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## Contents

Key takeaways	1
The importance of VC-backed IPOs	2
The growing stockpile of startups	3
2025 expectations	6
Moving forward	9

# US VC-Backed IPO Expectations

The extended slowdown has created a pileup of companies

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## Key takeaways

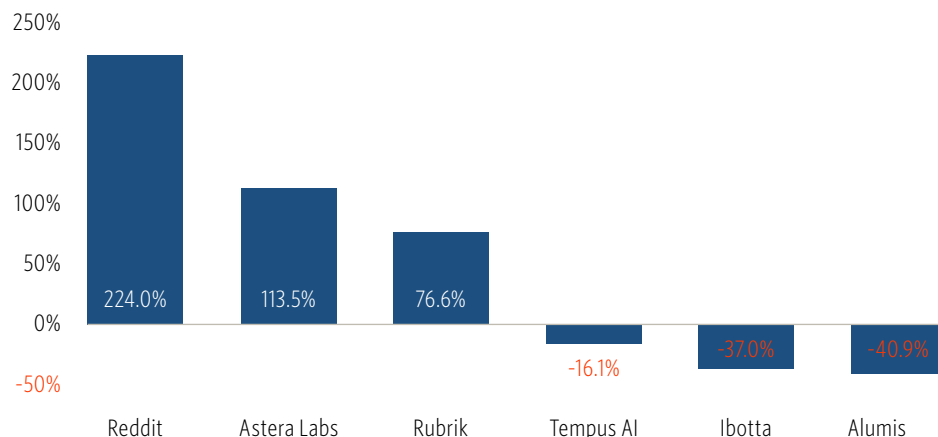
- Despite the strong performance of the public markets over the past two years, there has been little movement of VC-backed companies into the public arena. IPO activity over the past three years has been at its lowest levels since 2011. Even though a handful of notable companies had strong market performance post-IPO, many startups are still waiting on the sidelines.
- IPOs are expected to become more frequent in 2025, but startups should expect to face several challenges when going public. High valuations are a major hurdle; Half of the non-healthcare unicorn IPOs in 2024 had to take a lower valuation. Investors are prioritizing clear paths to profitability, which holds startups to a higher standard than in previous years. Finally, as more companies stay private, the market of potential IPO candidates will become more crowded, especially for high-conviction but highly saturated sectors such as technology, AI, fintech, and healthcare. Startups will need to determine how to stand out and attract investor interest, especially as available public liquidity shrinks.
- If the Fed cuts rates as expected and the economy continues to show strength, a moderate increase in IPOs could be realized in the second half of the year after the venture market has time to adjust. In this scenario, 2025's annual total would be about 51 to 61 IPOs, which would bring some much-needed liquidity back into VC. However, the new administration, proposed tariffs, and political tensions both domestically and internationally add uncertainty to the market.

## The importance of VC-backed IPOs

The past three years have been undeniably challenging for US VC-backed IPOs. The annual totals from 2022, 2023, and 2024 were merely 40, 41, and 42 IPOs, respectively. IPO activity has not been this scarce since 2011. In fact, the three years combined adds up to only 63.7% of 2021's total and barely surpasses 2020. Many listings that did occur were for healthcare and biotech companies that typically use IPOs for further funding of clinical trials, which is entirely different than the purpose of creating realized gains and propelling growth for standard tech companies. Just 16 non-healthcare companies exited via IPO in 2024—the lowest, again, since 2011.

Despite slow activity, there have been several notable listings. Five tech unicorns went public in 2024, and several others the year prior. A few of those companies have performed extremely well since their debut—Reddit is trading at an over \$30 billion market cap after going public at just over \$5 billion. However, none of these IPOs were successful enough, or relieved enough market hesitation, to entice more startups to leave the sidelines.

### Post-market performance for 2024 unicorn IPOs



Source: PitchBook • Geography: US • As of December 31, 2024

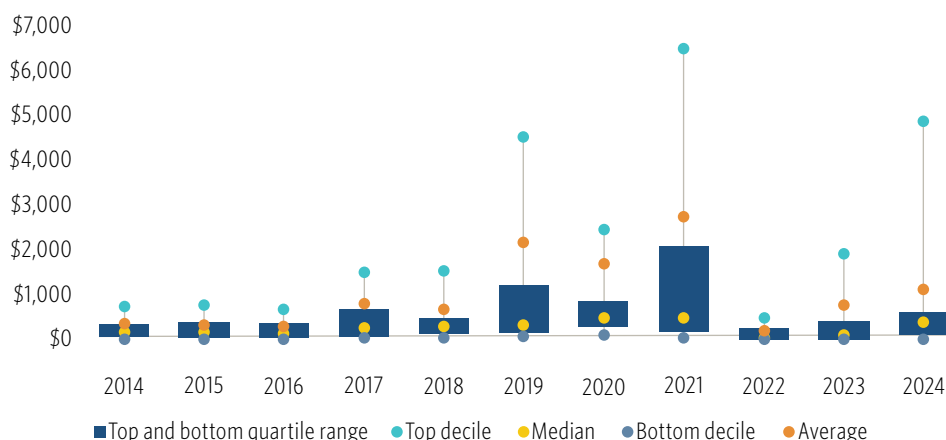
The rise of unicorns over the past decade has magnified the importance of IPOs because a large concentration of venture's market value is more likely to be realized through public listings than through M&A. In 2021, 193 completed IPOs (not including reverse merger with SPACs) accounted for nearly \$500 billion in exit value, representing 59.3% of the total estimated exit value generated that year. Large listings are especially important in generating returns because IPOs with exits over \$500 million accounted for more than 56% of 2021's total estimated VC exit value, which is especially impressive considering that the total exit value of that year was inflated by SPACs. Even in a down year, IPOs are important avenues for value creation. The 42 completed IPOs in 2024 generated 27.6% of the total estimated exit value, despite making up less than 4% of the year's completed exits.

The importance of IPOs is clear, although the factors that would lead to a rise in IPOs are less so. The market showed promise for IPOs last year as inflation slowed and

interest rates were expected to be cut, and yet few companies tested the market. Background factors are deeply in play in the current environment.

High valuations have been a major hurdle. Of the four non-healthcare unicorn IPOs in 2024, half of them were completed at lower valuations than the prior VC financing—Reddit’s was 50% lower. In 2023, two out of the three non-healthcare unicorn IPOs were completed at lower valuations. Listing publicly already comes with a steep price, and lower valuations upon listing increases dilution for existing investors and means that the costs as a portion of total proceeds become more expensive. Underwriting alone represents an average of 4.1% to 7.1% of gross IPO proceeds, depending on company size, and additional fees for legal counsel, accounting, exchange listing fees, and registrations for the Securities and Exchange Commission and Financial Industry Regulatory Authority elevate the total cost.<sup>1</sup>

### IPO VC exit valuation (\$M) dispersion



Source: PitchBook • Geography: US • As of December 31, 2024

Though hopes are high, the outlook for 2025 remains murky. Rate cuts have started, which should elevate investor risk appetite for venture-backed growth companies as other strategy yields decrease. However, a shift toward IPOs has yet to begin. Until it does, limited partners will continue to put pressure on funds and startups to generate returns as the market—both funds and startups—ages. A worst-case scenario for VC would be the continued lack of returns for a fourth consecutive year, which would have large downstream impacts on activity levels in the coming years.

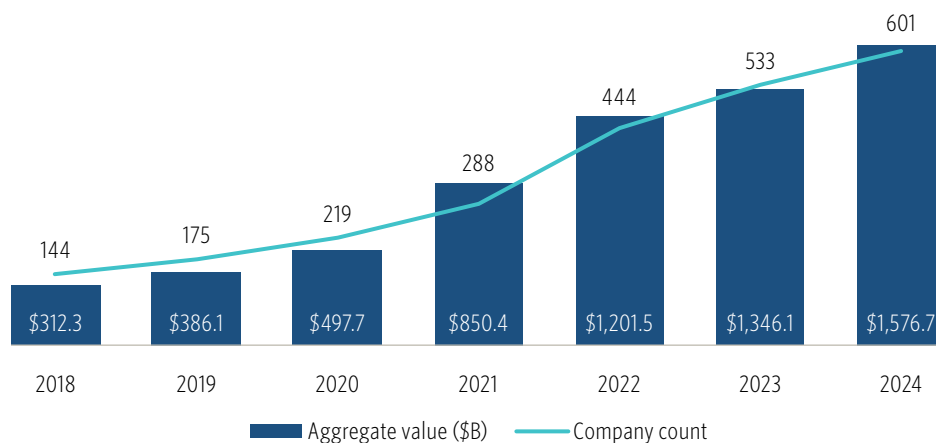
### The growing stockpile of startups

Today’s US venture market is worth more than \$4 trillion. The rapid pace of dealmaking from 2021 and 2022 grew the market significantly from roughly \$1.7 trillion in 2020. Although the market’s growth has decelerated over the past few years, the unfriendly exit environment since 2022 has encouraged or even forced companies to stay private for longer, adding to the stockpile of startups theoretically ready to go public. As the number of these companies grows, the market becomes more crowded. This is especially true for late-stage and venture-growth companies, whose population has doubled in the past three years.

1: “Considering an IPO? First, understand the costs,” PricewaterhouseCoopers, n.d., accessed January 15, 2025.

We created a basic profile of the typical companies to IPO during high-activity years to provide a window into the current accumulation of private companies and determine our 2025 IPO outlook. To do this, we looked at VC-backed companies that completed IPOs in 2018 to 2021 and their last round before going public. During those years, venture adopted a growth-at-all-costs mindset that many startups currently showcase in their financial makeup because of their growth during that time, though recent years have forced a change in economic models for much of the industry. Within that data, the lowest annual medians for age, amount raised, and post-money valuation of their last VC round were 6.8 years, \$156 million, and \$539 million, respectively. Currently there are 601 companies that fall above each of those levels—313 higher than at the end of 2021. Even as the growth in candidate numbers has slowed over the past couple years, 68 companies entered the group in 2024, which is more than 50% higher than the number of companies completing a listing.

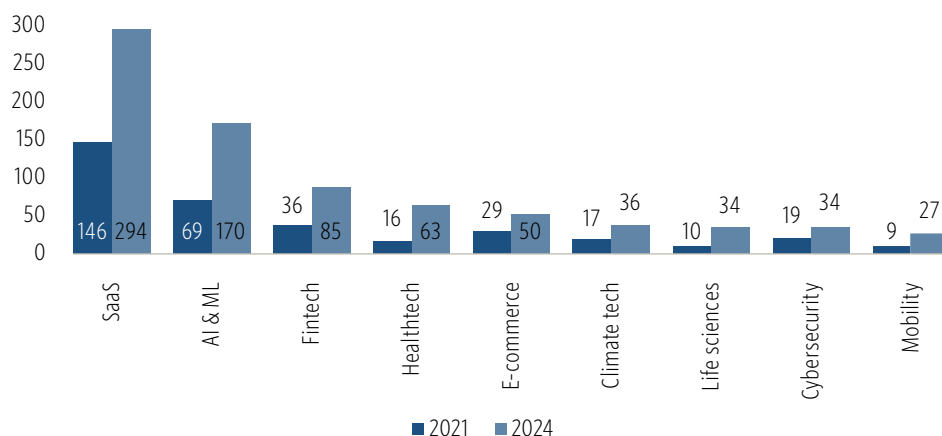
### Aggregate company count and value of VC-backed companies with median IPO metrics



Source: PitchBook • Geography: US • As of December 31, 2024

The growing list of IPO-sized companies has also created more crowded sectors, which will spread investor interest and banking services more thinly. AI and fintech in particular have seen their private market caps grow well beyond levels seen a few years ago, and the number of companies fitting the profile of past IPOs has increased substantially. 170 AI companies now fit the age and capital levels of past IPOs—2.4x the number from three years ago. Several of the past few years' successful listings have come from this sector, although not all have had smooth transitions to public companies. Tempus AI and Pony.ai went public at valuations roughly 50% lower than their prior private valuation highs.

## Sector comparison for 2024 and 2021



Source: PitchBook • Geography: US • As of December 31, 2024

Fintech and healthtech are two other sectors that have seen significant increases in IPO-sized companies. Fintech was a darling sector of the zero-interest-rate-policy (ZIRP) era, and nearly \$59 billion was invested into that sector in 2021, while deal count nearly doubled YoY. Now, \$84.1 billion in value is represented by the 85 companies meeting the IPO median standards. The list also now includes 63 healthtech companies, nearly 4x the number in 2021.

Generally speaking, the holdup in IPOs has exacerbated the valuation problem where pricing is mismatched significantly between public and private markets. The \$1.5 trillion value of the 601 companies is an enormous amount of value for the public market to support, especially coming off a market slowdown that shifted the interests and appetites of public investors for listings. Looking ahead, the more positive outlook is based on the need for companies to attain liquidity, which is not necessarily a positive signal if pricing remains mismatched between public and private markets, especially if it pushes more companies into listings than can be supported. For example, ServiceTitan's IPO in December 2024 was propelled by an accumulating ratchet provision from its last venture deal that provided extra shares to these investors if the company went public at a lower valuation and penalized the company for each quarter that it did not IPO. Such investor-protective terms likely played an increased role in 2022 as the market shifted and companies that needed money worried about the path forward, although we do not see these as major factors for many companies. With high valuations and the potential for multiple companies to come from similar sectors, public investors will have the opportunity to keep the bar raised for successful listings.

## Notable IPO candidates

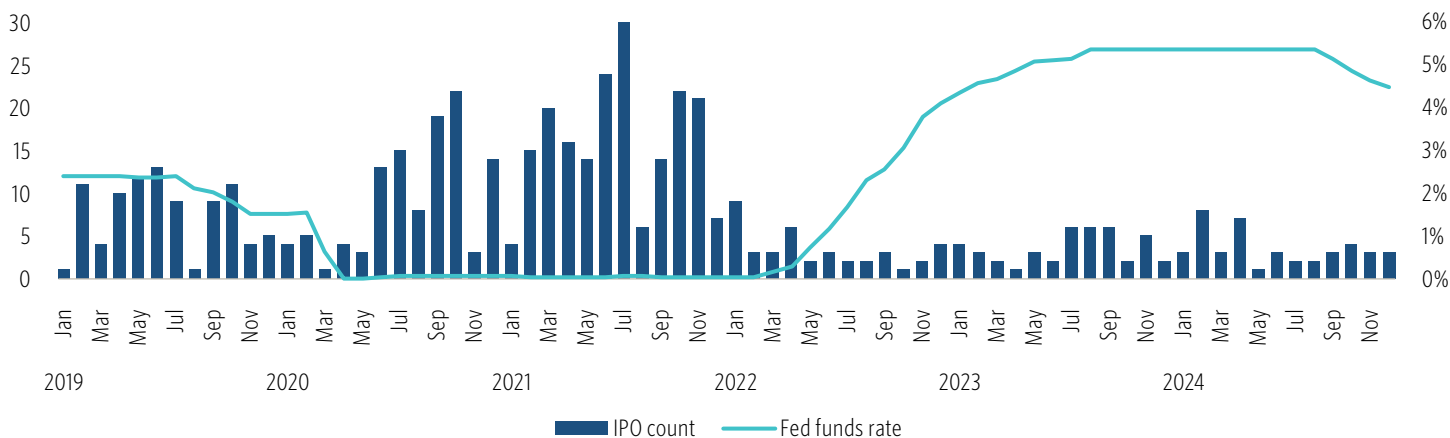
Company	Post-money valuation (\$M)	Close date	Industry sector	HQ location	IPO probability
Institutional Capital Network	\$6,000	August 1, 2022	IT	New York, NY	96%
Cohesity	\$4,800	December 10, 2024	IT	San Jose, CA	95%
Indigo	\$3,950	September 15, 2023	Materials & resources	Boston, MA	96%
StockX	\$3,800	April 8, 2021	Consumer products & services (B2C)	Detroit, MI	97%
GrubMarket	\$3,600	July 8, 2024	Business products & services (B2B)	San Francisco, CA	97%
Via	\$3,500	February 13, 2023	Consumer products and services (B2C)	New York, NY	96%
Carbon	\$2,400	February 10, 2021	IT (Hardware)	Redwood City, CA	96%
Docker	\$2,105	March 28, 2022	IT	Palo Alto, CA	95%
Zocdoc	\$1,800	April 1, 2023	Healthcare	New York, NY	96%
Collective Health	\$1,530	December 1, 2024	IT	San Francisco, CA	95%

Source: PitchBook • Geography: US • As of December 31, 2024

## 2025 expectations

Although we do expect IPO activity to get a relative boost compared with the past few years, that upswing may be less pronounced than the market would like. There are several reasons for this muted outlook, including the lack of movement toward IPOs as the markets produced strong returns during the past couple years, and expectation that rate cuts will not begin again until midway through the year.

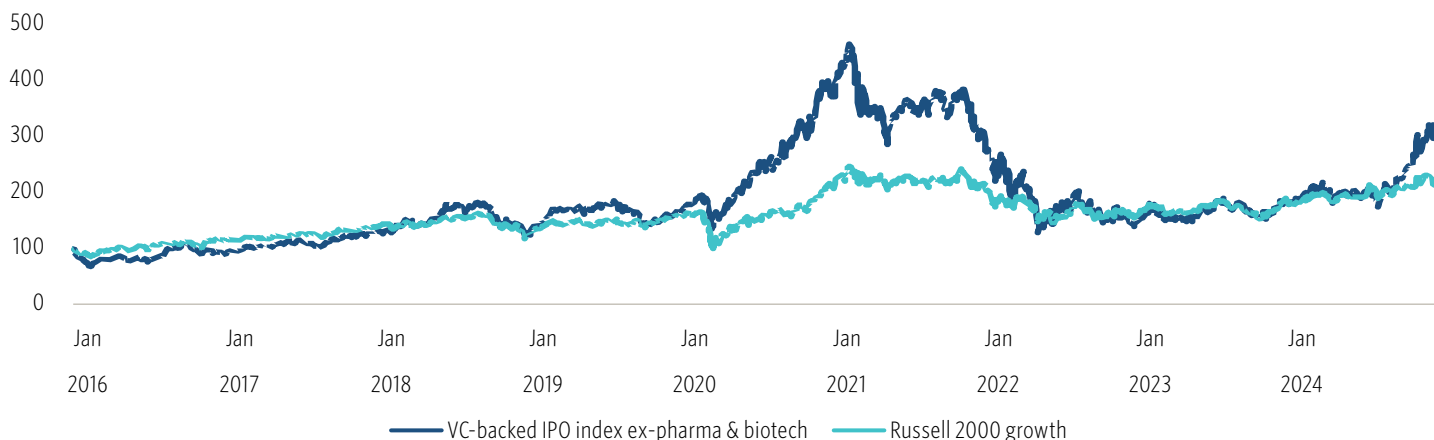
## VC IPO count by month



Source: PitchBook • Geography: US • As of December 31, 2024

In 2024, the S&P 500 soared to market highs, gaining 23.3%, and Russell 2000 Growth returned 15.5%, even outperforming the S&P during a large portion of 2024. Yet, the venture exit environment continued its extended stalemate with only tepid signs of recovery. Despite this stark difference in public and private company performance, growth in both markets was driven primarily by the AI hype rather than the Federal Reserve's (the Fed's) interest rate cuts. Going into 2025, both AI and rate cuts are expected to continue serving as tailwinds for VC dealmaking and exit activity. However, the extent of the IPO market's recovery will largely depend on whether startups sufficiently benefit from going public in today's environment compared with investor demand for their private shares. Rates dipping to just below 4% would still be higher than any rates since 2006 up to the recent hiking cycle. The next cut is not expected until June, so it may be some time before IPO listings change, especially considering that 2024's three cuts did not flip the switch and reopen the IPO market.

### VC-backed IPO Index vs. Russell 2000 Growth

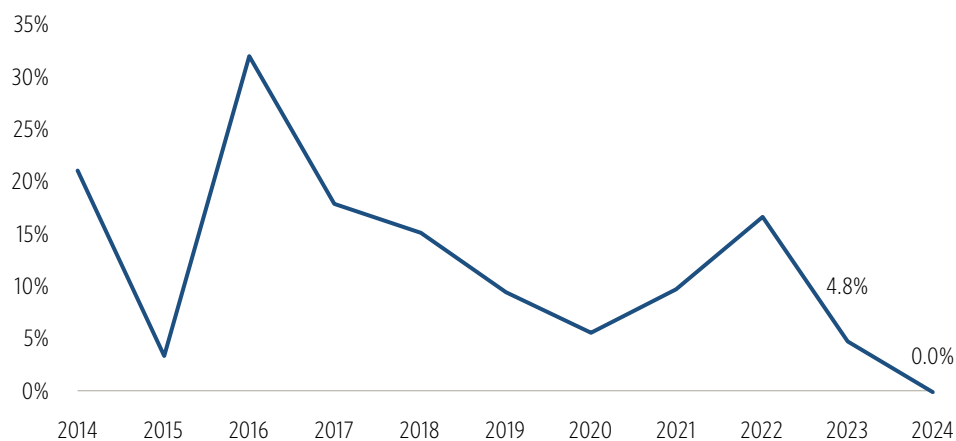


Source: PitchBook • Geography: US • As of December 31, 2024

Another factor that would help alleviate the high valuation problem and push more companies into the market would be an increase in the price/sales (P/S) multiple for tech companies, particularly those that have gone public relatively recently. That has not occurred despite some previously VC-backed companies experiencing strong gains alongside the market. The current P/S multiple of our VC-backed IPO Index is just below 6x. Although that has rebounded slightly over the past couple years, it remains well below the 21.4x the index topped out at in 2021 and will continue to pressure the high valuations in the private market and drive concessions on company prices.

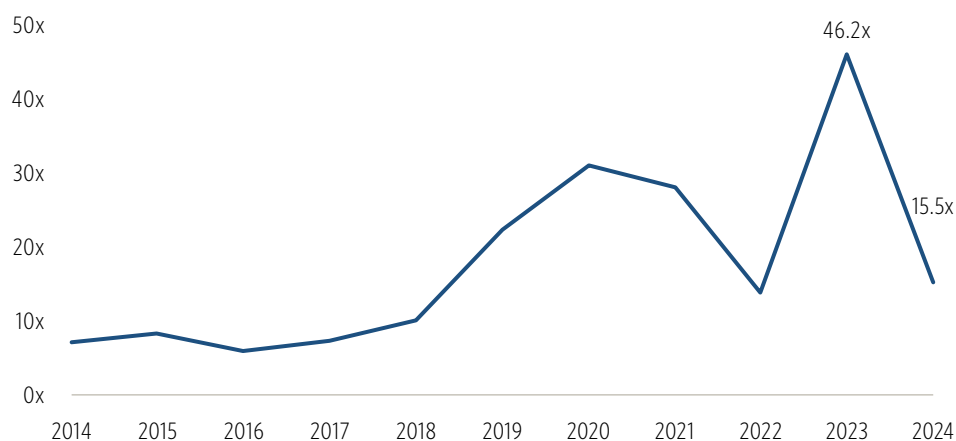
Expanding multiples were one of the factors boosting rate-cut enthusiasm for IPOs. The venture market initially had high hopes that lower interest rates would cure the market's stalemate because the federal funds rate has historically been inversely correlated with IPO activity. However, the Fed reigned back these expectations in December 2024, stating that the frequency and magnitude of cuts over the next few years will be more muted than previously forecast.

## Tech VC IPOs with positive EBITDA as a share of all VC IPOs



Source: PitchBook • Geography: US • As of December 31, 2024

## Median EV/EBITDA multiples at exit for VC tech IPOs

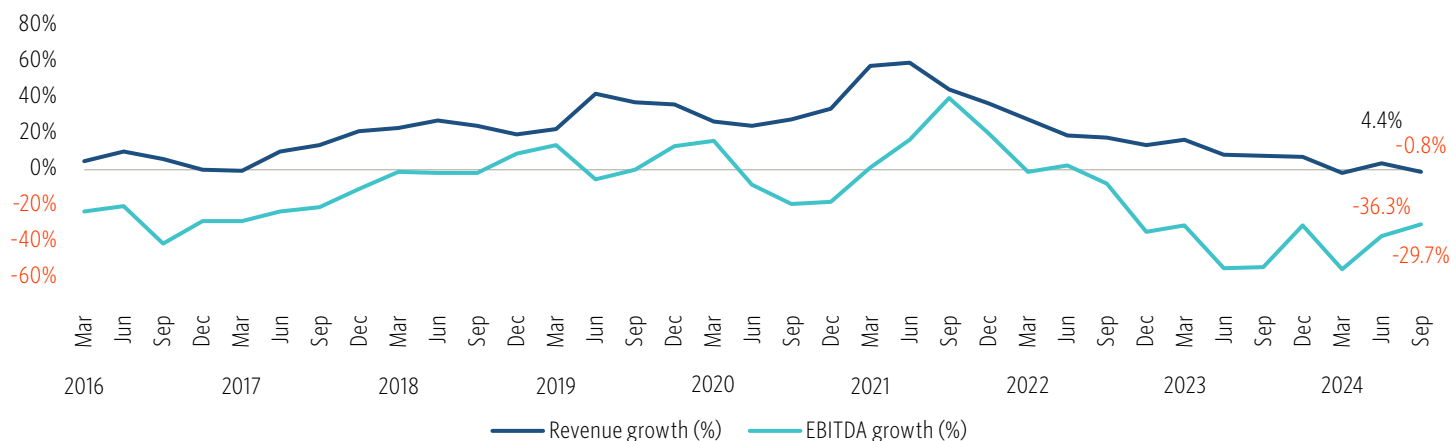


Source: PitchBook • Geography: US • As of December 31, 2024

There is still another factor that could limit the number of companies considering a new listing. There is a much higher bar that IPO hopefuls will need to cross now compared with ZIRP-era markets. As interest rates rose in 2022 and essentially marked the end of growth-at-all-costs funding, startups were forced to shift from focusing solely on revenue and start prioritizing profitability, or at least a path to profitability. This can be seen quite clearly in the multiples that listing companies received over the past couple years, highlighting what public investors have been looking for. However, the reality of venture is that growth is necessary to attract new funding, which keeps companies burning cash to build new products and market to customers. As public investors shifted their allocation to less risky companies, VC-backed startups did not quite fit the bill. For a surge in new listings to be completed, a risk-on appetite from investors would need to purvey deeper into the market.



## Revenue and EBITDA growth of VC-backed IPO Index (excluding pharma & biotech)



Source: PitchBook • Geography: US • As of December 31, 2024

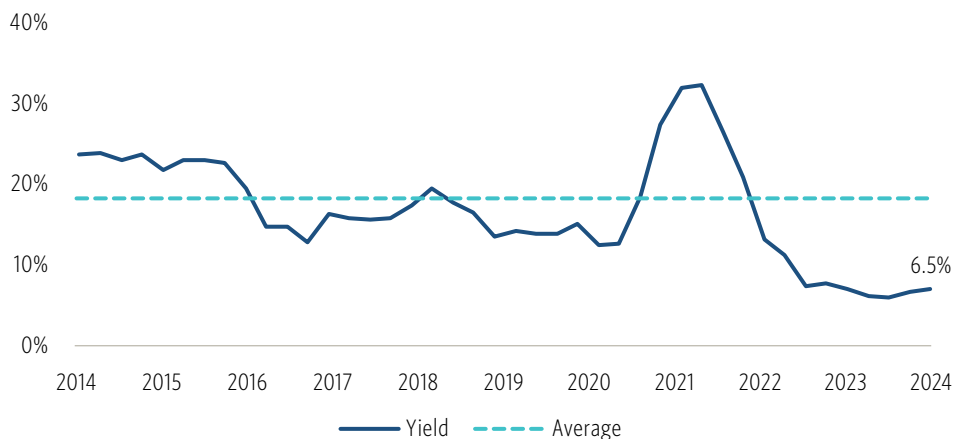
The expectation for the first half of the year should remain similar to 2024, which would supply the market with around 21 completed IPOs. Without shock rate cuts, that factor looks to remain stable. Filings may begin as full-year financials are able to be produced by companies, although without high growth to accompany the more positive financial results, the market may remain out of reach for many startups. If rates are again cut on expected timelines and the economy continues to show strength, a moderate increase in IPOs could be realized in the back half of the year. The 10-year monthly average for IPOs has been around seven, which would be a rather dramatic increase for a higher-rate environment. As such, the expectation would likely fall in between, adding around 30 to 40 more IPOs in H2 for an annual total ranging from 51 to 61 IPOs.

## Moving forward

The wild card for IPOs will be the stability of the economy under the new US administration. Proposed tariffs have added uncertainty to the market, and political tensions—both domestic and international—could induce volatility that could be off-putting for potential listing companies or induce public investors to retract from riskier companies.

A worst-case scenario would be that IPOs remain at or below the levels of the past three years. Without enough large exits, 2025 would be venture's fourth consecutive year of little to no returns, which would have negative ramifications across the industry. VC distribution rates, which are currently at 6.5%, have remained well below the 10-year average since the downturn started in 2022, forcing LPs to adapt their venture strategy as liquidity remains elusive. Rather than bet on emerging managers, LPs have strongly preferred allocating available capital to more established firms with successful track records, consolidating future investment into fewer managers. Fundraising overall has been muted when compared with the overall size of the today's venture market, pressuring capital availability.

### VC distribution yield as a share of net asset value



Source: PitchBook • Geography: US • As of December 31, 2024

The best-case scenario in 2025 likely does not come close to 2021 but could still prove to be a relative windfall for the market. Companies that drive large portions of value in the market, such as Databricks and OpenAI, have signaled they will likely remain private for some time with large raises and share buybacks, so expecting a breakout year for IPO exit value may be a stretch. Many companies need to realize liquidity, and for most the prospect of providing secondary liquidity through new financings is low. Not including 2021, the average number of IPOs over the past decade has been roughly 75. Matching that would be a great year and start to drive returns back to LPs.