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Drawing Capital

Pre-IPO Investing: Trends, Analysis & Opportunities

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Pre-IPO Investing: Trends, Analysis, and Opportunities

Presented by:

Sean van der Wal and Jugal Lodaya



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About

Drawing Capital is an innovation-focused investment platform headquartered in Silicon Valley.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enables us to participate in investment opportunities in public markets and startups that are not captured by passive index investing.



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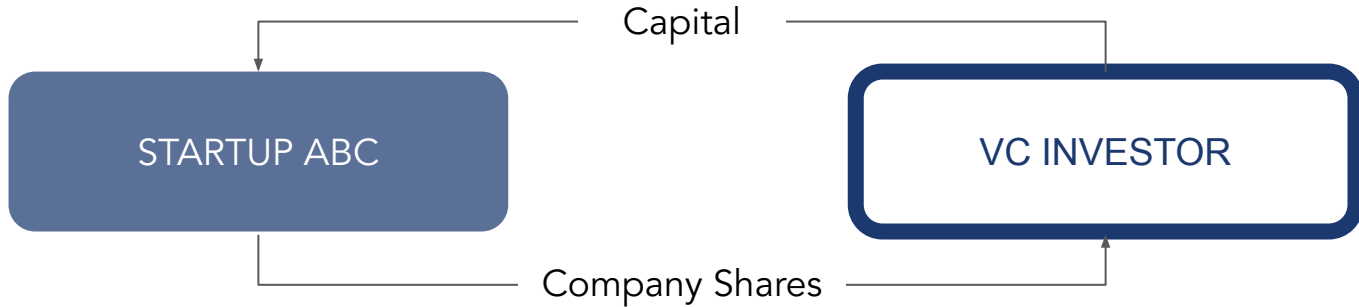


Background

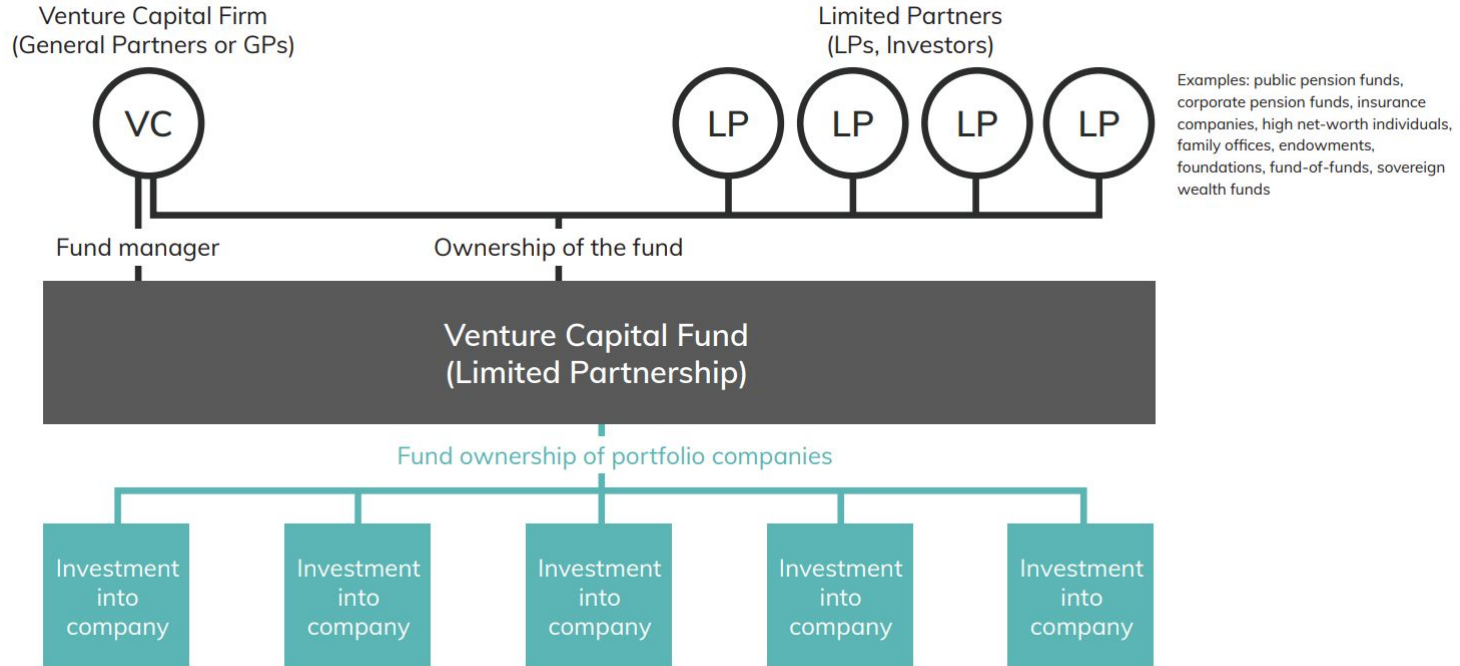
- What is Venture Capital?
- Why do we need VC?
- VC as an Asset Class
- The Power Law
- Private vs Public Markets

What Is Venture Capital?

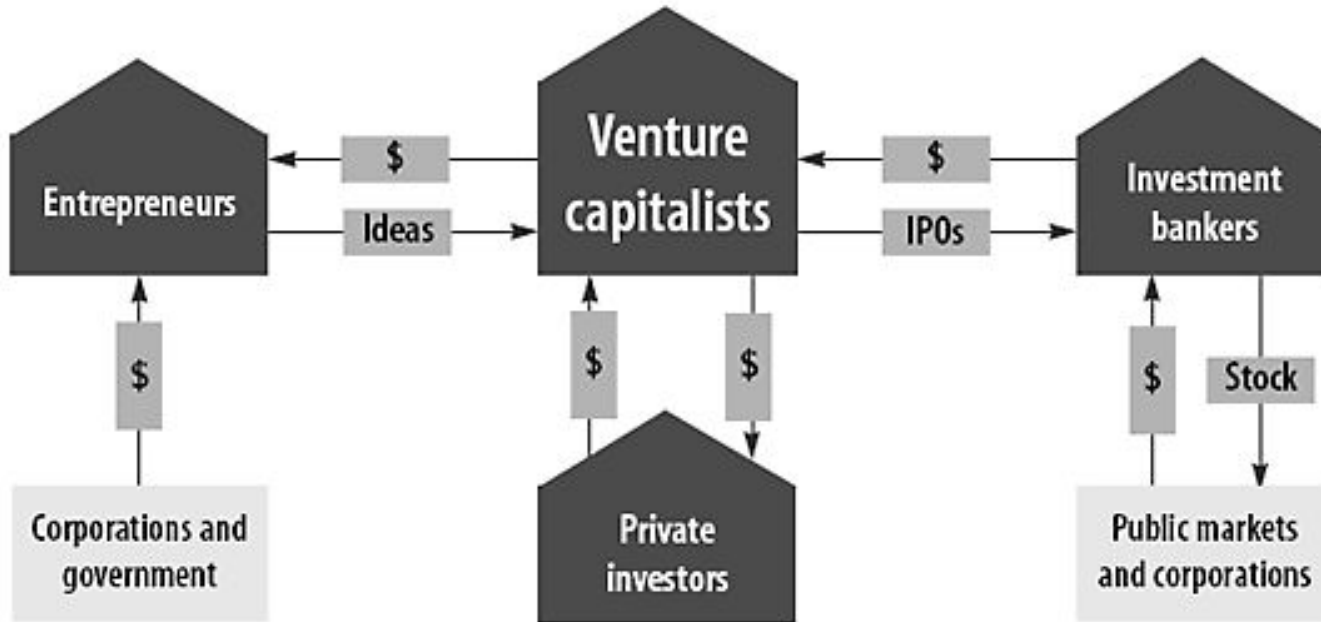
Fundraising by a **private company** in exchange for **equity**.



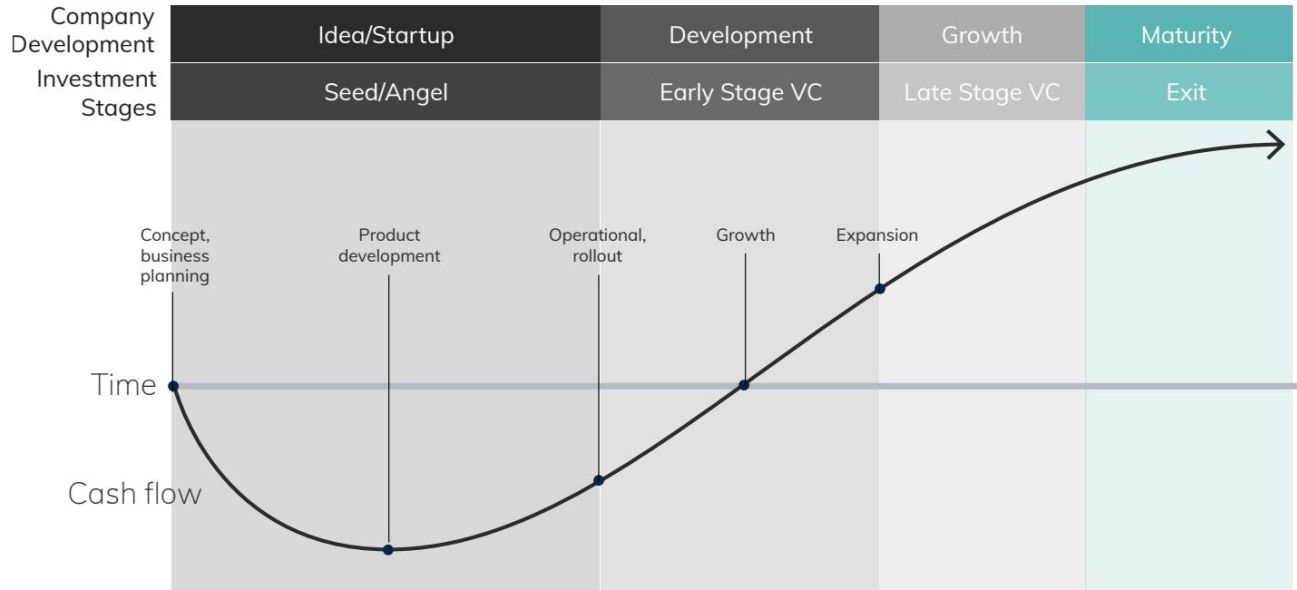
Traditional VC Fund Structure



How the Venture Capital Industry Works



Venture Capital Plays a Vital Role in a Startup's Growth



Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors



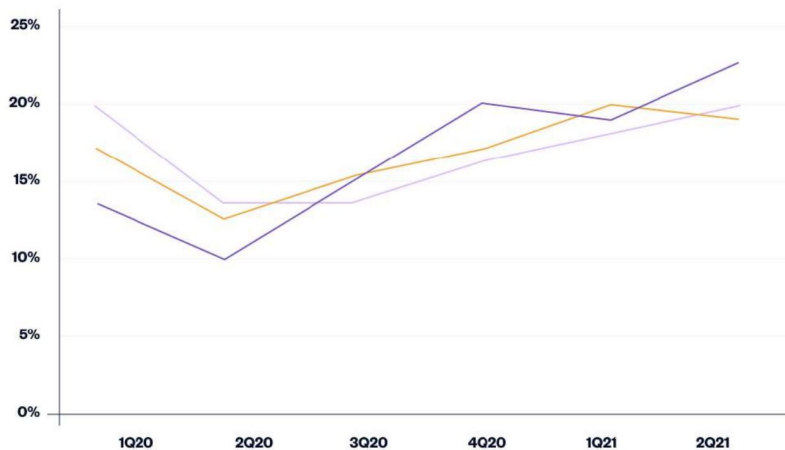
VC Investments Help Finance Marketing, Operations, and Infrastructure

Startup Credit Card Spend Ratios Increased Across Sectors; Marketing Spend Rises

Credit Card Spend Quarter-Over-Quarter

As a % of Total Spend

Fintech Healthtech AI/ML

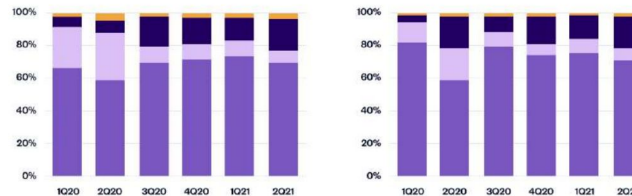


Credit Card Spend by Payment Category

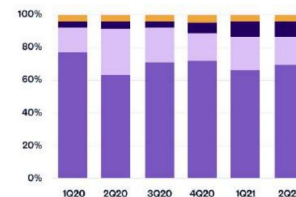
As a % of Total Credit Card Spend

Fintech

Healthtech



AI/ML



Other Marketing Computing Operations

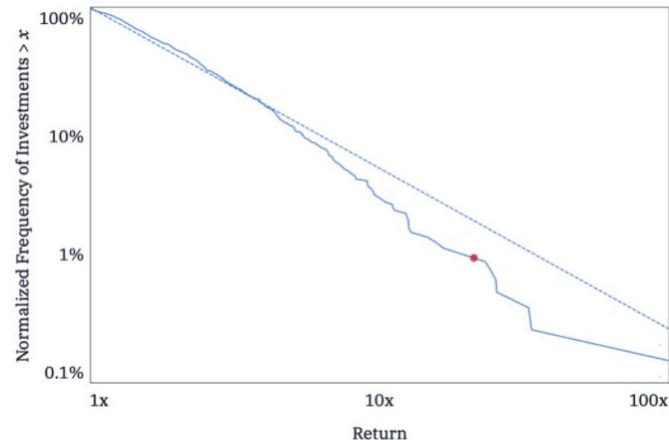
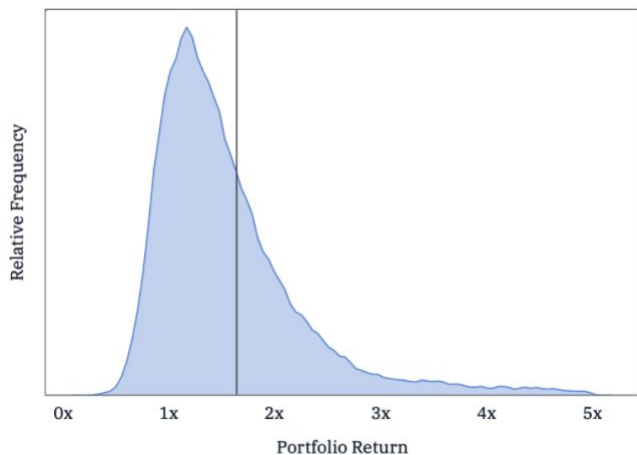
Venture as an Asset Class

By owning equity before IPO, investors can:

- Add opportunity for greater **returns** by capturing rapid growth of company before public market debut (if successful).
 - ◆ For example, Facebook's first ~\$100 billion of market cap creation took place in private markets before its IPO.
- **Diversify** away from publicly-traded asset classes to generate independent returns.
- Feel a deeper sense of **connection** with a company by backing it from its early, high-risk stages.

The Power Law

Simply Put: a small percentage of investments have the greatest impact on outcomes.



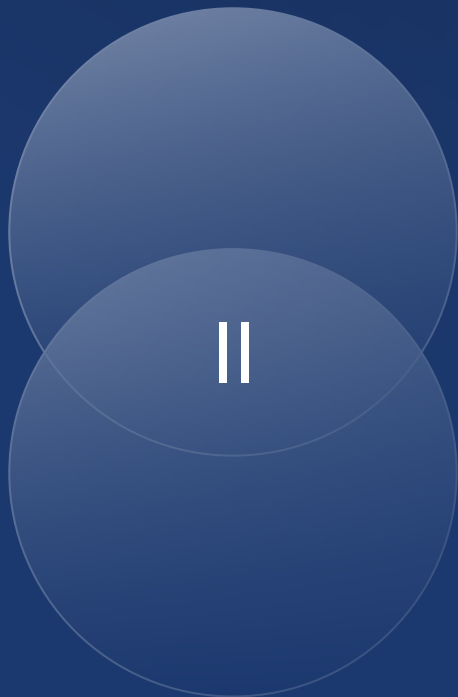
Investing in Private vs Public Markets

PRIVATE

- Private confidential information for decision making
- Multi-year time horizon
- Narrow access to opportunities
- Higher reward for higher risk
- Minimal liquidity
- Long-only
- Mostly primary investments

PUBLIC




- Material public information for decision making
- Often focused on quarterly reporting
- Widely available access
- Lower reward for lower risk
- Liquidity premium
- Creativity & choice in implementation
- Mostly secondary trading



Historical Context






- Examples of Venture Capital Returns
- Holding Periods
- Types of Exit Opportunities

Top 5 Most Valuable Unicorns 1H 2021

COMPANY	VALUATION	COUNTRY	CATEGORY
 ByteDance	\$140.0B	China	Mobile Software & Services
 stripe	\$95B	United States	Internet Software & Services
 SPACEX	\$74B	United States	Aerospace & Defense
 Klarna.	\$45.6B	Sweden	Internet Software & Services
 instacart	\$39B	United States	Food & Grocery

Source: CB Insights. Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

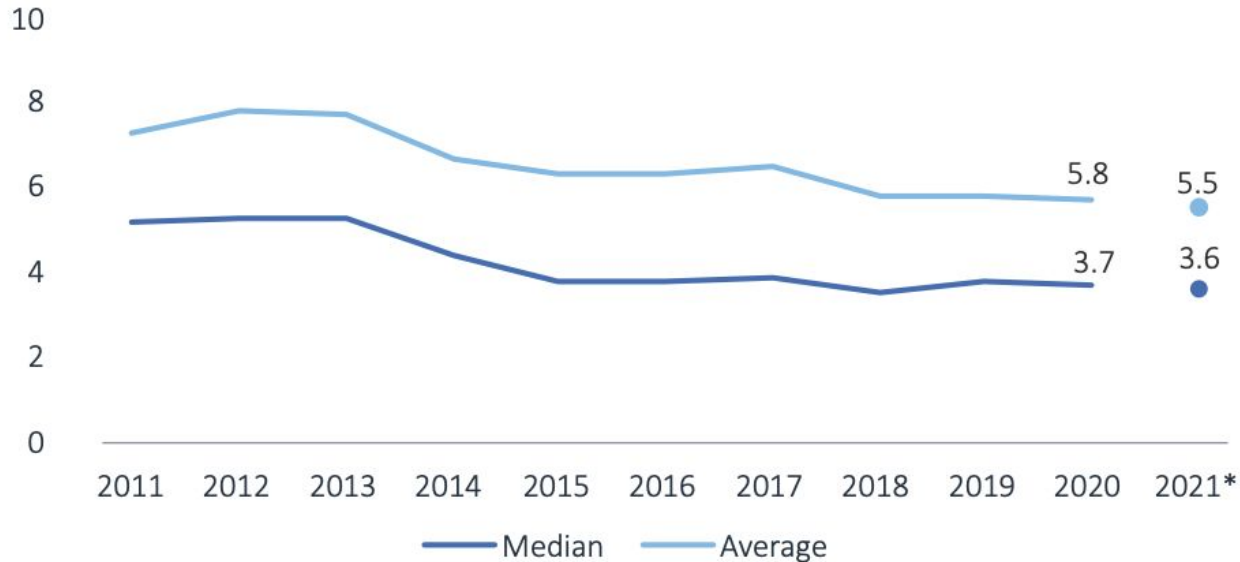
Top Venture Capital Returns

COMPANY	INVESTOR	INVESTED (\$)	OUTCOME (\$)	MOIC
 WhatsApp	Sequoia Capital	\$60 million	\$3 billion	50x
 Facebook	Accel	\$12.7 million	\$9 billion*	708x*
 Groupon	NEA	\$4.8 million	\$2.5 billion	520x
 Cerent	Kleiner Perkins	\$8 million	\$2.1 billion	262x
 Snap	Lightspeed Venture Partners	\$8 million	\$2 billion	250x

Source: CB Insights. Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

*Accel sold \$500M of their position in 2010.

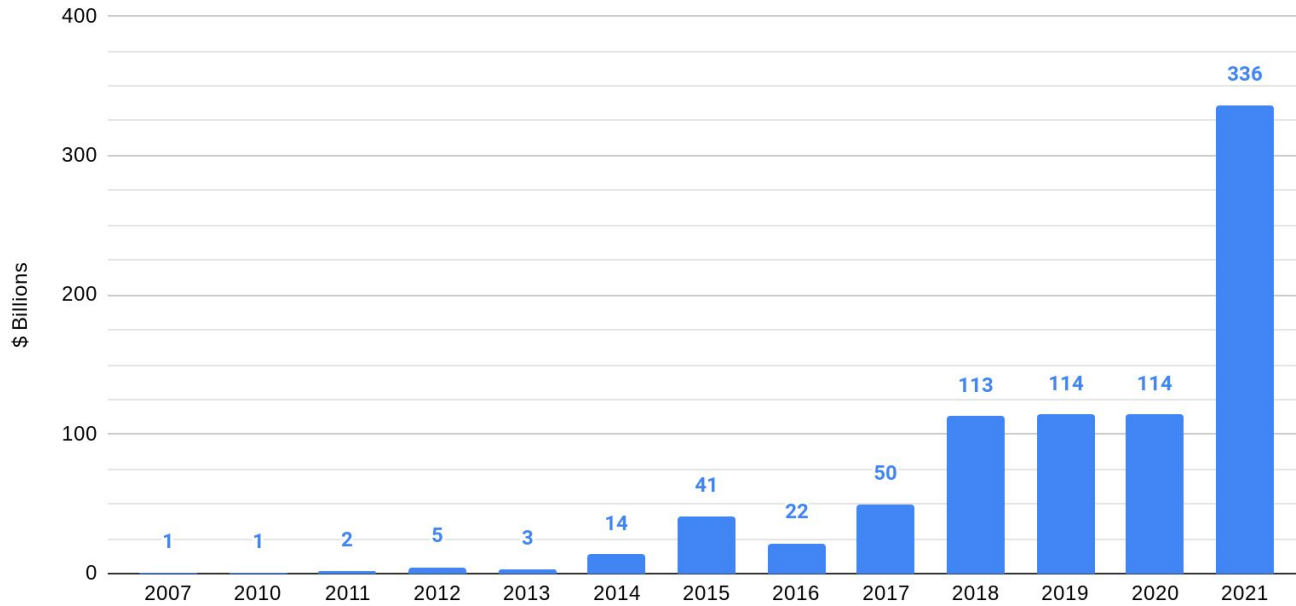
Nontraditional Investors' Holding Period Is Far Less Than First Investors





Most Unicorns Joined the Club Recently

Unicorns By Year Joined

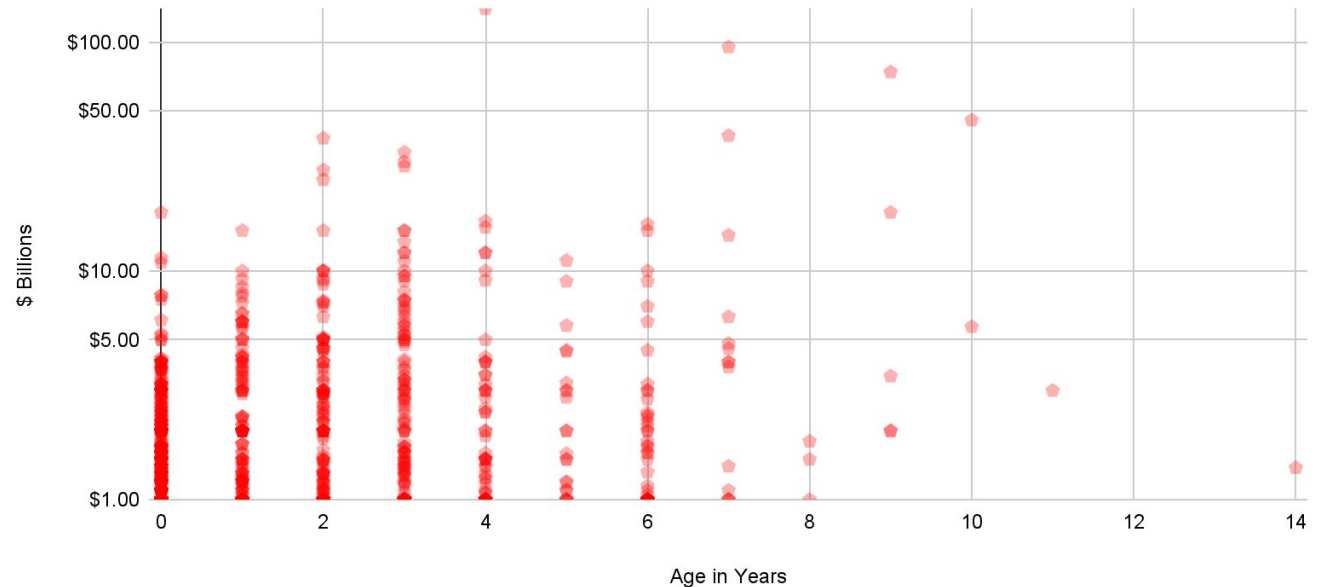


Source: Chart by Drawing Capital; Data from CB Insights

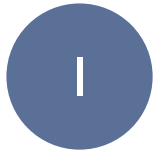
Peak Valuations Appear to Manifest After Unicorn Age 2.5

- As unicorns age, they go public and disappear from this chart.
- Companies reach peak valuations ~2.5 years after becoming a unicorn.

Unicorn Valuations By Unicorn Age



Types of Exit Opportunities



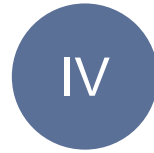
IPO



SPAC



Direct Listing



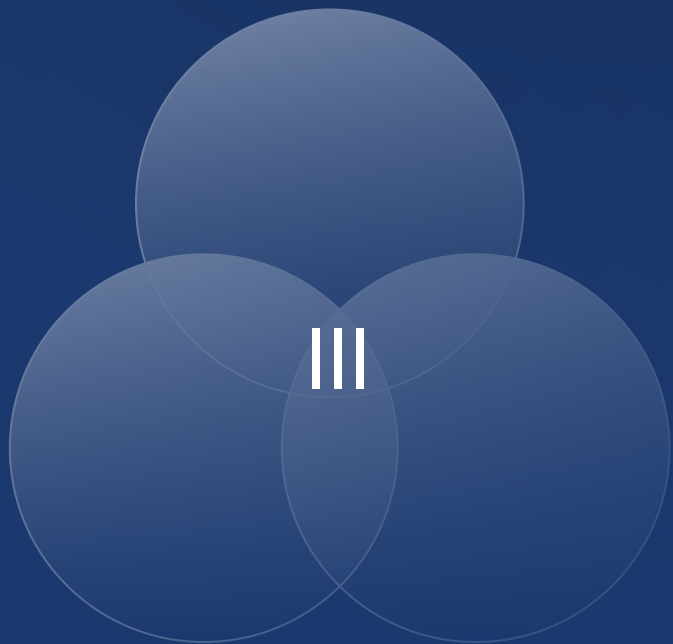
Secondary Sale



Strategic M&A



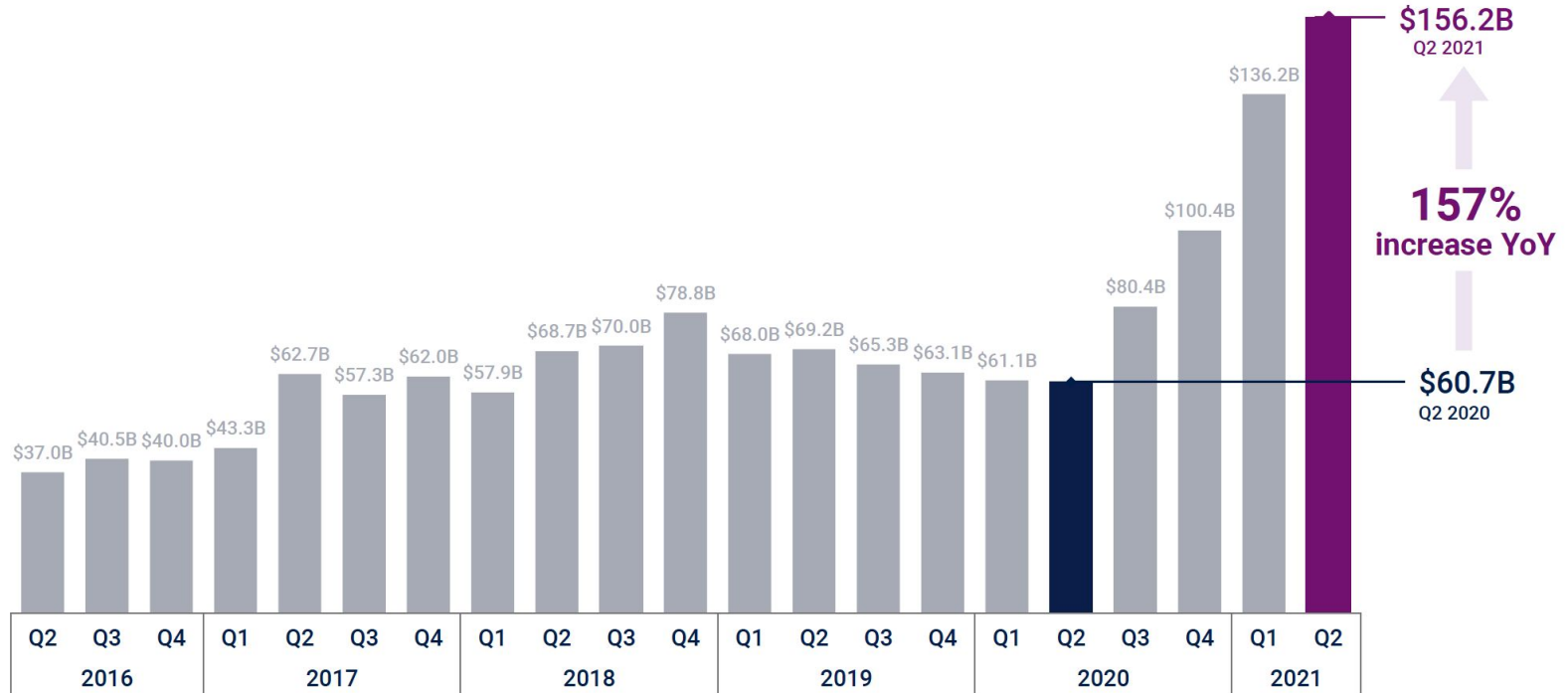
Financial M&A



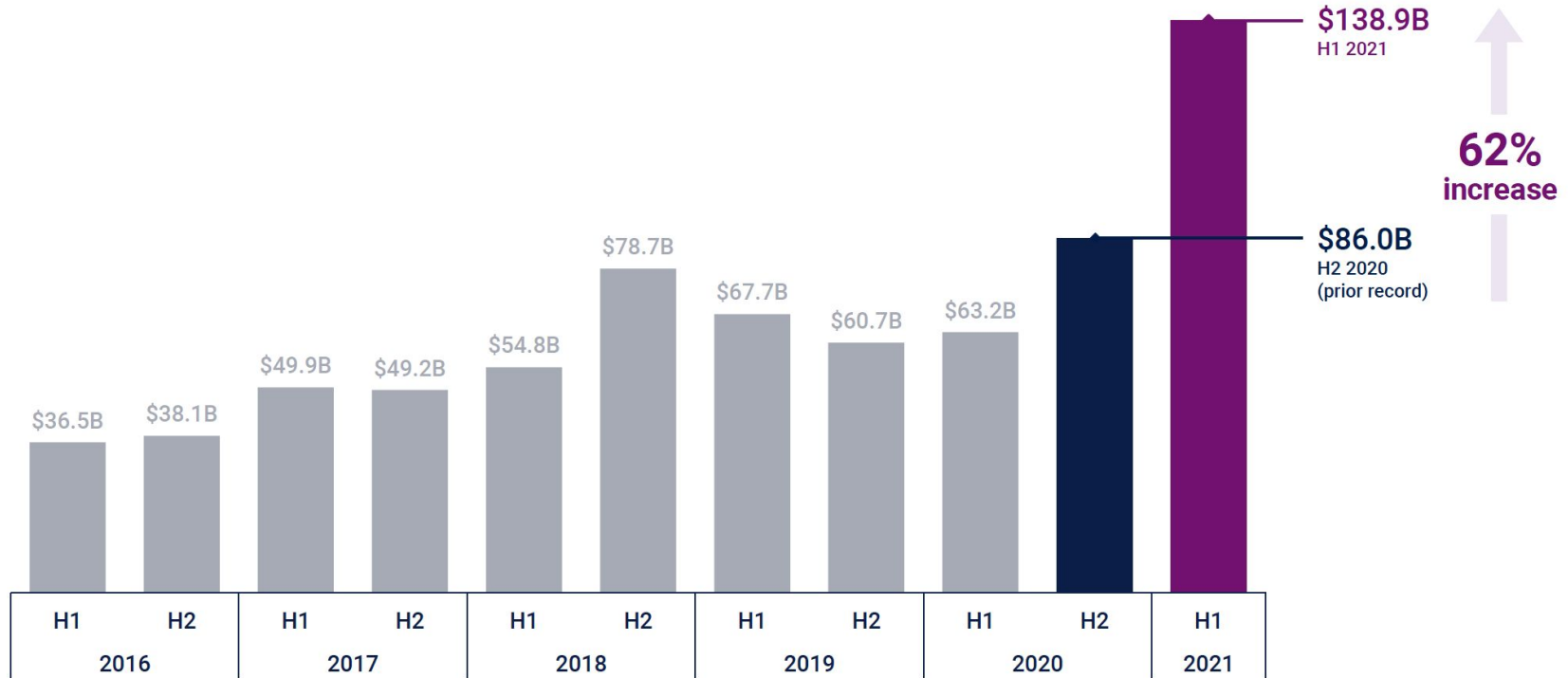
VC Data and Insights

- Record Capital Inflow
- Record Number of Unicorns
- Record Number of Exits

Total Global Funding Experiences 157% YoY Increase

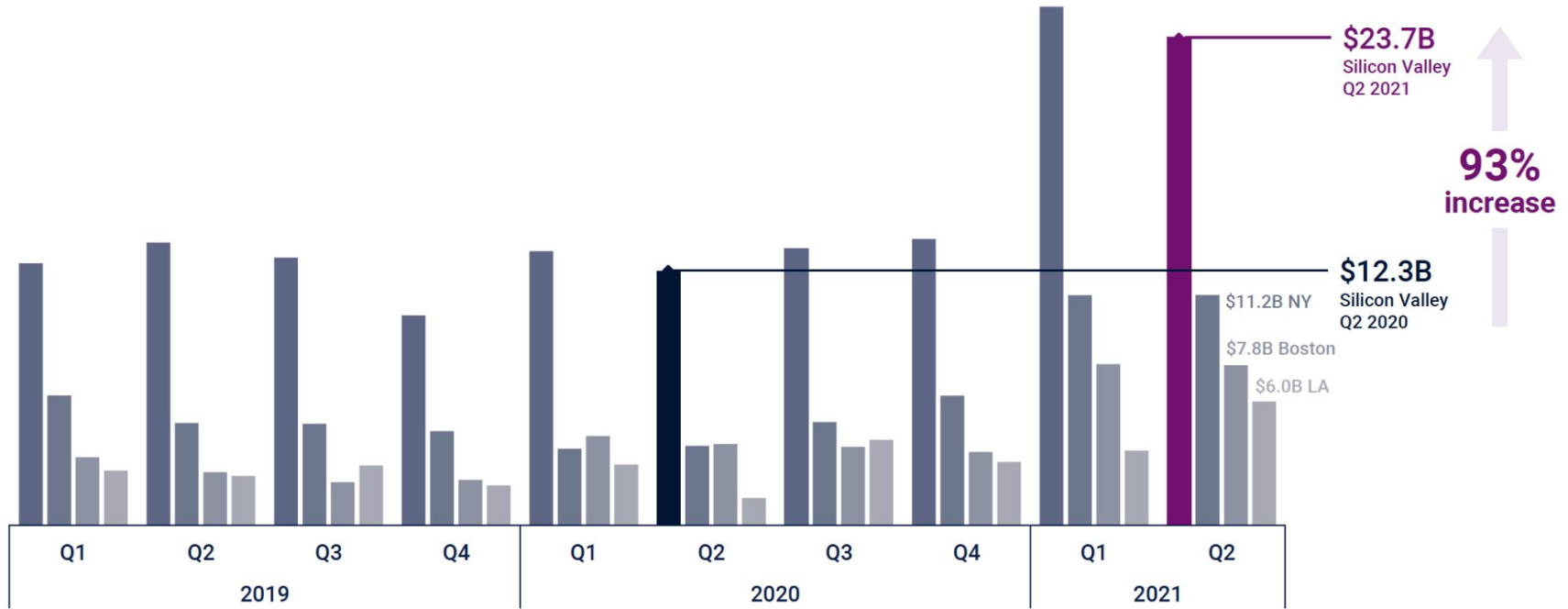


US-based Startups Show Massive Half-Year Funding Increase

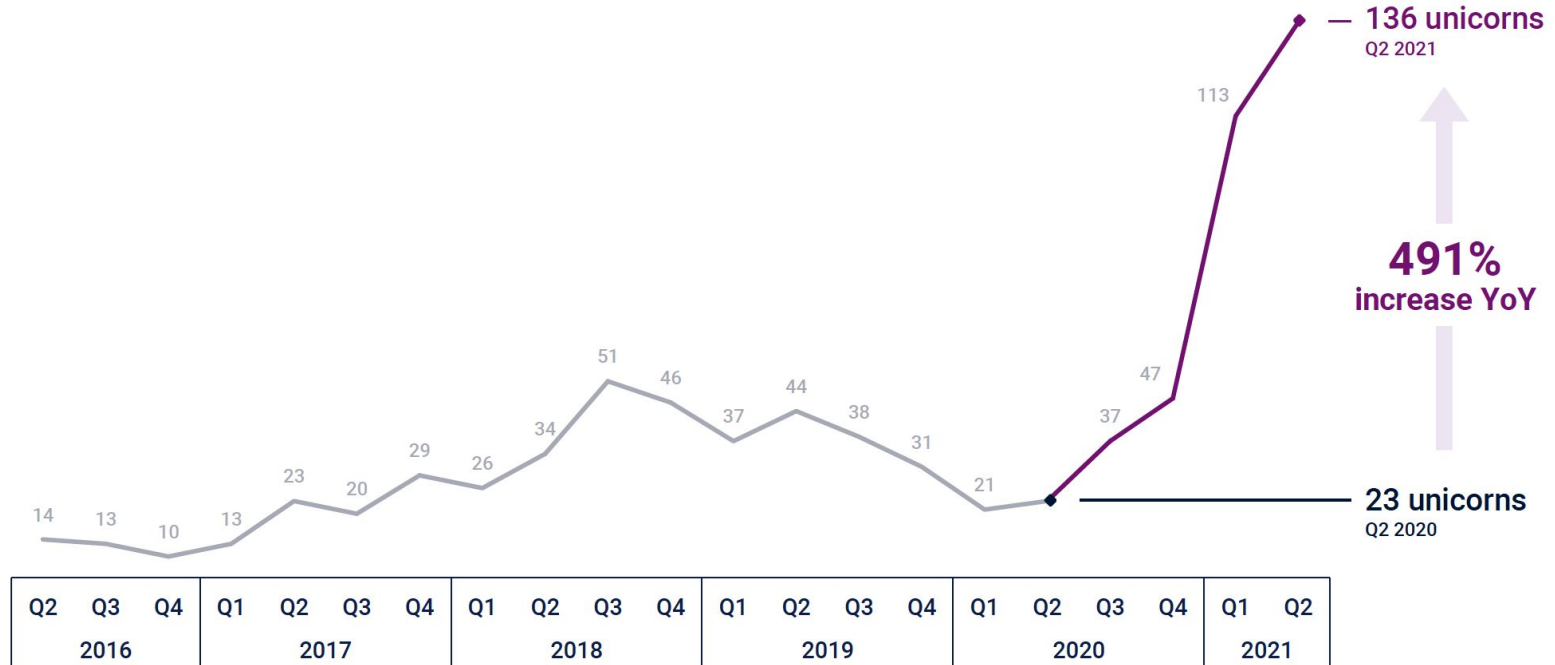




Silicon Valley Sees Second Consecutive \$20B+ Quarter

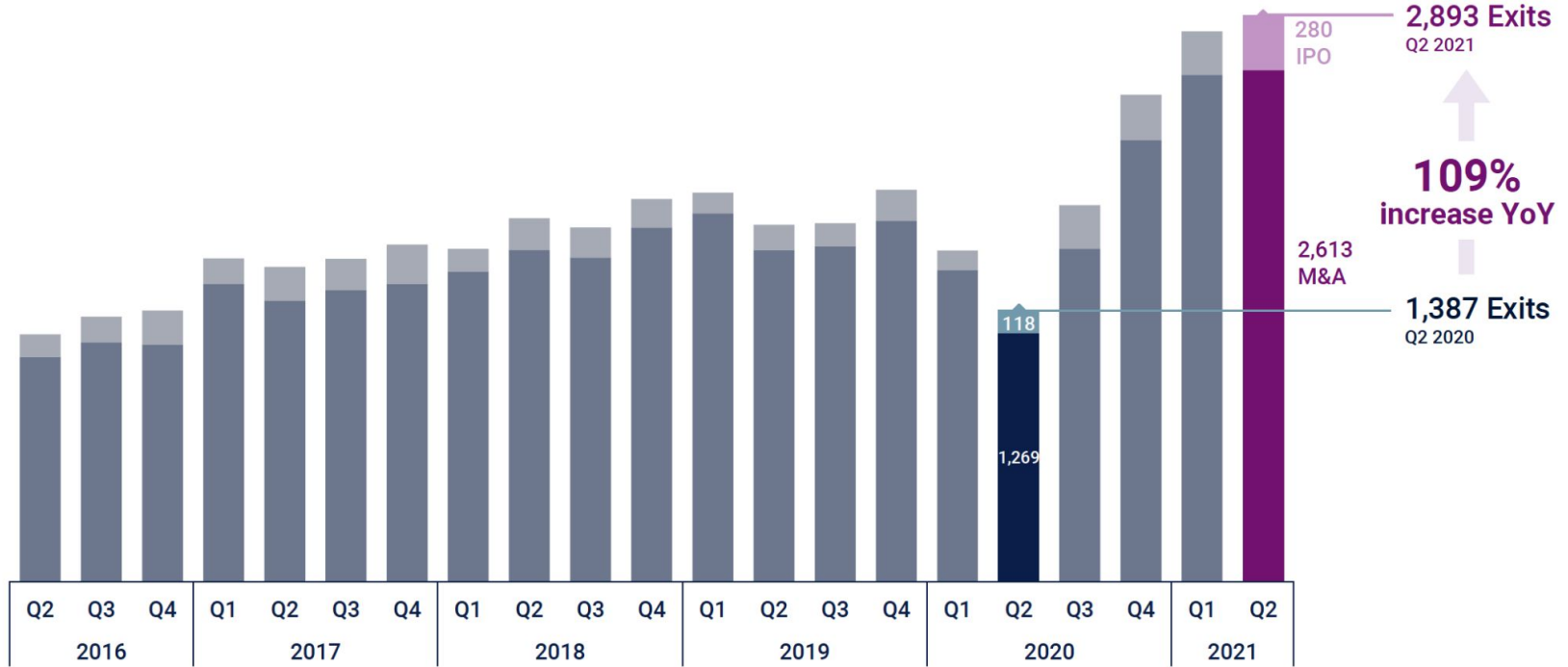


Record Number of Unicorns (\$1B+ valuation)





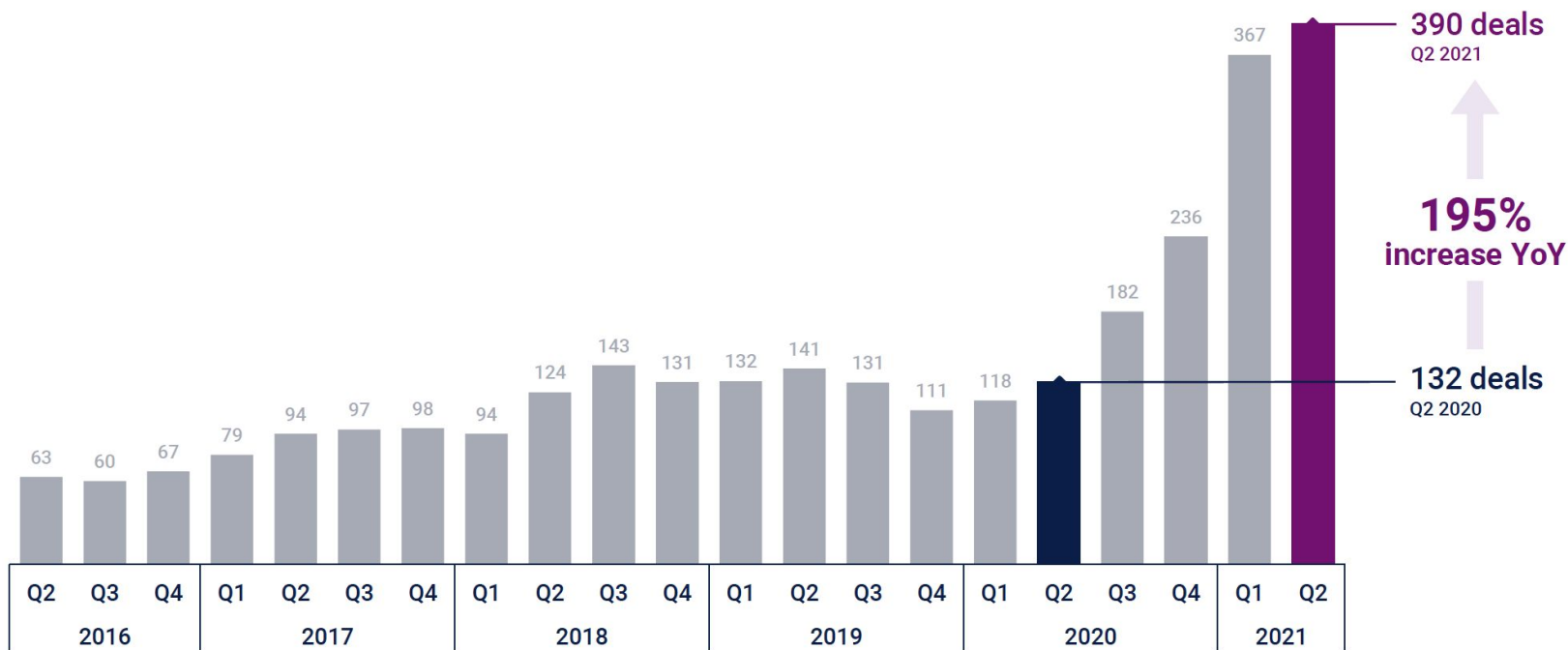
Record Number Exits (IPO or M&A)



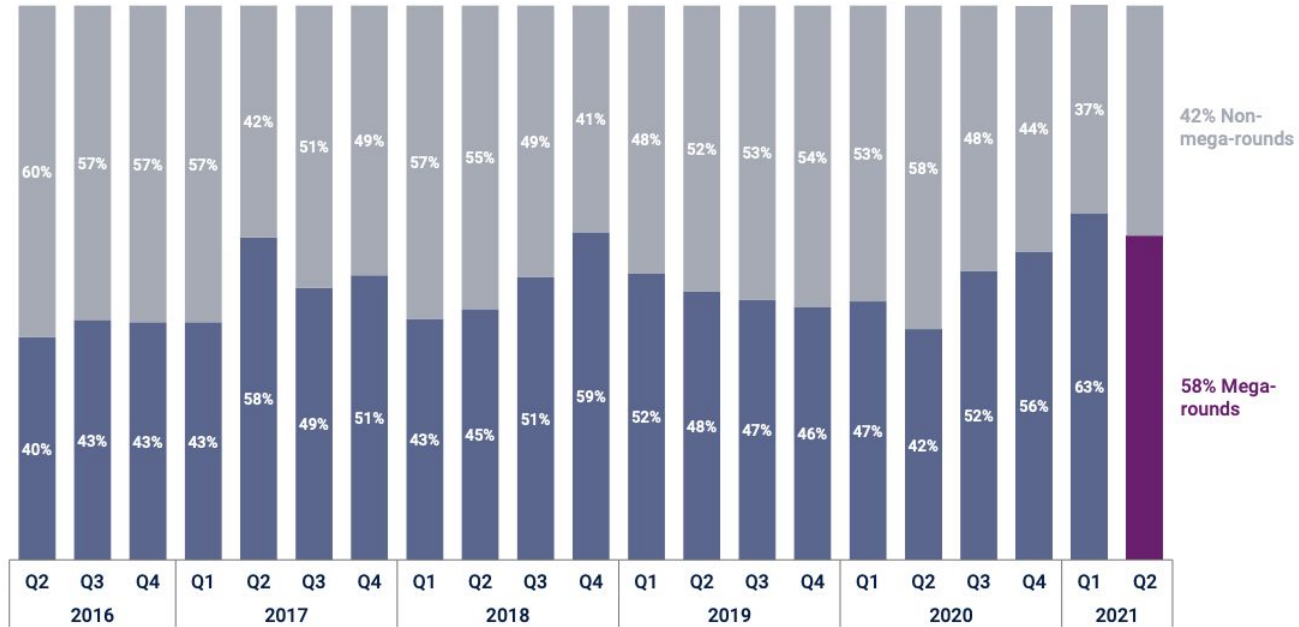
Funding For 1st Half of 2021 Nears 2020 Total



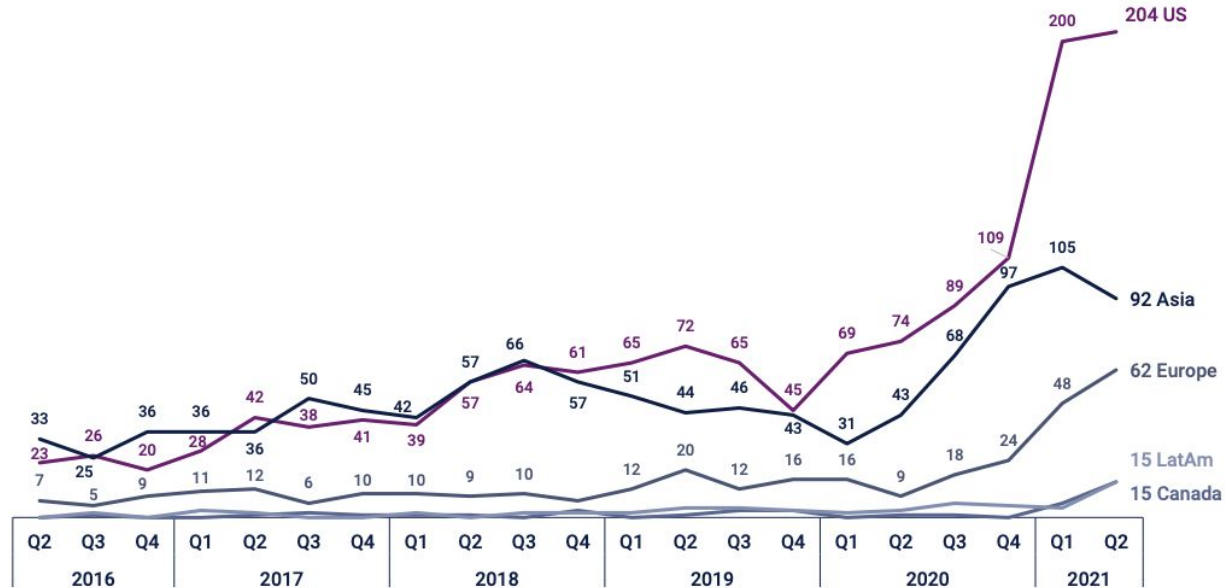
Record Number of \$100M+ “Mega Rounds”



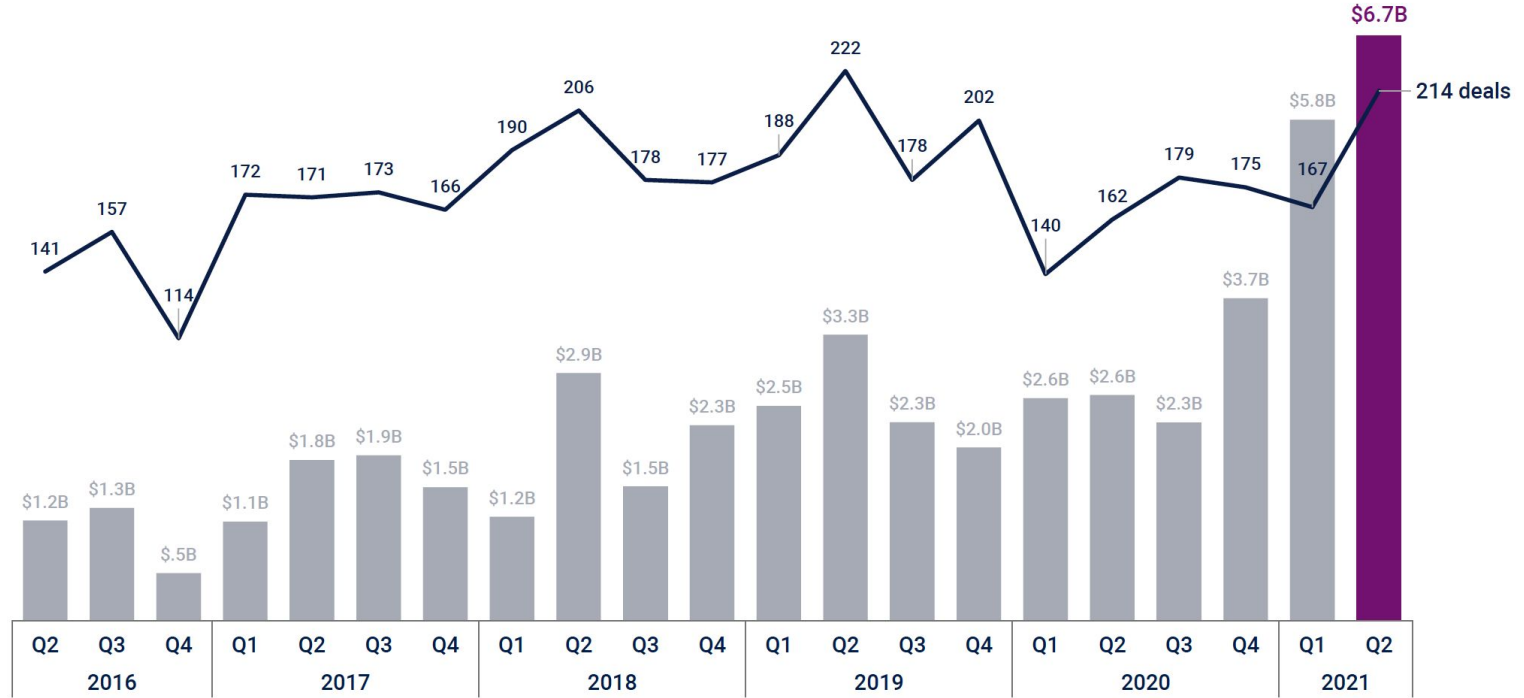
Mega-rounds Account for Nearly 60% of Dollars Invested Globally



Mega-rounds (\$100M+) Funded By Major Markets



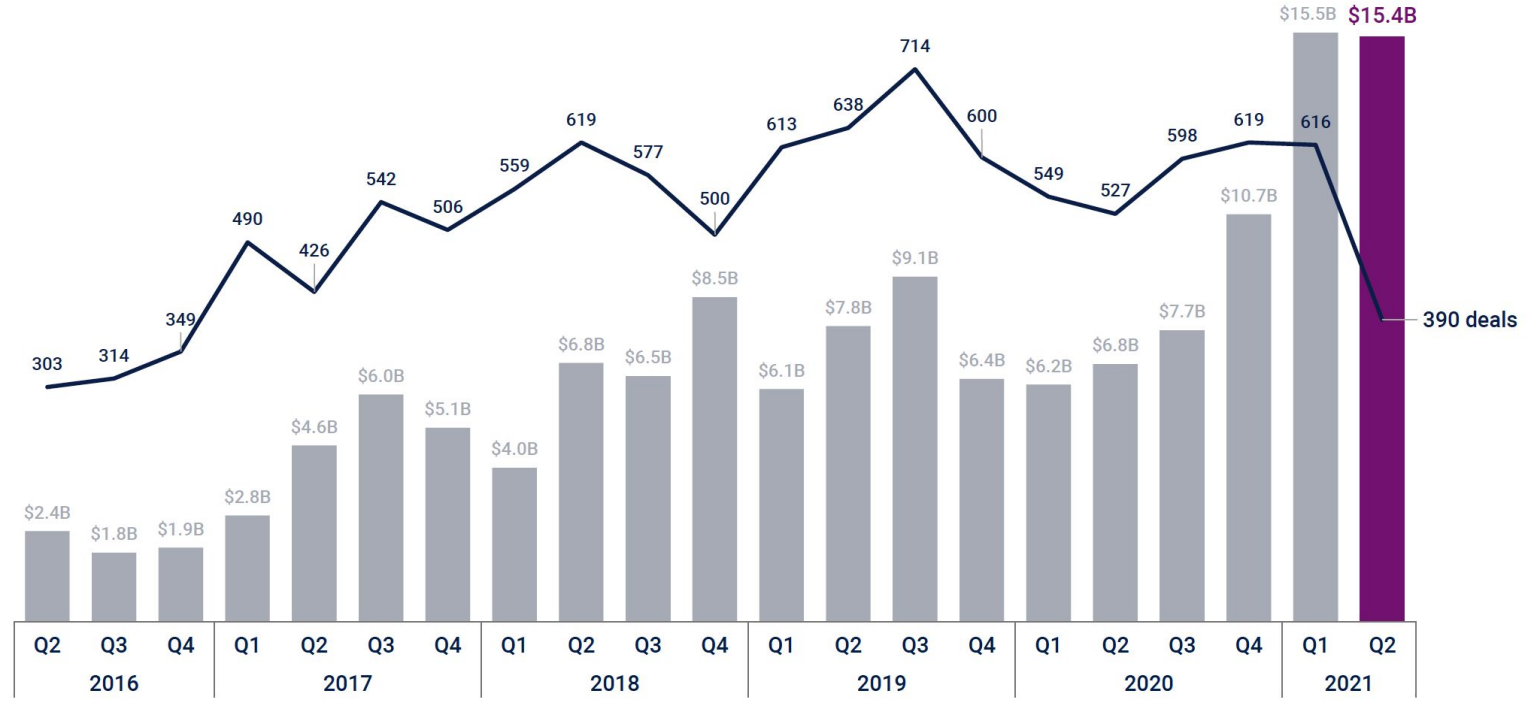
Cybersecurity Clocks \$13B in Funding for 2021 YTD



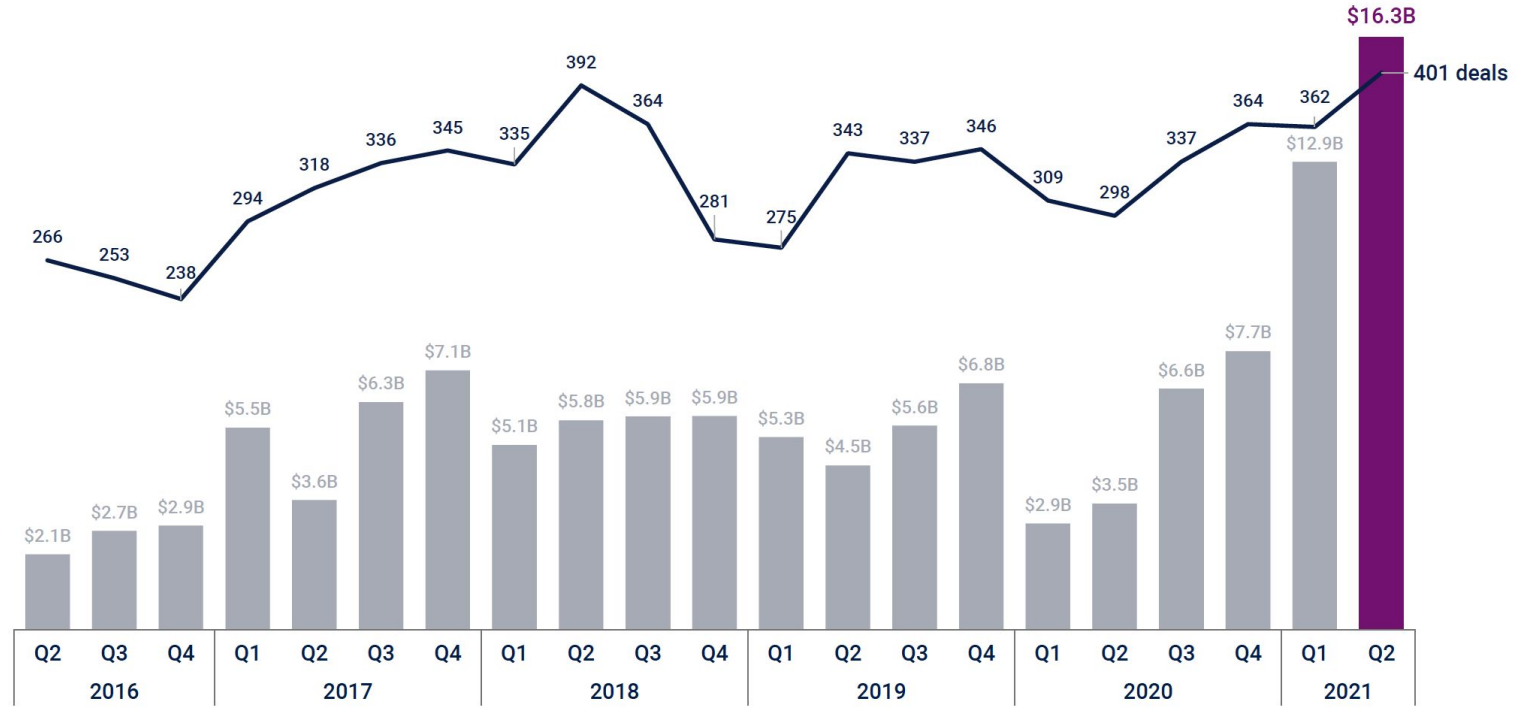
Digital Health Funding More Than Doubled Year-over-Year



VC Financings Focused on Artificial Intelligence Startups Hits Half-Year Record of \$31B



E-Commerce Quarterly Record of \$16.3B



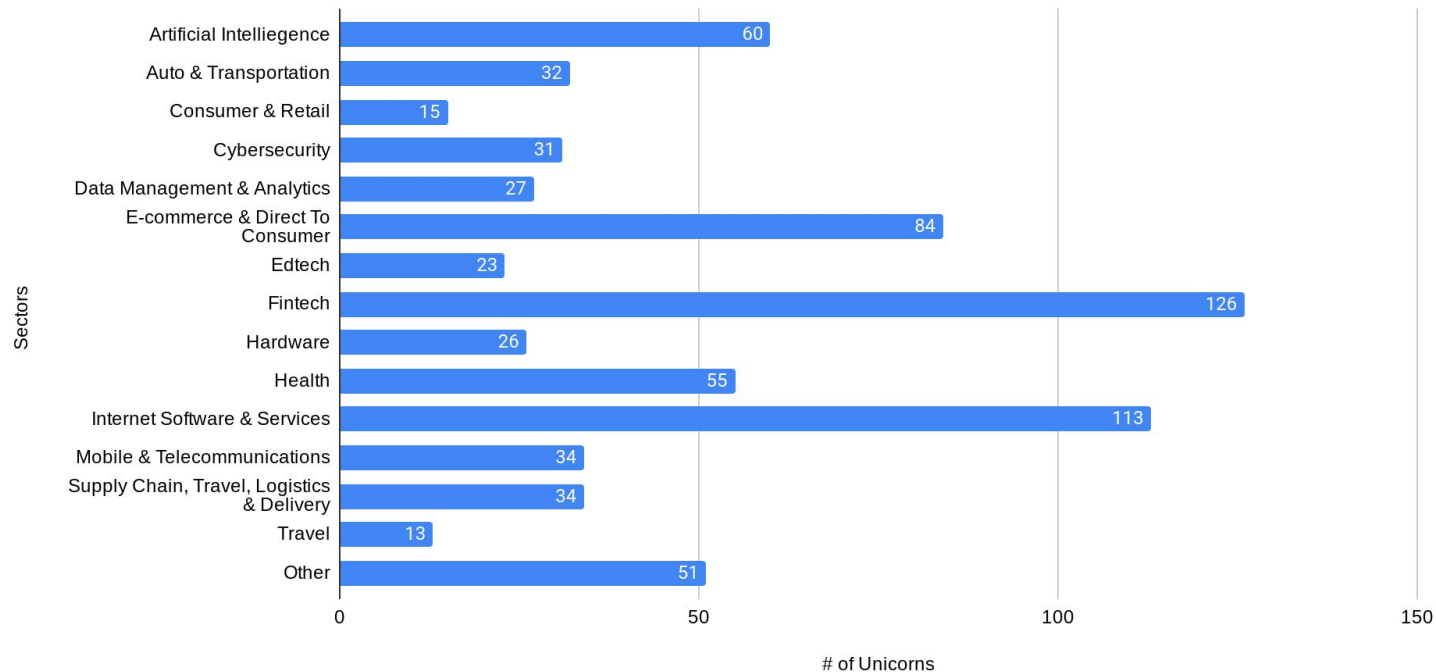
Fintech Sees Back-to-Back Quarterly Records in 2021



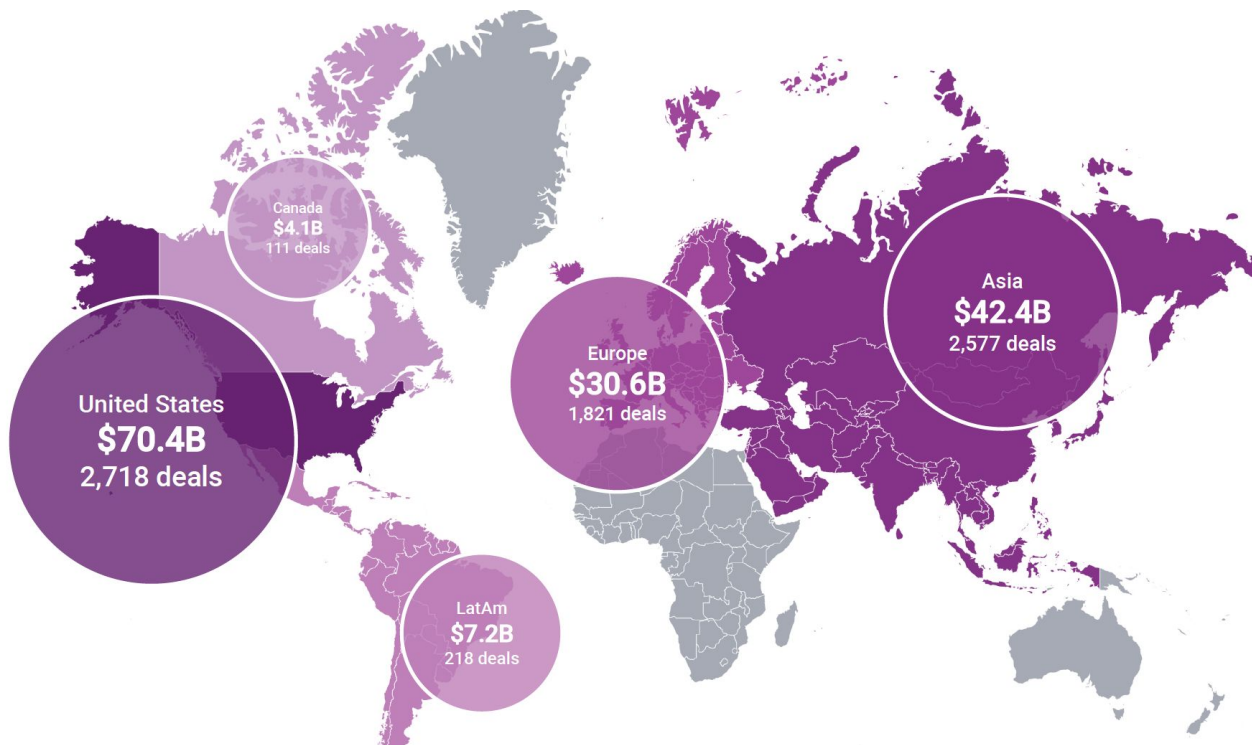
Global Unicorn Club - Sector Breakdown

728
Unicorns

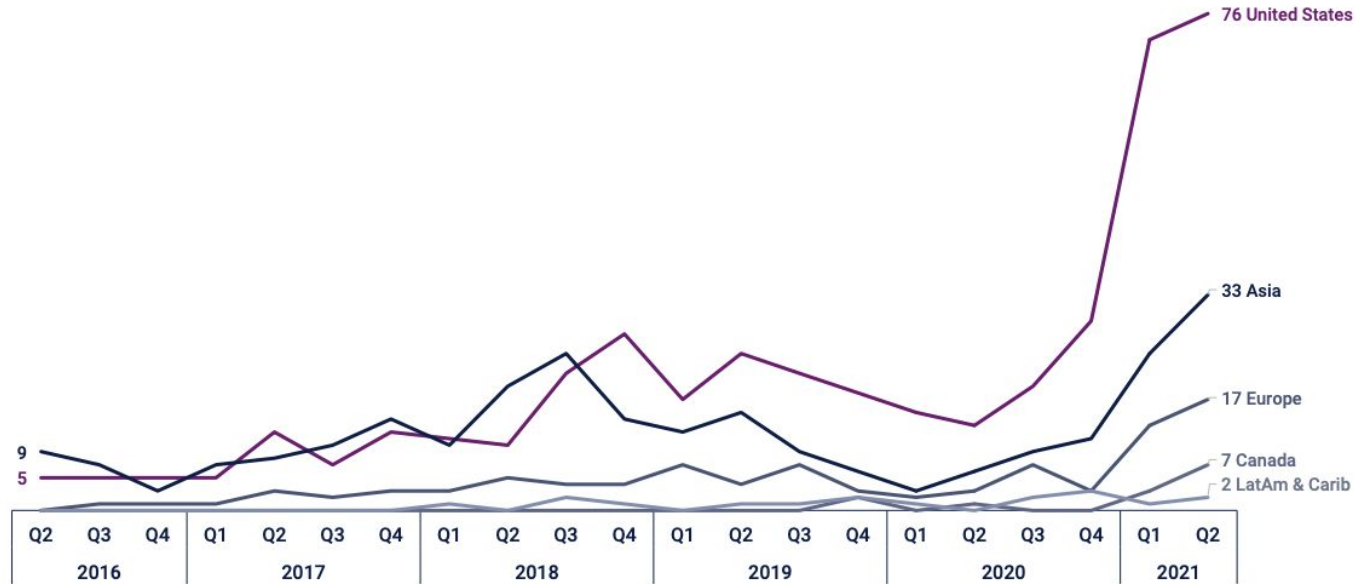
of Unicorns per Sector



Global Distribution of Investment (USD)

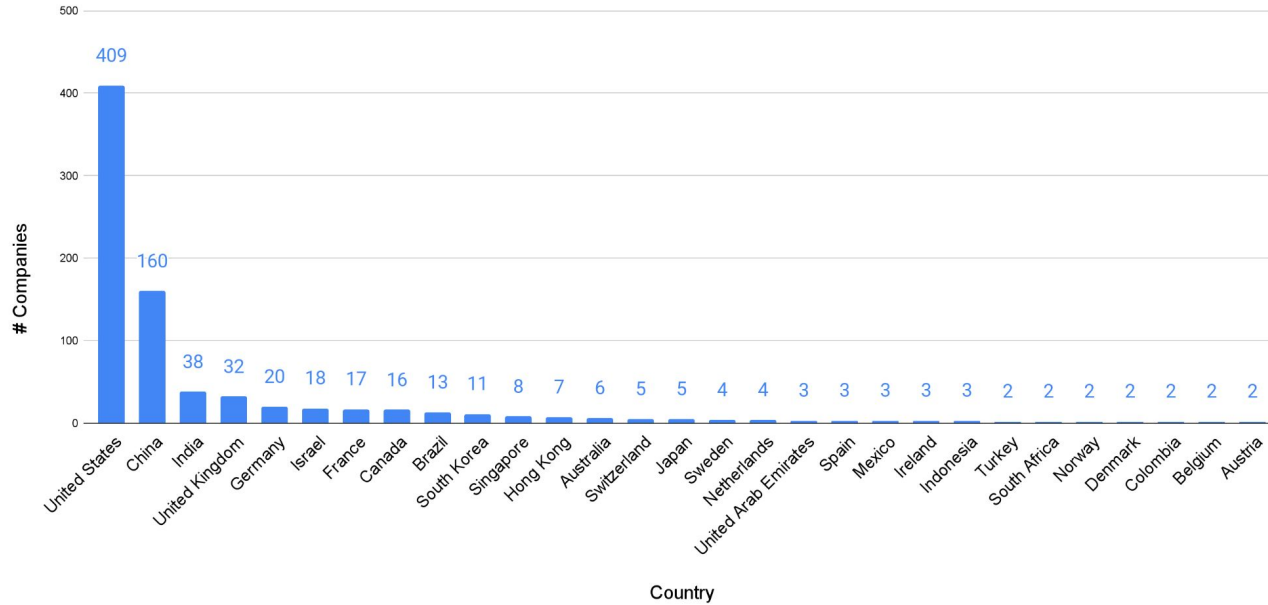


Amount of Unicorns “Birthed” By Major Markets



Unicorns per Country: America Remains #1

Unicorns per Country



US as a % of Global VC Fundraising by Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global Capital Raised (\$B)	\$51.0	\$26.0	\$35.5	\$48.9	\$45.8	\$37.6	\$56.7	\$81.3	\$89.0	\$94.8	\$124.5	\$92.8	\$111.8
US Capital Raised (\$B)	\$31.9	\$13.2	\$19.6	\$24.3	\$25.0	\$20.7	\$36.4	\$40.0	\$46.0	\$40.9	\$68.4	\$57.2	\$74.5
Global Capital Raised (#)	444	359	415	494	527	530	749	838	938	986	995	825	604
US Capital Raised (#)	196	128	157	180	239	266	408	477	525	530	608	527	339
US as % of Global (\$)	62.6%	50.8%	55.2%	49.7%	54.6%	55.1%	64.2%	49.2%	51.7%	43.2%	55.0%	61.7%	66.6%
US as % of Global (#)	44.1%	35.7%	37.8%	36.4%	45.4%	50.2%	54.5%	56.9%	56.0%	53.8%	61.1%	63.9%	56.1%

Source: NVCA 2021 Yearbook, Data provided by PitchBook



Summary

1

Venture capital is crucial for allowing startups to grow by financing their marketing, operations, and infrastructure costs. It also gives investors the opportunity to aim for high return on invested capital and contribute to making a societal change from company formation.

2

2021 was a record year for venture capital based on number unicorns, exits, IPOs, mega rounds, and global funding.

3

Fintech, Digital Healthcare, AI, Cybersecurity, and E-Commerce all saw record funding this year (2021).

4

The United States continues to hold the largest number of unicorns to date, continuing for the last several years. China is the next most abundant, followed by India in third.

5

Venture capital often requires longer holding periods and greater friction in the investment process, but can offer higher reward than public market alternatives. Many top-tier venture capitalists consider themselves as “business builders & partners” or “making partnerships with founders to change the future” as opposed to simply being “financiers”.

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