Become Transaction Ready in an Uncertain Market

Even in the face of uncertainty, what private companies can control is the degree to which they are prepared for an IPO, liquidity event or acquisition.

What can you control today to be set up for success tomorrow?

Find out how our team may be able to help your company improve cap table accuracy, gain greater agency over future timing of a liquidity event and minimize unforeseen delays leading up to the transaction.

Request your complimentary consultation
Contents

Key takeaways 4
Angel and seed 5
Early-stage VC valuations 7
Late-stage VC valuations 9
A word from Morgan Stanley at Work 11
Venture-growth valuations 13
Biotech & pharma 15
Fintech 16
Enterprise tech 17
Consumer tech 18
A word from Reitler 19
Nontraditional investors 21
Liquidity 23
Deal terms 25

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Click here for PitchBook’s report methodologies.
Key takeaways

Dealmaking at the angel and seed stages displayed robustness throughout the year, with the median pre-money valuation of both stages ascending on an annual basis. The Q4 median valuation was the highest quarterly value recorded in our dataset. Although valuation step-ups revealed fluctuations throughout 2022, overall, the step-up metrics were strong compared to previous years.

On an annual basis, early stage was able to maintain the strength and vitality of deal activities in 2022. However, quarterly data surfaces a continuous downward trajectory. The elevated deal and pre-money valuations from Q1 and Q2 held up the 2022 annual figures, but our dataset reveals a downward trend on a quarterly basis as the market softened, with the early-stage median valuation falling 33.3% from Q1 to Q4.

Declining valuations for many late-stage startups were made worse by the lack of available exit avenues, trapping substantial amounts of value within the top of the venture market. Median and average public listing valuations fell to $214.0 million and $604.0 million, respectively—their lowest points since 2016. Acquisitions remained relatively resilient, with median acquisition valuations declining by just 3.5%. Public exit valuation step-ups—for companies that managed to find a suitable path to liquidity—suffered as well, falling 32% to 1.05x, offering little upside for investors who participated in the most recent funding round.

Nontraditional participation waned throughout the year, particularly for the top of the market where much of the return potential relies on exit paths for large, highly valued companies. In recent years, these institutions have been especially important for late-stage startups, whose capital needs are often greater than what dry powder can support alone. Now, as exits continue to decline, nontraditional investors are exercising more caution in their dealmaking, which has affected late-stage and venture-growth valuations for deals in which nontraditional investors participated. On an annual basis, late-stage financing rounds that included a nontraditional investor saw median pre-money valuations fall 13% to $100.0 million, while venture growth fell 22% to $600.0 million.
Sitting at the earliest phase of the venture lifecycle, angel-backed and seed-stage companies fared well in 2022, a year in which the VC market grappled with steep inflation, ascending interest rates, and a dire exit market. On an annual basis, all measures of pre-money valuation witnessed growth for angel and seed stages. The median angel pre-money valuation increased by 9.7% to $4.9 million from 2021 to 2022, while seed valuations witnessed a remarkable 16.7% growth to $10.5 million. Both figures broke previous yearly records, hitting the highest valuations since 2012. This robust dealmaking resulted from the ample availability of dry powder, partly due to the proliferation of micro funds in recent years, as well as investors shifting their focus toward startups in nascent stages of development, allowing more buffer time before the gate to exit reopens.

On an annual level, the median seed step-up climbed to 1.9x from 1.79x. In addition, velocity of value creation (VVC) grew by 43.1%—from $3.2 million to $4.6 million—between 2021 and 2022, almost doubling the 2020 figure of $2.4 million. These measures point to a favorable pricing market for seed-stage startups.

1: Velocity of value creation is the annual increase in pre-money valuation between two financing rounds, measured in US dollars.
companies in 2022, a year during which startups were able to grow their valuations at a much faster pace than previous years. Given the data only includes completed deals, a caveat lies in survivorship bias. As the market tilted toward investor-friendly, startups might have found themselves facing increasing competition, with only the ones that managed to grow at a steady rate able to raise a next round.

The quarterly seed step-up data, on the other hand, reveals fluctuations in the median valuation step-ups. Q1 saw the highest median step-up of the year, sitting at 2.5x, likely because of momentum carried over from a record-breaking 2021. Overall, however, the quarterly step-up figures for seed in 2022 were on par with 2021 and displayed strength and vigor compared to the past few years.

Median and average seed valuation step-ups continued to ascend

Source: PitchBook  |  Geography: US
*As of December 31, 2022
Early-stage VC remained strong relative to later stages of venture in 2022. Pre-money valuations trended upward from 2021 to 2022, which saw all metrics increase. However, a deep dive into the quarterly figures, in which Q1 appeared to be the most active and Q4 on the lethargic end, tells a different story. The trailing four-quarter data reveals a continued decline in the median as well as the top decile and quartile pre-money valuations. Q1 started strong with a $60.0 million median pre-money valuation, the highest we have seen in more than a decade. It is worth noting that despite the quarter-to-quarter dip, quarterly pre-money valuation figures in 2022 narrowly surpassed those of 2021—and almost doubled those of 2020.

Early-stage startups were more insulated from market headwinds in 2022 than their late-stage counterparts, many of which found themselves in a tough spot, with a dearth of available capital and a blocked path to exit. Sitting near the top of the venture lifecycle, early-stage companies benefited from record levels of dry powder—especially capital raised during 2021’s pandemic-fueled market exuberance—as well as investors adjusting their investment strategy by moving upstream, where companies in nascent stages of development are further insulated from public market volatility.

On the flip side, the early-stage market softened throughout 2022, as investors were more cautious about deploying capital and extolled the cut-expenditure-and-preserve-runway approach. The median valuation step-up slipped from 3.35x in Q1 to 1.95x in Q4, the lowest since Q3 2020 and slightly below the five-year average of 2.29x. Should the venture exit market remain frozen, and the pressure on dealmaking continue shifting upstream, we expect to see a prolonged, faltering quarterly trend in the months ahead.
Median early-stage VC valuation step-ups declined QoQ

Median and average early-stage VC valuation step-ups by quarter

Median early-stage VVC witnessed a 15.0% drop YoY
Median early-stage VVC ($M) between rounds

Median early-stage RVVC dipped, surfacing a slowdown in annualized pre-money valuation growth
Median early-stage RVVC** between rounds

Source: PitchBook | Geography: US
*As of December 31, 2022

**Note: Relative velocity of value creation (RVVC), is the annualized change in pre-money valuation between rounds, measured as a percentage.
Deal activity for late-stage venture continued its descent through the final quarter of the year as companies further along in the VC lifecycle grappled with ongoing market volatility. Deal value at the stage fell to just $13.5 billion in Q4, while the total number of late-stage deals declined 28.0%. Much of this decline was driven by the withdrawal of large, nontraditional investors (NTIs), who have pulled away from the space amid declining economic conditions. NTIs, which have provided large infusions of capital in recent years, participated in 22.0% fewer late-stage financings in 2022.

This diminishing participation from nontraditional investors not only widened the funding gap for late-stage startups, which are often more capital-starved than early-stage businesses, but forced many to pursue funding at lower valuations. The median pre-money valuation for late-stage venture fell to $60.0 million in Q4, which is 25.0% lower than the $80.0 million median observed in Q4 2021. The top-decile late-stage valuation from Q4 was just $470.0 million—the first time this figure has been under $500 million since Q4 2020. Decreasing valuations impact ownership as investors look to obtain more equity to help de-risk investments. By the end of 2022, we began to see an increase in the percentages of equity stakes.

We also saw less value created between equity rounds for late-stage startups. Median VVC fell by 36% to roughly $22.2 million in 2022, while the median step-up multiple for late-stage startups in Q4 fell to 1.60x—a 10-quarter low—further illustrating the dampening effect lower capital supplies had on the late-stage venture ecosystem. We expect economic headwinds and frozen paths to liquidity to continue to push valuation declines and an uptick in down rounds for startups at the top of the venture market, barring a sudden turnaround in public markets and investor sentiment.
Median step-up reached nine-quarter low
*Median and average late-stage VC valuation step-ups by quarter

Median late-stage VVC ($M) between rounds

Late-stage VVC fell 36%
Source: PitchBook | Geography: US
*As of December 31, 2022

RVVC declined well below 2021 high
Source: PitchBook | Geography: US
*As of December 31, 2022
A WORD FROM MORGAN STANLEY AT WORK

An inside look at liquidity in the private markets

Who is Morgan Stanley at Work?

Morgan Stanley at Work’s suite of corporate solutions spans Retirement Solutions, Financial Wellness and Equity Compensation via the Shareworks platform and Equity Edge Online®. Combined with Morgan Stanley’s wealth management solutions, financial education is delivered through multiple channels to empower employees to build a holistic plan to help them achieve their financial goals.

Our equity platform, Shareworks, provides innovative private companies cap table and equity compensation management, financial reporting, and 409A valuation services. We also have a growing liquidity business that has been built on issuer-led events, like tender offers and continuous liquidity programs. Since inception, we’ve moved over $12 billion to employees and shareholders in private venture-backed companies and recently launched a private market secondary transaction desk to serve the needs of our clients, both individuals and investment firms.

How are you supporting private companies in the current climate?

As companies navigate uncertainty, our goal is to help them stay agile and manage their ongoing equity and liquidity needs. Our equity solutions are designed to help companies at every stage get the most out of their equity compensation programs and ensure they are configured to meet the needs of their shareholders. For later-stage companies, we continue to help them stay transaction ready in the event of a future IPO or exit event. In the meantime, they can continue facilitating organized liquidity events that relieve the pressure of shareholder liquidity through a controlled process.

In addition to expanding our private market solutions, we’re being thoughtful about growing our team and organization alongside the needs of our clients. Our goal is always to ensure that we have the products and expertise to serve the needs of our clients throughout their journey from startup to becoming a public company.

What makes Morgan Stanley at Work unique is our ability to support not only companies but also the employees within them. We do that by providing financial wellness resources, one-on-one support with Financial Advisors, and equity education, all of which we believe will be critical as employees navigate the current climate.

What factors should venture-backed companies consider during times of uncertainty?

Extending the cash runway. It may be beneficial to extend the cash runway either to profitability or long enough to ride out the uncertainty—potentially 18 to 30 months. That may require raising capital in a challenging environment.

Focusing on the metrics that matter. Be rigorous on prioritizing business and product lines. Unit economics and margins are key, and investors will be focusing on these metrics. Growth at all costs will not be rewarded in this market. This may also require hard decisions to forgo certain initiatives in order to both focus on the areas of the business that are working and extend the cash runway.

Transaction readiness. While the capital markets remain volatile and the IPO window is effectively closed, companies will need to remain agile and ready to transact when conditions improve. We often advise companies to use this time to ensure
that their capitalization records are up to date and that they have the right systems, processes and third-party integrations in place so that they are transaction ready when it comes to conduct a primary capital raise, liquidity event or public listing.

**What are some trends you are seeing for issuer-backed liquidity events?**

Tender offer and secondary volume spiked when the IPO market was hot in 2021. However, in 2022, we saw a decline in liquidity events as companies adjusted to the ever-changing market dynamics. Interestingly, though, there has been a decline in company-sponsored tender offers; however, overall shareholder participation has increased per available event. In 2021, fewer than 30% of eligible participants were selling and only 60% of the eligible shares were being sold. In the second half of 2022, many tender offers on our platform were fully subscribed, and we’ve even seen prorations occurring to bring those share amounts back down to threshold where they’re eligible to be sold.

Another trend we’re seeing are private company liquidity events that specifically target restricted stock units (RSUs) with a double-trigger configuration. Companies are running into more complex situations wherein specific shareholder groups need access to liquidity. For example, in order to meet a tax obligation. Company-sponsored liquidity events have evolved to target key talent retention, and they have more options when it comes to meeting the needs of individual shareholder groups. The good news is that **Morgan Stanley at Work** has a robust product mix that consists of the technology and services required to support these more complex liquidity programs.

**Given the amount of volatility happening in the global markets, what can private companies do to manage their ongoing liquidity needs?**

It’s important for private company leaders to recognize that equity and liquidity have become increasingly intertwined. Pressure for liquidity among long-tenured employees and early investors will continue to build, even while market conditions prohibit companies from going public or using their balance sheets to conduct share buybacks.

We anticipate that many companies will continue managing the mechanics of their liquidity programs while preserving their cap table. For those companies, broad-based tender offers may remain the most effective tool at their disposal. However, these programs can be resource-constrained and time-consuming, and a lot of thought needs to go into the participant experience and education strategy.

An alternative approach is to allow employees to sell shares on the secondary market. While this can provide liquidity for an employee, it can also create a lot of administrative work, which can be a burden. It may also change the dynamics of a company’s cap table. We have recently been working with select clients on a controlled liquidity approach that solves this specific problem by giving companies a solution through which employees can sell their vested equity to approved off-platform buyers. Combining our brokerage capabilities with the ability to execute and reconcile transactions on the Shareworks platform, we are uniquely positioned to provide an end-to-end solution to manage secondary transactions. As market volatility continues, we expect this may be a more attractive option for companies looking to relieve liquidity pressure from their stakeholders.

Most importantly, we advise our clients to think proactively about their liquidity needs. Don’t wait for employees and early investors to start inundating you with requests to sell some of their equity. Having a well-formed liquidity strategy helps align the incentives of your employees and investors with the company, and it’s something that **Morgan Stanley at Work** can help with regardless of your company’s size or stage.

**Disclosures**

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We launched our venture-growth-stage methodology in Q4 to highlight companies offering a much different risk-return profile than traditional venture-backed companies. The extension of the late stage, where most of these companies were tagged, had created a market in which traditional, mid-sized VCs operated next to multi-billion-dollar hedge funds and asset managers, each deploying very different strategies into the space.

The run-up in valuations during 2021 caused the annual median venture-growth pre-money valuation to nearly double YoY to $350.0 million, topping out at a quarterly median high of $500.0 million in Q4 of that year. 2022 has been a completely opposite story. The annual median venture-growth pre-money valuation declined 17.1% to $290.0 million, although that figure was heavily supported by Q1 and Q2 figures, which helped offset Q4’s plunge to $132.0 million, the lowest figure since Q1 2020.

Valuations at this stage are tightly linked to public markets. The reversal in premium put on revenue growth in the public market has put immense pressure on companies currently operating as venture-growth-stage businesses. This pressure has caused VVC growth to fall precipitously, with companies adding just 37.9% to their valuation between rounds on an annualized basis. Although this is the lowest point for any stage, it is still much higher than normal for venture growth on a historical basis, which indicates venture-growth valuations may fall further in 2023. As the market at this crowded stage relies heavily on nontraditional investor capital, many venture-growth companies face a massive shortage of capital to fund their needs.
After strong upswing through early 2022, valuations fell quickly

*Median and average venture-growth valuation step-ups by quarter*

3.0x

2.5x

2.0x

1.0x

Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4

2017 2018 2019 2020 2021 2022*

Median VVC halved YoY

*Median venture-growth VVC ($M) between rounds*

$195.2

$97.4

After strong upswing through early 2022, valuations fell quickly

Median and average venture-growth valuation step-ups by quarter

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2.0x

1.0x

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2017 2018 2019 2020 2021 2022*

Median VVC halved YoY

*Median venture-growth VVC ($M) between rounds*

$195.2

$97.4

Median RVVC lowest among stages

*Median venture-growth RVVC between rounds*

68.8%

37.9%

Median RVVC lowest among stages

*Median venture-growth RVVC between rounds*

68.8%

37.9%

Median RVVC lowest among stages

*Median venture-growth RVVC between rounds*

68.8%

37.9%
Biotech & pharma

Seed- and early-stages witnessed growth in deal value

Median biotech & pharma VC deal value ($M) by stage

All stages trended upward except for late stage, where pre-money valuation took a hit

Median biotech & pharma VC pre-money valuation ($M) by stage

Median share acquired saw a minor increase for seed- and early-stage VC

Median VC share acquired in biotech & pharma companies by stage

Early- and late-stage VC median step-ups dropped slightly

Median biotech & pharma VC valuation step-ups by stage

Source: Pitchbook | Geography: US
*As of December 31, 2022
Fintech

Late-stage deal value was slashed and dropped 29%
Median fintech VC deal value ($M) by stage

Seed-, early-, and late-stage VC saw an uptick in pre-money valuation amid economic headwinds
Median fintech VC pre-money valuation ($M) by stage

Median share acquired experienced a slight decline across all stages
Median VC share acquired in fintech companies by stage

Early-stage VC was the best performing one among all stages
Median fintech VC valuation step-ups by stage

Source: PitchBook | Geography: US
*As of December 31, 2022
Enterprise tech

Enterprise tech deal sizes were robust at the late stage

Median enterprise tech VC deal value ($M) by stage

Growth valuations fell considerably in 2022

Median enterprise tech VC pre-money valuation ($M) by stage

Late- and growth-stage stakes increased to offset risk

Median VC share acquired in enterprise tech companies by stage

Valuation step-ups remained near highs

Median enterprise tech VC valuation step-ups by stage

Source: PitchBook | Geography: US
*As of December 31, 2022
Consumer tech

Growth deal sizes were back to pre-pandemic norms
Median consumer tech VC deal value ($M) by stage

Growth valuations nearly halved
Median consumer tech VC pre-money valuation ($M) by stage

Late-stage stakes were up sharply
Median VC share acquired in consumer tech companies by stage

Step-ups slowly fell back
Median consumer tech VC valuation step-ups by stage

Source: PitchBook | Geography: US
*As of December 31, 2022
A WORD FROM REITLER
Protecting your data and security is about to change

Privacy and cybersecurity issues will continue to gain importance in 2023. New or enhanced privacy laws will become effective in five states, including privacy rights limiting the use of artificial intelligence. Additionally, expect increased enforcement and litigation of privacy and cybersecurity issues, especially in the areas of data breach and keystroke monitoring.

2023 privacy and cybersecurity calendar of key dates

January 2023
• Virginia Consumer Data Protection Act takes effect
• California Consumer Privacy Act (CCPA) amendments become effective
• Employment data and business-to-business (B2B) exemptions expire under the CCPA

April 2023
• SEC’s Cybersecurity Risk Governance Rules are slated for adoption

July 2023
• Colorado Privacy Act takes effect
• Connecticut Act Concerning Personal Data Privacy and Online Monitoring takes effect
• Enforcement of CCPA amendments commences

December 2023
• Utah Consumer Privacy Act takes effect

State privacy laws

In 2023, new or enhanced privacy laws will take effect in five states: California, Virginia, Colorado, Connecticut, and Utah.

California

On January 1, 2023, the CCPA exemptions for employment and B2B data expired. Companies must now treat California employees, job applicants, and business contacts as “consumers” under the CCPA, including providing them with comprehensive privacy notices before collecting their personal information and responding to their privacy requests to access, correct, and delete their personal information.

California’s amendments to the CCPA also took effect on January 1, 2023, with enforcement commencing on July 1, 2023, as to violations of the amendments occurring after that date. These amendments include new privacy rights: to correct personal information, to limit the use of sensitive personal information, and to opt out of sharing for cross-contextual behavioral advertising. Among the new requirements established by the amendments, businesses must add certain privacy terms to their agreements with service providers and contractors that access or process personal information on behalf of the business.

Virginia, Colorado, Connecticut, and Utah

The new state privacy laws in Virginia, Colorado, Connecticut, and Utah contain many of the same privacy rights and requirements as the California CCPA, but some also have more robust provisions than the CCPA in certain areas.

Virginia, Colorado, and Connecticut regulate artificial intelligence, with their new privacy laws providing consumers with rights related to profiling and automated decision-making. Profiling generally refers to the automated processing of personal data to analyze or predict an individual’s preferences, behavior, location, or certain characteristics,
among other things. Both Virginia and Colorado provide consumers with the right to opt out of profiling in furtherance of decisions that produce significant effects, such as access to financial services, education, employment, or healthcare. Notably, only the creation of the profile must be automated to trigger the opt-out right. The Connecticut opt-out right applies only if both the profile and decision are automated. The California CCPA amendments require the adoption of regulations related to profiling and automated decision-making, but such regulations have not yet been issued.

Virginia, Colorado, and Connecticut also require companies to conduct data protection impact assessments for data-processing activities that present a heightened risk of harm to consumers. The CCPA amendments provide for adoption of regulations requiring similar assessments plus annual cybersecurity audits, which have not yet been issued.

Virginia, Colorado, and Connecticut also require companies to obtain consent for the collection of certain sensitive personal data. The proposed Colorado rules require such consent to be clearly and specifically obtained, not bundled with other terms and conditions.

Privacy law enforcement and litigation

Recent legal developments indicate that enforcement and litigation related to privacy and cybersecurity issues will continue to increase in 2023.

CCPA

California has recently established the new California Privacy Protection Agency (CPPA) to implement and enforce the CCPA. Additionally, as of January 1, 2023, companies no longer enjoy an automatic 30-day period to cure violations before enforcement. The CCPA amendments also triple the penalties for violations that involve children under 16 (now $7,500 per violation).

Data breaches

All 50 states have laws requiring notification to individuals of security breaches involving certain types of personal data. Most of these laws are enforced by state agencies.

California also provides for a private right of action, which was expanded by the CCPA amendments to include data breaches of email addresses in combination with a password or security question and answer that would permit access to the account. The California attorney general’s website posts data breach notices sent to more than 500 California residents, which has the effect of increasing the availability of information for potential class-action litigants.

Chatbots and keystroke monitoring litigation

A spate of class actions has been filed recently claiming that companies using chatbots are engaging in illegal wiretapping of online communications with consumers. This new wave of “keystroke monitoring” litigation comes after recent appellate-level decisions in the Third and Ninth Circuit Courts holding that companies and vendors that collect information for them over the internet can violate state wiretapping laws, including vendors providing marketing and webform services. Although companies may have additional defenses to these lawsuits not addressed by the appellate courts, as long as those defenses remain unsettled, these appellate decisions will invite further litigation over alleged privacy rights violations as a result of using third parties to collect information via GET requests/cookies, webforms, or chatbots.

2023 will be another busy year for privacy compliance, enforcement, and litigation. And the forecast shows no signs of privacy regulation slowing down. Several additional states have pending privacy laws that may be enacted in 2023. Thus, funds and emerging companies should make privacy a priority in 2023 to avoid the increasing risks of noncompliance.
Nontraditional investor participation has grown rapidly over the last decade across all stages of VC and has had an outsized impact on valuation trends within the industry. These institutions are particularly important for the top of the VC market, where capital needed by late-stage startups is often greater than what dry powder alone can support. In 2022, $177.0 billion of deal value, or 74.0% of total VC deal value, included a nontraditional investor, which is nearly 8.0x more than the $22.4 billion in deal value in 2012. Despite this growth, nontraditional investor participation steadily declined throughout the year in response to volatile macroeconomic factors; these investors are often the first to pull away from VC due to the limited liquidity and more hazardous risk/return profiles that historically come with this asset class, particularly during economic downturns.

Much of the return potential for nontraditional investors relies on liquidity avenues for large, highly valued companies; in 2022, a year marked by its lethargic pace of exits, we’ve seen many of these investors abandon the space, which has heavily affected valuation, albeit not equally across all stages of venture. Late-stage deals with nontraditional investor participation saw annual median pre-money valuations fall 13.0% to $100.0 million in 2022, while venture-growth deals saw valuations fall 22.0% to $600.0 million. Given the likelihood that exits will remain frozen for the near term, thus locking up expected returns for investors, we expect valuations will continue to decline for late-stage and venture-growth deals seeking nontraditional investor participation.

Early-stage deals with nontraditional investor participation, by contrast, saw median pre-money valuations increase from $51.3 million in 2021 to $65.0 million in 2022, while median deal value increased 10.0%—further illustrating just how much the late-stage venture market has slowed relative to earlier stages. This is partly because startups in the earlier stages of the VC lifecycle are typically more insulated from market volatility due to their nascency and greater distance from exit prospects.
Nontraditional investors continued to pull away from VC
US VC deal activity with nontraditional VC investor participation by quarter

Median and average early-stage NTI deal values surpassed 2021 levels
Early-stage VC deal value ($M) dispersion with nontraditional investor participation

Average late-stage NTI deal value fell 20% YoY
Late-stage VC deal value ($M) dispersion with nontraditional investor participation

Source: PitchBook | Geography: US
*As of December 31, 2022
The lack of exits throughout the year was a major headline in 2022, and VC exit valuations suffered accordingly. The median public listing exit valuation in 2022 fell to $214.0 million, while the average declined to $604.0 million—the lowest levels we’ve observed in more than five years. Rising interest rates, geopolitical conflicts, and other macroeconomic factors battered public markets, as companies that were trading at sky-high multiples in 2021 were no longer able to sustain growth expectations. As such, late-stage companies in the private sector, which often look to public businesses as proxies, were unable to find suitable paths to liquidity or investors that were willing to uphold their massive valuations. 2022 saw just 76 completed public listings—consisting of IPOs, direct listings, and deSPAC transactions—a 75.0% decline from the 303 completed in 2021.

Acquisitions, while also declining, were somewhat more resilient than public exit paths. The median acquisition exit valuation fell to $65.0 million in 2022, which is just a 3.5% decline compared to the 70.6% decline observed for median public listing exit valuations. Similarly, the average exit valuation declined 18.4% compared to 75.0% for public averages. This resiliency is likely driven by the many non-financial benefits of M&A, such as gaining access to new customer segments, which can be invaluable even during economic downturns.

The annual valuation step-up for public exits fell to 1.05x in 2022, well below the 1.55x step-up observed in 2021, offering investors little wiggle room for upside from investing in the most prior round. Given paths to liquidity are likely to remain depressed amid current economic conditions, we’re likely to witness several ripple effects such as lower levels of recycled cash distributions, lagging VC fund performance, and a wave of down rounds.
Q4 median acquisition step-up witnessed slight increase
Quarterly median valuation step-up at exit by type

Median step-up at exit remained relatively unchanged
Rolling four-quarter median step-up at exit by type

Source: PitchBook | Geography: US
*As of December 31, 2022
The US venture market became more investor friendly in 2022, a stark contrast from the 2021 funding environment, in which founders wielded considerably more leverage than in previous years. Our VC dealmaking indicator, which encompasses data concerning capital supply and demand as well as changes to deal terms, shows us that equity deals are becoming more structured as investors aim to de-risk investments amid an ongoing economic downturn. Liquidation participation, which refers to whether preferred shares for the round receive additional compensation after their liquidation preference has been paid out, has trended upward in Q4 across all stages of venture. Cumulative dividends, another downside protection that guarantees accrued dividend payments to investors who successfully negotiate them into term sheets, have also increased significantly, signaling an increased desire from investors to obtain some economic benefit from an investment in the event of a less-than-ideal outcome.

Public company valuation multiples contracted throughout 2022 in response to several macroeconomic factors and caused investors to take a more conservative approach when valuing equity stakes in venture-stage startups. This was particularly true for startups in the late stages of the VC lifecycle that were battling frozen paths to liquidity and capital-intensive business models. Our data shows that the percentage acquired for late-stage and venture-growth startups trended upward in 2022 as

**Deals with cumulative dividends surpassed 20% for first time since 2016**

*Deals with cumulative dividends as share of all dividends*

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**Source:** PitchBook  |  **Geography:** US  
*As of December 31, 2022*
investors looked to secure larger equity stakes in return for their investment. Given the prospect of a prolonged market slowdown and thus a less startup-friendly funding environment, down rounds are expected to become much more frequent as cash-starved businesses look for follow-on capital. Of course, there are alternative sources of capital, such as venture debt, but these come with their own drawbacks: servicing debt is expensive and requires a strong underlying business with sufficient cash flows. Moreover, should the economy fall into a full recession, the availability of quality debt financing may disappear altogether.

Average dividend continued to decline
Average dividend

Participating shares saw an uptick
Deals with liquidation participation as a share of all VC deals

Proportion of down rounds increased in Q4
Share of VC deals by up, flat, or down rounds by quarter

Source: PitchBook | Geography: US
*As of December 31, 2022
$R = vc^2$

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