

Venture Capital 101: The Basics of Venture Investing

Presented by



UNIVERSITY
of VIRGINIA

DARDEN SCHOOL
of BUSINESS

nvca

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TODAY'S SPEAKERS



Les Alexander (AlexanderL@darden.virginia.edu)

- John Glynn Endowed Professor and Professor of Practice at the UVA Darden School of Business
- Partner with Jefferson Capital Partners
- Over 30 years of experience as a venture capitalist, professor, private equity investor, corporate executive, and investment banker.



Shiloh Tillemann-Dick (policy@nvca.org)

- Research Director at the National Venture Capital Association (NVCA)
- Studies the venture ecosystem with a focus on understanding its broader economic impacts and how they can be optimized.

TODAY'S AGENDA

- Capital Markets Overview
- Venture Capital: Industry Overview
- Venture Capital: How it Works
- Venture Capital: Broader Impacts
- Venture Capital: Policy Issues
- Questions



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Capital Markets Overview

COMPARISON OF CAPITAL MARKETS

Public Capital Markets

Public Equity (Stocks)
Public Debt (Bonds)

Private Capital Markets

Venture Capital
Private Equity
(and others)

COMPARISON OF CAPITAL MARKETS

Public Capital Markets

Liquidity
Time Flexibility
Larger Companies
More Established
Less Risk
Seeking Modest Returns
Passive Investment

Private Capital Markets

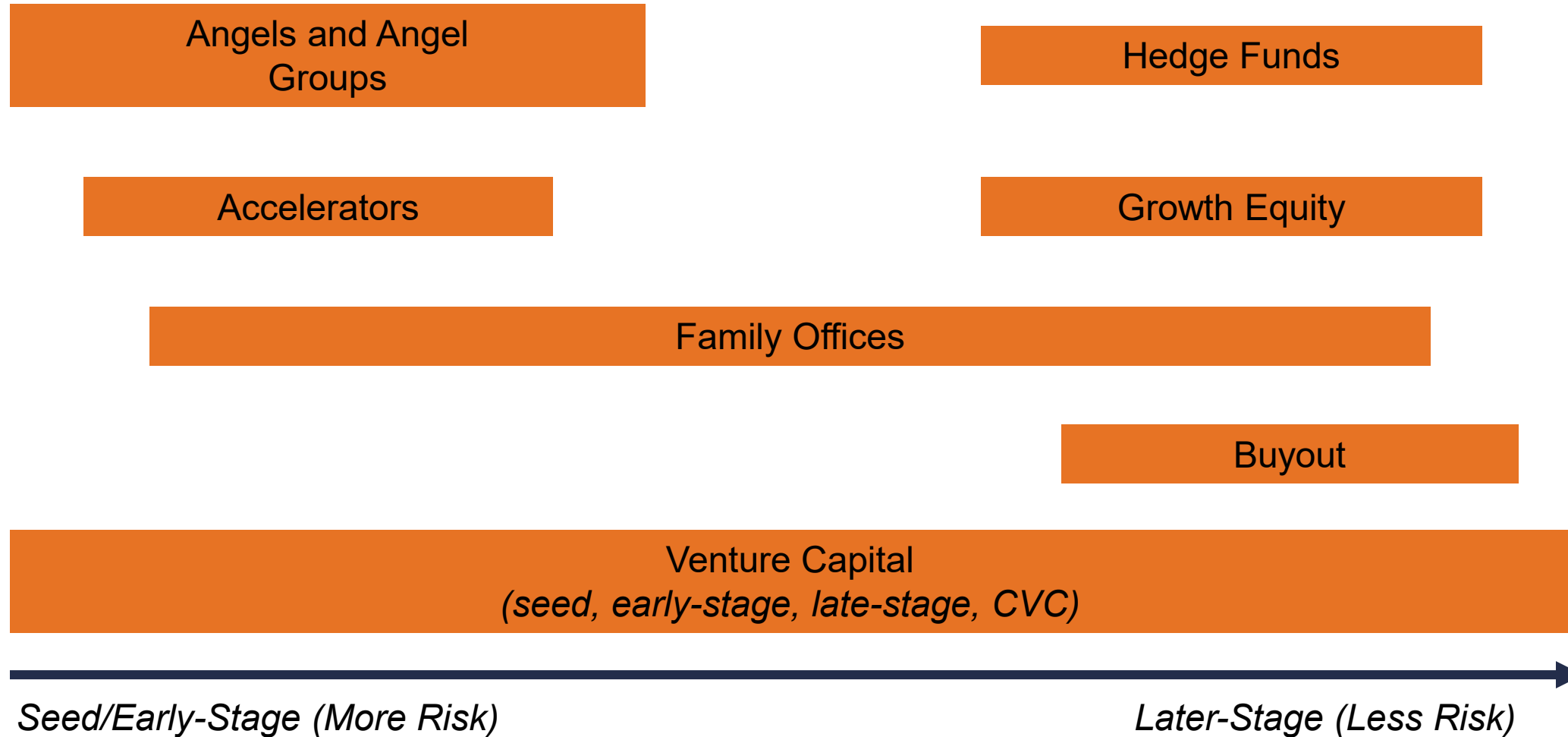
Illiquidity
Long-term Investment
Smaller Companies
Earlier Stage
More Risk
Seeking Higher Returns
Active Investment

PRIVATE CAPITAL ECOSYSTEM

There are a number of different players that make up the private capital ecosystem, but venture capital is a critical component.



PRIVATE CAPITAL ECOSYSTEM



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Venture Capital Industry Overview

VC FUND SIZE

Median VC Fund Size?



MEDIAN FUND SIZE IN 2023

\$35.4M



VC FUND SIZE

\$714,000

**Median management
fee on the median VC
fund.**



VC FUND SIZE

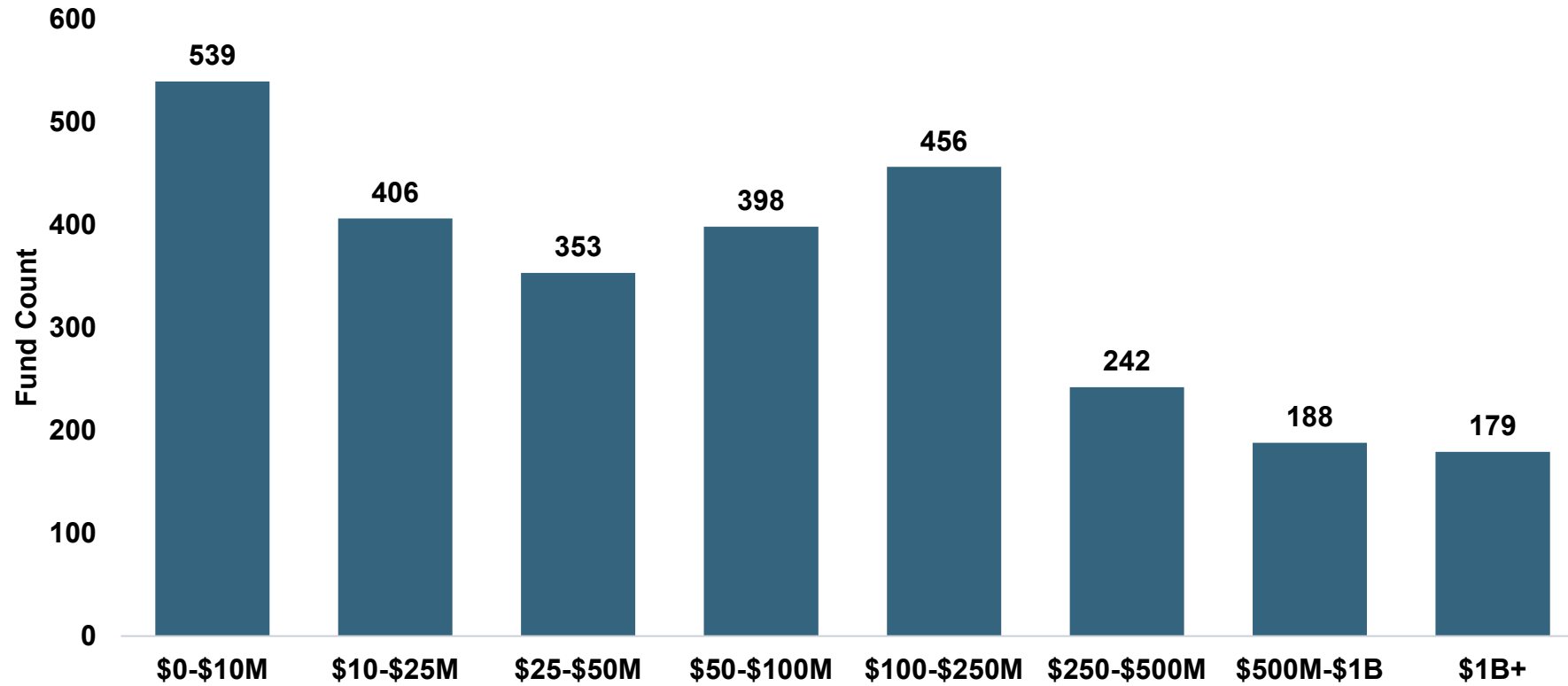
Sample VC Operating Budget

- Salaries & benefits: \$180k
- Office and rent: \$120k
- Legal and accounting: \$110k
- Travel: \$70k
- Marketing: \$65k
- Due diligence: \$50k
- Software: \$48k
- LP expenses: \$40k
- Tech & databases: \$31k



INDUSTRY STRUCTURE

US VC Funds By Size, 2023

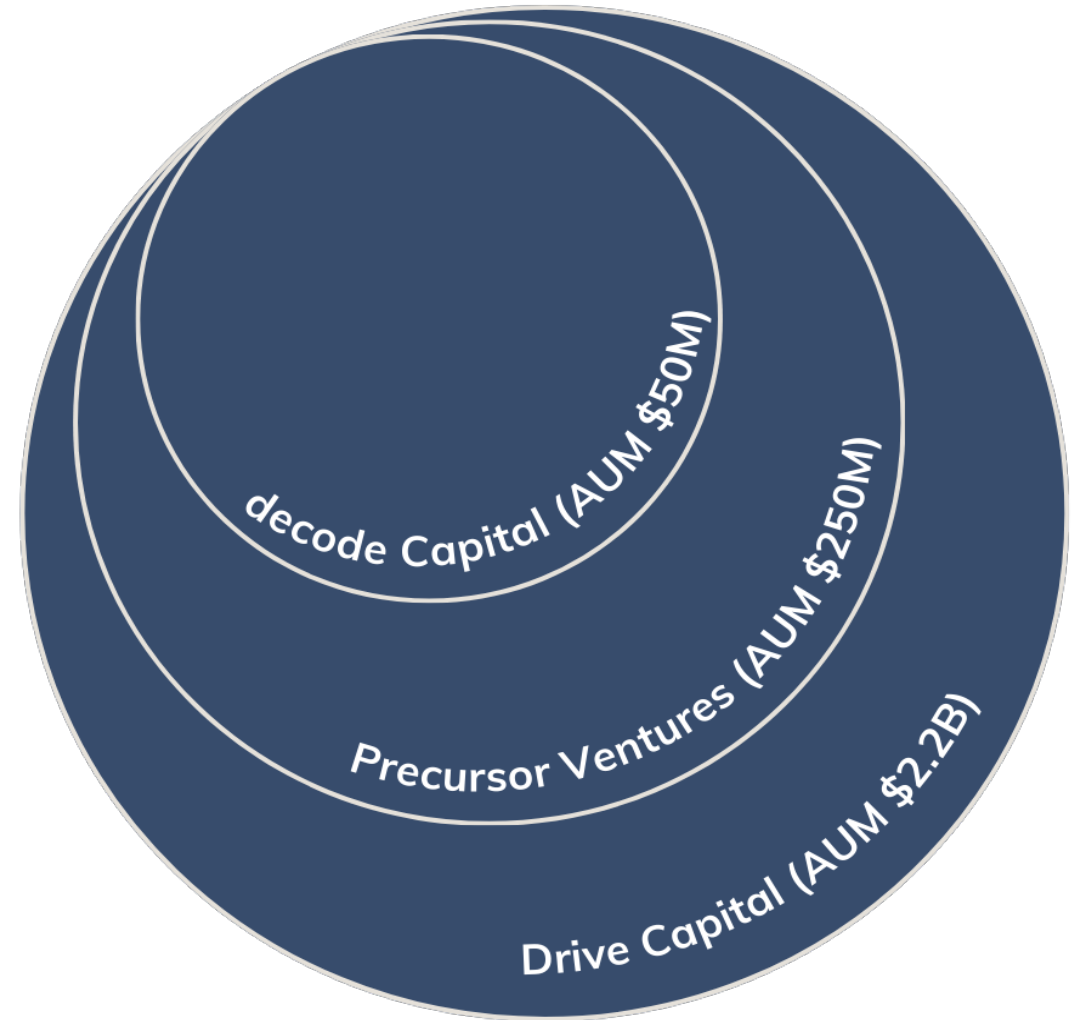


Source: NVCA 2024 Yearbook



VC FUND SIZE

- NVCA represents a diverse range of venture capital firms.
- The median fund is approximately **\$35.4M**, reflecting the variety of firms that fund startups and drive innovation nationwide.
- **AUM** = assets under management

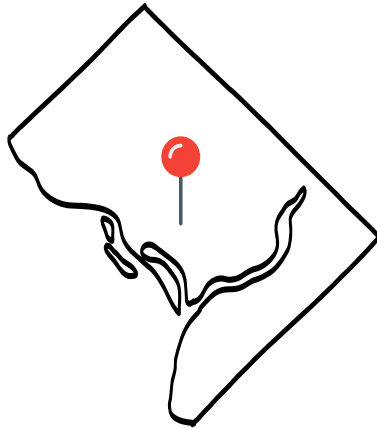


VC FUND SIZE: SMALL

dcode
capital

\$50.00M

AUM



WASHINGTON, D.C.



REBECCA GEVALT,
MANAGING PARTNER

VC FUND SIZE: MEDIUM



\$250.00M

AUM



SAN FRANCISCO, CA



CHARLES HUDSON,
MANAGING PARTNER AND FOUNDER

VC FUND SIZE: LARGE



\$2.20B

AUM



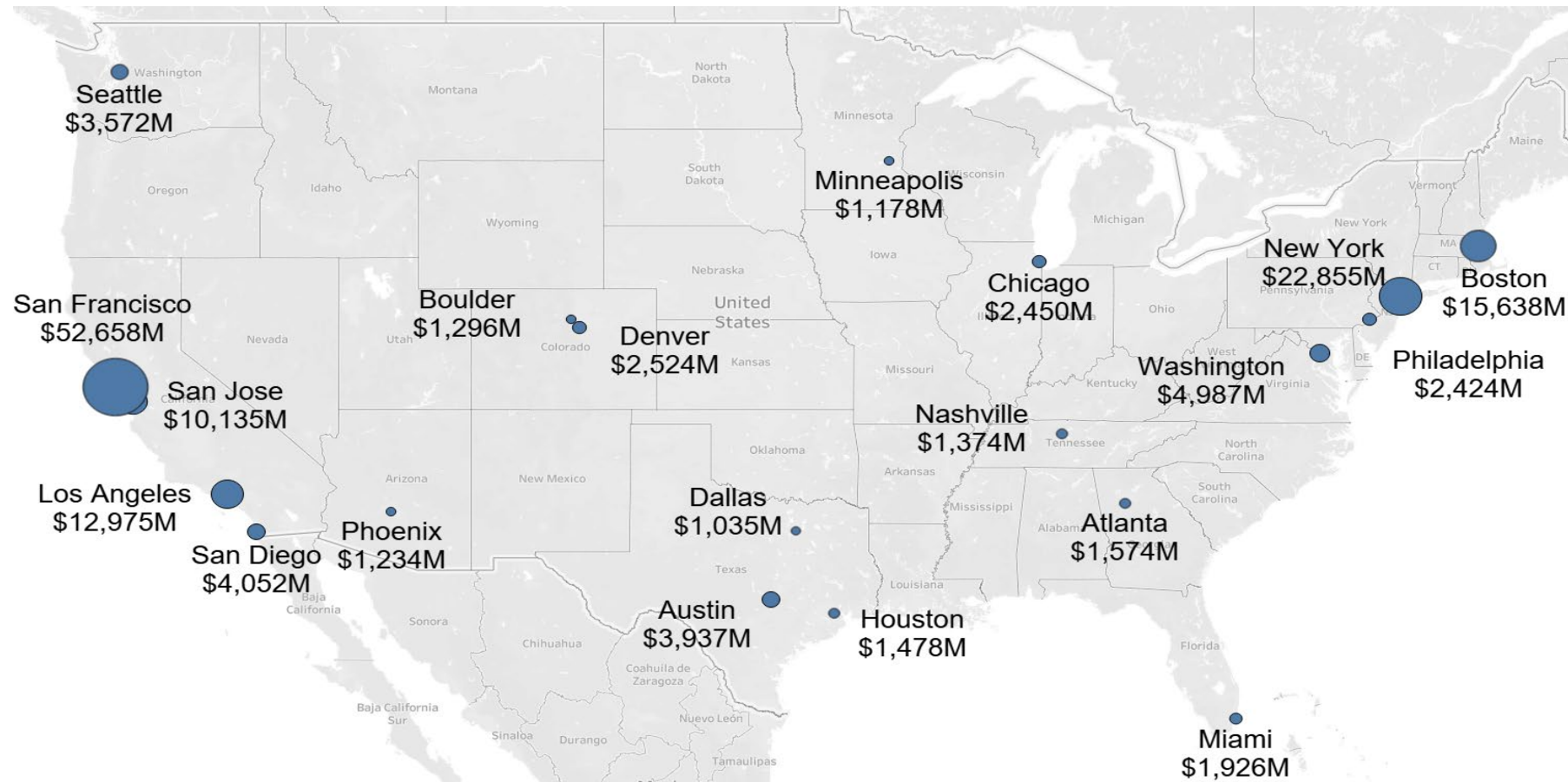
COLUMBUS, OHIO



MOLLY BONAKDARPOUR,
PARTNER

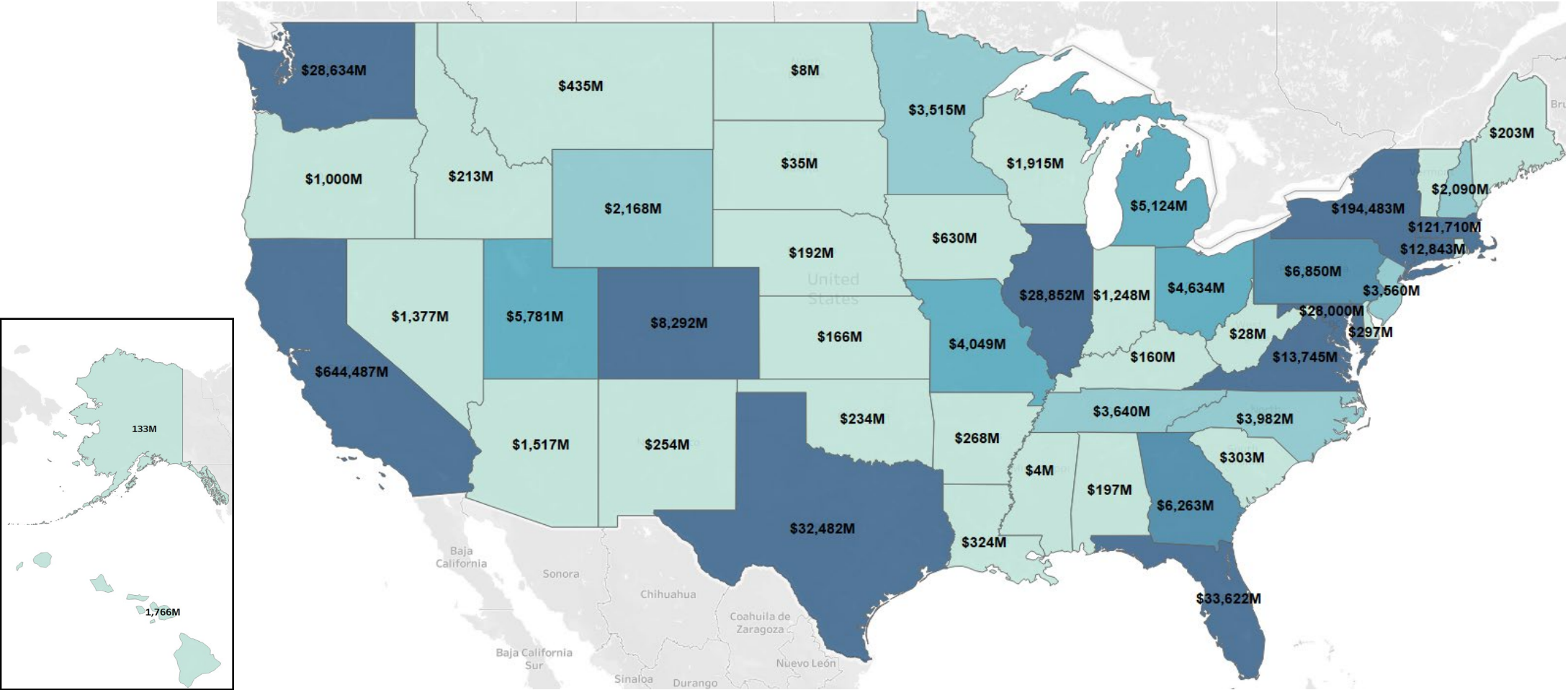
NATIONAL HOTSPOTS

Top Cities for VC Investment in 2023 (\$M)



AUM TRENDS

VC Investment By State In 2023 (\$M)

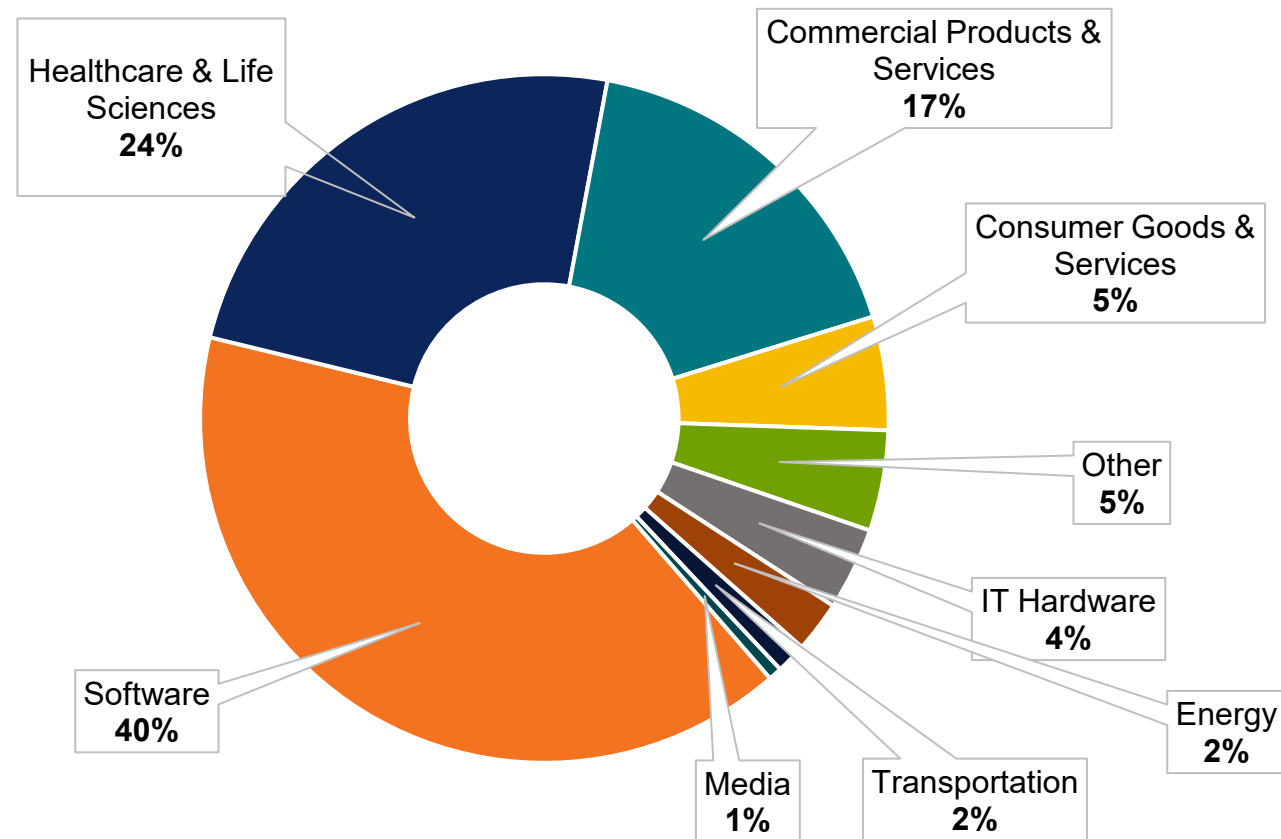


Source: NVCA 2024 Yearbook



VC SECTORS

Sectoral US VC Investment (\$) in 2023 by % Of Total



Source: NVCA 2024 Yearbook



RECENT VC BACKED STARTUPS

Software



A collection of logos for software startups: Klarna (black), chime (green), instacart (green and orange), databricks (red and black), flexport (dark blue), and gopuff (blue).

Commercial Goods & Services



A collection of logos for commercial goods and services startups: CloudKitchens (black), Sila (orange), and gusto (orange).

Consumer Products & Services



A collection of logos for consumer products and services startups: via (blue), CAVA (black and orange), and NOOM (black).

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Venture Capital

How It Works

VENTURE CAPITAL

- Venture Capitalists provide capital to private businesses with **high growth potential**
- Investments are generally **high-risk and illiquid**, making them unsuitable for traditional bank financing
- To compensate for the risk, returns are high with funds generally **targeting a 3x return**
- In addition to capital, venture capital firms **help portfolio companies with personnel, operations, networking, and other issues**

Venture capitalists provide a unique mix of financial and human capital which serves as rocket fuel for private companies about to take off



VENTURE CAPITAL LIFECYCLE

Investment

VCs typically invest in young, high-growth companies in need of capital to scale.

Exit

After about: 5-10 years of creating a high-growth company, the VC exits its stake via an acquisition or IPO. IPOs have more advantages: greater capital raised, higher returns, local job creation.

Re Investment

The fund ends when all investments have been exited and proceeds have been distributed to LPs. LPs can then reinvest earnings in a new crop of funds.



Fundraising

VCs raise capital for funds from LPs

Company Growth

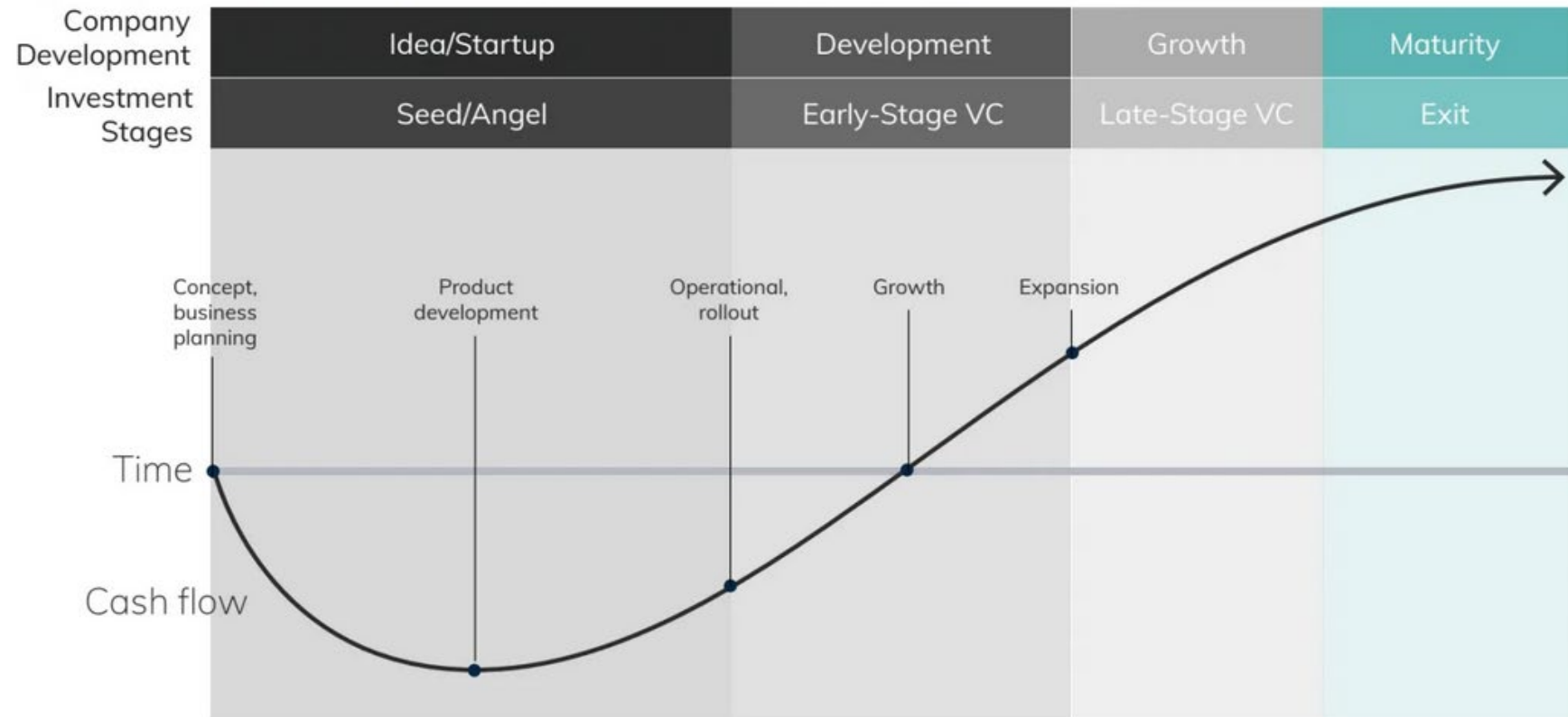
VCs provide active management and act as advisors & mentors, taking board seats, providing strategic advice, facilitating introductions.

Returns

In addition to companies benefitting, VCs and LPs make a profit on their investment. High-quality jobs are created, more capital is available for university research, retirees have more for retirement, foundations have more resources to fund their work.

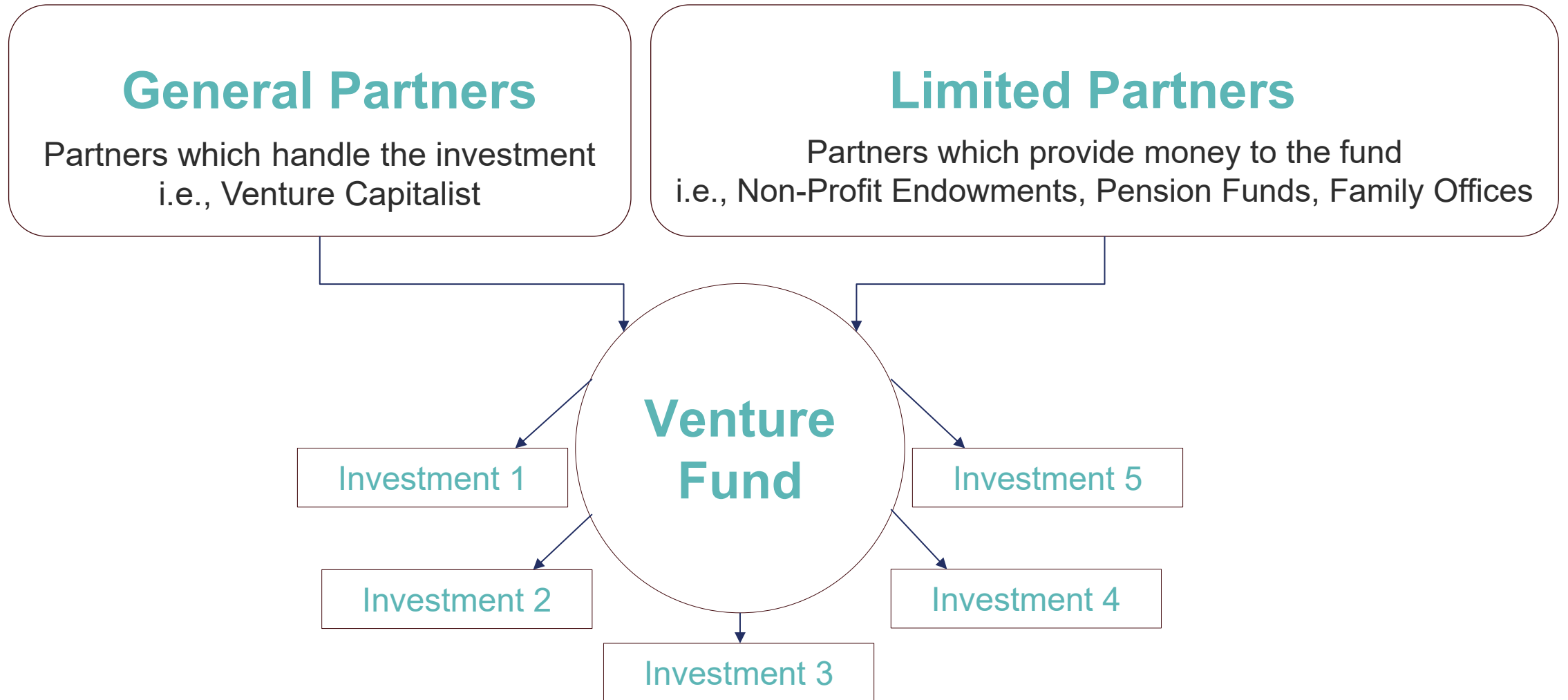
VENTURE CAPITAL

Venture Capital Plays a Vital Role in a Startup's Growth



Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors

WHAT IS A VC FUND?

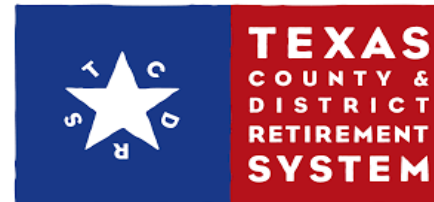


EXAMPLES OF LIMITED PARTNERS

Endowments



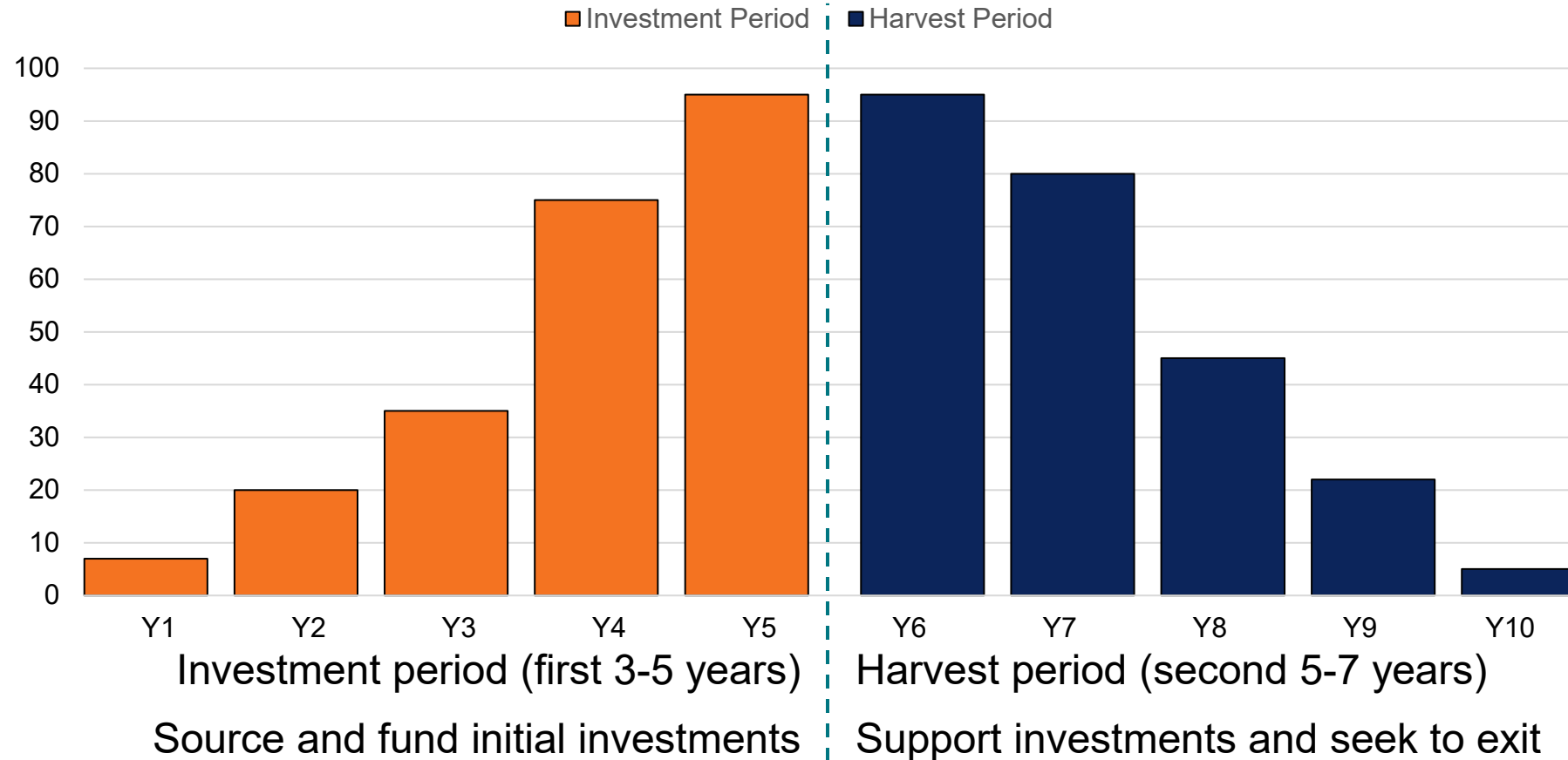
Pensions



Nonprofits



WHAT IS A VC FUND? (CONT'D)

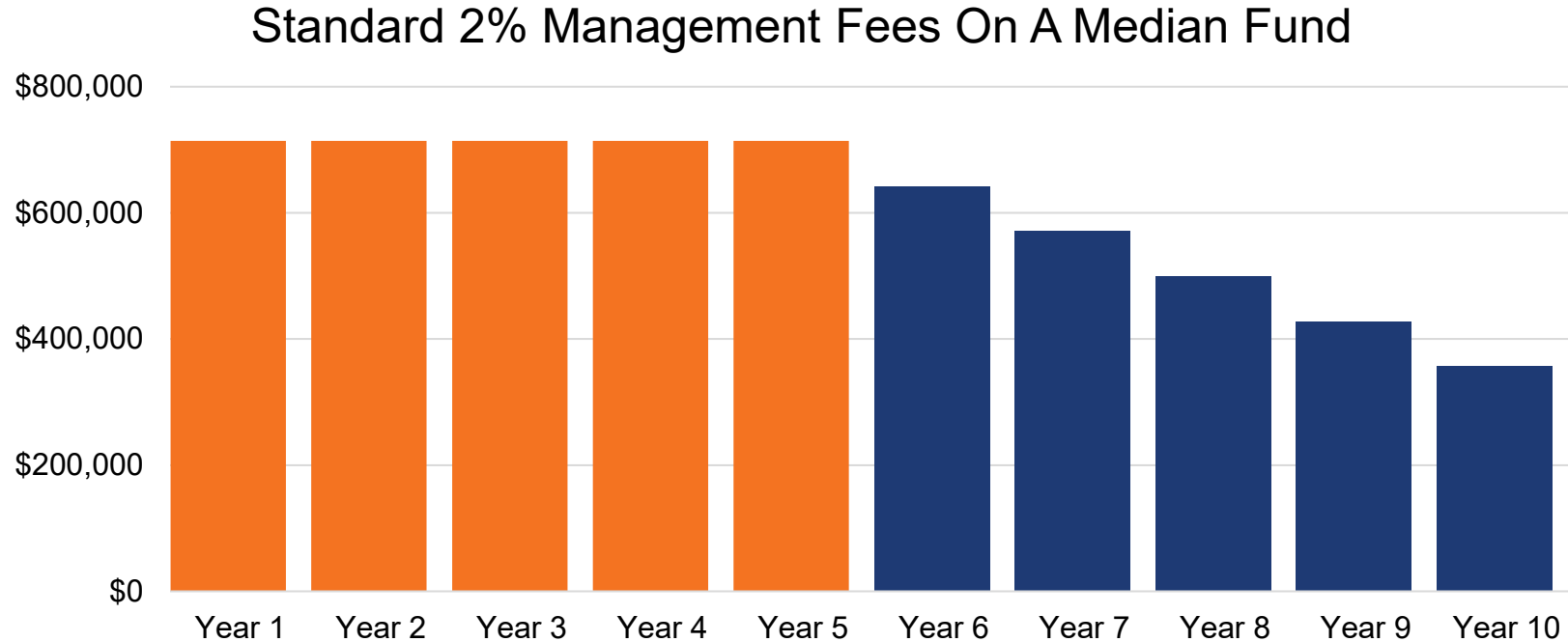


HOW DOES IT WORK?

	General Partner	Limited Partner
Primary Function	Active Investor	Capital Contributor
Capital Contribution	2%	98%
Compensation	2% Management Fee	N/A
Carried Interest	20%	80%

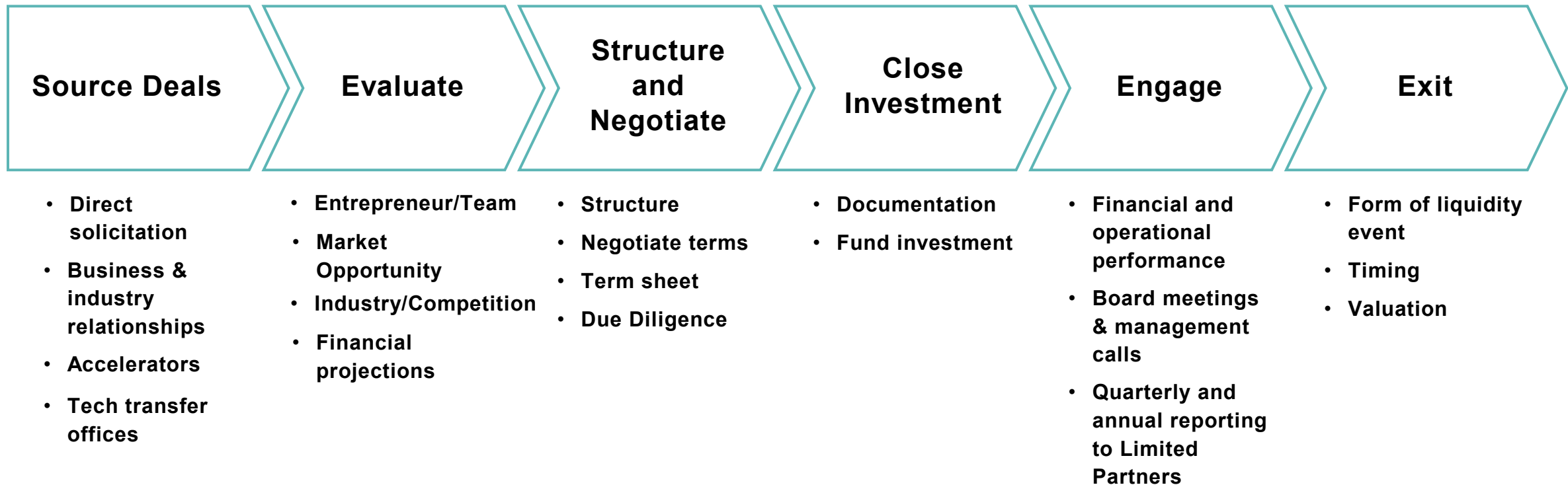
Limited Partners Contribute Most Of the Capital and Get Most Of The Profits. General Partners Contribute Their Time And Receive A Management Fee.

MANAGEMENT FEES



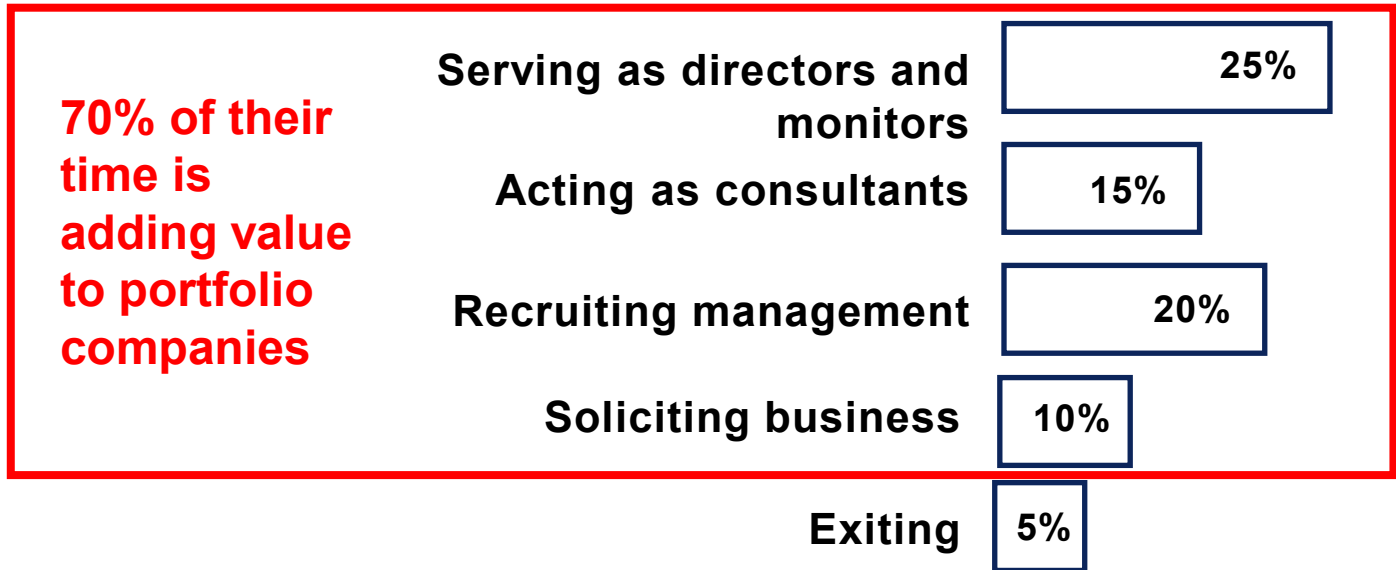
In 2023, The Median US Fund Was \$35.4 Million. Meaning \$714k For Year 1 Management Fees

INVESTMENT PROCESS



VC PARTNER ACTIVITIES

61%
Of partners interact weekly with their portfolio companies





POWER LAW

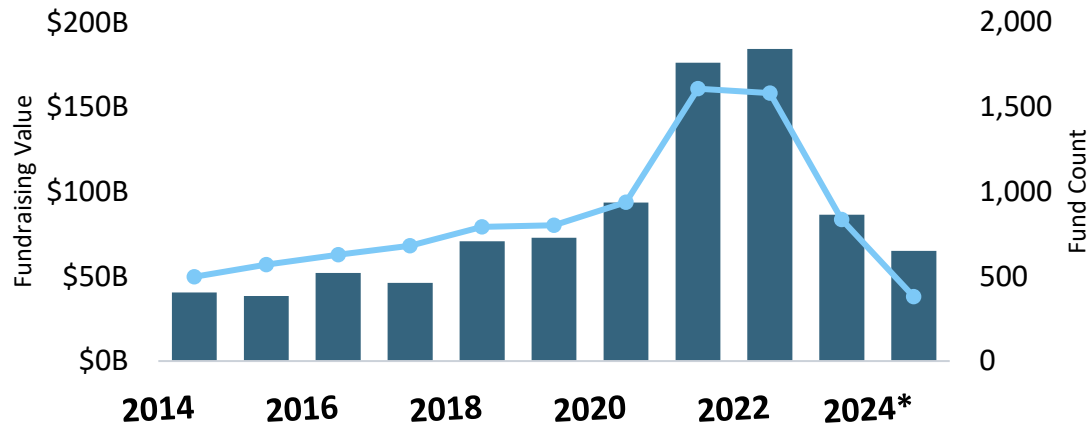
- A tiny fraction of VC investments will generate the majority of returns.
- VCs are looking for **home runs**, not singles.



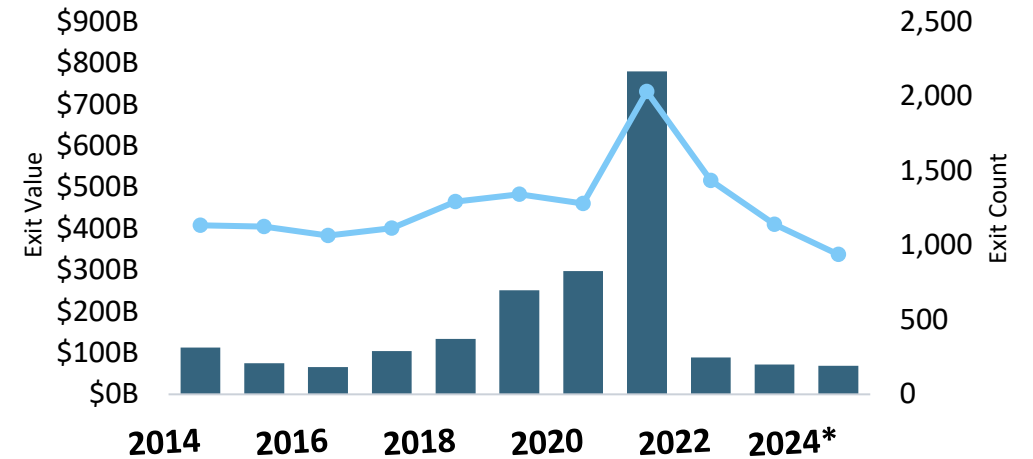


CHALLENGING ENVIRONMENT

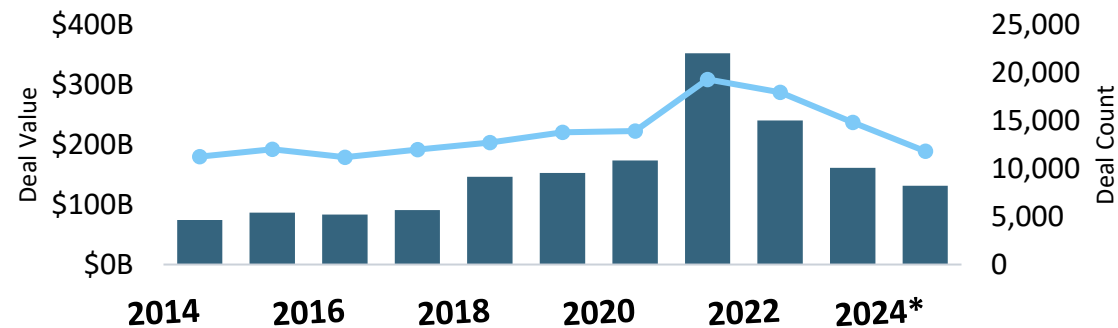
Fundraising, 2014-2024



Exit Activity, 2014-2024



Deal Activity, 2014-2024



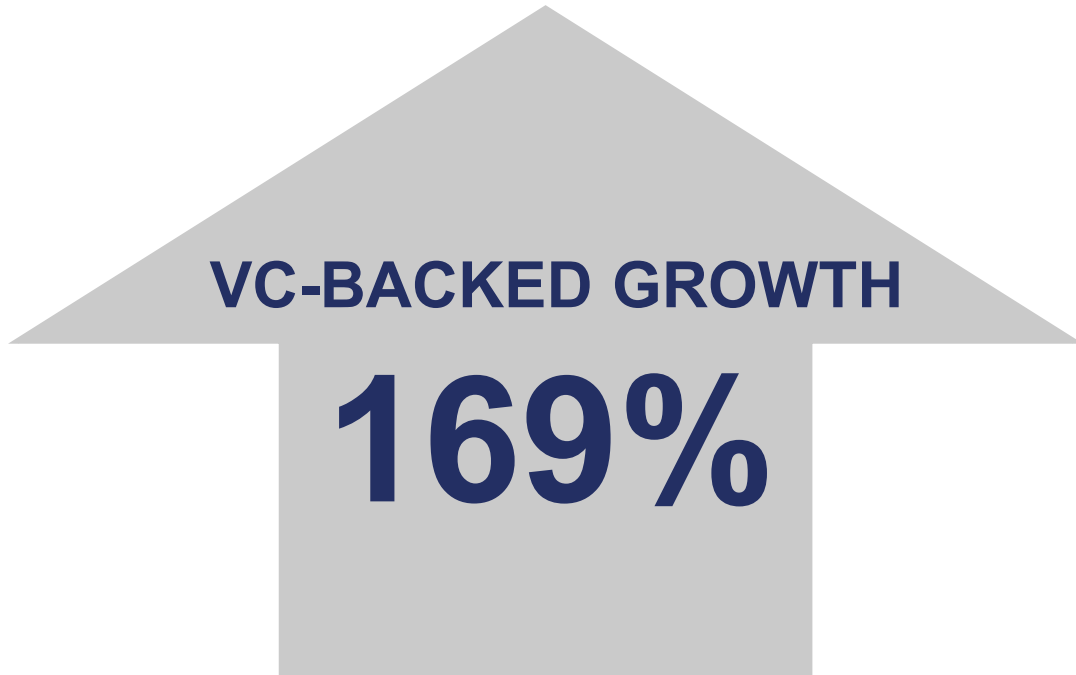
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Venture Capital

Broader Impacts

JOB GROWTH FROM 1990 TO 2022



VS

TOTAL PRIVATE SECTOR

43%



JOB CREATION

6 million

Americans employed
by **54,000 VC-backed**
companies across **all**
50 states in 2023.

62.5%

Of VC-backed-employment
is located outside of
California, Massachusetts,
and **New York.**



MOST VALUABLE COMPANIES BY MARKET CAP

	Market Cap	Country
Apple	\$3.67 T	USA
Nvidia	\$3.56 T	USA
Microsoft	\$3.26 T	USA
Amazon	\$2.29 T	USA
Google	\$2.15 T	USA
Saudi Aramco	\$1.80 T	Saudi Arabia
Meta	\$1.55 T	USA
Tesla	\$1.13 T	USA
TSMC	\$1.05 T	Taiwan
Berkshire Hathaway	\$1.01 T	USA

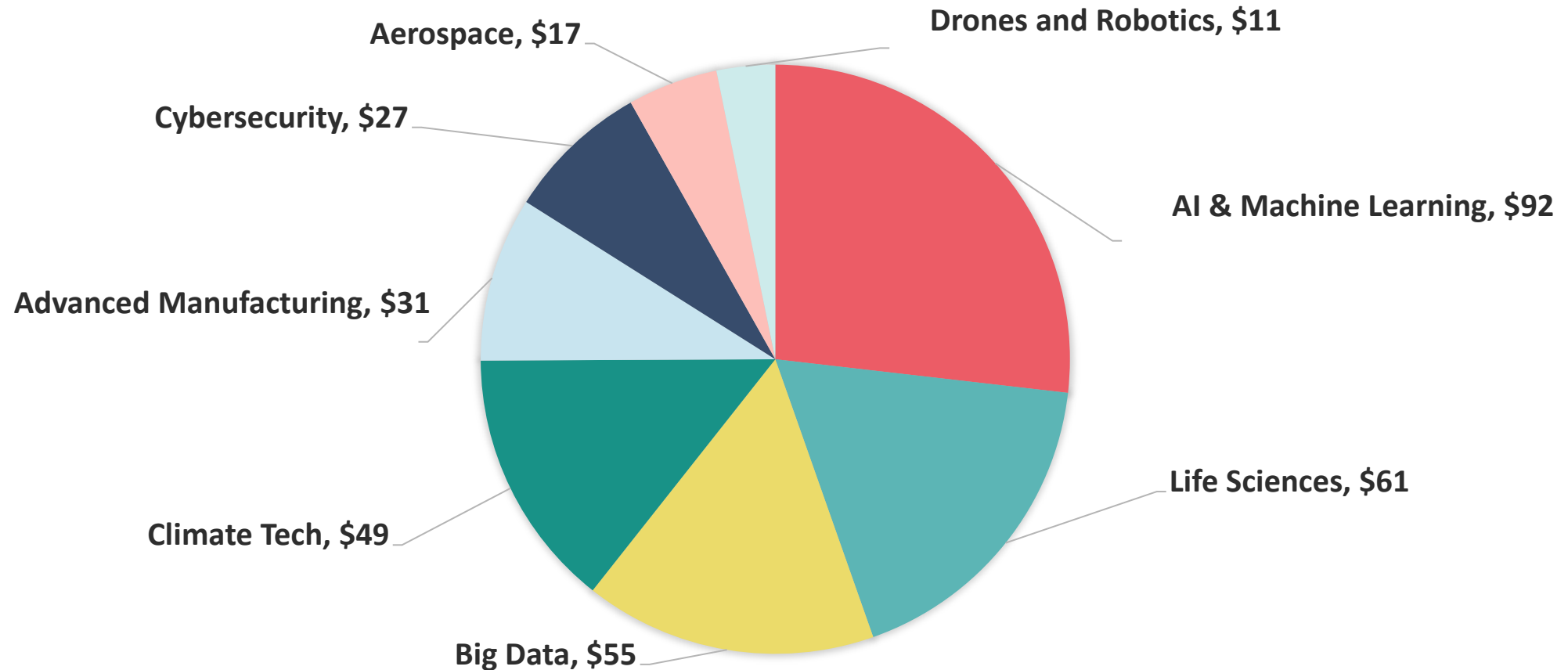
- **8 of the top 10** companies are American.
- The American companies make up **87%** of top company market cap.



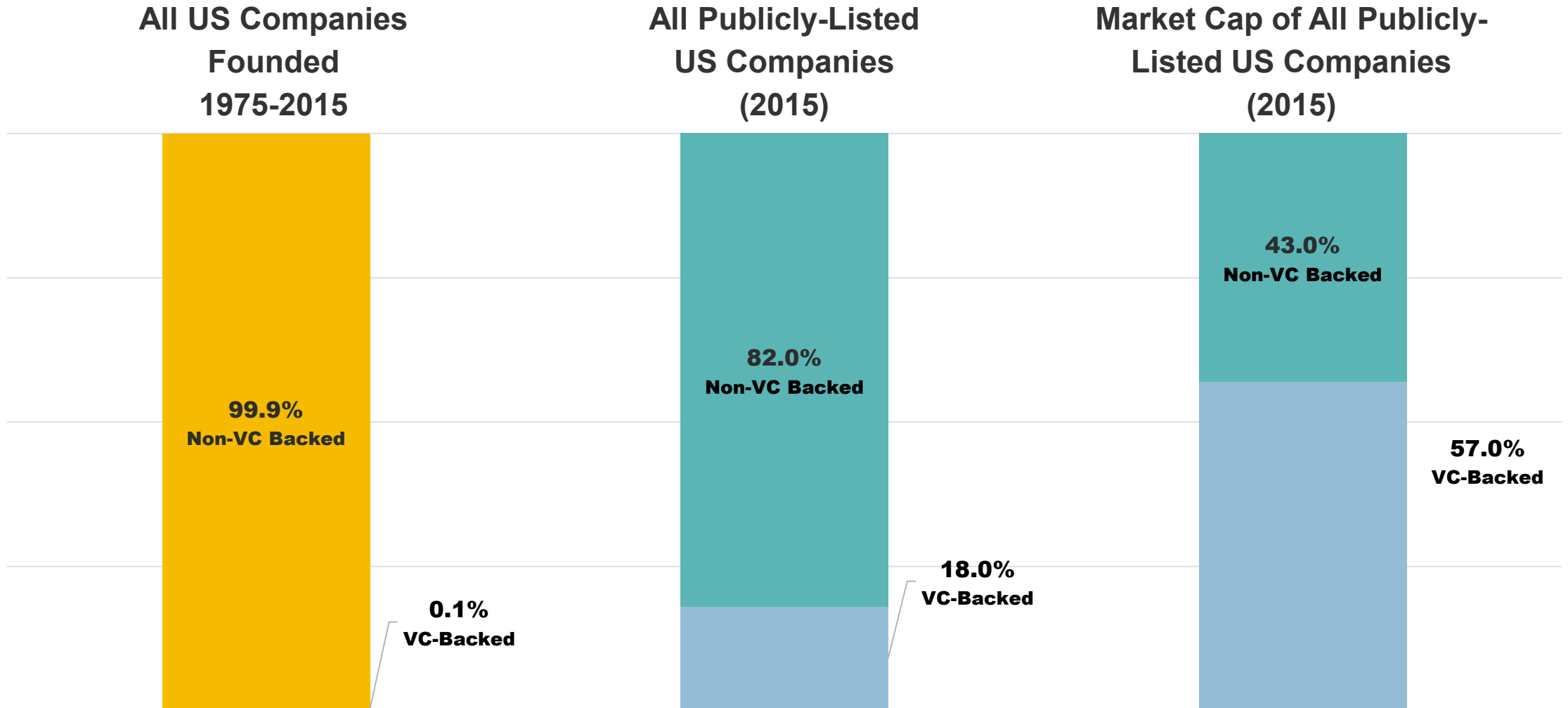
- **7 of the top 10** companies were backed by venture capital.
- **82%** of the overall top company market cap was originally VC backed.

VC-BACKED COMPANIES DO AMERICA'S R&D

US VC Investment Into Frontier Technologies, 2020-2022 (\$B)



VC CREATES TREMENDOUS VALUE



Source: Strebulaev & Gornall



HEALTHCARE INNOVATION

60%

VC investments are responsible for roughly 60% of **new medicines**.

40%

VC investments are responsible for roughly 40% of **new patents**.



DEFENSE TECH INNOVATION

25x

VC investment into **defense tech** is up 25x over the last decade in dollar terms.

VC-Backed Defense Companies



AI INNOVATION

2,100%

**Growth in AI
investments
from 2019-2024**

50%

**% of businesses
integrating in
2024, up from 20%
in 2020**



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Venture Capital Policy Issues

VC INDUSTRY POLICY PRIORITIES



Tax bill



Regulatory



Antitrust



AI



Immigration



Healthcare



National Security



Climate



Blockchain/Crypto



R&D

NVCA POLICY TEAM



Caroline Schellhas

- Tax



Ashlyn Roberts

- Capital markets
- Healthcare
- Tech commercialization
- National security
- SEC/regulatory
- Crypto/blockchain



Jonas Murphy

- AI
- Antitrust
- SSBCI
- Immigration
- Climate/energy



Thank You!



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QUESTIONS



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