AngelList Venture   svb Silicon Valley Bank

The State of U.S. Early-Stage Venture & Startups: 3Q22

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Venture Executive Summary

In 3Q22, early-stage venture performance continued its downward spiral from the heights of the post-COVID bull market. All in, the third quarter showed the lowest rate of positive venture activity (i.e. “markups”) ever observed in our data set, while deal volume decreased to levels not seen since the onset of the pandemic.

The slowdown in deal volume was seen at all funding stages, indicating that turbulence in the broader market has finally trickled down to early-stage startups (previously, most of the negative activity was related to later-stage deals). Notably, the share of capital deployed via equity rounds fell off sharply in the third quarter, while the share of capital deployed via SAFEs and debt both continued to increase.

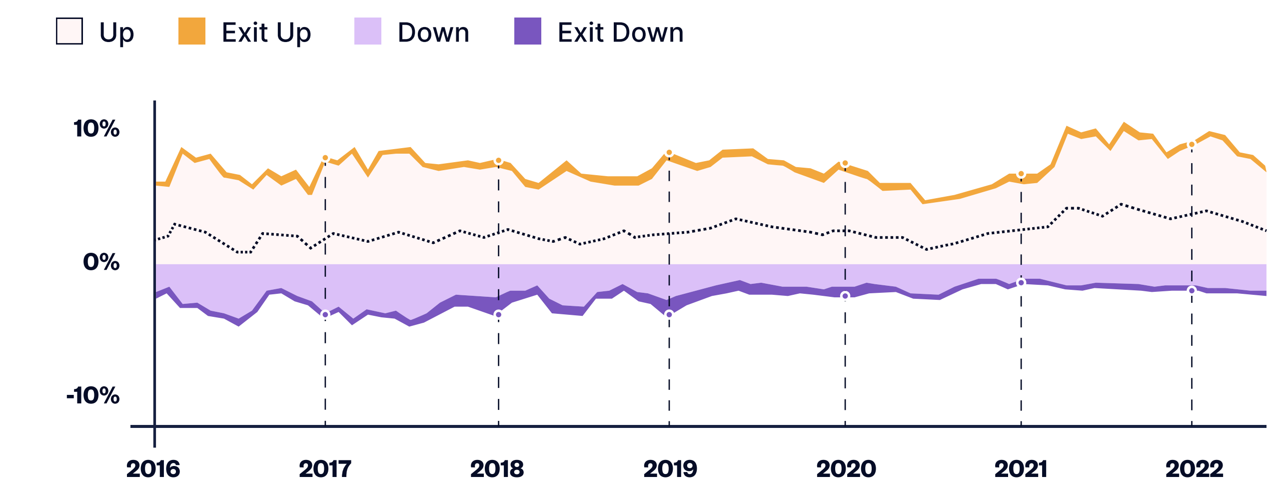
Despite fewer deals, early-stage startup median valuations remained consistent with previous quarters, while later-stage valuations further declined (average valuations declined across all stages).

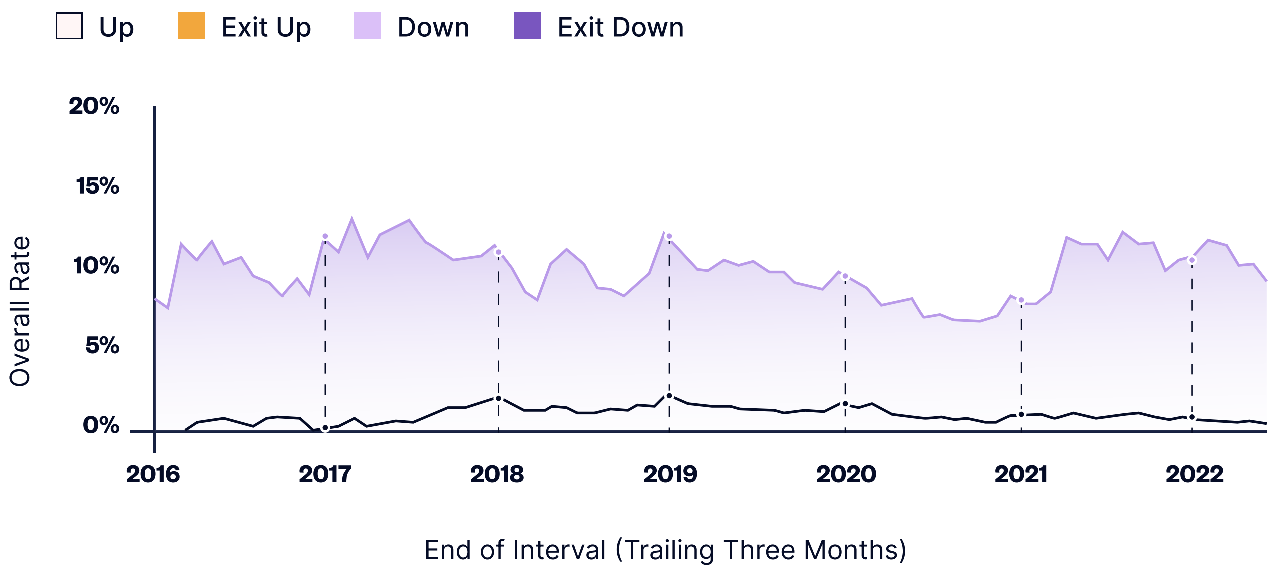
After three straight quarters capturing the largest share of deals, Web3 was supplanted by fintech as the most popular investment category in 3Q22. Waning investor enthusiasm in Web3 startups on AngelList coincides with a prolonged slump in the cryptocurrency markets.

Despite a worsening fundraising atmosphere, funding to female-founded startups actually rebounded after a dip in 2Q22.

In last quarter’s report, we described VC’s declining performance as a “return to normalcy” after an extreme bull run. 3Q22’s data suggests the pendulum has now swung in the opposite direction, with many investors pulling back sharply despite **enormous amounts of dry powder**. Overall, the severity of the decline in early-stage venture performance over the past 12 months is without precedent.

Markups



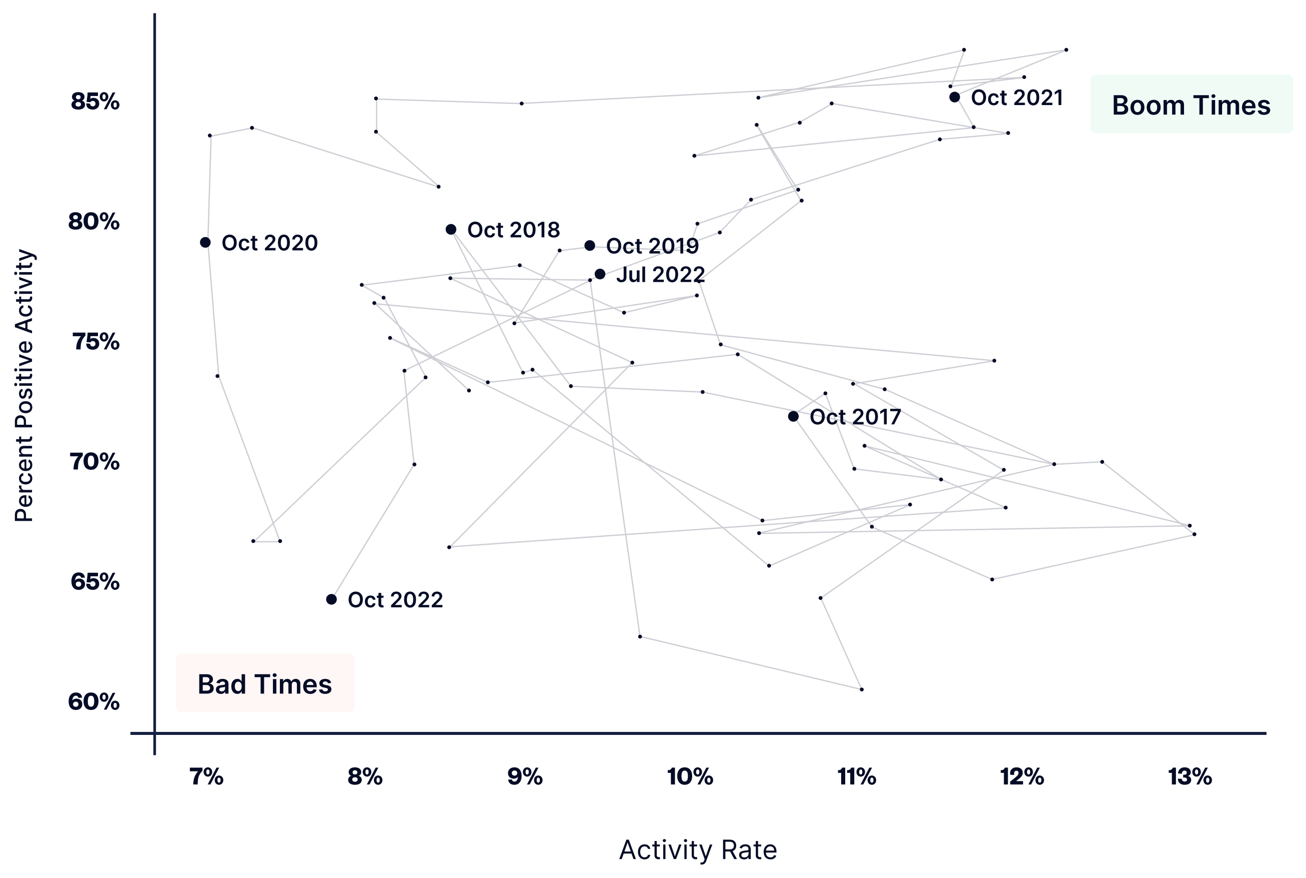


Source: AngelList Venture

AngelList fund managers had seasoned investments into **9,934 active startups** at the start of 3Q22, primarily at the seed and pre-seed stages. Of those startups, **7.4%** raised a round or exited in 3Q22. Of that activity, **63.4%** was positive, meaning the startup saw its share price increase. This represents a **14.1% decline** from last quarter's mark of **77.5%**, and a **23.6%** decline from the positive activity rate at the end of 3Q21.

Overall, **4.7%** of active startups that AngelList fund managers had seasoned investments into at the start of 3Q22 saw a share price increase, while **2.7%** saw a share price decrease relative to their last fundraise ("marked down").

Rate of Activity



Source: AngelList Venture

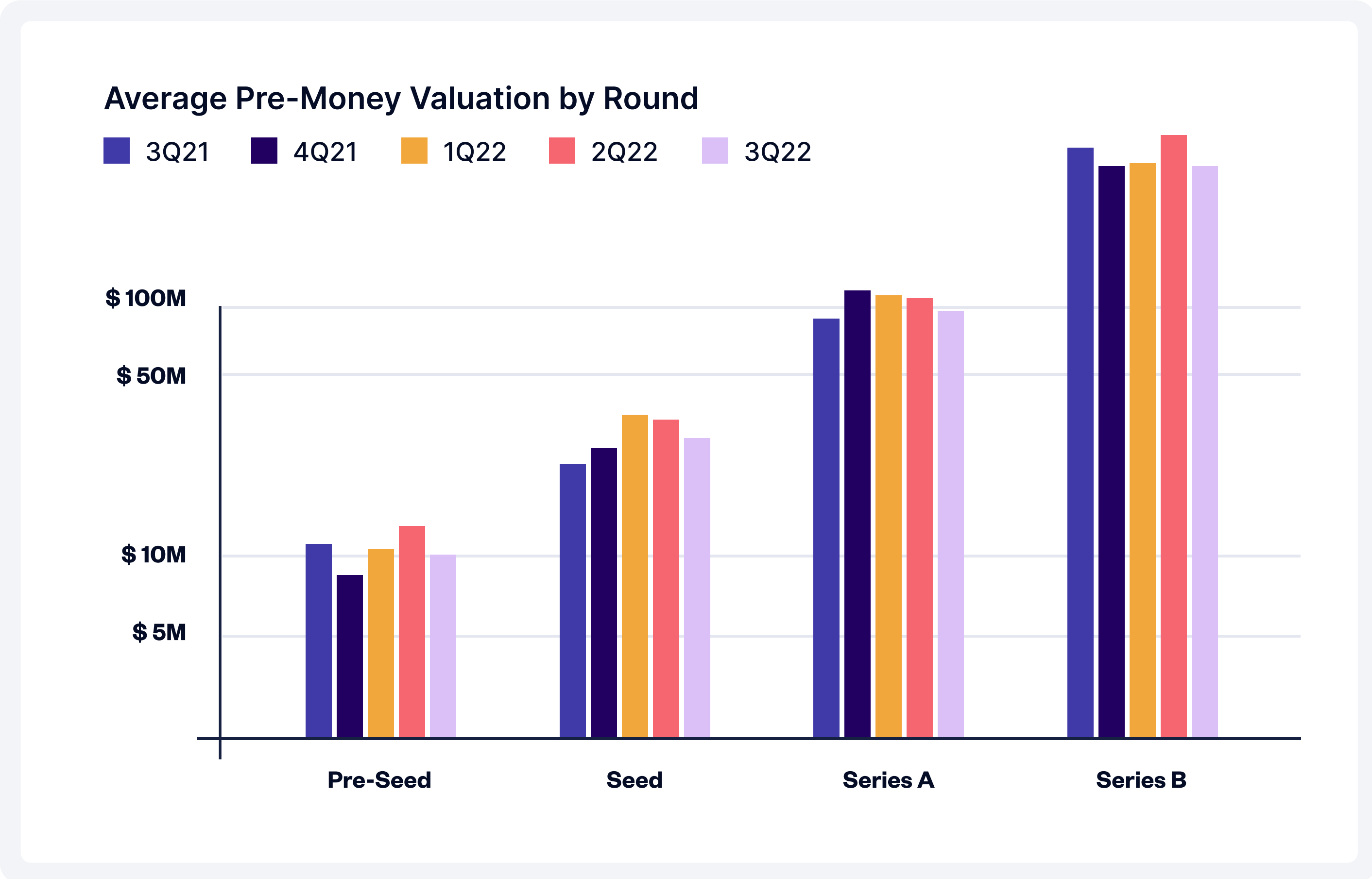
After dropping by **2.3%** last quarter, the share of startups that raised a round or exited in 3Q22 declined by another **2.2%** in 3Q22 to **7.4%**. This nearly matches the activity rate during the last market downturn in 2Q20 (**7.3%**), and is a severe pullback from 3Q21's rate of **11.3%**. Put simply, less deals are getting done.

Of the deals that are getting done, the terms are less founder-friendly (as evidenced by the "markups" data). The **63.4%** positive activity rate on 3Q22 deals is lower than 2Q20's rate of **66%,** meaning a smaller portion of startups on AngelList are able to raise at a valuation increase today than they were during the early stages of the pandemic.

3Q22's combined activity rate and markup data make it the most worst performing quarter ever observed in our dataset, while the decline in performance from 3Q21 (top-right of the chart) to 3Q22 (bottom left) is the largest one-year drop on record.

Rather than returning to normalcy, the data indicates the VC market has pulled all the way back to performance levels not seen since the last recession.

Average Valuation



Source: AngelList Venture

In 3Q22, average startup valuations declined at every fundraising stage relative to the previous quarter. Pre-seed valuations declined by **19.4%** to **$10.2M**, seed-stage valuations declined by **15.9%** to **$28M**, Series A valuations declined by **13.1%** to **$86.6M**, and Series B valuations declined by **28%** to **$301M**.

Note: that averages can be skewed by outliers.

Median Valuation

Round Name	25%	50%	75%
Pre-Seed	$6M	$10M	$15M
Seed	$15M	$20M	$30M
Series A	$35M	$50M	$80M
Series B	$90M	$175M	$300M

Source: AngelList Venture

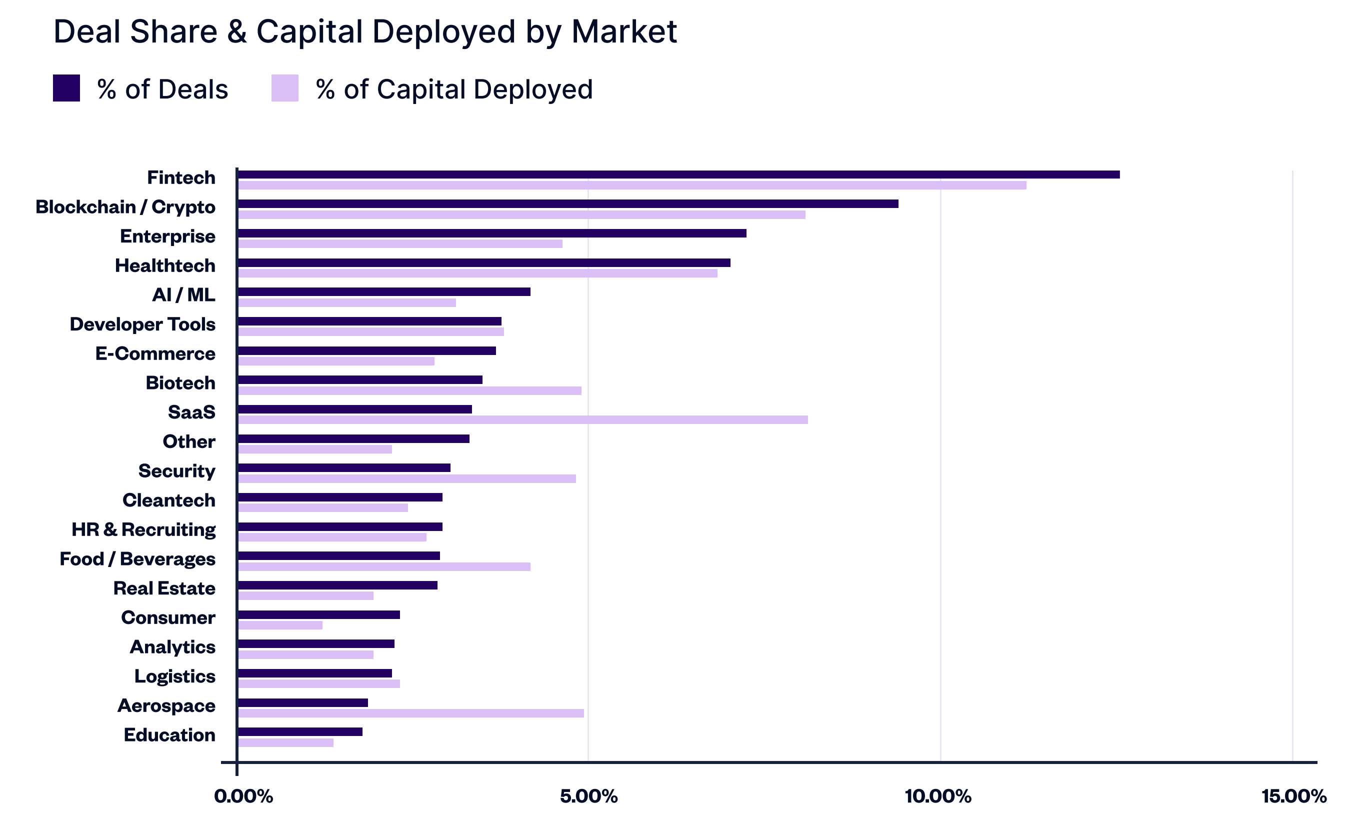
Surprisingly, median (50th percentile) early-stage valuations held steady in 3Q22, despite a severe downturn in overall venture performance. The median pre-seed and seed-stage valuations of $10M and $20M respectively have remained consistent dating back to 1Q22. Median Series A valuations declined by **29%** in 3Q22 to **$50M**, and Median Series B valuations declined by **26%** to **$175M**.

Why are median early-stage valuations still so high? One possibility is inflation. Early-stage funding generally goes towards employee salaries. As inflation is causing salaries to increase, founders must raise more money for the same runway. Our data indicates there hasn't been an increase in founder dilution, so companies raising more money to cover salaries are needing to do so at higher valuations.

Another possibility for the elevated valuations is the gradual rebranding of "seed" rounds as "pre-seed" rounds. If this were the case, we'd expect to see a dramatic increase in the number of pre-seed rounds relative to seed rounds, since more deals that were once labeled (and valued) as "seed" rounds are now being promoted as "pre-seed" rounds.

According to the data, this is exactly what appears to be happening: In 2Q21 there were almost five times as many finalized seed deals as pre-seed deals, but in the most recent quarter there were only 77% more seed deals than pre-seed deals. This suggests deals that would have been classified as "seed" deals in the past are now being classified as "pre-seed" deals, despite having valuations that previously were associated with seed (or even Series A) rounds.

Early-Stage VC by Market



Source: AngelList Venture

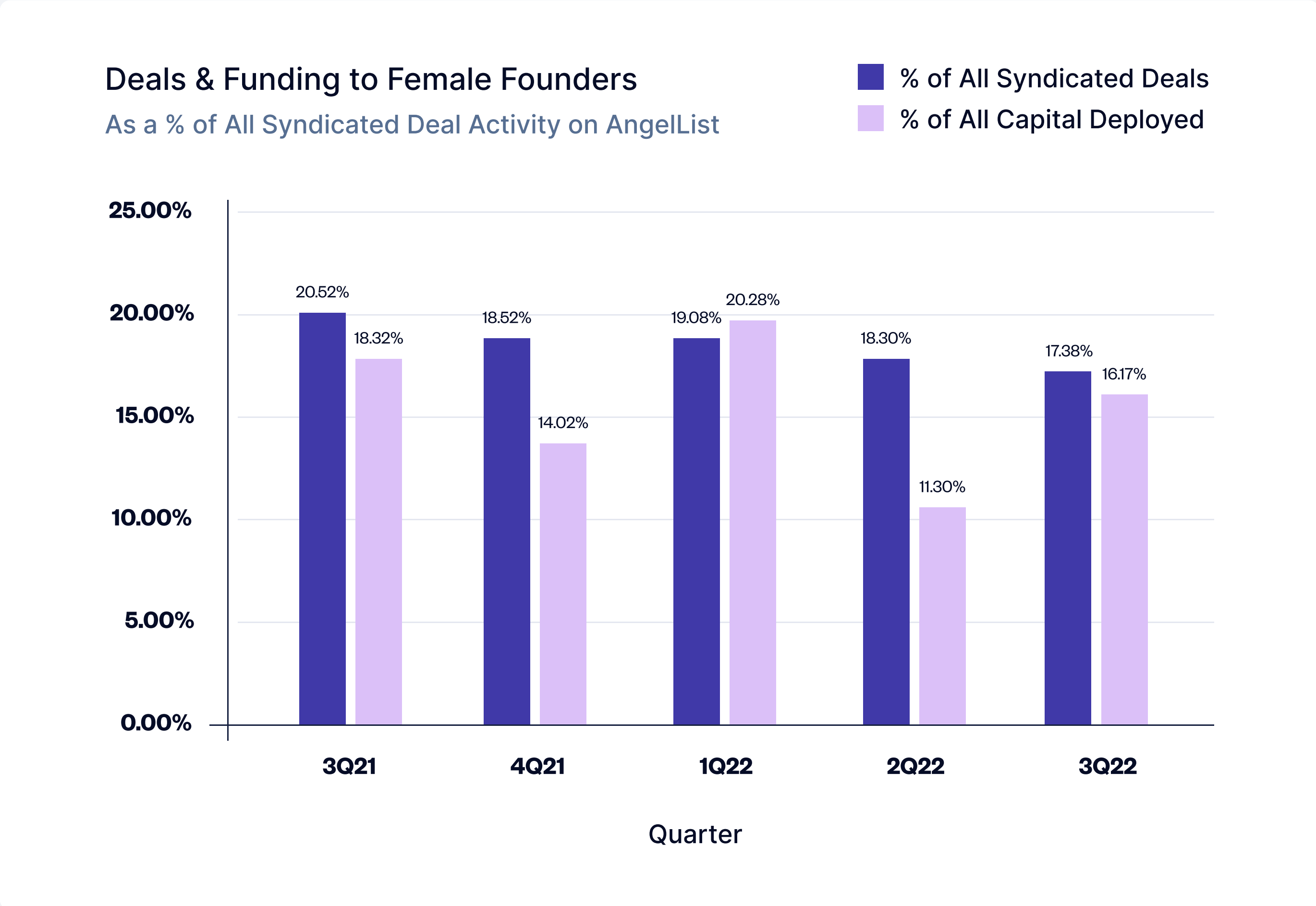
3Q22 represents the first quarter since 4Q21 that blockchain / crypto startups failed to capture the largest portion of deal share. Investment in blockchain / crypto startups comprised **9.6%** of all deals and **8.1%** of all capital deployed in 3Q22 — down from **12.8%** of all deals and **16.1%** of all capital deployed in 2Q22.

Fintech was the most popular sector to invest in with **12.6%** of all deals and **11.3%** of all capital deployed in 3Q22. SaaS comprised only **3.3%** of all deals in 3Q22, but tied with blockchain / crypto for the second largest share of capital deployed at **8.1%**.

Healthtech and aerospace captured the third and fourth largest shares of capital deployed in 3Q22, with **6.9%** and **5%** respectively.

Overall, **29 different sectors** captured at least 1% of deal share, and **27 different sectors** captured at least 1% of capital deployed.

Funding to Female Founders

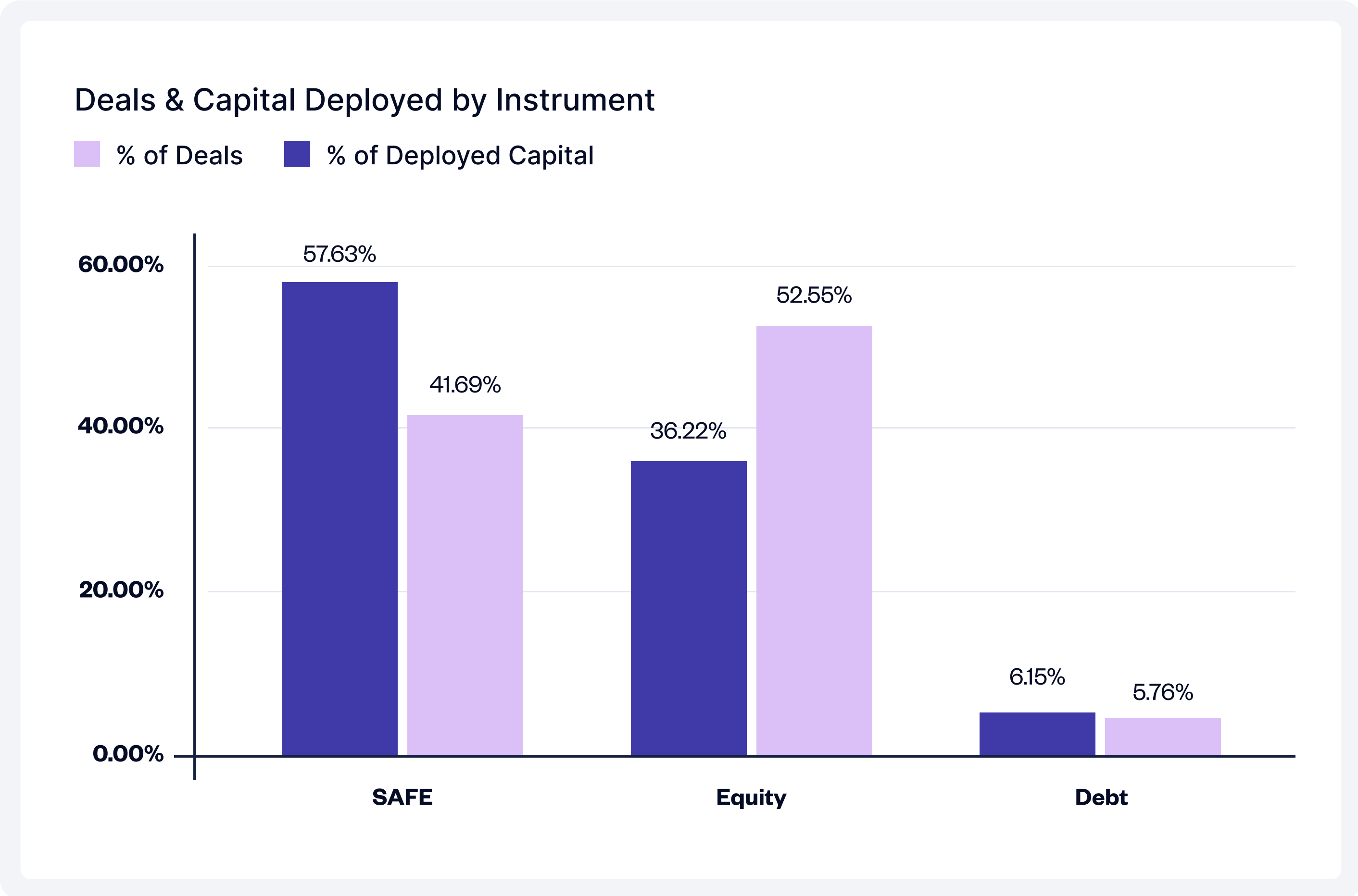


Source: AngelList Venture

After declining by 9% in 2Q22, capital deployed to female-founded startups rebounded in 3Q22 to a level more consistent with previous quarters. This bucks a historical trend **we've observed in the past**, where female founders experience an outsized negative impact in unfavorable fundraising environments, relative to their male counterparts.

Overall, the share of syndicated deals on AngelList to female founders dropped by almost **1%** in 3Q22, while the share of capital deployed to female founded startups grew by nearly **5%**.

Deals by Instrument

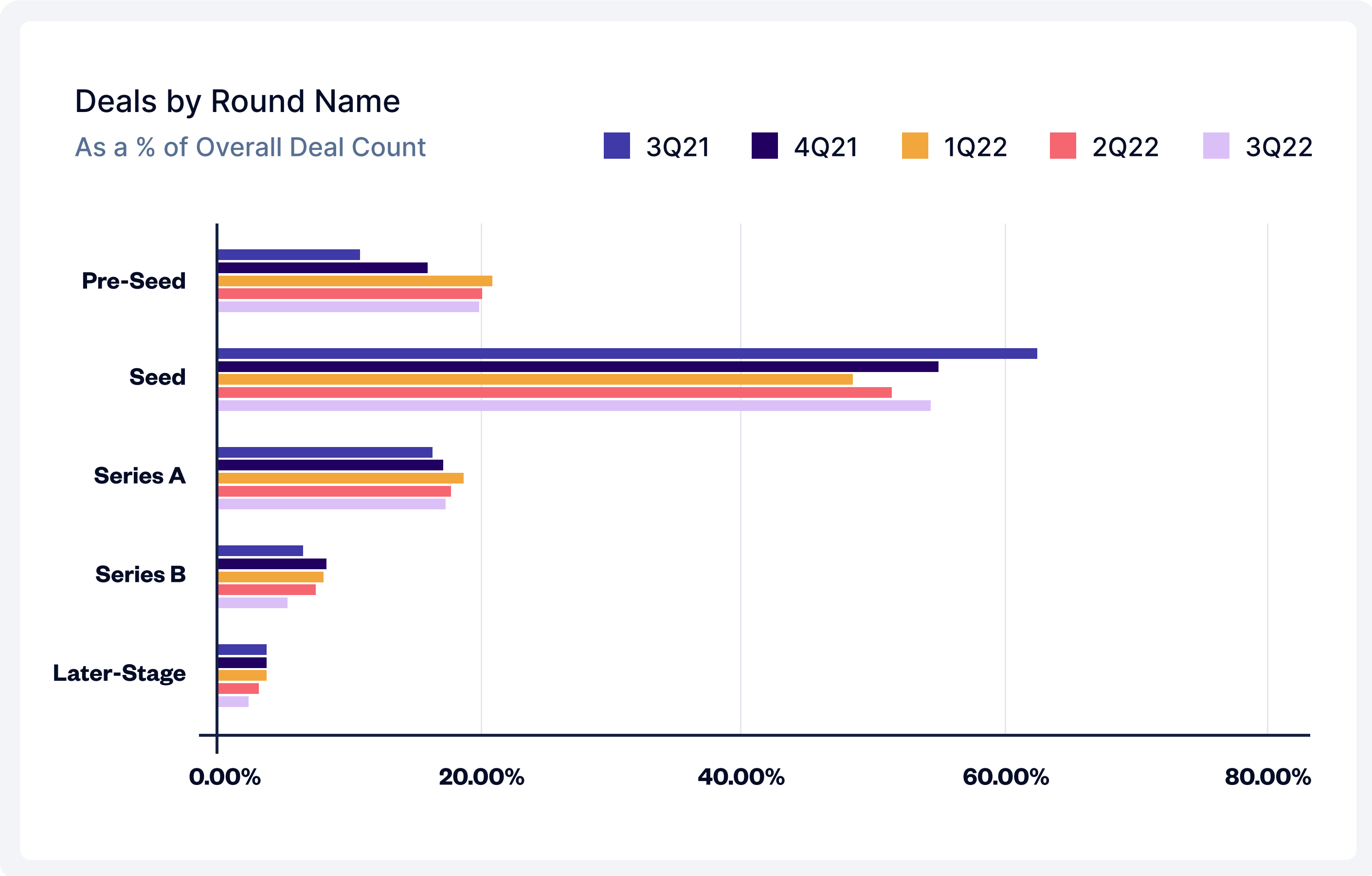


Source: AngelList Venture

In 3Q22, the share of capital deployed via equity deals on AngelList declined by **7%**, while the share of capital deployed via SAFEs increased by **5%** over the previous quarter. At the same time, the share of deals using SAFEs saw a slight uptick in 3Q22 after a record-setting 2Q22 for SAFE usage. The share of equity rounds saw a decrease of nearly **2%**.

Given that SAFEs are typically used for early-stage deals, and equity is reserved for later-stage deals, the data suggests activity on AngelList is increasingly moving towards early-stage at a time when the IPO window for tech startups has all but closed. It's clear market conditions remain unfavorable for later-stage founders.

Deal Share by Round Name



Source: AngelList Venture

The share of seed-stage deals closed on AngelList in 3Q22 increased by roughly **3%** over the previous quarter, while the share of later-stage deals decreased. This data tracks with our observations around increased SAFE usage and a decrease in equity financing rounds.

The share of pre-seed deals closed in 3Q22 remained largely consistent with the previous quarter.

Startup Spend Executive Summary

In 3Q22, early-stage startup spending activity decreased over the previous quarter, mirroring activity in the broader market. Median spend across all sectors declined by **0.2%** quarter-over-quarter (QoQ). Comparatively, last quarter median QoQ spend had increased by **11%.**

Payroll growth also declined by **2%** quarter-over-quarter. Last quarter we noted payroll growth was still positive but beginning to flatten.

Between 1Q22 and 2Q22, we saw **3%** median growth across all sectors, which is a far cry from the **13%** growth we saw between 4Q21 and 1Q22.

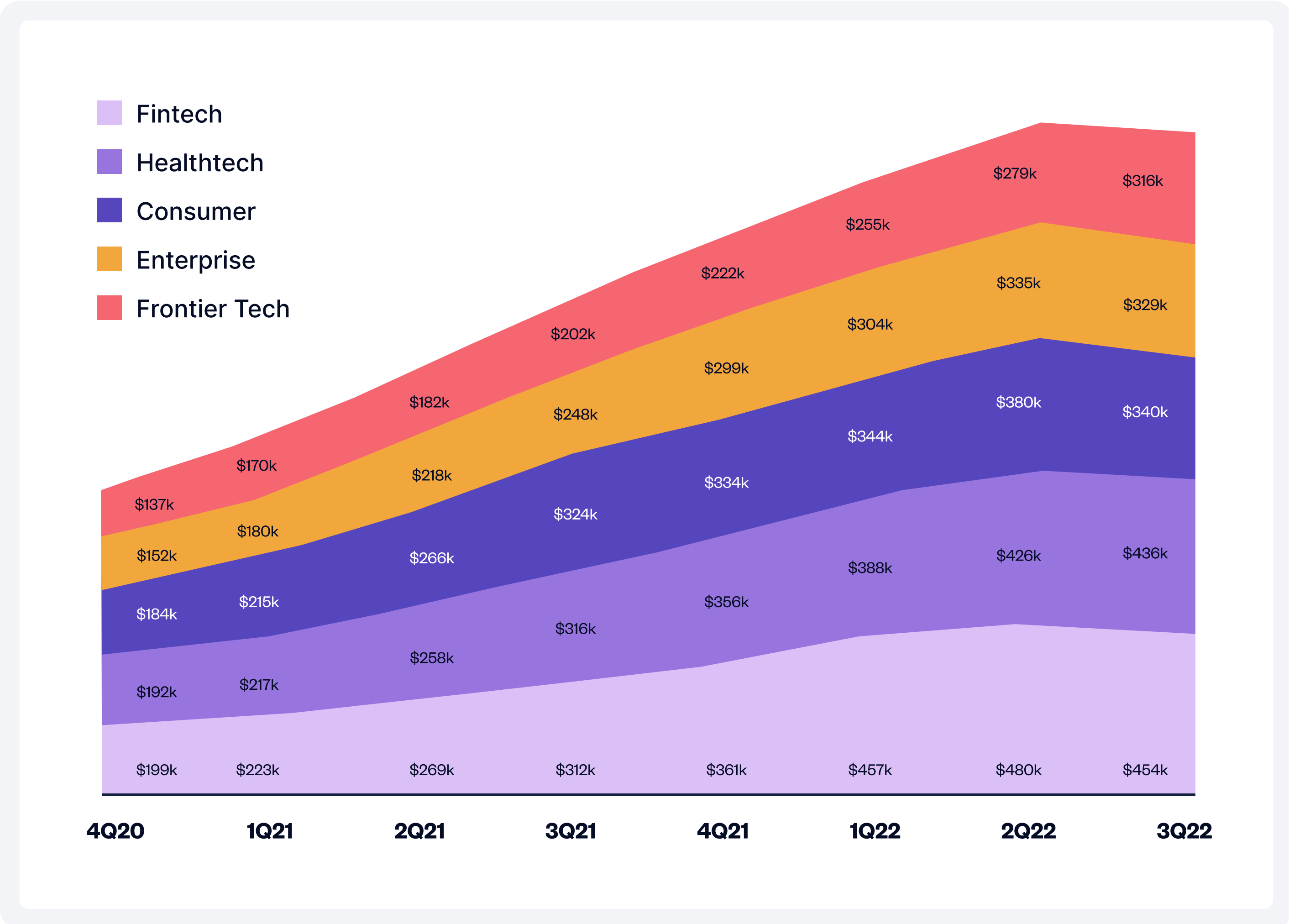
Lower overall spend and payroll spend may be tied to shrinking revenues. Median revenues QoQ declined by **3%**.

For this quarter's spotlight, we looked at crypto and blockchain company formation since 2015.

Company formation declined in tandem with the price of crypto assets. We observe this trend follows the recent price decline of Bitcoin—a commonly used proxy for the overall crypto market.

As the dust settles, we take stock of the landscape, which includes the emergence of new hubs. Given the level of investment in the space, we expect a new wave of applications and use cases to emerge despite the current slowdown.

Median Quarterly Total Spend by Sector



Source: SVB Proprietary Data and Analysis

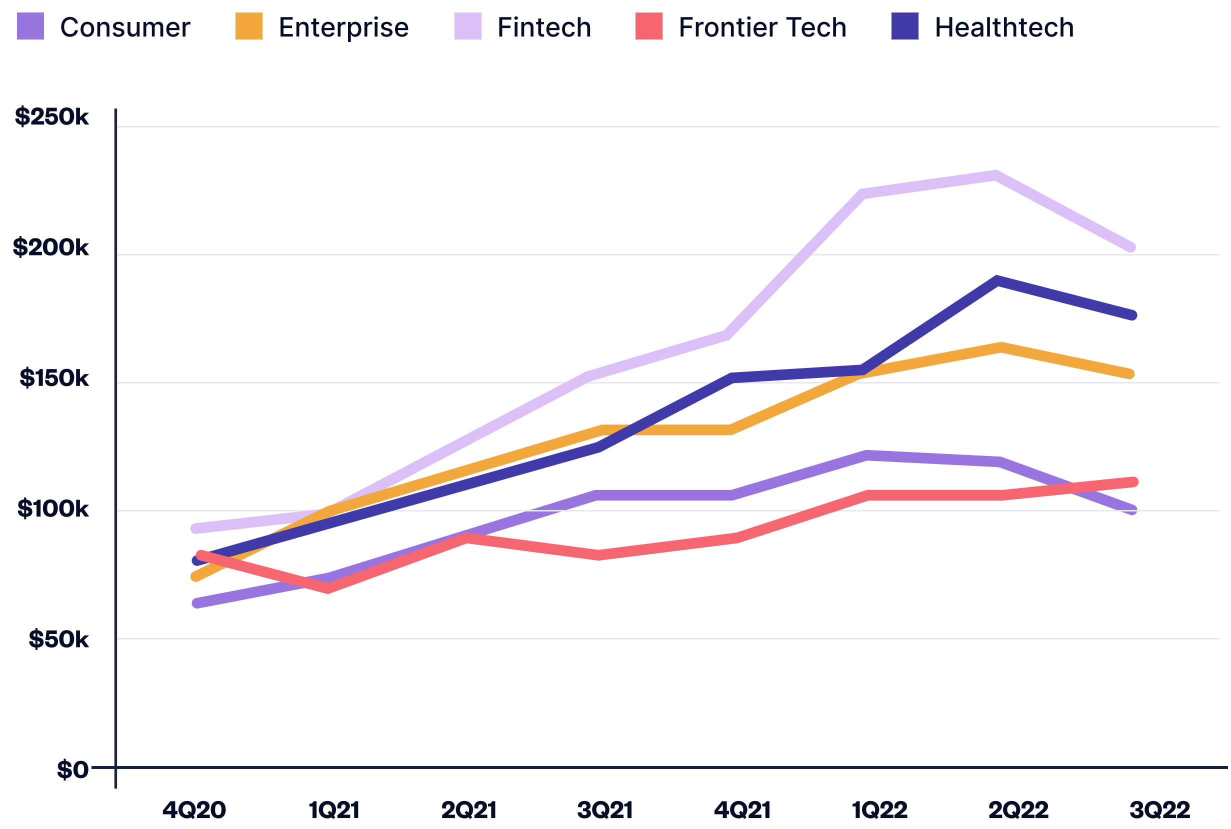
Early-stage startup spend decreased by **0.2%** over the previous quarter. In past quarters, we have seen growth decelerate, but this is the first quarter we've seen growth decline.

Consumer companies saw QoQ median spend decline **11%** between 2Q22 and 3Q22. However, spend is still up **5%** year over year (YoY). Fintech companies saw QoQ median spend decline **5%** between 2Q22 and 3Q22 but increase **45%** YoY.

Enterprise companies saw QoQ median spend decline **2%** between 2Q22 and 3Q22, but increase **33%** YoY. Healthtech companies saw QoQ median spend increase **2%** between 2Q22 and 3Q22 — and **38%** YoY. Frontier tech companies saw QoQ median spend increase **13%** between 2Q22 and 3Q22 — and **56%** YoY.

Note: Each sector cohort is compiled of U.S. pre-Series A technology 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



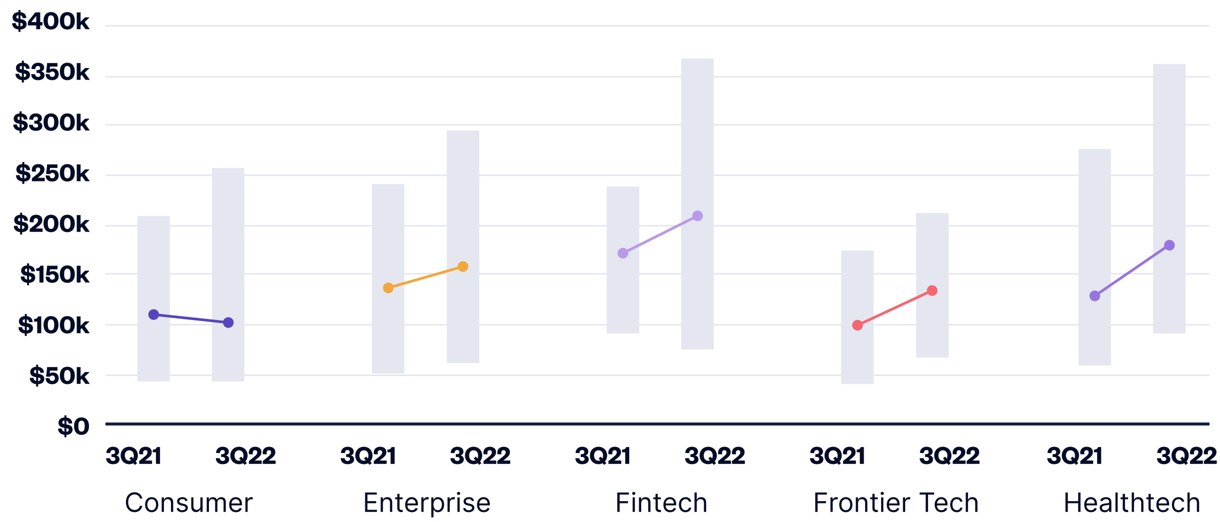
Source: SVB Proprietary Data and Analysis

Payroll spend shrank **2%** overall in 3Q22.

By sector, consumer payroll is down **15%** in 3Q22 and **5%** YoY. Fintech companies saw QoQ payroll spend decline **13%**, but fintech payroll spend is still up **32%** YoY. Enterprise companies saw QoQ payroll spend decline by **7%**, but payroll spend remains up **17%** YoY. Healthtech companies saw QoQ payroll spend decline by **7%,** but YoY spend remains up **41%**. Frontier tech was the only sector that saw a payroll spend increase in 3Q22 (**5%**), and YoY spend is up **33%**.

Note: Each sector cohort is compiled of U.S. pre-Series A technology 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

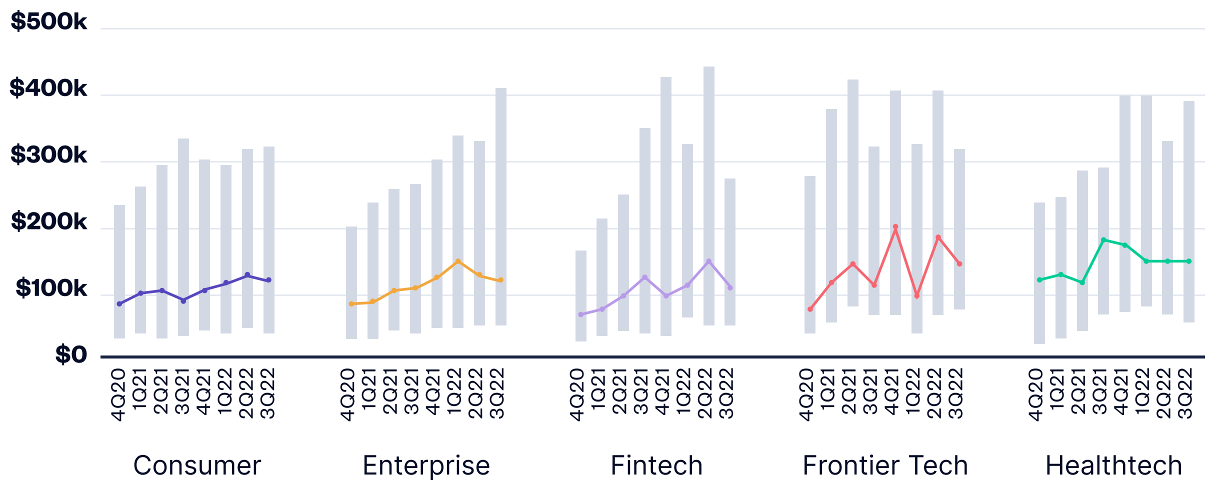


Source: SVB Proprietary Data and Analysis

To understand YoY 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 3Q21 and 3Q22. Year-over-year, the lower and upper bounds have increased in all sectors except consumer and fintech. For consumer companies, the 25th percentile dropped from **$47k** to **$44k**, and for fintech it dropped from **$94k** to **$76k**. In 3Q22, the difference between the upper and lower bound in fintech payroll was **$285k**. This is the widest range of all sectors observed and the largest increase in range YoY.

Note: Each sector cohort is compiled of U.S. pre-Series A technology 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

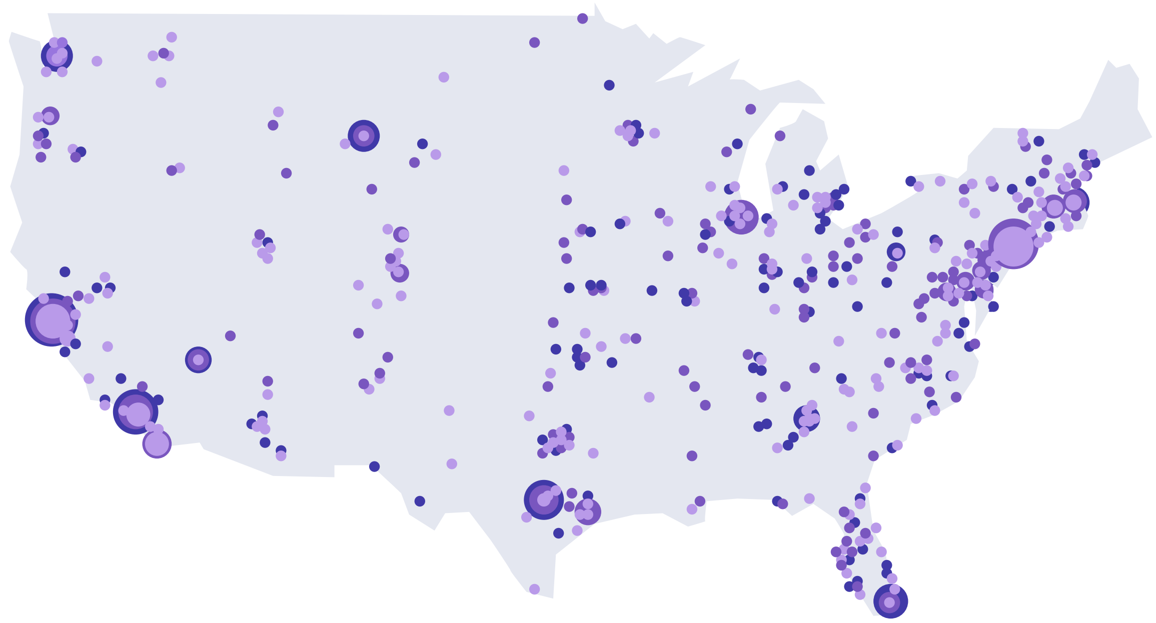
To understand changes in revenue, we analyzed the lower bound (25th percentile), median (50th percentile), and upper bound (75th percentile) of revenues generated by startups in our five sector cohorts over the past two years. Given these companies are early-stage, many have inconsistent cash flows, and some are even pre-revenue. For the purpose of this analysis, we looked at companies with at least $1k of revenue per quarter.

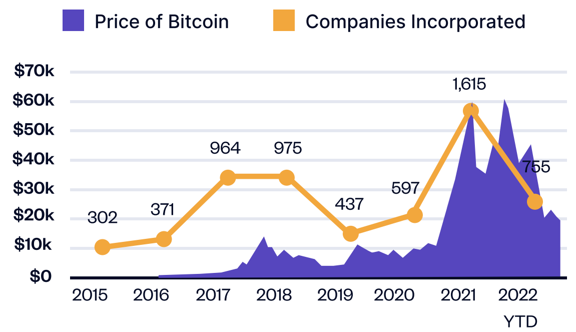
Enterprise company revenue spanned **$358k** between the upper and lower bounds. This was the widest range observed. Healthtech companies had the highest median quarterly revenue at **$141**. QoQ, all sectors except enterprise and healthtech saw median revenue decline.

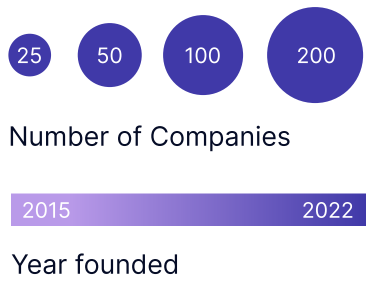
However, early-stage companies often have inconsistent cash flows, so collecting another quarter of data can help indicate whether this decline is a meaningful trend.

Note: Each sector cohort is comprised of U.S. pre-Series A technology 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.

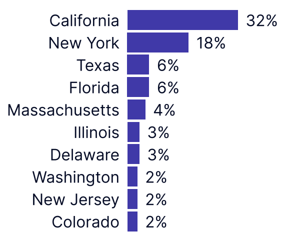
Blockchain and Crypto Companies: 2015-2022



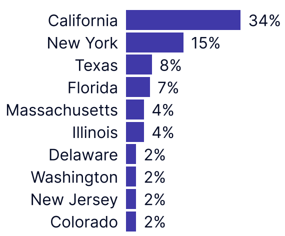




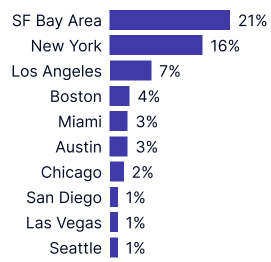
Top States (2015 - 2019)



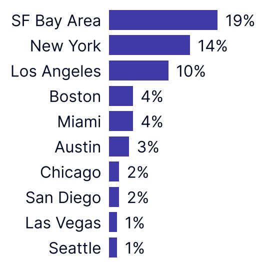
Top States (2020 - 2022)



Top Metros (2015 - 2019)



Top Metros (2020 - 2022)



Source: Harmonic.ai, SVB Analysis

Note: The map represents 2022 company formations as of 3Q22. The circle size represents the number of companies founded in a particular geography.

Looking at crypto and blockchain company formation from 2015-2022, we observed that formation roughly follows the ups and downs of the price of Bitcoin — a common proxy for estimating the overall health of the blockchain and crypto ecosystem.

As such, in 2022 crypto and blockchain company formation is down significantly relative to the year prior.

In terms of location, emerging tech hubs seem to be successfully attracting crypto and blockchain founders.

From the map, we can see the thickest dark blue rings (companies founded in 2022) around Los Angeles, CA, Miami, FL, Sheridan, WY, Austin, TX, and Atlanta, GA.

About Silicon Valley Bank

Silicon Valley Bank is the leading bank in the innovation economy. For nearly 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-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.

*Based on PitchBook/NVCA data.

About AngelList

AngelList provides investors and founders with the infrastructure they need to launch and scale a fund or startup—and invest in either. As of this writing, we support over $14 billion 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

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.

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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.

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All non-SVB named companies listed throughout this document, as represented with the various statistical, thoughts, analysis and insights shared in this document, are independent third parties and are not affiliated with SVB Financial Group.

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 7/1/22 and 9/30/22.

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 (9,934). 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 Venture 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 3Q22.

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 Venture 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 3Q22.

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 3Q22.

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 3Q22.

Deals by Instrument

Deals by instrument were determined by adding up all deals completed in 3Q22 that were assigned a specific instrument tag at deal close. This number was then expressed as a percentage of overall deal count in 3Q22. Preferred investment instrument by round name was determined by adding up all deals assigned to a specific round in 3Q22 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 3Q22.

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 3Q21, 4Q21, 1Q22, 2Q22, and 3Q22 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). Underlying cohort of companies has slight variations in each quarter's report quarter as companies raise rounds (growing out of early stage), and join or leave SVB as clients.

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. Top Metros are aggregates by metro region, Los Angeles indicates Los Angeles County, New York City includes the five boroughs, Miami indicates Miami Dade County, etc.