

The NVCA logo is displayed in white lowercase letters on a teal square background. The background of the entire slide is a dimmed, grayscale photograph of a modern office with several people working at desks with computers.

**nvca**

# **Today's Venture Capital Landscape**

## **Bobby Franklin, President & CEO, NVCA**

# Agenda

- Introduction to National Venture Capital Association ([nvca.org](http://nvca.org)) & Venture Forward ([VentureForward.org](http://VentureForward.org))
  - Venture 101: A Refresher
  - US VC Shattering Records
  - What's Happening in Texas
- Public Policy Implications in Washington, DC

# Who We Are

The National Venture Capital Association (NVCA) empowers 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 is driving the human capital, culture, values, and narrative of venture capital to promote a strong and inclusive community that will fuel the economy of tomorrow.

Venture Forward's work revolves around four key areas of focus: diversity, equity & inclusion; education; research & data; and history.

Venture Forward is a 501(c)(3) non-profit and supporting organization to the National Venture Capital Association (NVCA).

## VC UNIVERSITY

LEARN THE NUTS & BOLTS OF VC!

StartUp@  
Berkeley Law

nvca

VENTURE  
FORWARD

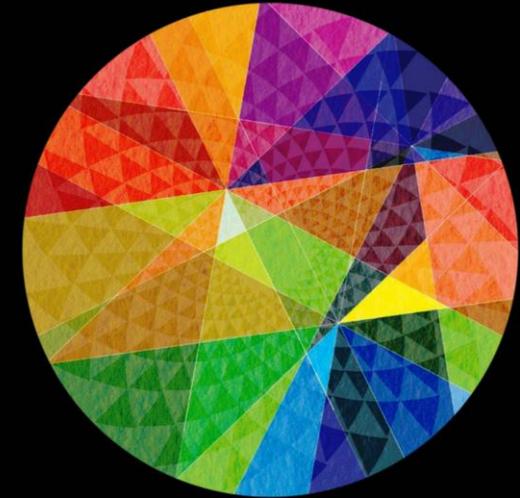
Deloitte.

VENTURE  
FORWARD

nvca

### VC Human Capital Survey

Third edition | March 2021



## LP Office Hours:

## Spotlight on Foundations & Endowments

November 16, 2021

10:00am-1:00pm PT

Virtual

VENTURE  
FORWARD

# NVCA & Venture Forward Team





# VC 101: A Refresher

# Venture Business



Founder



+

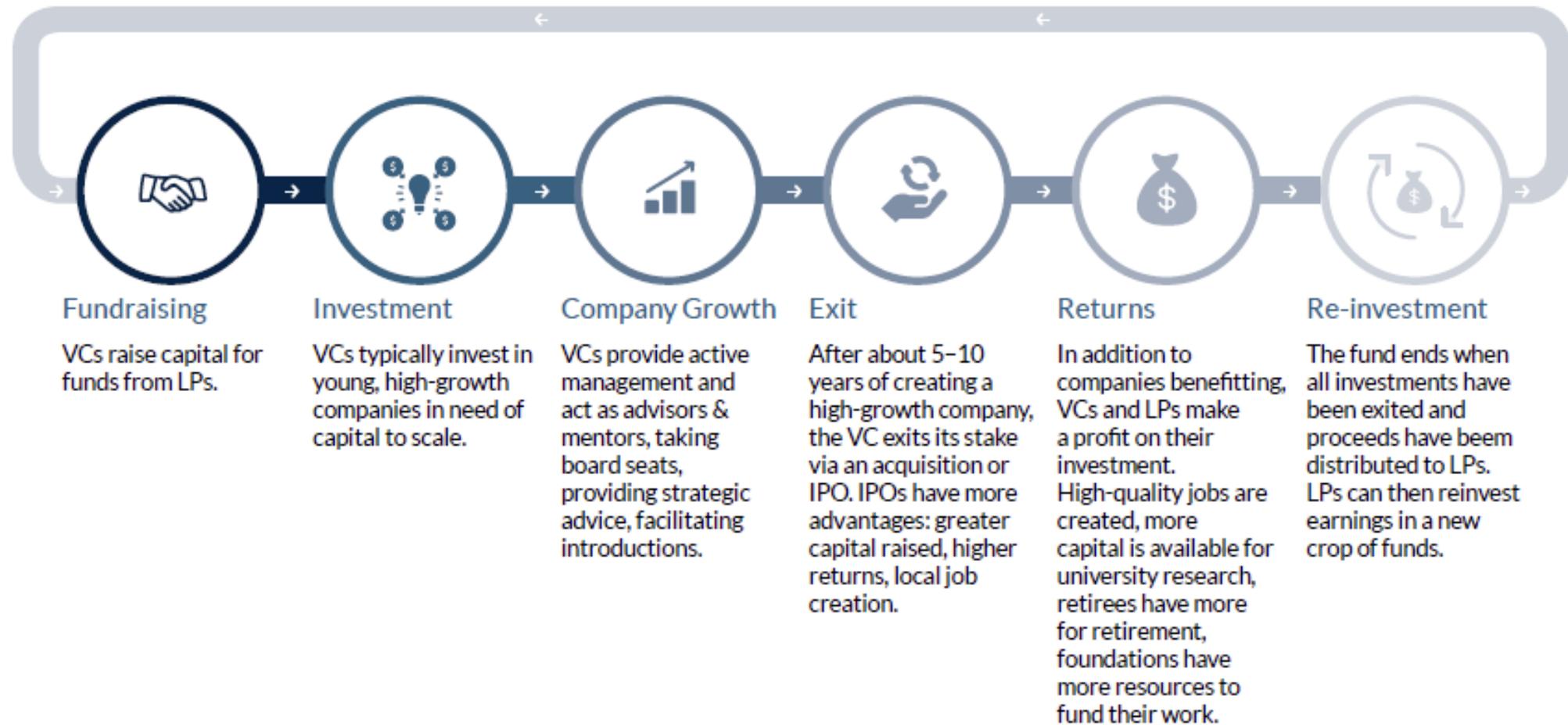
VC

=

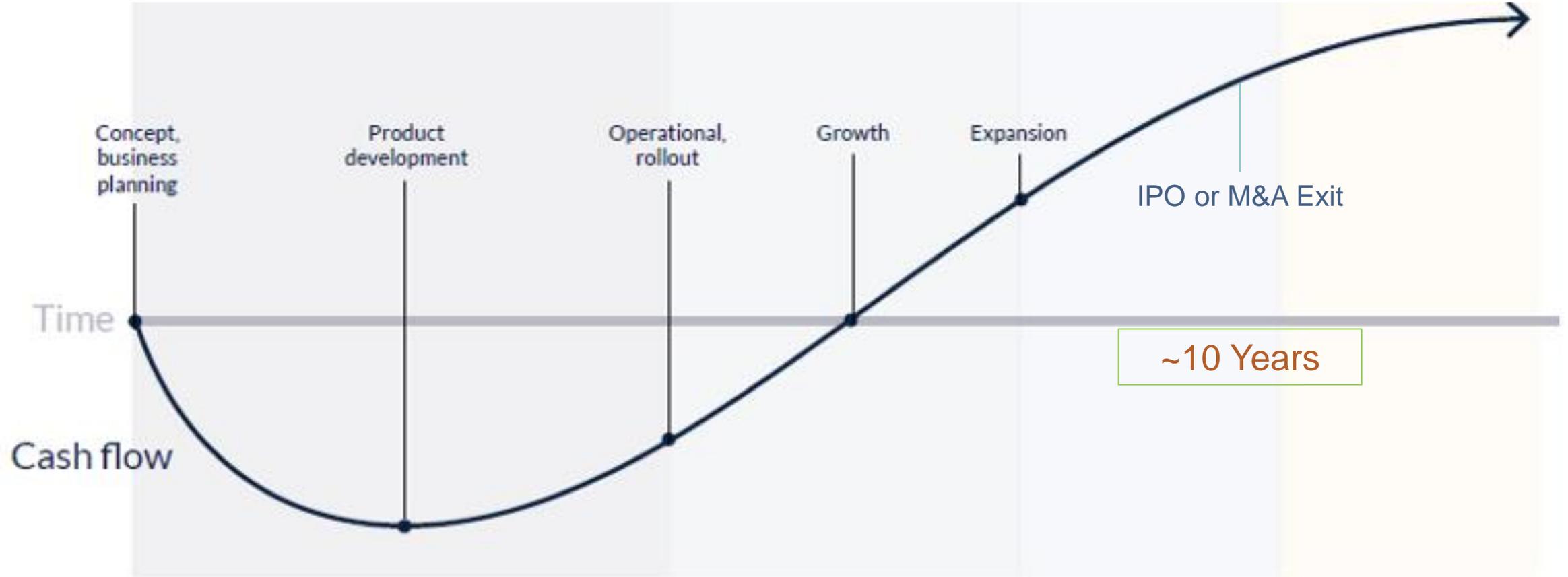


Growth

# Venture capital cycle

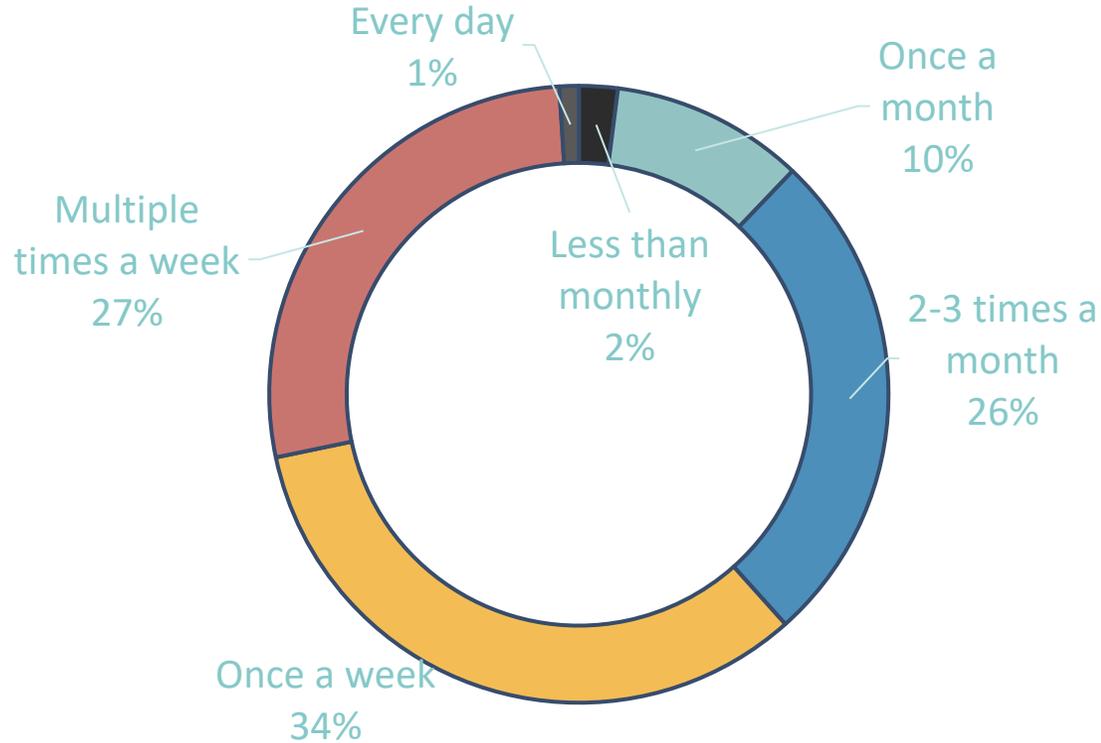


# Venture Capital Investment Path Is Long

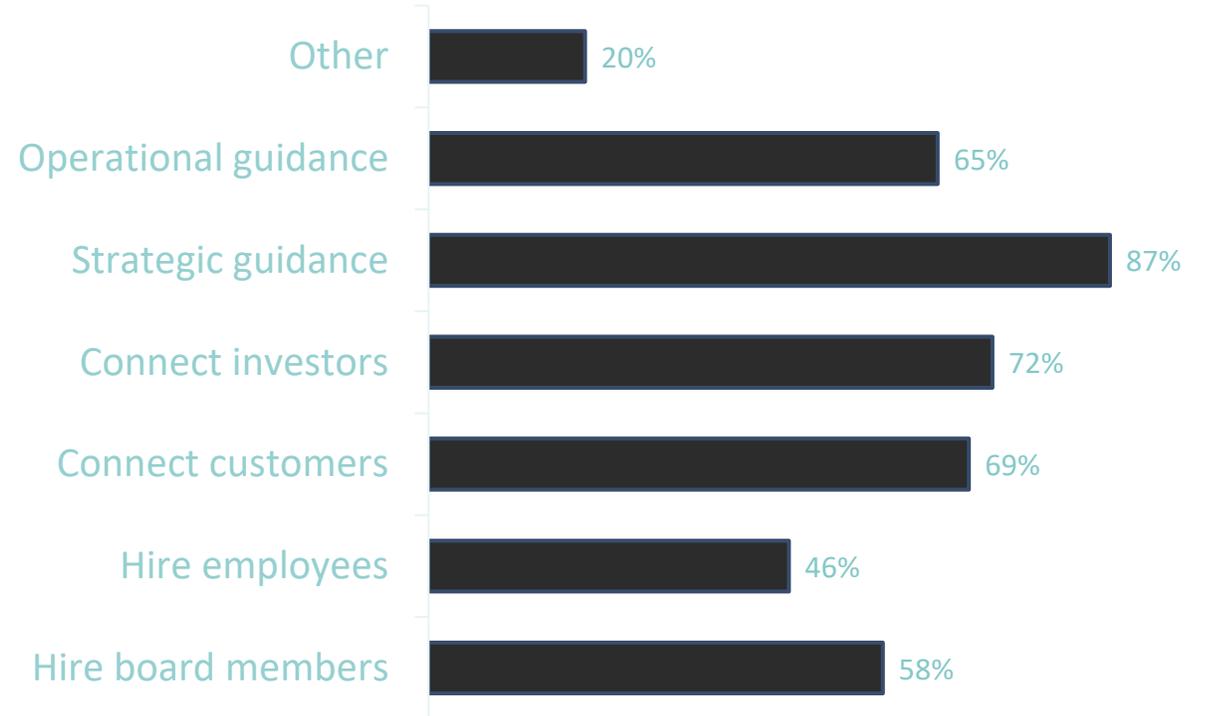


# VCs Work Actively With Companies

## Frequent VC contact with portfolio companies



## Advice VCs provide to portfolio companies



Source: Gompers, Paul A. and Gornall, Will and Kaplan, Steven N. and Strebulaev, Ilya A., How Do Venture Capitalists Make Decisions? (August 1, 2016). Stanford University Graduate School of Business Research Paper No. 16-33; European Corporate Governance Institute (ECGI) - Finance Working Paper No. 477/2016. Available at SSRN: <https://ssrn.com/abstract=2801385> or <http://dx.doi.org/10.2139/ssrn.2801385>

# Venture Capital Delivers Outsize LP Returns



Capital



Venture Fund



Capital Return

Returns support university research, worker retirement & philanthropies funded by foundations & endowments

# Help Build Companies from Scratch...





# VENTURE CAPITAL CREATES AND SUPPORTS **AMERICA'S** HIGH GROWTH COMPANIES

**Ilya A. Strebulaev**

Stanford University - Graduate School of Business;  
National Bureau of Economic Research

**Will Gornall**

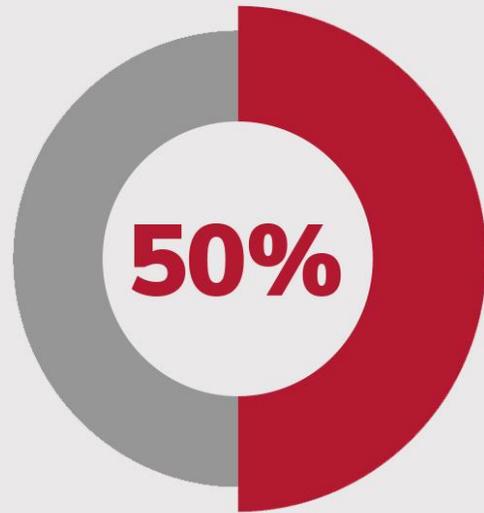
University of British Columbia (UBC)  
Sauder School of Business

**REPORT:**

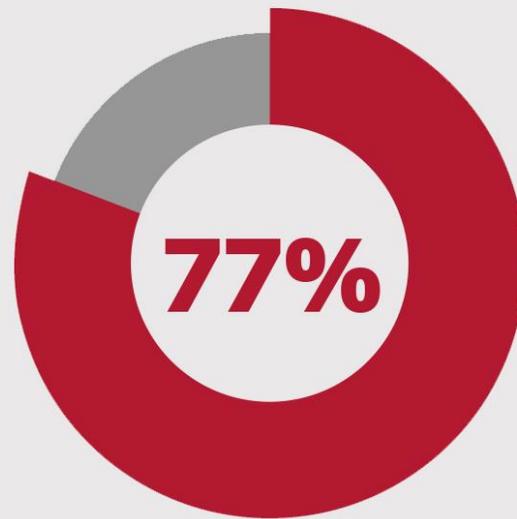
**The Economic Impact of Venture Capital:  
Evidence from Public Companies** (June 2021)

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2681841](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2681841)

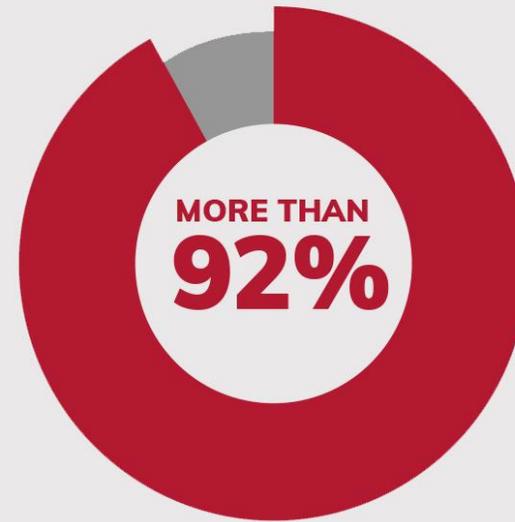
**AMONG COMPANIES FOUNDED WITHIN THE LAST 50 YEARS, VC-BACKED COMPANIES ACCOUNT FOR:**



**OF THE TOTAL NUMBER OF COMPANIES**



**OF TOTAL MARKET CAPITALIZATION**



**OF R&D SPENDING AND PATENT VALUE**



**OF TOTAL TAXES**

## REPORT HIGHLIGHTS

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# 46%

The R&D spending of VC-backed public companies is 46% of total U.S. R&D spending across government, academic, and private companies.

## REPORT HIGHLIGHTS

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# \$244 Billion

The amount spent on R&D from VC-backed public companies in 2020, up from essentially zero in the 1970s.

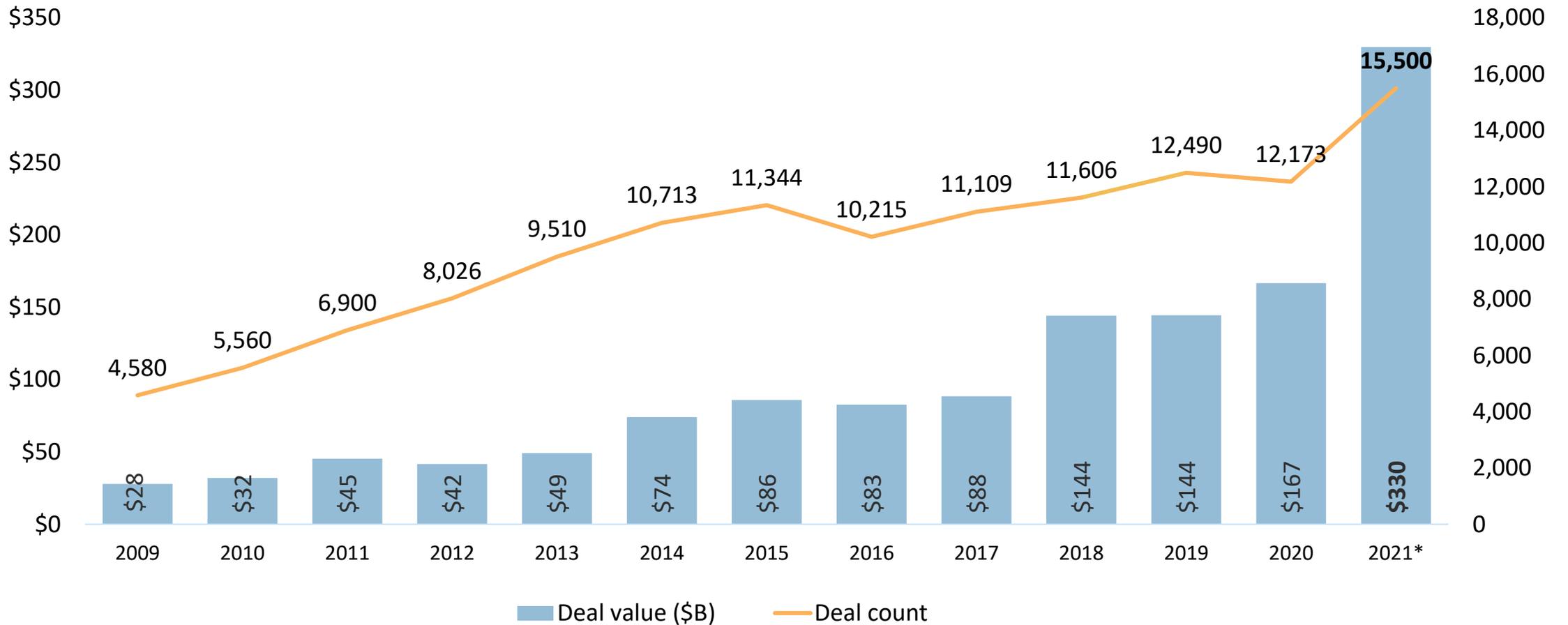


# US Venture Capital: 9 Record Breaking Data Points from 2021

1

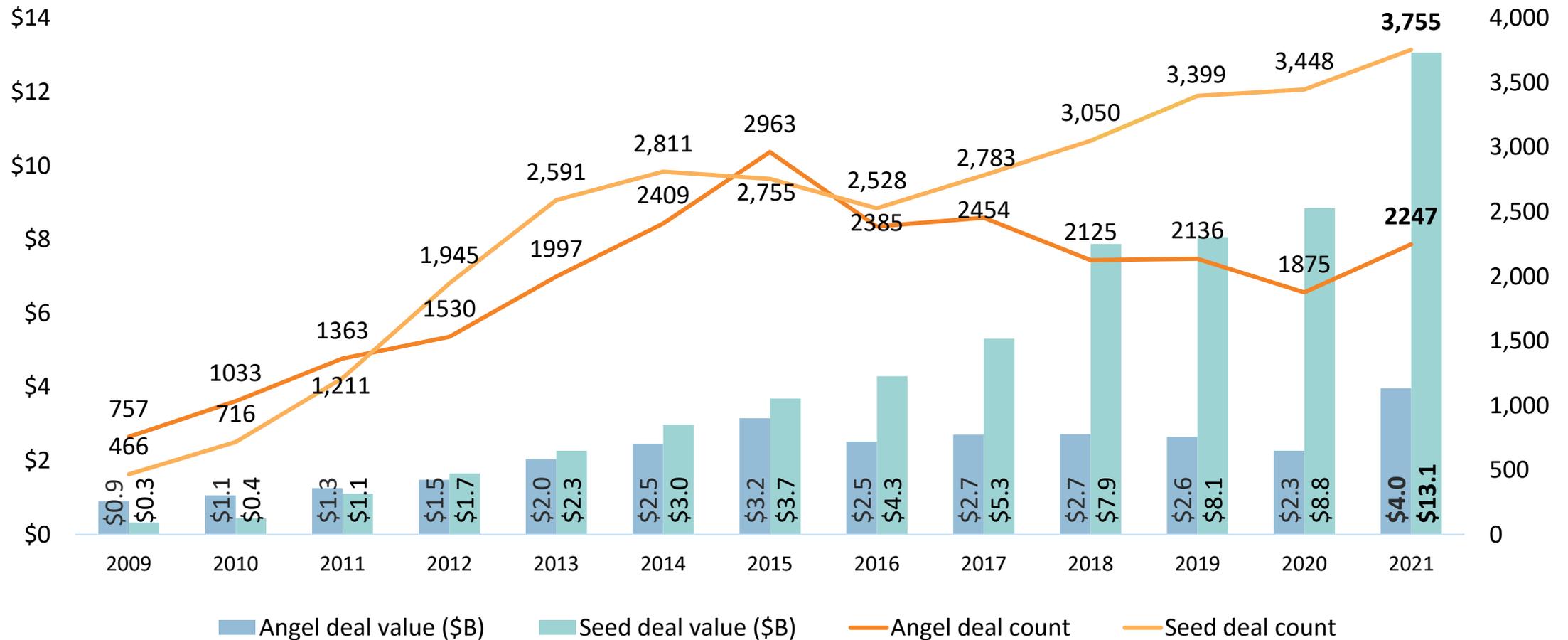
# VC deal activity in 2021 reached \$330 billion, nearly double last year's record

## US VC Investment Activity



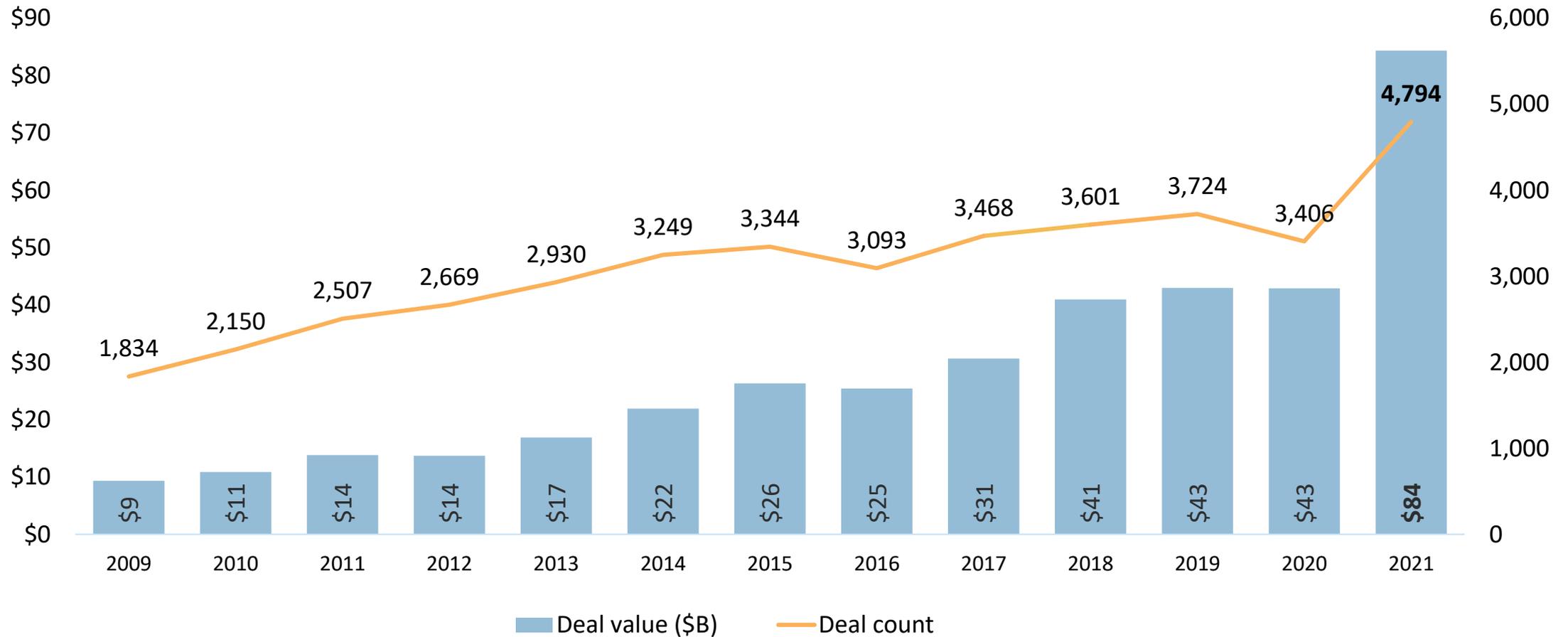
## Deal activity up across all stages: angel & seed

### US Angel & Seed Deal Activity



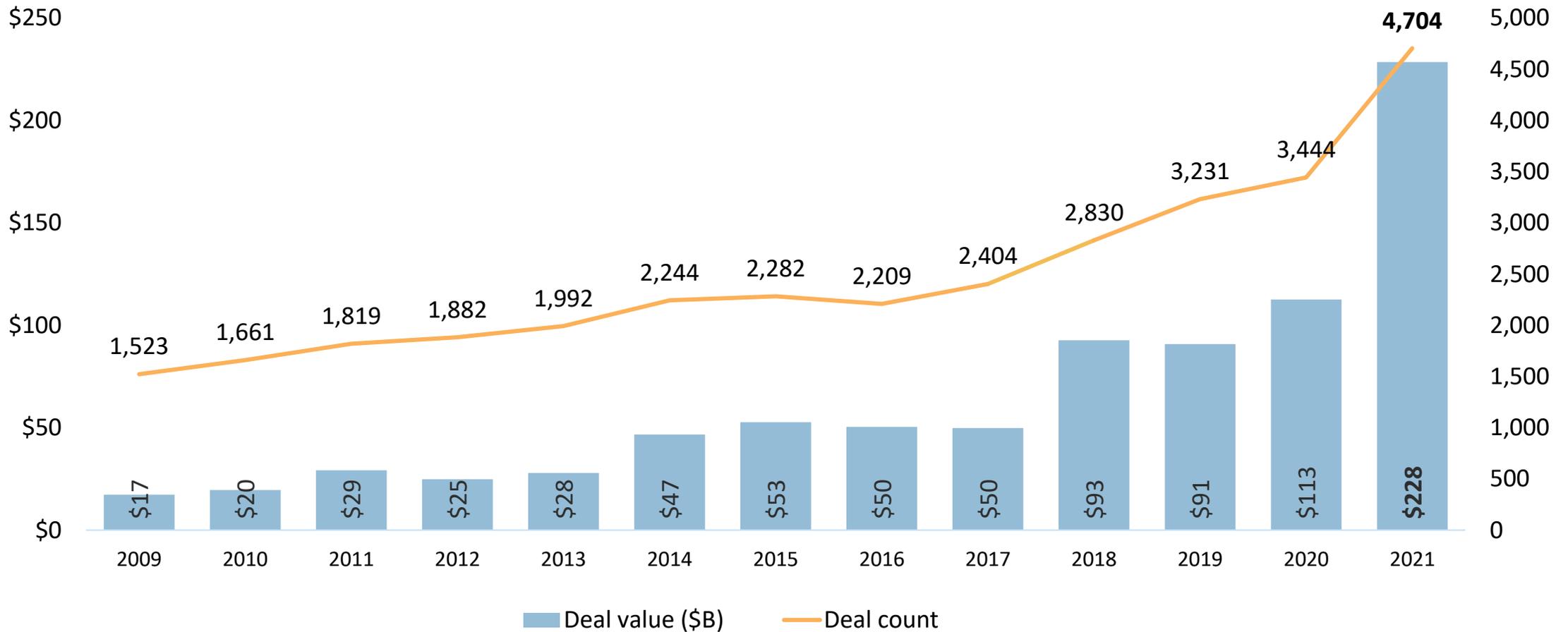
## Deal activity up across all stages: early stage

### US Early-Stage VC Deal Activity



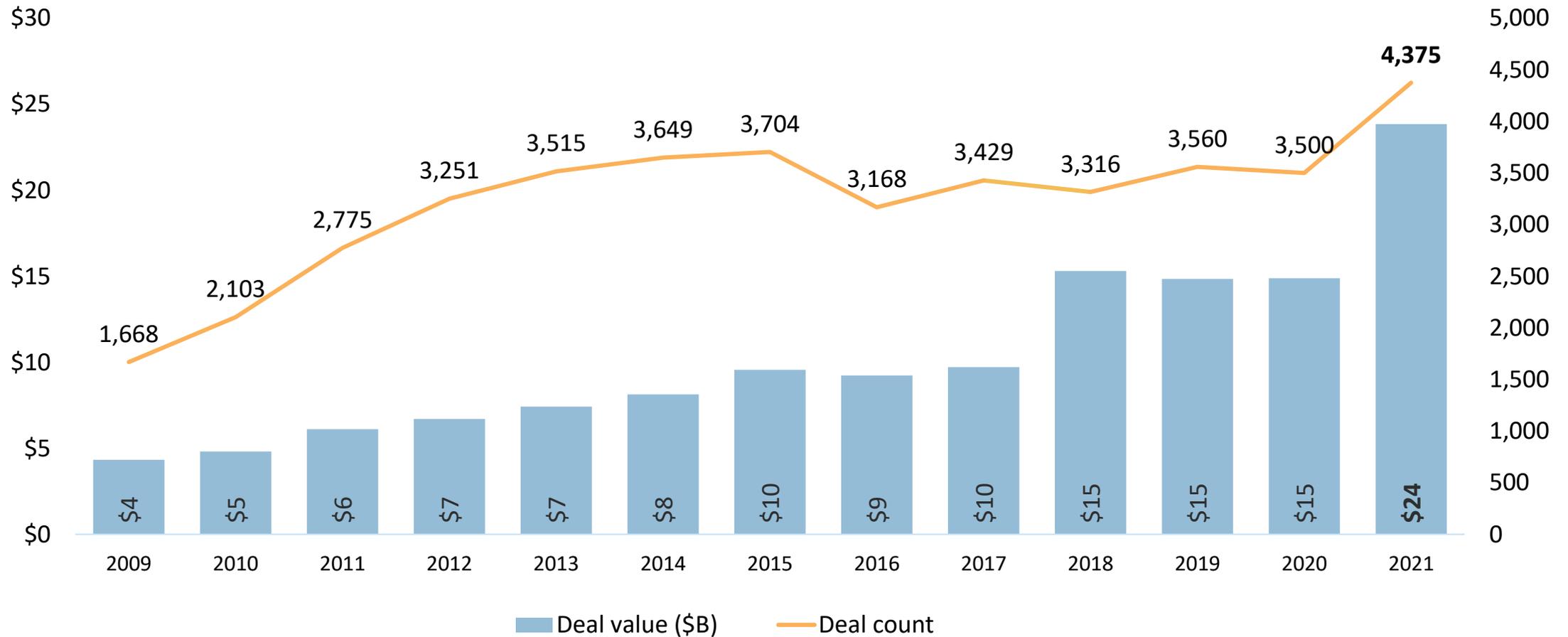
## Deal activity up across all stages: late stage

### US Late-Stage VC Deal Activity



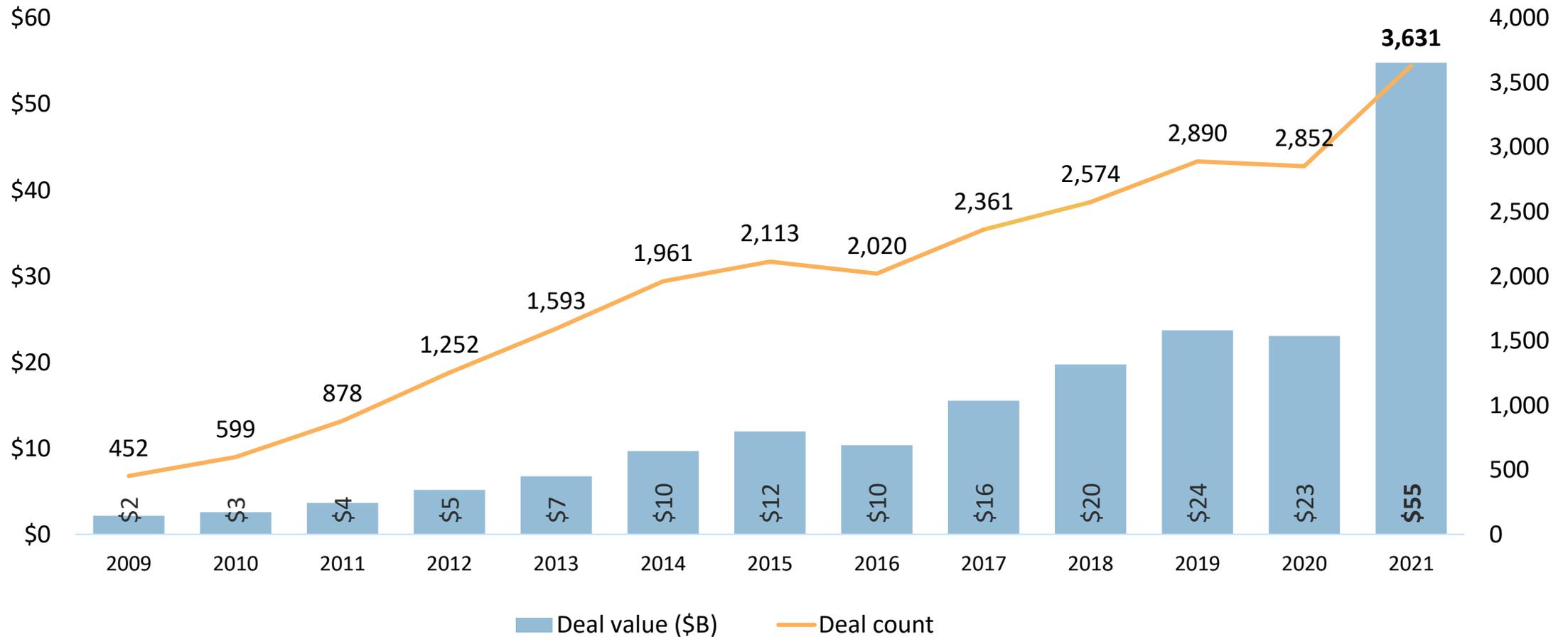
# First-time financings have surged to a record \$24 billion across more than 4,000 deals

## US First-Time Financing Activity



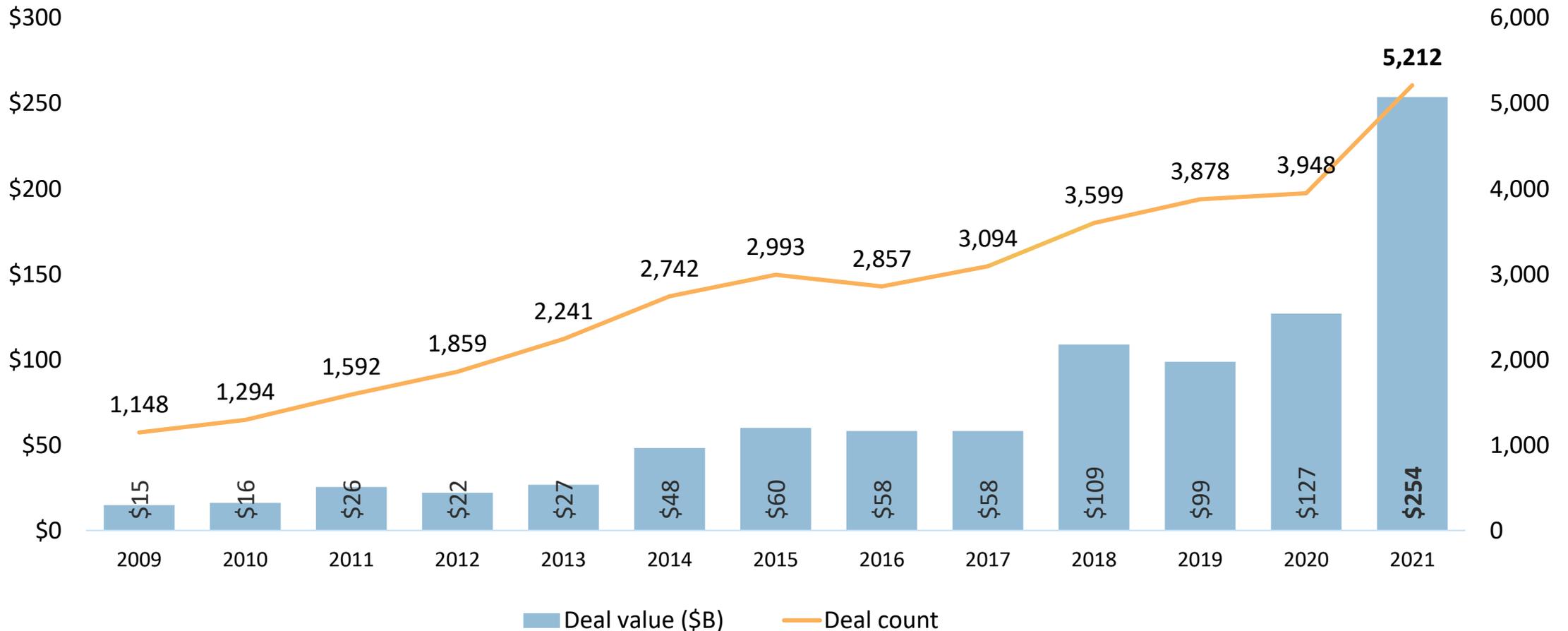
# Female-founded companies raised a record \$55 billion in capital in 2022

## US VC Deal Activity for Female-Founded Companies\*



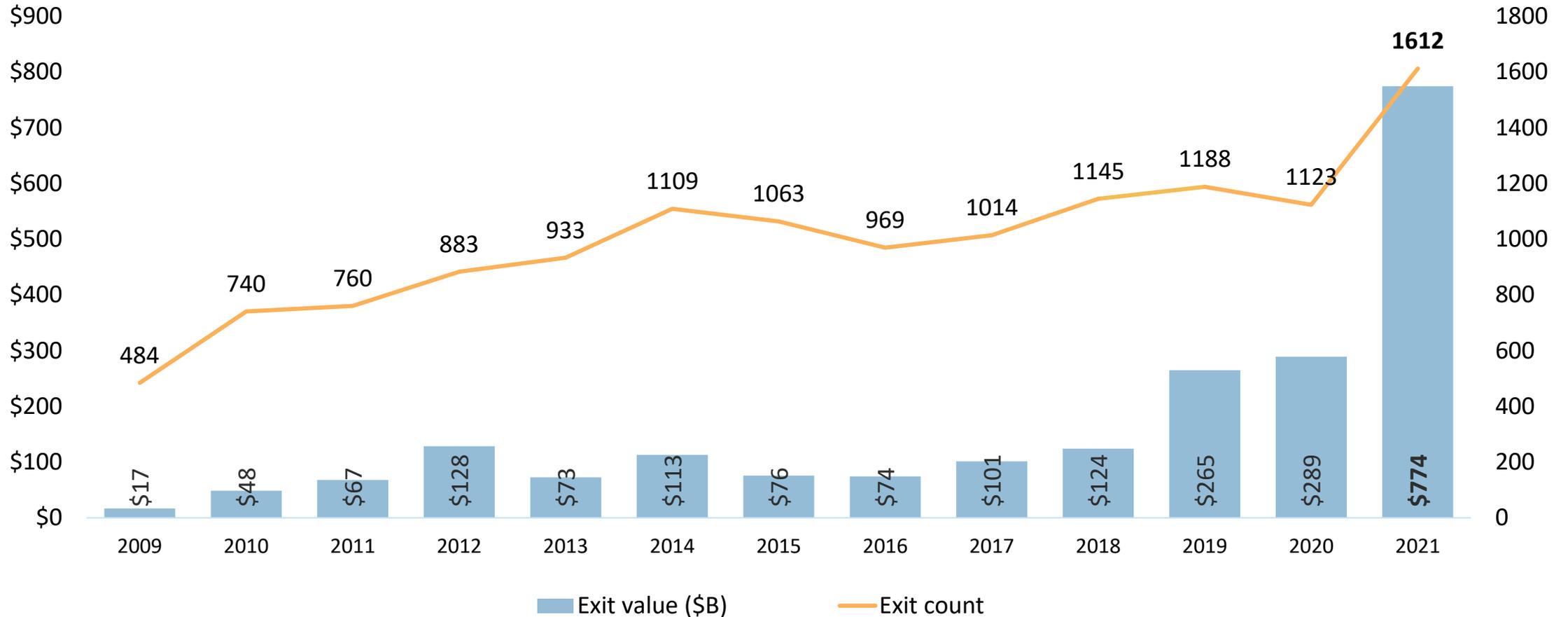
# Participation by nontraditional investors in VC space is changing the game

## US VC Deal Activity with Nontraditional VC Investor Participation



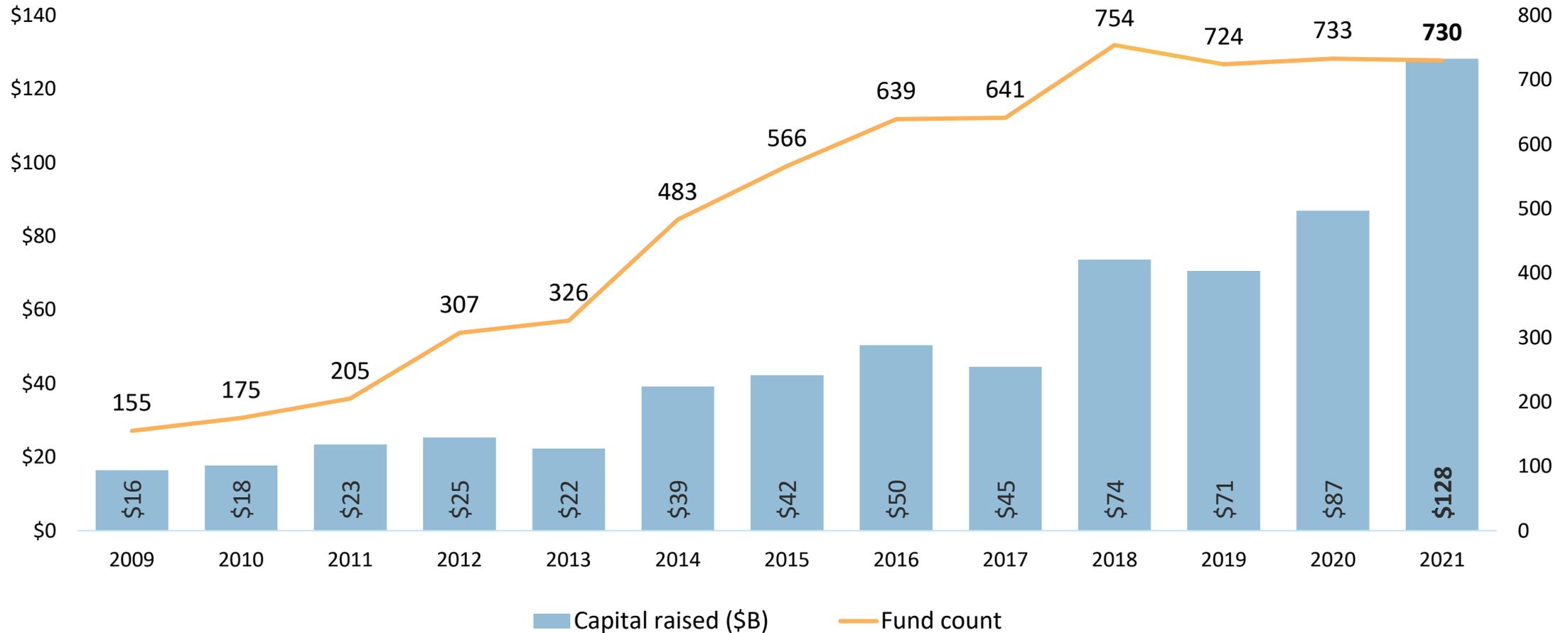
# Exit activity shattered previous record with \$774 billion in realized value

## Annual US VC Exit Activity



# Fundraising broke \$100 billion for first time ever in 2022, demonstrating LPs still have plenty appetite for VC

## US VC Fundraising Activity



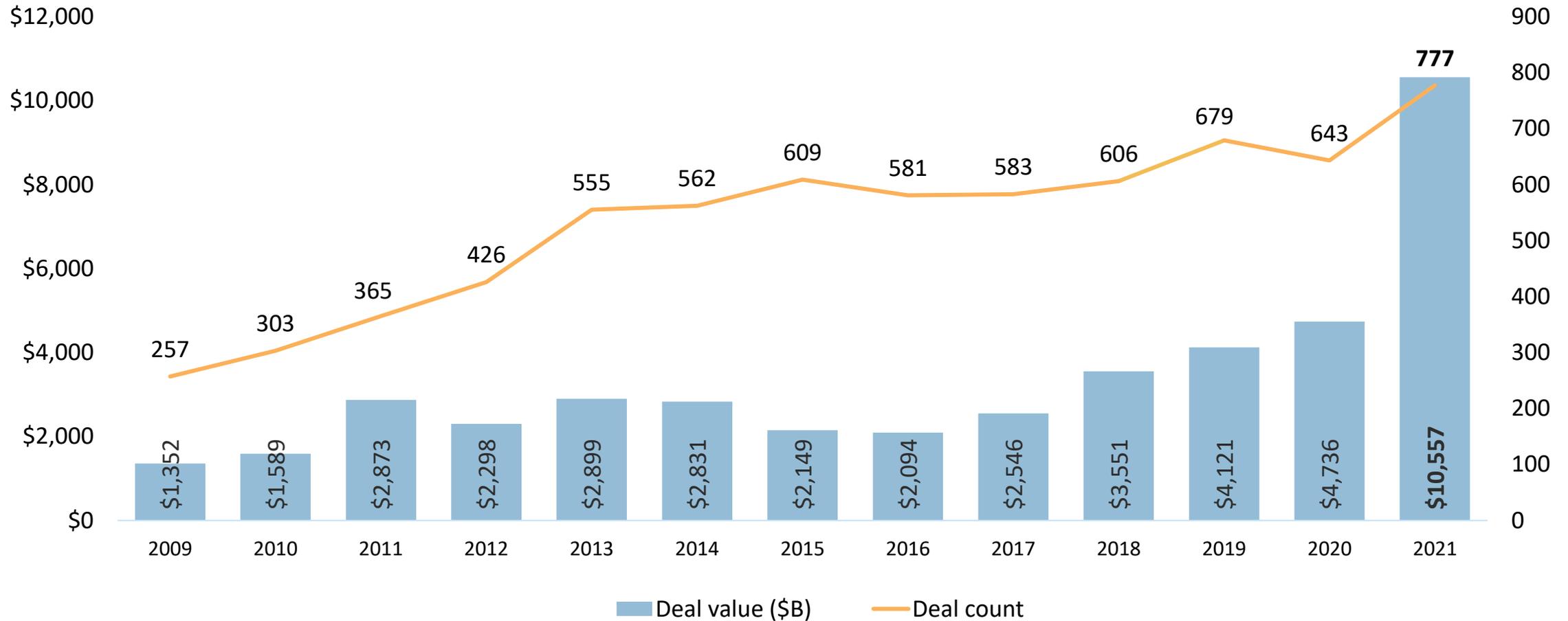
# 4 Data Points In Texas



1

# TX investment activity hit record high in 2022, breaking \$10 billion in capital invested and ranking 4<sup>th</sup> among states

## Texas VC Investment Activity



# TX has a strong investor base with a national reach

US VC Deal Activity (\$M) by State in 2021	
California	\$156,456
New York	\$47,943
Massachusetts	\$35,104
Texas	\$10,557
Washington	\$8,546
Illinois	\$7,102
Pennsylvania	\$6,639
Colorado	\$6,516
New Jersey	\$5,535
Florida	\$5,428

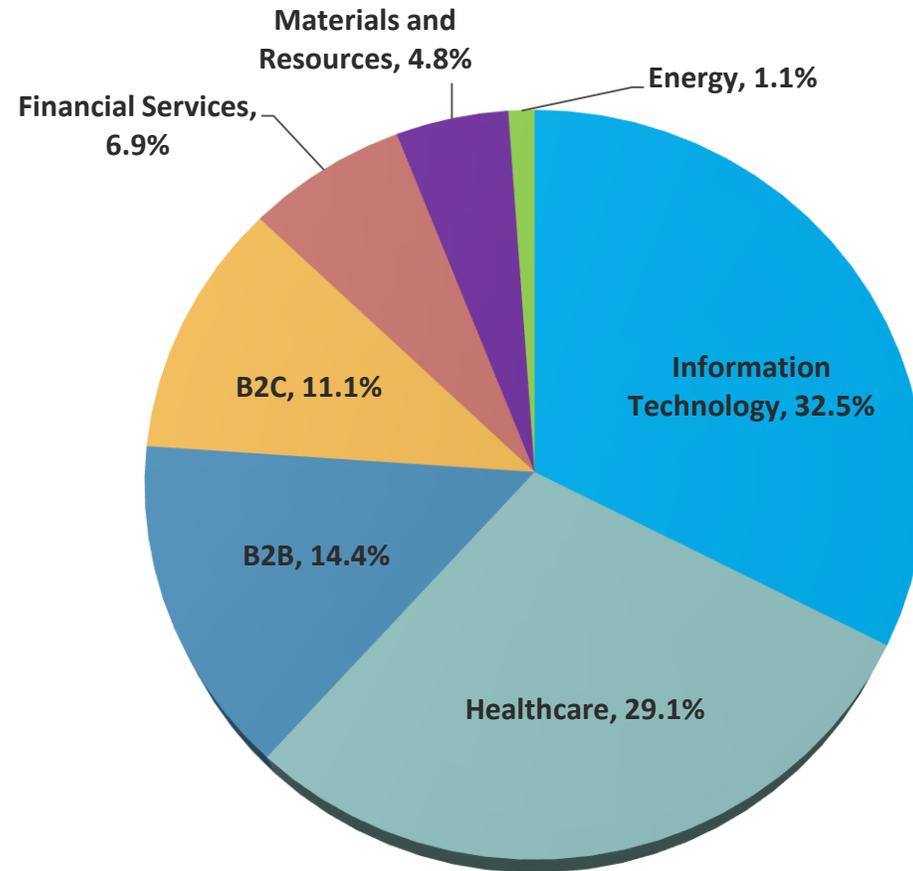
\*Top 10 States

# of States Invested into by Investor HQ State in 2020	
Investor HQ State	# of States Invested In
California	47
New York	42
Illinois	39
Massachusetts	37
Maryland	35
Texas	35
District of Columbia	30
Florida	30
Colorado	30
Georgia	29

\*Top 10 States

# IT, Healthcare, & B2B startups lead TX VC activity

Texas VC Investment by Sector in 2021  
(% of Capital Invested)



# Austin, Dallas, Houston in top 20 MSAs for VC dollars invested in 2021

Metropolitan Statistical Area	US VC Deal Flow in 2021 (in \$Billions)
Silicon Valley	\$119.7B
San Francisco-Oakland-Fremont, CA MSA	\$93.1B
New York-Northern New Jersey-Long Island, NY-NJ-PA MSA	\$51.9B
Boston-Cambridge-Quincy, MA-NH MSA	\$34.6B
San Jose-Sunnyvale-Santa Clara, CA MSA	\$26.5B
Los Angeles-Long Beach-Santa Ana, CA MSA	\$23.7B
San Diego-Carlsbad-San Marcos, CA MSA	\$9.7B
Seattle-Tacoma-Bellevue, WA MSA	\$8.0B
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	\$7.8B
Chicago-Naperville-Joliet, IL-IN-WI MSA	\$7.0B
Washington-Arlington-Alexandria, DC-VA-MD-WV MSA	\$4.9B
12 <sup>th</sup> Austin-Round Rock, TX MSA	\$4.9B
Denver-Aurora, CO MSA	\$4.3B
Atlanta-Sandy Springs-Marietta, GA MSA	\$4.0B
Miami-Fort Lauderdale-Pompano Beach, FL MSA	\$4.0B

- Dallas-Fort Worth-Arlington, TX MSA ranked 16<sup>th</sup> (\$3.4B invested)
- Houston-Sugar Land-Baytown, TX MSA ranked 18<sup>th</sup> (\$2.3B invested)



# New Laws impacting Entrepreneurial Ecosystem



# Technology Programs Bipartisan Infrastructure Framework

# Technology a critical issue in package

## Tech programs:

- Technology procurement programs
- Technology demonstration project grant programs
- Research and manufacturing grant programs
- New gov't technology offices and working groups



# Transportation & mobility

- \$7.5B to S&L governments and transportation authorities for alternate fuel recharging infrastructure.
- \$5B to S&L governments and private operators to purchase clean school buses.
- \$550M for the Technology and Innovation Deployment Program to accelerate adoption of market ready transportation technologies.
- \$550M for the Intelligent Transportation Systems Program to integrate advanced communications technologies into transportation infrastructure and vehicles.
- Expansion of Advanced Technology Vehicle Manufacturing Program to include medium and heavy –duty vehicles, trains, aircraft, maritime vessels and hyperloop technology.
- Expansion of Surface Transportation Block Grant Program to include funding for installation and deployment of intelligent transportation technologies.

# Infrastructure / smart city tech

- \$3B Smart Grid Investment Matching Grant Program for deployment of technologies that enhance grid flexibility.
- \$500M SMART grant program to provide grants to S&L governments to fund competitive smart city demonstration projects.
- Creation of Smart Community Resource Center to develop compilation of resources for S&L governments for smart city tech integration.
- Creation of Advanced Research Projects Agency-Infrastructure.
- \$10B for S&L governments and utilities for PFAS and other water pollutant treatment.
- \$50M grant program for rural and disadvantaged communities to identify and deploy emerging drinking water technology.

# Climate Programs

## Technology Procurement Programs

- \$7.5B program to build out alternative fuel recharging infrastructure that includes the acquisition of charging and storage technology.
- \$3B for the Smart Grid Investment Matching Grant Program to support the deployment of technologies that enhance electric grid flexibility.

## Technology Demonstration Project Grants

- SMART Grant program to provide \$500M for smart city demonstration projects.
- \$3.5B for carbon capture large-scale pilot projects and carbon capture demonstration projects.

## Research & Manufacturing Grant Programs

- Creation of ARPA-Infrastructure (ARPA-I) to fund private sector R&D on advanced transportation infrastructure technologies.
- \$750M to create the Advanced Energy Manufacturing and Recycling Grant Program.
- Grant program for battery manufacturing and recycling facility retooling and construction, and for battery demonstration projects.

# Cyber

- \$1B grant program to S&L governments and utilities/contractors to address cybersecurity risks and threats.
- \$250M Rural and Municipal Utility Advanced Cybersecurity Grant and Technical Assistance Program.
- \$250M Cybersecurity for the Energy Sector RD&D Program.
- \$157M for DHS Science and Technology Directorate for R&D.
- Requirement that EPA develop a cybersecurity framework for public water systems.
- Requirement for Federal Energy Regulatory Commission (FERC) to draft rulemaking that encourages investment in cybersecurity technology and threat information sharing programs.

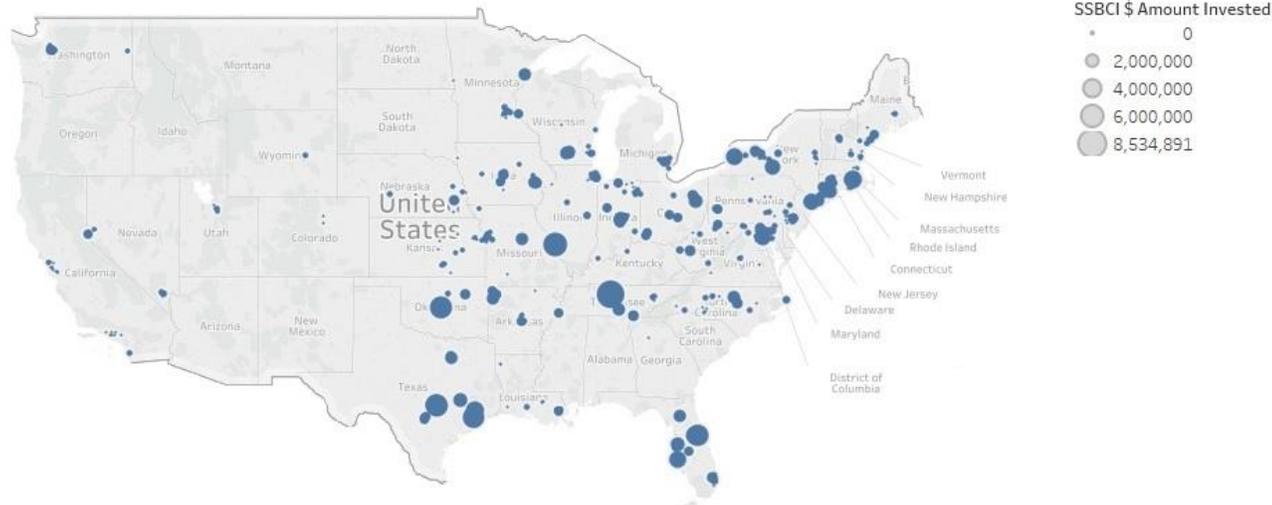


# SSBCI

State Small Business Credit Initiative

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# State Small Business Credit Initiative 2.0



- American Relief Plan (ARP) provides \$10B for SSBCI 2.0 (1.0 only \$1.5B). Smallest states receive \$56M.
- Money sent to states to provide capital for small businesses.
- Funds can be used for debt or equity programs.



**What's Next?**



# Build Back Better?

# House passed bill tax provisions

- **Carried interest:** Tax increase provision **EXCLUDED** from package.
- **Capital gains rate:** Rate increase excluded from package, replaced with increased surtax.
- **High earner surtax:** 5% surtax for income over \$10M, additional 3% for income over \$25M.
  - Effective date 1/1/22.
- **QSBS:** Dials back exclusion from 100% to 50%; reimposes AMT
  - Effective date for sales of stock 9/13/21.

# House passed bill tax provisions

- **NIIT surtax:** 3.8% surtax applied to income from certain partnerships.
- **IRS tax enforcement:** \$78B for IRS tax enforcement activities.
- **Common control:** Expands provision requiring companies with common majority investors to aggregate accounting for tax purposes.
- **R&D Credit payroll tax offset:** Expands the ability of early-stage startups to offset up to \$500K in payroll taxes (up from current \$250K).

# BBB Climate Programs

## Tax Issues

- 5-year extension and expansion of current tax provisions, then transition to tech-neutral credit structure for additional 5 years.
- Direct pay mechanism for climate credits. Allow startups to access value in the year the credits are generated.
- Expansion and lowered minimum scale requirements for 45Q Carbon capture credit.
- New zero emissions facility credit.
- New tax credit for clean hydrogen.

## Other Provisions

- \$40B in loan authority for Department of Energy's (DOE) Loan Programs Office.
- \$29B for Greenhouse Gas Reduction Fund for nonprofit climate financing institutions leveraging public/private partnerships supporting rapid deployment of low- and zero-emission technologies.
- \$3.5B for domestic manufacturing conversion grants for domestic EV production.
- \$1B for energy efficiency and renewable energy demonstration projects.

# Research and tech commercialization

- **\$3.36B for regional innovation hubs –**
  - Commerce Dept will use funds to develop regional economic growth clusters.
- **\$1.5B for NSF Technology Directorate –**
  - National Science Foundation (NSF) to administer new Directorate to accelerate use-inspired and translational research in technologies and innovations of national importance.
- **\$668M for NSF core research –**
  - Additional funds for research awards, traineeships, scholarships, and fellowships across all STEM disciplines.



# U.S. Innovation & Competitiveness Act Endless Frontier Act

# Endless Frontier Act

- **\$120B to strengthen U.S. R&D / accelerate advancements in key tech focus areas through public-private partnerships**
  - Establishes NSF Technology & Innovation Directorate
  - Increases authorized funding for existing NSF R&D activities
  - Creates regional tech hub programs at Dept. of Commerce
- **NVCA priorities**
  - New commercialization programs: tech transfer, test bed, R&D
  - Each program prioritizes new business formation and entrepreneurship
  - Opportunity to encourage university tech transfer best practices

# June Senate action

- *U.S. Innovation and Competition Act* passed with 68-32 vote
- *Endless Frontier Act* core component of USICA package
- **Additional provisions include:**
  - Semiconductor production
  - Supply chain, manufacturing programs
  - Increased Dept. of Energy/NASA research

# USICA/EFA status

- Global innovation competition is fierce: U.S. share of global VC investment was around 51% in 2020, dropping from 83% in 2004
- U.S. must bolster its technology investments of the future to compete with China and other nations who have significantly increased their investment in emerging technologies
- Federal investment in emerging tech will enhance our economic future and set up the U.S. workforce to compete globally.
- USICA must prioritize new company formation and growth to encourage participation of VC investors and entrepreneurs who will create and scale the next generation of American companies.



# Antitrust – M&A restrictions

# Senate focus on antitrust



- After House Judiciary passage of 6 antitrust bills, focus turned to Senate
- Senators Klobuchar and Cotton introduced the *Platform Competition and Opportunity Act*
- Klobuchar as chair of the antitrust subcommittee is motivated to move legislation. Started with broader antitrust legislation (CALERA)
- Bill would punish American businesses, taking away incentives for entrepreneurs and investors, making it less attractive to start a new business or invest in a new company

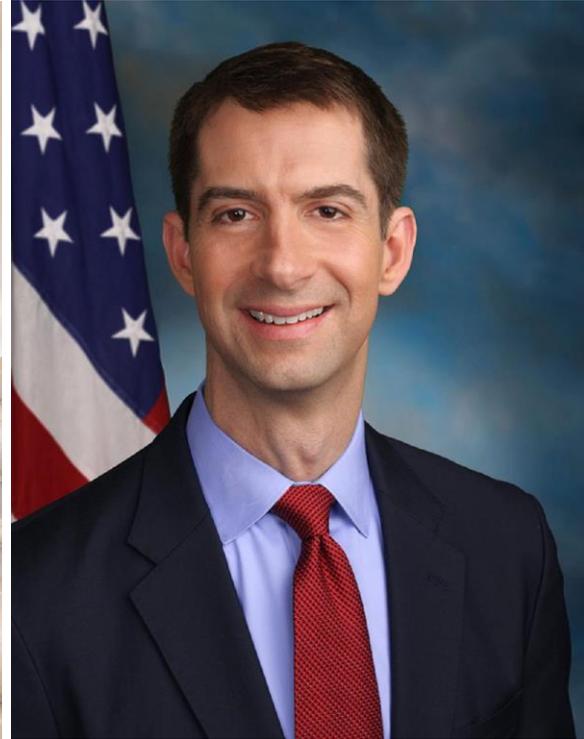
# Cotton/Klobuchar keeps pressure on acquisitions

Bill is **effective acquisition ban** on Alphabet, Amazon, Apple, Facebook, & Microsoft (?)

Senate bill *excludes* companies that grow to more than \$600B market cap after bill enactment



# Strange bedfellows theme continues



*“The left wing and the right wing belong to the same bird”*

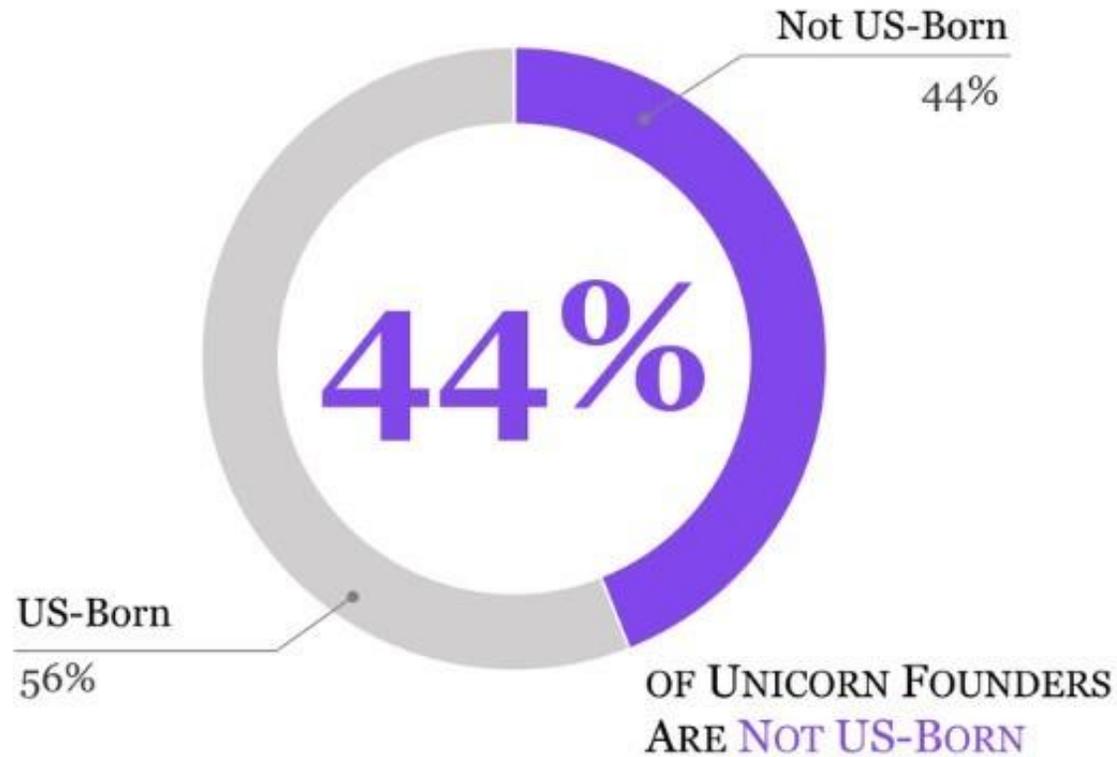


# Immigration: Start Up Visa

## WHERE WERE UNICORN FOUNDERS BORN?

Number of Founders = 1078

Number of Unicorns = 500



### Top 10 Countries for Not US-Born

- **India** – 90 founders
- **Israel** – 52 founders
- **Canada** – 42 founders
- **UK** – 31 founders
- **China** – 27 founders
- **Germany** – 18 founders
- **France** – 17 founders
- **Russia** – 14 founders
- **Taiwan** – 12 founders
- **Ukraine** – 12 founders

Data covers 531 US companies that became unicorns between 1997 – 2019.

Source: ILYA STREBULAEV, VENTURE CAPITAL INITIATIVE, STANFORD GRADUATE SCHOOL OF BUSINESS (01/2022)

  IlyaStrebulaev

# Lofgren introduces new startup visa bill



- Rep. Zoe Lofgren (D-CA) introduced new startup visa legislation, the *Let Immigrants Kickstart Employment (LIKE) Act*
- LIKE Act improves upon previous startup visa bills
  - **Non-immigrant visa** for foreign-born founders w/ >10% ownership; play 'active and central role'; and raised >\$250k in qualifying investment
  - **Immigrant visa** for those admitted under non-immigrant visa or another visa connected to the startup (e.g. O-1); play 'active and central role'; create 10 jobs; and raised \$1.25m or \$1m in annual revenue
  - No numerical limit and multiple co-founders per company can qualify
  - Nonimmigrant visa for essential employees



**SEC: No, not the sports' conference**

# Securities & Exchange Commission



## Chair Gary Gensler agenda:

- Looking at private companies and the roll of the SEC
  - *State Securities Regulators*
- Looking at requirements on private funds
  - *Accredited investors only*

The logo for the National Venture Capital Association (NVCA), consisting of the lowercase letters 'nvca' in a white, sans-serif font, centered within a teal square. The background of the entire slide is a dimly lit, modern office space with several people working at desks with computers and some standing in conversation.

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Questions?

[nvca.org](https://www.nvca.org)

[VentureForward.org](https://www.VentureForward.org)