Houston Exponential

HTX FUNDING REVIEW

STATE OF VENTURE IN 2021

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HOUSTON VENTURE CAPITAL TOPS $2B, MORE THAN TRIPLE PREVIOUS RECORDS

2021 began with a flurry of VC activity and ended in spectacular fashion with another record-breaking year for Houston startups. While many turned bullish on venture after the rapid pace of dealmaking exhibited in the latter half of 2020, possibly no one could have predicted how remarkable 2021 proved to be. The venture industry demonstrated its resiliency while also directly supporting the country's economic recovery and strengthening public markets.

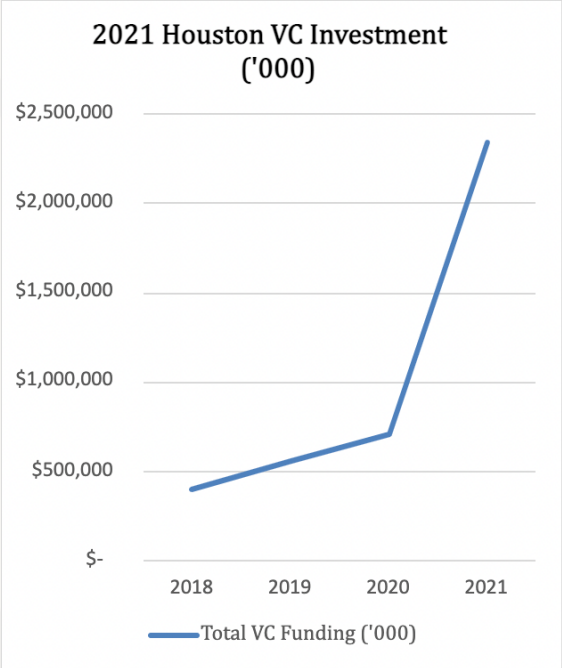
By the first half of 2021, aggregate deal value surpassed Houston's previous year's record figures. This momentum was sustained with ease throughout the year as **Houston startups raised $2.34B across 212 deals - more than triple the previous high of ($713M) and a nearly tenfold increase in investment from 2016 ($284M).** These figures underscore a dramatic change in the startup funding environment in the past year.

TL;DR:

- Houston is the 3rd fastest growing early-stage tech ecosystems in the country: Deal count has surpassed 200 for the first time with a concentration at the earliest stages, a harbinger of future growth potential as new company creation continues to explode. This unprecedented increase in deal count was concentrated at early-stage venture and angel investment -- with 151 deals under $5M, of which 64% were under $1M.

- Mega-deal Mania: 6 mega-deals ($100M+) emerged from the Houston ecosystem in 2021 -- three of which exceeded $300M. Houston's flagship deals include Solugen, HighRadius, Vyripharm Biopharmaceuticals, Lancium, Axiom Space, and Cart.com – collectively representing the lion's share of capital raised in 2021 ($1.3B).

- Growth Across Key Sectors: Healthcare and Information Technology continue to dominate Houston's deal flow, each accounting for 30% of overall deal count.



2021 VC Funding by Sector		
Sector	Total Deal Size ('000)	Count of Deals
Business Products and Services (B2B)	302.31	30
Consumer Products and Services (B2C)	12.89	28
Energy	80.18	10
Financial Services	48.39	3
Healthcare	808.76	63
Information Technology	663.6	62
Materials and Resources	426.48	14
Grand Total	2342.61	210

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TL;DR (con't)

- **Leading the Global Energy Transition:** As Houston's energy-dominated GDP continues to experience long-term transformations, within private markets we're beginning to see the development of venture-backed Materials and Resources platforms, critical to a Decarbonization revolution. These companies raised $426.5 million, up 628 percent largely on account of the $357 million Solugen deal.

- **Business to Consumer (B2C) Growth:** Houston's B2C scene may be the talk of Texas soon as these deals nearly doubled in count from the previous year— the vast majority at the seed stage and earlier. This sector has held its position on the leaderboard (behind the often tied IT and Healthcare categories), accounting for 13% of total deals in 2021.

- **Capital Availability Reigns:** In 2021, VCs raised ever-larger funds, more quickly, and an increasing number of non-traditional investors crowded into the startup market. With record levels of capital cycling through the system and dry powder at all-time highs, this resulted in a watershed moment for Houston as startups raised record sums.

> *A breadth of new energy transition funds has sprung in Houston in the past year. Funds like Energy Transition Ventures, VC Fuel and New Climate Ventures are changing the investment landscape and corporate venture capital arms are investing at earlier stages. In spite of that capital influx pre-series A funding is still scarce and Houston's deal flow needs to mature to meet investors' requirements. To that end, investment readiness programs and access to pilots and grants are key."*

Juliana Garaizar ·
Head of Houston Incubator & VP of Innovation, Greentown Labs

MERGERS, ACQUISITIONS, AND EXITS

Low interest rates, healthy public markets, and more money flowing into financial markets have given investors confidence that high growth companies will be well-valued in the public markets, creating a positive trickle-down effect for startups.

Exits were a huge part of the story of 2021, with at least $1B in annual exit value created by VC-backed companies that either went public or were acquired. Some of this was realized through public listings, a testament not only to the favorable conditions presented by robust public markets and strong valuations but also to the availability of SPACs as an acceptable and popular alternative to IPOs in 2021 (though this trend seems to be on the decline).

Volumetric

BIOTECH: Human tissue 3D-printing spinout Volumetric, led by Rice Bioengineering Professor Jordan Miller, was acquired by 3D Systems in a deal worth up to $400 million.

biota TECHNOLOGY

CLIMATECH: Pioneer of industrial genomics (impacting sustainability of energy, water, and manufacturing sectors), Biota, was acquired by Novozymes.

Nanoracks

SPACETECH: Voyager Space Holdings acquired parent company of Nanoracks, a satellite deployment solutions provider.

<u>Notable Mentions:</u>

- **Nauticus Robotics** merged with CleanTech Acquisition Corp. via SPAC. The deal values Nauticus at $560 million, according to the company.
- Collins, a subsidiary of Raytheon Technologies, acquired **FlightAware**-- making it part of its Connected Aviation Solutions business unit.
- **Aris Water Solutions** raised $229.45 million in its initial public offering on the New York stock exchange under the ticker symbol of ARIS on October 22, 2021
- **Mercury Ecommerce Acquisition Corp** (SPAC) raised $175 million in its initial public offering on the Nasdaq stock exchange under the ticker symbol of MEACU on July 28, 2021.

"That VC-backed companies were able to generate such enormous value in 2021 during a time characterized by great uncertainty and extraordinary circumstances highlights the continued importance of VC-backed companies to the resilience of Houston's economy."

Serafina Lalany
Executive Director, Houston Exponential

Houston Exponential

LATE-STAGE LANDSCAPE

47 Deals | $1235.1M

- **Investor's flight to quality reached new heights as 2021 recorded more than 3X 2020's previous late-stage investment record.**

- Following the debuts of HighRadius and Preventice Solution in 2020, Houston's fourth and fifth unicorns were created with Solugen's whopping $357M Series C — the largest fundraise in the city's history - and Cart.com's $240M Series B1.

- These outsized deals at the later stage have begun to drive the majority of capital investment into Houston companies. To put things in perspective, the Solugen deal along with HighRadius's $300M Series C alone account for more than 25% of the funding across all stages. Strikingly, these deals individually received more funding than the entirety of Houston startups in 2016.

- It is important to note that the strong late-stage activity for VC-backed companies in 2021 was a result of early-stage investment from investors that in many cases first partnered with the founders 4-5 years ago. Those companies have scaled over the past few years and during a strong startup and growth environment.

- While the diversification of sectors for startup funding is robust downstream, Energy, B2B Software, and Healthcare continue to dominate 40 of the 47 late-stage deals in 2021.

DEALS YOU NEED TO KNOW:

ColubrisMX

The developer of microsurgical robotic devices intended to perform procedures in delicate regions of the body raised a $76.08M Series C led by Mithril Capital Management

cart.com

The end-to-end eCommerce provider raised $98 million of Series B venture funding in a deal led by Oak HC/FT alongside PayPal Ventures, Titan Capital, Starboard Star VC.

IMUBIT

The developer of a closed-loop neural network platform raised a $30M Series B led by Insight Partners and Zeev Ventures ($235M Post Val) .

NUPROBE

Developer of precision diagnostic technology designed to offer early detection of cancer and infectious diseases raised $42M in Q1'21.

EARLY-STAGE LANDSCAPE

46 Deals | $618.9M

- The early-stage showed exceptional signs of strength during 2021 with 2.5X YoY growth in aggregate deal value. By the first 5 months of 2021, total capital raised surpassed the 2020's full-year total ($240M).

- The combination of crossover investors participating in the asset class along with an unusually accelerated pace of dealmaking spurred a frenzied competition at this stage which continues to place upward pressure on both check sizes and valuations. Case in point: Lancium and Axiom Space's rounds ($150M Series A and $130M Series B, respectively) headline this stage.

- Over the past decade, the median Series A round in Houston has increased from less than $3.2 million to more than $10 million. The same ballooning effect can be seen in Series B rounds, which grew 35% in one year, from a median of $13.6M in 2020 to $21M in 2021.

- While 15 healthcare deals accounted for the majority of early-stage deals ($200M) there is tremendous sector diversity that is promising and indicative of a healthy local industry. Companies across B2B SaaS, Healthcare, Financial Services, Energy, and Materials and Resources raised above the average $18M early-stage check (see examples).

- While Houston's average early-stage deal size of $18M remains shy of the national average of $21M, this represents a 68% growth rate since 2019. Compared to national growth levels (23%), this demonstrates the broader expansion and maturities within the Houston ecosystem.

DEALS YOU NEED TO KNOW:

AXIOM SPACE

Axiom Space raised $130M in Series B funding to accelerate growth of workforce and development of world's first commercial space station.

tvardi THERAPEUTICS

The clinical-stage biotech company raised a $74 million Series B to continue development of small molecule inhibitors of STAT3.

MAJORITY

MAJORITY raises $27M Series A for its mobile banking service for immigrants.

SYZYGY PLASMONICS

Syzygy Plasmonics attracts global investors such as Horizon Ventures, Equinor, and The Engine in a $23M Series B to electrify chemical manufacturing.

ANGEL, SEED, AND FIRST FINANCINGS

117 Deals | $488.6M

- Not only did angel, seed, and first financing deals bounce back to pre-pandemic levels in 2021, but the activity demonstrated in this slice of the market shattered all records locally and nationally.

- Houston experienced tremendous growth (36%+) in deal count from 2020. This demonstrated a watershed moment for the Houston startup ecosystem and positions the city as the third of the fastest-growing early-stage ecosystem in the country.*
- The high volume of capital and interest in early venture investing is meeting a high volume of entrepreneurship and support resources in Houston as 69 companies raised their first round of capital, accounting for over $180M in investment— a major rebound/ correction from the 2020 trend of "seed conservatism".
- Angel Investments continue to outpace seed investments with two market forces at the helm: healthy public markets and the institutionalization of the seed stage. More money flowing into financial markets have given angel investors confidence that high-growth companies will be well-valued in the public markets, driving higher allocations to the asset class, unlike anything we've seen in recent years.
- The lower end of the market constitutes 56% of all deal activity in 2021, and this surge in seed investment could result in an overall 5-to-10 year boost for the Houston startup ecosystem.

DEALS YOU NEED TO KNOW:

SATOSHI ENERGY

Satoshi Energy raised $2.4M to provide bitcoin miners to procure low cost renewable power and transform the future of energy finance,

VYRIPHARM

With 26 drug compounds in the portfolio, Vyripharm recently raised a whopping $300M to further develop its theranostic platform

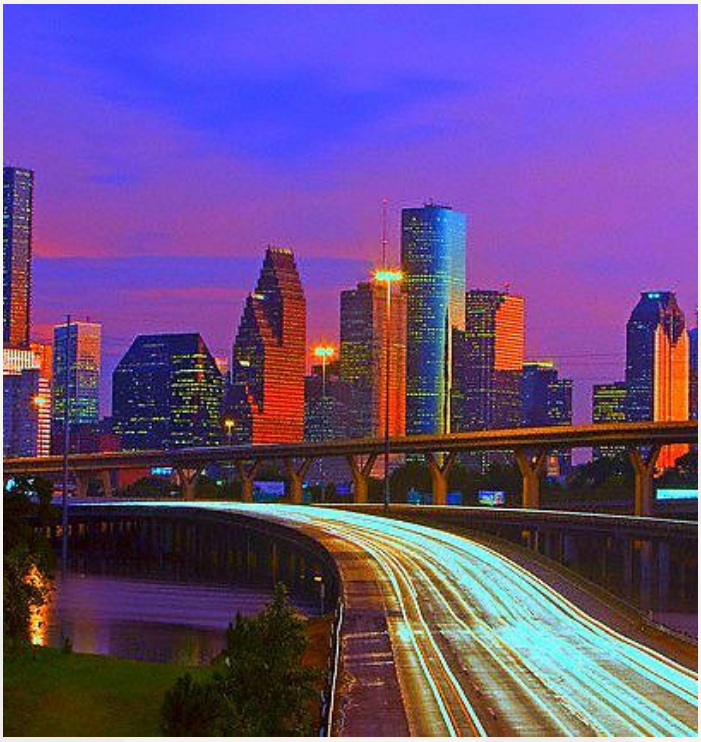
Syndica

Syndica raised $8 million of seed funding in a deal led by Social Capital to create cloud-like infrastructure, advanced developer tools, and APIs to the solana ecosystem

Clutch

Matthew Hagar's (ex- Poetic and Chirp Systems) latest venture, raised a $7.07 million Seed to scale the beta of the production-ready no-code design system with real-time collaboration capability.

*Supporting data: Houston (36% YoY growth), Miami: (46% YoY growth), and Stamford/Bridgeport (CT) (48% YoY growth) have seen higher YoY growth in first financings than the Bay Area, New York, Boston, or Los Angeles, the four largest markets in the US in terms of venture activity— albeit these ecosystems see the highest absolute numbers of first financings overall.



METHODOLOGY

This report includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, corporate investors and institutions, among others.
All financings are of companies headquartered in the Greater Houston Region, with any reference to "ecosystem" defined as the combined statistical area (CSA). We include deals that include partial debt and equity.
All funding information has been sourced from Pitchbook, press-releases, and founder/investor interviews.

Angel & Seed: We define financings as angel rounds if there are no PE or VC firms involved in the company to date and we cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.