PitchBook

2023
ANNUAL

US VC Valuations Report

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1 Morgan Stanley at Work 2023 Liquidity Trends Report

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PitchBook Data, Inc.

John Gabbert Founder, CEO

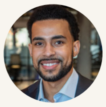
Nizar Tarhuni Vice President, Institutional Research and Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Kyle Stanford, CAIA
Lead Analyst, Venture Capital
kyle.stanford@pitchbook.com



Vincent Harrison
Senior Analyst, Venture Capital
vincent.harrison@pitchbook.com

Data

Collin Anderson
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Julia Midkiff**

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Key takeaways

Though the venture market was in a state of declines over the past couple of years, much of the pricing pressure has not yet forced pre-seed or seed-stage valuations below the highs of 2021. While it's true this area of the market is relatively insulated from macro pressures that have pushed late-stage valuations down, and set off public market volatility, that isn't the full story. The past few years have been abundant for small funds (under $50 million), which have made up more than 50% of the fundraising counts. In aggregate, these funds have kept competition relatively high. Alongside that, stakes acquired in these deals increased in 2023, compensating investors for the high risks of the stage. Along the same lines, early-stage valuations have seen little volatility over the past six quarters, but the stakes acquired have increased from the lows of a couple of years ago.

In 2023, the late stages of the venture ecosystem grappled with challenges as valuation multiples and capital supply dwindled, putting increased pressure on dealmaking for mature startups. The median late-stage pre-money valuation declined to $50.5 million, while the median venture-growth pre-money valuation declined 47.5% YoY. Of course, startups are aware of the current state of the market, and as such, have opted to preserve existing cash reserves for as long as possible to avoid raising capital in a less startup-friendly fundraising environment. The median time between funding rounds for Series D+ startups in 2023 stands at 1.78 years, making it the lengthiest duration between raises observed in over a decade. Looking to 2024, we expect these trends to persist given numerous factors such as limited exit avenues for mature enterprises.

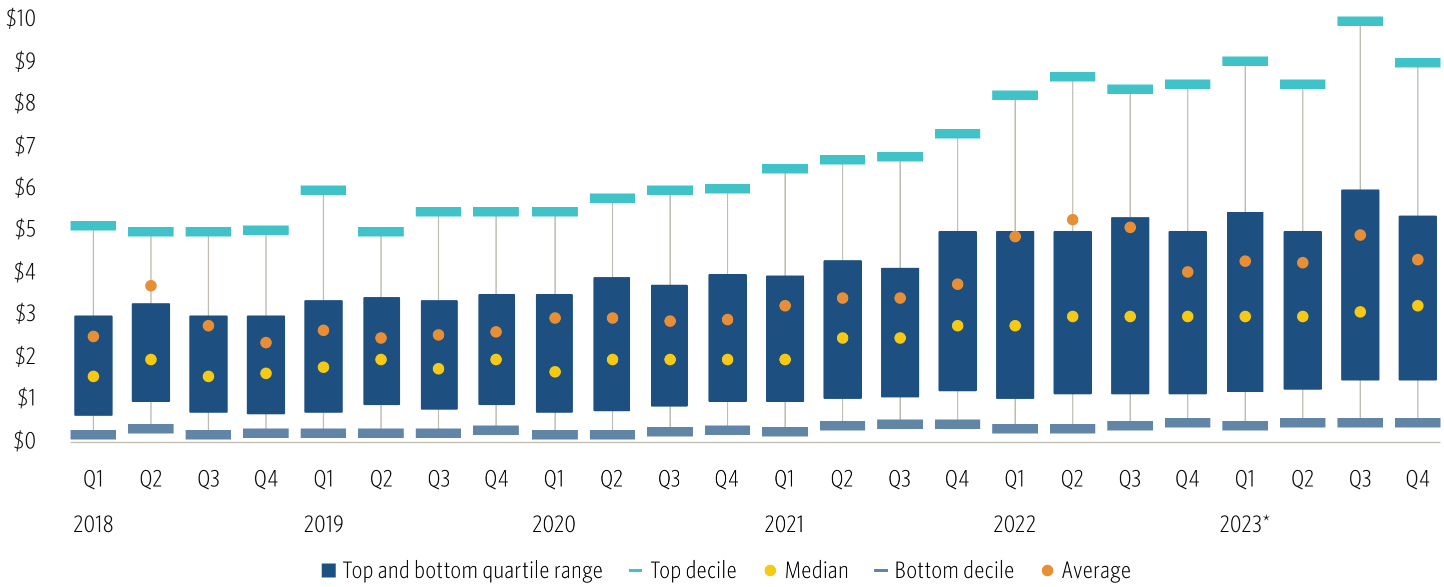
Startups continued to struggle finding exit avenues at or near the premiums observed just two years ago, with public listings, in particular, experiencing a continued downward spiral. The median exit valuation for startups making their public debut in 2023 declined $117.0 million YoY to $110.6 million, the lowest in over a decade, despite the strong performance of public markets during the year. Alternatively, acquisitions emerged as a seemingly more viable route for liquidity given the more resilient valuations attached to many M&A transactions. The median acquisition valuation in 2023 reached $61.4 million, a 25.1% increase from 2022. Despite this bright spot, the median M&A step-up in 2023 was just 1.33x, the lowest since 2016, suggesting that value creation upon acquisition still lagged prior years. While expectations for lower interest rates may help to create a more favorable environment for both IPOs and M&A transactions in 2024, economic and geopolitical uncertainties will likely bring about a more cautious approach in the first half of the year.

VC continues to be an incredibly investor-friendly market, highlighted by the increase in down rounds over the past couple of years. Q3 and Q4 down rounds were some of the highest counts we've tracked in the past decade as a proportion of completed deals each quarter. The pricing pressure is coming from the relative lack of capital availability—at the late stages, spurred by the pullback in nontraditional investors—and the rapid descent of valuations for many stages. While down rounds aren't yet near the high proportions seen during the GFC, completed deals are coming with much more structure, which can keep top-line valuations high while bringing higher dilution to founders and existing investors should growth falter for the company. Cumulative dividends are one of these structure terms now included in the highest percentage of deals seen in the past decade.

Pre-seed and seed valuations

Median seed deal size reaches new high at $3.3 million

Seed deal value ($M) dispersion by quarter



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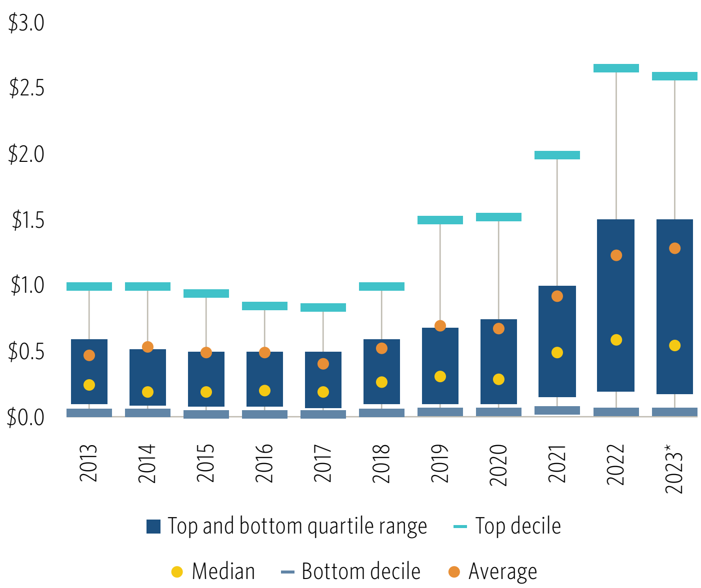
Pre-seed and seed valuations continue to defy the market pricing slowdown, though the reason may be more that the bar for companies to raise capital has quickly risen, rather than because companies at these stages are fully protected from market volatility. The median pre-money valuations for pre-seed and seed in 2023 were $5.7 million and $12.0 million, respectively—both figures were near or above record annual highs. Deal counts at pre-seed and seed fell back to 2020 levels, but deal value remained high, suggestive of the higher hurdle to raise.

At pre-seed in 2023, companies did give up much higher stakes to secure funding. At the median, pre-seed deals involved a sale of 25% of the company. Though there may be some sample error in that figure, such a deviation from past values points to leverage residing strongly with investors and puts a different context on the high valuations of the stage.

Pre-seed and seed seeming insulated from the broader slowdown in pricing is evident from these figures, but it may be more important that the run-up in valuations for these deals through 2021 was less drastic than later stages.

Median pre-seed deal size saw little change

Pre-seed deal value ($M) dispersion



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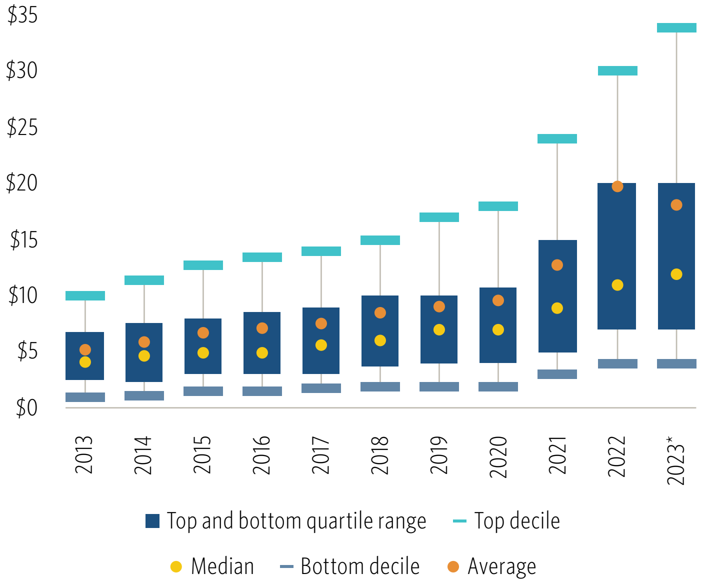
Median seed pre-money valuation up 33% in past two years

Seed pre-money valuation ($M) dispersion



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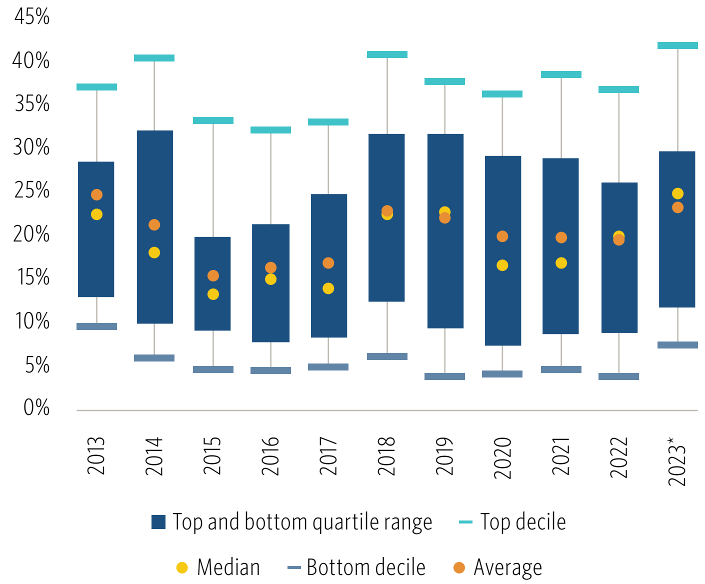
Pre-seed stake acquired jumps significantly YoY

Annual pre-seed share acquired dispersion



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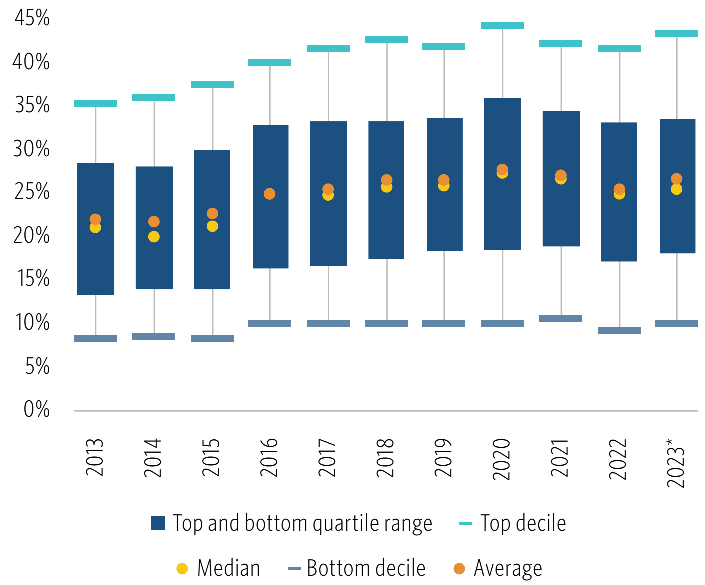
Yes, valuations increased, and likely multiples applied on any revenues being generated, but the median seed valuation in 2021 was just 28% higher in 2021 than 2019, compared with 74% at early stage, 67.5% at late stage, and 130.2% for venture growth. Though the median seed valuation has continued to ascend, in 2023 being 71.4% higher than 2019, the growth in deal size alongside valuations underscores the more formulaic approach to valuing companies with little to no revenue, and long-term growth expectations.

As deal size continues rise, seed stakes inch back up

Seed share acquired dispersion



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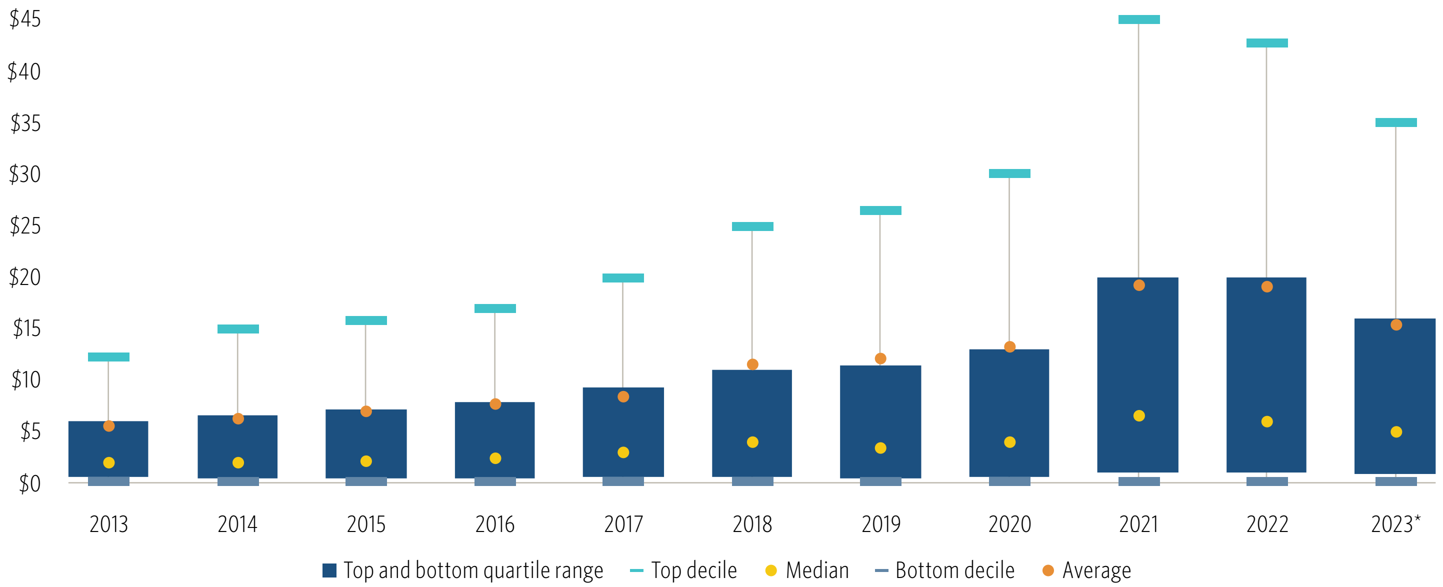
Early-stage VC valuations

Median early-stage deal size down near 17% YoY

Early-stage VC deal value ($M) dispersion



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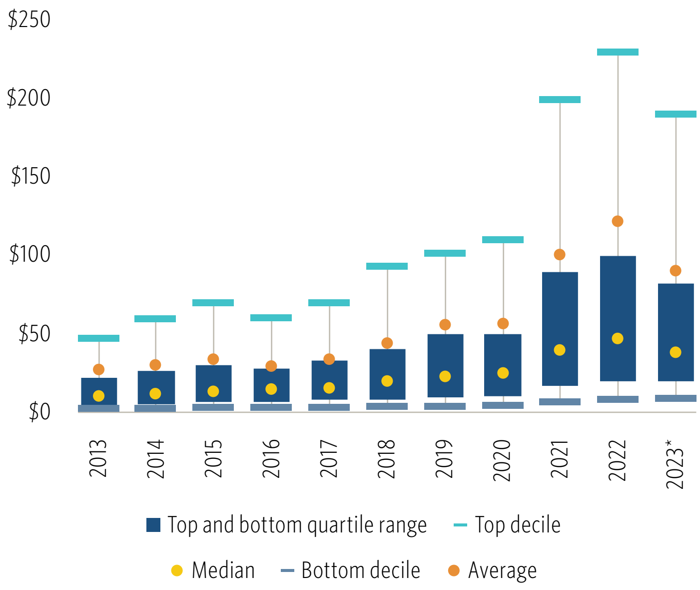
A valuation bottleneck has been generated at the early stage, as seed valuations grow and early-stage valuations fall. While the median has plateaued over the past few quarters, the $38.2 million annual figure is the lowest since 2020. Again, context is important, as that figure remains more than 50% higher than 2020.

The 2023 market remains much different than the year 2020 as compared. For one, the high number of companies raising capital to lengthen runway is not what the market in 2020 saw, at least outside of the initial pandemic fears and response. This has led to a large number of companies raising rounds at valuations similar to previous raises. The median valuation step-up (1.68x) has fallen to its lowest level since 2013 (1.54x), as has the annualized valuation growth rate, which calculated companies increasing their valuation between rounds at a clip of just $12.5 million—in 2021, the growth rate reached an annualized figure of $41.2 million. Moving forward, the challenge for early-stage companies will be to continue growth in an uncertain environment without excessive dilution should a fundraise be needed in a lower-multiple market.

Median early-stage valuation hits three-year low

Early-stage VC pre-money valuation ($M) dispersion



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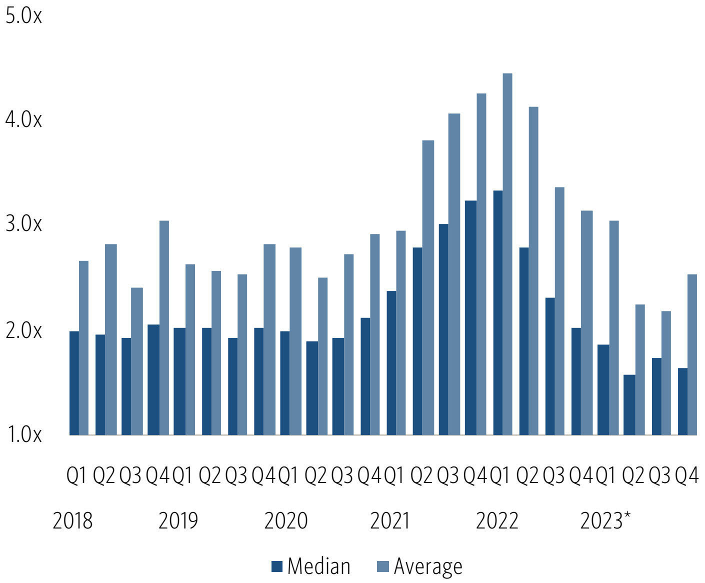
2023 median step-up falls to decade low

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



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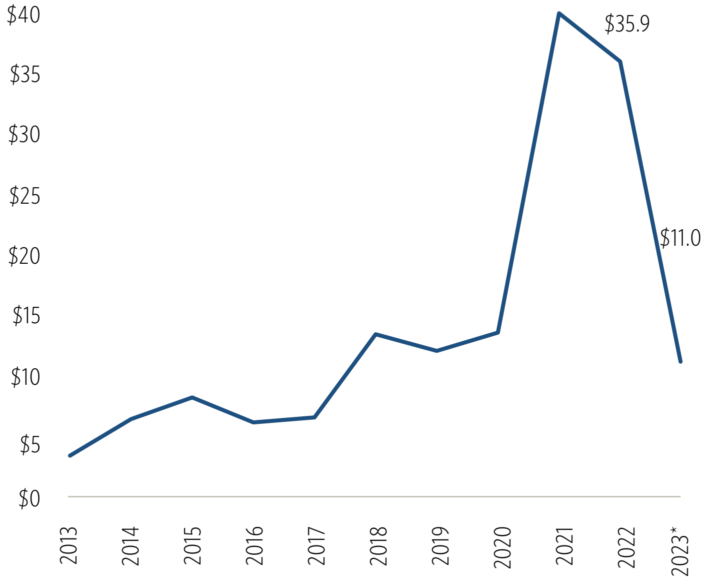
A bright spot for early stage was the somewhat surprising Q4 2023 deal count that came in as the third-most-active in our dataset, according to our estimates. Though deal value remained low, the equity interest that such a high number of companies received indicates that investors are still willing to put capital to work in companies reaching the end of their runways, as opposed to pushing for acquisition or cutting companies from portfolios. We may expect relatively high deal counts and low values in Q1 2024 as well if the surge is simply due to companies being forced back to the fundraising market. Though, if deal counts fall back into significant decline, it may signal the venture market turning the page on companies reaching the end of their cash runways.

Median early-stage velocity of value creation (VVC) falls below 2020 figures

Median early-stage VVC ($M) between rounds



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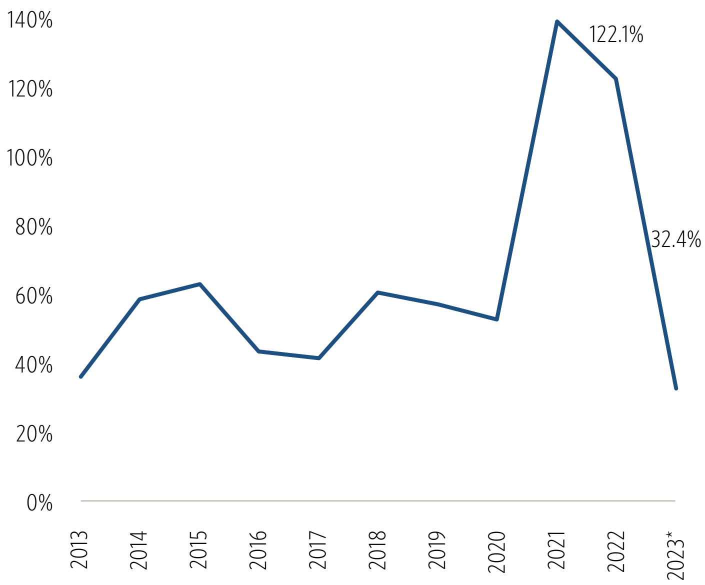
Median relative velocity of value creation (RVVC) falls to lowest point in decade

Median early-stage RVVC between rounds



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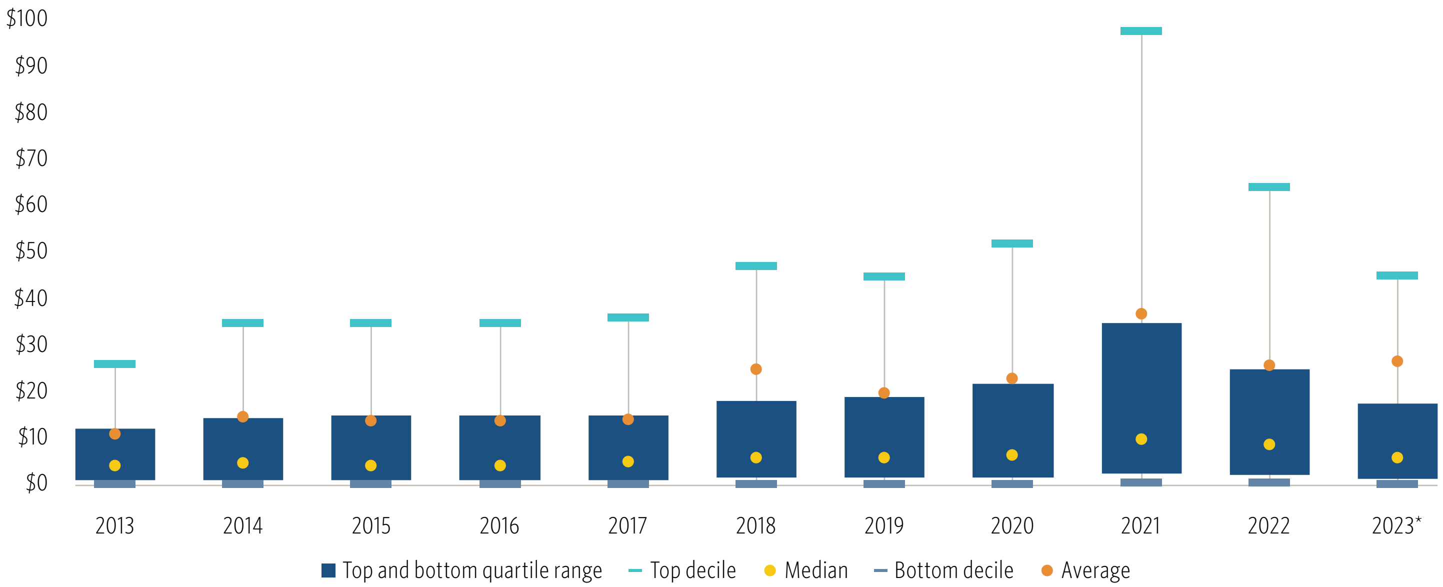
Late-stage VC valuations

Median late-stage deal size hits five-year low

Late-stage VC deal value ($M) dispersion



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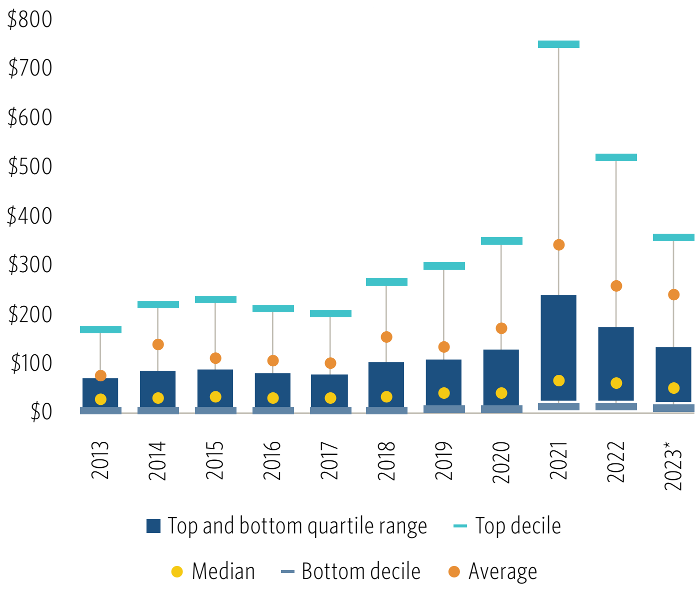
The late-stage venture landscape continues to face ongoing challenges within the market, as depressed valuation multiples and lower capital supply has constrained dealmaking for many startups. In 2023, the annual median late-stage deal size fell to $5.9 million—a notable decrease of nearly $3.0 million compared with 2022 and the lowest annual median observed since 2017.

The annual median pre-money valuation for late-stage ventures fell to $50.5 million in 2023, down from $60.0 million in 2022. Our data also shows a palpable decrease in the enthusiasm surrounding ventures commanding exceptionally high valuations. The top-decile late-stage valuation in 2023 was just $359.0 million, significantly below the $750.0 million and $520.0 million observed in 2021 and 2022, respectively. The diminishing top-decile valuations signal a waning investor enthusiasm for the ultra-high-value startups within the late stage that commanded substantial attention and investment in the recent past. This shift in sentiment is attributed to a variety of factors, including the current economic landscape, scarce liquidity opportunities within the exit environment, and a growing awareness of the challenges associated with sustaining such elevated valuations.

Median late-stage valuation falls nearly $10.0 million YoY

Late-stage VC pre-money valuation ($M) dispersion



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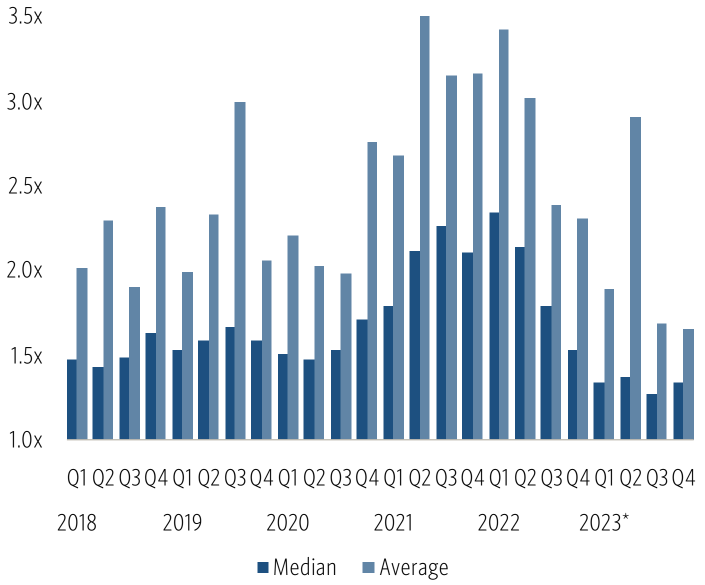
Median late-stage step-up falls below 1.40x for first time since 2016

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



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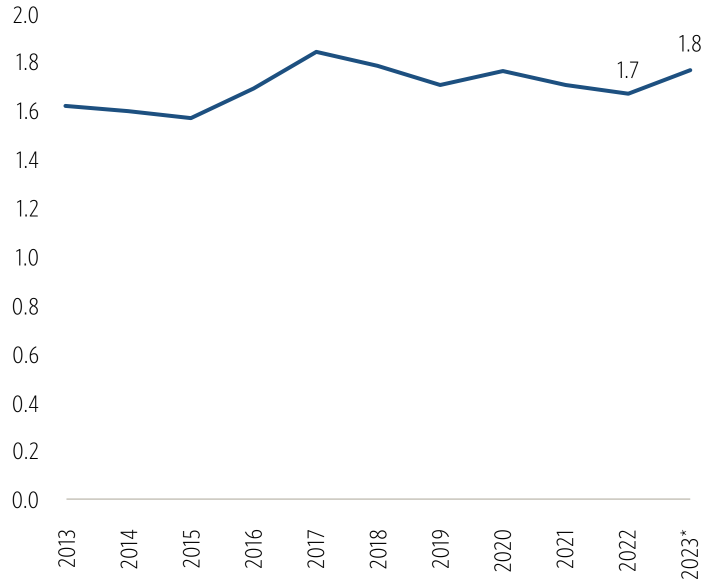
Late-stage median time between rounds nears all-time high

Median time (years) between rounds for late-stage companies



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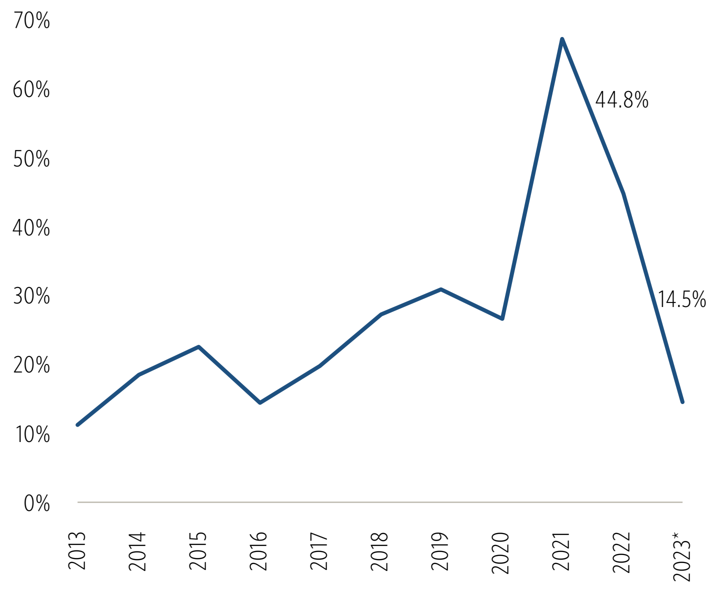
Still, despite the decline in valuations, the annual median late-stage pre-money valuation in 2023 is the third-highest annual in the last decade. Notably, the Q4 median valuation reached $61.5 million, marking the highest quarter of 2023 and the highest since Q2 2022. This may present a compelling argument that high-quality deals continue to find success despite challenging market conditions. The ability of some startups to thrive in a market characterized by declining valuations suggests that they still likely possess robust business models and exhibit adaptability and innovation, which are key attributes that attract investors in any market environment.

Nevertheless, while high-quality startups may continue to flourish, a significant portion of companies are unable to command such leverage. The median time between rounds for late-stage enterprises currently stands at 1.76 years, the longest of any stage, indicating that many startups facing challenges aligning their valuations with investor expectations are opting to wait out current market dynamics. Moreover, for those that choose to raise now, our data shows a declining trend in value creation between equity rounds. The 2023 median VVC witnessed a significant YoY decline of 61.6% to $6.6 million, and the median RVVC for late-stage startups fell to 14.5%—the lowest annual RVVC observed for this stage since 2016. Step-up multiples have continued to suffer throughout the year as well; in Q4 2023, the rolling four-quarter median late-stage step-up multiple dropped to 1.33x, an eight-quarter decline and a nine-year quarterly low. Barring a sudden turnaround in current conditions, we expect these challenges to persist for the late stage into 2024.

Median RVVC falls to just 14.5%

Median late-stage RVVC between rounds



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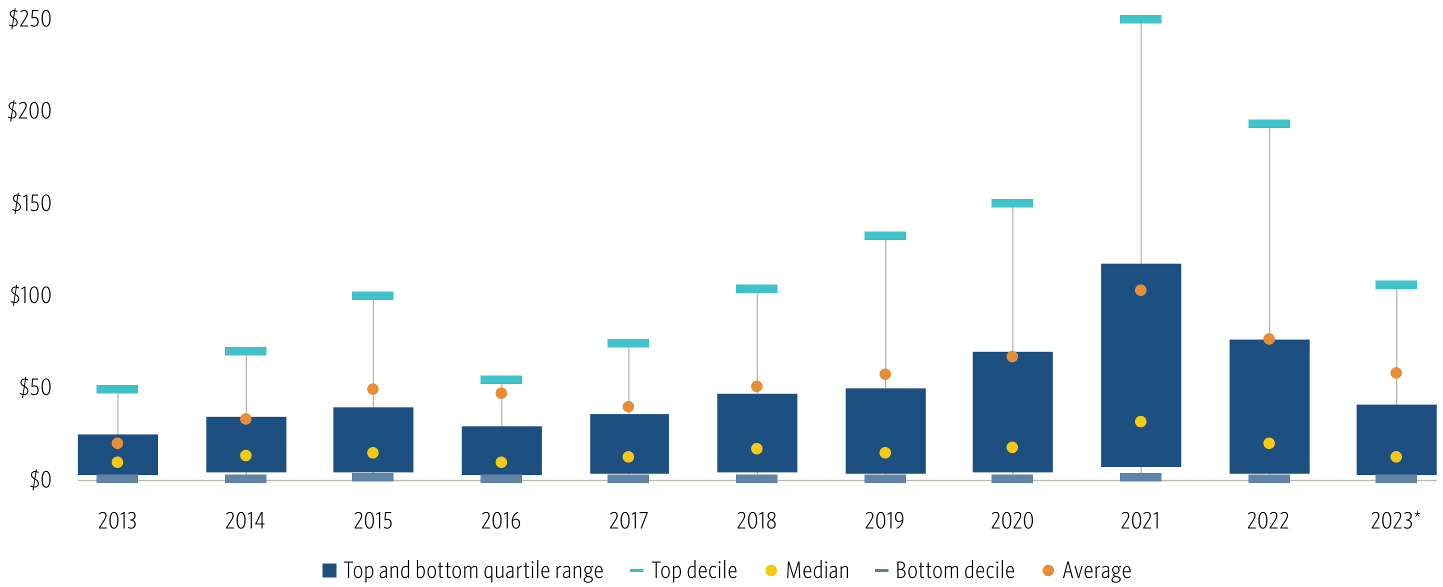
Venture-growth valuations

Average deal size declines to pre-pandemic levels

Venture-growth deal value ($M) dispersion



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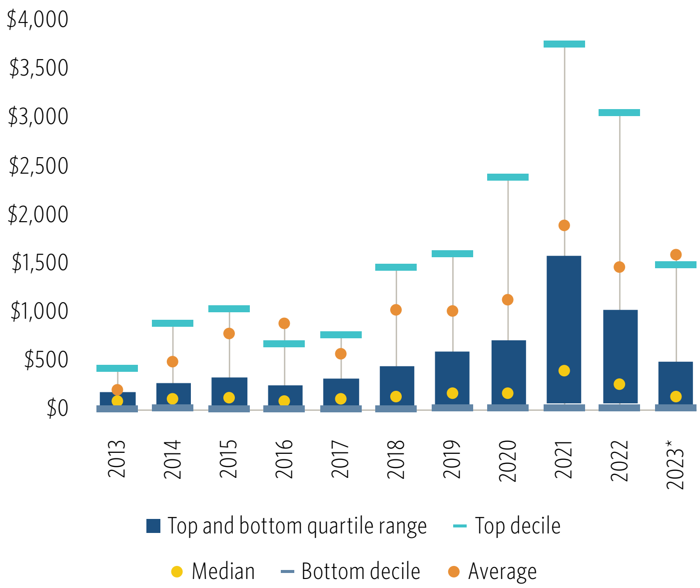
Venture-growth-stage startups have seen the most value compression in 2023 relative to other stages of venture. This is primarily because they are the most intricately entwined with fluctuations in public markets and have the closest proximity to many of the macroeconomic factors affecting the venture ecosystem since the first half of 2022. Over the past 18 months, revenue and EBITDA multiples, among others, have trended downward for publicly traded companies. This has intensified pricing pressure on the large cohort of mature VC-backed enterprises that often rely on their publicly traded counterparts as benchmarks. The annual median pre-money valuation for venture-growth-stage startups in 2023 declined $128.3 million YoY to $141.5 million, the lowest annual figure observed since 2018. Moreover, the median valuation in the final quarter of the year, $168.7 million, was nearly $100.0 million less than the preceding quarter—perhaps signaling a more conservative pricing environment heading into 2024.

The Q4 decline may also indicate a growing cohort of lower quality, mature startups that are unable to wait out the current fundraising environment. The bottom-quartile pre-money valuation for venture-growth-stage startups stands at $52.3 million in 2023, which is the lowest figure observed since 2020. Many of these startups, aware of the harsher

Median pre-money valuation falls below $150.0 million for first time since 2018

Venture-growth pre-money valuation ($M) dispersion



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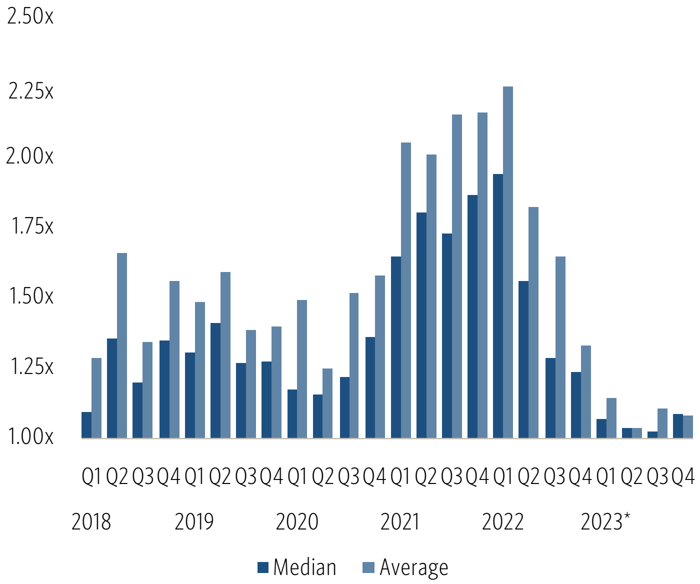
Median venture-growth step-ups fall to decade low

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



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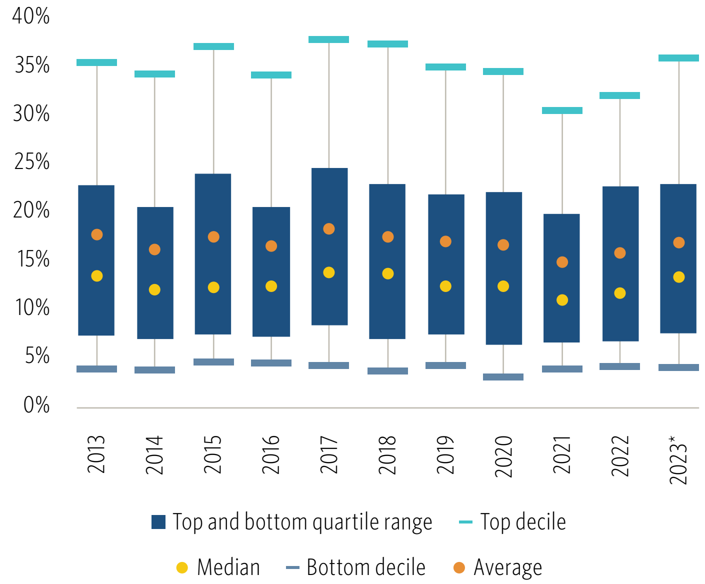
Median equity stake reaches five-year high

Venture-growth share acquired dispersion



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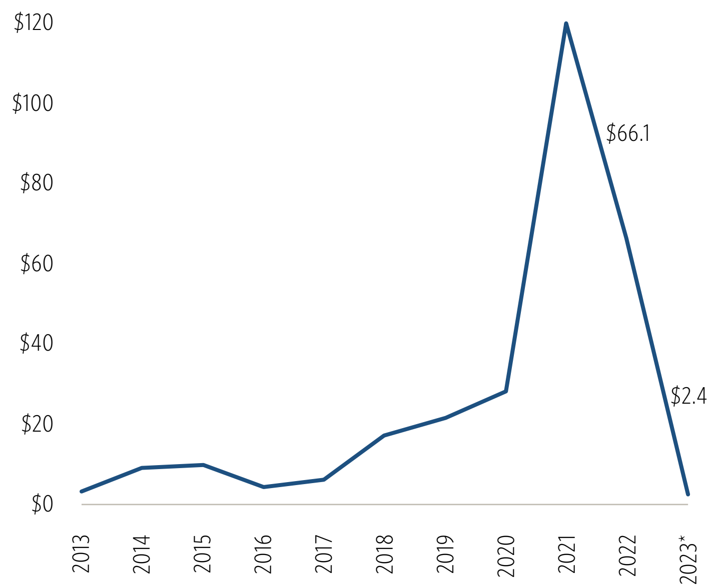
fundraising environment, have made efforts to extend existing cash runways for as long as possible. The median time between rounds for the venture-growth-stage in 2023 stands at 1.52 years, making it the lengthiest duration between raises since 2018 and the second longest among all stages. In cases where startups do have to raise, and consequently subject their valuation to a reduced premium relative to prior years, our data shows that many are pursuing smaller check sizes. The median deal size in 2023 currently stands at $13.0 million, the lowest since 2017, while the average deal size comes in at $58.3 million, the lowest since 2019.

This conservative approach is warranted in many cases given the investor-friendly nature of the market. Reduced premiums have made it difficult to create value between rounds, as evident in the 2023 median VVC and RVVC standing at $2.4 million and 2.0%, respectively—representing decade lows for both metrics. Moreover, we observed that 44.0% of the priced rounds collected in our data were flat or down rounds. Consequently, investors seek to mitigate this lack of value creation by taking larger equity stakes in the companies they invest in; the 2023 median share acquired is currently sitting at a five-year high of 13.5%.

Looking at 2024, we expect these trends to persist, given many of the influential factors take time to reverse course. Beyond reduced premiums, the lack of nontraditional investor (NTI) participation and exit avenues for many venture-growth-stage businesses will continue to increase pressure and competition within the fundraising landscape for the foreseeable future.

Median VVC for venture-growth startups falls to just $2.4 million

Median venture-growth VVC ($M) between rounds by stage



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A WORD FROM MORGAN STANLEY AT WORK

The importance of equity education in a changing economic environment

Shawn Murphy
Chief Operating Officer and Chief Client Officer

Shawn leads the client engagement strategy across the Global Equity Solutions group, where she focuses on managing and deepening relationships across public and private companies by delivering client-focused solutions.

Amy Rodriguez
Executive Director, Head of Private Market Relationship Management

Amy leads the Morgan Stanley at Work Private Market Relationship Management team. With a decade of dedicated service, she has helped support the equity programs of fast-growing private companies.

Who is Morgan Stanley at Work?

Morgan Stanley at Work provides workplace financial benefits that help build financial confidence and foster loyalty—helping companies attract and retain talent. Our end-to-end offering spans Equity, Retirement, Deferred Compensation, Executive Services, and Saving and Giving Solutions. Each solution includes a powerful combination of modern technology, insightful support, and dedicated service, providing your employees with the knowledge and tools to help make the most of their benefits and achieve their life goals.

Our global Equity Solutions provide innovative private companies with cap table and equity compensation management, financial reporting, and 409A valuation services. Our growing liquidity business is built on issuer-led events, such as tender offers and continuous liquidity programs. Since its inception, we have executed more than 100 private liquidity events and more than $19 billion in secondary transaction volume as of Q3 2023.

Why is equity education important for private companies and their equity plan participants in today's macroeconomic environment?

In today's market environment, having a solid approach to equity plan education can help drive the effectiveness of the overall equity program and be a key differentiator as companies compete for talent. Our 2023 Liquidity Trends Report found that 73% of private company decision-makers believe equity ownership is becoming increasingly important for attracting and retaining talent. However, recent market uncertainty has greatly impacted private company valuations and influenced how employees think about their equity. Rather than being focused on the upside of their equity, employees may have concerns about whether their equity has lost value or whether the current drought in IPOs might impact their personal financial plan and hinder future access to liquidity. To preserve the long-term incentive value of their equity plans, it's imperative for companies to stay engaged with employees, contextualizing the current market conditions and instilling confidence in the company's long-term growth strategy.

Keep in mind that some employees may be in a heightened state of financial stress due to the current macroeconomic environment. Our study found that employees are increasingly looking to their employers for financial support and guidance. This is why it's so important for employers to lead the conversation on financial wellness, and equity compensation is a great place to start.

What current gaps are you seeing in private companies' equity plan education?

There are three main gaps we see within equity education. First, there's a misconception around the level of understanding employees have of equity compensation, including how equity grants are valued and how vesting works. We have found there's a significant knowledge gap, and that's going to impact the effectiveness of an equity plan—the less employees understand their equity, the less likely they are to see value in it.

Taxation is another area of confusion among employees. Employees may not fully understand what they owe in taxes and when. For instance, participants with expiring options might need guidance around the tax implications of exercising their holdings in order to make the best decision given their personal financial situation.

Finally, liquidity is becoming a topic of concern among employees. On our Shareworks platform, we've seen shareholder participation in company-sponsored liquidity programs nearly double in the past year, which may indicate a lot of built-up demand for liquidity among employees.

What strategies can private companies leverage to improve their employee education?

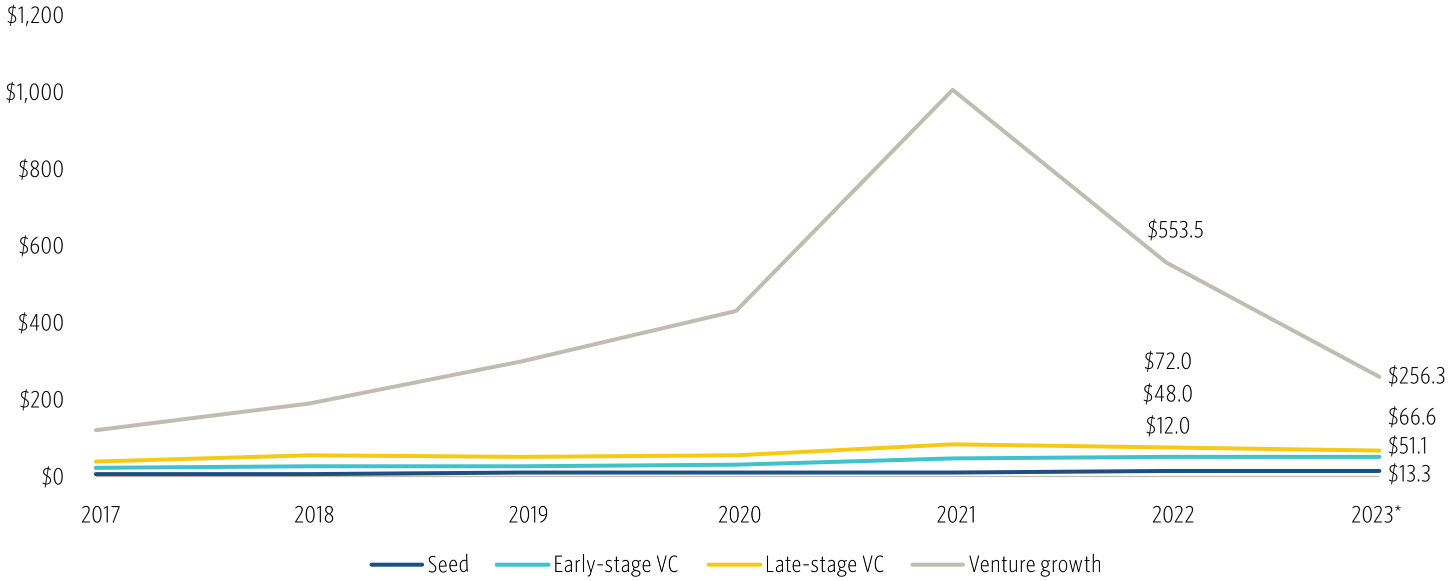
Consider making equity education a year-round effort, not just something that happens during major equity financing or liquidity events. Create an annual content calendar that covers the topics that are most relevant to your employees—this should include evergreen topics such as equity compensation 101 as well as other timely topics. In the coming year, secondary liquidity is likely to be a growing area of interest for shareholders, especially while the IPO market remains quiet. As companies contemplate equity strategies such as transitioning to issuing a different form of equity or reissuing expiring options, they should consider learning modules dedicated to helping employees understand the impact.

Whether you're a global corporation or a startup, we understand the needs of your company and employees and offer tailored solutions and technology to help meet them. Learn more about Morgan Stanley at Work's offering and explore our Private Company Equity Solutions.

AI

AI deals driving median valuations higher across all stages

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



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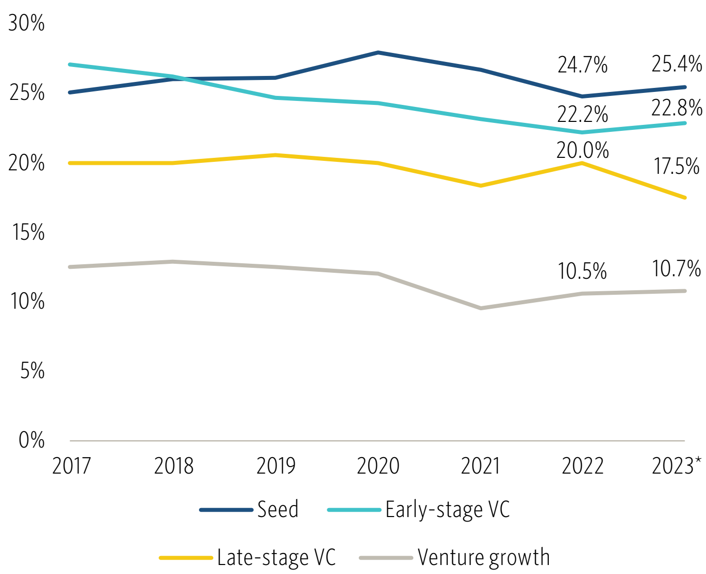
AI founders give up less equity at each stage

Median AI VC share acquired by stage



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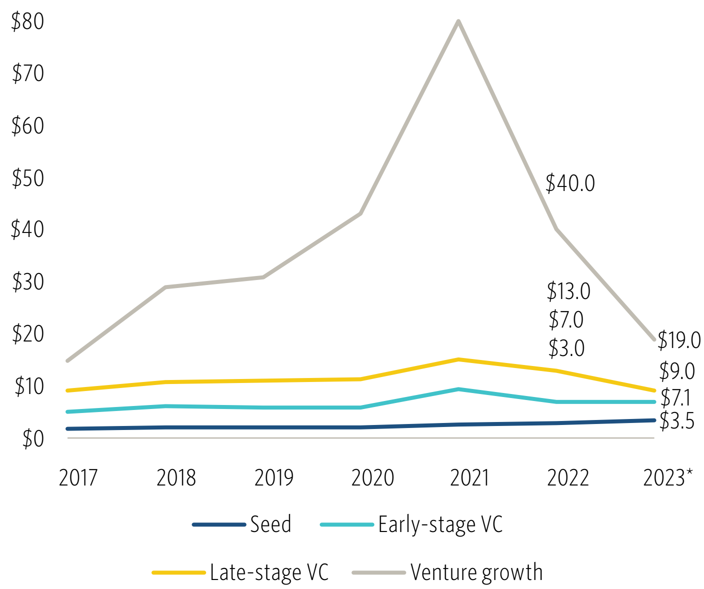
AI deal values higher than aggregate across stages

Median AI VC deal value ($M) by stage



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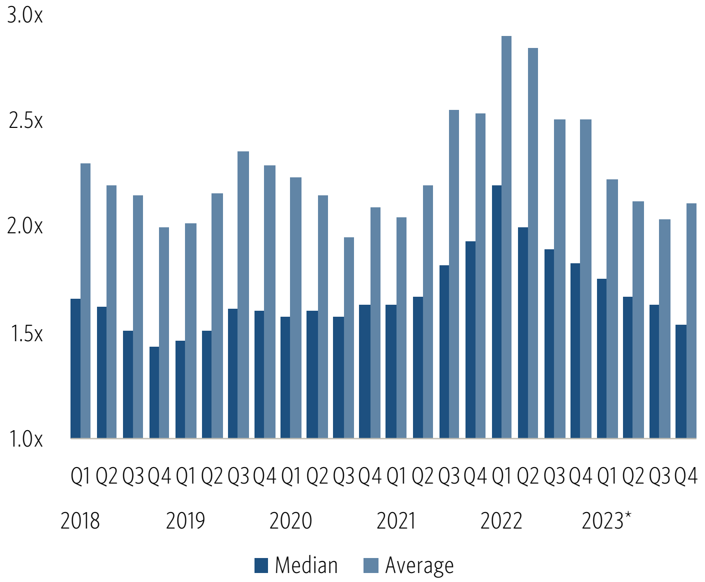
Average AI seed step-up bucks market trend in 2023

Rolling four-quarter median and average AI seed VC valuation step-up



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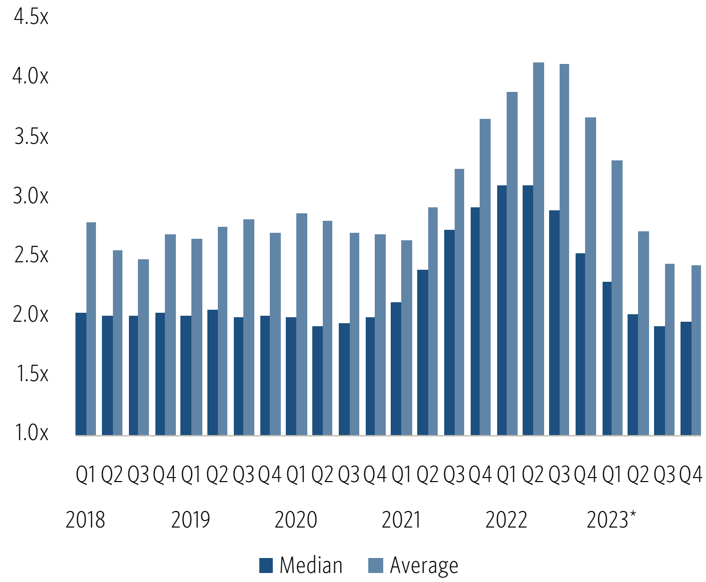
Early-stage AI step-ups in line with market

Rolling four-quarter median and average AI early-stage VC valuation step-up



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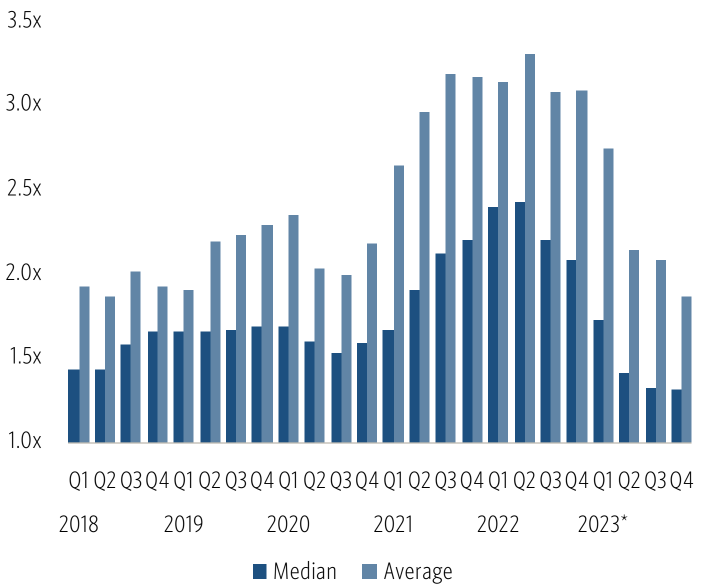
Outliers bring average AI late-stage step-up above market

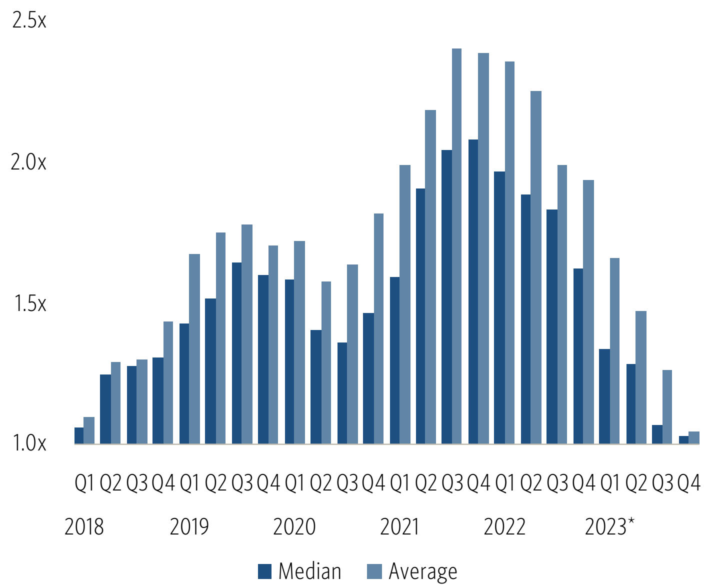
Rolling four-quarter median and average AI late-stage VC valuation step-up



Source: PitchBook • Geography: US • *As of December 31, 2023

AI venture-growth step-ups in line with market

Rolling four-quarter median and average AI venture-growth valuation step-up



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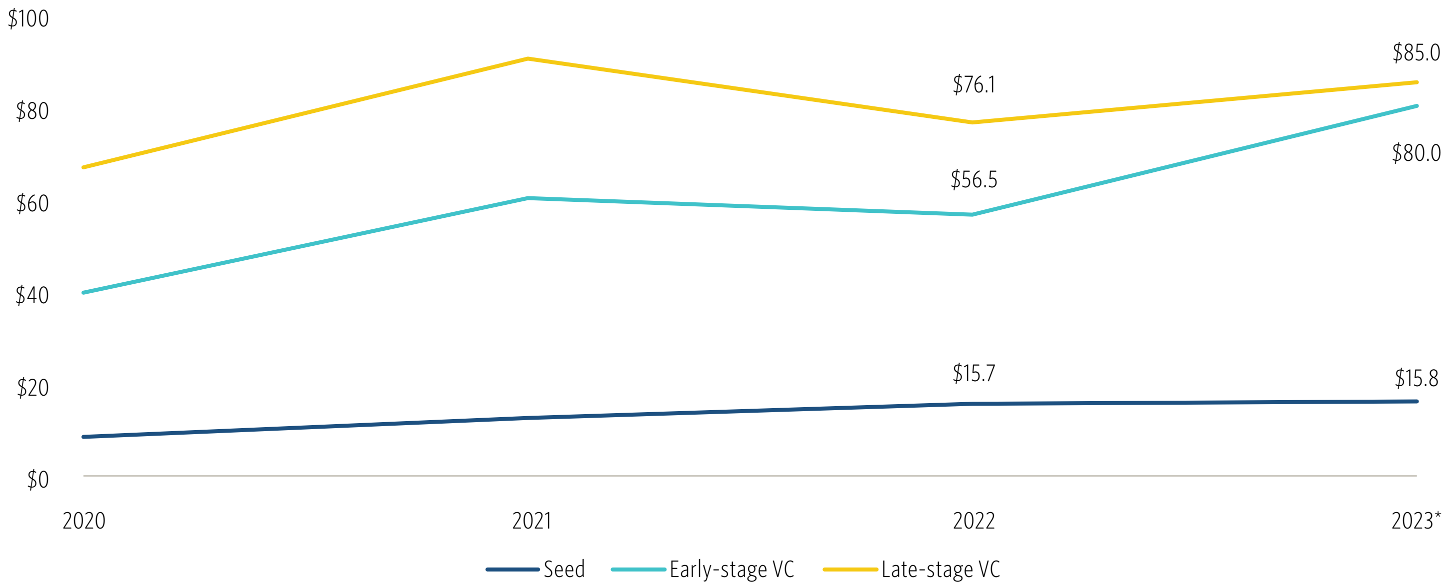
Biopharma

Early-stage and late-stage pre-money valuations increase as companies stay private longer

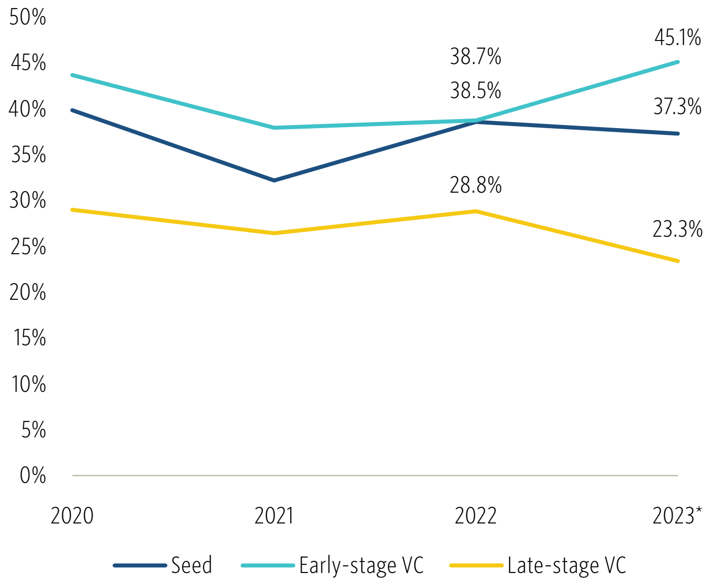
Median biopharma VC pre-money valuation ($M) by stage



Source: PitchBook • Geography: US • *As of December 31, 2023

Biopharma founders losing more shares in early-stage VC rounds as investors gain shares

Median VC share acquired in biopharma companies by stage



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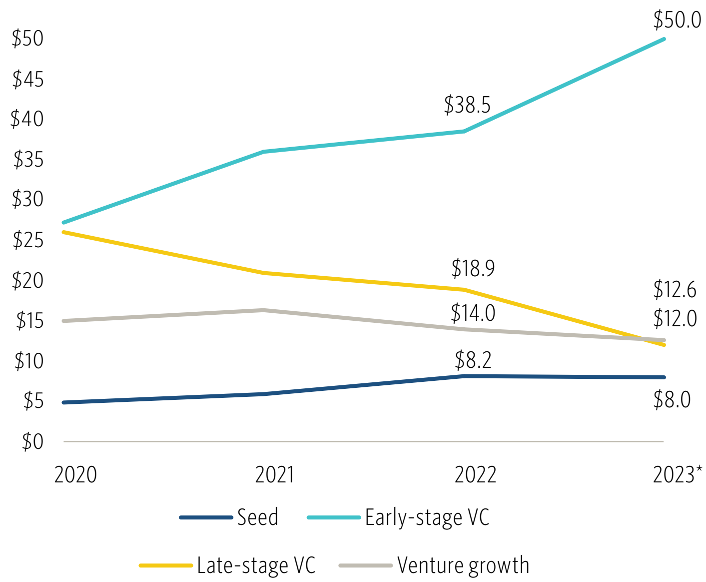
VC Investors making larger bets for early-stage startups for longer runways

Median biopharma VC deal value ($M) by stage



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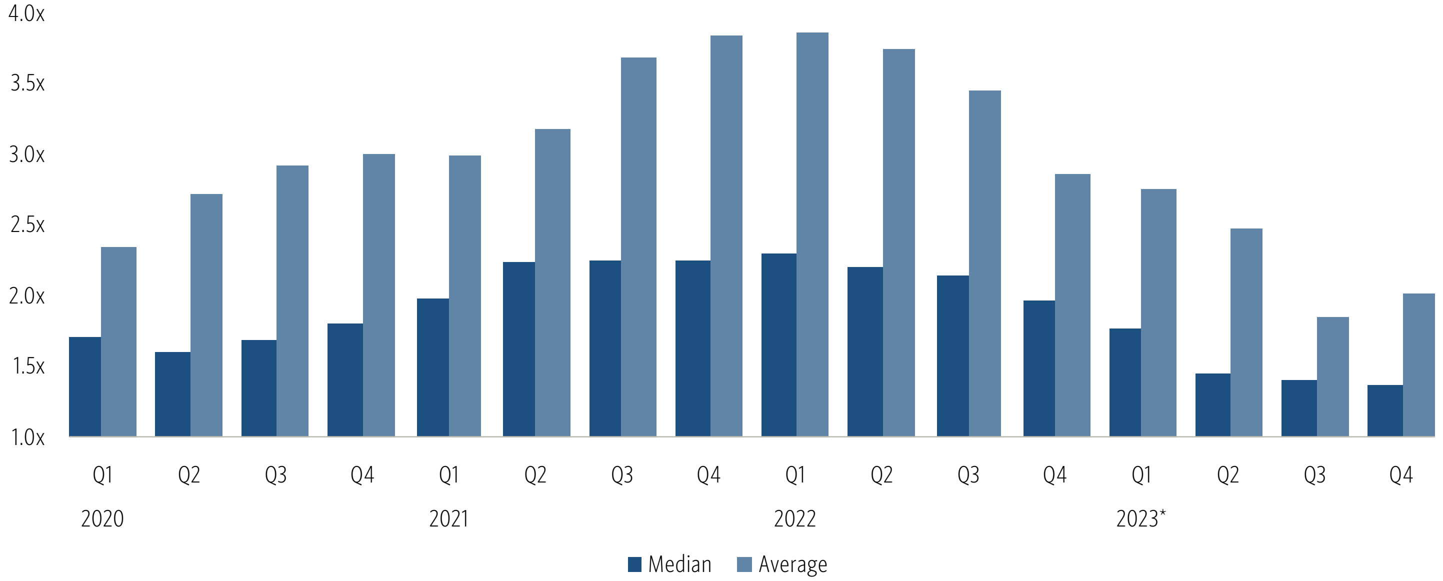
Small step-up for average early-stage VC valuations from last quarter driven by outliers

Rolling four-quarter median and average biopharma early-stage VC valuation



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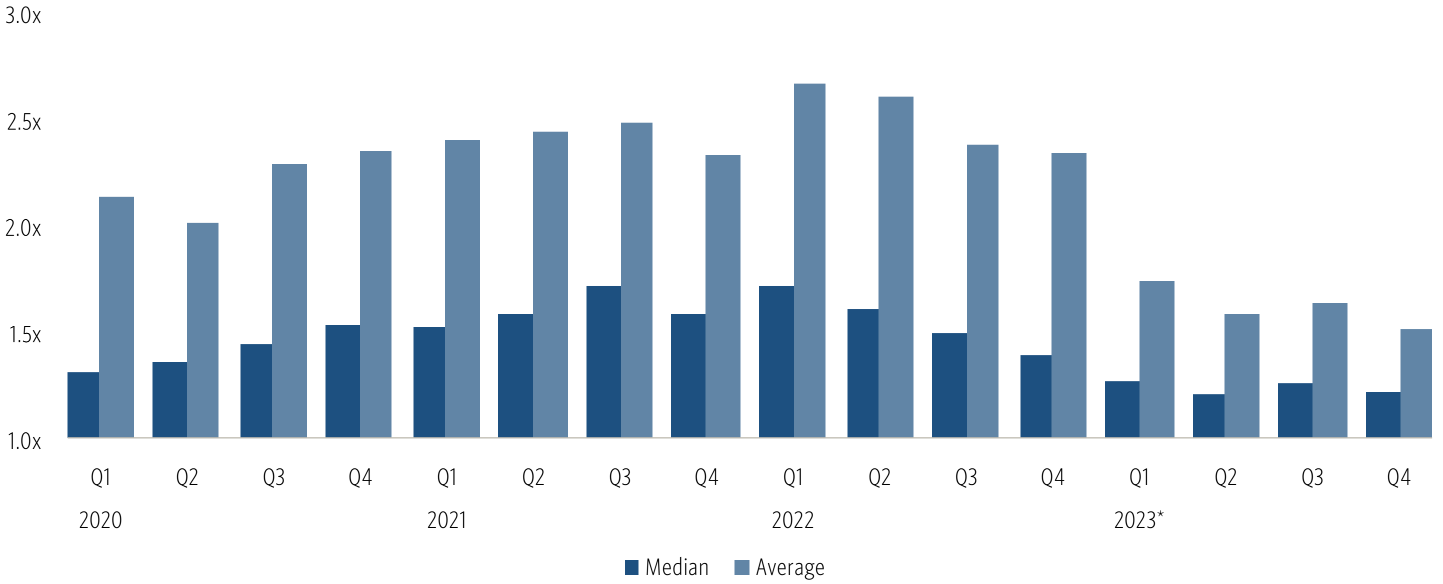
Small step-down for average late-stage VC valuations from last quarter as funds are cautious

Rolling four-quarter median and average biopharma late-stage VC valuation



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A WORD FROM MINTZ

Frequently asked questions for private companies considering a reverse merger

Is a reverse merger a good alternative to an IPO?

We believe this is the wrong question—we view a reverse merger as "going public" during your cross-over round, rather than as an alternative to an IPO. This is because the reverse merger process is a privately negotiated investment process that is more like a cross-over round than an IPO, with its marketing and price discovery efforts, including testing-the-waters and a road show. And having your company listed and registered with the Securities and Exchange Commission (SEC) as a result of the reverse merger sets up the company for a faster IPO (its first public offering) down the road when the time is right.

Reverse mergers can be very effective if the cash in the "fallen angel" (the existing public company) effectively supplements the amount of private financing available—including potentially via a concurrent PIPE, as further discussed below. In addition, the fact that the company will be listed at the end of the reverse merger process may make the deal more appealing to interested public investors than a traditional cross-over round.

How easy is it to find a fallen angel to reverse merge with?

There have been a large number of fallen angels in the last couple of years. However, for those fallen angels with significant cash, the competition to be picked as a reverse merger candidate is intense. Accordingly, the private company cannot control when or if it will find a dancing partner. That said, certain investment banks tend to represent a large number of fallen angels so that an interested private company can effectively get in front of many fallen angels by talking to those investment banks.

Should we raise a PIPE at the same time as the reverse merger?

The conventional view has been that a concurrent PIPE provides confirmation that public investors are interested in the business of the private company; validation of the valuation negotiated by the parties; and additional cash to support the combined company's operations.

William "Bill" Hicks
Member/Co-Chair, Life Sciences Practice

As co-chair of Mintz's Life Sciences Practice, Bill represents some of the life sciences industry's most prominent investors and issuers in structuring and executing IPOs, cross-over investments, alternative public offerings—including APOs—reverse mergers and Form 10 transactions, follow-on public offerings, CMPOs, registered directs, PIPEs, and private placements. Bill also represents investors in customized investments in public companies, including structured PIPEs and registered directs.

John Rudy
Member/Co-Chair, Securities & Capital Markets Practice

As a senior member of Mintz's Securities & Capital Markets Practice, John focuses on the representation of public and private companies and investment banks in capital markets transactions. He also advises public and private companies and investors in connection with M&As, equity and debt financings, and securities and general corporate matters.

However, a concurrent PIPE poses a number of challenges:

- **Time to liquidity:** In a market that has been challenging, securing a PIPE for a reverse merger can be even more difficult than executing a PIPE for an "already public" company. In a PIPE for a public company, the financing is typically closed within a few days of signing the purchase agreement, and the shares are typically registered for resale and tradable after 30 to 60 days. In a reverse merger, the PIPE purchase agreement is signed when the merger agreement is signed, but the financing does not close until the merger agreement closes three to five months later after SEC review and shareholder approval. If the shares are then registered for resale, there is further delay until the investors are able to sell. This "time to liquidity" is a relevant factor for some investors.

- **Intersection of PIPE and merger negotiations:** If PIPE investors want a lower valuation than the company negotiates with its merger partner, that can inject uncertainty into the merger process.

Deal certainty and speed are critical in reverse mergers. If the combined cash balance of the fallen angel and the private company are sufficient to satisfy Nasdaq and fund operations for an adequate amount of time, it may make sense to close the reverse merger as quickly as possible, and then later do a PIPE (or other financing) as a public company with a stock listing. Potential investors can then see how the deal has traded and should not be faced with the prolonged illiquidity period associated with a concurrent PIPE.

Can non-US companies access Nasdaq through a reverse merger?

Yes—at least in many cases. Technically, a merger is a US state law statutory construct, so a reverse merger type transaction with a non-US entity will usually not be a statutory merger. But there is often a tax-acceptable alternative, such as a share exchange, under the laws of the applicable non-US jurisdiction.

Many private non-US issuers have gone public and listed on Nasdaq by means of a share exchange transaction. Even some non-US issuers that were traded on their local exchange have listed on Nasdaq via a reverse merger type transaction. This typically involves additional home country and local exchange rules, which must be navigated. In some cases, this can be managed by having the non-US company remain the "top-co" over the fallen angel, and having that company apply for an initial listing as part of the closing of the transaction.

What is the impact of the SEC Staff position expressed in recent comment letters to the resale registration statements filed after the closing of reverse mergers and a recent release?

This is a developing situation, so we will see how it plays out over time. Currently, it appears that the SEC Staff views transactions that they consider reverse mergers to be a merger with a shell company, and as a result, views the post-closing company as ineligible to file a Form S-3 at the outset. Because of this, it may be impractical to register affiliates of the combined company for resale for a year after the reverse merger closes. There are other positions the SEC Staff may take that would follow from a position that the transaction involved a shell company.

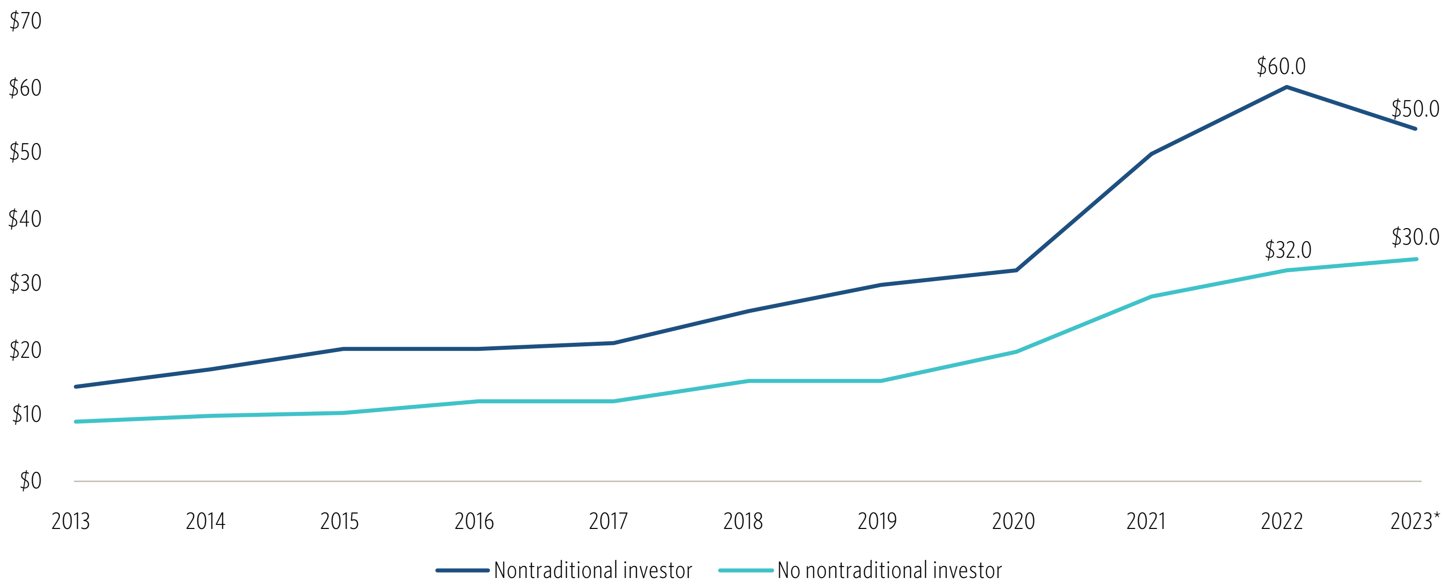
Are there types of reverse mergers other than fallen angel deals?

Yes. There is an alternative public offering process that has been used by a number of companies with prominent private investors: The company merges with a true Form 10 shell company; raises capital from institutional investors and retail investors in a concurrent PIPE; trades on the over-the-counter market after closing; and then uplists to Nasdaq when positive business developments or other circumstances permit it to raise $40 million or more in a public offering. This can be very attractive for certain private companies, as all shareholders after the deal will have decided to invest in that company (not the former business of a fallen angel), and the company's true IPO and up-listing to Nasdaq can be timed with good market conditions, positive business developments, or other results. In addition, the true IPO can then typically be closed in around a month, because the company's disclosure will have already been reviewed by the SEC as part of the reverse merger process.

Nontraditional investors

Early-stage valuations dip YoY

Median early-stage pre-money valuation ($M) by investor type



Source: PitchBook • Geography: US • *As of December 31, 2023

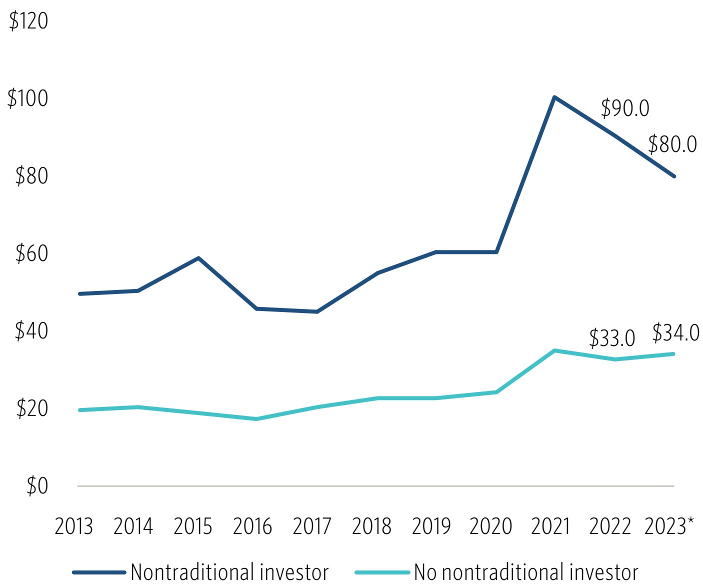
The rapid descent of NTI activity was most acutely felt at the later stages. Q2 through Q4 2023 were the three lowest quarters of deal value on NTI deals since Q1 2018. Though dry powder held by VC firms remains at record highs, the risk profiles of nontraditional investors—and generally large amounts of capital to deploy held by these institutions—has become an integral piece of late-stage and venture-growth-stage deals, as companies have often opted to remain private.

Though valuations of deals with nontraditional investors have declined significantly across stages, they continue to price well higher than deals without nontraditional involvement. The $80.0 million median late-stage valuation in deals with non-VC investors is still $46.0 million higher than in deals without, even though the $80 million annual figure is a decline of 20% over the past two years. Deals without NTI investors have hit a plateau during the same time frame, sitting at $34.0 million in 2023, which is just $1 million, or roughly 3%, lower than 2021.

The retreat of nontraditional deal valuations highlights the shift in risk allocation by nontraditionals.

Late-stage valuations without NTI participation rise

Median late-stage pre-money valuation ($M) by investor type



Source: PitchBook • Geography: US • *As of December 31, 2023

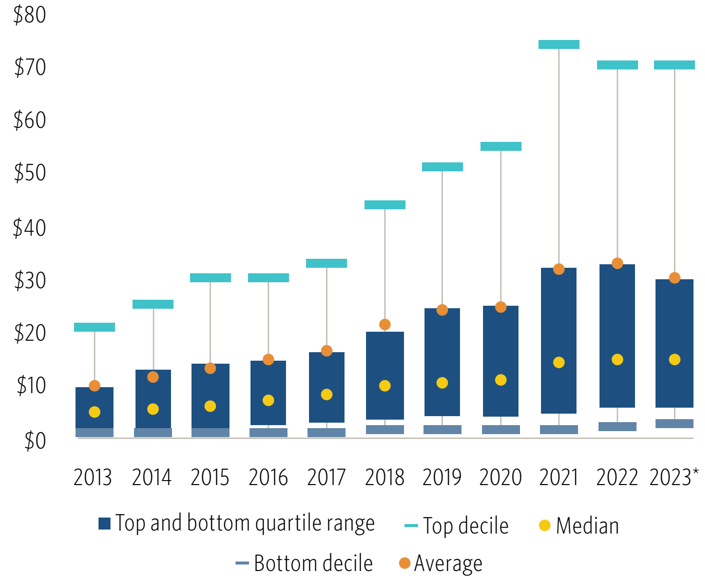
NTI participation falls to 2018/2019 levels

US VC deal activity with nontraditional VC investor participation by quarter

Source: PitchBook • Geography: US • *As of December 31, 2023

Median early-stage NTI deal size remains high

Early-stage VC deal value ($M) dispersion with NTI participation



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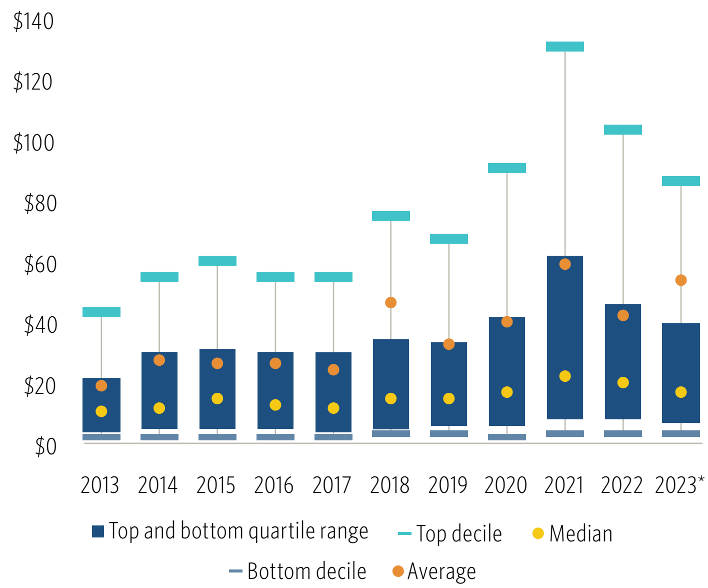
Hedge funds and mutual funds were willing to pay high prices for illiquid, private companies, because the exit markets were accommodating with quick and high exit returns. The shift of the market over the past two years has quickly pushed nontraditionals out, pulling down capital availability and further pressuring prices.

It should be expected that nontraditional investors will continue at the relatively lower activity levels until the public markets begin to return to a more accommodating environment. In a volatile, uncertain market, yield can be found in many different asset classes or strategies. With the expectation that interest rates stay higher for longer, and with recession worries still abound within the market, it's unlikely that VC-backed companies will be able to exit at a frequency that entices nontraditional investors because of lower illiquidity risk, or at the high prices that cause cross-over investors to miss out on potential high returns by simply waiting to invest once companies are public.

At late-stage, deal sizes continue decline

Late-stage VC deal value ($M) dispersion with NTI participation



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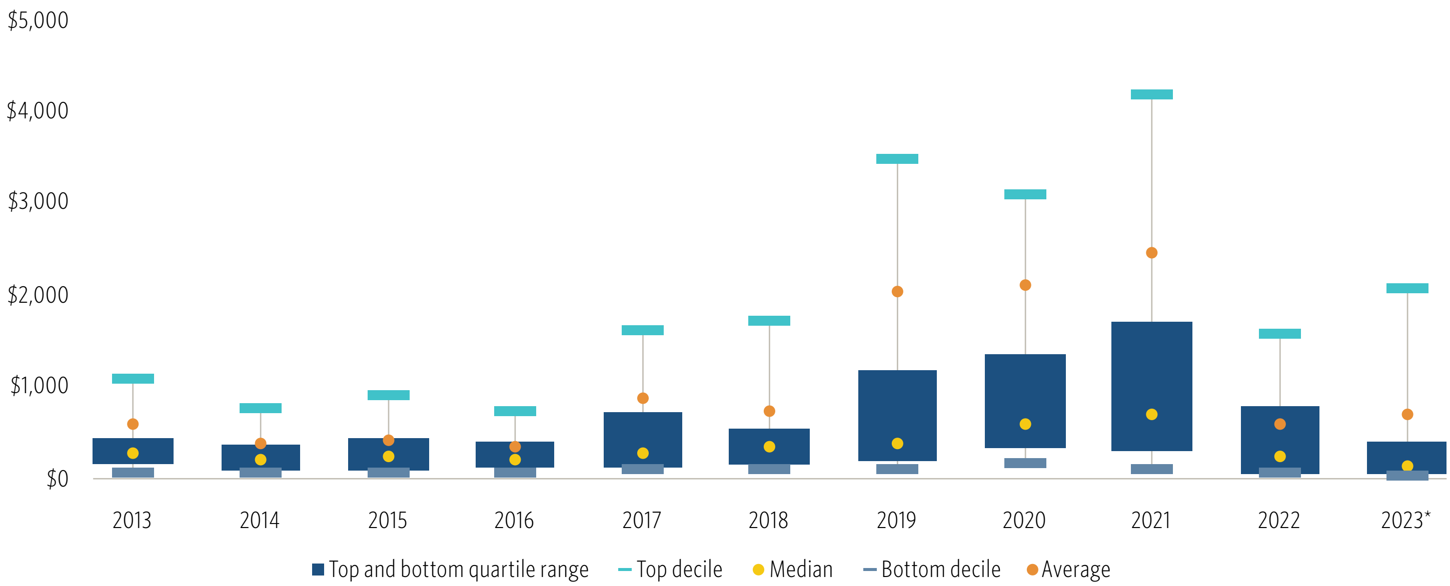
Liquidity

Median public listing valuation falls to decade low

Exit valuation ($M) dispersion for public listings



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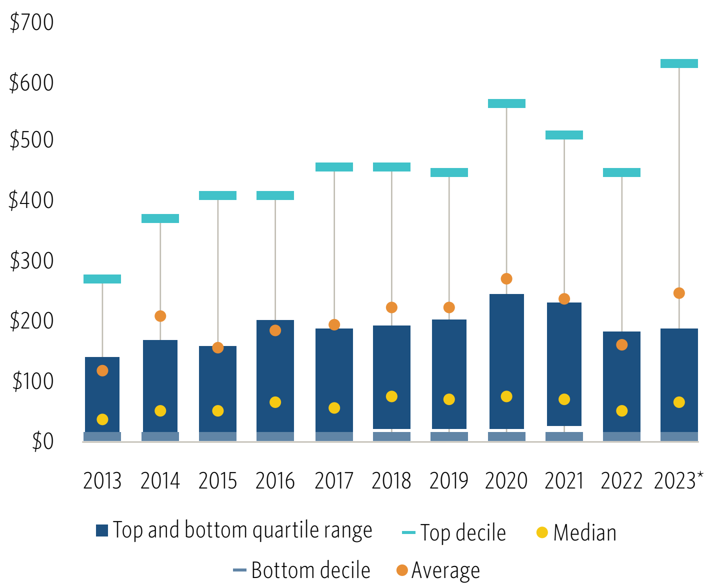
Throughout 2023, the lack of exit opportunities continued to plague startups and their investors. Despite notable IPOs such as Instacart and Cava, the public listing area experienced significant challenges. The median exit valuation for public listings in 2023 saw a YoY decline of roughly $117.0 million, reaching $110.6 million and marking the lowest annual median valuation observed in over a decade. This record decline may be a surprise to some given how well public markets performed in 2023; the S&P 500 rallied over 26.0% this year, including dividends, while the Nasdaq soared 43.0%. Of course, it is important to note that this performance was heavily driven by mega cap tech giants including Amazon, Apple, Nvidia, and Tesla. If we look outside of the "Magnificent Seven," many stocks fell short relative to public index benchmarks; for example, 72% of the S&P 500 components underperformed the index in 2023.

This discrepancy is a significant indicator that the broader market has struggled to mirror the success enjoyed by these tech giants and raises concerns about the overall health and resilience of the public market. The stark contrast between the resilience of mega tech companies and the struggles of many others creates a challenging landscape for new

Median acquisition price exceeds 2022 figures

Exit valuation ($M) dispersion for acquisitions



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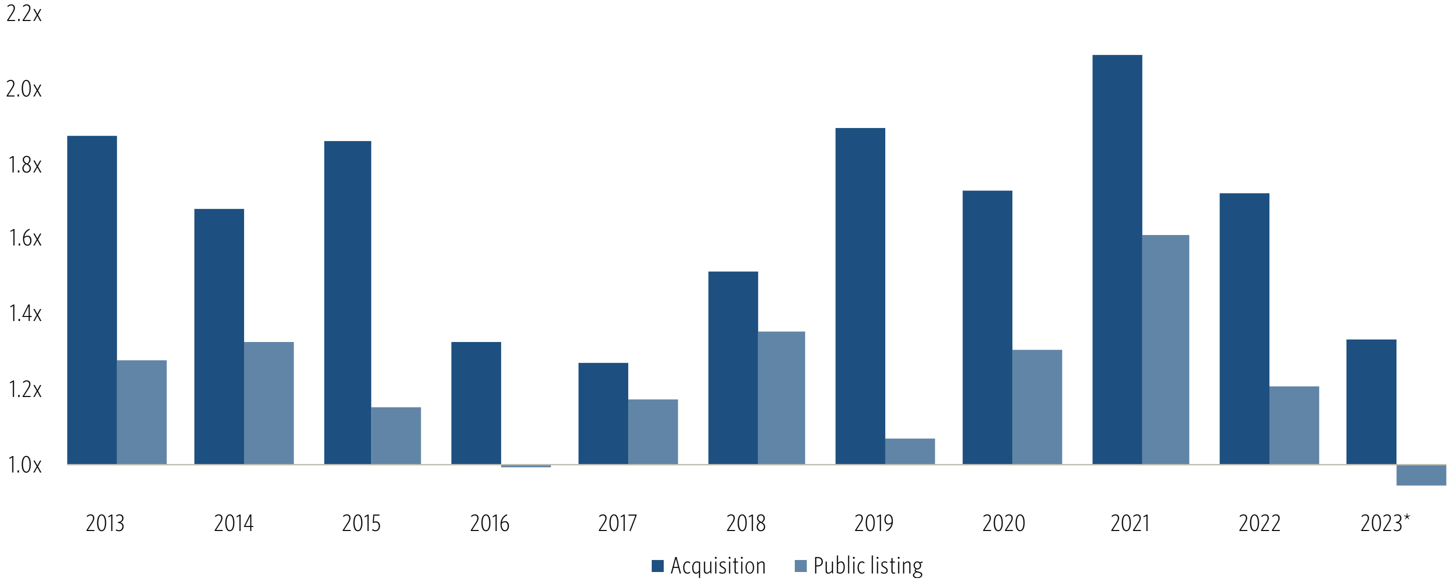
Median step-up for public listings falls below 1.0x

Median VC valuation step-up at exit by type



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entrants, emphasizing the need for strategic and cautious decision-making.

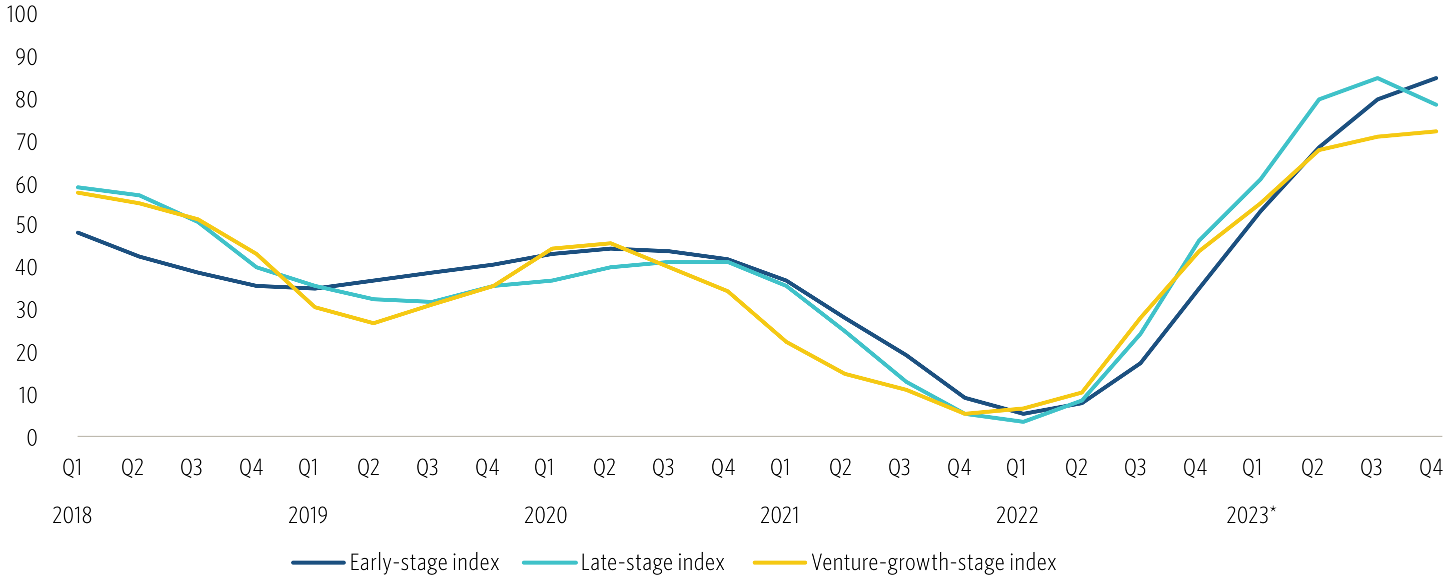
Alternatively, for those who opt-out of going public, the acquisition route may emerge as the most viable route for liquidity. While overall M&A activity has been on a decline, valuations have been notably resilient this year. The median exit valuation for acquisitions in 2023 stands at $61.4 million, which is 25.1% higher than the $49.1 million observed in 2022. We've long discussed the reasons for the resiliency of M&A relative to public listings in the current macroeconomic environment. For acquiring companies, a well-aligned acquisition can offer immediate benefits and cost-saving opportunities, as well as access to new customer segments. Acquirers may also be willing to pay a premium for a controlling stake in a company, supporting M&A valuations even in an environment where overall startup valuations may be under pressure.

When looking ahead, it is important to have a holistic view. Many expect that interest rates may begin to lower in 2024, which could theoretically create a more favorable environment for both IPOs and M&A. However, this sentiment is simultaneously affected by several economic uncertainties, geopolitical events, and other external factors. The first half of 2024 will likely be a wait-and-see period for many as they observe how economic conditions evolve before committing to significant strategic moves later in the year.

Deal terms

US market continues strong investor friendliness

VC dealmaking indicator by quarter



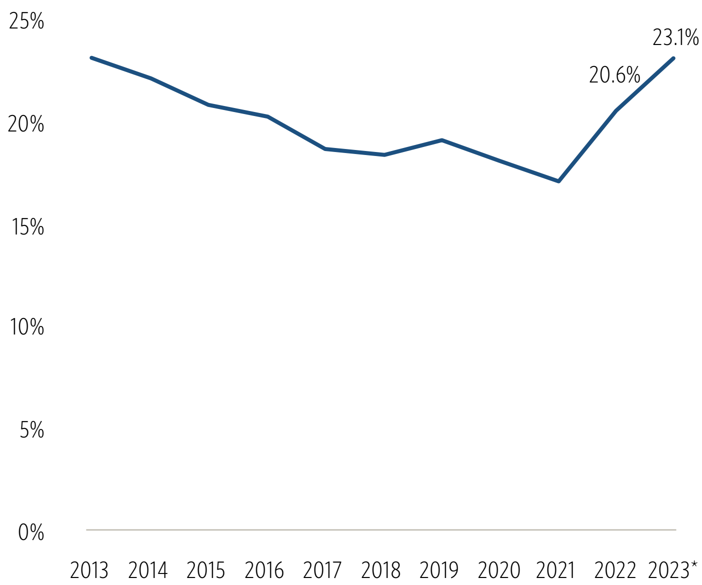
Source: PitchBook • Geography: US • *As of December 31, 2023

In 2023, down rounds constituted 14.2% of completed financings; while that is the highest figure since 2017, it remains surprisingly low for a market struggling with high valuations of the past. Our estimated down round figures for Q3 and Q4 2023 were higher than the annual figure but remain only slightly above some quarterly figures over the past decade. This suggests that structure has been a larger piece of the venture market over the past year, as companies and investors negotiate market pricing. Larger liquidation multiples and participating preferred shares haven't become significant inclusions in terms sheets, but cumulative dividends were more common in 2023 than any year since 2013, and those dividends increased in size.

Increasing dividends isn't necessarily the structure that investors have advised their portfolio companies to resist, though the increase in cumulative dividends will have impacts on returns by essentially guaranteeing a certain rate return beyond the pro-rata stake of investors holding them. This downside protection is naturally more common in an uncertain exit environment when cash-strapped startups in need of capital are compelled to provide extra incentive to new investors. With the liquidity crunch continuing strong

Nearly quarter of deals include cumulative dividends

Deals with cumulative dividends as share of all dividends



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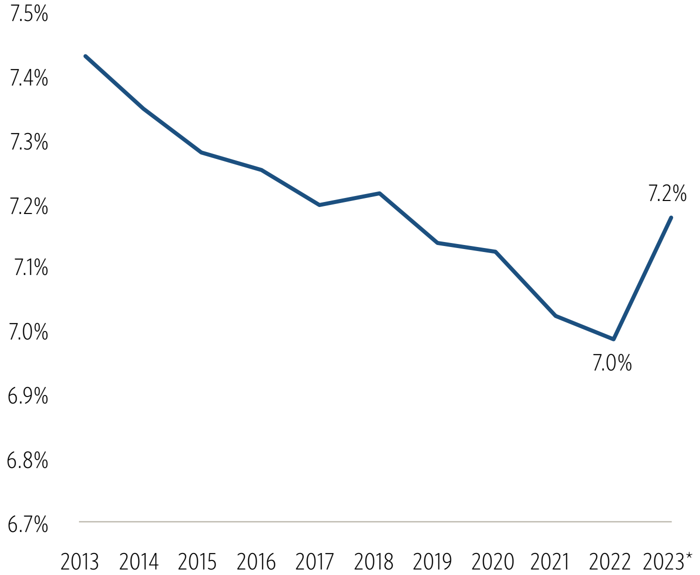
Average dividend highest since 2018

Average dividend



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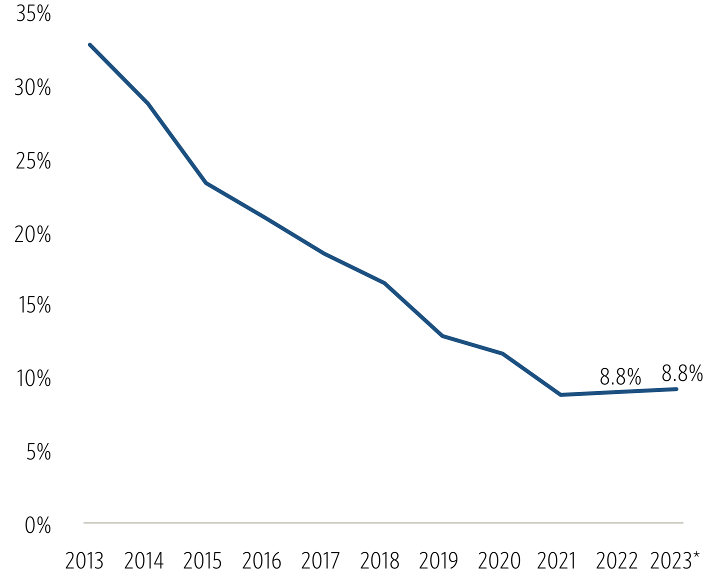
Participating shares still low as a proportion of total

Deals with liquidation participation as a share of all VC deals



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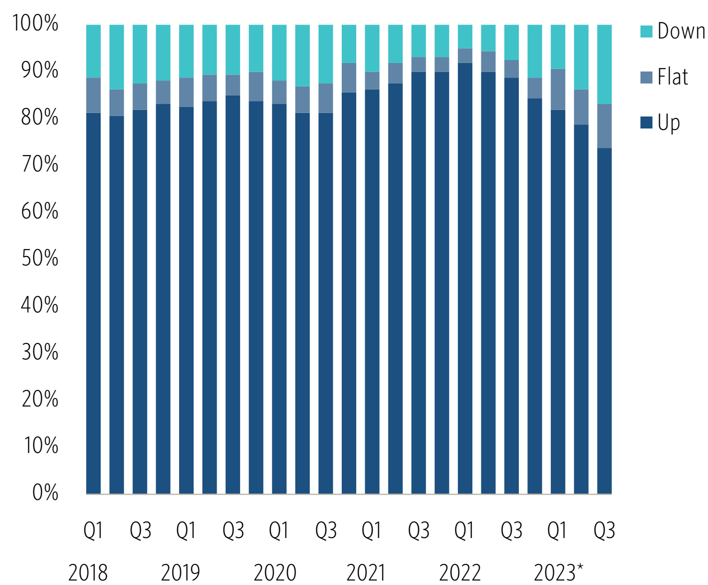
into 2024, this is a protective term that could become even more common over the next few quarters.

Now that the market is two years post valuation highs, companies that raised during those years but have pushed off new fundraises through layoffs or slower growth investment should be expected to run low on cash in the coming future, and subsequently forced back into raising. With negotiation leverage squarely in the corner of investors, deal structure will remain high in 2024.

Down rounds likely to continue increase

Share of VC deals by up, flat, or down rounds by quarter



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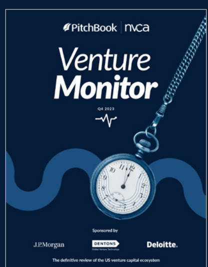
Additional research

Venture capital



Q4 2023 PitchBook-NVCA Venture Monitor

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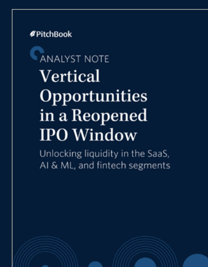

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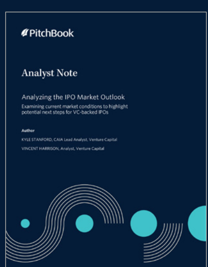

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