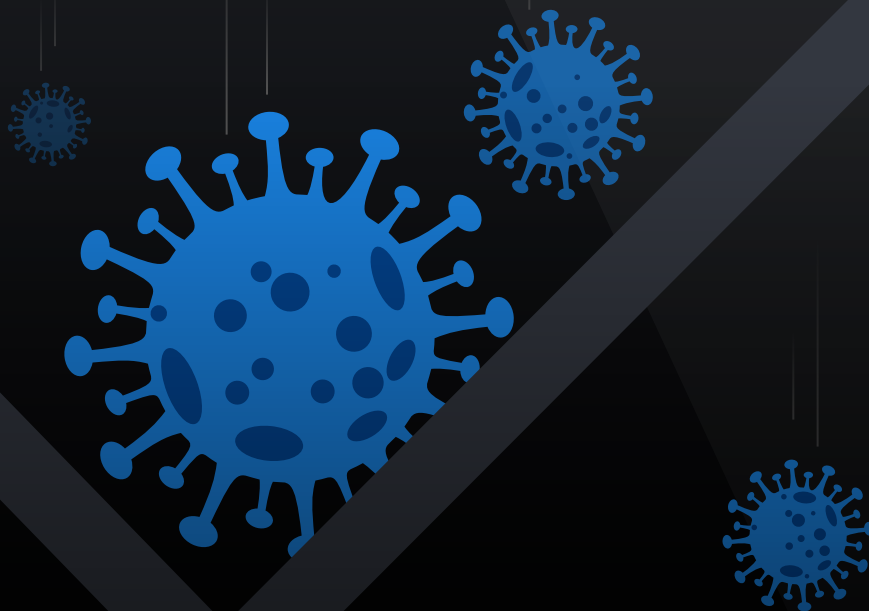




Litera Venture Capital Report

Betting on the Post-Covid Future



Data provided by  PitchBook®

From an investment perspective, do you think COVID-19 has impacted the venture capital industry, specifically around how deals are sourced?



At the start of the pandemic, the venture capital market slowed significantly as global economic uncertainty put dealmaking on ice. Some deals fell off a cliff and many just quietly went away. Very quickly, however, VCs and startups adapted to operating in a virtual environment, and the market came roaring back. The pandemic spurred a voracious appetite for innovation-driven investments—particularly in the tech and healthcare spaces—accelerating dealmaking, intensifying competition among VCs, and driving fundraising and valuations to record heights. In this “new normal,” deals are sourced in rapid fire over Zoom through connections and sometimes cold outreach. Founders can now hold numerous investor meetings in a day, generate strong investor FOMO (fear of missing out), and close on term sheets within days. The same factors exist in private equity fund formation: Substantial new funds are being formed in weeks rather than on extended timelines. The startup and venture capital market is now the busiest I’ve ever seen in my career.

Andrew Sparks, Partner, Goodwin

How has the due diligence process changed for venture capitalists, particularly around social distancing and remote startup pitches?



The pandemic forced the venture capital world to rethink due diligence with technology-driven solutions that brought incredible efficiencies to the process. With virtual data rooms, record digitization, zoom meetings, and digital collaboration tools, the due diligence process can be done just as thoroughly as it was prior to 2020, but now with greater speed and at a smaller cost.

David Brekke, Senior Associate, Goodwin

In your view, what are the key differences between today’s VC market and the pre-pandemic market?



Key differences in the market between now and pre-pandemic are the speed of closing on term sheets and just how busy everyone is. The efficiencies brought to dealmaking and the increase in demand for innovative startup investments have sped up the process and increased deal volume significantly. The whole venture capital ecosystem—from the investors and startups to the law firms and other service providers—is incredibly busy and recruiting heavily to take advantage of the abundant opportunities in the market today.

Andrew Sparks, Partner, Goodwin

PitchBook statistics show a surge in non-traditional investors entering the VC market, and 2021 set an all-time record. What do you attribute that to?



Non-traditional investors are looking for great returns, having seen all the recent success stories coming out of Silicon Valley. There is a lot of dry powder in the system, so non-traditional investors are increasingly eager to participate in and even lead VC deals.

David Brekke, Senior Associate, Goodwin

Please share your thoughts on valuations in the VC market, from an early-stage and late-stage perspective. Are they defensible?



Non-traditional investors have fueled an arms race and surge in late-stage valuations, which also trickles down to early-stage financings. We are seeing a fair amount of founder liquidity in relatively early-stage deals.

Andrew Sparks, Partner, Goodwin

Please discuss corporate sentiment toward the current startup market—with US exit value topping \$500 billion for the first time ever, is that indicative of widespread appetite for innovation and the motivation to buy these startups, even at high markups?



Innovation in technology and healthcare, and the intersection of these sectors with virtually every other sector, has fueled incredible interest in related startups. Investors are chasing disruptive startups with great intensity, creating fierce competition among VCs and driving up valuations significantly. Investors don't want to miss out on the next unicorn and are willing to pay top dollar for innovation.

David Brekke, Senior Associate, Goodwin

What is your near-term outlook for global VC heading into 2022 and beyond? Is it possible that 2022 will be even stronger than 2021?



I don't see the market slowing. Sectors such as climate tech, fintech, digital health, cryptocurrency, and life sciences are already booming and have so much more progress ahead, with VCs hungry to get in early on the next breakthrough innovation. We'll also continue to see a growing focus on environmental, social, and governance (ESG) matters. ESG has become increasingly important not only for public companies, but also for startups and their investors who are preparing far in advance of potential IPOs. Relatedly, issues of diversity, equity, and inclusion (DEI) have become a priority for the venture capital and startup market. Having an equitable and inclusive company is not only the right thing to do but also incredibly helpful to the success of any business. We're seeing more and more DEI language and covenants in deals and expect this trend to continue far into the future.

The VC market will never go back to the way things were before 2020. The efficiencies learned over the past two years are here to stay, including remote and distributed teams, virtual meetings and collaboration (balanced with occasional, meaningful in-person interactions), and a faster dealmaking process have been a boon for the industry and will continue to fuel activity in 2022 and beyond.

Andrew Sparks, Partner, Goodwin