Q1 2022 PitchBook-NVCA Venture Monitor First Look

VC industry facing market full of headwinds

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First look

The first three months of 2022 brought about change in the US venture market. Headwinds—including volatile public markets, long-awaited interest rate hikes by the Fed, and the ongoing war in Ukraine—have caused the market to shift from its constant "up-and-to-the-right" movement. This has catalyzed a marked decline in the number of IPOs, a vital outlet for VC-backed companies and their investors, at a time when the number of unicorns has grown to well over 1,000 globally. Economic conditions created by years of near-zero interest rates have fostered nontraditional investors' growing interest and activity in the private markets. These investors, and their large swaths of capital, have been major forces in many of today's VC trends. For many reasons, the venture market sits at a crossroads, entering this time of uncertainty as a much different market than it was prior to the global financial crisis (GFC) or the dot-com bubble.

Despite these headwinds, many areas of VC data appear relatively unscathed. Private data lags the public markets, and market volatility caused a much softer movement to venture figures in Q1 than many expected. First financings closed at a near-record pace, nearly 200 VC mega-deals (sized $100 million or larger) were completed, and the proportion of completed deals with CVC participation set a new quarterly high. We expect to see the shift in the venture ecosystem illustrated in the data over the next couple quarters. With that said, we can already see certain areas that are softening within the market, especially when compared with the past couple years of exuberance.

- **Public market performance and economic uncertainty cause a pause in VC exit value.** On the back of poor public market performance for growth assets, IPOs of VC-backed startups have neared a complete halt during the first three months of 2022, and SPAC combination deals have fared only marginally better. This is in especially stark contrast to the flurry of public listings in 2021 that nearly matched the frenzy of 2000. The longevity of this quiet period will be critical to the health of the VC liquidity environment given how concentrated VC exit value has been in public listings over the last two years.

- **The late stage has begun to show the impacts of the turbulent market.** Deal sizes and valuations have begun to drop as the companies closest to the public market see public valuations reflected on them as they look to raise capital. Nontraditional investors, heavily involved in the late stage, are also likely to soften their activity. This should significantly affect VC deal value after years of record investment from these players.

- **Fundraising has launched into 2022 with the momentum of recent record years of fundraising, already collecting more than $70 billion in commitments.** Though a large portion of that total is in just a few funds, the added dry powder should help further insulate the venture market from immediate, major disruption. A lag in fundraising will likely show last in the data, as funds may be raising capital for a long time before they are announced as closed. We expect emerging managers to have a more difficult time raising new funds over the near term as LPs rebalance their portfolio and allocate to known, or more established, investors and managers.

The PitchBook-NVCA Venture Monitor First Look is a preliminary release of top-line venture industry figures for the US market, intended as a first-to-market source of key datasets and findings. It will serve as a preview of the full PitchBook-NVCA Venture Monitor, which will be released in full shortly after these initial figures are made public. The methodology behind the First Look and the full Venture Monitor remains the same and consistent with previous editions barring any explicit changes incorporated over time. Based on that methodology and PitchBook's current estimation calculations, there could still result minute disparities between these initial estimates and the final confirmed figures in the full report, but that likelihood remains minimal.