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MARKETS
TO WATCH:
AUSTIN, TX

2021

DATA PROVIDED BY  PitchBook.

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EXECUTIVE SUMMARY

- Aggregate deal value for the Austin VC ecosystem topped \$2 billion for the third year running in 2020, while investment volume fell by just 10.5% year-over-year (YoY) to 274 funding rounds, despite the impact of COVID-19.
- From angel & seed deals through late-stage financings, median transaction sizes all tracked up in 2020. Likewise, median pre-money valuations posted gains on the results from 2019, with median valuations for the most mature companies doubling to \$50.0 million for just the second time since at least 2006 as investors returned to familiar names.
- Robust public markets encouraged a significant increase in the median IPO size that helped aggregate exit value double to \$2.6 billion for Austin-based companies—the first time exit activity generated more than \$2 billion in total for the area since 2012.
- Austin’s software startups continue to dominate annual investment into the larger ecosystem. Startups offering software solutions to businesses enjoyed one of their more active years on record for venture financing as investors committed nearly \$300 million across 37 funding rounds to the enterprise tech sector.
- After climbing YoY through 2019, the count of new funds closed in Austin leveled off in 2020. However, capital committed to the dozen new vehicles that closed reached roughly \$500 million for a fourth year in a row, with funds from \$100 million to \$250 million securing the lion’s share in a considerable increase over 2019’s total for vehicles of this size.

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\$15.3B

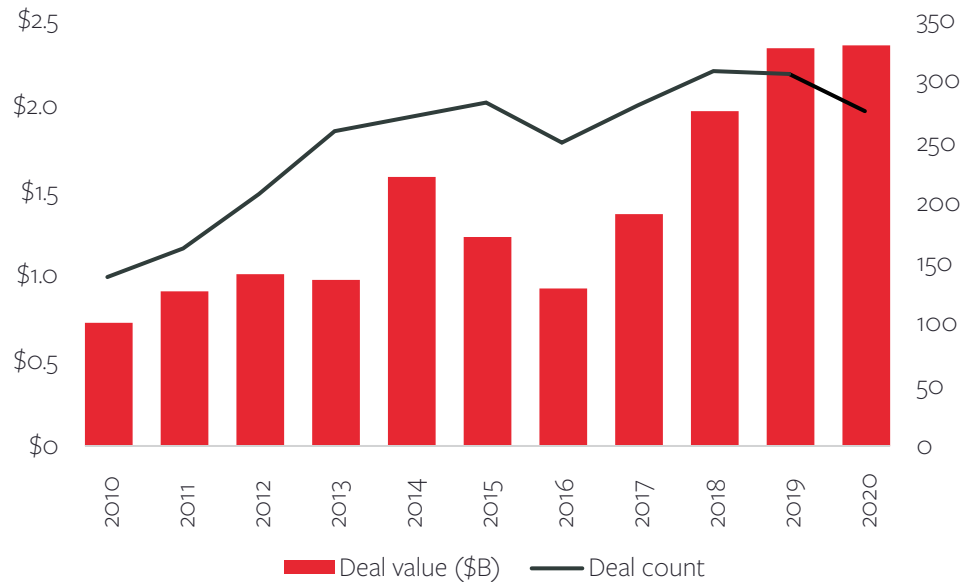
Sum of VC raised by Austin-based companies from the start of 2010 through 2020, expanding at a compound annual growth rate of 13% across more than 2,700 funding rounds closed over the same period.

OVERVIEW

Austin, home to “Silicon Hills,” has long enjoyed a reputation for producing top-quality tech companies. The city has served as the headquarters for Dell since its founding out of Michael Dell’s dorm room in 1984 and a major hub for Advanced Micro Devices since 1979, the year the chipmaker made its debut on the NYSE and opened its first semiconductor fabrication plant in the area. As a result, venture capital has flowed with increasing ease into the Austin ecosystem over the years—particularly in the past decade. Since the start of 2010 through year-end 2020, Austin-based companies have raised \$15.3 billion in aggregate across more than 2,700 funding rounds, representing CAGRs of some 13% and 7% for VC investment and financing volume, respectively.

VC deal activity

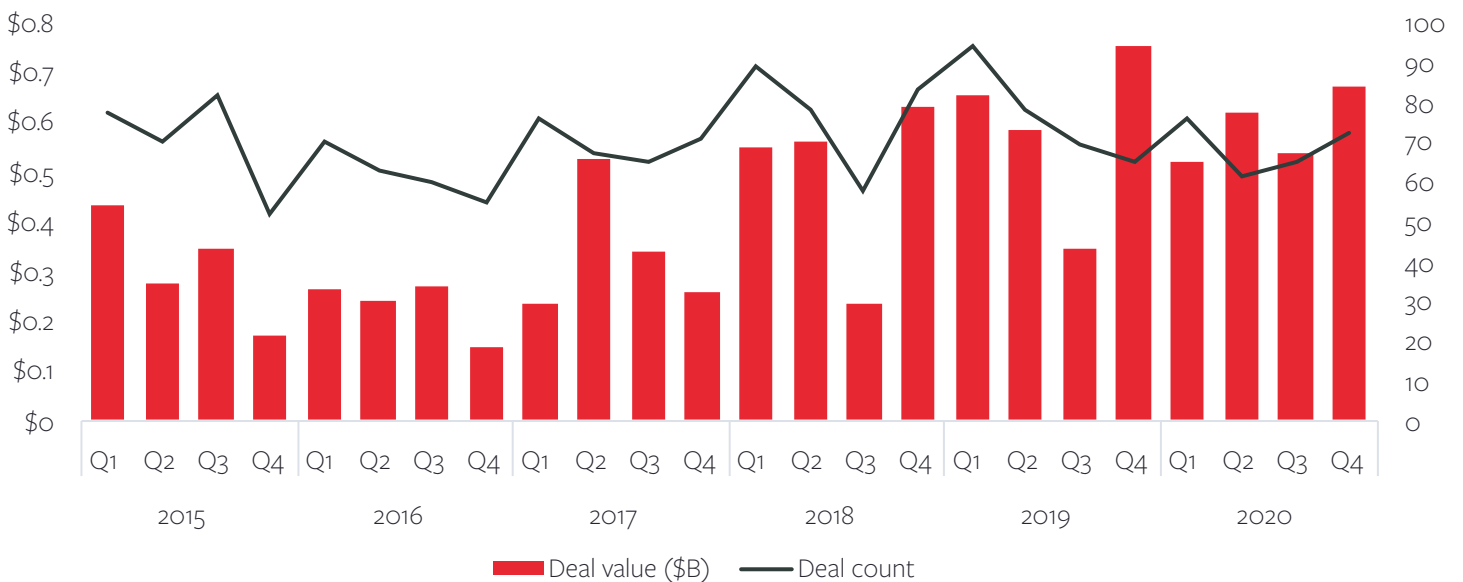
Investment value set new record despite the pandemic



Source: PitchBook | Geography: Austin, TX

VC deal activity by quarter

Investment activity recovered after firms adjusted to virtual dealmaking



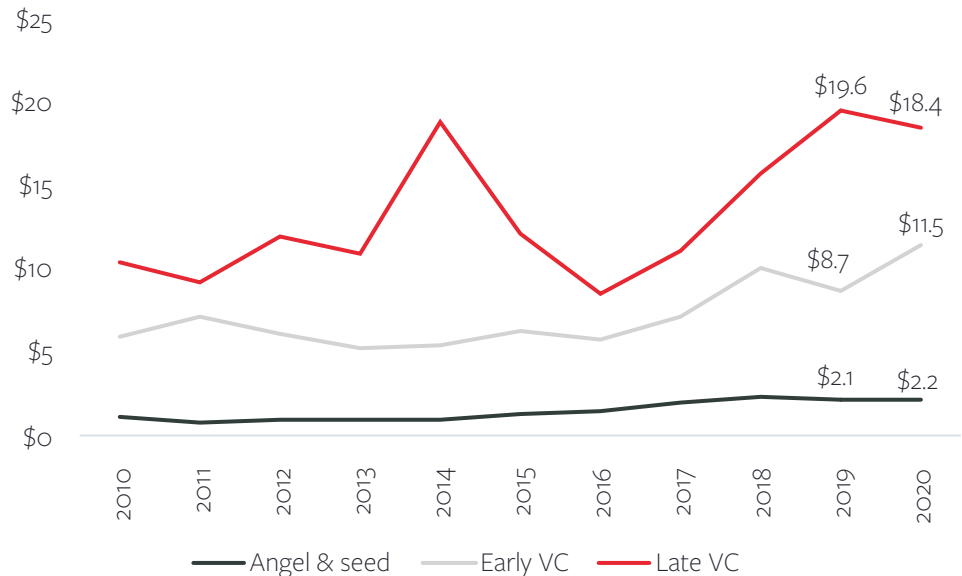
Source: PitchBook | Geography: Austin, TX

The COVID-19 pandemic did little to derail VC allocated to the area. For a third year running in 2020, aggregate deal value for the Austin VC and emerging tech ecosystem topped \$2 billion, while investment volume fell by just 10.5% to 274 funding rounds. At the height of uncertainty in Q2, overall deal value actually jumped quarter-over-quarter (QoQ) to \$616 million—topping capital raised in Q2 2019 by \$30.8 million on 15 fewer rounds closed—as many investors took flight to familiar names once executing deals went virtual at scale. This performance contributed to a record figure for aggregate VC allocated to the Austin ecosystem at \$2.3 billion in 2020, results that will undoubtedly grow as more data is collected.

Austin's track record of fostering a robust VC and emerging tech ecosystem has been punctuated by its resilience since the pandemic struck. This, coupled with the desire for cheaper expenses and to avoid costly local policies, has fueled a migration to the region from the Bay Area over the past year. Not only did Oracle decide to move their headquarters to Austin after more than 30 years in Silicon Valley, but Elon Musk and his Boring Company have also decamped to the city. The Tesla and Space X founder joins a trove of tech workers headed for the hills from the valley after many tech giants adopted companywide work-from-home policies. This has allowed employees from the likes of Google and Facebook to relocate from expensive areas such as San Francisco, with its reputation for eye-watering housing prices. Whether or not this trend picks up pace post-pandemic in the long term, the presiding tax savings, friendlier regulatory environment, and lower cost per employee in the Austin area should continue to contribute to the shift of tech workers from California to Texas through at least the coming year.

Average VC deal size (\$M) by stage

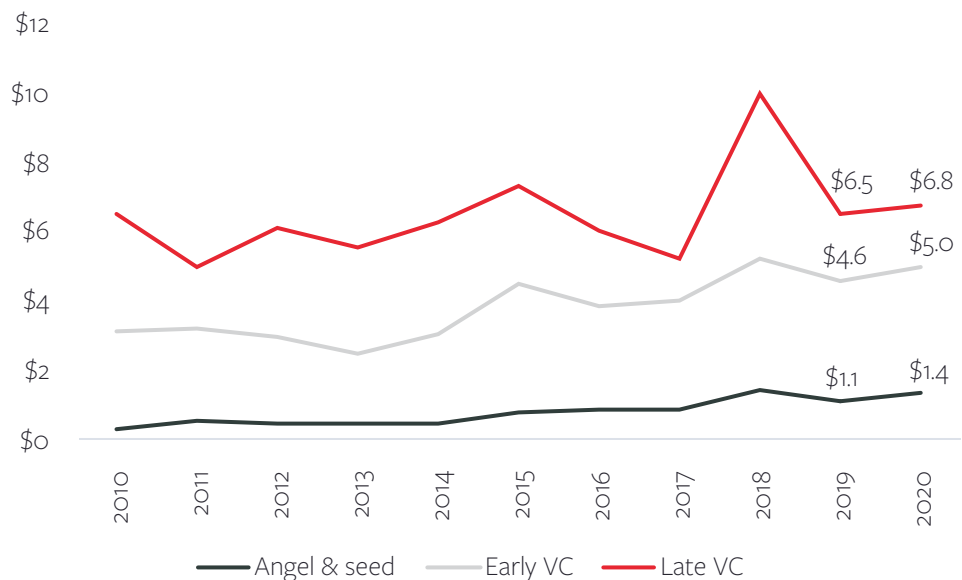
Mean transaction sizes remained elevated historically



Source: PitchBook | Geography: Austin, TX

Median VC deal size (\$M) by stage

Early- and angel & seed-stage startups secured record deal sizes



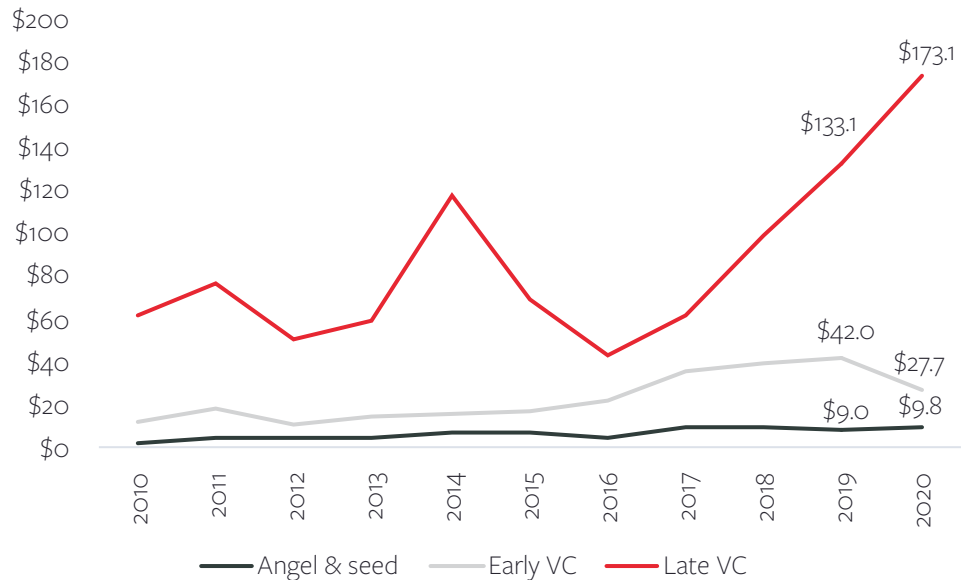
Source: PitchBook | Geography: Austin, TX

This dynamic has already contributed to more than 130 companies establishing a new or expanding an existing presence in Austin, increasing overall headcount in the area by 21,335 employees, according to data from the [Texas capital's chamber of commerce](#). That includes Addepar and Palantir co-founder Joe Lonsdale's 8VC, a venture capital firm that moved to Austin after a decade based in San Francisco, adding 15 employees of its own to the overall workforce. In January 2021 alone, Austin added or expanded its company base by another 21 operations, including 1,275 workers. And venture capital has followed. As of February 24, the Austin ecosystem has drawn an additional \$472.4 million in venture dollars across 39 deals. This pace of activity has already put the level of capital committed in Q1 2021 on track to surpass the record-setting first quarter of 2019.

The recent influx of talent from Silicon Valley and elsewhere to Silicon Hills joins a workforce schooled by the engineering and computer science programs at the University of Texas. The flagship institution of the University of Texas System, with a student body of more than 40,000 undergraduate and 11,000 graduate students, has conferred an undergraduate degree on [749 founders](#). That figure includes 88 female founders who have together raised more than \$800 million in VC funding. UT's class of female founders have helped start companies as diverse as fertility-prediction software developer Celmatix, education technology platform Civitas Learning, and Infrastructure Networks, a digital communications services platform for oil & gas companies.

Average VC pre-money valuation (\$M) by stage

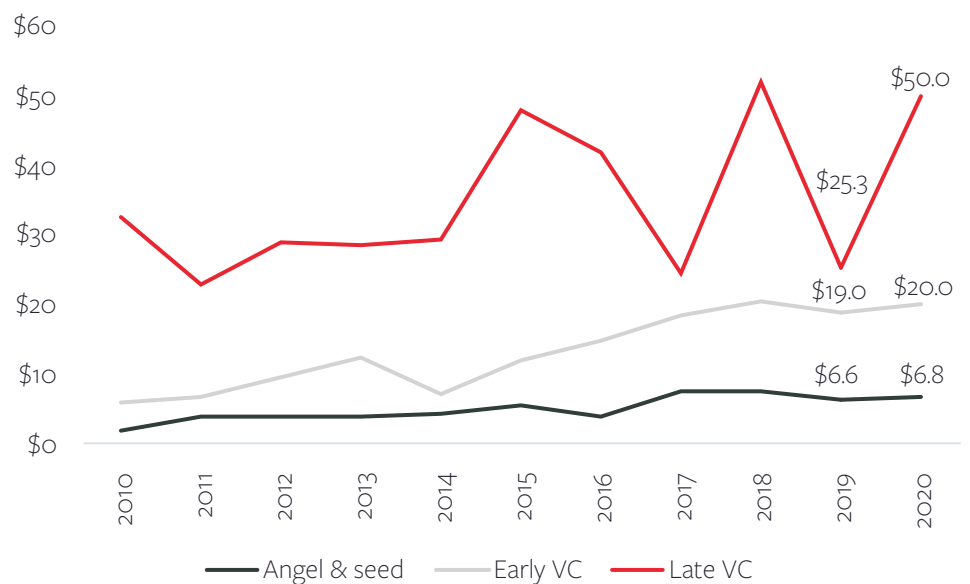
Mean valuation continued to soar for late-stage companies



Source: PitchBook | Geography: Austin, TX

Median VC pre-money valuation (\$M) by stage

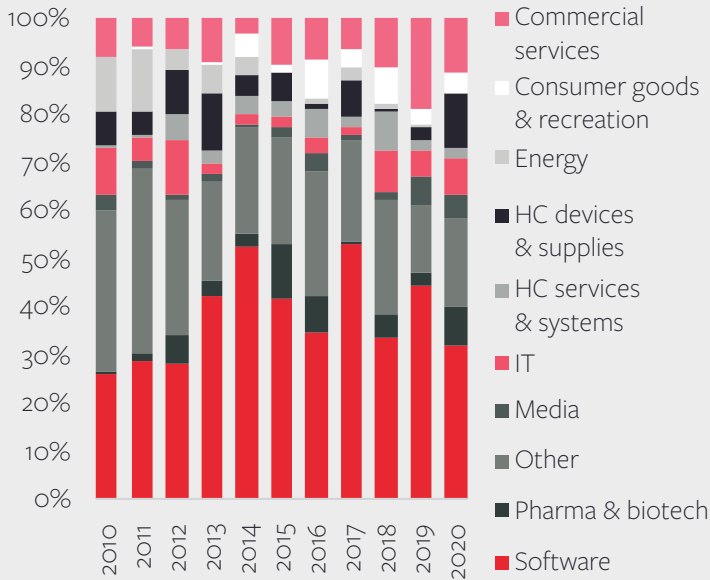
Valuations returned to historic heights



Source: PitchBook | Geography: Austin, TX

VC deals (\$) by sector

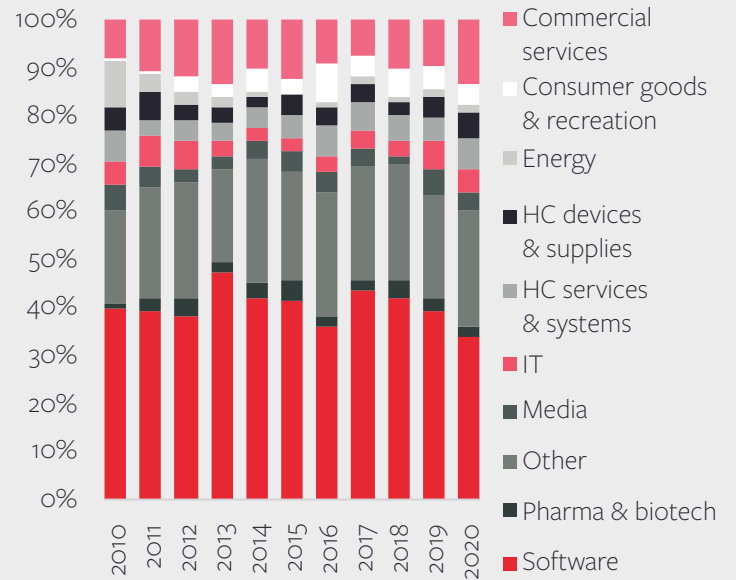
Demand drove deal value for HC devices & supplies



Source: PitchBook | Geography: Austin, TX

VC deals (#) by sector

Software retained lion's share of investment volume



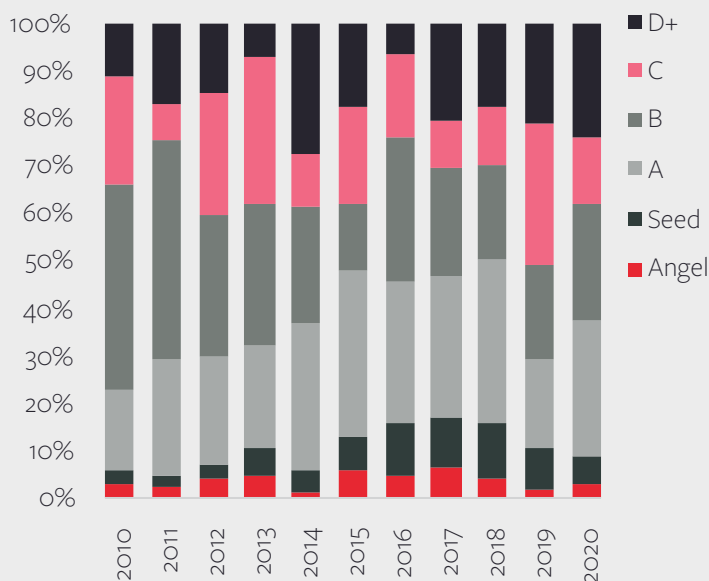
Source: PitchBook | Geography: Austin, TX

\$245M

In a testament to the promise of the year ahead for Austin, VC firms have already committed \$244.7 million to the software space across 11 funding rounds—or roughly half of all venture raised in 2021 on a quarter of all deals closed as of February 24.

VC deals (\$) by series

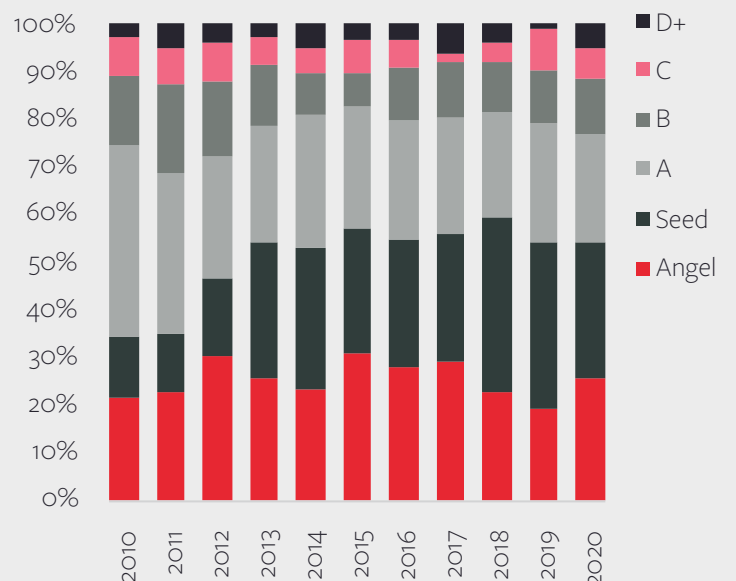
Most mature companies expanded share of value



Source: PitchBook | Geography: Austin, TX

VC deals (#) by series

Late-stage transactions grew in number

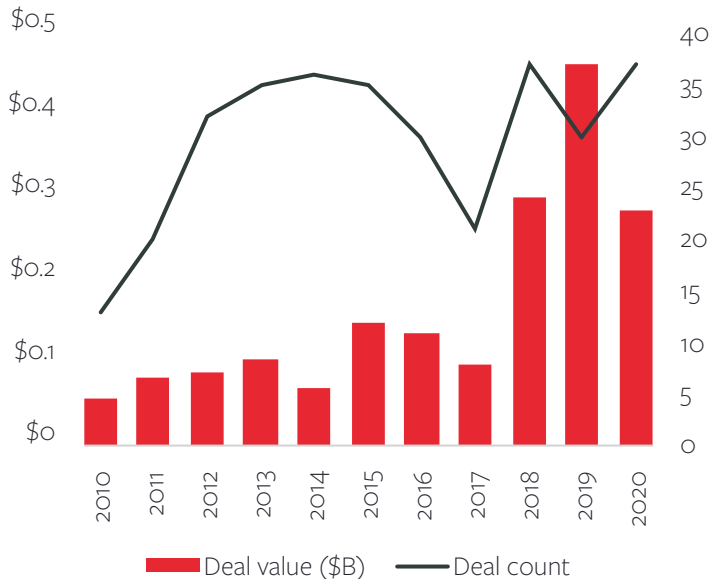


Source: PitchBook | Geography: Austin, TX

SPOTLIGHT

Enterprise tech VC deal activity

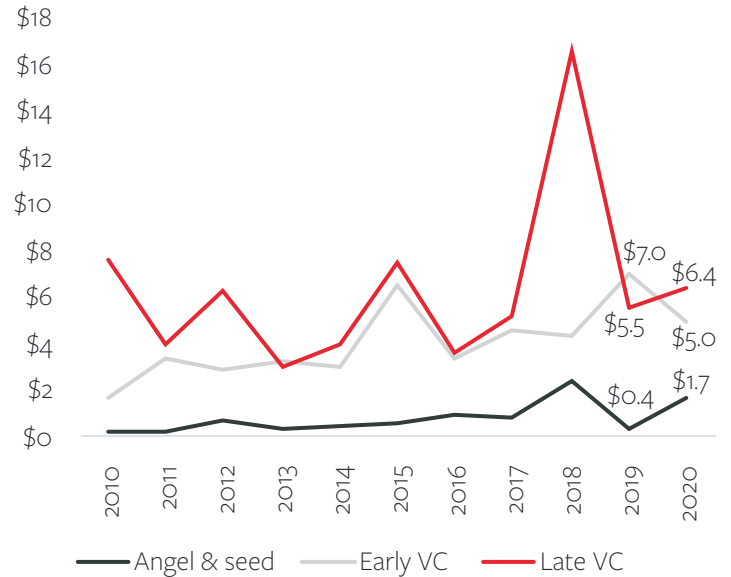
Appetite for B2B solutions bounced back



Source: PitchBook | Geography: Austin, TX

Enterprise tech median VC deal size (\$M) by type

Transaction sizes remained near historic heights



Source: PitchBook | Geography: Austin, TX

Venture funding for Austin's software startups totaled \$744.3 million across 93 completed deals in 2020. Although those figures represent a modest retreat from the record-setting sum of \$1.0 billion on 120 rounds achieved in 2019, the sector continues to dominate annual investment into the wider ecosystem. Of the \$15.3 billion raised by Austin-based startups over the past decade, \$6.0 billion of that amount has filtered into the software space. At 1,102 funding rounds closed, the sector has also captured about a third of all investment activity in that time. And startups offering solutions to the enterprise have driven much of this outsized venture investment in recent years.

Since the start of 2010 through year-end 2020, enterprise tech companies

in Austin have secured \$1.8 billion in venture funding across 326 rounds—an average of \$5.5 million in disclosed value per deal. At nearly \$300 million invested across 37 funding rounds for enterprise tech companies, 2020 was one of the more active years on record for venture financing. At the same time, the space has hardly overheated. Pre-money valuations have remained remarkably consistent over the past decade, while proving significantly undervalued in recent years compared to the broader US early-stage VC ecosystem, producing a \$20.0 million median pre-money valuation versus the \$31.0 million median posted by the US in 2020.

Like the Bay Area, the enterprise tech ecosystem in Austin features a significant incumbent presence, with the likes of

Khoros, WP Engine, and SecureLink maintaining operations in the area while identity & access management services provider SailPoint Technologies has always called the city home. To their ranks, venture funding has added a considerable crop of up-and-coming enterprise tech companies in recent years. For instance, supply chain & logistics specialist Shipwell has raised \$47.1 million in VC funding, achieving a \$165.0 million valuation as part of its Series B round in late 2019. Meanwhile, SaaS e-commerce platform BigCommerce led Austin's IPO class last year, stepping up from a \$450.0 million pre-money valuation with its last VC round to \$1.6 billion for its debut.

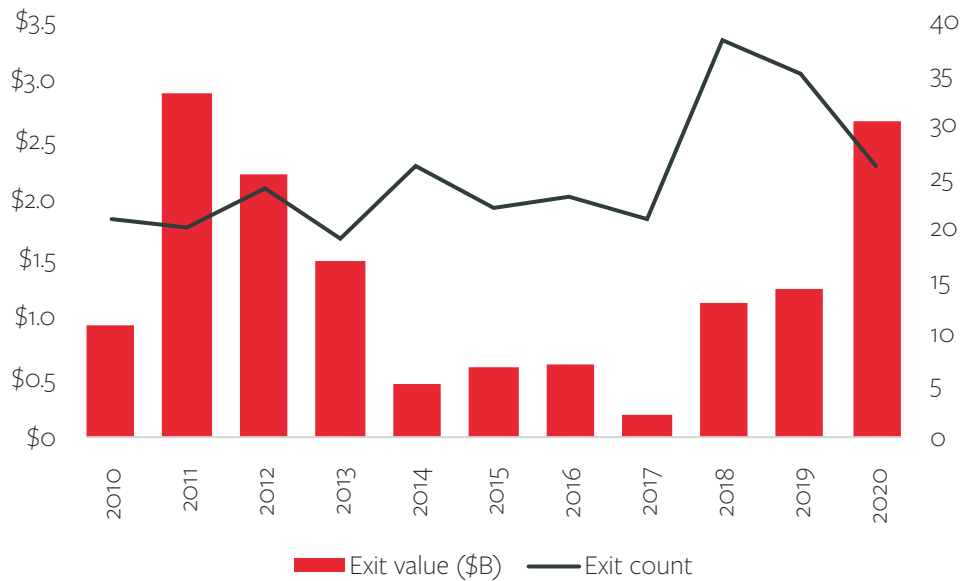
EXITS & FUNDRAISING

Austin has produced more than its fair share of sizable exits over the past decade, including the billion-dollar public listings of HomeAway and RetailMeNot in 2011 and 2013, respectively, along with the acquisition of Indeed, the jobs listing and recruitment service, by Japan's Recruit Holdings with the unicorn price tag of \$1.0 billion in 2012. Despite the pandemic's initial potential to reduce liquidity to a relative trickle outside of distressed asset sales, 2020 represented one of the best in recent memory for investors looking to exit, with the sustained success of direct listings meeting the rise of special purpose acquisition vehicles. Thanks to market conditions conducive to public listings, aggregate exit value in the US topped \$290 billion in 2020 while exit count totaled 1,101.

Austin benefited from this strong exit environment. Companies in Austin generated greater liquidity in 2020 on an annual basis than any year since 2012, securing \$2.6 billion in aggregate value across 26 exits. The software sector produced the bulk of that sum, contributing \$1.5 billion in aggregate value on seven exits. However, the year's three largest public debuts illustrate the diversity and vitality of the Austin ecosystem. In addition to BigCommerce, pasture-raised foods provider Vital Farms raised \$204.7 million from its debut, and oncology biotech specialist Shattuck Labs raised \$202.0 million to round out the top three public listings for Austin in 2020.

VC exit activity

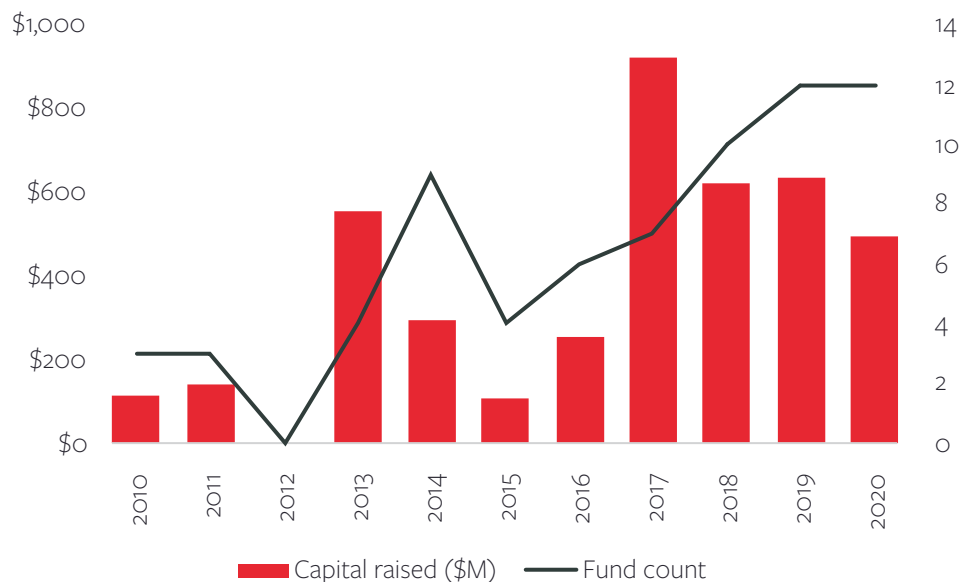
Public markets fueled strong year for exit value



Source: PitchBook | Geography: Austin, TX

VC fundraising activity

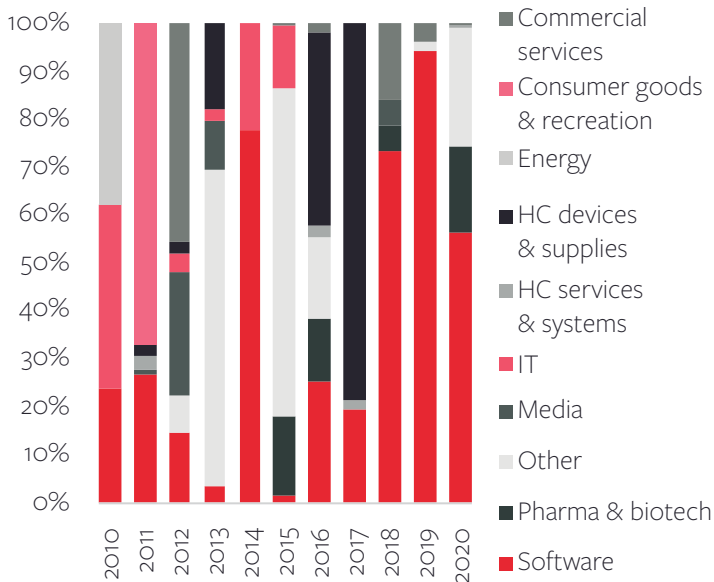
Number of new vehicles remained flat as commitments fell



Source: PitchBook | Geography: Austin, TX

VC exits (\$) by industry

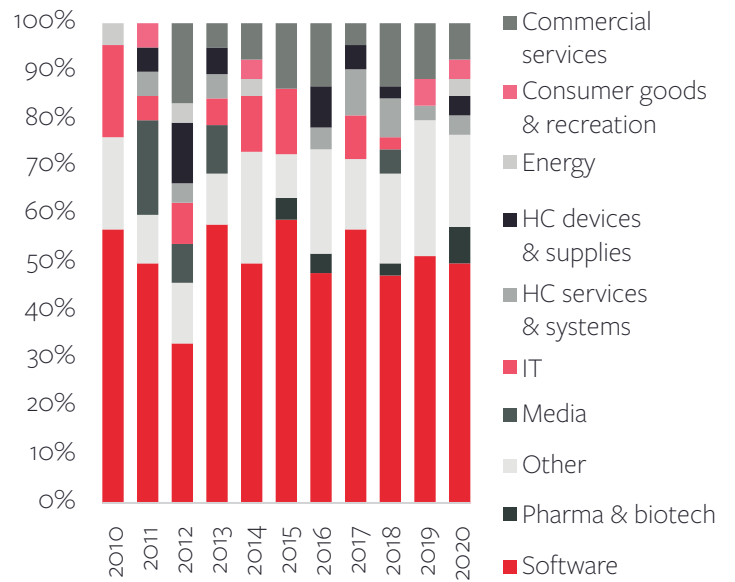
Software again generated majority of exit value



Source: PitchBook | Geography: Austin, TX

VC exits (#) by industry

Pharma & biotech posted top performance of the past decade



Source: PitchBook | Geography: Austin, TX

Local sources of capital remain essential to companies just getting started, even as Austin-based startups continue to command considerable external funding. The robust exit activity of 2020 should recycle capital back into the ecosystem. This dynamic will likely kickstart a new cycle of fundraising after a falloff in capital raised in recent years. While the count of new vehicles closed by Austin-based VC firms climbed steadily YoY

since 2015, the sums raised have declined considerably from nearly \$1 billion raised in aggregate as recently as 2017.

In 2020, a dozen funds closed on roughly half that sum at just \$495.6 million in fresh capital. Meanwhile, limited partners largely targeted more modestly sized new commitments in 2020, with eight of the 12 funds closing in 2020 falling in the under \$50 million range

for \$65.8 million in aggregate. Funds ranging from \$100 million to \$250 million brought in about three of every four dollars invested. Drawing capital to its investment community has proven a greater challenge than drawing funding to its crop of startups for Austin. However, given the recent strength of exit activity in 2020 and the influx of talent to the region, Austin appears poised for further outperformance in 2021.


\$14.4B

Exit value generated in aggregate by Austin-based companies from the start of 2010 through 2020, which expanded at CAGR of 11% across 275 liquidity events over the same period.

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