

An aerial photograph of New York City, showing the dense skyline of Manhattan, the Hudson River, and the East River. The image is used as a background for the report cover.

svb



Silicon Valley Bank

# State of the Markets

Inside Views on the Health and Productivity  
of the Global Innovation Economy

**Q2 2021**



# State of the Markets

## Q2 2021

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# Executive Summary

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## The Best Is Yet to Come

During this time last year, the world was facing enormous uncertainty. We were only a couple months into the pandemic, and investors and founders were bracing for a hard landing. Companies slashed expenses and raised what they could to weather the storm. Fast-forward a year later, and by many accounts, the innovation economy has emerged from the pandemic as strong as, if not stronger than, before.

The venture flywheel continues to spin with fundraising on track to have a record year — fueled by increasing fund sizes and broader access to capital. Meanwhile, investment in 2021 has been strong, continuing its momentum from the second half of 2020. This capital is more dispersed than before, illustrated by increased company formation in emerging ecosystems. Providing underrepresented groups and emerging tech hubs access to capital is a positive step toward a more diverse venture ecosystem.

On the exit front, Special Purpose Acquisition Vehicles (SPACs) continue to dominate the narrative, with several successful de-SPACs to date, a host of SPAC sponsors seeking targets, and potential regulation waiting in the wings. It has been a stellar start to the year for venture-backed tech IPOs, with 20 so far and more in the queue. Perhaps what is most exciting is the opportunity in front of us. Startups have more cash on hand, longer runways, lower expenses, more efficient operations and (in some cases) unprecedented tailwinds at their backs. Combine these factors and we have one of the strongest cohorts in recent history.

This isn't to discount the challenges faced along the way. The past year has not been easy for anybody, but we have learned new lessons and strategies to help us adapt as the world continues to face social, health and economic transformations. Among them is the vital role innovators, entrepreneurs and investors take on to tackle some of the thorniest challenges we may ever face. At SVB, it is our mission to celebrate their courage and grit and support, encourage and advocate for innovation everywhere.

**Bob Blee**  
Head of Corporate Finance  
Silicon Valley Bank





# Macro: Role Reversal



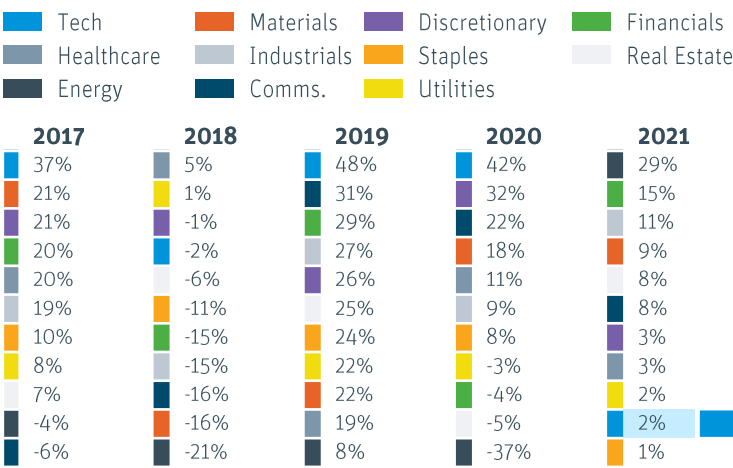
# Public Tech Slows and Rates Rise

Tech has been one of the best-performing sectors for the past several years, benefitting from accelerated digitization and the skyrocketing performance of tech giants such as Facebook, Amazon, Microsoft, Alphabet (Google) and Apple. However, tech is off to a slow start in 2021 due to concerns over increased regulatory scrutiny, elevated valuations and rising interest rates.

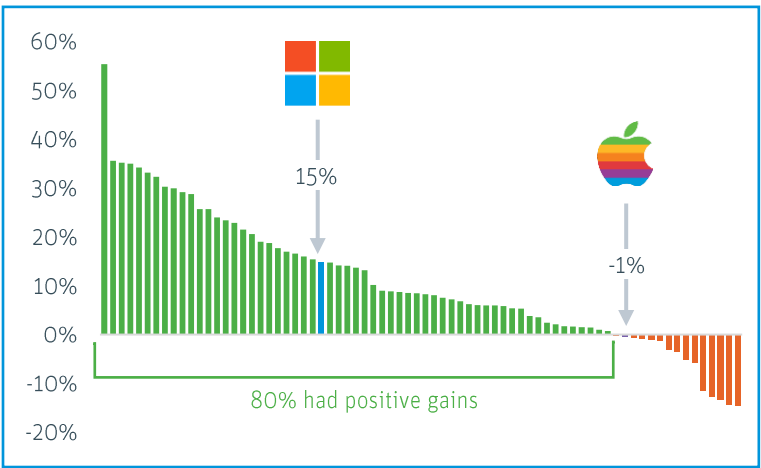
Rising interest rates have been a widely debated topic recently as the US Treasury 10-year yield has reached levels not seen since pre-COVID-19, tripling from its low in August 2020 and nearly doubling year-to-date. The rapid increase in rates has been driven by optimism around strong economic growth, which in turn has been fueled by recent fiscal stimulus and economies opening up as vaccines roll out. This has led to the outperformance of cyclical and value sectors such as Financials and Industrials.

The sudden rise in rates has caught investors off guard, leading them to grapple with the potential impacts of sector rotations out of growth assets and negative implications for valuations. Rising rates by themselves don't spell doom for public markets — historically, the S&P 500 has delivered positive returns during rising-rate cycles. While data are limited, venture investment doesn't seem to be hampered by rising rates either. Yields are likely still too low to cause major shifts in sector rotations or materially impact investment. However, any continued climb, and the pace of the climb, could set off alarms in private and public markets.

## Sector Performance by Year (S&P 500)<sup>1</sup>



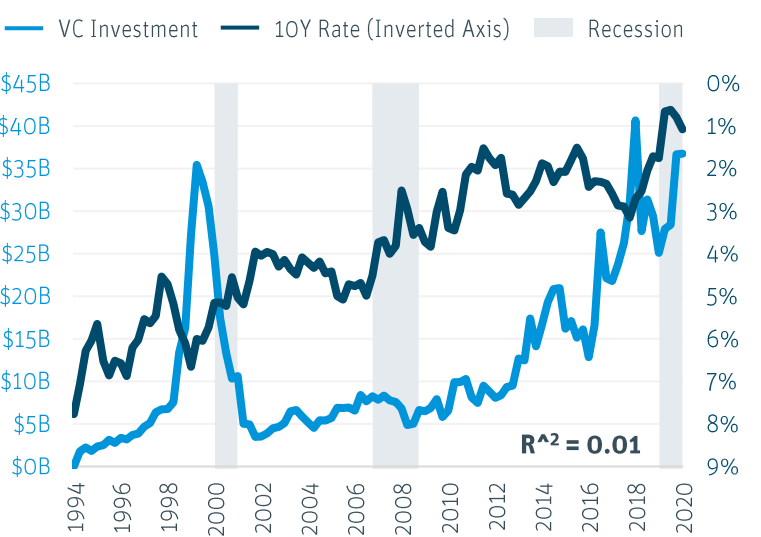
## S&P 500 Tech Market Performance: Q1 2021



## Rate Cycles and S&P 500 Returns<sup>2</sup>

Start	End	Length (Mos.)	Δ 10Y	S&P 500
Dec '62	Aug '66	45	1.7%	18%
Mar '67	Dec '69	34	3.6%	1%
Mar '71	Sep '75	55	3.2%	-18%
Dec '76	Sep '81	58	9.0%	9%
May '83	May '84	13	3.9%	-8%
Aug '86	Oct '87	14	3.3%	12%
Oct '93	Nov '94	13	2.9%	-1%
Jan '96	Jul '96	6	1.5%	7%
Oct '98	Jan '00	16	2.6%	46%
Jun '03	Jun '06	37	2.1%	26%
Dec '08	Apr '10	15	1.9%	-33%
Jul '12	Dec '13	18	1.6%	38%
Jul '16	Oct '18	27	1.9%	36%
Mar '20	Mar '21	12	1.0%	39%
Median				15%
Percent Positive				79%

## Interest Rates vs. US VC Investment<sup>3</sup>



Notes: 1) Annual returns for the S&P 500; 2021 as of 3/31/21. 2) S&P 500 returns are price returns; rate cycle periods determined by SVB analysis.

3) Quarterly US Treasury 10-year rate and US venture investment.

Source: National Bureau of Economic Research, PwC MoneyTree, S&P Capital IQ and SVB Analysis.



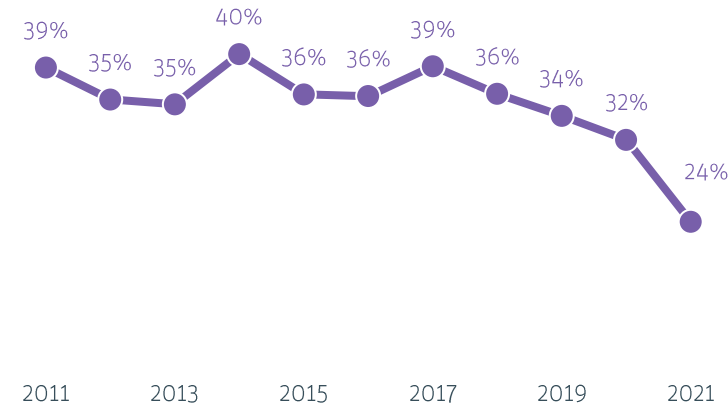
# We Built This City (on Cap-i-tal)

Silicon Valley has long been the epicenter for venture investment and company formation. However, emerging ecosystems are starting to blossom — and attract capital — at least at the early stage. The prospect of new ways of working resulted in businesses’ reevaluating their physical spaces. As leases came up for renewal, smaller, less mature companies often relinquished their physical spaces or relocated to more affordable locations. On average, companies reduced their rent payments over the course of 2020.

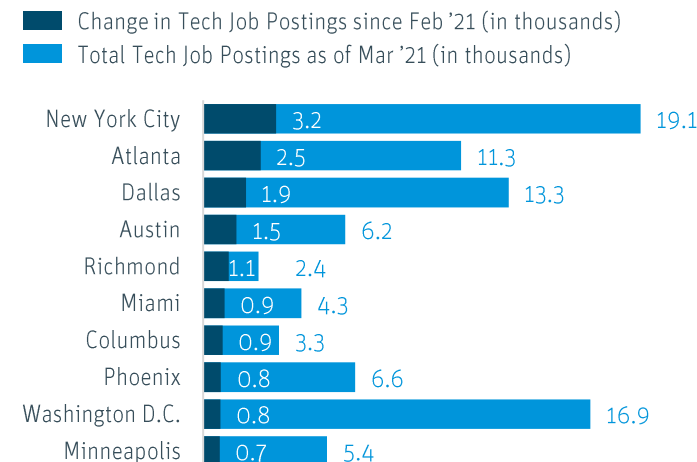
Workers took the opportunity to return “home” and/or move to areas with a lower cost of living. This translated into a migration away from established economic centers to emerging areas. With talent moving en masse, employers have become more comfortable with remote work and a distributed workforce. Tech job postings are seeing the biggest gains in emerging areas such as Atlanta, Dallas, Austin, Richmond and Miami. In turn, a broader geography for recruitment increases the chances of a more diverse workforce. Companies like Black professional platform Valence<sup>1</sup> have helped expedite this trend and connect companies to a talented and diverse pool of candidates.

Company formation has started to accelerate outside the traditional innovation hubs, with capital slowly following, enabled in part by investors getting comfortable with Zoom-only meetings and remote due diligence. While the Bay Area’s share of US early-stage venture investment hit its lowest point this decade, it still accounts for roughly a quarter of this capital pool. As things get back to normal, we expect early-stage activity in the Bay Area to also tick up.

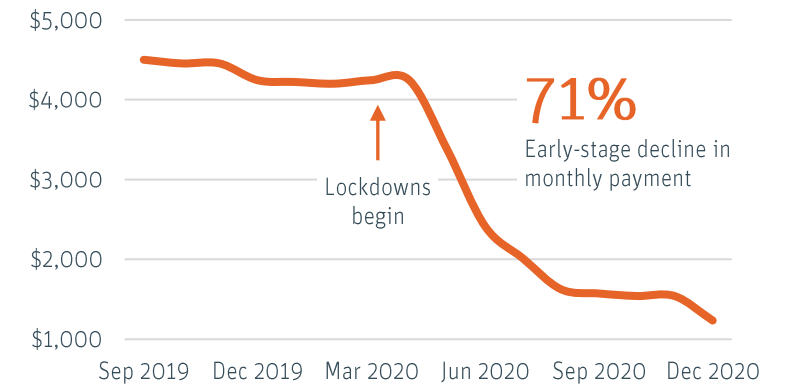
## Bay Area Share of Early-Stage US VC Dollars



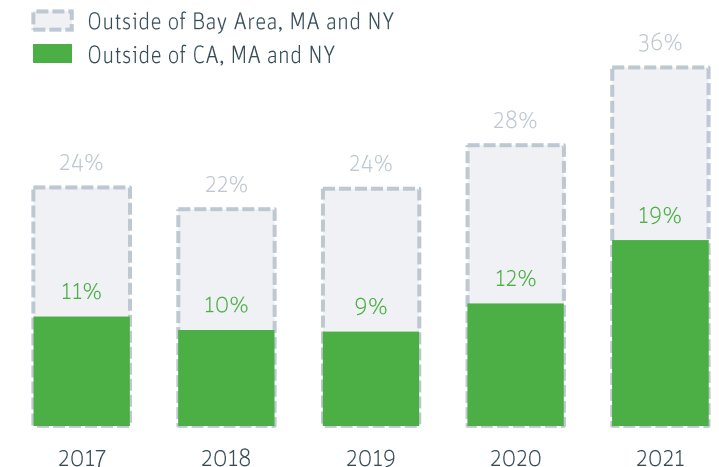
## Top US Metros for Tech Job Postings Ranked by Change Since Last Month



## US Tech Startups Median Monthly Rent Payments<sup>2</sup>



## US Early-Stage Tech Acquisition<sup>3</sup> Outside of CA, MA and NY as Percent of Total



Notes: 1) Valence is a partner of SVB. For more information, go [here](#). 2) Among a representative cohort of US tech SVB clients paying on a monthly basis. For more insights on this topic and the Future of Work report, go [here](#).

3) Acquisition of SVB clients within the Startup Banking division.

Source: CompTIA, Bureau of Labor Statistics, PitchBook, SVB Proprietary Data and SVB Analysis.





# Private Markets: Fundraising – A Gold Rush

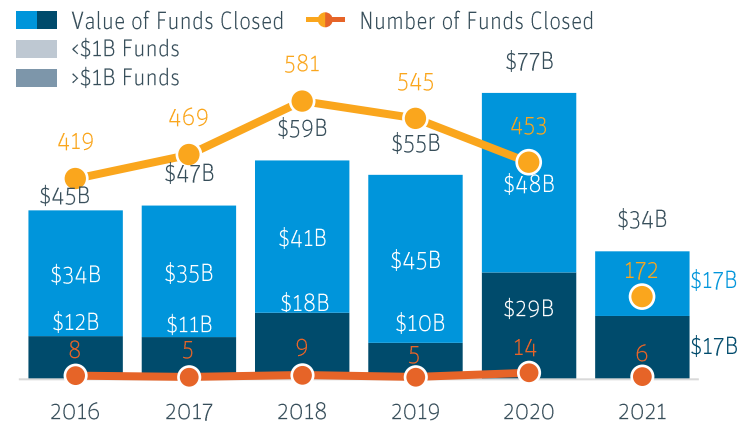


# Mega Funds Get The Juice

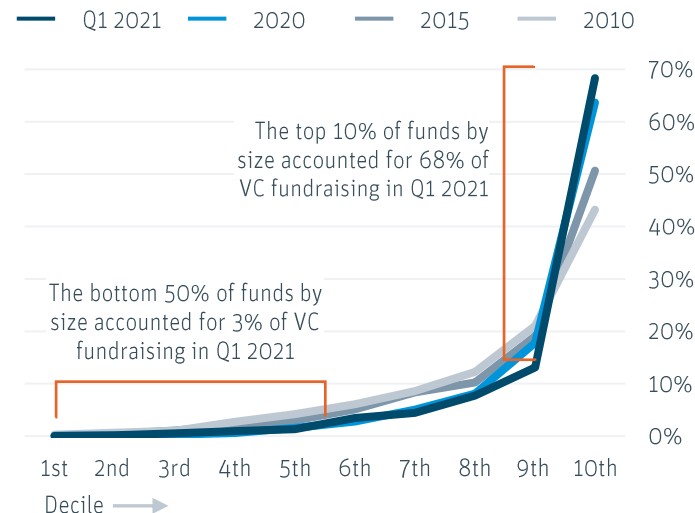
As Bill Gurley once said, “Venture capital is not even a home-run business. It’s a grand-slam business.” In Q1 2021, the largest 1% of deals accounted for 30% of venture investment. Venture fundraising, like venture investment, is increasingly concentrated in the top funds. Since 2010, the largest 10% of funds have increased their share of fundraising by 25 percentage points and now account for 68% of venture fundraising. The bottom 50% of funds, by size, now account for a mere 3% of all fundraising — down from 9% in 2010. Yet this concentration of capital in large funds has not hindered overall fundraising; as of Q1 2021, venture fundraising is on track to have a record year. Based on projections, venture fundraising may reach \$83 billion in 2021, an 8% increase over last year’s record — fueled by increasing fund sizes.

This strength of venture fundraising can also be seen in the decreased time to close funds. In the last five years, the median time to close a fund has fallen 41%.<sup>1</sup> The increased pace of fundraising, combined with accelerating capital deployment, means more capital is locked into the system than ever before — further demonstrated by record dry powder and assets under management.

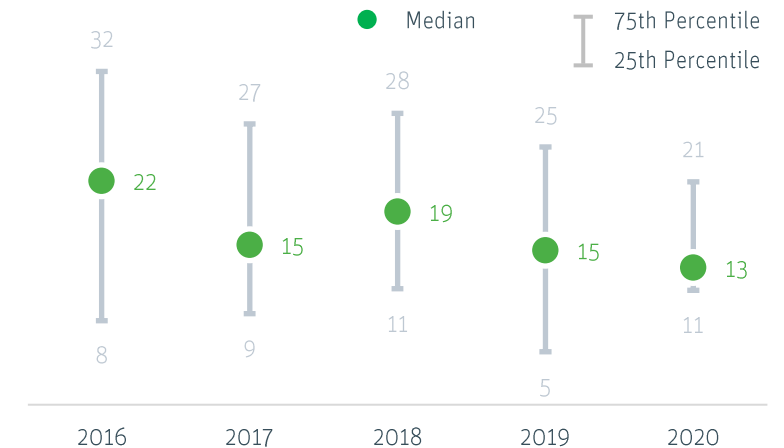
## US VC Fundraising by Fund Size



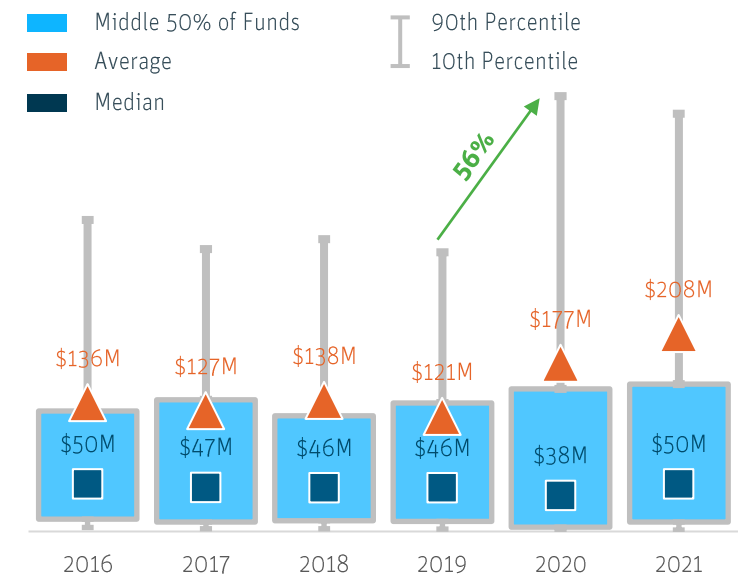
## Share of Total Fundraising by Fund Size Decile



## Months to Close: US VC Funds Above \$100M<sup>2</sup>



## US VC Fund Size by Year

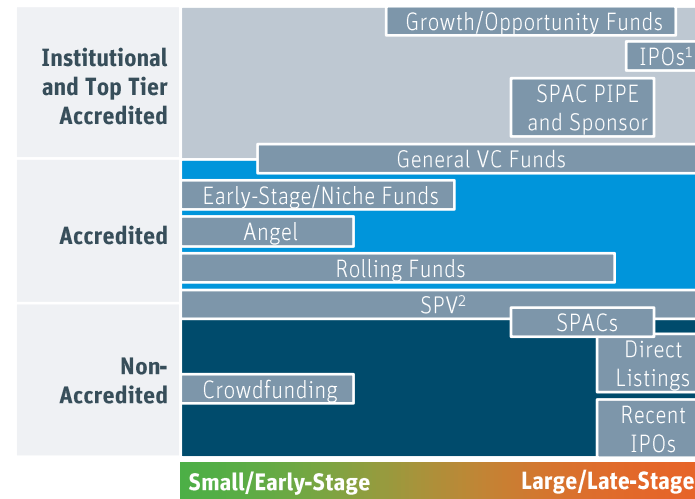


# Democratizing Access to Venture

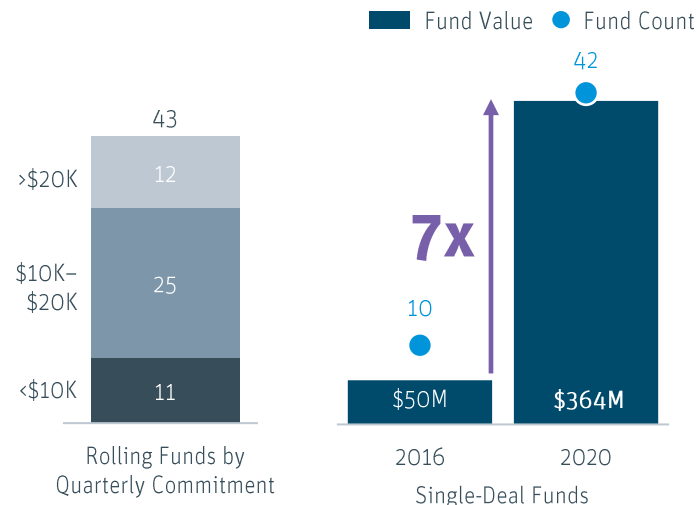
In a world dominated by large funds, alternative sources of capital remain a critical funding source for many small, early-stage companies. Among these alternative sources, crowdfunding is a rapidly expanding source of capital. The capital deployed via crowdfunding has increased 67% from 2018, hitting \$1 billion in 2020. Recent changes in Regulation Crowdfunding (Reg CF) increased the limits on crowdfunding round sizes by 5x to \$5 million as well as expanded how much non-accredited investors can participate. These changes will enable companies at the Series A stage to consider crowdfunding in lieu of traditional venture capital, further democratizing the venture ecosystem.

The expansion of investment instruments, such as Rolling Funds, Roll Up Vehicles and single-deal funds, increases access to the innovation economy for investors unable to make large financial commitments. Now Reg CF allows Special Purpose Vehicles (SPVs) to raise via crowdfunding. Some smaller venture capitalists are experimenting with new fund structures (funded via crowdfunding). However, how prevalent this will become remains unclear as many new fund structures bring disadvantages, such as penalizing internal rate of return (IRR) the longer funds remain uninvested.

## Innovation Funding Landscape

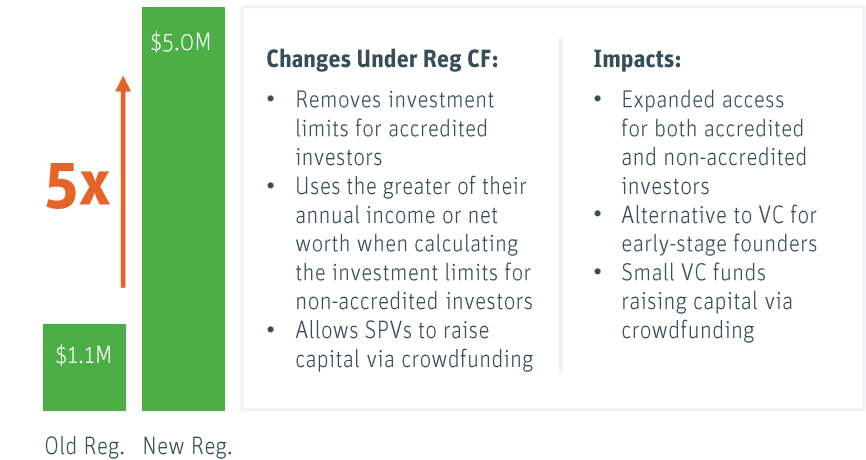


## Growth of Alternative Fund Structures

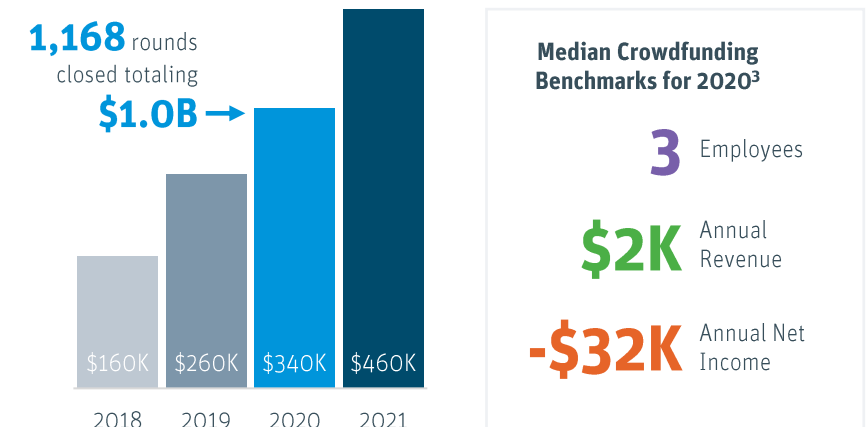


## Changes to Regulation Crowdfunding

### Max Crowdfunding Size



## Crowdfunding Median Deal Size by Year



Notes: 1) Typically only institutional investors and well-connected accredited investors are let into the IPO. 2) Contingent upon SPV; most do not allow non-accredited investors.  
 3) For funds that filed to raise a crowdfunding round with the SEC.  
 Source: PitchBook, SEC, AngelList and SVB Analysis.



# Private Markets: Investment – Moving at an Accelerated Pace



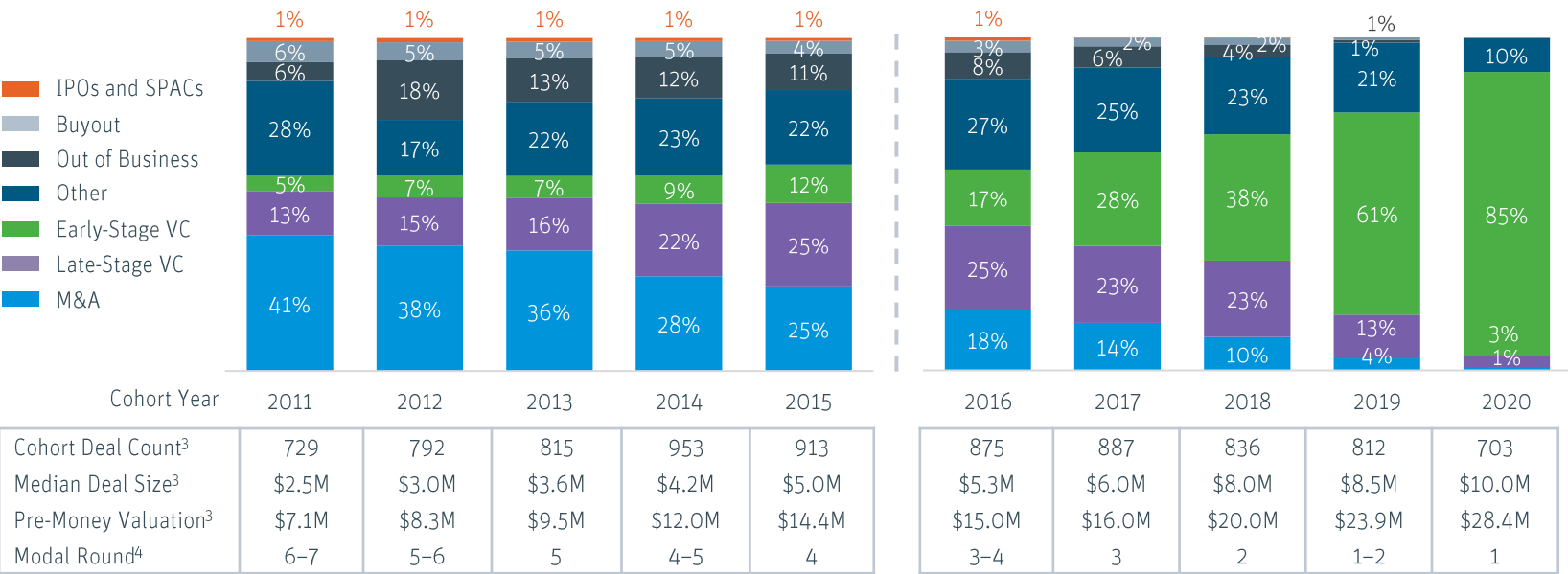
# Series A Companies: Where Are They Now?

“Seed is the new A, A is the new B” has been a common phrase for a while and for good reason. Over the past decade, valuations for early-stage companies have exploded as the amount of capital flowing into the ecosystem has increased significantly. Since 2011, the median deal size and pre-money valuation have quadrupled.

The increase in check size doesn’t come for free. Investors are more focused on revenues, market fit, operating metrics and unit economics, where before a minimum viable product (MVP) or proof of concept (PoC) would have sufficed. Metrics such as Bessemer’s G.R.I.T.<sup>1</sup> have slowly changed the dynamic of how a Series A company is defined. The focus on fundamentals has made today’s Series A startups operate more like later-stage companies.

The 2013 Series A cohort provides an interesting case study. More robust than the 2012 cohort, its companies ramped up quicker in terms of fundraising rounds and revenue— illustrated by the median revenue at IPO. This cohort included Zoom, which has arguably benefited the most from the shift to remote work and increased digital adoption.

## US Tech Series A Cohort Analysis by Year<sup>2</sup>



## US Tech IPO and SPAC Performance by Series A Cohort Year

Series A Cohort	Median Time to IPO (Months) <sup>5</sup>	Aggregate of IPO Valuations	Median First-Day Pop <sup>6</sup>	Median Performance Since IPO	Best Performer	Worst Performer	Median Revenue at IPO	Median TTM Revenue Growth at IPO
2020 IPOs	115	\$214B	+47%	+125%	Schrödinger	Root Insurance	\$202M	50%
2014	73	\$45B	+45%	+123%	Mohawk	Shift Technologies	\$104M	100%
2013	81	\$88B	+64%	+247%	Zoom	Compass	\$194M	65%
2012	86	\$41B	+61%	+131%	The Trade Desk	Metromile	\$107M	81%
2011	90	\$113B	+21%	+160%	Pinterest	Lyft	\$89M	60%

Notes: 1) G.R.I.T. framework developed by Bessemer Venture Partners: Growth (ARR YoY Growth), Retention (% Annual Net Retention), In The Bank (Years of Runway) and Targeted Spend (Efficiency).  
2) Cohorts are aggregated by the year the company raised its Series A round. 3) For the Series A fundraising round. 4) Modal (most common) round for late- and early-stage private companies.  
5) Median time from Series A to IPO. 6) Percentage change between IPO reference price and first-day close.  
Source: PitchBook and SVB Analysis.

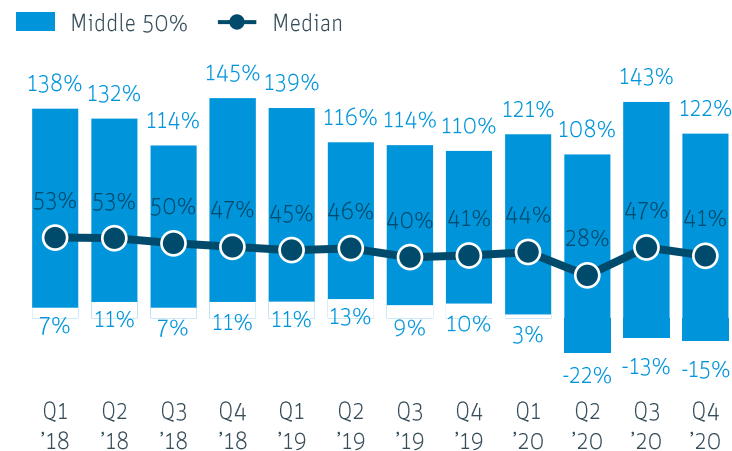


# Consumer Startups Enter Recovery

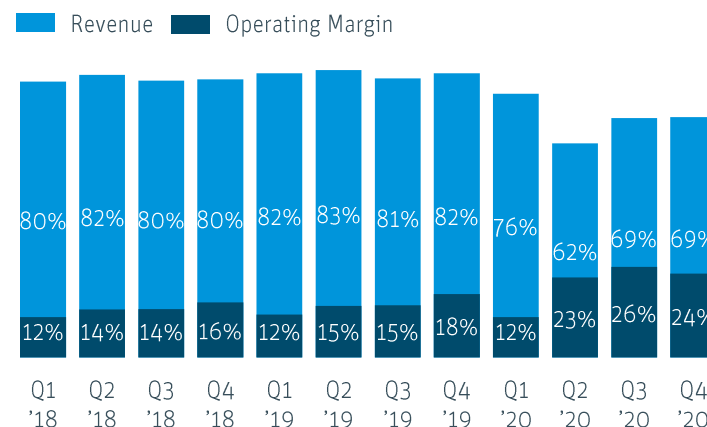
The pandemic provided both tailwinds and headwinds to consumer startups depending on the subindustry. Like all other sectors, consumer companies had to deal with a rapidly changing environment, from transitioning sales tactics to implementing a fully remote work plan almost immediately. Those that helped facilitate the new normal, such as gaming and health and wellness, saw a dramatic acceleration in revenue. For those that relied on in-person interactions, such as event management, hospitality and entertainment, the pandemic was clearly a massive blow to revenue. Despite that, companies either managed to find a soft landing with an acquirer or were able to cut quickly and deeply enough to effectively put the company into “hibernation mode.” Many of the best of the best were able to opportunistically take advantage of the positive outcomes of the new normal and its associated revenue acceleration, as well as the surprisingly abundant capital as investors doubled down on category leaders.

Take all these factors together, and we have one of the best consumer cohorts we’ve seen in recent years, with ample cash, longer runways, more efficient operations, lower expenses, improved operating margins and (for some) unprecedented tailwinds. This optimism is being reflected in the public markets, with the recent explosion of consumer startups exiting including Skillz, Roblox, thredUP and Wish.

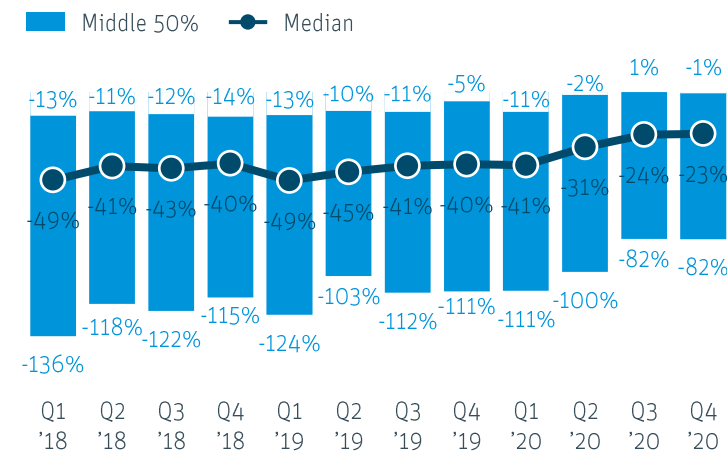
## YoY Revenue Growth for Consumer Startups by Quarter<sup>1</sup>



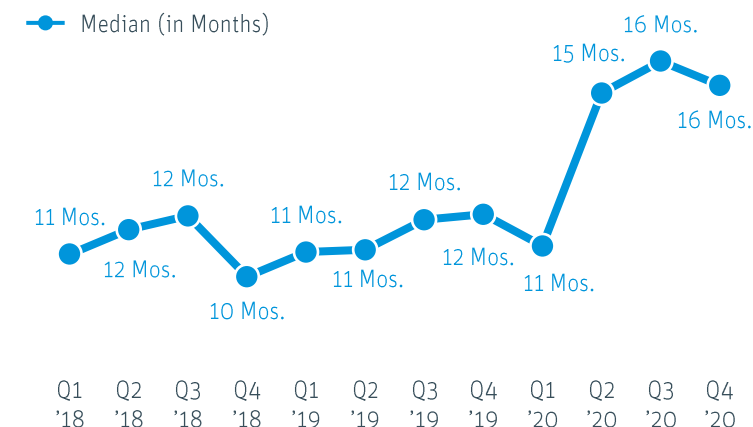
## Percent of Consumer Startups with Positive Revenue Growth YoY and Operating Margins<sup>1</sup>



## Operating Margins for Consumer Startups by Quarter<sup>1</sup>



## Median Cash Runway for Consumer Startups by Quarter<sup>1,2</sup>



Notes: 1) SVB US clients designated as consumer internet with respective financial data from 2018 to 2020 as of quarter indicated. Sample size for data set exceeds 100 constituents per year.

2) Cash and cash equivalents divided by average monthly (negative) EBITDA by quarter.

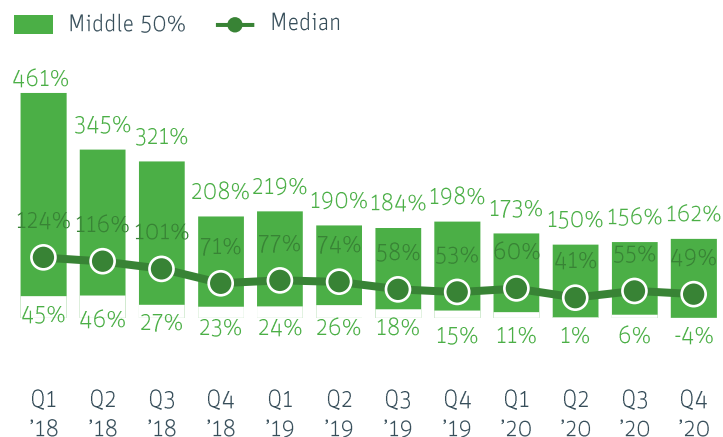
Source: SVB Proprietary Data and SVB Analysis.

# Fintech Startups Flyin' High

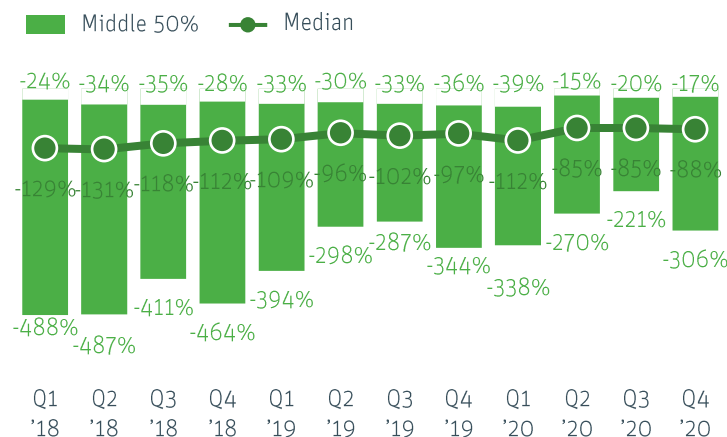
The fintech vertical has in large part been a net beneficiary from the new normal. The US financial ecosystem has been notoriously slow to evolve, but the pandemic forced unprecedented digital acceleration— becoming a tipping point for institutions, small to medium sized businesses (SMB) and even the government to embrace fintech and invest in infrastructure. Coupled with changing consumer behavior, this has led to a surge in financial literacy and adoption, while also increasing demand for products and services such as contactless payments, blockchain and cryptocurrency. As a result, many in the industry have seen revenue growth. Additionally, improvements in areas such as Banking-as-a-Service (BaaS) and embedded finance have allowed fintechs to go to market quicker and cheaper, improving margins in the process.

With pandemic-related tailwinds expanding the market opportunity for fintech startups, investors are continuing to pour money into the sector, leading to a substantial increase in the cash runway for many companies. This has helped to create one of the strongest fintech cohorts in recent history. With healthier fundamentals and continued investor interest, fintech will likely continue to disrupt the financial services industry and force larger financial institutions to “build or buy” to avoid being disrupted.

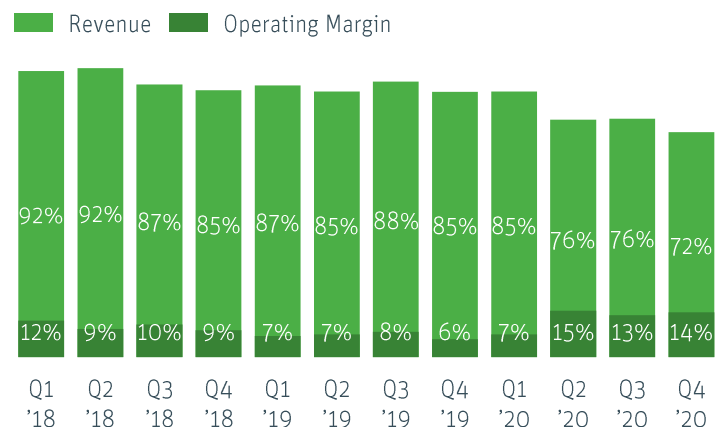
## YoY Revenue Growth for Fintech Startups by Quarter<sup>1</sup>



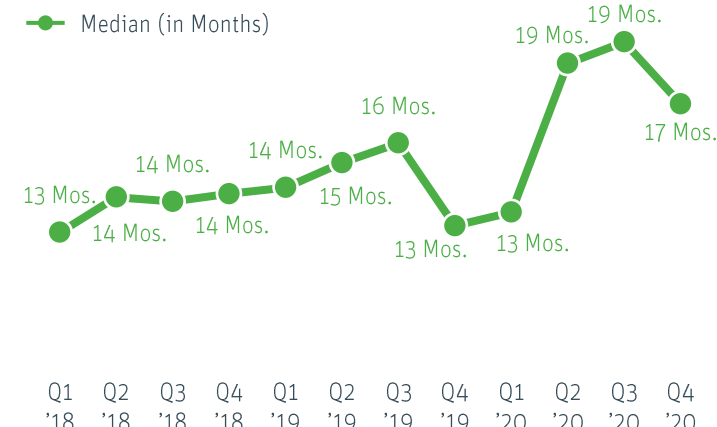
## Operating Margins for Fintech Startups by Quarter<sup>1</sup>



## Percent of Fintech Startups with Positive Revenue Growth YoY and Operating Margins<sup>1</sup>



## Median Cash Runway for Fintech Startups by Quarter<sup>1,2</sup>



Notes: 1) SVB US clients designated as fintech with respective financial data from 2018 to 2020 as of quarter indicated. Sample size for data set exceeds 100 constituents per year.

2) Cash and cash equivalents divided by average monthly (negative) EBITDA by quarter.

Source: SVB Proprietary Data and SVB Analysis.



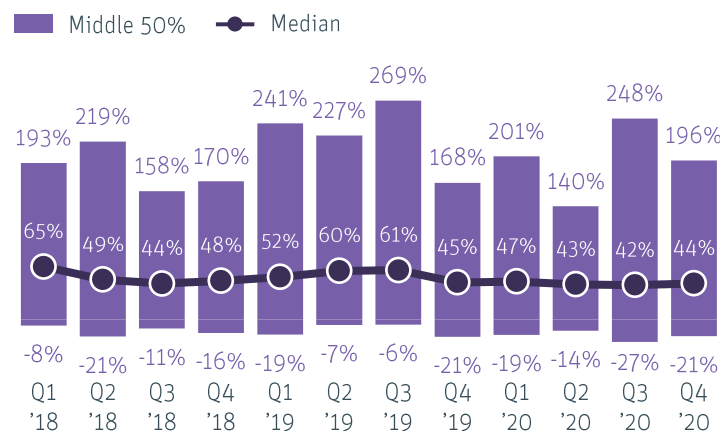
# Front(ier Tech) and Center

The frontier tech space consists of two cohorts. The first are “moonshot” companies that are seeking to achieve technical milestones, raising cash along the way toward unlocking a massive revenue opportunity. These were largely unaffected by the pandemic given their longer time frame and insulation from outside macro activity.

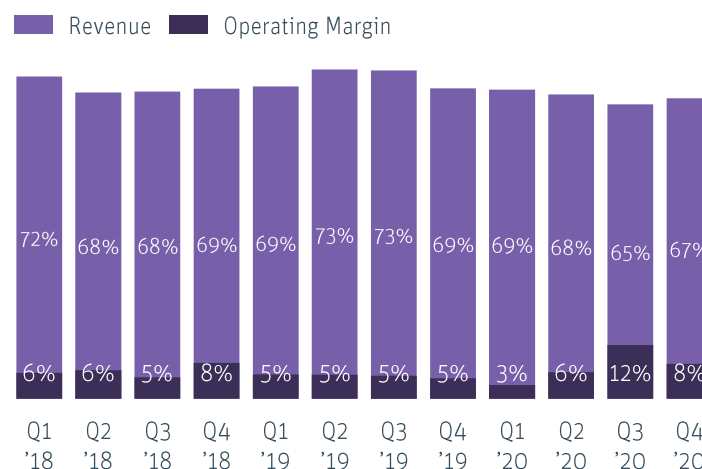
The second are companies that are methodically deploying machines and seeing their revenue increase steadily. These companies benefited from the pandemic as machines helped fill the gap left by human employees not able to physically be on-site. A subset of this cohort couldn’t build machines fast enough — seeing demand skyrocket while also facing supply chain constraints, such as the semiconductor shortage. Concurrently, production improvements by industry trailblazers have led to cheaper input costs and made it easier for other startups to enter the space. Frontier tech startups also used the pandemic as an opportunity to right-size their balance sheet and cost structure.

Continued demand from customers (and investors), lower input costs and reduced operating expenses have helped to shape one of the strongest frontier tech cohorts ever. The market opportunity remains tremendous, and as milestones are hit, this cohort is set to capitalize on the opportunity.

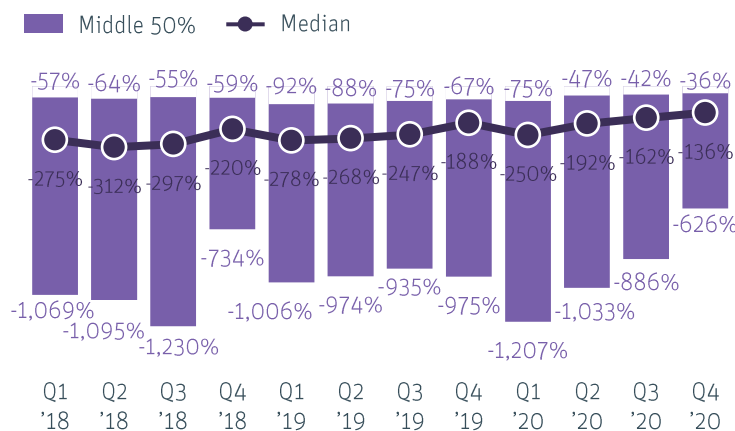
## YoY Revenue Growth for Frontier Tech<sup>1</sup> Startups by Quarter<sup>2</sup>



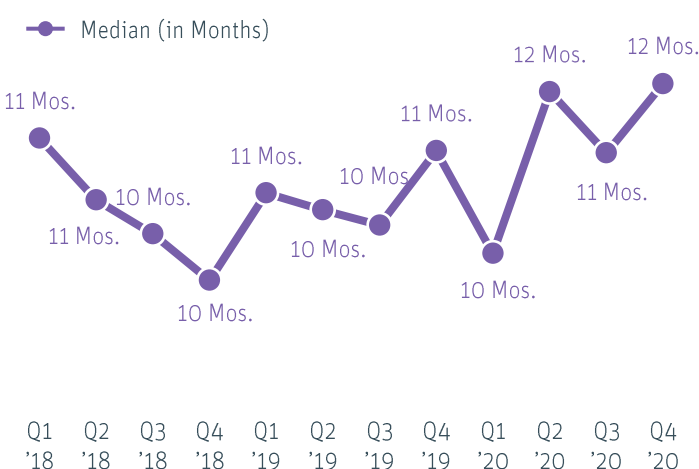
## Percent of Frontier Tech Startups with Positive Revenue Growth YoY and Operating Margins<sup>2</sup>



## Operating Margins for Frontier Tech Startups by Quarter<sup>2</sup>



## Median Cash Runway for Frontier Tech Startups by Quarter<sup>2,3</sup>



Notes: 1) Frontier tech defined as companies within industries who are on the cutting edge of technological innovation. 2) SVB US clients designated as frontier tech with respective financial data from 2018 to 2020 as of quarter indicated. Sample size for data set exceeds 100 constituents per year. 3) Cash and cash equivalents divided by average monthly (negative) EBITDA by quarter. Source: SVB Proprietary Data and SVB Analysis.



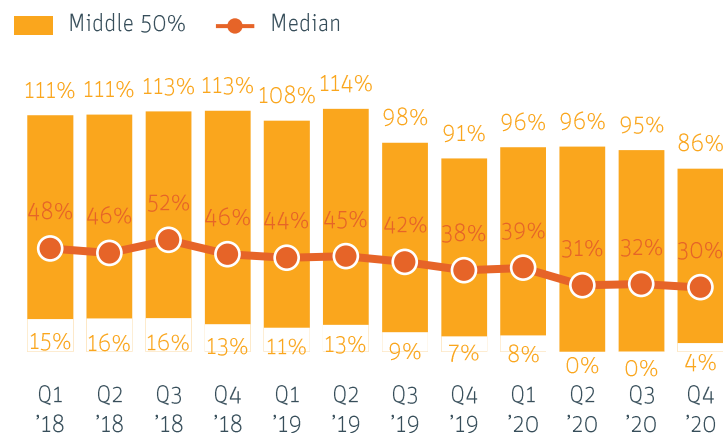
# Digital Adoption Drives Enterprise

Enterprise companies were not immune to the impacts of the pandemic — both good and bad. Enterprise startups that were disproportionately impacted by the COVID-19 crisis, such as HR tech and marketing tech, faced the harsh reality of having to cut spending and raise cash to survive.

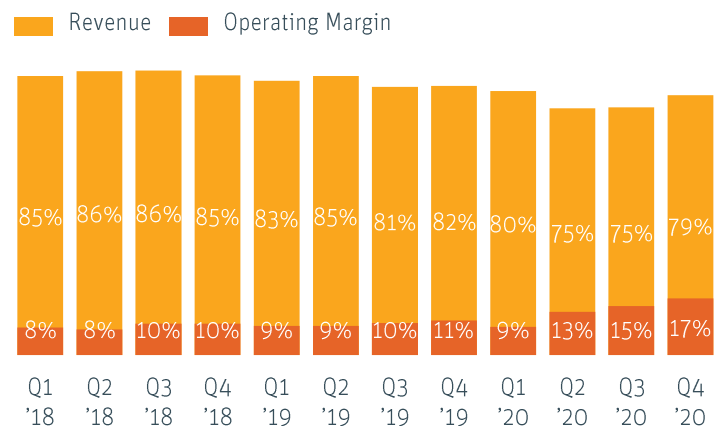
Conversely, the majority of the industry saw a benefit from the shift toward a new normal. The transition to remote work resulted in a rapid shift toward digitization and a significant increase in cloud adoption. Tools that enabled people to connect, collaborate with colleagues and communicate effectively in a remote environment took center stage. Additionally, the need to instantly access information securely from anywhere became crucial, boosting the need for cybersecurity solutions.

With businesses initially focusing on capital conservation, cost management, right-sizing the balance sheet and the (somewhat) unexpected tailwinds, the pandemic has contributed to producing one of the strongest enterprise cohorts we have seen. The market opportunity remains ripe as investment in collaboration software, communication tools and security infrastructure continues to grow while companies begin to cement their future-of-work operating models.

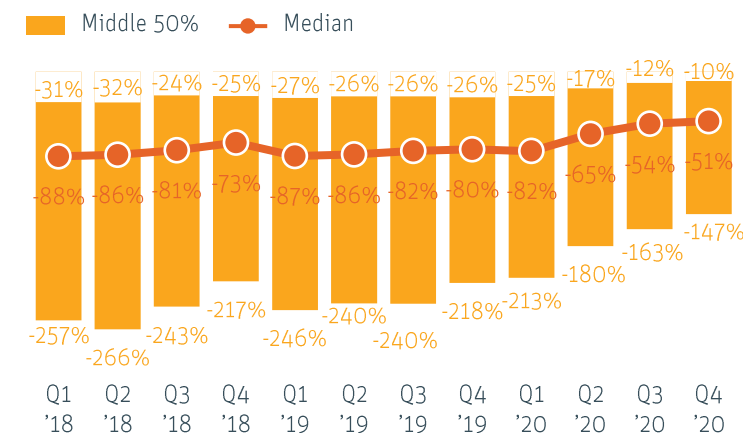
## YoY Revenue Growth for Enterprise Startups by Quarter<sup>1</sup>



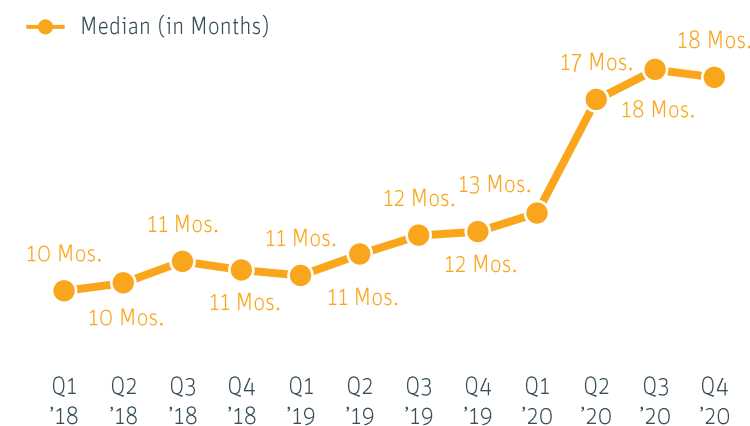
## Percent of Enterprise Startups with Positive Revenue Growth YoY and Operating Margins<sup>1</sup>



## Operating Margins for Enterprise Startups by Quarter<sup>1</sup>



## Median Cash Runway for Enterprise Startups by Quarter<sup>1,2</sup>



Notes: 1) SVB US clients designated as enterprise software with respective financial data from 2018 to 2020 as of quarter indicated. Sample size for data set exceeds 100 constituents per year.

2) Cash and cash equivalents divided by average monthly (negative) EBITDA by quarter.

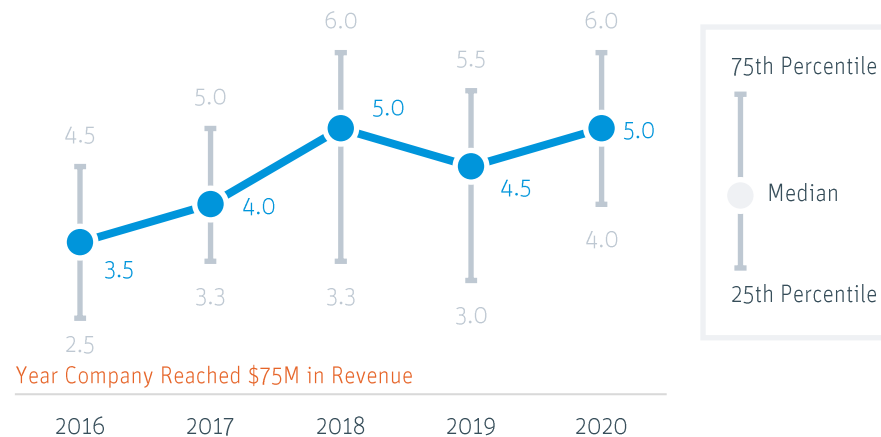
Source: SVB Proprietary Data and SVB Analysis.

# Recovering From COVID-19 Takes Time

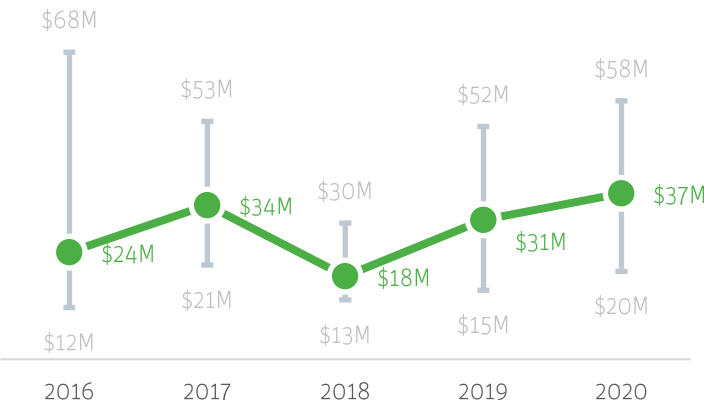
Companies continue to raise money at higher valuations, helping them bolster their balance sheets and scale. However, this hasn't necessarily translated into a faster time to scale. The best-of-breed companies (i.e., the names that define or dominate an industry) are reaching scale at a faster clip. But contrary to common belief, the typical enterprise software company is taking more time to achieve scale than in the past (scale is defined as the number of years it takes to reach \$75 million in annual revenue run rate).

This delay is in part due to setbacks from the pandemic. However, companies appear to be focusing on maintaining a leaner cost structure going forward, which may impact the rate at which they can grow. Operating margins improved slowly over the last several years, until 2020, when we saw a big improvement. At the start of the pandemic-enforced lockdowns, startups slashed expenses to survive, primarily by reducing real estate spend and employee headcount. This may serve them well. As the WeWork, Lyft and Uber sagas showed us, public-market participants aren't as forgiving of companies that are not able to demonstrate a clear path to profitability. Looking forward, if companies are able to scale at a similar pace and continue to improve margins, they should be rewarded when they look to exit.

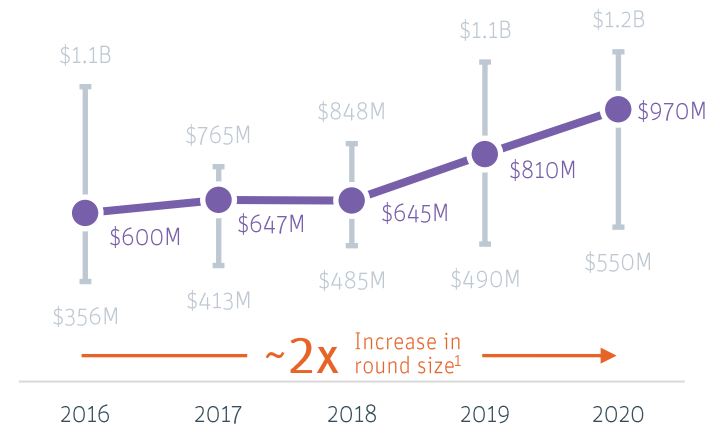
## Enterprise Software: Time (Years) to Scale Revenue from \$5M to \$75M



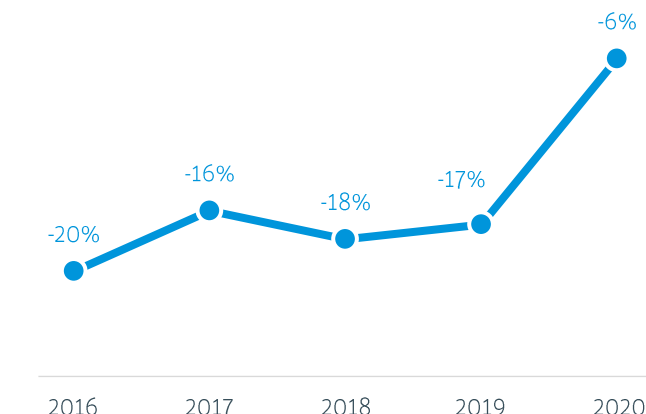
## Enterprise Software: Cash Balance for Companies with \$75M to \$100M in Revenue



## Enterprise Software: Post-Money Valuation for Companies with \$75M to \$100M in Revenue



## Enterprise Software: EBITDA Margin for Companies with \$75M to \$100M in Revenue







# Exit Markets: IPOs Remain Red-Hot

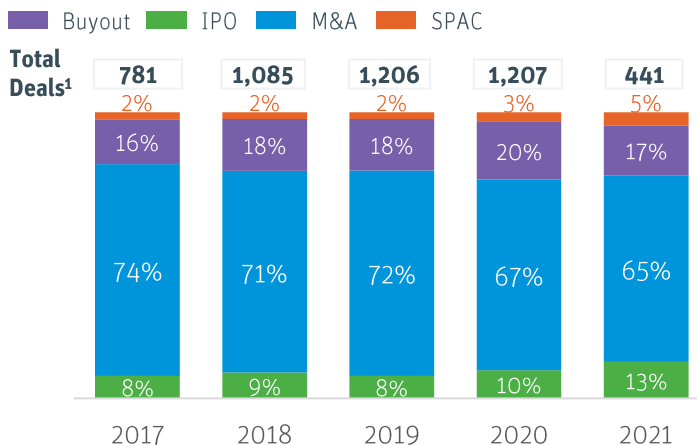
# Different Paths to Liquidity

For venture-backed companies, there are an increasing number of routes to liquidity. To complement M&A, buyouts and traditional IPOs, SPACs have reemerged, and direct listings are increasing. Although IPOs and SPACs receive the majority of the media attention, they constitute 16% of exits (so far in 2021), while M&A and buyouts account for 82%.

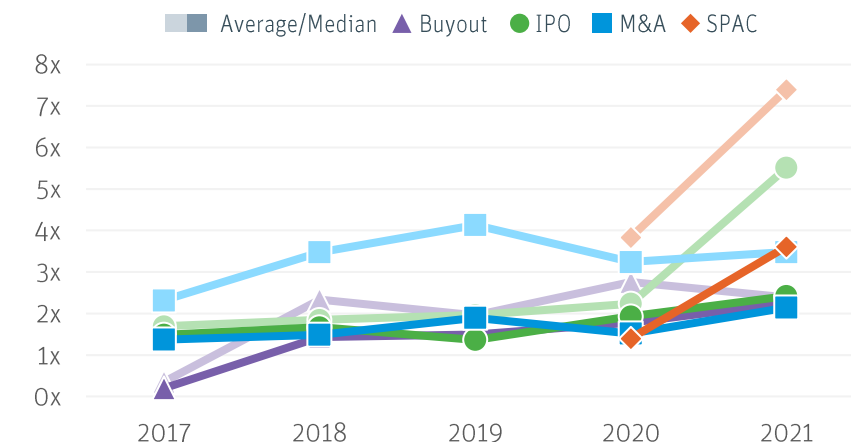
The attractiveness varies among different types of exits, with IPOs offering the most lucrative multiple on a company's last private valuation (LPV). However, with the emergence of SPACs, the most lucrative type of exit is up for debate. Even within the same type of exit, the outcomes vary drastically. This is highlighted by the difference between the average and median ratios, which points to a skew in large returns on some transactions, while the majority are more conservative.

Direct listings have accounted for some of the largest exits over the past three years, with Spotify, Slack, Palantir, Roblox and Coinbase all boasting IPO valuations more than \$20 billion. As traditional IPOs have come under scrutiny given the amount of money companies leave on the table after significant first-day pops, direct listings have gained momentum as a viable exit route. First-day performance has been slightly more subdued, with the median first-day return for direct listings at 35% vs. more than 60% for traditional large IPOs like Snowflake, Zoom and Unity.

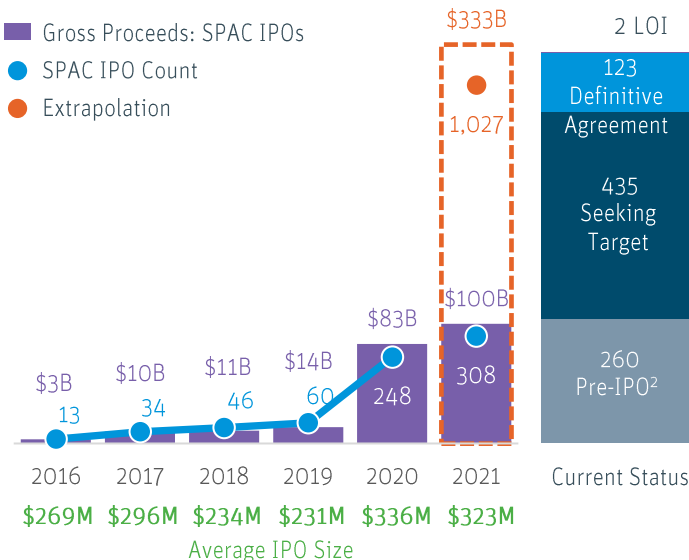
## US VC-Backed Exits by Deal Count



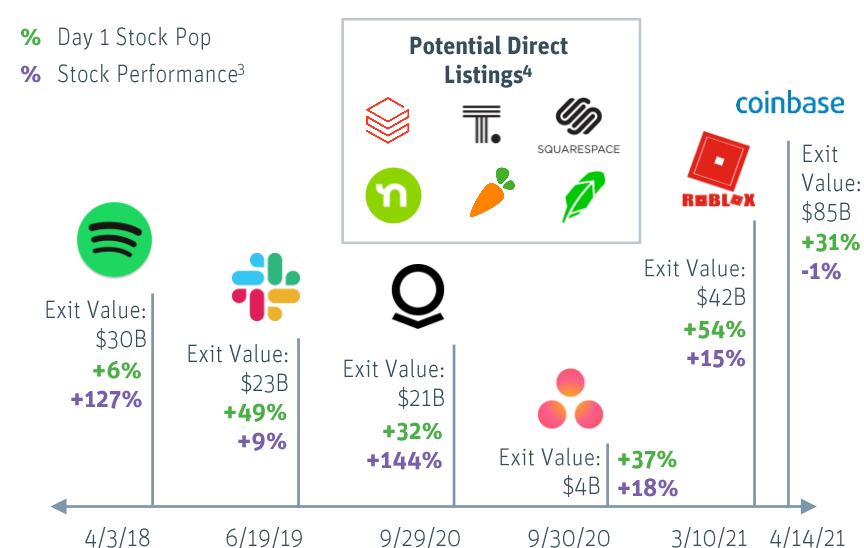
## Exit Value to LPV Ratio by VC-Backed Exit Type



## SPACs by Year and Current Status



## Timeline of Direct Listings by IPO Valuation



Notes: 1) 2021 as of 4/9/21. 2) Pre-IPO represents management firms/individuals that have expressed interest in forming a formal SPAC but have not officially created an operating organization.

3) From IPO date to 4/19/21. 4) From top left to bottom right: Databricks, ThoughtSpot, Squarespace, Nextdoor, Instacart and Robinhood.

Source: SPAC Research, SPAC Track and SVB Analysis.

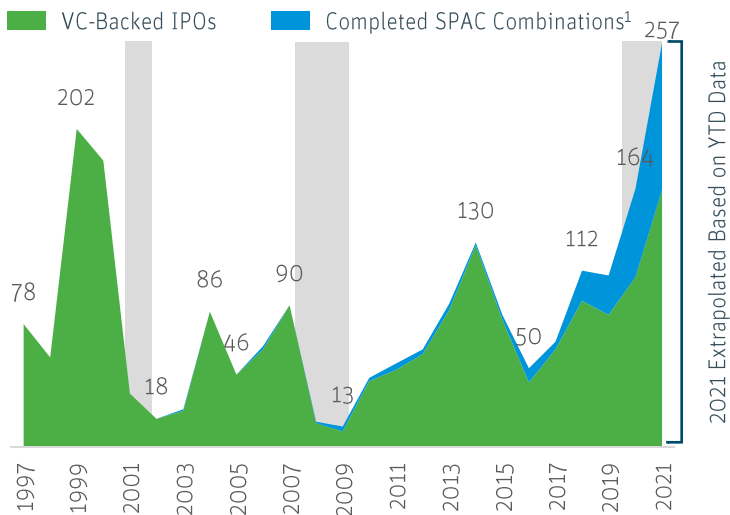


# IPOs: Lessons From The Dot-Com Bubble

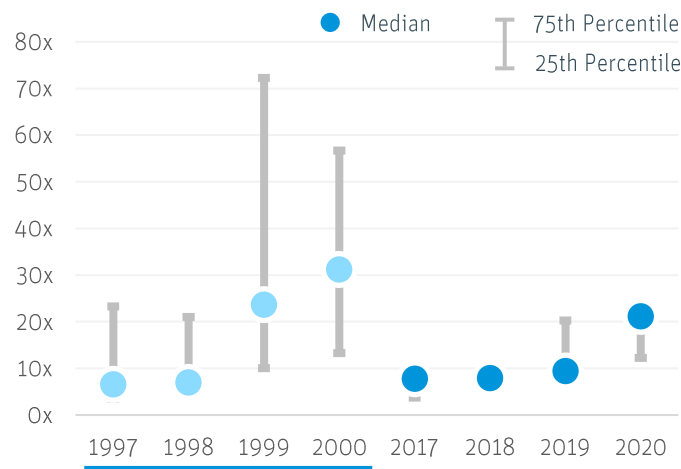
For a long time, observers of the venture economy have been calling for a bubble. The sheer amount of capital that exists in private markets has given public markets a run for their money. After a tough start in 2020, venture-backed tech IPOs came flooding back. Including SPACs, this level of activity has not been seen since the dot-com bubble. In 2001, the IPO bubble burst, and the fallout left many with empty pockets and unanswered questions. Are the lessons learned still being heeded 20 years later?

Unlike the dot-com bubble, companies going public today typically have a healthy amount of revenue relative to their IPO value. Revenue multiples are much lower than before, although they are starting to creep higher. Perhaps reassured by a greater mix of sticky and more predictable revenue models, such as SaaS subscriptions, public markets are tolerating this rise. The other big question is around profitability and whether companies can achieve a positive bottom line. Similar to revenue multiples, the dot-com bubble saw a wide array of EBITDA multiples — on average, smaller than the prior few years. This is a concern — and one voiced often. However, it does appear the trend is reversing in 2020 as companies slashed expenses to weather the pandemic; whether this continues in 2021 remains to be seen.

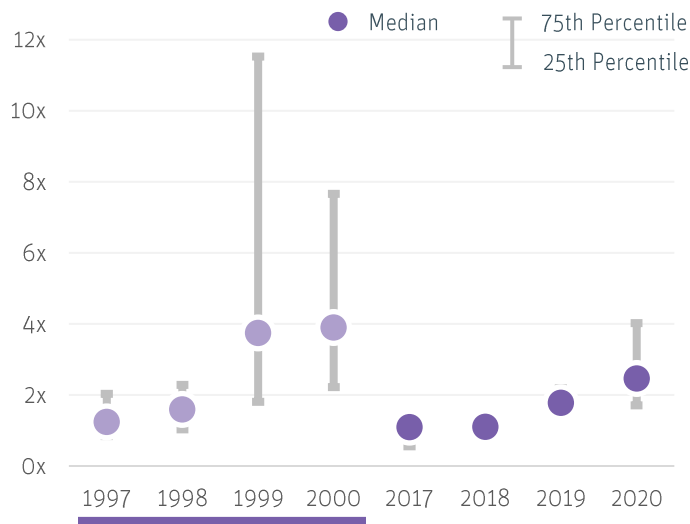
## US Public Exits by Year: IPOs and SPACs



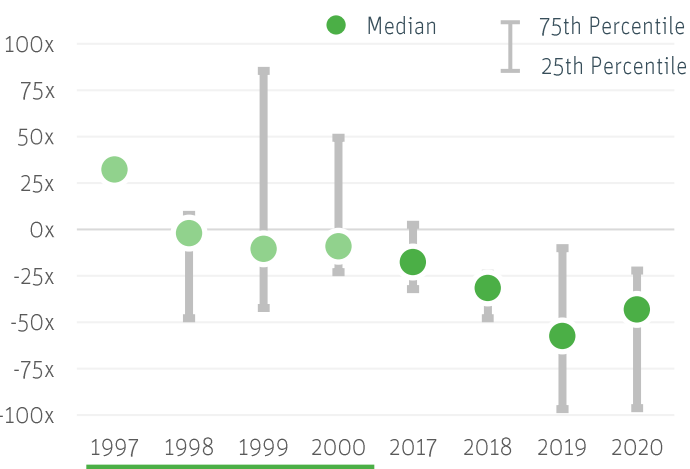
## Information Tech IPOs: Revenue Multiples



## Information Tech IPOs: IPO Size to Revenue



## Information Tech IPOs: EBITDA Multiples



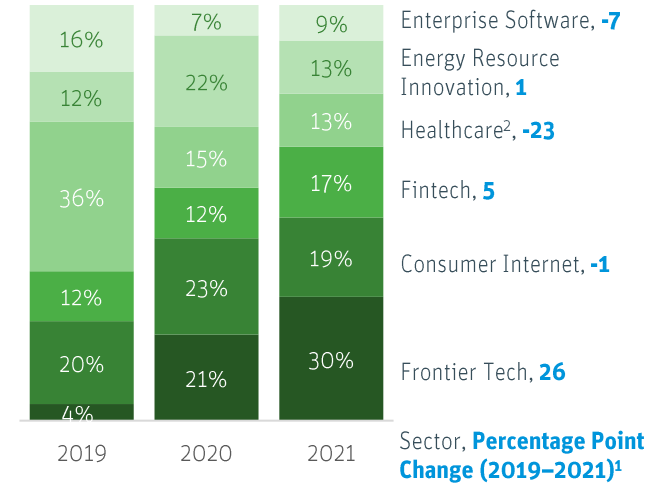
# Industries Don't Fight SPAC

SPACs have provided a way for companies to access public markets, who otherwise would have struggled using the traditional IPO route. SPACs have turned into a valuable financing mechanism for companies that don't fit neatly into the conventional venture-backed operating model.

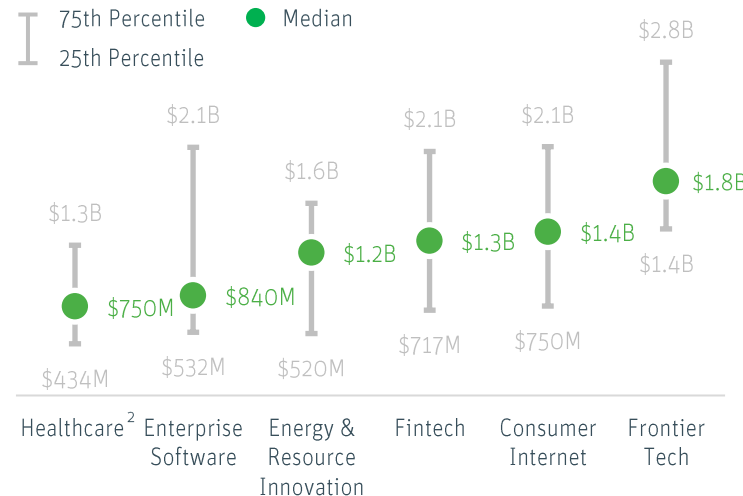
Some sectors have benefited more than others from SPAC mania. Frontier tech industries have quickly adopted SPACs as a financing instrument. Over the last couple of years, frontier tech transactions went from 4% to 30% of all de-SPACs. One of the main challenges for many frontier tech companies is how to finance a capital-intensive business model, which typically requires significant investment upfront before meaningful revenue can be realized.

While debt solutions tailored to Hardware-as-a-Service (HaaS) revenue models offer support, SPACs provide unfettered access to public markets. Frontier tech not only accounts for the greatest share of de-SPACs, but they are also typically the largest. The median frontier tech de-SPAC deal size was \$300 million — with a post-money valuation of \$1.8 billion.

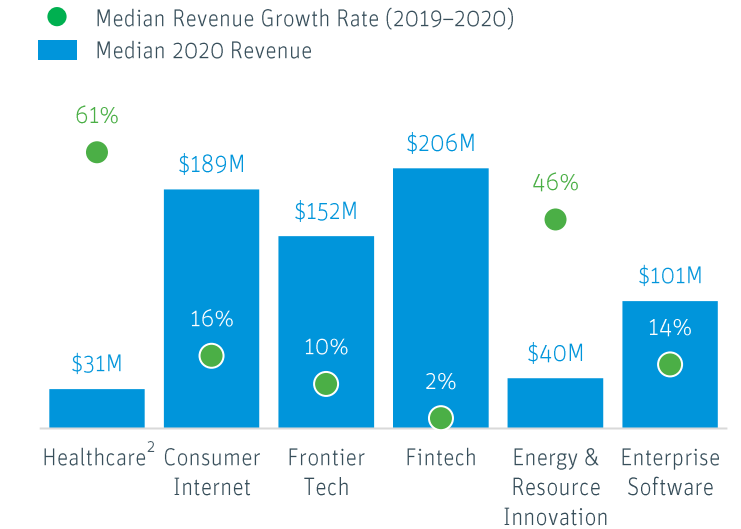
## Share of De-SPACs by Industry



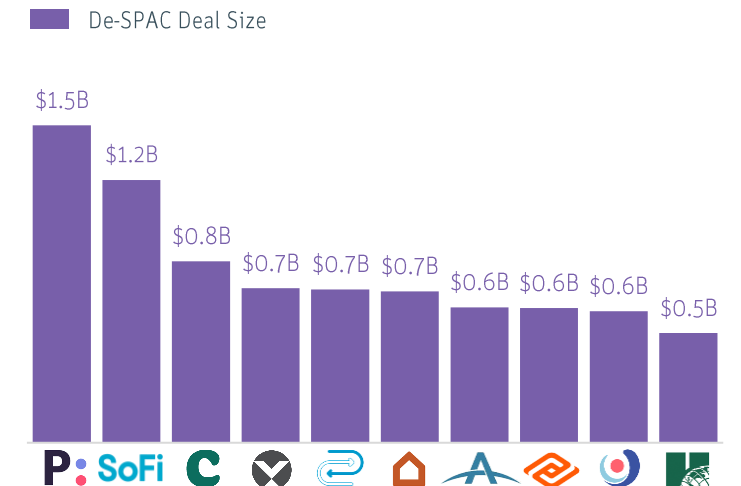
## Post-Money Valuation of De-SPACs<sup>3</sup>



## SPAC Benchmarks by Industry<sup>1</sup>



## Largest SPAC Transactions in LTM<sup>4</sup>



Notes: 1) For Q1 2020–Q1 2021 de-SPACs. 2) Healthcare includes cannabis SPACs. 3) For de-SPACs between 1/1/20 and 3/31/21. 4) LTM = Last Twelve Months; company names from left to right: Paysafe Group, SoFi, Clover Health, Vertiv, PureCycle Technologies, Vivint Smart Home, Atlas Technical Consultants, E2open, Varsity Tutors and Hillman Group. Source: PitchBook, company investor decks, SPAC Track, Goldman Sachs, S&P Capital IQ and SVB Analysis.



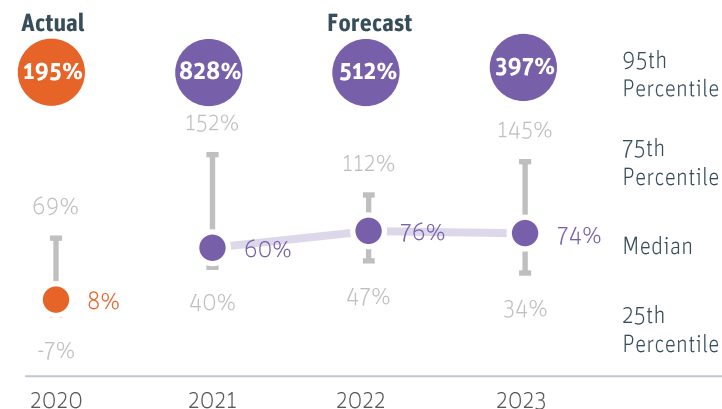
# Don't Look SPAC in Anger

Roughly half of all de-SPACs reporting a venture round last year consisted of companies at Series C or earlier, reflecting startups capitalizing on the intense investor demand for tech stocks and the prospects of having access to some of the venture economy's most promising companies. However, this may result in some companies going public before they are ready.

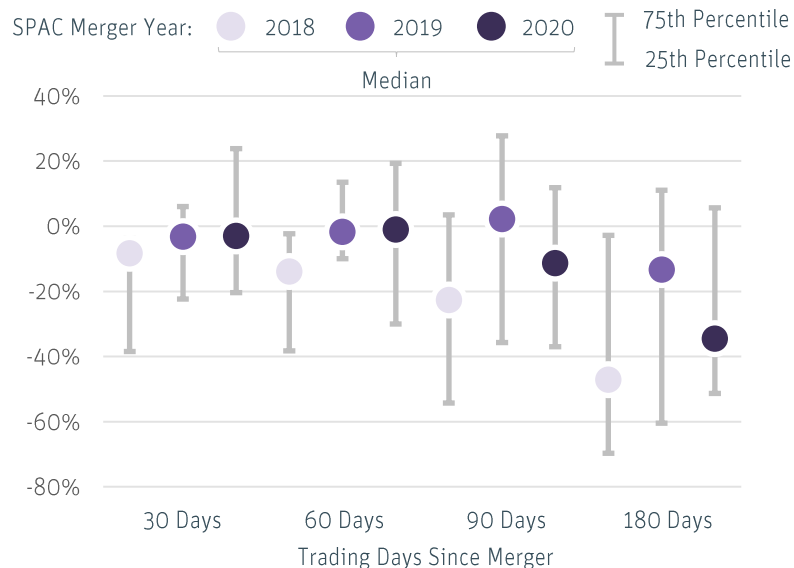
An interesting nuance of going public via a SPAC is the ability for companies to include forecasts in their regulatory filings — generally prohibited for traditional IPOs. When analyzing revenue growth projections for companies that completed a SPAC merger, they ranged from approximately 30% to 150%. The median for each year was between 60% and 76%, which is above the historical median for VC-backed tech IPOs (46% in 2020) but in line with the current year's figure (75%). However, roughly half of the companies that completed a SPAC transaction in 2020 missed revenue forecasts in their first year as a public company — with roughly 40% of that same cohort seeing negative revenue growth.

Failing to deliver on lofty forecasts could hurt stock performance for companies under the scrutiny of public market investors — and SPACs are no different. In the trading periods following a de-SPAC, for the 2020 cohort, performance has trended downwards.

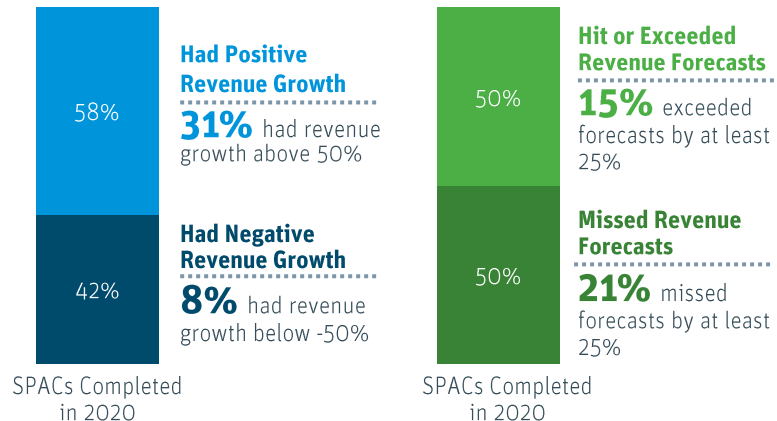
## 2020 De-SPACs: Forecast Revenue Growth<sup>1</sup>



## SPAC Performance Relative to the S&P 500

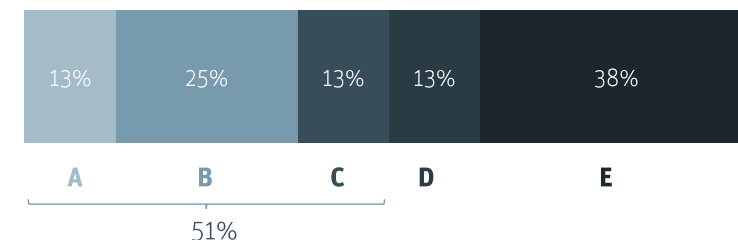


## 2020 De-SPACs Revenue Targets and Growth



## Stage of 2020 De-SPACs

### Series of 2020 De-SPACs<sup>2</sup>



### Revenue of 2020 De-SPACs





An aerial night view of a city skyline, likely Hong Kong, with numerous illuminated skyscrapers and buildings. The city is set against a backdrop of dark mountains and a twilight sky with some clouds. The lights from the buildings create a vibrant, blue-toned scene.

# International: No Slowing Down

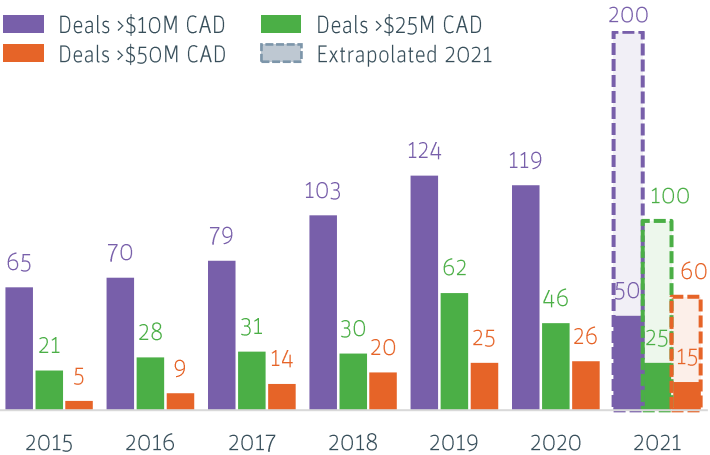


# Canada Lights the Lamp

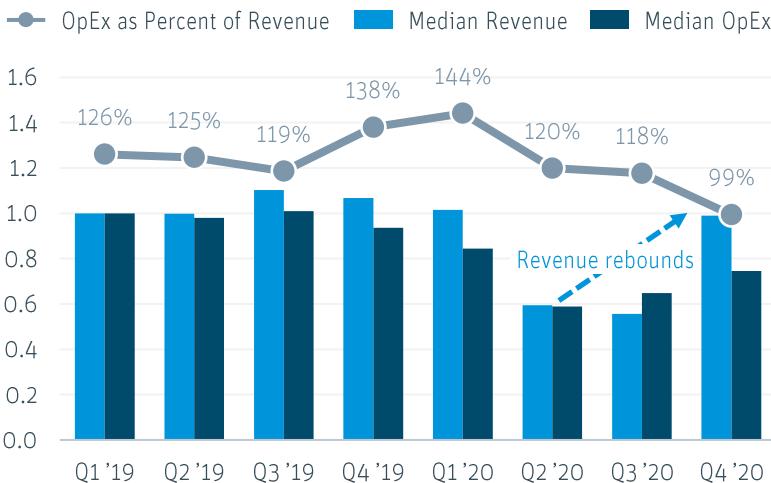
The Canadian venture ecosystem demonstrated incredible resilience in 2020, posting the second-highest level of VC investment. This was driven by late-stage investment reaching the highest level on record as investors doubled down on perceived market leaders – in addition to increased interest from US investors in search of efficient startups with the appeal of high-quality talent and business outside of historical core innovation hubs. Canadian tech startups may be more efficient than ever, as revenue accelerated in Q4 while operating expenses only saw slight gains. Additionally, momentum has seemingly continued into 2021 as Q1 was the biggest first quarter in Canadian history for venture activity – further showcasing the resilience of the ecosystem and ability for Canadian companies to continue to attract larger amounts of capital.

With respect to late-stage investment, we are continuing to see more large rounds, and they’re happening across Canada. Toronto remains the center of venture activity, but emerging innovation economies such as Vancouver, Montreal, Edmonton and Calgary are attracting a larger share of capital and deal count. Similar to south of the border, the pandemic pushed investors and companies to get comfortable with remote-only deals, breaking down borders in the process.

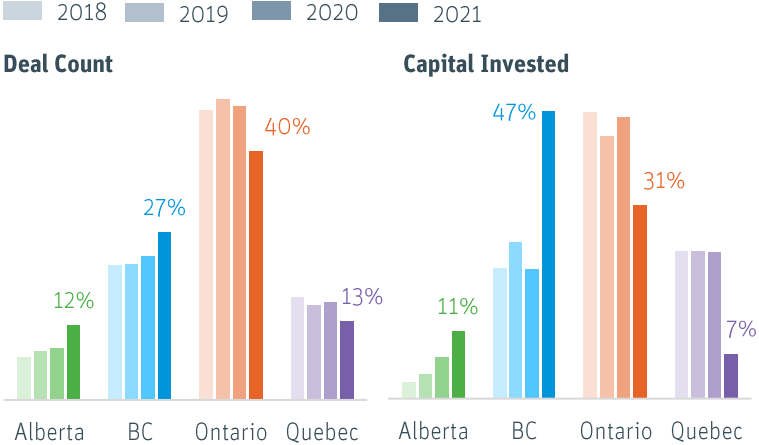
## Canadian VC Growth Rounds by Year<sup>1,2</sup>



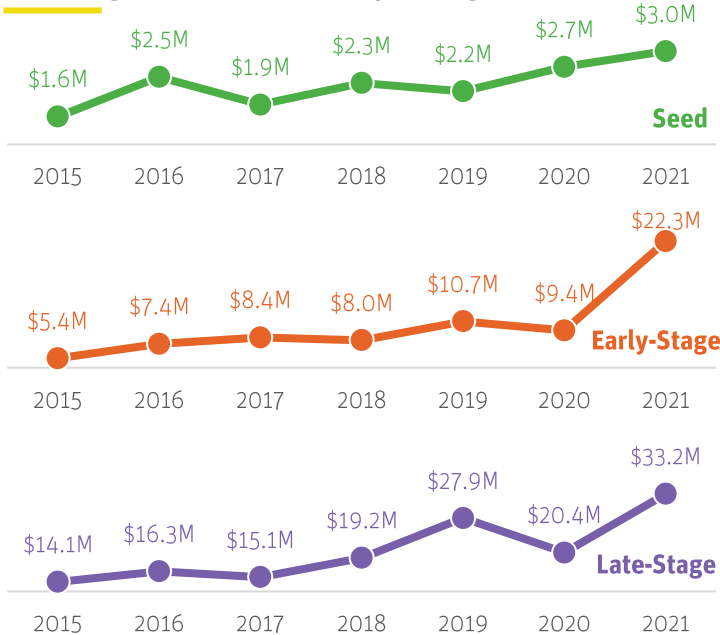
## Canadian Startups: Median Revenue and Operating Expense (Indexed)<sup>2,3</sup>



## Share of Deal Count and Capital by Province



## Average Deal Sizes by Stage<sup>1,2</sup>



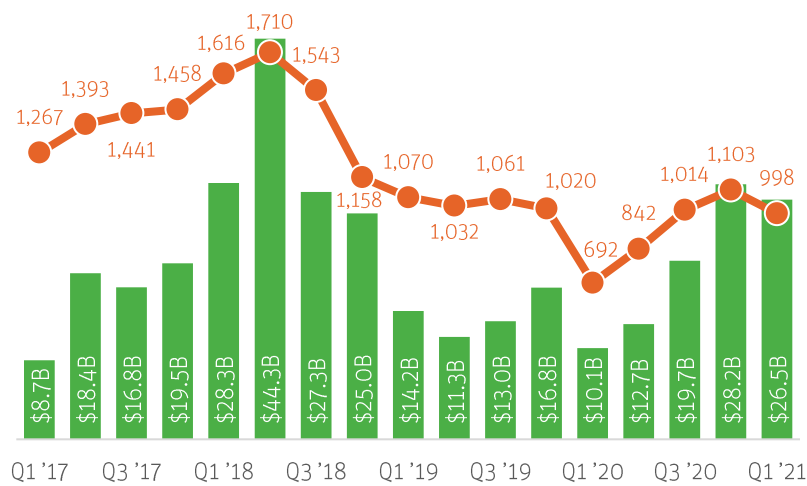
# China VC Strong Despite IPO Withdrawals

Investors continue to pour money into the China innovation economy, encouraged by a robust recovery from the pandemic and strong interest from foreign investors as well as continued government support. Based on SVB's Deposit Index<sup>2</sup>, momentum is expected to continue as investors and companies have ample capital.

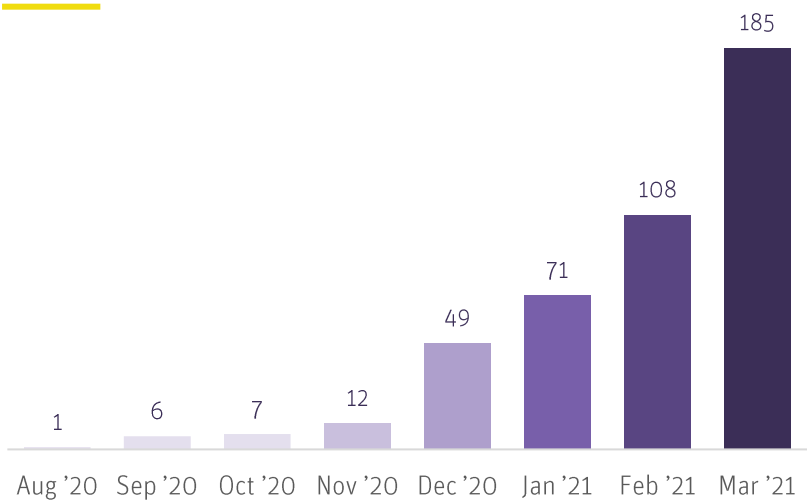
Conversely, IPOs have cooled as Chinese startups rushed to pull planned IPOs after regulators tightened requirements in an attempt to protect investors and safeguard financial stability. This comes after companies flocked to exit amid a strong economic recovery and a streamlining of regulations on the recently reformed ChiNext Board and STAR Market. New rules currently being discussed by regulators may put greater emphasis on companies demonstrating their technological credentials and stricter financial requirements, as Chinese authorities attempt to balance liberalizing the market while also curbing risk.

More than 100 companies have withdrawn their IPO applications from the STAR Market so far in 2021. The withdrawals spiked shortly after Ant Group had to pull its \$35 billion dual Shanghai and Hong Kong listings last year amid pressure from the China Securities Regulatory Commission. Among recent deals pulled was Geely Automobile's listing on Shanghai's STAR Market, with regulators questioning whether the firm is "tech" enough. Notably, Geely has been rumored to explore going public via SPAC — an exit vehicle that has gained increasing interest from founders and investors in Asia given the ongoing boom in the US and tightening regulatory requirements at home.

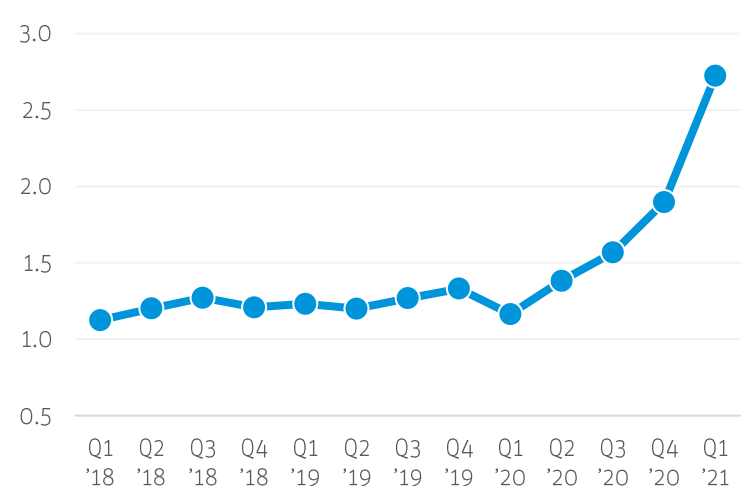
## China VC Investment and Deal Count<sup>1</sup>



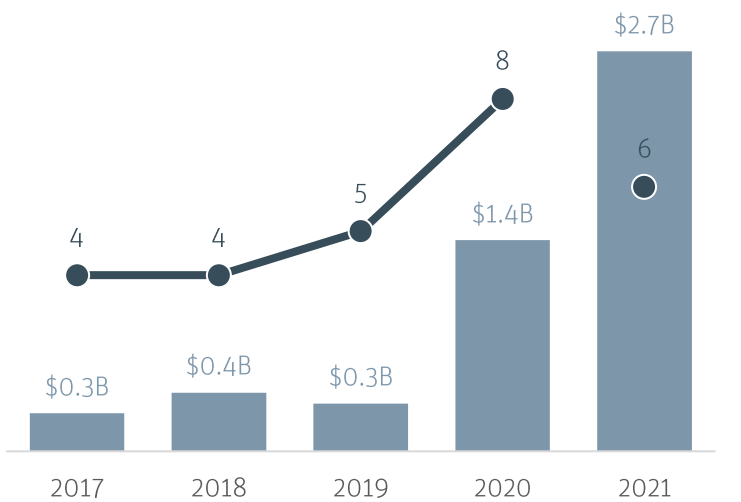
## Cumulative Number of IPO Cancellations on STAR Market



## SVB China Deposit Index<sup>2</sup>



## Asia-Focused SPACs<sup>3</sup>





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