

INNOSPHERE VENTURES' REVIEW OF THE
**ARIZONA VENTURE CAPITAL
ECOSYSTEM**

2022

DATA PROVIDED BY  PitchBook®

Introduction

Innosphere Ventures has been working at the intersection of entrepreneurship, venture capital (VC), and economic development for over two decades. We believe that if we want our local, regional, and national economies to advance, we need to ensure we're doing all we can to support the growth of science and technology startup companies. We believe that with the heavy concentration of venture capital on the US coasts, innovative companies in the Mountain Plains region go unnoticed and economic advancement is diminished.

Innosphere has taken significant strides to position our organization for a more meaningful economic impact by expanding throughout the Mid-America Mountain Plains. Data shows that when science and technology startup companies have the right resources to advance and grow, these firms create net new job growth. Job growth from these firms is the most coveted job creation in the US. We can only be a competitive nation if we increase our ability to innovate at an unprecedented level.

At a national level, venture capital performance has been outstanding over the last several years – with investors and limited partners (LPs) especially keen on investing in the asset class. Coming out of the pandemic, Venture Capital posted record-breaking numbers, with VCs fundraising \$128 billion and VC-backed companies raising nearly \$330 billion.

While this is good news for the U.S., a closer look at VC trends in 2021 reveals challenges for up-and-coming innovation hotspots such as Arizona:

- Although the entire US has seen a boom in VC growth, the top 4 regions (Bay Area, New York, Los Angeles, Boston) control half of the deal counts and nearly three-quarters of the total deal value.
- The number of large funds over \$1 billion continues to increase in the count and control a record amount of the total share of fundraising, while funds below \$50 million are experiencing a decrease in total proportion. 2021 was a record year for VC fundraising, yet most of the benefits were not shared by smaller-sized funds, which are essential for first investments in seed-stage startup ventures and are key in emerging ecosystems.
- The US saw a massive uptick in non-traditional investors eager to gain exposure to Venture Capital deals because it has been one of the best-performing asset classes in recent years. Most notably, Corporate VCs (CVC) share of deal value has continued to surge, with CVCs contributing towards 46.6% of all deal value.
- Developments within the VC and innovation ecosystems have placed Arizona in a strong position to become an emerging technology and software hotspot.

We will continue to support the Mountain and Plains region by investing in businesses in the middle of the US and supporting entrepreneurs in building companies and technologies that matter in today's world.

We would like to thank the US Economic Development Administration (EDA) for their financial support, as this report would not be possible without their contributions.

Enjoy the report,

Mike Freeman, CEO & General Partner
John Smith, General Partner



Note on methodology: References to investments and funding at the "early stage" consist of Series A and B funding rounds. Series C and beyond represent late-stage investment activity. Unless otherwise noted, investments refer to venture capital invested in Arizona-headquartered companies. Figures for summed investment rounds only represent publicly disclosed transactions. A special thanks to Clayton Castro, Innosphere Associate, for his support in producing this report.

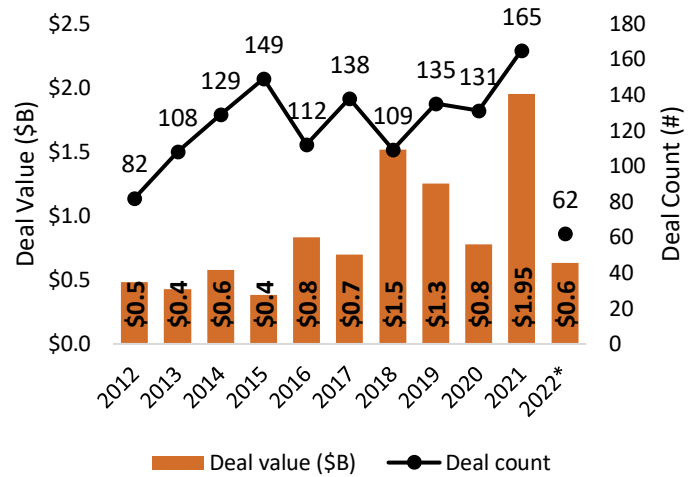
Arizona VC Activity

2021 was a breakout year for the state of Arizona’s venture capital ecosystem, as the Grand Canyon state surpassed its previous records in both deal value and activity. Venture capitalists funded \$1.95 billion in cumulative deal value across 165 different rounds, more than doubling the annual amount from the previous year. Arizona-based venture capital firm’s fundraising reached a record \$173 million in 2021, and statewide AUM totaled \$804 million. Arizona has historically had relatively low levels of venture funding, and only as recent as 2018 did the state break through \$1 billion in investment activity. High net worth investors in the state have traditionally favored other asset classes, such as real estate, and as a result, Arizona’s local venture investment in innovative startups remained lower. Even with a highly efficient innovation ecosystem supported by several of the most productive regional research institutions and a pool of top technical talent, the state still surprisingly lacked the attraction of venture capital that more established tech hubs routinely see. To combat this issue, multiple initiatives have been created and renewed to boost local investment needed to jumpstart the ecosystem, such as establishing and renewing the [Arizona Small Business Investment Incentive](#) with a goal to radically increase angel activity. This and other economic reforms aimed at increasing business development and support and venture investments are showing substantial results.

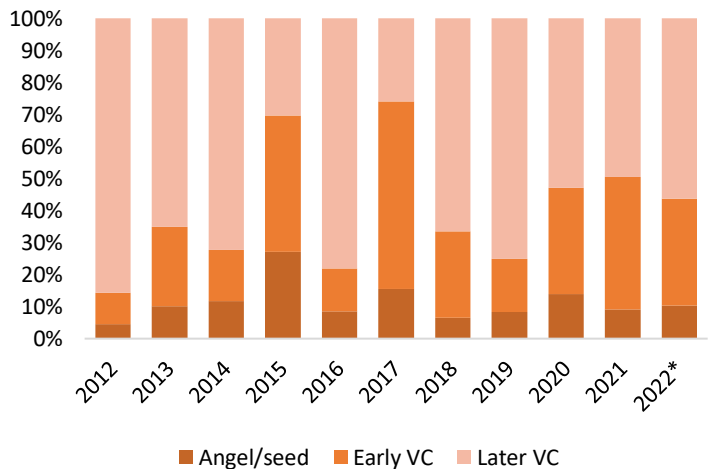
Angel investments attracted slightly more than \$177 million in capital, while deal count grew to 83. Early and Late-stage deal development has been significant to the VC ecosystem, as both types of investments more than doubled their annual aggregates. Early-stage venture funding pulled in \$800 million across 45 different deals, growing nearly 61% from 2020. Meanwhile, late-stage deals attracted \$965 million in capital investments across 37 deals, a year-over-year change of 57%.

The increased frequency of larger rounds has pushed the state into new territory. 2021 had six startups generate rounds above \$100 million and alone, they produced slightly less than \$1 billion in cumulative value. The largest raise by [Paradox](#), a recruiting software startup, managed to raise a \$250 million late-stage round that will be used to hire more talent and accelerate further scale-up processes. Additionally, Real estate startup [Lessen](#) was the recipient of the largest early-stage deal at \$170 million, with plans to use the funds to expand their business operations as well.

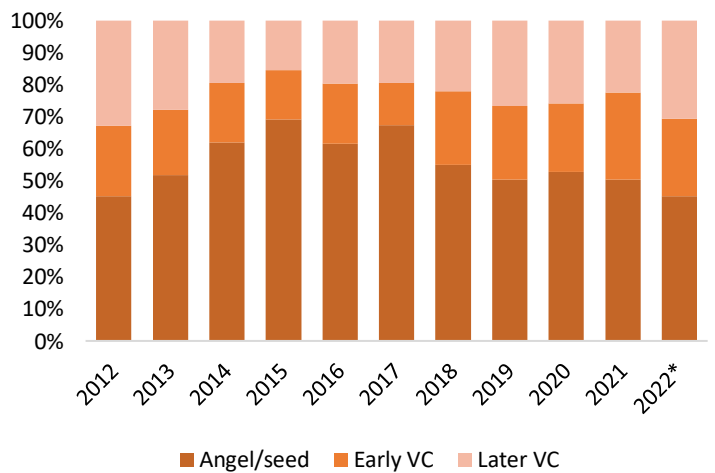
Arizona VC Deal Activity



Arizona VC Deal Activity (\$) by Type



Arizona VC Deal Activity (#) by Type



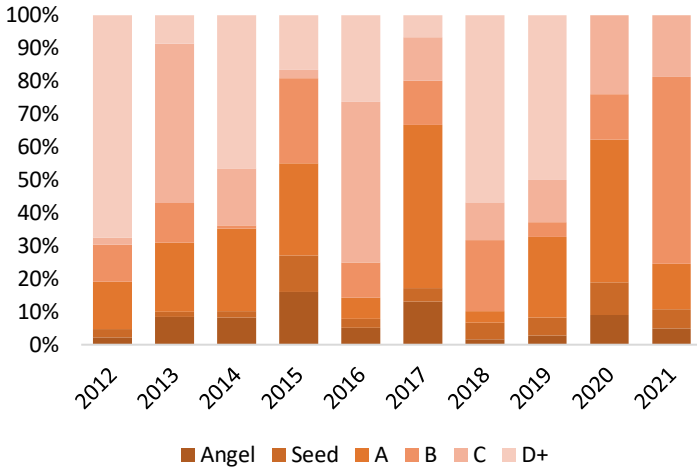
Source: PitchBook |*As of June 10, 2022

Arizona VC by the Numbers

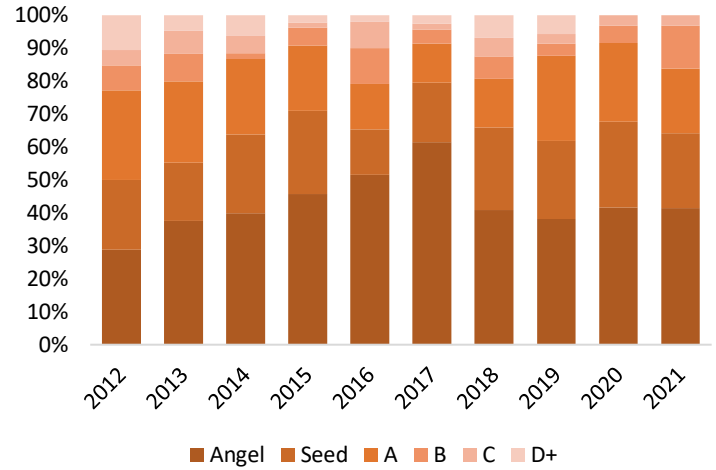
Investment Breakdown by Series

Following similar patterns in the statewide venture capital activity in 2021, later stages significantly ramped up activity. Excluding rounds without a series or deal size disclosed, Series B held the highest share of total investment with just under 60% of disclosed deal value. Later rounds past Series C are rare within Arizona and the state has not produced any D+ rounds in 2 years. Angel investments continued to be the most frequent type of deal within the state, as previously mentioned, Arizona has an extensive tax credit system for qualified angel investments, continuing to be a key contribution toward the total deal count.

Arizona VC Deal Activity (\$) by Series



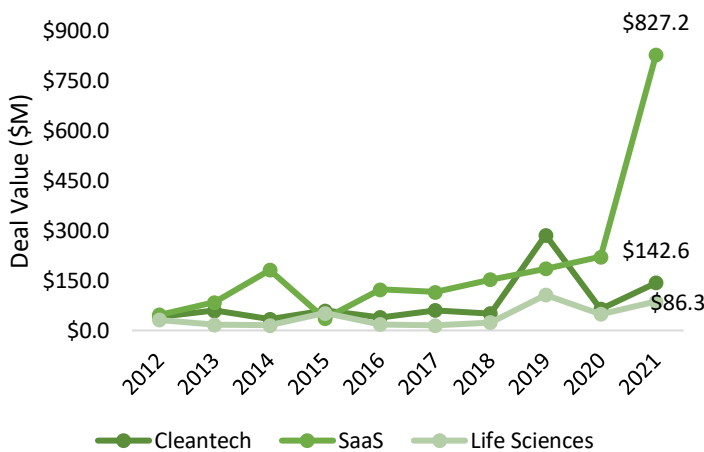
Arizona VC Deal Activity (#) by Series



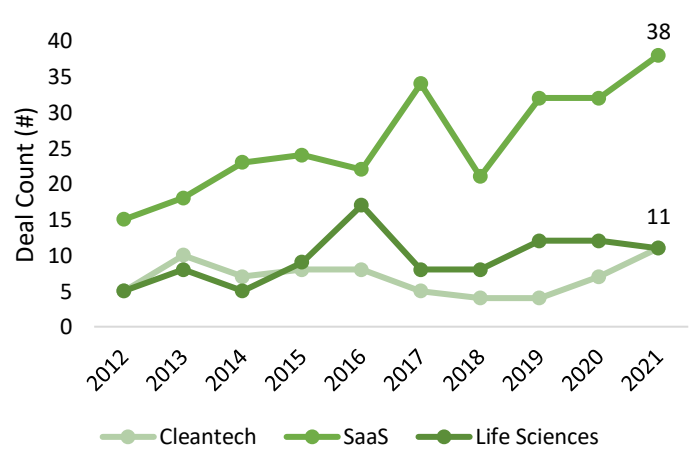
Prominent Verticals in Arizona

Arizona venture capital activity is heavily concentrated within a few verticals, with SaaS significantly outpacing all other verticals. 2021 saw investors pour nearly \$830 million into SaaS deals, a remarkable growth YoY of 274%. Cleantech also saw notable increases, accumulating \$143 million in deal value across 11 deals. Life Science is starting to pick up in Arizona, with vastly more support from state and research institutions to develop novel ventures.

SaaS remains as the driving force for Arizona



SaaS and CleanTech surpass pre-pandemic levels



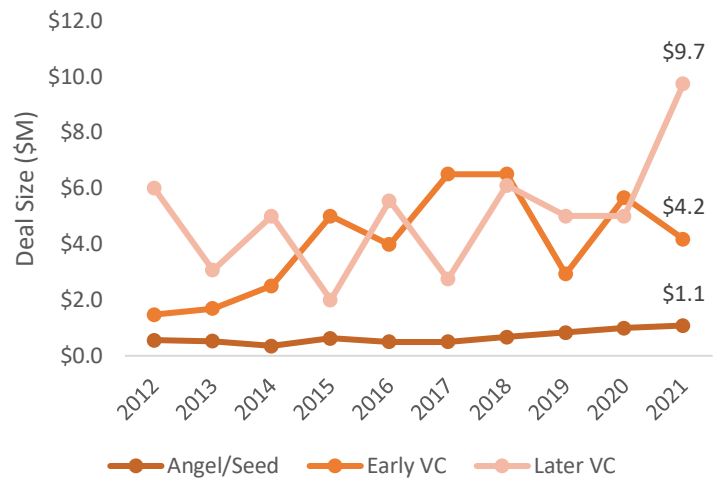
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Median Deals, Valuations, and Exit Activity

Median Deal Size

The Arizona venture capital ecosystem produced mixed results in median deal size gains. Change in angel investments recorded a slight increase, bringing the median to \$1.1 million. In contrast, Early-Stage deals posted a \$1.5 million decrease in median round size to come in at \$4.2 million. Since reaching their peak in 2017 and 2018, early staged deals have remained at lower levels. Late Staged deals saw a sizeable increase in deal valuations with a \$9.7 million median deal size, representing a 97% increase year over year.

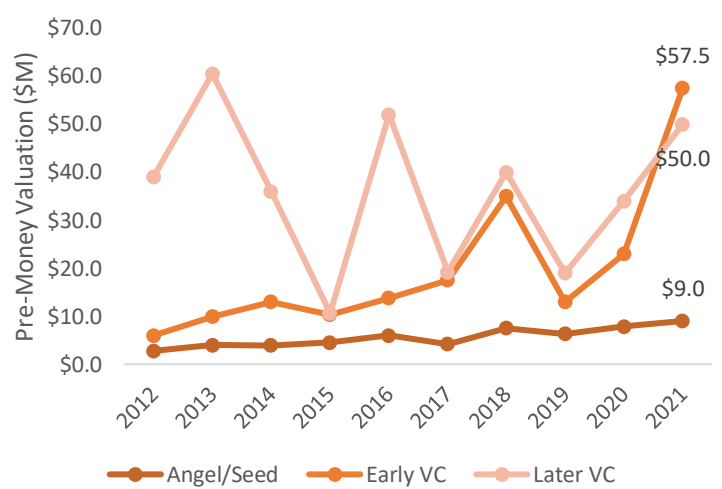
Arizona Median Deal Size (\$M) by Type



Pre-Money Valuations

While median deal size changes were varied across all stages, all pre-money valuations increased in 2021. The median pre-money valuation for an angel stage company was \$9 million, increasing roughly by 12%. The largest growth year-over-year can be observed in Early-stage deals, where a \$57.5 million median valuation represents a 150% increase from 2020. Later stage companies also reported an increase of 47% in median values to come in at \$50 million. Early-stage and late-stage deals inverted in 2021 for the first time after coming strikingly close in the past.

Arizona Pre-Money (\$M) by Type

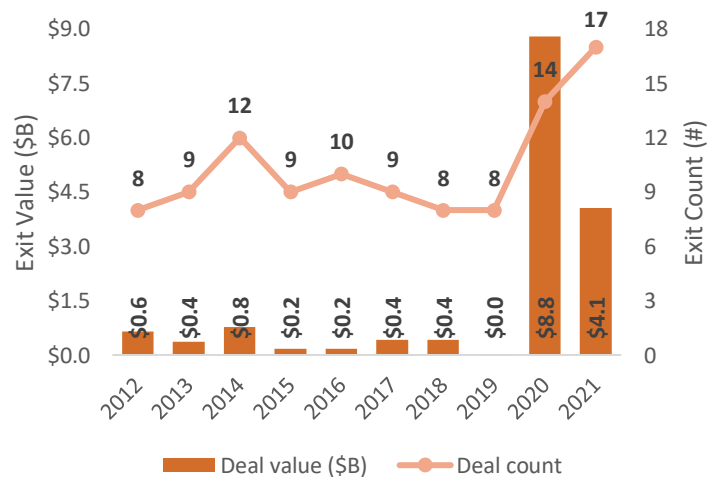


On the national level, only early-stage deals posted comparable pre-money valuations to those of other notable VC hubs, Arizona’s early-stage median of \$57.5 million was higher than New York and Seattle, both of which posted \$50 million medians. Angel, seed, and late stage all fell substantially behind notable VC hubs.

Exit Activity

Coming out of a hot exit ecosystem in 2020, exit aggregates fell by half in 2021, totaling \$4.1 billion. After a decade of moderate levels of activity, where exit value routinely totaled well below \$1 billion, the 2020 and 2021 aggregates are truly breakout values of remarkable proportions. Exit deal count sits at 17, almost double the 2010-2020 average. A positive sign for the state, as more startups are choosing to remain local through the entire venture capital funding and company development process.

Arizona Exit Activity (\$B)



Source: PitchBook |*As of June 10, 2022

Local Ecosystem Players

Arizona Top Seed Investors by Deal Count

Investor Name	Investor HQ State	Investor HQ City	Deal Count (#)
Desert Angels	Arizona	Tucson	3
PHX Ventures	Arizona	Scottsdale	3
Arizona Tech Investors	Arizona	Mesa	2
Stout Street Capital	Colorado	Denver	2
1984 Ventures	California	San Francisco	1
Alpha Bridge Ventures	California	Alameda	1
Avanta Ventures	California	Mountain View	1
Bloomberg Beta	California	San Francisco	1
Breslow Forsythe Group	Illinois	Chicago	1
Cardinal Ventures	California	Stanford	1

1/1/2021 - 12/31/21

Arizona Top Early Stage Investors by Deal Count

Investor Name	Investor HQ State	Investor HQ City	Deal Count (#)
Fifth Wall	California	Marina Del Rey	2
General Catalyst	Massachusetts	Cambridge	2
Khosla Ventures	California	Menlo Park	2
Navitas Capital	California	Los Angeles	2
Parkway Venture Capital	New York	New York	2
1984 Ventures	California	San Francisco	1
9Yards Capital	California	San Francisco	1
Agya Ventures	New York	New York	1
Ali Capital	California	San Francisco	1
Alumni Ventures	New Hampshire	Manchester	1

1/1/2021 - 12/31/21

Grants by Government Organizations

Research institutions and universities in the state of Arizona received considerable amounts of funding from key government agencies. The University of Arizona was awarded \$166 million in research funding from the National Institute of Health, as more than \$133 million went towards the University's Life Sciences department alone. Meanwhile, Arizona State University was funded close to \$75 million by the National Science Foundation.

University Name	NIH	NSF	DOE
Arizona State University	\$ 60,606,416	\$74,637,000	\$5,414,936
Northern Arizona University	\$ 12,997,278	\$16,018,000	\$1,657,146
University of Arizona	\$166,243,166	\$49,584,000	\$4,036,110

FY 2021*

Research Institutions and Technology Transfer Programs

Arizona State University:

Unlike numerous Technology Transfer programs across the nation, Arizona State utilizes a separate corporate entity by facilitating activities through [Skysong Innovations](#) as its main driver of commercialization. Skysong Innovations works as a proxy for the school and has produced faster commercialization opportunities and licensing deals than other universities. ASU was named the [#1 innovation school by US News](#) for the seventh year in a row as of 2021. The program has had over \$999 million in capital raised, more than 1100 patents issued, and 180+ startups launched. All of which has left a meaningful impact on the state's innovation and venture capital ecosystems.

University of Arizona:

[Tech Launch Arizona](#) places students, faculty, alumni, and the business community together to maximize the commercial opportunities to further academic research. The program aims to commercialize key technological research and developments and has helped inventors receive more than 450 patents and licensing opportunities. Offering a full suite of services from an early-stage development, research, commercial prospects, and even aid in SBIR and STTR grant opportunities. Tech Launch Arizona reported that from 2016 to 2021, they have generated \$1.6 billion in economic development activities, most notably supporting 2500 jobs. The 2021 fiscal year saw 17 startups launched, with more than 100 patents and \$8.6 million generated from royalties and licensing.

Northern Arizona University:

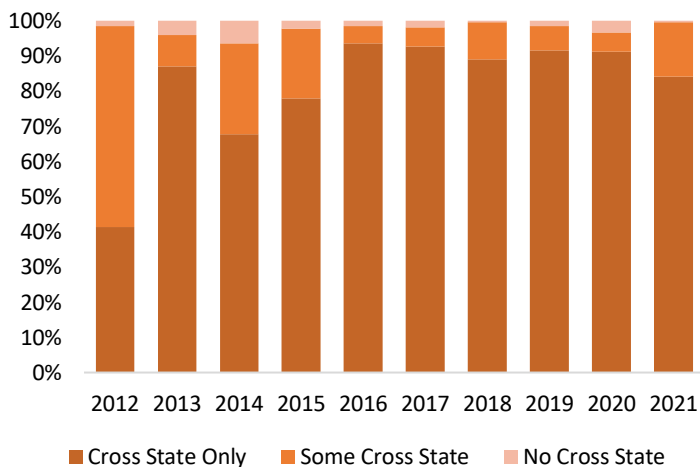
The Technology Transfer office and the [NAU Innovations](#) program have been instrumental in the commercialization process for students, faculty, and researchers at NAU. Primarily focusing on the transformation of research within biotechnology, cybersecurity, energy, engineering, and robotics fields of study. A key component of the program is to pair researchers with industry partners to accelerate the real-world developments of projects.

Geographic Analysis of Investments

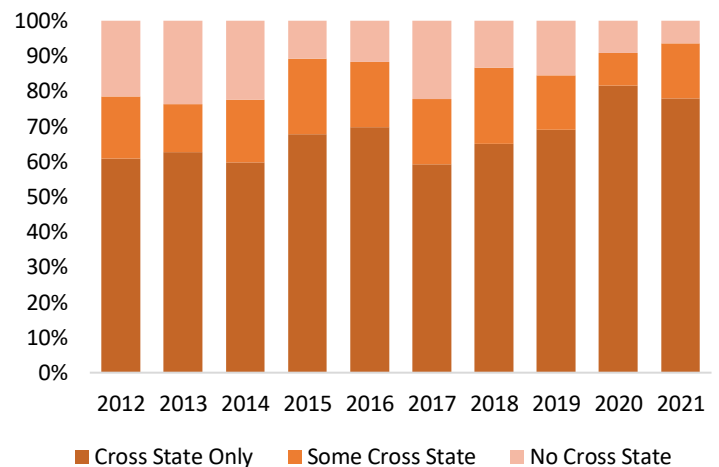
VC Cross State activity

As Arizona's venture activity has grown, its local investment share has not scaled at the same rate. As is similar in many states outside the traditional venture capital hubs, sustainable amounts of local funding have been absent in the state, as more than 95% of the funding has cross-border investment (meaning the capital originates out of Arizona). Nearly \$1.4 billion of total investments originated from solely cross-state investors. Of the deals that disclosed investor location data, 94% of investments deal count had some level of cross-state activity as well, a clear indication that the Arizona VC ecosystem is heavily influenced by other regions. While programs like the Angel Tax incentives and other incentives to increase funding have been important starts, the state still lags when comparing it to more established regions. While the state and region are aggressively pursuing the creation of a national technology hub in the Phoenix metropolitan area, increasing local venture capital activity is also needed to provide the investment capital to scale startup ventures to more mature companies.

Arizona Cross State VC deal activity (\$) by Investor Location



Arizona Cross State VC deal activity (#) by Investor Location



Concluding Analysis

The Arizona venture capital ecosystem has radically transformed in the past decade and is becoming an emerging national player. Strong growth in activity and continued development at every stage has had profound effects on the state's economic development. A combination of capital inflows from cross state investors, a strong pipeline of innovations from universities, and continued government incentives have provided Arizona with a strong base to scale. Further developments are still needed to place Phoenix into comparable territory as neighboring VC hubs such as Denver and Salt Lake.

2022 is unfolding to be a challenging year for Venture Capital activity within the US, and Arizona is not exempt. However, so far this year the state has already produced 62 deals at the time of writing and is roughly on pace with 2021's Q1 and Q2 results. Exit activity is likely to take another large hit in 2022, as market volatility is delaying numerous IPOs and forcing later staged venture deals to come to a sharp halt. These issues are requiring startups to pursue alternate funding strategies and will likely persist for the foreseeable future. While issues within the national VC ecosystem are bound to affect the state, Arizona is still situated in a strong spot with a vast pipeline of innovative startups that will continue to elevate the state.

Source: PitchBook |*As of June 10, 2022

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

Investing from early stage to exit



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.

Mike Freeman, General Partner, Innosphere Fund: Mike@innospherefund.com

Startups are encouraged to apply online: www.innosphereventures.org