



Venture Monitor

Q3 2020



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Silicon Valley Bank



2020 on pace to set VC mega-deals record

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Second-highest quarter for exits as IPO window reopens

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Robust fundraising brings 2020 YTD's total to \$56.6B, exceeding 2019

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Executive summary

Despite the unheralded period in the US—as the COVID-19 pandemic, stay-at-home circumstances, and continued economic volatility persist across the country—the venture capital (VC) and startup ecosystem has, broadly speaking, been resilient in 2020. However, pockets of the ecosystem, particularly newcomers looking for their first VC investment, first-time fundraisers, founders from diverse backgrounds, or those between the coasts, have faced challenges.

Most VCs have adapted to new, remote ways of doing business, and capital invested continued at a strong pace in the third quarter. The \$37.8 billion invested in Q3 was relatively on par with Q3 2019, thanks largely to late-stage investments. Deal volume also held steady, with 2,990 completed deals using [PitchBook's new deal estimation methodology](#).

The startup ecosystem appears to be responding admirably to the grave challenges currently facing the US. Startups and entrepreneurs look to be moving aggressively to address the major challenges of our time: climate change, healthcare, COVID-19, and more. Many sectors are exploding, while other spaces are being reimaged. We may see significant long-term changes in consumer and business behavior that prove fundamental to the creation of new, large firms that emerge from this turbulent time.

While some sectors have struggled during the pandemic, the adoption of many new startup technologies accelerated and underpinned investment in those spaces. Pharma & biotech startups have, unsurprisingly, fared well, but COVID-19 has also accelerated the adoption of fintech, edtech, and telemedicine innovations. This increased usage of new technologies could ultimately result in permanent new models of working, learning, teaching, and receiving healthcare.

One sector that could help solve many of these challenges, life sciences, had a very busy and productive quarter. Investment trends for pharma & biotech have been strong for the last several years, but the COVID-19 pandemic has significantly increased investment into these companies, especially companies focused on the discovery, development, and production of vaccines, antivirals, and antibacterials, areas that had previously been underfunded for many years. This surge in investment over the last two quarters could result in a five- to 10-year boost for the industry.

Low interest rates, healthy public markets, and more money flowing into financial markets have given investors confidence that high-growth companies will be well-valued in the public markets, creating a positive trickle-down effect for startups. The result has been a robust IPO window for startups across many sectors, including biotech, pharma, and many types of tech companies.

While traditional IPOs are a strong option for high-growth companies in the current climate, an alternative way to go public has gained popularity in the ecosystem: the special purpose acquisition company (SPAC). SPACs provide an alternative route to public markets that many in the industry consider a long time coming. Proponents of SPACs contend they can provide a streamlined approach with a better onboarding process to going public, easier mechanics for creating the board and management processes, more direct dialogue with investors over a longer period of time, more transparency for the company purchased by the SPAC, and broader wealth creation. Ultimately, time and the market will determine if SPACs are a fad or if they are here to stay.

Not all trends in the ecosystem have been positive. The number of seed and early-stage VC investments has rapidly declined, and we have seen an even steeper reduction in the number of first financings for startups, which reached a 10-year low in Q3. While some of the decline at the seed stage may be a correction to excessive seed-stage activity several years ago, a more fundamental concern about the health of early investments remains. Ecosystem concerns also include worries over a retraction on gender-diversity progress given decreased investment into female-founded startups in Q3, and in 2020 overall. Furthermore, there are some indications of decreased investment outside the traditional VC hubs of California, New York, and Massachusetts, which, if substantiated, would represent a reversal of the slow progress emerging VC ecosystems have achieved over the past several quarters.

Finally, broad uncertainties permeate the ecosystem. The COVID-19 pandemic obviously looms large, with the possibility of a second wave and its repercussions. A return to strict lockdown measures in response to a second wave would likely drive the economy deeper into recession, with follow-on effects for public markets. Further declines in economic activity and a drop in valuations would have negative consequences for both VCs and startups. Perhaps the biggest question mark on the horizon is the upcoming election, the results of which have the potential to create major disruptions across the ecosystem.

NVCA policy highlights

NVCA empowers the venture industry by advocating for policies that encourage innovation and new company formation, as well as by delivering resources and programming to help VC investors succeed. We are committed to advancing policies that foster entrepreneurial activity and investment across the country. We are proud to represent an industry that is furthering solutions to tackle today's greatest challenges and advance the possibilities of tomorrow.

The third quarter of 2020 continued to see major policy challenges as NVCA advocated on behalf of the VC industry and the entrepreneurial ecosystem around the policy responses to the COVID-19 pandemic and the resulting economic downturn. Many VC-backed startups have been significantly affected, and NVCA continues to engage with policymakers to secure economic stimulus and regulatory relief that will help the entrepreneurial ecosystem.

Below are key policy updates for VCs and VC-backed startups:

IGNITE Innovation Act: NVCA and a coalition of other startup advocacy organizations endorsed and supported the bipartisan *IGNITE American Innovation Act*, which would allow growth companies with less than 1,500 employees to monetize up to \$25 million in tax assets, including accumulated net operating loss (NOLs) carryforwards, and R&D credits. The bill would provide fast and efficient capital availability to support companies through the downturn and will be offset over time through higher tax payments once these companies become profitable. It is the most significant pro-startup proposal under consideration during ongoing economic recovery package negotiations.

COVID-19 stimulus update: Negotiations over Phase 4 economic relief legislation have stalled in Congress, with the parties still deeply divided over the size and scope of the

package. September came and went with no agreement. House Democrats passed a \$2.2 trillion relief bill in early October, a significantly larger package than Senate Republicans have been willing to support. Meanwhile, the White House has been playing a game of hot and cold, shifting its position over the prospects of an agreement from one day to the next. Many observers are pessimistic about a large stimulus package making it through Congress before the election, but some hold out hope that a "skinny" deal focused mainly on airline assistance will pass. You can stay up to date with the latest NVCA public resources on COVID-19 [here](#).

Basic research & commercialization bills: NVCA endorsed the bipartisan, bicameral Endless Frontier Act, a significant piece of legislation that creates a \$100 billion five-year program to fund basic research and encourage technology commercialization in 10 core technology areas. In addition, Senate Democrats have introduced the *America Labor, Economic competitiveness, Alliances, Democracy and Security (America LEADS) Act*, a suite of proposals intended to bolster US global competitiveness and address economic and security challenges posed by China. The *America LEADS Act* represents a strong indication of Democratic priorities should they win control of the White House and/or Congress.

Drug pricing: NVCA is very concerned with President Trump's executive order proposal to implement an International Pricing Index, which would tie Medicare's drug prices to those in other countries. We responded that it is imperative for policymakers to recognize healthcare innovators creating vaccines and treatments, including VC-backed companies at the leading edge of COVID-19-related research, and not put up roadblocks to those working to develop new medicine. Now is the time to encourage scientists, doctors, and investors to reach for new heights, not to implement policy that may stymie new healthcare approaches.



Bobby Franklin is the President & CEO of the National Venture Capital Association (NVCA), the venture community's trade association focused on empowering the next generation of transformative American companies. Based in Washington, D.C., with an office in San Francisco, NVCA acts as the voice of the US venture capital and startup community by advocating for public policy that supports the American entrepreneurial ecosystem.

2020 Presidential Election: President Trump and Vice President Biden have dramatically different visions for the country, and a win by Biden in November would significantly change the trajectory of policymaking in Washington. Vice President Biden has released many ambitious policy proposals, including plans to address climate change, modernize immigration laws, and invest in infrastructure, basic research, education, and health care. To finance these initiatives, Biden has proposed a number of tax increases, such as parity for capital gains and ordinary income rates, and an increase in the corporate tax rate to 28%. In addition, Biden will likely have to prioritize public health and economic relief plans to respond to the COVID-19 crisis, much of which will likely not be offset. On the other hand, a reelection of President Trump could embolden the administration to double down on its first-term priorities, meaning more significant decoupling from China, enhanced foreign investment scrutiny, stricter immigration policies, and continued deregulation.

Overview

Q3 deal activity shows growth over Q2

US VC deal activity by quarter (with deal count estimation)



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*As of September 30, 2020

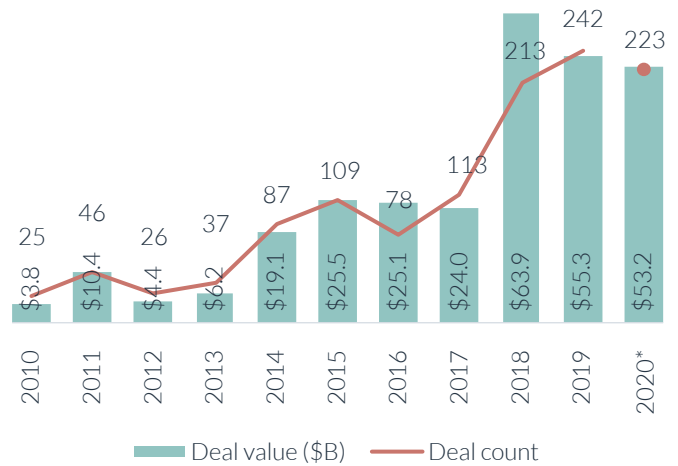
Reopening of IPO window for large tech companies drives massive rebound for VC exit market. Exits were the hardest hit segment of the VC ecosystem over the first six months of the year, but all that changed in Q3. The public listings of Snowflake, Palantir, Asana, and Unity pushed exit value to the second-highest quarterly total of \$103.9 billion, with those four IPOs making up 64.8% of the total exit value. These exits also brought the total number of IPOs at a \$1 billion+ valuation to 13 in Q3, which is more than the total number of VC-backed IPOs in Q1 2020. Furthermore, there are a handful of other multibillion-dollar IPOs, direct listings, or SPAC combinations lined up over the next couple quarters as VC-backed companies look to capitalize while the IPO window remains open.

VC dealmaking remains extremely resilient throughout the pandemic. Overall deal counts are roughly in line with recent years, but we've seen a divergence with a slowdown at the earliest stages and an acceleration at the late stage in 2020 on the back of VC mega-deals (\$100 million+) and larger deals in general. In fact, 223 deals \$100 million and above have closed through the first nine months of 2020, putting the year on pace to set a new record for VC mega-deal count, and to potentially match one VC mega-deal for every business day in the year. This move toward larger deals has been in motion for the past five years, but the advent of the pandemic has accelerated this trend as uncertainty and a desire to support stronger portfolio companies likely drove a flight to quality for investors.

Large funds see continued success, pushing 2020's total fundraising value higher than 2019. Through Q3, US VC firms have raised a total of \$56.6 billion across 228 funds, exceeding 2019's yearly fundraising value of \$54.9 billion. The median and average

Mega-deals approach 2019 figures

USVC mega-deal activity

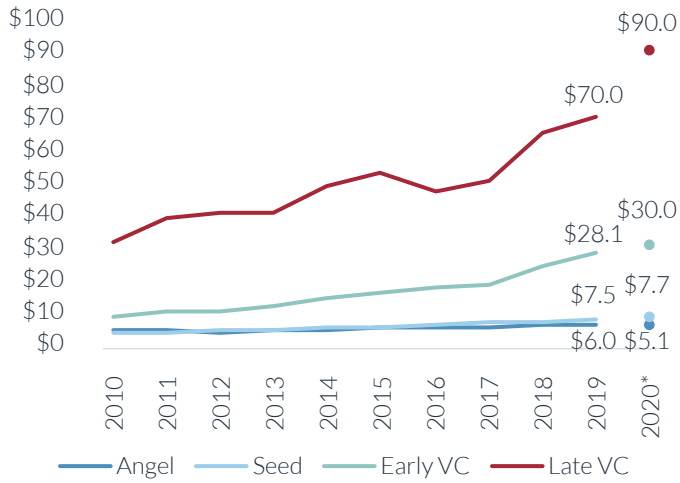


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US VC fund sizes in 2020 YTD are \$82.1 million and \$257.2 million, respectively, boasting a 64.2% and 88.7% increase over 2019's median and average. This correlates with much of the fundraising sentiment in the venture ecosystem—fund managers with good LP relationships and a record of strong fund performance have not experienced many hiccups when raising new funds.

Median valuations continue growth

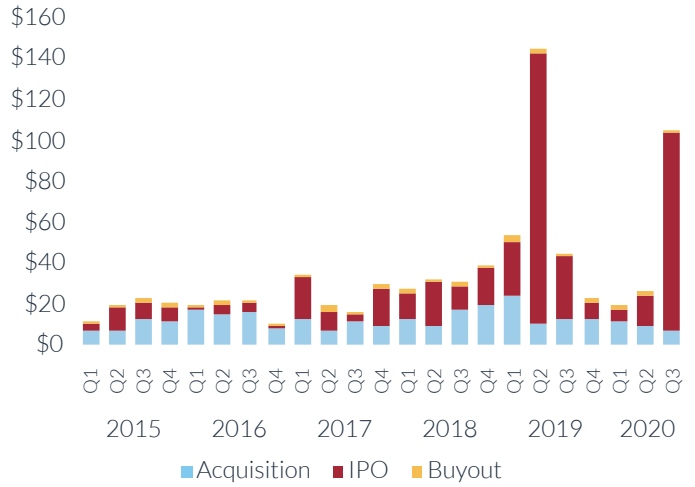
US VC median pre-money valuation (\$M) by stage



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*As of September 30, 2020

Reopening of IPO window fuels rebound in exit activity

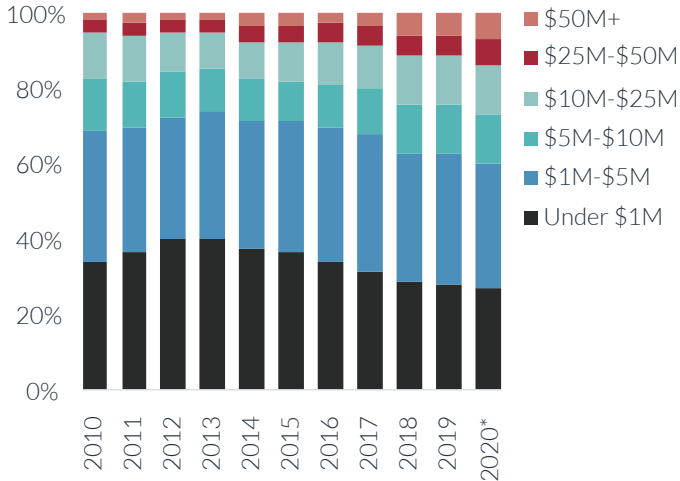
US VC exits (\$B) by type



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Large deals gaining influence

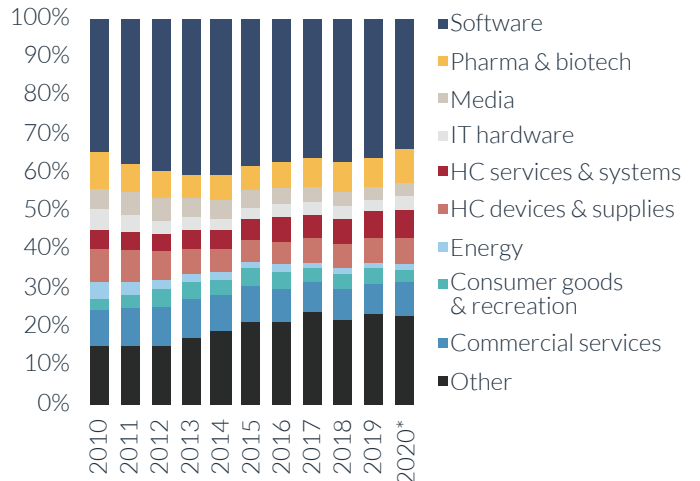
US VC deals (#) by size



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Healthcare with modest gains in 2020

US VC deals (#) by sector

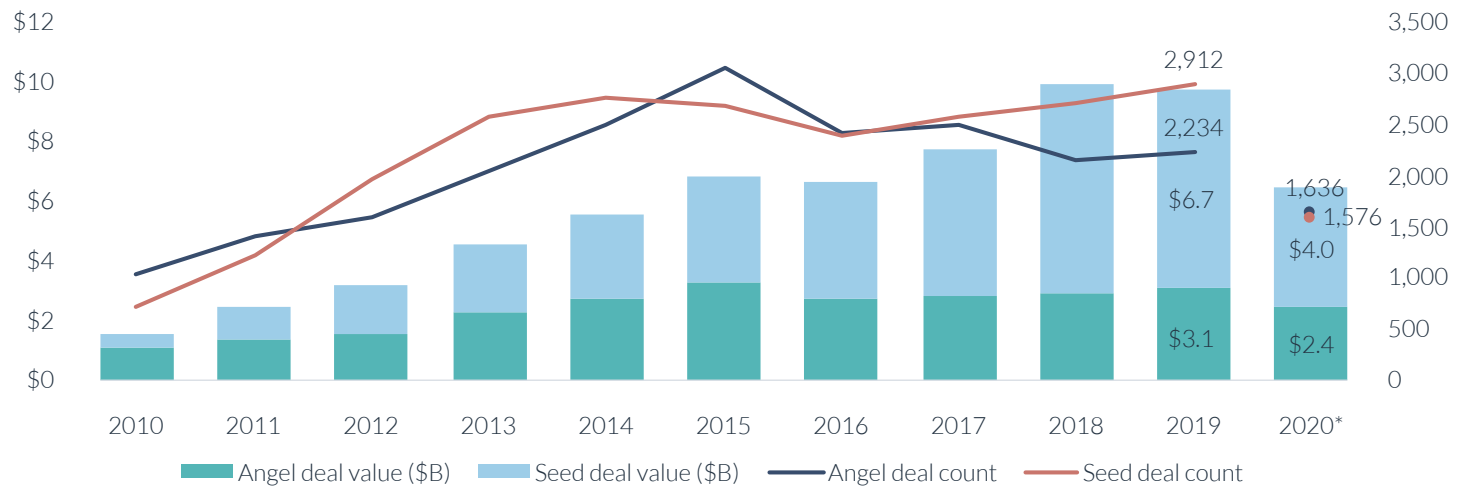


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Angel, seed, and first financings

Angel investments have outpaced seed in 2020

US angel & seed deal activity



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The lower end of the venture market has seen mixed activity amid the continuing pandemic. As the seed market continues its sluggish pace through Q3, angel investments have remained rather resilient. Our Q3 estimates show another small dip in deal counts at this stage; while we anticipate a YoY drop in activity once full-year data is tallied, the overall decline shouldn't be nearly as severe as many

investors might have predicted at the beginning of the lockdowns. In fact, the combined number of angel and seed deals counted so far in 2020 remained roughly in line with the amount collected through Q3 2019.

To note, angel investments saw an increase over Q2 figures, even without deal count estimations taken into account. With

deal sourcing moving online, the first major challenge COVID-19 brought to the venture market has slowly lessened over the third quarter as the industry adjusted to the digital setup. Capital has flowed rather steadily through angel investments, with \$2.4 billion invested in such deals through Q3 2020 and little variation in deal value between quarters. Angel investments have also outpaced seed deals

Angel & seed capital investment shows a slowdown over recent quarters

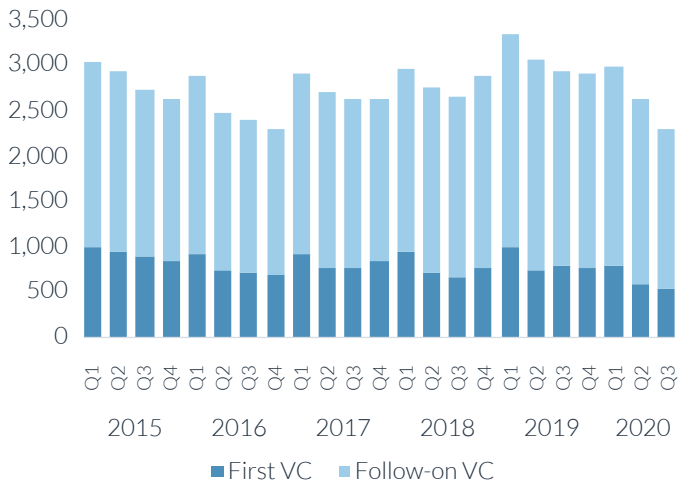
US angel & seed combined deal activity by quarter (with deal count estimation)



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First-time financings represented only 23.7% of deal count in Q3

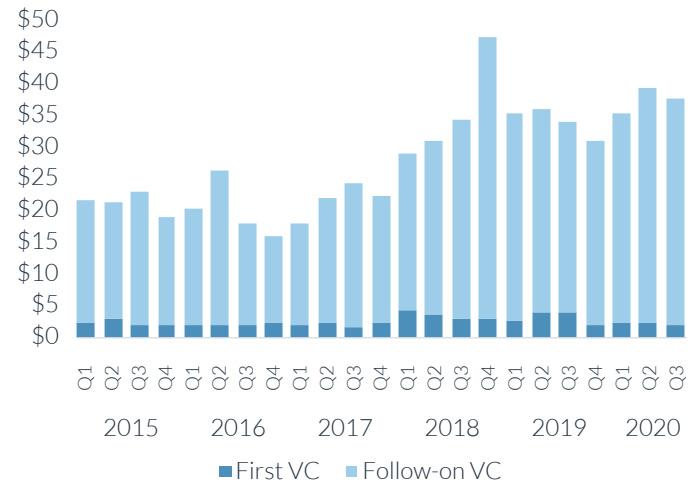
US VC first financing vs. follow-on financings (#)



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First-time financings deal value fell to a record low of 5.5%

US VC first financing vs. follow-on financings (\$B)



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*As of September 30, 2020

so far in 2020, as seed has realized a more dramatic slowdown in deal flow.

The institutionalization of the seed stage likely contributed to its current decline, though not due to changes in long-term investment strategies. Seed-stage activity actually increased during the 2008 global financial crisis (GFC), when the strategy was still nascent. The entrance of larger multistage and nontraditional investment at the seed stage in recent years has created a competitive environment, putting upward pressure on deal sizes and valuations. As these funds immediately turned their attention to existing portfolio companies at the pandemic's outbreak, sourcing new, smaller, and riskier deals such as those at the seed stage bore the brunt of exclusion. This slowdown at seed may indicate that some investors are stepping back. However, we believe investor pullback from seed will only be temporary and that competition for attractive startups at the seed stage will eventually rebound.

The divergence in seed and angel pre-money valuations has continued. Median seed-stage pre-money valuations have reached \$7.7 million so far in 2020, while angel deals were the only VC investment type to show a decline in median pre-money valuations. These movements coincide with growth in deal sizes, highlighting a flight to quality for investments at the seed stage and increased risk compensation for angel investors. Each of these would be expected in an economic climate like the one created by the COVID-19 pandemic. At all stages, companies showing positive traction and growth prospects despite economic headwinds are commanding a premium. As seed and angel deals have increased in size and age, less developed companies are finding fewer prospective investors.

The changes to these earliest investments have had a visible effect on first-time financings in the US over the past few years. With a quarter left in the year, first financings will struggle to reach last year's

total, and will likely be well off the highs seen in 2015. First financings have declined to just 23.7% of total completed financings in Q3 2020, compared with 27.3% in Q3 2019. Deal size and valuations of first financings show relative wariness of these investments, as the median deal size has grown by just \$100,000 (12.0%) over 2019's full-year figure, and the average size has fallen by \$800,000 (15.3%), unlike other investment stages in the industry. Again, the sluggishness of these investments is likely heavily due to COVID-19, and as pandemic-related barriers to investments retreat, we believe first financings will remain a focus for many investors. Roam Research's \$11.4 million seed round, its first financing, was raised at a reported \$41.4 million post-money valuation, including investments from Lux Capital, which most recently raised a \$500 million fund. Though one deal cannot represent an entire stage, the fact that such a deal can close amid the current headwinds may illustrate what we might expect when the economic climate recovers.

Early-stage VC

Early-stage VC deal activity showed signs of rebounding in Q3 2020 with \$9.2 billion raised across 657 deals, bringing the YTD total to \$27.7 billion across 2,351 deals. After a lackluster Q2, early-stage investors are becoming more comfortable investing in this “new normal.” Based on our deal estimation methodology, we anticipate an additional 371 deals to be added to prior quarters’ dataset, bringing the YTD total to 2,722. At its current pace, 2020 is tracking to fall short of last year’s early-stage activity by 20%-25%—unsurprising given the stress caused by COVID-19 and the fact that both 2018 and 2019 were record years for the industry.

Early-stage VC deal activity in Q3 showed signs of recovery, with deal value exceeding Q2 figures and deal counts estimated to close higher than Q2 as well. While a combination of logistical hurdles in deal sourcing and networking, a slowdown in deals closing during the summer months, and fears over a second wave of COVID-19 have contributed to a general level of cautiousness among many early-stage investors, the industry has adjusted to shelter-in-place and work-from-home policies.

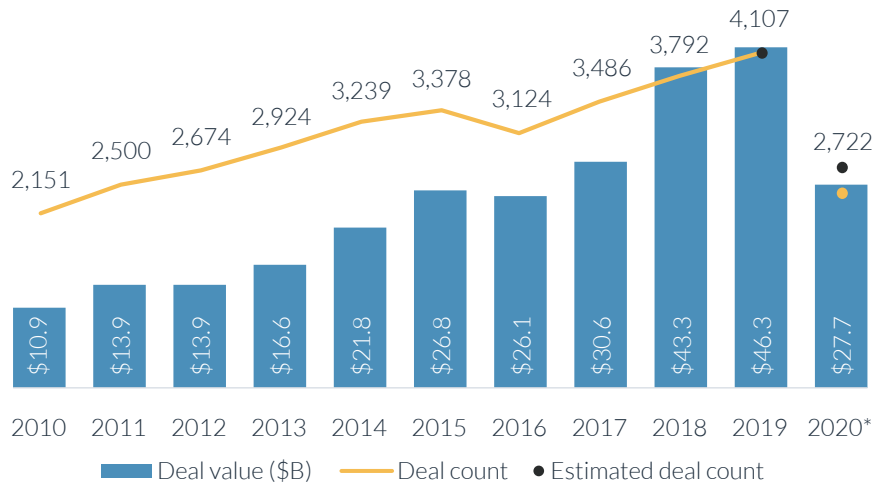
Larger check sizes continued to dominate the early stage in Q3. The YTD total of

checks over \$25 million currently sits at a record high of 15.4%, with this percentage increasing to 18.2% when considering only Q3 deals. With that said, for the new financings that are occurring, many investors have begun to step outside their comfort zones and embrace deals from entrepreneurs beyond their immediate network, particularly

in sectors that accelerated due to the ongoing pandemic, such as telemedicine and education technology. Notably, 19 of the 25 largest early-stage VC deals in Q3 were in healthcare—an industry that has been buoyed by the ongoing pandemic—notching the highest proportion we’ve seen in several years.

Early-stage VC deal activity in 2020 unlikely to match 2019 activity

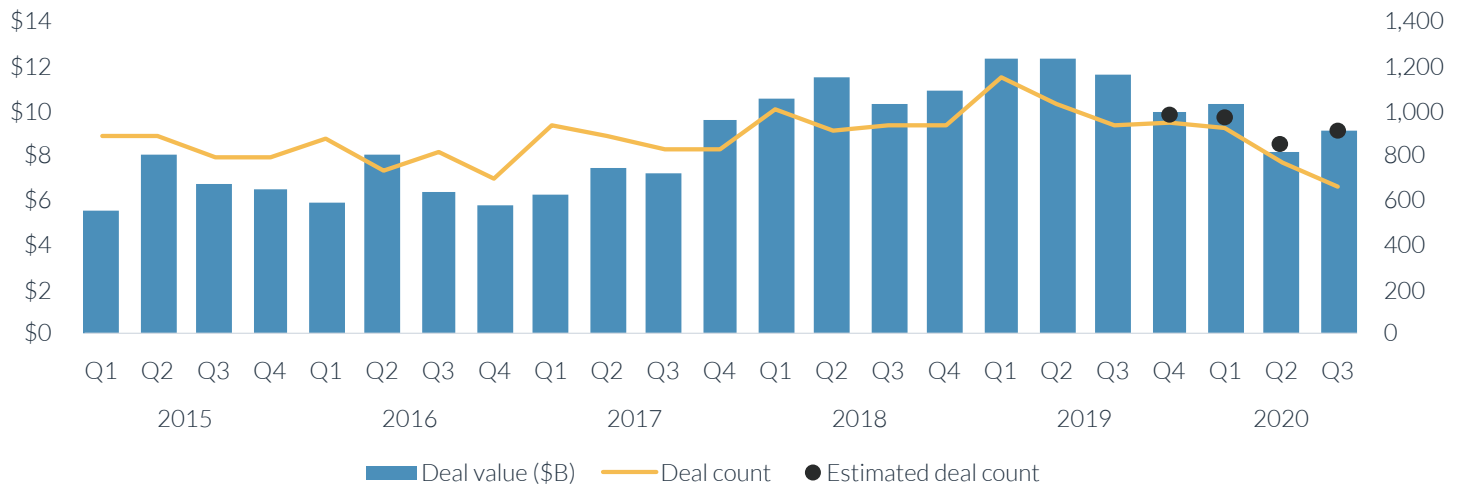
US early-stage VC deal activity with deal count estimation



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Q3 deal activity shows notable rebound

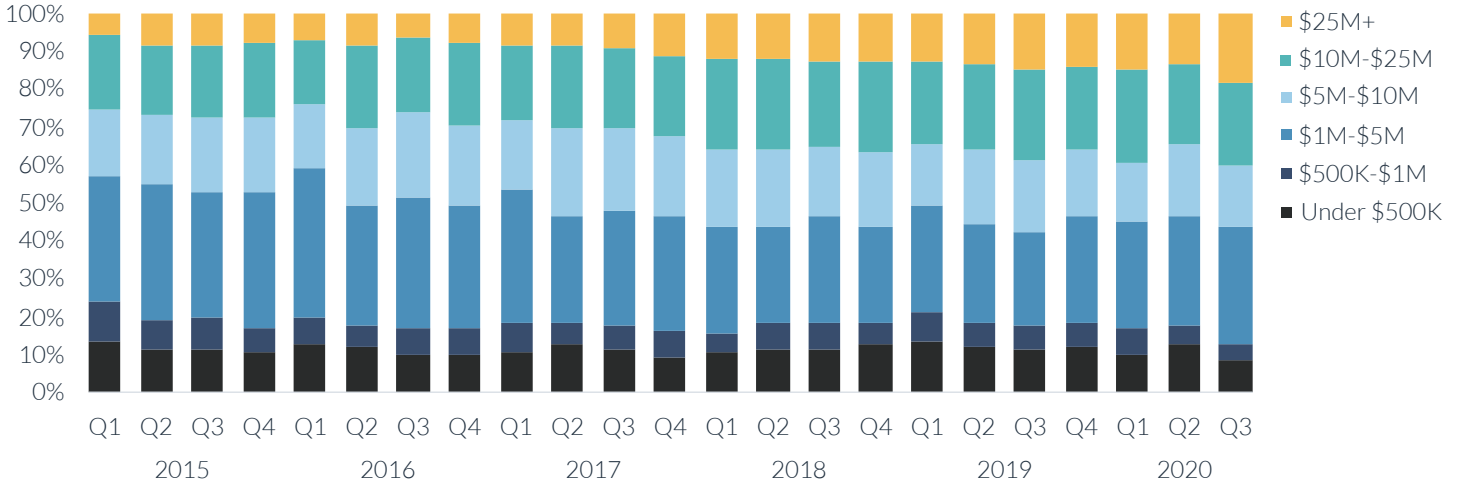
US early-stage VC deal activity with deal count estimation by quarter



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Deals exceeding \$25M represented 18.2% of total deal count in Q3

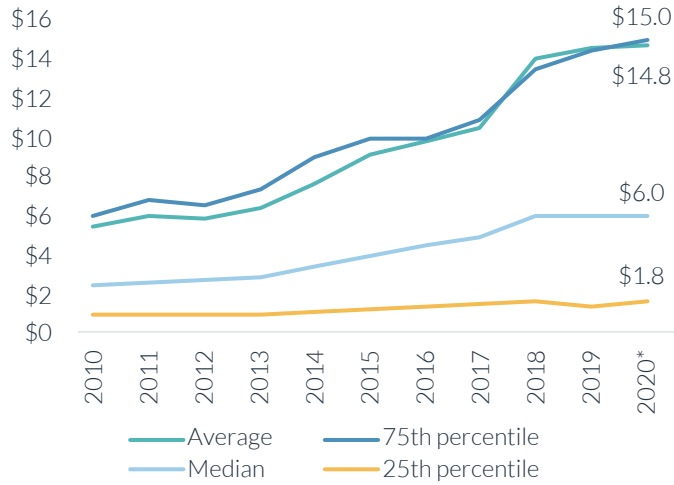
US early-stage VC deals (#) by size



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Median early-stage deal size continues to stay flat

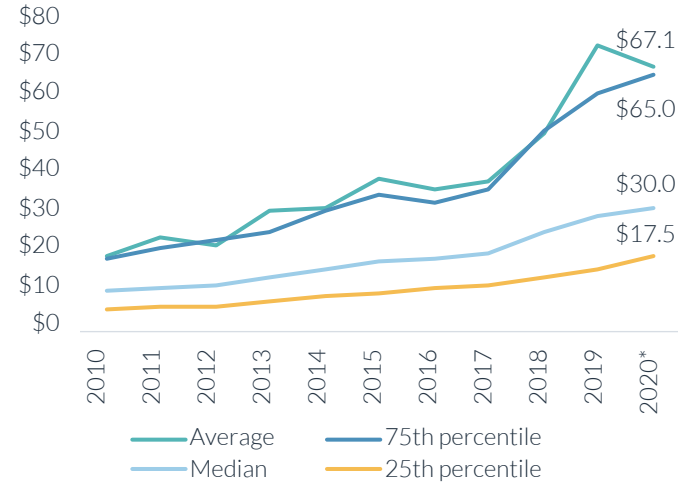
Quartile distribution of early-stage VC deal sizes (\$M)



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Early-stage valuations continue to climb despite pandemic headwinds

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

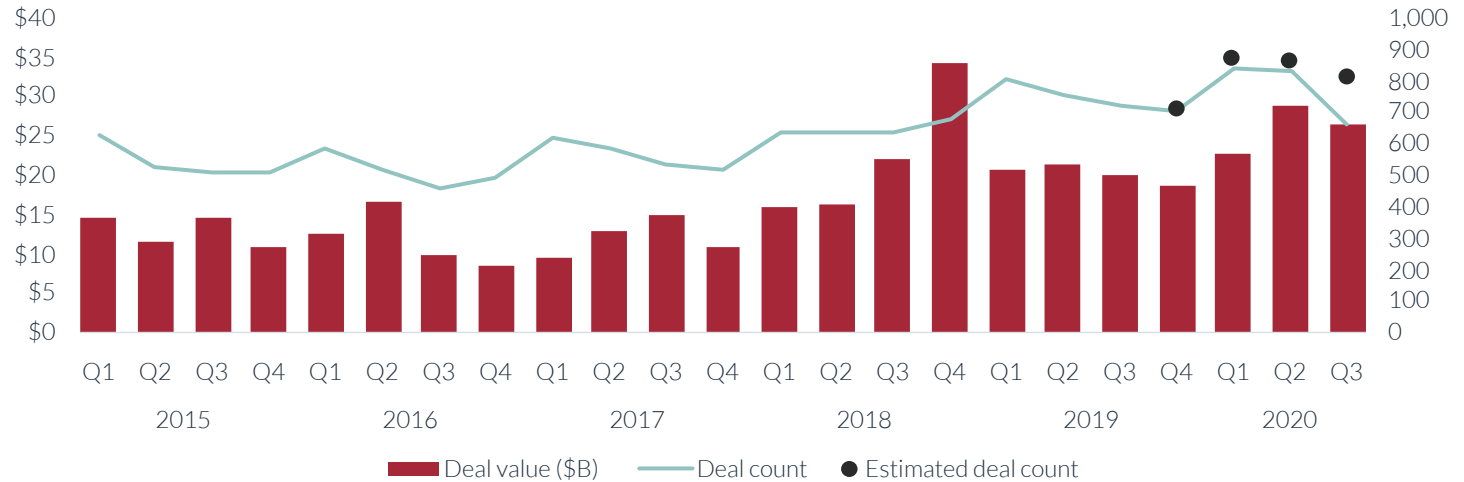


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Late-stage VC

Late-stage dealmaking shows further resilience through pandemic

US late-stage VC deal activity with deal count estimation by quarter

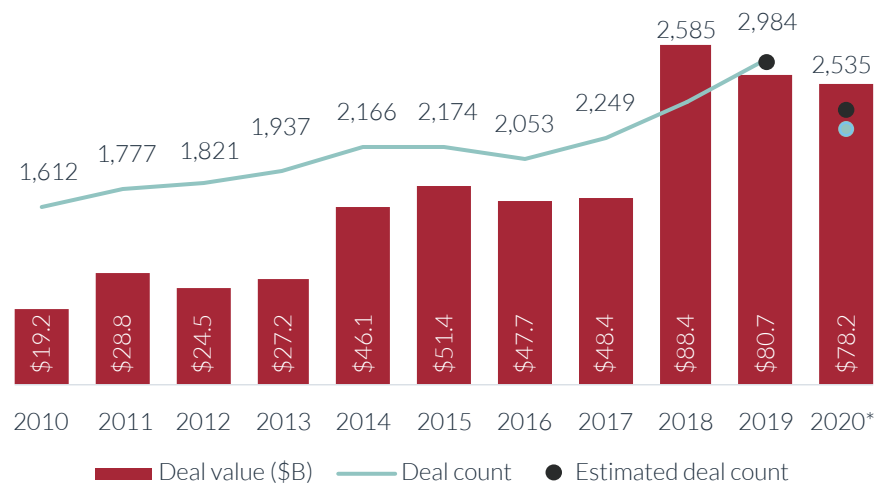


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The resilience of the late stage has been a consistent storyline during the pandemic, and Q3 2020 was no different. 662 deals closed during the quarter across \$26.6 billion in capital investment, bringing the yearly total to \$78.2 billion. Massive capital investment totals at the late stage have been relatively normal within VC for the last couple of years, but in 2020 the upward trend at the late stage has met declining deal counts at the early stage, resulting in a convergence. Much of this is simply due to the demographics of the companies now operating under VC backing. In our definition, companies from Series C on are considered to be in the “late-stage.” This slice of the market has grown significantly over the last 10 years given many companies’ choice to stay private longer rather than seek an exit. More recently, as investor uncertainty has prevailed, late-stage companies are viewed more attractively because they represent a lower risk relative to their early-stage counterparts. Additionally, investors have a desire to consolidate ownership in their perceived winners, which has fueled late-stage VC activity as companies raise more capital in private markets.

2020 on pace to set record late-stage deal value

US late-stage VC deal activity with deal count estimation



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Investors consolidating capital in their most valuable and mature businesses has caused the ongoing trend of larger deal sizes to gather more momentum. Now, more than 30.5% of late-stage VC deals are over \$25 million and drive 75.5% of the total value at the stage. A consistently high volume of

VC mega-deals is the real source driving the aggregate deal value and average deal sizes to new heights. 223 deals of \$100 million or more closed through Q3 2020, of which 189 were late-stage deals. Not only does this put 2020 on pace to easily surpass 2019 for the most mega-deals in one year,

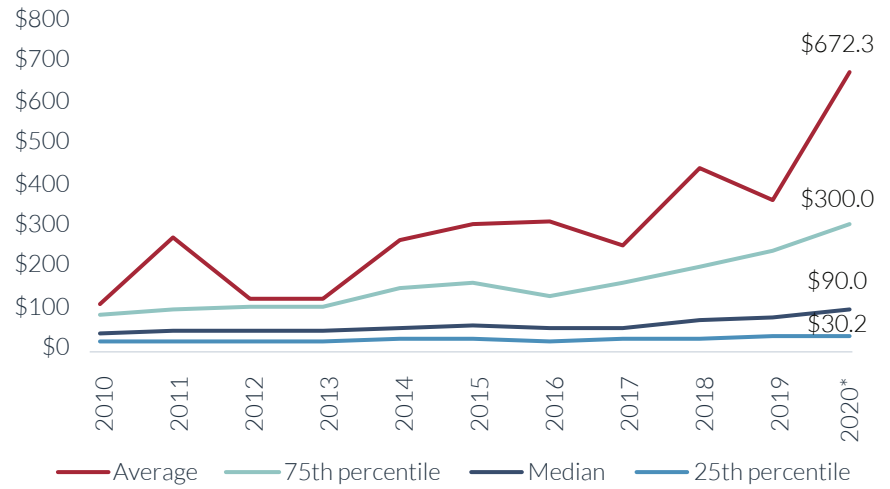
but 2020 is also in line to surpass the threshold of one VC mega-deal for every working day in the year. The explosion of this slice of the VC ecosystem has been one of the most drastic changes over the last 10 years, growing from around 30 VC mega-deals annually before 2013 to 200 VC mega-deals for each of the last three years.

We predicted an increase in VC mega-deal volumes in our [outlooks for 2020](#), but we were skeptical this would come to fruition as the pandemic slowed the global economy in the first half of the year. However, VC mega-deal activity has actually ramped up throughout the COVID-19 pandemic, proving our prediction correct but with the wrong rationale. One big reason behind the increase in the number of VC mega-deals is that nontraditional involvement, including from deep-pocketed SWFs, mutual funds, and hedge funds, has remained in play despite the economic slowdown.

In tandem with deal sizes, valuations at the late stage continued to soar relative to 2019 through Q3 2020. The median and average pre-money valuations now sit at \$90.0 million and \$672.3 million, respectively, the growth of which we mainly attribute to a shift in the population of startups choosing to raise capital in 2020. As mentioned earlier, we're seeing a record number of VC mega-deals and an ever-larger proportion of capital going to deals over \$25 million. This leads us to believe that this valuation growth illustrates more of a flight to quality rather than an increase in the rate of late-stage value creation. For instance, valuation step-ups at the stage are essentially equal to what we've recorded over the past couple years, implying that individual companies aren't growing their valuations any faster than they have in the past. With new financings for companies such as SpaceX, Stripe, Waymo, and Robinhood during 2020, it's clear investors are backing the most mature and least risky businesses given the uncertainty they may see elsewhere; but these huge companies

Average valuation spikes in 2020 but step-ups remain flat

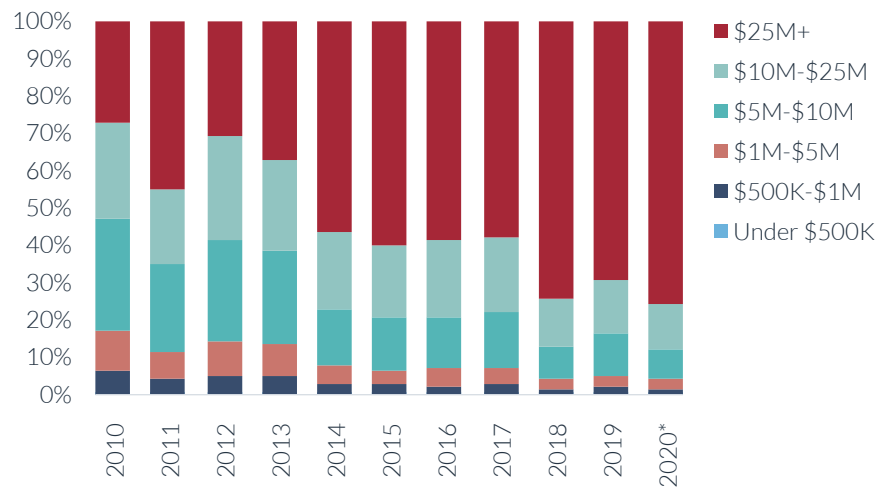
Quartile distribution of US late-stage VC pre-money valuations (\$M)



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Mega-deals dominate dollars in the late stage

US late-stage VC deals (\$) by size



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raising rounds puts direct pressure on step-up multiples. For instance, SpaceX added \$10 billion dollars to its pre-money

valuation between its last two rounds, but this only represented a 1.23x valuation step-up.



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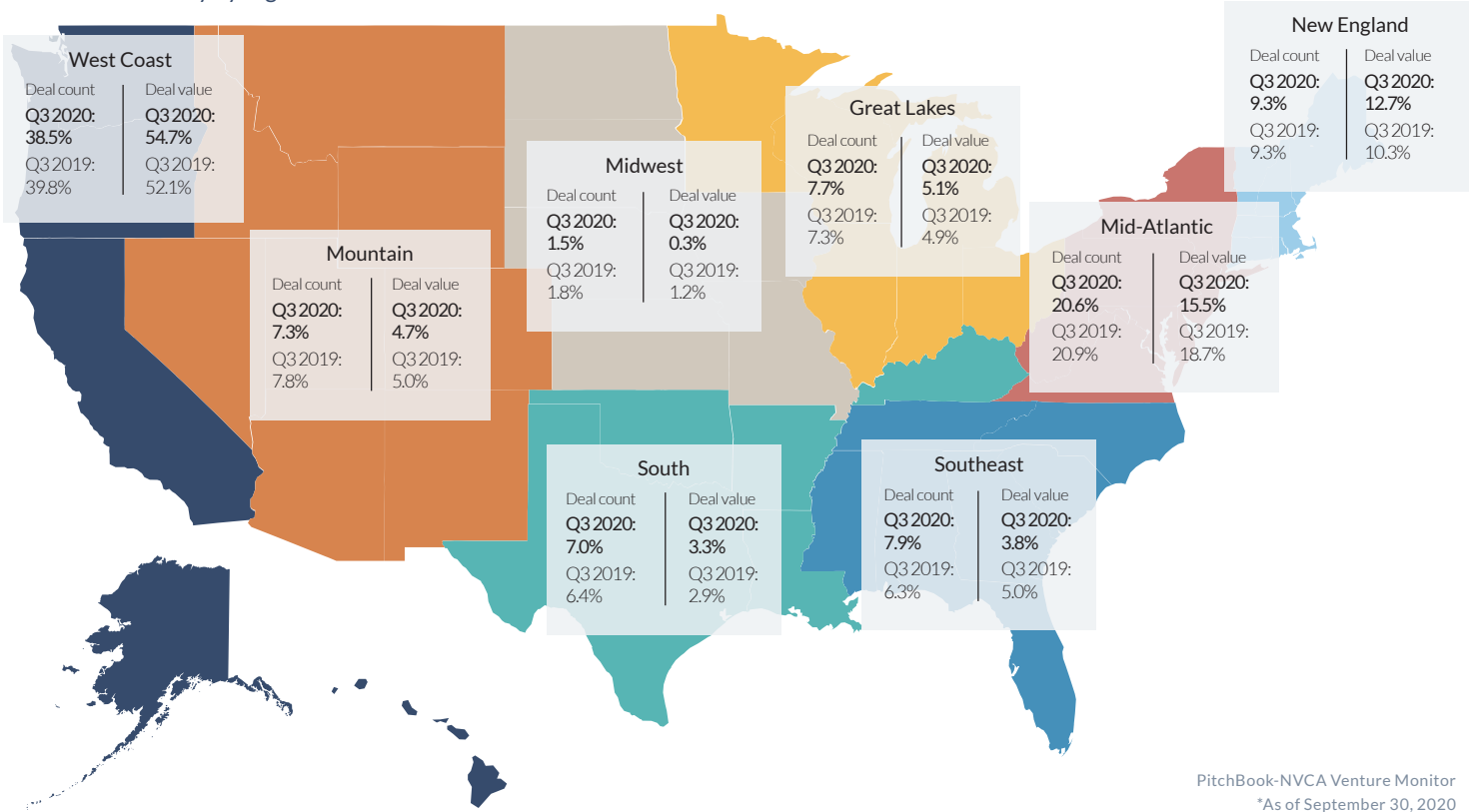
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Deals by region

West Coast and Mid-Atlantic proportion of deal counts recede YoY

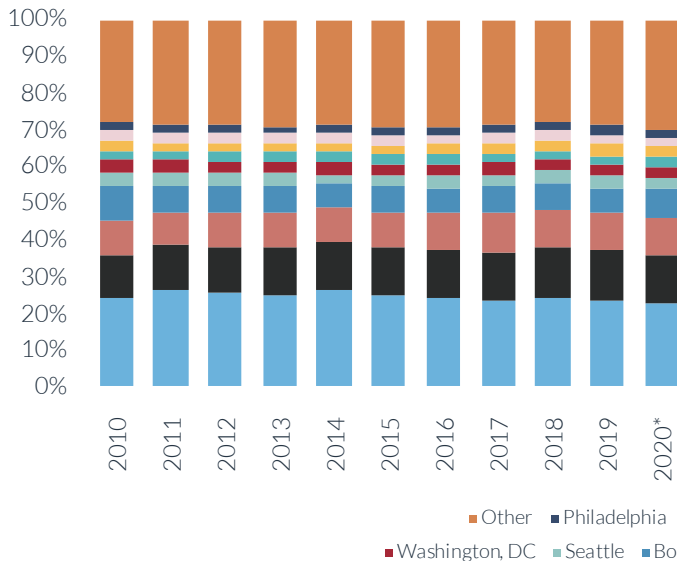
US VC deal activity by region



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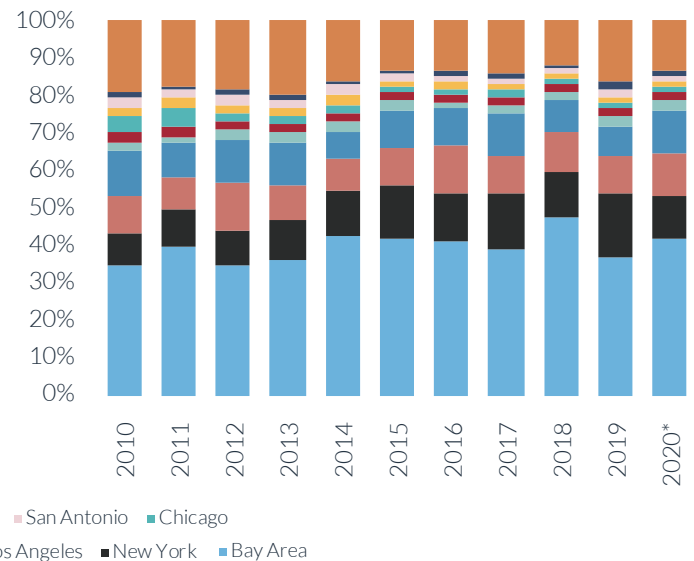
Top four CSAs account for half of total deal count in Q3

US VC deals (#) by CSA



New York's proportion of capital retracts in 2020

US VC deals (\$) by CSA

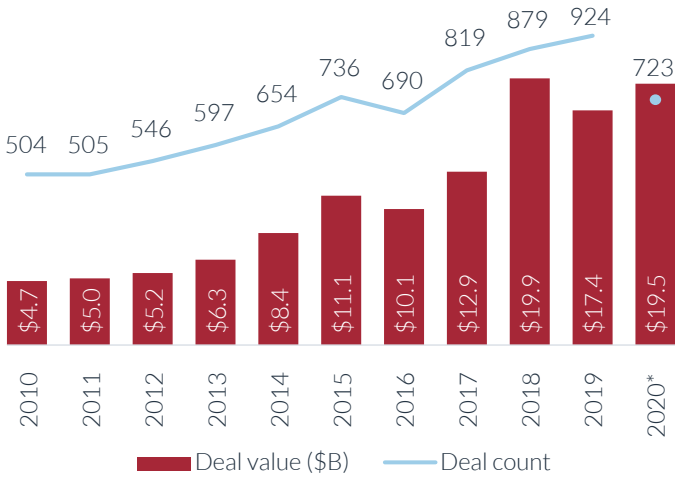


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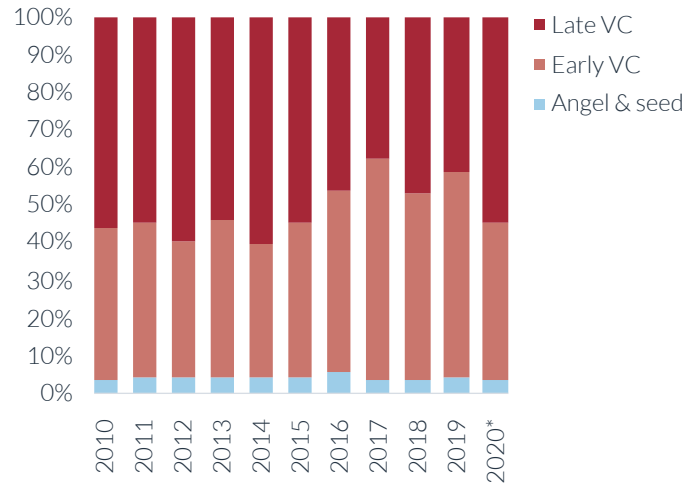
Deals by sector: Pharma & biotech

2020 tracking to shatter deal value record
US VC pharma & biotech deal activity



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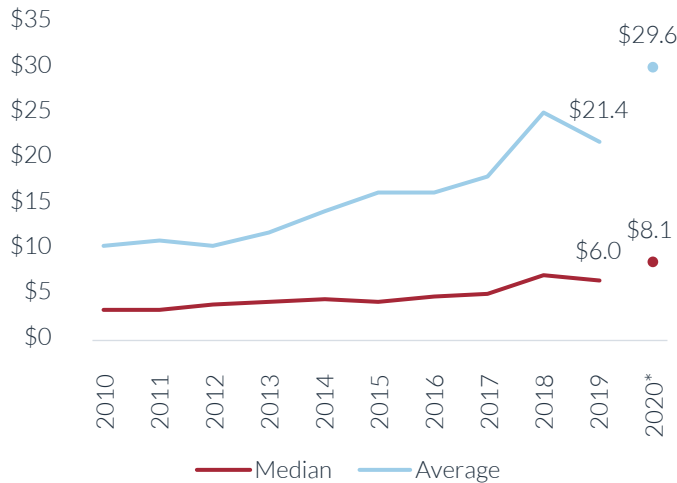
Late-stage VC sees notable boost
US VC pharma & biotech deals (\$) by stage



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Outsized deals push median and average higher

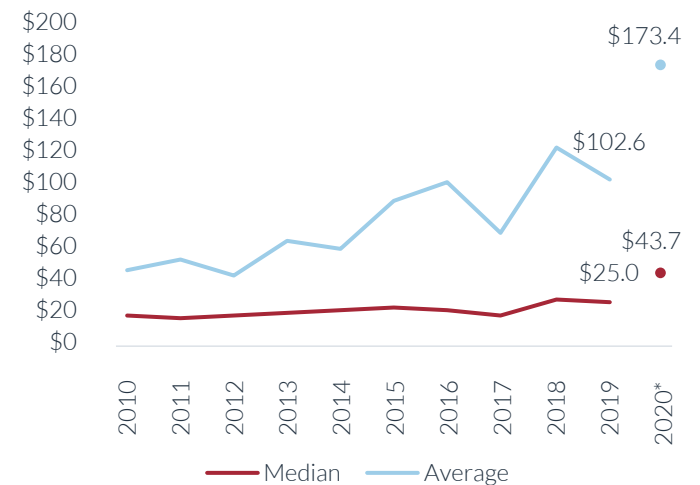
Median and average US VC pharma & biotech deal sizes (\$M)



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Strong biotech exits continue to push valuations upwards

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

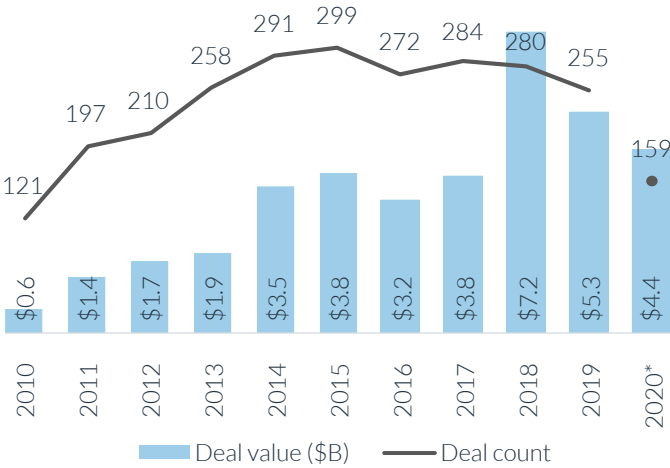


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Deals by sector: Cloudtech/DevOps

Robust capital investment into cloudtech throughout pandemic

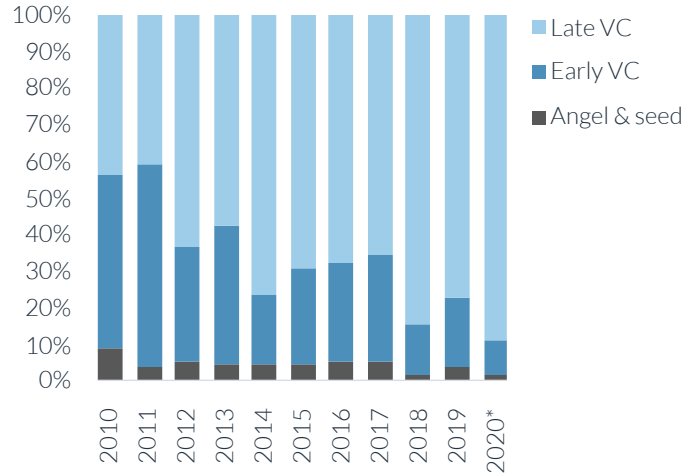
US VC cloudtech & DevOps deal activity



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Large late-stage companies drive activity in the space

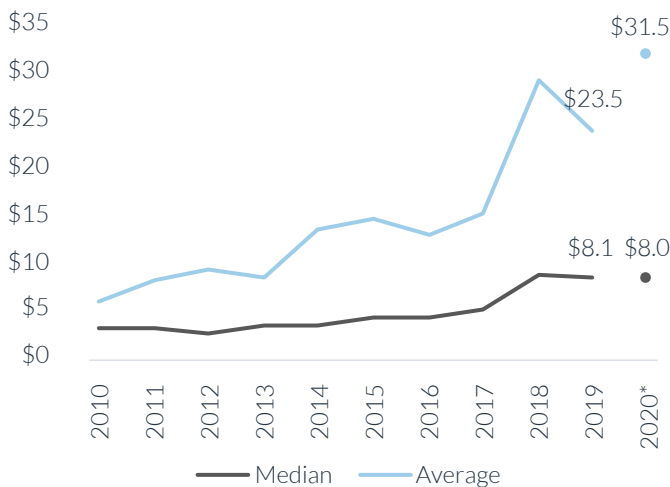
US VC cloudtech & DevOps deals (\$) by stage



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Deal sizes remain at plateau for last few years

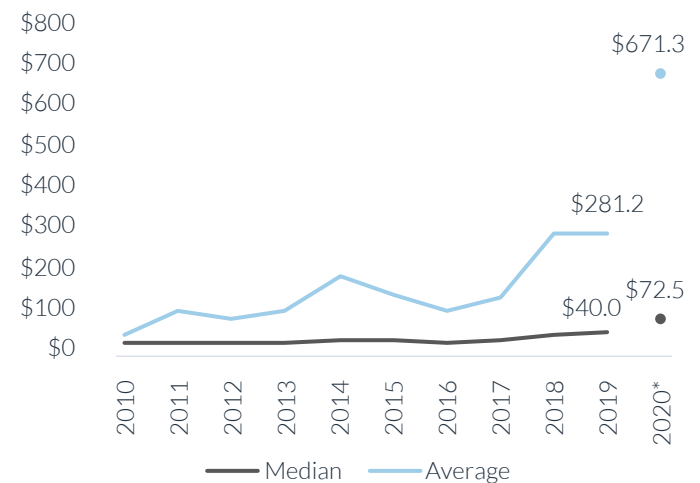
Median and average US VC cloudtech & DevOps deal sizes (\$M)



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Only largest companies in the space raising capital in 2020

Median and average US VC cloudtech & DevOps pre-money valuations (\$M)

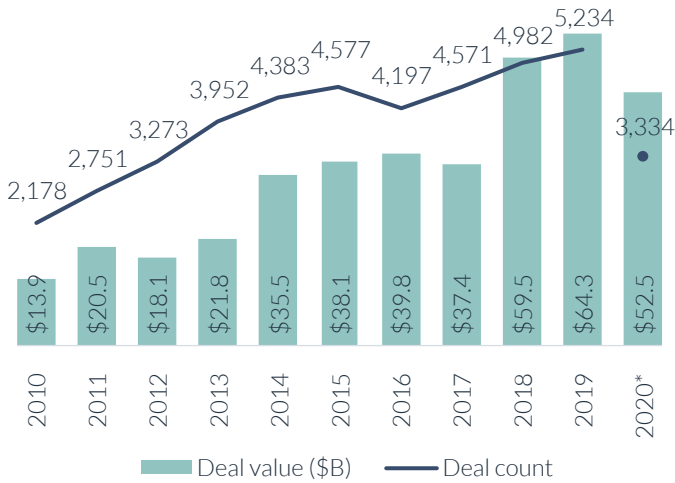


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Deals by sector: B2B tech

Enterprise businesses show robust results through pandemic

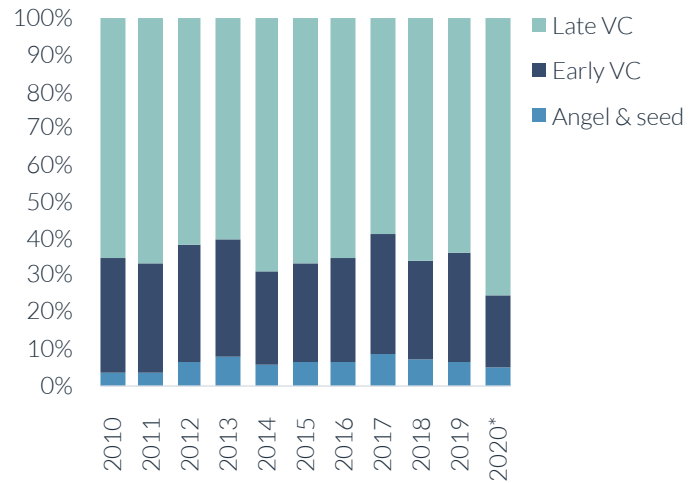
US VC B2B tech deal activity



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Growth in percentage of capital going to large companies

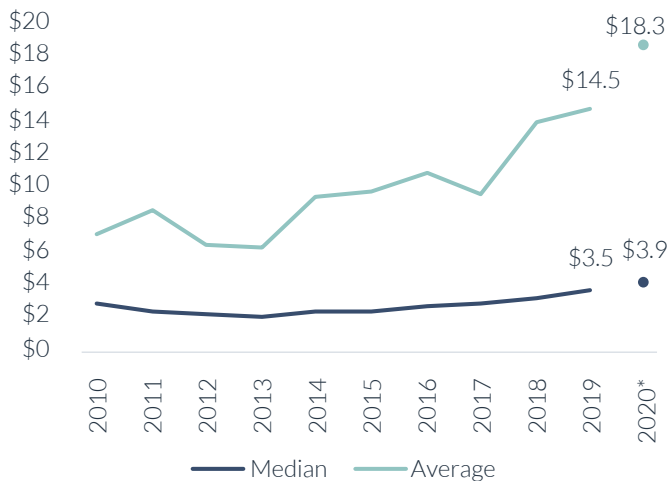
US VC B2B tech deals (\$) by stage



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Deal size growth trend continues

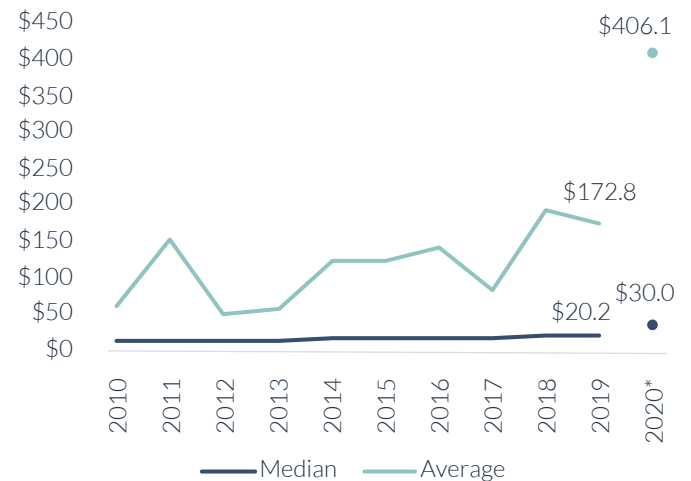
Median and average US VC B2B tech deal sizes (\$M)



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Flight to quality drives extreme growth in average valuation

Median and average US VC B2B tech pre-money valuations (\$M)

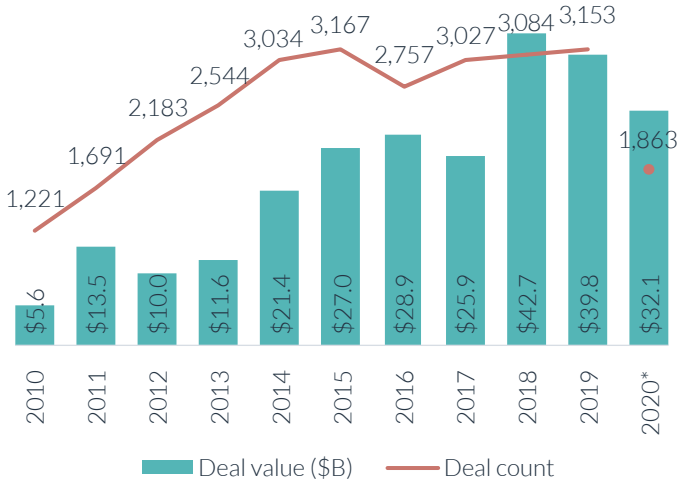


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Deals by sector: B2C tech

Number of deals into consumer businesses slows in 2020

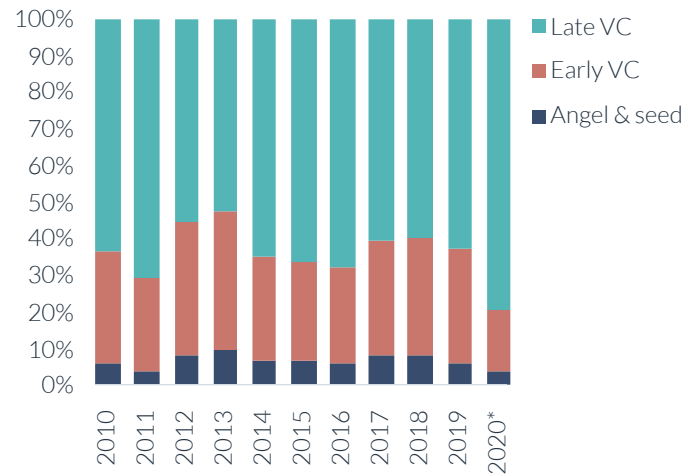
US VC B2C tech deal activity



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Significant concentration building in the largest startups

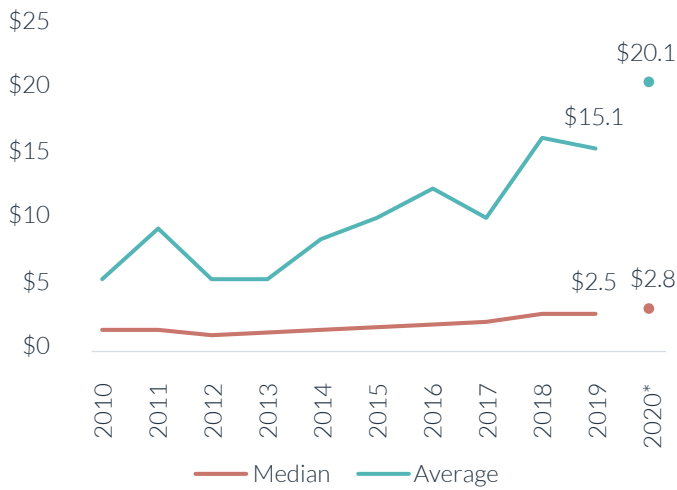
US VC B2C tech deals (\$) by stage



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Deal size trends match broader market

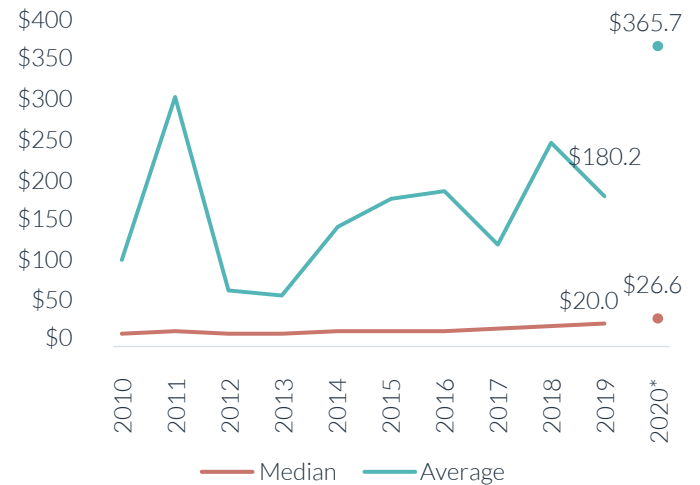
Median and average US VC B2C tech deal sizes (\$M)



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Handful of outliers driving all valuation growth

Median and average US VC B2C tech pre-money valuations (\$M)



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SVB: Healthcare investing hits new highs

Q&A with Katherine Andersen

How is COVID-19 affecting the venture-backed healthcare ecosystem?

The public markets have been on fire for the past eight years or so, and the COVID-19 pandemic has only accelerated this activity by shining the brightest of lights on the global healthcare industry. Record government relief spending, focus on vaccine development, mass adoption around virtual care, and the arrival of the virtual IPO roadshow are creating strong tailwinds for the sector going into 2021.

You can see this acceleration in the success of public market companies advancing the convergence of healthcare and technology, particularly those focused on drug development and telehealth. Healthtech has seemingly been catapulted forward by years during COVID-19, and the mass adoption helps ensure we won't be going back. The convergence is only going to ramp.

All told, the global healthcare innovation ecosystem (US, China/Hong Kong, and Europe*) has raised \$35 billion between January and August 2020 for venture-backed healthcare companies, led by the US with \$22.6 billion (65%), followed by China with \$6.7 billion (19%) and Europe with \$5.5 billion (16%).

Looking ahead, what does the healthcare investment landscape look like?

Healthcare will have a leading role in getting us out of the pandemic, and the insatiable demand for more innovative therapies to support human health makes that clearer than ever. Of course, we live in an uncertain world. Unforeseen macroeconomic events and the outcome of the US election—which may affect speed to market for new drugs and vaccines, foreign investment in US companies, and healthcare reimbursement policies—could dampen activity.

For now, there are a lot of tailwinds. Full-year 2020 projections indicate that global (US, China/Hong Kong and Europe*) total investment in the healthcare industry may reach \$52.5 billion, compared to \$38.5 billion in 2019. The surge is led by biopharma and dx/tools, which are being supported by large crossover-backed rounds. There have been 81 \$100 million+ venture-backed healthcare rounds, nearly triple the number recorded in 2019. In Q2 2020, China had its second largest quarter on record, reaching \$3.5 billion in investments.

Give us an overview of how the pandemic is affecting healthtech investing.

Here's one illustration of the impact of the pandemic on investing: It has pushed healthtech to the top in terms of deal count in the US, surpassing biopharma deals—and if it holds through the end of 2020, that would be a first. There were 301 healthtech investments compared to 261 for biopharma through August 2020. Still, the capital invested in biopharma companies over that time reached \$10.6 billion compared to \$7 billion for healthtech.

The move to a virtual world has raised the urgency for healthtech from a nice to have to a need to have. As a result, we're expecting to see more virtual clinical trials, increased remote monitoring of patients and an expansion of telehealth in the delivery of care, including mental health services. While some insurers are now restricting coverage of virtual visits, telehealth overall is poised to grow.

What is your view of healthcare exits, IPOs, and SPACs?

Healthtech and biopharma companies are being rewarded with premium valuations in the public markets, which likely will drive more IPOs and secondary market activity. The truncated roadshow—shortened from a typical 10 days or so of travel to three days over Zoom—is creating a new dynamic for tech and healthcare IPOs. Decision



KATHERINE ANDERSEN Head of Life Science & Healthcare Relationship Banking

Katherine also sits on the Board of Directors for SVB's Joint Venture in China, SPD Silicon Valley Bank. Prior to SVB, Katherine was a Senior Vice President for Wells Fargo Bank leading the Life Sciences business development and relationship management efforts for the New England region. Before that, she was a Director at Wells Fargo Capital Finance focused on front-end business development and underwriting of structured loans. Prior to Wells, she held various positions across M&A, finance, equity derivatives, audit, and management while at Affiliated Managers Group, Merrill Lynch, GE Corporate Audit Staff and GE Capital.

making is being forced into a much shorter timeframe, and investors, sometimes for fear of missing out, are jumping in and helping drive red-hot market activity. SPACs, in fact, are not new and used to be viewed as the last-resort option for companies struggling to go public. As with pure tech, healthcare companies may see a SPAC as a more straightforward, more efficient, and less expensive path, avoiding the regulatory hoops and time-consuming steps required to complete an IPO. Healthcare-specific investors, typically those familiar with the complexities of healthcare investing, are fueling the flames of interest for healthcare SPACs.

What additional pros and cons do you see with SPACs?

The perceived benefits of a SPAC route really do come down to time and cost savings. Founders view SPACs as requiring

*Europe is defined as Belgium, Denmark, France, Germany, Italy, Luxembourg, Spain, Sweden, United Kingdom and Switzerland.

less in upfront capital while the SPAC investors benefit from the founding team's experience. Companies merging with a SPAC view it as an alternative to the IPO path that is both less expensive and easier (faster) to execute. But with operational teams in place before acquisition talks start, the target company may have less negotiating power. On the flip side, if the number of new SPACs continues to ramp significantly, it will likely become challenging for these blank-check companies to secure viable target companies, giving quality targets an upper hand.

The longer-term prognosis of SPACs is up in the air, in large part due to mixed SPAC performance across sectors so far and the increasing number of new blank-check companies bubbling to the surface. If we continue to see this significant ramp in SPACs, it will become increasingly challenging to compete for viable targets. And time is a key challenge or pressure point—in most cases, SPACs have 24 months to acquire a target company. If the supply of targets dissipates, that could spell disaster for some SPACs.

Is cross-border healthcare investing being affected by US-China tensions?

What's most notable here is that geopolitical and macroeconomic events have not slowed private, venture-backed healthcare companies from raising money and closing active deals. From January through August 2020, New York City and Shanghai lead the world in healthcare deals, each with 71 deals and investment of \$2 billion. Rounding out

the top five cities are San Francisco with 64 deals (\$2.5 billion), Cambridge, Mass. with 51 deals (\$2.6 billion), and Beijing with 43 deals (\$729 million).

Likewise, from January to August 2020, we have seen an uptick in China-based participation in deals with companies based in the US and Europe. The total funding for US and European deals syndicated with China-based investors amounts to \$5.6 billion for this period, well above the full-year totals for 2018 (\$4.3 billion) and 2019 (\$3.5 billion). These cross-border deals have been driven largely by investors with healthcare interests as opposed to tech or crossover investors with more general portfolios.

What additional healthcare sectors are seeing increased interest by investors?

An unfortunate pandemic effect is the rise in mental health challenges. With that comes heightened awareness—a positive development—and calls to expand insurance coverage for mental health. We expect more investment during and post-pandemic in companies focused on delivering mental health services, particularly through virtual alternative care. The demand for mental health treatment is here to stay.

As the Centers for Medicare & Medicaid Services (CMS) approved waivers to allow for payment of health services delivered virtually, telehealth and the remote monitoring of patients have been on the rise.

What other legacies of the pandemic do you see?

Despite huge impediments to travel, healthcare deal making has reached new levels. It turns out the virtual world is more efficient for many activities, including IPOs. While we may miss some perks of going to global conferences and seeing colleagues face-to-face, the future for networking, as it is for healthcare, is going virtual.

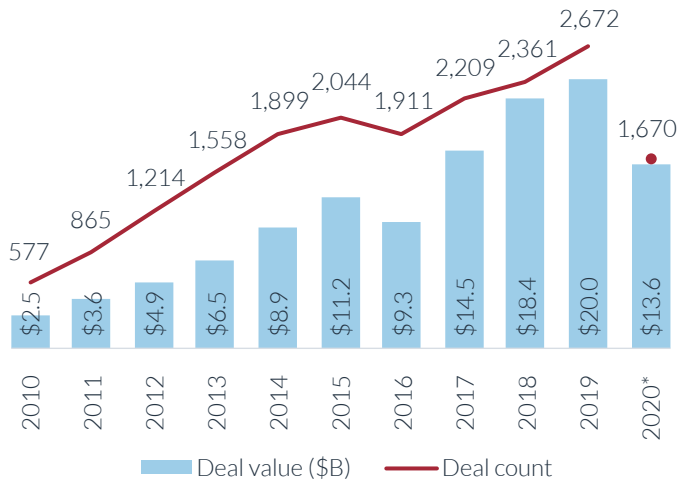
In early January 2021, SVB and our colleagues at SVB Leerink and SPD Silicon Valley Bank, a Shanghai-based joint venture between SVB and Shanghai Pudong Development Bank, are launching **INNOVATE NEXT**. This virtual conference for the global healthcare community will bring together healthcare founders, corporate leaders, and investors from the US, Asia, and Europe to exchange perspectives on the ideas and advancements around the convergence of healthcare and technology.

The COVID-19 pandemic is underscoring the critical role of venture-backed healthcare investment to drive innovation in the urgent quest for solutions. I am hopeful that we're going to see many advancements in several healthcare sectors, and with increased global focus, this should lead to more successful outcomes for fighting illness and disease around the world—improving the quality of life for everyone.

Female founders

Deal activity on par with 2019, but unlikely to set a new record

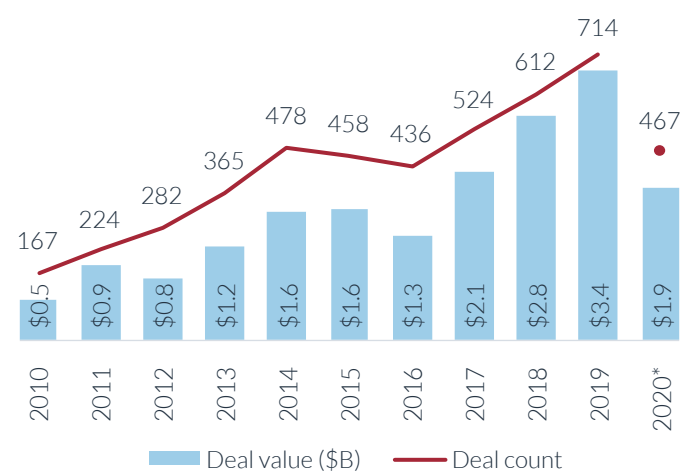
US VC deal activity for female-founded companies



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Deal activity in all-female-founded companies begins to lose momentum

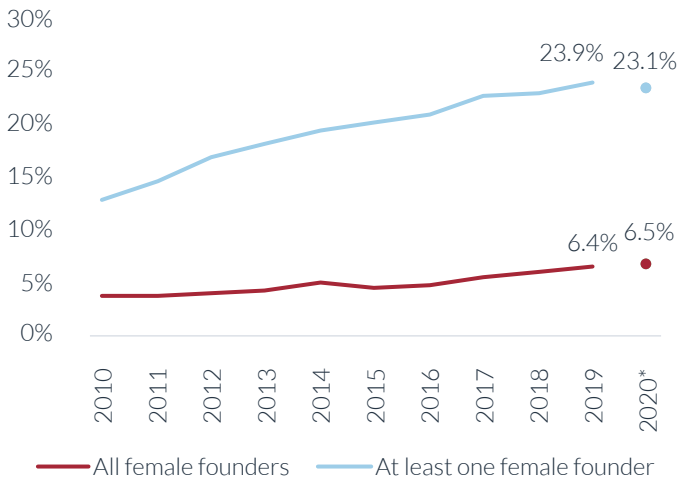
US VC deal activity for companies with all female founders



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Slight contraction in share of companies with at least one female founder

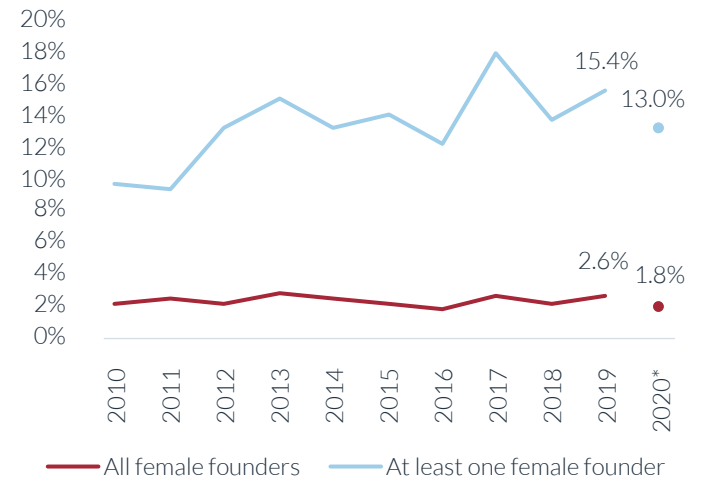
Female-founded companies as a proportion of total US VC deals (#)



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Deal value proportion declines across the board for female founders

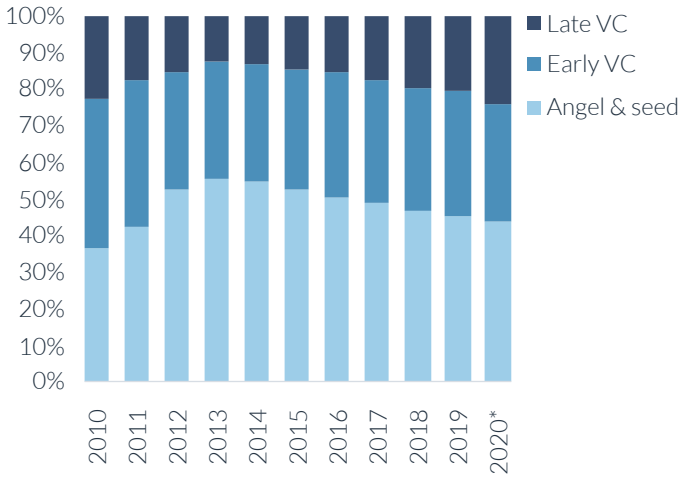
Female-founded companies as a proportion of total US VC deals (\$)



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Late-stage VC continues growth streak

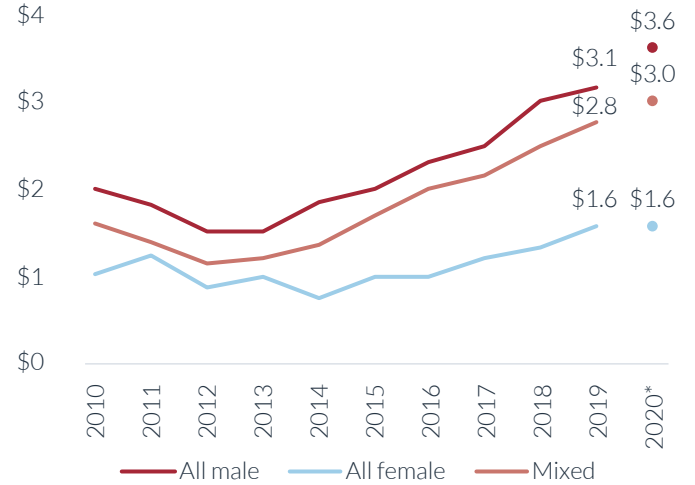
US VC deals (#) for female-founded companies by stage



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Growth seen for mixed founding teams, while all-female-founded remains flat

Median US VC deal sizes (\$M) by founder gender mix



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Top 5 US CSAs by capital raised (\$) for companies with all female founders (2006-2020)*

Combined statistical area	Capital raised (\$B)
Bay Area	\$5.17
New York	\$4.98
Boston	\$2.27
Los Angeles	\$1.78
Seattle	\$0.65

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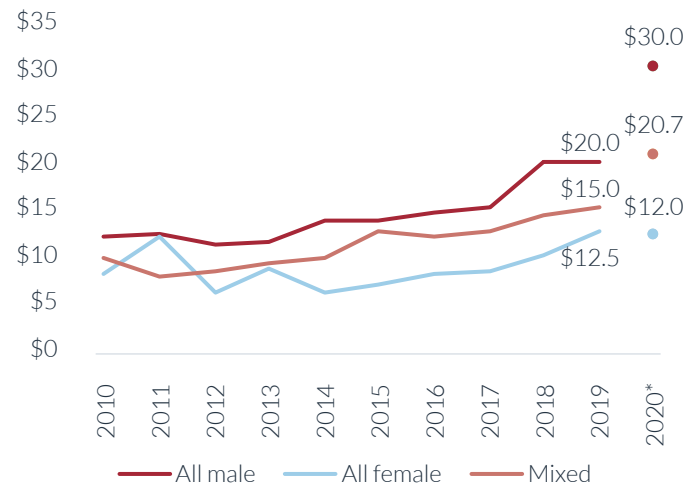
Top 5 US CSAs by deal count (#) for companies with all female founders (2006-2020)*

Combined statistical area	Deal count
New York	1,040
Bay Area	975
Los Angeles	571
Boston	319
Seattle	218

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Pre-money valuations for mixed founding team sees notable boost, while all-female-founded median valuations decline

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

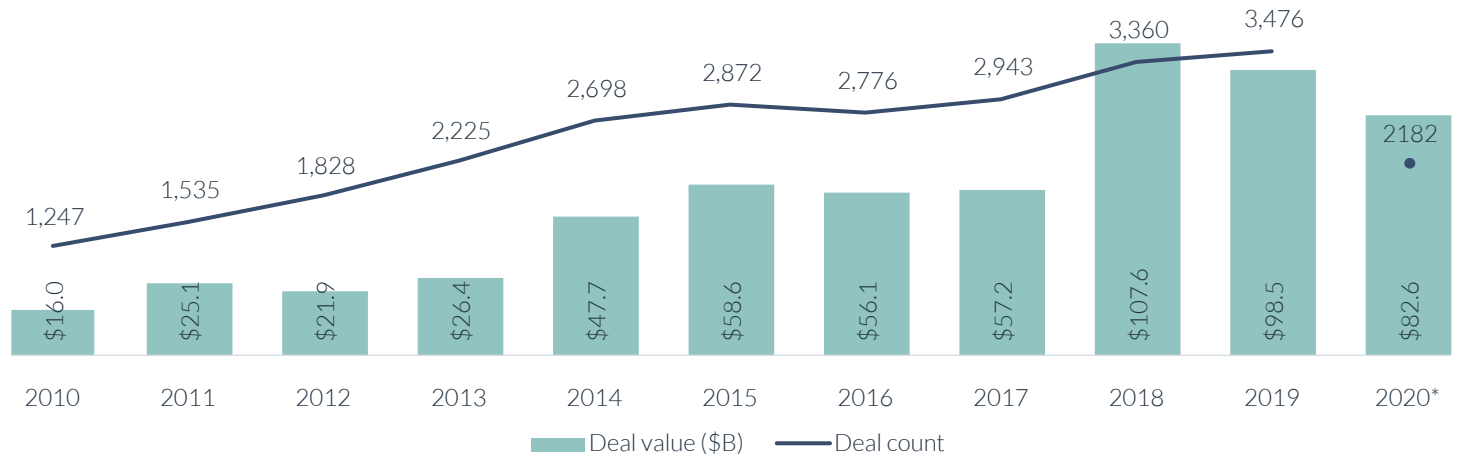


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Nontraditional investors

Participation showing little slowdown from pandemic

US VC deal activity with nontraditional investor participation



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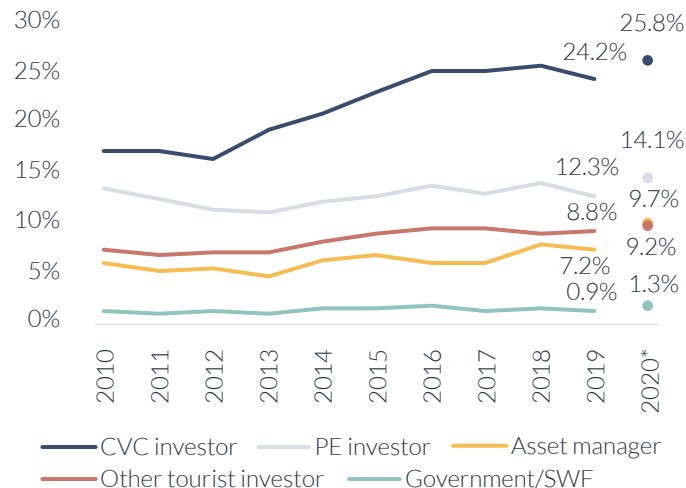
Nontraditional investor participation in VC remains ahead of 2019's pace through Q3 2020. At the onset of the pandemic, we asserted that nontraditional investors, particularly corporate VCs (CVCs), would remain resilient and would not prove to be "tourist" investors in the space. As the market has changed over the past decade,

nontraditional investors have become integral to the inner workings of VC, and 2020 has provided a prime example. Through Q3, nontraditional investors have been involved in 82.0% of the US venture deal value and have participated in 94.9% of completed VC mega-deals, which have already surpassed 200 in total. These and

other large, ultra-late-stage deals driving these figures were not common a decade ago. With growth coming at a premium in public markets, many nontraditional investors have moved parts of their strategy toward the private market where there are more opportunities to invest in hyper-growth companies and capture stakes well

Nontraditional deal participation rates near all-time highs

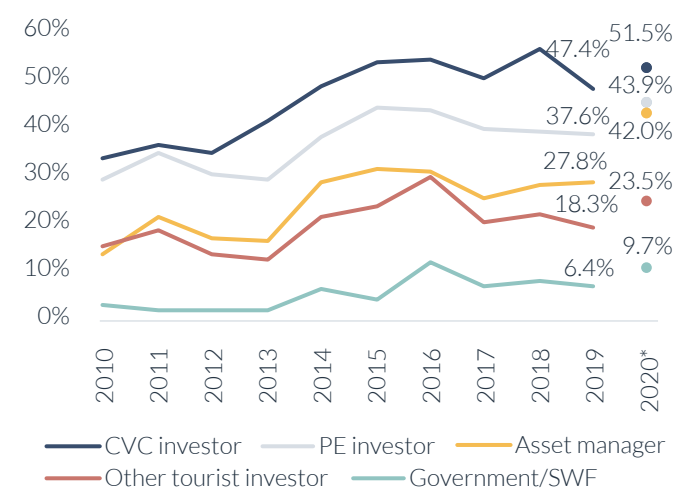
Deals with nontraditional VC investor participation as a proportion of overall US VC deals (#)



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Mega-deals contributing to increased deal value participation rates

Deals with nontraditional VC investor participation as a proportion of overall US VC deals (\$)



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before they traditionally would have in the past. The exponential growth experienced in VC over recent years wouldn't have been possible without the amount of nontraditional investment we have seen. To put these deals in perspective, nearly as much capital has been invested in VC mega-deals so far in 2020 (\$53.2 billion) than has been raised for VC funds (\$56.6 billion).

Nontraditional investor participation in late-stage VC deals has outpaced early-stage deals in 2020 for the first time since 2012. This suggests many of these deals have likely been follow-ons rather than newly sourced deals. During the GFC, nontraditional investors largely balked at following on with current investments, instead pulling back to focus on their core business strategies. The venture market today is much different than a decade ago, as are the active nontraditional investors. Across the industry, we have seen late-stage VC deals increase as a proportion of the total in response to a rise in unplanned financings, both because of deflating revenues due to pandemic headwinds and companies finding strengthened growth prospects from increased market fit. Nontraditional's willingness to follow on with current investments in the present economic climate exemplifies how much they have incorporated VC into their overall investment strategies.

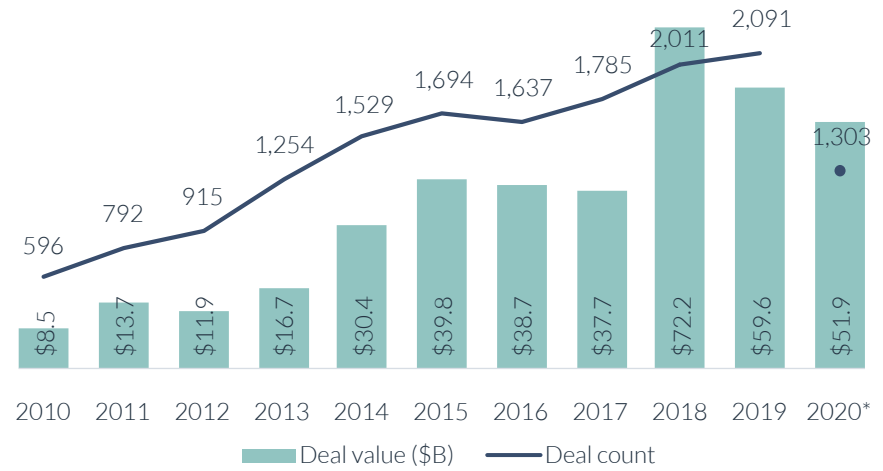
With more than 1,300 deals collected already, CVC is on pace to reach a new record deal count in 2020. We predicted at the beginning of the year that CVC would reach new highs, but the COVID-19 pandemic threw many expectations into a state of tumult. As corporate growth has become more reliant on access to information and data covering emerging markets and technologies, investment in startups has been a growing piece of R&D programs, either through specified CVC vehicles or through off-balance-sheet investments. 25.8% of completed deals in 2020 have included a CVC investor, higher than 2019's figure. CVCs have been

especially active in healthcare, where 27% of completed CVC investments have been made through Q3. Over the past decade, healthcare-focused corporations have greatly increased their use of startup investment inside their growth portfolios, using early investment to gain

access to emerging drugs and healthcare technologies. In 2019, corporate investment in healthcare startups reached nearly 450 deals, and 2020 through Q3 is pacing past 80% of that total.

CVC investment ahead of 2019's pace

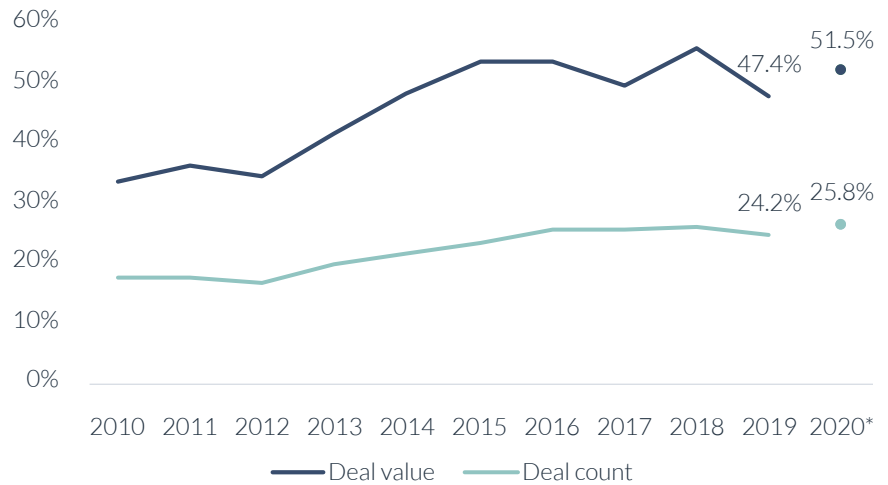
US VC deal activity with CVC participation



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CVCs remain steady partner for VC industry

Deals with CVC participation as proportion of overall US VC deals



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Certent: Evolving capital and compensation structures in the COVID-19 era

Q&A with Matthew Lee

What do you see in the venture landscape across valuation trends, on an anecdotal basis? How does that play into what you anticipate for 2021?

For those companies who raised equity capital over the past six months, we've seen more and more down rounds, coupled with antidilution adjustments and the addition of some tag-along securities (i.e. warrants). Some post-money valuations have declined as well, maybe by as much as 25% for some. Furthermore, there has been an uptick in the use of nonconvertible preferred stock, which acts very similarly to a debt financing, but with perhaps less impact to interest costs.

In the biotech space, we have seen a few companies extending preferred offerings into subsequent tranches, one with a sizable uptick in its post-money valuation. The extension of terms based on tranches that closed late last year seems to be a little more spaced out than usual as well.

It's tough to say what will happen in 2021, but I do suspect there will be a little more flexibility in the types of securities, terms, and conditions offered. I don't expect valuations to materially improve over the next six to 12 months, but hard times often give well-run companies an opportunity to excel.

Compared to the start of the year, what is the tenor of the discussions you are having with your clients around tools for valuations? What hurdles are they facing that are new or evolving?

Based on our discussions with our clients and partners, there seems to be a bit of a trend of moving back toward valuation

services and away from tools. From some perspectives, valuation reports that are reviewed and scrutinized extensively by professionals are better able to stand up to auditing standards.

What other trending topics are your clients bringing to you that are prompting research or changes in the types of tools and services you offer, and why? How do those tie into broader industry trends?

At Certent, we do assist a lot of biotech, financial, and enterprise technology companies across the cap table, financial reporting, and award management spectrum. Each company has its own unique and challenging aspects.

Some of these industries offer a lot of performance-based grants to their employees and contractors simply given the nature of their business, where hitting performance targets are a materially important KPI for the organization as a whole. Over the past six months or so, there has even been a slight uptick in companies offering performance-based awards for the first time. This, coupled with furloughs, which are still occurring in some organizations, has caused companies to rethink some of the key metrics to which they hold their employees. The tracking and management of these complex plans come with their own administrative burden.

Have you seen any evolution in terms of your client/customer base throughout 2020, and if so, why do you think that is? Are different types of firms turning to these tools, for example?

From a capital tracking perspective, I've commented a lot as per this topic, but there is a greater trend overall to help ensure better alignment between the



MATTHEW LEE, CFA, Product Manager, Equity Management

Matthew has 15 years of experience in multiple finance and financial technology firms at various levels, including divisional oversight, technical sales, equity research, auditing and valuations. Matthew is currently a Product Manager focusing on private market initiatives. Matthew is a CFA charter holder and is currently pursuing a master's in finance from Indiana University.

companies we support and their investors. We keep seeing this with modifications to the capital structure for performance-based awards, changes to conversion ratios due to anti-dilutive adjustments, and the addition of tag-along warrant pools to help align long-term interests.

Given we are industry agnostic, the companies with which we work have been utilizing the various tools within our suite of solutions and the modules that make the most sense to them. Overall, clients are getting more from our solutions, oftentimes at no additional fee. In the current environment, this is a critical component.

Specifically, regarding the venture ecosystem, where do you see further opportunities for improvement in commonly used tools, such as cap table management software, and so on?

What needs to happen next in terms of innovation, in your opinion?

We've always taken a diligent approach when helping our clients be prepared for the next event, whether that is reporting for the month or quarter end or creating pitch decks and embarking on roadshows. Going forward, we believe software, layered with services when the situation

calls for them, will be key in helping companies stay on top of their needs.

We also see this extending beyond cap tables but moving into investor management, communication, and a broader offering regarding tax issues. We're partnering with our clients to provide a more modularized and wholistic offering to ensure that both private and

public companies have what they need to be successful. Solutions like ours that span from inception to IPO and beyond that don't necessitate switching platforms are extremely helpful to our clients.



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The advertisement features a large, multi-colored rainbow arc on the left side. To the right, there is a photograph of a green acorn with a textured cap, set against a light green background with a faint silhouette of a tree. The overall design is clean and modern.



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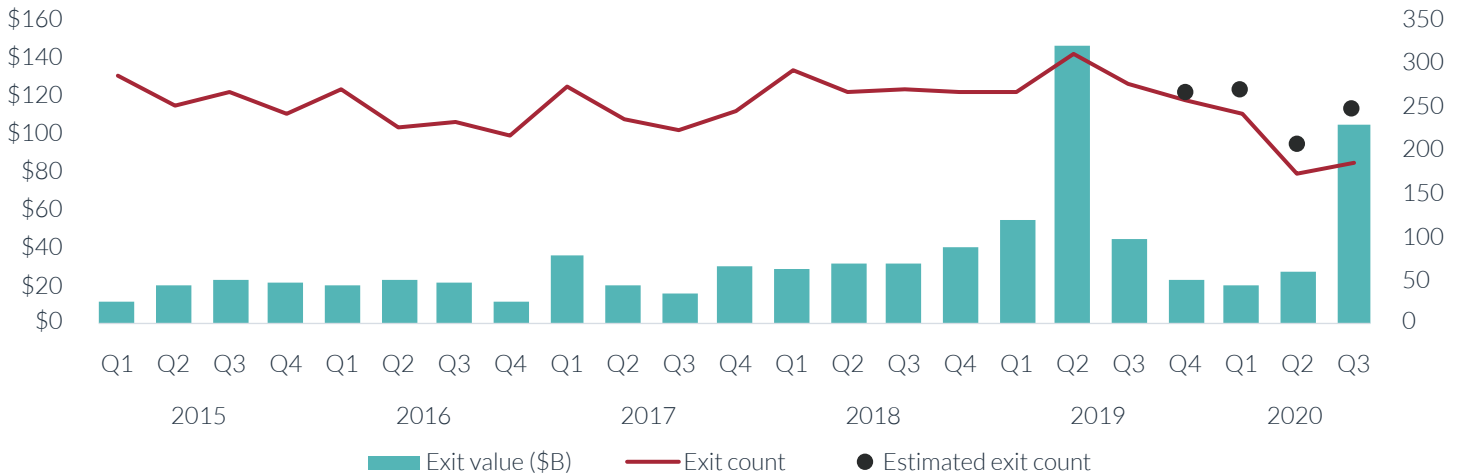


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INDUSTRY EXPERTISE. PRICE STABILITY.**

Exits

Huge public listings drive second-highest quarterly exit total on record

US VC exit activity by quarter



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*As of September 30, 2020

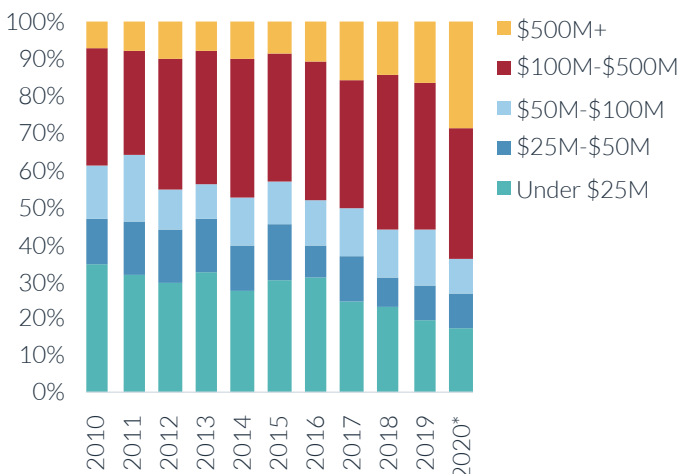
We saw a massive uptick in US VC exit activity in Q3 after a fairly tepid first half of the year. The data illustrates a QoQ increase of 7.6% and 292.5% in exit counts and exit value, respectively, as companies saw a perceived opening of the IPO window. The return of large IPOs during the third quarter pushed exit value to \$103.9 billion, making it the second-

highest quarterly total in our dataset behind only Q2 2019. This surge of exits puts 2020 behind only 2019 in total exit value, which seemed near impossible six months ago. These figures also highlight the importance of outlier exits to the exit value totals and the unpredictability around the timing of these game-changing deals. In Q3, it was the public listings of

Snowflake, Palantir, Asana, and Unity that drove the spike, with those deals making up 64.8% of the quarter's total exit value. Furthermore, there are a handful of other multibillion-dollar IPOs, direct listings, or SPAC combinations lined up over the next couple quarters as VC-backed companies look to capitalize while the window remains open.

Large exits persistent despite overall decline in exit volume

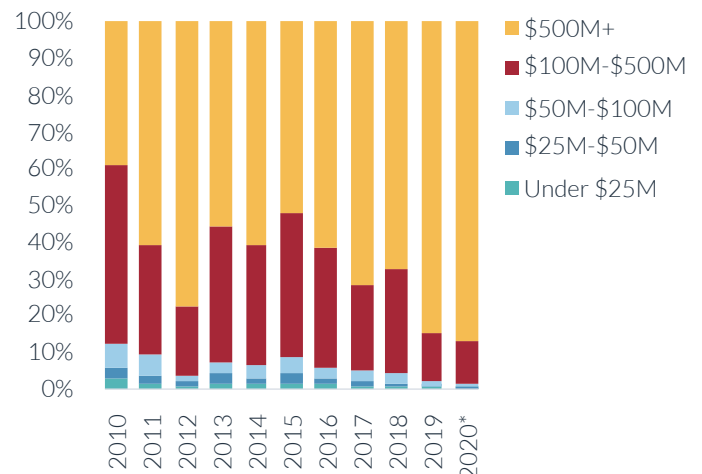
US VC exits (#) by size



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Outlier exits make up over 80% of VC dollars

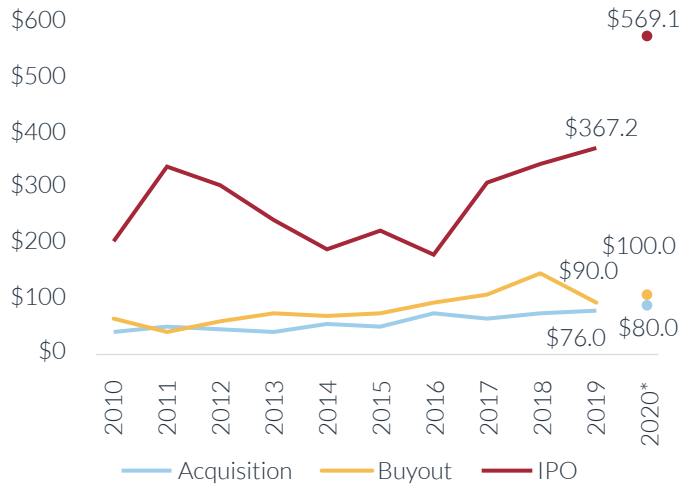
US VC exits (\$) by size



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Exit sizes tick up across the board despite pandemic

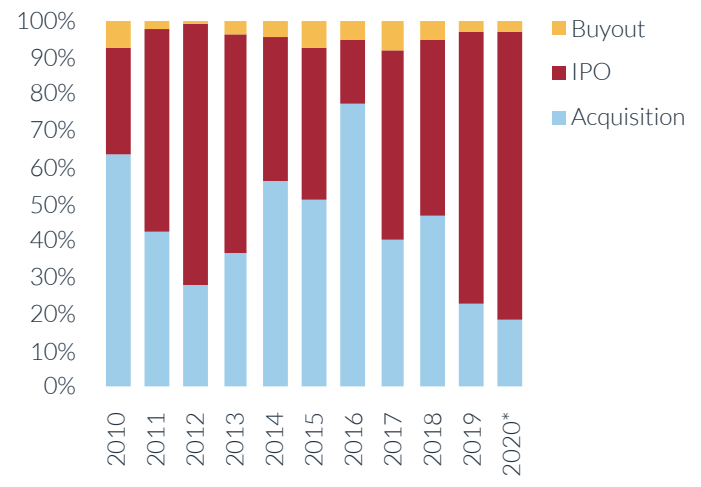
Median US VC exit value (\$M) by type



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IPOs continue to make up lion's share of capital exiting VC ecosystem

US VC exits (\$) by type



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Much of the IPO activity during the third quarter came via a flurry of activity in September that boosted the exit activity statistics, including 13 total IPOs valuing the company over \$1 billion. The positive momentum from the stock market in recent months, particularly the performance of new listings, has encouraged companies to move forward with IPOs if they were prepared and considering that exit route. The IPO "pops" of new VC-backed listings have been notably elevated so far in Q3, as a lack of IPOs earlier in 2020 has clearly built up demand from institutions and retail investors alike. From a VC perspective, the quarter's IPO activity implies a greater prospect of pricing at an attractive level relative to the last private valuation.

Despite the return of traditional IPOs, special purpose acquisition companies (SPACs) continue to hold the attention of many private market participants with steady issuance of new SPACs and some newly announced SPAC acquisitions. Q3 saw

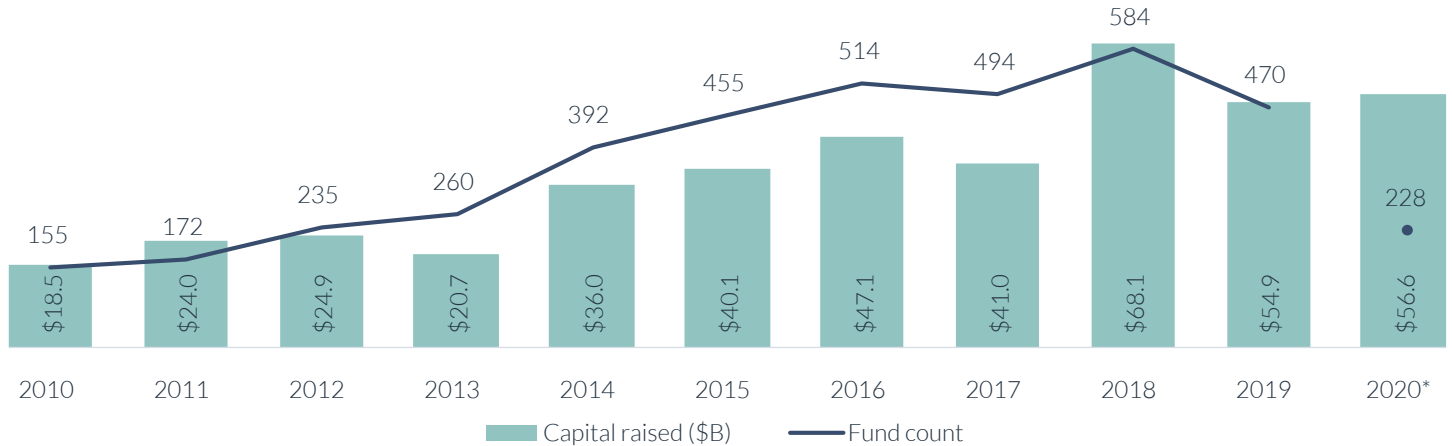
the IPO of Pershing Square's SPAC, which raised the largest-ever SPAC at \$4.0 billion, and the agreement between Social Capital Hedosophia and Opendoor to complete a reverse merger. The deal between Social Capital Hedosophia and Opendoor did not close by the end of Q3, so the projected \$4.8 billion isn't included in this dataset. However, it represents the second SPAC merger by the Social Capital team, which was one of the first SPACs to directly target the technology sector. Immediately following the deal announcement, Social Capital also unveiled its plan for multiple new SPACs that will complete their IPOs shortly, implying the company is building SPACs into a major pillar in their broader investment strategy. While we still believe that the majority of VC-backed businesses will choose to go public through an IPO or direct listing rather than a SPAC, these blank-check vehicles may attract some of the slower-growing or stagnant unicorns that need a new strategic direction and access to public market funding to move forward.

Another development in Q3 was the approval by the SEC to allow direct listings on the NYSE to include primary shares, thereby allowing a direct listing to serve as a capital raising event. The lack of new funds was essentially the only downside of the direct listing route compared to an IPO or SPAC listing, but now that this barrier has been eliminated, we expect to see more companies pursue this pathway. There still needs to be a trailblazing company willing to test out this new mechanic to ensure that adding primary shares to a direct listing auction operates smoothly. We'll be watching to see the outcome of that direct listing when it happens; if it proves feasible, we believe this will become the preferred option for technology listings going forward given its market-based approach and transparency. While the number of direct listings has been a trickle so far, the direct listings of Palantir and Asana on the final day of the quarter are likely a harbinger of more activity to come.

Fundraising

VC fundraising activity in 2020 continues to be robust

US VC fundraising activity



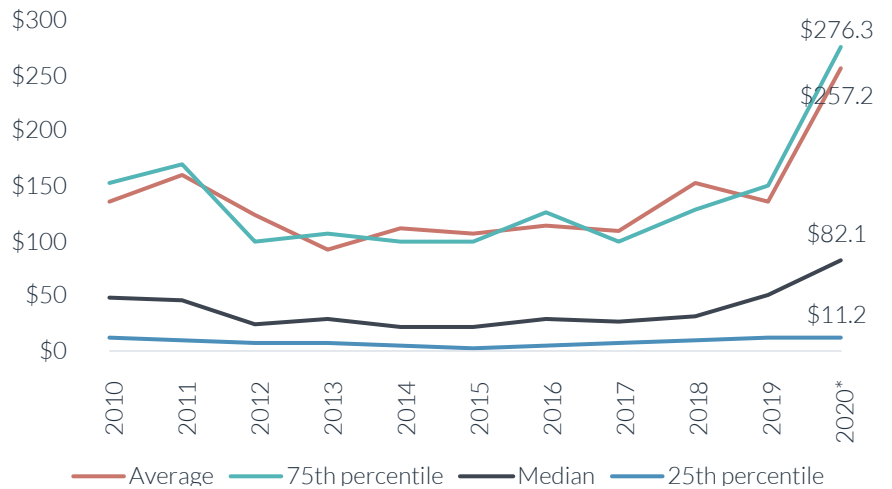
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Fundraising activity through Q3 2020 remained robust given considerable external economic headwinds. Through the third quarter, US VC firms have raised a total of \$56.6 billion across 228 funds, with 2020 tracking to set a record high for total capital raised. Several macro-level trends have contributed to this robust level of VC fundraising: First, LPs were underallocated to venture coming into the year; second, when public markets sold off severely at the beginning of Q2, few LPs expressed concern about the “denominator effect”; third, the public markets have largely rebounded to pre-pandemic levels. Due to these factors, many LPs have continued to commit to VC as a prospect for growth at a time when yields are at all-time lows and projected to remain there for some time. As the COVID-19 pandemic settled in and GPs began to ramp up their investing activity once again, many VCs have continued their fundraising efforts, with firms such as CRV, Greylock, and Forerunner all closing new funds in Q3.

Fundraising through Q3 has already exceeded 2019’s \$54.9 billion in capital raised. The median and average US VC fund size in 2020 YTD is \$82.1 million and \$257.2 million, respectively, boasting a

Median and average fund sizes show outsized growth in 2020

Quartile distribution of US VC fund sizes (\$M)



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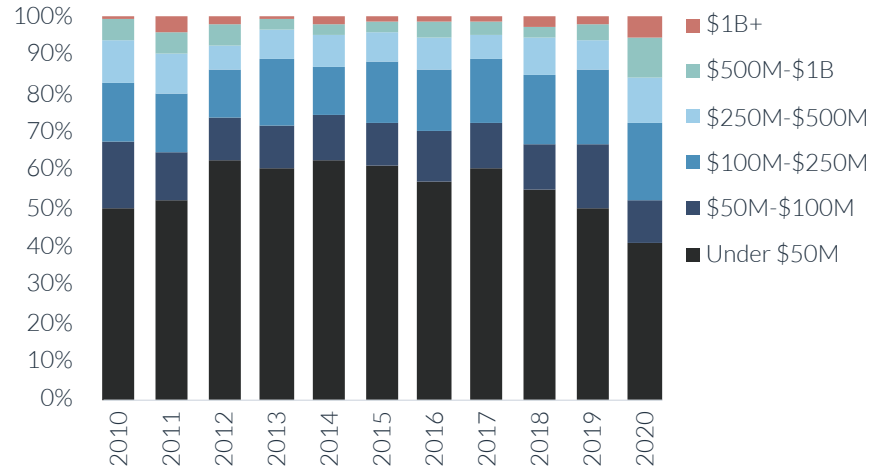
64.2% and 88.7% increase over 2019’s median and average. This correlates with much of the fundraising sentiment in the venture ecosystem—fund managers with good LP relationships and a record of strong fund performance have not experienced many hiccups when raising new funds.

Furthermore, the potential of venture-level returns strongly entices LPs dissatisfied with other market alternatives and captivated by the growth potential of highly valued tech companies. GPs in this advantageous position are typically able to raise larger funds as well.

The number of VC mega-funds—funds of or exceeding \$500 million—reached an all-time high of 35 funds and represented 15.9% of total funds raised as of Q3 2020, a sharp increase over 2019’s 6.0%. Notable VC mega-funds closed in Q3 include Amazon’s \$2.0 billion Climate Pledge Fund, Greylock Partners’ \$1.0 billion Fund XVI, and Meritech Capital Partners’ \$817.9 million Fund VII. Both Greylock and Meritech are storied Silicon Valley firms with established LP bases and track records that allow them to raise new funds during this uncertain time. In a similar vein, the median number of years between funds has shrunk considerably to an all-time low of 2.3 years. Interestingly, the median 12.5 months required to close a fund has not moved much compared to 2019’s figures.

Mega-funds (\$500M+) at record high of 15.3% of total funds raised

US VC funds (#) size



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As one might imagine, raising a first-time fund in the current climate is a herculean task, as investors are less inclined to start their own fund during levels of extreme uncertainty. A total of \$1.9 billion across 30 funds has been raised in first-time fundraising activity through Q3, representing a record low of 3.4% of total capital raised in 2020. This is a significant drop from the \$5.3 billion raised in 2019 and the \$10.9 billion raised in 2018.

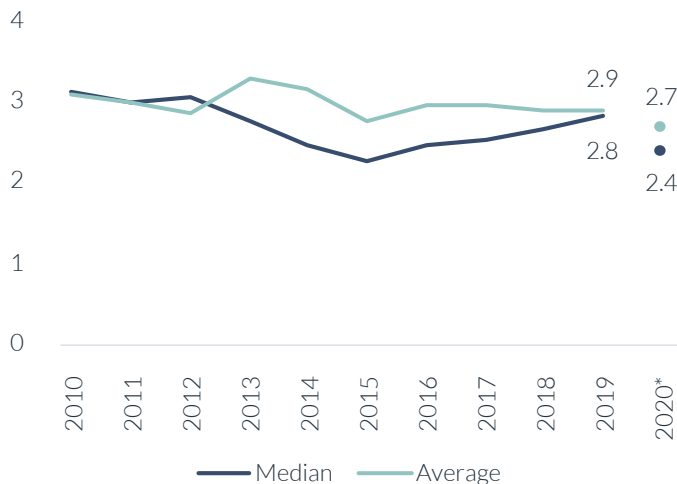
According to our dataset, the second-lowest proportion for first-time fundraising activity was 6.5% in 2008 during the GFC.

Looking ahead, there are currently 77 venture funds that opened in Q3 and 99 funds that opened in Q2 that have yet to close. We anticipate a good number of

these funds to be oversubscribed given the robustness of the fundraising landscape and LPs’ willingness to include the VC asset class in their overall strategy; however, the fundraising targets are lower in aggregate than in recent quarters, with many name-brand firms closing funds earlier in 2020.

Median and average time between funds at record lows

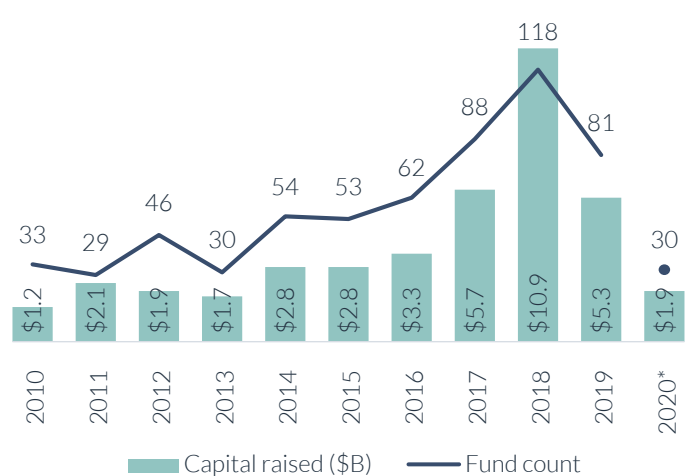
Median and average time (years) between US VC funds



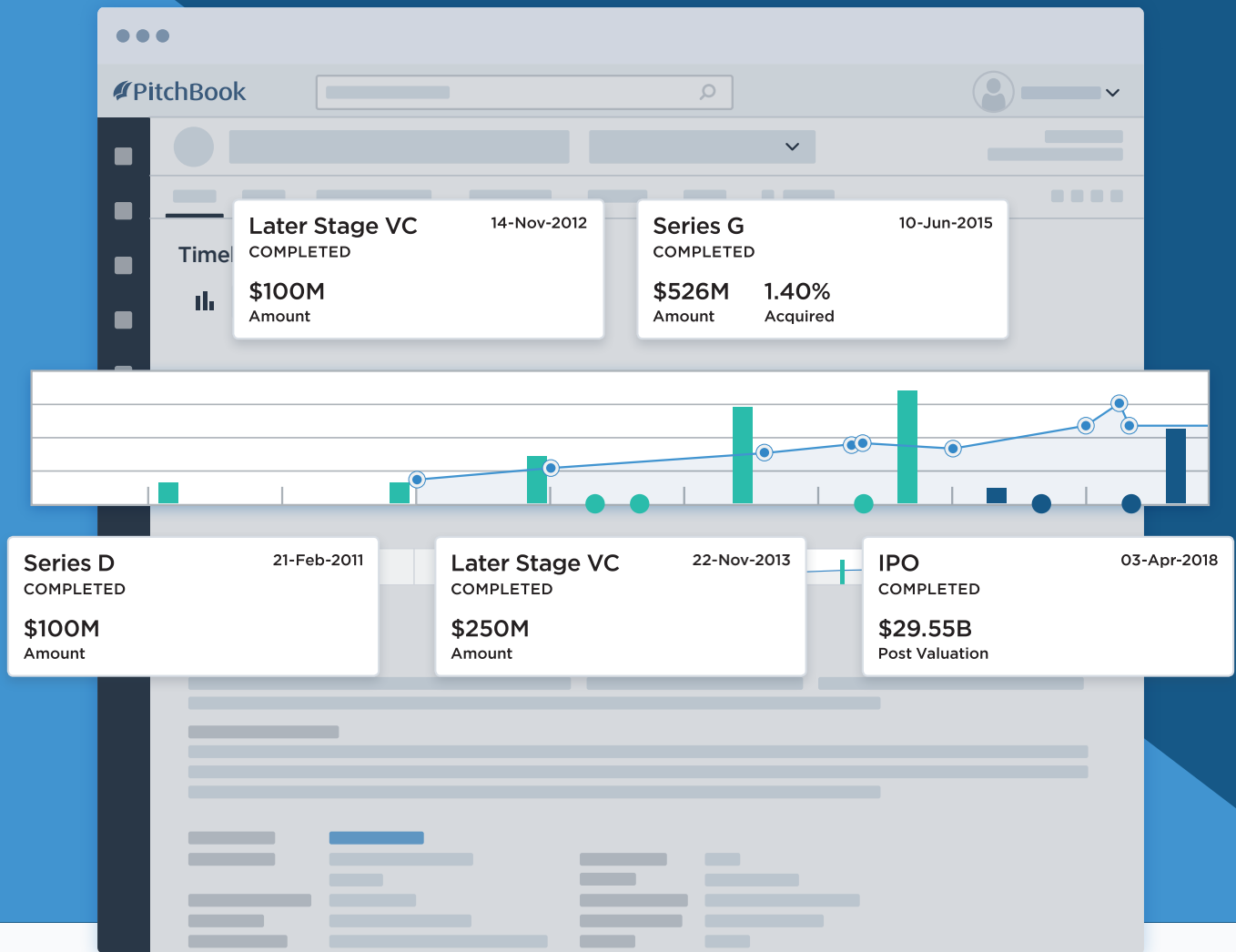
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First-time fundraising activity in 2020 at a record low at 3.4% of total capital raised

US VC first-time fundraising activity



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10 years. That's how long it took for Spotify to go public.

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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.

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.

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

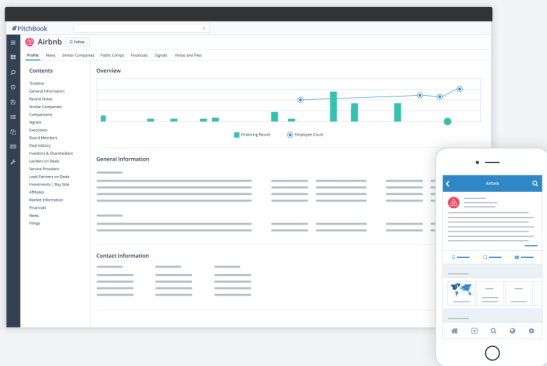
NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with 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.



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