Acknowledgements

This report was written by the Denver Office of Economic Development (OED) staff members Tim Martinez and John-Michael Hill. “Denver Seed Capital: The Trigger for Startup Growth” was contributed by Rob Wirtz (Innosphere). Special thanks to Mike Freeman (Innosphere), David Gold (Access Venture Partners), Jacob Lozow (Blackstone Entrepreneurs Network), Erik Mitisek (Colorado Technology Association) and Chris Klein (Rachio) for providing industry expertise and review. Access to CB Insights provided by Innosphere.

The presentation of material in this report does not imply the expression of any opinion whatsoever on the part of the City of Denver or its project collaborators. The information contained herein is based on current information that OED considers reliable, but we make no representation that it is accurate or complete, and it should not be relied upon as such.
A Message from the Mayor

Five years ago, I asked the Office of Economic Development to come up with a strategy to attract more venture capital investment into Denver.

From the resulting venture capital strategy, we initiated the Denver “Gazelle” program in 2012 to highlight some of Denver’s most attractive second-stage companies that were growing rapidly and attracting venture capital. Since then, we’ve recognized nearly 20 Gazelles with the goal of bringing them national attention. They include Welltok, Ibotta and Craftsy, and our herd of Gazelles are generating hundreds of millions of dollars for the Denver economy—they have hired scores of new employees into well-paying jobs, expanded into our prime office space, and given back to our community as donors, board members and volunteers.

This 2015 Venture Capital Report demonstrates that many more investors are flocking to Denver than just those investing in the Denver Gazelles. Since 2011, venture capital investment in Denver companies has almost doubled, and Denver can now attract out-of-state VC-backed companies to locate here as well.

The city’s venture capital progress brings us new opportunities each year and puts us in a position to realize even greater success as we move forward. I am proud to highlight the impressive strides Denver has made over the last five years, and this report provides a roadmap for Denver to continue to strengthen its position in the venture capital ecosystem.

Michael B. Hancock
Mayor
Introduction

2015 was another banner year for Denver. The city’s continued economic prosperity attracted new residents, new businesses, and a healthy dose of capital investments. As Denver has positioned itself as a magnet for innovative and forward-thinking firms, investors from across the country are taking notice. Significant contributions to the local economy from outside investors continue to make the city even more attractive to the most highly-skilled, highly educated members of the national workforce, thereby fortifying Denver’s status as one of the best places in the nation to do business.

Recent indicators of Denver’s economic attractiveness:

- *Forbes* ranks Denver #1 on its list of Best Places For Business and Careers (2015)
- Denver ranked first in the nation in employment and earning opportunities in a WalletHub.com survey (2014)
- The Mile High City ranks as the fifth-best place for millennial-aged entrepreneurs in a study by NerdWallet that compares cities based on their friendliness to startups (2014)
- Denver named the second best city in the country to launch a start-up business by *Forbes* (2014)
- Realtor.com’s National Housing Trend Report for May named Denver as the #1 Fast-Moving Housing Market with the lowest median age of housing inventory at 20 days (2015)
- Denver is among the nation’s top 20 “best-performing cities” of 2014, according to the Milken Institute; the report aims to identify “where America’s jobs are created and sustained” (2015)
- *Time* ranks Denver in the Top 10 Best Cities to Start a New Career (2014)
- Denver ranks #9 on America’s Best Cities For Young Professionals, according to Forbes.com (2014)
Methodology

The *Denver Venture Capital Report 2015* analyzes venture capital deals in Denver, Colorado from 2011-2015 with data provided by CB Insights. The venture capital statistics in this report include all Seed/Angel investments, Series A through E+ investments, and Growth Equity investments. Other types of venture capital investments were not included. Additionally, any investment series listed as “unattributed” was excluded from this report. When determining average investment statistics, only investments with specifically defined dollar amounts were included. CB Insights was not involved in the creation of this report, nor was any agent of CB Insights involved in the development of the report’s underlying analysis.

CB Insights uses proprietary machine learning software to capture every venture capital deal and exit. Every day, sources are crawled and financing and exit data is extracted from them. In benchmarking against competitors, CB Insights tracks between 40-100% more transaction activity on a consistent basis.
Executive Summary

This report evaluates the state of venture capital investment in the City and County of Denver from 2011-2015. The following pages analyze the impact venture capital investments have had on the city’s economy. We evaluate impact based on total investments, investment distribution by sector, the amount of investment at each business stage, the average deals size by sector, the impact of seed funding, the Denver Gazelles program, and the scope and prevalence of exit activities.

Using these analyses, the Denver Office of Economic Development (OED) can evaluate current programs and develop new resources to support Denver businesses seeking venture capital funding.

Some notable trends from this report include:

- **Total investments in Denver rose dramatically from 2011-2014**, with a slight decline in 2015. Meanwhile the number of deals continued to grow in 2015 with a consistently steady growth in Seed/Series A deals. Total venture capital investments in both 2014 and 2015 were at least $140 million higher than each of the previous three years.

- Technology sectors (primarily Internet, Software, and Mobile & Telecommunications) play an extremely important role in the venture capital marketplace in Denver. The Mobile & Telecommunications sector has consistently demonstrated the largest overall growth.

- Three companies (Layer3 TV, Welltok, and Ibotta in 2015) annually represent a disproportionately substantial percentage of all total investment activity.

- The Denver market is maturing with later stage investments growing (Series D, Series E+ and Growth Equity). These late stage investments are typically huge deals for well-established, lower-risk companies.

- **Mergers and acquisitions grew twice as fast as venture capital investment growth**, which may mean Denver companies are now being noticed more as potential purchase candidates by large investment firms. Financial and Business Products companies have been disproportionately attractive M&A prospects when considering that these two sectors have received very few Denver venture capital investments since 2011.

- OED selection of Denver Gazelles consistently reflects the majority of large VC deals in Denver.
Five-Year Venture Capital Financing History, 2011-2015 ($millions)

Figure 1 illustrates funding activity from 2011-2015, in terms of both cumulative investments and total number of deals. The largest annual investment activity occurred in 2014, with total investments reaching $366 million. Other than a spike in investment in 2014, there was a steady growth in both deals and investment from 2011, a year in which Denver businesses generated $179 million in capital investment to $345 million in 2015. Total venture capital investments in both 2014 and 2015 were at least $140 million higher than each of the previous three years.

Figure 1

Source: CB Insights
Annual Venture Capital Investment by Quarter, 2011-2015 ($millions)

As indicated by Figure 2, investment activity has been the highest in the fourth quarter over each of the last three years. The fourth quarter represented 35%, 30% and 34%, respectively, of the total investments for the year. The uptick of investments from the third to the fourth quarter in each of the last three years was substantial, with respective increases of 45%, 24% and 48%.

Source: CB Insights

Figure 2
Contribution of Three Most Active Companies Annually to Venture Capital in Denver, 2011-2015 ($millions)

Each year, several prominent Denver companies attract the largest venture capital deals, often garnering several deals within the same year. Although large transactions represent only 10-20% of the total deals within any given year, because of the relative size of the deals, they also make up a disproportionate percentage of the total amount of venture capital funding coming to Denver companies. In 2015, three companies, Layer3 TV (Series B), Welltok (Series D-II and D-III), and Ibotta (Series C) brought in $136 million, representing 39% of all 2015 investments. The largest contribution, however, occurred in 2013 when Ping Identity (Series E), Craftsy (Series C), and Welltok’s (Series B) combined $98 million represented 48% of all Denver 2013 financing. While each year sees a new set of firms in the top three, the yearly cumulative investments in those top three companies consistently represents a significant portion of Denver’s total venture capital investments.

Figure 3
2015 Individual Company Funding by Deal ($millions)

In 2015, of the $345 million venture capital investments in Denver, the top 10 largest deals represent $237 million. As indicated in Figure 4, Layer3 TV (recently relocated into Denver from Boston) brought $51 million into the Denver economy and represented almost 15% of all 2015 investments.

Figure 4

Source: CB Insights
Yearly and Cumulative Investments by Sector, 2011-2015 ($millions)

Figure 5 denotes that over the last five years, the Internet sector has attracted $786 million in venture capital investment; that sum represents total investments of almost $300 million more than all other sectors combined. The single largest investment-year for any specific industry in Denver was 2015, when the Internet sector raised $229 million. If we take the last five years and combine the Internet sector with the Software and Mobile & Telecommunications sectors, we find that more than 84% of all investments fall into this broader Technology sector. The Mobile and Telecommunications sector demonstrated the largest proportional growth, with a 430% increase from $13 million in 2011 to $69 million in 2015.

Figure 5

Source: CB Insights
Average Value of Venture Capital Investments in Denver, 2011-2015 ($millions)

Although the Technology sectors (Internet, Software, and Mobile & Telecommunications) dominate Denver’s total number of deals and overall venture capital investments, as seen in figure 6, the Software sector clearly represented the largest significant average deal sizes (18 deals from 2011-2015) at $9.47 million.*

Figure 6

Source: CB Insights

* With $18 million, $14 million, and $10.07 million average deal sizes in the Business Products, Electronics and Financial sectors, respectively, the limited number of deals in each sector (two, one and three deals, respectively) are not statistically significant to draw any conclusions.
Total Venture Capital Investment by Series, 2011-2015 ($millions)

The venture capital marketplace has matured over the last five years in Denver. Along with growth in the number of deals and total investments, Figure 7 indicates that late-stage venture capital investments (Series C and later) garnered a much larger percentage of the investments from 2013-2015 than in previous years (48%, 50%, and 45% in 2013, 2014, and 2015, respectively vs. 33% in 2011 and 10% in 2012). Seed/Angel funding has continued to grow exponentially, showing more than a 300% increase from 2011 to 2015.

Figure 7

Source: CB Insights
Density of 2015 Deals by Company Location

The heatmap in Figure 8 indicates that with the exception of a small group of 2015 venture capital deals occurring in companies located in the Cherry Creek/South Colorado Boulevard area, almost all of the deals in Denver took place in or around the central business district. Several deals occurred in the RiNo district (in the Industry and TAXI co-working spaces), along the financial corridor of 17th St., and out of Galvanize in the nearby Golden Triangle area, but the majority of all venture capital deals happened within the LoDo district near the newly renovated Denver Union Station. With over $2 billion of public and private investment on the 19.5 acre development site, this site has quickly become more than the central transportation hub for the region. It has also established itself as a magnet area for innovative companies and highly-educated talent.

Figure 8

Source: CB Insights
Denver Seed Capital: The Trigger for Startup Growth

Seed and angel capital play an important role in Denver’s startup ecosystem. This early investment precedes institutional capital (venture capital) and assists startups with reducing the primary risks of early-stage funding and supports entrepreneurs near inception. These risks include proving the product and technology work, developing customers, making key initial hires, and establishing strategic partnerships.

The primary sources of seed capital for Denver startups are angel investors, family offices, investor groups and startup accelerators. Angel investors are most often individuals with the goals of providing capital for the business start-up and earning a high return on the investment. Family offices are private wealth management advisory firms that serve ultra-high net worth investors. Investor groups are organized high-net worth or angel investors who share deal flow and analysis. Startup accelerators are fixed-term, cohort-based programs that include a seed investment (varying in value) for participating startups. They often require the company to sell 4-8% of equity.

Raising seed capital, and the startup’s accomplishment of the milestones that investors demand, can set the stage for subsequent investment from venture capital firms. A homegrown Denver example of this is Rachio (see sidebar story at right). For startups that are not growing at a venture capital investment rate, the seed investment may position the company for future forms of capital such as debt and other revenue-derived sources.

Angel investment in Denver startups has more than doubled since 2012 (Figure 9). In 2015, the total amount of seed capital invested in seed rounds in Denver startups ($38M) rivals the amount of Series A venture capital investment ($36M). The most active seed investors in Denver in 2014 and 2015, in terms of number of investments, include Colorado investors.

Where do Denver startups go to find these angel investors? First, your network. Typical entrepreneurs inherently have a large base of business contacts, and trusted connections from this network can lead to investor introductions. Second, Denver technology startups can connect with investors through the city’s incubator and angel groups such as Innosphere and Rockies Venture Club.

Rachio

Rachio is a software and hardware company focused on improving the water efficiency of homes. Rachio makes an intelligent sprinkler controller that helps customers water smartly for better results and lower costs by monitoring weather conditions automatically, adapting to the specifics of a user’s yard, and providing control and dashboard options through a smartphone app.

Founded in Denver in 2013, Rachio’s capital base grew initially with founder equity and pre-order sales, and then obtained a seed investment from Foundry Group Angels via AngelList and SK Ventures. The company continues to exceed business milestones, attracting investment in 2014 of $2.49M and $7.1M in 2015 from out-of-state venture capital investors to fuel the company’s rapid growth. http://rachio.com
Finally, The Commons on Champa is Denver’s public campus for entrepreneurship and is a gathering place for the city’s diverse community of business builders and innovators to learn and share ideas. The Commons on Champa was launched in 2015 by the City and County of Denver, the Colorado Technology Association, and the Downtown Denver Partnership.

**Seed/Angel and Series A Investment, 2012-2015 ($millions)**

Figure 9

Source: This section of the report provided by Innosphere using CB Insights
The Denver Gazelles Program

Since 2012, OED has celebrated Denver’s best of the best by annually recognizing a group of high-growth companies as “Denver Gazelles.” Each firm has been named for its success and growth potential. Being centered on technology isn’t a prerequisite for being named a Gazelle, but the fact that almost all the winners are tech firms not only illustrates Denver’s strength as a startup hub but boosts our rising profile on the national tech scene. OED selects its Denver Gazelles based on referrals and internal research among its business development staff and the venture capital/financial community. Criteria include exponential job growth and a CEO-level commitment to engagement in strengthening the Denver entrepreneurial climate. OED adopted the name “gazelle” from the observation that all honorees are demonstrating swift growth in job creation. Firms such as these are expected to drive half of Denver’s workforce growth over the next decade.

2012 Gazelles

comCables
TRACKVIA
INSPRATO
Ping Identity
ibotta

2013 Gazelles

sympoz
convercent
welltok
FullContact
Placeable

2014 Gazelles

galvanize
RTL Networks
AVENTURA
Nimbl
LayerTV

2015 Gazelles

FWI
Four Winds Interactive
Wayin
ProtectWise™
Altitude Digital
Denver Gazelles Venture Capital Investment, 2012-2015 ($millions)

The Denver Gazelles are well represented on annual lists of companies funded by venture capital investment. In fact, over the last four years, 14 of the Denver Gazelles have attracted more than $900 million in venture capital investment. Welltok brought in the most, with $192 million (Figure 10).

This video highlights the 2015 class of Denver Gazelles and was presented during the Denver Gazelles panel discussion, held during the 2015 Denver Startup Week.
Total Merger and Acquisition Deals by Year

Over the last five years as venture capital deals in Denver have become more attractive, so too have the number of merger & acquisition deals. While total venture capital deals nearly doubled from 2011-2015 (Figure 1), Figure 11 indicates that total M&A deals nearly quadrupled from 17 deals in 2011 to 63 M&A deals in 2015.

Figure 11

Source: CB Insights
Mergers and Acquisitions by Sector, 2011-2015

Merger & acquisition deals in Denver from 2011-2015 occurred in a number of different sectors, with the largest number of deals (41 over the five-year span) happening in the Internet sector. However, both the Business Products and Financial sectors represent a disproportionate number of M&A transactions compared to the number of total number of venture capital deals over the same period (24 M&A versus five venture capital deals in Business Products sector, and 25 M&A versus two venture capital deals in the Financial sector). This may mean that companies in these two sectors either bootstrap or borrow to finance early growth and become attractive to outside buyers later due to lower risk and/or limited equity partners.

Figure 12
Denver Capital Matrix

The most active venture capital firms investing in Denver from 2011-2015 included Access Venture Partners, Foundry Group, Appian Ventures, Sequel Venture Partners, Boulder Ventures, and TechStars. Each investor focuses on unique sectors and/or stages. More information on these companies and other types of funding sources for Denver small businesses and entrepreneurs can be found in the Denver Capital Matrix.

The matrix identifies nearly 400 funding sources, including traditional bank lending, venture capital firms, private equity firms, angel investors, mezzanine sources, investment banking institutions and others that have funded Colorado businesses. The matrix provides contact information and categorizes the investment focus of each listed organization.

Data sources for the Denver Capital Matrix include the National Venture Capital Association, S&P Capital IQ and the Colorado Bankers Association.