THE BIG BOOK OF VENTURE CAPITAL

2023

IMAGE FROM DALL·E
Here is a painting created in the style of Abstract Expressionism, themed around the 'VC industry in 2023' with the concepts of 'Low, Limited, and Lopsided.'

Disclaimer

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Other important considerations:

- A conscious effort has been made to source meaningful content from broadest possible sources, though a universal coverage is impossible.
- Readers should carefully analyse all data and graphs since these are from 3rd party providers. These data and graphs from different providers can vary significantly w.r.t their definitions (example - pre-seed can mean different definitions for different providers), data scope (example - Tech M&A numbers from different data providers has different values), geographical context (example - two charts on one page and one refers to the U.S. data while other to European data), or timeline (example - not all graphs represent same data timelines).
- The text snippets under clip-image on each slide are directly quoted from the article/report/blog post. Readers are strongly encouraged to go through the complete version by following the image link.
- Most of the content is focused on the U.S., European and UK startup ecosystem - due to maximum data availability.
- The goal of this deck is to focus on the strategic aspects of venture capital relevant to founders, GPs, and LPs (i.e., valuations, market dynamics, fundraising, portfolio construction, performance, etc.). This alone was a monstrous task. Hence, individual investment areas (ClimateTech, DeepTech, SaaS, HealthTech, etc.) and their dynamics are not covered.

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Preface

Sometimes, the most fulfilling endeavors are inspired by the past.

At 15, I began collecting clippings from a financial newspaper that covered fundamental financial concepts (such as stocks, debentures, debt, etc) and offered simple explanations. I diligently read, gathered, and eventually compiled these clippings into an informative book.

Back then, this was merely my way of satiating my hunger and passion for the investment topic. Reflecting on it now, I understand the power of:

- building an expansive knowledge base
- connecting the dots
- deriving insights

Fast forward to 2023.

I bring to you 'The Big Book of Venture Capital.' The objective of this book is straightforward: to compile and articulate the most vital venture and startup insights of 2023 and provide a strategic overview of this dynamic landscape. The conceptual methodology I employed two decades back is much more relevant in today's age of ever-increasing information flows.

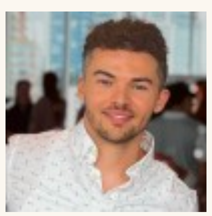
This deck has something for everyone in the ecosystem, and my sincerest hope is that it fosters a nuanced understanding of 2023.

Rohit Yadav (Author)

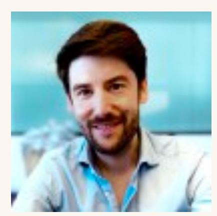
Thanks to the contributors!

Rightly said - "Collaborate with people you can learn from." Venture experts I admire contributed - personal thoughts, quotes, content suggestions, ideas, and more - to specific sections of this deck. Their support resulted in a much better outcome in the end. I appreciate their time and efforts, especially considering the year-end timing.

(in alphabetical order)



Brandon Hoffman



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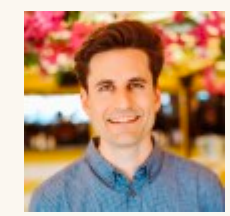

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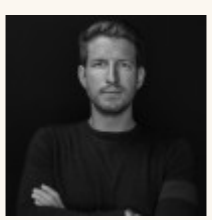

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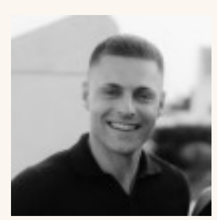

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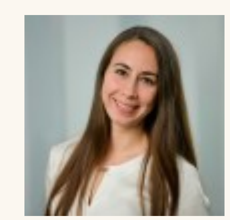

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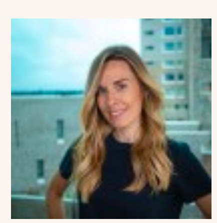

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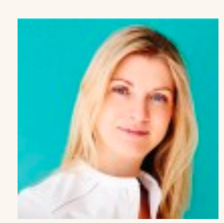

Valerie Bures

About

2023 will be etched in the memories of everyone.

A decade down the line, there will be investors who will boost their credibility of having lived through 2023. It's that significant! Like in equities, we reminisce over the Great Financial Crisis (GFC) and divide the investors between those who survived the 2008-09 period and those who have only seen the boom phase.

Nevertheless, 2023 can be summarised in three words - Low, Limited, Lopsided ('LLL' environment)

- **Low**: Valuations of startups in most stages went through their lowest levels.
- **Limited**: Capital availability and deployment became limited to only the best opportunities.
- **Lopsided**: The power remained in the investor's corner in 2023. It was lopsided towards the capital providers.

Another reason that makes 2023 unforgettable is that we saw it all - the advent of AI in almost everything, fundraising pain for founders, the failures of SVB and Signature Banks, SEC regulations changes, AI-regulation discussion uptick, failure of FTX, startup closures, the Twitter takeover saga, growth of hard-tech, calls for more diversity, the Fearless Fund lawsuit, VC fund pauses/closures, and much more.

What else can you ask for from such a transformational period?

An LLL environment begets a downward push on returns. Public markets were flat (except top tech stocks) for most of 2023, and interest rates were running high, creating a competitive environment for VC investments. Slowdowns in public markets pushed down the valuations of startups. Consequently, VCs started seeking lower price points for entry into startups.

Nevertheless, the startup environment wasn't the only one to suffer in 2023. Plus, we shouldn't look at 2023 as one year but rather as a phase in a long-drawn change spanning multiple years. For some of those changes, 2023 represented a culmination (like COVID-19); for others, it's just a start (like AI-boom), and yet, for others, it's in the middle of a prolonged change (like geopolitics-based restructuring).

Investors typically pause when the external market environment is incomprehensible. VCs were no different in 2023, and there were many reasons for them to pause or to slow down. Despite the pause, the pace of global transformation, fueled by tech progress in both the 'atoms' and 'bits' sectors, is still strong.

This LLL environment, in the end, is likely to benefit the larger ecosystem. The argument lies in the theory of 'booms and busts.' Without going into the nuances, the ecosystem needed a reset, and 2023 provided just the same. Moving into 2024, I'm sure we have adapted to the realities and will scale up energetically in a newer set of circumstances.

SECTION

STARTUP VALUATIONS & PERFORMANCE

IMAGE FROM DALL E

Here is an image that reflects the 2023 market environment characterized by lower startup valuations. This scene captures various aspects of the challenge, including the downturn in unicorn formation, portfolio write-downs, down rounds, startup closures, difficulties faced by startups in graduating to the next level, limited capital runway, and the complex journey towards a public IPO. The setting is a startup ecosystem, portraying both the struggles and the perseverance required in such a market.

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Summary - Valuations data*

2023 was a year of humbleness

- The deflation of the VC bubble was bound to happen following the period of plentiful market liquidity during the ultra-low interest rate phase after the Great Financial Crisis.
- With increasing interest rates and a more challenging IPO market, startup valuations have been impacted substantially.

Early stage has been more robust in 2023

- At Seed stage, valuations have either been stable or have trended upwards (depending on geography, and other variables).
- This early stage valuation surprise is driven in part by (a) Principal Power: participation of large (multistage) investors fishing for future unicorn startups upstream and inflating valuations in a bidding war, and (b) Supply: formation of more early stage VC funds.
- Nevertheless, early stage deal counts have also fallen significantly, in unison with late stage.

Late stage valuations were most impacted

- Late stage saw the biggest valuation downfall in early 2023. Deal count also declined drastically.
- The sharper decline in late stage can be attributed to - weak IPO market, weak equity markets leading to less buying power, extended duration of VC investments (making them more vulnerable to interest rate fluctuations), and ZIRP aftermath (easy capital availability pushing startups into late stage, without translating into correct fundamentals).
- After seeing their lowest levels, late stage valuations might finally be showing signs of recovery in Q4.

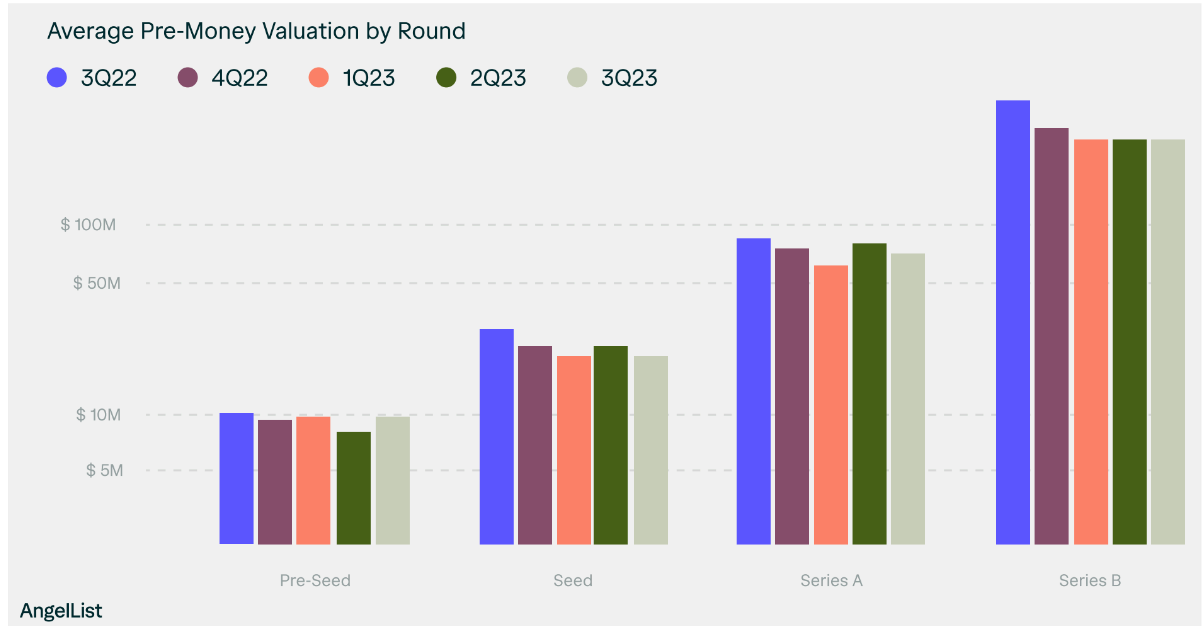
Uptick in the market activity

- Investors are re-entering the market due to the lower cost of investment (lower valuations and more VC buying power).
- Many investors believe the bottom is behind them and the likely scenario ahead is a road to recovery in deal-making.
- Signs of this change can be seen in the valuations data, which has trended higher on a QoQ basis.
- Private markets are generally a lagged mirror image of public markets. Hence, it is likely that the public market rebound might be reflected in the startup sector in mid-2024.
- In the U.S., elections will also dictate the flow of confidence.

Valuations data from different providers may have differences. Hence, one can build varying opinions.

AngelList data

Average valuations declined at every stage, except the early stage (Pre-seed) and the dispersion of late stage valuations is quite high



	25th percentile	50th percentile	75th percentile
Pre-Seed	$6M	$9M	$12M
Seed	$12.5M	$18M	$25M
Series A	$30M	$45M	$71.5M
Series B	$65M	$110M	$224M

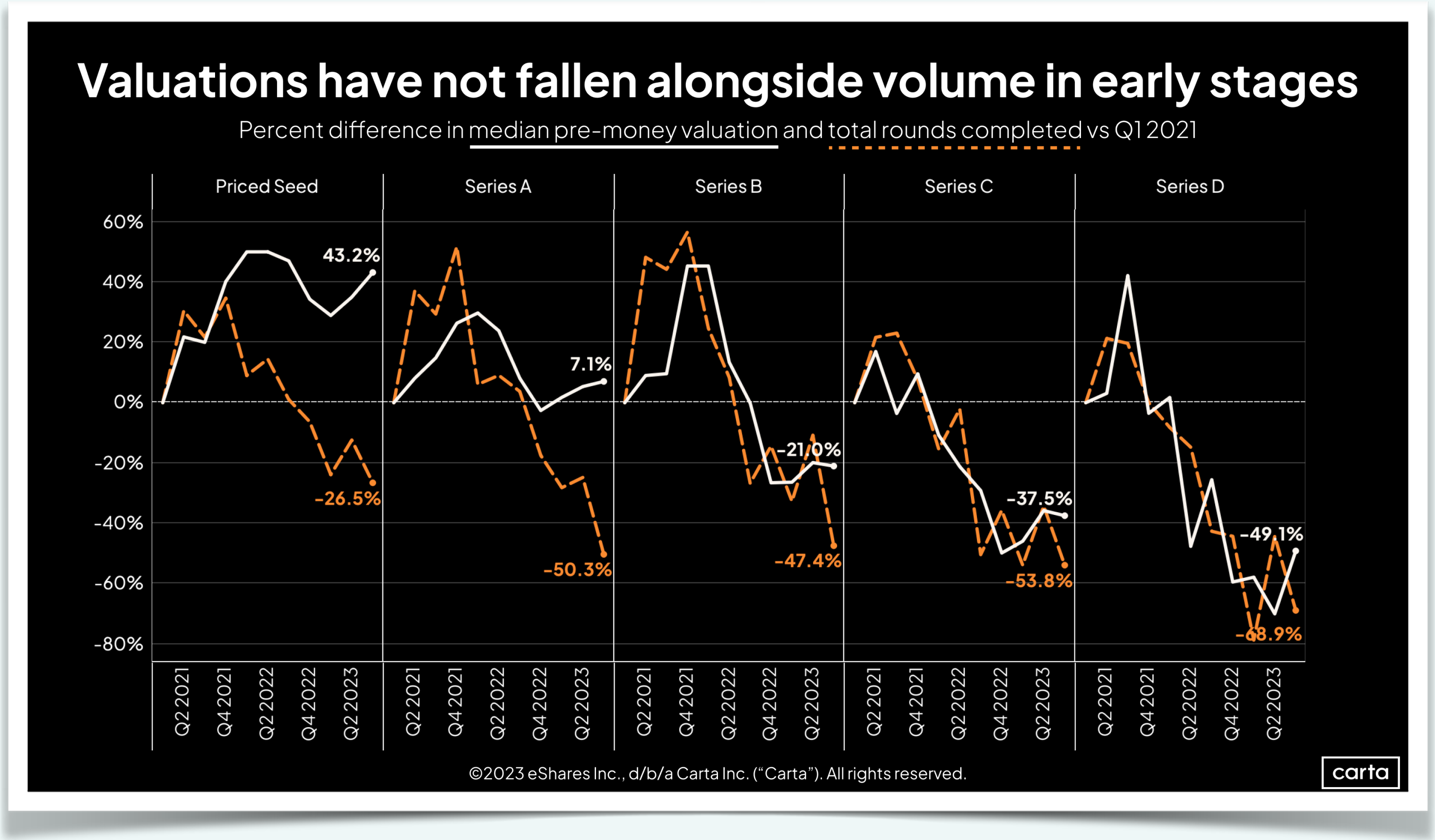
AngelList

Average valuation data differs from our median valuation data

Data focus is U.S. Pre-seed is an investment round that is secured pre-product market fit and pre-revenue. For a detailed understanding check - HERE and HERE.

Carta data

Median pre-money valuations and deal count have declined roughly in unison over past two years, except at Seed stage



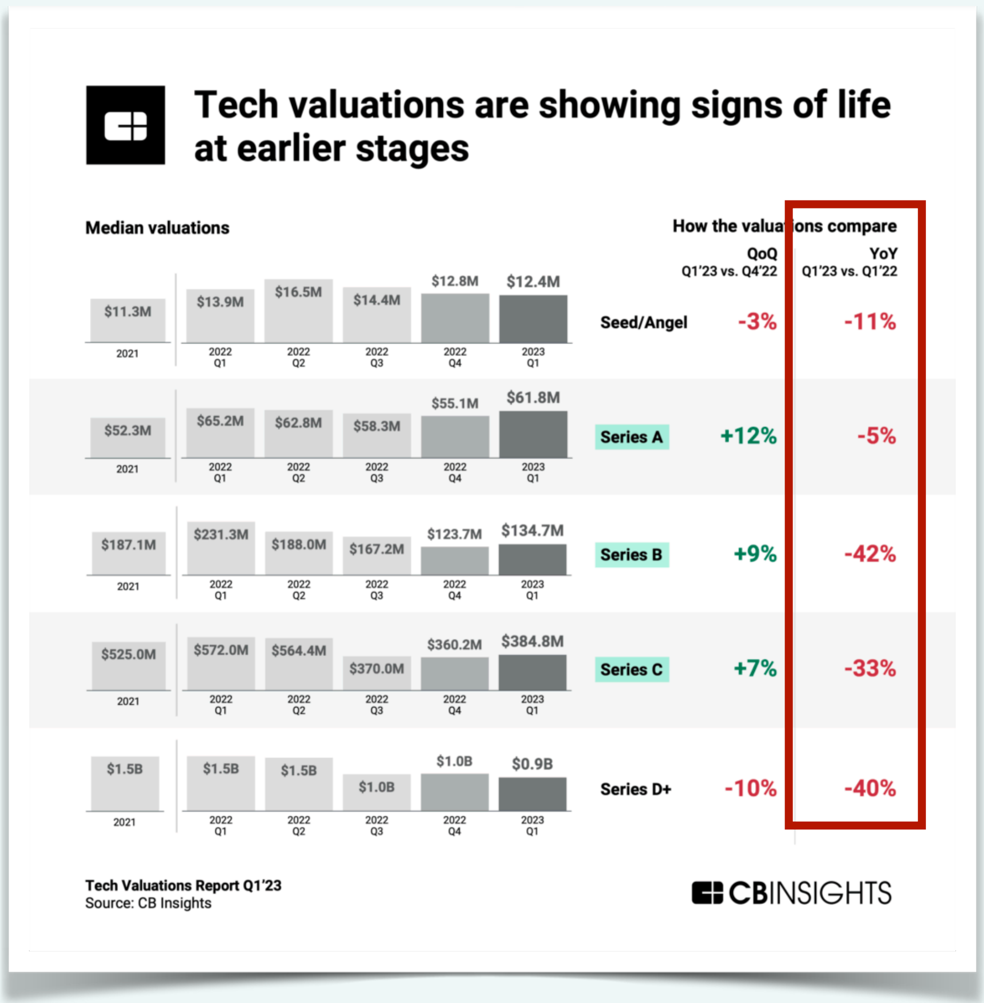
- At Series B, Series C, and Series D, median pre-money valuations and deal count have declined roughly in unison over past two years.

- **At seed and Series A, however, things look quite different. There, valuations have actually trended up since Q1 2021, while round count has fallen significantly.**

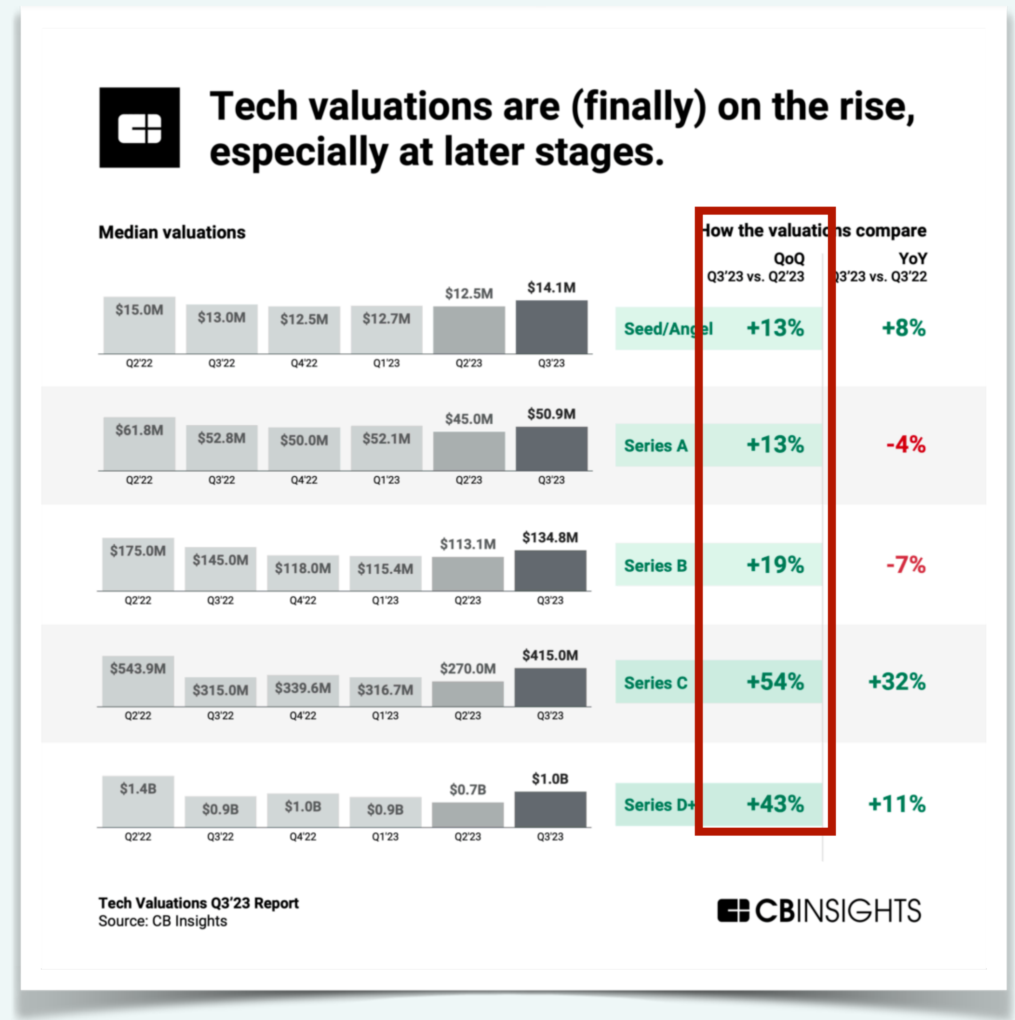
- The pairing of decreasing deal count with sharply falling valuations tells one story: **Late stage investors are finding fewer attractive companies to back**, and few (if any) companies are immune from the realities of a valuation reset.

CB Insights data

2023 started on a bad note with YoY valuation change taking big hits. Though recently in Q3, it looks like valuations are improving (based on QoQ data).



Tech Valuations Q1'23 Report



Tech Valuations Q3'23 Report

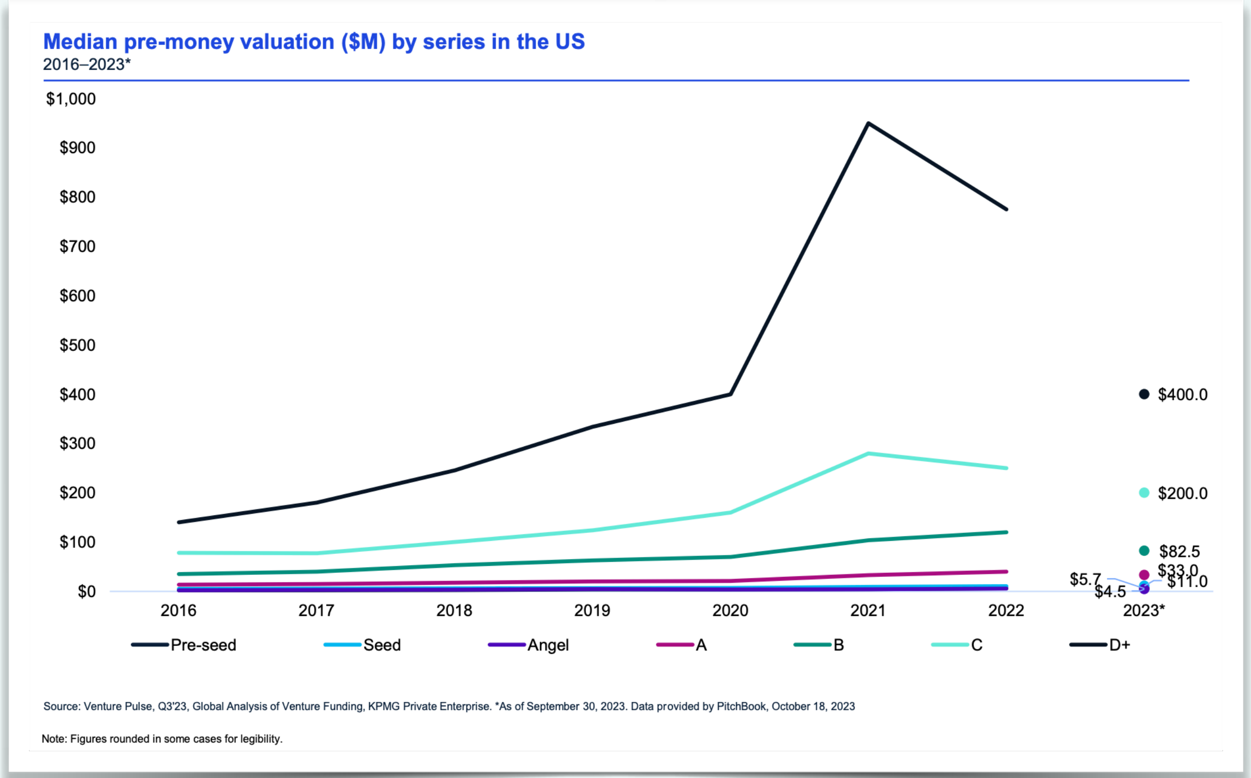
- Valuations for seed/angel rounds were only down 11% year-over-year and Series A contracted just 5%.
- Mid- and late-stage valuations were less resilient with YoY declines of between 33% to 42%.

- **Tech valuations bounced back in Q3'23, with each stage experiencing a quarter-over-quarter (QoQ) increase in median valuation.**
- The valuation uptick was particularly strong for Series C and D+ startups, which saw their median valuations jump 54% and 43% QoQ, respectively.

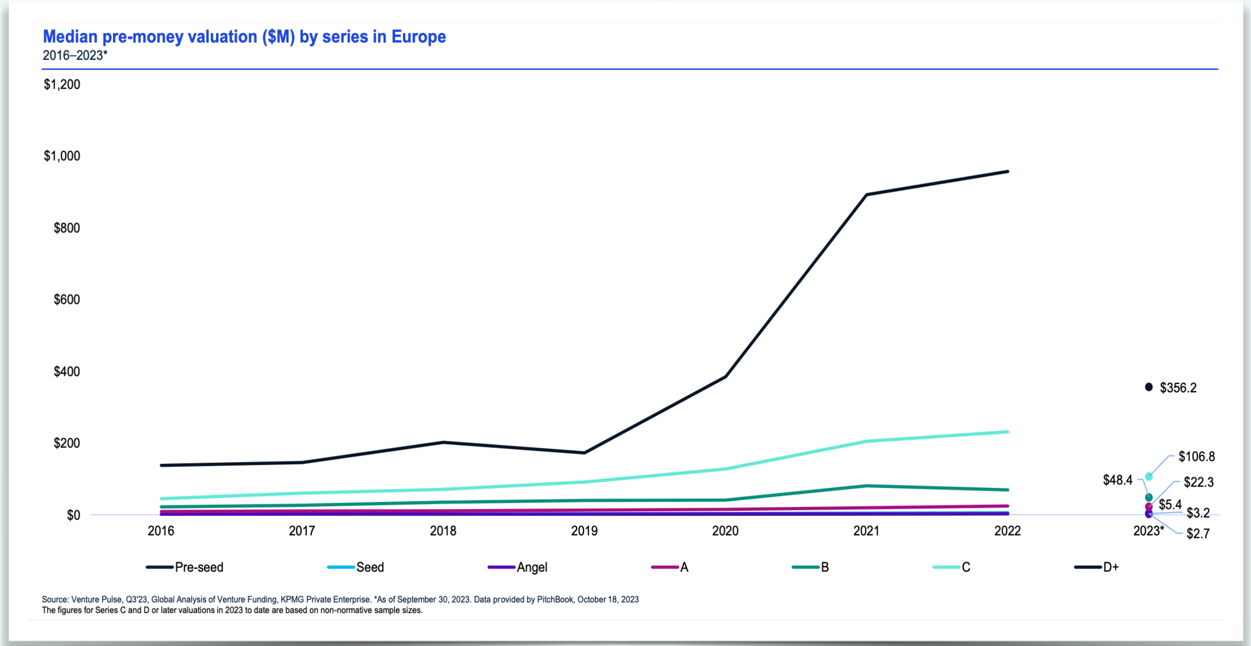
Data is U.S. focused

KPMG data

U.S. and Europe present a different picture at the late stage valuations. Decreasing late-stage valuation in the U.S. and increasing in Europe.



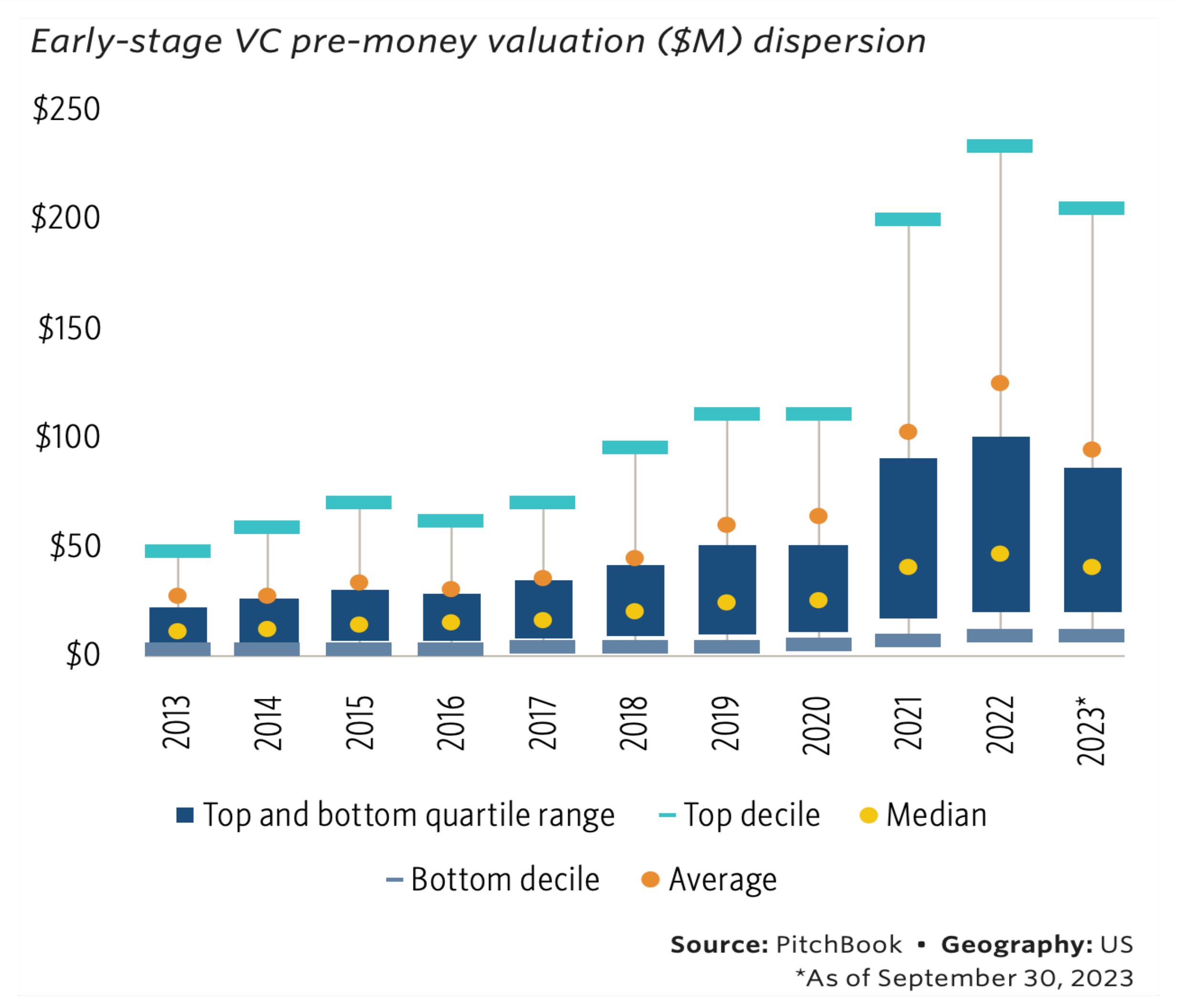
Data is U.S. focused



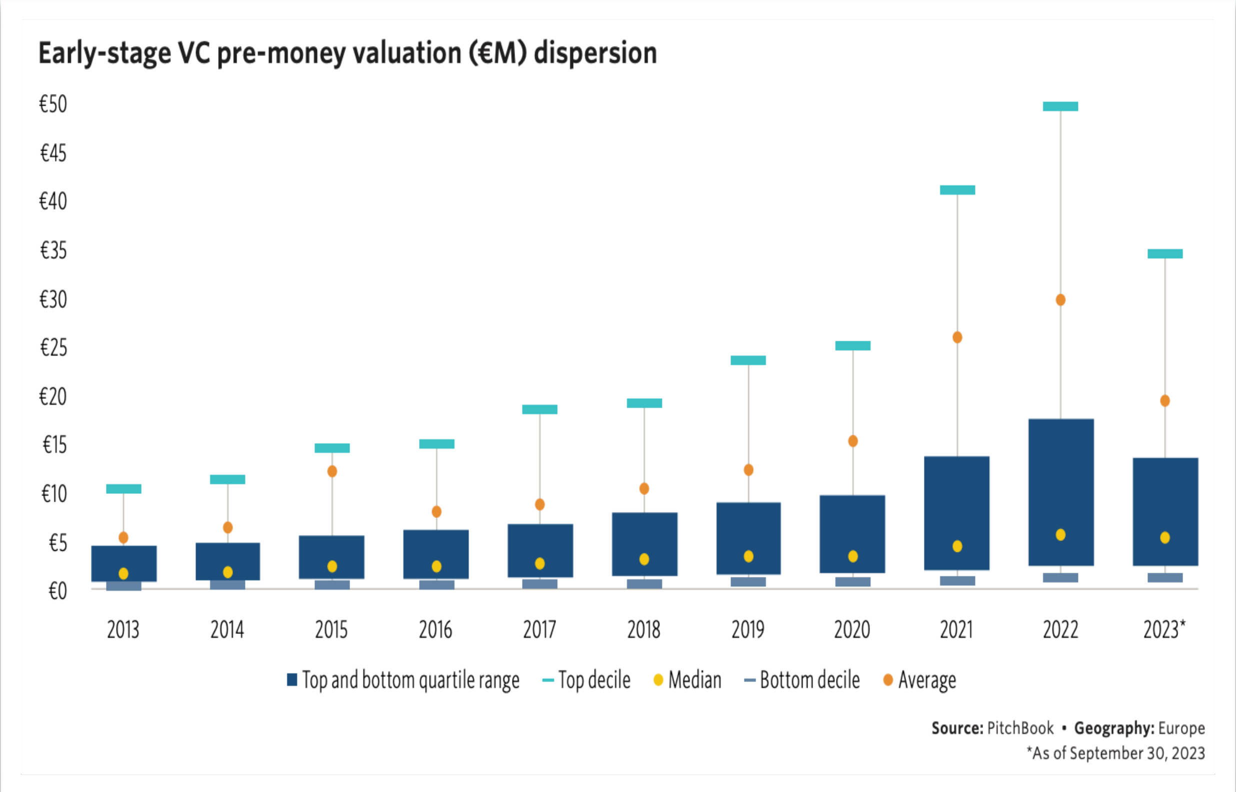
Data is Europe focused

PitchBook data

U.S. vs. Europe data shows a huge dispersion within early-stage deal valuations levels (bw. top and bottom quartile)



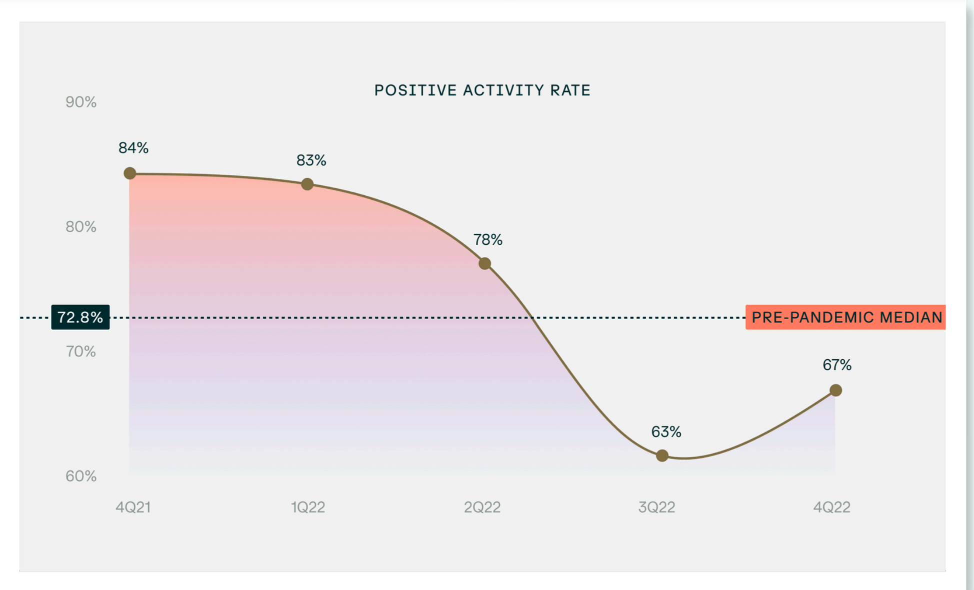
Data is U.S. focused



Data is Europe focused

Private market = Public market's lagged mirror image

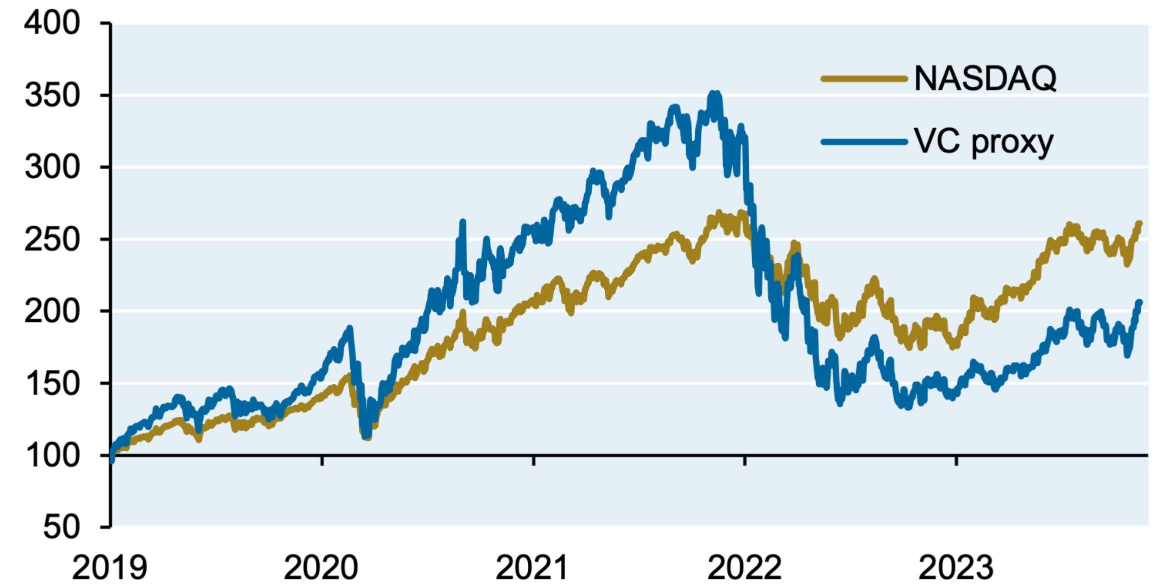
Private markets roughly follow the performance of public markets - by a few quarters.



- **The public market rebounded in early 2023, even as the venture market continued to slump.**
- According to AngelList data, there's no immediate correlation between the public market and the private market.
- **However, AngelList data suggests there is a positive correlation between lagged public markets (9-18 months) and the private market.**
- This lagged correlation suggests the venture market will continue to slump in 2023, even if the public markets rebound.

VC performance is more extreme on both positive and negative side.

Performance proxy for Venture Capital companies suggests sharp fall in valuations from peak levels, with a recovery in Q4 2023, Index (100 = January 2019)



Source: Refinitiv/Thomson Reuters, Bloomberg, November 17, 2023

Summary - Unicorns

Unicorn formation impacted

- 2023, a challenging year, massively pushed down the unicorn creation rate.

Big valuation changes aren’t reflected yet

- Upon analysing and applying public market metrics to private market unicorns, a valuation gap appears.
- Private valuations, being more subjective in nature, have yet to reflect the complete macro + public markets impact on the startup ecosystem.

Private unicorn to public IPO journey

- A significant gap has developed between the number of unicorns (with a valuation between USD 1-3 billion) in private and public markets.
- All the private market unicorns won't be able to IPO in 2024, and M&A isn't going to be an option for many of them - suggesting a tough time in 2024 if nothing substantial changes in the macro environment.

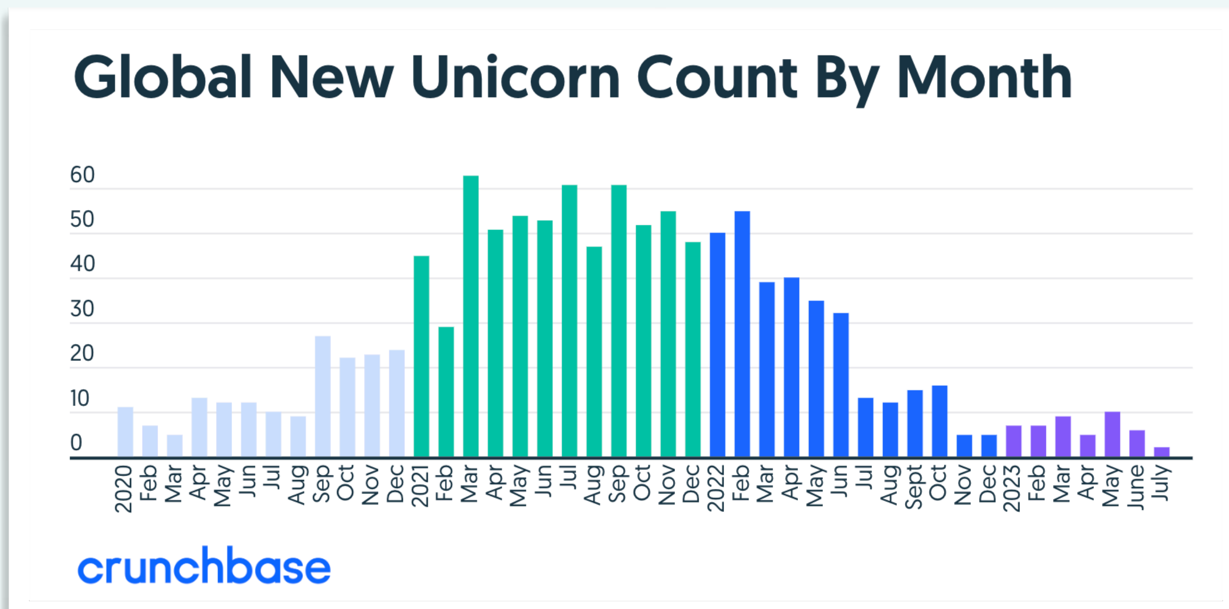
Unicorn formation

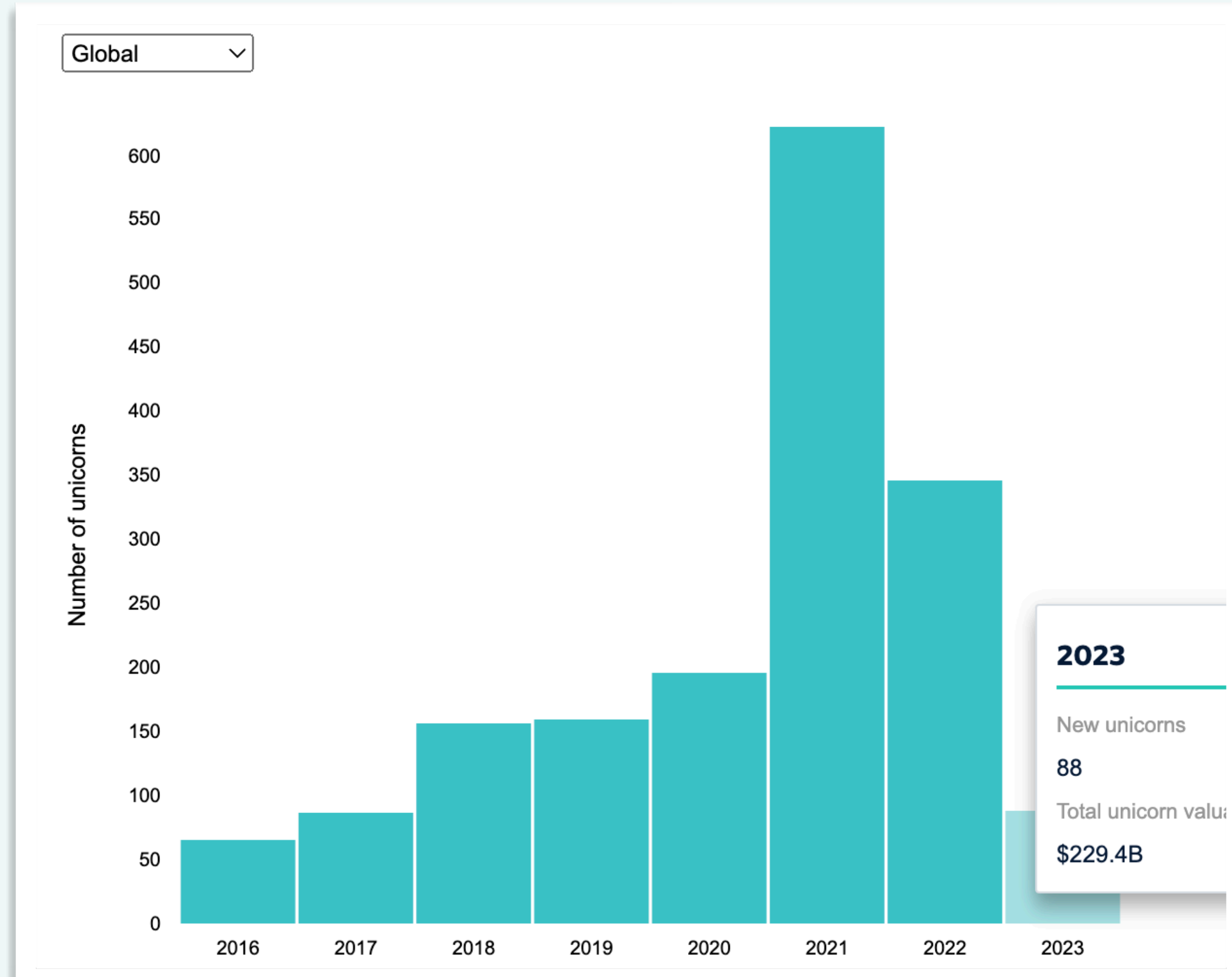
2023 being a tough year pushed down unicorn creation massively


VENTURE • WEB3

New Unicorn Creation Has Dwindled From 2 Per Day To 2 Per Month

Gené Teare August 16, 2023

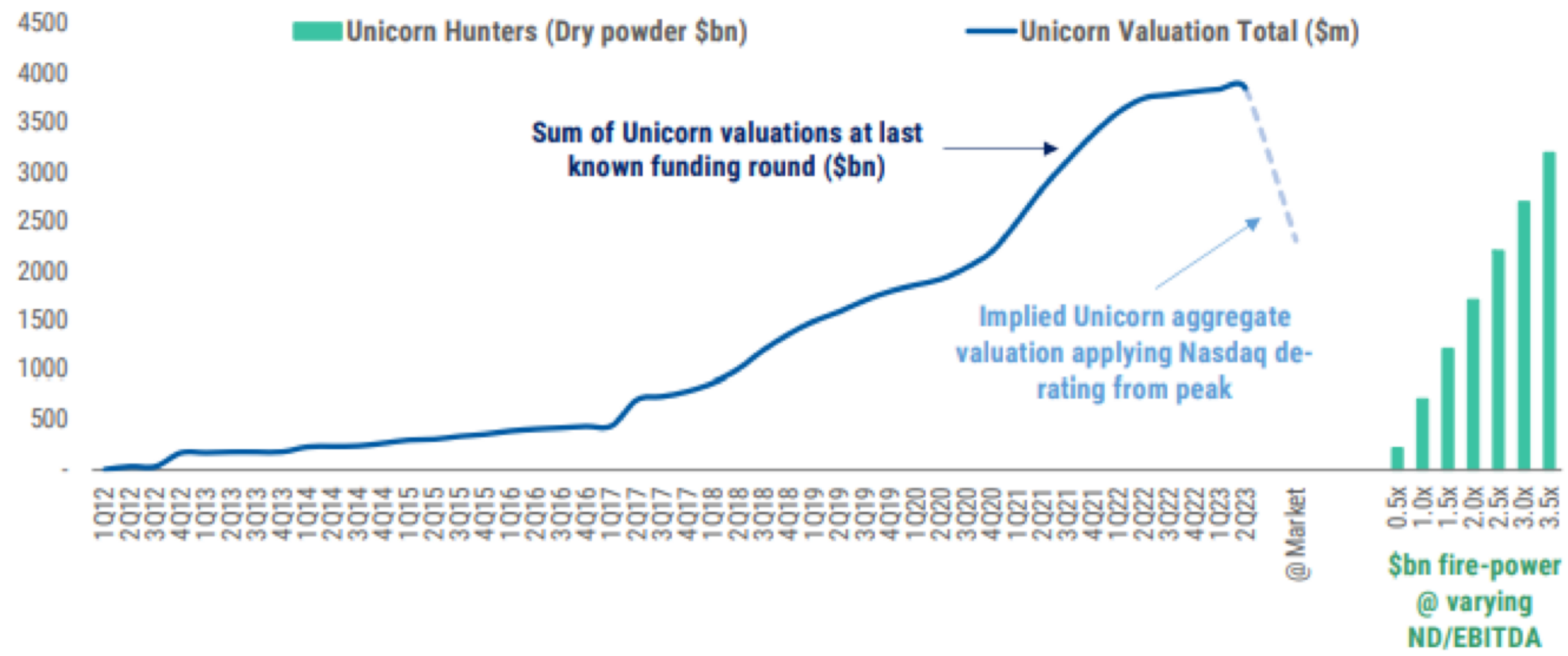




Unicorpses

Will we see more unicorpses than unicorns in the coming quarters?

Exhibit 2: Total value of global unicorns ($bn current and Nasdaq implied level) relative to dry-powder at various levels of leverage for "Unicorn Hunter" group and all Nasdaq 100 companies

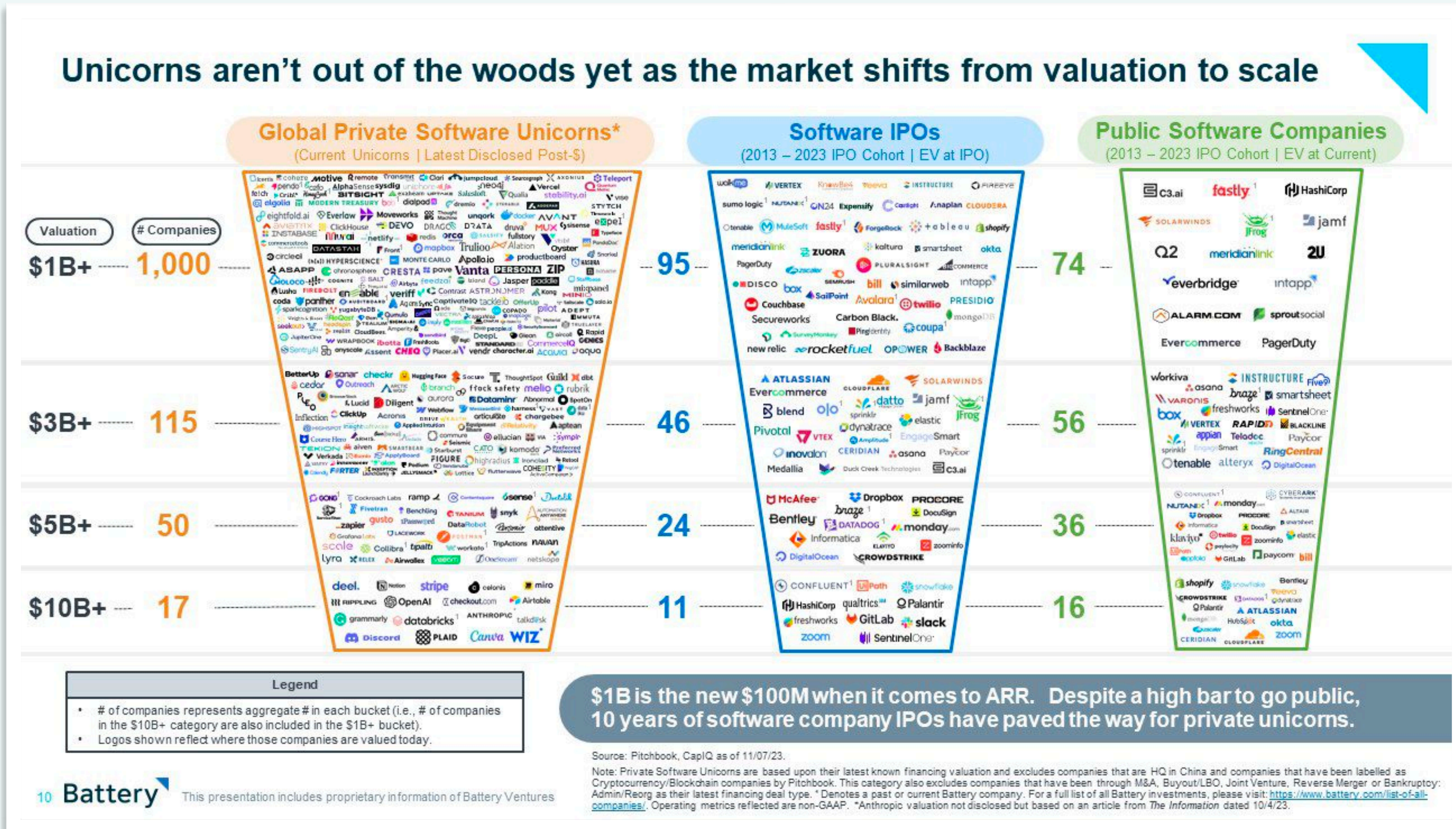


Source: Thomson, Bloomberg, CB Insights, Morgan Stanley Research

- Chart from MorganStanley showing how much the herd might be worth today if we applied the Nasdaq's derating to unicorn valuations.
- **Much of this correction might not be reflected in private markets.**

Private unicorn to public IPO journey

Public markets won't support 1000+ startup IPOs at $1B+ valuations.



The public markets won't support 1000+ software company IPOs at $1B+ valuations, and M&A isn't going to pick up all the leftovers. There's just too many.

Summary - Early stage strength

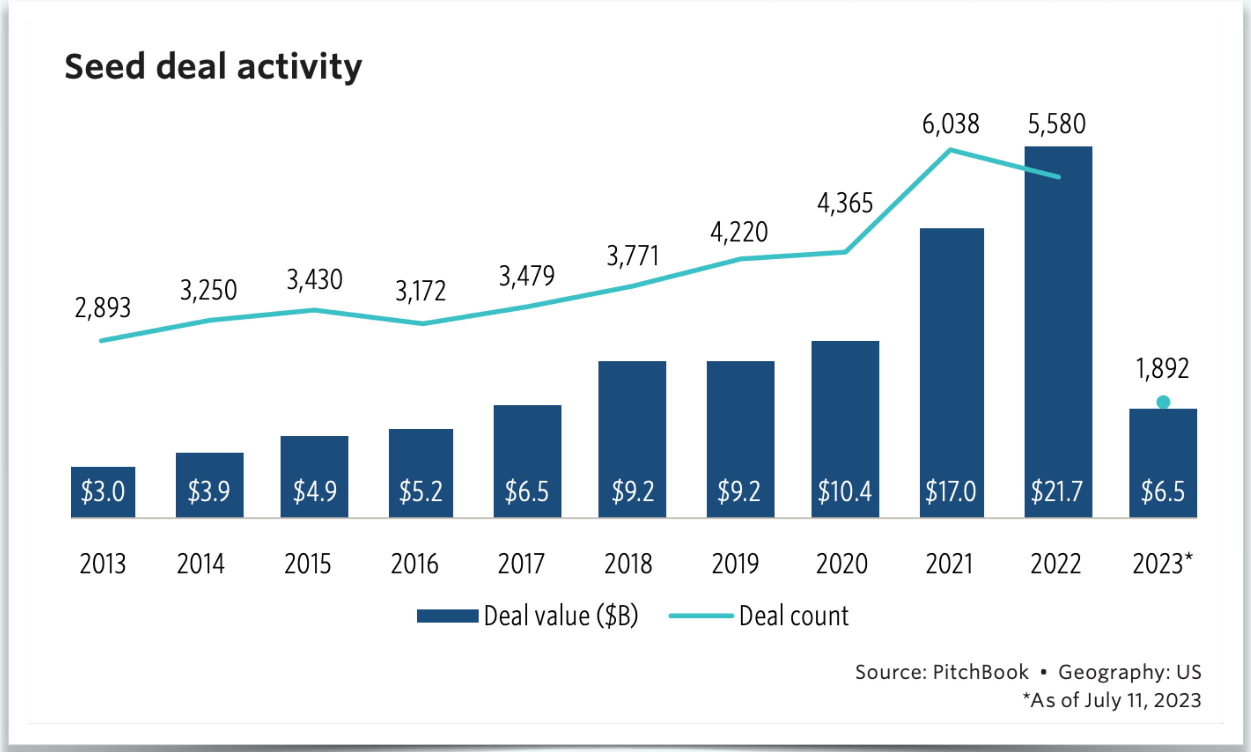
Early stage growth in the last years is undeniable

- Seed stage VC funding has grown dramatically over the past decade.
- Several factors have led to this scenario - ease of building a startup, tech talent moving out of established startups to start their own company, growing presence of accelerators/ incubators, the advent of crowdfunding, the rise of Seed stage VC funds, multi-stage VC funds moving in early stages, direct investing from Family Offices, Super Angels, CVC participation, and more.

There is a caveat to early stage growth

- Large/multi-stage investors have increasingly embraced early stage investments.
- From 2010 to 2022, the number of large investors participating in the Seed stage more than doubled.
- Large/multi-stage investor's participation has impacted the deal metrics.
- Despite the slowing participation of large/multi-stage investors in Seed in 2023, Seed deal metrics (like valuation) have remained high due to the growing Pre-seed market, the plethora of smaller VC funds closed in recent years, higher competition, and more.
- This leaves the early stage deal market at unsustainable levels.

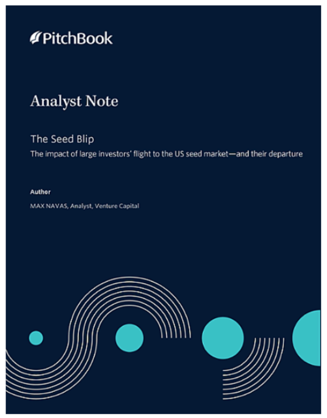
Seed stage growth is undeniable



- Several factors, including the emergence of a pre-seed market, the growing presence of accelerators and incubators, as well as the advent of crowdfunding, have greased the entrepreneurial flywheel and supported the seed stage's growth.
- **As costs to create and run a startup have fallen, the minting of new entrepreneurs and startups has become easier.**
- The increasing number of funding sources and investor interest in backing the most nascent startups further contributed to the seed stage's growth, such that the annual seed deal count grew from 859 deals in 2010 to 5,580 deals in 2022.

There is a caveat to Seed stage growth

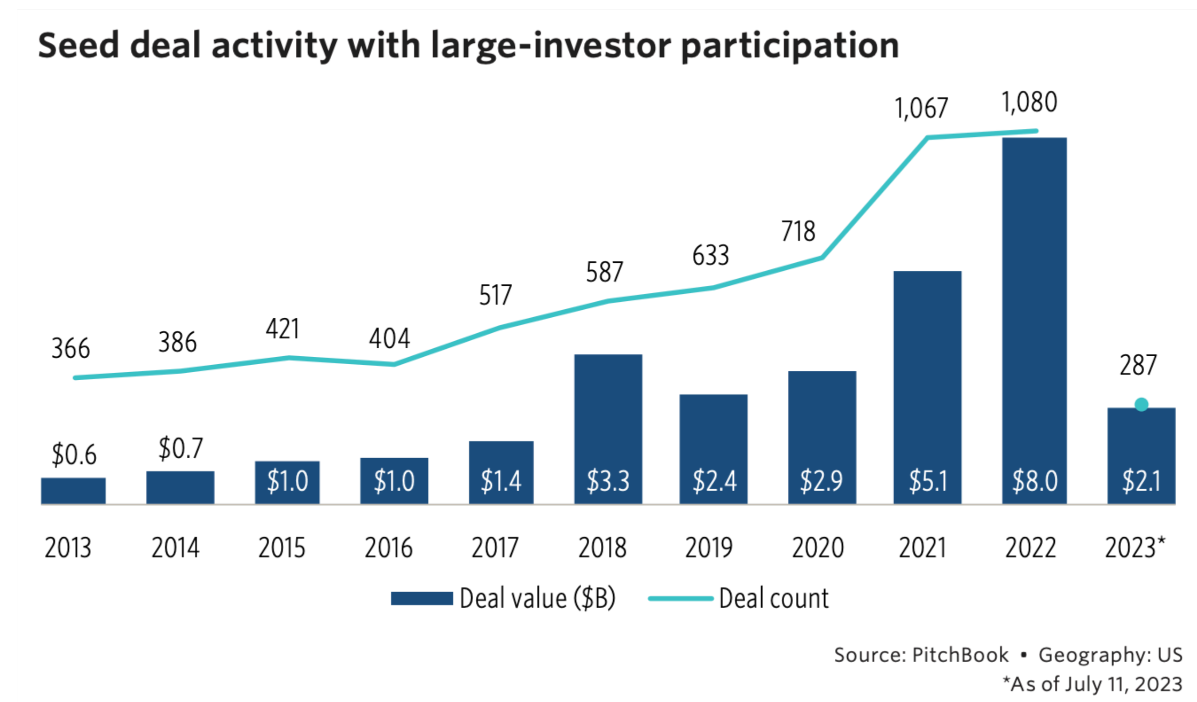
Large-investor pullback leaves seed at unsustainable levels



Q4 2023

PitchBook Analyst Note: The Seed Blip

October 30, 2023



- Large investors have increasingly embraced seed-stage investments.
- From 2010 to 2022, the number of large investors participating in seed more than doubled
- **Large investors participation impacts on the deal metrics.**
- **Despite the slowing participation of large investors in seed, seed deal metrics have remained high due to the growing pre-seed market and the plethora of smaller VC funds closed in recent years.** The short-lived overexuberance of large-investor involvement in seed has left smaller investors having to pick up the check.

Summary - Startup performance / 1

Startup closures

- Startup closures were trending higher in 2023.
- In the U.S., about half of the startups that closed did so without raising any VC rounds.
- Investors are getting selective and aren't running to save all startups in their portfolios. They are betting on the best ones or which, according to them, have highest probability of succeeding.

Startups getting stuck at Seed

- Startup graduation rate from Seed to Series-A has dropped dramatically from 2020 cohort to 2022 cohort.
- Situation is likely to remain impacted for the coming quarters.
- This lower graduation rate is a reflection of startups delaying their fundraising efforts until market improves, or it could be fewer companies are reaching Series-A milestones – or both.
- However, critical point to note is that graduation rate differs by startups's sector.

Taking cues from performance of public markets

- Metrics like ARR multiples (a common valuation metric for SaaS) have trended downward dramatically for public SaaS companies and is now hovering at the bottommost level seen in the past 8 years.
- In such a scenario, it isn't easy to justify higher valuations for startups (private assets).

Is there a performance power Law?

- A cohort of exits often drives portfolio value creation in enterprise tech, while large, individual exits generally drive value creation in consumer tech
- Billion-dollar enterprise exits can occur in both up and down markets.
- For consumer companies to outperform, they must exit through IPO, and in a favorable IPO market.

Summary - Startup performance / 2

VC portfolio write-downs

- Many VCs couldn't help but slash valuations of startups in their holdings.
- Older funds, established over a decade ago, also felt the pinch.
- However, a tougher discussion point is why level of decrease in VC portfolios hasn't been the same across the board.

Down rounds were the talk of the VC world

- Looking back 5+ years, percentage of down rounds exceeded 15% for the first time in 2023.
- Erosion of value creation between rounds continues to pose a significant challenge.
- True depth of the down round issues is unknown as reporting is often delayed, and startups are not obligated to publicly disclose a round's valuation.
- Median decline of valuation in down rounds is highest in late stage deals.

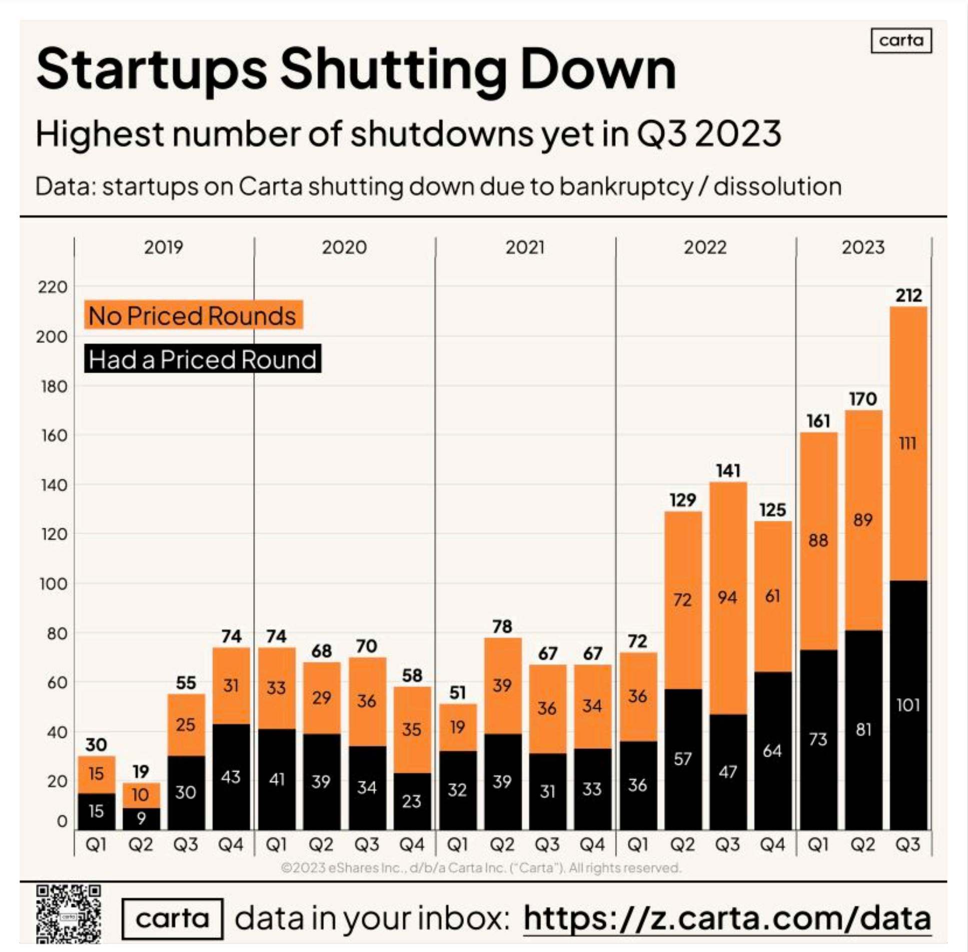
Maybe down rounds aren't that bad

- Down round might not be as strong of a negative signal as many perceive it to be.
- Even after a recap, a startup can become a successful investment. This is critical as there is still a huge interest in startups (with all the learnings, product efficiency, and refined go-to-market strategy) with significantly revised pricing.
- Nevertheless, investors still consider down rounds highly critical, especially in high growth-oriented verticals.

Markups

- Markups can predict the outcome of a venture investment on a short time horizon.
- 18 months after closing, a Series A investment that hasn't been marked up yet is more likely to never be marked up.
- In contrast to 2023's market environment, where most startups valuations are down and down-rounds were high, some VC funds have marked up their portfolio.

Startup closures are trending higher



- **About half of the startups that closed shop did so without raising any VC rounds.** The other half had at least one priced round in their history.
- **Within the cohort that had raised from VCs, 90% of the shutdown were either Seed or Series A startups.**

Investors are getting selective

In 2023, investors were razor focused on supporting selective top performing startups with capital

Startups Are Dying, and Venture Investors Aren't Saving Them

Investors are becoming more selective, threatening hundreds of startups that raised cash during the recent boom

By Berber Jin Follow

Aug. 11, 2023 8:00 am ET

Why We're Heading Into the "Perfect Storm" of Startup Closures.

Posted on August 13, 2023 by hunterwalk

How many cliched comparisons can I bundle into a single blog post? We're about to find out...

- Many good businesses might be failing because they are relying on the wrong source of capital and operational help to make it through this cycle.
- **The venture-scale power law investment model is not designed to continue backing businesses that are "chugging along"**

Startups Current Situation: Companies funded during the last few years that didn't accomplish their necessary milestones for incremental capital, exacerbated by a challenging environment that decreases the chances of a bridge round, leaves some of their current investors without new funds to deploy, and (most annoyingly to founders) moving goalposts on what they're supposed to achieve.

Returning capital is Ok

In 2023, we were living in a regime where returning money back to capital providers (VCs or LPs) was OK

Returning Capital is Okay

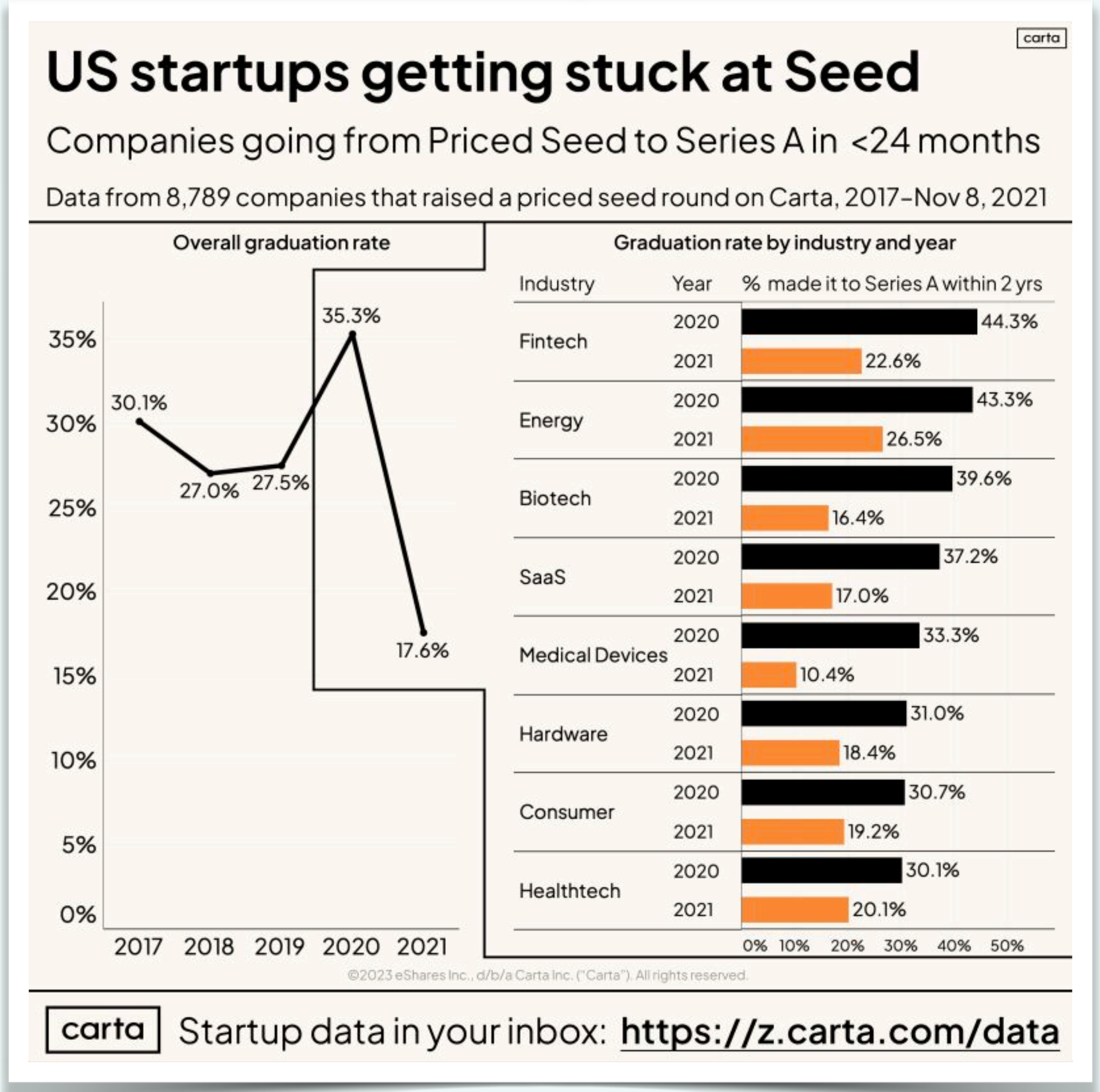
SRIRAM KRISHNAN

21 MAY 2023

- Some founders even find themselves in tricky situations as their VCs propose shutting the company down and returning capital to investors.
- **Founders, if your startup is not progressing to your expectations or if you don't have the same passion as you had before, it is totally okay to find a way out.**
- It is important to remember that startups are inherently risky. Returning any capital back to investors is not necessarily a negative outcome. It can be a choice that allows you to reset and refocus.

Startups getting stuck at Seed

Not only that startups are getting stuck at Seed, graduation rates have marked differences based on sectors

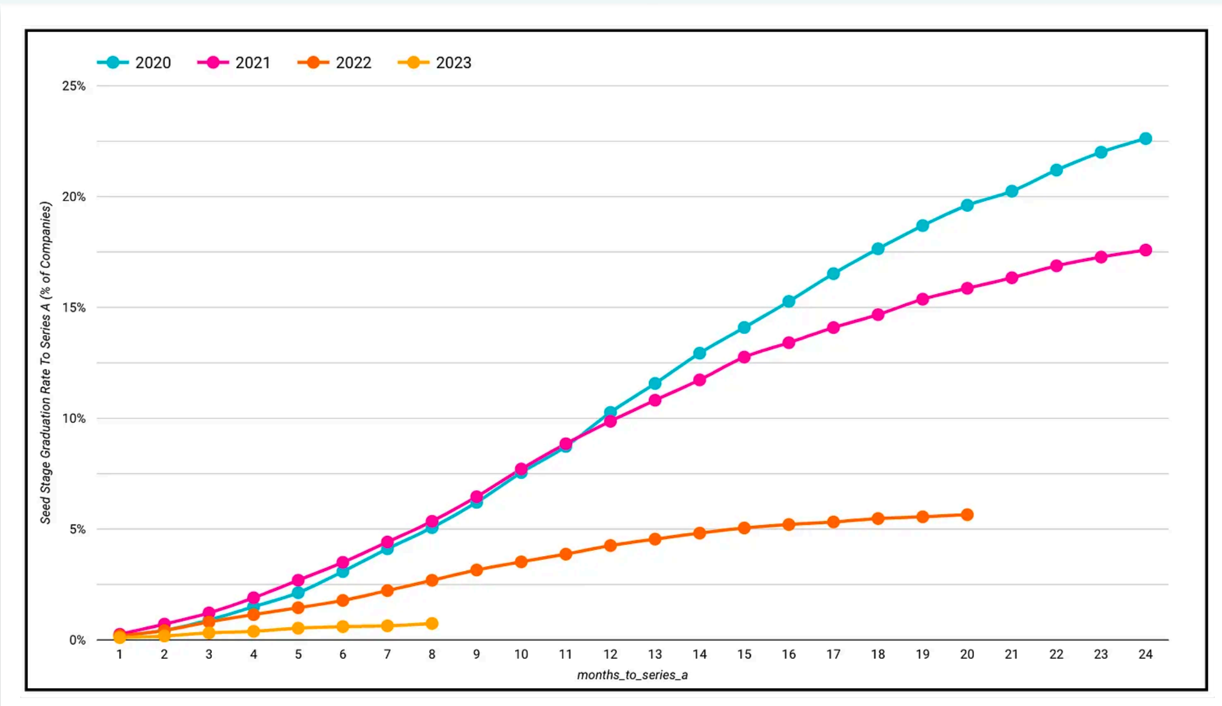


- The percentage of companies who make it from seed to Series A within two years fell by a lot for the 2021 seed cohort.
- 27.5% of companies that raised a seed round in 2019 made it to Series A within 2 years.
- **Only 17.6% of companies who raised their seed in 2021 have "graduated" to the next round.**
- **Graduation rate differs by sector.** Hardest hit in 2021 cohort was FinTech. Smaller drops for Hardware, Consumer, and Healthtech.

Data is U.S. focused

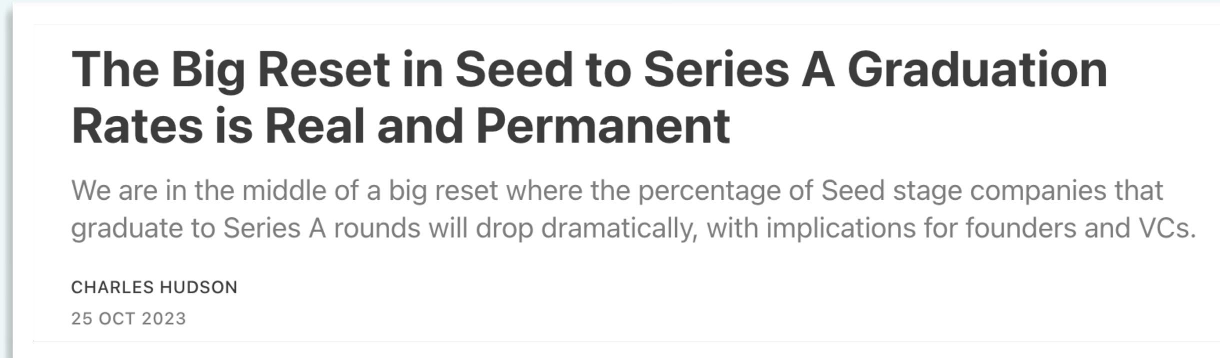
Startup graduation to remain impacted for months

Graduation rates remain low for the 2022 cohort



- **2020: 23% of Seed-stage startups made it to Series-A within two years**
- 2022: 5% of Seed stage companies have raised Series-A capital after 20 months
- **Lower rate reflection of companies delaying their fundraising efforts until a later market entry, or it could be fewer companies are reaching Series-A milestones – or both.**

Graduation rates likely to be low for multiple quarters



The Big Reset in Seed to Series A Graduation Rates is Real and Permanent

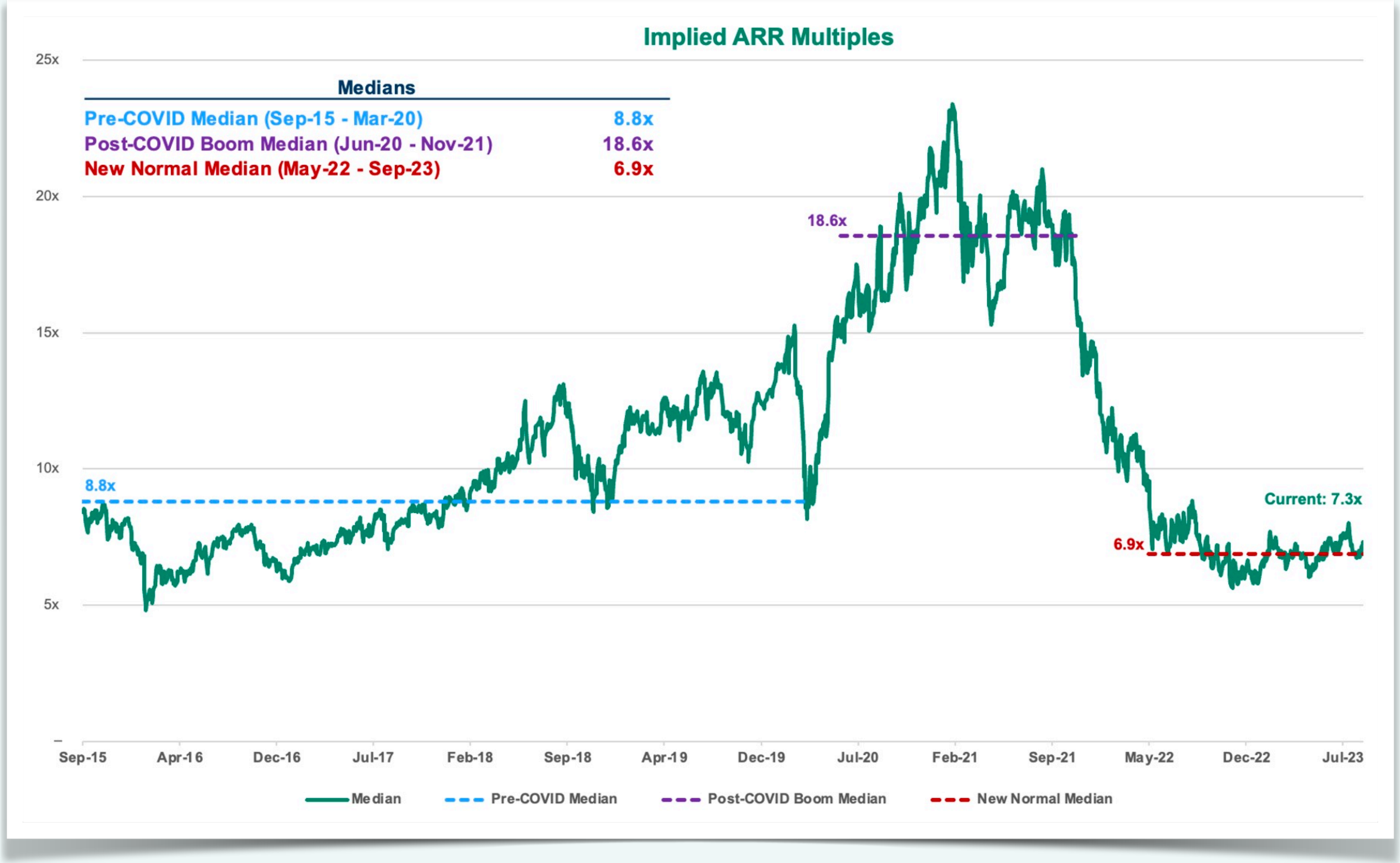
We are in the middle of a big reset where the percentage of Seed stage companies that graduate to Series A rounds will drop dramatically, with implications for founders and VCs.

CHARLES HUDSON
25 OCT 2023

- **Measured graduation rates will continue to fall for several quarters as companies go out for and fail to raise Series A rounds.**
- One other byproduct of lower Series A deal volume and lower graduation rates will be less bridging and extending by seed funds.

Taking cue from public markets

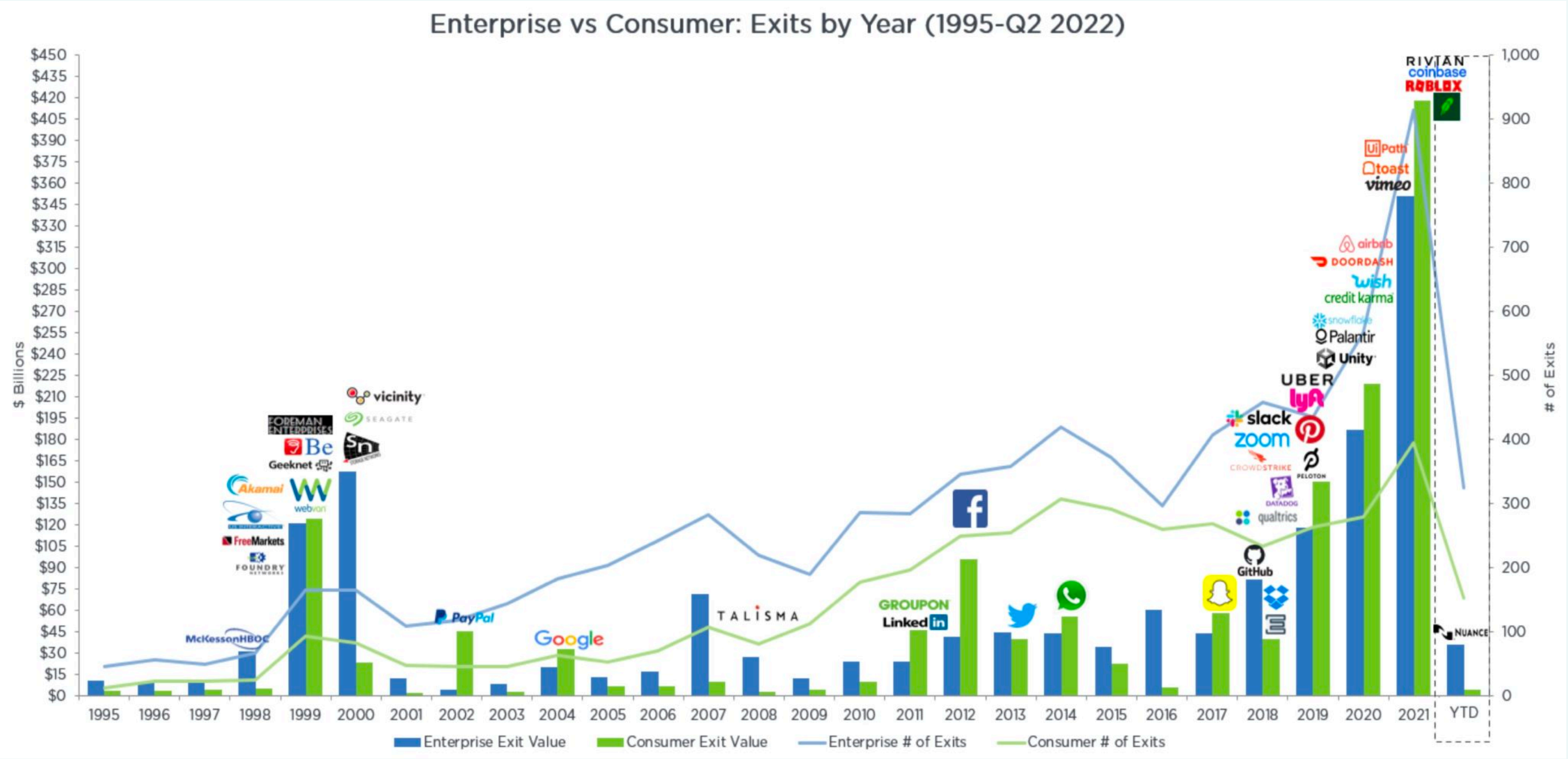
ARR multiples (a common valuation metric for SaaS) has trended downward dramatically for public SaaS companies



The current median multiple is 7.3x, below the pre-COVID median of 8.8x but down 69% from the 2021 high of 23.4x.

Is there a performance power law?

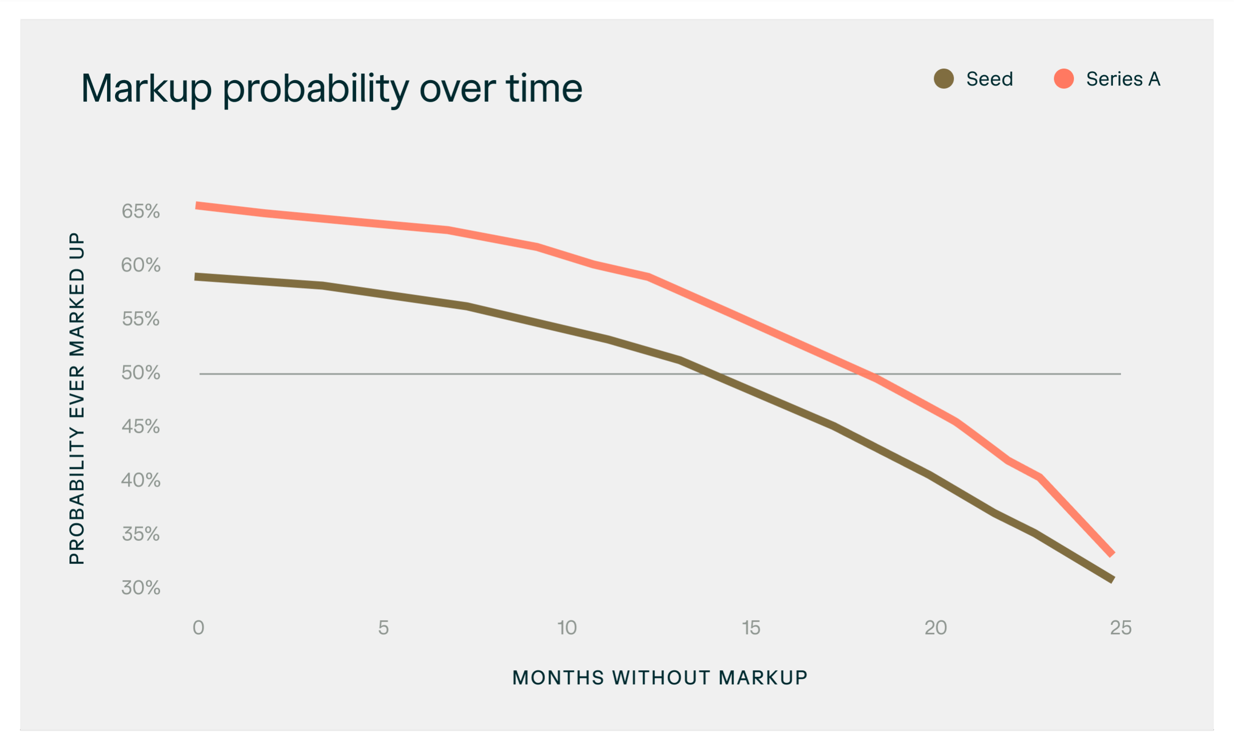
The Power of Power Laws – Which Investments Generate the Greatest Venture Returns: Enterprise or Consumer?



- **Portfolio value creation in enterprise tech is often driven by a cohort of exits, while value creation in consumer tech is generally driven by large, individual exits.**
- **Billion-dollar enterprise exits can occur in both up and down markets** as enterprise companies' consistency of outperformance comes from both IPOs and large M&A to PE and corporations (hat tip Figma).
- In contrast, it's our observation that **for consumer companies to outperform, they must not only exit through IPO, but also in a favorable IPO market.**

Markups

How markups can predict the outcome of a venture investment on a short time horizon?



- 18 months after closing, a Series A investment that hasn't been marked up yet is more likely to *never* be marked up than to be marked up.
- Seed investments, because of their higher baseline rate of failure, cross this threshold even faster—at just 12 months.

Some VC funds marked up their portfolios

The VC firm marked up 15 of the 19 funds with vintage years 2018 and later by 9.2% on average over the 12 months ended June 20, according to a University of California investments report.

VC portfolio write-downs

Many VCs couldn't help but slash valuations of startups in their holdings

Featured Article

Filings reveal PE and VC returns amid escalating write-downs

Some high-profile venture capital and private equity firms are slashing the valuation of their holdings.

Manish Singh @refsrc / 7:54 PM GMT+2 • June 1, 2023 Comment

- **The trend is widespread, with nearly all funds reporting a decrease in the value of their holdings** over the past year. Though it's a little surprising that it has not plunged more, it's likely in the quarters since stakes have plunged further in value.
- **Older funds, established over a decade ago, are also feeling the pinch** from the economic downturn.

On other side, some investors say markdowns aren't happening enough

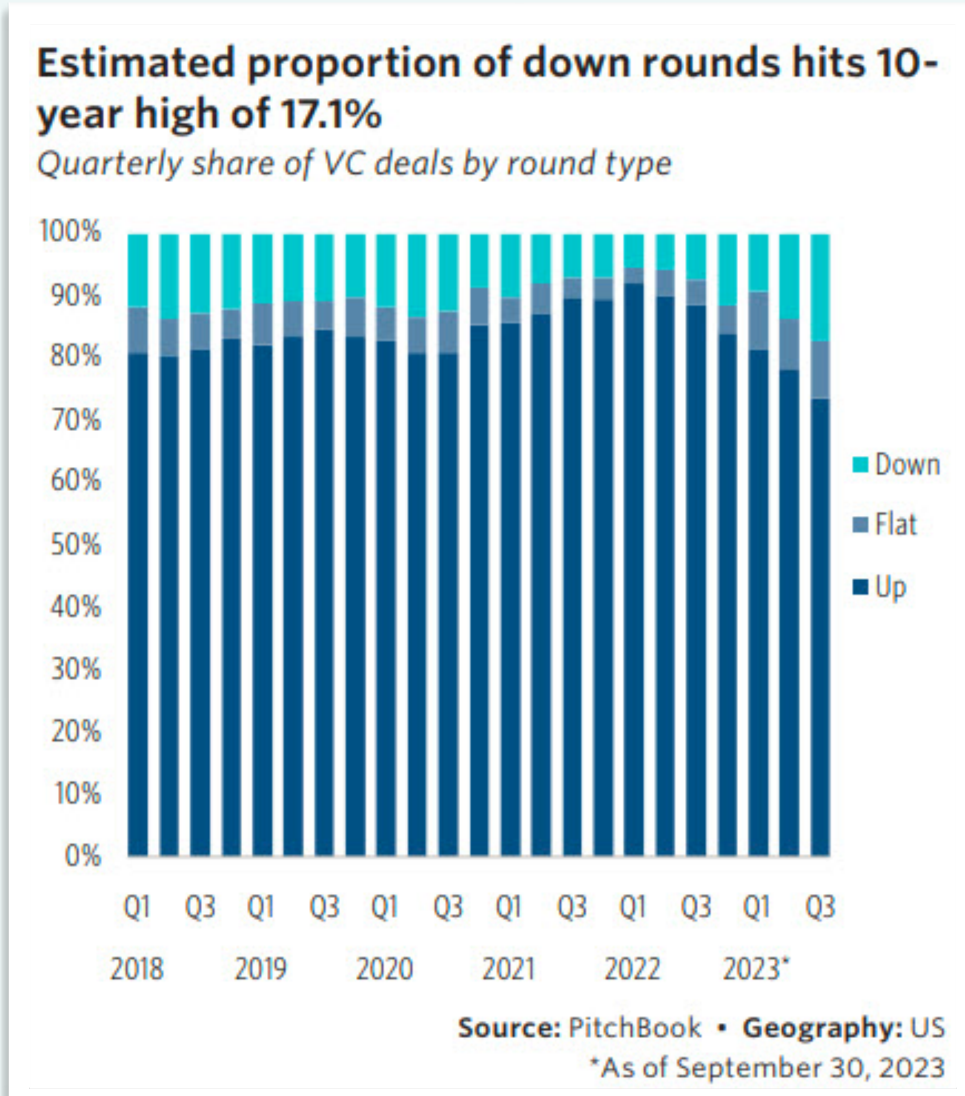
AUGUST 25, 2023 BY DAVID

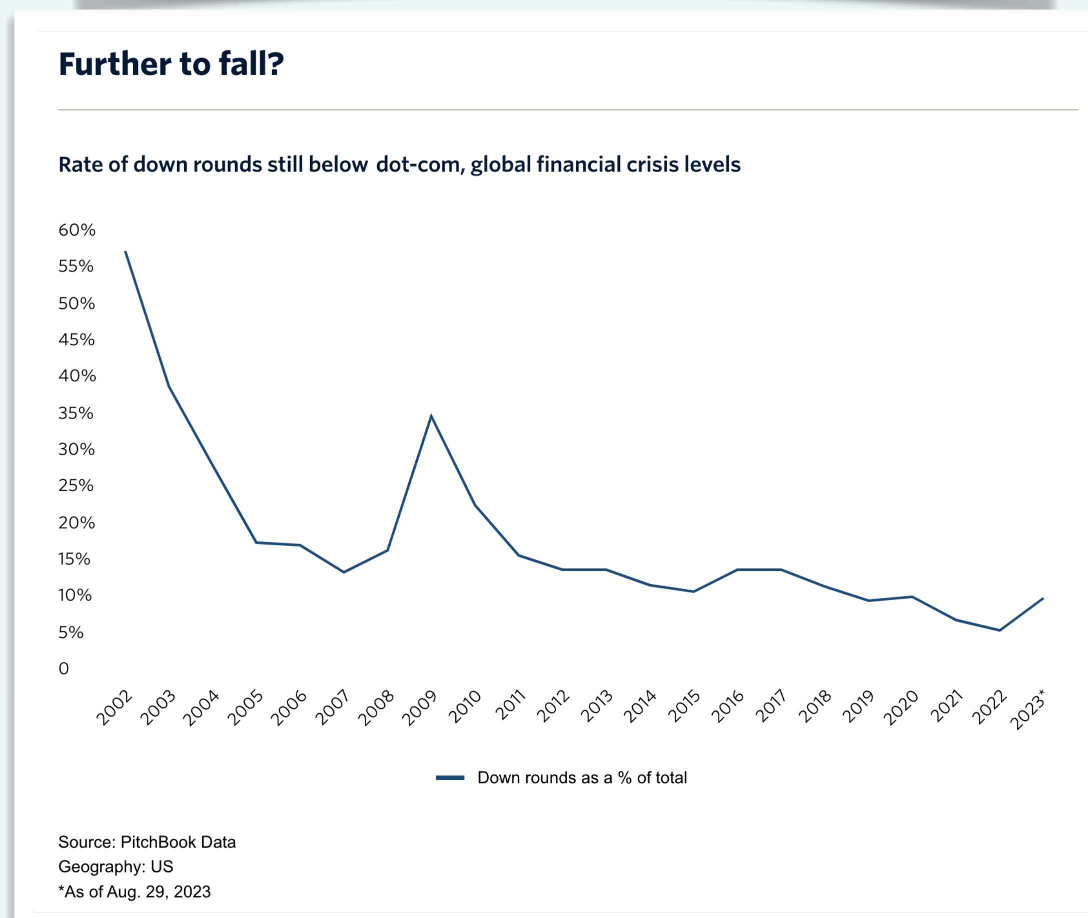
Why No One's Marking Down Their Portfolio

- Bill Gurley shared that both VCs and LPs aren't marking down their portfolios. F**or GPs, inflated numbers helps you raise the next fund. For LPs, they're given their "bonus on paper marks.** So, they don't have an incentive to dial around to their GPs and say, 'Get their marks right.' 'Cause it's actually going to reflect poorly on them if they were to roll those up."
- **Mark-downs of prior vintages are starting to occur but will take some time given valuation and reporting lags.**
- But until folks go back to market, there are many who won't jump the gun in writing down their portfolio.

Down rounds hit 10 year high

Rate of down rounds is at a decade high, but it still isn't GFC level high. Can things get worse?



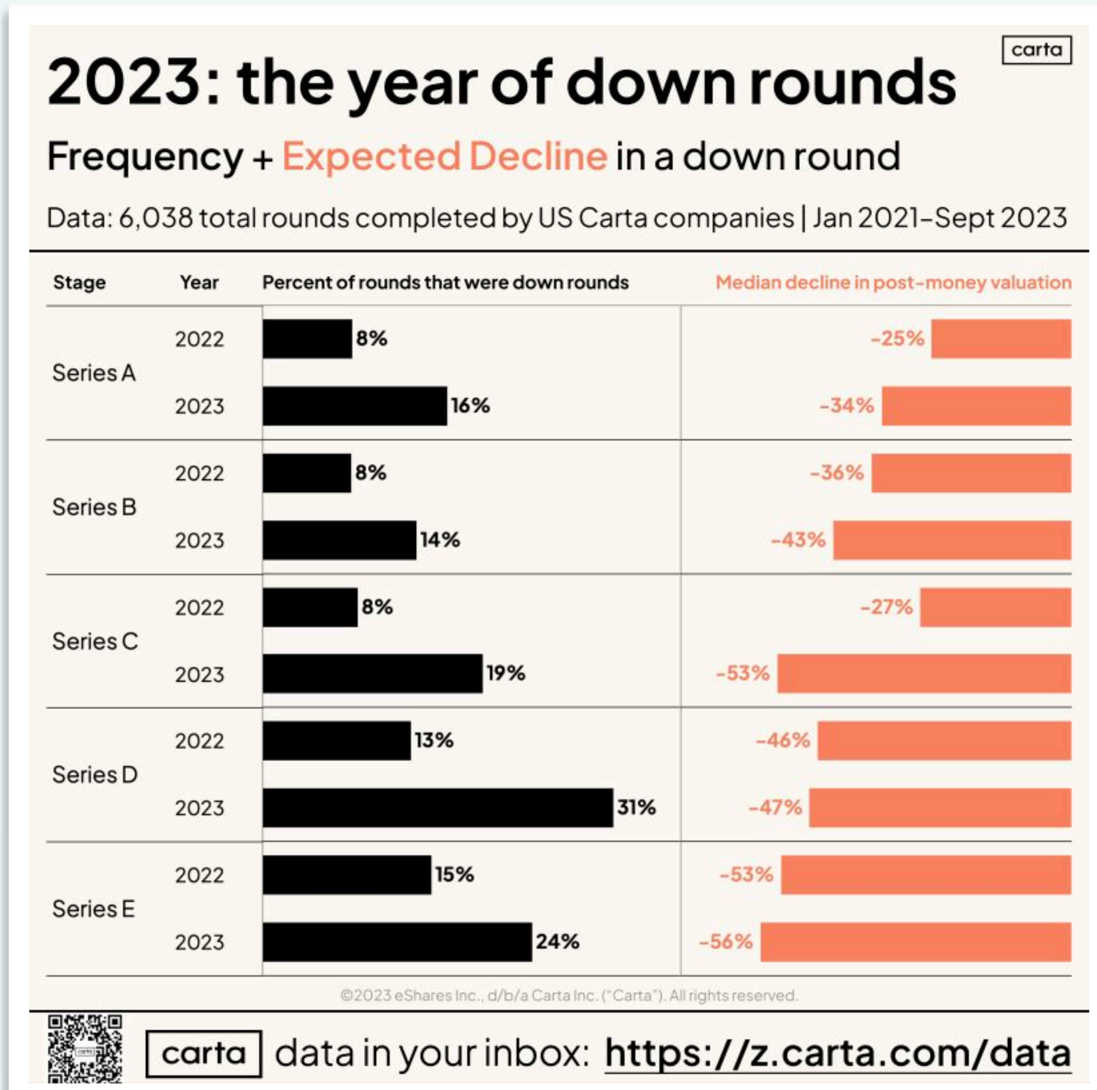


- **17% of all deals in Q3 were down rounds, the highest percentage in a decade.**
- The **erosion of value creation between rounds** continues to pose a significant challenge for startups and their investors

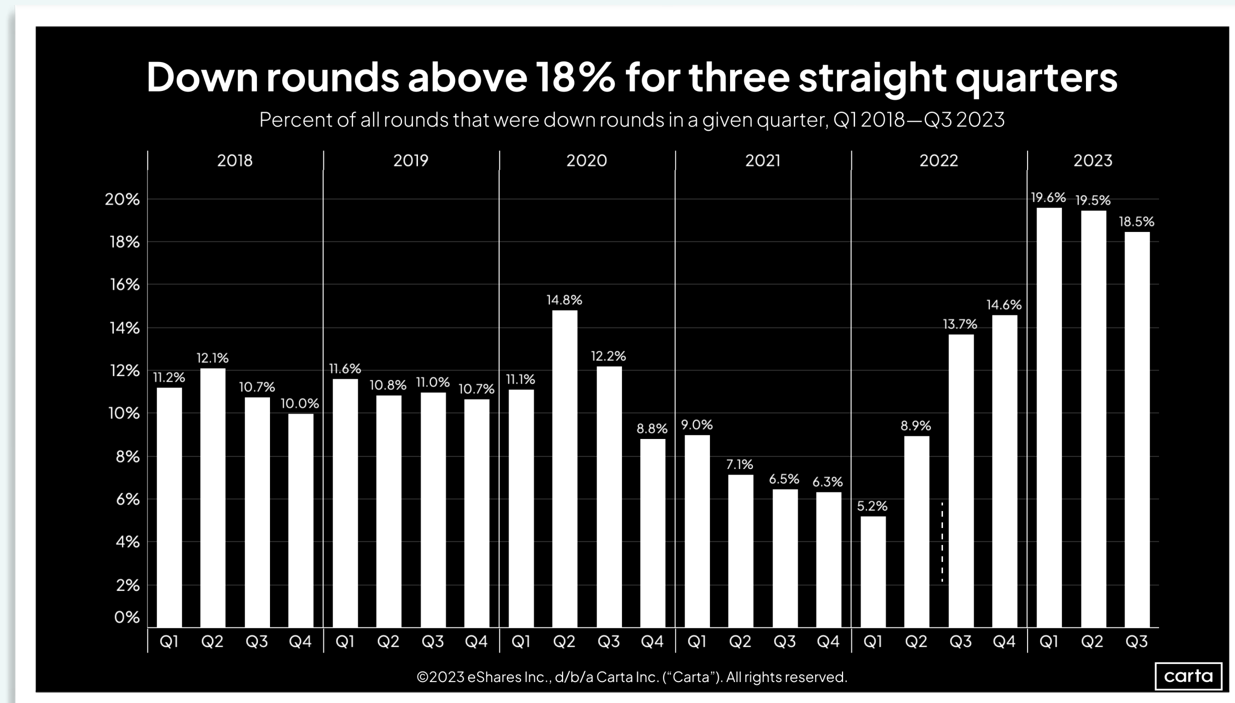
Reporting of down rounds is often delayed, and private venture-backed companies are not obligated to publicly disclose a round's valuation.

Down rounds more prominent at growth stage

Down rounds, as a percentage, were higher in 2023 as compared to 2022



Looking back 5+ years, percentage of down rounds exceeded 15% for the first time in 2023



- 19% of venture rounds are down rounds in 2023. That's up from only 5% down rounds in 2021.
- Down rounds are seeing companies take significant haircuts vs the prior valuation (anywhere from 30-60% drops).

Data is U.S. focused

Down rounds aren't that bad

Down round isn't a negative signal as many perceive it to be

samir kaji
@Samirkaji

On down rounds or valuation cuts:

1/Common perception of down rounds and valuations being cut is a negative signal for the company and that sets it on an irrecoverable path toward being a large, durable company.

It's not.

16:26 · 20.04.23

10 Retweets **4** Quote Tweets **50** Likes

Even after a recap, a startup can be a successful investment

Martin Tobias (Pre-Seed VC)
@MartinGTobias

I am seeing lots of down rounds and recapitalization lately in start-up land.

One of my most successful investments has been a restart recapitalization.

As a VC, here are some green ✅vs red 🚩 signals when considering financing a recapitalization. 🧵

23:49 · 10.08.23

20 Retweets **1** Quote Tweet **125** Likes

SECTION

STARTUP FUNDRAISING

IMAGE FROM DALL E

Here is an image depicting the challenging fundraising environment for startups in 2023. It captures the struggles of a founder working alone in a modest office, surrounded by plans and financial strategies, highlighting the intense focus and determination required in such a challenging scenario.

Index - Startup Fundraising

Summary - Startup fundraising data

Startup fundraising saw a dramatic slowdown in 2023

- Breakneck pace of fundraising observed in 2021 turned upside-down in 2023.
- Many investors voiced concerns that funding levels in 2021 weren't healthy for the industry.
- First half of 2023 turned out to be one of the slowest periods for early-stage investment activity in a decade.
- GPs have adjusted their deployment pace to align with historical norms and macro conditions.
- U.S. investor's participation in global startup fundraising showed a significant fall in 2023.

Fundraising shouldn't be put in one bucket

- While supply and demand of capital have increased, demand has increased significantly relative to the supply of capital - especially in the late stage.
- Fundraising also varies based on the startup's sector. Example: capital-intensive BioTech startups raised at relatively valuation caps, but only a few of them got funded.
- W.r.t round sizes, late stage saw the maximum negative impact. Meanwhile, for Seed, it increased slightly. Mega rounds almost disappeared, except specific sectors like AI.
- W.r.t geographies, the European share of global startup fundraising has risen consistently in the last decade.
- European fundraising round sizes have been tracking and catching the U.S.

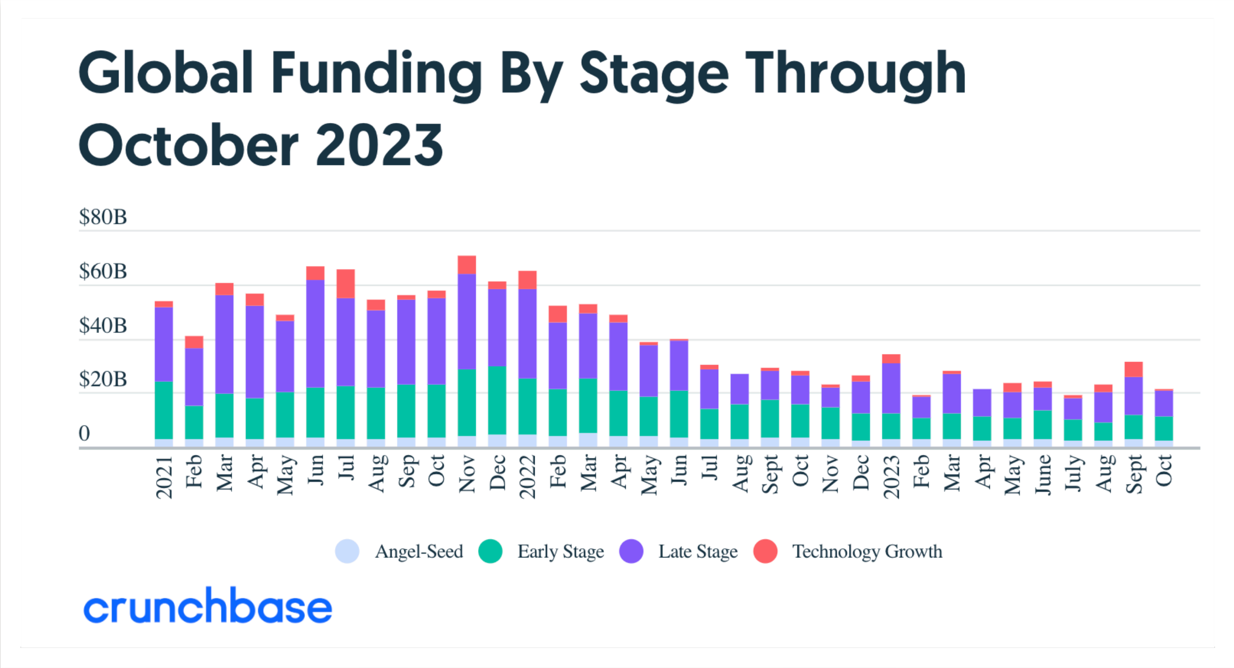
New VC investments take a hit

- Insider rounds became so common in 2023 that follow-on funding and bridge rounds dominated dealmaking.
- VCs are channeling investments into their current portfolio's best-performing startups through extensions, bridges, or insider-priced funding rounds. Hence, 'new' investments from VCs have taken a hit.

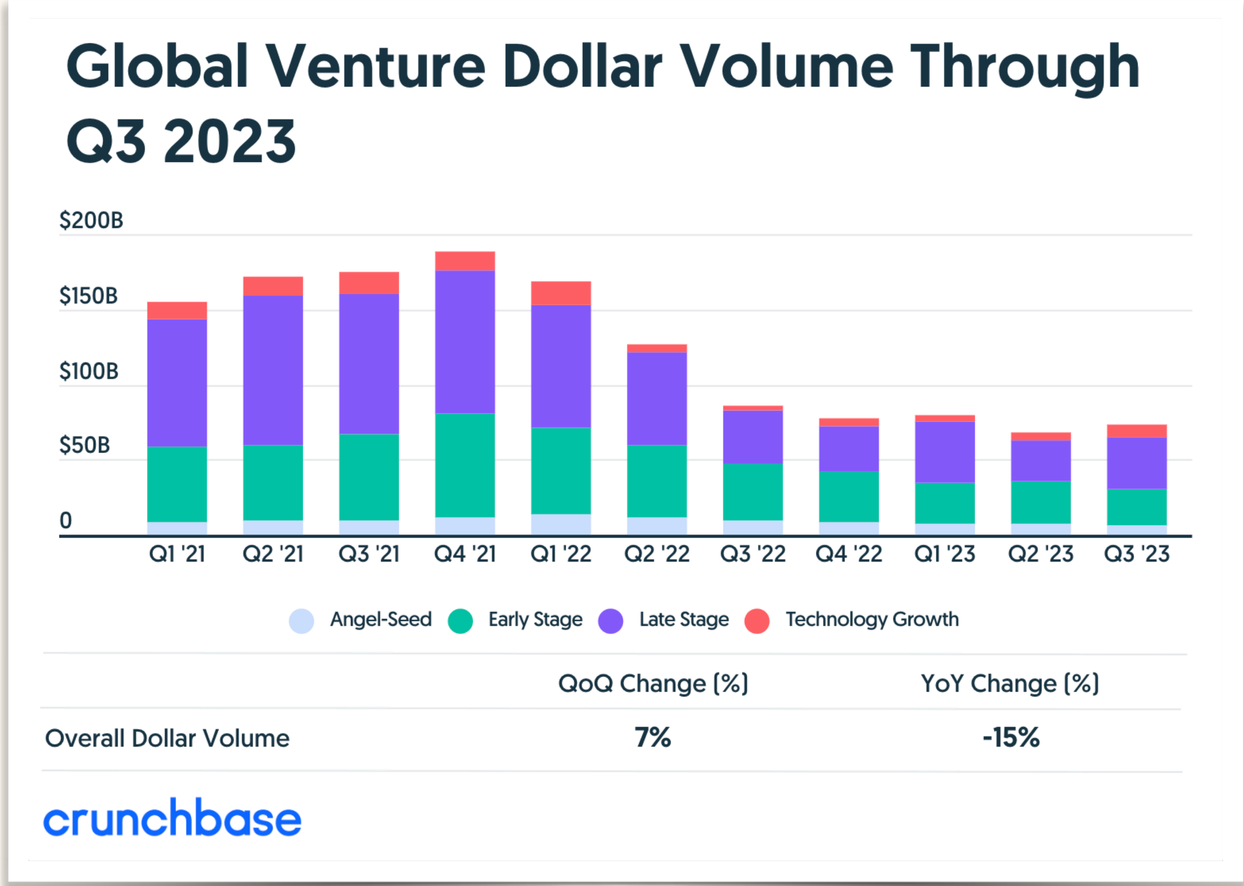
Alternative fundraising metrics were also abysmal

- In 2023, mega rounds were also low compared with 2021 and 2022.
- Time gap: Median years since last funding has edged higher across stages.
- Lower investment cadence: Average fund velocity declined from 3-4 deals to under two deals per quarter in H1 2023 in certain regions.

Crunchbase - Investment data



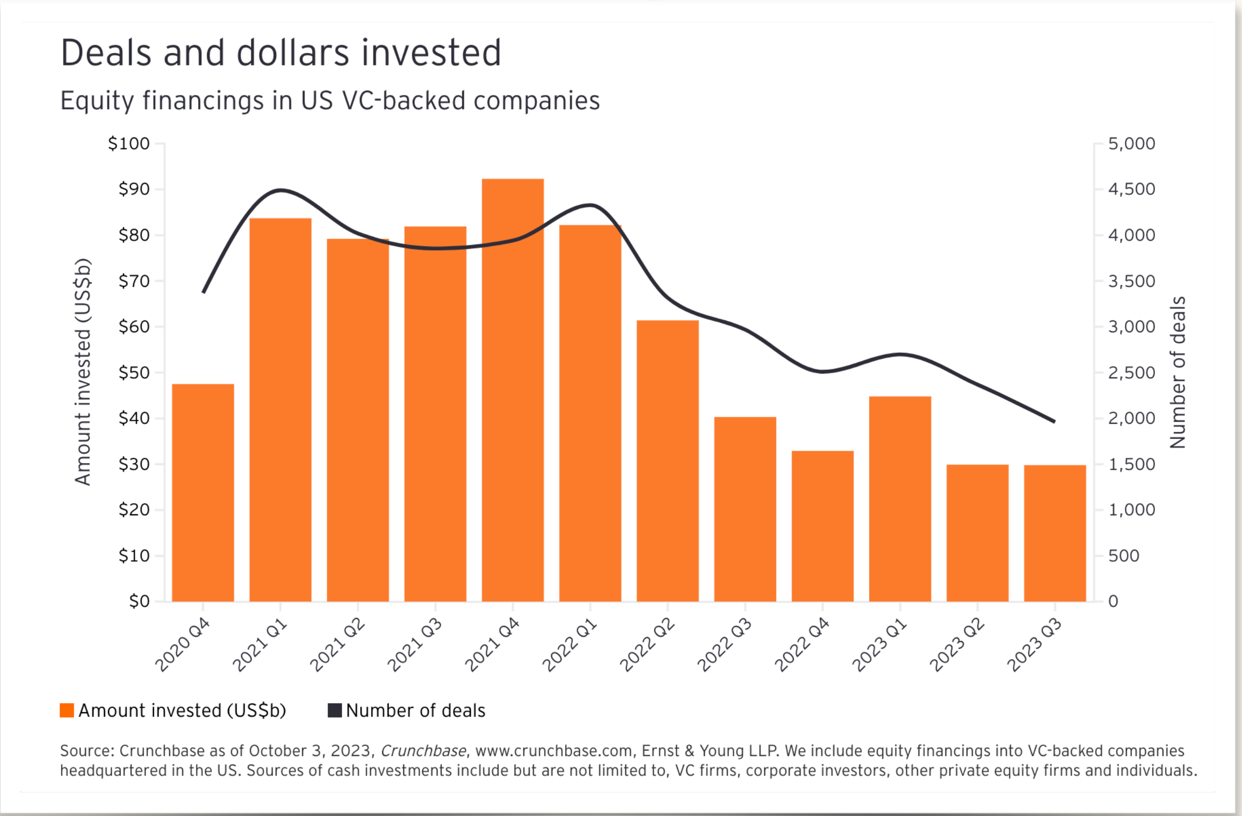
- **Funding in October 2023 was less than one-third the monthly totals during the peak months of 2021.**

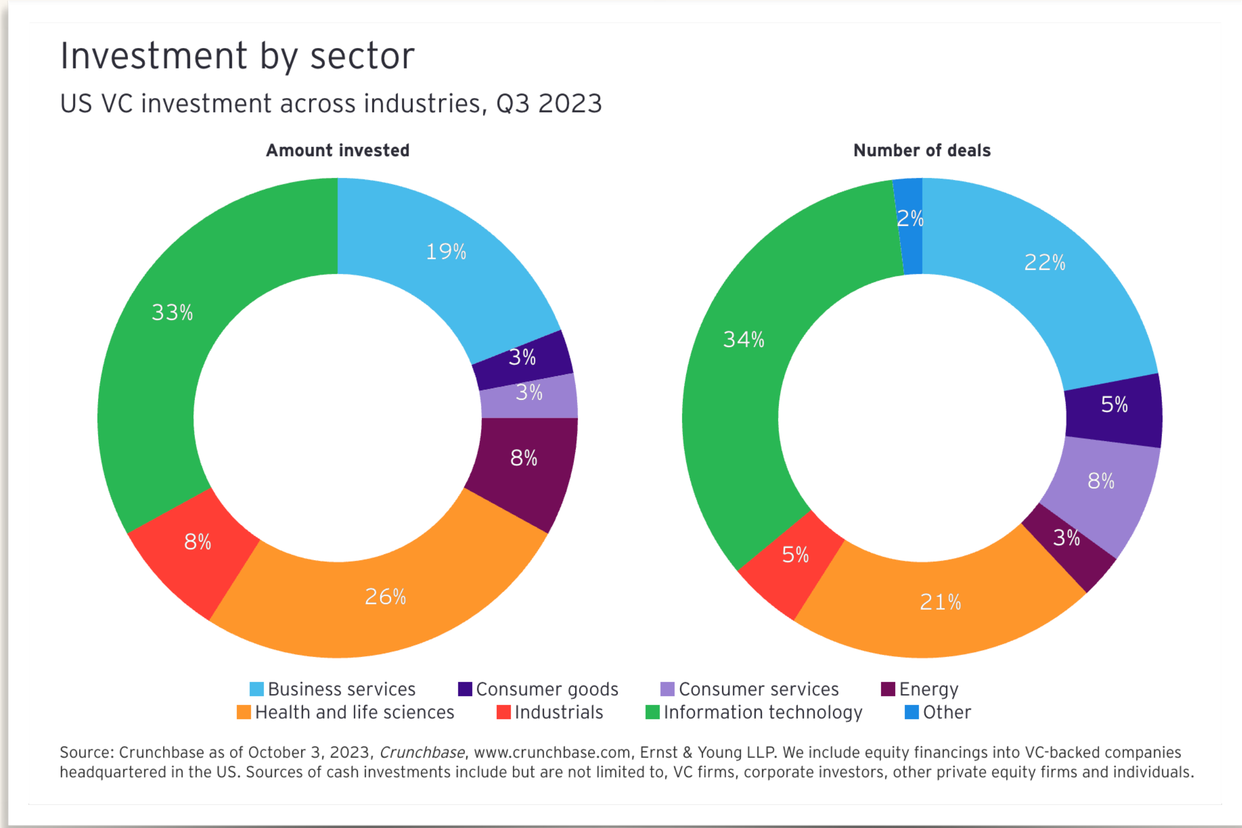


- **Late stage funding was up 30% quarter over quarter and almost 10% year over year, totaling $43 billion.**
- Large fundings went to companies in the semiconductor, sustainability and AI sectors.
- **Much of this increase is visible in outside of North America.**
- In Europe, late stage funding doubled quarter over quarter and was up 20% year over year with large funding deals in energy and manufacturing.

EY - Investment data

VC investment trends Q3

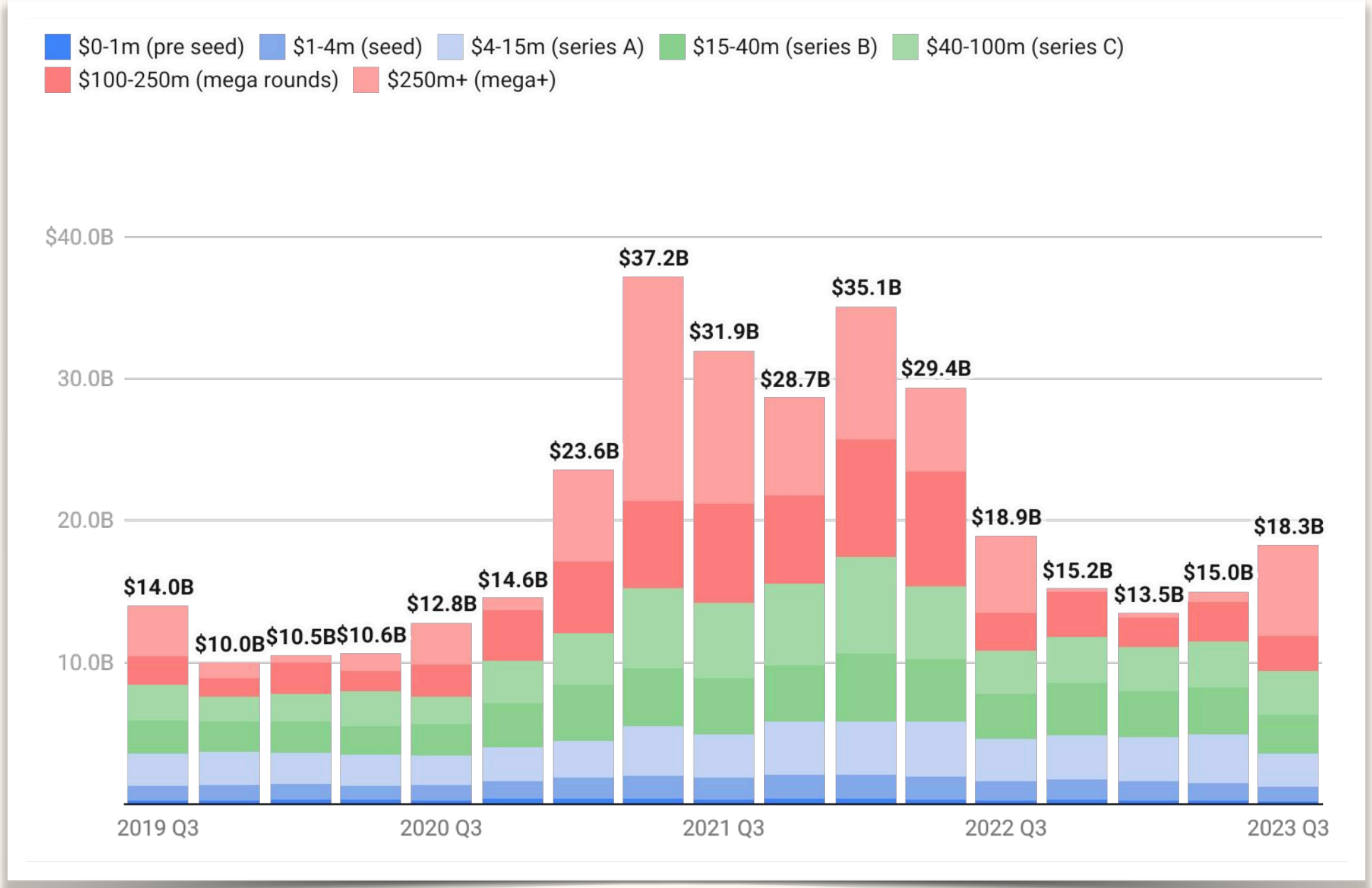




- VC-backed companies raised $29.8 billion in Q3 2023, flat from the $29.9 billion raised in Q2 2023.

Dealroom - Investment data

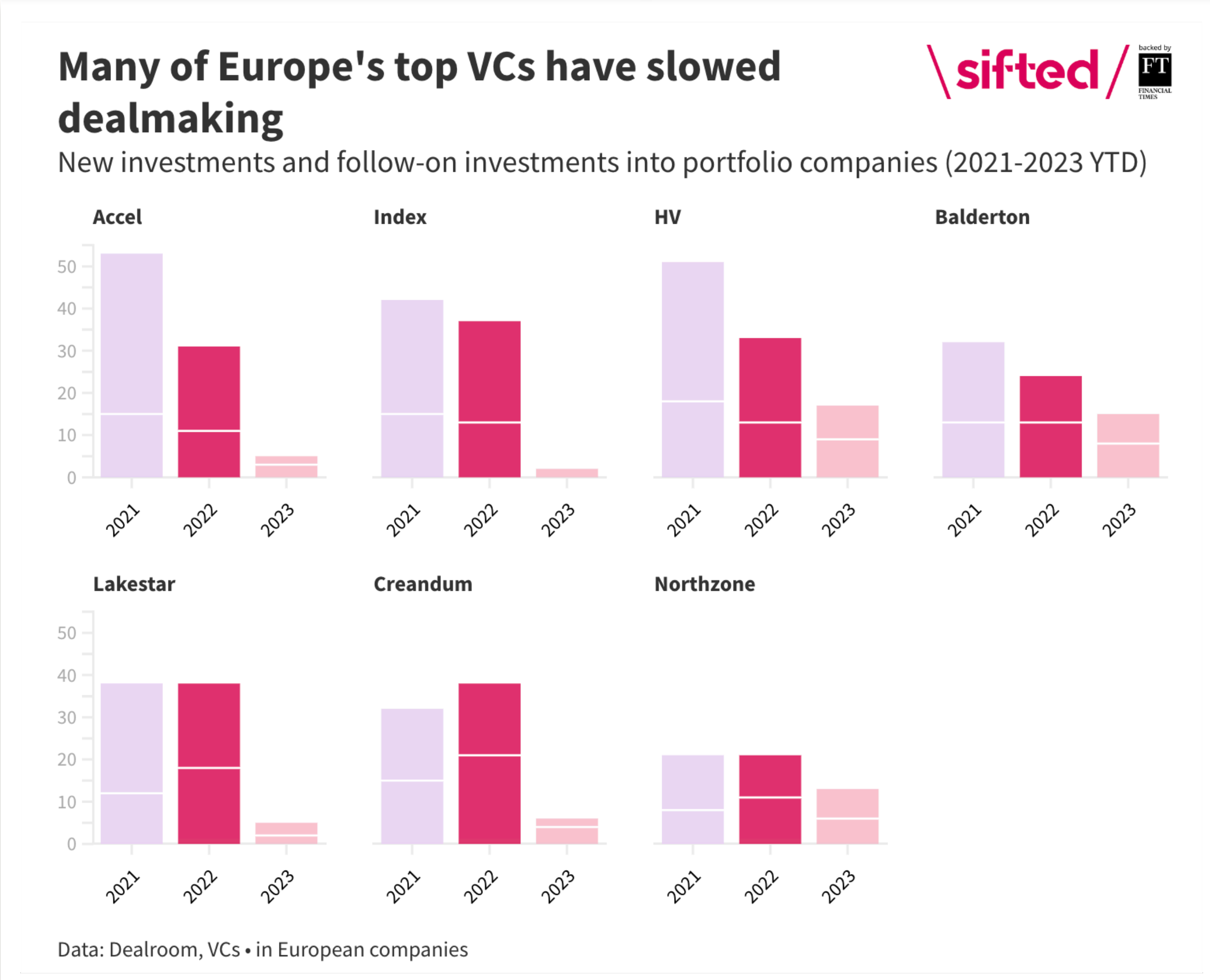
Uptick in investments in Q3 in Europe due to mega rounds



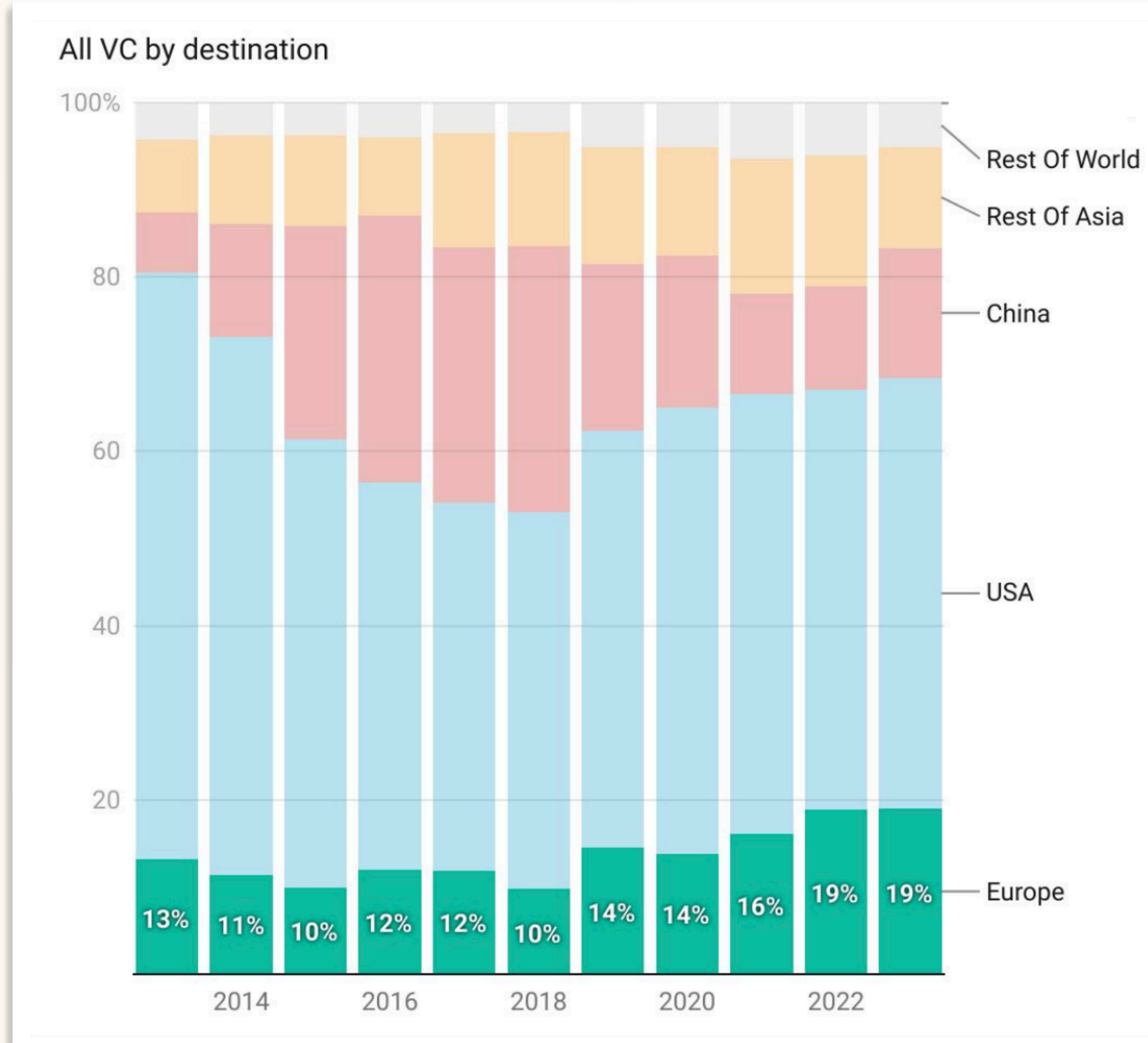
The rise is mostly due to a few large Mega+ rounds in climate tech: Northvolt, H2 Green Steel, Zenobe Energy, Verkor.

European context

VCs slowed dealing making as compared with previous years



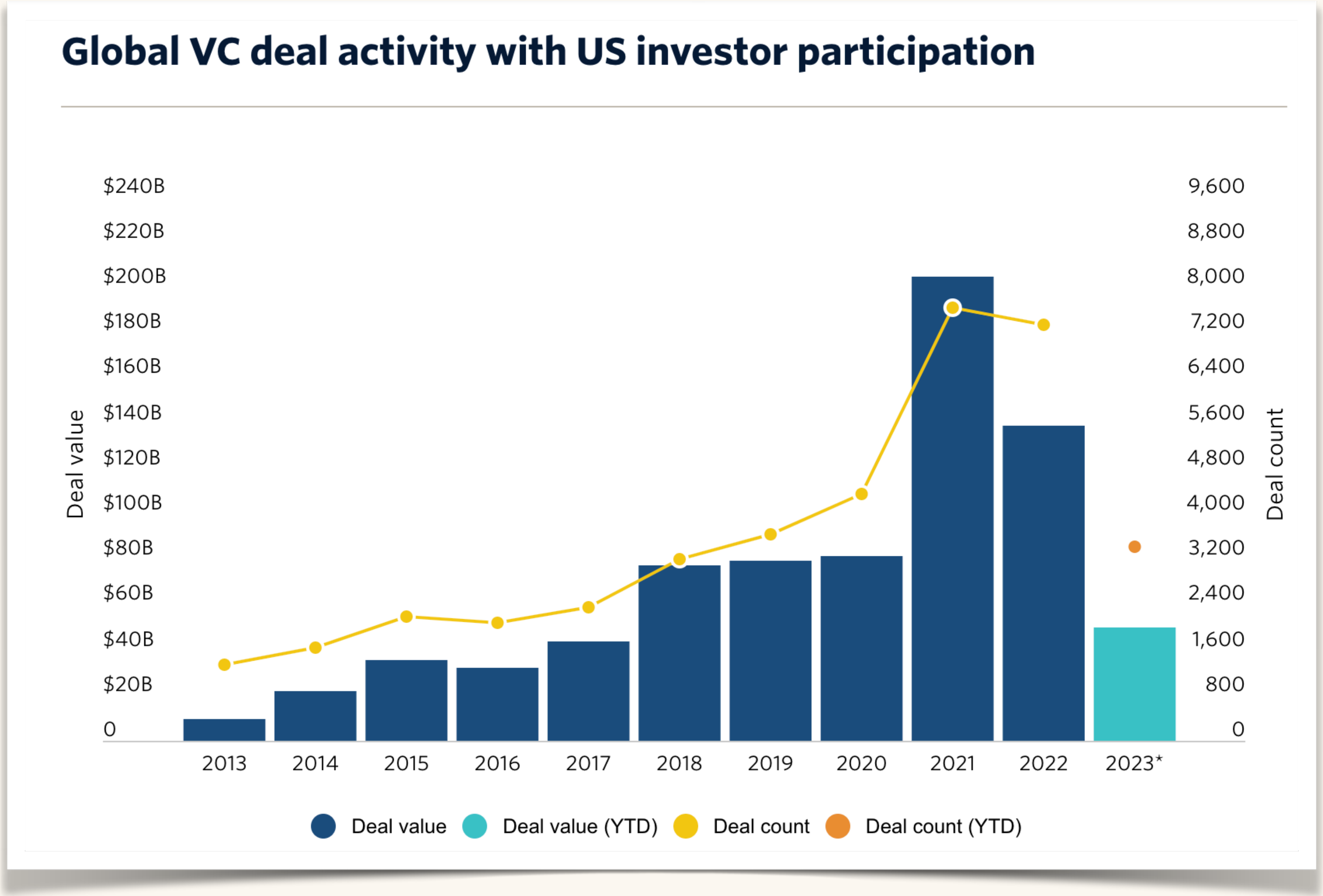
Europe's share in global VC investment is rising



> Rocket Internet backs away from start-up investing in tech downturn

U.S. investor participation in global activity

U.S. investor's participation in global startup fundraising showed significant fall in 2023

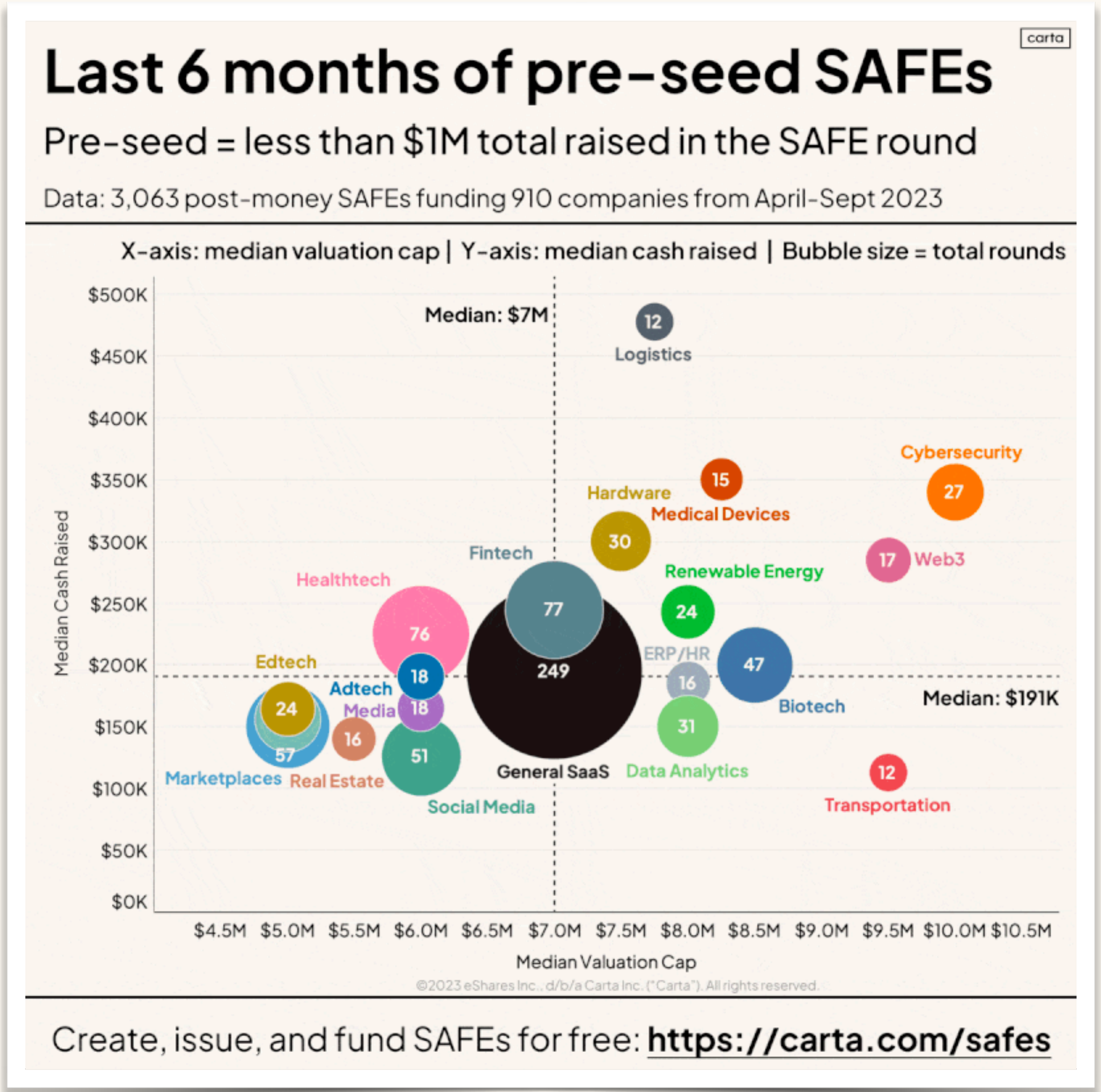


U.S. investors have consistently increased their participation in global startup investment. But in 2023, due to difficult market, they took a step back.

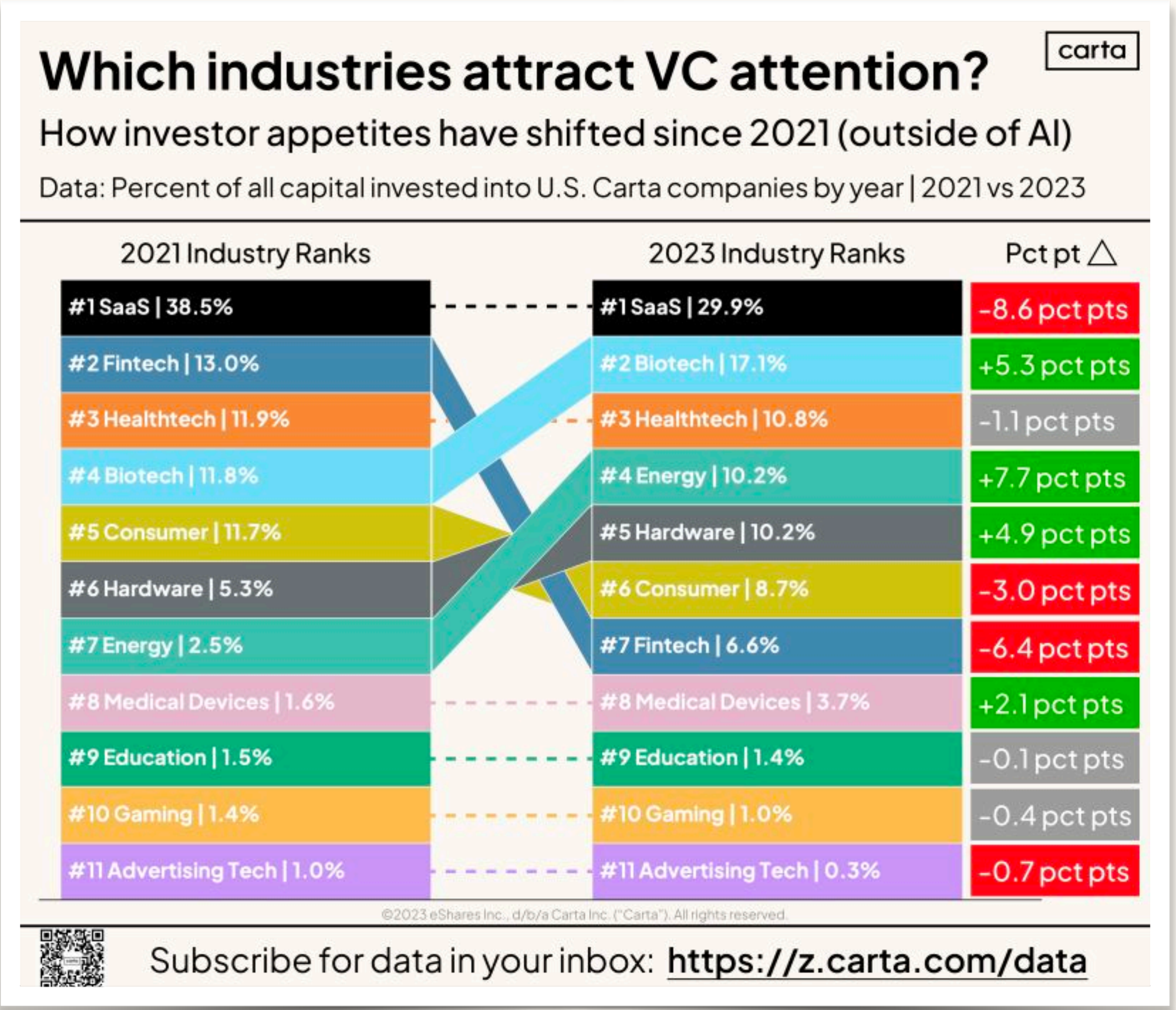
Geopolitical tensions have also led to a reduction in deals in certain countries, including China, following the Biden administration's executive order restricting new American investments in certain technology sectors.

Role of industry in fundraising

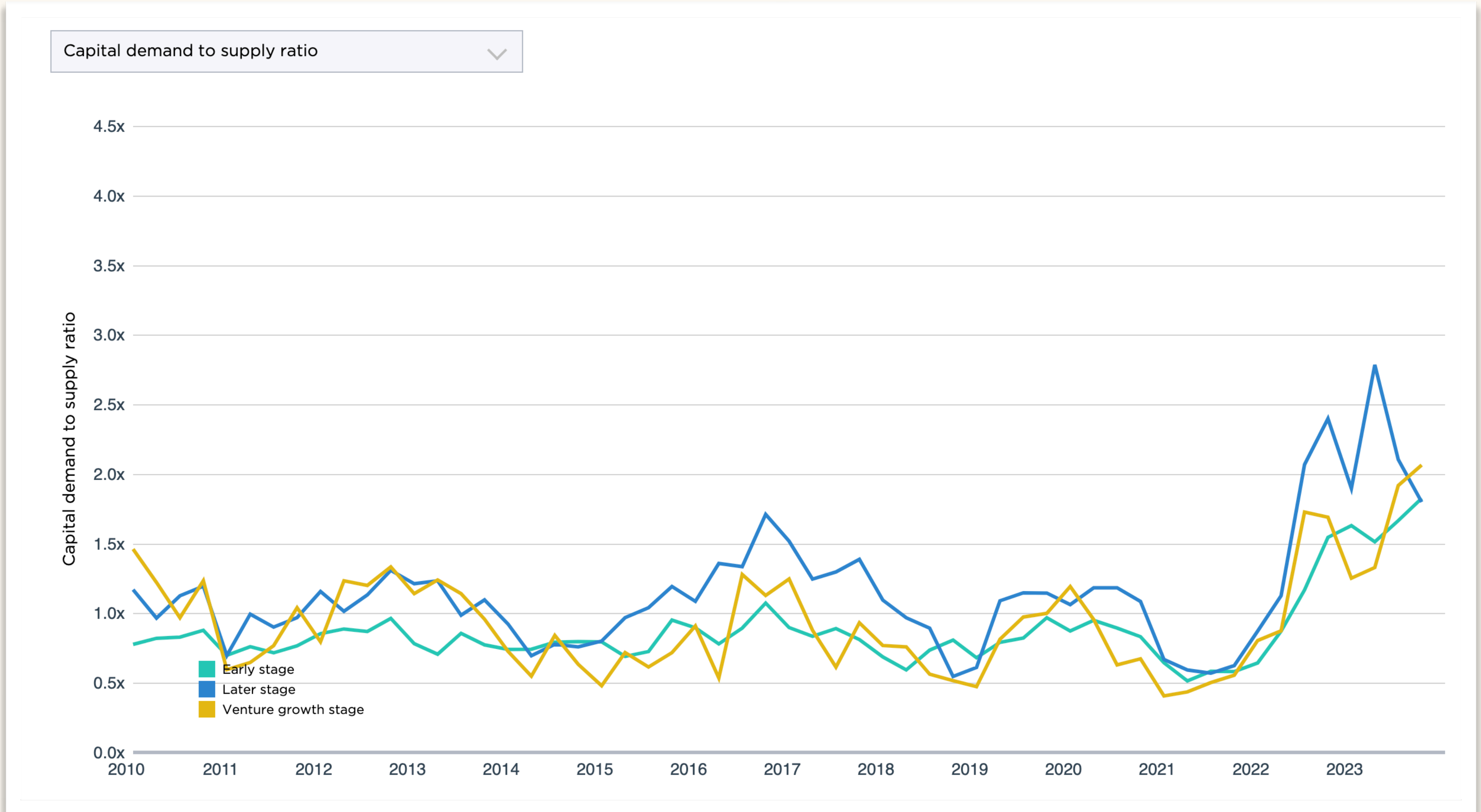
SaaS is middle of the pack in valuation terms and total capital raised, but by far the biggest category.



FinTech saw the biggest drop from 2021 to 2023. Energy investments gained the most.



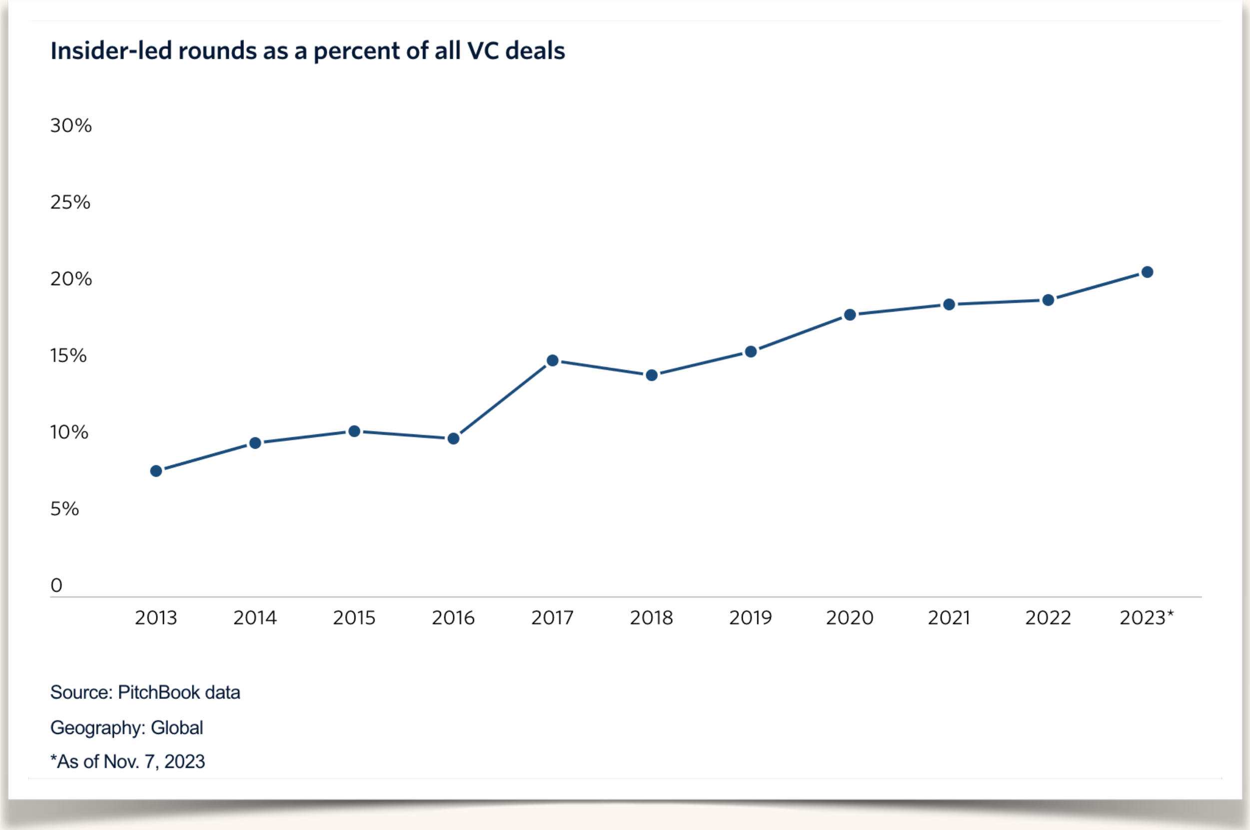
Capital demand remains high across stages



While both supply and demand of capital have increased, demand has increased significantly relative to supply of capital. In the later stage, capital demand has outstripped supply the most of all stages.

Insider rounds data

Insider rounds are at an all time high



- **Insider-led rounds have become very common during the downturn and that, in most cases, existing backers are offering companies better terms than new investors.**
- **Follow-on funding dominates dealmaking**, accounting for a record 69% of overall VC deal count so far this year.
- Investors are turning their attention to their best-performing investments, making pro-rata rights an attractive term.

What are investors thinking about insider rounds

Are existing investors actually willing to participate in insider rounds?

> **Shai Goldman** @shaig
>
> have bad news to share regarding inside rounds, but it's true, although tough for the founder to hear.
>
> the odds of your existing investor participating in an inside round is very low, unless you have very good metrics. here is what your investor is thinking 👇
>
> 7:33 PM · Aug 14, 2023 · **97.4K** Views

VCs have already gone through portfolio and put their portfolio companies in three buckets:

1) no more investment going forward
2) maybe more money depending on metrics/valuation
3) yes, more $ available

Are insider rounds - Good or Bad?

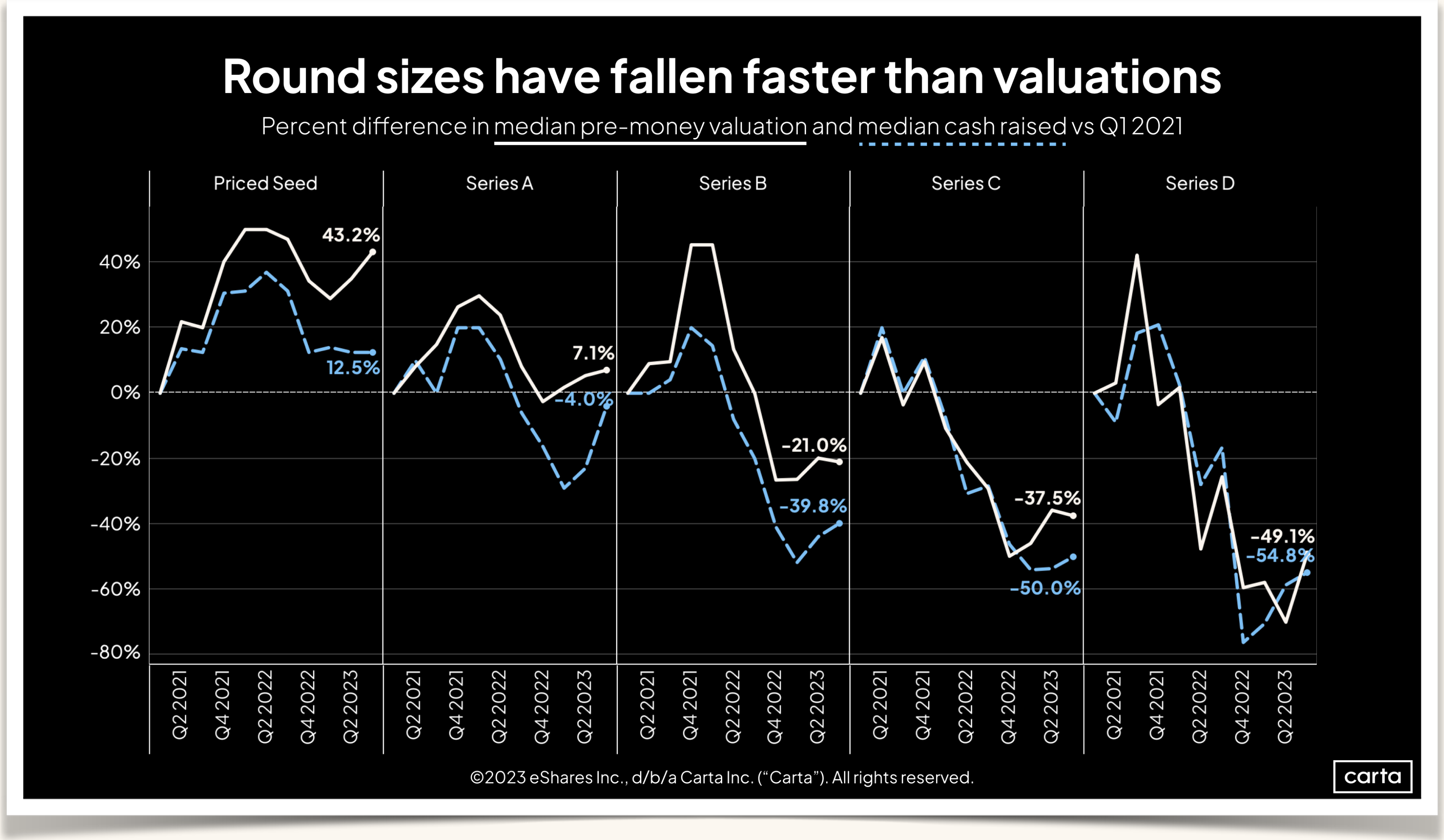
> **Inside-Led Rounds: A Founder's Friend Or Foe?**
>
> **Rebecca Mitchem** Forbes Councils Member
> **Forbes Finance Council**
> COUNCIL POST | Membership (Fee-Based)
>
> Sep 7, 2023, 08:30am EDT

How can inside-led rounds benefit startups?

- Taking capital from existing investors eliminates the need to spend time and energy doing "price discovery."
- Another perk of inside-led rounds is that founders can sometimes demand a higher valuation than they may have otherwise earned.
- Finally, if you have a good relationship with your existing investors, it can reduce the risks you might face with "the devil you don't know."

Round sizes fell faster than valuations

Seed is the only stage where valuation increased higher, as a %, than cash raised meaning low equity granted to VCs. Whereas all other stages, this was reversed.



- At Series B, Series C, and Series D, median pre-money valuations and deal count have declined roughly in unison over the past two years.
- **At seed and Series A, however, things look quite different. There, valuations have actually trended up since Q1 2021, while round count has fallen significantly.**

Fundraising round sizes

Late stage saw the maximum negative impact w.r.t peak on the round sizes at the beginning of 2023

Venture round sizes, pre-pandemic to now

Median cash raised by quarter & percent difference from first quarter shown | Q1 2019—Q1 2023 | ● Peak

	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	
Seed	$2.2M 0%	$2.1M -2%	$2.5M 12%	$2.4M 9%	$2.1M -3%	$2.3M 2%	$2.1M -4%	$2.6M 18%	$2.7M 25%	$3.1M 39%	$3.0M 36%	$3.5M 57%	$3.5M 58% ●	$3.7M 66%	$3.4M 53%	$3.0M 36%	$3.1M 41%	Up 41%
Series A	$7M 0%	$8M 14%	$7M 7%	$7M 0%	$8M 16%	$7M 0%	$8M 18%	$9M 34%	$10M 43%	$11M 57%	$10M 43%	$12M 70%	$12M 71% ●	$11M 57%	$9M 29%	$8M 14%	$6M -8%	Down 8%
Series B	$16M 0%	$19M 20%	$18M 15%	$17M 8%	$19M 19%	$13M -18%	$19M 17%	$21M 29%	$25M 57%	$25M 57%	$26M 64%	$30M 89% ●	$29M 81%	$23M 45%	$20M 26%	$13M -20%	$12M -22%	Down 22%
Series C	$27M 0%	$32M 17%	$21M -23%	$34M 27%	$24M -13%	$30M 10%	$30M 10%	$42M 54%	$50M 83%	$60M 120% ●	$50M 83%	$55M 104%	$46M 69%	$35M 28%	$30M 10%	$25M -8%	$25M -10%	Down 10%
Series D	$50M 0%	$50M -1%	$38M -24%	$38M -24%	$44M -12%	$48M -4%	$45M -11%	$75M 48%	$80M 58%	$73M 44%	$94M 87%	$96M 91% ●	$76M 50%	$55M 9%	$70M 39%	$22M -56%	$24M -53%	Down 53%

-50% 200%

carta

Q1 Fundraising figures

Seed stage edged up in terms of deal size since Q1 2023

carta

Q3 Fundraising Cheatsheet

What are startup valuations & round sizes right now?

Notes: Data from 556 primary US rounds raised by companies on Carta in Q3 2023

	Pre-Money Valuations			Cash Raised		
	25th Pct	50th Pct	75th Pct	25th Pct	50th Pct	75th Pct
Priced Seed	$8.8M	$13.3M	$20.5M	$1.8M	$3.4M	$5.0M
Series A	$25.5M	$39.5M	$60.1M	$5.6M	$10.0M	$17.0M
Series B	$54.9M	$90.0M	$172.5M	$9.1M	$20.7M	$31.3M
Series C	$67.8M	$157.5M	$480.0M	$9.6M	$26.0M	$40.0M
Series D	$77.5M	$375.7M	$1,019.0M	$12.8M	$36.0M	$84.1M

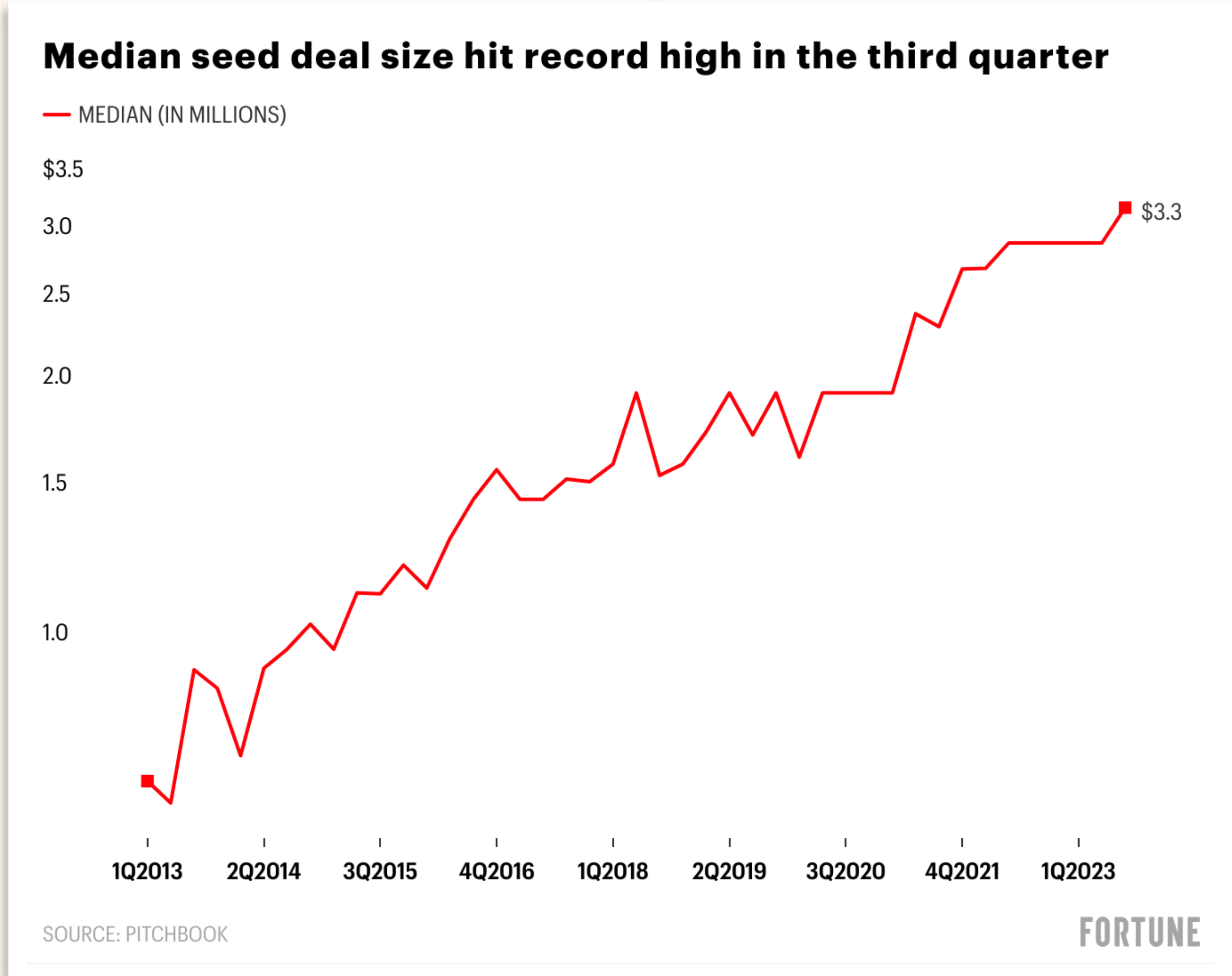
carta data in your inbox: https://z.carta.com/data

Q3 Fundraising figures

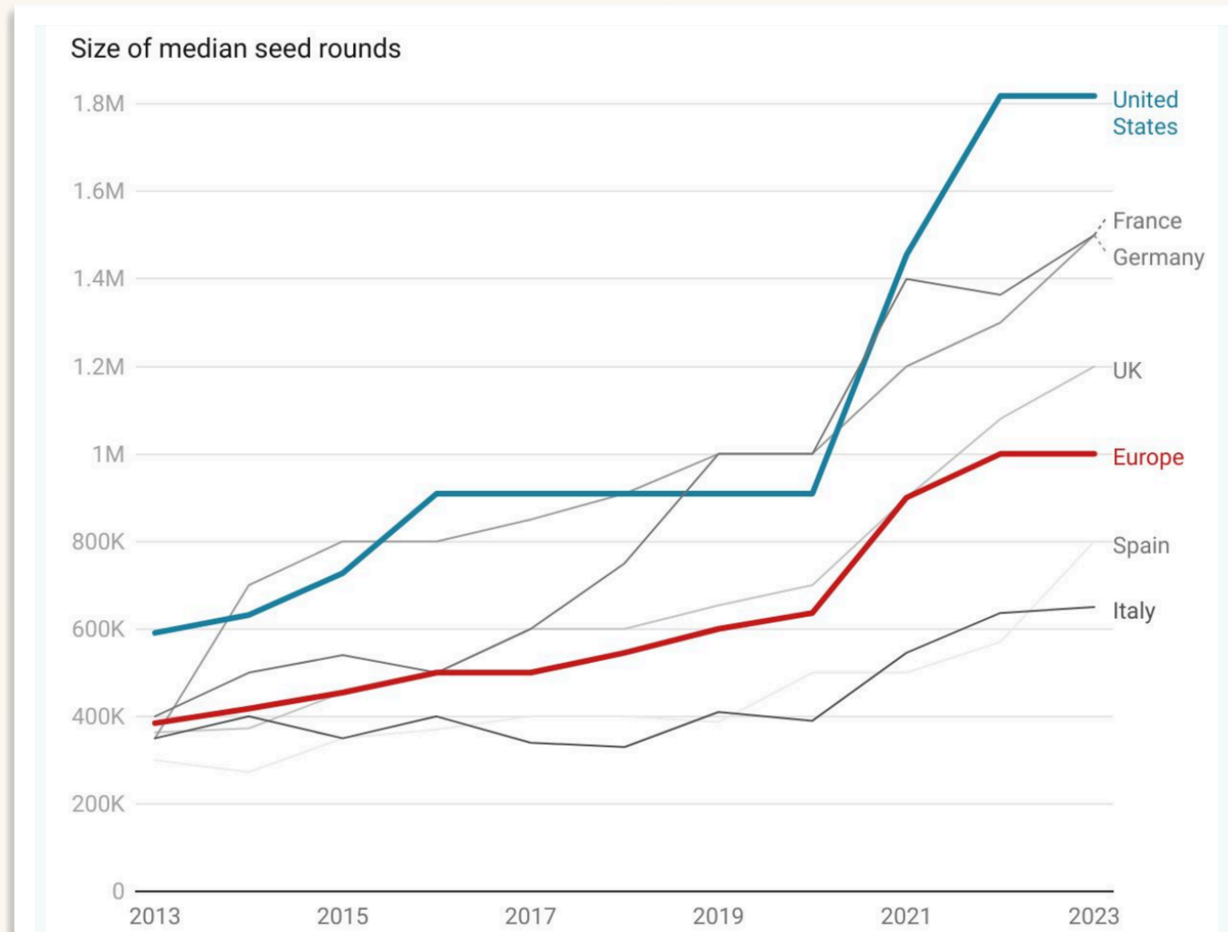
Data focus is U.S.

Seed deal size dynamics

Seed deal sizes have trended upwards in longer term



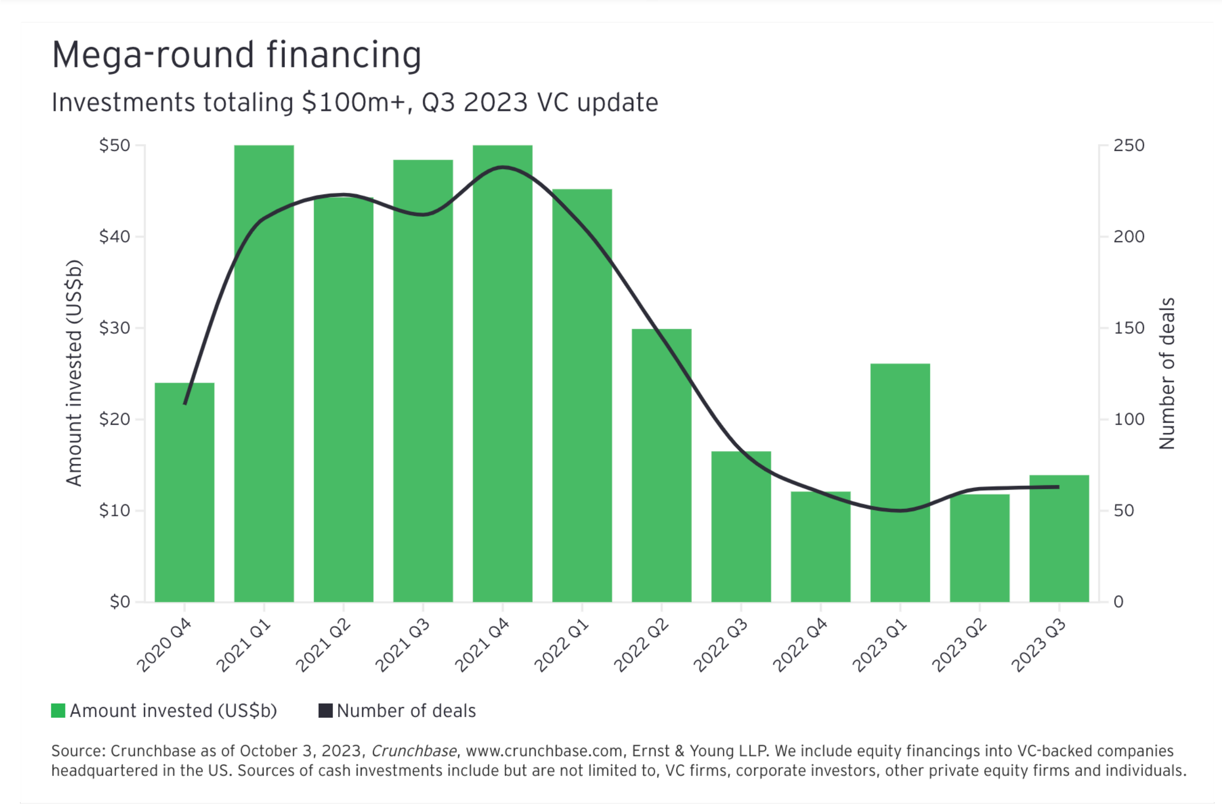
European round sizes have been tracking and catching the U.S.

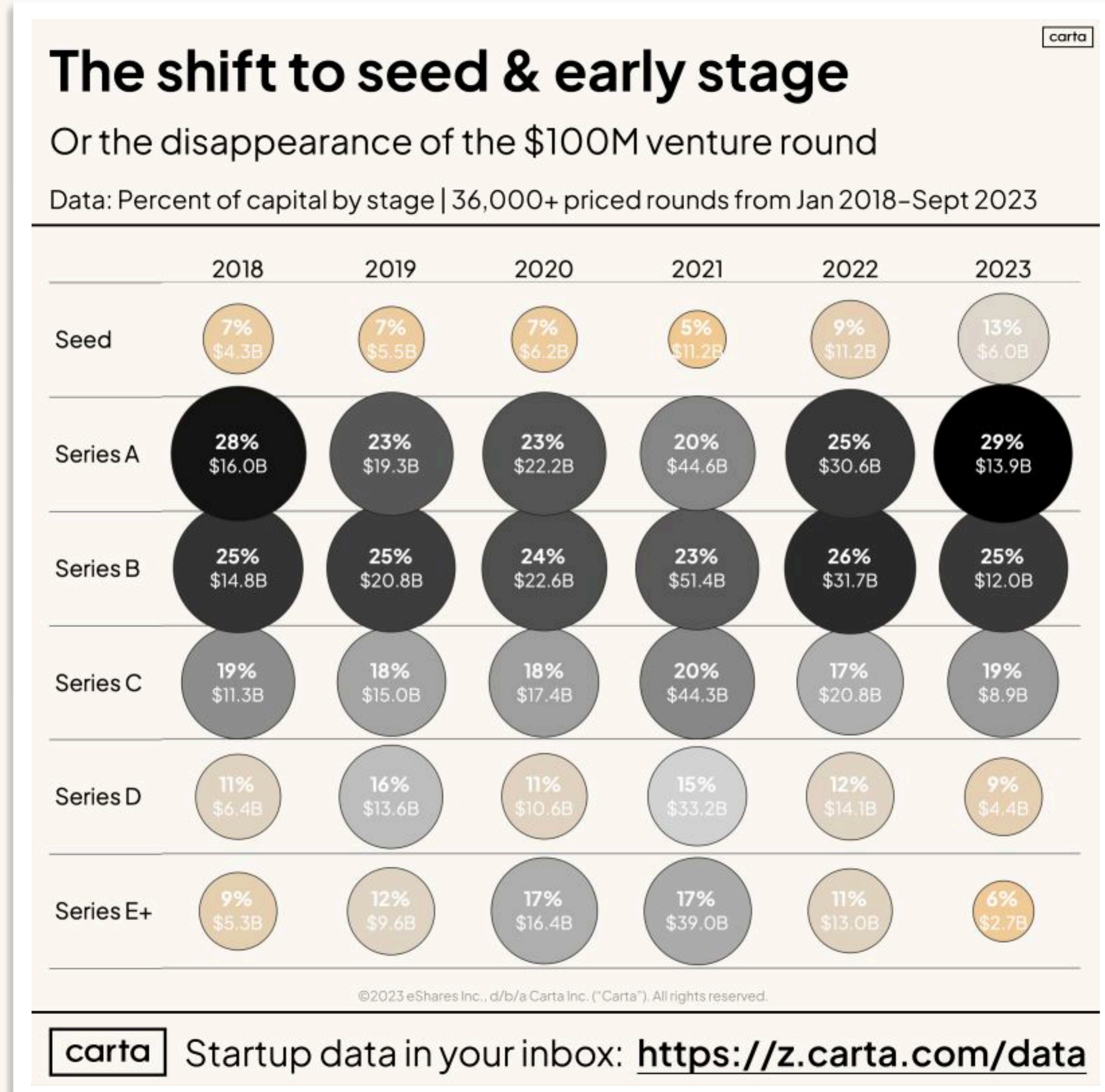


- It seems like Seed stage never had any problems.
- **Though caution is warranted. Although the round size increased, the number of deals happening at Seed decreased. Meaning, only best ideas/teams were getting funded.**

Mega rounds

In 2023, mega rounds almost disappeared, except when it was about AI startups



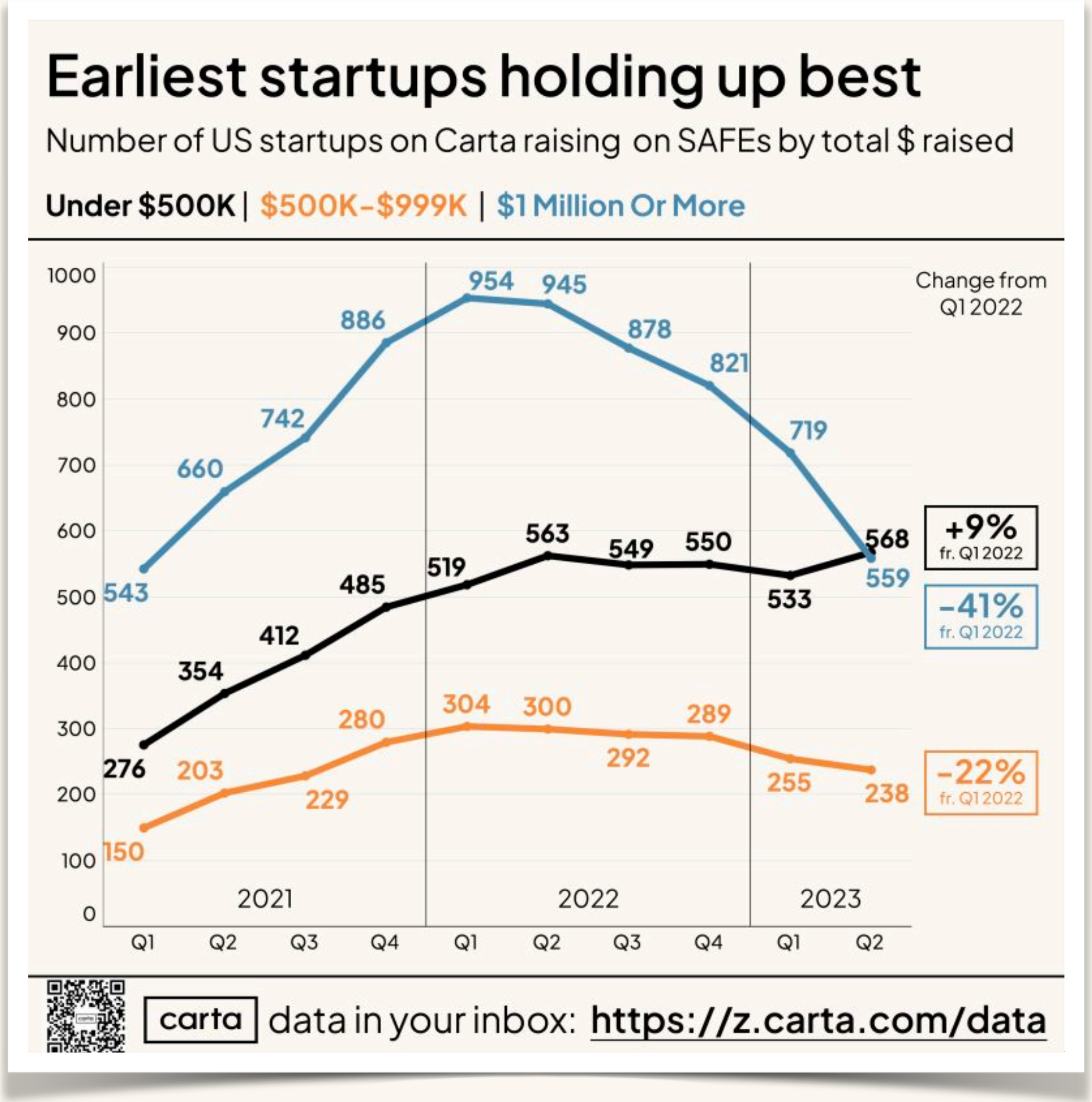


- Mega-round investment in Q3 remained flat in deal volume, while dollars invested increased by 17%.
- **Since late August, three transactions surpassed the billion-dollar mark: artificial intelligence (AI), battery recycling and autonomous trucking.**

- We can see the change the **redistribution of dollars between early stage and growth-stage**; all the while Series-B and -C remains at the same levels (as a percentage)

Data focus is U.S.

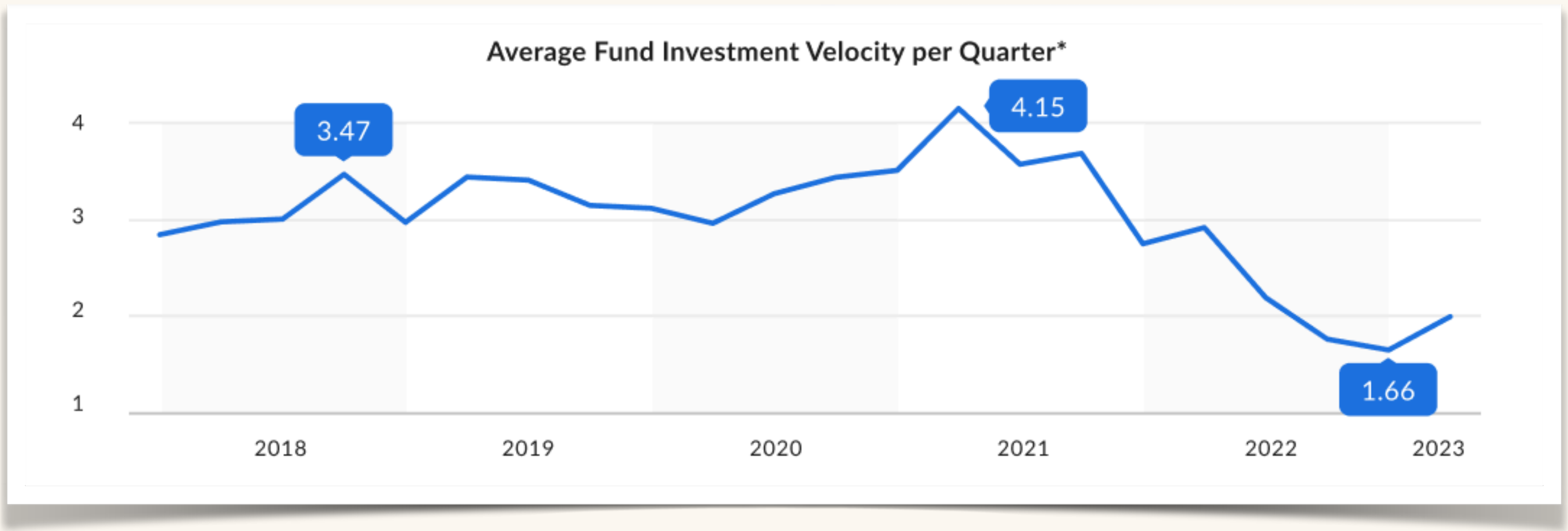
Easier to raise lower amounts?



- W.r.t SAFE's raising lower amounts of capital showed up in numbers. This could be due to make laid-off tech people raising their first check for the startups they just founded.
- **Bigger test is if next year the number of startups raising priced rounds increases. It could well be a very positive signal.**

Decreasing deal cadence

The pace of new investments slowed significantly

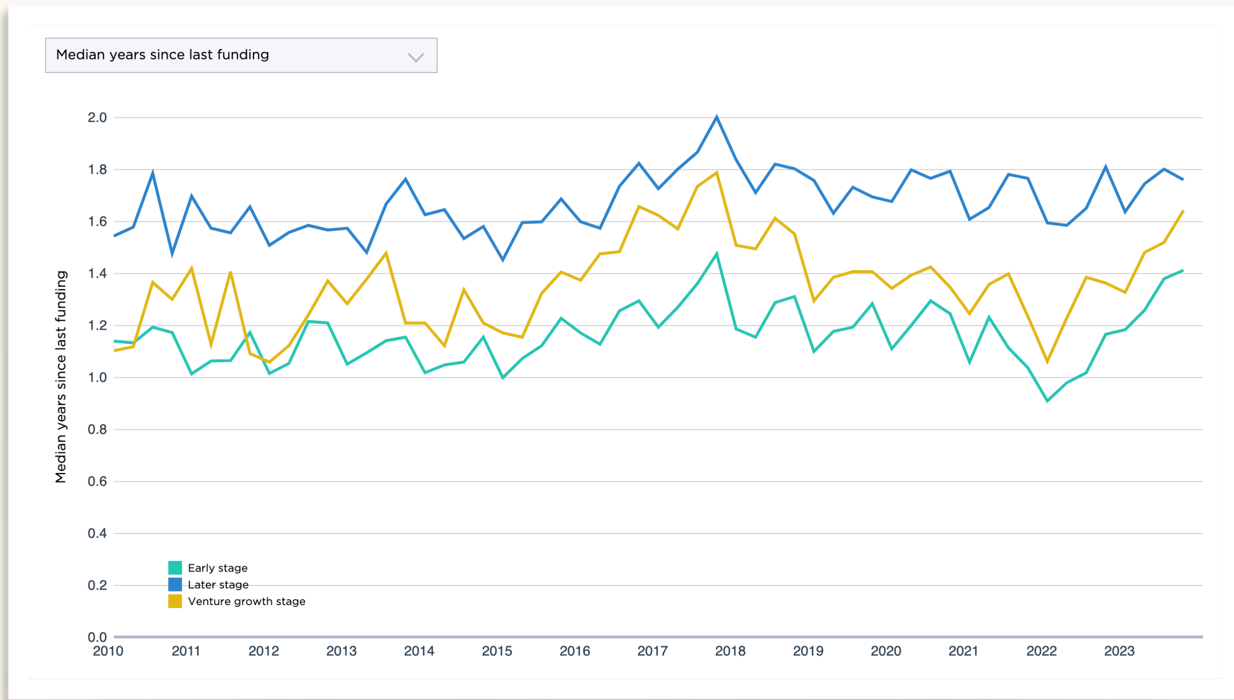


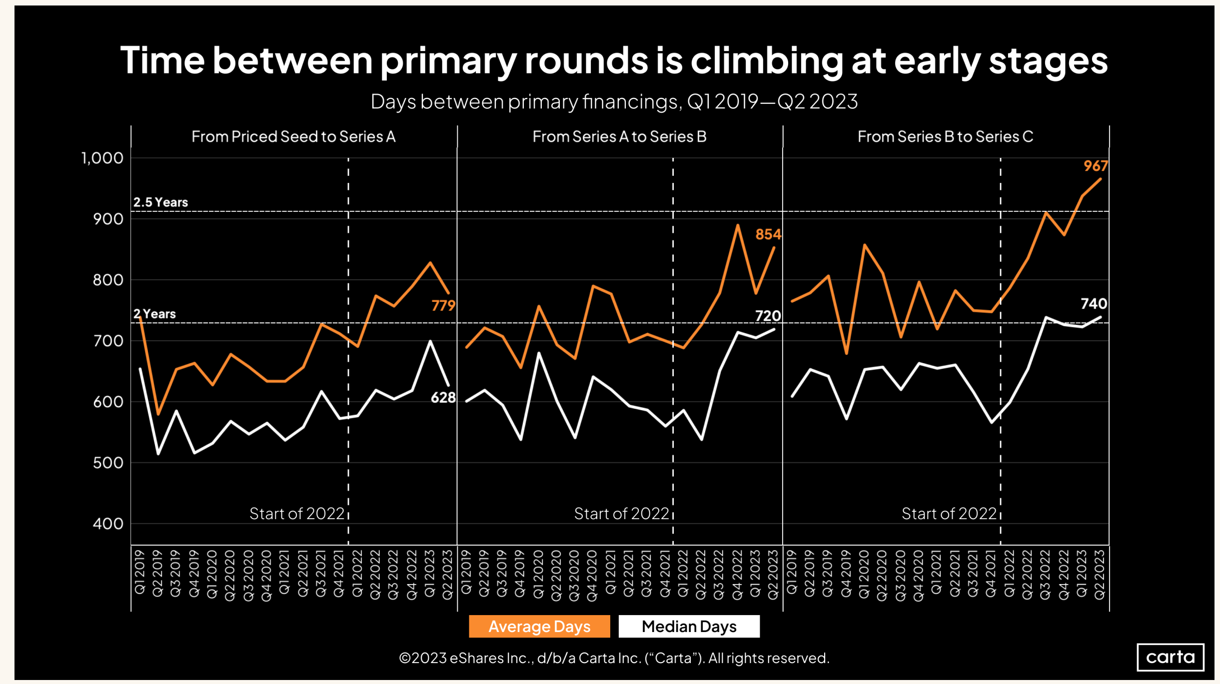
The pace of new investments slowed significantly: **Average fund velocity** declined from 3-4 deals per quarter between 1Q18 and 4Q22 to under 2 deals per quarter in the first half of 2023.

Data focus is U.S.

Time since last fundraise

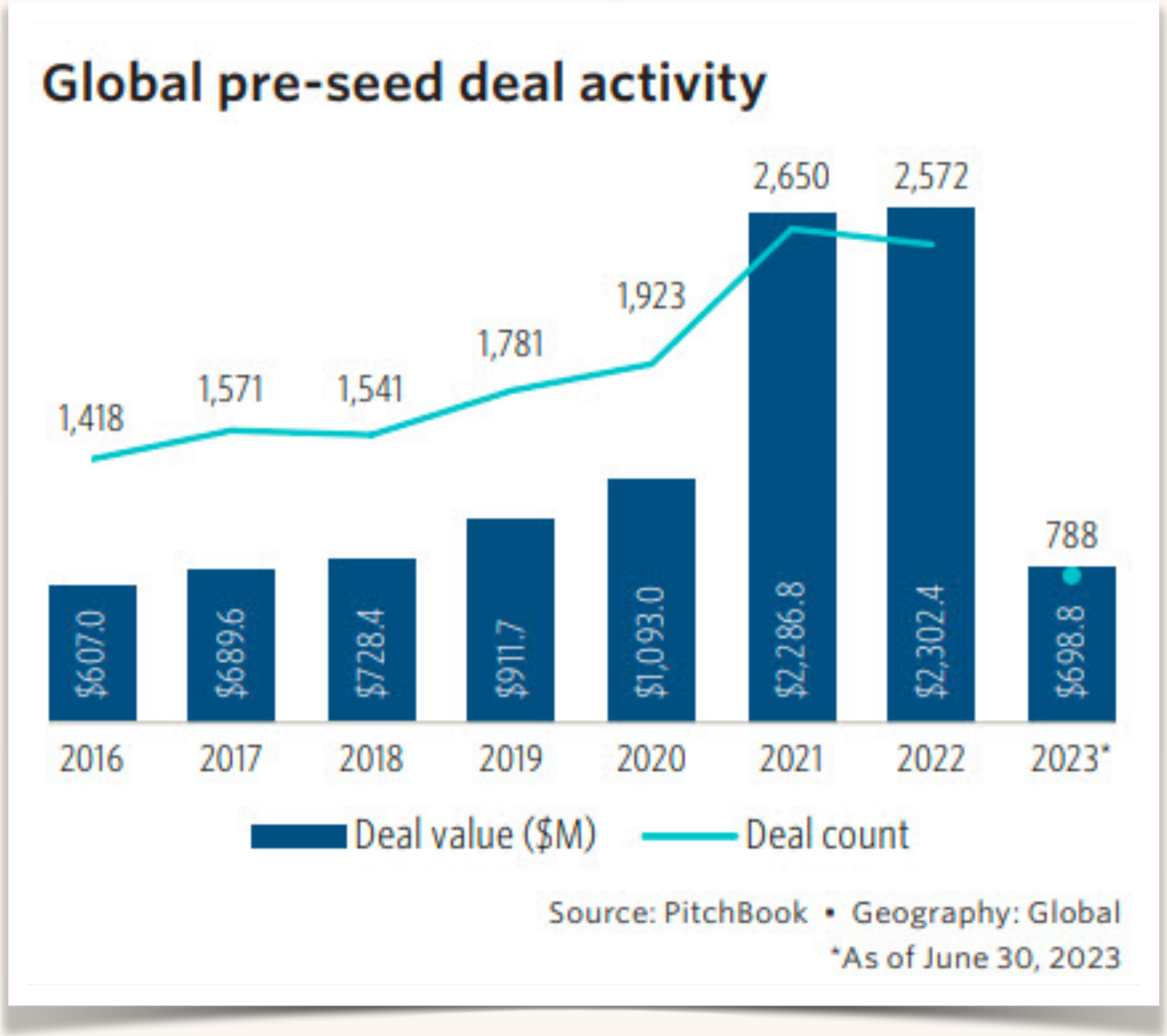
Median years since last funding has edged higher across different stages, since last two years





- Another metric to showcase the difficult fundraising environment of 2023

Pre-Seed deal activity



- The global pre-seed universe grew consistently during the past decade, particularly in the US and Europe.
- This increased popularity can be attributed to a variety of factors, most prominently a quest for greater alpha and the goal of developing regional entrepreneurial ecosystems.

Data focus is U.S. Pre-seed is an investment round that is secured pre-product market fit and pre-revenue. For a detailed understanding check - HERE and HERE.

Summary - Deal dynamics

Age of investor friendliness

- The long term decrease in investor friendliness took a U-turn in Q1. Markets majorly were ruled by investors.
- As the year is coming to an end, the decrease in predatory deals is visible.
- Investors are still demanding more startup equity at growth stages than before.

Deal Specifics

- Startups were having more difficulty getting priced rounds done. Hence, the use of SAFEs edged higher.
- On the one hand, SAFEs could bridge the funding gaps, but on the other hand, they have essentially become less founder-friendly.
- Pro-rata's became increasingly non-negotiable amid a more investor-friendly environment.
- Demand for liquidation preferences is making dealmaking a more complicated topic in 2023.
- Governance will become a key topic in 2024, given the negative startup cases this year (like OpenAI).

Definition of what it takes to do successful fundraising has changed

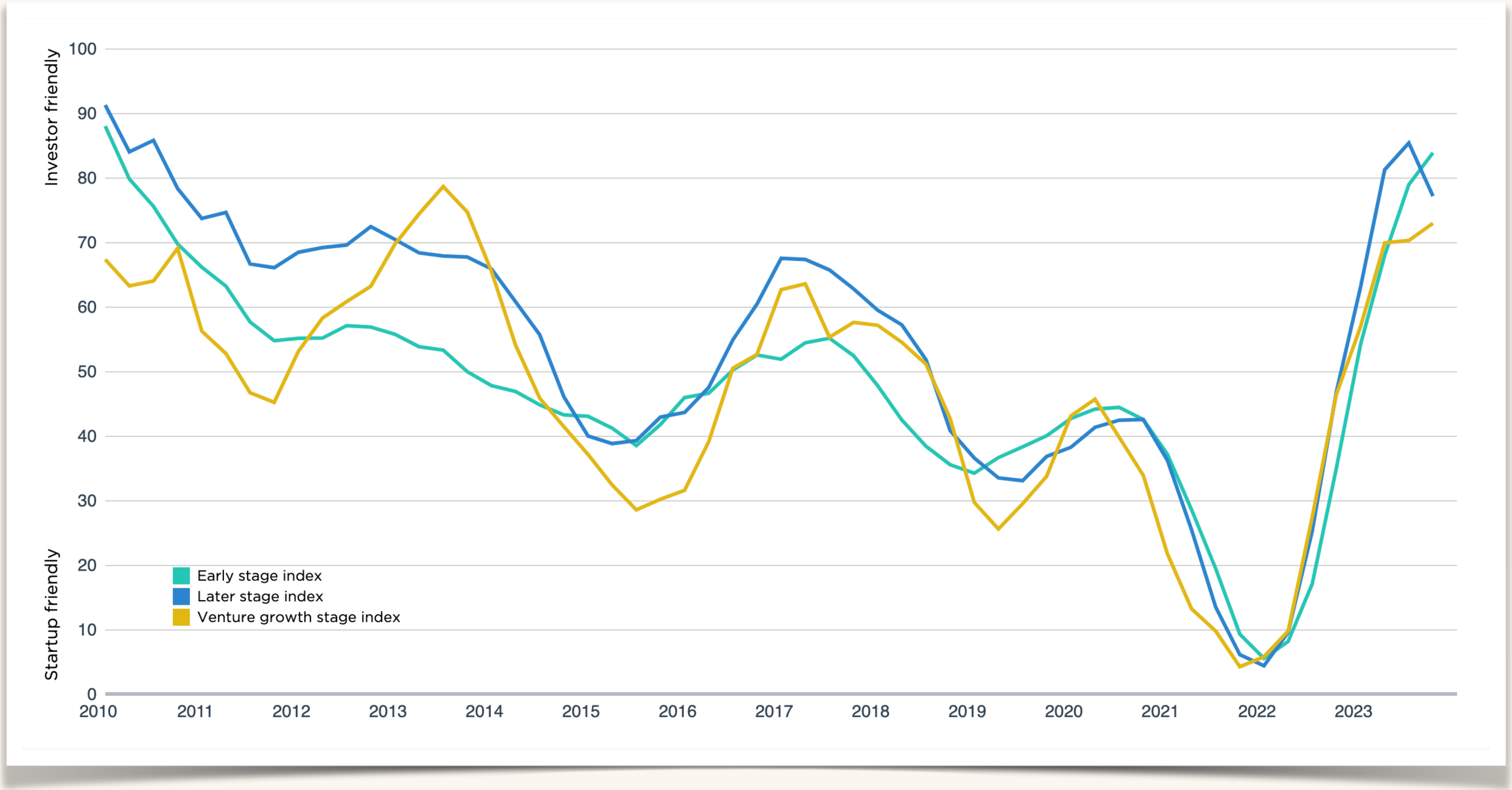
- Due the dwindling runway, a substantial number of startups will have to raise in 2024, creating a make-or-break scenario.
- Investors will concentrate on significant milestones/KPIs accomplished. Definitions of those KPIs have also changed.
- The focus has shifted to back quality founders. It's not just about team setup, pedigree, or traction; but it's also about being a founder who can turn capital into demonstrable progress.
- Startups that are barely hanging on will find fewer suitors. Raising less and building more could easily become a mantra.

Is VC capital the best fit for a startup?

- Traditional venture capital cycles might not be the best fit for certain categories of startups. A newer approach to fundraising is required - either via. niche funds or new structures of funding.
- It isn't an easy thought, but founders must consider whether their fundraising strategy and business outcomes align well with the VC strategy of power law and delivering >10X outcomes.

Age of investor friendliness

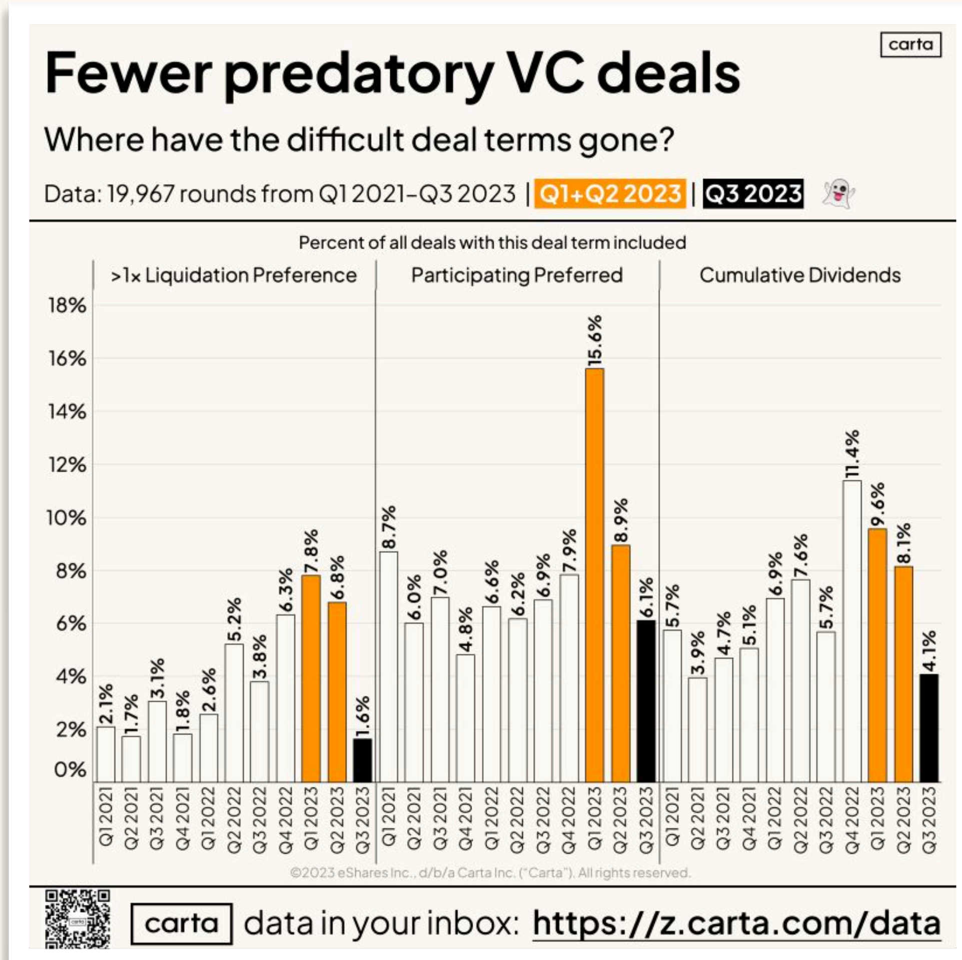
The long term decrease in investor friendliness has taken a u-turn recently



- From 2010 to 2015, late stage deals were markedly more investor friendly than early stage deals, but since 2015, terms and deal characteristics converged and we saw a race to startup friendliness at all stages after midyear 2020.
- **This trend has sharply reversed starting in 2022, largely driven by the expected demand for capital from startups seeking additional funding after having raised large rounds over the prior two years.**

Fewer predatory VC deals?

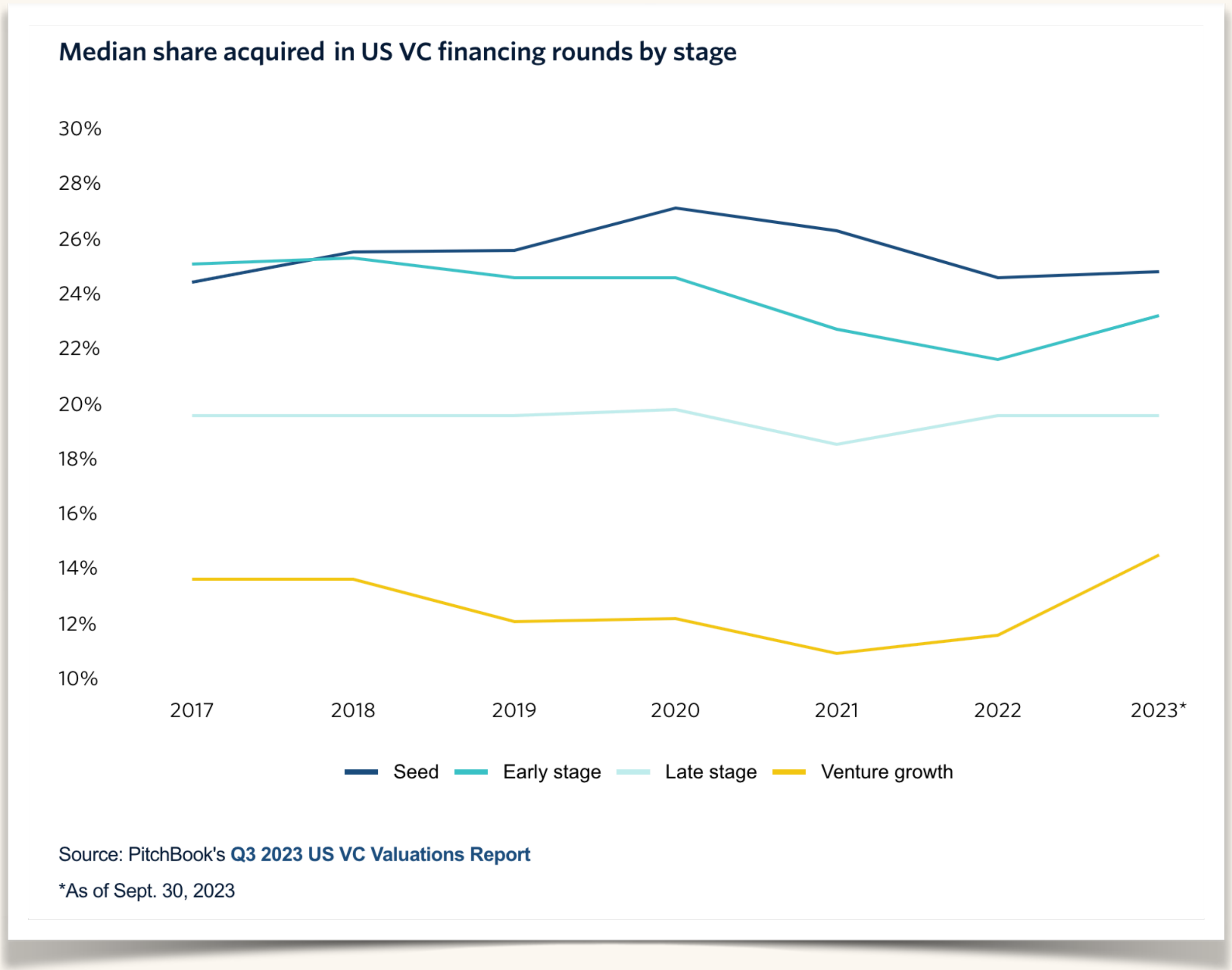
As 2023 progressed, the percentage of predatory deal aspects also decreased



- Liquidation preferences: Liquidation preferences give a shareholder the right to be paid out first if the company liquidates or is sold, often at a specific multiple of their original investment
- Participating preferred stock: Holders of participating preferred shares are first in line to be paid out if a liquidity event occurs.

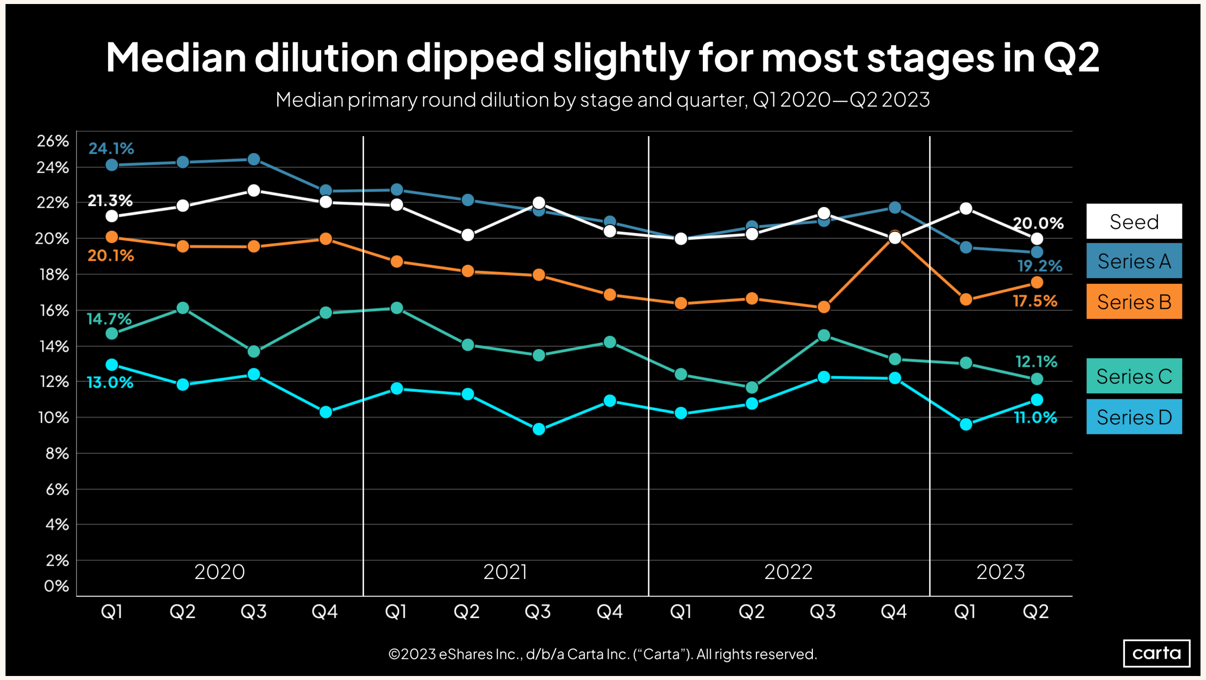
Equity acquired

PitchBook Data



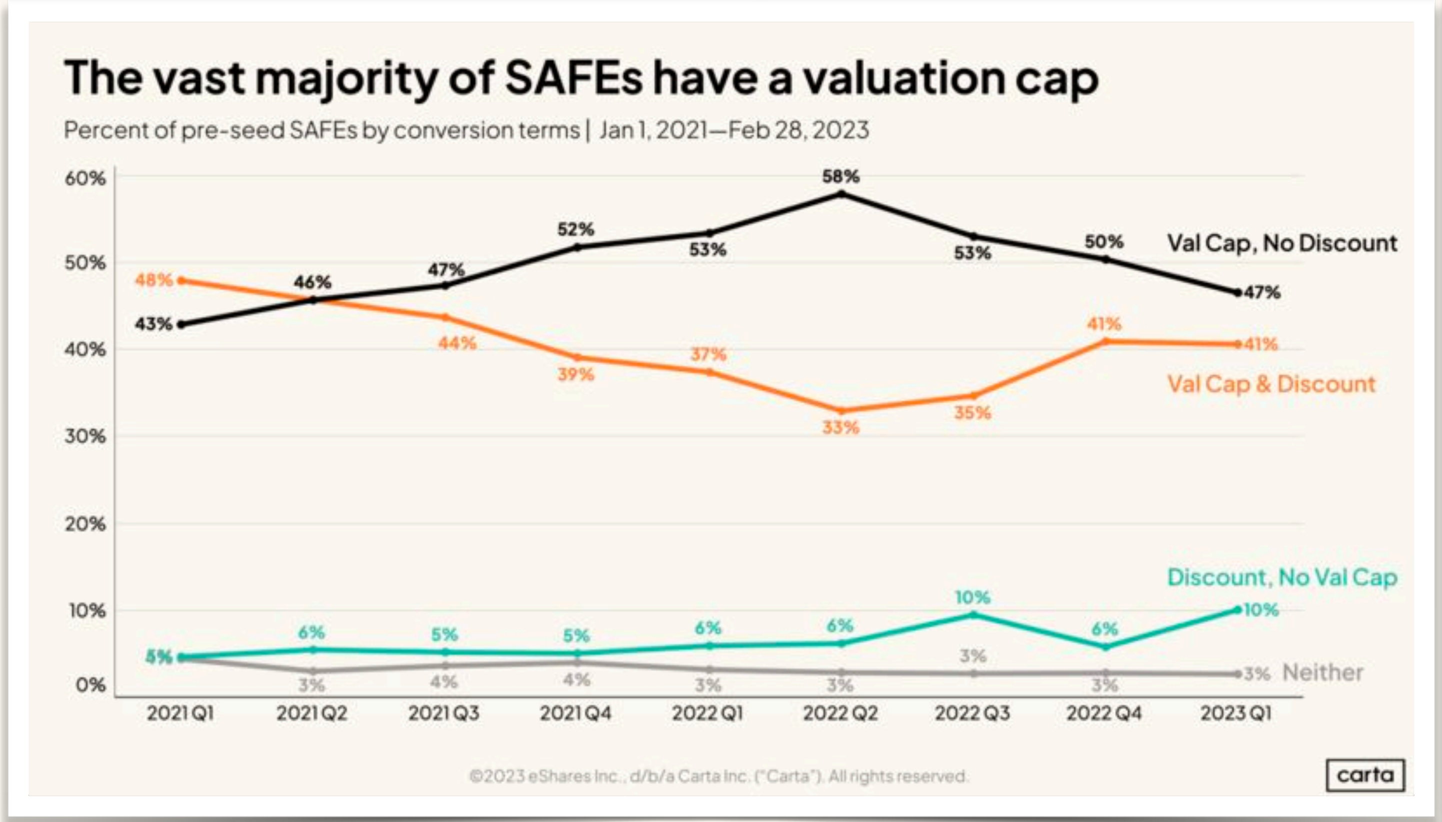
As investors have regained the upper hand in the negotiations with late stage companies, they are also taking larger equity stakes in the companies they are backing.

Carta Data



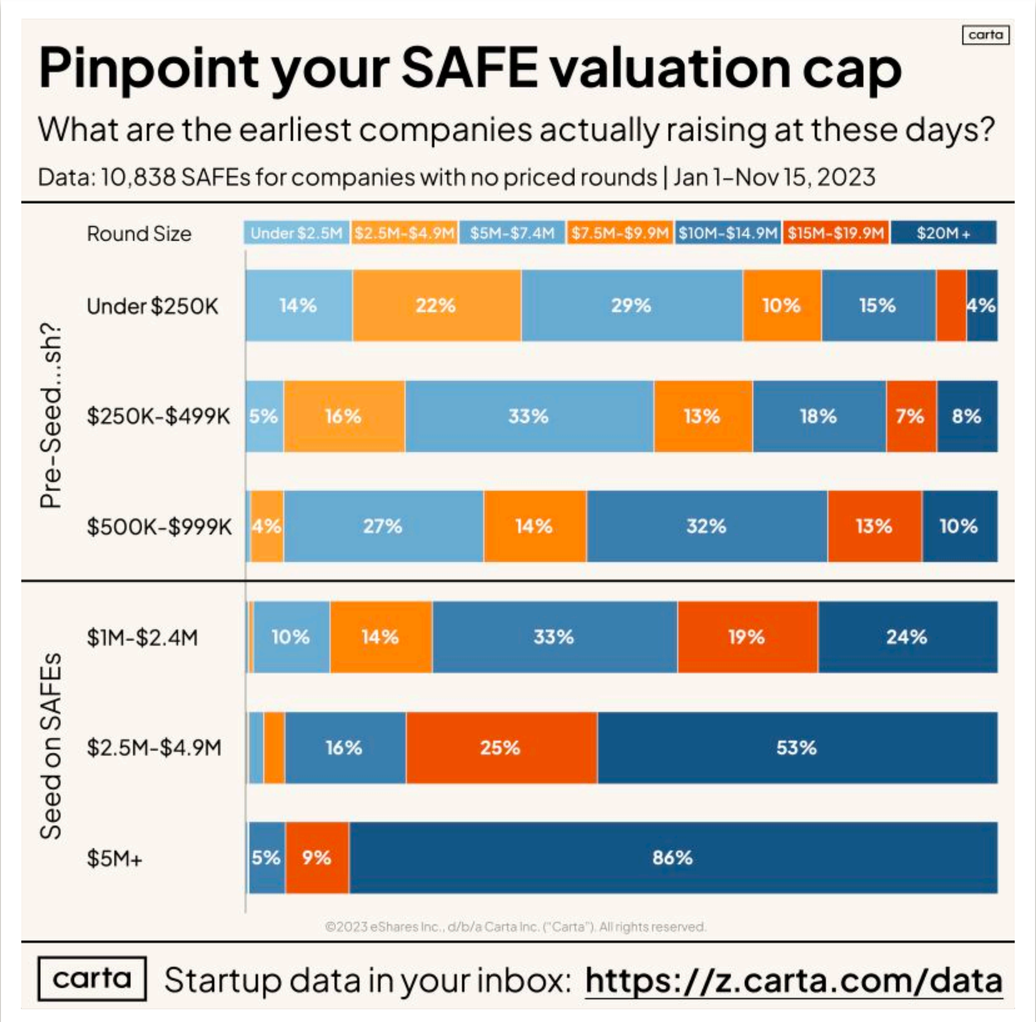
- Median dilution in venture rounds—calculated as round size divided by pre-money valuation—ticked down at seed, Series A, and Series C, and it inched up at Series B and Series D.
- **In general, a lower dilution rate is friendly to founders because it means they are retaining a larger share of their company's equity.**

Deal specifics - SAFE's



In Q1, 2023

- 88% of SAFEs raised so far in 2023 have a valuation cap
- 51% of them have a discount
- 41% have both a val cap and a discount



- Caution founders that the trend of raising 3 or 4 or even 5 separate SAFE rounds (defined by SAFEs with different valuation caps) may seem like a great way to bring in bits of cash along the way—but watch out for dilution!

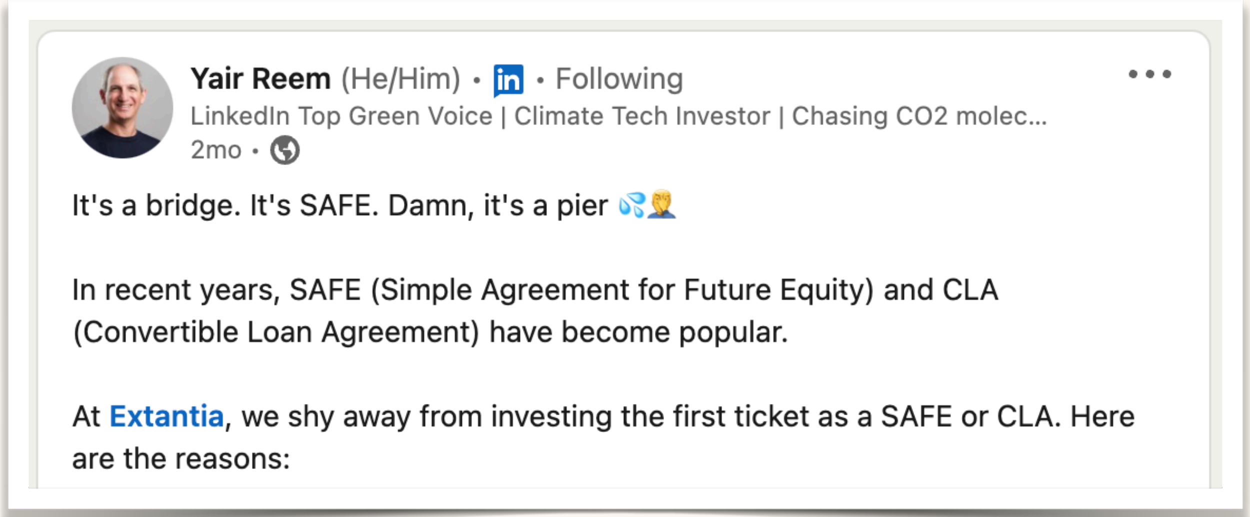
Deal specifics - Are SAFE's safe?


WEEKEND ANALYSIS

In a capital-constrained market, should more startups play it SAFE?

By Leah Hodgson

May 5, 2023


Yair Reem (He/Him) · in · Following

LinkedIn Top Green Voice | Climate Tech Investor | Chasing CO2 molec...

2mo ·

It's a bridge. It's SAFE. Damn, it's a pier 💦🤦

In recent years, SAFE (Simple Agreement for Future Equity) and CLA (Convertible Loan Agreement) have become popular.

At Extantia, we shy away from investing the first ticket as a SAFE or CLA. Here are the reasons:

- The risk isn't priced
- Cash Runway
- Governance
- SAFE is anything but safe

- Startups are having more difficulty getting priced rounds done
- SAFEs could take the form of a bridge round.
- **But they have essentially become less founder-friendly.**
- **With no maturity date or liquidation preference, there's no guarantee that investors will get their money back if the startup can't raise follow-on funding—plus, there's no interest paid over the term of the SAFE.**

Deal specifics - Pro-rata's

How effective are pro-rata's?

- Pro-rata's - Increasingly becoming non-negotiable amid a more investor-friendly environment. 78% of VC firms (400) said - not flexible on the topic, in a survey
- **If a company is doing well, new investors demanding a minimum amount of ownership could be deterred if all existing investors exercise their pro-rata rights.**
- **It is conceivable that if an investor is already guaranteed participation in a future deal, there is less of an incentive to try and add value.**

Euro VCs survey data shows that they care about pro-rata rights the most

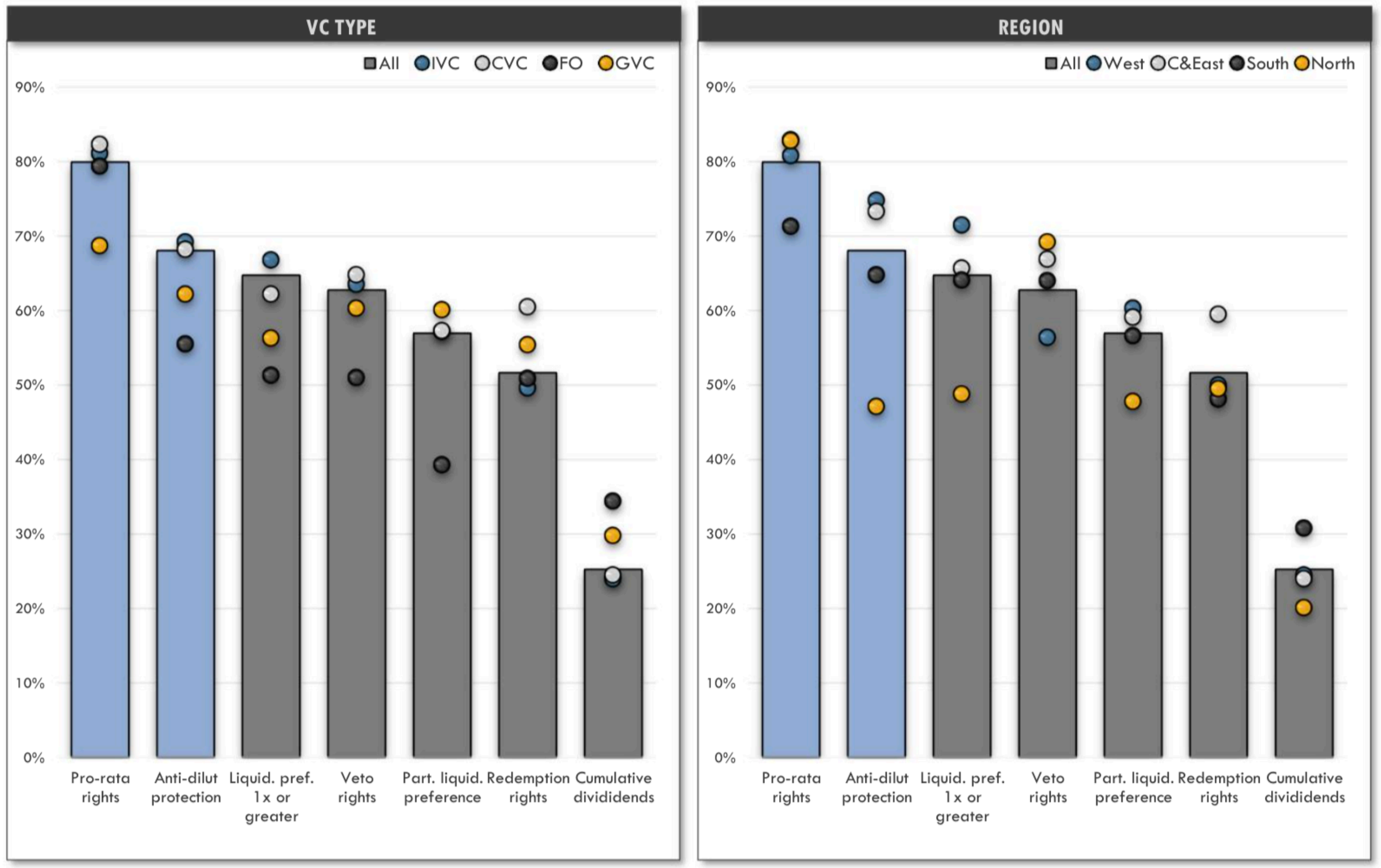
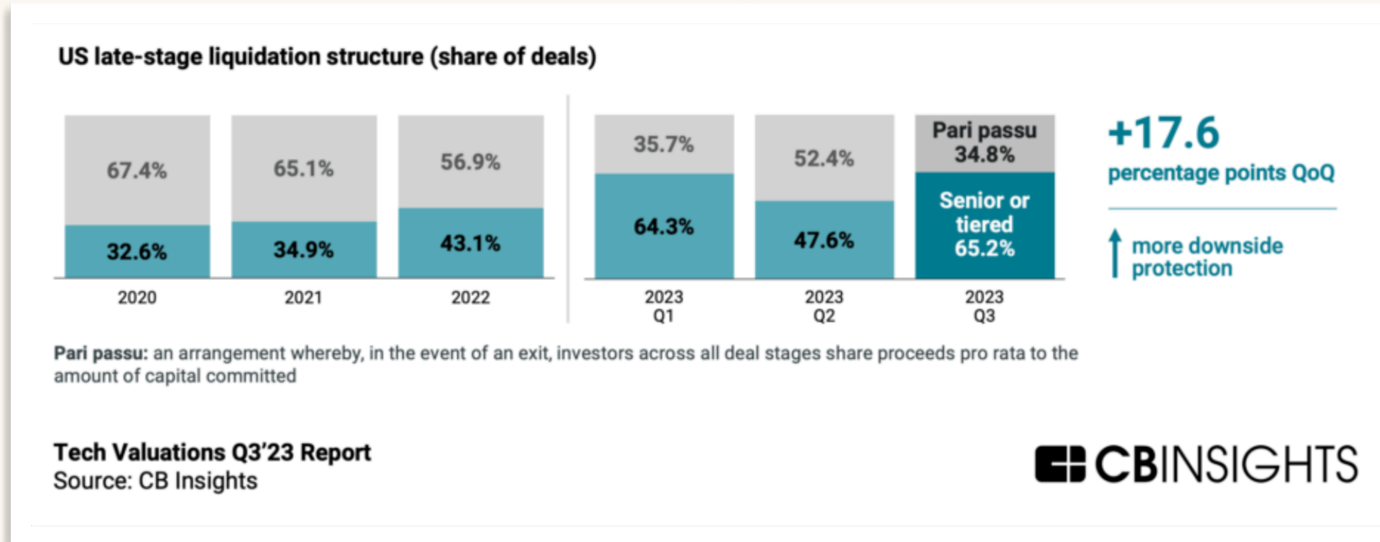


Figure 1.4.1 Frequency of various contractual terms, by VC type

Figure 1.4.2 Frequency of various contractual terms, by region

Deal specifics - Liquidation preference

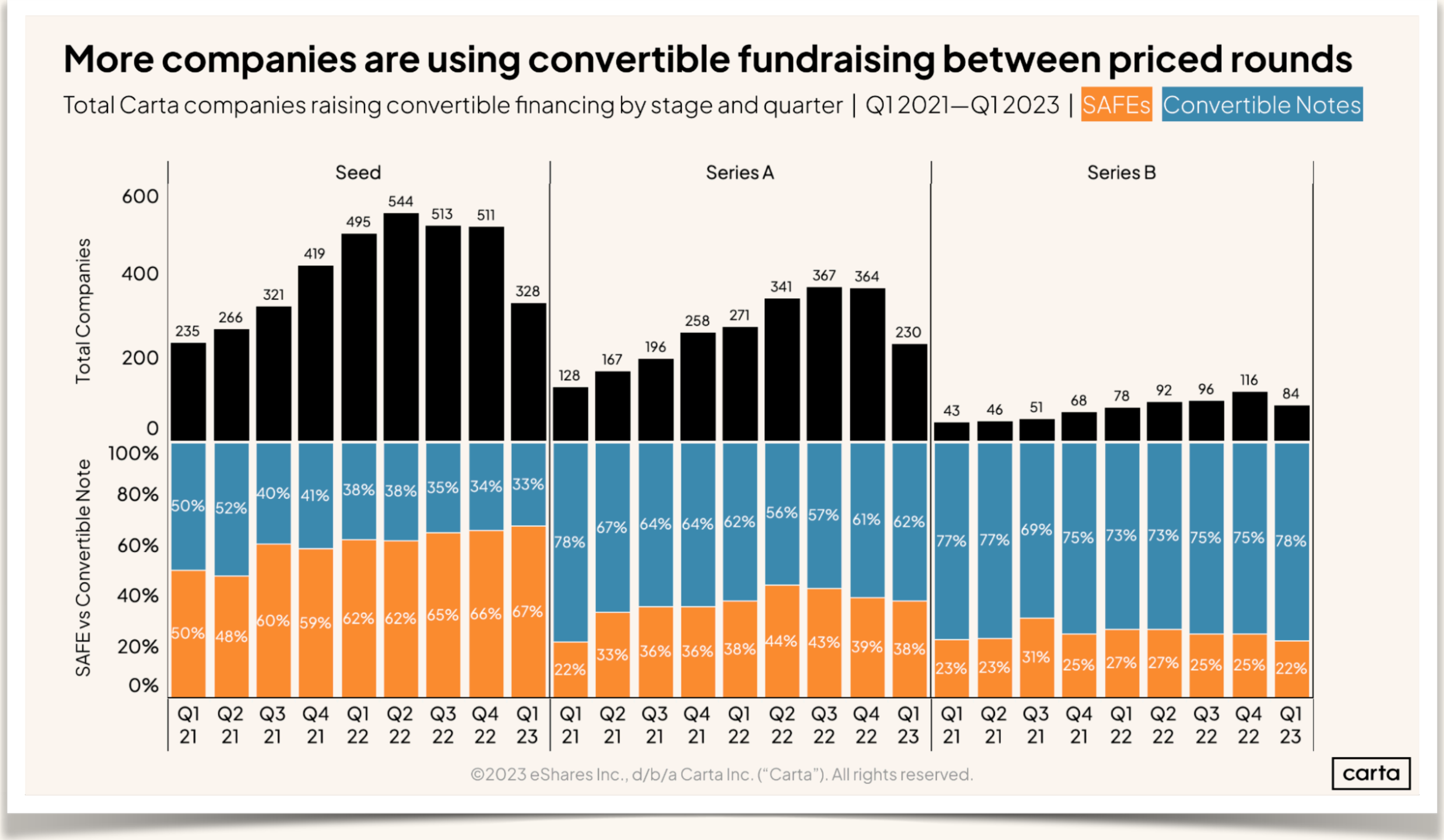
Investors are demanding liquidation structures into the deals for downside protection



- C**omplications involve liquidation preferences for different share classes**—seed, Series A, B and C, and so on.
- Senior shares are at the top of the liquidation preference stack and should be worth more.
- Various share classes may now root for competing outcomes as portfolio companies seek liquidity or new rounds of financing.
- Deals negotiated with seniority or tiered liquidation structures gained share across every stage from Series A to Series D+ in H1'23.
- **Close to two-thirds (65%) of late-stage deals in the US used senior or tiered liquidation structures in Q3'23.**
- This is highest level in over 4 years as investors look to insulate themselves from downside risk.

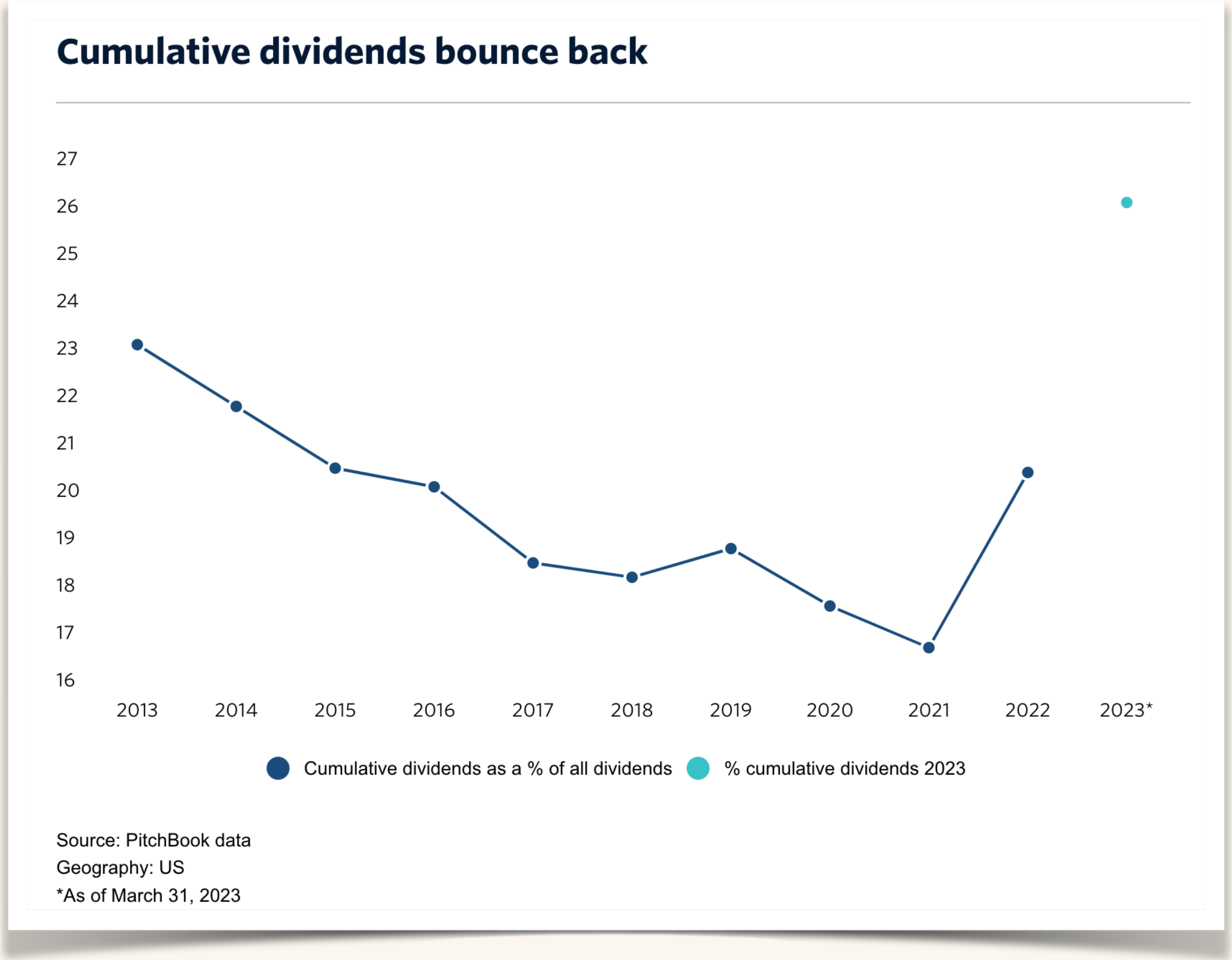
Deal specifics - Convertibles

Even more than SAFE's, convertibles were instrument of choice in late-stage deals.



- Convertible rounds typically raise less capital than priced rounds. But they offer companies a way to extend their financial runway without raising a down round.

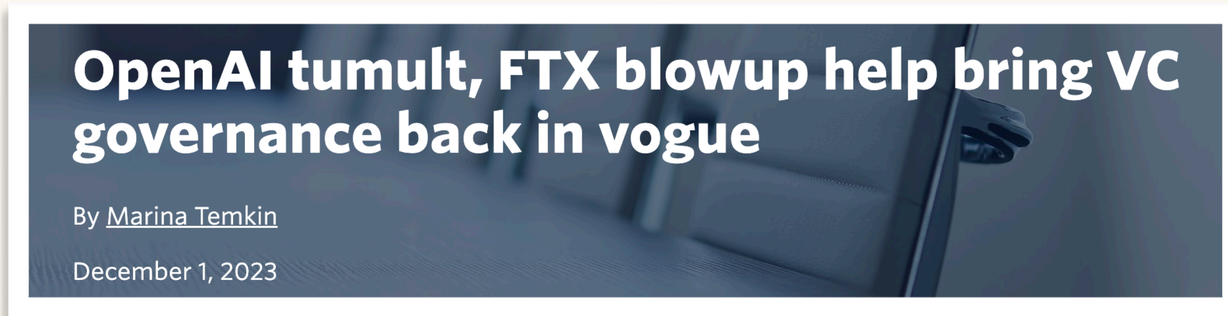
Deal specifics - Cumulative dividends



PitchBook Data
Cumulative dividends, another investor-friendly term that means unpaid dividends accrue over time, are also on the rise, jumping from roughly 20% to 26% between 2022 and Q1 2023, according to PitchBook data.

Deal specifics - Governance

Governance will become a key topic moving forward in 2024 given the negative startup cases this year.



FTX's implosion and OpenAI's recent saga—which caught investors by surprise when OpenAI CEO Sam Altman was suddenly ousted without them being notified—reminded VCs and their limited partners why governance matters.

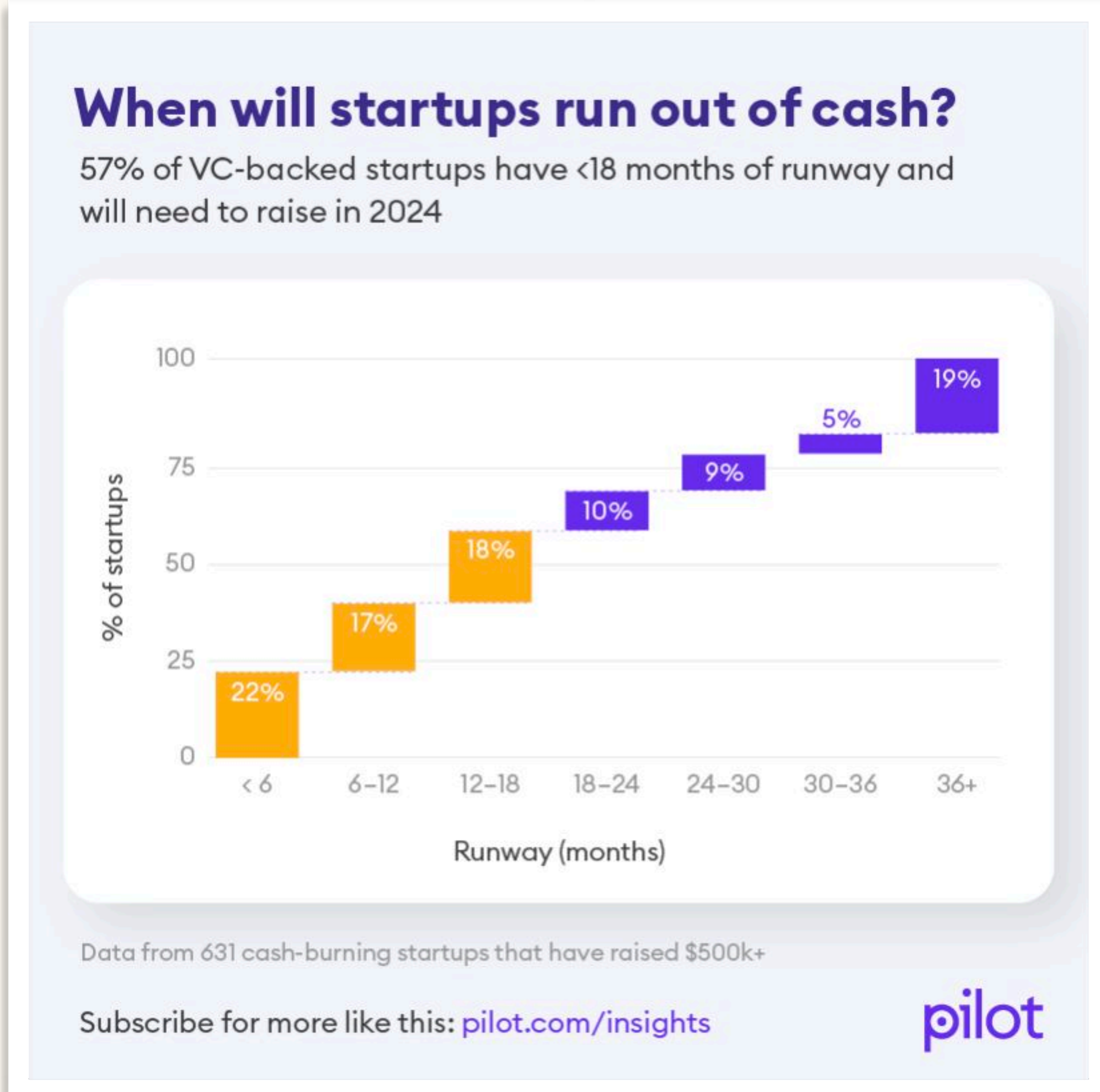
Relinquishing board seats

- Investors, whose primary concern was getting into competitive rounds, used their smaller ownership in each portfolio company as justification for skimping on governance
- Another excuse for forfeiting board seats was investors' overcommitment to other companies.

Cautionary tales of poor startup governance—from Theranos to WeWork to Uber—often prompt calls for investors to take oversight more seriously.

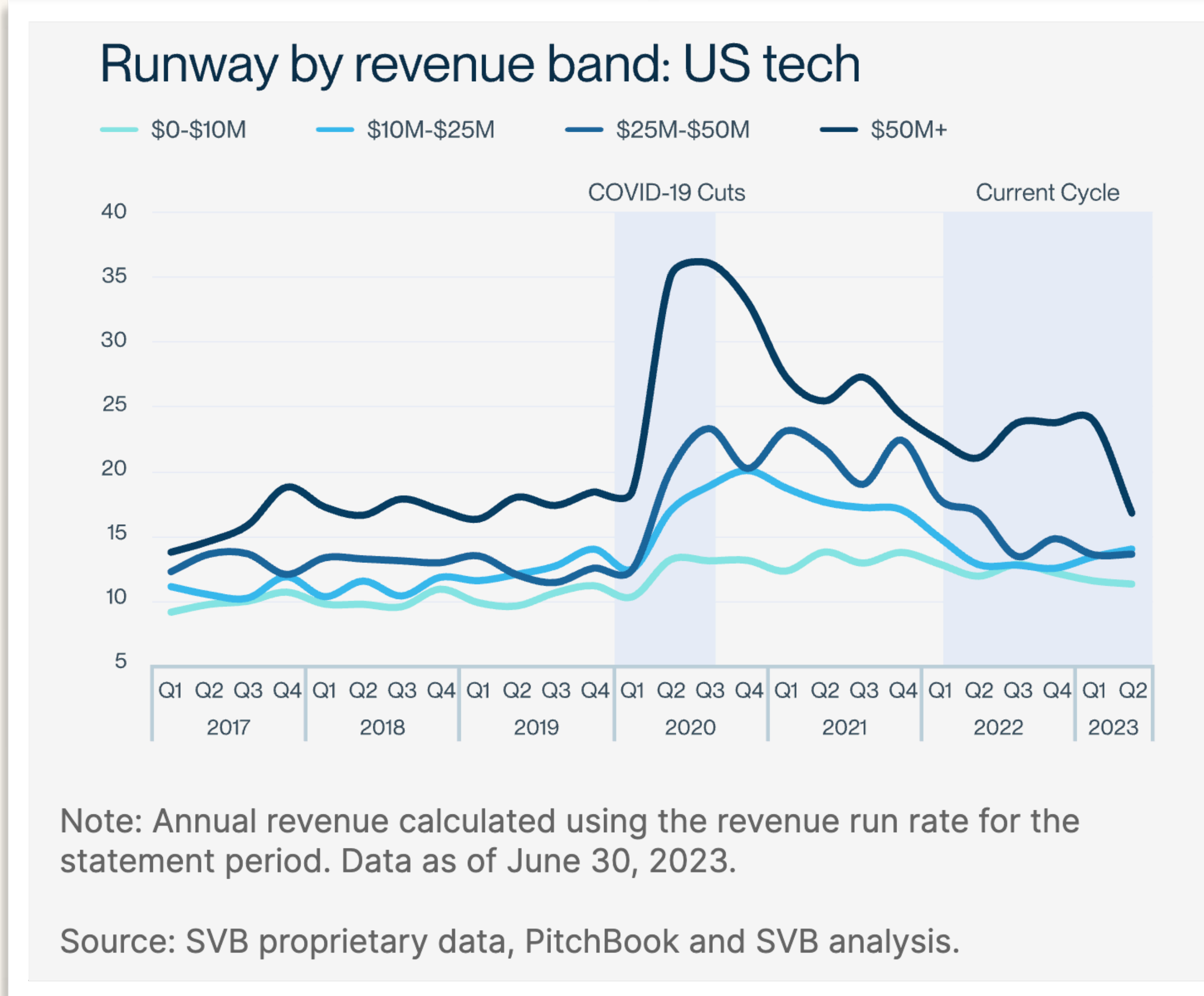
Runway

Majority of startups will have to raise in 2024



- **57% of venture-backed startups have fewer than 18 months of runway remaining.**
- Well over half of these companies will need to fundraise by mid-2024.

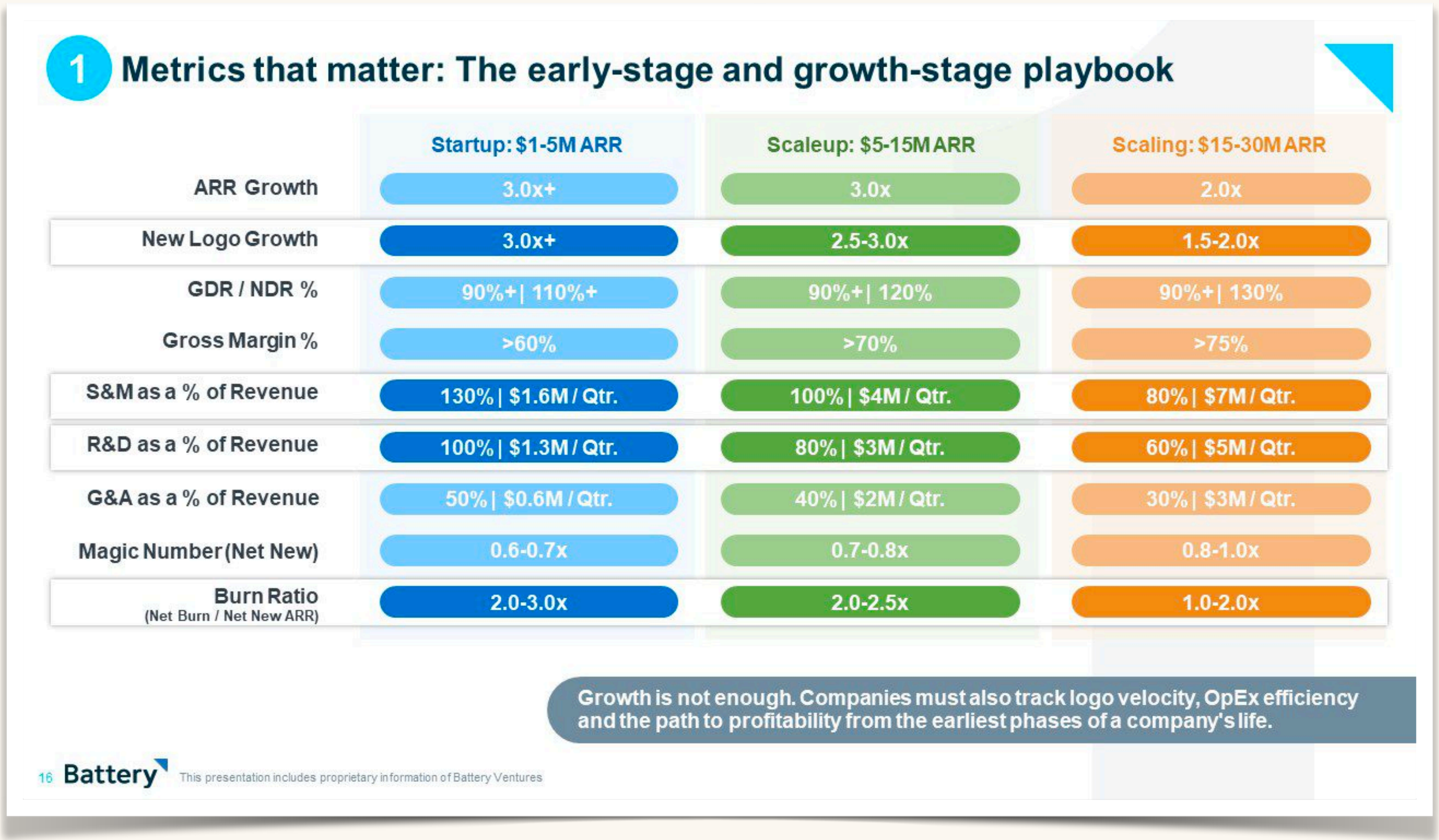
Dwindling runway across the industry



- In the next 12 months, only 46% of US VC-backed tech companies must raise — which is lower than historical pre-pandemic levels.
- **Founders face depleting runway and few options to replenish it.**

What it takes to raise capital? - 1

Growth is not enough for capital raising



1 Metrics that matter: The early-stage and growth-stage playbook

	Startup: $1-5M ARR	Scaleup: $5-15M ARR	Scaling: $15-30M ARR
ARR Growth	3.0x+	3.0x	2.0x
New Logo Growth	3.0x+	2.5-3.0x	1.5-2.0x
GDR / NDR %	90%+ | 110%+	90%+ | 120%	90%+ | 130%
Gross Margin %	>60%	>70%	>75%
S&M as a % of Revenue	130% | $1.6M / Qtr.	100% | $4M / Qtr.	80% | $7M / Qtr.
R&D as a % of Revenue	100% | $1.3M / Qtr.	80% | $3M / Qtr.	60% | $5M / Qtr.
G&A as a % of Revenue	50% | $0.6M / Qtr.	40% | $2M / Qtr.	30% | $3M / Qtr.
Magic Number (Net New)	0.6-0.7x	0.7-0.8x	0.8-1.0x
Burn Ratio (Net Burn / Net New ARR)	2.0-3.0x	2.0-2.5x	1.0-2.0x

Growth is not enough. Companies must also track logo velocity, OpEx efficiency and the path to profitability from the earliest phases of a company's life.

16 Battery This presentation includes proprietary information of Battery Ventures

Startups should track alternative metrics other than growth to showcase a solid case for fundraising, especially at later stage

This graph is based on an individual investor's perception. Different investors will likely have different opinions on startup metrics and what it takes to fundraise.

What it takes to raise capital? - 2

From Seed To Series-A

TechCrunch+ Fundraising

What are Series A VCs looking for? Many seed investors aren't so sure anymore

Rebecca Szkutak @rebecca_szkutak / 10:00 PM GMT+2 • June 7, 2023

Comment

- **The muted late stage funding and exit environments have left investors with few data points and examples of how to price companies** — and that now affects the Series A stage, too.
- Series A investors are still taking longer to do due diligence, are more focused on the metrics, and are looking to participate in rounds at reasonable valuations.
- **Plus, no one wants to back a company that has made so many cost-cutting measures that they are barely hanging on.**

Founders should follow playbooks or blueprints published by VCs to set them up for success

XAnge KPIs	Danger Zone	Good	Better	Best
ARR/Sales Salary		Minimum 4x sales reps' salary + taxes		
Enterprise Churn (Yearly Gross Churn)	>15x	10%	10-5%	<5%
SMBs Churn (Yearly Gross Churn)	30%	20%	15%	<10%
Portion of International ARR		25%	30%	40%
Average Sales Cycle SMB		1 to 4 weeks		
Average Sales Cycle Mid-Market		4 to 12 weeks		
Average Sales Cycle SMB		12 to 36 weeks		

What it takes to raise capital? - 3

Does being different matter in startup fundraising?

Dave McClure
@davemcclure

1/ generic advice to early-stage founders / rookie VCs raising $ in today's VERY TOUGH market:

- be DIFFERENT
- be MEMORABLE
- be CONCISE

almost all of you are not.

12:54 AM · Nov 17, 2023 · **30.1K** Views

Does TAM, SAM, or SOM play in fundraising?

How big should your market be to attract VC funding?
Tunde Adekeye
October 26, 2023

- VCs don't actually care about market size, they care about exit size
- Two factors affect whether $Xbn is a large enough market for a venture scale outcome 1) the startups' margin profile and 2) how plausible it is for the company to achieve significant market share.

Does treating VC capital as an exception, create a better understanding for the current market?

Greg Head · Following
Advisor to 40 practical SaaS founders who are building valuable softw...
6d · Edited ·

It needs to be said: The default case for 80-90% of SaaS startups is never to raise VC funding.

VC funding has always been the exception and not the rule in the software business.

It might have been easier to do fundraising as a serial entrepreneur

Analysis April 18, 2023

Why are serial entrepreneurs grabbing VC attention more than ever?

It's always been an easier ride for repeat founders than for first-timers. But as the downturn continues, founders and investors say the gap is widening

Amy O'Brien 5 min read

Raise less, build more

Raise Less, Build More

August 20, 2023 by trohan
Leave a comment
Entrepreneurship / Trends / Uncategorized / Venture Capital

The conventional venture capital funding path – from raising an institutional Seed, Series A, B, C, D, E, etc, all the way to exit via IPO – has long been treated as gospel. Its verses are most heavily preached by VC board members, whose business model it also supports.

But there is an influential tide of founders on the rise that is opting out of this path and quietly plotting a new one that leads to building generational companies.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
VC capital raised ($Bs)	$22.5	$37.2	$43.5	$51.0	$45.6	$62.1	$72.5	$91.6	$158.5	$171.0
Angel, Pre-Seed & Seed deals (proxy for new startups)	5.6k	6.7k	7.1k	6.6k	6.9k	8.0k	8.2k	8.4k	9.9k	8.1k
VC capital per startup ($Ms)	$4.0	$5.6	$6.1	$7.7	$6.6	$7.8	$8.8	$11.0	$16.0	$21.2

Source: Pitchbook and Crunchbase, 2023. US Only.

- A**verage startup today has 5x more VC capital available than its counterpart did in 2013**
- Do today's startups need more money? Well, no. **The main driver of a startup's burn is salaries. Salaries over time have increased, but not by 5x**. Even the new increased infrastructure costs with AI will ultimately come down as companies scale and the industry matures. None of this justifies the rate and breadth of this capital increase from VCs.

Data focus is U.S.

Is VC capital the best fit for a startup? / 1

Venture capital only works for specific types of businesses at a particular stage

Stop Expecting Venture Capital to Solve All the World's Problems

Venture capital only works for specific types of businesses at a particular stage

DC Palter · Follow
Published in Entrepreneur's Handbook · 6 min read · 5 days ago

406 8

- **Finding money to develop the product is indeed the Catch-22 of startups, especially hardtech startups that require a lot of time and money to create.**
- Let's look at - how many of the biggest innovations of our era were funded by venture capital.

> - Internet — nope, that was invented by university researchers funded by grants from the US military's DARPA organization.
> - Cell phone — nope, that was mostly AT&T Bell Labs and Motorola
> - Smart phone — nope, that was Apple after they were already a big public company
> - Computer — nope, AT&T Bell Labs again, with Texas Instruments and Fairchild Semiconductor inventing the integrated circuit.
> - Li-ion battery that makes possible laptop computers, smart phones, and EVs possible? Toshiba and Asahi Kasei.

Founders should think from the perspective of what VC return entails, before accepting the capital

Pranay Srinivasan
@utekkare

Normalize asking a VC what a successful outcome in their current fund looks like before they write you a check.

And internalize the return of the investment they make to benchmark to your 5-7 year progress.

If they have a $300M fund thats expected to return 7X, thats $2.1B in returns - If they own 20% of your startup and you need to drive 1/5th of that return, you need to exit for $2B - and to get to $2B you need to be doing $350M of net revs / ARR at 75-80% Gross Margin, growing 60%+ 7 years from now.

If you don't imagine returning capital, don't take the investment.

Last edited 10:48 PM · Feb 26, 2023 · **764.7K** Views

- **It isn't an easy thought, but founders need to think whether their fundraising strategy and business outcomes align well with the VC strategy of power law and delivering >10X outcomes.**
- Once founders have taken VC capital, they will be judged quarterly on VC's scale of 'what a startup should look like'. It's a high bar and founders should be prepared for it.

Is VC capital the best fit for a startup? / 2

The Traditional Funding Cycle Doesn't Work for Climate Tech

by Yair Reem, Partner at Extantia Capital

MCJ COLLECTIVE
29 AUG 2023

- In the venture capital world, startups are frequently asked about their funding stage.
- **In climate tech, these definitions are not exactly straightforward.**
- But in climate tech, research and development are often funded much earlier, at the university level, so that by the time outside funding is sought, the necessary technology is already far ahead of traditional startups at the same stage.
- **Climate tech is a new asset class that requires everyone involved, founders and investors alike, to think outside the box.**
- Not all startups follow traditional paths to readiness, so it helps to develop new ways to discuss these new technologies.

Analysis December 6, 2023

Why these founders didn't want VC money

Founders in sectors from vertical farming to fintech are looking for different sources of capital

- Founders who choose not to pursue VC investment in Europe say they are l**ooking for investors who have longer investment horizons than VCs, who are governed by 10-year fund lifecycles**.
- **That's especially important in capital intensive businesses.**

SECTION

STARTUP EXITS

IMAGE FROM DALL E

Here is an image that illustrates the 2023 startup exit environment, highlighting the slowdown and various challenges. The scene, set in a financial district, captures the concerns of startup founders and financial analysts over the slowdown in exits, the underwhelming performance of past IPOs, the mixed outcomes of 2023 startup IPOs, and the mismatch in expectations between buyers and sellers in tech M&A. This visual conveys the caution and complexity that marked the startup exit landscape during this period.

Index - Startup exits

Summary - Startup exits / 1

VC exits have slowed down dramatically

- After an exceptional exit environment in 2021, startup exits have slowed down dramatically. This has dampened the startup ecosystem mood and actual returns to VC firms and LPs.
- Without a healthy exit environment, it is unlikely that the whole ecosystem can fully recover.

Market environment isn’t supportive of exits

- Declining economic conditions have continued to challenge the late stage venture market.
- High-interest rate, geo-political tensions, and subdued public markets (beyond top stocks) - has impacted the mood.
- Valuation step-ups of companies being acquired or going public have fallen to or near a 10-year low.

IPOs have dried up

- Although startup exits also happen via M&As and Buyouts, the most substantive form of liquidity comes from IPOs.
- KPIs required for an IPO have changed, and investors are now focused on profitability and efficiency.
- Pressure continues to build in the venture’s late stage, with the IPO window shuttered.

Recent IPOs were a mixed bag

- Three IPOs in September 2023 (Instacart, Arm, and Klaviyo) have reignited optimism, and investors have started deciphering market trends and signals.
- While these much-anticipated three IPOs boosted exit values, they had a lukewarm reception afterward.

2024 - the year of opening up?

- An IPO stack is building up for the companies with the potential to go public in 2024. However, some investors might be advised to hold off until there is more stability in interest rates
- Startups considering an IPO might delay their market debut until tech-growth stocks receive more favorable valuations in public markets.

Summary - Startup exits / 2

M&A markets

- M&A and Buyouts have also been subdued this year. A drop in the share price of public tech firms and higher interest rates led to less appetite for strategic acquisitions.
- Acquisitions are skewing smaller, as smaller deals tend to occur during periods of uncertainty. The total value of acquisitions of VC-backed companies is on track to reach the lowest annual level in a decade.
- Big tech acquisitions are declining as regulatory pressure increases.
- Bigger companies acquiring smaller startups was by far the most active category in 2023.

Buyouts, distressed sales, and divestitures

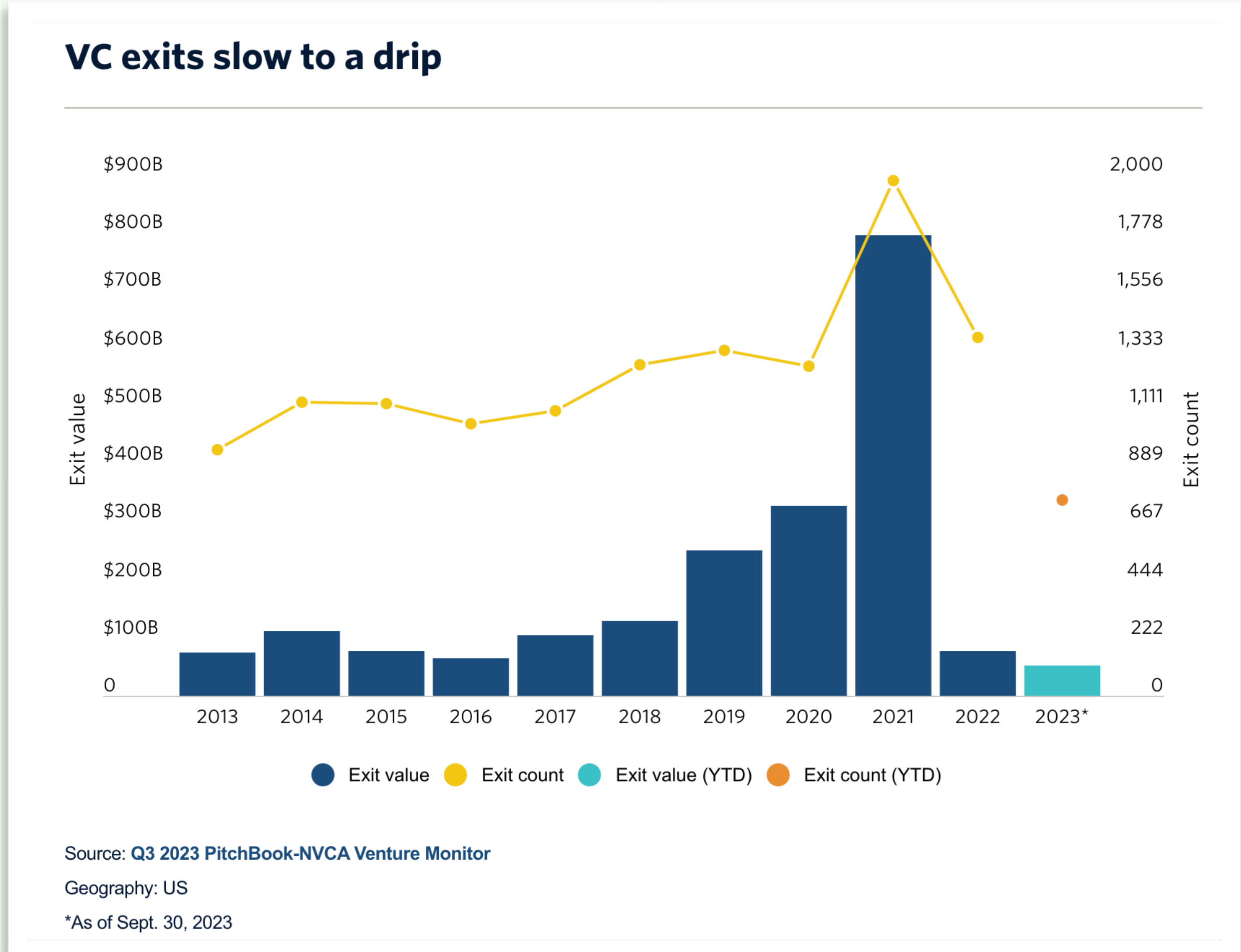
- Small tech buyouts are a growing niche, and VC firms are exploring buyouts as a strategy.
- Buyout strategy is inherently opportunistic, and taking advantage of current headwinds makes sense.
- 2023 saw a string of divestitures or distressed sales. Startups unable to raise in 2024 could face a similar sad ending.

Secondary markets were abuzz

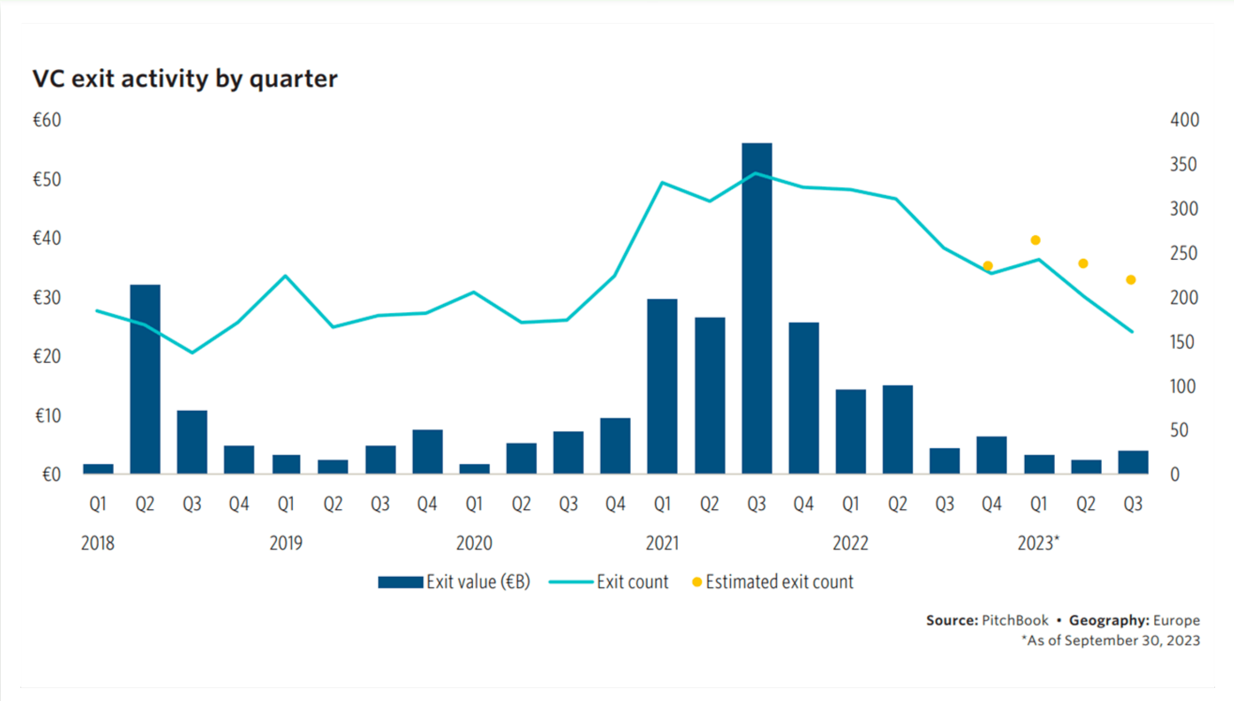
- Buyers were primarily purchasing top pre-IPO names. Many were adding to stakes in companies they already own.
- Median discount of +50% compared to valuations at their latest funding rounds, making it one of the hottest opportunities in the secondary markets since the 2008 financial crisis.
- Some prominent money managers were willing to buy stakes piecemeal.
- Sellers: Pool of sellers was the widest and included top VC funds, Hedge Funds, and institutional investors willing to think about selling.
- The number of actual deals done this year is still fairly low relative to the opportunity due to the divergence between the expectations of buyers and sellers on price.
- Secondary investors disappeared because of OpenAI's recent news - a testament to the fragility of the market.

VC exits have slowed down dramatically

After an octane driven exit environment of 2021, exit value has plummeted dramatically



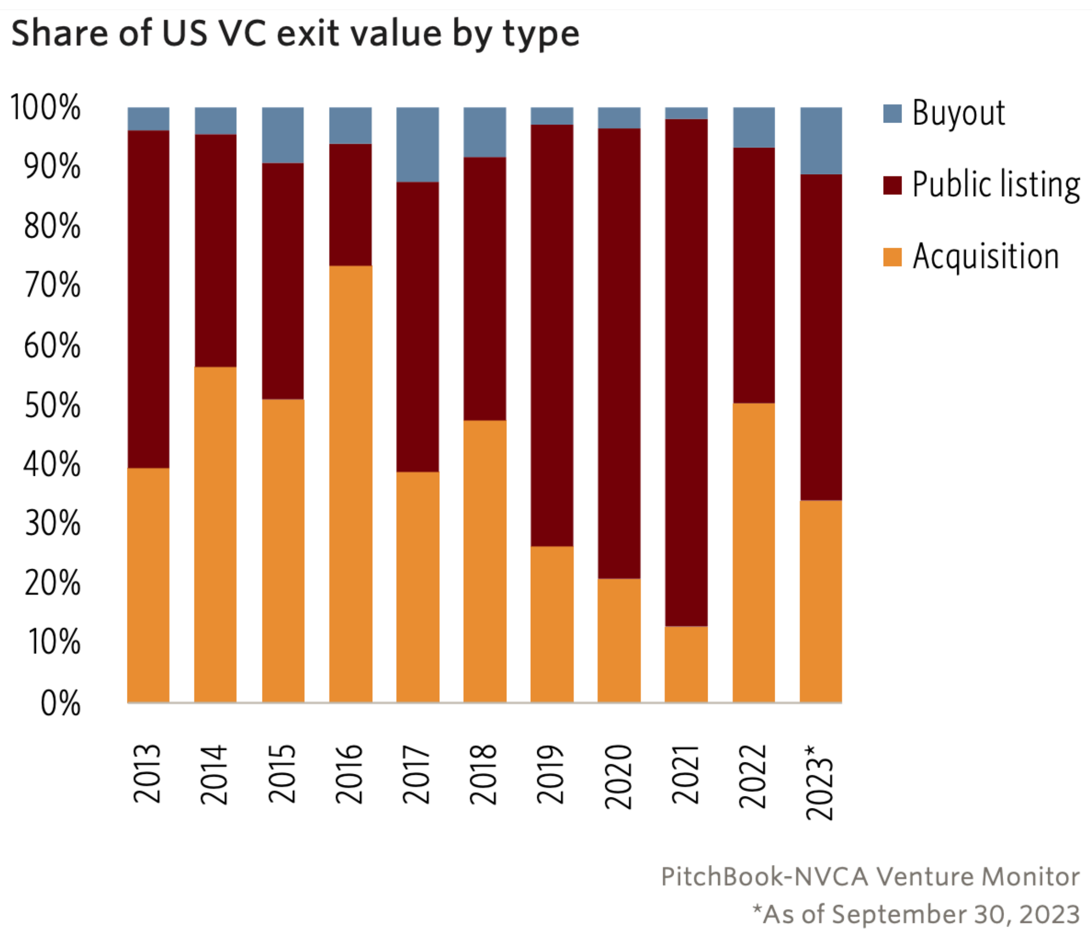
U.S. geography

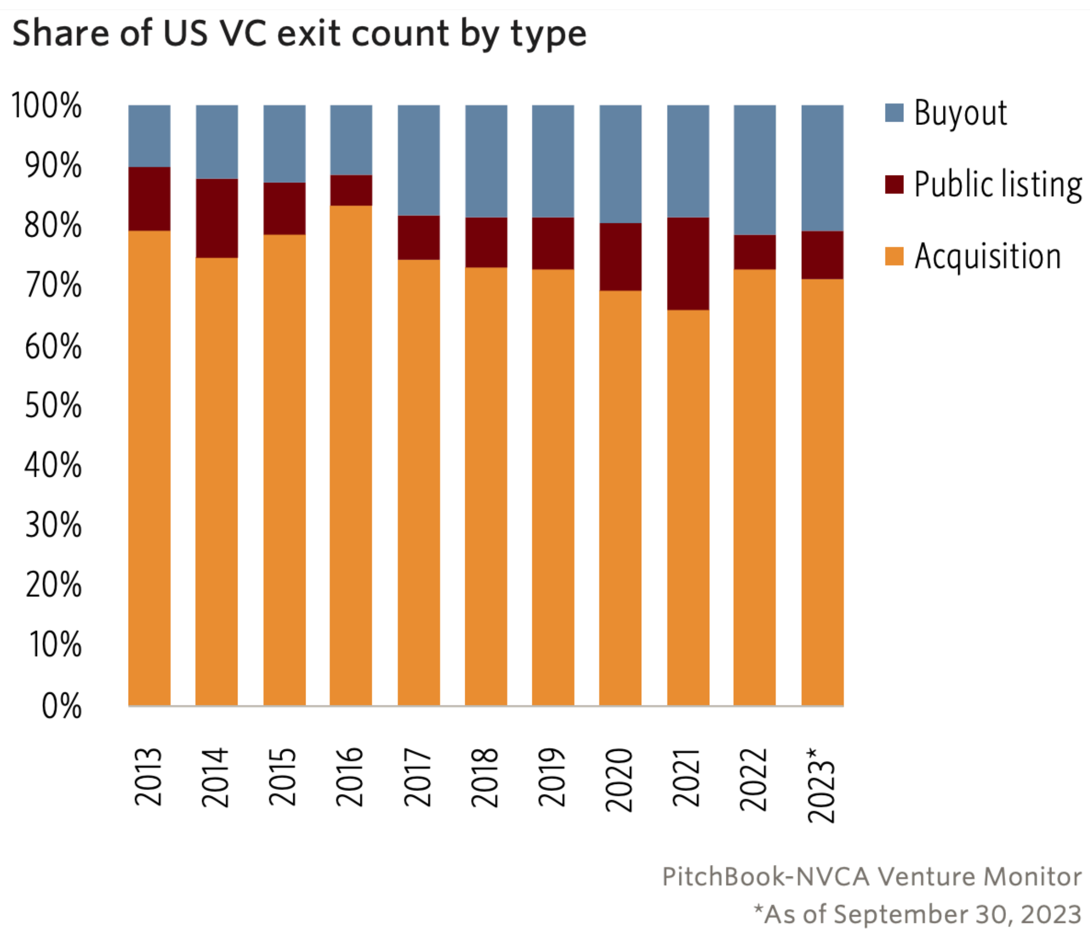


Europe geography

How are exits happening?

Bigger question is whether the trends of 2023 will persist in 2024, or will markets open up to provide better exit opportunities



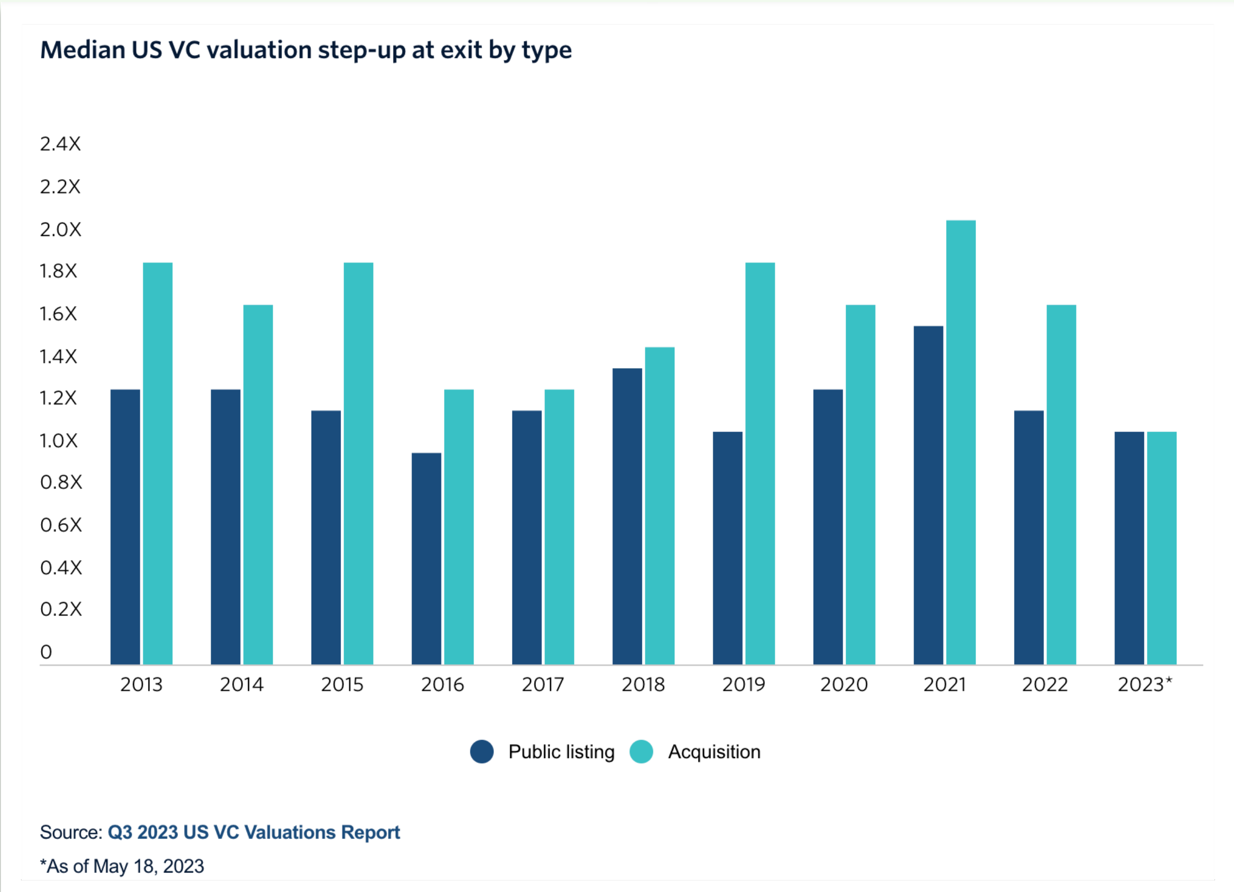


- Majority of exit value YTD generated via public listing; first time since 2021
- YTD count of exits via acquisitions falls to roughly half of 2022 figure

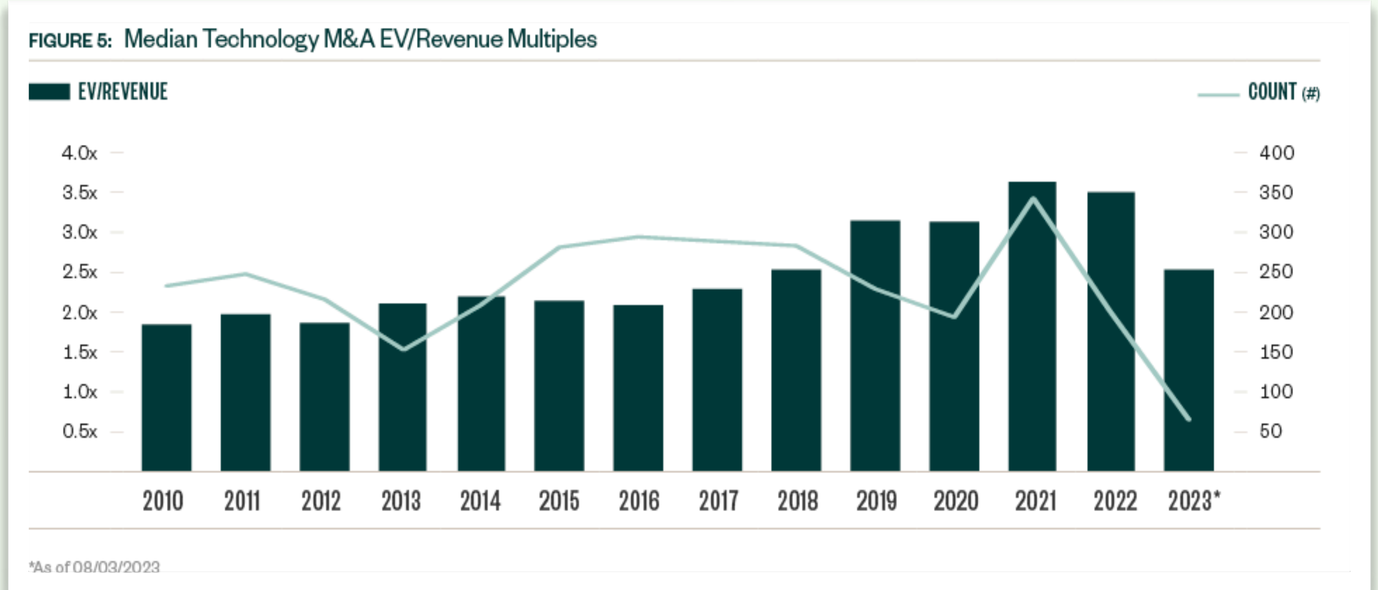
Data focus is U.S.

What about exit valuations?

Exit valuation step-up has also trended downwards and is now at a decade low

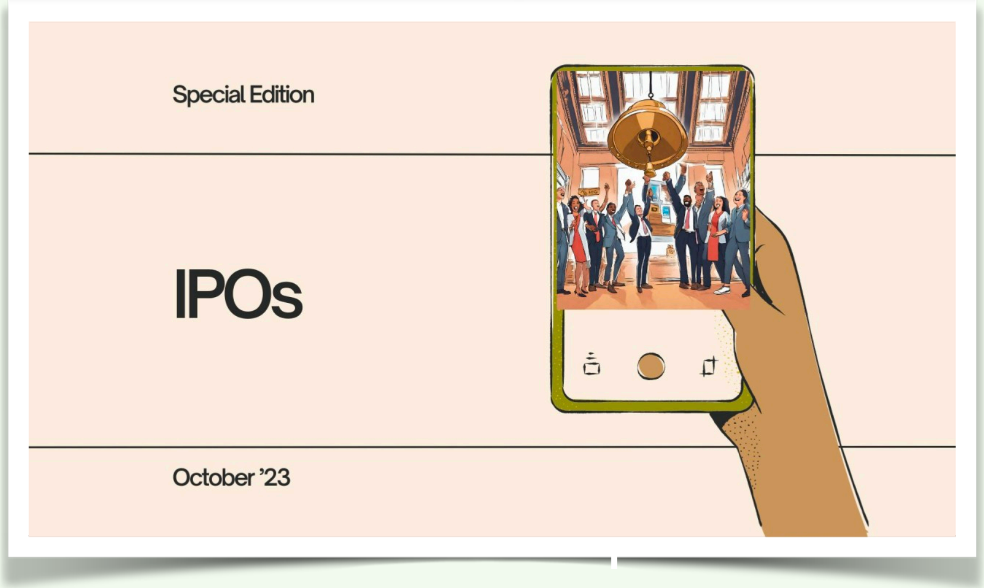


Acquisition multiples are now at their lowest in the past 5 years



- **Exit values in this environment are less attractive than in the recent past.**
- Valuation step-ups of companies being acquired or going public have fallen to or near a 10-year low.

Tech startup IPOs



- **The IPO world is changing. In 2021, the median company age at IPO was 11 years. Private companies going for an IPO are more mature than typical tech company at IPO in the '80s-90s.**
- **Macro instability has resulted in - a slow IPO market and a lack of M&A.**
- Baring the recent outlier story of IPO success in 2021, the year 2023 is proving challenging for IPOs across geographies.
- **Even after the IPO, the challenges don't end.** Post-IPO performance of tech companies has not been rosy, and stock prices can take up to a couple of years to recover.
- **Three IPOs in September (Instacart, Arm, and Klaviyo) have reignited optimism, and investors have started deciphering market trends and signals.**
- **While every IPO is inherently different, a few common characteristics have defined these above three IPOs** - (a) investor's focus on company profitability, (b) low float (10% or less), (c) jump in share price on the "first trading day" providing exit opportunity, (d) drop in share price post in weeks after IPO pop, and (e) cornerstone/strategic investors who would commit ahead of time to buying a chunk of the IPO.

What it takes to IPO?

Startup KPI expectation before an IPO have shifted

You must be a healthier software company to go public

	IPOs | 2018–2019	IPOs | 2020–2021	IPOs | 2022–2023
Revenue	$381M	$436M	$788M
Y/Y Growth	29%	40%	35%
Gross Margin	74%	75%	74%
R&D % of Revenue	25%	28%	20%
S&M % of Revenue	40%	40%	31%
G&A % of Revenue	19%	24%	14%
EBIT Margin	(10%)	(15%)	10%
Net Dollar Retention	121%	120%	119%
EV / NTM Revenue - IPO	9.2x	17.3x	10.8x

Software IPOs are now larger while showing growth durability of 30%+ and greater profitability.

Note: * Denotes a past or current Battery company. For a full list of all Battery investments, please visit https://www.battery.com/list-of-all-companies/ Operating metrics reflected are non-GAAP.

Source: CapIQ

9 Battery This presentation includes proprietary information of Battery Ventures

- Revenue efficiency to demonstrate the scalability and sustainability of the business model.
- Profitability with strong Y/Y growth to avoid any reliance on external funding for runway security.
- Higher overall revenue as the catch up with private market valuations continues.

Past tech IPO performance

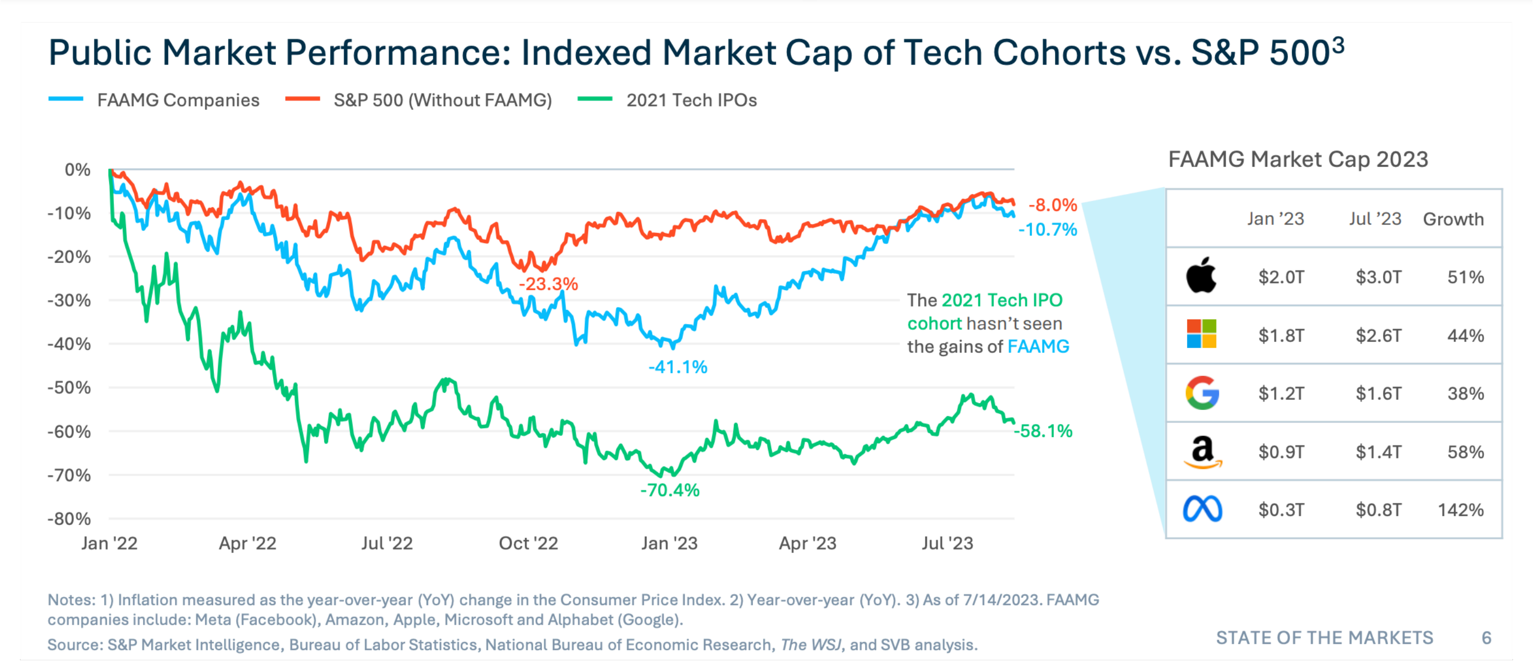
Startup IPOs of the past haven't performed well in the 2023 market.

The Biggest IPOs Of 2021 Have Shed 60% Of Their Value

Joanna Glasner October 18, 2023

Largest Startup IPOs Of 2021*

Company	Valuation At IPO ($M)	Recent Valuation ($M)**
Coinbase	$86,000	$18,464
Didi	$73,000	$17,255
Rivian	$66,500	$18,778
Coupang	$60,000	$31,786
Nubank	$41,000	$37,538
Grab	$40,000	$13,354
Robinhood	$32,000	$8,740
Roblox	$30,000	$18,919
UiPath	$31,000	$9,411
AppLovin	$28,600	$13,896
Lucid Group	$24,000	$11,630
Full Truck Alliance	$21,000	$7,546
Toast	$20,000	$9,864
HashiCorp	$16,200	$4,291
Ginkgo Bioworks	$15,000	$3,626



While Big Tech is rising, not all tech companies are being lifted. Venturebacked tech companies that went public in 2021 are struggling to meet lofty expectations. These struggles are having a knock-on effect throughout the innovation economy as a backlog of exit-ready companies tread water.

IPO backlog buildup

IPO backlog keeps piling up with more and more startups looking for exit.

The 2024 Tech IPO Pipeline

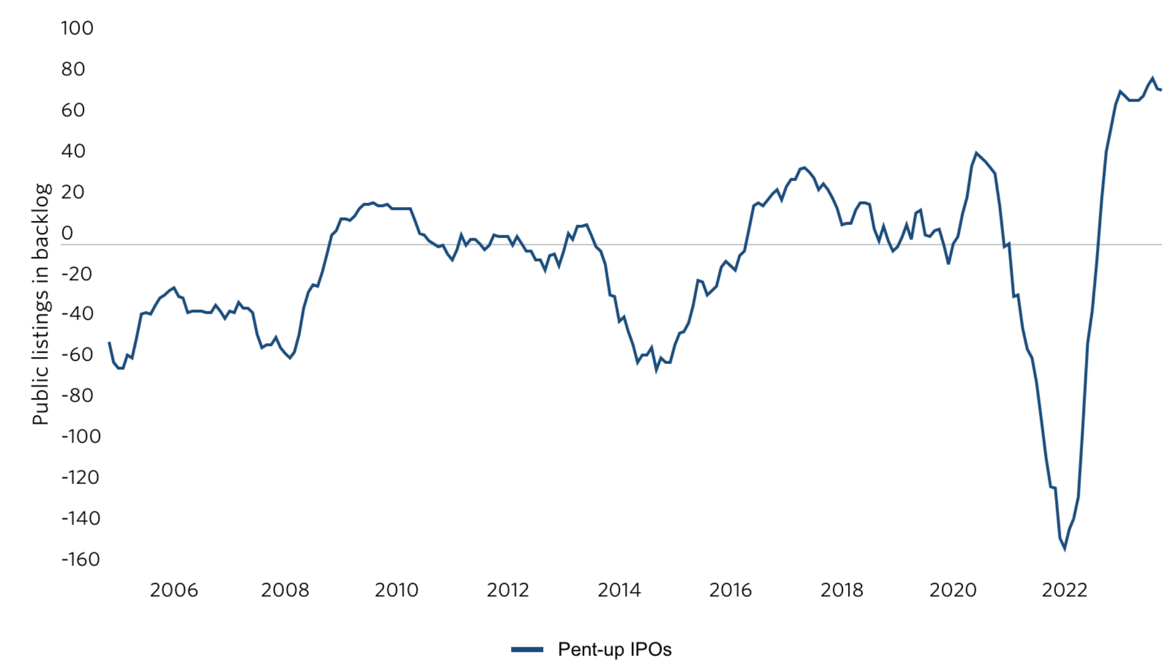
November 20, 2023

As the IPO market creaks open again, these are the 257 companies we think could hit the public markets next.

While the tepid performance could push back other tech players' IPO plans, there is still a large pool of potential IPO candidates waiting in the wings. They can't wait forever — especially as late stage venture capital dries up. The pressure will likely force the IPO window further open in 2024, even if the market conditions aren't perfect.

VC IPO backlog piles up

A positive reading indicates fewer startups are going public than expected

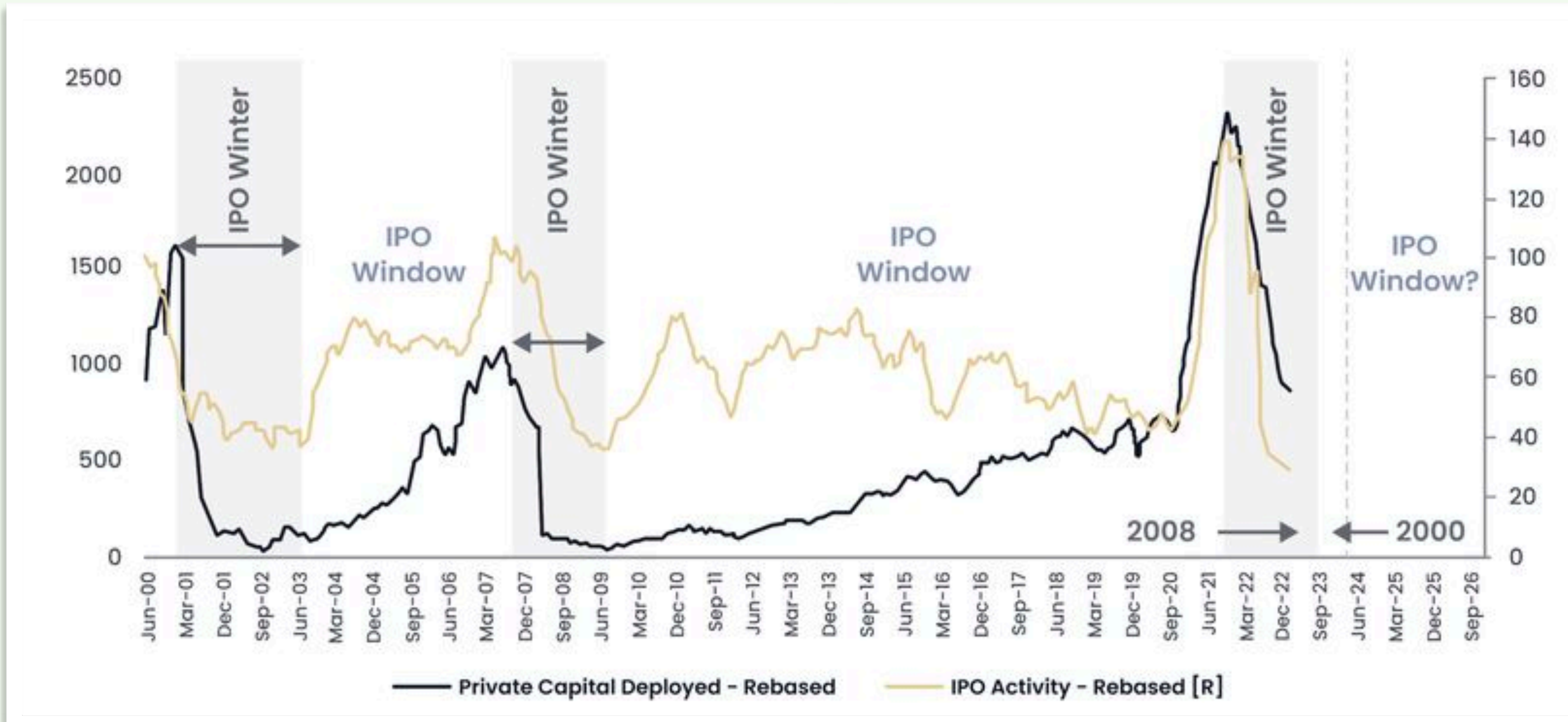


Source: Q3 2023 PitchBook-NVCA Venture Monitor
*As of Sept. 30, 2023

There are an estimated 75 startups in PitchBook's IPO backlog, highlighting the poor exit environment plaguing so many VC-backed startups.

Is IPO window about to open up?

After every IPO winter comes an IPO window.



Although VCs can sell their companies to strategic acquirers or private equity firms, the asset class's most substantive form of liquidity has come from IPOs.

Is IPO revival coming soon?

A combination of factors could push forward the case for IPO revival.

MONEY

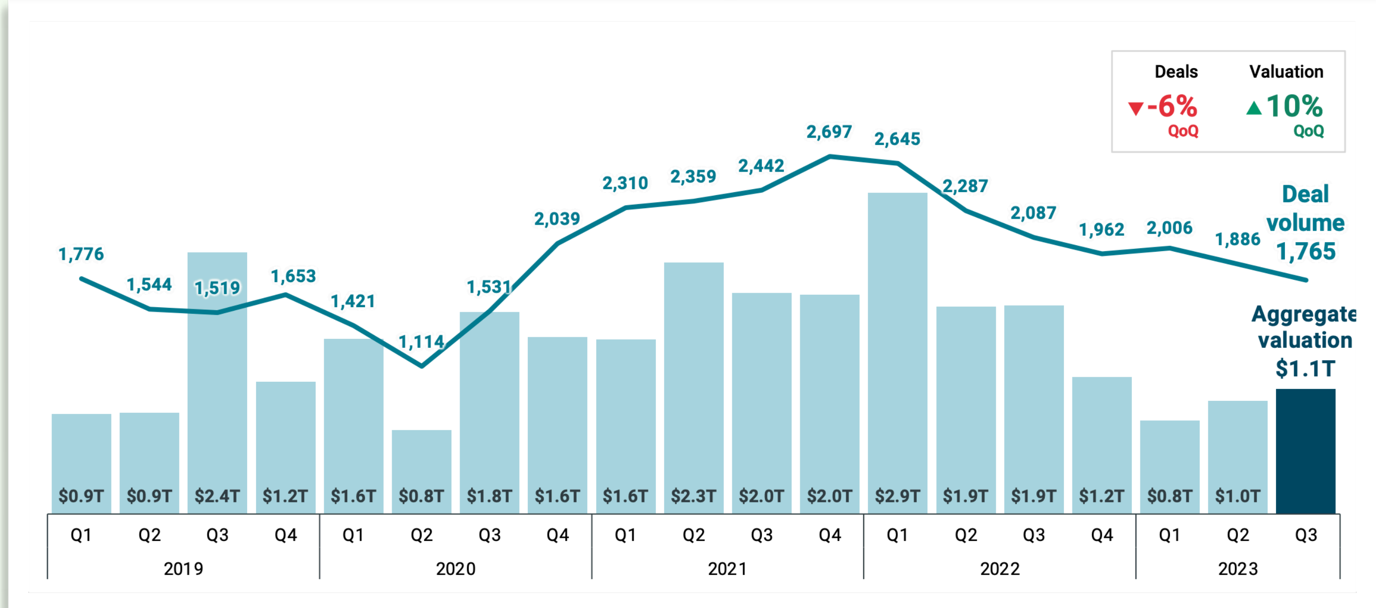
4 Signals The IPO Market Will Revive Rising prices of recently public tech stocks and lower interest rates are some of the key indicators.

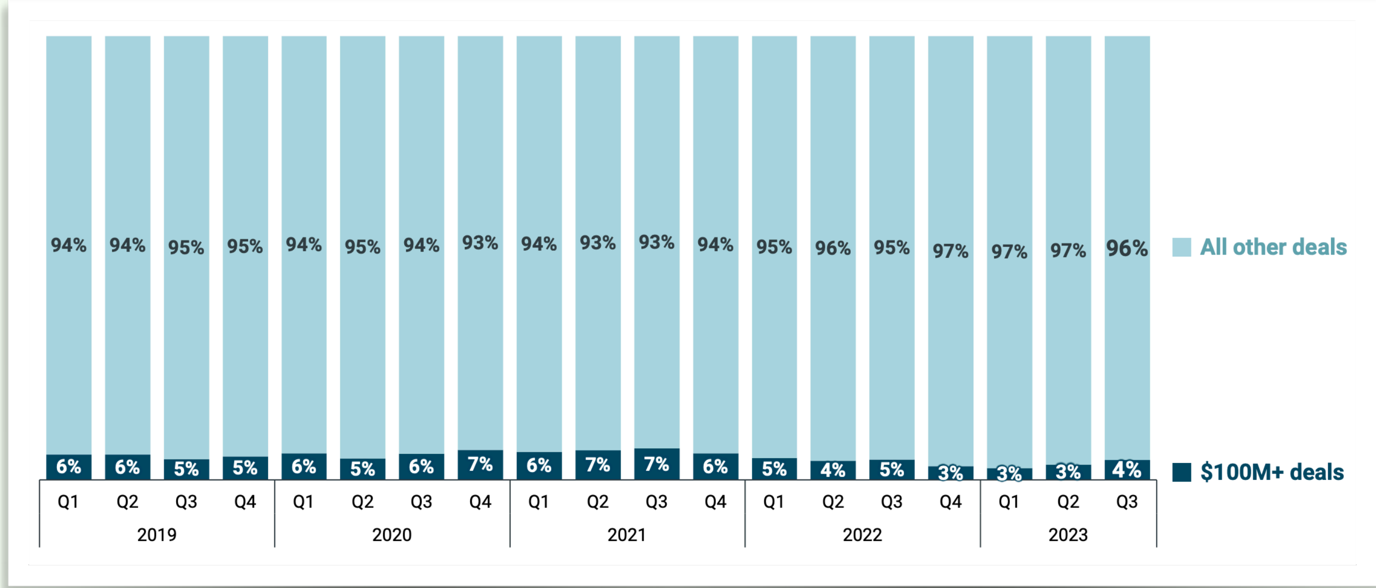
BY PETER COHAN, FOUNDER, PETER S. COHAN & ASSOCIATES @PETERCOHAN

- Gains in the stock prices of recent IPOs. Rising post-IPO stock prices could help revive the IPO market.
- Declining interest rates. If the Federal Reserve sees inflation dropping below its 2 percent target, interest rates could drop and stocks could rise.
- Steadily rising technology stock prices: A steady rise in the tech-heavy NASDAQ index could create demand for more technology company shares.
- IPOs of fast-growing Generative AI companies.

Global tech M&A

Deal volume continues to slide. Large deals ($100M+) remain a small portion of overall deals.

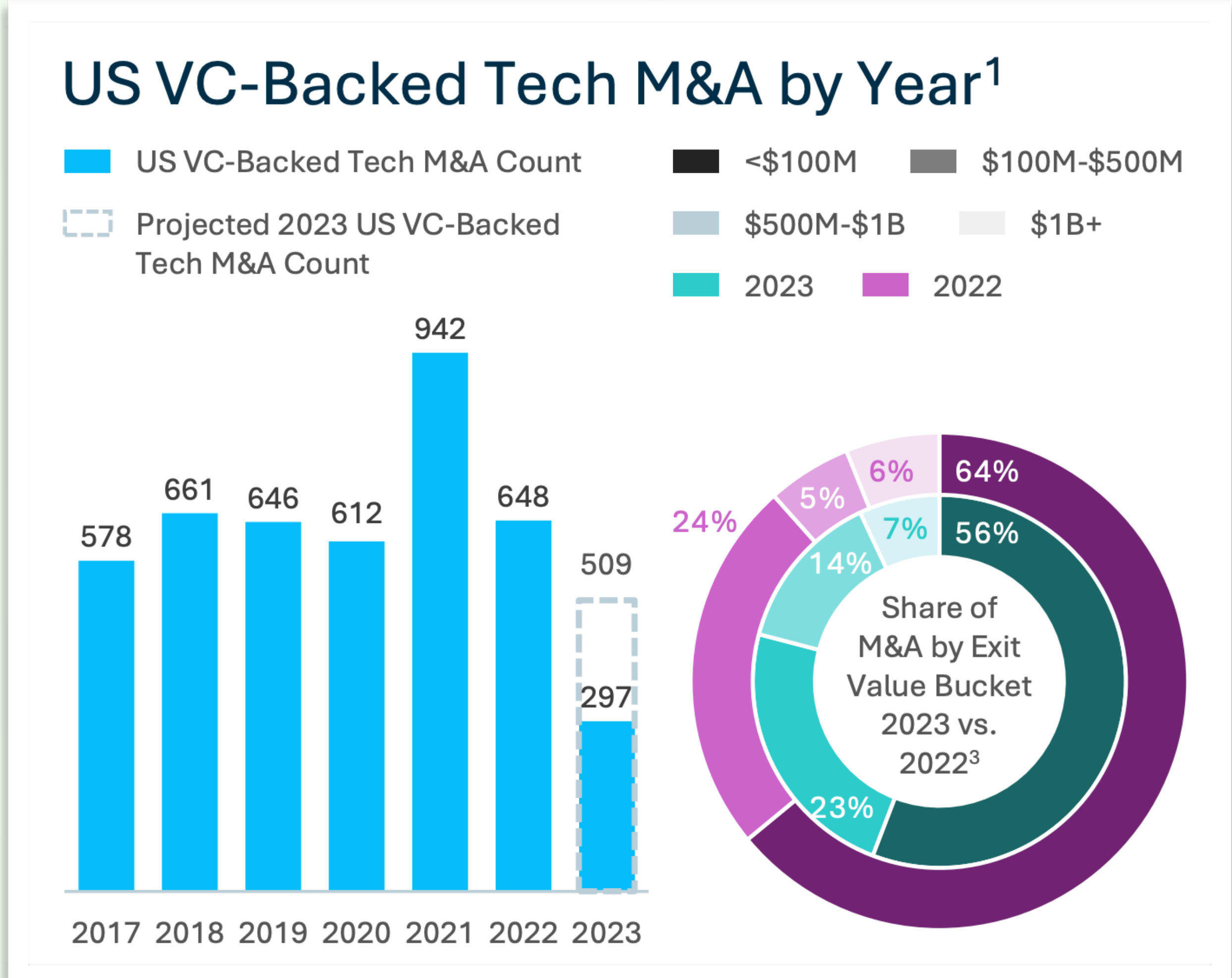




- US/Europe continue to see M&A deals trend down, while Asia picks up in recent quarters
- **Europe, US dominate share of large deals ($100M+)**
- The number of large strategic deals are starting to climb again
- **78% of M&A deals involved companies with 100 employees or less**

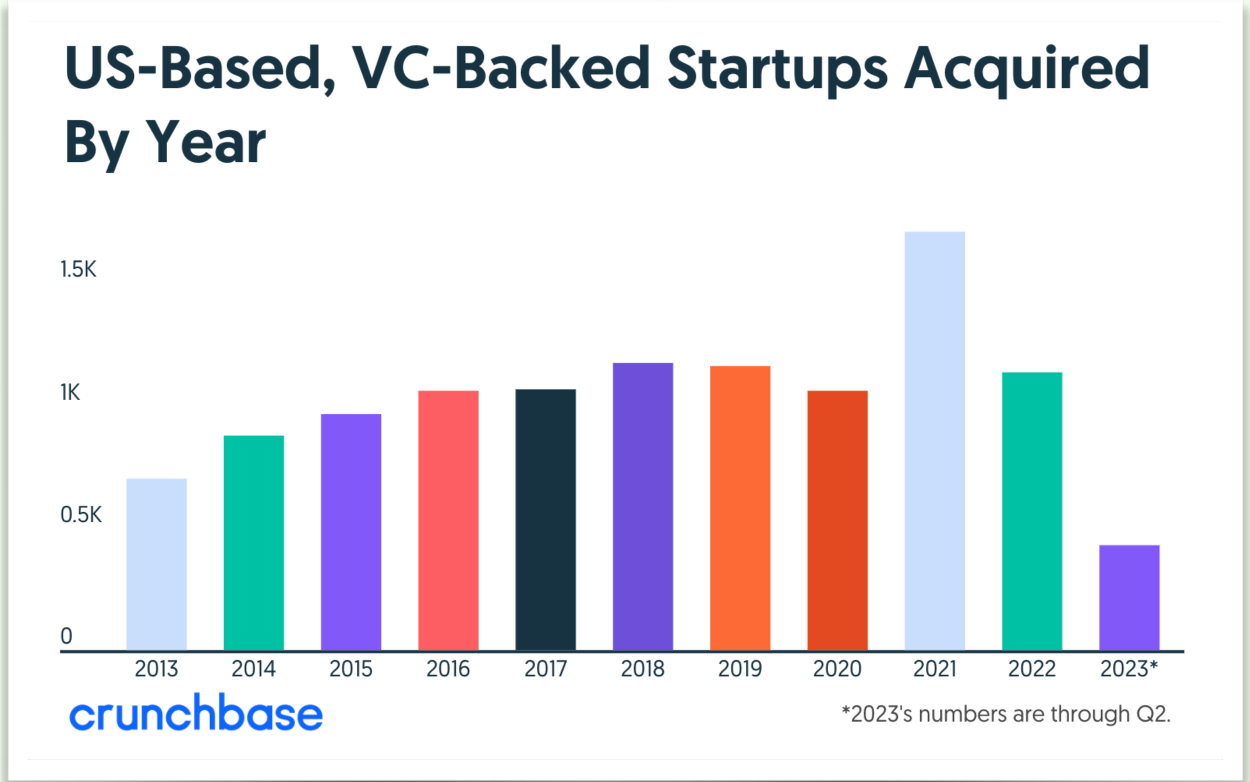
US tech M&A

Acquisitions are skewing smaller, as smaller deals tend to occur during periods of uncertainty.



- **Acquisitions are skewing smaller**.
- **Smaller deals tend to occur during periods of uncertainty** as larger companies push pause on larger, transformational deals until more clarity comes to light.
- Challenges will pressure potential sellers and add to the likelihood of more distressed activity.

It made sense that dealmaking would pause or reset as interest rates kept increasing and money became more expensive.



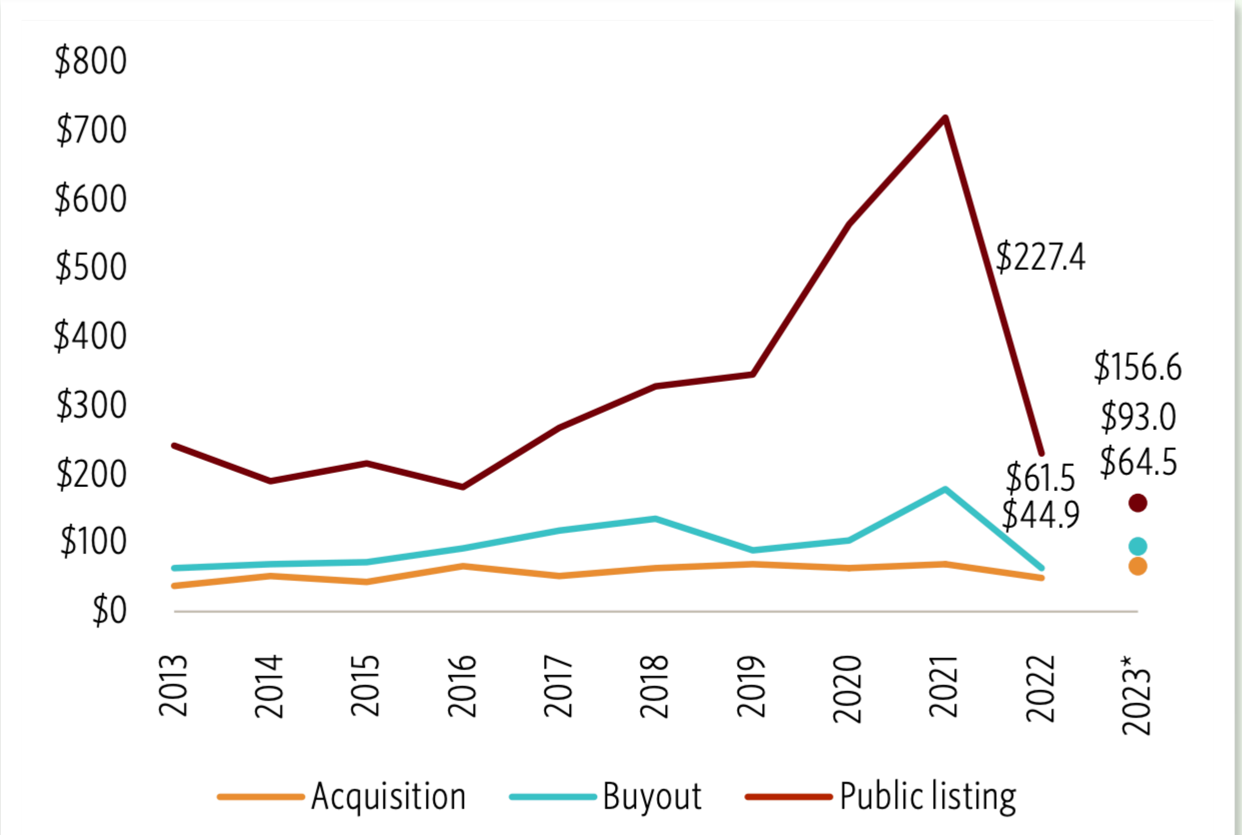
- Dealmaking also started to decline last year just as many tech stocks were getting hammered in the public market.
- **A drop in share prices is usually an ill-advised time for M&A,** since public companies do not want to do stock deals — essentially doing a deal at a discount.

Mismatch in exceptions?

Sellers thinking of powering through; though buyers holding out for lower prices.

- The runways of many early and mid-stage startups are expected to expire in the next six to nine months.
- **For now, startups don't feel an immediate pressure to sell, and buyers—whether larger startups, publicly traded companies or private equity investors—are holding out for lower prices.**

Median exit sizes for acquisition and public listing remain above 2022 figures

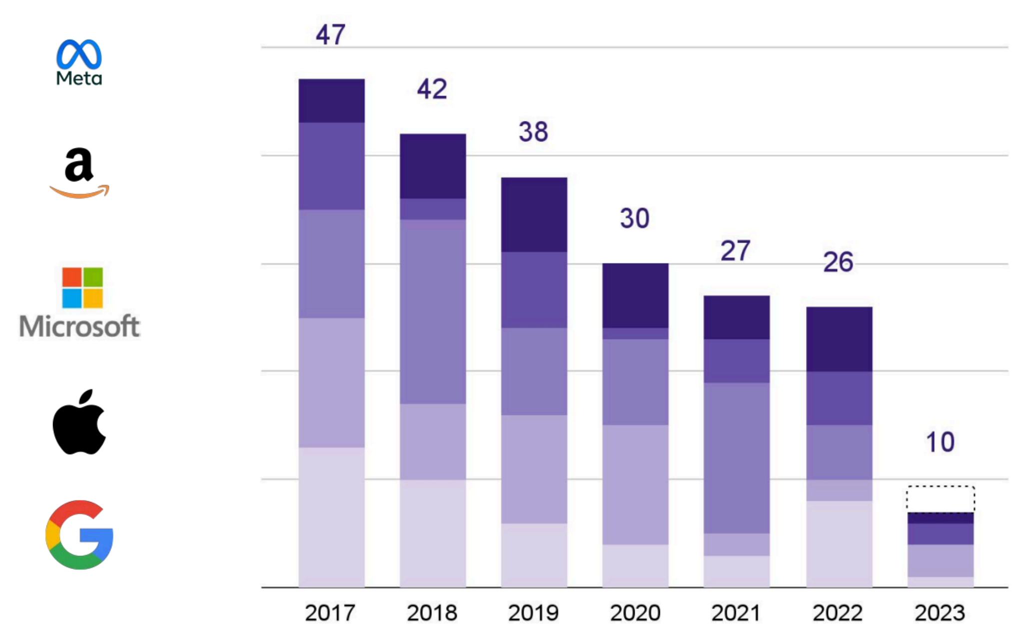


PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Acquisitions demystified

Big tech acquisitions declining as regulatory pressure increases

AGGREGATE COUNT OF BIG TECH ACQUISITIONS

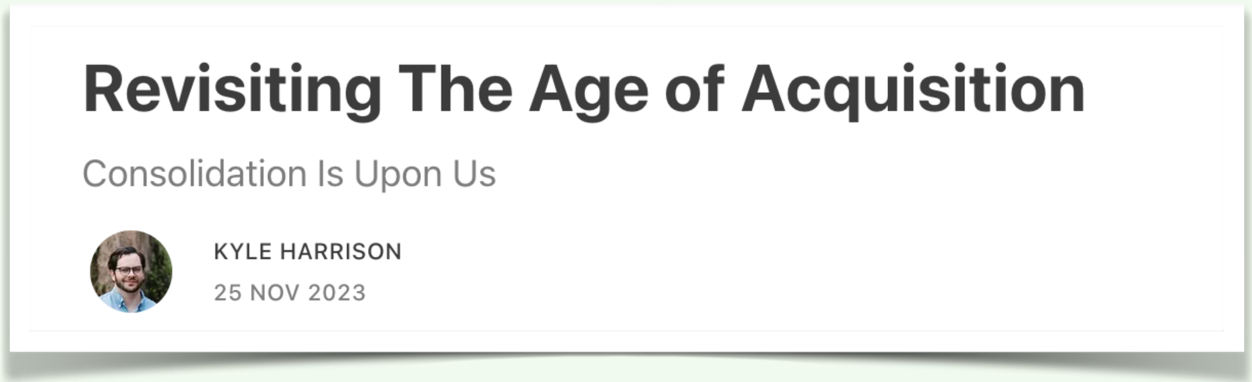


SaaS & Cloud focused acquisition activity remaining strong

LARGEST SPONSOR TAKE PRIVATE DEALS BY EV LTM

Target	EV	NTM Revenue Multiple	Premium [2]	Acquirer(s)
qualtrics	$11.7B	7.1x	62%	Silver Lake, CPP Investment Board, Accel
coupa	$8.0B	8.4x	77%	Thoma Bravo, ADIA
new relic	$6.1B	5.8x	17%	FP Francisco Partners, TPG
cvent	$4.6B	6.5x	29%	Blackstone
KnowBe4	$4.3B	11.4x	44%	Vista
software AG	$2.9B	2.6x	60%	Silver Lake
Duck Creek Technologies	$2.4B	7.0x	46%	Vista
ForgeRock	$2.0B	8.4x	53%	Thoma Bravo
Overall Average [3]	$3.4B	6.7x	51%	vs. 39% previous 12M

Consolidation is upon us!



- **For those who are closer to running out of cash, they've had to consider down rounds, wind downs, and layoffs. But for others, M&A has become the path forward.**

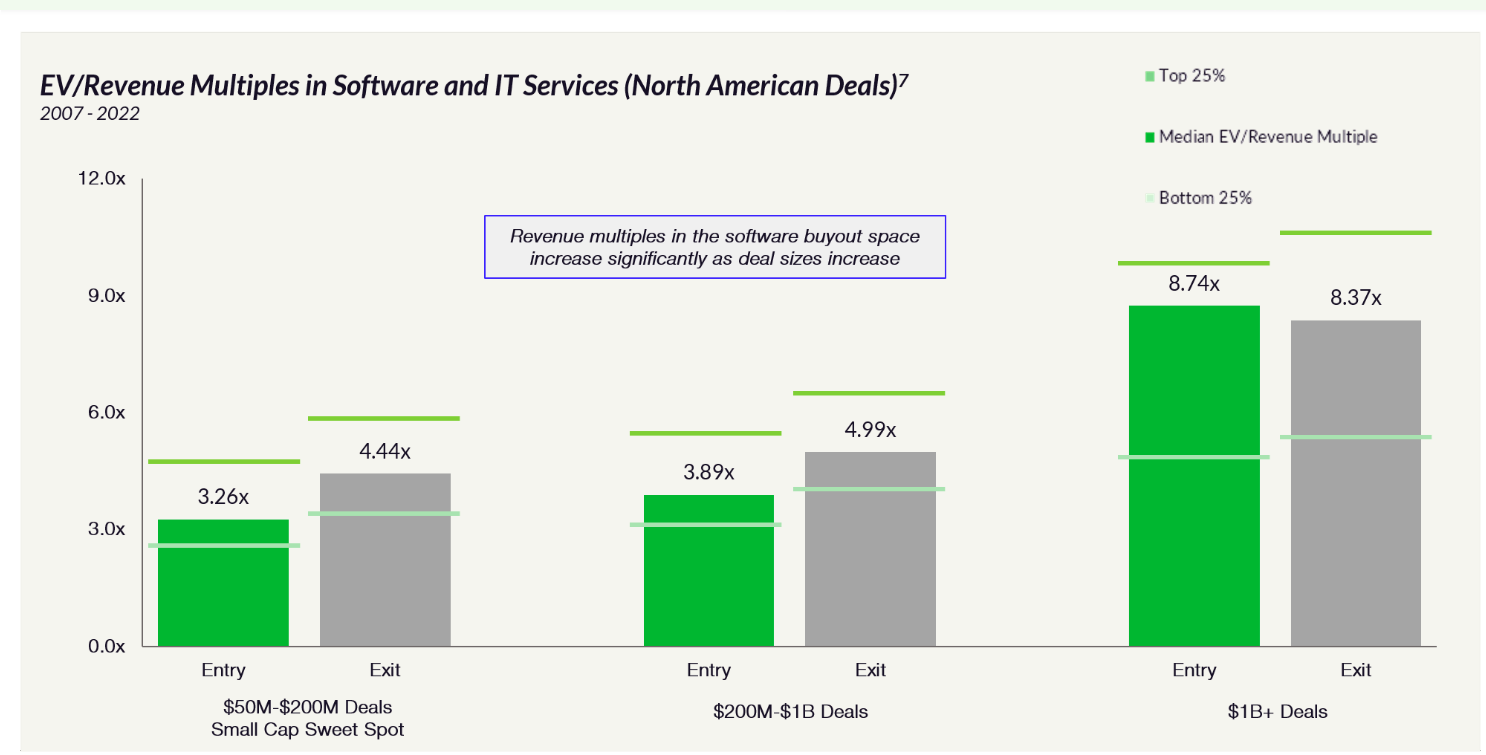
- **Four different types of M&A I expected to see in 2023: (1) Big + Big, (2) Big + Small, (3) Small + Small, and (4) PE acquisitions.**

- **Big + Small was *by far* the most active category**:
  - Databricks acquiring MosaicML for $1.3B
  - Atlassian acquiring Loom for $975M

Small + Small - there was plenty of activity there too this year:
  - ThoughtSpot acquiring Mode Analytics for $200M
  - ActiveFence acquiring Spectrum Labs for $137M

Small tech buyout is a growing niche

- **Over the last decade, an increase in investor appetite for small-cap software and technology companies.**
- **This shift presents an opportunity for emerging managers** to come in at the early stages of the company's lifecycle, and then scale them into prime buyout candidates for mid-market and mega funds.



When looking at the median software and services multiples over the past 15 years, there is a remarkable 5.4x turn delta between the small-cap deals ($50-$200M equity investments) and the mega-fund deals ($1B+ equity investments).

Blurring lines between PE & VC

VC firms are exploring buyout as a strategy

Vincent Toesca • 2nd
Fintech Investor & Operating Executive
1w • Edited •

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Are the lines blurring between VC and PE?

A few VC firms are exploring buyouts as a strategy.

🥇 Industry pioneers: Bessemer Venture Partners and Industry Ventures, traditionally focused on early-stage investments, are engaging in buyouts. BVP Forge raised $780M in 2022 to buy out software companies.

Buyout strategy is inherently opportunistic in nature and it makes sense to take advantage of current headwinds

Investors shake up VC market by raising money to buy out start-ups

Aim is to take advantage of economic headwinds to acquire promising businesses at a discount

"Brookfield and Sequoia offshoot launch fund to target cut-priced start-ups"

Deriving from established PE strategies of continuation funds, VCs are aiming to build a continuous supply of capital

Venture capital investment + Add to myFT

Tech funds adopt private equity strategies in race to return cash to investors

Silicon Valley venture capital firms rush to establish 'continuation funds'

(Semi) Distressed sales or Divestitures

2023 saw a string of divestitures or distressed sales. For startups unable to raise in 2024, it could be a similar sad ending.

Meal kits United States	Insurtech United States	E-bikes Netherlands	Telemedicine United Kingdom
Blue Apron	Better	VANMOOF	babylon
From $3B IPO to $100M acquisition by Wonder Distribution	Once valued $7.7B, now back to $100M after SPAC deal	Distressed sale to LAVOLIE (owned by McLaren)	From $4.2 billion valuation to $620K asset sale

Flow Partners dealroom.co

Premium TECH

Hopin, last valued at $7.8 billion, has sold its flagship virtual events business with founder set to step down as CEO

Callum Burroughs Aug 2, 2023, 5:04 PM CEST

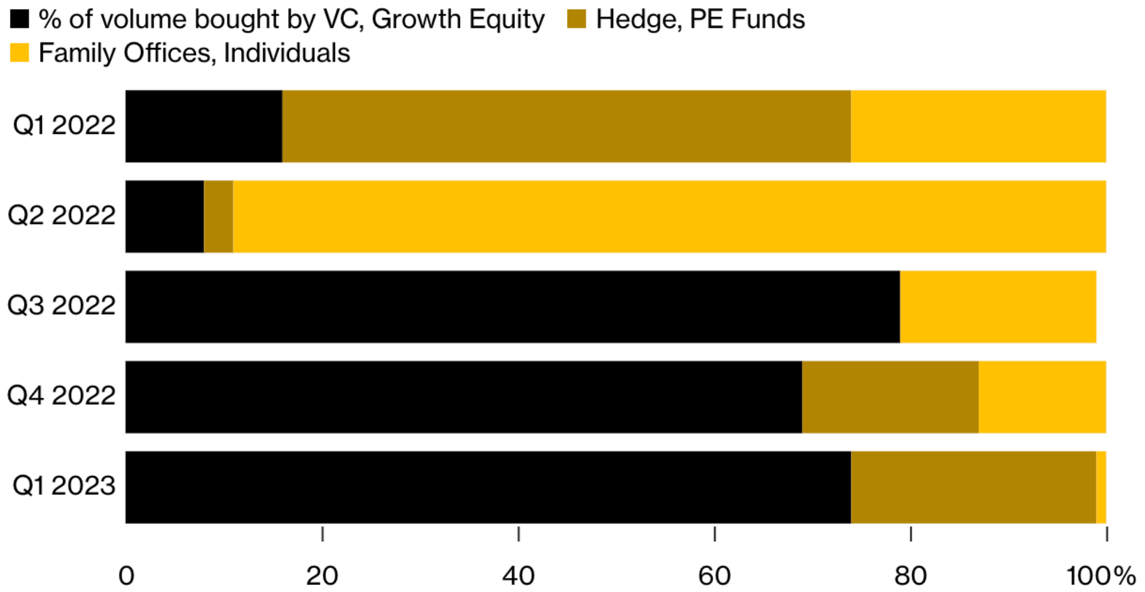
Petal Card is seeking a buyer as doubts loom about the fintech's survival, according to five private equity, venture and banking sources.

Petal has tapped Goldman Sachs to advise on the process, they said. It's unclear how much the startup is seeking. Petal was valued at $800 million in January 2022.

Who are secondary market buyers?

VC firms and hedge funds are now the biggest buyers in the secondary market

VCs, Hedge Funds Have Become Biggest Secondary Market Buyers



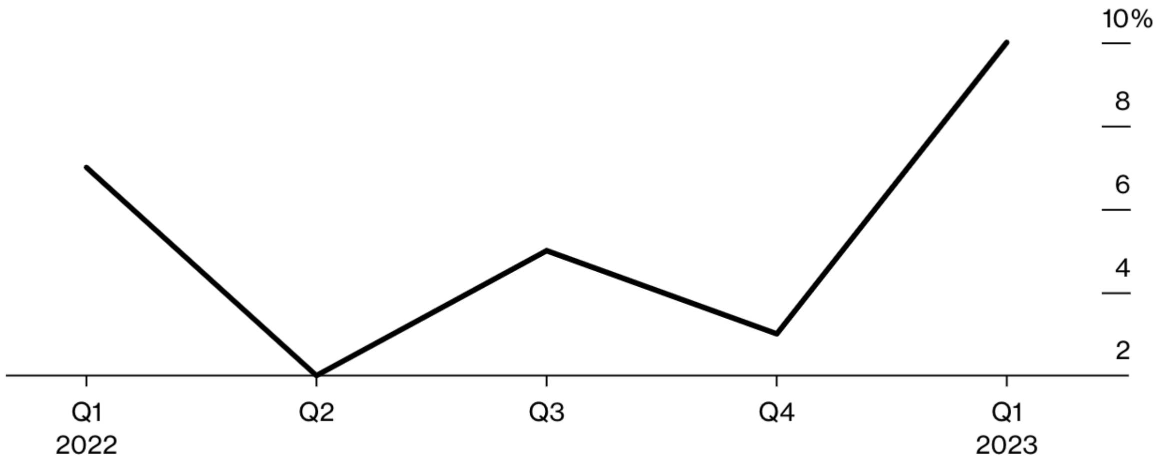
Source: Zanbato

VC firms and hedge funds are now the biggest buyers in the secondary market – both in terms of dollars spent and number of buyers

Many are adding to stakes in companies they already own

Existing Shareholders Are Adding to Their Stakes

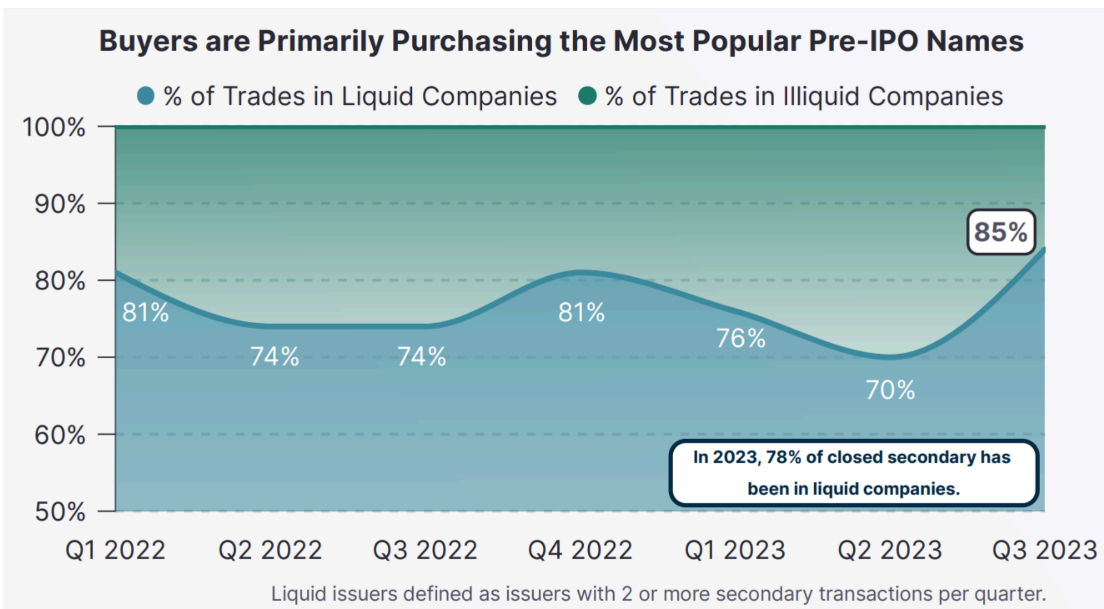
In the first quarter, current stockholders ramped up their use of 'first dibs' rights to buy shares on the secondary market

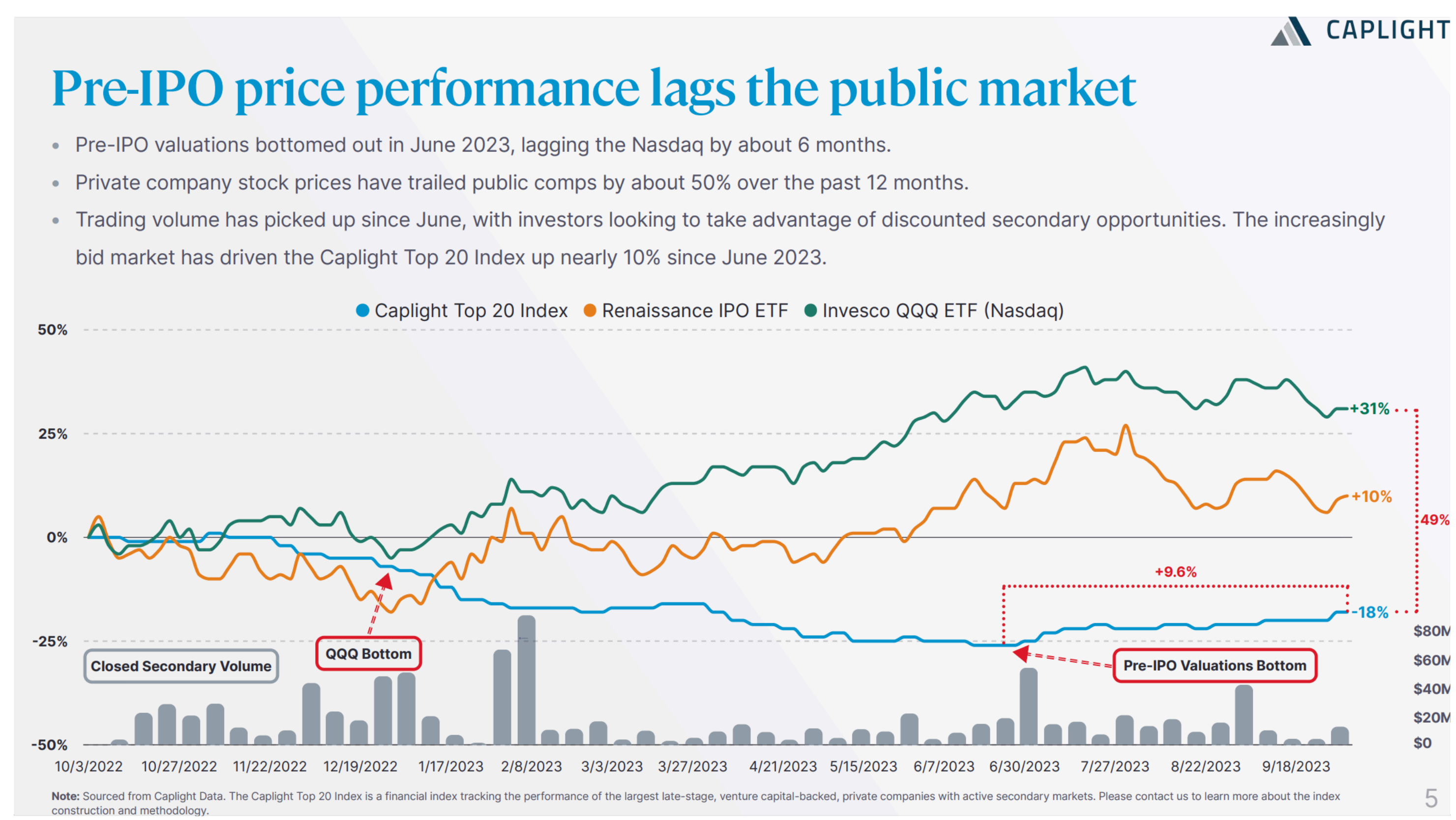


Source: Forge Global
Note: Data show percentage of transaction value that current shareholders used their right of first refusal on in order to increase their stakes.

What are buyers purchasing?

Buyers are purchasing the most popular pre-IPO names at discount





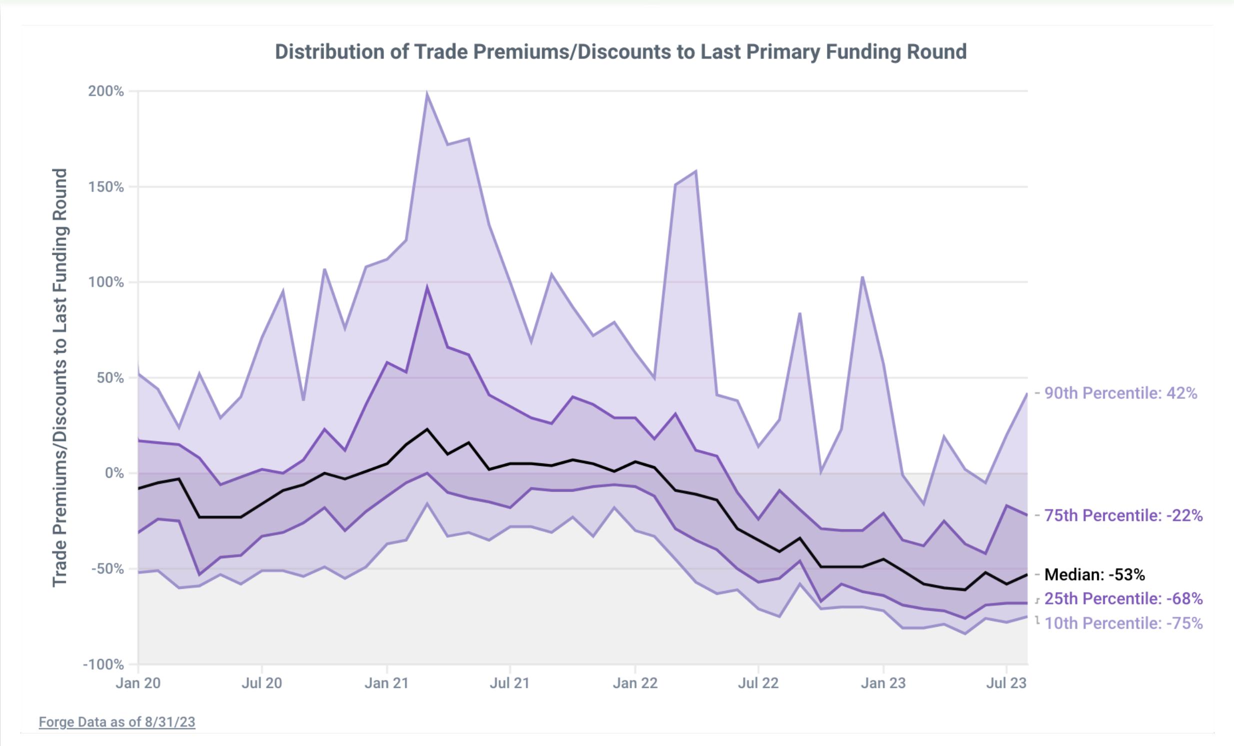
Who are the sellers?

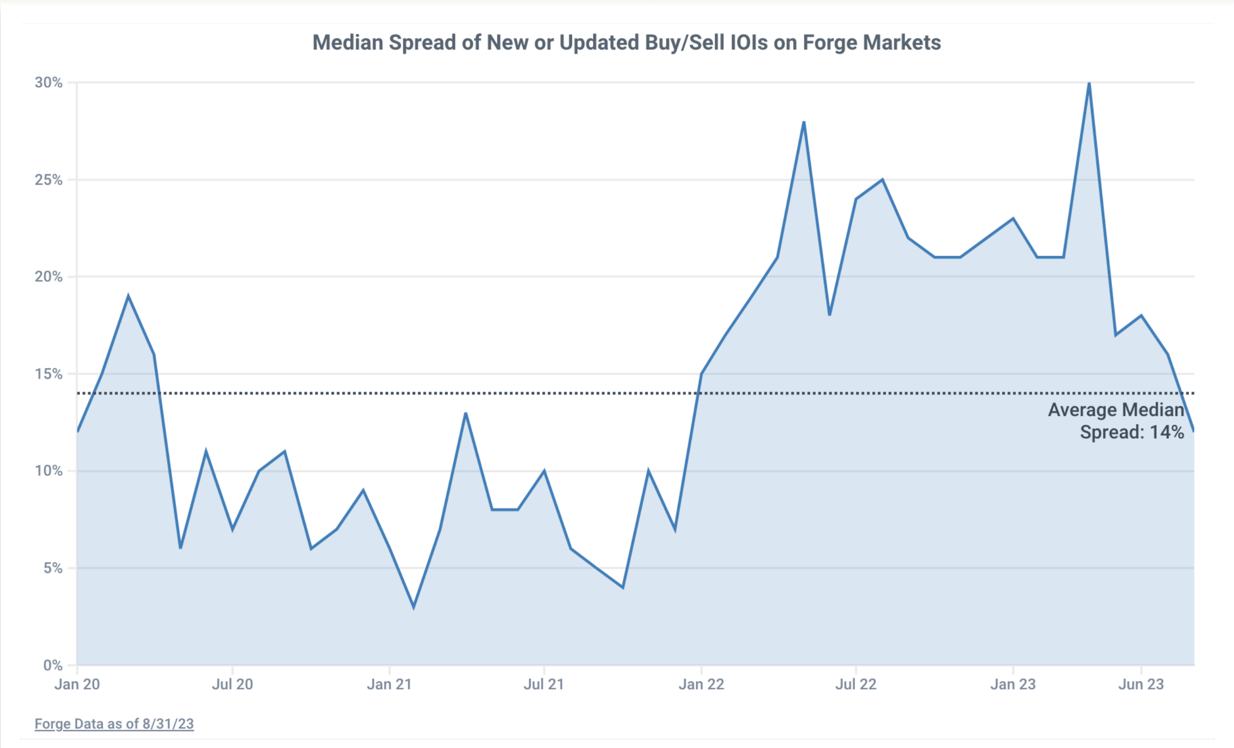
The pool of secondaries sellers got bigger in 2023

> The pool of sellers is getting bigger. Institutional investors such as Tiger Global and Dan Loeb's Third Point are both looking to sell stakes in companies on the secondary market.
>
> The Canada Pension Plan Investment Board is also weighing a sale of $3 billion of private assets. Caisse de Depot et Placement du Quebec, the country's second-biggest pension manager, sold $2 billion of private investments on the secondary market in 2022 and is open to another transaction of a similar size this year, one person said.

Secondary market performance

Discount got higher but limited deals got done due to pricing spread bw. buyers and sellers in Q1 and Q2





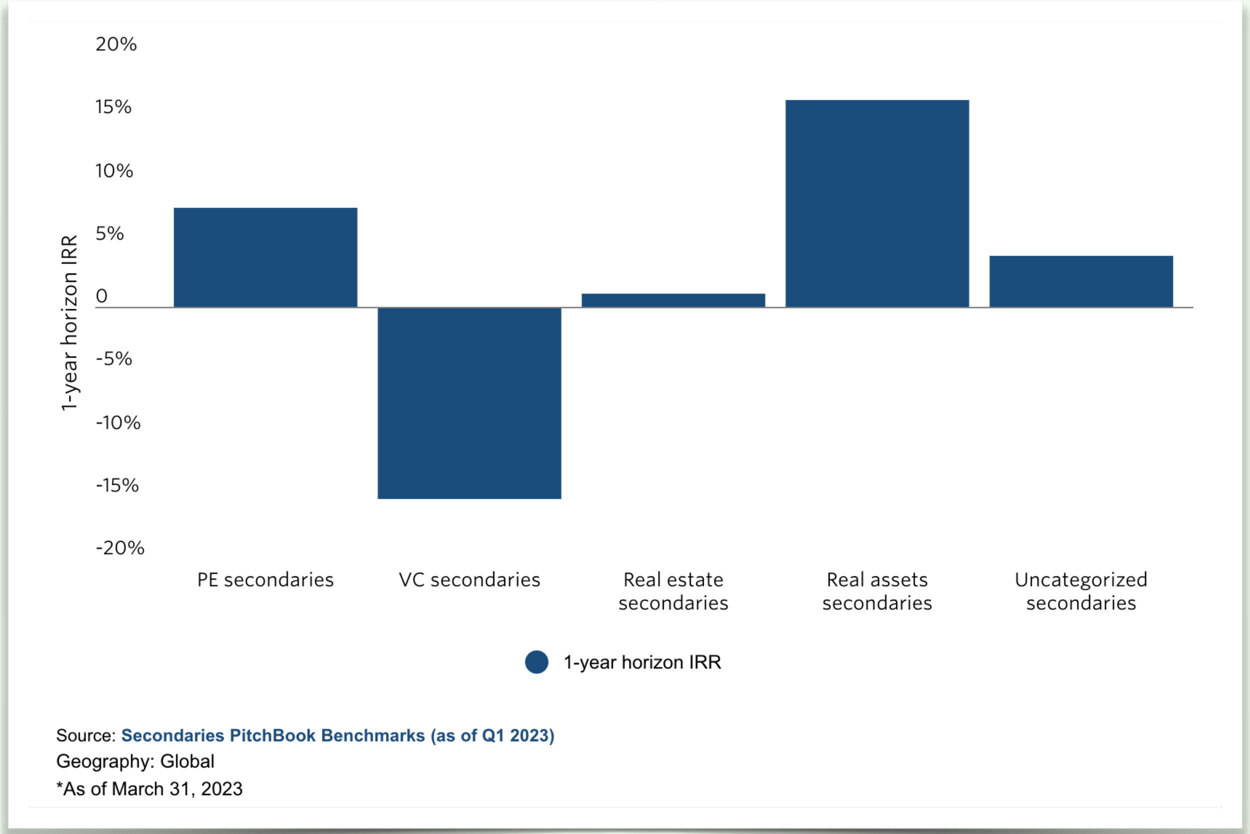
- **Median discount of +50% compared to valuations at their latest funding rounds making it one of the hottest opportunity in the secondary markets since the 2008 financial crisis**

- **Some big money managers are willing to buy stakes piecemeal**

- **The number of actual deals done this year is still fairly low relative to the opportunity.** That's because buyers aren't interested in struggling firms, and it's still not clear how much later-stage businesses are worth — especially as companies delay funding rounds to avoid lower valuations, he said.

Increasing alignment between the price that buyers want to pay and the price at which sellers are willing to part with their shares (bid/ask spread)

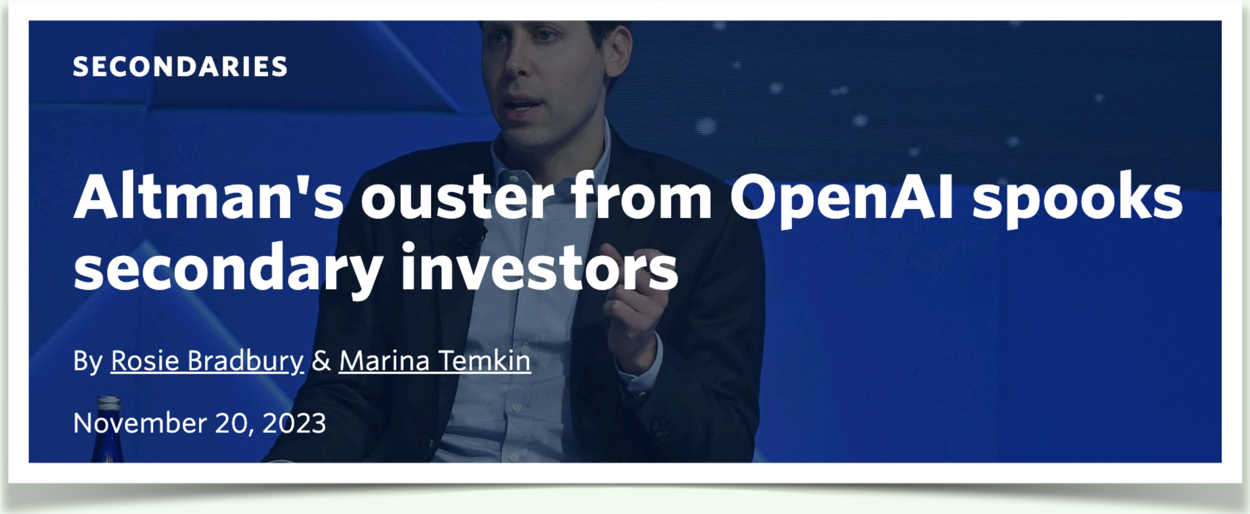
VC secondaries see weakest performance



PE secondaries have fared better than VC secondaries because, although PE assets more broadly did see write-downs, they were not as severe as the valuation drops in VC. **Caution though - the charts represents one-year horizon IRR.**

Data focus is Global.

Secondary market spooks



- **Buyer interest in OpenAI stock totaling around $100 million all but evaporated between Thursday and Monday.**
- Prospective secondary investors have pulled back until the situation has more fully played out.

SECTION

TALENT

IMAGE FROM DALL E

Here is an image that captures the startup talent landscape in 2023, illustrating the challenges of this era such as mega layoffs, slower hiring combined with higher attrition, the formation of new startups as a result of layoffs, and the trend of decreasing pay increases. The scene is set in a co-working space and showcases a diverse range of emotions and activities among the startup employees.

Index - Talent

Summary - Talent

Global tech talent impacted massively in 2023

- Layoffs were very high in 2023, with even big tech impacted. There were multiple reasons for tech layoffs - startups running out of cash, startup closures, higher cash burn, startups wanting to extend runways, and more.
- A tough environment forced founding teams to split up.

Slower hiring

- Tech industry's recovery has been sluggish due to a shift in focus from expansion to efficiency.
- Founders are now focused on product + sales and doing more with less, which impacted startup hiring numbers.
- In Europe, slower hiring was combined with higher talent attrition in the market.

Compensation impacted

- In Europe, pay increases were down by 50% compared to 2022.
- Salaries for employees have stayed flat in 2023 (in certain geos).
- Bootstrapped founders are paying themselves lower than VC-backed founders, constraining their situation.

Startup equity grants were down

- Average equity for new hires was down 25%+ in some cases.
- Current market is increasingly less talent-driven. Startups are not motivated to provide equity to new employees.

Founders shouldn't just set aside 20% for employees

- Option pool allocations have stretched out over longer periods of time. Option allocation utilization was also all over the place.
- Certain sectors reserved more than others for option allocation.

Where do unicorn founders come from?

- Multiple studies were done on the topic.
- One from Endeavour caught everyone's eye. A few highlights: Unicorn founders are global citizens, most top unicorn founders did not study or work at an elite institution, and most top unicorn founders have previous entrepreneurial experience.

High startup formation

- Layoffs are leading to a massive wave of startup formation.
- Engineering folks and tech managers - are heading back to the drawing boards and building new startups.
- In some places, the startup formation metrics are crossing the highest points.

Venture capital talent

- A tough environment is impacting career growth of VC partners.
- Toxic working environment + unhealthy cultures led to burnout.
- Younger VC investors are contemplating startup operator roles.

Layoffs were sky high in 2023

2023 layoffs were higher than 2022

The Crunchbase Tech Layoffs Tracker

More than 183,648 workers at U.S.-based tech companies have been laid off in mass job cuts so far in 2023, according to our latest tally. Follow along here with our comprehensive tech layoffs tracker, updated weekly, of U.S. tech employers cutting jobs — whether that's at companies as large as Google and Microsoft, or smaller startups.

Last updated: Nov. 17, 2023

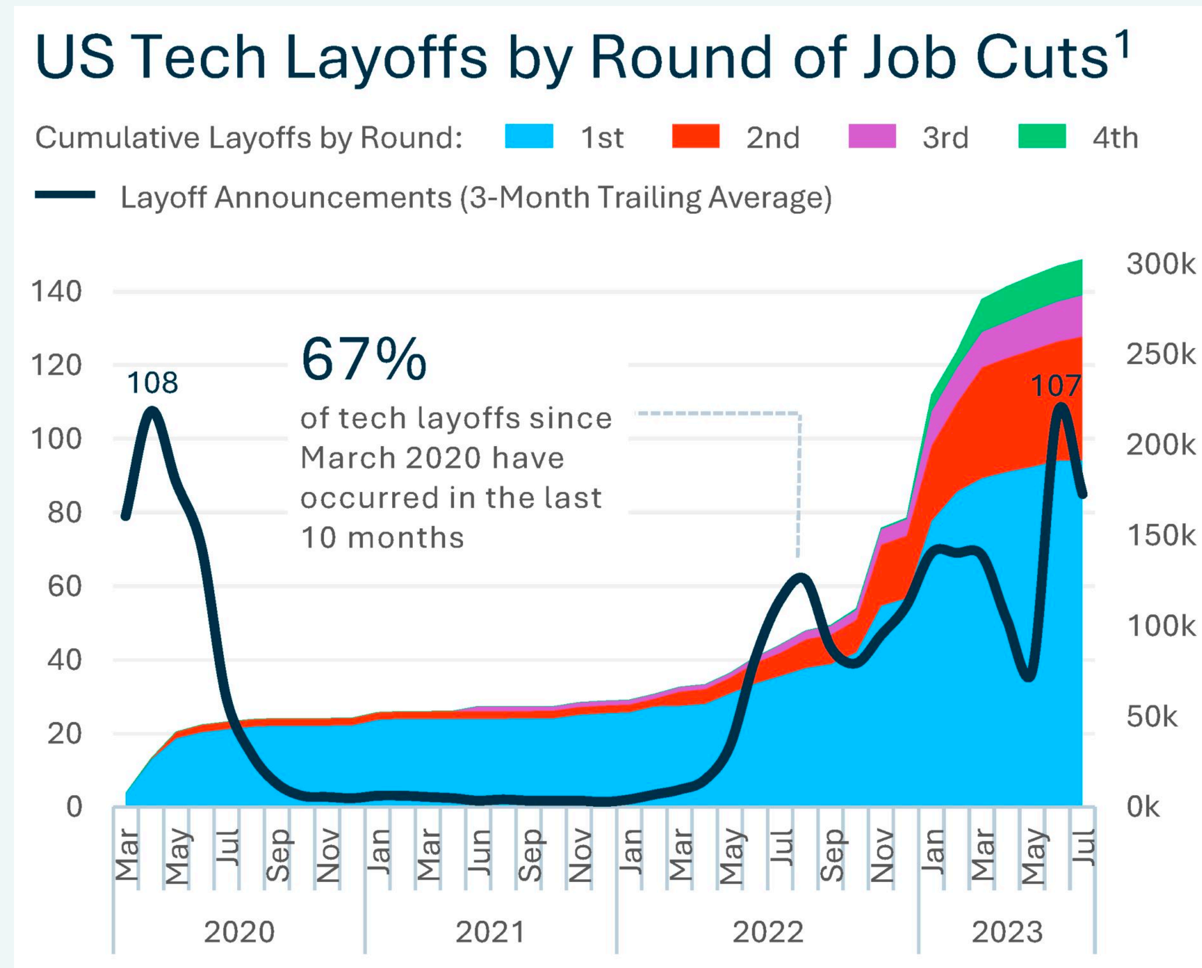
By the numbers

Week ended Nov. 17, 2023: At least **631** U.S. tech sector employees were laid off, per a Crunchbase News tally.

In 2023: More than **183,648** workers in U.S.-based tech companies (or tech companies with a large U.S. workforce) have been laid off in mass job cuts, according to a Crunchbase News tally.

In 2022: More than **93,000** jobs were slashed from public and private tech companies in the U.S.

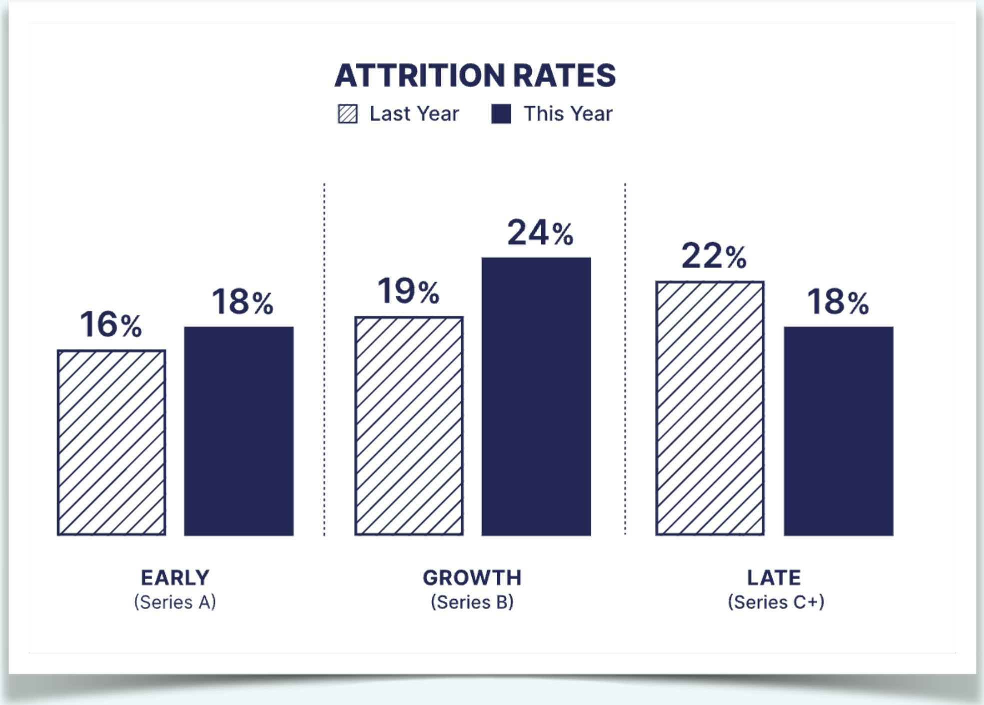
Many companies announced multiple rounds of layoffs



Are more tech layoffs coming?

- **There are signs that the volume of layoffs is tapering**
- Job cuts in the tech sector to continue for the foreseeable future as large tech companies and startups continue to battle economic headwinds.
- **Seed and early-stage startups in particular may continue to conduct layoffs in an attempt to extend their cash runways in a difficult venture funding environment.**

In Europe - Slower hiring was combined with higher attrition



Start ups have cut hiring by 30-50% this year

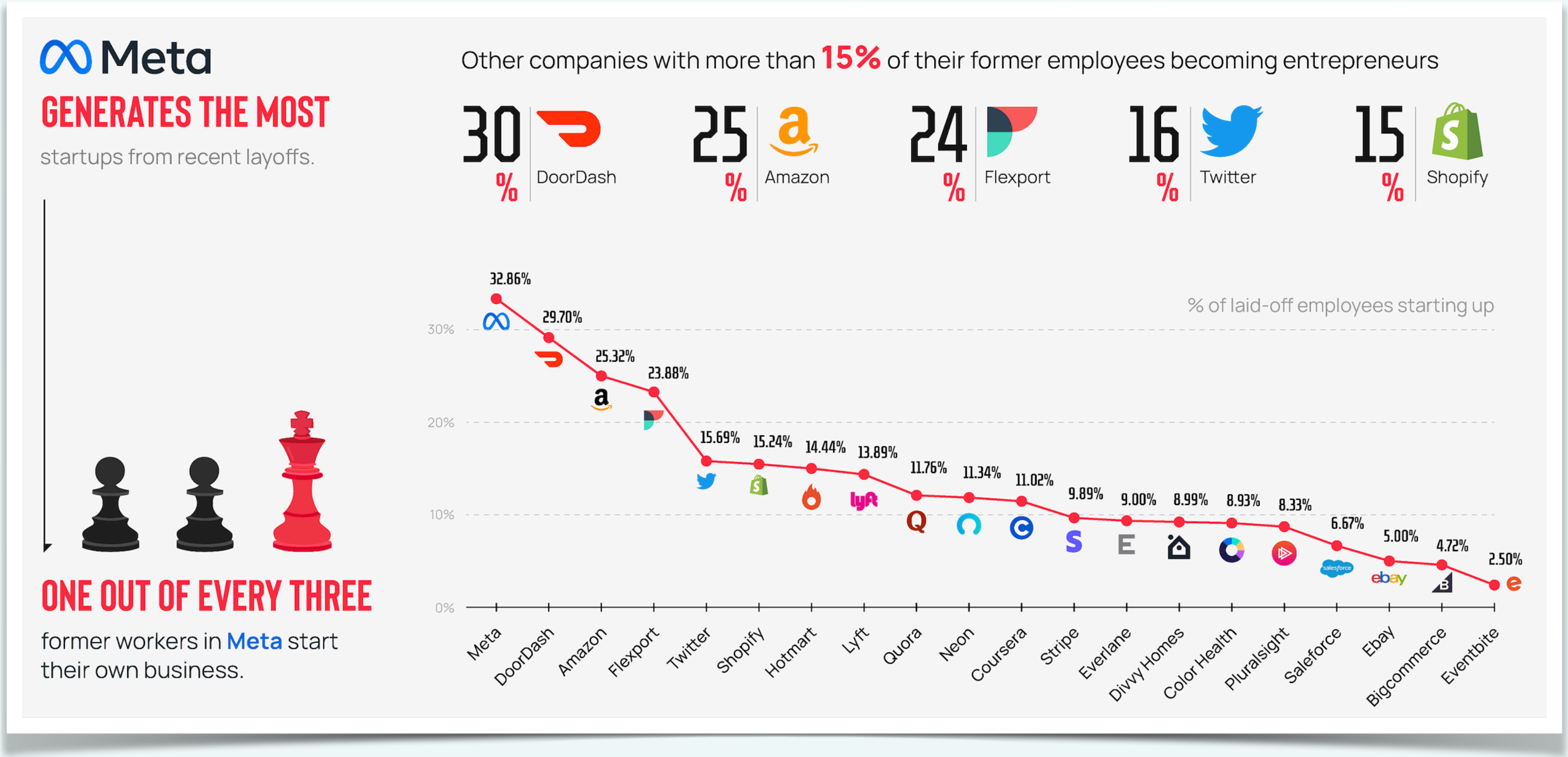
Last year Europe's start ups were in the midst of a talent war, with hiring a top priority for many CEOs. But this year it's a different world.

Rising inflation has led to a worldwide reduction in VC funding and an almost-closed IPO window, impacting growth and hiring plans for start ups.

Attrition rates have increased for early and growth stage startups.

Amidst this difficult time for growth and hiring, it's more important than ever for start ups to retain top talent. More work may need to be done here, because whilst attrition has remained fairly stable in the past year, there has been a slight increase in attrition at early and growth stage start ups.

Layoffs leading to more startup formation

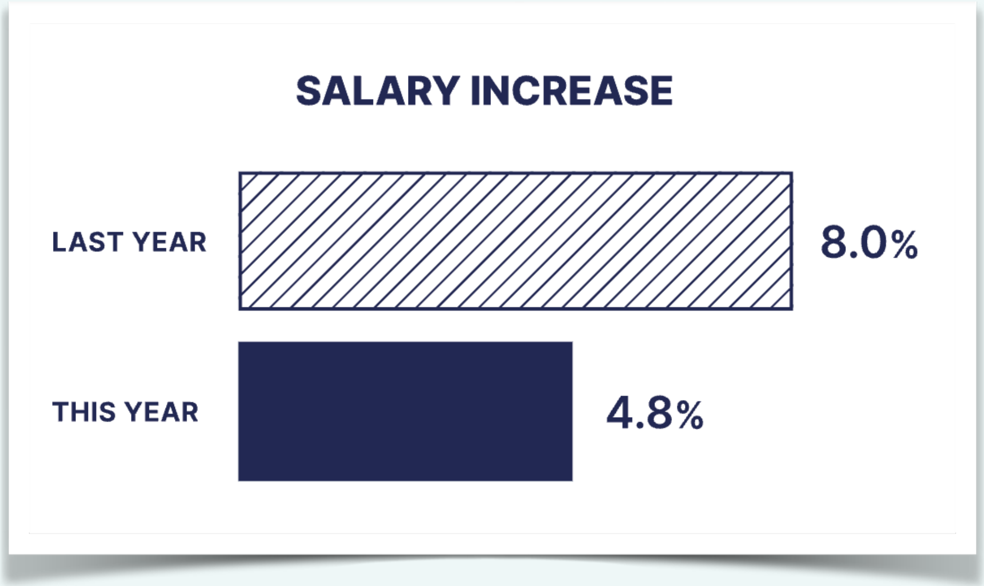


- **For every 100 people who lost their jobs, 13 started their own companies.**
- Meta generates the most startups from recent layoffs. One out of every three former workers in Meta start their own business.
- **After being laid off, software engineers are most likely to start their own companies.**
- Nine out of one hundred startups are established by former software engineers.
- **44.4% of examined companies were founded by former managers and directors.**

Compensation

Company size, funding-type, and geography - all play a role in founder compensation

In Europe - pay increases are down by almost 50% compared to last year



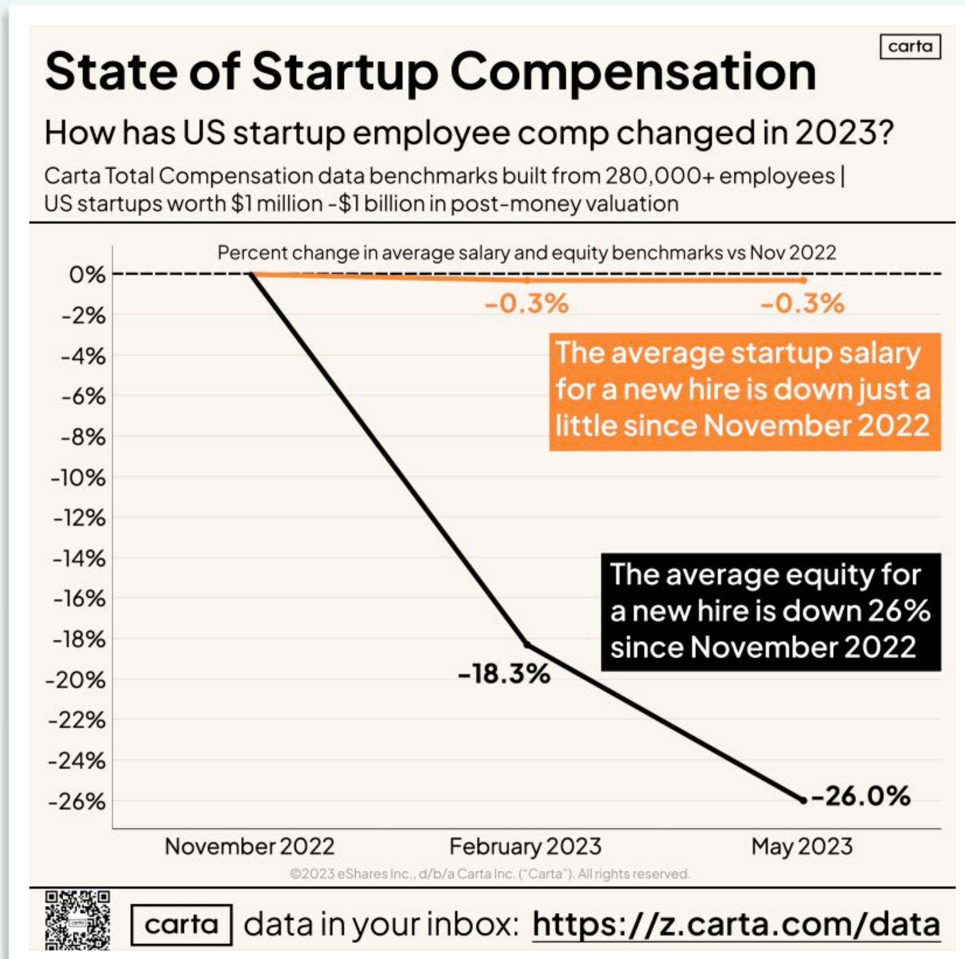
Bootstrapped vs. VC-Backed Salaries Breakdown
Founders who are VC-backed are more likely to have higher salaries compared to their bootstrapped counterparts.

Of the founders who paid themselves between $100K and $200K annually, 93% of them were VC-backed while only 4% were bootstrapped.

While salary increase is still above average across other industries and company types, it does threaten the attractiveness of employment in a start up – a risk given the high importance of employee retention currently.

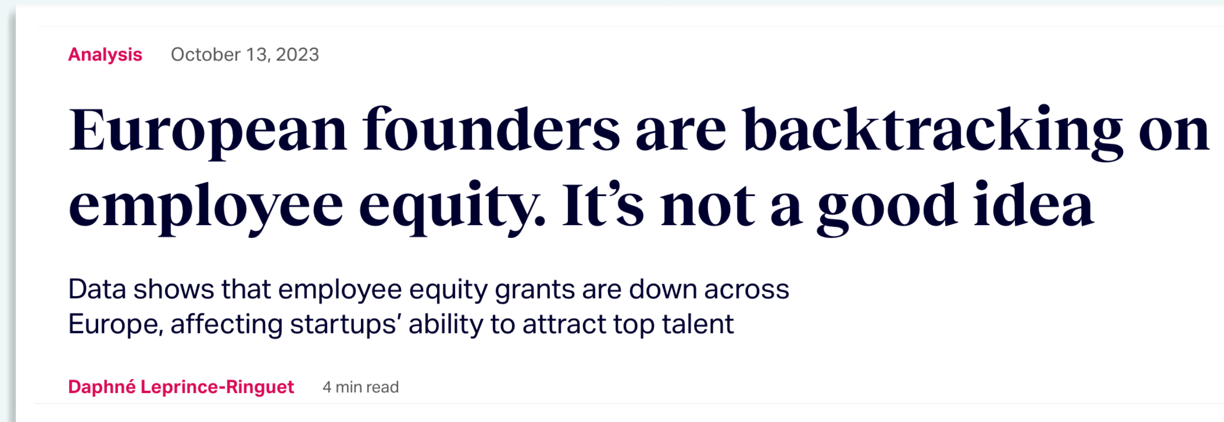
Startup equity grants is down

Average equity for new hire is down more than 25%



- **Salaries for startup employees have stayed basically flat this year.**
- **Equity packages are down** 26% from November 2022.
- **Startup salaries across the US have drifted closer to SF rates**. Places like Charleston, Las Vegas, Raleigh, and Jacksonville all closed the salary gap with bigger cities (not entirely, but the movement was strong).

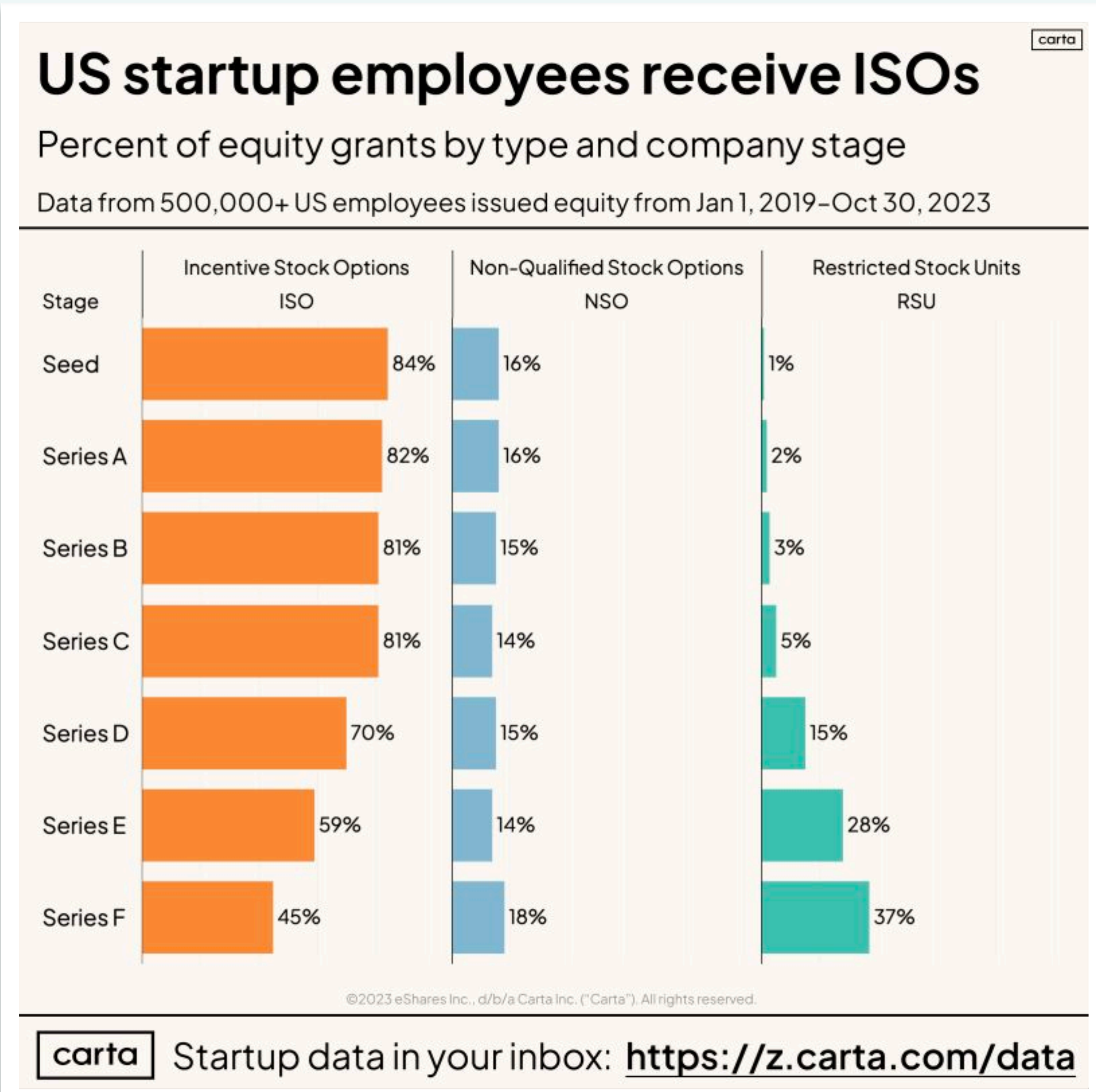
In Europe, companies are hiring less and giving less equity; exacerbating the European laggardness on the topic.



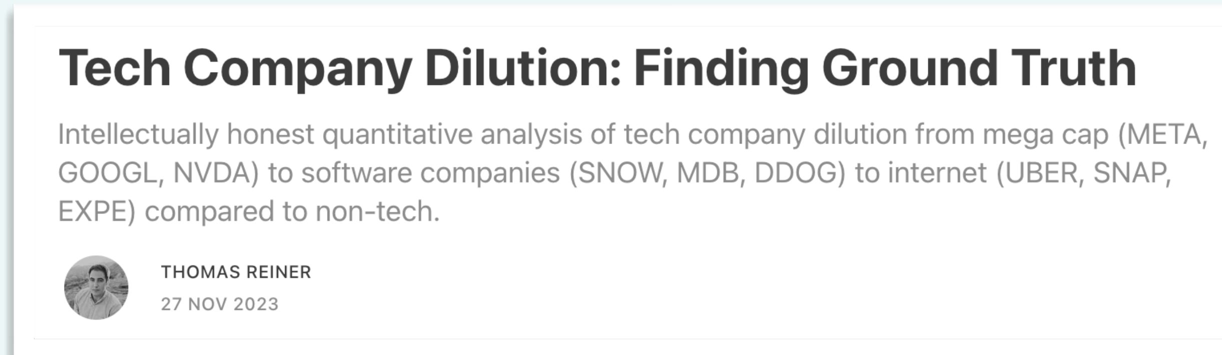
- **Companies are hiring less and investors are cautious of dilution**
- **Market that is less candidate-driven** than for the past two years, there is less incentive for employers to offer equity for new hires.
- **Europe has historically lagged behind when it comes to employee ownership**, with the typical share of equity given to workers stagnating around 10% of stock options — half as much as in the US.

Employee grants data

Seed stage offers highest ISO's; but RSU's are highest at later stages



Stock based comp in <u>public</u> tech companies is abysmal.

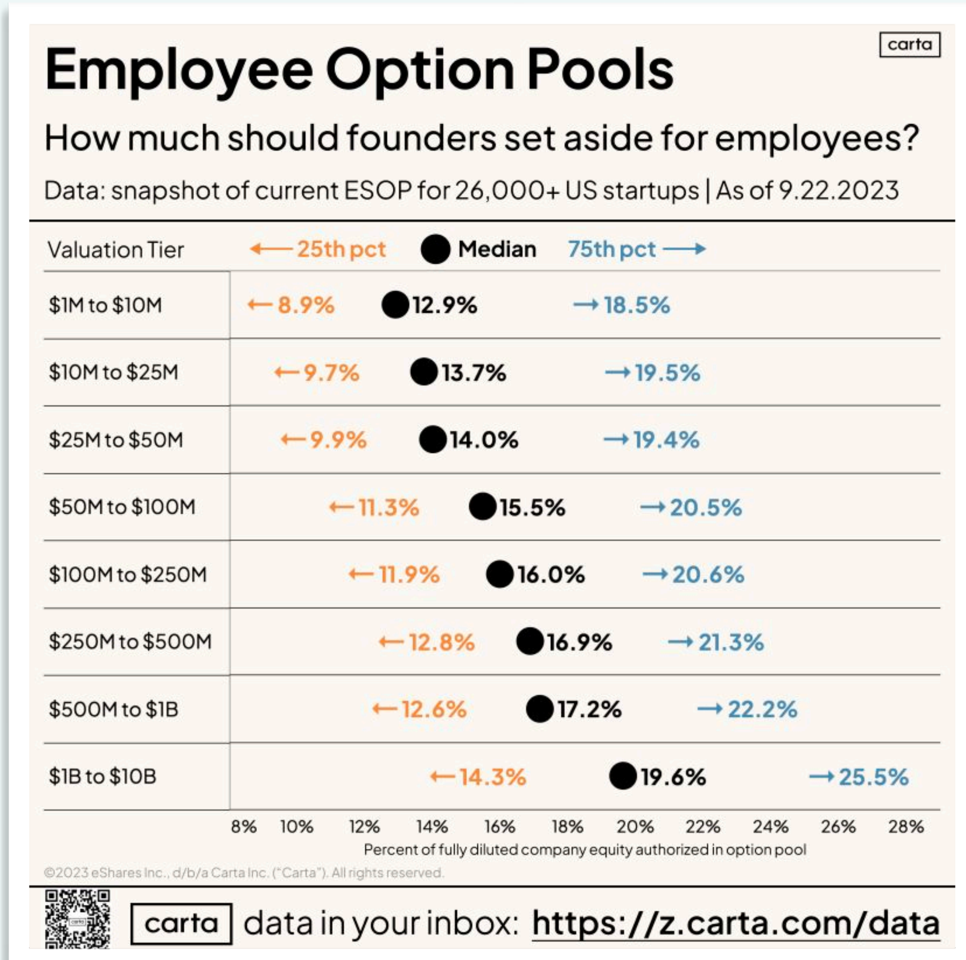


- Best in class non-tech companies dilute at only 30bps a year and that's across a wide spectrum of industries
- **Tech Gold Standard (<1%):** MSFT, AAPL, NFLX, TSLA, NVDA, PYPL, <u>BKNG</u>
- **Dog House (>5%):** LYFT, CFLT, W, SNAP

Stock based compensation as a % of revenue or FCF is important, but the really simple way to think about dilution is what is the growth in market cap required for the stock price to stay constant over a 5 year period at differing levels of dilution

Employee option pool data

Founders should ignore the advice of "just set aside 20% for employees"



• **Today, these option pools are being stretched out over longer periods of time.** Founder that were expecting to top off the pool in the next fundraise are having to ration their equity, leading to smaller equity packages for employees

• **Certain industries reserve more than others**, with B2B SaaS and Fintech typically having slightly larger pools and Consumer / DTC Retail smaller ones.

• **Utilization is all over the place**. Some companies come up to their next round having spent nearly the entire reserve of options, others have more than 50% remaining.

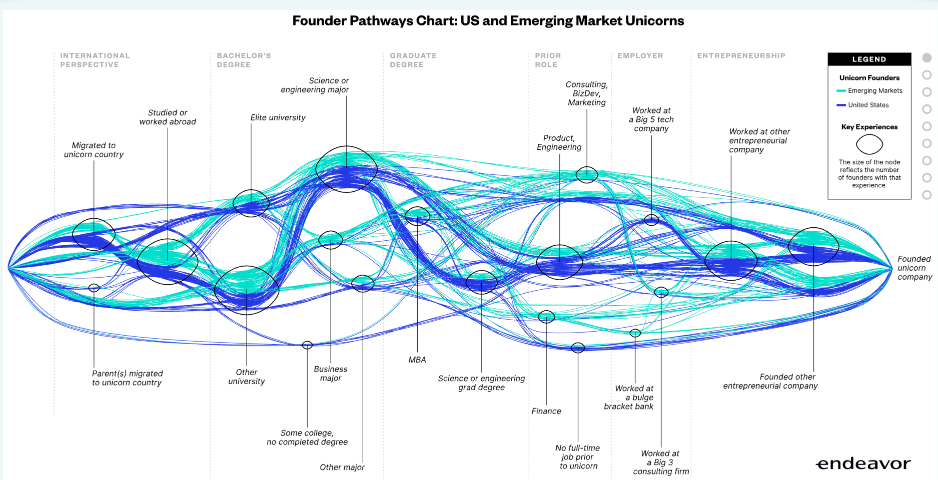
Where do unicorn founders come from? / 1

Endeavor study on unicorn founders went viral on the internet

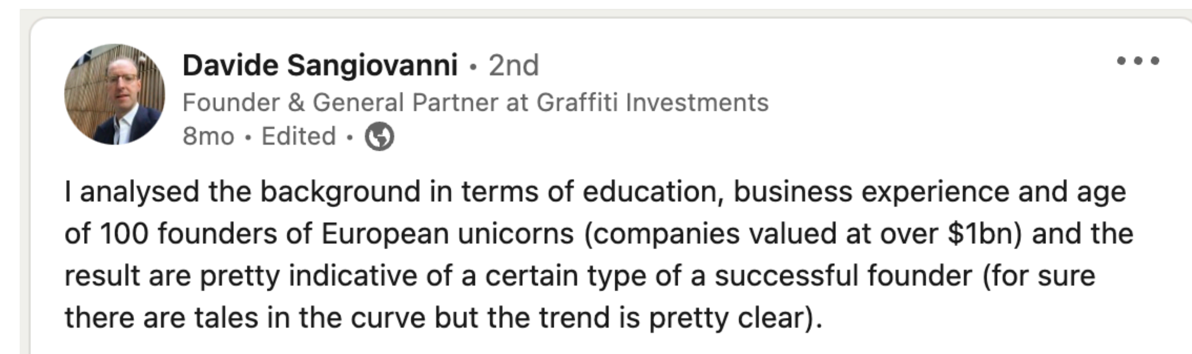
Where Do Unicorns Come From?

September 21, 2023

Studying the Career Journeys of the Top $1+ Billion Founders



- Unicorn founders are global citizens
- Most top unicorn founders did not study or work at an elite institution
- The vast majority of top unicorn founders have previous entrepreneurial experience.



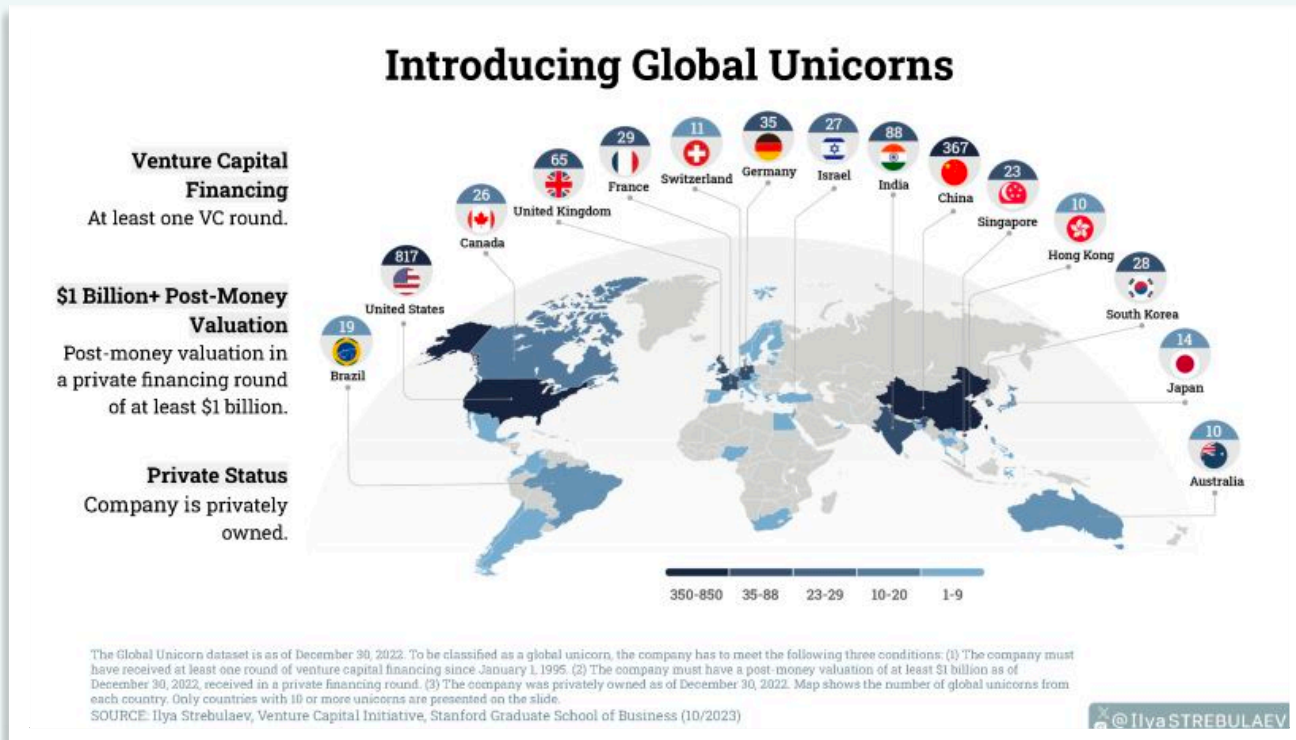
Davide Sangiovanni • 2nd
Founder & General Partner at Graffiti Investments
8mo • Edited •

I analysed the background in terms of education, business experience and age of 100 founders of European unicorns (companies valued at over $1bn) and the result are pretty indicative of a certain type of a successful founder (for sure there are tales in the curve but the trend is pretty clear).

- 85% of unicorn founders have a university degree and 23% a Master/PHD degree (the story of a university drop-out successful founders not really stand out when I analysed the data);
- The average age at which a founder starts a future unicorn is 33 years old;
- 10% of the unicorn founders have worked and Goldman Sachs and 7% at McKinsey;
- Oxford University is the school that create the highest number of unicorn founders (7%), followed by LSE (6%) and Cambridge University (5%).

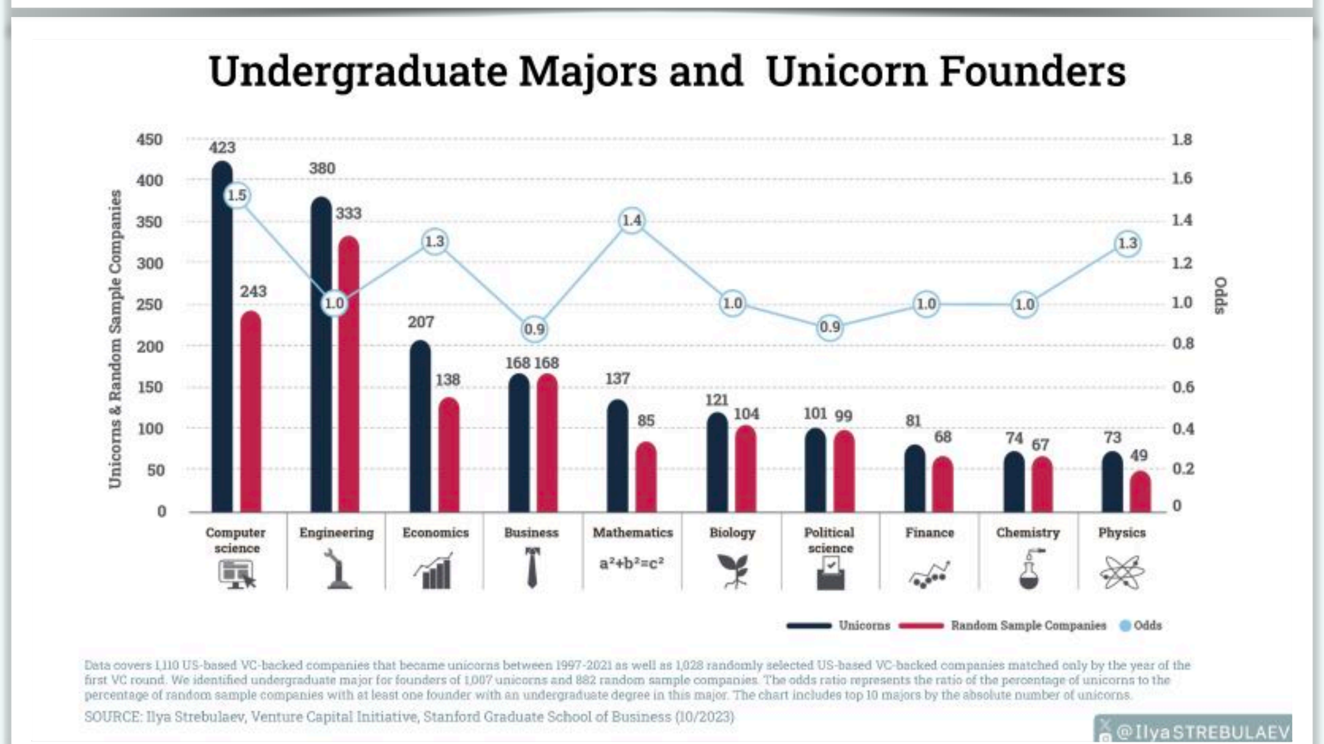
Data focus is U.S.

Where do unicorn founders come from? / 2



Identified and carefully examined 1,698 **unicorn candidates** from 61 countries.

The **top countries by number of unicorn candidates are the United States (817), China (367), and India (88).**



Computer science was the most popular undergraduate major among unicorn founders, as 42% of unicorns had at least one founder with an undergraduate degree in this major.

Antler - European tech founders report

Record numbers of new founders entering the market, and they look very different to the unicorn founders who came before.

The numbers:

Within 12 months after a tech company makes layoffs, the number of employees who want to become tech founders increases by **391%**

9 out of the top **10** tech companies generating aspiring founders in Europe made layoffs in the last three years

In 2022, applications from founders working at tech companies that have made layoffs increased by **111%**

There was a **75%** increase in founder applications in 2022 compared to 2021

Since 2021, the number of aspiring founders from Big Tech **(+21%)** and large startups **(+27%)** have grown significantly

Engineer is the job title that has grown the most since 2021 amongst aspiring founders

There are record numbers of new founders entering the European tech ecosystem, accelerated by tech layoffs.

75%

increase in aspiring founders in 2022

400%

increase in aspiring founders from tech companies after major layoffs

Europe's new tech founders are more diverse than ever.

5.25x

increase in the number of new women founders, compared to women unicorn founders

3x

increase in the number of nationalities in new founders compared to unicorn founders

Venture capital talent

Are mega VC firms too big for the newer partner's ambition?

Rick Zullo
@Rick_Zullo

Two things are clear about todays VC firm dynamics amidst a pullback in LP commitments:

1) Mega firms got too big to support the growth of their emerging partners. Too many people to let the super stars shine and they're getting frustrated with the bureaucracy of huge partnerships and seeing the impact for their performance diluted across fund sizes too big for them to move the needle. A LOT of my peers at these funds are very frustrated.

Tough environment impacting career growth of VC partners

Jenny Fielding
@jefielding

Friend who is a Principal at a multi-billion dollar venture fund (series A-growth) just gave notice. Had not been able to do a deal since Q1 2022. Venture is an apprentice business and if you can't invest, hard to continue to learn and build a track record. Felt like he had no choice but to leave. And a cohort of top talent are in the same boat now ⛵

So, do they start funds or startups, operate or go into banking / consulting?

10:52 PM · Jul 13, 2023 · **326.4K** Views

Younger VC investors hoping to jump onto operator roles in startups

Gokul Rajaram · Following
Company Helper
1mo ·

I've gotten pings from several young VC investors (associates / principals / junior partners). They are disenchanted with venture and want to join startups in operating roles.

Toxic culture in venture capital workplace

Analysis April 19, 2023

Toxic bosses and unhealthy cultures: Why Europe's VCs are tired and burnt out

Investors are stressed, which doesn't bode well for founders who are leaning on them for support

Miriam Partington 9 min read

Analysis August 21, 2023

Fear and loathing in venture capital — why no one blows the whistle on toxic culture

Should the institutions that invest in VCs improve their due diligence process to help more people speak out?

Tim Smith and Amy Lewin 5 min read

SECTION

LIMITED PARTNERS

IMAGE FROM DALL E

Here is an image that depicts the behavior of limited partners towards venture capital in 2023, illustrating the key themes such as their focus on performance to stick with top-quartile managers, concerns over high VC valuations, and the debate over the risks of venture capital in 2023. The scene is set in a modern financial office, capturing the cautious and strategic approach of LPs in this environment.

Index - Limited partners

Summary - Corporate Venture Capital (CVCs)

More than just returns

- Unlike traditional VCs, CVCs seek more than just financial returns on their investments.
- For a startup, fitting in their strategic vision, CVCs can provide a long-term strategy and fitting partnership.

Scooping the gaps

- CVCs in 2023 decreased their deal sizes. This is due to the valuation inflation in the last couple of years, in which CVCs were very active. As they retrench from late to moving early, deal size will decrease. In addition, there is much more interest in investing in emerging VC funds (more exposure + learning).
- However, they still are taking a more prominent role as other investors pull back.
- There is a regional difference in the activity of the CVCs. In Europe, CVCs are leaving their mark.

High and dry

- Some CVCs invested millions into late stage startups at higher/peak valuations during the last decade. They are now cutting internal valuations or trying to sell their stakes in secondary markets.
- CVCs are also becoming increasingly selective, raising their bar for new investments.

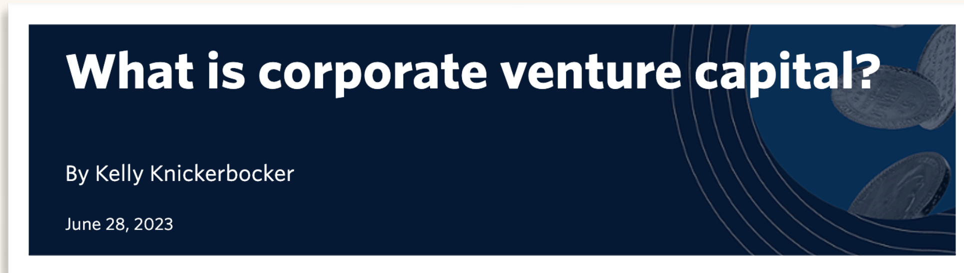
More CVCs and increasing firepower

- More CVCs are being built. Ones that are already active are increasing their funding firepower.
- The focus of many such newer CVCs is undoubtedly AI.

Running CVCs isn’t easy, either

- A large percentage of CVCs got disbanded or stopped being active. Caution, though, as some have spun out or become independent entities to allow for better economics and the ability to add third-party capital/LPs.
- VC talent working at CVC units are much more likely to change jobs than those working at institutional VC firms.
- Kick-off delay as some corporates planning to start CVCs have halted their efforts. Now, their bigger emphasis is on data and software for managing VC programs.

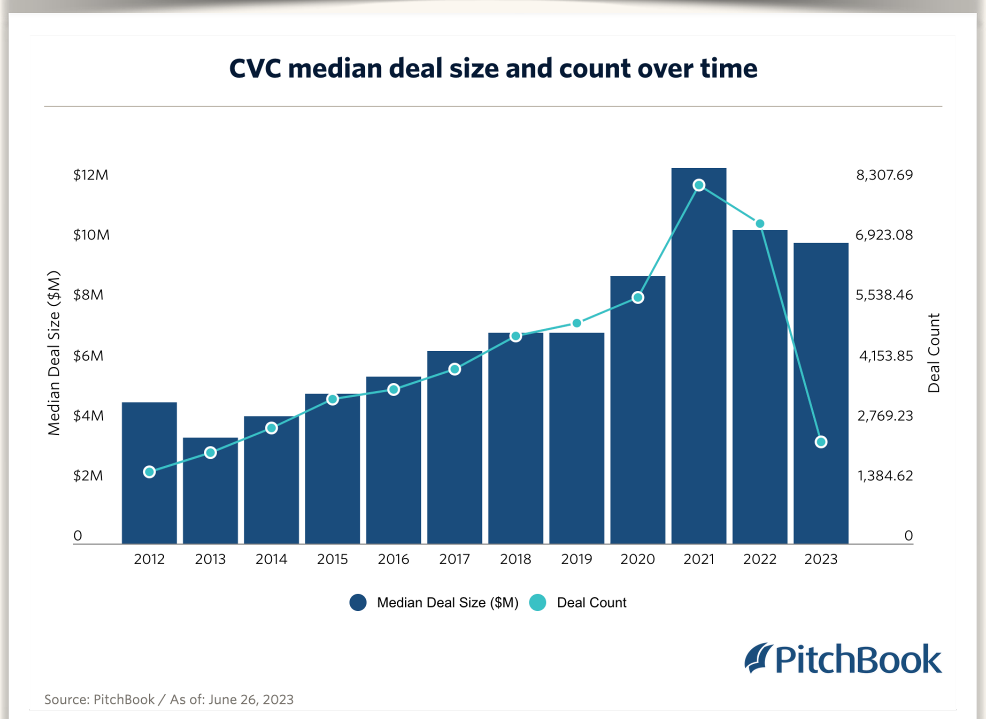
What is CVC?



What is corporate venture capital?

By Kelly Knickerbocker

June 28, 2023



Corporate VC firms usually sit within the structure of a large, established company.

Many CVC firms draw money from their parent company for their operating budget, and CVC teams—unlike traditional VCs—are looking for more than just financial returns on their investments.

CIO JOURNAL

Pro Take: Corporate Venture Capital Provides Path for Long-Term Tech Strategy

Companies that make venture-capital investments can get an inside view of where markets and technology are headed

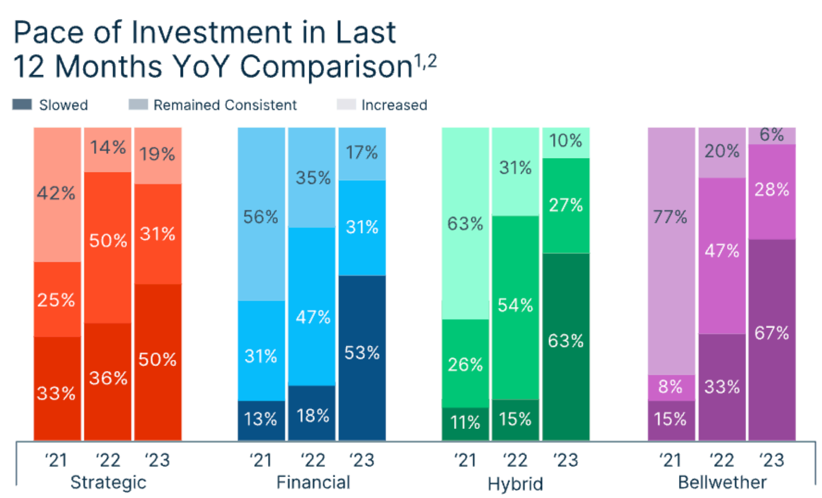
By *Steven Rosenbush* Follow

Aug. 25, 2023 8:00 am ET

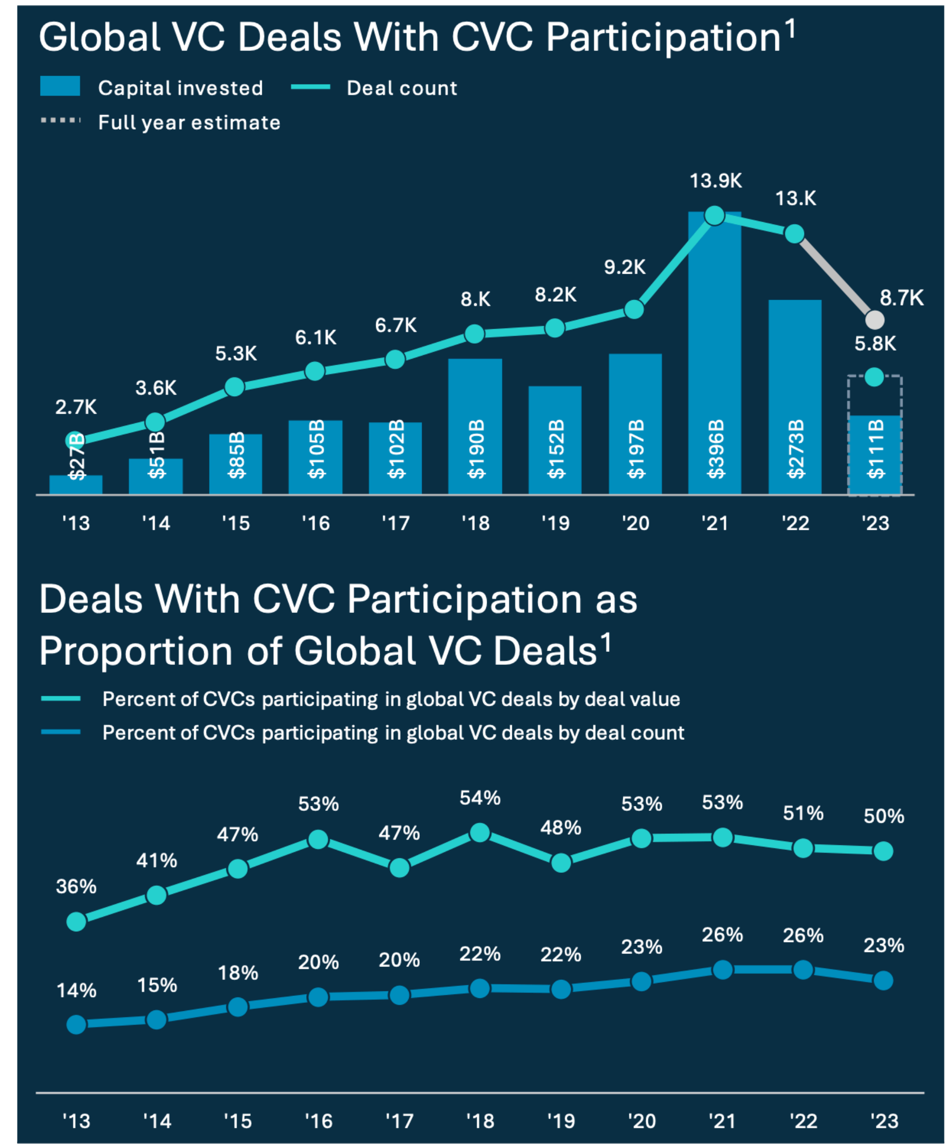
"We have the opportunity to invest in an up cycle or a down cycle because we have a long-term investment approach as strategic investors"

"I told them that we would invest over 10 years for the first fund, and that it will include times of economical difficulties, and that this would be during these times that we would want to double down our investments"

State of CVC - SVB

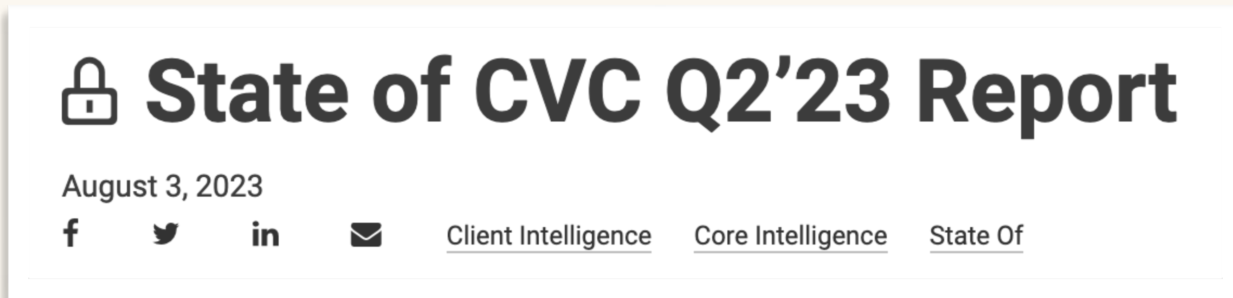


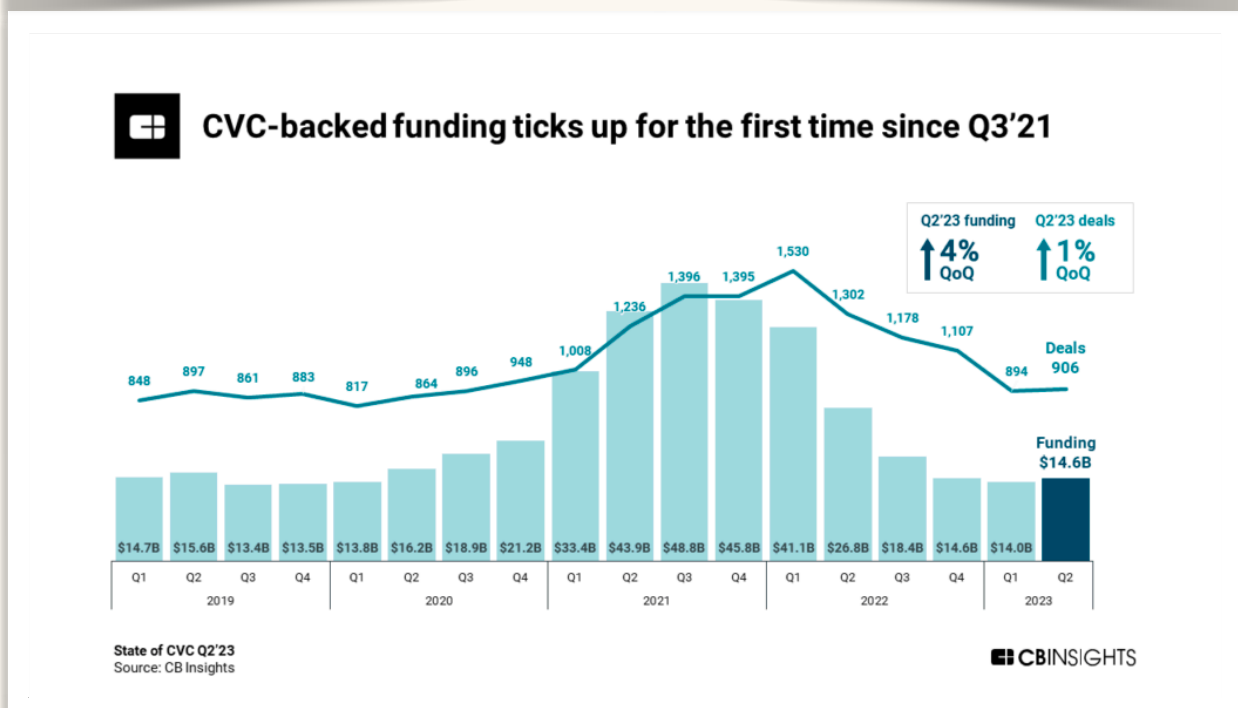
Notes: 1) CVC Bellwether: Index of 25 CVCs selected due to historical track record, current scale and investment velocity. 2) Based on survey respondents across the 2021, 2022 and 2023 surveys, funds that have responded all three years.
Source: CVC survey results (based on responses from 209 CVC funds) and SVB analysis.

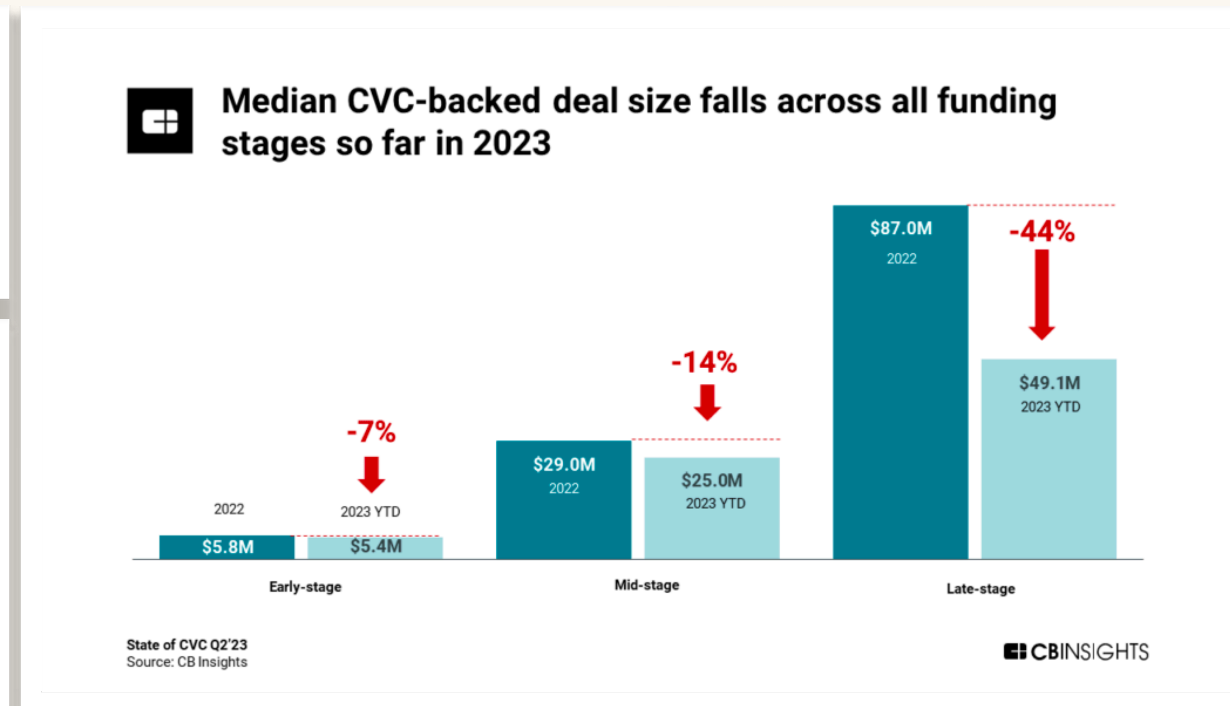


- **CVCs are taking their foot off the gas:** 52% of funds have slowed their deal pace over the last 12 months, similar to global VC investment, which fell 47% YoY.
- **CVCs are increasingly selective, raising the bar for new investments.** 72% of funds state that the bar is higher for new investments; 45% say it's significantly higher.

State of CVC - CB Insights





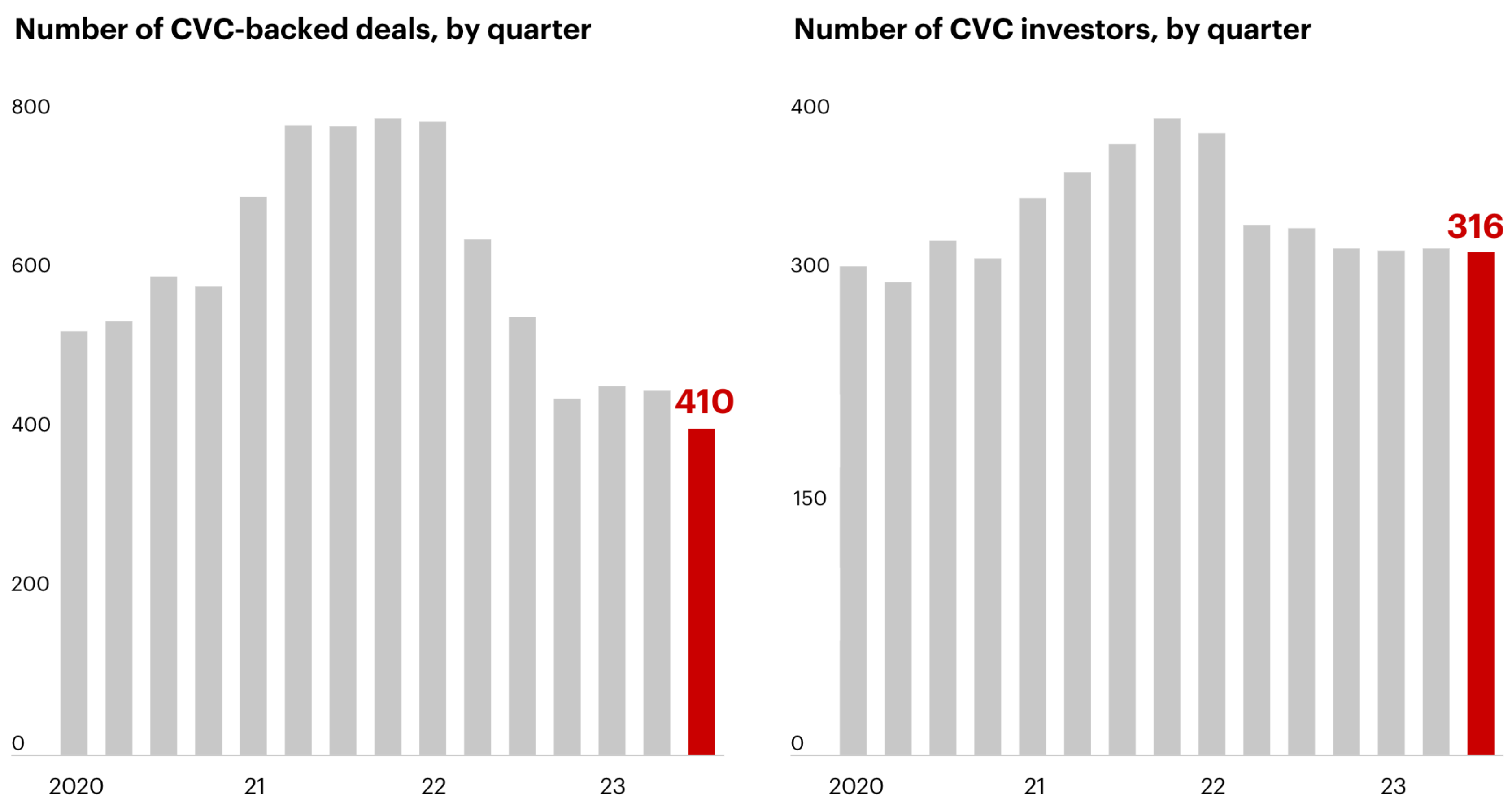


1. **CVC-backed funding ticks up for the first time since Q3'21**. Global CVC-backed funding ticked up 4% QoQ to $14.6B.

2. **Median CVC-backed deal size falls across all funding stages in 2023** so far. The median CVC-backed deal size is $8.4M in 2023 so far, down from $10M in full-year 2022.

3. **CVC-backed funding in the US drops 11% QoQ to its lowest point since Q3'19**

CVC data - Bain

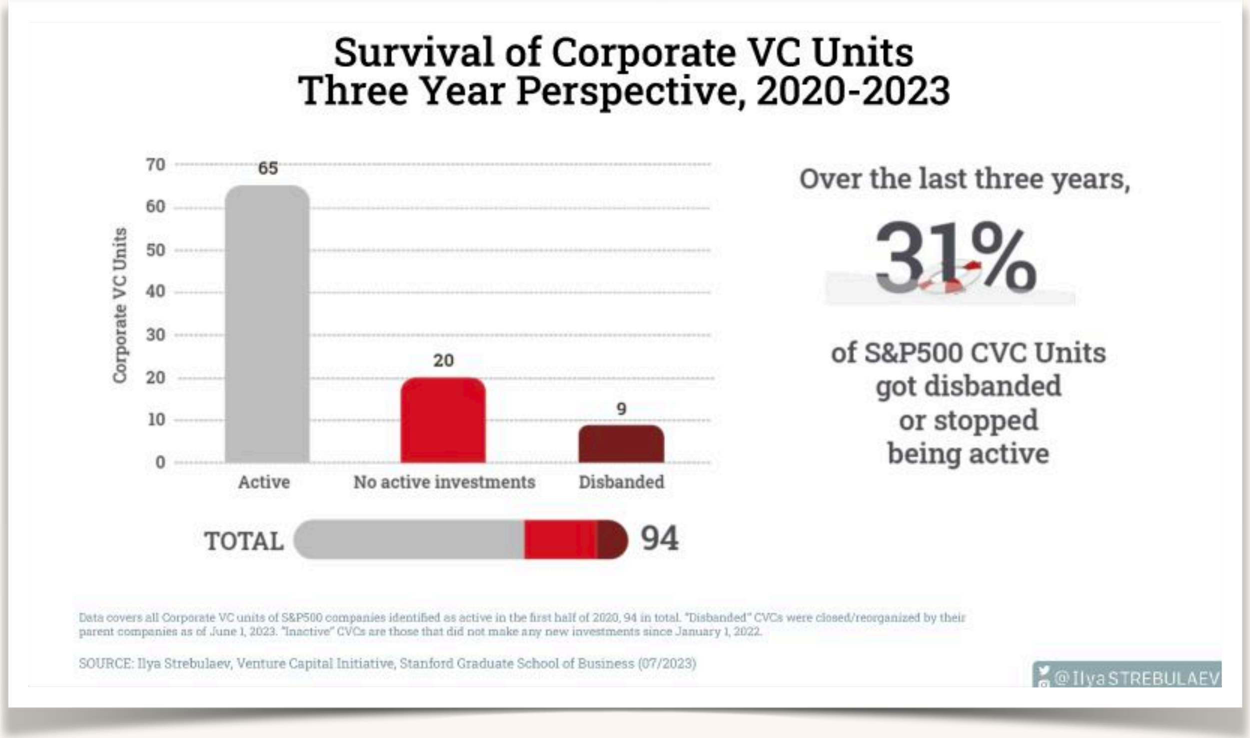


Note: CVC-backed deals refer to rounds in which corporate venture capital entities have participated as either the sole investor, or as one of many investors for that round
Sources: Crunchbase; Startup Investment Cruncher; Bain analysis

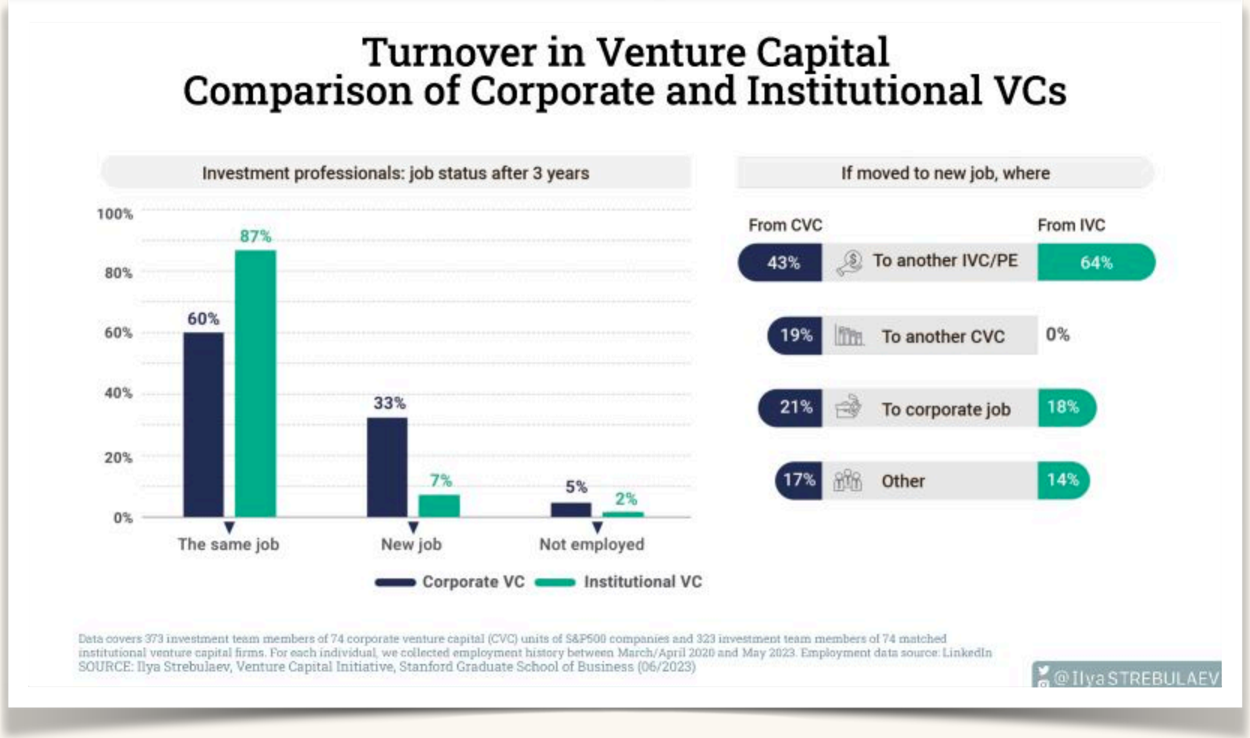
- **Current corporate venture capital (CVC) investors remain active**, taking advantage of lower valuations and hot themes such as AI, sustainability, and the energy transition, **although with less intensity than previous quarters.**
- **Companies are more reticent to launch CVCs**

Survival rate of CVC and internal turnovers

A large percentage of CVCs get disbanded or stopped being active



VC talent working at CVC units are much more likely to change jobs than those working at Institutional VC firms



Summary - Family Offices (FOs)

Increasing role of FOs in the VC sector

- FOs backed deals have been increasing in the last 10 years.
- FOs investment style is shifting from an early stage to becoming more relevant at a late stage.
- VC asset class still occupies less than 10% of most FOs capital allocations.

FOs investing in VC managers

- FOs typically have a hybrid investing structure, with the majority of FOs investing in startups via VCs rather than directly.
- In Europe, the biggest backers of VC Funds are FOs and HNWIs.
- In making direct investments, FOs are most concerned about operational risk and deal flow quality.
- FOs in 2023 weren't keen to deploy into a venture without liquidity events - either from funds or directs.
- FOs who supported EMs were now more risk averse - higher threshold for capital raised before considering investment

FO's don't invest alone

- FOs don't invest alone. FOs prefer to invest in a syndicate with other families.
- 9 in every 10 family office-backed investments in startups have been via. "club deals."

New age FOs

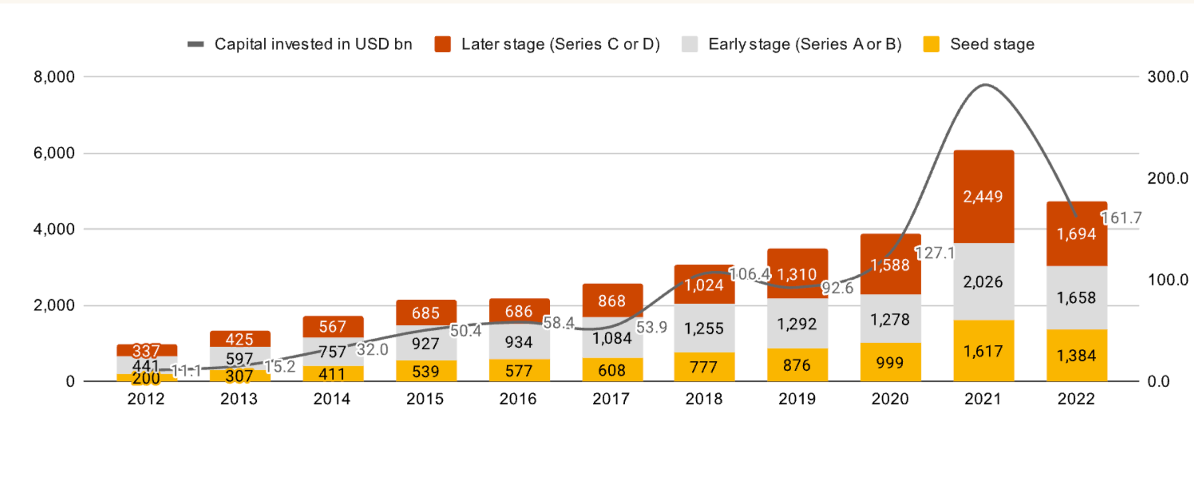
- Unicorn founders are building their own FOs and using their industry network to get access to startup deals.
- Caution: Be aware that dedicated staff with experience is needed, and a one-size-fits-all CIO doesn't work in VC.

Growing importance and nuances

- Caution may be warranted in taking capital directly from FOs. Some FOs may desire more personal involvement, which may not align with the startup's goals and objectives.
- There are more than 10K FOs globally, and their presence is likely to grow in 5-10 years.
- FOs can sometimes look complex due to their multi-stakeholder structure with varying incentives.

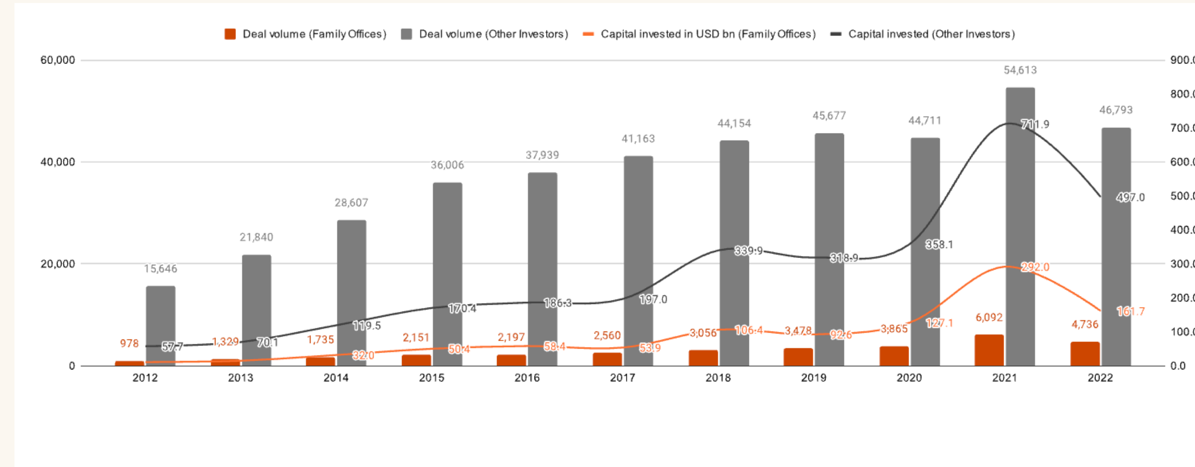
Growing role of Family Offices

Passing the peak: Family office-backed startup deals leapt in 2021 – and slumped in 2022



Source: PwC's proprietary family office database, matched with Pitchbook data, as of 20 February 2023

Heavy hitters: Family offices are big investors in startups



Source: PwC's proprietary family office database, matched with Pitchbook data, as of 20 February 2023

- FOs is a rising trend since 2012.
- **Though, FOs' investments in startups declined sharply in 2022 for the first time in 11 years, falling both in terms of deal count and capital invested.**
- At the same time, family offices appear to be maintaining a more risk-averse approach towards investing in startups. While they invested predominantly in early-stage startups until 2018, their focus has shifted to later-stage investments from 2019 onwards – a trend that continued in 2022

- **Almost one-third of the total capital invested in startups worldwide in 2022 came from family offices.**
- Family offices are major players in the global market for investment in startups. Overall, family office-backed deals represented a total of 10.1% of all investments in startups worldwide in 2022.

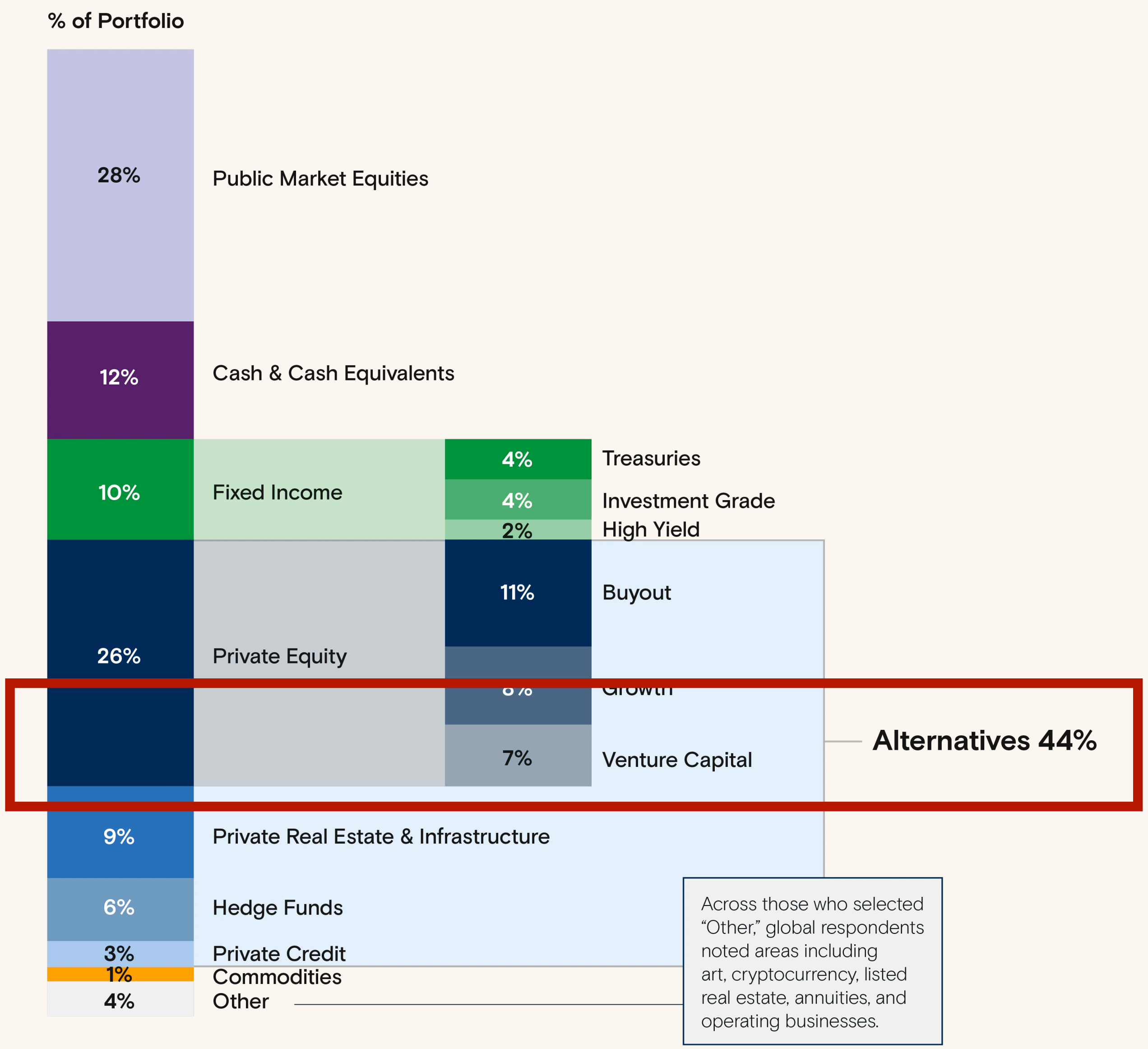
How have Family Offices invested?

Venture Capital still occupies a less than 10% in most Family Office allocations

What asset classes are you invested in and how are these allocated?

Asset class \ Allocation	0–5%	6–10%	11–15%	16–20%	21–30%	31–40%	41–50%	51–60%	61%+
Equities	18.1%	16.8%	10.5%	12.8%	14.5%	12.2%	7.6%	6.2%	4.6%
Fixed Income	33.6%	20.7%	14.5%	15.8%	7.2%	3.9%	3%	1%	1.6%
Private Equity	24.7%	17.1%	17.4%	15.8%	12.5%	4.6%	5.6%	2.6%	2.3%
Property	25.7%	20.4%	14.8%	14.8%	10.9%	5.9%	3.9%	2.3%	3.9%
Hedge Funds	63.2%	15.5%	8.9%	6.9%	3.3%	0.7%	1.3%	0%	0.7%
Venture Capital	56.6%	20.7%	9.9%	7.9%	2.3%	2%	0.7%	0%	0.7%

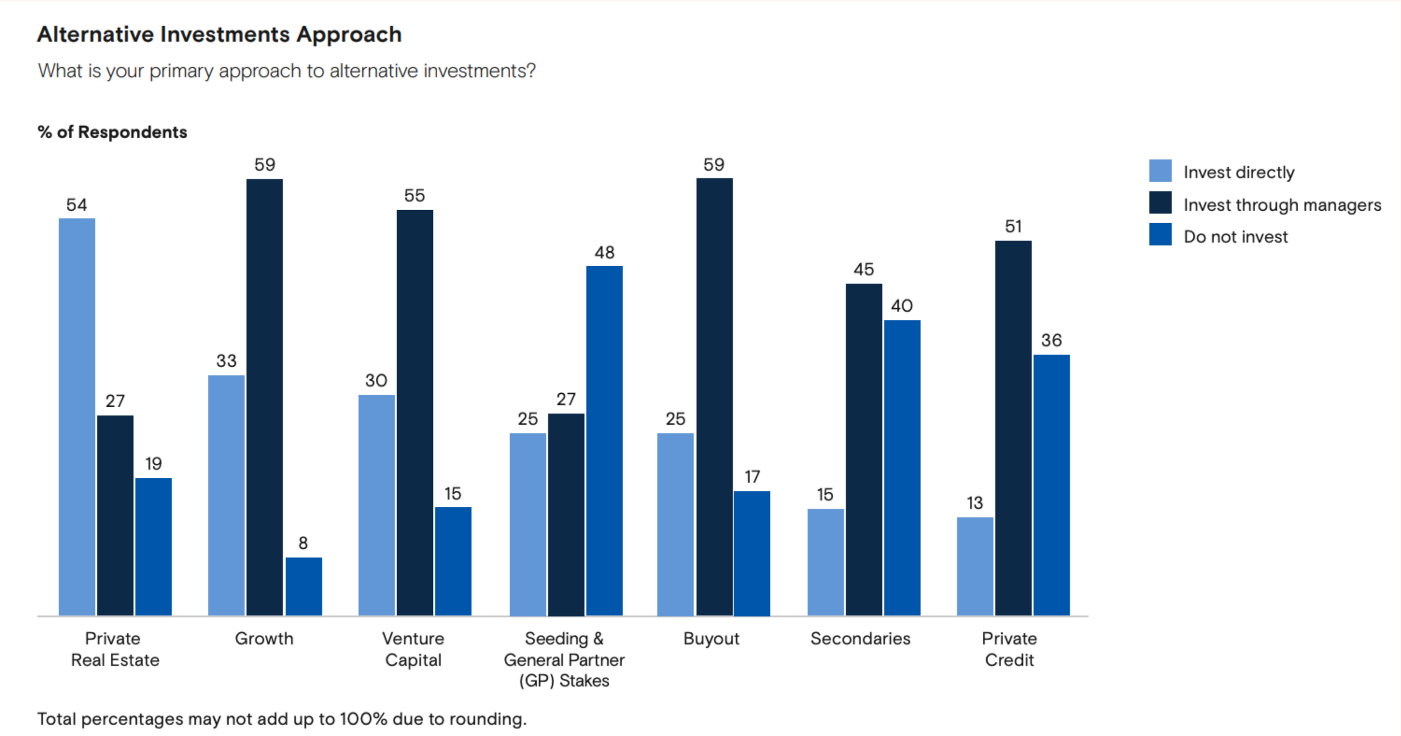
Average Asset Allocation of Global Respondents in 2023



Total percentages may not add up to 100% due to rounding.

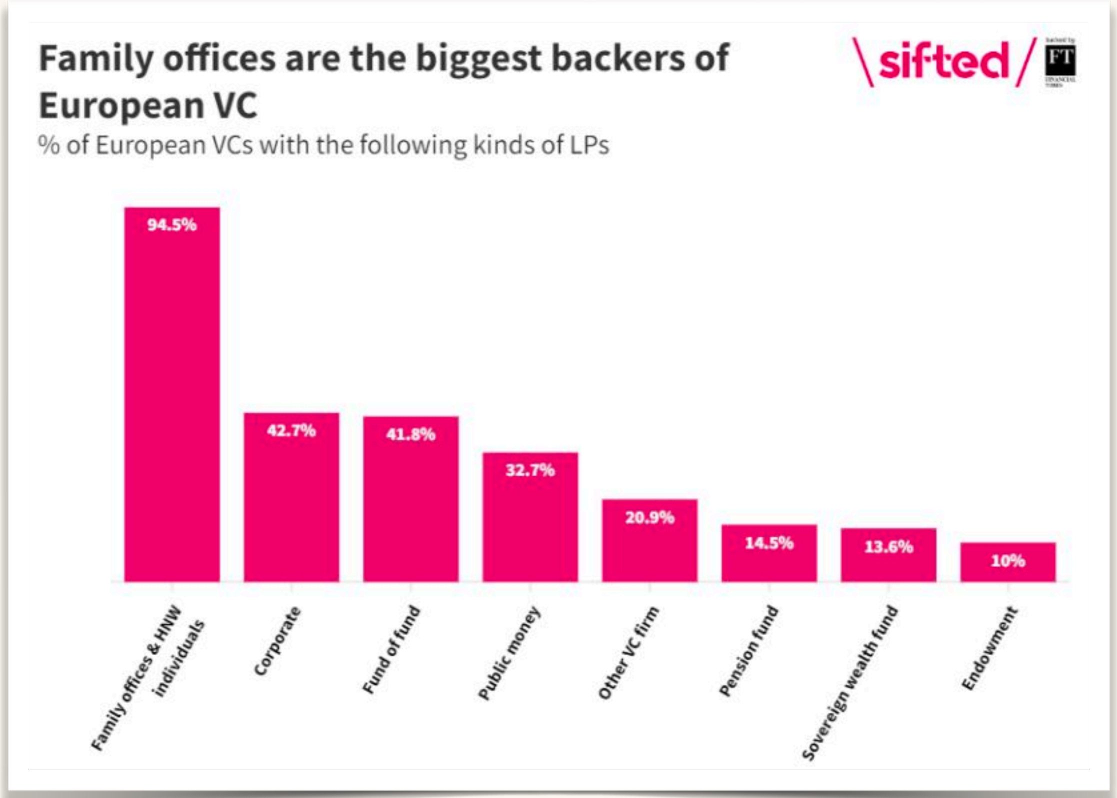
Family offices investing in VC managers

Majority of family offices invest in VC through fund managers



Venture capital is popular among family offices globally, with regional nuances: the lowest percentage of family offices invested in venture capital hails from EMEA (76%), compared to 91% in APAC and 86% in the Americas.

In Europe, FOs along with HNWIs are the biggest backers of VC Funds



- **According to a recent survey of 111 VCs investing in Europe, family offices are the biggest backers of European VCs.**
- 94,5% had as their LP (limited partner, which is an investor in a VC fund) a family office and HNW (high net worth) individuals

In Europe, Family Offices are increasingly investing in startups directly

How To July 6, 2023

Family offices: What an alternative to VC funding can offer founders

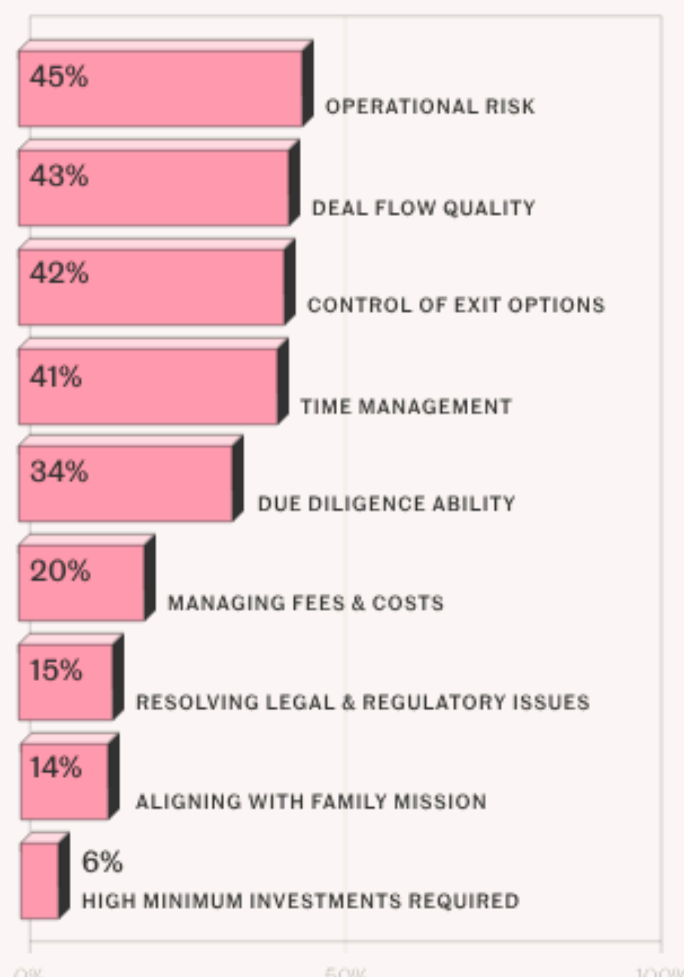
We asked founders and fund managers why family offices could be useful, and how to access them

- S**everal of Europe's unicorn tech founders have launched their own, which tend to focus exclusively on tech.** Revolut's Nik Storonsky, Checkout.com's Guillaume Pousaz and Mollie and Messagebird's Adriaan Mol — along with dozens of others — all have them.
- The stage and sector that a family office invests in varies wildly — so it can be tricky as a founder to know who to reach out to if you're on the hunt for funding.
- A VC fund will typically have reserves set up to follow-on. But with a family office whether or not they do follow-ons is unknown, and it's something a founder needs to understand in terms of choosing to work with that family.

FOs challenges for direct investing

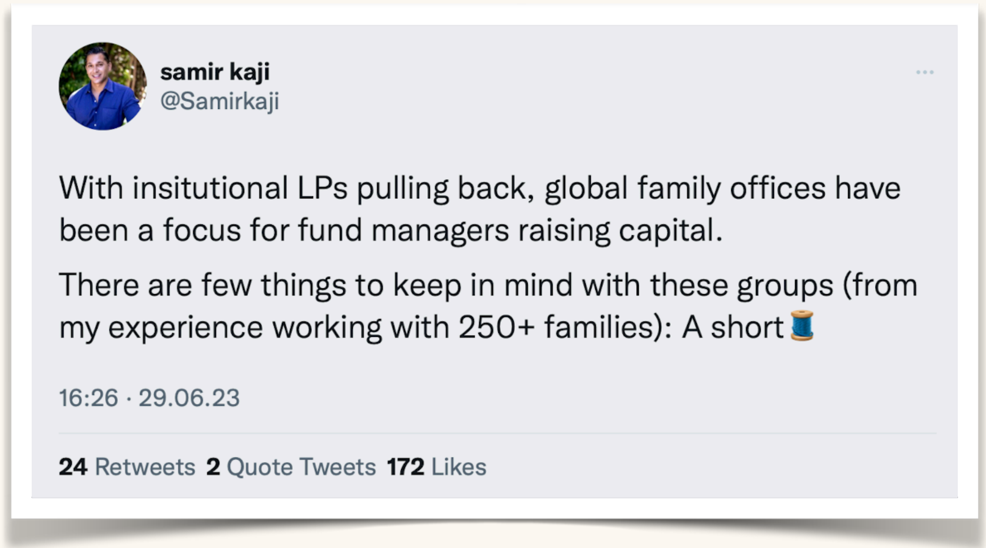
Exhibit 6: Direct Investment Challenges

What do family offices see as the biggest challenge when making direct investments?



Source: Dentons Family Office Direct Investing Survey, October 2022

FO fundraising advice for VCs



- **With over 10,000 FOs globally, there is a huge market, and one that easily will play a even more significant role in funding within 5-10 years.**
- Many family offices have other motivations in VC that need to be fleshed out: Learning/Insights, Some want to build their own direct capabilities, Network, Run an operating business and want to de-risk technological disruption, Tax efficiencies
- **The larger the family office, the more likely it will be a multi-stakeholder sale** (family members of different generations, CIOs, investment team members, etc.). Each will have different very personas and incentives.
- **Family Offices can be excellent partners, but many are new, so don't underestimate education.**

Summary - Fund-of-Funds (FoFs)

FoF represents diversification with an element of an additional layer of fees

- FoFs offer an option for investors aiming to mitigate risk, as they inherently diversify investments across various underlying funds. These underlying funds can span different sectors, stages, and geographies.
- LPs need to be convinced of the two layers of fees.

Changing FoF dynamics

- Historically, FoF was an "access" vehicle to brand-name VCs. With "access" less of an issue and brand-name VCs increasingly being market "beta," the focus of the FoF model is now on emerging managers, where selection is important for driving alpha. This is one of the most important shifts in the last five years.
- FoFs are also an option for less sophisticated or less experienced LPs within the venture asset class.
- Last few years were GP-favourable, but this dynamic has shifted in 2023 towards LPs.

FoFs as a means to access early stage deals

- Many established VCs focusing on late stage have begun investing directly in emerging VC managers. This way, VC LPs gain insights into GP's portfolio, and this information asymmetry is leveraged to make investments better.

FoFs powering emerging managers (EMs)

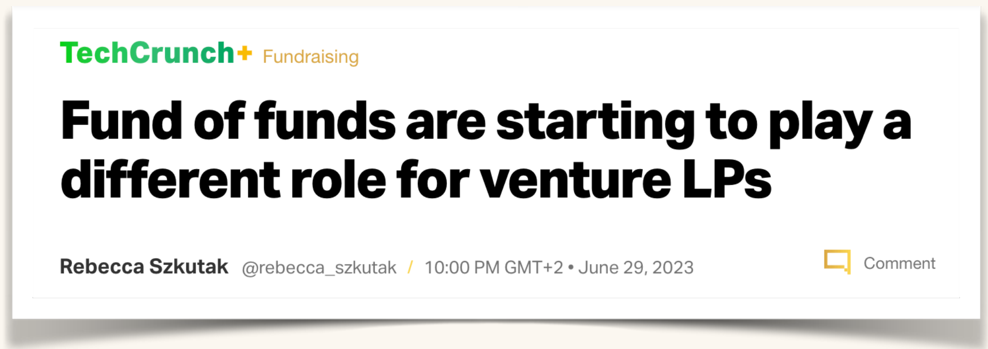
- FoFs can become a vehicle of choice to invest in EMs.
- Majority of FoFs (in one survey) are invested in EMs, with 44% of FoFs acting as cornerstone investors.

Institutional investors moving into FoF business

- A growing number of institutional investors are moving into the FoF business to gain access to the VC asset class or to fund certain topics (ClimateTech, critical technologies, emerging managers, etc.)
- This is a welcome change, though it remains to be seen which segment of the VC funds gets maximum benefit.

Role of FoFs

In the changing dynamics of VC ecosystem, FoFs need to innovate their business model model as well


TechCrunch+ Fundraising

Fund of funds are starting to play a different role for venture LPs

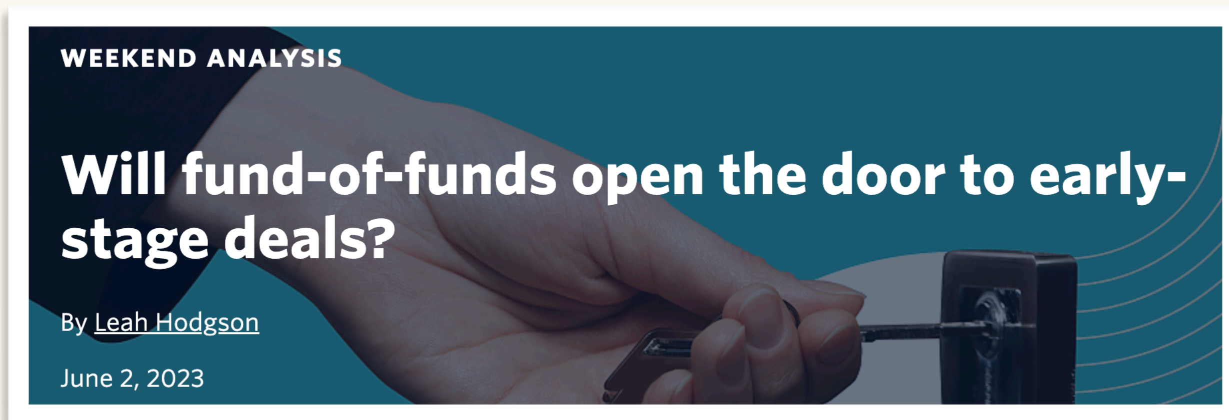
Rebecca Szkutak @rebecca_szkutak / 10:00 PM GMT+2 • June 29, 2023 Comment

Traditional U.S. venture firm fundraising set a record in 2022 with $162 billion. U.S.-based VC FoF raised just $400 million in the first quarter of 2023, according to PitchBook, and $3 billion in 2022. This compares to $24.4 billion in 2021 and $33.7 billion — the fundraising peak — in 2017.

- Fund of funds (FoF) were created to serve as a bridge for LPs to get access to managers they couldn’t back otherwise.
- One model is designing an FoF strategy that helps larger LPs invest into emerging managers
- Many funds (including Andreessen Horowitz and Lightspeed) are also adding FoF strategies within their existing funds, giving their LPs access to emerging managers in addition to the funds’ underlying portfolio companies, too.

FoFs building new approaches

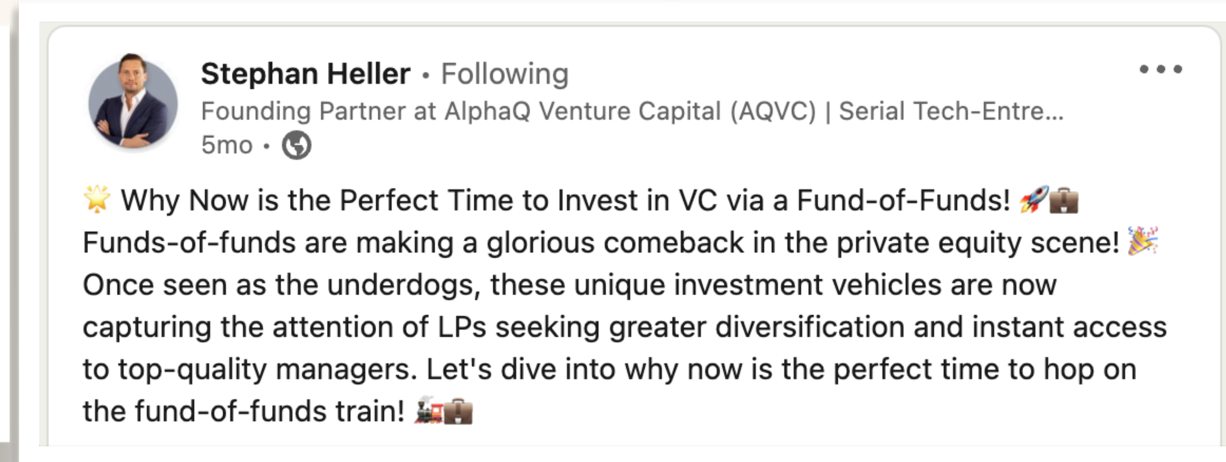
FoFs as a means to access early stage deals



- **Using a FoF can have benefits beyond returns for late-stage VCs**. By backing a fund, the LP has insight into the portfolio's performance, which wouldn't be as accessible to outsiders.

- **The downside is that the late-stage investor doesn't have direct control or influence over the investment decisions made by the underlying funds.** This lack of control might limit the ability to shape the portfolio according to specific preferences or strategic goals.

Why now is the perfect time to invest in VC via FoFs



- Diversification is King: LPs are hungry for diversification in their portfolios, and funds-of-funds are serving up the perfect solution.

- Selecting the Right Managers: Funds-of-funds are taking their role as gatekeepers seriously, carefully selecting the best managers to back.

- **New Approaches and Collaborations: Funds-of-funds are evolving and embracing new approaches to deliver even more value.**

FoFs powering emerging mangers

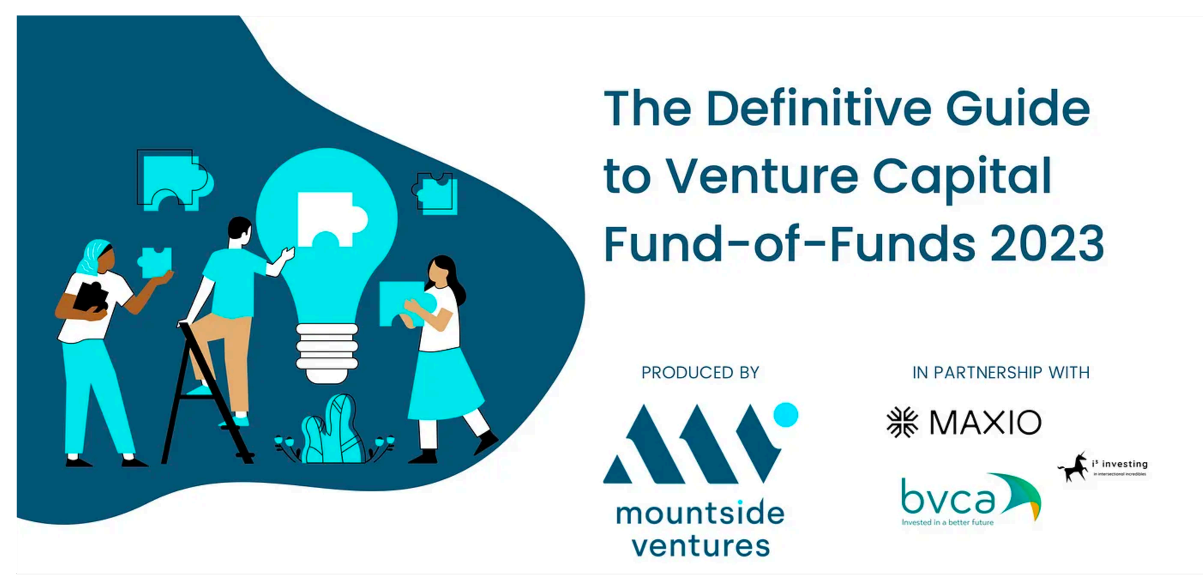
FoFs can become a vehicle of choice to invest in emerging managers (EMs) and majority of FOs have invested in EMs

TechCrunch+ Fundraising

Fund of funds could be the perfect vehicle for backing diverse, emerging fund managers

Dominic-Madori Davis @dominicmadori / 4:00 PM GMT+2 • July 25, 2023 Comment

- **If the problem is that diverse fund managers are riskier, then the FoF model should give an added layer of protection should everything go astray**.
- We've seen firsthand that it can take diverse-led venture firms over twice as long to raise their funds. Many emerging managers, raising more modest fund sizes, are raising from high-net-worth individuals, family offices and other institutions via modest check sizes.
- FoFs, specifically those focused on emerging managers, can oftentimes write more substantial checks and help to accelerate a fund.



Emerging VC Managers, as result of their **sector expertise**, **operational track record** and **differentiated strategy**, make up a significant proportion of a FoF's investments. **85%** had invested in that community in the last three years, with **44%** of them as **cornerstone investors**.

Institutional investors moving into FoF business

Institutional investors are increasing allocating to venture via. FoF model

News November 22, 2023

Inside Generali's move into tech investing

Italian insurer Generali has invested in Speedinvest, Dawn Capital and Mundi Ventures, and has its eye on more direct investing in future

Amy O'Brien 3 min read

Job purpose

As CLIMA (senior) associate you will source, due diligence and implement investments across climate tech including fund and co-investments, reporting to a senior team member and the Head of CLIMA. By contributing to this new initiative, you will take a part in successfully setting up the CLIMA Team at AIM in Munich.

Elizabeth "Beezer" Clarkson • Following
Partner at Sapphire Partners
2mo •

📣 Big news to share today! Sapphire Partners is launching a new program to invest in emerging venture managers with a sole LP, CalSTRS, the world's largest educator-only pension fund! 💥

As part of this new program, we are taking over the management of five existing CalSTRS "New and Next Generation Manager Funds," representing $1.4B AUM*. Collectively, we have invested in 300+ emerging managers. Our plan going forward is to invest about $100M/year into emerging venture managers. 🙌

News November 22, 2023

Germany announces close of €1bn fund of funds to invest in German and European VC

The fund is designed to make more growth-stage capital available to European startups

The idea of the new fund of funds is to make more growth capital, which has traditionally been lacking in Europe, more available to startups and to strengthen Germany and Europe as a business location.

Two-thirds (€650m) of the capital is provided by over 20 institutional investors, including insurers, foundations, asset managers and large family offices such as Allianz, BlackRock, Debeka, Generali Deutschland, HUK-Coburg and Gothaer Versicherungen, among others.

Summary - GP-LP Dynamics

Staying in the game

- LPs should take the cue from public markets where there is a considerable performance difference between the scenario of 'remaining fully invested' vs. 'missing 10 best days'.
- Although many LPs aren't in the market right now, but those who are can reap the rewards.

GP evaluation

- There are multiple mythologies, models, or structures for LPs to analyse and evaluate GPs.
- Such frameworks go beyond the typical 'Skin-in-the-game' adage and use parameters like People, Processes, and more.
- While there is no one single truth to evaluating VC GPs, care must be taken to evaluate not just past performance (in which many emerging managers can fall through) but also potential for the future.

Tacking bad LP behavior

LP world isn't all nice, after all. There were instances of LPs ghosting GPs, not wiring capital, or pushing for certain outcomes in GP's portfolio. GPs can still use a few tactics to anticipate and tackle bad behavior:

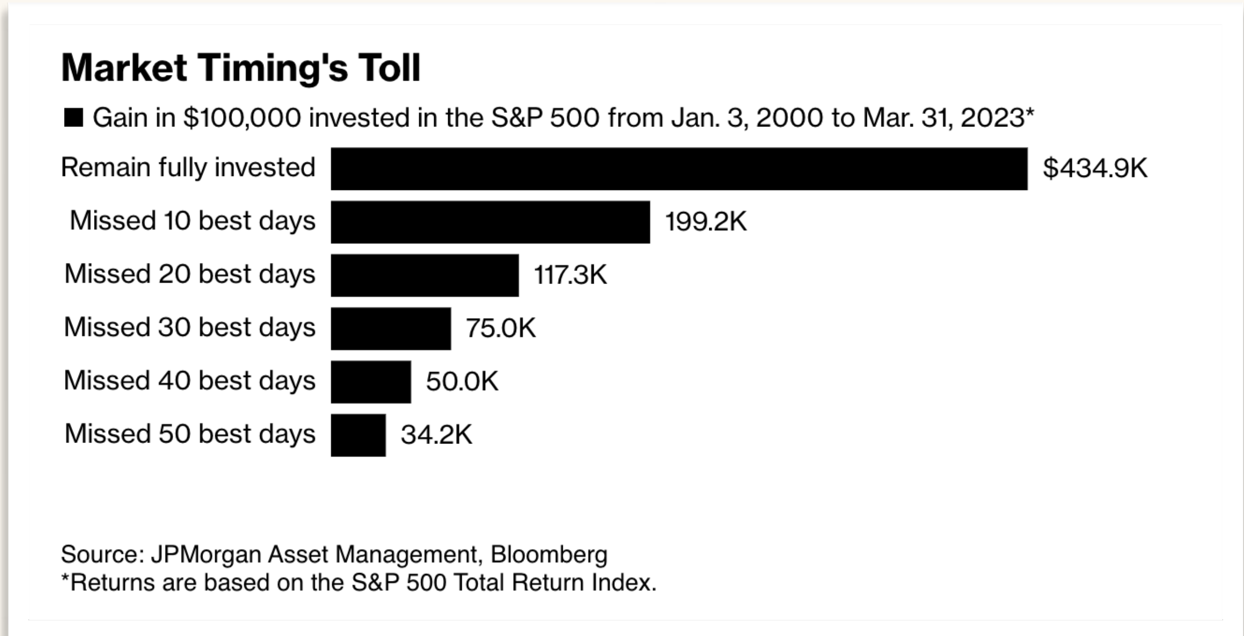
- Knowing LPs better by doing LP due diligence and sharing experience with the broader GP community.
- Delving into the process: Understanding where GPs are in the LP process and who decision-makers are.

GP-LP alignment

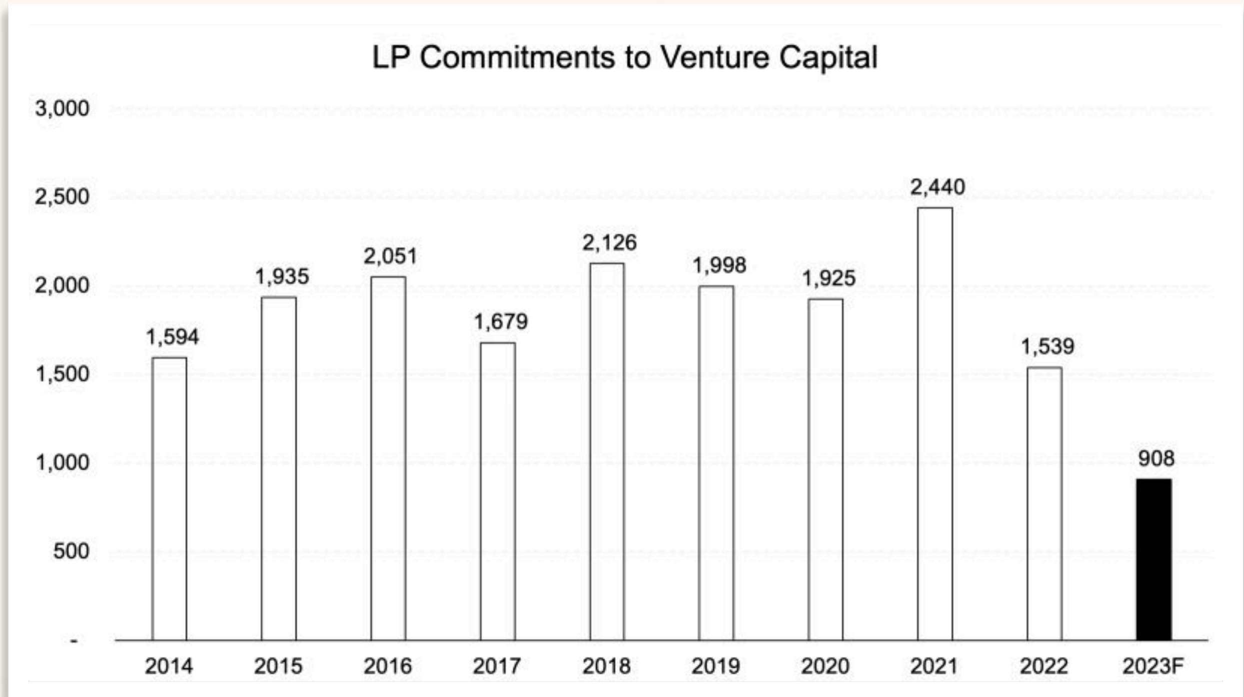
- 'Skin-in-the-game' is the most widely referred mechanism for GP-LP alignment, but it doesn't guarantee alignment.
- LPs should look beyond and inspect topics like reputational alignment and investment processes.

Staying in the game

Considerable difference in returns between the scenario of 'remaining fully invested' vs. 'missing 10 best days'



There aren't many LPs in the market right now, but those who are will reap the largest rewards

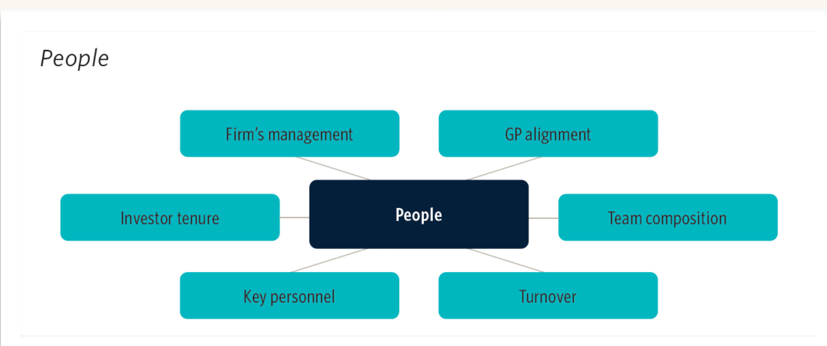


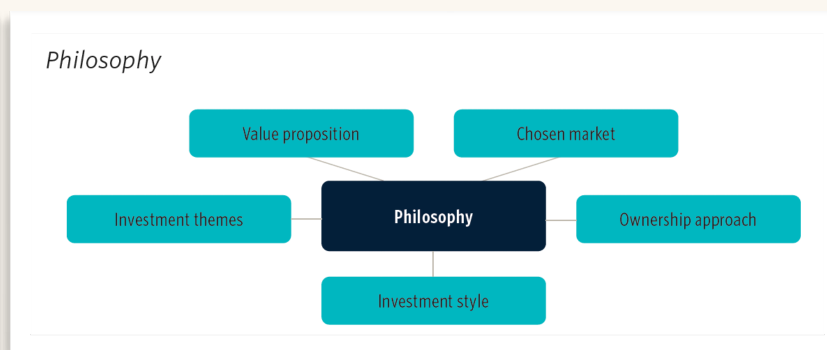
How LPs evaluate GPs?

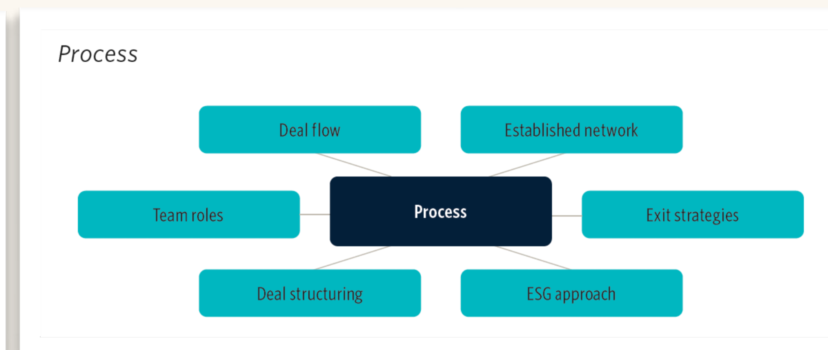
PitchBook elaborates the six P's concept in detail

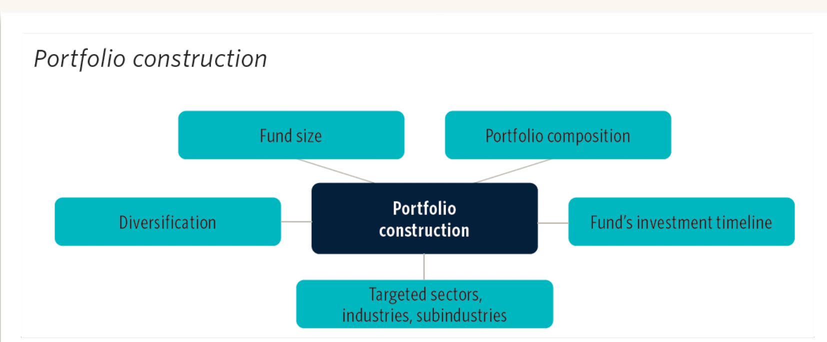
An LP's Guide to Manager Selection

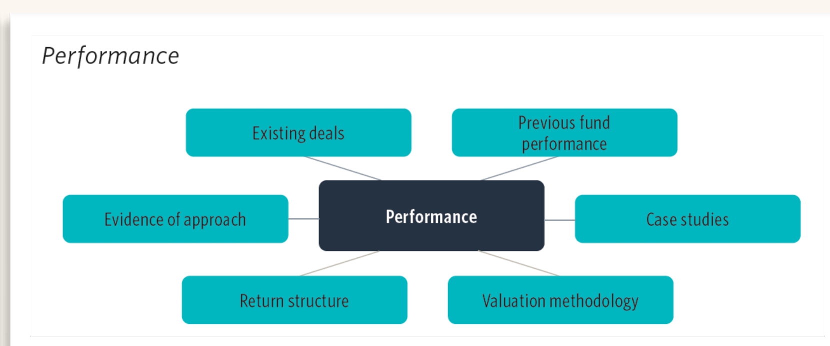
Thoughts from a former LP on what to examine beyond IRR

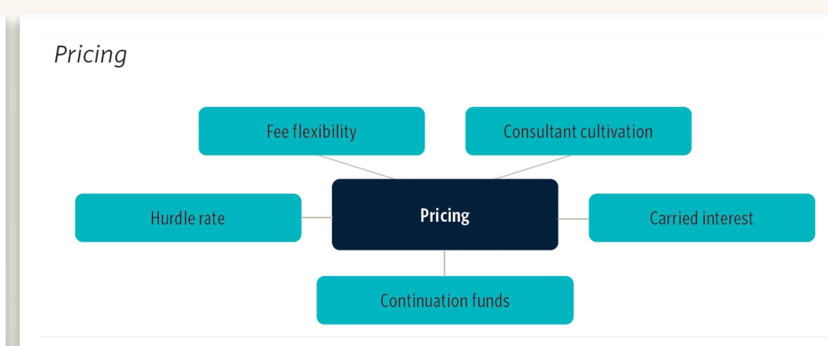






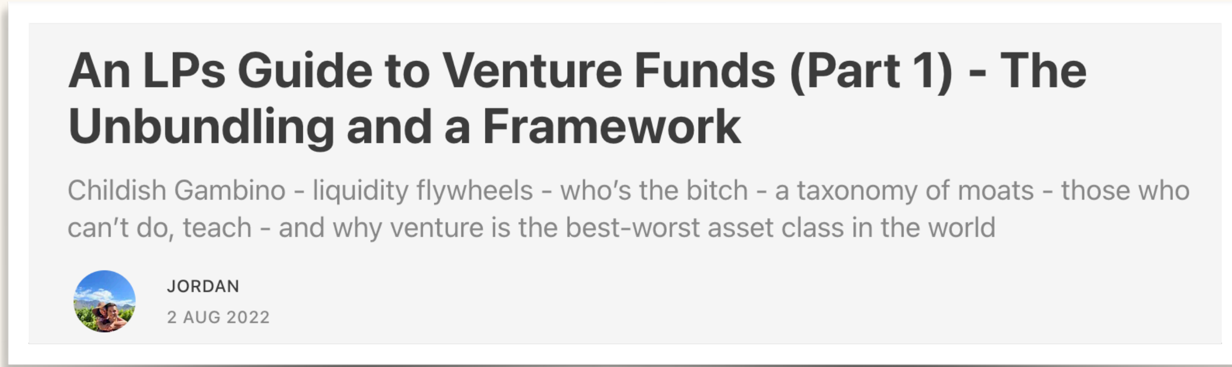






GP evaluation / 1

The unbundling and an evaluation framework


An LPs Guide to Venture Funds (Part 1) - The Unbundling and a Framework

Childish Gambino - liquidity flywheels - who's the bitch - a taxonomy of moats - those who can't do, teach - and why venture is the best-worst asset class in the world

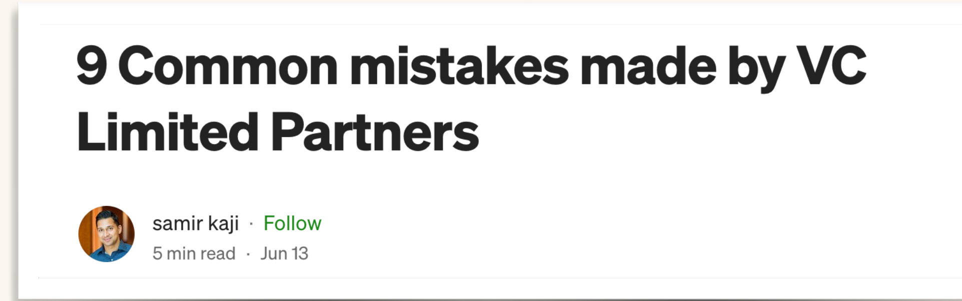
JORDAN
2 AUG 2022

***unbundling*: the idea that there're a range of factors which are causing the long-tail of emerging managers to pick better, win deals more, and outperform the larger B-tier venture funds**.
These are access to knowledge, better tooling, the importance of individual brands, and a shift from public to private.

Each emerging manager looking to raise from LPs should have a very clear *raison d'etre.*

For sure, such specialisation has limits. It is not incredibly scalable, and it is not an impregnable defence.

Common mistake of LPs while making VC allocations

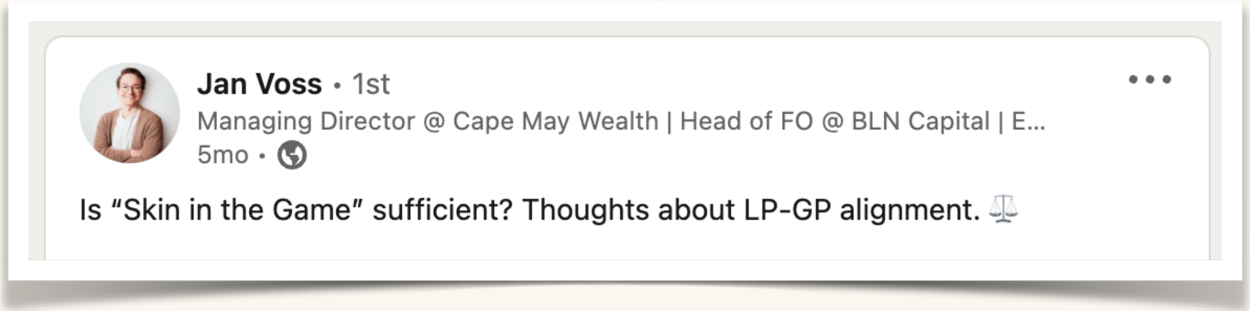

9 Common mistakes made by VC Limited Partners

samir kaji · Follow
5 min read · Jun 13

- Investing cyclically
- Overrating track records
- Treating Venture as an index
- Fees
- Ad-hoc Investing
- Momentum Investing
- Market Timing
- Self-sourcing direct deals
- Diversification

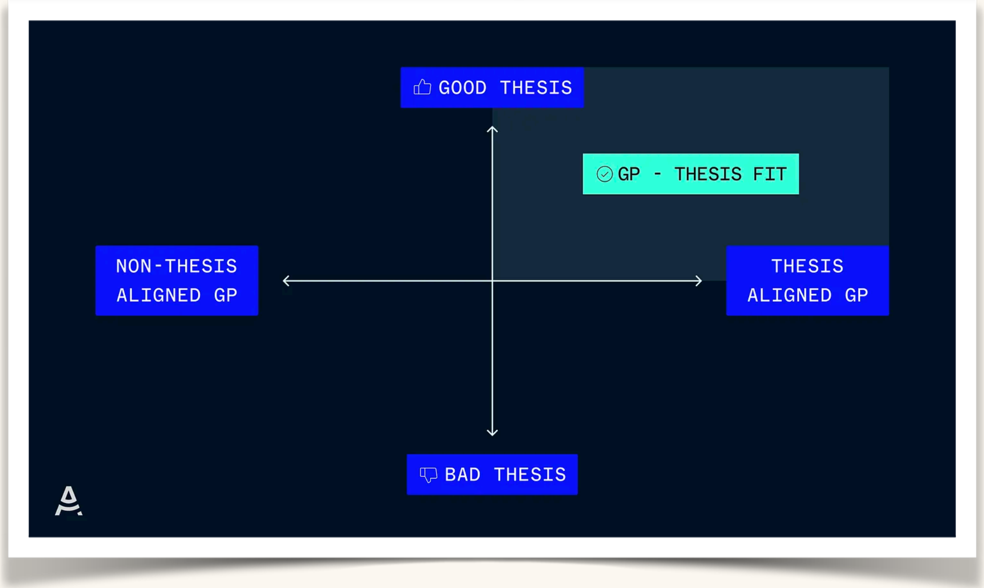
GP evaluation / 2

Is "Skin in the Game" sufficient?



- **Most common alignment that LPs look for is "skin in the game". However, this alone does not guarantee alignment.**
- Take i.e. a fund more focused on asset gathering than performance - while the GP(s) might be one of the largest investors in the fund, they benefit significantly from the fee regardless of fund performance.
- **Check for Reputational alignment, and that GPs want to build long-term relationships.**

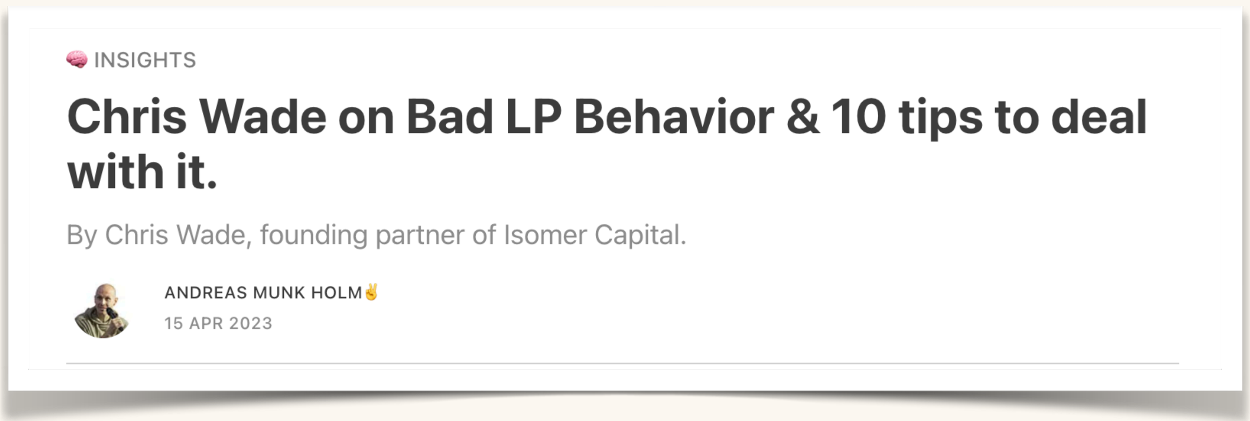
Evaluate VCs Using GP-Thesis Fit Model



- **The crux of GP-Thesis Fit isn't about labeling one strategy as superior to another.**
- It's about aligning the strategy with the investor's strengths and expertise.

LP behaviour

How To Tackle Bad LP Behaviour


INSIGHTS

Chris Wade on Bad LP Behavior & 10 tips to deal with it.

By Chris Wade, founding partner of Isomer Capital.

ANDREAS MUNK HOLM✌️
15 APR 2023

Few important points mentioned in the article

1. Expect easy come, easy go
2. Do LP due diligence
3. Share LP experiences
4. Understand where you are in the LP process
5. Understand who the decision makers are
6. Agree to Investment Process Timescales
7. Protect your information

LPs exert more power over VC Funds


After ‘Irrational Cycle,’ Venture’s Limited Partners Exert More Power Over Funds

By Kate Clark
Jan. 10, 2023 6:00 AM PST

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SECTION

VENTURE CAPITAL FUNDRAISING

IMAGE FROM DALL E

Here is an image that visualizes the venture capital fundraising environment in 2023, capturing the challenges faced due to the downturn in fundraising, the impact on emerging managers, and the preferences of established limited partners for larger funds or known general partners. The scene contrasts the different circumstances within the VC world during this period.

Index - Venture Capital Fundraising

Summary - Venture capital fundraising

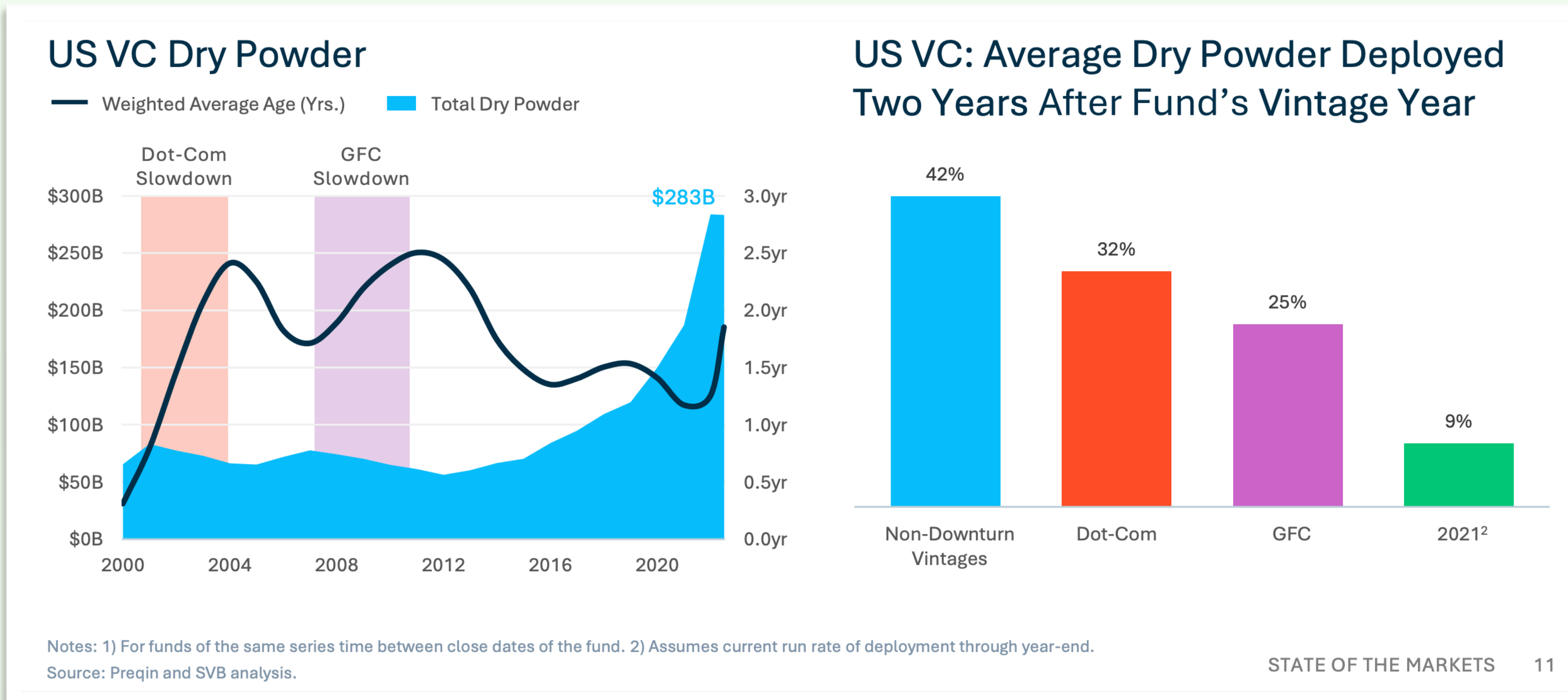
Record amounts of venture capital dry powder

- At the beginning of 2023, the industry had record sums of dry powder. But neither VCs nor their LPs were in any rush to deploy.
- Some VCs slowed their deployment due to a cautious approach, while some LPs were liquidity-constrained to support the capital calls.
- The net result is that dry powder either remained with the VCs (to be allocated over extended periods in the upcoming wave of startups) or got deployed to portfolio companies that were top performers (as bridge rounds or down rounds). Some portion of dry powder also went to new investments
- Certain areas still received new commitments from LPs, increasing VC's capacity to deploy - think ClimateTech and AI.
- Europe, on the other hand, remained constrained on the dry powder KPI.

Venture capital fundraising took a nosedive in 2023

- In the U.S., the venture fundraising environment has been one of the worst in the first nine months of 2023 compared to the past decade. However, compared with the U.S., the venture fundraising drop in Europe doesn't look that alarming.
- LPs in 2023 were much more likely to back new vehicles of VCs that have strong historic performance.
- LPs also seemed to have favored bigger VC funds (in the context of solo or 1st time-smaller EM funds).
- LPs were increasingly pushing managers to show actual cash returns (DPIs). Many younger firms might be unable to showcase such a performance.
- Fund size and stage became part of VC's fundraising strategy. Pre-seed and Seed funds are more achievable as they don't require large capital to raise, and low valuations became a better narrative for fundraising.
- The challenging environment forced not only smaller funds to decrease their targets but also impacted mega VC funds. Also, some VC firms will simply not raise funds as frequently as they previously intended.
- H2 2023 has shown signs of recovery for fund managers. However, enough doubts remain for 2024.
- While raising a fund is paramount for GPs, they should also be aware of LP quality - as it is a long-term relationship.

Records levels of dry powder / 1



While the amount of US VC dry powder is a bright spot in the innovation economy, with limited LP pressure to invest, capital deployment is likely to remain slow — at least until more companies are forced and there is more agreement on terms and pricing.

Records levels of dry powder / 2

Beginning of the year, hope was that enormous amounts of dry powder would lead to startup investment picking up.

XX


TechCrunch+ Market Analysis

Will record levels of dry powder trigger a delayed explosion of startup investment?

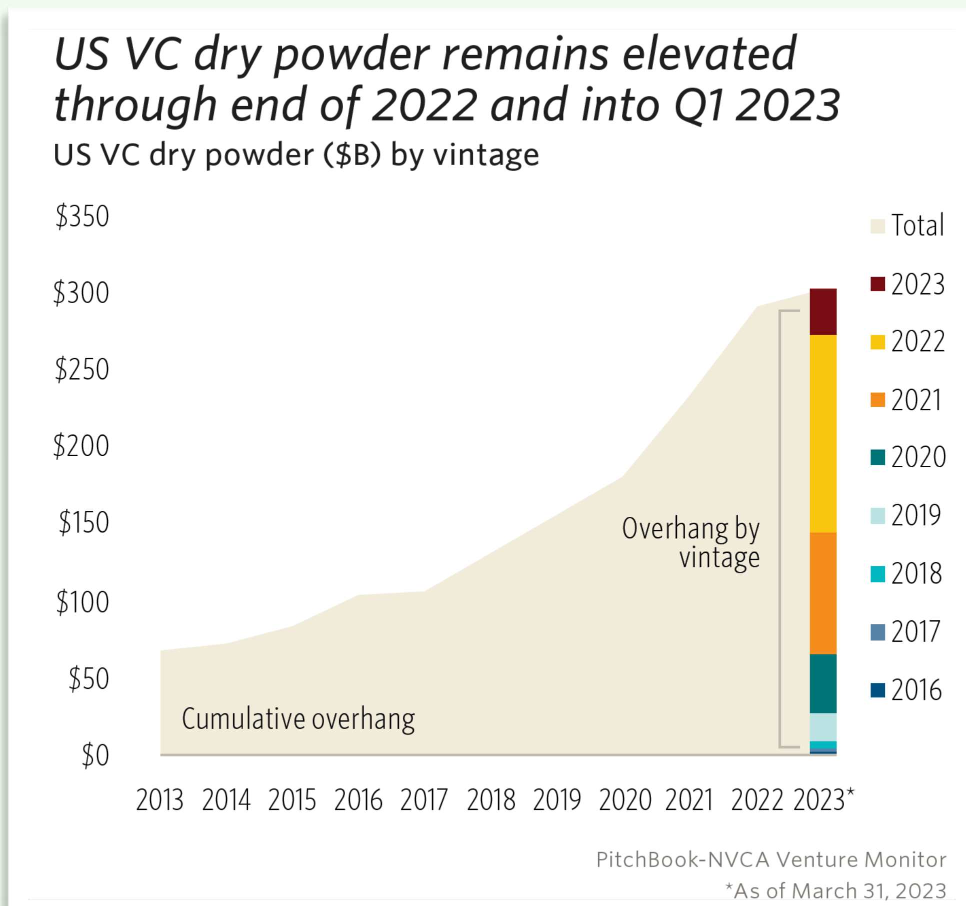
Lessons learned from past crises

Raphael Mukomilow, Pierre Bourdon / 6:00 PM GMT+1 • January 6, 2023


Jan 14, 2023 - Economy & Business

Venture capital has lots of dry powder in 2023

Kia Kokalitcheva, author of Axios Pro Rata



- **Not all limited partners (LPs) are created equal. While some high-net-worth individuals' might be strapped for cash right now, things are different for large institutions.**
- But the cash crunch does show up in one area — whether they make commitments to new funds.
- **VCs do have to deploy the capital they raised — it is their job to do so. But it won't be at the speed and volume seen during the heady days of 2021**, which may make it feel like the market isn't moving.

Dry powder vs. wet powder

TechCrunch+ Market Analysis

The mirage of dry powder

Anna Heim @abracarioca / 7:00 PM GMT+1 • January 14, 2023

- It is true that more funds have been raised than have been deployed, and by an exceptional margin. But **thinking that all of it will translate into funding new investments is likely misguided**.
- **Failed capital calls are rarely made public**, but Forbes confirmed that they are happening, and they're hitting emerging fund managers particularly hard.
- **Many VC funds will likely be spending money supporting ailing portfolio companies instead of investing in new ones**. They could choose not to, but they would face a dilemma.

TechCrunch+ Market Analysis

Dry powder versus wet powder: The numbers have spoken

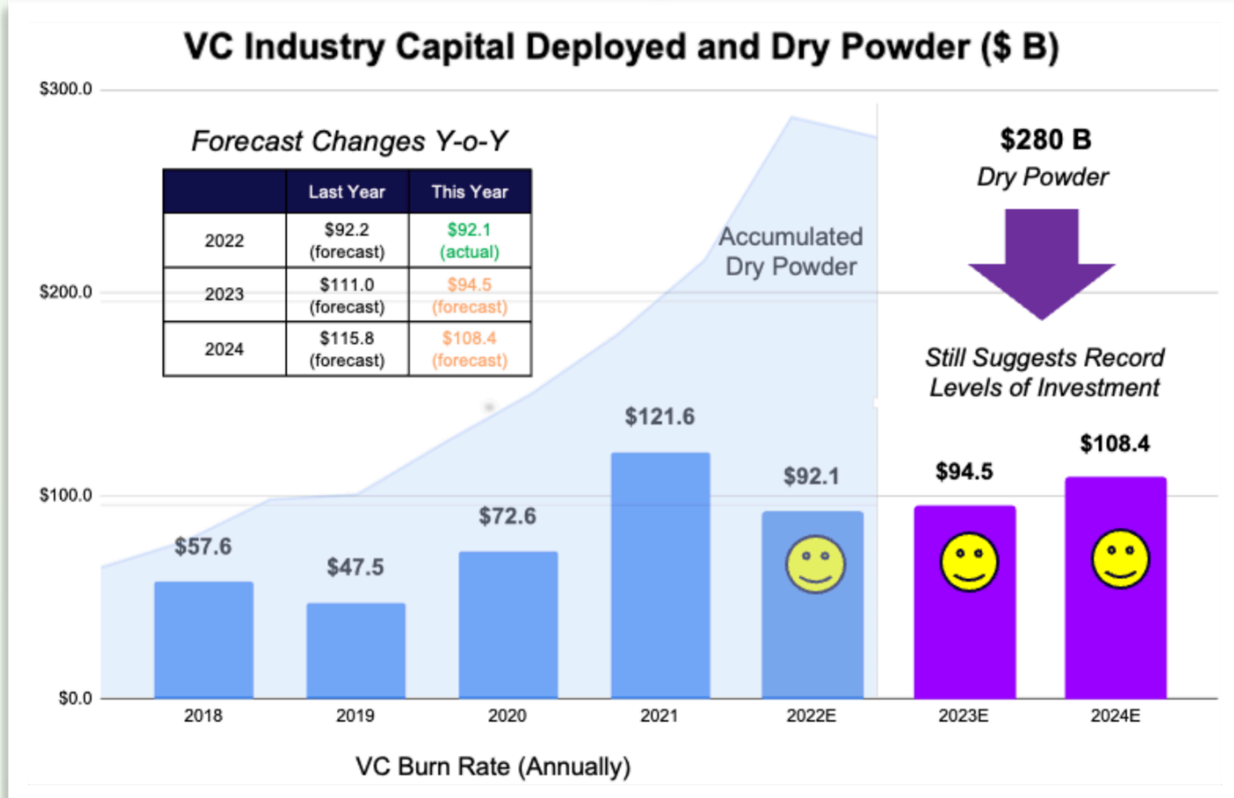
Bridge rounds boomed at the end of last year

Anna Heim @abracarioca / 7:00 PM GMT+1 • February 18, 2023

"One month ago, I warned that it would be a mistake to assume that the record levels of dry powder we kept hearing about would automatically go to new startups."

Will dry powder result in deployment?

Even after drop in investments, the deployment of dry powder is still projected at reasonable levels. Especially in certain sectors like ClimateTech




Piling on the dry powder for climate

$23B of new capital for climate tech in 2023

Insights, Investing, Investors

by CTVC on September 08, 2023

Venture capital investment in climate tech may have dropped ~40% in the first half of this year amid the broader market slackening, **but climate-focused funds have still been steadily stacking the green.**

The dry powder model makes predictions that at times defy investor sentiment, interest rates, and the stock market - it is a reminder that accumulated funds in the VC industry are one of the strongest indicators of funds flowing downstream.

Europe - Not all is rosy in the dry powder land

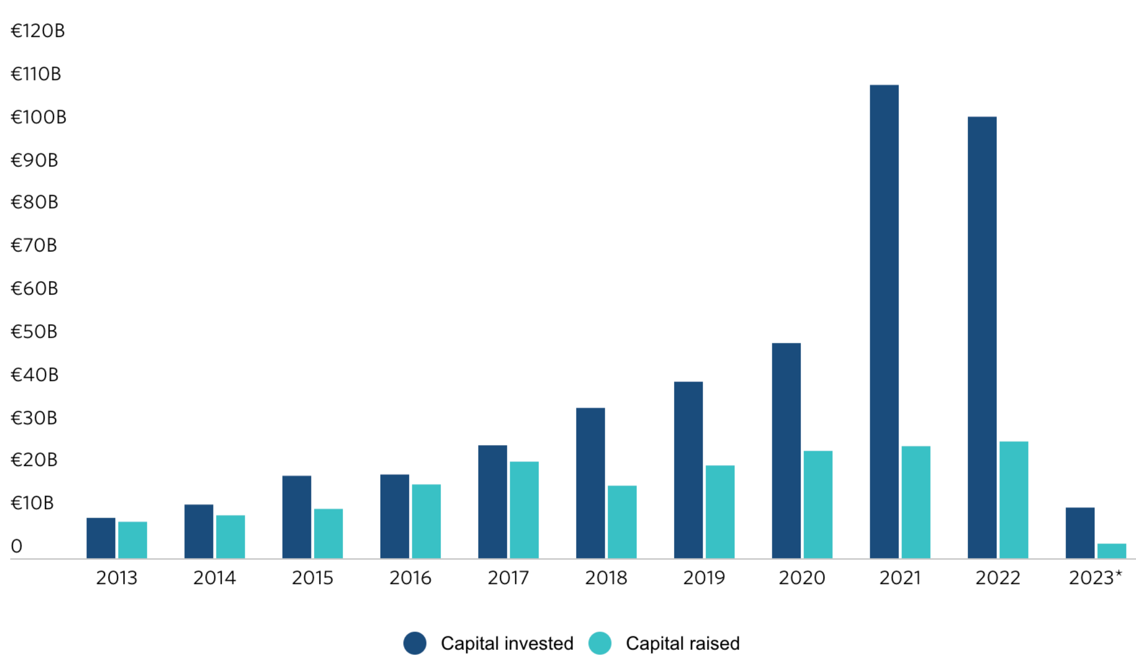
Dry powder shortage on the horizon for European VC

By Leah Hodgson

April 21, 2023

Potential capital shortage

The difference between capital invested in European startups and the amount raised by VC funds has increased significantly in recent years.

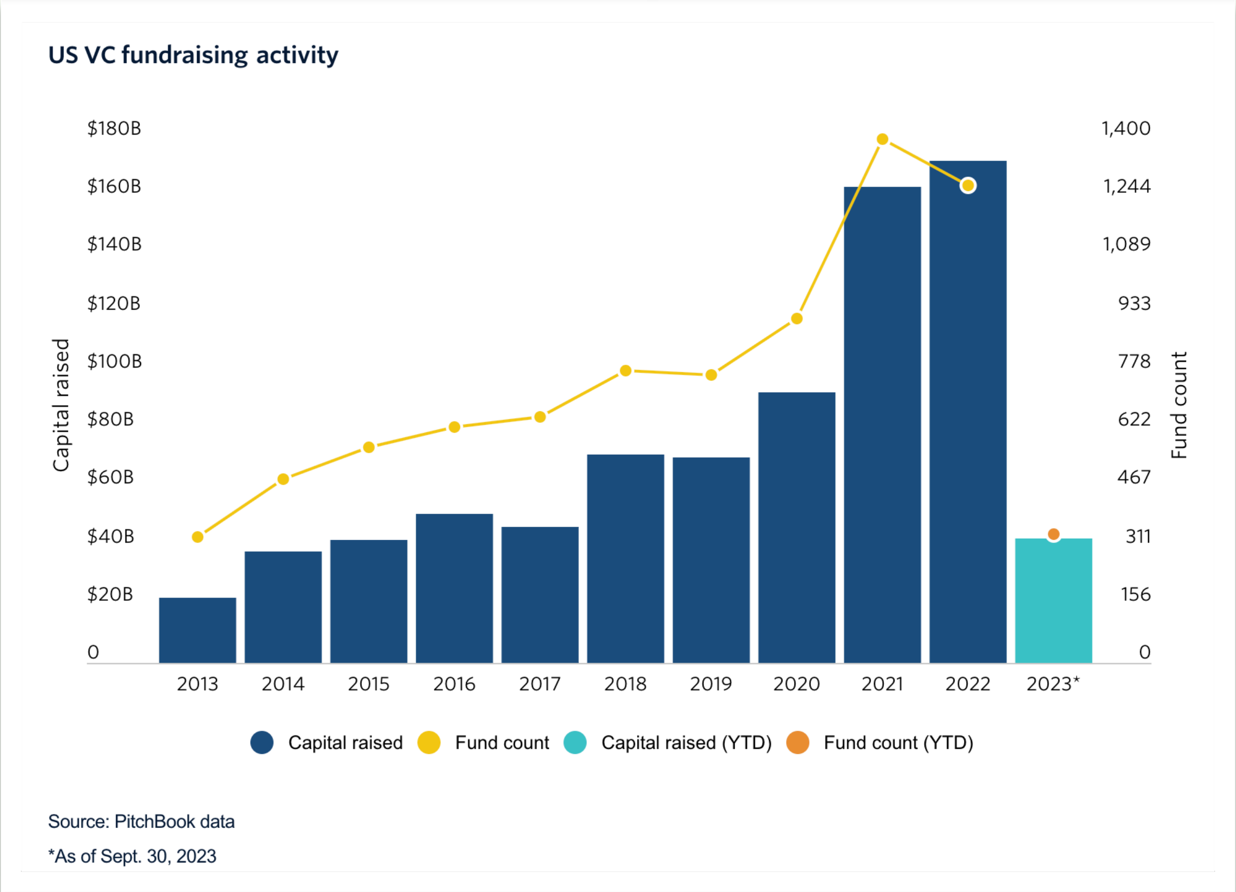


Source: PitchBook data
Geography: Europe
*As of March 31, 2023

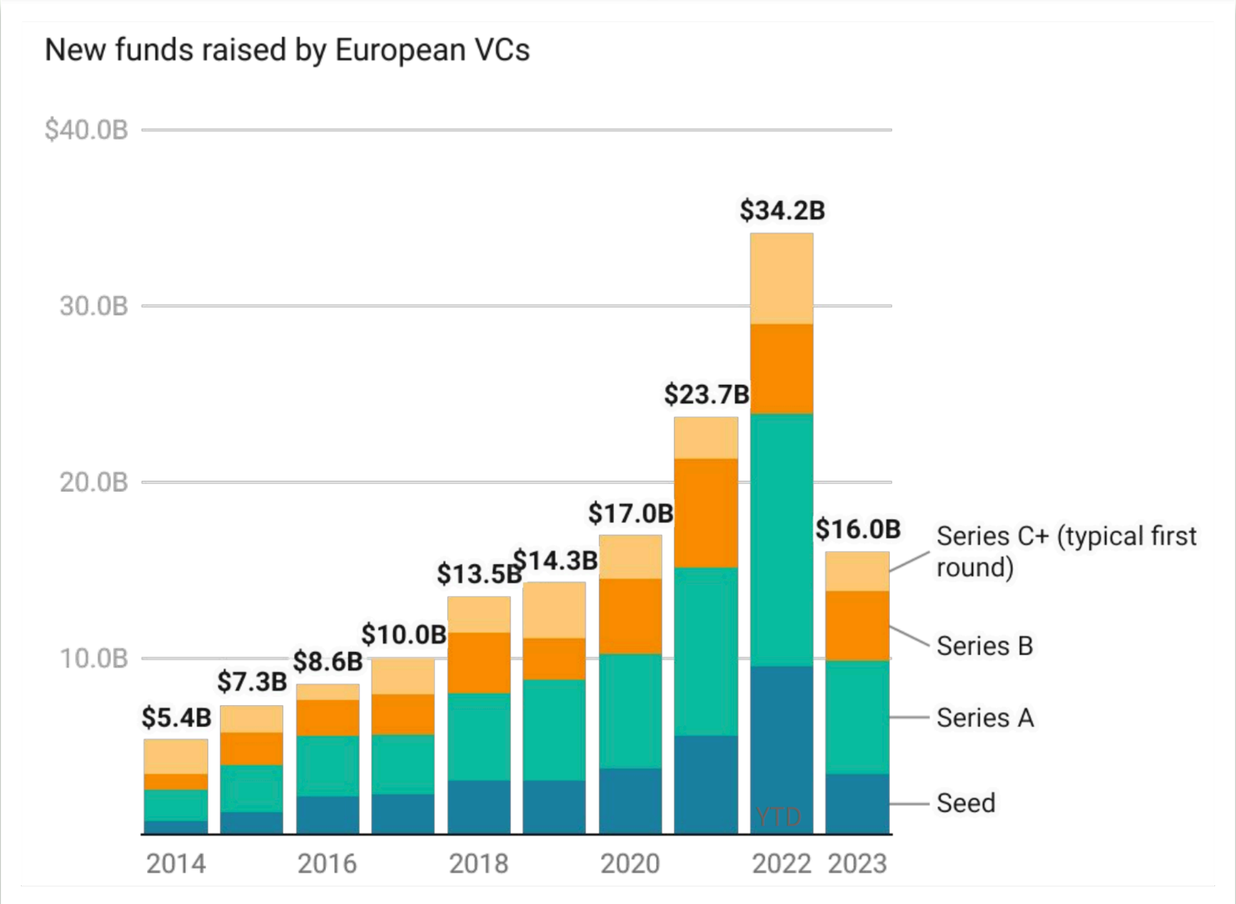
Without new funds or an increase in exits, European VC firms could struggle to provide further support to their existing investments, hindering startups' ability to grow and leading to down rounds, or even collapses, which in turn damage fund returns.

VC fundraising hits a bottom

In the U.S., venture fundraising environment has been one of worst in first nine months of 2023 as compared with past decade



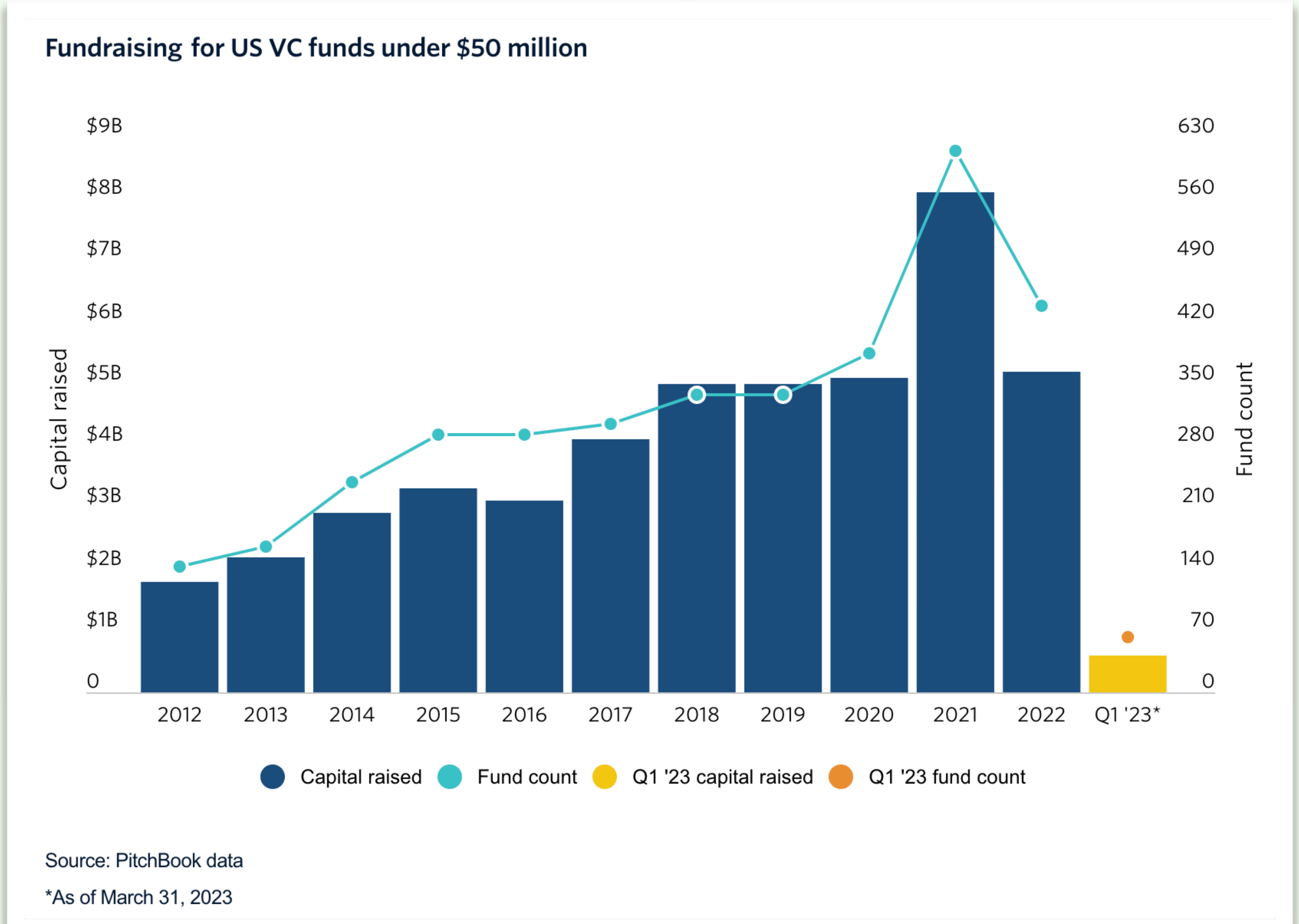
As compared with the U.S., the venture fundraising drop in Europe doesn't look that alarming



- **After sluggish four, five months, things are picking up for the next six to 12 months.** But just because there's an increase in activity doesn't mean that total VC fundraising will be more robust in 2024.
- LPs are much more likely to back new vehicles of firms that have strong historic performance. LPs are increasingly pushing managers to show actual cash returns

Record new funds raised by European Venture Capital funds in the last 18 months.

Smaller VC funds took a bigger hit



- **More than 1,400 micro-funds—VC vehicles under $50 million—raised since 2020.**
- Some GPs gave up on hitting their goals and closed earlier due to tough fundraising environment
- **VC industry participants expect a chunk of those micro-funds never to raise a subsequent vehicle.**
- The widespread decline in exits means that micro GPs haven't had a chance to prove themselves, and they may find the battle to raise funds isn't worth the fight.

Downsizing, pausing, or stopping!

Many VC funds decided to cut their fund sizes. Also, true for mega VC funds.

Some venture capitalists were probably a bit too hopeful about hitting fundraising goals this year

Vishal Persaud and Melia Russell Jun 15, 2023, 12:05 PM CEST

EXCLUSIVE | VENTURE CAPITAL

TCV Raised 50% to 75% Less Than Planned For New Venture Fund

By Natasha Mascarenhas and Kate Clark | June 12, 2023 6:23 PM PDT
Photo: Photo via YouTube/TCV

Insight Partners cuts size of $20bn fund amid 'great reset in tech'

New York-based venture capital firm said it will scale back the pace of its dealmaking as valuations have slumped

News December 7, 2023

Eurazeo's managing partner: "We have postponed our fundraising"

Eurazeo recruits four new partners after senior-level departures this summer

News November 9, 2023

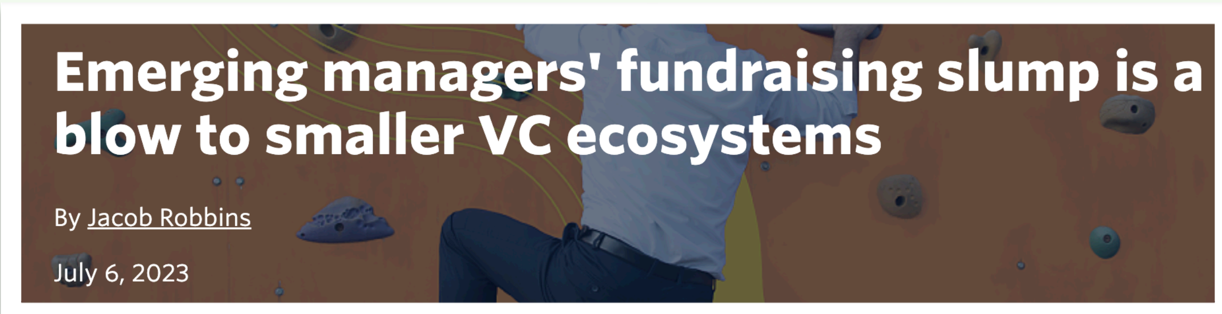
Stride VC stops fundraising and lets team members go

Tiger Global Cuts Fundraising Target as Startup Market Cools

Prolific startup investor is aiming to raise $5 billion, less than half its initial ambition

Is the emerging manager (EMs) fundraising rebound for real?

2023 started as a challenging year for EMs


Emerging managers' fundraising slump is a blow to smaller VC ecosystems

By Jacob Robbins

July 6, 2023

- **Historically, emerging managers have closed nearly two to three times the number of funds that their more experienced peers do.**
- **The average fund size for an emerging manager is now $41.7 million, less than half what it was last year.**
- The current economic environment is making it hard for LPs to want to invest in firms without a track record.

2023-end might turnout better than anticipated for EMs


TechCrunch+ Market Analysis

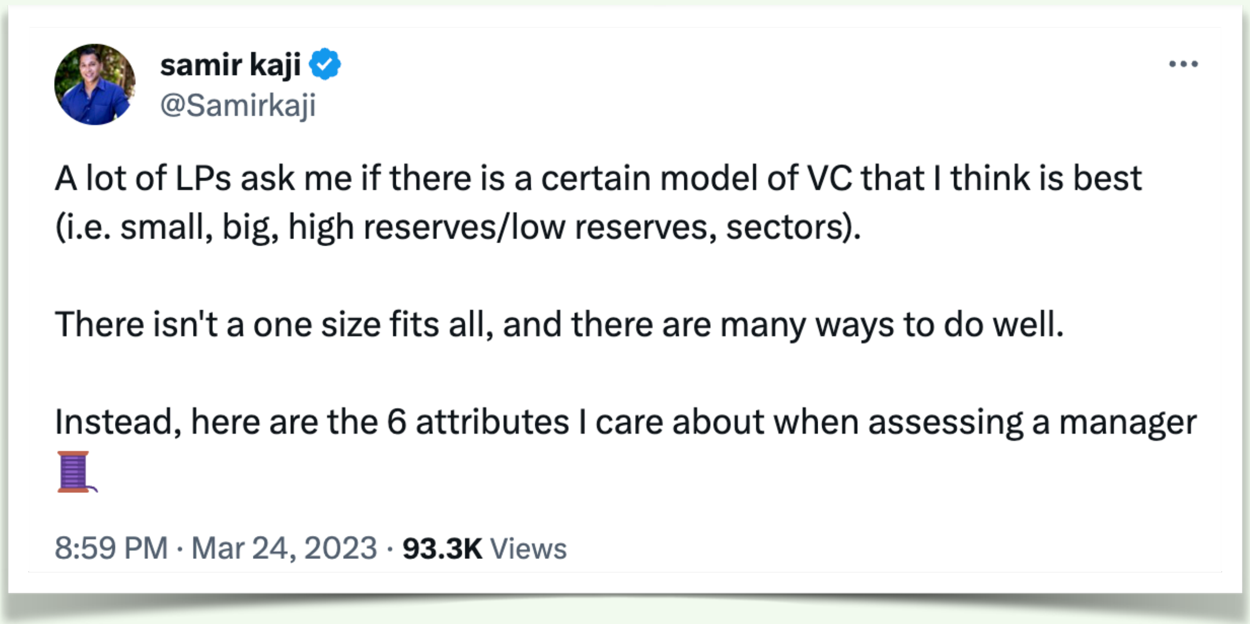
US emerging managers started their fundraising rebound in 2023

Rebecca Szkutak @rebecca_szkutak / 6:00 PM GMT+1 • November 20, 2023

Comment

- U.S. emerging managers raised $11 billion this year across 170 funds through the third quarter of 2023.
- **Despite fundraising being down across the board, emerging managers raised 26% of the total capital raised. This is up from 23% in 2022, which means as they raise more of the overall total, established managers are raising less.**
- LPs aren't just the CALPERs of the world. **There are a ton of thoughtful LPs out there who, yes, they want to have a financial return, and they are also thought leaders in the space and want to put their capital strategically into those spaces.** Emerging managers in a lot of ways are a good way to do that.

Approaching LPs

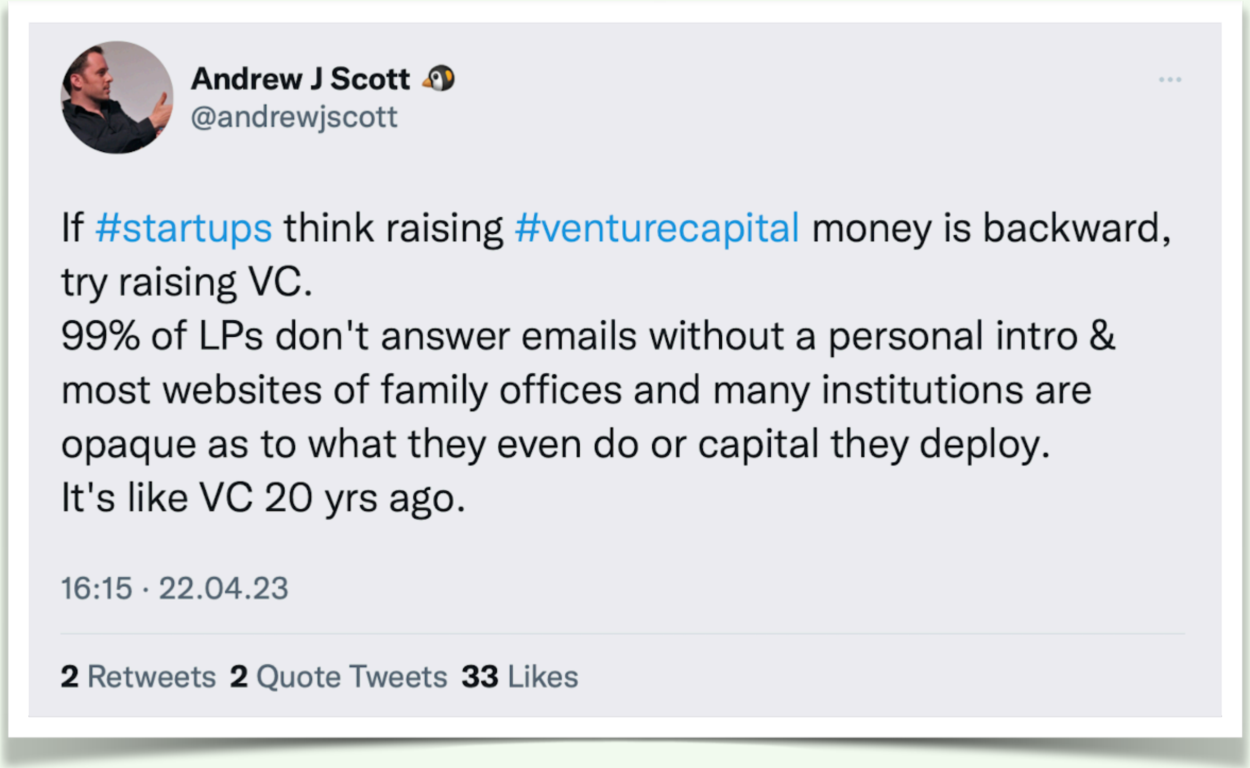

samir kaji
@Samirkaji

A lot of LPs ask me if there is a certain model of VC that I think is best (i.e. small, big, high reserves/low reserves, sectors).

There isn't a one size fits all, and there are many ways to do well.

Instead, here are the 6 attributes I care about when assessing a manager 🧵

8:59 PM · Mar 24, 2023 · **93.3K** Views


Andrew J Scott
@andrewjscott

If #startups think raising #venturecapital money is backward, try raising VC.
99% of LPs don't answer emails without a personal intro & most websites of family offices and many institutions are opaque as to what they even do or capital they deploy.
It's like VC 20 yrs ago.

16:15 · 22.04.23

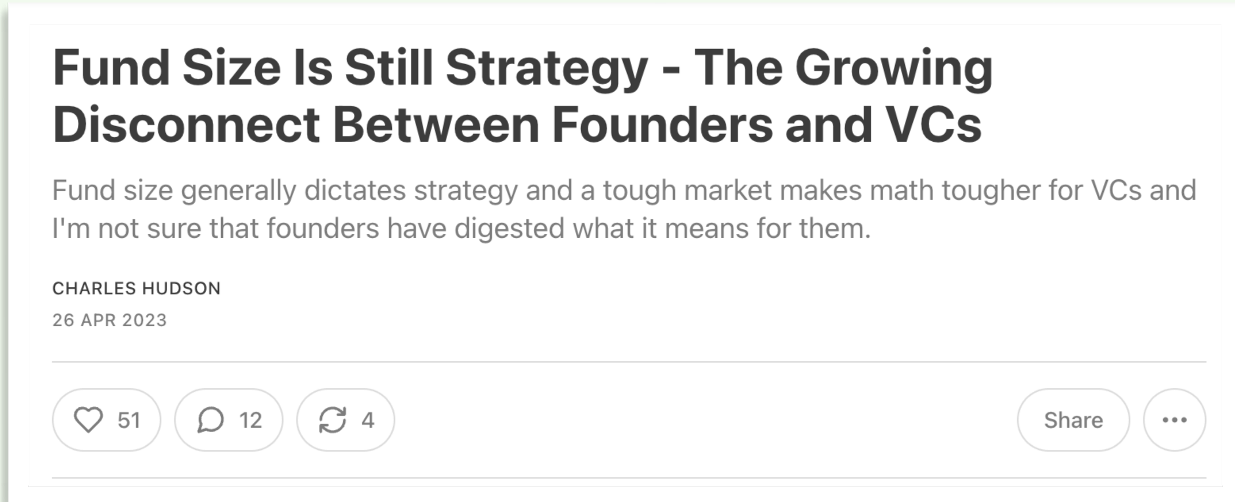
2 Retweets **2** Quote Tweets **33** Likes

- **Storytelling is equally important for VCs, as for Founders.**
- When I am talking to a GP, I'm also trying to assess how they make me "feel"? If I feel inspired or excited, it's easy to draw a line to this feeling passing to founders, other LPs, and co-investors. This does map back to authenticity.

VC fundraising has always been opaque

Fund size & stage strategy

Fund size is a venture capital strategy


Fund Size Is Still Strategy - The Growing Disconnect Between Founders and VCs

Fund size generally dictates strategy and a tough market makes math tougher for VCs and I'm not sure that founders have digested what it means for them.

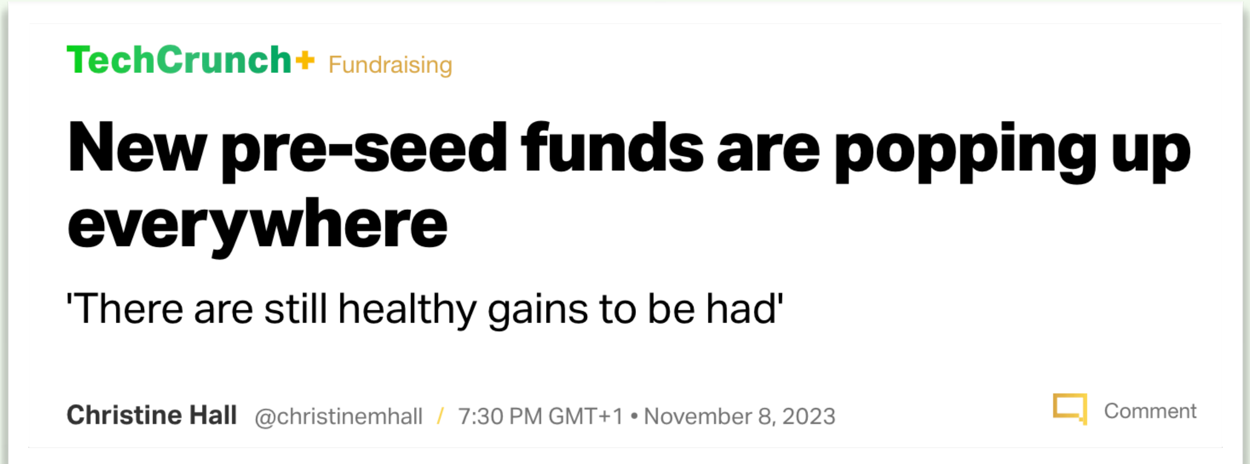
CHARLES HUDSON

26 APR 2023

51 12 4 Share

- **Your fund size, for the most part, dictates your check size, ownership targets, and portfolio construction.**
- A fund of a given size only has a few levers to pull to get to top-tier returns.
- **The larger your fund, the fewer levers you generally have to tinker with to generate great returns.**

Growth of venture ecosystem at the pre-seed stage


TechCrunch+ Fundraising

New pre-seed funds are popping up everywhere

'There are still healthy gains to be had'

Christine Hall @christinemhall / 7:30 PM GMT+1 • November 8, 2023 Comment

Growth-stage investing is not attracting any limited partner dollars, as it's seeing the most punishing data at the moment.

Pre-seed and seed are far more attractive in that it doesn't require large funds to raise, and given the entry point of such low valuations, there is a better story about finding alpha by deploying in this space.

VC fundraising advice / 1

A GP's guide to fundraising a VC Fund

Essentials a GP should know about fundraising a VC Fund

By AlphaQ Venture Capital

"Fundraising is notoriously tough for emerging managers lacking a proven track record and facing scepticism from institutional investors due to perceived risks and smaller fund sizes. However, our guide is here to empower you by addressing common mistakes and providing a strategic roadmap of best practices."

Five Lessons We've Learned Building A Venture Fund from Scratch

This month, we're five years into building Contrary.

ERIC TARCZYNSKI

9 MAR 2023

Elizabeth Yin
@dunkhippo33

Now that I'm 5+ years into my journey in running a VC firm, recently, someone asked me what were some of my learnings were.

What did we do right? Where did we flop? In raising our first fund @HustleFundVC

Some thoughts >>

12:24 AM · Mar 2, 2023 · **143.5K** Views

VC fundraising advice / 2

Eric Woo
@ericjwoo

💸 Often get asked by emerging VCs for fundraising tips/advice. Here is the one I keep coming back to: KNOW YOUR LP (KYLP). It will help you identify the type of LP and adjust your approach accordingly. Here is the diagram, which I'll unpack below...

TechCrunch+ Fundraising

Emerging managers shouldn't rush a first close – even in this market

Rebecca Szkutak @rebecca_szkutak / 5:00 PM GMT+2 • May 17, 2023 Comment

It's hard to raise a fund. A guide.

Ryan Hoover
Founder of Product Hunt. Investor at Weekend Fund.
133 articles ✓ Following
May 30, 2023

Venture Unlocked
with Samir Kaji

APR 26 • 53M

Fundraising best practices for managers, strategic LP management, and LPACs with Meghan Reynolds of Altimeter

Episode 107

Apr 26 6

Sam Rosenbaum
@sammskiii

I think a big fundraising mistake is only growing your LP relationships when you're fundraising.

The most successful GPs (at fundraising) I've seen are always engaging their investors in one way or another, especially when they aren't asking for any money.

4:19 AM · Oct 3, 2023 · **6,491** Views

LP construction

LP quality matters!

Joel Cohen
@joelmcohen

LP QUALITY, WHY IT MATTERS, AND HOW TO DILIGENCE IT

A thread for investment managers, emerging and not.

These are my suggestions from my own experience - I would encourage GPs to chime in here, I know there are people on here that have put a lot of thought into this.

15:39 · 13.06.23

48 Retweets **24** Quote Tweets **299** Likes

Eric Bahn
@ericbahn

We're not a big fund ($150M AUM, including SPVs), but we've said NO to tens of millions of dollars of LP commits.

I wanted to create a thread about the common reasons why we reject LP money.

3:22 AM · Jan 31, 2023 · **220.6K** Views

All LPs are created equal. Raising from LPs requires many conversations and many iterations

FEBRUARY 28, 2023 BY DAVID

How to Think about LP Construction

The opacity in the LP world is getting undone by new, emerging LPs hungry to get involved and to learn.

Raising from LPs requires many conversations and many iterations.

- Beware of relying too much on publicly available data to find LPs.
- For potential MVP LPs, check size doesn't matter.
- Persistence also speaks for itself.
- There are different ways to get in front of LPs: events, Twitter, deal flow, etc.
- Some individual LPs are not financially motivated.
- Don't underestimate the power of an anchor LP.

SECTION
VENTURE BUSINESS

IMAGE FROM DALL E
Here is an image that visualizes the theme 'Future of Venture Capital', incorporating various sub-themes. The scene is set in a futuristic, high-tech VC office and includes elements like AI transforming the VC world, the growth of more VC hubs globally, venture capitalists redefining their edge, and the use of venture capital as a tool for geo-advantage. The atmosphere is one of innovation, global connectivity, and strategic planning.

Index - Venture business / 1

Summary - Venture fund management

Liquidity management

- Liquidity management should be a priority topic for LPs - especially FOs and other institutional investors.
- It takes time for a single VC fund to provide liquidity (typically 5+ years). It's even more exacerbated when LPs start the allocation process on a per-year basis.
- Pressure to send money to LPs drives some VCs to sell portfolio company stakes on the secondary markets. But buyers are interested only in the best assets. Less attractive startups are not generating demand, even at big discounts.

Portfolio size

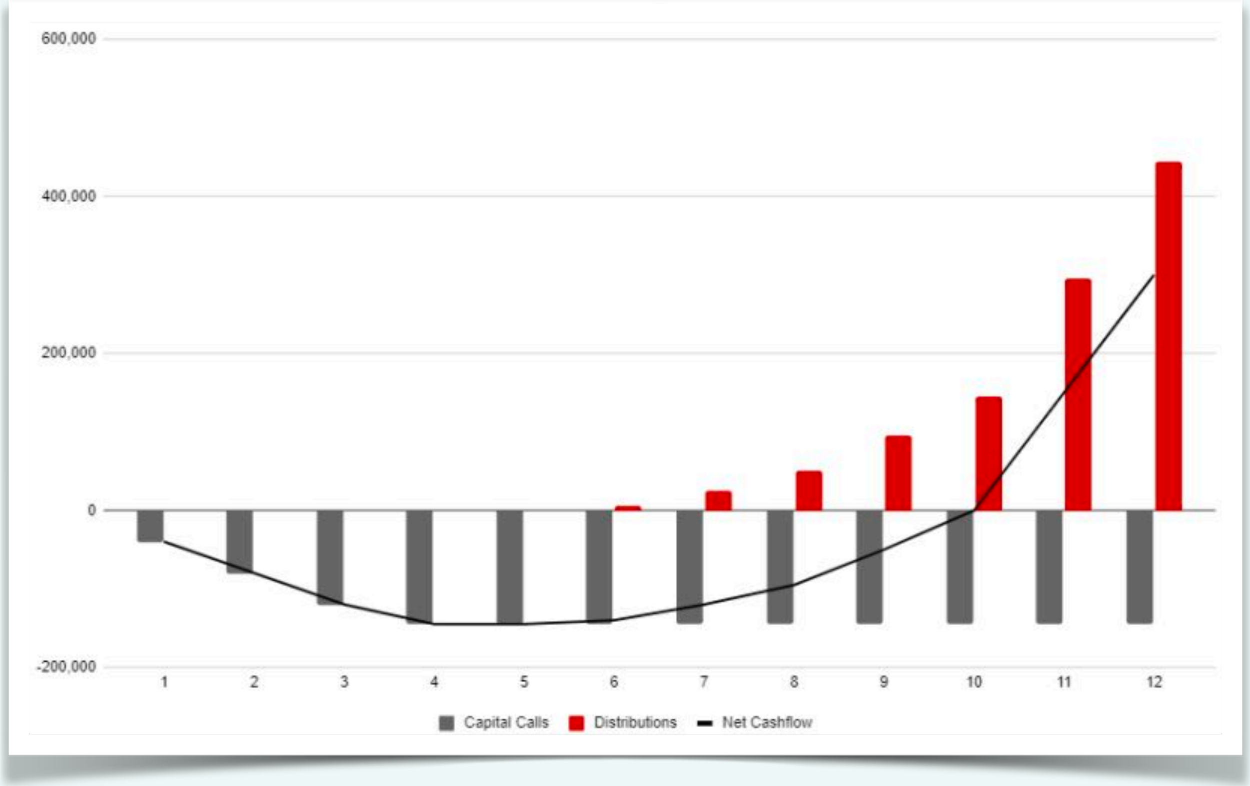
- Portfolio performance is controlled by multiple variables. Out of these variables, portfolio size is one critical part.
- Large portfolio size decreases the probability of less than 1X return but also limits potential return as big wins are diluted.
- Some LPs think of portfolio size in the context of achieving at least one unicorn in a random portfolio of startups.
- LPs who are allocating to both FoFs and direct startup investments need to handle portfolio topics separately for both buckets.

Selling portfolio startups

- Buying decisions are almost always driven by analysis, making them more rational decisions. Selling, on the other hand, tends to be emotional.
- There is no single correct approach for VC managers to decide when to sell. Important is that there should be a process and a defined approach that is followed every time.

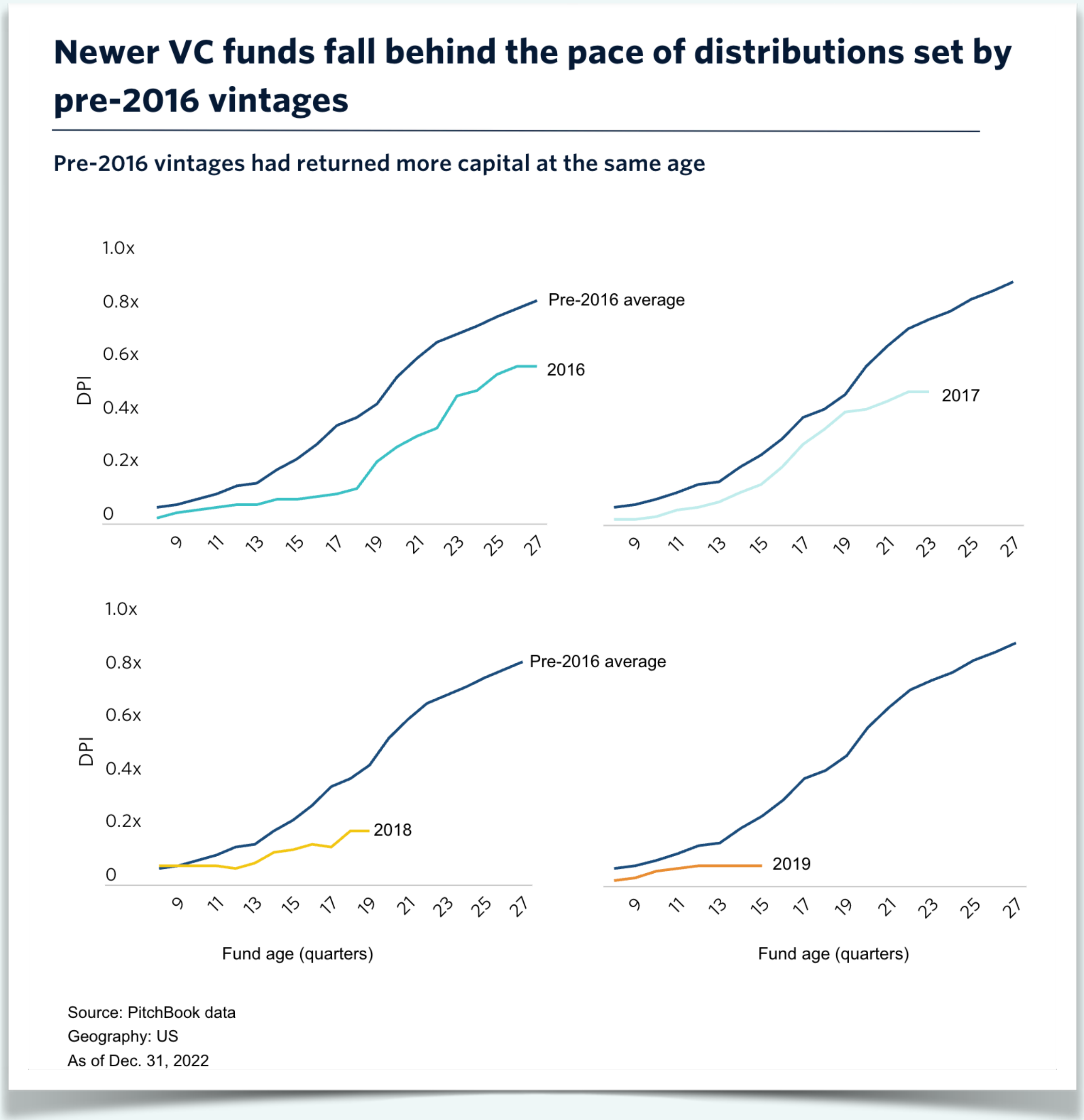
Liquidity management

Why venture capital fund investors shouldn't underestimate the importance of liquidity management



- It takes a long time for a single VC fund to provide liquidity.
- If you commit to venture capital funds every year, that effect is even more pronounced.
- If you want to build a fund portfolio the right way, make sure to properly size your commitments. It might feel slow in the first few years, but it does ramp up, so be careful about your liquidity management.

LPs demand for liquidity drives VCs to secondary markets



- The pressure to send money to LPs is driving some VCs to sell portfolio company stakes on the secondary markets, but they're finding that buyers are interested only in the best assets.
- Meanwhile, less attractive companies are not generating much demand, even at big discounts.

Thoughts on portfolio construction

Large portfolio size decrease probability of less than 1X, but also limits potential return

Tech

Thoughts and discussions on venture portfolio construction

As a follow-up to releasing our Portfolio Simulator, we thought we'd dive into some of the most interesting discussions it generated.

Moonfire Team
Feb 28, 2023 · 4 min read

Portfolio performance is largely controlled by five variables:

1. Decision quality
2. Portfolio size
3. Ticket sizing
4. Whether or not, and how much, you follow-on.
5. Upper bound on ROI (of a single investment)

- The probability of returning less than 1x the fund decreases as the size of your portfolio grows, and gets close to zero when your portfolio exceeds 200 companies.
- On the other hand, **increasing the size of your portfolio limits your potential return, because the impact of any big wins will be diluted.**

The perfect fund size, according to an LP

Diversified VC Portfolios Find Big Winners

MARCH 14TH, 2023 | 35:44 | E112

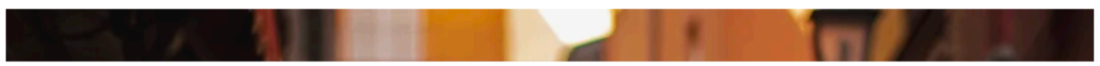
- **A perfect fund for us is 50 deals and no reserves.**
- So the reason why we look for fund managers that are doing shots on goal goes back to if the outlier production rate is 2% and you do 50 deals.
- **Capture one if it's random, which we believe most asset classes are random or largely random.**
- So if there's any picking skill that the GPs have, then that's gravy to us.
- But we want to make sure that we are random within our investments.

Science of selling for VCs

Not just buying, selling will also largely impact VC returns

AUGUST 17, 2023 BY DAVID

The Science of Selling – Early DPI Benchmarks



- Generally speaking, don't sell your fast growing winners early.
- Except when…
- Selling on your way up may not be a crazy idea.

Net DPI

	Distribution	Year 5	Year 7	Year 10	Year 12	Year 15	Weighted
Crap	10%	0.0	0.3	0.5	0.7	1.0	0.1
Meh	20%	0.2	0.4	0.7	1.0	1.5	0.3
Okay	40%	0.3	0.5	1.0	1.5	2.0	0.8
Good	20%	0.5	1.0	1.5	2.0	3.0	0.6
Great	10%	1.0	1.5	2.0	3.0	5.0	0.5
	100%						**2.30**

Net DPI Benchmarks from Years 5-15

There is no right approach to knowing when to sell, but having an approach is important

Knowing when to sell

VCs aren't just buyers. Let's talk about selling.

- Knowing when to sell a position in a portfolio company. This is one of the hardest parts of investing and can have a massive influence on a fund's overall performance.
- Your returns will have as much to do with selling as buying. **And buying is a fairly rational decision. Selling tends to be emotional.**
- Selling doesn't necessarily mean you don't believe in the company.
- **There is no right approach to knowing when to sell, but having an approach is important.**

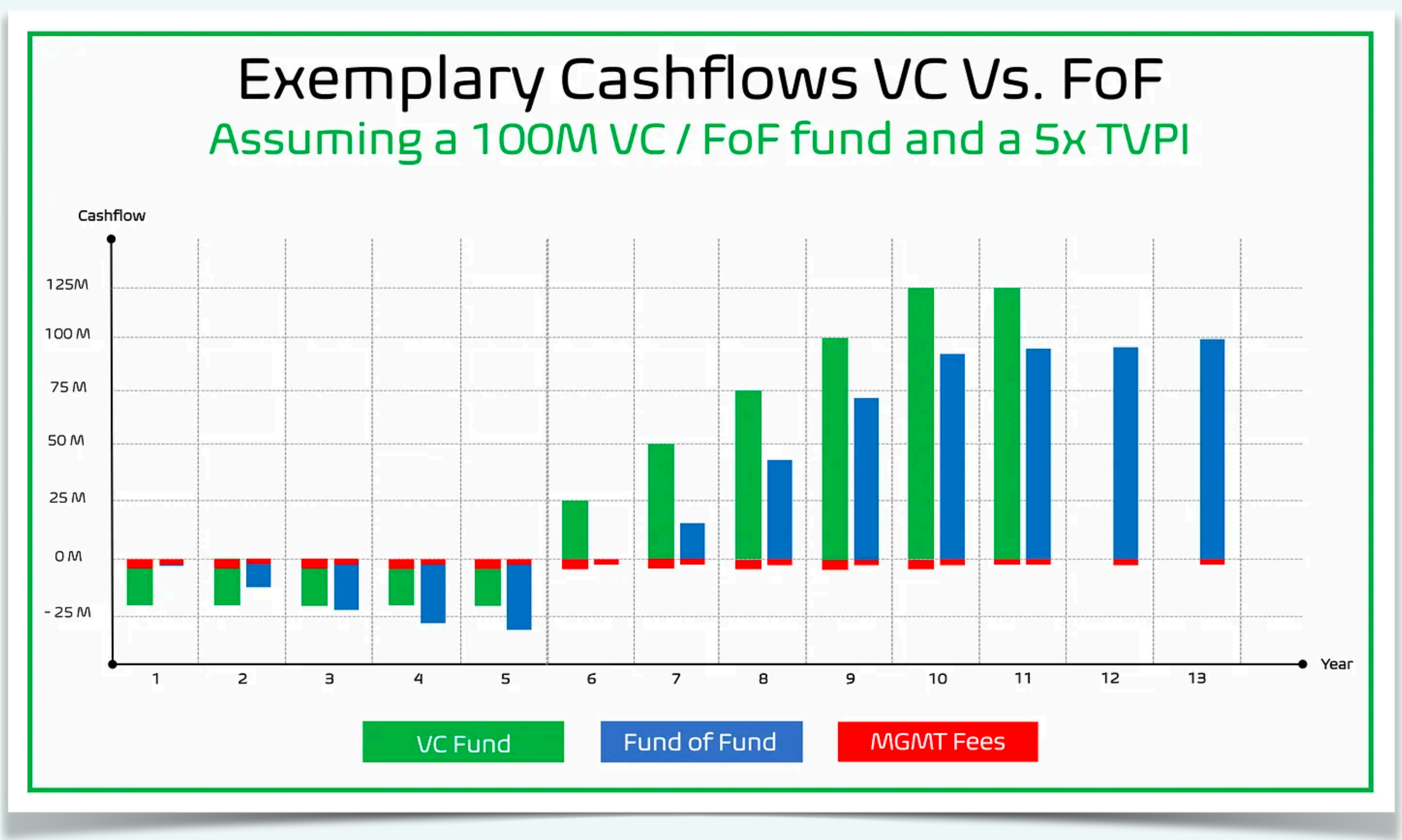
VC portfolio vs. FoF portfolio


VENTURE CAPITAL PORTFOLIO CONSTRUCTION

Portfolio Construction VC x FoF

āltitude. · Follow

8 min read · Jul 4



- **Constructing a VC portfolio** involves employing strategies such as Monte Carlo simulation to optimize risk and return expectations, recognizing the implications of the power law, and tailoring portfolio size and follow-on strategies to align with the investor's objectives and risk appetite.

- **Fund of Funds:** Data indicates a strong correlation between the size of the portfolio and its performance. With the first strategy (deal flow), the maximum number of portfolio funds to execute this strategy falls in the range of 12 to 15. With the second strategy (alpha), the data is clear that 'small is beautiful' in terms of fund size.

Summary - Venture performance / 1

VC fund performance

- Negative valuations (net NAVs) have driven declining returns significantly over the last year. The distribution component of venture performance has lagged the median since 2022 beginning.
- VC fund performance trends across sizes and regions have broadly moved in tandem.
- VC returns are more dispersed than other asset classes. Even within VC managers, different sub-categories can lead to performance differentiation.
- Much like in public markets, LPs should avoid being overly reliant on past performance when selecting managers and instead focus on their assessment of the broader investment thesis and whether the manager has the right processes and personnel to execute that thesis.

Case of DPI

- A greater share of VC investments have yet to be monetized. Not all TVPI will become DPI.
- Due to their limited operational history, DPI is the elephant in the room for emerging VCs.
- Is VC fund performance highly repeatable? According to one data provider, 12.5% of firms returned at least one 3x fund, and only 2.5% returned at least two 3x funds.

VC benchmarks may be overrated

- Although useful for comparison, Benchmarks are frequently overemphasized in manager selection and tend to ignore the flaws in this asset class category.
- VC benchmarking is a data issue, not a lack of demand for having better benchmarks. Benchmarks are definitely not all created equal.

Summary - Venture performance / 2

Will 2023 turn out to be a good venture year?

- According to a report - VC exhibited superior returns in the vintages emerging from recession across nearly all major performance metrics.
- According to another research - venture golden periods tend to occur three to four years after a yield curve inversion or near inversion.

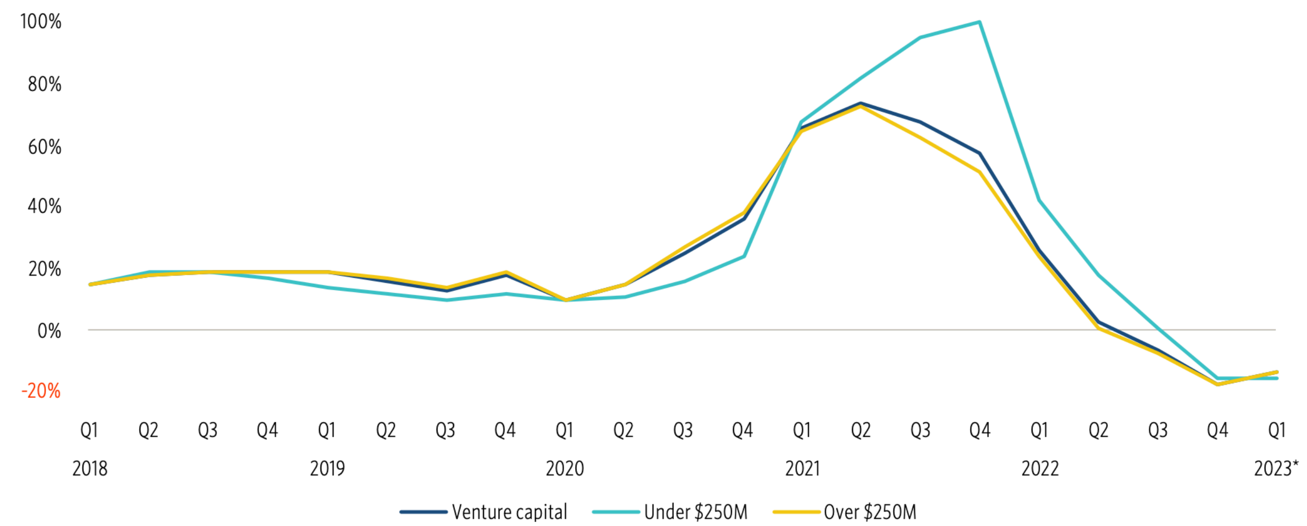
VC investing has different styles

- Many LPs treat VC as a single asset class. However, under the hood, things are more complex. Not only can we divide VC asset class geographically, but we can also divide them based on (a) Fundraising stage (example - Early stage), (b) Size (example - below USD 150million AUM, etc.), and (c) Terminology (example - Emerging vs. Established managers).
- Diversification vs concentration in venture investing: Both approaches arrive at similar expected returns, but the paths are very different.
- Smaller vs. Bigger funds: Fund TVPI performance is stronger in smaller funds.
- Generalists vs. Specialists: Specialist funds are the clear winners for vehicles under $250 million in IRR and TVPI. According to another dataset, GP, who is a domain expert, was the biggest source of differentiation among VC managers.

VC fund performance

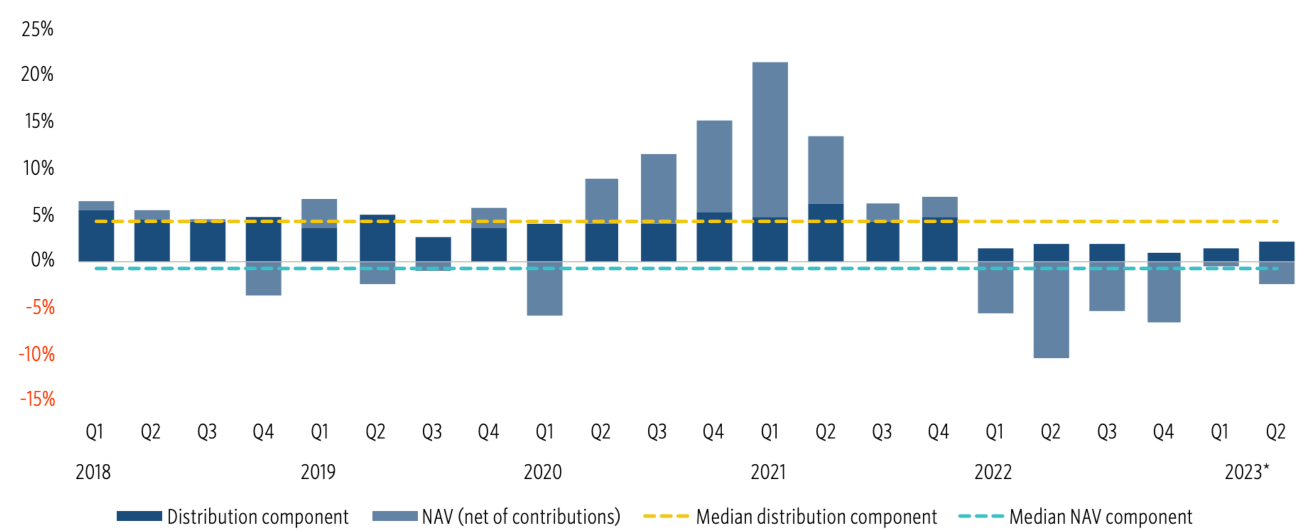
2023 represented a negative territory for performance, from IRR (1-year rolling) and from NAV (net) perspective

PitchBook Indexes: VC funds rolling one-year horizon IRRs by size bucket



Source: PitchBook • **Geography:** Global
*As of March 31, 2023

VC Index quarterly return by source (% of beginning NAV)

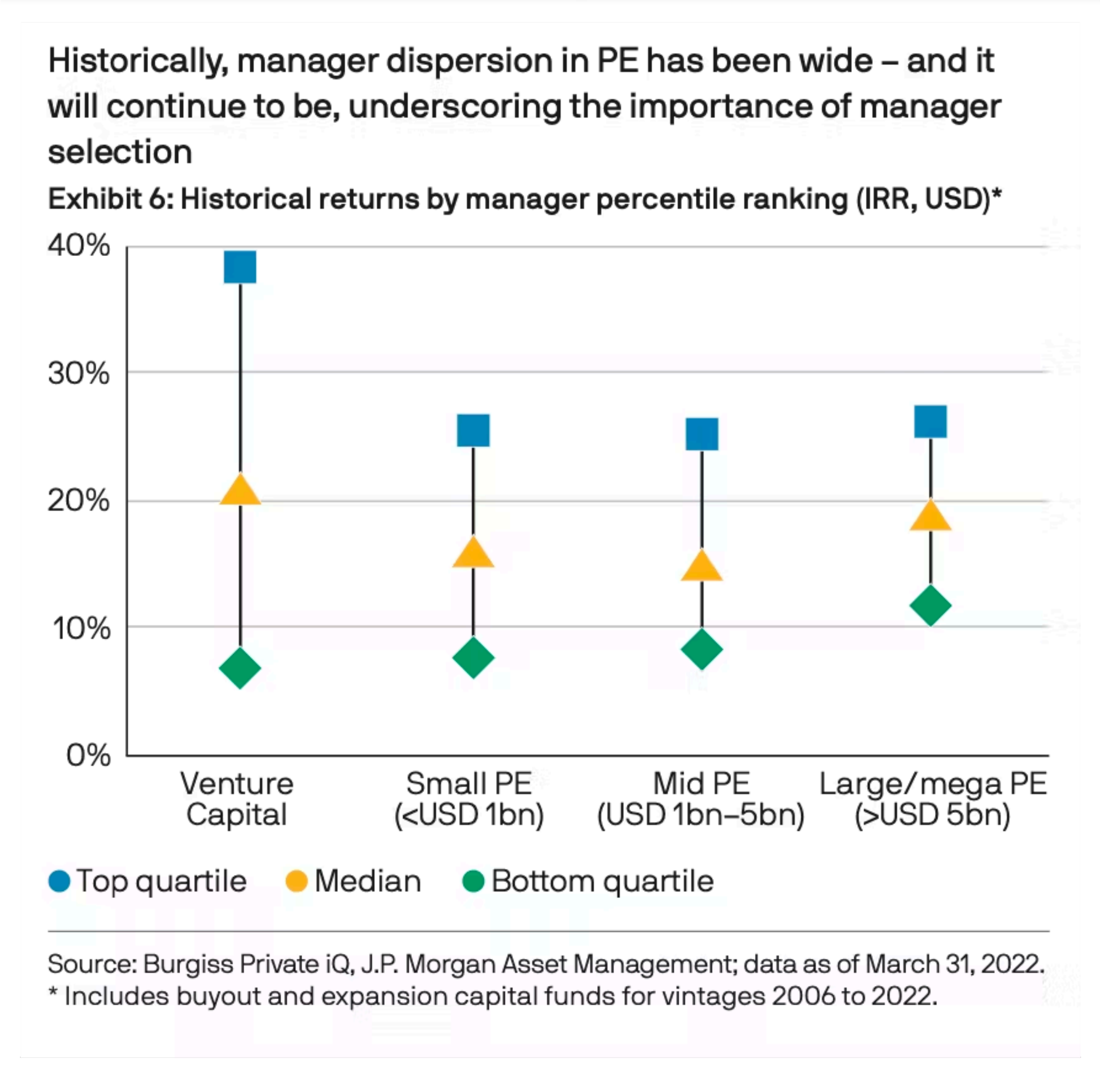


Source: PitchBook • **Geography:** Global
*As of June 30, 2023
Note: Q2 2023 data is preliminary.

- **In Q1 2023, returns for VC funds continued to lag other private market asset classes**, with the strategy remaining in negative territory for the third consecutive quarter as measured by one-year horizon IRRs.
- Declining returns have been driven by the significant downturn that venture valuations have undergone over the last year.
- **VC fund performance trends across sizes and regions have broadly moved in tandem.**

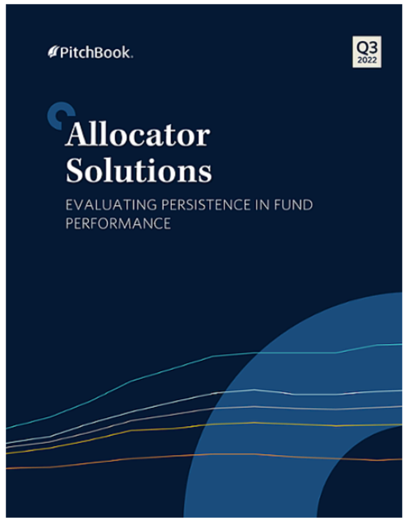
Venture performance dispersion w.r.t other asset classes

VC returns are more dispersed than other asset classes



VC's past performance persistence

LPs should avoid being overly reliant on past performance



Q3 2023

Allocator Solutions: Evaluating Persistence in Fund Performance

August 24, 2023

Fact or fiction: Does fund family performance persist?

- In VC, the average performance of predecessor funds appears to have some informational value, but not enough for LPs to gain a material advantage when using it to make manager selection decisions.
- The large error rates found in our regression analyses suggest that the practical use cases are severely limited.
- **The bottom line is that much like in public markets, LPs should avoid being overly reliant on past performance when selecting managers and instead focus on their assessment of the broader investment thesis and whether the manager has the right processes and personnel to execute that thesis.**

Venture performance differentiation

VC vintage year performance attribution

Percentage of aggregate performance of 1,000+ fund sample	Percentage of vintage years responsible for performance (number of vintage years out of 23 total)			
	5-Year	10-Year	25-Year	20-Year
25%	4% (1)	4% (1)	4% (1)	4% (1)
50%	13% (3)	13% (3)	9% (2)	13% (3)
75%	22% (5)	26% (6)	22% (5)	22% (5)
80%	22% (5)	30% (7)	22% (5)	26% (6)
85%	26% (6)	30% (7)	22% (5)	26% (6)
90%	30% (7)	39% (9)	26% (6)	30% (7)
95%	39% (9)	43% (10)	26% (6)	35% (8)

Source: StepStone Analysis.

Of the 23 vintage years assessed, 80% of returns come from just five to seven separate vintage years over the short, medium, and long term.

These statistics speak to the degree of impact that the strongest vintages have on industry-level performance and underscore the difficulty of trying to "market time" the asset class.

Even within VC managers, different sub-categories can lead to performance differentiation

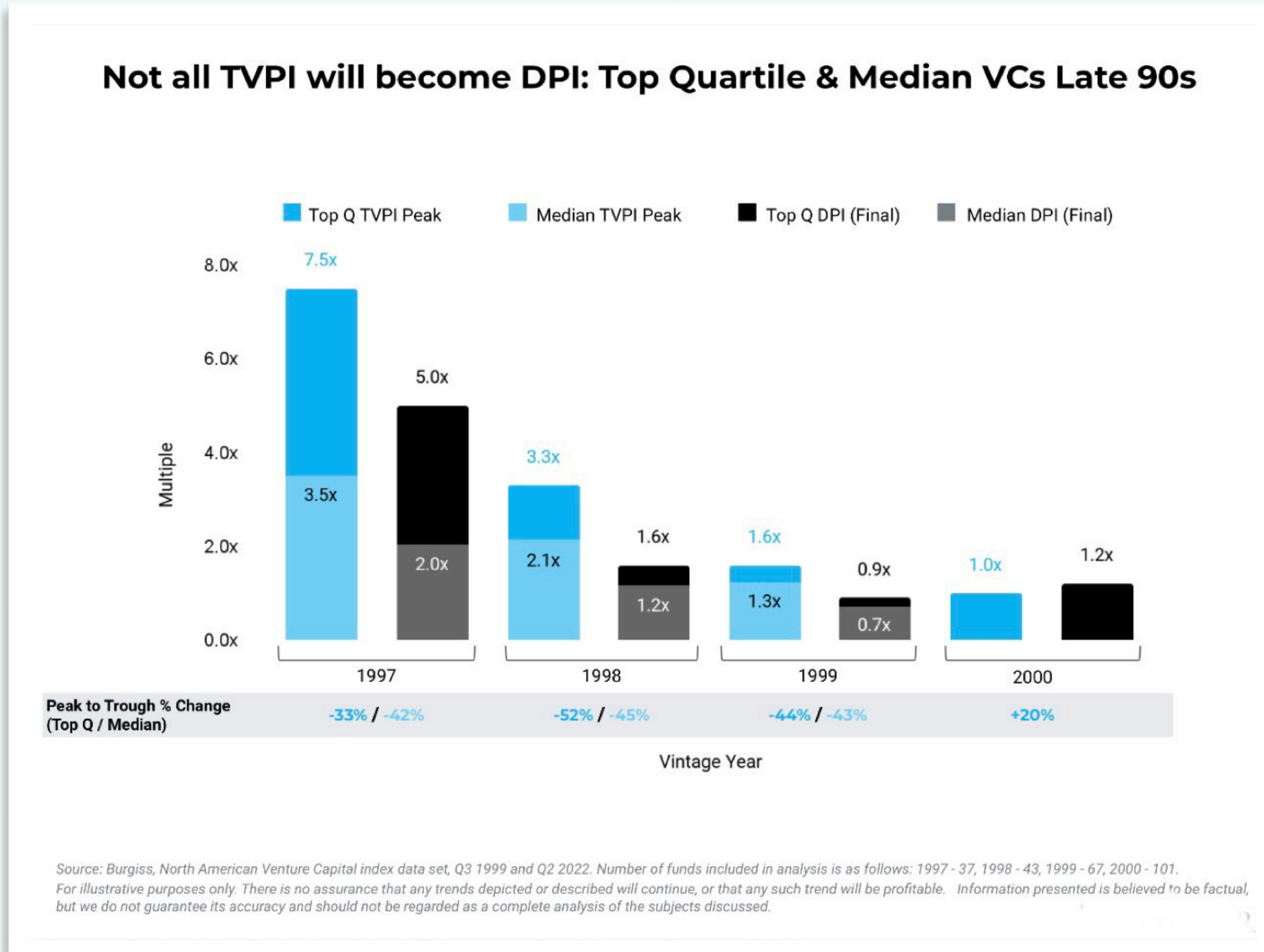
2013 – 2016 Vintage: Diverse and Women GPs vs. Cambridge

	Diverse GPs		Women GPs		Cambridge Associates	
Vintage	Revere Median TVPI	Revere TQ TVPI	Revere Median TVPI	Revere TQ TVPI	CA Median TVPI	CA TQ TVPI
2013	2.86	3.16	3.59	4.48	2.49	3.50
2014	4.76	5.47	5.29	5.47	2.56	3.69
2015	3.61	5.19	1.23	1.37	2.24	3.23
2016	2.07	2.94	2.44	6.84	2.09	3.11
2017	2.21	2.84	2.21	2.77	2.15	2.79
2018	1.62	3.09	1.94	3.09	1.79	2.24
2019	1.49	1.96	1.34	1.91	1.45	1.88
2020	1.36	1.79	1.16	1.61	1.23	1.45
2021	1.03	1.40	0.96	1.10	0.99	1.07

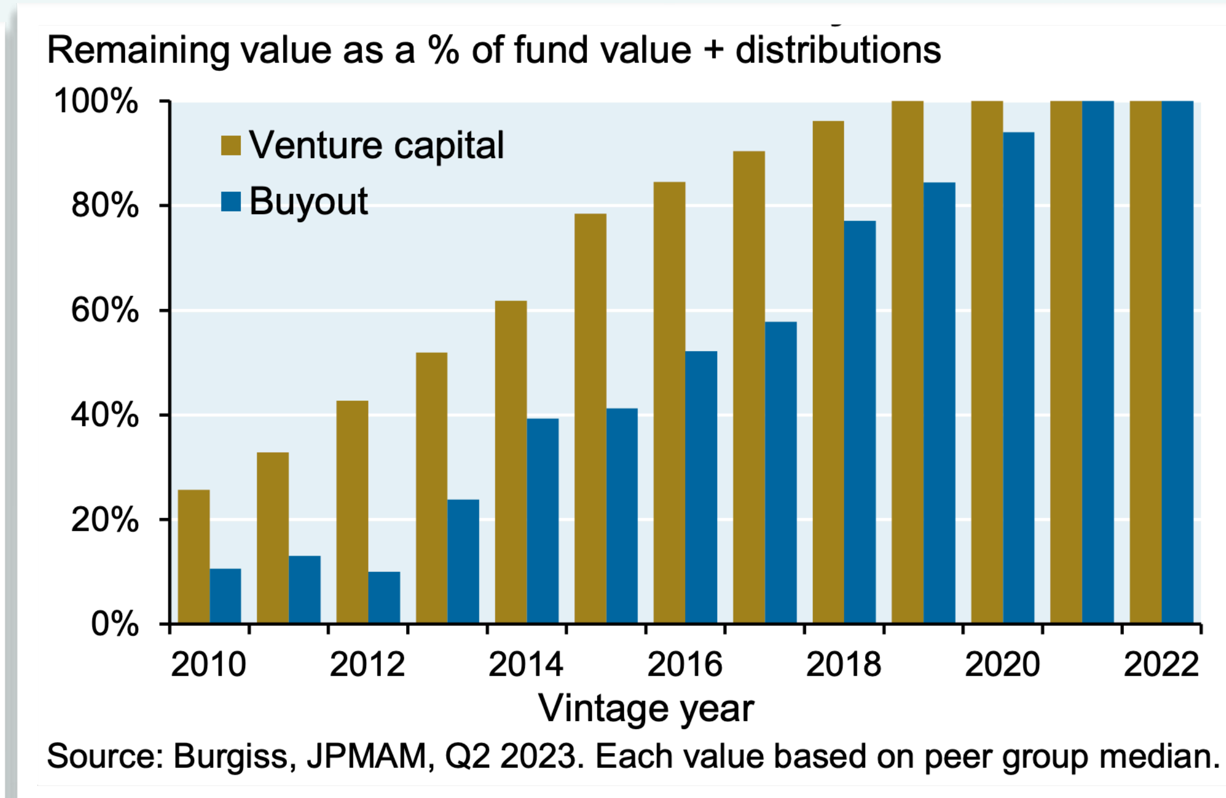
*Revere denotes a "diverse" or "women GP" fund as a fund with at least one diverse GP or one woman GP on the leadership team.

What about ‘Distributed to Paid-In Capital’ (DPI)? - 1

Not all TVPI will become DPI

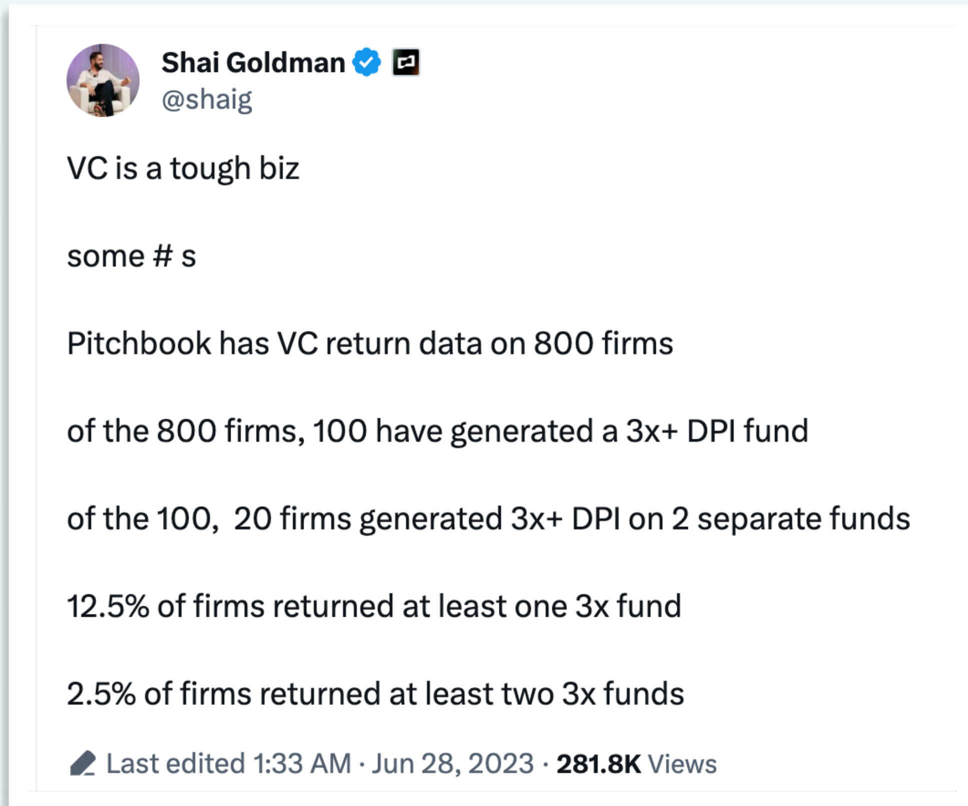


Greater share of VC investments have yet to be monetized



What about 'Distributed to Paid-In Capital' (DPI)? - 2

Is VC fund performance repeatable?



Shai Goldman
@shaig

VC is a tough biz

some # s

Pitchbook has VC return data on 800 firms

of the 800 firms, 100 have generated a 3x+ DPI fund

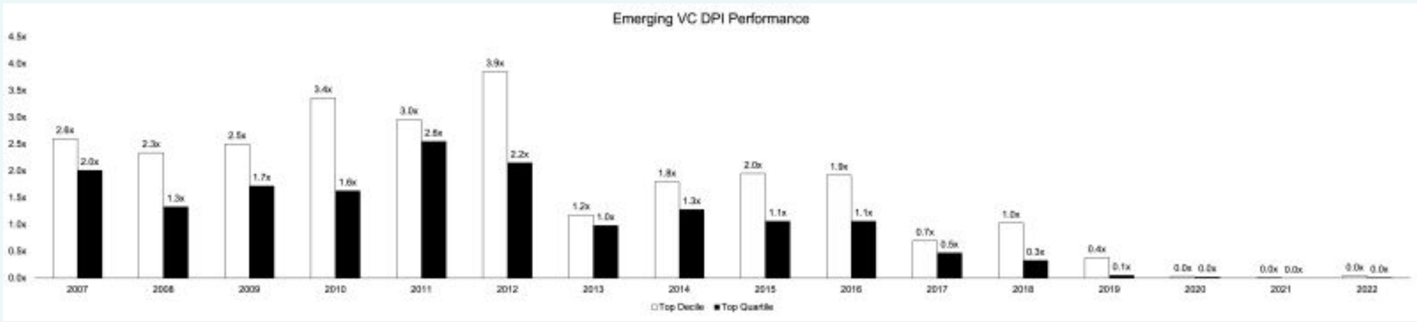
of the 100, 20 firms generated 3x+ DPI on 2 separate funds

12.5% of firms returned at least one 3x fund

2.5% of firms returned at least two 3x funds

Last edited 1:33 AM · Jun 28, 2023 · **281.8K** Views

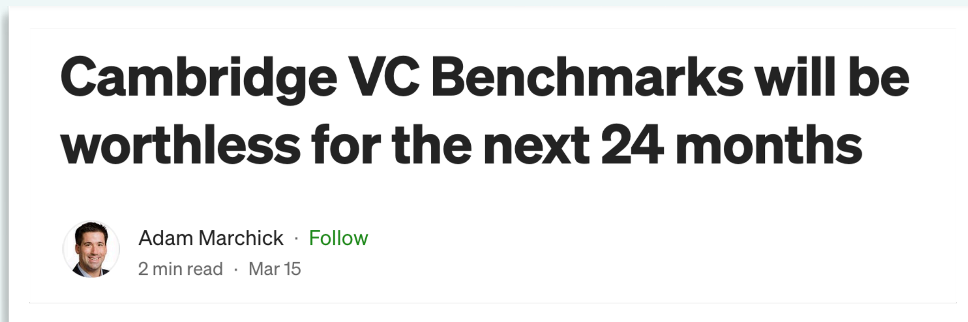
DPI - the elephant in the room for emerging VCs



- Fund managers are feeling the pressure to provide cash on cash returns to LPs to A) show realised performance and B) support the raise of future funds
- **But DPI takes time.**
- **The power law takes time.**
- Data from over 1,000 funds shows the attractiveness of outsized returns in emerging VCs but that material positions take a decade.

VC benchmarks maybe overrated

VC benchmarking is a data issue, not a lack of demand for having better benchmarks. Benchmarks are definitely not all created equal.


Cambridge VC Benchmarks will be worthless for the next 24 months

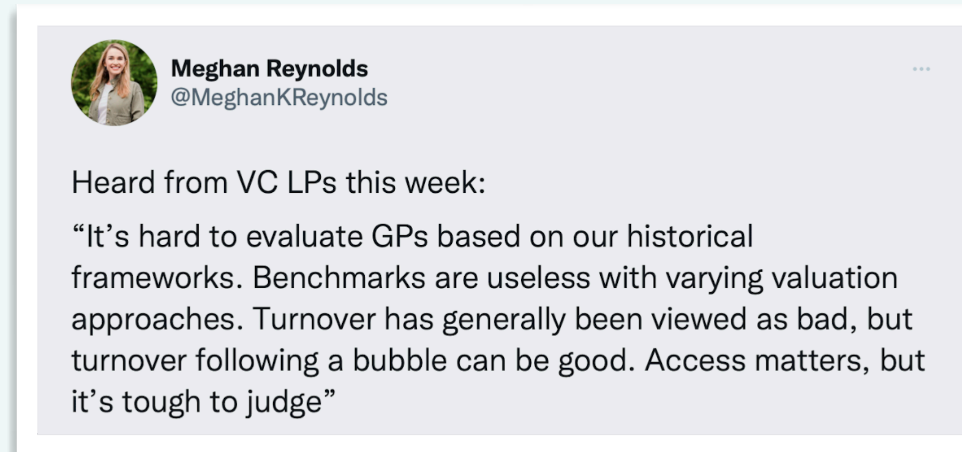
Adam Marchick · Follow
2 min read · Mar 15

GPs now agree Fair Market Value (FMV) is non-trivial right now for the underlying companies.

Most of the industry relied on Last Round Price (LRP) (or a slight variation of it).

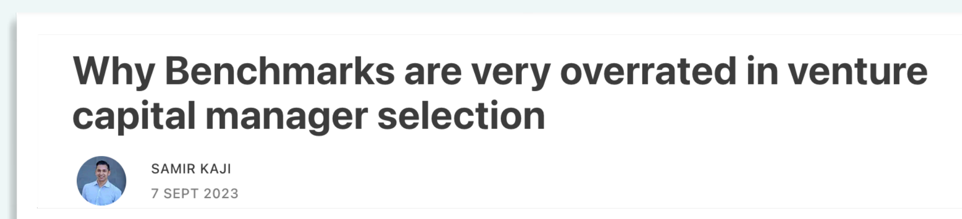
Issues with LRP

- LRP is the cleanest, but is it the most accurate?
- In this case, most VC firms are utilizing an independent valuation service provider. The caveat is they are not all using the same one, and at this stage, valuation is still more art than science
- In this case, the cleanest method is to use LRP. Some GPs are doing a broad-base discount, but this is false precision.


Meghan Reynolds
@MeghanKReynolds

Heard from VC LPs this week:

"It's hard to evaluate GPs based on our historical frameworks. Benchmarks are useless with varying valuation approaches. Turnover has generally been viewed as bad, but turnover following a bubble can be good. Access matters, but it's tough to judge"

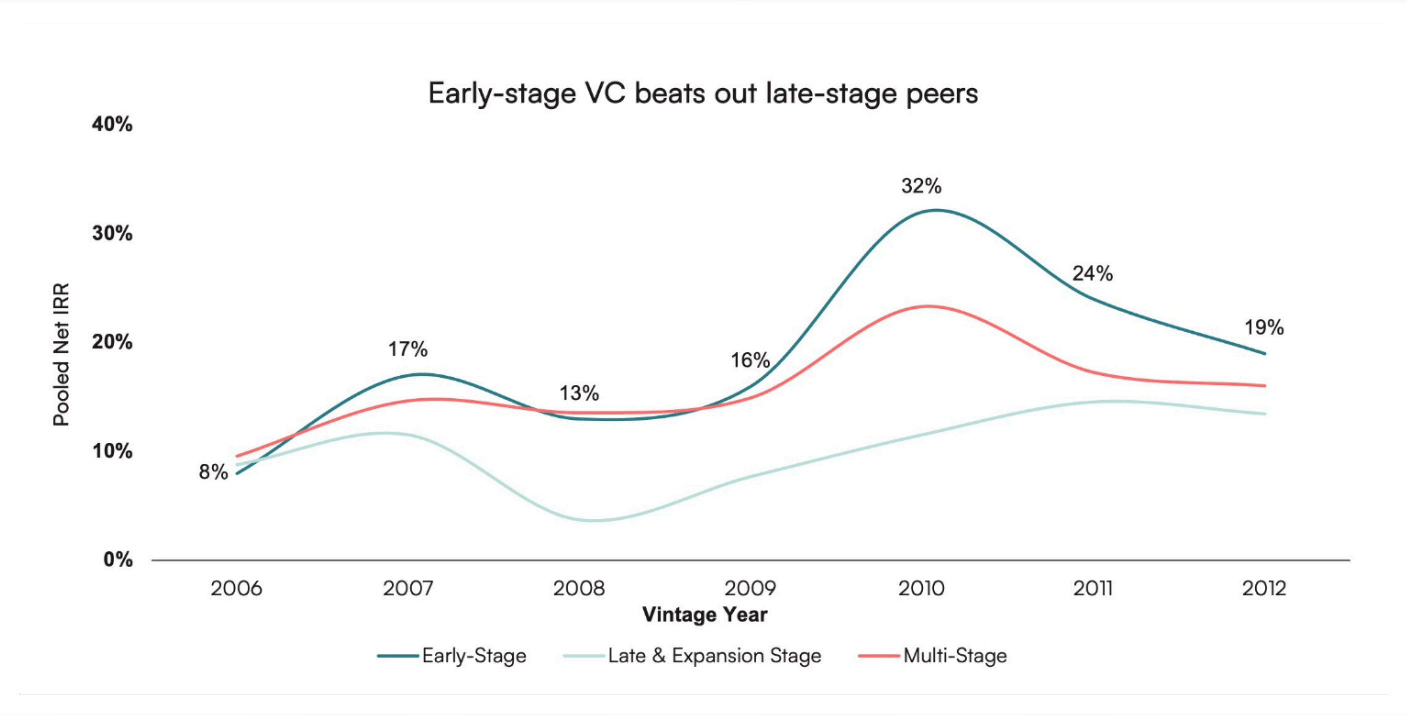

Why Benchmarks are very overrated in venture capital manager selection

SAMIR KAJI
7 SEPT 2023

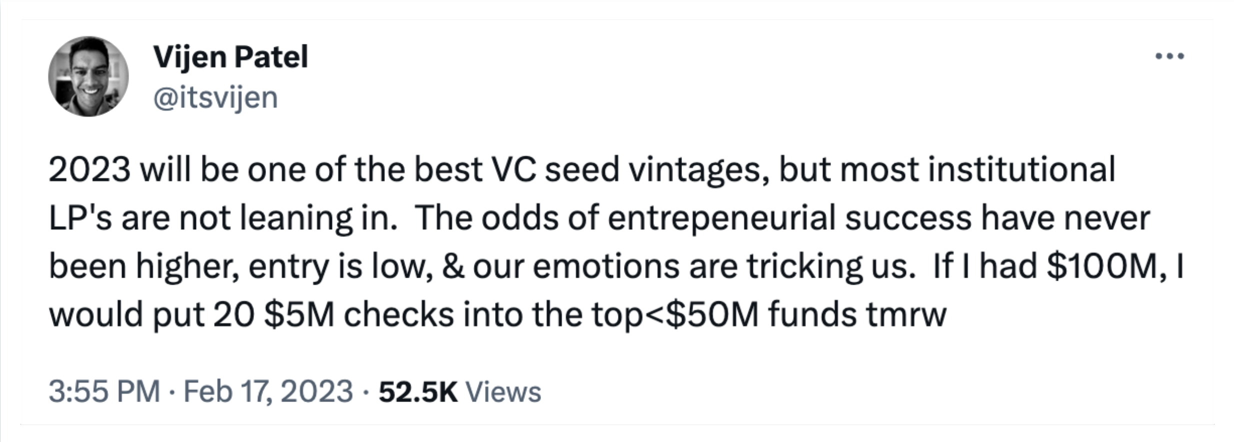
"While benchmarks can provide an excellent comparative measure, too often, they are significantly overweighted for manager selection, and many don't account for the inherent flaws of VC benchmarks (especially recent vintages)."

Will 2023 become a good vintage year? / 1

Superior returns in the vintages emerging from recession

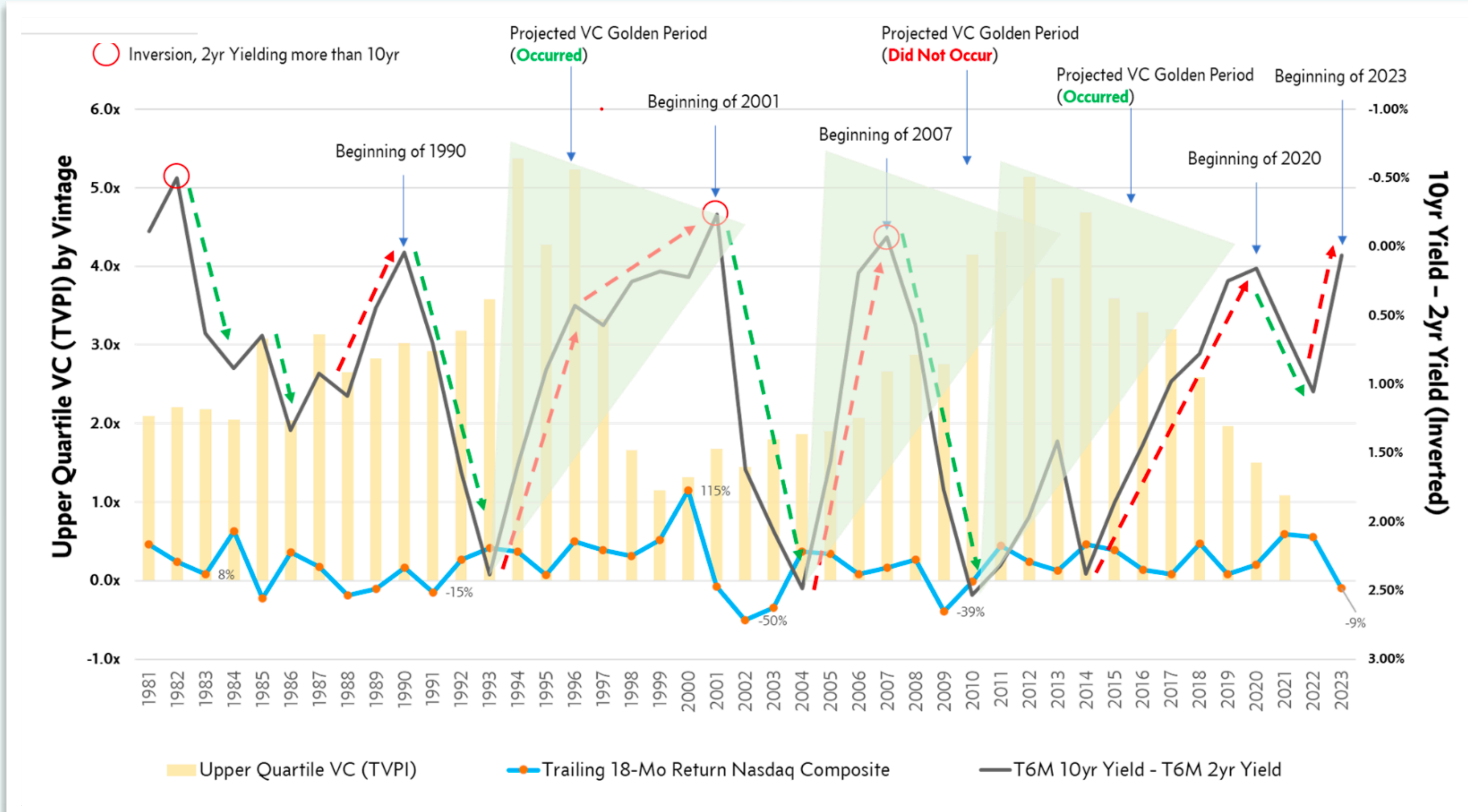


Morgan Creek reported superior returns in the vintages emerging from recession across nearly all major performance metrics.



Will 2023 become a good vintage year? / 2

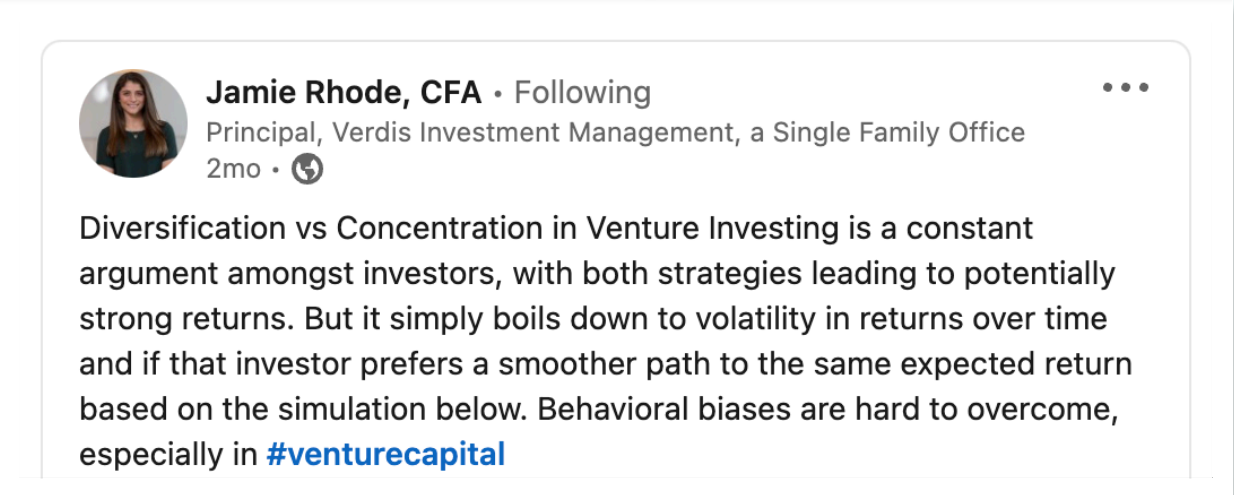
Venture capital golden periods



These are periods where the top-quartile VC TVPIs exceed 4.0. **They tend to occur three to four years after a yield curve inversion or near inversion.** The typical trigger point occurs when the 10-year yield exceeds the two-year yield by about 2.5% (i.e., 1993, 2004, 2010).

VC investing has different styles

Diversification vs concentration in venture investing



Jamie Rhode, CFA • Following
Principal, Verdis Investment Management, a Single Family Office
2mo •

Diversification vs Concentration in Venture Investing is a constant argument amongst investors, with both strategies leading to potentially strong returns. But it simply boils down to volatility in returns over time and if that investor prefers a smoother path to the same expected return based on the simulation below. Behavioral biases are hard to overcome, especially in #venturecapital

The appeal of the concentrated approach often lies in the allure of ownership. With concentrated managers, higher ownership stakes in selected assets are more attainable.

Conversely, diversified managers operate with a focus on leveraging higher probabilities.

Both approaches arrive at similar expected returns, but the paths are very different.

VC isn't a monolith

samir kaji
@Samirkaji

The mistake people make is still treating VC as a monolith.

i.e. Insight vs a $100MM seed fund is a different asset class.

Large growth/multi-stage - Lower risk/shorter time to liquidity (for follow-ons)

Small seed - Higher risk/illiquidity but higher top-end upside.

03:32 · 14.06.23

- A lot of LPs treat VC as a single asset class. Though, under the hood things are more complex.
- Not only can be divide VC asset class geographically (example U.S. vs European VC fund), we can also divide them based on (a) Fundraising stage (example Early stage, Multi-stage, Late stage fund) (b) Size (example below USD 150million AUM, etc.), and (c) Terminology (example - Emerging vs. Established managers).
- For a better investment, LPs need to understand the mechanics of each segment better.

Small vs. big VC funds

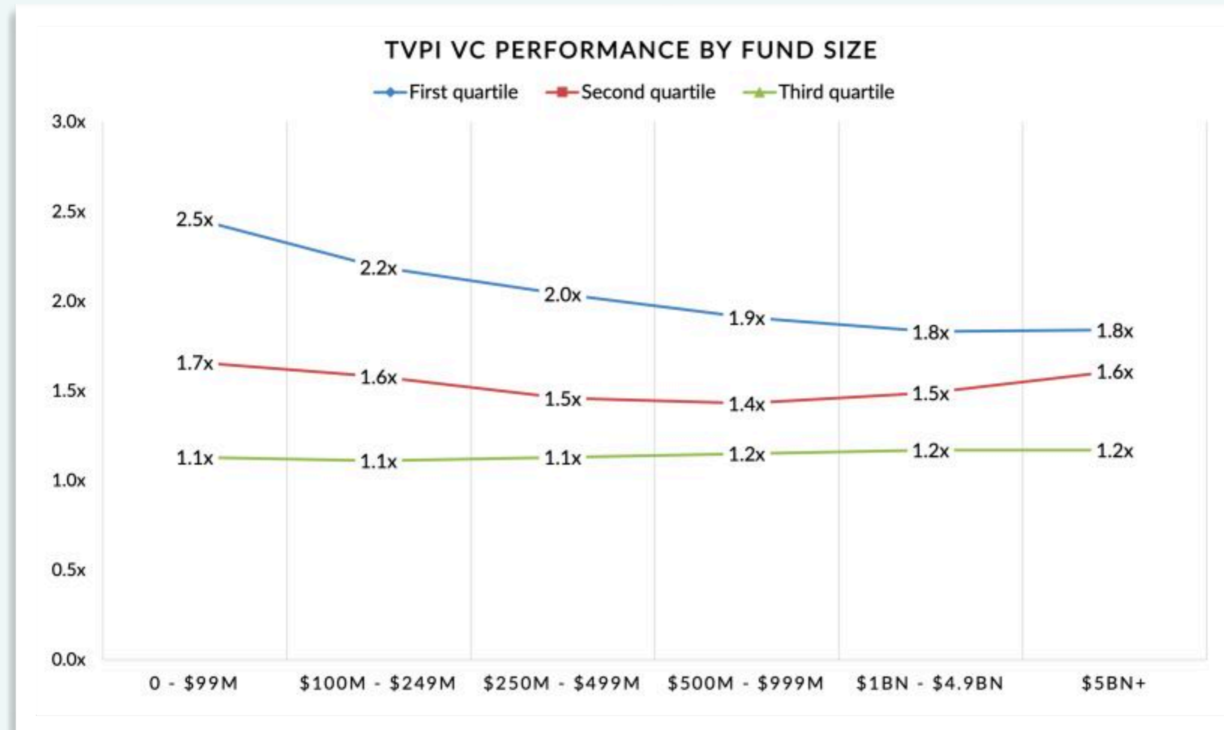
Does fund size impact VC returns?

1		2		3		4	
$500M+ VC Fund Net IRR		$250M to $500M VC Fund Net IRR		$100M to $250M VC Fund Net IRR		$100M or Less VC Fund Net IRR	
>=100	0.0%	>=100	1.4%	>=100	2.8%	>=100	2.7%
>=50	4.5%	>=50	5.3%	>=50	8.2%	>=50	8.3%
>=30	22.2%	>=30	20.5%	>=30	24.4%	>=30	20.7%
>=20	41.9%	>=20	36.9%	>=20	38.1%	>=20	34.0%
>=15	52.1%	>=15	45.6%	>=15	46.4%	>=15	41.4%
>=10	63.8%	>=10	56.1%	>=10	57.3%	>=10	53.2%
>=5	77.8%	>=5	70.5%	>=5	68.6%	>=5	65.6%
Median	**16.40**	**Median Return**	**12.76**	**Median Return**	**13.37**	**Median Return**	**11.63**
Expected Return	**17.90**	**Expected Return**	**17.51**	**Expected Return**	**20.10**	**Expected Return**	**17.72**
>=17.90	**45.2%**	**>=17.51**	**41.5%**	**>=20.10**	**38.1%**	**>=17.72**	**36.9%**

1		2		3		4	
$500M+ VC Fund Net TVPI		$250M to $500M VC Fund Net TVPI		$100M to $250M VC Fund Net TVPI		$100M or Less VC Fund Net TVPI	
>=20	0.0%	>=20	0.5%	>=20	1.0%	>=20	0.9%
>=10	0.3%	>=10	2.0%	>=10	2.4%	>=10	2.4%
>=5	6.6%	>=5	7.8%	>=5	7.9%	>=5	8.0%
>=3	19.5%	>=3	19.7%	>=3	20.4%	>=3	19.9%
>=2.5	29.6%	>=2.5	28.0%	>=2.5	27.4%	>=2.5	27.5%
>=2	45.5%	>=2	38.8%	>=2	39.9%	>=2	39.7%
>=1	86.8%	>=1	81.7%	>=1	79.0%	>=1	77.4%
Median Return	**1.86**	**Median Return**	**1.71**	**Median Return**	**1.66**	**Median Return**	**1.67**
Expected Return	**2.29**	**Expected Return**	**2.36**	**Expected Return**	**2.50**	**Expected Return**	**2.46**
>=2.29	**34.4%**	**>=2.36**	**31.5%**	**>=2.50**	**27.7%**	**>=2.46**	**28.3%**

- **There really isn't a significant difference in returns between buckets 3and 4 (even all of the buckets)**
- What causes bucket 3 and 4 to have the ability to produce extremely high returns is that you can deploy all your Fund's capital at the early stage versus the larger Funds.
- The compounding, tax, cost of investment benefits of high multiple funds vs quick returning (high IRR) funds.
- **Portfolio construction is extremely key to achieving what we call the power law optionally and what can give Funds an edge.**

Smaller VC funds outperform with NO added risk



Data from 5,000 VC funds between 1976 - 2023 shows three things

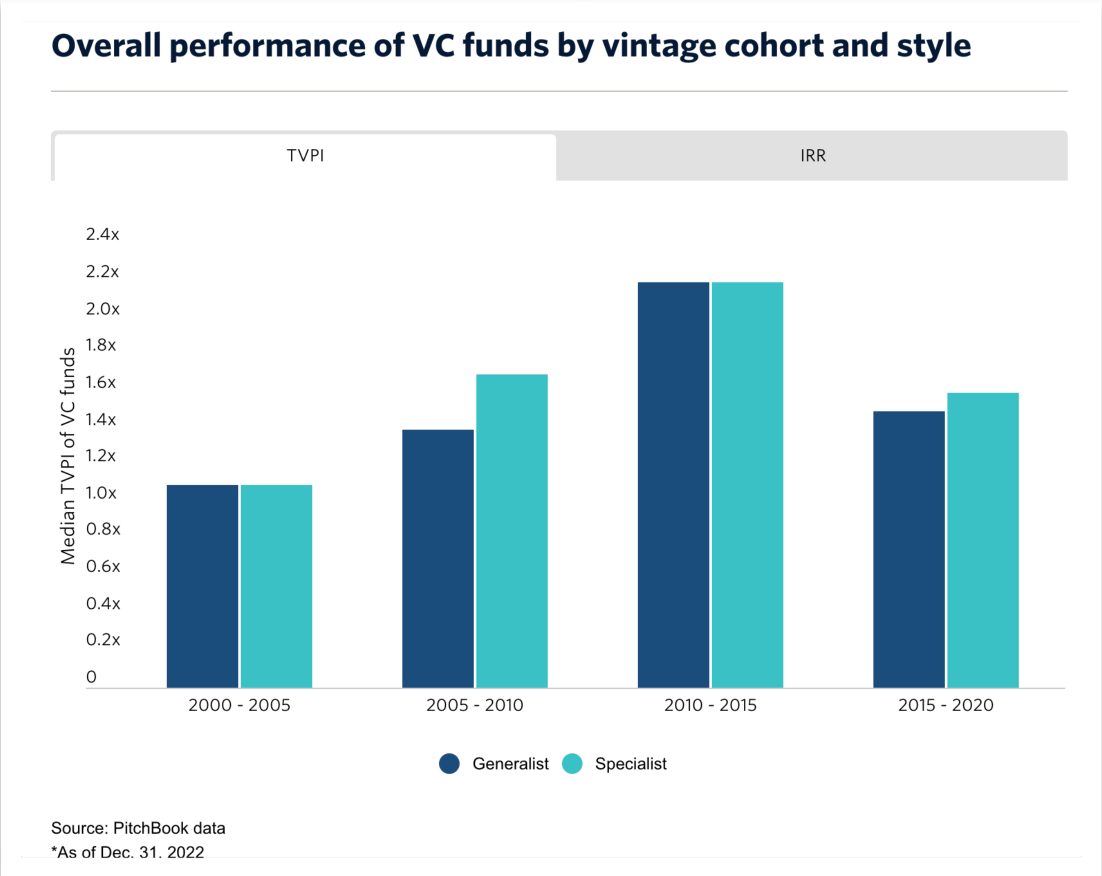
- **Fund TVPI performance is stronger in smaller funds**
- Third quartile performance is equal
- **There is no added risk in allocating to smaller funds**

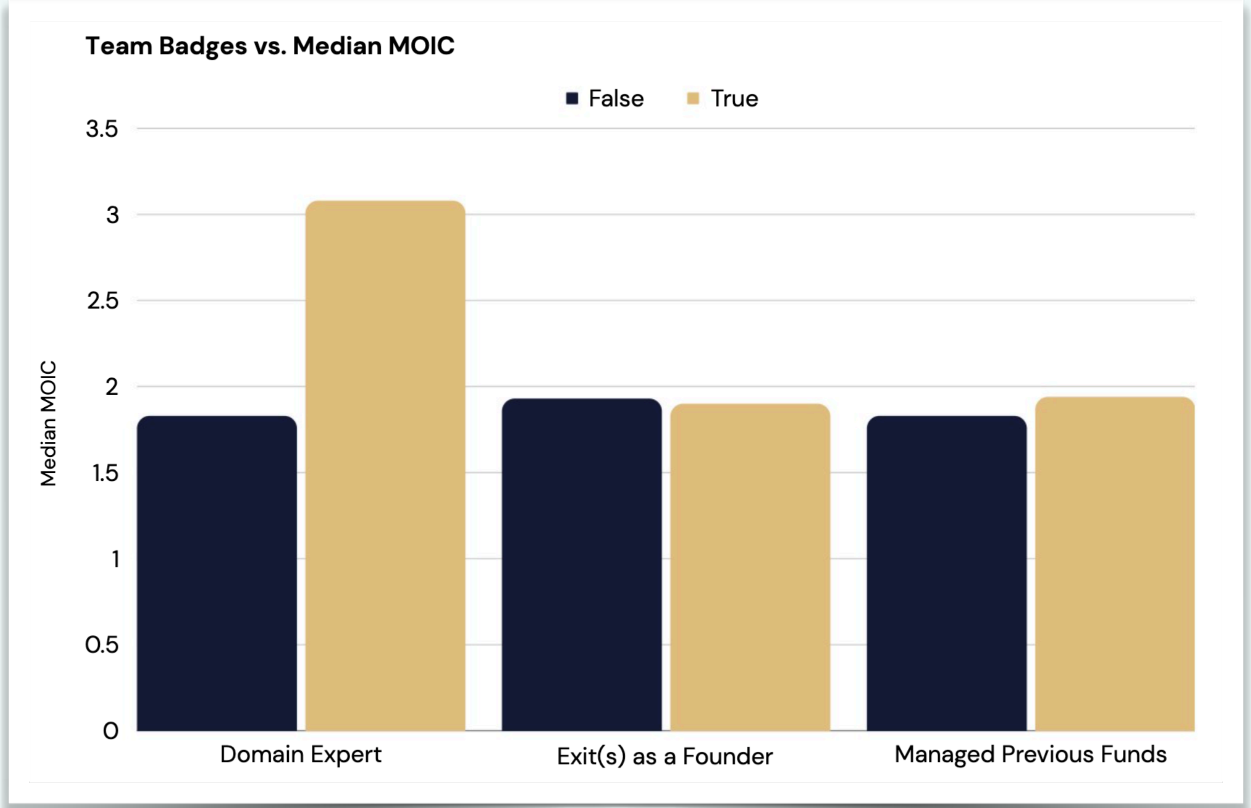
Access is still the most crucial element in selecting the best-performing VC funds

We only win by working with the best performers in the game

If I had to choose between two $25m tickets into two large funds or $5m cheques into ten small funds, I know where I would be putting my money.

Generalists vs. Specialists





- In terms of overall performance, the difference between the two styles is not significant. But specialist funds come out ahead in terms of TVPI.
- Specialist funds tend to have a longer investment horizon, particularly in areas like biotech or deep tech, and as a result their investments appreciate significantly over time.
- **Specialist funds are the clear winners when it comes to vehicles under $250 million both in terms of IRR and TVPI.**

- Within Revere dataset, domain expert was the biggest source of differentiation among managers

Summary - Venture as an asset class / 1

Are VCs investing in the right areas?

- An unending discussion - 'Should VCs fund another 5-min delivery app, or are our planet's needs more important?.'
- While established VC sectors like SaaS or Enterprise (now even AI) receive unending love (i.e. VC capital) every year, other areas (like CleanTech) critical for humanity may be left behind.
- Some DeepTech startups developing novel new technologies with lengthened commercialisation timelines might not fit in every VC's fund. Hence, something needs to change - either more VCs launching specialised funds to back niche areas or robust alternative funding options for startups.

PE vs. VC

- Compared to the PE market, the VC business is still small and nascent from many structural perspectives.
- This will change in the future as the industry develops and institutionalises much more.

Benchmarks in context of VC asset class may be overrated

- Benchmarks are sort of a necessity in the investing world. But in the world of VC, benchmarks might not hold much weight considering the inherent flaws like skew for manager selection, self-reporting, survivorship bias, and more.
- And if we look under the hood, the methodology of valuing portfolio companies like Last Round Price (LRP) is clean but maybe not robust.

VC fund performance persistence

- Like public markets, LPs should not depend heavily on historical performance when choosing managers.
- Instead, they should also evaluate the investment thesis and determine if the VC manager possesses the appropriate strategies + a team to implement that thesis effectively.

Summary - Venture as an asset class / 2

Venture asset class isn't a monolith

- A lot of LPs treat VC as a single asset class. However, under the hood, things are more complex.
- Not only can we divide VC asset class geographically (example - U.S. vs European VC fund), we can also divide them based on (a) Fundraising stage (Early stage, Multi-stage, Late stage fund, etc., (b) Size (funds till USD 150million AUM, etc.), and (c) Terminology (example - Emerging vs. Established managers).
- For a better investment, LPs need to understand the mechanics of each segment separately.

Indexing venture asset class isn't easy. Why?

- Venture is driven by power law, which applies to both managers and their portfolios. Trying to index a power law without access to, or knowledge of, the top 1% will leave LPs with mediocre returns.
- Most attempts at indexing are done with what has worked in mind. But what has worked isn't usually what will work. The market is too efficient, and funds swell too quickly. New LPs won't have the same asymmetry the old ones did.

Venture is a game of outliers

- Investing in VC funds seems easy, but it isn't. Because top funds may not want to take new LP money, as they raise from existing LPs and/or invest more of their own money.
- Not all top quartile funds remain top quartile.

Is there VC investment mismatch?

Are VCs investing in the right areas?

Katerina Stroponiati • Following
early-stage investor, founder.
5d • Edited •

My hardest struggle as an investor is the missallocation of capital in the markets.

Seeing huge amounts of capital going towards redundant, useless technologies/apps (most of which are likely to be future scams), instead of companies that can truly make a significant impact on how we live as a species.

We could have already solved our energy problems, achieved longevity, and probably colonized Mars years ago!

Is VC the right partner?

NEWSLETTERS · TERM SHEET

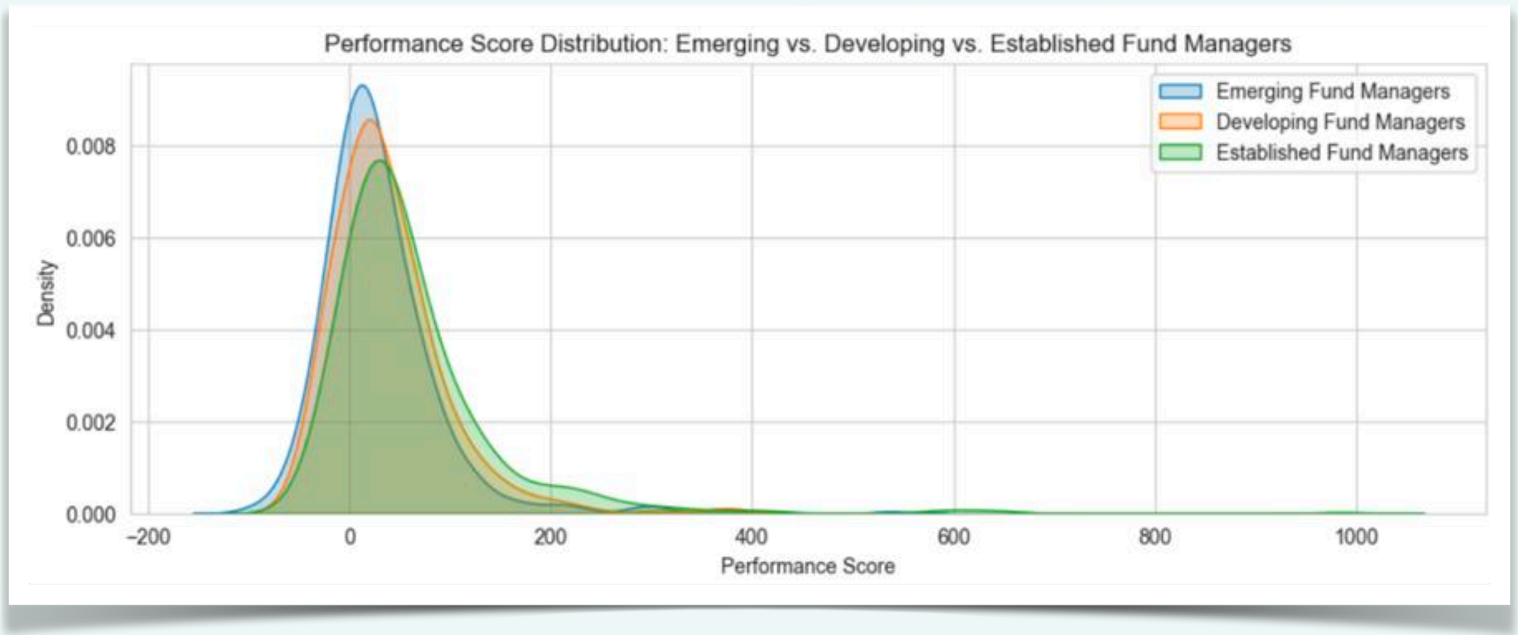
VCs love clean tech. But it might not love them back

BY ANNE SRADERS
July 28, 2023 at 1:55 PM GMT+2

"Something I hear pretty often from venture investors these days is that they're interested in clean tech.

But recently I've *also* heard concerns over whether the sector, which infamously flamed out during the Clean Tech 1.0 boom and bust in the early 2000s, is a fit for the high-and-fast-growth expectations of VCs in 2023—especially now that we've come down from the dizzying heights of the last couple of years. "

Venture is a game of outliers



Investing in PE and VC funds seems easy: just focus on funds with a 20+ year track record that have shown top 25% performance. **But, as always, things aren't that easy.**

- Top funds may not want to take your money, as they raise from existing LPs and/or invest more of their own money.
- Not all top quartile funds remain top quartile. Some lose their edge, become complacent or get greedy.
- **Recent academic research shows that investors must observe an excessive number of past funds (>6) of the same VC firm, to estimate the posterior probability of a fund to remain top quartile with reasonable certainty (>50%). Not many VC firms have not deployed more than 6 funds.**

Issues in venture capital

Whenever there is an involvement of government based systems, there is a likelihood of failure

Analysis December 7, 2023

Germany's budget crisis throws deeptech and climate tech startups into uncertainty

Billions of dollars in tech subsidies have been put on hold as the country grapples with the fallout from a court ruling

Analysis April 18, 2023

How a corruption scandal has left dozens of Polish startups facing bankruptcy

Dozens of Polish startups haven't received €175m in public grants they were awarded at the end of last year, as the institution in charge has been embroiled in a political corruption scandal

Zosia Wanat 5 min read

Columnists

Universities are sinking spinouts before they can swim - Robert Gelb

The other week, I heard a story about a leading university in Scotland's response to a statement about equity. Wanting 20-40 per cent of a spinout company without any cash investment, they were told that Stanford often asked for 5-10 per cent at the most. Their response? "Well, it sounds like Stanford has a lot to learn."

By Robert Gelb
Published 15th Jul 2023, 07:00 GMT

0 Comment

European Innovation Council equity fund to be fully externally managed by September

16 Mar 2023 | News

After problems in oversight and carrying out due diligence that continue to delay payments to start-ups, the Commission is transferring management of its equity fund to the European Investment Bank. The formal handover expected to complete in September

By Goda Naujokaitytė

Andrew J Scott
@andrewjscott

One of our portfolio companies just raised >5m in a Series-A.
After fees, only 80% of it hit their bank account.
Welcome to the perverse world of EIS / VCT funds where the name of the game is to rinse as much cash out today rather back the #startup for tomorrow.
What a disgrace.

20:04 · 04.04.23

7 Retweets **7** Quote Tweets **85** Likes

Analysis September 1, 2023

Future Fund was meant to save British startups. Now it risks bankrupting them

The three-year conversion deadline is now looming for hundreds of British startups backed by the £1.14bn Future Fund

Zosia Wanat and Alexandra Bacon 7 min read

VC biases

Any subjective decision making is always influenced by biases. VC business is no different.

Joyce Zhang Gray
@joyceyanzhang

Ironic that VCs raise funds with 10 year investment horizons, but seem to be quickly swayed by trends from the last 2 weeks...

4:00 PM · Feb 16, 2023 · **10.5K** Views

VCs are influenced by 'pattern recognition'. They often back similar startups based on past successes, but replicating previous successes isn't necessarily the way to go. Investing based on past performance entrenches the status quo and narrows vision. To generate alpha, patterns need to be broken and remade.

Ed Suh
@edsuh

One reason why VCs have such herd mentality is the immense pressure they get from peers & LPs to back safe founders in safe sectors & co-invest with established players. It's a lonely island for VCs who are super contrarian, but of course, the contrarians end up doing the best

11:20 PM · Feb 18, 2023 · **9,440** Views

Mitch Lasky
@mitchlasky

The laziest VC move in games is "pedigree chasing": only funding ex-Riot, Epic, or Blizzard employees (and not always leads). The founders of those massive companies (and countless other successful ones) had zero "big game company" experience. But now they're the Ivy League. 😂

4:17 AM · Mar 1, 2023 · **236.1K** Views

Rick Zullo
@Rick_Zullo

One of the biggest mistakes I see VCs make is overestimating the quality of their dealflow

Even (and likely, especially) the best deals are seen by a LOT of VCs

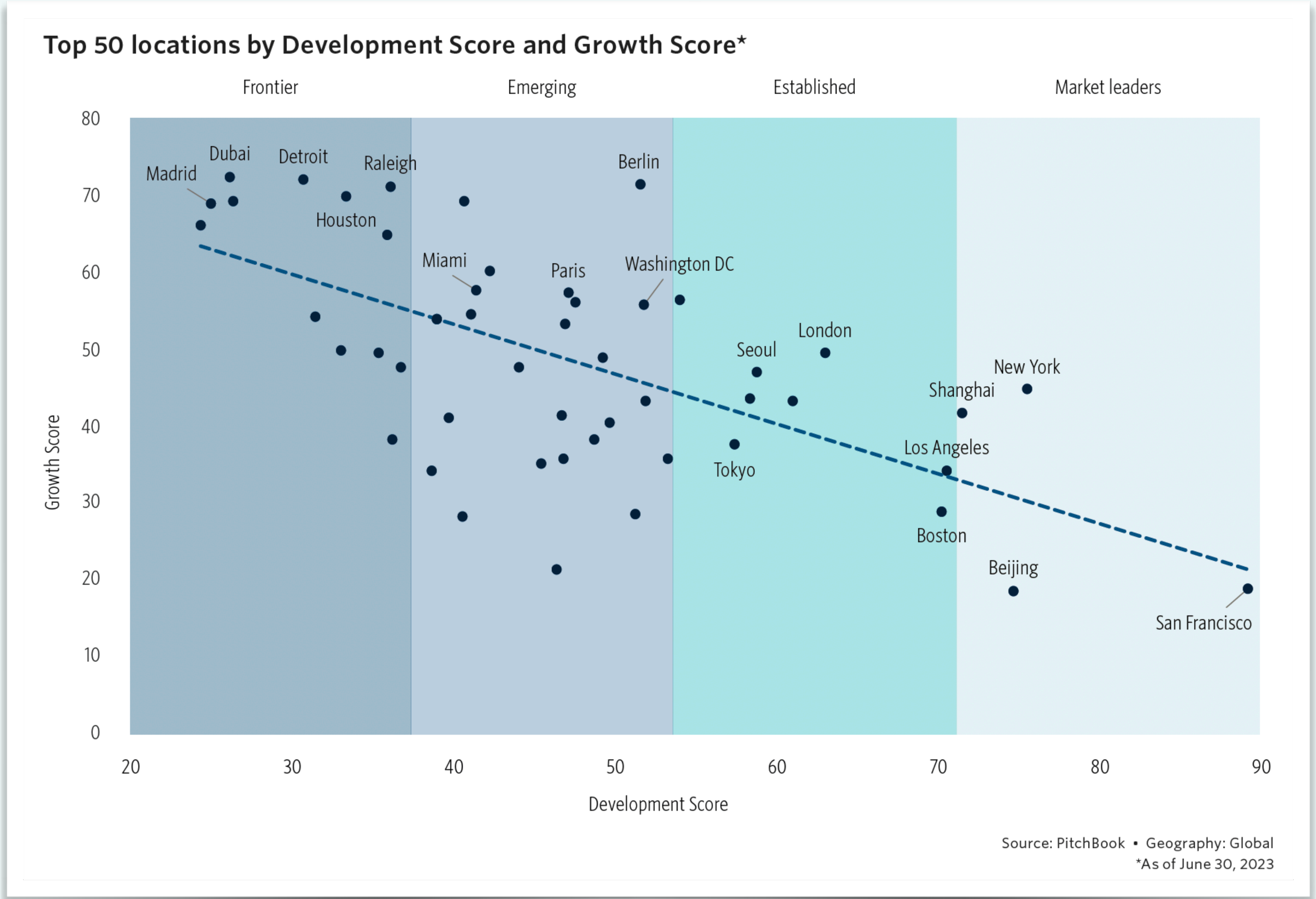
At end of the day, the only ways to win are:
1) Pay higher price
2) Have POV that enables you to make a non-consensus decision (ie prepared mind)
3) Founder to choose you because brand, signaling and/or value-add
4) Be able to add more value post investment than anyone else

How do you win?

1:18 PM · Mar 7, 2023 · **74K** Views

Venture ecosystems - World

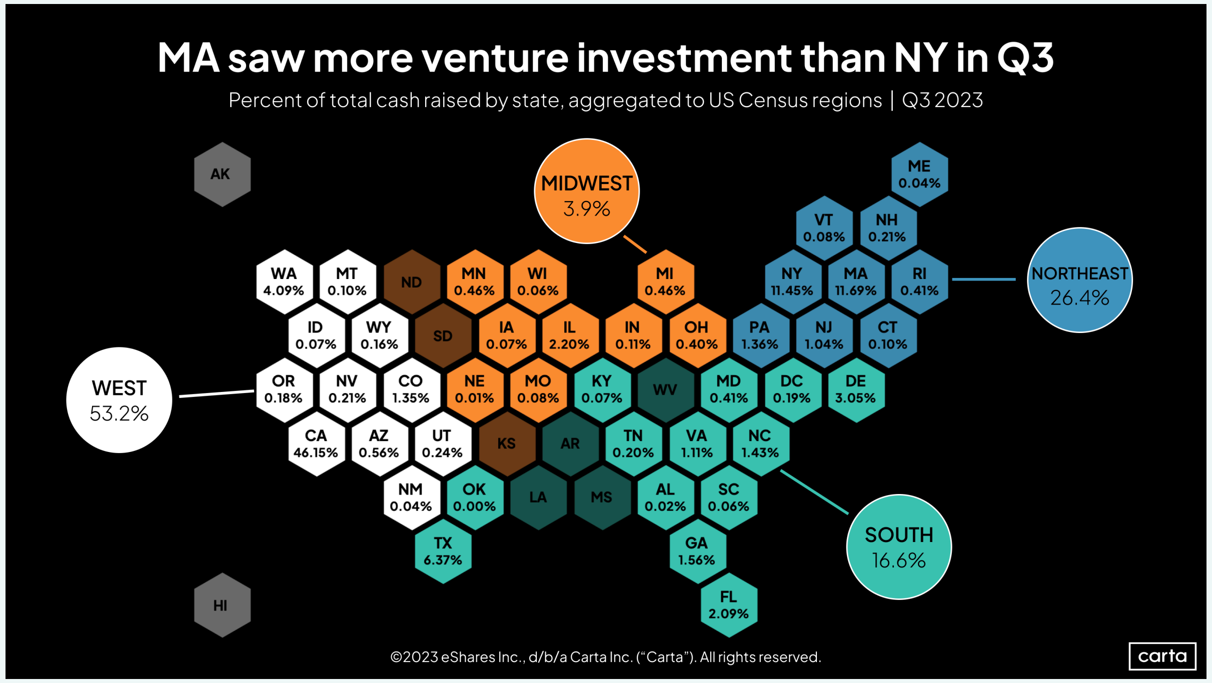
London is the only European city among the top 10 most developed VC ecosystems globally

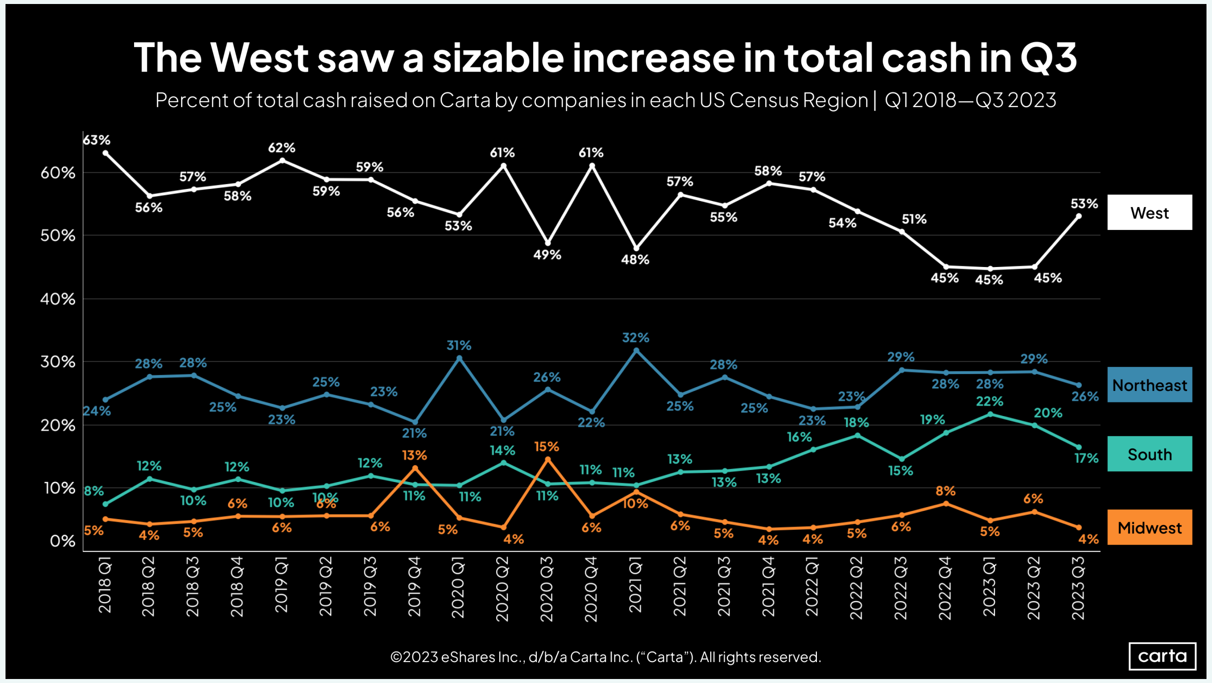


- San Francisco is the most developed VC ecosystem in the world by a considerable amount.
- VC ecosystems in the US and Asia account for 85% of the 20 most developed VC ecosystems.
- **65% of the 20 highest growth VC ecosystems are in Europe or the US.**

Venture ecosystems - U.S.

In the U.S., there are specific ecosystems which have dominated for more than a decade

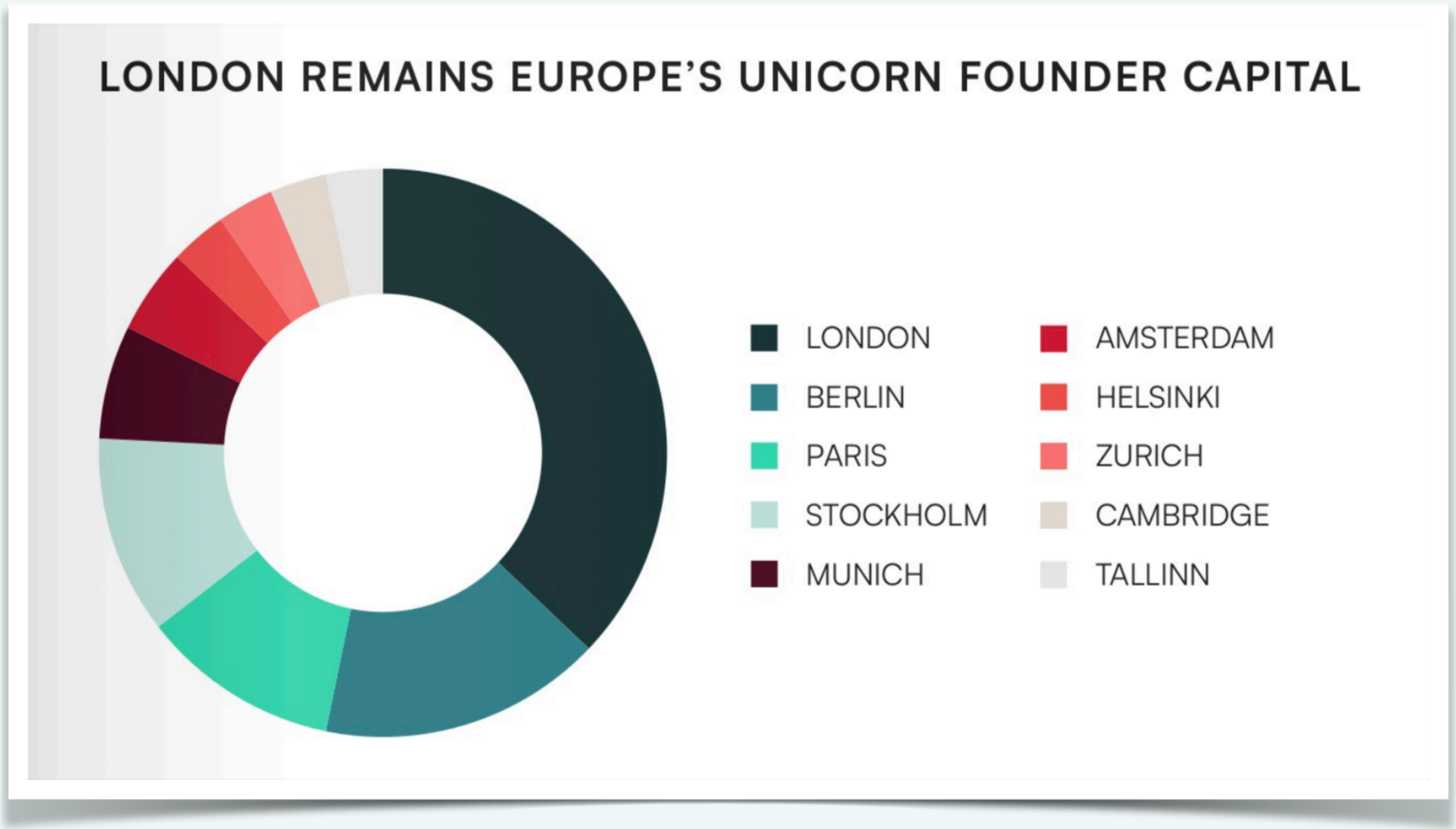




- As a result of California's recovery, the West census region's share of all venture capital raised in the U.S. rose to 53%, its highest point in the past five quarters.
- About 11.7% of all venture capital raised in Q3 went to startups headquartered in Massachusetts, surpassing New York for the second largest share of any state.
- On the opposite coast, California logged 46.2% of all venture dollars raised in Q3, equaling its market share from 2022.

Venture ecosystems - Europe/UK

London leads by a large margin in unicorn founder origins



European VC context

Practices of European VCs exhibit large variations depending on type, region, market maturity, stage, and industry focus.

100 M€
avg fund size

The VC's average fund size amounts to 100 mEUR

10-20%
target stake

Most frequent ownership targets are between 10 and 20%

64%
syndicated deals

64% of the investments are made in syndicates

851
proposals/y

The VCs receive on average 851 investment proposals per year

40%
trade sale exits

40% of the exits are done through trade sales, 7% by IPOs

Team
most important

The management team is, by most VCs, considered the key driver behind investment decisions, and the main reason for both successful and failed investments

6%
closure rate

Of the investment proposals received, 6% lead to investments

45%
failures/low returns

45% of investments made are failures or reach less than 2x invested capital

Large variation
among EU VCs

Significant heterogeneity in practices between the VCs depending on the type, region, market maturity, stage and industry focus, and fund size

Summary - Future of venture capital

AI upending the VC world

AI has gathered VC capital, and the VC industry itself may be on the brink of change because of AI. How?

- Scenario 1: Startup world change: AI productivity gains lead to tens or hundreds of millions of startups made up of only one or two people. Startup financial engineering vanishes. The role of VC changes profoundly or doesn't even exist.
- Scenario 2: VCs start using generative and predictive AI in their investing decisions. They will evaluate startups using the latest AI tools. VC work diminishes.

Growth of more VC hubs

- Ultimately, as the VC asset class becomes more mature, the prominence of other geographies will gather momentum.
- Many VCs were traveling to Japan and the Middle East for fundraising, given that their home LPs became more restricted.

Venture as a tool for geo-advantage

- Venture capital drives economic growth and employment via startups.
- Countries are indirectly utilising startups to impact geopolitics outcomes - especially true for critical sectors like chips, AI, manufacturing, defence, etc.

VCs landscape redefined

- Given industry pressure - VC M&A's are happening, and funds are getting closed - in short, shakeup is happening.
- As VCs continue to financialize themselves, they must redefine what it takes to win in the new era. Bigger question - Is there room for anybody in between small emerging managers and large multistage ecosystems?
- An increase in GP stakes sales in VC funds is quite probable. We could also see more VCs contemplating going public.

AI upending the VC world

There are multiple visions we can make for the future - Role of VC doesn't exist in an AI-driven world or AI supports VCs in investing

FINANCE · TECH

Chamath Palihapitiya says there's a 'reasonable case to make' that the job of VC 'doesn't exist' in a world of AI-powered two-person startups

BY STEVE MOLLMAN
November 11, 2023 at 7:19 PM GMT+1

- It "seems pretty reasonable and logical" that AI productivity gains will lead to tens or hundreds of millions of startups made up of only one or two people.
- There's a lot of sort of financial engineering that kind of goes away in that world.
- I think the job of the venture capitalist changes really profoundly. I think there's a reasonable case to make that it doesn't exist.

Pushkar Singh · Following
Always seeking my next adventure
Visit my website
8mo • Edited •

The future of Venture Capital?

Two trends are transforming the global #VentureCapital (VC) landscape – AI and Money Supply. For an industry that finances innovation, the VC model has remained unchanged. Fund managers still raise #money from LPs under the 2/20 model (2% Operating fee, 20% Profit share). They continue to use spreadsheet models and gut feel while investing.

Low money supply = Funding Winter

AI transforming VC decision-making?

- AI will disrupt all industries including Venture Capital.
- VCs will soon start using generative and predictive AI in their investing decisions.
- They will evaluate startups including AI ones using the latest AI tools.

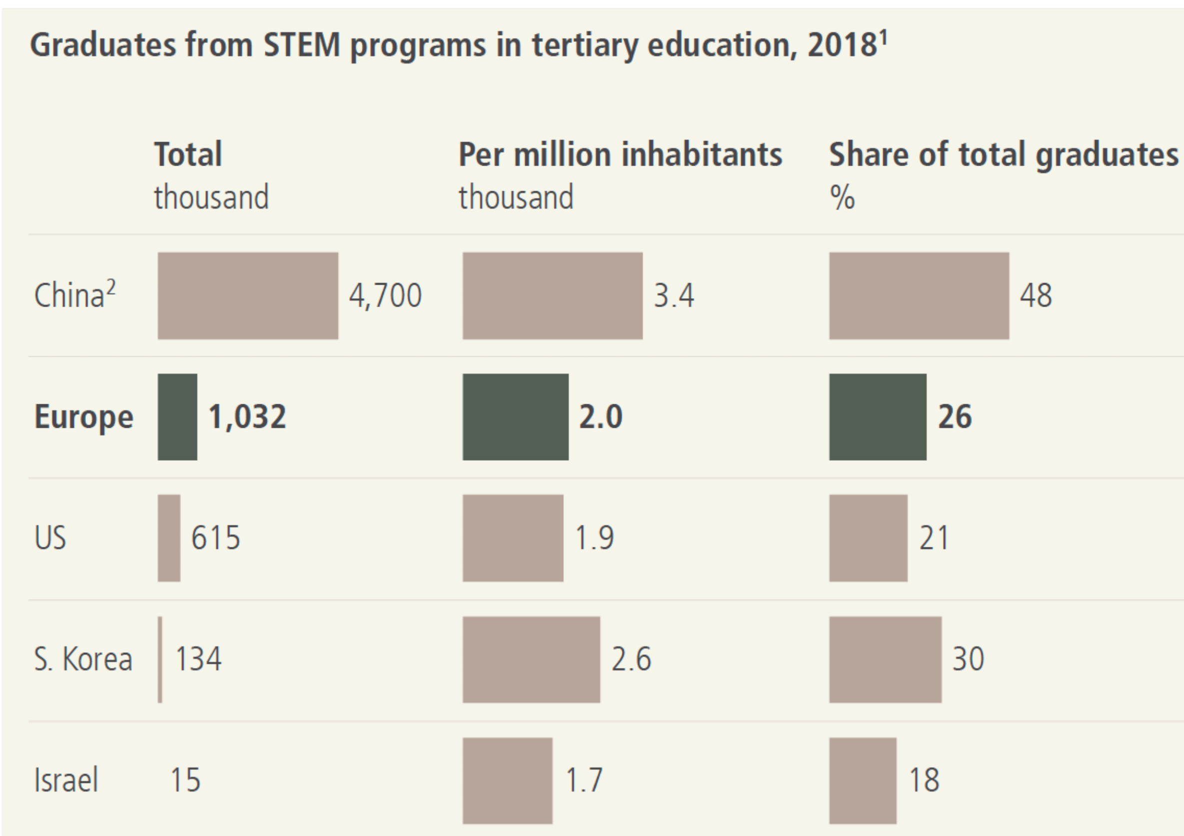
Rise of Europe

Europe offers a healthy lifestyle, a strong technical talent pipeline, and a growing share of global VC dollars

The continued rise of European venture

Why Europe's VC fund ecosystem is compelling

MICHAEL
30 MAR 2023



LAKE STAR

(W)C Walden Catalyst

dealroom.co

Source: O

JOHAN BRENNER · 5 JULY 2023

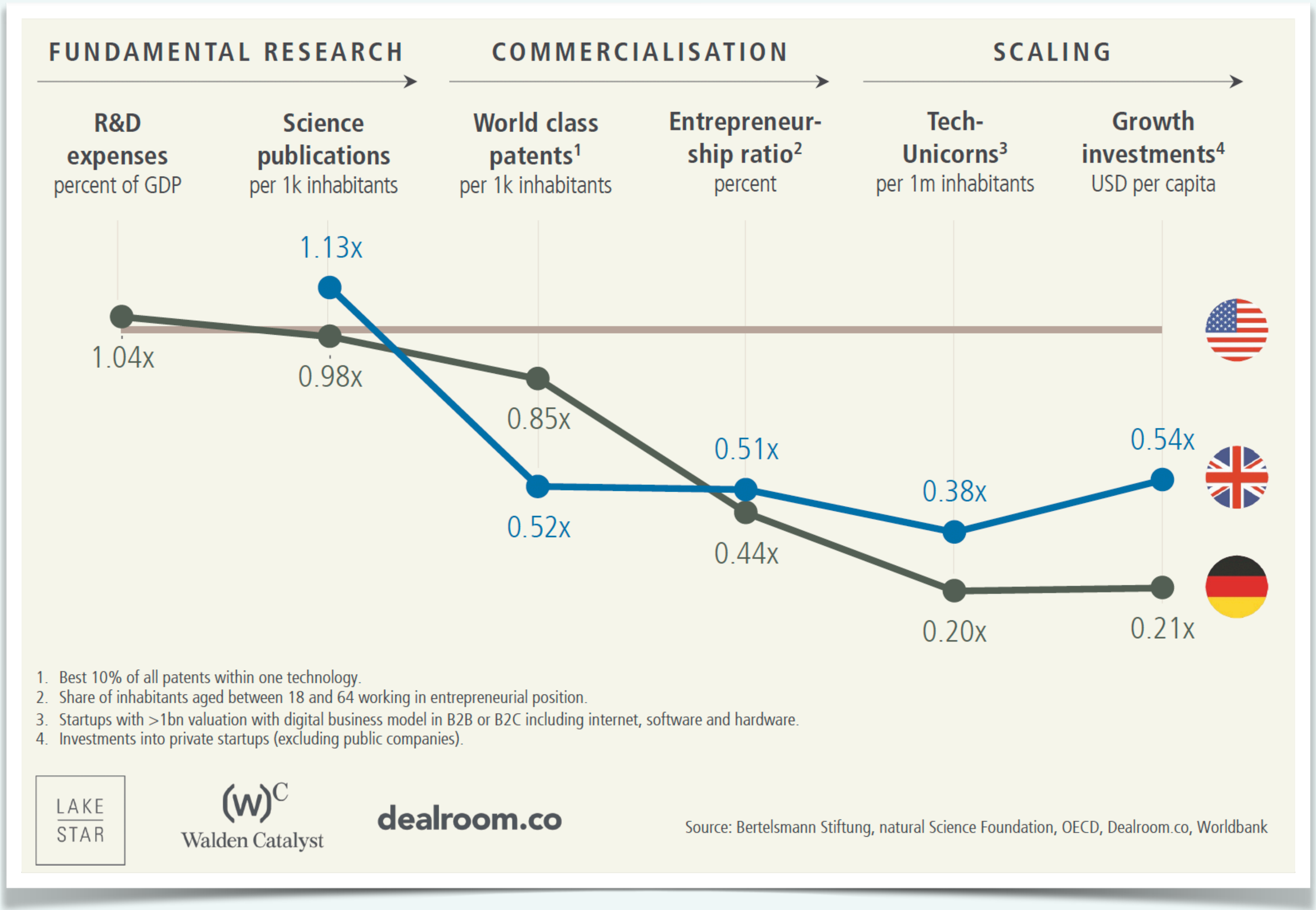
The Ascendancy of European Tech

The 'Flywheel' of Entrepreneurship

- **Europe's total number of unicorns has grown 88%** compared to the US' 56% since 2014
- **Europe has the highest number of unicorn tech hubs in the world** - 514 across 65 cities in 25 countries
- **More startups than ever are emerging from previous successes**, with Spotify having the highest number of 2nd generation startups, followed by Klarna
- **Europe's share of global VC funding has quadrupled** with Europe now taking more than a third of global investments at early-stage
- Of the **$2.5T value created in European tech over the past decade**, most of the value has come from recent cohorts, meaning Europe is even better positioned for growth in the future

Rise of Europe - Maybe not!

Despite strong research, too few entrepreneurs and too little capital are available in Europe



Who is moving where? - From Europe to the U.S.

European startups moving to the U.S. is a much more established trend, that is likely to continue

GLOBAL EXPANSION

Chasing the American Dream

Navigating the path to success for European expansion into the US

Published October 31, 2023   9 Minute Read

ECOSYSTEMS

For European startups, the US is still the land of opportunity

The United States offers both risks and rewards

December 7, 2023 - 7:00 am

Analysis   November 15, 2023

Europe's highest-valued startups that made the move to America

It's not only popstars and actors that want to move to the US

Why Europe struggles to scale its deep-tech startups

By Leah Hodgson

March 28, 2023

Analysis   April 8, 2022

Unicorn drain: Europe is still losing its most valuable startups to the US

Despite European tech's growth, why are some of the continent's most valuable tech companies still relocating to the US?

- **Currently, the signs are pointing to the US [as being a more attractive place to scale]**
- Often the US market is much larger for customers, there are more investors willing to lead at the Series B stage and the big acquirers are also in the US.
- The Nasdaq is also more attractive for listings so all of these things are factors for startups to consider moving.
- [Europe] is catching up but it will take time.

Who is moving where? - From the U.S. to Europe

In 2023, trend of VC firms expanding to Europe/UK gathered headlines.

Expanding to the UK

Chris Dixon

POLICY & REGULATION

6.11.23

News August 24, 2023

US AI startup Poolside raises $126m seed round and relocates to France

Home / Speedinvest Blog / Startup Resources

Strengths and Challenges for the European Startup Ecosystem: An Interview with NEA

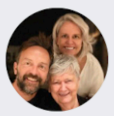
FRONTLINE GROWTH, INSIGHTS

EXPANDING TO EUROPE: WHY U.S. STARTUPS SHOULDN'T WAIT

Posted 22 June 2023
By Brennan O'Donnell

Growth of more VC hubs / 1

As VC segment becomes more mature, participation and prominence of other geographies will gather speed.



Brad Gerstner
@altcap

Founder pulse beats strong here. Founders from all of the world descending on Abu Dhabi as the gov't rolls out the red carpet. U.S. needs to fix its immigration policy - huge source of competitive advantage.

Hub71 @hub71ad · 11.05.23
Yesterday we hosted an exclusive fireside chat with icons from Silicon Valley: @altcap, @Jason, and @IbrahimAjami. They shared invaluable insights into the industry's current state, AI's future, startup investment, and success factors. #Hub71 #FiresideChat #StartupCommunity

WORLD | MIDDLE EAST

The Middle East Becomes the World's ATM

Flush with cash from an energy boom, Saudi Arabia and other Gulf monarchies have a moment on the world's financial stage

By Eliot Brown Follow *and Rory Jones* Follow
Updated Sept. 7, 2023 12:03 am ET

Although small (in terms of value of investment) - MENA, Africa, and Oceania - are one of the fastest growing.

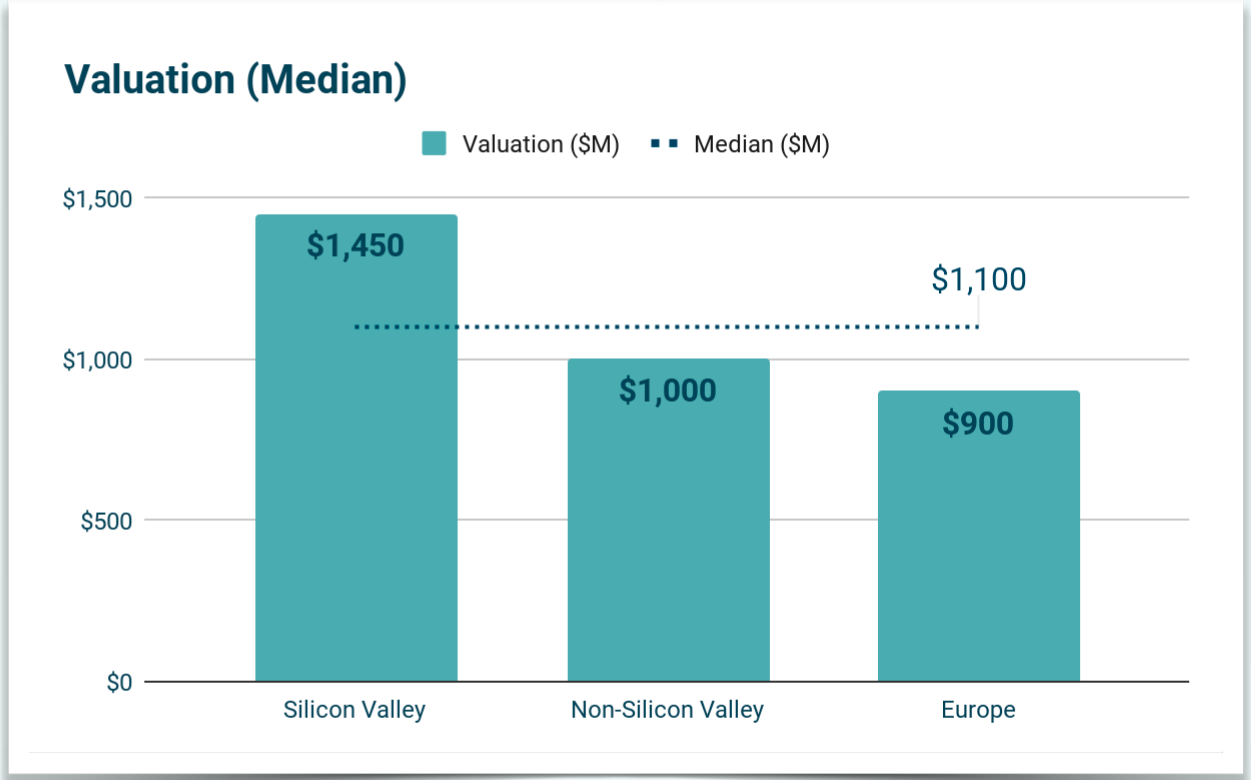
Leading global regions by VC investment

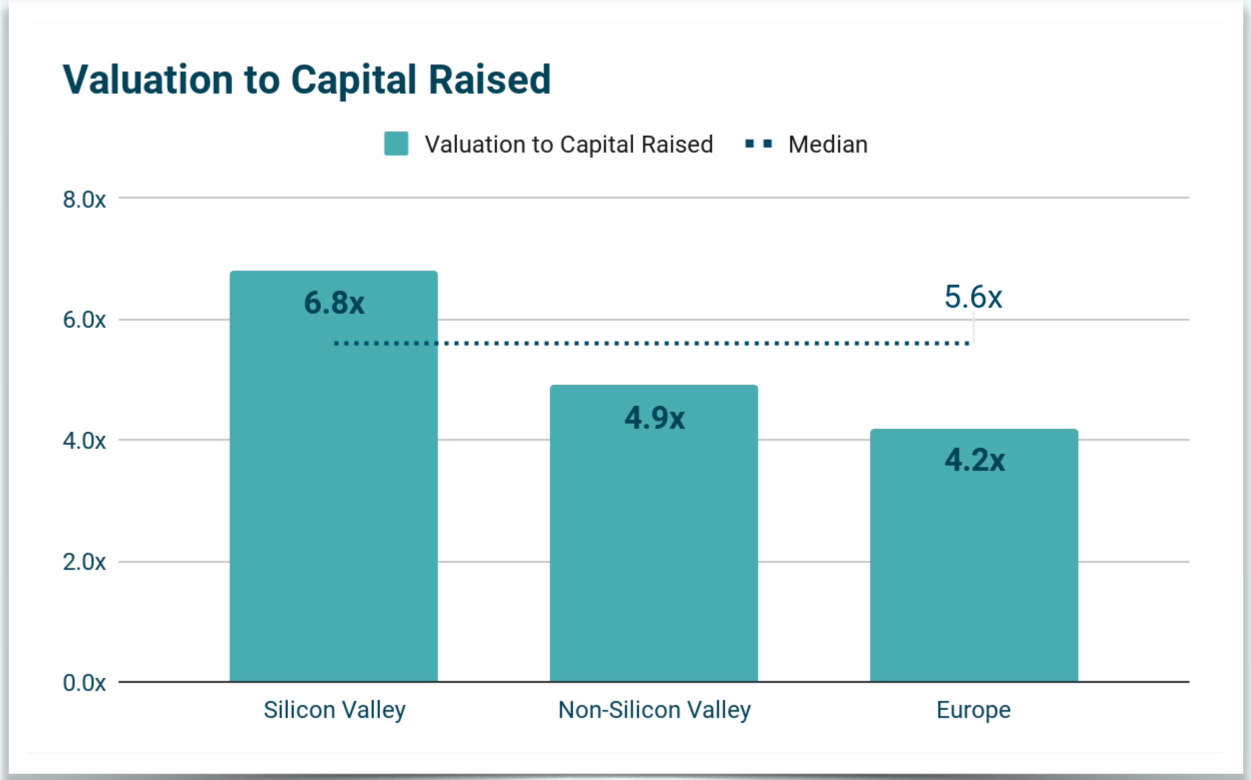
Region	2023 Jan-Sept	Change since 2019
North America	$124B	-3%
Asia	$67B	-8%
Europe	$47B	23%
Latin America	$3B	-41%
Oceania	$3B	64%
MENA	$3B	210%
Africa	$1B	91%

- We saw this especially this year, w.r.t fundraising. Many VCs were travelling to Japan and Middle East for fundraising, given their home base LPs became more restricted.
- **This growth runs both sides, VCs will also invest more capital in emerging geographies**

Growth of more VC hubs / 2

There is a considerable valuation + other differences between a Silicon Valley startup and others. It pushes investors to expand their boundaries in search of attractive startup opportunities in other geo's.





- Venture-backed startups based in Silicon Valley have commanded a significant valuation premium as compared to companies located outside Silicon Valley and across Europe.
- One would think well-financed startups would outperform in terms of revenue traction and growth. Not true. Not only are Silicon Valley startups overvalued and overfunded but they also underperform in terms of ARR and ARR growth.

VCs need to redefine their edge

VC managers need to rethink strategies in the age where capital is increasingly commoditised

TechCrunch+ Market Analysis

In the new normal for VC, builders will win

Will Robbins @whrobbins / 4:00 PM GMT+2 • April 9, 2023 Comment

As VCs continue to financialize themselves as the hedge fund and private equity industries did in decades past, **VC firms must win with information advantage or by building the power and founder relationship to beat competitors head-on.**

For LPs thinking about the decade to come, I wonder -

- **Is there room for anybody in between small emerging managers and large multistage ecosystems?**
- To what degree is there loyalty between founders and investors?
- Is there an enduring edge in platform value add, or does the GP ultimately make or break the portfolio?

Rise of VC fund niches that are focusing on narrow areas of businesses

Zoe Weinberg • Following
Founder & Managing Partner @ ex/ante | Venture, Tech, Policy
1mo • Edited •

Proud to emerge from stealth today to announce the launch of ex/ante, the first-ever venture fund dedicated to agentic tech: technology that advances individuals' agency and control—over their privacy, data, assets, and information.

Redefining VC fund manager landscape

A downturn forces everyone to rethink. Same is happening now when every structural brick of venture ecosystem is being re-envisioned

The Generalist

What Do Venture Capitalists Do?

A study from 1984 outlines the habits of Silicon Valley's capital class. How have they changed?

5 OCT 2023

Can you Scale a Venture Capital Fund?

A breakdown of the VC ecosystem over the last few years and why the current fund structures are flawed

ABHISHEK MARAN
15 JUN 2023

> "The VC industry needs to rip up the playbook and start again"

FORBES > INNOVATION > VENTURE CAPITAL

The 'Emerging Manager' Needs A Rebrand

Heather Hartnett Contributor

I write about emerging fund managers, LPs and family office investing.

Follow

Jun 29, 2023, 08:00am EDT

Venture capital M&A

Given the changing dynamics of the startup ecosystem, tough macro situation, and many others relevant factors, we might see a continued growth of M&A within VC business itself

Venture

General Catalyst and European early-stage fund La Famiglia 'join forces' to invest in European startups

Mike Butcher @mikebutcher / 1:00 PM GMT+2 • October 16, 2023 Co

Venture

French VC firm Founders Future just acquired an equity crowdfunding platform, Sowefund

Romain Dillet @romaindillet / 6:00 AM GMT+2 • October 19, 2023 Comment

ACQUISITION

Molten Ventures acquires Forward Partners in £41M deal, announces raise of £50M

Analysis March 31, 2023

On sale for 40% off: Stakes in European VC funds

With exits scarce and equity markets down, more VC fund stakes are changing hands in Europe

What Does This Mean For Venture?

Finally, I touched on the impact of M&A on venture funds. Not just their companies getting acquired, but the potential for consolidation among venture firms. I'd touched on this idea before this way:

> *"Over the last few years the number of venture firms has grown from ~900 to nearly 2,000 different firms managing $500B+ of capital. In a market correction some people predict as many as 50% of those firms could fail.* ***One prediction I have is that as venture funds have become more productized they've developed more IP and proprietary processes.*** *As a result, even though you'll still see some firms shut down I also believe you'll see some venture firms get acquired. Not only for their portfolios or people, but for the things they've built."*

Venture funds are incorrigible creatures, and can take decades to die. **So its unsurprising that consolidation would take much longer if it is going to happen.**

Venture as a tool for geo-advantage

Venture is increasingly becoming a tool to support local industries, labor markets, or topics that are of national/geo interest.

THE RAND BLOG

Venture Capital Gives America a Strategic Edge in the Age of Technology Wars

COMMENTARY *(Fortune)*

NATO Innovation Fund closes on EUR 1bn flagship fund

01 Aug. 2023 - | Last updated: 01 Aug. 2023 09:49

How to Win the Fight for America

Doomsayers, technophobes, and neurotics want to undermine America from the inside. Our dynamic vision must prevail, writes Katherine Boyle.

By Katherine Boyle
November 19, 2023

News February 2, 2023

Germany launches €1bn fund for climate and deeptech scaleups

It's the latest big commitment from a European government to innovation. But will it live up to expectations?

Jeremy Hunt to unveil pension fund reform plan to help UK startups

Chancellor will outline proposals to mobilise investment and support homegrown firms in Mansion House speech

News November 22, 2023

Germany announces close of €1bn fund of funds to invest in German and European VC

The fund is designed to make more growth-stage capital available to European startups

DEEPTECH

Europe kicks off new support measures to help (future) deep tech innovators scale up their businesses

The European Commission has unveiled the 'EIC Scale Up 100' initiative, aims to support the growth of 100 promising European deep tech scale-ups on their journeys to become unicorns.

THANKS!

IMAGE FROM DALL E
Here is a painting created in the style of Abstract Expressionism, themed around the 'VC industry in 2023' with the concepts of 'Low, Limited, and Lopsided.'