
Cravath Emerging Company and Venture Capital Insights

February 2022

2021 Recap and 2022 Outlook

MARKET UPDATE

Venture Capital (“VC”) Activity

Global VC funding reached an all-time high of \$621 billion across 34,647 deals in 2021, as compared to \$294 billion across 26,500 deals in 2020, reflecting increases of 111% and 31%, respectively. U.S. VC funding reached \$311 billion in 2021—about half of global VC activity—representing an increase of 106% from 2020. After the U.S., the region that saw the most VC funding was Asia (\$175 billion), followed by Europe (\$93 billion) and Latin America (\$20 billion). The industries that saw the most activity were fintech (\$132 billion), retail tech (\$109 billion) and digital health (\$57 billion).¹ Funding increased dramatically across all funding stages compared to 2020—funding for deals involving early-stage and mid-stage companies increased by roughly 50% and nearly doubled for late-stage companies from 2020.²

Surge in Company Valuations

The increase in overall VC activity, and other investment in private companies, has resulted in a surge in private company valuations. Globally, the median valuations for early-, mid- and late-stage companies were \$28 million, \$324 million and \$1.1 billion in 2021, representing yearly increases of 56%, 120% and 112%, respectively.³ Valuations grew in part due to mega-rounds—fundraising rounds involving over \$100 million—which increased by 147% from 2020.⁴ Similarly, the total unicorn (*i.e.*, companies valued at over \$1 billion) count reached 959 in 2021, an increase of 69% from 2020. Many companies have chosen to stay private into the later stages of their business lifecycle. This has driven non-traditional investors such as asset managers, hedge funds, mutual funds and sovereign wealth funds into the private markets. Strategic investors have also been drawn to the private markets as they explore new ways to create value. In the U.S. alone, non-VC firms participated in 6,483 deals in 2021, producing \$253.8 billion in deal value, representing increases of 64% and 100% from 2020, respectively.⁵

Exit Trends

A surge in IPO, SPAC and M&A activity in 2021 provided record-breaking exit value for founders and investors. In the U.S., the total exit value from VC-backed companies that went public or were acquired in 2021 was over \$770 billion, an increase of 168% from 2020. The IPO market in the U.S. demonstrated its strongest year in terms of both the number of IPOs and the proceeds from such transactions. Notably, VC-backed companies were publicly listed in the U.S. at a rate that was 114% higher compared to 2020.⁶ However, many companies that IPOed in 2021 concluded the year trading below their IPO prices and, as of late January 2022, such companies were down an average of 32.6% from their IPO prices.⁷

SPAC IPO activity was especially strong, with \$135 billion raised in the U.S. in 2021, an increase of 93% from 2020.⁸ The maturation of SPACs in 2021 supplied extra liquidity for private company exits. As an alternative to the traditional IPO process, 103 companies went public via a de-SPAC transaction in the U.S. in 2021, compared to 30 in 2020.⁹

KEY TAKEAWAYS

The unprecedented level of VC activity, with additional support from non-traditional investors, offers founders and companies access to a wider pool of capital than ever before. Companies increasingly have the flexibility to choose among investors and drive certain deal terms, particularly as they approach an exit.

A great example of this is lock-up release trends. A typical lock-up prevents directors, officers and other insiders from selling their shares in a company for a certain amount of time following the company's IPO. Among all U.S. IPOs in 2021, 25% had provisions that allowed for lock-up releases earlier than the traditional 180-day period, with the majority of these early releases coming from companies operating in the tech industry. By contrast, in 2020, only about 9% of U.S. IPOs had early lock-up releases.¹⁰ Similarly, about 32% of all 2021 IPOs had a multi-class share structure enabling founders to retain company control (as compared to 20% in 2020), a feature that was even more prevalent in the tech industry, where 45% of all IPOs had a multi-class share structure.¹¹

Founders and companies located outside of the traditional hubs for VC investments have benefited from newfound access to capital. Driven by an overall influx of capital, VC investments have become more geographically dispersed. While Silicon Valley and New York remain the strongest VC markets in the U.S., Miami, Philadelphia, Denver, Chicago, Austin and Washington D.C. each saw deal value grow by more than 200% in 2021.¹² Growth companies in markets outside of the U.S. saw record amounts of private capital in 2021, with total deal value in Europe and Latin America increasing by 142% and 274%, respectively, from 2020.¹³

VC investors are operating in an increasingly active and competitive environment. VCs raised a record \$128.3 billion in new capital in 2021, an increase of 48% compared to 2020. A record 23 U.S. VCs raised \$1 billion or more in 2021, an increase of 64% compared to 2020.¹⁴ As a result of the recent surge in fundraising, VCs have record amounts of capital available to deploy. This has led some VCs to pursue alternative—often riskier—investments, as indicated by the substantial increase in funding at seed and early-stage rounds.

While VCs have an unprecedented amount of capital available to invest, the investor pool for private companies is also getting more crowded. 2021 saw a record increase in new entrants to the VC space, with corporate venture capital and other non-traditional private market investors participating in or leading VC funding rounds in record-breaking numbers. Non-VC funding sources may seek to combine an investment with a broader commercial partnership, particularly where the investor believes the company's research, product and/or service needs align with the investor's long-term goals.

2022 OUTLOOK

With a record-breaking amount of capital available and the increased number of investors in the private market, we anticipate founders and companies will continue to have the leverage to push for favorable deal terms at attractive valuations. However, inflation, recent volatility in the public markets and anticipated interest rate hikes may negatively impact investment activity and cause investors to proceed more cautiously than in 2021, particularly when making investments in late stage and pre-IPO companies. Companies considering fundraising or going public in 2022 may reevaluate their timelines and wait for market conditions to stabilize.

There are approximately 700 VC-backed companies in the U.S. valued at over \$630.8 million (the median exit value of a 2021 IPO), suggesting we should expect to see a strong IPO market in 2022.¹⁵ We also anticipate an active de-SPAC market in 2022. As of January 2022, almost 600 SPACs are searching for acquisition targets.¹⁶ SPACs, by their terms, only have a finite period of time to complete an acquisition before they must unwind (typically 18 or 24 months), and as many as 90 of these SPACs have a term ending in the last three months of 2022 alone.¹⁷ As SPAC deadlines near and new SPACs IPO, we expect to see an aggressive pursuit of private company targets.

^{1, 2, 3, 4, 9, 13} CB Insights, *State of Venture 2021 Report* (January 12, 2022); available [here](#).

^{5, 6, 8, 12, 14} PitchBook, *Q4 2021 PitchBook-NVCA Venture Monitor* (January 14, 2022); available [here](#).

⁷ Wall Street Journal, *Startup Investors Cut Valuations Amid Tech Stock Rout, Dismal IPOs* (February 1, 2022); available [here](#).

¹⁰ Renaissance Capital, *The Erosion of the IPO Lock-up* (January 4, 2022); available [here](#).

¹¹ Jay R. Ritter, *Initial Public Offerings: Dual Class Structure of IPOs Through 2021* (December 23, 2021); available [here](#).

¹⁵ PitchBook, *What to Watch for in the 2022 IPO Market* (January 3, 2022); available [here](#).

^{16, 17} Private Raise, *SPAC Data* (as of January 27, 2022); available [here](#) and [here](#).