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RESEARCH BRIEF

Industries Of The Future: The Trends, Companies, And Categories The Top VC Firms Are Betting On

March 2, 2017

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Advertising and e-commerce are out, AI and insurance tech are in. These are the industries that have the eye of elite venture investors.

WHERE IS THIS DATA COMING FROM?

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“Smart money” VCs have an enviable investment history, with a pattern of successful exited companies and high returns. And these firms’ portfolios can provide important indicators of where tech and innovation is going.

We define smart money venture capital firms (VCs) as those firms with the best combination of portfolio valuations and investment outcomes. Our methodology led us to identify 24 venture capital firms that stand above the rest in terms of financial success.

So where is smart money going? We crunched the data to identify where smart money VCs investing in early-stage companies in recent years and how that investment focus has shifted

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the most potential.

EARLY-STAGE STARTUP TRENDS

This briefing dives into Seed and Series A venture capital trends in the United States and highlights states that have seen substantial activity as well as the verticals within tech driving investment.

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Among our top findings:

- **Health, insurance, and AI are in** — Smart money investors are making more early-stage deals to companies that mention health and insurance in their company descriptions. “Insurance” has seen its usage increase over 2000%. In addition, AI has seen its usage grow 1000%.
- **Advertising and social are out** — “Advertising” has seen its appearance decline by almost 100% over the time period. There are also dips in usage of “Twitter,” “Facebook,” and “Instagram.”
- **Other top winning categories** — Business intelligence, marketplace, and social companies received the most early-stage smart money investments between 2010-2016. But health & wellness has seen a big uptick in deals, alongside food & delivery, collaboration & project management, and cybersecurity startups.
- **Other top losers:** E-commerce and renewable energy have declined notably.

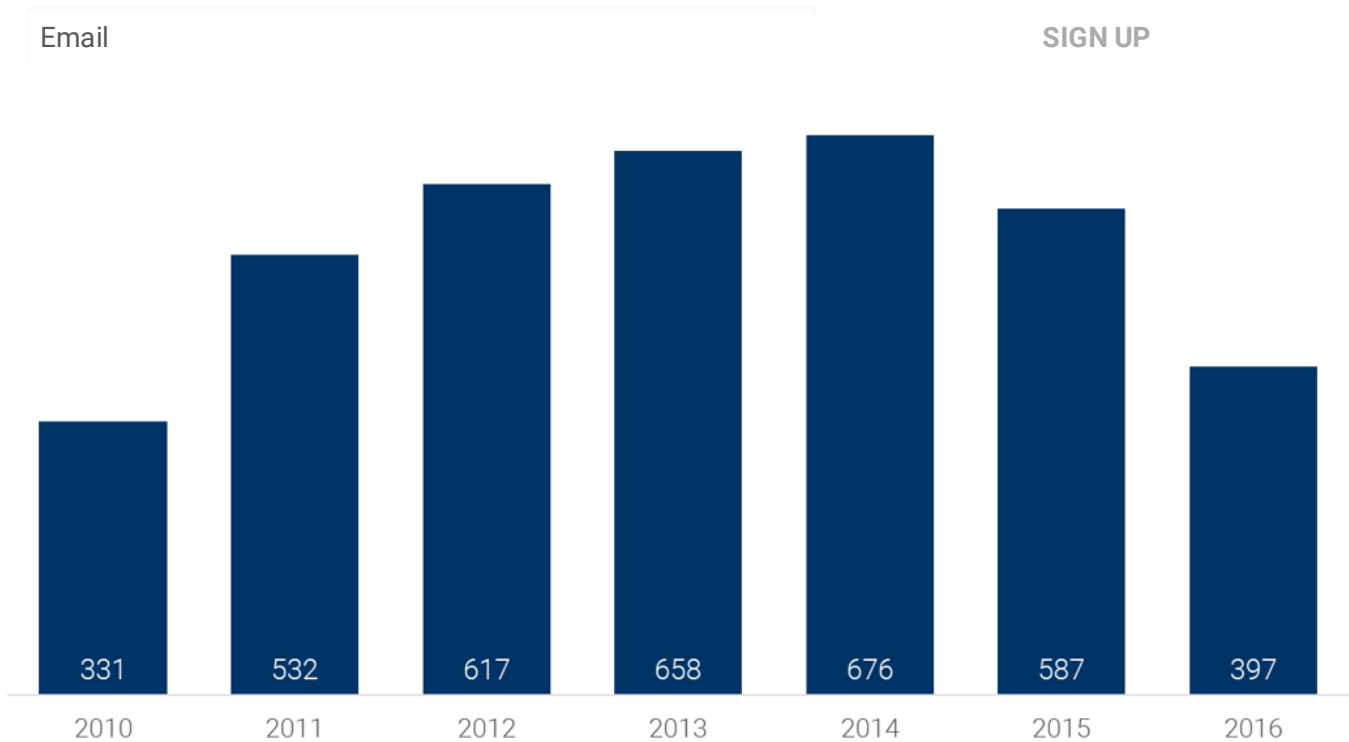
Overall we see that smart money VCs have notably slowed down their early-stage activity over the last two years, ahead of the **overall slump in VC activity**.

From 2010 to 2014, the volume of smart money investments steadily rose. But in 2014, that number declined for the first time since we began collecting data.

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In this brief we'll take a deep dive into smart money VC activity, identifying the most active smart money VCs and where they're located, where smart money VCs are investing at the category, industry, and sector level, and how early-stage investments focuses have shifted.

WHO ARE THE SMART MONEY VCS?

The below chart identifies them and ranks them by the number of deals they have completed since 2010:

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3	First Round Capital	San Francisco, CA
4	Accel Partners	Palo Alto, CA
5	True Ventures	San Francisco, CA
6	Index Ventures	London, England
7	Khosla Ventures	Menlo Park, CA
8	General Catalyst Partners	Cambridge, MA
9	Kleiner Perkins Caufield & Byers	Menlo Park, CA
10	Greylock Partners	Menlo Park, CA
11	Floodgate	Palo Alto, CA
12	Foundry Group	Boulder, CO

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15	Founders Fund	San Francisco, CA
16	Charles River Ventures (CRV)	Cambridge, MA
17	Battery Ventures	Boston, MA
18	Social Capital	Palo Alto, CA
19	Spark Capital	Boston, MA
20	Redpoint Ventures	Menlo Park, CA
21	Sequoia Capital	Menlo Park, CA
22	Union Square Ventures	New York, NY
23	Benchmark	Menlo Park, CA
24	Emergence Capital Partners	San Mateo, CA



Andreessen Horowitz, located in Menlo Park, California, nabs the top spot for completing the most deals since 2010. There's a clear hub in California: 17 out of 24 firms are located in Menlo Park, San Francisco, or Palo Alto. Together, they account for about 75% of smart money deals.

The next largest hotspot for smart money is in the greater Boston area, which houses four VC firms that account for nearly 15% of smart money deals. Only one smart money firm is located in New York.

WHERE SMART MONEY VC FIRMS INVEST

To understand not only overall smart money trends, but where these VCs are placing their bets we looked at the most common keywords in descriptions of startup companies that had early backing from smart money VCs.

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RANK	WORD	SHARE
1	platform	92.1%
2	data	87.3%
3	users	78.5%
4	mobile	60.2%
5	technology	50.5%
6	online	44.9%
7	app	38.4%
8	social	38.0%
9	people	36.5%
10	service	34.8%
11	software	30.9%
12	web	28.9%
13	customers	28.5%

RANK	WORD	SHARE
14	products	26.4%
15	services	25.9%
16	network	25.3%
17	cloud	24.7%
18	applications	24.1%
19	content	24.0%
20	experience	22.9%
21	health	22.6%
22	share	22.2%
23	analytics	21.7%
24	tools	19.1%
25	video	18.3%

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The most common word, used in more than 9 out of 10 company descriptions is “platform.” In addition, 87% of companies funded by smart money VCs since 2010 have mentioned “data” in their company description. Not surprisingly, smart money VCs are focusing on tech, with keywords like “platform,” “users,” “mobile,” “online,” “app,” “software,” and “network” showing up in their company descriptions.

But more importantly, have trends in the keywords used by companies with smart money investors changed as well? We looked at the biggest increases and decreases in company description keywords since 2010 to find out.

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6	vision	0.8%	9.0%	1016%	26	automates	0.8%	3.6%	346.9%
7	chat	0.8%	8.1%	905%	27	banking	0.8%	3.6%	346.9%
8	skills	0.8%	8.1%	905%	28	body	0.8%	3.6%	346.9%
9	drivers	0.8%	7.2%	793%	29	computers	0.8%	3.6%	346.9%
10	gamers	0.8%	6.3%	681%	30	drone	0.8%	3.6%	346.9%
11	level	0.8%	6.3%	681%	31	electronic	0.8%	3.6%	346.9%
12	healthcare	1.6%	10.9%	574%	32	errors	0.8%	3.6%	346.9%
13	human	1.6%	10.9%	574%	33	explore	0.8%	3.6%	346.9%
14	code	0.8%	5.4%	569%	34	healthy	0.8%	3.6%	346.9%
15	convenient	0.8%	5.4%	569%	35	law	0.8%	3.6%	346.9%
16	doctors	0.8%	5.4%	569%	36	smartphones	0.8%	3.6%	346.9%
17	empower	0.8%	5.4%	569%	37	solid	0.8%	3.6%	346.9%
18	genetic	0.8%	5.4%	569%	38	unmanned	0.8%	3.6%	346.9%
19	schools	0.8%	5.4%	569%	39	visual	0.8%	3.6%	346.9%
20	protect	0.8%	4.5%	458%	40	web-based	0.8%	3.6%	346.9%



The keyword “insurance” has grown nearly 2500% in its appearance in descriptions of companies receiving smart money VC investment since 2010, a trend that is in keeping with the **rise in overall deals to the insurance tech sector**. Similarly, “healthcare,” “doctors,” and “healthy” have each seen their use in descriptions rise, mirroring the steady increase in digital health investment over the same time period.

The keyword “artificial intelligence” has also risen by over 1000%. AI companies hit **a record for both deals and dollars in 2016**.



DECREASE IN KEYWORD USAGE FOR SMART MONEY-BACKED STARTUP COMPANY DESCRIPTIONS

Change in percentage of companies with a given term in their description, Early-stage deals only, 2010 - 2016

RANK	WORD	% 2010	% 2016	% DECREASE	RANK	WORD	% 2010	% 2016	% DECREASE
1	advertising	25.8%	0.9%	-96.5%	21	lifestyle	8.1%	1.8%	-77.6%
2	sites	12.1%	0.9%	-92.6%	22	around world	8.1%	1.8%	-77.6%
3	Twitter	20.2%	1.8%	-91.0%	23	commerce	11.3%	2.7%	-76.0%
4	Facebook	27.5%	2.7%	-90.1%	24	energy	11.3%	2.7%	-76.0%
5	billions	8.9%	0.9%	-89.9%	25	publishers	21.8%	5.4%	-75.1%
6	iPhone	8.1%	0.9%	-88.8%	26	fashion	7.3%	1.8%	-75.1%
7	retail	6.5%	0.9%	-86.1%	27	payment	7.3%	1.8%	-75.1%
8	premium	5.7%	0.9%	-84.1%	28	sharing	7.3%	1.8%	-75.1%
9	shows	5.7%	0.9%	-84.1%	29	social media	7.3%	1.8%	-75.1%
10	social network	5.7%	0.9%	-84.1%	30	site	17.0%	4.5%	-73.3%
11	Amazon	4.8%	0.9%	-81.4%	31	anonymous	3.2%	0.9%	-72.1%
12	audience	4.8%	0.9%	-81.4%	32	classroom	3.2%	0.9%	-72.1%
13	flagship	4.8%	0.9%	-81.4%	33	fastest	3.2%	0.9%	-72.1%
14	monetize	4.8%	0.9%	-81.4%	34	identity	3.2%	0.9%	-72.1%
15	ratings	4.8%	0.9%	-81.4%	35	Instagram	3.2%	0.9%	-72.1%
16	ecosystem	4.0%	0.9%	-77.7%	36	integration	3.2%	0.9%	-72.1%
17	graph	4.0%	0.9%	-77.7%	37	inventory	3.2%	0.9%	-72.1%
18	scientific	4.0%	0.9%	-77.7%	38	labor	3.2%	0.9%	-72.1%
19	urban	4.0%	0.9%	-77.7%	39	location-based	3.2%	0.9%	-72.1%
20	visualizations	4.0%	0.9%	-77.7%	40	onsite	3.2%	0.9%	-72.1%



Meanwhile, “advertising” has seen its appearance decline by almost 100% over the time period. Dips in usage of “Twitter,” “Facebook,” and “Instagram” mirror the decline in early-st

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CATEGORIES SMART MONEY VCS INVEST IN

Ranked by number of deals, Early-stage deals only, 2010 - 2016

RANK	SUBINDUSTRY	DEALS	RANK	SUBINDUSTRY	DEALS
1	Business Intelligence, Analytics & Performance Mgmt	211	11	Application & Data Integration	84
2	Marketplace	166	12	Conferencing & Communication	74
3	Social	158	13	Gaming	74
4	Advertising, Sales & Marketing	123	14	Accounting & Finance	72
5	Health & Wellness	121	15	Collaboration & Project Management	70
6	Customer Relationship Management	117	16	Video	67
7	Education & Training	113	17	News & Discussion	63
8	Monitoring & Security	111	18	Payments	59
9	HR & Workforce Management	108	19	Data & Document Management	52
10	Apparel & Accessories	99	20	Food & Grocery	50

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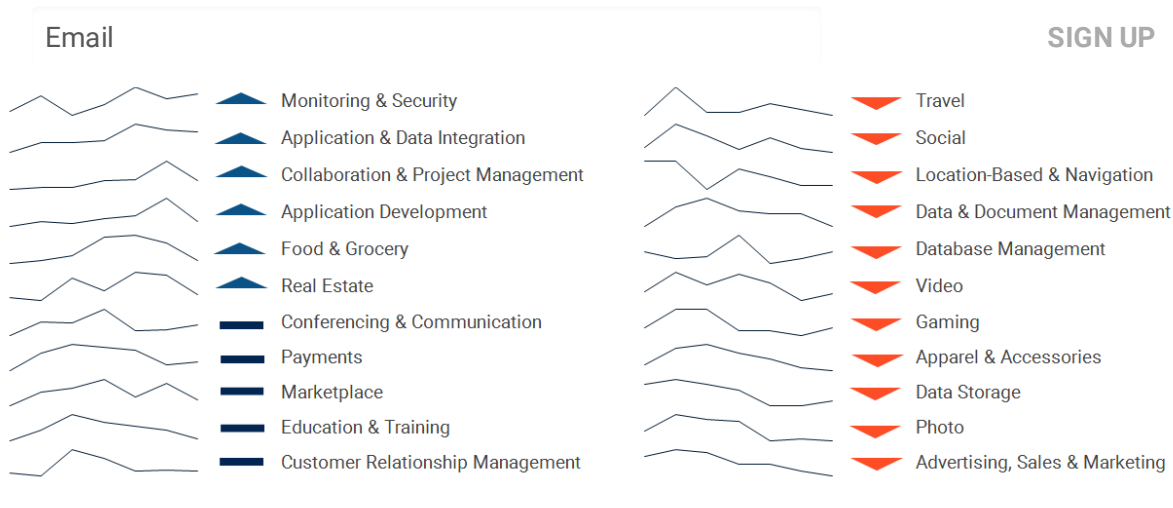
Business intelligence, marketplace, and social companies received the most smart money investments between 2010-2016.

Have business intelligence companies, such as **Palantir** and **Ayasdi**, always taken the biggest share of smart money deals among subindustries? We looked at how investments have changed over the time period.

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Social may account for the third-most smart money investments since 2010, but social deals have declined since a surge of investments including deals to **Pinterest**, **Snapchat**, and **NextDoor**.

On the other hand, health and wellness are on the rise, with more than 100 smart money-backed deals since 2010 to companies like **Honor**, a website that connects home caregivers with aging patients, and **Docent Health**, a healthcare technology platform.

Categories including food and grocery (**Blue Apron**), collaboration and project management (**Slack**), and cybersecurity (**Cyence**, **Virtru**) are also on the rise. In contrast, gaming (**Oculus**) and video (**Vessel**, **TasteMade**) continue to see a decline in deals.

WHERE SMART MONEY VC FIRMS INVEST: BY INDUSTRY

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2	Mobile Software & Services	776	12	Gaming	19
3	E-commerce	462	13	Renewables	19
4	Mobile Commerce	92	14	Drug Development	17
5	Consumer Electronics	63	15	Computer Networking Equipment	16
6	IT Services	59	16	Healthcare Software	16
7	Biotechnology	43	17	Telecom Devices & Equipment	16
8	Scientific, Engineering Software	32	18	Aerospace & Defense	15
9	Consulting & Outsourcing	23	19	Database Management Software	15
10	Medical Devices & Equipment	21	20	Machinery & Equipment	14



At the industry level, we find that smart money VCs have made the greatest number of deals by far to the internet software and services industry, which includes companies like **Stripe**, **Quora**, **Refinery29**, and **Illumio**. The industry with the second-most smart money participation in deals is mobile-centric software and services, which features companies like **Nubank**.

But these VCs are not just investing in apps and software. Other notable industries on the list include biotechnology and consumer electronics.

How have these investment patterns changed over time? We looked at the change in number of deals in each industry since 2010.

CHANGE IN SMART MONEY DEALS, BY INDUSTRY

Number of deals over time, Early-stage deals only, 2010 - 2016



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all trending upward, while drug development has shown mixed activity.

WHERE SMART MONEY VC FIRMS INVEST: BY SECTOR



SECTORS SMART MONEY VCS INVEST IN

Ranked by number of deals, Early-stage deals only, 2010 - 2016

RANK	SECTOR	DEALS
1	Internet	2,197
2	Mobile & Telecommunications	894
3	Software (non-internet/mobile)	179
4	Healthcare	120
5	Consumer Products & Services	110
6	Computer Hardware & Services	104
7	Industrial	39
8	Electronics	37
9	Business Products & Services	36
10	Energy & Utilities	27



At the broad sector level, smart money VC firms have made the most early-stage deals to internet companies, at over 2,000. This sector includes companies like [Pinterest](#), [GitHub](#), [Airbnb](#), [Slack](#), [Wayfair](#), and [Jet.com](#).

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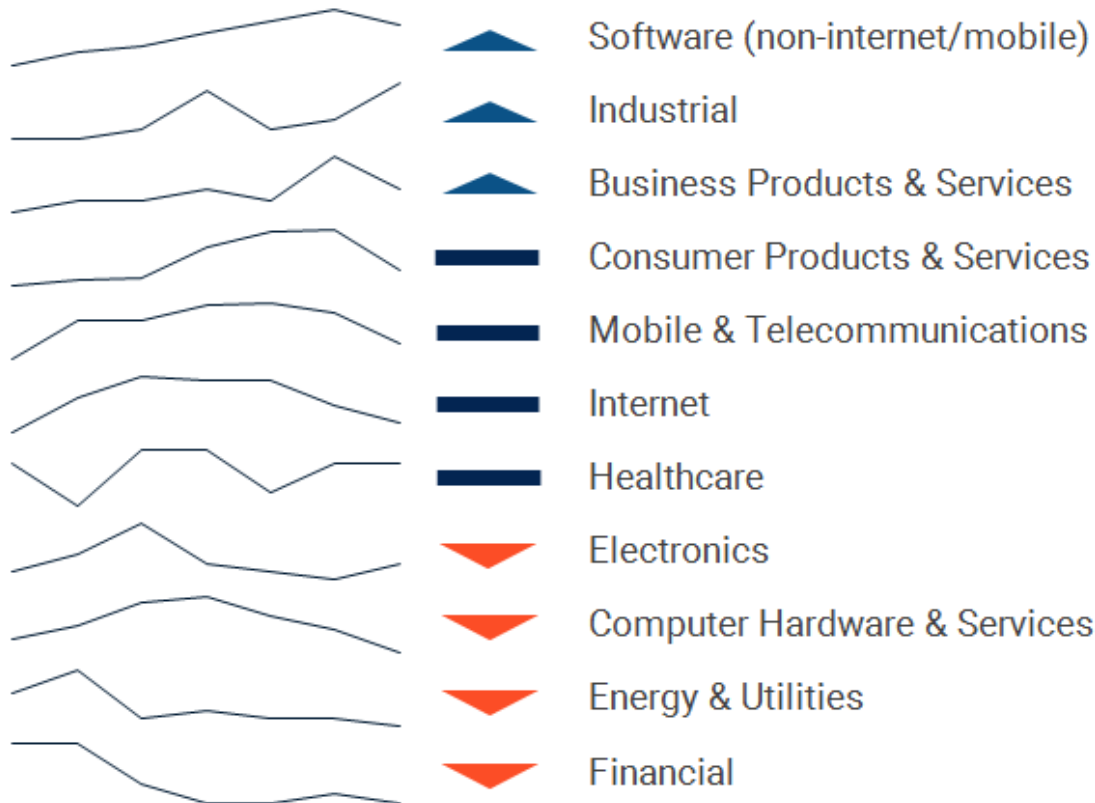
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groups based on change from 2010 to 2016.

CHANGE IN SMART MONEY DEALS, SECTORS

Number of deals by sector over time, Early-stage deals only, 2010 - 2016



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Deals in the non-internet software sector, including to companies such as [Magic Leap](#) and [MongoDB](#), have increased between 2010-2016, along with investment in industrial companies and business products and services (which includes mostly consulting and outsourcing companies).

Computer hardware and services, electronics, and energy & utilities deals, primarily renewable energy, have decreased dramatically. Consumer products & services, mobile & telecommunications, internet, and healthcare deals have each seen mixed trends.

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