State of the Venture Capital Industry

MARKET ANALYSIS
Summer 2018

TrueBridge
Capital Partners

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Introduction

2017: The Market Was Full Steam Ahead

Prudence and caution characterized the 2016 venture market, but quickly became passé as the industry forged ahead and set numerous new records in 2017.

These milestones included the highest number of seed and early stage funds ever raised, as well as the most capital invested globally. Massive financings drove this dynamic, as deals funded actually decreased year-over-year. According to Pitchbook, unicorns accounted for less than 1% of transactions in 2017, but such financings represented more than 22% of the industry's deal value.

The market was full steam ahead

By many accounts, investor behavior and industry data in 2017 were reminiscent of the venture party that raged in 2014 and 2015.

"2017 is the year our industry realized we can and need to change for the better."

- Aileen Lee, Cowboy Ventures

In regards to sizeable financings, SoftBank threw around its weight as it began to put its nearly $100 billion Vision Fund to work. Early stage valuations also reached an all-time high in 2017, as seed and late stage valuations, as well as total venture funds raised, hit post-bubble highs. By many accounts, investor behavior and industry data in 2017 were reminiscent of the venture party that raged in 2014 and 2015. However, everything did not trend positively in 2017. Most notably, the exit markets had a disappointing year, particularly given the number of late stage companies that remain in the IPO pipeline.

2017 might also be remembered as the year Uber stumbled among challenges ranging from claims of sexual harassment, numerous lawsuits, and mass employee departures. More broadly, allegations of sexual misconduct rocked the technology ecosystem, resulting in the removal and resignation of high-level employees at venture firms and technology companies alike. As the #MeToo movement spread virally to shine light on workplace misconduct, the venture industry was forced to examine itself critically.

With the shutdowns of Beepi, Maple, Sprig, and others, the sharing economy and on-demand market took some hits as investors turned to growth sectors such as space, robotics, autonomous vehicles, bioinformatics, and blockchain. Capital remains abundant for the most promising companies in these and other sectors, driven by competition among investors and search for returns.

In the following pages, we delve deeper into 2017 trends, pause to discuss the relevance of blockchain as a technology and the significance of SoftBank as an investor, and project what lies ahead for the venture industry.

Fundraising

Fundraising remained historically high

On the heels of a record year in 2016, 2017 proved to be more moderate in terms of venture capital raised. The more than $36 billion raised by US venture firms represented a year-over-year decrease of 17%, yet remained high by historical standards to rank fourth out of the last 16 years since the Internet bubble. 2017 was the fourth consecutive year that more than $30 billion was raised – and the impressive 2017 tally does not even include Softbank's nearly $100 billion global technology fund.

Fundraising dipped, but remained robust

US VENTURE FUNDS
503

RAISED
$36.3B

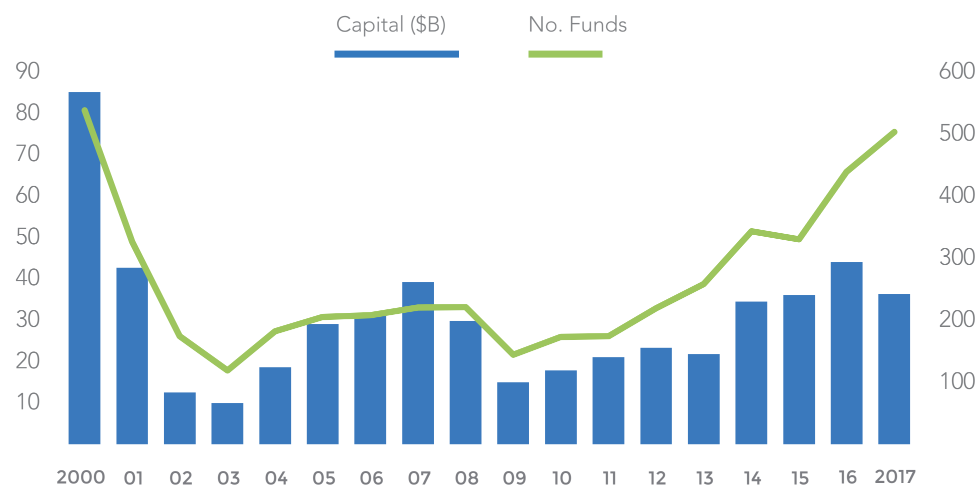
"Venture-capital firms forged ahead raising new capital, even as the industry grappled with declining liquidity, repercussions over sexual misconduct and the rise of alternative funding sources like initial coin offerings."

- Yuliya Chernova, WSJ Pro Venture Capital

Even as the amount of capital raised decreased, the number of funds raised in 2017 increased by 11%, continuing the upward trend since 2009 and representing a post-bubble high. This dynamic reflects the fact that there were fewer mega funds raised in 2017. In 2016, nine venture funds closed on $1 billion or more, nearly double the five funds that reached the billion-dollar mark in 2017. A balance was struck between NEA, which raised $3.3 billion for the single largest venture fund ever, and a strong showing by smaller, first-time funds. According to Pitchbook, first-time funds under $50 million raised 23% more capital in 2017 compared to 2016.

Overall, the fundraising market in 2017 remained quite robust. According to Pitchbook, the average time to close a venture fund fell from approximately 19 months to 16 months; the average time between funds raised over the last four years was noticeably shorter than the prior six years, hovering around 2.4 years in 2017; and the median step-up in size between funds jumped to 1.5x, whereas it had stayed between 1.0 and 1.3x during the prior nine years. These data points reflect both the velocity of capital investment in today's market as well as the generally favorable market for fundraising.

Total US Venture Capital Raised



Dow Jones LP Source as of December 31, 2017.

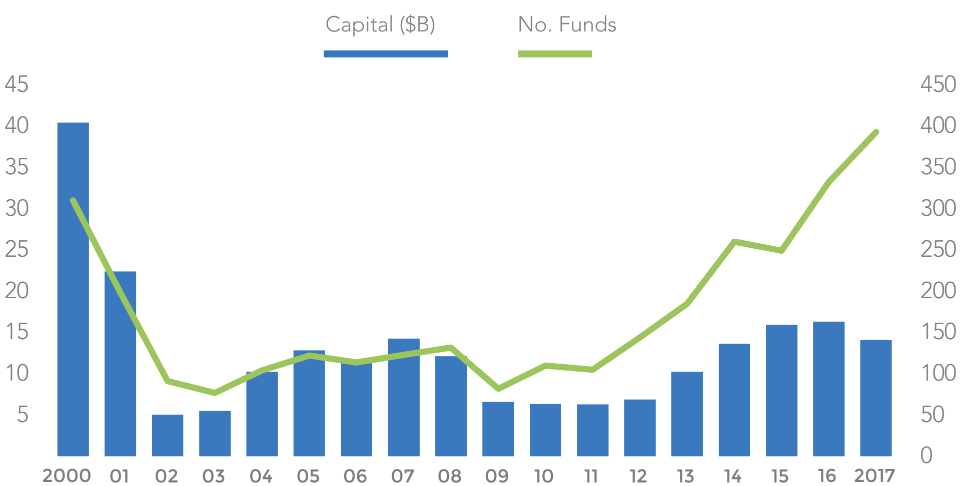
Early stage fundraising mirrored overall market

Seed/early stage capital raised in 2017 declined, while the number of early/seed funds raised increased.

US SEED/EARLY STAGE FUNDS
393

RAISED
$14.1B

Seed/Early Stage US Venture Capital Raised



Dow Jones LP Source as of December 31, 2017.

Similar to the overall venture market, seed/early stage capital raised in 2017 declined by 14%, breaking a five year trend of annual increases, while the number of early/seed funds raised increased by 18% and represented a new all-time high for the second year in a row.

The rise in fund count could be attributed, in part, to the proliferation of new seed and micro-VC funds in recent years. According to Pitchbook, first-time venture funds globally raised 37% more funds in 2017 compared to 2016, which represents the highest level of capital raised by new managers since 2001. After falling nearly every year since 2000, the proportion of VC fundraising made up by first-time funds increased considerably in 2017.

Capital remained concentrated

Although NEA's record-setting $3.3 billion fund influences concentration of capital, we continue to see fundraising dominated by a relatively small number of firms, reflecting a "flight to quality"– a long term-trend in the venture market. Experienced investors with unique and sustainable competitive advantages, strong track records, and excellent reputations among entrepreneurs and limited partners continue to raise sizable pools of capital today.

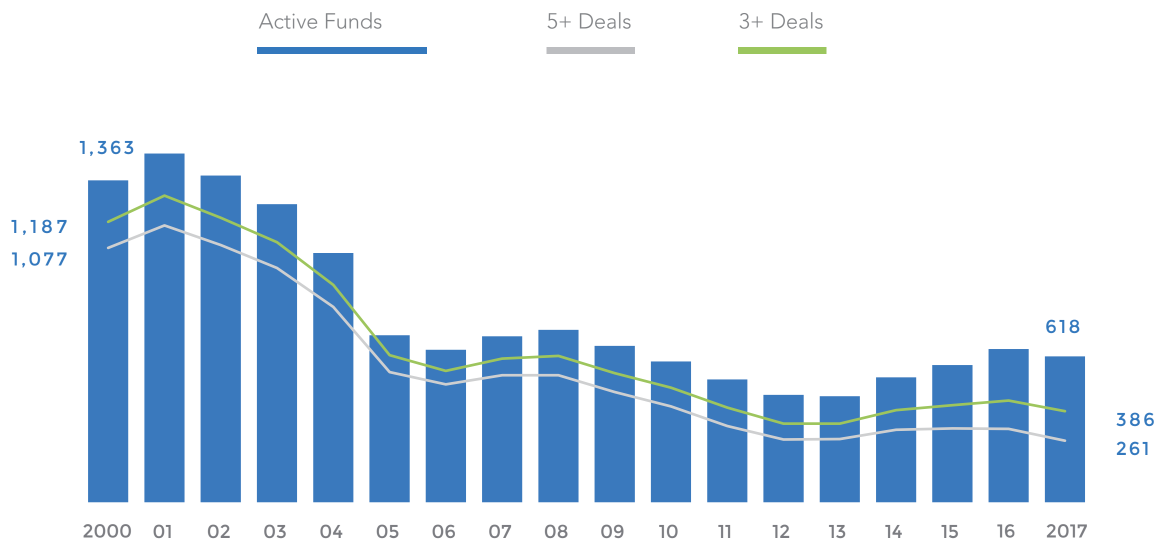
To estimate the number of active firms in the market over time, we first analyzed the number of firms that raised capital in 2017 and in the previous four vintage years. We then analyzed the number of firms that invested in at least three and five companies each year. The first method – depicted by the blue bars – proxies the number of funds with capital available for new investments, as venture capital investment periods typically span five years. Accordingly, 618 funds were within their investment periods during 2017. While the number of active funds has fluctuated on a yearly basis, the 2017 tally is 58% lower than in 2001, which marked the peak.

To examine the number of funds that were truly active, we determined how many invested in three or more – and five or more – deals each year. In 2017, 386 funds invested in three or more deals, a decrease of 10% year-over-year and 70% less than 2001. In 2017, 261 funds invested in five or more deals, 16% less than 2016 and 78% less than 2001.

While the long-term trend is clear and the industry has certainly right-sized since the Internet bubble, there had been an increase in active funds since 2013, which is consistent with the strong fundraising statistics from 2014, 2015 and 2016. While the trend reversed course in 2017, we will continue to monitor future data in order to evaluate whether the long-term trend could be stabilizing.

Despite the fact that there were fewer mega funds raised in 2017, concentration of capital persisted with only 1% of the funds raised accounting for 24% of the capital raised.

Active VCs



Thomson One as of December 31, 2017. Includes all US venture capital funds greater than $10 million that raised capital in 2017 and the previous four vintage years.

Investing

A banner year for invested capital

Investments in venture-backed companies reached new highs in 2017. Across all venture stages, $91.9 billion in capital was invested, an increase from 2016 and a new high from the previous record of $86.9 billion invested in 2015.

Invested capital boomed

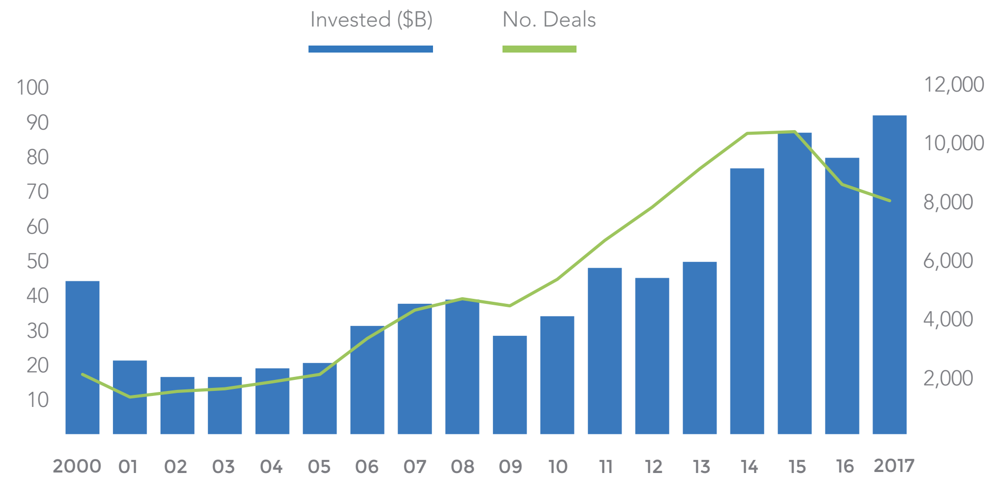
INVESTED
$91.9B

DEALS
8,076

Demonstrating a clear upward trend since 2009, 2017 marked the sixth annual increase in capital deployed over the last eight years. The increase in invested capital in 2017 occurred despite a downturn in the number of venture deals completed. The average deal value increased markedly as a boom in late stage investments more than compensated for the typically depressing effects of reduced deal count.

Average deal value across all stages in 2017 was $11.4 million, up 23% from $9.2 million in 2016. This jump is generally attributable to increased late stage activity and a continued tendency for large, venture-backed companies to leverage private capital to pursue global growth strategies pre-IPO.

Total US Venture Capital Invested



Pitchbook/NVCA as of December 31, 2017.

15%
INCREASE IN CAPITAL INVESTED

7%
DECREASE IN DEALS COMPLETED

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Seed stage activity was stable

INVESTED
$7.2B

SEED STAGE DEALS
3,793

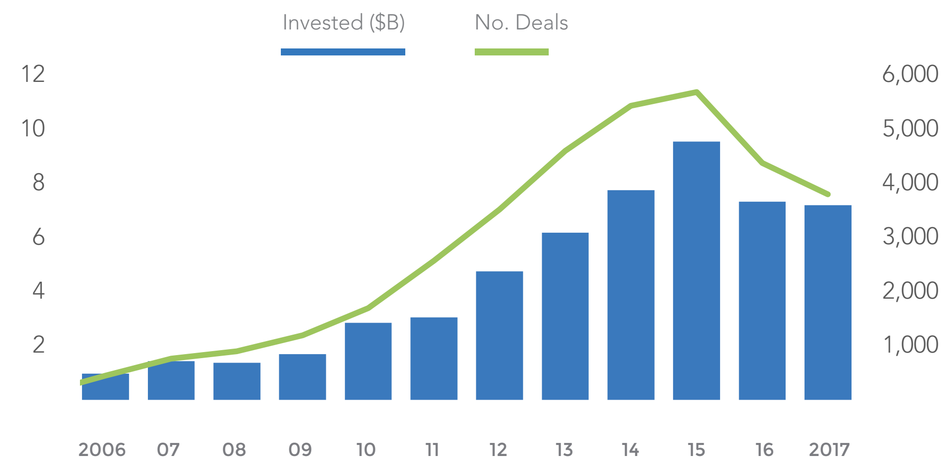
"Seed rounds are going to be the place to be. When other [investors] leave the market, it is time to get in." - Fred Wilson, Union Square Ventures

For the second year in a row, seed stage activity decreased in terms of capital invested (down 2%) and companies funded (down 13%). The decline in the seed market activity was in contrast to increasing activity in the early and late stage segments of the market. Fred Wilson, Partner at Union Square Ventures, suggests that the decline could be because some angel investors are sitting on the sidelines waiting for liquidity, while some seed funds have raised larger funds and moved upmarket to series A rounds.

The "seed explosion" that began in 2011 was driven by the development of computing-as-a-service, readily available customer acquisition channels, abundant capital, the rise of incubators/accelerators, and the growth of startup culture globally. Whereas college graduates pined for investment banking jobs ten years ago, now they want to join startups or become entrepreneurs, which represents a secular change.

Although seed stage activity has statistically declined in recent years, company formation and seed stage funding remain at historically healthy levels. Many industries are undergoing disruption, or have yet to be disrupted, resulting in more opportunities for startups. Despite higher valuations, the attractive economics of startup formation and the talented seed stage investors backing the best ideas and entrepreneurs continue to make the seed space an attractive one in which to selectively invest.

Seed Stage Capital Invested



Pitchbook as of December 31, 2017. Years prior to 2006 were excluded due to lower data quality.

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Early stage investing reached new high

INVESTED
$34.7B

EARLY STAGE DEALS
2,644

After a pullback in early stage funding and deal count in 2016, 2017 was a record-setting year in terms of the amount of capital allocated to early stage companies. On a percentage basis, the 30% increase in early stage capital invested outpaced increases in the overall and late stage markets in 2017. Consistent with the late stage market, the increase in early stage capital invested came despite stagnation in the number of financings closed.

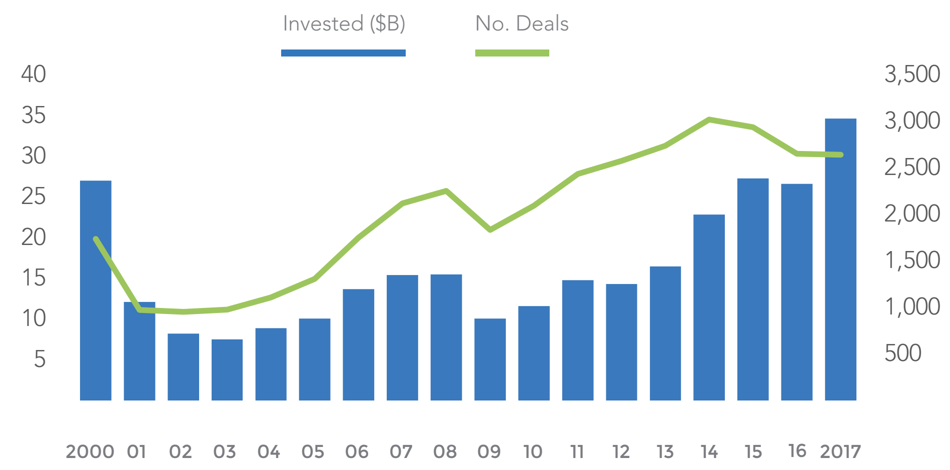
Notably, the average round size for early stage companies in 2017 rose by nearly 31%, after having remained fairly static from 2015 to 2016. The growing size of Series A rounds has resulted from a competitive marketplace and the relative maturity of companies raising Series A rounds.

Over the past several years, the seed market has shifted with the entry of pre-seed rounds. Seed rounds have become similar to historical Series A rounds in terms of size, participants, and pre-money valuation, with many companies waiting to raise Series A funding until certain user and/or revenue metrics are established.

This shift towards larger and more mature early stage rounds has recently created a role for investors to play funding gaps between traditional seed and Series A rounds. This gap funding is known as seed-extension, second seed, pre-Series A, or mini-A rounds. The many names reflect the blurred lines of these early stage striations.

"The biggest danger for VCs, and also the biggest opportunity, is at the Series A stage. Or rather, what used to be the Series A stage before Series As turned into de facto Series B rounds." – Paul Graham, Y Combinator

Early Stage Capital Invested



Pitchbook/NVCA as of December 31, 2017.

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Late stage activity rebounded

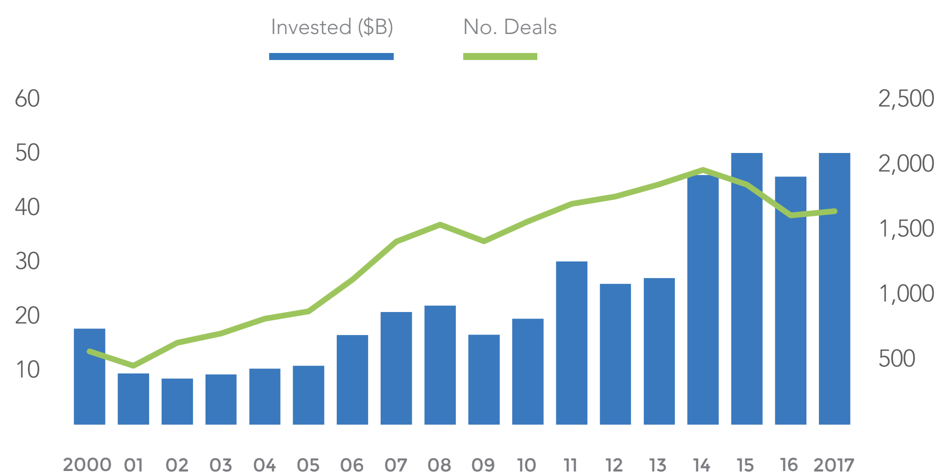
After falling to $45.7 billion in 2016 from a then-record $50.0 billion in 2015, late stage investing bounced to a new all-time high in 2017 with $50.1 billion of capital invested. Deal count held steady from 2016, while the average amount invested in late stage rounds increased to $30.5 million, an increase of over 7% year-over-year. Growth in late stage funding was driven by a resurgence in $100+ million mega-rounds intended to finance the continued growth of successful startups that are staying private longer than ever before (median time to IPO has risen from 4.9 years in 2006 to 8.3 years in 2016).

Heightened competition among late stage investors in the face of Softbank's Vision Fund and active public markets investors (T. Rowe Price, Tiger Global, and others) in the growth equity space also contributed to the increase in late stage capital invested.

INVESTED
$50.1B

LATE STAGE DEALS
1,639

Late Stage Capital Invested



Pitchbook/NVCA as of December 31, 2017.

Select US Companies that raised late stage, $500+ million rounds:

wework
$3.0B
August 2017

lyft
$1.5B
December 2017

airbnb
$1.0B
March 2017

SoFi
$500M
February 2017

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"We are witnessing the birth of a new kind of web…we have all the ingredients necessary for a whole new wave of innovation. For those of us who lived through the dot-com era, this feels reminiscent. You have some of the same speculative excess and random enrichment. But you can also feel that something revolutionary is happening." - David Sacks, Craft Ventures

In 2017, blockchain technology and cyptocurriences became part of mainstream conversations across Silicon Valley, Wall Street, and Main Street. While a frenzy of speculative behavior and regulatory uncertainty is casting shadows over the emerging sector, it is quite clear that this technology has the potential to be transformational.

Funding activity to blockchain- and cryptocurrency-related businesses worldwide rose to an all time high in Q4 2017, according to Pitchbook, and smart investors at reputable firms such as Andreessen Horowitz, Founders Fund, Sequoia, and Union Square have been leading the way with investments in both projects and funds. Not surprisingly, there was an explosion of crypto-focused funds formed in 2007 (most structured as hedge funds), starting with less than 40 and growing to over 200 globally by year end.

What are the blockchain and cryptocurrencies?

Blockchain technology utilizes a shared, decentralized database ("ledger") that is owned in part by each member of a peer-to-peer network rather than by a single entity (e.g., a bank or local DMV), as in the case of traditional, centralized databases. The ledger serves as a registry of transactions, which is split into records ("blocks") of who participated in a transaction, the price, and other details. Ownership and verification of these blocks are enforced and secured by encryption from members of the blockchain. Members compete to encode transactions; when a solution is found, the block is added to the record of all prior transactions (the "chain"), which is then implemented across the network.

Cryptocurrencies leverage blockchain technology to offer a transaction medium (a "currency" or "token") to track and reward the computational work that is required to maintain a blockchain network. For a blockchain network to remain current and usable, its members must validate the records comprising the blockchain in a computationally intensive process ("mining"). Cryptocurrencies exist primarily as an incentive for members of a blockchain to maintain the network. Theoretically, a cryptocurrency will rise in value as transaction volume increases and as the blockchain network becomes more socially and economically valuable.

What is Bitcoin?

Bitcoin, the largest cryptocurrency in terms of market capitalization, has developed a dual identity as an anonymous, peer-to-peer transaction system as well as a store of wealth. Bitcoin miners – who use special software to solve math problems and are issued bitcoins in exchange – approve transactions and keep the network secure. Bitcoin's price rise has been euphoric with appreciation of over 1,400% during 2017, and its volatility has been high, prompting pundits to say that it's one of the biggest asset bubbles of our lifetime.

The price escalation has attracted uninformed investors looking to get rich quick, as evidenced by the fact that there are now more Coinbase accounts than Charles Schwab accounts. Bitcoin's rise has also pushed up the price of other cryptocurrencies, such as Ethereum and Litecoin, of which there are now over 1,500 having a combined market capitalization of over $500 billion.

What are ICOs?

Initial Coin Offerings ("ICOs") are sales of tokens by blockchain companies looking to raise funds and are often traded on cryptocurrency exchanges. However, "ownership" of a company is not provided, unlike an IPO. This new funding source for blockchain innovation also came into its own in 2017. According to CoinDesk, companies raised over $2 billion via ICOs in 2017; by comparison, the total amount raised between 2014 and 2016 was just $295 million. The year's biggest completed ICO went to Filecoin, for $257 million. According to CB Insights, 2017 saw over 5x more capital deployed in ICOs than in equity financings to blockchain startups.

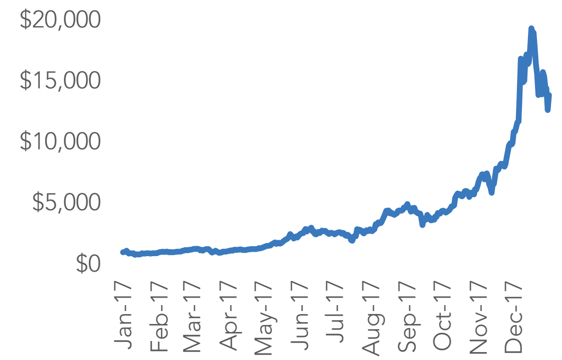
The terms of ICO funding are more favorable to entrepreneurs than venture capital, which could pose a threat to the traditional venture capital model. According to First Round Capital's 2017 State of Startups survey, one in three founders think ICOs can compete with venture capital. Venture capital firms, however, argue that their funding comes with advice, services, and partnership, unlike ICO funding. What is not debatable is that some projects funded by ICOs consist of only a few people and a whitepaper – ideas that may not have qualified for funding from a professional seed investor – thus calling into question their legitimacy.

What's next?

There are numerous questions surrounding this emerging sector including: How will regulation take shape? Which teams are the best to back? How will the power consumption needs for mining be solved? Will transaction latency time be improved? How can we ensure the security of our crypto-wallets? Yet the opportunities ahead are enormous and exciting, with potential use cases that span across industries and that could disrupt many existing markets.

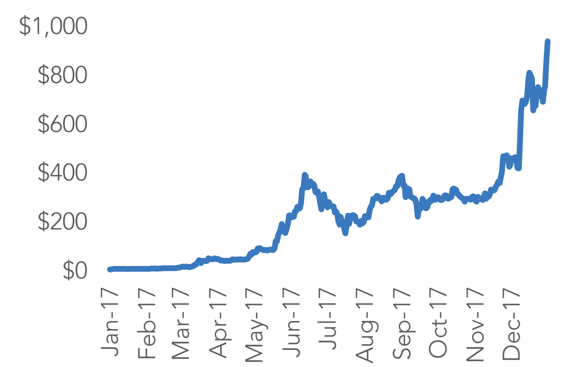
According to Goldman Sachs, we should see early stage technical prototypes within the next two years, with limited market adoption in two to five years, and broader acceptance in five to ten years.

Bitcoin (BTC) Price



Coindesk.com as of December 31, 2017.

Ethereum (ETH) Price



Coindesk.com as of December 31, 2017.

Valuations

VC valuations climbed higher

Early stage pre-money valuations increased to $20.6 million, setting a new, all-time high following annual increases over the last seven years. Seed valuations followed suit and rose to $6.4 million, reaching another post-bubble high.

Seed & early stage valuations reached record highs

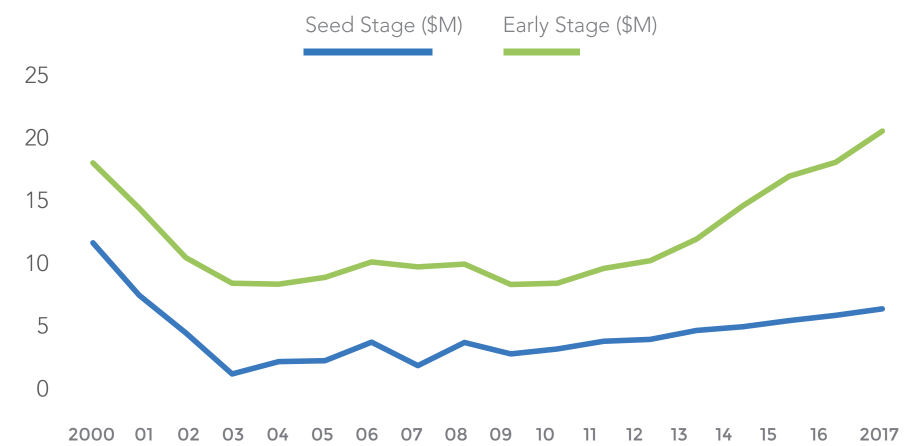
Early stage valuations in 2017 increased 14% year-over-year, while seed stage valuations increased by 9% over 2016. Since a low point in 2009, early and seed stage valuations have increased 146% and 127%, respectively. While seed valuations remain 45% below the 2000 peak, early stage valuations reached a new high to surpass 2000 levels by 14%.

These valuation trends go hand-in-hand with two other trends in the industry: (1) the healthy amount of capital available for early stage startups and (2) the increased segregation of the seed and early stage landscape.

There used to be clear delineations around the size and scope of seed and Series A rounds, as well as the relative progress of companies at the seed and Series A stages. Today, the lines are blurred. The average age of seed funded companies has increased over time. Similarly, the average age of Series A funded companies has increased, and with it the milestone expectations and metrics that venture investors want to see before funding Series A companies. With these changes came the entrance of seed extensions (second-seed rounds or mini-A rounds) to help companies bridge the gap, as well as pre-seed rounds to fill the void at the earliest stages of company formation.

High profile companies such as Airbnb, Facebook, Instagram, Snapchat, Uber, and WhatsApp all raised pre-seed rounds before raising large Series A rounds. The proliferation of incubators and accelerators has been a primary driver resulting in seed stage companies that are more mature and raising capital at higher valuations, and leading Series A stage companies to adjust and move in lock-step.

Median Seed & Early Stage Pre-Money Valuations



Pitchbook as of December 31, 2017.

Late stage valuations rebounded higher

Similar to seed and early stage valuations, late stage pre-money valuations bounced back in 2017, continuing a longer term trend upwards since 2009. After a decline in 2016, late stage pre-money valuations increased by 18% to $65 million in 2017, and ended the year relatively high on a historical basis.

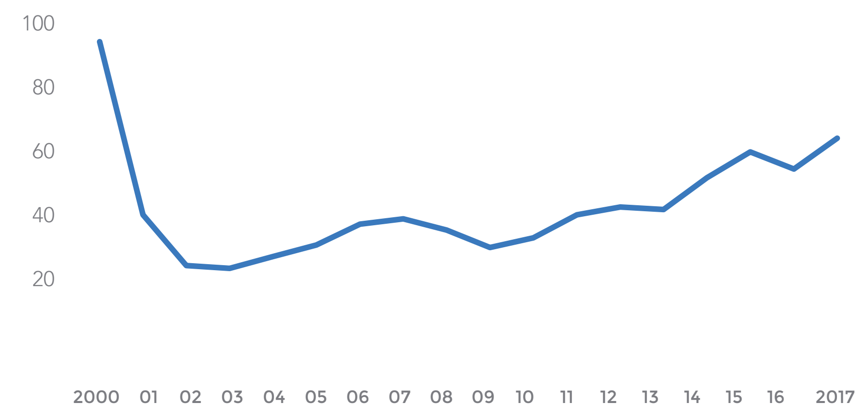
Although late stage valuations remain 32% below the peak in 2000, the gradual increase has resulted in valuations that are 115% higher than the trough in 2009.

The rise in late stage valuations over the past several years was discussed in prior reports, and many of the key factors driving the trend remain in place today:

- Companies have delayed IPOs and are staying private longer, giving private investors more opportunity to invest and participate in the steep portion of companies' value creation curves.
- A new generation of technology companies, born out of advances in cloud and mobile computing, is disrupting new industries – naturally attracting investors to the sector.
- Some investors have behaved aggressively out of fear of missing out on the high-performing, highly sought after companies.
- A record amount of late stage capital was invested over the past four years.

According to Pitchbook, there were more than 40 venture-backed companies that became unicorns in 2017. While many of these companies raised capital from positions of strength and momentum, there were also companies that accepted up rounds with sub-optimal terms (choosing to avoid the negative perception of down rounds) instead of taking better, clean term sheets at lower valuations.

Median Late Stage Pre-Money Valuations ($M)



PItchbook as of December 31, 2017.

SoftBank Vision Fund's torrent of investing in 2017 has been a game-changer wherever it has deployed its capital. And even where it hasn't. (WSJ Pro Venture Capital)

In 2017, SoftBank, the Japanese telecom giant, began investing out of its nearly $100 billion Vision Fund, the largest venture capital or private equity fund in history. SoftBank said the fund "was created as a result of [its] strongly held beliefs that the next stage of the Information Revolution is underway, and building the businesses that will make this possible will require unprecedented long-term investment." Its investing activities have had a noticeable impact on the venture market.

SoftBank, and its largest limited partners – sovereign wealth funds (SWFs) – are not only seeking to back innovative, high growth companies, but are serving as alternative means of financings for companies that otherwise would pursue IPOs. Given their longer-term investment horizons and deep pockets, SoftBank and SWFs are now important partners for companies that want to continue to scale globally, particularly in emerging and growing markets, but avoid the volatility and costs of transparency associated with an IPO.

As the biggest technology investor, SoftBank is also, in effect, anointing winners in markets in which they invest. Startups receiving capital from SoftBank may have funding and strategic advantages over competitors, but time will tell whether SoftBank's involvement is more of an advantage for its companies, or rather a perceived disadvantage for its companies' rivals.

Many questions come into play regarding whether or not: valuations will trend higher given the lower cost of capital for SoftBank and SWFs; SoftBank will crowd out traditional late stage investors; early stage investors will rely on the Vision Fund for exit opportunities. The full effect of SoftBank's Vision Fund will only become apparent with time. Reports suggest that SoftBank is in talks to raise a second gigantic investment vehicle, such that SoftBank's capital may be here to stay.

Vision Fund's largest investments in 2017

wework
$4.4B

Flipkart
$2.5B

Sizable financing rounds led by Vision Fund

COMPASS
$450M

GUARDANT HEALTH
$360M

slack
$250M

Exits & Returns

IPO market fell short of expectations

Despite high hopes for the 2017 IPO market, it settled for a good – not great – year. Despite some improvement, the number of tech companies to go public in 2017 was still underwhelming compared to 2013-2015.

Given the underlying strength in the broader stock market, the activity level should have been higher, according to Renaissance Capital. Holding back issuance, Renaissance believes, was the availability of private capital, uncertainties over tax legislation, and the disappointing debuts of consumer tech unicorns Snap and Blue Apron.

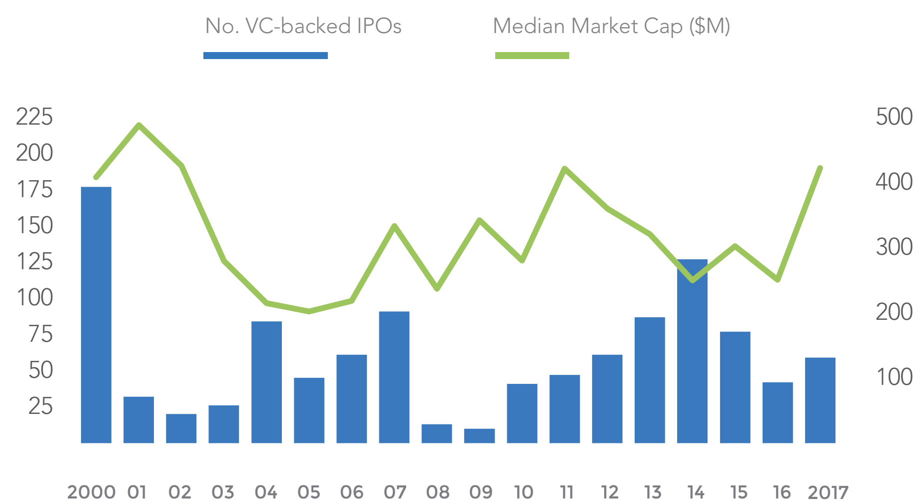
IPO market improved

The IPO market improved in 2017, albeit coming off a very weak 2016. In 2017, 59 venture-backed companies went public, 40% more than in 2016. These companies' median market cap rose to $422 million, a 69% increase over 2016 and the highest median since 2011.

Snap's $3.4 billion IPO in Q1 was indeed the most anticipated and largest venture-backed IPO of the year. While post-IPO performance for Snap and Blue Apron was disappointing, another consumer-facing, but profitable, company Stitch Fix, priced well above its $275 million valuation at $1.4 billion and traded up over the remainder of 2017. There was also a lot of activity on the enterprise side including IPOs by Cloudera, MongoDB, Mulesoft, Okta, Sendgrid, and Yext; together performing well post-IPO.

The median market cap of IPOs in 2017 was notable as it was the third highest on record since 2000 and 32% above the average since 2000. It may reflect the growing age, maturity, and size of the companies that are staying private longer. According to Pitchbook, startups waited an average of 6.2 years before an IPO or a sale in 2017, up from five years in 2008.

Number & Median Market Capitalization of IPOs



Pitchbook as of December 31, 2017.

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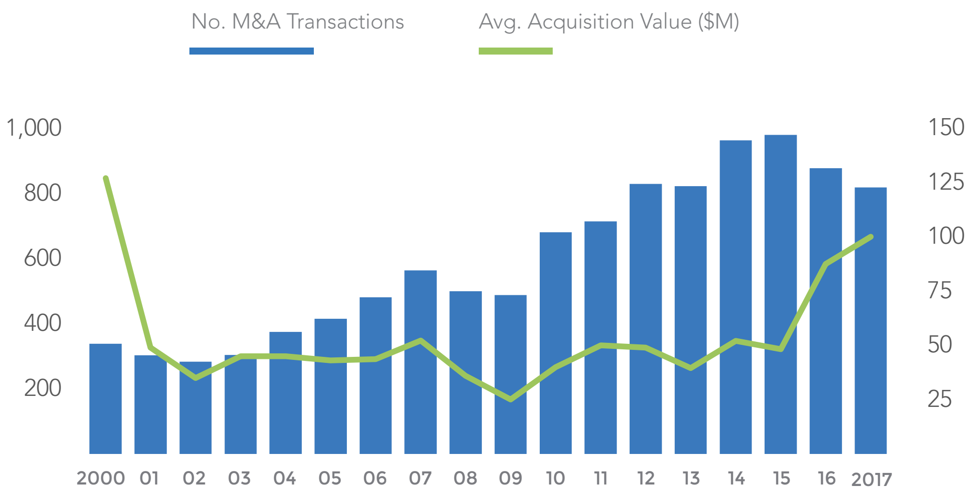
M&A activity declined

818 venture-backed companies were acquired in 2017 at an average acquisition value of $100 million, reflecting a trend of decreasing volume and increasing value over the last two years.

Number & Average Acquisition Value of M&A Transactions



Pitchbook as of December 31, 2017.

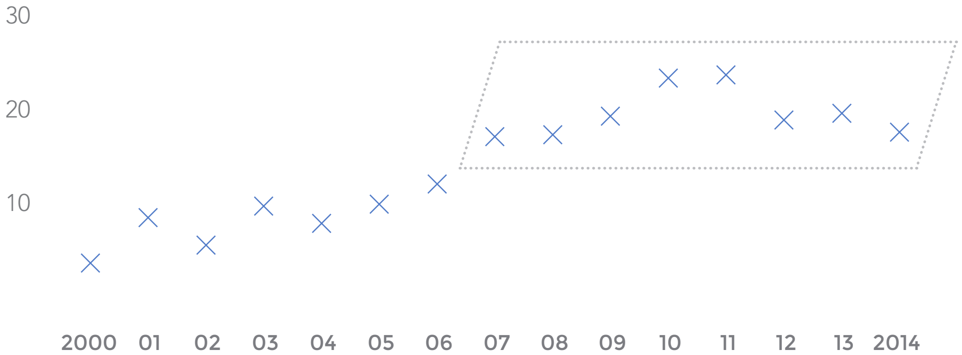
According to Pitchbook data, M&A exits for venture-backed companies decreased by 16% over the last two years while the average acquisition value increased by 107%. Whereas corporate buyers were less acquisitive in 2017, perhaps deterred by high valuations, private equity funds have become more active buyers of venture-backed companies – representing over 18% of all exits in the US and Europe in 2017, up from nearly 14% in 2016, and double the level seen a decade ago. This trend is likely a result of the maturity of tech companies that are staying private longer, as well as the large base of available capital for tech buyouts. Pitchbook found that 267 tech buyout funds raised capital over the past five years, compared to just 45 funds in the previous five years.

While Amazon's acquisition of Whole Foods for $13.7 billion was arguably the most captivating tech M&A story of 2017, the year started out with Cisco agreeing to acquire venture-backed AppDynamics for $3.7 billion just days before what would have been the first tech IPO of 2017. Cisco's price nearly doubled AppDynamics' 2015 valuation of $1.9 billion, making it the largest venture-backed exit of 2017. However, the year also had its fair share of disappointments as some unicorns became unicorpses (e.g. Simplivity selling to Hewlett Packard Enterprise for $650 million and Apple acquiring Shazam for just $400 million).

With Amazon leading the way as software becomes a core competency of every business, we should see more acquisitions by non-technology companies in search of growth, intellectual property, and talent to defend their businesses.

Performance remained strong

Upper Quartile Vintage Year IRRs



Cambridge Associates as of December 31, 2017.

TOP QUARTILE RETURNS FOR EVERY MEANINGFUL VINTAGE YEAR SINCE 2007 ARE MORE THAN

17%

NET TO LPS

It is now well understood that low absolute returns during the early 2000s were driven primarily by an overcapitalized venture industry, too many funds chasing too few compelling investments, and a dampened exit environment related to the 2008 financial crisis. As we've previously reported, the industry has consolidated meaningfully when measured by the number of active venture firms; this consolidation, combined with a bull market over the last nine years, has contributed to improved returns.

In 2017, there was less of a trend in the movement of individual vintage year IRRs – some years moved higher relative to 2016, while others adjusted lower. The overall pooled return in 2017, net to limited partners, was solid; registering an increase of over 11% as of December 31, 2017. This compares favorably to 2016, when the Cambridge Associates benchmark was up less than 1%. Given the extraordinary strength of the public markets in 2017 however, the one year venture capital index underperformed. Nonetheless, the venture capital index continued to compare favorably and often outperform the major public indices over the longer-term, particularly over the 10- and 20-year periods.

Not surprisingly, strong performance and robust net cash flows back to limited partners contributed to investors' enthusiasm for the venture asset class in recent years, as evidenced by high fundraising levels. Given the lackluster exit environment, fewer distributions are returning to LPs, and we will continue to monitor whether top quartile IRRs will hold up and how well recent strong paper gains can be realized in future years.

Conclusion

What lies ahead?

2018 should be another active and historically high year for fundraising, with more mega funds raised than in 2017. Given the amount of capital in the venture ecosystem – from traditional investors, corporate investors, sovereign wealth funds, and SoftBank – deal volume and valuations should remain buoyant barring a global shock to the financial system or heightened geo-political concerns.

Expectations for 2018 & beyond

Liquidity will remain top of mind for both limited partners and general partners. According to Pitchbook, roughly $600 billion in unrealized returns in the US are locked in companies valued at $1 billion or more. IPOs could accelerate following the successful debuts of DropBox, Spotfiy, and Zscaler in early 2018; other companies may follow Spotify's lead in undertaking direct listings. If the IPO window does not remain open, alternative exit options, such as secondaries or sales to buyout funds and other deep pocketed investors, could become even more commonplace. Lower tax rates and cash repatriation provisions may encourage corporations to make acquisitions.

On a macro-level, the opportunities for investing in technology today have never been more exciting. Technology is invading every market segment of the economy and its inroads into the global economy are accelerating rapidly. According to research by Sequoia, technology companies accounted for just 8% of the market capitalization of the top ten most valuable companies in 1992; whereas in 2017, technology companies accounted for 77%. As one top VC remarked, there will be three to five $100 billion companies over the next three to five years – this is what makes coming to work really exciting. There are large paradigm shifts underway, including artificial intelligence and blockchain technology that will continue to drive innovation for decades. Areas such as space technology, virtual reality, and genomics will continue to capture the imaginations of investors and entrepreneurs.

According to First Round Capital's 2017 State of Startups, 94% of founders think that it's a good time to start a company. Yet founders today must contend with very strong and aggressive incumbents such as Google, Apple, Facebook, and Amazon. Understanding how to work with them, build companies that compete against them, and recruit talent from them is more important than ever.

We fully expect the industry to evolve in 2018 and beyond. While we will report on changes in statistics and trends this time next year, we also hope to report that our industry has made strides in becoming a more inclusive one that treats all of its diverse participants respectfully and equitably. We've already begun to see the conversation turn into action, such as with the formation of All Raise. The technology and venture capital communities will continue full steam ahead to start innovative businesses and create a new generation of iconic companies. And it will feel even better if we do so in a way that makes us proud.

"Following two lackluster years for IPOs, we should see the 'unicorn backlog' of more than 200 venture-backed private companies start to clear out in 2018. Many of the high-growth software companies that have been transforming the tech industry since their founding have been waiting to capitalize until much longer than we've previously seen…we should see many of these high quality companies reveal their financial strength to the public world."

- Byron Deeter, Bessemer Venture Partners

Resources

A note about the data referenced throughout this report: We acknowledge that there are numerous sources of industry data that may differ materially in methodology, breadth, and statistics. We regularly review these sources and, over time, may change the sources we cite. In this year's report, we primarily reference Pitchbook for investing, valuation, and exit activity, and Dow Jones LP Source for venture capital fundraising data. Readers will notice that venture capital investing actually exceeds fundraising for most years; the reason is that investment data includes activities by corporate, government, and other entities, while fundraising data enables analysis of purely institutional venture capital fundraising. True capital invested by institutional venture capital firms is likely lower than the statistics referenced in these analyses, but we believe the data to be directionally accurate. In addition, the data we present has not been adjusted for inflation, so many of the comparisons made between 2017 and 2000 data are even more pronounced.

About TrueBridge Capital Partners

Established in 2007, TrueBridge Capital Partners is an alternative asset management firm focused on generating superior returns in the venture capital industry.

TrueBridge identifies and invests in high-performing, access-constrained venture capital opportunities that generate premium value for its partners. TrueBridge prides itself on a data-driven approach to investing in both venture funds and venture-backed companies. In addition to extensive due diligence processes, the firm regularly gathers, analyzes, and publishes information about the venture industry and trends at truebridgecapital.com/insights. The firm is recognized for its longstanding partnership with Forbes to produce The Midas List, an annual ranking of technology's top investors, The Midas List Europe, and The Next Billion Dollar Startups List.

The State of the Venture Capital Industry is an annual market analysis of key venture capital industry trends spanning fundraising, investments, valuations, exits, and returns.

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