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Series A Investment Pace Across Select VC Firms

5-6 minutes

The blog post I wrote earlier this week talking about Sequoia's investment pacing back around the nuclear winter got far more distribution than I initially expected. It made me curious to look at some more recent numbers about investment pacing. Here is my analysis and conclusions.

Investment pace is an interesting quality metric to use to evaluate a venture firm because it's only valuable if you subscribe to the school of thought that you cannot time markets. If you believe you're smart enough to time markets, then it would be very sensible to have highly uneven investment pacing. You should do a lot of deals when you think the timing is right, and you should do relatively few deals when you're bearish about the timing. I personally think timing markets is impossible; no one has a crystal ball to know the future with any certainty. So, lacking a crystal ball, the correct corresponding behavior should be to invest consistently over time. That was what impressed me so much about Sequoia in my last blog post, their ability to invest so consistently across good times and bad times is admirable.

So, as a follow-up, I decided to analyze the investment pacing of a handful of VC firms in our current era of investing.

Methodology: I exported all Series A deals over the last 14 quarters from Mattermark. I then graphed the quarterly moving average number of Series A deals done for each VC firm (with a 4 quarter moving window) over time. I normalized each line to make zero on the y-axis equal to the firm's average over all 14 quarters combined. I used a quarterly moving average instead of raw quarterly count of deals because quarterly numbers without the moving average were too spiky (the moving average smoothed the lines).

Results:

[bigger resolution version]

Here's a helpful tip for reading this graph: If a hypothetical VC firm had *perfect* investment pacing (meaning all their deals were evenly distributed across all quarters in sample), then the line on this chart would run exactly along the X-axis at zero the whole way across. The further any line deviates away from the X-axis, the farther off of average pace they are.

So, based on this 14 quarter dataset, surprisingly, Sequoia has the least consistent investment pace. It's easy to see the purple Sequoia line swinging both low and high around the mean. This is totally not what I expected when I started this exercise given how impressed I was with Sequoia's investment pacing in my last post about "RIP Good Times."

The way to use this chart to determine exactly which firm has the most consistent investment pace is to take each point on this line and measure it's distance from the x-axis. Meaning, take the absolute value of each data point and add them up into firm totals. By this analysis the big winner is Benchmark (Benchmark's absolute value total score is a low of 4.9, but that "4.9″ number is rather arbitrary, so just focus on that fact that they're the lowest). Andreessen Horowitz comes in second place (with 5.8). And, as expected from just eyeballing the chart, Sequoia is in last place with a total absolute value distance from the mean of 22.3.

I would be happy to share my spreadsheet of analysis, but it contains data that I downloaded from Mattermark under their license terms, which means I'm probably not permitted to share it. If they give me the OK to share it, I'll update this post with a link to my spreadsheet.

I hope you found this analysis interesting. There are so many corollary studies that could be run here, but this was just a fun friday exercise, so I don't plan to do them myself. Follow up analysis (perhaps to be done by CB Insights, Pitchbook or Mattermark) could look at the following different deviations:

- Stages other than Series A

- Only look at rounds led (instead of both led and participated, which is what I did)

- Look at a bigger time horizon (I was limited to 5000 export rows by Mattermark unfortunately, hence I stopped after 14 quarters)

- Vary the moving average window size

- Use root mean square deviation as the distance error measurement instead of my crude raw distance from the mean approach. (I'm not enough of a statistician to know which is more sound for this use case.)

Or add your own variation in the comments.