PitchBook

# Choosing success: Data solutions for venture capital firms

Enhanced market intelligence for better results

# Contents

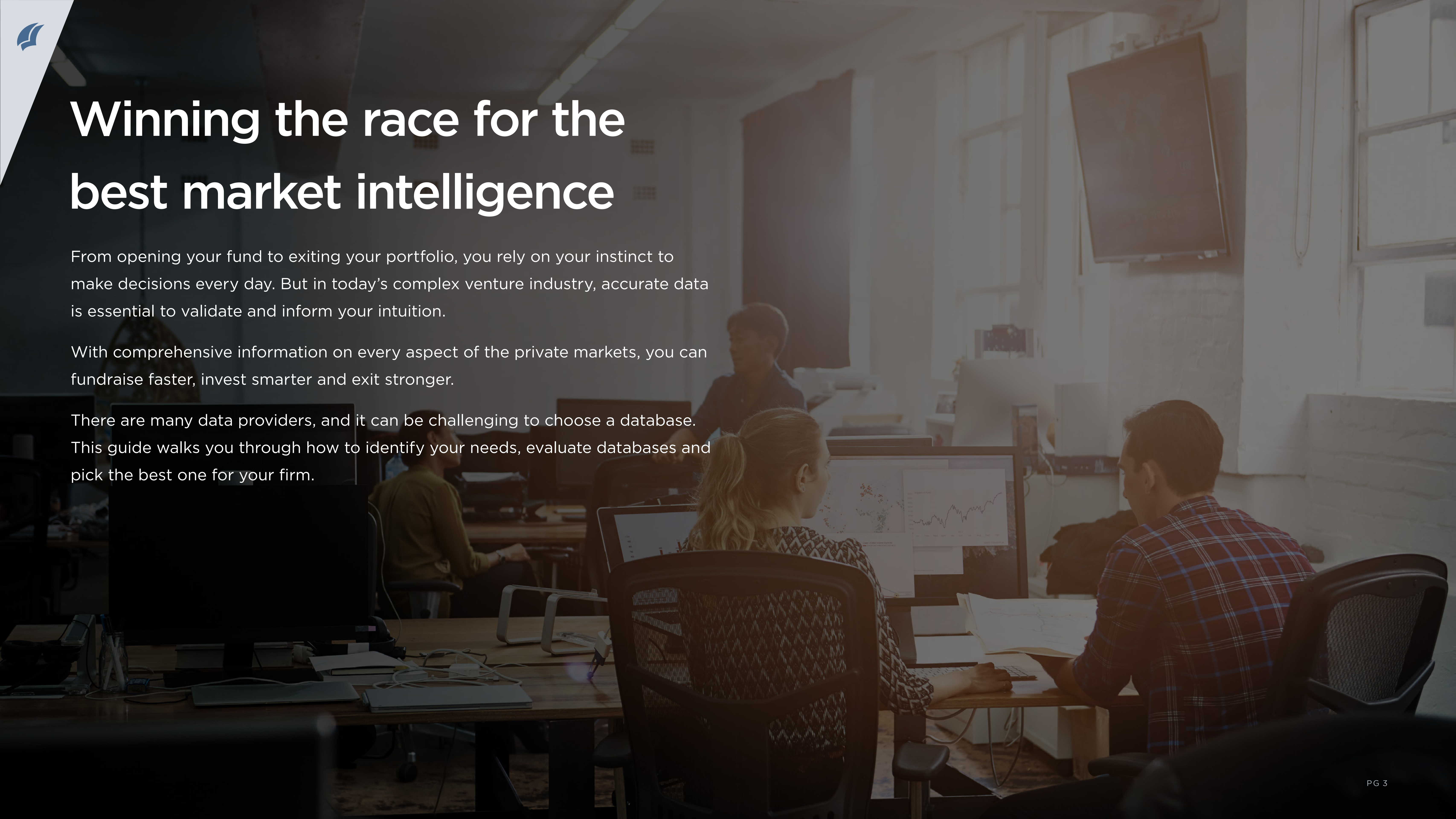


# Winning the race for the best market intelligence

From opening your fund to exiting your portfolio, you rely on your instinct to make decisions every day. But in today's complex venture industry, accurate data is essential to validate and inform your intuition.

With comprehensive information on every aspect of the private markets, you can fundraise faster, invest smarter and exit stronger.

There are many data providers, and it can be challenging to choose a database. This guide walks you through how to identify your needs, evaluate databases and pick the best one for your firm.

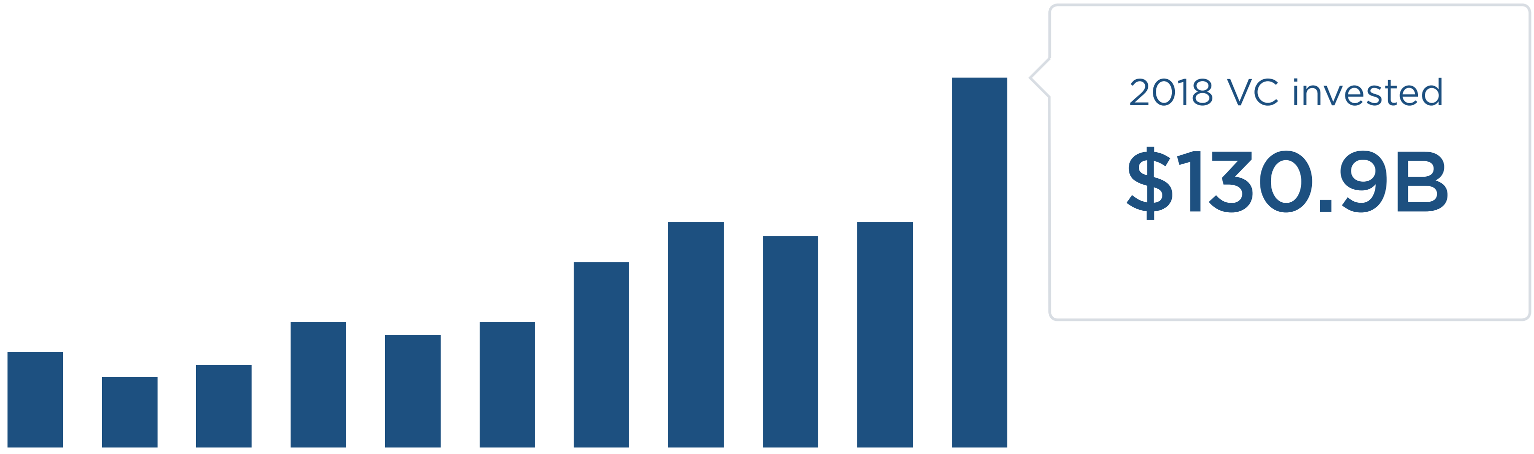


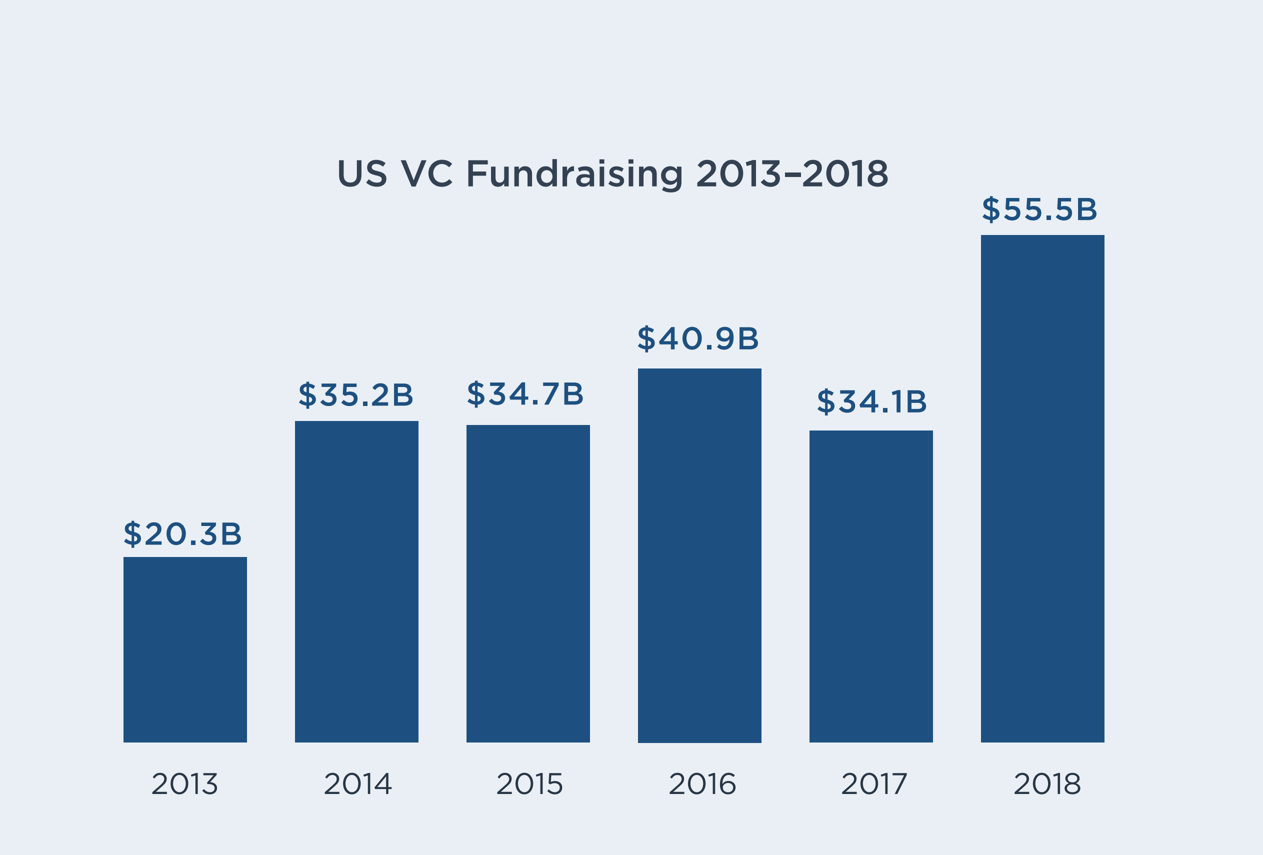
# The changing VC marketplace

## Rapid market changes are escalating risk

2018 was a banner year for the VC industry with $130.9 billion invested across 8,948 US venture deals, the first time annual capital investment eclipsed the $100 billion watermark set at the height of the dot-com boom in 2000. This trend of outsized deal activity, as well as the push for mega-deals fueled by mega-funds, is likely to continue.

However, clouds are building on the horizon. Investors are closely watching the public markets for any signs of volatility and its impact on the pipeline of IPOs, as well as any other potential signals of a VC market correction. New government regulations, as well as talk of an economic downturn, also are complicating the VC picture.




## An increasingly crowded field

Venture fundraising has continued its upward climb, and in 2018, investors raised $55.5 billion across 256 vehicles, the highest recorded value for capital raised. Clearly, there is plenty of cash on hand to fund innovation throughout the venture lifecycle.

This huge amount of cash is only being buoyed by new entrants into VC. Private equity firms, strategic acquirers and mutual funds all want a piece of this pie, and it’s likely the race for the best investments in venture rounds will continue to intensify. Understanding competitors and monitoring their activities can help clarify your own decisions.

# Increased activity means greater risk

What does it take to compete against firms that have more resources than yours? How can you avoid costly mistakes when pricing a deal? To be successful, VC investors need to match the level of scrutiny that other firms can devote to deal analysis.

## Opportunities are increasing

The are new companies in emerging industries like cryptocurrency and artificial intelligence that are rapidly entering the market. To spot quality companies and evaluate their potential, investors need trustworthy, relevant intelligence at their fingertips.

## Higher valuations narrow your margin for error

It is essential to be able to trust the accuracy and completeness of your data due to the high cost of even a slightly inaccurate valuation. For the past few years, valuations have been climbing rapidly higher.

On a large deal, a valuation that is off just 1% can mean hundreds of thousands, if not millions, of dollars of lost returns.

## Increasing market volume, deal size

**33.8K**

VC firms

11 VC funds raised

**$1B+**

in 2018

**$82M**

median fund size,
↗ 64% from 2017

**52**

first-time funds in 2018,
highest recorded

(Source: PitchBook)

# How to stay competitive as VC evolves

## Improve your chances of success

To gain better insight and reduce their exposure on these deals, investors are turning to new sources of market intelligence. While most VC investors maintain at least one in-house database to track this information, it takes substantial time and effort to verify, secure, maintain and analyze these records.

## What do VCs gain from high-quality data?

When you have a powerful database that supports your unique investment strategy, you'll gain the ability to:

**Discover new opportunities**

**Fundraise faster**

**Create custom benchmarks**

**Source promising investments**

**Build better comps**

## Fast, accurate analysis drives solid returns

Using a deep, reliable database has given some firms a competitive advantage. A high percentage of VC funds are now reaching their investment goals.

### Company data available to VC investors

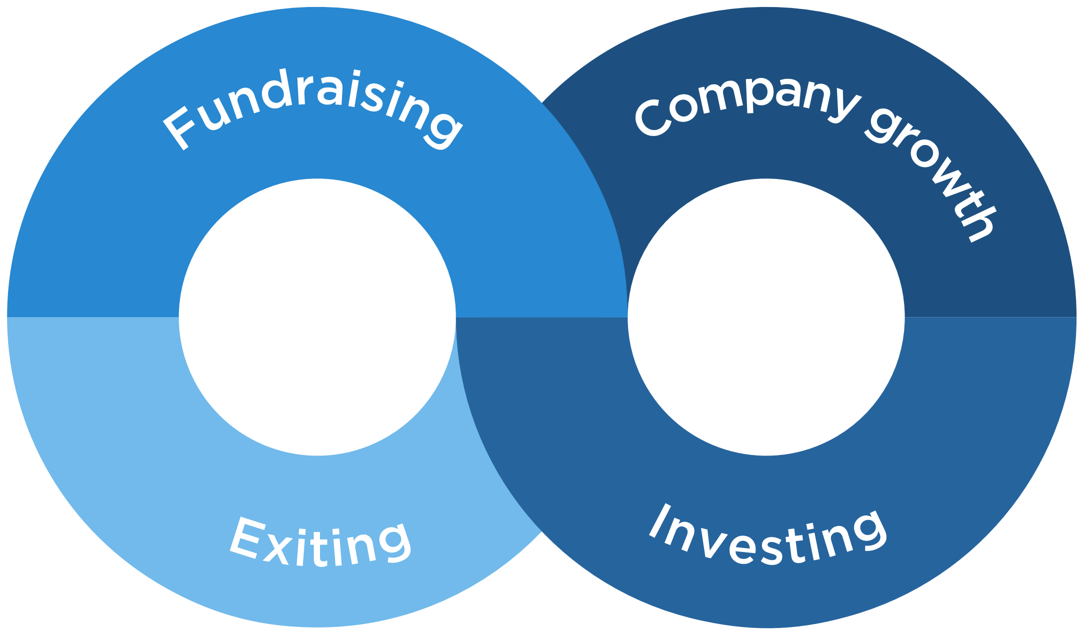
- Pre- and post-money valuations
- Cap tables
- Series terms
- Voting rights
- Deal multiples
- Non-financial metrics (such as social media followers and website traffic)
- Dry powder
- Cash flow multiples
- IRR

# “We need deep, accurate, timely information on venture capital to drive our business.”

Kevin Ford, Partner, Ventura Partners

# The benefits of better data at every stage of a fund

When you have the most current, relevant market data at hand, you and your team can make investment decisions faster, easier and with more confidence.




## Fundraising

How data helps you win:

Target the most promising investors with insight into their preferences, mandates and commitments

Illustrate what sets your fund apart with custom benchmarks

Present your fund within broader market trends to show the value of your strategy

## Investing

How data helps you win:

Search for companies that fit your investment preferences

Evaluate companies with insight into their financials, funding histories, investors, executives and more

Price deals with confidence using detailed comps

## Company growth

How data helps you win:

Find relevant law firms, accounting firms, consultants and other advisors to help portfolio companies

Target executives and other professionals to build or improve the team

## Exiting

How data helps you win:

Determine the best time to exit (and at what price) with custom comps

Find strategic acquirers that might be interested in the company

# Finding the best database for your firm

Once you have decided to consider a new database, take the time to clearly define your needs and get buy-in from everyone who will be using the system. Start by choosing an evaluation team, and document how things are done now. Then, identify the business processes that can benefit the most from more accessible, comprehensive data.

## How to conduct the search:

**1**

Get prepared

**2**

Document the current state

**3**

Conduct initial research

**4**

Evaluate the options

**5**

Choose your new database

**6**

Prepare for process change

# 1

## Get prepared

Identify your non-negotiable database requirements and assess your internal status.

**A. Select system evaluation team.**
Include analysts, managing directors, staff and partners.

**B. Document current structure/workflow and metrics.**
Ideas: Process times, data sources, number of deals/month, number of associates and other people who access data, costs of existing datasets, reliability of data and accessibility of data (mobile, etc.).

**C. Hold discussions with stakeholders.**
Ideas: Interviews, observation, documentation and surveys.

**D. Compile the requirements list.**
Conduct needs assessments to determine requirements.

**E. Identify key use cases and problems.**

**F. Finalize requirements.**
Circulate internally and get approvals early in the process.

# 2

## Document the current state

Understand your existing processes.

**Ease of use**
Q. How comfortable is your team with your database? How many people use it, and how often? How easy is it to use?

**Automation**
Q. What tasks in your existing research process require human attention or validation?

**Customization**
Q. Does your database enable you to create custom benchmarks to measure fund performance?

**Timeliness**
Q. How do you keep up with the activity of competitors, companies and investors?

**Speed**
Q. How long does it take to determine which companies you should invest in?

**Interconnectivity**
Q. Can you see fund and investor data in the same place as VC deal and private company information?

# 3

## Conduct initial research

Identify the options.

There are many databases that are helpful to VC activity. Your colleagues are an excellent source of leads and references for investment database vendors. Use online resources to compile a current list, from industry news outlets to discussion boards like Quora.

Once you have agreed on the parameters, it is time to get in touch with potential vendors.

**Check online reviews**

**Visit discussion boards**

**Hold internal conversations**

**View demos and sign up for trials**

As you seek to understand the different database solutions, start by reaching out for an introduction or demo. Once you have enough basic information to know that you would be comfortable working with a vendor, you may continue meeting with an individual company, talk to a small circle of top candidates or publish a formal request for proposal.

# 4

## Evaluate the options

Score the different databases based on the qualities most important to your team. Identify points of integration and process change, and check the quality of the data.

**The vendor**

Q. How many years has the vendor been in business?

Q. How many clients/customers use this database?

**The database**

Q. What datasets are included? Where do they originate?

Q. How many funds, companies, LPs, commitments, financing events, service providers and individuals are listed?

Q. Does it cover VC deals from seed rounds to exit?

Q. Does it cover licensing deals? Angel investor and syndicate financing?

Q. Does it include pre- and post-money valuations, EBITDA and revenue multiples, cap tables and series terms?

Q. Does it include data on funds, fund performance, returns, limited partners and advisors?

Q. How much private market and global market data is available?

Q. Does it include non-financial information like social media followers and website traffic?

Q. Is fund data connected to deal coverage?

Q. Does it identify different types of financing rounds?

Q. How often is each type of data refreshed?

Q. How is data accuracy maintained and verified?

Q. How many people manually check the data?

Q. What is the process for submitting errors?

Q. What security is in place for data and users?

### Verify the data available

| Yes | No | Dataset |
|---|---|---|
| ☐ | ☐ | Pre-money valuations |
| ☐ | ☐ | Post-money valuations |
| ☐ | ☐ | Cap tables |
| ☐ | ☐ | Series terms |
| ☐ | ☐ | Voting rights |
| ☐ | ☐ | Deal multiples |
| ☐ | ☐ | Non-financial metrics (like social media followers and website traffic) |
| ☐ | ☐ | Dry powder |
| ☐ | ☐ | Cash flow multiples |
| ☐ | ☐ | IRR |

### The user interface and accessibility

Q. What features are in place?

- Separate logins
- Integration points
- Customization options
- Ability to export
- Deal flow reports
- Missed deal reports

Q. What search functions exist?

- Segment by industry, geography, etc.
- Save searches
- Share searches

Q. Can you see data from the full investment cycle at a glance?

Q. What is the process to pull data for comps?

Q. Is there mobile access?

### Industry analysis and additional services

Q. How are pre- and post-money valuations calculated?

Q. Are original industry reports provided?

Q. What related services are provided, such as custom research?

Initial and ongoing costs and fees:

- Setup and ongoing
- Training expenses

### Ongoing contact with vendor and community

Q. What kind of customer support is offered?

Q. How long does training take?

Q. How often does the vendor release updates? How are they announced?

Q. Are customer references and peer support available?

# 5

## Choose your new database

### Estimate the benefits

To quantitatively evaluate the cost/benefit ratio of each solution, devise metrics to calculate the expected ROI of the purchase. Use the previous sections to determine your firm's priorities and organize them into a scorecard.

Ways to measure the expected benefits of a new solution include:

- Time saved on fundraising (time to close)
- Time saved on deal execution (time to close)
- Hours per week saved on due diligence
- Number of opportunities discovered
- Number of strategic acquirers identified for portfolio companies (and how many became deals)
- Percent increase in pricing accuracy
- Percent increase in fund returns

### Make your selection

With a fresh understanding of your company's data requirements and a solid process for evaluating the options, you can choose the right database and smoothly integrate it into your existing workflow. The ability to see and interpret all the information relevant to your industry is invaluable.

# 6

## Prepare for process change

### Ask the evaluation team to be internal ambassadors

Once you have decided on a database, get the most from it by evangelizing it within your firm. The evaluation team can lead the way by explaining what they like most about it, whether it is the breadth, depth and accuracy of the data or the ease of communicating with the vendor.

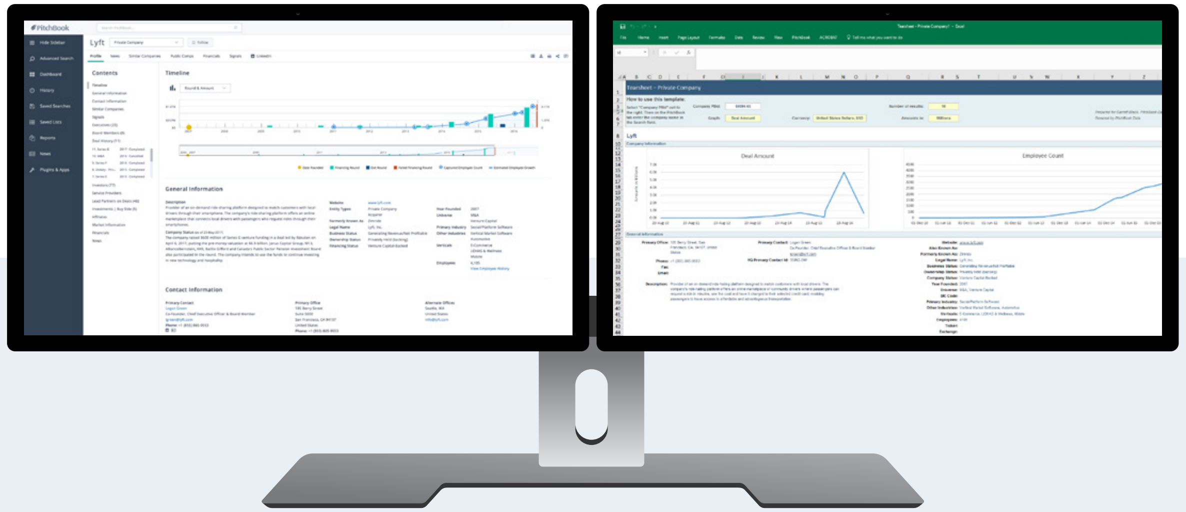
### Train core staff on key business processes

Start with the key business processes you identified and make sure the affected staff are trained on any changes before the transition.

# PitchBook has the best market intelligence

PitchBook is the most comprehensive VC, PE and M&A database. Not only does it offer information you can't find anywhere else, but it also tracks every aspect of the private markets.

The official data provider of the Association for Corporate Growth (ACG) and the National Venture Capital Association (NVCA), PitchBook is the best resource for venture firms because it offers the comprehensive data VCs need at every stage of a fund.



**Discover new opportunities**

You can follow all pre-venture and venture activity, as well as keep tabs on private equity firms, strategic acquirers, mutual funds and other entities participating in venture rounds.

**Fundraise faster**

PitchBook tracks more than 28,000 limited partners, giving you access to granular information that makes it easy to target the right investors.

**Create custom benchmarks**

Most benchmarks are based on basic attributes, but they don't showcase what truly sets your fund apart. With granular data, you can create your own peer group based on the underlying factors investors care about most.

**Source promising investments**

PitchBook has the information you need to gauge a company's growth and validate your intuition—including pre- and post-money valuations, cap tables and series terms.

**Build better comps**

When you have access to data like valuations, EBITDA and revenue multiples, cap tables and series terms, you can build more accurate comps.

# What PitchBook tracks

## 14,300+
## venture funds

- Investments
- Industry focus
- Size
- Vintage year
- Limited partners & commitments
- IRR
- Cash flow multiples (DPI, RVPI, TVPI)
- Dry powder
- Preferences
- Team

## 398,000+
## pre-venture & venture deals

- Investors
- Cap tables
- Pre- and post-money valuations
- Series terms
- Voting rights
- Stock information
- Advisors/service providers

## 28,000+
## limited partners

- Commitments
- Preferences
- Mandates
- Allocations
- AUM
- Fund returns
- Team
- Board members
- Advisors/service providers
- Contact information

## 191,000+
## non-venture investors

- 177,000+ strategic acquirers
- 14,700+ private equity firms
- Mutual funds
- Hedge funds
- Sovereign wealth funds

## 1,281,000+
## private companies

- Financing histories
- Financials (revenue, EBITDA, balance sheets)
- Filings
- Executives
- Board members
- Investors
- Advisors/service providers
- Similar companies/ competitors
- Social followers
- Web traffic
- News

## 583,000+
## non-venture deals

- 263,000+ strategic M&A deals
- 171,000+ private equity deals
- 56,000+ IPOs

"PitchBook has been instrumental in helping us build our knowledge of the early-stage investment ecosystem as well as keeping us up to speed on broader market developments and trends."

Nicolas Milerioux, Head of Venture Capital, Encevo

"PitchBook has saved me time and money, compared to scanning the web and assembling data ourselves. The ability for my team to quickly generate reports is very useful to me."

Chris Quish, Vice President, Open Text Corporation

**"The ability to perform detailed queries has enabled us to quickly zoom in on specific market segments and the active startup players in each space, providing quick insights on fundraising, investors and current company status."**

Erez Ofer, Partner, 83North

# About PitchBook

It all started with seven people working in a 200-square-foot, windowless office. Founder John Gabbert was pursuing an idea his former employer nixed—a database that covered private equity.

In 2009, we launched PitchBook Desktop. With each new dataset and feature, we've expanded and improved. Now, PitchBook tracks every aspect of the public and private equity markets, including venture capital, private equity and M&A.

Our focus has always been—and will always be—our clients.
What data matters most to them? What would make their jobs easier? How can we help them make informed decisions?

Now part of Morningstar, we continue to give our clients the data and tools they need to be successful.

**John Gabbert**
**Founder & CEO,** PitchBook

# Learn more

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