PitchBook

2021 Venture Capital Outlook: H1 Follow-Up

A midyear assessment of our VC predictions

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial

Institutional Research Group

Analysis
Cameron Stanfill, CFA Senior Analyst, VC
cameron.stanfill@pitchbook.com

Kyle Stanford, CAIA Senior Analyst, VC
kyle.stanford@pitchbook.com

Joshua Chao, Ph.D. Senior Analyst, VC
joshua.chao@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Data
Alex Warfel Data Analyst

Publishing

Designed by **Drew Sanders**

Published on July 21, 2021

2021 predictions:

p. 4 Biotech & pharma VC deal activity will likely exceed $20 billion for the second consecutive year.

p. 6 Established managers will increase proportion of overall VC fundraising to above 75% for the first time since 2012.

p. 8 The number of special purpose acquisition company (SPAC) IPOs will decline YoY in 2021, and fewer than 30% of 2020's SPACs will close an acquisition.

p. 10 More VC-backed exits over $1 billion will occur via direct listings rather than SPAC listings in 2021.

p. 12 The proportion of late-stage VC deal value relative to IPO proceeds will continue to compress in 2021.

p. 14 For the first time, the Bay Area will fall below 20% of US deal count.

p. 16 Nontraditional investors will lead a record 1,600 early- and late-stage VC deals as venture becomes more ingrained in their investment strategies.

p. 18 Continuing a string of record years, venture debt issuance will surpass 2,600 deals and $25 billion originated for the fourth consecutive year.

COPYRIGHT © 2021 by PitchBook Data, Inc. All rights reserved. No part of this publication may be reproduced in any form or by any means—graphic, electronic, or mechanical, including photocopying, recording, taping, and information storage and retrieval systems—without the express written permission of PitchBook Data, Inc. Contents are based on information from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Nothing herein should be construed as investment advice, a past, current or future recommendation to buy or sell any security or an offer to sell, or a solicitation of an offer to buy any security. This material does not purport to contain all of the information that a prospective investor may wish to consider and is not to be relied upon as such or used in substitution for the exercise of independent judgment.

2021 predictions scorecard

Below, we summarize our predictions for 2021 and how they've fared thus far.

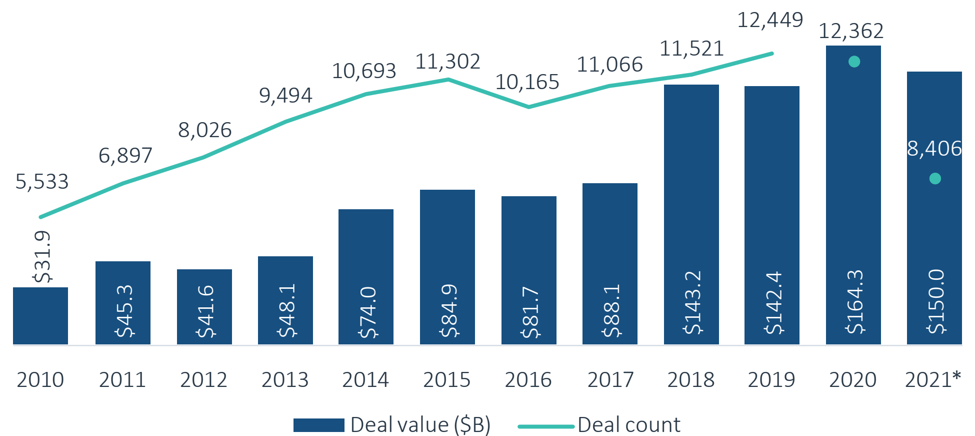
Prediction	Status	Comment
Biotech & pharma VC deal activity will likely exceed $20 billion for the second consecutive year.	Pass	Biotech & pharma VC deal activity already notched $20.3 billion in just the first six months of 2021. The rapid development and deployment of the COVID-19 vaccines were a major tailwind for the industry. Strong fundraising from specialist VCs was also robust as top life sciences investors looked to fund the next generation of therapeutics.
Established managers will increase proportion of overall VC fundraising to above 75% for the first time since 2012.	Likely to pass	New funds raised by established managers account for 74.6% of total capital raised in H1 2021. Revitalized business travel and the resumption of in-person meetings with LPs could give emerging managers a boost in fundraising, but currently, established managers remain dominant.
The number of SPAC IPOs will decline YoY in 2021, and fewer than 30% of 2020's SPACs will close an acquisition.	Split	We were early with this prediction, as SPAC IPO activity exploded in Q1 2021 but then cooled significantly in Q2. Given the accumulated capital, acquisition activity should continue.
More VC-backed exits of over $1 billion will occur via direct listings than SPAC listings in 2021.	Likely to fail	Rather than popularize with the broad base of companies as we anticipated, direct listings remain utilized primarily by the largest startups. The use of safe harbor projections in SPAC combinations opened up this route to a larger swath of VC-backed companies than we anticipated.
The proportion of late-stage VC deal value relative to IPO proceeds will continue to compress in 2021.	Split	Late-stage dealmaking was red-hot in H1 2021, which put this outlook in jeopardy. However, the IPO market kept up as late-stage startups were met with capital availability in both the public and private markets.
For the first time, the Bay Area will fall below 20% of US deal count.	Split	The Bay Area's proportion of total deal count indeed fell—but to just under 22%. Deal counts have risen in nearly every ecosystem, including the Bay Area.
Nontraditionals will lead a record 1,600 early- and late-stage VC deals as venture becomes more ingrained in their investment strategies.	Likely to pass	Nontraditional investment has been a major story of 2021. Through H1, nontraditional investors were on pace to lead nearly 2,000 early- and late-stage deals—besting 2020's pace by a few hundred deals.
Continuing a string of record years, venture debt issuance will surpass 2,600 deals and $25 billion originated for the fourth consecutive year.	Likely to pass	Venture debt has not kept up with the spike in equity deal value, but loan count is on pace to match 2020's figures, at roughly 3,000 loans. Loan value is on pace to reach roughly $26 billion in 2021.

Introduction

While the economic instability caused by the COVID-19 pandemic remains top of mind for much of the world, the vaccine rollout and deployment within the US has propelled the venture capital ecosystem mostly back to normalcy. Numerous GPs have stated that H1 2021 was one of the busiest periods of their careers, as pent-up demand and strong capital influx from LPs pushed capital deployment to an unprecedented cadence of deal activity.

At time of publication, the number of reported new COVID-19 cases in the US continues to hit yearly lows, with the seven-day moving average hovering between 15,000 to 20,000 new cases per day.[1] This contrasts starkly with the seven-day moving average of more than 200,000 new cases per day when our 2021 US VC Outlook was published in mid-December 2020.[2] Rapid testing, robust social distancing and masking protocols, and widespread vaccine availability within the US have resuscitated aspects of the venture landscape—such as in-person meetings with entrepreneurs or LPs, industry conferences, and demo days, among other things—that the pandemic waylaid.

VC deal activity



Source: PitchBook | **Geography:** US
*As of June 30, 2021

Our venture capital data illustrates this recovery, as all aspects of the market—dealmaking, exits, and fundraising—are on pace to surpass the records set in 2020. In H1 2021 alone, US startups attracted $150 billion from investors, the exit markets made liquid $372.2 billion, and VC funds raised $74.1 billion. This accelerated activity highlights the growing investor demand for risk, which reflects institutional investors' current perceptions of the economy and provides short-term momentum for the VC market.

Certainly, elements of the US economy have yet to recover to pre-pandemic levels. Jobless claims and unemployment numbers remain elevated. However, rising consumer confidence, increasing commercial air travel rates, and the lifting of many state and federal restrictions will likely propel economic recovery forecasts to new levels. In this H1 follow-up to our 2021 Venture Capital Outlook, we update each prediction and discuss how each will likely shape out over the remainder of 2021.

1: "COVID Data Tracker," US Centers for Disease Control and Prevention, July 11, 2021.
2: Ibid.

JOSHUA CHAO, Ph.D. Senior Analyst, VC
joshua.chao@pitchbook.com

Prediction: Biotech & pharma VC deal activity will likely exceed $20 billion for the second consecutive year.

> ***Score:*** Pass
>
> ***Rationale:*** The resumption of clinical trials and elective procedures within hospital systems around the world has resuscitated drug development pipelines for several VC-backed biotechs—many of which will return to their private backers for additional capital to fund trials and build out research & development (R&D) programs. Further, fundraising by specialist VCs has been robust as top life sciences investors look to fund the next generation of therapeutics. Ever-growing capital commitments from LPs looking to break into the biopharma space, coupled with the recycling of profits and liquidity from 2020's IPO market, will likely fuel dealmaking in 2021 to near-record levels.

Update

Venture-backed biotech & pharma companies experienced major tailwinds in H1 as the rapid development and deployment of COVID-19 vaccines strengthened the industry's position for investors. As lab space restrictions were lifted after many R&D scientists at biotech companies were deemed essential workers, VC-backed biotech & pharma companies resumed drug development and clinical trial programs at pre-pandemic speeds.

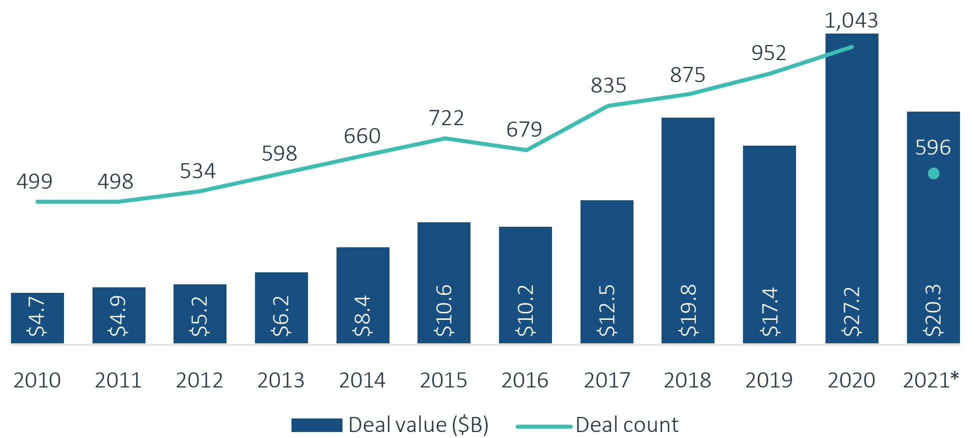
Within the US, biotech & pharma VC deal activity skyrocketed, bringing in $20.3 billion across 596 deals in H1 2021, which validates our prediction that dealmaking would surpass $20 billion for the second consecutive year. At this pace, 2021 will easily surpass 2020's high-water mark of $27.2 billion in annual deal value and is tracking to approach $40 billion annually.

Companies tackling unmet medical needs with high-potential, next-generation drugs—such as oncology and immunotherapies—received a significant share of capital in H1. In January, EQRx raised a $570.0 million Series B; in March, ElevateBio raised a $525.0 million Series C; and in June, Umoja Biopharma raised a $210.0 million Series B. Further, companies focused on emerging technologies within biotech—such as artificial intelligence-enabled (AI) drug discovery—also received notable financings. For example, insitro raised a $400.0 million Series C in April, and Valo Health raised a $300.0 million Series B in March.

Throughout H1, robust exit activity for VC-backed biotech & pharma companies notched $27.8 billion in exit value across 75 exits. H1 is tracking to break 2020's record of $47.9 billion in annual exit value. Notable exits include Zymergen (NASDAQ: ZY) and Recursion's (NASDAQ: RXRX) IPOs in April, which valued the companies at $2.5 billion and $2.3 billion, respectively. Further, as companies gain access to the public markets, liquidity funnels back to investors and LPs.

VC fundraising has certainly been a beneficiary of this capital reallocation, along with the recycling of human capital and talent within the industry. Specialist venture funds that invest predominantly in biotech & pharma startups also raised new capital at unprecedented levels. Notably, Flagship Pioneering closed the largest-ever biotech venture fund in June, a $3.4 billion Fund VII, and ARCH Venture Partners closed a $1.9 billion Fund XI in January—both of which will allow deal cadence to continue advancing at a rapid clip going into H2. Ultimately, while capital inflows into biotech have been robust and the exit and fundraising environments have provided increased capital accessibility, pressure on companies to deliver positive clinical data continues to be the dominant measure by which biotech investments are gauged.

Biotech & pharma VC deal activity



Source: PitchBook | **Geography:** US
*As of June 30, 2021

JOSHUA CHAO, Ph.D. Senior Analyst, VC
joshua.chao@pitchbook.com

Prediction: Established managers will increase proportion of overall VC fundraising to above 75% for the first time since 2012.

> ***Score:*** Likely to pass
>
> ***Rationale:*** US VC fundraising has been extremely robust in 2020, with the yearly total already surpassing 2018's record $67.8 billion. Yet, 2020 will likely notch the lowest number of funds raised since 2015. This, coupled with a shockingly low number of first-time funds, signals that bifurcation within fundraising has solidified in 2020. Established managers, which we define as a manager with at least four funds closed, have found success raising outsized follow-on vehicles, while emerging managers have struggled to raise smaller funds. We expect this discrepancy to widen further in 2021 as LPs recycle ongoing distributions generated by the strong exits from these established managers into follow-on funds.

Update

In H1 2021, US VC fundraising activity exceeded expectations and has yet to wane. Data from our Q2 2021 PitchBook-NVCA Venture Monitor indicates that $74.1 billion of new capital was raised by 338 venture funds in H1. This is rapidly approaching the annual high-water mark of $80.5 billion set in 2020. At its current pace, 2021 will easily surpass $100 billion in VC fundraising annually, as record-high levels of distributions make their way back to LPs and many GPs continue to capitalize on the strong exit market to showcase stellar returns when raising new funds.

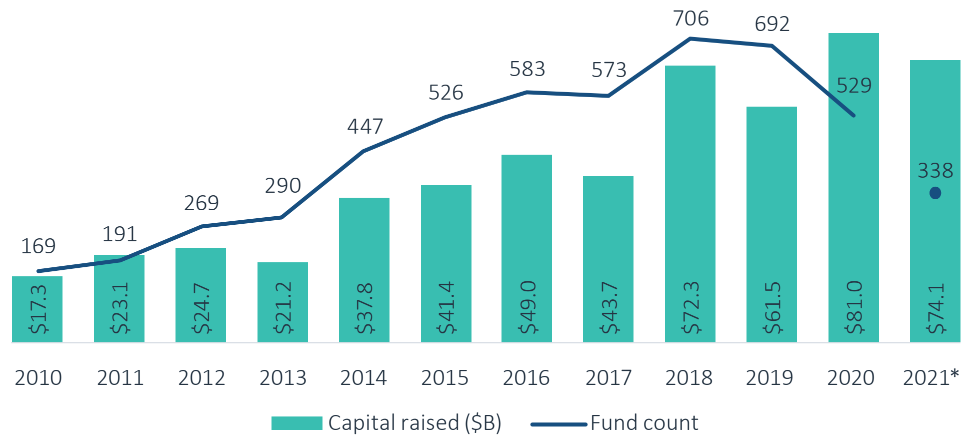
Yet not all funds are created equally. This prediction hones in on the bifurcation seen with fundraising success when comparing established managers with emerging managers, which we define as firms that have raised fewer than four funds. While the widespread COVID-19 vaccine rollout has revitalized business travel within the US, fundraising by emerging firms that rely on in-person meetings with new LPs has yet to show a marked pickup in activity. This could be attributed to the lag in closed funds reported due to the long lead time needed to pitch new LPs and bring them onboard for capital commitments.

Established firms such as Tiger Global Management, Bessemer Venture Partners, Accel, and Andreessen Horowitz continued to dominate VC fundraising activity in H1, ultimately bringing in the majority of US fund value. As of June 30, 2021, established managers have increased their proportion of overall VC fundraising to 74.6% of total capital raised—just a few basis points shy of the 75% prediction in our original outlook. We anticipate that this will exceed the 75% threshold in H2, as several established VCs such as Khosla Ventures, Tiger Global, and Anthos Capital are currently raising new flagship funds.

This is not to say that emerging firms have been unsuccessful in H1. Mary Meeker's Bond Capital led the pack, closing a $2.0 billion Fund II.[3] Other successes from emerging managers include Breakthrough Energy Ventures' $1.0 billion Fund II and Toyota Ventures' $800.0 million Woven Capital Fund. When considering new entrants, first-time fundraising numbers are beginning to pick up compared with 2020, with $3.6 billion across 67 first-time funds.

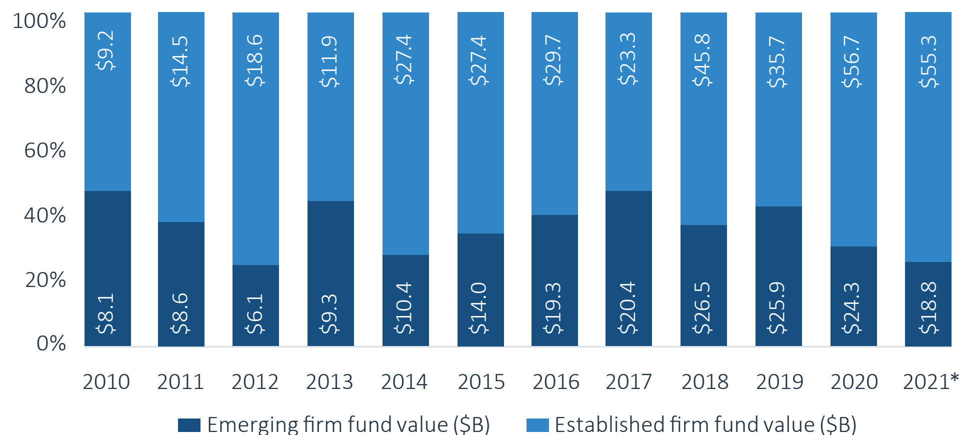
Ultimately, with outsized fundraising, established managers will continue to outpace emerging managers. In H1, the median and average fund size closed by emerging managers was $49.5 million and $104.6 million, respectively—a stark contrast when compared with the median and average fund size closed by established managers of $100.5 million and $383.9 million. All told, the return to normalcy in H2 will likely propel many emerging managers to successful fundraises.

VC fundraising activity



Source: PitchBook | **Geography:** US
*As of June 30, 2021

Proportion of annual VC fundraising by emerging versus established firms



Source: PitchBook | **Geography:** US
*As of June 30, 2021

3: While Meeker is an industry veteran and was previously a partner at Kleiner Perkins, her own firm, Bond Capital, is classified as an emerging manager.

CAMERON STANFILL, CFA Senior Analyst, VC
cameron.stanfill@pitchbook.com

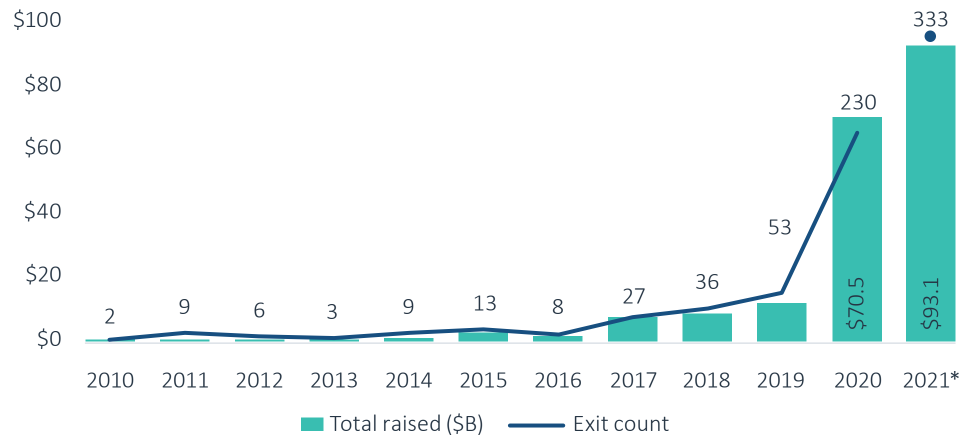
Prediction: The number of SPAC IPOs will decline YoY in 2021, and fewer than 30% of 2020 SPACs will close an acquisition.

> ***Score:*** Split
>
> ***Rationale:*** The deluge of SPAC IPOs in 2020 saw a near quadrupling of IPOs in the space, driven by the perceived need for certain companies to establish clearer pathways to the public market. For many investors, the establishment of a SPAC program in the current environment was likely driven more by opportunism than a measured inception of an evergreen strategy. It's likely that activity for new SPAC issuance on a count basis will remain above the average of 28 SPAC IPOs from 2017 to 2019, but we anticipate that it will fall below the elevated total of 162 so far in 2020. We also anticipate that fewer than 30% of SPACs raised in 2020 will execute a reverse merger by the end of 2021, as the competition between SPACs will make this process more difficult.

Update

This prediction ended up being about four months early, as Q1 2021 blew the IPO portion of this outlook out of the water and acquisition activity finally started accelerating in tandem. On the IPO front, Q1 2021 surpassed full-year 2020 in new SPAC listing activity, ultimately reaching a pace that we failed to anticipate. To break down the data points, 281 new SPACs came to the market in Q1 alone, compared with the 230 in all of 2020. The pace then slowed to a less blistering 51 in Q2.

SPAC IPO activity



Source: PitchBook | **Geography:** US
*As of June 30, 2021

The signs of a negative shift in the SPAC market toward the end of 2020 ended up being a mere blip in the growing momentum in SPAC IPOs, as our caveat about more investors spinning up SPAC strategies became the reality of the market in Q1 2021—which we recently explored in an analyst note. In early Q2 2021, this activity screeched to a halt due to the Securities and Exchange Commission's increased scrutiny on SPACs as a result of the oversaturation of new SPAC vehicles coming to market. While the initial prediction is no longer possible because of the YoY increase, we expect the final two quarters of the year to move at a slower pace than 2020 given the potential regulatory disruption to the market as well as waning investor demand for the market exposure that SPACs provide.

The SPAC acquisition market has been slightly less volatile than the new SPAC issuance market, with volumes finally ticking up in 2021—albeit not at the same pace as SPAC IPOs. 77 SPAC acquisitions closed in the first six months of 2021, which is already a 28.3% increase over 2020's record annual total of 60. Of the combinations since the start of 2020, 54 of those were completed by the 230 SPACs raised in 2020, meaning 23.5% of those SPACs completed a deal in H1 2021. This represents an easy pathway to cross the 30% threshold by the end of the year, especially as many announced deals will likely close in the next few months. Given the amount of capital needed and the limited time available, the general acceleration in SPAC acquisition activity is logical.

Competition for SPAC acquisition targets in 2021 has been exceptionally and increasingly steep. This competition has led to more-favorable valuations and terms to be offered to target companies, as seen in the recent Lucid Motors and Churchill Capital transaction driving a higher valuation with the PIPE. The only scenario in which the SPAC sponsors lose money is when the SPAC must be dissolved without a deal. Because of this incentive, we expect a steady pace of SPAC acquisitions for the rest of 2021. However, without a significant increase in the pace of this activity, a large proportion of SPACs raised over the past 18 months may fail to find target companies. Our initial prediction of only 30% was potentially pessimistic. Given the current pace, we now estimate that around 40% to 50% of 2020's SPACs will find targets by the end of 2021.

CAMERON STANFILL, CFA Senior Analyst, VC
cameron.stanfill@pitchbook.com

Prediction: More VC-backed exits over $1 billion will occur via direct listings rather than SPAC listings in 2021.

> ***Score:*** Likely to fail
>
> ***Rationale:*** In late 2020, the SEC approved NYSE direct listings to include a primary capital raise concurrent with the first trade. This inability to raise capital in a direct listing has been the main argument against more companies pursuing this pathway to the public markets. With that barrier on the path to removal and the continued success of completed transactions, we expect more companies planning to go public—especially larger technology startups—will take advantage of the benefits of direct listings.

Update

So far in 2021, 11 SPAC reverse mergers of VC-backed businesses closed versus just three VC-backed direct listings, which means we likely won't meet this outlook this year. These three direct listings came from Coinbase (NASDAQ: COIN), Roblox (NYSE: RBLX), and ZipRecruiter (NYSE: ZIP), with the former two representing 2021's largest two exits so far. The direct listing has lagged our expectation that it would become a preferred route for large VC-backed businesses to gain access to public markets. Direct listings seem to be attractive only to the top of the VC market, rather than the broader unicorn market that we predicted.

Raising capital still seems to be a major motivator of private companies' decisions to move to the public markets. Despite the SEC's rule change allowing direct listings with a concurrent capital raise,[4] this variant of the transaction has not been utilized by any of the 2021 direct listings, thus implying that this may not have been the crucial innovation that we had anticipated. In addition to the idea that growth capital can realistically be raised in the VC market, this rule change formed the crux of our rationale behind the prediction. For instance, capital availability in private markets continues to reach new heights, and mega-deal activity accelerated to unprecedented levels in 2021, with 385 mega-deals closing in H1.[5] Despite the relative ease with which startups have raised these massive financing rounds, they seem keen to continue raising capital in a public listing even if to just bolster their balance sheets.

Given this preference, the SPAC route has provided an attractive option for many large startups to raise a considerable amount of capital and simultaneously gain access to public markets in a simpler fashion than a traditional IPO or direct listing. SPACs' time constraint, coupled with the massive amounts of capital that these vehicles have raised over the past 18 months, has created a startup-friendly environment in which companies can drive terms and valuations in a favorable manner. This phenomenon has also allowed many companies to accelerate their IPO timelines by a few years relative to traditional timelines, which has further inflated the

4: "Statement on Primary Direct Listings," US SEC, December 23, 2020.
5: A mega-deal is a deal at or over $100 million.

number of SPAC mergers taking place in 2021. The record-breaking number of SPACs that were raised in both 2020 and 2021 wound up targeting a greater portion of VC-backed businesses than we originally expected, as the ability to include financial projections in the SPAC merger opened a new universe of companies that could go public via this method.

Given the current market conditions, we expect SPAC business combinations will retain some strength through the rest of 2021—especially considering the necessary pressure release of the capital raised by the rush of SPAC IPOs, which should allow them to continue to outpace direct listings. While long-term concerns surrounding SPAC market longevity may exist, we believe SPAC combination activity will continue through H2 2021. On the direct listing front, we still see benefits to the structure of the companies themselves, and this underpins our bullish stance on these listings. However, minimal precedent exists for startups valued below $10 billion that pursue direct listings; this must change for activity to see any significant expansion in the market.

CAMERON STANFILL, CFA Senior Analyst, VC
cameron.stanfill@pitchbook.com

Prediction: The proportion of late-stage VC deal value relative to IPO proceeds will continue to compress in 2021.

> ***Score:*** Split
>
> ***Rationale:*** Late-stage VC investment reached a new high through mid-November in 2020, at $92.1 billion, thus continuing a decadelong increase in activity. We expect this flood of capital to the largest startups to continue and set a record in 2021 given the expansion of nontraditional participation in VC. While this surge in late-stage activity outstripped IPOs by a massive margin for many years, that gap shrank considerably in 2019 and has remained narrow in 2020 due to both broad IPO activity and a handful of massive outliers. We anticipate that 2021 will also be a strong year for IPOs based on recent filings and indications from market participants, along with a seemingly open IPO window. Given this perceived strength, we believe the gap between late-stage VC investment and IPO proceeds will remain at the low levels of the past two years.

Update

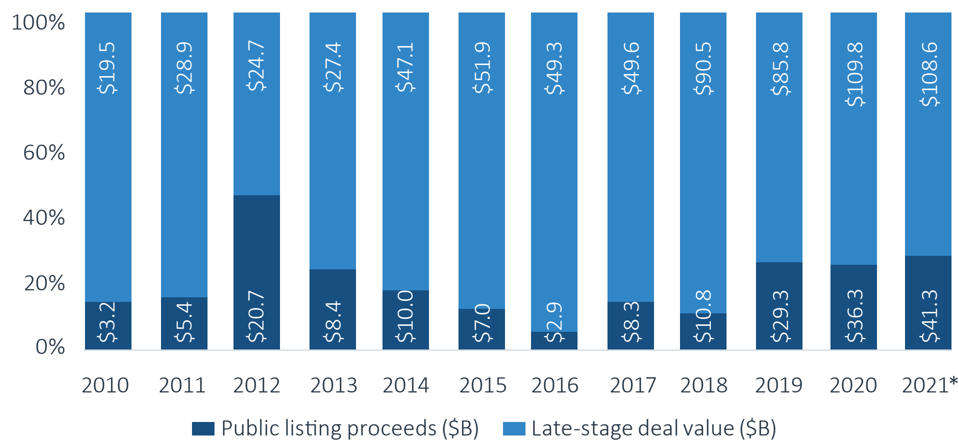
Halfway through the year, this outlook still hangs in the balance, with the proportions of capital raised in public listings to capital raised in late-stage VC deals remaining close to 2019 and 2020's figures. Both late-stage investment and IPO activity recorded a frenzy of activity during the first six months of 2021, as investors allocated $108.6 billion to late-stage startups—which nears full-year 2020's record of $109.8 billion. This massive capital investment should have disrupted this prediction—especially given our anticipation that VC capital investment would plateau—but, for now, the open IPO window has kept pace with this red-hot VC dealmaking market. Capital availability from nontraditional investors is likely the true driver here, as corporations, hedge funds, mutual funds, and sovereign wealth funds have all doubled down on the VC strategy throughout the pandemic and subsequent recovery, thereby enabling a substantial increase in the number of mega-deals. While we previously attempted to estimate the potential assets dedicated to VC from nontraditional investors, the current pace of activity from these players implies we might have been drastically underestimating the true total.

We remain optimistic about the IPO market through H2 2021, especially with the additional catalyst of SPAC combinations providing another source of capital to companies looking to proceed with a public listing. Current economic data continues to be encouraging, and investor sentiment around new listings has been strong in 2021, which is critical for keeping the IPO window open. With 123 public listings during H1, 2021 is on pace to set a public listing record for the decade. Despite that rapid pace, a backlog of planned IPOs remains in H2, including Robinhood, Nextdoor, Instacart, Rivian, and Chime. While the timing of these large IPOs is never guaranteed, a handful of multibillion-dollar listings in H2 will be crucial for

this prediction to actualize. With public markets sitting at or near all-time highs and valuations remaining historically inflated, potential persists for heightened volatility entering the public markets and shutting down the IPO market. This is only likely to occur only if the federal funds rate or inflation expectations change—both of which would have outsized effects on younger, high-growth businesses.

With the current open public market and lively mega-deal activity, most late-stage startups seemingly have their pick of capital raising methods. After 2020's uncertainty, this is a reassuring reality and illustrates the strong support from institutional investors for high-growth opportunities. Going forward, we expect nontraditional activity will remain a crucial piece of the VC market and drive elevated capital investment at the late stage. However, liquidity will always be necessary, and the current IPO market should outpace the capital growth in 2021. The combined momentum of SPAC capital and public market investors' demand for new investment opportunities has already resulted in a record year for VC exits. The pipeline of IPOs in H2 will only expand this margin of growth, even in relation to the massive expansion in late-stage dealmaking.

Proportion of late-stage deal value versus public listing proceeds



Source: PitchBook | **Geography:** US
*As of June 30, 2021

KYLE STANFORD, CAIA Senior Analyst, VC
kyle.stanford@pitchbook.com

Prediction: For the first time, the Bay Area will fall below 20% of deal count.

> ***Score:*** Split
>
> ***Rationale:*** During the past few years, the venture industry has made a concerted effort to get capital outside of the main tech hubs of the Bay Area, New York, and Boston. Despite Silicon Valley's continued dominance and rising yearly deal counts, its proportion of total US VC deal count activity has softened, falling most years since 2006. The COVID-19 pandemic and subsequent exodus from San Francisco will only exacerbate this trend. Given these factors, we expect the Bay Area's proportion of VC deal count in 2021 will fall below 20% in the US, the first time in our dataset.

Update

This outlook was predicated on the movement of capital out of the Bay Area and into other US regions—which, in a way, has happened. However, we failed to note in the prediction that growth outside the Bay Area does not preclude growth inside the Bay Area, which also happened. The Bay Area's proportion of total deal count has fallen in 2021, but not to below 20%. At just under 22%, the Bay Area has its lowest proportion of total US deal count in our dataset—nearly one full percentage point lower than 2020—continuing the trend that has emerged over the past decade.

The noise created by investors and companies moving out of the Bay Area early in the pandemic drew attention from the media, but that movement hasn't had a major impact on Bay Area dealmaking. Through Q2 2021, more than 1,500 venture deals were completed within the region, which is on pace for a record and will likely surpass the current high-water mark of 2019's 2,875 deals by several hundred deals.

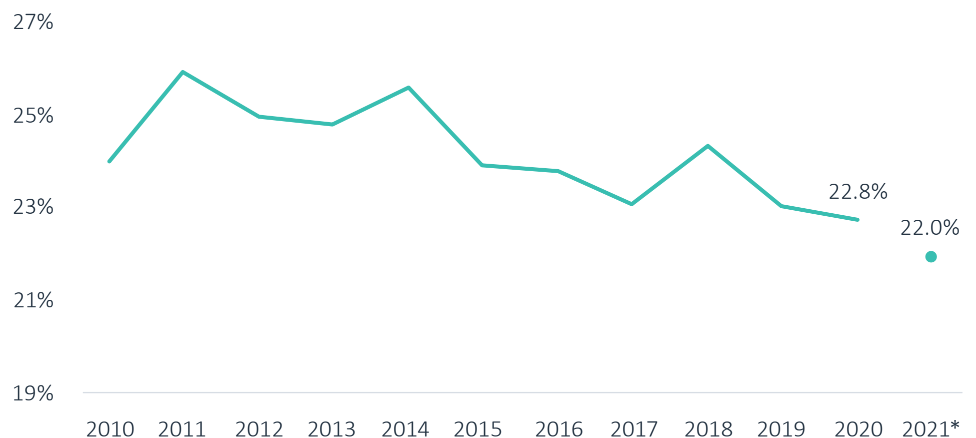
The Bay Area has also been a major beneficiary of the record-breaking fundraising environment of 2021. Through Q2, 130 funds were closed in the region, totaling more than $30 billion. To emphasize the magnitude of that amount: Prior to 2018, Bay Area GPs had never raised more than that in an entire year. From 2018 to Q2 2021, Bay Area investors raised more than $140 billion, thus showcasing the area's continued dominance and seat atop the venture industry.

We believe this trend will continue. Smaller, nontech hubs have experienced an increase in venture deals, dollars, and general interest. Portland, Minneapolis, and Raleigh have each seen roughly 90 deals completed through H1 2021 after averaging around 120 completed deals over the past several full years. In fact, the 20 most-active ecosystems are all ahead of their previous record paces. More than $20 billion has been invested in ecosystems outside of the top 10 most active, which is already 75% of the

way to matching 2020's total. Several areas have already received more venture deals than during any other year, and its undeniable that the pandemic drew forward the trends that had been emerging over the past few years. Moving forward, either the permanence of remote work and meetings within the venture market or the shift back to in-office and in-person meetings will undoubtedly affect the distribution of capital, with the former benefiting nonhub ecosystems.

While the Bay Area is not on track to see less than 20% of completed deal flow, it has still seen a decline to its proportion because of the large increase outside the region. While smaller regions have experienced increases, New York, Boston, and Los Angeles—the three other top-tier ecosystems—are all also seeing record dealmaking. Already, 2021 has been a monumental year for VC, and it seems that every corner of the market is experiencing a boost.

Proportion of VC deal count of Bay Area-headquartered companies



Source: PitchBook | **Geography:** US
*As of June 30, 2021

KYLE STANFORD, CAIA Senior Analyst, VC
kyle.stanford@pitchbook.com

Prediction: Nontraditional investors will lead a record 1,600 early- and late-stage VC deals as venture becomes more ingrained in their investment strategies.

> ***Score:*** Likely to pass
>
> ***Rationale:*** Nontraditional investment has been a major story of the pandemic. The top end of the market has been on a historic investment pace, largely due to the activity of these investors. Once derided as "tourists," these investors now lead, or solely finance, more VC deals than ever before. In 2018, nontraditional investors led more than 1,300 deals. In 2019, this number grew to nearly 1,500, which 2020 will likely top despite the economic headwinds that could have pushed these investors out of venture. Investing in venture rounds has become much more ingrained within nontraditional investor strategies, and as these firms grow even more accustomed to and comfortable with these deals, we expect their penchant for leading venture rounds will also continue to grow. Due to the solidification of VC within nontraditionals' strategies, we anticipate these investors will lead more than 1,600 early- and late-stage deals in 2021 to set a record.

Update

Nontraditional investors are definitely leaning in to the venture strategy. When written, this prediction was seemingly a bit of a long shot, but nontraditional investors are on pace to lead roughly 2,000 early- and late-stage venture deals in 2021. So far, these firms have led 1,130 rounds in a year that is becoming defined by increased nontraditional presence. These institutions have even led 136 seed deals in 2021, pacing the year to have more than 2,200 venture deals led or solely financed by non-VC-focused investors.

Through Q2 2021, nontraditional investors participated in an estimated total of more than 3,300 deals and an astounding $115.9 billion of deal value. Both figures are easily record pace, as 2020 is the current high-water mark for each, at 4,040 deals and $123.0 billion in deal value.

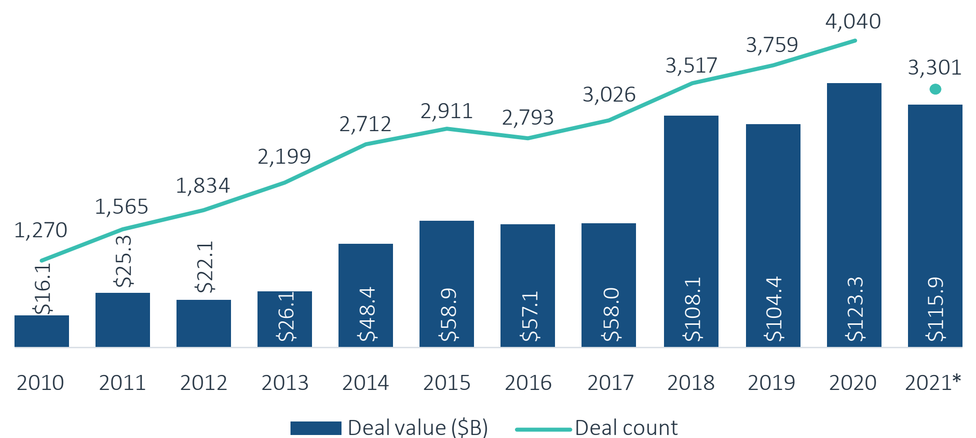
Over the past decade, nontraditional investors—including hedge funds, mutual funds, PE firms, and corporate investors, among others—have increased allocation to the strategy and made their presence known within the industry. Aggressive investment tactics from nontraditionals have driven some competing venture firms to adjust their own processes to keep pace and get pieces of the best companies. Each of the past four quarters has, at the time, been the highest quarterly activity for nontraditionals.

Venture is not the core investment strategy for these firms. However, the high-flying public markets, which have welcomed highly valued VC-backed companies, continue to drive investor interest into private companies. In

2020, companies that publicly listed during the financing event following a nontraditional investment saw their values grow by a median of 1.6x, thus highlighting the large returns crossover investors can earn in a relatively short hold time.

Leading deals show the maturation of these investors as venture participants. Over the near term, we expect the levels of nontraditional investor-led rounds to continue their growth. Beyond simply that the VC strategy has become more ingrained into the investment theses of these institutions, the returns being generated will continue to boost interest and investment. In 2020, nontraditional investors participated in 95% of the exit value generated by VC-backed companies, a total of roughly $285 billion.

VC deal activity with nontraditional investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2021

KYLE STANFORD, CAIA Senior Analyst, VC
kyle.stanford@pitchbook.com

Prediction: Venture debt issuance will continue a string of record years, ultimately surpassing 2,600 deals and $25 billion originated for the fourth consecutive year.

> ***Score:*** Likely to pass
>
> ***Rationale:*** Through mid-October 2020, more than $18 billion in venture debt had been loaned to the venture industry. By year-end, the venture debt total will almost certainly surpass $20 billion for the third consecutive year, and we believe that 2021 will mark the fourth consecutive year to surpass $20 billion in venture debt value. Several new venture lending funds were raised this year, and tech banks and business development companies have remained active in venture. As startups continue to raise more capital in private markets, venture debt has provided a cheaper and nondilutive option to equity.

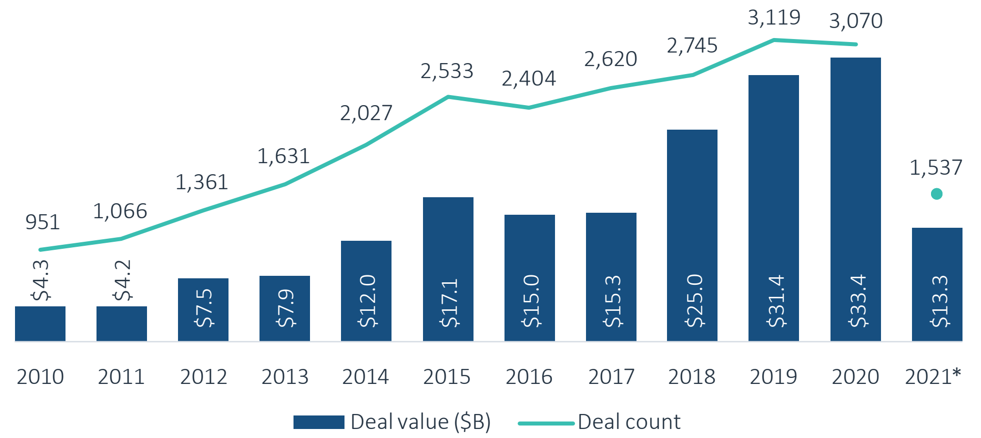
Update

The venture debt market is off to a modest start in 2021, at least compared with the huge growth seen in other areas of VC. Through Q2, 1,537 loans were issued to VC-backed companies—on pace to barely surpass 2020's total but also falling short of our dataset's record number from 2019. Loan value has reached only $13.3 billion so far, which is well lower than the $33.4 billion borrowed in 2020. Both figures surpass our prediction, and by all accounts, the venture debt market is still in a strong position to grow.

The ease with which equity financings are being raised has likely dampened the growth of venture debt. Venture financings will blow past the levels of the past few years, and preemptive term sheets, coupled with multiple investors competing for the same round, have made venture debt a less attractive route for many founders.

Because venture debt activity is linked to activity in the broader venture market, we expect loan levels will catch up to equity financings when the exuberance in the market cools. Interest rates remain low, and even if the Fed raises rates in the coming years, it will take a large hike to reach levels that make loans unattractive to companies.

Venture debt continues to offer strong risk-adjusted returns to investors because of the low capital loss rates. It will continue to offer companies the nondilutive properties that have propelled its use in recent years. Though loan value in 2021 is pacing slower than during 2019 and 2020, a few large debt raises can quickly change the data—much in the way outsized equity rounds drive venture deal value from year to year.



Source: PitchBook | **Geography:** US
*As of June 30, 2021