AngelList Venture   svb Silicon Valley Bank

The State of U.S. Early-Stage Venture & Startups: 2Q22

Date: 7/19/22

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Venture Executive Summary

2Q22 represents the largest single-quarter decline in venture capital performance ever observed in our dataset. Activity rate fell by **2.3%** and markup rate fell by **5.5%**. This is the first time both activity and markup rates declined for a given quarter since 2Q20 (although 2Q22 still outperformed 2Q20 by way of markups and activity).

Similar to the broader market, the slowdown on AngelList happened primarily at the later stages. The share of deals that took place at Series B or later declined in 2Q22, while the share of seed-stage deals increased. Additionally, more deals and capital were deployed via SAFEs in 2Q22 than any previous quarter in our dataset (equity and debt rounds both decreased).

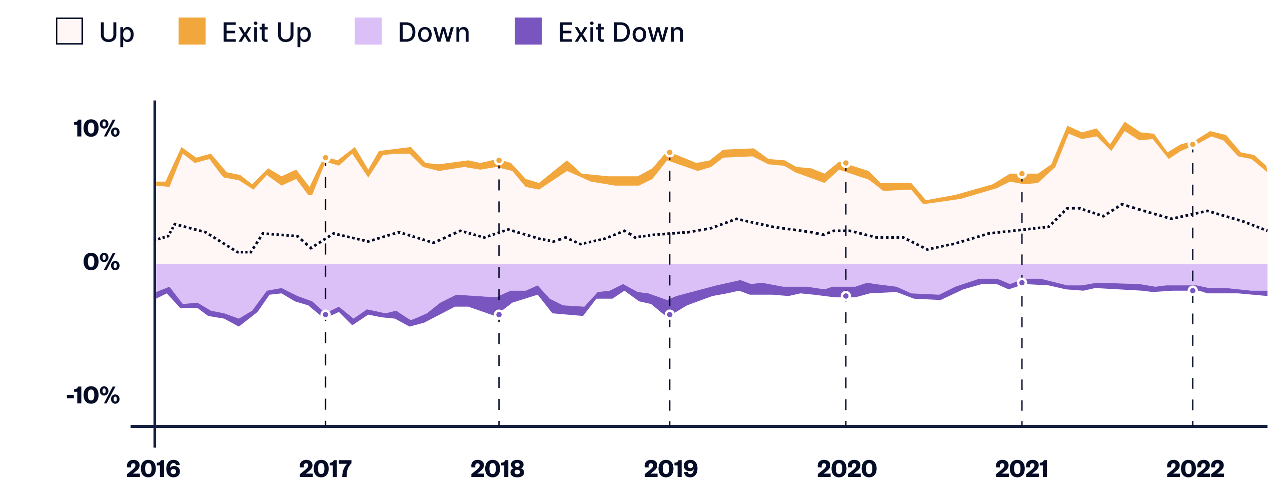
Despite this decline in overall performance, there was some good news for founders. Median valuations for early-stage deals on AngelList held steady in 2Q22, implying strong businesses can still raise at familiar valuations.

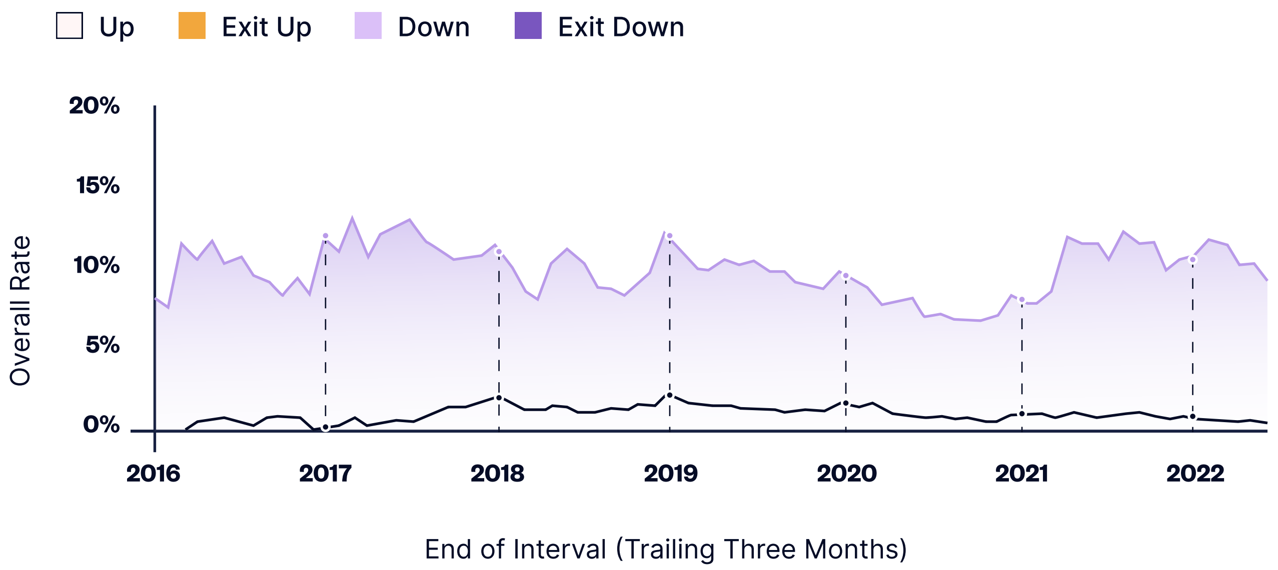
At the same time, funding to female founders fell by **9%**, indicating female founders may **once again** see an outsized negative impact from broader market turbulence. By sector, Web3 startups continued to capture the largest share of deals and capital deployed on AngelList in 2Q22, despite a severe downturn in the crypto markets.

Overall, what we're seeing in the market today is a continuance of what we reported in a **blog post last month:** VC performance is fast returning to pre-pandemic levels.

It remains to be seen if the bleeding has stopped. There's a time lag of several months between when a deal is negotiated and when funding is announced. So while 2Q22 is the first quarter to show a real slowdown in the market, it's possibly not the last.

Markups



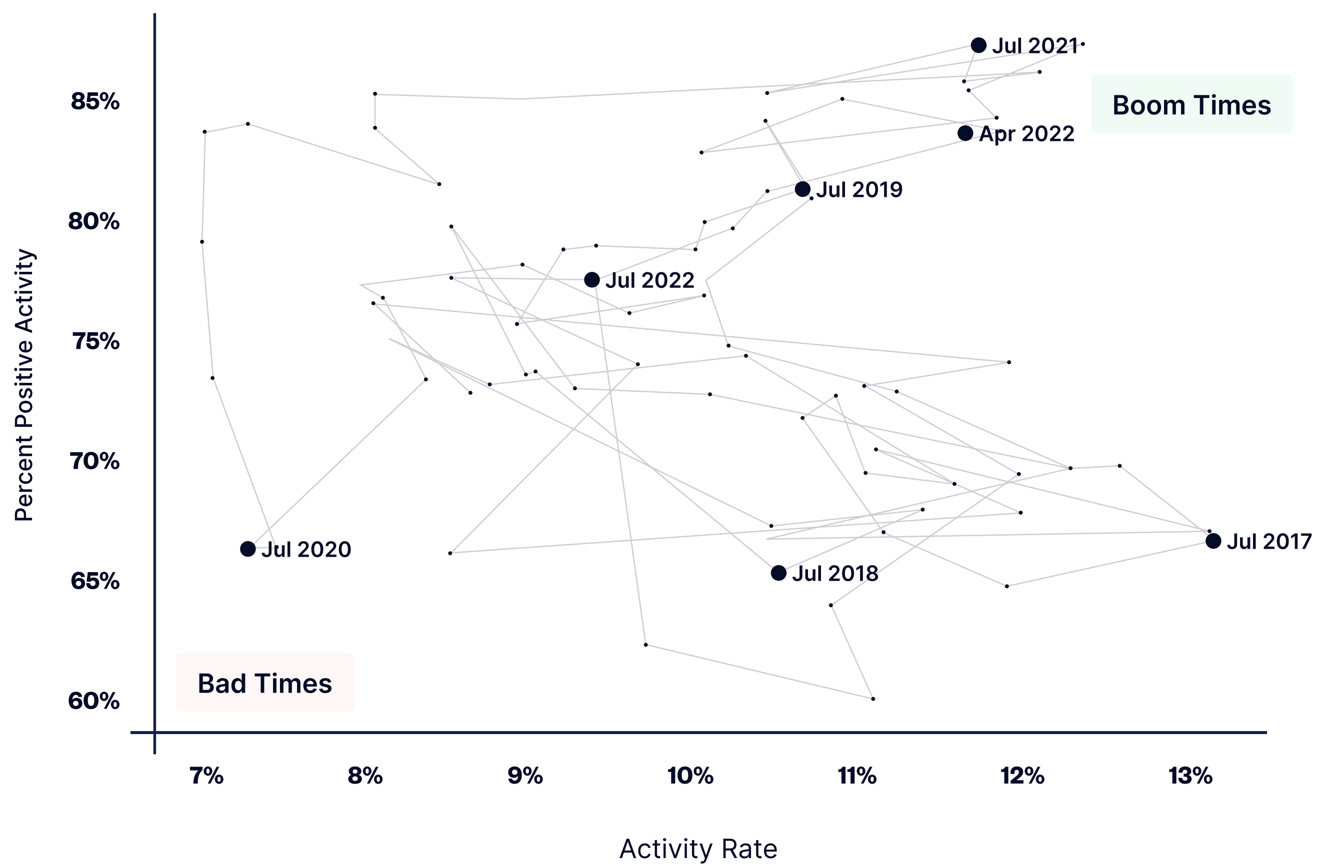


Source: AngelList

AngelList fund managers had seasoned investments into **8,306 startups** at the start of 2Q22, primarily at the seed and pre-seed stages. Of those startups, roughly **9.3%** raised a round or exited in 2Q22. Of that activity, **77.5%** was positive, meaning the startup saw its share price increase. This represents a **5.5%** decline from 1Q22's positive activity rate of **83%**, marking the second largest quarterly drop in positive activity rate ever (after 2Q20).

Overall, **7.2%** of active startups that AngelList fund managers had seasoned investments into at the start of 2Q22 saw a share price increase in 2Q22, while **2.1%** saw a share price decrease relative to their last fundraise ("marked down").

Rate of Activity



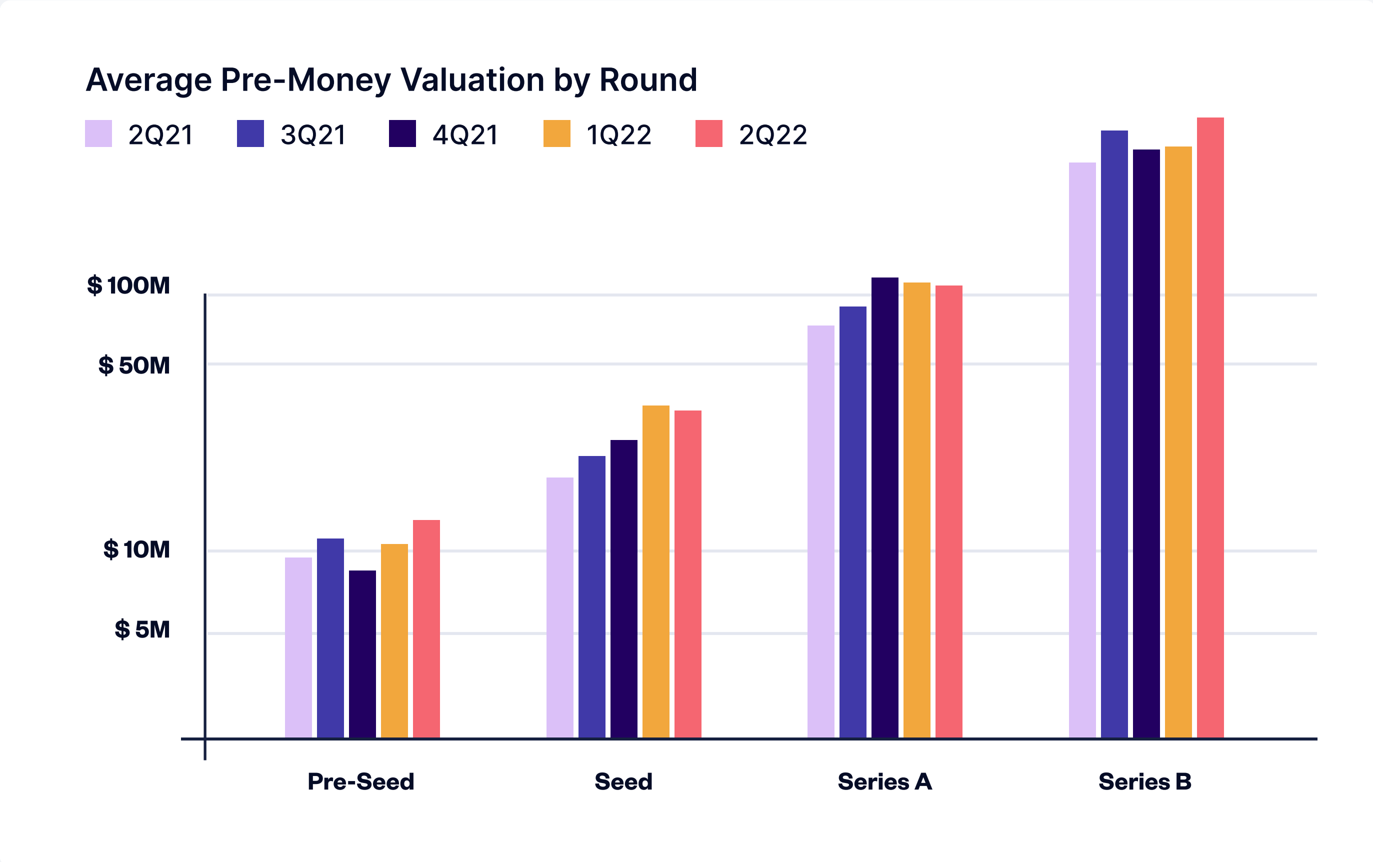
Source: AngelList

After an active 1Q22, the share of startups on AngelList that raised a round or exited in 2Q22 declined by **2.3%** to **9.3%**. Combined with the decline in positive activity, this shift represents the largest quarterly "negative" movement (moving down and to the left on the above chart) ever observed in our dataset.

While the current pullback has been severe, it's worth noting that VC performance as of July 2022 is still considerably stronger than it was during the last market downturn in 2Q20 (**66%** markup rate, **7.3%** activity rate).

The key difference between the current downturn and the 2020 downturn is that today's pullback is coming off a 1.5 year bull run, making the result seem fairly "typical" from a historical perspective (July 2022 sits in the middle of the table). The 2Q20 downturn followed a quarter of "typical" VC activity, making it one of the worst quarters ever (July 2020 sits at the bottom left-hand corner of the table).

Average Valuation



Source: AngelList

Interestingly, startups on AngelList in 2Q22 didn't see the valuation attrition that would be expected in a market downturn—even at the later stages. This suggests that, while fewer startups were able to raise funding, those that did raise a round did so at valuation benchmarks established during the recent bull run.

Average pre-seed valuations jumped **17%** in 2Q22 to **$12.6M**. Seed-stage valuations declined by a modest **3%** to **$33.3M**, and Series A valuations declined by an even more modest **0.4%** to **$99.5M**. Series B rounds actually jumped by **28.8%** to **$418M**.

Median Valuation

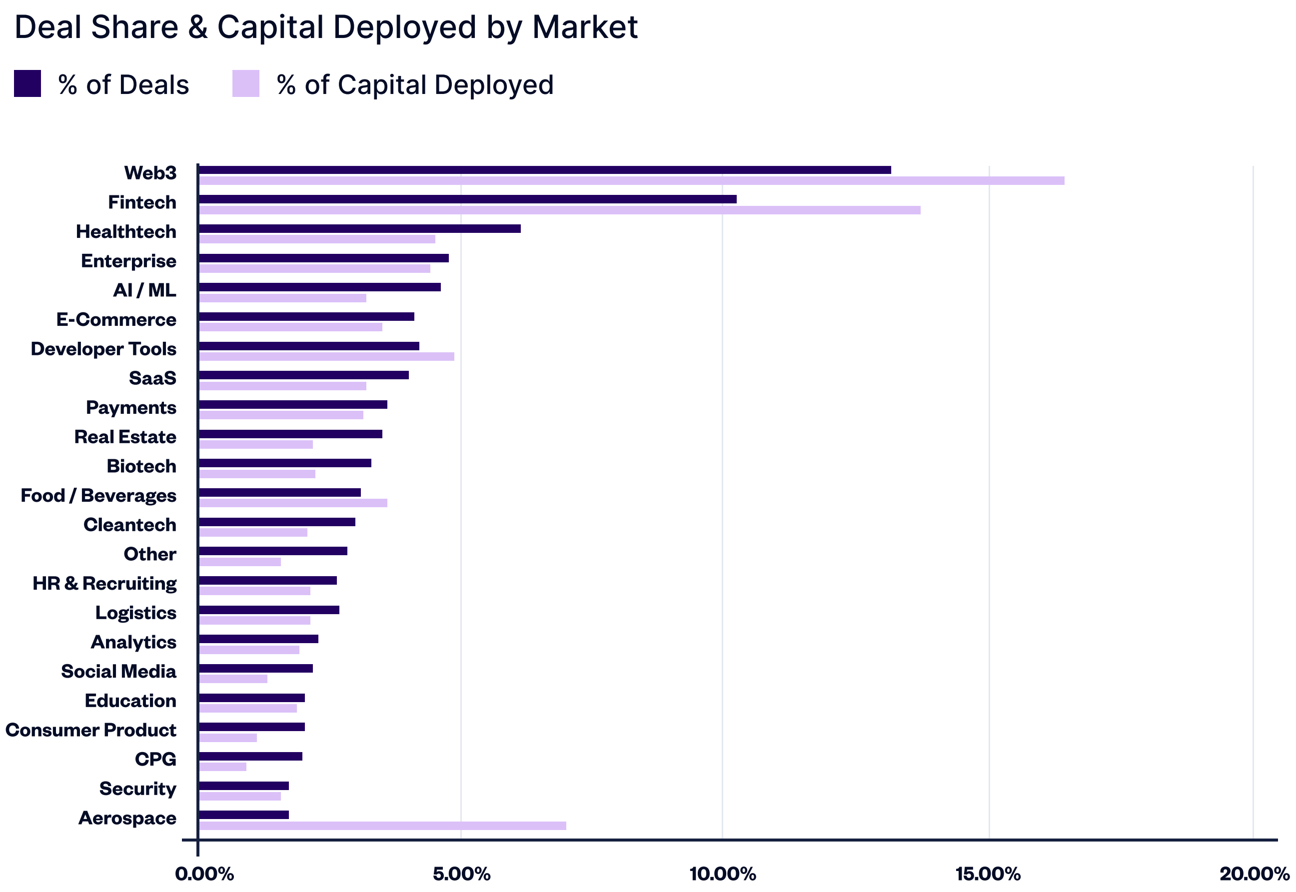
Round Name	25th percentile	50th percentile	75th percentile
Pre-Seed	$6.5M	$10M	$15M
Seed	$15M	$20M	$30M
Series A	$40M	$70M	$105M
Series B	$125M	$235M	$400M

Source: AngelList

Compared to 1Q22, median (50th percentile) pre-seed and seed valuations were flat in 2Q22, while Series A valuations jumped **6%** to **$70M**, and Series B valuations fell **6%** to **$235M**.

The fact that early-stage valuations held steady (and, in the case of Series A, grew) may indicate that early-stage startups haven't been as dramatically impacted by economic turbulence as other sectors of the market.

Early-Stage VC by Market



Source: AngelList

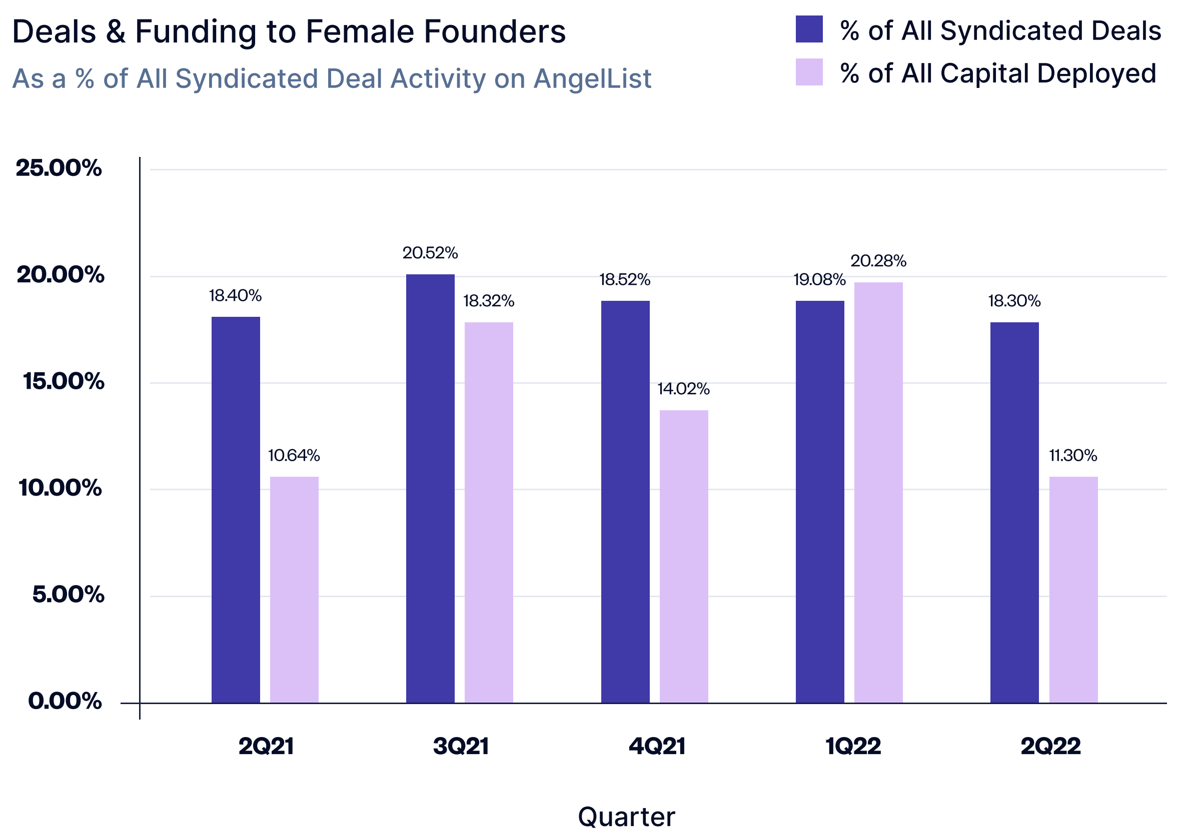
Despite the current "crypto winter," investors on AngelList remained bullish on Web3 startups in 2Q22. **12.8%** of all deals on AngelList and **16.1%** of all capital deployed went to startups in the Web3 sector—the highest quarterly share of deals and capital ever observed for Web3.

Similar to 1Q22, fintech and healthtech were the second and third most popular sectors for investors on AngelList.

Fintech captured **10.1%** of deal share and **13.4%** of capital deployed, while healthtech captured **5.6%** of deal share and **4.4%** of capital deployed. Only one other sector exceeded 5% in either deal share or capital deployed in 2Q22: Aerospace (**6.4%** of capital deployed).

Overall, **31** different sectors captured at least 1% of deal share, and **28** different sectors captured at least 1% of capital deployed.

Funding to Female Founders

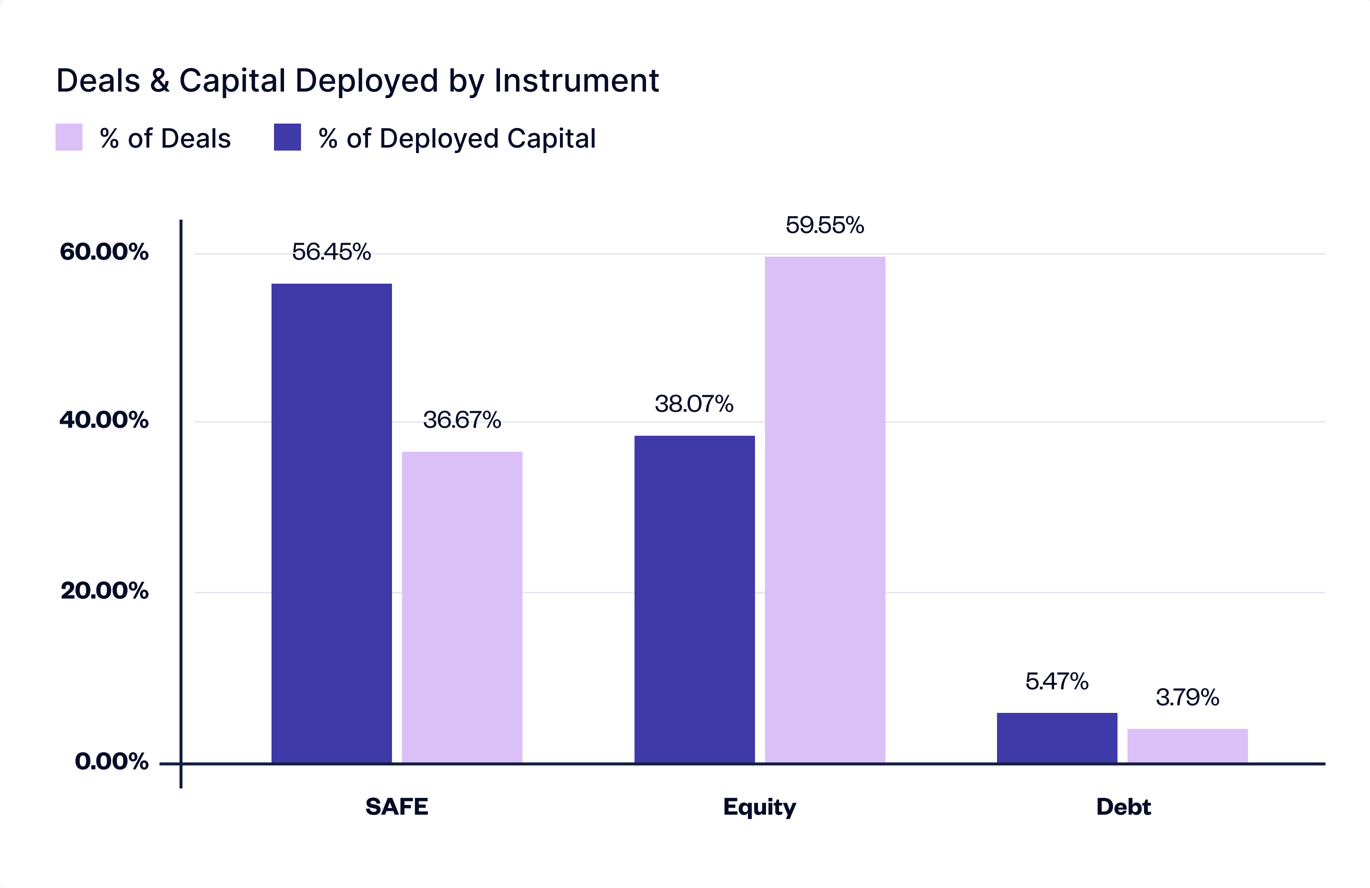


Source: AngelList

While the share of syndicated deals involving female founders held steady in 2Q22, capital deployed to these startups dropped by nearly **9%**. This sharp decline **resembles** the funding impact female founders saw at the onset of the COVID-19 pandemic.

It's worth noting that this decline comes after a record-setting 1Q22 on AngelList for female founders in terms of share of capital deployed. It also resembles the share of funding female founders received in 2Q21, when market conditions were more favorable.

Deals by Instrument



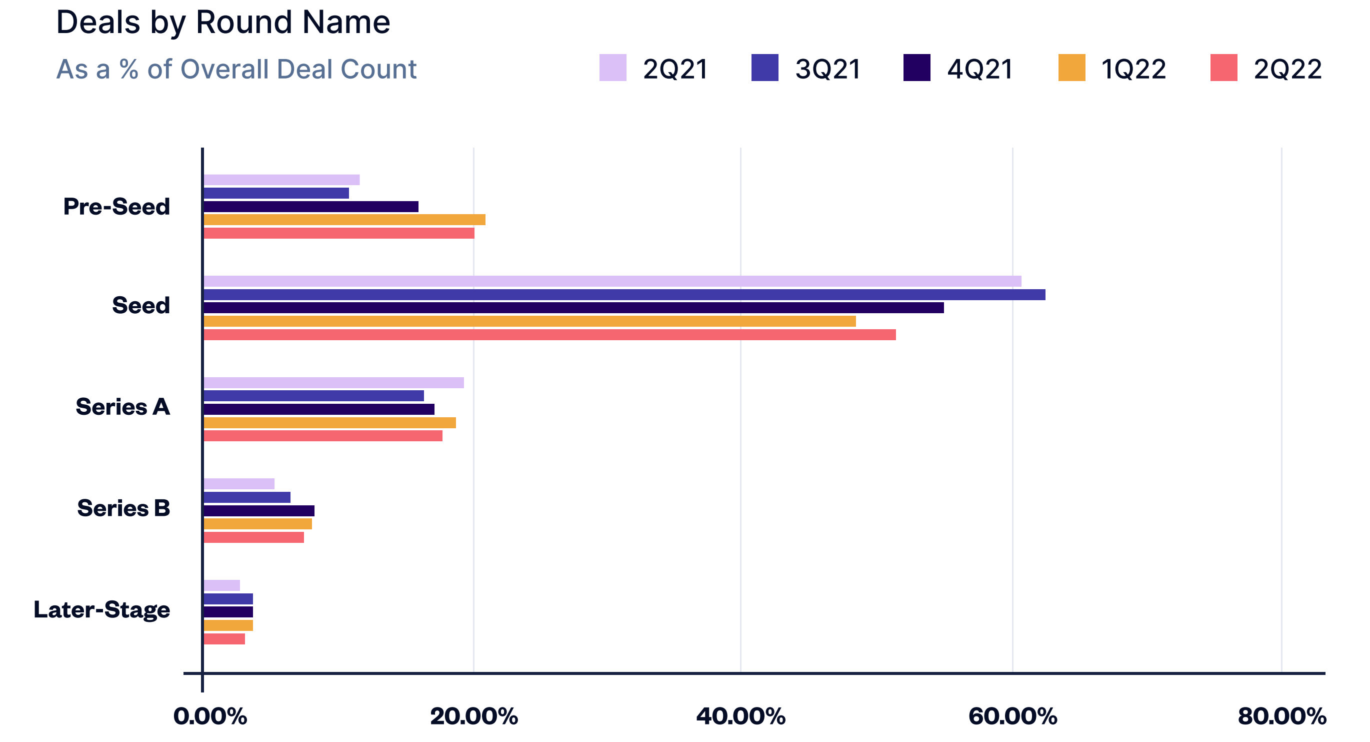
Source: AngelList

2Q22 was a record-setting quarter for SAFE-usage on AngelList. Compared to 2021 averages, the share of rounds done using SAFEs was up **4%** in 2Q22. At the same time, the share of equity rounds fell **3%** (debt rounds saw a more modest decline of **0.8%**).

It's important to note that SAFEs are most often used for early-stage deals, while equity is more common for later-stage deals.

The uptick in SAFE usage in 2Q22 could therefore suggest that investors are refocusing around early-stage startups at a time when tech IPOs have slowed and growth stocks are down.

Deal Share by Round Name



Source: AngelList

The share of seed-stage deals closed in 2Q22 grew by **3.1%** over 1Q22, while Series A and later deals all decreased in dealshare (pre-seed deals also saw a **1%** decline).

The growth in seed-stage deals helps explain the increase in SAFE-usage for AngelList investors, and is another proof point that VCs are potentially reorienting their investment strategy around early-stage startups.

Startup Spend Executive Summary

In 2Q22, early-stage startup spending activity increased over the previous quarter despite a slowdown in the broader market. The total growth in spend across all sectors in 2Q22 averaged **13%**, after averaging **7%** in 1Q22.

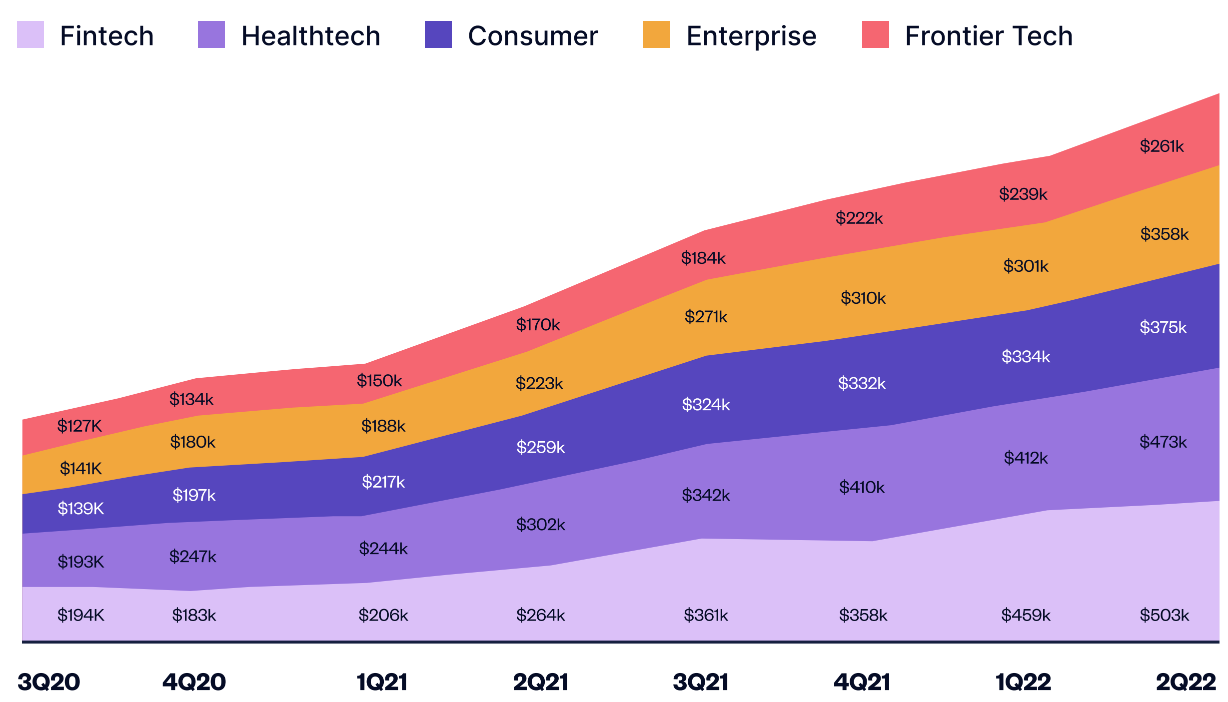
However, growth in payroll spend decreased during this time. Payroll spend averaged **14%** growth between 4Q21 and 1Q22, but slowed to **3%** growth from 1Q22 to 2Q22.

Lower payroll spend may be tied to a decline in startup revenues. Average revenue growth across sectors between 4Q21 and 1Q22 was **28%**. Between 1Q22 and 2Q22, average revenue growth shrank by **5%** overall, with the healthtech and fintech sectors declining **14%** and **12%** respectively.

With shrinking revenues and less available financing, startups are attempting to extend runway by slowing hiring (and, in some cases, laying off workers).

In terms of company formation in 2022, California remains the most popular locale to launch a startup in the U.S., followed by New York and Massachusetts.

Median Quarterly Spend by Sector



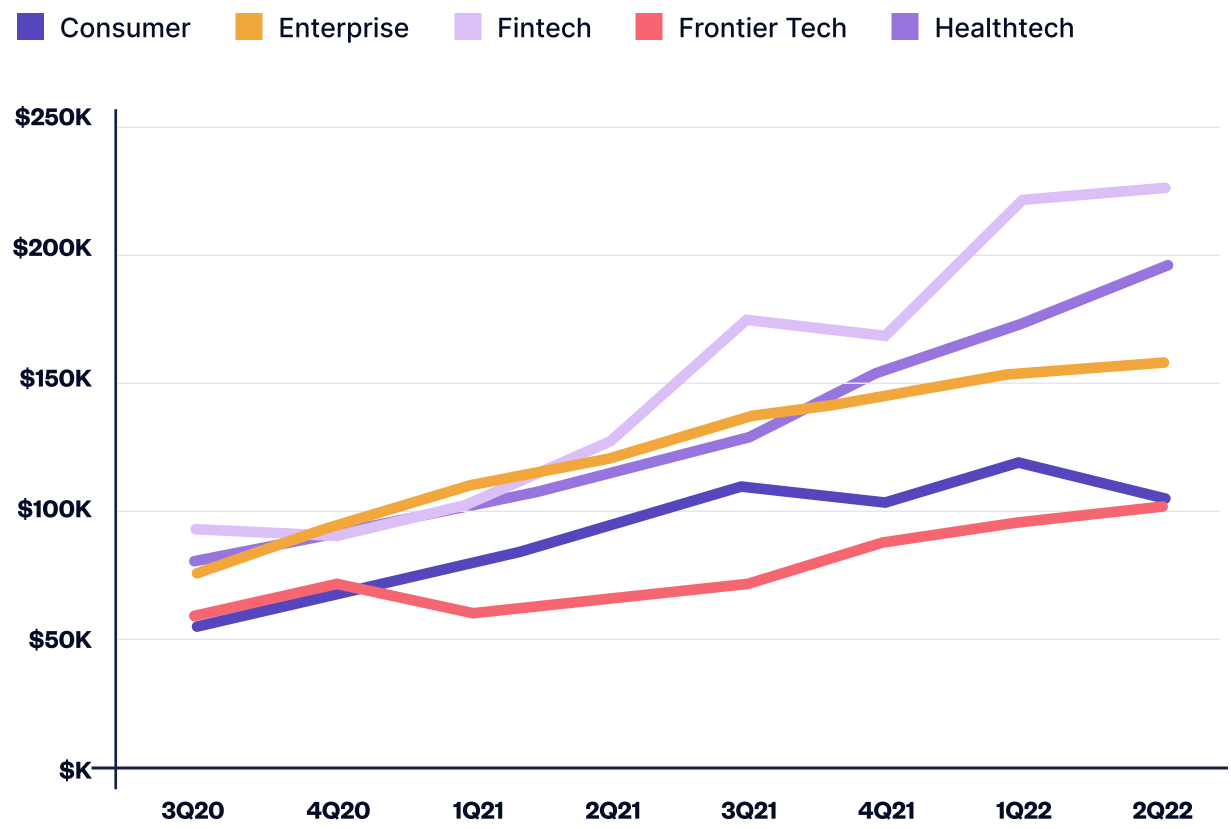
Source: SVB Proprietary Data and Analysis

Early-stage startup spend increased by **6%** over last quarter, but quarter-over-quarter (QoQ) spend growth is significantly lower than year-over-year (YoY) spend growth. This indicates that, while spend is up, it's not growing as fast as prior quarters.

Fintech companies saw QoQ median spend rise **28%** between 1Q22 and 2Q22, and **90%** YoY. Frontier tech companies saw a **9%** increase in median spend QoQ and **54%** increase YoY. Healthtech companies saw a **15%** increase in spend QoQ and **57%** increase YoY. Consumer companies saw a **13%** increase QoQ and **45%** increase YoY. Enterprise companies saw a **19%** increase QoQ and **60%** increase YoY.

Each sector cohort is compiled of U.S. pre-Series A technology and healthtech companies founded between 2018 and 2020 that have payroll spend of at least $1k per quarter for the company. Payroll spend reflects W-2 paychecks for full-time workers, as well as consultants. Payroll does not include equity compensation and other non-cash benefits.

Median Quarterly Payroll Spend by Sector



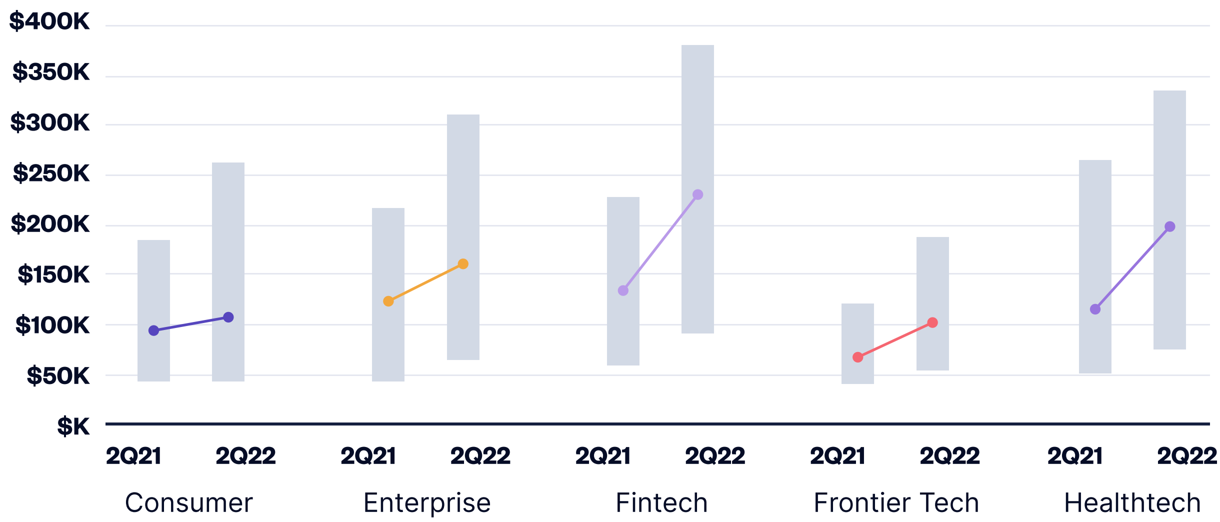
Source: SVB Proprietary Data and Analysis

Payroll spend is showing signs of slowing. In the case of consumer startups, it's already on the decline.

On median, payroll made up of **41%** of overall startup spend across sectors in 2Q22. Healthtech companies saw the largest QoQ increase in median payroll spend, rising **13%** between 1Q22 and 2Q22, and **71%** YoY. Frontier tech companies saw a **5%** increase in median payroll spend QoQ and **52%** YoY. Enterprise companies saw a **3%** increase in payroll spend QoQ and a **32%** increase YoY. Fintech companies saw a **2%** increase QoQ and a **77%** increase YoY. Consumer companies saw a **9%** decline QoQ and a **15%** increase YoY.

Each sector cohort is compiled of U.S. pre-Series A technology and healthtech companies founded between 2018 and 2020 that have payroll spend of at least $1k per quarter for the company. Payroll spend reflects W-2 paychecks for full-time workers as well as consultants. Payroll does not include equity compensation and other non-cash benefits.

Payroll Spend Range by Sector



Source: SVB Proprietary Data and Analysis

To understand the year-over-year changes in payroll spend ranges, we analyzed the lower bound (25th percentile), median (50th percentile), and upper bound (75th percentile) of payroll spend amongst startups in our five sector cohorts in 2Q21 and 2Q22.

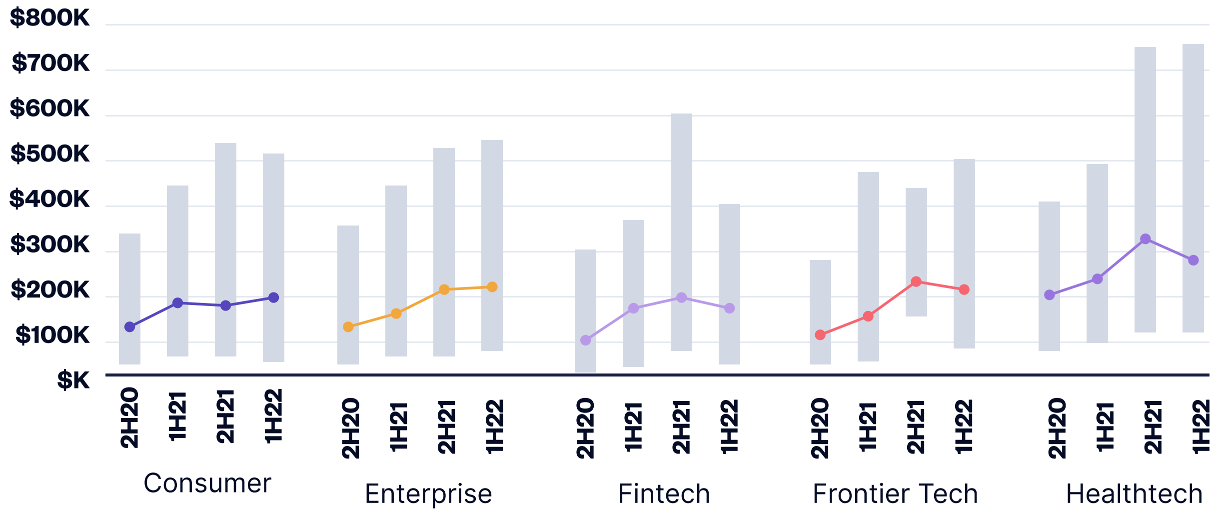
Year over year, the lower and upper bounds have increased in all sectors except consumer—where the 25th percentile dropped from $48k to **$46k**.

In 2Q22, the difference between the upper and lower bound in fintech payroll was **$278k**. This is the widest range of all sectors observed, and the largest increase in range YoY.

Healthtech had the second largest range of payroll spend at **$250k** in 2Q22. Enterprise companies had a **$236k** range, consumer companies had a **$212k** range, and frontier tech companies had a **$161k** range.

Each sector cohort is compiled of U.S. pre-Series A technology and healthtech companies founded between 2018 and 2020 that have payroll spend of at least $1k per quarter. Payroll spend reflects W-2 paychecks for full-time workers as well as consultants. Payroll does not include equity compensation and other non-cash benefits.

Revenue Range by Sector



Source: SVB Proprietary Data and Analysis

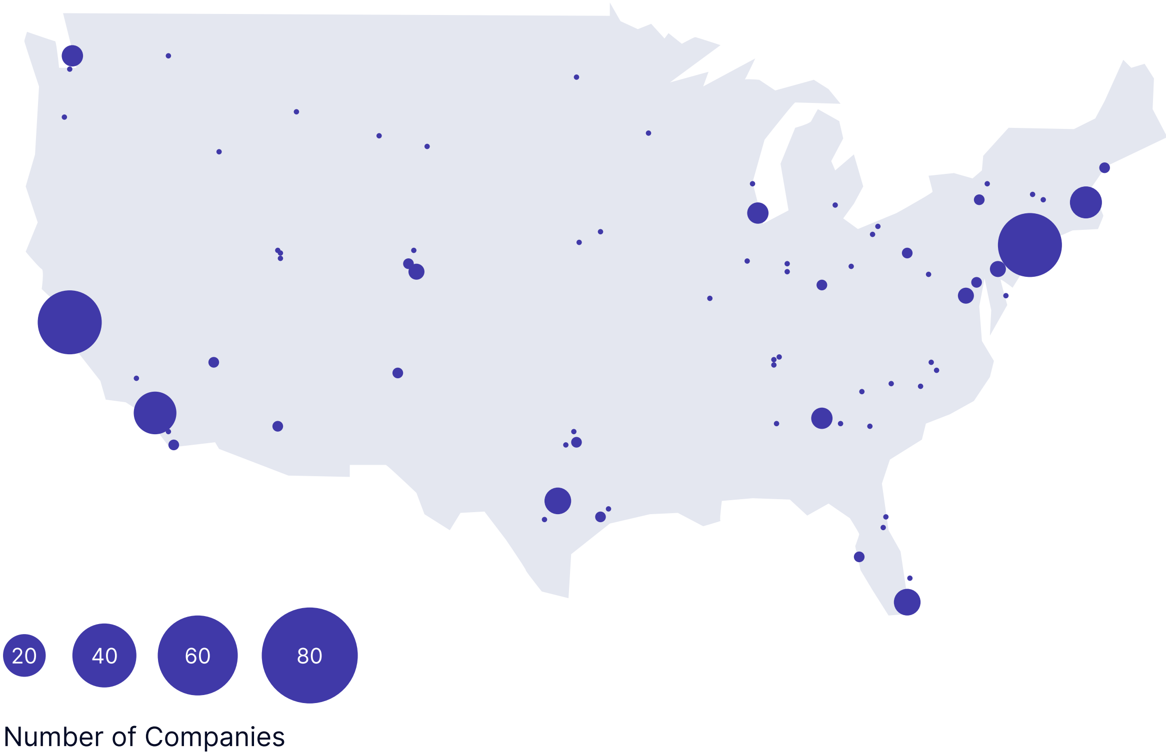
To understand changes in revenue, we analyzed the lower bound (25th percentile), median (50th percentile), and upper bound (75th percentile) of revenues generated by startups in our five sector cohorts over the past two years.

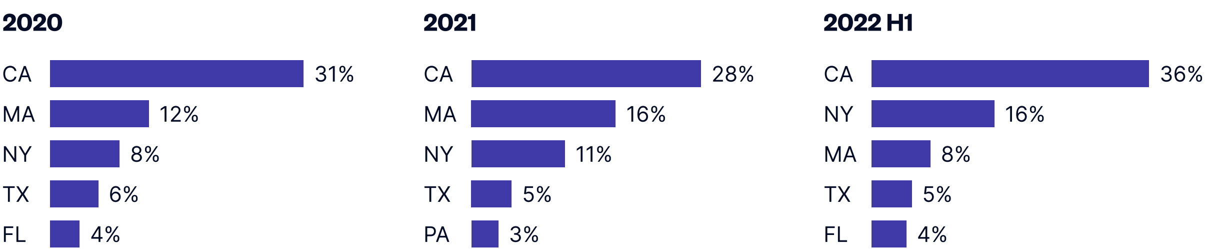
Healthtech revenue spanned **$327k** between the upper and lower bounds. This was the widest range observed. Healthtech also had the highest median revenue at **$258k**. Healthtech startups saw a median revenue decline of **14%** between the second half of 2021 (2H21) and the first half of 2022 (1H22). Fintech company revenues declined **12%** between 2H21 and 1H22 after seeing a **14%** increase between 1H21 and 2H21.

Frontier tech company revenues declined **7%** between 2H21 and 1H22 after seeing a **53%** increase between 1H21 and 2H21. Enterprise revenues grew **3%** between 2H21 and 1H22, and consumer company revenues grew **6%** between 2H21 and 1H22.

Each sector cohort is comprised of U.S. pre-Series A technology and healthtech companies founded between 2018 and 2020 that have annual cash inflows of at least $1k. Approximated annual revenue is based on SVB's proprietary analysis of cash inflows, net of funding events and refunds.

Spotlight: Startup Formation in 1H22





Source: Harmonic.ai, SVB Analysis

In the first half of 2022, there were **504** tech startups with a high likelihood of becoming venture-backed that were founded in the U.S. **36%** of these companies were founded in California—predominantly in the Bay Area. This represents a **5%** increase over the share of startups founded in California over the last two years.

New York was the second most popular locale for startup formation in 1H22 with a **16%** share, followed by Massachusetts at **8%**, Texas at **5%**, and Florida at **4%**.

New York's increasing popularity for founders (seemingly at the expense of Massachusetts) will be a trend to watch in the second half of 2022.

Note: The circle size on the map represents the number of companies founded in a particular geography.

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Silicon Valley Bank (SVB) is the leading bank in the innovation economy. For more than 40 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 has supported approximately 50% of all venture-capital backed tech and life science companies in the U.S. and 55% of U.S. venture-backed IPOs in 2021.

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 and reports** designed to help founders on their startup journey.

About AngelList

AngelList provides investors and founders with the infrastructure they need to launch and scale a fund or startup. As of this writing, we support over $14B assets under management. In **2021**, we participated in 57% 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 the Authors

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Abe Othman started the data science team at AngelList Venture and heads the investment committee for the AngelList Early-Stage Quant Fund, which features the world's only fully automated machine-learning-driven venture investment strategy. He has founded two machine-learning companies with successful exits and invested in dozens of seed-stage companies. He received his A.B. from Harvard in Applied Math and a Ph.D. in Computer Science from Carnegie Mellon.

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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.

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.

This data represents deals signed by GPs on AngelList between 4/1/22 and 6/30/22.

Markups

The “markups” charts represent 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.

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 (8,306). 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.

In both the “markups” and “activity” charts, 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.

Rate of Activity

Only active (not exited) startups that we have a seasoned investment into (an investment at least 180 days old at the start of the three-month period) are considered. Since we detect activity by changes in the latest price-per-share, in some cases if a startup does a "flat" round that does not change the price per share, we may not detect that activity.

Valuations

Based on summary statistics from the pre-money USD valuations of all the rounds within the interval.

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 $100 million, (ii) the investment is estimated to be worth over $10 million 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.

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 2Q22.

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 2Q22.

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 for 2Q22.

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 for 2Q22.

Deals by Instrument

Deals by instrument were determined by adding up all deals completed in 2Q22 that were assigned a specific instrument tag at deal close. This number was then expressed as a percentage of overall deal count in 2Q22. Preferred investment instrument by round name was determined by adding up all deals assigned to a specific round in 2Q22 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 2Q22.

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, 3Q21, 4Q21, 1Q22 and 2Q22 at deal close. This number was then expressed as a percentage of the overall deal count that took place within the measured time period.

Emerging Tech Companies

Transaction data is pulled for a cohort of U.S.-based emerging tech companies (defined as companies that are pre-Series A).

Median Spend by Sector

A cohort of emerging technology companies broken into select sectors: consumer, fintech, enterprise, healthtech and frontier tech (i.e. applied robotics, transportation, semiconductors, aerospace and consumer electronics). Median spend is aggregated by quarter. Data gleaned from SVB transaction analysis.

Median Payroll Spend by Sector

A cohort of emerging technology companies broken into select sectors: consumer, fintech, enterprise, healthtech and frontier tech (i.e. applied robotics, transportation, semiconductors, aerospace and consumer electronics). Median payroll spend is aggregated by quarter. Data gleaned from SVB transaction analysis.

Median Cash Inflows

Median cash inflows, which do not include funding events, is aggregated per year for a cohort of emerging tech companies in the consumer, fintech, enterprise, frontier tech and healthtech sectors. Data gleaned from SVB transaction analysis.

Company Formation by Locale

Data on U.S.-based tech companies founded in 2022 are pulled from Harmonic.ai, a database of startup formation and fundraising for venture-backed (or on the path to be venture-backed) tech and healthtech companies. The locations are aggregated in Tableau.