Agenda

• Introduction to National Venture Capital Association (nvca.org) & Venture Forward (VentureForward.org)
  • Venture 101: A Refresher
  • US VC Shattering Records
  • What’s Happening in Texas
• Public Policy Implications in Washington, DC
Who We Are

The National Venture Capital Association (NVCA) empowers the next generation of American companies that will fuel the economy of tomorrow.

As the voice of the U.S. venture capital and startup community, NVCA advocates for public policy that supports the American entrepreneurial ecosystem.
Venture Forward

Venture Forward is driving the human capital, culture, values, and narrative of venture capital to promote a strong and inclusive community that will fuel the economy of tomorrow.

Venture Forward’s work revolves around four key areas of focus: diversity, equity & inclusion; education; research & data; and history.

Venture Forward is a 501(c)(3) non-profit and supporting organization to the National Venture Capital Association (NVCA).
VC 101: A Refresher
Venture Business

Founder + VC = Growth
Venture capital cycle

1. **Fundraising**
   - VCs raise capital for funds from LPs.

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

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

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

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

6. **Re-investment**
   - The fund ends when all investments have been exited and proceeds have been distributed to LPs. LPs can then reinvest earnings in a new crop of funds.
Venture Capital Investment Path Is Long

- Concept, business planning
- Product development
- Operational, rollout
- Growth
- Expansion

IPO or M&A Exit

~10 Years
VCs Work Actively With Companies

Frequent VC contact with portfolio companies:
- Every day: 1%
- Once a month: 10%
- 2-3 times a month: 26%
- Less than monthly: 2%
- Once a week: 34%
- Multiple times a week: 27%

Advice VCs provide to portfolio companies:
- Operational guidance: 65%
- Strategic guidance: 87%
- Connect investors: 72%
- Connect customers: 69%
- Hire employees: 46%
- Hire board members: 58%
- Other: 20%

Venture Capital Delivers Outsize LP Returns

Capital $\rightarrow$ Venture Fund $\rightarrow$ Capital Return

Returns support university research, worker retirement & philanthropies funded by foundations & endowments
Help Build Companies from Scratch...
VENTURE CAPITAL CREATES AND SUPPORTS

AMERICA’S HIGH GROWTH COMPANIES

Ilya A. Strebulaev
Stanford University - Graduate School of Business; National Bureau of Economic Research

Will Gornall
University of British Columbia (UBC) Sauder School of Business

REPORT:
The Economic Impact of Venture Capital: Evidence from Public Companies (June 2021)
Among companies founded within the last 50 years, VC-backed companies account for:

- 50% of the total number of companies
- 77% of total market capitalization
- More than 92% of R&D spending and patent value
- 64% of total taxes
The R&D spending of VC-backed public companies is 46% of total U.S. R&D spending across government, academic, and private companies.
$244 Billion

The amount spent on R&D from VC-backed public companies in 2020, up from essentially zero in the 1970s.
US Venture Capital: 9 Record Breaking Data Points from 2021
VC deal activity in 2021 reached $330 billion, nearly double last year’s record

US VC Investment Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Deal activity up across all stages: angel & seed

US Angel & Seed Deal Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Deal activity up across all stages: early stage

US Early-Stage VC Deal Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Deal activity up across all stages: late stage

US Late-Stage VC Deal Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
First-time financings have surged to a record $24 billion across more than 4,000 deals

US First-Time Financing Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Female-founded companies raised a record $55 billion in capital in 2022

US VC Deal Activity for Female-Founded Companies*

*Defined as companies with at least one female founder
Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Participation by nontraditional investors in VC space is changing the game

US VC Deal Activity with Nontraditional VC Investor Participation

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Exit activity shattered previous record with $774 billion in realized value

Annual US VC Exit Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
Fundraising broke $100 billion for first time ever in 2022, demonstrating LPs still have plenty appetite for VC

US VC Fundraising Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
4 Data Points In Texas
TX investment activity hit record high in 2022, breaking $10 billion in capital invested and ranking 4th among states.

Texas VC Investment Activity

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
TX has a strong investor base with a national reach

<table>
<thead>
<tr>
<th>US VC Deal Activity ($M) by State in 2021</th>
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<tbody>
<tr>
<td>California</td>
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<tr>
<td>New York</td>
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<td>Pennsylvania</td>
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<td>Colorado</td>
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<td>New Jersey</td>
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<td>Florida</td>
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*Top 10 States

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<th># of States Invested into by Investor HQ State in 2020</th>
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<tr>
<td>Investor HQ State</td>
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<tr>
<td>-------------------</td>
</tr>
<tr>
<td>California</td>
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<td>New York</td>
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<td>Colorado</td>
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<td>Georgia</td>
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</table>

*Top 10 States

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21; 2021 NVCA Yearbook
IT, Healthcare, & B2B startups lead TX VC activity

Texas VC Investment by Sector in 2021 (% of Capital Invested)

- Information Technology, 32.5%
- Healthcare, 29.1%
- B2B, 14.4%
- B2C, 11.1%
- Financial Services, 6.9%
- Materials and Resources, 4.8%
- Energy, 1.1%

Source: PitchBook Platform, data as of 1/12/22
Austin, Dallas, Houston in top 20 MSAs for VC dollars invested in 2021

<table>
<thead>
<tr>
<th>Metropolitan Statistical Area</th>
<th>US VC Deal Flow in 2021 (in $Billions)</th>
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<tbody>
<tr>
<td>Silicon Valley</td>
<td>$119.7B</td>
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<tr>
<td>San Francisco-Oakland-Fremont, CA MSA</td>
<td>$93.1B</td>
</tr>
<tr>
<td>New York-Northern New Jersey-Long Island, NY-NJ-PA MSA</td>
<td>$51.9B</td>
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<tr>
<td>Boston-Cambridge-Quincy, MA-NH MSA</td>
<td>$34.6B</td>
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<tr>
<td>San Jose-Sunnyvale-Santa Clara, CA MSA</td>
<td>$26.5B</td>
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<tr>
<td>Los Angeles-Long Beach-Santa Ana, CA MSA</td>
<td>$23.7B</td>
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<tr>
<td>San Diego-Carlsbad-San Marcos, CA MSA</td>
<td>$9.7B</td>
</tr>
<tr>
<td>Seattle-Tacoma-Bellevue, WA MSA</td>
<td>$8.0B</td>
</tr>
<tr>
<td>Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA</td>
<td>$7.8B</td>
</tr>
<tr>
<td>Chicago-Naperville-Joliet, IL-IN-WI MSA</td>
<td>$7.0B</td>
</tr>
<tr>
<td>Washington-Arlington-Alexandria, DC-VA-MD-WV MSA</td>
<td>$4.9B</td>
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<tr>
<td><strong>12th Austin-Round Rock, TX MSA</strong></td>
<td><strong>$4.9B</strong></td>
</tr>
<tr>
<td>Denver-Aurora, CO MSA</td>
<td>$4.3B</td>
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<tr>
<td>Atlanta-Sandy Springs-Marietta, GA MSA</td>
<td>$4.0B</td>
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<tr>
<td>Miami-Fort Lauderdale-Pompano Beach, FL MSA</td>
<td>$4.0B</td>
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</table>

- Dallas-Fort Worth-Arlington, TX MSA ranked **16th** ($3.4B invested)
- Houston-Sugar Land-Baytown, TX MSA ranked **18th** ($2.3B invested)

Source: Q4 2021 PitchBook-NVCA Venture Monitor, data as of 12/31/21
New Laws impacting
Entrepreneurial
Ecosystem
Technology Programs

Bipartisan Infrastructure Framework
Technology a critical issue in package

Tech programs:

• Technology procurement programs

• Technology demonstration project grant programs

• Research and manufacturing grant programs

• New gov’t technology offices and working groups
Transportation & mobility

• $7.5B to S&L governments and transportation authorities for alternate fuel recharging infrastructure.

• $5B to S&L governments and private operators to purchase clean school buses.

• $550M for the Technology and Innovation Deployment Program to accelerate adoption of market ready transportation technologies.

• $550M for the Intelligent Transportation Systems Program to integrate advanced communications technologies into transportation infrastructure and vehicles.

• Expansion of Advanced Technology Vehicle Manufacturing Program to include medium and heavy –duty vehicles, trains, aircraft, maritime vessels and hyperloop technology.

• Expansion of Surface Transportation Block Grant Program to include funding for installation and deployment of intelligent transportation technologies.
Infrastructure / smart city tech

• $3B Smart Grid Investment Matching Grant Program for deployment of technologies that enhance grid flexibility.

• $500M SMART grant program to provide grants to S&L governments to fund competitive smart city demonstration projects.

• Creation of Smart Community Resource Center to develop compilation of resources for S&L governments for smart city tech integration.

• Creation of Advanced Research Projects Agency-Infrastructure.

• $10B for S&L governments and utilities for PFAS and other water pollutant treatment.

• $50M grant program for rural and disadvantaged communities to identify and deploy emerging drinking water technology.
Climate Programs

Technology Procurement Programs

• $7.5B program to build out alternative fuel recharging infrastructure that includes the acquisition of charging and storage technology.

• $3B for the Smart Grid Investment Matching Grant Program to support the deployment of technologies that enhance electric grid flexibility.

Technology Demonstration Project Grants

• SMART Grant program to provide $500M for smart city demonstration projects.

• $3.5B for carbon capture large-scale pilot projects and carbon capture demonstration projects.

Research & Manufacturing Grant Programs

• Creation of ARPA-Infrastructure (ARPA-I) to fund private sector R&D on advanced transportation infrastructure technologies.

• $750M to create the Advanced Energy Manufacturing and Recycling Grant Program.

• Grant program for battery manufacturing and recycling facility retooling and construction, and for battery demonstration projects.
Cyber

• $1B grant program to S&L governments and utilities/contractors to address cybersecurity risks and threats.

• $250M Rural and Municipal Utility Advanced Cybersecurity Grant and Technical Assistance Program.

• $250M Cybersecurity for the Energy Sector RD&D Program.

• $157M for DHS Science and Technology Directorate for R&D.

• Requirement that EPA develop a cybersecurity framework for public water systems.

• Requirement for Federal Energy Regulatory Commission (FERC) to draft rulemaking that encourages investment in cybersecurity technology and threat information sharing programs.
State Small Business Credit Initiative
American Relief Plan (ARP) provides $10B for SSBCI 2.0 (1.0 only $1.5B). Smallest states receive $56M.

- Money sent to states to provide capital for small businesses.
- Funds can be used for debt or equity programs.
What’s Next?
Build Back Better?
House passed bill tax provisions

- **Carried interest:** Tax increase provision EXCLUDED from package.

- **Capital gains rate:** Rate increase excluded from package, replaced with increased surtax.

- **High earner surtax:** 5% surtax for income over $10M, additional 3% for income over $25M.
  - Effective date 1/1/22.

- **QSBS:** Dials back exclusion from 100% to 50%; reimposes AMT
  - Effective date for sales of stock 9/13/21.
House passed bill tax provisions

- **NIIT surtax**: 3.8% surtax applied to income from certain partnerships.

- **IRS tax enforcement**: $78B for IRS tax enforcement activities.

- **Common control**: Expands provision requiring companies with common majority investors to aggregate accounting for tax purposes.

- **R&D Credit payroll tax offset**: Expands the ability of early-stage startups to offset up to $500K in payroll taxes (up from current $250K).
BBB Climate Programs

Tax Issues

• 5-year extension and expansion of current tax provisions, then transition to tech-neutral credit structure for additional 5 years.
• Direct pay mechanism for climate credits. Allow startups to access value in the year the credits are generated.
• Expansion and lowered minimum scale requirements for 45Q Carbon capture credit.
• New zero emissions facility credit.
• New tax credit for clean hydrogen.

Other Provisions

• $40B in loan authority for Department of Energy’s (DOE) Loan Programs Office.
• $29B for Greenhouse Gas Reduction Fund for nonprofit climate financing institutions leveraging public/private partnerships supporting rapid deployment of low- and zero-emission technologies.
• $3.5B for domestic manufacturing conversion grants for domestic EV production.
• $1B for energy efficiency and renewable energy demonstration projects.
Research and tech commercialization

• $3.36B for regional innovation hubs –
  • Commerce Dept will use funds to develop regional economic growth clusters.

• $1.5B for NSF Technology Directorate –
  • National Science Foundation (NSF) to administer new Directorate to accelerate use-inspired and translational research in technologies and innovations of national importance.

• $668M for NSF core research –
  • Additional funds for research awards, traineeships, scholarships, and fellowships across all STEM disciplines.
U.S. Innovation & Competitiveness Act
Endless Frontier Act
Endless Frontier Act

• $120B to strengthen U.S. R&D / accelerate advancements in key tech focus areas through public-private partnerships
  • Establishes NSF Technology & Innovation Directorate
  • Increases authorized funding for existing NSF R&D activities
  • Creates regional tech hub programs at Dept. of Commerce

• NVCA priorities
  • New commercialization programs: tech transfer, test bed, R&D
  • Each program prioritizes new business formation and entrepreneurship
  • Opportunity to encourage university tech transfer best practices
June Senate action

- *U.S. Innovation and Competition Act* passed with 68-32 vote

- *Endless Frontier Act* core component of USICA package

- Additional provisions include:
  - Semiconductor production
  - Supply chain, manufacturing programs
  - Increased Dept. of Energy/NASA research
USICA/EFA status

• Global innovation competition is fierce: U.S. share of global VC investment was around 51% in 2020, dropping from 83% in 2004

• U.S. must bolster its technology investments of the future to compete with China and other nations who have significantly increased their investment in emerging technologies

• Federal investment in emerging tech will enhance our economic future and set up the U.S. workforce to compete globally.

• USICA must prioritize new company formation and growth to encourage participation of VC investors and entrepreneurs who will create and scale the next generation of American companies.
Antitrust – M&A restrictions
Senate focus on antitrust

• After House Judiciary passage of 6 antitrust bills, focus turned to Senate

• Senators Klobuchar and Cotton introduced the *Platform Competition and Opportunity Act*

• Klobuchar as chair of the antitrust subcommittee is motivated to move legislation. Started with broader antitrust legislation (CALERA)

• Bill would punish American businesses, taking away incentives for entrepreneurs and investors, making it less attractive to start a new business or invest in a new company
Cotton/Klobuchar keeps pressure on acquisitions

Bill is effective acquisition ban on Alphabet, Amazon, Apple, Facebook, & Microsoft (?)

Senate bill excludes companies that grow to more than $600B market cap after bill enactment
Strange bedfellows theme continues

“The left wing and the right wing belong to the same bird”
Immigration: Start Up Visa
WHERE WERE UNICORN FOUNDERS BORN?

Of Unicorn Founders Are Not US-Born

- India – 90 founders
- Israel – 52 founders
- Canada – 42 founders
- UK – 31 founders
- China – 27 founders
- Germany – 18 founders
- France – 17 founders
- Russia – 14 founders
- Taiwan – 12 founders
- Ukraine – 12 founders

Source: Ilya Strebulaev, Venture Capital Initiative, Stanford Graduate School of Business (01/2022)
Lofgren introduces new startup visa bill

• Rep. Zoe Lofgren (D-CA) introduced new startup visa legislation, the *Let Immigrants Kickstart Employment (LIKE) Act*

• LIKE Act improves upon previous startup visa bills
  • **Non-immigrant visa** for foreign-born founders w/ >10% ownership; play ‘active and central role’; and raised >$250k in qualifying investment
  • **Immigrant visa** for those admitted under non-immigrant visa or another visa connected to the startup (e.g. O-1); play ‘active and central role’; create 10 jobs; and raised $1.25m or $1m in annual revenue
  • No numerical limit and multiple co-founders per company can qualify
  • Nonimmigrant visa for essential employees
SEC: No, not the sports’ conference
Securities & Exchange Commission

Chair Gary Gensler agenda:

• Looking at private companies and the roll of the SEC
  • State Securities Regulators

• Looking at requirements on private funds
  • Accredited investors only