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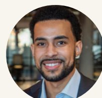

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Vertical Opportunities in a Reopened IPO Window

Unlocking liquidity in the SaaS, AI & ML, and fintech segments

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

Key takeaways

- Despite a somewhat resilient US economy, the IPO drought persists with just $28.2 billion in public listing value achieved through Q3 2023 compared with the $511.9 billion raised through the first three quarters of 2021. This lack of exits has contributed to a massive liquidity crunch in the venture ecosystem, and many are hoping for an IPO comeback in 2024 to relieve pressure.

- Within the VC ecosystem, some verticals are facing more pressure than others due to the massive amounts of capital that have been injected into the space. For example, while there is some vertical tagging overlap, we estimate that among active venture-growth-stage SaaS, AI & ML, and fintech startups, there has been over $256.6 billion invested across these verticals in aggregate. When looking at their cumulative post-money valuations, we find that these startups are collectively worth $981.5 billion. Ultimately, the VC firms and their LPs who have invested in these startups are increasingly in need of a return given the massive amount of value created in these verticals, meaning the prospect of a reopened IPO window in 2024 is extremely appealing.

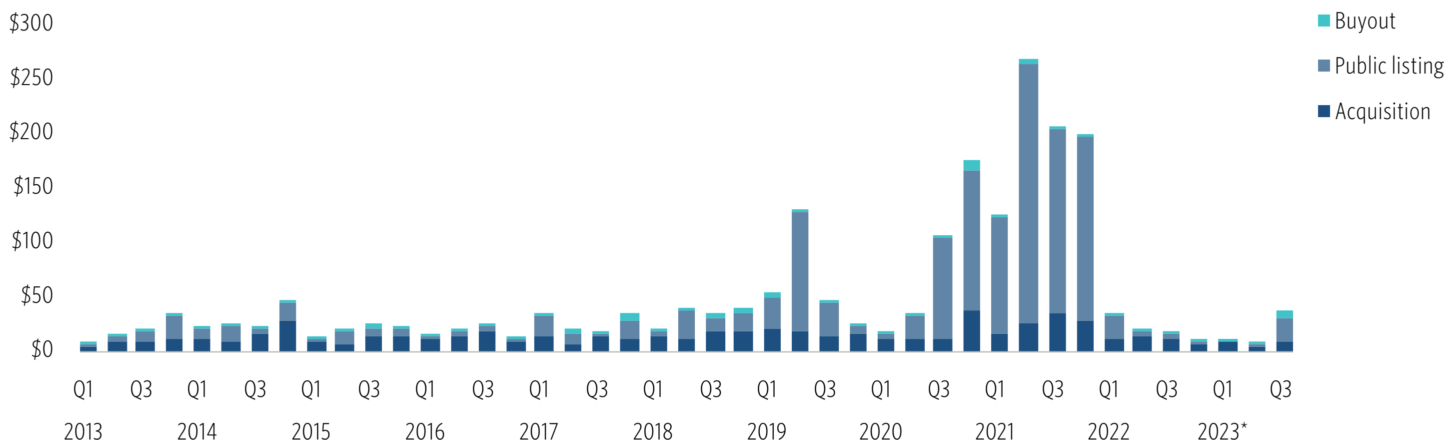
- As of Q3 2023, PitchBook's VC Exit Predictor has identified a large number of startups that have a greater-than-50% chance of achieving a successful exit. For example, our predictor has found 2,282 late-stage and venture-growth-stage SaaS startups that are more likely to successfully exit than not, and within the group, our data indicates that 194 of these startups will likely exit via IPO, rather than M&A, for example. While we do not know which specific startups will actually go public in 2024, if any at all, the Exit Predictor does provide a glimpse into the potential possibilities.

Current IPO landscape and potential impact of reopening

The US economy has been surprisingly resilient through 2023, with recent data showing GDP at an annualized growth rate of 5.2% in the third quarter.[1] Other positive economic indicators include a strong labor market and resilient corporate earnings, further underscoring the nation's economic health. And, though the Federal Reserve has raised rates 11 times between March 2022 and July 2023, slowing consumer demand has raised optimism of a halted rate hike, with some even anticipating a rate cut in mid-2024.

However, despite these encouraging signs, a significant challenge persists—the frozen state of the IPO market, which has persisted for approximately 18 months. This hiatus stems from various factors, notably the escalation of interest rates and the consequential market volatility that affected public valuations, particularly in the tech sector. Given that most VC-backed unicorns are tech companies, the significant decline in valuations for public tech companies served as a highly discouraging signal for many startups contemplating an initial public offering. Through 2023, there have been 60 public listings of VC-backed companies, encompassing both traditional IPOs and deSPAC transactions, totaling roughly $28.2 billion in exit value. This stands in stark contrast to the first three quarters of 2020 and 2021, when 83 public listings amounted to $119.8 billion, and 229 public listings totaled $511.9 billion, respectively.

Quarterly US VC exit value ($B) by type



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

When companies are not exiting, returns are not being generated; the implications of such a liquidity crunch stemming from a lack of public listing opportunities are vast, both for startups and their investors. The IPO market plays a pivotal role in generating liquidity and supporting the growth trajectory of VC-backed startups. When a startup goes public, it not only provides an exit strategy for the startups' private backers but also enables the company to access a broader pool of capital from public investors. This influx of capital from the public market can be instrumental in fueling further innovation, expanding operations, and accelerating overall business growth. Moreover, the liquidity generated through IPOs allows early investors to realize returns on their investments,

1: "Gross Domestic Product (Second Estimate) Corporate Profits (Preliminary Estimate) Third Quarter 2023," Bureau of Economic Analysis, November 29, 2023.

which recycle capital back into the venture ecosystem and incentivizes continued participation in the VC market, thus providing resources for new startups to emerge.

When examining the ramifications of a liquidity crunch within the VC ecosystem, it becomes evident that certain verticals are poised to experience disproportionate effects, particularly those that have been heavily invested in and face mounting pressure to provide a return. Without returns, future investment into the vertical is challenged, ultimately slowing growth and innovation in the long term. Additionally, verticals characterized by substantial development cycles, where innovation and breakthroughs necessitate sustained funding, face heightened challenges in an IPO drought. The impact of a public listing liquidity crunch becomes more pronounced, as disruptions in funding avenues can impede progress, lead to setbacks in achieving critical milestones, and leave value trapped within an organization.

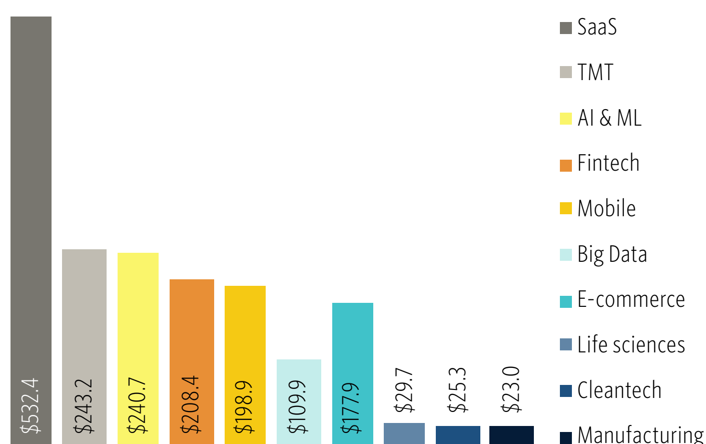
For reasons further explained in this note, the reopening of the IPO window holds several specific advantages for companies operating specifically in the software-as-a-service (SaaS), AI & machine learning (ML), and fintech verticals. Among these benefits, and arguably the most important, is the access to capital that going public affords. SaaS, AI & ML, and fintech firms often require substantial investment for research & development, technological infrastructure, and market expansion, and an IPO provides a significant avenue for the capital necessary to make strides in these areas.

Key verticals poised to benefit from IPO reopening

SaaS

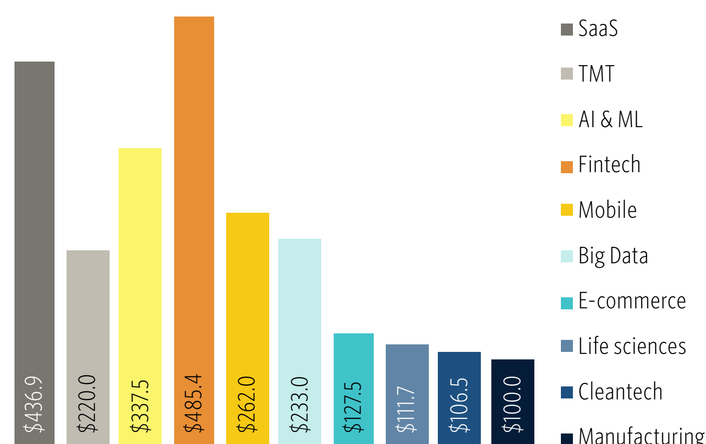
As of Q3 2023, our data estimates the cumulative post-money valuation among active US venture-growth-stage SaaS startups to be $532.4 billion—the highest among all verticals—with the median valuation per startup coming in at an impressive $436.9 million. The massive aggregative value within this cohort suggests there is substantial potential for unlocking value/return if members of this cohort look to publicly debut should the IPO window reopen in the first half of 2024.

Aggregate VC post-money valuation ($M) by vertical*



Source: PitchBook • Geography: US • *As of October 20, 2023
Note: Data includes only venture-growth companies. Verticals are not mutually exclusive

Median VC post-money valuation ($M) by vertical*

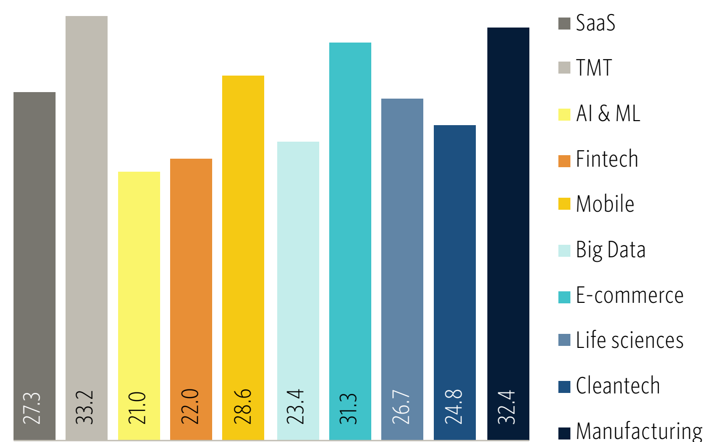


Source: PitchBook • Geography: US • *As of October 20, 2023
Note: Data includes only venture-growth companies. Verticals are not mutually exclusive

SaaS startups have historically contributed to large amounts of exit value within the venture ecosystem. In 2021, for example, SaaS startups at the venture-growth-stage achieved a total of $157.6 billion of exit value across 89 exit events; within this, the market observed several notable public listings, including the public debuts of UiPath, Toast, and GitLab. Since 2021, however, exit activity for the SaaS vertical has stalled considerably following the overall downward trend of the market. Venture-growth-stage SaaS startups garnered just $4.9 billion and $12.6 billion in exit value in 2022 and 2023 YTD, respectively, marking some of the quietest years observed in the last decade. This of course contrasts with the substantial capital invested in the vertical, as SaaS startups lead all verticals in aggregate fundraising, boasting a collective investment of $140.5 billion in active US VC-backed startups at the venture-growth-stage. The significant influx of capital into these ventures, coupled with the limited returns realized in the public markets, reflects the mounting pressure within the SaaS vertical and the imperative for a release of value.

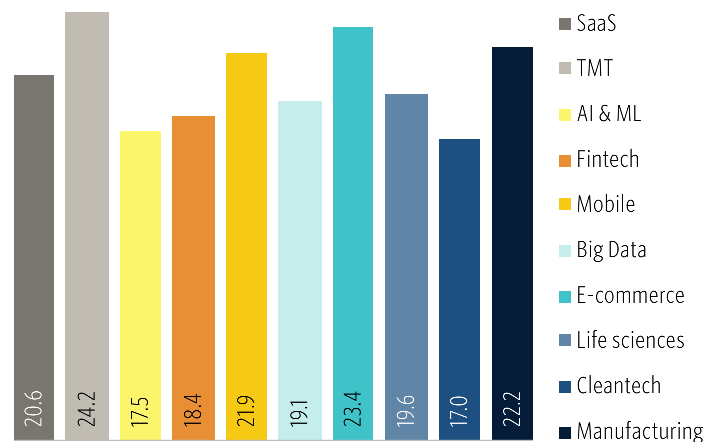
Our data, along with anecdotal evidence and narratives within the broader market, have shown that fundraising has been more difficult and time-consuming for startups over the last 18 to 24 months. Indeed, capital is no longer falling out of the sky as it once was in 2021, meaning the slowdown in capital supply we have been observing inherently puts pressure on many startups to pursue an exit, in many cases via IPO. For all active late-stage and venture-growth-stage SaaS startups, the period since their last VC stands at an average of 27.3 months and a median of 20.6 months. If we compare this figure to average and median amount of time that has passed between completed VC rounds in recent years, the figures were notably lower. Our data shows an average time between completed VC rounds of 25.2 months and a median of 18.2 months in 2022, and an average of 24.3 months and a median of 18.8 months in 2021. The current trend of extended time since last VC raise is certainly creating liquidity constraints for many startups, and the situation is further exacerbated by a notable decline in capital availability in the private markets compared to the escalating demand. A potential remedy to this liquidity pressure could be the reopening of the IPO window in 2024, ideally providing these startups with a valuable alternative for raising capital and addressing their financial challenges.

Average time (months) since last VC round*



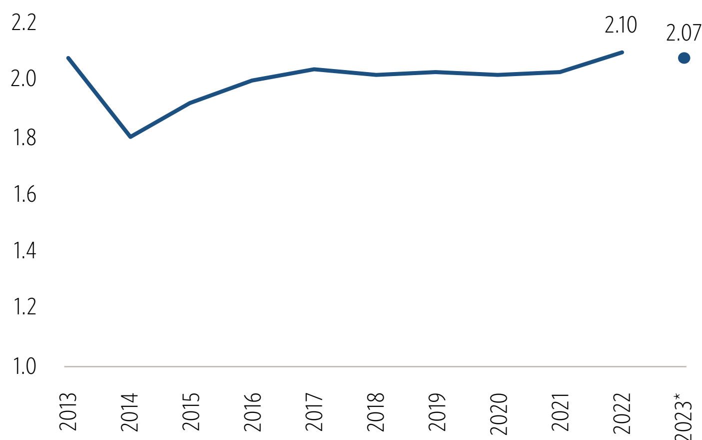
Source: PitchBook • Geography: US • *As of October 20, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Median time (months) since last VC round*



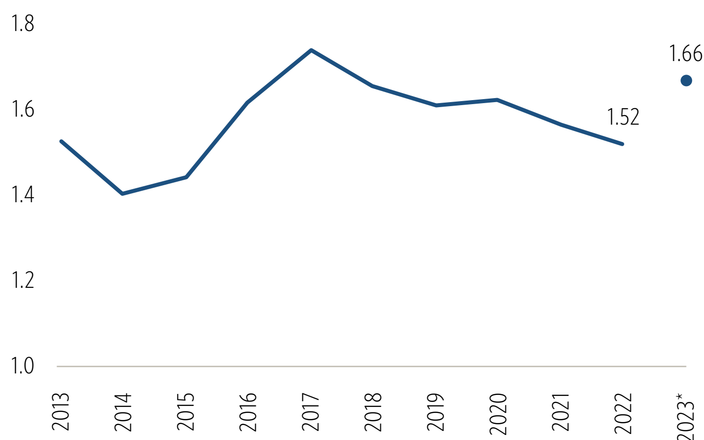
Source: PitchBook • Geography: US • *As of October 20, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Average time (years) between SaaS VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Median time (years) between SaaS VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Although forecasting the precise number or specific identity of startups eyeing an IPO in 2024 is challenging, PitchBook's VC Exit Predictor offers valuable insights. As of Q3 2023, our data has identified 2,282 late-stage and venture-growth-stage SaaS startups with a probability exceeding 50% for a successful exit via M&A or IPO. Within this cohort, 194 of these startups, or 8.5%, have an expected exit type of IPO, meaning there is a probability greater than or equal to 50% that they will go public if they ultimately exit.

While not every startup in this group will end up going public in 2024, and some may never pursue an IPO at all, our data does provide a potential glimpse of what is to come in the new year. A reopened IPO window would relieve an immense amount of liquidity pressure built up among many SaaS startups, who, in recent years, have achieved lofty valuations fueled by the tremendous amount of capital being invested into the vertical. The potential resurgence of the IPO market in the new year would not only provide immediate financial relief for investors, founders, employees, and other stakeholders, but also serves as a mechanism for channeling future financial backing for the next generation of SaaS companies by recycling capital back into the hands of those in the VC ecosystem that helped them achieve their initial success.

When analyzing PitchBook VC Exit Predictor data, it's important to note that there is some vertical tag overlap. For example, a company tagged as SaaS, and thus included in the SaaS cohort, may also be tagged as fintech and would also be included in the fintech cohort. Please note that verticals referenced throughout this report are not mutually exclusive.

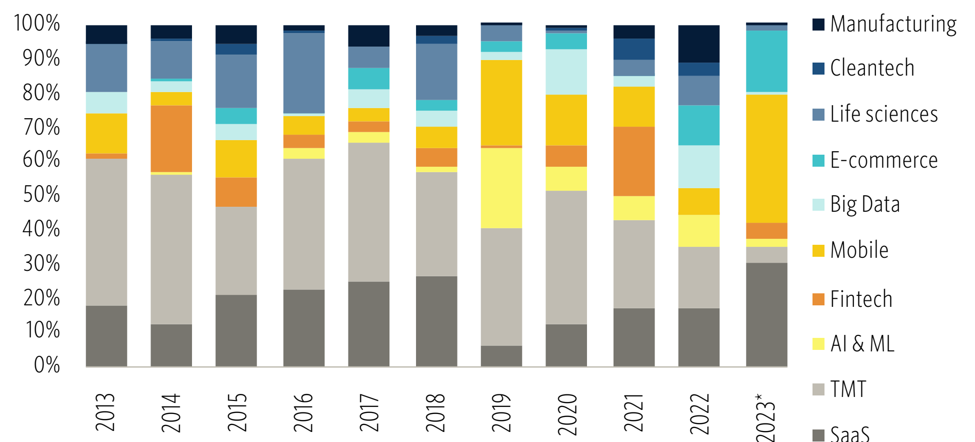
Artificial intelligence & machine learning

Like the SaaS vertical, there is a tremendous amount of value locked up within the AI & ML vertical. As of Q3 2023, we estimate the collective post-money valuation of active US VC-backed venture-growth-stage AI & ML startups to be $240.7 billion, with a median valuation per startup standing at $337.5 million. The massive aggregate value within this cohort, coupled with the sheer volume of media and investor attention attributed to this space over the past two years, indicates substantial potential for value and return realization when the IPO window reopens.

While AI & ML technologies are not new, the frequency of high-value AI & ML startups that have the potential to go public has increased significantly in recent years. For example, when looking at exit activity for venture-growth-stage AI &

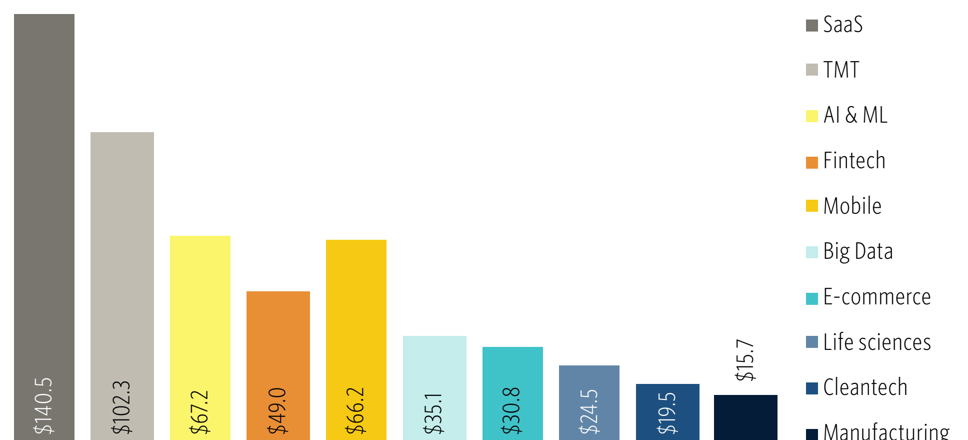
ML startups, our data shows that there was $74.6 billion in activity in 2019; prior to 2019 the highest annual total was $1.9 billion in 2017. With the recent surge in AI innovation occurring toward the tail end of the heightened IPO activity in 2021, there is a high likelihood that we have not yet witnessed the full potential of this vertical in the public market. Unlike many other verticals where 2021 marked the pinnacle of performance, the exit activity for venture-growth-stage AI & ML startups has not yet surpassed the 2019 peak. Indeed, our data shows a total of $2.9 billion and $1.0 billion in total exit activity for AI & ML venture-growth-stage startups in 2022 and 2023 YTD, respectively. At the same time, a large amount of capital has been invested into these startups, which has been attributed to the swell of the collective value of these organizations. Among active US VC-backed venture-growth-stage startups, a total of $67.2 billion has been invested—the third highest among all verticals. Given that a significant portion of this value is yet to be realized through exits, the potential reopening of the IPO window holds the promise of unlocking substantial returns for investors, founders, and employees.

Share of US venture-growth exit value by vertical



Source: PitchBook • Geography: US • *As of October 20, 2023

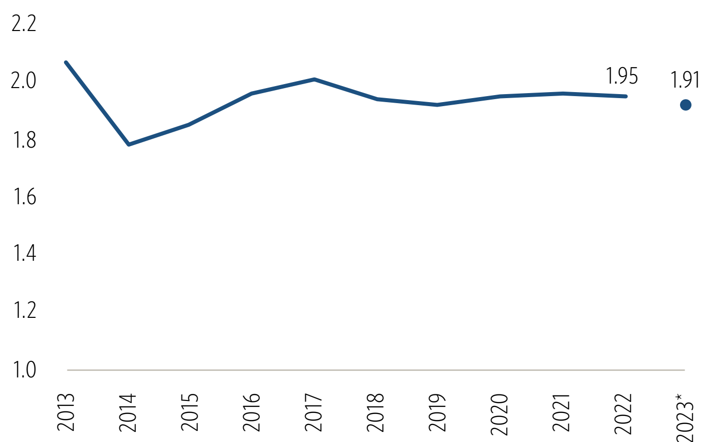
Active US venture-growth capital ($B) raised to date by vertical*



Source: PitchBook • Geography: US • *As of October 20, 2023

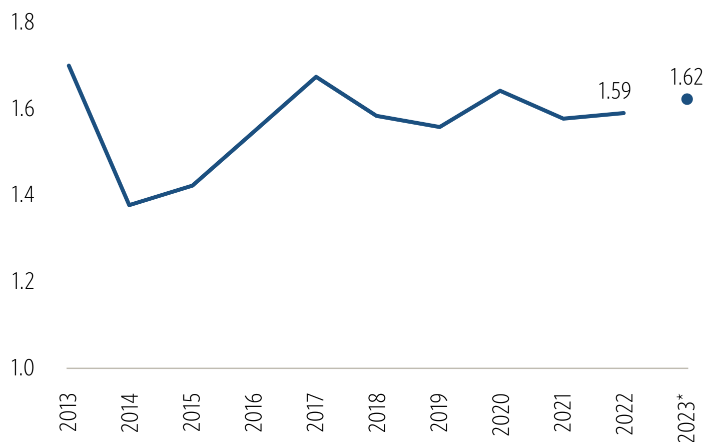
For late-stage and venture-growth-stage AI & ML startups, the average and median time since last VC raise is currently at 21.0 and 17.5 months, respectively, as of Q3 2023. It is worth noting that many AI & ML startups are relatively nascent compared with startups in other more established verticals, which explains the shorter time since last raise. Furthermore, the heightened attention attributed to the AI & ML space over the past 18 months has allowed some startups to have an easier time raising equity capital relative to other verticals amid a generally subdued fundraising environment. Comparing current data measuring the time since last VC raise to historical data on the time between VC rounds from prior periods, we observe slightly lower figures. Our data shows an average time between VC rounds of 23.4 months and a median of 19.1 months in 2022, compared with an average of 23.5 months and a median of 18.9 months in 2021. As the data shows, while many AI & ML startups active as of Q3 2023 may not have completely exhausted their financial reserves, having raised a VC round more recently relative to some other more-mature verticals, the disparity is not quite large enough to ignore current market headwinds. With diminishing capital availability in private equity markets, particularly impacting startups later in the VC lifecycle, many startups may consider proactively exploring IPO opportunities in the new year, contingent upon the reopening of the IPO window.

Average time (years) between AI & ML VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Median time (years) between AI & ML VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

As with the SaaS vertical, there is a large population of startups within the AI & ML vertical that we expect to have a high likelihood of achieving a successful exit outcome. Our Exit Predictor estimates that there are 1,275 late-stage and venture-growth-stage AI & ML startups with a chance greater than 50% of successfully exiting. Of the over 1,000 AI & ML companies with successful exit potential, we believe 118 of these startups have at least a 50% chance of exiting via IPO.

Although it is challenging to predict exactly when—or even if—these startups go public, there is no denying the tremendous amount of value that would be unlocked should the IPO window reopen in 2024. The most obvious benefit is immediate liquidity value, evidenced by the large amounts of capital invested into the space that have been locked up for, in many cases, several years. But beyond the financial

relief lies the potential value of increased credibility and attention that would be directed toward the AI & ML vertical as more AI & ML startups, or any startup heavily reliant on the technology, go public in the coming years. The dynamic world of AI & ML is in a constant state of evolution, with innovations unfolding rapidly and applications for the technology seemingly limitless. Not only would an IPO comeback accelerate these trends, but it will also likely serve as an inspiration for the future wave of innovators who will drive forward the trajectory of AI & ML advancements.

Fintech

We estimate the aggregate post-money valuation of active US venture-growth-stage fintech startups to be roughly $208.4 billion as of Q3 2023, with a median valuation per startup of $485.4 million—the highest among all verticals. This outsize median indicates a high maturity among many active fintech startups, suggesting that many may be ready and equipped to enter public markets. Furthermore, elevated median valuations indicate a high level of value potential for startups that may look to go public once the IPO window reopens. Of course, all these startups will not go public in a year—some may never go public at all—but even a modest percentage of these startups going public could mean a ton of value being recycled back into the venture ecosystem.

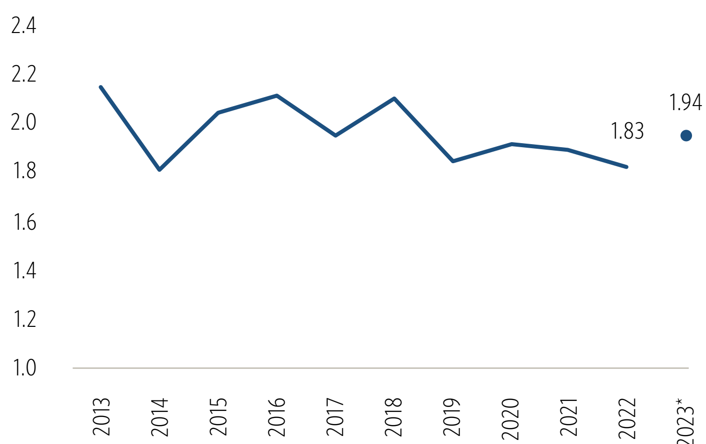
Looking back to recent years, fintech startups have contributed substantially to total exit values within the VC landscape. In 2021, venture-growth-stage fintech startups collectively achieved $188.9 billion in total exit value across 26 exit events, with the aggregate value coming in as the second highest among all verticals. During this year, the market observed the public debuts of many well-known enterprises such as Coinbase, Robinhood, and SoFi. However, like the rest of the market, we have yet to see anything close to this figure since, with just roughly $2.1 billion of exit value across 11 exit events observed since 2022. Like the SaaS and AI & ML verticals, this contrasts with substantial investment in the space. We estimate that $49.0 billion has been collectively raised among active US-based venture-growth stage fintech startups, which is the fifth highest among all verticals. Intuitively, when substantial capital is poured into a startup, pressure builds over time among investors and other stakeholders to realize a return. The prolonged period during which capital remains tied up and is not yielding returns—such as the period we are currently in, during which exit activity is substantially subdued relative to prior periods—heightens the pressure for exits to meet these expectations. As invested capital accumulates, the corresponding expectations for substantial returns amplify, intensifying the pressure to exit.

In addition, LPs backing VC firms introduce another layer of expectations, particularly regarding the time frame for realizing returns on their investments and retrieving capital so they may reinvest, whether that be in the venture ecosystem or in other asset classes. The aggregation of capital raises the stakes in meeting these expectations, while the illiquid nature of the market limits the amount of capital to be returned to LPs and thus recycled in the VC ecosystem, placing added pressure on venture firms to orchestrate strategic exits that align with the return expectations of their LPs.

Among active late-stage and venture-growth-stage fintech startups, the average and median time since last VC raise as of Q3 2023 is currently at 22.0 months and 18.4 months, respectively. When compared to the amount of time historically observed between completed VC rounds in recent years, the numbers were relatively consistent, with an average time between completed VC rounds of 21.9 months and a median of 16.0 months in 2022, and an average of 22.7 months and a median of 17.1 months in 2021. While some startups have adopted cost-saving measures, such as operational streamlining and workforce adjustments, to prolong their cash reserves, a significant portion is nearing the end of their financial runway. Some of these enterprises may turn to nondilutive forms of financing, such as venture debt, to bide the time and provide some financial cushion until private fundraising markets are more favorable for startups.

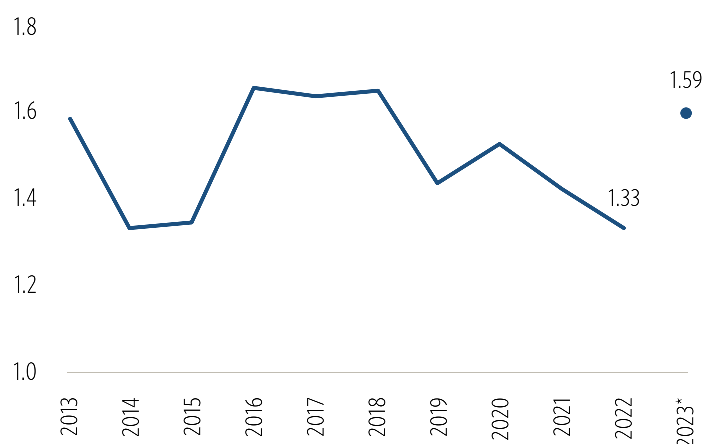
However, startups considering this avenue of financing, regardless of what vertical they operate in, must carefully weigh the associated costs. Most obvious among these is the obligation to make regular interest payments, which can create a financial burden, especially in the current interest-rate environment, if cash flow becomes insufficient. Additionally, venture debt agreements often come with several covenants and restrictions, introducing constraints on the startup's financial activities, and potentially leading to penalties or default if not met. The risk of default is inherent in this form of financing, and repercussions can range from legal actions to bankruptcy. Equity kickers or warrants may also be included in some agreements, allowing lenders to convert debt into equity in the event of default, leading to potential dilution of ownership for the startup. For startups who cannot afford venture debt, and who may have a tough time raising future venture equity capital, alternative strategies come into focus. These entities may explore potential exit opportunities, including the prospect of an IPO, especially if the IPO window reopens in 2024.

Average time (years) between fintech VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

Median time (years) between fintech VC rounds



Source: PitchBook • Geography: US • *As of October 19, 2023
Note: Data includes only late-stage and venture-growth companies. Verticals are not mutually exclusive

There exists a sizable cohort of fintech startups in the US that have a high chance of one day having a successful exit—whether that means being acquired or going public. PitchBook's Exit Predictor approximates that there are 611 late-stage and venture-growth-stage fintech startups with a chance over 50% of achieving a successful exit, including 74, or 12.1%, having an IPO probability greater than or equal to 50%.

In the dynamic landscape of fintech, the potential reopening of the IPO window in the new year holds immense value. Investors will certainly look to the prospect of a public listing as an attractive reprieve to free locked-up cash returns, especially following the last two years in which fintech exits have been remarkably slow. Simultaneous to these financial benefits is the propulsion of the financial services industry that would come from an influx of new fintech companies into public markets. Many fintech innovations such as digital banking and contactless payments have been achieved relatively recently; the ability for private fintech startups to go public would likely spur even more innovation and competitiveness in the vertical, likely introducing new mainstream technologies. Of course, it goes without saying that their approach to financial service-specific aspects before and after going public, such as their ability to establish and maintain trust among users, becomes a crucial factor in amplifying or negating their long-term success.

Challenges and risks

The role of volatility becomes particularly pertinent when considering the potential reopening of the IPO window in 2024, especially in the aftermath of a period characterized by low IPO activity. Investor confidence and risk appetite are directly impacted by volatility, with high volatility often prompting caution and risk aversion, while low volatility often instills confidence and encourages VC investors (and founders) to explore IPO opportunities. Volatility also exerts influence on investor participation in IPOs. A period of low volatility tends to attract a higher level of investor interest, driven by the perceived lower risk of companies. Conversely, high volatility may deter some investors, impacting the demand for new offerings. Vertical-specific impacts are also noteworthy, particularly for verticals characterized by heightened volatility, such as SaaS, AI & ML, and fintech. These verticals, often associated with rapid growth, may respond differently to market fluctuations.

One important consideration will be the valuation challenges that arise as market participants, including underwriters and investors, grapple with accurately assessing the fair value of IPOs during periods of high volatility. The uncertainty introduced by volatility can lead to pricing discrepancies, potentially affecting the success and performance of newly listed stocks. The market observed this with the recent IPOs of Instacart and Klayvio, each of which took a valuation hit relative to their last VC round when debuting in the public market. These companies are trading at or below their debut price at the time of this writing. This illustrates the critical consideration of timing for companies contemplating an IPO, with periods of low volatility deemed more favorable as they provide a stable environment for pricing and performance.

As of late December 2023, market volatility has reached its lowest level since January 2020, indicated by the VIX index.[2] While low VIX values may suggest an anticipation of minimal market volatility in the coming months, interpreting these signals can be nuanced. While some investors may look at this as an opportune time to pursue public listings, others may interpret this period of tranquility as overconfidence, potentially signaling a calm before a storm that could disrupt market stability.

Beyond volatility, policy issues and geopolitical developments have the potential to significantly influence the IPO landscape in the new year, as well as overall investor sentiment, resulting in either positive or negative market movements. Escalating global conflicts as well as the persistent economic tensions between the US and China could escalate into more substantial issues with repercussions for the US stock market. On the domestic front, policymakers in Washington have reached an agreement on another budget extension, averting a government shutdown for now. However, the need for further action is evident, as a more comprehensive resolution will be required by January 2024. These geopolitical and policy dynamics create an environment where uncertainties, along with their potential market impacts, demand attention. Among various repercussions, they are likely to influence the nature of a much-anticipated IPO comeback in 2024.

2: "Making Sense of the VIX Index: An Indicator of Expected Market Volatility," VIX, Cboe, 2023, accessed December 21, 2023.

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