



SPRINGTIME VENTURES

Startup Fundraising Market Analysis

Pig in the Pipe

– May 2022 –



TL;DR



We anticipate that the public market selloff will impact Early-Stage venture capital (i.e., Series A, B) this year making it harder for startups to raise capital at those levels and impacting valuations/valuation multiples at all stages. This is because:

- Exits have fallen off a cliff
- Late Stage has already taken a hit
- There's more startup activity at Seed than ever
- Early Stage funding is poised to get squeezed between the two (good for VCs, bad for startups)

Available Venture capital is at record levels, but it may be deceiving at Seed. Position yourself for success in the long run:

- Be mindful of burn
- Focus on revenue
- If you plan to raise, raise now
- Don't get over your skis¹ on valuation



Framework: VC Treadmill



One of my analogies for venture capital is that it's a treadmill: one that only gets faster and only gets steeper. The expectation is that when you step on the treadmill, you will continually level up.

Each level of investor expects that you will run hard to hit the next level. The expectation is that you raise capital, spend it, grow, raise more capital (at a higher valuation), spend it, grow more, repeat.

A Seed investor expects that you'll grow big enough, fast enough to appeal to the Series A investors. Series A investors for Series B, and so on.

When your growth doesn't meet the expectations of the next level, you have to keep running, look for a soft landing, or get bucked off the treadmill.

Problems arise when the bar for the next level goes up and you haven't adjusted to it.

That bar for the next level may have already moved.



Refresher: VC Economics



VCs look good on paper when the next level on the treadmill validates their decision. A markup on paper is fine, but what looks good on paper isn't the end goal for a venture capital firm. Venture investors through the whole stack only make money when there's an exit event: M&A or IPO.

When exit opportunities dry up, it has ripple effects through the market.

We're all upstream from the eventual liquidity event. Any blockage between here and there makes it harder to raise the next round, whether now or in the future.

I think it's important to refresh this because in hard times the alignment between VC firms and startups can diverge significantly. A fund may slow down on new investments, raise the bar, or even push existing portfolio companies to an early exit.



Fair Warning



I thought 2020 was going to be a rough year for fundraising. I got that wrong.

I'll address what I thought was coming in 2020 as COVID-19 hit, what I got wrong, and why I think 2022 is a different story.

I may get it wrong again. I hope so.

But our job is to know the venture market. Your job is to build an awesome business. We're letting you know what's going on in our world because it may affect your world.

We  you





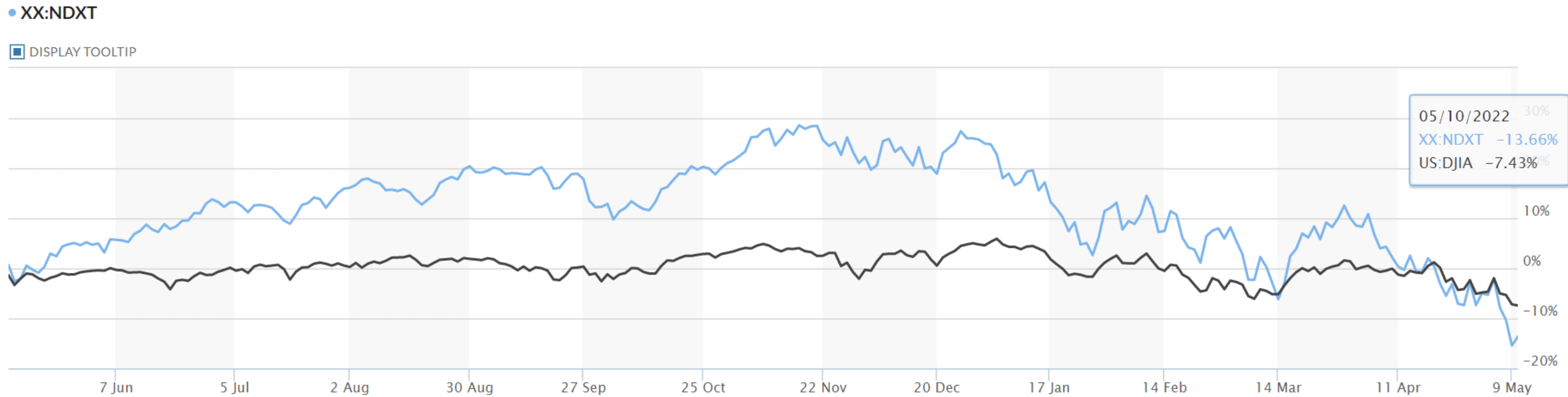
Let's Begin At The End



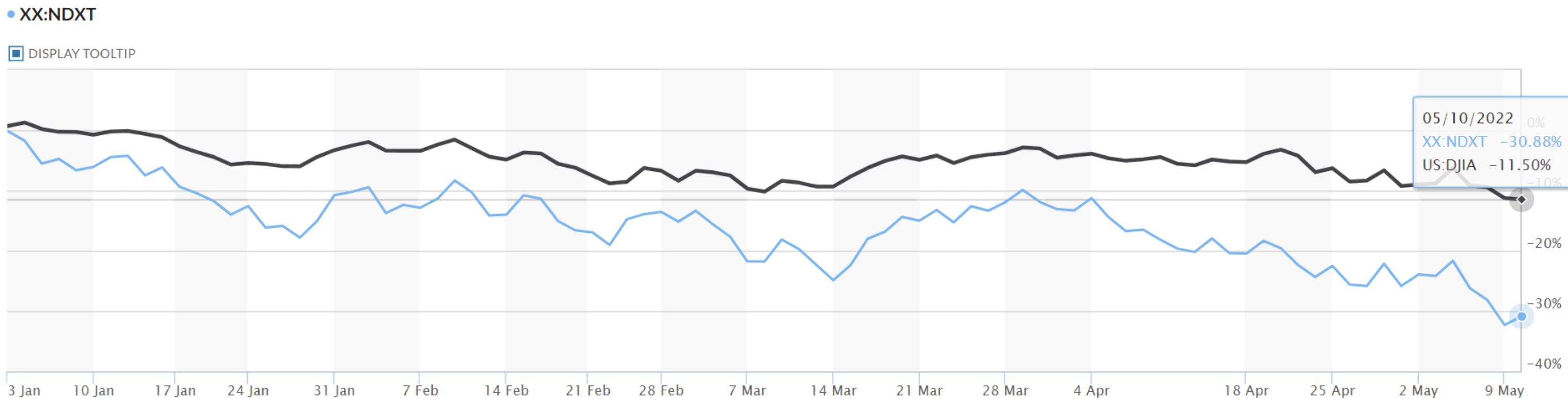
Public Markets



Stocks are down but *tech stocks are getting killed*



1 Year Comp:
NASDAQ 100 Technology Sector Index (-13.66%)
vs.
Dow Jones Industrial Average (-7.43%)



YTD Comp:
NASDAQ 100 Technology Sector Index (-30.88%)
vs.
Dow Jones Industrial Average (-11.50%)



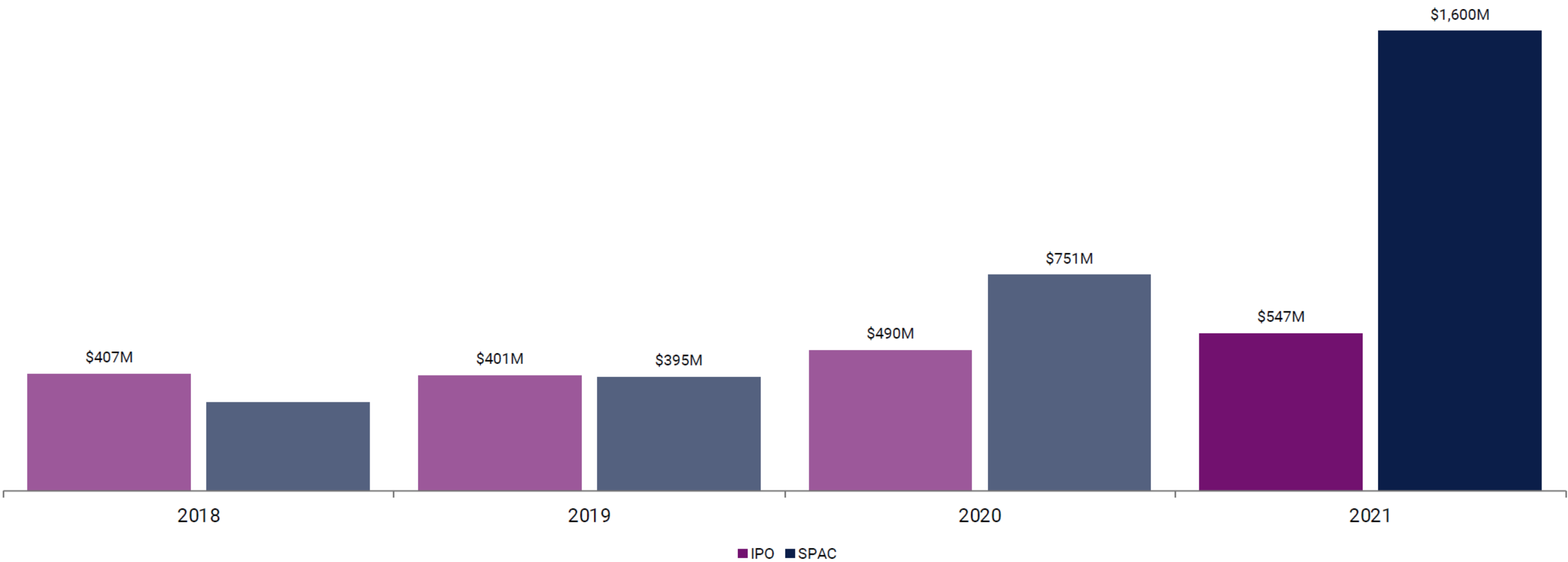
SPACs Brought Exits

A huge part of the liquidity story in 2021...



STATE OF VENTURE | GLOBAL TRENDS | EXIT TRENDS

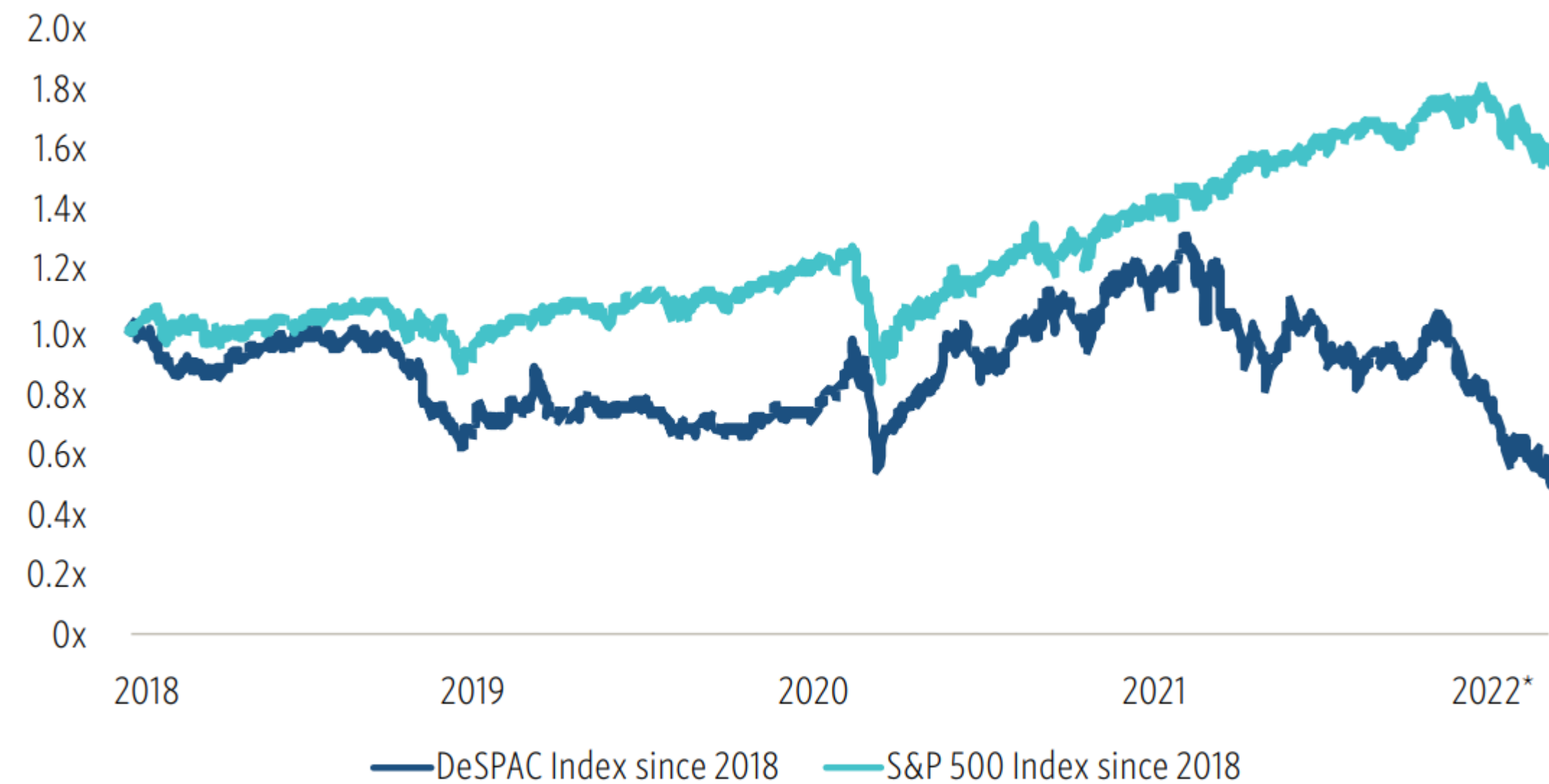
Global median exit valuations for SPACs grow to \$1.6B



But SPACs Have Fared Even Worse

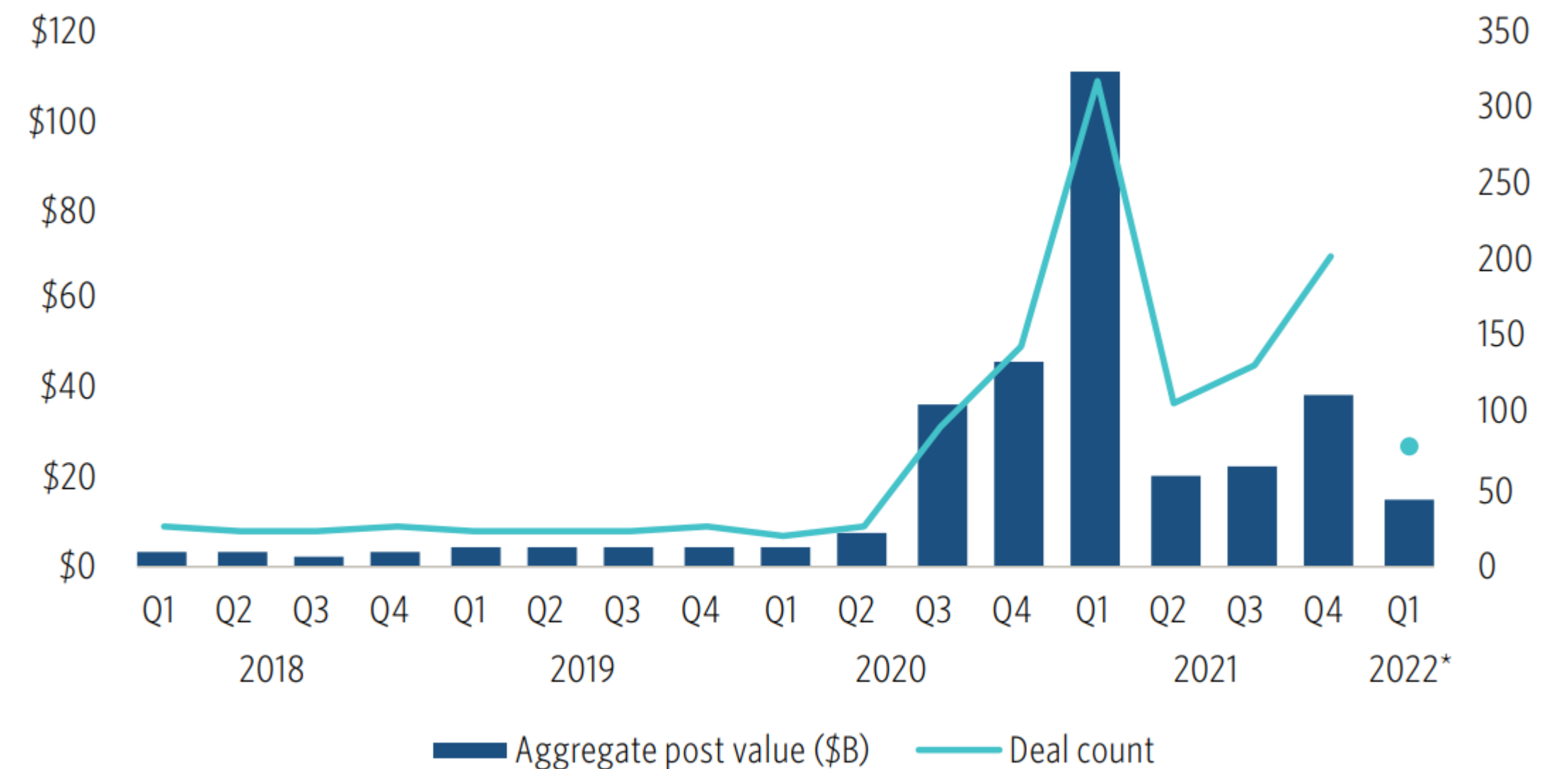
And the bad news for SPACs just keeps coming

PitchBook deSPAC Index vs S&P 500



Source: PitchBook | Geography: Global
*As of March 15, 2022

SPAC IPO activity



Source: PitchBook | Geography: Global
*As of March 15, 2022

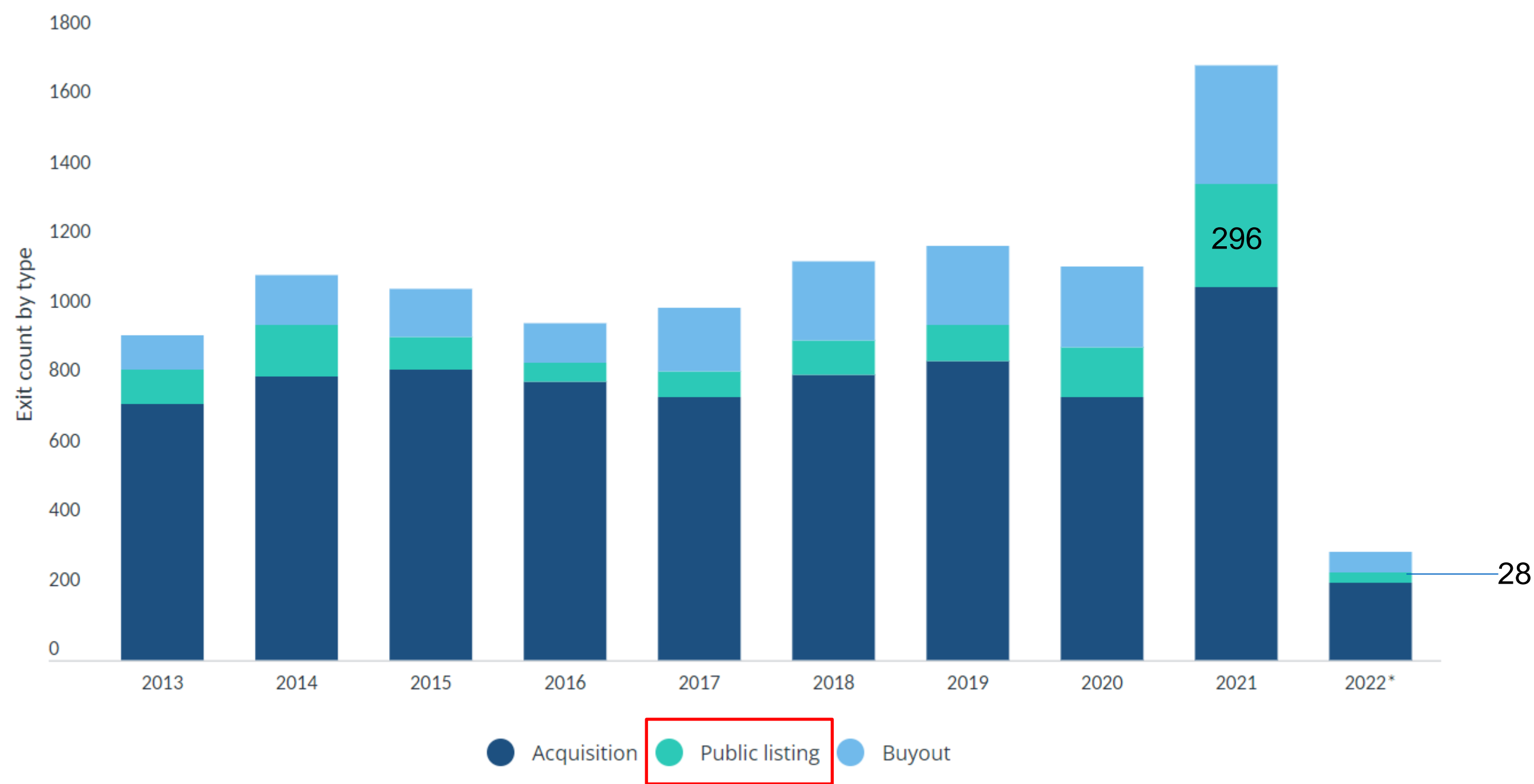
Goldman Is Pulling Out of Most SPACs Over Threat of Liability

- Bank withdrawing from blank-check firms before they de-SPAC
- Move spurred by SEC guidelines on underwriter responsibility

Resulting in Fewer Public Listings



Public listing activity sees significant pullback in Q1



Geography: US
*As of March 31, 2022

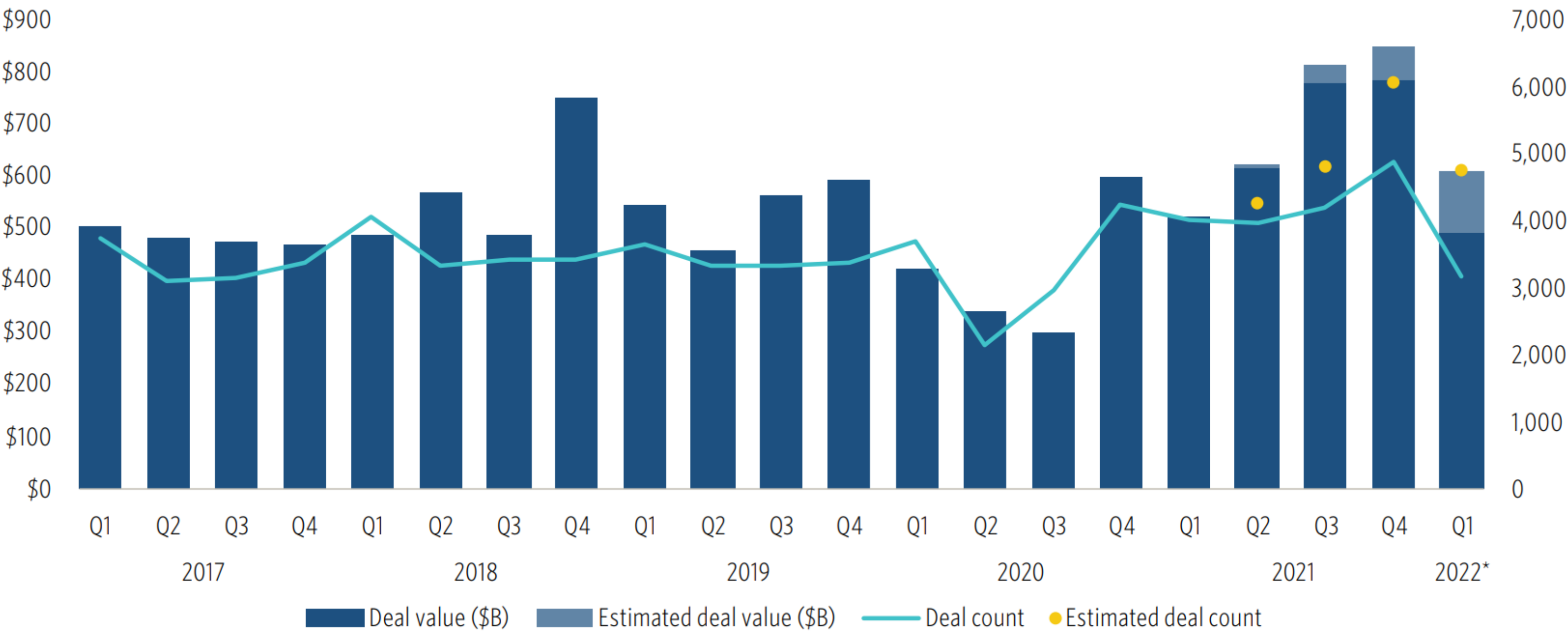


Plus M&A Down Slightly

This looks more like a regression to the mean...



Quarterly North American M&A activity



Source: PitchBook | Geography: North America
*As of March 31, 2022

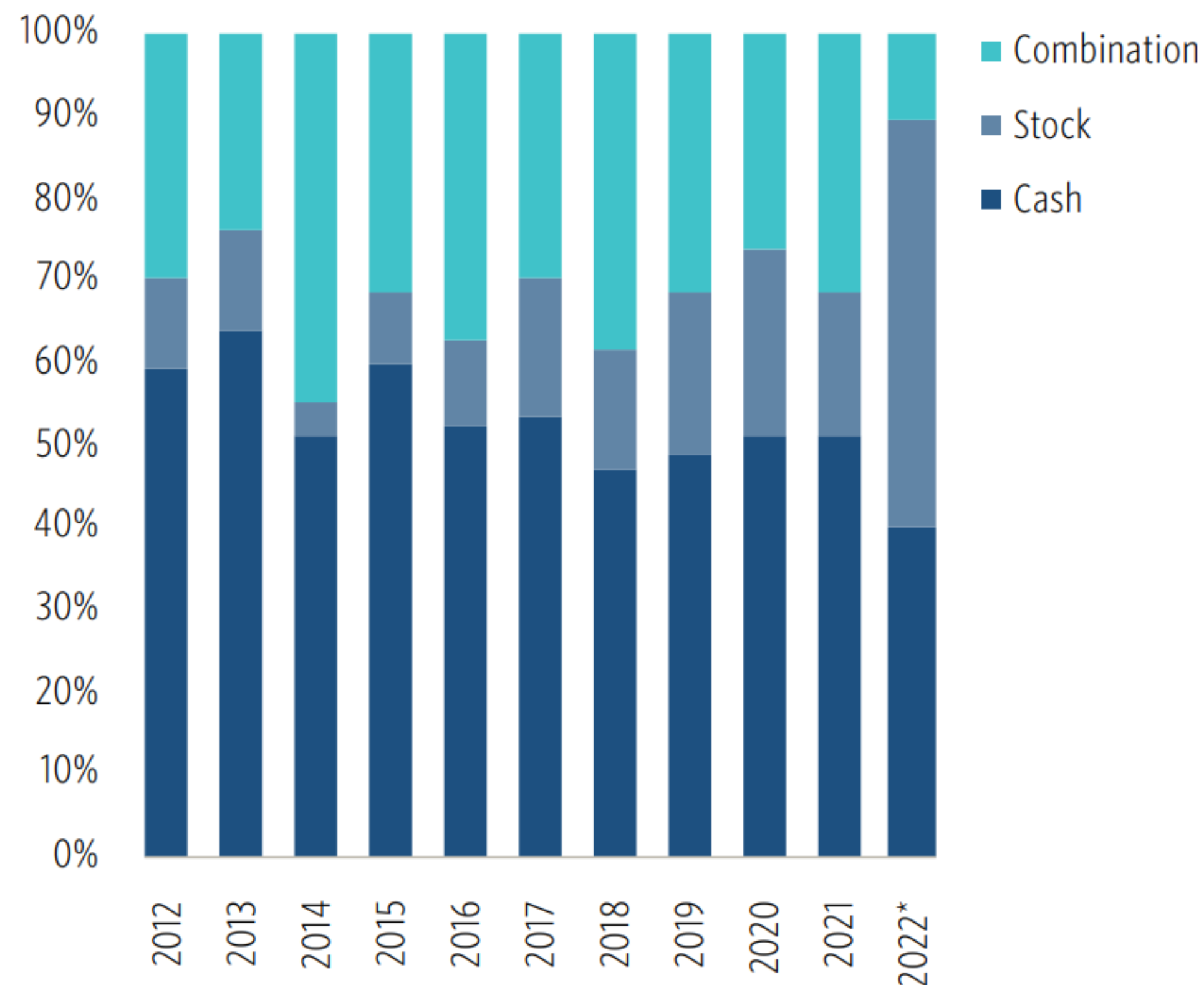


...This Looks Like 2000

Roughly 50% of all M&A this year transacted in stocks only



Share of M&A deal value by payment type



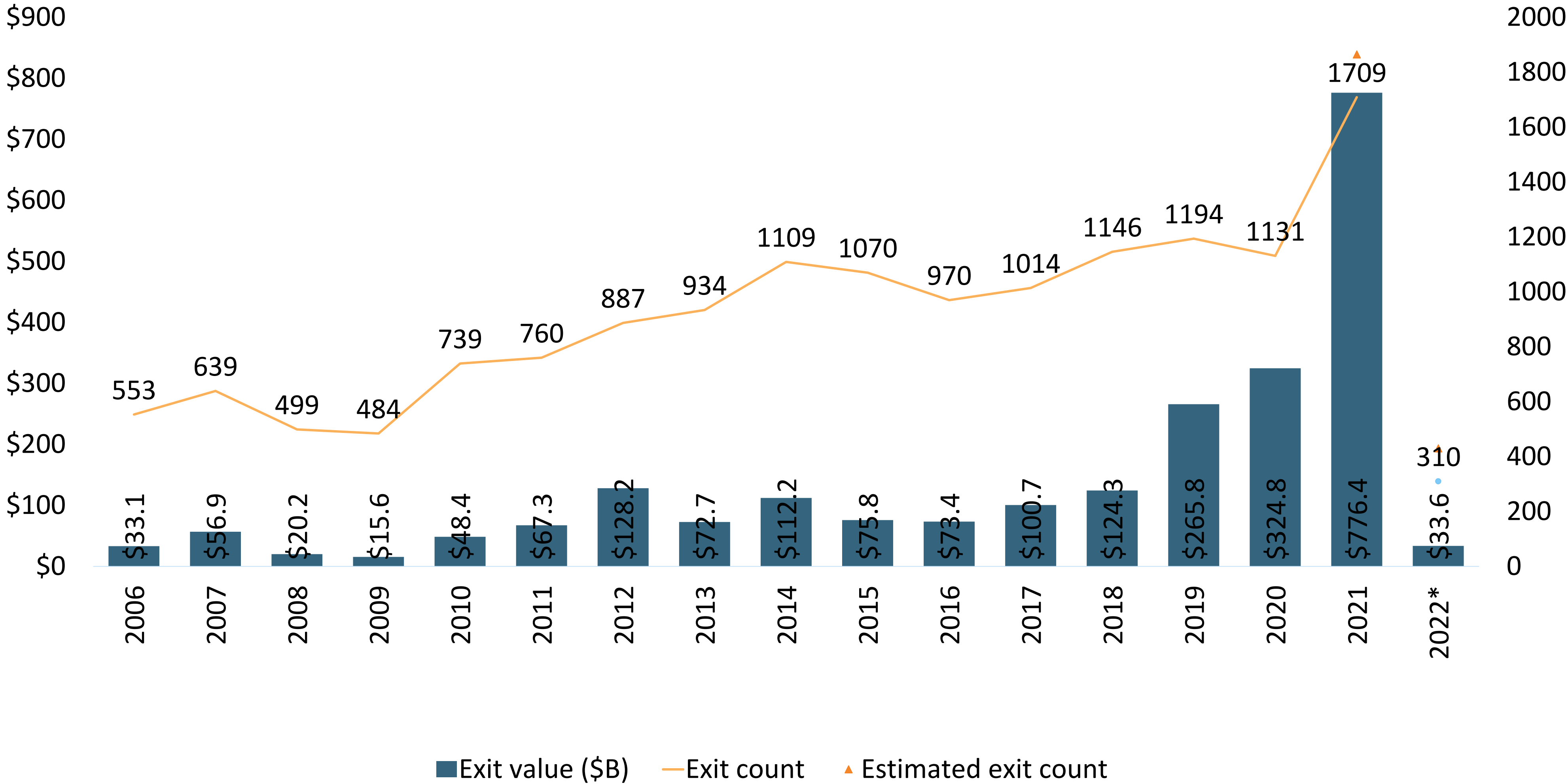
Source: PitchBook | Geography: Global
*As of March 31, 2022

This is a negative signal for future M&A activity. With rising interest rates cash is precious and capital is more expensive, so stock becomes more attractive as a means of acquisition. But as stock prices crash, that option also becomes expensive. Combine both and M&A slows down across the board.



Thus... Exit Values Got Crushed

No appetite in the public market plus a worrying M&A trend





Back To Startups



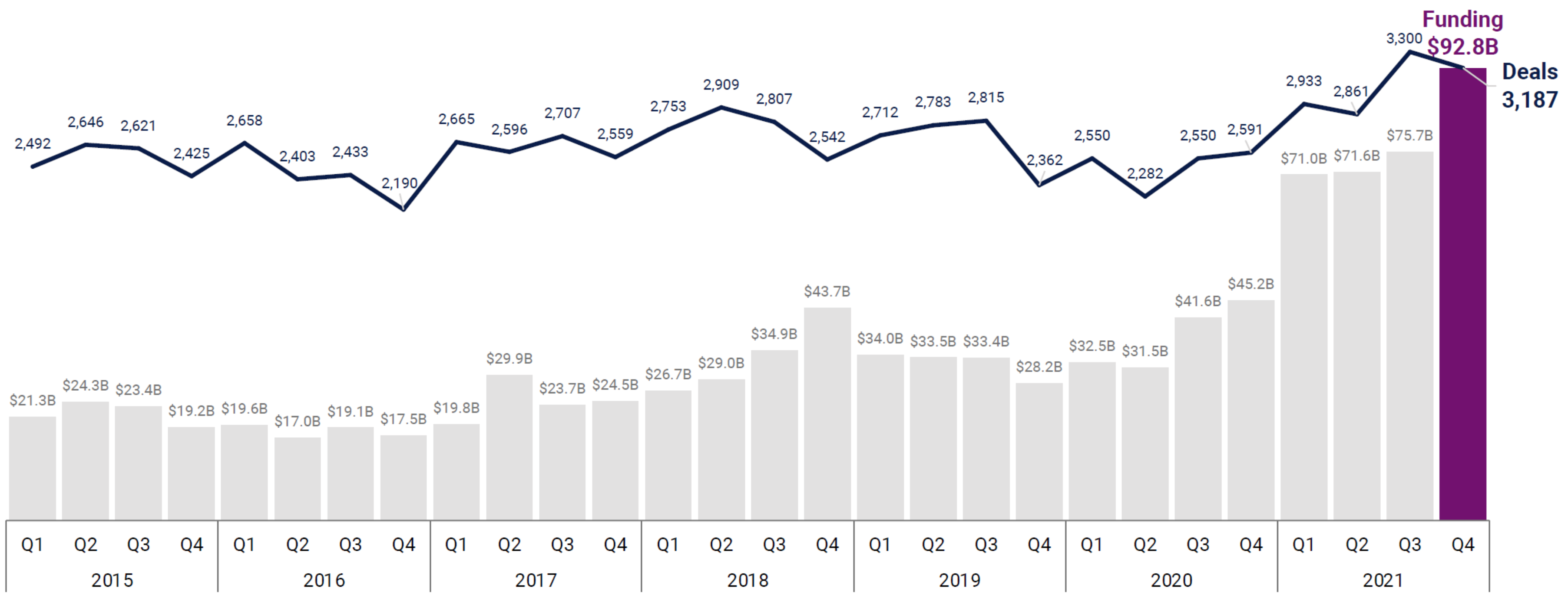
2021 Was 🍌 🍌 🍌

It was a record-shattering year for venture investment



STATE OF VENTURE | US

US funding hits an all-time high of \$92.8B in Q4'21

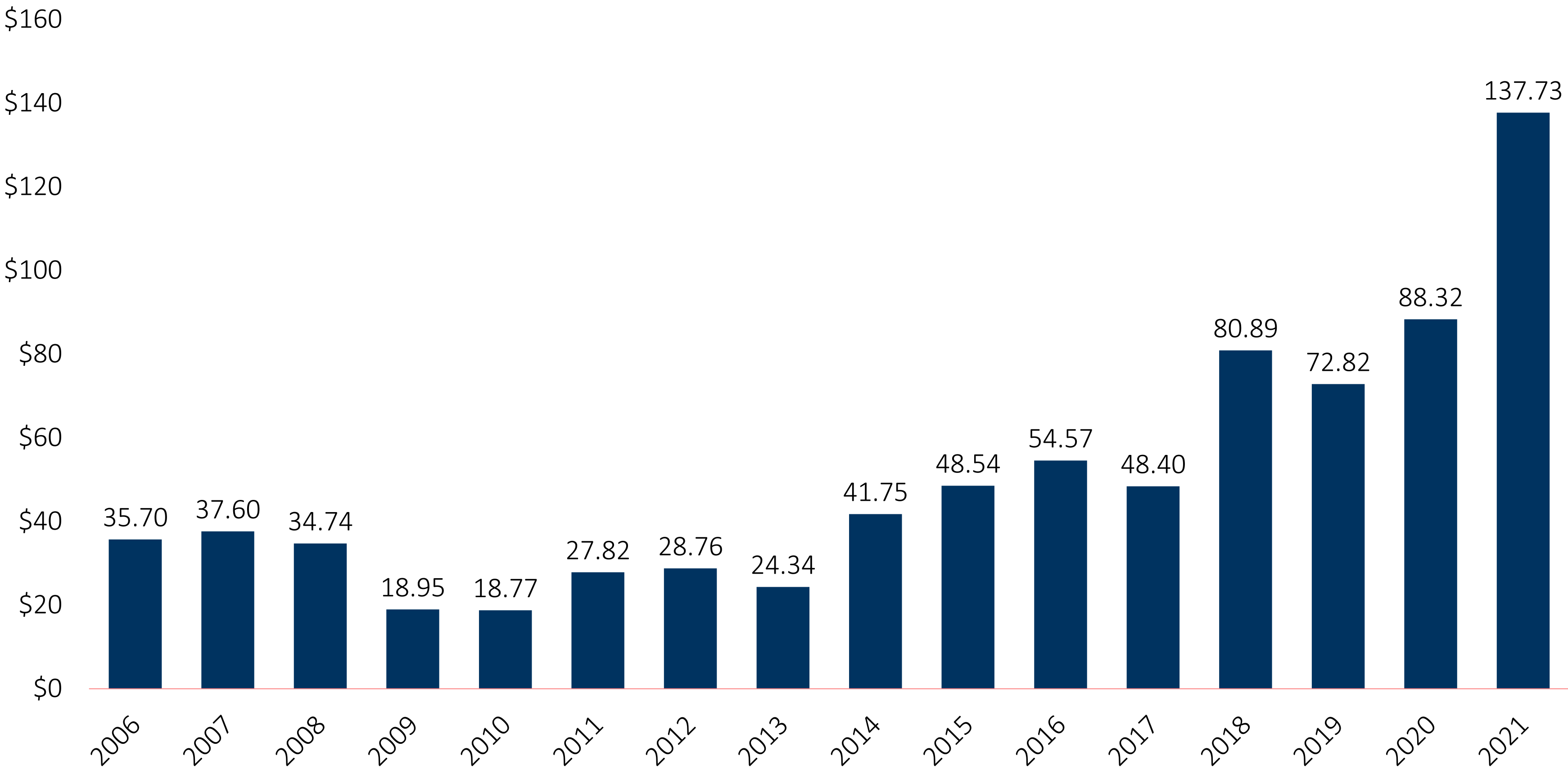


VC Fundraising Spiked in 2021

3 of the last 4 years were record-breaking for new fund formation

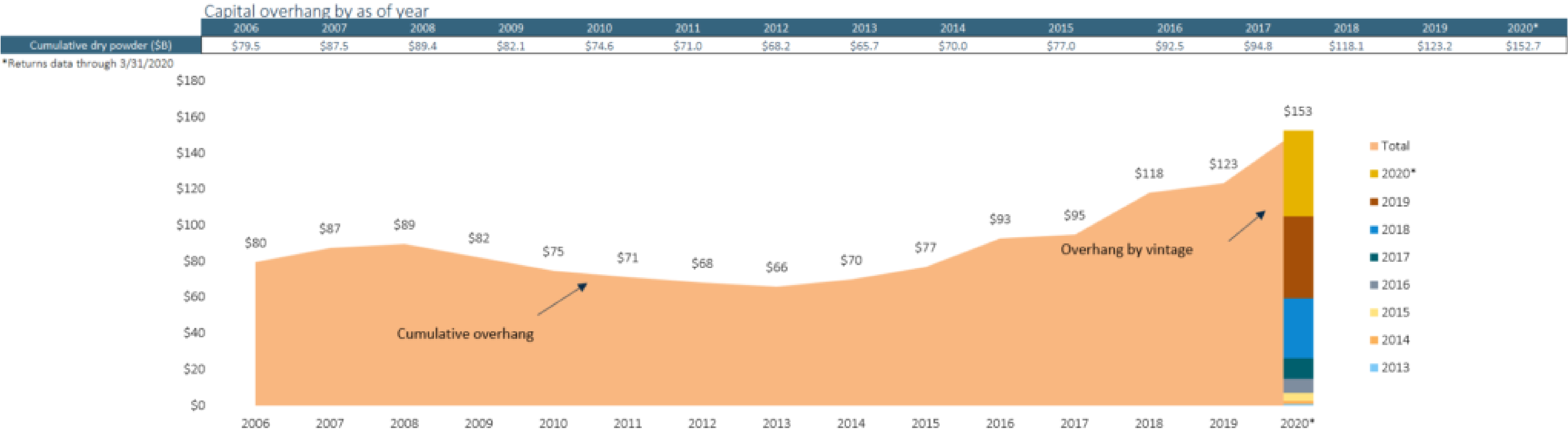


Annual VC fundraising (\$B) activity



Plus Existing Capital Overhang

Means there's more dry powder than ever



Capital Overhang is the amount of capital that's been committed to venture funds (or other private funds) but has not yet been called (i.e., wired). Unlike a startup, a venture fund collects commitments but doesn't take all the capital at once. Typically, a fund calls capital over a period of 2-4 years—a timeline that has also shortened in the last two years.

Funds must eventually deploy the full commitment, but it doesn't mean they need to do it in a 1-2 year time horizon.

The latest data I could find was from Q1 2020. Given fundraising levels since then, we can assume this has gone up.

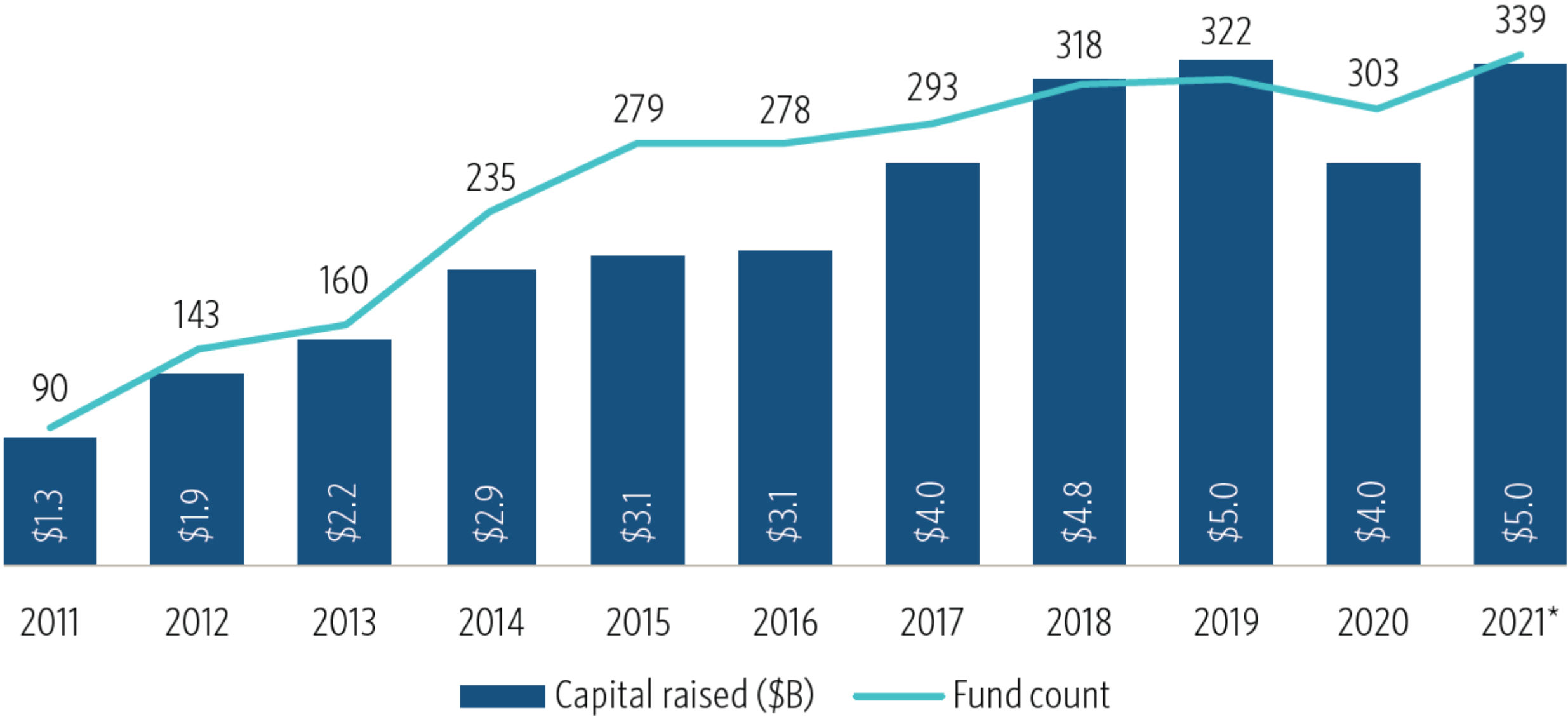


And More Seed Than Ever

\$9B from 2020 & 2021 vintages goes a long way in Seed



VC micro-fund activity



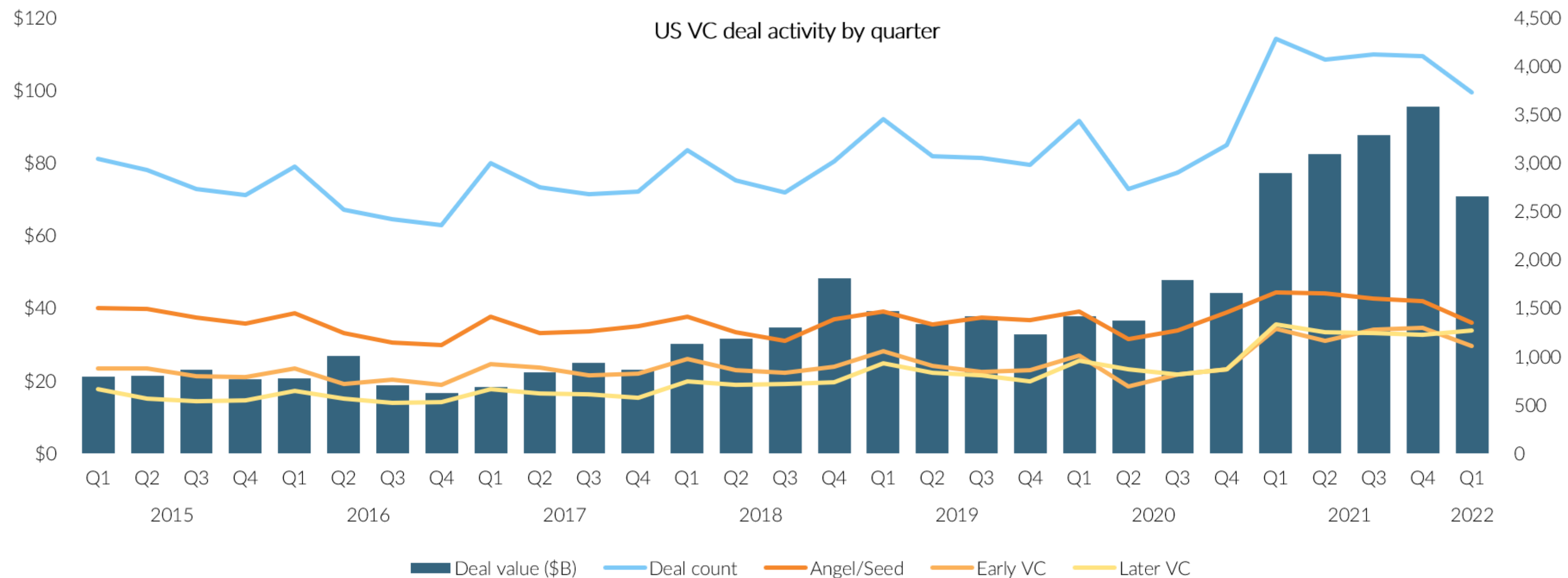
Source: PitchBook | Geography: US
*As of December 31, 2021

“Over the past decade, seed has grown from a small market to one with nearly 4,000 deals per year. Pre-seed has also spawned over the past few years.” — Q2 2022 PitchBook Analyst Note Micro-Funding Opportunity, page 2



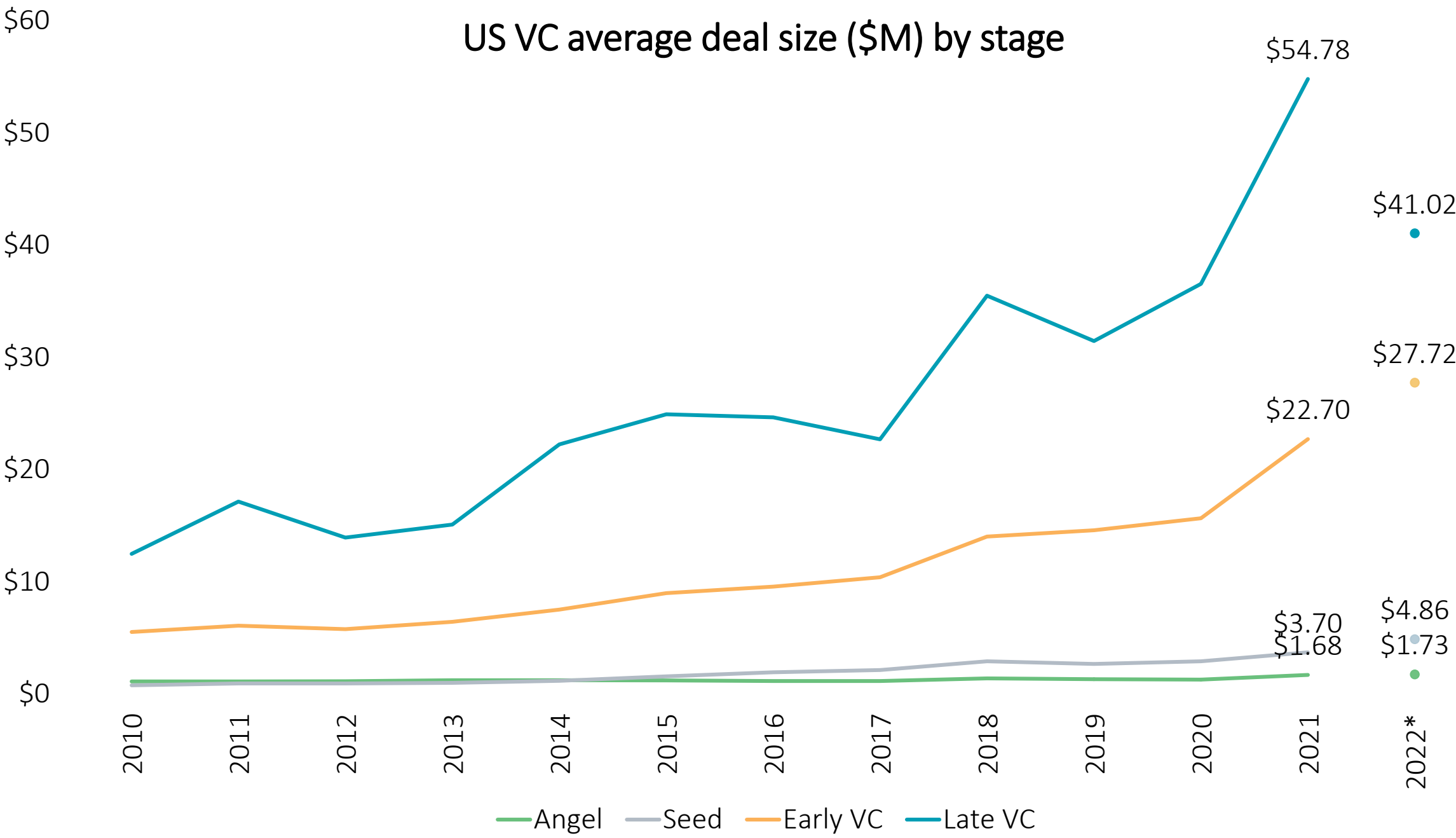
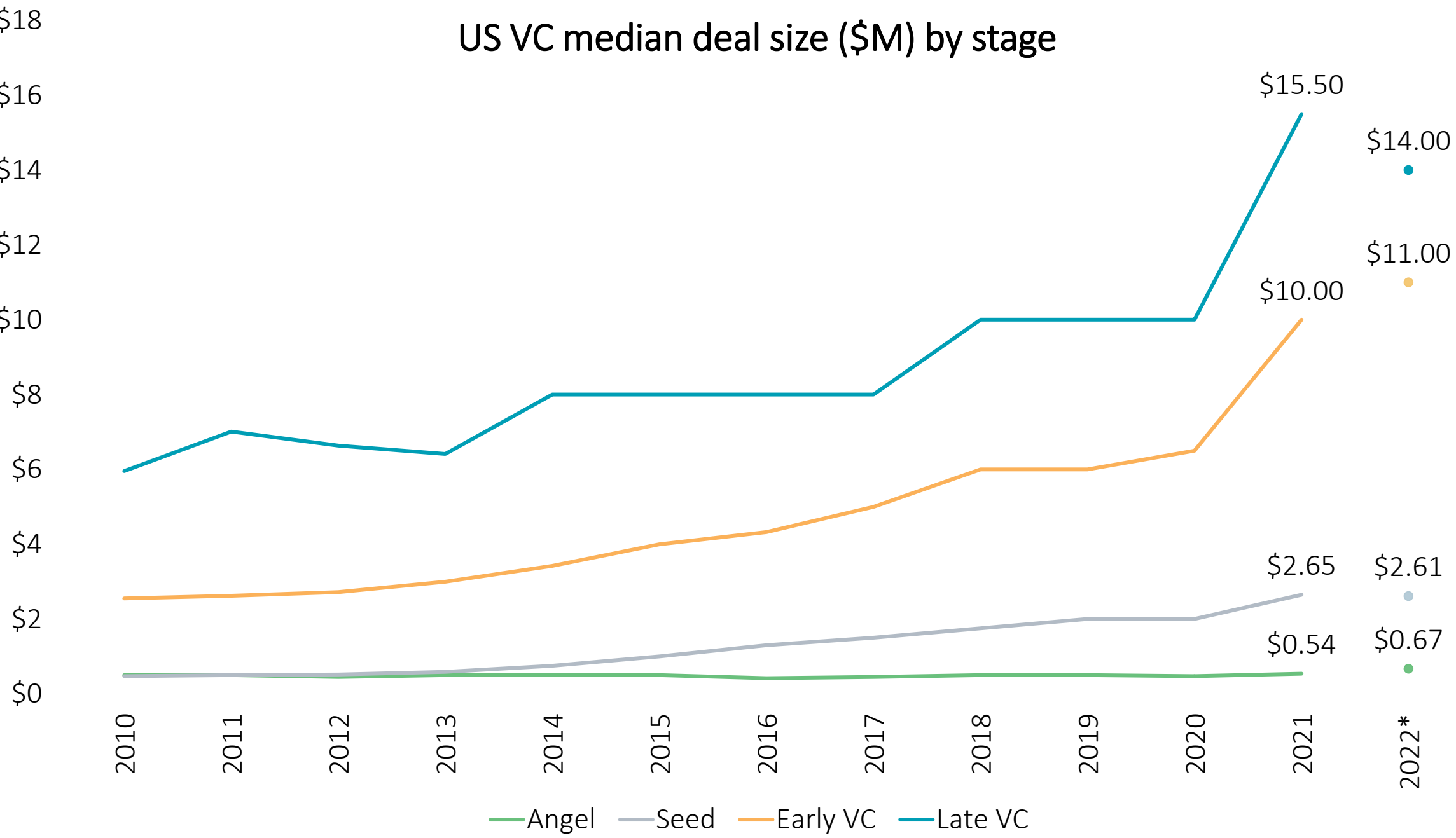
But 2022 Deals Are Down Slightly

Still above historic levels, but who cares... right?



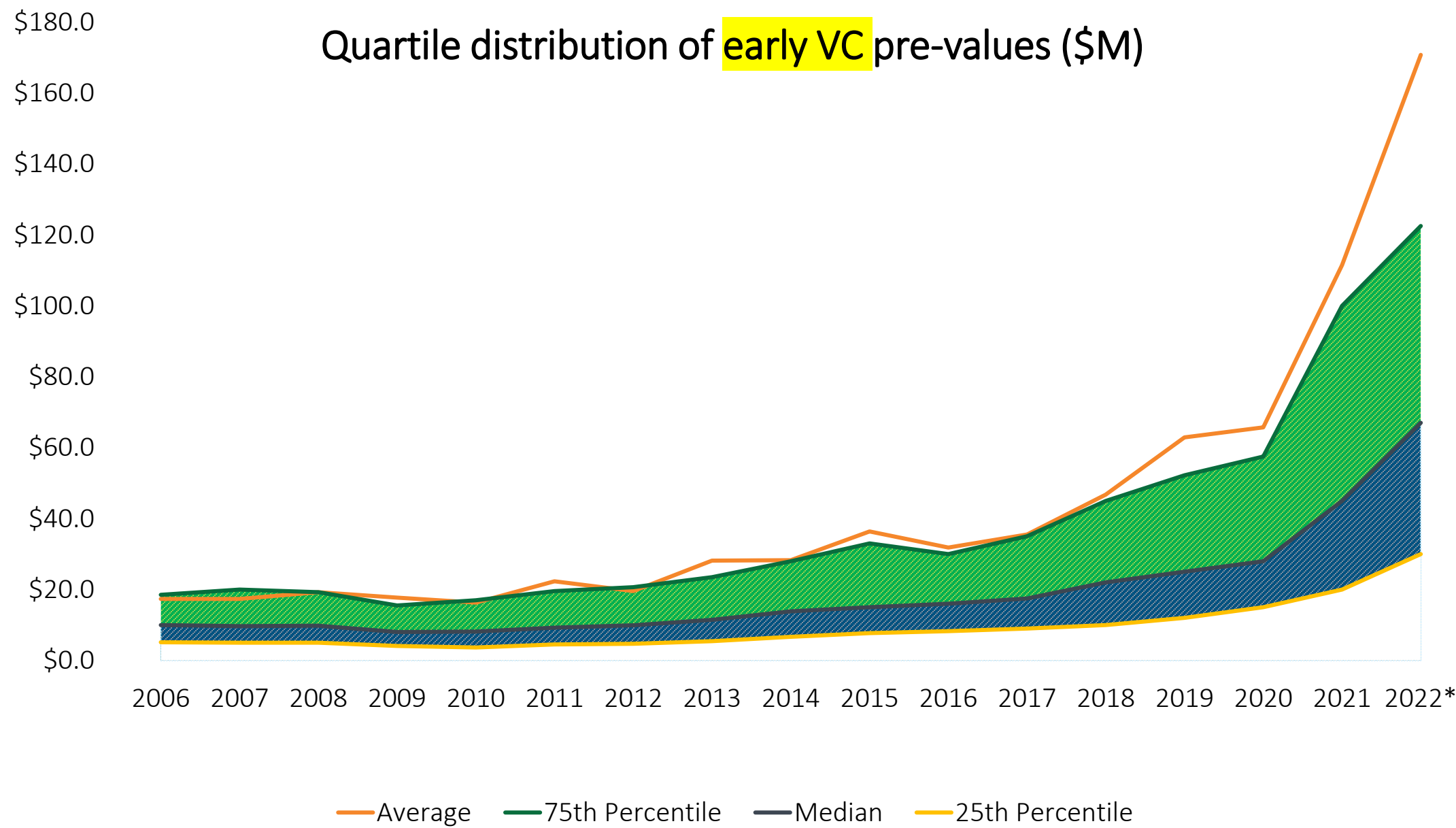
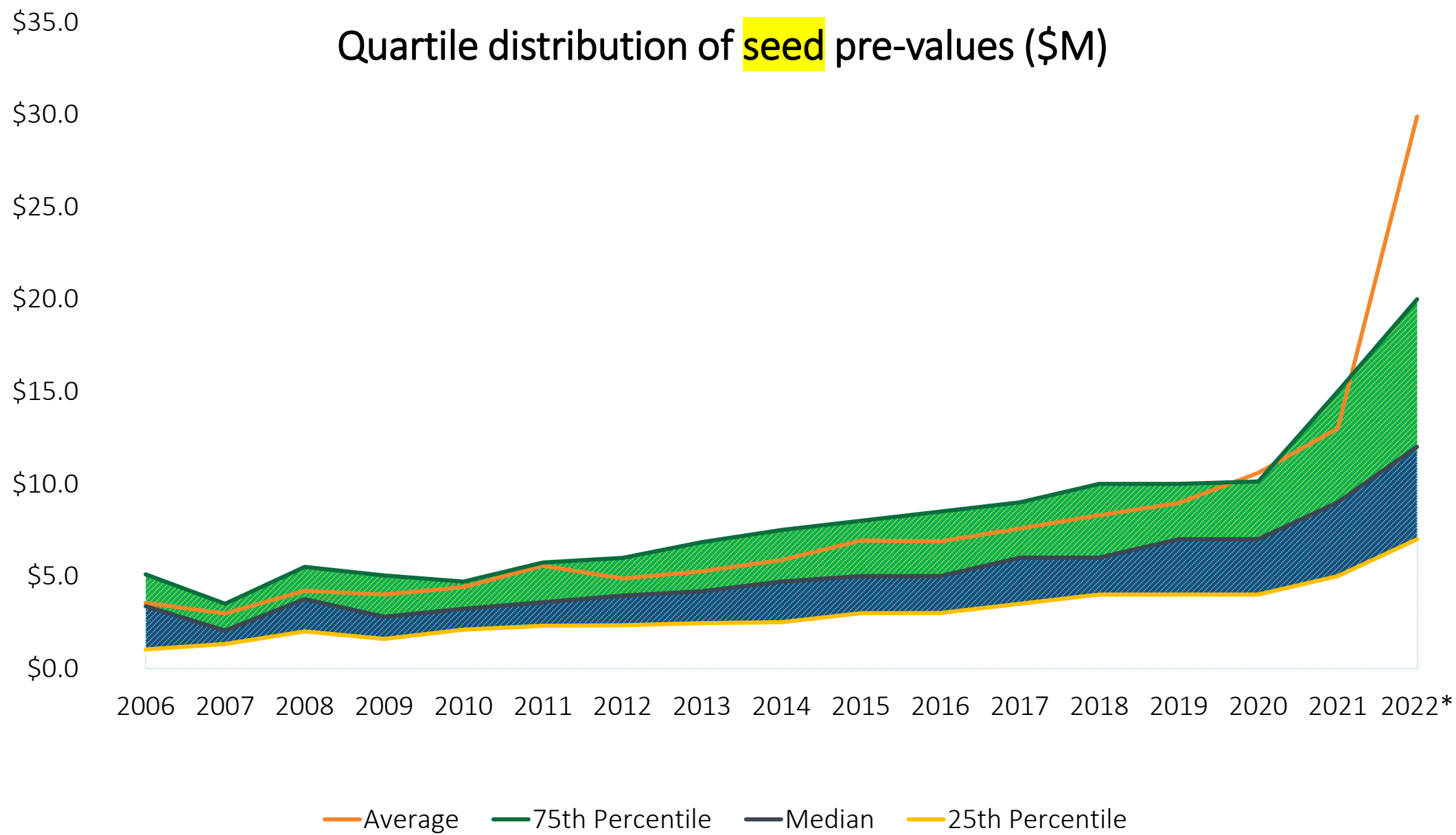
Late Stage Cares

Deal size is up, up, and up for most, but down for Late stage



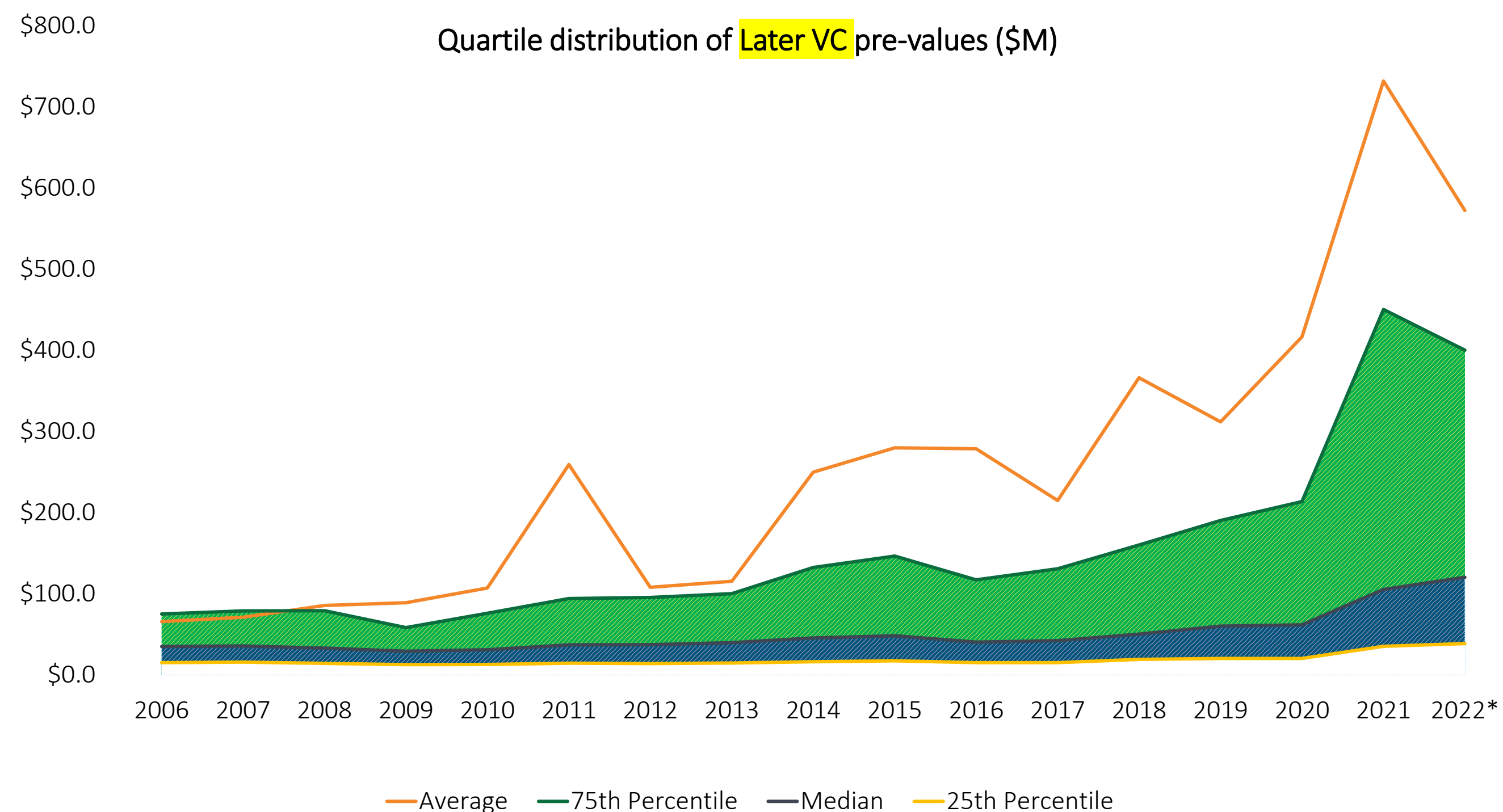
Valuations Are Up Across The Board...

Seed & Early Stage valuations are far outpacing normal levels



...Except at Late Stage

Valuations at the stage closest to the exit took a hit

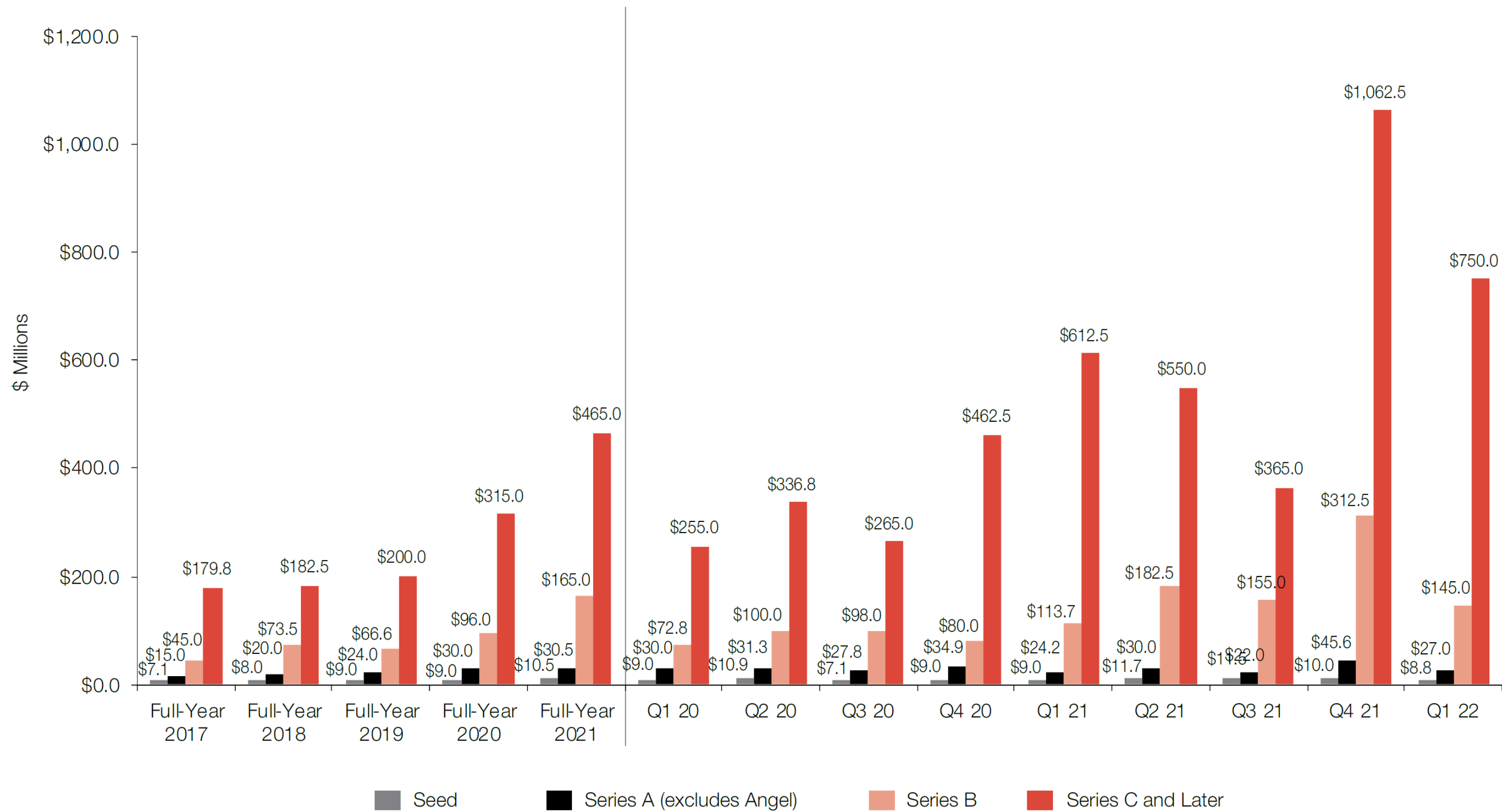


Some Data Already Showing Cracks

Valuations down significantly across all stages in this Wilson Sonsini data set

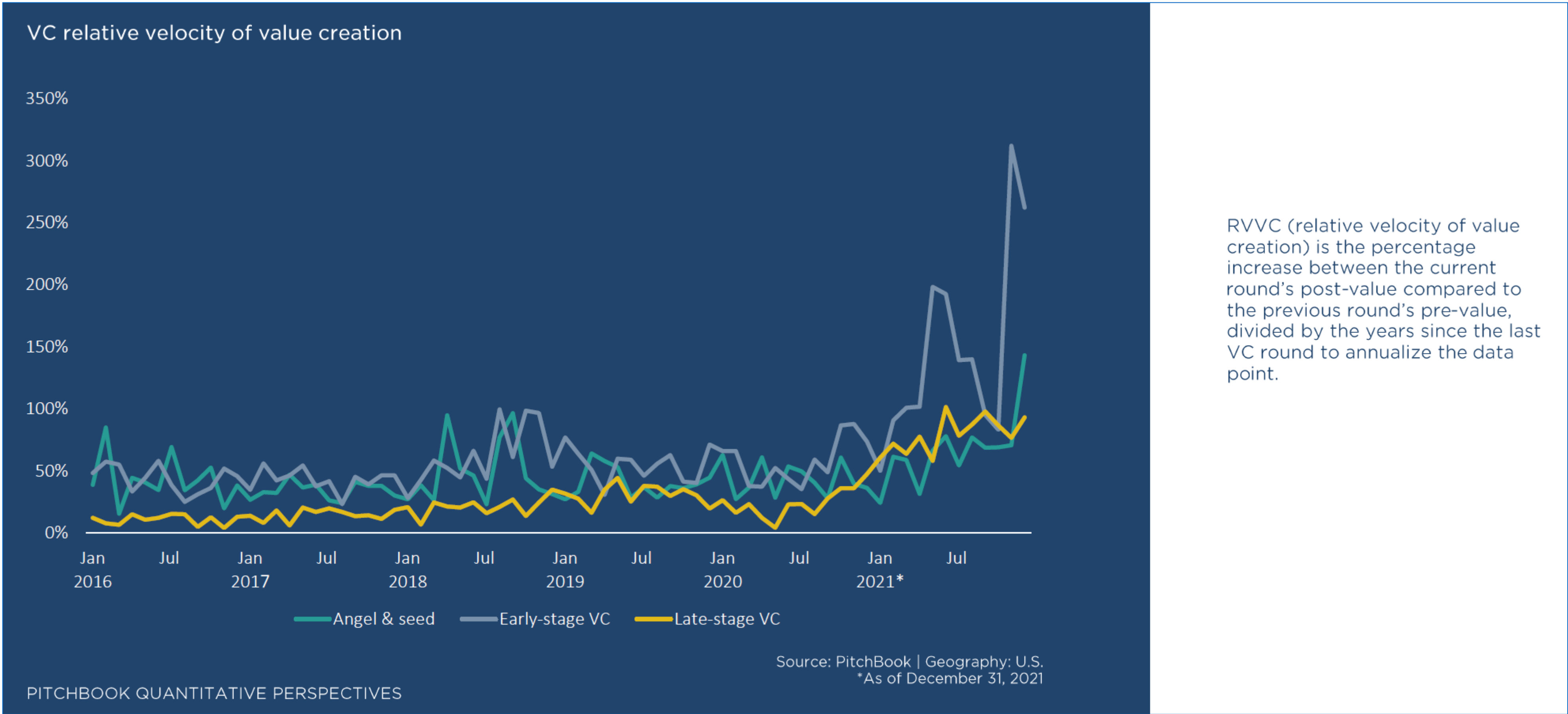


Median Pre-Money Valuation



The Velocity of Change Increased

All stages changed fast, but Early Stage spiked the most.



A larger RVVC means startups in that stage raised more money at higher valuations, faster.



Putting It All Together



Pig In The Pipe



Our concern is that there's a "pig in the pipe" and the blockage hasn't hit Seed & Early Stage markets yet.

Late Stage investors can't get their returns in the public markets or in M&A, so they're pulling back on both the size and the price of investments. They are likely to focus on fewer, higher quality investments.

It also means holding times on investments is expected to increase. When this happened in the past, Late Stage funds allocated larger reserves to back those smaller portfolios through longer holding periods.

Valuations at Later stages—multiples on revenue—will come closer to what the public markets will accept.

Because Early Stage investors accelerated the fastest into the current valuation environment, they will be the next to feel the impact. This could lead to a similar flight-to-quality in Early Stage: bigger checks into fewer investments with more reserves. Valuations will have to come down to match Late Stage's pricing.



No Pigs At Seed, Only Bulls



Valuation and round size may continue to grow unabated at the Seed stage.

There's an argument to be made that seed is still the most under-valued asset because it has the farthest to go and the most opportunities for markups; investors get the best price at Seed.

With more Seed investors in the ecosystem than ever, competition for allocation, and an expectation of longer time horizons, Seed valuations may continue to rise, or at least normalize at current levels.

This may feel like business as usual for the Seed community.

Only to hit the pig in the pipe at Series A.

Is a \$50MM Seed fund ready to lead a Series A? Maybe once or twice. But not the \$25MM fund, and definitely not the \$10MM fund.



Bulls, Pigs 🙌 Back to Quality



Many more Seed startups will get funded.

Only the best startups will get through to the next level.

That may seem obvious but with the proliferation of capital came the proliferation of startups. Are they all above average²?

The market for exits has signaled that it's full right now. We haven't seen this in more than a decade. The Late Stage is signaling it's matching the public markets.

Early Stage may follow next.

Seed may continue unabated, which will only contribute to the difficulty of leveling up.



Stepping Back: 2020 Analysis



We shared this post in 2020: [Series A Super Crunch](#)

My conclusions then were similar to these today: Series A would be harder to raise than it had been in a long time.

It turned out to be *completely wrong*, for a few reasons:

1. Record year for venture fundraising
2. Massive Capital Overhang
3. Zoom investing became the norm
4. Federal government reacted swiftly and aggressively to bail out the economy
5. Certain sectors flourished
6. SPACs boomed



It's Different This Time

2020 vs. 2022



2020	2022	Analysis
Record year for venture fundraising	TBD	Likely down due to <u>denominator effect</u> .
Capital Overhang	Unknown	Presumably higher given 2021 VC funding levels
Zoom investing became the norm	Continues to be the norm	Will Bay Area funds still look beyond their backyard? TBD
Fed bail out	Fed raising interest rates to combat inflation	As money becomes expensive, capital spending slows down
Certain sectors flourishing	Nearly the whole economy feeling the pressure	Fear is rampant across the economy
SPACs booming	SPACs hurting	Back to the traditional IPO and public market multiples





What You Can Do

We want to see you succeed in the long run

Focus on revenue

- Revenue multiples are a big part of the valuation equation³ beyond Seed
- Further down the alphabet, revenue matters more
- Thus, if valuations come down in later rounds, you need to have the revenue to justify the multiple

Positive Unit Economics

- This plus revenue growth is a ticket to the next level
- Taking massive losses to win market share is the exception not the rule, especially at Seed

Be mindful of burn

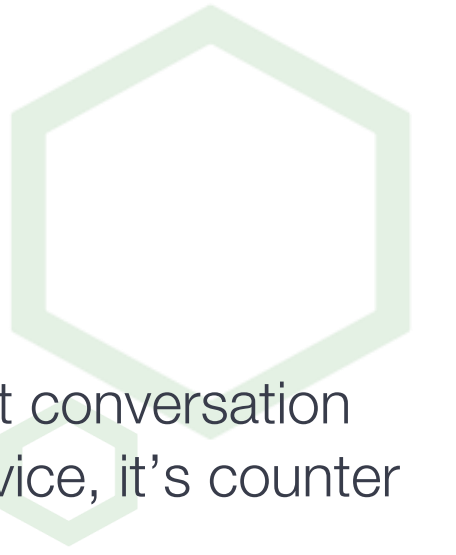
- The next round may be further away than you think and will take longer to raise
- Did we mention revenue?

Raise what & when you can

- If you need to raise capital this year, do it now or allot extra time later
- Mind the valuation and ensure you can justify a larger valuation at the next stage



What WorkHound Did



Early in the COVID-19 pandemic I spoke with Max Farrell, CEO at WorkHound (SpringTime portfolio company), and shared my concerns about the market with him. That conversation sparked the post that I wrote in June. I urged him to focus on revenue, manage burn, and position himself for success in the long run. Though that seems like typical advice, it's counter to the norm in a cash-rich environment where funding is plentiful: burn money to grow faster, even if that growth isn't directly tied to revenue.

Max took the advice back to his team and they got laser-focused on driving revenue for the rest of the year—resulting in their best year ever. The team at SpringTime has a tremendous amount of respect and admiration for what WorkHound accomplished as a team and how Max and his co-founder Andrew led them through it.

Focus on revenue

- They became single-minded in their pursuit of revenue growth
- All product development had to serve their current customers and target customers – no more testing in horizontal markets
- Customer retention became a key part of this. (Revenue is not just new or expansion revenue, but also retaining customers)

Be mindful of burn

- The entire team took voluntary pay cuts—executives taking the biggest cuts—to extend their runway to 24 months
- Restoring salaries was tied to revenue growth, specifically two step-ups based on two MRR goals

Raise What & When You Can

- They were in a strong cash position and didn't need to raise

Take Advantage of Upswings

- Their truck driver retention platform became even more essential during COVID-19
- Because they stayed true to their core customer, they were able to take advantage of the timing

Results

- By December 2020 they hit their first revenue goal, and hit the second by Feb 2021, restored full salaries, and reduced customer churn
- Since then, revenue has more than doubled, churn cut in half again, and they recently raised a Series A



Final Thoughts



“Market corrections drive a rush to quality in the later stages so proving revenue AND scalable unit economics, while always important, are even more so in this environment.”

– Frank Mendicino, Co-Founder and Managing-Director, Access Venture Partners

There is still plenty of venture capital in the market. Great venture-scale businesses will be able to raise at any stage. What constitutes “great” is different for every fund, but one constant is revenue and scalable unit economics.

No matter what the macroeconomic trends, great companies will always thrive. Great companies are led by great people. We believe it comes down to *you*.

We  you





About SpringTime Ventures



SpringTime Ventures



[SpringTime Ventures](#) seeds high-growth startups in **healthcare, fintech, logistics, and marketplace** businesses. We look for founders with domain expertise, forging a path with a truly transformative technology. We only invest in software-based businesses in the USA. We bring a people-focused approach, work quickly, and reach conviction independently. Our initial check size is \$400k to \$600k. You can learn more [about us](#) and our [approach](#).



VC Minute: Quick advice to help startup founders fundraise better.

Venture capitalists navigate pitches and negotiate investments every day, but for founders it's not their main focus. For many founders, it's their first time fundraising and though they may have achieved success in other areas of business, fundraising is a practice unlike anything they've done before.

With short episodes—2 minutes on average—released every workday, founders can get insight and guidance into the dynamics of seed stage venture financing.

[Sign up for the VC Minute](#)



THE TEAM

*Full team bios are in the data room

Rick Patch | Partner

SpringTime Ventures Co-Founder. 40+ years as an investor, entrepreneur, and operator.



Jessie Dixon | Operating Partner

20+ years ecommerce, supply chain, and marketplace experience at Havenly, eBags, and WalMart



Rick Jones | Operating Partner

Former CEO of Lone Star Overnight. 30+ years of experience at LSO, UPS, and more.



Jeff Gardner | Operating Partner

Operator with multiple successful exits. Expertise in vertical market software, FinTech, and marketplaces.



John Greff | Partner & CFO

40 years of venture experience. Sequel Venture Partners, Founding Partner Allos Therapeutics.



Matt Blomstedt Managing Partner

Founded SpringTime Ventures in 2016 after a move to Boulder led to key meetings with entrepreneurs. Previously worked 10 years in energy M&A.



Rich Maloy Managing Partner

20+ years experience in finance, sales and startups. Connector and builder of local and national startup ecosystems.



Allyson Plosko Principal

10+ years of health tech investing experience. Based in Atlanta, GA.

WEBELIEVE

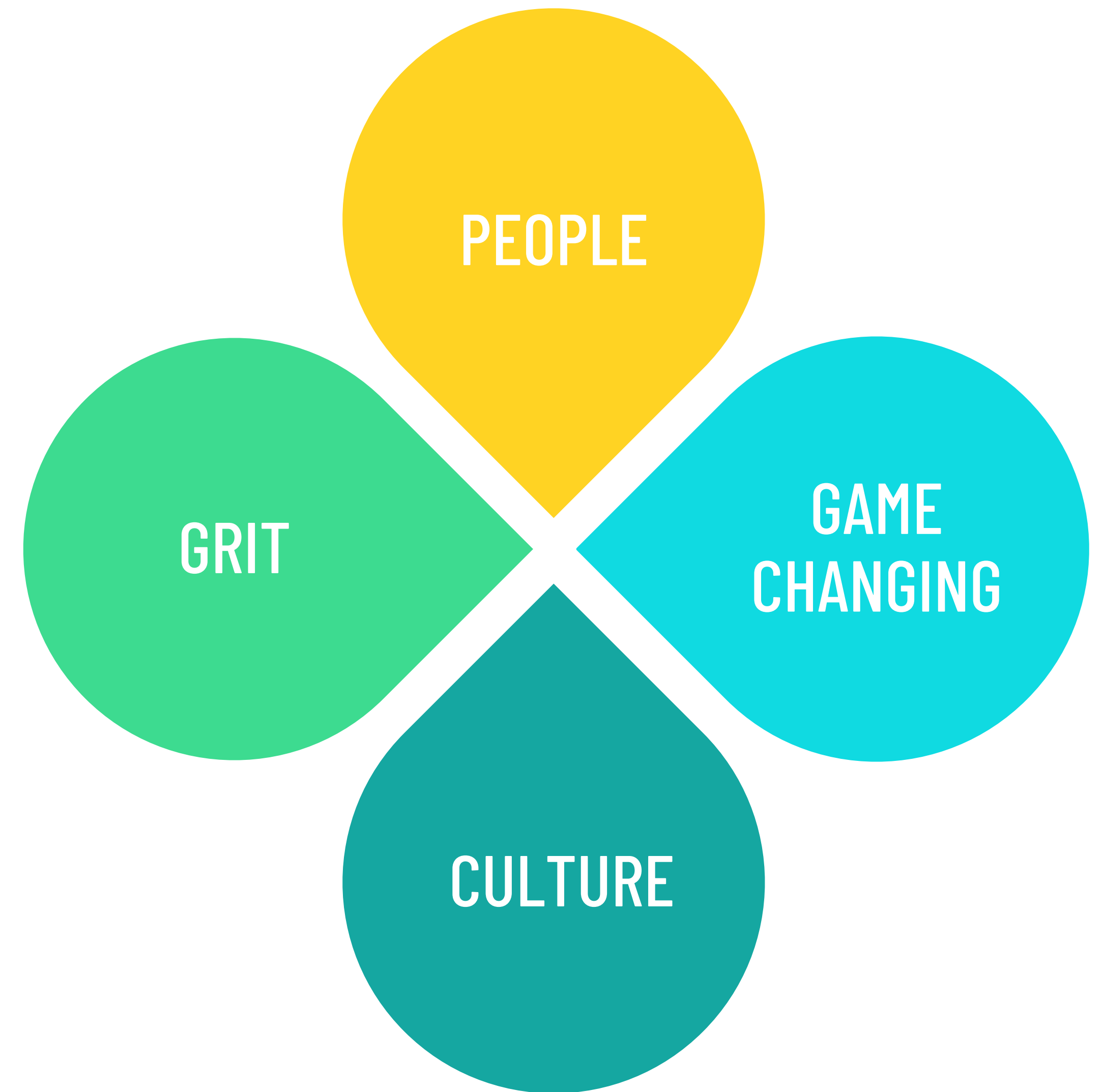
Our Investment Bedrock

We love startups. We love the **grit**, passion, & innovation that entrepreneurs bring to the world.

We believe in a company **culture** that inspires action, accountability, and intention. We invest in leaders who have deep domain experience. They are acutely aware of the people, partners, and resources they need to grow.

We are **proactive** investment partners and **relentless** in our pursuit to find and nurture truly **game-changing** startups.

We are SpringTime Ventures.
It's time to grow.





SPRINGTIME VENTURES

Come grow with us.



Rich Maloy | Managing Partner | rich@springtimeventures.com