

The Skorina Letter

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Building the World's Best Investment Management

Venture Capital's Marks to Make-Believe

Occasionally we publish commentary from other sources. This short piece from PitchBook on venture capital's skyrocketing valuations is a timely follow up to [our last note](#) on investment returns 2021.

As Mary Cahill, former Emory University CIO, commented in a recent [Fundfire](#) post, "Gains on paper are not the same as money in the bank."

Speaking of investment returns, the last two years under Covid have been strange days indeed. Half the population can't make rent, while the other half – anyone with assets – runs the table.

One year ago, in FY2020, university [endowment returns averaged 1.8 percent](#). This year our back-of-the-envelope calculations suggest an average in the low thirties.

It's anybody's guess what next year will bring, but we'll leave you dear readers with these words of investment wisdom from a master of the craft.

"Go for a business that any idiot can run – because sooner or later any idiot probably is going to be running it."

— Peter Lynch

Best wishes for the Holidays and a great 2022.

— Charles Skorina

VC-backed IPOs are booming, yet public performance this year is lagging

PitchBook, December 4, 2021

Has 2021's ramp-up in IPO activity been a rush to the exits prior to a change in the market cycle?

Is it just the new normal?

Time will tell, but one thing is certain: US VC-backed IPOs have broken all kinds of records this year, unlocking more than \$500 billion of liquid value.

The median company valuation at IPO is nearly 60% greater than its last private valuation. However, our VC IPO index has shown relative underperformance against the S&P 500 since the beginning of 2021.

YTD VC-backed IPO index against S&P 500



Source: PitchBook | Geography: Global
*As of November 23, 2021

Long-term performance still shows above-market returns, but inflationary pressure and the increased expectations of interest rate hikes in the coming year have introduced more volatility in the market for these freshly public companies.

These swings have been especially potent in the software space, which represents nearly 50% of the total weight of the IPO index, as the lofty valuation multiples placed on those companies have received a reality check in the face of rising discount rates.

While the majority of the underperformance came earlier in the year, it remains top of mind given the signs of increased market uncertainty—which have been amplified by fresh pandemic-related concerns.

This represents a significant threat to the sustainability of the IPO volumes we've seen over the last couple of years, as negative price performance or just general uncertainty will discourage IPO plans for

certain startups, especially if they have access to other financing and liquidity options.

We will maintain vigilant coverage of this space as we expect IPOs and their performance to be a leading indicator on the health of the VC industry, as public markets have facilitated the majority of exit value over the last two years.

For more data and analysis, click to download our free [Index of Venture-Backed IPOs](#).

Feel free to reach out with any feedback or questions, or if you would like to discuss the research.

Cameron Stanfill, CFA
Lead Analyst, Venture Capital
(news@pitchbook.com)

PitchBook research (part of Morningstar) reports on private equity and venture capital. We always enjoy the read.

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skorina@charlesskorina.com

www.charlesskorina.com

(520) 529-5677

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