




**nvca**



**America's Startup  
Ecosystem:**

*Trends and Opportunities*

**Southwest Venture Forum  
January 2023**



The National Venture Capital Association helps empower the next generation of American companies that will fuel the economy of tomorrow.

As the voice of the U.S. venture capital and startup community, NVCA advocates for public policy that supports the American entrepreneurial ecosystem.



# venture forward >

Venture Forward's efforts revolve around four key areas of focus:



## DEI

Advancing a more diverse, equitable, and inclusive ecosystem



## Research & Data

Conducting and sharing meaningful research on VC trends and impact



## Education

Equipping new generation of VC investors with the tools to succeed, and informing the general public about the role of VC on the U.S. economy



## History

Capturing the rich history of the industry and distilling insights to shape the future



# Venture Capital:

*The Basics*

# Raise a Fund

*(Where does the C in VC come from?)*

## Who Invests in Venture Capital Funds?

### Potential Investors

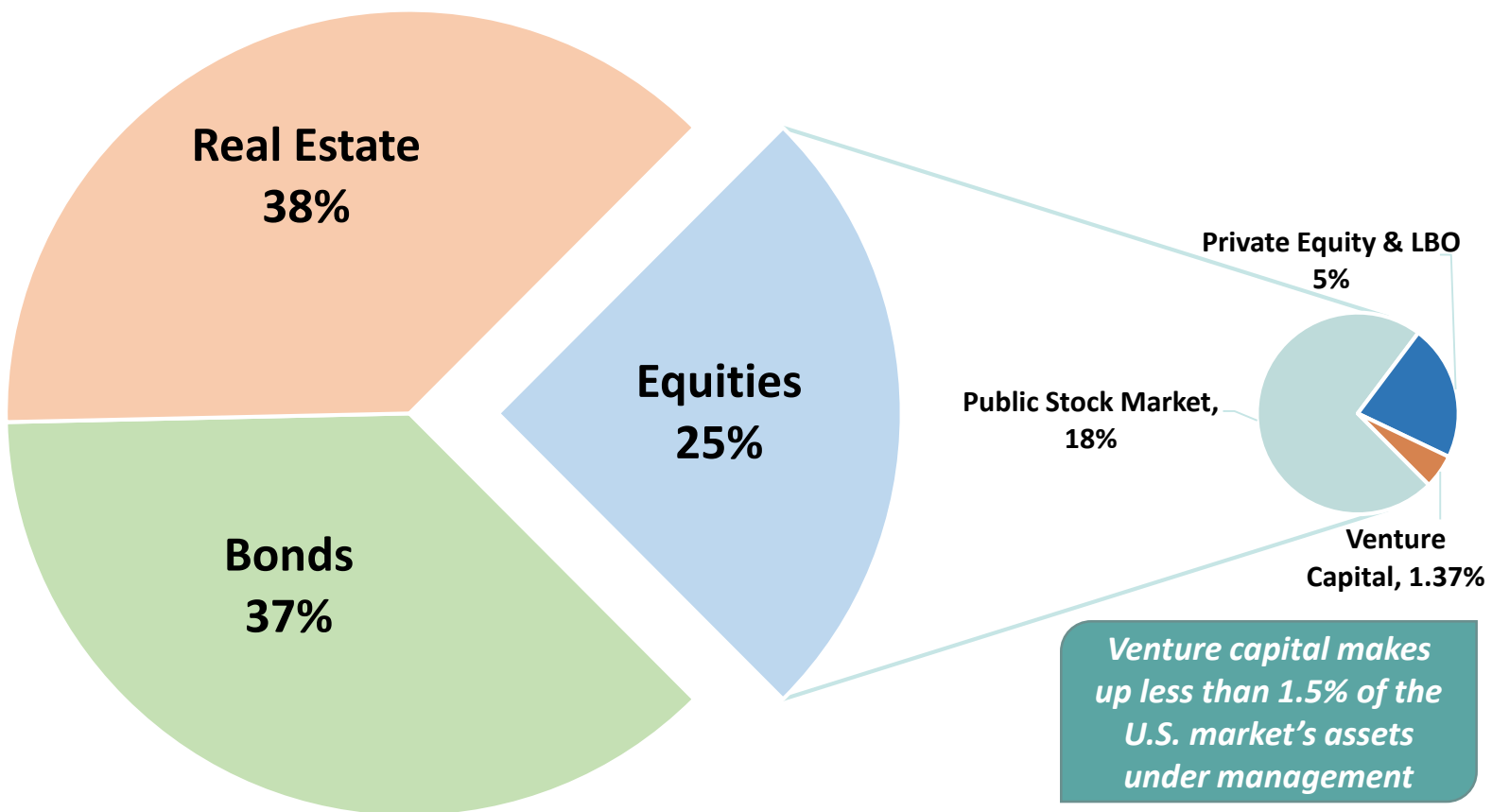
Pension Funds

Non-Profit Endowments

Mutual Funds

Family Offices

## All U.S. Assets Under Management (2021)



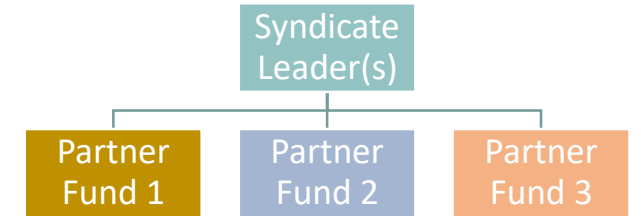
*Venture capital makes up less than 1.5% of the U.S. market's assets under management*

# Deploy The Fund

*(What Do You Do With Your Investors' Capital?)*

## Common Strategies for Fund Deployment

Teaming up with other funds to reduce risks through syndication is a core aspect of venture capital.



### Stage Strategy

Stages	Aspects of Strategy	% of US Deals 2021
Early Stage (Angel-C)	More Deals, Fewer \$ Per Deal	70%
Late Stage (D-Onwards)	Fewer Deals, More \$ Per Deal	30%

### Sector Strategy

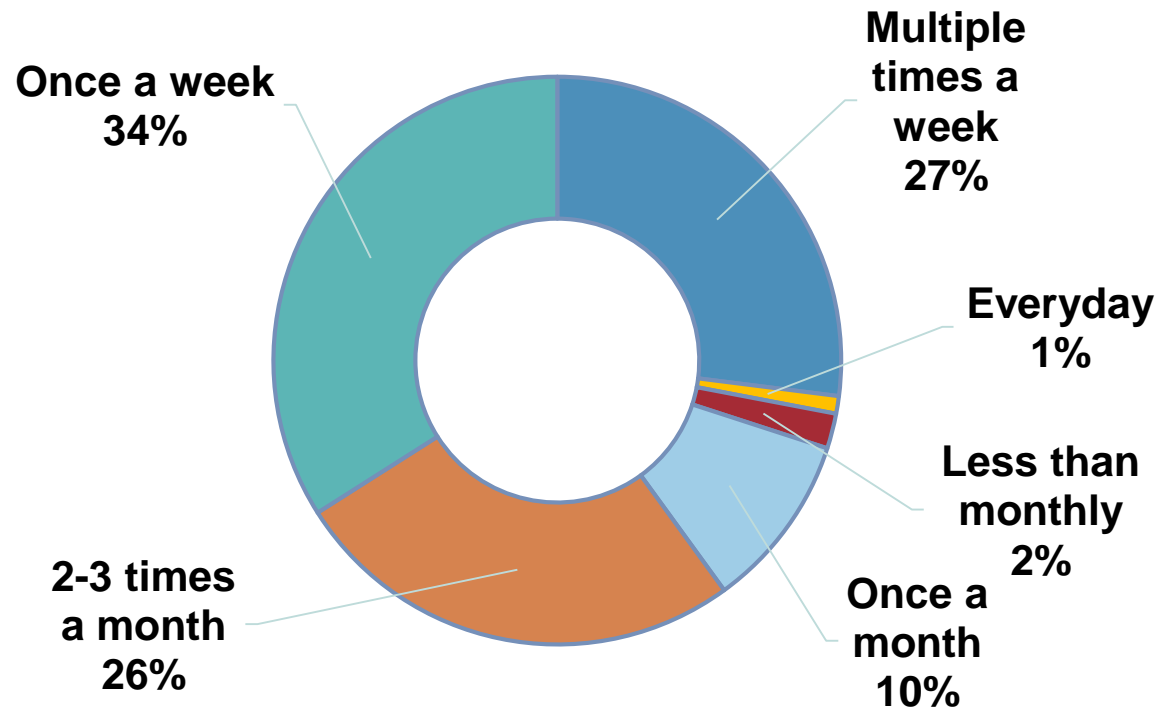
Sectors	Software	Pharma & Biotech	Other	Media	IT Hardware	HC Services & Systems	HC Devices & Supplies	Energy	Consumer G&S	Commercial G&S	Transportation
% of US Deals 2021	39%	8%	4%	2%	3%	9%	5%	2%	15%	14%	1%



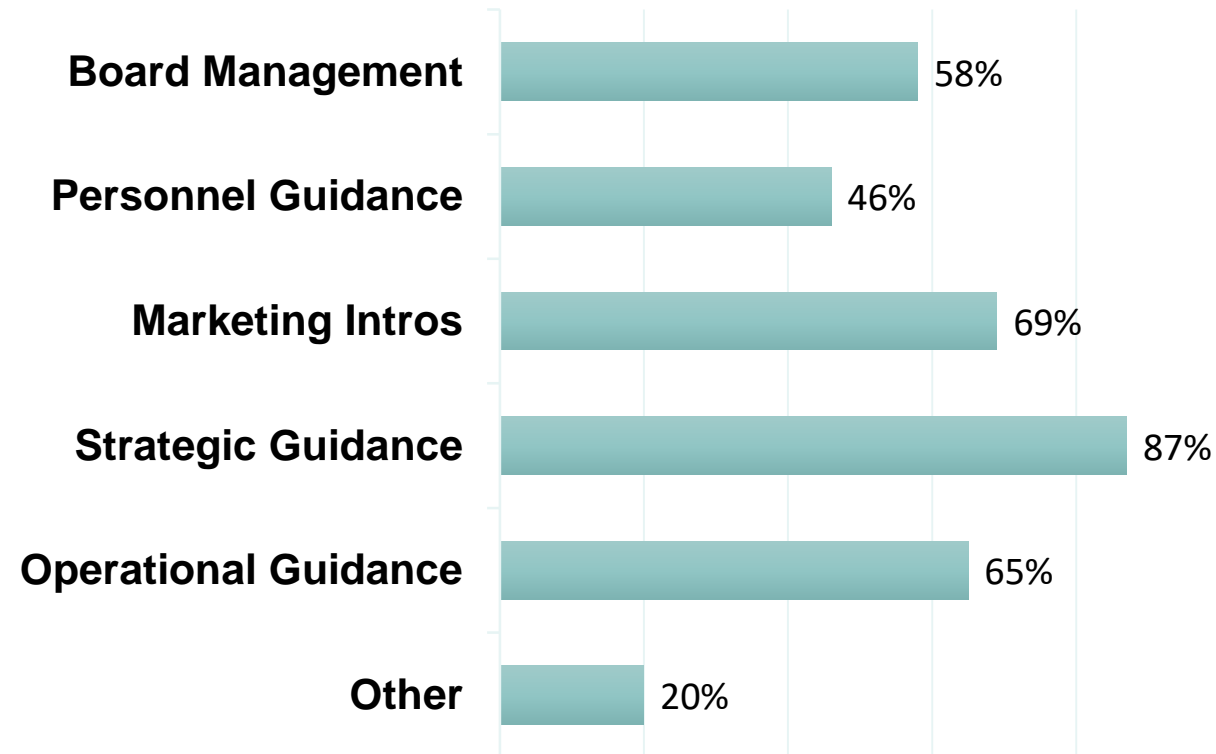
# Make The Fund Succeed

*(How Do You Support Your Portfolio)*

## AVERAGE FREQUENCY OF CONTACT WITH PORTFOLIO COMPANIES



## ADVICE VCs GIVE PORTFOLIO COMPANIES



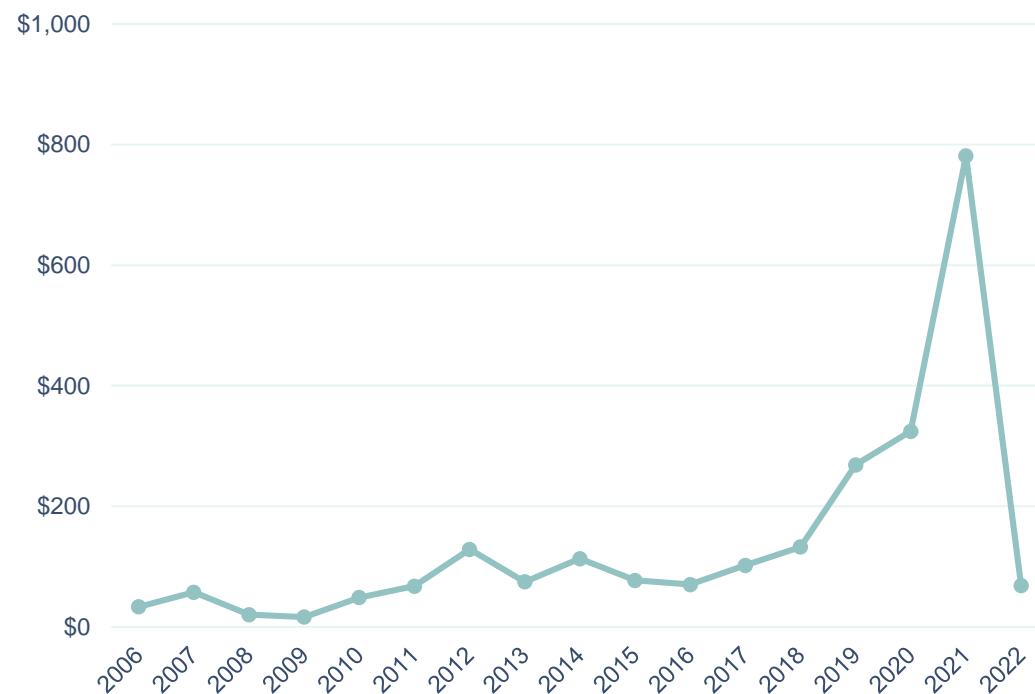
# Return The Fund

(Making Good With Your Investors)

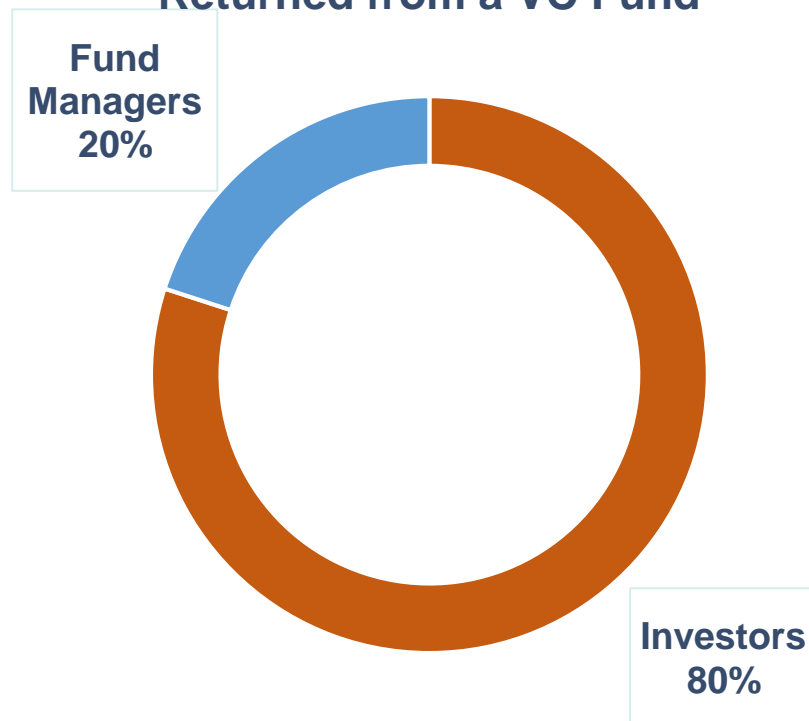
## Primary Types of Exits

- Mergers and Acquisitions
- Public Listings
  - IPOs
  - Direct Listings
  - SPACs

Overall Exit value, All U.S. VC Exits: 2006-2021 (\$B)



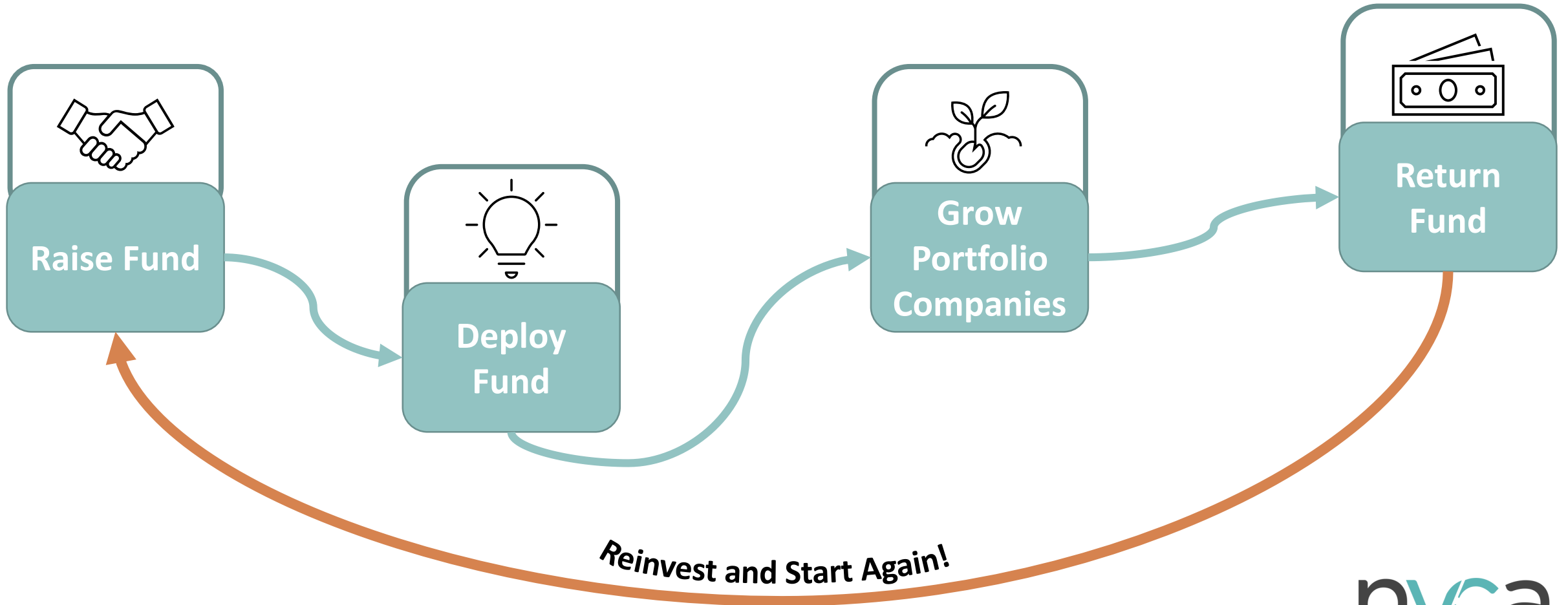
Typical Distribution of Profits Returned from a VC Fund





# What Next?

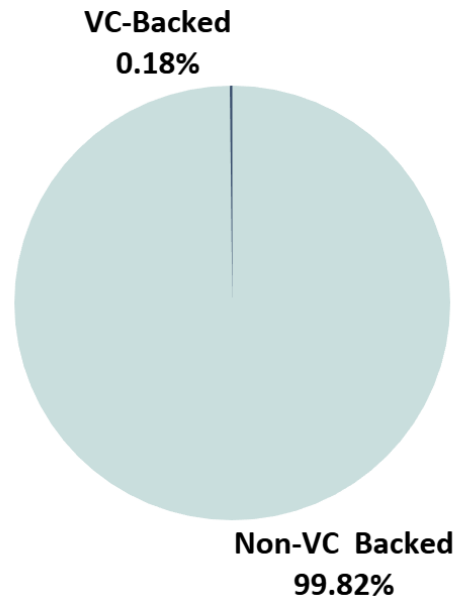
*(It's a Cycle)*



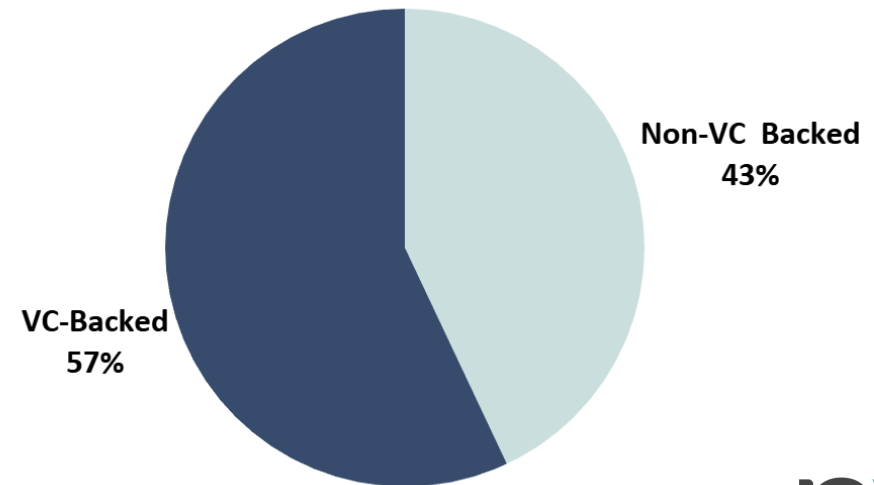
# **VC's Importance to the U.S. Economy**

# Venture Capital Creates and Supports America's Highest Value Companies

New Companies by Type of Backing, 1975-2015



% of Current Total Market Cap of Public Companies Founded 1975-2015



# Venture Capital Creates More Jobs, Faster, Than Any Other Sector

## Employment Growth from 1990 to 2020

VC-BACKED GROWTH

960%

vs

TOTAL  
PRIVATE SECTOR

40%

## Annualized Growth Rate of Employment from 1990 to 2020

VC-BACKED COMPANIES

8.2%

vs

TOTAL  
PRIVATE SECTOR

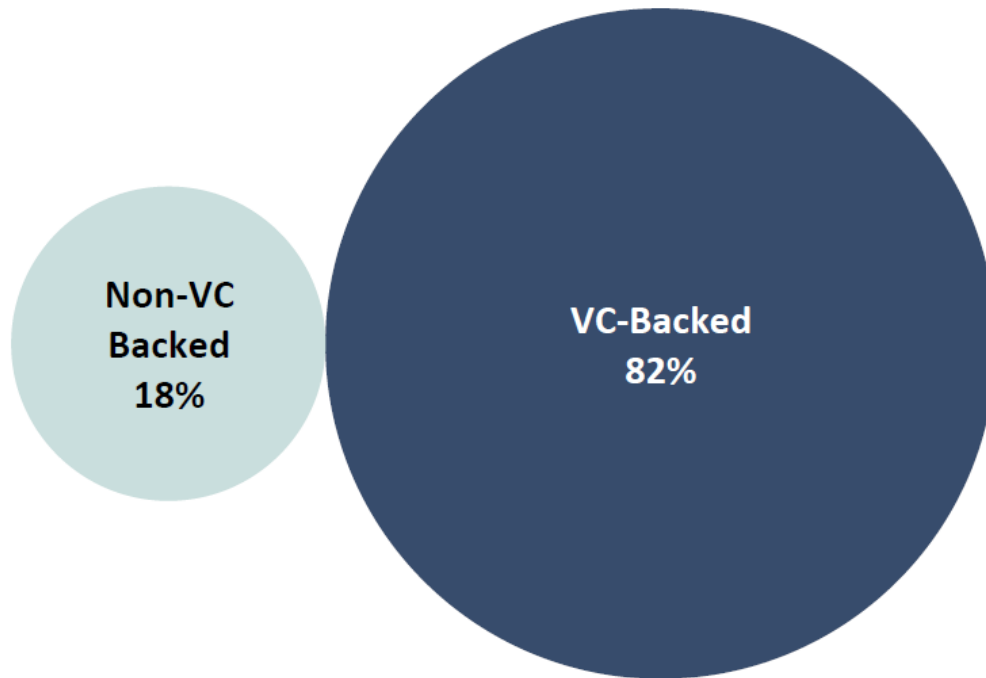
1.1%

nvca

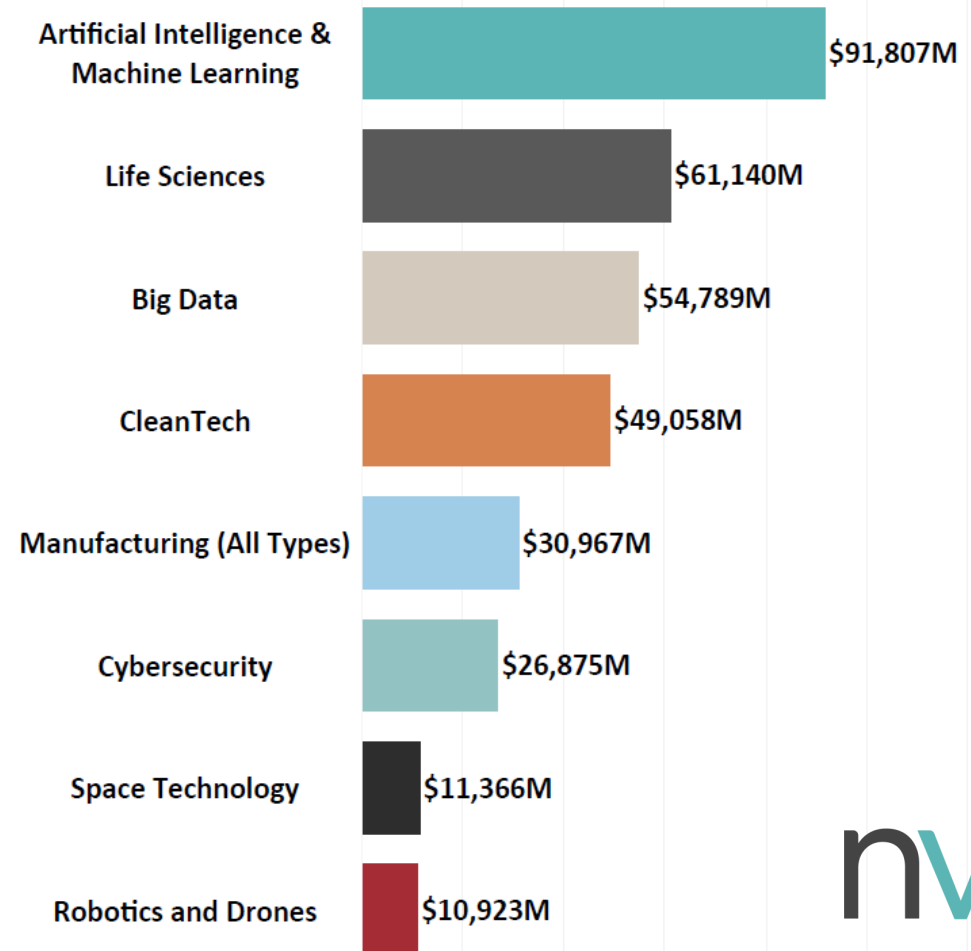


# Venture Capital Invests in the Technologies Which Keep America Competitive

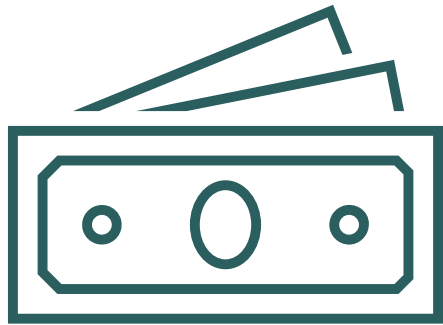
Private Sector R&D Spend, 1975-2015



American Venture Capital Investment into Emerging Industries, 2020-2022



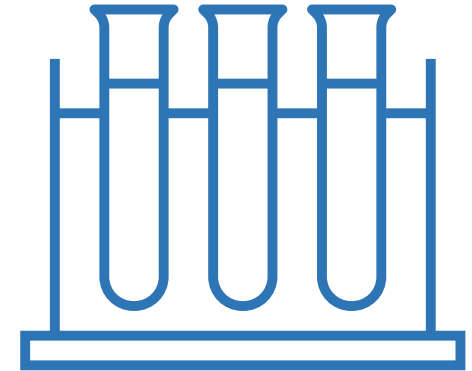
# Venture Capital Sets America Apart



**Generates  
Greater Value**



**Creates  
More Jobs**



**Sparks  
Better Innovations**

# Some Venture-Backed Companies

Google™



Meta

DocuSign®



Square

Genentech  
IN BUSINESS FOR LIFE



box

splunk>



workday.

ebay®

OpenTable™

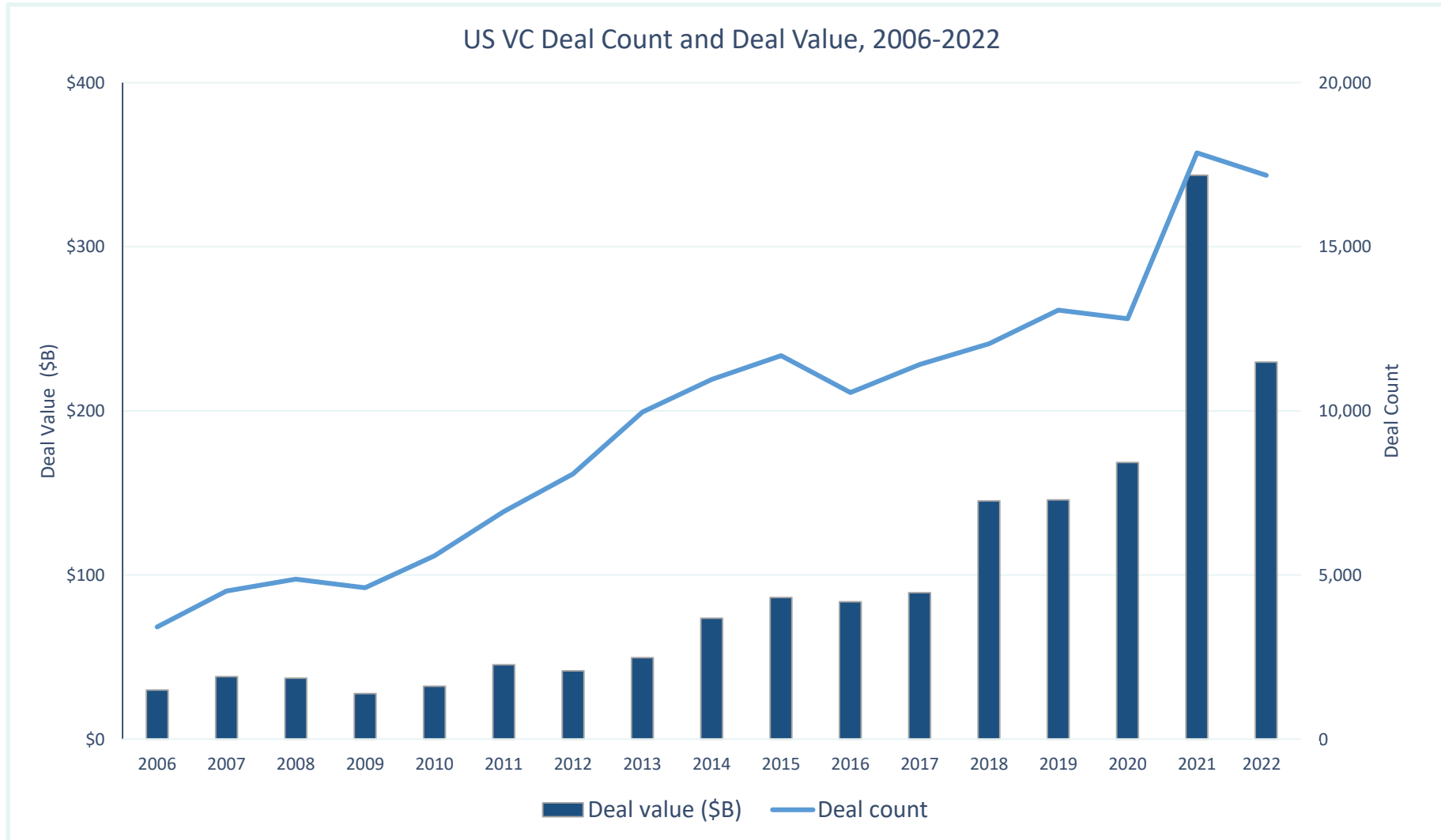
airbnb



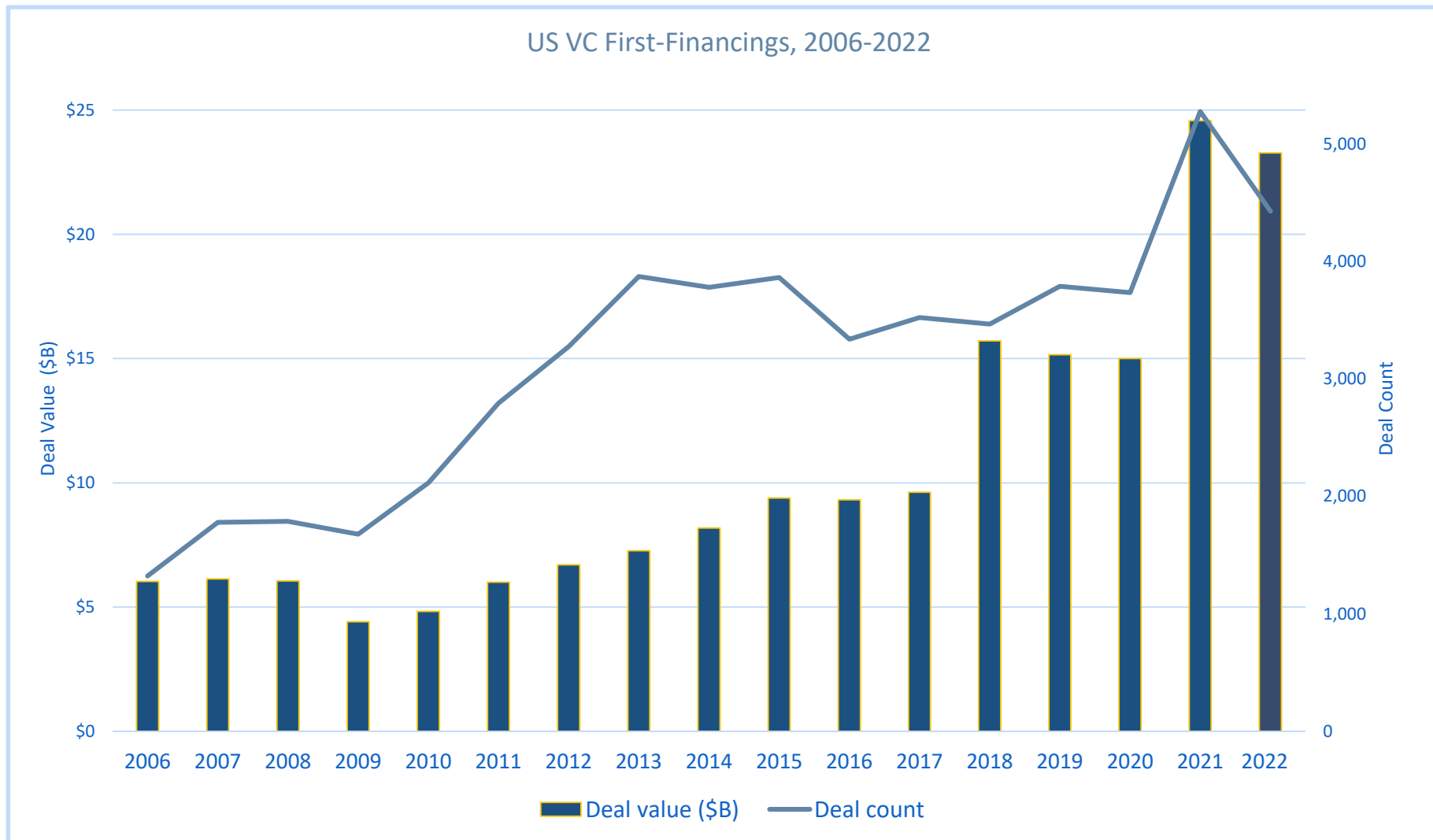
# The State of VC By The Numbers



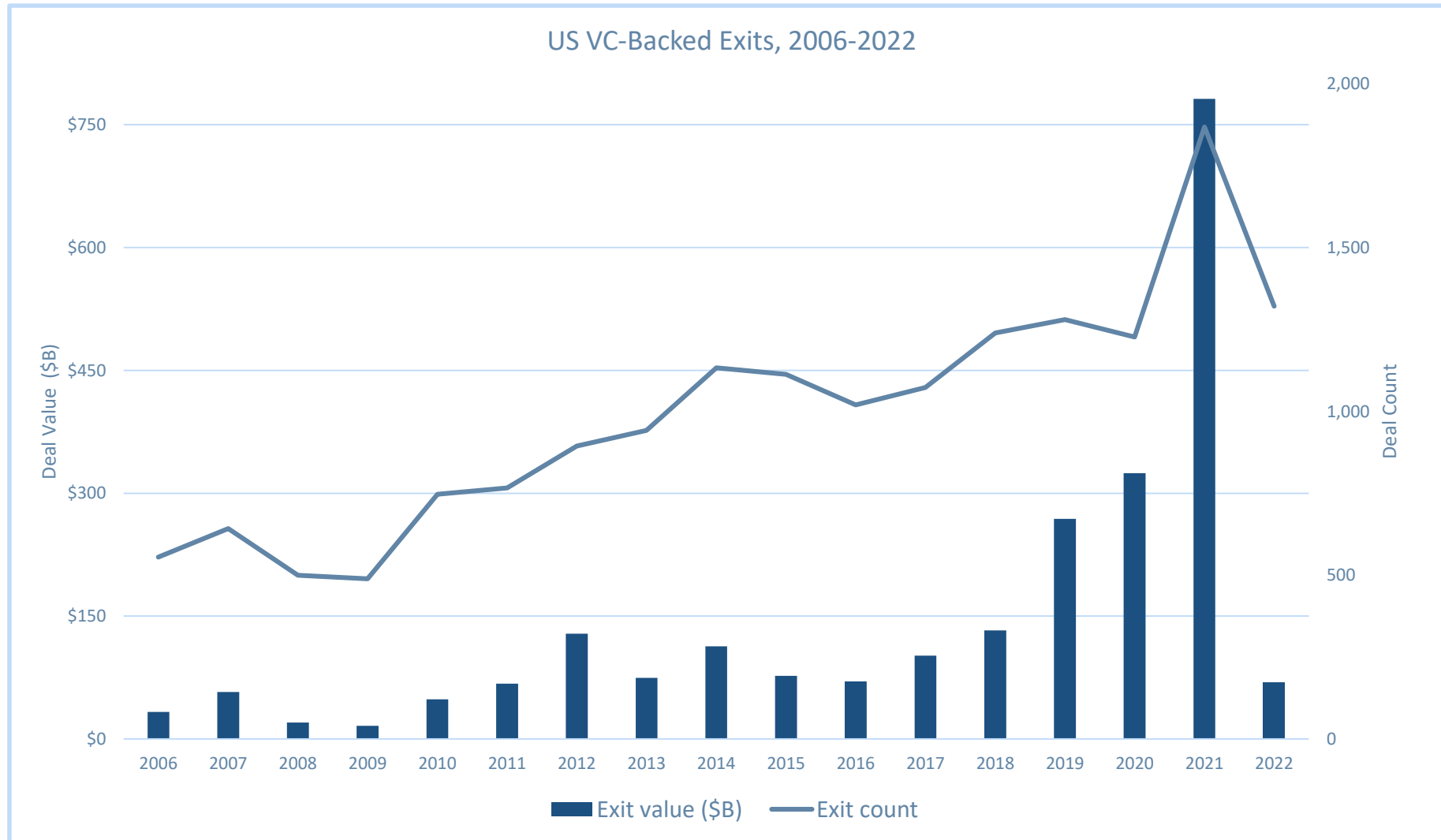
# National Deal Count & Value



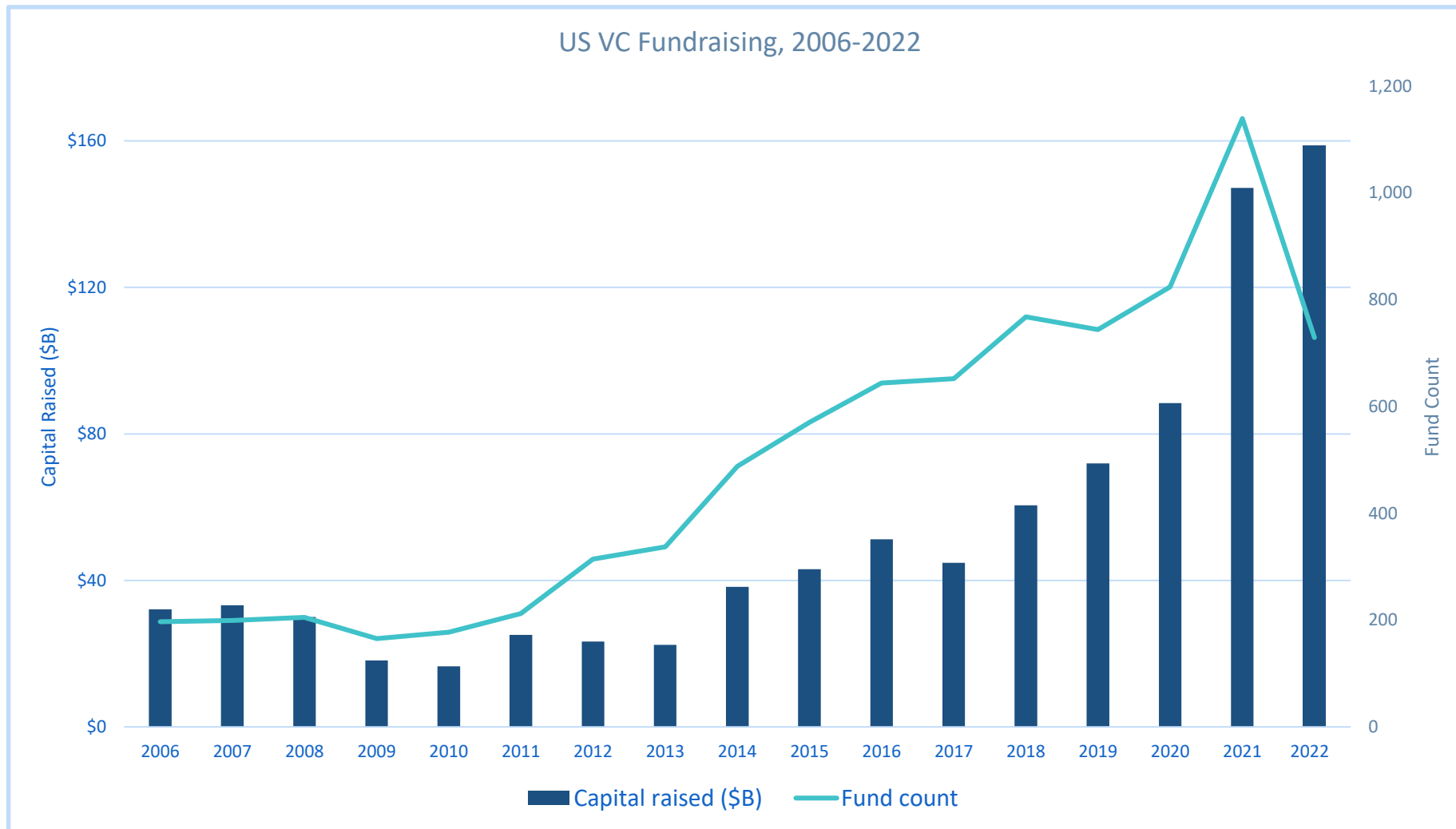
# National 1<sup>st</sup> Time Financing



# National VC Backed Exits



# National VC Fundraising



Sources: PitchBook Data





# VC in Texas

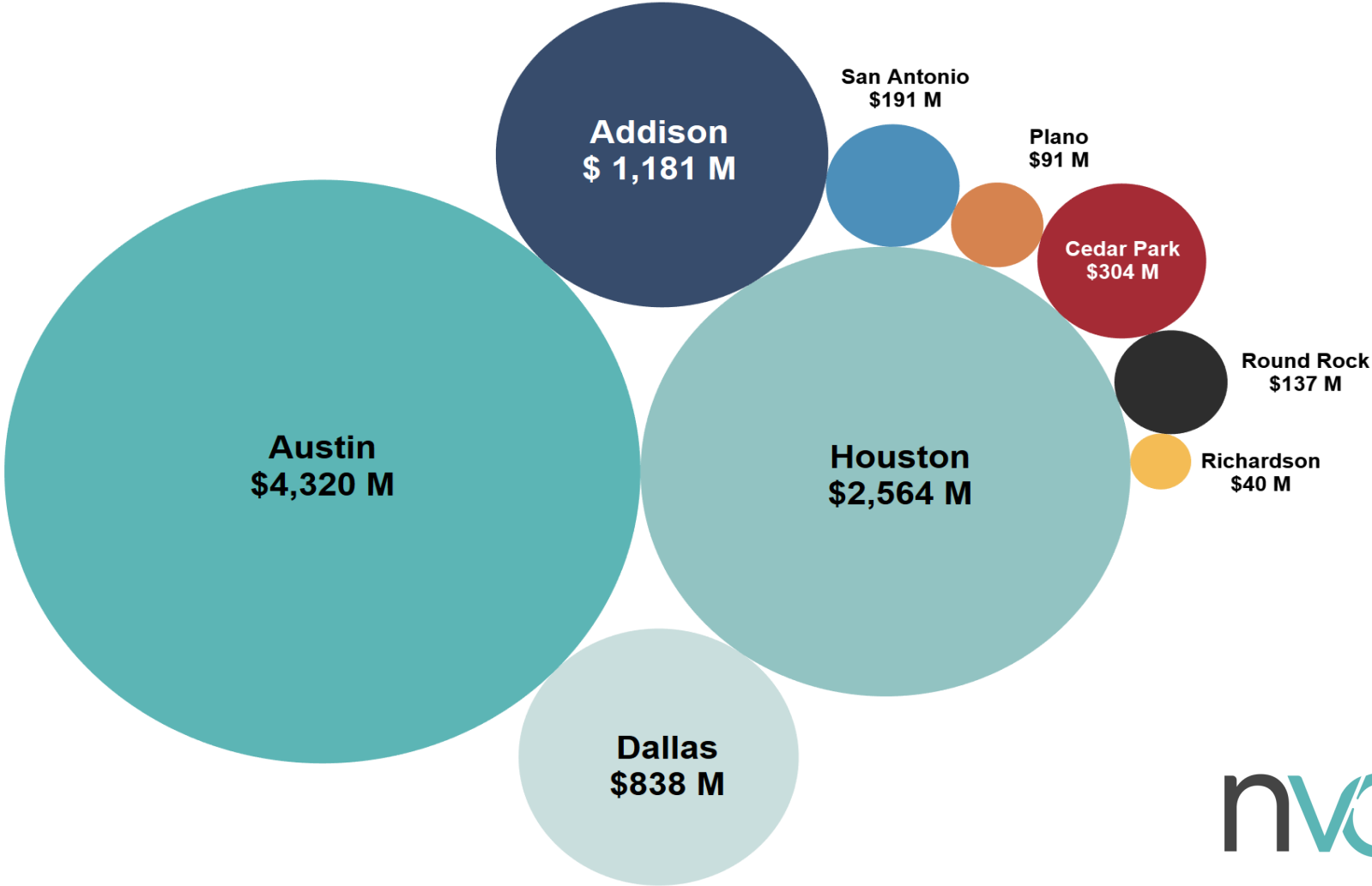
# State of VC in Texas 2022

## Key Stats

# of Deals	790
Capital Raised (\$B)	\$9.2
Exits	68
# of VC Backed Companies in-State	841

Texas ranks #5 for overall VC funding, #4 for total number of deals and exits in 2022

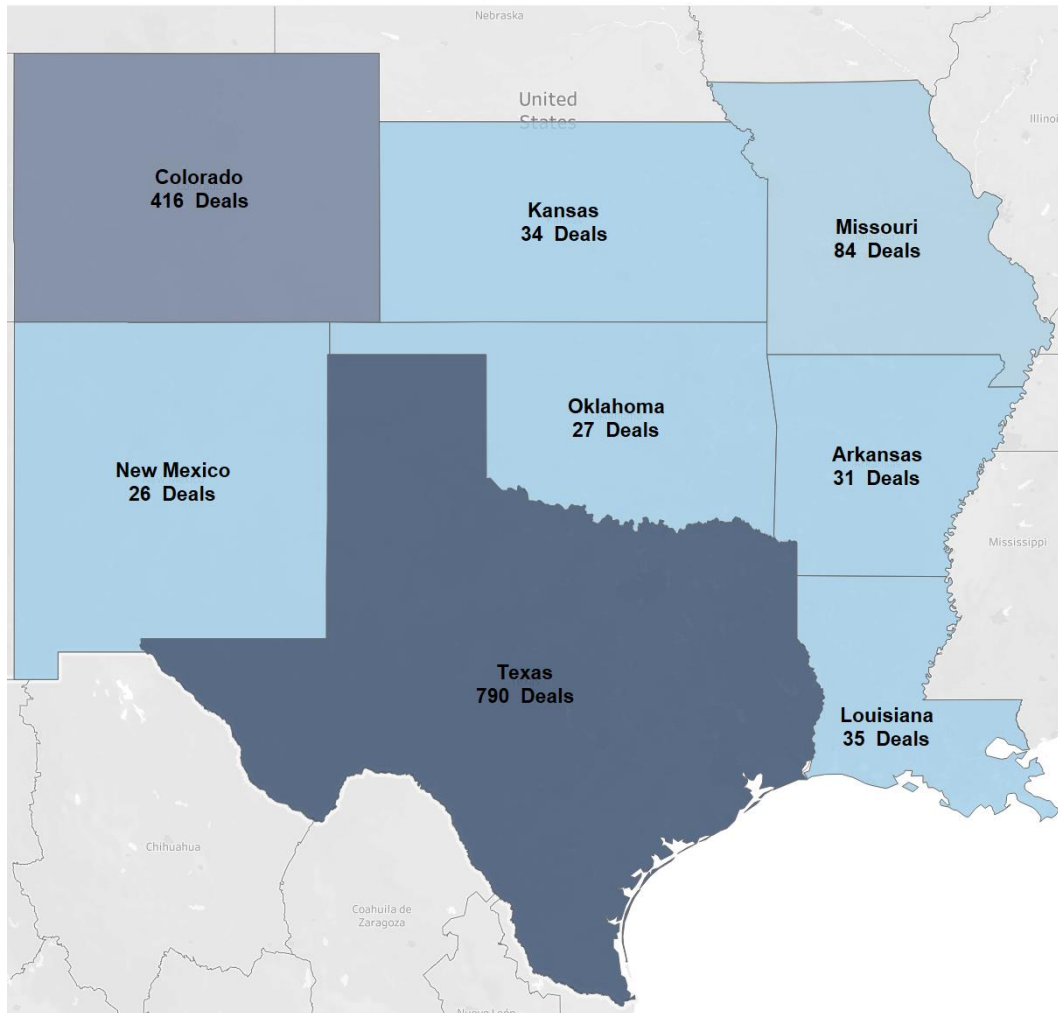
Top Cities in Texas for VC-Backed Companies (M\$ Raised 2022)



Source: Pitchbook Data

# Texas Leads Their Region

VC Deals in the Western United States 2022



Texas and Peer States

## Deals

California	4,758
New York	1,983
Massachusetts	918
Texas	790
Florida	617
Washington	498
Colorado	416

## Total Fundraising

California	\$101,874.3 M
New York	\$27,562.8 M
Massachusetts	\$20,171.3 M
Illinois	\$10,139.2 M
Texas	\$9,201.0 M
Washington	\$7,554.2 M

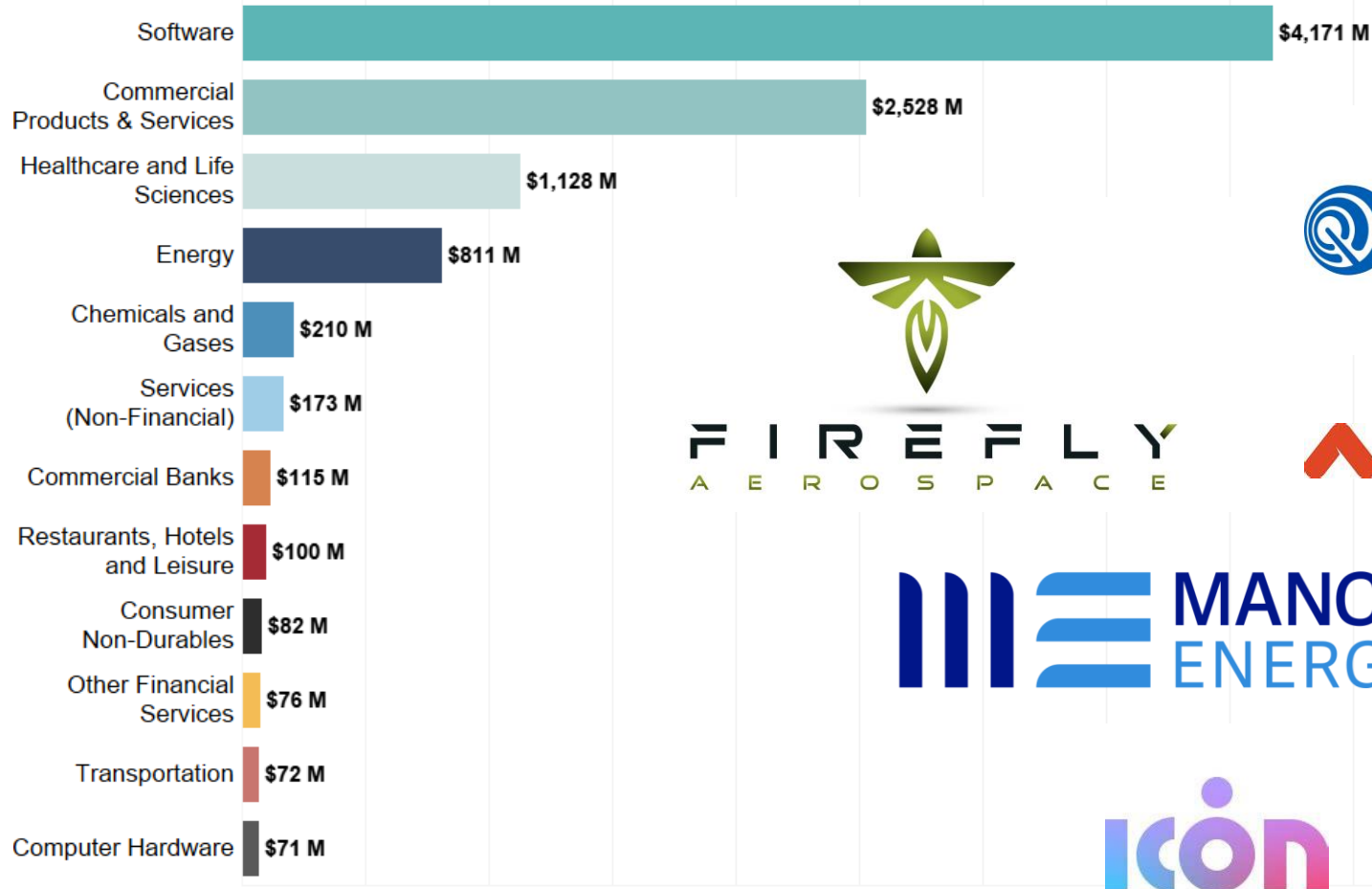
## Exits

California	428
New York	156
Massachusetts	97
Texas	68
Illinois	38
Washington	37

Texas dominates its geographical region and is in the top five states nationally for VC deals, fundraising, and exits

# Texas' VC Ecosystem

## Industries by VC Funding, 2022





# Eyes on Washington



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# POLICY AGENDA

SUPPORTS VENTURE RETURNS & STARTUP SUCCESS



Inflation Reduction Act



CHIPS & Science



Bipartisan Infrastructure  
Framework



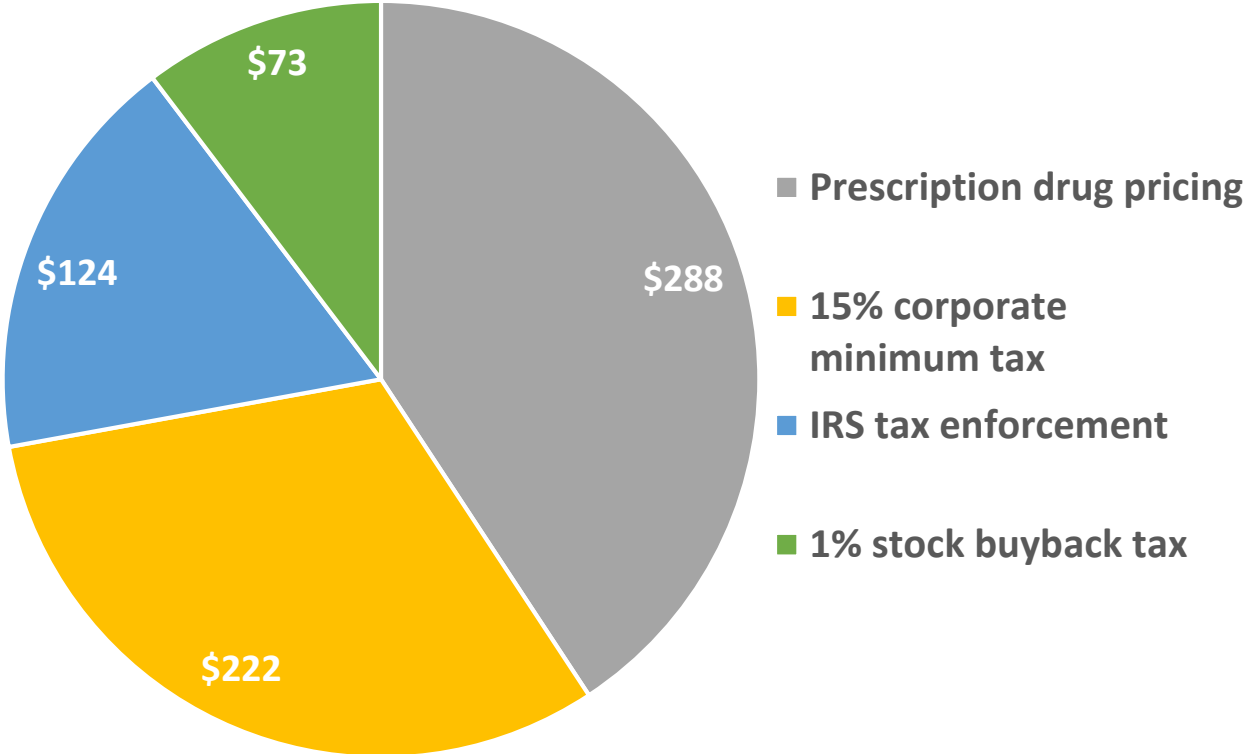
SSBCI



SEC

# Inflation Reduction Act Overview

Raises approx. \$700 billion



*The Inflation Reduction Act includes **\$369 billion** for advanced energy innovation*

*\*Final deal also included pledge to pass **permitting reform legislation** in another legislative vehicle before the end of the fiscal year*



# NVCA Tax Wins

## ✘ Capital gains tax increases

- Ordinary income
- Making more than \$5M
- Mark-to-market

## ✘ Carried interest tax increase

- Annual tax on AUM
- 5-year hold period (*not really*)

## ✘ QSBS tax increase

- Retroactively limit QSBS to 30%



## R&D credit payroll tax

- \$250,000 to \$500,000

# CHIPS & Science: Overview



## Authorizes \$250 billion

- Early research
- Workforce development
- Facilities
- Climate change
- Entrepreneurship



## Includes:

- \$61B for NSF research
- \$52B for semiconductor research and manufacturing
- \$20B for tech commercialization office
- \$10B for regional innovation hubs



# Bipartisan Infrastructure Framework

*(Not Just Roads and Bridges)*



Technology Procurement Programs



Technology Demonstration Project Grant Programs



Research and Manufacturing Grant Programs



New Gov't Technology Offices and Working Groups



# American Rescue Plan: SSBCI

American Rescue Plan (ARP) provided \$10B for SSBCI 2.0 (1.0 only \$1.5B)

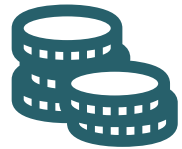
States receive a minimum of \$56M to provide capital to small businesses

Can deploy debt and equity capital, including VC programs

NVCA engaged with Treasury on implementation & education



# Regulatory Agenda: Proactive



## Provide relief for 20% “non-qualifying investment” bucket

- ❖ NVCA **regulatory** and **legislative** campaign to modernize SEC **definition of VC fund**:
  - Make investments into **EGCs** (including secondary) **qualifying**
  - Make **fund of funds** investments into other VC funds **qualifying**
  - Make **token** offerings **qualifying**



## Protect Volcker Rule exemption

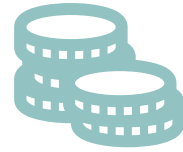
- ❖ NVCA achieved an **exemption** from the Volcker Rule’s **prohibition on bank investment** into private funds for **VC funds**, using the SEC definition

## Create effective blockchain regulatory regime

- ❖ NVCA advocates for an effective regulatory regime for **blockchain technology**, providing **clear rules of the road** so **entrepreneurs** can **experiment**



# SEC Agenda: Reactive



**Private Funds**

**10-b51**



**Form PF**

**Section 13D/G**



***Private  
companies***

# Private Funds

- Indemnification
- Post-Tax Clawbacks
- Side Letters
- Compliance Expensing Ban
- No Grandfathering



# Private Companies

## Private Markets Transparency & Accountability Act

- ❖ Force private companies to go public or sell:
  - >\$700M valuation, OR
  - \$5B in sales and 5,000 employees

## SEC Agenda Items:

- ❖ Look through **funds** to count LPs
- ❖ Publicly disclose fundraising





# A Quick Review



# Topics Covered Today



**VC 101**

**National Trends**



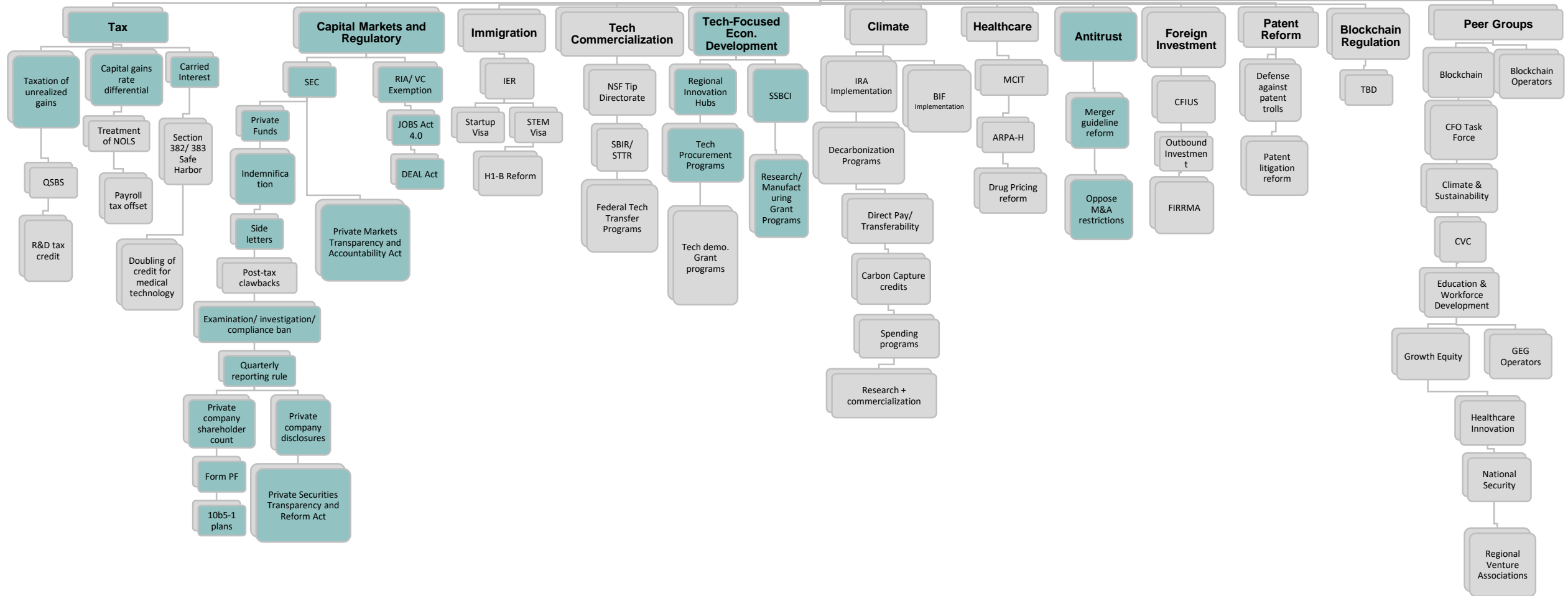
**State and  
Regional Trends**

**Congressional  
Action**



**Agency Action**

# NVCA Policy Priorities



# To Learn More



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