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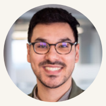

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Contents

Serial Entrepreneurs Raise More Capital, but at What Cost?

An updated analysis on the impact of entrepreneurial experience in the venture capital ecosystem

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

- Serial entrepreneurs continue to surpass their unproven and novice counterparts in median deal sizes raised. Median angel & seed deal sizes for serial entrepreneurs in 2022 YTD were 2.5x larger than novice-led deals, while early- and late-stage rounds led by serial entrepreneurs were roughly 3.4x larger. The larger divergence in median deal sizes between serial and novice entrepreneurs in the early and late stages suggests that even market-proven products and demonstrated revenue growth cannot overcome the inherent investor confidence afforded to serial entrepreneurs.

- Throughout the venture capital lifecycle, serial entrepreneurs increasingly eclipse their novice counterparts in terms of median pre-money valuations. We observed seed-stage serial entrepreneur-led startups achieve median valuations that were 1.9x higher than those of their novice counterparts. Median valuation variances between serial and novice entrepreneurs further increased to 2.5x at the early stage and 3.7x at the late stage.

- Across all venture stages, serial entrepreneur-led startups capture roughly 2.5x more participation from the top 100 investors than their novice peers. At the seed stage, one in four serial entrepreneur-led startups receives investment from a high-profile investor. In the late stage, this increases to 40% of serial entrepreneur-led startups receiving investment from a high-profile investor.

- The trade-off of receiving more capital at an early stage for a larger investor equity stake allows serial entrepreneurs to more rapidly scale their businesses and reach their next milestone, but it comes with a price in terms of the entrepreneur's dilution by the late stage. By analyzing the median percent of equity acquired across all stages, we found that serial entrepreneurs own roughly 3% less of their businesses than their novice counterparts.

Introduction

The entrepreneurial spirit often compels job-secure professionals to gamble on innovative ideas and pursue endeavors encompassing their passions—despite the innumerable adversities of starting a business, such as competition for capital and market share from other companies, as well as ever-changing market conditions. There isn't a one-size-fits-all approach to starting and scaling a business, so many are forced to learn through their own trials and tribulations. Those experiences can forge market-conquering entrepreneurs and household brand names, but are those success stories repeatable? The many variables at play make it difficult to discern whether success stories are the result of right-place, right-time, strategic business models, first-mover advantage, or some other factor. One variable that sticks out to us is the startup founder. Founders are crucial to the success of a startup; by exploring their different experiences, we can identify investment activity trends that can help founders and investors optimize their approaches to fundraising and investing.

Since this report series' first iteration in Q4 2019, the venture capital (VC) industry saw explosive growth during the COVID-19 pandemic, resulting in record-high levels of capital raised, invested, and liquidity opportunities. In the last six months, we witnessed a global economic downturn, which led governments to take quantitative tightening measures to combat rising inflation and geopolitical uncertainty. This note revisits our prior research on successful serial entrepreneurs and determines if current market conditions offer them the same benefits. We analyze whether serial entrepreneurs, when compared with unproven serial and novice entrepreneurs, continue to raise capital faster, raise larger deal sizes, achieve increasingly larger pre-money valuations, and recycle capital into the VC ecosystem.

Receiving institutional capital

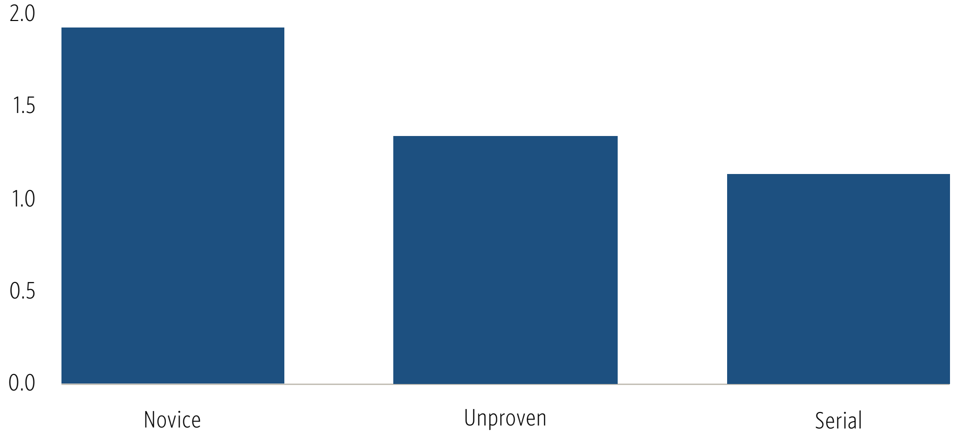
At the earliest stages of venture capital, it can be extremely difficult for VCs to sift through the plethora of startups and identify the most promising opportunities. VCs commit large portions of their time to performing due diligence on startups, but it is impossible for firms to consider all startups in their space. Instead, VCs may choose to use several high-level factors such as traction, total addressable market (TAM), competitive advantages, and founding team composition to trim down the consideration pool. Prior to the first institutional capital round, startups are often still developing their products and may have little to no revenue. As a result, investors may rely more on the founding team's experience when making an investment decision. Serial entrepreneurs are often seen as less risky than their unproven or novice counterparts, and this notion shows up in the data when considering the median years since founding at the time of a startup's first VC round.

Entrepreneur group definitions:

- Serial entrepreneurs have had at least one successful exit
- Unproven serial entrepreneurs have founded at least two businesses but have not yet seen a successful exit
- Novice entrepreneurs have founded only one business

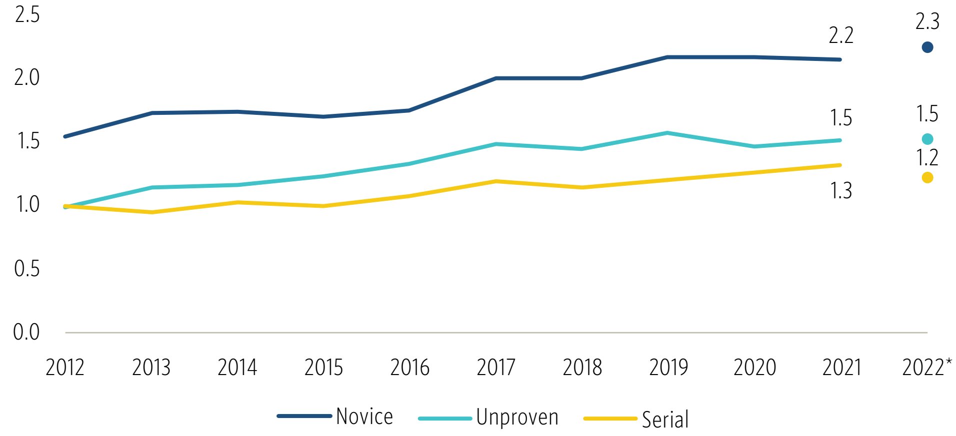
The median number of years since founding at the time of a startup's first VC round offers insight into the advantages that serial entrepreneurs possess over their unproven and novice peers. The shorter amount of time it takes startups to raise their first round of institutional capital, the better, because it minimizes the periods of bootstrapping the business with founder capital and using angel investor backing. The faster a startup reaches its first institutional capital round, the more its growth curve can steepen, thereby allowing it to overtake competitors and generate investor interest. Compared with the original 2019 analyst note, the median number of years since founding for serial entrepreneurs at the time of their first VC round remained at 1.13 years, yet the median years since founding for unproven and novice founders have increased to 1.34 and 1.92 years, respectively. We'd expect the low cost of capital and increased competition for deals among investors in prior years to equally benefit all VC stages in reducing years since founding. However, the variance in years since founding suggests that serial entrepreneurs possess unique advantages that enable them to more quickly raise capital, including knowing where

Median time (years) between founding and first VC round by entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
*As of July 28, 2022

Median time (years) between founding and first VC round by entrepreneur class



Source: PitchBook | Geography: Global
*As of July 28, 2022

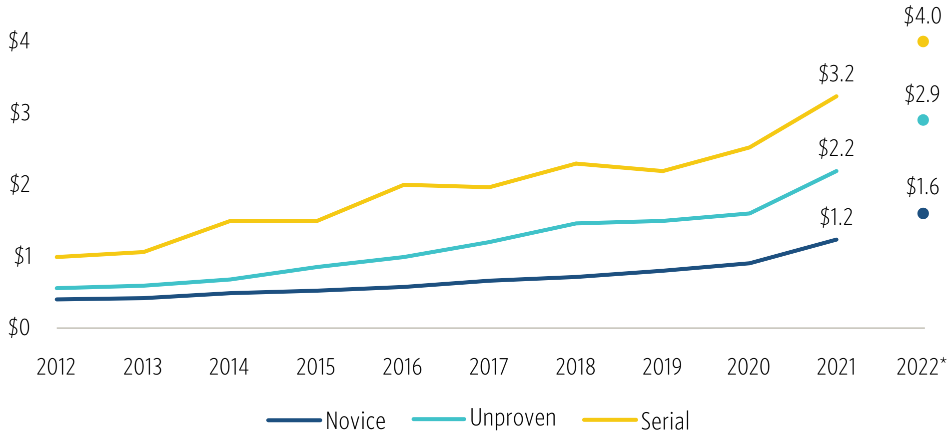
to raise capital and having a rolodex of prior investors from whom they can solicit. Unproven serial entrepreneurs similarly benefit from their historical experience and network, and in some cases elicit outsized funding as a result. Former WeWork founder, Adam Neumann, is an example of a serial entrepreneur efficiently garnering the first round of investment for his new startup, Flow, reportedly to the tune of $350.0 million. Although Nuemann's experience may be an extreme example, it reinforces the notion that by simply having prior experience, serial and unproven entrepreneurs gain a median seven- to nine-month fundraising head start on novice entrepreneurs.

Deal size

Deal sizes are increasingly becoming a focal point of conversation as the current economic downtown has led startups to focus on both their runway and avoiding raising capital in less favorable environments. Startups able to raise larger amounts of capital have a greater safety net in maintaining their workforce, exploring product-market fit, and achieving product roadmap milestones, which can translate into high valuations in subsequent rounds.

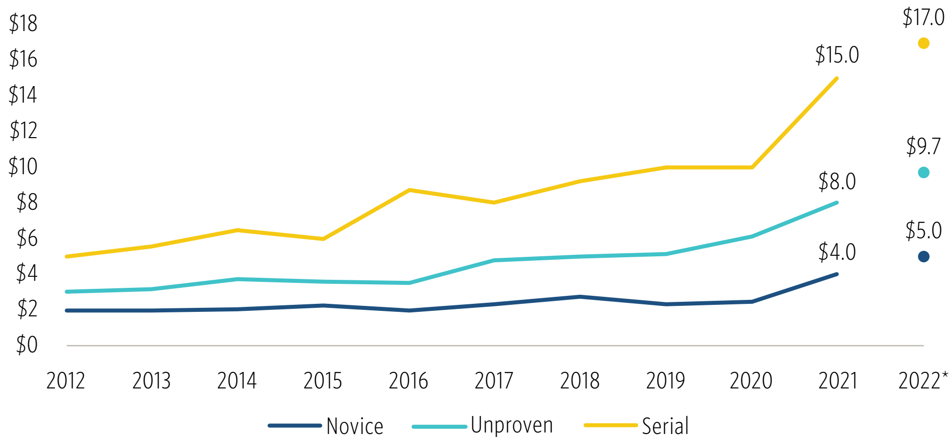
Serial entrepreneurs continue to surpass their unproven and novice counterparts in median deal sizes raised. Median angel & seed deal sizes for serial entrepreneurs in 2022 YTD were 2.5x larger than novice-led deals, while early- and late-stage rounds led by serial entrepreneurs were roughly 3.4x larger. The larger divergence in median deal sizes between serial and novice entrepreneurs in the early and late stages suggests that even market proven products and demonstrated revenue growth cannot overcome the inherent investor confidence afforded to serial entrepreneurs. Ideally, this gap would shrink in the early stage and become even smaller in the late stage because businesses' key performance indicators (KPIs) such as annual recurring revenue (ARR) or EBITDA can be more easily compared than founder experience. However, according to our data, the fundraising momentum that serial entrepreneurs benefit from in the seed stage could be allowing these businesses to mature more quickly and display stronger financial performance earlier than others in their entrepreneurial cohort, thus leading to an even greater disparity in median deal sizes. Furthermore, successful serial entrepreneur experience may be even more valued in the early and late stages because of their track record delivering liquidity to their stakeholders via an exit.

Median angel & seed deal value ($M) by entrepreneur class



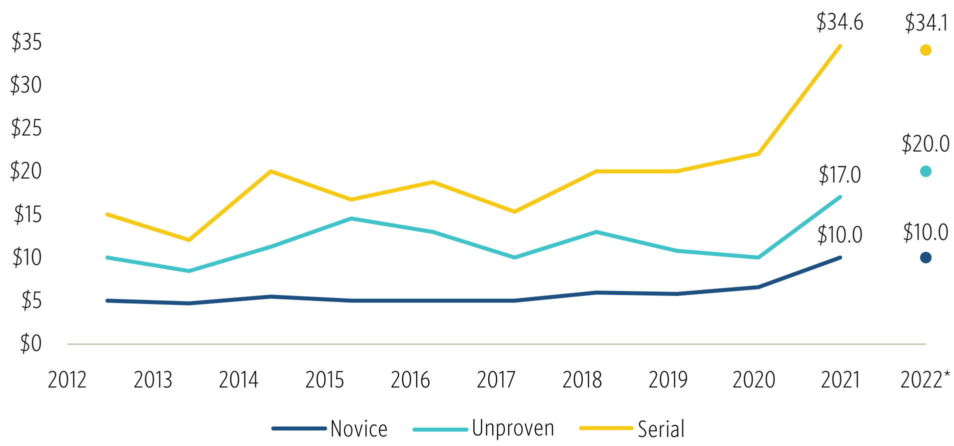
Source: PitchBook | Geography: Global
*As of July 28, 2022

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



Source: PitchBook | Geography: Global
*As of July 28, 2022

Median late-stage VC deal value ($M) by entrepreneur class

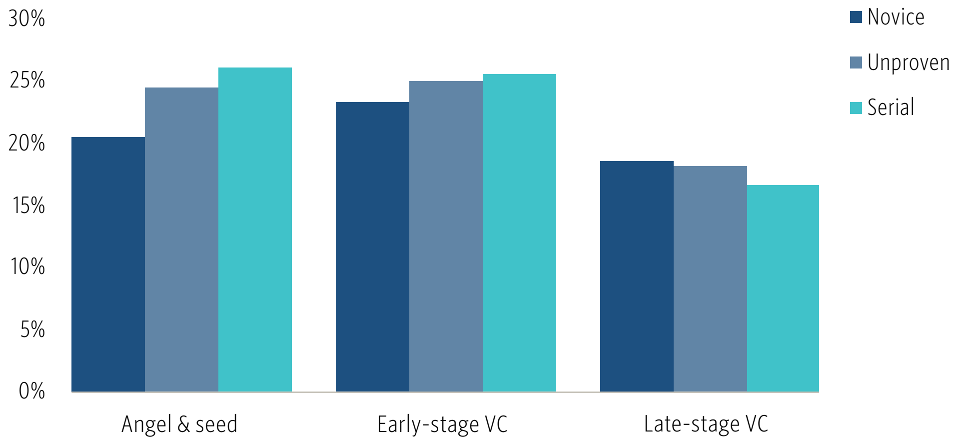


Source: PitchBook | Geography: Global
*As of July 28, 2022

Median percent acquired

Tandem to the deal size conversation is the amount of equity that founders give up to investors in return for their participation. At the earliest stages of VC, serial entrepreneurs are giving up a greater percentage of their company—nearly 2% more than unproven entrepreneurs and 6% more than their novice counterparts. This trend is maintained in the early stage but then reverses course in the late stage, suggesting that momentum from prior fundraising rounds allows serial entrepreneurs to give up less equity later on. The trade-off of receiving more capital at an early stage for a larger investor equity stake allows serial entrepreneurs to more rapidly scale their businesses and reach their next milestone, but it comes with a price in terms of the entrepreneur's dilution by the late stage. By analyzing the median percent of equity acquired across all stages, we found that serial entrepreneurs own roughly 3% less of their businesses than their novice counterparts. This can influence their potential financial gain, as well as their willingness to raise more capital and relinquish more equity.

Median share acquired by stage and entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
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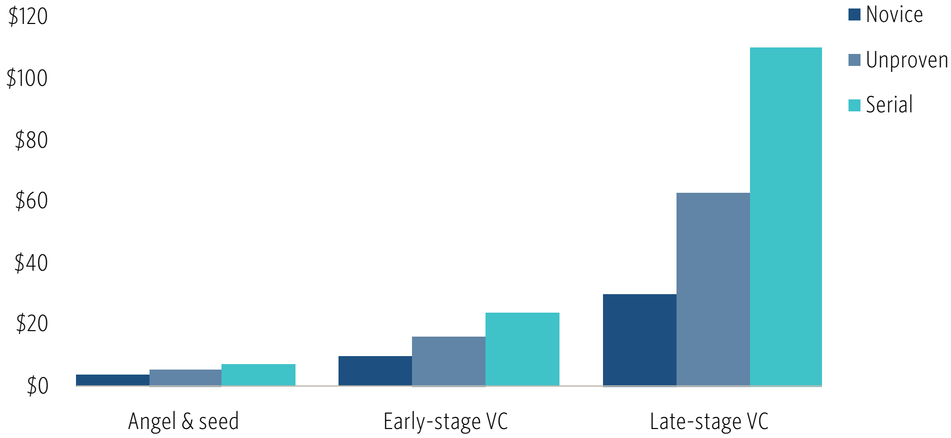
Valuations

Conversations regarding deal size and equity stakes also need to consider the third piece of that equation, pre-money valuations. At the negotiation table, startup founders and potential investors debate the influence of several factors affecting valuation, including desired capital raise, historical raises, comparables in the market, upside potential, projected growth, and investor demand. Throughout the venture capital lifecycle, serial entrepreneurs increasingly eclipse their novice counterparts in terms of median pre-money valuations. We observed angel & seed-stage, serial entrepreneur-led startups achieve median valuations that were 1.9x higher than those of their novice counterparts. Median valuation variances between serial and novice entrepreneurs further increased to 2.5x at the early stage and 3.7x at the late stage. The progressively larger variances in pre-money valuations of serial entrepreneur-led startups coincide with the decreasing equity stakes given to investors. The higher the pre-money valuation, the less equity that can be given up in exchange for the desired amount of capital.

To put this in context, let us consider the recent funding rounds of two US software-as-a-service (SaaS) productivity startups: Hubilo, a business-to-business virtual event software platform, and Island, a business-to-business secure enterprise browser for businesses. While these two startups are not direct competitors and have different product-market fits, the rough comparison can shed light on the serial versus novice entrepreneurial experience. Hubilo, founded in 2015 by a novice entrepreneur, raised a $125.0 million Series B in 2021 at a pre-money valuation of $750.0 million in exchange for 14.3% of the company's equity. Island, founded in 2020 by a serial entrepreneur, raised a $125.0 million Series B in 2022 at a pre-money valuation of $1.2 billion in exchange for 9.5% of the company's equity. The first thing that jumps out to us is the fundraising temporal discrepancies: Novice entrepreneur-led Hubilo took nearly six years to reach its Series B, compared with the two years taken by Island. Second is the glaring difference in pre-money valuations, with the serial entrepreneur-led Island justifying $435.0 million

Median pre-money valuation ($M) by stage and entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
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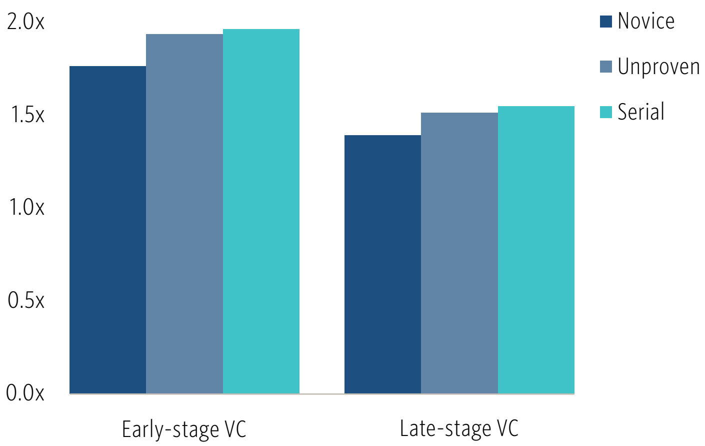
more in company value. Finally, looking at the equity stakes given up, Island was able to retain nearly 5% more of the company for the same capital investment. Notwithstanding differences in revenue growth or financial position, these seemingly similar startups had very different experiences raising capital due largely to one of the startups being led by a serial entrepreneur.

The ability to demonstrate value creation between financing rounds enables startups to achieve outsized valuations. Data shows that serial and even unproven entrepreneurs command higher valuation step-ups than their novice counterparts. While unproven entrepreneurs do not have the benefit of track records of providing returns to their equity holders like serial entrepreneurs do, their commitment to bringing innovative ideas to market is encouraging and rewarded in subsequent financing rounds. This reward appears in the smaller variance between the median valuation step-ups of unproven and serial entrepreneurs in both the early and late stages.

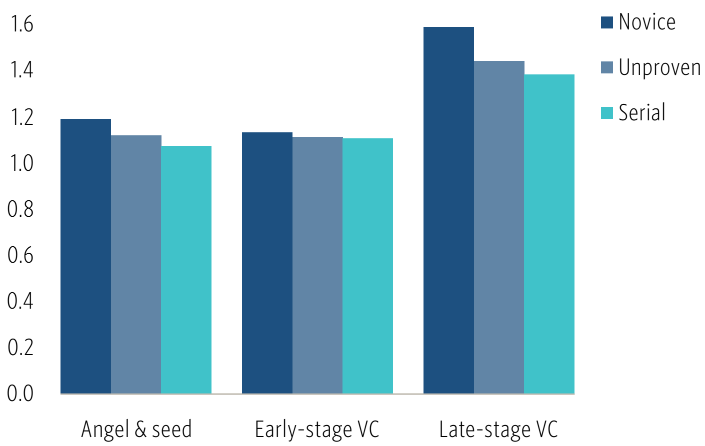
In addition to serial entrepreneurs achieving higher valuation step-ups, they are also able to return to market for their next financing rounds more quickly than novice entrepreneurs. At the median, seed-stage serial entrepreneurs return to market a month and a half quicker, and at the late stage, they return roughly two and a half months quicker. Serial entrepreneur-led startups, benefiting from larger inflows of investor capital and their historical successes in scaling businesses, can more quickly demonstrate growth, achieve milestones, and re-engage prospective investors.

Median valuation step-up multiple by stage and entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
*As of July 28, 2022

Median time (years) between VC rounds by stage and entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
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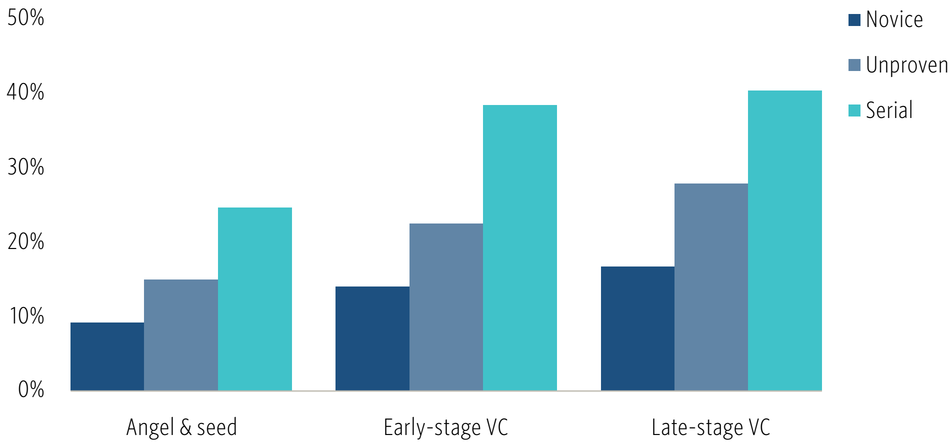
Top 100 investors methodology:
Top 100 investors from our proprietary ranking of the world's highest-performing tech investors. PitchBook's top VC list ranks venture investors based on portfolio company exit rate, follow-on investment activity, and valuation growth.

Top 100 investor participation

High-profile investors can add tremendous value to a startup via their networks and connections; media coverage of the transaction, which creates more product visibility in the market; the vote of confidence that their capital investment demonstrates to other investors; and the strength of potential follow-on funding from their larger investment vehicles. Across all venture stages, serial entrepreneur-led startups capture roughly 2.5x more participation from the top 100 investors than their novice peers. At the seed stage, one in four serial entrepreneur-led startups receives investment from a high-profile investor. In the late stage, this increases to 40% of serial entrepreneur-led starts receiving investment from a high-profile investor. This activity suggests that high-profile investors are keen to back serial entrepreneurs through the venture lifecycle, but their interest is even more pronounced at the late stage, when investors want to ensure that the startup's CEO can take them across the finish line and deliver liquidity.

Share of deals with ET Indicator Top 100 investor participation by stage and entrepreneur class (2006-2022)*



Source: PitchBook | Geography: Global
*As of July 28, 2022

Entrepreneurial flywheel:
The entrepreneurial flywheel effect describes the positive momentum from the wisdom that successful entrepreneurs bring to future businesses, as well as the funneling of their experience and financial success in supporting other startups and driving growth in the VC ecosystem.

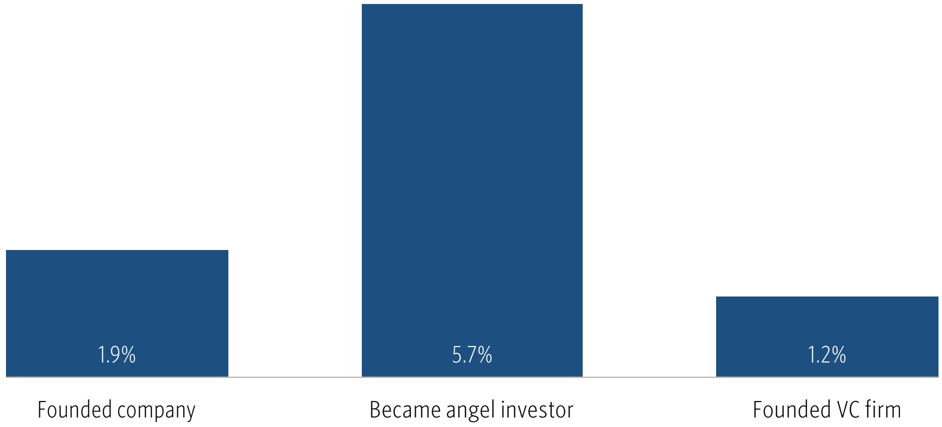
Recycling capital

It's important to recognize the time period of the data considered when analyzing successfully exited founders' propensity to re-engage the VC ecosystem by starting another company, becoming an angel investor, or founding a VC firm. The following analysis considers only the period used in the original 2019 note—from January 2006 through November 2016—for two reasons. First, the H1 2022 US VC median and average time from first VC round to exit are 5.4 and 6.3 years, respectively. Extending the period beyond 2016 would limit the potential for entrepreneurs to demonstrate an exit and return to the ecosystem. Second, considering the same period and founders can provide insight on the lag in the entrepreneurial flywheel (see sidebar), as well as more a more useful comparison to the original note.

The entrepreneurial flywheel plays a crucial role in fostering the growth of new startups and developing VC ecosystems. Since the original note published in Q4 2019, at least 3.8% of entrepreneurs—an increase of 180 basis points or 441 founder exits—have successfully exited a business and gone on to start a new one. This increase is indicative of the variability in time to exit. Looking at the same group of founders nearly two years later, we would expect a greater number to return to market with innovative ideas; that has materialized.

Outcomes for founders following first successful VC-backed exit (2006-2016)*

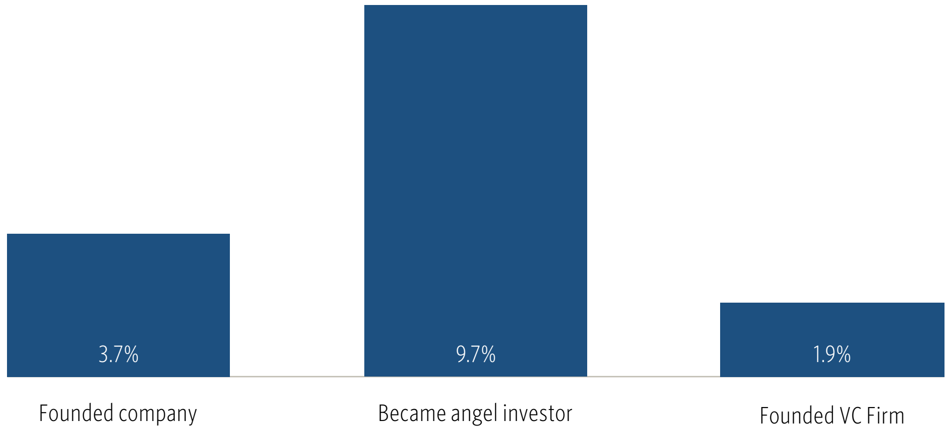
	Founded company	Became angel investor	Founded VC firm
Yes	390	1,137	248
No	19,686	18,939	19,828



Source: PitchBook | Geography: Global
*As of November 14, 2019
Note: From our original Q4 2019 report. Founded company analysis is limited to companies that have raised institutional VC funding.

Outcomes for founders following first successful VC-backed exit (2006-2016)*

	Founded company	Became angel investor	Founded VC firm
Yes	831	2,160	433
No	21,398	20,069	21,796



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Note: Founded company analysis is limited to companies that have raised institutional VC funding.

When analyzing why more successful entrepreneurs do not return to market with new ideas, especially given their ability to take advantage of the prevailing metrics afforded to serial entrepreneurs, we determined that the stress and time required to take a company to exit could be less appealing than the opportunity to contribute to a company's success in a less involved role as an angel investor. Since 2006, at least 9.7% of successful entrepreneurs decided to move across the negotiating table to become angel investors. Angel investors are core contributors to the growth of VC ecosystems; they not only provide capital at the earliest of stages, but they also offer mentorship and their networks to aid in the success of portfolio companies.

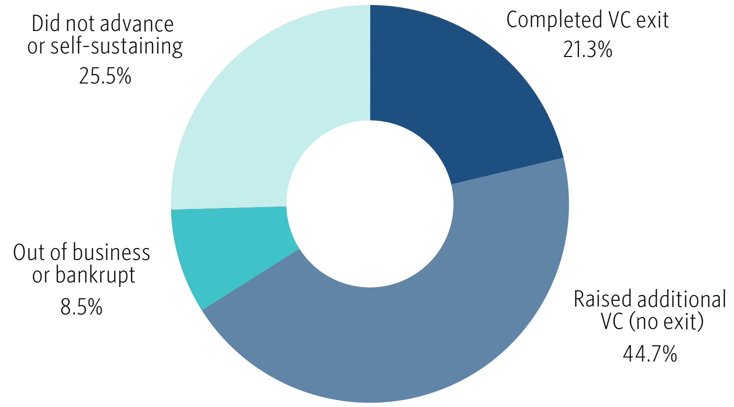
A minority of successful entrepreneurs return to VC ecosystem as VC fund managers looking to mitigate their personal financial risk by fundraising from other like-minded investors and deploying that capital across multiple investments. Since Q4 2019, former successful serial entrepreneurs founded an additional 185 VC firms. Seeing the entrepreneur cohort from 2006 to 2016 increase their participation in the VC ecosystem is promising for the entrepreneurial flywheel's continued momentum.

Conclusion

As our data has corroborated, serial entrepreneur-led startups outpace their novice peers across several metrics, including time to reach their first institutional round of capital, deal sizes, pre-money valuations, valuation step-ups, and participation by high-profile investors. Their fundraising success comes at the cost of greater ownership dilution, thereby decreasing their potential profit at the time of exit. While there are anecdotal success stories from founders with all levels of experience, investors inundated with pitch decks and fundraising requests need to mitigate as much risk as possible, as quickly as possible. In doing so, investors have prioritized investment in successful entrepreneurs, with expectations of higher returns. Concerns of harshening economic conditions and the lack of liquidity from public listings have led investors to be more prudent in their investment allocations, limiting both the number of investments and founders they choose to invest in. We expect investors to follow their portfolio company CEOs more closely post-exit event in hopes of backing their next startup endeavor. We also expect startup founders to feel additional pressure to properly compare their startups to others in the market using not only industry and product similarities, but also c-suite experience and composition. We hope that persistent curiosity on this topic and more time passed will allow us to further tease out how novice entrepreneurs can overcome these lifecycle and funding discrepancies and prove their mettle.

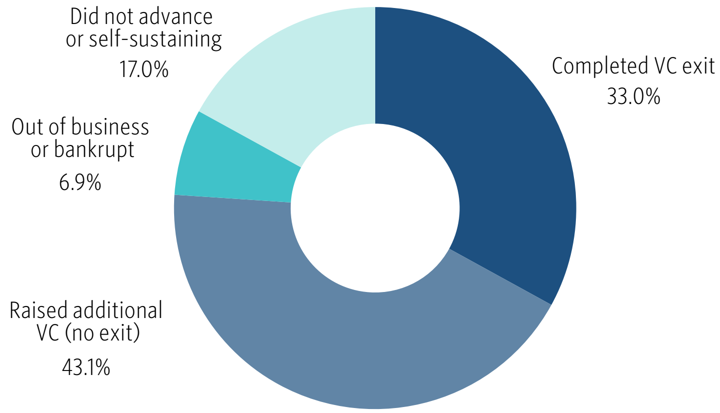
Appendix

Outcomes for novice entrepreneur-led companies that raised a third VC round (2010-2016 cohort)



Source: PitchBook | Geography: Global
*As of July 28, 2022

Outcomes for serial entrepreneur-led companies that raised a third VC round (2010-2016 cohort)



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