

Venture Capital Fund Managers Respond to Increased Competition for Dealmaking Opportunities

Firms remain confident in their ability to source attractive investment opportunities even amidst competitive environment

Venture capital fund managers do not feel that it is becoming more difficult for them to source attractive investment opportunities in 2017, despite a climate of increasing competition. Almost half of fund managers surveyed by Preqin* agree that there is greater competition for deals compared to 12 months ago, and the largest proportions of respondents say that they are reviewing more opportunities and looking to deploy more capital due to rising portfolio company pricing. However, seven out of 10 do not feel that this has made finding attractive deals more difficult, and equal proportions say that the process has become easier as claim it is harder.

For more information and analysis, see the full *H2 Venture Capital Fund Manager Outlook* here:

<https://www.preqin.com/docs/reports/Preqin-Special-Report-Venture-Capital-Fund-Manager-Outlook-H2-2017.pdf>

Key Venture Capital Fund Manager Outlook Facts:

- **The largest proportion (49%) of fund managers report an increase in the level of competition for transactions** while 47% report no change and only 4% report a decrease in competition.
- At the same time, **32% of fund managers report that pricing for portfolio companies is higher** than 12 months ago, while only 13% report it being lower.
- Perhaps in response to this, **54% of fund managers are reviewing more opportunities** compared to 12 months ago, while only 11% are reviewing fewer.
- Equally, **65% of fund managers expect to deploy more capital in the next 12 months**, including 44% that expect to deploy significantly more.
- However, **70% of fund managers report seeing no change in the difficulty of finding attractive investment opportunities**: 15% find it more difficult and an equal proportion are finding it easier.
- The competitive dealmaking market looks set to continue: **35% of fund managers view pricing for portfolio companies as a major challenge** facing the industry in the upcoming 12 months
- The **primary concern for fund managers over the coming year, though, is the exit environment**, cited by 52% as a key challenge. Significant proportions also pinpointed fundraising (37%) and performance (35%).

Felice Egidio, Head of Venture Capital Products:

“In keeping with trends we are seeing across the private capital industry, it is clear that strong fundraising is putting pressure on dealmaking in the venture capital market. Large influxes of capital are causing dry powder to soar, and asset pricing is rising as a consequence, forcing fund managers to find increasingly innovative ways to source attractive deal opportunities.

However, this does not seem to be the largest concern of fund managers. Although a significant proportion reported that it was harder to find attractive deals, an equal number felt it was easier. Venture capital has long been a fragmented industry, with many firms specialising in specific areas that may be less vulnerable to competition. This may explain why, although the effects of high levels of available capital are a key challenge for fund managers, they are more concerned with being able to exit their investments in favourable circumstances.”

**Results are based on a survey of 56 venture capital fund managers conducted by Preqin in June 2017.*

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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