to reach record count

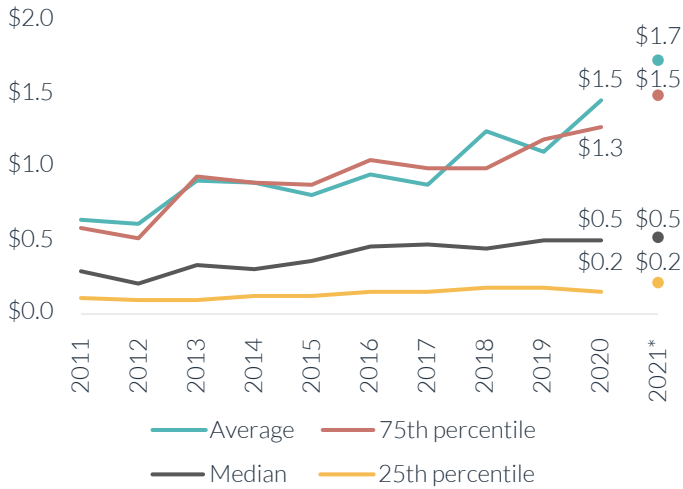
US venture debt deal count by stage



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Top quartile continues rise

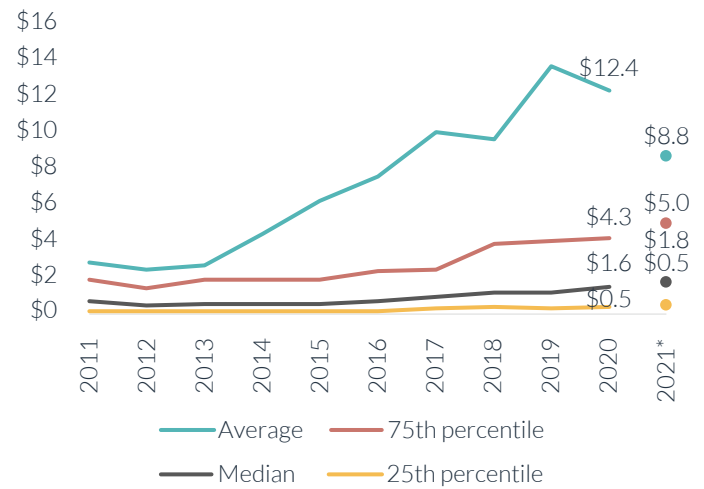
Quartile distribution of angel and seed debt rounds (\$M)



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Average early-stage loan falls below \$9 million

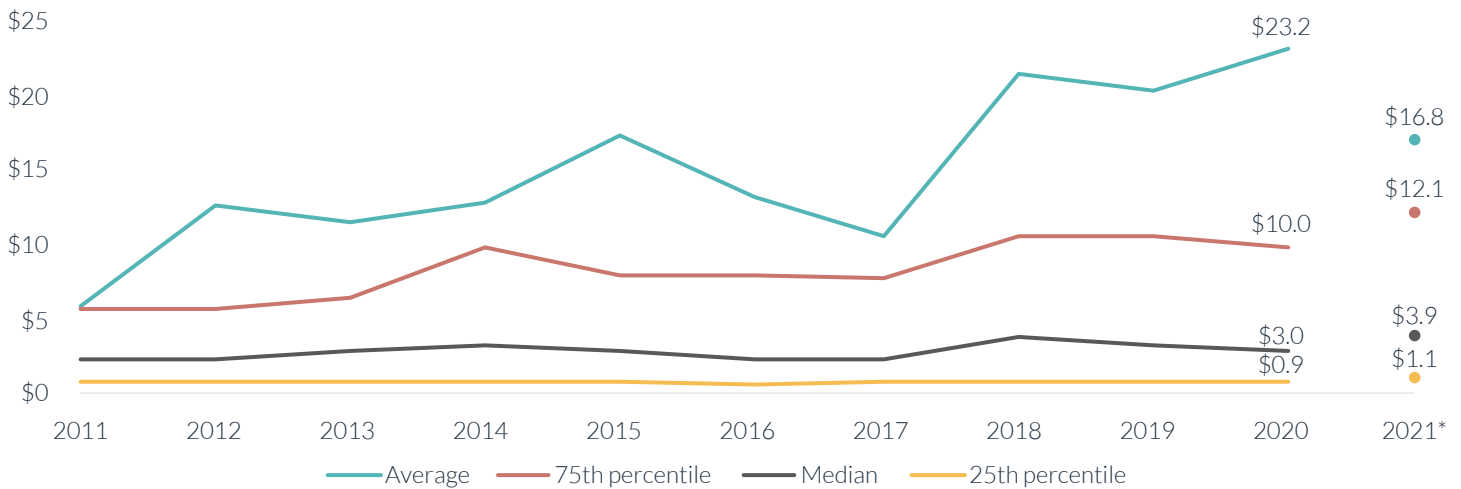
Quartile distribution of early-stage debt rounds (\$M)



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Top quartile surpasses \$12 million in size

Quartile distribution of late-stage debt rounds (\$M)

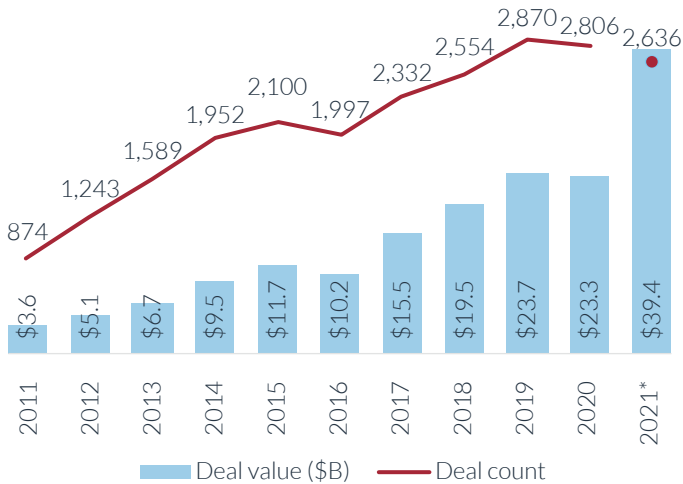


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Female founders

New record capital investment for female-founded companies

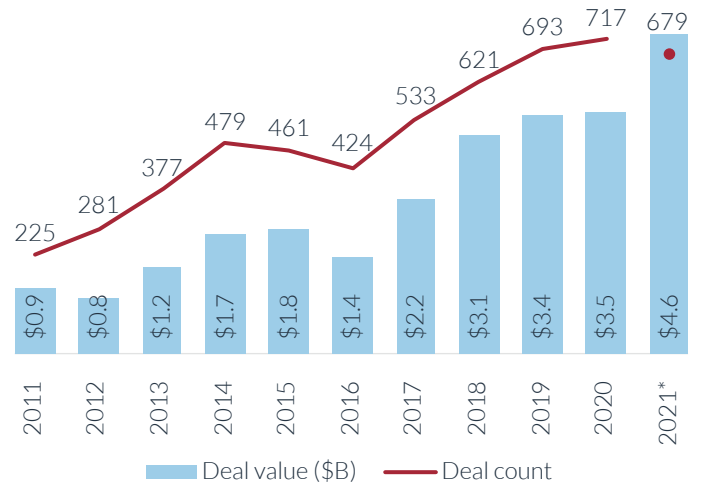
US VC deal activity for female-founded companies



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Nearly \$5 billion goes to companies with all female founders

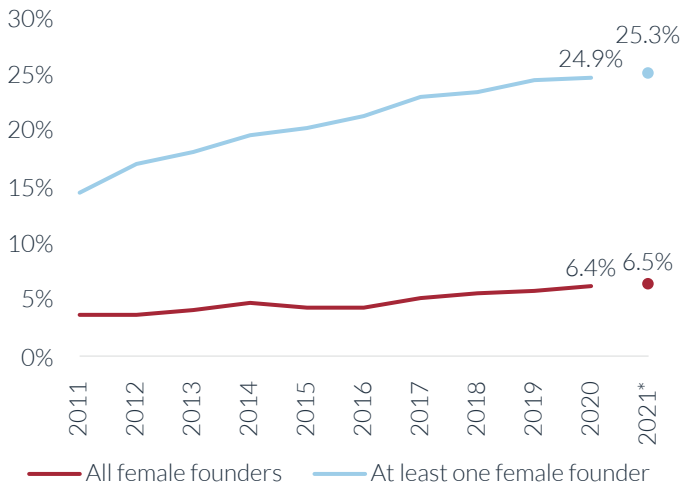
US VC deal activity for companies with all female founders



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Deal share for female-founded businesses continues steady climb

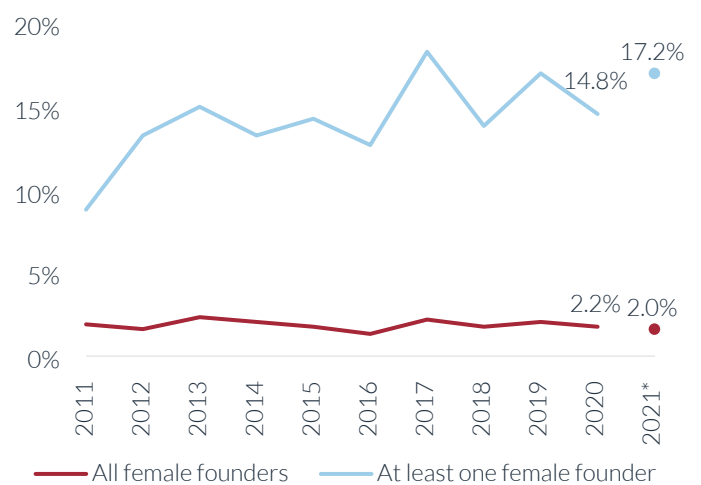
Female-founded companies as a share of total US VC deal count



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Capital to female-founded businesses remains in range

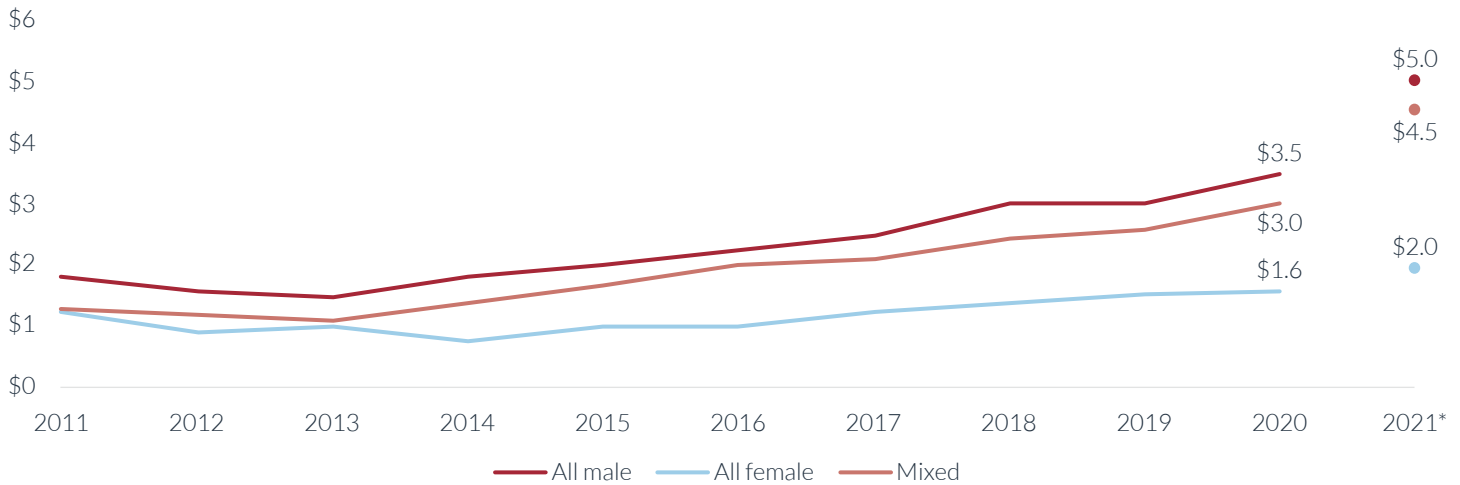
Female-founded companies as a share of total US VC deal value



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Deal size growth continues across female-founded groups

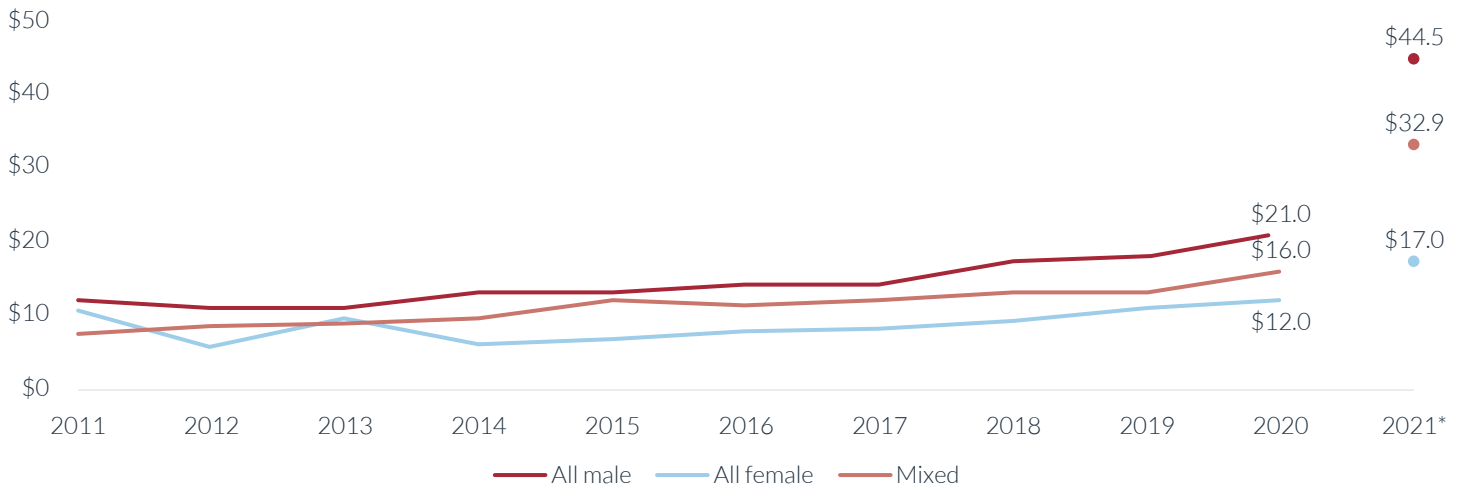
Median US VC deal sizes (\$M) by founder gender mix



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

Valuation growth for all female-founded businesses lags

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



PitchBook-NVCA Venture Monitor
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Top 5 US CSAs by capital raised (\$B) for companies with all female founders (2019-2021)

Combined statistical area	Capital raised (\$B)
New York-Newark, NY-NJ-CT-PA	\$3.4
San Jose-San Francisco-Oakland, CA	\$3.3
Los Angeles-Long Beach, CA	\$1.4
Boston-Worcester-Providence, MA-RI-NH-CT	\$0.5
Seattle-Tacoma, WA	\$0.3

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*As of September 30, 2021

Top 5 US CSAs by deal count for companies with all female founders (2019-2021)

Combined statistical area	Deal count
New York-Newark, NY-NJ-CT-PA	457
San Jose-San Francisco-Oakland, CA	378
Los Angeles-Long Beach, CA	288
Boston-Worcester-Providence, MA-RI-NH-CT	93
Seattle-Tacoma, WA	73

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Nontraditional investors

Through Q3, the most active investors in the US venture market have been nontraditional. Tiger Global has sustained its fast-paced dealmaking, completing another 48 deals in Q3, while SoftBank has kept pace as its Vision Fund 2 again increased in size during the quarter—the fund now totals \$40 billion. While the two giant investors have dominated the headlines, the entire nontraditional investor group has largely driven the year's—and recent history's—markets. Even at a time when US venture fund dry powder is at a record \$221 billion, we estimate nontraditionals globally have as much as \$350 billion available to invest in the VC market. This capital, and the swiftness with which nontraditional investors can make investments, will likely continue to push yearly deal values higher. Nontraditionals have been linked to the venture market's rise, and any decline in venture financing amounts will likely be linked to a pullback by them as well, although we don't see such a pullback on the horizon.

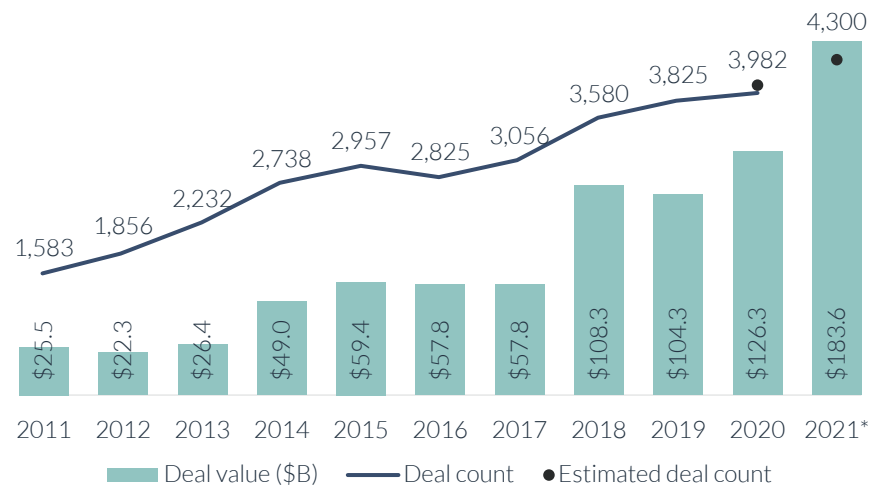
Through three quarters, 33.5% of all venture deals in the US have received participation from a nontraditional investor. That figure expands to 50.0% at the late stage, where deals with nontraditional

investment have nearly reached \$150 billion. Nontraditional investors continue to throw their weight behind their venture investments, increasing competition for rounds and aiding the continued growth of deal sizes and valuations. Of the mega-rounds completed thus far in 2021, nontraditional investors have been participants in 87.6%. Perhaps even more

interestingly, nontraditional investors have led or solely financed 51.8% of these mega-deals in which they have participated. Beyond providing large capital infusions, these institutions have often forgone taking board positions, further enhancing their reputation as strictly capital partners.

Nontraditional investors showing might

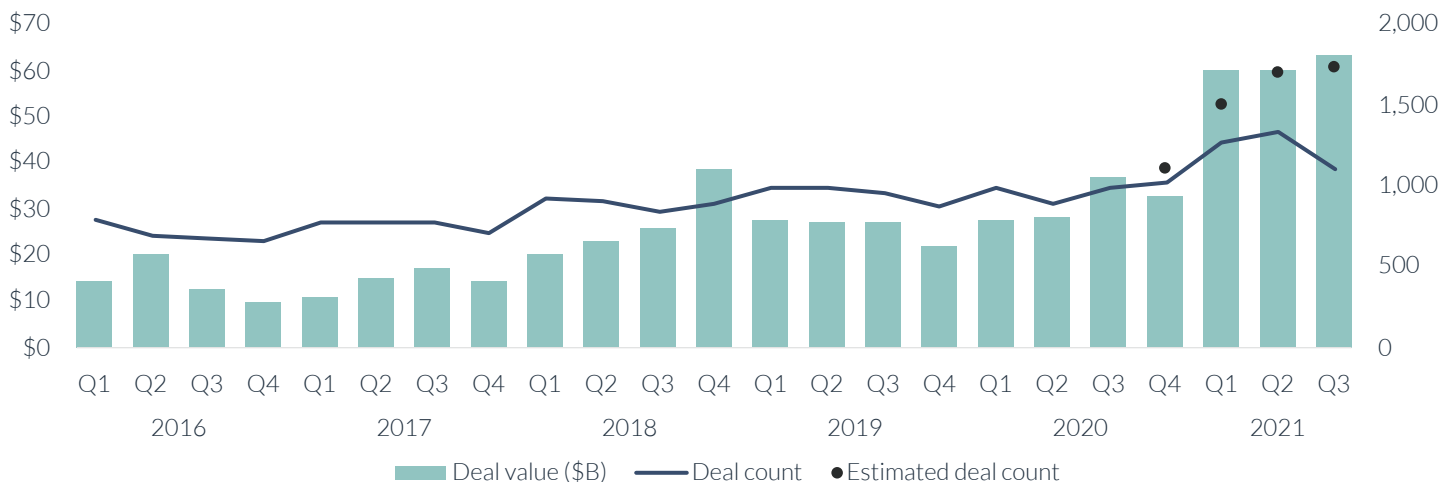
US VC deal activity with nontraditional VC investor participation



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Nontraditionals continue pushing trends

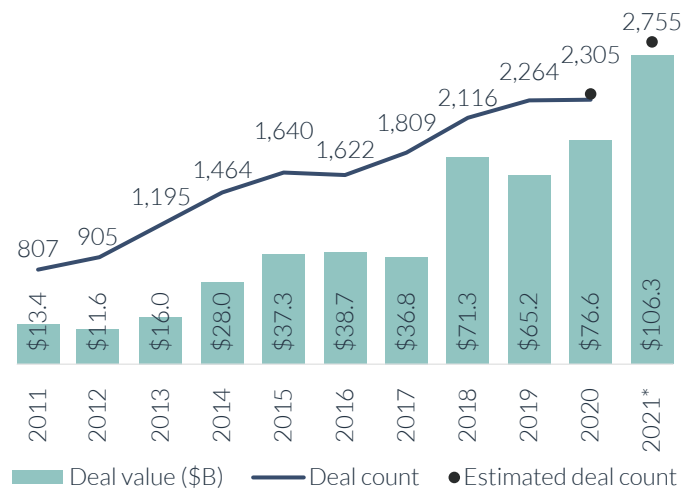
US VC deal activity with nontraditional VC investor participation by quarter



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*As of September 30, 2021

CVCs continue pushing into venture

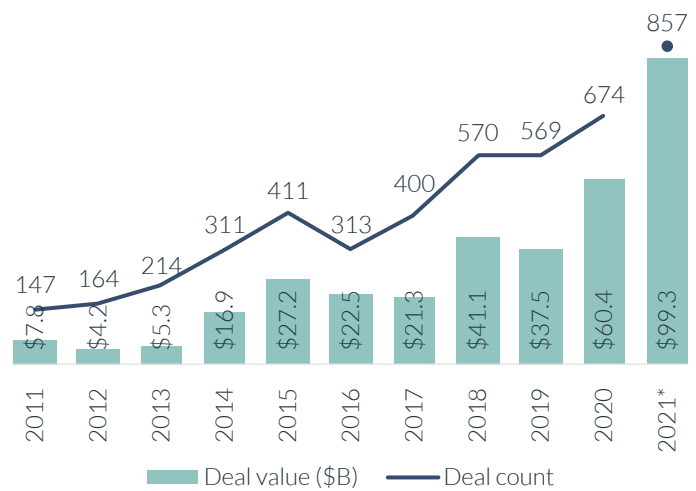
US CVC deal activity



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*As of September 30, 2021

Crossover investors' growing presence

US VC deal activity with crossover investor participation



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*As of September 30, 2021

Although we often speak of nontraditionals as a single group of investors, it is increasingly obvious that there are two very different strategies. Crossover investors have flooded the market with capital in a play to capture the growth occurring in private markets prior to companies making a public offering. Through Q3, investments with crossover investor participation have led to more than \$99 billion in capital investment across just 857 rounds. Fewer and fewer companies even look to go public prior to reaching a billion-dollar valuation, providing an opportunity for crossover investors to take stakes in these private companies and secure for themselves an opportunity to further increase their position when an IPO occurs. 857 rounds is already more than double the number of investments crossover investors made in 2017, and even a 27% growth over last year's figure.

Using a distinctly different strategy, corporate investors have also been increasing their presence in venture. CVCs have been present in more than \$106 billion of investment so far in 2021 and have already surpassed their record deal count from last year by an estimated 450 deals. Although CVCs can also participate alongside crossover investors in late-stage rounds, corporations focus a large portion

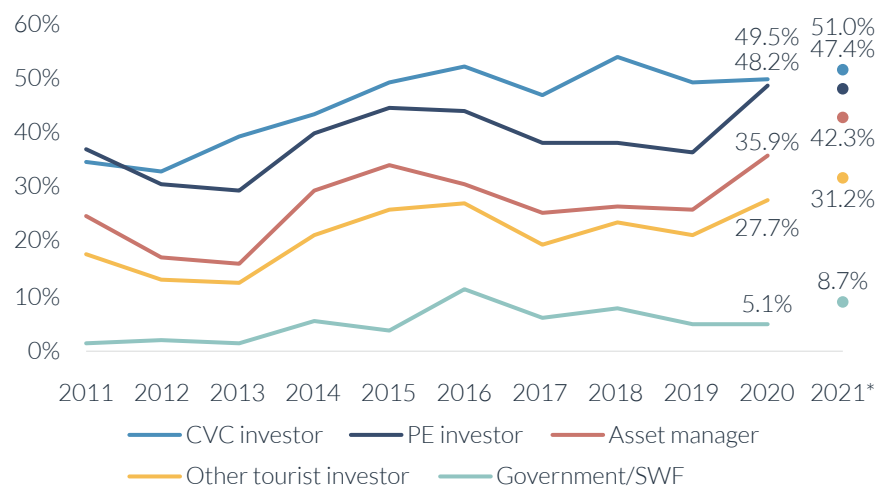
of their investments in earlier stages of company development to stake claims on emerging technologies or companies that can later be incorporated into their own product offerings. 54.0% of CVC deals in 2021 have been made at the seed or early stage.

Although this dichotomy of strategies within the nontraditional investor class is

predictable, it is no less important to note, especially as the mechanics of venture shift and nontraditional investors continue to increase their presence across the venture lifecycle.

Participation rates keep rising

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



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Exits

VC exits in 2021 are displaying perhaps the most drastic growth in activity, despite the truly exceptional flows within dealmaking and fundraising. Exit value and count have both set records through just three quarters with exit value on pace to double 2020's record by year's end. US VC exits in 2021 have now brought more than \$500 billion in liquid value to market in just nine months—the first time that threshold has ever been surpassed—with \$187.2 billion of that \$582.5 billion coming in Q3. This is slightly under the exit value that we recorded during Q2 but remains extremely robust. For example, exit value in Q3 2021 on its own is greater than the full year of 2017–2018.

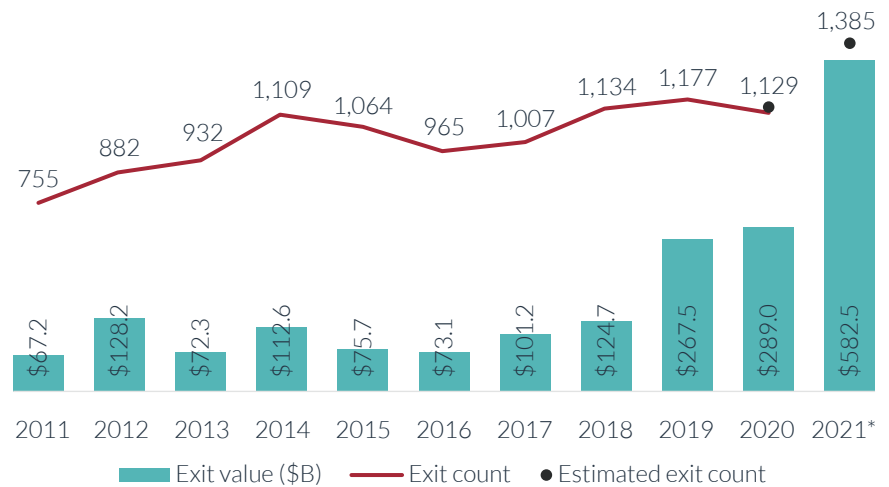
Most of this total exit value has been dominated by public listings, which accounted for 88.2% of total exit value with \$513.6 billion. It suffices to say the IPO window remained open during Q3 with 93 closing during the quarter, making it the most active quarter of the year so far. Robinhood's \$30.0 billion IPO was the largest of the Q3 IPOs, which was mainly characterized by the 32 healthcare IPOs during the quarter. As greater uncertainty

about the future creeps into financial markets, there seems to be a sense of striking while the iron is hot in the IPO market as the volume of new listings continues at historically high levels. With rising multiples, any adverse changes to the expectations for the future caused by

changes to monetary policy or economic weakness could have drastic knock-on effects on valuations in the public markets, thereby discouraging new IPO activity. This has been a persistent risk for at least the last two years, however the timing is less than certain for this market decline, so

Exit value surpasses \$500 billion for first time ever

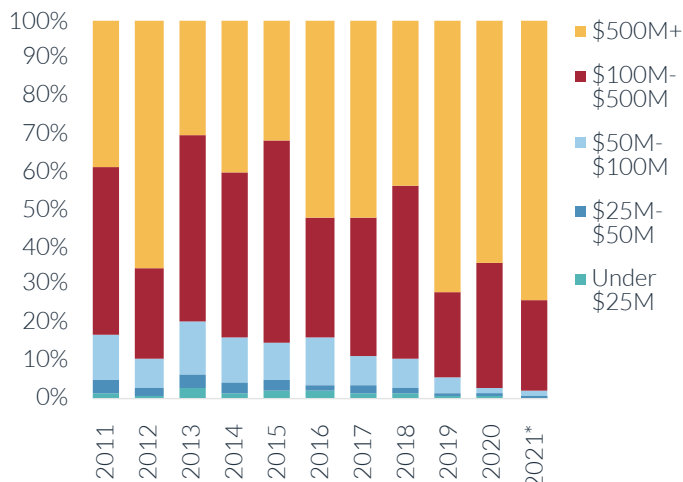
US VC exit activity



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Home-run exits continue to increase importance

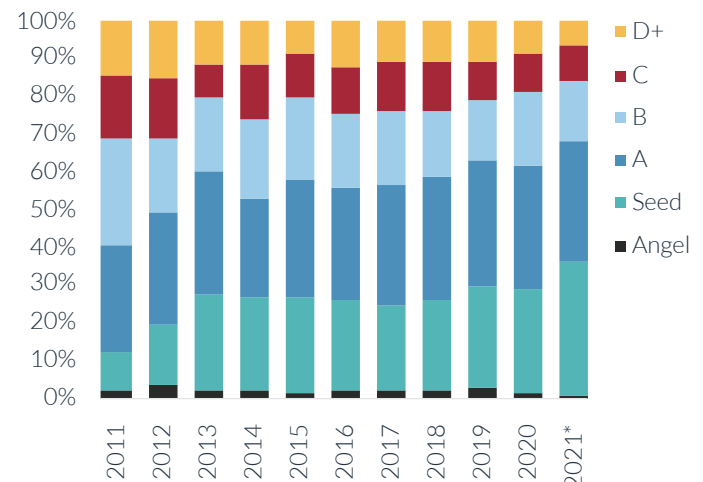
US VC exit count by size



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Acquisitions consistently occurring earlier in the startup lifecycle

Acquisitions directly prior to exit by round



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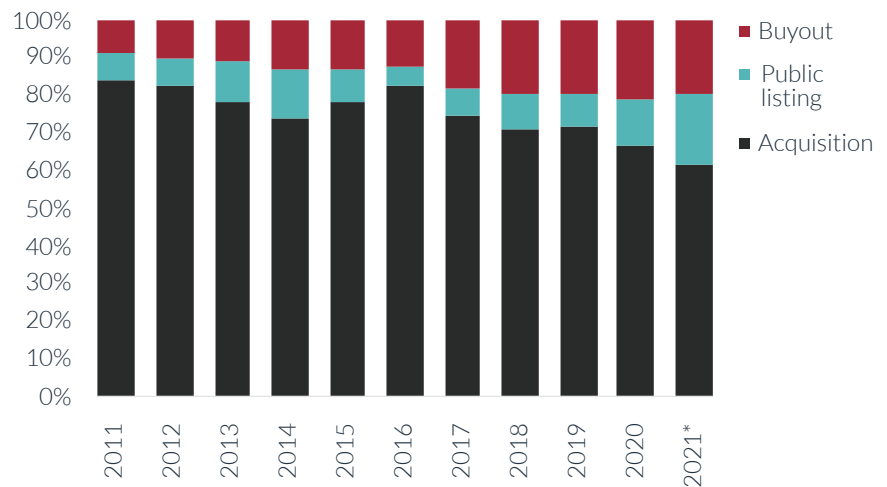
for now everything is primed for sustained public listing activity.

Special purpose acquisition company (SPAC) business combinations have also contributed to the growth in public listing count during Q3 as activity for reverse mergers picked up significantly now that more and more SPACs in the market are reaching maturity. Sentiment around the SPAC vehicle has taken a negative shift over the last quarter as aftermarket performance has lagged for broad swaths of the combined businesses, and new SPAC issuance has waned over the last couple quarters.

Acquisitions are still the most common exit type for startups and are having a robust year in their own right. Most of these deals are much smaller than the average IPO, which primarily reflects the differences in maturity at the time of exit between acquisitions and public listings, with acquisitions typically being of younger, less mature businesses. We have even found that acquisitions are starting to happen earlier in the venture lifecycle than what we've seen over the last 10 years, with the majority of acquisitions in 2021 coming directly after a seed or Series A deal. This compares to 61.1% of public listings coming after Series C or later.

Buyouts and IPOs provide open pathways to liquidity during 2021

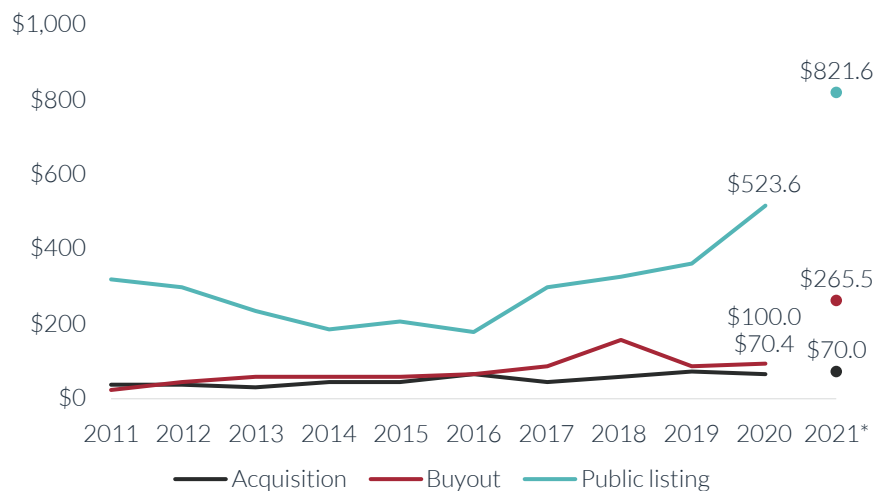
US VC exit count by type



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Outsized public listings continue to dominate

Median US VC exit size (\$M) by type



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Fundraising

VC fundraising remained extremely robust throughout Q3 as LPs continued to commit record levels of capital to new funds. With 161 new venture funds closing in Q3, VC fundraising activity for 2021 has already shattered last year's record, notching a YTD total of \$96.0 billion across 526 funds. At its current pace, VC fundraising activity will easily break the \$100 billion mark in new capital, an aggregate total that was unfathomable until now.

As has been the story with exits and deal value in 2021, bigger continues to be better. Outsized funds still dominate the fundraising landscape. So far, a record 19 \$1B+ funds have closed in 2021. Interestingly, only one of those \$1B+ funds closed in Q3—IVP's Fund XVII at \$1.8 billion. With the sustained robust fundraising levels of late, it's entirely possible that LPs are hitting the upper limits of their allocation to venture and fundraising could potentially slow or plateau in coming quarters. That said, while the IPO market remains open, we anticipate that distributions will continue to flow back to LPs at record rates as returns are realized. Indeed, the latest data shows a record \$71.7 billion in distributions driving

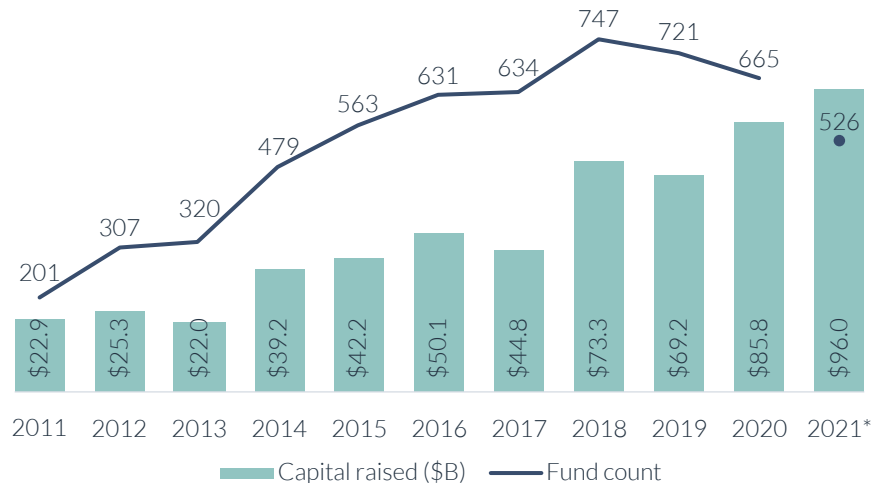
positive cash flow back to LPs in 2020—much of which will likely make its way into new VC funds.

One notable VC fundraising occurrence is the emergence of dedicated impact funds in 2021. Impact VC funds have raised

\$5.3 billion across 15 funds YTD—a sharp increase over 2020's \$3.7 billion and 2019's \$1.6 billion. Investors certainly recognize the importance of impact investing, along with environmental, social, and governance (ESG) mandates from certain LPs. [A recent PitchBook survey](#) of 457

2021 YTD VC fundraising shatters previous yearly record

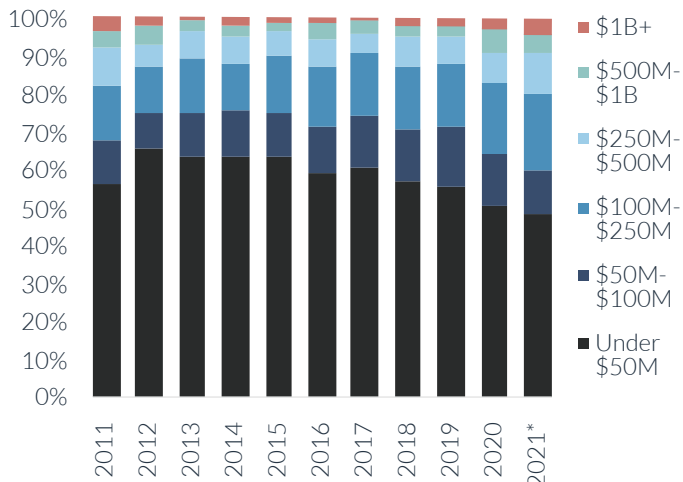
US VC fundraising activity



PitchBook-NVCA Venture Monitor
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Micro-funds dip below 50% of new funds in 2021 for the first time

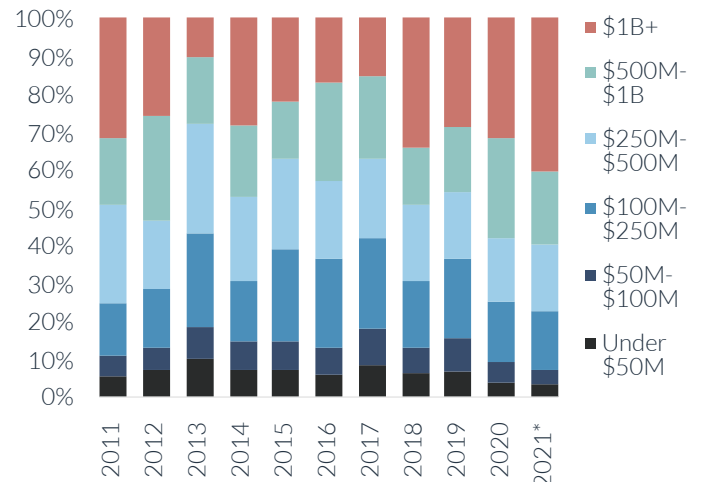
US VC fundraising count by size



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*As of September 30, 2021

Outsized funds continue to dominate

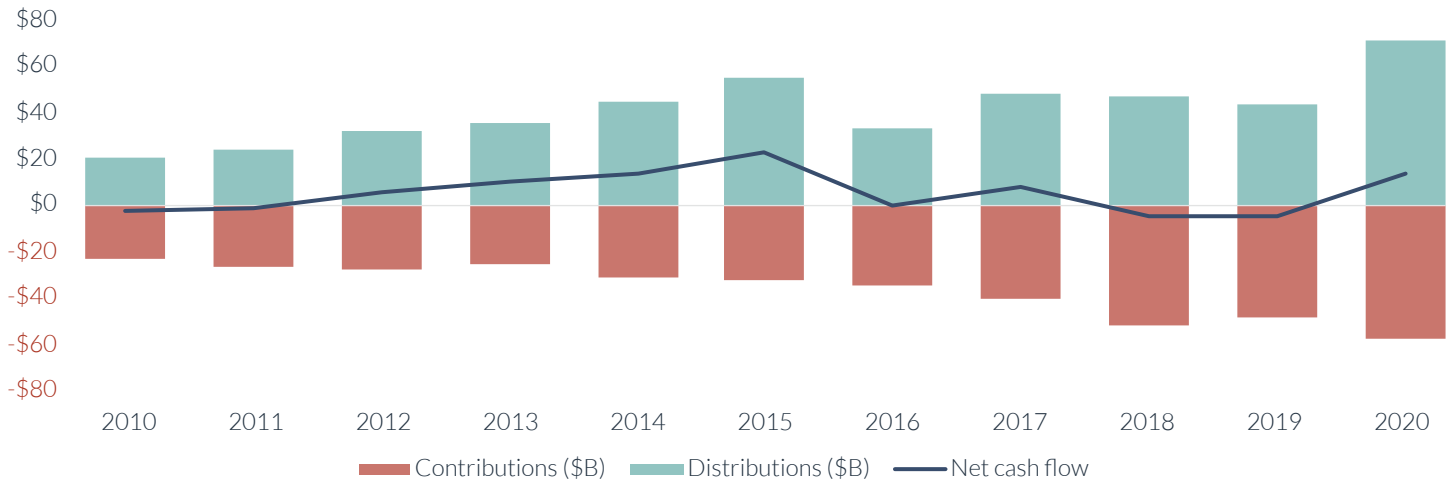
US VC fundraising deal value by size



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

Record levels of distributions drive positive cash flow to LPs

US VC cash flows (\$B) by type



PitchBook-NVCA Venture Monitor
*As of December 31, 2020

GPs and LPs shows that sustainable and impact investing are top-of-mind for many investment professionals.

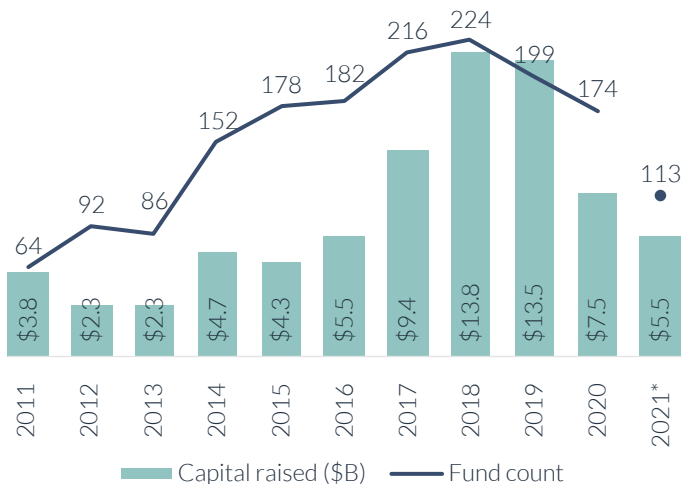
Being able to marry that with a portfolio that still produces returns can be a tricky

endeavor, one with which many investors are grappling. Q3 saw the closing of a prominent impact VC fund. Lowercarbon Capital, run by early Uber investor Chris Sacca, raised \$800.0 million to fund carbon capture and other decarbonization

technologies. This is also a first-time fund, a segment that has slowly picked up steam through Q3 as new GPs seize reopening opportunities to source and pitch LPs.

First-time fundraising value pacing similar to 2020

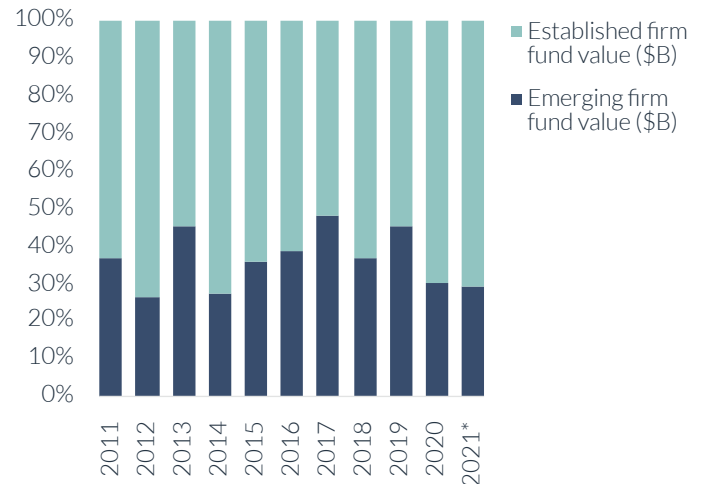
US VC first-time fundraising activity



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Established VC firms make up overwhelming majority of new funds

US VC fund value by emerging and established firms



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*As of September 30, 2021

Methodology

Deals

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

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

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

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

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

Exits

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

Fundraising

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

A perfect partnership: PitchBook and the National Venture Capital Association

Why we teamed up

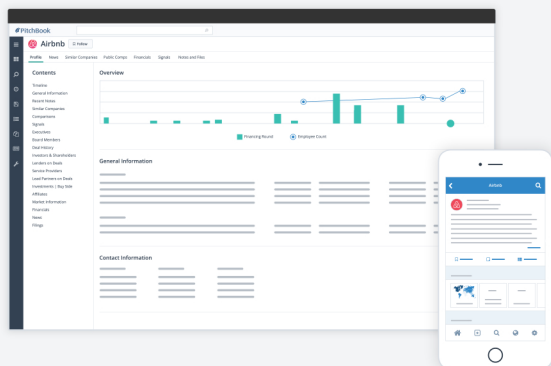
NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with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

The PitchBook-NVCA Venture Monitor

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



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