PitchBook

US VC Valuations Report

Q3 2020

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Click here for PitchBook's report methodologies.

Introduction

The average late-stage valuation in 2020 is currently $240.0 million higher than 2019. Elevated dry powder levels and record mega-deal activity helped drive this figure. It should also be noted how active nontraditionals have been at this stage. The median late-stage valuation of rounds with nontraditional investment sits at $140.0 million in 2020, more than $100 million above deals without nontraditional involvement.

Proportion of down rounds falls after spike in Q2. After the percentage of down rounds moved to 13.6% in the second quarter, we anticipated we might see a sustained increase in down rounds due to the pandemic. Measures that startups have taken to slow their burn rate or extend capital runway, such as venture debt, could cause a resurgence of down rounds in the next few quarters as companies still struggling with the impact of the pandemic exhaust other options and are forced to raise a new VC round.

The lower end of the venture lifecycle—namely, angel and seed-stage investments—saw mixed results even as public markets rallied in Q3. Angel investments saw a sharp contraction in pre-money valuations as a rise in equity ownership stakes occurred. Meanwhile, the median seed-stage valuation has remained steady through 2020, with slight upticks observed in the bottom and top quartiles.

IPOs flourish, acquisition valuations stutter. Q3's flood of large tech IPOs drove improvement in the exit valuation statistics on both an absolute and step-up basis. However, acquisitions have seen more negative results as the 2020 median and average acquisition valuations are essentially flat to their 2019 values, with the 25th percentile showing a 19.8% YoY decline.

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Angel & seed

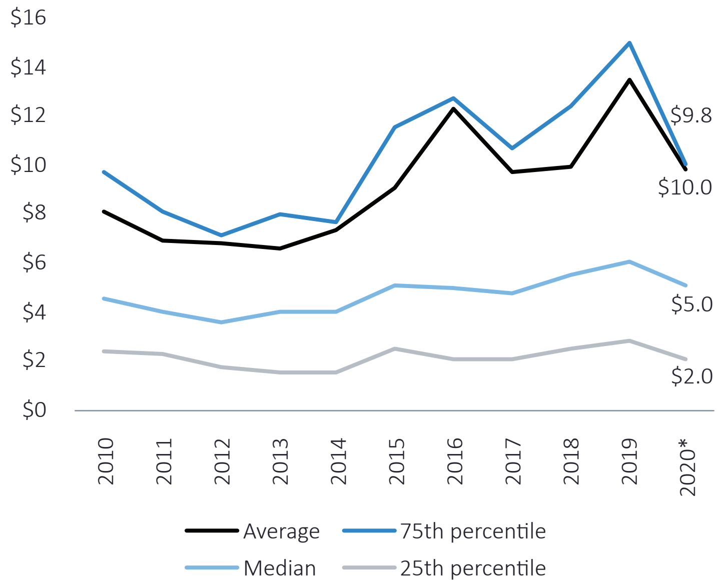
Public markets rallied in Q3 and largely rebounded from the macroeconomic volatility seen in Q2, yet the lower end of the venture lifecycle has continued to see mixed results. The median angel pre-money valuation for 2020 YTD currently sits at $5.0 million, tracking to a -16.7% YoY decline. Even though data from our Q3 2020 PitchBook-NVCA Venture Monitor showed that angel deal activity remained rather resilient, declines in valuations were still seen across all quartiles. This is coupled with a rise in equity ownership stakes at the angel stage with 2020 YTD medians sitting at 20.0%, the highest in nearly seven years, which indicates that founders seeking angel investments at attractive valuations while maximizing founder ownership will be hard-pressed in the current dealmaking climate and will likely be pushed to explore bootstrapping or other means of financing

Meanwhile, the median seed-stage pre-money valuation for 2020 YTD has remained steady at $7.5 million, staying in line with 2019's median, while upticks were observed in the bottom and top quartiles. Even as seed investments were outpaced by angel investments for the first time since 2016, valuations remained largely unchanged YoY. When comparing the average rolling four-quarter seed-stage step-up multiples, however, Q3 saw a notable increase from 1.86x in Q2 2020 to 2.02x in Q3 2020. Of note in Q3, Collective raised an $8.7 million seed round led by General Catalyst with a 6.9x step-up, and GreyNoise raised a $4.8 million seed round led by CRV with a 6.3x step-up.

Additionally, the relative velocity of value creation (the annualized percent increase in valuation between rounds), or RVVC, for seed-stage companies has remained robust in 2020. Seed-stage companies exhibited a 44% annualized percentage growth in valuations. Given the need to validate value propositions at the seed-stage, Q3 has shown that seed-stage companies' "sink or swim" mentality, along with the formulaic nature of seed deals, which cause valuations to stay buoyant as ownership stakes also increase, has largely outweighed any economic headwinds caused by the COVID-19 pandemic.

Declines in valuations across all quartiles

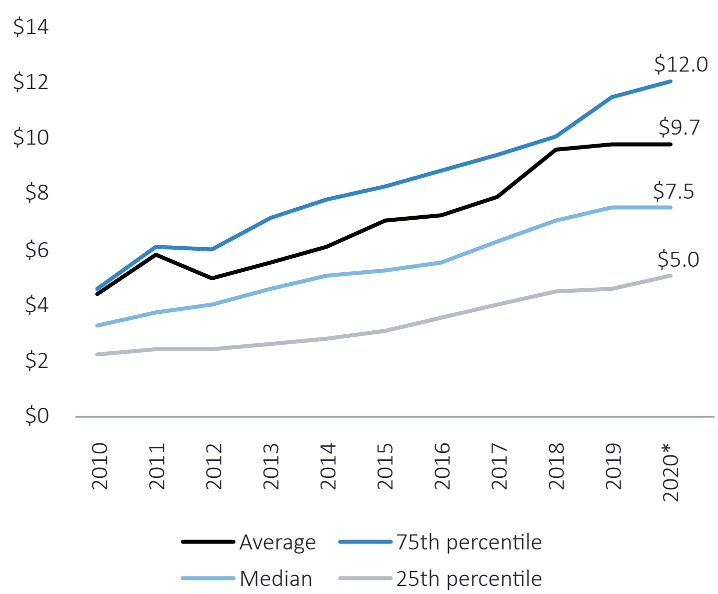
Range of angel pre-money valuation ($M) by year



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

Seed pre-money valuations remain steady

Range of seed pre-money valuation ($M) by year

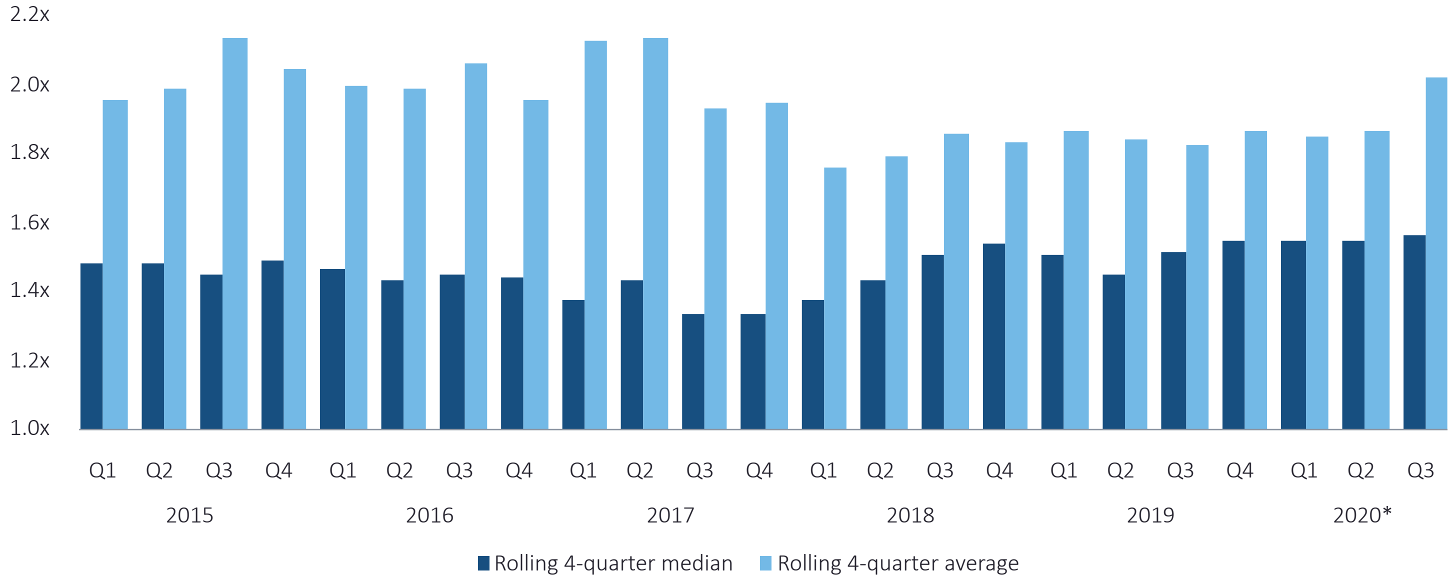


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Angel & seed

Notable jump in average Q3 rolling 4-quarter step-ups

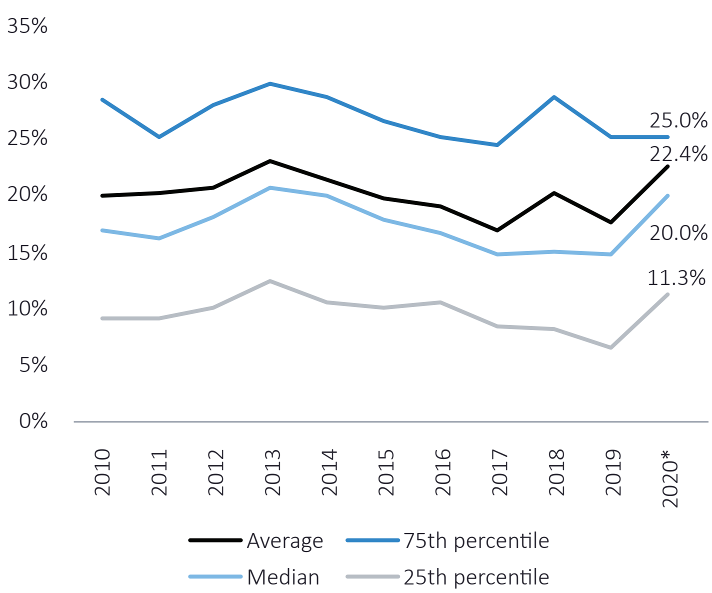
Rolling 4-quarter median and average step-ups for seed



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

Tightening of angel ownership stakes

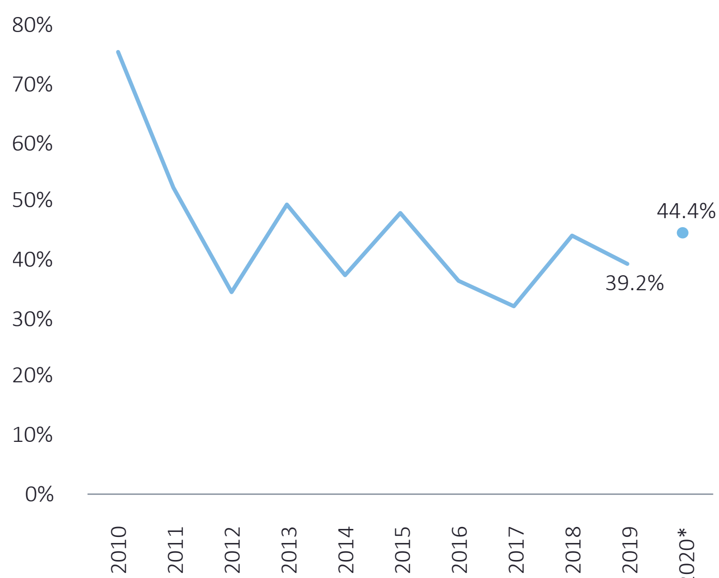
Range of % acquired for angel stage



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

Relative velocity of value creation (RVVC) has remained robust in 2020

Median RVVC between rounds at seed stage



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

$$RVVC = \frac{\%\ growth\ in\ valuation\ between\ rounds}{years\ between\ rounds}$$

Early-stage VC

The median early-stage VC pre-money valuation in 2020 continues to sit at a record-high $30.0 million. While the bottom quartile has also increased over 2019's value, the average valuation has dropped from $72.6 million in 2019 to $63.2 million in 2020. Yet, as the pandemic lingers and continues to apply pressure on companies coming to the end of their cash runways, many could be forced to return to their private backers from a less advantageous position.

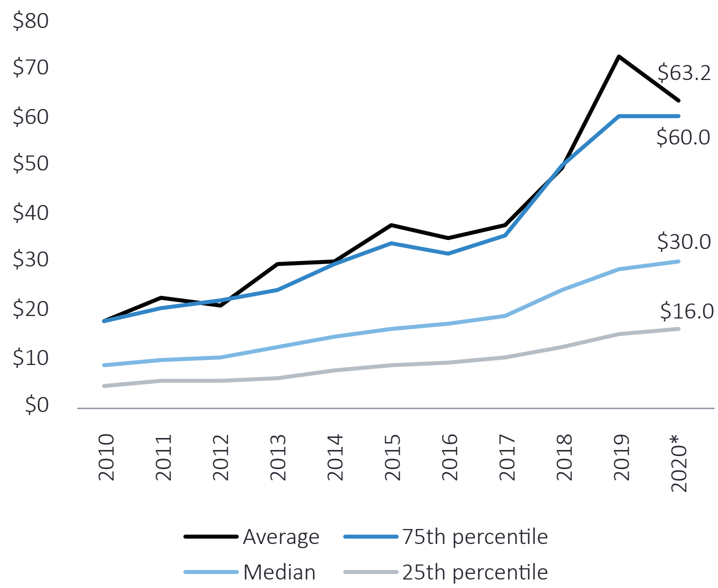
Currently, our data indicates that the median time between rounds for early-stage VC financings sits at 1.2 years. This time frame—coupled with cost cutting to extend runway—means many companies have not needed to raise additional capital in 2020 or have turned toward alternative financing strategies such as bridge rounds or venture debt as they wait out the current period of uncertainty.

Even with valuations sitting at record highs, Q3's average rolling four-quarter step-up multiple for early-stage VC deals has shown a -6.8% YoY decline to 2.38x. Furthermore, the velocity of value creation (the annual increase in valuation between rounds, measured in dollars), or VVC, and RVVC values for early-stage financings have both dropped from 2019's values of $15.8 million and 60%, respectively, to $13.4 million and 46% in 2020 YTD.

This combination of declines in step-ups and VVC & RVVC values shows that early-stage valuation growth has been slowing throughout the year and that investors are exercising more caution with new investments as they wait for tailwinds to pick up. As such, even with significant capital firepower, early-stage investors are exhibiting a general level of cautiousness and risk aversion, and the desire to write checks for high-risk early-stage ventures has been dampened due to macroeconomic uncertainty.

Median shows slight increase while average declines sharply

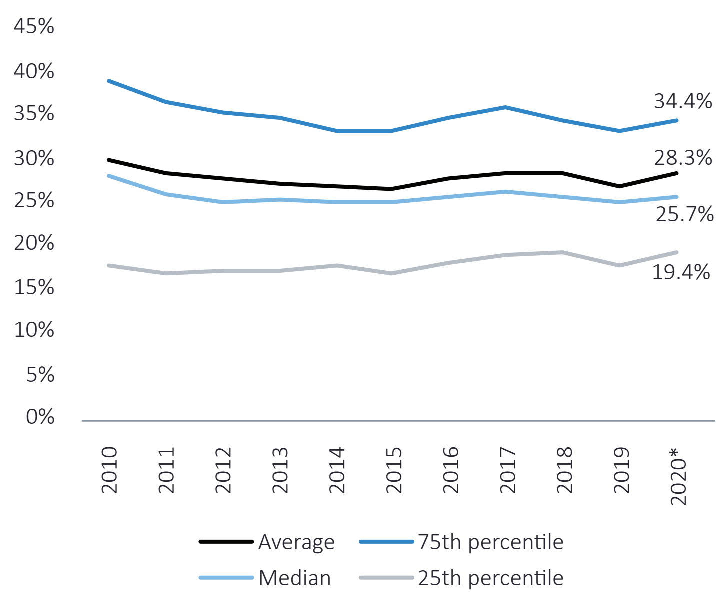
Range of early-stage pre-money valuations ($M) by year



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

Median remains level as increases seen at quartiles and average

Quartile breakdown of % acquired for early stage

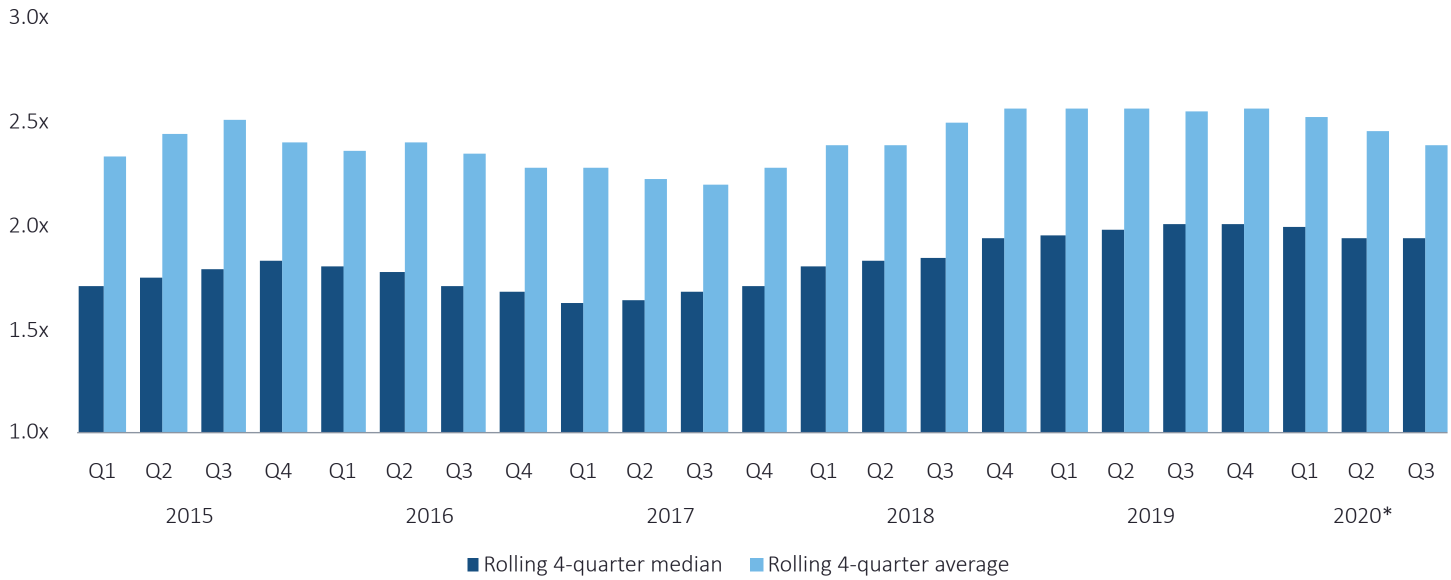


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Early-stage VC

Average rolling 4-quarter step-ups continue to slip

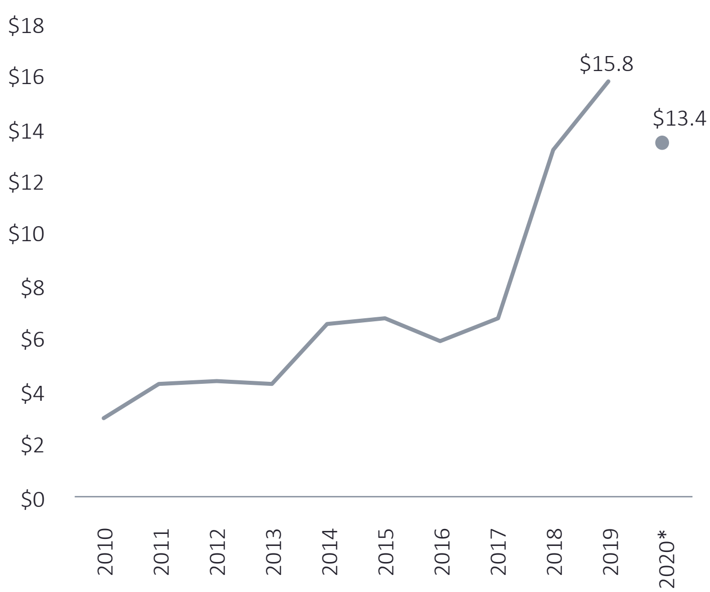
Rolling 4-quarter median and average step-ups for early stage VC



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

Velocity of value creation (VVC) drops 15.2% from 2019's record level

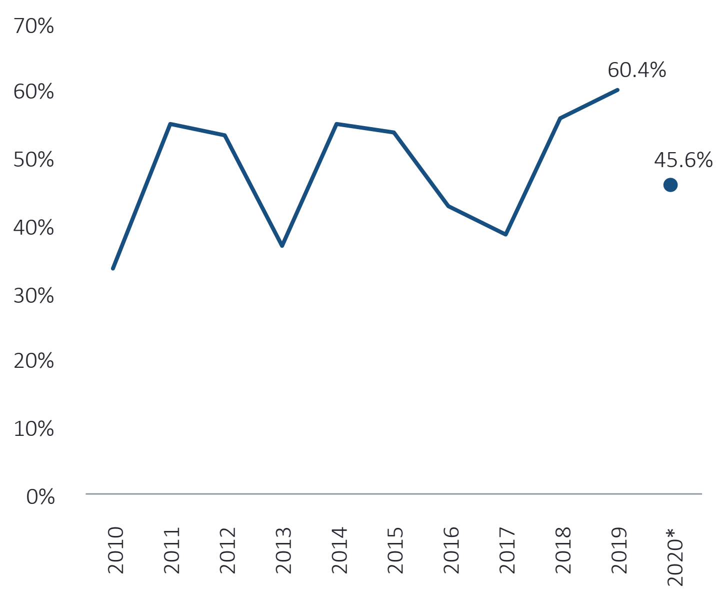
Median VVC between rounds ($M) by stage



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

Relative velocity of value creation (RVVC) shows notable decline

Median RVVC between rounds at early stage



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

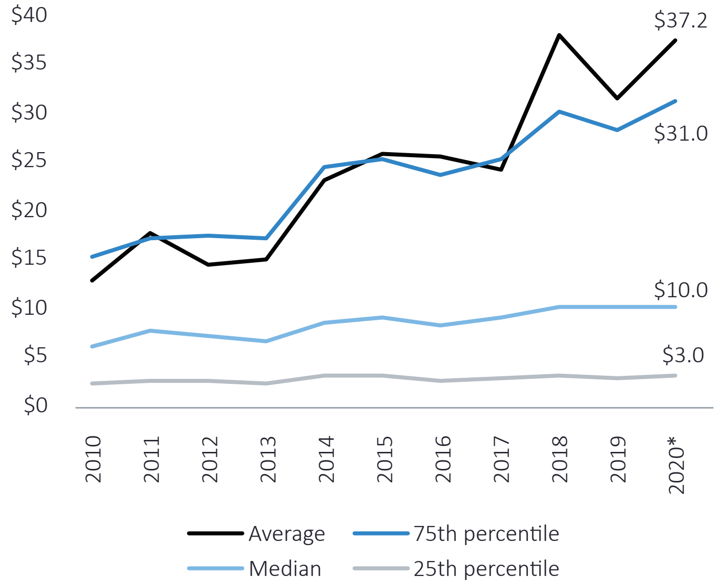
Late-stage VC

More than ever before, the late stage has driven financing trends for the US venture market. Nearly 69% of the US deal value in 2020 derives from late-stage deals, which account for fewer than 22% of completed rounds. Even during 2018's record year of activity, late-stage deals accounted for only 62.5% of deal value on 23% of deals. The trend is more nuanced than simple figures, however. At the beginning of 2020, there was roughly $120 billion in dry powder, an enormous amount that doesn't include any of the $57.0 billion that has been raised during the year to date. The high levels of dry powder, coupled with strong participation by nontraditional investors at the late stage in 2020, are responsible for the high activity levels of this year. While the median late-stage deal size has remained at $10.0 million, the top quartile size has surged to $31.0 million and the average to over $37 million. We have seen a flight to quality deals at every stage, so companies viewed as the class of the late stage have commanded high interest from investors, while the bottom quartiles of late-stage valuations have essentially remained flat over time. Accordingly, the average late-stage pre-money valuation in 2020 is $240.0 million higher than in 2019, no doubt boosted by the "highest quality" deals, the 189 late-stage mega deals that have closed through Q3. Although exits in Q3 have shown some resiliency during the pandemic, private capital markets continue to provide strong fundraising opportunities for further growth due to the high amount of capital available and the glut of investors. The strong IPOs of companies such as Snowflake and Unity, as well as the direct listing of Asana, will continue to boost comfort levels with high values in the private markets as investors see that public appetite for these companies hasn't subsided.

Despite the strength of late-stage activity, median valuation step-ups at the stage have declined this year. While this downturn is in part due to the difficulty of keeping step-ups high alongside growing valuations, the median VVC at the late stage has declined from the 2019 figure, which suggests companies may have been raising capital earlier than planned due to the pandemic, and therefore saw the lofty valuation trajectory dip between rounds as they were forced to secure funding to help weather the pandemic-weary economy. In general, it seems the increases of late-stage valuations during the pandemic have been predicated more on the increased size and maturity of private companies than on each company's specific performance through the COVID-19 economy.

Late-stage average deal size near record

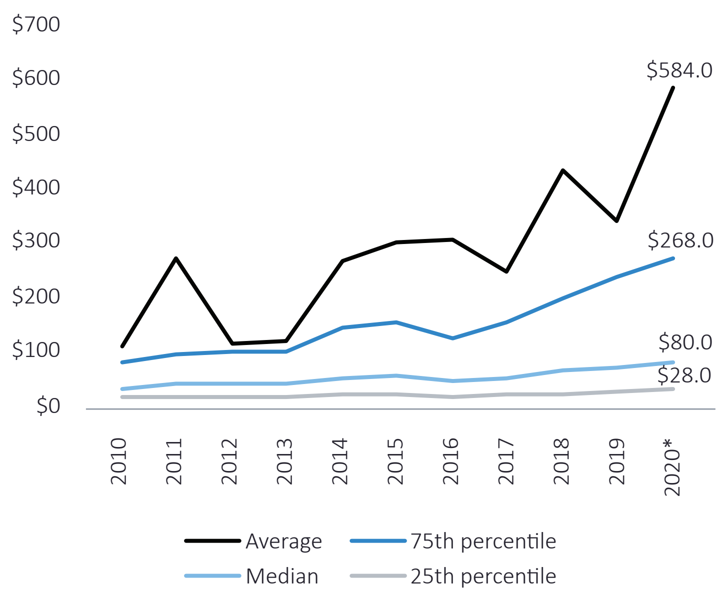
Quartile range of late-stage deal sizes ($M)



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

Mega-deals have spiked the average late-stage valuation

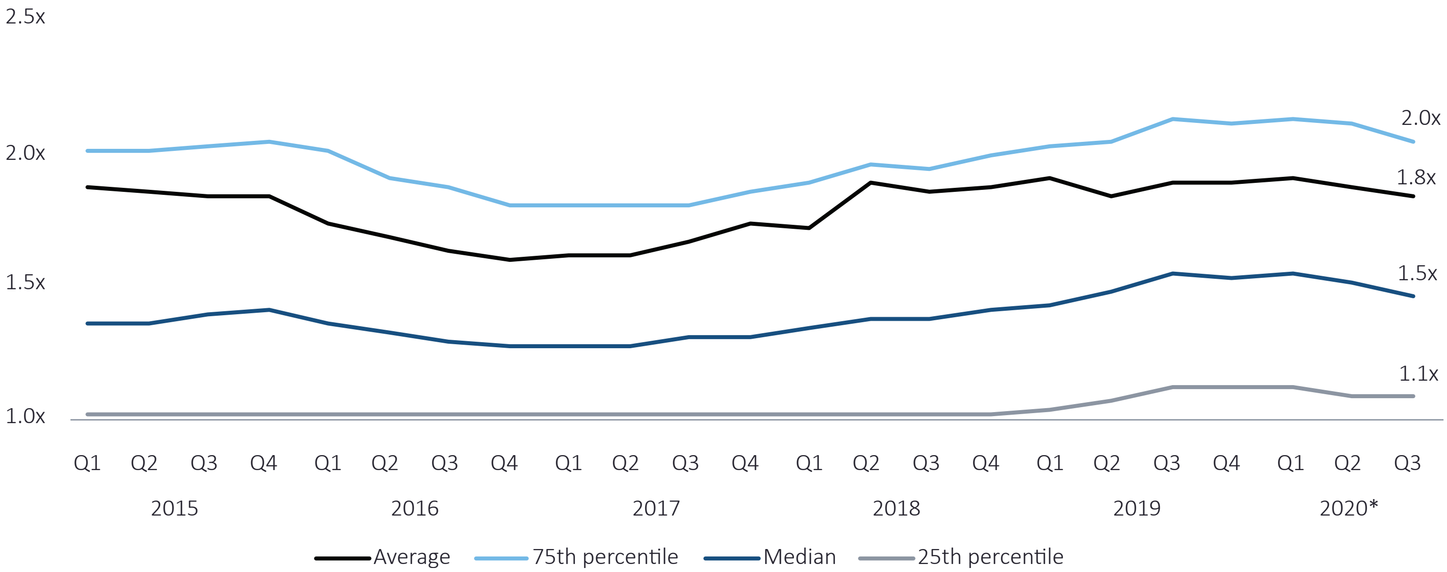
Quartile range of late-stage pre-money valuations ($M)



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

Spread of valuation step-ups has close slightly in 2020

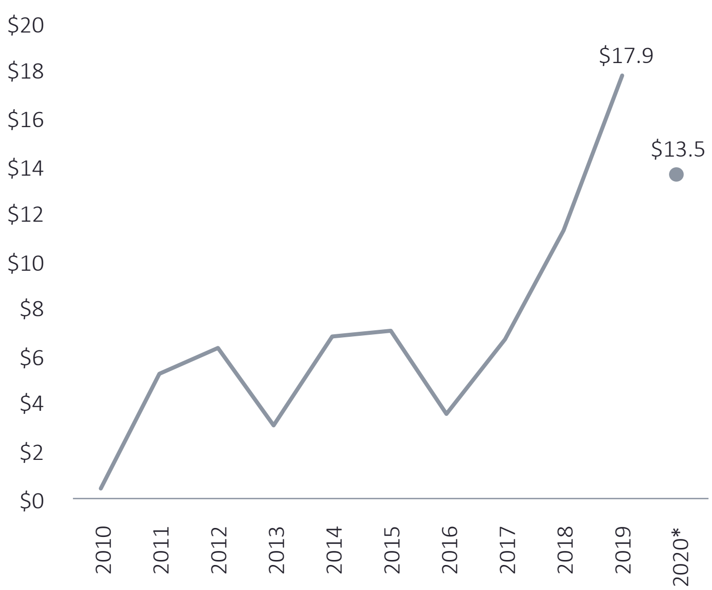
Rolling 4-quarter quartile step-up for late stage by quarter



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

Median VVC has declined from 2019 high

Median VVC ($M) between rounds by year



Source: PitchBook | **Geography:** US
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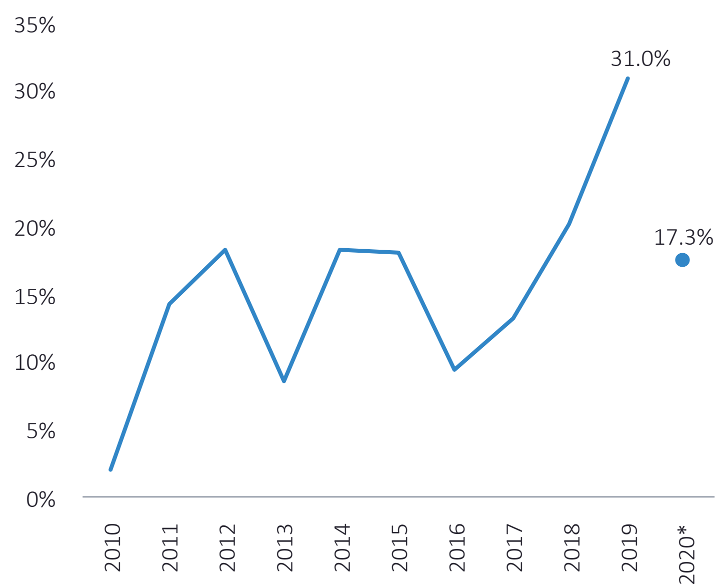
Median RVVC almost 50% lower YoY

Median RVVC between rounds for late-stage companies by year

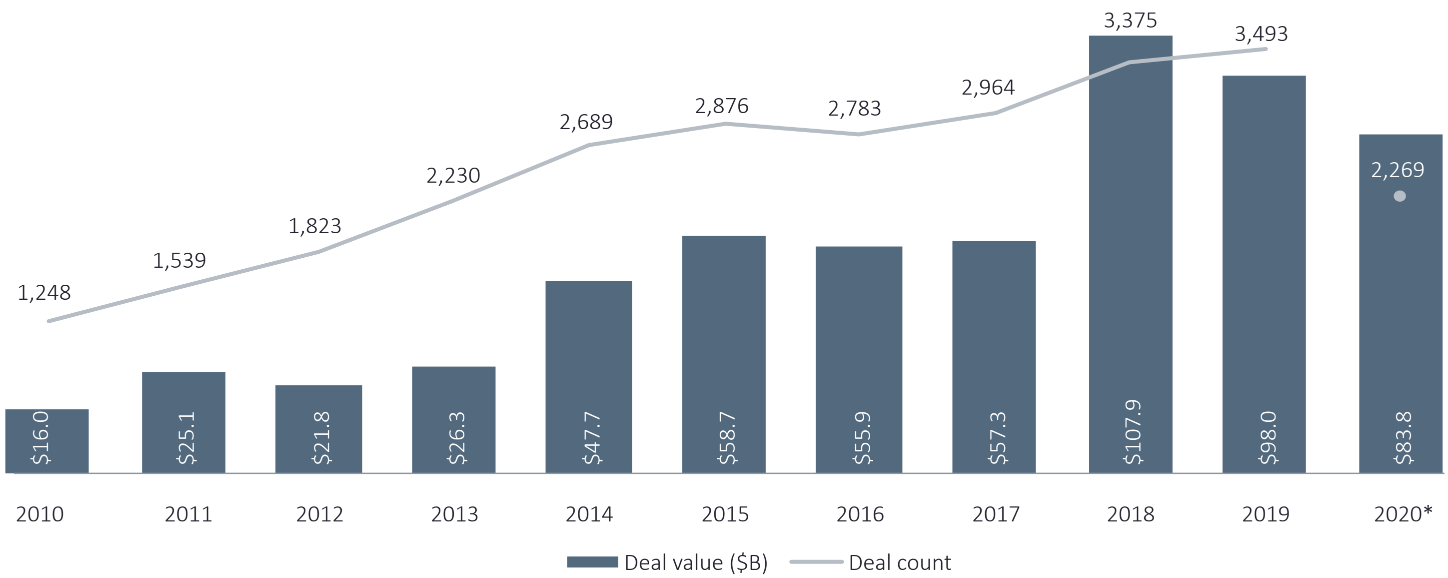


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Nontraditional investors

As nontraditionals invest heavily at the late-stage, 2020 deal value has surged

VC deal activity with nontraditional investor participation

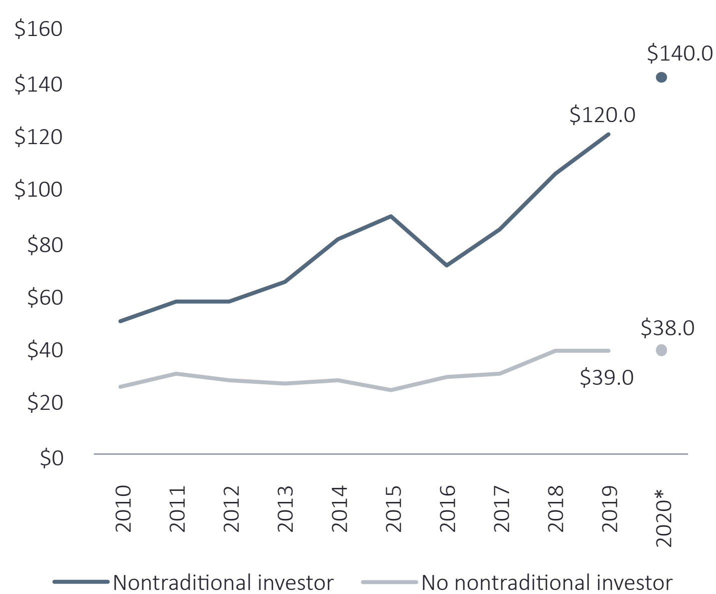


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Nontraditional investors have remained very active in the venture market throughout 2020, especially at the late stage. Roughly 96% of the mega-deals that have been financed this year have received participation from one of these institutions. The very top of the market is now dominated by nontraditional investors, especially those whose strategy has typically focused on the public markets. As companies continue to stay private longer, public market investors such as hedge funds and mutual funds have moved into private financings to capture growth now occurring before an IPO, thus limiting post-IPO growth potential. Our IPO index shows just this, as larger IPOs drag down overall performance of the index. What's more, nontraditional investors have led or solely financed 616 late-stage deals in 2020, already near the highest total of any year we have tracked, showing that private investment is now a strategy more ingrained in nontraditional investment theses. It should also be noted that for many nontraditional investors, allocation to venture investment is still only a small portion of their overall AUM.

Over 95% of mega-deals have included nontraditional investment

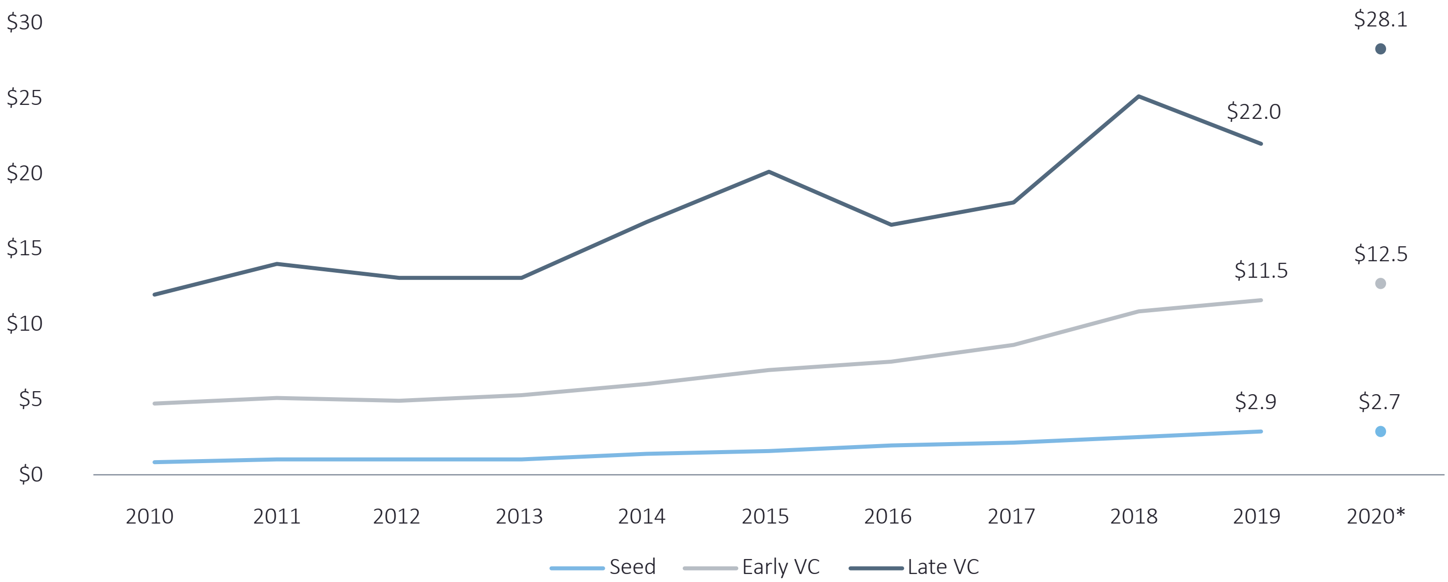
Median late-stage pre-money valuation ($M) by investor participation



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

Deal sizes have continued growth

Median deal size ($M) with nontraditional participation by stage



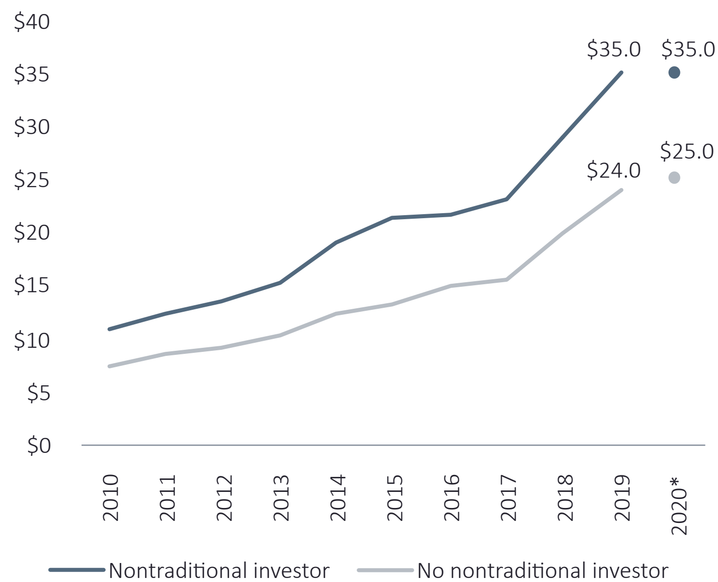
Source: PitchBook | **Geography:** US
*As of September 30, 2020

In 2020, the median valuation of deals with nontraditional investor participation has reached $140.0 million, more than $100 million above the median of those deals without their participation. This spread not only highlights where many nontraditional investments are made, but that the ultra-late-stage market that has driven industry trends in recent years has been created by, and could not exist without, nontraditional investors.

Corporate VC, a subset of nontraditional investment, has shown in 2020 how different the current market is from markets during previous periods of economic uncertainty. Not only have CVCs continued to be active, but many new CVC programs, including from Amazon, T-Mobile, and MassMutual, have been launched in the past couple of quarters, even as corporate M&A has struggled to keep up with the levels of the past few years. For the first time since 2010, CVCs have participated in more late-stage financings than early stage, although this is likely in large part due to broader venture market trends. We believe startup investment has become necessary for large corporates to maintain their R&D edge through incorporation of emerging technologies.

Early-stage valuations have plateaued

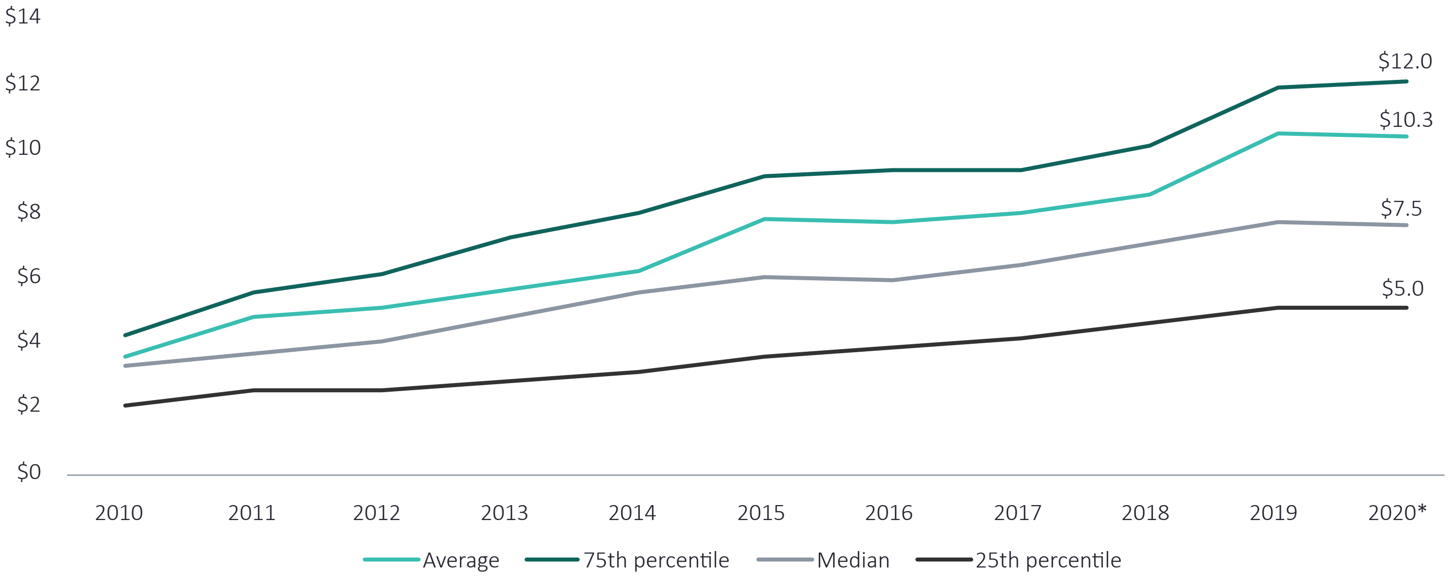
Median early-stage pre-money valuation ($M) by investor participation



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

Spotlight: Enterprise tech

Quartile breakdown for seed-stage pre-money valuations ($M)

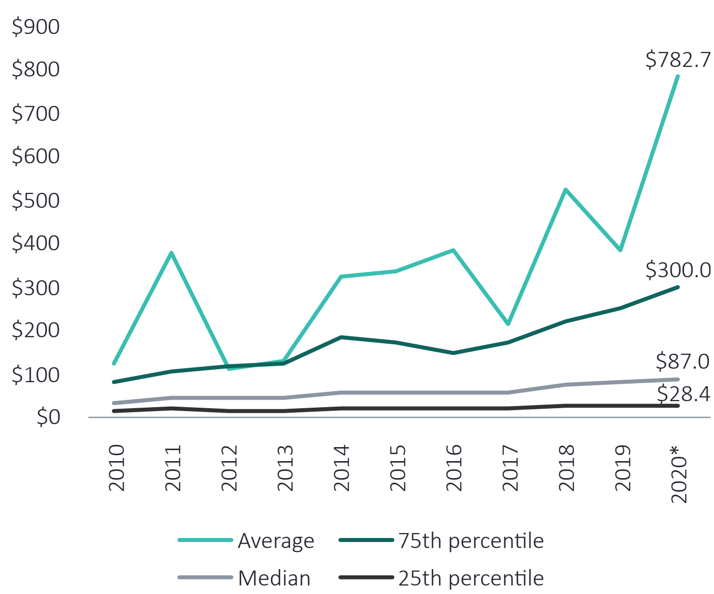


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Quartile breakdown for early-stage pre-money valuations ($M)

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

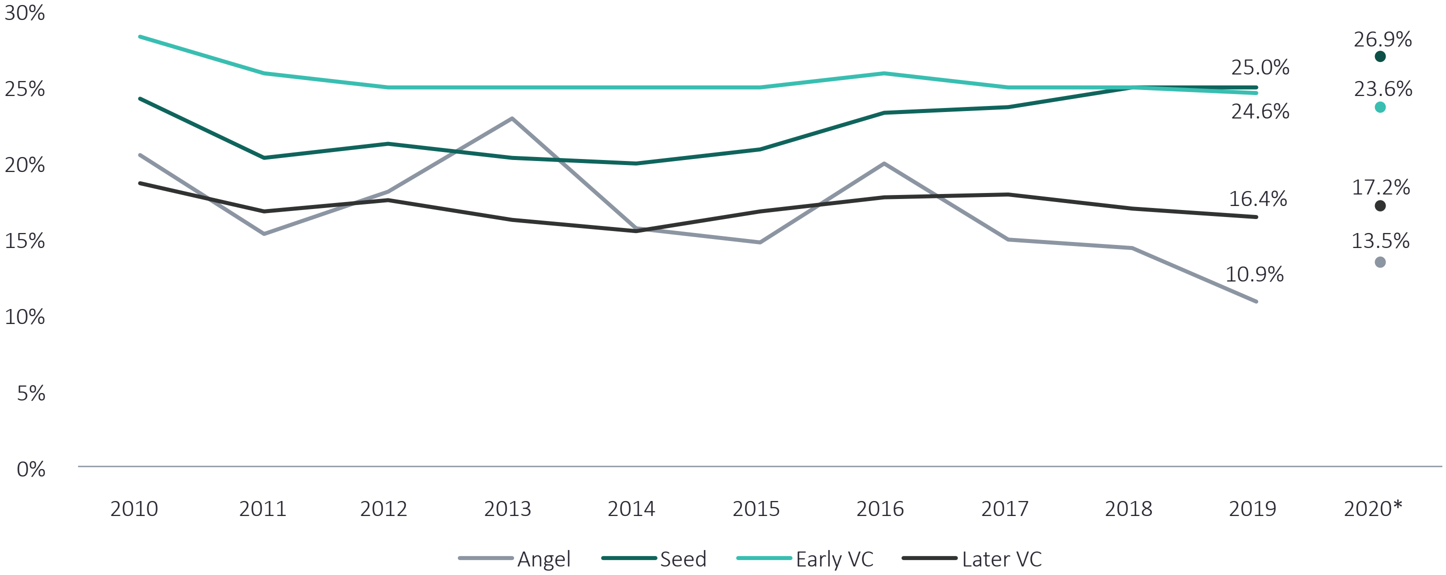
Quartile breakdown for later-stage pre-money valuations ($M)



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

Spotlight: Enterprise tech

Median % acquired by stage



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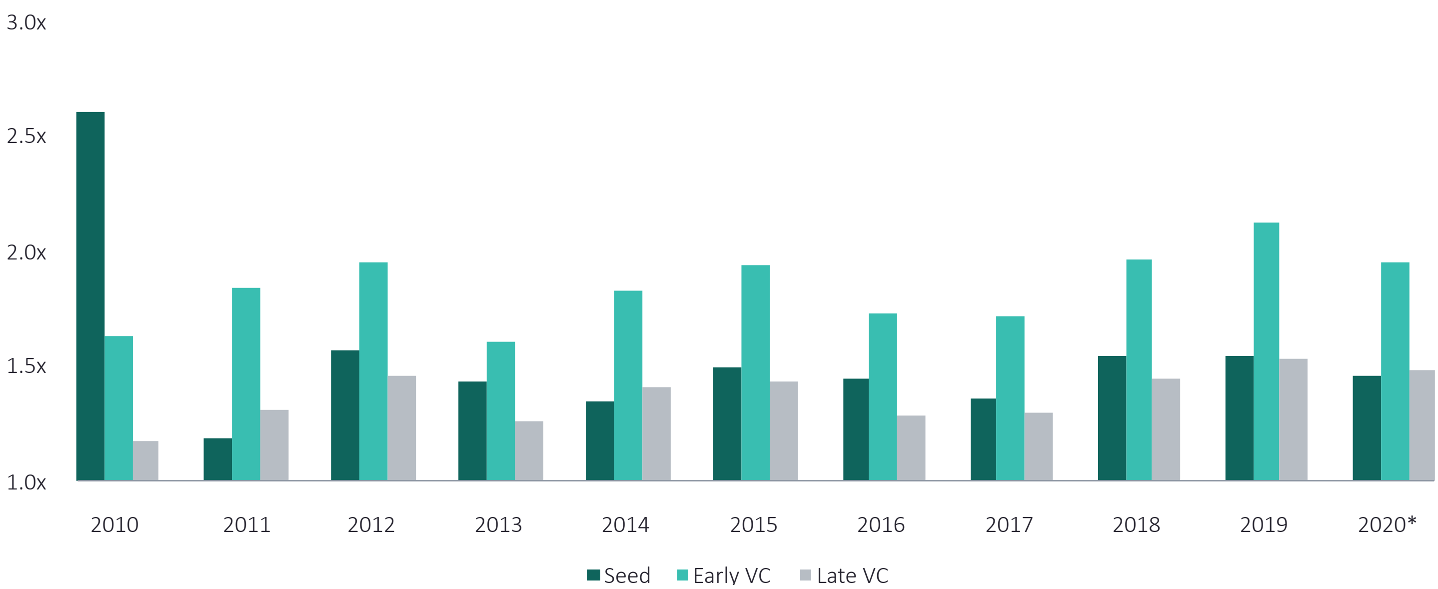
Median step-ups by stage



Source: PitchBook | **Geography:** US
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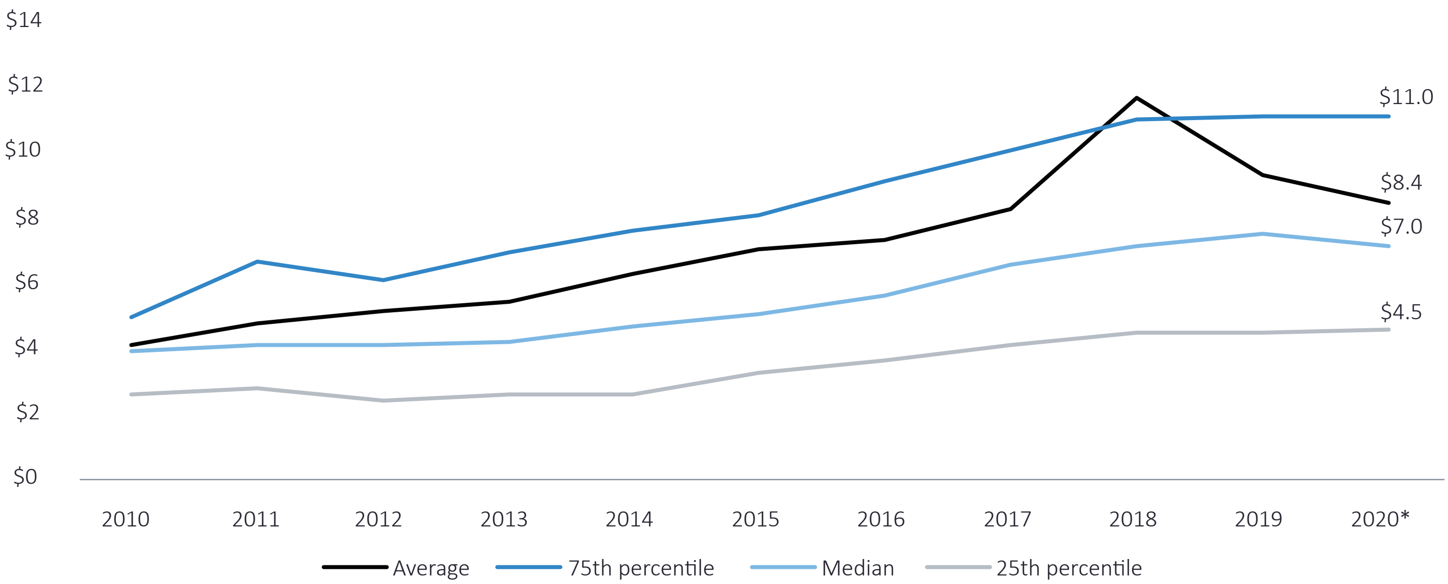
Spotlight: Consumer tech

Quartile breakdown for seed-stage pre-money valuations ($M)



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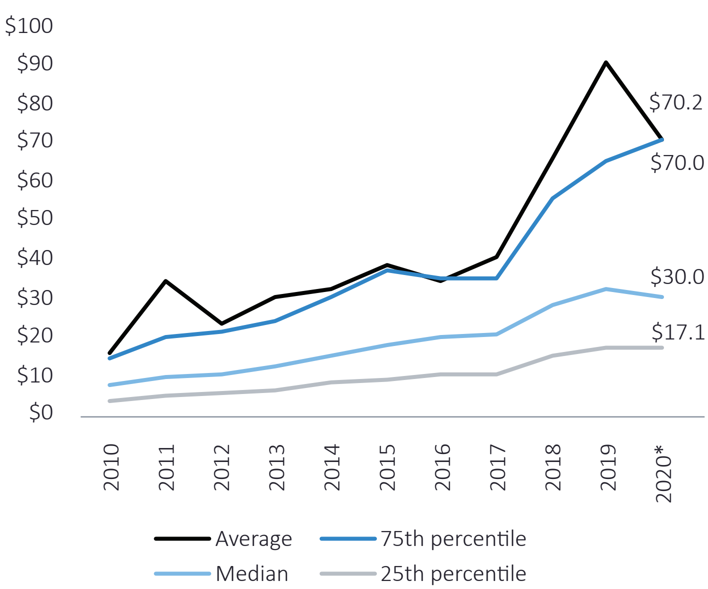
Quartile breakdown for early-stage pre-money valuations ($M)



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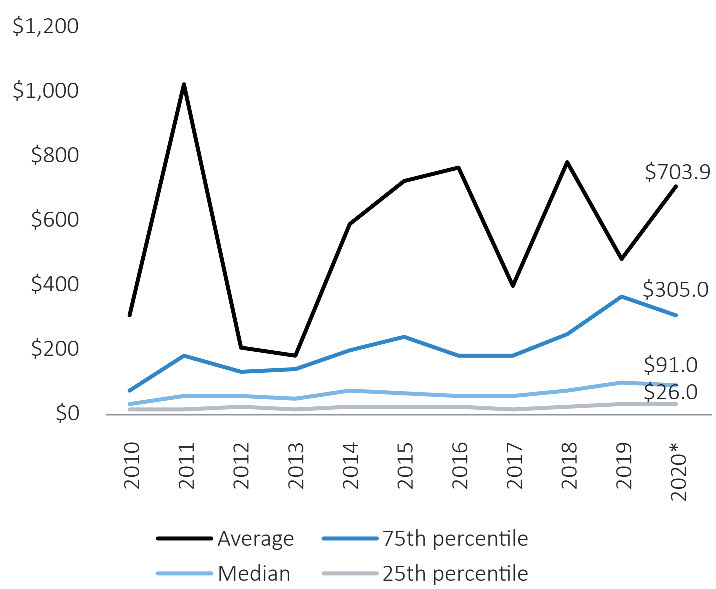
Quartile breakdown for late-stage pre-money valuations ($M)



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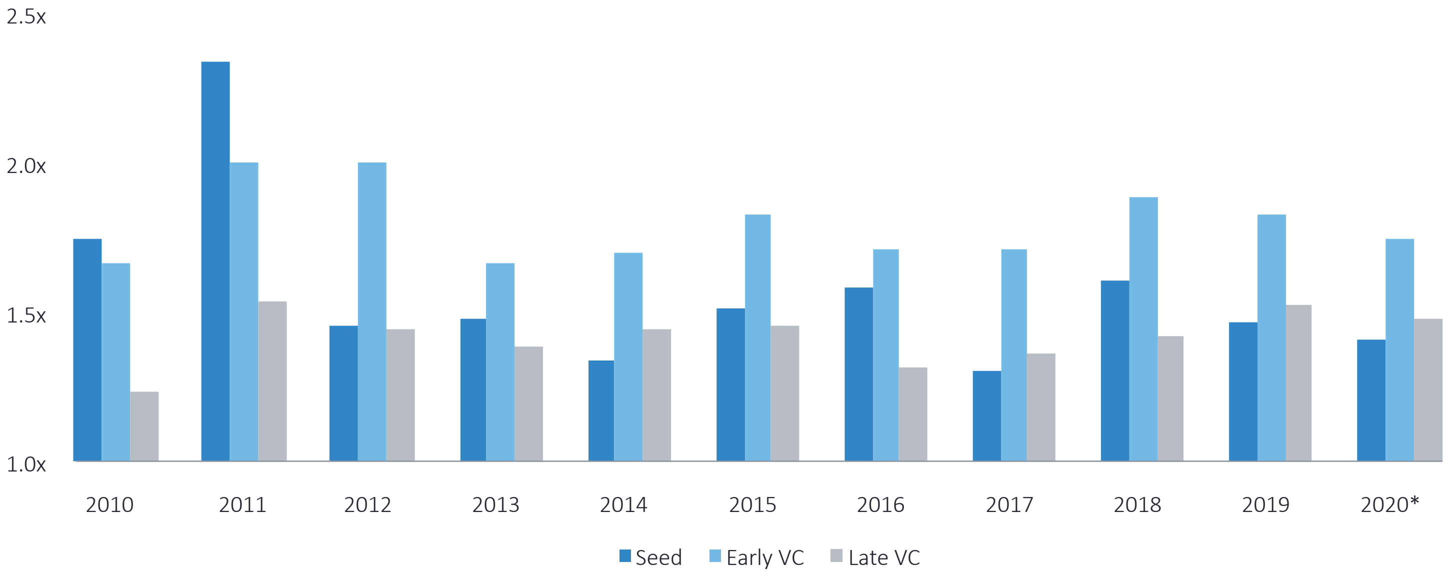
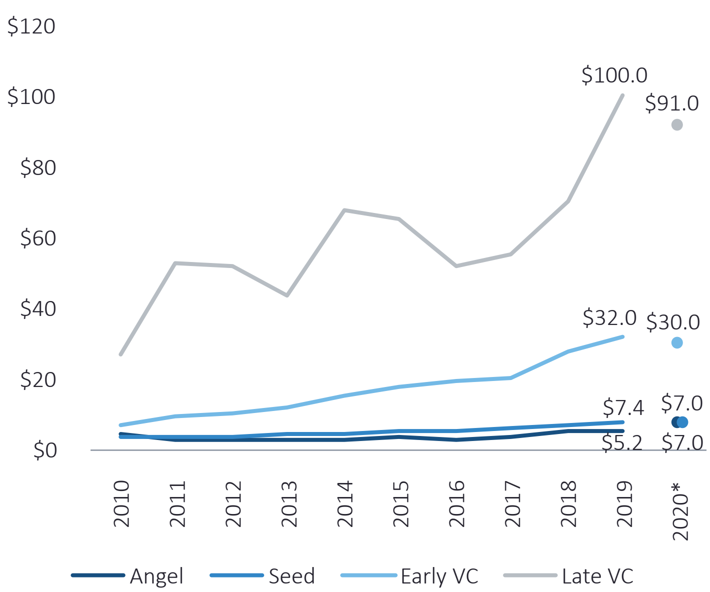
*As of September 30, 2020

Median step-ups by stage



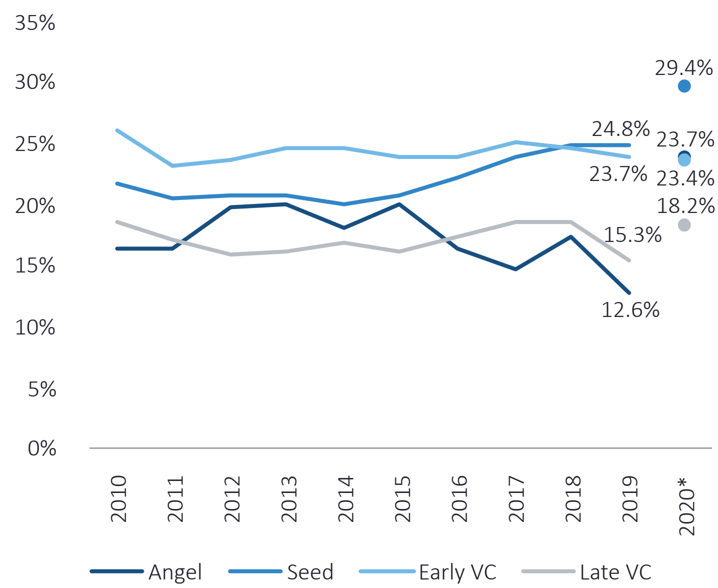
Source: PitchBook | Geography: US
*As of September 30, 2020

Median pre-money valuations ($M) for startups by stage



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

Median % acquired by stage



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

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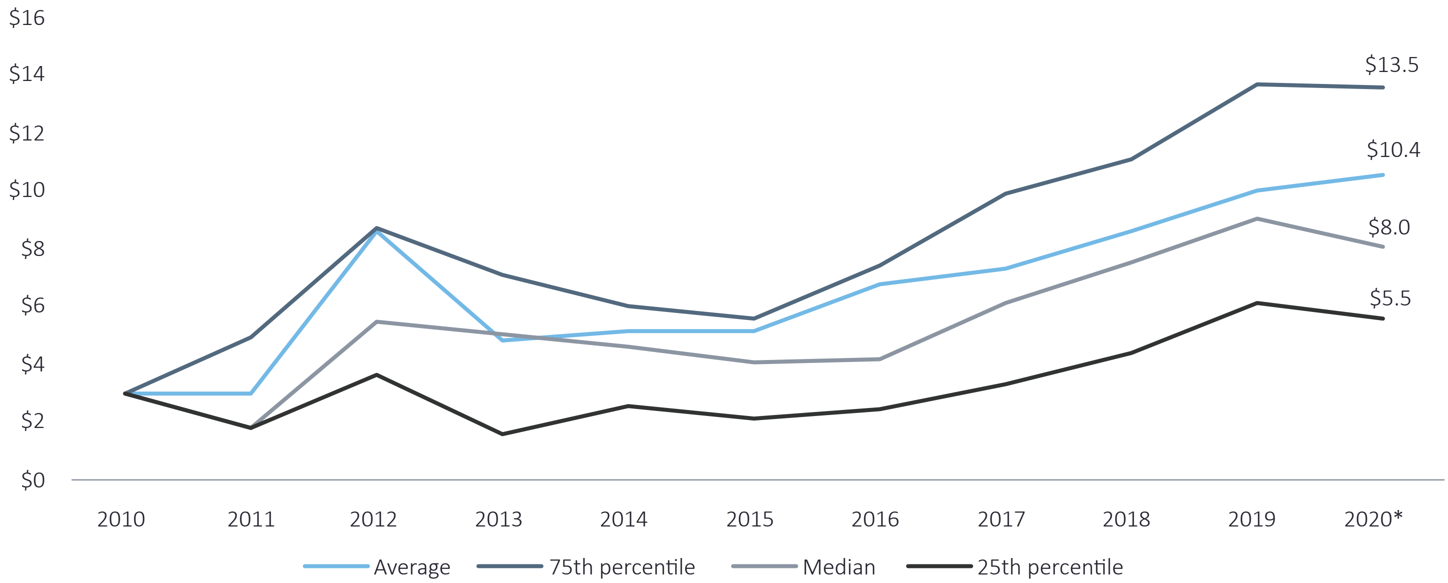
Spotlight: Biotech & pharma

Quartile breakdown for seed-stage pre-money valuations ($M)



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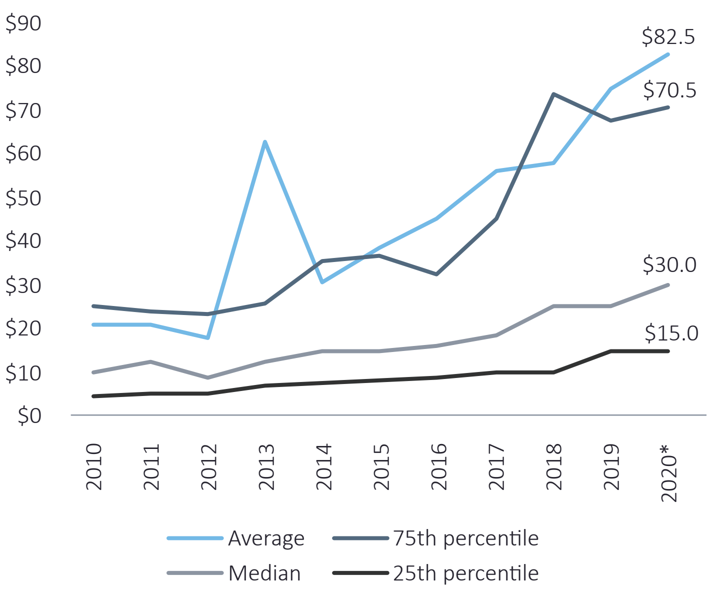
Quartile breakdown for early-stage pre-money valuations ($M)



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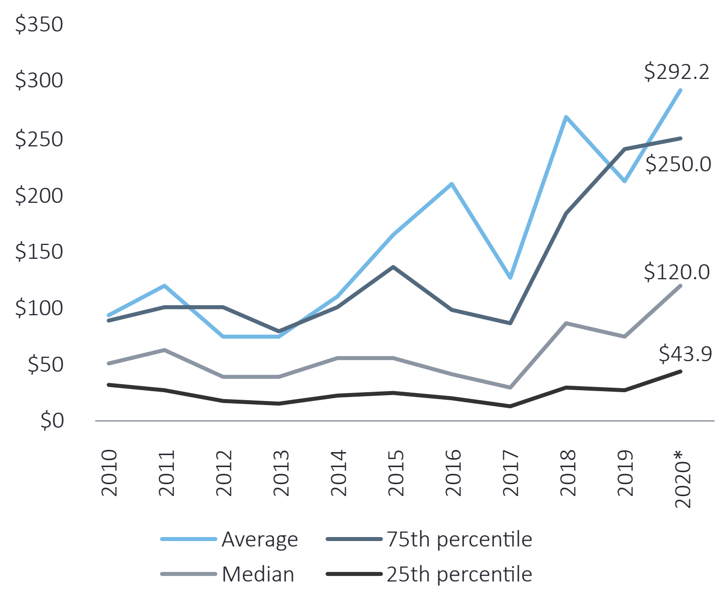
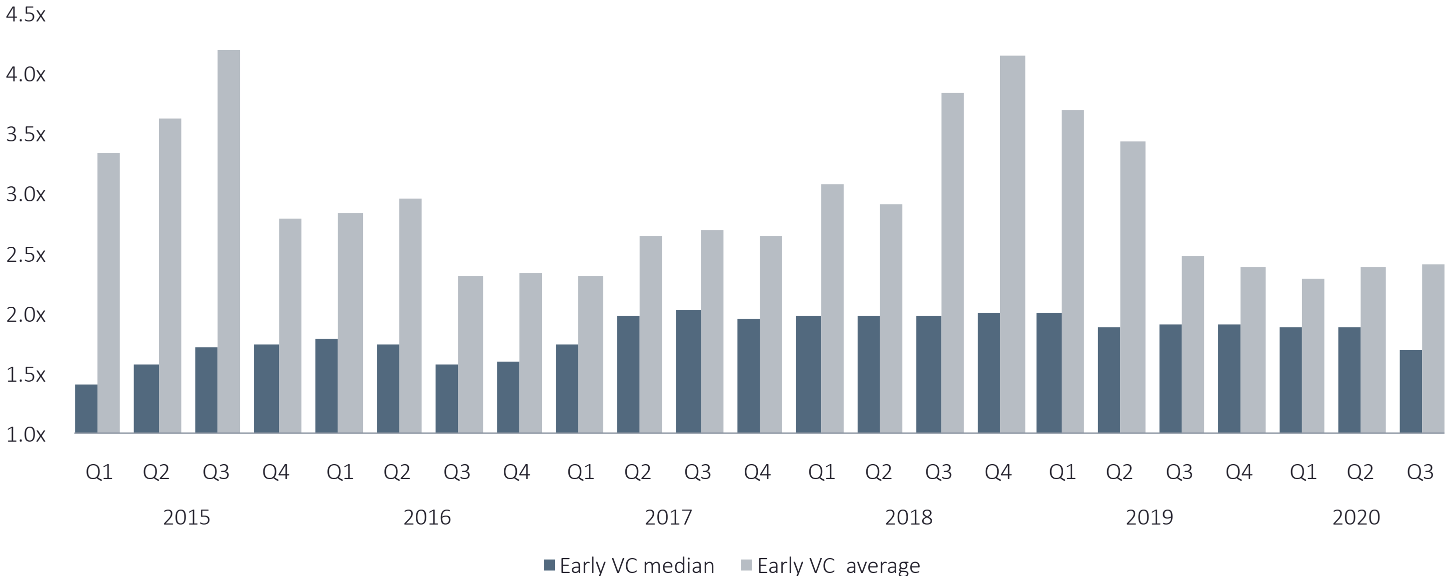
Quartile breakdown for late-stage pre-money valuations ($M)



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

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



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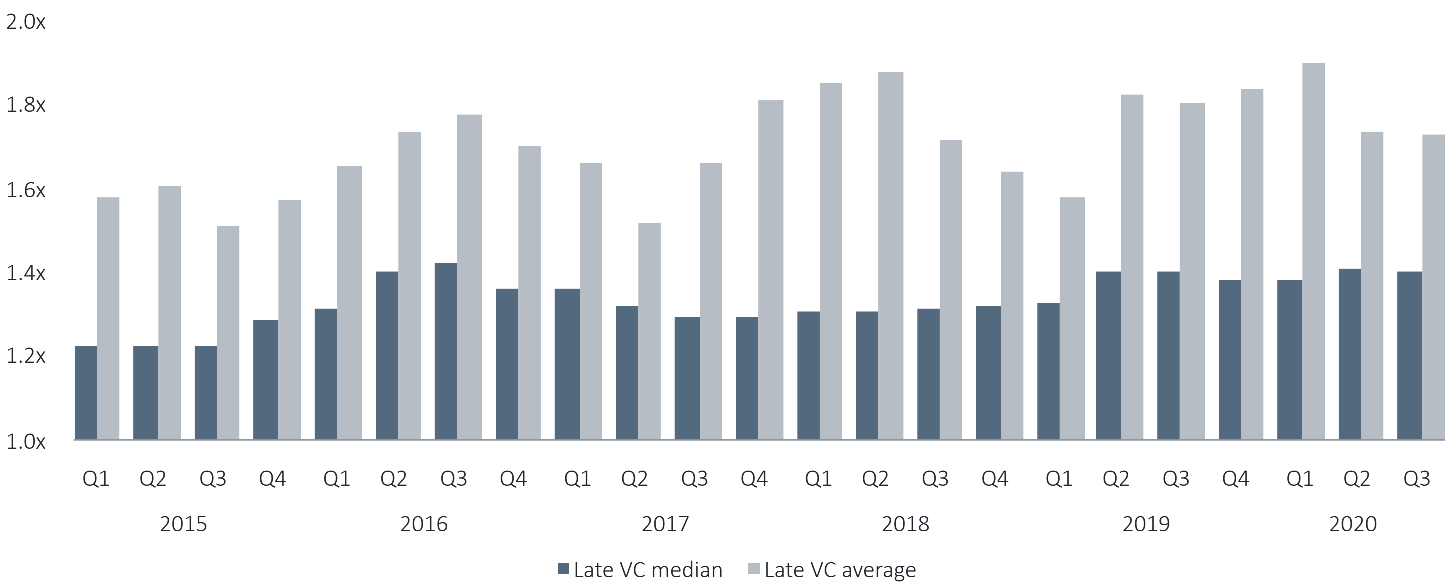
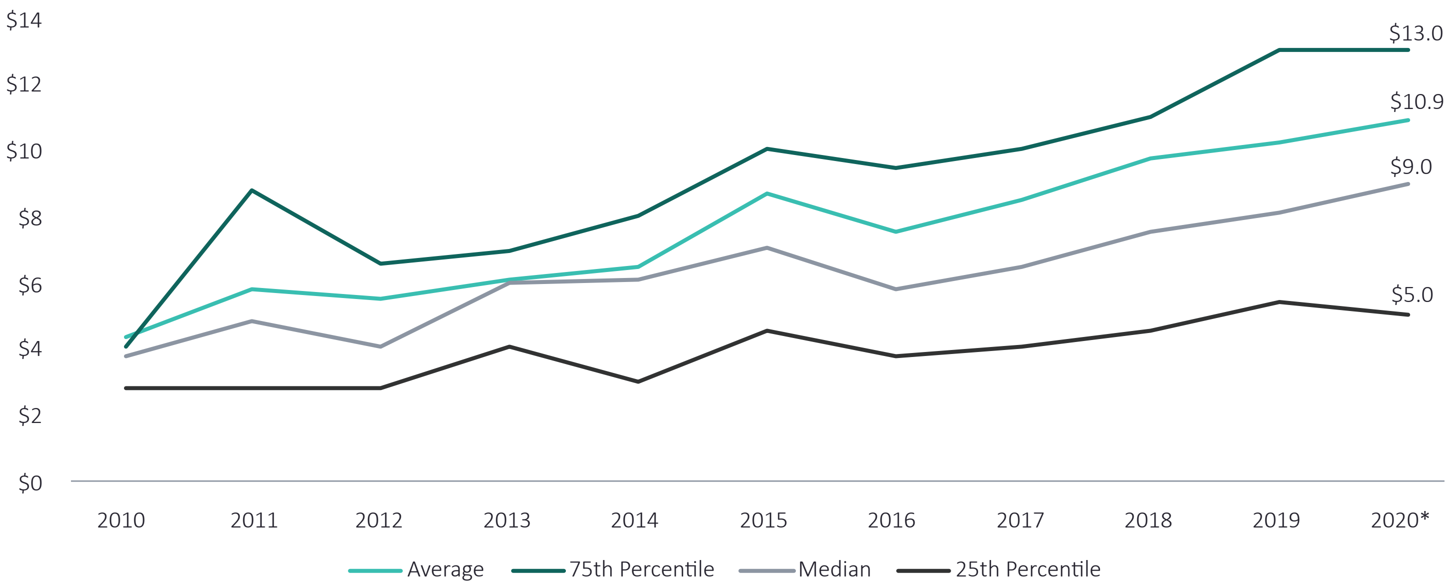
Rolling 4-quarter median and average step up for late-stage VC



Source: PitchBook | **Geography:** US

Spotlight: AI/ML

Quartile breakdown of seed-stage pre-money valuations



Source: PitchBook | **Geography:** US
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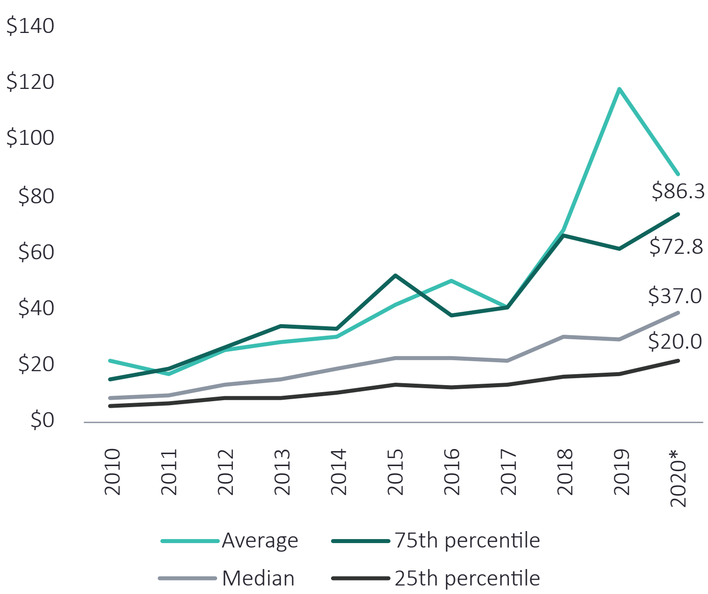
Quartile breakdown of early-stage pre-money valuations



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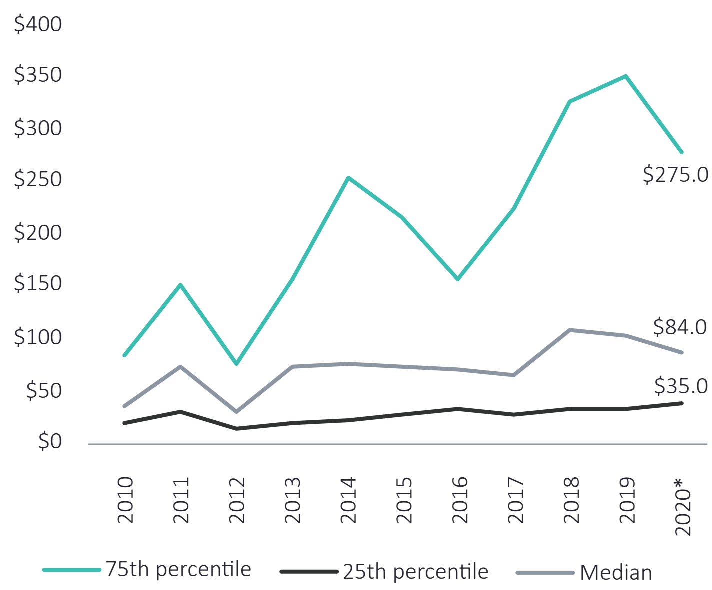
Quartile breakdown of late-stage pre-money valuations



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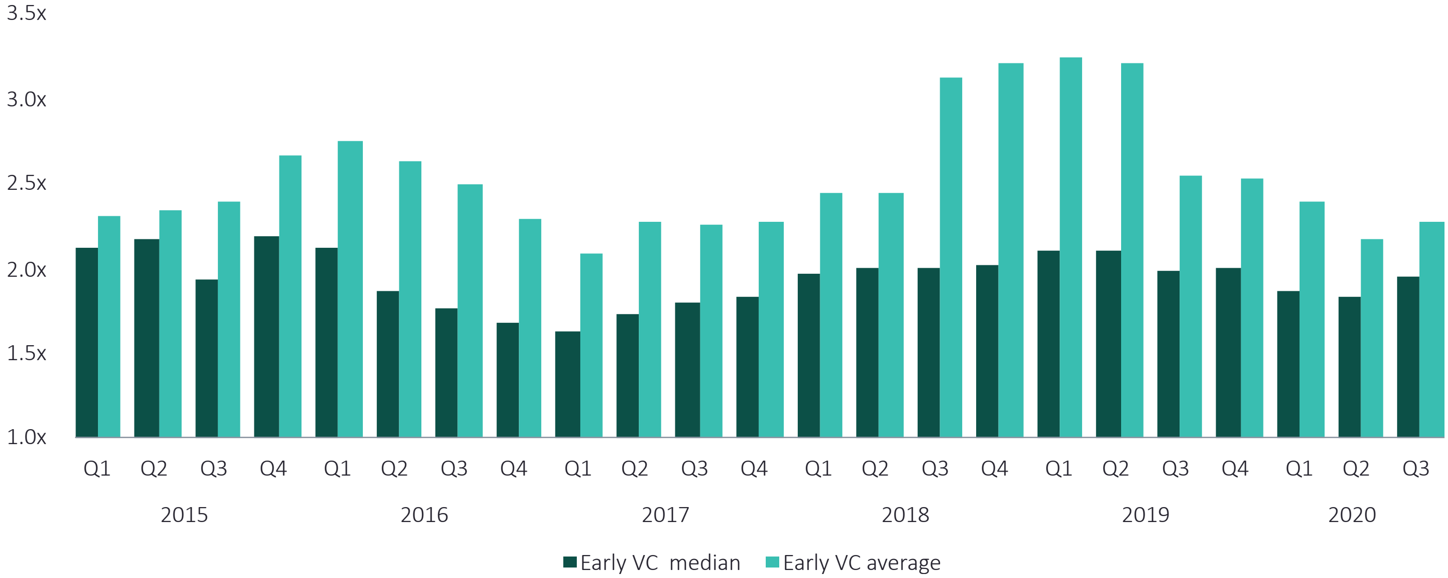
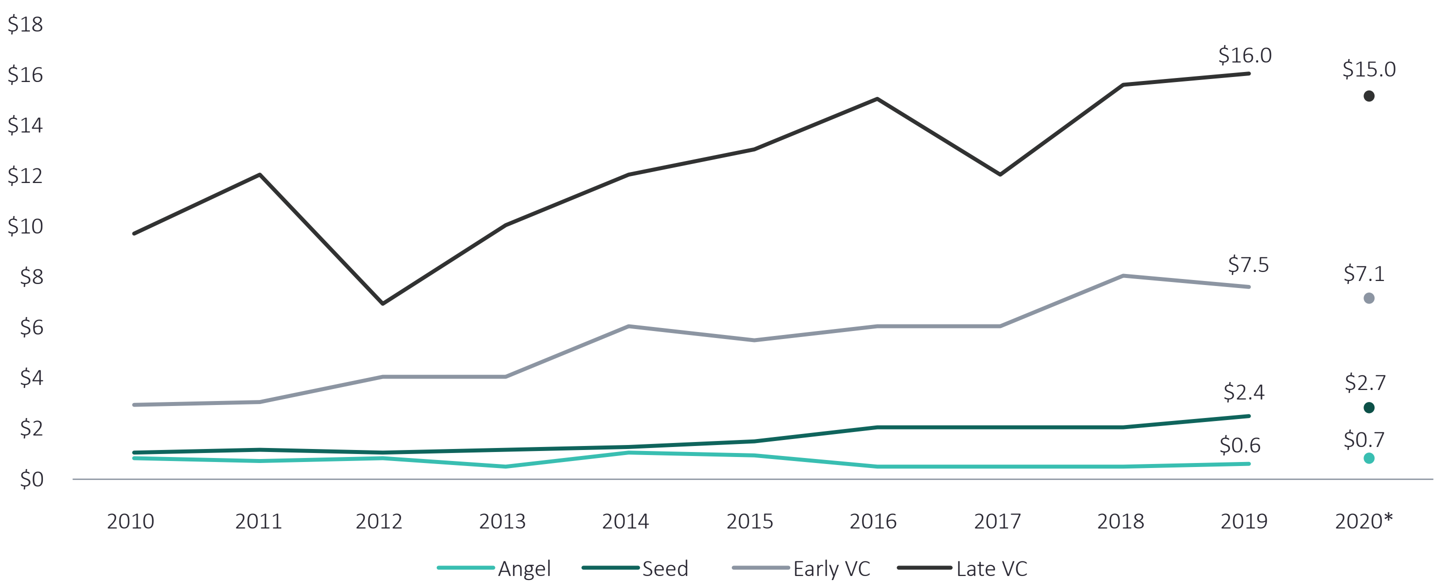
*As of September 30, 2020

Rolling 4 quarter early-stage valuation step-up



Source: PitchBook | **Geography:** US

Median deal size ($M) by stage

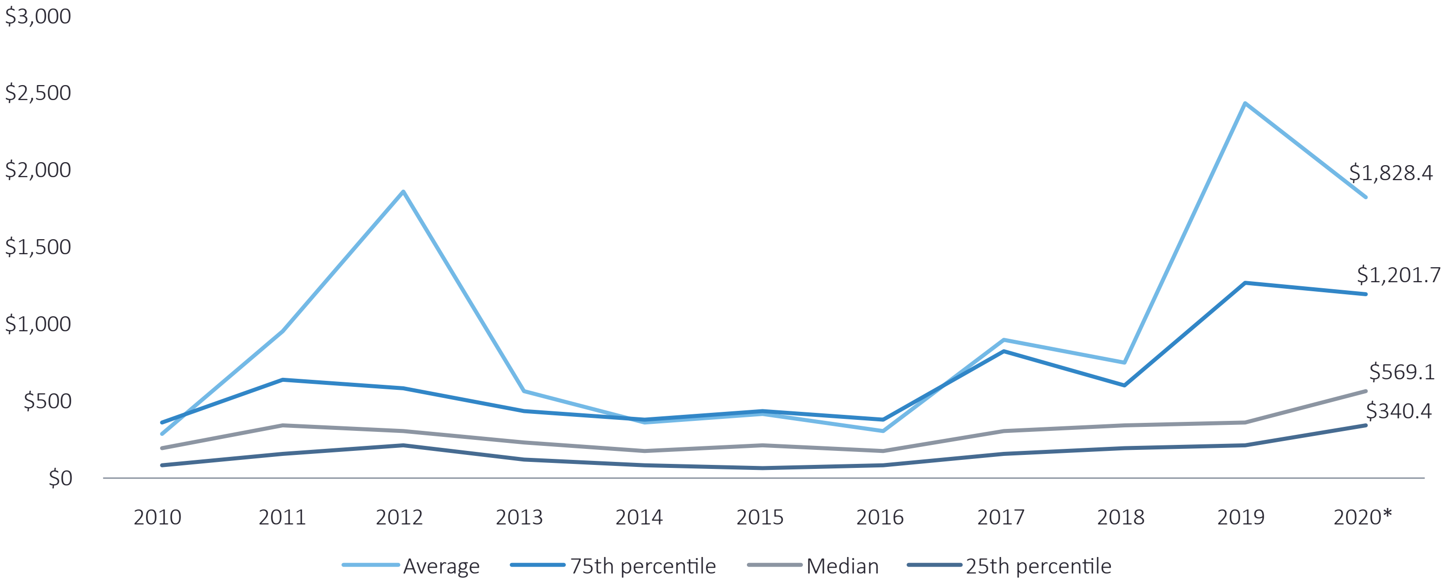


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Liquidity

Massive public listings in Q3 push average IPO size close to 2019 high

Quartile breakdown of valuation at IPO



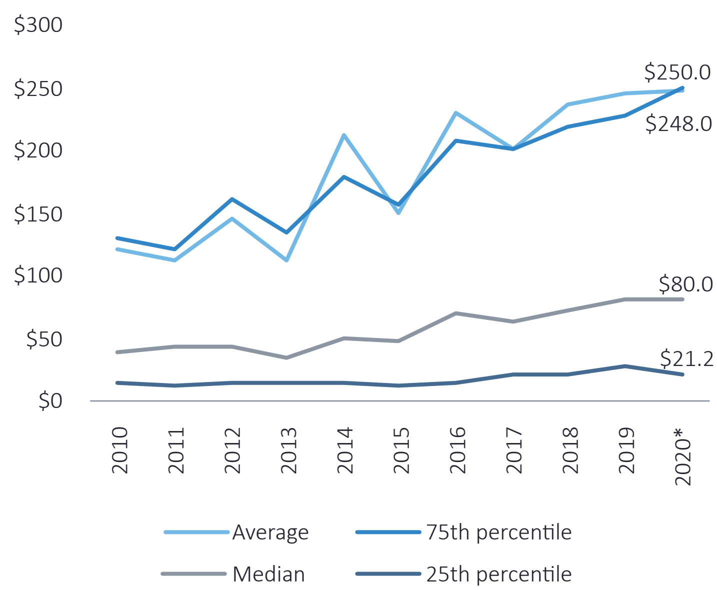
Source: PitchBook | **Geography:** US
*As of September 30, 2020

VC exit activity in the third quarter stood out for the massive amount of value that became liquid, notching the second-highest quarter in our complete data set, the majority of which was concentrated in a handful of gigantic IPOs. The public listings of Snowflake, Palantir, Unity, and Asana made up 64.8% of all exit value in the quarter; these massive deals have more than doubled the average and top quartile IPO valuations QoQ. This resurgence of IPOs—especially the large technology listings—is a welcome sight to the VC exit environment after a lethargic H1 where we only saw biotech startups pursuing IPOs. The improvement of the IPO environment can also be seen in the valuation step-ups, where there has been a sustained uptrend over the course of the year on a rolling basis from 1.08x in Q4 2019 to 1.15x in Q3 2020.

Public stock markets have been quick to rebound after the initial pandemic sell-off, trusting the backstop of governmental stimulus, which has also been a boon to startups choosing to transition to the public markets. Software companies have also been affected less by the pandemic than many other industries, allowing more comfort for public market investors who may be interested in allocating to these younger businesses.

Acquisition sizes remain at decade highs, apart from slide at the bottom quartile

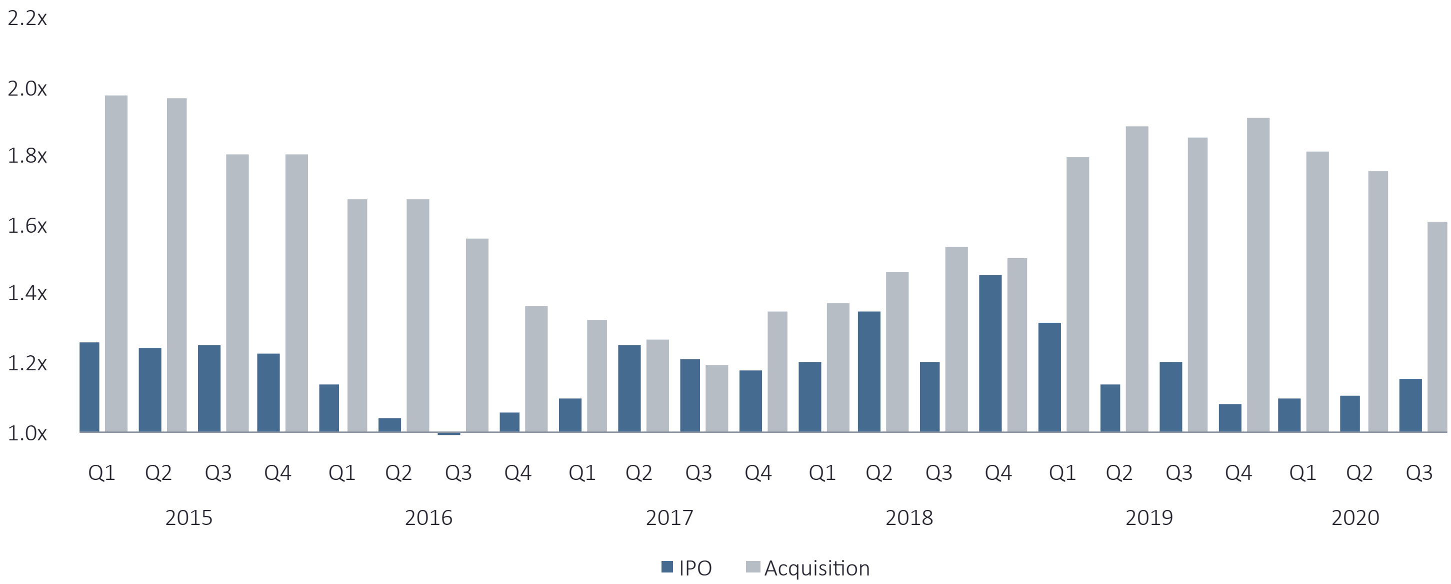
Quartile breakdown of valuation at acquisition



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

Step-ups improve in Q3, particularly for IPOs

Rolling 4 quarter valuation step-up at exit



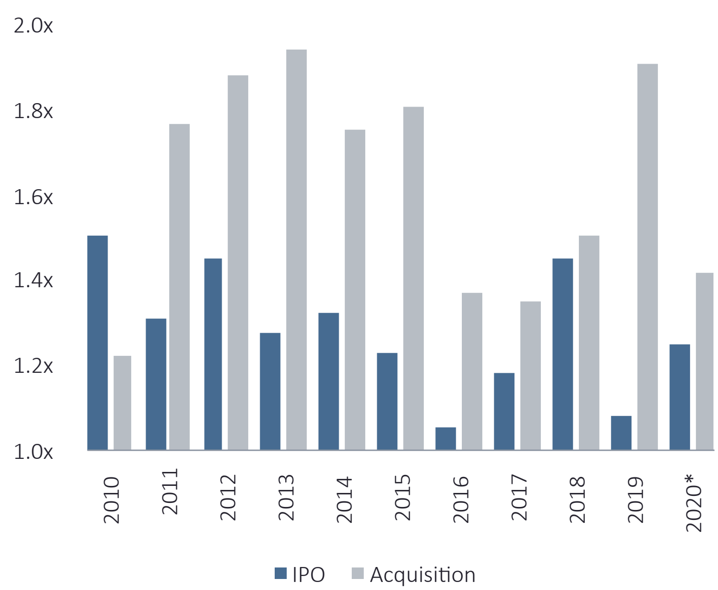
Source: PitchBook | **Geography:** US

This demand for businesses with growing revenues has engendered a valuation premium that has helped startups, which typically fit into the "growth" category, consistently price their IPOs over their last private valuation.

The acquisition front has seen less movement from valuations relative to what we've seen with IPOs. The median and average so far in 2020 are essentially flat to the 2019 value, but at the 25th percentile there has been a 19.8% decline in valuation YoY. This seems to be due to a legitimate shrinking of acquisition sizes as the breakdown of acquisitions by stage is essentially equal to the historical averages, implying the decline isn't due to a shift in demographics. Acquisition step-ups have also been trending negatively, potentially signaling that struggles from the pandemic have caused some earlier and less favorable VC exits.

Acquisition step-ups sitting below 10-year average

Annual valuation step-up at exit

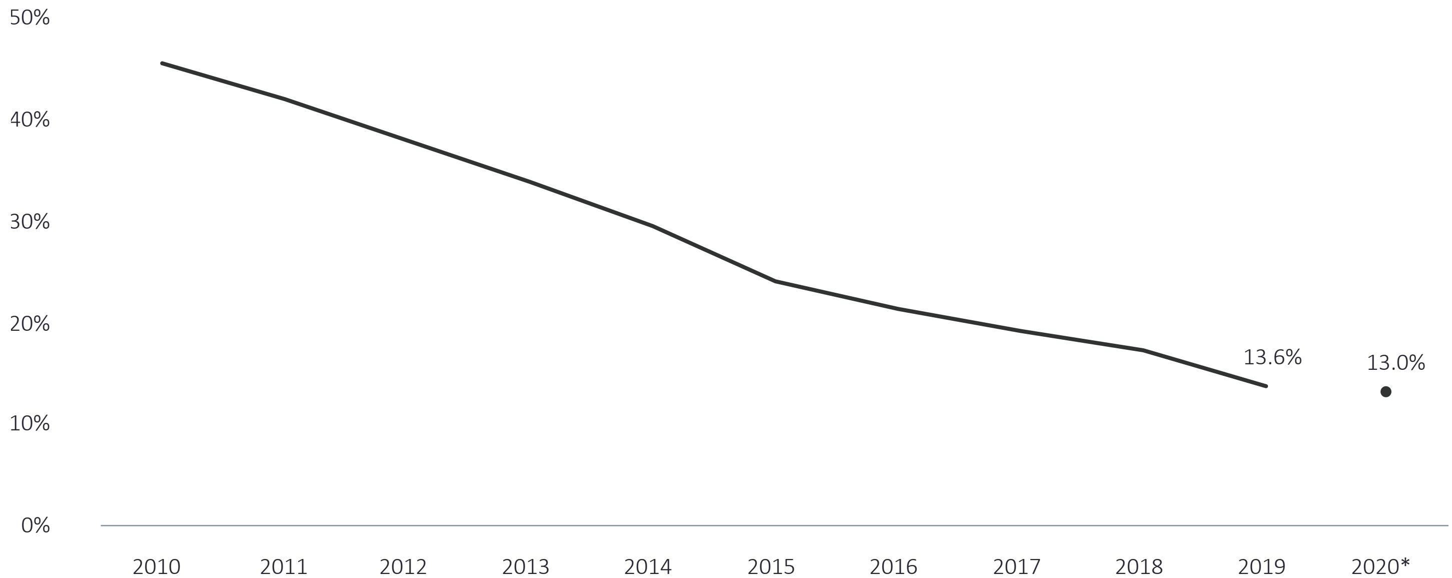


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Deal terms

Deals with participation rights continue downward trajectory

Percentage of deals including liquidation participation



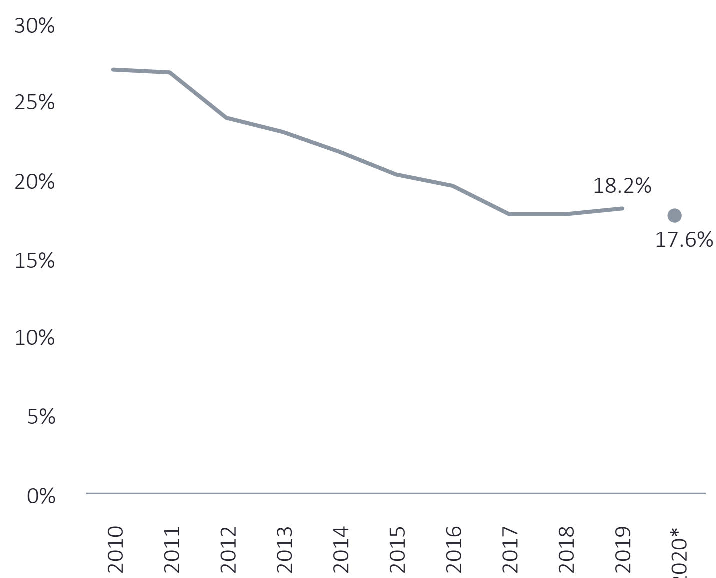
Source: PitchBook | **Geography:** US
*As of September 30, 2020

As the pandemic continues to surge within the United States, and long-term economic uncertainty lingers, we have yet to see any noticeable spikes in protectionist terms making their way into VC term sheets. Cumulative dividends and liquidation participation have maintained the decade-long downtrend so far in 2020, implying that the founder-friendly terms that have come to dominate the market may be more enduring. This current reality of swelling capital availability in the VC space seems to be a stronger force than any perceived economic weakness. Although there has been a slightly higher proportion of down rounds so far in 2020 compared to 2019, it still pales in comparison to the spike seen during the global financial crisis, meaning many investors haven't needed to invoke these protections and, therefore, haven't brought them back into term sheets.

However, it has only been about eight months since the onset of some of the first pandemic shutdowns in the US, a time period that many startups have tried to bridge by cutting expenses and adding venture-debt or other means of financing to extend runway. Furthermore, the median time between rounds for US VC-backed companies has consistently hovered

Cumulative dividend terms finding a steady state

Percentage of deals including cumulative dividends

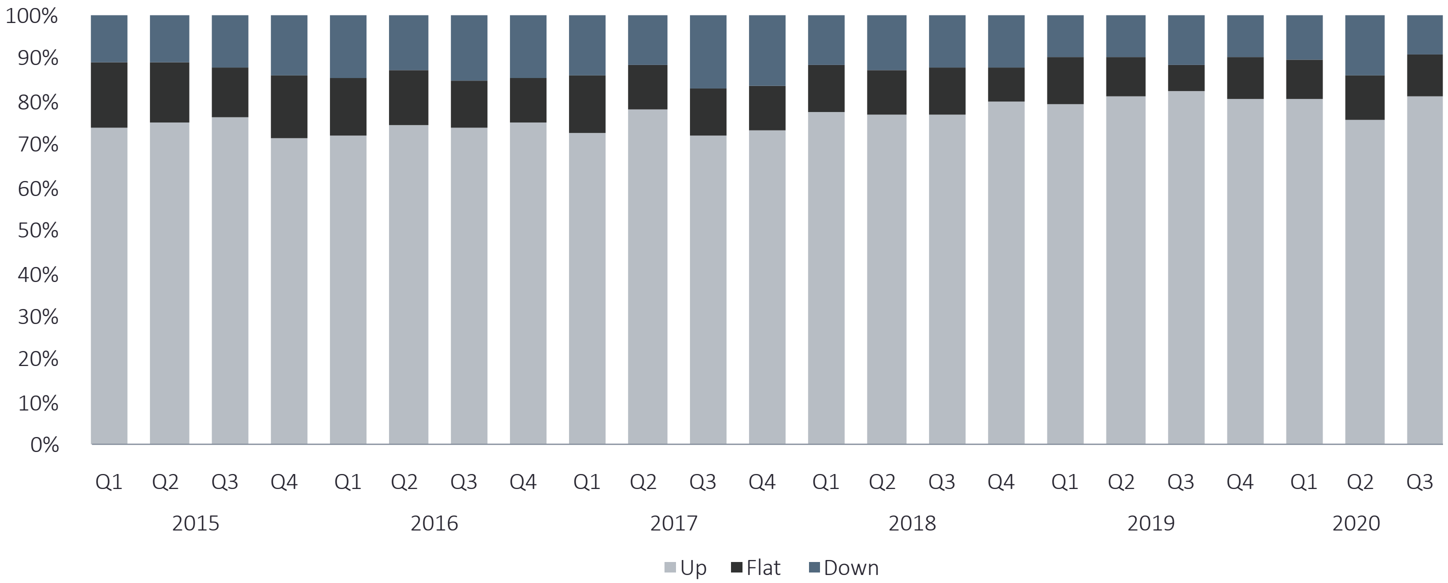


Source: PitchBook | **Geography:** US
*As of September 30, 2020

Deal terms

Down and flat rounds shrink as proportion of total

Proportion of up, down, and flat deals for all US VC deals

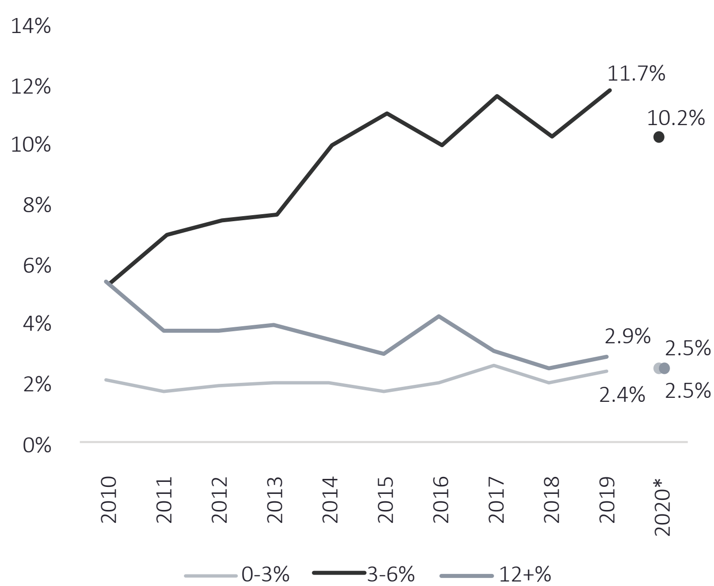


Source: PitchBook | **Geography:** US

between 1.2 years and 1.5 years, which means many startups wouldn't have come back for new financing regardless. Further, these down rounds or outright failures are typically not announced publicly or widely, which means they would be collected later in our process. If macroeconomic activity remains stunted for a further 6–12 months, a much larger number of startups would be forced to come back to market or pursue a sale, which is the only way the data would show a significant trend toward down rounds and a shift in aggregate terms toward protectionism.

Dividend sizes concentrating at the median of 8.0%

Dividend buckets (excluding 6%-9%)



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