



The Rise of Unicorn Funds – Examining the Supply of Private Growth Capital

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SharePost

In our recent reports, we highlighted key trends and factors leading up to the proliferation of “Unicorns” and emergence of the new “Private Technology Growth” asset class. As a next step to analyze the market forces that could drive further proliferation of Unicorns coupled with greater investor allocations towards the new Private Technology Growth asset class which contains them, we explore answers to the following questions: 1) How would you characterize the capital raising environment for the traditional venture capitalists and the other investors participating in the asset class since 2009? 2) Are traditional LPs allocating a greater or smaller proportion of their capital to the new asset class? 3) How much committed capital or “dry powder” do these funds currently have available to invest into the asset class? and 4) What do recent fundraising trends tell us about the health of the asset class and capital raising prospects for its companies?

Key highlights from our findings include the following:

Roughly \$220B in funds raised for Private Technology Growth asset class since '09:

Partially driven by a post-recession recovery tailwind, the annual run-rate of capital raised by US-headquartered, tech-focused venture capital and private technology growth investors has increased roughly 4X – from \$11B in '09 to \$41B in '15, exceeding pre-recession peaks (around \$32-33B per year from '06 through '08), translating to a healthy 25% year-on-year 6-yr CAGR. On a YTD basis, these investors have raised \$28B, and appear to be on track to exceed \$50B in total new funds. Coincidentally, as highlighted in our recent report, “Birth of an Asset Class,” there has been a growing demand for capital as private tech companies have raised, in the aggregate, more than \$200B over the past six and a half years. The annual run-rate demand for capital from private tech companies has grown 5x from 2009 to 2015.

Clearly, the supply and demand curves for private capital have shifted as entrepreneurs' desire to stay private and raise private capital has continued to rise since the Great Recession.

Mega \$1B+ funds account for 60% of incremental capital raised since early '14: Largely mirroring the trends observed in capital deployed into private technology companies, we noticed two distinct, three-year private fundraising paradigms since the end of the Great Recession in 2008. From 2009-12, capital raised by Private Technology Growth oriented funds more than doubled from \$10-12B per year to \$24-26B per year. Funds across all stages and sizes likely experienced a post-recession tailwind leading to a "reversion to mean" fundraising environment. Since 2013, annual run-rate capital raising has again almost doubled, from \$25B in 2013, driven by a 4X increased in dollars committed to \$1B+ funds. Roughly \$10B out of \$16B in incremental capital commitments (i.e. the delta between \$25B in total fundraising activity in 2013 and \$41B in 2015) have come via \$1B+ mega funds, contributing to 60% of incremental dollars raised since early 2014.

Leading investors in today's Unicorns growing share of capital commitments: We estimate that the 20 most well-known private tech investment firms in the asset class today have raised roughly \$83B over the past six and a half years, with more than \$41B funds raised in the past two and a half years alone. And, 32 out of the 38 recent billion-dollar private technology growth oriented funds can be attributed to these firms. Such fundraising activity has led to a major shift in the market share of these funds among LPs - the share of capital raised has steadily increased from 25% in 2013 to over 40% of capital raised on a trailing twelve months (TTM) basis. In our first report, we highlighted that VC batting average has been remarkably consistent despite exponential growth in both size and number of "home run" outcomes. Effectively, we think we have seen a virtuous cycle evolve between the growth of Unicorn companies, the expected rate of return from Unicorn investments and the LP/investor allocation of capital to the fund's backing Unicorns.

Significant amount of dry powder available to support existing unicorns and mint new ones: We believe that private technology

growth funds are like start-ups that unfold in slow motion. While a start-up tends to raise funds every 12-24 months, we estimate private growth funds tend to fundraise every 3 to 4 years. While investors in a start-up typically have an investment horizon of 6-10 years, investors in a VC fund usually have an investment horizon of 10-15 years. So, the fundraising activity over the past 4-5 years is likely going to fuel the asset class for the next 10 years or so. According to Preqin, a data aggregation platform for alternative assets industry, global VC investors were sitting on more than \$200B in cumulative dry powder at the end of 2015, a record high in past 10 years. Based on data from Pitchbook and our own analysis, we believe roughly \$30-40B in dry powder is available to leading 20 private technology growth investors, essentially to maintain the existing crop of Unicorns as well as invest in the next cohort of Unicorns over the next 5+ years.

Note About Profiling Fund Types Investing in Private Technology Growth Companies

Categorizing the firms investing in the new Private Technology Growth asset class can be challenging because many of the usual labels overlap and mean different things to different people. The challenge is compounded by the fact that firms are migrating into the asset class from adjacent asset classes. Traditional VCs are raising later-stage funds, public market investors are "swimming upstream," sovereign wealth funds and investment divisions within large corporations are opportunistically making large direct investments. For ease of reference, we have grouped investors in this report as follows:

1. We refer to "Traditional VCs" as pools of capital raised for the primary purpose of investing in the equity of startup companies. This group includes traditional venture capital investors such as Union Square Ventures, Kleiner Perkins, Sequoia Capital, Benchmark, etc.;
2. We refer to "Private Growth" capital as the funds raised by any institution with the primary intent to invest in private technology companies and that have invested in at least one Unicorn. Generally, such funds are identified as "growth equity funds" or "growth stage funds", and tend to be classified as private equity funds by data

Fund Types Investing in the Private Technology Growth Asset Class



Exhibit 1: Profiling Fund Types Investing in Private Technology Growth Companies

Source: Sharespost Research

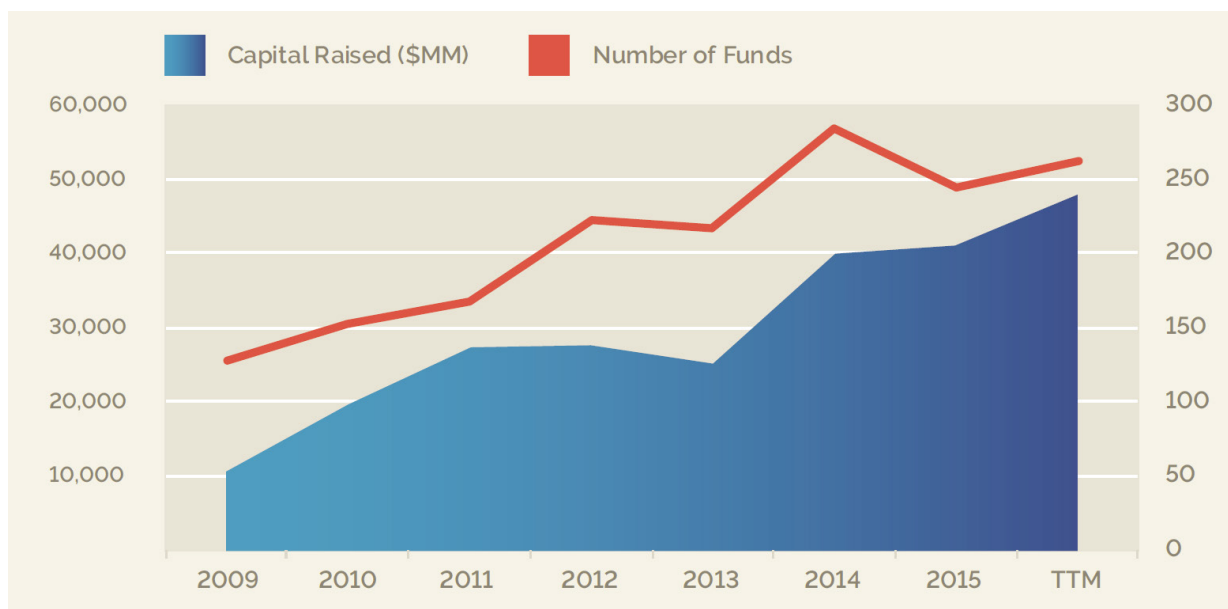


Exhibit 2: Traditional VC & Private Technology Growth Fund Raising Trends Since 2009

Source: Pitchbook, Sharespost Research; \$ in millions

aggregators such as Pitchbook and Preqin. We note that we have not included private equity funds that primarily invest in buyouts or real estate or via mezzanine capital. We have included funds raised by only those traditional private equity investors that have a stated purpose to invest in tech companies, with a focus on growth, and that have invested in at least one Unicorn;

3. Lastly, we lump corporate venture investors, sovereign wealth funds, asset management divisions within large financial institutions (e.g., investment bank sponsored funds), and mutual funds into an "Other" group. We highlight that we have not included the funds raised by this group of investors in the analysis presented in this report. While these investors have played an important role in the ongoing proliferation of Unicorns, we believe such funds tend to comeingle with other large pools of money managed by these institutions. Hence, separating funds dedicated towards private technology growth companies could become an exercise requiring significant number of assumptions and caveats. And, excluding this potentially large base of capital makes the overarching conclusions in the report even more compelling.

Roughly \$220B in funds raised for Private Technology Growth asset class since '09

Since the dot-com crash in 2008(?), commitments to the traditional U.S. venture capital industry and the larger private growth capital asset class have grown, although this growth has not been uniform. Instead we have seen peaks in fundraising followed by major retrenchments. While a variety of factors affect the level of commitments to private growth as an asset class, we believe changes in the amount of demand for capital (or, entrepreneur's desire to raise private capital) and the LP/investor confidence on the expected rate of return from investments are among the most important factors affecting the supply of private growth capital funds.

Our recent reports on Unicorn creation and funding highlight the following factors likely led to growing supply of private growth capital: 1) Since 1995, the batting average of traditional venture capital and private growth investors has been remarkably consistent despite exponential growth in both size and number of "home run" outcomes. We think this has resulted in growing LP/investor confidence in Private Growth Capital as an asset class; 2) Private tech companies have raised more than \$200B since the end of the Great Recession. On an annual run rate basis, the demand for capital from private tech companies has grown 5x from 2009 to 2015. We believe this has translated into a growing demand for private growth capital as entrepreneurs' desire to stay private and raise private capital has continued to rise since the Great Recession.

In order to dig deeper into the underlying trends affecting the supply of venture capital, as a first step, we collated quarterly data on VC fundraising trends across stages of company development, sliced by size of individual funds, and with a stated investor focus on Private Technology companies. We relied on data sourced from Pitchbook, Dow Jones Venture Source, and National Venture Capital Association (Thomson Reuters) since the beginning of 2009. In this report, we provide a series of data points and analyses illustrating the underlying trends and drivers affecting VC fundraising patterns. **The simple headline is that partially driven by a post-recession recovery tailwind, annual run-rate capital raised by US-headquartered Technology-focused traditional Venture Capital and Private Growth investors has increased ~4x from \$11B in '09 to \$41B in '15, exceeding pre-Recession peaks (around \$32-33B per year from '06 thru '08).** Capital commitments to Private Growth Capital as an asset class have effectively increased at a healthy 25% per year 6-year CAGR.

Number of funds raised slowing down, but committed dollars rising

Since the Great Recession, there has been a general upward trend in the number of traditional VC and private growth funds launched per year as well as the amount of capital allocated by LPs

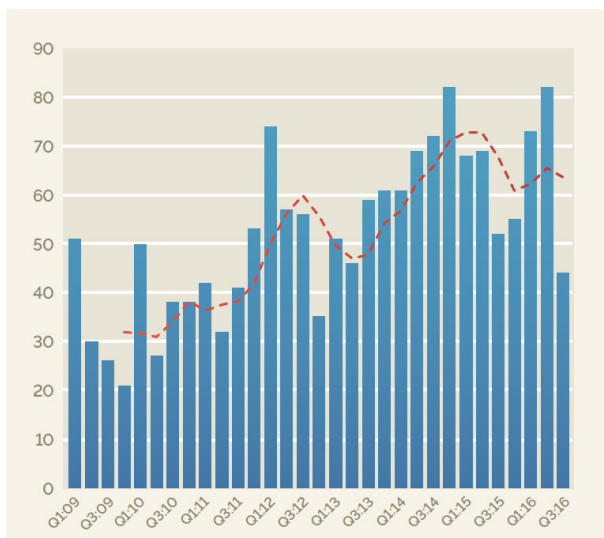


Exhibit 3: Number Of Funds Raised Per Quarter By Traditional VC & Private Growth Funds

Source: Pitchbook, Sharespost Research; chart shows number of traditional VC and private growth funds raised per quarter

to this asset class. We believe these trends have largely been an outcome of the several macro-level trends coinciding over the past 5-6 years: 1) Growing volatility in public market fundamentals; 2) Lower costs to start a tech business given cloud computing proliferation; 3) Growing end-market opportunities given secular shift toward Internet and Mobile computing; 4) Rising costs to succeed or scale given blurring lines across traditional technology sub-sectors leading to rising competition among large tech stalwarts (e.g., large technology companies such as Google, Apple, Microsoft, Amazon, and Facebook increasingly compete on the margins and growth opportunities); and 5) Growing confidence among LP investors of anticipated returns from existing VC investments due to the emergence and proliferation of “Unicorns.”

We illustrate the big picture trends in the charts. Summary takeaways are as follows:

Annual run-rate of number of funds raised has increased 2x since '09: Over the past 6 years, the number of net new traditional VC and private growth funds launched has roughly doubled, from approximately 100-150 per year from 2009 to 2011, to over 250 net new traditional VC & private growth funds launched per year since 2014. When observed at a granular level the number of funds raised per quarter ranged between 25 and 50 funds during 2009 and 2010. This quarterly run rate increased to a range between 35 and 70 during 2011 and 2012. And, since 2013, quarterly run rate has ranged from 50 to 80 funds raised. (We note that we are here referring to traditional VC and private growth funds that have a stated focus on “Information Technology” companies).

Annual run-rate of number of funds raised likely peaked in 1H:15, coincident with the number of sub-\$100MM funds: As illustrated in the chart with a TTM trend of number of new funds raised, the annual run-rate of number of funds raised increased from 120-130 funds per year in 2009 to 250-ish funds raised during 2014. In 1H:15, the annual run rate approached 300 funds per year. Over the past four quarters, this annual run rate has gradually ticked lower to roughly 250 funds per year. We note

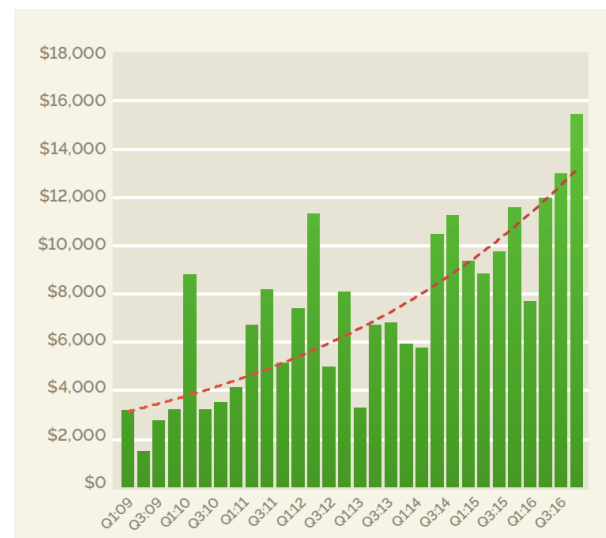


Exhibit 4: \$MM Capital Raised Per Quarter By Traditional VC & Private Growth Funds

Source: Pitchbook, Sharespost Research; chart shows number of traditional VC and private growth funds raised per quarter

that this sequential decline has been largely driven by funds with committed capital below \$100MM.

Annual run-rate of dollar capital raised has increased 4x since '09: While the number of new traditional VC and private growth funds launched has doubled, the gross amount of dollars allocated or committed to traditional VC and private growth funds has been rising at a faster clip. From 2009 through 2015, VC fund allocations have roughly tripled from approximately \$10-15B in annually in 2009 and 2010 (or \$30B raised in total during 2 years) to more than \$45B in annual capital commitments since 2015. And, on a YTD basis, 2016 VC fundraising trends imply another record-breaking year as far raising new funds is concerned. When observed at a granular level, the gross dollar amount of capital committed per quarter ranged between \$3B to \$4B during 2009 and 2010. This quarterly run rate increased to a range between \$5 and \$8B during 2011 and 2012, followed by another step-up to a range of between \$7 and 10B during 2013-2014. And, since Q1 '15, quarterly run-rate has exceeded \$10B, effectively quadrupling from the 2009-2010 levels

Roughly 55-60% of annual traditional VC & private growth funds are typically raised in 1H: It appears there is a bit of seasonality in VC fundraising activity as 1H committed dollars have exceeded 2H investment dollars during six out of the past seven years. And, drawing this out further, we'd expect the gross capital committed in traditional VC and private growth funds in 2016 to approach new post-recession record highs, likely approaching \$50B, given the \$25B+ raised so far in 1H:16. This finding largely ties in with our conclusion around VC investment seasonality. As highlighted in our previous report, VCs tend to invest more in 2H of any given calendar year, likely playing catch-up to meet capital thresholds or completing due diligence on existing deals.

1H:2016 committed capital levels imply continued rise in dollars raised: On a TTM basis, we estimate roughly \$48B in capital has been committed to traditional venture capital and private technology growth funds based in US. This compares to an estimated \$40B in 2014 and \$41B in 2015. On a YTD

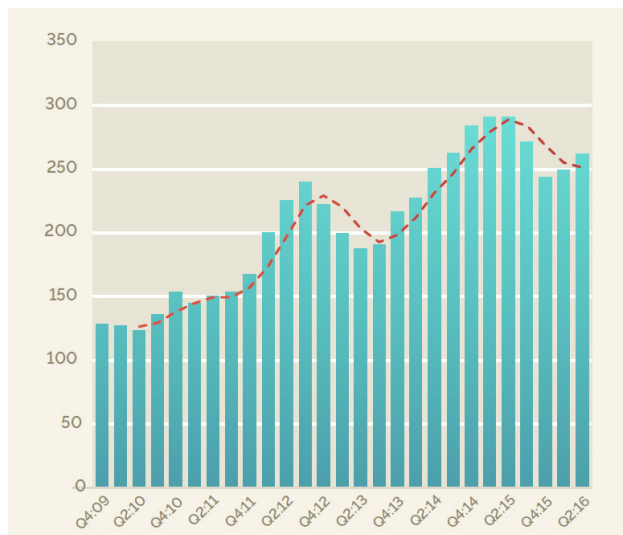


Exhibit 5: Number Of Funds Raised On A TTM basis

Source: Pitchbook, Sharespost Research

basis, traditional venture capital and private technology growth investors have raised \$28B in capital. And, assuming a roughly 60-40 split across 1H/2H fundraising activity, we guesstimate approximately \$48-53B in capital will be raised in 2016, clearly exceeding annual capital commitments observed since the dot-com boom levels (in an inflation unadjusted manner).

Mega funds (\$1B+) account for 60% of incremental capital since '09

Next, we looked under the hood to determine key factors leading up to the growth in capital commitments in US-based traditional venture capital and private technology growth funds. To provide a better frame of reference for the recent growth in capital commitments to traditional venture capital and private technology growth funds, we illustrate below a long-term trend in dollars committed by investors towards VCs and PE investment firms. Recall that the modern VC industry likely began in the 1940s and grew gradually until early 1980s. In the early 1980s, new sources of capital from pension funds led to accelerated

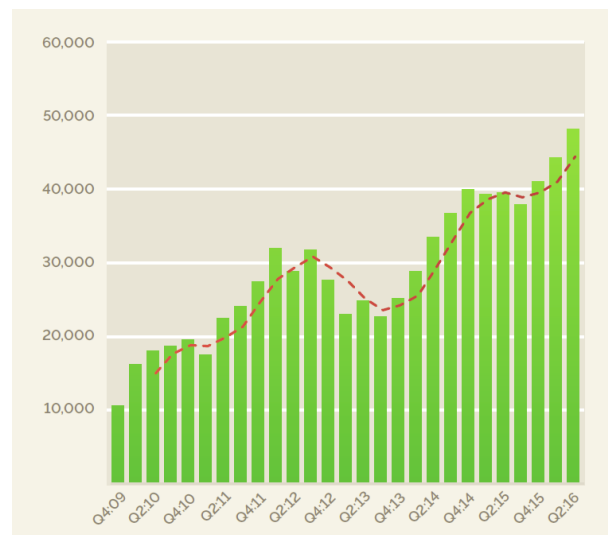


Exhibit 6: \$MM Capital Raised On A TTM basis

Source: Pitchbook, Sharespost Research; \$ in millions

growth, which resumed in the mid-1990s. Rapid growth in capital commitments to traditional VC & private growth funds in late 1990s ended in the dot-com crash in 2000. Between 1997 and 2001, there was a doubling or near doubling of the total number of traditional VC & private growth funds, the total number of VC firms, and the size (capital divided by funds or firms) of these traditional VC & private growth funds and VC firms. The size of the industry hit a plateau in 2001 and stayed steady between 2002 and 2006. However, the overall VC industry started to contract in 2007 which ended in 2009. However, despite year-on-year declines since 2007, according to NVCA, the capital under management is still higher than the 1999 levels. As highlighted in the charts below, VC firms have raised a sum total of \$627B since 1995. Capital under management, calculated using a rolling eight years of fundraising, by those firms at the end of 2015 was \$165B.

We note that due to the differences in the data collection methods and sample selection, the committed-capital amounts in Exhibit 1 are not directly comparable to the investment totals given in

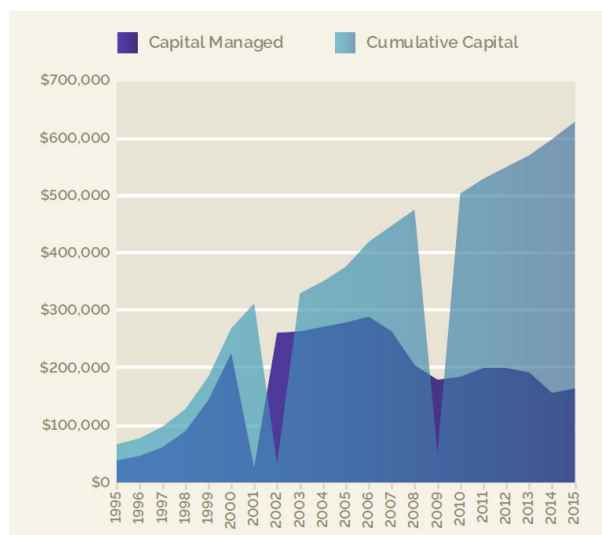


Exhibit 7: Gross Capital Managed Per Year Vs. Cumulative Capital Raised

Source: NVCA (Thomson Reuters); Sharespost Research; \$ in millions; Capital managed based on rolling 8-year fundraising trends

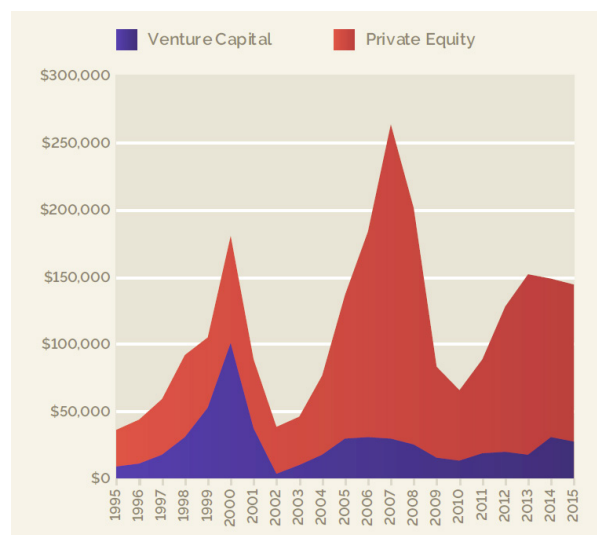


Exhibit 8: Gross Committed Capital Per Year Since 1995 By VC & PE Funds

Source: NVCA (Thomson Reuters); Sharespost Research; \$ in millions; Private Equity committed capital includes Buyouts & Mezzanine Funds as well

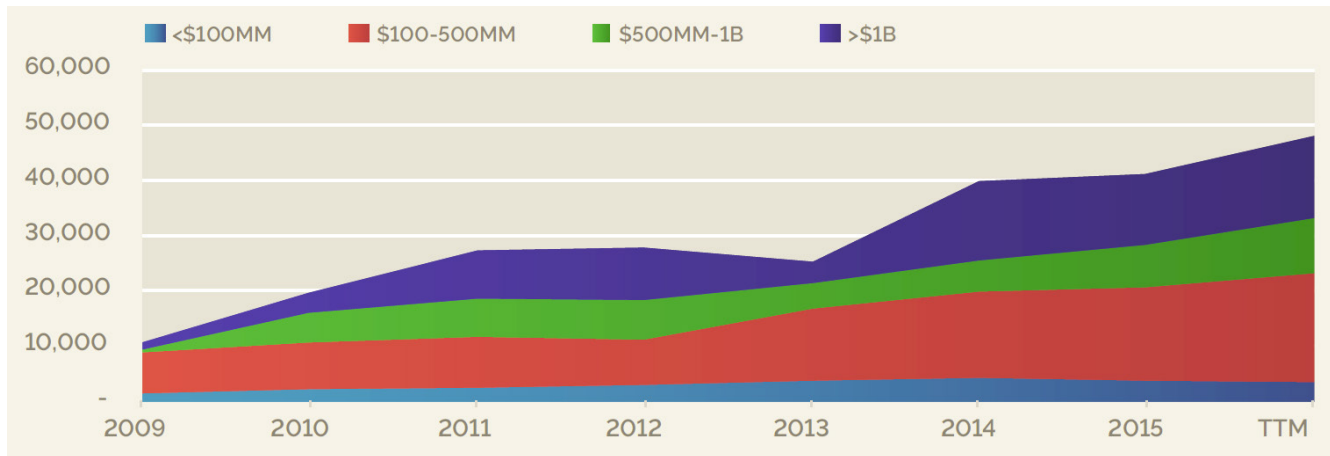


Exhibit 9: Gross \$MM Raised Per Year By Traditional VC and Private Growth Funds

Source: Pitchbook; Sharespost Research; \$ in millions

Exhibit 7 and Exhibit 8. Nevertheless, the general trends are similar. According to the NVCA 2015 Yearbook, the growth equity asset class really emerged from the private equity asset class (which includes venture capital, buyouts and mezzanine activity) after the 1999/2000 dot-com tech bubble. We believe the lines have increasingly blurred around the boundaries of traditional venture capital and growth equity investments in private technology companies since the end of Great Recession. In the rest of the report, we have relied upon curated Pitchbook data for trends in traditional venture capital and private growth fundraising trends. Our objective has largely been to identify the fundraising trends of key Unicorn investors, among other things, and we believe curated Pitchbook data by fundraising activity of individual investors allows us to include/exclude funds based on past investments.

Per Pitchbook, overall VC fundraising activity peaked in 1H:14, consistently exceeding \$10B per quarter and, since then, we have witnessed \$10B or greater fundraising during four out of the past eight quarters. **Small Funds (<\$100MM in capital)** account for approximately 50-55% of traditional VC and private growth funds raised each year and 6-8% of capital. Per Pitchbook data, number of sub-\$100MM traditional VC and private growth funds

as well gross capital raised via sub-\$100MM funds peaked around 2H:2014. Since then, both number of, and gross capital raised via, sub-\$100MM deals has declined on a Q/Q basis. **Mid-Size Funds (\$100-500MM in capital)** account for approximately 35-40% of traditional VC and private growth funds raised and 40-45% of VC invested dollars. Unlike the slowdown witnessed in early-stage VC investments, both the number of and gross dollar capital invested via mid-size VC investments have stayed above a fairly high watermark since early 2014; **Large Funds (\$500MM or more in capital)** account for 6-8% of traditional VC and private growth funds raised and more than 50% of funds raised by private tech investors. Fundraising activity for large \$500MM+ funds has been fairly cyclical over the past 5-6 years, with peaks every couple of years – around mid-2012, mid-2014, and current trends implying another peak fundraising period, largely driven by mega “Unicorn” funds.

While there has been a steady, consistent, and perhaps remarkable increase in the dollar amount raised by traditional venture capital and private technology growth investors since the Great Recession, we noticed two distinct, three-year private tech fundraising paradigms since the end of the Great Recession. This trend largely mirrors the trends observed in Private Tech

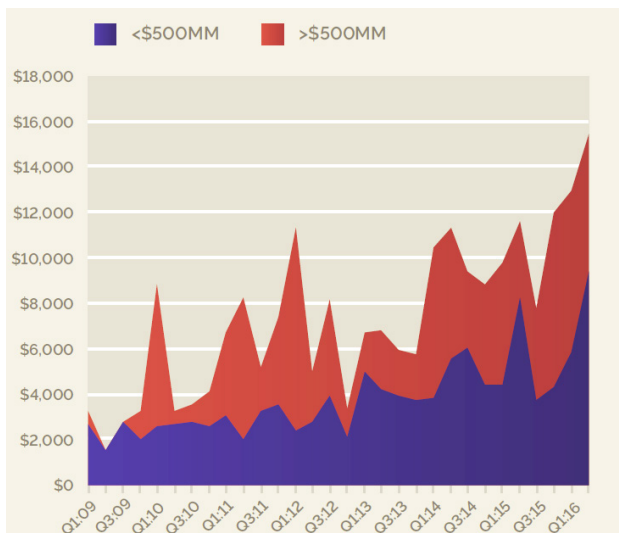


Exhibit 10: Gross \$MM Raised Per Year By Traditional VC and Private Growth Funds

Source: Pitchbook; Sharespost Research; \$ in millions

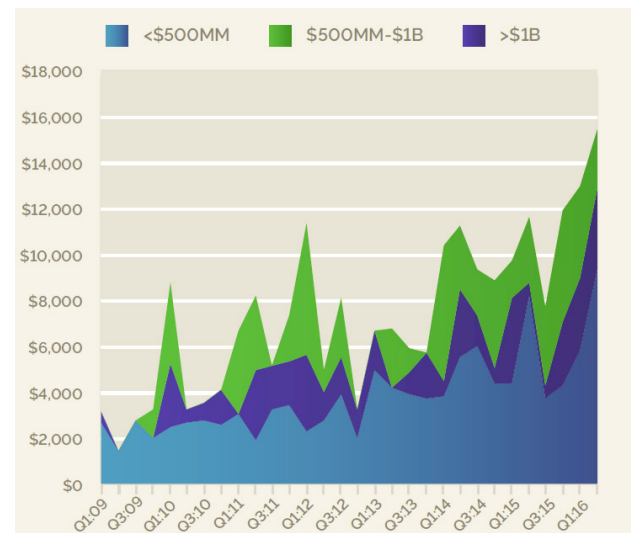


Exhibit 11: Gross \$MM Raised Per Year By Traditional VC and Private Growth Funds

Source: Pitchbook; Sharespost Research; \$ in millions

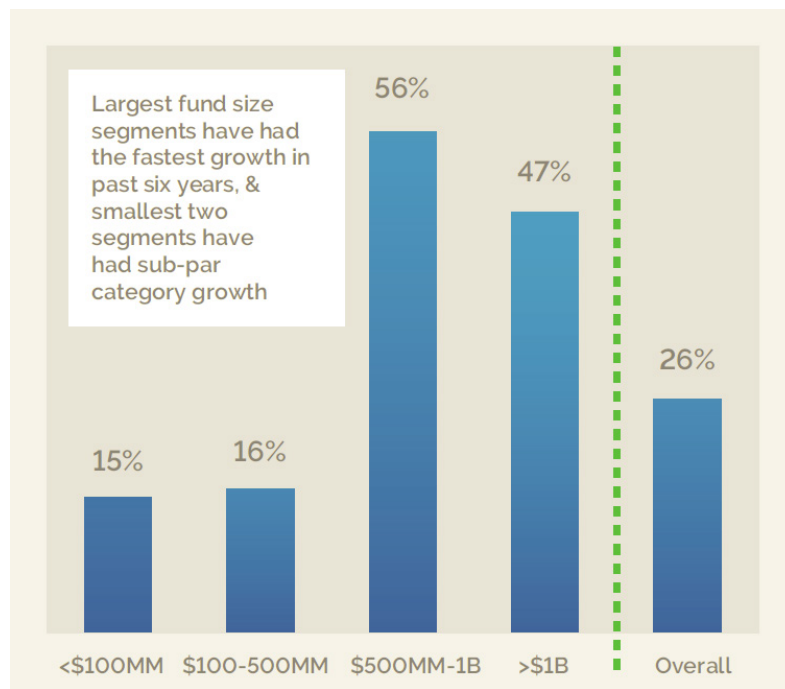


Exhibit 12: Comparing 6-Year Fundraising CAGRs Across Fund Sizes

Source: PwC/NVCA MoneyTree™ Report, Data: Thomson Reuters; Sharespost Research

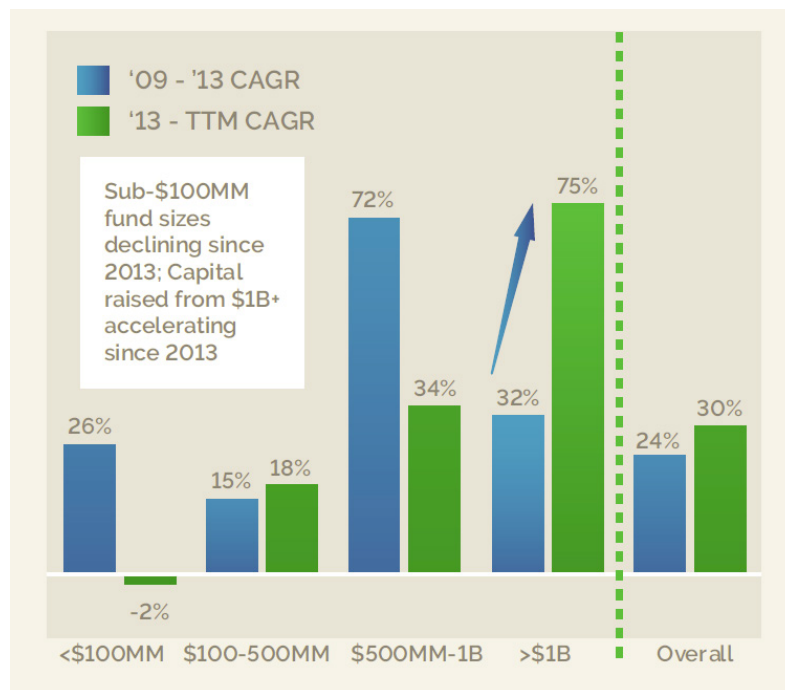


Exhibit 13: Comparing 6-Year Fundraising CAGRs Across Fund Sizes

Source: Pitchbook; Sharespost Research

investments over the past six years. From 2009-12, VC capital commitments more than doubled from \$10-12B per year to \$24-26B per year. Funds across all stages and levels of capital commitments likely experienced a post-recession tailwind leading to a “reversion to mean” funding levels. Since 2013, annual run-rate capital commitments to traditional VC and Private Growth investors have almost doubled, largely driven by a 4x increase in dollars committed to mega billion-dollar funds. And, roughly \$10B out of \$16B in incremental capital commitments (i.e., the delta between \$25B in traditional venture capital and private

technology growth fundraising activity in 2013 and \$41B in 2015) have come via Mega funds (\$1B+), contributing to more than 60% of incremental dollars raised by traditional venture capital and private technology growth investors since early 2014.

Leading Unicorn investors gaining share of capital commitments

Finally, we looked at fundraising trends of leading “Unicorn” investors. And, in particular, we were looking for answers to the following questions: How much committed capital or dry powder

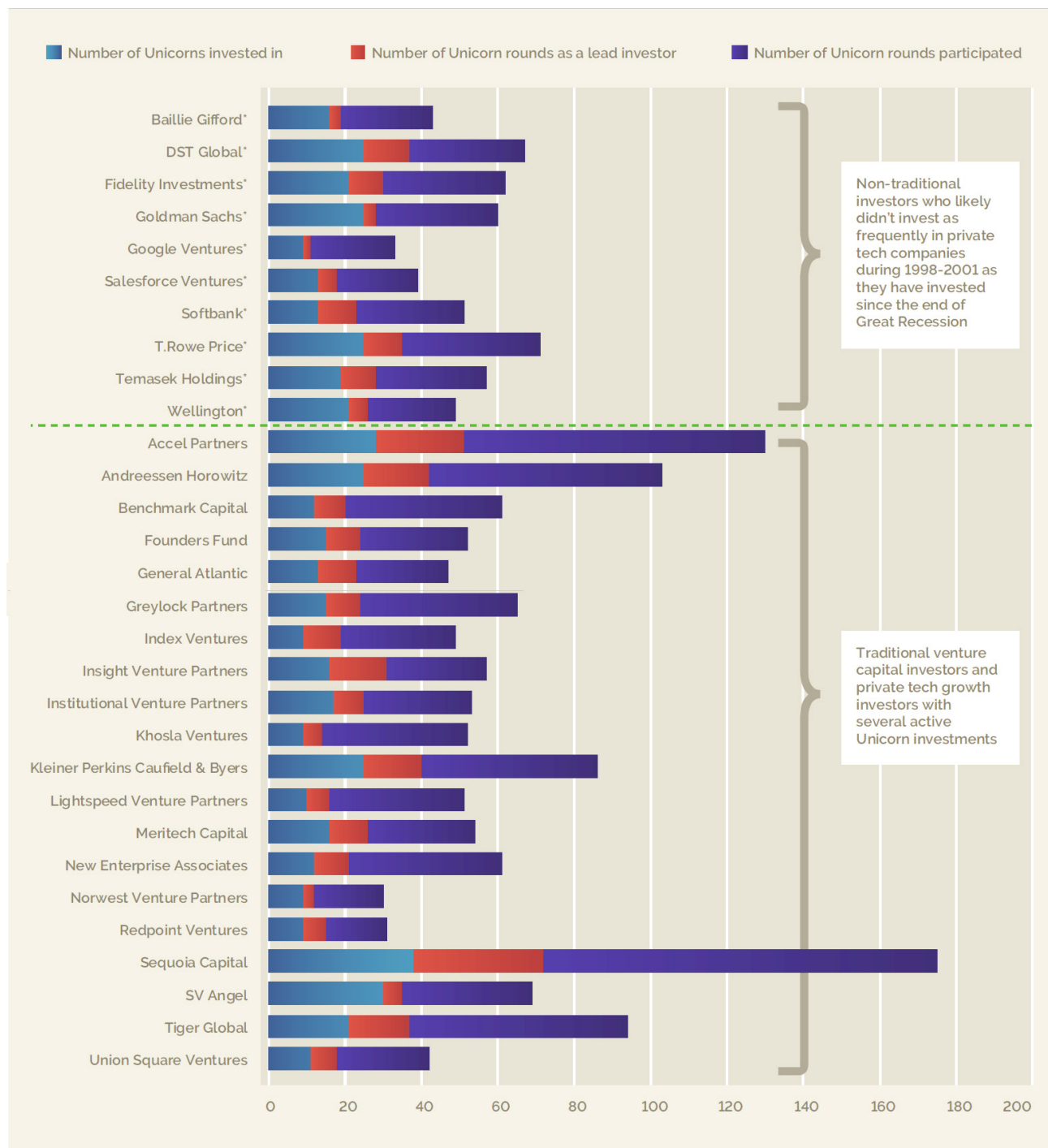


Exhibit 14: Leading “Unicorn” Investors incl. traditional VC, Private technology growth and “Other” investors

Source: Pitchbook; Sharesight Research estimates; Crunchbase; chart sorted alphabetically and grouped by investor types; Funds raised by Investors with an asterisk (*) have been excluded from the analysis presented in this section and the subsequent dry powder analysis

do leading investors in today’s Unicorns have available? What do recent fundraising trends tell us about satisfying Unicorn capital requirements over the next three to five years?

The headline takeaway is that we estimate that the most successful and prolific traditional private tech investors in today’s Paper Unicorns have raised roughly \$83B in capital in the six and a half years since 2009, with more than \$41B funds raised in the past 2.5 years. Furthermore, traditional venture capital and private growth investors who are also leading Unicorn investors have been busy raising larger funds. We estimate 32 out of 38 recent billion-dollar mega funds can be attributed to these prolific Unicorn investors.

Effectively, there appears to be an ongoing market share shift of capital towards such Unicorn investors as their share of capital raised has steadily increased from 25% in 2013 to over 40% of capital raised on a TTMs basis.

We think that the emergence and proliferation of Unicorns over the past three to four years has resulted in rising LP/ investor confidence on the expected rate of return from venture investments. We believe that traditional VC & private growth funds are start-ups that unfold in slow motion. Or, in other words, fundraising activity over the past five years is likely going to have an effect over the next 10 years or so. Effectively,

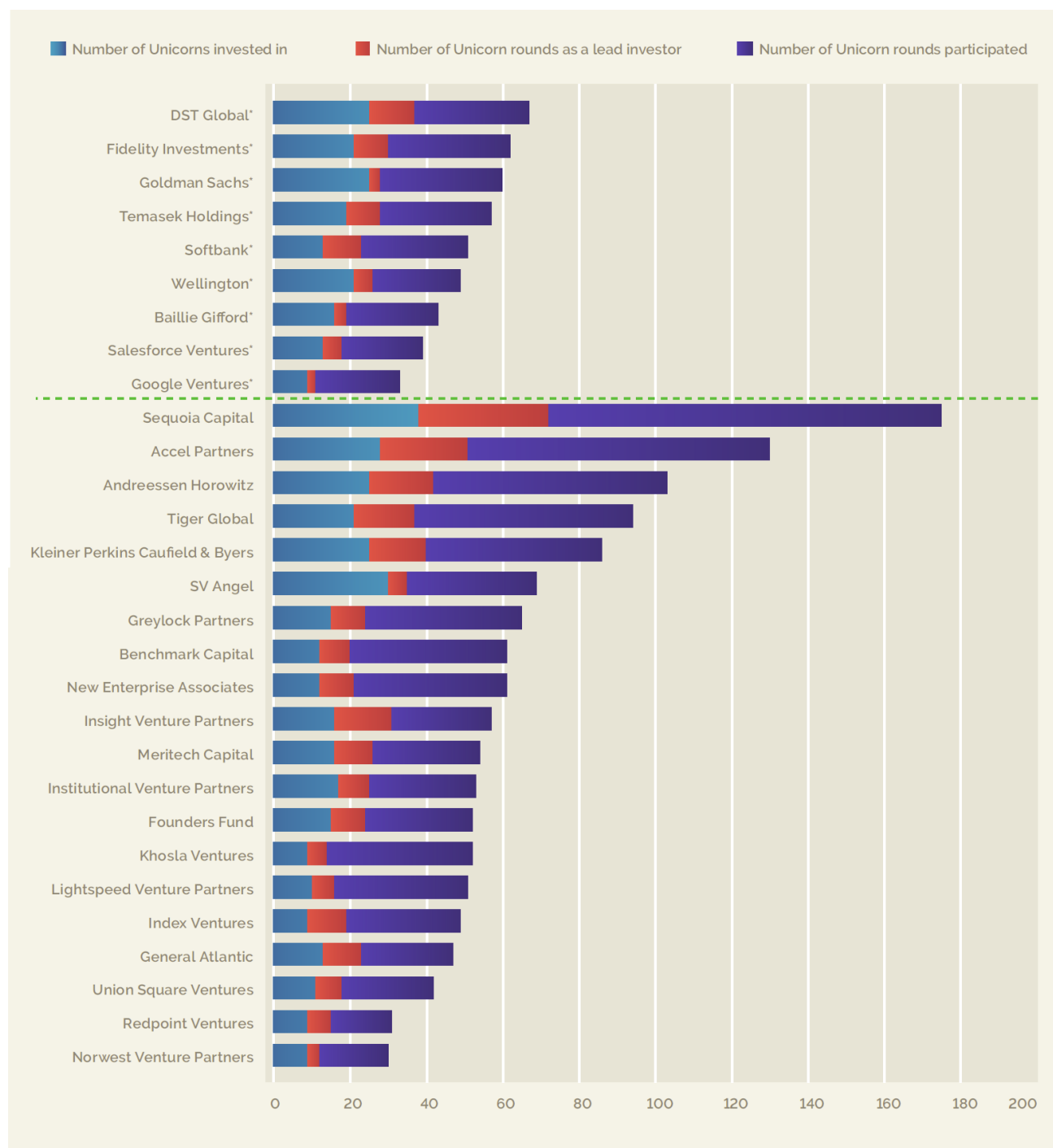


Exhibit 14: Leading “Unicorn” Investors incl. traditional VC, Private technology growth and “Other” investors

Source: Pitchbook; Sharespost Research estimates; Crunchbase; chart sorted based on sum total of overall activity by investors in Unicorns and grouped by investor category; Funds raised by Investors with an asterisk (*) have been excluded from the analysis presented in this section and the subsequent dry powder analysis

on a forward looking basis, recent fundraising activity by these leading traditional venture capital and private technology growth investors has resulted in significant amounts of dry powder available today to invest in the next cohort of “Unicorns” over the next 10 years.

As a starting point, we compiled a list of 20 leading and most prolific, traditional venture capital and private technology growth investors along with the 10 most active corporate venture capital arms, sovereign wealth funds, and traditional public equity/mutual fund investors. We relied on data compiled by TechCrunch and CB Insights, and filled in the holes using

Pitchbook data on private tech investments. We provide the entire list of investors in the chart above (sorted alphabetically and sorted by the sum total of investment activity, as measured by the number of Unicorns invested in plus the number of Unicorn investment rounds participated in plus the number of Unicorn investment rounds participated as a lead investor).

As a next step, we looked at fundraising activity of leading (aforementioned) traditional venture capital and private growth focused tech investors since the end of the Great Recession. We compiled all the funds with vintages starting in 2009. We relied on Pitchbook as a primary source of data for compiling fundraising

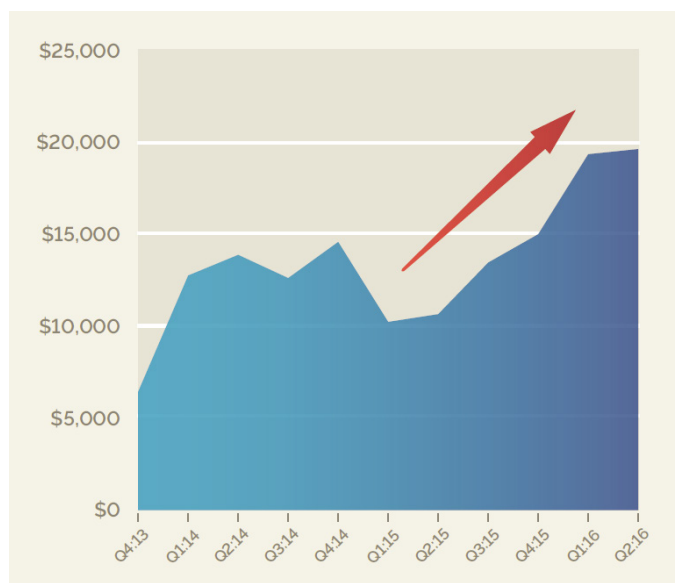


Exhibit 16: Capital Raised By Classic VC/Private Tech Investors Since 2013

Source: Pitchbook; Sharespost Research; Chart shows TTM committed capital to leading traditional VC and Private tech growth investors; \$ in millions

data. Here are key headlines: 1) Leading Unicorn investors have raised roughly \$83B in total capital across 110 funds since 2009; 2) Median committed capital per fund is roughly \$550MM; 3) Out of the 110-ish funds raised by leading traditional venture capital and private technology growth investors, roughly 65 funds have \$500MM or more committed capital, and 31 funds are \$1B or larger; 4) Out of the \$83B-ish committed capital or funds raised by these investors, roughly \$50B in funds have been raised through large billion dollar funds – translating to 60% of total.

We believe that traditional venture capital firms raise new funds every 3-4 years, and LPs in such funds tend to wait 8-10 years until receiving distributions for their initial capital commitments. As the absolute amount of dollars invested by traditional VC & private growth funds has increased over the past 3-4 years, we think an increasing number of VC firms have felt the need to raise capital on an accelerated timetable. Effectively, we have witnessed a sustained and arguably accelerating trend among VCs raising mega-funds (or, as we coined, Unicorn VCs). As illustrated in the next chart, Unicorn VCs have garnered an increasing proportion of overall VC fundraising activity over the past five years. Recall that, the gross amount of dollars raised by all traditional VC and private growth funds has doubled from 2010 to 2015. And, during this period, Unicorn VCs have increased their relative share of wallet, essentially growing at a much faster pace than the overall market.

Significant dry powder available to support existing Unicorns and mint new ones

As a last step to gauge the supply of venture capital in next three to five years, we estimated the amount of dry powder or un-invested but committed capital accessible to VCs and Private Growth Tech investors. As a first step, we'd highlight that traditional VC & private growth funds tend to have a lifetime in the range of 10 to 15 years. This chart tracks the year in which a 10-year fund is dissolved. These later periods are referred to as "out years." Historically, after the 10th year, only a few companies that typically do not have huge upside potential remain in the

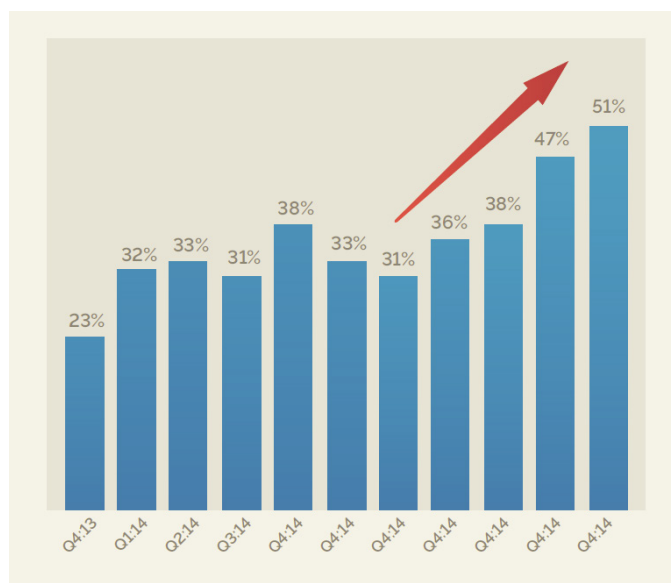


Exhibit 17: Proportion of Capital Raised By "Classic" Private Tech Investors Since 2009

Source: Pitchbook; Sharespost Research; Chart indicates proportion of capital raised by top-20 Unicorn investors as a percentage of total on TTM basis

portfolios. But the slow pace of exits in recent years has resulted in a number of good, mature companies remaining in portfolios well past the nominal 10-year mark. Per NVCA Yearbook, Life science funds tend to have lives two years longer than typical technology funds. And, according to research conducted by Adams Street partners (as illustrated above), the median life span of a fund in this analysis is 14.17 years.

As a second step (and as a simple gut check), we relied on global dry powder estimates published by Preqin and Bain & Company. According to Bain's 2016 Private Equity report, the pile of dry powder added in 2015 by private equity investors was roughly equal to about 25% of all new capital raised during the year, increasing the already sizable backlog of investible capital waiting to be put to work. Undeployed capital earmarked to finance venture capital and growth funds has seen the lion's share of the growth. At \$460 billion, the total capital targeted for buyouts alone reached its highest level since 2009, followed by roughly \$210 billion in dry powder in venture capital funds. We illustrate the 10-year trend in the chart above. Also, what's interesting to us is that VC dry powder has been growing at the fastest rate vs. other comparable asset classes.

Finally, based on Pitchbook data and Sharespost Research estimates, we estimated the amount of dry powder available to 20 leading traditional venture capital and private growth investors. Out of the \$83B committed capital in the past 6.5 years, and given the roughly 10-15 years lifetime of a typical VC fund, we estimate approximately \$30-40B in dry powder available in funds raised by leading Unicorn investors today. Given that VCs have record-levels of dry powder available to them, we think either of the following scenarios are likely to unfold over the next couple of years: (i) There may not be a dramatic uptick in the number of starving Unicorns, even if the ongoing IPO chill lasts longer than anticipated; and (ii) Despite the ongoing private valuation multiple reconciliation as well as the speculated pullback in activity of non-traditional private tech growth investors, there may continue to be a robust late-stage funding environment over

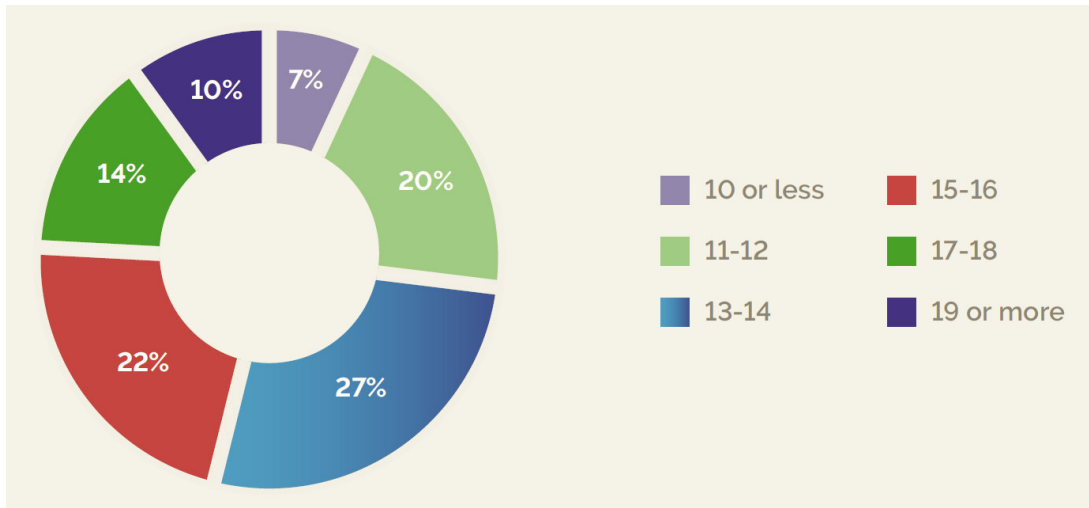


Exhibit 18: More than 70% of IT-Focused VC Funds Live More than 12 Years

Source: NVCA Yearbook; Sharespost Research; Adams Street Partners (2010 analysis); Chart indicates % of IT-focused traditional VC funds grouped by life in years

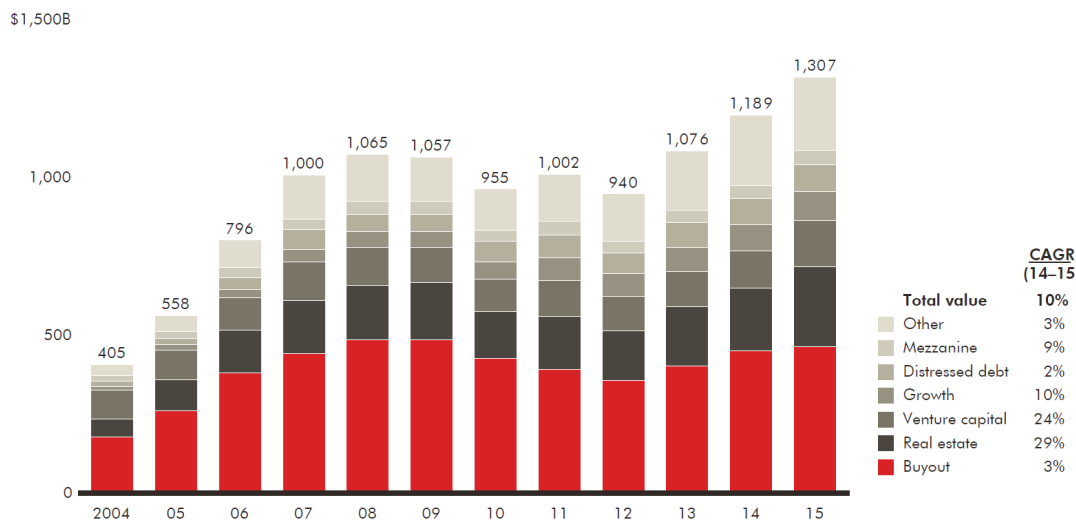


Exhibit 19: Uninvested dry powder hit record levels in 2015 for Private Equity Buyout & Venture Capital Funds

Source: Bain & Company 2016 Private Equity annual report; Preqin data; SharesPost Research; \$ in billions

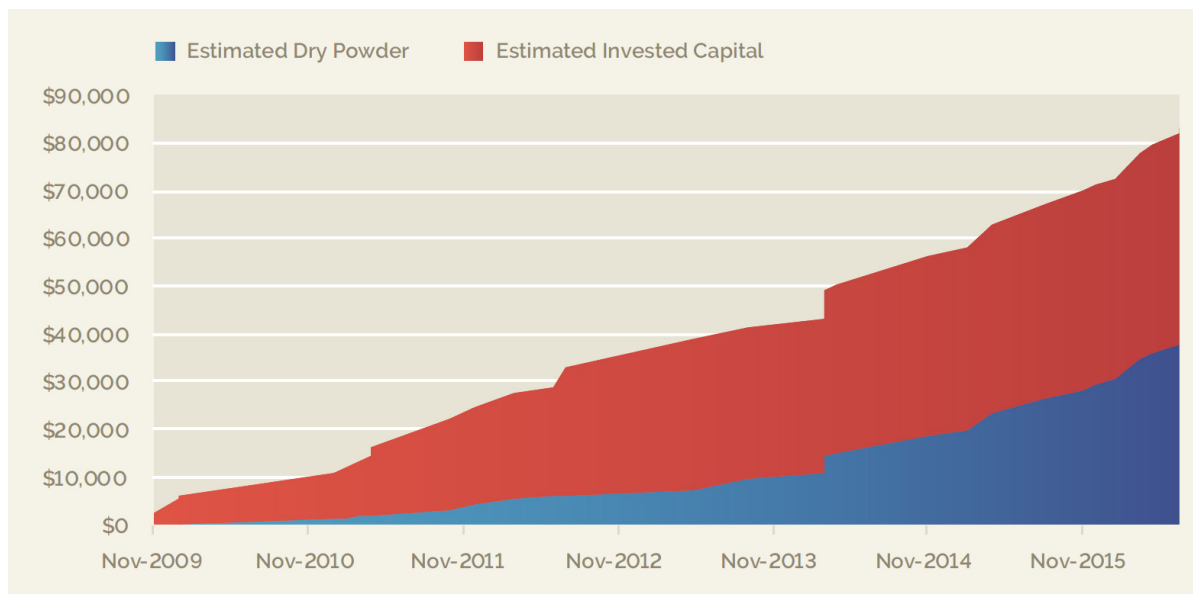
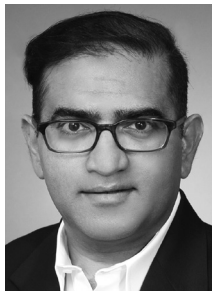


Exhibit 20: Roughly \$30-40B in estimated dry powder out of \$80-85B in committed capital

Source: Pitchbook data Sharespost Research; \$ in millions

the next 24-36 months. And, this may lead to a steady uptick in Unicorn count as new Unicorns would continue to be minted and benefit from the fundraising activity among VC firms over the past 4-6 years. However, this analysis has a key caveat - if private tech growth investors face a liquidity crunch due to lack of Unicorn IPOs or M&A transactions, this may create a temporal “pig in a python” situation stunting the growth rate for new Unicorns. Put another way, private tech growth investors may not be able to “mint” new Unicorns with this fresh dry powder unless they realize returns from existing Unicorns. And, as highlighted in our recent report, excluding mega \$500 billion dollar deals, VC investments have declined 10% year-on-year in 1H:16. In other words, all the raised capital, going by how investors have behaved so far in 2016 is not going anywhere in a hurry.

Author Bio



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Rohit is the head of research at SharesPost and manages all aspects of SharesPost platform’s content, data, and analytics. Prior to SharesPost, Rohit was a Vice President, Senior Analyst at RBC Capital Markets, where he covered small and mid-cap stocks in the Internet sector and led the equity

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Rohit received bachelor’s & master’s degrees in engineering from VJTI (University of Mumbai) and Rensselaer Polytechnic Institute, as well as an MBA in finance and strategy from The Wharton School. Rohit holds FINRA series 7, 63, 86 and 87 licenses.