PitchBook

2024 ANNUAL

US VC Valuations Report

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AT WORK

Contents

PitchBook Data, Inc.

Nizar Tarhuni Executive Vice President of Research and Market Intelligence

Paul Condra Global Head of Private Markets Research

Kyle Stanford, CAIA Director of Research, US Venture

Institutional Research Group

Analysis

Kyle Stanford, CAIA
Director of Research, US Venture
kyle.stanford@pitchbook.com

Emily Zheng
Senior Analyst, Venture Capital
emily.zheng@pitchbook.com

Data

Collin Anderson
Senior Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Drew Sanders** and **Josie Doan**

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Are you considering running a liquidity event?

When IPOs were the logical next step for late-stage private companies, employees often had a clear pathway to turn their equity compensation into cash. With companies staying private longer, those opportunities for liquidity have dwindled. This has sparked a rise in issuer-led liquidity events, such as tender offers and secondary transactions. However, companies may underestimate the amount of work required, which can lead to costly transaction delays.

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

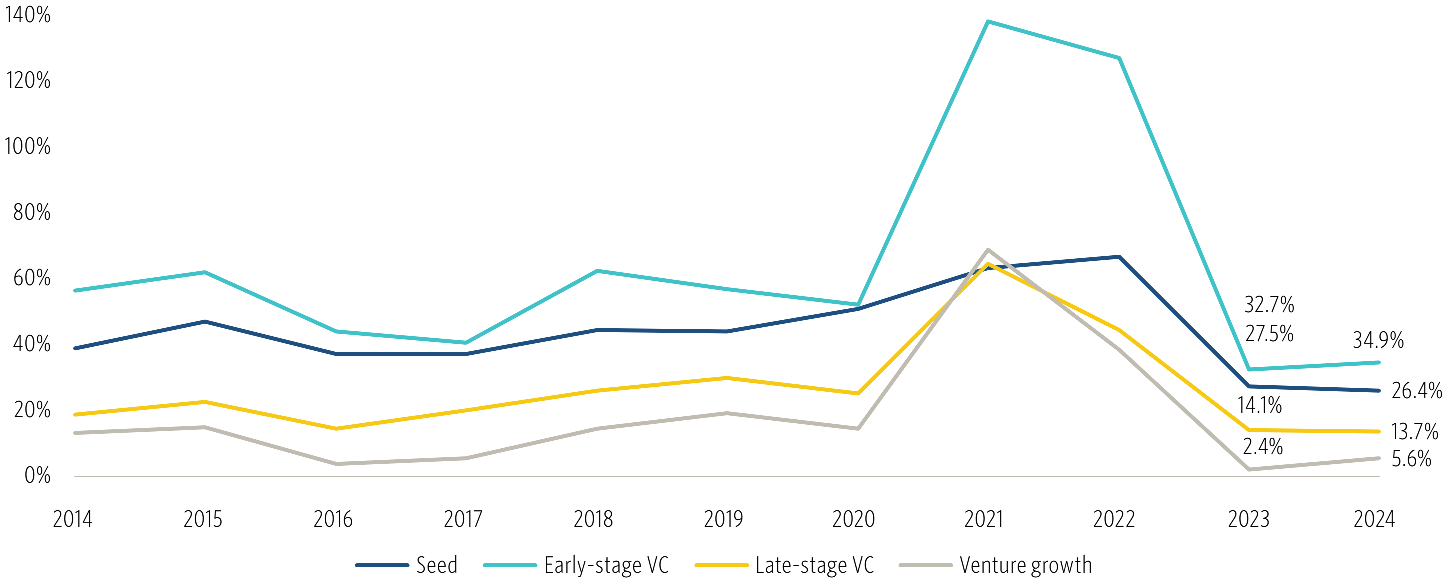
Discover what steps you can take to stay transaction ready and manage the expectations of your shareholders ahead of a liquidity event.

Request a Free Transaction Readiness Assessment

Market overview

Annualized valuation growth muted due to previously high valuations

Median RVVC between rounds by stage



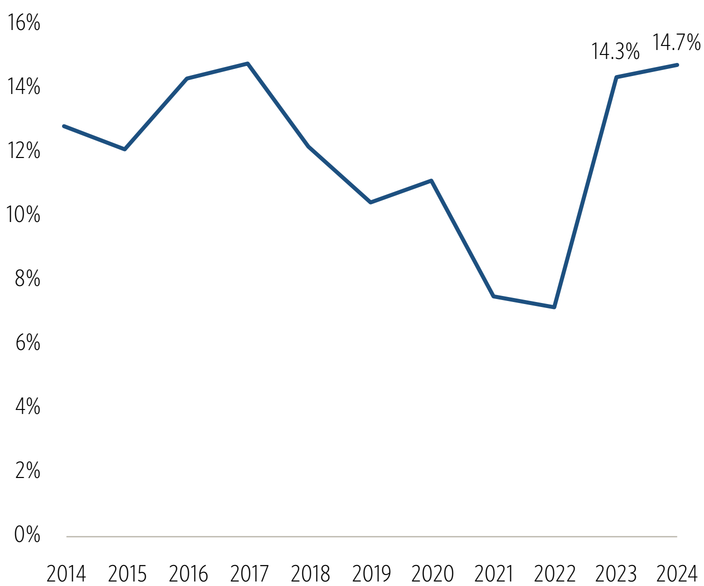
Source: PitchBook • Geography: US • As of December 31, 2024

Liquidity, or the lack thereof, continues to strain the already-parched venture market. Without large exits, an ever-growing stockpile of startups has locked up over $4 trillion in the private markets, which is more than double 2020's market value of $1.7 trillion. LPs stuck with larger-than-anticipated venture portfolios are hesitant or lack the means to commit more to the asset class. Though investors have been optimistic about the Federal Reserve's (the Fed's) interest rate cuts boosting exit activity, the two forecast cuts for 2025 would be welcome but would not realistically jump-start venture given that 2024's three cuts barely moved the needle.

Fundamentally, the largest hurdle between startups and exit opportunities is high valuations. Private company prices increased rapidly during the zero-interest-rate-policy (ZIRP) era—the median early-stage startup more than doubled its valuation on an annual basis in 2021 and 2022. Now, venture's big contradiction and challenge is that the past's unbridled growth is preventing startups from moving forward, trapping them in golden handcuffs. These companies would like to prevent down rounds and their negative ramifications, such as dilutions for employees and investors without protections. As a result, median valuations have remained high across venture series and stages. However, the median annualized valuation growth between rounds, or relative velocity of value

Downward pressure on valuations

Down rounds as a share of all VC rounds



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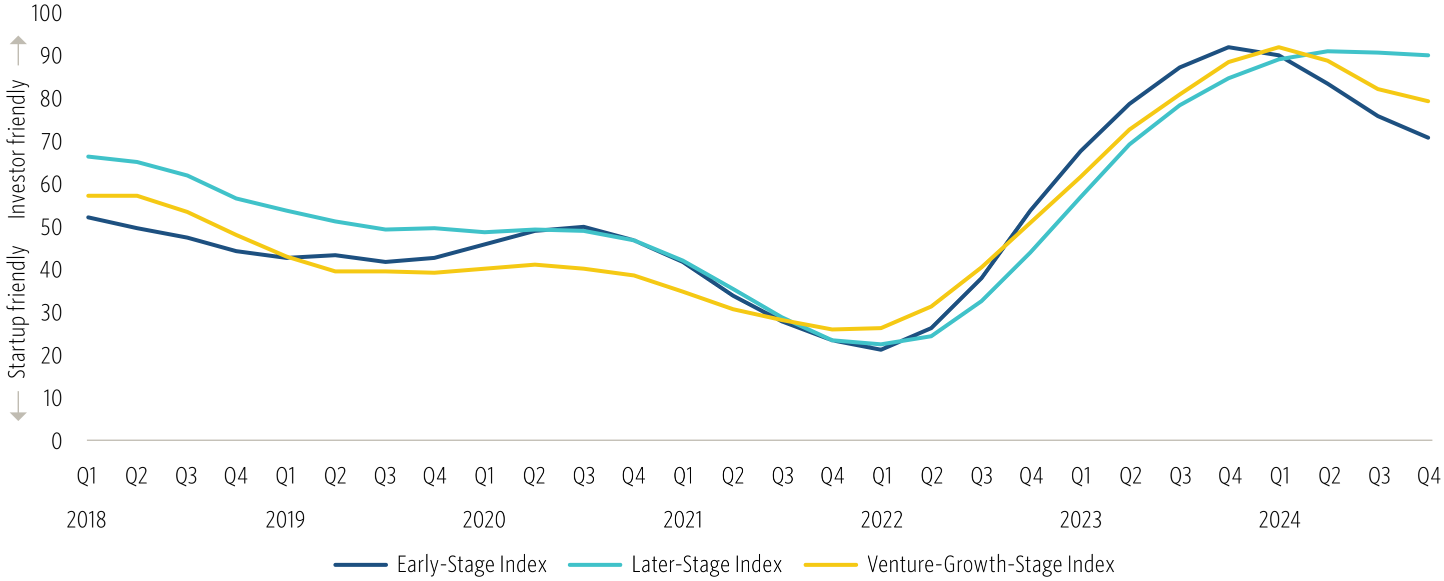
creation (RVVC), has plummeted since the highs of 2021. Down and flat rounds are becoming not only increasingly common, occurring for nearly 25% of 2024 deals, but also

The market remains in investor favor, though it is moving toward becoming more startup friendly

US VC Dealmaking Indicator



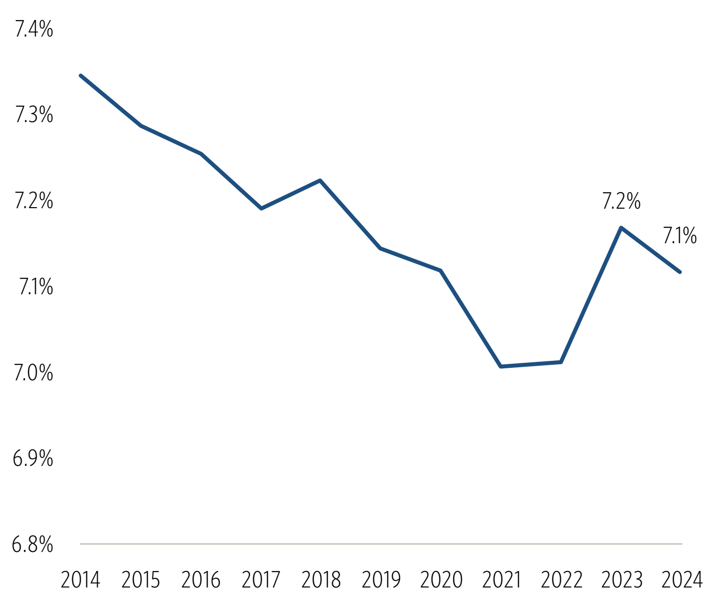
Source: PitchBook • Geography: US • As of December 31, 2024

inevitable for many startups that need to secure more funding or garner enough investor interest for an exit. One of the most successful exits of 2024 was Reddit, though the company had to cut its valuation to less than half of its peak in order to file for IPO. Now, Reddit's market cap has soared over $37 billion, so decreasing its price was a worthwhile gamble. Until more startups are willing—or, more realistically, forced—to consider lowering their valuations to exit, venture's recovery will be much slower than the market needs.

A silver lining is that the market is moving toward becoming more startup friendly. Valuations remain high in new rounds due to the relative strength of dealmaking activity and declining investor protections such as dividends. AI has spurred this trend, accounting for nearly 30% of deal count and over 46% of deal value in 2024, as investor appetite for the technology remains unsatiated while other sectors bear the brunt of venture's capital scarcity. AI's influence is especially strong for larger startups, constituting 47.5% of 2024 deals for companies valued over $500 million. The technology's unbridled growth is also reflected in rising valuations, as the 2024 median step-up for Series D+ startups was 1.7x for solely AI companies, compared with 1.2x overall. As AI startups continue garnering higher valuations, dealmaking will move toward more of a balance between startup and investor friendliness.

Average dividends decline alongside overall investor friendliness

Average dividend



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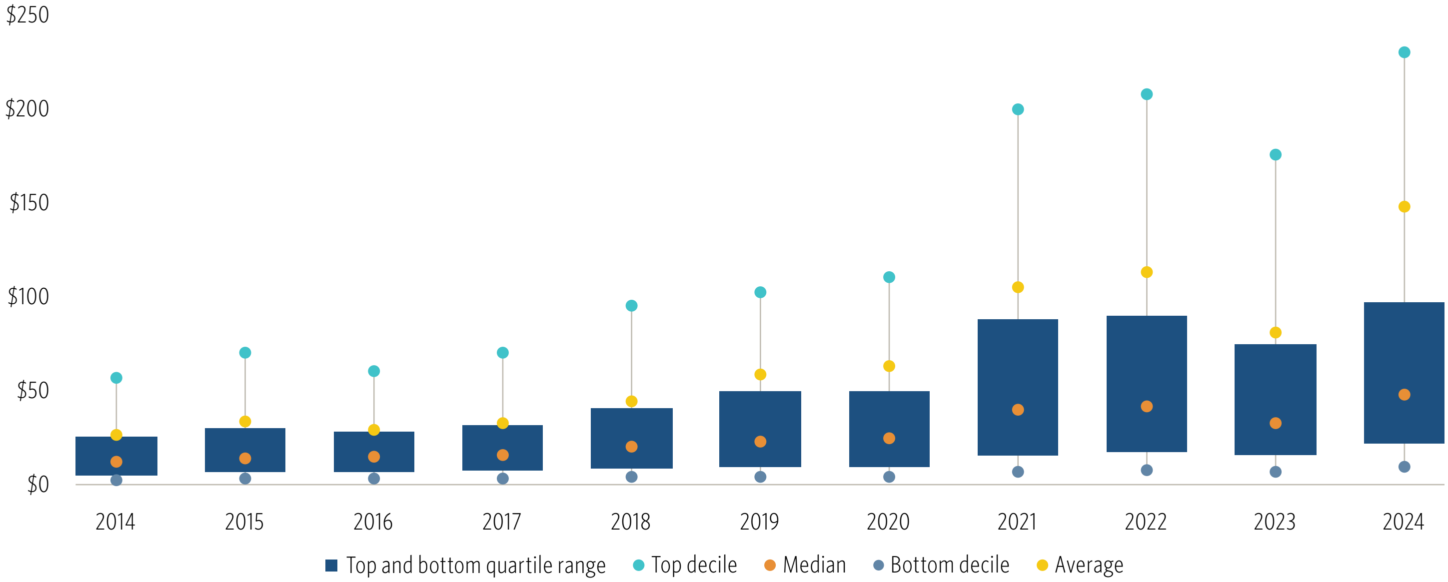
Dealmaking

Elevated valuations influenced by AI and ZIRP-era highs

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



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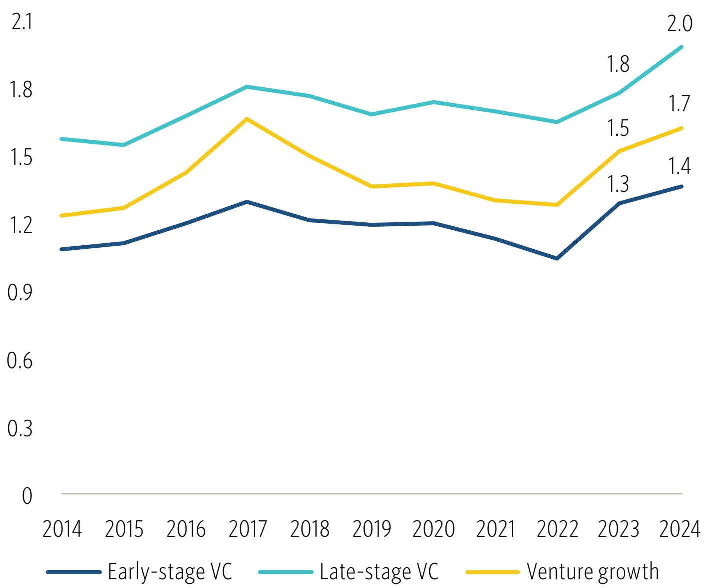
Venture dealmaking has been restrained for nearly three years. Despite the prolonged slowdown as interest rates and inflation remain high, median valuations in 2024 grew across all venture stages compared with the past two years. However, a deeper analysis of the data reveals that even though median valuations are elevated, growth between rounds has been slim because these valuations are remnants of the ZIRP era's inflated company prices. This conclusion is further evidenced by the median time between rounds, which has been steadily growing since 2022. Startups are reaching the end of their cash runways and are therefore coming back into the market years later, often with pricing similar to that of their most recent rounds that, for many, were during the pandemic—over half of Series C and D+ startups that completed a round in 2024 last raised over two years ago.

Startups are finding it difficult to keep up with the ambitious growth trajectories they set when capital flowed much more freely. As a result, 24.9% of rounds in 2024 were flat or down, which is the greatest percentage in a decade. Rather than taking median valuations at face value, better reflections of the state

Startups waiting longer to raise capital

Median time (years) between rounds



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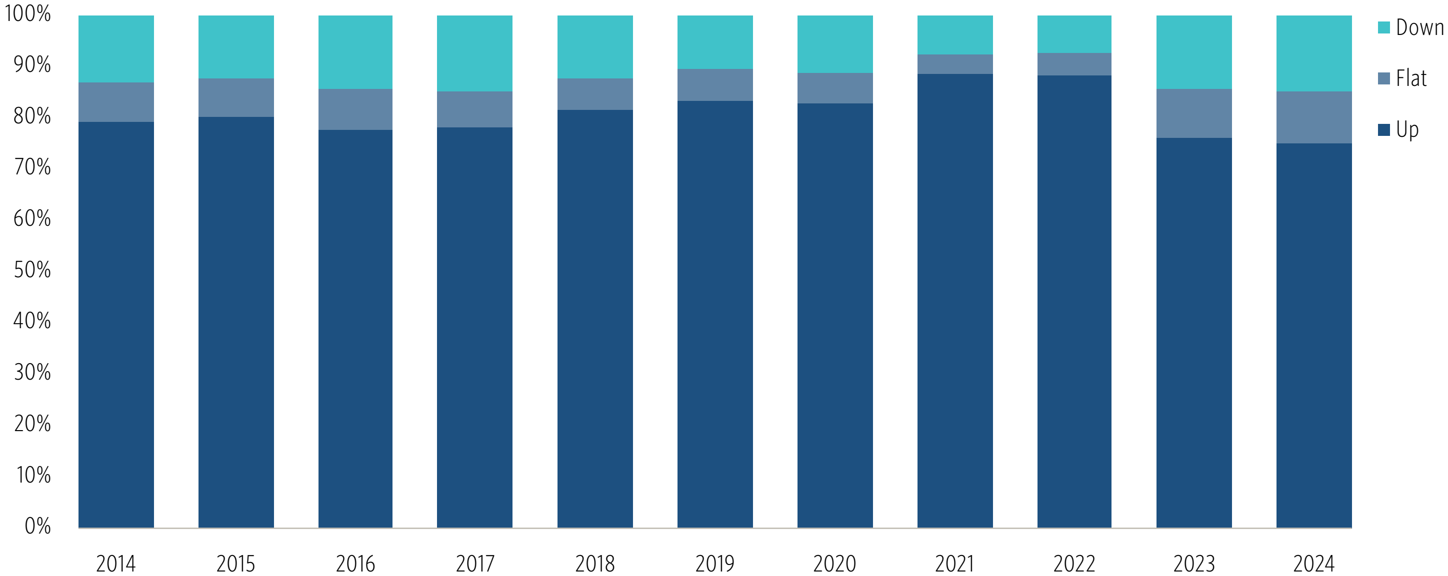
Greatest percentage of flat and down rounds in a decade

Share of VC deal count by up, down, and flat rounds



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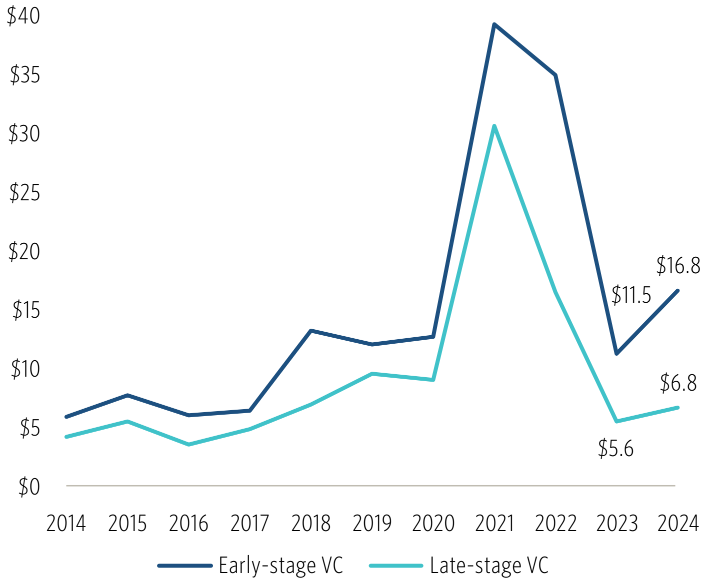
of VC include RVVC, which remains at or near decade lows for most stages, and the median step-up by series. The median annualized valuation growth between rounds for later-stage startups is at a decade low of 13.7%, which is a 78.8% decrease from 2021. Compared with 2023, step-ups have increased across all company stages, though their magnitude continues to be modest. For example, the median Series D+ company's step-up is only 1.2x, which is barely an increase from the previous round and nearly half of the growth levels observed in 2021. This trend will only be exacerbated in 2025 when more companies finally raise their first post-pandemic rounds.

On the other hand, AI valuations have soared, which is another reason why venture valuations seem stronger than the overall market's actual performance. AI dominated the venture narrative and dealmaking activity in 2024, capturing 46.4% of the year's total deal value. The top five deals of 2024 were all in the AI sector. An even starker contrast between AI companies and the rest of venture is the rapid valuation growth across multiple rounds completed by OpenAI, xAI, and Anthropic in a year when many startups struggled to complete even one.

Slow but rising pace of value creation

Median VVC between rounds by stage



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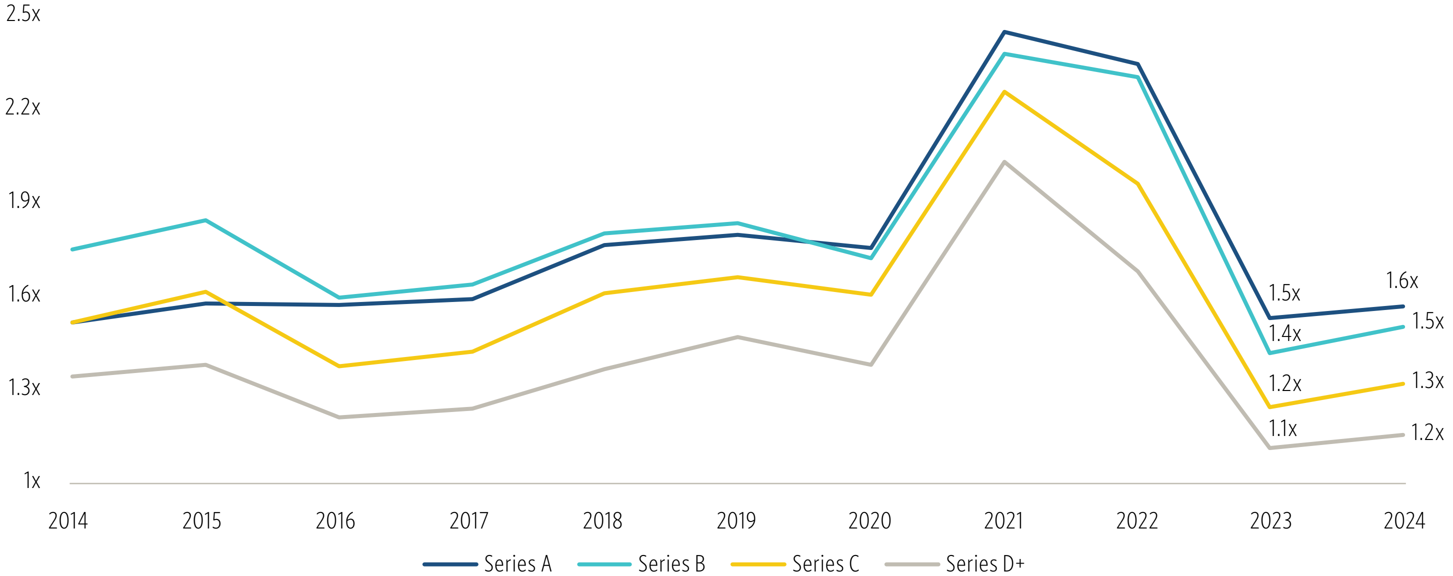
Valuation growth between series low but rising

Median step-up by series



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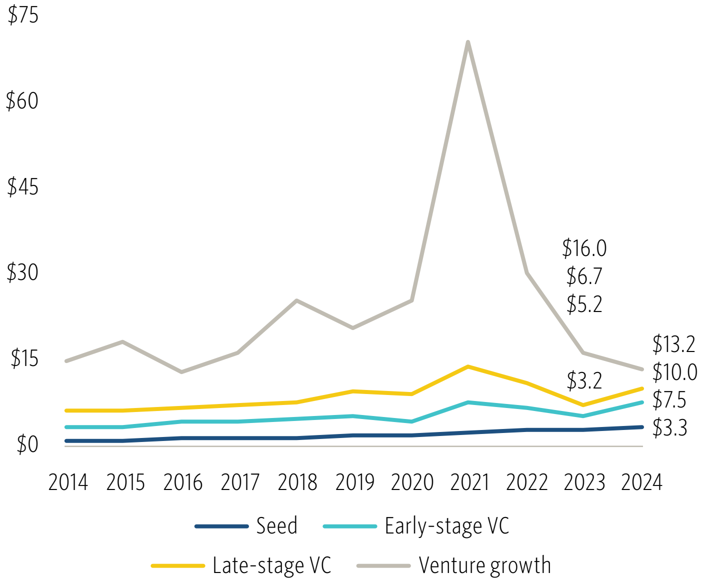
OpenAI nearly doubled its valuation, and xAI grew from a $500 million pre-money valuation in January 2024 to a $50 billion post-money valuation by the end of the year. Similarly, Anthropic started 2024 with an $18.2 billion pre-money valuation and may reach a $60 billion post-money valuation in its next round, which is speculated to close in early 2025.

Tailwinds from lower interest rates, elevated investor interest in AI, and the return of startups that have been waiting on the sidelines will likely continue pushing up dealmaking activity and median valuations in 2025. However, outsized valuation growth between rounds will likely be concentrated among top players, most of which are AI startups, rather than being evenly distributed across venture.

SaaS

Software as a service (SaaS) deal value trending up for most stages

Median SaaS VC deal value ($M) by stage



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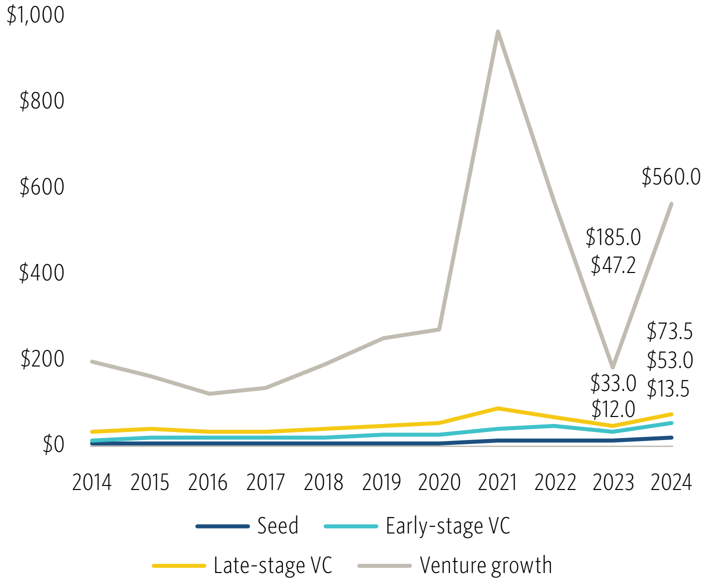
Higher valuations driven by ZIRP-era rounds

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



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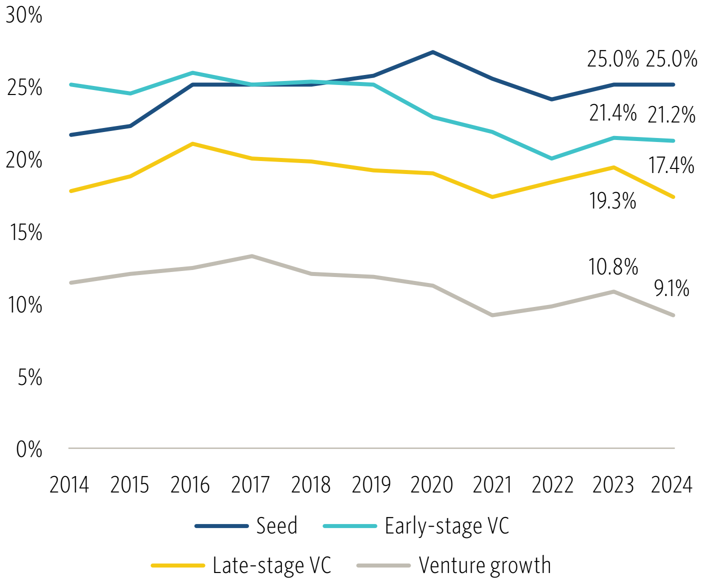
VC firms are acquiring smaller stakes in SaaS companies

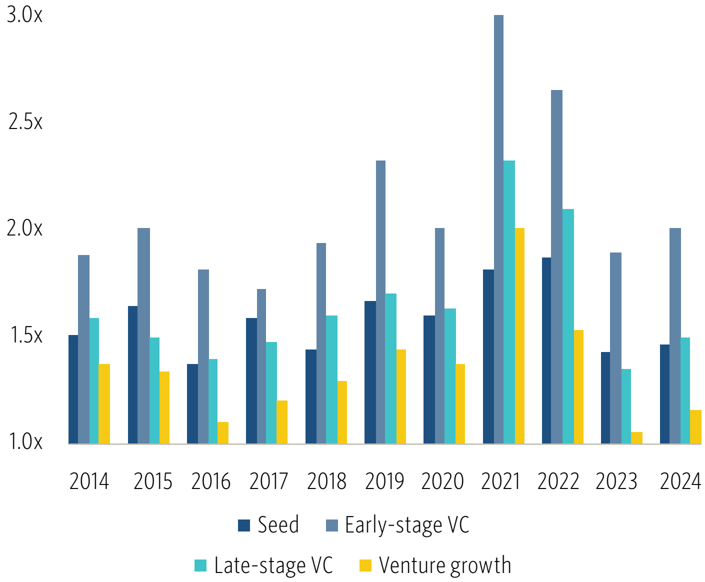
Median SaaS VC share acquired by stage



Source: PitchBook • Geography: US • As of December 31, 2024

Step-ups are nearing pre-pandemic levels

Median SaaS VC valuation step-up by stage



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A WORD FROM MORGAN STANLEY AT WORK

Evolving pathways to liquidity

What 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.

Whether preparing for a liquidity event or an IPO, planning a release of restricted stock units, or expanding your equity plan, Morgan Stanley at Work can help you take charge of where you are today and where you're going next.

What trends are you seeing in the private market liquidity space?

There was a time when the logical pathway to liquidity for private companies was to engage in an IPO. Today, however, private companies have greater access to capital than in the past. That trend, coupled with ongoing market uncertainty, has resulted in many companies choosing to stay private for longer.

While this often makes sense from an operational perspective, it could leave employees at private companies without a clear pathway to turn their equity compensation into cash. This can present a challenge for companies that use equity compensation to attract talent and motivate their workforce. Absent a liquidity event, private companies may struggle to keep employees engaged and motivated, given the inability to recognize the value they helped generate, and could increase the risk of losing their key talent to competitors.

These converging forces help to explain why we've seen a rise in issuer-led liquidity events, such as tender offers. A tender offer is a type of secondary transaction, led by the issuer, that allows private company equityholders to sell some of their equity back to the company or to an outside investor.

Shawn Murphy
Managing Director
Head of Private Markets at Morgan Stanley at Work

Shawn has more than 20 years' worth of experience across financial services, fintech, microfinance, equity management, and private markets. Shawn's team delivers equity management, liquidity, and workplace solutions to private companies and investors. In her role, Shawn oversees growth initiatives from expansion into new and adjacent products to evolving existing capabilities.

Tender offers provide private companies with a way to reward their employees and foster a sense of ownership, while still retaining control over their cap table. If they're funded by an outside investor, they can also create space on the cap table for value-add shareholders without causing dilution. This makes them a win-win for private companies, employees, and investors alike.

How can private companies prepare for a tender offer?

Given the critical role tender offers can play for private company stakeholders, advance preparation is key. For most companies, this starts by identifying their business goals so they can properly structure the offer and configure their equity administration platform. Elements to consider may include shareholder eligibility parameters, maximum and/or minimum selling amounts, open selling windows, and more.

Timing is key. Many companies report that their tender offer process takes more time than anticipated. Team members need sufficient runway to navigate the offer's complex compliance requirements—from preparing financial documentation and reorganizing equity plan documents to communicating with both internal and external teams. By leaving time for testing and feedback, companies can streamline the launch in a way that simplifies workflows.

Once the tender offer goes live, companies will also want to make sure that stakeholders have a clear process to follow. This may mean enabling participants to follow the transaction from start to finish by providing them with a view of their current holdings, their exercise costs, and even their tax withholding estimates before they tender any shares. Similarly, it could involve centralizing data in one secure place so equity plan administrators can easily share liquidity event updates in real time.

The role of education in this process is paramount to success. Employees should understand not only the tax implications associated with a tender offer, but also the financial implications. Many employees may not know how to calculate their tax obligations or invest their newfound liquidity. Companies can help with this uncertainty by offering education—as well as access to financial advisors—before, during, and after the tender offer takes place.

With companies staying private for longer, how can they keep their employees engaged?

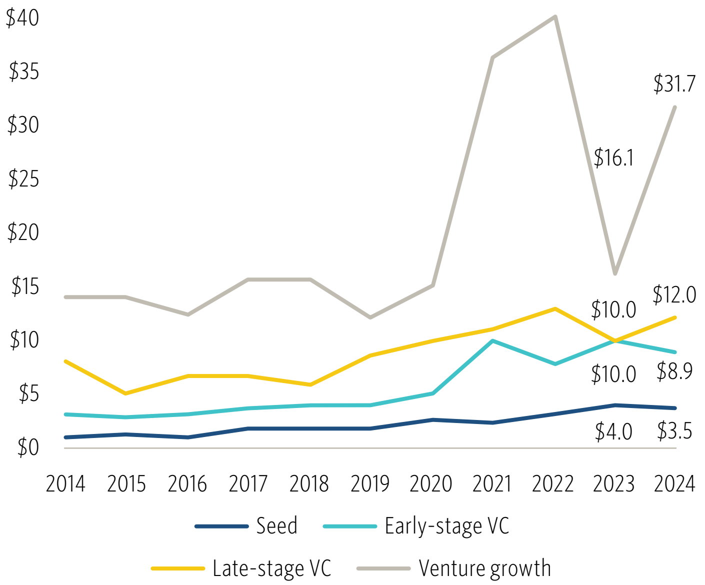
In our 2024 State of the Workplace Financial Benefits Study, HR leaders and employees alike agreed that workplace benefits help enhance employee loyalty. This spans from financial benefits to access to financial advisors. Adding equity compensation to the mix was considered the most effective way to further boost employee motivation and engagement.

Given these findings, benefits awareness and education represent fundamental areas of focus. Many employees do not fully understand their benefits packages or the role that equity compensation can play in their personal wealth management. Creating a robust learning curriculum, offering virtual and in-person education sessions, and providing employees with access to educational resources are just some of the ways private companies can keep employees engaged and inspired. Beyond helping to reduce their financial stress, this can help build their confidence and foster a culture that encourages employees to make the most of their financial workplace benefits.

Climate tech

Early- and late-stage deal values recover

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



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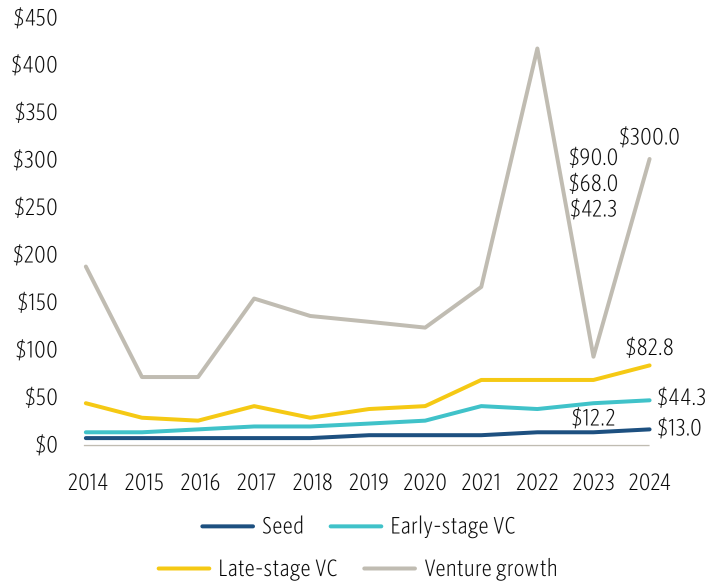
Late-stage valuations hit new high median

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



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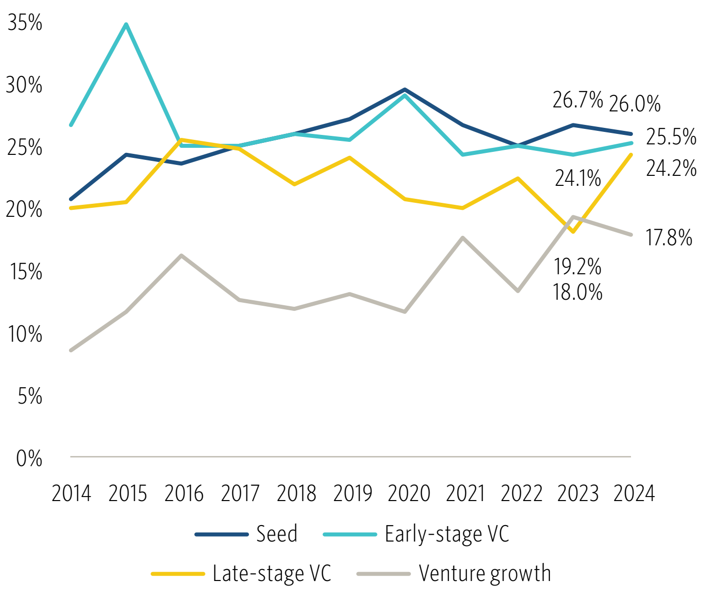
Acquired stakes tick up for early-stage deals

Median climate tech VC share acquired by stage



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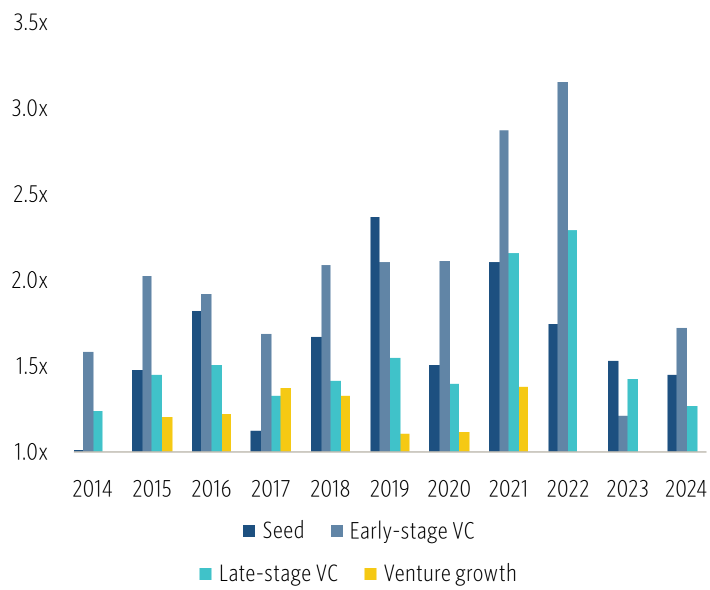
Late-stage step-ups lowest since 2017

Median climate tech VC valuation step-up by stage



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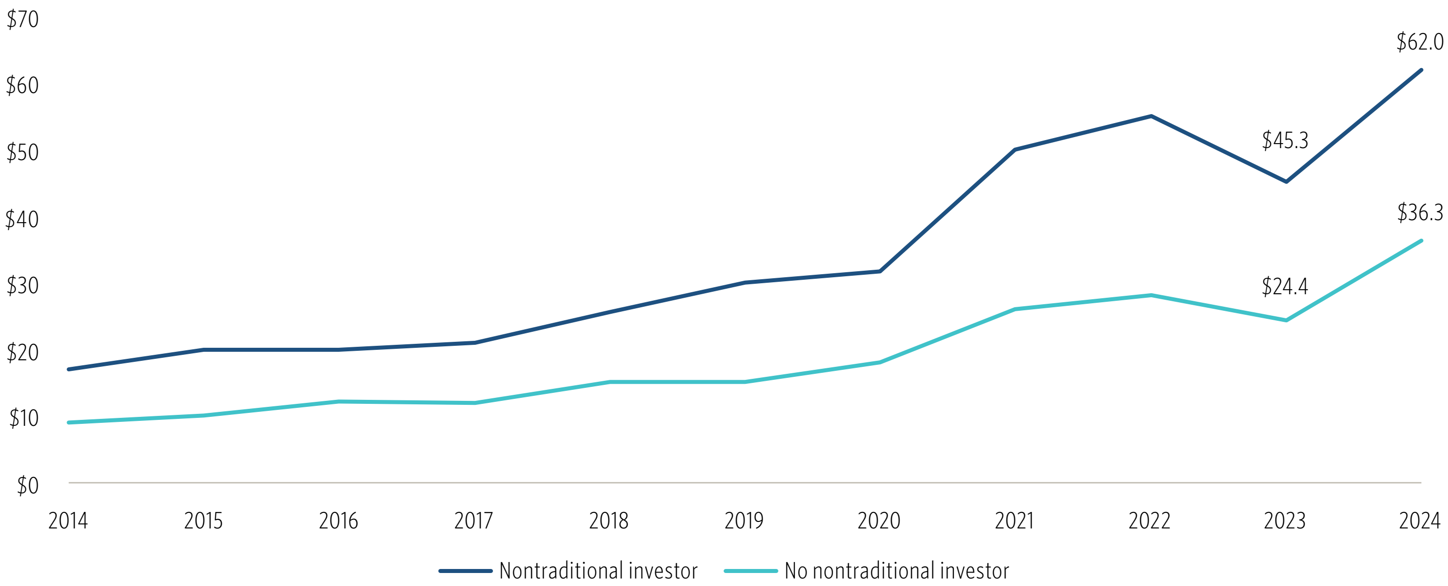
Investor trends

Median pre-money valuation points to high bar

Median early-stage VC pre-money valuation ($M) with nontraditional investor participation



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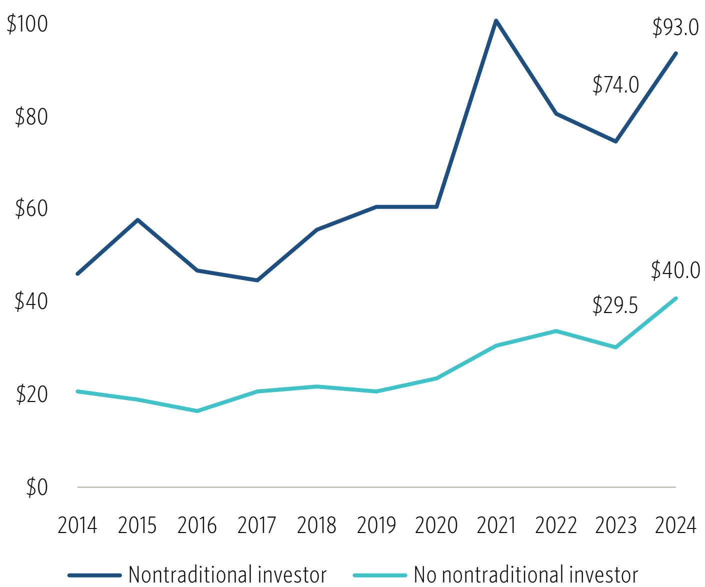
Our recent VC Tech Survey highlighted some of the challenges within the current market. “Private market pricing too high” was the second-largest challenge noted by investors, with the other challenges all surrounding liquidity. These factors are all intertwined. High pricing, which restricts buyers, is in direct conflict with compressed public market multiples and hinders the available liquidity from public investors.

Nontraditional investors are at the precipice of many of these challenges. They invest in the largest, highest-priced deals and can be buyers in M&A or provide liquidity for IPOs and in the public market. Though not necessarily the creators of these challenges in all cases, the pullback of nontraditional investors from the venture market has left a capital void in dealmaking on the liquidity side. A large factor in the liquidity challenges of the market has been at the very least exacerbated by the high activity levels of these institutions during the ZIRP era.

Late-stage median surpassed by 2021 only

Median late-stage VC pre-money valuation ($M) with nontraditional investor participation



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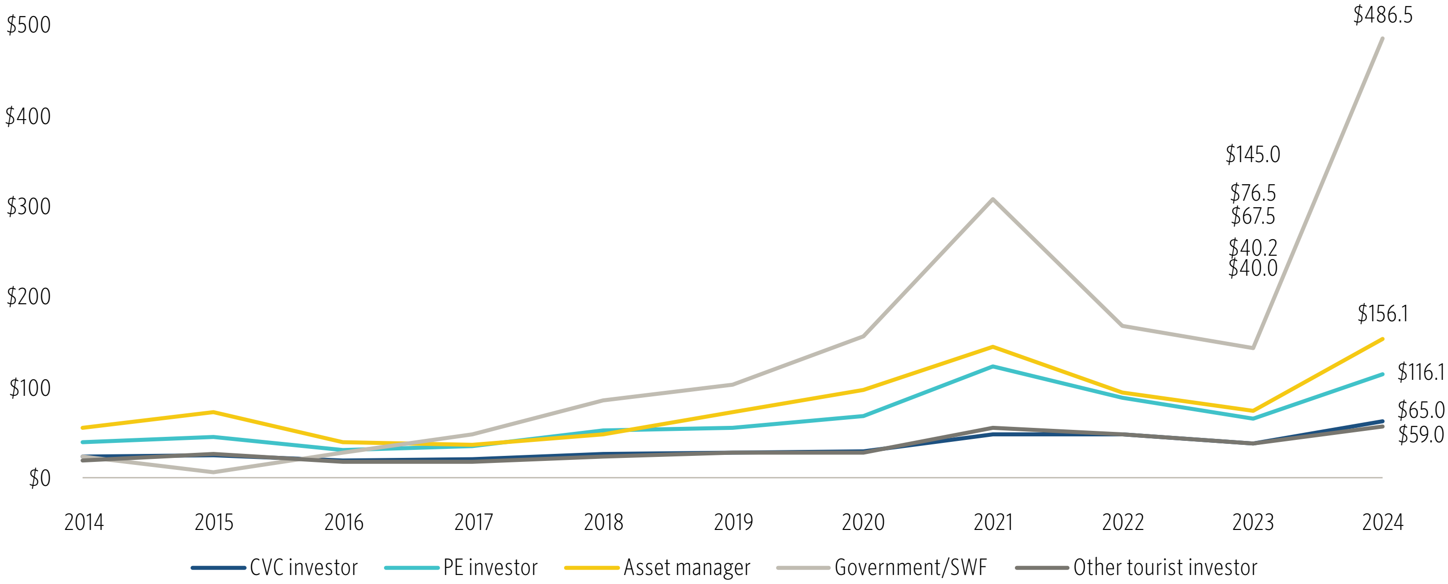
Asset managers pushing valuations higher

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



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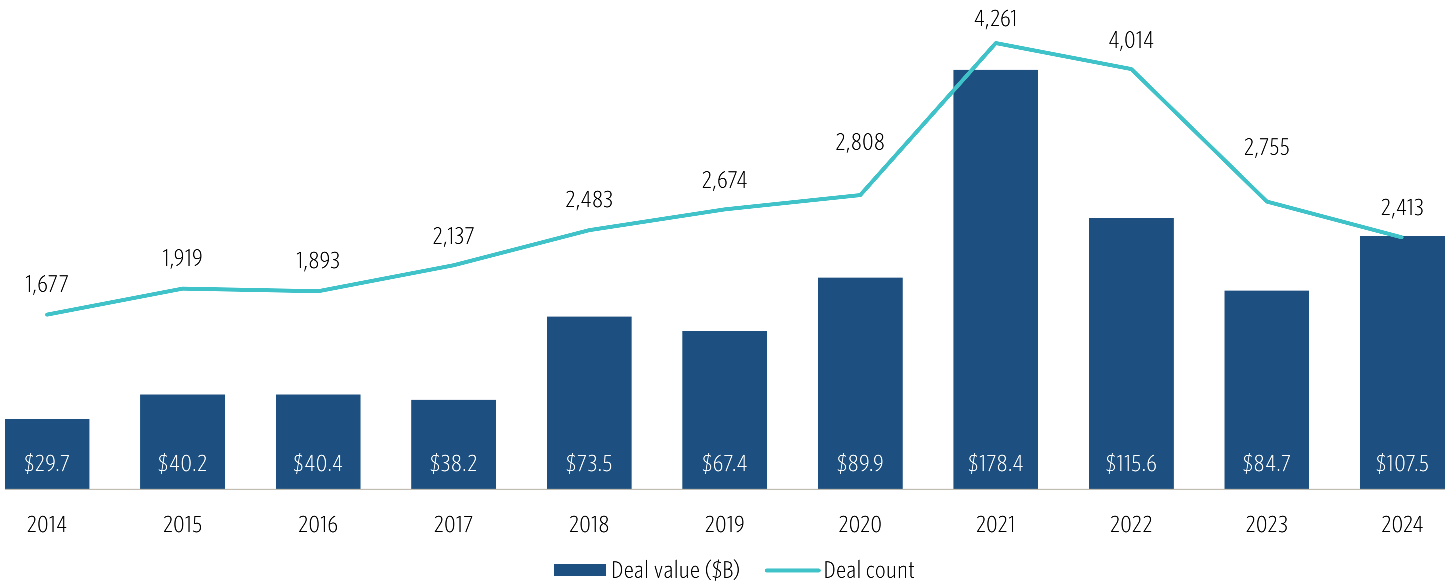
CVCs hit brakes on deal count

VC deal activity with CVC participation



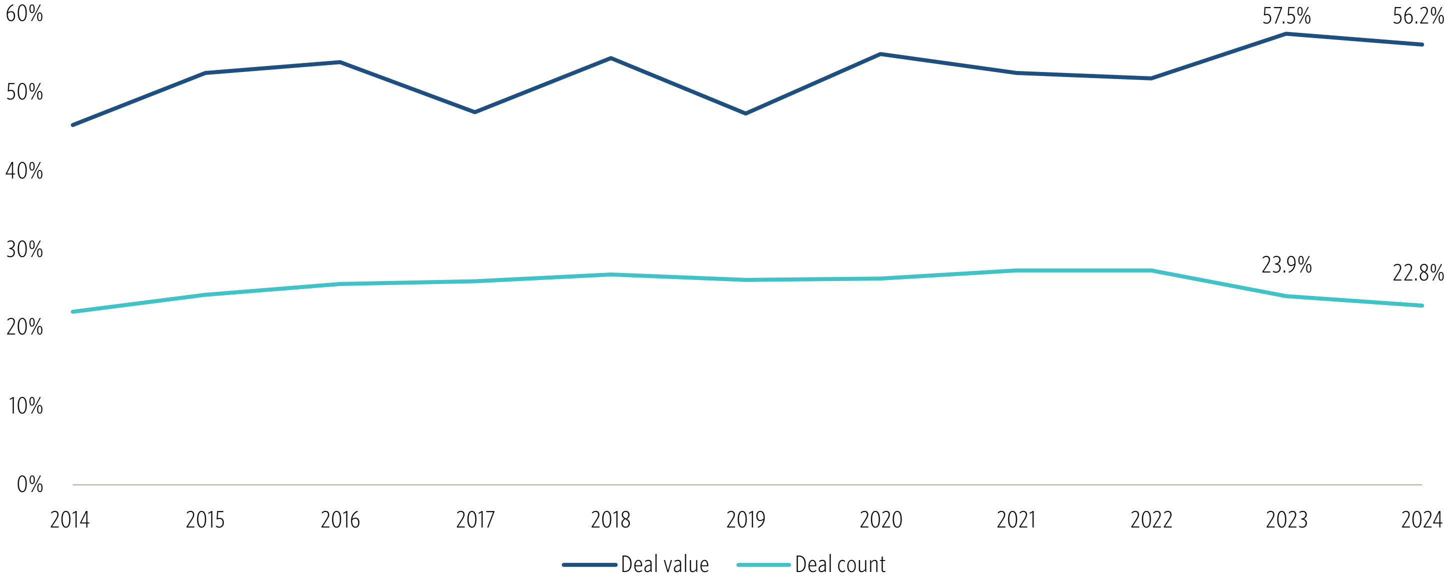
Source: PitchBook • Geography: US • As of December 31, 2024

Highly priced deals that involve nontraditional investors continue to occur, of course. The median early-stage pre-money valuation for a deal with nontraditional investor involvement reached a record high in 2024 at $62 million, which was 72% higher than deals without nontraditional investor involvement.

The lower count of deals with nontraditional investor involvement surely accounts for some bias, but the overall trend signals the willingness for these investors to pay significantly higher prices for quality deals.

CVC deal proportion slips further

VC deal activity with CVC participation as a share of all VC deal activity



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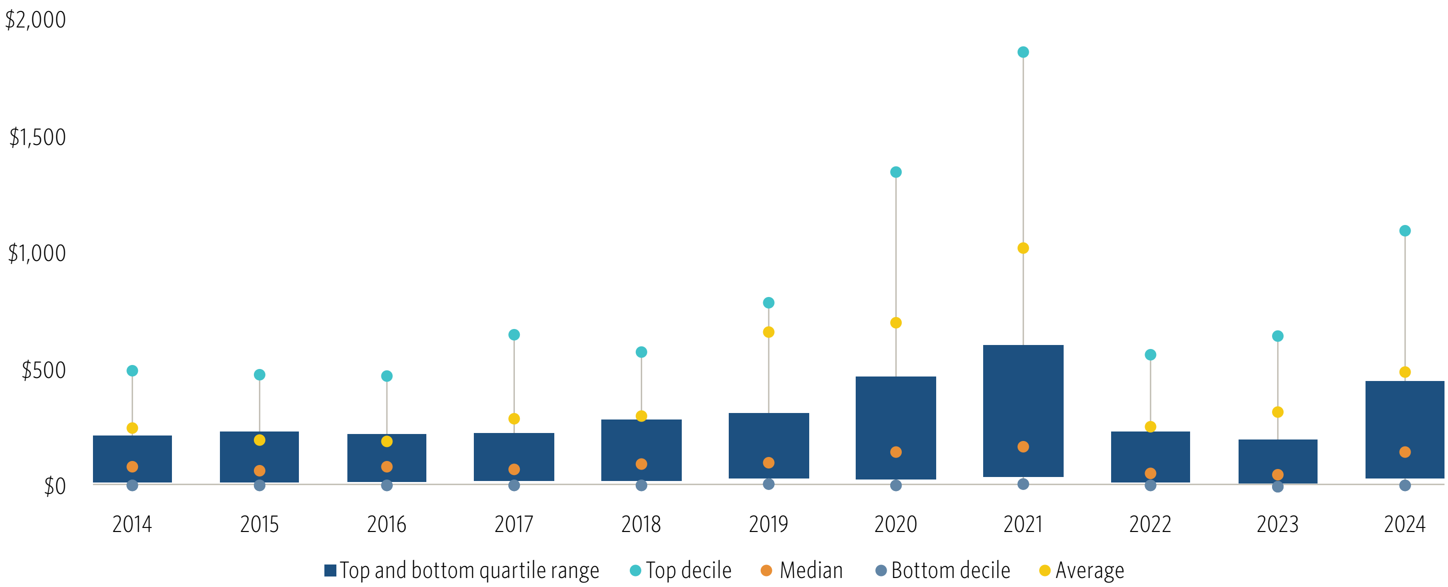
Corporate spending on VC-backed equity in 2024 continues to be a testament to the revolutionary interest in AI companies. Corporates were involved in more than $107 billion in equity deals during the year, despite overall deal count coming in at the lowest total since 2019. The median valuation of early-stage deals reached a new annual high, which was surpassed only by 2021 values in both late-stage and venture-growth valuations. These high figures come as the proportion of corporate venture capital (CVC) activity focusing on AI companies has grown from 22.5% of deals in 2021 to nearly 32% in 2024.

Liquidity

Rebound skewed by fewer outcomes

VC exit valuation ($M) dispersion



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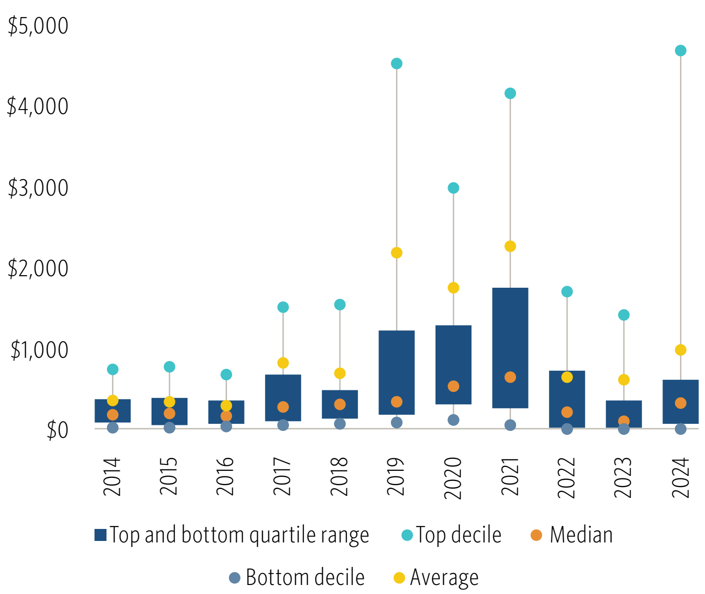
IPOs

The few large tech IPOs that occurred in 2024 highlighted the valuation problems that the market is currently struggling through, and that has added a high barrier to entry for startups looking to exit in public markets. During the year, five tech unicorns went public, two of which took significant markdowns on their offerings. Reddit's IPO in Q1 2024 gave the company a roughly 50% lower valuation, while ServiceTitan took a price that valued the company roughly 18% lower than its previous VC round post-money valuation and was nearly 35% lower than its high-water-mark valuation from mid-2021. Though ServiceTitan's market cap has rebounded and investors have recouped some of the losses, it remains below its high.

Rolling median step-up figures for public listings as a whole have been poor over the past couple years. Five of the past eight quarters have shown figures in this category under 1x, meaning the median step-up was, in fact, a step-down. Multiples in the public market tell most of the story of halted listings. The median price/sales ratio of recently public VC-backed companies has inched back to around 6x and has trended between 4.5x and 6x since mid-2022. The multiples of 20x and above from 2021 were incredibly relevant to the

Public listings show wide spread

Public listing VC exit valuation ($M) dispersion



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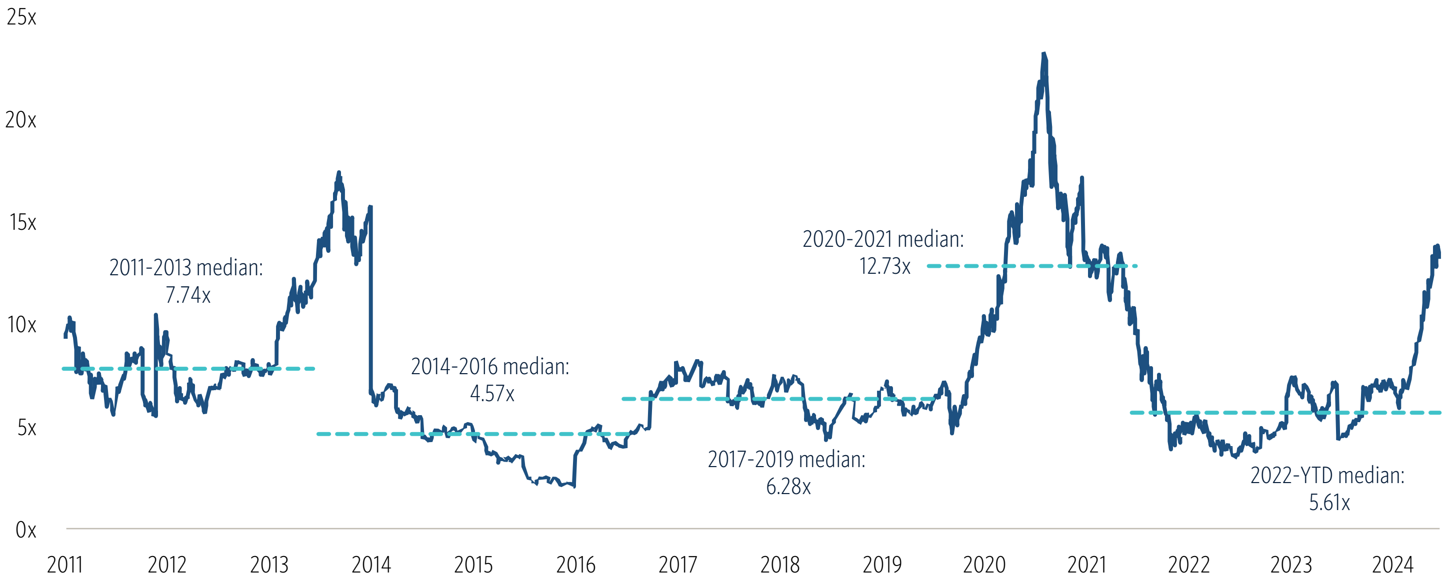
Price/sales ratio has recovered for VC-backed tech

VC-Backed IPO Index price/sales multiple excluding biotech & pharma



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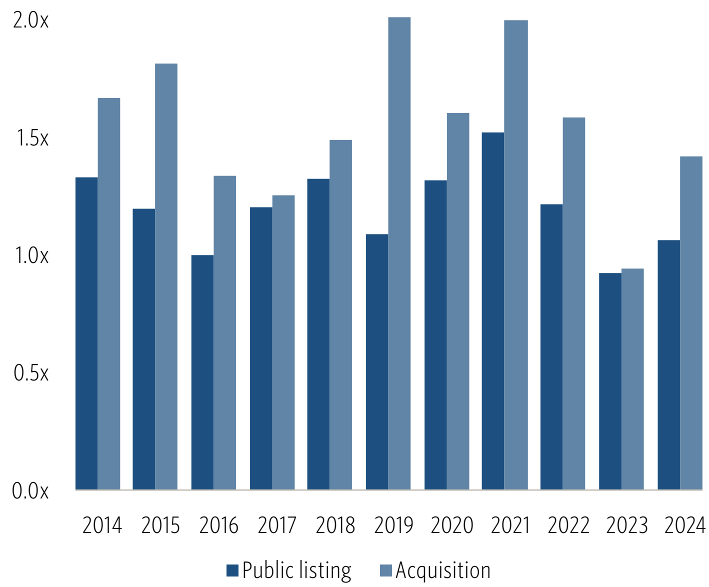
high prices being paid during that time in the private market. Though several of the tech IPOs of the last year did have successful pricings and traded well after listing, the idea that public market investors are readily willing to pay the prices needed for the majority of tech companies looking to list is not supported by the compressed multiples in public company pricing.

Tech, where a large majority of private market value is held, is also the sector that must contend with high valuations the most. Over the past three years of IPO drought, the number of companies that now fit similar metrics of age, valuation, and amount raised by listing companies before the slowdown has more than doubled. Though private market pricing has shifted and is relatively lower than during 2021, down rounds have not made up the proportion of completed deals that was certainly expected. Extended periods between rounds may have allowed some companies to grow into their valuations up to a point, though revenue growth is likely to have slowed, hampering that prospect for many of the unicorns waiting to IPO.

Median public listing step-up remains low

Median VC step-up at exit by type



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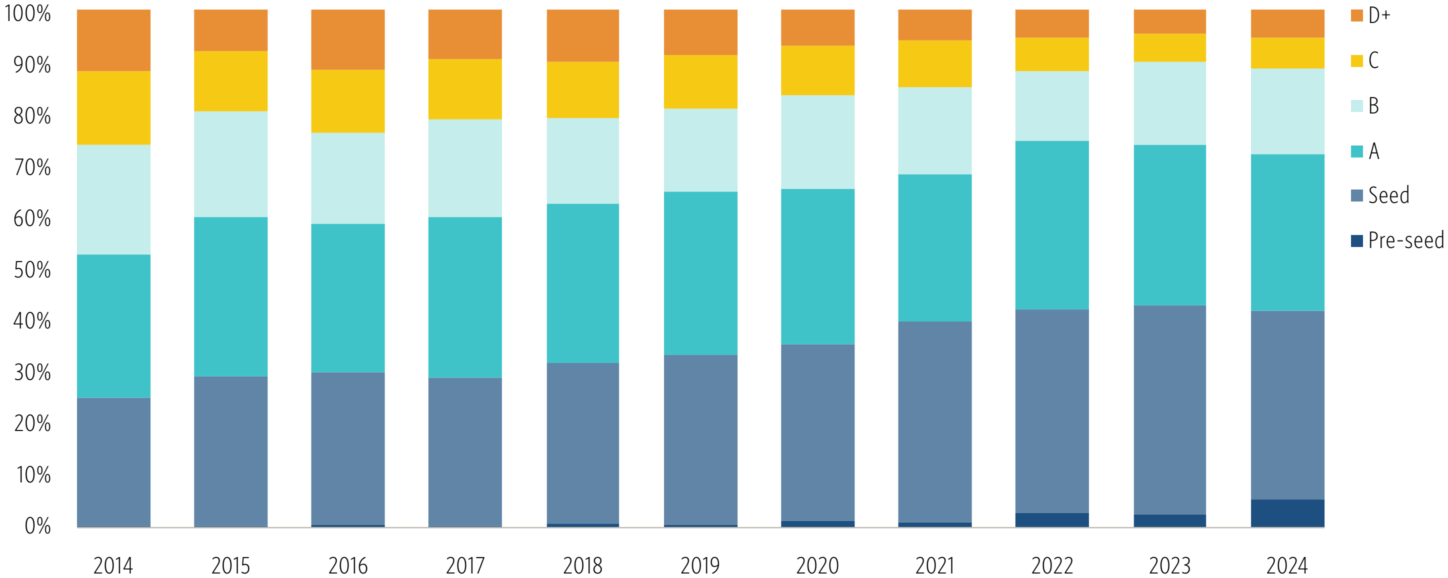
M&A

M&A data continues to show the structural problems with the venture market. 83% of M&A transactions had unreported values in 2024, the highest figure in the dataset. Rather than there being a problem with reporting, the high figure shows the lack of demand from buyers for startups, whether due to mismatched pricing realities or a lack of worthy targets for large purchases. Additionally, anticipated changes to the Federal Trade Commission are expected to relax the regulatory burden on corporates looking to make startup acquisitions, though the pricing issues for large acquisitions will remain. Just $82.6 billion in estimated exit value was realized through M&A in 2024, marking the lowest amount in a decade. The

Acquisitions occurring early

Share of VC round count by series where next round is an exit via acquisition



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largest deal of 2024 is also contingent on development milestones for additional payouts. The $8.4 billion acquisition of SystImmune includes $800 million up front and $500 million in contingent near-term payments, with the final $7.1 billion paid after milestones for development, regulatory processes, and sales performances have been reached.[1]

Big Tech has been on the sidelines of M&A for several years. The 10 largest tech companies in the US made just 12 acquisitions in 2024. During 2015, those same companies acquired 55 companies. Though it is true that AI and the quasi-acquisitions brought by the race to lead that sector have taken up time and money available for other acquisitions, without the outlet of VC-backed companies to incumbents, the return outlook for the market sours. The higher the acquisition prices, the fewer potential acquirers there are. And if those buyers are not in the market, the options become grim. The largest acquisition made by these companies in 2024 was the $1.9 billion buyout of Own Company by Salesforce. Beyond that, the next-largest acquisition of a US company by these tech corporates was for Spiff, valued at just $419 million and also sold to Salesforce.

Secondaries

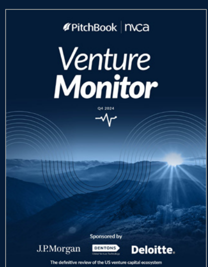
Secondary sales can shed some light on the pricing of the market, though not without certain caveats. Secondary market pricing has rebounded nearer to a balance between discounts and premiums to a company's most recent private round, according to our recent analyst note Year of the IPO Window. This data stems only from completed sales, and combing through activity levels through brokered secondary trades shows that activity levels are not especially strong outside of the most well-known, highest-valued companies. This suggests several themes: First, little demand remains for startup shares below a certain brand level; and second, little desire exists for liquidity below a certain valuation. While both could simultaneously be true, it presents the valuation dilemma that VC has developed. Selling too early caps returns below the needed return on risk, and buying too early introduces unwanted risk into the portfolios of investors.

This dilemma is also represented through tender offers from large companies choosing to remain private rather than listing shares publicly. Databricks, Stripe, OpenAI, and SpaceX have each raised billions in new capital to use toward share buybacks from employees and early investors. Using cash for such tender offers is a novel way for companies to remain private. However, likely only a handful of companies are left that are able to raise enough fresh capital to replace the liquidity needed, and secondaries in general remain a small fraction of the liquidity needed by the industry as a whole.

1: "SystImmune and Bristol Myers Squibb Announce a Global Strategic Collaboration Agreement for the Development and Commercialization of BL-B01D1," Bristol Myers Squibb, December 11, 2023.

Additional research

Private markets



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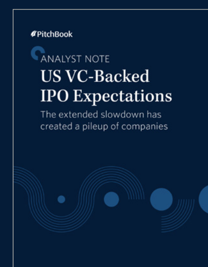

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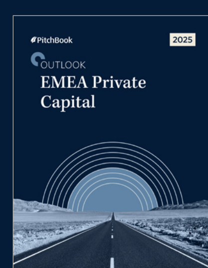

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