PitchBook

US VC Valuations Report

Q2 2020

Contents

Certain datasets have low sample sizes in some years. Please see the accompanying Excel file for additional detail.

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Click here for PitchBook's report methodologies.

Introduction

Many early-stage VCs have been anticipating a drop in pre-money valuations; however, this decline has yet to materialize in the data. Since the impact of the pandemic has only been felt for a few months, and the median time between early-stage rounds still sits at 1.2 years, many companies have not yet had to return to investors for another capital infusion. Furthermore, capital tends to flow to the strongest companies in times of crisis as VCs control risk in their portfolios. As a result, the pandemic's full downstream effects may have yet to play out in the data.

Late-stage VC valuations see some strength as investors continue to back the most mature startups to protect value. The headline has been that the average pre-money valuation at the late-stage has so far doubled the full-year 2019 figure to $738.2 million due to the surplus of VC mega-deals ($100 million+) completed in H1 2020. However, the level of valuation step-ups at this stage declined in Q2, implying that deals are being done with highly-valued businesses closer to their previous valuations.

Nontraditional investors have shown they still view venture as a quality investment against current headwinds and have not yet been deterred from remaining strong investors within the industry. Nontraditional investors have participated in 94.7% of all VC mega-deals so far in 2020, reinforcing the belief that the pace and size with which large VC deals have been completed has relied heavily on nontraditional capital.

Despite an overall slowdown in exits, valuations haven't seen a sharp decline outside of IPOs. We expected this serious decline in the valuations of IPOs in the first half of 2020, especially compared to 2019's record-breaking volume of IPOs. Most of H1 2020's IPO activity consisted of biotech startups.

The possible beginnings of an inflection point away from founder-friendly deal terms from Q1 has seemed to subside. The proportion of down and flat rounds is essentially equal to 2019's value and sits at under 20%, and cumulative dividends and liquidation participation moved back to 10-year lows.

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Angel & seed

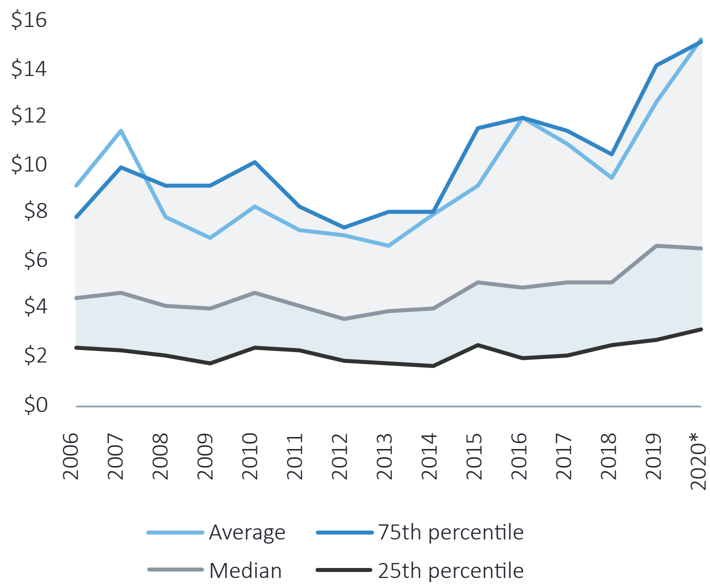
The median angel and seed-stage pre-money valuations in H1 2020 were $6.5 million and $7.5 million, respectively, with both tracking to see a minuscule $0.1 million decline over 2019's medians. While macroeconomic headwinds and the COVID-19 pandemic have battered the public markets, angel & seed-stage valuations have been largely insulated from volatility given how upstream in the venture lifecycle these deals typically are. This, of course, only includes angel & seed-stage deals completed during this period of uncertainty.

VC deal activity data from our Q2 2020 PitchBook-NVCA Venture Monitor shows that while angel deal activity has been tracking on pace with figures from year-end 2019, seed-stage deal activity has taken a noticeable hit and is tracking to be the lowest the industry has seen since 2012. Since angel investments have a high risk profile in general, we believe investors have still been willing to make these types of investments even in the pandemic, sustaining the current pace of angel deals. While we expected the Q1 downturn to deter angels due to a negative "wealth effect," public equities have largely rebounded to pre-pandemic levels, enabling angel investors to execute deals with more financial confidence.

While angel valuations have held steady, the median equity stake acquired for angel financings in H1 2020 was 7.7% and has been decreasing since its peak of 21.0% in 2013, indicating startups' abilities to command similar valuations while giving up less equity and ownership in the company. While check sizes for seed-stage companies tend to be considerably larger than angel deals—contributing to muted seed-stage deal activity in H1—investors are still acquiring a median 25.0% equity stake as many seed-focused firms continue to turn their attention to existing portfolio companies. Median and average step-up multiples for seed-stage financings have exhibited little change in H1 2020 at 1.5x and 1.8x, respectively. Interestingly, the median time between rounds for seed-stage financings saw a decrease to 1.04 years, the shortest period seen since 2015. As fewer seed-stage deals were completed in H1 2020 compared to previous years, we anticipate many cash-strapped startups to return to their investors in the latter half of the year for more seed capital.

Average angel pre-money valuation continues to grow while median stays steady

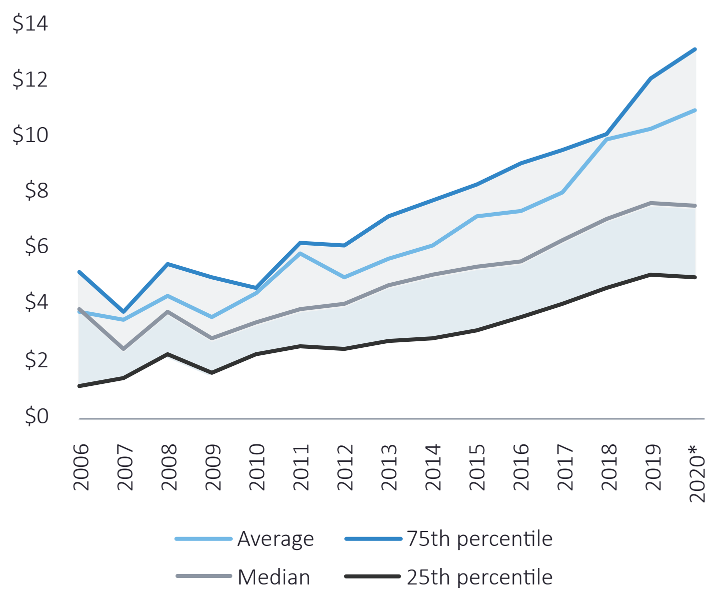
Angel pre-money valuations ($M)



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Top-quartile seed valuation spreading further from median

Seed pre-money valuations ($M)

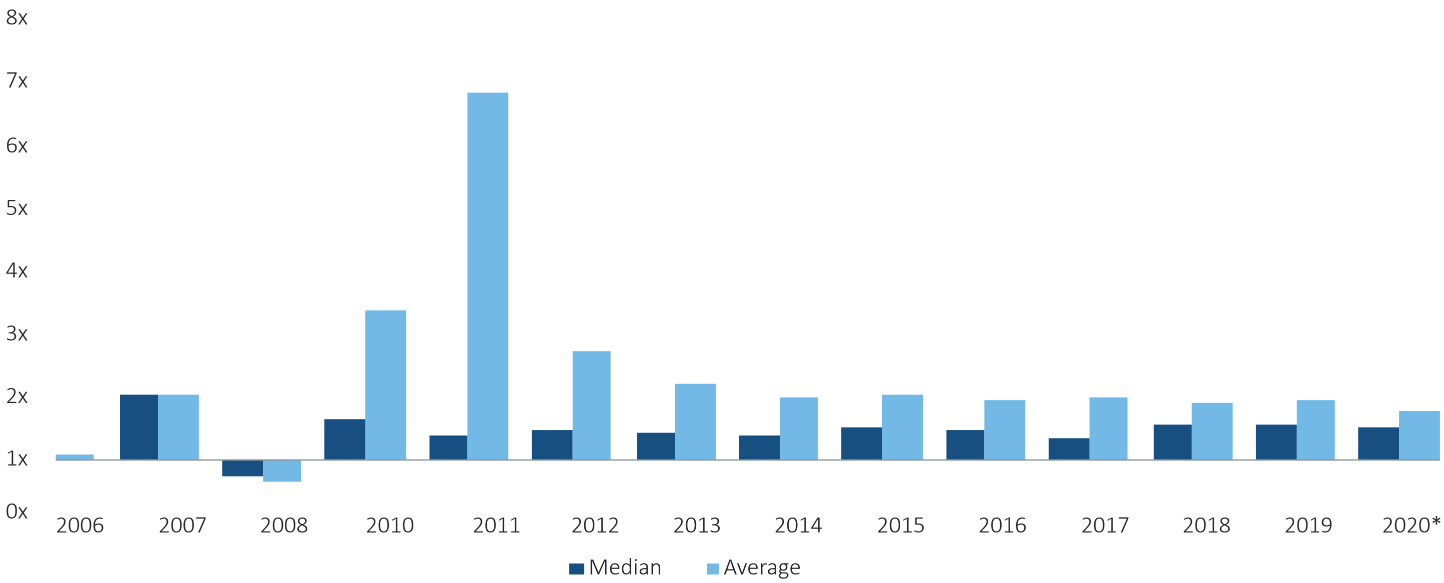


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Angel & seed

Median step-up for seed-stage deals remains steady

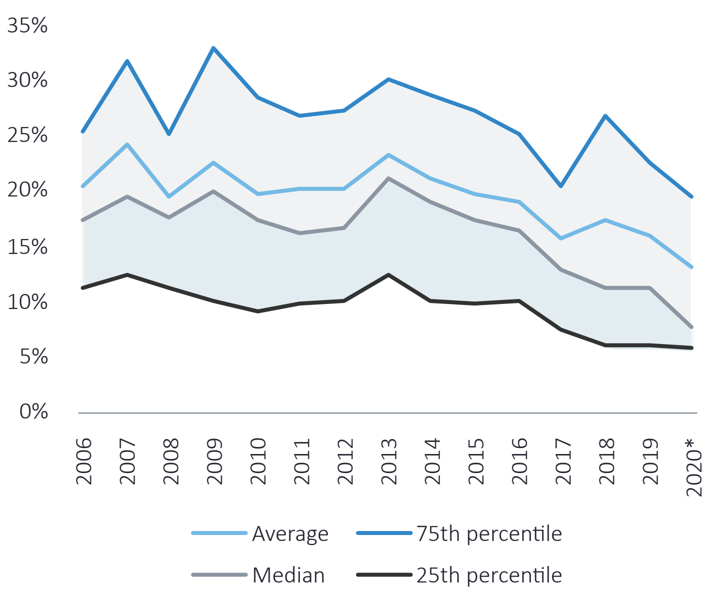
Median and average seed-stage step-up multiples



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Decreases in proportion acquired across the entire range of angel deals

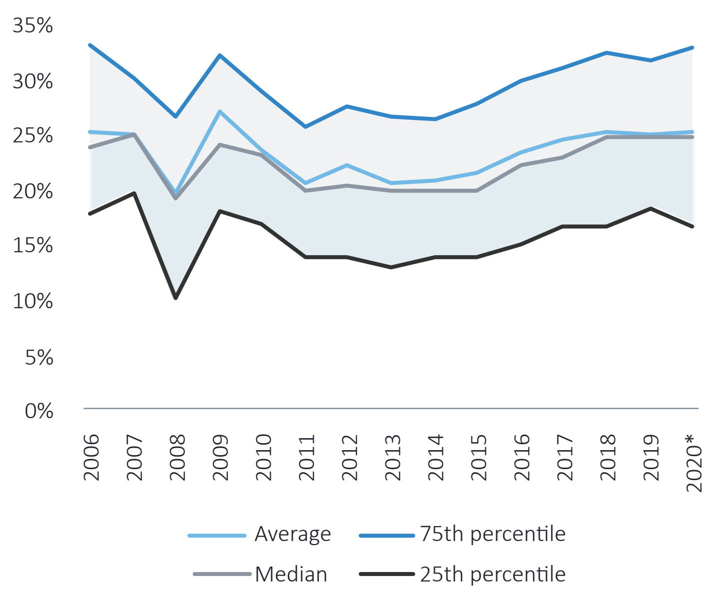
Proportion acquired for angel financings



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Average and median proportion acquired remain steady while spread widens slightly

Proportion acquired for seed financings



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Early-stage VC

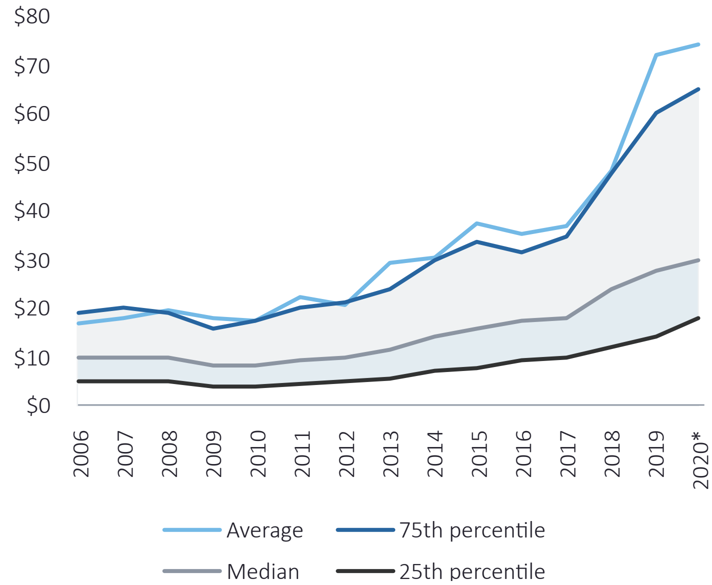
The median early-stage VC pre-money valuation in H1 2020 notched $30.0 million, with strong increases observed across the entire quartile breakdown. While early-stage deal count is tracking to end 2020 25%-30% lower than 2019's yearly total, pre-money valuations for completed deals have thus far shown no signs of weakness as VCs are consolidating their investment in the most promising companies, which naturally have higher valuations. Many early-stage VCs have been anticipating a drop in valuations for many red-hot early-stage companies; however, this decline has yet to materialize in the data. In fact, when looking at VVC (velocity of value creation—the annual increase in valuation between rounds, measured in dollars) and RVVC (relative velocity of value creation—the annualized percent increase in valuation between rounds) values for early-stage financings, H1 2020 data shows $19.7 million per year and 52%, respectively, indicating early-stage startup value growth has not slowed down much during the pandemic.

Investors are also faced with a chicken-and-egg problem—valuations are a retrospective indicator of completed deals and waiting for declines in aggregate valuation data could cause investors to miss promising opportunities. In addition, as smart investors gravitate toward attractive sectors and reject pitches from companies in struggling industries with low growth momentum, valuations are also unlikely to drop drastically. Furthermore, the median time between early-stage VC financing rounds is currently 1.15 years, the lowest the industry has seen since 2015 as startups capitalize on record levels of capital and high valuations. Given that the ecosystem has only felt the impact of the pandemic for a few months, many companies have not yet had to return to investors for another capital infusion. As a result, the pandemic's full downstream effects may have yet to play out in our valuations data.

Median and average step-up multiples for early-stage VC financings also slipped slightly to 1.9x and 2.2x, respectively. As investors concentrate reserve capital on promising portfolio companies, we anticipate high-performing, early-stage companies to continue commanding lofty valuations throughout H2 2020, allowing VCs to strengthen their positions and rely on a select few to generate returns during this period of uncertainty and volatility. However, if the disruption caused by COVID-19 continues unabated for a few more quarters, many early-stage companies will be pressured to return to market under less favorable conditions, pressuring them to raise capital at lower valuations than previously enjoyed.

Strong increases across entire range for early-stage VC valuations

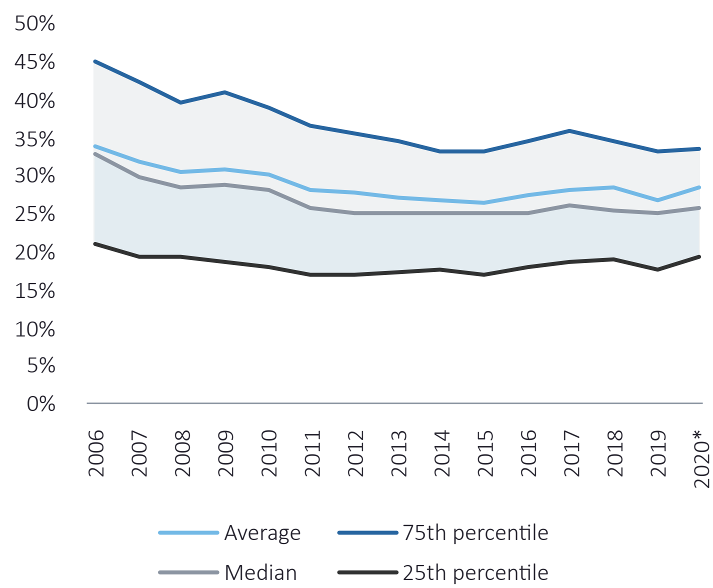
Early-stage VC pre-money valuations ($M)



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Equity stakes up slightly in early-stage rounds

Proportion acquired for early-stage VC financings

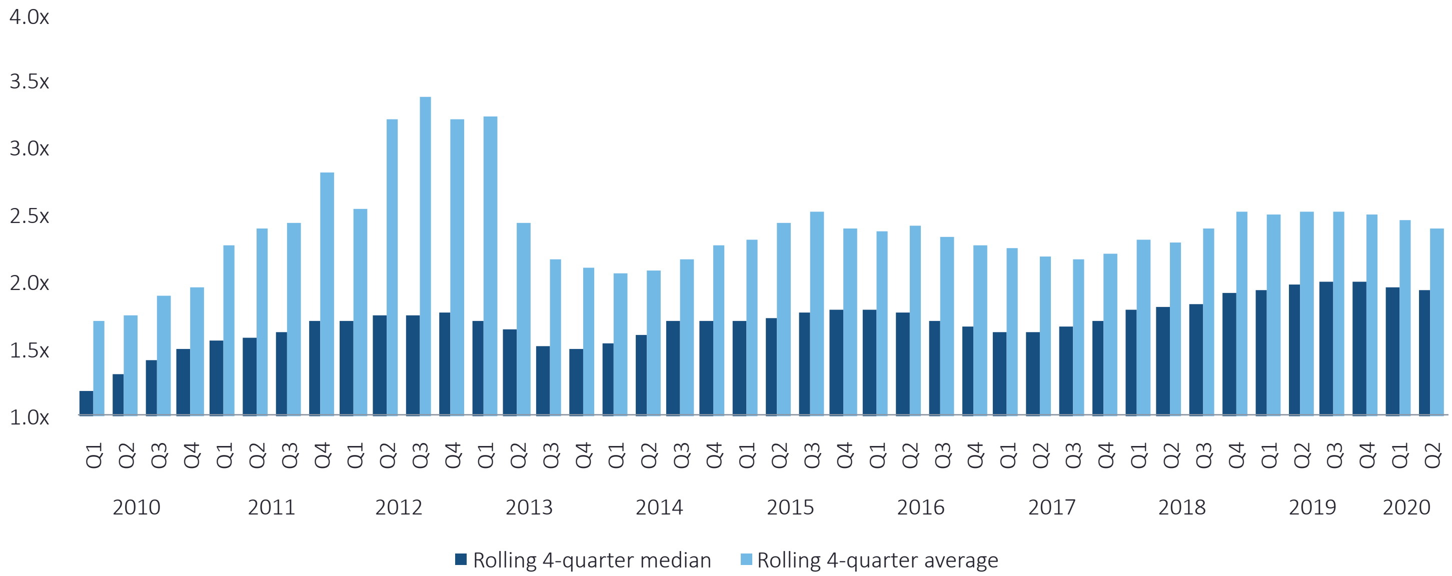


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Early-stage VC

Both median and average rolling 4-quarter step-ups continue to decline

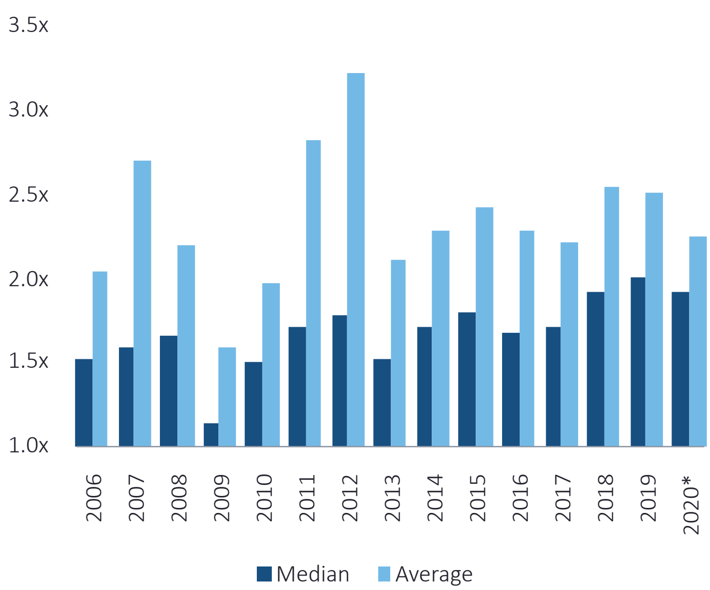
Rolling 4-quarter median and average early-stage VC step-up multiples



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Both median and average step-ups slip slightly

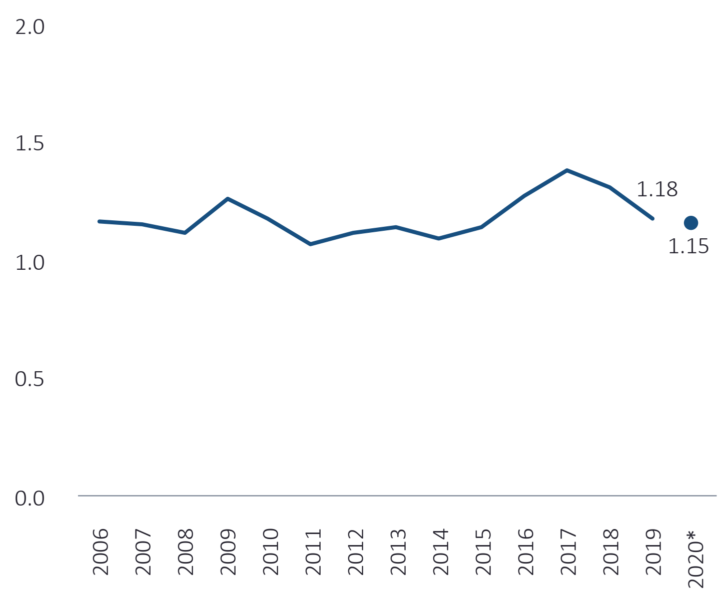
Median early-stage VC step-up multiples



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Shortest time between early-stage rounds in the last five years

Median time (years) between early-stage VC financing rounds

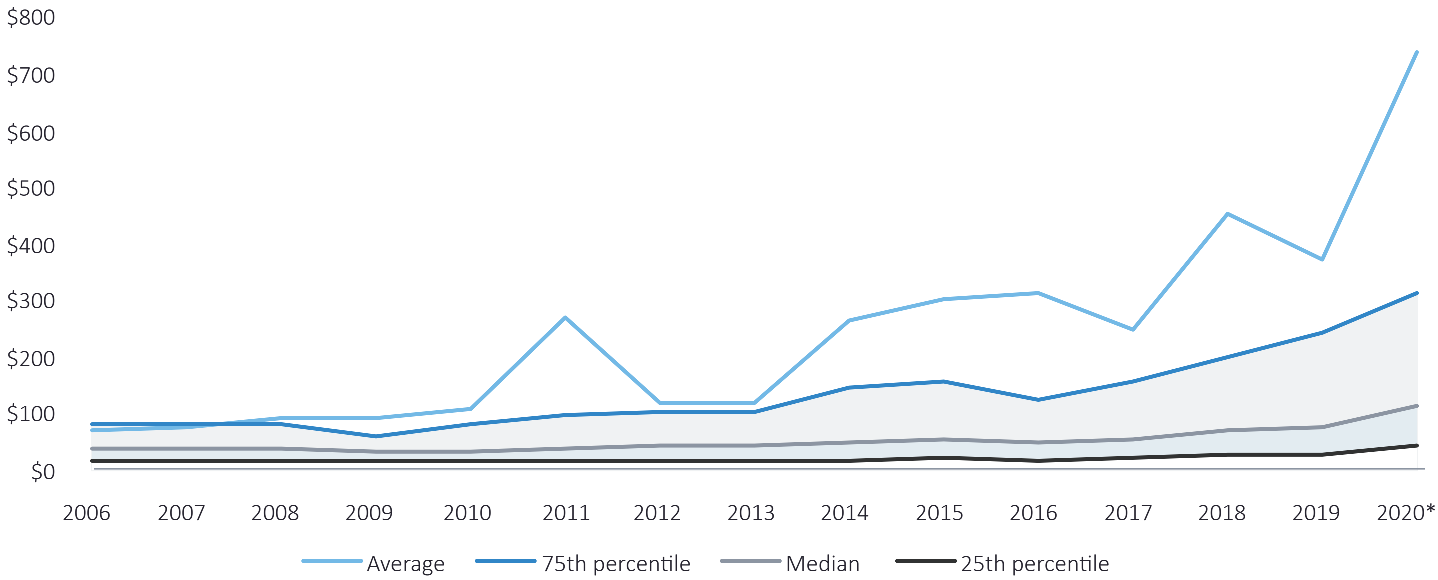


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Late-stage VC

Outlier companies push average valuation to new highs

Late-stage VC pre-money valuations ($M)



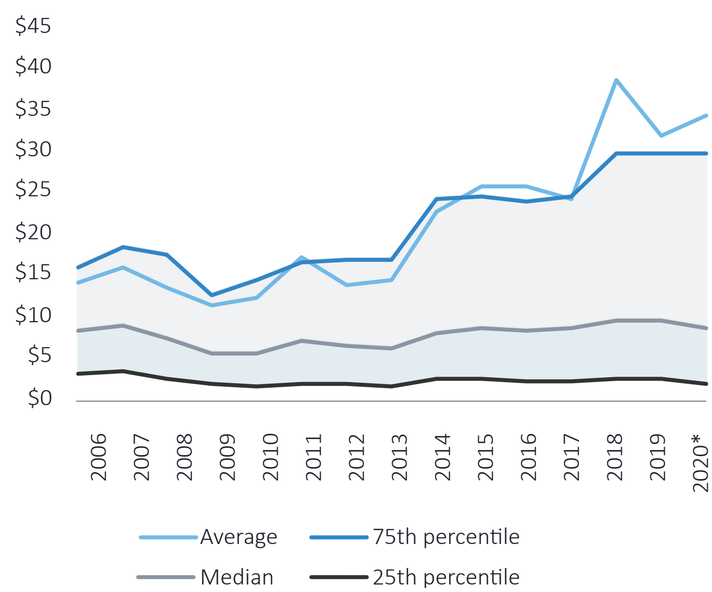
Source: PitchBook | **Geography:** US
*As of June 30, 2020

Late-stage VC valuations have not seen the decline that many feared during the COVID-19-induced lockdowns and the economic turmoil that has pervaded Q2. In fact, US VC valuations for late-stage companies have seen continued strength and growth across quartile ranges. The median late-stage VC pre-money valuation through June 30 reached $110.6 million in the second quarter, while the average has so far doubled the full-year 2019 figure to $738.2 million due to the surplus of VC mega-deals ($100 million+) completed in Q2. Though many reasons have factored into this, the public markets, which can be used as a general barometer of late-stage values due to the relative closeness between the markets, rebounded strongly after the decline in March, reaching back toward new highs. We also attribute the continued strength of late-stage VC valuations to the high levels of dry powder in the US venture ecosystem, the continued support of large nontraditional investors, and the quick reaction by investors to support their best and largest investments.

Deal activity at the late stage has realized little change YoY in the pace of completed deals. The amount of capital available within the industry, bolstered by strong fundraising in the first half of 2020, has provided abundant opportunities for late-stage companies to raise capital. Despite a troubled economy, late-stage

Deal sizes flatten out even for the largest companies

Late-stage VC deal sizes ($M)

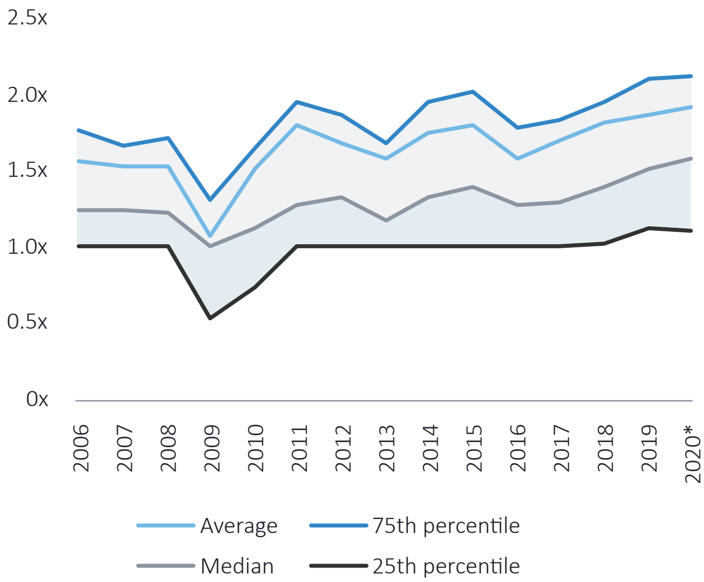


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Late-stage VC

Step-ups remaining in range for last 10 years

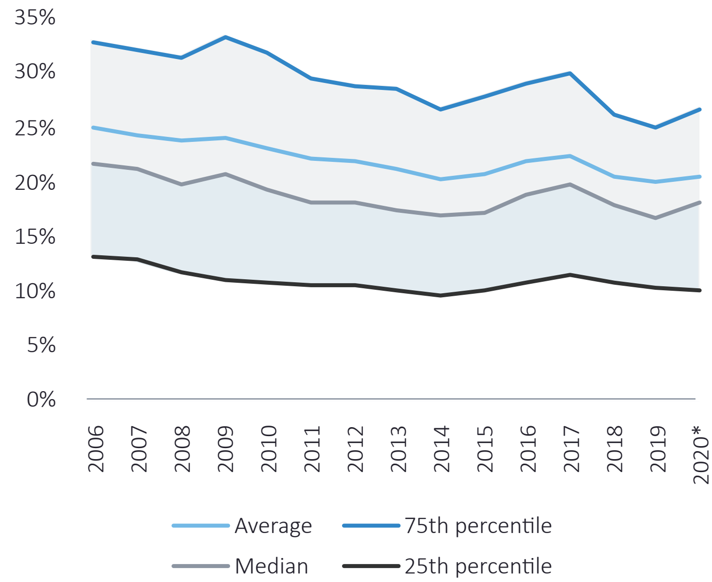
Late-stage VC step-up multiples



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Demand for stakes in desirable late-stage businesses keep dilution lower

Proportion acquired for late-stage VC financings

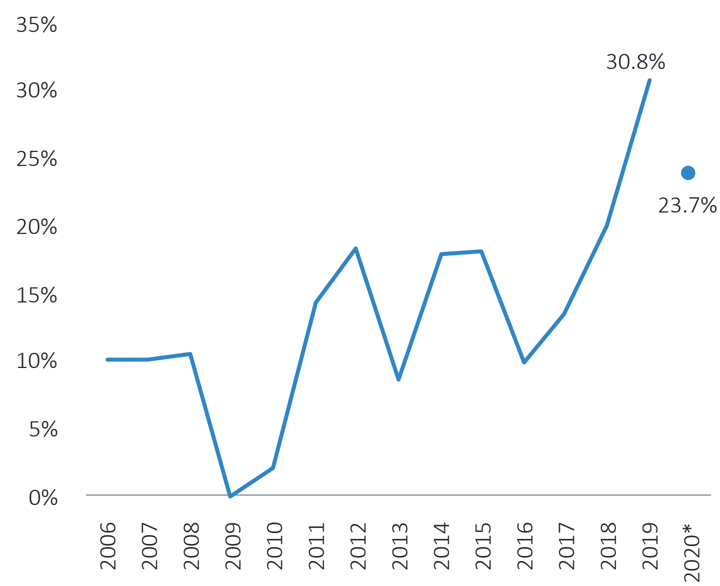


Source: PitchBook | **Geography:** US
*As of June 30, 2020

valuation step-ups have remained at historically high levels, with the median step-up through Q2 coming in at 1.6x. Emerging market factors in the COVID-19 economy have pushed certain industries and technologies to the forefront of VC, helping companies raise capital at high valuations due to an increase in revenues, market fit, or simply hype. Even businesses that have taken a hit to their customer base—such as Masterclass, Vacasa and Lime—have raised capital to bolster struggling balance sheets until the broader economy returns to more stable ground. We expect the heightened focus on the late stage to remain for at least the short term. Further macroeconomic shocks and a deepening economic crisis present potential headwinds, but stabilizing public markets may provide an outlet for the strong companies investors will look to protect.

Drop in RVVC product of high volume of unplanned rounds

Median late-stage RVVC between VC rounds

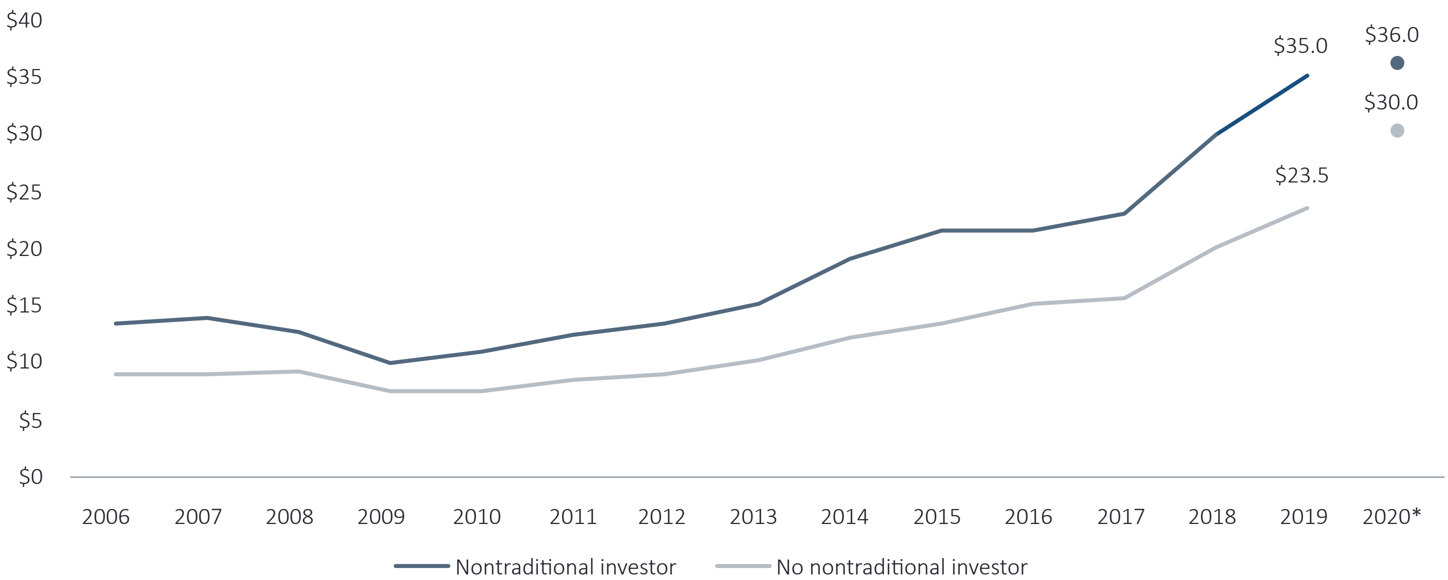


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Nontraditional investors

Gap in valuation premium for nontraditional backing shrinks so far in 2020 for younger businesses…

Median early-stage pre-money valuations ($M) by investor participation

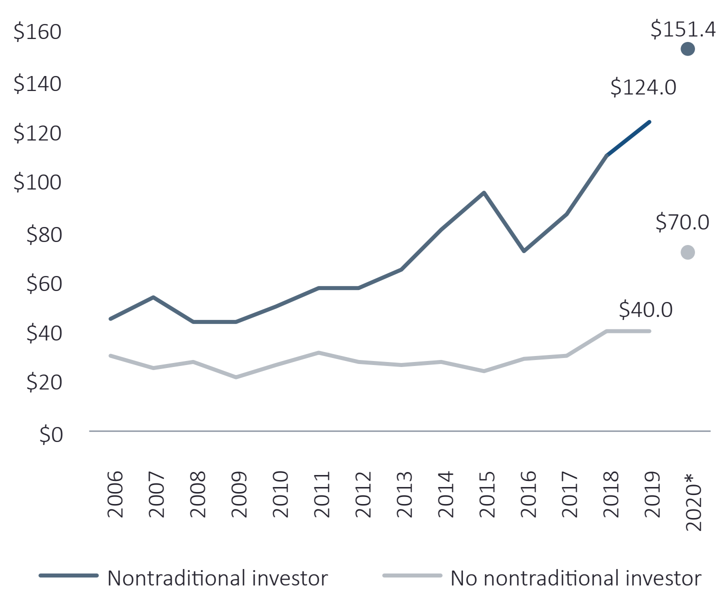


Source: PitchBook | **Geography:** US
*As of June 30, 2020

The median pre-money valuations for both early-stage and late-stage VC deals with nontraditional participation have increased in so far in 2020, reaching $36.0 million and $151.4 million, respectively. The 22.0% growth realized in the median late-stage VC valuation is unsurprising when considering the high number of VC mega-deals in the space. Of the 112 late-stage VC mega-deals completed in 2020, 104 have included nontraditional participation. This 92.9% participation rate is a reminder that the pace and size with which these deals have been completed relies heavily on nontraditional capital flowing into venture. So far through the pandemic and economic turmoil, nontraditional investors have shown they still view venture as a quality investment against current headwinds and have not yet been deterred from remaining strong investors within the industry. These investors have an estimated $240 billion to $340 billion that may be available to VC investments, reinforcing the industry's already high amount of dry powder.

…but nontraditionals still participating in the largest late-stage VC deals

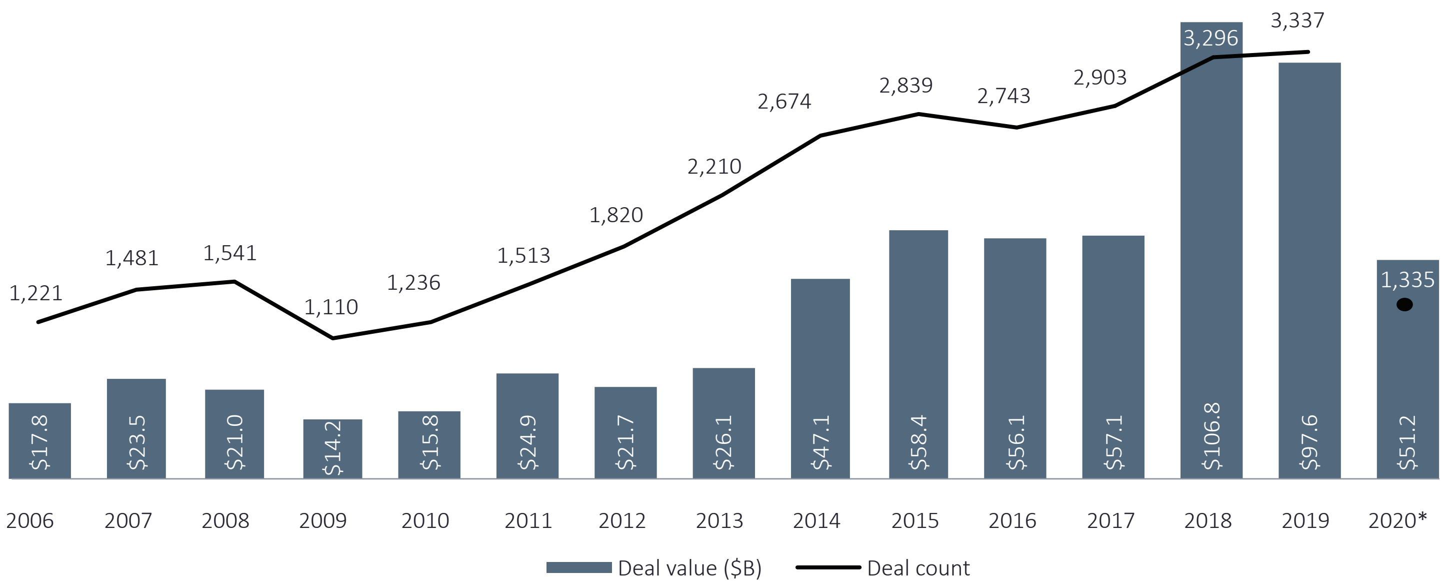
Median late-stage pre-money valuations ($M) by investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Nontraditional investors not pulling back as expected during pandemic

VC deal activity with nontraditional investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Many industry participants expected nontraditional investors, especially CVCs, to retract from the venture ecosystem amid the downturn; however, the entrenchment of corporate VC has also become more apparent over the pandemic. Deal count and deal value participation rates by CVCs have remained historically high (around 26% and 50%, respectively), and several new CVC funds and programs were announced during Q2—from lawn care and fertilizer company Scotts Miracle-Gro launching its first venture program, to insurance giant MassMutual Ventures announcing its third $100 million venture fund. The median size of CVC deals has also increased at every stage, and the median pre-money valuations for early and late-stage deals reached $40.0 million and $150.0 million, respectively in Q2.

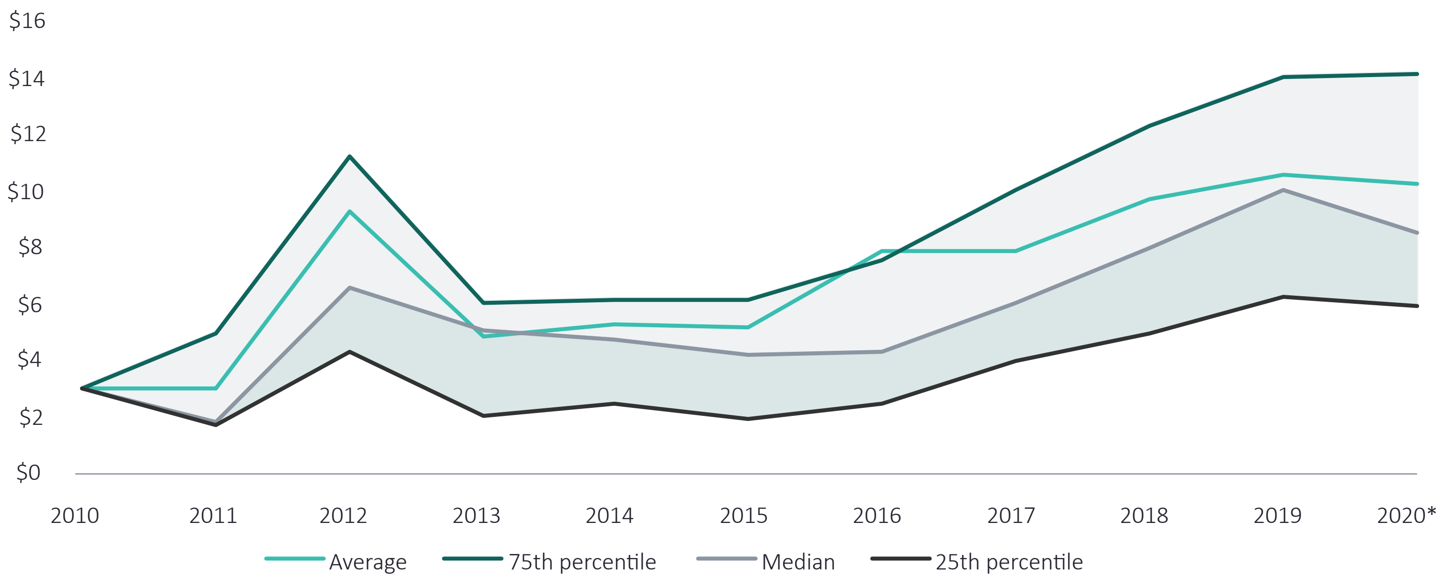
Large-scale CVC programs are also on the rise. Although Amazon's $2 billion Climate Pledge Fund and Facebook's recently announced venture program may not be representative of the CVC landscape, they do indicate that even for large platforms, the returns achieved by external investments can outweigh those of strictly organic growth initiatives. Though increases in size and valuations of CVC deals are slightly skewed due to the bias toward late-stage VC deals seen in H1 2020, CVCs' continued participation in venture despite an uncertain economic environment signals they have remained confident that investment in startups is an important source of growth and capital returns. Corporate VC has developed into a much different market since the global financial crisis (GFC), when the industry saw a significant pullback from CVCs.

PitchBook

Spotlight: Pharma & biotech

Seed-stage pre-money valuations holding steady in 2020 with notable median drop

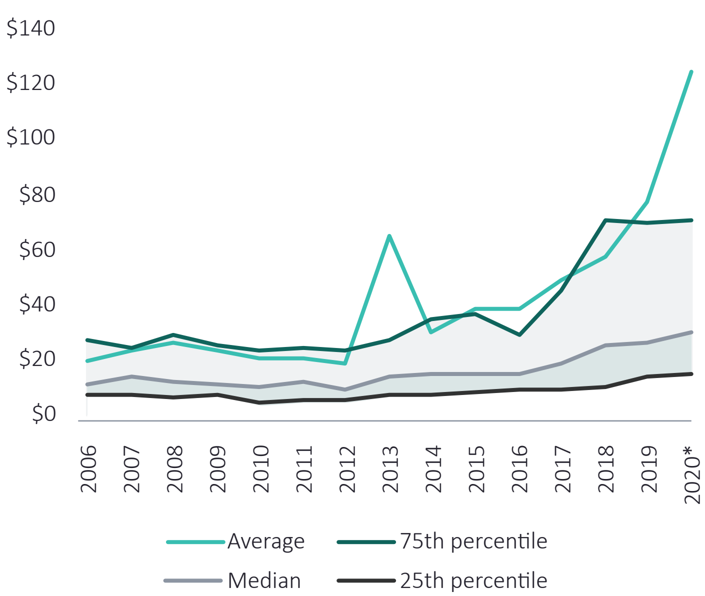
Seed-stage pre-money valuations ($M) for pharma & biotech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Median early-stage pre-money valuation at all-time high with several outsized deals skewing average

Early-stage pre-money valuations ($M) for pharma & biotech companies



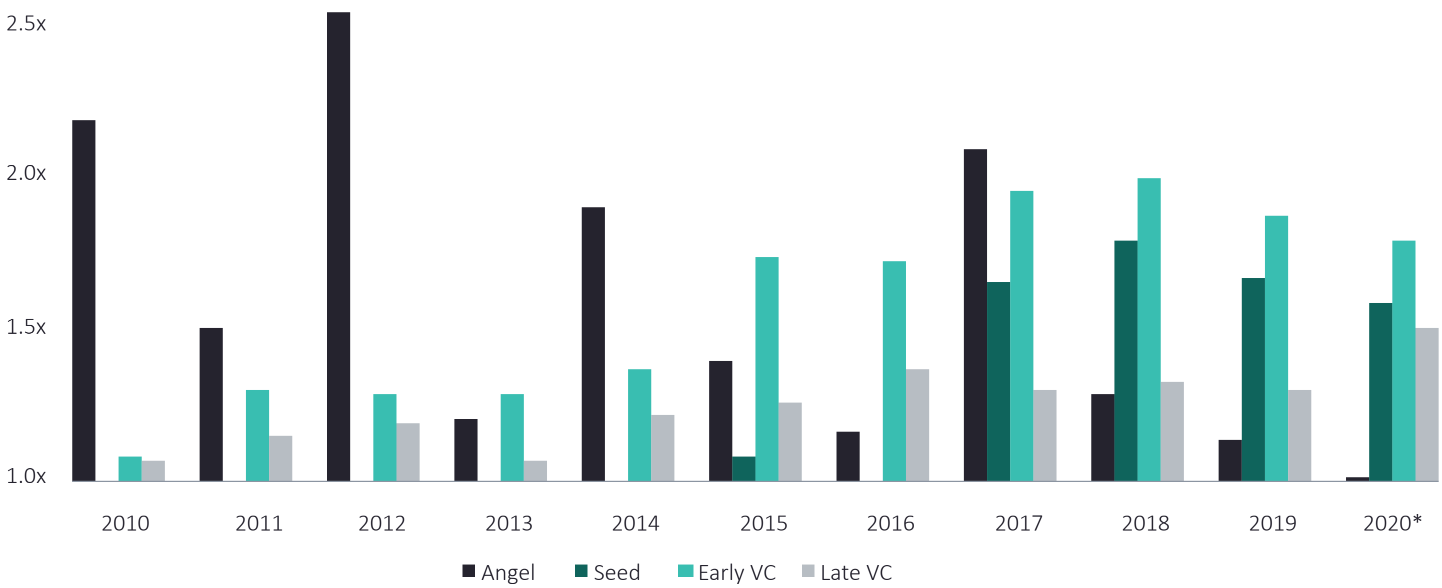
Source: PitchBook | **Geography:** US
*As of June 30, 2020

Early- and late-stage valuations have been buoyed by companies repurposing drug portfolios and R&D pipelines to develop COVID-19 vaccines and treatments. With VC deal sizes and valuations at record highs and the abundance of biotech IPOs throughout H1 2020, VCs are flush with cash and taking larger equity stakes than in previous years. Drops in angel and seed-stage valuations are due in part to the uncertainties surrounding starting a new company—pharma & biotech startups are notoriously cash-intensive with high burn rates and no near-term revenue potential. Heavy disruptions also affected academic labs with many shut down or running at minimal capacity for much of H1, forcing research commercialization to stall.

Spotlight: Pharma & Biotech

Median late-stage VC step-up multiple sees increase in H1 2020, whereas other stages see a decline

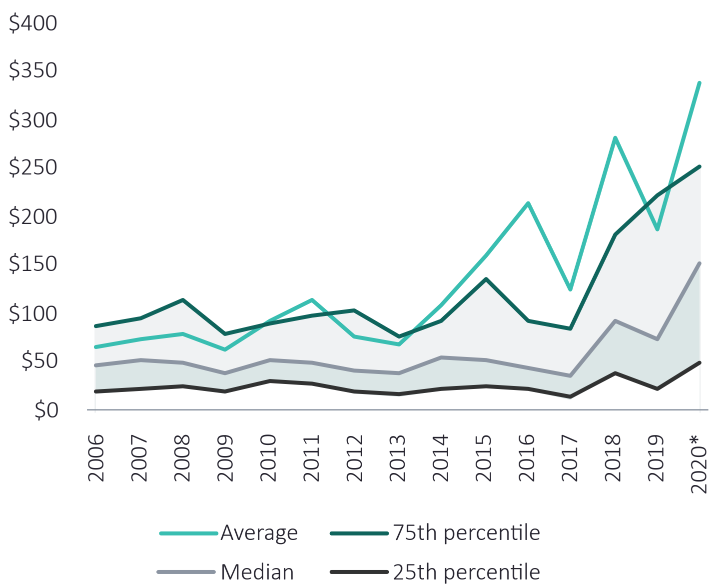
Median step-up multiples by stage for pharma & biotech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Median late-stage pre-money valuation also at all-time high as investors eye favorable public pharma & biotech market

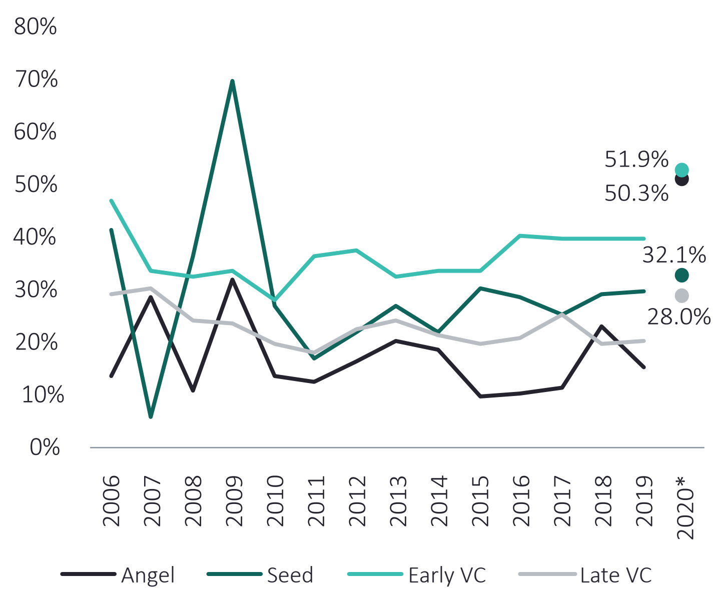
Late-stage pre-money valuations ($M) for pharma & biotech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Notable proportion increases seen across all stages in investor-acquired stake

Median proportion acquired by stage for pharma & biotech companies

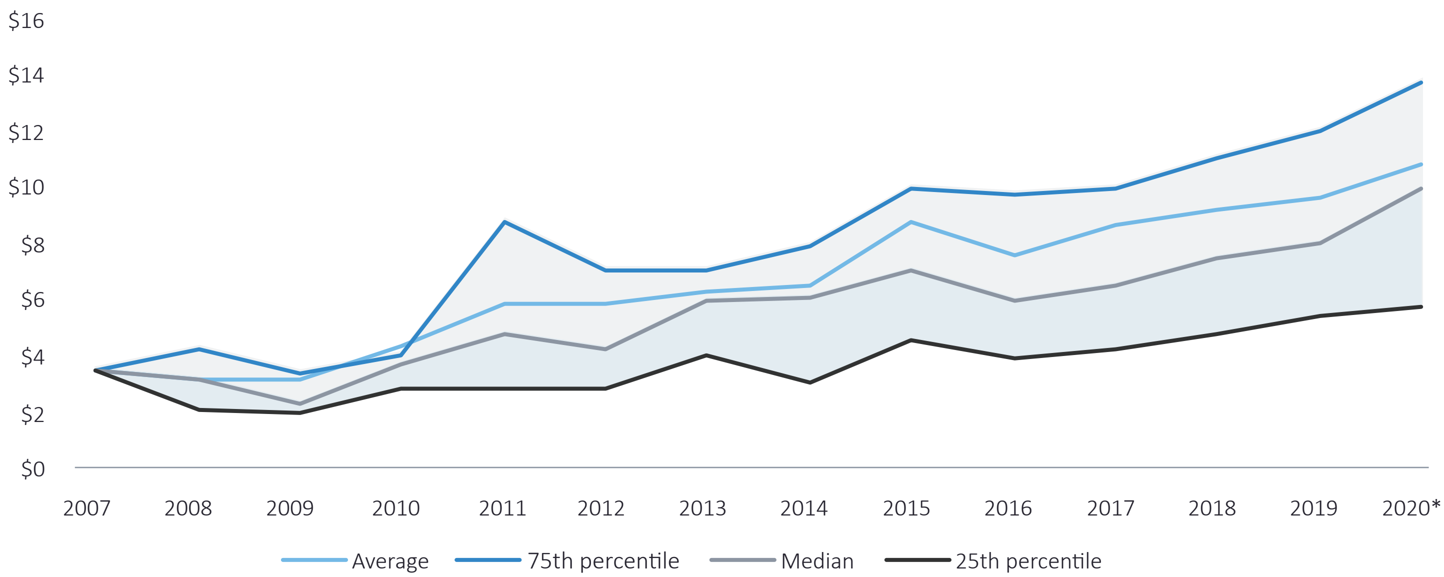


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: AI/ML

Seed-stage pre-money valuations see outsized growth across entire range

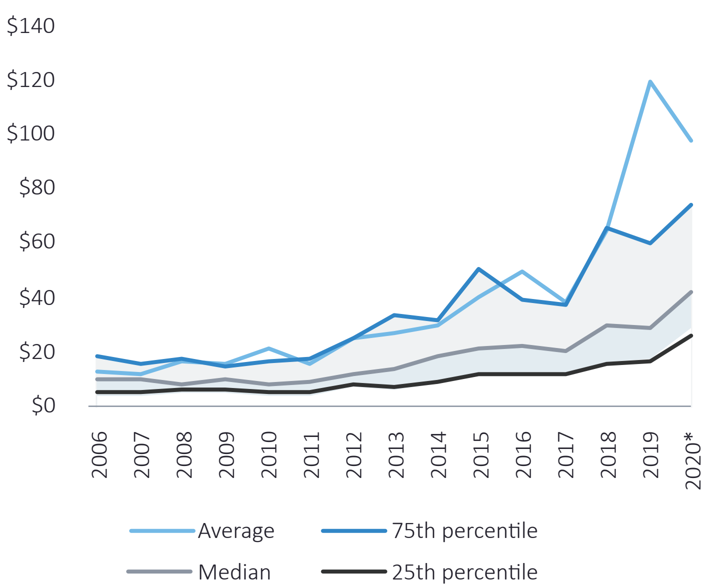
Seed-stage pre-money valuations ($M) for AI/ML companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Median early-stage pre-money valuation at all-time high as AI/ML technological applications continue to emerge

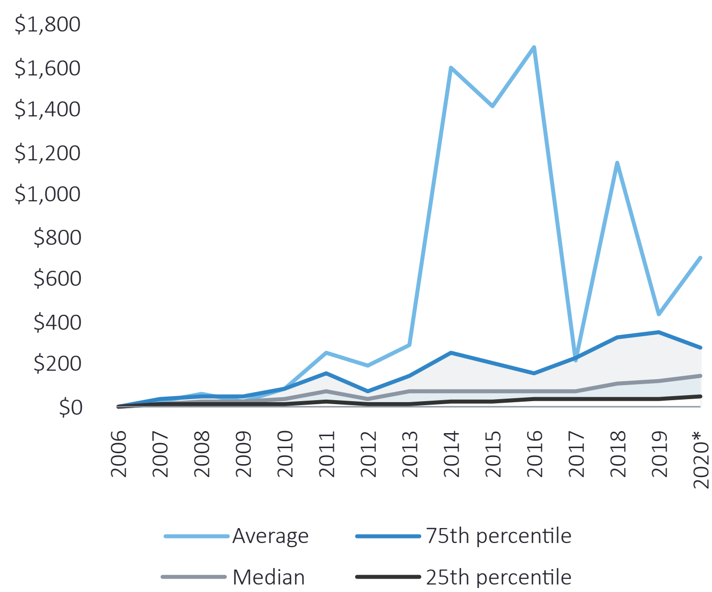
Early-stage pre-money valuations ($M) for AI/ML companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Range of late-stage pre-money valuations contracts slightly

Late-stage pre-money valuations ($M) for AI/ML companies

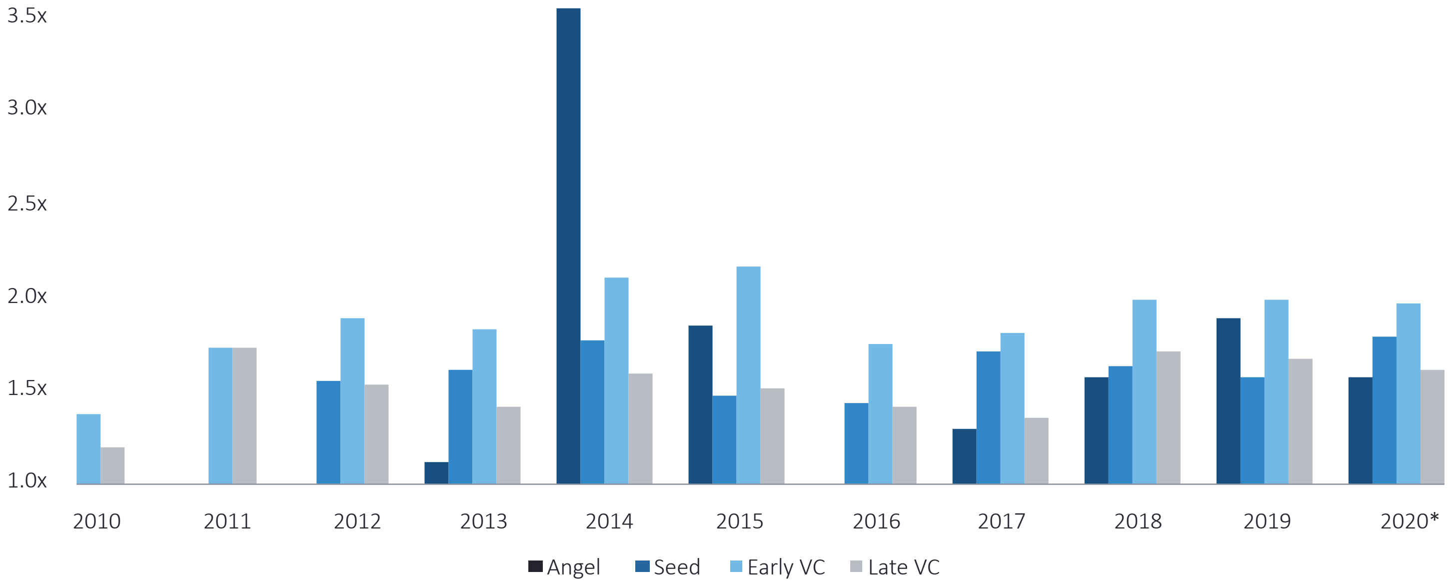


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: AI/ML

H1 2020 step-up multiples largely unaffected by global macroeconomic factors

Median step-up multiples by stage for AI/ML companies

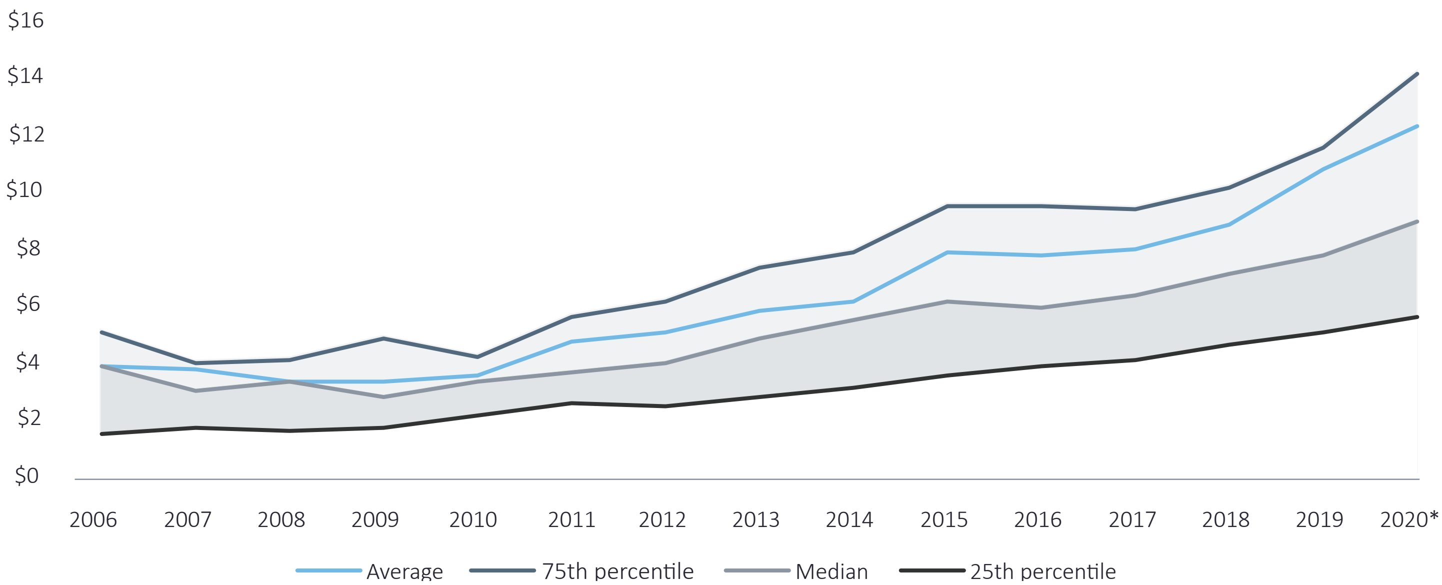


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: B2B technology

Seed-stage pre-money valuations continue to grow with several outsized financings skewing average

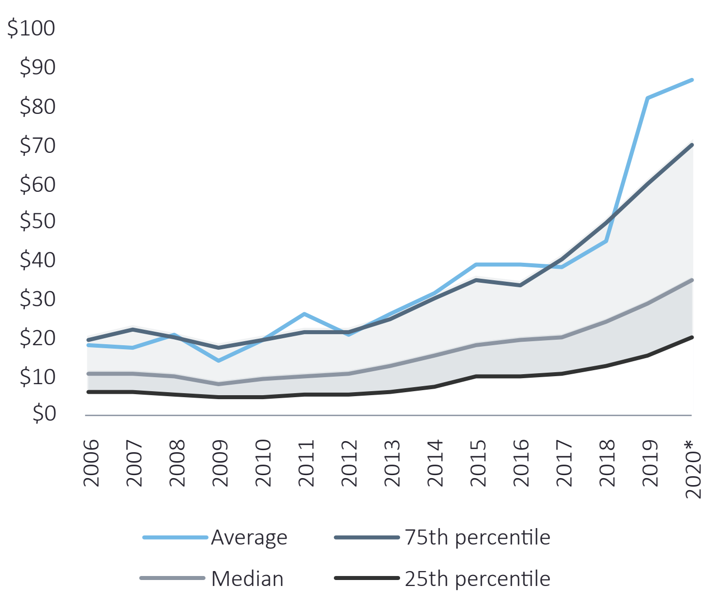
Seed-stage pre-money valuations ($M) for B2B tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Range of early-stage pre-money valuations seeing rapid expansion and growth

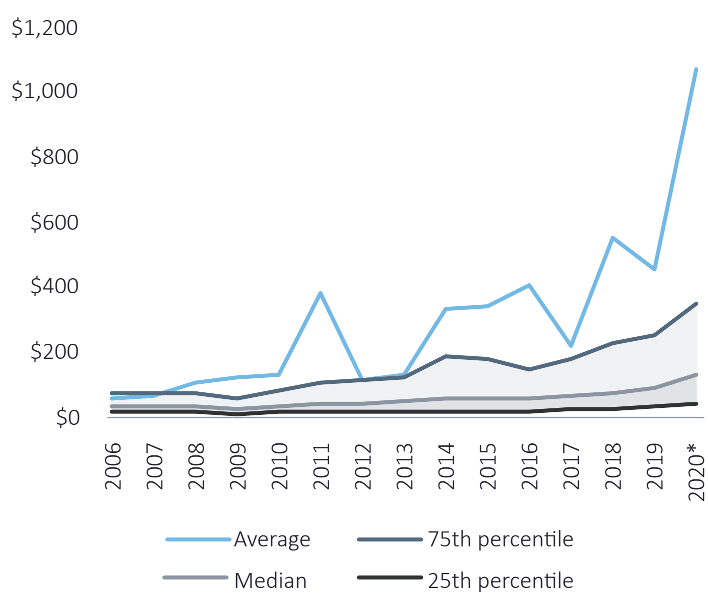
Early-stage pre-money valuations ($M) for B2B tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Late-stage pre-money valuations continue to rise buoyed by publicly traded enterprise software company growth

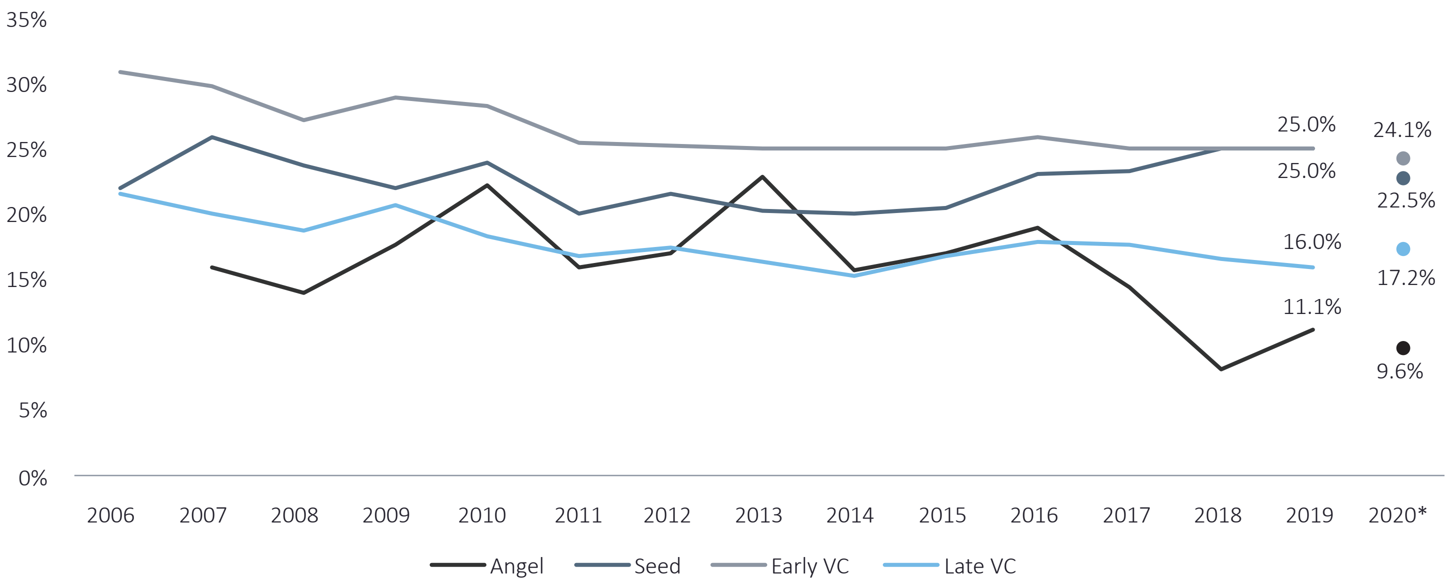
Late-stage pre-money valuations ($M) for B2B tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Only median late-stage equity stake rises as others drop

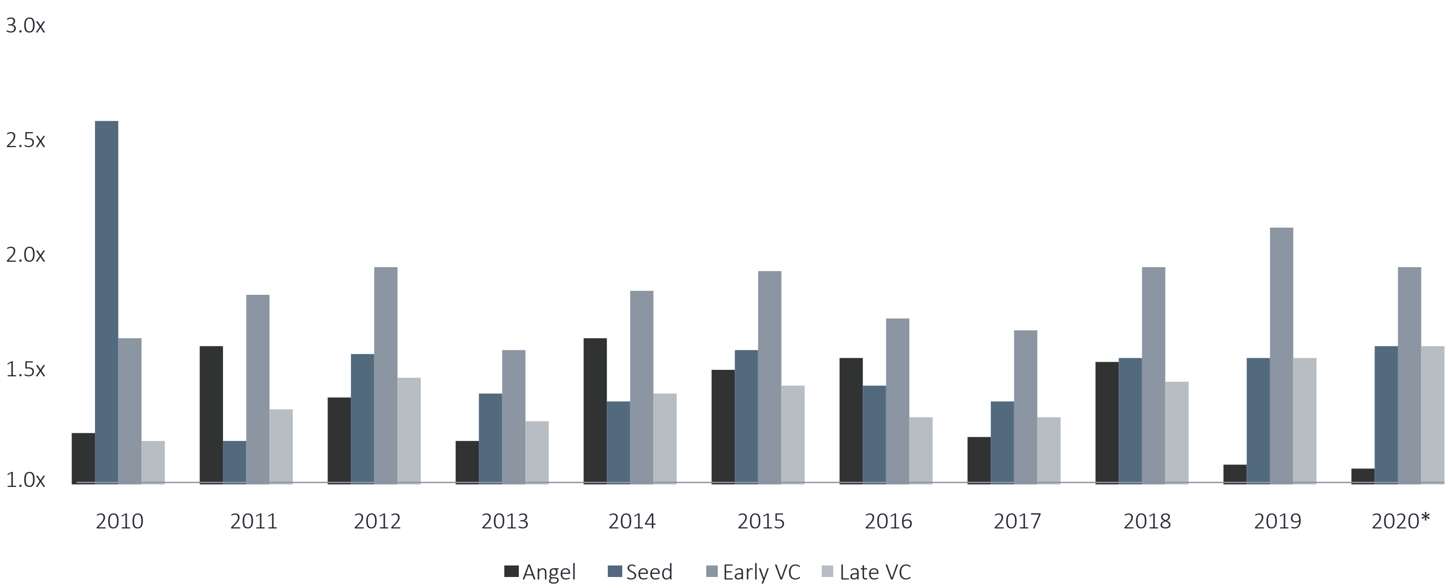
Median proportion acquired by stage for B2B tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Step-ups maintain trend across various stages of venture lifecycle

Median step-up multiples by stage for B2B tech companies

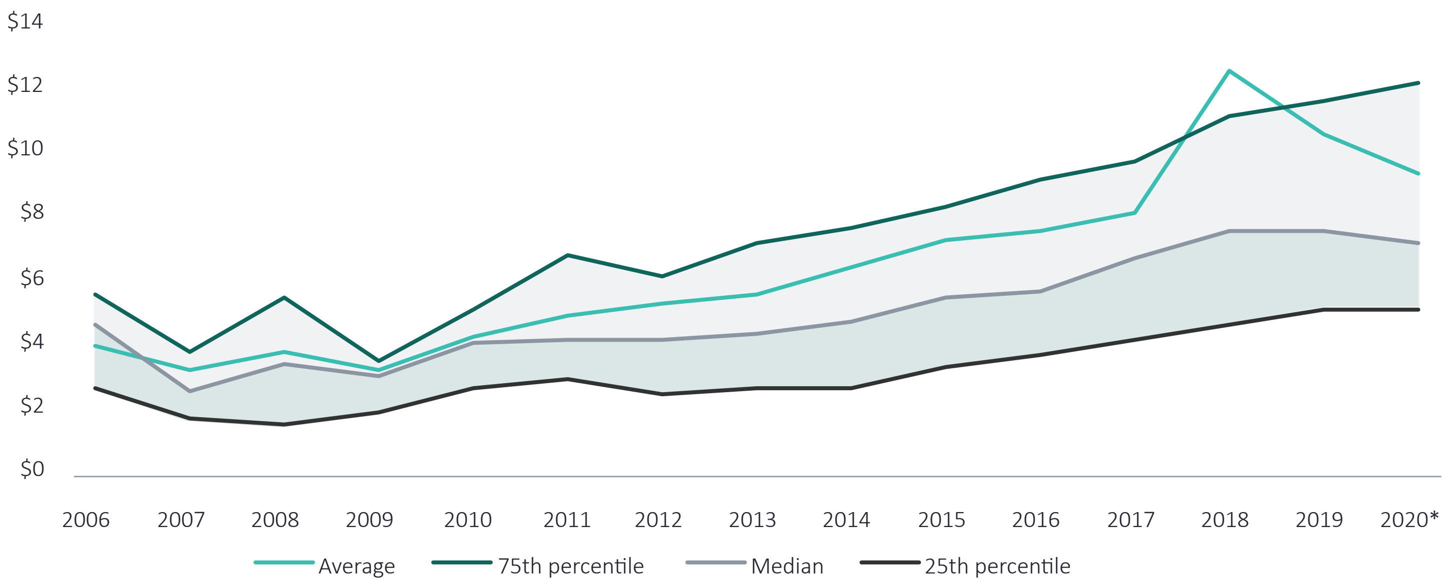


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: B2C technology

Slight dip in median pre-money valuation with increased number of larger deals in upper quartile

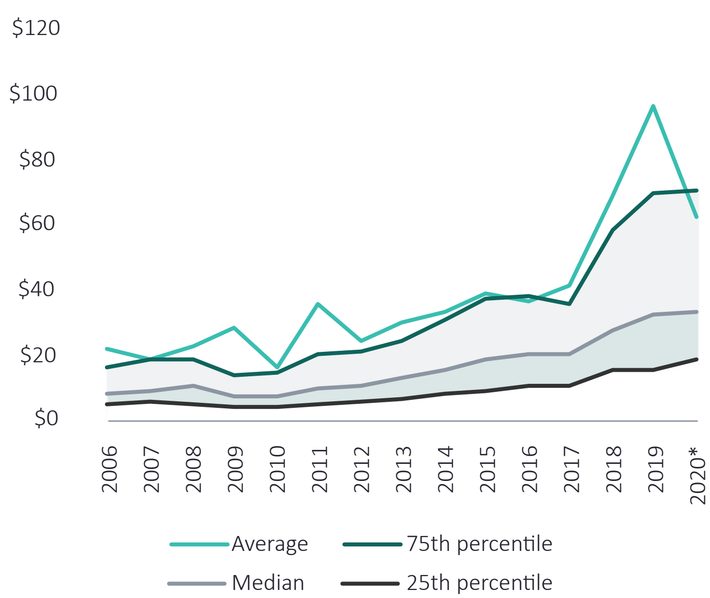
Seed-stage pre-money valuations ($M) for B2C tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Range of early-stage pre-money valuations remains steady with a sharp contraction in the average

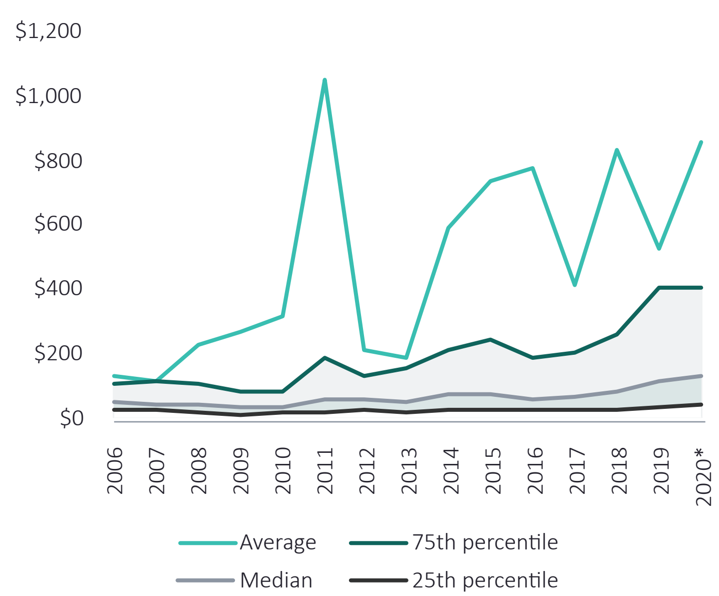
Early-stage pre-money valuations ($M) for B2C tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Median late-stage pre-money valuation at an all-time high

Late-stage pre-money valuations ($M) for B2C tech companies

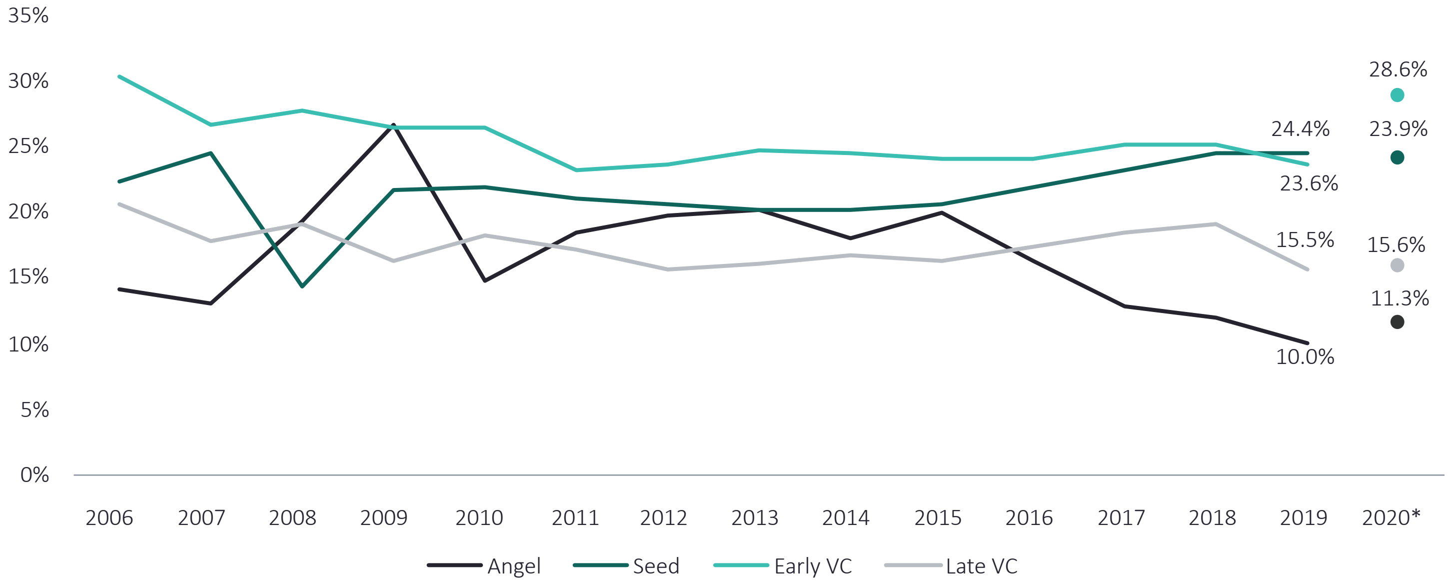


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: B2C

Sharp increase in equity stake of seed-stage financings

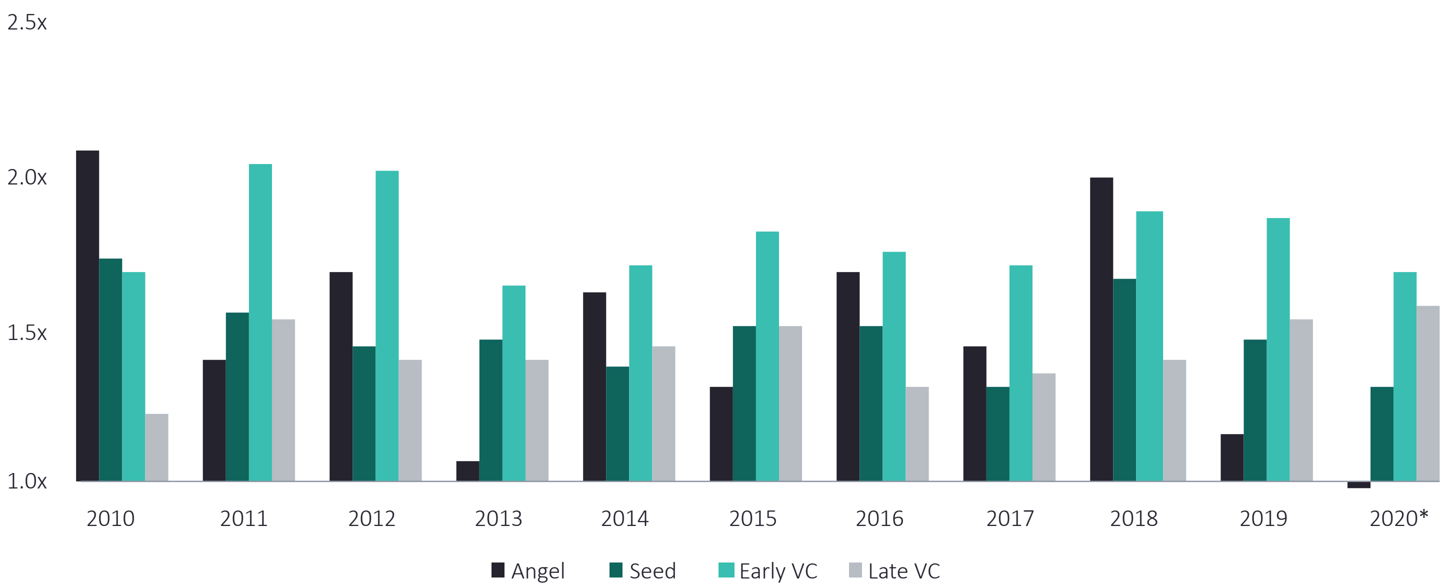
Median proportion acquired by stage for B2C tech companies



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Step-up multiples drop for all stages except late-stage

Median step-up multiples by stage for B2C tech companies



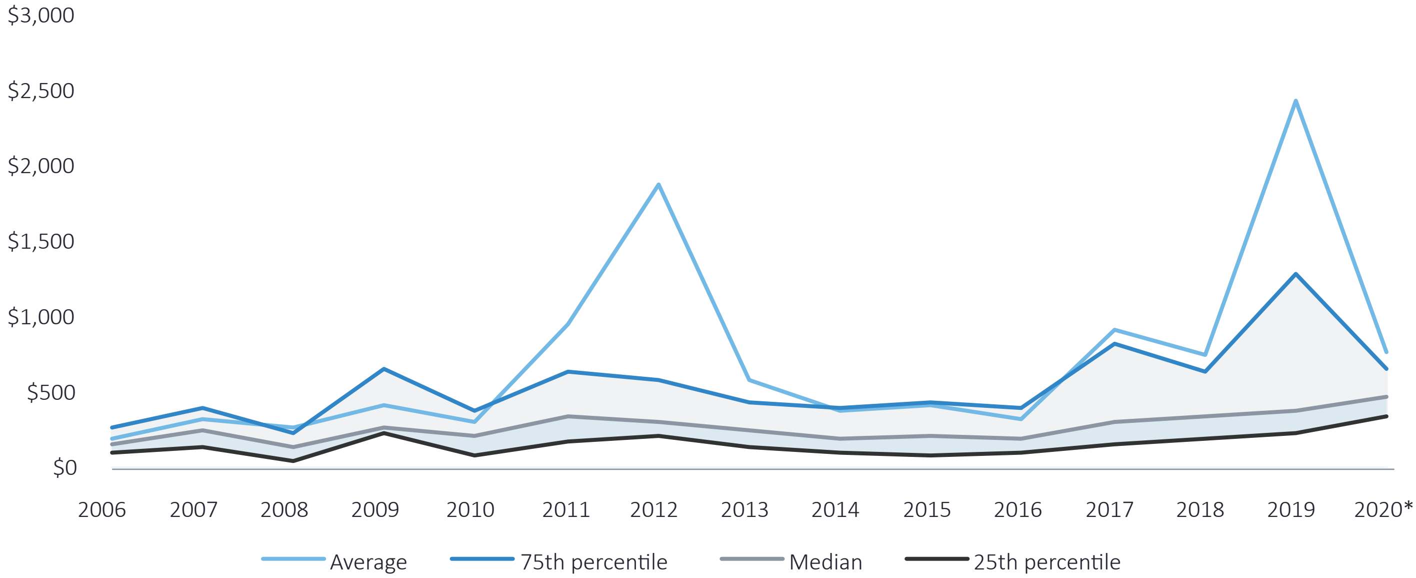
Source: PitchBook | **Geography:** US
*As of June 30, 2020

PitchBook

Liquidity

IPO valuations revert to the mean after outlier year in 2019

Valuations at exit ($M) for IPOs



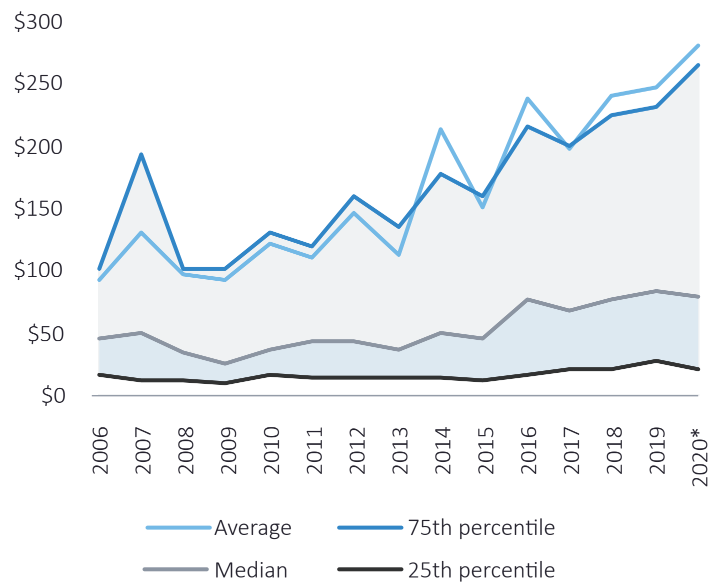
Source: PitchBook | **Geography:** US
*As of June 30, 2020

While VC dealmaking has proven resilient, ongoing volatility and uncertainty deterred activity in the exit market in Q2. Despite lower volumes, exits by and large have not seen a correspondingly severe decline in valuations. IPOs are a notable exception; this exit type posted a significant drop in the average and top-quartile IPO valuations when compared to annual 2019 numbers. However, we expected this decline given 2019's record-breaking IPO showing. Despite fewer and smaller IPOs in 2020, these listings have been completed at higher step-ups than in 2019, implying better returns for private backers. Given the pandemic, essentially all the IPOs during the first half 2020 have been biotech listings, which explains median valuation and step-up figures so far in 2020. Typically, biotech startups are younger and smaller when they choose to tap the public markets, so that smaller size is easier to price at a premium to the last private valuation without implying an inflated multiple.

For acquisitions, the median and bottom quartiles showed some weakness in Q2, mirroring a significant decrease in step-up multiples over the past few quarters, ending June at 1.2x after notching over 2.0x in the last two quarters of 2019. While it's unlikely that we're seeing a host of distressed acquisitions yet, we expect step-up multiples to remain muted over the rest of 2020 due to a lower volume of acquisitions overall and a more cautious approach to deals that do make it across the finish line.

Median and bottom quartile acquisition sizes shrink as buyers tap brakes

Valuations at exit ($M) for acquisitions



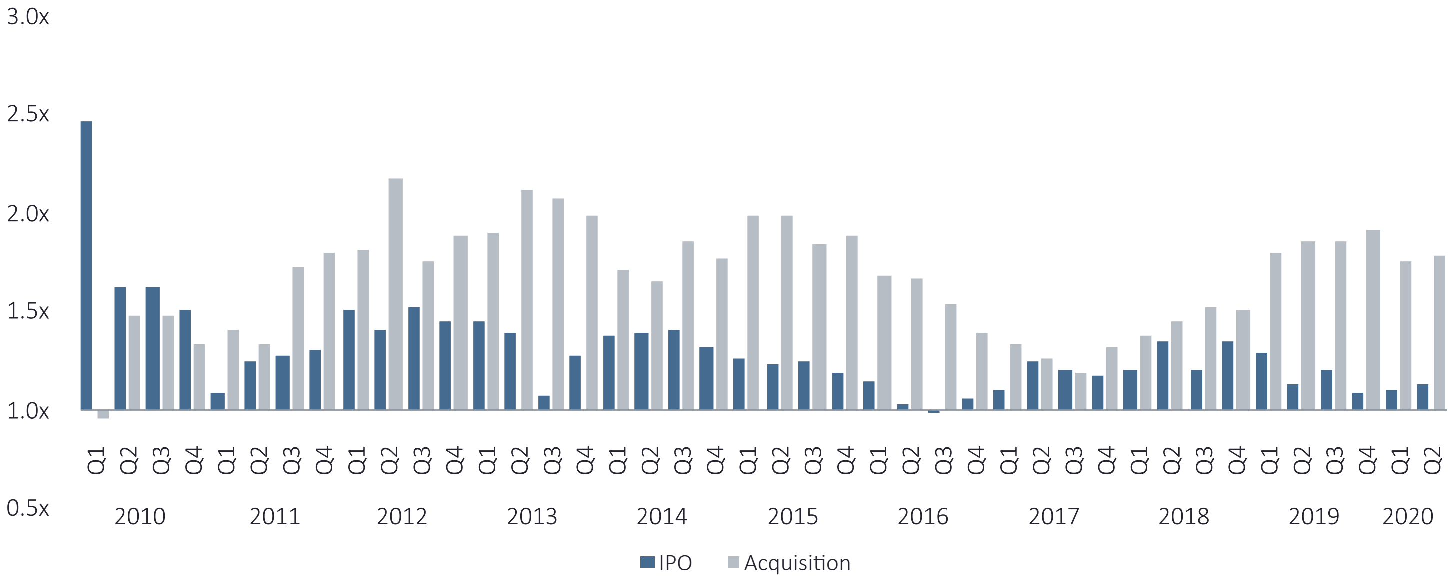
Source: PitchBook | **Geography:** US
*As of June 30, 2020

PitchBook

Liquidity

Step-ups for both exit types improve over Q1 2020

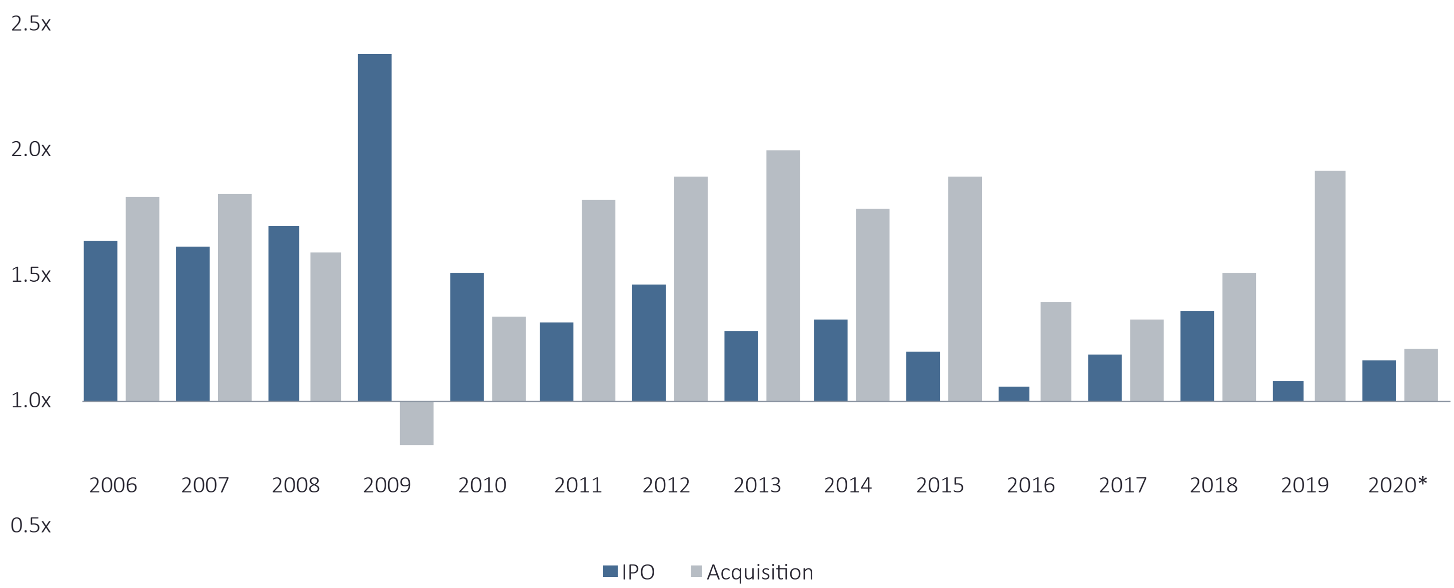
Rolling 4-quarter valuation step-up at exit by type



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Acquisition step-ups trending lower as caution builds

Valuation step-up at exit by type

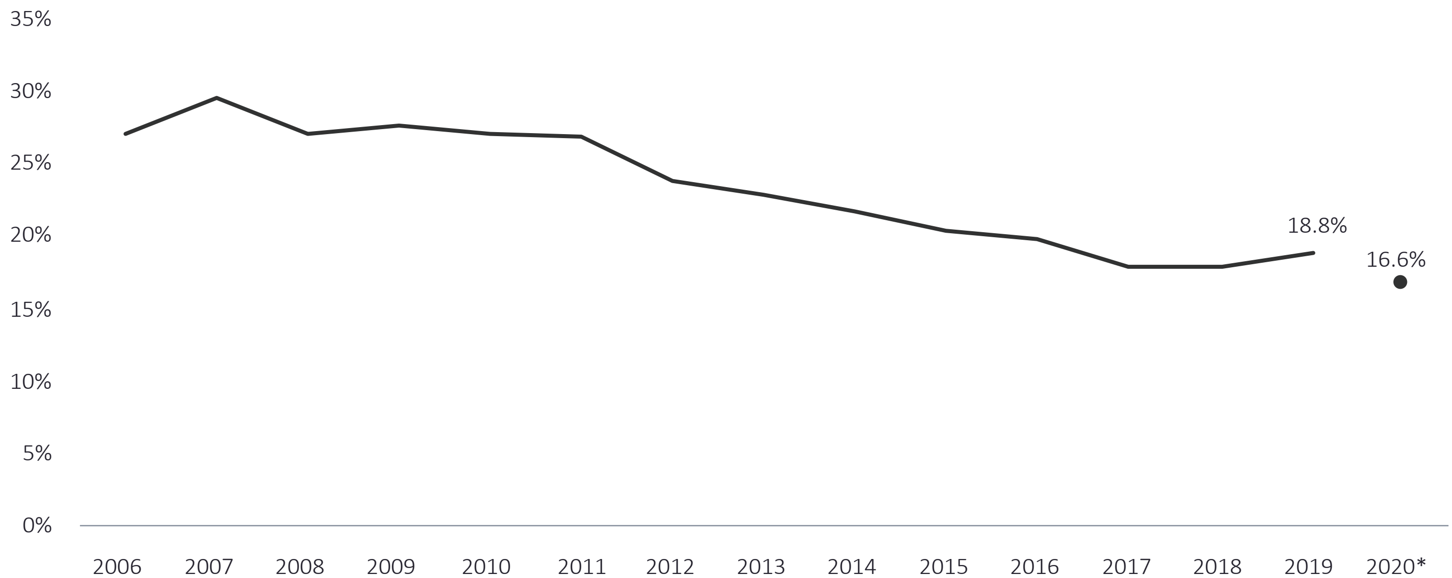


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Deal terms

Investor-friendly terms still not seeing uptick

Proportion of VC deals with cumulative dividends

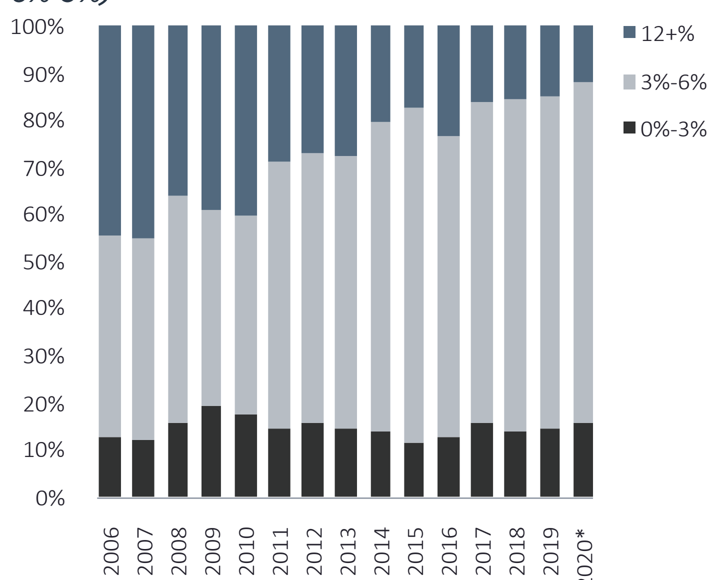


Source: PitchBook | **Geography:** US
*As of June 30, 2020

In the last edition of this report, the pandemic had only just begun to affect the US, so PitchBook data didn't show a full picture of the ramifications the COVID-19 crisis might have on VC valuations figures and related deal terms. At that time, the data had begun to illustrate the beginnings of some reversals in the long-term trend of founder-friendly deal terms; however, with a full quarter of data in the pandemic, the potential inflection point has yet to materialize. For instance, the percentage of deals in 2020 with cumulative dividends and liquidation participation both dropped to the lowest proportion we've seen in our data to 16.6% and 13.0%, respectively. In a similar light, the proportion of down and flat rounds is essentially equal to 2019's value and sits at under 20%, remaining near the lows of our complete dataset and nowhere near the spike we saw during the GFC, in which down rounds peaked at 34.8% of all deals. While these are currently positive signs for the VC ecosystem, the long-term aspect of the industry is likely contributing to some smoothing of the statistics.

Lower dividends still not gaining much ground

Dividend percentage buckets for VC deals (excluding 6%-9%)

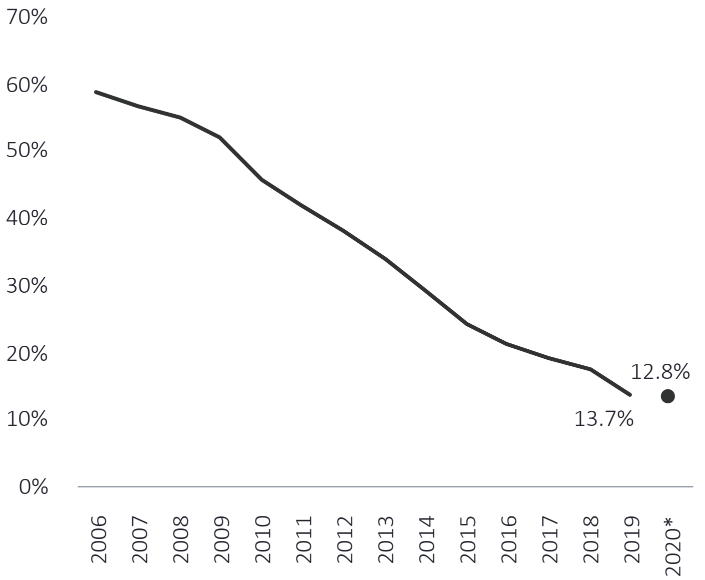


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Deal terms

Despite an apparent uptick in Q1, proportion of participating deals has dropped back to new low

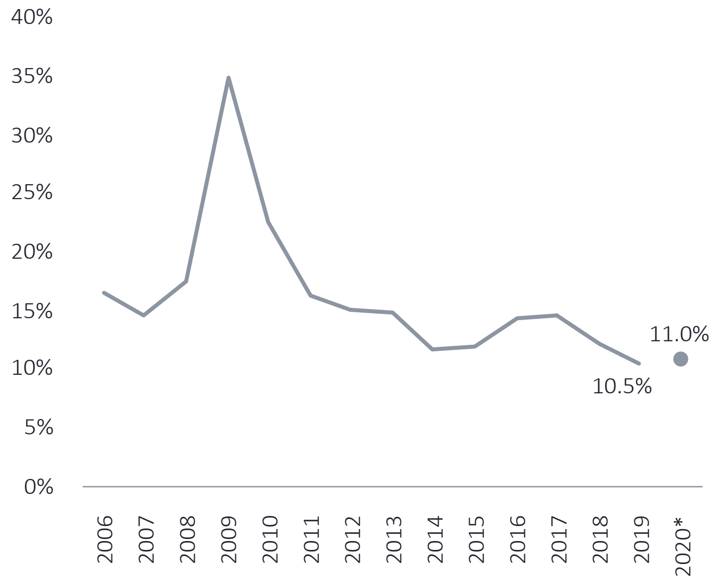
Proportion of VC deals with liquidation participation



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Proportion of down rounds remains near 10-year low despite pandemic

Down rounds as a percentage of total VC rounds

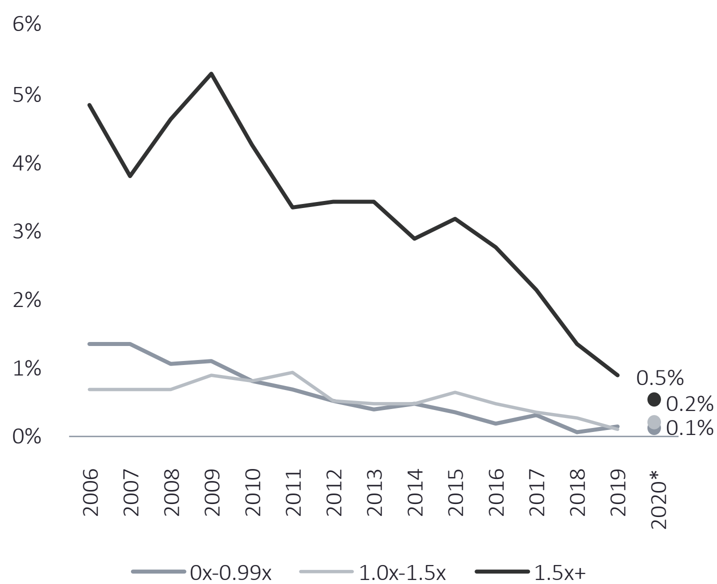


Source: PitchBook | **Geography:** US
*As of June 30, 2020

The cash runways for many companies have allowed them to keep operating through these last couple months given that most are advised to raise at least 18 months of funding. With that said, if the current crisis lasts longer than anticipated, many more companies may need to seek funding from a more desperate position. If this were to occur, especially along with a drawdown or pullback in the available capital to the VC ecosystem, we would expect to see an increase in protective deal terms. But for now, it seems the founder-friendly environment is here to stay despite economic conditions.

Preference multiples greater than 1.0x maintain 10-year move to near zero

Liquidation preference multiples (excluding 1.0x)



Source: PitchBook | **Geography:** US
*As of June 30, 2020