Venture Monitor

Q4 2021

In partnership with Insperity

Capital investment in US startups nearly doubles year over year to $330 billion.
Page 5

Public listings record a banner year, unlocking more than $680 billion in exit value.
Page 27

Annual VC fundraising tops $100 billion for the first time on back of elevated returns.
Page 29

The definitive review of the US venture capital ecosystem

Contents

Note: This report was updated on January 14, 2022 to account for an error in deal data.

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Executive summary

2021 began with a bang in VC activity and ended in spectacular fashion, producing another record-setting year. While many were bullish on the industry at the start of 2021, possibly no one predicted how remarkable the year would prove to be.

US VC-backed companies raised $329.6 billion in 2021, nearly double the previous record of $166.6 billion raised in 2020. Investment activity (measured in both total dollars invested and total deal count) for seed & angel, early-, and late-stage companies all hit records, as did investment activity for companies receiving their first equity round of institutional financing and companies raising VC mega-rounds (sized $100 million or more). Total deal count also increased substantially to an estimated 17,054 deals in 2021 (up from 12,173 in 2020), but the increase in deal count did not match the pace of the surge in additional capital, continuing the trend of increasing deal sizes.

Exits were a huge part of the story of 2021, with approximately $774.1 billion in annual exit value created by VC-backed companies that either went public or were acquired. The overwhelming majority of these dollars, some $681.5 billion, was realized through public listings, a testament not only to the favorable conditions presented by robust public markets and strong valuations, but also to the availability of SPACs as an acceptable and popular alternative to IPOs. That VC-backed companies were able to generate such enormous exit value in 2021 during a time characterized by great uncertainty and extraordinary circumstances highlights the continued importance of VC-backed companies to US public markets. It is important to note that the strong IPO activity for VC-backed companies in 2021 was a result of early-stage investment from investors that in many cases first partnered with the founders 10+ years ago. Those companies have scaled over the past decade and during a strong startup and growth environment.

What partly makes 2021's VC industry activity so remarkable is that the pandemic continued despite widespread availability of vaccines and a national vaccination campaign. At the start of 2021, many investors predicted that the world would have returned to pre-pandemic ways before year-end, but an ever-evolving virus and new variants of concern prevented those forecasts from coming true. While some investors resumed business travel to meet with founders, virtual meetings—a strange novelty for many just two years ago—have enabled investors to continue doing business and appear here to stay, regardless of the pandemic's future trajectory.

Additional adversities the industry faces are economy-wide supply chain woes and labor shortages. The microchip shortage is negatively impacting some hardware companies' ability to manufacture, but supply chain constraints are slowing some companies' ability to create product across virtually all sectors. Worker shortages and the war for skilled talent are also being felt broadly and pushing up expenses through salary increases. The upward pressure on labor costs is somewhat offset by the new paradigm of remote work and the associated ability to hire people from almost anywhere. Interestingly, neither a shortage of material inputs nor labor appears to have materially reduced revenues for most VC-backed companies, since prices can largely be raised without consequence in the current inflationary environment.

The Q4 data also highlights the tale of nontraditional investor participation in the VC industry—one of the big stories of the year. In 2021, $253.5 billion in deal value had nontraditional investors such as corporate VC funds, hedge funds, PE firms, and sovereign wealth funds participate (76.9% of total annual deal value), and deals worth $138.9 billion were led by at least one nontraditional investor (42.1% of total annual deal value). While interest in VC by investors typically focused on other asset classes generally occurs whenever VC outperforms, such interest is usually transient in nature. It is not clear that such is the case this go-around, and certain nontraditional investors may be here to stay.

Looking to 2022, nontraditional investor interest and momentum will likely continue, partly due to the continued strong outperformance of VC portfolios. At the same time, traditional VC investors are flush with capital to deploy; VC fundraising topped $100 billion in 2021 for the first time ever, with $128.3 billion raised across 730 funds—$40 billion more than 2020's previous record high. The good news for entrepreneurs is that there is a deeper and wider pool of capital sources available to fund and scale the next generation of innovative companies. The cohort of companies raising early-stage funding in 2022 and the environment under which they will scale their businesses over the coming years will determine the longevity and strength of future exit activity.

NVCA policy highlights

As 2021 drew to a close, policymaking in DC was centered around passage of the Build Back Better Act, a budget reconciliation bill being considered on a party-line basis. NVCA is making the case in Washington on how the programs in the package 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 increasing taxes on carried interest capital gains and harmful changes to Qualified Small Business Stock (QSBS). Below are the key issues on which we are focused.

Build Back Better Act

NVCA continues to engage on the QSBS provision in the Build Back Better Act. We are meeting with key lawmakers to raise concerns about its inclusion and point out issues with the current drafting of the provision, including the retroactive nature of the tax increase and that the capital gains exclusion under the proposal will actually be 30% rather than 50%. NVCA joined a coalition letter with 31 innovation and entrepreneurship organizations against the QSBS provision. We are also remaining vigilant and closely monitoring any possible amendments on carried interest capital gains. Presently, there are no changes to carried interest in the language, but we will be prepared should any changes arise via an amendment on the Senate floor or otherwise.

There are other promising proposals in the reconciliation package for which NVCA has advocated, including providing a direct pay mechanism for the clean energy tax credits and creating a new energy storage credit; $7.5 billion for National Science Foundation research grants, technology commercialization support and scholarships; a new micro-SBIC program; and $30 billion for workforce development, including technology skills.

Bipartisan Infrastructure Law

Signed into law the week before Thanksgiving, the bipartisan infrastructure package includes dozens of programs to incorporate technology into a range of infrastructure-related systems, accelerate research and technology demonstration projects, and re-shore advanced technology manufacturing. These include programs for cybersecurity, energy storage, transportation and mobility, climate, and smart city technology. NVCA continues to engage on these programs as the implementation process gets underway.

Antitrust and acquisition restrictions

Antitrust scrutiny of large tech companies continues in Washington, and one element has been proposals to restrict or ban acquisitions. Given the importance of acquisitions to the startup ecosystem, NVCA has focused its efforts in this area. In particular, we are concerned about the Platform Competition and Opportunity Act from Senators Amy Klobuchar (D-MN) and Tom Cotton (R-AR), which is an effective ban on acquisitions for certain large tech companies. A similar version of the bill passed the House Judiciary Committee in June. NVCA issued a formal opposition letter expressing our concerns with the legislation and discussing the importance of acquisitions to the startup ecosystem. We have met directly with the authors of the bill and many Senate offices to share our concerns. We have written op-eds (here and here) to argue against the bill. Our activities will continue in 2022 as policymakers consider action on antitrust.

Endless Frontier Act / US Innovation and Competition Act

Following a strong Senate bipartisan vote in June, House Speaker Nancy Pelosi and Senate Majority Leader Charles Schumer announced in November an agreement for the two legislative bodies to begin conference negotiations on the US Innovation and Competition Act (USICA), which includes the NVCA-endorsed Endless Frontier Act (EFA). Over the last several months, NVCA provided recommendations to sponsors Majority Leader Schumer (D-NY) and Sen. Todd Young (R-IN) that would encourage the participation of the venture capital industry through prioritization of new company formation. NVCA has weighed in with key decisionmakers to urge House action. We continue to advocate for prioritization of entrepreneurship in the negotiated package, including in the implementation process if the bill passes.

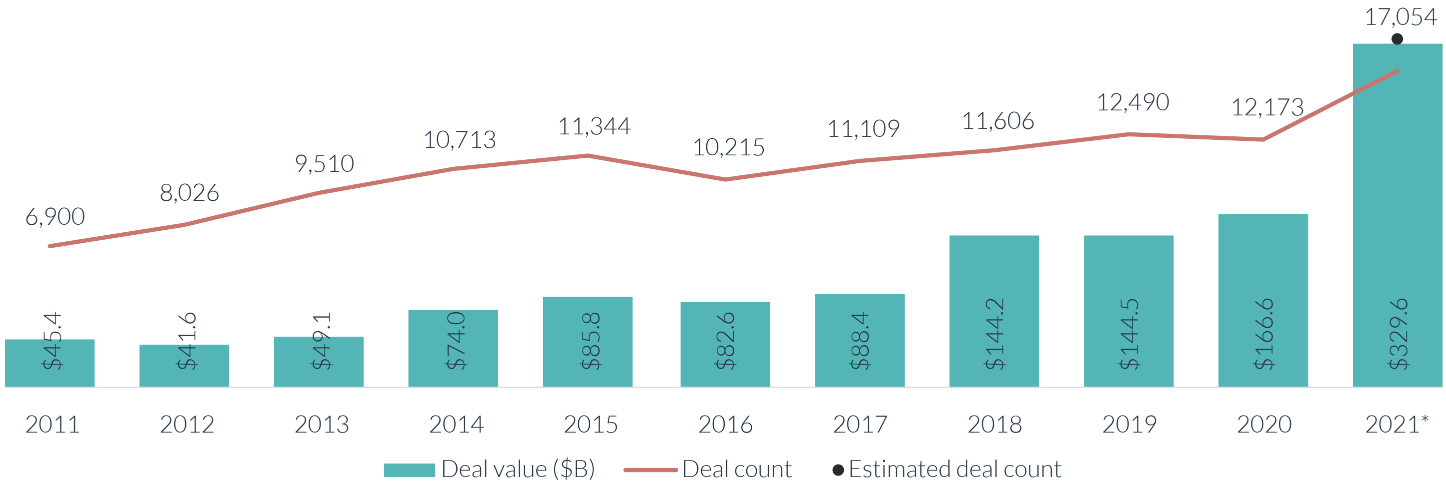
The next several months of policymaking will be incredibly impactful for the future of the startup ecosystem. NVCA will keep a watchful eye for proposals that would harm our ecosystem and work closely with policymakers to grow our innovation economy.

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

Overview

VC investment nearly doubles YoY

US VC deal activity



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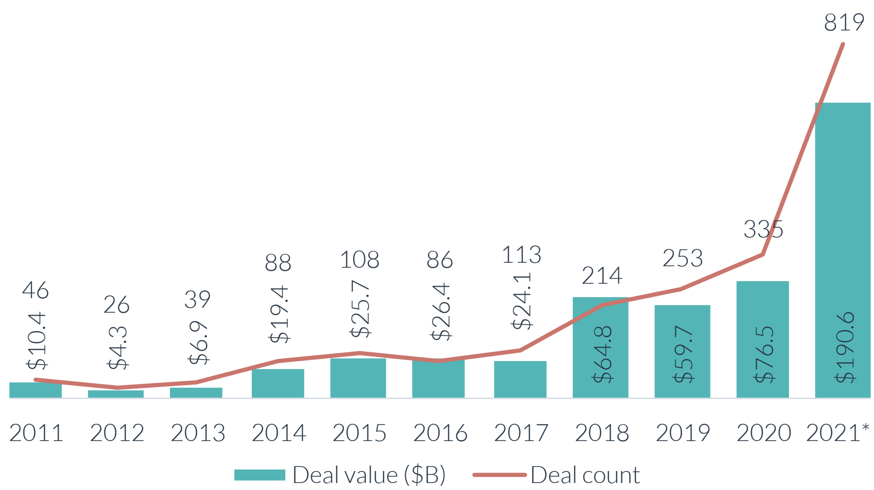
Capital availability is king. A fair portion of the new VC investment records in 2021 can be attributed to the record levels of capital cycling through the system. VC dry powder continues to hit all-time highs, and an increasing number of nontraditional investors continue to foray into venture to participate in, or even lead, VC deals. Only time will tell whether these investors are here to stay or whether macroeconomic catalysts will draw the swaths of crossover investors away from the venture strategy.

Public listings continue to dominate the VC exit market. An astonishing $774.1 billion in exit value became liquid during 2021, of which $681.5 billion was attributed to 296 public listings. The acceleration of SPAC acquisition activity was another tailwind for the market recording a post-2000 record. Looking forward to 2022, we have seen an uptick in public market volatility over the last few months, especially within recent IPOs and growth businesses, which introduces greater uncertainty to the public listing market.

Growth in mega-deal activity outpaces broader market

US VC mega-deal activity



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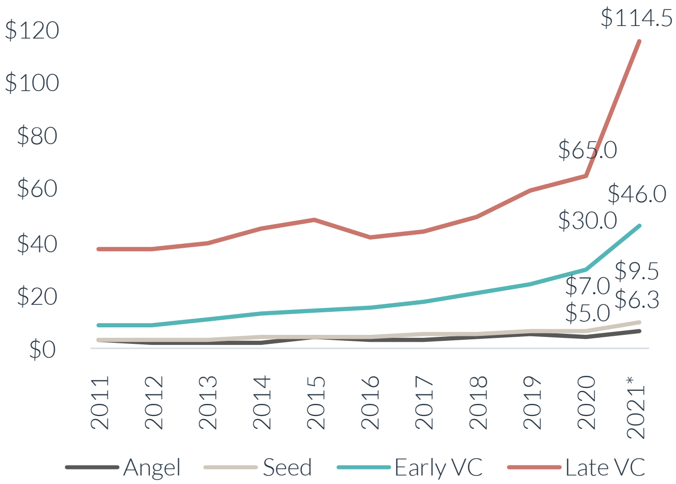
Valuations continue relentless climb across all stages

US VC median pre-money valuations ($M) by stage



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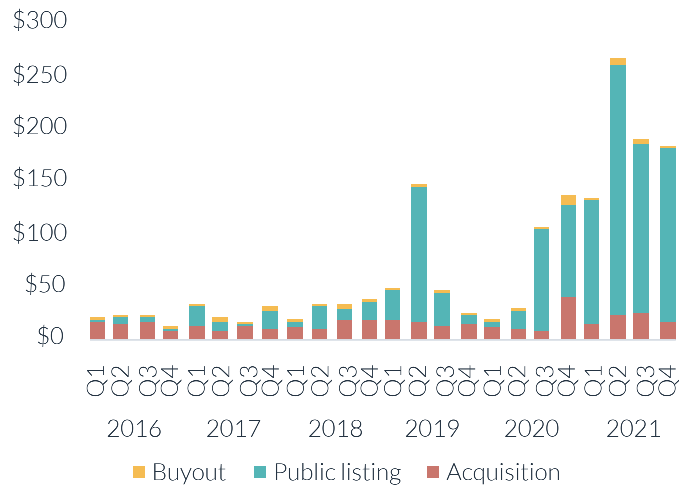
Public listing activity sustains dominant streak within VC exit market

Quarterly US VC exit value ($B) by type



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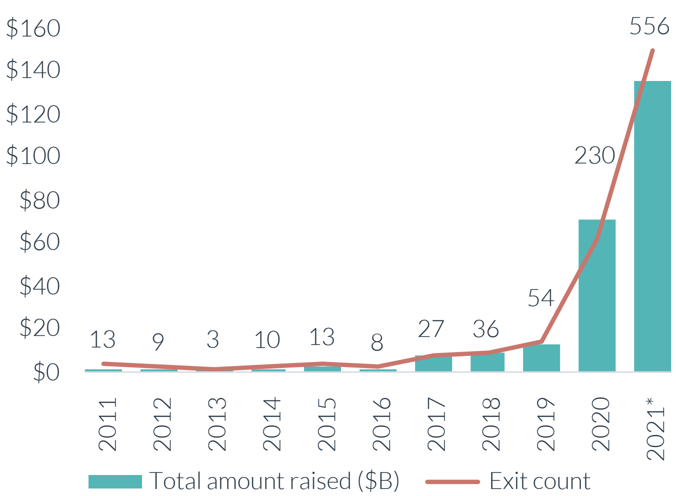
SPAC IPOs have tapered off since Q1 but remain at elevated pace

US SPAC IPO activity



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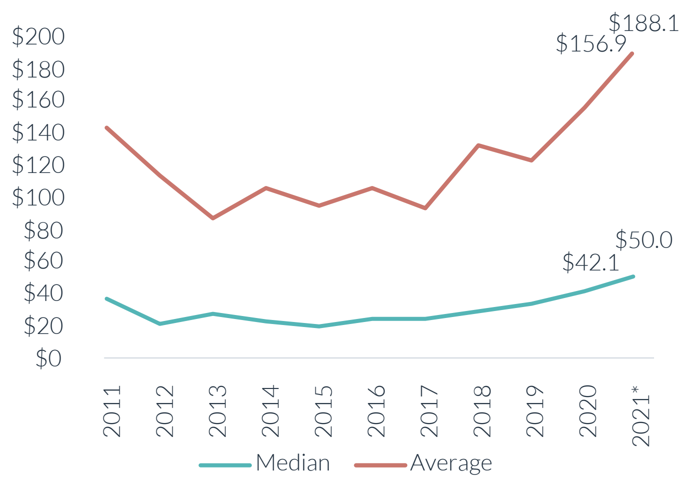
Larger funds find success during 2021

US median and average VC fund size ($M)



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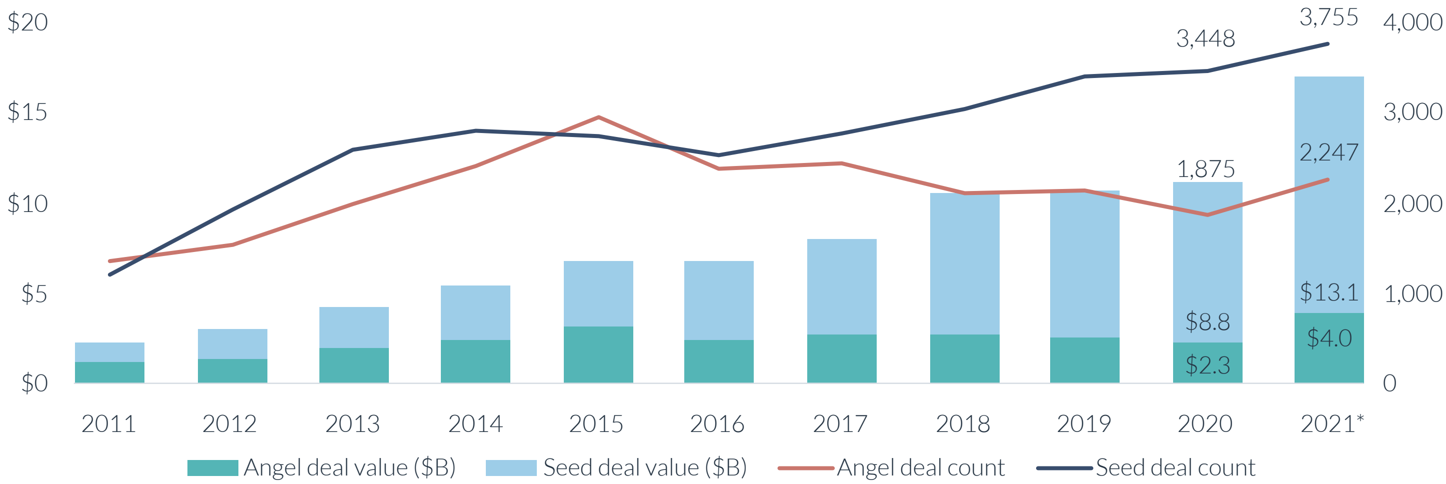
Elevated VC returns drive uptick in fundraising totals. VC firms raised a record-shattering $128.3 billion in new capital over the course of the year, representing a 47.5% YoY increase. The median and average fundraising value in 2021 also saw a notable jump to $50.0 million and $188.1 million, respectively. Venture as an asset class has outperformed in recent years. Our data shows that one-year and three-year horizon IRRs for venture have significantly outpaced every other private capital asset class, encouraging LPs to continue to allocate capital toward venture at unprecedented rates and allow VCs to raise new funds with relative ease.

Angel, seed, and first financings

Seed deals blow past previous highs

US angel and seed activity by type



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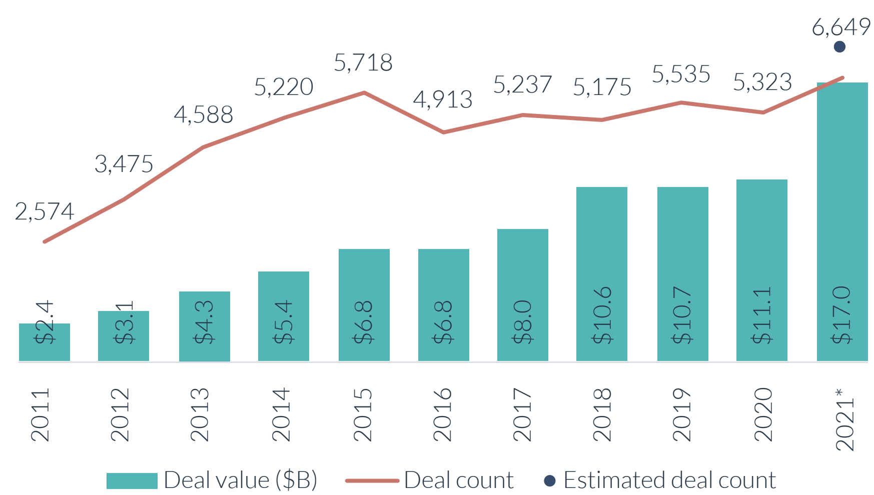
Momentum behind angel and seed activity

US angel and seed VC deal activity (combined)



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During 2021, roughly the same amount of capital was invested in seed deals ($13.1 billion) as was invested in the early stage (Series A and B) during 2011 ($13.8 billion). These figures highlight the massive change the industry has gone through over the past decade-plus. "Seed is the new Series A" has become a common figure of speech around the industry. This simple comparison highlights a simple similarity.

Angel and seed deal counts have grown by almost 150% over the past decade. In 2021, these two stages surpassed a combined 5,800 deals for the first time, notching around 6,649 deals by our estimates. That gap alone showcases the busy year that angel and seed-stage investors had. Beyond pure growth, we have seen these markets evolve. During 2021, Andreessen Horowitz raised a $400 million seed fund, and Greylock allocated $500 million to invest in seed deals. Alongside those large funds, almost 700 different nontraditional investors participated in a seed deal during 2021, a new high-water mark for that statistic and more then 5.8x the number invested in seed a decade ago.

At the same time, a record number of micro-funds (under $50 million) were raised in 2021, adding to the already high competition at venture's earliest stages. The increase in competition has pushed already elevated deal sizes and valuations higher over the past year. In 2021, seed pre-money valuations grew to a median of $9.5 million, a 35.7% growth over the previous record high of $7.0 million recorded in both 2019 and 2020.

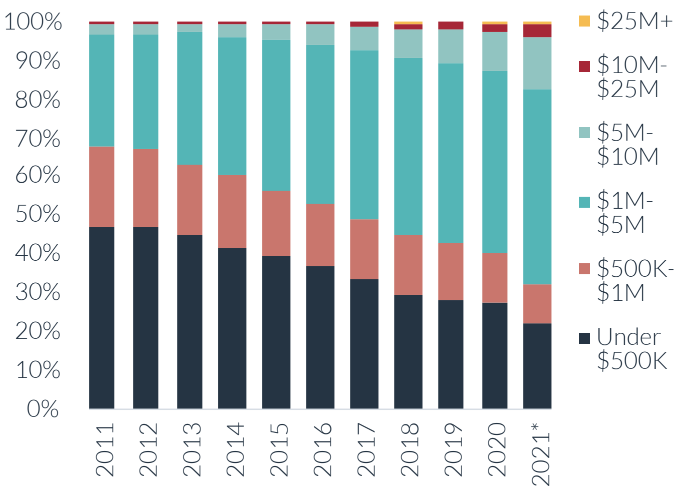
With the record number of smaller funds, we would expect the number of first financings—the initial institutional investment in a company—to show positive growth. For the first time in our dataset, more than 4,000 companies received their first venture investment during 2021, and $23.8 billion was invested into these deals. Previously, the record high for the number of first financings in a year was 3,704, and the record amount invested was just $15.3 billion.

As we approach two years since the onset of the pandemic, certain trends are coming into focus through data. Miami, which became a relocation destination for VCs and entrepreneurs, has more than doubled the number of first financings in 2021 (129) than it saw in 2020 (57) and easily surpassed the previous annual record of 72 first financings from 2017. Several other smaller markets have seen significant growth in first financings year-over-year (YoY) as well. Austin (46% YoY growth), Phoenix (47.2%), and Philadelphia (43.5%) have seen higher YoY growth in first financings than the Bay Area, New York, Boston, or Los Angeles, the four largest markets in the US in terms of venture activity—though these ecosystems still see the highest absolute numbers of first financings overall.

The high volume of capital and interest in early venture investing is meeting a high volume of entrepreneurship in the US. According to the US Census Bureau, 4.4 million businesses were launched in 2020, the highest total it has tracked since the organization began collecting these statistics in 2004.[1] That translates to an increase of more than 50% over the 2010 to 2019 average. This increase in new businesses, while not all targets for VC, should bring a major boost in opportunities for investors. With the surge in opportunities, first financings and the earliest stages of venture will likely continue to see strong growth over the near term.

Spread in angel deal sizes growing

Share of US angel and seed VC deal count by size bucket



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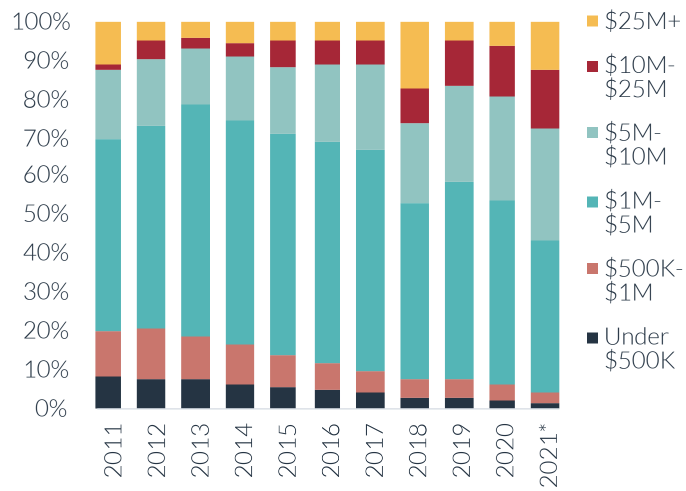
Record proportion of deal value from $10 million+ deals

Share of US angel and seed VC deal value by size bucket



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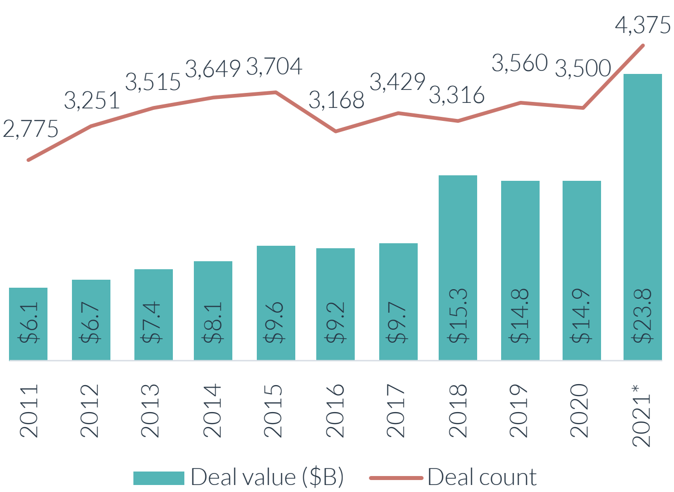
More companies, more opportunities

US first-time financing activity



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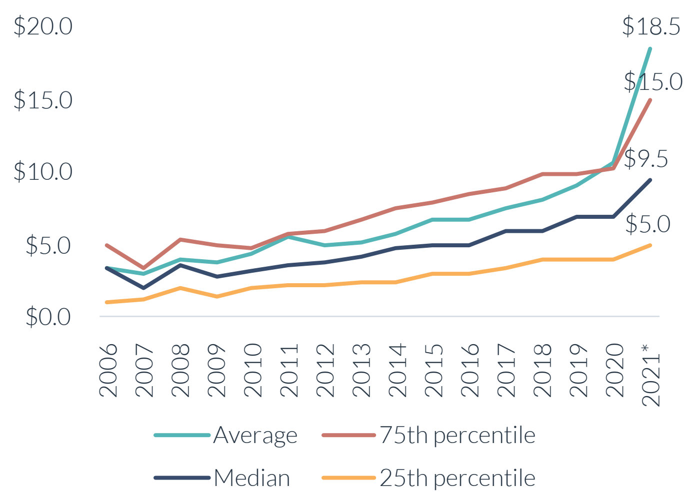
Seed valuations continue growth

Range of US seed pre-money valuations ($M) by quartile



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1: "The Startup Surge? Unpacking 2020 Trends in Business Formation," Economic Innovation Group, Jimmy O'Donnel, et al., February 8, 2021.

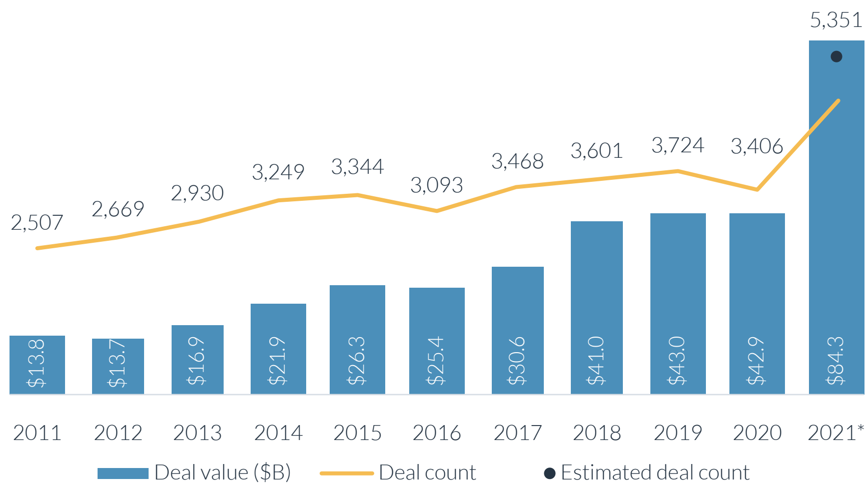
Early-stage VC

2021 was a record-shattering year for early-stage investors as VC deal activity eclipsed $80 billion for the first time ever. This is nearly double the prior record, when aggregate early-stage VC deal value hovered just above $40 billion for the last three consecutive years. If there were concerns in the last few years that the early stage had reached a plateau, 2021 certainly put those anxieties to rest. 2021 saw deal count shatter the ceiling of 5,000 deals annually—the estimated 5,351 early-stage VC deals completed in 2021 represents a significant 57.1% YoY increase over 2020's 3,406 deals. On a quarterly basis, Q4 represents the sixth consecutive QoQ increase in deal value from the inflection point seen during Q2 2020—a quarter mired with the heavy uncertainty and volatility from the onset of the COVID-19 pandemic. Indeed, Q4 notched a record high of $27.3 billion in early-stage VC deal value, doubling the Q4 total seen just one year prior.

Early-stage VC is a rite of passage for young startups looking to disrupt incumbents. Capital raised for Series A and B rounds typically goes into developing iterations of the minimum viable product (MVP) produced during the seed stage, as well as gaining credibility and increasing user base. Yet, inflationary pressures on deal sizes and valuations have shaken things up over the last 12 to 18 months. Both the median deal size and pre-money valuation for early-stage startups have hit record highs in 2021, reaching $10.0 million and $46.0 million, respectively. Founders have raised larger and larger rounds as our VC dealmaking indicator points to a period of unprecedented founder friendliness. In fact, more early-stage VC mega-deals (deals at or exceeding $100 million, typically reserved for late-stage venture) were completed in 2021 than the total number of mega-deals across all stages in 2017. Notably, the two largest early-stage deals of 2021 were completed in Q4. Commonwealth Fusion Systems raised a $1.8 billion Series B in December, and Sierra Space raised a $1.4 billion Series A in November.

Record-shattering year on both a count and value basis

US early-stage VC deal activity



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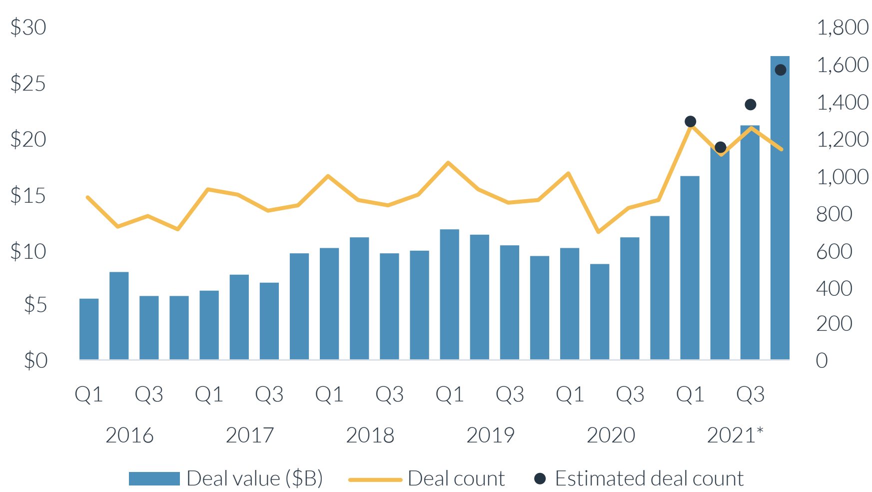
Q4 deal value doubles over two years

US early-stage VC deal activity by quarter



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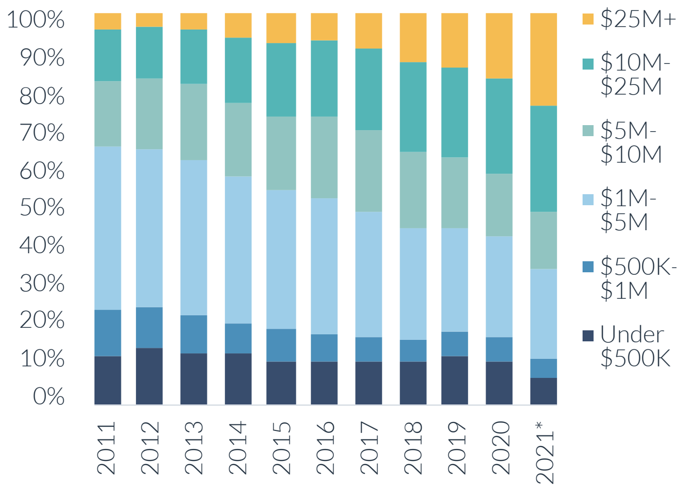
In our Q2 2021 edition of the Venture Monitor, we asserted that early-stage VC was "undergoing an identity crisis." This dynamic only became more pronounced through the second half of 2021, as upward pressure drove check sizes and valuations to new highs. Much of this can be attributed to the record levels of capital washing through the system as VC dry powder continues to hit all-time highs and an increasing number of crossover investors continue to foray into venture to participate in, or even lead, early-stage VC deals. This has fundamentally altered the venture landscape, particularly at the early stage, where the presence of these crossover investors was previously scarce and relatively uncommon. Only time will tell whether these investors are here to stay, or whether macroeconomic catalysts—such as the three expected interest rate hikes in 2022 and potential changes to carried interest tax, or a possible reinvigoration into other asset classes—will draw the swaths of crossover investors back toward late-stage VC and mezzanine financing rounds.

Over half of all 2021 deals exceeded $10 million

Share of US early-stage VC deal count by size bucket



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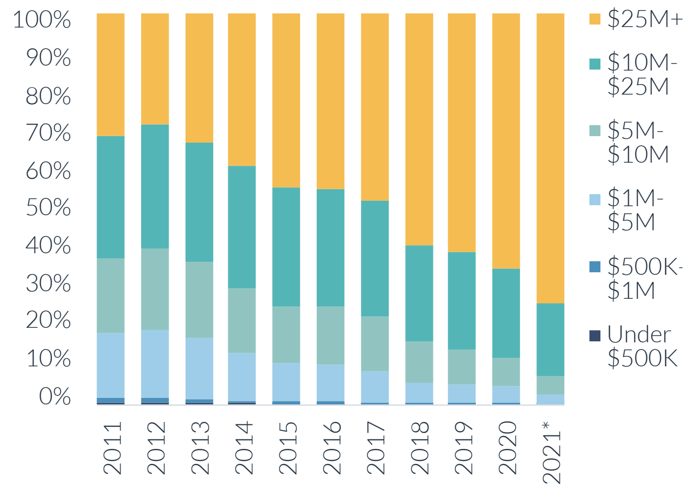
Early-stage check sizes grow at staggering pace

Share of US early-stage VC deal value by size bucket



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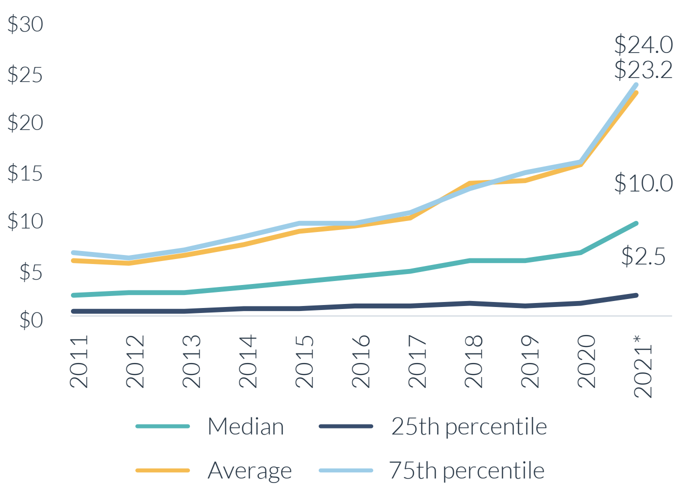
Average early-stage deal size exceeds $20 million for the first time

Rangle of early-stage VC deal sizes ($M) by quartile



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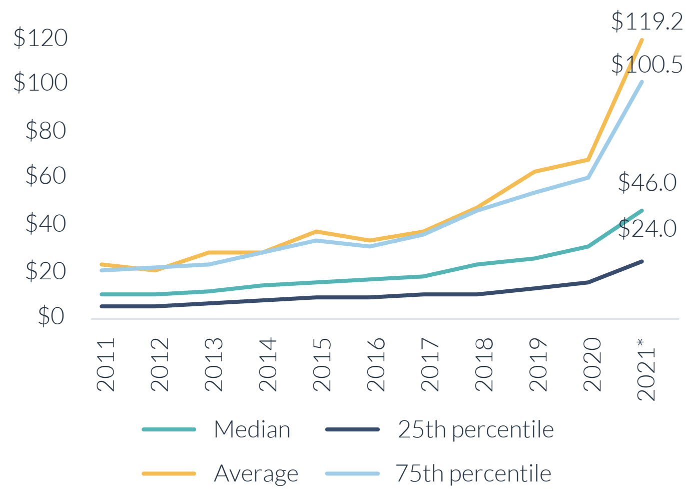
Sharp uptick in valuations observed across entire range

Range of early-stage VC pre-money valuations ($M) by quartile



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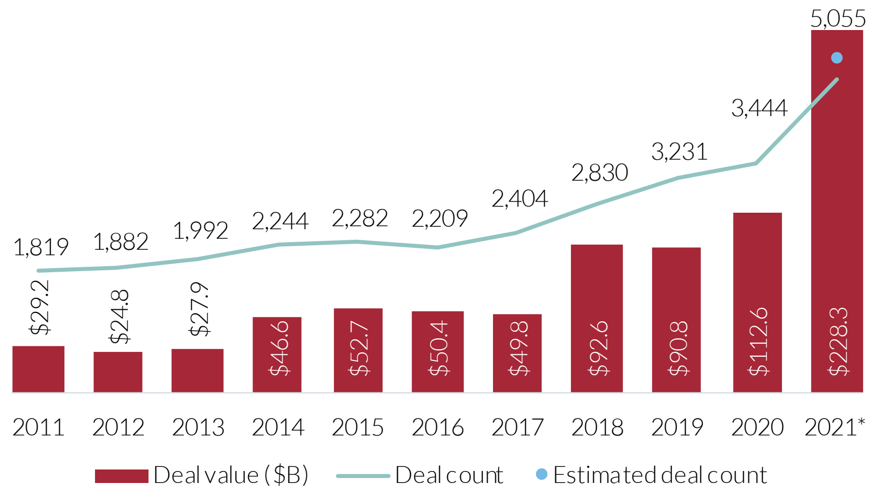
Late-stage VC

Investor demand for the most mature VC-backed startups reached new heights as 2021 recorded more than double 2020's previous late-stage investment record. Over $220 billion in capital investment went to late-stage startups in the US during 2021 across more than 5,000 deals. While the increase in capital investment catches the eye, this record deal count for the stage represents 46.8% YoY growth and illuminates the broader expansion of the number of startups and maturities that can be categorized as the late stage. Furthermore, this increase in deal count displays the persistence of the positive relationship between count and capital investment. While this is relatively expected, a rise in mega-deals could have caused the bond between count and value to deviate.

Late-stage VC investment doubles YoY

US late-stage VC deal activity



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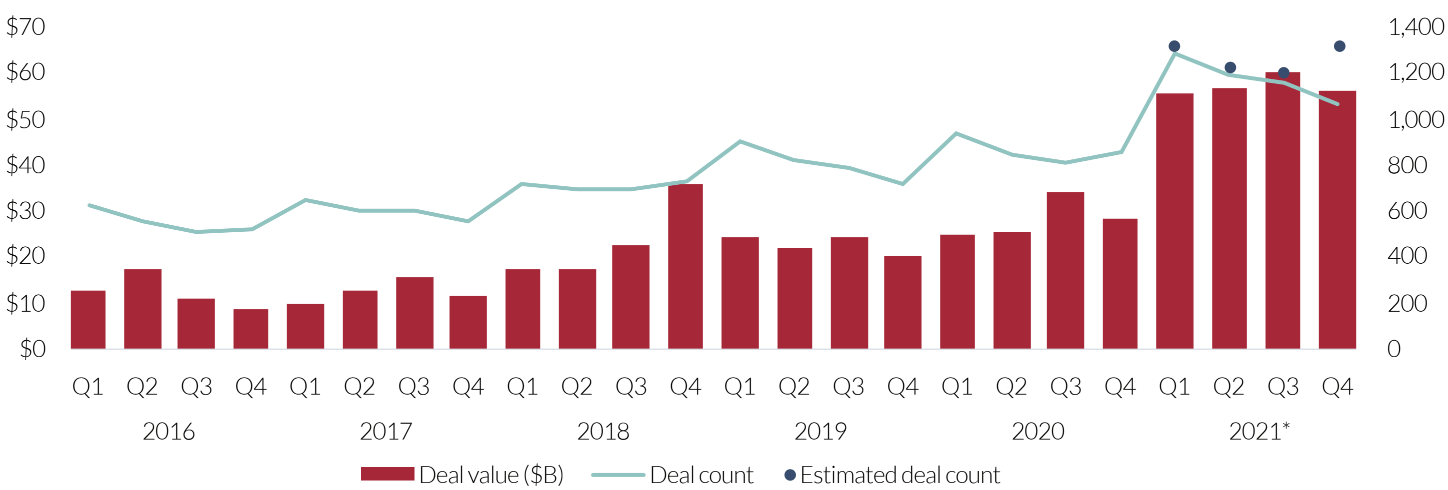
Speaking of these outlier VC financings, VC mega-deals have recorded an exceptionally robust 2021, which has undoubtedly driven a significant portion of overall capital investment. 659 of those late-stage deals over $100 million closed during 2021, with 171 of that total occurring during Q4. The acceleration of this activity has increased significantly quicker than broader late-stage dealmaking in the last few years as interest from crossover investors has fed the appetite for massive VC financing rounds. We see this in the data as YoY late-stage deal count growth reached 46.8% in 2021, while YoY growth in late-stage VC mega-deals hit 141.4%, highlighting the effect of this marginal capital flowing into crossover deals.

2021 sustains elevated dealmaking pace throughout the entire year

US late-stage VC deal activity by quarter



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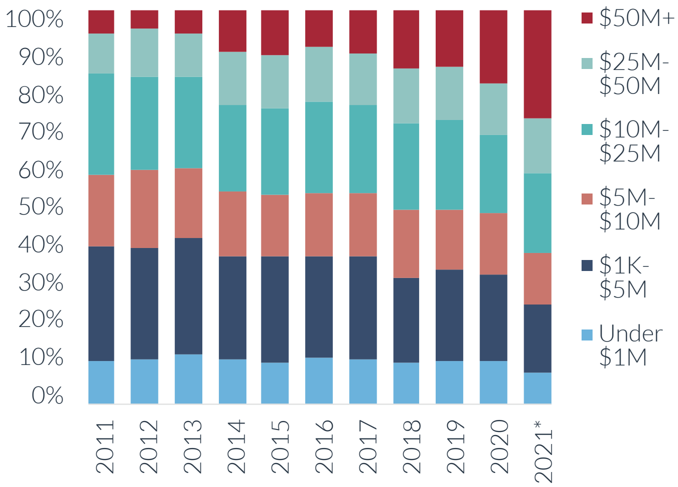
Large deals become increasingly common

Share of US late-stage VC deal count by size bucket



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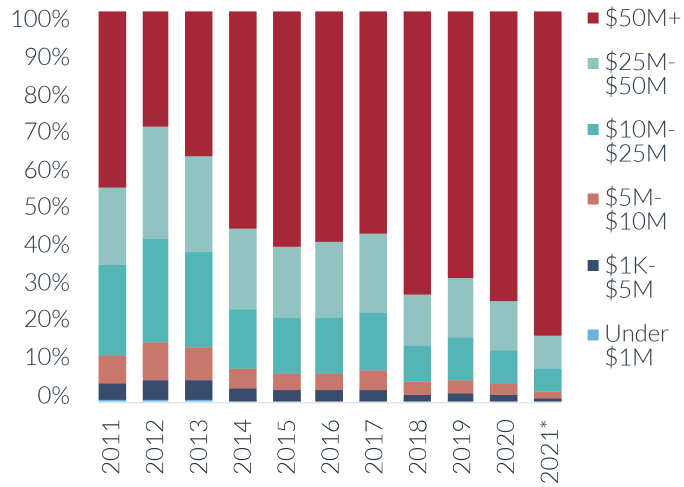
Mega-deals increase dominance to match higher volume

Share of US late-stage VC deal value by size bucket



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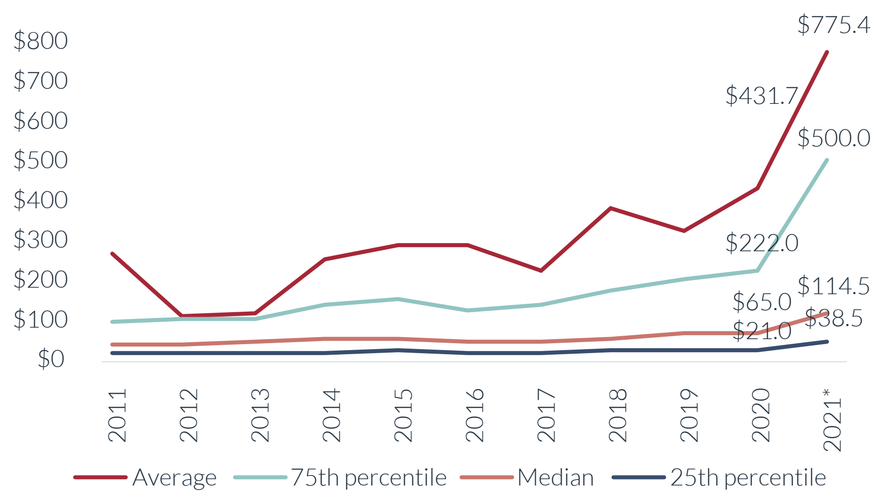
The recent returns of the VC strategy have helped drive the historic influx of capital to the late stage. The chase to achieve "venture-like" returns continues to pull in new participants to the VC ecosystem. Additionally, this has second-order effects, such as encouraging growth in entrepreneurship rates for potential first-time or serial founders that have seen the recent success of the market and increasingly founder-friendly environment. As we move into 2022, some uncertainty has inevitably surfaced surrounding the future of capital availability to late-stage VC-backed startups. It will be key to keep watch over a potentially changing macroeconomic climate to see how the VC exit market and public equities react to anticipate shifts in nontraditional investor participation.

Late-stage valuations continue to climb as capital availability swells

Range of late-stage VC pre-money valuations ($M) by quartile



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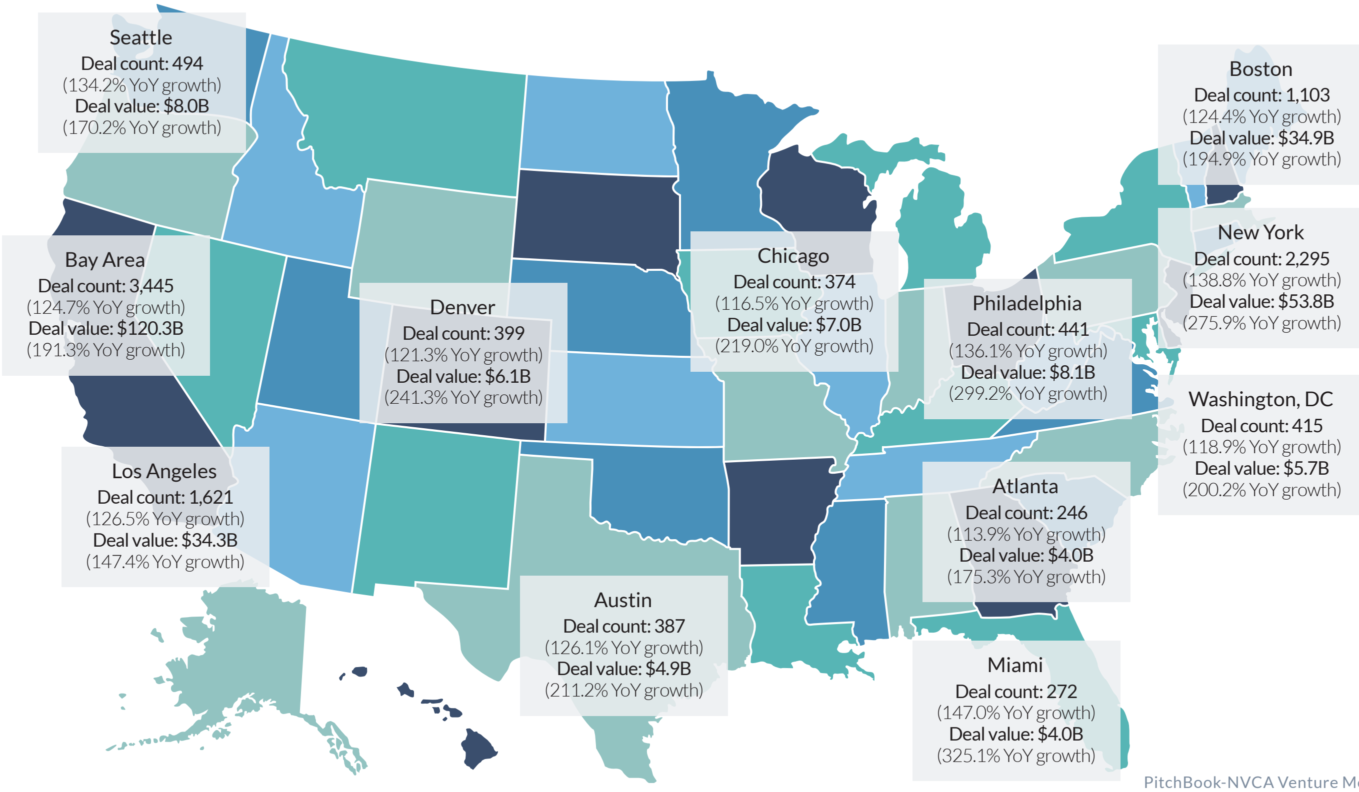
Regional spotlight

During 2021, capital spread across the US more than ever before



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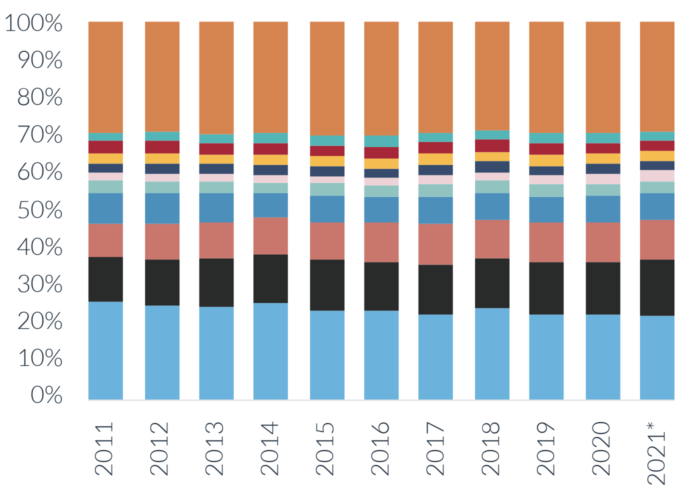
Top four markets control more than half of deal count

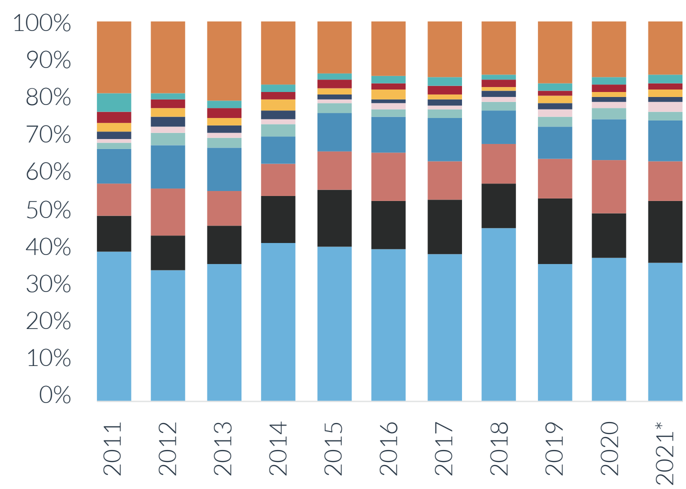
Share of US VC deal count by CSA



PitchBook-NVCA Venture Monitor
*As of December 31, 2021

In record year, Bay Area sees one-third of all deal value

Share of US VC deal value by CSA



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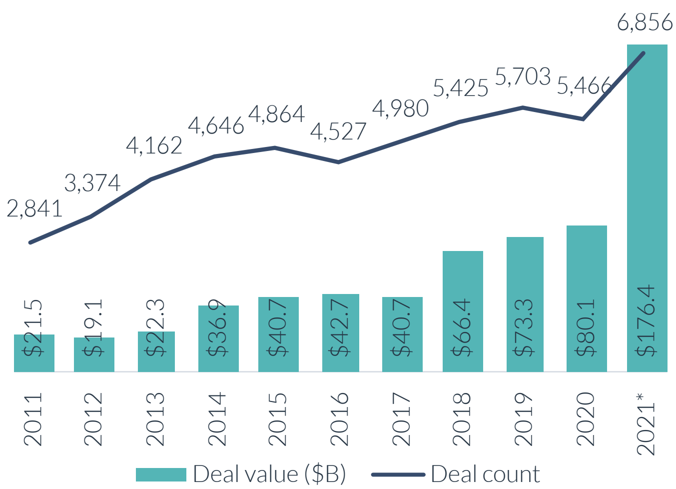
Enterprise tech

Enterprise tech sees watershed year

US enterprise tech VC deal activity



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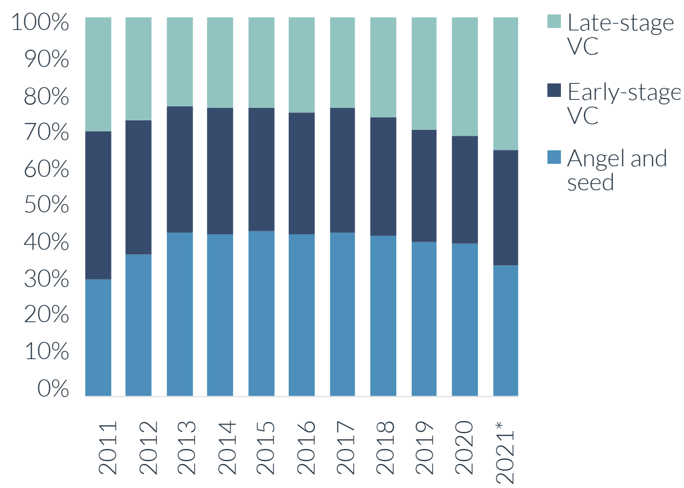
Angel and seed sees deal proportion decrease

Share of US enterprise tech VC deal count by stage



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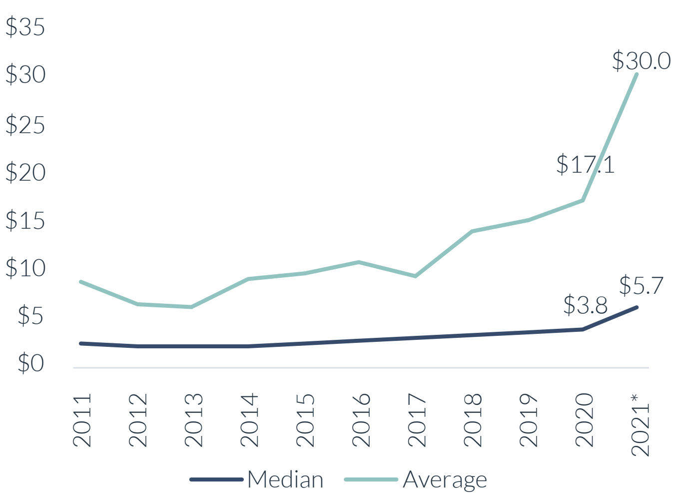
Average deal size nearly doubles over 2020

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



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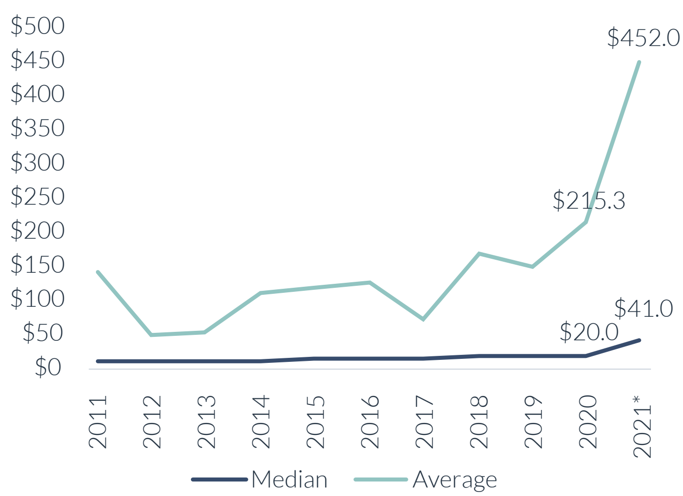
Pre-money valuations jump in 2021

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



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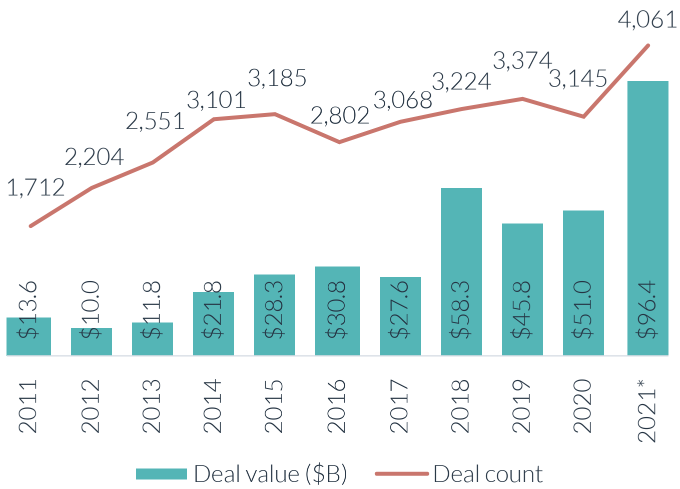
*As of December 31, 2021

Consumer tech

Deal count grows more than 30% in 2021

US consumer tech VC deal activity



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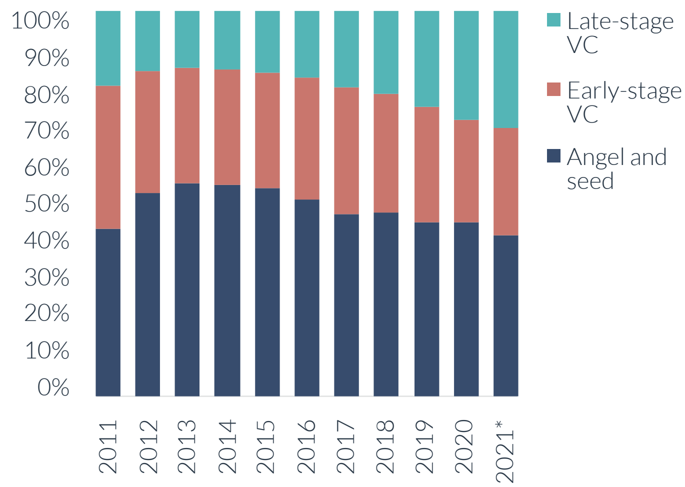
Companies are raising more rounds, boosting late-stage deal count

Share of US consumer tech VC deal count by stage



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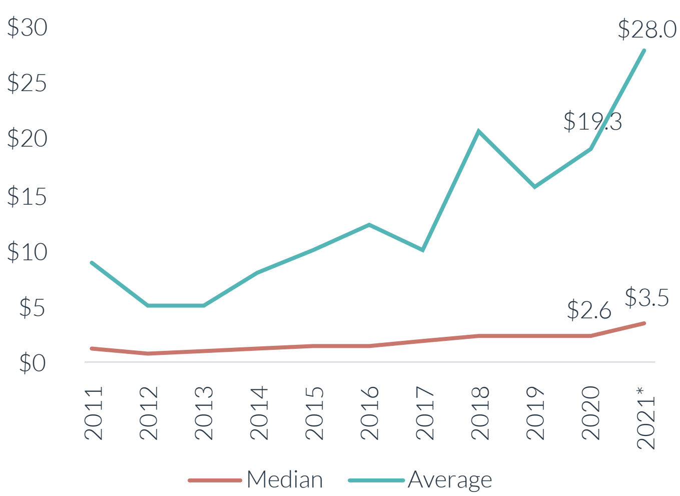
Consumer tech deal sizes reach new record

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



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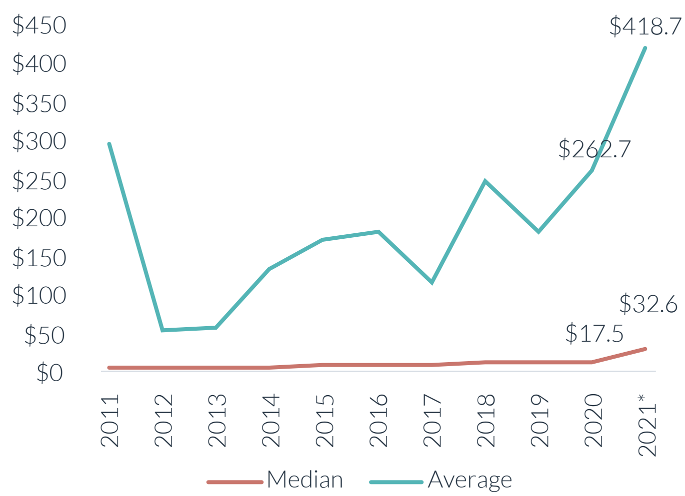
Valuations see sharp increase in 2021

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



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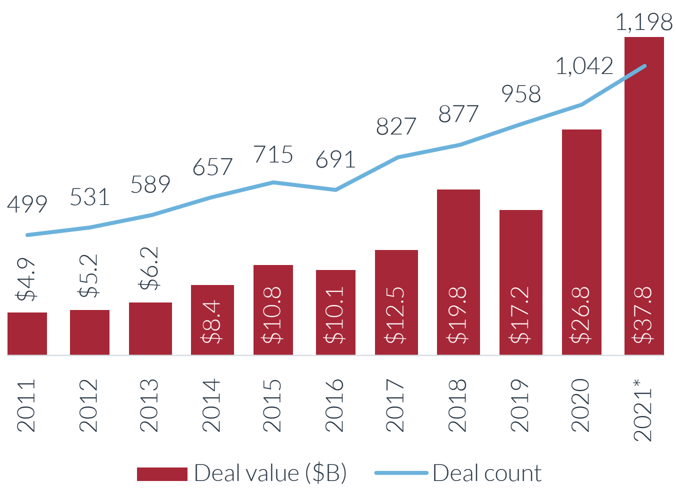
Biotech & pharma

Biotech notches new record but grows slower than aggregate market

US biotech & pharma VC deal activity



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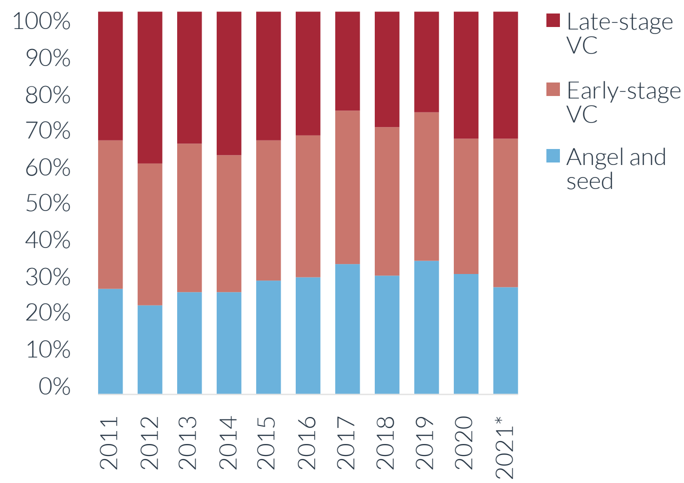
Second consecutive year of share loss by biotech seed deals

Share of US biotech & pharma VC deal count by stage



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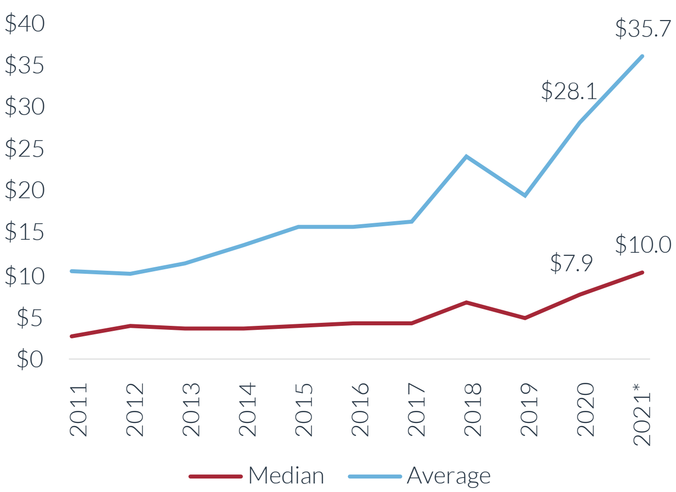
2021 round amounts increase moderately YoY

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



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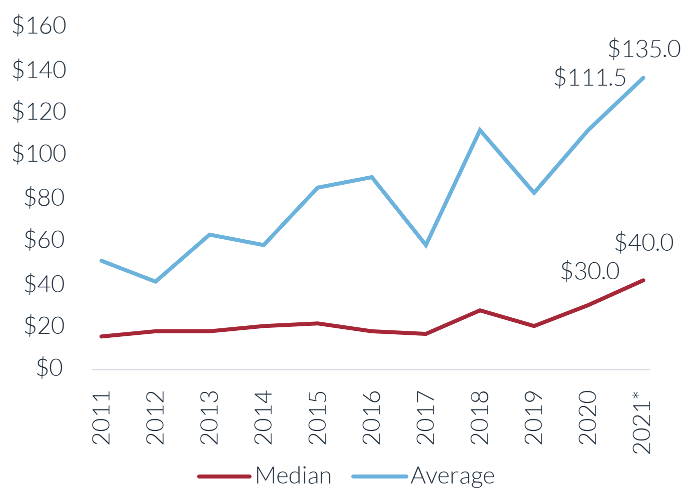
Biotech valuations maintain growth trend

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



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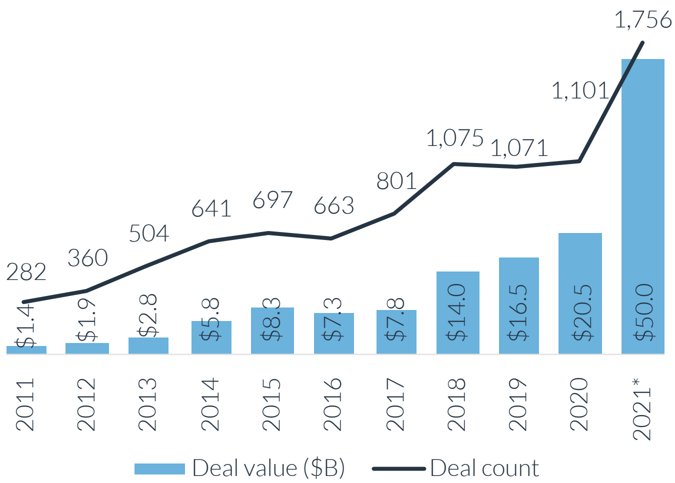
Fintech

Fintech capital investment explodes to $50 billion in 2021

US fintech VC deal activity



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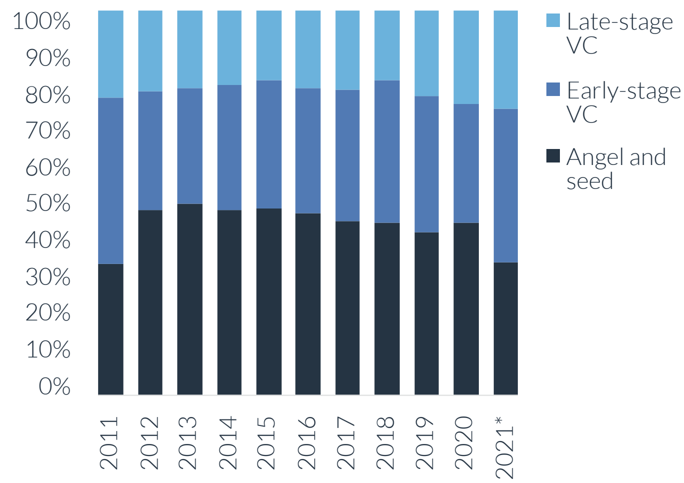
The fintech vertical matures

Share of US fintech VC deal count by stage



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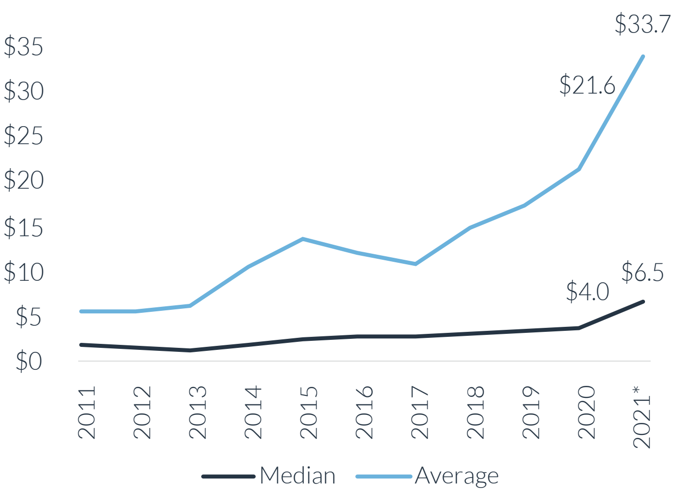
Deal sizes record 50% YoY growth across median and average

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



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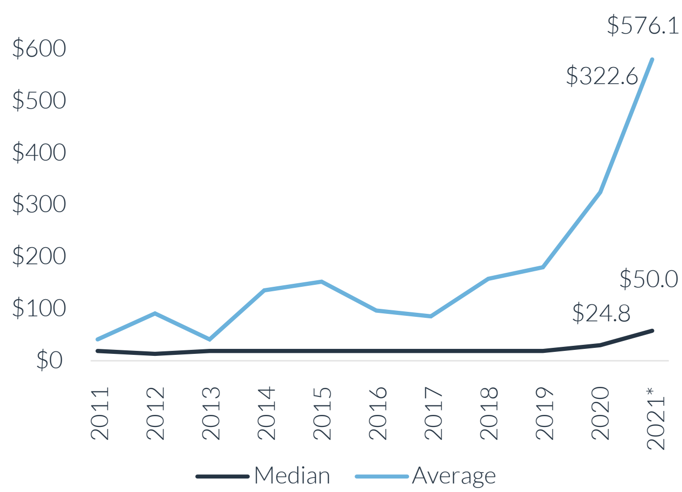
Investor demand drives spiking valuations, especially at the late stage

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



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Insperity: The Return from Crisis Management to Strategic Leadership

Q&A with Robert Schwandt

The business impacts of the COVID-19 crisis thrust many independent companies into VC consideration at discounted valuations. While they may be available, their weakened state certainly calls for intense investor scrutiny.

In early 2019, the world, markets, and companies were prospering. Enter an obscure virus from an ocean away that rapidly filled the earth and everything changed. Fear gripped the nation, governments implemented restrictions, and employees were sent to work from home. Soon, unemployment subsidies replaced paydays. Companies scrambled to reinvent their business models to salvage revenue. Widespread disruption of consumer relationships, supply chains, and workforces sent profits plummeting and many companies to extinction.

The Innovation Gap

Disruptive forces and rapid change are a constant—even a catalyst—in the VC space. But this pervasive and unfamiliar disruption was more complex than any before. COVID-19-related changes were so massive that they created a strategic gap; a gap we call the "Innovation Gap."

The Innovation Gap is a sudden and significant disruption of a company's normal direction or pace of change that requires a strategic adjustment. All companies have an individual pace of change that they manage based upon their industry and competition. Normally, change is "evolutionary," gradual in nature, which business leaders anticipate and factor into their strategic plans. In the absence of a disruptive event, company strategies match the pace of change.

The pandemic sparked a "revolutionary" change for businesses—a flash cut to nearly unmanageable amounts of change creating an innovation gap. Company leaders were forced to immediately suspend strategic plans with survival plans containing measures to fill the gap.

A Heroic Performance

Leaders mustered their best crisis management skills to rethink, refocus, and rediscover core competencies. To address the innovation gap, processes were reengineered, positions redefined, and waste was eliminated. For many it was a patchwork of sometimes not-so-elegant solutions. The exercise secured survival and surfaced some attractive takeover candidates. While successful, these short-term adaptations alone may not justify incremental investment, especially considering the customer, economic, and workforce challenges that lie ahead.

Consumer and Economic Changes

The crisis accelerated consumer adoption of online shopping, which is unlikely to return to pre-pandemic levels. Pandemic households also retrenched to buying necessities rather than luxury goods. However, as salaries replace support payments, some demand for higher-end goods is resurfacing.

Economic obstacles include the lingering microchip shortage, which has paralyzed production of everything from smart phones to automobiles. Unstable supply chains persist as a tactical priority. Unpredictable inflation will continue until the economy recalibrates to manageable levels of price performance. These business and consumer complications will embroil M&A activity for some time.

Robert Schwandt
Regional Manager, Northwest United States

Hailing originally from the great state of Texas, Robert Schwandt comes with over 24 years' experience leading people and building high-performance teams. A successful entrepreneur himself, Robert knows first-hand what it takes to start, build, and ultimately sell a successful business. As a Regional Manager for Insperity, Robert now directs the sales and operations for the Northwest United States, and simply sees his role as helping people succeed. Robert and his wife Tiffany reside in Walnut Creek, CA, and has two adult children living in Houston, TX.

New Workforce Realities

Future challenges also include the very heart of every business—its people. Prolonged unemployment and work adaptations altered the workforce itself. Employees made remote officing work and liked it, reprioritizing work around family needs. As the threat of the contagion normalized, leaders met resistance to returning to the office. Short-staffed companies needing to rebuild discovered a shortage of willing and able workers. To be competitive in the war for talent, many strengthened their employee value proposition. Others drove even more process and staffing design changes. The "great resignation" of critical mid-career employees feeling their careers stalled during the pandemic have ventured away to seek opportunity and better income. Finally, many senior workers opted to retire rather than restart their careers. These workforce trends raise a red flag over acquisition candidates' staffing outlook.

Leaner, Smarter Competition

Deal makers surely realize the heroic actions of the past year won't solely sustain companies in the future. Competitors too, have restructured, pruned spending, optimized processes, and redefined employee roles. All these measures are now the price of admission, not a sustainable competitive advantage. Strategic investors must carefully factor these economic and human capital challenges into the competitive strength of acquisition targets.

Crisis Management to Intentional Strategy

With the shock and awe of the pandemic behind us, a shift back to strategic leadership is now imperative. The innovation gap is largely filled for now, and markets have returned to a more familiar change cadence. Leaner companies are running profitably with focused manpower, improved controls, and new automation. Companies must now retire their disaster plans and return to intentional competitive strategies that align with their new operating realities. Sustainable performance will require strategy and forward-looking accountability.

People are the Company Strength

It should not be summarily assumed that surviving companies are ready for the future. There is more to be done. Successful leaders will build back utilizing the collective knowledge and distributed experience of their employees. A key leadership concept once coined by Insperity CEO Paul Sarvadi says, "Business problems have people solutions." Companies' greatest assets are their people. A capable and experienced employee base should be high on any acquisition prospect evaluation. Leaders with the wisdom to draw upon that strength should probably be next on the list.

Human Capital Driven Success

There is an essential synergy between strategy and human capital strengths. As companies reenthrone strategy as their guiding force, they must include a strong human capital strategy that unlocks high performance. Engaging employees in planning leverages their deep understanding of products, customers, and internal issues which may be executive blind spots and are key in early-stage valuation.

Rapid-fire contingencies, short-term imperatives, rationalized processes, and temporary assignments executed without the luxury of change management left most companies with some degree of misalignment between people and plans. Misalignment wastes time and resources in circular decision making. It represents an unacceptable operational risk to future investors. Measures to ensure that executives and employees are working in complete alignment with company strategy are a priority.

Going forward, managers must be trained and skilled in managing alternative work configurations including remote, hybrid, or others. Alternative work arrangements require a new approach to management with more focus on productivity and less on policing time. Onboarding, delegation, team building, and performance reviews are administered differently outside the office.

Take Care of Your People

In the tightening job market, power has shifted from employers to employees. Candidates are now demanding more from their employment relationships. They want higher wages, better-targeted benefits, opportunity, and work-life flexibility. They want employers who value them and supervisors who understand and accommodate family and personal needs. In exchange they offer productivity and longevity.

In the fight to mitigate COVID-19, survival leaders and employees accumulated heavy emotional burdens at work and at home. Most have yet to fully work through the distress that manifests itself in short tempers, depleted interpersonal skills, depression, difficulty maintaining focus, and fatigue. Returning to peak performance requires an intentional process of personal regeneration. Here are six steps Insperity encourages our people to walk through:

First, take your temperature, which means take some time to do a self-evaluation of your personal emotional state. Second, take a breath. Pause and step back from the rush of the day-to-day and calm down, recenter. Third, take a break from the things that add to your stress. Forego a few news cycles and set a time each day to reconnect with something that inspires you. Fourth, reset your priorities to focus on what is individually most important to you in the long run. Fifth, reset your attitude. Resolve each day to focus on the positive and not to be driven by the endless assault of minor crises. Sixth and finally, reset your goals. Goals keep us facing forward and looking beyond our challenges to a brighter future.

The return to prosperity requires companies to acknowledge and address the operational deficiencies contained in their specific innovation gaps. Successful companies strengthen their people and leverage their distributed knowledge and experience to accomplish it.

Insperity Can Help

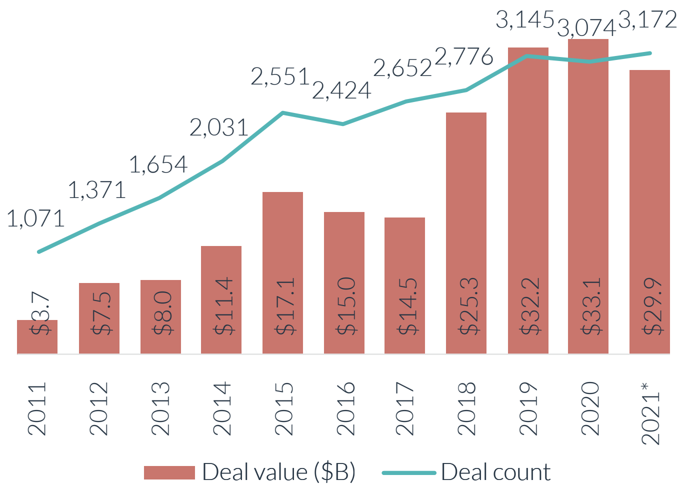
At Insperity, we help companies realize the full potential of their human capital while leaders focus on what they do best. Let us manage your HR administrative details, provide industry leading benefits, ensure regulatory compliance, and help develop productive forces.

We have mastered human capital, so you don't have to—it's what we do! Contact Insperity today at 855-640-0280.

Venture debt

Debt value slows despite record loan count

US venture debt deal activity



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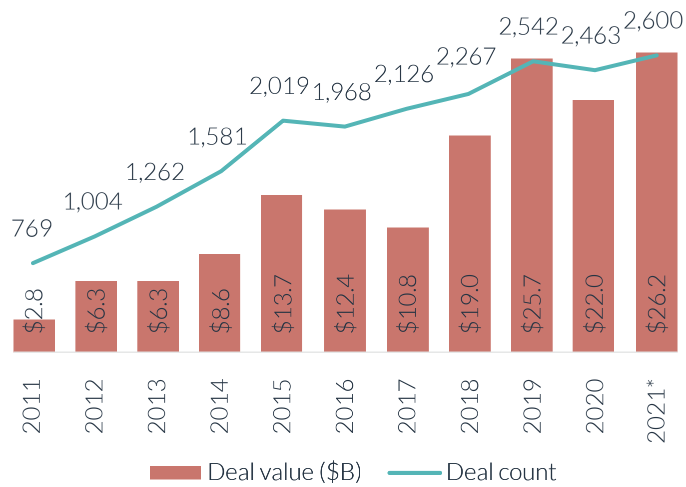
Tech sees strongest year yet

US tech venture debt deal activity



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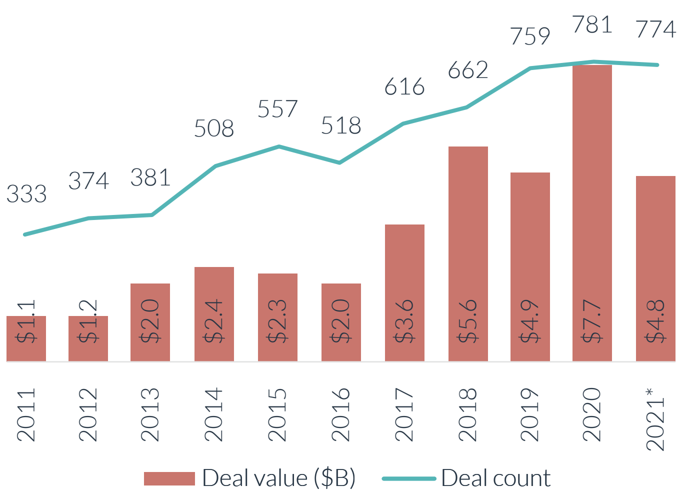
Healthcare venture debt value falls

US healthcare venture debt deal activity



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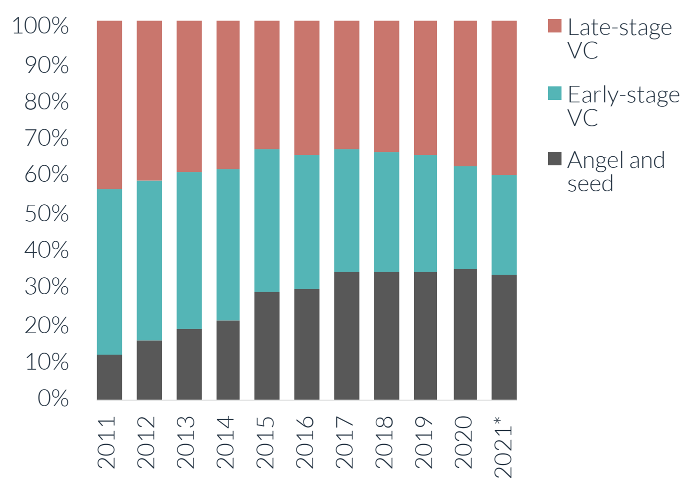
Late stage increasing proportion of total

Share of US venture debt deal count by stage



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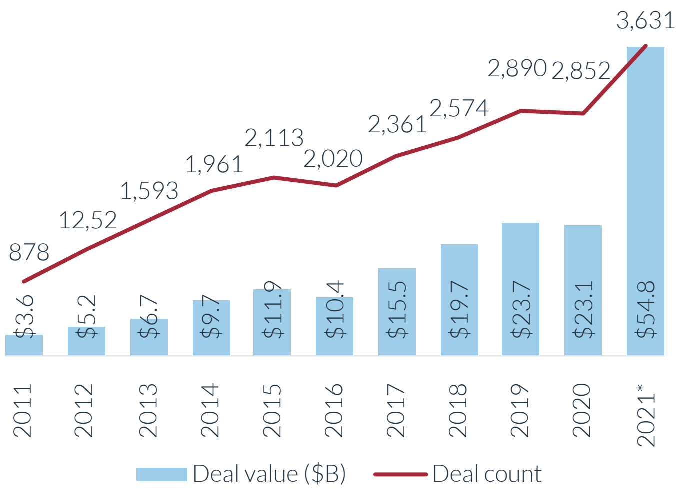
*As of December 31, 2021

Female founders

Female-founded startups more than double 2020's capital investment

US VC deal activity for companies with at least one female founder



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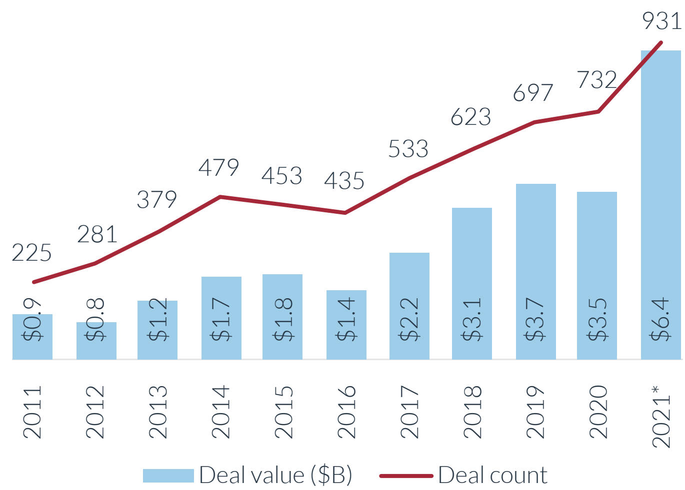
All-female-founded businesses record robust activity

US VC deal activity for companies with all female founders



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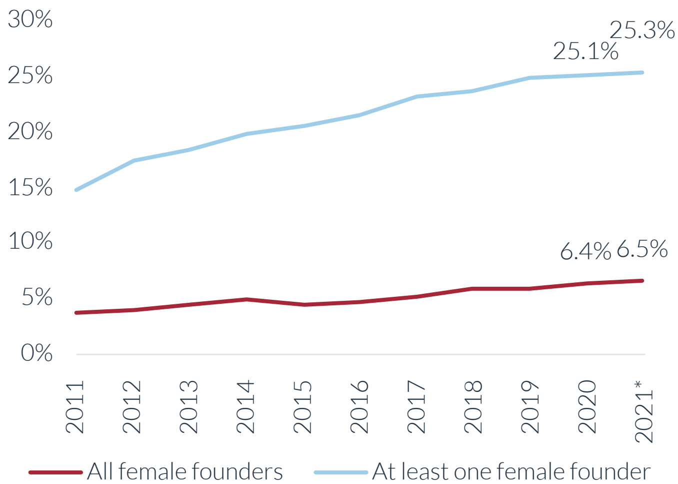
Female-founded businesses maintain market share of deal count in 2021

US deal count for female-founded companies as a share of all VC deals



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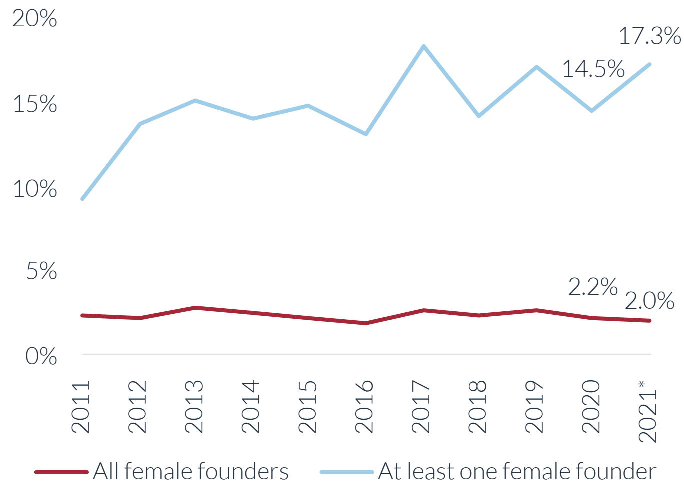
*As of December 31, 2021

Capital flowing to female-founded businesses keeps up with rapid dealmaking pace

US deal value for female-founded companies as a share of all VC deals



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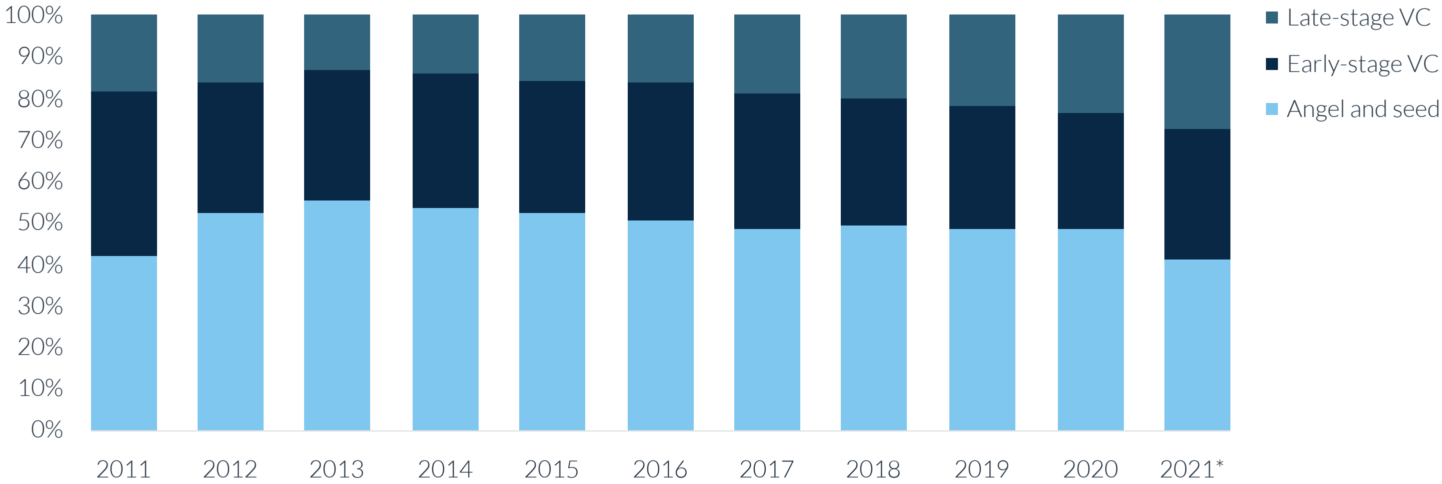
Seed and early-stage business still dominate deal flow, but the late stage is creeping higher

Share of US female-founded company VC deal count by stage



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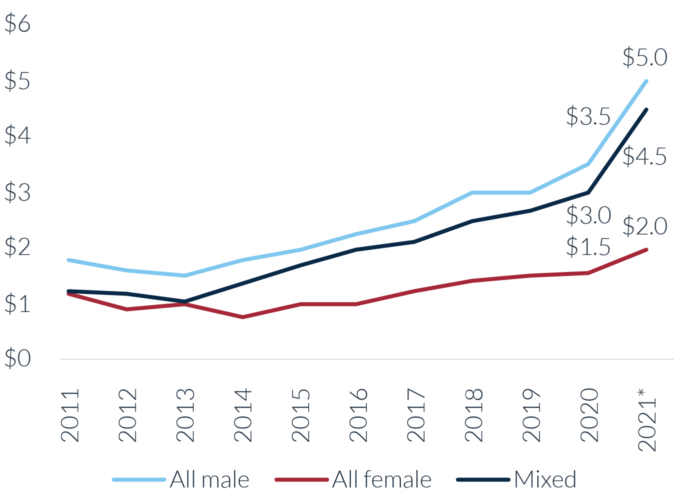
Deal size growth parallels the market explosion

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



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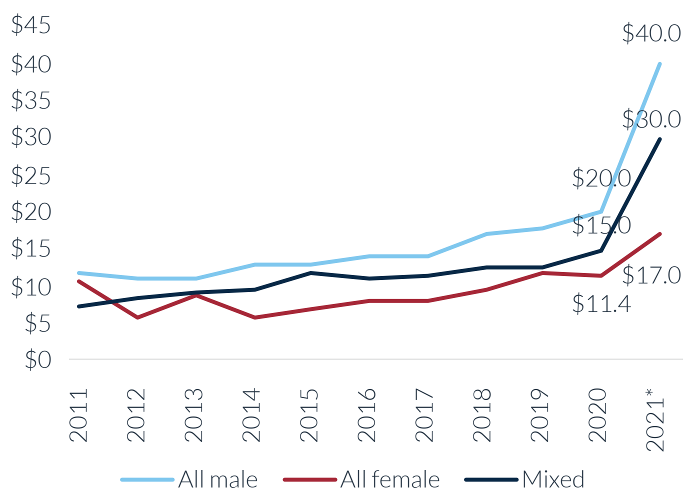
Mixed-gender founding teams see YoY doubling of median valuation

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



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New York CSA soars in terms of funding female founders

Top five US CSAs by capital raised (2019-2021*) for companies with all female founders

Combined statistical area	Capital raised ($B)
New York	$3.77
Bay Area	$3.76
Los Angeles	$1.46
Philadelphia	$0.77
Boston	$0.71

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*As of December 31, 2021

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

Combined statistical area	Deal count
New York	515
Bay Area	435
Los Angeles	309
Boston	117
Seattle	81

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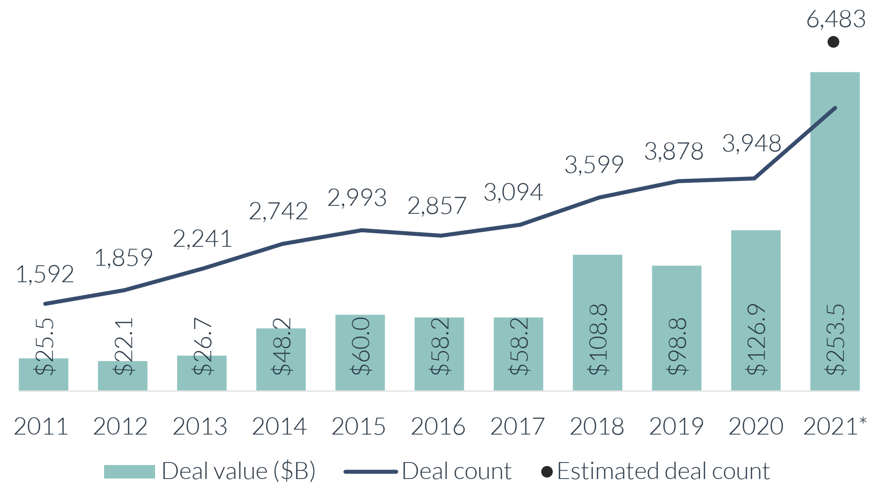
Nontraditional investors

Nothing may have characterized 2021's VC landscape more than non-VC firm activity within the space. Nontraditional institutions participated in an estimated 6,483 deals, which produced $253.5 billion in deal value. Noting that nontraditional venture investors have driven trends seems almost an understatement when looking at these figures. If nothing else, the 64.2% increase in deal count shows that this group of investors has leaned into the venture strategy, as it is higher than the overall increase in deals the industry has witnessed this year (40.1%). Barring a major financial event or market crash, we expect this activity level to increase in the coming year, especially from corporate VCs (CVCs), which have continued to enter the market at an astonishing pace.

Nontraditional investors leaned into VC in 2021

US VC deal activity with nontraditional investor participation



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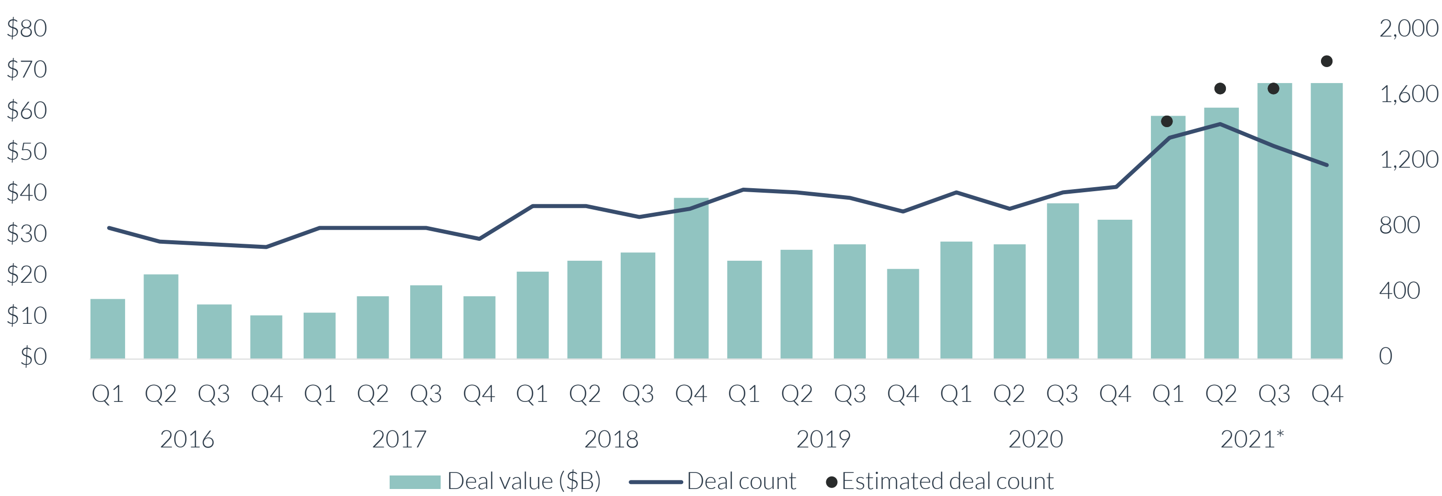
Many headline trends in venture over the past few years have been driven in large part by nontraditional investors, including the growth of VC mega-deals. Over that same timeframe, there were times when we reported that more than 90% of these deals had nontraditional investor participation. We saw this trend accelerate in 2021 when over 800 VC mega-deals closed—more than the past three years combined. Over 700 of those deals received investment from a nontraditional firm.

But why has 2021 experienced such an acceleration of this trend? Many industry participants predicted the pandemic would clip these investors' activity. Instead, it seems to have enhanced nontraditional investors' conviction. Venture returns from the past several years have undoubtedly led to an increase in nontraditional investment, as VC has been the highest performing private capital asset class over recent horizons. Companies have continued to wait longer and grow larger prior to going public, leading public market funds to

2021 posts unprecedented quarterly activity levels

US VC deal activity with nontraditional investor participation by quarter



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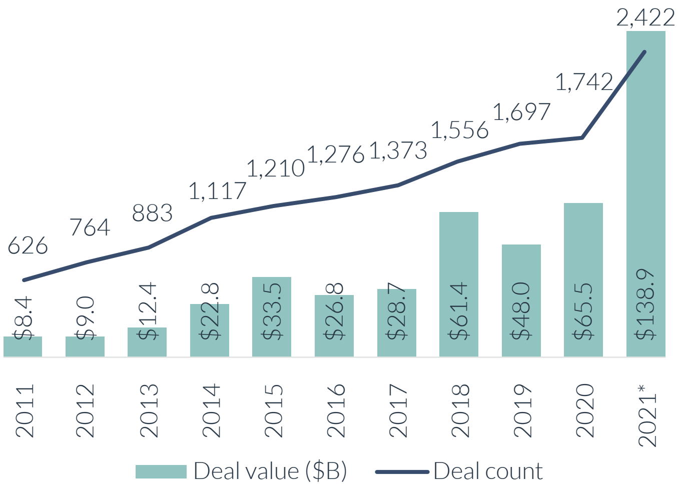
Nontraditional investors leading more deals

US VC deal activity with nontraditional lead investor participation



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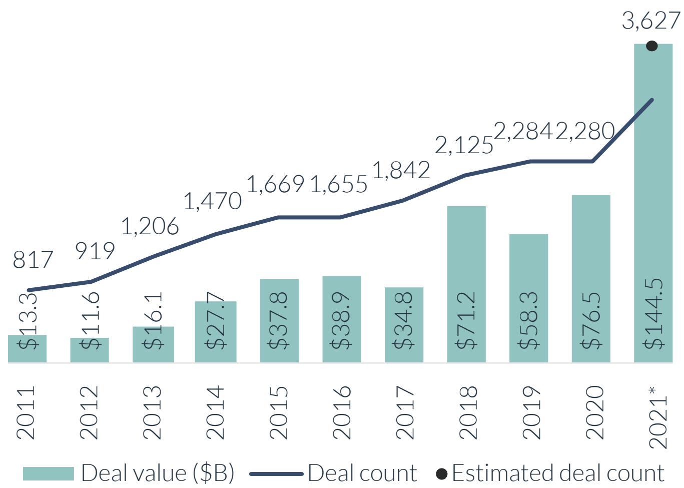
Corporate VC continues to surge

US CVC deal activity



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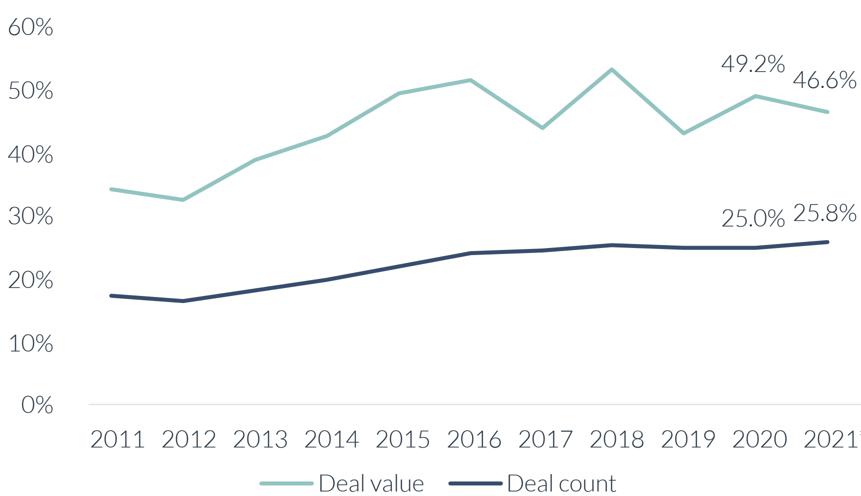
*As of December 31, 2021

miss out on a large portion of high-growth opportunities. And for corporate VCs, the ability to learn from and partner with startups operating within their product ecosystem is a valuable part of corporate growth that cannot be generated through organic research and development (R&D) programs. Unless a large market event restricts the capital pools of this nontraditional investor base, the factors mentioned above will likely continue to increase nontraditional investor activity in venture in 2022.

Corporate VC (CVC) completed an extraordinary year in 2021. Deal value participation by corporates doubled its previous high, while deal count grew by more than 50%. More than 1,800 unique corporate investors made a deal in the year, nearly 400 above the previous high. Embodying the growth of CVC is the dissimilarity between several of the newer CVCs. Coinbase, Twilio, and Blockchain.com have quickly transitioned from tech-focused VC-backed companies to VC investors, becoming some of the more prolific investors in 2021. On the other side, Scotts Miracle-Gro and Ryder Systems, both operating in sectors other than tech, each made their first VC investments and launched dedicated CVC funds in 2021. The wide gulf between the two types of investors highlights just how large the CVC investor base can grow. We expect many new CVCs to enter the market in 2022, continuing the trend we have seen in recent years.

Corporate VC participation rates hold steady

Deals with CVC participation as a share of all VC deals



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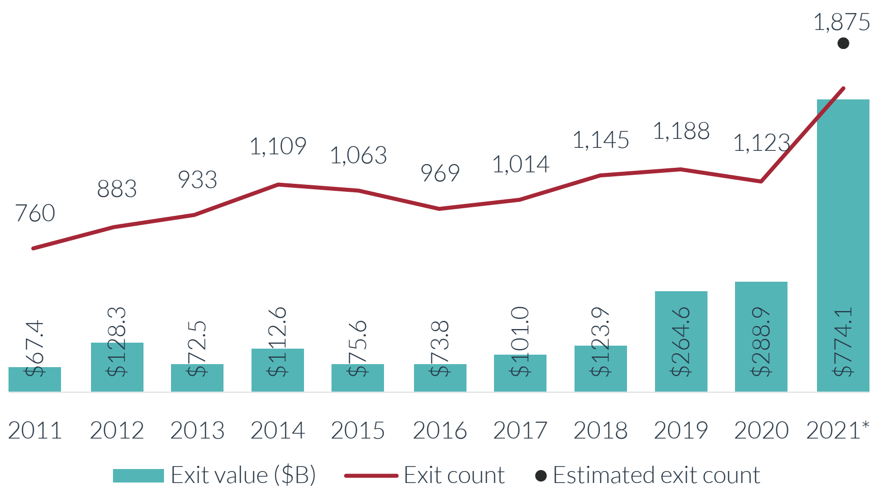
Exits

The VC exit market exceeded all realistic expectations in 2021, as Q4 continued the rapid pace of the first three quarters of the year. Through the end of 2021, total exit value was over $770 billion, representing an astonishing 168.0% YoY growth. While this looks like a complete outlier historically, we believe this move upward has been supported by the growth and maturation of the startups that have made up the VC market over the last five years. As outlined in our 2022 US Venture Capital Outlook, we have seen the inventory of startups valued over $300 million swell to well over 1,000 as of the end of 2021. Given this momentous shift, while 2021 looks like an outlier year from an annual exit value standpoint, the possibility that the exit market sustains a level significantly higher than 2019 and 2020 is fairly realistic. For this to be possible, we would have to see a consistently higher level of large exits as those liquidity events drive a majority of the overall exit value within the VC strategy. While in the aggregate they are still relatively uncommon, we recorded a near-doubling YoY of exits over $500 million to 94 exits of that size in 2021, representing a record 16.8% of total exits by count and 73.7% of exit value. Barring a broad correction in startup valuations, the inventory of companies nearing or above a $300 million valuation, which is near the median of public listings in 2021, should sustain this activity for a number of years.

Exit value spike steepens

US VC exit activity



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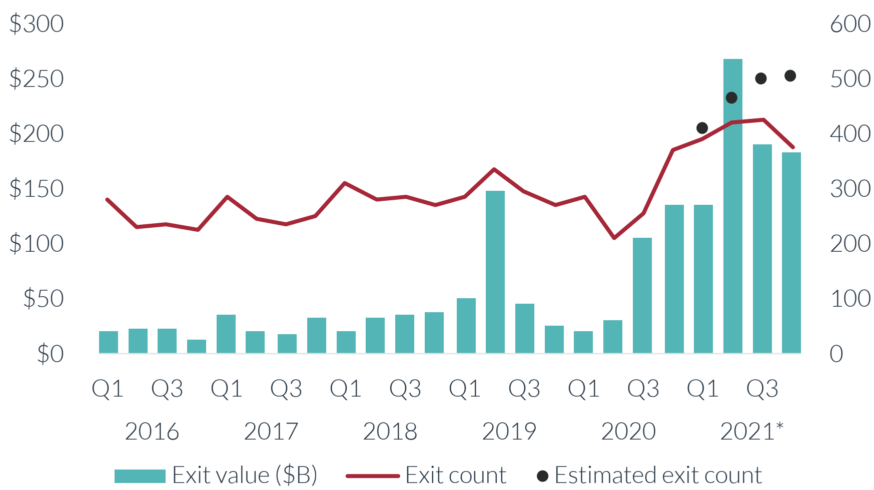
Exit counts sustain growth

US VC exit activity by quarter



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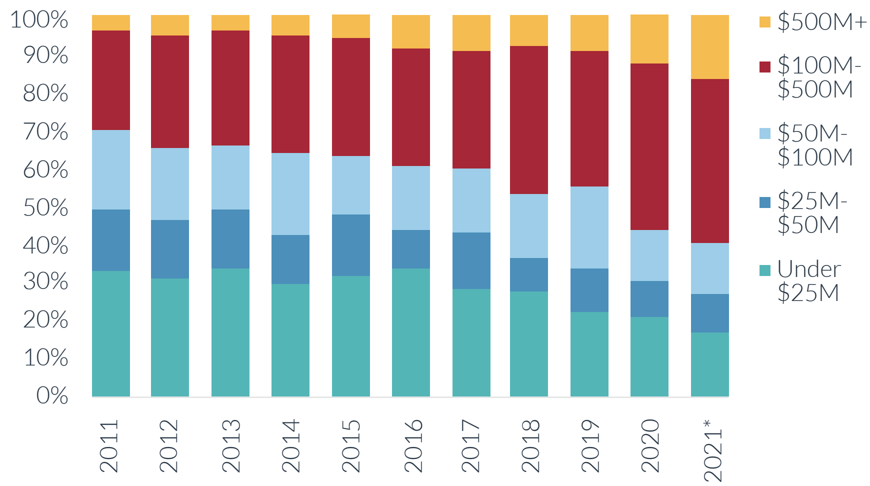
Despite this exceptional spike in exit value, exit count has also pushed to a record with over 1,800 closed in 2021. This movement in exit count illustrates that the year's performance was on the back of broad growth, in addition to a couple outlier exits, rather than relying fully on massive deals. This is also a bit of a breakout from the longer-term trend, where we recorded material exit value growth without an increase in exit count. For example, between 2018 and 2019, exit value was up 103.6%, while exit count was only up 3.4%. Exit counts are a little more constrained relative to the dealmaking ecosystem as there is a limited number of corporations and public market investors willing or well-capitalized enough to acquire or invest in startups, and investors must contend with the complexity and finality of many of those decisions. In addition, the maturation of the SPAC phenomenon in 2021 may have benefited exit totals—these vehicles undoubtedly unlocked extra liquidity capacity in the VC exit space that did not exist in prior years.

A discussion of 2021 exits would be incomplete without a mention of the public listings environment and the explosive year that exit route has recorded. Q4 put an exclamation point on 2021, with another 72 public listings and the third consecutive quarter with more than $180 billion in exit value. Rivian (NASDAQ: RIVN), Aurora (NASDAQ: AUR), and Gitlab (NASDAQ: GTLB) led the way in terms of highest-valued public listings; however, the story for full-year 2021 is still about the depth of the market, illustrated by 296 VC-backed public listings that represented 114.5% YoY growth.

Certainly, the volatility in the public markets during the last few weeks of the year introduces greater uncertainty about the IPO market in 2022. An extended downtrend in public markets, especially in sectors such as software and biotech, would disrupt the flow of new VC-backed IPOs as companies typically avoid pricing into a volatile or down market if possible. Markets go in cycles, and a reversion of valuation multiples toward the mean will occur; however, it is still unclear if 2022 will be that year. VC exit value in 2021 was extremely concentrated in exits to the public markets, even relative to previous spikes in IPO activity. Given the current backlog of highly valued VC-backed companies, we expect public listing activity will need to continue in 2022 at a rapid pace for VC investors to realize the current potential return in their portfolios. Because of this growing reliance on these public exit routes, the volume of IPO activity in Q1 2022 will be critical to the returns of the VC strategy in the short term.

Exit sizes rise, but $500 million+ group still holds only a small share of overall volume

Share of US VC exit count by size bucket



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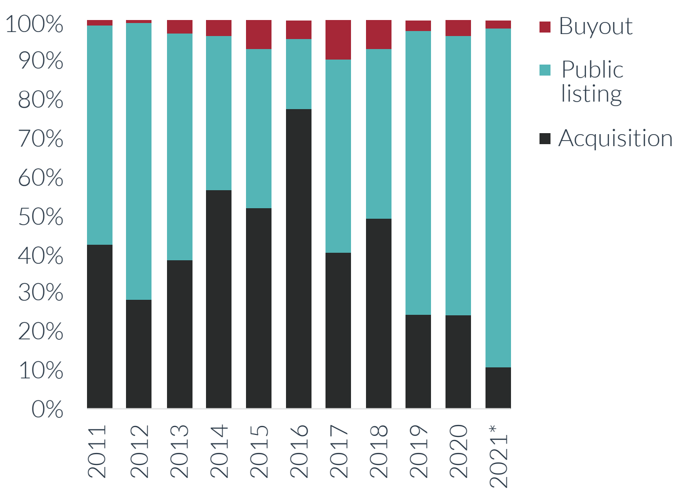
Public listings finish record year as outliers drive the robust liquidity environment

Share of US VC exit value by type



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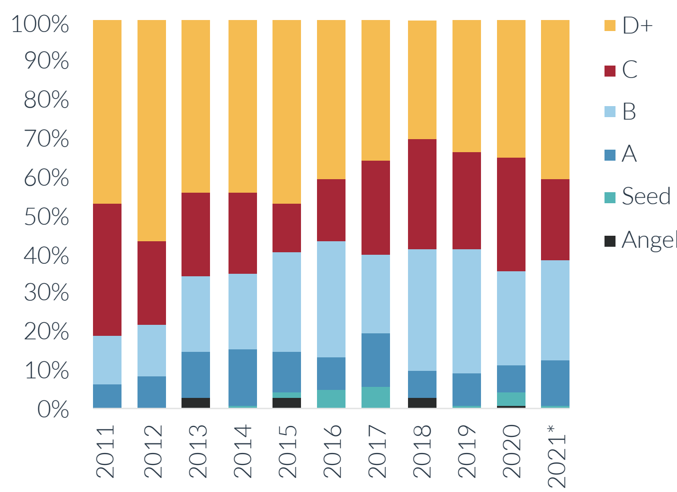
Majority of public listings follow a Series C or later in recent years

Share of US VC series prior to exit via public listing



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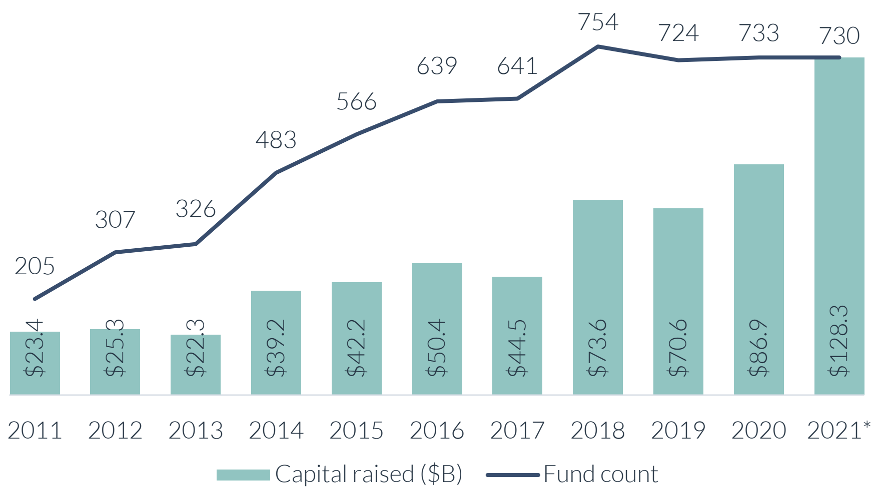
Fundraising

The abundant well of capital has yet to dry up as annual VC fundraising eclipsed $100 billion in 2021. VC firms raised a record-shattering $128.3 billion in new capital over the course of the year, representing a 47.5% YoY increase over 2020's $86.9 billion. The median and average fundraising value in 2021 also saw a notable jump to $50.0 million and $188.1 million, respectively, a significant increase over 2020's median and average fundraising value of $42.1 million and $156.9 million, respectively.

Venture as an asset class has outperformed in recent years. Our latest Global Fund Performance Report shows that one-year and three-year horizon IRRs for venture have significantly outpaced every other private capital asset class, including private equity, secondaries, real estate, real assets, private debt, and funds of funds. As such, LPs continue to allocate capital toward venture at unprecedented rates, allowing VCs to raise new funds with relative ease. Furthermore, some VCs have felt the urgency to raise larger funds to compete with the swaths of crossover investors that have infiltrated venture deals over the last 12 to 18 months.

VC fundraising eclipses $100 billion

US VC fundraising activity



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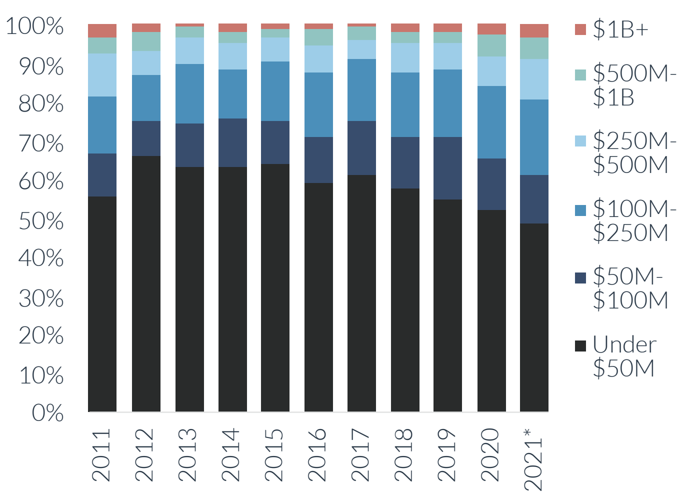
On the other end of the spectrum, the amount of capital raised by first-time managers picked up steam in 2021 after first-time fundraising value dropped off sharply in 2020. First-time VC fundraising activity notched $9.1 billion across 172 funds in 2021. These included notable first-time funds, such as Walden Catalyst Ventures' $550.0 million inaugural fund focused on deep-tech startups and UP Partners' $230.0 million Fund I focused on transportation and logistics startups. In a similar vein, emerging managers (those that have raised fewer than four funds) also saw

Larger funds continue to increase in count

Share of US VC fund count by size bucket



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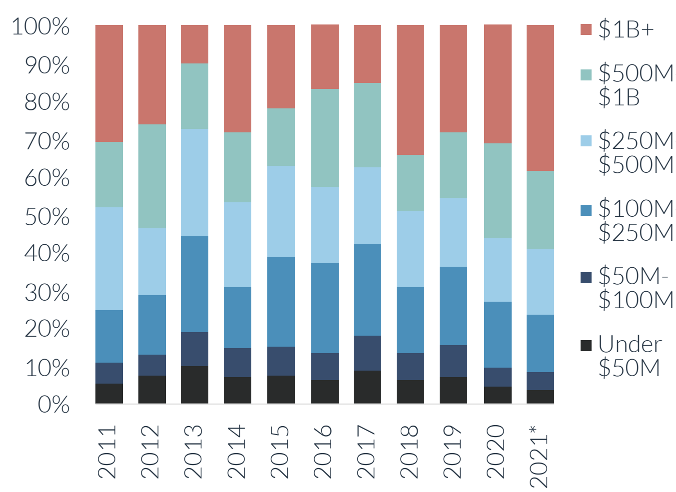
Fundraising value from $1 billion+ funds break record

Share of US VC raised by size bucket



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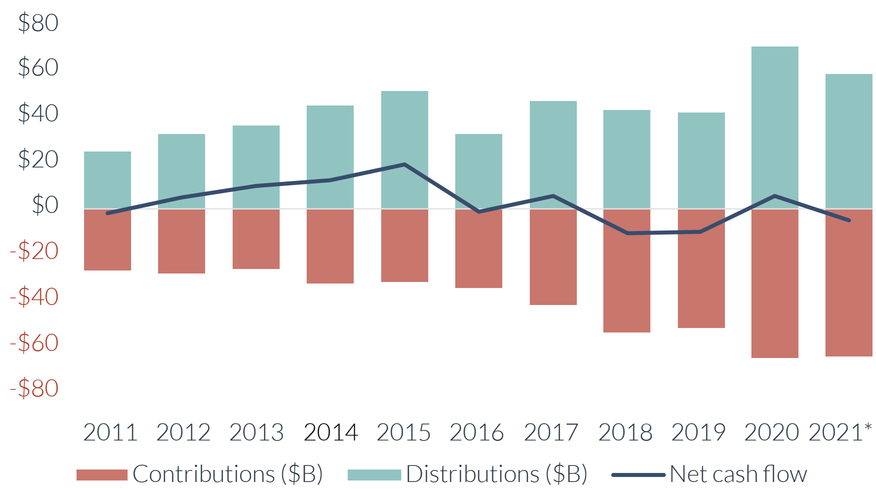
more success in 2021. While established managers (those that have raised four or more funds) continue to take the lion's share of new fundraising value, emerging managers accounted for 32.2% of new capital in 2021. In our 2021 US Venture Capital Outlook, published in December 2020, we predicted that this proportion would drop to 25% given the reputation strength and deployment capabilities of their more established counterparts. However, emerging managers were resilient throughout the pandemic and retained their share of the market throughout the past year.

Robust level of cash flows in H1 2021

US VC cash flows ($B)



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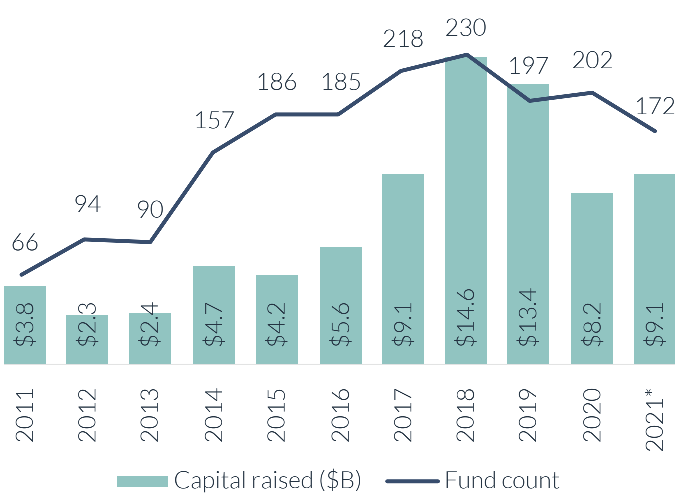
One interesting fund-related piece of news that occurred in Q4 was that Sequoia Capital, a stalwart of the VC industry, restructured their firm into a single fund and became a registered investment advisor (RIA) instead of remaining an exempt reporting advisor (ERA) like the overwhelming majority of VCs. This restructuring both eliminates the traditional 10-year fund lifecycle indicative of venture funds and allows Sequoia to exceed the 20% threshold of "non-qualifying investments" into other asset classes such as public equities, secondaries, cryptocurrencies, seed investing platforms, and so on. In our 2022 US Venture Capital Outlook, we predicted that at least three more VCs will follow suit and register as RIAs in the next year. Given the public market exposure that many VCs' portfolios have experienced from the IPO boom of VC-backed companies in the last year and a half, along with the rise of cryptocurrency and blockchain-enabled technologies, we believe there is merit to fund restructuring for a subset of investors.

First-time funds surge in 2021 over prior year

US first-time VC fundraising activity



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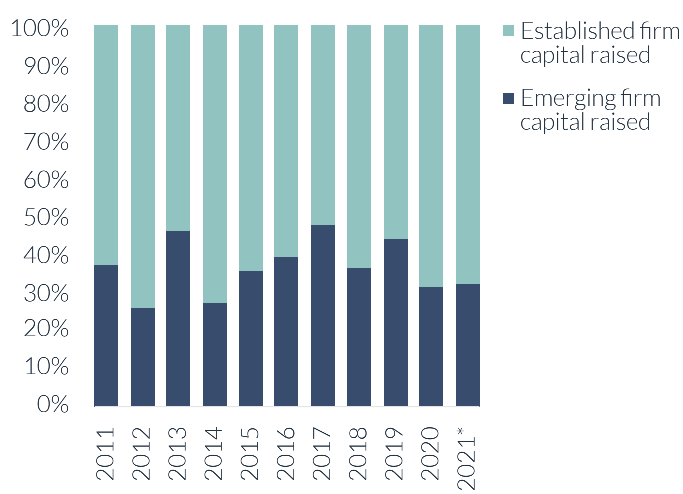
Experienced firms account for nearly 70% of new fundraising value in 2021

Share of US VC raised by firm experience ($B)



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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. "Crossover" investors are a subset of nontraditional investors—specifically asset managers, hedge funds, mutual funds, and sovereign wealth funds—that have been active in VC investment across any stage. They are referred to as crossover as these investors are likely to be participating at the late stages directly prior to an exit.

Exits

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

Fundraising

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

A perfect partnership: PitchBook and the National Venture Capital Association

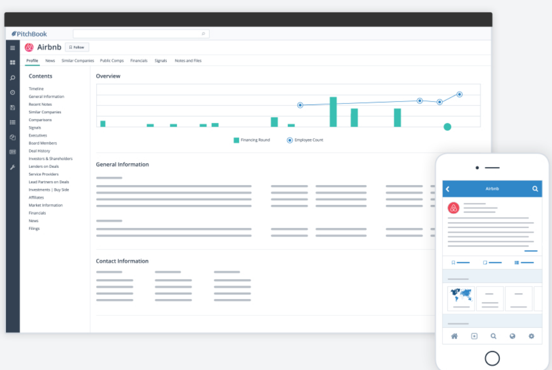
Why we teamed up

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

The PitchBook-NVCA Venture Monitor

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

THE PERKS OF PARTNERSHIP



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