

INNOSPHERE VENTURES' REVIEW OF THE
**TEXAS 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 Texas:

- 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.
- Texas venture capital investments produced extraordinary growth in 2021, to propel the state past \$9 billion in cumulative deal value and reach more than 750 total deals. Increased demand has largely been driven by up-and-coming VC hubs, such as Austin, where billions of venture dollars are flowing annually.

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 Texas-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.

Texas VC Activity

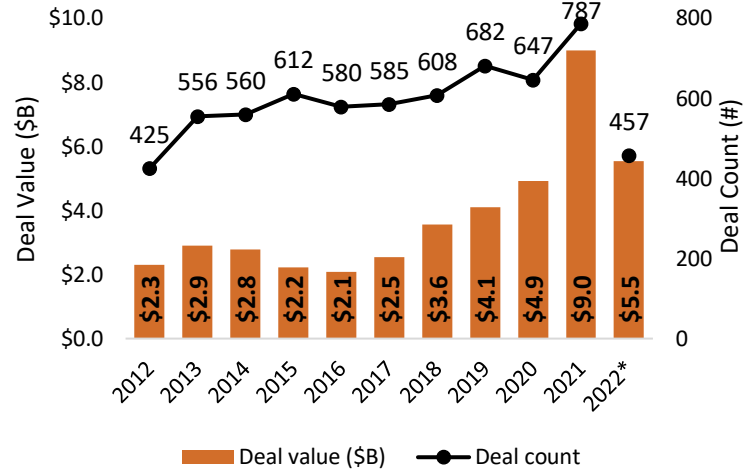
The lone star state produced extraordinary venture capital results in 2021, as deal value and activity increased dramatically year-over-year, further solidifying its place as the largest mountain-plains VC ecosystem. Cumulative deal value reached \$9 billion across 787 different venture deals, reaching an all-time high for the state. Deal value increased by 83% and deal count by 22%, resulting in an average round size of \$11.4 million

The state has become a notable venture capital investment destination, as up and coming tech cities like Austin continue to attract billions in venture funding alone. Its emerging presence on the national scale has enticed Silicon Valley and large VCs to strategically open regional offices in proximity, to strengthen their deal flow and relations with local entrepreneurs. The City of Austin produced \$4.95 billion of the total deal value alone, which accounts for more than half of all deal value, as the city continues to lure more technology companies and investors into the area. At the end of 2021, statewide AUM totaled at \$12.9 billion, and the state had conducted \$4.3 billion in private venture capital fundraising.

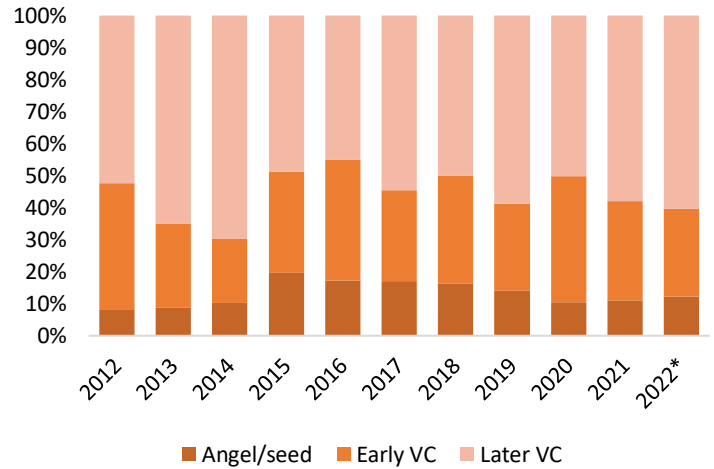
Breaking another major milestone, Angel and Seed stage deals totaled \$1 billion across 349 deals, an annual increase of 94% for deal value. Early-stage VC produced just under \$2.8 billion over 168 deals, increasing year to year cumulative deal value by nearly \$1 billion, a key indicator of the tremendous growth in the Texas ecosystem. However, late-stage deals were the biggest winners of 2021, as deal value soared by 112% to reach \$5.2 billion and deal count hit 228, breaking the 200-deal milestone for the first time. Last year, late-staged deals generated more venture capital funding than the entire state produced in 2020, largely thanks to an increase in mega deal frequency and an increase in high levels of demand for Texan startups. Venture funding per capita is \$305, considerably above the mountain plains regional average of \$162, but still lags in contrast to a few neighboring states like Colorado and Utah, who receive more venture funding per resident and own values more than \$1000. However, the city of Austin, the center of the Texas’s VC activity, has a per capita funding rate of over \$5,000.

The largest deal of the year came from [LTK](#), a startup focusing on content monetization, raised a \$550 million late-stage round. [Homeward](#) was the largest early-stage deal of the year, as the Austin based startup completed a \$371 million series B financing round. More than \$2.5 billion came from the largest 10 deals of 2021.

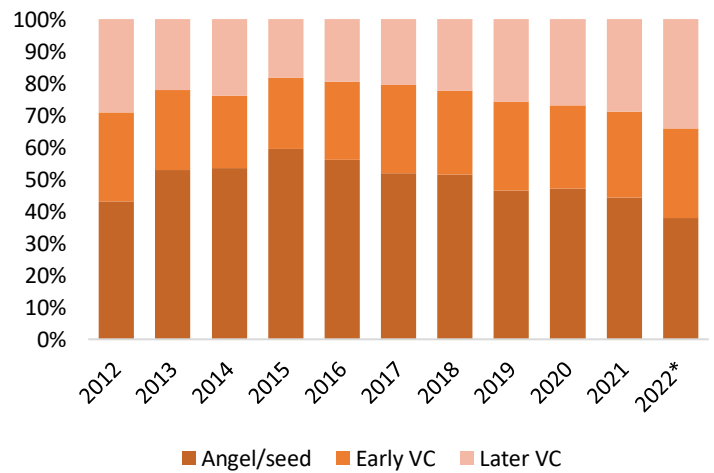
Texas VC Deal Activity



Texas VC Deal Activity (\$) by Type



Texas VC Deal Activity (#) by Type



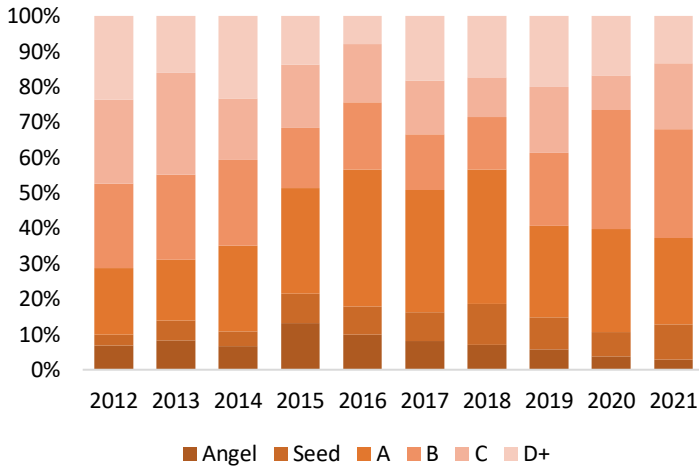
Source: PitchBook | *As of July 28, 2022

Texas VC by the Numbers

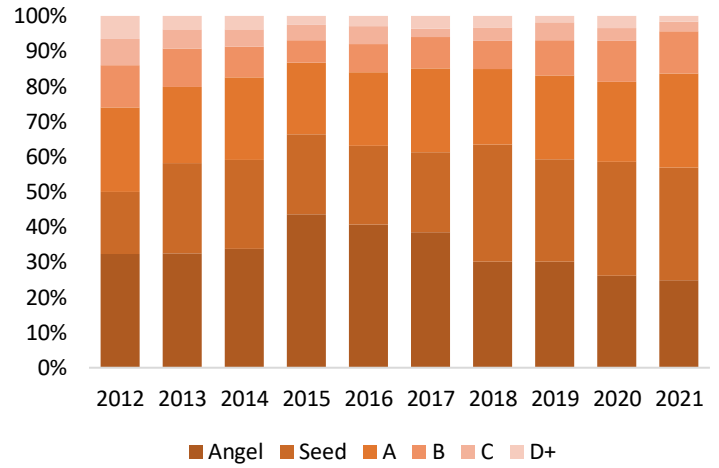
Investment Breakdown by Series

According to the investment data with deal rounds disclosed on PitchBook, Angel and Seed rounds have been the backbone of activity, with Seed investments posting 186 deals alone. Series A has consistently posted more than 100 deals since 2013, reaching an all-time high of 156 deals last year. The largest source of deal value was created by round B, as the series generated \$2.2 billion in venture funding. Due to the overall size of the Texas VC ecosystem, D+ rounds are quite common, consistently posting more than 10 deals and since 2018 and has produced at least \$500 million every year. 2021 saw the cumulative deal value within D rounds explode, hitting \$1 billion.

Texas VC Deal Activity (\$) by Series



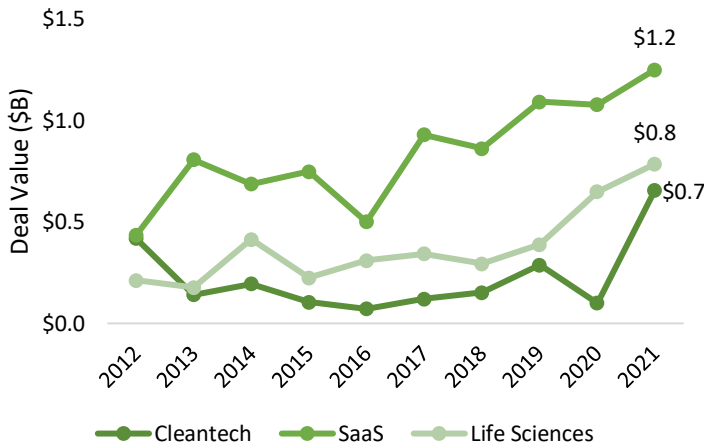
Texas VC Deal Activity (#) by Series



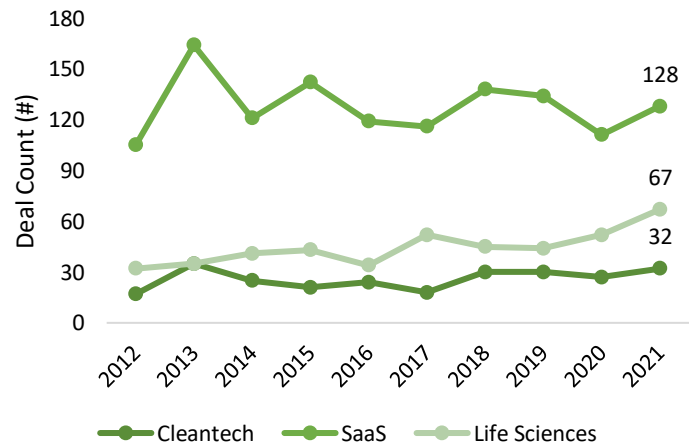
Prominent Verticals in Texas

All key verticals within the state produced higher cumulative results than the prior year, with SaaS startups leading the way. Texas based SaaS startups raised over \$1.2 billion in funding across 128 different deals, up nearly \$100 million from 2020. Life Science has seen a sizeable increase in demand over the last 4 years, totaling to \$800 million and 67 deals. Texas, the largest producer and refiner of oil and other fossil fuels, has also made noticeable increases in CleanTech funding. 2021 saw the largest growth rate in deal value with the vertical receiving over \$700 million, substantially up from about \$100 million the year prior, as deal count increased to 32.

CleanTech and Life Sciences reach new highs



All key verticals score gains in deal count



Source: PitchBook | *As of July 28, 2022

Median Deals, Valuations, and Exit Activity

Median Deal Size

As a result of the record-breaking levels of venture capital activity, all deal types produced significant increases in median deal sizes, especially seen in early-stage VC. Angel and Seed rounds saw an increase of about \$800 thousand, to bring 2021's median round size to \$1.9 million. Early-stage VC posted a median deal size of \$8 million, up nearly 38% from \$5 million the year prior. Late-stage deals came in at \$9.9 million, a year-to-year increase of 32%. The gains in median deal sizes experienced in 2021 are a direct indication of the increased demand for Texas based startups.

Pre Money-Valuations

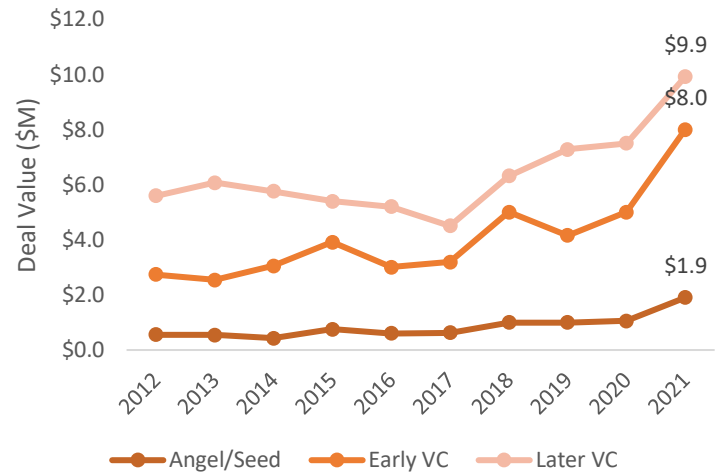
Texas based startups pre-money valuations all saw noticeable improvements, as larger median round sizes led to larger valuations across the board. Angel and Seed staged startups owned a median pre-money valuation of \$8.5 million, up \$1.5 million from the year prior. Early-stage startups saw the largest rate of annual growth, as the deal type produced a \$40 million median, indicative of an increase of 61% year-over-year. Late-stage deal types saw a \$1.3 million increase in valuations, to bring the stage type to \$41.3 million in 2021.

Comparing the median valuations of Texas startups to other notable VC hubs across the U.S., Angel and Seed rounds own the same median valuation as Boston, but trailed New York, San Francisco, and Seattle. Early and Late stage deals also trailed the mentioned group of VC hubs, with late-stage deals significantly lagging the group's average of \$158 million median pre-money valuation.

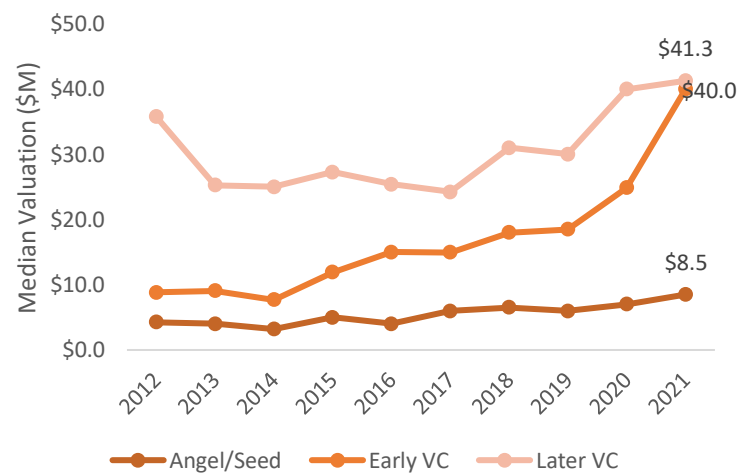
Exit Activity

The exit ecosystem was in full swing in 2021, as more than \$11.5 billion in exit value was created across 82 different deals. The cumulative exit activity smashed the previous record set in 2019 of \$5.6 billion in exit value across 72 total exits. Year-over-year, Texas increased cumulative exit value by 248% and exit count increased by 49%. Every year of the past decade, the state has posted more than \$1 billion in exits, an important indicator that investments within the state are consistently able to produce returns to the investors. The median time to exit after first financing was 2.86 years, up slightly from the prior year.

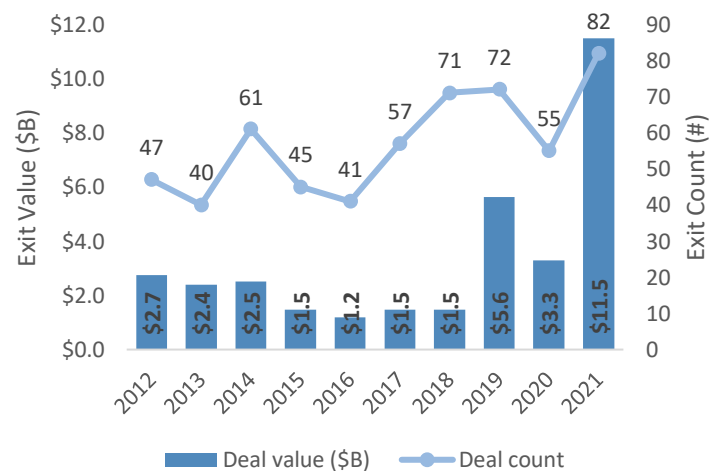
Texas Median Deal Size (\$M) by Type



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



Texas Exit Activity (\$B)



Source: PitchBook | *As of July 28, 2022

Local Ecosystem Players

Texas Top Seed Investors by Deal Count

Investors	Investor HQ State	Investor HQ City	Deal Count (#)
Alumni Ventures	New Hampshire	Manchester	10
Capital Factory	Texas	Austin	9
LiveOak Venture Partners	Texas	Austin	6
Active Capital	Texas	San Antonio	5
Gaingels	Vermont	Burlington	5
Precursor Ventures	California	San Francisco	5
Right Side Capital Management	California	San Francisco	5
Cortado Ventures	Oklahoma	Oklahoma City	4
Ecliptic Capital	Texas	Austin	4
Geekdom Fund	Texas	San Antonio	4

1/1/2021 - 12/31/21

Texas Top Early Stage Investors by Deal Count

Investors	Investor HQ State	Investor HQ City	Deal Count (#)
LiveOak Venture Partners	Texas	Austin	6
Alumni Ventures	New Hampshire	Manchester	5
Gaingels	Vermont	Burlington	5
Breyer Capital	California	Menlo Park	4
Next Coast Ventures	Texas	Austin	4
Silverton Partners	Texas	Austin	4
Active Capital	Texas	San Antonio	3
Andreesen Horowitz	California	Menlo Park	3
Automotive Ventures	Georgia	Atlanta	3
Calm Ventures	New York	New York	3

1/1/2021 - 12/31/21

Grants by Government Organizations

Government funding awards are a key element of the innovation ecosystem, as often these funding opportunities help researchers develop innovations that fuel future commercial endeavors. Texas based universities received substantial levels of government funding in fiscal year 2021, with the University of Texas Austin leading the way. UT Austin received more than \$115 million from the [National Science Foundation](#) alone, and over \$84 million from the [National Institute of Health](#). The UT Austin also was awarded just under \$21 million from the [Department of Energy](#) last year. The campuses that make up Texas A&M brought in \$58 million from the NIH and nearly \$29 million from the NSF. Texas Tech University was the recipient of \$15.9 million from the NIH as well.

University Name	NIH	NSF	DOE
University of Texas - Austin	\$ 84,212,111	\$ 115,728,000	\$ 20,960,726
Texas A&M	\$ 58,398,166	\$ 28,857,000	\$ 6,448,886
Texas Tech University	\$ 15,958,276	\$ 8,661,000	\$ 1,643,609

FY 2021*

Research Institutions and Technology Transfer Programs

University of Texas at Austin:

The [Texas Innovation Center](#) is the department responsible for advancing science and engineering research into real world applications and marketplaces. The Texas Innovation center comprises of multiple cross functional offices, such as tech transfer, the Austin Technology Incubator, and much more. In the fiscal year of 2020, the program had 52 new inventions disclosed, 24 patents issued, 3 startups formed, and \$183 thousand in licensing revenue from university IP.

Texas A&M:

The [Innovation Partners](#) program mission is to provide educational opportunities for faculty researchers to translate their research innovations into the marketplace successfully. The program has a wide range of educational content that enables a smooth transition into the commercialization process. As of the most recent annual report for fiscal year 2020, the program had 47 different inventions disclosed, 14 licenses agreed on with corporate partners, 54 patents filed, and 26 new patents successfully awarded.

Texas Tech University:

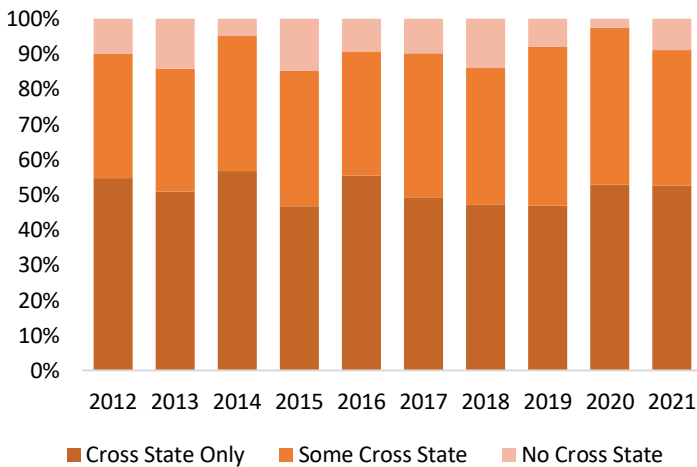
The university wide innovation ecosystem at Texas Tech offers a top-of-the-line support system for faculty and student innovators. The [Office of Research Commercialization](#) mission is to support and help advance research and innovation through entrepreneurial education and small business development. In addition, Texas Tech has the [Innovation Hub at Research Park](#), a physical building solely focused on the nurturing and development of new startup ideas, as the program recognizes that over 80% of new jobs in west Texas jobs are created by startups. In 2021, the Hub program had 81 IP licenses, 6 new startups, and more than \$18 million in capital investments to startups.

Geographic Analysis of Investments

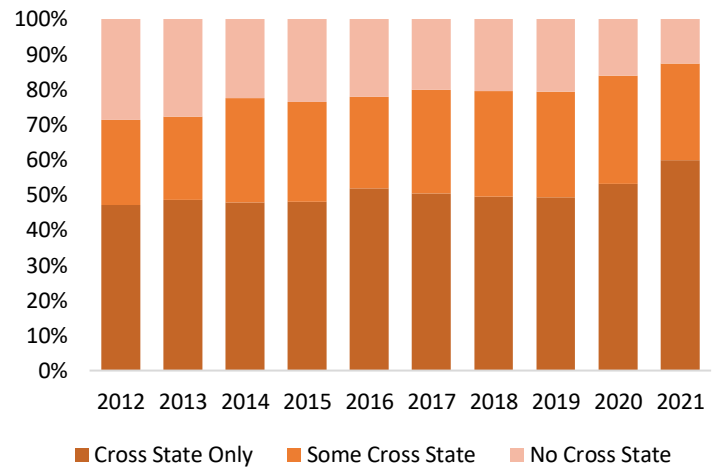
VC Cross State activity

Like many of the other states outside the coastal regions of the U.S., the state of Texas had significant influence from cross state investors, as according to the investor HQ location data disclosed on Pitchbook, nearly \$4.3 billion in venture funding originated solely out of state. An additional \$3.1 billion of the total capital had participation from at least one out of state investor, resulting in local investors controlling less than 10% of cumulative deal value with roughly \$700 million originating from local VC's. However, unlike other middle America states, out of state and local capital have scaled at nearly the same rates, resulting in the out of state capital consolidating around 45-55% of total deal value over the past decade. Deal activity has slightly trended towards more out of state investor participation, who in 2021, led 329 different deals and had some form of participation in 151 more. As the venture capital ecosystem has exponentially picked up steam, national level investors are taking notice and opening regional offices around key hubs, like Austin and Houston to be situated closer to the deal flow. The state of Texas provides many benefits to conducting business and is substantially less expensive than VC hubs on both coasts, giving rise to incredibly attractive investment opportunities.

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



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



Concluding Analysis

The state of Texas has made incredible gains to its VC ecosystem over the course of the past decade, as 2021's extraordinary performance was the culmination of years of developments. Cumulative deal value and count has consistently grown, as investor demand into Texas startups continues to grow, alongside it a booming exit environment has consistently generated meaningful returns to investors. Strong levels of activity within Angel, Seed, and Early stages have led to a robust startup environment that has created a strong pipeline of startups suitable to reach later deal stages. A challenge for the state will to increase local participation in the Texas VC ecosystem, as out of state investors control a clear majority of deal flow.

So far in 2022, funding has reached \$5 billion over 387 deals, showing great resistance to market trends despite a general slowdown in nationwide activity. Austin continues to lead the state in VC investments as it pulled in over \$3 billion in venture funding in the first half of 2022. While Texas cumulative deal value appears to be reaching record levels of deal value, count, and overall fundraising, there are still areas to improve to overall VC ecosystem. Increasing local participation and spreading outside of the Austin, Dallas, and Houston is critical, as the three cities account for roughly three out of four venture dollars in the state.

Source: PitchBook | *As of July 28, 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@innosphereventures.org

Founders of high-tech startups are encouraged to apply online: www.innosphereventures.org

Front Desk: 970.221.1301