



# **Focus on Value, Not Valuation: A Crash Course in VC Trends and Fundraising in 2022**

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# Introduction

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# Introduction: Who Am I?



## Relevant info about me...

- Former Electrical, Mechanical, and Software Engineer with Founder experience turned VC.
- Investing both personally and professionally for over a decade.
- Significant experience with deep-, frontier-, and hard-tech investing.
- **Pathfinder** is a ~\$500M fund. Enterprise tech-focused, stage-agnostic (Series A-pre-IPO).
- We invest in the **tools**, the **teams**, and the **technologies** that will be relevant to enterprise tech companies in 3, 5, 7 years.

 Ayar Labs Systems	 BigID App-Dev/Ops	 Cellwize Edge	 Classiq Systems	 Cohesity Data Mgmt	 D2IQ PaaS & Fleet Mgmt	 DataRobot App-AI/Analytics	 Dragos Security
 Flywheel App-AI/Analytics	 Kadence Edge	 Lightmatter Systems	 Mythic Systems	 OpsRamp PaaS & Fleet Mgmt	 Platform 9 PaaS & Fleet Mgmt	 PubNub Edge	 SafeBreach Security
 Scality Data Mgmt	 SingleStore Data Mgmt	 Synack Security	 Tamr App-AI/Analytics	 ThoughtSpot App-AI/Analytics	 Unqork App-Dev/Ops	 vFunction App-Dev/Ops	 WEKA Data Mgmt
 Stealth (Data Mgmt) Data Mgmt	 Stealth (Infrastructure) Systems	 Agile Stacks (Acquired by EPAM) App-Dev/Ops	 IonQ (Exited: NYSE) Systems	 StackRox (Acquired by Red Hat) Security	 Portworx (Acquired by Pure Storage) App-AI/Analytics	 Chef (Acquired by Progress) App-Dev/Ops	 Shape Security (Acquired by F5) Security
 Hedvig (Acquired by Commvault) Data Mgmt	 Barefoot Networks (Acquired by Intel) Systems	 Hexadite (Acquired by Microsoft) Security	 Adallom (Acquired by Microsoft) Security				

# Background & Context

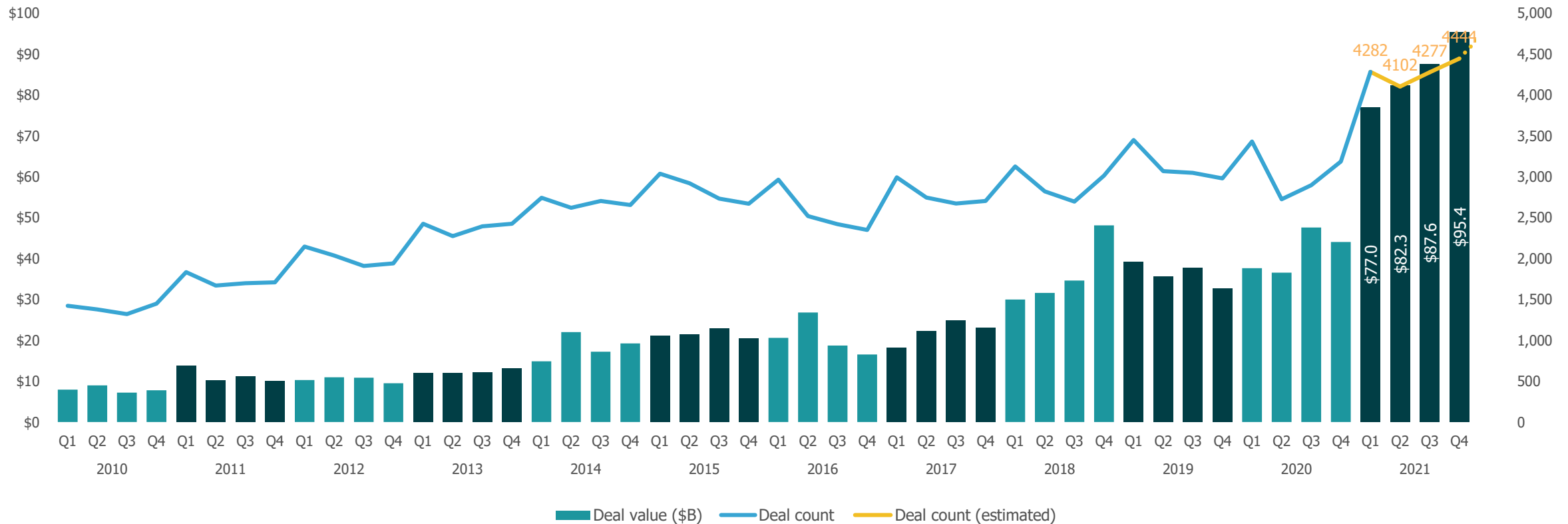
The background is a vibrant teal color with various geometric elements. In the top right, there are overlapping translucent shapes in shades of teal and a prominent orange trapezoid. A series of small orange squares forms a horizontal line below it. On the left side, several thin yellow lines intersect at different angles. The bottom half of the image features a series of horizontal bars in teal, brown, and yellow, with some dotted patterns and thin lines interspersed. The overall aesthetic is modern and digital.

# Background & Context: US VC Activity



## Record-breaking year for US-based venture-backed startups.

- Founders raised a staggering **\$329.9B** across an estimated **17,054 deals**.
- VCs raised an unprecedented **\$128.3B** in new funds to support those founders.
- Startups realized **\$774.1B** in exit value (\$681B via IPOs and SPACs, \$93.1B via M&A).

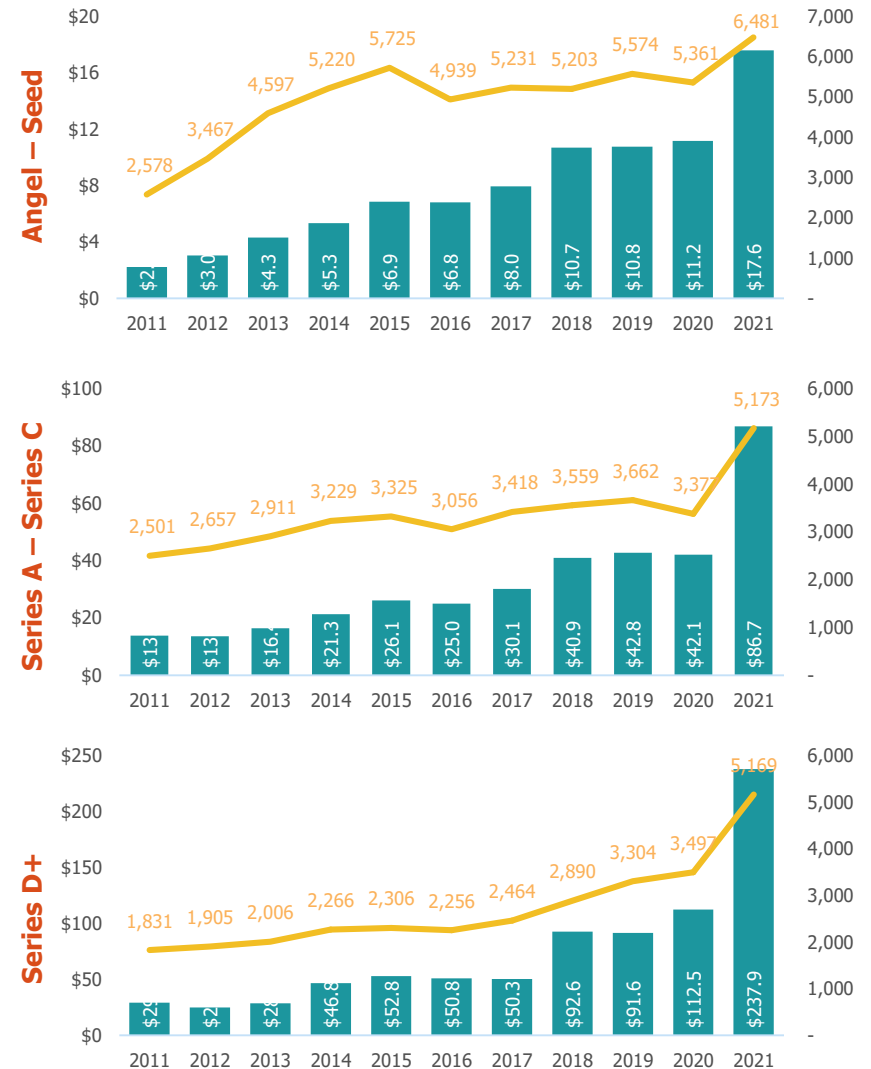


# Background & Context: US VC Activity



## New highs set across all stages of US startups.

- **Early stage** startups (Angel and Seed) posting strong results, supported by massive influx in microcap VC funds (<~\$75M) that have appeared in recent years.
- **Mid stage** startups (Series A – Series C) similarly elevated as founders raised larger and earlier. Later stage investors continued moving down the stage spectrum into earlier rounds.
- **Late stage** startups (Series D+) saw unparalleled capital availability, with a smattering of mega-deals (\$100M+) setting new high-water marks for valuation multiples in almost every sector.

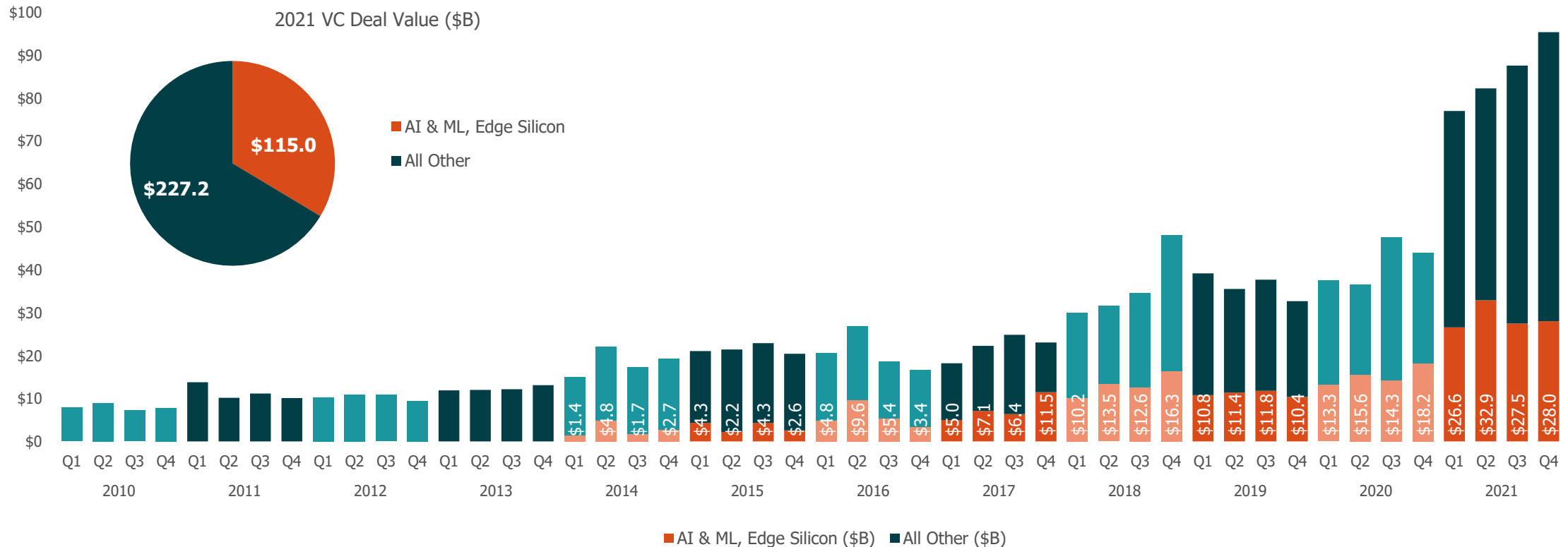


# Background & Context: US VC Activity



## AI & ML and Edge Silicon startups had outsized impact on 2021 metrics.

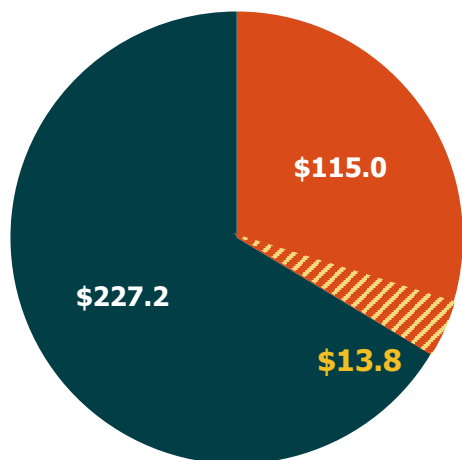
- **AI & ML** includes AI, ML, CV, NLP, model mgmt., etc. **Edge Silicon** includes chips, sensors, other HW.
- AI & ML and Edge Silicon startups raised **\$115B** across **5,662** deals.
- **\$208.9B** realized in exit value across **475** IPOs, SPACs, and M&A events.



# Background & Context: US VC Activity



2021 VC Deal Value (\$B)



■ AI & ML, Silicon ■ All Other

Top 10 Silicon Deals in 2021

Name	Round	Size (\$M)	Val. (\$M)
<b>SambaNova</b>	Series D	678	5,000
<b>Groq</b>	Series C	300	1,100
<b>Cerebras</b>	Series F	250	4,250
<b>Neuralink</b>	Series C	205	2,110
<b>Xsight Labs</b>	Series D	150	520
<b>Hailo</b>	Series C	136	965
<b>Humane</b>	Series B	100	900
<b>SiMa AI</b>	Series B	80	430
<b>Lightmatter</b>	Series B	80	240
<b>Mythic</b>	Series C	70	470
<b>Total</b>		<b>2,049</b>	

Top 10 AI & ML Horizontal Deals in 2021 Top 10 AI & ML Vertical Deals in 2021

Name	Round	Size (\$M)	Val. (\$M)
<b>Databricks</b>	Series H	1,600	38,000
<b>Dataminr</b>	Series F	475	4,100
<b>Dataiku</b>	Series E	400	4,670
<b>Scale AI</b>	Series E	325	7,300
<b>DataRobot</b>	Series G	300	6,300
<b>Grammarly</b>	Series 3	200	13,000
<b>Vianai</b>	Series B	140	1,100
<b>Weights &amp; Biases</b>	Series C	135	1,000
<b>Domino Data Lab</b>	Series F	100	800
<b>H20.ai</b>	Series E	100	1,700
<b>Total</b>		<b>3,775</b>	

Name	Round	Size (\$M)	Val. (\$M)
<b>ByteDance</b>	Series F?	5,000	360,000
<b>Jellysmack</b>	Series D	950	3,000
<b>Faire</b>	Series G	400	12,400
<b>insitro</b>	Series C	400	2,500
<b>Checkr</b>	Series E	250	4,600
<b>Incode</b>	Series B	220	1,080
<b>Eightfold.ai</b>	Series E	220	2,100
<b>Outreach</b>	Series G	200	4,400
<b>Figure Technology</b>	Series D	200	3,200
<b>Panther Labs</b>	Series B	120	1,400
<b>Total</b>		<b>7,960</b>	



# Background & Context: US VC Activity



## Main takeaways.

- The entire industry is awash in capital.
- Funding is almost universally accessible at all stages of a startup's lifecycle.
- Tech startups leading the pack in virtually every fundraising metric that matters.
- AI & ML or Edge Silicon startups comprise a significant chunk of those tech startups.
- It's never been easier to start a company and secure funding.
- ...
- The party's never going to stop... right?



# Moving into 2022

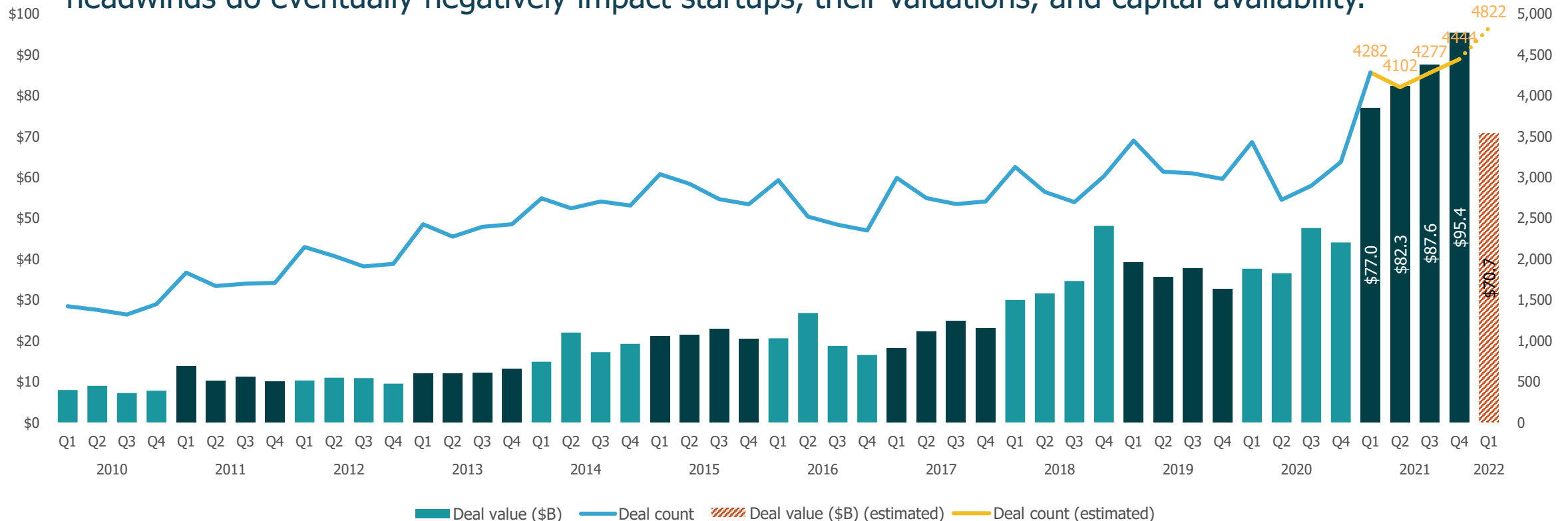
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# Moving into 2022: Recent Trends



## The music is starting to slow...

- Although deal count estimates grew, total funding is down **30%** QoQ in 2022 Q1.
- Rising interest rates, inflation, and geopolitical uncertainty all contributing factors.
- VC typically well-insulated from transient public market events, but prolonged macroeconomic headwinds do eventually negatively impact startups, their valuations, and capital availability.

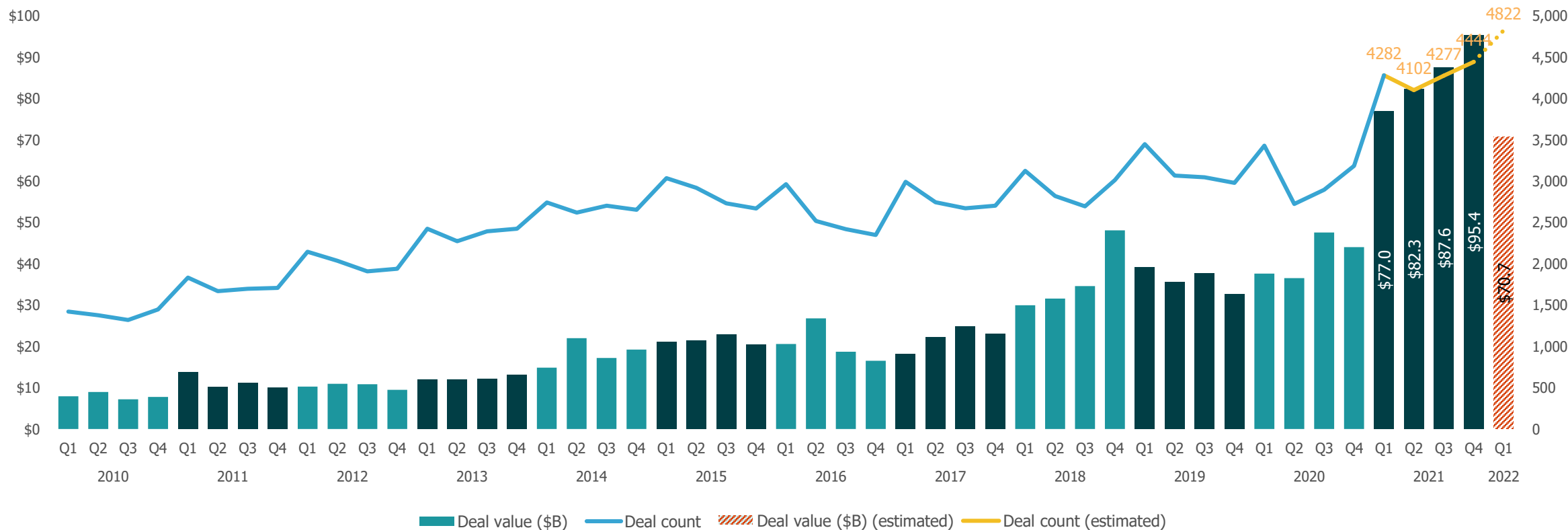


# Moving into 2022: Recent Trends



## But *slowing* is not the same as *stopping*.

- 2021 was likely unsustainable. A moderate recalibration may be healthy and welcome.
- While Q1 deal value was below each quarter of 2021, Q1 2022 still exceeded pre-2021 metrics.
- First financings saw no decline, but these are often the smallest and easiest rounds to raise.



# Fundraising for Startups

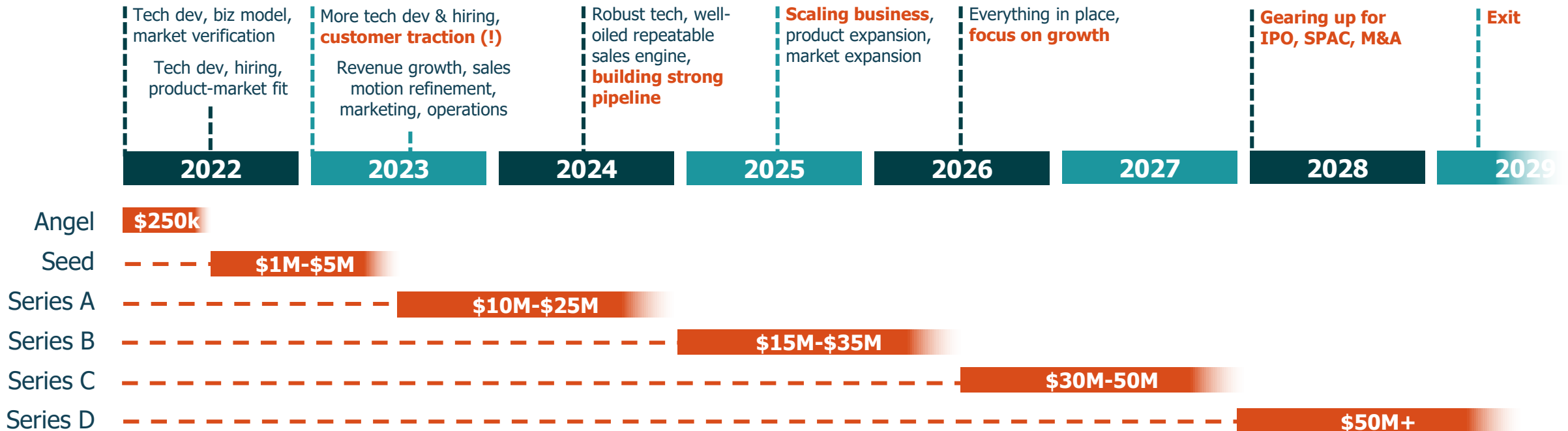
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# Fundraising: Timelines



## As a Founder or Early Employee, what should I expect?

- **7+ years** from initial founding to exit (on average).
- Companies have been staying private for longer. **E, F, and G** rounds are becoming more common.
- **AI & ML** (software) startups average slightly shorter (**4 years** to M&A, **5-6 years** to IPO).
- **Edge Silicon** (hardware) startups take moderately longer (**5 years** to M&A, **8+ years** to IPO).

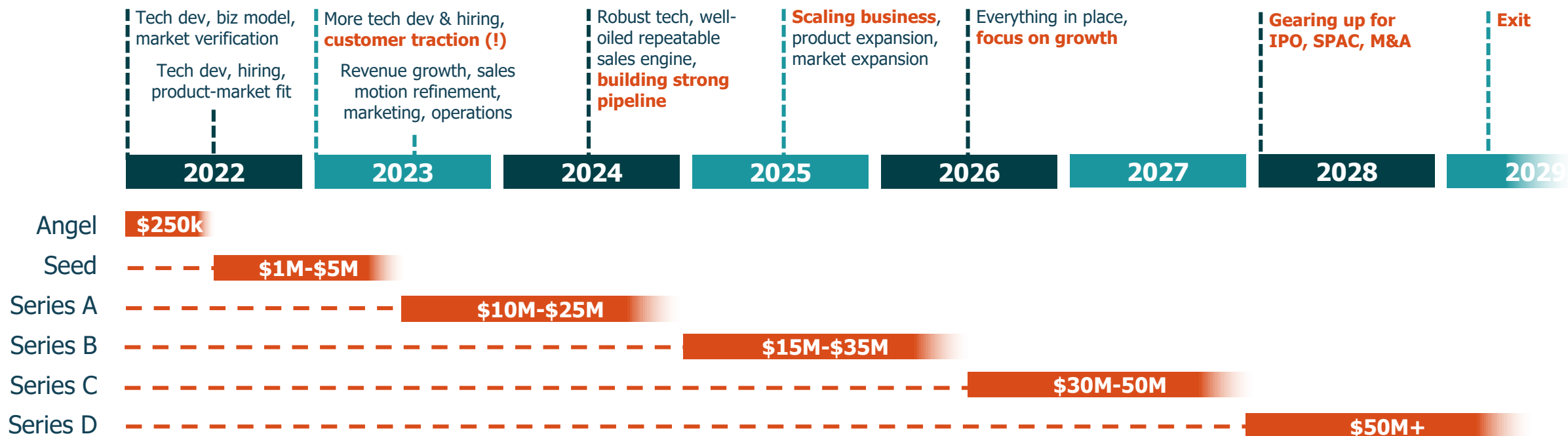


# Fundraising: Capital Needs



## As a Founder or Early Employee, what should I expect?

- **AI & ML** (software) startups require less capital early on, and will steadily scale their raise amounts round after round. Largest cost drivers usually headcount (salaries).
- **Edge Silicon** (hardware) startups require enormous amounts of funding up front (\$20M-\$35M+), but plateau quickly. Largest cost drivers are production related (tape-outs, additional silicon spins).

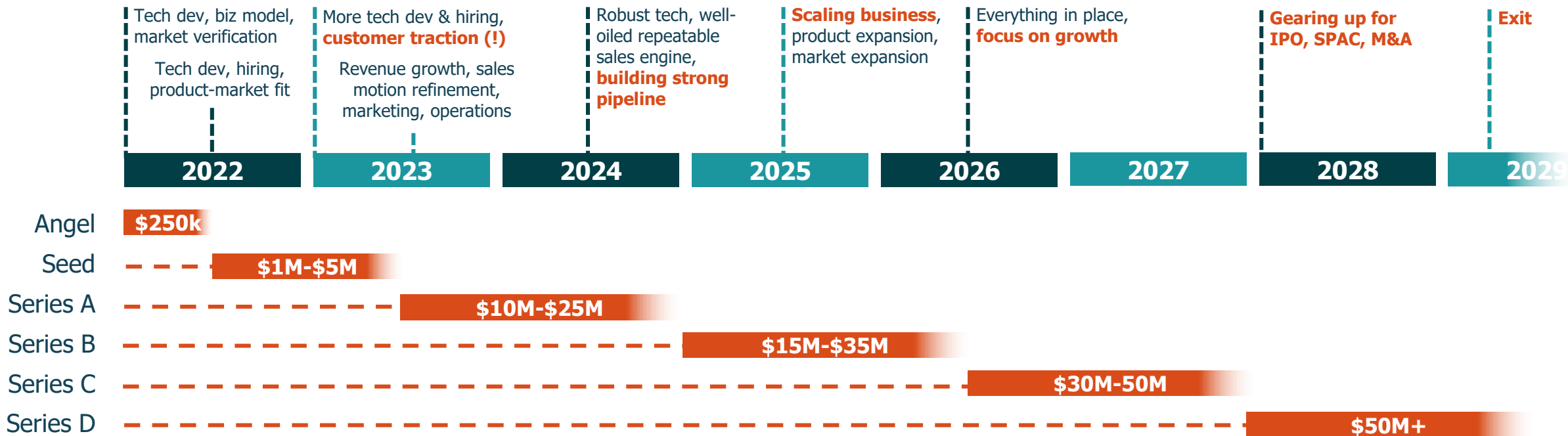


# Fundraising: Valuations



## As a Founder or Early Employee, what should I expect?

- **AI & ML** startups enjoyed revenue multiples as high as **100x** to **175x** in 2021. 2022 Q1 trending towards a return to a more sustainable **30x** to **75x**. Continuous valuation creation events.
- **Edge Silicon** (hardware) startups not valued on revenue (at least, initially). Multiples often a product of experienced investor assessment/opinion at the early stages. Valuation creation events concentrated around production milestones (tape-outs, engineering samples, production runs).





# Takeaways, Tips, Observations, Risks

# Fundraising: Key Takeaways for Founders



## **Some takeaways, tips, observations, and risks for Founders to be mindful of in 2022:**

- Focus on increasing value, not valuation. If you do the first, the second will follow.
- Customers/users – and their willingness to pay – are big drivers of value. Always stay close to them.
- Customers pay more for painkillers than vitamins. Focus on need-to-have solutions, not nice-to-haves.
- Rising tides lift all ships, but will your boat still float if the economic seas turn choppy?
- Great AI and Silicon talent is scarce, but be mindful of lowering standards just to add horsepower.
- Every firm has a different diligence process. An easier/shorter process doesn't make a better investor.
- Be selective. Enter into diligence with the VCs and firms you actually want to work with. Forget NDAs.
- Once in diligence, be as open as possible. The diligence process is the beginning of your relationship with that VC. Start it on the right foot by making their job of giving you money as easy as possible.
- Treat the junior members of a VC firm (Analysts, Associates, etc.) like Partners/Directors. They're often the ones doing the actual work on a deal and have an immense amount of unseen influence.
- Stay humble. Some of the most desirable AI, ML, and Silicon investors and VCs are famously low-ego.

# Q&A

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