

Venture Capital

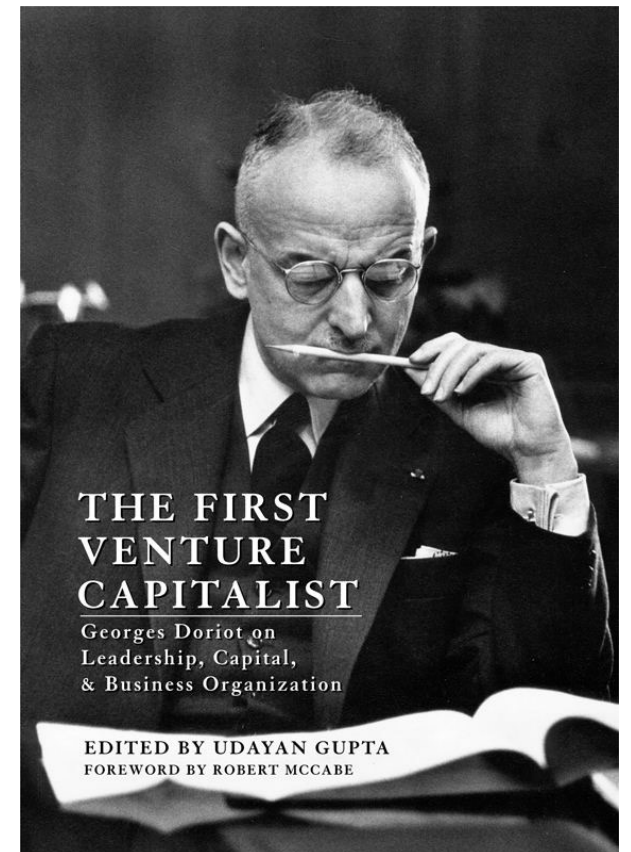
HBR Perspective





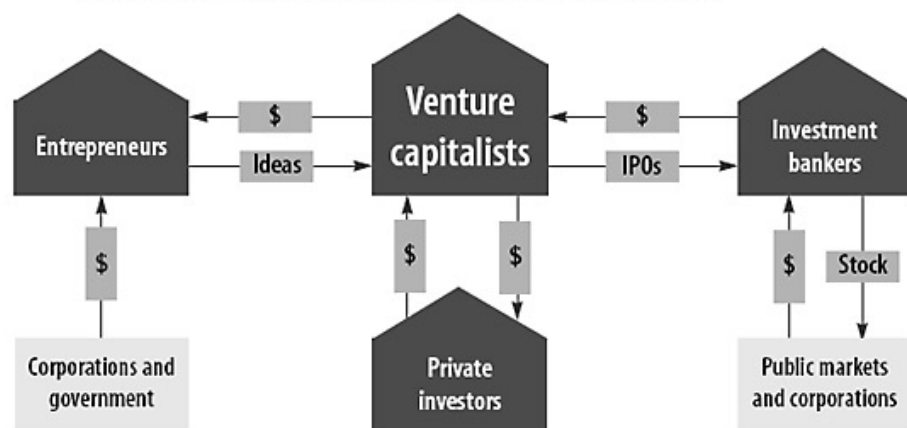
"We are a movement, not just a company. A commercial bank lends only on the strength of past successes and proven assets. I want money to do things that have never been done before."

Georges F. Doriot



HOW THE VENTURE CAPITAL INDUSTRY WORKS

The venture capital industry has four main players: entrepreneurs who need funding; investors who want high returns; investment bankers who need companies to sell; and the venture capitalists who make money for themselves by making a market for the other three.



HOW VENTURE CAPITALISTS SPEND THEIR TIME

Activity	Percentage of time
Soliciting business	10%
Selecting opportunities	5%
Analyzing business plans	5%
Negotiating investments	5%
Serving as directors and monitors	25%
Acting as consultants	15%
Recruiting management	20%
Assisting in outside relationships	10%
Exiting	5%

Several factors enable incumbents to maintain their position

REASONS FOR TRADITIONAL VCs MAINTAINING THEIR STRONG POSITION



TOP-TIER BRAND

Strong reputation and legacy built by prominent General Partners



INTEREST FROM ENTREPRENEURS

Startups get tremendous "signal value" from being associated with the top VCs



RICH DEAL FLOW PIPELINE

Access to a large number of start-ups related to the relevant investment thesis



TRACK RECORD AND JUDGEMENT

Consistent top-tier returns allows these VCs to raise funds from more investors



SUPERIOR ADVICE AND EXPERIENCE

Ability to provide strategic and operational advice to help founders grow their business



NEEDLE-MOVING RESOURCES

Ability to provide non-monetary resources such as access to top startups in portfolio and connections with corporations

THE VC VALUE CHAIN IS DEEPLY INTEGRATED AND RELIES ON HUMAN RELATIONSHIPS, PATTERN RECOGNITION AND JUDGMENT



Investors That Led Or Co-led By Amounts In January 2022

Investors that led or co-led with at least 3 or more fundings



crunchbase

Global Funding By Month Through January 2022

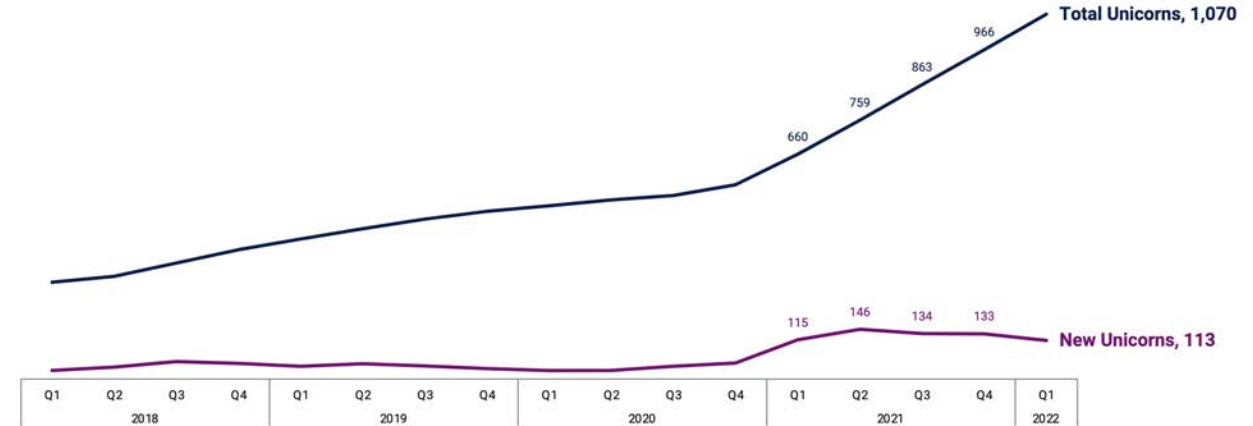
Includes seed, venture and private equity for venture-backed companies



crunchbase

State of Venture | Global Trends | Unicorns, Valuations, & Multiples

Unicorn births at 100+ for a 5th consecutive quarter, total herd climbs to 1,070

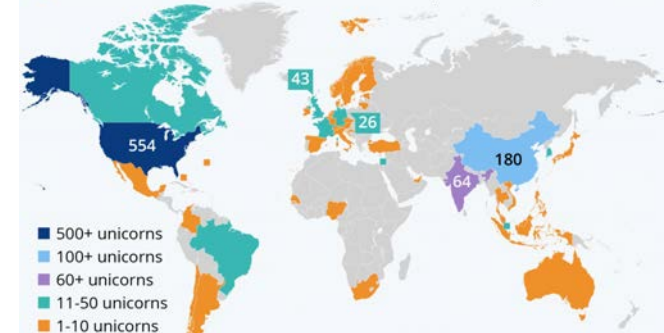


CBINSIGHTS

50

Global Unicorn Herd Now Counts 1,000+ Companies

Number of privately held, up-and-coming companies with a valuation of \$1 billion or more, per country



As of March 30, 2022
Source: CB Insights



statista

The venture capital industry is facing four key shifts

Key Trends

Key Stats



DEMOCRATIZATION

Entry of new investors and start-ups

- Increase in access for corporates and family offices to VC
- Lower barriers to entry for start-ups due to ubiquitous technology
- Increase in start-ups bootstrapping their business or securing alternate sources of financing

500%

surge in CVC deals by financial services firms from 2014 through Q3 2019.¹

10%

of overall portfolios of ultra-high net worth families are VC investments according to a 2020 survey.²



DEAL-GROWTH

Significant capital being poured into Venture Capital

- Low interest rate leading to dramatic increase in dry powder in PE/VC
- Public IPOs increasingly being replaced by privately funded "mega rounds"
- Increased capital inflow into micro-VCs and nano-VCs
- Rise in oversubscribed funding rounds

\$1.48Tn

in dry powder in PE at the end of Q2 2020. The VC dry powder was \$276 billion in 2019E.³

3x

more capital raised by tech firms through private placements than IPOs since 2014.⁴



DIVERSIFICATION

Diversity of investments both in type and geography

- Growth in VC activity in emerging economies including China, India and Latin America, Africa and South-east Asia
- Increase in priority of ESG investing
- Increase in awareness of gender and diversity gaps in VC funding

\$27.4Bn

venture capital activity in emerging markets in 2019, double compared to 2014.⁶

73%

of VC funds stated that ESG criteria play a role in their investment decisions according to a 2020 survey.⁵



DIGITIZATION

Use of data, AI and automation in venture investments

- Exponential rate of data generation
- Growth in big data and advanced analytics
- Increase in automation of traditional manual VC tasks
- Rise in use of AI for making venture investment decisions

~56%








firms plan to integrate AI into investment processes according to a Thomson Reuters survey.⁷

86%

of respondents believe data is important when evaluating investment opportunities according to a Pitchbook survey.⁸

Early warning signs of disruptive threats to the VC industry are emerging

DISRUPTIVE PATTERNS* ARE BEGINNING TO EMERGE IN THE VENTURE CAPITAL INDUSTRY AND NON-TRADITIONAL PLAYERS FUELED WITH CAPITAL ARE RAPIDLY ENTERING WITH NEW BUSINESS MODELS AND TECHNOLOGY

1	Decreases in customer (investor) loyalty, driven by overshooting		No strong evidence or observations of incumbents overshooting investor needs but investors are less loyal to single funds and participating in fund of funds. ¹
2	Significant and lasting increase of capital inflows		Increasing number of new venture capital firms and funds, including the rise of mega-funds, and greater participation by the broader ecosystem in the VC industry. ²
3	Policy changes open the door to new entrants		Easing regulations, simplified rules and lower barriers to investors are opening the door to an increasing number of funds and participants. ³
4	Entrants emerge at the low-end or market fringes with seemingly inferior solutions		Novel investment approaches by smaller and newer VCs are emerging (e.g., smart-beta, predictive AI, venture debt financing, crowdfunding and ICOs). ⁴
5	Customer (investor) habits and preferences show signs of shifting		Relatively new investors are entering the VC space (e.g., HNWI, CVCs) with different objectives. New offerings, such as VaaS, are helping them to get more actively involved. ⁵
6	A viable competitor fine-tunes a disruptive business model		Incumbents are exploring newer models and approaches to stay competitive (e.g., leveraging startup founders to source deals, partnering with consulting firms etc.). ⁶
7	Decreasing revenue growth (fund fees) coupled with increased profit margins		Capital continues to flow into VC funds driving increasing revenues (fees). However, investors may look for cost-effective ways to get involved in VC (e.g., Angellist Access Fund with 1% fees). ⁷

VC firms of the future will move further from the traditional model

VC FIRMS OF THE FUTURE WILL ADOPT DIVERSE STRATEGIES, BECOME INCREASINGLY ACCESSIBLE TO DIFFERENT INVESTORS AND BECOME MORE DATA-DRIVEN



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