

SMU's Southwest Venture Forum

January 22nd, 2026

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The Mechanics of Venture Capital

Venture Capital 101

- Venture capital (VC) is a unique form of **equity financing** provided to **startups and early-stage companies** with high-growth potential.
- Unlike bank loans or public markets, VCs invest in companies too risky or unproven for traditional financing in exchange for **equity (ownership stake)**.



Venture Capital 101

High-Risk

Majority of VC investments fail completely, with total loss of capital

50-75% of venture-backed startups never return capital to investors

Illiquid

Capital is locked up for **7-10+ years**

No functioning secondary market; investors can't easily exit investments

High-Growth

Target companies must have potential for **10-100x returns**

Focus on scalable business models with large addressable markets

These characteristics distinguish VC from other forms of investment and explain why VC represents only **0.8%** of U.S. GDP but drives disproportionate innovation.

Power Law

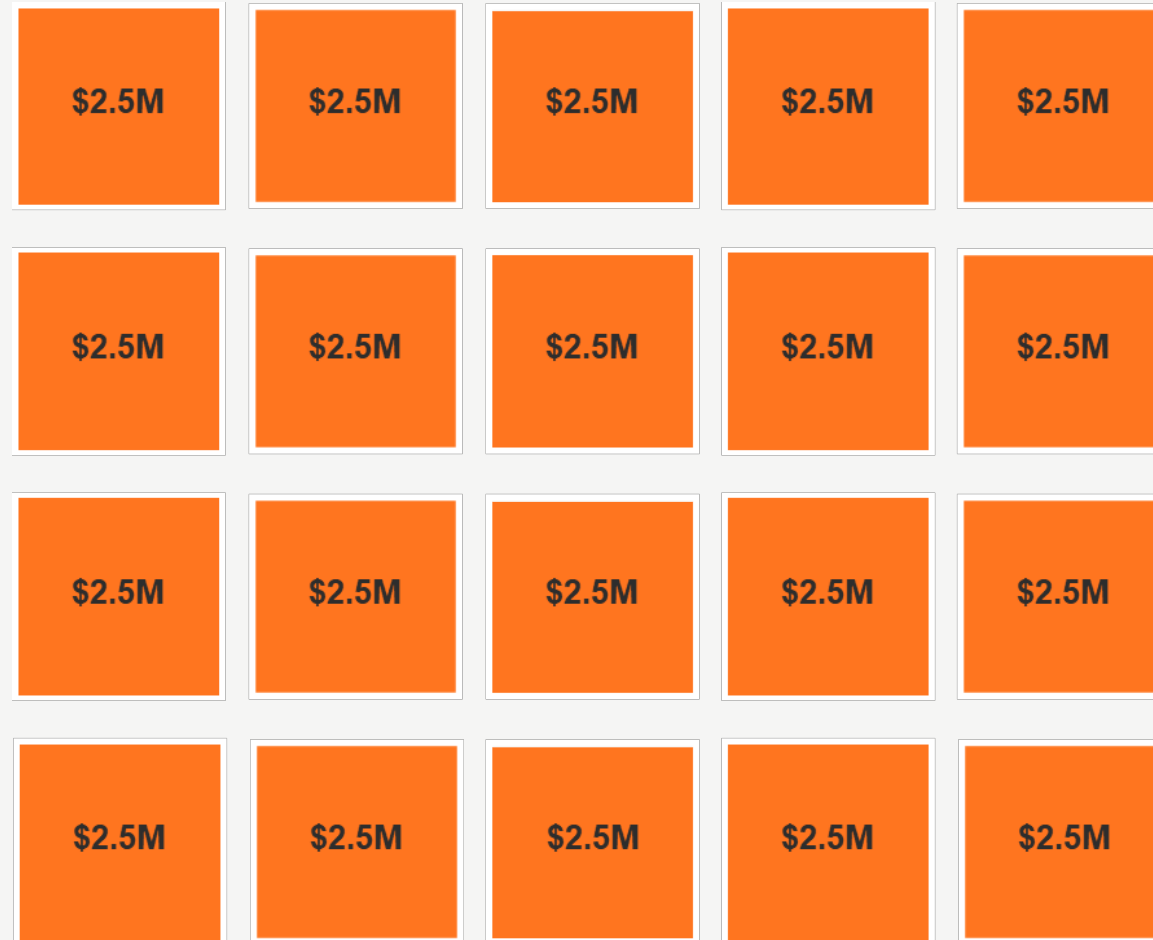
- Unlike traditional investments, venture capital follows a "power law" distribution where **a tiny fraction of investments (-5%) drive the vast majority of returns.**



This is why VCs must make many investments and why they seek companies with **potential for massive scale.**

Power Law

Sample VC Fund - Initial Investments



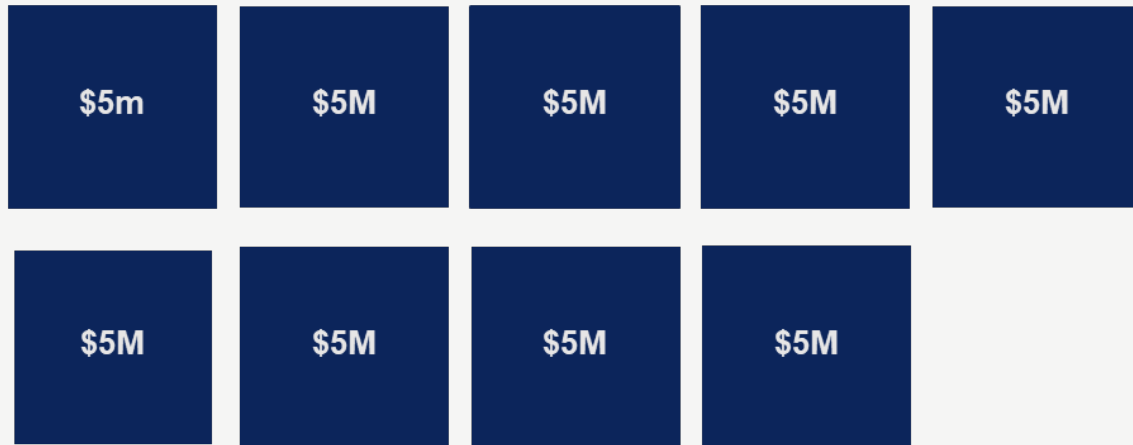
Power Law

Sample VC Fund – 10 Year Return

10 Failures



9 Modest Returns



1 Home Run



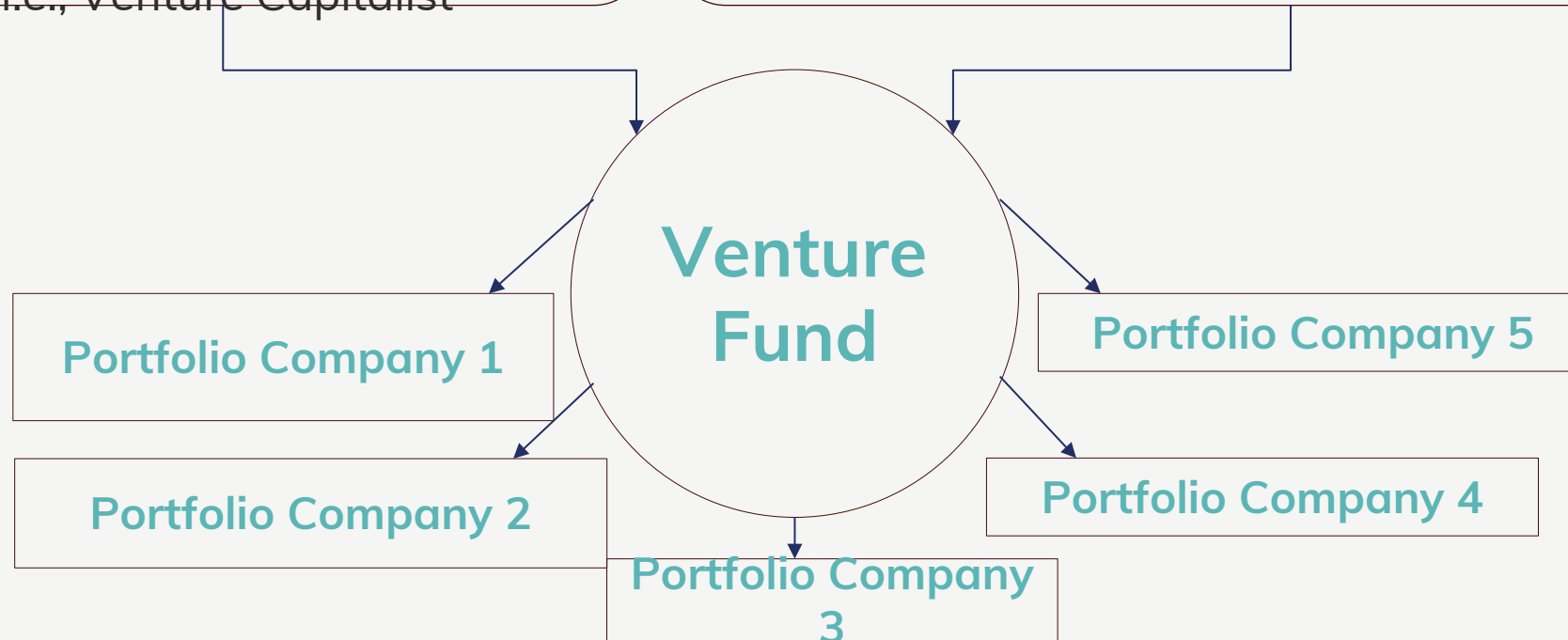
What is a VC fund?

General Partners

Manage the fund, make investment decisions, and work with portfolio companies.
i.e., Venture Capitalist

Limited Partners

Provide capital but have limited liability and no operational control.
i.e., Non-Profit Endowments, Pension Funds, Family Offices



General Partners

Venture Capitalists



Limited Partners



Pensions



Institutional Investors



Family Offices



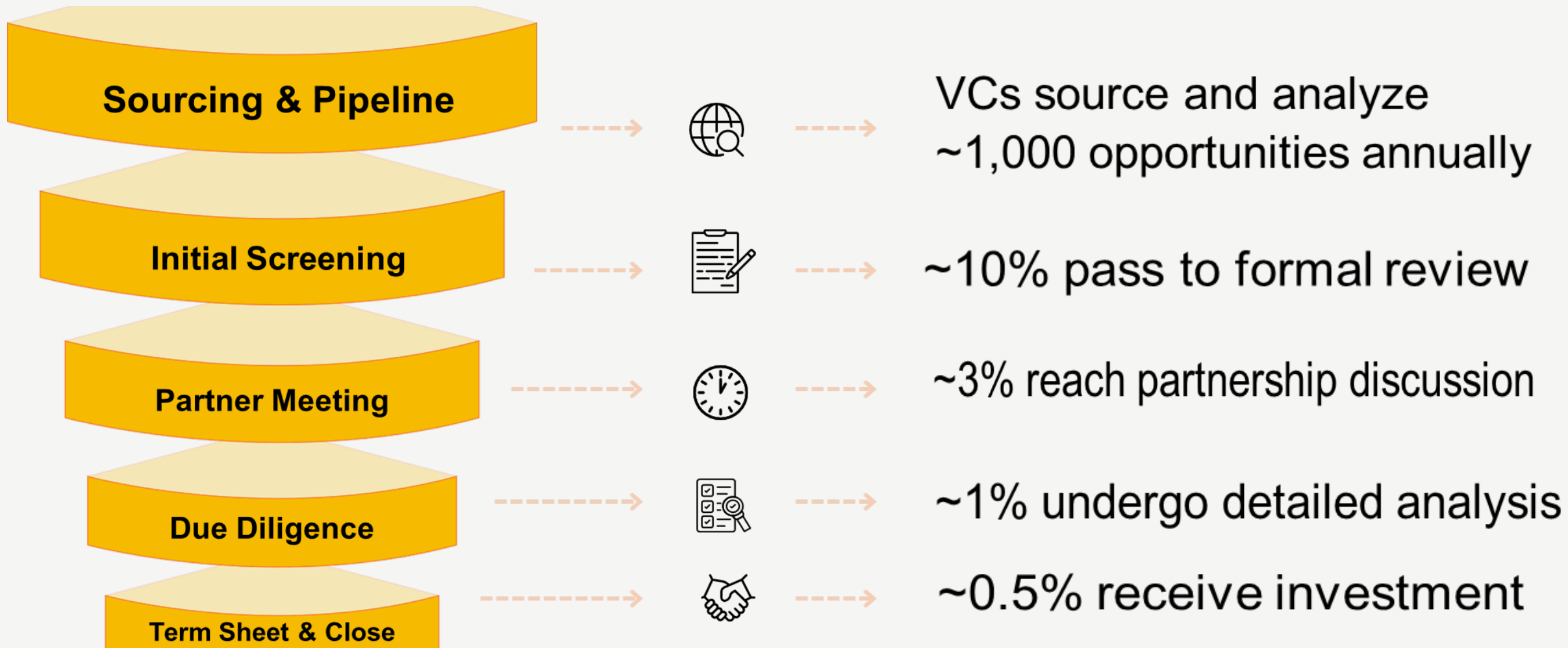
SMU



TEXAS
The University of Texas at Austin

Non-Profit Endowments

Investment Process



Venture Capital Lifecycle



Investment Stages & Milestones

\$1-3M

Seed Stage

Turning an idea into
a product

\$5-15M

Series A

Product-market fit
and early revenue

\$15-50M

Series B

Scaling the business
model

\$50M+

Series C+

Expanding market
dominance

Different VCs specialize in different stages, with **risk decreasing** and **check sizes increasing** at later stages.

Understanding VC Economics

2%

Management Fee

Operating expenses
of the fund

20%

Carried Interest

Performance-based
share of profits that
incentivizes GPs and
aligns interests

80%

Returned to LPs

80% is the common share
of the profits delivered
back to LPs.

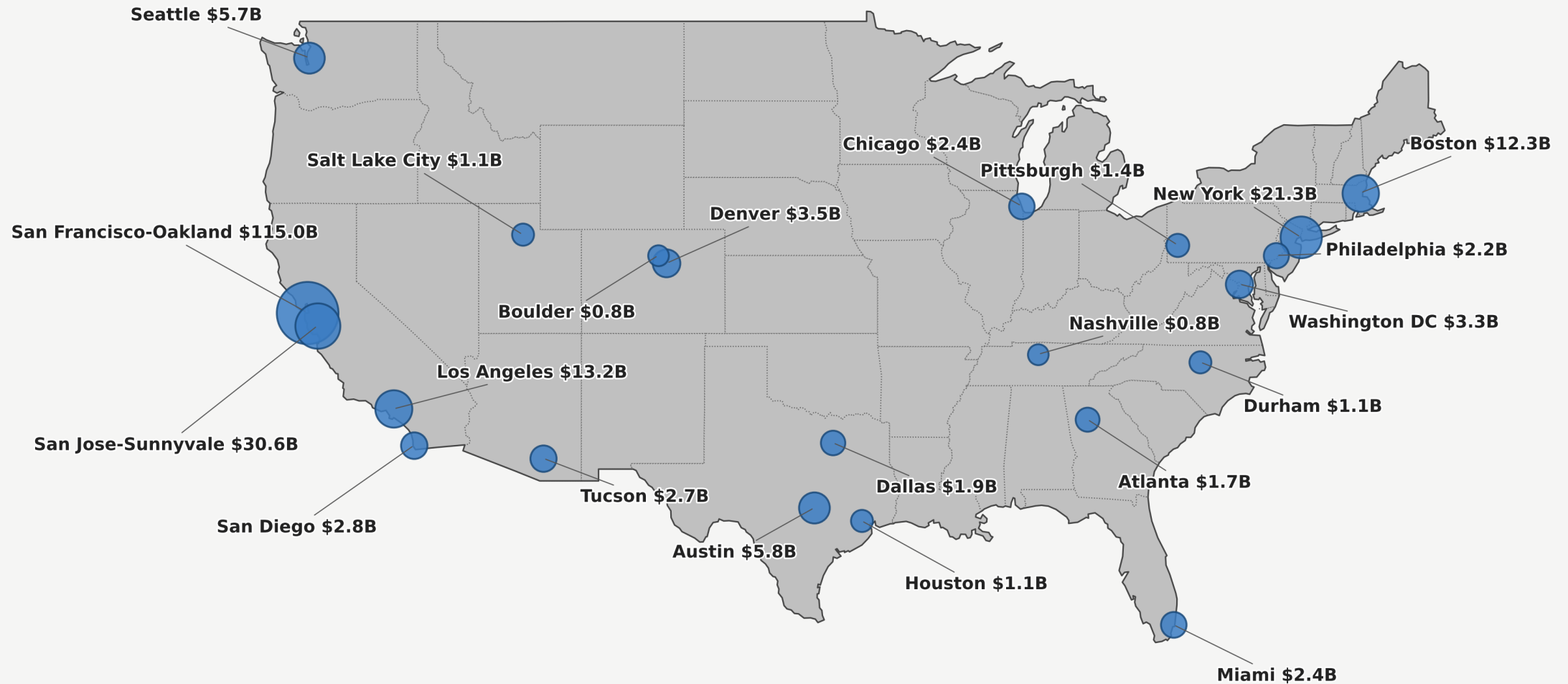
7-10_{yrs}

Fund Lifecycle

Typical period from
investment to return of
capital to LPs

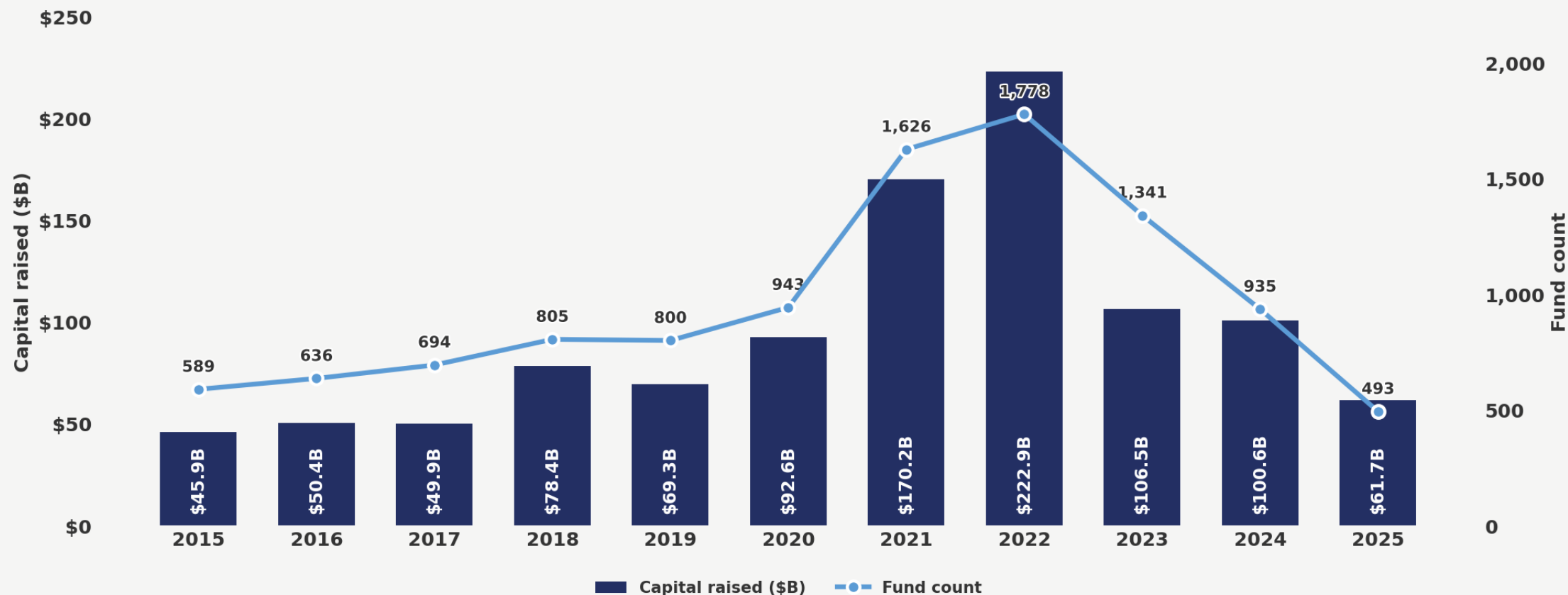
VC Market Conditions

Nationwide Investment Hot Spots



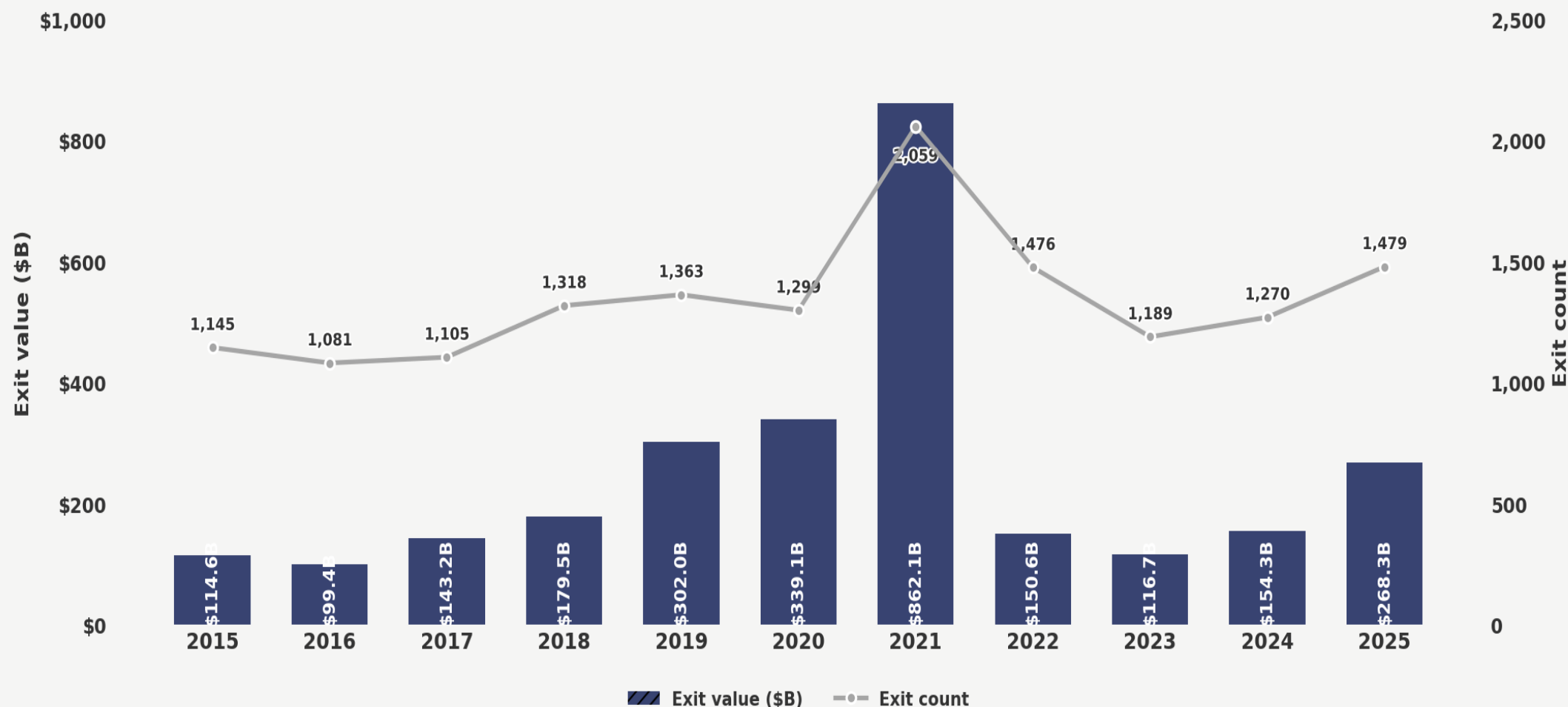
Source: Pitchbook

Fundraising



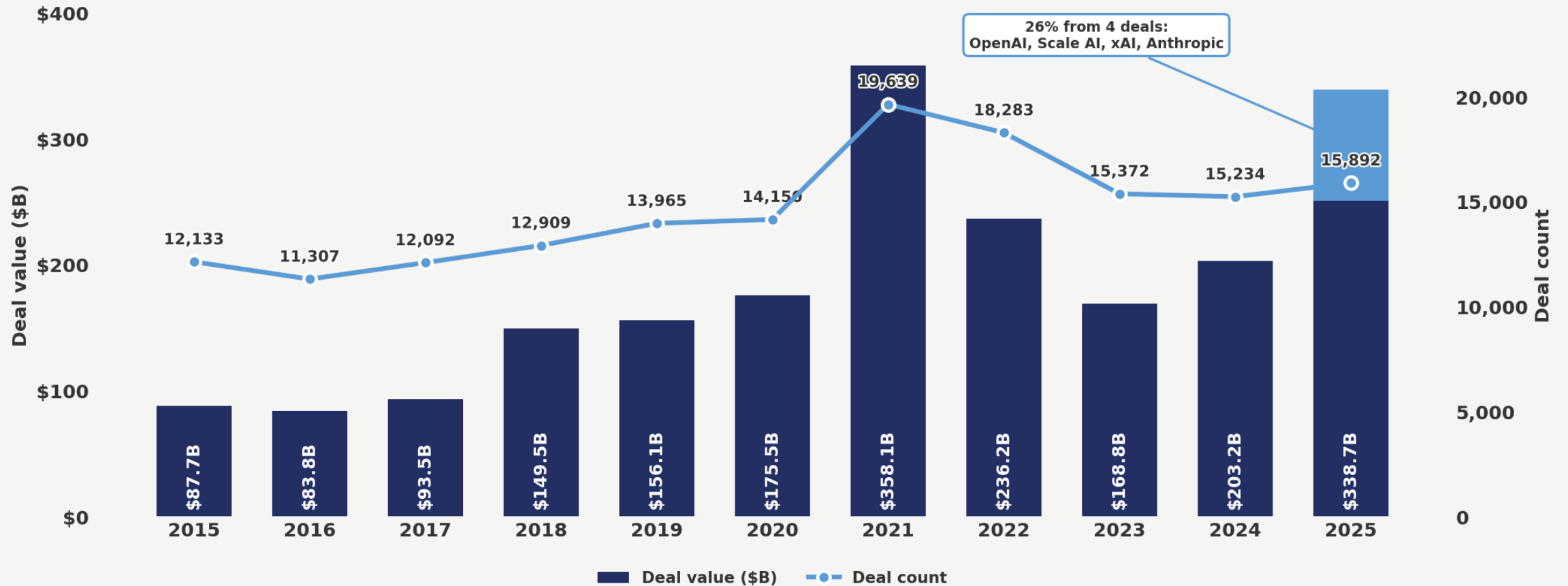
Source: Pitchbook

Exits – Number and Disclosed Value



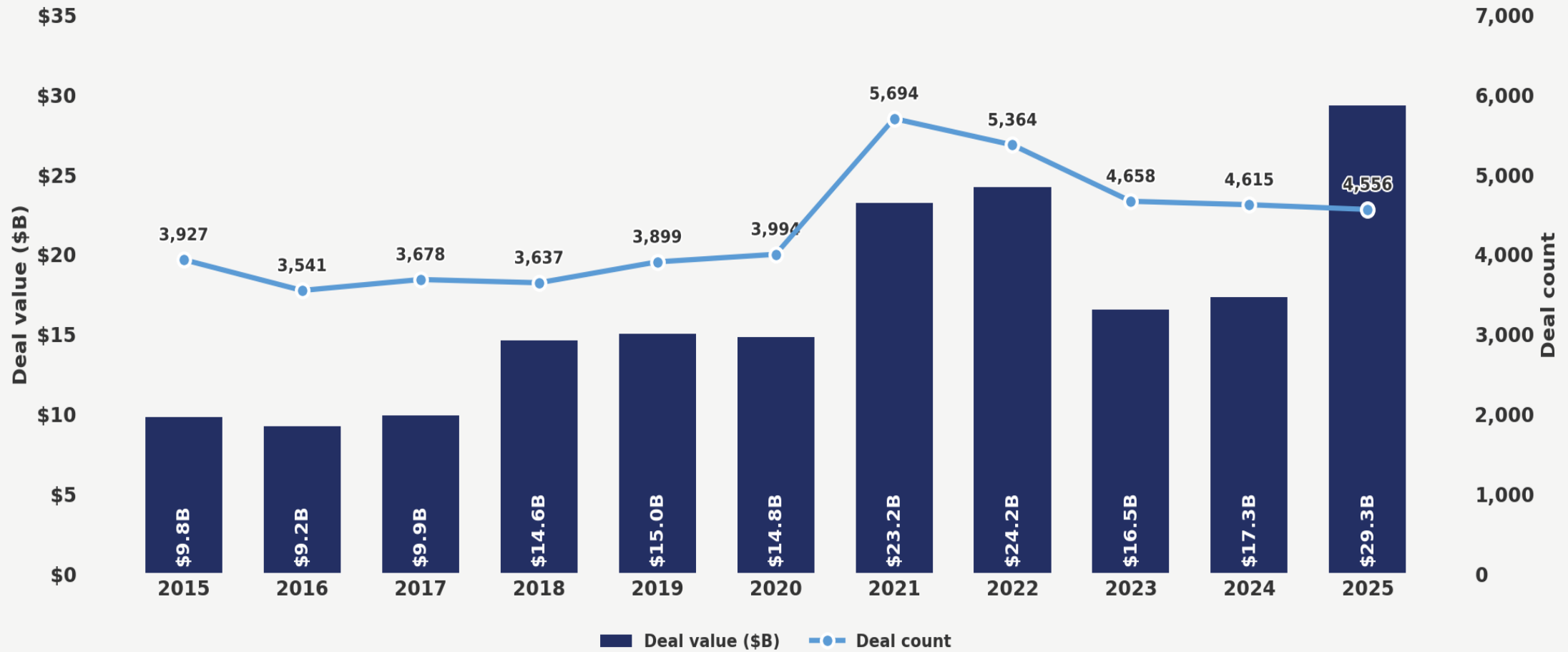
Source: Pitchbook

Investment Value and Deal Count



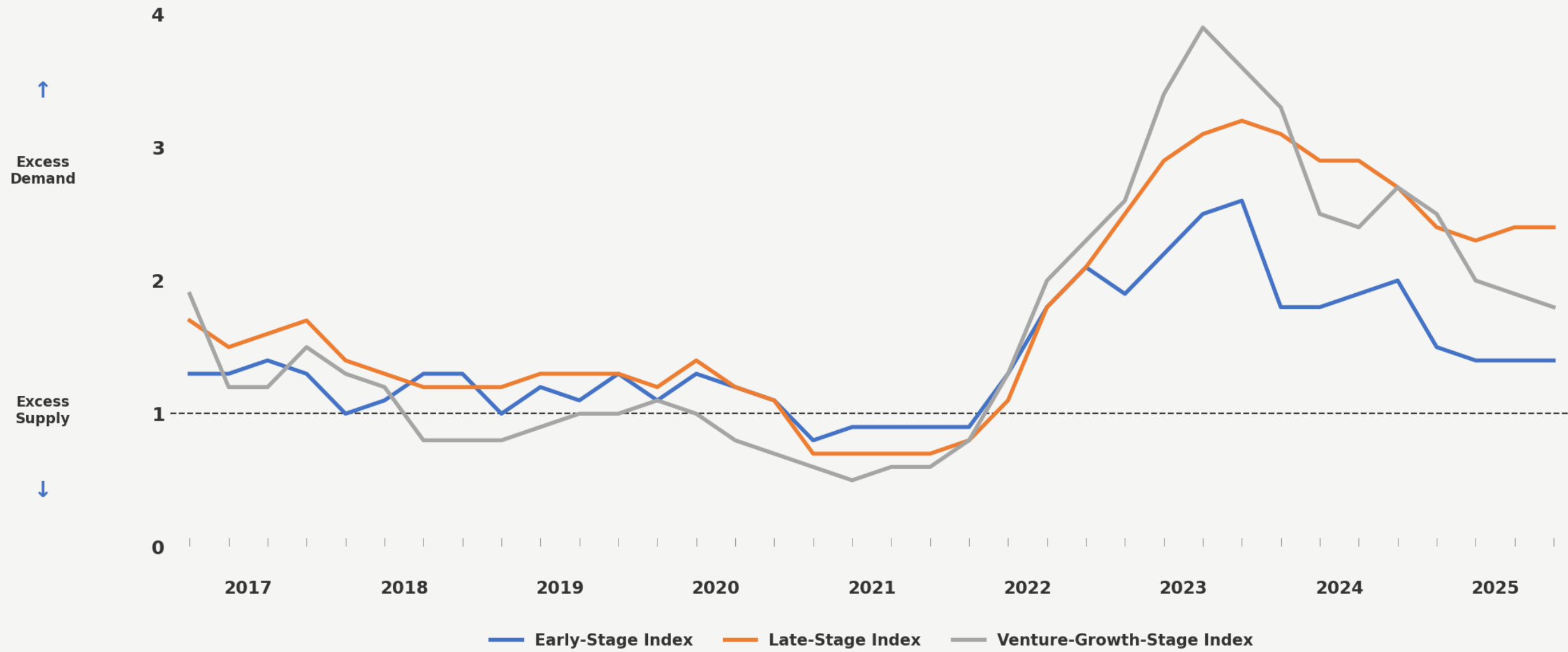
Source: Pitchbook

New Company Formation

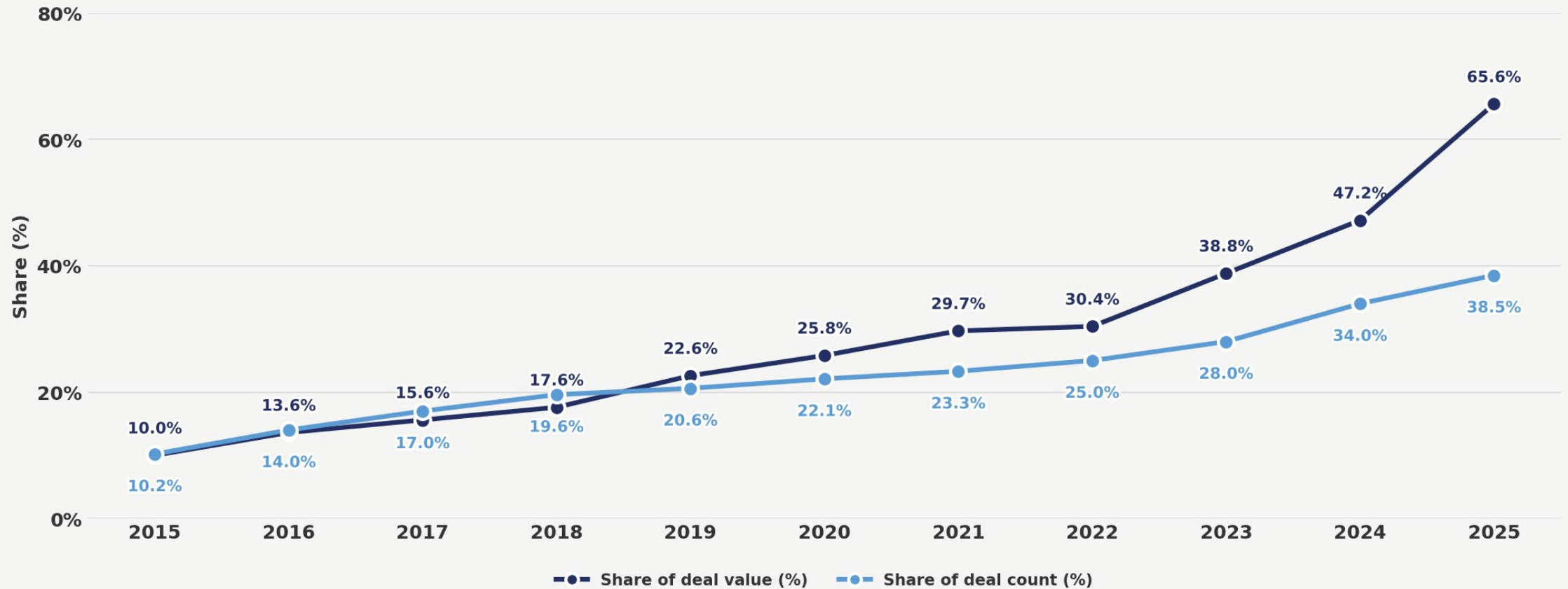


Source: Pitchbook

Quarterly Capital Demand vs. Supply Ratio



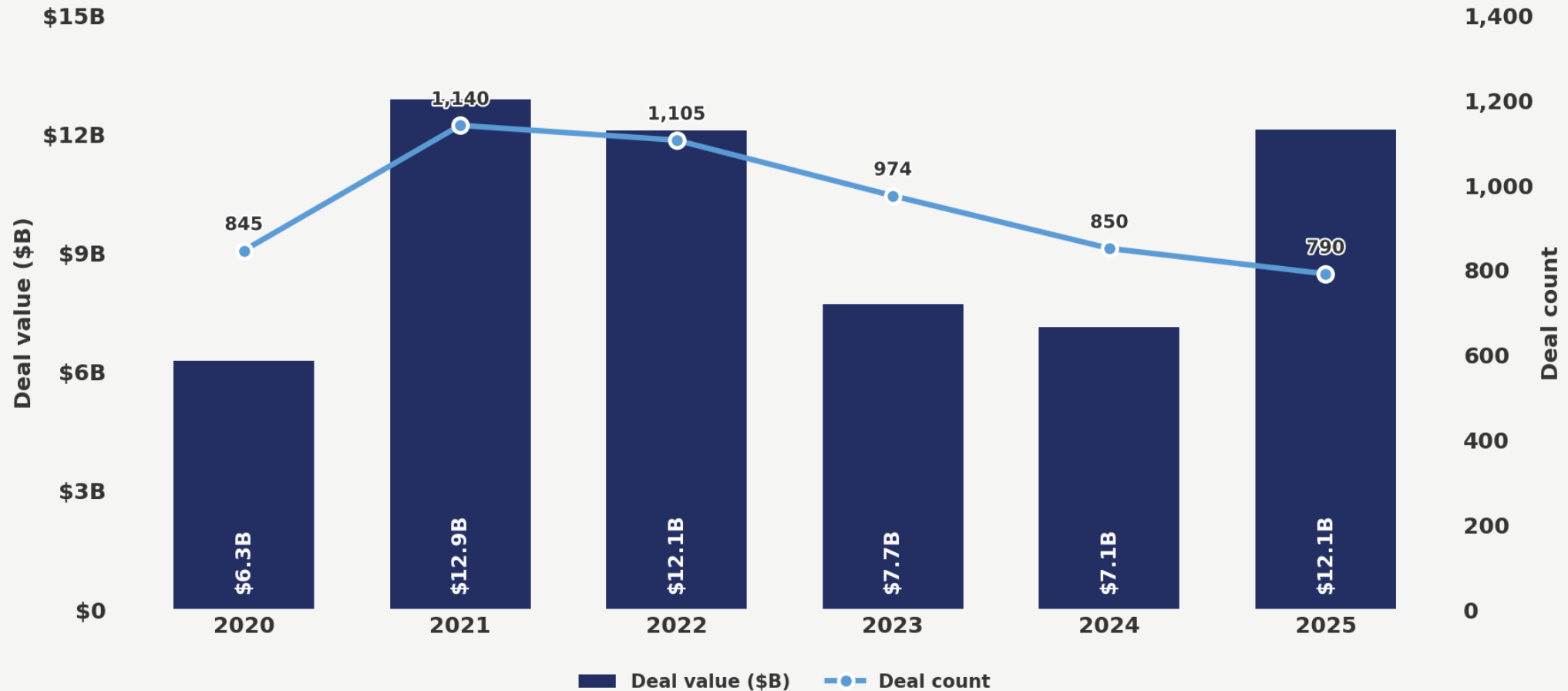
AI Share of Total Deals



Source: Pitchbook

VC's Importance to the Texas Economy

VC Investment into Texas startups (2020-2025)



Source: PitchBook

Over half a million Texans

Were employed by VC-backed companies in
2025

Source: PitchBook

Texas VC-Backed Startups



- Developing advanced construction technologies by using 3D printing, robotics, and software.
- HQ: Austin
- Last Round: \$56m Series C

Texas VC-Backed Startups



- Revolutionizing rocket engine propulsion for space, defense, and commercial high-speed flight applications.
- HQ: Houston
- Last Round: \$16m Series B

Texas VC-Backed Startups



colossal C

- Advancing de-extinction technology by rebuilding the DNA of lost species
- HQ: Dallas
- Last Round: \$200m Series C

Texas VC-Backed Startups



- Developing and manufacturing unmanned surface vehicles
- HQ: Austin
- Last Round: \$600m Series C

VC's Importance to the U.S. Economy

VC-Backed PUBLIC Companies



VC-Backed Startups (STILL PRIVATE)

Canva

SPACEX


databricks

 OpenAI

ANTHROPIC

Klarna.

flexport.

 Square

 ANDURIL

NOOM

 OpenTable™

 Applied Intuition

 Palantir

 grammarly


WAYMO

gopuff

Most Valuable Companies by Market Cap

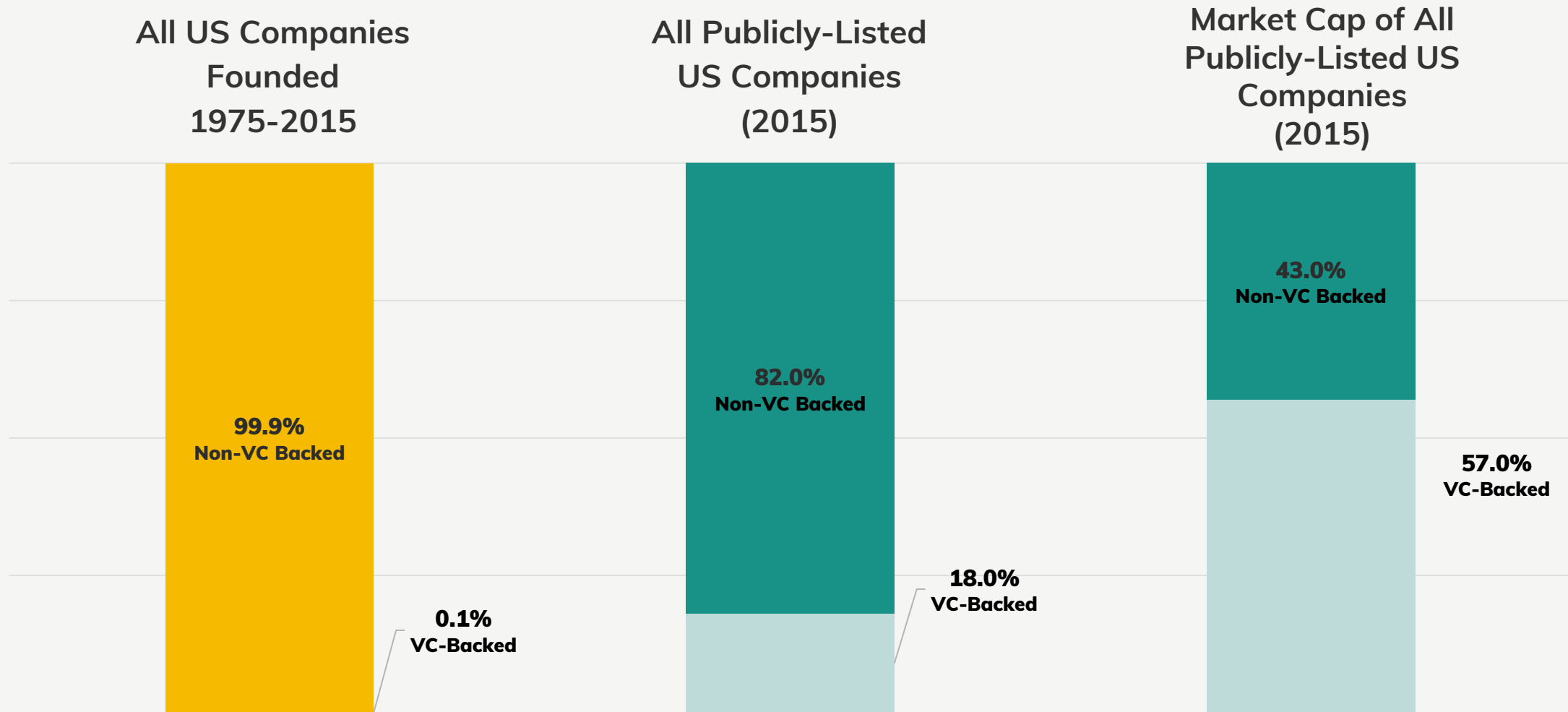
	Market Cap	Country
Nvidia	\$4.43 T	USA
Alphabet (Google)	\$3.92 T	USA
Apple	\$3.75 T	USA
Microsoft	\$3.35 T	USA
Amazon	\$2.49 T	USA
TSMC	\$1.77 T	Taiwan
Broadcom	\$1.63 T	USA
Saudi Aramco	\$1.61 T	Saudi Arabia
Meta	\$1.53 T	USA
Tesla	\$1.42 T	USA

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



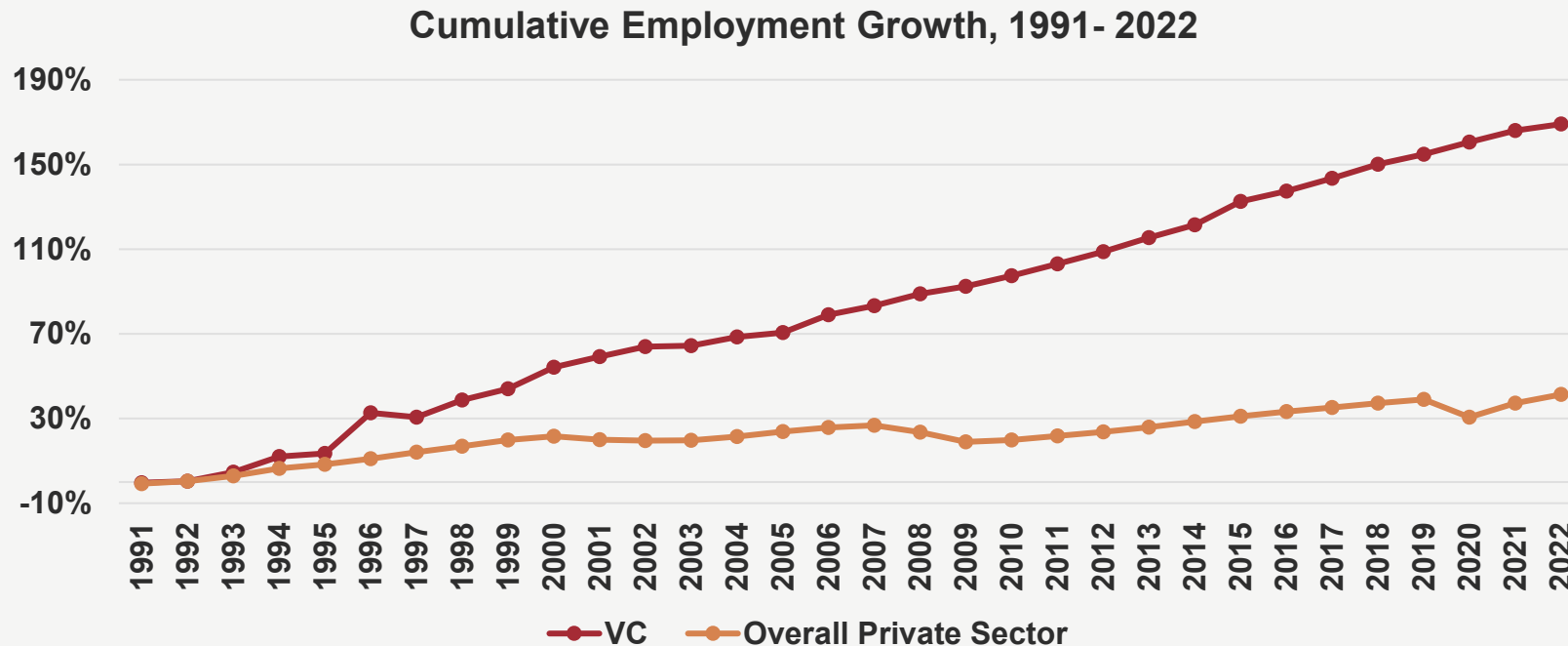
Source: CompaniesMarketCap.com (as of 1/20/26)

VC-Backed Companies Create Tremendous Value



Source: Strebulaev & Gornall (2016)

Job Growth from 1990 to 2022



169%

- Employment growth at VC-backed companies.

43%

- Employment growth in the private sector.

Source: Brown & Tillemann-Dick (2024)

Defense Innovation – Last Decade

25x

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

Key Tech Areas:

- Unmanned aerial systems (UAS) and drones
- Advanced imagery and sensor fusion
- Autonomous transport and logistics
- AI-powered threat detection and response

Source: Chronograph PE (2024) PitchBook



Healthcare Innovation

New Medicines Developed By Company Type, 2013-2022



- **Patient Access:** VC-backed telehealth innovations have expanded access to **41m Americans** in rural areas
- **Cost Reduction:** VC-backed digital health startups have demonstrated **22%** average cost reductions in chronic disease management programs

Source: Foundation for Research on Equal Opportunity (2024) & Pitchbook (2024)

NVCA Policy: 2025 Wins + 2026 Priorities

2025 Policy Wins for Venture

Tax Wins in One Big Beautiful Bill Act

- Carried interest preserved
- QSBS expanded
- Permanent full R&D expensing restored
- SALT and PTET workarounds protected
- Proposed section 899 taxes removed

2025 Policy Wins for Venture

Other Policy Wins

- Two-year postponement of new AML rules
- GENIUS Act signed into law
- House passage of the INVEST Act (capital formation)
- House passage of the SPEED Act (permitting reform)
- House passage of the CLARITY Act (market structure)
- Acquisition reform signed into law

2026 Policy Outlook for Venture

Top Legislative Priorities

- Advocating for a federal AI preemption
- Senate passage of INVEST Act
- Senate passage of SPEED Act
- Senate passage of the CLARITY Act
- Working to permanently kill the AML rule
- Championing faster FDA approvals and strong IP protections
- Educating on the development of new Outbound investment rules
- Defending federal basic research funding
- Continuing to champion SBIR and STTR reauthorization

VC Policy Priorities



Antitrust & M&A



AI



Taxes: Carried
Interest, QSBS



SEC Regulatory



Capital Markets



R&D Innovation



Immigration



Energy Technology



SBA Activity



National Security



Healthcare
Innovation



Foreign
Investment



Tech
Commercialization
Econ Dev



Blockchain

QUESTIONS

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EMAIL US AT MEMBERSHIP@NVCA.ORG