

INNOSPHERE VENTURES' REVIEW OF THE  
**NEW MEXICO VENTURE CAPITAL  
ECOSYSTEM**

2022

# 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 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 New Mexico:

- 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.
- 2021 saw New Mexico return to record levels of deal activity, producing more than 40 different deals for the very first time. However, cumulative deal value and local capital still keeps New Mexico lagging its neighbors.

We will continue to strive to support the Mountain and Plains region by investing in businesses in the middle of the US and by 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 within the first 5 years of the founding date. Series C and beyond represent late-stage investment activity. Unless otherwise noted, investments refer to venture capital invested in New Mexico-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.

## New Mexico VC Activity

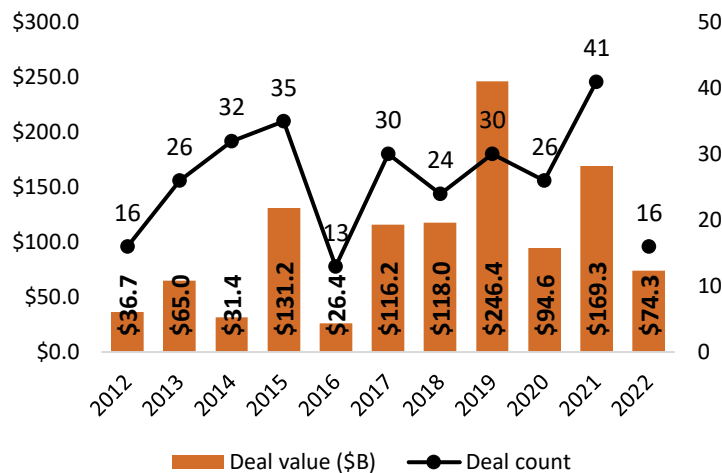
The New Mexico venture capital ecosystem returned to near-record levels of activity in 2021, startups and VC's conducted 41 different deals and generated \$169.3 million in cumulative deal value. The substantial increase in activity helped the state surpass the previous activity record set in 2015, in which 35 deals occurred. Increases in cumulative deal value represents a 79% year-over-year growth and a 58% increase in total deal count. Deal flow showed strong and consistent growth, local fundraising within the state has not experienced the same demand, as only two private VC's conducted a raise in 2021.

Fundraising for new funds has been an issue that has continually challenged local VCs for the past decade. As a result, the statewide AUM totaled \$78.8 million and annual fundraising by private VC firms was only \$7 million. In recent years, numerous measures have been taken by the state government to incentivize and stimulate venture activity. [The New Mexico State Investment Council](#) has helped fuel private investments within the state and has undergone improvements, which has bolstered demand for venture activity. To make equity funding more readily available for startups, two programs were established: the [New Mexico Private Equity Investment Program](#) (NMPEIP) and the [New Mexico Catalyst Fund](#), run by Sun Mountain Capital. The Catalyst fund began in 2016 and is a Fund of Funds (FoF) focused on providing capital to New Mexico based VCs who show a preference and commitment to invest directly into local early-stage startups.

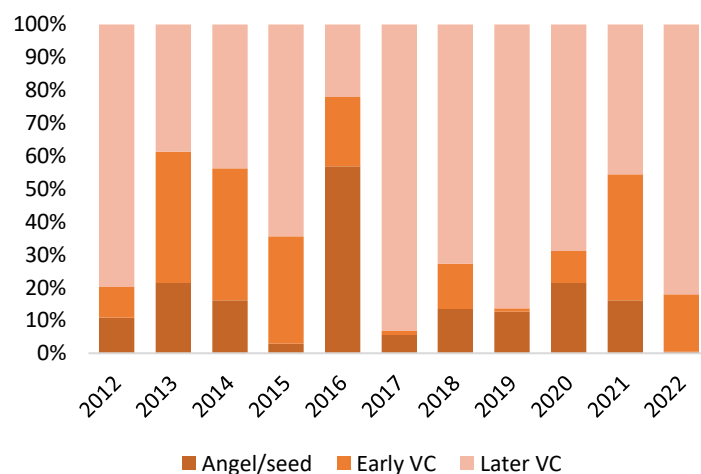
Angel and Seed stage deals totaled \$27 million and produced 21 total deals in 2021, representing a 35% increase in cumulative value and a 91% growth in deal count. Early-stage startup funding grew substantially from the prior year as deal value topped \$65 million across 10 deals, representing a 598% increase in deal value. Late-stage deals increased by 19% to reach \$77 million over 10 different deals, the only stage to not see an increase in deal activity. Per capita VC funding was \$80 in 2021, substantially below the Mountain-Plains average of \$358. For comparison, neighboring states Colorado and Utah received more than \$1000 of venture funding per person.

The most prominent venture capital deal of the year was [Sceye](#), a manufacturer of high-tech airships, which raised a \$50 million late-stage VC deal to place its post money valuation at \$449 million. [Pebble Labs](#), based out of Los Alamos, produced the next most significant deal in 2021, raising \$18.7 million in a Series A round. The top ten deals within the state produced \$128.21 million in cumulative deal value, nearly 76% of all statewide deal value last year.

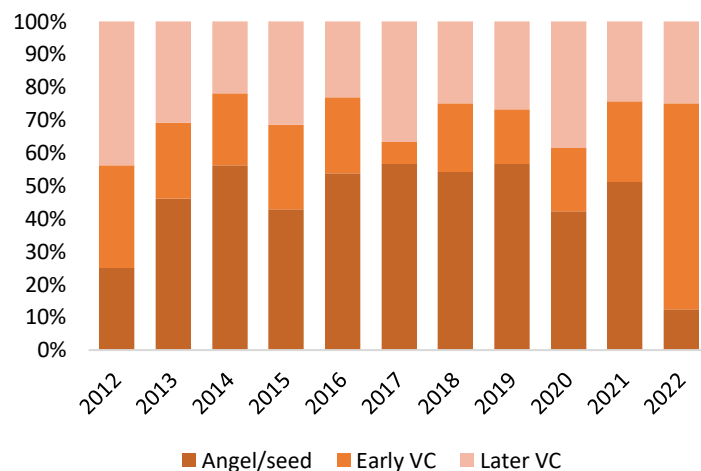
### New Mexico VC Deal Activity



### New Mexico VC Deal Activity (\$) by Type



### New Mexico VC Deal Activity (#) by Type



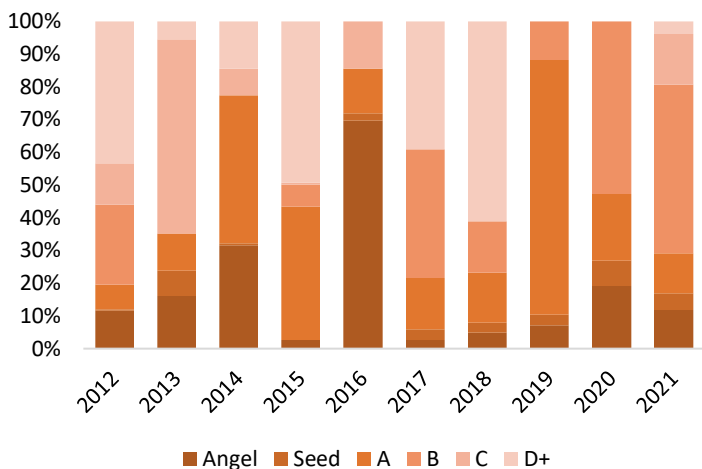
Source: PitchBook | \*As of July 7, 2022

# New Mexico VC by the Numbers

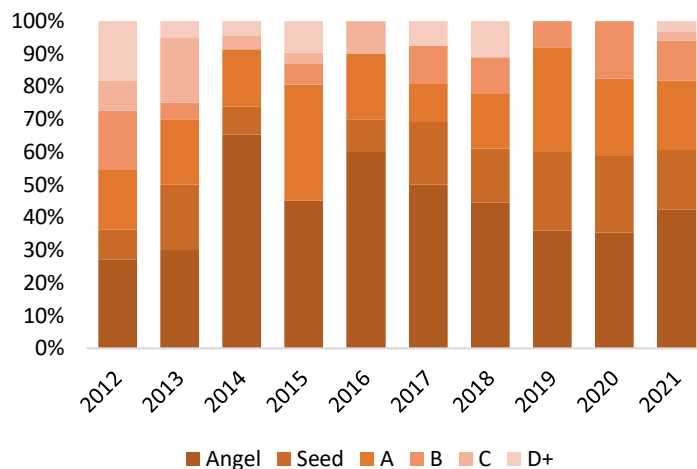
## Investment Breakdown by Series

According to the investment data disclosed by PitchBook, Angel and Seed rounds have generally accounted for the majority of total activity levels over the past decade, while cumulative deal value has usually stemmed from later rounds. The most active round in terms of deal count was the Angel series, as 14 different deals were conducted in the state and \$18 million in startup capital was deployed. Series B produced the most deal value for the second year in a row and produced nearly half of the cumulative deal value within the state.

**New Mexico VC Deal Activity (\$) by Series**



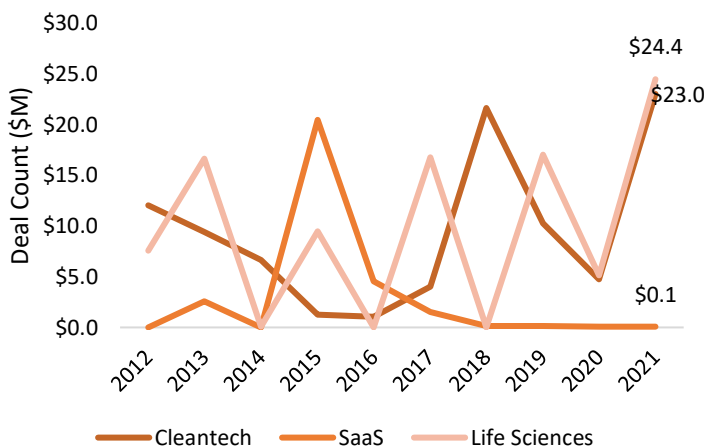
**New Mexico VC Deal Activity (#) by Series**



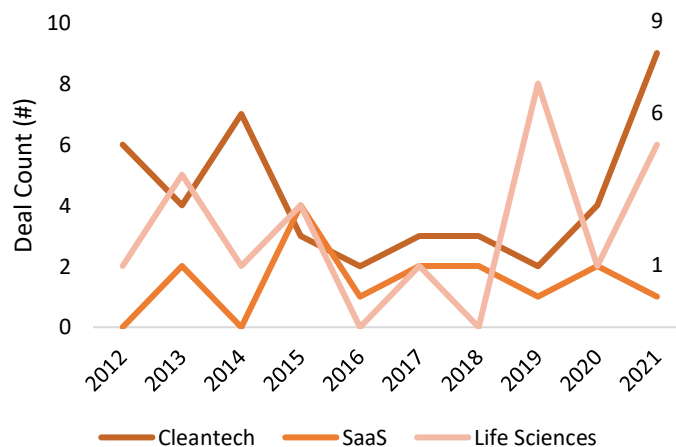
## Prominent Verticals in New Mexico

The cleantech and life sciences verticals experienced tremendous growth last year, as Cleantech specifically led the state in total funding and deal activity. 2021 deal value within the vertical more than quadrupled, receiving \$23 million in venture capital financing and activity reached nine total deals, doubling from 2020's values. Life Sciences produced \$24 million in venture financing across six different deals, an astonishing increase of 350% in deal value and 67% in deal count. SaaS remained at low levels as it only completed one deal. The vertical peaked in 2015 and has gradually declined in both deal value and count.

**CleanTech and Life Sciences reach new highs**



**CleanTech takes the lead in deal count**



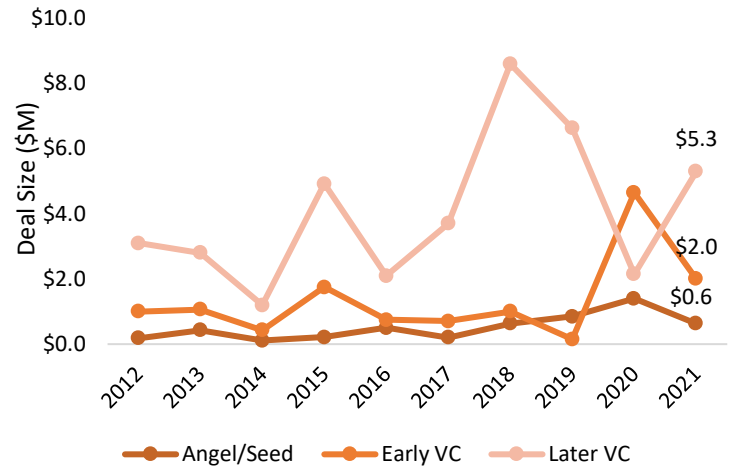
Source: PitchBook | \*As of July 7, 2022

# Median Deals, Valuations, and Exit Activity

## Median Deal Size

In recent years, the median deal value has seen moderate levels of variation. Angel and Seed stages witnessed a material decline in 2021, coming in low at \$637 thousand, down 54% from \$1.4 million in 2020. The early stage VC also experienced a decrease in the median deal value of 57% year to year, resulting in a \$2 million median. Early staged VC deals experienced a dramatic spike in 2020, placing the stage above subsequent rounds. The only stage to show an increase in median deal size were late staged startups, as the median increased 147% to \$5.3 million. The increase in deal sizes reinverted early and late VC stages, placing late stages back above earlier rounds.

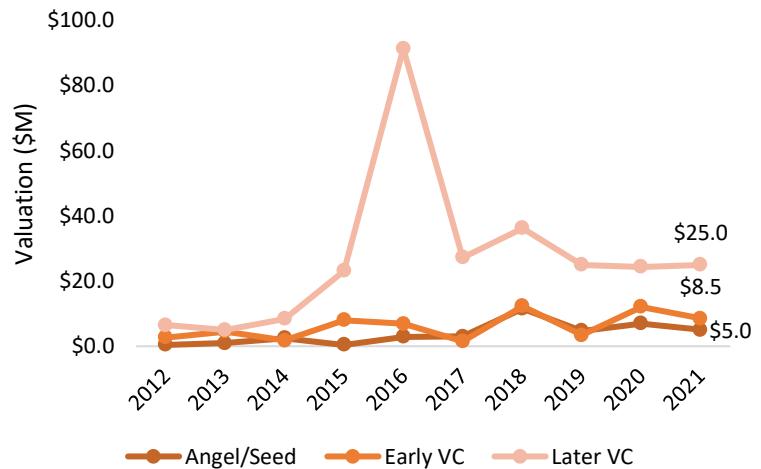
New Mexico Median Deal Size (\$M) by Type



## Pre Money-Valuations

Other than the dramatic spike that late-stage startups experienced in 2016, pre-money valuations have generally stayed consistent over the past five years. In 2021, Angel and Seed stages yielded a \$5 million pre-money valuation, down from \$7 million the year prior, while early-stage valuations decreased to \$8.5 million. Decreases in both stages of valuations represent a 29% drawback from the year prior. Later stage valuations were the only stage to increase, as 2021 pre-money valuations reached \$25 million. Every stage of the New Mexico VC ecosystem lags prominent VC hubs and neighboring states by sizeable margins.

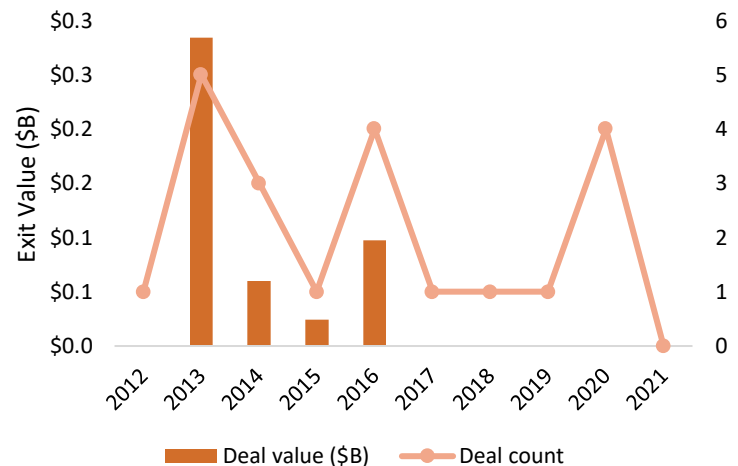
New Mexico Median Pre-Money Valuation (\$M) by Type



## Exit Activity

As other areas of the venture capital ecosystem have made progress, exit activity has remained relatively low over the past decade. Activity spiked in 2013 and has produced few deals in the years following, since 2016, the state has only experienced seven total exits. Although data pertaining to the value of the exit deals has not been disclosed, it is still clear that based on activity, the New Mexico exit ecosystem is very limited. More developments are needed to ensure more venture backed startups receive the resources and funding required to reach an exit stage.

New Mexico Exit Activity (\$B)



Source: PitchBook | \*As of July 7, 2022

# Local Ecosystem Players

New Mexico Top Seed Investors by Deal Count

Investors	Investor HQ State	Investor HQ City	Deal Count (#)
Arrowhead Innovation Fund	New Mexico	Las Cruces	3
GOS Capital	New Mexico	Albuquerque	2
Ingenuity Venture Fund	New Mexico	Albuquerque	2
Kickstart Seed Fund	Utah	Cottonwood Heights	2
Boeing HorizonX Global Ventures	Illinois	Chicago	1
CerraCap Ventures	California	Costa Mesa	1
Cottonwood Technology Fund	New Mexico	Santa Fe	1
Hearst Ventures	New York	New York	1
Lightspeed Venture Partners	California	Menlo Park	1
MicroVentures	Texas	Austin	1

1/1/2021-12/31/21

New Mexico Top Early Stage Investors by Deal Count

Investors	Investor HQ State	Investor HQ City	Deal Count (#)
Arrowhead Innovation Fund	New Mexico	Las Cruces	4
New Mexico Angels	New Mexico	Albuquerque	3
Phoenix Venture Partners	California	San Mateo	2
Addvia Ventures	Delaware	Lewes	1
Gaingels	Vermont	Burlington	1
Graph Ventures	California	Palo Alto	1
Ingenuity Venture Fund	New Mexico	Albuquerque	1
Kickstart Seed Fund	Utah	Cottonwood Heights	1
One Ten Capital	New Mexico	Albuquerque	1
Small World Group	California	San Francisco	1

1/1/2021-12/31/21

## Grants by Government Organizations

The two prominent universities in New Mexico benefitted greatly from government funding in 2021. The University of New Mexico received the most funding, with an impressive \$86 million in awards from the [National Institute of Health](#), which was designated for the University's medical school. While New Mexico State University received just over \$10 million in awards. The [National Science Foundation](#) also provided UNM with over \$30 million in funding awards, while New Mexico State received \$7.6 million from the NSF as well. The funding awards have helped the universities fuel innovation and novel research developments that oftentimes have led to startup creation.

University Name	NIH	NSF	DOE
University of New Mexico	\$ 86,085,290	\$ 30,191,000	\$ 640,002
New Mexico State University	\$ 10,031,109	\$ 7,656,000	\$ 307,000

FY 2021\*

## Research Institutions and Technology Transfer Programs

### University of New Mexico:

Founded in 1996, UNM [Rainforest Innovations](#) is a non-profit entity owned by the University of New Mexico Board of Regents with a primary goal to foster innovation and create economic development for the state. UNM Rainforest Innovations have worked endlessly towards its mission by protecting technologies developed at UNM, helping clients create new companies, and transferring such technologies to the newly formed entities. While also connecting businesses to aid in development to further the economic impact on the state. In 2021, the program received 81 disclosures, had 54 patent issues, six startups, and over \$55 million in licensing revenue.

### New Mexico State University:

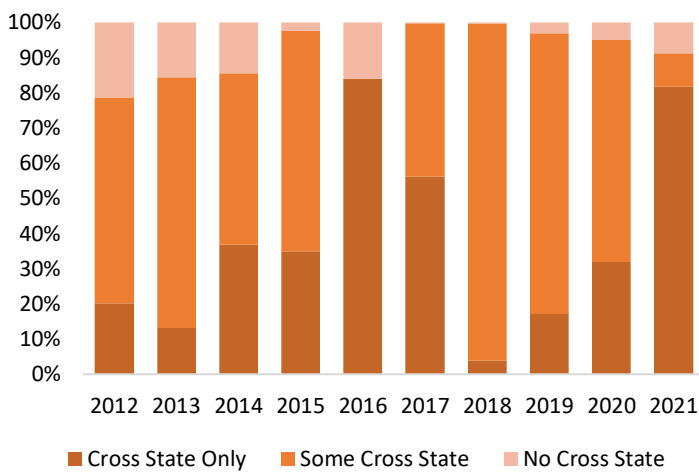
The [Arrowhead Center's](#) goal is to create economic development by utilizing the innovative ideas from New Mexico State research and developments. In the fiscal year 2021, the Arrowhead Center had an economic output of \$334.8 million, helped create 1,819 jobs, and client startups received \$28.5 million in public and private funding. Arrowhead's extensive 5-part technology protection process ensures inventors and researchers the best opportunity to commercialize their work.

# Geographic Analysis of Investments

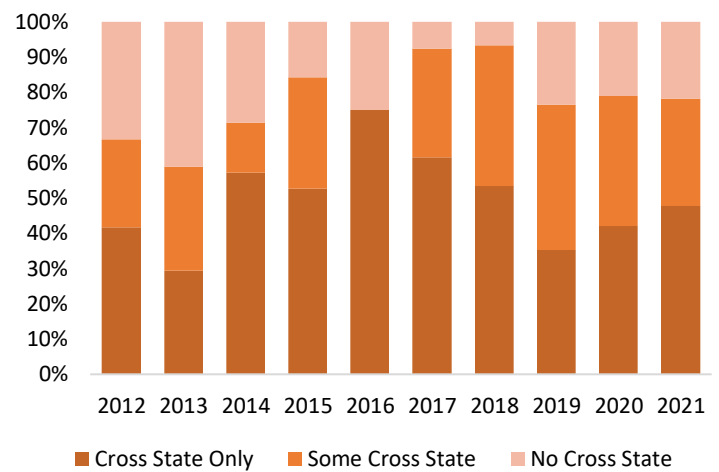
## VC Cross State activity

Like other Mountain and Midwestern states, 2021 was dominated by out-of-state investors, as cross-state engagements heavily controlled both deal value and deal count. Nearly 90% of all the cumulative deal value generated had origins from at least one non-local investor, while 80% of all deal activity had participation from non-local investors as well. Low levels of local capital within New Mexico have made the state incredibly reliant on out-of-state investors, a problem that has been only reinforced by the limited levels of fundraising by private New Mexico VCs. While New Mexico tries to promote private funding with the creation and expansion of government backed incentive and funding programs, a significant gap still exists between local VCs and startups. This is an issue that needs to be immediately addressed. The heavy reliance makes the state's ecosystem more prone to drawbacks on the national level.

**New Mexico Cross State VC deal activity (\$) by Investor Location**



**New Mexico Cross State VC deal activity (#) by Investor Location**



## Concluding Analysis

The state of New Mexico has made impressive changes to its Venture Capital ecosystem over the past decade. Yet New Mexico still suffers from low local VC funding activity and a lack of local capital that places a significant bottleneck on investments. This creates a dynamic that has resulted in the state relying heavily on outside VC firms to meet funding demands. Further developments of a more robust late-stage VC environment will be needed to ignite an active exit ecosystem within the state, as currently, both areas are vitally weak. State investment incentives have been expanded as state officials recognize the importance of venture capital's role in economic development.

Looking forward into 2022 and 2023, economic conditions are unfolding that will more than likely drastically impact national venture capital activity, which will affect New Mexico. The VC ecosystem relies heavily on out-of-state capital; as a result, any slowdown in coastal or notable VC hubs will likely be felt in New Mexico. As of July 7<sup>th</sup>, 2022 has produced 16 deals and \$100 million in deal value, yet future activity will likely slow down, especially with limited local capital from VCs to directly support startups. To avoid similar devastating consequences of the 2008 global financial crisis, where venture funding essentially came to a complete stop, the state has implemented numerous improved investment programs to combat such drawdowns.

Source: PitchBook | \*As of July 7, 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.

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Founders of high-tech startups are encouraged to apply online: [www.innosphereventures.org](http://www.innosphereventures.org)

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