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EMERGING TECH RESEARCH

H1 2023 VC Tech Survey

Venture Investors Bullish on AI, Cautious on Fundraising

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

Key takeaways

- We conducted a survey of 58 VC investors to understand their attitudes toward technology and the VC ecosystem.
- The VC community is bullish on the impacts of AI, especially generative AI, and expects it to drive innovation and growth opportunities over the next 12 months.
- 2022's "tech wreck" had a mixed impact on the industry and is viewed as having both stifled and promoted innovation in various ways.
- VC funding levels are expected to decrease moderately or strongly over the next 12 months, partly due to the collapse of SVB, but fundraising plans have not changed significantly, and 2023 is expected to be a strong vintage year for fund performance.

Executive summary

In March 2023, we surveyed 58 VC investors to take the temperature of their attitudes toward technology and the state of the VC ecosystem. Our survey was uniquely timed because it coincided with two significant events that are likely to have profound impacts on the VC industry: the frenetic adoption of ChatGPT and the collapse of Silicon Valley Bank (SVB). In general, our survey indicates that the VC community is very bullish on the impacts of artificial intelligence (AI); anticipates further declines in VC funding, partly as a result of SVB's collapse; and expects valuations to become more attractive over the next year.

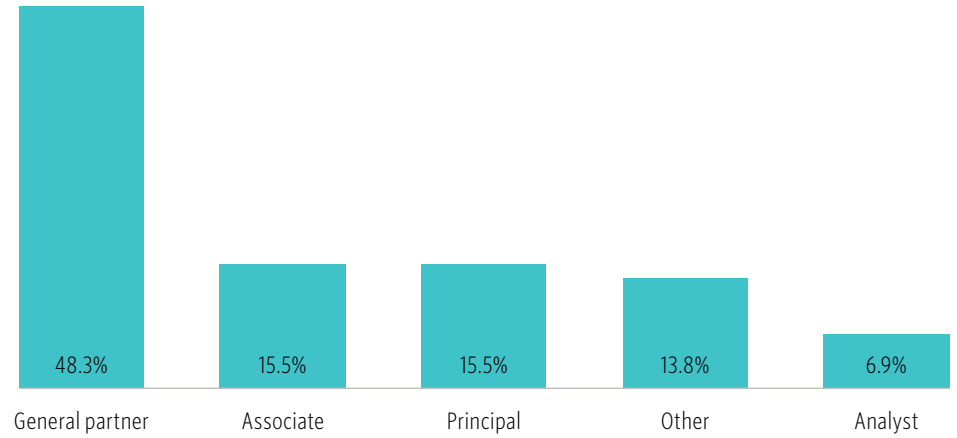
Our survey respondents represent a broad set of analysts and GPs across a wide range of fund sizes. We asked them questions related to current technology trends as well as the state of the VC funding ecosystem. Not surprisingly, this group was the most bullish on AI as being the largest driver of innovation and growth opportunities over the next 12 months. By a wide margin, they view generative AI as being "very disruptive" over the next five years and identified enterprise technology and financial technology (fintech) as among the areas likely to experience the most disruption. Accordingly, 70.7% of respondents believe it is likely that generative AI will spawn a new wave of technology unicorns over the next five years.

When asked about the "tech wreck" of 2022, respondents were evenly split in how they viewed its impact on the pace of technological innovation, with half viewing the impact as positive and half viewing it as negative. Respondents who viewed the impact as negative said the tech wreck could lead to less funding for startups, scare off innovators and entrepreneurs, and cause companies to focus on maintaining current positions as opposed to pursuing growth opportunities. Respondents who saw a positive impact said the tech wreck could remove unproductive participants in the market, funnel more capital only to the best companies, and encourage leaner teams that can move faster.

We also asked survey respondents about the state of venture funding and how the events of the past year have impacted the funding environment. Overall, the mood of the respondents could be characterized as steady and cautious. When asked how VC funding will change over the next 12 months, most participants (43.1%) said they expect either a moderate or a strong decrease in VC funding, while 32.8% said they expect funding levels to remain the same. While we believe this sentiment was largely similar before the collapse of SVB, 61.5% of participants said they believe the bank's failure would contribute to reduced funding over the next year. Additionally, 77.6% of respondents said they expect valuations to become more attractive over the next year, indicating the group still sees some downside to the market. Still, the group signaled a marginal degree of optimism related to fundraising, with most respondents saying their fundraising plans have not changed and indicating they expect 2023 to be a strong vintage year for fund performance.

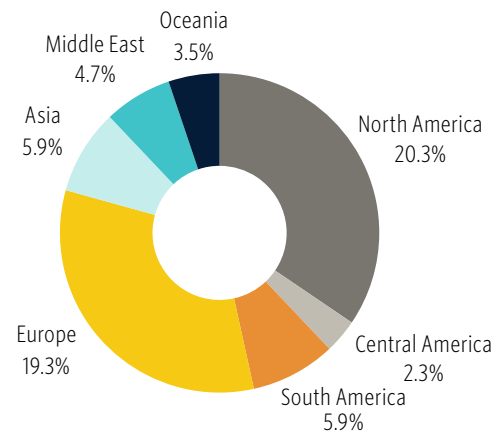
Survey demographics

What is your role at your venture capital firm?*



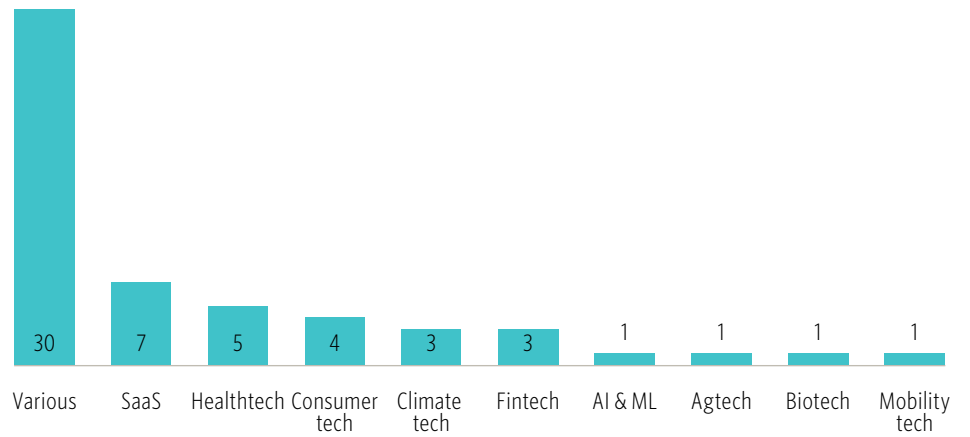
Source: PitchBook • Geography: Global
*As of April 4, 2023

Where is your VC firm located?*



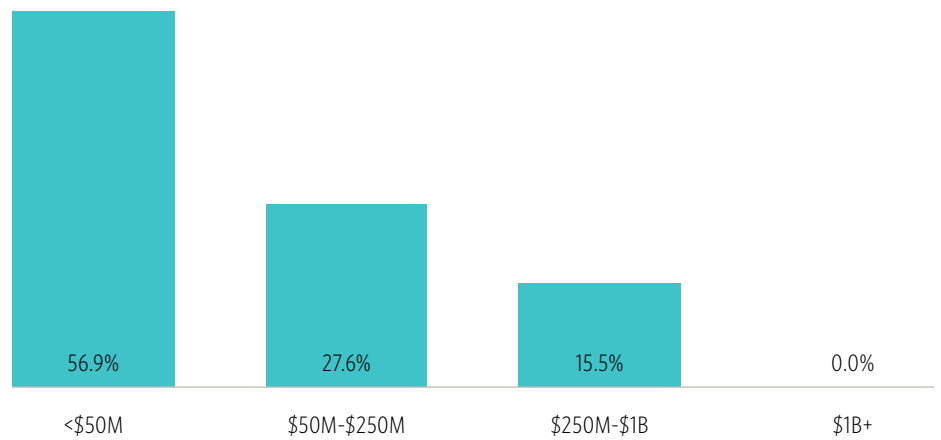
Source: PitchBook • Geography: Global
*As of April 4, 2023

What sort of technologies does your VC firm primarily invest in?*



Source: PitchBook • Geography: Global
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What is your firm's current AUM?*

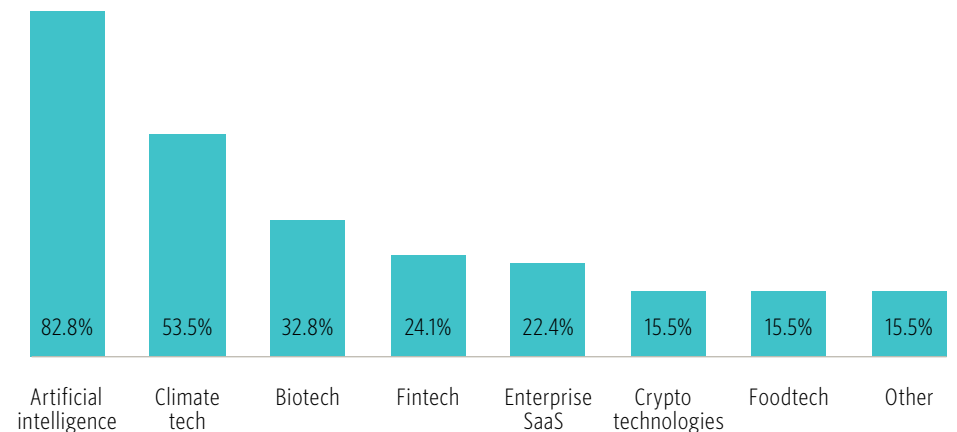


Source: PitchBook • Geography: Global
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Technology expectations

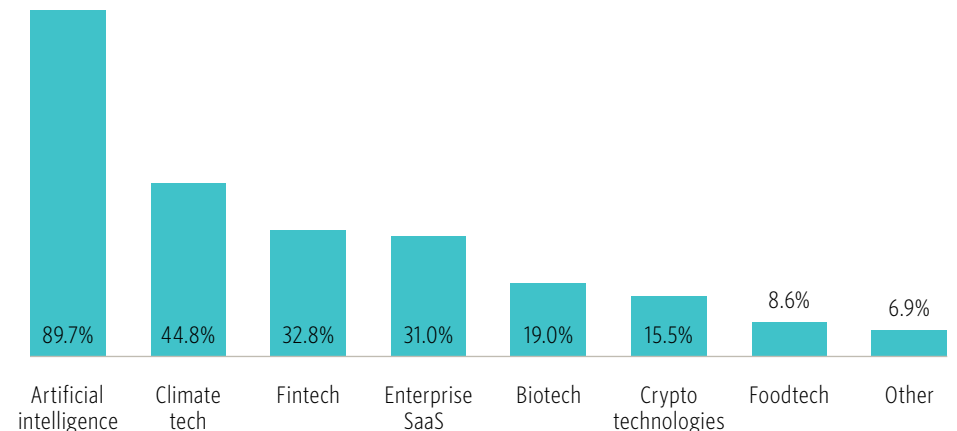
Survey respondents expect AI to be the core source of technology innovation over the next year. We attributed this to the introduction of ChatGPT and the rise of generative AI as a popular consumer tech tool in recent quarters. We expect organizations and startups to begin investing significantly in building out generative AI capabilities for both productivity and efficiency initiatives and to enhance the customer experience. Survey respondents also noted climate technologies and biotech as significant sources of innovation. We expect climate technologies will continue to benefit from both regulatory and consumer demand for carbon-controlling technologies and the continued efforts to make power grids more sustainable. The biotech industry has continued to churn ahead despite the broader pullback in the market and has benefited from modern AI technologies accelerating the pace of drug discovery.

In which areas of technology do you expect the most innovation over the next 12 months?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

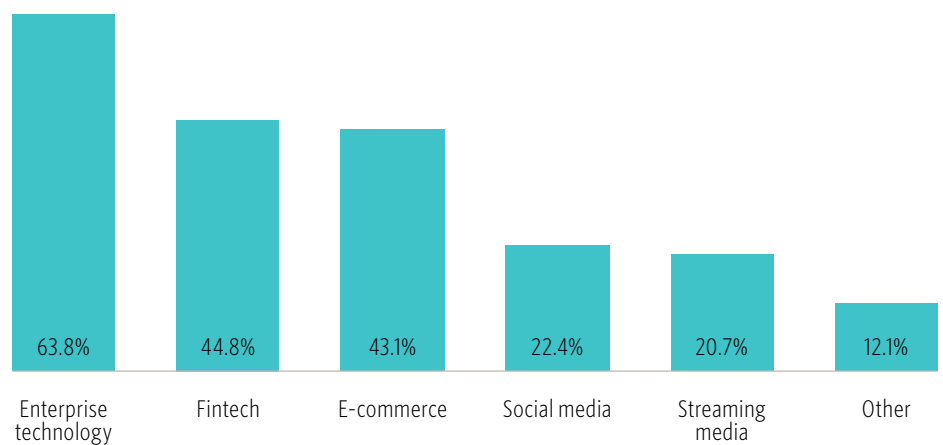
In which areas of technology do you expect the most growth and adoption over the next 12 months?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

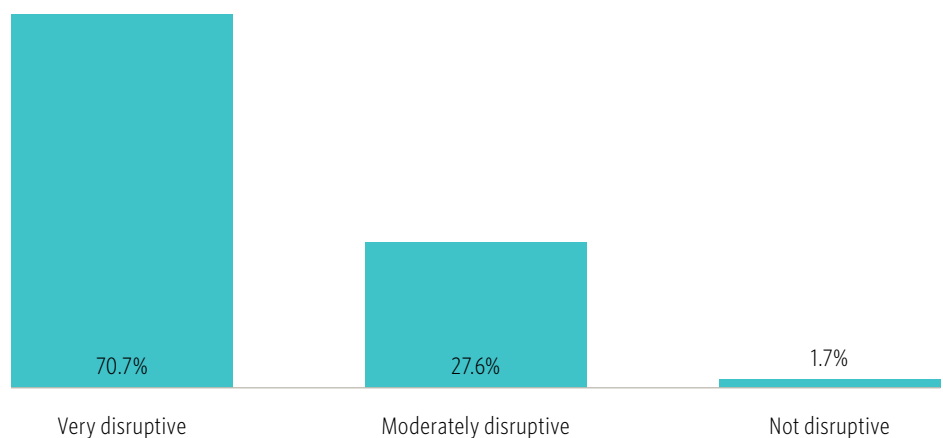
When asked about disruption and competition, survey respondents identified enterprise technology, fintech, and e-commerce as areas likely to experience the most pressure. We expect generative AI will have profound impacts on these areas of technology. These industries rely on specific organizational software that helps power products and customer experiences. To the extent that generative AI makes it easier for competitors to quickly develop comparable software and/or customer experiences, this could fuel more commoditization of service offerings and make it easier for customers to switch providers.

In which areas of technology are incumbents most likely to experience disruptive/competitive pressures from startups over the next 12 months?*



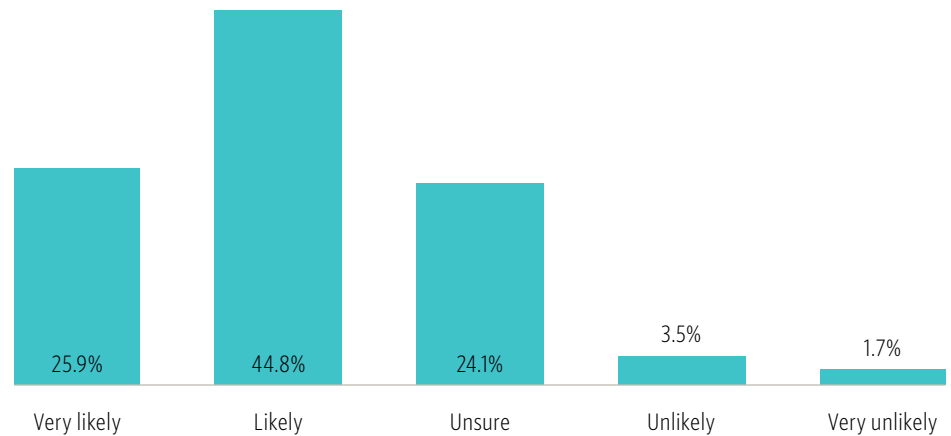
Source: PitchBook • Geography: Global
*As of April 4, 2023

How disruptive do you think generative AI will be over the next five years?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

Will advances in generative AI spawn a new wave of technology unicorns in the next five years?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

Respondents provided a wide range of views on how the market pullback over the past year has impacted the pace of technological innovation. Interestingly, respondents were split down the middle in deciding whether the impact has been positive or negative, perhaps reflecting the complexity of the situation but also the wide-ranging perspectives on what ultimately fuels innovation. We provide some edited viewpoints below.

Negative impacts of the market pullback:

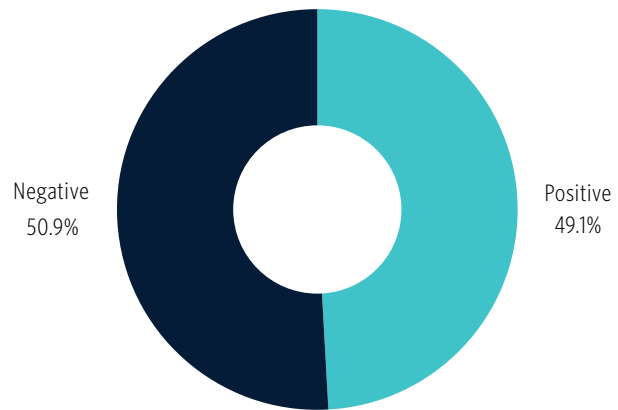
- It has weakened good businesses and driven entrepreneurs out of the market.
- It has caused companies to focus on maintaining positions, not on pursuing innovation and growth.
- Less deal flow scares off investors and innovators.
- The perception of risk and uncertainty stops growth and decision-making.

Positive impacts of the market pullback:

- Big tech layoffs have enabled startups to compete for talent.
- It has reduced capital flow to startups with needless and/or weak innovations.
- It has helped sharpen the focus of entrepreneurs.
- Valuations have been reset to a more rational level.

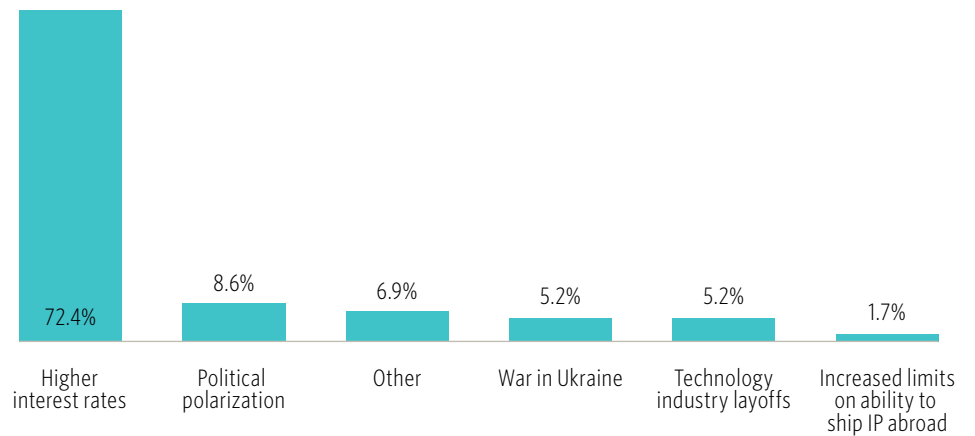
By a wide margin, respondents viewed increased interest rates as the most influential macroeconomic or sociopolitical factor impacting technological innovation.

Has the “tech wreck” of 2022 had a positive or negative impact on the pace of technological innovation?*



Source: PitchBook • Geography: Global
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Which of the following macroeconomic and sociopolitical factors are likely to have the biggest impact on technology over the next few years?*

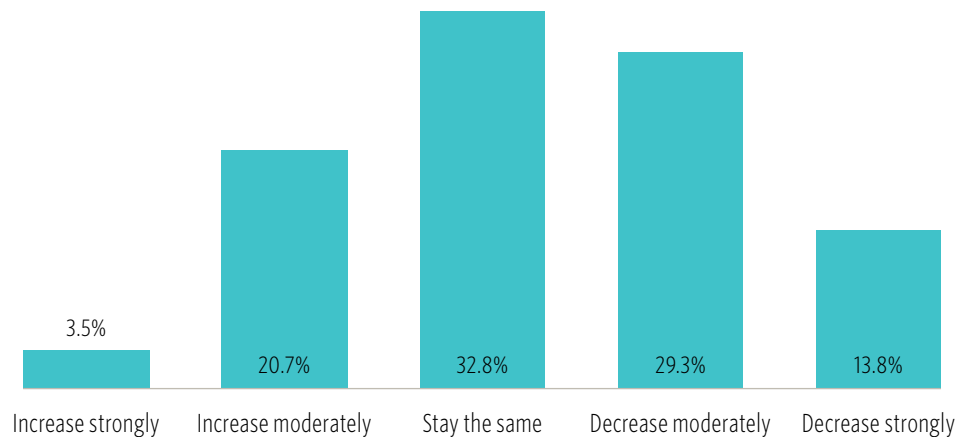


Source: PitchBook • Geography: Global
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VC ecosystem expectations

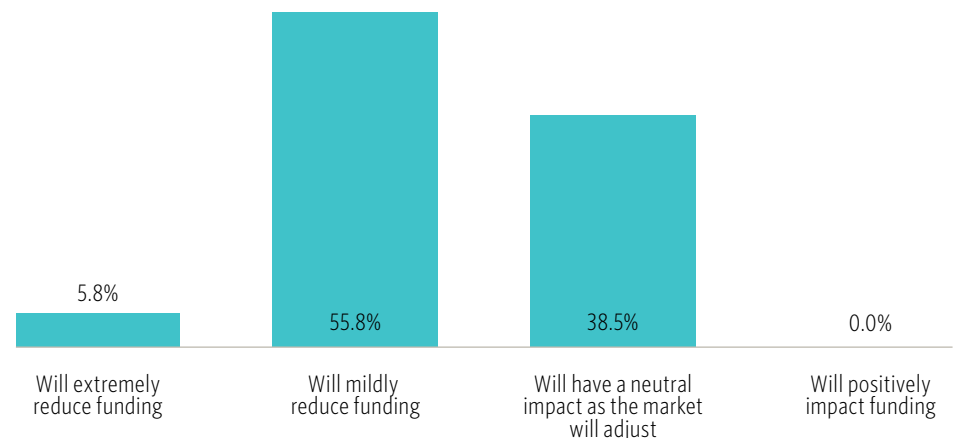
For the most part, VC investors expect investment to decrease over the next year, with 29.3% expecting a moderate decrease and 13.8% expecting a strong decrease. However, there was some optimism in the results, with a solid 32.8% expecting funding levels to stay the same and 24.1% expecting an increase in funding. VC funding levels have declined for the past four quarters and reached a pre-pandemic low in Q1 2023 (see the [Q1 2023 PitchBook-NVCA Venture Monitor](#)). While we believe this sentiment was largely similar before the collapse of SVB, 61.5% of participants said they believe the bank’s failure would contribute to reduced funding over the next year.

Do you expect total dollars of VC investment in technology startups to increase/decrease over the next 12 months compared to the previous 12 months?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

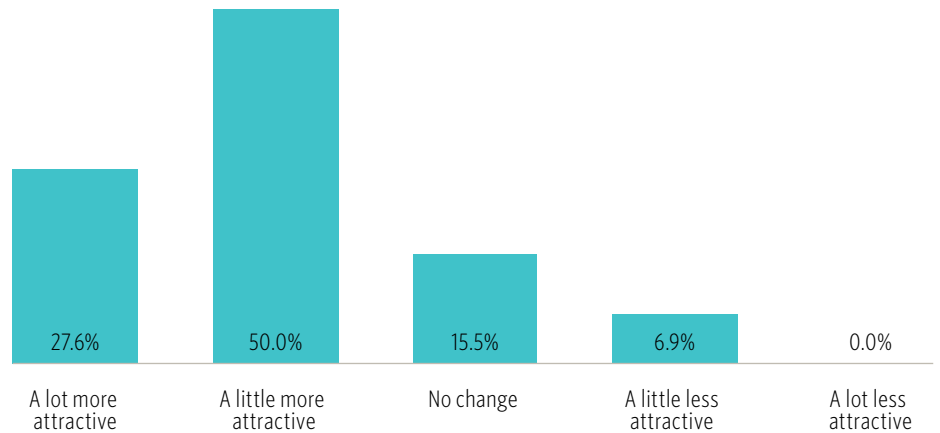
To what extent do you believe that Silicon Valley Bank’s collapse will impact funding for startups over the next 12 months?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

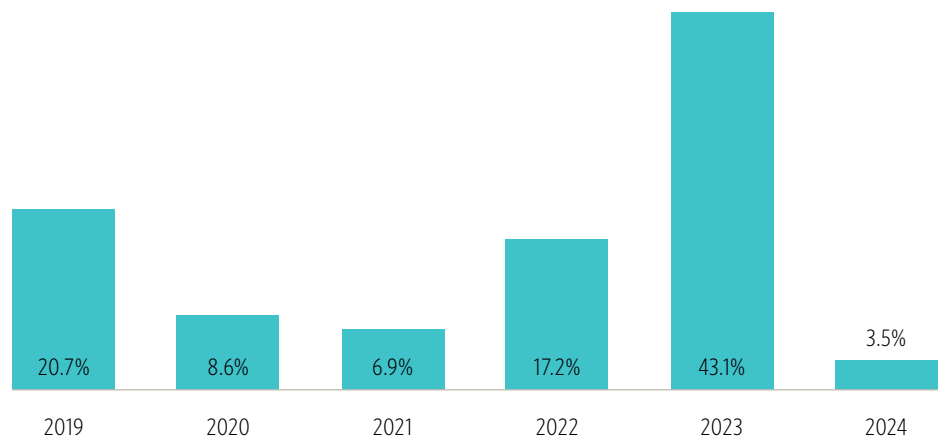
Additionally, 77.6% of respondents said they expect valuations to become more attractive over the next year, indicating the group still sees some downside to the market. Still, the respondents signaled a marginal degree of optimism related to fundraising, with most saying their fundraising plans have not changed and indicating they expect 2023 to be a strong vintage year for fund performance.

Do you expect valuations to be more or less attractive in the next six to 12 months than they were in the last six to 12 months?*



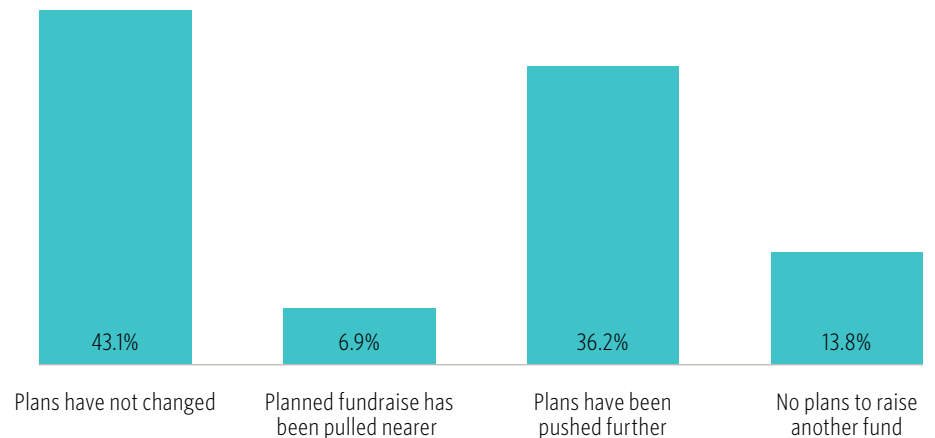
Source: PitchBook • Geography: Global
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Which VC vintage do you think will have the highest IRR out of this group?*



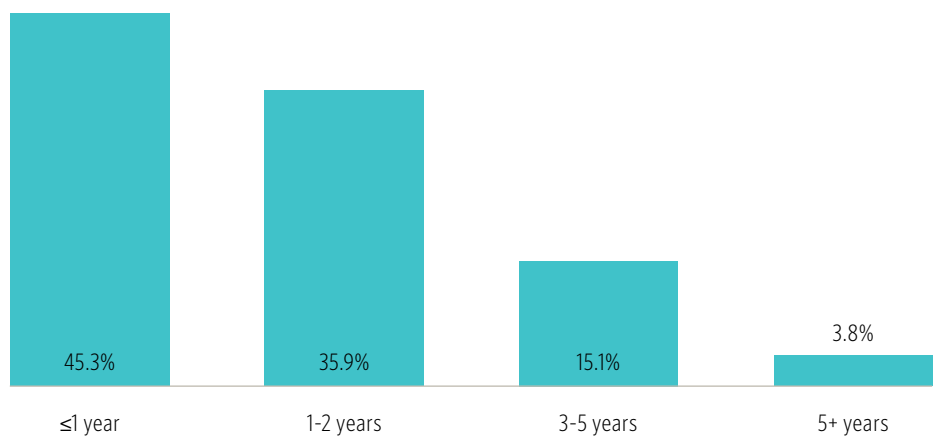
Source: PitchBook • Geography: Global
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Has the current state of the market impacted future fundraising plans?*



Source: PitchBook • Geography: Global
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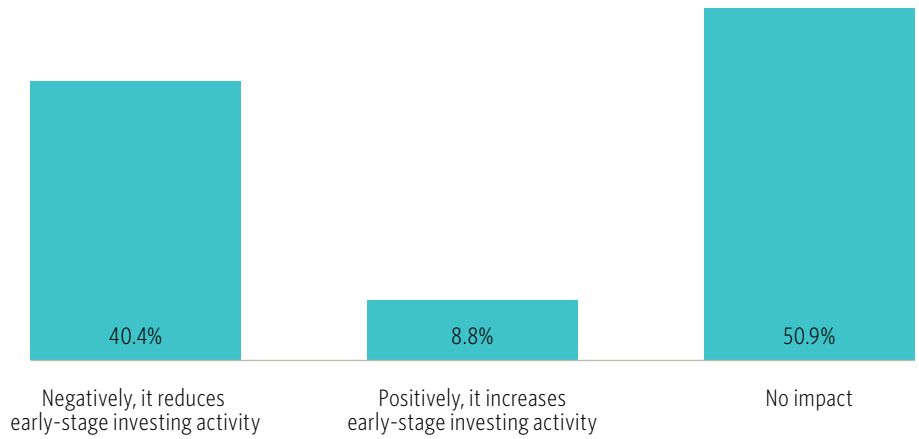
When do you plan to begin raising your next fund?*



Source: PitchBook • Geography: Global
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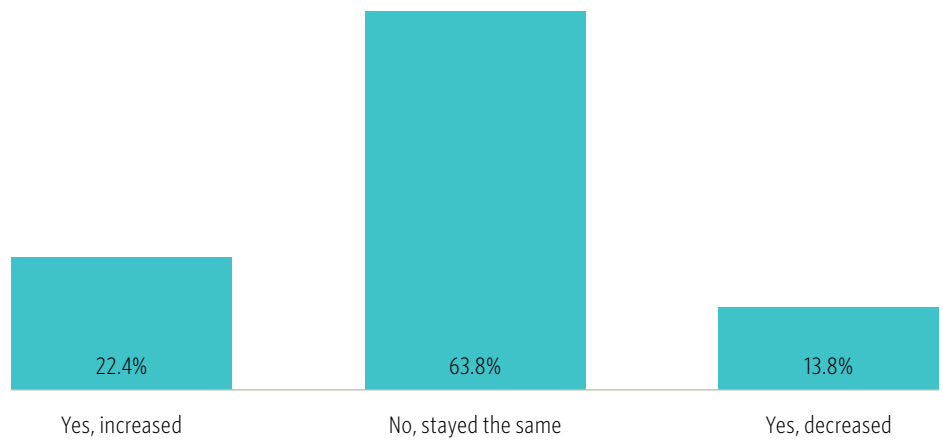
Despite the market pullback, respondents still cited several aspects of the current environment that have not changed. For example, they said the weak IPO market has, for the most part, not impacted early-stage investing. While PitchBook data had shown [resiliency in early-stage VC funding and valuations](#) relative to late-stage VC throughout 2022, this trend turned negative in Q1 2023. Additionally, respondents said they are largely still acquiring similar-size stakes in VC rounds. Respondents also said that, similar to before the market pullback, they are mostly recommending their portfolio companies avoid venture debt, a niche segment of the fundraising market that had been relatively strong but faces more scrutiny after the [SVB collapse](#). Lastly, survey respondents said LPs are not expecting higher reporting requirements relative to before the pullback.

How does the current weak IPO market impact early-stage investing?*



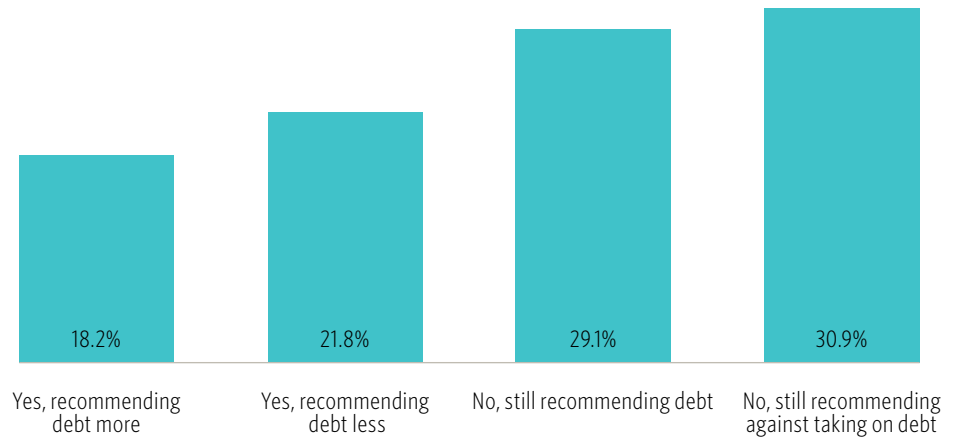
Source: PitchBook • Geography: Global
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Did the percentage stake acquired in rounds you invested in change over the last 12 months?*



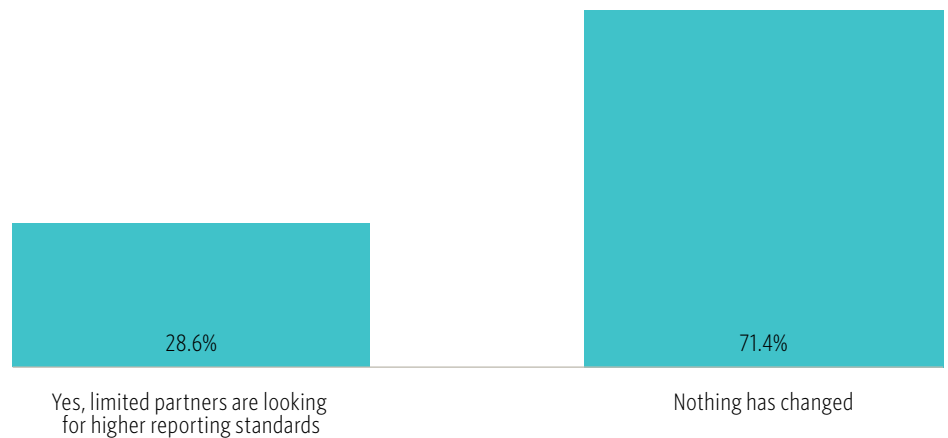
Source: PitchBook • Geography: Global
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Has recommendation toward taking on debt changed between you and your portfolio companies over the past year?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

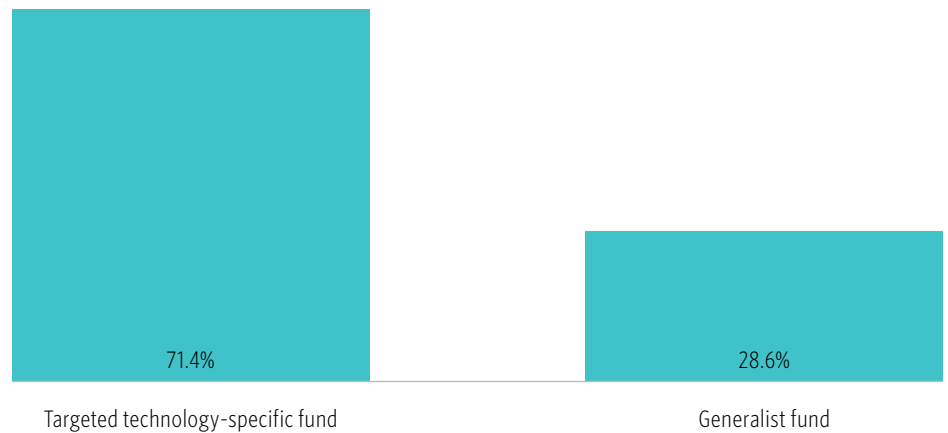
Are limited partners asking for higher reporting requirements from GPs?*



Source: PitchBook • Geography: Global
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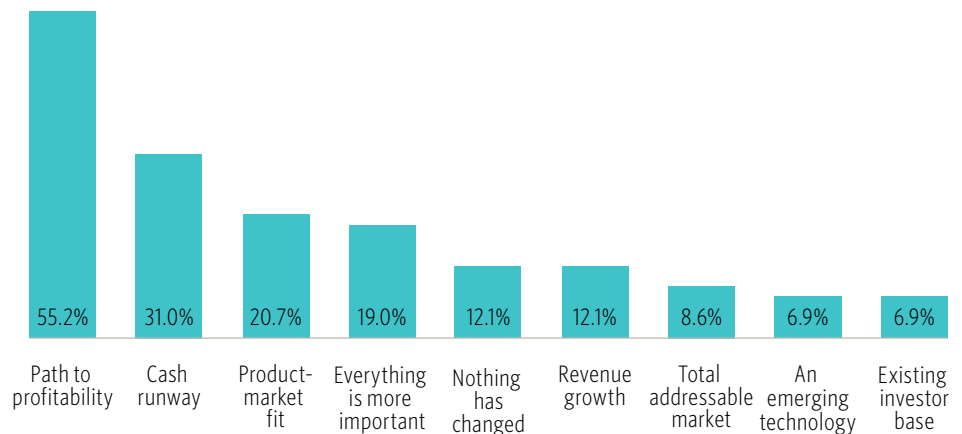
When choosing investments, the group noted that targeted tech funds are easier to raise than generalist funds and largely agreed that in the current environment, a startup’s path to profitability was the most important factor in determining whether to invest.

In the current environment, which style of fund seems easier to raise?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

When evaluating new investments, which factors have become more important than before over the past year?*



Source: PitchBook • Geography: Global
*As of April 4, 2023

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