



HOT OR NOT POOL PARTY



SPRINGTIME VENTURES

Q3 2022 Startup Market Analysis

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ABOUT 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](#).



Quick advice to help startup founders raise better.

Venture capitalists navigate pitches and negotiate investments every day, but founders are expected to drive the process with minimal guidance and practically no transparency.

VC Minute's short episodes—2 minutes each—provide insight and actionable advice to founders raising seed stage venture financing.

<https://vcminute.co>



PIG IN THE PIPE – Q1 REPORT REVIEW



The “Pig in the Pipe” refers to startup exits drying up and the downstream effects.

The opportunity for exits has only gotten worse since Q1.

Over the last two quarters, the blockage did affect Early Stage investors, leading to a flight to quality.

The practical implication is that Series A raised the bar.

That finally led to the Pig in the Pipe impacting the Seed market.

[Download and read the full Pig in the Pipe report.](#)

And now, the Q3 report...



TL;DR



The pig is still stuck in the pipe and the blockage is finally hitting the Seed market.

Overall, the startup market is healthy, just regressing to the mean after an anomalous year.

For the last two quarters, startups that raised capital in 2021 have been coming back for another round, and will continue to do so for the next three quarters.

They will all be raising in a very different environment: one where funds are deploying capital at a significantly slower pace, especially at Seed.

Venture funds will clamor over the best startups, to whom fundraising will feel like 2021 all over again. The remaining startups will struggle to raise, to whom it will feel like 2001.



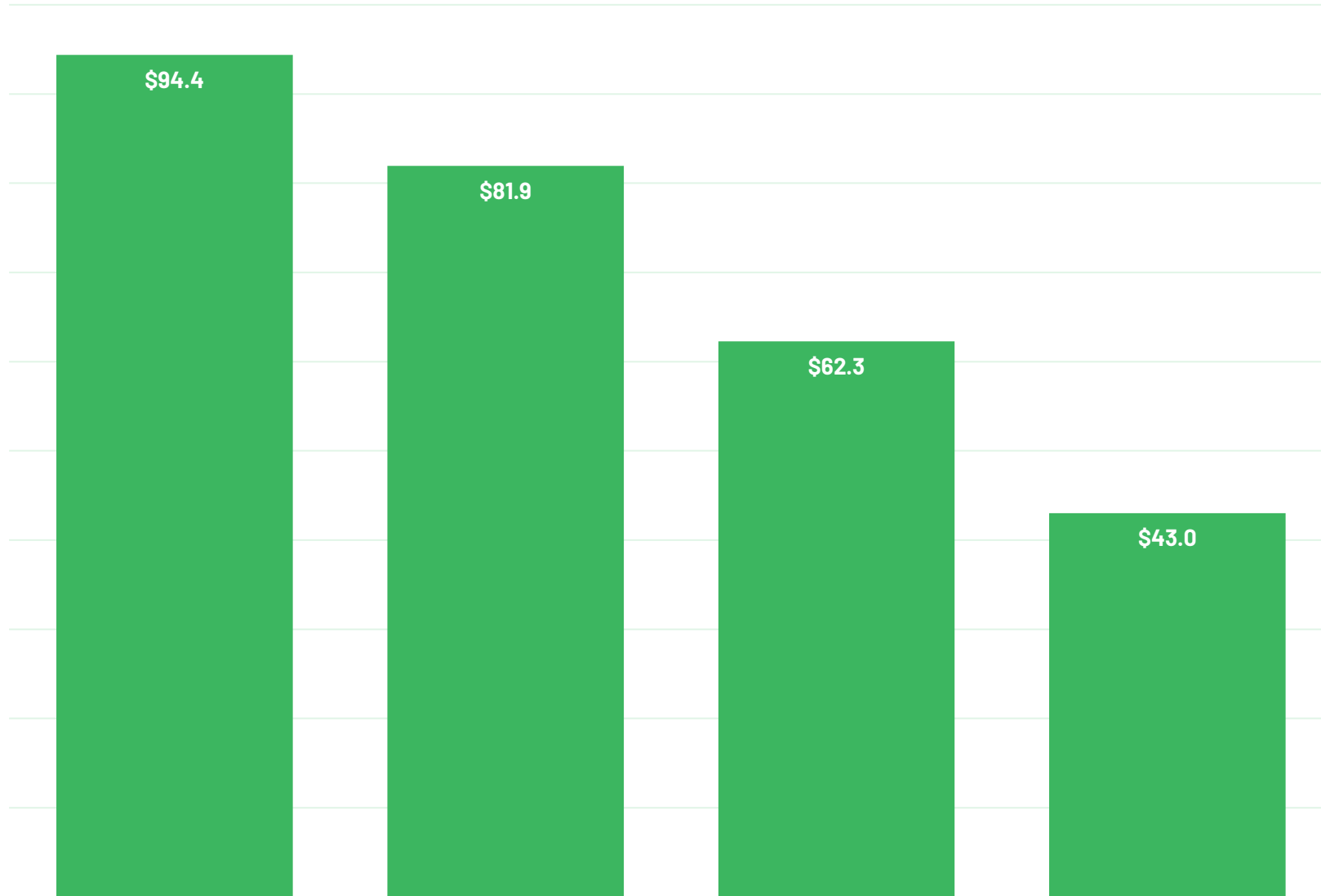


THE SKY IS ~~FALLING~~ REGRESSING...

...to the mean

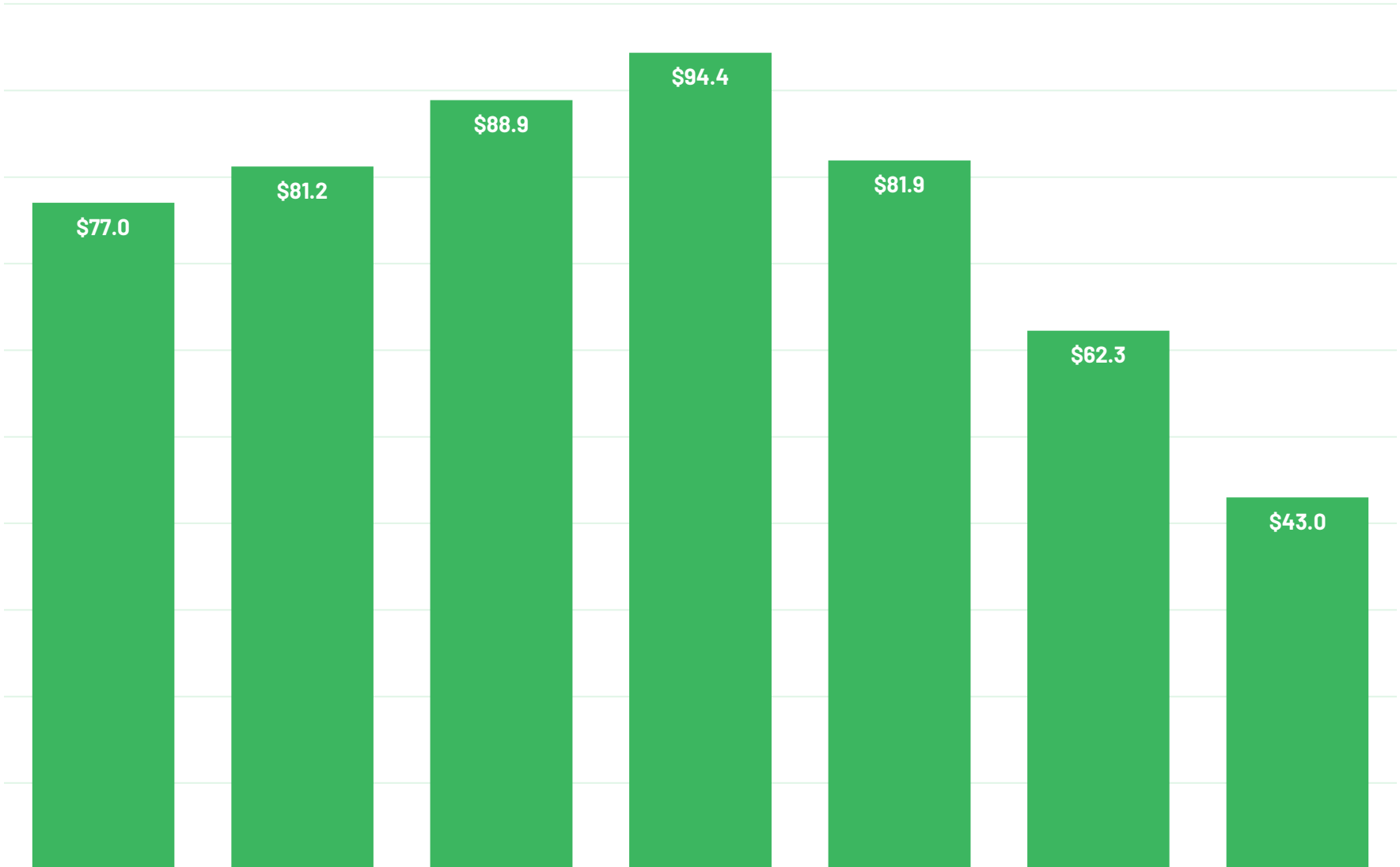


IF I SHOWED YOU THIS MARKET CHART...



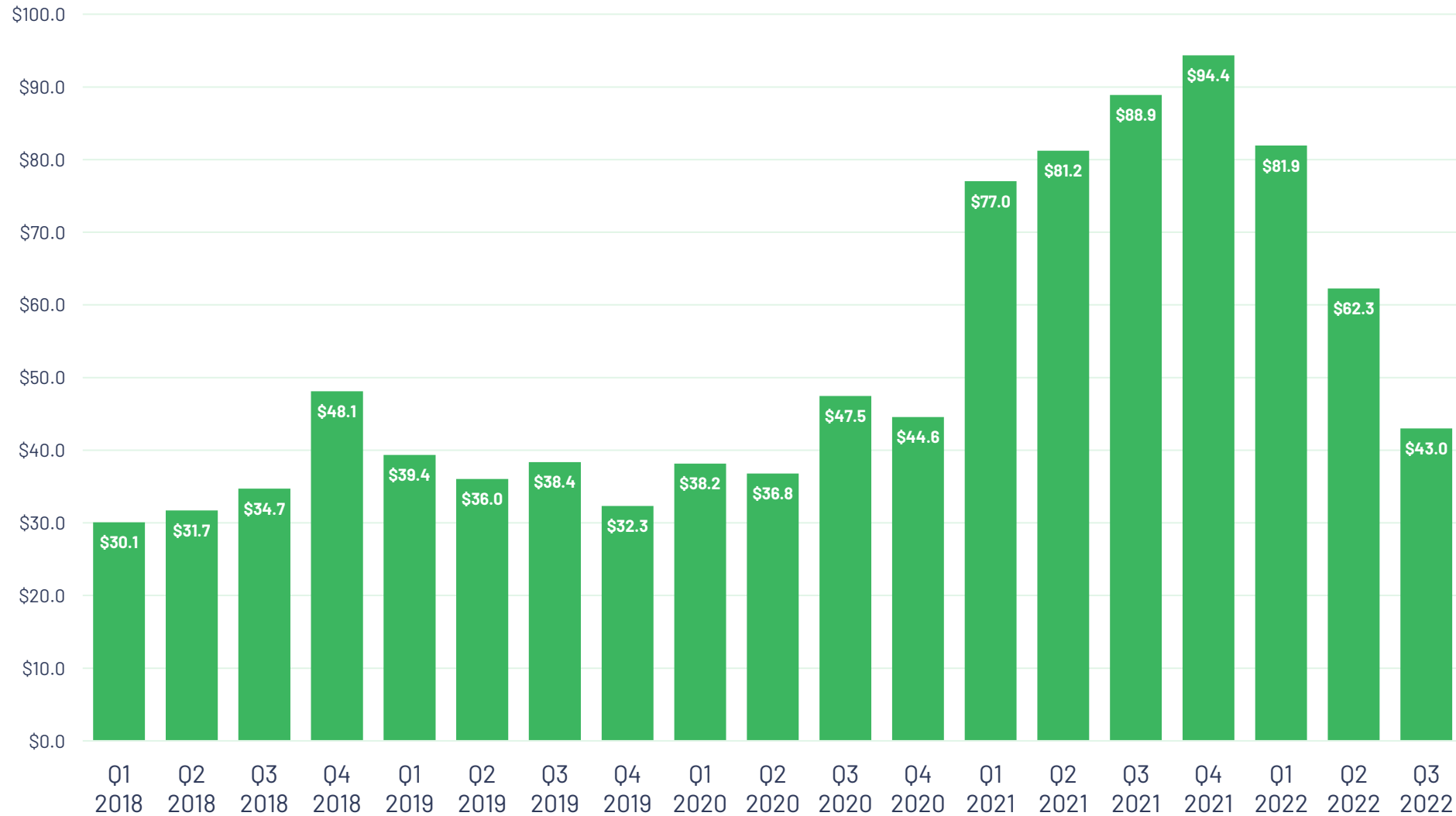
...you would hide your wallet from it, whatever *it* is

AND THIS DOESN'T LOOK MUCH BETTER



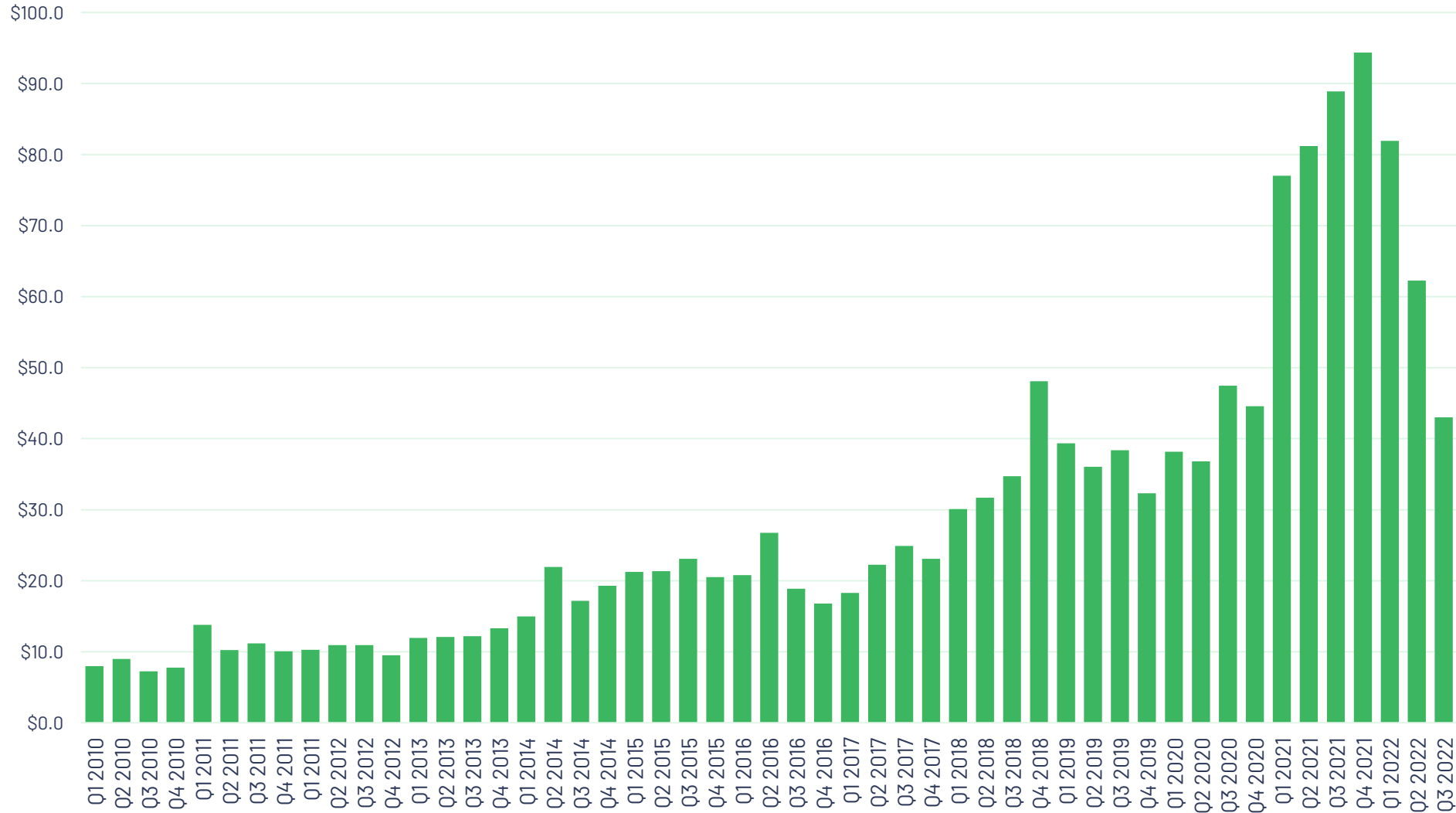
BUT CONTEXT IS EVERYTHING

US Venture Capital Deal Value (\$B)



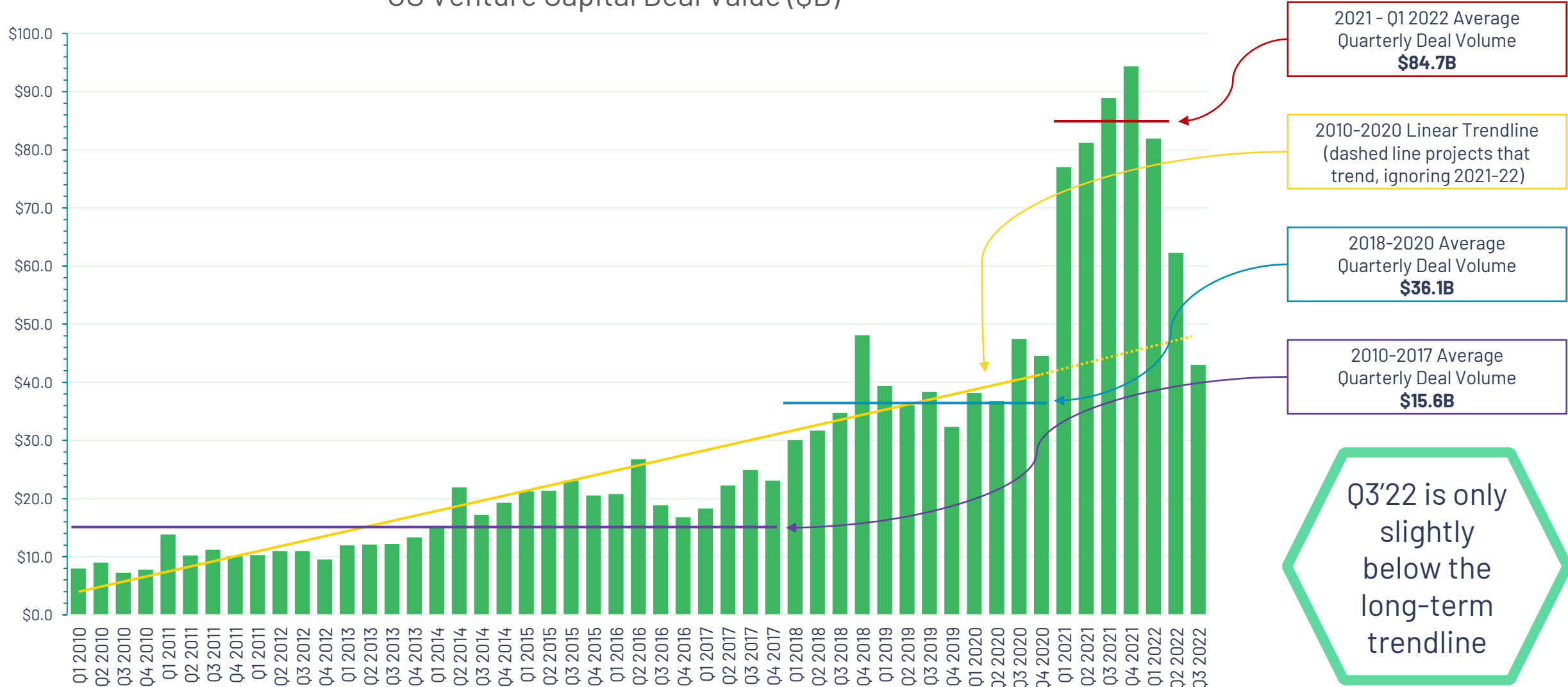
HISTORICAL PERSPECTIVE HELPS

US Venture Capital Deal Value (\$B)



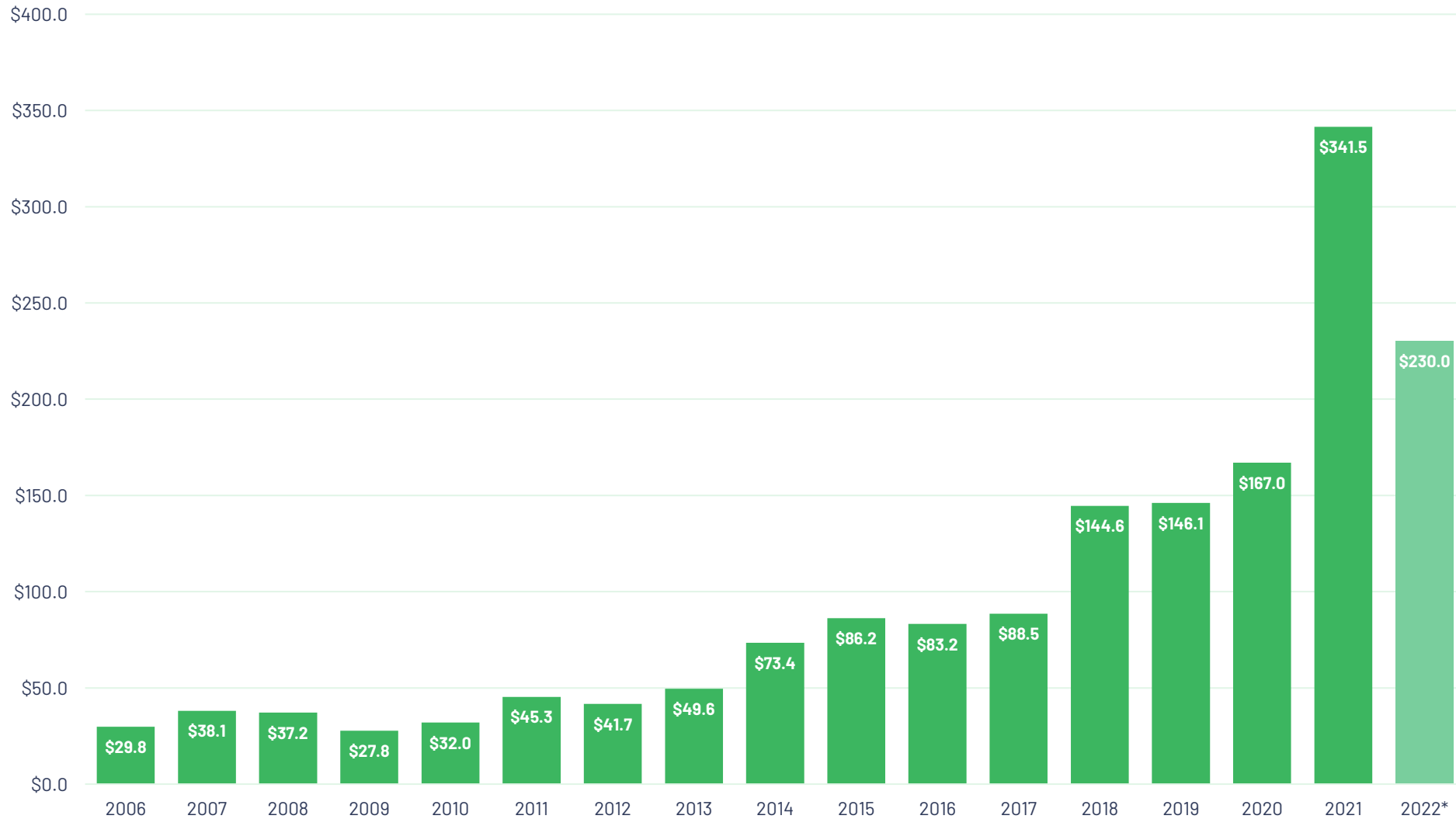
ANALYSIS TELLS A STORY...

US Venture Capital Deal Value (\$B)



...THE STORY OF AN OUTLIER

US Venture Capital Deal Value (\$B)

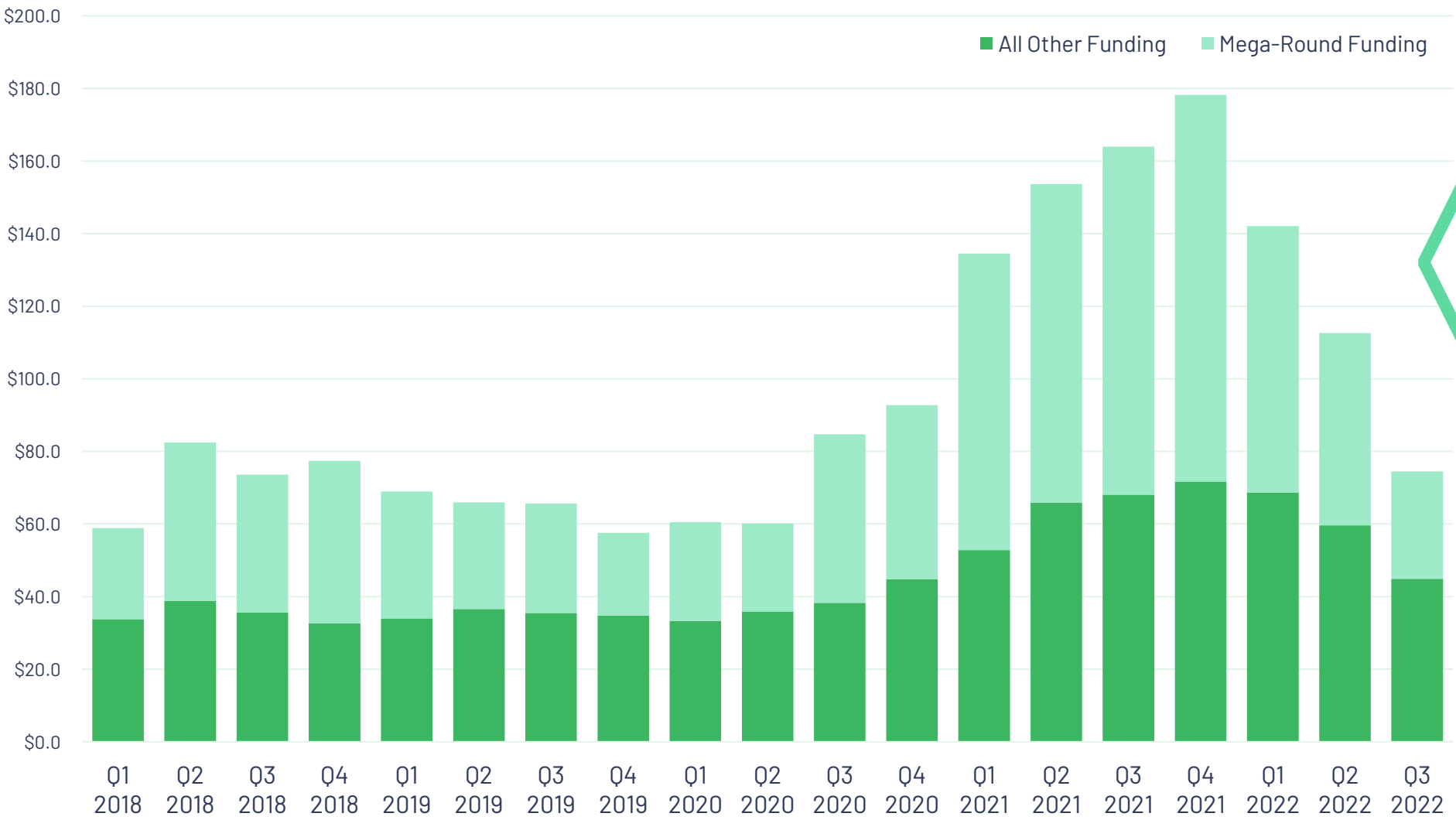


2021 was
an outlier,
an anomaly.

*2022 projection assuming Q4 value = Q3 value of \$43B
Source: Q3 2022 PitchBook NVCA Venture Monitor

MEGA-ROUNDS FURTHER DISTORT

Global Venture Funding (\$B)



Mega-Rounds: \$100M+ deals

QoQ funding changes are less dramatic with megas removed

Source: [CB Insights Q3 2022 Venture Report](#)

ANOMALOUS THINKING



2021 was
an outlier, an
anomaly

Anomalies
lead to
anomalous
thinking

On the way up,
headlines are
amazing

On the way
down,
headlines are
terrifying

Mega-rounds
further distort
the picture

It's more
realistic to
compare 2022
to historical
trends,
not 2021

Venture
market is
healthy





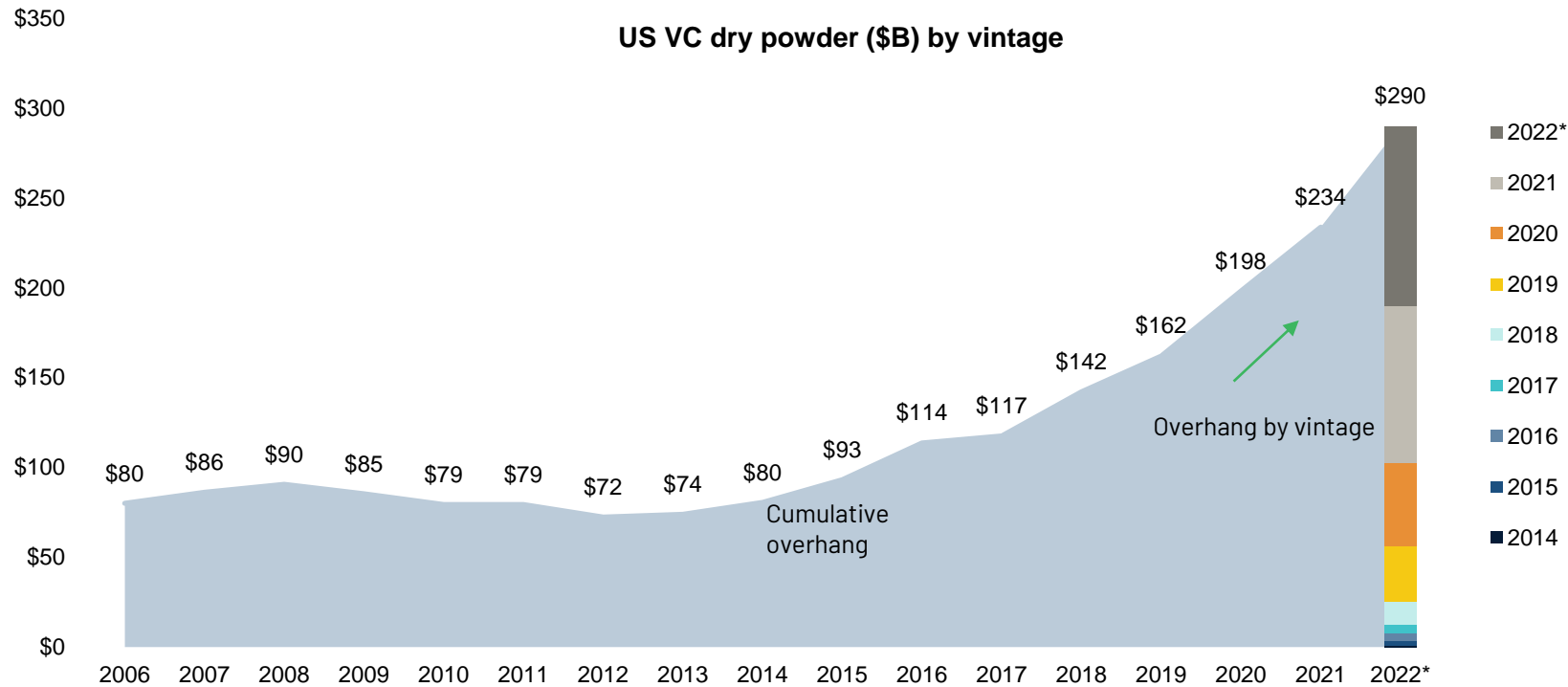
LENGTHENING OF THE SEED PHASE

And how this impacts your next raise



MUCH ADO ABOUT OVERHANG

We can't ignore the 8th consecutive record-breaking year of Capital Overhang ("dry powder")



But it's not a panacea for startups because...

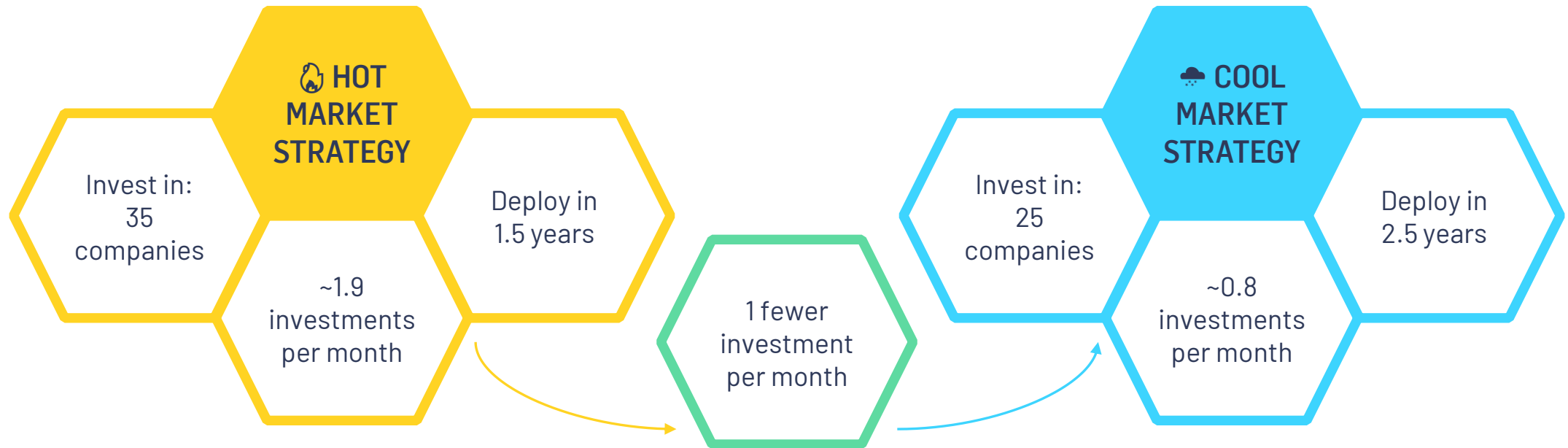
SLOW DOWN OF FUND DEPLOYMENT

When the market is hot (2021) funds invest in more companies, faster.

When the market cools off (now) funds can pull on two levers:

1. # of investments

2. Pace of investing



HYPOTHETICAL SLOWDOWN STRATEGIES



We can forecast quarterly round volume based on the two levers funds use to slow down deployment.

USA VC Seed Rounds per Quarter			Deployment Timeline (months)				
			Fast 18	24	Normal 30	36	Slow 42
Portfolio Strategy	Diversified	35	2,074	1,556	1,244	1,037	889
	Normal	30	1,778	1,333	1,067	889	762
	Concentrated	25	1,481	1,111	889	741	635

VCs either concentrate portfolios or slow down, or both



EXCEPT, IT'S NOT SO HYPOTHETICAL



	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
USA VC Seed Rounds	2,060	1,890	1,836	1,368	1,149

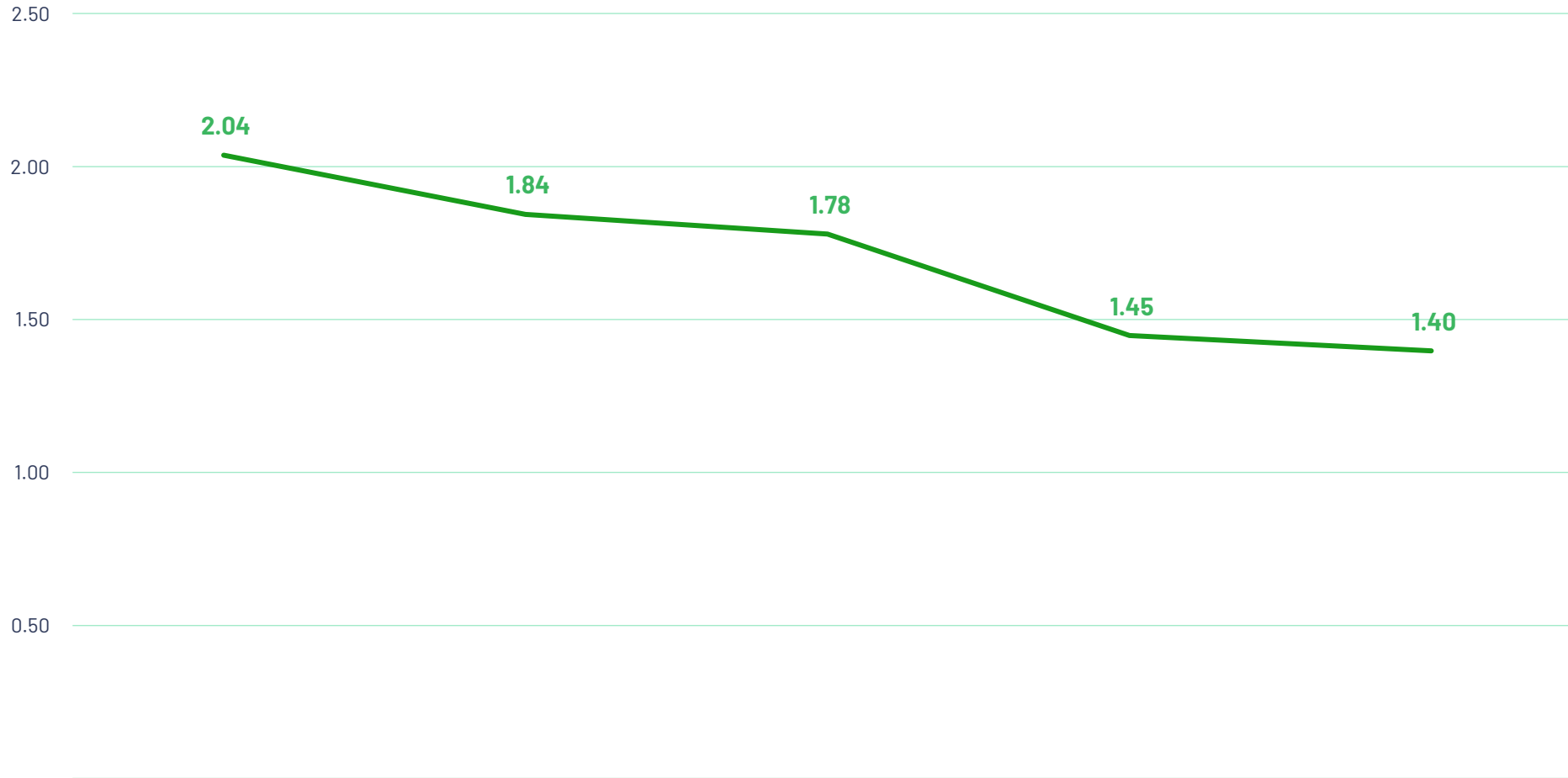
Hot market, moving fast

Cool market, moving slow

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PACE OF INVESTING HAS SLOWED

USA VC Seed Rounds per Investor



In one year...
911 fewer Seed rounds
189 fewer unique Seed investors

	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22
USA VC Seed Rounds	2,060	1,890	1,836	1,338	1,149
Unique Seed Investors	1,011	1,025	1,032	945	822

Source: [CrunchBase searches](#) | USA companies, VC only, Seed only

2021 STARTUP HANGOVER: VALUATIONS



When everything is up and to the right, valuation is partially influenced by expectations of what the next fund downstream will pay.

Valuation expectations in a hot market are that a startup will “grow into it”...

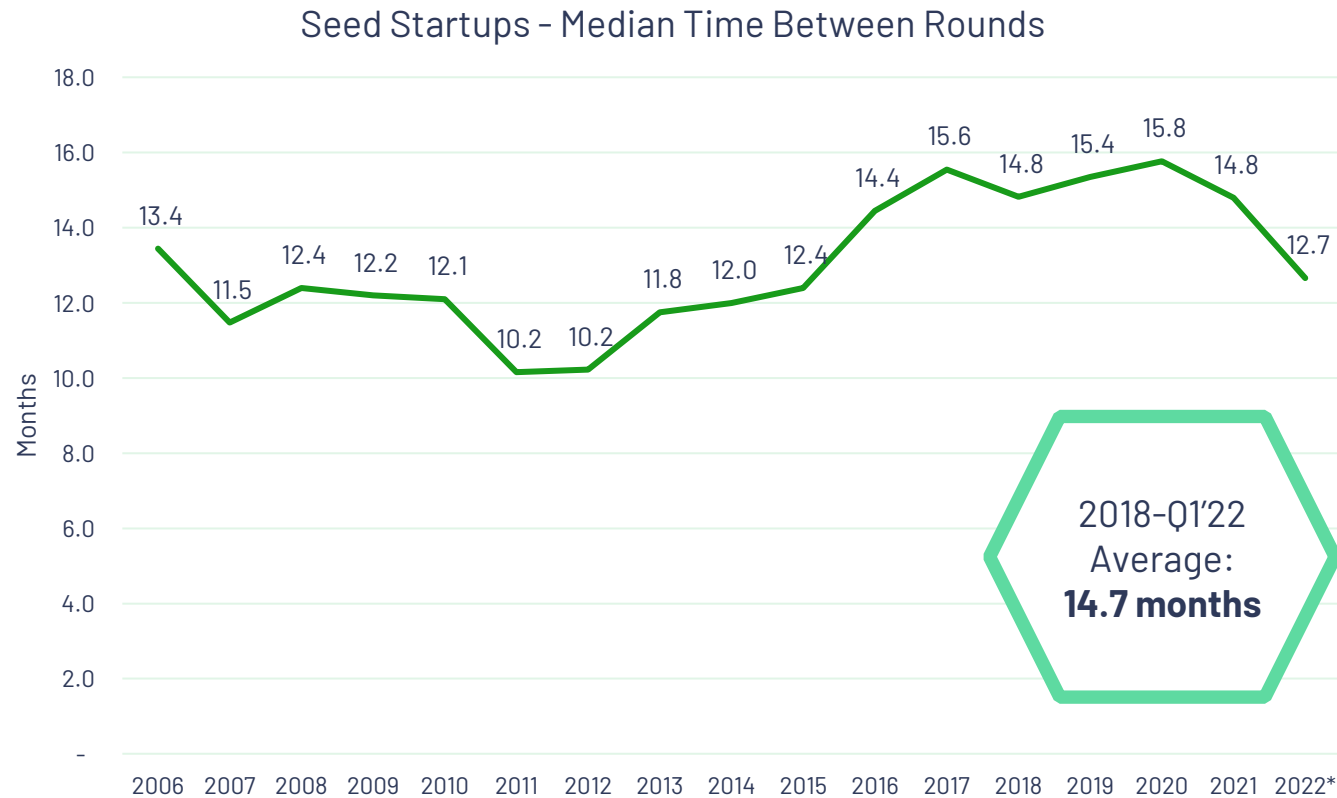
MOST DIDN'T

Nearly every startup that raised in 2021 is back in market trying to raise



STARTUPS BACK TO RAISE

We have three more quarters of Seed startups coming back to raise.
Most will still be in the Seed Phase.



Raised In		+15 Months
Q1 2021	→	Q2 2022
Q2 2021	→	Q3 2022
Q3 2021	→	Q4 2022
Q4 2021	→	Q1 2023
Q1 2022	→	Q2 2023

SERIES A RAISED THE BAR



What we're hearing from founders and funders across our network is...

THE GOALPOST FOR SERIES A HAS MOVED.

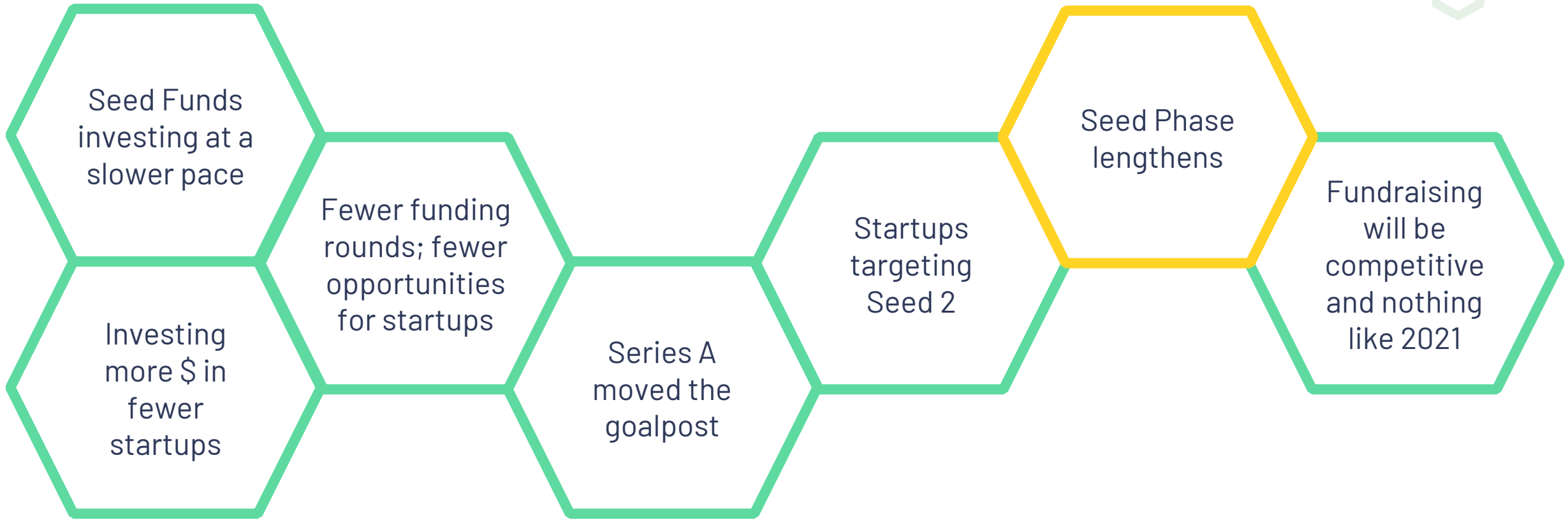
HISTORICALLY: Hit \$1MM ARR and raise Series A

2022-BEYOND: Series A looking for ~\$2MM ARR

Most of those Seed startups coming back to raise will be looking for a Seed 2 / Seed Extension.



THE NEW SEED PHASE



INSIGHTS FOR FOUNDERS

- Hit your metrics
- Stretch your runway
- Fundraising will take longer
- Burn should match the pace of VC deployment
- Over-communicate with your investors
- Because you'll need them for your Seed 2 and maybe your Seed Extension
- When you do raise, be mindful of terms
- Lower valuation is better than adverse economics (e.g., liquidation preference)



2021 VC HANGOVER



VC PRIMER: MARKUPS/MARKDOWNS

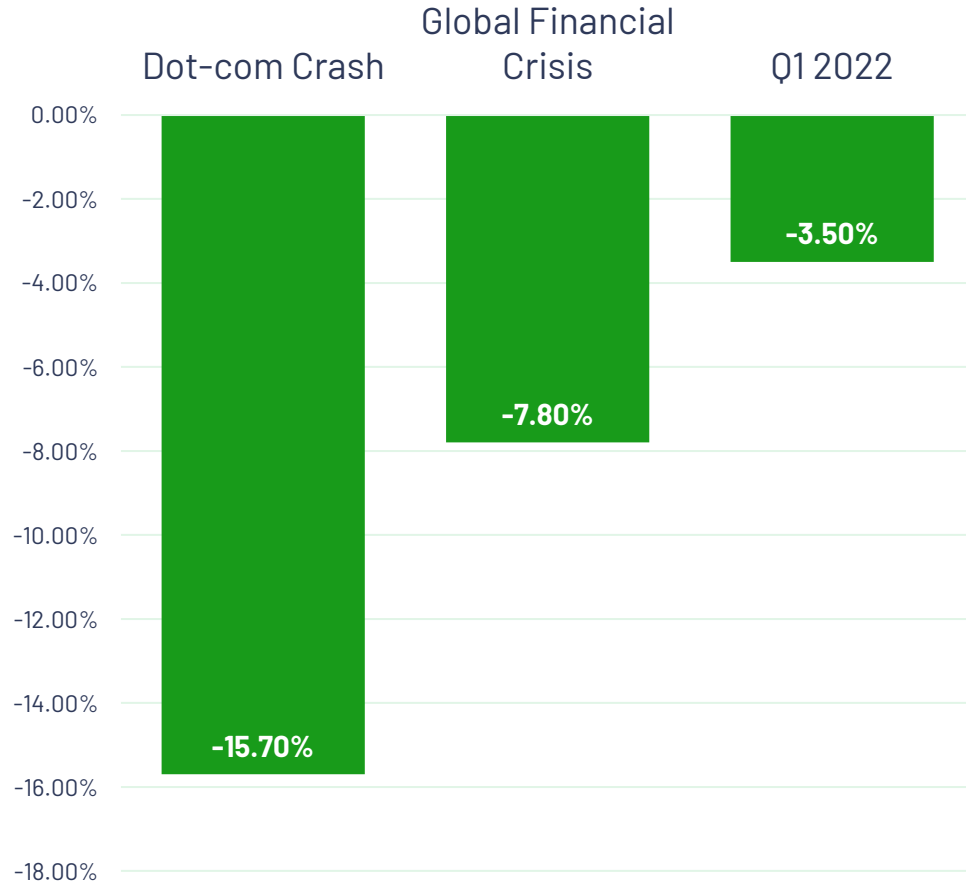


- Funds increase in value (markup) when a startup raises a subsequent round at a higher valuation
- Funds decrease in value (markdown) when a startup fails or raises a down round
 - Some funds may proactively review and markdown based on their own knowledge, but most wait until the market decides

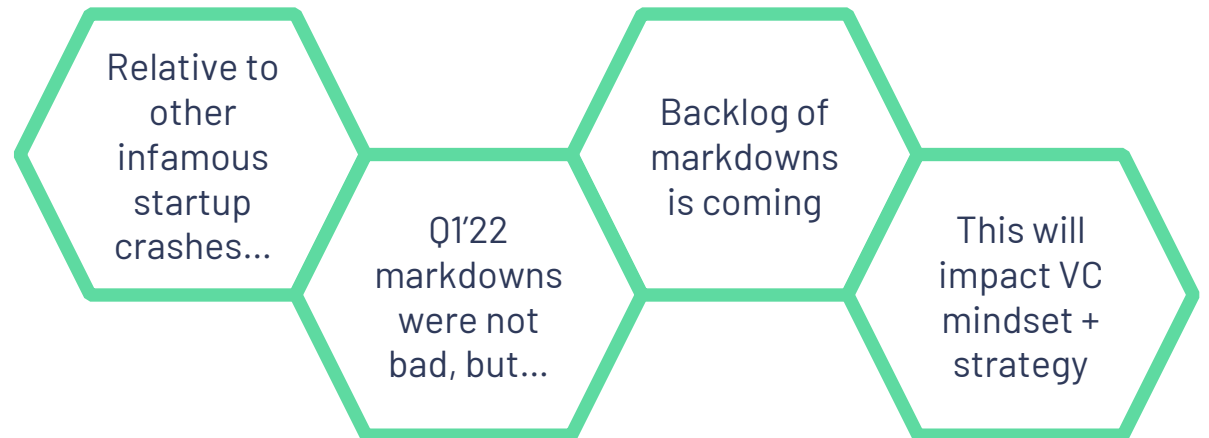
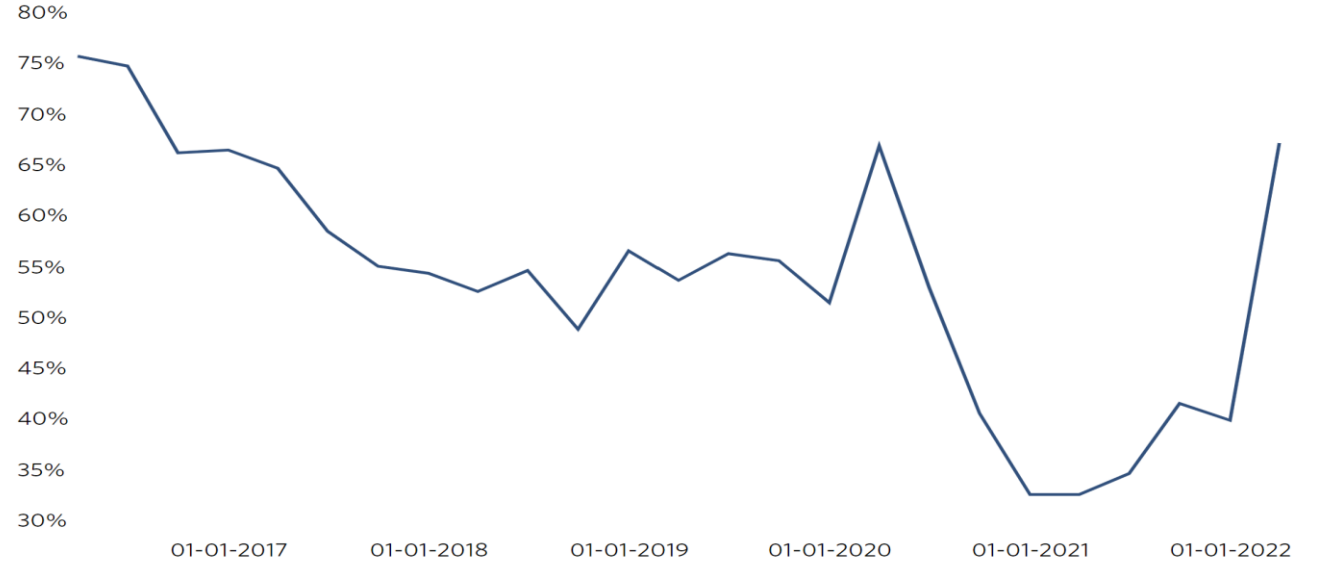


MORE MARKDOWNS ARE COMING

Median TVPI Change from Prior 4-Quarter High



Share of VC funds with TVPI markdowns from prior four-quarter peak



FIGHT OR FLIGHT



Nearly every Seed fund investing today has *not* experienced a market downturn.

As markdowns hit over the next 3 quarters it becomes...



FLIGHT TO QUALITY



When everyone tries to put bigger checks into the hottest rounds
Those rounds quickly become oversubscribed

To those founders, it will feel like 2021

To everyone else, it will feel like 2001

For startups, the fundraise pool party* comes down to...



IS YOUR POOL PARTY HOT OR NOT?



HOT

Everyone wants in /
Oversubscribed

Startup-favorable terms

Choice of term sheets and
investors

WILD CARD

Could go either way

Raise at 2021 terms, barely

Prior investors do pro-rata
but look for new investors
put in more

Make-or-break moment

NOT

Struggle to raise at
2021 terms

Pull in dribs & drabs

Down rounds or VC-
favorable terms



INSIGHTS FOR FOUNDERS

These are the four things we believe make a startup hot in this environment:

1. Positive, scalable unit economics
2. Revenue growth
3. Capital efficiency
4. Clear product differentiation

IN CONCLUSION



REMEMBER

Raising venture capital
ISN'T THE OBJECTIVE OF A STARTUP,
it's just a type of fuel.

The objective of any business is to
CREATE SOMETHING OF VALUE
that customers will pay you for.

Build something of value and you can
FUNDRAISE ON YOUR TERMS.



SPRINGTIME VENTURES

Come grow with us.



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