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Venture Monitor

Q2 2022

In partnership with

Insperity® J.P.Morgan

Q2 late-stage deal count estimated to be second highest in our dataset
Page 14

Just 42 public listings have ocurred through Q2, as public market volatility continues
Page 32

More than $120 billion has been closed by VC firms in 2022, set to surpass 2021's record
Page 34

The definitive review of the US venture capital ecosystem

Contents

Executive summary	3
NVCA policy highlights	4
Overview	5
Angel & seed	8
Early-stage VC	10
Late-stage VC	13
Insperity	15
Regional spotlight	17
J.P. Morgan	18
Deals by sector	20
Venture debt	25
Female founders	27
Nontraditional investors	29
Exits	31
Fundraising	34
Q2 2022 league tables	36
Methodology	37

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Executive summary

The second quarter of 2022 brought an expected continuation of market tightening in some parts of the US venture capital (VC) ecosystem that began to surface in Q1 2022. However, other areas of the VC cycle seem to be relatively unaffected thus far, particularly startups at their early stages who have been further insulated from late-stage and public market corrections, as well as larger VC funds that continue to see strong limited partner (LP) interest. Several themes are playing out that VC investors and startup founders are closely monitoring to better navigate the length and impact of the industry correction as it trickles down from the public market slowdown, inflation concerns, and the tightening monetary environment.

The IPO window was virtually shut in Q2 2022, and VC-backed public listings reached a 13-year quarterly low with eight completed in Q2 2022. This has meant that late-stage companies that may have been on the road to a public listing or that often rely on public market valuations to help price their financing rounds have had to pivot liquidity strategies and cool pricing expectations. In comparison, buyout and corporate M&A numbers are down somewhat from the heights of 2021, but they are on par with 2020.

Although corporations have been dealing with their own challenges in a bear market, VC-backed startups still seem to be a priority for their growth strategies. Both corporate M&A and corporate venture capital (CVC) investment have remained relatively strong in 2022. However, participation from nontraditional and crossover investors showed more prominent signs of a pullback in H1 2022. Recent public market performance has shrunk valuations for many of these investors' overall portfolios, likely causing some to reassess their VC investment pace and strategies.

2021 was a remarkable year and perhaps an unusual benchmark for VC investment activity. While overall Q2 2022 year-over-year quarterly VC deal count was down, it still exceeded pre-2021 quarterly totals. This was partly due to the strong environment of seed-stage investing, which still seems to be relatively insulated from growing uncertainty at the late stages. That said, the pace of VC activity across all stages is likely to slow in H2 2022 as the threshold for closing deals rises and pricing uncertainty extends to the early stages of the investment cycle.

A tighter investing environment means many VC investors are prioritizing existing portfolio companies (particularly those at the late stages) and how to support them through to profitability. At the same time, more frequent news of layoffs at VC-backed companies is surfacing, and hiring is generally tightening. Many VC-backed companies are working to solidify balance sheets and focus on optimizing for cash to better position themselves in the downturn.

Q2 2022 brought a variety of changes and challenges for the US VC ecosystem. VC fundraising in H1 2022 already reached nearly 87% of 2021's full-year total, driven almost exclusively by $1 billion+ funds, which accounted for almost two-thirds of capital raised so far this year. In comparison, first-time fund managers are facing headwinds and could find the fundraising environment more difficult during a possible downturn. Uncertainty may cloud the coming months, and the slowdown may accelerate. But there is room for some optimism. In H1 2022, VC fundraising figures added to the industry's record dry powder to help soften the landing. Furthermore, companies in some sectors such as climate tech and biotech are charging ahead, developing critical innovation that is addressing the country's important, long-term needs.

NVCA policy highlights

Lawmakers face a limited window to pass a range of major policy initiatives before the midterm elections. Below are key policy initiatives for NVCA and an overview of the current state of play.

Competitiveness legislation

NVCA is a strong supporter of the Senate's competitiveness bill, in particular the proposed National Science Foundation (NSF) directorate focused on technology commercialization. Competitiveness bills passed both chambers and are currently being merged with a push to get a final agreement before August. If unsuccessful, the last opportunity to pass the bill would be after the November election in a "lame duck" session. The House package contains Startup Visa legislation from Rep. Zoe Lofgren (D-CA), and we are also working to ensure this provision is included in the final package, although the difficult politics of immigration have proven challenging for this common-sense idea.

Financial regulatory proposals

NVCA is engaged on five key SEC regulatory proposals this year:

- Private funds proposal: Would ban a range of common VC fund agreement terms, including indemnification, tax clawbacks, and charging certain fees to a fund, as well as limiting side-letter terms and mandating information reported to LPs. Read NVCA's comment letter.
- Form PF: Impacts registered investment advisers (RIAs) by shortening the reporting period and lowering the threshold that determines which funds must report as "large private equity advisers." Read NVCA's formal response to the SEC.
- 10b5-1 plans: Would require a 120-day cooling-off period, prohibit overlapping plans, and mandate quarterly disclosures. Read NVCA's comment letter.
- Schedules 13D and 13G: Would shorten filing deadlines for beneficial ownership reports filed on schedules 13D and 13G.
- Private company rulemaking: The SEC could release proposals this year requiring disclosure of private company financing rounds and forcing more companies to go public.

Democratic reconciliation package

We understand that Senator Joe Manchin (D-WV) and Majority Leader Chuck Schumer (D-NY) are working through details on a smaller package than considered last year under the moniker "Build Back Better." If negotiations are successful, we expect to see provisions included around climate change, drug pricing, and healthcare, paired with enough tax increases to both pay for additional spending and provide for deficit reduction.

We are hopeful that a final package will not include tax changes to carried interest or taxes on unrealized capital gains. We are also monitoring closely for whether the limitations to Qualified Small Business Stock rules will remain in a final bill. One of the final hang ups is around how to ensure startups can monetize climate related tax credits, which is one of the central components of the Biden administration's climate agenda.

New NSF directorate

NVCA is engaged with the new Technology Innovation and Partnerships (TIP) Directorate at NSF focused on the commercialization and scale of frontier technologies. TIP is intended to be a precursor to the Directorate included in the competitiveness bill.

The first program of the TIP Directorate, Regional Innovation Engines, will provide grants worth up to $150 million to a competitively selected group of regional consortia across the country for a range of technology-focused economic development priorities.

State Small Business Credit Initiative 2.0

The new State Small Business Credit Initiative program has the potential to unlock significant capital for VC investment by providing funds to VCs for direct, co-investment, and fund investing strategies, particularly in emerging ecosystems and underrepresented communities.

Several states have programs that have been approved and are now actively accepting applications, and more will be opening their programs for applications as they are approved on a rolling basis. Visit our landing page with resources for the program, including a running list of active programs and corresponding contact information.

Bipartisan infrastructure law implementation

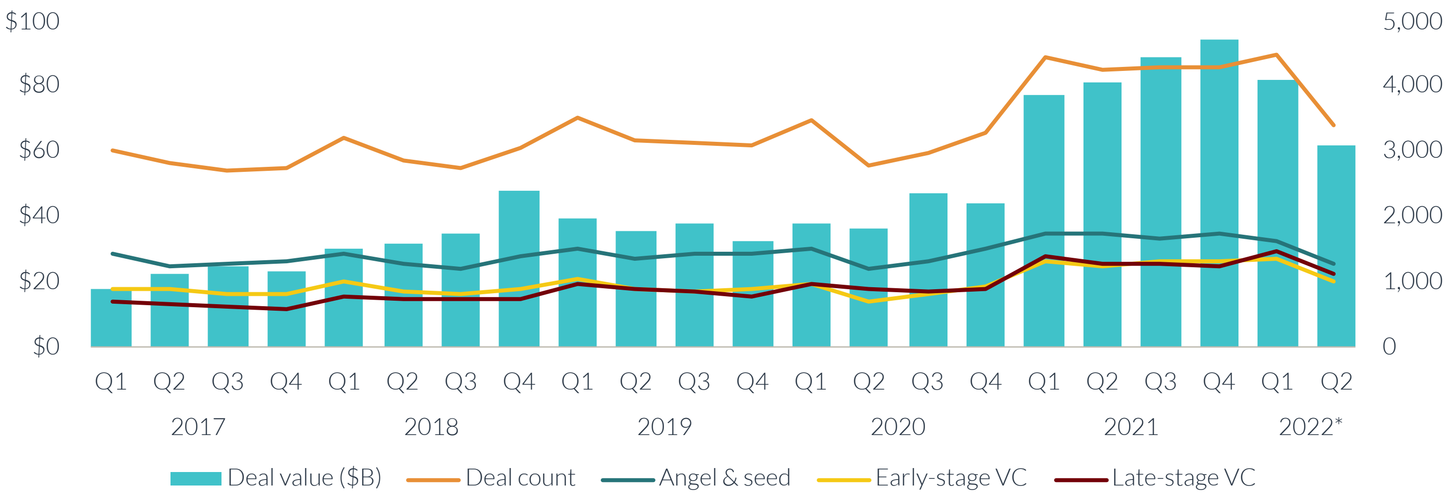
Signed into law last fall, the $550.0 billion infrastructure package is also a major technology bill, allocating funding for several dozen infrastructure-related technology programs. Key decisions around program guidelines and eligibility for venture-backed companies are being made this year. NVCA is engaging with several federal agencies on implementation, including conversationswith key policymakers and startups focusing on hydrogen; electric-vehicle charging; battery storage, carbon capture, utilization & sequestration; and geothermal programs.

- Bobby Franklin, President & CEO of the National Venture Capital Association (NVCA)

Overview

Capital investment tempers in Q2 as caution enters VC

Quarterly US VC deal activity by stage



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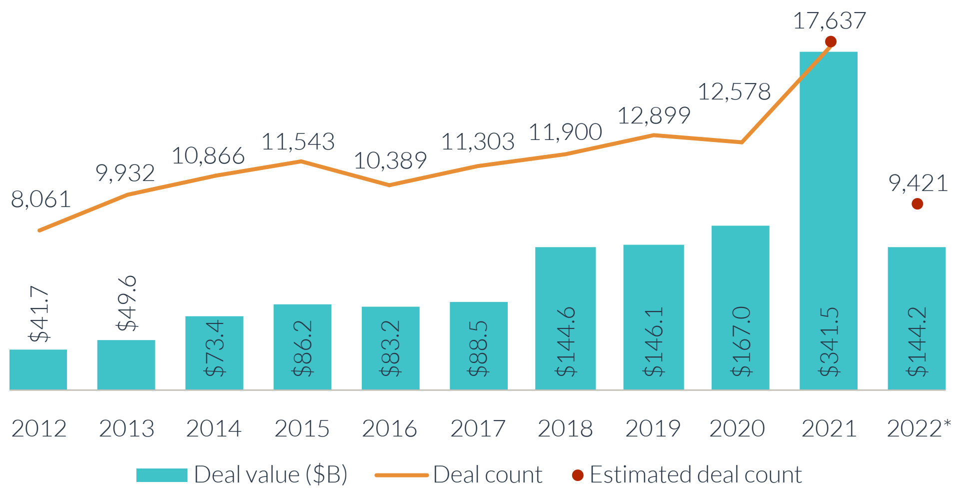
*As of June 30, 2022

Deal counts have stayed relatively high across all stages, with seed pushing toward previous record highs. Momentum of deal activity from the past six months is continuing to bring new deal announcements, which is a positive sign for the market when compared against the industry narratives. Deal value has declined rather significantly across all stages, on the other hand. The outsized deals that became a theme of 2021 are not being completed as investors take a more cautious approach to the largest deals in the market. With well over $290 billion in dry powder and nearly 3,000 funds being closed since the beginning of 2019, we can expect these trends to continue for the near future until more certainty can be found across economic markets.

Deal activity still historically high in 2022, but will be significant decline from 2021

US VC deal activity



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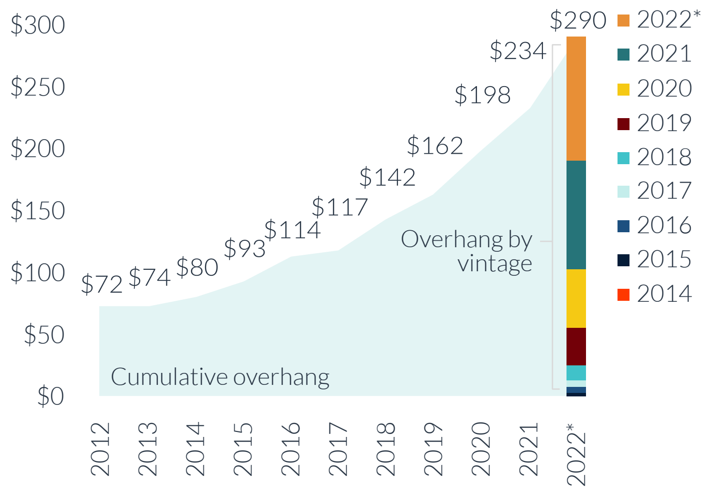
US VC fundraising tops $120 billion for second consecutive year. A strong showing from established managers in the first half of the year has pushed capital raised to a near record pace. While this activity is likely mainly a continuation of momentum from 2021, it's still an encouraging sign around the level of capital availability through the uncertainty that the next few years may bring.

Dry powder continues to climb to new heights on the back of record fundraising

US VC capital overhang



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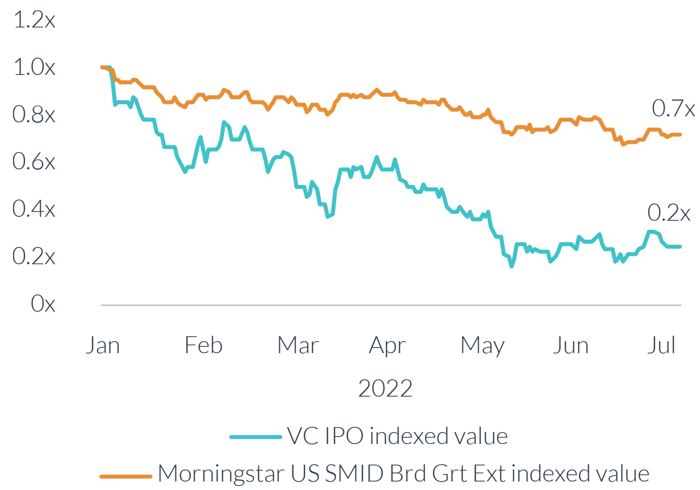
VC-backed IPOs sustain YTD underperformance

US VC IPO index



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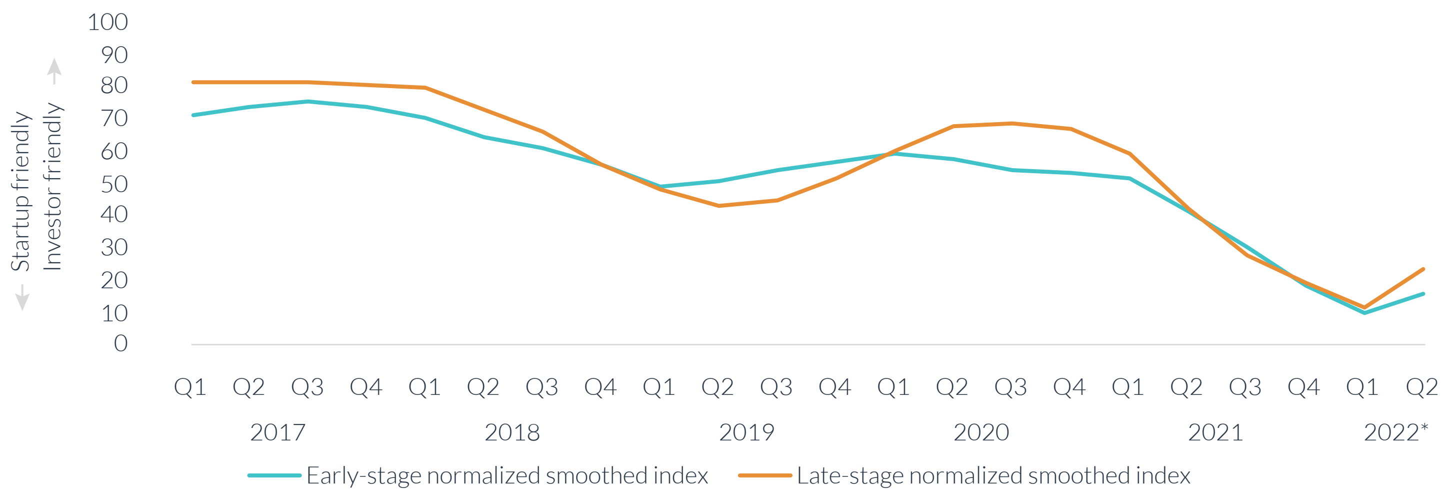
IPO window remains closed, keeping exit value depressed. The second quarter was much like the first in terms of exit activity with the biggest change from the last two years being the complete lack of traditional IPOs. SPAC mergers also faced tougher conditions during the second quarter bringing the total number of public listings closed in 2022 to a miniscule 42. This activity is most concerning for the billion-dollar exits as public listings have been the main source of liquidity for that cohort of companies.

VC market remains founder friendly

VC dealmaking indicator



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Beth Seidenberg
Founding Managing Director
of Westlake Village Biopartners

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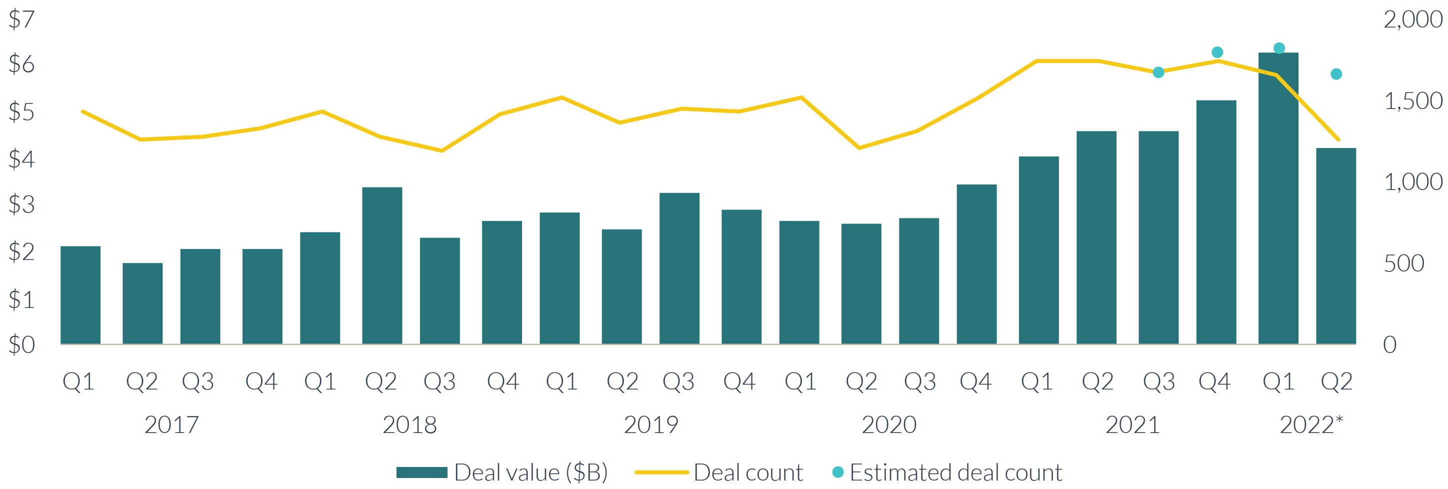
Angel & seed

Little slowdown in deal count

US angel & seed deal activity by quarter (combined)



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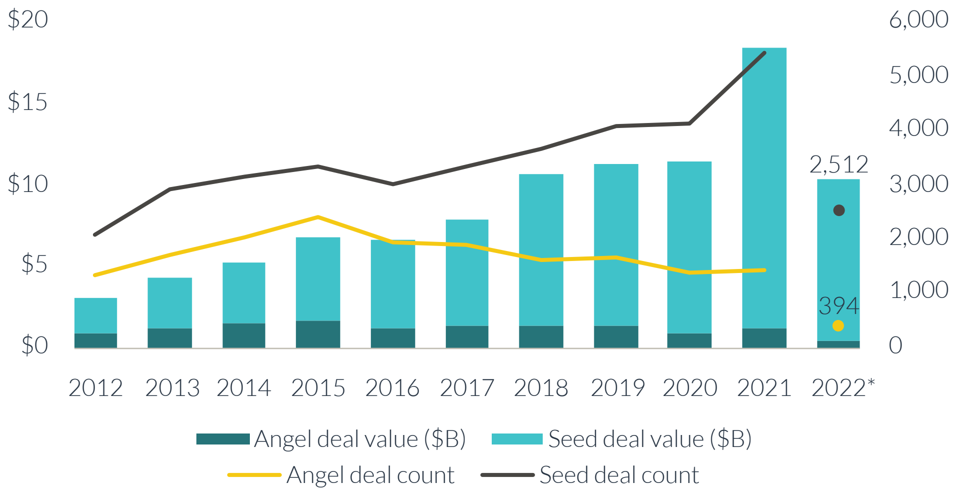
Seed deal value tracking to 2021 highs

US angel and seed deal activity by stage



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There is a distinct dichotomy between seed data and the narrative flowing through the industry. No matter the medium, investors have been consistent in saying that a slowdown has occurred across all stages—not just in deal sizes and valuations, but also in activity. Because of a strong lag in private venture data, we need to acknowledge this disparity. In fact, the Q2 estimated total seed deal count is near the highest figure in our dataset, while the median valuation plateaued in Q2 at the record quarterly high set in Q1 of this year ($11.0 million).

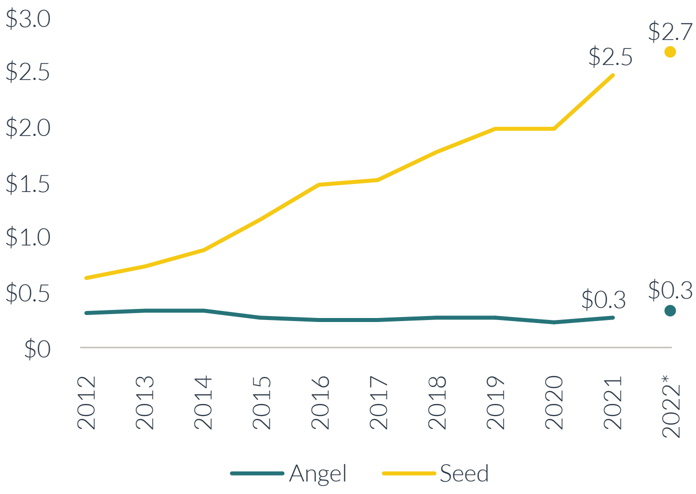
Generally, seed-stage investments are furthest from the public market, and companies receiving these investments have years ahead before they can hope to join the ranks of the few companies that go on to file an S-1. This has, in many ways, insulated seed investments more than the rest of the industry from current economic troubles.

The relative strength of seed can also be traced to the high number of small funds raised in the past several years. In 2021, 449 micro funds (under $50 million) were raised, over 100 more than had been raised during any previous year. Altogether, 1,628 micro funds have closed since the beginning of 2018, including nearly 200 so far in 2022, leading us to expect high seed deal counts will continue over the next several quarters.

The median deal size for seed-stage investments has also notched the second-highest quarterly figure in our dataset at

Median seed size grows further

Median US angel and seed deal sizes ($M)



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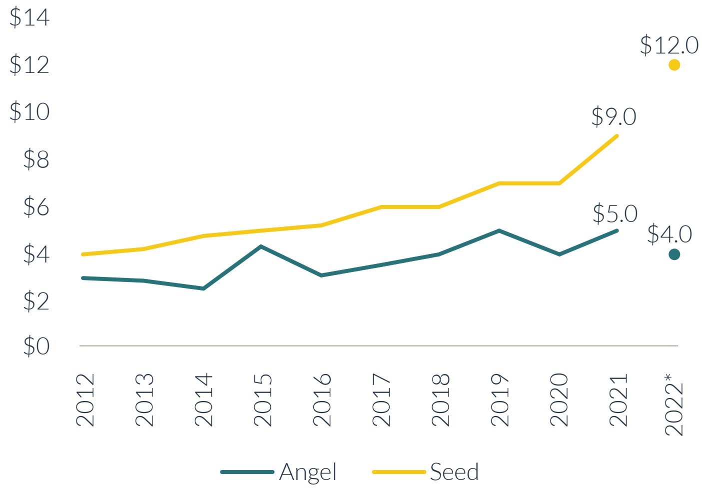
Seed valuations remain high

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



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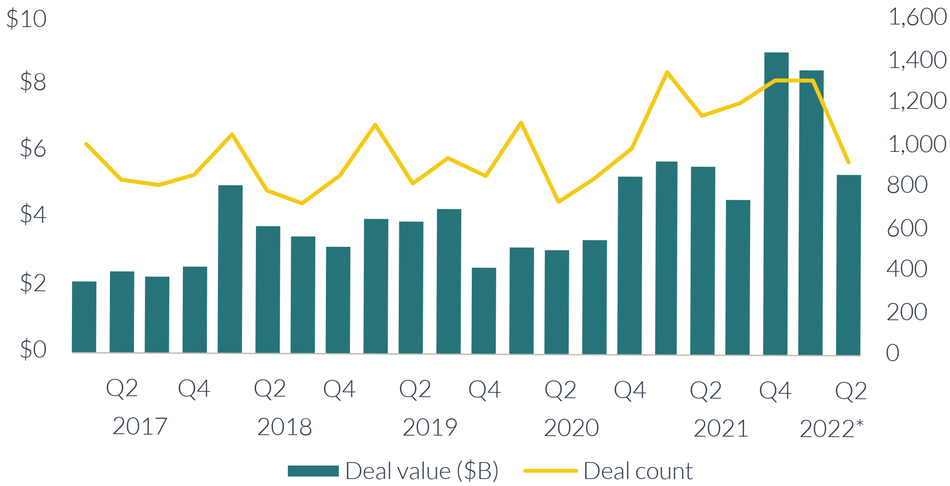
$2.7 million. One could point to the hot talent market from the past few years or increasing inflation as the culprits for the recent growth in deal sizes, but increased competition—due to record numbers of micro funds—is a more likely reason, as well as the heightened activity at seed from large nontraditional investors and multi-stage VC funds. Despite slowing activity at the late stage, nontraditional investors have again participated in more than 300 seed deals in Q2. These deep-pocket investors continue to boost the earliest stages of venture for the time being.

First financings have also continued to bring high numbers of companies into the venture lifecycle. The count of companies raising their first institutional round in Q2 will again push beyond 1,000, with lagged data, for the seventh consecutive quarter. However, this is likely to be a double-digit percentage decline from Q1 (1,321). Although follow-on capital may still be more difficult for these companies than in past quarters or years, the high number of companies will keep opportunities flowing for down-river investors. Any further decline in first financings will eventually reverberate through VC as opportunities become scarcer.

First financings slide from records

US first-financing deal activity by quarter



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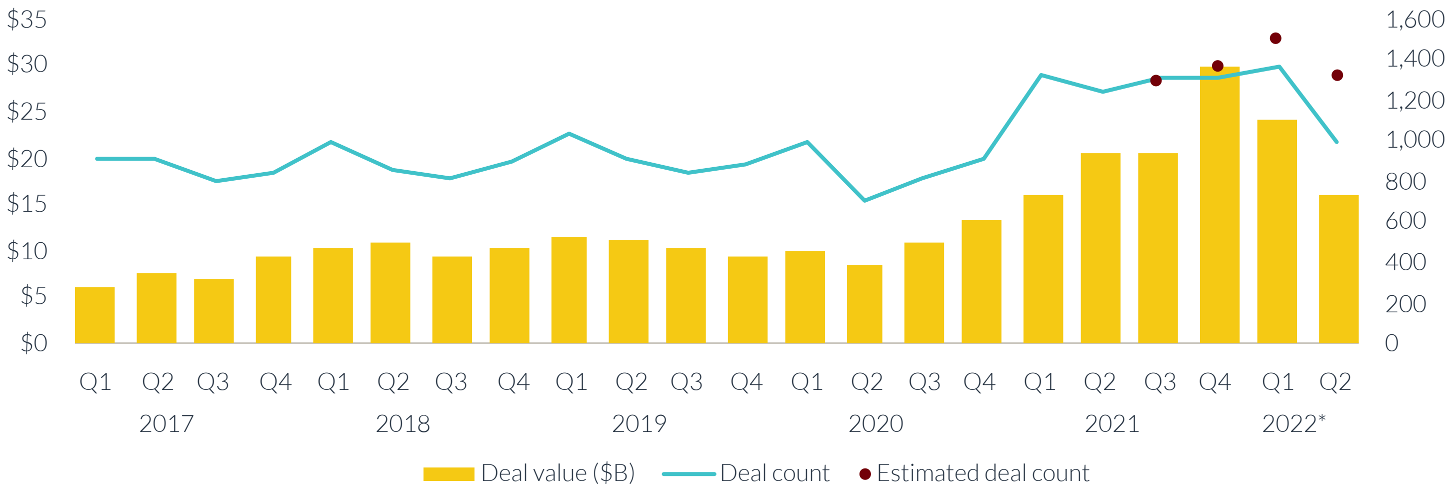
Early-stage VC

Q2 deal value recedes to $16.0 billion

US early-stage VC deal activity by quarter



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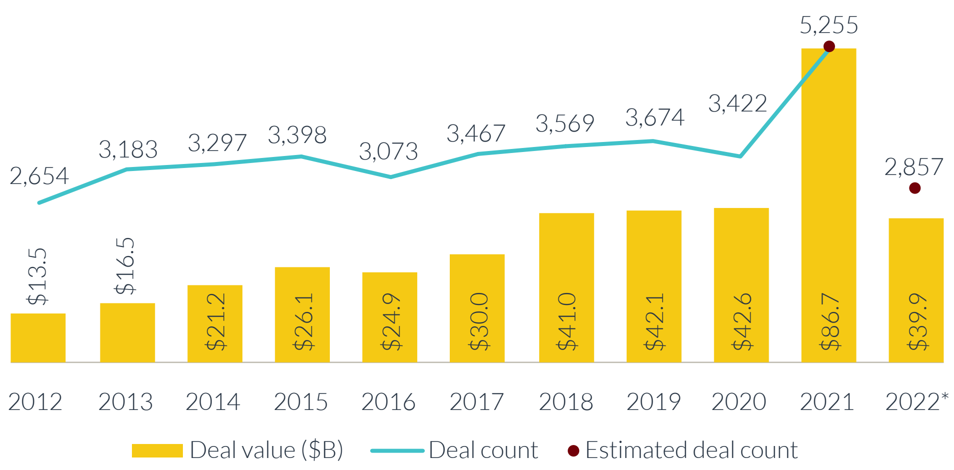
H1 deal value nearly equal to 2018-2020 full-year value

US early-stage VC deal activity



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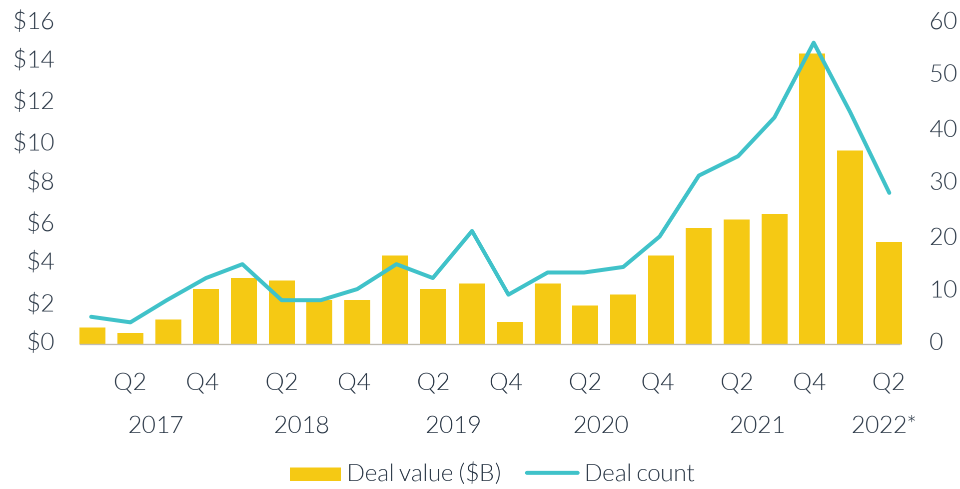
Following a resilient first quarter, early-stage VC in Q2 saw additional pressure from quantitative tightening and bearish public market activity affecting deal activity, with roughly $16.0 billion invested across an estimated 1,340 deals. This quarter's total deal value dropped well below the record quarterly highs set in 2021, but it is still ahead of pre-pandemic levels, suggesting the exponential growth of private markets seen in 2021 is subsiding and returning to a more modest annual trend such as we experienced in 2020. The roughly $290 billion in available dry powder helps buffer the early stage from large activity contractions and smooths the steepness of deal activity decline. However, our estimated deal count uses the increase seen in the data from the past eight quarters and does not consider expected future changes creating natural lag. This natural lag in the VC deal cycle could also alter the perceived impact of the mounting headwinds.

The early stage's perceived resilience was due in part to larger firms focusing on earlier deals to weather the tepid public market exit conditions. Despite a decrease in Q2's total deal value and count relative to Q2 2021, median deal size demonstrated sizable growth. The participation of these larger players along with the residual momentum from the prior year contributed to a median deal size of $10.7 million, an 8% increase over the prior year's median, demonstrating that select startups are still able to capture desired amounts of capital. For nearly two decades investors have enjoyed favorable returns and more recently achieved them because startups were able to take advantage of the low cost of capital to energetically scale revenues without regard to profitability. The increasing cost of capital is leading investors to consider whether startups can efficiently manage their runway through subsequent milestones. With investors refocusing on the durability of businesses through economic downturns, we expect due diligence efforts to prioritize return on invested capital and free cash flow.

Q2 early-stage median pre-money valuations slid back to $52.0 million, a level still exceeding Q2 2021 but representing a 16% decrease from Q1 2022. The reversal from Q1 highlights investor pushback in funding the larger mega-rounds ($100M+) and echoes the growing interest for capital-efficient startups. In Q2 2022, 28 early-stage mega-rounds were completed, exhibiting a 35% decrease from the prior quarter. Despite this, the early-stage mega-round activity is on par with 2019 and 2020, encouraging our confidence in the continued deployment of capital at this stage. Still weary of the downward pressure from headwinds, we expect early-stage activity to gradually decline through the end of the year and into 2023 until it reaches equilibrium.

Q2 mega deals on par with 2020

US early-stage VC mega-deal activity by quarter



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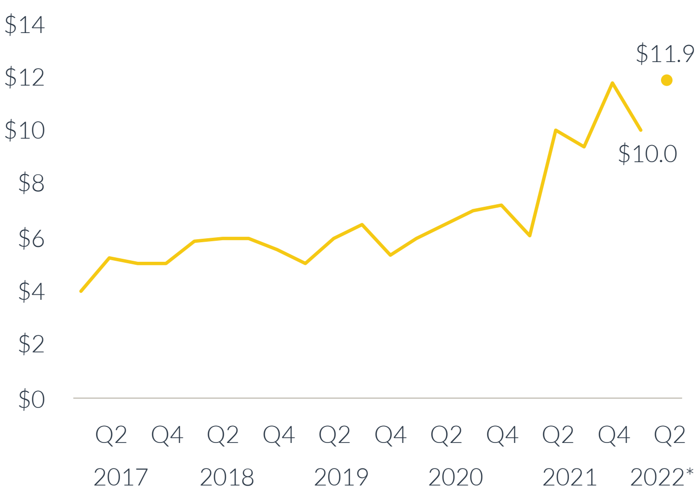
Q2 median deal sizes show strong momentum

Median US early-stage VC deal size ($M) by quarter



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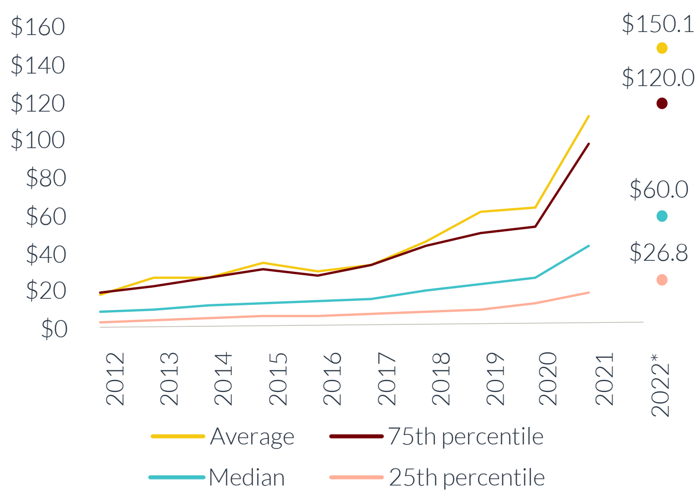
H1 median and average US early-stage valuations set record highs

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



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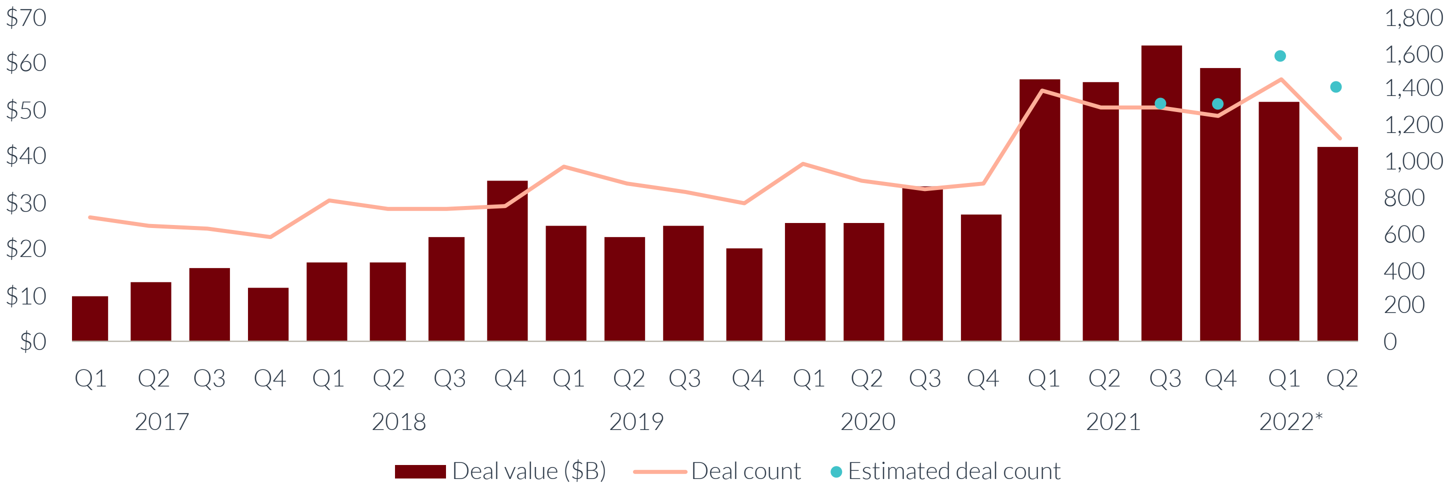
Late-stage VC

Q2 set to just miss Q1 record

US late-stage VC deal activity by quarter



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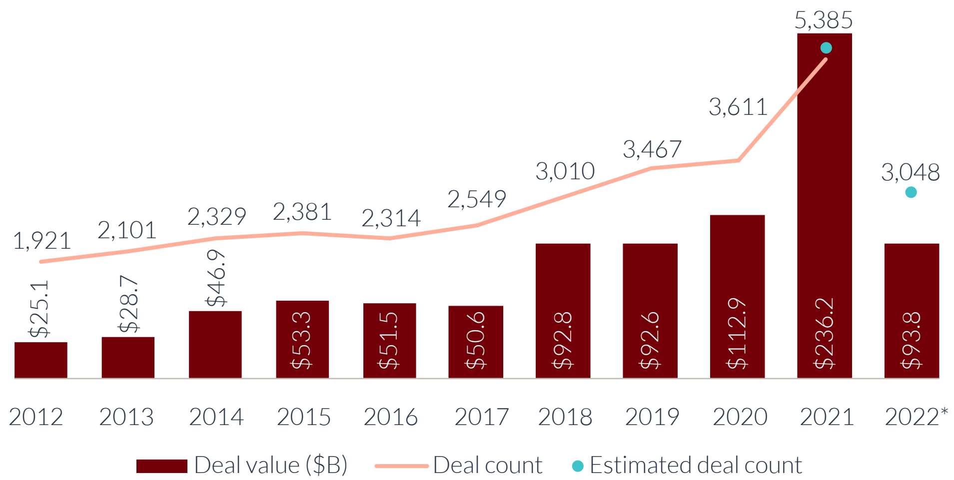
Late-stage activity continued at heightened levels during Q2, as any slowdown in the market has yet to show up significantly in the data, at least in terms of deal counts. After a record Q1, Q2's number of closed late-stage deals declined just over 10%. Despite a potential quarter-over-quarter (QoQ) decline, Q2 will show up as the second-highest late-stage quarterly deal count in our dataset. While we've already seen the average deal size and valuation fall significantly from recent highs, deal count has remained elevated as the buildup of dry powder over the past few years continues to filter through the market. We should expect further slowdown through the end of the year until market uncertainty is eliminated and the exit market becomes a better-known quantity.

Late-stage deal counts remain high

US late-stage VC deal activity



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The tech sell-off in the public markets has created a major disconnect between the public and private company valuations, which has quickly rippled through the top end of the venture market. While more than 100 late-stage mega-deals were closed for the sixth consecutive quarter, the final tally for Q2 is the lowest during that streak by roughly 26%. Late-stage capital availability has quickly fallen in recent months. In Q3 of 2021, our quantitative capital availability model showed $13.0 available for each dollar sought, which led to the record deal sizes seen throughout 2021. More recent data shows that figure falling to $10.0 per single dollar sought by startups, one of the lowest amounts from the past decade.

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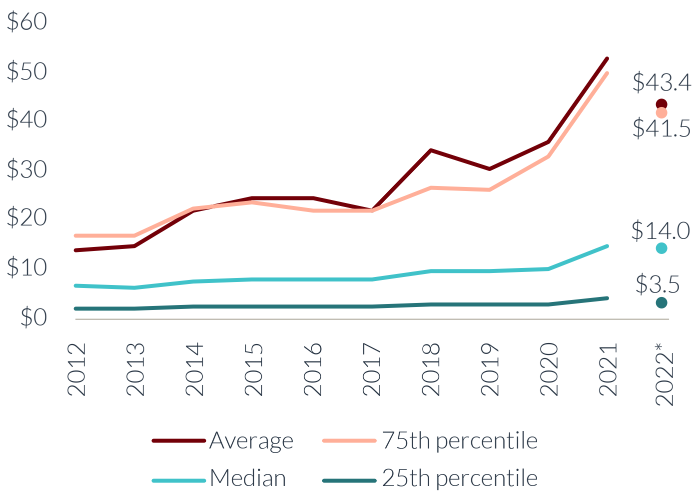
Late-stage sizes begin to fall

Quartile distribution of US late-stage VC deal sizes ($M)



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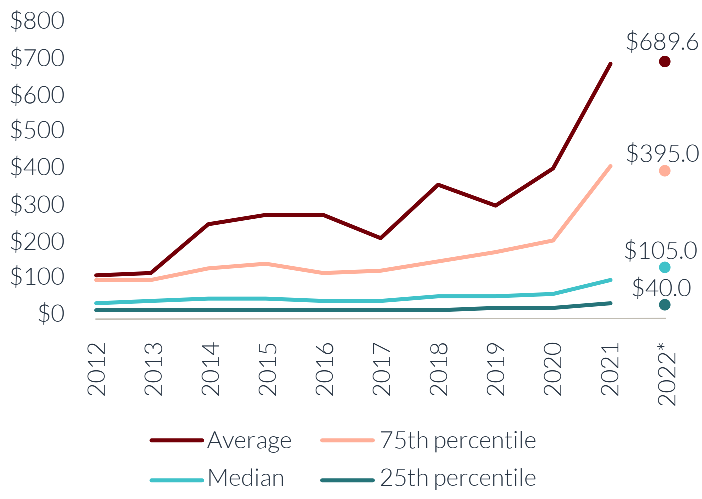
Late-stage valuations plateau

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



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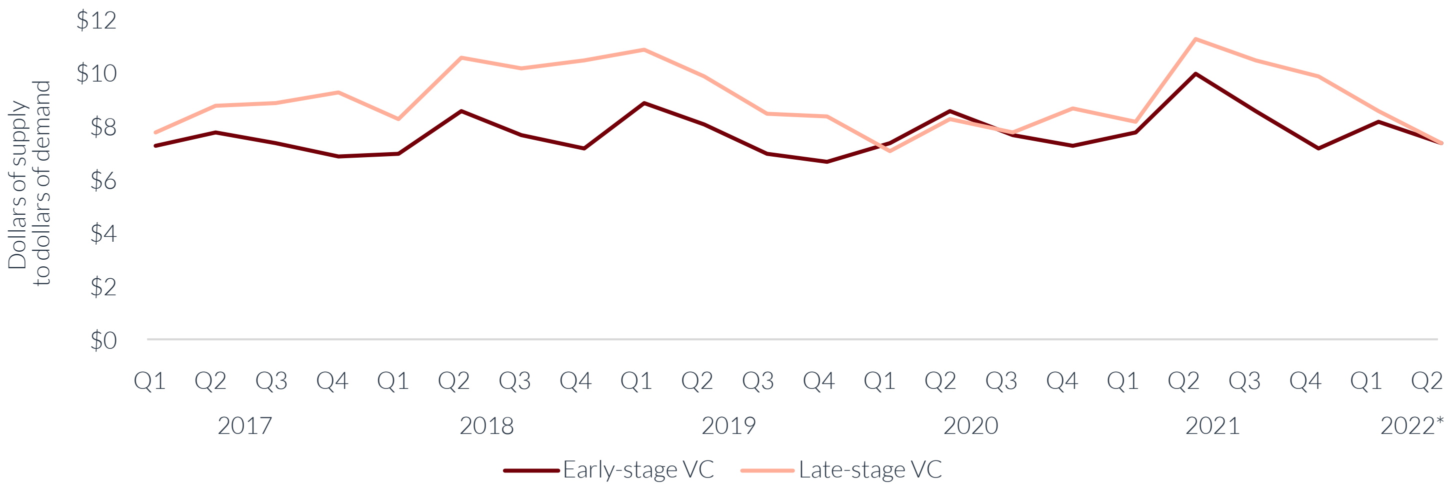
The median deal size at the late stage fell to $14.0 million in Q2 2022, the only stage to see such a downward change in deal size. This decline must be viewed in context, however, as the median figure still represents the second-highest size in our dataset and is still nearly 40% higher than the $10.0 million median from full-year 2020, which is the highest figure in our dataset prior to 2021. While there may be a further slide, there is reason to believe the median deal size will not fall below pre-2021 figures. $290.1 billion in dry powder has been amassed by the VC market in the US, with much of that stored in mega-funds of $500 million or larger.

Valuations have also been a target of investors hoping to see a reversal of recent growth to get back toward more investor-friendly terms. The dearth of downside protective terms at the late stage in recent years has left investors exposed in a declining market, and many are sure to have buyer's remorse on some of last-year's high valuations. Where in the past, a lower exit valuation may have meant extra shares or a triggered liquidation multiple, lower exit valuations now—without downside protection—could cause a significant deterioration in VC returns.

Late-stage capital supply has fallen quickly

Capital supply and demand ratio (dollars available to dollars of demand) in the VC marketplace



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A WORD FROM INSPERITY

The Importance of a Human Capital Strategy

How do you as a venture capital firm view human resources, or the most recent term, "human capital?" Do you consider it to be a cost center rather than a value-adding function of a business? Over the last two years, we have begun to see a renaissance in the HR industry that has led us to rethink the way we view human resources, and more importantly, the most valuable resource of any company—its employees.

Here are some statistics that might help you to recognize that HR is not just a cost center in the startups in which you have invested:

- A toxic corporate culture is the strongest predictor of industry-adjusted attrition and is **10 times more important** than compensation in predicting turnover.[1]
- Companies that prioritize employee engagement experience **23% higher profitability.**[2]
- Companies that work with a professional employer organization (PEO) such as Insperity have been shown to **grow 7%-9% faster and experience 10%-14% lower turnover.**[3]

We understand you want the startups in which you invest to focus on strategy, innovation, and growth without spending excessive time on HR administration tasks. When a startup joins forces with a PEO such as Insperity, our full suite of HR resources can help alleviate HR-related burdens. Insperity maintains responsibility for some of the most time-consuming HR tasks and manages many of the employer obligations and risks, which allows the startup's management team to focus on advancing the company through the different stages of growth.

As a founder becomes an employer, they will look for ways to help their business run better and grow faster. The process of managing and improving the workplace is crucial and can present challenges to nearly every organization. One of the quickest ways to achieve their goals is to focus on their people. A solid human resources infrastructure can help them realize the potential of their company, and having the right HR strategies in place is critical to overcoming business challenges—today, one year from now, or a decade down the road.

At the end of the day, it takes more than competitive pay and a good benefits package to retain current employees and win over candidates. A well-developed strategy and a growth-minded company culture can lead to less turnover, increased employee engagement, and leadership succession strength. The value of a strong company culture can help a fast-growing startup prepare for its next evolution. For portfolio companies to position themselves for growth, they must develop and equip their leaders to take the company into the future, drive the business, and sustain the culture. The organizational structure is solidified around the best employees—those who are ready to step up when the need arises.

Alignment of the executive team starts with cascading the company's vision, strategy, and goals to optimize growth, profitability, and employee performance. By defining a clear strategic direction for the future, leaders strengthen the organization's infrastructure, optimize employee performance through clear direction, and provide the tools and

Randy Fisher
Senior Strategic Alliances Manager
Insperity

Randy Fisher, Senior Strategic Alliances Manager, leads a team focused on working with companies and investors in the Private Capital ecosystem by providing essential HR resources, improving infrastructure for operational credibility, and help to increase valuation momentum.

support that can impact the fortunes of any company. Alignment from the top down helps ensure the right people are in the right position for success.

Smart companies hire for the company, not just for the job. When companies have alignment to their core values, it becomes easier to overcome or thrive in any economy. Establishing a clear mission statement, vision, and values helps companies improve growth and profitability through a stable, engaged, and committed workforce.

2022 and beyond will be about maximizing a company's most important asset, its people, and to accelerate that momentum, a startup will have to focus on new strategies around human capital management. Here are four interconnected momentum-building considerations:

1. "Toxic Culture Is Driving the Great Resignation," MITSloan Management Review, Donald Sull, et al., January 11, 2022.
2. "The Relationship Between Engagement at Work and Organizational Outcomes: 2020 Q12 Meta-Analysis: 10th Edition, James K Harter, et al., October 2022.
3. "What is a PEO?" NAPEO, 2020.

Scenario planning

The unforeseeable is the enemy of effective planning. If the pandemic taught us anything, it was that a single-threaded strategic plan is insufficient in times of uncertainty and change. Being caught unprepared for an unseen event can crush business momentum. It is well worth the effort to develop plans for several less likely, yet possible, scenarios and to set aside some budget to enable them if needed.

Momentum leadership

Fundamental to establishing momentum is the reestablishment of trust in the organization and the employment relationship. Exhibiting faith in the future of the enterprise, leaders must rally employees around a convincing strategic vision. They must be able to articulate the end from the beginning and illuminate a clear path to success for the firm and its employees. Open, transparent communication of milestones achieved will aid employees who are trying to regain confidence in their company, their jobs, and those who lead them. Absent this confidence, momentum is thwarted.

Culture of performance

Culture is the sum of individual employee attitudes, outlooks, manners, beliefs, and civility balanced on trust in the company. A culture that thrives upon productivity, positivity, and performance is the dream of every leader. Positive culture is a compounding force within the firm that drives participation and commitment. It requires a highly engaging shared vision and an ennobling meaning behind the work. A culture of performance is driven by a strong and positive vision of the company toward worthy and rewarding goals.

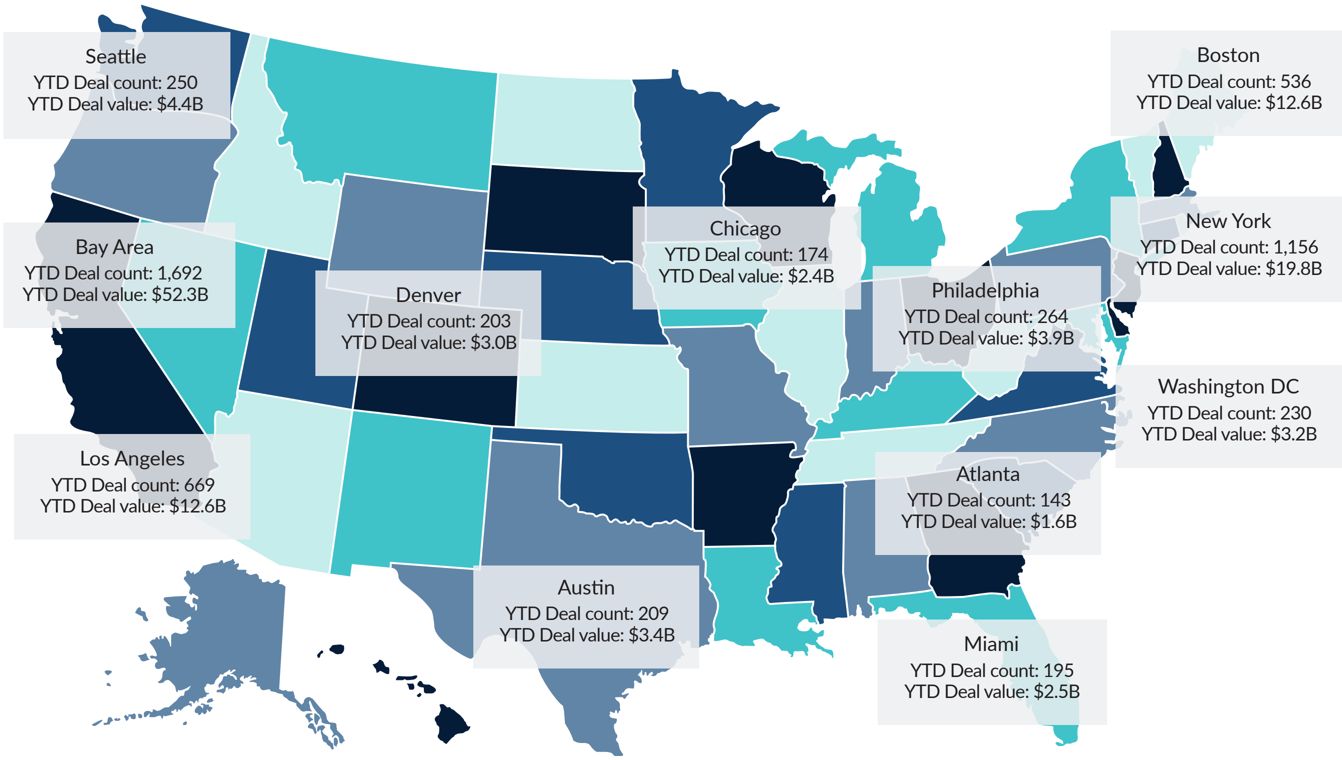
Changing talent landscape

The employment relationship today is much different than two years ago, as the power has shifted from employer to the employee. The pandemic resulted in a more demanding employee base desiring personalized work arrangements, most of which do not align with pre-pandemic notions and geographic requirements. The scarcity of skilled and willing applicants has driven up their price both in salary and benefits expectations. Beyond pay levels that border on uneconomic for some companies, many employees are seeking child and elder care benefits, shorter work weeks, and flexible schedules to meet family needs and lifestyle preferences. Success in today's employment market requires forethought, creativity, and flexibility.

Following these tips can help any company find predictability in a world of uncertainty. By keeping human capital management strategies at the forefront of changes, startups increase their chances of success.

Regional spotlight

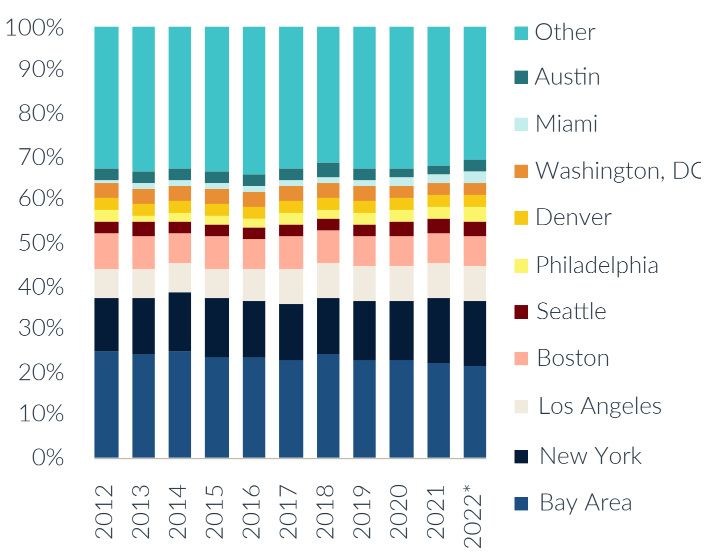
*Momentum of 2021 has carried through into most active markets**



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

New York seeing growing share of deal count

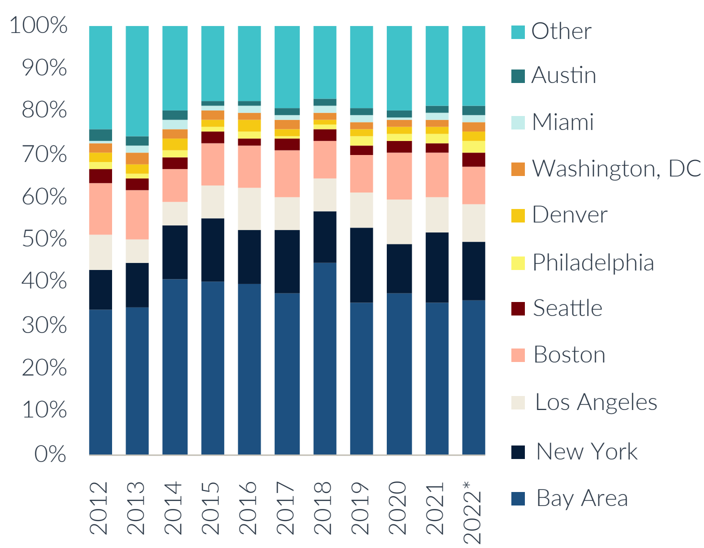
Share of US VC deal count by CSA



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Top four markets drive 68% of deal value through Q2

Share of US VC deal value by CSA



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

A WORD FROM J.P. MORGAN

Inside the venture ecosystem

"Over the last quarter, the pace of fundraising has slowed sharply and valuations (mostly in the later stages) are beginning to correct. We expect valuations will come down across all investment stages as this cycle plays out –in our view, a healthy resetting of the bar. But if the next few months are as quiet as we anticipate, founders will need to make some tough choices to preserve runway. Meanwhile, with IPO markets currently challenged, a consolidation wave could be just around the corner."
–Pamela Aldsworth, Head of Venture Capital Coverage for J.P. Morgan Commercial Banking

Given all the tumult that has occurred thus far this year, which are the principal risks for the venture ecosystem that have not been discussed as much as you would have expected?

We see risk that the oft-heralded buffer of dry powder reserves may not provide as much support as expected across the venture ecosystem in this downturn. There has been a lot of talk over the past several years about the record $290.1 billion of venture capital (VC) dry powder in the US and how this could help cushion a pullback. But we have heard very little real discussion about what happens to that dry powder when markets aren't continually up and to the right. We are in the early innings of seeing how reserves will help support portfolio companies in a period of prolonged market weakness; we think it's likely this dry powder will be spoken for—and allocated—more quickly than expected.

In addition to dry powder for new investment opportunities, VCs typically hold meaningful reserves in their funds representing 50%-200% of invested capital to support portfolio companies. In normal times, these levels of reserves are appropriate and can be fungible within portfolios to support individual companies struggling for specific reasons. With valuations compressing and fundraising challenging across the board, investors are being forced to prioritize portfolio companies and allocate reserves in a way we've not seen in nearly a decade. This could leave under-performers with less support than expected.

One area we are watching is how many rounds are getting done with new lead investors that obtained voting rights. This has started to drop from just over 19% in 2021 to 18% so far in 2022. We think this reflects that many investors are hesitant to take new lead positions in companies that now appear significantly overvalued from prior financings.

Markdowns in private valuations are occurring amid layoffs and other signs of distress. Across your clients or in the broader market, how does that trend vary by sector?

We see less variation by sector and think it depends more on timing of the last capital raise, valuation, and liquidity runway. While the overall percentage of down rounds has been modest at 5% and concentrated in the later stages thus far, we expect valuations will correct across all stages as this cycle plays out. We expect fundraising to be very quiet this summer.

Two cohorts we think are most vulnerable in this environment include companies that last raised in 2020 or 2021 and those that had planned to IPO in 2022.

Companies that raised in late 2020 or the first part of 2021 at elevated valuations would have expected to raise additional capital within the next six to 12 months (presuming the raise provided liquidity for 18-24 months). Unless proactive in raising additional capital late last year or in early January, these companies are likely going to need additional liquidity sometime this fall—currently an unenviable prospect; for many, a flat round would be a good outcome.

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

If a flat round is not achievable, companies will be left with a choice of a clean structure-free down round or a better valuation with more structure (like liquidation preferences and participating preferreds). Capital with too many strings attached may not be ideal for a young company and can limit options down the road. While a down round might sting a little more in the short run, it's less constraining and may provide a better construct if additional private capital is needed prior to an IPO.

For companies in the pipeline to go public in 2022, liquidity could become a factor the longer that exit option remains constrained. We are seeing an uptick in companies exploring bridge facilities, mezzanine financings or later stage private raises to extend runway and/or evaluate alternative exit strategies such as M&A.

According to Keith Canton, Global Head of Private Capital Markets for J. P. Morgan, the market for private raises is open to issuers and capital is available. However, valuations are under pressure and companies should be prepared to potentially include structure to achieve target valuations as investors have become more selective and are increasingly focused on a company's path to profitability. In addition, investor composition has shifted as several crossover investors have scaled back on private investing in recent months. This has removed a large pool of capital that helped drive private market activity over the past few years.

Venture is more correlated to public markets than some may suspect, especially given the influx of nontraditional investment firms—hedge funds, for example—in the past several years. Recent volatility in equity and bond markets could cause some investors to adjust their strategies in private markets. What are your thoughts?

According to Kristin Kallergis Rowland, Global Head of Alternative Investments, J.P. Morgan Private Bank, family offices and high-net-worth individuals have been slowing commitments to private investments including venture capital over the past three months. Part of this shift can be attributed to record commitments in recent years, and rising concerns about recession. The sharp selloff in public equity and bond markets has also left many investment portfolios overweight in private investment relative to targeted allocations for the time being.

In terms of liquidity management, there are different levers for companies to pull in times of hardship such as these. What are some best practices for venture-backed businesses given the current macro environment?

With the more challenging fundraising environment, liquidity management is paramount. While 18-24 months of runway is appropriate in normal times, a more challenging environment calls for enough cash to run the company for at least two years, if not three.

Of course, if a startup has the ability to raise more capital in this environment, even at a flat round, that is a good option.

The other option is to slow cash burn. Here, headcount is almost always the largest and easiest lever to pull. Expensive leases are hard to get out of, and marketing spend can't be quickly turned off. We are already seeing some established and late-stage companies reduce their labor forces, while early-stage companies would be prudent to slow hiring plans. We expect we will be hearing a lot more about work force reductions across the startup ecosystem in the coming few months.

Turning to exits, any period of dislocation and downturn in valuations could potentially produce an environment that could be more favorable to prospective acquirers as some businesses may now be viewed as bargains. However, it still is relatively early in this tumultuous period. What are your thoughts on how and when this could transpire?

We are currently in a period of price opacity, with buyers and sellers far apart in terms of valuation expectations. Potential sellers are digesting the sharp correction in public market valuations—and growth premiums in particular—and how this translates to private valuations. At the same time, buyer confidence has been challenged by the market turbulence over the last several months. There is reluctance to make a deal now, with elevated uncertainty if valuations fall further.

That said, the longer IPO markets remain quiet, more venture-backed companies could evaluate M&A. It's also possible VCs could look to merge early-stage companies within their portfolios to pool cash and consolidate fixed expenses. In the last tech-led downturn in 2000-2001, we saw a large wave of acqui-hires, where companies were bought specifically for engineers. In today's tight labor markets, a good acqui-hire could bring in a lot of new talent at the same time.

Once there is more stability in the markets, we expect to see a pick-up in M&A activity within the innovation economy as many of the underlying fundamentals for a healthy M&A environment remain intact. There is significant liquidity on the sidelines—$2.0 trillion of cash on corporate balance sheets in the S&P 500 and another $748.8 billion of US private equity dry powder.

According to Fernando Rivas, Head of North America Investment Banking at J.P. Morgan, some of the best M&A deals are done in volatile and tough markets. If a company comes into a period of market volatility in a strong liquidity position and prepared for M&A, dislocation can provide opportunity. However, this is more the exception than the rule as M&A is confidence-dependent and pro-cyclical. Instead, we usually see deal activity slow when the market backdrop is choppy.

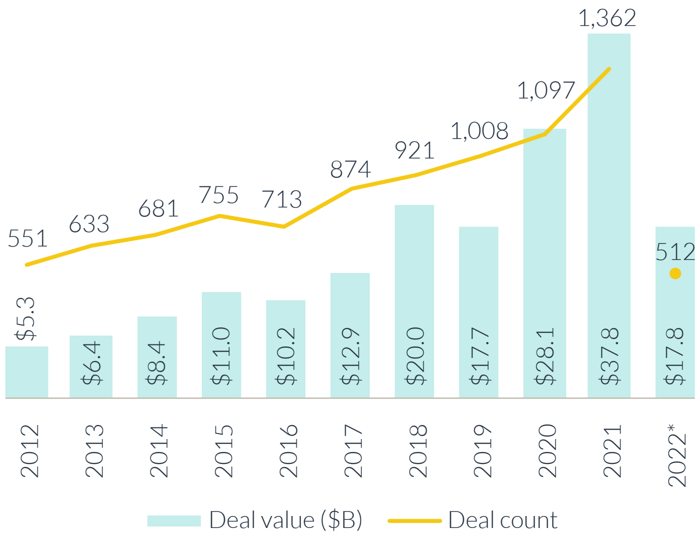
What other trends or developments are you monitoring in this environment?

The fallout from the recent crypto sell off is in early days. Given the inherent lack of transparency in that market, we likely do not have the full picture of exposures within the venture ecosystem. While approximately 5% of US VC dollars went directly into blockchain and crypto startups in 2021, that probably understates the exposure among both traditional and crossover venture investors given reports of leverage. We see a large swath of participants—mostly crossover and retail—exiting and unlikely to re-enter the crypto markets any time soon. VCs—with their long-view of tech developments—are likely to stay the course.

Biotech & pharma

H1 deal value exceeds pre-pandemic full year levels

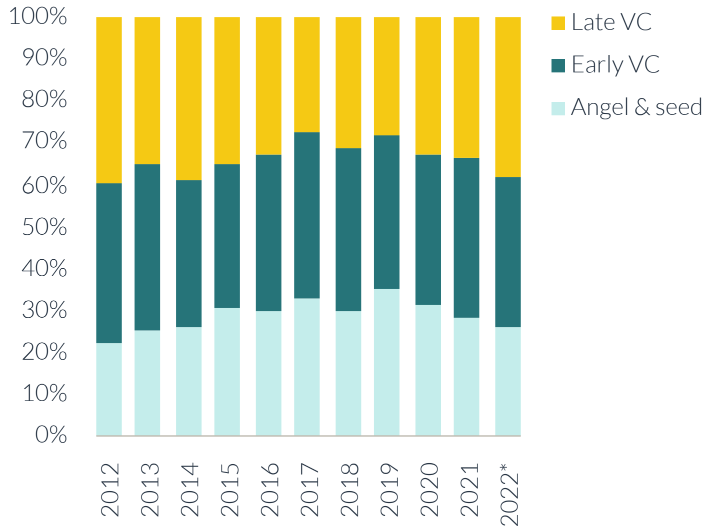
US biotech & pharma VC deal activity



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Investor focus on late-stage deals persists

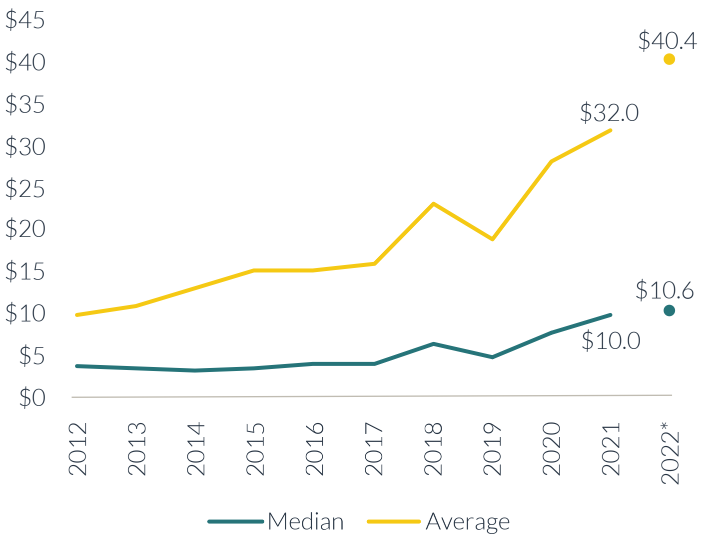
Share of US biotech & pharma VC deal count by stage



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Average deal size grew more than 25% over prior year

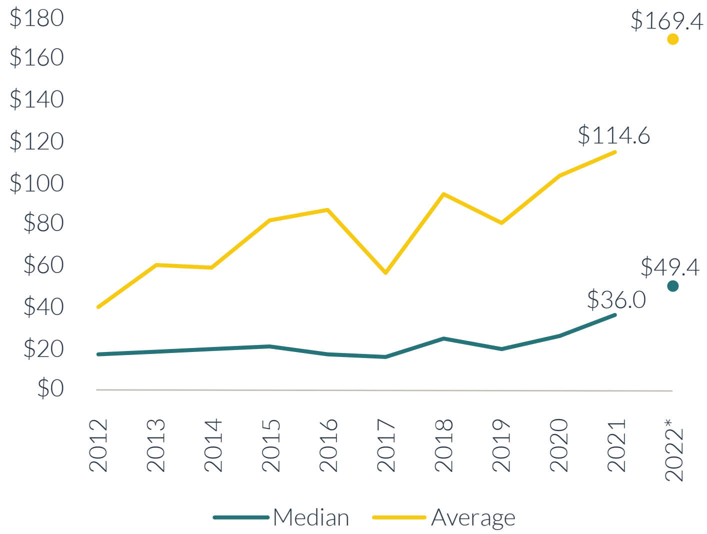
Median and average US biotech & pharma VC deal sizes ($M)



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

H1 valuations reach record highs

Median and average US biotech & pharma VC pre-money valuations ($M)



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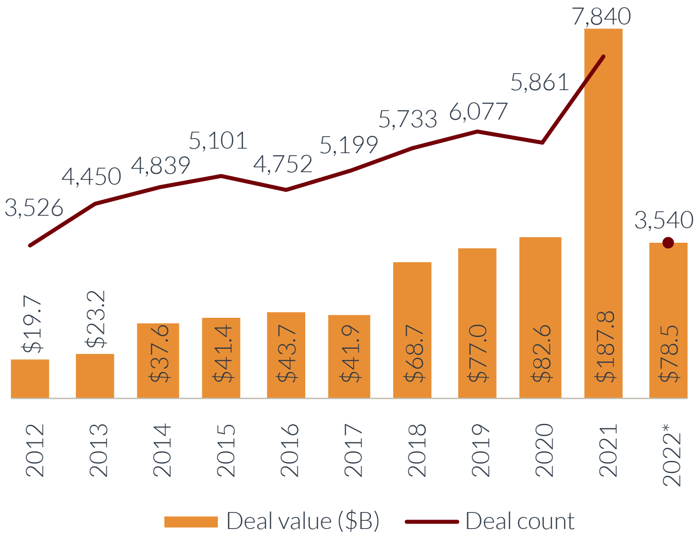
*As of June 30, 2022

Enterprise tech

H1 deal value nearly exceeds 2020 full year figure

US enterprise tech VC deal activity



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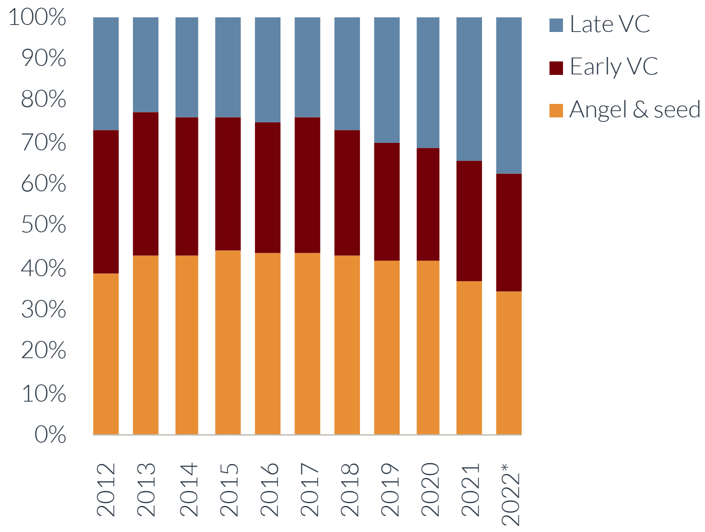
*As of June 30, 2022

Appetite for late-stage deals increases

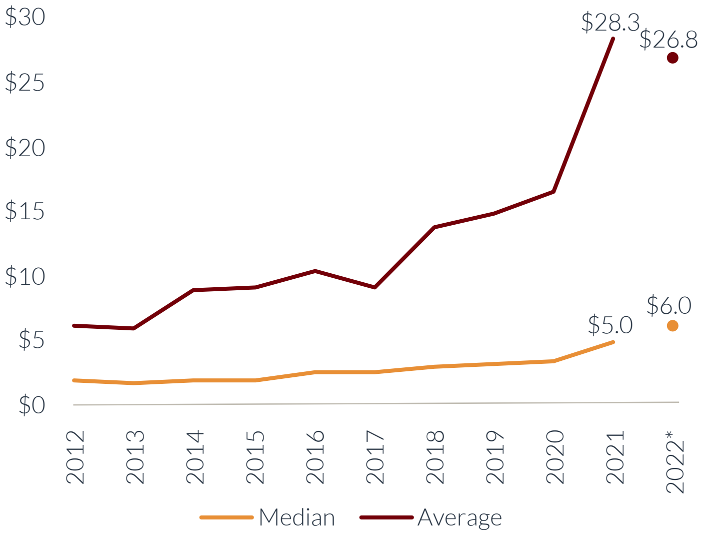
Share of US enterprise tech VC deal count by stage



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Average deal size continues to shrink

Median and average US enterprise tech VC deal sizes ($M)



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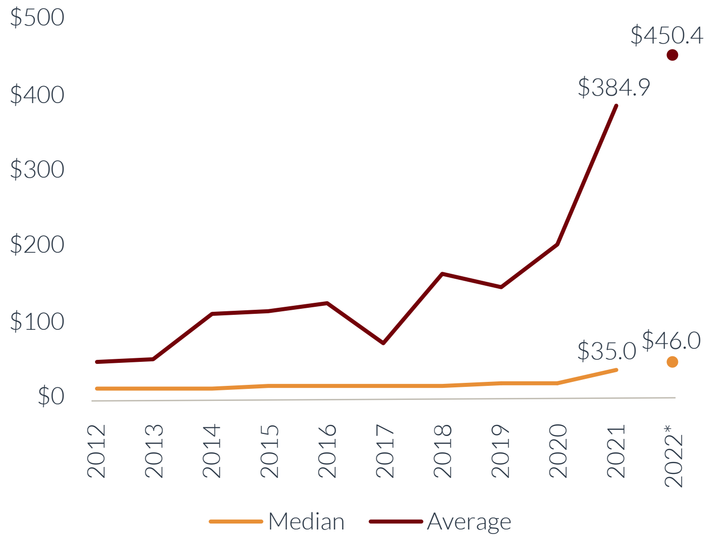
*As of June 30, 2022

Average valuations increase despite drop in average deal sizes

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



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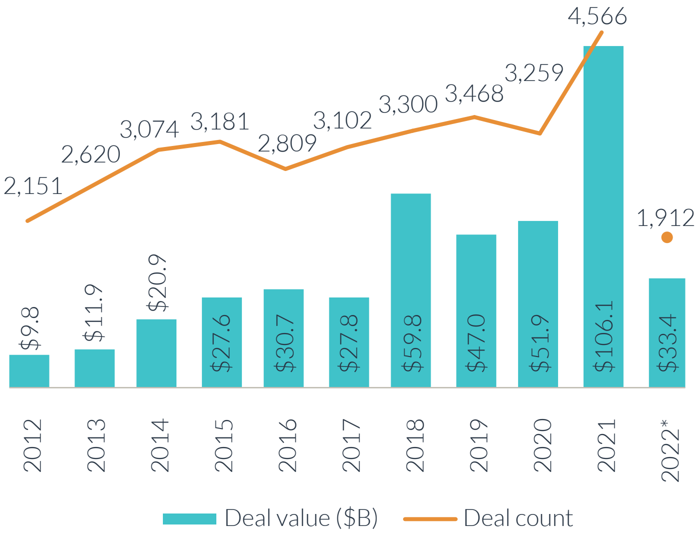
*As of June 30, 2022

Consumer tech

Consumer tech deal activity drastically declines

US consumer tech VC deal activity



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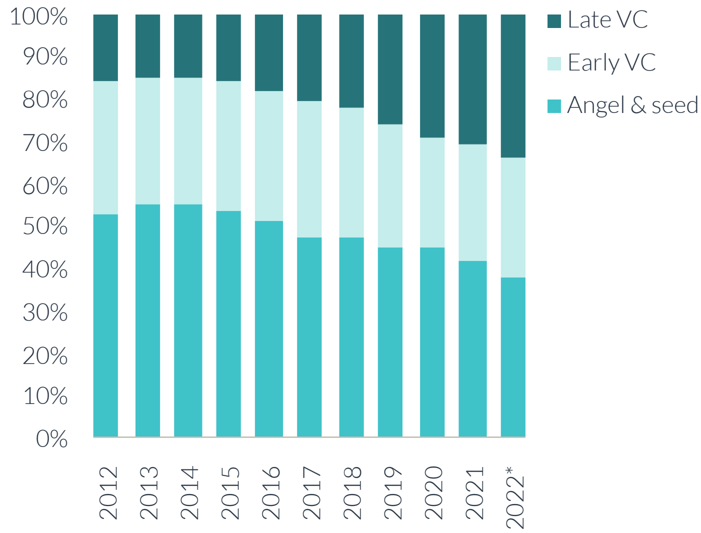
Share of late-stage VC deal count expands

Share of US consumer tech VC deal count by stage



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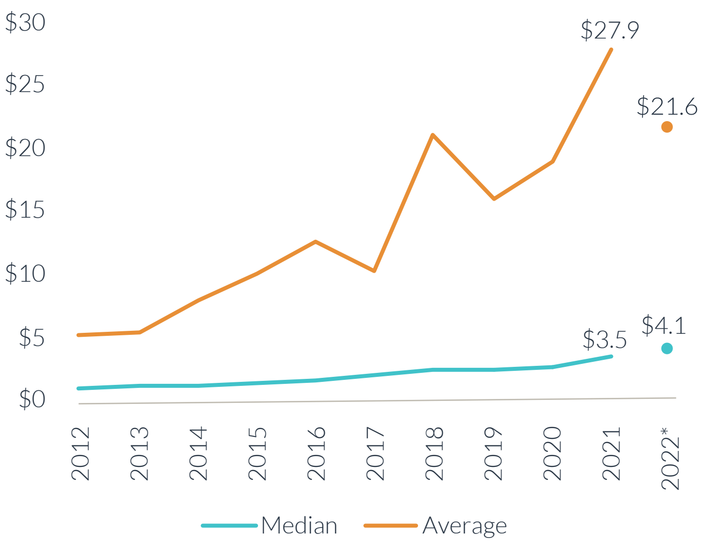
*As of June 30, 2022

H1 average deal sizes plunge

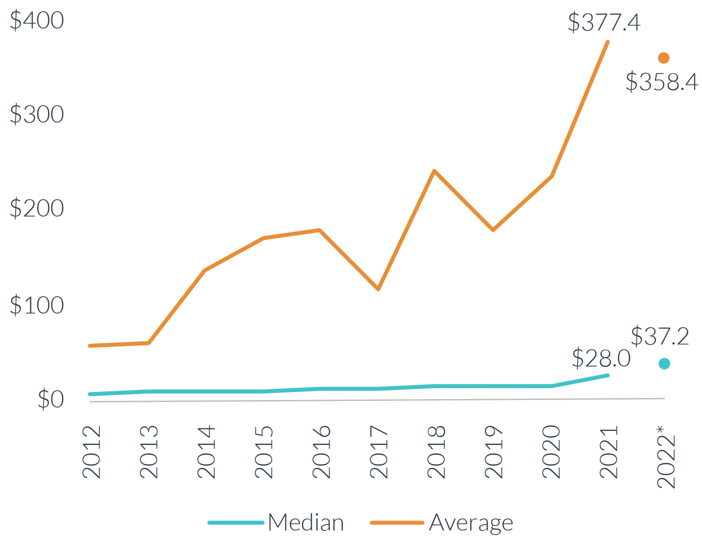
Median and average US consumer tech VC deal sizes ($M)



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Median valuations show strong upward momentum

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

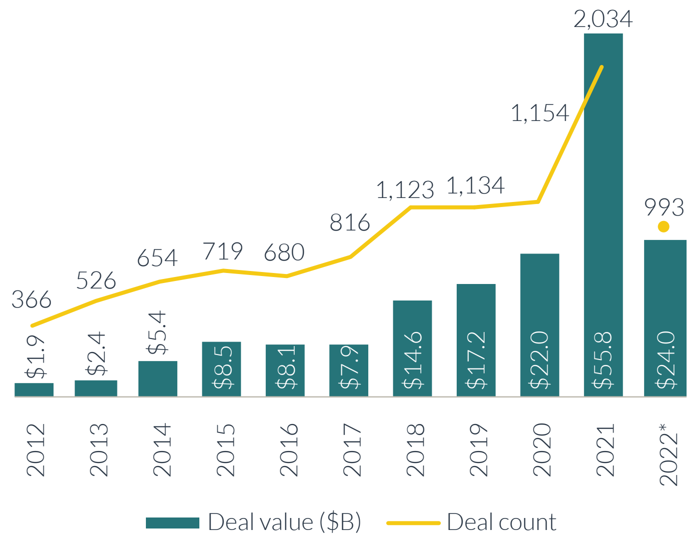


PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Fintech

H1 deal value exceeds 2020 figures with deal count to follow

US fintech VC deal activity



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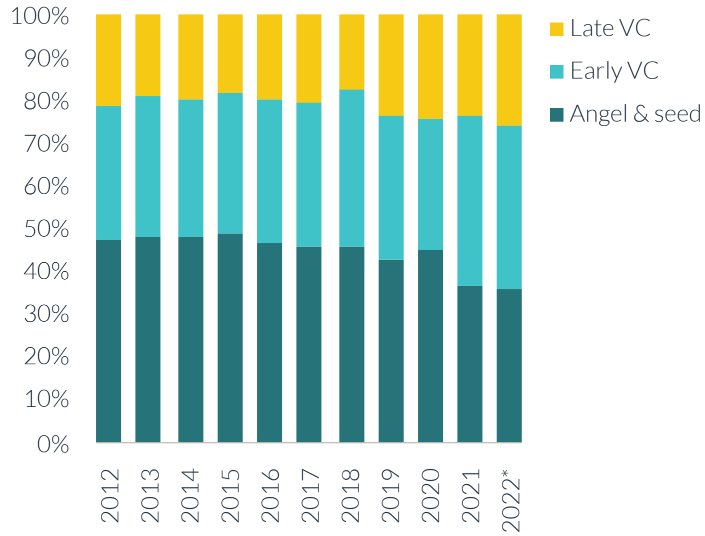
*As of June 30, 2022

Angel, seed, and early VC activity slightly wane

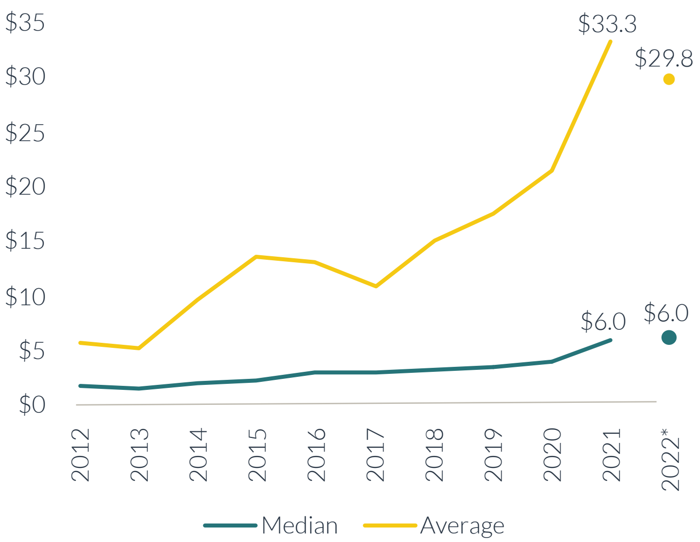
Share of US fintech VC deal count by stage



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

H1 median deal size equal to 2021 figures while average falls

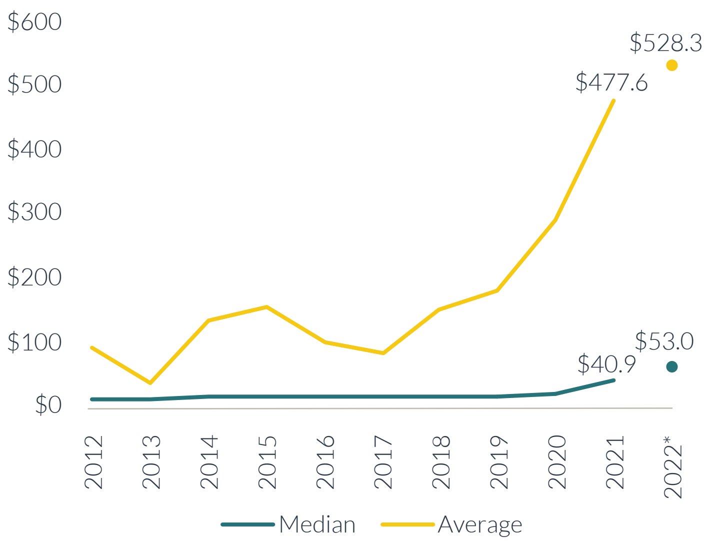
Median and average US fintech VC deal sizes ($M)



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Average and median valuations flourish despite declining deal sizes

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



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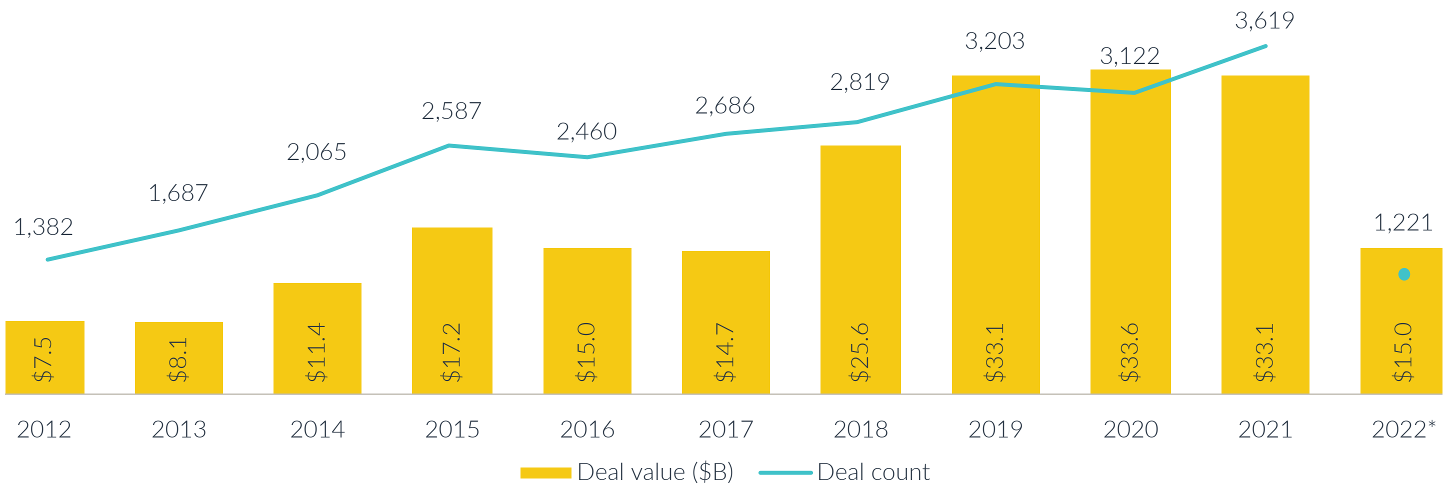
*As of June 30, 2022

Venture debt

Venture debt yet to catch tailwinds of slowdown

US venture debt activity



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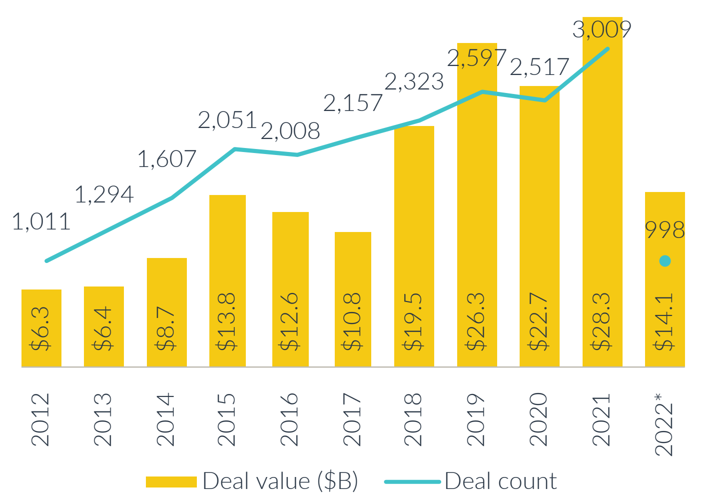
*As of June 30, 2022

Tech venture debt value pacing 2021

US tech venture debt activity



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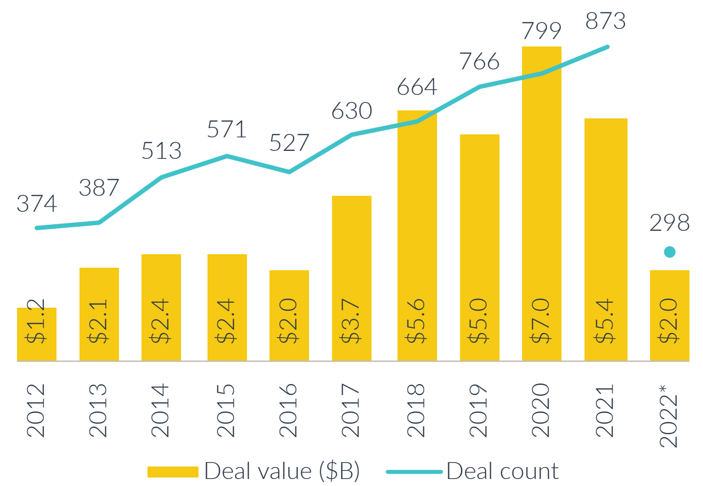
*As of June 30, 2022

Venture debt in healthcare slow to start year

US healthcare venture debt activity



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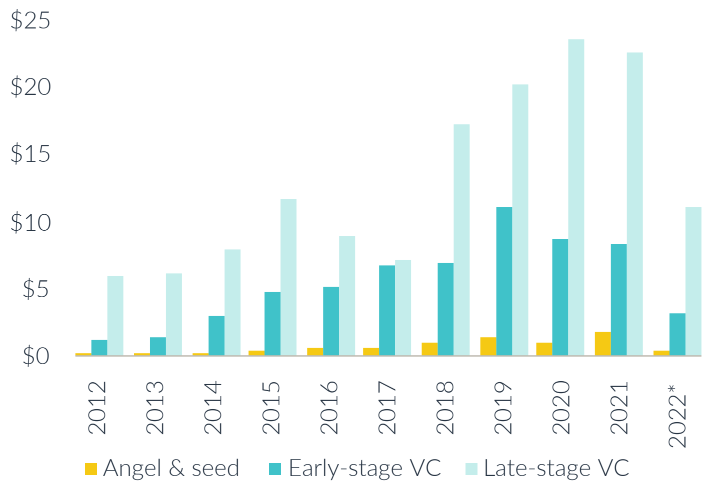
*As of June 30, 2022

Early stage finding difficult debt market

US venture debt deal size ($B) by stage



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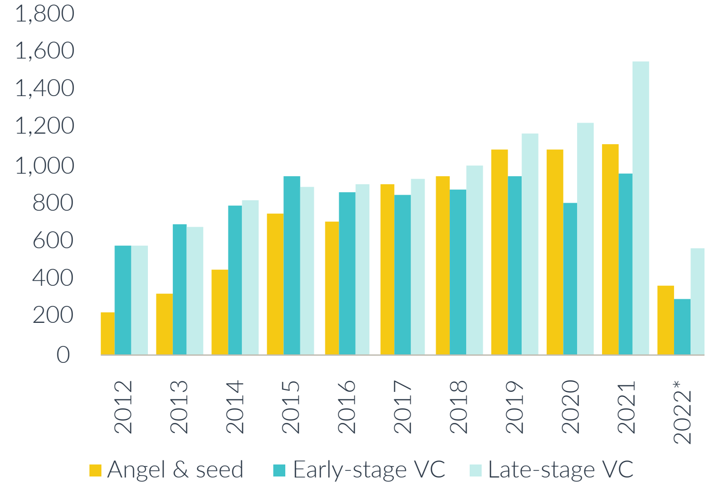
Debt trends by stage remain

US venture debt deal count by stage



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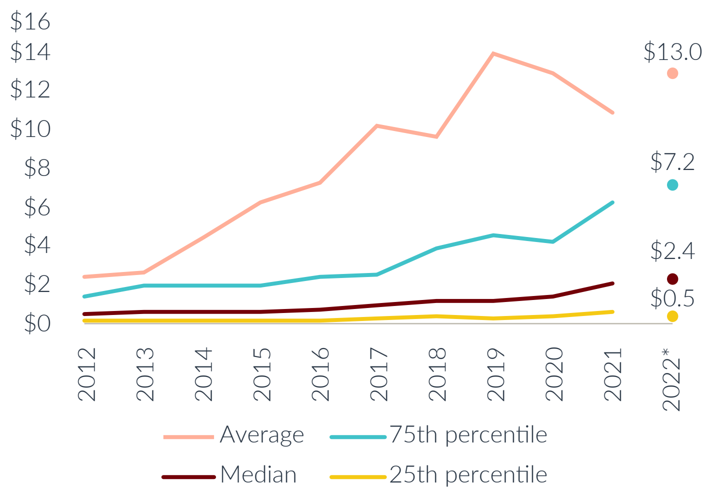
*As of June 30, 2022

Median early-stage debt size reaches new high

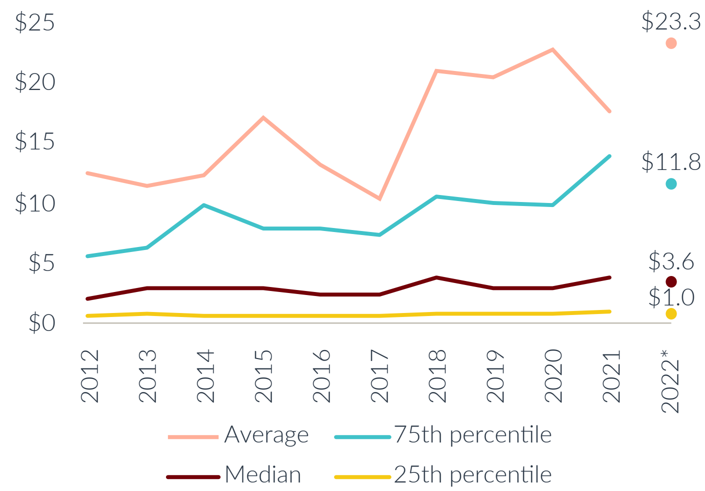
Quartile distribution of early-stage debt rounds



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Late-stage debt size average jumps

Quartile distribution of late-stage debt rounds

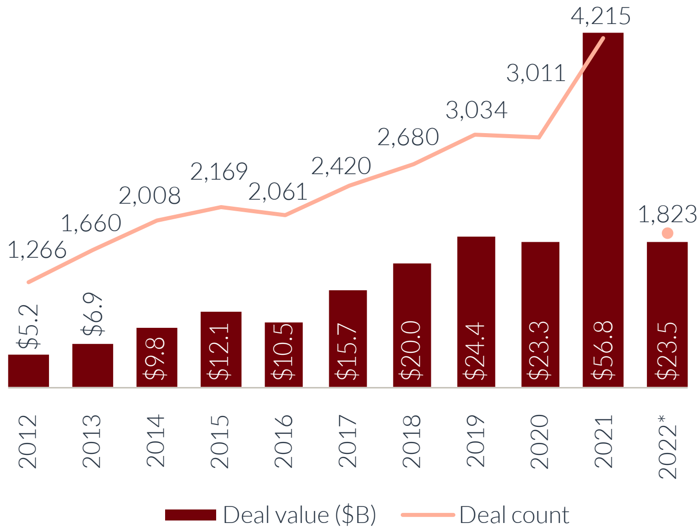


PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Female founders

2022 not keeping pace with 2021 records

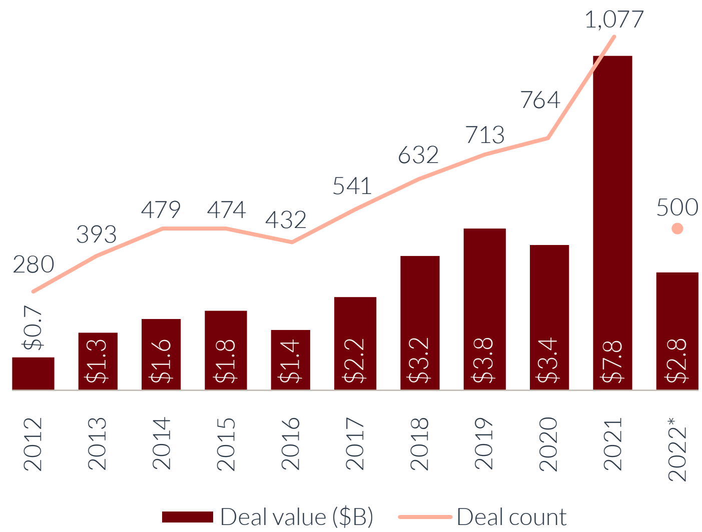
US VC deal activity in companies with at least one female founder



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Deal value slows for all-female founding teams

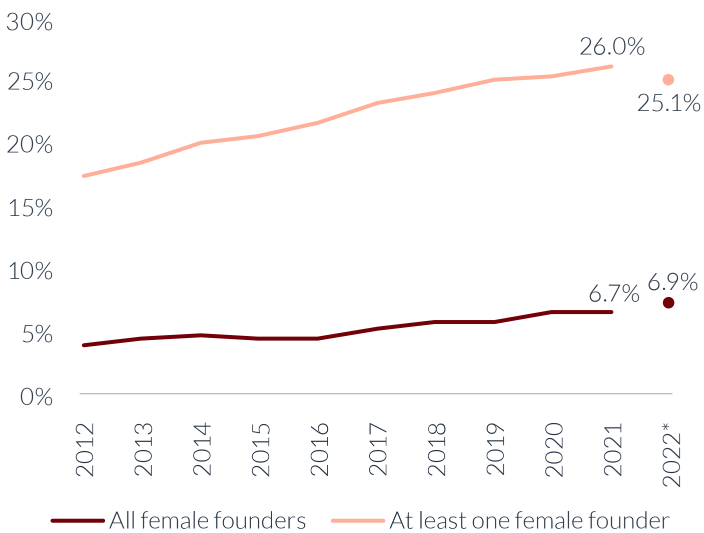
US VC deal activity in companies with all-female founder teams



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Proportion of deal count to female founders falls

Female-founded company deal count as a proportion of total US VC deal count



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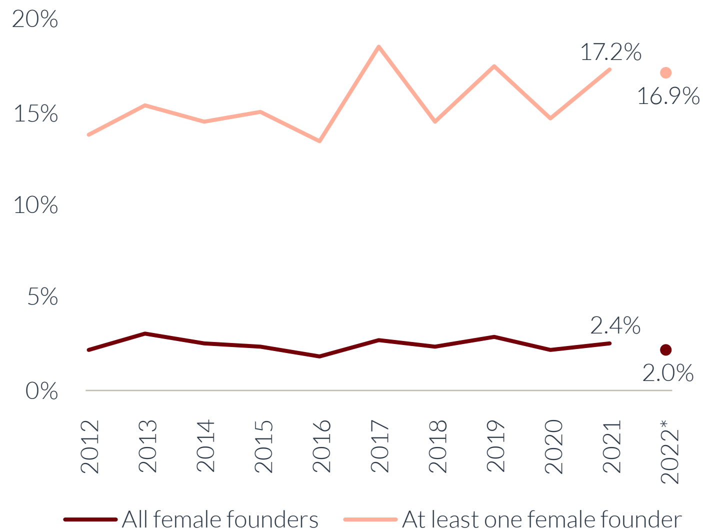
Deal value participation falls further for all-female teams

Female-founded company deal value as a proportion of total US VC deal value



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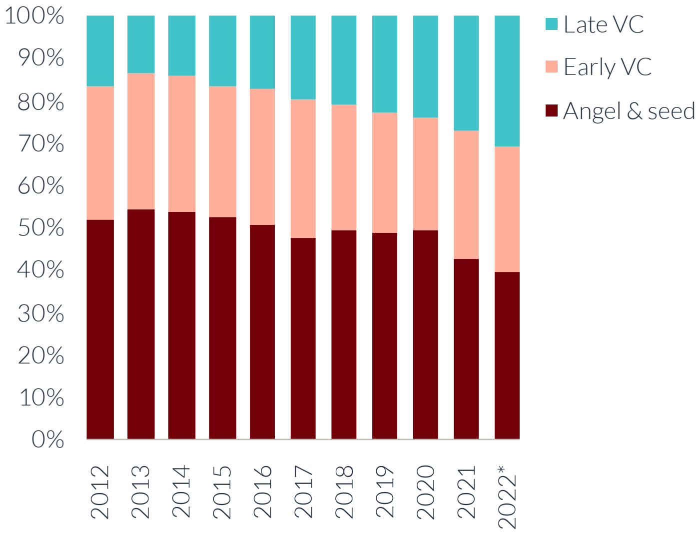
Deal count leaning more toward late stage

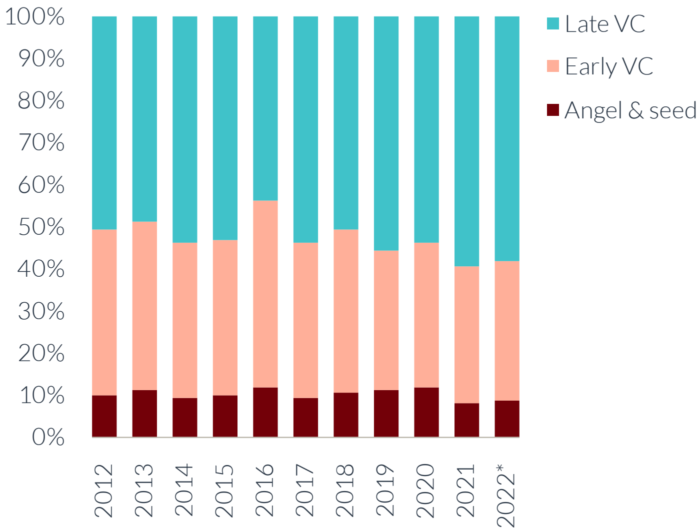
Share of US VC deal count for female-founded companies by stage



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Early-stage deals take larger proportion of deal value

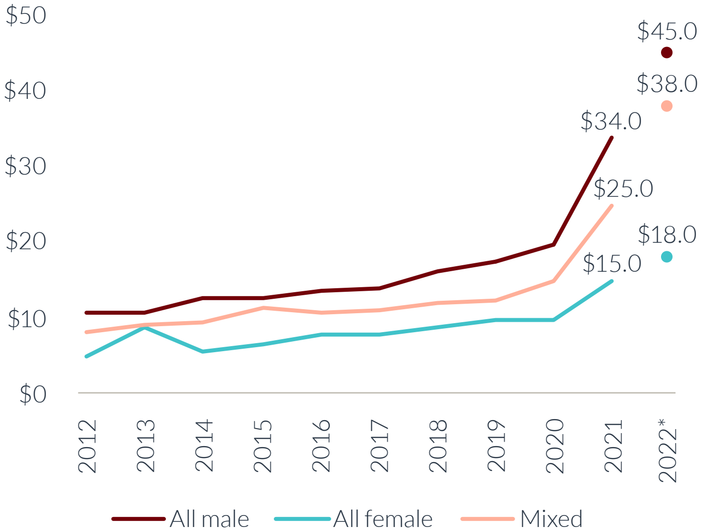
Share of US VC deal value for female-founded companies by stage



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Valuations growing for all founder mixes

Median pre-money valuations ($M) by founder gender mix



PitchBook-NVCA Venture Monitor
*As of June 30, 2022

New York leading Bay Area

Top 5 US CSAs by deal count for companies with all-female founder teams (2019-2022)

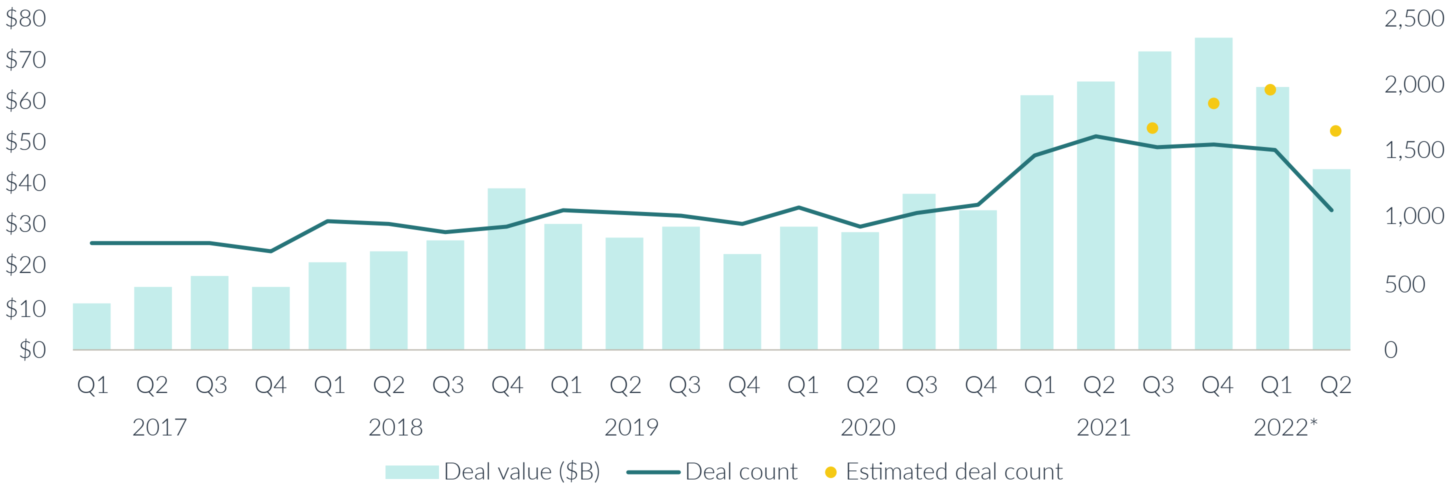
Combined statistical area	Deal count*
New York	666
Bay Area	545
Los Angeles	358
Boston	151
Washington D.C.	97

PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Nontraditional investors

Q2 fifth consecutive quarter above 1,600 deals

US VC deal activity with nontraditional VC investor participation by quarter



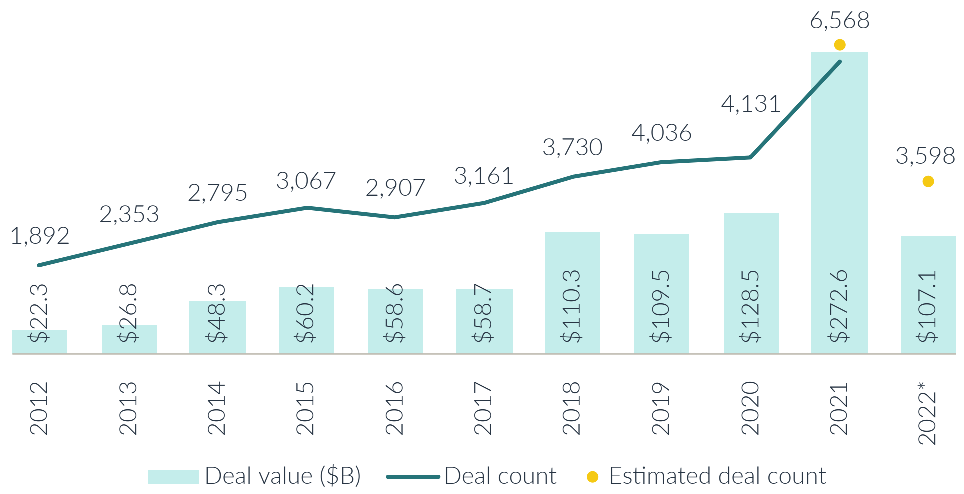
PitchBook-NVCA Venture Monitor
*As of June 30, 2022

Investment by nontraditional investors in recent years has led to many of the broader trends we've seen across the industry. From growth in deal sizes and valuations to the high numbers of mega-deals and unicorns, these investors have been a driving force for change in the VC market. While we do expect investment by this group to change significantly, the analysis behind the data is highly nuanced.

For one, the nontraditional investor group includes investors with incredibly diverse investment strategies. For instance, crossover investors—those investing in both public and private markets—will shift investment behavior much differently than corporate VCs (CVCs) due to the non-cash returns available to CVCs. Overall, nontraditional activity has been slower than 2021, with each investor type declining in deal count participation rate, except for CVCs. More importantly, deal value participation as a percentage of the total has fallen across the board. This decline has shown up in the data more than any other metric.

Despite slowdown, NTI activity still high

US VC deal activity with nontraditional investor participation



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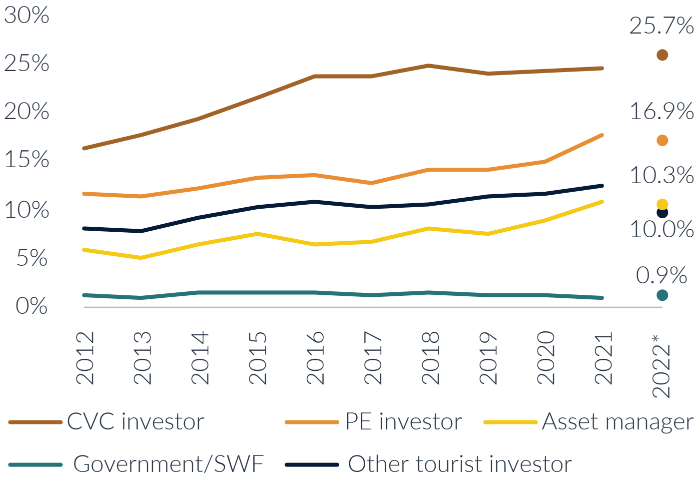
*As of June 30, 2022

CVC keeps deal count participation high

Proportion of US VC deal count by nontraditional investor type



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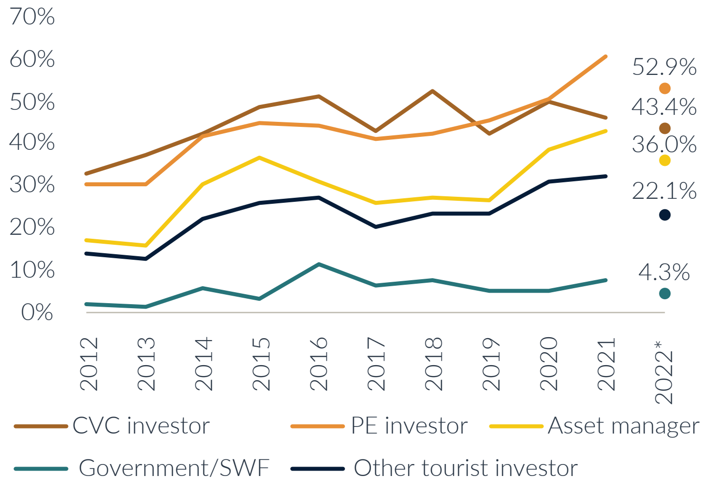
Deal value participation falls from 2021 highs

Proportion of US VC deal value by nontraditional investor type



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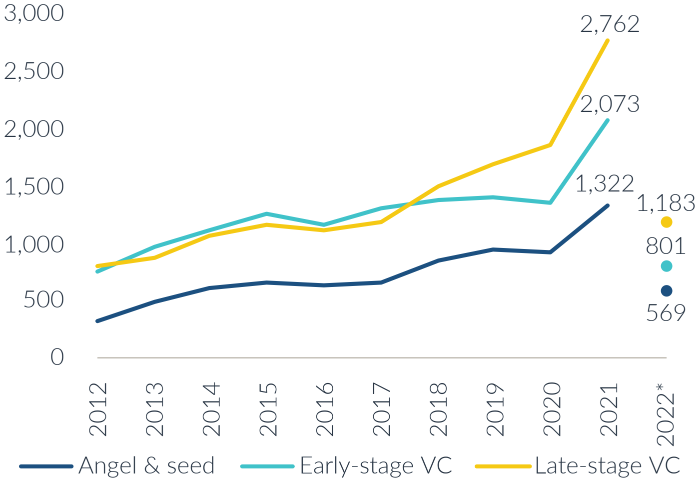
Mega-rounds, of which nontraditional investors have been a major part, are being completed at a much slower pace as growth investors take a more cautious approach due to the volatility plaguing the public markets. With the top of the venture market falling significantly, we expect there will be fewer opportunities for sovereign wealth funds to deploy capital directly into venture. Because these investors are generally so large, they need outsized deals to put a material amount of their capital to work.

Late stage still commands NTI activity

US VC deal count with nontraditional investor participation by stage



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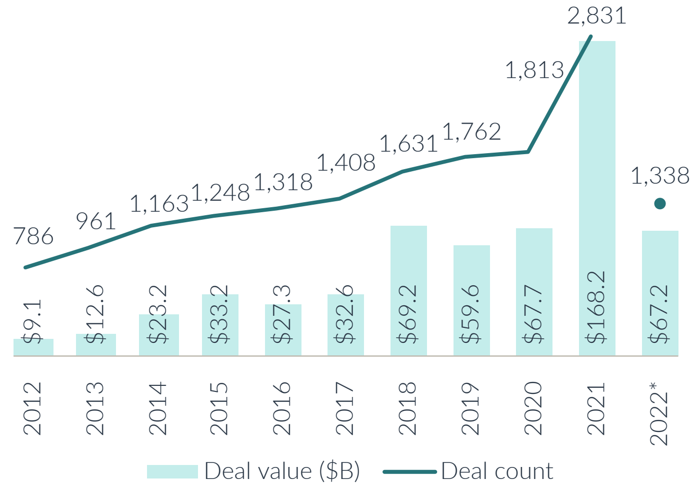
Through Q2, NTIs have led near 50% of their total from 2021

US VC deals led or solely funded by nontraditional investors



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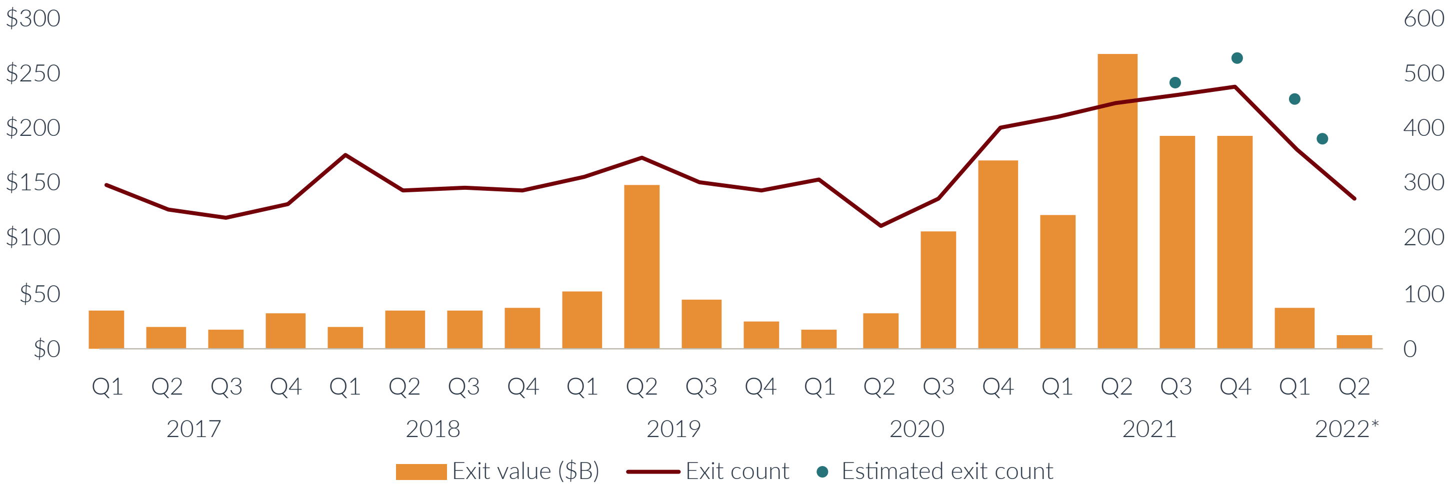
Exits

Lowest quarterly exit value since Q4 2016

US VC exit activity by quarter



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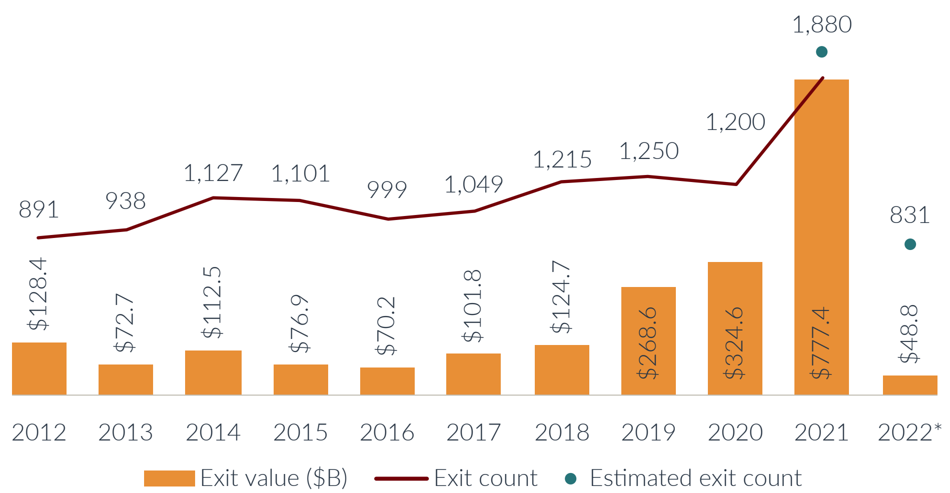
Q2 2022's exit activity was similar to Q1's, as counts are on track to match the historical level of 1,100 annual exits that we saw from 2014-2020, even as exit value has lagged the last three years. As of June 30, we've recorded an estimated 831 total exits of VC-backed businesses representing $48.8 billion in value. This is shaping up to be a significant decline YoY, which was expected. However, activity in 2022 seems to have reverted all the way to the levels we saw in 2017 and 2018. This is not to say that near $100 billion in potential exit value by year-end is a failure by any means; more so, it speaks to the growth of VC over the last couple years and the multitude of billion-dollar exits. However, if the pace of the first six months slows further, there may be some cause for concern.

Exit market pace slow through six months of 2022

US VC exit activity



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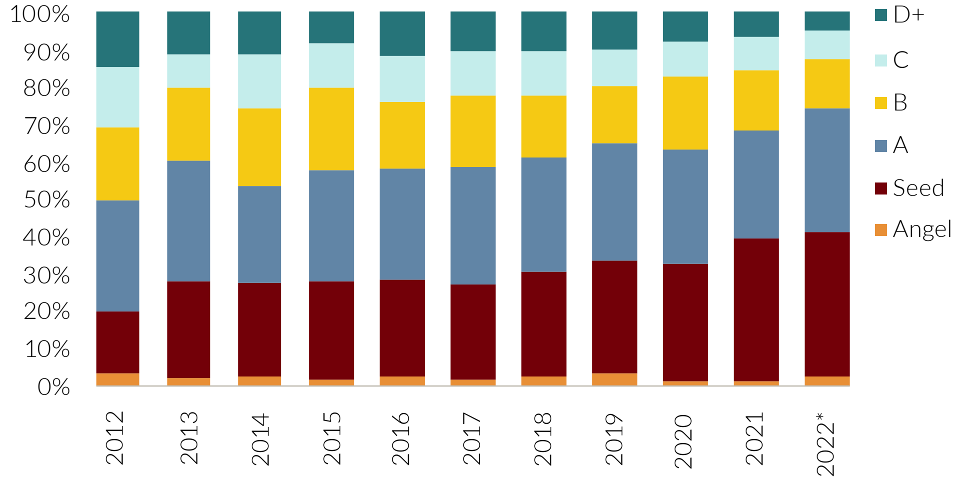
IPOs continue to be essentially nonexistent for VC-backed businesses in 2022, with only 22 closed during the first half of the year relative to 183 in 2021 and 108 in 2020 despite the market decline that accompanied the onset of the COVID 19 pandemic. This is the most marked shift in the VC exit landscape over the last six months, as the IPO window closed extremely quickly and has likely left many highly valued startups scrambling for new liquidity options. While unicorns seem to have sufficient runway to sustain operations for the first six months of the year, if a true public market liquidity gap persists for the rest of this year, we would expect to see more flat and down rounds as startups return to private markets.

Public listings have slumped as well, with special purpose acquisition company (SPAC) mergers also recording a tough quarter in which we saw general sentiment around SPACs continue to deteriorate in light of massive losses in public equities. Many announced SPAC mergers were abandoned or canceled in the wake of the reset in valuation multiples. SPAC shareholders are likely becoming more risk-averse and strongly considering their redemption rights to get their principal back rather than take on the risks of operating the business.

Acquisitions provide steady exit count, but some question whether acquisitions will become an option for those more mature startups that need liquidity on a grander scale, driving exit value back to the levels of 2019-2021. For startup buyers, a downturn in valuation should in theory kickstart a flurry of new acquisition activity. However, there are a few other factors at play that could delay or suppress that assumed uptick. First, many large public technology corporations use their stock as currency for making acquisitions, but with broad—and in some cases serious—declines in public company valuations, this isn't as attractive for sellers and could force corporations to use cash at a time when they should be more cautious. There is also the question of when startups and existing investors will accept the new valuation climate as normal, as the multiples in the public markets continue to be depressed relative to the levels of 2020 and 2021. The optics and potential return outcomes for investors that accept an exit at a price below the last private valuation may be hard to overcome; however, if a liquidity crunch lasts long enough, exiting at lower valuations could be necessary in certain cases.

Series B and earlier companies remain main target for acquisitions

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



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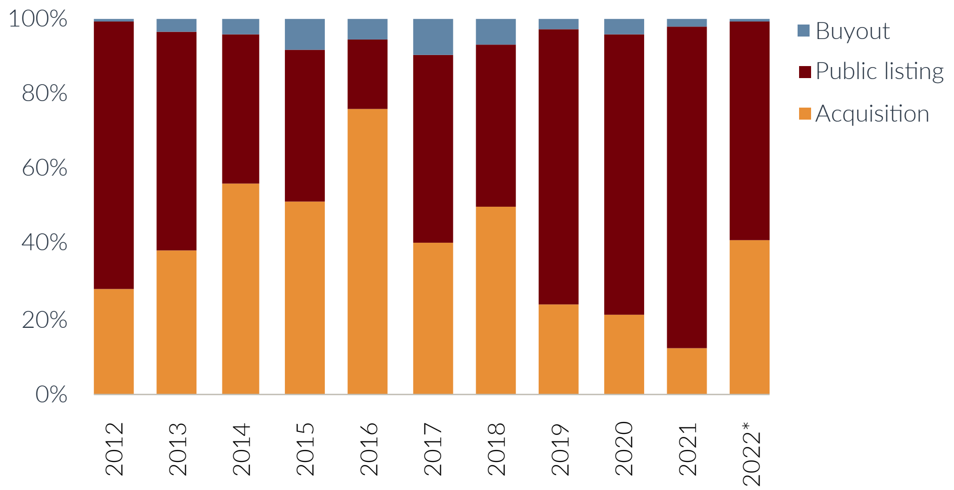
Public market woes cause significant shrink in public listing exit value

Share of US VC exit value by type



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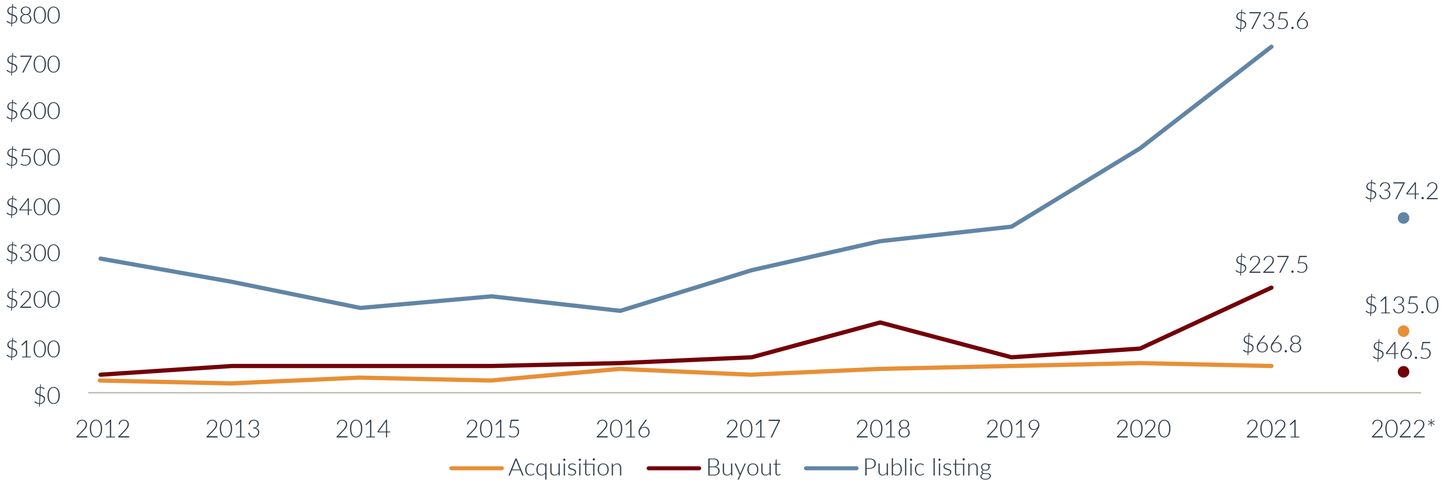
Median acquisition size displays only YoY increase

Median US VC exit sizes ($M) by type



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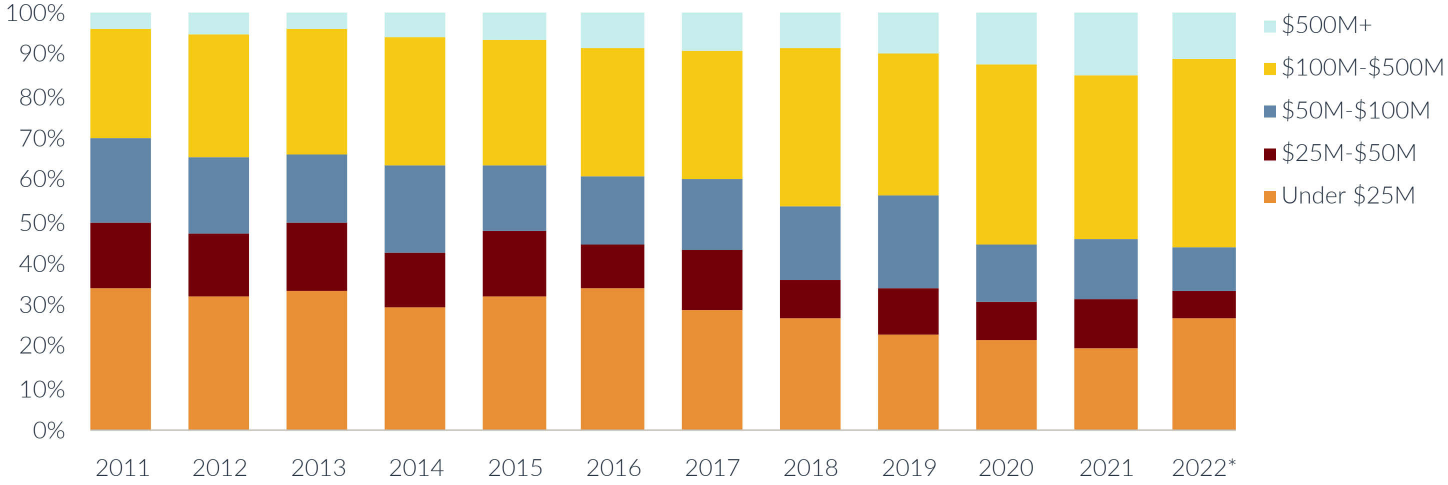
$500 million+ exits see first YoY decline since 2018

US VC exit count by size



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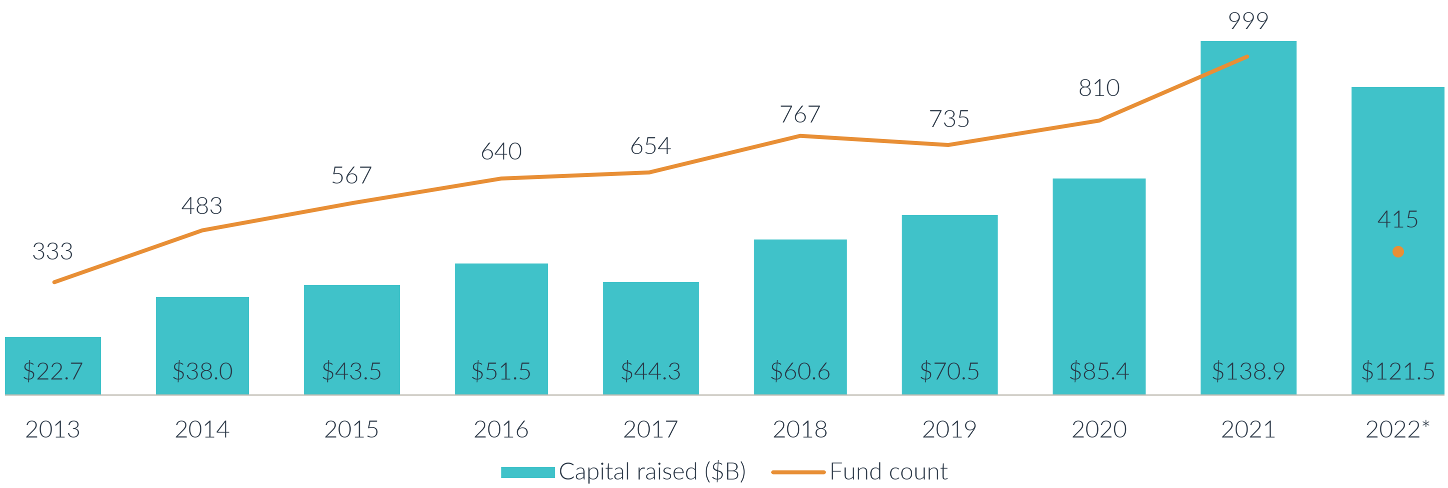
Fundraising

Massive funds drive second-highest year for VC fundraising

US VC fundraising activity



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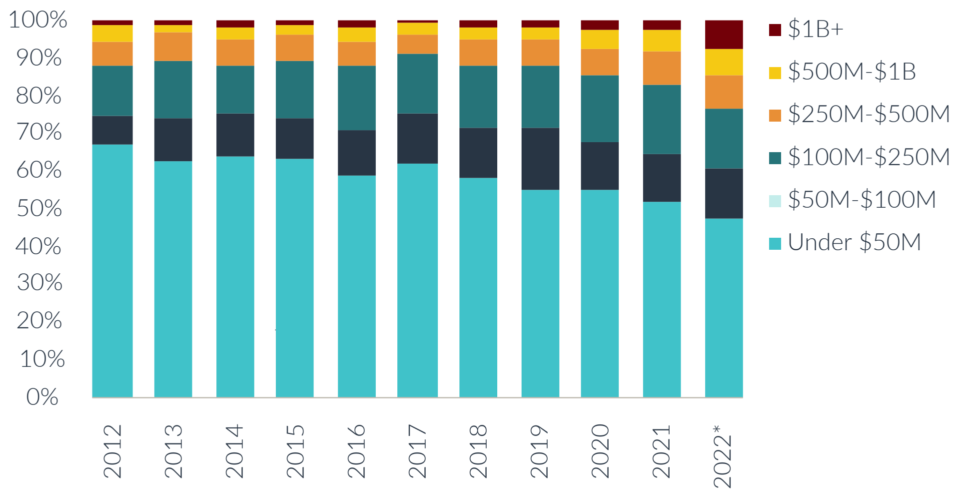
Limited partner (LP) capital continues to flow into venture for funds closing in the first half of the year, which does seem contrary to the trends in broader financial markets. However, it's important to note the timeline of a fundraise, which means that many of these funds were already in discussions far before the current volatility in public equity markets. Furthermore, the capital totals are spread across a relatively low number of funds, as high-profile VCs' massive funds are met with demand seemingly without regard to market conditions, while a majority of the market sees lower close rates. Market downturns have historically been successful periods for investing in VC assets from a fund return standpoint, but it's likely the recent success in fundraising was just sustained momentum from 2021—not from LPs seeking to time the market.

Incumbent funds maintain momentum from 2021's success

Share of US VC fundraising count by size



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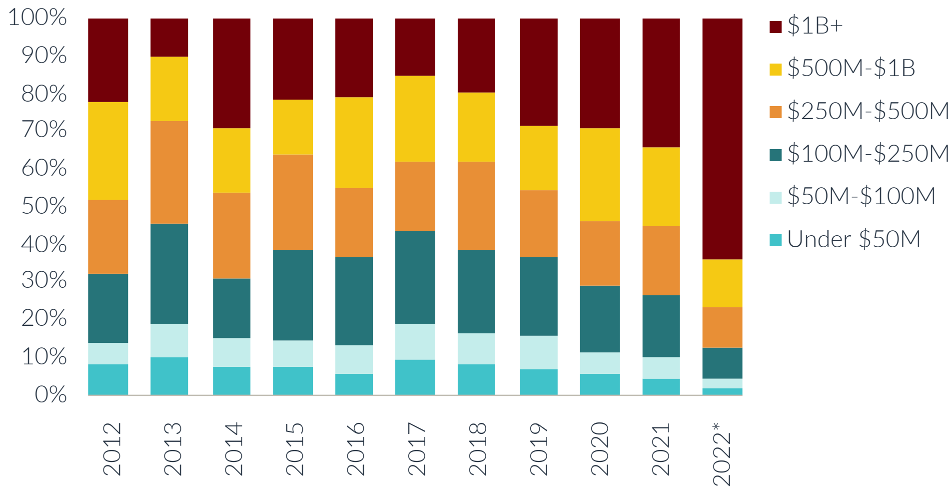
Through six months, we tracked $121.5 billion closed across 415 funds, making 2022 already the second-highest year on record for US VC fundraising and the second consecutive year this total has been more than $100 billion. This historically high total has been the result of a handful of massive funds—Andreessen Crypto, Accel, Bond, Lead Edge Capital, and Left Lane Capital—all closing on more than $1 billion in Q2 2022. If just a few other funds of this size in the market are to close by the end of the year, 2022 could realistically become the highest-ever year for total capital raised, which would be a surprising twist given the year's macroeconomic climate. However, this could also be a case of managers rushing to close funds this year as, depending on the timing and severity of the market correction, 2022 may be the last year in which LP capital is relatively easy to secure.

On the other end of the spectrum from those mega-funds, the percentage of total capital going to emerging managers moved to a new decade low. This highlights the dichotomy we're seeing between fund count and value as these smaller managers are not being met with the same levels of LP demand that their established counterparts have enjoyed in 2022. Through the first six months of the year, we've seen nearly an 80/20 split in the capital going to established versus emerging managers. First-time fundraising is slightly muted relative to last year but so far looks to be on much better pace than in 2020, when we only recorded $7.9 billion raised in the whole year to new managers. Undoubtedly, a downturn in broader sentiment around VC and growth assets will be felt more sharply by first-time or emerging managers as LP relationships potentially become harder to establish. We expect an even larger split of capital to flow to the incumbent firms if we experience a sustained period of economic decline.

Billion-dollar funds post record year

Share of US VC fundraising deal value by size



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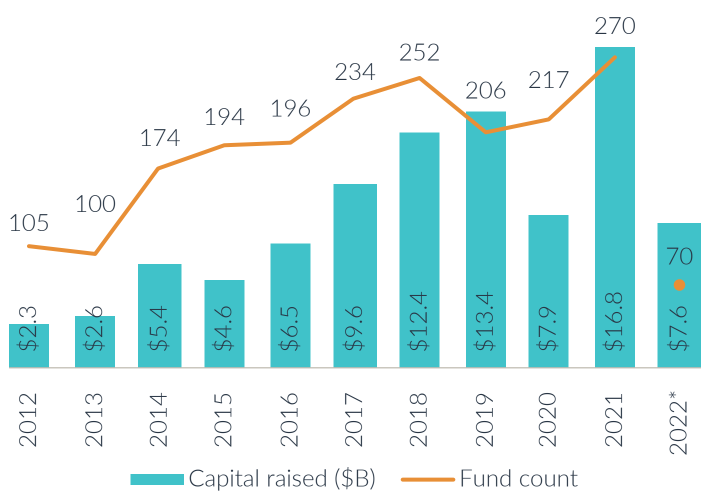
The bear market in public equities and negative performance plaguing many other asset classes outside of alternatives make it likely that some LPs may run into allocation limits over the next 12 months. This is a reversal of the denominator effect we've seen over the last decade or more, which was characterized by positive public market performance and encouraged an increasing pace of private equity and VC commitments. The pace of funds closing over the next two quarters should be closely monitored to determine if or when fund counts might begin to slow.

First time funds find some success but face tough road ahead

US VC first-time fundraising activity



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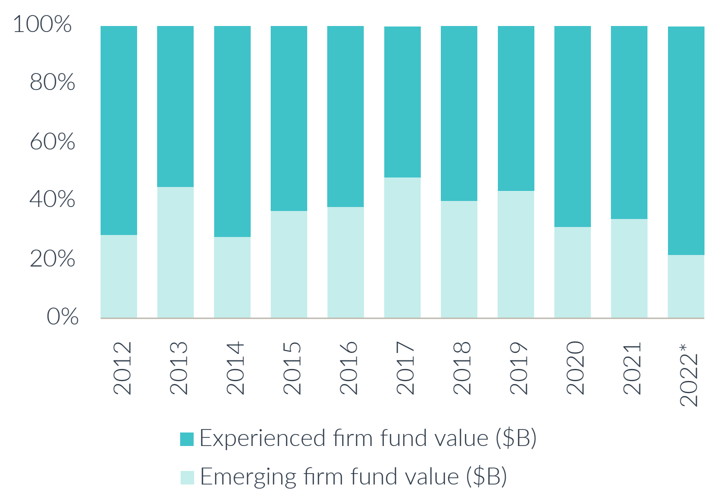
Emerging managers record decade-low percentage of total capital

Share of US VC fundraising value by emerging or experienced firms



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Q2 2022 league tables

*Most active investors angel & seed**

1	Y Combinator	29
2	10X Capital	26
3	Alumni Ventures	23
4	Gaingels	19
5	Plug and Play Tech Center	18
6	Soma Capital	16
6	Andreessen Horowitz	16
8	SOSV	15
8	Techstars	15
10	Innovation Works	14
11	Connecticut Innovations	12
12	The Fund	11
12	Global Founders Capital	11
14	Precursor Ventures	10
15	Shima Capital	9
15	FJ Labs	9
15	Expert DOJO	9
15	Coinbase Ventures	9
15	BoxGroup	9
15	Balaji Srinivasan	9
21	SV Angel	8
21	Animoca Brands	8
23	OrangeDAO	7
23	Service Provider Capital	7
23	Third Round Analytics Capital	7
23	ImpactAssets	7
23	New Enterprise Associates	7
23	First Round Capital	7

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*Most active investors early stage**

1	Alumni Ventures	21
2	Insight Partners	20
3	Andreessen Horowitz	19
4	Tiger Global Management	18
5	10X Capital	16
6	Y Combinator	15
7	500 Global	13
7	General Catalyst	13
9	Sequoia Capital	12
9	Gaingels	12
11	ImpactAssets	10
11	Bain Capital Ventures	10
11	Asymmetry Ventures	10
14	StartX (US)	9
14	Keiretsu Forum	9
14	Greylock Partners	9
17	Techstars	8
17	Lightspeed Venture Partners	8
17	Lux Capital	8
17	GV	8
17	Animoca Brands	8
22	Big Brain Holdings	7
22	SV Angel	7
22	Obvious Ventures	7
22	Lachy Groom	7
22	Coinbase Ventures	7
22	BoxGroup	7
22	Accel	7

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*Most active investors late stage**

1	10X Capital	22
2	Alumni Ventures	21
2	Gaingels	21
4	Tiger Global Management	20
4	ImpactAssets	20
6	SOSV	16
6	Keiretsu Forum	16
8	Sequoia Capital	15
8	General Catalyst	15
10	Accel	14
11	Insight Partners	13
12	Salesforce Ventures	12
12	Andreessen Horowitz	12
14	Goldman Sachs Asset Management	11
14	Connecticut Innovations	11
16	Valor Equity Partners	9
16	SoftBank Investment Advisers	9
16	Founders Fund	9
16	Energy Impact Partners	9
20	Revolution/ROTR	8
20	Y Combinator	8
20	New Enterprise Associates	8
20	In-Q-Tel	8
20	GV	8
20	B Capital Group	8

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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 & 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 addition, if there is a press release that states the round is an angel round, 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 for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

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 or later (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.

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 as these investors are likely to be participating at the late stages directly prior to an exit.

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.

A perfect partnership: PitchBook and the National Venture Capital Association

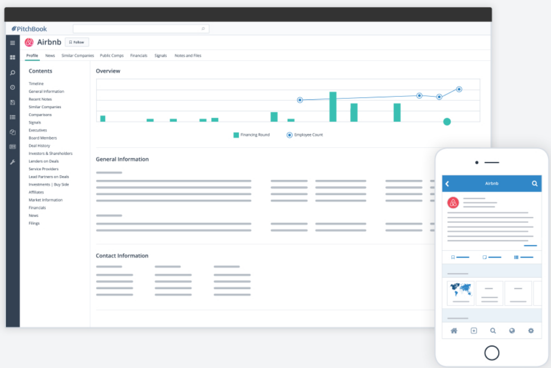
Why we teamed up

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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