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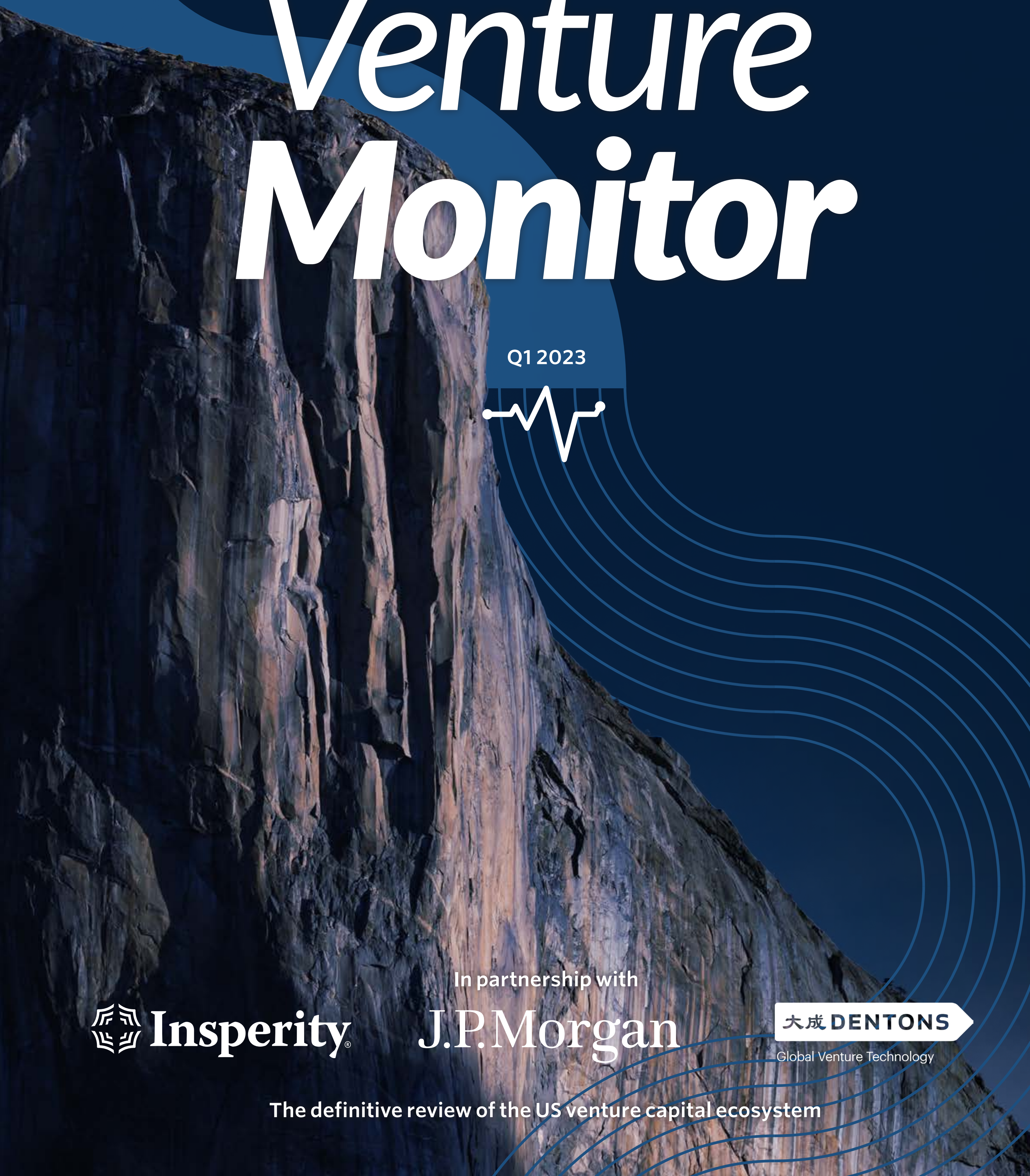
Venture Monitor

Q1 2023



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The definitive review of the US venture capital ecosystem

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Executive summary

The VC market trends that started in the middle of 2022 came into sharper focus in the beginning of 2023. Continued instability abroad, stubborn inflation rates, and several high-profile bank failures contrasted with a bevy of positive macroeconomic indicators spread a plume of anxiety across the markets. Finance—especially VC—is fundamentally prospective, and when the invisible hand that writes the rules of the market is revising them without warning, investors tend to reduce their activity until they can see at least a rough draft. It would be a mistake to refer to the climate as pessimistic: GDP and employment figures, as well as major stock indexes, were all relatively robust at the end of Q1. However, the market's lack of confidence is obvious, and while symptoms of a healthy VC market are clear, the mechanisms of action required to restore it are not as well understood.

VC activity dropped in all stages and sectors in the first quarter of 2023. But beyond noting the continued trend, the utility in referencing the raw numbers is questionable. There are opportunities for more relevant insights when comparing the relative performance of categories against each other. Stage activity was notable for the steep decline in the proportion of angel and seed rounds relative to other rounds of investment. Angel and seed activity declined to 34.0% of all deals made in Q1; although it usually hovers around 47% and dipped to a low, but not unprecedented, 38.4% in Q4 2022, angel and seed investment currently makes up its smallest share of venture investment in at least a decade. Sectoral activity was more broadly distributed, and quarterly shifts were substantial—software deals dropped 22.9% relative to other sectors—but when compared with long-term averages, most sectors were flat or modestly down relative to each other. Notably, commercial products & services increased its share of deals by 2.0% compared with the 10-year average.

The venture community's response to the changing market has not been uniform across investor classes. Buoyed by mega-deals such as the late-round financing of Stripe in Q1 2023, crossover and nontraditional investors maintained or increased their share in the market. While their total level of capital invested has been down over the past several quarters, the slope of that decline has flattened relative to traditional VC. Even the modest pullback of nontraditional VC investors has emphasized their importance in the ecosystem, especially for growth investments.

Among traditional investors, 2023's fundraising has been abysmal. Just $11.7 billion was raised in Q1. This quarterly and year-on-year decline is steep enough that it is hard to contextualize. Whether the trend will continue, or soon reverse, remains unknown. In comparison, consolidation of capital into larger firms is a more certain trend in the industry. In Q1, 62.8% of all funds raised went to funds that were $500 million or more, with experienced managers holding the largest share of capital for at least a decade. The impact of this trend on VC remains to be seen, but there will be questions about the dynamism of the market and its accessibility to a more diverse talent pool if legacy players continue to expand their share of the market.

While 2022 was a decent year for M&A activity, it was VC's lowest year for public listings since 2016. The closure of the IPO window in 2022 has continued into 2023, with most of the VC-backed public listing value in 2023 coming from a handful of mega-deals. This trend has continued in M&A, where disclosed transaction values were the highest in at least a decade. This has driven investors to exit later and later, with portfolio company ages and the proportion of insider-led follow-on rounds nearing all-time highs. While the IPO window remains closed, liquidity needs are starting to drive increased secondary market activity and fund maturations are expected to push M&A later in the year.

VC is not a short-term business. Investors need to be confident to invest entire portfolios in assets that are mostly illiquid for years. Countless factors, including the COVID-19 pandemic, the Russian invasion of Ukraine, and deglobalization have upended decades of received wisdom and thrown a mature business cycle into chaos. Additionally, high interest rates, the failures of Silicon Valley and Signature Banks, the possibility of government default, increased venture debt, and unprecedentedly onerous new regulations being proposed by the Securities and Exchange Commission are all potential pitfalls for the industry. However, opportunities also exist. More realistic valuations, combined with a market awash in talent and new government programs designed to assist company formation in high-growth strategic industries, are all positive signs.

Confidence is a scarce commodity right now, and the net present value of prudence is undeniable. 2023 has already made headlines and shows no signs of slowing down. However, if investors can meet the changing market with the right mix of diligence, patience, and optimism, then venture capital's best days are yet to come.

NVCA policy highlights

The first quarter of 2023 marked the start of the 118th Congress, with divided government as Washington's new reality. Below are key NVCA policy initiatives and their state of play.

Silicon Valley Bank collapse and aftermath

Amid Silicon Valley Bank's collapse, NVCA connected the VC community with policymakers in Washington to ensure clarity to both sides in a time of crisis. This included webinars with the NVCA Board and wider membership with Treasury officials to discuss guidance and next steps. NVCA also retained the Klaros Group, a leading regulatory advisor, and hosted numerous webinars over the weekend to ensure that the VC and startup communities would be prepared for any outcome as the crisis developed.

NVCA continues to closely monitor the situation's implications in Washington and is preparing resources to support our members and the industry at-large.

R&D credit legislation reintroduced

In March, Sens. Todd Young (R-IN) and Maggie Hassan (D-NH) reintroduced the bipartisan American Innovation and Jobs Act. This legislation would allow research & development (R&D) costs to offset revenues the year they are generated. The bill also raises the amount of payroll tax that startups can offset with R&D credits, increases the value of R&D credits, and expands the number of eligible companies.

NVCA will submit a letter of support in the coming weeks and continue to advocate for the startup ecosystem.

CHIPS and Science Act funding and implementation

NVCA's implementation strategy involves engaging with the relevant agencies and producing events, collateral, and detailed analyses of the bill to educate NVCA membership on partnership opportunities.

NVCA sent a letter to appropriators requesting prioritization of robust and reliable funding for the technology commercialization programs in the CHIPS and Science Act, and hosted a lobby day where investors came together to advocate for education and workforce development in the critical industries outlined in the bill.

Inflation Reduction Act implementation

NVCA is engaged with the implementation of the Inflation Reduction Act, another massive package passed in 2022.

We submitted comments in response to the request for information (RFI) from the Treasury Department and IRS on implementation of the direct pay and transferability mechanisms that allow startups to monetize tax credits. NVCA submitted comments in response to the RFI on implementation of the prevailing wage, apprenticeship, domestic content, and energy communities provisions that multiply the value of credits fivefold for compliant projects.

SEC regulatory update

NVCA continues to engage with the Securities and Exchange Commission (SEC) regarding Chair Gensler's disruptive agenda:

- Regulation D ("Reg D") reforms: These reforms could force startups to disclose financing rounds at their outset and demand the publication of sensitive business information.
- Custody rule: This proposal would expand the current custody rule to cover all asset classes, including cryptocurrencies.
- Recordkeeping enforcement changes: NVCA joined other industry stakeholders to express concern over the scope and application of recordkeeping requirements.

Capital markets reform agenda

NVCA submitted two letters to the House Financial Services Committee outlining the economic impact of VC and expressing support for the committee's prioritization of improvements to the capital formation process.

NVCA supports:

- Modernizing the definition of a VC fund to include acquisitions of secondary shares and fund-of-fund investments (DEAL Act).
- Increasing the permitted investor and capital limits for 3(c)(1) funds.
- Extending emerging growth company (EGC) eligibility and allowing companies a grace period to transition out of EGC status.
- Better matching public company reporting requirements to innovative companies' time horizons.
- Directing the SEC to prioritize research and liquidity solutions for smaller companies and allowing trading-venue choice.

SBIC critical technologies license

In February, NVCA hosted a joint roundtable with the Small Business Administration (SBA) and the Department of Defense's Office of Strategic Capital (OSC) to discuss a proposal for a new Small Business Investment Company (SBIC) license category for equity investment funds.

To encourage greater long-term equity investment in 14 critical technologies, the SBA and OSC are proposing a new SBIC "Accrual Debenture" license that would:

1. Provide a debt instrument to licensee funds where principal and interest are payable at the end of 10 years.
2. Provide an exception from affiliation rules for portfolio companies of licensee funds.
3. Create unique partnership opportunities with the Department of Defense (details forthcoming).

NVCA sent a letter to the SBA requesting that the new Accrual Debenture SBICs be provided the same waiver from affiliation rules that other SBICs currently receive.

SSBCI: 49 states and counting

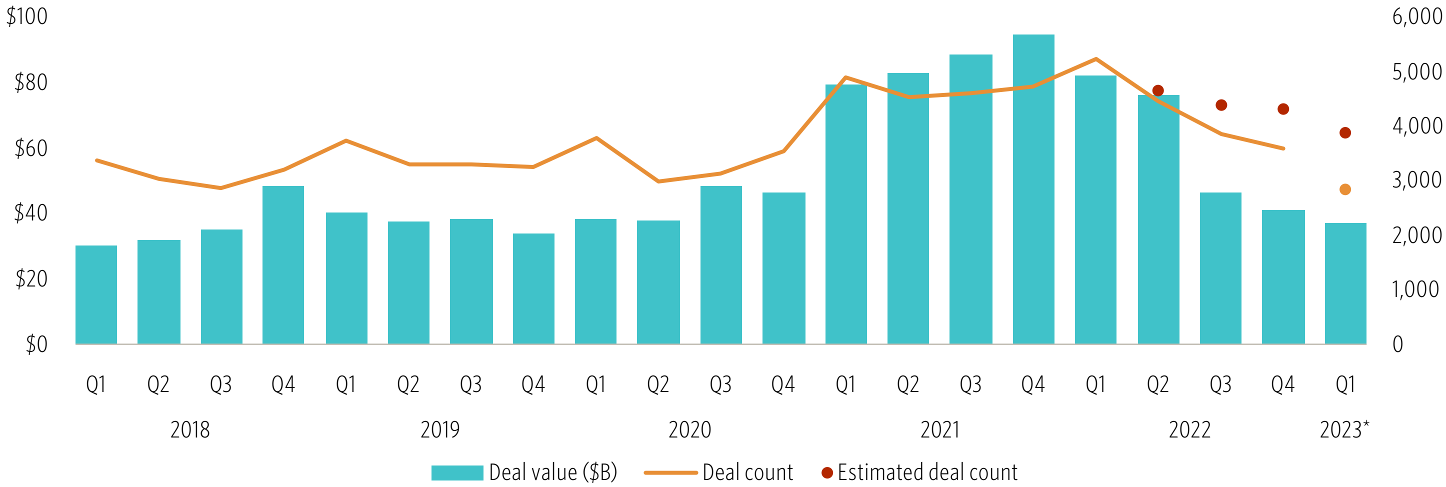
The Treasury has approved 49 state applications for the State Small Business Credit Initiative (SSBCI). The SSBCI provides states with funding to run small business debt and equity investment programs. Visit NVCA and Venture Forward's SSBCI resource center for more information on approved state plans.

In February, we partnered with Venture Forward and the Minority Business Development Agency to educate the venture ecosystem on opportunities within the $93.5 million Capital Readiness Program grant competition.

Overview

Estimated Q1 deal count remains above 2020 quarterly figures

US VC deal activity by quarter



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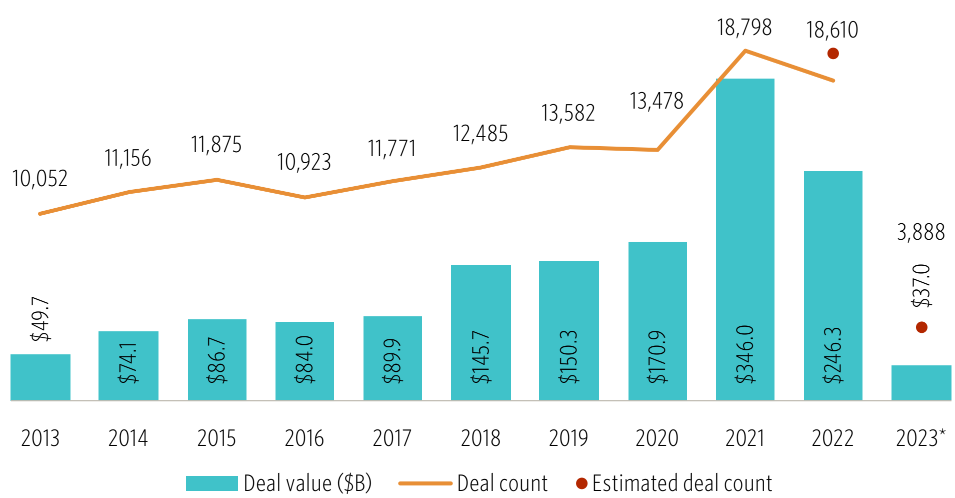
2023 deal value off to slow start

US VC deal activity



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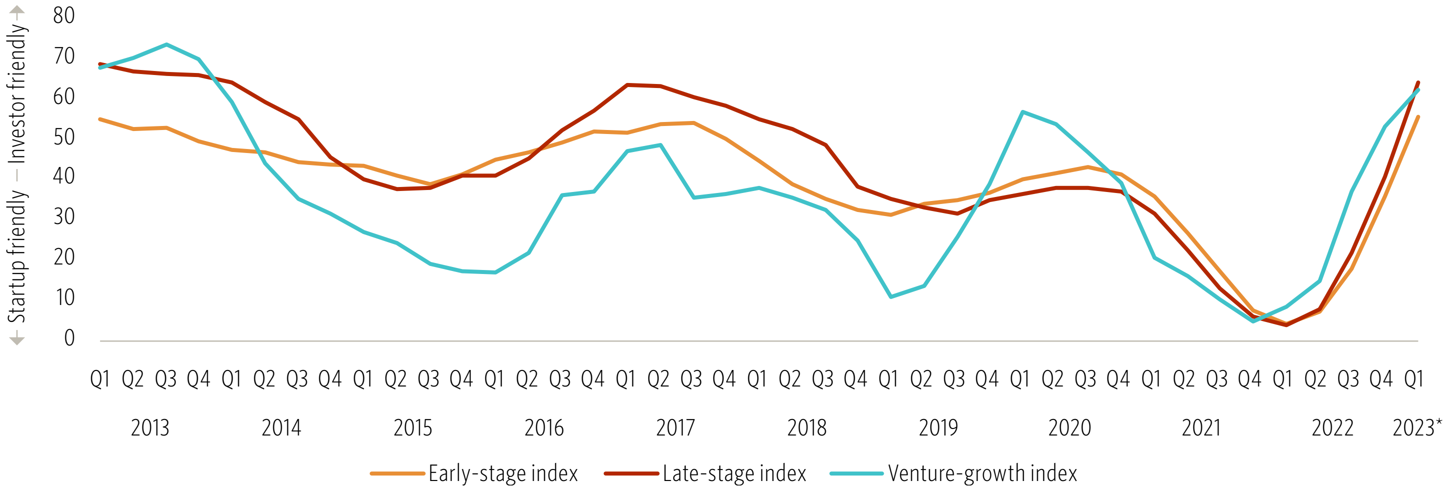
Late-stage deal value took a nosedive in Q1, declining for the seventh straight quarter to $11.6 billion. As investors grapple with a liquidity crunch due to a frozen exit environment, they have shied away from larger deals in an effort to preserve capital. Just 19 late-stage mega-rounds occurred in the first quarter of 2023, compared with 98 in Q1 2022. Not only has this widened the funding gap between startups seeking capital and investors willing to provide it, but it has also put downward pressure on deal pricing. In Q1 2023, the median late-stage VC pre-money valuation fell 16.9% from the 2022 full-year figure to $54.0 million, while the average pre-money valuation declined by more than $120 million to $159.1 million during the same period.

Following the broader market's dealmaking slowdown, deal value with nontraditional investor participation exhibited a modest decline in Q1. The $25.8 billion in deal value represented 69.7% of the market's total observed deal value, down from the 2022 participation rate of 74.7%. Stripe's latest financing round drove a large portion of the deal value with nontraditional investor participation. With the exception of CVC investors, nontraditional investors are pulling back in response to a lack of viable paths to liquidity and public market volatility.

With the ongoing rate hikes and falling valuations, late- and venture-growth-stage startups faced significant challenges while looking for an

Indicator well beyond parity

US VC dealmaking indicator



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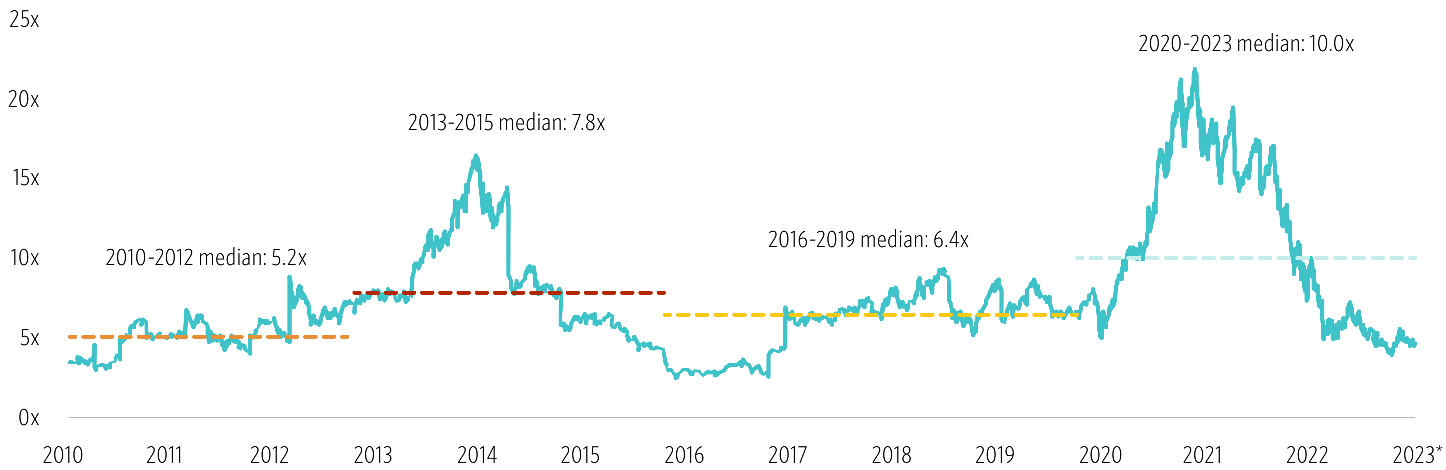
exit path in Q1. Trapped in a capital crunch caused by the withdrawal of nontraditional investors and a hostile exit environment for companies planning on going public, mature startups were also subject to increased pressure from the existing investor syndicate to achieve liquidity. The push toward a near-term exit will likely lead to an uptick in acquisition activities from corporations with ample cash reserves.

By the end of the first quarter of 2023, the fundraising momentum of 2021 had all but dried up, with a meager $11.7 billion closed across 99 funds. Capital commitments continued to concentrate in larger-size funds and set a record for commitments to funds led by established managers. The sluggish pace of fundraising for emerging and first-time fund managers could be a precursor to formidable fundraising experiences through the end of the year.

As public price-to-sales multiples retract, valuations will mirror movement

Trailing 12-month (TTM) price-to-sales multiples for VC-Backed IPO Index (excluding pharma & biotech)



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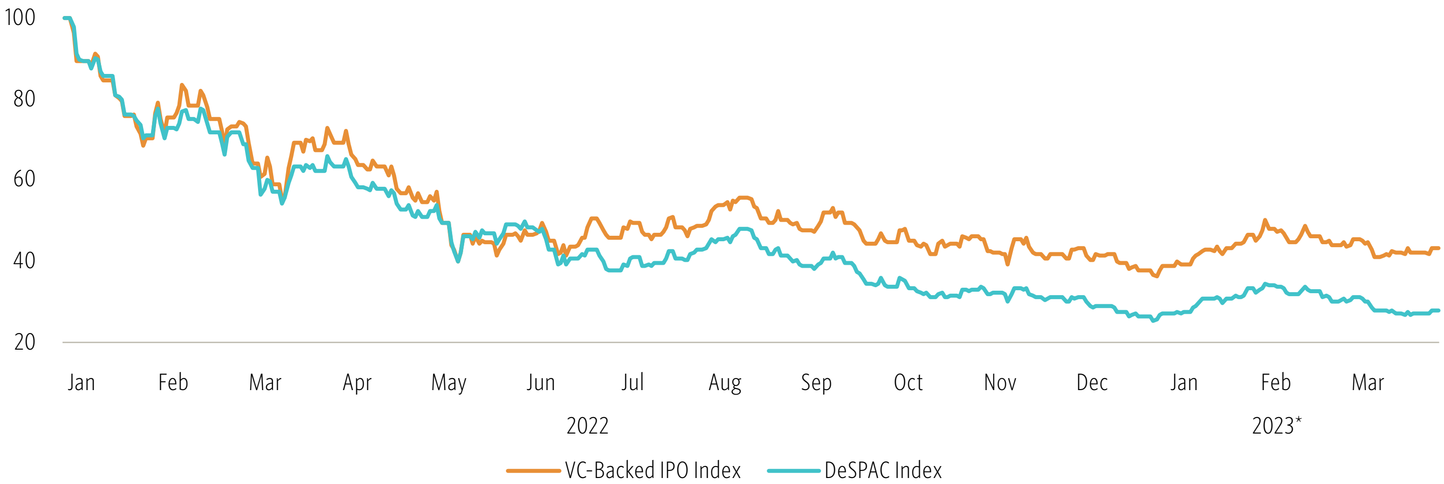
Little positive movement in indexes

US VC-Backed IPO Index and DeSPAC Index rebased to 100



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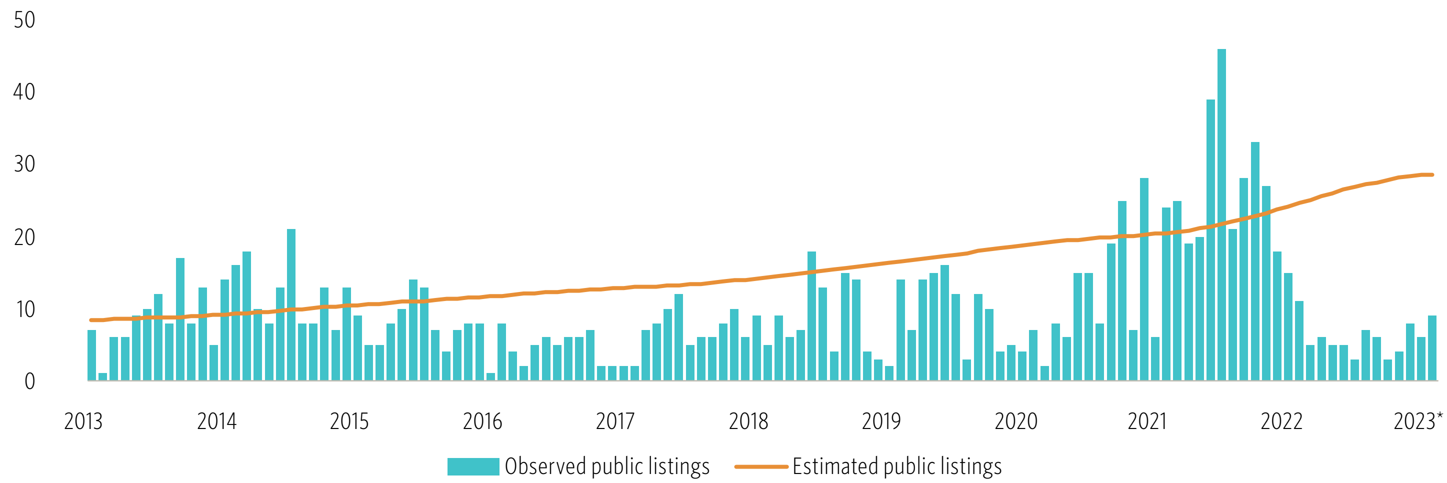
Backlog of companies waiting to IPO reaches new high

Monthly VC-backed public listing count versus estimated IPO backlog



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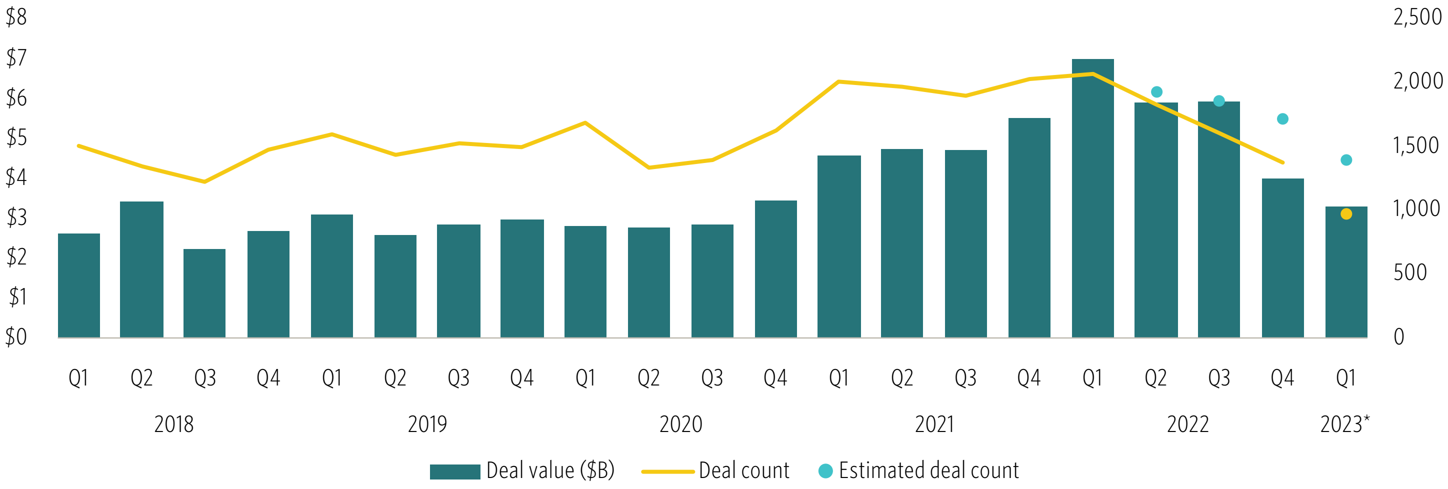
Angel and seed

Q1 angel and seed activity slumps to 10-quarter low

US angel and seed deal activity by quarter



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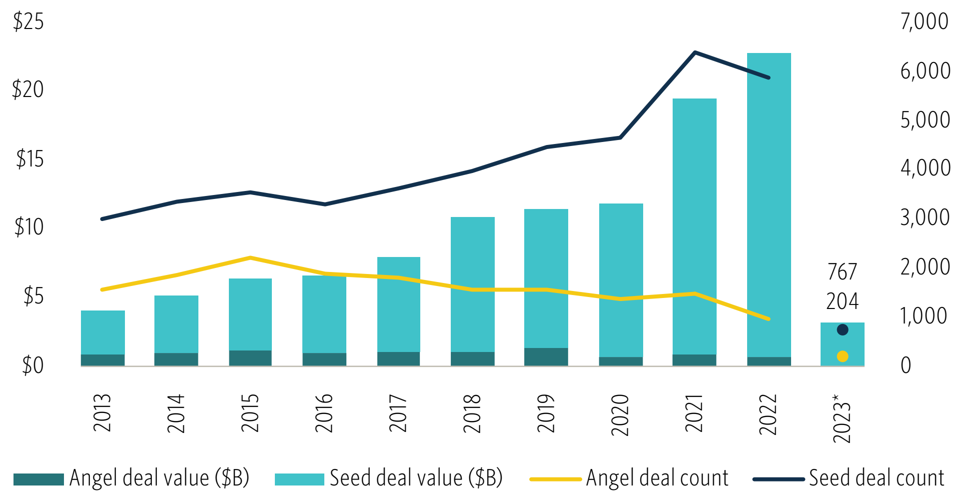
Quarterly seed deal value exhibits a sharp decline

US angel and seed deal activity



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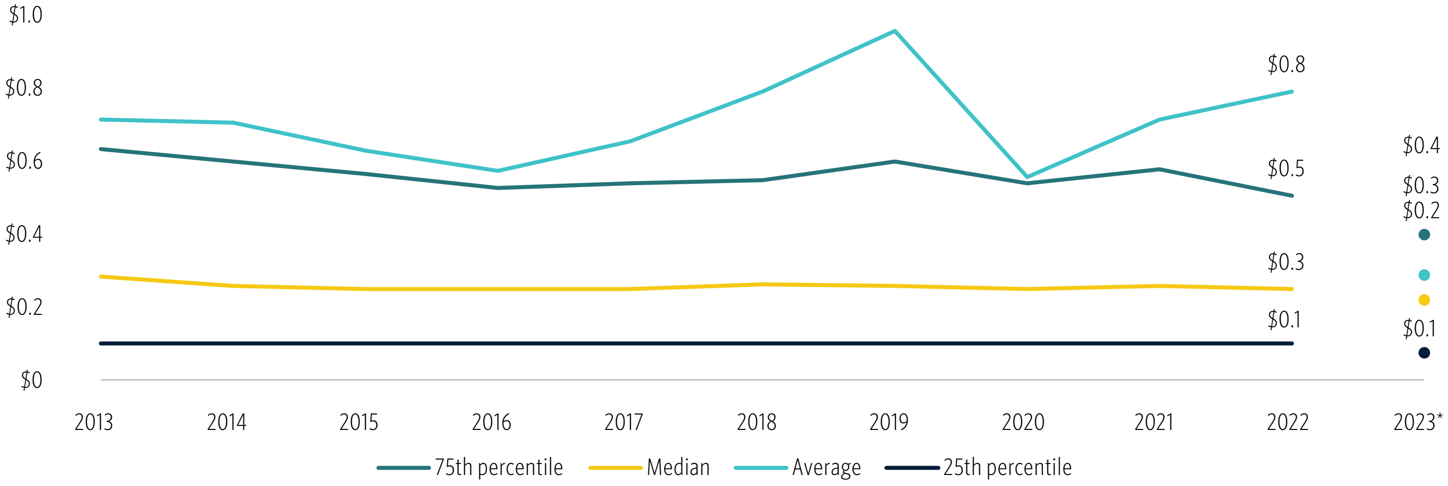
Despite its relative resiliency throughout 2022, deal activity in the angel and seed stages trended downward substantially through the first quarter of the year. Q1 deal value fell to $3.3 billion, a 53.1% decrease from Q1 2022, across an estimated 1,396 deals, demonstrating that even the most nascent stages of VC are not immune from the widespread effects of an economic downturn. While angel- and seed-stage startups are generally thought to be mostly insulated from market volatility, they are often the riskiest investments because of their relative immaturity compared with more established startups. This partially explains why the median and average deal sizes for the seed stage increased by 15.4% to $3.0 million and 8.0% to $4.7 million, respectively, while these figures for all other stages of venture declined in Q1. It appears that investors that are still willing to take bets on the earliest-stage startups are primarily taking the risk on the cream of the crop: larger startups with more proven business models.

This selectiveness is also reflected in the valuation data. In Q1, the median seed pre-money valuation was $13.0 million—a 23.8% increase from the 2022 full-year figure and the highest figure on record. Additionally, the majority of angel and seed deal value has been concentrated within larger rounds, a trend that has been

Median angel deal size on par with historical figures

Range of US angel deal values ($M)



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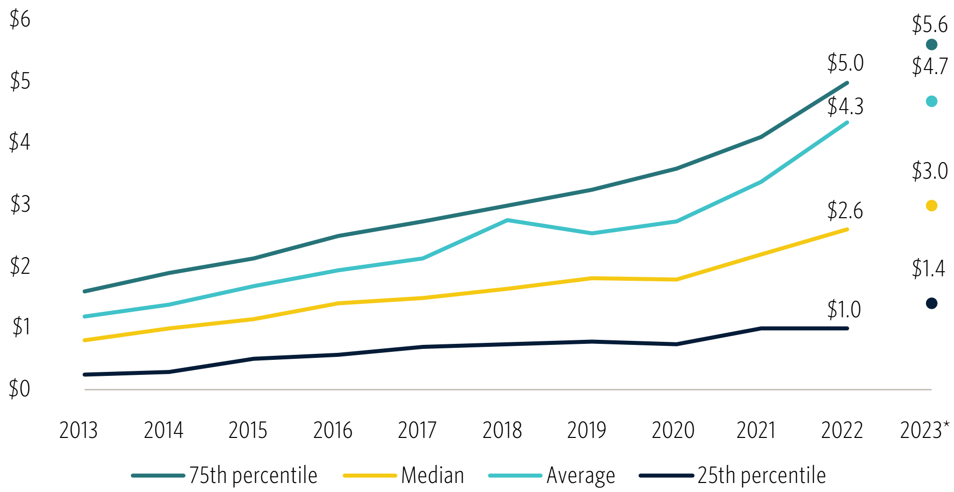
increasing over the past several quarters. For example, in Q1 2021, 53.8% of angel and seed deal value was deployed to rounds of $5 million or more; in Q1 2022, the percentage rose to 67.0%. Our data shows that 68.2%—or $2.2 billion—of angel and seed deal value was deployed to rounds of this size in Q1 2023. Our recently published Quantitative Perspectives report puts forth evidence that suggests investing in smaller companies within specific VC series results in better annualized returns—with the exception of seed. Indeed, the data shows a 70% annualized increase in a company's value when investors participate in the largest seed rounds, compared with just 48% when they participate in small seed deals. While this is not a perfect explanation for the increase in capital concentration in larger seed rounds, it could explain why investors are leaning toward larger rounds.

Another factor to consider is fundraising, which has gotten off to a lackluster start in 2023. Emerging managers, which have successfully raised roughly $155.1 billion over the past four years, have been hit especially hard, raising just $1.6 billion across 45 funds in Q1. We expect this decline in emerging-fund value to negatively affect dealmaking within the seed stage over the next few quarters because these funds are often involved in the earlier stages of VC. This notable decline comes off the back of record fundraising levels in the past two years, and while large amounts of dry powder will surely help sustain dealmaking, the lack of capital flow and LP fervor is something founders should pay close attention to going forward.

Median seed deal size surpasses prior-year values

Range of US seed deal values ($M)



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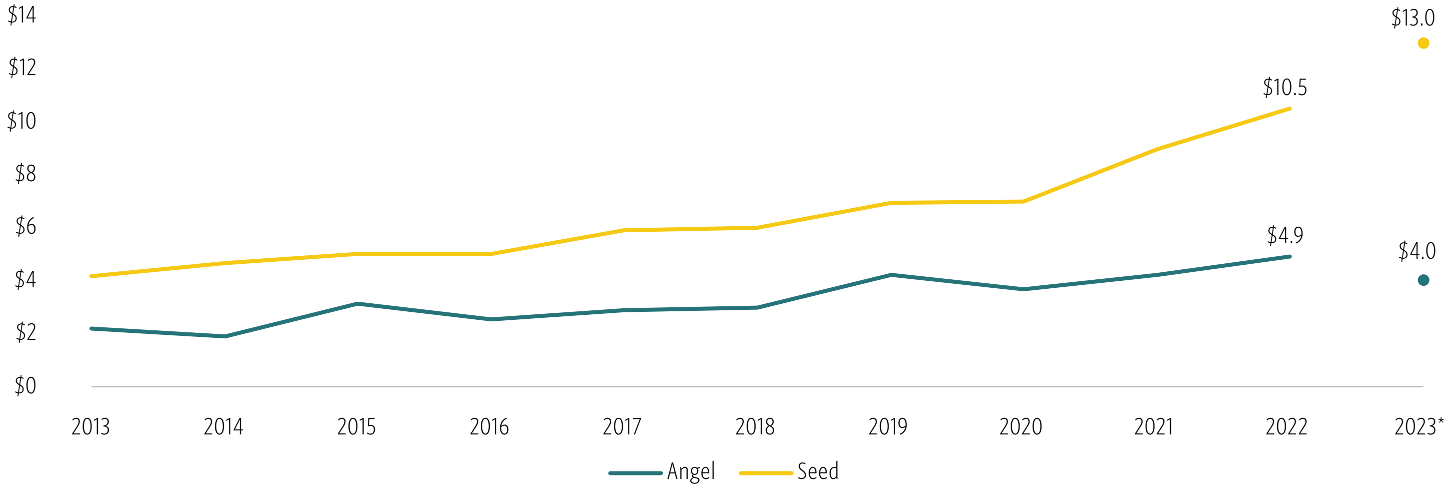
Seed valuations exceed those of 2021

Median US angel and seed pre-money valuations ($M)



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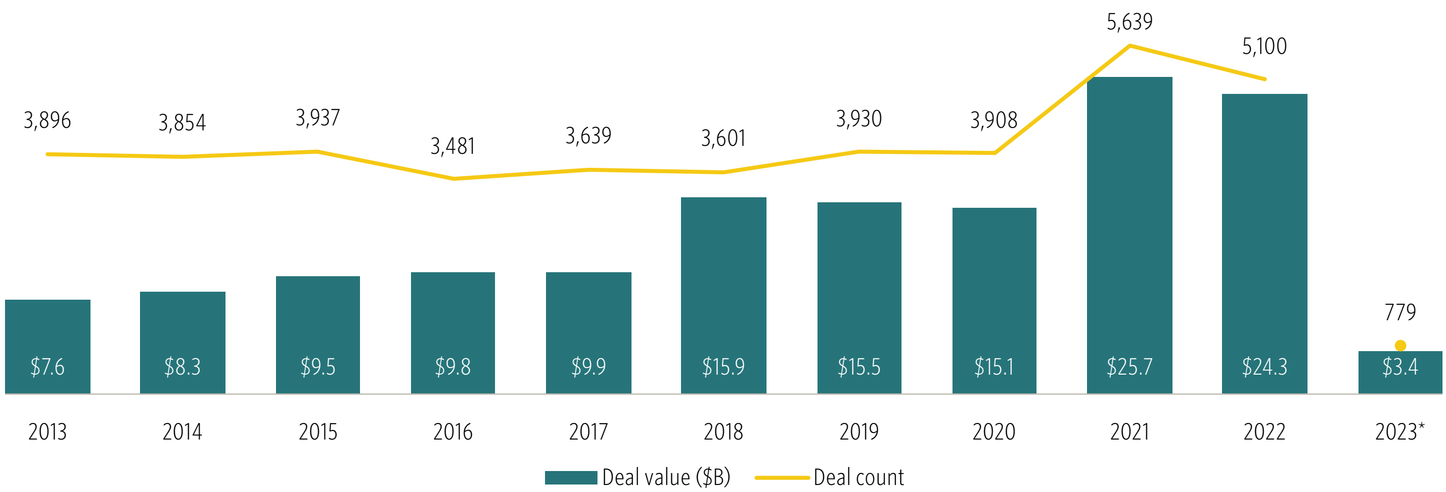
2022 is second-largest year on record with more than $24 billion invested into first financings

US first-financing deal activity



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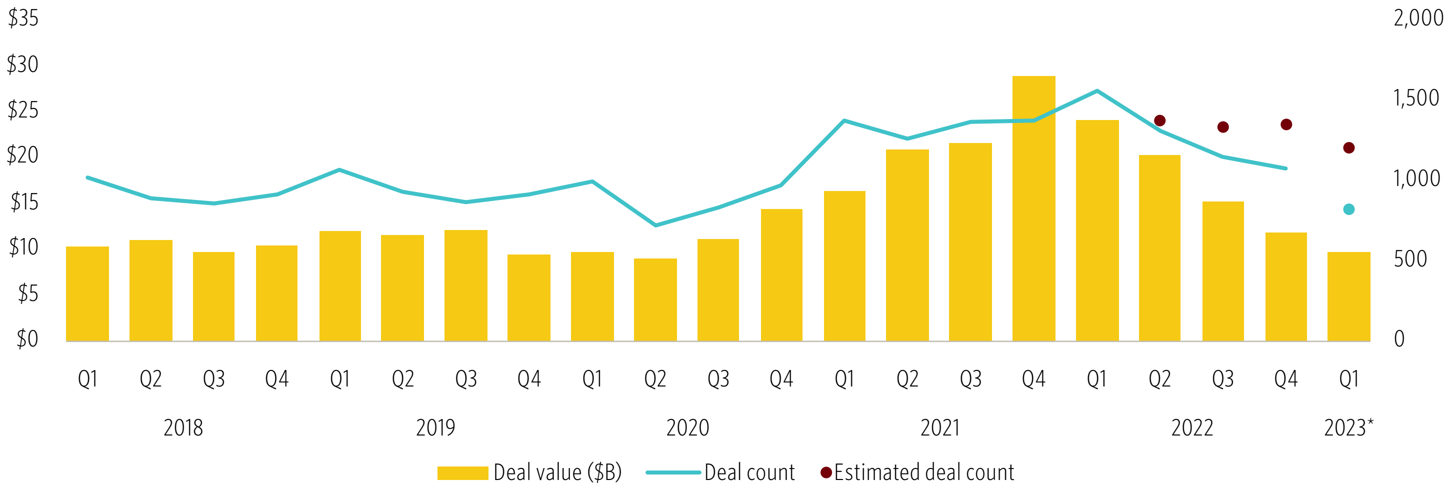
Early-stage VC

Early-stage deal activity slides further in Q1

US early-stage VC deal activity by quarter



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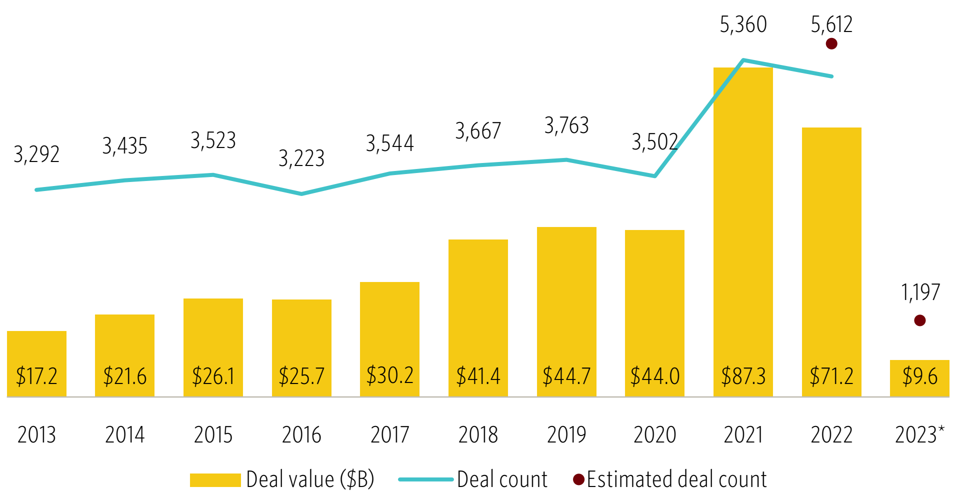
A prolonged economic downturn imbued with volatility and uncertainty has continued to put downward pressure on deal activity across all stages of VC, and events such as the collapse of Silicon Valley Bank have further heightened concern around the venture ecosystem. As expected, our data shows that deal activity for early-stage venture, despite the stage's presumed insulating nascency, declined significantly throughout the first quarter of the year. Q1 saw just $9.6 billion in deal value across an estimated 1,197 deals, a six-quarter consecutive decline in deal value and the lowest deal value we have observed since Q2 2020. It is clear that the venture market is no longer riding on the coattails of 2021, a harsh reality for both startups and investors in the current environment.

One of the most striking observations thus far has been the decline in early-stage deal sizes, with the median deal size in Q1 falling to $6.2 million, a 29.1% descent from 2022's full-year median of $8.8 million. This notable drop reflects a harsher dealmaking environment with tempered growth expectations and far fewer outsize valuations relative to the past two years. Additionally, ongoing economic volatility and a pronounced lack of exits has heightened the importance of liquidity not only for

Q1 early-stage deal value falls below $10 billion for first time in 11 quarters

US early-stage VC deal activity



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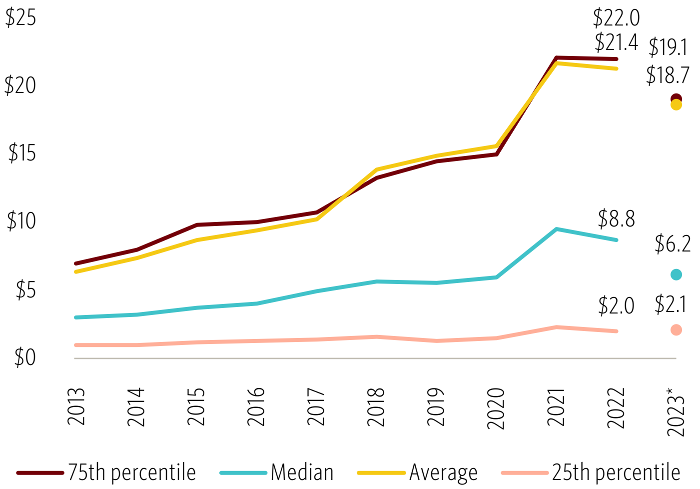
Median early-stage deal size declines nearly 30%

Range of US early-stage VC deal values ($M)



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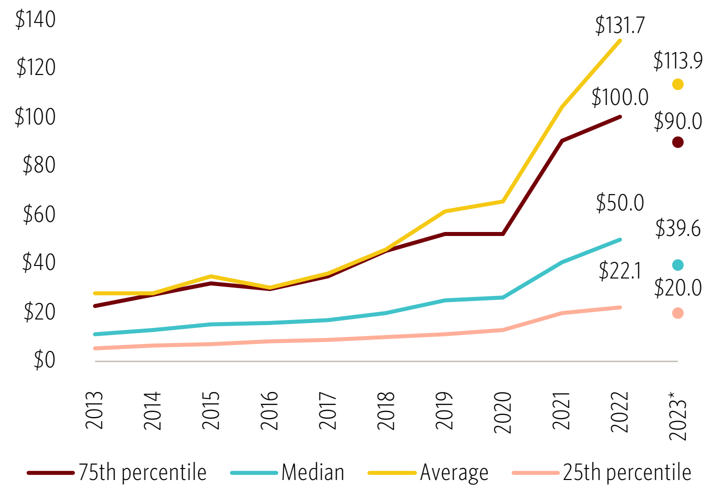
Early-stage valuations exhibit a severe decline

Range of US early-stage VC pre-money valuations ($M)



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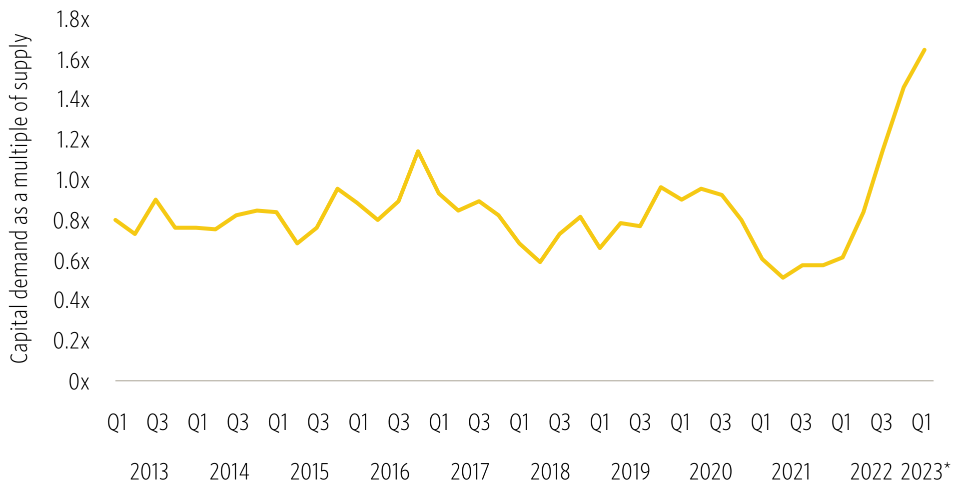
startups but also for venture funds and their LPs, leading many investors to slow their deployment of capital into larger rounds as a means of capital preservation. Indeed, Q1 saw just 105 early-stage rounds greater than $25 million, which is the first time this round count has fallen below 110 since Q2 2020. By contrast, Q1 2021 and Q1 2022 saw 157 and 238 rounds exceeding $25 million, respectively. This has partially contributed to the widening gap between capital demand and supply. Our data shows that Q1 2023's demand-to-supply ratio of 1.6x is not only the highest on record but also the third consecutive quarter in which the amount of capital demanded by early-stage companies exceeds the available capital supply. This streak is likely to have a compounding effect that will make it continuously difficult for startups looking to raise capital in the coming quarters.

Low capital supply relative to capital demand, among other contributing factors, has continued to create an increasingly investor-friendly venture market. According to our data, we estimate that Q1 has been the most investor-friendly environment observed in nearly a decade. This is important because a venture market that leans more toward investors provides them with more leverage over deal terms and valuations. This has, in part, contributed to the valuation declines observed in Q1; the median early-stage pre-money valuation was $39.6 million, down 20.8% from 2022's median of $50.0 million. We believe this downward trend will continue and expect many cash-starved startups to be faced with the sobering reality of taking a flat or down round when they inevitably need to fundraise.

Early-stage capital availability falls further

Capital demand-supply ratio in the VC marketplace



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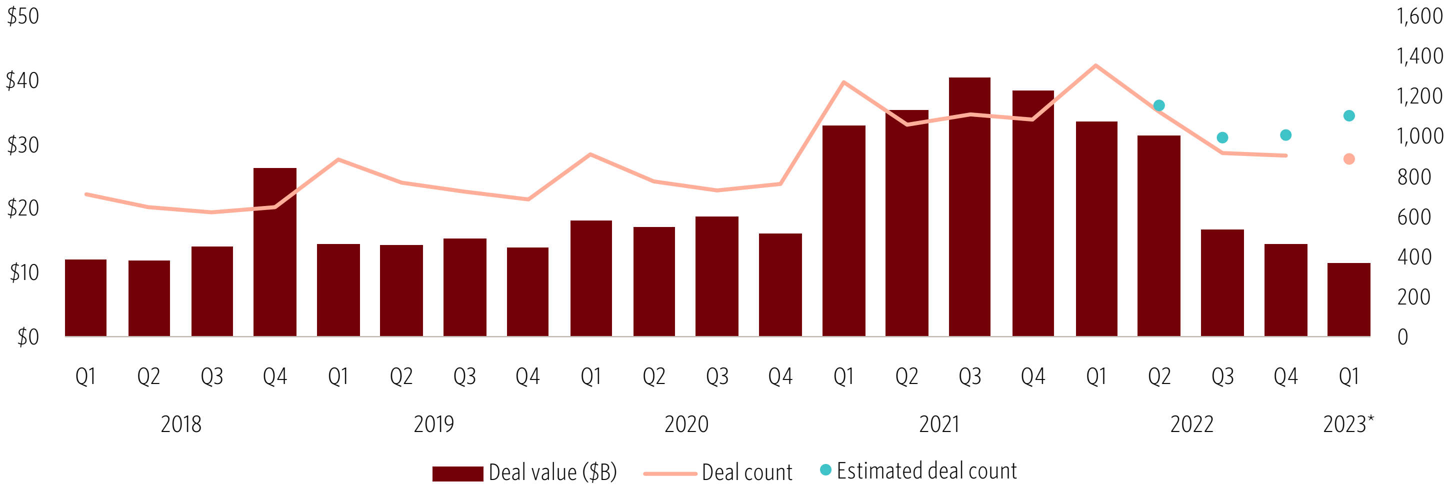
Late-stage VC

Q1 deal value plummets to 21-quarter low

US late-stage VC deal activity by quarter



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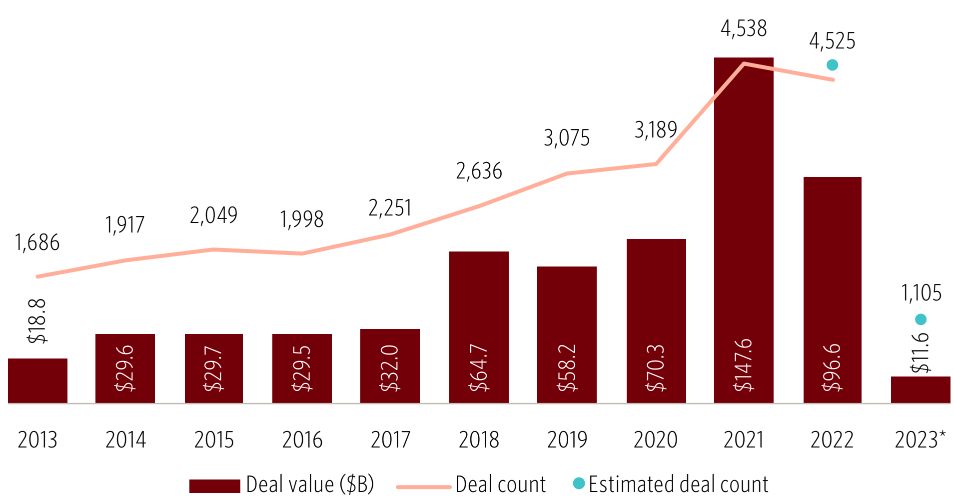
Late-stage deal value in Q1 makes up just 12.1% of total deal value observed last year

US late-stage VC deal activity



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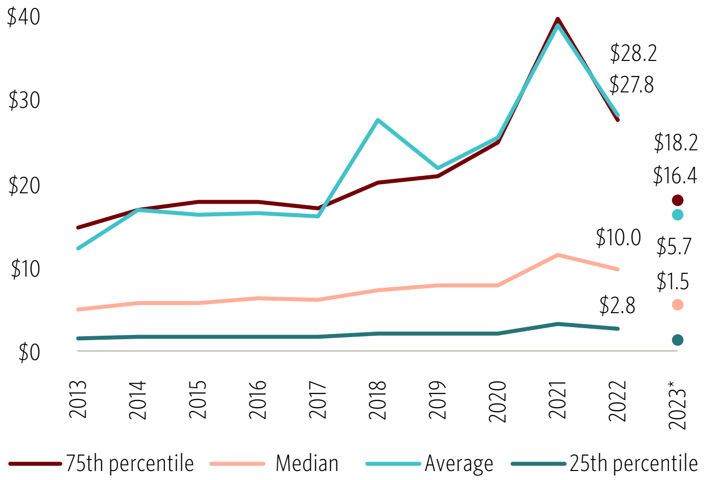
As expected, the later stages of the venture market continue to be the most negatively impacted by the myriad of factors causing turmoil in financial markets. For instance, enterprises further along in the VC lifecycle are especially vulnerable to poor public market performance due to their proximity to public company comparables. Moreover, the lack of exits that proliferated in 2022 has trapped tremendous amounts of value among maturing private enterprises, worrying investors that are seeking liquidity to not only realize a return for their funds and LPs but also establish a successful track record should they look to raise a new fund in the future. Consequently, through the first quarter of 2023, we observed late-stage deal activity take a nosedive as investors grow increasingly hesitant to put capital into businesses that are unable to provide an output. Q1 saw just $11.6 billion in deal value across an estimated 1,105 deals, a seven-quarter consecutive decline and the first time that quarterly deal value has fallen under $12 billion since Q4 2017.

Q1 saw just 19 late-stage mega-rounds (rounds of $100 million or more), reflecting a decrease in investor appetite to deploy large amounts of capital into a single deal. 98 mega-rounds were completed in Q1 2022, further illustrating this about-face we are witnessing from investors. Much of this pullback is attributed to the retreat of nontraditional investors, which late-stage startups were heavily reliant upon for financing in years past due to their large balance sheets and

Q1 median and average deal sizes continue to fall

Range of US late-stage VC deal values ($M)



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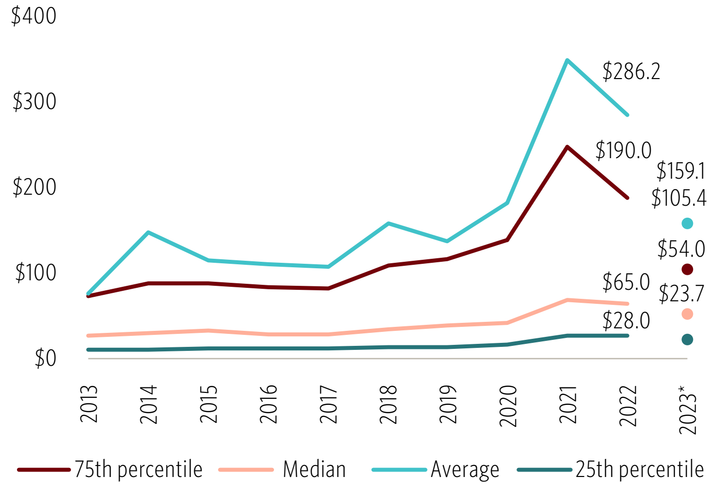
Average late-stage valuation declines by more than $120 million

Range of US late-stage VC pre-money valuations ($M)



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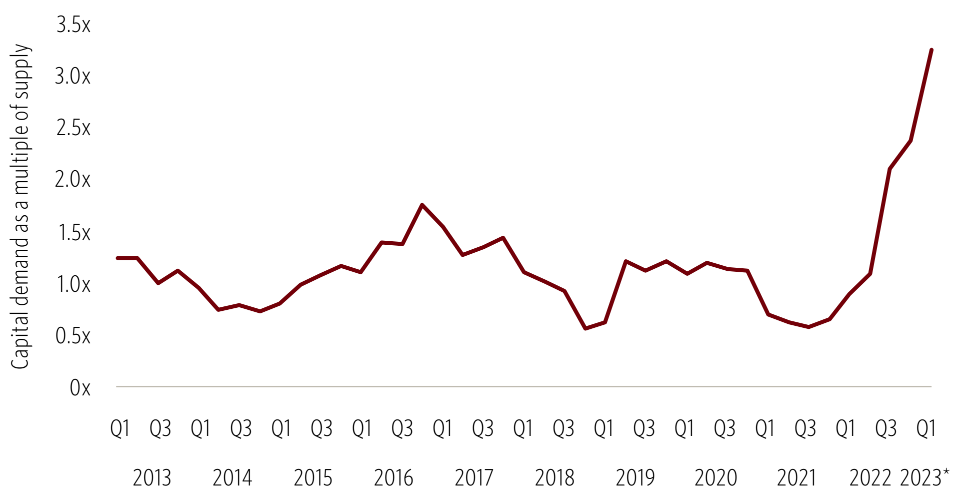
therefore their ability to meet the capital demands of these capital-intensive businesses. In Q1, just $7.8 billion of late-stage deal value involved a nontraditional investor, which is only 10.2% of the entire sum invested last year. As in other stages of venture, this absence of capital has contributed to a growing funding gap between startups looking for financing and investors that can provide it. For late-stage venture in particular, the gap has become so wide that we estimate there is just $1 of funding available for every $3.24 demanded (a demand-to-supply ratio of 3.24x). This shocking figure is even more concerning when considering the fact that just a year ago, in Q1 2022, the ratio for late-stage venture was 0.9x, indicating that more capital was available than was needed.

This shortage of capital is a major cause of concern for startups that need it for survival. While many saw this coming and have consequently slowed down cash burn to extend runway, few are able to wait this out into perpetuity. Coupling this dearth of capital with reduced growth forecasts and elevated volatility could create a rude awakening for many startups, in which the best-case scenario would be a down round and the worst case would be going out of business. Indeed, we have already witnessed widespread valuation declines: The median late-stage pre-money valuation in Q1 was $54.0 million, 16.9% lower than the 2022 full-year figure, while the average pre-money valuation declined by more than $120 million to $159.1 million during the same period. Without a miraculous turnaround in the financial markets, this downward trend is likely to continue for many late-stage businesses.

Late-stage capital-demand-to-supply ratio reaches decade high

Capital demand-supply ratio in the late-stage VC marketplace



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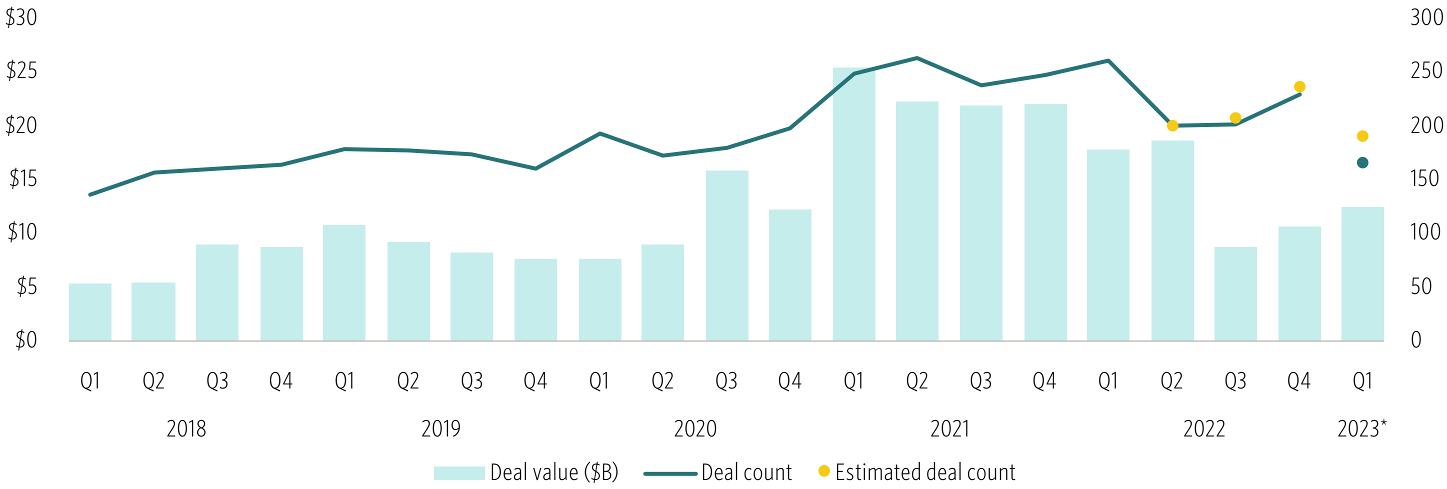
Venture growth

Venture-growth deal value ticks up in Q1 while deal count drops

US venture-growth deal activity by quarter



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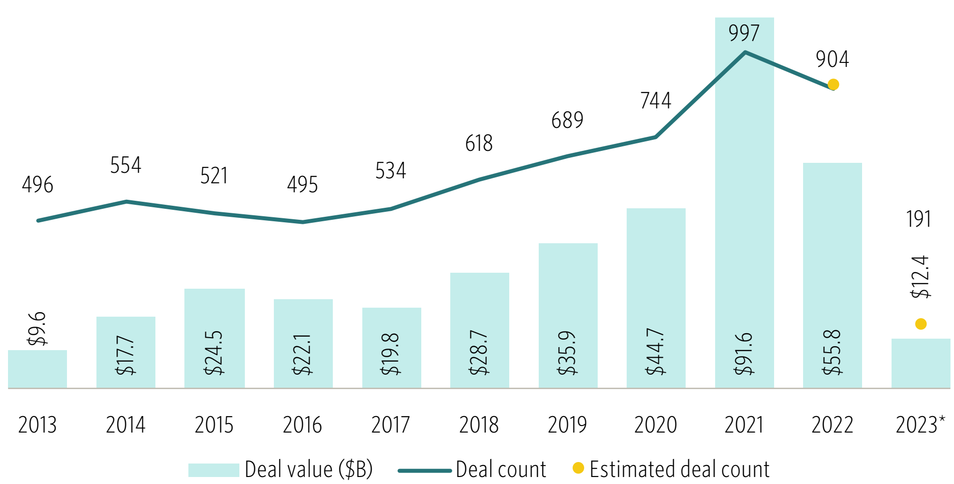
Sitting near the end of the venture lifecycle, growth-stage startups have been particularly susceptible to the macroeconomic headwinds plaguing their public counterparts. The performance of these mature startups also has deep ramifications for the venture ecosystem. This stage consisted of only 5.8% of all US venture deals that closed in Q1 but captured $12.4 billion, or 33.6% of all the deal value that was generated in the quarter.

2023 starts with $12.4 billion invested in venture-growth deals

US venture-growth deal activity



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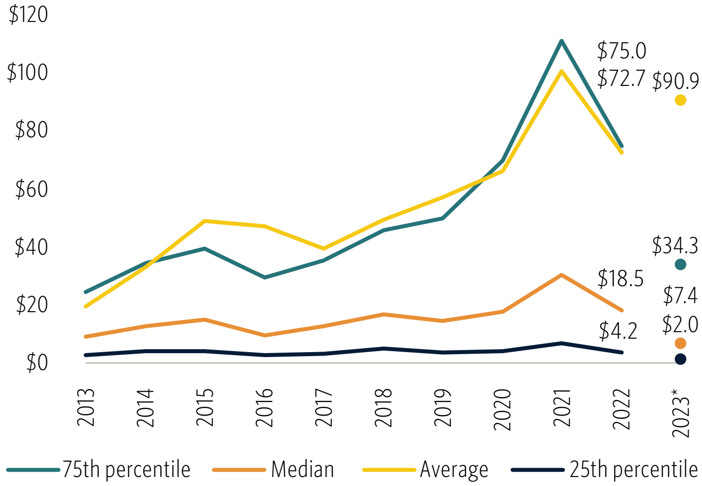
Venture-growth data surfaced a seemingly contradictory trend in Q1. Deal count landed at an estimated 191 deals, the lowest level since Q3 2020. During the same period, deal value ticked up—though that figure was heavily influenced by Stripe's $6.5 billion raise. The $6.5 billion Series I round raised by the leading online payment processing platform made up 52.2% of all value generated at the venture-growth stage in Q1. Generate's $880.6 million late-stage VC round marked the second-largest deal of the quarter, a steep decline in value when compared with Stripe's deal.

Many venture-growth startups may face a similar predicament to Stripe, in which they are subject to massive tax liabilities that come with expiring restricted stock units (RSUs) issued to incentivize employees. Stripe raised its latest round at a valuation that was nearly half that of the $95.0 billion valuation that came with its Series H deal. Proceeds of its

2023 YTD median deal size declines steeply

Range of US venture-growth deal values ($M)



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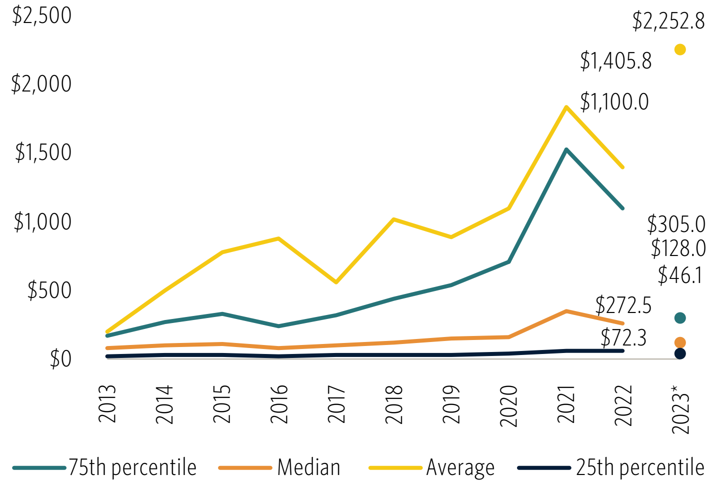
Median pre-money valuation falls below $130 million, less than half of 2022 figure

Range of US venture-growth pre-money valuations ($M)



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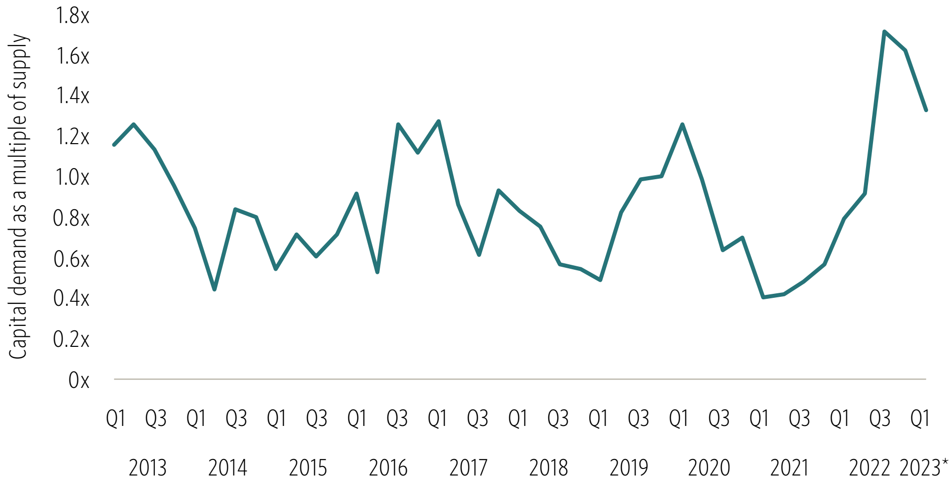
Series I round were used to cover tax bills for RSUs that are set to expire at year-end. VC-backed startups are generally taking longer to exit, and a tumbling public market increases the motivation to delay a potential IPO. As of Q1 2023, a total of 219 companies are estimated to be in the IPO backlog. More startups may need to react to similar issues in a less-than-friendly exit environment. Different approaches, ranging from raising a down round to even leaving long-term employees vulnerable to tax liabilities, will have pronounced impacts on talent retention and future recruitment efforts.

Many companies that raised financing rounds at the height of 2021 have found themselves trapped in a much harsher funding environment when subsequently seeking follow-on rounds, primarily resulting from a pullback of nontraditional investors. There is only a limited number of VC managers with sufficient capital to support these cash-burning startups, making companies in the venture-growth stage heavily reliant on large capital infusion from nontraditional investors. High illiquidity risk coupled with concerns over valuations have deterred many nontraditional investors from continuing their involvement with growth-stage deals, leading to a shortage of capital availability. If this trend continues, we anticipate growth-stage annual deal value to fall below the pre-pandemic level of around $40 billion. PitchBook's latest research on the gap between startups' capital demand and investors' cash supply indicates that as of Q4 2022, growth-stage startups sought 32.3% more capital than VCs were providing for new deals. This profound imbalance stands in stark contrast to 2021 and the first half of 2022, when capital supply flourished and outstripped demand, leading to the imbalance the market finds itself in today.

Demand-supply ratio remains elevated in Q1 2023

Capital demand-supply ratio in the venture-growth marketplace



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A WORD FROM INSPERITY

How a PEO creates a scalable HR infrastructure for growing companies

Companies seeking to grow by acquisition or to grow and be acquired can face several challenges related to scaling their human resources infrastructure. Hiring to scale, offering attractive benefits, maintaining the organization's culture, and complying with regulations all require more time, expertise, and technology infrastructure as a company grows.

Let's take a closer look at how a professional employer organization (PEO) can address those unique challenges through a more robust human resources (HR) infrastructure.

How HR infrastructure supports rapid growth

As a company grows, its HR functions must grow along with it. If venture capital firms fail to provide necessary resources to portfolio companies, it can potentially divert resources from the core growth plan and create delays in scaling up while HR adjusts to handle enterprise functions.

A PEO can save time by offering a customized service model that's ready to scale seamlessly. This allows company leadership to focus on growth. Through a more robust HR infrastructure, the PEO can also help attract and retain stronger talent to the growing enterprise.

More resources for recruiting top talent

Hiring during phases of rapid growth can lead to poor outcomes if the HR team doesn't have the resources to effectively manage the process. Successful recruiting starts with the application and interview process because savvy candidates will evaluate it as part of their assessment of the company.

For example, a company will be more appealing to top talent if the process involves:

- Clearly defined job descriptions so candidates understand the company's expectations.
- Skilled interviewers who are trained to ask the right questions and follow best practices for compliance.
- High-quality benefits packages that offer choice and flexibility at a competitive cost point.

A PEO allows fast-growing companies to plug into a robust HR infrastructure for recruiting while allowing their employees to have access to Fortune 500-level benefits, something that many competitor companies don't have access to on their own.

Better onboarding, better employee experience

The recruiting benefits of a PEO for your portfolio companies lead into an onboarding process that sets the stage for a good employee experience. If onboarding is disorganized or unsupportive, new employees may fear that their initial impression of the company was wrong and start to doubt their decision to sign on.

Rather than leaving new hires to navigate a stack of paperwork, many PEOs handle onboarding through a technology platform that creates a seamless, guided experience. By making the process simple and organized, the HR infrastructure can create a better first impression for new employees, which may solidify their decision to join the company.

"We encourage every one of our portfolio companies to work with Insperity. With Insperity covering human resources and administration, management can

Donna JW Hare
Business Performance Consultant

Donna JW Hare has more than 24 years' experience in the professional employer organization (PEO) industry. For the past 21 years with Insperity, Donna has been a Sr. Business Performance Consultant advising C-level executives & HR leaders on strategies related to human capital and employment risk with a specialty in mergers and acquisitions, spinoffs and exit strategies. 16 of Donna's years at Insperity have been in the Middle Market segment serving clients from 150 to 5,000 employees. Donna served on ACG-Silicon Valley's board of directors & continues to support ACG and other partnerships at the national and local level as a speaker, author, and advisor. Donna also continues to participate in webinars and has published white papers on the importance of assessing the risk and value of human capital in M&A transactions, cultural alignment, and navigating today's workforce. Donna is also an advisory member at the University of Houston, Bauer College of Business's Managing Human Resources Program. In Donna's free time, she loves to cook and spend time with her husband Scott & 5 children who range in ages from 19 to 1 years old.

focus on adding customers and building revenue. We feel so strongly about the value provided that we often include hiring Insperity as part of the terms outlined in our investment proposals. They are terrific partners."

Sid Chambless
Managing Partner
Nashville Capital Network

HR support for company exit strategies

Companies that use a PEO as they work on their exit plan may make themselves more attractive to potential buyers. Instead of investing the time and resources to build and scale an internal HR system over the course of their multiyear plans, companies can simply plug into the equivalent of an enterprise HR infrastructure.

A PEO can also help companies maintain HR continuity. Internal HR employees may stay in their jobs for only a few years, perhaps leaving the company as it prepares to sell, thus creating gaps in institutional knowledge and slowing critical HR processes when everything needs to be in peak shape for buyers to review.

A PEO can also help minimize the risks for prospective buyers and investors by reducing the likelihood of compliance issues that could undermine the value of the purchase.

HR support for M&A processes

For organizations looking to grow by acquiring other companies through mergers and acquisitions, a PEO offers some specific advantages that may be hard to develop in-house.

Before an acquisition, the PEO can help with certain aspects of due diligence. When an acquisition is made, the PEO can onboard employees of the acquired company in a way that's welcoming, organized, and designed to retain that talent.

At onboarding and beyond, the PEO team can also help with change management. This can include training about the parent company's mission, vision, and values, as well as programs to bring acquired employees into the existing company culture.

Long after the merger or acquisition is done, the PEO can continue adding value by helping with talent development, DEI programs and initiatives, employee engagement, and succession planning. These HR practices are crucial during and after an acquisition because so much of the value of any company is its talent. When companies can retain the people who made their acquisition worthwhile, they get more value from the deal and are in a better position for more growth or an exit.

Conclusion

At Insperity, we have a long history of helping businesses of any size or sector reach their goals. It's proven that having a PEO working alongside a company that desires to grow quickly is the best way to accelerate that growth and sidestep the many potential pitfalls that accompany success.

For more information on bringing the benefits of a PEO to your VC firm and your partners, contact Randy Fisher, Insperity's private capital development director, at randy.fisher@insperity.com.

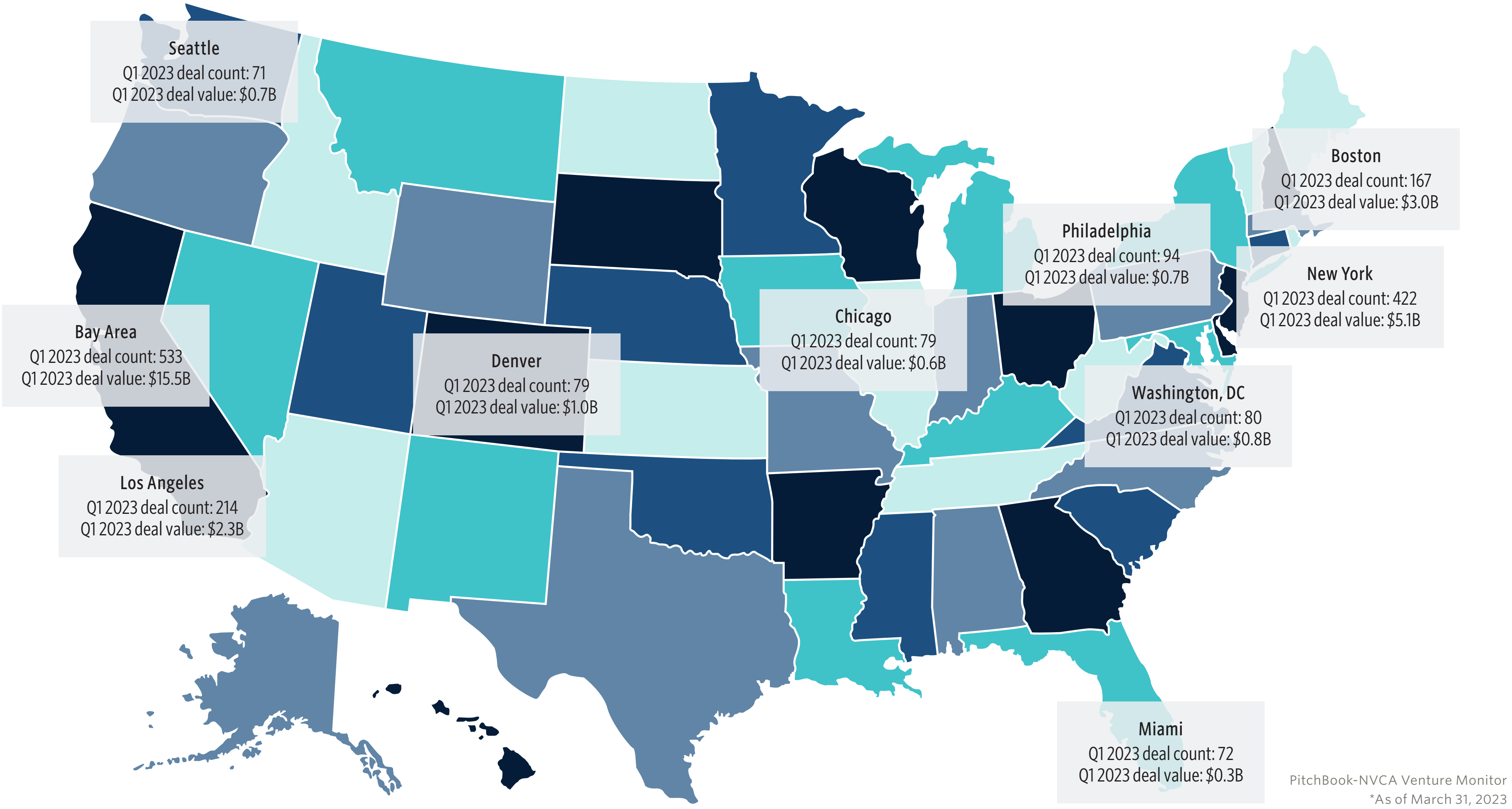
Insperity
HR that Makes a Difference™

Insperity has helped thousands of startups by providing the HR infrastructure they need to gain the competitive advantage for talent and support their growth. Insperity believes startups are critical to the vitality of the American economy, and we're eager to work alongside up-and-coming companies that share that belief.

Regional spotlight

Bay Area, New York, Los Angeles, and Boston continue to lead the way

Bay Area's share of deal count falls further*



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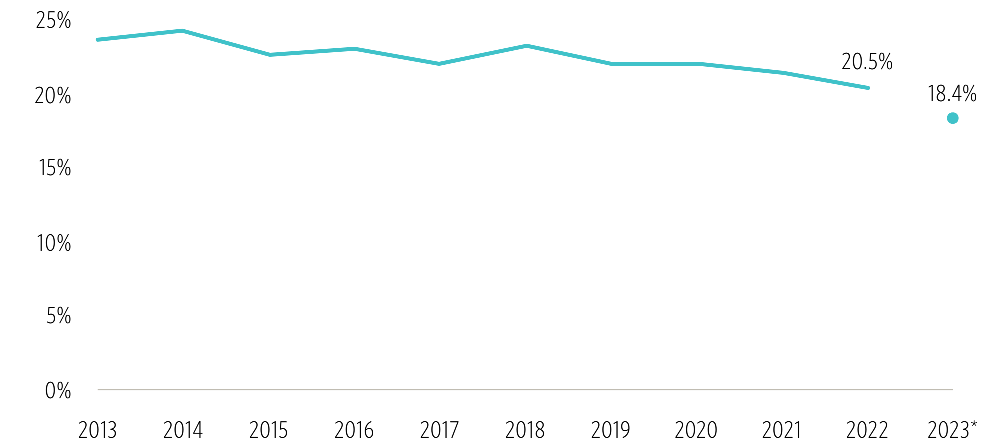
Other markets gaining share over Bay Area

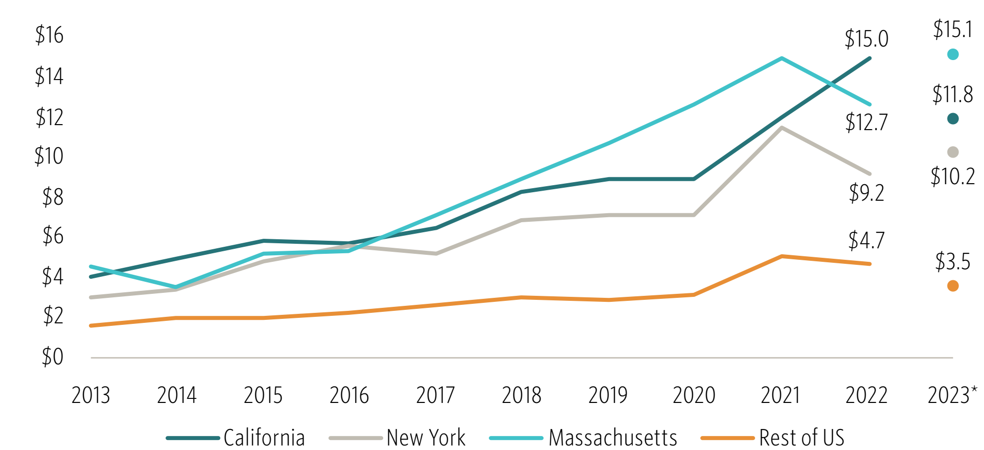
Bay Area deal count as a share of all US VC deal counts



PitchBook-NVCA Venture Monitor
*As of March 31, 2023

Deal size growth not uniform

Median early-stage VC deal value ($M) by region



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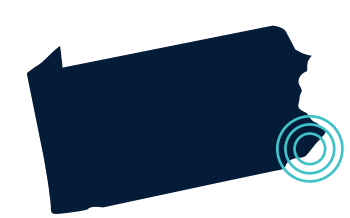
Bay Area

For the third consecutive quarter, the Bay Area's share of deal count fell below 20%. These are the only three quarters in which its share has been this low. The collapse of Silicon Valley Bank was felt more acutely in this market, so this trend is likely to be seen again in Q2.

Miami

Miami's ecosystem doubled its annual deal count in three years, from 2019 through 2022. It also remained strong in Q1 2023, nearly matching the deal count of Washington, DC, which has raised double the commitments and nearly double the funds over the past three years.



Philadelphia

Philadelphia has built its venture market into the fifth most active relatively quickly. Its proximity to New York allows this region to actively participate in venture deals, despite the fact that venture funds headquartered in Philadelphia have raised less than $2 billion since 2020. Though just two funds closed in Q1, SR One raised $600 million in commitments.

A WORD FROM J.P. MORGAN

Our views on venture

"We were already expecting a challenging environment for venture in 2023 before the recent banking sector disruption, which adds to the uncertainty."
— Pamela Aldsworth, Head of Venture Capital Coverage

Recent market disruption adds to venture's already challenging outlook for 2023

It is hard to quantify the impact of recent events surrounding Silicon Valley Bank on the venture ecosystem, but we expect significant and long-lasting repercussions that could take a while to play out. In the near term, we have seen VCs step in to help founders manage through short-term cash crunches to meet payroll as well as take a keener interest in understanding portfolio companies' banking partners.

Over the medium to long term, VCs and founders will likely reassess the optimal structure of banking and funding relationships to mitigate risks. Concerns around availability and cost of capital were already rising before recent market disruptions, which further cloud the outlook.

In the coming weeks and months, recent market disruption may have the effect of compelling companies that were avoiding down rounds or highly structured rounds to approach equity sponsors or find strategic partners earlier than desired. Ultimately, this may accelerate the repricing of the market.

Valuations within venture have not yet found their footing

The reset in venture valuations has a long way to go considering the correction in public markets with tech stocks down 65% on average in 2022. Down rounds as a percentage of overall activity remain below historical averages, even as deal volumes have dropped 40% to 50% and exit markets have slowed. This is unsustainable in our view, and we expect venture valuations to reset lower over the next several quarters as startups that last raised in 2021 come to market.

Many companies entered the slower fundraising environment of 2022 overcapitalized with 18 to 24 months of liquidity. This cohort of startups has not needed to raise additional rounds—leaving valuations marked at previously lofty levels. We expect a competitive and crowded capital-raising environment later this summer as cash runway burns down.

Bridge financings and increased draw activity in recent months have also enabled some startups to extend runway while maintaining prior-round valuations. We could see these valuations marked lower as venture funds complete year-end accounting reviews.

According to Michael Elanjian, Head of Digital Investment Banking and Digital Private Markets, another explanation for the lack of down rounds could be that the proportion of VC deals without valuation disclosure has markedly increased. 2014 to 2021 saw a consistent rate of valuation disclosure, at over 50%. Since 2022, that number has steadily decreased by around 30 percentage points. In the early part of 2023, an estimated three-quarters of US VC deals did not disclose a valuation.

Ginger Chambless
Head of Research, Commercial Banking

Ginger Chambless is a Managing Director and Head of Research for JPMorgan Chase Commercial Banking. In this role, she produces curated thought leadership content for commercial banking clients and internal teams. Her content focuses on economic and market insights, industry trends, and the capital markets.

Additional contributors:
Pamela Aldsworth
Head of Venture Capital Coverage
Andy Kelly
Managing Director, Venture Capital Coverage

While recent macroeconomic data points to resilience, risks to the outlook remain

Uncertainty around the macroeconomic and market environment remains high as resilience in consumer spending and historically tight labor markets are pushing out the potential onset of a US recession. At the same time, persistent inflation—

especially wages—is keeping pressure on the Federal Reserve (Fed) to continue raising interest rates. While we are much closer to the end of the hiking cycle than the beginning, lack of clarity around peak interest rates and banking sector disruption will likely keep market volatility elevated and a lid on exit activity—especially IPO—in the coming months.

Our base case for the US economy is a mild recession in late 2023 to early 2024. We expect this could entail two to three quarters of modestly negative GDP growth (approximately 1%) and the unemployment rate rising to the 5% area in early 2024 from 3.5% at the end of 2022. A key uncertainty is what degree of labor market softening will be needed to see wage growth slow to 3% to 4% from the recent 6% to 7% range, a key dynamic that we believe is necessary to return to the Fed's 2% inflation target.

Not all industries and sectors across the economy are being impacted in the same way, and some areas of the economy sensitive to changes in interest rates—like housing—have already experienced a sharp slowdown. The tech sector is facing its own set of challenges as the pandemic drove a rapid and, in some areas, unsustainable level of investment and demand that is in the process of normalizing. As a result, an increasing number of tech companies have announced reductions in force.

Other risks to the outlook include ongoing geopolitical tensions with the Russia-Ukraine war and Chinese trade relations. Domestically, the debt ceiling debate could drag into the summer months, which is another overhang for market stability and confidence.

After a slow start to the year, expect a pickup in M&A with IPO markets still quiet

According to JC Raby, Head of J.P. Morgan's Emerging Technology M&A, following a slow end of 2022, Q1 2023 saw few exits via M&A. With significant dry powder on the sidelines among growth equity and sponsors, eagerness exists among these investor groups to fill the pipeline for 2023.

Startups looking to exit through M&A are getting strong initial receptivity. But these companies bear the burden of proving why they are looking to exit at this time, given the challenging market backdrop. Many investors and strategic buyers are staying patient and anticipating a repricing of the market, wherein they can find good, growing companies that are closer to profitability with lower valuation expectations.

In the absence of a robust late-stage primary fundraising environment, private companies have been looking for pre-IPO liquidity via secondaries or other structured solutions. Andrew Tuthill, US Head of Morgan Private Ventures, notes that we are in the beginning stages of seeing activity in this market pick up, with investors focused on high-quality companies that have proactively reset valuations.

Founders that are adjusting to current market realities are best positioned to weather the cycle

There is no playbook for the set of circumstances facing the venture ecosystem today. The last downturn to have sweeping implications for the tech and venture ecosystem was over 20 years ago in the aftermath of the dot-com bubble. Since then, venture markets have essentially been moving up and to the right, with an acceleration of activity in recent years amid low interest rates and an abundance of capital.

As such, we view the lack of relevant experience navigating challenging market conditions as a key risk for today's venture ecosystem of founders and investors. It is especially important for founders to recognize that 2023 could be hard and thus draw upon the collective knowledge bank of their advisors and boards around managing liquidity, realistic paths forward, and exit alternatives.

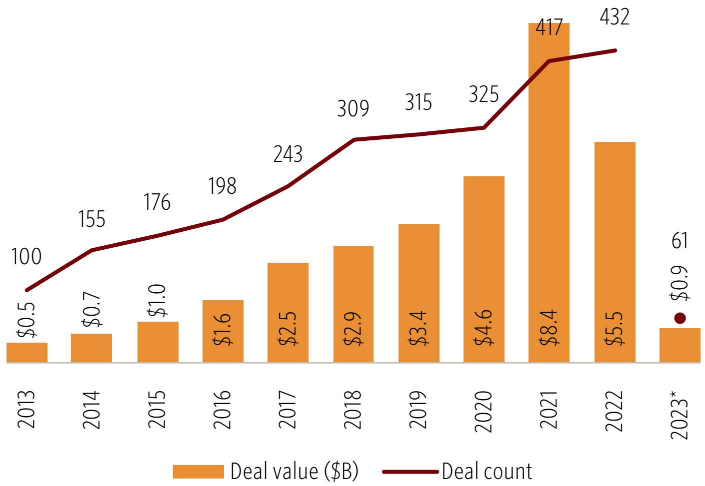
While some reductions in force have occurred, there were still more jobs added across the tech sector in 2022 than there were lost, and the tech sector unemployment rate of 2.2% remains below the overall economy's 3.6% rate. There could be more tough decisions ahead in terms of cutting costs. Companies that took decisive action in summer 2022 to ensure runway through 2025 are best positioned.

DEALS BY SECTOR

Agricultural technology (agtech)

Agtech funding drops in line with US VC deal activity

US agtech VC deal activity



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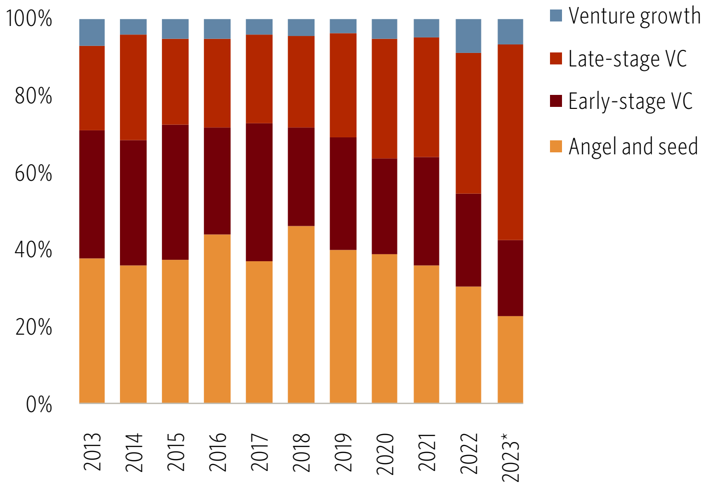
Late-stage VC dominates despite dwindling exit opportunities

Share of US agtech VC deal count by stage



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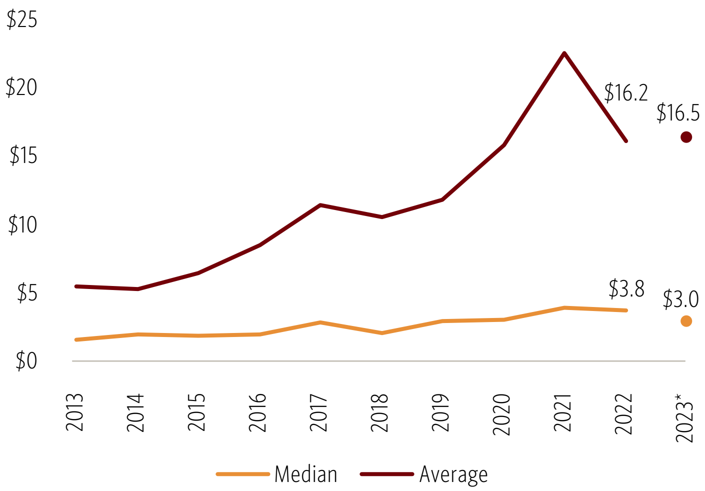
Median deal values begin to correct

Median and average US agtech VC deal values ($M)



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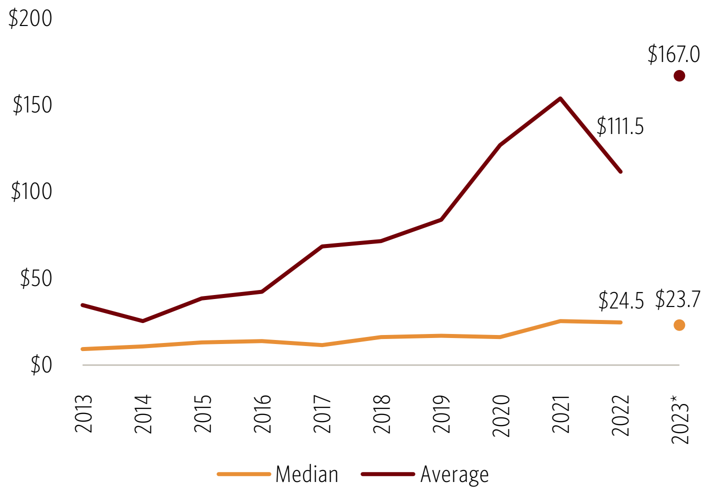
Late-stage deals prop up average pre-money valuations

Median and average US agtech VC pre-money valuations ($M)



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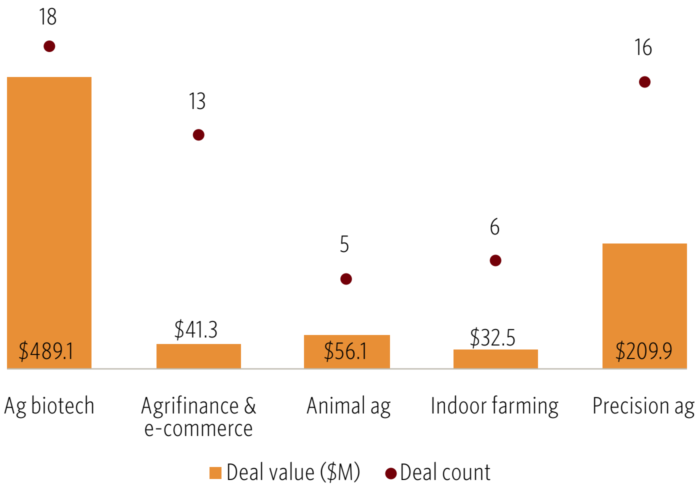
For further analysis of agtech valuation trends, see our Q4 2022 Agtech Report, available to PitchBook users.

Indoor farming loses steam

Q1 2023 US agtech VC deal activity by segment*



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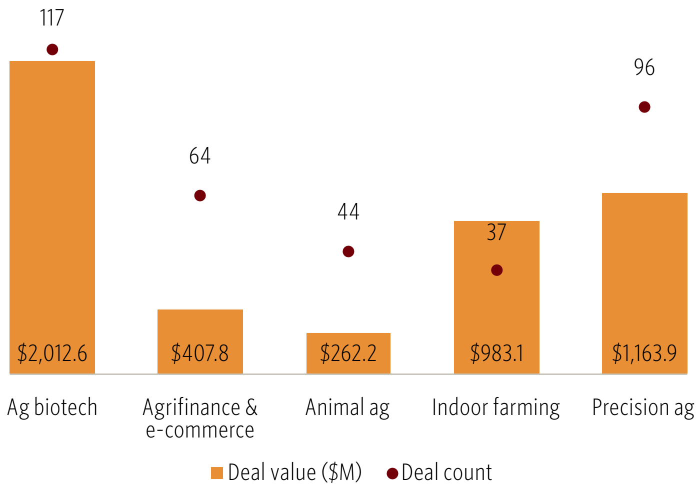
Ag biotech captures preponderance of funding

TTM US agtech VC deal activity by segment*



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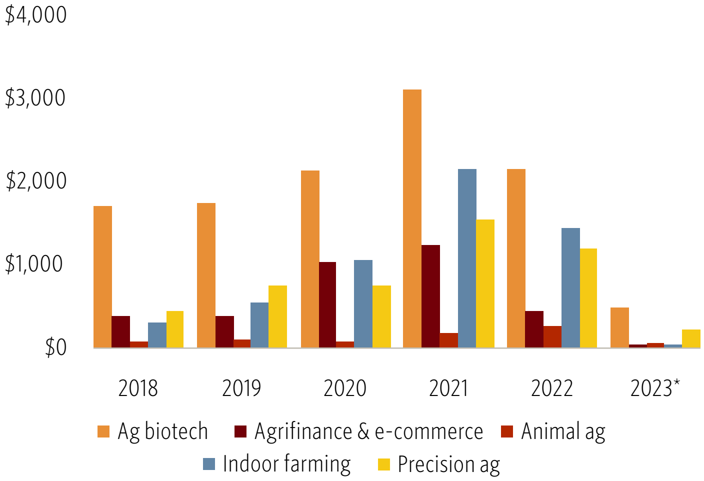
Agtech deal values evaporate across segments

US agtech VC deal value ($M) by segment and year



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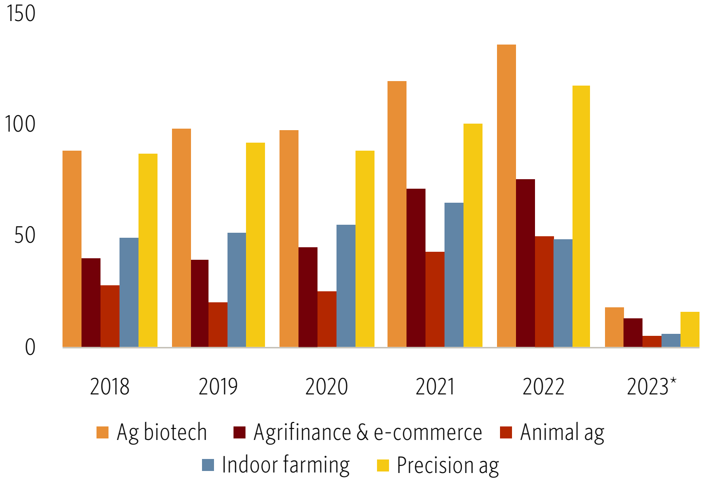
Deal counts on pace to fall short of 2022 activity

US agtech VC deal count by segment and year



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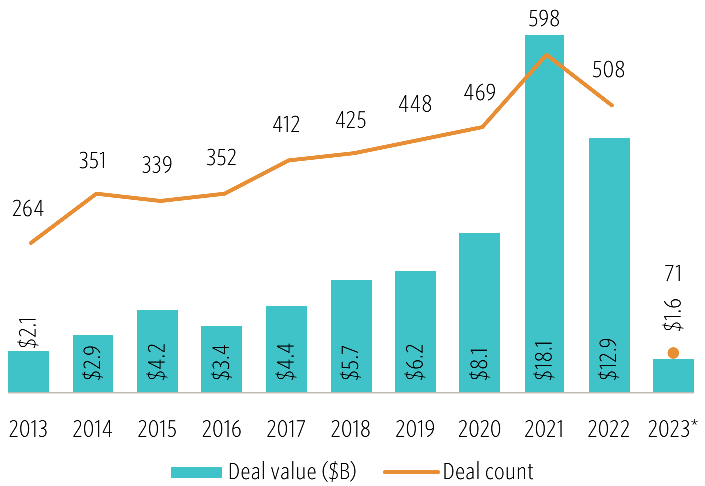
The agtech sector consists of technologies that increase crop yield, improve farming efficiency and resilience, and provide financial resources for agricultural, or "ag," operations. Agricultural technologies include software, biotech inputs, and hardware such as wearable sensors and large machinery.

DEALS BY SECTOR

Information security (infosec)

Infosec VC deal activity tracking in line with US deal activity overall

US infosec VC deal activity



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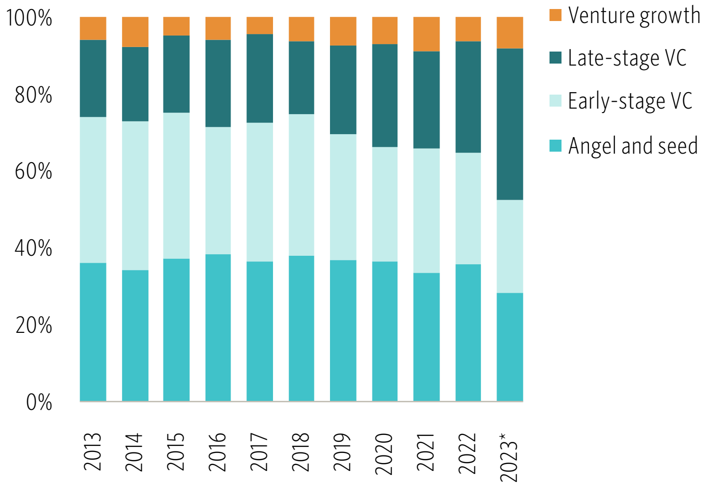
Early-stage deals dry up given high barriers to entry for new vendors

Share of US infosec VC deal count by stage



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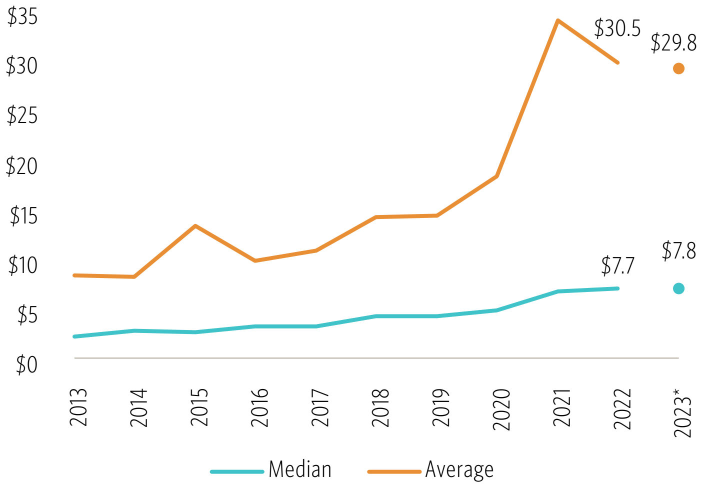
Specialist infosec investors reinforce deal sizes in emerging categories

Median and average US infosec VC deal values ($M)



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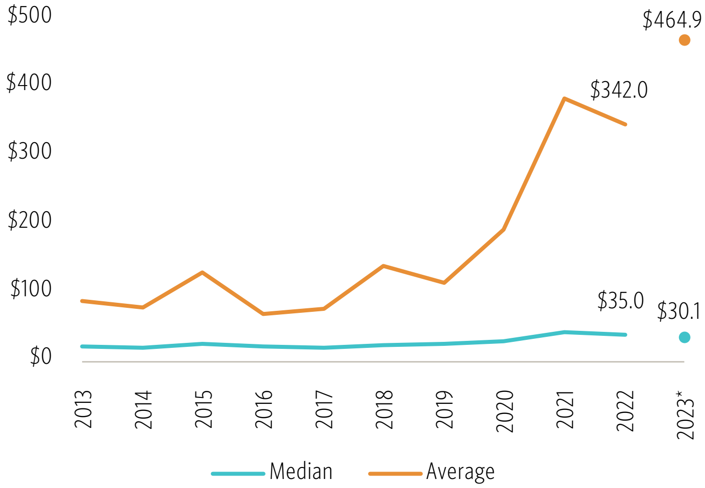
Strong public company performance bolsters private market leader valuations

Median and average US infosec VC pre-money valuations ($M)



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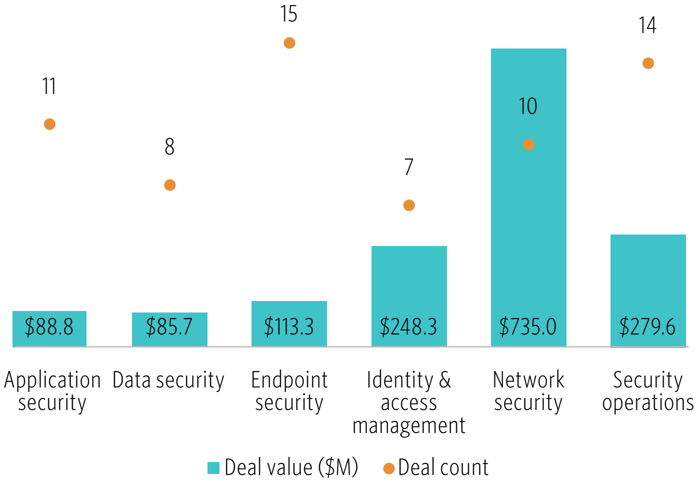
For further analysis of infosec valuation trends, see our Q4 2022 Information Security Report, available to PitchBook users.

Cloud security mega-deals for Netskope and Wiz drive Q1 deal value

Q1 2023 US infosec VC deal activity by segment*



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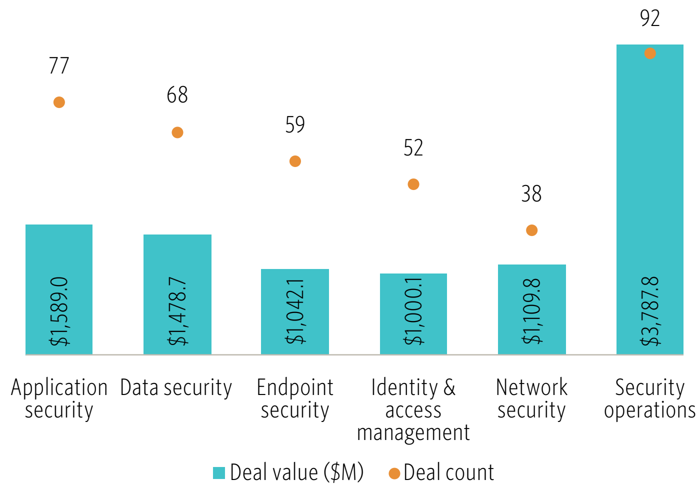
Security operations startups grow with services and exposure management

TTM US infosec VC deal activity by segment*



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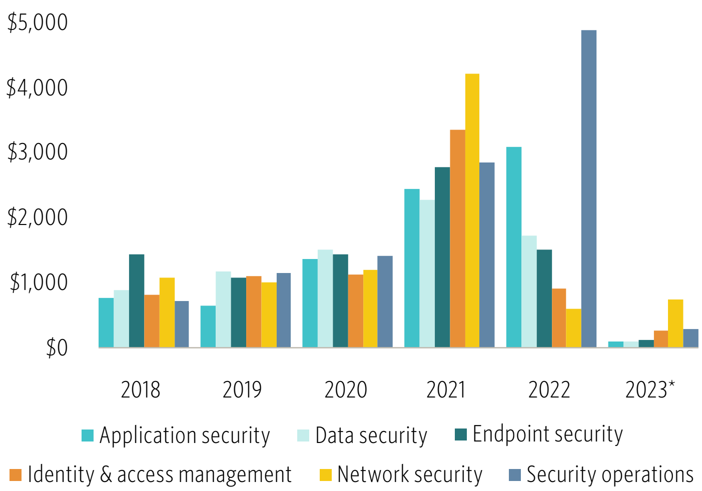
Cloud and applications shift startup focus from endpoint protection

US infosec VC deal value ($M) by segment and year



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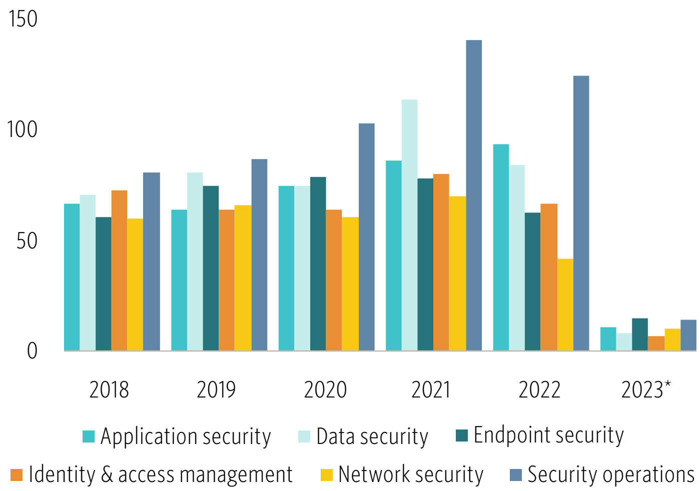
High deal count in vulnerability assessment and privacy compliance

US infosec VC deal count by segment and year



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For segment definitions, see our 2021 Annual Information Security Report, accessible to PitchBook users.

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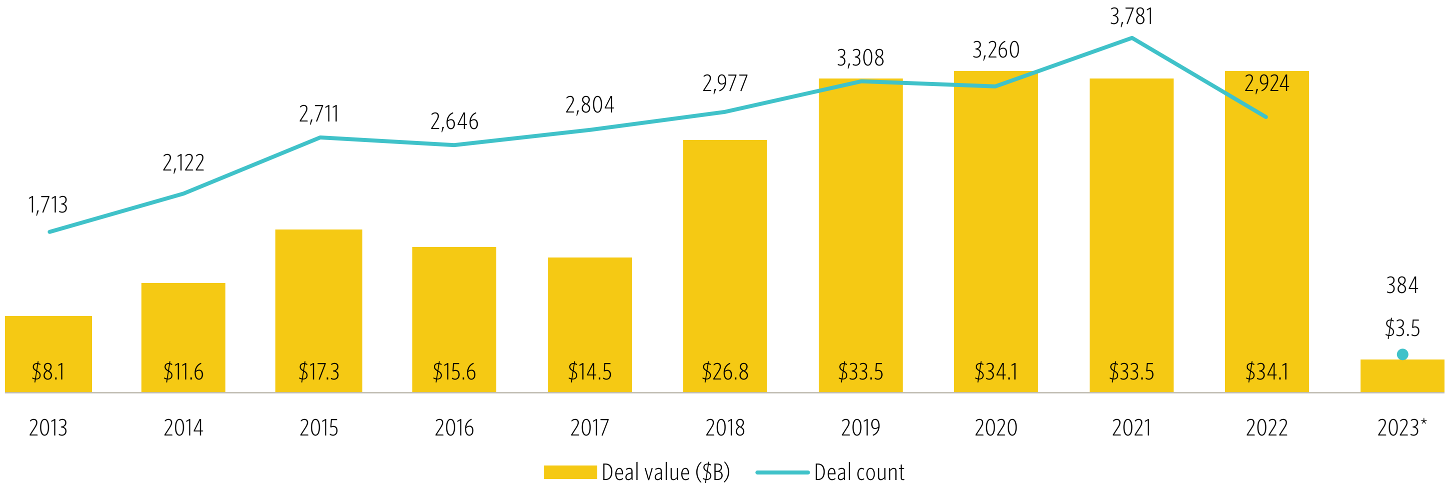
Venture debt

Venture debt sees a slow start to 2023

US venture debt activity



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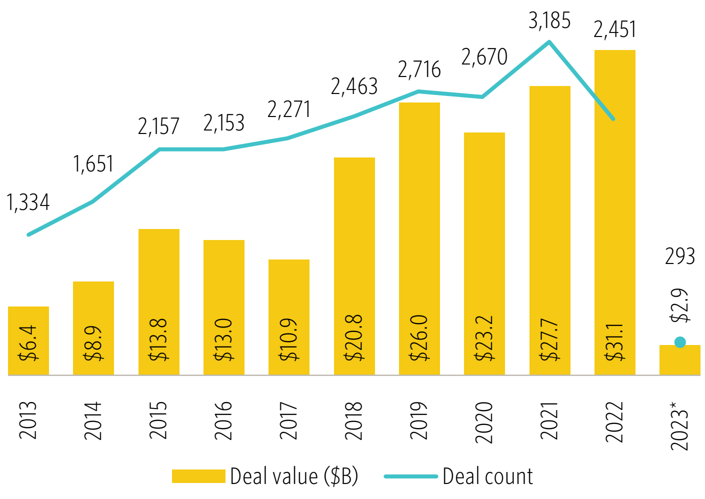
Q1 tech debt represents 94% of overall debt

US tech venture debt activity



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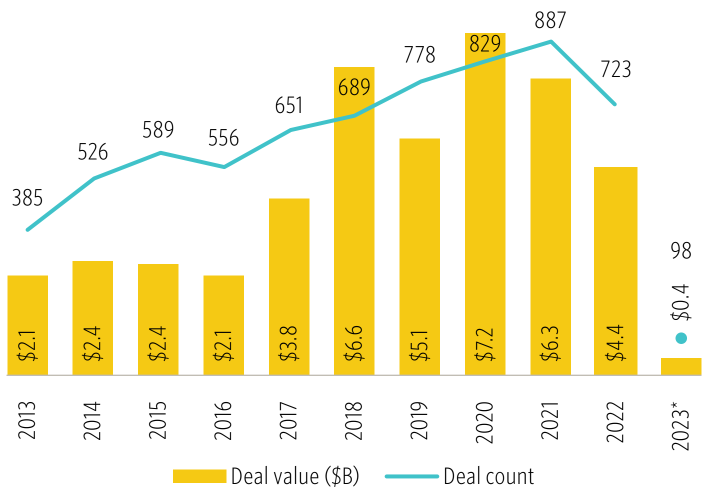
Healthcare debt of $400 million behind prior year's pace

US healthcare venture debt activity



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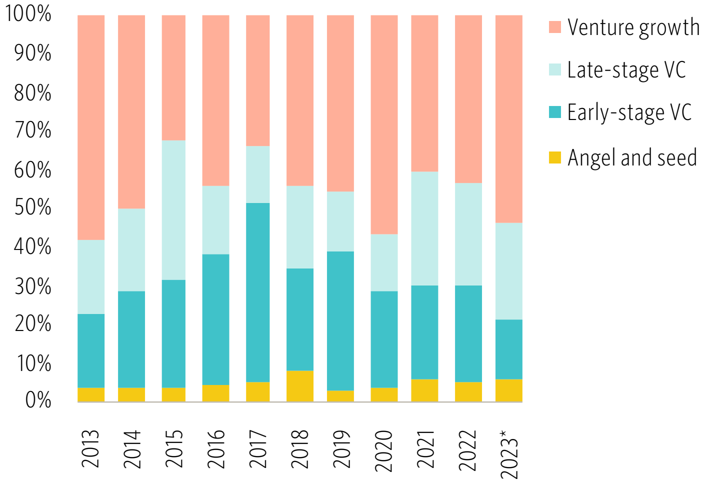
50% of venture debt dollars going to venture-growth stage

Share of US venture debt deal value by stage



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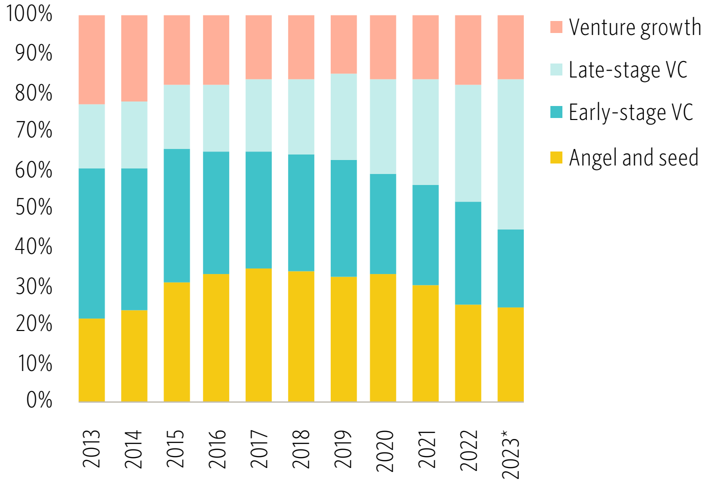
Late stage receives 40% of venture debt loans

Share of US venture debt deal count by stage



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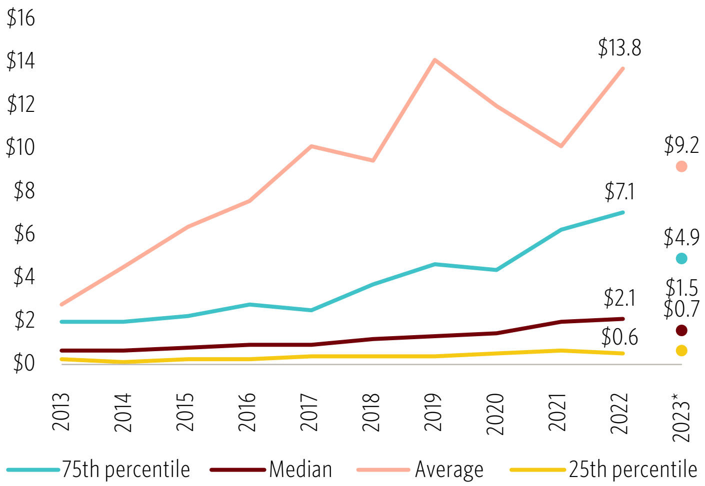
Median early-stage loan size falls in line with 2020 figure

Range of US early-stage venture debt values ($M)



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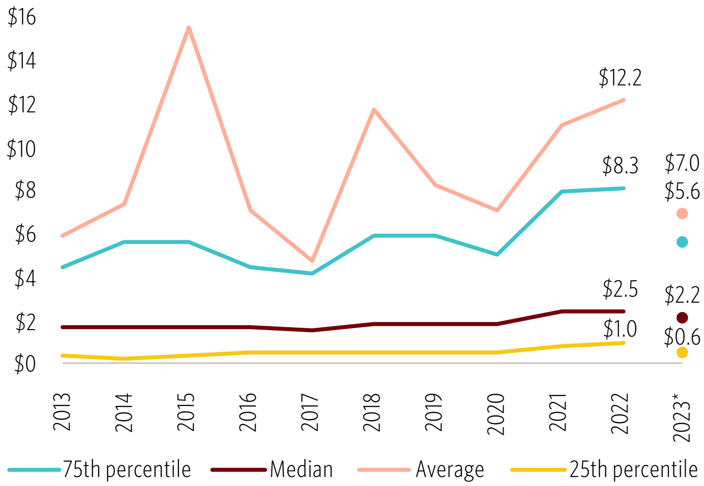
Median late-stage loan size falls 14% from prior year's figure

Range of US late-stage venture debt values ($M)



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A WORD FROM DENTONS GLOBAL VENTURE TECHNOLOGY GROUP

Sector spotlight: Cybersecurity and data privacy

Victor H. Boyajian, Global Chair of Dentons Venture Technology Group, sat down with colleagues representing global data privacy and cybersecurity leadership to discuss the latest trends in this sector.

Victor H. Boyajian (San Francisco/New York): What are the top trends in cybersecurity and data privacy that you expect to see over the next few years?

Rise in cybersecurity attacks; recent banking sector developments

Allison Jetton Bender (Washington, DC): When it comes to cybersecurity, some of the biggest trends are going to stem from the banking issues we've seen with the FDIC taking control of Silicon Valley Bank and Signature Bank. An increase in organizations changing their banking information will certainly lead to a rise in cybersecurity attacks.

An increase in data privacy laws and enforcement

Peter Stockburger (California): From a data privacy perspective, we're going to see several trends over the next year. We will likely see more states join California, Colorado, Utah, Virginia, and Connecticut in adopting comprehensive consumer data privacy laws. We will also likely see increased efforts at the state and local level to regulate the collection and use of biometric information. With those two trends, we will also see an increase in enforcement around data privacy. This is especially true in California, where a first-of-its-kind privacy enforcement agency, the California Privacy Protection Agency, will begin enforcing the California Privacy Rights Act on July 1. Finally, we may see movement on a federal data privacy bill.

The impact of artificial intelligence

Stockburger (California): As artificial intelligence (AI) becomes more readily available and leveraged in sectors such as autonomous vehicles, companies will begin collecting greater amounts of data from individuals. These new technologies will introduce age-old questions around data privacy, including those about notice, consent, and transparency. We're seeing those challenges emerge with first-to-market natural language models (ChatGPT, for example). Those challenges are only going to become more apparent as the tools become more advanced.

Nick Graham (London): From a global perspective, we're likely to see continuing focus on data-intensive industries such as advertising technology with the ongoing debate as to whether GDPR-type consent is required for data broking/sharing and how to present a valid privacy notice on behalf of a complex supply chain. A similar debate is likely to arise in relation to the use of AI & machine learning (ML) and whether it is acceptable to "green light" AI & ML for scientific research or, in addition, research for commercial purposes.

Allison Jetton Bender
Co-Chair, US Data Privacy & Cybersecurity Group, Venture Technology

Allison has nearly a decade of government experience. She worked at the US Department of Homeland Security before she joined private practice. Clients benefit from Allison's insights on data, technology, and regulation from a cybersecurity and national security perspective, including on cutting-edge issues such as artificial intelligence, Big Data, blockchain and cryptocurrency, and biometrics.

Peter Stockburger
Co-Chair, US Data Privacy & Cybersecurity Group, Venture Technology

Peter works with clients of all sizes and maturities to build and shore up their privacy and security programs, deploy technology, enhance compliance and stakeholder confidence, take new products to market, tackle data governance and retention challenges, navigate workplace disputes, and harness emerging technologies such as artificial intelligence.

Nick Graham
Founding Partner, Global Data Privacy & Cybersecurity Group

Recognized as a leading practitioner, Nick specializes in data privacy, cybersecurity, and information governance, advising across all sectors, including retail, telecom, energy, manufacturing, banking, insurance, transportation, technology, and digital media.

We're also likely to see an increase in demand for and development of international standards, privacy seals, and codes of conduct so as to provide organizations with tools to operationalize good practice and achieve a level of interoperability between CCPA, GDPR, and other global privacy laws. Dentons, for example, is an official partner of Europrivacy, a European data protection seal approved by the European Data Protection Board and that can be used to certify compliance under GDPR.

Boyajian (San Francisco/New York): What companies would you invest in?

Companies that sort data and save time

Stockburger (California): I would invest in AI tools that solve common pain points for commercial enterprises. From a privacy and security standpoint, this may include creating solutions that help companies identify, manage, and leverage data. Companies that can create AI tools capable of crunching the data rapidly and providing actionable insights while reducing the amount of time it takes to conduct business-critical activities will be indispensable in the future ecosystems. We've seen several investments here over the past few years in companies such as Andreessen Horowitz-backed Ambient.ai and General Catalyst-backed Securiti.

Another area for potential investment is in the use of AI to create more efficient and robust cybersecurity protections. For years, security teams have relied on individual team members or third parties to perform the blocking and tackling of cybersecurity. It's an area ripe for automation and investment.

Bender (Washington, DC): I agree that the challenge in cybersecurity has long been a staffing one. The review of log data, artifacts, and indicators has largely been a manual one. AI & ML, some of which is already in place, is poised for that next jump, and innovation will be wildly helpful in reducing the demands on personnel, particularly for repetitive work and pattern identification.

AI detection and counter-AI technologies

Bender (Washington, DC): Another area that is ripe for VCs to focus on over the next three years is AI detection and counter-AI technologies. With everybody investing in AI, you're also going to need to be able to identify when what you're reading isn't real and when your content doesn't match requirements because it was artificially generated. That will produce its own kind of security vertical with people who are highly skilled at using those counter-AI technologies or AI detection tools to validate the types of data and information companies are receiving.

Stockburger (California): AI can also be leveraged in the field of promoting greater data practice transparency. Most companies facing regulatory scrutiny of their data practices are not being transparent about how they collect and use personal information. The emergence of AI tools that automate the process of mapping, disclosing, and managing personal information may be a real game changer as it relates to data privacy compliance.

Boyajian (San Francisco/New York): What's happening on the global stage? Are there issues that are more European-centric than North American-centric?

Stockburger (California): Regulating AI and its impact on a number of sectors is the global issue. Interestingly, you're starting to see a real split internationally on how regulators are going to address its use. Europe has an AI law in draft form that has a strict hierarchy of the types of AI you can use, even going so far as to prohibit certain types of AI. I think we're going to see the European market start to be restrictive in the use of these tools, whereas the US market is going to be more permissive. I'm seeing a similar trend toward restrictions in China, which is very active in the AI regulatory space. The US and Latin America are just starting to get into the space. Thus, along with the AI technology race, there is a race to be the first with an AI regulation.

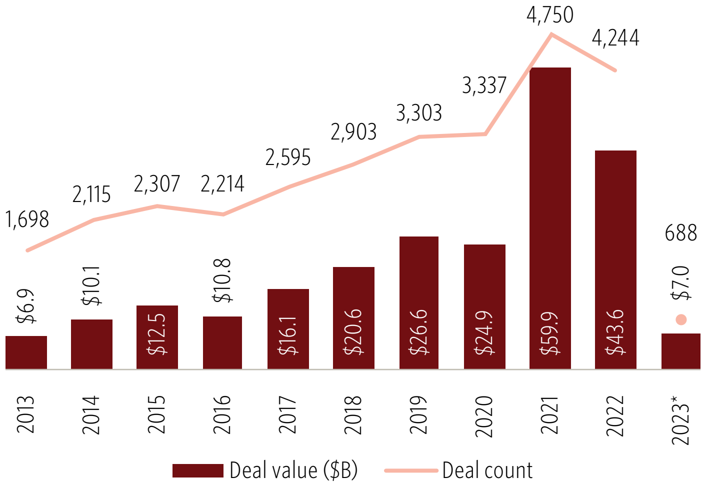
Bender (Washington, DC): We're starting to see the emergence of privacy-enabling technologies and products as its own vertical. This is critical given the changes in laws and regulations, particularly in the EU but also in other regions. If you want to use, disclose, and transfer personal information across borders, you have to do so in a way that meets certain regulatory requirements.

Graham (London): Internationally, we're likely to see continued risk, enforcement, and challenges in relation to international data transfers. In addition to the core GDPR restriction on data transfers, there are many countries around the world, outside the US, that have adopted similar transfer regimes. Some have gone further and imposed data sovereignty requirements. This will continue to raise big challenges in regards to cloud computing and international processing services.

Female founders

Q1 capital invested in female-founded companies behind pace of prior year

US VC deal activity in companies with at least one female founder



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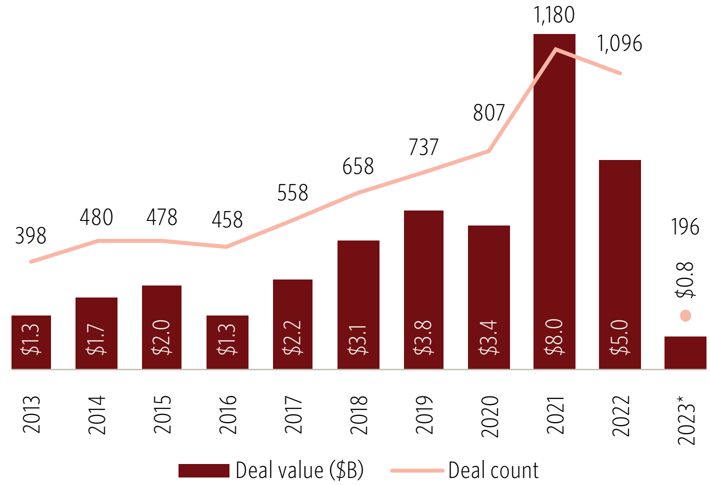
Q1 deal count has reverted to pre-2017 pace

US VC deal activity in companies with all-female founding teams



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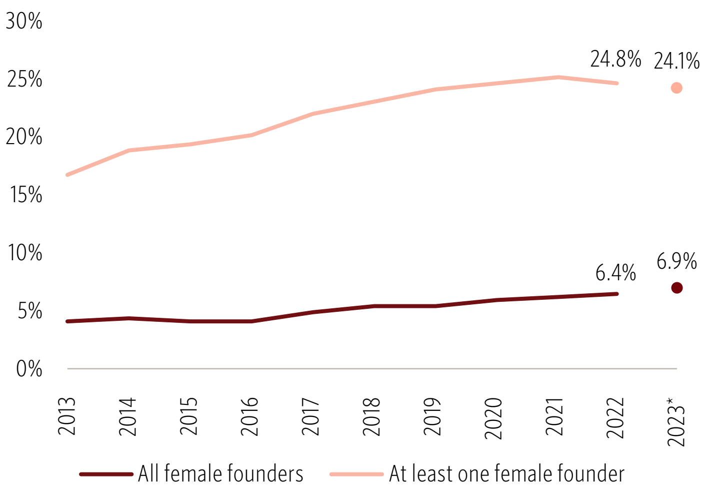
Female-founded companies' share of deals sees a modest decline

Female-founded-company deal count as a share of all US VC deal count



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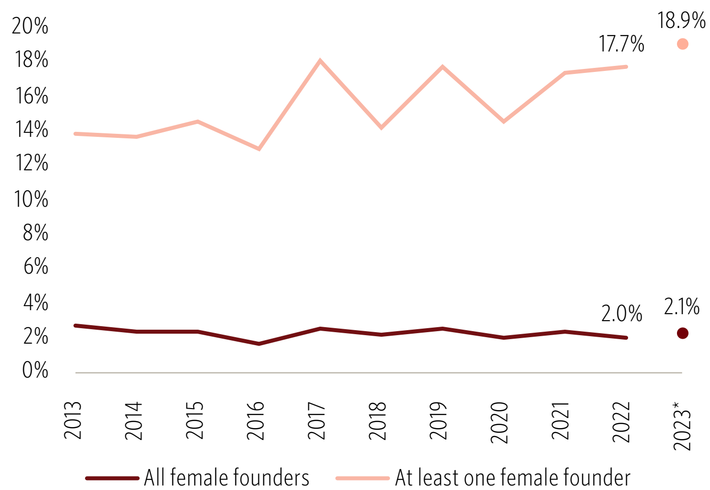
All-female-founded companies see a small uptick over 2022 figures

Female-founded-company deal value as a share of all US VC deal value



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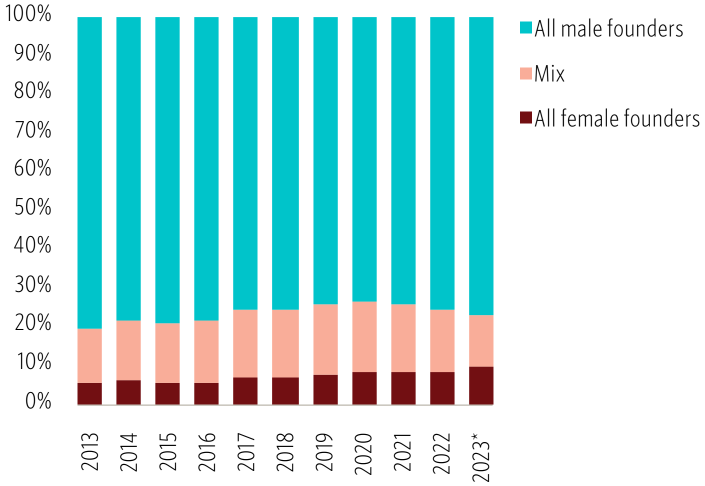
All-female-founder teams experience slight increase in proportion of first financings

Share of US VC first financings by founder gender



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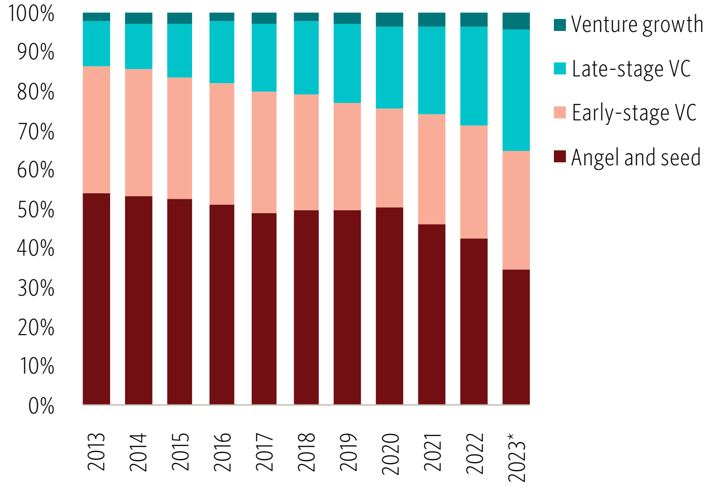
Proportion of angel- and seed-stage deal count sees sizable drop in Q1

Share of US VC deal count for female-founded companies by stage



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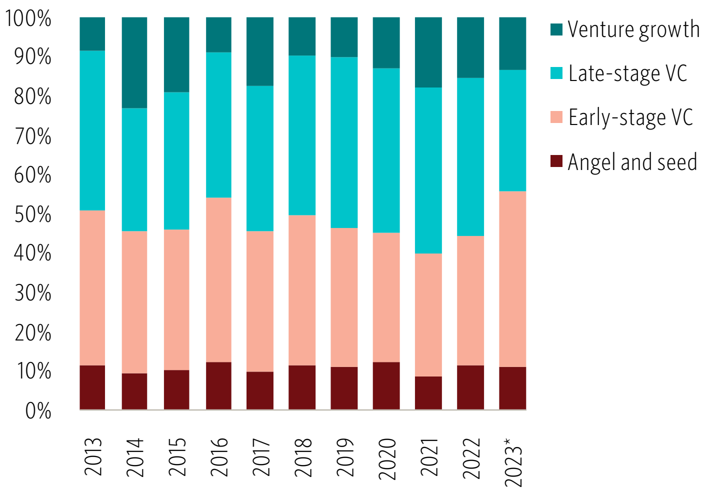
Early-stage VC captures the largest proportion of deal value

Share of US VC deal value for female-founded companies by stage



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New York and Bay Area tied for female-founder investment in US

Top five US CSAs by capital raised for companies with all-female founder teams (2019-2023)

Combined statistical area	Capital raised ($B)*
Bay Area	$5.8
New York	$5.6
Los Angeles	$2.1
Boston	$1.3
Austin	$0.7

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New York deal count leads in US and exceeds Bay Area by 37%

Top five US CSAs by deal count for companies with all-female founder teams (2019-2023)

Combined statistical area	Deal count*
New York	923
Bay Area	686
Los Angeles	447
Boston	176
Washington, DC	138

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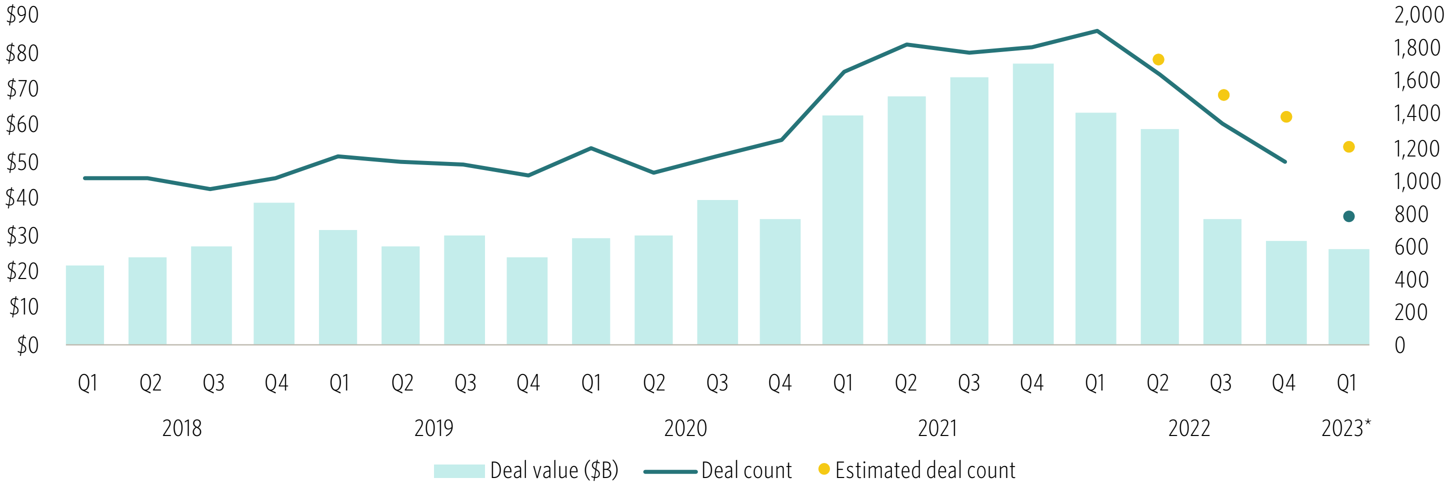
Nontraditional investors

Nontraditional investors' deployment to VC hits a 20-quarter low

US VC deal activity with nontraditional investor participation by quarter



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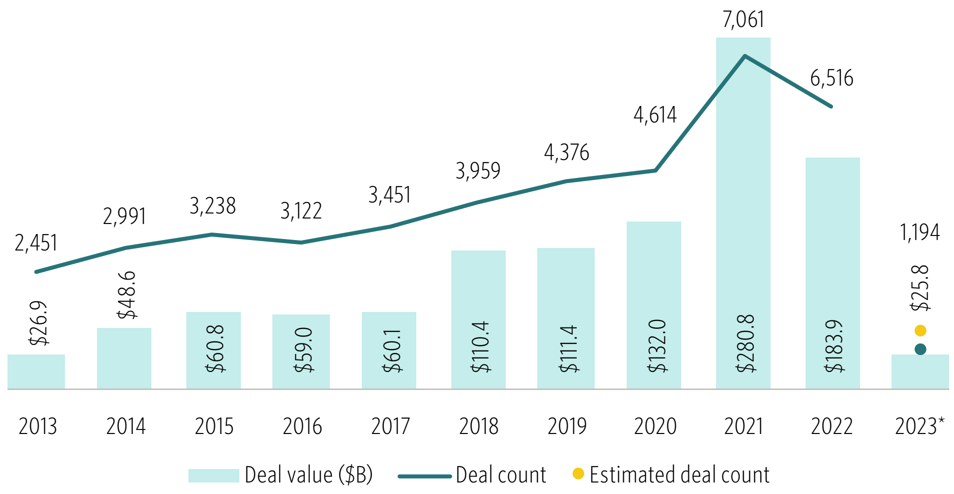
Nontraditional investors, including corporate venture capital (CVC) investors, PE investors, asset managers, and sovereign wealth funds (SWFs), support startups at all stages, yet they heavily commit capital to late- and venture-growth-stage deals, where they can take advantage of adjusted risk profiles and a close exit proximity to generate sizable returns. Following the broader market's dealmaking slowdown, deal value with nontraditional investor participation exhibited a modest decline in Q1. The $25.8 billion in deal value represented 69.7% of the market's total observed deal value, down from the 2022 participation rate of 74.7%. Nontraditional investor pullback has immediate impacts by limiting the available equity capital to late- and venture-growth-stage startups, forcing them to consider taking on debt or raising at flat or lower valuations to attract new investors.

Deal value participation well behind pace of prior year

US VC deal activity with nontraditional investor participation



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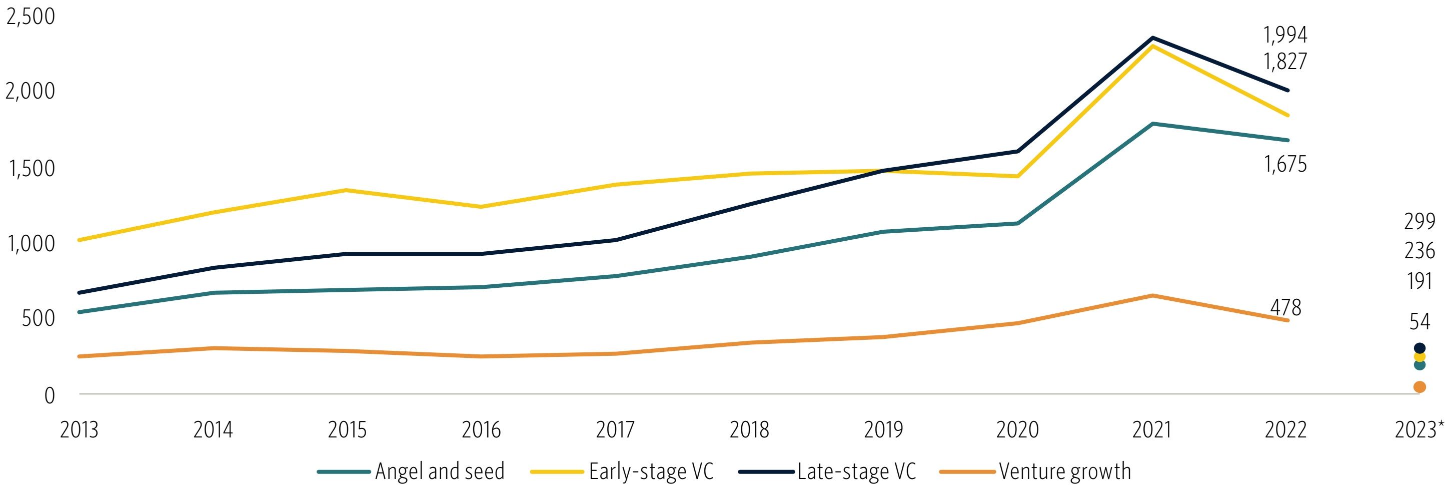
Nontraditional investors participate in just 54 venture-growth-stage deals in Q1

US VC deal count with nontraditional investor participation by stage



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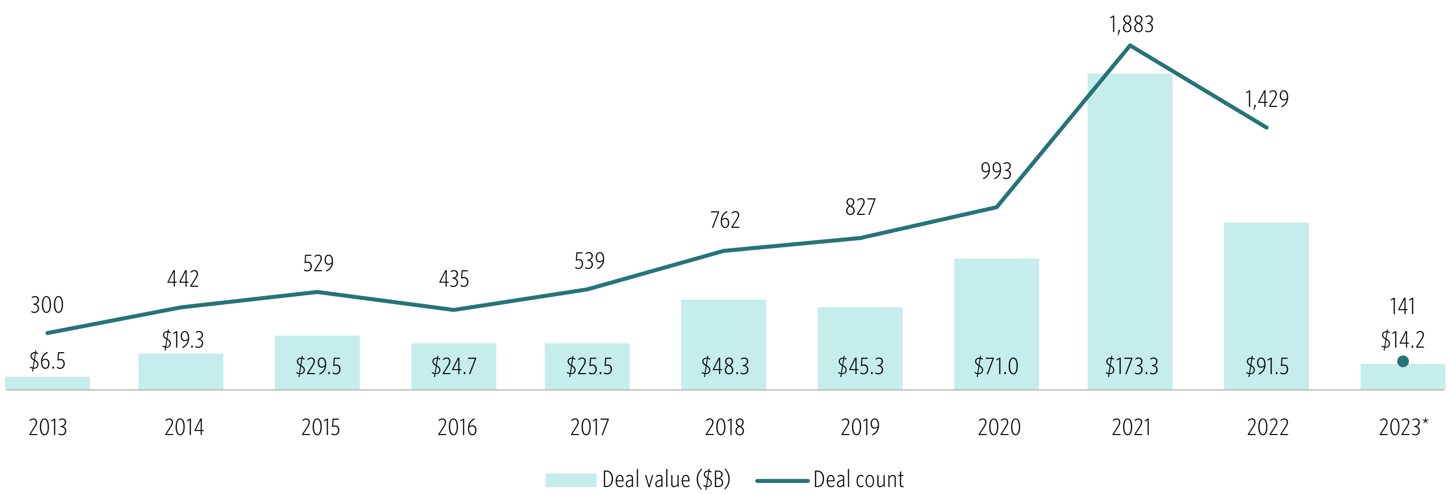
Most nontraditional investors participate in VC for its lucrative financial return potential. However, the lack of viable paths to liquidity for later-stage startups that has persisted since early 2022 has led most nontraditional investors to slow their participation on a deal-count basis. PE investor participation dropped from 15.1% of annual deal count in 2022 to 13.0% in Q1 2023. In the same period, asset manager participation declined from 9.1% to 7.2%. Should nontraditional investor participation continue to wane through the year, we expect fundraising to become more arduous for later-stage startups. CVCs remained the exception to the participation slowdown, participating in a record 27.4% of deals in Q1. As discussed in our recent analyst note [M&A and CVC in an Economic Downturn], we expect CVCs, which traditionally participated in earlier-stage deals for their strategic benefits, to revisit investment opportunities they previously passed on because they are now more reasonably priced and

Crossover participation is sluggish through the first quarter

US VC deal activity with nontraditional and crossover investor participation



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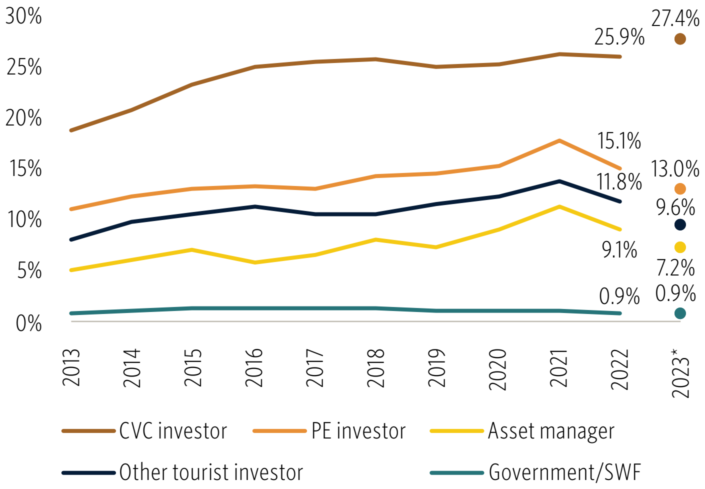
CVC investors set record participation rate on a deal count basis

Share of US VC deal count by nontraditional investor type



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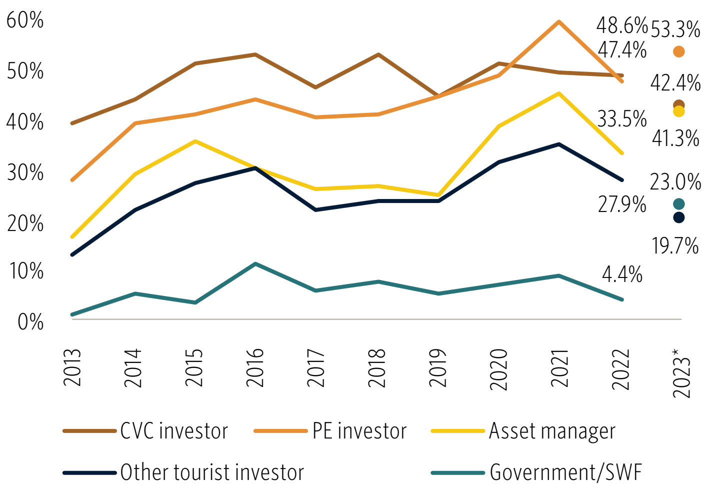
Asset manager and SWF participation buoyed by single deal

Share of US VC deal value by nontraditional investor type



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to increase their participation rate on annual basis.

In Q1, nontraditional investor participation on a deal-value basis saw a shift from 2022, but the narrative of declining involvement remains the same. CVC investors continued to slow their participation, and although PE investors, asset managers, and SWFs saw a substantial uptick to 53.3%, 41.3%, and 23.0% of deal value, respectively, further examination of the data shows that Stripe's $6.5 billion Series I was the main driver of this increase. Without the Stripe deal, asset manager and SWF participation would have fallen to 25.9% and 2.8%, respectively, which are below 2022's figures. According to Stripe's press release, the new investors, including the Government of Singapore Investment Corporation, Goldman Sachs, and Temasek Holdings, are all nontraditional investors, highlighting late- and venture-growth-stage startups' reliance on new capital infusions from these types of investors. Capital commitments from nontraditional investors helped drive the inflationary valuation environment that is currently struggling to reconcile with public market valuations. As many mature startups look for additional capital, the participation of nontraditional investors is essential to reaching their funding goals. Following the broader trend of nontraditional investor pullback, we expect the slowdown on a deal-value basis to manifest as the year progresses, but this could be minimized by more late- and venture-growth-stage companies raising down rounds that attract their participation.

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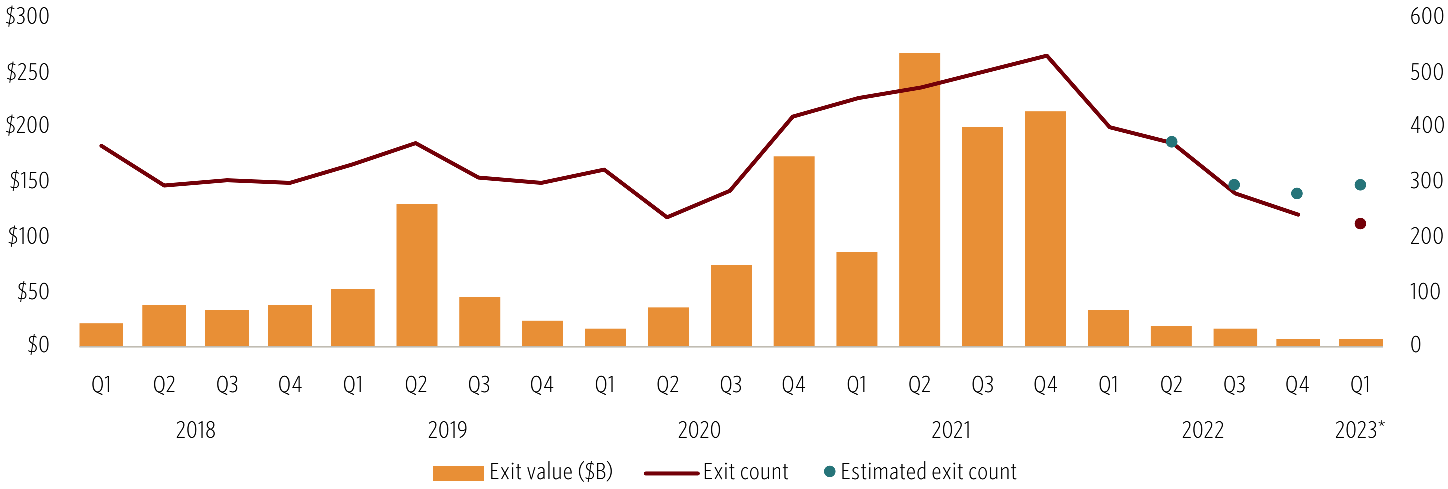
Exits

Exit value declines sharply to pre-2013 level

US VC exit activity by quarter



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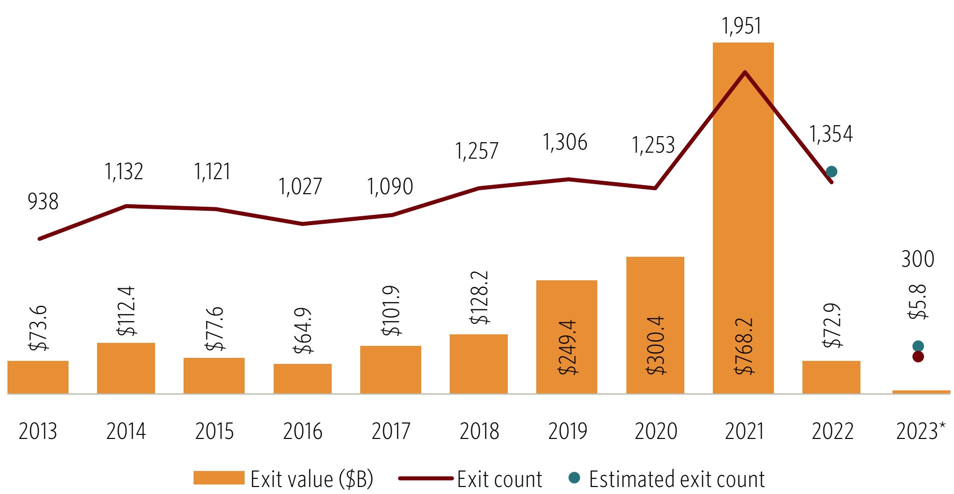
Persistent inflation, combined with rising interest rates, placed mounting pressure on startups that have been scrambling to find a suitable path to exit. Increased operational costs resulting from inflation and a tight labor market continue to eat into margins, and rising interest rates have led to diminished valuations of public companies. Until the public equity market stabilizes, we expect startups sitting near the end of the venture lifecycle to continue to feel the pain inflicted by both a capital crunch caused by the withdrawal of nontraditional investors and an exit environment that is not yet ready to embrace companies going public.

In Q1 2023, the quarterly exit value landed at its lowest level since 2013; 227 exits were completed with an aggregate value of $5.8 billion. When compared with the private market frenzy two years ago, the exit value generated in Q1 was merely 2.2% of the

Exit count and value figures surface a sluggish start to the year

US VC exit activity



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Majority of exit value YTD generated via acquisition

Share of US VC exit value by type

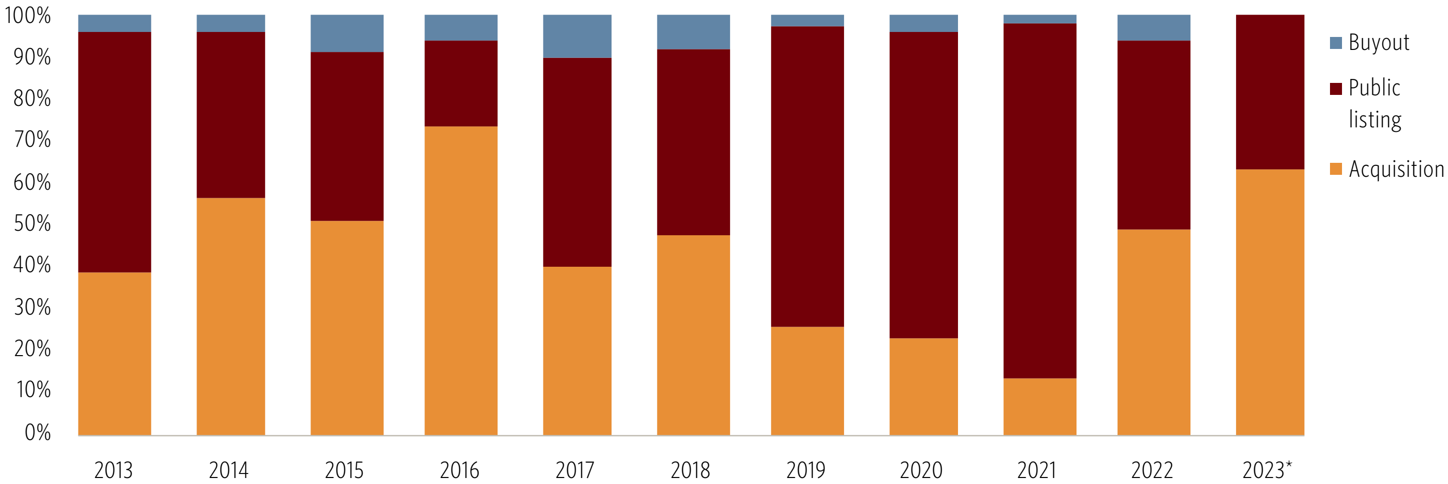

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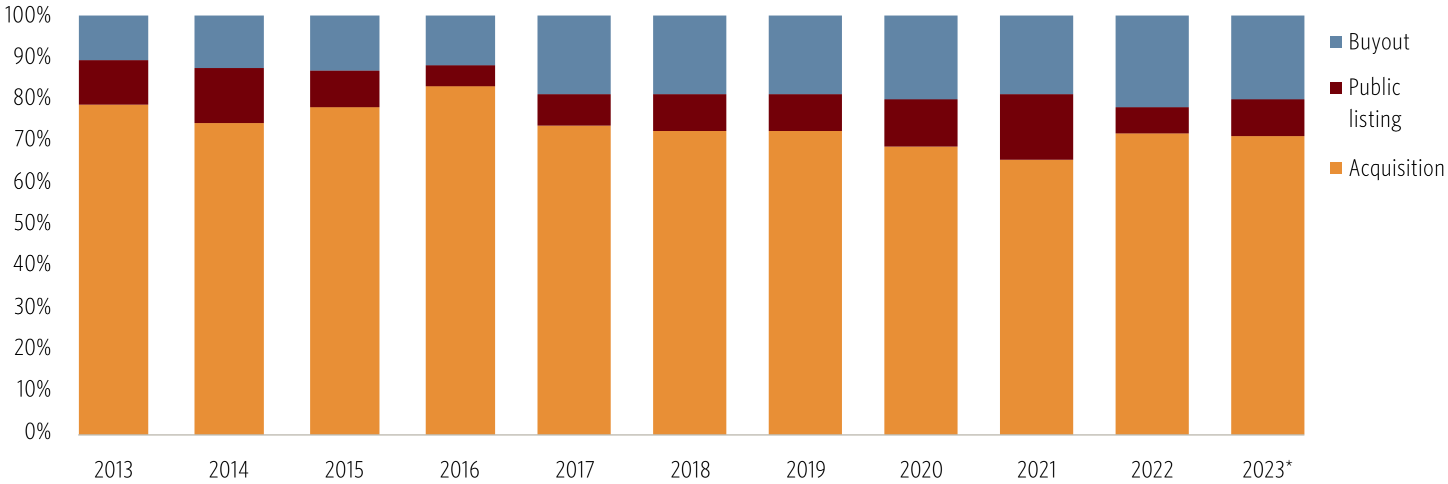
figure from Q2 2021. Exit count, on the other hand, took a dip but was largely consistent with a relatively mellower downward trend we saw in the past few quarters.

With a double quandary of illiquidity and falling valuations, VC-backed startups have been exposed to increased pressure from the existing equity syndicate that pushes for a timely exit versus a prolonged wait that entails subsequent financing rounds. For investors, not being able to convert paper gains into cash means they are unable to return LP capital or recycle deal proceeds into future funds. In addition, if a startup is unable to attract external funding, the existing syndicate may float a term sheet to the company and lead an insider round, which could hasten the desire of cap table shareholders to reach liquidity. Existing investors are likely more willing to take an exit path with a more modest value compared with external investors that participate in a later round at a

Q1 share of exits via public listings remains below 10%

Share of US VC exit count by type



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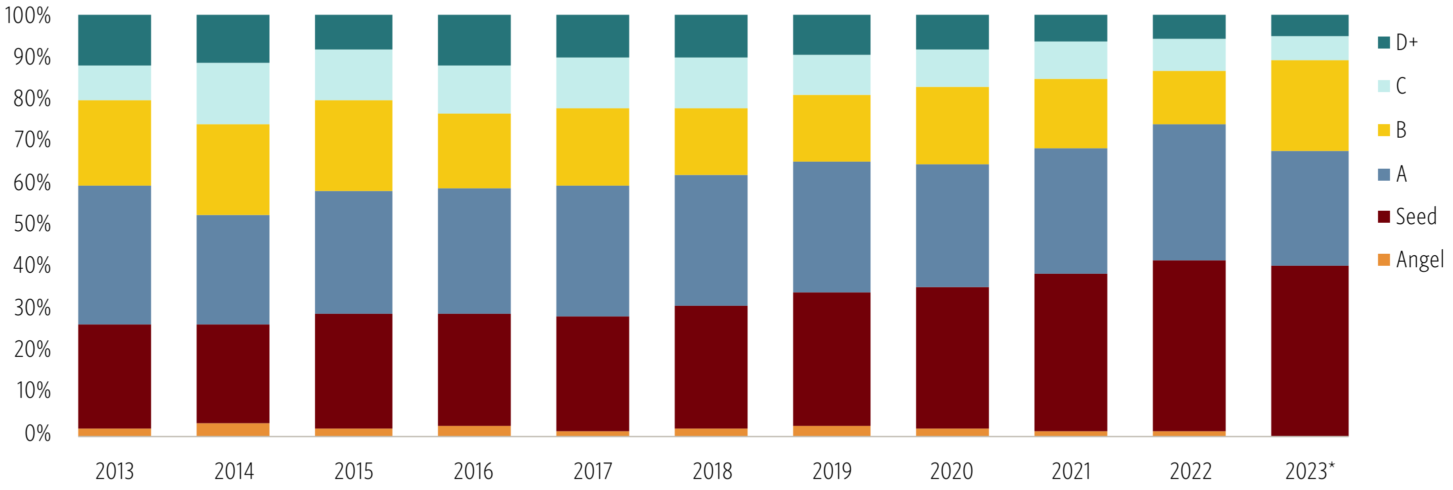
Seed stage sees majority of YTD US VC acquisitions

Share of US VC round count by round series where next round is an exit via acquisition



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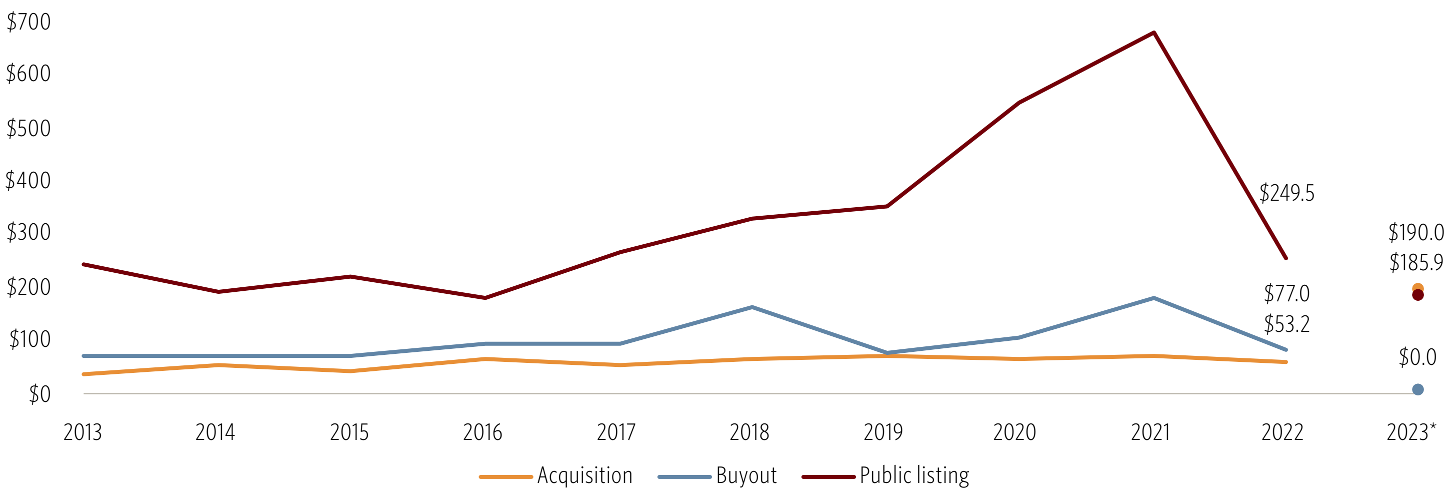
higher valuation, as they demand a high threshold in order to justify their recent investment. Founders may also elect to sell their businesses with a reasonable offer to achieve liquidity and for peace of mind.

With startup valuations declining across the board, we expect to see an increase in corporations' appetite for acquiring startups at a discount to their most recent valuation, whereas previously these startups' inflated valuations may have deterred those corporations from folding them into their own operations. On the other side of the table, startups may also find acquisition more appealing amid an economic downturn, as it compensates shareholders in a timely manner and brings more stability to their own operations. Should the door to public exits remain closed for the next few quarters, we will likely see a surge in M&A activities in VC.

Median exit size via public listings continues to decline

Median US VC exit value ($M) by type



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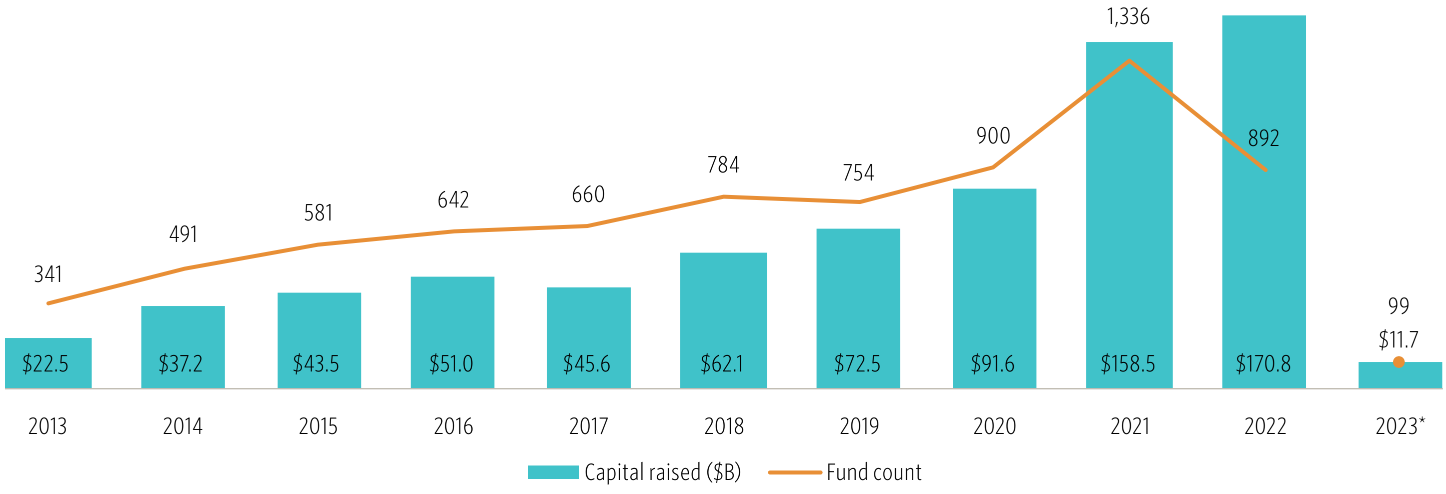
Fundraising

US VC capital raised foreshadows a gloomy outlook for the year

US VC fundraising activity



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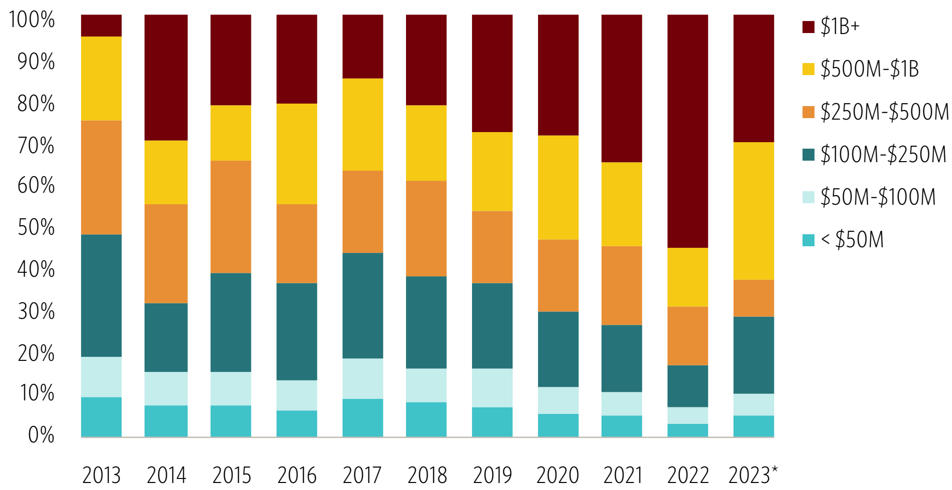
The fundraising momentum of 2021 had all but dried up by the end of the first quarter of 2023, leaving a meager $11.7 billion closed across 99 funds. We anticipated this slowdown in our Q4 2022 report, as just $12.5 billion in capital raised was added to our dataset that quarter and 74.4% of the capital raised in 2022 was closed in the first half of the year. The record $289.0 billion of dry powder as of Q4 2022 lends confidence to future dealmaking, yet the recent drop in quarterly fundraising and deal activity suggests that the figure could be overstated. The foreshadowed decline in dry powder, lack of liquidity via public markets, and continued equity capital crunch have tested investors' confidence in VC and stifled new commitments to fund managers.

63% of capital raised committed to funds with $500 million in AUM or more

Share of US VC fund value by size bucket



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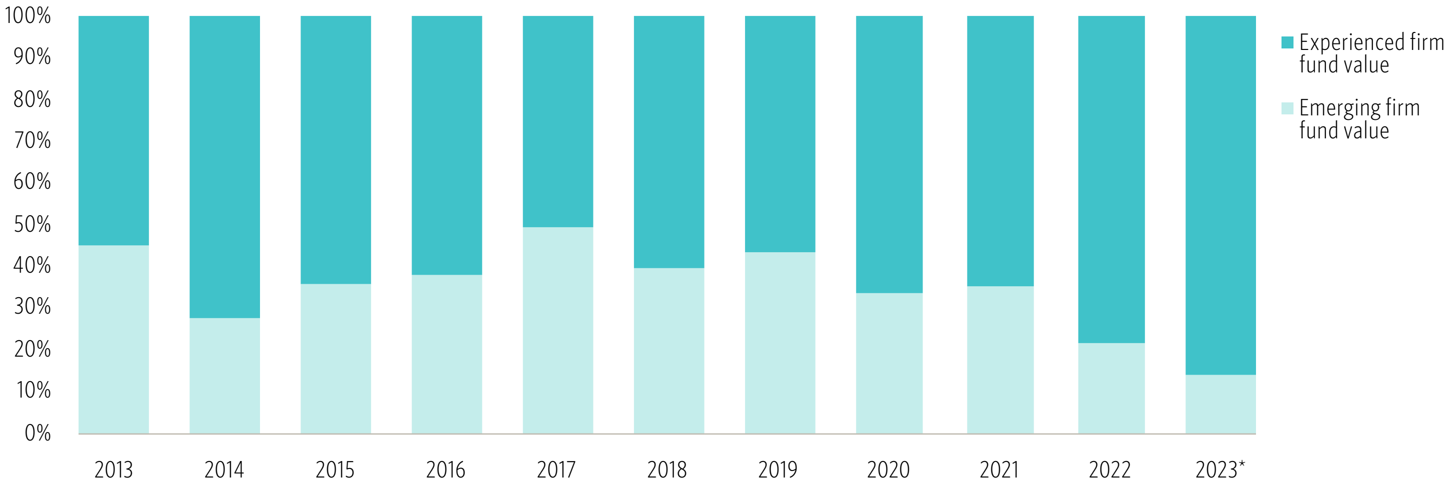
As a result, capital continued to concentrate in larger-size funds led by established managers; 62.8% of the capital raised in Q1 was committed to eight funds with commitments of $500 million or more, and a record 86.1% of commitments, or $10.0 billion, found its way into funds led by established managers. This quarter saw just two billion-dollar funds close, parallel to the slow pace seen in Q4 2022 but well behind the 2022 full-year figure of 36 billion-dollar funds closed. The decline in fundraising for these vehicles

Experienced fund managers capture 86% of committed capital

Share of US VC capital raised by emerging or experienced managers



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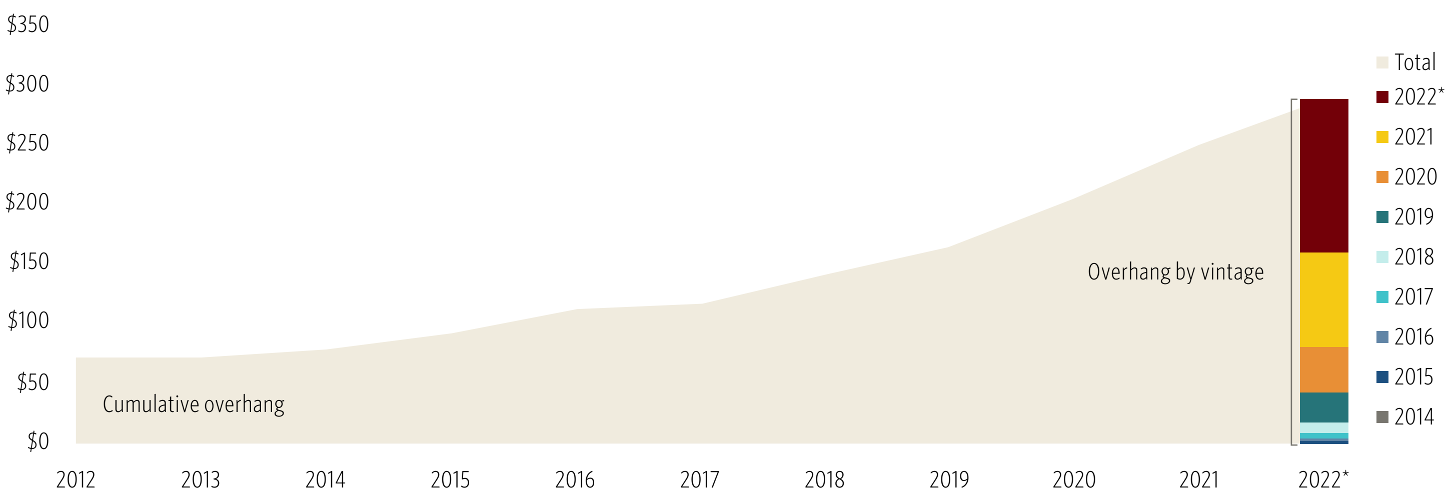
suggests that most GPs able to raise billion-dollar funds have done so and do not need to return to market, and it points to tempered investor demand for investment products that focus on later-stage startups.

The dearth of successful investment track records among emerging managers makes the current fundraising environment particularly daunting. In Q1, just $1.6 billion was committed to 45 funds led by emerging managers. The sluggish pace of fundraising could be a harbinger that the 2023 emerging-manager fund value will fall below $30 billion for the first time in five years. Should this fund value decline, the competition among earlier-stage startups will become fiercer and deal metrics will fall in an effort to attract investors.

After the uncertainty brought about by the collapse of Silicon Valley Bank (SVB), a silver lining emerged with its announced acquisition by First

Record dry powder in US VC expected to fall in coming quarters

US VC dry powder ($B) by vintage



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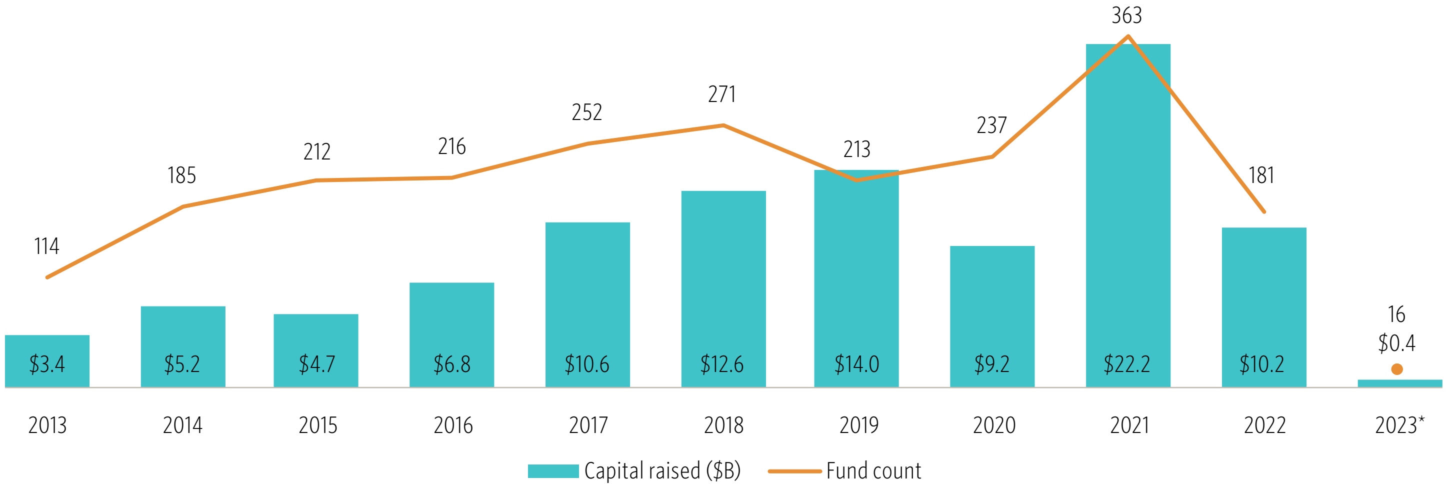
Q1 saw a nominal $382 million closed across 16 first-time funds

US VC first-time fundraising activity



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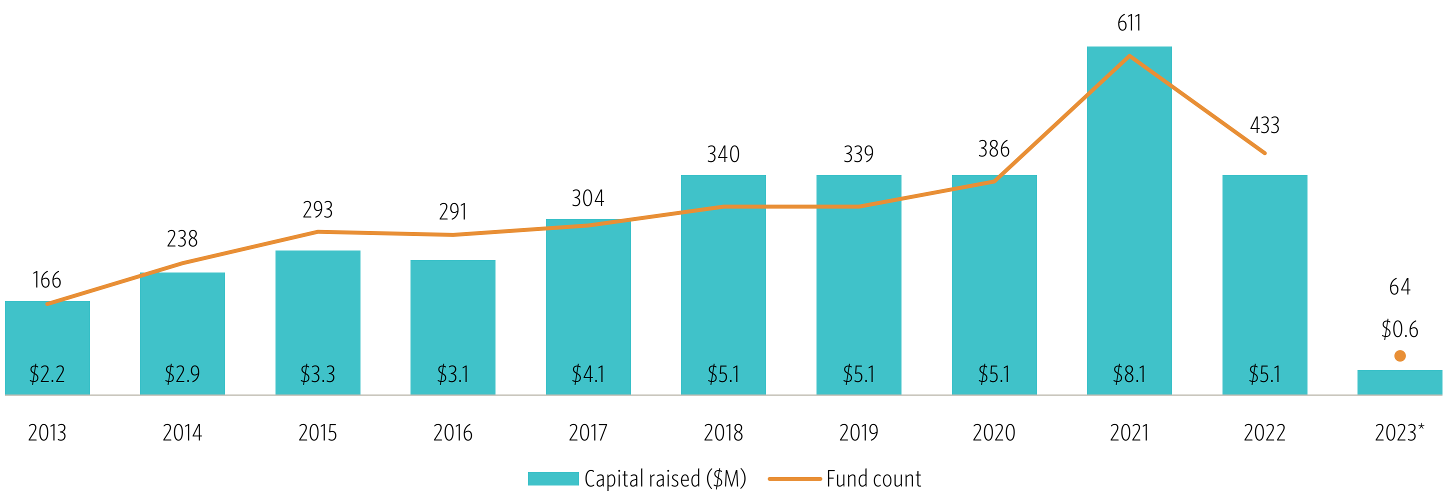
Citizens Bank. While SVB's acquisition is reassuring to the future of banking for the VC ecosystem, its timing had little effect in bolstering first-time fund activity this quarter. Parallel to the decline in capital raised by emerging managers, Q1 saw first-time fund managers close a nominal $381.6 million in commitments across 16 funds, well behind 2022's pace that saw 181 first-time funds closed through the end of the year. Of the 99 funds that closed in Q1, 49 of them are headquartered in the larger VC ecosystems of California and New York, suggesting that investor capital is retreating to the safe harbors of ecosystems with enough funders and founders to weather the tepid macroeconomic environment. We expect the fundraising experience for first-time fund managers in smaller VC markets to be especially strenuous through the rest of the year.

Micro-fund closings fall in line with pre-pandemic levels

US VC micro-fundraising activity



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Q1 2023 league tables

Most active investors angel and seed*

1	10X Capital	28
2	Plug and Play Tech Center	23
3	SOSV	19
4	Y Combinator	15
5	Service Provider Capital	13
6	The Fund	12
6	Techstars	12
8	Andreessen Horowitz	11
9	Alumni Ventures	10
10	Triangle Tweener Fund	9
10	IndieBio	9
12	Soma Capital	7
12	Gaingels	7
14	Hax	6
14	TEDCO	6
14	Sequoia Capital	6
14	FJ Labs	6
14	Connecticut Innovations	6
19	Ulu Ventures	5
19	Susa Ventures	5
19	Pioneer Fund	5
19	GV	5
19	Coinbase Ventures	5
19	Balaji Srinivasan	5
19	Accel	5
19	BoxGroup	5

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Most active investors early stage*

1	Goodwater Capital	17
2	ImpactAssets	15
2	Andreessen Horowitz	15
4	10X Capital	12
5	Y Combinator	11
5	GV	11
5	FJ Labs	11
8	General Catalyst	10
8	Alumni Ventures	10
10	Sequoia Capital	9
10	Gaingels	9
10	ARCH Venture Partners	9
10	8VC	9
14	Plug and Play Tech Center	8
15	Soma Capital	7
15	SV Angel	7
15	Coinbase Ventures	7
18	F-Prime Capital	6
18	Greylock Partners	6
20	TechNexus Venture Collaborative	5
20	Revolution/ROTR	5
20	New Enterprise Associates	5
20	Menlo Ventures	5
20	Not Boring	5
20	Lightspeed Venture Partners	5
20	Nat Friedman	5
20	Lux Capital	5
20	Flywheel Fund	5
20	Boost VC	5
20	Breyer Capital	5

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*As of March 31, 2023

Most active investors late stage*

1	Plug and Play Tech Center	13
1	ImpactAssets	13
3	FJ Labs	9
3	10X Capital	9
5	Sequoia Capital	8
5	Goodwater Capital	8
7	Alumni Ventures	7
8	SOSV	6
8	Lachy Groom	6
8	Andreessen Horowitz	6
11	Valor Equity Partners	5
11	Y Combinator	5
11	New Enterprise Associates	5
11	Gaingels	5
11	Elevate Ventures	5
16	VTC Ventures	4
16	Techstars	4
16	Tiger Global Management	4
16	Intel Capital	4
16	KdT Ventures	4
16	F-Prime Capital	4
16	8VC	4
16	ASDF Ventures	4

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Most active investors growth stage*

1	Global Alternative Investment Management	3
1	Euclidean Capital	3
1	Norwest Venture Partners	3
1	Eight Roads	3
1	Goldman Sachs Asset Management	3
6	Sorenson Capital	2
6	Plug and Play Tech Center	2
6	Energy Impact Partners	2
6	BlackRock	2
6	ServiceNow Ventures	2
6	Exor	2
6	Thrive Capital	2
6	FJ Labs	2
6	Andreessen Horowitz	2
6	Gilmartin Capital	2
6	S&P Global	2
6	Glade Brook Capital Partners	2
6	Shasta Ventures	2
6	Valor Equity Partners	2
6	The Invus Group	2
6	Viking Global Investors	2
6	US Venture Partners	2
6	Western Technology Investment	2
6	Citi Ventures	2
6	Vision Capital Group	2
6	Kapor Capital	2
6	Human Capital Development	2
6	Lux Capital	2
6	MSD Partners	2
6	Motley Fool Ventures	2

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Methodology

Deals

We include equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, corporate investors, and institutions, among others. Investments received as part of an accelerator program are not included; however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US, with any reference to "ecosystem" defined as the combined statistical area (CSA). We include deals that include partial debt and equity.

Angel and seed: We define financings as angel rounds if there are no PE or VC firms involved in the company to date and we cannot determine if any PE or VC firms are participating in the round. When it is reported by a government filing and the deal amount is below $1 million and investors are unknown, it is defined as angel. In addition, if there is a press release that states the round is an angel round, and no institutional investors are involved, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is between $1 million and $10 million as reported by a government filing and investors are unknown, it is classified as such.

Early stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, prior financing history, company status, participating investors, and more.

Late stage: Rounds are generally classified as Series C or D (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, prior financing history, company status, participating investors, and more.

Venture growth: Rounds are generally classified as Series E or later (which we typically aggregate together as venture growth) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, number of VC rounds, company status, participating investors, and more.

Nontraditional investors: "CVC" includes rounds executed by established CVC arms as well as direct equity investments by corporations into VC-backed companies. "PE" includes VC deals by investors whose primary classification is PE/buyout, growth, mezzanine, or other private equity. "Crossover" investors are a subset of nontraditional investors—specifically asset managers, hedge funds, mutual funds, and sovereign wealth funds—that have been active in VC investment across any stage. They are referred to as crossover because these investors are likely to be participating at the late stages directly prior to an exit.

Venture debt: The venture debt dataset is inclusive of all types of debt products raised by VC-backed companies, regardless of the stage of company. In mixed equity and debt transactions, equity is excluded when the amount is of known value. Financings that are solely debt are included in this dataset, though not incorporated into the deal activity dataset used throughout the report. Mixed equity and debt transactions will be included in both datasets.

Exits

We include the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown. IPO value is based on the pre-money valuation of the company at its IPO price. One slight methodology update is the categorical change from "IPO" to "public listings" to accommodate the different ways we track VC-backed companies' transitions to the public markets. To give readers a fuller picture of the companies that go public, this updated grouping includes IPOs, direct listings, and reverse mergers via SPACs.

Fundraising

We define VC funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional VC firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund's investment team is based; if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

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A perfect partnership: PitchBook and the National Venture Capital Association

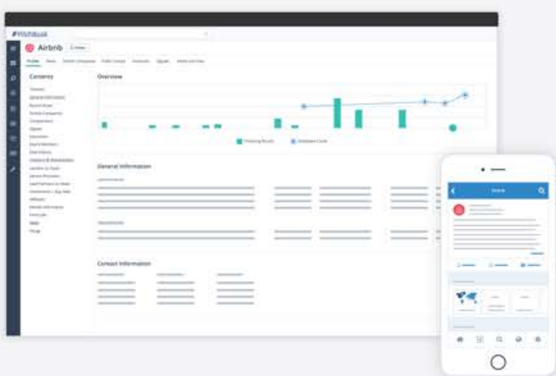
Why we teamed up

NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with PitchBook empowers us to unlock more insights on the VC ecosystem and better advocate for our evolving industry.

The PitchBook-NVCA Venture Monitor

Informed by PitchBook data, our quarterly Venture Monitors dive deep into venture capital activity and deliver insights to inform your investment strategy. PitchBook data also bolsters our annual year-in-review publication.

THE PERKS OF PARTNERSHIP



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