

Valuations Become Key Concern for Venture Capital

The rate of competition for transactions and investor capital is rising, but at slower pace than in previous years

Like most other alternative asset classes, the venture capital industry has seen high asset valuations become a key concern going into 2018: over half (55%) of fund managers surveyed* at the end of 2017 reported that pricing for portfolio companies was higher than 12 months prior. Fund managers also reported more competition for transactions and investor capital, although at lower levels than in previous surveys. In June 2017, 49% reported an increase in the level of competition for venture capital transactions compared to 12 months ago, but this proportion dropped slightly to 46% in November 2017. Similarly, in June 86% of fund managers believed that competition for investor capital had increased compared to 12 months prior, but this proportion dropped to 73% as of November. Although the lower proportions indicate that the rate of increasing competition may be slowing slightly, it remains that significant numbers of venture capital fund managers are seeing more competition than ever before.

For more information and analysis, see the full *H1 2018 Venture Capital Fund Manager Outlook* here: <http://docs.preqin.com/reports/Preqin-Special-Report-Venture-Capital-Fund-Manager-Outlook-H1-2018.pdf>

Key Venture Capital Fund Manager Outlook Facts:

- **Over half (55%) of fund managers reported higher pricing for portfolio companies compared to 12 months ago**, compared to 32% that said the same in the June 2017 survey.
- **By contrast, the rate of increasing competition for transactions has decelerated:** 46% of managers believed competition for venture capital transactions has increased compared to 12 months ago, a drop from 49% that said the same in June 2017.
- Similarly, **less than three-quarters (73%) of managers reported increased competition for investor capital compared to 12 months ago**, a drop from 86% of which reported the same in the November 2017 survey.
- However, **greater proportions of fund managers felt that investor appetite has increased over the previous 12 months** from 54% in the June 2017 survey to 60% in November 2017.
- **The largest proportion (58%) of managers felt that appetite has increased from Asia-based investors**, while 97% reported appetite from North America- and Europe-based investors had increased or stayed the same
- Looking forward, **two-thirds of venture capital fund managers expect to deploy more capital in the next 12 months** compared to the past 12 months.

Felice Egidio, Head of Venture Capital Products:

“The venture capital industry has seen incredible success over the past year, with 2017 marking a banner year for fundraising and deal activity. However, as the market becomes more crowded, fund managers are increasingly concerned over asset pricing and rising competition for transactions, a trend that has been reported across the whole private equity industry. However, it is interesting to note that the rate of intensifying competition seems to be slightly less among venture capital fund managers than in other sectors of the asset class.

At the same time, fund managers are reporting that investor appetite for ventures capital is rising, a sign of confidence in the industry. In particular, managers report that Asia-based investors are becoming more involved in venture capital, as the region becomes an ever more pivotal part of the global market. This may indicate that 2018 could see robust fundraising as well, and fund managers will need to successfully make use of this further influx of capital. However, they seem confident in their ability to deploy more capital in 2018 than the year before, and we may see this year continue the record-breaking trends that defined 2017.”

***Results are based on a survey of 221 venture capital fund managers surveyed in November 2017.**

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For more information, contact our dedicated press team at press@preqin.com or call (+44) 20 3207 0265.

New York	London	Singapore	San Francisco	Hong Kong	Manila	Guangzhou
+1 212 350 0100	+44 20 3207 0200	+65 6305 2200	+1 415 316 0580	+852 3892 0200		

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