Introduction

Colorado’s economic performance over the past decade has been the envy of the mountain-plains region. Few states between the coasts have performed as well. Innosphere Ventures has proudly served the state of Colorado and its science and technology-focused entrepreneurs for the past 22 years, helping to contribute to this overall economic progress. A key aspect of the state’s economic development has been the growth in early-stage science and technology companies and the associated investment capital, both in-state and from out of state, fueling the growth of these companies.

Innosphere Ventures partnered with PitchBook before the COVID-19 crisis to collect and publish data that outlines the positive attributes of Colorado’s venture capital ecosystem but also to highlight the challenges we see to accelerating early-stage growth. We believe that post-COVID-19 recovery for the US and Colorado will require a concerted effort from many players: inventors, business leaders, research universities, and venture capitalists. Innosphere Ventures’ contribution to economic recovery will be to expand and improve its current commercialization program and improve access to capital through the formation of a second seed-stage venture fund for science and technology companies.

A second Innosphere Ventures Fund addresses three specific challenges we see in Colorado: the high (estimated at 80%) concentration of venture capital in California, Massachusetts, and New York, the lack of sub-$100 million seed funds, and the shortage of lead investors in Colorado. Innosphere Ventures is ready to lead the way to an acceleration in job creation and economic impact resulting from the consistent support and funding of seed-stage science and technology startups.

Please join me in thanking the sponsors of this report and all the members of Colorado’s venture ecosystem.

Mike Freeman, CEO & General Partner
Innosphere Ventures

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Colorado VC Trends

The Colorado venture ecosystem is thriving in many regards. Much as venture has surged to record heights across the US overall, the state has experienced significant growth in not only deal value but also volume, notching records in both tallies in 2019. However, given the surge in national VC levels, the relative steadiness in Colorado’s early-stage volume is noteworthy.

Colorado’s generally favorable economic climate, relatively lower tax rates, accessibility in travel and a burgeoning (tilting younger) population all helped drive this surge. As other tech hubs become pricier, multiple tech giants and a smattering of startups are opting to open offices, launch or relocate entirely to the state. According to a report from Cushman & Wakefield, the past decade has seen 58 of the 89 Bay Area-based tech and life science companies acquire 900,000 square feet of office space in Denver. These changes are providing opportunities for the Colorado science and technology startup ecosystem to accelerate growth in the years to come.

417 financings in 2019 is nearly 30% higher than 2018’s volume
Colorado VC deal activity

Seed deal value approaches $200M
Colorado VC deals ($) by series

Angel, seed & Series A volume holding steady
Colorado VC deals (#) by series

Source: PitchBook

Source: PitchBook
CO Early-stage VC by Vertical

**SaaS raked in a record $178.5M**
SaaS early & angel/seed Colorado VC deal activity

**Healthtech continues record stretch of funding**
Healthtech early & angel/seed Colorado VC deal activity

**Cleantech chugs along**
Cleantech early & angel/seed Colorado VC deal activity

**$92M nearly doubles AI & ML's tally in 2018**
AI/ML early & angel/seed Colorado VC deal activity

Source: PitchBook
A robust—if initially small—tech scene is another key factor in favorable market conditions that not many US metro areas possess. While it’s difficult to attribute these more intangible factors directly to the ecosystem’s growth, historically, such positive environments have preceded any healthy venture ecosystem.

All of these positive factors have engendered another key trend for the Colorado venture ecosystem: an increase in the rate of early-stage funding, which has propelled overall volume. Critical to ensuring the health of the entire venture funding pipeline, angel, seed and Series A volume and value hit new highs of $260 and $894.1 million, respectively, in 2019. With that said, 2019 was an outlier. Both overall and angel, seed and Series A volume varied consistently in the five years prior ranging from 193 to 238, while deal value ranged from $349.2 million to $631.4 million. Given the surge in national VC levels, the relative steadiness in Colorado’s early-stage volume could be attributed to the lack of growth in local early-stage funding. While VC deal value has grown robustly, it has been due to the significant expansion in late-stage deal values.

Comparing tallies reveals that Colorado valuations at seed and Series A were favorable relative to California, New York and Massachusetts—2019 seed figures were $8.5 million, $8 million and $8 million, respectively; Series A stood at $25.5 million, $25 million and $20 million. The increase in attractive local investment opportunities at more modest valuations has promoted the significant increase in out-of-state investors’ VC investment in Colorado, even as Colorado VCs have focused their investing beyond state borders. As these increases are at the earliest stages, all signs point to a promising venture ecosystem, from increased outside involvement to growth in the sums startups are able to secure. Well-executed local early-stage funds should find more targets and will subsequently have the platform to launch larger vehicles to capture the best opportunities locally.
Most early-stage dollars come from out-of-state investors
Colorado angel, seed & Series A deal activity ($B) by investor HQ

Colorado's deal volume is driven by out-of-state investors
Colorado angel, seed & Series A deal activity (#) by investor HQ

CO-based investors focus investment dollars outside of Colorado
VC activity with Colorado investor participation by company HQ ($B)

CO-based investors mainly investing in deals out of state
VC activity with Colorado investor participation by company HQ (#)

Source: PitchBook
Exits

Sustained liquidity is crucial to ongoing funding earlier in the venture cycle. Accordingly, the steady clip of VC-backed exits in the past three years is a positive sign for the Colorado venture ecosystem; however, there was a decline in aggregate exit value across the same timeframe. As companies have experienced earlier exits, the time from first VC round to exit has declined in the past three years. While this contributes to smaller exit sizes on the whole, high-growth startups with efficient capital plans can still produce differentiated returns for investors and founders.

Exits can be more cyclically pronounced for relatively smaller venture ecosystems, hence the lumpiness in Colorado’s liquidity figures. Part of the recent surge in investment is due to record exit values from 2015 to 2017. Such healthy exits can often precede related increases in investment from serial entrepreneurs and new funds. More broadly speaking, such follow-on benefits enrich a healthy innovation ecosystem that can sustain ongoing growth.

As seen in this report, Colorado’s venture ecosystem has strengthened in many notable ways, including early-stage deal volume and dollars. While in other areas there is much room for improvement—such as more local capital focused on Colorado startups—these findings should provide a pathway for the many opportunities to support and accelerate Colorado’s venture ecosystem.
Innosphere Ventures is Colorado's leading commercialization program for science and technology startup companies. From first-time founders to experienced executives, entrepreneurs learn valuable skills on how to access capital, acquire customers, build and retain talented teams, accelerate top line revenue growth and plan their exit. Innosphere supports companies located across the Front Range including Denver, Boulder, Castle Rock and Fort Collins.

Founders and CEOs wanting to turn their startup into a high-growth business and advance their technology to commercialization are encouraged to submit an online application at www.innosphereventures.org or email us at info@innosphereventures.org.