America’s Startup Ecosystem: Trends and Opportunities

Southwest Venture Forum
January 2023
The National Venture Capital Association helps empower 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’s efforts revolve around four key areas of focus:

**DEI**
Advancing a more diverse, equitable, and inclusive ecosystem

**Research & Data**
Conducting and sharing meaningful research on VC trends and impact

**Education**
Equipping new generation of VC investors with the tools to succeed, and informing the general public about the role of VC on the U.S. economy

**History**
Capturing the rich history of the industry and distilling insights to shape the future
Venture Capital: The Basics
Who Invests in Venture Capital Funds?

Potential Investors

- Pension Funds
- Non-Profit Endowments
- Mutual Funds
- Family Offices

All U.S. Assets Under Management (2021)

- Real Estate: 38%
- Equities: 25%
- Bonds: 37%
- Public Stock Market: 18%
- Private Equity & LBO: 5%
- Venture Capital: 1.37%

Venture capital makes up less than 1.5% of the U.S. market’s assets under management.

Source: Federal Reserve Bank of New York
Deploy The Fund
(What Do You Do With Your Investors’ Capital?)

Common Strategies for Fund Deployment

**Stage Strategy**

<table>
<thead>
<tr>
<th>Stages</th>
<th>Aspects of Strategy</th>
<th>% of US Deals 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Stage (Angel-C)</td>
<td>More Deals, Fewer $ Per Deal</td>
<td>70%</td>
</tr>
<tr>
<td>Late Stage (D-Onwards)</td>
<td>Fewer Deals, More $ Per Deal</td>
<td>30%</td>
</tr>
</tbody>
</table>

Teaming up with other funds to reduce risks through syndication is a core aspect of venture capital.

**Sector Strategy**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Software</th>
<th>Pharma &amp; Biotech</th>
<th>Other</th>
<th>Media</th>
<th>IT Hardware</th>
<th>HC Services &amp; Systems</th>
<th>HC Devices &amp; Supplies</th>
<th>Energy</th>
<th>Consumer G&amp;S</th>
<th>Commercial G&amp;S</th>
<th>Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of US Deals 2021</td>
<td>39%</td>
<td>8%</td>
<td>4%</td>
<td>2%</td>
<td>3%</td>
<td>9%</td>
<td>5%</td>
<td>2%</td>
<td>15%</td>
<td>14%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Pitchbook Data
Make The Fund Succeed
(How Do You Support Your Portfolio)

AVERAGE FREQUENCY OF CONTACT WITH PORTFOLIO COMPANIES

- Once a week: 34%
- 2-3 times a month: 26%
- Once a month: 10%
- Less than monthly: 2%
- Everyday: 1%
- Multiple times a week: 27%

ADVICE VCs GIVE PORTFOLIO COMPANIES

- Board Management: 58%
- Personnel Guidance: 46%
- Marketing Intros: 69%
- Strategic Guidance: 87%
- Operational Guidance: 65%
- Other: 20%

Source: Strebulaev & Gornall

Source: nvca
Return The Fund
(Making Good With Your Investors)

Primary Types of Exits

- Mergers and Acquisitions
- Public Listings
  - IPOs
  - Direct Listings
  - SPACs

Typical Distribution of Profits Returned from a VC Fund

- Fund Managers 20%
- Investors 80%

Overall Exit value, All U.S. VC Exits: 2006-2021 ($B)

Source: Pitchbook Data
What Next?
(It’s a Cycle)

- Raise Fund
- Deploy Fund
- Grow Portfolio Companies
- Return Fund

Reinvest and Start Again!
VC’s Importance to the U.S. Economy
Venture Capital Creates and Supports America’s Highest Value Companies

New Companies by Type of Backing, 1975-2015

- VC-Backed: 0.18%
- Non-VC Backed: 99.82%

% of Current Total Market Cap of Public Companies Founded 1975-2015

- VC-Backed: 57%
- Non-VC Backed: 43%

Source: Strebulaev & Gornall
Venture Capital Creates More Jobs, Faster, Than Any Other Sector

Employment Growth from 1990 to 2020

VC-BACKED GROWTH

\[960\% \quad \text{vs} \quad 40\%\]

Annualized Growth Rate of Employment from 1990 to 2020

VC-BACKED COMPANIES

\[8.2\% \quad \text{vs} \quad 1.1\%\]

Source: Brown and Chow
Venture Capital Invests in the Technologies Which Keep America Competitive

Private Sector R&D Spend, 1975-2015

VC-Backed 82%
Non-VC Backed 18%

American Venture Capital Investment into Emerging Industries, 2020-2022
- Artificial Intelligence & Machine Learning: $91,807M
- Life Sciences: $61,140M
- Big Data: $54,789M
- CleanTech: $49,058M
- Manufacturing (All Types): $30,967M
- Cybersecurity: $26,875M
- Space Technology: $11,366M
- Robotics and Drones: $10,923M

Sources: Strebulaev & Gornall, PitchBook Data
Venture Capital Sets America Apart

- Generates Greater Value
- Creates More Jobs
- Sparks Better Innovations
Some Venture-Backed Companies

- Google
- Apple
- Meta
- DocuSign
- Genentech
- Tesla
- Splunk
- Salesforce
- Box
- Intel
- Twitter
- Cisco
- Workday
- eBay
- OpenTable
- Airbnb
- LinkedIn
The State of VC By The Numbers
US VC Deal Count and Deal Value, 2006-2022

Sources: PitchBook Data
National 1st Time Financing

US VC First-Financings, 2006-2022

Deal Value ($B) vs. Deal Count

Sources: PitchBook Data
National VC Backed Exits

US VC-Backed Exits, 2006-2022

Sources: PitchBook Data
National VC Fundraising

US VC Fundraising, 2006-2022

Capital raised ($B) and Fund count over the years from 2006 to 2022. The bar chart shows the fund count, and the line chart depicts the capital raised in billions of dollars (B). Sources: PitchBook Data
VC in Texas
State of VC in Texas 2022

Key Stats

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Deals</td>
<td>790</td>
</tr>
<tr>
<td>Capital Raised ($B)</td>
<td>$9.2</td>
</tr>
<tr>
<td>Exits</td>
<td>68</td>
</tr>
<tr>
<td># of VC Backed Companies in-State</td>
<td>841</td>
</tr>
</tbody>
</table>

Texas ranks #5 for overall VC funding, #4 for total number of deals and exits in 2022

Source: Pitchbook Data
Texas Leads Their Region

Texas dominates its geographical region and is in the top five states nationally for VC deals, fundraising, and exits.
Eyes on Washington
P O L I C Y  A G E N D A


NVCA

Inflation Reduction Act
CHIPS & Science
Bipartisan Infrastructure Framework

SSBCI
SEC
Inflation Reduction Act Overview

The Inflation Reduction Act includes $369 billion for advanced energy innovation

- Raises approx. $700 billion
  - Prescription drug pricing
  - 15% corporate minimum tax
  - IRS tax enforcement
  - 1% stock buyback tax

*$Final deal also included pledge to pass permitting reform legislation in another legislative vehicle before the end of the fiscal year.
**NVCA Tax Wins**

- **Capital gains tax increases**
  - Ordinary income
  - Making more than $5M
  - Mark-to-market

- **Carried interest tax increase**
  - Annual tax on AUM
  - 5-year hold period (*not really*)

- **QSBS tax increase**
  - Retroactively limit QSBS to 30%

- **R&D credit payroll tax**
  - $250,000 to $500,000
CHIPS & Science: Overview

Authorizes $250 billion
• Early research
• Workforce development
• Facilities
• Climate change
• Entrepreneurship

Includes:
• $61B for NSF research
• $52B for semiconductor research and manufacturing
• $20B for tech commercialization office
• $10B for regional innovation hubs
Bipartisan Infrastructure Framework
(Not Just Roads and Bridges)

- Technology Procurement Programs
- Technology Demonstration Project Grant Programs
- Research and Manufacturing Grant Programs
- New Gov’t Technology Offices and Working Groups
American Rescue Plan (ARP) provided $10B for SSBCI 2.0 (1.0 only $1.5B)

States receive a minimum of $56M to provide capital to small businesses

Can deploy debt and equity capital, including VC programs

NVCA engaged with Treasury on implementation & education
Regulatory Agenda: Proactive

Provide relief for 20% “non-qualifying investment” bucket

- NVCA regulatory and legislative campaign to modernize SEC definition of VC fund:
  - Make investments into EGCs (including secondary) qualifying
  - Make fund of funds investments into other VC funds qualifying
  - Make token offerings qualifying

Protect Volcker Rule exemption

- NVCA achieved an exemption from the Volcker Rule’s prohibition on bank investment into private funds for VC funds, using the SEC definition

Create effective blockchain regulatory regime

- NVCA advocates for an effective regulatory regime for blockchain technology, providing clear rules of the road so entrepreneurs can experiment
SEC Agenda: Reactive

- Private Funds
- 10-b51
- Form PF
- Section 13D/G
- Private companies
Private Funds

→ Indemnification
→ Post-Tax Clawbacks
→ Side Letters
→ Compliance Expensing Ban
→ No Grandfathering
Private Markets Transparency & Accountability Act

❖ Force private companies to go public or sell:
  • >$700M valuation, OR
  • $5B in sales and 5,000 employees

SEC Agenda Items:
❖ Look through funds to count LPs
❖ Publicly disclose fundraising
A Quick Review
Topics Covered Today

- VC 101
- National Trends
- State and Regional Trends
- Congressional Action
- Agency Action
To Learn More

- Visit Our Website
  - NVCA.org
  - VentureForward.org

- Listen to Our Podcast
  - Venture Capitol

- Read Venture Monitor
  - Quarterly
  - Annual yearbook March 20th

- Join NVCA