The State of U.S. Early Stage Venture: 2Q21

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Executive Summary

The past year was a rollercoaster ride for early stage venture. 2Q20 marked one of the worst quarters on record. Fundraising ground to a near halt. Companies looking to extend runway comprised a considerable share of the activity, leading to some of the highest rates of flat and down rounds on record.

The industry began rebounding in 3Q20 and reached record-breaking heights in 4Q20 and 1Q21 in terms of positive activity (positive exits and deals with markups). Now it appears the recovery has reached its latest peak in 2Q21.

One year after one of the worst quarters ever for early stage venture, 2Q21 represents the new high water mark for positive exits and markups: Close to **90%** of events that happened this quarter to early stage startups (Series A or prior) on AngelList were positive ones.

Increasing valuations and larger rounds appear to have sent founders on a spending spree of sorts. Startup credit card and payroll spending in 2Q21 exceeded pre-pandemic levels in some of the most active markets on AngelList by deal volume.

A proliferation of technology hubs across the U.S. contributed to the boom, providing VCs with more investment opportunities outside of California and New York.

The fastest growing U.S. technology hubs by percent growth of startup formation were Boston, Seattle, and Miami.

On AngelList, we continued to see a larger percentage of deals occur at Series B and later. Fintech, health tech, and AI/ML led all sectors in deal volume. Biotech investing cooled off after its 1Q21 surge. Investments into payments tech, crypto/blockchain, and productivity tools made for an outsized amount of all capital deployed on the platform.

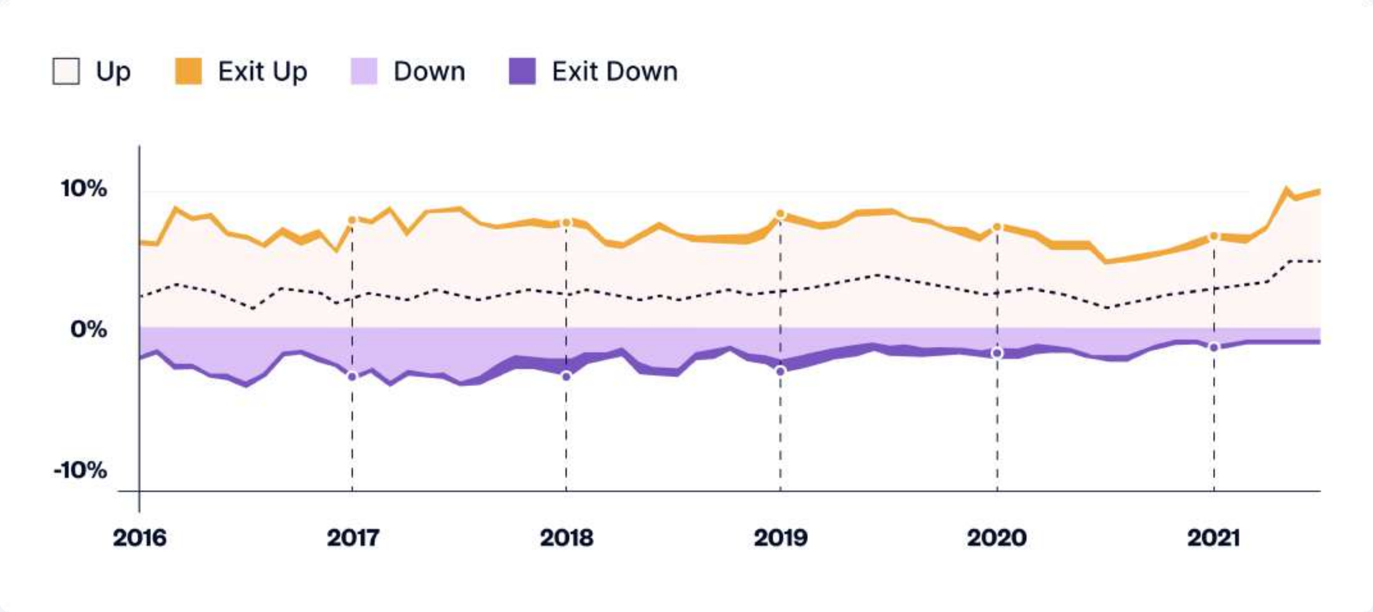
It wasn't all good news in 2Q21. A lower percentage of deals and venture dollars on AngelList went to companies that have a female founder, compared to the previous quarter of activity. While this is a step back, deal volume for female-founded companies on AngelList in 2Q21 still exceeded any quarter in 2020, signaling some progress in this arena.

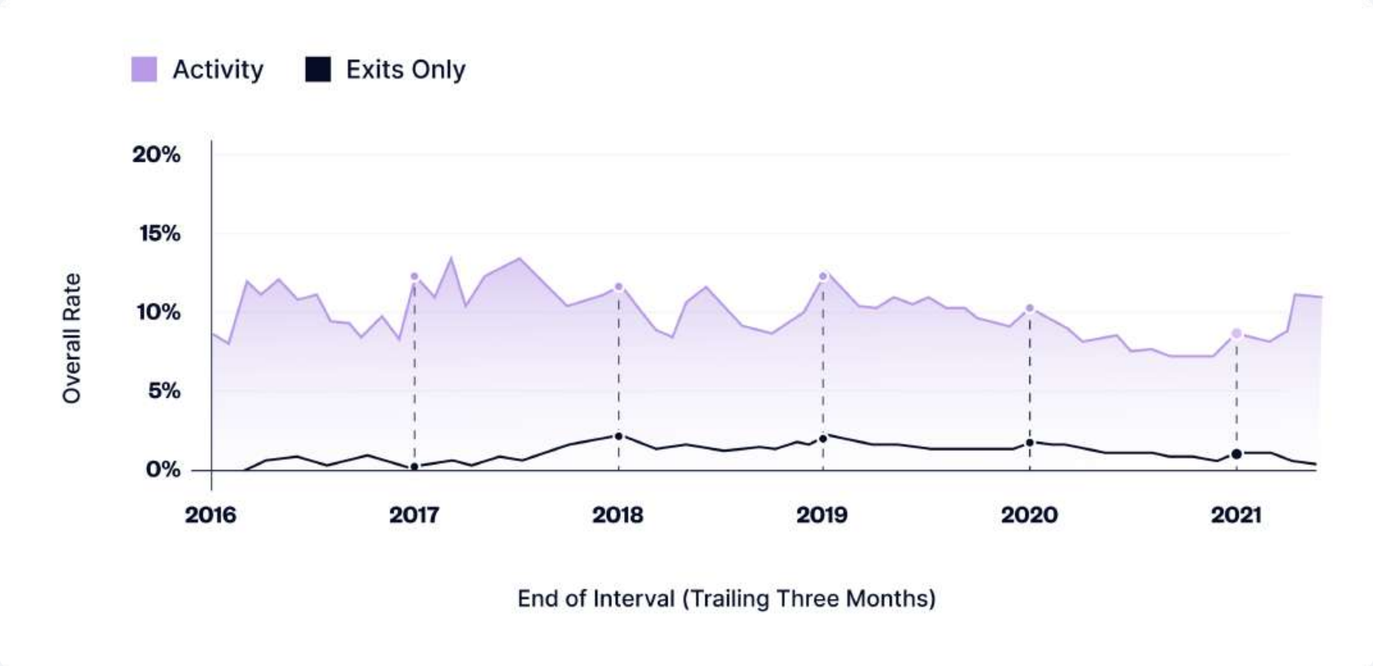
Overall, the early stage venture market continues to outdo itself, with each passing quarter earning the new "best ever" superlative. While it's unlikely this surge will continue forever, it's fair to say the state of early stage venture on AngelList is as strong as it's ever been in terms of positive activity—from worst to first in a single year.

Venture Funding

Markups

2Q21 markup rates exceed previous record set in 1Q21





We looked at the 4,278 active startups that AngelList fund managers (also known as [general partners](), or “GPs”) had seasoned investments into at the start of the quarter. Based on that data, 2Q21 could be considered the new “best quarter ever” for early stage venture capital, with a new record positive activity rate (markups and positive exits) based on price-per-share valuation change.

10% of startups in our portfolio did a priced equity round at a markup in 2Q21. At the same time, just over **1%** of startups were marked down or exited at a loss relative to their last fundraise.

Overall, of the startups in our portfolio that raised or exited in 2Q21, **90%** of their activity was positive (markups and positive exits).

**Note that the first chart on Page 4 represents what has happened to every active, “seasoned” company (“seasoned” meaning that we track an investment in the company that is at least 180 days old) over a trailing three-month window.*

In both the charts on Page 4, time goes left to right, so the most recent activity is closest to the right-hand side of the plot. The top plot is a split between good events (Markups and Exit Ups), which are in shades of yellow and are on the positive side of the top plot, and bad events (Markdowns and Exit Downs), which are in shades of purple and are on the negative side of the top plot.

The dotted line in the top chart is the median outcome—when it’s positive, the typical startup event that we observed was positive. The bottom plot tracks activity rates overall and exit rates specifically.

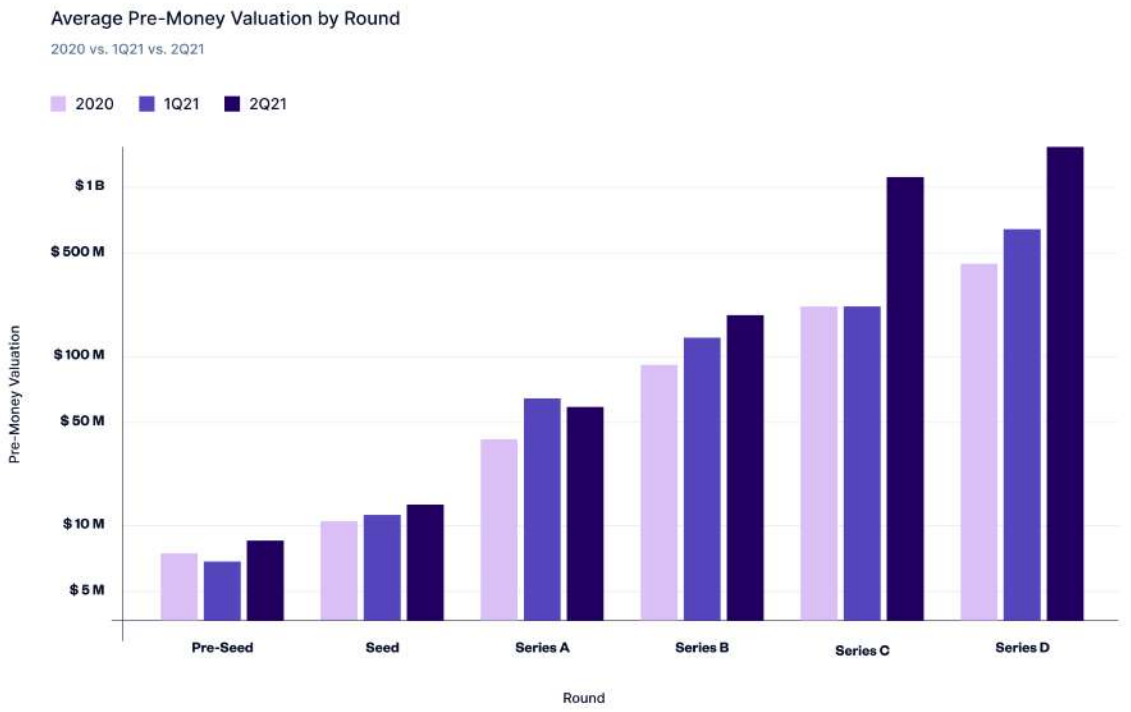
Since we generally only update valuations at priced rounds, at any given three-month stretch, perhaps only 10% of companies will show a change in value. As AngelList skews towards earlier investments, we estimate that about three-quarters of the companies we track are at the Seed or Series A stage.

In terms of activity rate, the past 12 months represent the largest “rally” we’ve ever observed. Nearly **12%** of the startups in our portfolio raised a priced equity round in 2Q21, compared to just over **7%** one year ago.

The number of deals getting done—and the generally positive nature of those deals—indicates a startup environment that is, and continues to be, favorable to founders looking to raise capital.

Valuations

Valuations continue to rise



High rates of markups mean increasing valuations—and that’s what we saw in 2Q21. After a strong 1Q21, pre-money valuations continued to climb on AngelList at nearly every stage of the startup lifecycle. Average pre-seed valuations jumped **26%** over 1Q21 and exceeded the 2020 average. At the seed stage, valuations jumped nearly **14%** over the previous high set in 1Q21.

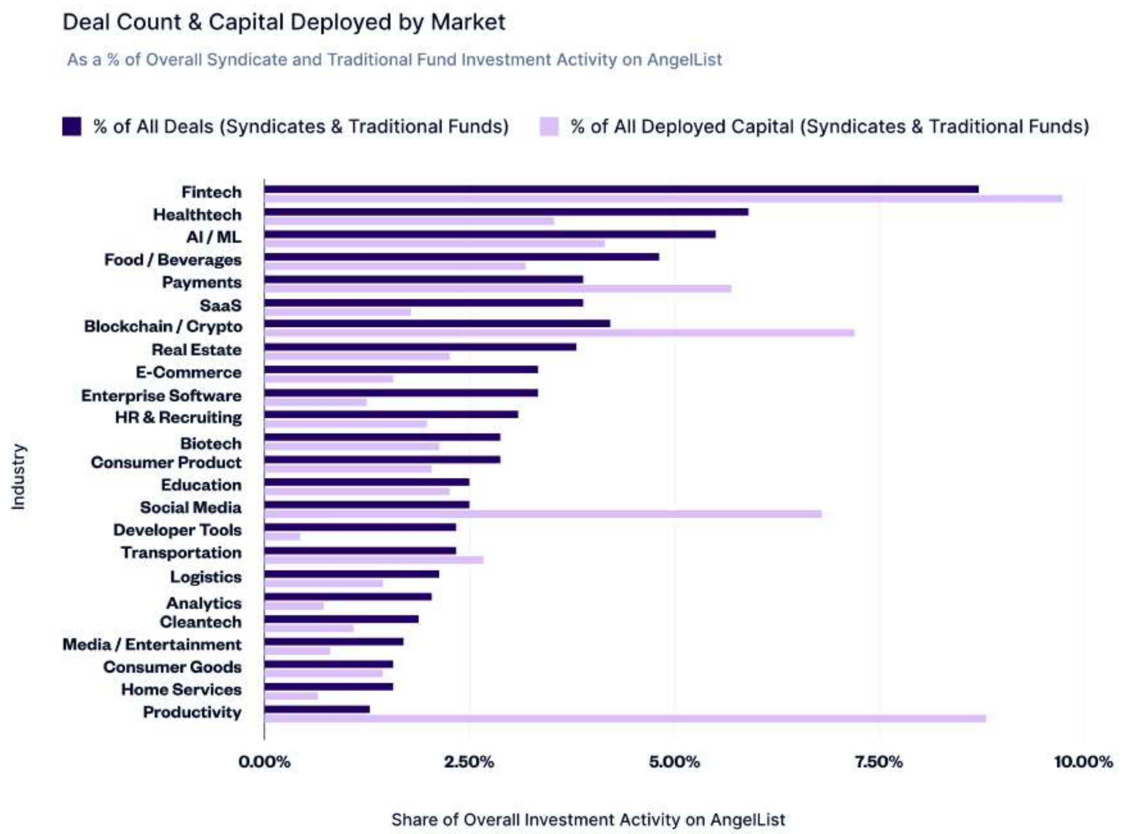
While average Series A valuations saw a slight dip in 1Q21 (coinciding with a smaller amount of Series A deals relative to the previous quarter), average pre-money valuations at Series B, Series C, and Series D all saw significant gains (**28%**, **73%**, and **56%**, respectively).

Though a small number of large deals can skew these averages, the results align with broader trends we see in the VC market: an explosion of funds competing with each other at the early stage and driving up valuations.

The waning of the COVID-19 pandemic and the accompanying economic surge has kept investors bullish on early stage VC—and founders are reaping the benefits.

Early Stage VC by Market

Fintech and healthtech continue to see the most investor interest



Fintech and healthtech continue to attract high levels of deal volume and capital, as they do each quarter on AngelList. Roughly **8.67%** of all deals and **9.60%** of all capital deployed on AngelList in 2Q21 went to fintech companies (compared to **6.99%** and **5.35%** in 1Q21).

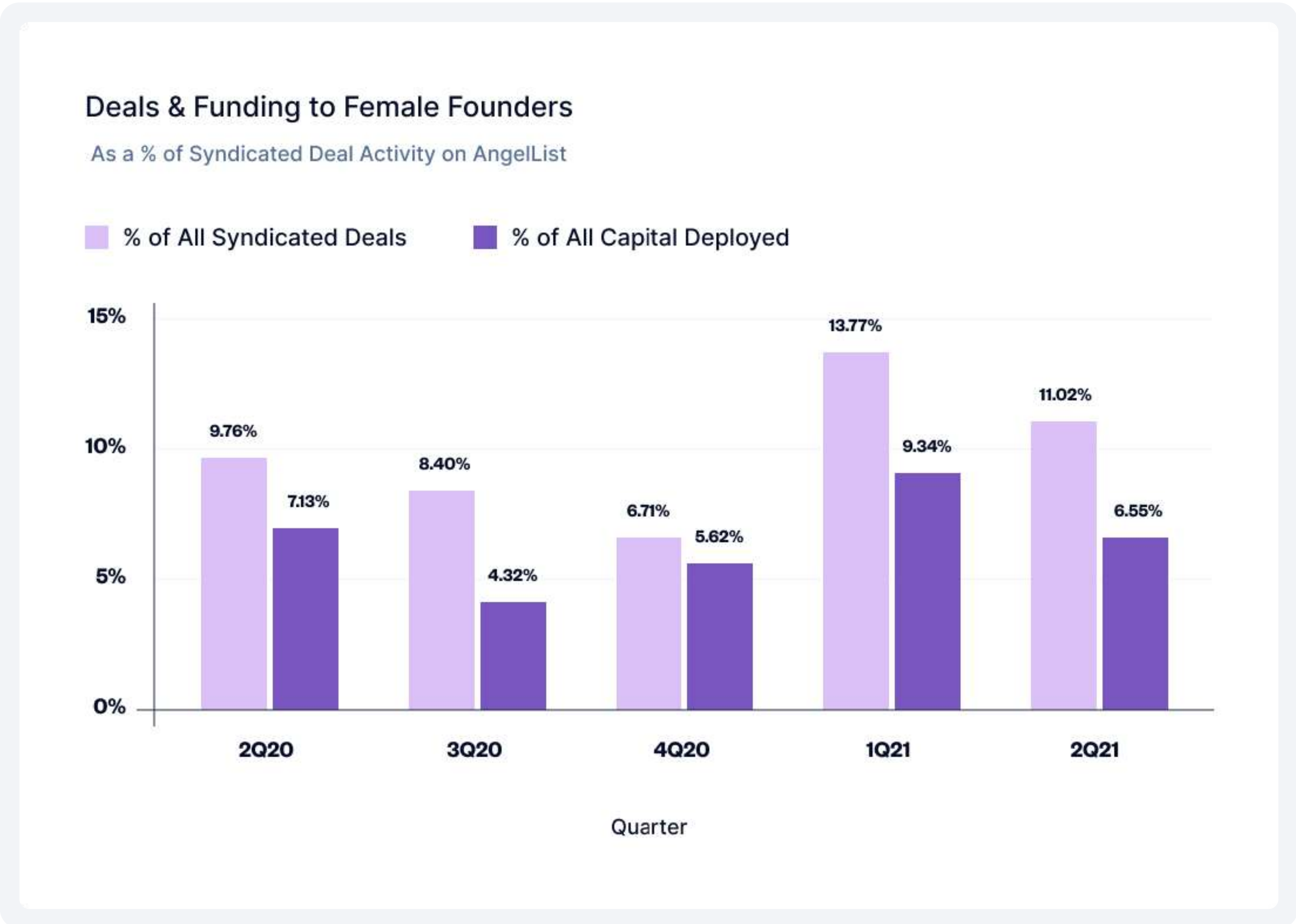
Healthtech saw the second-highest amount of deal share in 2Q21 at **5.86%**—although, only **3.55%** of capital deployed on AngelList in 2Q21 went to healthtech companies (compared to **4.67%** in 1Q21).

The largest dropoff in deal volume and capital deployed happened in SaaS, which captured just **3.83%** of deal share and **1.75%** of capital deployed on AngelList in 2Q21 (compared to **7.53%** and **9.64%**, respectively, in 1Q21). Biotech investing also saw a steep decline over the previous quarter (**-3.52%** in deal share, **-5.85%** in capital deployed).

Sectors that received an outsized amount of capital deployed relative to deal share included payments tech (**5.72%** of capital deployed), blockchain / crypto (**7.06%**), social media (**6.73%**), and productivity tools (**8.70%**).

Funding to Female Founders

A dropoff after a promising 1Q21



Although there had been some positive gains in the years leading up to the pandemic, female founders experienced an outsized negative impact relative to male founders in venture funding in the first half of 2020.

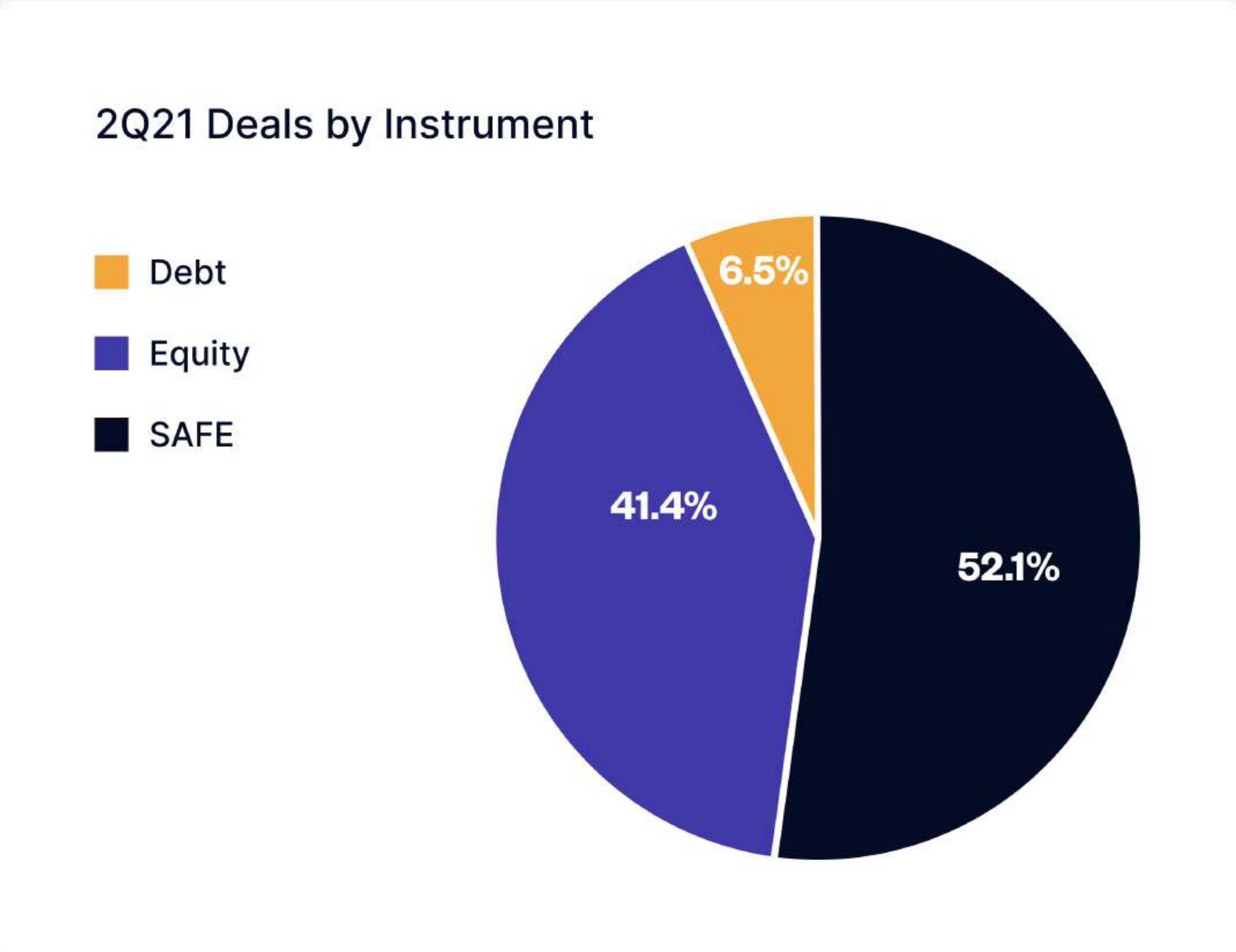
The tide appeared to be turning in 1Q21, with record highs in both syndicated deal share and capital deployed to female founders on AngelList.

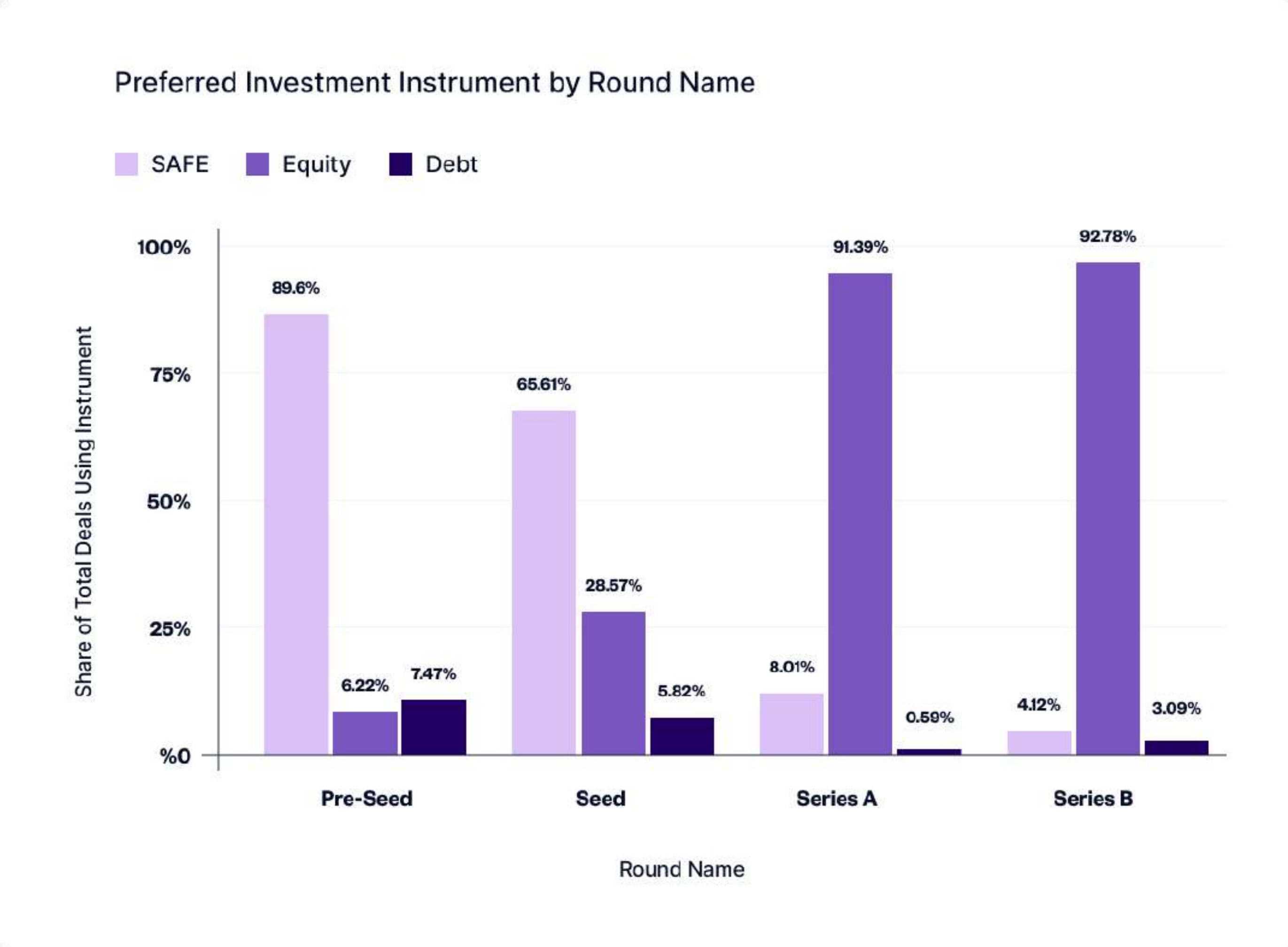
However, 2Q21 represented a comedown of sorts, with deal share decreasing by **2.75%** and capital deployed decreasing by **2.79%**.

Deal share and capital deployed to female founders in 2Q21 still mostly exceeded the highs of 2020. Furthermore, deal share and capital deployed to female founders on AngelList is greater than the 2020 industry-wide average.

Deals by Instrument

Fewer SAFEs, more equity rounds on AngelList



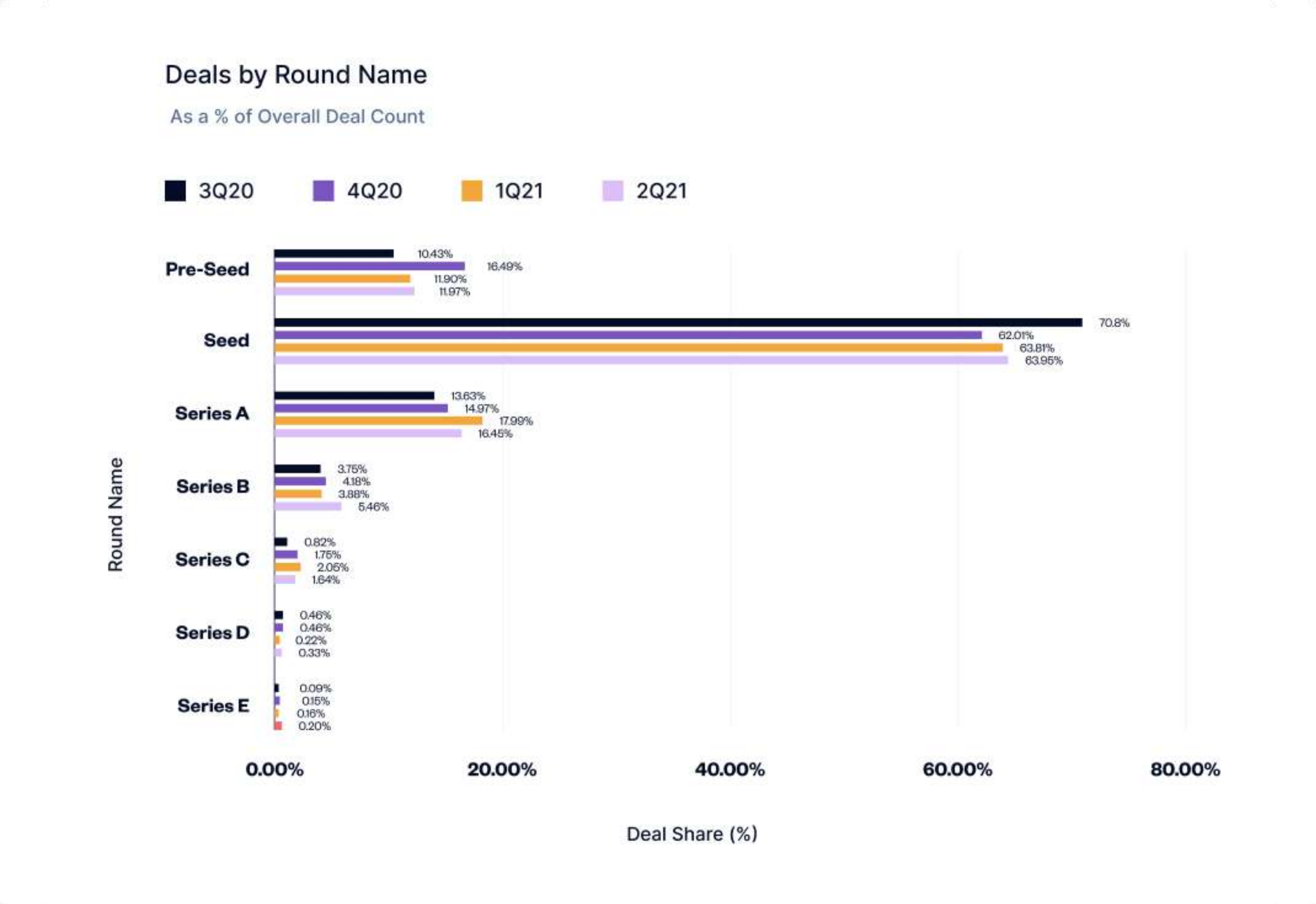


Relative to last quarter, we're seeing more priced equity rounds and fewer SAFE and debt rounds getting done on AngelList. SAFE rounds decreased by **5.6%** in 2Q21, while equity rounds increased by **7.1%** (debt rounds also decreased by **1.5%**).

While SAFEs remain the dominant form of financing at early stage on AngelList, there was a **6%** increase in priced equity seed rounds and nearly **2%** increase in priced equity pre-seed rounds in 2Q21. The increase in priced equity rounds on AngelList indicates that valuations are being tied to more early stage deals.

Deal Count by Round Name

More Series B deals



We reported last quarter that an increasing portion of deals on AngelList are happening at the later stages. This remained true in 2Q21.

While deal share at Series A and C dipped slightly, Series B deal share increased by **1.58%**—the largest quarter-over-quarter change of any round.

Startup Spend

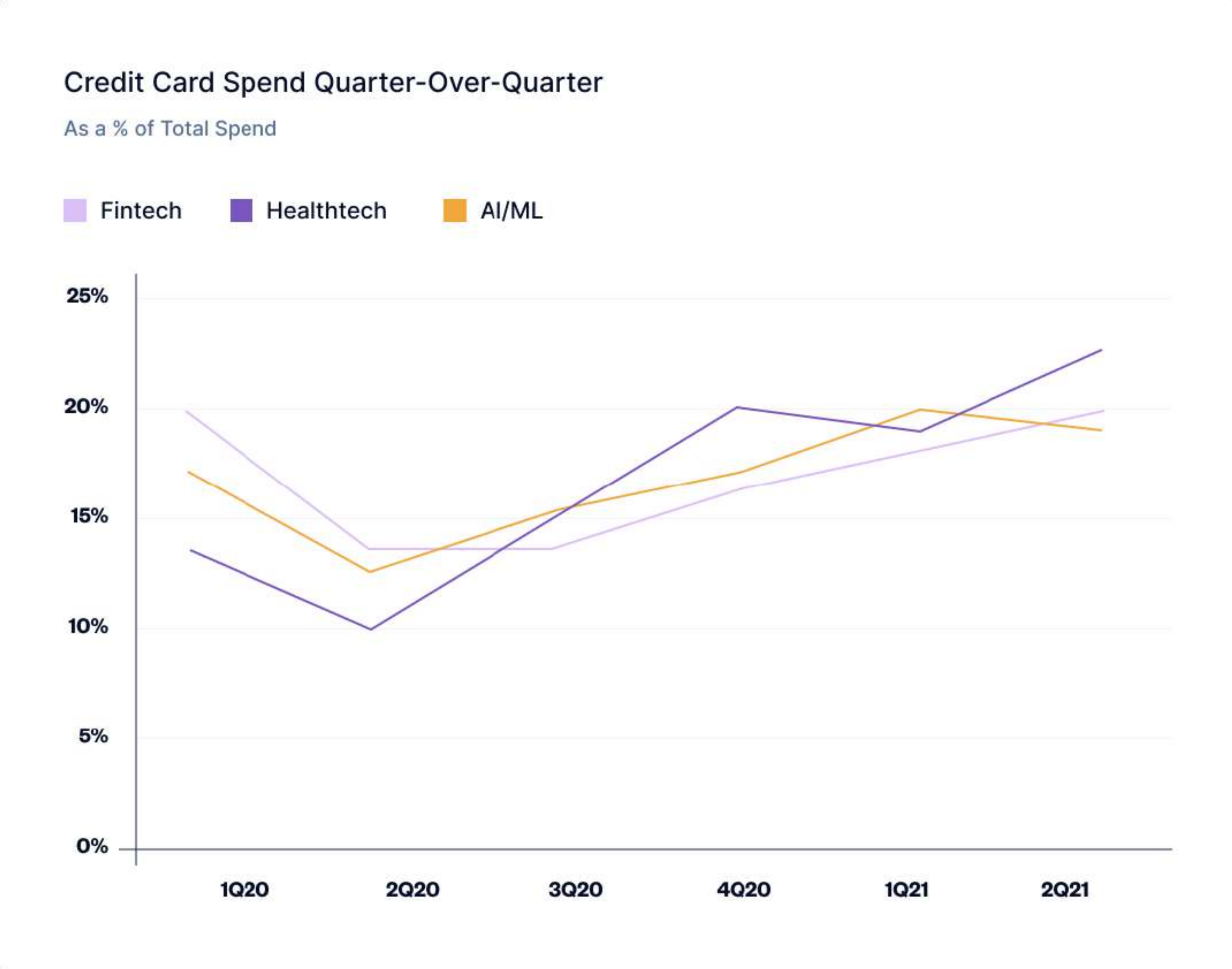
To get an understanding of how startups were spending money in 2Q21, we looked into the spending behavior of startups in the three most active sectors on AngelList by deal volume (fintech, healthtech, and artificial intelligence / machine learning).

Together, these sectors comprised roughly **20%** of all deal activity on AngelList.

From there, we used Silicon Valley Bank's proprietary data to understand the credit card spending activity of startups in those sectors.

Overall Credit Card Spend

A return to pre-pandemic levels

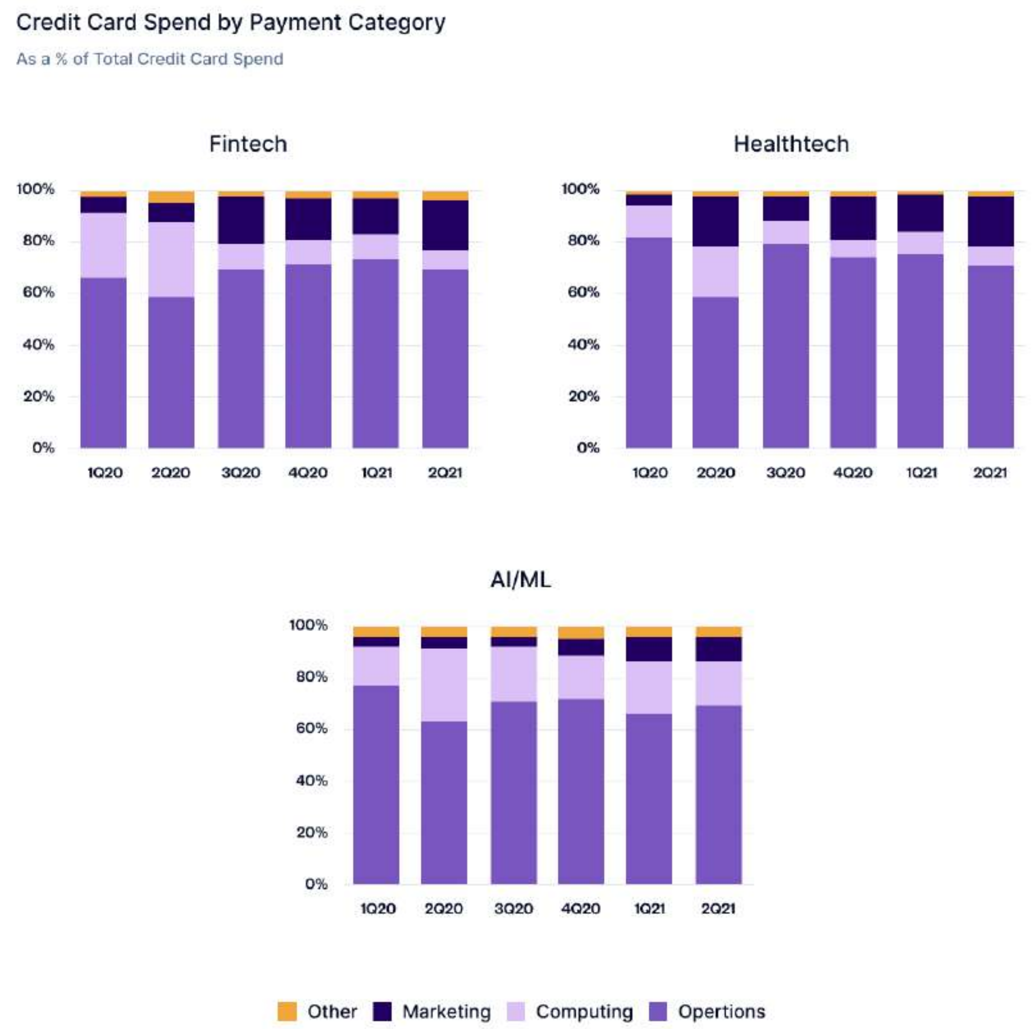


Overall credit card spend as a percent of total spend has fully rebounded after plummeting at the beginning of the pandemic. Healthtech spend has increased the most since hitting its 2Q20 lows.

Artificial intelligence / machine learning (AI/ML) also exceeded pre-pandemic levels, although dipped slightly in 2Q21. Fintech spending has only just recovered to its pre-pandemic levels.

Credit Card Spend by Business Function

Startups spending big on marketing



In 2Q20 we saw companies slash marketing and operating budgets to conserve cash while increasing computing spend to facilitate remote work. A year later, marketing spend has come roaring back—in many cases exceeding its pre-pandemic levels.

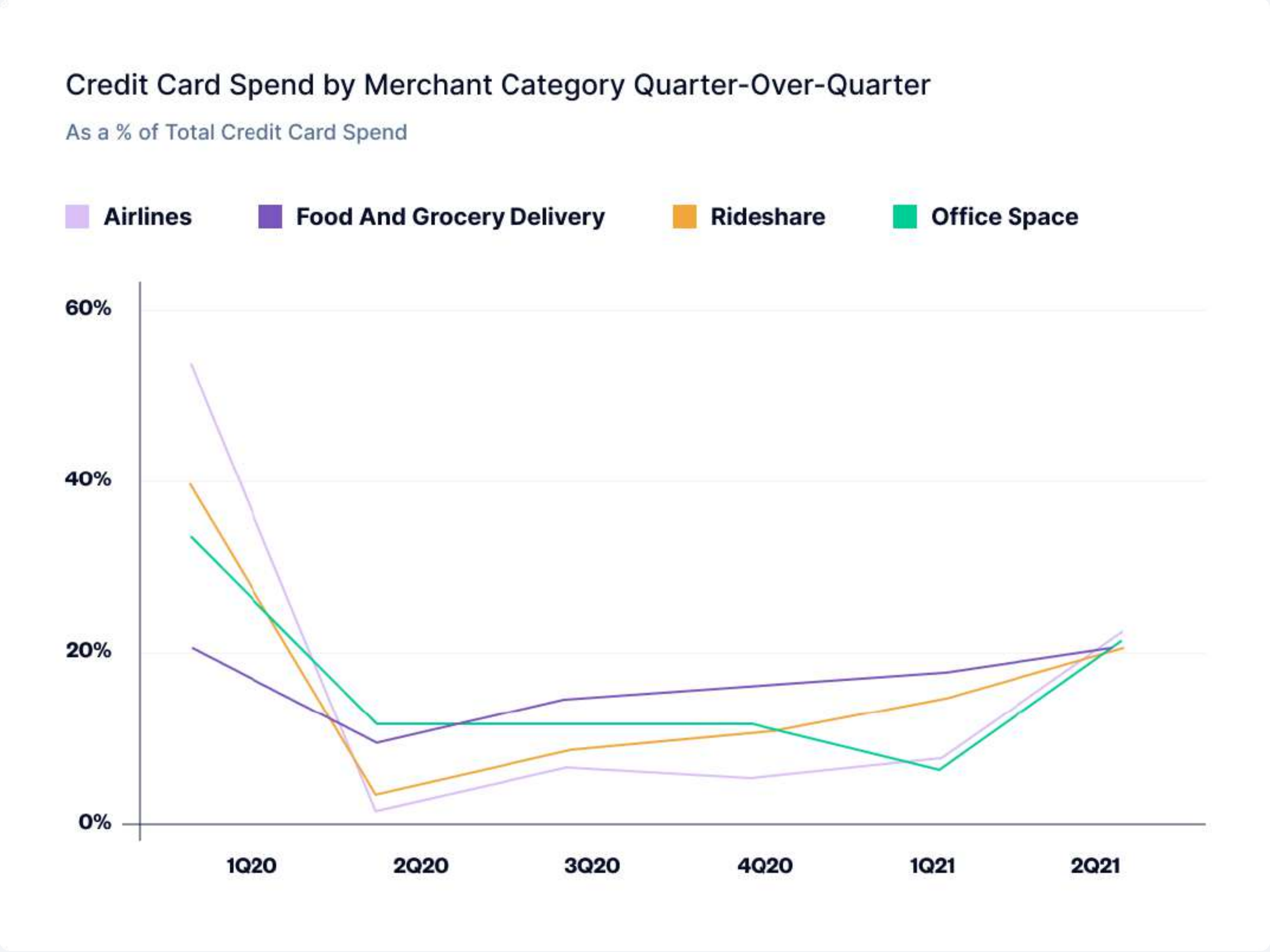
By sector, early stage fintech companies increasingly spent on targeted ads (Facebook and Google) as a way to reach consumers that sought out digital banking and payments services during the pandemic.

In healthtech, marketing spend tripled from **5%** in 1Q20 to **20%** in 2Q21 thanks to increased competition in wearables and wellness technologies.

AI/ML saw a more modest increase in marketing spend in 2Q21.

Credit Card Spend by Merchant Category

An increase in spending on travel and office space

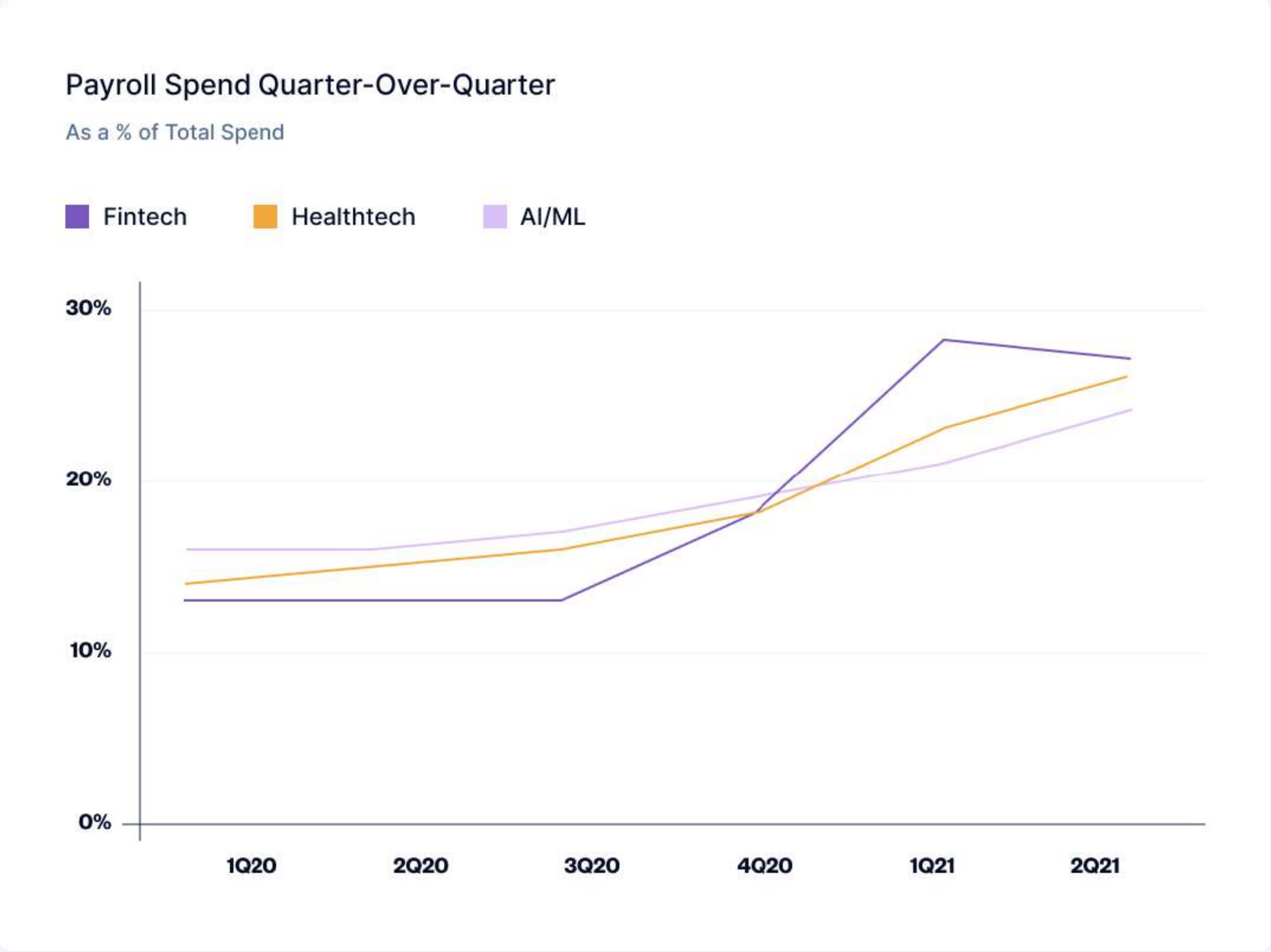


Across the three sectors measured, there's been a slow but steady rebound in travel and office space spending—although neither has come close to returning to pre-pandemic levels.

This indicates that many startups have opted to remain remote-first or switch to a hybrid model, at least for the time being.

Payroll Spend

A job-seeker's market



Payroll spend as a percentage of total spend continued to increase in 2Q21. Companies were looking for talent across all three sectors measured. Also observe that payroll spend didn't necessarily dip during the pandemic.

Startups in many sectors of the innovation economy found ways to weather the storm, be it through Paycheck Protection Program (PPP) loans, upticks in business, or by having adequate runway.

Startup Formation by Locale

Startups increasingly being formed outside of California and New York

2019 Startups

Rank	Region		Pct
1	California	–	39%
2	New York	NY	14%
3	Boston	MA	11.8%
4	Seattle	WA	6.5%
5	Chicago	IL	6.1%
6	Austin	TX	5.5%
7	Denver	CO	5.4%
8	Delaware	–	4.6%
9	Washington D.C.	–	4.0%
10	Miami	FL	3.8%
11	Atlanta	GA	3.3%
12	Dallas	TX	2.9%

2020 Startups

Rank	Region		Pct
1	California	–	41%
2	New York	NY	14%
3	Boston	MA	13.7%
4	Seattle	WA	7.9%
5	Delaware	-	5.8%
6	Chicago	IL	4.7%
7	Denver	CO	4.6%
8	Austin	TX	4.5%
9	Washington D.C.	–	4.5%
10	Miami	FL	4.1%
11	Portland	OR	3.4%
12	Atlanta	GA	2.9%

2021 Startups

Rank	Region		Pct
1	California	–	40%
2	New York	NY	14%
3	Boston	MA	13.9%
4	Seattle	WA	9.7%
5	Chicago	IL	7.3%
6	Miami	FL	5.0%
7	Austin	TX	4.2%
8	New Jersey	-	4.2%
9	Washington D.C.	–	3.9%
10	Portland	OR	3.1%
11	Denver	CO	2.7%
12	Delaware	–	2.7%

California and New York have been home to the greatest percentage of new startups over the past few years. However, new startups formed in California and New York (as a % of overall startups founded in the year measured) has shown little growth dating back to 2019.

Most of the new growth between 1Q19 and 2Q21 has come from Boston (**+2.8%**), Seattle (**+3.7%**), and Miami (**+1.2%**). Portland and New Jersey have also emerged as locales with burgeoning startup communities.

About Silicon Valley Bank

Silicon Valley Bank is the leading bank in the innovation economy. For more than 35 years, SVB has helped innovators and their investors move bold ideas forward fast. Today, we provide a range of banking services to companies, investors, and individuals across all stages in innovation centers around the world. SVB supported approximately 50% of all venture-capital backed tech and life science companies in the U.S. and 68% of U.S. venture-backed IPOs in 2020.

Whether you are just getting started as a founder with an idea, raising capital on AngelList, or driving towards your exit, SVB is here to support your journey. Check out more SVB insights designed to help founders on their startup journey.

About AngelList

AngelList provides investors with the infrastructure they need to invest in world-changing startups. As of this writing, we support over $3B assets under management. In 2020, we participated in more than half of top-tier U.S. early stage venture deals. Our data and access gives us a nearly unrivaled view into early stage venture activity. That means we can report with more accuracy on market-wide trends within the startup ecosystem.

About Harmonic

Harmonic is a startup on a mission to make innovation open to anyone, anywhere. Harmonic's data platform is used by teams like Brex, Sequoia, Index, Craft Ventures, MongoDB, Bain, and Bloomberg to discover and monitor the world's fastest-growing companies.

About the Authors

Abe Othman

Abe Othman is the Head of Data Science at AngelList, where he leads a small team creating the new field of quantitative venture capital. He has founded two machine-learning companies with successful exits and invested in more than a dozen seed-stage companies. He received his A.B. from Harvard in Applied Math and a Ph.D. in Computer Science from Carnegie Mellon.

Matthew Speiser

Matthew Speiser is the Head of Content at AngelList, where he writes about venture trends, startups, and technology. He has a B.A. in Journalism from the University of Delaware.

Liz Cahill

Liz Cahill is a data analyst at Silicon Valley Bank, working at the crossroads of human / tech interaction. She has a B.S. in Finance from Drexel University.

Lewis Hower

Lewis Hower is a Managing Director on the Startup Banking Team at SVB.
Lewis has spent the past two decades working to research, develop, and invest in innovation at the intersection of rapid business growth, large markets, and massive global challenges. Through various stints as a founder, investor, and educator, he has been at the bleeding edge of innovative investments that are changing the world.

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All data referenced in this material is current as of 7/1/21, unless otherwise mentioned. Data includes information that may be reported to AngelList by various third-parties. While we have no reason to doubt the authenticity of the data, we may not undertake any additional steps to verify its accuracy. Charts and graphs provided within are for informational purposes solely and should not be relied upon when making any investment decision. Past performance is not indicative of future results. The content speaks only as of the date indicated. We undertake no obligations to update the content in the future.

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Investing in venture capital funds is inherently risky and illiquid. It involves a high degree of risk and is suitable only for sophisticated and qualified investors.

SVB is an independent third party and is not affiliated with AngelList Venture.

Methodology

An AngelList "deal" is an investment made by a Traditional or Rolling Fund, Syndicate (SPV), or Roll Up Vehicle hosted on the AngelList platform. We define “early stage” deals as deals that occur at Series A or prior. We include all deals signed in the relevant quarter, indicating a legal commitment to invest. We make no guarantee that these deals were finalized in the quarter, or ever. All deals are labeled by round and sector according to the best judgement of the deal lead, with potential oversight from the AngelList investment operations team.

Valuations are generally marked to a company's latest priced financing round, as disclosed to AngelList. While AngelList's valuation sources are believed to be reliable, AngelList does not undertake to verify the accuracy of such valuations. Companies that have not received new investments in a priced round since the last mark are held at cost or may be marked down at AngelList's discretion according to its valuation policy.

Valuations and returns do not account for liquidation preferences and other non-financial terms that may affect returns. Investments in later-stage companies may be sent to a third-party for valuation if (i) the company's estimated value is over $100M, (ii) the investment is estimated to be worth over $10M and (iii) 24 months have passed since the last investment. Valuations presented herein are calculated as of the date disclosed and have not been audited by a third-party. Contact us for full details on our valuation methodologies.

This data represents deals signed by GPs on AngelList between 4/1/21 and 6/30/21.

Markups

Valuation changes plot: A deal is considered "seasoned" if it has been held for at least 180 days prior to the start of the quarter. A startup is considered as having a "seasoned" investment if it has at least one seasoned deal. A seasoned startup is considered "marked up (down)" if the most recent deal tracked by AngelList into that startup increased (decreased) in value. Rates are all expressed relative to the number of startups with seasoned investments at the start of the quarter (4,278). While efforts are taken to track valuation updates and exits in a timely manner, readers should expect small changes to historical values on the plots, reflecting valuation changes or exits that occurred during the quarter but were not registered on the platform by the end of the quarter.

Valuations

Valuations were determined by calculating the average pre-money valuation by round for all deals in that round for 2020, 1Q21, and 2Q21.

Market Sector

Deal share by market sector was calculated by adding up the total deal count for each deal that was part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of overall deal count in 2Q21.

Share of capital deployed by market sector was calculated by adding up the total capital deployed for all deals that were part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of the total capital deployed across all sectors in 2Q21.

Funding to Female Founders

Deal share of female founders was determined by adding up all syndicated deals to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of overall deal count in 2Q21.

Share of capital deployed to female founders was determined by adding up the total syndicated capital deployed to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of the total capital deployed on AngelList in 2Q21.

Deals by Instrument

Deals by instrument was determined by adding up all deals completed in 2Q21 that were assigned a specific instrument tag at deal close. This number was then expressed as a percentage of overall deal count in 2Q21.

Preferred investment instrument by round name was determined by adding up all deals assigned to a specific round in 2Q21 and assigned to a specific deal instrument tag at deal close. This number was then expressed as a percentage of the overall number of deals in that named round in 2Q21.

Deals by Round Name

Deals by round name was determined by adding up the total number of deals that were assigned to a specific round for 2Q21, 1Q21, and 2020 at deal close. This number was then expressed as a percentage of the overall deal count that took place within the measured time period.

Startup Spending

U.S.-based "Emerging Tech Companies." SVB analysis identifies technology or life science companies with no equity raised, seed stage, or early stage deals with equity less than $4M.

Credit Card Spend Overall

U.S.-based "Emerging Tech Companies" in sectors classified as Fintech, Healthtech, or AI/ML. Credit card spending was aggregated as a percent of total for the time period 1Q20 to 2Q21.

Credit Card Spend by Business Function

U.S.-based "Emerging Tech Companies" classified as Fintech, Healthtech, or AI/ML. SVB uses proprietary modeling to group credit card spend by business function. We focused on the categories marketing, computing, and operations. All other categories are grouped under "other." Spend by category was aggregated as a percent of total spend in a particular quarter.

Credit Card Spend by Merchant Category

U.S.-based "Emerging Tech Companies" in all sectors. Merchants are aggregated using proprietary SVB analysis.

Payroll Spend

SVB uses proprietary modeling to group merchants by payment category. For payroll we looked across all transaction types for U.S.-based "Emerging Tech Companies" in sectors classified as Fintech, Healthtech, or AI/ML. Payroll spending was aggregated as a percent of total spend for the time period 1Q20 to 2Q21.

Startup Formation by Locale

SVB proprietary analysis of Harmonic to compare vintages of company formation to see which metro areas have experienced the greatest growth in terms of startup formation:

- 2019 vintage – a.k.a. funded startups who were founded in 2019
- 2020 vintage – a.k.a. funded startups who were founded in 2020
- 2021 H1 vintage – a.k.a. funded startups who were founded in 2021

SVB proprietary analysis applies a growth rate to 2020 and the first half of 2021 vintage to normalize data.