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2021: Venture Capital Year in Review

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2021 was a record-breaking year for venture capital activity, setting high hopes for an even more promising 2022. From seed and angel investment records to an increased number of exits, the following is a summary of the activity that contributed to the spectacular success of venture-backed companies in 2021, along with a forecast for the next year.

Capital Raises and Non-Traditional Investment

According to PitchBook, dollars invested as well as total deal count across all categories of seed, early and late stage investment reached new highs in 2021. Total deal count for the twelve months in 2021 increased over 40% from 2020. In addition, venture-backed companies raised a record high $329.6 billion in 2021, doubling their previous record-setting high of $166.6 billion in 2020. These records are not solely due to mega-sized deals; indeed, nearly half of all deals in 2021 were under $10 million. Also promising is the growth of investment in small or fledgling companies. Over 4,000 companies raised their first venture round in 2021, accounting for $23.8 billion of the year’s total deal count, and breaking the previous record by over $8 billion. 2021 was indeed a feverish year for venture capitalists and the companies they support.

While seed and early-stage venture deals dominated throughout 2021, late-stage companies also experienced unparalleled growth and deal activity. According to PitchBook, 2021’s investment record for mature companies over doubled that from 2020. In the last quarter of 2021, the number of late-stage deals over $100 million surged, even in comparison to deals from earlier in 2021, indicating that the late-stage space will continue to accelerate in the coming year.

Continuing a trend from 2020, 2021 was also a banner year for venture capital investment by non-traditional investors. Investors such as private equity firms and hedge funds accounted for $235.5 billion of 2021’s total deal value. Non-traditional investors also demonstrated heavy interest in seed funding—an estimated 700 of these types of investors participated in seed deals in 2021, over 5.8 times the number that invested in 2011. It’s anticipated that “non-traditional VCs” will continue to invest heavily in early-stage financings. These investors have quickly become a new source of funding for venture-backed companies.

Exit Opportunities

Despite the uncertainty that lingered in 2021 due to the ongoing COVID-19 pandemic, public offerings and acquisitions of venture-backed companies created an estimated $774.1 billion in exit value, the majority of which was earned through public listings. This was, in large part, due to the continued popularity of special purpose acquisition companies (SPACs), which have boomed since mid-2020 and reached a new high in 2021. Over 600 SPAC listings closed in 2021, according to NASDAQ. Although the popularity and expected returns of de-SPAC transactions have waned since their 2020 height, these transactions remain a popular potential liquidity event for many venture-backed companies and their investors.

The foregoing success is even more impressive when viewed in light of the many challenges investors and entrepreneurs faced in 2021. At a time when most predicted that the pandemic would have run its course by early Q1, COVID-19 continued to present challenges, including unexpected variants and those that come with investing and interacting with companies in a virtual world. Nevertheless, the industry persisted, as seen by the records set in number of financings, dollars invested and liquidity events consummated.

Looking Forward to 2022

At the end of 2021, the National Venture Capital Association (NVCA) continued its lobbying efforts related to proposed federal legislation, which will hopefully positively impact the startup space. These efforts include working with legislators on proposals for amendments to antitrust regulations, clean energy tax credit proposals, and programs for billions of dollars in research grants. Whether or not these policies are enacted could set the tone for the success of venture-backed companies and their investors in the months and years to come.

As we enter the third year of the COVID-19 pandemic, trends in the venture investment space continue to evolve. One result of the pandemic was the spread of capital and activity geographically. Miami quickly became a relocation hub for venture capitalists and entrepreneurs alike, and the number of annual financings in that city doubled in 2021. Other cities, including Austin, Phoenix, and Philadelphia, are emerging as up and coming locations for venture activity and are expected to continue to grow in 2022. Nonetheless, the usual locations, like the Bay Area, Los Angeles, Boston, and New York, see the majority of deal count and these cities are likely to continue to be home to the majority of venture deal flow. However, the spread of deal activity across the country may result in the funding of new and exciting companies that might not otherwise attract investors from the traditional venture hubs.

Public listing activity is expected to continue its boom well into 2022 and serve as a lead source of liquidity for entrepreneurs and investors alike. In addition, non-traditional investment is predicted to spike this year given the positive performance of venture portfolios and the upward trend from last year. Players in the ecosystem are also optimistic about significant growth in the biotech and life sciences industries.

Despite immense growth in the venture space in 2021, the beginning of 2022 brought public market volatility that suggested a market correction. However, venture capital investors and entrepreneurs are guardedly optimistic for 2022, which will hopefully bring continued growth and record-setting highs for venture-backed companies and their backers.

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If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings New York lawyers:

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