

How profitable is venture capital?

What is the purpose of this article?

This article enables a discussion regarding the profitability of VC (Venture Capital) funds. The focus is on traditional VC funds with a fixed liquidation date. The article scope excludes: evergreen and perpetual funds.

The audience for this article includes: LPs (Limited Partners), VC fund managers, and VC fund portfolio companies.

This article does not provide tax, legal or financial advice.

You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?

- 1) If you were good at predicting which fund managers would be successful, you could have had excellent returns. But many Limited Partners LPs lost money from their investments.
- 2) The trend has been that the % of funds providing any cash return has been declining.
- 3) I have read multiple articles that some LPs have started to question VC fund managers who are showing high IRR results (which include both actual realized returns and estimated future unrealized returns) while the LPs are receiving little or no cash because the fund managers are unable to sell their investments to buyers.

What types of companies get VC investments and why?

- 1) The company has gone past the startup stage. The company has found a repeatable, scalable, and profitable business model with lot of potential customers who are willing and able to pay to solve their problems and needs. The company has found a profitable solution to scale.
- 2) Investment is needed to quickly grow the company.
- 3) The company may show losses (both from a cash flow and accounting perspective) due to the focus on lifetime customer profitability.
- 4) The number and size of fundraising rounds has nothing to do with whether or not a company is in the VC stage. Some companies have raised more than a billion dollars, never left the startup stage, and shut down.
- 5) A company may slip back into the startup stage at any point in its life.

How many years does a VC fund exist before it is liquidated, all of its investments sold, and cash distributions to LPs completed?

- 1) I've often read that a VC fund lasts for 10 years. But what are the facts.
- 2) Only 7 % liquidate within 10 years. Median funds takes slightly longer than 14 years. 46% take 15 years or longer.¹

How profitable have VC funds been?

If you were good at predicting which fund managers would be successful, you could have had excellent returns. But many LPs lost money from their investments.

Let's look at the IRR for funds that were launched at least 15 years before the report date.

#1 US VC report published in 2017.²

What have been the IRR results for fund launched in each year from 1988 to 2000?

If you were good at predicting which fund managers would be successful, you could have had excellent returns. But many LPs lost money from their investments.

The yearly IRR for the combined assets of all funds ranged from: -0.89% to 100.83%

The yearly median fund IRR ranged from: -3.76% to 41.65%

The yearly lower quartile IRR ranged from: -11.58% to 21.54%

The yearly upper quartile IRR ranged from: 3.20% to 80.62%

#2 US VC report published with data up to 2023³

What have been the IRR results for fund launched in each year from 2000 to 2010?

The yearly IRR for the combined assets ranged from: -0.65% to 15.4%

The yearly median fund IRR ranged from: -0.35% to 12.84%.

The yearly bottom quartile IRR ranged from: -10.39% to 4.69%

The yearly upper quartile IRR ranged from: 4.65% to 22.87%

What will be the returns for recently launched funds?

- 1) No-one can predict the future.
- 2) The trend has been that the % of funds providing any cash return has been declining.
- 3) I have read multiple articles that some LPs have started to question fund managers who are showing high IRR results (which include both actual realized returns and estimated future unrealized returns) while the LPs are receiving little or no cash because the funds managers are unable to sell their investments to buyers.

Based on Q1 2025 results, what has been the approximate % of VC funds which provided any cash returns?⁴
What have been the results for funds 3 years after launching?

- 1) Funds launched in 2017: 33%
- 2) Funds launched in 2018, 2019, 2020 – all about 22%
- 3) Funds launched in 2021: 10%

What have been the results for funds 4 years after launching?

- 1) Funds launched in 2017: 52%
- 2) Funds launched in 2018, 40%
- 3) Funds launched in 2019, 32%
- 4) Funds launched in 2020: 28%

What have been the results for funds 5 years after launching?

- 1) Funds launched in 2017: 70%
- 2) Funds launched in 2018, 43%
- 3) Funds launched in 2019, 35%

What are your next steps?

- 1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.
- 2) Define your long-term cash flow requirements and plan, with scenarios.
- 3) Determine your asset allocation over time.
- 4) Do your own fact-based research.

Footnotes

¹ The New Reality of the 14-Year Venture Capital Fund, Institutional Investor, Feb 19, 2015
<https://www.institutionalinvestor.com/article/2bsv31916hb46dpp501ds/portfolio/the-new-reality-of-the-14-year-venture-capital-fund#:~:text=Venture%20capitalists%20structure%20and%20market,than%2014%20years%20to%20end.>

² Page 13 US Venture Capital Index and selected benchmark statistics Dec 31, 2017, Cambridge Associates
<https://www.cambridgeassociates.com/wp-content/uploads/2018/05/WEB-2017-Q4-USVC-Benchmark-Book.pdf>

³ 2024 Q4 Venture Capital Pitchbook Benchmarks , Page 12
<https://pitchbook.com/news/reports/q4-2024-pitchbook-benchmarks-with-preliminary-q1-2025-data>

⁴ Q1 2025 VC Fund Performance Report – Carta
<https://carta.com/data/vc-fund-performance-q1-2025/>

What further reading should you do?

LP (Limited Partner) assessment of a fund. Koor and Associates
<https://koorandassociates.org/selling-a-company-or-raising-capital/lp-limited-partner-assessment-of-a-fund/>

Your company will fail. Koor and Associates

<https://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/>

How profitable is angel investing? Koor and Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-angel-investing/>

How profitable are search funds? Koor and Associates

<https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-are-search-funds/>