

INNOSPHERE VENTURES
THE COLORADO VENTURE CAPITAL
ECOSYSTEM REVIEW

2021

DATA PROVIDED BY  PitchBook

Introduction

Innosphere Ventures has worked at the intersection of entrepreneurship, venture capital (VC), and economic development for 23 years in Colorado. With the tech sector driving the most coveted job creation and with younger firms creating all new net job growth in the US, our consistent belief is that our local, regional, and national economy can only advance if science and technology startups have the resources needed to advance their technologies and grow their businesses.

As the world faced the global pandemic in 2020, Innosphere took significant strides to position our organization for even more economic impact by purposefully expanding throughout the Mid-America Mountain Plains Region and by laying the groundwork to launch a second VC fund. Why? Because as we head into the next decade, we can only be a competitive nation if we increase our ability to innovate at an unprecedented level. **The Council on Competitiveness** recently challenged all organizations to step up and do more in its report, “Competing in the Next Economy,” stating that our nation needs to boost US innovation capacity tenfold.

Achieving a 10X in anything is challenging, and innovation at scale requires many factors to work in sync. One of Innosphere’s focus areas is ensuring that we have accessible capital to fuel new ventures that create jobs and the future economy. Historically, regions in the US who have more availability of VC are the same regions known for driving innovation and being a hotspot for entrepreneurs.

VC’s performance at a national level has been outstanding over the last several years, with investors and limited partners (LPs) being more eager than ever to invest in the asset class. Even in the middle of a global pandemic, 2020 was a **record year** for venture fundraising and

deployment, with nearly \$80 billion in capital raised for VC funds—and 2021 is on pace to top \$100 billion.

While this is good news for the US, a deeper look at regional VC trends in 2020 reveals challenges for up-and-coming innovation hotspots such as Colorado:

- An increasing amount of capital is concentrated within large VC funds, and fewer emerging funds have been capitalized in recent years, with 2020 being a low spot since the great recession. This declining number of small VC funds is problematic because they are essential in leading investment rounds and investing in early- and seed-stage companies.
- An increasing amount of capital is concentrated in coastal regions, leaving companies in Mid-America with scarce availability of local capital.
- While Colorado topped \$2.5 billion in VC invested in startups, we estimate that 95% of this capital came from out-of-state investment. To sustain a long-term innovation ecosystem, states such as Colorado must address this significant imbalance in capital concentration.

It is into this environment that the general partners announce our second VC fund, Innosphere Ventures Fund II, which could not have been launched without the support of the US Economic Development Administration. We will invest in businesses in the middle of the US, improve economic growth and innovation, support exit events for entrepreneurs, and create returns for investors.

Mike Freeman (left), CEO & General Partner
John Smith (right), General Partner



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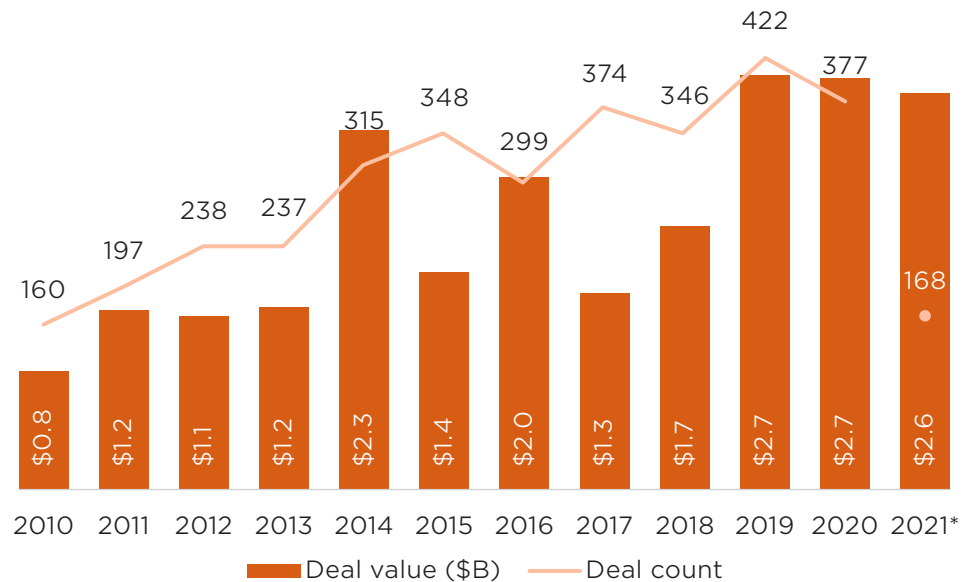


A note on methodology: For the purposes of this report, references to investment or funding at the “early stage” comprises angel, seed, and Series A funding rounds. Series B and beyond represents late-stage investment activity. Unless noted explicitly as investments made by Colorado-based VC firms, venture funding activity or the like refers to VC invested in Colorado-headquartered companies. In addition, figures for summed investment rounds represent publicly disclosed transaction sizes only. Please see PitchBook’s methodology for [more detail](#).

Colorado VC trends

Just as VC investment surged across the US to reach record heights in 2020 despite the COVID-19 pandemic, Colorado closed out another year of significant startup financing activity in the face of disruption. And any lingering uncertainty has given way to unprecedented confidence in the Colorado ecosystem. Investors have already committed a staggering \$2.6 billion in aggregate across 168 rounds through 2021 year-to-date (YTD), a stronger performance than any year in full prior to 2019. For comparison, VC investment in 2020 generated \$2.7 billion in disclosed value on 377 completed deals across the state. Colorado is now on course to smash records for VC investment activity as 2021 unfolds.

Colorado on course to smash records for VC investment activity in 2021 CO VC deal activity



Source: PitchBook | *As of May 13, 2021

Unless otherwise noted, the geographic scope of these datasets is the US state of Colorado

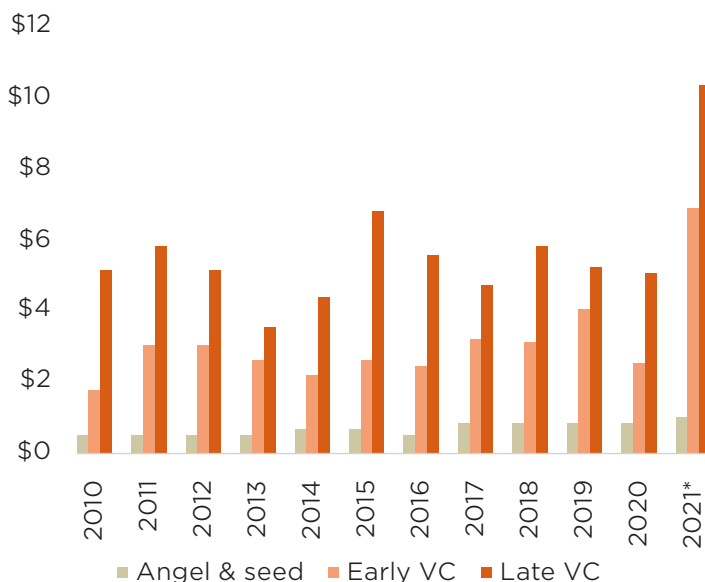
Colorado's innovation ecosystem continues to compound on the benefits of existing factors, including a broadly favorable business environment featuring relatively low tax rates, a high concentration of federal laboratories advancing scientific research, and readily accessible air travel. It also boasts world-class institutions of higher education. For its part, the University of Colorado has produced 405 entrepreneurs, including 49 female founders, who have secured \$7.2

billion in venture funding over the past 15 years. In turn, CU Boulder, CU Anschutz Medical Campus, Colorado State University, and Colorado School of Mines together wield several billion dollars to fund research expenditures. Likewise, CO-LABS, a nonprofit consortium

of federal research laboratories & institutions, universities, colleges, businesses, and economic development organizations, provide financial and in-kind support for programs that promote the retention and expansion of Colorado's scientific resources.

Median early-stage deal size recovering in 2021

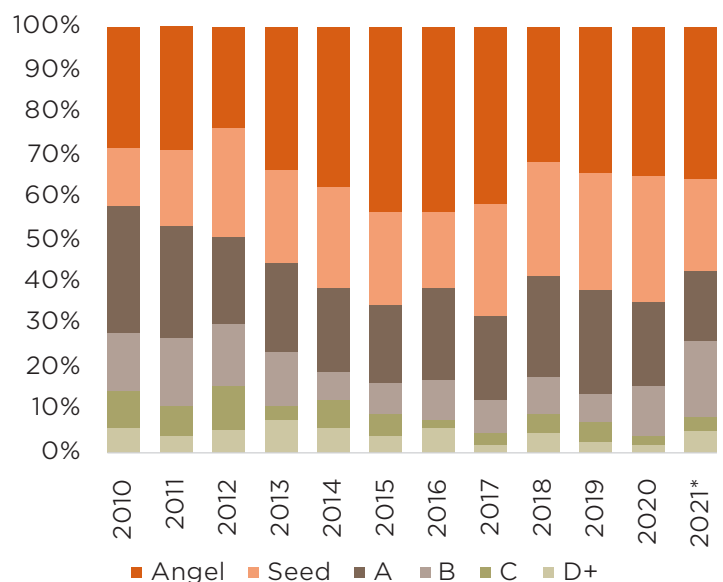
Median deal size (\$M) for CO companies by stage



Source: PitchBook | *As of May 13, 2021

Angel, seed, and Series A volume remains strong

CO VC deals (#) by series

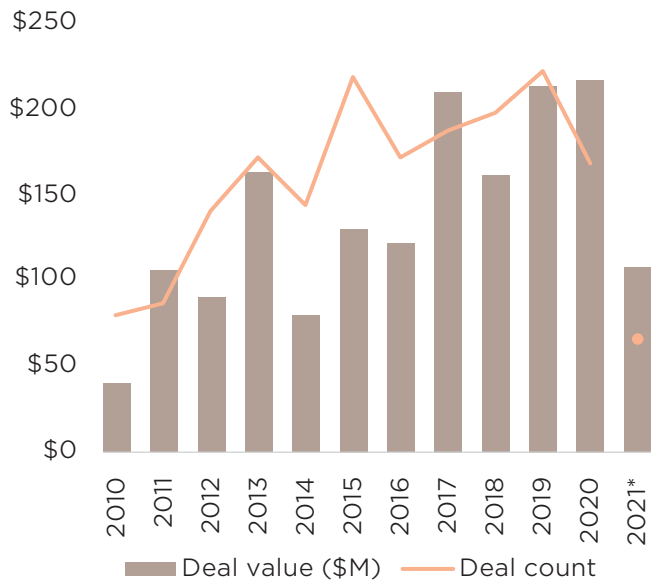


Source: PitchBook | *As of May 13, 2021

Colorado early VC by vertical

SaaS secured a record \$216 million in 2020

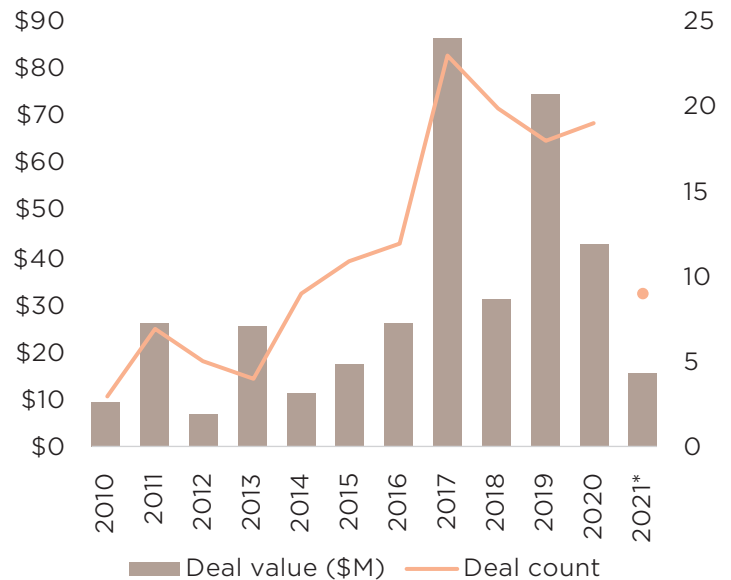
CO SaaS early-stage VC deal activity



Source: PitchBook | *As of May 13, 2021

Healthtech volume recovers as value falls

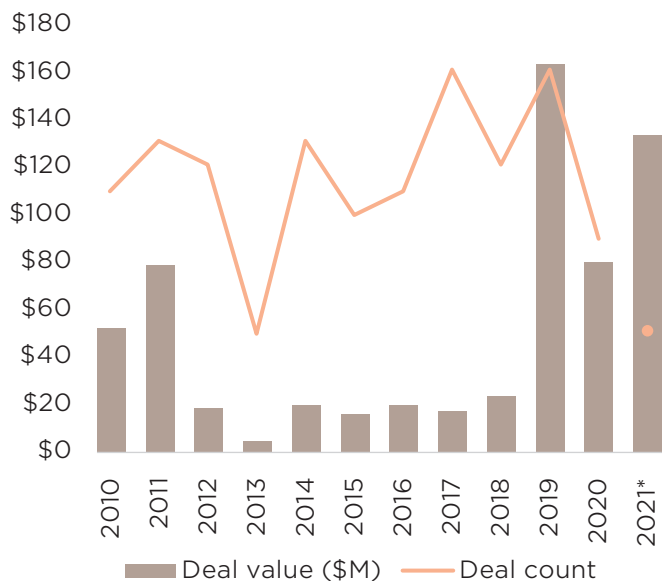
CO healthtech early-stage VC deal activity



Source: PitchBook | *As of May 13, 2021

Cleantech surging in 2021

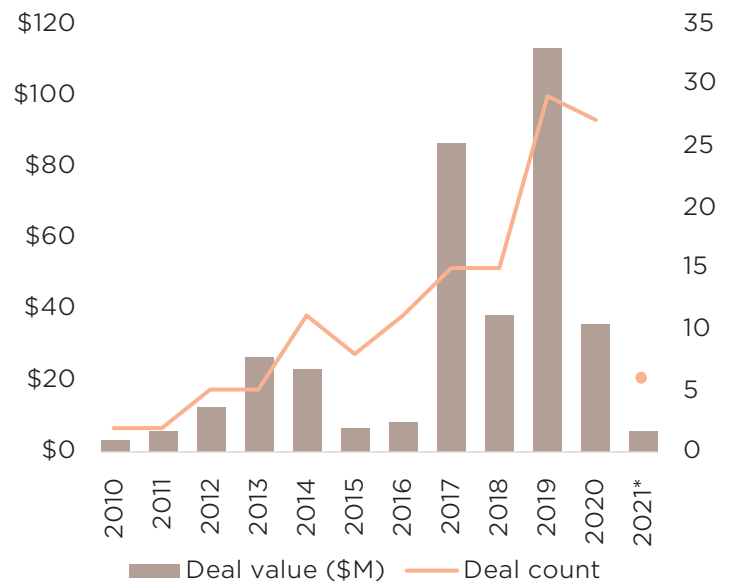
CO cleantech early-stage VC deal activity



Source: PitchBook | *As of May 13, 2021

Funding rounds for artificial intelligence & machine learning (AI & ML) remained elevated in 2020

CO AI & ML early-stage VC deal activity



Source: PitchBook | *As of May 13, 2021

Colorado VC insights

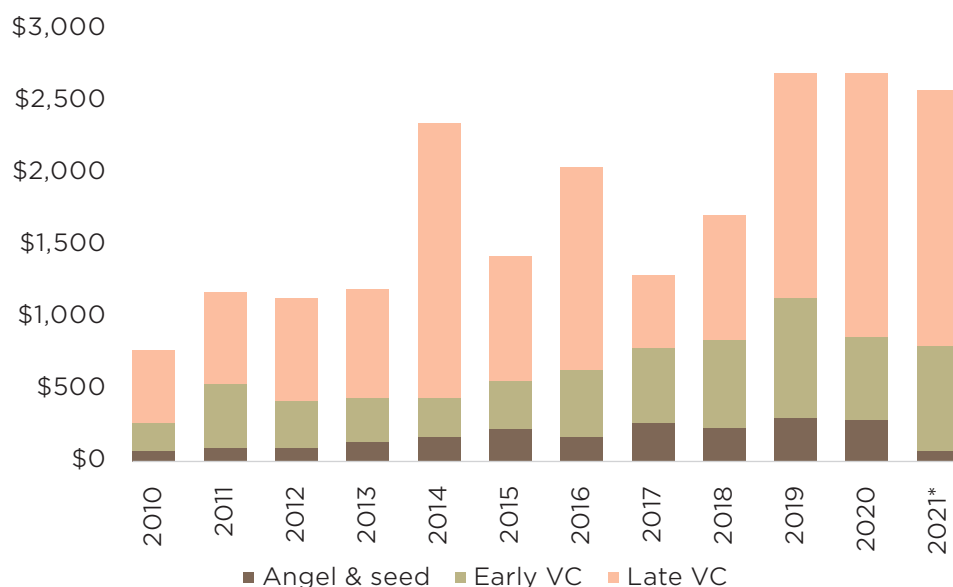
The Colorado VC ecosystem has matured considerably since 2015 thanks to a dynamic emerging tech scene that has supported the rapid scaling of leading startups. As a result, late-stage deals represented \$1.8 billion in 2020, or two of every three dollars, invested across 108 rounds in Colorado. Through mid-May, the state has already added the same sum in aggregate across just 66 rounds for late-stage companies—figures that will undoubtedly grow as more data is collected.

Meanwhile, the pipeline of early-stage companies coming out of Colorado continues to attract significant investment, pushing volume and value to 224 funding rounds generating \$779.4 million, respectively. Although financing figures for companies at earlier stages of development did record a slight pullback year-over-year (YoY), 2020 was still a breakthrough for outside investment into the ecosystem—generating momentum that has carried over into 2021. After some \$1.8 billion of funding came into Colorado from outside investors in 2020 across 115 deals, another \$2.1 billion has already been added across 48 rounds in 2021.

Colorado's resilience in 2020, generated by funding for companies at both the early and late stages, was in line with results recorded nationwide as venture sought opportunities beyond the Bay Area. But comparisons to tallies posted during the height of the COVID-19 pandemic reveals that the state's valuations at the early stage remain favorable relative to coastal ecosystems. Late-stage deal value has reached considerable highs in years past. Colorado's performance has varied considerably in aggregate since reaching a record of \$1.9 billion in 2014, tracking as low as \$493.8 million in 2017 and as high as 2020's \$1.8 billion.

Record VC invested driven by the late stage

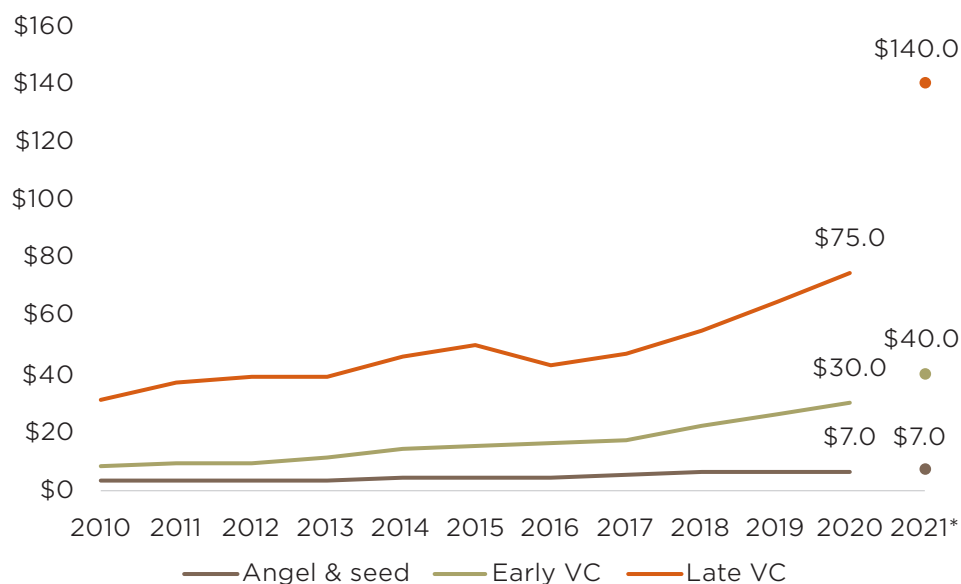
CO VC deals (\$M) by stage



Source: PitchBook | *As of May 13, 2021

Valuations remain modest across angel, seed, and Series A deals

Median pre-money valuation (\$M) for CO companies by stage



Source: PitchBook | *As of May 13, 2021

Out-of-state investors lead VC

Outside investment surged for Colorado's startups in 2020

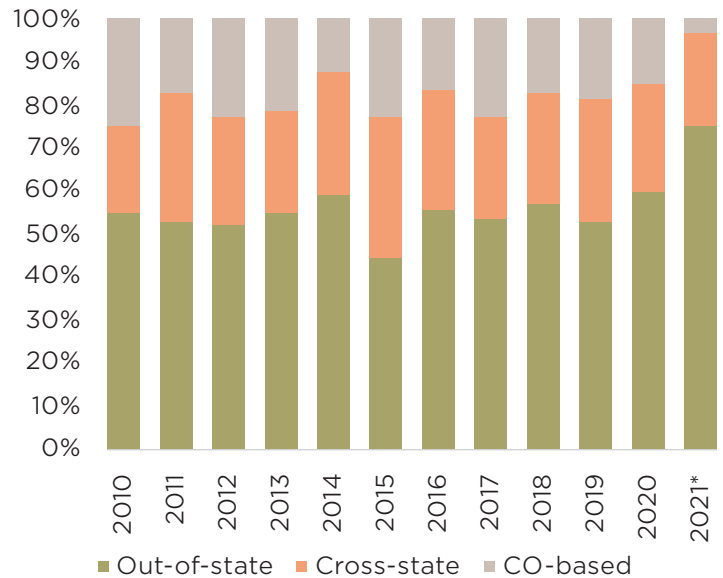
CO VC deals (\$B) by investor HQ



Source: PitchBook | *As of May 13, 2021

Colorado's deal volume remained buoyed by out-of-state investors in 2020

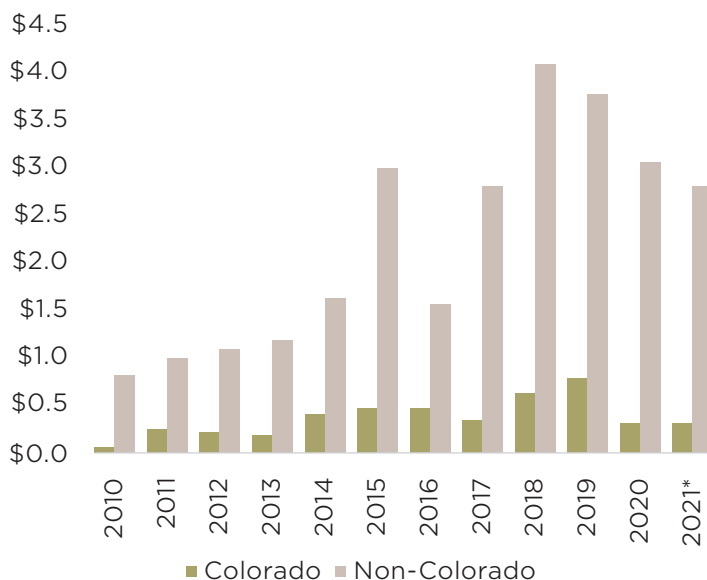
CO VC deals (#) by investor HQ



Source: PitchBook | *As of May 13, 2021

Colorado-based investors already putting as much capital to work in 2021 as all of 2020

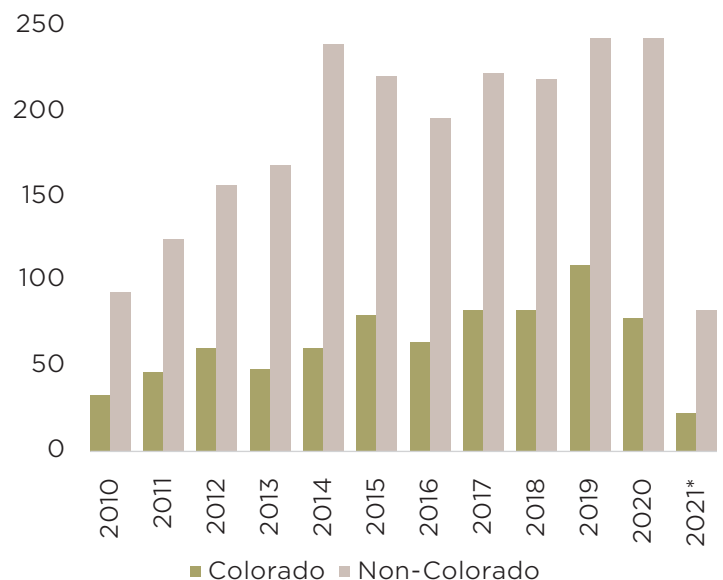
VC deals (\$B) with CO investor participation



Source: PitchBook | *As of May 13, 2021

Colorado-based VC firms maintained record level of out-of-state investment volume

VC deals (#) with CO investor participation



Source: PitchBook | *As of May 13, 2021

Conclusion: The future of funding

Not only did the Colorado VC ecosystem approach 2019's record heights in 2020, exit value bounced back substantially to \$1.3 billion. Palantir's \$21.0 billion IPO—one of the largest in the US for the past decade—executed shortly after the data analytics company relocated from the Bay Area to Denver, pushed exit value in 2020 to \$22.3 billion. However, exit count paints a more conventional picture. After reaching a record of 38 exits in 2019, activity reverted to the mean with 26 exits for Colorado companies in 2020. Already in 2021, startups exiting via M&A, financial sponsor-led buyouts, or public debuts have generated another \$693.1 million on 16 exits.

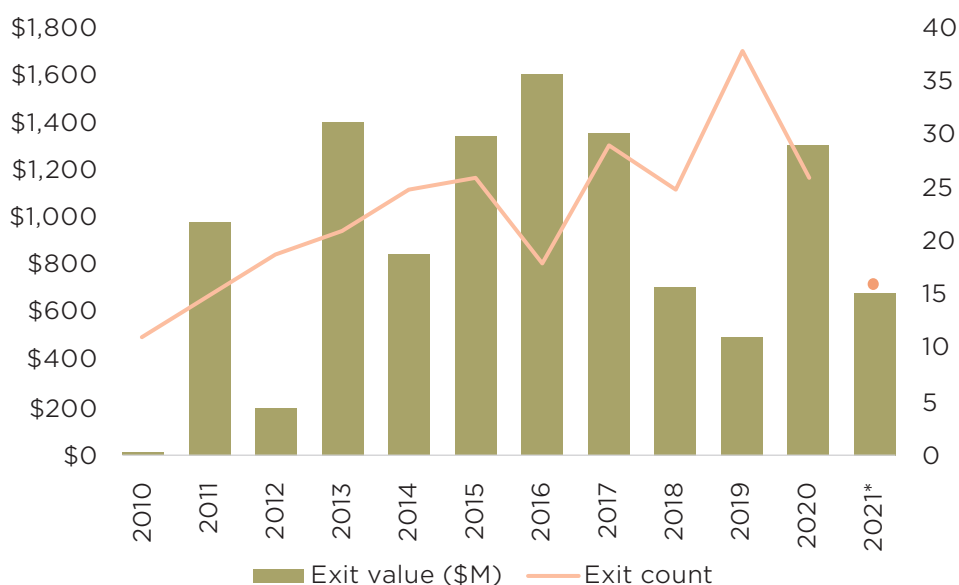
Colorado companies continue to experience earlier exits, even as the median time from first VC round to exit ticked back up slightly for the first time since 2017 to roughly five years in 2020. Not only does that figure still fit comfortably below the historic range for Colorado companies, but it also continues to trail the median time to exit for the US, which means realizing gains for investors targeting opportunities in the state sooner rather than later.

While this dynamic may for some companies contribute to smaller exits, the recent surge in investment represents healthy capital flows recycling back into the ecosystem after the period between 2015 and 2017 generated \$4.3 billion in liquidity. A healthy innovation ecosystem can sustain ongoing growth, and Colorado is no exception to this rule. The increase in attractive local investment opportunities at comparatively modest valuations continues to attract out-of-state investors to Colorado, while Colorado's leading VCs continue to explore opportunities further afield.

However, the picture for emerging managers was grim in 2020 as LPs scaled back allocations to familiar names. This dynamic helped

Exit volume reverted to mean in 2020 as value soared

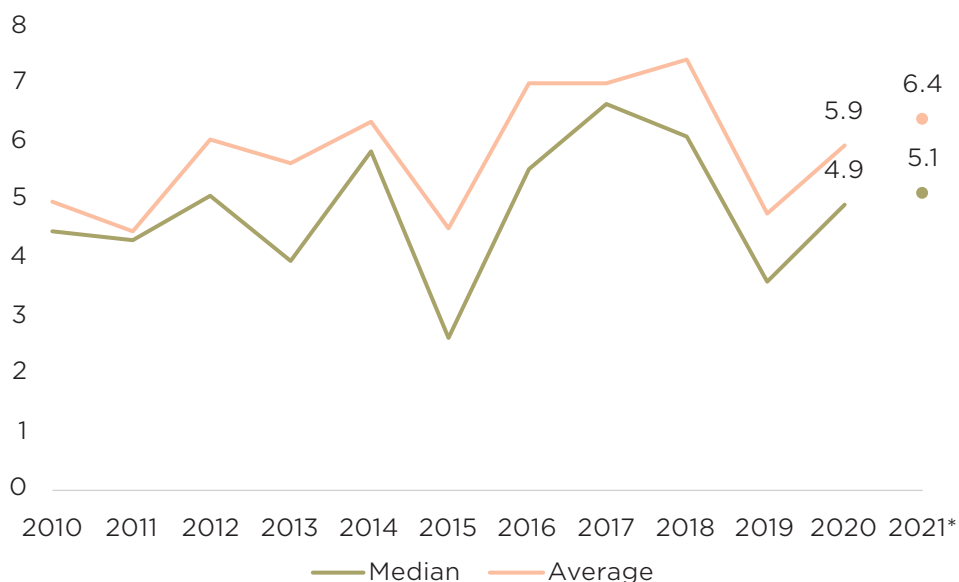
CO VC exit activity



Source: PitchBook | *As of May 13, 2021
Note: Excludes Palantir's IPO in 2020.

Colorado-based startups still exiting faster than US peers

Median and average years from first VC round to exit for CO companies



Source: PitchBook | *As of May 13, 2021

established firms to secure three of every four dollars raised by VC funds in 2020—more than any year since 2012. Without a concerted effort from Colorado-based and regional investors to back local emerging fund managers, the concentration of VC will remain

located in the coastal ecosystems of California, Massachusetts, and New York and make it more challenging to raise capital locally that can be especially vital to companies just getting started.

Leading seed and series A rounds.
Supporting entrepreneurs building high-tech companies.
Accelerating startup success and the path to a successful exit.



VENTURE CAPITAL FUND

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INCUBATION & COMMERCIALIZATION PROGRAM

Supporting science and technology startups



Innosphere Ventures Fund is a seed and series A venture capital fund leading investment rounds in B2B companies who are driving innovation in SaaS software, Cleantech and MedTech sectors. Through active management, a proprietary deal flow, and a proven process for supporting early exit returns for limited partners, Innosphere Ventures Fund is positioned to invest in the most promising founders and high-tech companies in the Mid-America Mountain Plains Region.

Innosphere Ventures is a non-profit incubator that continues to grow the region's entrepreneurial ecosystem by supporting science and technology startups with a specialized commercialization program, venture capital, and for entrepreneurs located in Colorado – office and laboratory facilities.