Anchin Alert

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Venture-Backed Activity Grows in 2017, but So Does the Average Investment Life

While 2016 saw somewhat of a correction in Venture Capital activity from the highs of 2014-2015, 2017 has begun a rebound and is on pace to top 2016. However, data has shown a growing disparity between the number of VC investments and the number of exits by venture-backed companies, indicating that late-stage companies have increasingly chosen to continue raising capital rather than move forward with an exit. This is further evident by the fact that VC investors are evaluating more companies recently at the Series B, C and D stages rather than the angel, seed and Series A stages; likely an effect of the influx of companies that received early-stage funding in 2015 and 2016.

The postponement of an exit increases the risk for all investors involved, particularly late-stage investors. While the multiple on invested capital (MOIC) may not be impacted for most investors, their internal rate of return (IRR) is decreased, since invested capital is not being used to its fullest potential. Prolonged investment hold times challenge the fundamentals of the VC industry, as their fund lives are extended and LP capital is further subject to market risks. Similar trends can be found in the private equity arena as well where exits totaled $86 billion in portfolio company value from approximately 500 deals in the first six months of 2017, a drastic decrease from $321 billion from approximately 850 deals during all of 2016. Meanwhile, the amount of money raised by start-ups via initial coin offerings (ICOs) has increased at a rapid pace, surpassing early stage VC funding globally during the months of June and July 2017 by a rate of $850 million vs $500 million (Goldman Sachs Global Investment Research).

As in the past several years, technology continues to lead all industries in both the number and value of VC deals during the first half of 2017. Furthermore, the landscape of the technology industry continues to explore new investment opportunities such as ICOs. Members of Anchin's Technology Industry Group are well-suited to guide you through the VC life cycle and into the next stage, providing sound advice from domestic and international tax planning, tax credits and incentives, to business planning and investment strategies, to outsourced accounting needs, to connecting our clients with the resources they need to succeed.

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