

2022 US Venture Capital Outlook

Forecasting the primary trends that will shape the VC industry in 2022

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Prediction: Biotech SPAC combinations will continue to grow in count in 2022.

Rationale: The special purpose acquisition company (SPAC) route to accessing public market capital is not a panacea suitable for all types of companies; yet, we believe that for many VC-backed biotech companies, it may prove to be an advantageous financing vehicle over the traditional IPO process. Biotech & pharma VC deal activity exploded in 2021, notching a record-shattering \$36.3 billion as of December 1. This, in turn, has driven valuations to dizzying heights and allowed VC-backed biotech companies to access public market capital earlier in their drug development lifecycles than ever before. Given the long-time horizons involved with drug development and clinical testing, the overwhelming majority of biotech companies are nonrevenue generating when they go public. Thus, SPACs offer two key advantages for biotech companies: First, drug revenue forecasting and projections are permitted during the business combination process (or de-SPAC), and second, SPACs can minimize the dilution that occurs during the traditional IPO process, during which biotech companies typically raise a crossover financing round in addition to the IPO round.

Caveat: Potential headwinds exist on both the SPAC regulatory side and the drug pricing side. On the former front, Securities and Exchange Commission (SEC) Chairman Gensler has been a vocal critic of SPACs over the last year and has pledged tougher regulatory scrutiny. Indeed, SPAC issuance has ground to a halt in H2 2021 given the increased uncertainty plaguing sponsors and the oversupply of SPAC vehicles compared with viable business combinations. On the latter front, President Biden's latest legislative agendas have put the topic of drug pricing back in the crosshairs again. The latest roughly \$2 trillion social-spending and climate bill (that has yet to be approved by the Senate as of the time of writing) gives negotiation power to the government to reduce prices of some higher-cost medicines covered by Medicare and institutes an annual drug price cap at the rate of inflation—both of which are likely to put downward pressure on drug company valuations.

We have noted in [past research notes](#) that healthcare & life sciences is one particular industry that benefits the most from considering the SPAC route over the traditional IPO process when accessing public market capital. The record level of capital investment that poured into VC-backed biotech companies in 2021, coupled with the sky-high valuations that accompanied these private financing rounds, have allowed biotech companies to access public market capital earlier in their drug development and company lifecycles than ever before. Because these companies are overwhelmingly pre-revenue, access to public markets is realistically the only way for companies to fund trials in multiple clinical indications and research & development (R&D) programs for various drug candidates, given the holding times for a successful go-to-market strategy and the dedicated capital pool.

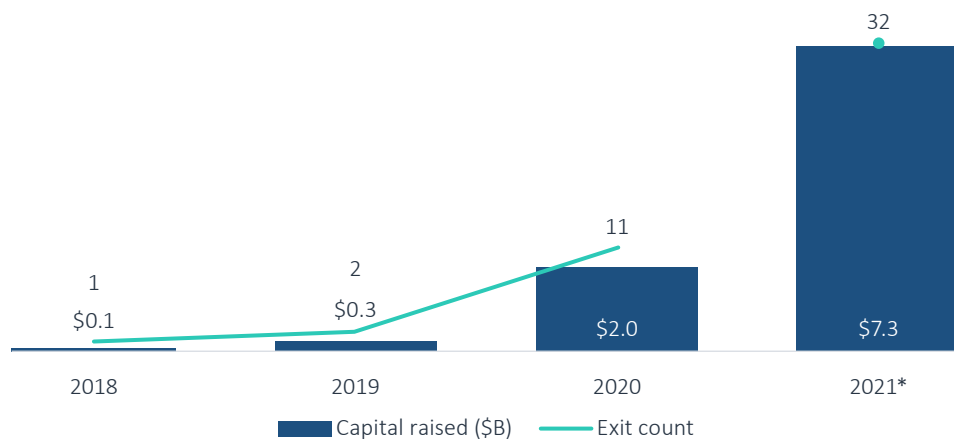
Our team's latest [SPAC research note](#) from Q3 2021 indicates that the recent lackluster aftermarket performance for SPACs could further dampen new issuance and general enthusiasm for the product. Yet, we believe that VC-backed biotech companies will continue to utilize SPAC combinations as a viable exit route to act as a pressure release valve from the buildup of private capital and allow for liquidity to be returned to early investors. As of December 1, 2021, 32 new SPAC vehicles have been issued, with a biotech industry preference, raising a total of \$7.3 billion. On the de-SPAC side, there have been 19 business combinations with VC-backed biotech companies, totaling an exit value of \$13.1 billion.

One point to note is while we have found that most biotech SPAC combinations are executed by sponsors with extensive biotech industry knowledge, any SPAC could feasibly bring a biotech company public, not only those with a biotech industry preference, which further increases the pool of potential SPACs gunning for biotech targets. Two notable biotech SPAC deals occurred in September 2021: First, Ginkgo Bioworks (NYSE: DNA) combined with Soaring Eagle Acquisition with \$1.7 billion in proceeds and a \$15.0 billion pre-money valuation, making it the fourth-largest SPAC combination of the year regardless of industry; second, Roivant Sciences (NASDAQ: ROIV) combined with Montes Archimedes Acquisition with \$411.0 million in proceeds and a \$6.9 billion pre-money valuation.

Furthermore, public market performance of VC-backed IPOs will also play a role in influencing whether VC-backed biotech companies decide to go public via SPAC or not. PitchBook's latest [VC-backed IPO index](#) shows that, on a short-term basis, VC-backed IPOs in 2021 have significantly underperformed the S&P 500.¹ While on a long-term basis, the VC-backed IPO index outperforms the S&P 500 when normalized to the index's inception in 2010, biotech companies need cash to maintain their runway, and short-term post-market volatility can damage the financial underpinnings of a biotech company. Additionally, biotech stocks have been getting hammered over the last several months, with the equal-weighted SPDR S&P Biotech ETF (XBI) and the cap-weighted iShares Nasdaq Biotechnology ETF (IBB) drastically underperforming the S&P 500 in YTD 2021. All these factors lead us to believe that an increasing number of VC-backed biotech companies will go public via the SPAC route, allowing them to avoid the performance pressures and crossover round dilution of the traditional IPO process.

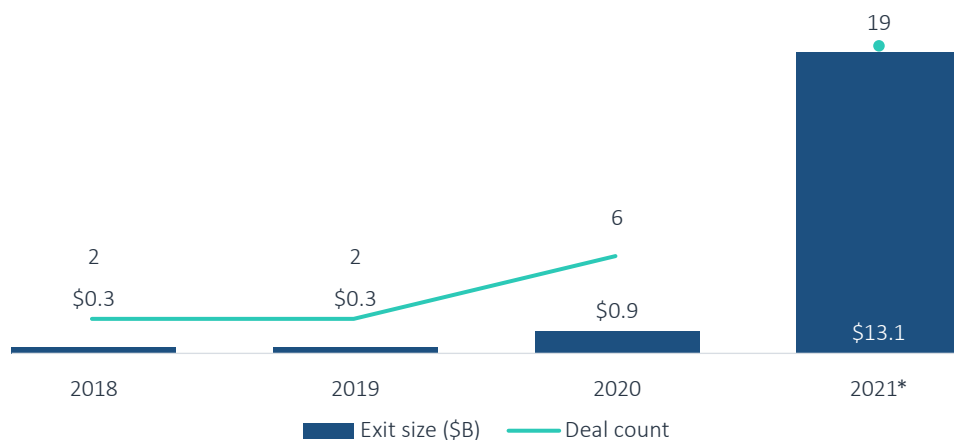
1: To note: The VC-backed IPO index is not specific to biotechnology and contains a variety of different industry subsectors.

Biotech SPAC IPO activity



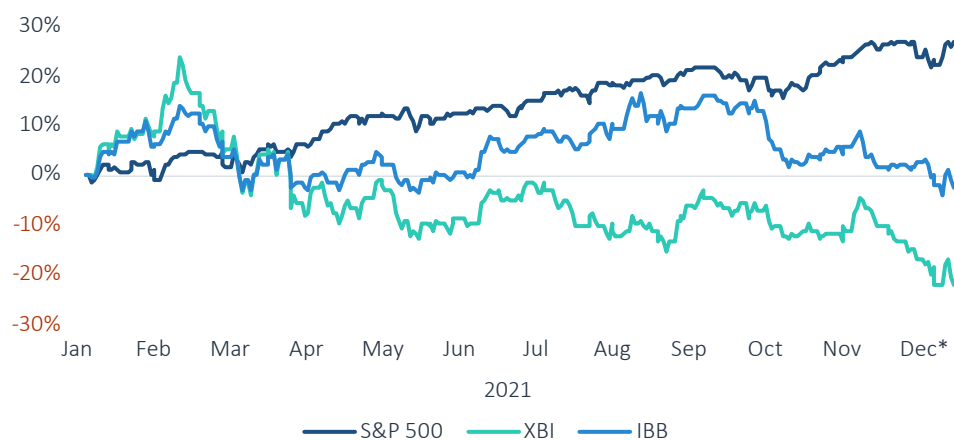
Source: PitchBook | Geography: US
*As of November 29, 2021

Biotech de-SPAC combination activity



Source: PitchBook | Geography: US
*As of November 29, 2021

XBI and IBB performance in YTD 2021 compared with the S&P 500



Source: Morningstar | Geography: US
*As of December 14, 2021

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Prediction: At least three VC firms will register as registered investment advisors.

Rationale: The record-shattering IPO environment of 2021 has greatly increased public market exposure for many VC firms. As of November 29, 158 VC-backed companies have completed an IPO for a whopping total of \$526.1 billion in exit value. As the proportion of their portfolio companies becoming publicly traded grows at an increasingly rapid clip, VCs must liquidate their positions after the lockup period expires to prevent exceeding the 20% threshold of the fund's aggregate capital in assets that are not qualifying investments. However, for firms that wish to maintain their positions in their publicly traded portfolio company, or simply just want to be able to trade and hold other public equities, registering as a registered investment advisor (RIA) eliminates the 20% threshold problem. Furthermore, cryptocurrency as an asset class, along with newer blockchain-enabled technologies such as nonfungible tokens (NFTs), have become more desirable as investment opportunities for several GPs. As such, we believe that at least three more VC firms will file to register as an RIA to capitalize on the potential growth of public equities, secondaries, and other asset classes outside venture.

Caveat: Liquidity concerns could come into play due to VCs hoping that registering as RIAs will allow them to maintain or even increase their position in their portfolio companies post-IPO. VCs already face pressure from LPs to provide liquidity through distributions. Moreover, RIAs face stricter regulatory scrutiny, increased transparency, and much steeper compliance costs. Many venture firms appreciate some level of opacity behind their deal activity, sourcing, and due diligence processes. Combined with the heavier cost structure, becoming an RIA is certainly not suitable for all VCs.

In late October 2021, Sequoia Capital announced that it would restructure its investment structure into a single, open-ended fund called "The Sequoia Fund," thereby removing the standard 10-year fund cycle, as well as becoming an RIA.² By becoming an RIA as opposed to a venture fund, Sequoia argues that it increases its flexibility in holding public market securities for longer periods and also increases its ability to invest in emerging asset classes such as crypto and seed investing platforms.

Sequoia is not the first VC firm to become an RIA. Most notably, in April 2019, Andreessen Horowitz renounced its VC exemptions and registered as an RIA, which has since allowed the firm to raise significant capital in dedicated crypto and growth funds.³ In November 2021, we learned that Joshua Kushner's venture firm, Thrive Capital, had registered as an RIA in September in order to increase its investments in public companies and crypto assets.⁴ Other prominent VC firms that are registered as RIAs include General Catalyst, Foundry Group, and Touchdown Ventures.

2: "The Sequoia Fund: Patient Capital for Building Enduring Companies," Sequoia Capital Publication - Medium, Roelof Botha, October 26, 2021.

3: "Andreessen Horowitz Is Blowing up the Venture Capital Model (Again)," *Forbes*, Alex Konrad, April 2, 2019.

4: "Josh Kushner's Thrive Capital Gains More Flexibility To Invest in Crypto, Public Stocks," *WSJ*, Yuliya Chernova, November 29, 2021.

According to the SEC, the definition of a VC fund is an exempt reporting advisor that must have “no more than 20 percent of the amount of the fund’s aggregate capital contributions and uncalled committed capital in assets (other than short-term holdings) that are not qualifying investments...”⁵ This 20% allowance has historically been used by VCs for holding public market securities of portfolio companies post-IPO. After the lockup period and depending on where the rest of their portfolio is allocated, many VCs are forced to sell their positions in their now-publicly traded portfolio companies to avoid crossing the 20% threshold.

To combat giving up positions in companies that the firm has long-term conviction on, firms register as an RIA instead of a VC fund to eliminate the 20% cap for nonqualifying investments. As more and more VC-backed companies exit, firms with the level of public market exposure are likely to consider the RIA path. The robust IPO environment has forced many firms to stress test the 20% allocation to nonqualifying investments. Furthermore, increased interest from GPs to invest in asset classes including crypto and other blockchain-enabled technologies such as NFTs will view RIA registration in a favorable light.

Yet, becoming an RIA is not a move that can be executed by all VC firms. It requires a certain investing style along with a heavier cost structure and a more stringent compliance structure. RIAs are subject to increased regulatory scrutiny, and firms must adopt formal policies and procedures addressing a variety of business practices including, but not limited to, portfolio management, insider trading, safeguarding of assets, client disclosures, valuation of investments, and so on. Ultimately, while becoming an RIA is a cure-all for eliminating the 20% threshold, many VC firms are well positioned and well capitalized to take advantage of the upsides that come with RIA registration.

5: “275.203(l)-1 Venture Capital Fund Defined,” Code of Federal Regulations, December 7, 2021.

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Prediction: More than 1,500 corporate investors will make a deal in the US during 2022.

Rationale: Corporate VC (CVC) investment has been on the rise, but it has not simply coincided with the same investors making more deals. As startups have become able to quickly challenge large corporations for portions of market share, the need to incorporate emerging technologies and increase the breadth of product offerings has made startup investment a necessary strategy alongside internal R&D programs. New CVC investors are coming not only from high-tech industries but from legacy industries threatened by disruption.

Caveat: Predicting a market crash is not the caveat, but current public market volatility, and continued stress induced by COVID-19 and its many variants, could lay the foundation for corporate investors to look at their cash bases and decide to protect their capital until fear subsides. If this were to occur, it could cause fewer CVCs to launch, and keep inactive corporates from making deals in 2022.

Past years' outlooks have included predictions of CVC growth but have focused on the dollars and financing counts rather than on the number of unique corporate investors. Corporate investment has grown significantly in recent years, topping \$100 billion in deal value participation through Q3 2021. Deal count over the last decade has grown from just over 600 deals in 2011 to 2,300 deals in 2020, with 2021 seeing a boom to more than 2,600 deals through Q3, even before including our lagged data estimates.

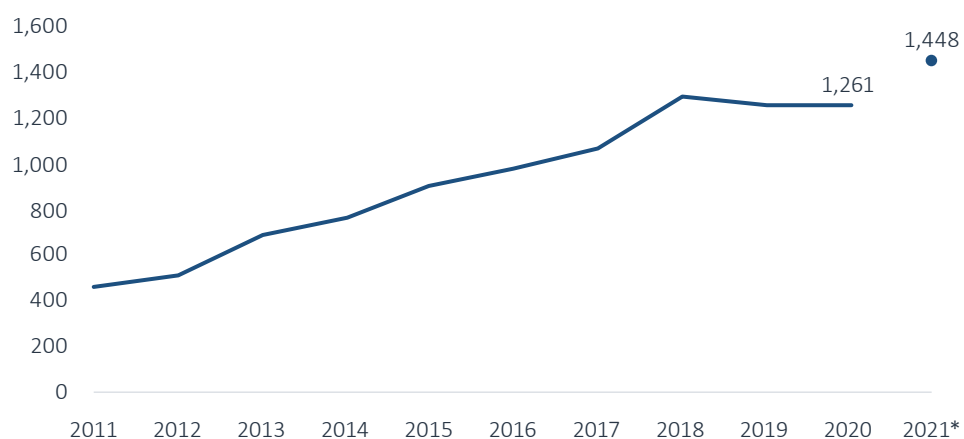
With this level of growth, it is natural that the number of unique CVCs would also significantly increase over that time. Many CVCs invest out of relatively smaller pots of capital, at least compared with the average VC, limiting the ability to materially increase the number of investments per year, and corporates without dedicated sourcing teams cannot be expected to make a large number of deals. So, with growth in deals, comes growth in investors.

When we look at the growth in the number of CVC investors, it is interesting to note which industries have seen recent additions. In 2021, Alaska Air (NYSE: ALK), Scotts Miracle-Gro (NYSE: SMG), and Ryder System (NYSE: R) entered the investment market, all highlighting the changing nature and growing startup bases in more traditional, legacy industries. As startups are able to grow faster and challenge corporations sooner in their lifetime, emerging tech investments are a valuable way for corporates to iterate their products and develop new offerings while still leading in market share. We expect more corporations in legacy industries to continue adding venture investing to their growth programs moving forward.

Another reason we remain bullish on CVC investment is that the COVID-19 pandemic placed a spotlight on nontraditional investors, which includes CVCs, with the belief that these firms would pull back from investment when economic adversity hit. While the predicted economic destruction did not fully occur, nontraditional investors, including CVCs, doubled down on the strategy—likely because venture investing has been a major source of growth over the past decade.

It is also worth noting that of the 1,400-plus CVCs that have made an investment in the US this year, 769 of those had not made a VC investment in the five years prior to 2021. The high number of new, or previously dormant, corporates alludes to continued growth in the number of corporate participants in VC; it also indicates an increase in the number of investment opportunities. Venture dollars are important for companies to grow, but more and more, it seems that companies and their existing VC investors also view corporate partnerships as essential.

Count of unique CVC investors that invested in US HQ'd target companies



Source: PitchBook | Geography: US
*As of November 29, 2021

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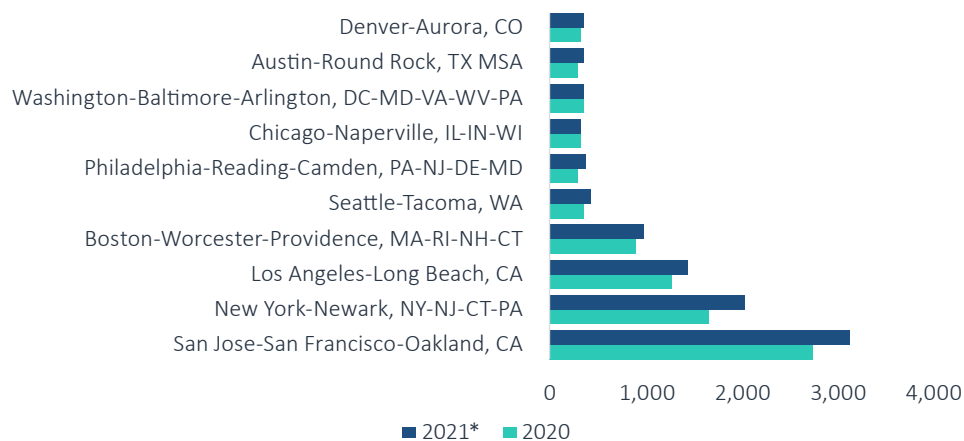
Prediction: Each of the top 10 venture ecosystems will see more than 400 completed deals in 2022.

Rationale: The COVID-19 pandemic pulled many venture trends forward several years. One of these was an increase in investment outside the Bay Area, New York, Boston, and Los Angeles ecosystems. Reaching 400 completed deals has been a difficult, artificial barrier to cross for second-tier markets, but the rise in fundraising in these markets, new investors' increased interest in the venture strategy, and movement of investors to new markets has brought a major boost that should propel completed deals above 400 in each of the top 10 most active ecosystems.

Caveat: More ecosystems reached this milestone in 2021 than ever before, but the pace of investment outside of the main hubs in 2021 was on a scale projected to be more likely in five years. Even if second-tier markets see a decline in funding counts, the level would likely be high on a historical scale.

In the Bay Area, New York, Boston, and Los Angeles, VC is plentiful and investors are prevalent. In other ecosystems, both cash and venture investors are less prominent. Despite gains made outside of the top four regions, just once has one of those ecosystems seen more than 400 deals in a single year—Seattle in 2019. At least seven ecosystems (including the top four) will likely reach this milestone by the end of 2021, as the pace of investment across the US has skyrocketed throughout the pandemic. While this pace might be unsustainable for the long term—the current VC market trends vastly outpace historical norms, though it is possible VC has morphed into an entirely new industry—there is plenty of reason to believe 2022 will see a continued stretch of high investment across the top ecosystems in the US. For one, more than \$110 billion has been raised by VC firms in 2021 alone, with dry powder sitting at an all-time high.

VC deal count by ecosystem



Source: PitchBook | Geography: US
*As of November 29, 2021

There are many reasons to be optimistic about the future growth of second- and third-tier markets. One is that the surge of growth in 2021 was not due to the decline of investment in the top four regions. In fact, each of those areas also saw record deal count during the year, with the Bay Area surpassing 3,000 completed deals for the first time (and likely to be closer to 3,500 by year's end). So, growth in smaller markets was not due, at least solely, to attrition from larger markets. Remember when the Bay Area VC market was supposedly crumbling? Many investors set up offices in secondary markets to expand their investment horizons, rather than move on from a location.

Given current fundraising trends, it is difficult to imagine dealmaking falling off from this year's highs. More than \$100 billion has been raised this year so far, including over \$22 billion outside of the top four ecosystems. This figure is 19% of the aggregate capital raised outside the hubs since 2006—meaning nearly one fifth of all VC capital raised outside of the major hubs has been raised in 2021 through the end of November. Including 2020, that stat rises to 31.2%. These funds are eager to deploy capital, and the current climate is still driving high activity that leads to more opportunities.

While the aforementioned 400-deal goal may seem arbitrary, the level has only been surpassed once beyond tech hubs prior to 2021. Seattle reached the level in 2019 with 406 deals but failed to in 2020. Denver saw 377 deals close in 2019 but also fell in 2020 to 328. This year, when lagged data is collected, seven ecosystems are likely to reach 400 deals. As of November 29, the Bay Area, New York, Los Angeles, Boston, and Seattle have already surpassed the level, with Philadelphia and DC very likely to reach it. That leaves Chicago, Austin, and Denver as ecosystems needing to see a boost in 2022 for the top 10 US ecosystems to reach 400 deals during 2022.

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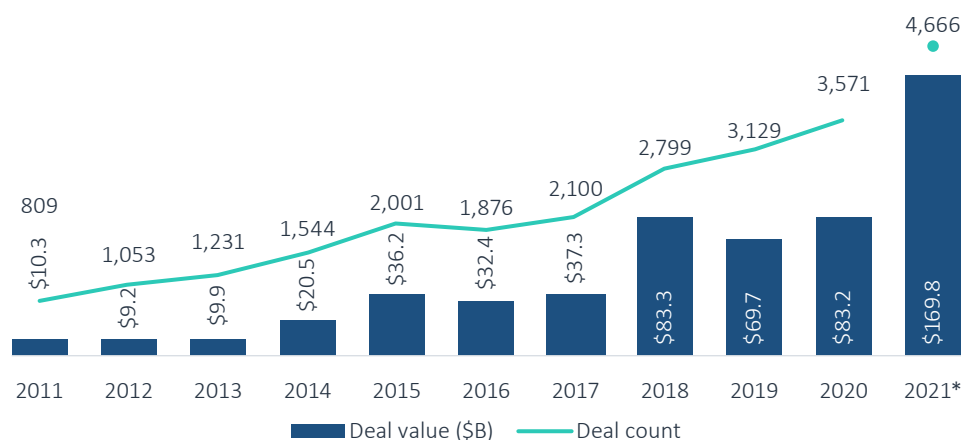
Prediction: US Investors will make more investments outside the US than ever before.

Rationale: The venture market, both in the US and globally, moves faster than it ever has. Where China has seen its market stunted due to policy changes, other markets have seen enormous growth in recent years. US investors have taken heed and continued to push capital into both emerging and established markets around the world. Areas such as Latin America and Southeast Asia have become major targets for US capital investment, and as these regions grow, so will US investment abroad.

Caveat: Politics play a huge part in overseas investments with the regulatory changes in China earlier this year being a major example of how political changes can impact the investment landscape. What might be more important for 2022, however, is the global macroeconomic climate. For many of these US investors, venturing into foreign private investment is relatively new, and it is a major time commitment that takes resources from their primary strategy. Macro headwinds would likely cause a decline in foreign investment from 2021 levels, though we would still expect 2022 to be high on a historical scale.

Through November, US-headquartered investors had invested in 4,666 VC deals outside of the US, far and away a record number of financings into overseas companies. This figure vastly surpassed 2020's figure of nearly 3,600. This is also despite China's crackdown on its national companies listing abroad that struck a level of fear in investors with exposure to the country. China, which was the top target for US investors in 2018, fell to fourth after the United Kingdom, India, and Canada.

Non-US VC deal activity with US investor involvement



Source: PitchBook | Geography: US
*As of November 29, 2021

The reach of US investment abroad has become even more global in recent years. India will see more than 600 US investments in 2021 (more than double its 2018 count), Mexico and Brazil will see 2x and 3x their 2018 deal counts in 2021, respectively, and Australia has received more than double 2020's US investor participation in 2021. Venture capital is growing as fast as, or faster than, the US within many markets across the globe, and US investors are making sure they are positioned to capitalize.

Because overseas venture investment has become so global, the political risk for US investors has been diversified. As in 2021 with China's policy changes, US dollars can quickly shift to other markets. We are also starting to see the high returns needed to make such investments viable generate at a higher cadence. In the past two years, 32 non-US companies have exited at a valuation of \$5 billion or higher, 12 of those at \$10 billion or larger. These exits will not only help grow the local markets but will also generate interest from deep-pocketed investors from other countries, including the US.

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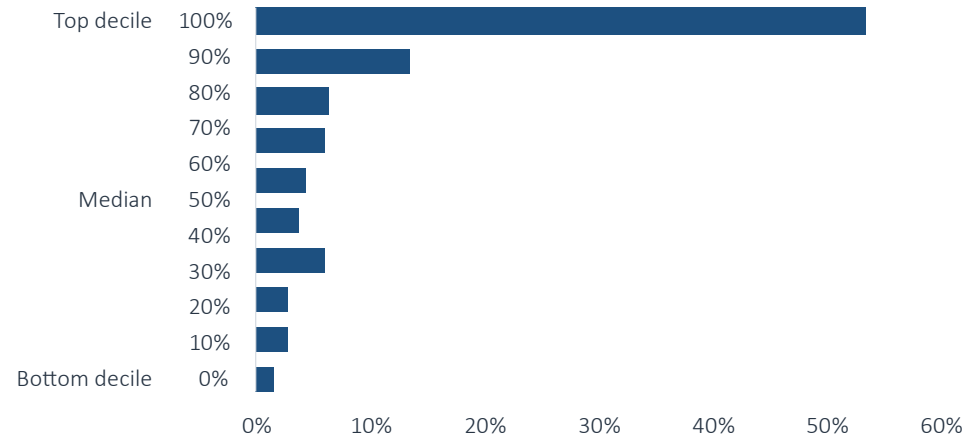
Prediction: Public listings of VC-backed businesses will show a YoY increase in count in 2022.

Rationale: The overall size of VC has exploded in the last five years, with the acceleration in VC mega-deal activity especially notable as of late. This phenomenon has resulted in the rapid growth in the general inventory of currently VC-backed companies that are valued at a realistic level to test the public markets. Nearly 700 currently VC-backed companies are valued above the median size of a 2021 public listing, providing more than enough gas in the tank to surpass the 220-plus count from 2021.

Caveat: This outlook relies heavily on market whims, which can change quickly, especially given the current above-average level of valuation multiples creating a more precarious position in the public markets. Inflationary pressures and increasing expectations for interest rate hikes have been met with a swift downtrend in price, especially within the technology sector. This volatility and potential for a negative pricing environment will discourage the acceleration of IPO activity, particularly for companies that have other options for financing or liquidity.

When comparing the VC-backed IPO data from 2021 to the rest of our dataset, this year seems like something that might happen only once in a lifetime, but sustainable levels near these could be more realistic than one would think. The real story may be more about what VC looks like in this current moment relative to the past. If we zoom out a bit from IPOs, it becomes evident how much VC has matured over the last decade. Gone are the days when VC was not much more than a cottage industry; currently, annual capital investment sits at over \$150 billion, and more than \$110 billion has been raised by VC funds in the US this year alone. And this growth has not only been significant but also extremely consistent. To track this trend, we ran an analysis monitoring how each subsequent month's deal value tracks relative to all of the preceding months going back to 2006. We found that over 50% of the time, the current month was in the top decile of all observed months' total capital investment. For example, in March of 2015, we recorded \$7.3 billion in capital investment, which was in the 98th percentile of all observed monthly deal value at the time. All that to say, every other month over the last 15 years has been in the top 10% for capital investment of all months on record.

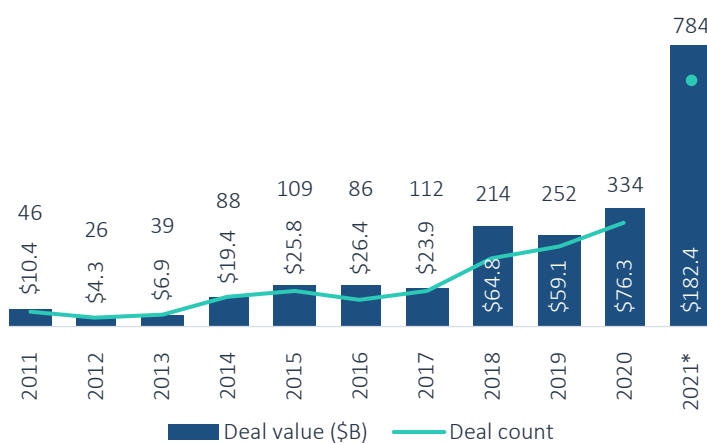
VC percentile of past monthly deal value*



Source: PitchBook | Geography: US
*As of November 29, 2021

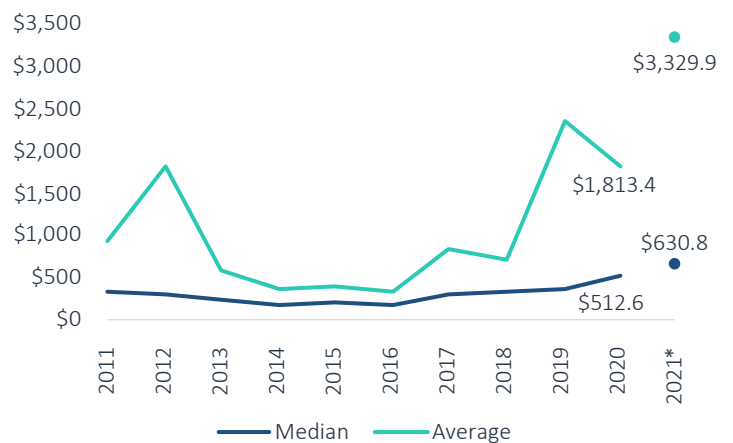
However, this outlook is about IPOs, not the VC dealmaking climate. But the two are quite closely related. This extended period of more dollars flowing to startups has culminated in the swelling inventory of highly valued companies that remain under VC backing. The exponential growth in mega-deal activity (\$100 million and more) over the last few years is the culmination of these trends. This activity has grown from a mere 38 in 2013 to over 600 in 2021, which has delayed many IPOs but also serves as a steppingstone to an exit via public listing.

VC mega-deal activity



Source: PitchBook | Geography: US
*As of December 9, 2021

Median and average VC IPO exit size (\$M)



Source: PitchBook | Geography: US
*As of November 29, 2021

For context, in the standout year that has been 2021, we recorded 221 US exits via public listing through September 30 at a median valuation of \$630.8 million and an average valuation of \$3.3 billion. Compared to the inventory of privately held companies, currently 1,286 companies are valued at over \$300 million in the US alone. Among these, 696 are valued at over the median public listing size, 508 are valued at over \$1 billion, and an astonishing 121 companies are valued above the \$3.3 billion average IPO size in 2021. This is an outlook on the count of IPOs notching a YoY increase, so we are not necessarily predicting greater exit value from public listings, but to complete the picture, those 1,286 startups represent \$2 trillion in value. For illustration, at the median valuation step-up of 1.6x at IPO that we recorded so far in 2021, those companies represent upward of \$3.5 trillion in potential exit value over the next few years.

These figures do rely on optimistic assumptions because not all of these companies will find an exit via IPO or even hold their current valuation. Moreover, the exits for that many businesses will undoubtedly stretch over many years, given different needs for financing and liquidity. To gain some insight into the timing of these exits, the median and average years since last VC deal for the whole set of 1,286 companies is 0.57 years and 1.12 years—relative to a median and average of 0.45 years and 0.82 years for companies at unicorn status. These levels in aggregate do not portray a desperate need for liquidity that an average of two years would, but many of these companies will likely still need to raise more capital or find an exit during 2022. Once the final total of VC-backed public listings is tallied, it can be assumed that we would need to see at least 250 to 300 public listings in 2022 to record sequential growth. This represents only around 20% to 25% of that initial group of 1,286 potential IPO-ready businesses.

That being said, the IPO market is notoriously difficult to predict as changes in investor sentiment and the market volatility that can follow have the ability to wreak havoc on private companies' plans to make the jump to public markets. This is especially relevant at the time of writing, as we have just experienced a period of turbulence within the public market, particularly revolving around many high-growth technology businesses. Our [VC-backed IPO index underperformed the S&P 500](#) through our recent data pull on November 23, 2021; if this trend is sustained further into 2022, it could put a damper on this outlook.

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Prediction: At least 25% of all 2020 SPACs will not execute a deal prior to the traditional two-year deadline.

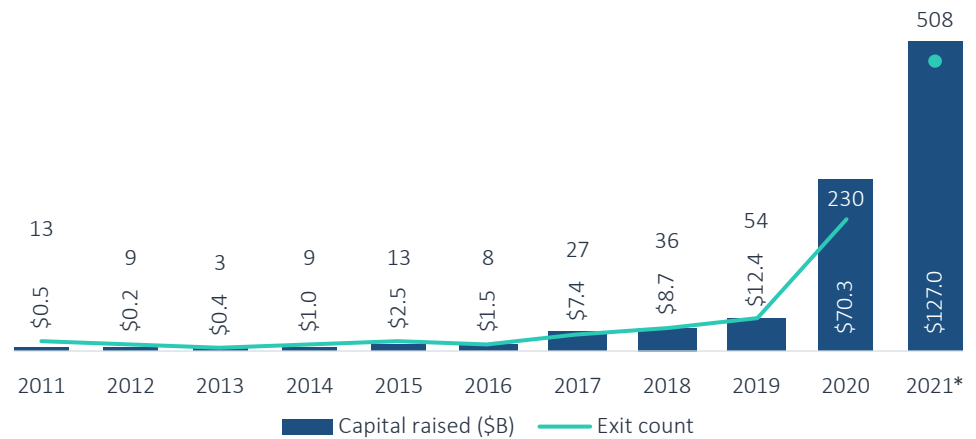
Rationale: We posit that the boom of SPAC issuance outpaced the true market opportunity for the SPAC vehicle. For example, of the 230 SPACs raised in 2020, 84 still have not announced or completed a deal as of writing. It is also important to note that not all announced deals will be finalized, increasing the number of SPACs that may return capital. There have also been concerns surrounding the aftermarket performance of many companies following SPAC combination, which may add increased negative sentiment from potential SPAC targets.

Caveat: There is technically still time for many of these SPACs to finalize a deal, as the majority of the group that has yet to announce a deal fundraised in September 2020 or later, meaning we still need to wait until almost the end of 2022 or the start of 2023 for a definitive answer on the outlook. Outside of that, some de-SPACing momentum has been building over the last few quarters.

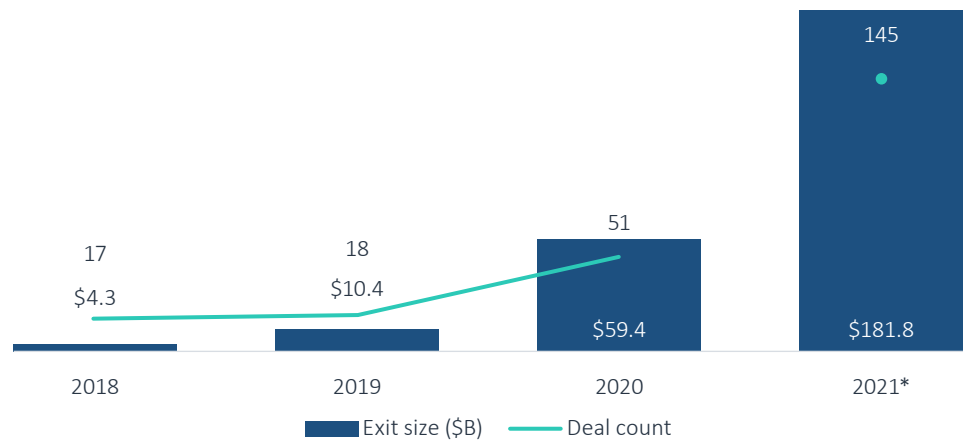
While the apex of the SPAC explosion took place in Q1 2021, the beginning of the spike occurred in 2020, and given the traditional two-year timeline for these vehicles, 2022 will be the first year that some of those clocks expire. The rapid ramp-up of SPAC issuances over the one-year period from Q2 2020 to Q1 2021 gave rise to some concern that SPAC creation would outpace the size of the addressable market that these vehicles were targeting. Looking at the incentives to SPAC sponsors, it is clear that some of the activity we saw during this rush was capitalizing on the momentum in the market for SPACs and the potential to raise some cheap capital and flip a quick profit. This is not to say that SPACs are not useful, as we do feel that they fill an empty space in the liquidity stack for private companies; however, the overexuberance of the last 18 months is fairly evident.

There is a built-in lag between SPAC IPOs and de-SPAC activity, but we still see a significant disconnect between the volume of new SPAC issuance and completed SPAC combinations. We recorded 230 SPACs raised in 2020 and another 508 in 2021, compared with 51 completed de-SPAC events in 2020 and 145 in 2021. The ramp-up in SPAC combination activity is encouraging, as it cosigns the need for these vehicles in the market. However, the pace as of yet has not kept up with the flood of new IPOs. This is especially critical for the SPACs raised in 2020, which—as of the start of 2022—will have less than a year to execute a deal. As of this writing, 84 SPACs have yet to announce or complete a deal out of the 230 that were raised during the year. This is 36.5% of all SPACs from 2020. So, at an outlook of 25% failing to find an acquisition, we are still allowing for a few of these to flip to completed. Still, because we are including announced deals, it is possible that some SPACs will not cross the finish line and will end up being canceled.

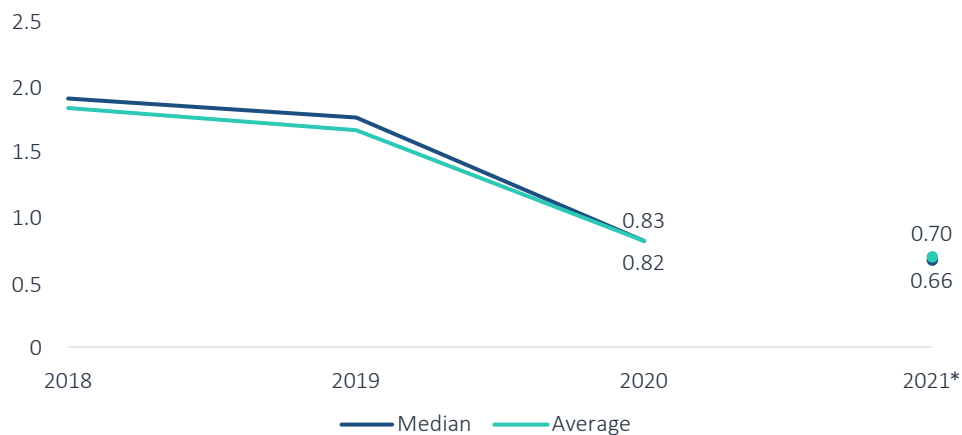
SPAC IPO activity



De-SPAC activity



While the aggregate numbers of de-SPAC transactions are showing positive momentum, on an anecdotal basis, some negative sentiment regarding the structure remains. This has come in the form of high redemption rates for new de-SPAC deals, in addition to lingering concerns around aftermarket performance for many companies that have gone public via the structure. The cause of any underperformance cannot be fully pinned on the SPAC itself, as that primarily depends on the performance of company operations. That being said, the valuation at which the deal is completed is an anchor point that the SPAC sponsor has a hand in negotiating and communicating to the market. This negative bent in sentiment could serve as a depressant for future de-SPAC deals if companies regard these outcomes as an unnecessary risk or if PIPE investors begin to pullback after mediocre returns. This could further compound if a swell of SPACs wind down and return capital to investors as we are predicting.

Median and average years from SPAC IPO to de-SPAC

Source: PitchBook | Geography: US
*As of November 29, 2021

Analysis of the recent SPAC phenomenon has required a strong wait-and-see approach, and 2022 will be no exception. A significant portion of the total SPACs raised was weighted toward the end of 2020 and the beginning of 2021, which means we still may have to wait until deep into 2022 to see a material number of SPAC closures. Additionally, sponsors may be able to negotiate extensions on the two-year timeline, pushing closures out even further. However, we do not find this to be extremely likely, as the bargaining power seems to have shifted away from the SPAC sponsors and toward the private companies and institutional investors.

2021 outlooks scorecard

Biotech & pharma VC deal activity will likely exceed \$20 billion for the second consecutive year.	Pass	As of December 1, biotech & pharma VC deal activity reached \$35.8 billion in capital investment in what has been a record-shattering year for the life sciences industry. While the pandemic has been a major tailwind for the industry as a whole, the robust valuations and IPO exit step-ups from preclinical companies has reignited both the demand for capital from startups as well as investors' willingness to supply it.
Established managers will increase proportion of overall VC fundraising to above 75% for the first time since 2012.	Fail	Established managers have only raised 70.0% of overall VC fundraising in 2021, as of December 1. While this proportion is the highest seen since 2014, established managers did not hit the 75% threshold that we had predicted last year. It seems that emerging managers have found fundraising success in H2 2021 as some LPs turn toward new strategies and increased their willingness to allocate capital toward emerging managers and first-time funds in 2021.
Number of SPAC IPOs will decline YoY in 2021, and fewer than 30% of 2020 SPACs will close an acquisition.	Split	We were early with this prediction, as SPAC IPO activity exploded in Q1 2021 but has cooled significantly through the rest of the year as we expected. De-SPAC activity has finally seen a small uptick but still lags pace needed for all acquisitions to close.
More VC backed exits of over \$1 billion will occur via direct listings rather than SPAC listings in 2021.	Fail	Direct listings did not gain the popularity with the broad base of companies that we anticipated, but remain an option utilized by the largest startups. Use of safe harbor protections in SPAC combinations has opened this route for a larger swath of VC-backed companies than anticipated, including many valued over \$1 billion.
Proportion of late-stage VC deal value relative to IPO proceeds will continue to compress in 2021.	Pass	Late-stage dealmaking continued at a rapid pace throughout 2021, but the IPO market has kept up and more. The ratio fell to 2.04x in 2021, from 2.90x in 2020, highlighting the strength in IPOs and SPAC acquisitions during the year as late-stage capital investment nearly doubled YoY.
Bay Area will fall below 20% of US deal count for first time.	Fail	While the basis of the prediction was correct (we have seen more investment outside of the Bay Area than ever before, even while the region's investment count still grew), it was not to the scale needed to see the Bay Area's proportion fall below 20%. As of this writing, the Bay Area has commanded more than 22% of 2021 deal count, in line with the previous year.
Nontraditionals will lead a record 1,600 early- and late-stage VC deals as venture becomes more ingrained in their investment strategy.	Pass	Lagged data from 2020 made this prediction less of a major achievement, as late-collected data put both 2019 and 2020 above this level. However, even through only Q3, nontraditionals had already eclipsed the previous record, notching 1,790 at that point. This year will likely well surpass 2,000 deals led by nontraditionals.
Venture debt issuance will continue a string of record years, surpassing 2,600 deals and \$25 billion originated for the fourth consecutive year.	Pass	Venture debt has cemented itself as a strong financing option for companies, surpassing 2,600 deals and \$25 billion for the fourth consecutive year. As this market's trends has largely followed the broader venture trends, we expect venture debt to continue this streak in 2022.