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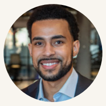
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

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

Max Navas
Analyst, Venture Capital
max.navas@pitchbook.com



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

Kaidi Gao
Associate Analyst,
Venture Capital
kaidi.gao@pitchbook.com

Susan Hu
Associate Quantitative
Research Analyst
susan.hu@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Megan Woodard**

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We have launched a pre-seed report methodology to more accurately and comprehensively capture deals from the earliest phase of venture. Going forward we will sunset "angel" as a specified stage of venture in all of PitchBook's venture-focused reports.

2024 US Venture Capital Outlook

Our analysts' outlook on the venture market in 2024

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

2024 outlooks

Introduction

2023 held a few surprises, but none created much change in the market. Silicon Valley Bank's collapse in March set the year on a path that many expected would be chaotic, but the resolution of that event led to little disruption. In Q3, the market tried to jumpstart with a few high-profile IPOs in ARM, Instacart, and Klaviyo, but the post-listing performance generated little momentum for the market, further securing the year as a poor one for exits. Sam Altman was even fired by OpenAI in a stunning announcement, hired by Microsoft, then reinstated as CEO of OpenAI, all in just a few days. Overall, the venture market has been relatively unwavering throughout the year. Everything was just slow.

We still see a market reset in progress. Valuations have come down but remain high relative to historical trends. Deal counts are down significantly from 2021 but have largely been above quarterly totals prior to that year. Nearly 52,000 companies remain in our company inventory, so whether or not those deals are pushing growth or pushing off bankruptcy, deals are getting done and keeping the pressure high within the venture market.

Looking ahead, there aren't indicators of a significant rebound in the near term. The factors that led to the slowdown essentially remain in place. Interest rates and geopolitical tensions continue to be high; inflation has been relatively stubborn as the US economy stays hotter than expected, and a recession is still a possibility, adding to the uncertainty. Not to mention that election years can hold their own surprises. Maybe the most important for VC is the down shift in the P/S multiples in the public markets. These remain deflated compared with the multiples that private valuations were based on over the past few years, adding a high hurdle for companies looking to go public.

The long-term venture outlook is different. AI has added a bit of fuel to the venture fire, leading the push for renewed optimism; public markets, too, have stabilized, and a reappearance of IPOs could start to unlock the returns that LPs have been hearing about but have been unable to realize. Dry powder remains high, and although we will likely see the overall number of VC firms wane over the next few years, more than 4,000 funds were raised since the beginning of 2020. Capital is out there, and strong companies can use the slow market to separate from the competition.

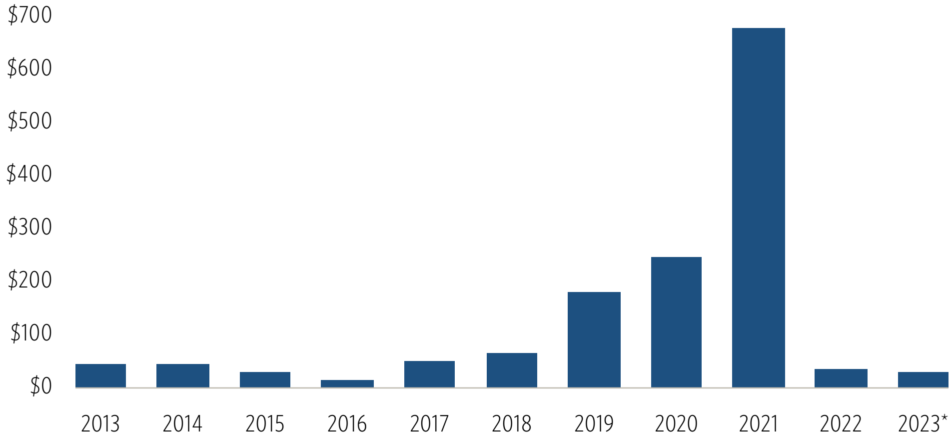
Investors themselves have a renewed focus on portfolio construction: prioritizing entry prices, sufficiently diligencing deals, and creating portfolios through a more quantitative approach than afforded by the manic market of a couple years ago. This has led to a more patient capital base, both in terms of GPs and their LPs, which continue to balance their portfolios in a risk-averse environment.

In our 2024 US VC Outlook, we have prioritized themes that have seen significant changes in recent years. Fundraising, IPOs, and late-stage dealmaking, to name a few, have become areas of the market that have driven the narrative, both positive and negative. Private markets, and especially VC, have lagged in reflecting the macro shifts that occurred over the past two years. Highlighting where the market is more quickly regulating can provide an idea of the path forward. Our outlook is not singularly bullish or bearish, but nuanced in analysis of a changing VC market.

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

Outlook: Positive economic signals through 2023 will spur a comeback in IPOs in 2024.

VC public listing value ($B)



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

Forecasting the precise moment when the IPO market will reopen is a very nuanced task, yet as we approach the end of 2023, we are observing encouraging indicators that could point to a resurgence in the upcoming year. Through the third quarter of 2023, the US economy has been performing better than expected. GDP increased 5.2% in Q3—up from 2.1% in Q2—further calming expectations that the economy will fall into a recession. Moreover, the federal reserve (the Fed) has yet to raise rates since July 2023, reinforcing expectations that the central bank has concluded its current cycle of rate hikes. This slowdown has partially contributed to a renewed appetite for public stocks, with the S&P 500 being up 19% so far in 2023, as of the time of this writing, compared with last year's 19% decline. Should inflation continue to cool down, it's very likely that we could start seeing rate declines in 2024.

Continued slowed inflation is even more likely, given that many supply chain bottlenecks brought about by the global COVID-19 pandemic appear to be largely resolved. There exists a correlation between supply chains and inflation, as evidenced in the Global Supply Chain Pressure Index; as of October 2023, the index has fallen significantly from its highest-ever peak in December 2021.[1] Mitigated supply chain woes is an especially encouraging signal for many companies that rely on shipping and semiconductor chip production, since a smoother supply chain should theoretically result in an increase in operational efficiency and output. Improved production capabilities for startups could consequently reduce uncertainties and enhance their attractiveness for investors in the IPO market.

1: "Issue Brief: Supply Chain Resilience," The White House, November 30, 2023.

Market volatility is also on a downward trend, as reflected in the Cboe Volatility Index (VIX), commonly known as Wall Street's fear gauge. Presently, the VIX stands at around 13, below its long-term median of 18 and significantly lower than the peaks witnessed over the past 18 months—like the 37.52 recorded in March 2022. Assuming volatility remains tempered in 2024, this could act as a catalyst for new IPO filings. Reduced volatility tends to foster a more stable and favorable market environment, which is attractive to both issuers and investors. VC-backed startups seeking to go public may find it more appealing to debut in a market with lower fluctuations, as it enhances the predictability of their stock performance. On the investor side, lower volatility reduces the perceived risks associated with IPO investments by minimizing concerns about sudden and adverse market swings, thus potentially encouraging even more participation.

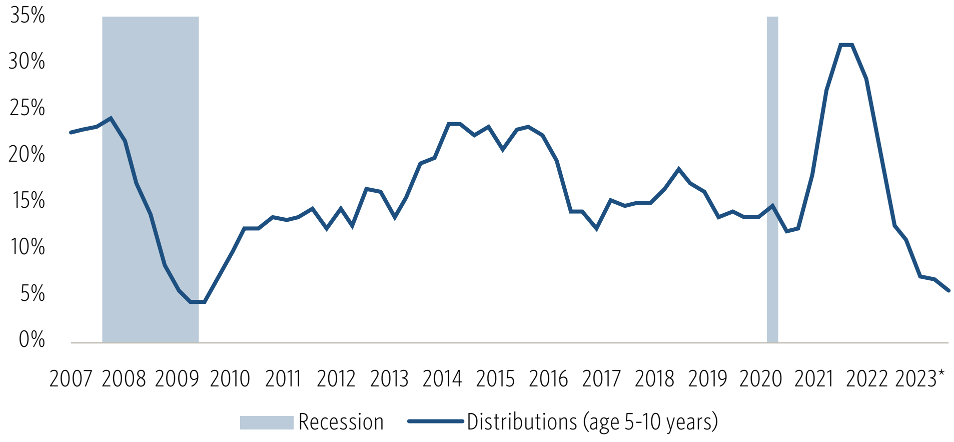
Risks

The Fed's ongoing tightening of its balance sheet, at a rate of roughly $100.0 billion per month, could contribute to a delayed IPO comeback in 2024. This reduction in liquidity—a direct consequence of ongoing monetary policy—not only removes capital from the economy but may also contribute to a negative shift in investor sentiment. If interpreted as a signal of economic tightening or increased uncertainty, investors are likely to adopt a more risk-averse stance, thus reducing the demand for VC-backed IPOs. Additionally, given the cautious nature of the markets thus far, the bar for going public may be high in 2024 relative to prior periods. If the market is favoring only the best (profitable) startups to go public, this would limit the number of VC-backed startups able to go public, as many of them have yet to achieve profitability. Finally, while volatility is on the decline, there has been a significant increase in trading activity for VIX call options, which are commonly used for protection and profiting from rises in volatility. This may suggest that many investors believe that volatility may increase in the near term, and if it does, it will likely stall any would-be IPO activity.

Susan Hu
Associate Quantitative Research Analyst
susan.hu@pitchbook.com

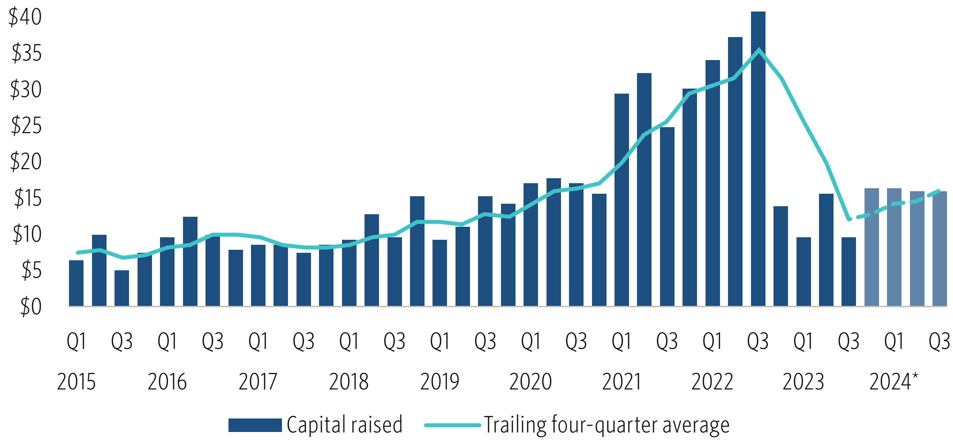
Outlook: US VC fundraising is expected to increase, making it stronger than 2023 but comparable with 2020 figures.

Average VC fund distributions as a share of all beginning NAV



Source: PitchBook • Geography: US • *As of September 30, 2023

Quarterly VC capital raised ($B) with trailing four-quarter average and one-year forecast



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

With the exit environment remaining largely closed in 2023, the rate at which capital is being distributed back to investors is at the lowest level since 2003. We observed just $54.8 billion in distributions stemming from an estimated 900 exits YTD, which is around 30% less in value and count from the already depressed exit environment of 2022. One of the major reasons for the poor distribution has been a lack of tech IPOs. Public listings generated above 15.4% of the yearly public exits in 2021 but dropped to 5.8% and 8.4% in 2022 and 2023 YTD, respectively, as public market investors have shied away from riskier tech bets. Although acquisitions contributed to a higher percentage of exits in the last two years, increased Securities and

Exchange Commission (SEC) regulations and scrutiny can pose a challenge to being an alternative exit opportunity—especially large transactions falling under the Federal Trade Commission purview. Even as GPs have scrambled to find alternative methods to return capital to LPs, such as secondaries and continuation sales, the downturn in distribution rate since Q3 2022 has dropped to a decade-low in Q3 2023; on average, VC funds aged five- to 10-years-old have distributed 5.1% of net asset value from a year ago.

Lack of liquidity contributes to how much capital can be recycled into new VC funds. Strong historical returns and distributions have, in the past, encouraged additional new investments into VC funds. During periods of liquidity crunch and economic uncertainty, LPs are more inclined to invest their capital in less-risky asset classes to maintain flexibility and respond to changing financial conditions. With a recent rise in yields in which the 10-year Treasury yield reached 5%, institutional investors are less inclined to invest in risky assets to achieve their return objectives. As pointed out in the latest Global Fundraising Report, VC fundraising dropped from 55.0% in 2018 to 14.8% through Q3 2023 of the total capital raised by private capital asset classes. Our model estimates a slight increase in total fundraising, comparable with 2020 figures using a time series model to estimate the impact of trailing 12-month (TTM) distributions on future fundraising efforts. Fundraising figures for the upcoming four quarters ending in Q3 2024 should look similar to annual 2020 US VC trends. Around $64 billion in estimated fundraising over the next four quarters may be an increase on 2023 values, though it will remain well below 2022's peak.

When looking ahead to 2024 fundraising levels, this backward look is important in setting expectations. While these significant pressures remain on the venture market, the lackluster public performance and substantial valuation cut of large tech unicorns is a signal for investors to reset their expectations. Another year of sluggish fundraising will continue to put downward pressure on capital-starved startups as VC firms adjust their capital deployment pace to be more selective in a turbulent market, decreasing dry powder figures as VC firms commit capital faster than fundraising can sustain it. Consequently, we will likely see elevated capital demand-to-supply ratios high for the foreseeable future, maintaining an investor-friendly dealmaking environment.

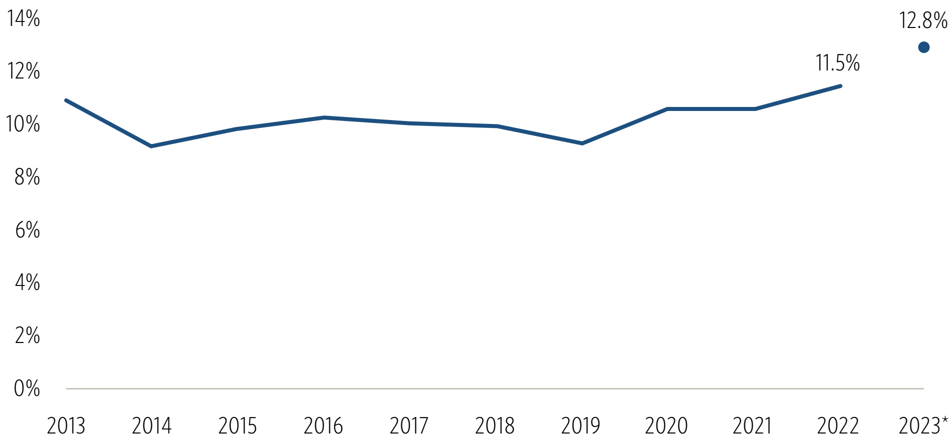
Risks

Macroeconomic factors like increasing interest rates and negative political and geopolitical developments could continue to curtail institutional investors' appetites for investment into VC funds. Increased macroeconomic turmoil, such as a full-blown recession, will shut down the likelihood of increased exits. It will also further contribute to the scarcity of recyclable capital into new funds in 2024, thus keeping fundraising on a continued, downward trend. On the other hand, decreasing interest rates and the Fed cutting fund rates will feed into investors' appetites for riskier investments. A particularly positive market environment could open the floodgates to exit opportunities, including the IPO window, which could once again kickstart the fundraising flywheel. Additionally, as LPs commit to more established GPs, any outsized funds from large VC firms could add unexpected capital to the estimated fundraising.

Kaidi Gao
Associate Analyst, Venture Capital
kaidi.gao@pitchbook.com

Outlook: The number of insider-led rounds as a proportion of all US VC deals will be on par with or exceed the 2023 annual level.

Lead and follow-on VC investors as a share of all VC investors



Source: PitchBook • Geography: US • *As of November 16, 2023
Note: Lead and follow-on investors mean at least one lead was a follow-on investor.

Rationale

The percentage of US VC insider-led deals will stay elevated in 2024—at least for the first half of the year—due to the likelihood of the ongoing capital constraints and lingering market volatility, challenged investor confidence, and because exit channels have not reopened yet. Since mid-2022, US GPs have slowed down the pace of dealmaking, and many institutional LPs have faced liquidity issues, with the denominator effect being a contributing factor to those with public market exposure. Company valuations have been compressed and the selection bar for startups to secure venture financing has risen significantly. Amid a volatile and challenging equity financing environment, investors from the existing syndicate have been stepping in, providing needed capital to support their best performing or most promising portfolio companies to reach the next milestone and attract external funding for the next round. With information asymmetry, existing investors have a more in-depth understanding of their portfolio company's performance and growth prospects. They tend to be less aggressive with taking valuation cuts. Insider-led rounds can help push out new pricings until a benchmark that matches market expectations has been hit, rather than drastically pushing down a company's valuation through pressure from new investors.

The number of insider-led rounds where at least one lead investor is from the existing syndicate as a proportion of all US venture deals ticked up from 11.5% in 2022 to 12.8% 2023 YTD. This is also the highest rate observed in a decade. Because a turnaround in the financing market is not expected in 2024, insider rounds will likely take up a larger portion of US VC deals across the venture lifecycle compared with the historical level. This pattern will be particularly pronounced at the late stage, where the imbalance of capital demand and supply has reached its highest level in nearly a decade. The percentage of US venture growth rounds where at least one lead investor is from the existing syndicate climbed from 17.4% in 2022 to 19.6% for 2023 YTD. Mature companies collectively face an acute capital shortage challenge because of the pullback from crossover investors and the poor exit environment keeping such a high number of companies private. Many of those late-stage companies that raised larger rounds when they could back in 2021 will need to return to the market in the coming few quarters. A growing number of companies will encounter significant challenges trying to raise their next equity financing round. Good companies with sought-after products and solid unit economics are always able to raise capital—in good or bad markets—but startups that have been unable to gain traction or hit the next milestone will likely flounder in light of the financing difficulty.

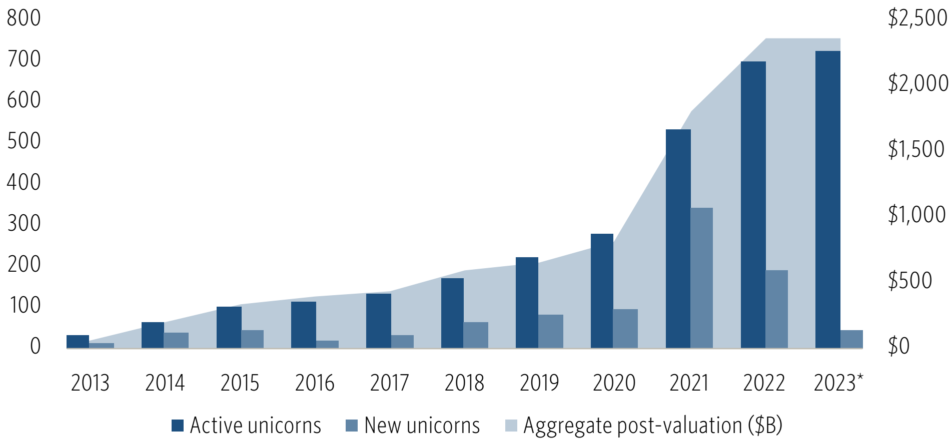
Risks

The prevalence of insider-led rounds is contingent upon the ongoing VC equity financing drought. The US VC ecosystem currently has a record level of dry powder; however, the bulk of available capital is concentrated in megafunds (funds at or above $500 million). For example, $89.8 billion or 70.0% of the total $128.3 billion overhang from the 2022 vintage year is stored in megafunds. If the current market dynamic shifts when the exit market reopens—probably with signals from a string of successful tech unicorn IPOs—then an elevated velocity of public listings will enhance the liquidity position of the market, thereby accelerating dealmaking pace and likely reducing the percentage of insider-led rounds.

Max Navas
Analyst, Venture Capital
max.navas@pitchbook.com

Outlook: US active unicorn count and aggregate post-valuation will decline in 2024.

US unicorn count and aggregate post-valuation



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

Despite US market volatility picking up in early 2022, the number of active US unicorns has continued to grow, albeit slower than in recent years, hitting a record high of 720 through mid-November 2023. This year's slower growth of new unicorns, with 43 insofar, is a far cry from the 188 seen the year prior and on pace to hit a six-year low. The unmistakable discrepancy between public and private valuations has made investors more cautious of inflating valuations without supportive financial metrics. That said, the current hype and speculated disruptive nature associated with AI has brokered the creation of roughly one-quarter of all new unicorns since the start of 2022, including Anthropic and Hugging Face.

While the number of active unicorns has continued to grow, the aggregate post-valuation has plateaued at a high of $2.4 trillion. A few factors contributing to this are the increase in down rounds and several unicorns shutting down operations. One of the major valuation detractors has been Stripe, which lost $45 billion in value after its Series I down round; additionally, Seattle-based Convoy closed its doors after failing to secure capital or get acquired; and FTX US, after filing for bankruptcy, represented $11.8 billion in value struck from the total. As some of the largest unicorns anticipate going public, taking down rounds prior to listing could be a way to level set investor expectations and assure share value growth. Although Instacart did not formally raise a down round prior to going public, they repeatedly slashed their internal valuation via 409a valuations by more than 75% to a figure much closer to the $9.9 billion they initially debuted at. The continued decline of TTM price-to-sales multiple of the VC-backed IPO Index—falling to more than a decade-low of 5x—has recalibrated startup IPO expectations such that raising a down round in advance of their public debut could set them up for long-term success. As more unicorns deplete cash runways and struggle to turn profitable, we should anticipate more returning to raise in the harsher dealmaking environment, which could potentially force them to compromise their valuation to stay alive. In some cases, the other option may be selling off IP or shutting down altogether to return at least some capital to investors, ultimately offsetting the value that may be added by new unicorns.

Contrasting the erosion of unicorn aggregate post-valuation from down rounds and shutdowns, successful public listings will also decrease the aggregate value, such as the highly anticipated and followed IPOs of Instacart and Klaviyo generating much needed liquidity for investors. Our US VC IPO backlog model estimates 75 startups are waiting to enter the public markets—a sizeable portion of which are likely unicorns. Should the IPO market reopen in 2024 and larger unicorns make their public debut, the value released from the venture market could contribute to offsetting the amount added from new unicorns. While the opening of public markets will assuredly lead to the minting of new unicorns, the tempered price-to-sales multiples and subdued post-listing performance of larger unicorns could curb the inflation of new unicorn valuations and limit the value they add to the aggregate total.

The decline in active US unicorns and their aggregate post-valuation would have knock-on effects on the US VC market. The current record high unicorn aggregate value is indicative of the inflated valuations and remaining value trapped in funds. As aggregate value falls, the residual value stuck in this subset of startups will also decrease and pave the way for more accurate return modeling based on adjusted valuations; unicorns that go out of businesses will free up remaining investor dry powder to support other startups; and IPOs will help generate liquidity, prompting the recycling of capital back into the venture ecosystem.

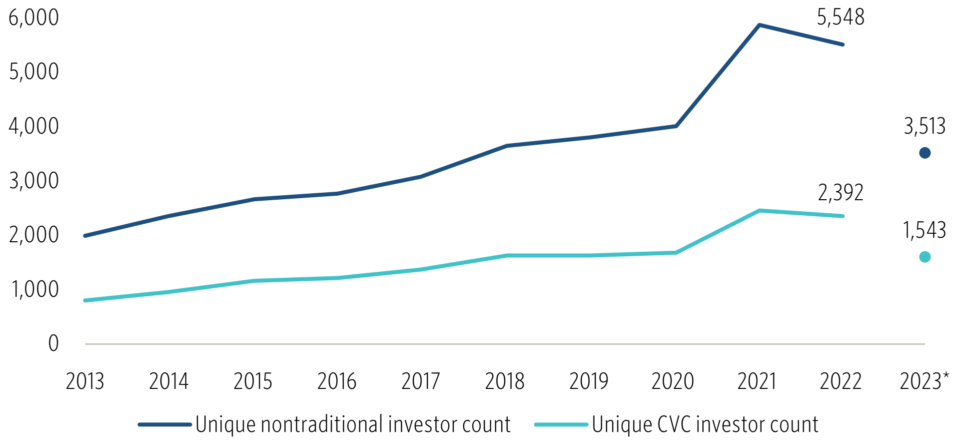
Risks

The decline in active unicorns and aggregate post-valuation is underpinned by an increase in IPOs, down rounds, and shuttered businesses offsetting the creation of new unicorns and their aggregate value. Should the IPO market remain frozen, unicorns will not be able to find liquidity via public markets, and their aggregate value will remain trapped in the market and lead to the creation of fewer unicorns. There is a small subset of corporations large enough to acquire multi-billion-dollar valued unicorns, and the SEC and foreign governments' increased scrutiny of monopolistic acquisitions decreases the likelihood of a pressure release via acquisitions. Moreover, the transition from the growth-at-all-costs mentality to one of capital efficiency and profitability have left many startups reeling, but the heavy overcapitalization of unicorns in recent time could allow these startups to continue to avoid raising or going out of business amid the harsh dealmaking environment. If unicorns continue to raise up rounds, or even flat rounds, their value could remain at par or grow, working in tandem with newly minted unicorns to push the number of active unicorns and their aggregate post-valuation to a new high in 2024.

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

Outlook: Flat or declining interest rates in 2024 will lead to an increase in US VC deal activity with nontraditional VC investor participation.

Deals with unique corporate venture capital (CVC) and nontraditional investor participation in US-headquartered target companies by close year



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

As we've written about extensively in prior research, nontraditional investors play a major role in the venture ecosystem by injecting substantial amounts of capital and providing startups with invaluable expertise and other non-financial resources. This is of particular importance to startups later in the venture lifecycle that need large amounts of investment to fuel growth and capital-intensive initiatives—which is often unable to be supplied by traditional VC firms alone.

Since Q2 2022, we've seen a sizeable exodus of nontraditional investors from the venture ecosystem, coinciding with the Fed's rate hikes that began in March 2022. Our data shows that the count of unique nontraditional investors that invested in US-headquartered startups declined from 5,901 in 2021 to just 3,513 as of 2023 YTD, a decrease of 40.5%. CVC investors, which fall within the broader nontraditional investor category, witnessed a similar decline, tallying 1,543 unique investors in 2023, down from 2,481 in 2021.

While these declines are palpable, there are some encouraging signs that could bring more nontraditional investors back into the venture ecosystem in 2024. One such sign is the expectation that the Fed's will no longer raise rates in the new year; some even expect a lowering of rates in the second half of 2024. Stable or declining interest rates alter the risk-return profile of assets, as investors search for better returns as the opportunity cost of foregoing traditional fixed-income investments decreases. Thus, a departure from the current interest rate environment could potentially drive nontraditional investors to seek higher returns in alternative assets, such as venture capital.

Declining interest rates may also have a positive impact on public equity valuations, as the present value of future cash flows increases in a lower interest rate environment. This could lead to increased company valuations in public markets, which for nontraditional investors that have portfolios comprised of both public and private securities, such as crossover investors, could free up allocation space for venture capital. This denominator effect would impact the risk-return profile of investors' portfolios, and if they find that increasing public equity valuations has underweighted their target venture allocation, we could see many of these investors returning or increasing their participation in the VC ecosystem.

The risk-return profile is also of particular interest for CVC investors; private startups have been plagued by declining valuations and a lack of capital supply from traditional investors, thus creating a unique opportunity for corporate investors looking for both a financial and strategic return. While many CVCs have remained engaged in the venture market in pursuit of discounted investment opportunities, many more are likely join or rejoin the space should the prospect of VC investing become relatively less risky in a lower interest rate environment.

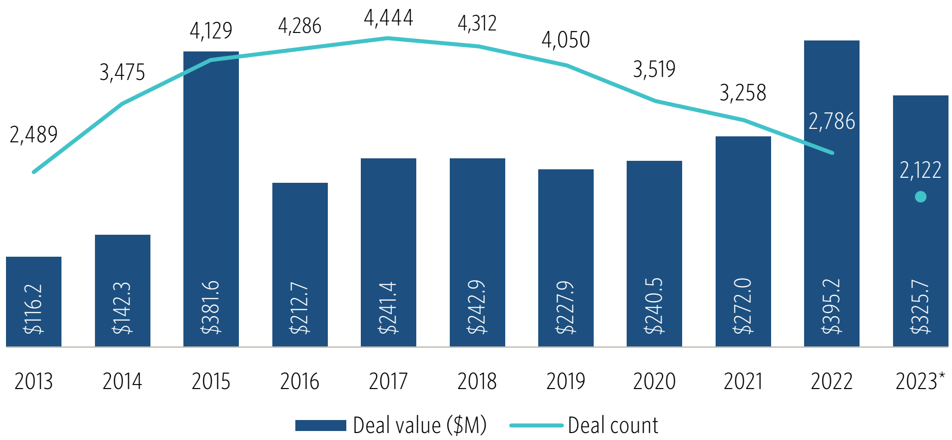
Risks

Though the Fed has left rates unchanged since July 2023—the longest period without an increase since it began to lift rates in March 2022—we can't rule out the possibility of another rate hike in the future. Inflation has certainly been cooling with the core PCE Index, the Fed's preferred inflation gauge, rising 3.5% for the year ended in October. While this is close to the 2% target set by the Fed, consumer spending remains strong. Should inflation reaccelerate or settle at a level above the 2% target, we could see another rate hike. This additional increase would likely drive even more nontraditional investors away from the venture ecosystem.

Kaidi Gao
Associate Analyst, Venture Capital
kaidi.gao@pitchbook.com

Outlook: Accelerators will play an increasingly important role with increased dealmaking momentum in 2024.

Accelerator/incubator VC deal activity



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

Amid a harsh financing climate, starting and running a company has become more difficult than at any other given point in time in the past decade, especially for first-time founders. Founders need to differentiate themselves from the rest of the crowd to attract funding. In addition, operating a business has become more complex due to the nuances of logistics—such as hiring top talent and balancing remote versus in-person dynamics—and the nuances of finance, including understanding the capital structure and learning the concepts of different financial instruments.

In light of mounting headwinds, programs and entities that nurture the earliest stage of startup formation, most prominently accelerators and inception-stage-focused investors, are set to play an increasingly important role. Those programs or entities are heavily education-oriented, aiming to help founders ideate, build out their first minimum viable product, expand networks, and familiarize themselves with fundamental concepts such as go-to-market strategies. For first-time founders, especially those that do not come from an operations background, this hands-on experience that guides startups to break through and grow can be particularly useful. As budding companies move to a future financing round, seed investors look for more developed business ideas and products and signs of traction. In this sense, the need for accelerators and investors who help founders ideate upon startup inception increases. The steady expansion of pre-seed alongside accelerators has made the earliest phase of venture more robust than ever.

From an accelerator perspective, they are active at the earliest phase of venture to bring in capital, expertise, and industry contacts to facilitate growth of nascent companies in exchange for equity at a low valuation. Considering the fundraising difficulty and looming recession, anecdotally speaking, founder quality has gone up across the board; only founders who are deeply committed to and intrinsically inspired by their mission are setting out to start their business from recent quarters. Accelerators are incentivized to take full advantage of the overall quality of founders to help bring their startup to the next level. As a result, we expect to see accelerators becoming more active in terms of deal volume in 2024. The annualized 2023 deal count has dropped to a nine-year low in both the US and globally. As investors specializing at the earliest stages of venture have become more hopeful and excited about their dealmaking pipeline in the coming few quarters, accelerator deal momentum in 2024 is on track to eclipse this year's near-decade low.

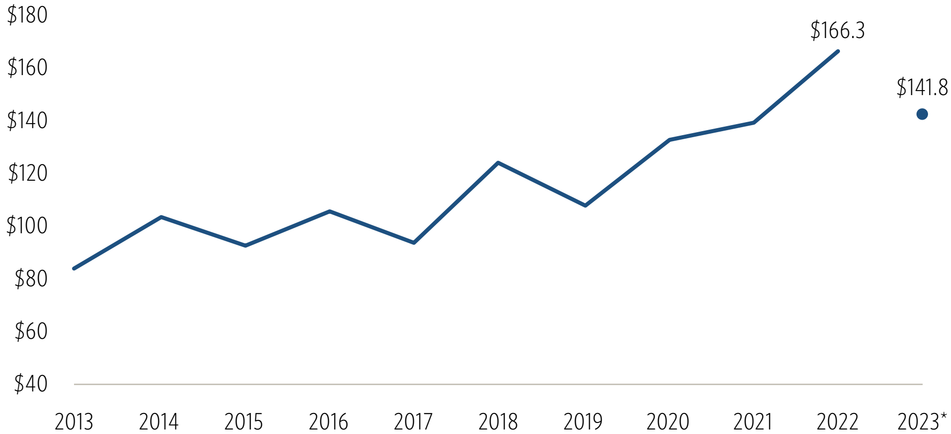
Risks

Some accelerators, especially those outside of the leading pack that do not have a strong track record, may not be able to immediately raise a future fund from LPs against a backdrop of the ongoing fundraising headwinds. Should they decide to slow down the pace of investment, it will make it difficult to scale operations and work with more companies. The accelerator landscape may also see greater competition among different entities, including inception-focused early-stage VC investors vying to tap into the brightest and sharpest founders. Such increased competition for leading incumbents, such as Y Combinator, could potentially lead to a shakeup of the accelerator landscape. Additionally, a highly volatile geopolitical backdrop may also limit global dealmaking activity or the initiative to expand into new geographies.

Max Navas
Analyst, Venture Capital
max.navas@pitchbook.com

Outlook: Average US VC fund size will decline in 2024.

Average VC capital raised ($M)



Source: PitchBook • Geography: US • *As of November 16, 2023

Rationale

In recent years, market tailwinds propelled US VC fundraising activity upwards, setting consecutive annual record highs in terms of capital raised. Contributing to this meteoric rise were funds closed by Tiger Global ($12.7 billion), and Andreesen Horowitz, which closed seven billion-dollar funds between 2020 and 2022, totaling $20.3 billion in commitments, among others. Over the past few years, the average fund size grew more than 50% from $108.3 million in 2019 to $166.3 million in 2022. The favorable economic environment and voracious LP appetite to capture large returns from the venture asset class drove VC firms to raise larger funds at a much faster clip to seize the earmarked LP capital.

Entering 2024, the era of billion-dollar funds has shown signs of slowing, with just 10 such funds closing through 2023 YTD. The lack of liquidity via public markets and pullback of nontraditional investors severely handicapped the pace of capital deployment into venture and the ability of mature startups to raise larger rounds at higher valuations. 2023 YTD, just $135.2 billion has been deployed into the US VC market, and 239 mega-rounds—sized $100 million or larger—have been completed, which is a drastic decline from the $325.6 billion deployed in 2021 and the 840 mega-rounds seen in the same year. As deal activity and outsized financing rounds have waned, billion-dollar funds are no longer required to effectively participate at the upper end of the VC market.

The compression of valuations across the venture lifecycle has impacted LP interest in such large funds. Many of these funds frantically deployed capital in recent years into the most expensive venture market we've seen, and their interim fund performance is suffering from markdowns due to the slide in private valuations and the retreat of public company values. The lack of exits and distributions has discouraged LPs from committing to new venture funds, so they rebalance their portfolios instead into less risky assets with more stable returns. While there are and will continue to be firms that close billion-dollar funds, the changing dealmaking landscape and diminished LP appetite for venture has made repeating successful closes more difficult. In mid-April 2023, New-York-based VC firm Greycroft announced that the closing of its two flagship funds had come in nearly 40% below target.[2] Other firms, such as Tiger Global, have retargeted their fund sizes downwards multiple times as they've encountered LP hesitation to support such large funds.[3]

As a result of fewer billion-dollar funds and other larger funds being closed, the average fund size declined 14.7% from its record high to $141.8 million through November 2023. We anticipate that the average fund size will decline further in 2024, as managers recalibrate their target fund sizes to appropriately capture LP interest and to participate in a market with adjusted valuations and deal sizes.

Risks

The decline in the average US VC fund size is predicated on the idea that lower valuations and LP interest will impact the ability of GPs to close larger funds and their effectiveness participating in the market. Yet, we have continued to see LP capital retreat to established managers. Established managers have secured more than 70% of the total capital raised in 2022 and 2023 YTD. Should LPs retreat further to only the most established managers—the Andreessens and Sequoias of the market—commitments could further consolidate into fewer managers and permit the closing of larger billion-dollar funds. Furthermore, LP interest has been stymied by the lack of liquidity; but should the IPO market reopen in full force and LPs receive cash distributions, they could be enticed to recycle that capital back into the VC ecosystem, thus allowing managers to capitalize on this and close larger funds once again, driving up the average fund size.

2: "VC Firm Greycroft Cuts Five Investors After Missing Fundraising Target," The Information, Kate Clark, October 16, 2023.
3: "Tiger Global Cuts Fundraising Target as Startup Market Cools," The Wall Street Journal, Julie Steinberg, Berber Jin and Eliot Brown, February 1, 2023.