Juniper Square

2023 SURVEY REPORT

# State of Venture Capital

VCs want to raise, but will exits trip them up?

# Table of contents

# Executive summary

Uncertainty and volatility in the venture capital (VC) space—driven partly by rising interest rates, inflation, geopolitical turmoil have thrown many portfolios akimbo. Meanwhile, the collapse of Silicon Valley Bank grabbed the attention of even those who would normally never think twice about VC.

Venture is on everyone's minds, but what is on the minds of those who work in the venture fund space?

To go beyond the headlines, Juniper Square collected responses from nearly 100 venture fund professionals and learned.

**While 63% of VC firms plan to raise capital this year,** 66% believe the process will be more difficult than in the past. The collapse of Silicon Valley Bank in early March shook the industry and shined a brighter-than-ever light on the space. Even though swift intervention by the FDIC meant worst-case scenarios appear to have been avoided, the jarring headlines will likely have an ongoing ripple effect on investors, with 67% of respondents saying Limited Partner (LP) sentiment is driving the slowdown in fundraising this year.

**45% of respondents say that their LPs are pressuring them to find exit strategies** for the portfolio. With only $73B in exit value achieved across the entirety of 2022 (there was $213B in exit value achieved in Q4 2021 alone, for comparison), LPs are pushing their GPs to turn DPI into TVPI. The old adage that "you can't eat IRR" is top of mind for the industry right now.

Improving access to data is top of mind for VC firms, with **53% of respondents saying they plan to improve their portfolio monitoring, and 40% wanting to invest in better LP reporting.** Given that General Partners (GPs) are directly impacted by market-moving events, LPs, often one step removed, expect timely insight into how those events affect their investments. It's not surprising then that VC GPs would be looking for better ways to facilitate the flow of information between them and their LPs.

In the end, our respondents seemed relatively optimistic about their ability to raise capital this year, despite the many headwinds they face.

> "
>
> As soon as there's clarity on rates and inflation, expect rapid rebounding and dry powder to be shot out at a rapid pace.

# Raising a new fund in 2023

Of our 98 respondents, **63% plan to raise capital this year,** although 66% thought it would be harder to raise funds than in the recent past. The reasons for difficult fundraising, respondents suggested, stemmed primarily from investor sentiment, followed by the lack of LP liquidity, rising interest rates, and the denominator effect.

We also found that over three-quarters (76%) of newer firms—firms less than five years old—planned to raise capital this year versus just half (53%) of older ones. This may indicate that newer firms are being forced into the market to replenish their coffers after raising smaller initial funds and deploying that capital when the venture space was flying high in 2021 and early 2022.

However, **both firms and individuals newer to the industry seemed more optimistic about the fundraising process.** Only a quarter (24%) of newer firms thought fundraising would be more difficult now than in the past, while 38% of older ones expected it to be harder. Staff with more junior titles reported greater optimism about the process (only 24% said it would be much harder than in the past), while more than one-third (34%) of senior staff expected a much more challenging year. Overall, 70% of senior executives expect this year to be a little or much harder when it comes to fundraising, 10 points higher than their more junior colleagues.

Looking at the big picture, **the majority of respondents expect the VC industry to raise either the same or less capital and fewer funds this year,** likely falling short of 2022. Yet here, too, the responses split on fund size: 72% of larger funds (those over $200MM) expected the VC industry to raise less capital, while just under 40% of smaller ones agreed. Smaller funds were also more than twice as likely (46% to 20%) to predict that the VC industry would raise about the same amount of capital year-over-year.

The question, of course, is what is driving this difference of opinion? Larger funds tend to have GPs who have been through past cycles, while smaller (and/or newer) GPs may have only known the good times of the last decade when capital was cheap and easy to come by. Are some GPs simply more realistic—or pessimistic—given their experience?

> “
>
> We are going to wait on the sidelines and see how things shake out before we commit any capital.

What are you most concerned about when it comes to raising capital this year?

1

Investor sentiment

2

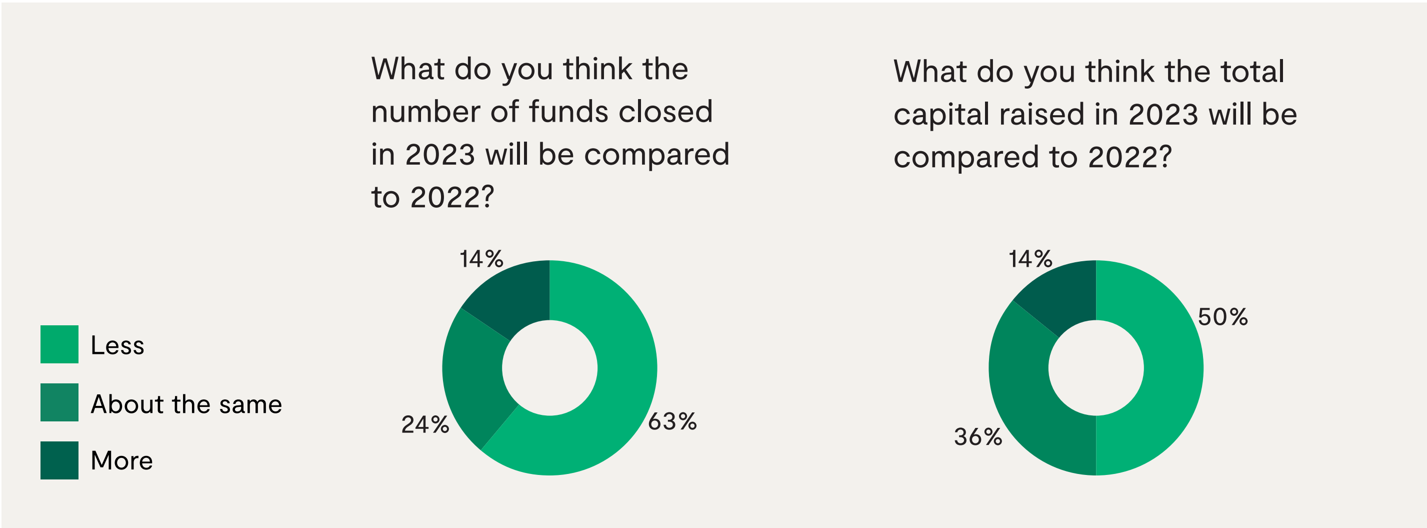
Lack of LP liquidity

3

Rising interest rates

4

Denominator effect




However, while only 99 VC funds successfully closed in Q1 2023 (less than half the number of funds that closed) the average fund size was $118.2MM, a 44% increase on Q4 2022 and the first increase in average fund size since Q1 2022. Perhaps this trend will continue over the rest of 2023 and we'll ultimately end the year with fewer, but larger, funds compared to 2022.

Overall, we found respondents to have a cautious yet optimistic attitude. Despite the headwinds of 2022 and early 2023, **63% of our respondents plan on raising a fund in 2023.** Of that group, more than 60% (63%) have a target of up to $100MM. Overwhelmingly, those who did not plan to raise capital cited either a recent fund (54%) or plenty of dry powder (45%) as the two main reasons. This is supported by a Crunchbase report that estimates $580B of dry powder in the global venture capital industry.

Interestingly, 9% of those not planning on raising a fund said it was because of the overall slowdown in fundraising. It's worth noting that, as Crunchbase wrote, "...despite the unprecedented contraction, 2022 was still the second-best year for startup funding in the last decade. Investors spent $100 billion, or 29% more in 2022 than they did in 2020." Many VC firms appear to have hope that 2023, while likely ending far below the highs of 2021, will pick up steam in the months ahead as the macroeconomic environment settles.

# The issue of exits

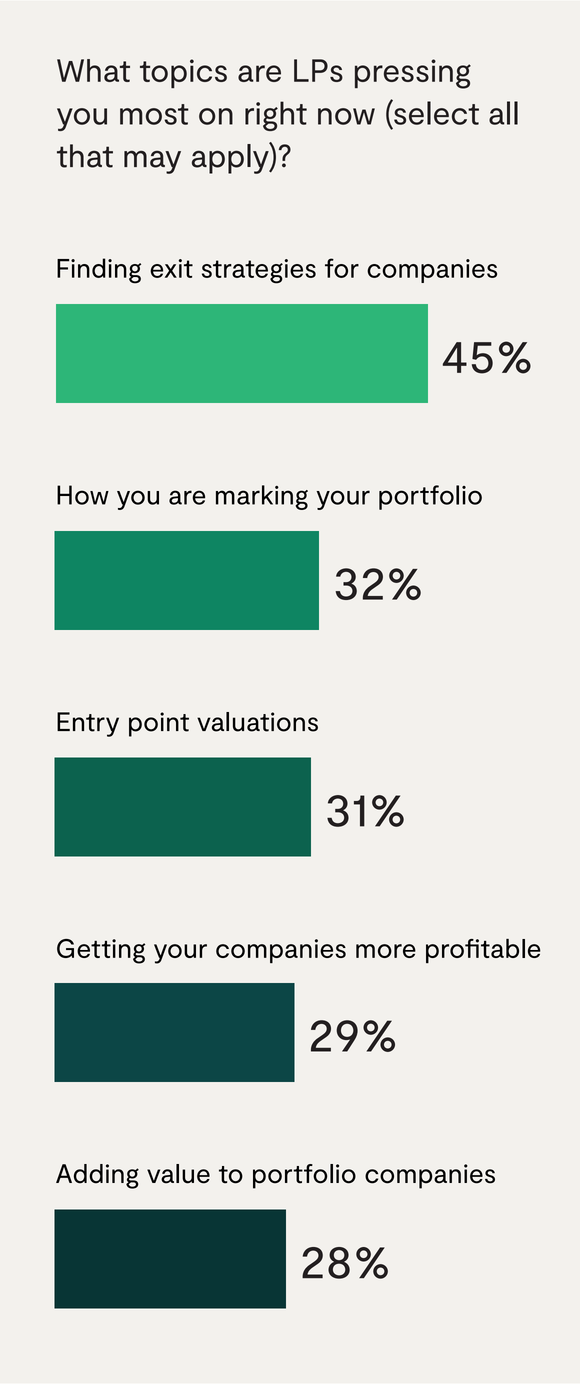
One of the key stories of 2022 was the decline in exit value and activity for venture-backed companies. This trend has continued into 2023.

**When asked what their LPs are pressing them about, 45% of respondents chose "finding exit strategies for the portfolio."**

Indeed, GPs, CEOs, and potential acquirers seem to be caught in a stalemate. GPs and CEOs are reluctant to sell companies for the new benchmarks that acquirers want to pay, yet portfolios need some resolution before the funds' lives end.

This exit issue affects fundraising efforts through various avenues, including LPs' ability to fund both capital calls and their own operations.

Three of the next four LP concerns—entry point valuation, adding value to portfolio companies, and improving company profitability—were all selected by about 30% of respondents. Notably, all of these topics suggest caution on behalf of LPs.




## Fundraising impact

LPs count on distributions to fund as much as 80% of their private equity (PE) fund commitments. The same is true for their VC investments; a successful VC investment program must be self-funding over time. Without a steady liquidity source and facing an uncertain economic future and asset allocation pressure, LPs will likely be more cautious in backing new VC and PE funds. Holding off on new commitments is one way to guard against illiquidity risk, further dampening the amount of capital flowing into venture funds. If exits pick up later in 2023, it's possible we'll see those funds distributed as LP capital being put straight back in the next fund.

## Portfolio management impact

LPs may also be pressuring GPs about exits to encourage portfolio pruning. Board requirements for struggling companies sap time, energy, and attention away from any new opportunities that present themselves. The current environment has made many exciting new companies' valuations more reasonable and existing VC firms need to be able to take on these new investments. While new VC firms have no overhanging commitments to manage, existing ones must manage out their current portfolios, delivering returns to LPs that can then earn them the right to continue to invest.

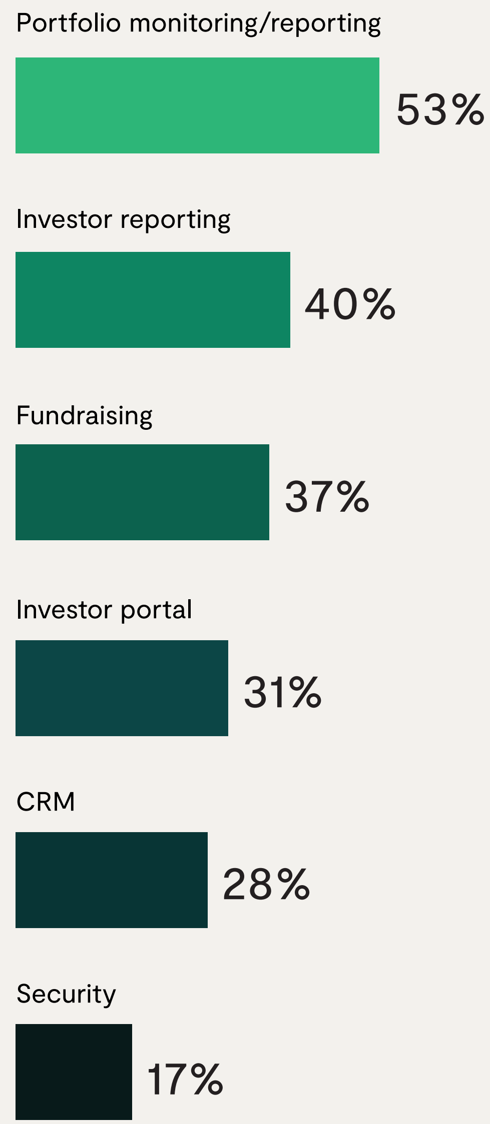
# A focus on operations & reporting

VC firms are directly affected by market-moving events and their LPs, often one step removed, expect timely insight into how those events impact their investments. The days of just sending a monthly or quarterly reporting package are gone—investors are hungry for digestible, on-demand information. This is especially true in times of uncertainty. Investors can take some bad news, but they can't take bad news late, meaning it's more critical than ever for GPs to keep their LPs informed.

To better serve their LPs, **53% of respondents listed portfolio monitoring as a top priority for technology improvement in 2023, followed by investor reporting at 40%.**

Interest in fundraising technology, the third most popular choice, is split along the lines of seniority. Senior staff (founders or partners) prioritized such investments more than junior staff (42% vs. 28%), which unsurprisingly reflects senior staff's greater involvement in the fundraising process. The rising cost of capital has pushed many firms out of the growth mindset of the last decade and has inspired a renewed focus on taking care of their existing portfolios. Experienced fund managers will now pay more attention to improving efficiency and delivering an exceptional LP experience—and technology is one way to do that.

What areas of your investment management technology are you considering investing in or improving in 2023 (select all that apply)?



# Conclusion

Above all else, VCs are focused on doing new deals this year. Even with fundraising and exit concerns, GPs still want to seek out the next great investment and find a future unicorn. The first-place ranking of this choice reflects the old adage that the best time to invest is when the market bottoms out. The worst was feared when Silicon Valley Bank collapsed, but swift intervention by the FDIC meant that worst-case scenarios appear to have been avoided. Although the ripple effects will undoubtedly continue, recent data seems to suggest that the VC industry has reached or is approaching rock bottom in many key metrics.

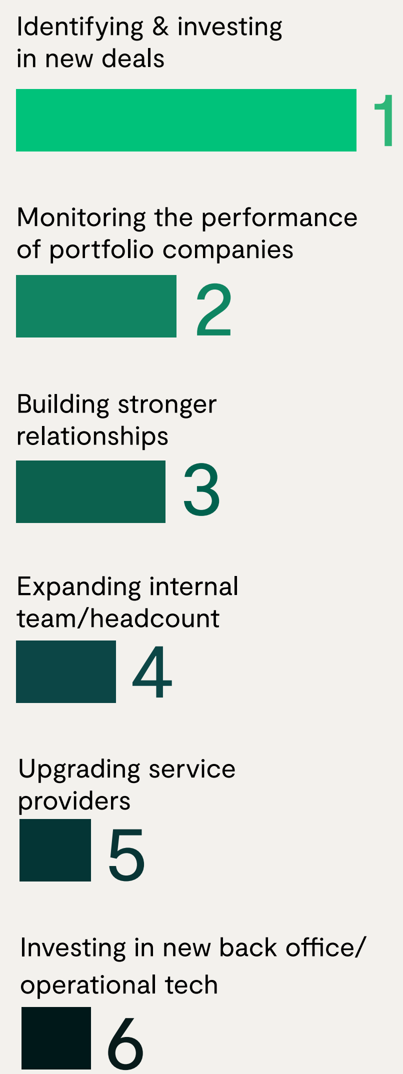
The easy part is over, as one respondent said. But with consistent efforts to find new and exciting companies, adding value to and monitoring the performance of portfolio companies, accompanied by consistent communication and attentive relationship building with LPs, GPs can position themselves to emerge from the current downturn stronger than ever. It's the company builders that will raise their funds, achieve their exits, and communicate with their LPs in 2023.

> "
>
> Venture is a long game. It's not for financial wizards but for company builders.

*This survey was conducted online in the latter half of March 2023. Two-thirds of the 98 respondents were early-stage VC investors, focusing on the classic IT, business services, financial services, and healthcare sectors. Most (60%) had raised three or fewer funds.*

> "
>
> Possibilities are out there. They are just harder to spot.

What are the most important things to your firm this year?



# About Juniper Square

Juniper Square is the leader in partnership enablement for the private funds industry, offering a universal system for GPs and their LPs to seamlessly connect and communicate across every stage of their partnerships. Juniper Square empowers investment managers to accelerate fundraising, scale operations efficiently, and improve investor satisfaction. More than 1,800 GPs rely on Juniper Square to manage more than 32,000 investment entities that span over 500,000 LPs and $700 billion in investor equity.

**1,800+**
GPs

**500,000+**
Investor accounts

**32,000+**
Investments managed

**$700B+**
In investor equity

Learn how Juniper Square can help your firm build stronger investor relationships.

Learn more at: