

INNOSPHERE VENTURES' REVIEW OF THE
COLORADO VENTURE CAPITAL ECOSYSTEM
2023 Economic Forecast: Boulder and Beyond

January 2023

Data Provided by  PitchBook.

Introduction

As a 501(c)3 organization operating at the nexus of entrepreneurship, venture capital, and economic development, Innosphere Ventures has dedicated the past 25 years to fostering economic growth in Colorado. In the past year, we have taken the lead on two major initiatives - the EDA Build Back Better grant (finalist) and the National Science Foundation Regional Innovation Engines grant (submitted). The objective of applying for this type of transformational funding is to elevate our region to a world leader in R&D-intensive innovation and lift our region to top economic performance.

The Colorado Coalition (broad CO stakeholder group) identified initiatives to advance the regional innovation ecosystem in the EDA grant application. Colorado was a finalist in this competition but did not win. However, the roadmap outlined in the EDA grant is critical for Colorado to continue pursuing. The Colorado Coalition is not giving up, and the group will implement several significant initiatives in 2023, including:

- Continue to pursue transformative local and national funding to grow the Colorado innovation ecosystem
- Implement an integrated incubation program for pre-seed to early-scale startup ventures
- Build additional facilities to enhance R&D-intensive industries
- Advocate for regional innovation initiatives
- Enhance capital access for science and technology-focused companies

Access to capital is a crucial factor in the growth of a regional innovation ecosystem, and Innosphere closely tracks venture capital trends in our region. At the national level, venture capital has been performing exceptionally well recently, with investors and limited partners showing strong interest in the asset class.

In 2021, venture capital firms raised a record-breaking **\$162.6** billion, and VC-backed companies raised nearly **\$238.3** billion. However, a closer look at VC trends in 2022 reveals challenges for emerging innovation hubs like Colorado. The concentration of capital in established VC hubs like San Francisco and New York City continues, with approximately 50% of US deal value originating from these metropolitan areas. Additionally, the number of micro-VC funds formed in 2022 is the lowest since 2008, potentially impacting pre-seed and seed rounds in our region. Furthermore, deal participation from non-traditional investors and corporate venture capital firms decreased in 2022, leading to a drop in mega deals and later-stage funding. Despite these challenges, the Colorado venture capital ecosystem has established itself as an up-and-coming destination and performed well in a challenging economic environment, with significant cross-state investment.

We are excited to share this state of the Colorado VC Ecosystem report at the 2023 Economic Forecast: Boulder and Beyond. Innosphere is committed to continuing to play a role in elevating Colorado's innovation ecosystem. Best wishes for a happy and productive 2023.

Enjoy the report,



Mike Freeman, CEO & General Partner



Tim Jones, COO



Clayton Castro, Research Associate

Note on methodology: References to investments and funding at the "early stage" consist of Series A and B funding rounds within the first five 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.

Colorado VC Activity

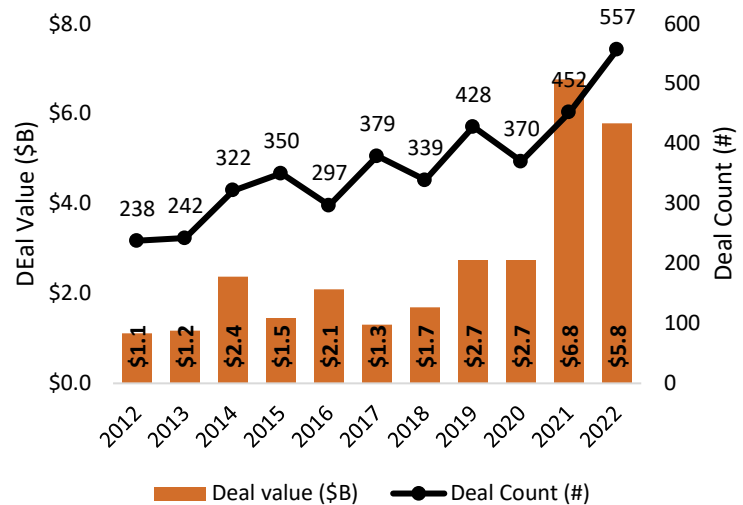
Coming off the heels of a record-breaking year, Colorado had tremendous momentum on its path to becoming a top venture capital destination. Despite various macroeconomic challenges, the deal value in 2022 did not reach the same heights as the previous year, indicating a return to more normal times for our venture capital ecosystem. The Colorado VC ecosystem reached \$5.8 billion in cumulative deal value across an all-time high deal count of 557, demonstrating incredible resiliency in the face of a global and national level slowdown in venture funding. Most of the deal activity originated in the first half of 2022, as Colorado startups were able to capitalize on strong demand, raking in over \$3 billion in VC funding across 322 deals. The third and fourth quarters of the year saw a marked decline in venture capital funding, with a decrease in the robust levels seen earlier in the year. The second half resulted in nearly \$2.6 billion across 235 disclosed deals as of December 20, 2022.

Denver brought in over \$1.1 billion in VC investments as of Q3. The city and surrounding metropolitan areas continue to rise in the national rankings of VC hubs, falling just behind Seattle and Miami in cumulative deal value as of the third quarter. In the past decade, the business-friendly state has seen a massive uptick in venture funding and startup growth in critical industries, such as technology, SaaS, and Life Sciences. Continued development efforts in the innovation and VC ecosystems have significantly transformed venture activity, with annual deal value increasing more than 5x since 2012. Vast support from the state government has continued to drive VC activity, with programs such as the Colorado Venture Capital Authority pushing for more access to capital in traditionally rural and overlooked communities.

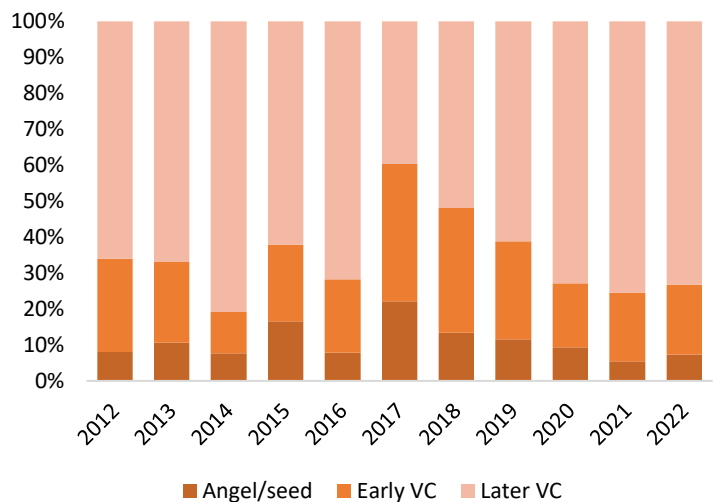
Late-stage rounds made up the majority of total deal value, reaching \$4.2 billion across 169 deals, a 17.4% decrease in value, and a 10.4% increase in deal activity year-over-year. Early-Stage generated \$1.1 billion on 110 deals, a decrease of 12% in year-over-year deal value. Angel/Seed stage saw its best flow of capital ever, raising nearly \$415 million across 259 deals, a 13% increase in annual deal value. Meanwhile, the average venture capital deal size decreased from \$14.96 million in 2021 to \$10.39 million in 2022.

Despite the headwinds, a few notably large investments still occurred in 2022. Crusoe Energy Systems, an operator of mobile modular data centers, raised the most significant round of the year with a \$505 million Series C deal. Human resource company Velocity Global raised a \$400 million Series B round.

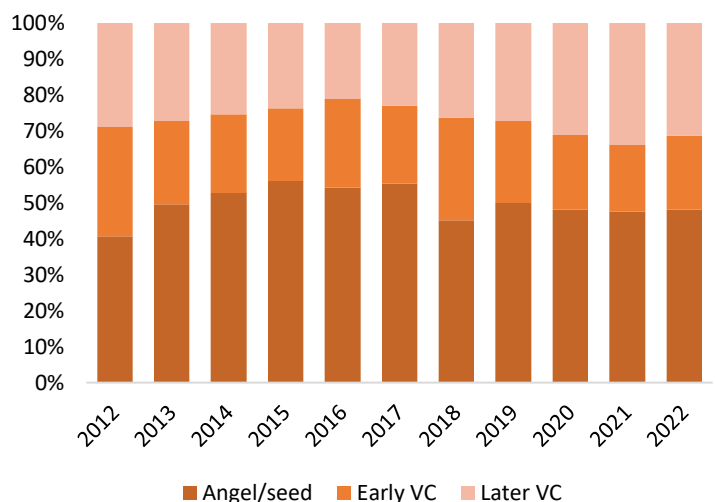
Colorado VC Deal Activity



Colorado VC Deal Activity (\$B) by Type



Colorado VC Deal Activity (#) by Type

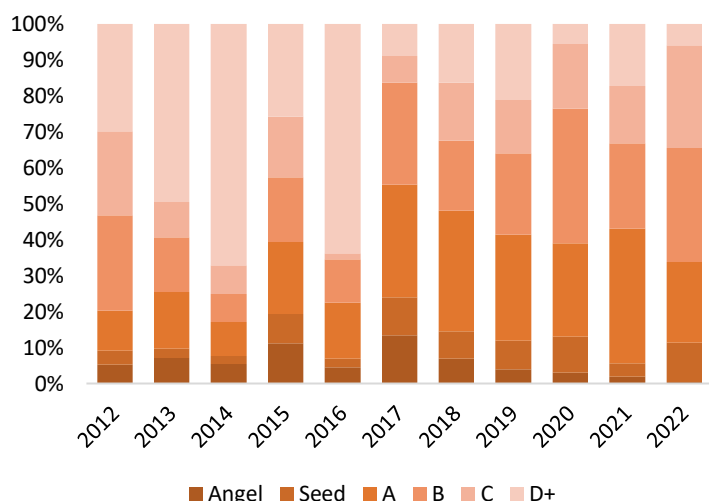


Colorado VC by the Numbers

Investment Breakdown by Series

In 2022, there were noticeable shifts in the distribution of deal value according to the investment series. As expected, these changes resulted from volatile economic and market conditions, which prompted investors to redirect their capital toward angel and seed rounds. These rounds experienced a particularly significant increase, with seed deals more than doubling to reach a record-high funding total of \$400 million. Nearly 70% of the disclosed deal count occurred at the Angel and Seed series, resulting in a roughly 7% increase from 2021. Series B and C generated over \$1 billion in venture funding each, with Series B totaling \$1.2 billion. Series A appeared to suffer the largest drawdown, falling to \$800 million in 2022, down from \$2.3 billion in 2021. Excluding the \$1.4 billion round in 2021 from Sierra Space, Series A decreased an adjusted \$100 million.

Colorado VC Deal Activity (\$B) by Series



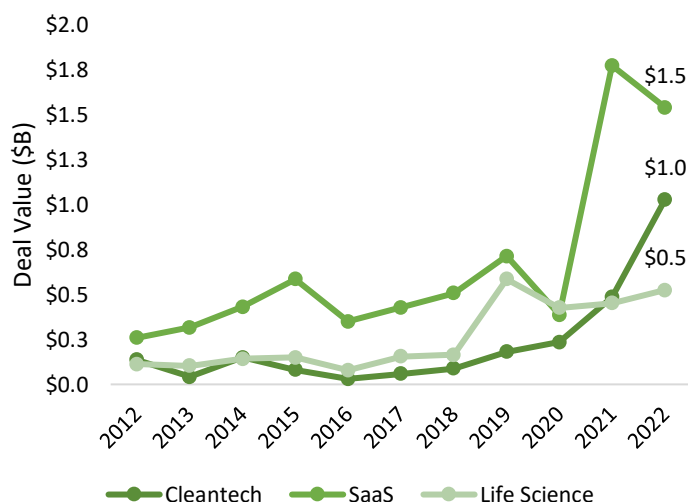
Colorado VC Deal Activity (#) by Series



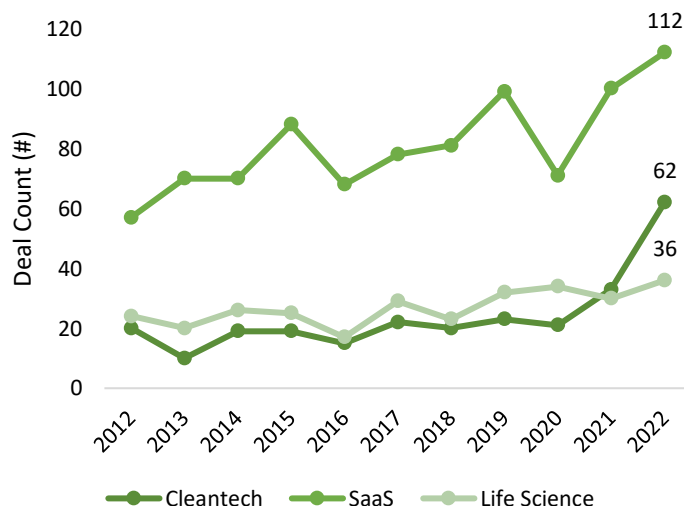
Prominent Verticals in Colorado

Critical verticals showed solid resilience throughout 2022, as SaaS, Cleantech (climate), and Life Science startups generated \$3 billion in deal value, responsible for over 53% of Colorado's total deal value. According to the Colorado Bioscience Association, Life Science startups raised an astonishing \$1.6 billion in federal funding and venture rounds, of which \$523 million came from venture funding alone. SaaS continues to dominate the deal flow, raising over \$1.54 billion in 2022. Cleantech also posted record numbers, raising over \$1 billion for the first time. All three verticals reached activity records, accounting for 210 total deals.

Demand for Colorado Clean-Tech Deals Strengthens



Critical Verticals Break All-Time Deal Count Records



Source: PitchBook | *As of December 20, 2022

Colorado Funding Statistics

Median Deal Size

The significant shifts in funding trends were evident in the median deal sizes by stage type, as the fluctuating demand for venture capital produced varied results across the board. Angel and Seed staged deals saw an upward trend in their median deal value, coming in at \$1.44 million, an annual increase of 25.5%. Early-Stage funding rounds saw a median round size of \$6.3 million, a small but meaningful \$100k gain. While the most significant impact occurred in Late-Stage deals, as the median round decreased to \$6.8 million, down \$1.2 million from 2021.

Pre Money-Valuations

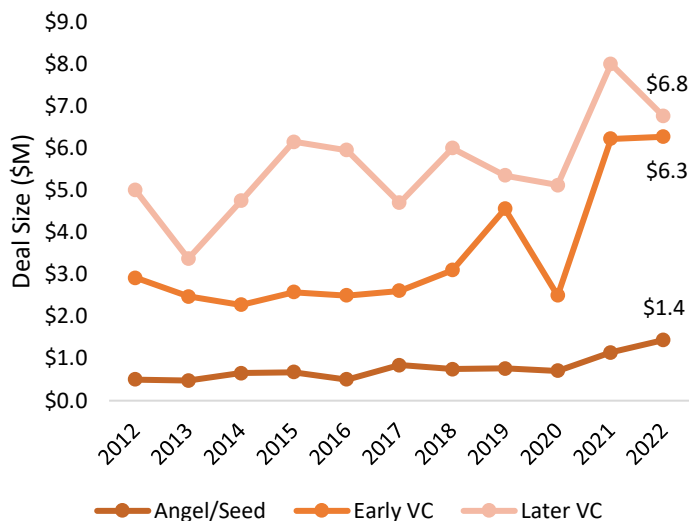
Pre-Money Valuations indicated mixed results in 2022, as Angel, Seed, and Early-stage medians showed moderate gains, and late-stage deals saw a tremendous drop off in value. Angel and Seed pre-money median came in at \$9.45 million, up \$3.45 million and a 57% increase year over year. Early-Stage deals increased to \$40 million in 2022, with an \$11.5 million dollar increase. As previously noted, the convergence of several challenges resulted in a decline in late-stage deal flow and median deal sizes in 2022, causing the median deal value to plummet 44% from \$70 million in 2021 to \$40 million.

2022 proved to be especially challenging for later staged startups in general; a combination of limited funding opportunities and smaller median rounds led to frequent down rounds across the country. As seen in the Colorado data, the valuations of Late-Stage startups experienced similar pressures.

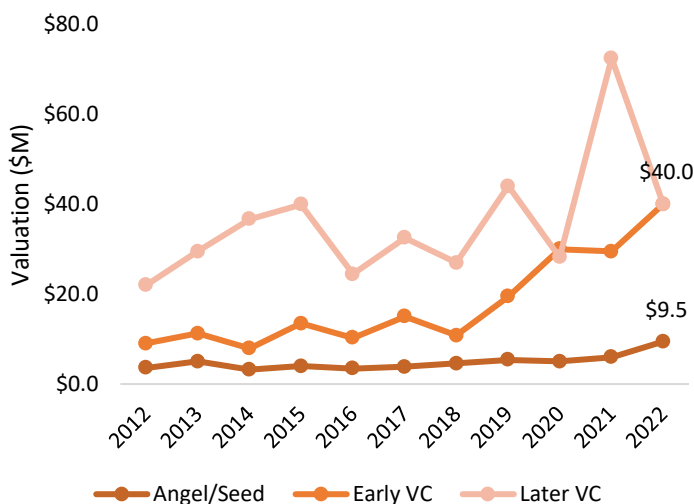
Exit Activity

The cumulative exit value in Colorado reached its lowest value in over a decade, producing only \$114 million across 64 deals. In general, 2022 was one of the slowest years for VC exits in the last 20 years, as challenging conditions proved overwhelming for startups looking to exit. Exit count reached an all-time high, fueled mainly by early staged asset acquisitions and early-exits.

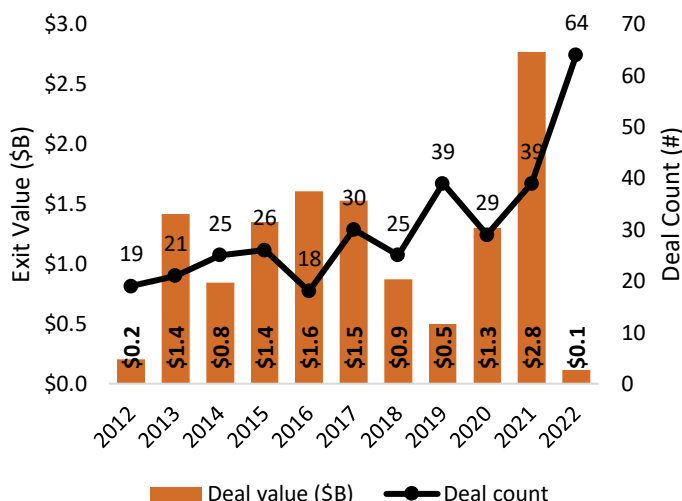
Colorado Median Deal Size (\$M) by Type



Colorado Pre-Money (\$M) by Type



Colorado Exit Activity (\$B)



Note: Excludes Palantir's IPO in 2020
Source: PitchBook | *As of December 20, 2022

Local Ecosystem Players

Grants by Government Organizations

Colorado research institutions rely heavily on government funding for intensive R&D work, advancing the innovation ecosystem in Life Science, Clean Tech, and other hard science industries. The University of Colorado Denver received the highest amount of funding from the National Institute of Health in 2022, with a total of \$320 million, followed by the University of Colorado Boulder, which received \$53 million, and Colorado State University (CSU), which received \$43 million. Additionally, the University of Colorado Boulder received the most significant funding from the National Science Foundation, totaling \$128 million, while Colorado School of Mines and Colorado State University also received substantial funding at \$23 million and \$31 million, respectively.

Research Institutions and Technology Transfer Programs

Colorado State University:

The newly formed CSU STRATA is the technology transfer office of the Colorado State University system. A combination of the former CSURF and CSU Ventures offices, the program aims to assist in real estate, licensing, and financing services for affiliated startups and innovators of the CSU campus system. With over 40 actively affiliated startups, the program has impacted the state's economic development.

University of Colorado System:

CU Innovations focuses on biomedical technologies and clinical validation opportunities that are applied to real-world applications through its robust commercialization process. CU innovations have produced over \$5 billion in economic impact for the state of Colorado and have filed more than 2000 patent applications since 2002. In FY 2022, CU Innovations saw 146 inventions disclosed, 178 patents filed, and 95 different deals.

Venture Partners at CU Boulder focuses on groundbreaking research into innovative solutions that address major world issues. From 2014 to 2018, Venture Partners produced \$1.9 billion in national economic impact, with \$1.2 billion directly impacting the state of Colorado. More than 155 startup ventures have been spun out of campus ideas and have raised over \$2.9 billion in capital funding since 2018.

Deming Center Venture Fund strives to provide an educational experience and private investments into early staged startups in the Colorado and CU community. The program gives graduate students real-world venture capital experience, assisting with due diligence, investment decisions, and monitoring of portfolio companies.

Colorado School of Mines:

The Technology Transfer Office at the Colorado School of Mines aims to enhance the commercialization process of academic research produced by faculty and students. With over 60 currently available research and innovative ideas, the program has developed a strong pipeline of prospective startups, assisting the research community with all the steps needed to launch their ideas. The office also facilitates connections with internal and external partners to assist in the development process. Mines launched a seed-stage venture capital fund in 2022.

University Name	NIH - FY22	NSF - FY22	DOE - FY21
Colorado State University	\$ 43,494,371	\$ 37,538,000	\$ 7,225,853
Colorado School of Mines	\$ 2,102,157	\$ 21,068,000	\$ 1,836,870
University of Colorado Boulder	\$ 53,205,605	\$ 128,299,000	\$ 11,278,545
University of Colorado Denver	\$ 320,787,495	\$ 4,007,000	\$ -

Most Active Colorado VC Investors by Deal Count

Investor Name	Investor HQ State	Investor HQ City	Deal Count (#)
Techstars	Colorado	Boulder	32
Service Provider Capital	Colorado	Golden	31
Matchstick Ventures	Minnesota	Minneapolis	25
Range Ventures	Colorado	Denver	15
FirstMile Ventures	Colorado	Colorado Springs	12
Rockies Venture Club	Colorado	Denver	12
Caruso Ventures	Colorado	Boulder	11
The Fund	New York	New York	11
Colorado Office of Economic Development	Colorado	Denver	10
Innosphere Ventures	Colorado	Fort Collins	10

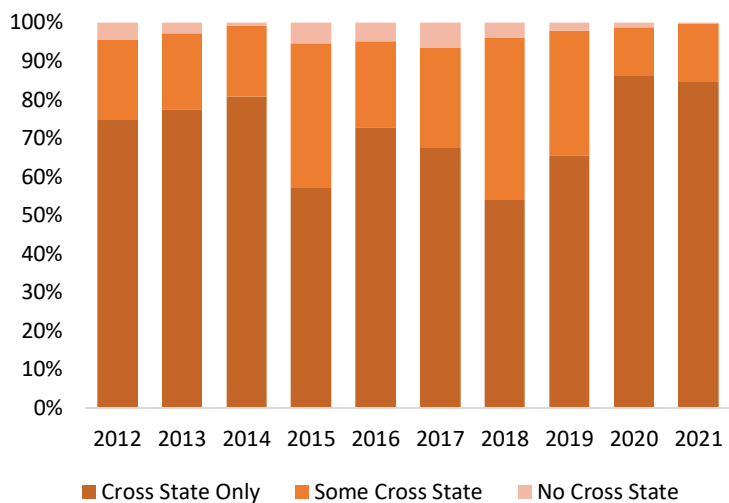
1/1/2021 - 12/31/2022

Geographic Analysis of Investments

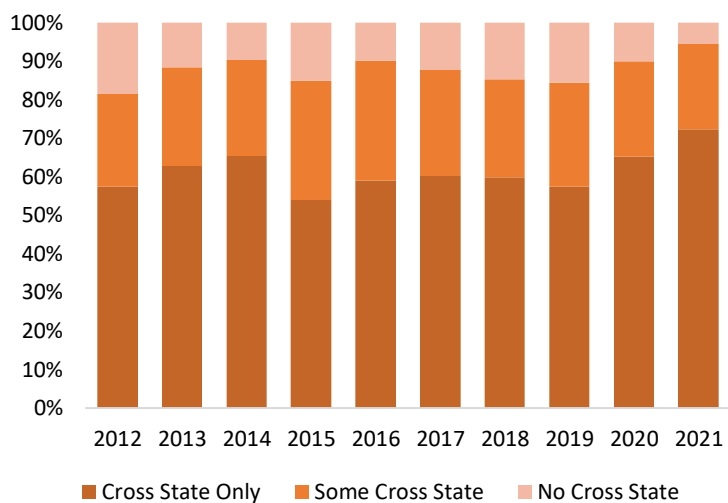
VC Cross-State activity

Historically, substantial proportions of cumulative deal value have poured into Colorado from out-of-state investors, with recent years experiencing as much as 95% of total deal value having a cross-state origin. While this outside capital has provided the startups numerous opportunities to grow, Colorado should strive to develop local venture funding sources to maximize the state’s economic impact. As of writing, an updated and accurate data set is unavailable for 2022.

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



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

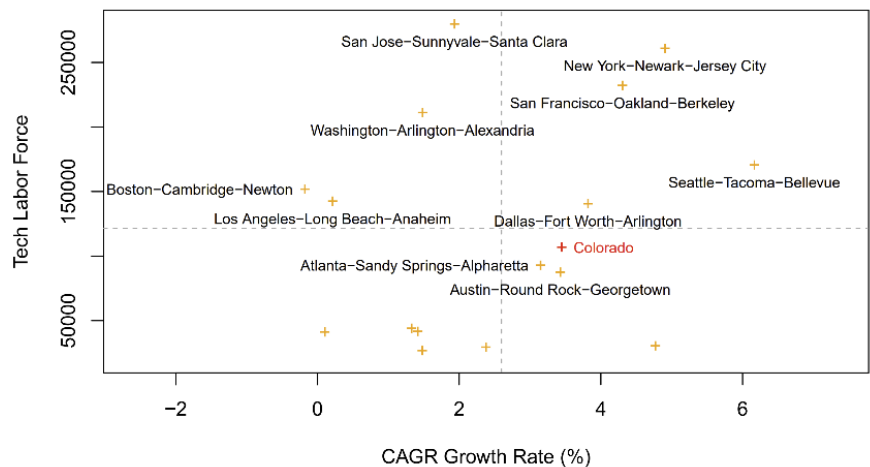


Source: PitchBook | *As of December 20, 2022

Future of the Colorado Ecosystem Analysis

Colorado has demonstrated a strong performance in the face of challenging national venture funding dynamics. As data from the Bureau of Labor Statistics and the Brookings Institute shows, the state is well-positioned to become one of the leading technology metro areas, with a 3.45% average growth rate in tech employment and a total of over 105,000 tech jobs in 2020. The Denver and Boulder areas, including Colorado Springs and Fort Collins, led this growth. In fact, with a growth rate of 3.45%, the all-Colorado approach would have ranked fifth nationally in 2020, just behind the Dallas metropolitan area’s 3.82% growth rate.

All Colorado Approach – Technology Metro Areas



To continue this momentum and break into the top tier of tech hubs, Colorado needs to improve its innovation and venture capital ecosystems, including providing capital to early-stage startups in critical industries, expanding facilities for R&D-intensive startups, and fostering collaboration at the statewide and regional levels. By leveraging these strategies, Colorado has the potential to become a national leader in the tech industry.

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 that drive 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 building science and technology-based startups are encouraged to apply online: www.innosphereventures.org

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