PitchBook

Q2 2022

US VC Valuations Report

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Key takeaways

Early-stage valuations have started to mirror broader economic uncertainty and show signs of decline. While select startups continue to find success fundraising amid headwinds, quarter-over-quarter median pre-money valuations saw their first decline in ten quarters. The Q2 median pre-money valuation for early-stage VC was $52.0 million, exhibiting a 16.1% decrease from the Q1 2022 median pre-money valuation of $62.0 million.

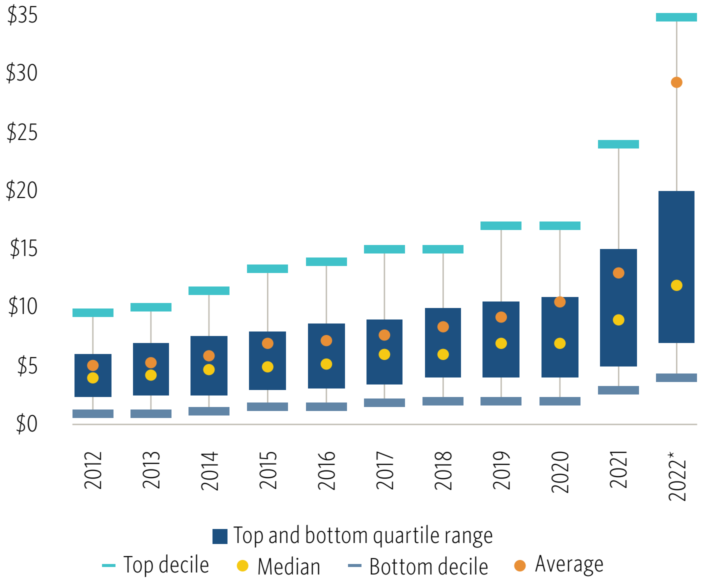
Cautious behavior by nontraditional investors has, for the moment, seemingly been concentrated at the top end of the market. For several months now, we have heard that nontraditional investors are changing tactics or at least being more cautious than they were in 2021. That can be seen in the top quartiles of both their deal size participation and valuation, which are lower than the figures from full-year 2021 by 13.3% and 15.0%, respectively, at the late stage. However, these declines are not present at the medians of either statistic. Late-stage deal size has declined by just 7.2%, while the median late-stage valuation with nontraditional investor participation is over 2021's high by 5.5% for the year to date.

The public market valuation climate has degraded further during Q2, continuing to pressure valuations for public listings. This has resulted in a steep decline in the total number of public listings and an almost complete lack of public exits for companies valued over $1 billion. We've recorded only 10 exits via public markets for companies valued over $1 billion in the first half of 2022, relative to the 102 that closed during 2021. This is a critical gap in liquidity for the growing population of startups that have reached or are near that valuation threshold in the private markets.

Angel & seed

Seed valuations show strength

Seed pre-money valuation ($M) dispersion by quarter



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Deal values may have plateaued

Seed deal value ($M) dispersion by quarter

Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Seed-stage investment has possibly held up better than any other stage to this point in the economic slowdown. Seed deal counts have remained elevated, and median deal sizes and valuations continue to grow. The median pre-money valuation for seed in 2022 has reached $12.0 million, 33.3% above 2021's full-year figure of $9.0 million. The median seed valuation generated in Q2 was $12.2 million. Aiding this growth has been a continued presence of large, multistage firms and nontraditional investors in the seed stage, alongside a growing number of micro-funds (637 closed in the last 18 months) that continue to drive competition in the market.

On a quarterly basis, the median seed valuation has not fallen from the prior quarter since Q1 2020, during the onset of the pandemic. The quick decline that the market saw then was not typical of how other slowdowns have occurred, including the current market. Private market data typically lags the public market prices by several quarters, with seed slowdowns coming even further behind. With inflation and interest rates continuing to rise and uncertainty enduring for the global economy, we should expect the seed stage to feel more pressure as 2022 progresses. Although seed investments have remained strong so far through this year, the stage is not immune from a slowdown. But it may take more time to form than for the later stages of VC.

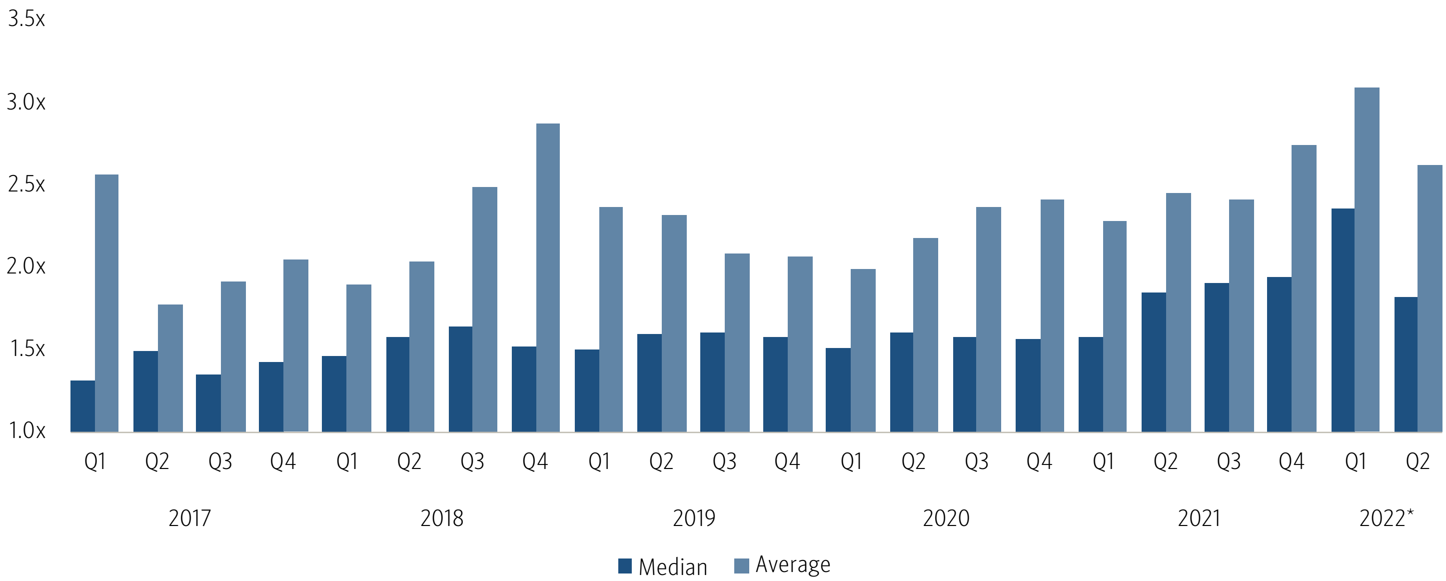
Seed stakes rise slightly to adjust for market risk

Seed share acquired dispersion by quarter

Source: PitchBook | **Geography:** US
*As of June 30, 2022

Step-ups come down at seed

Median and average seed valuation step-up by quarter

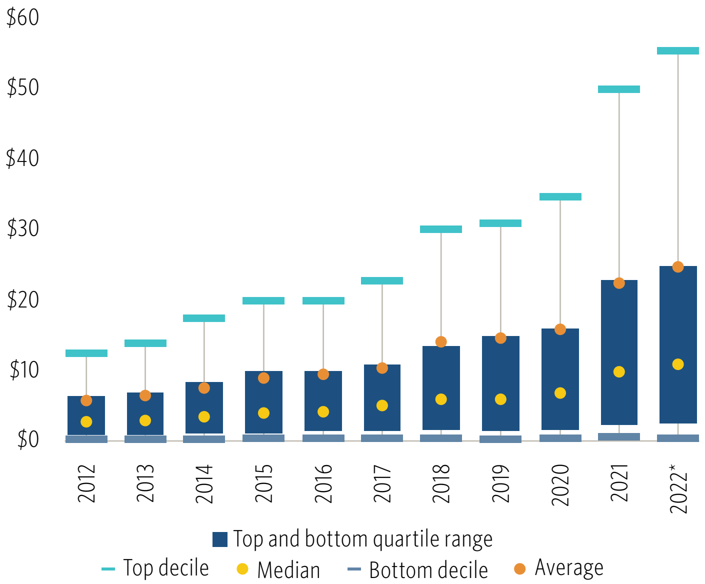


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early-stage VC valuations

Increasing deal value momentum continues

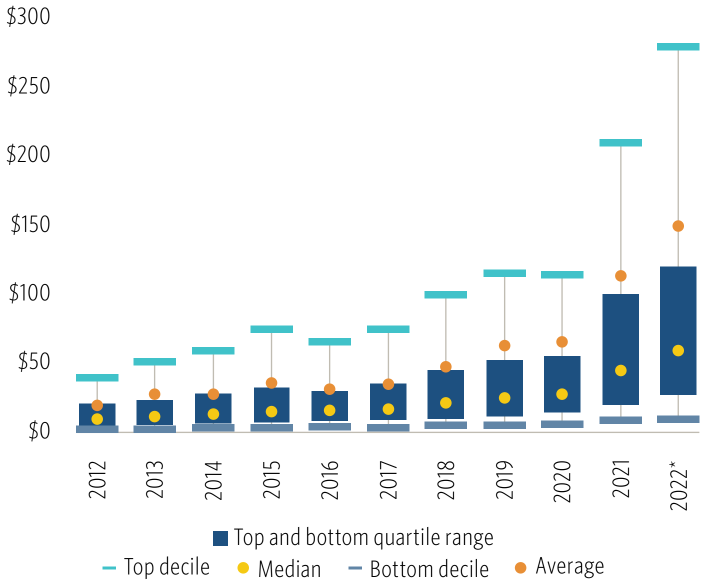
Early-stage VC deal value ($M) dispersion



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early-stage VC valuations show signs of contraction

Early-stage VC pre-money valuation ($M) dispersion



Source: PitchBook | **Geography:** US
*As of June 30, 2022

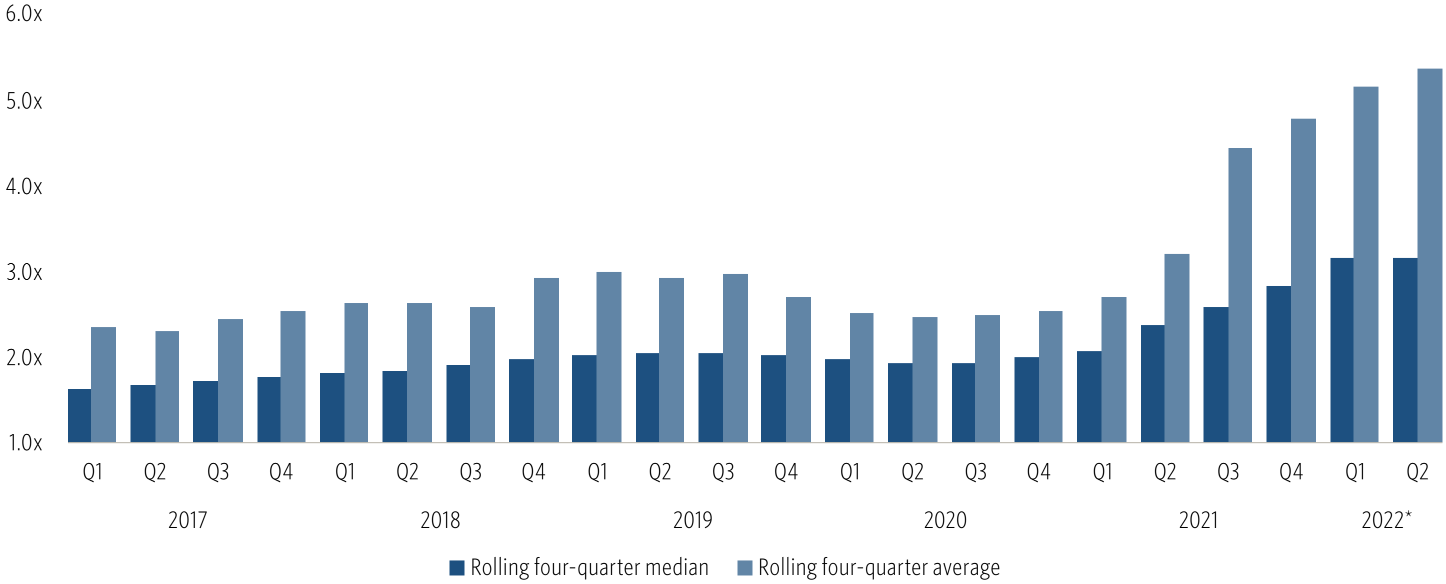
In Q2, the early stage saw conflationary activity, with growth in deal sizes and a decline in pre-money valuations. The Q2 early-stage median deal size was $11.9 million, representing a 19.0% increase over the Q1 2022 median deal size of $10.0 million. Two factors contributed to this increase: the uncertainty of future funding in the VC market and warnings by GPs to their portfolio companies to conserve runway. The previous standard 12 to 18 months of runway may not be enough to weather inflation and geopolitical issues; therefore, founders are pushing to raise more capital.

Concurrently, investor prudence in the private sector is starting to mirror that of the public market, with concerns about overpaying when we've yet to see the extent of US economic deterioration. While select startups continue to find success fundraising amid headwinds, QoQ median pre-money valuations saw their first decline in 10 quarters. The Q2 median pre-money valuation for early-stage VC was $52.0 million, exhibiting a 16.1% decrease from the Q1 2022 median pre-money valuation of $62.0 million. Despite the seemingly antithetical movement of deal sizes and valuations, median equity stakes have remained relatively stagnant QoQ and compared with 2021. The longer time to exit for early-stage startups has insulated founders from having to make large concessions on the cap table.

Examination of H1's median early-stage velocity of value creation (VVC)—or the annual increase in valuations between rounds, measured in dollars—showed an increase to $61.3 million, 48.4% greater than the 2021 full-year VVC figure of $41.4 million. In 2021, risk appetite was high, allowing for valuations to surge at unprecedented rates. In the current environment, investor risk appetite has lessened, yet the early-stage median time between rounds has dropped below one year. As a result of the decrease in time between rounds, the early stage has been able to surmount 2021's VVC record highs. We expect early-stage VVC to increase through the end of the year should the median time between rounds continue to decrease.

Rolling four-quarter median step-ups plateau

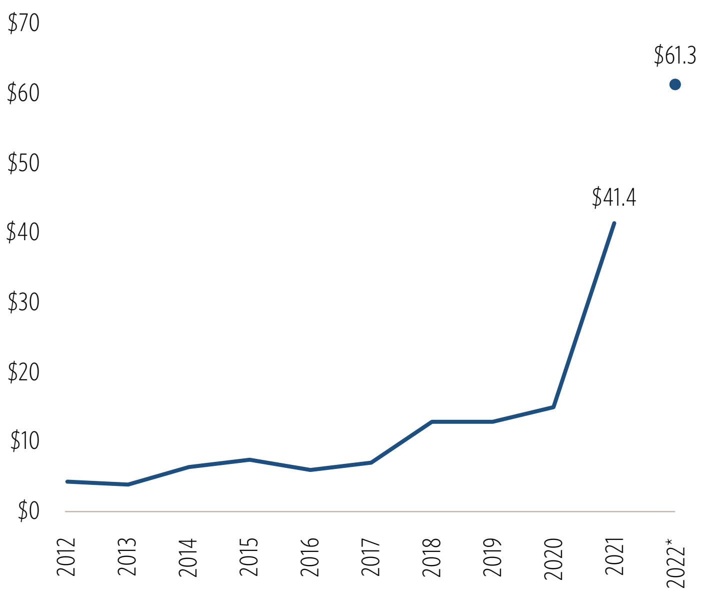
Median and average rolling four-quarter early-stage VC valuation step-ups



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early-stage value creation surges

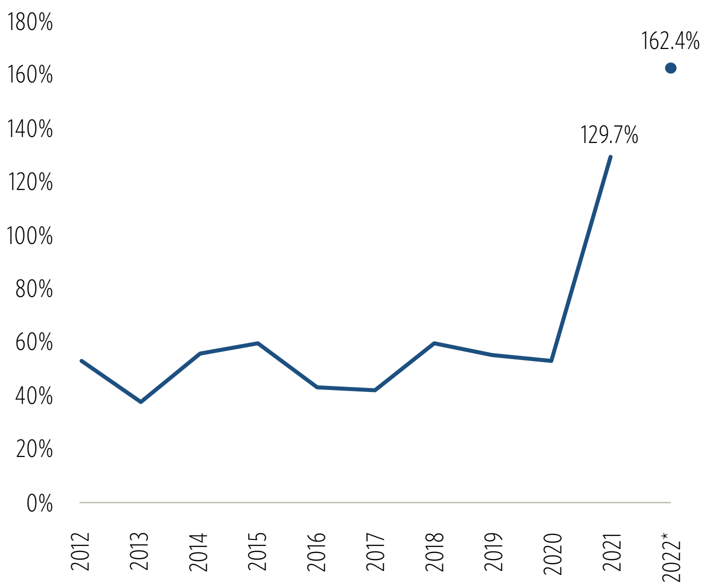
Median early-stage VVC ($M)



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early-stage RVVC activity trends upward

Median early-stage RVVC

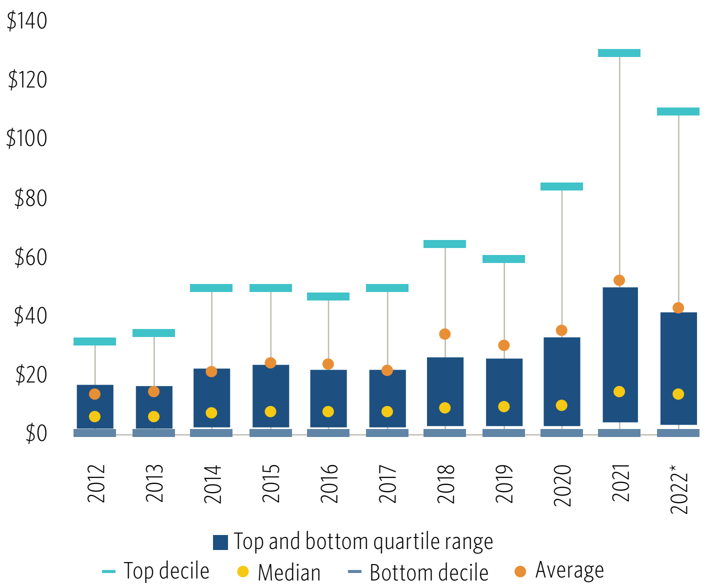


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Late-stage VC valuations

Deal values show modest decrease

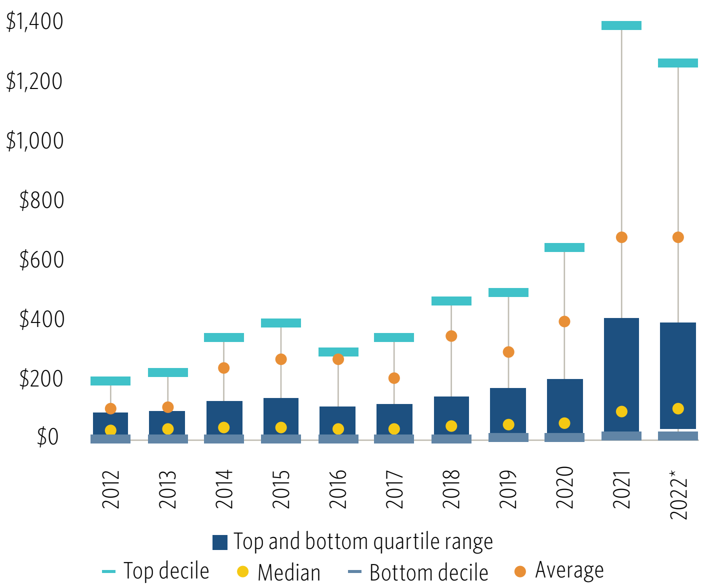
Late-stage VC deal value ($M) dispersion



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Despite headwinds, valuations show growth

Late-stage VC pre-money valuation ($M) dispersion



Source: PitchBook | **Geography:** US
*As of June 30, 2022

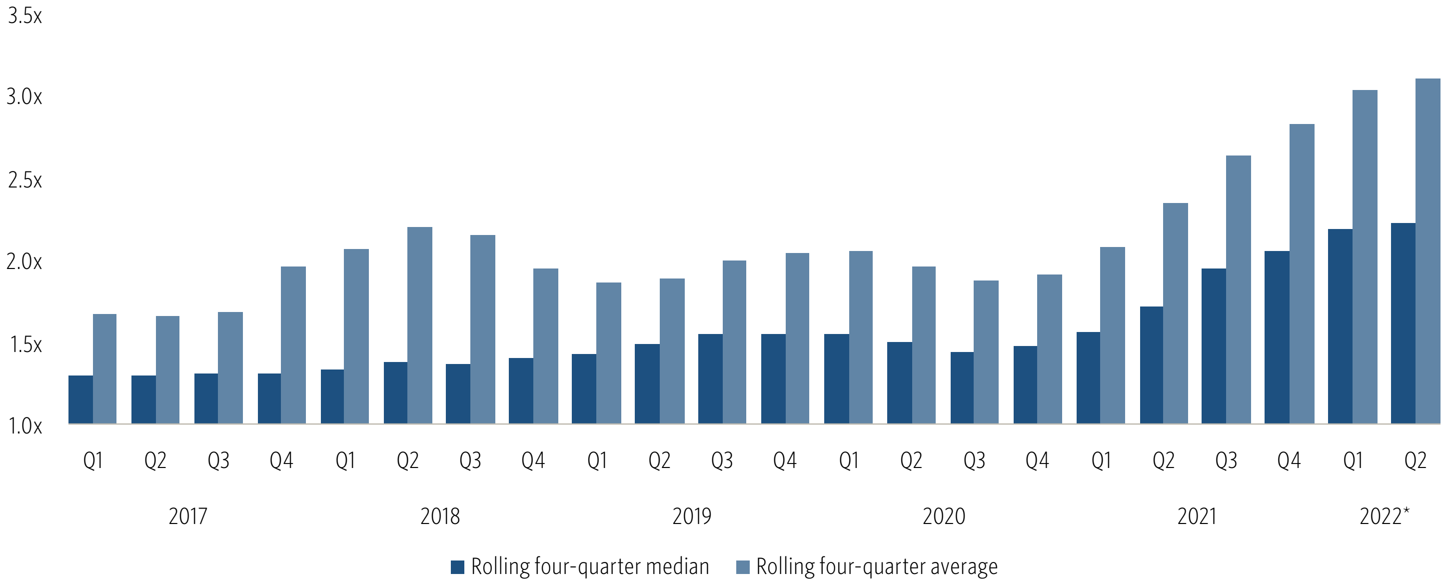
Given their proximity to exit, late-stage startups have been faced with mounting pressure to justify high valuations and deal sizes amid rising inflation rates, geopolitical uncertainty, and bearish public market activity. In H1, that pressure manifested in a median deal size of $14.0 million, representing a decrease of 7.1% from the 2021 full-year median of $15.0 million. The modest drop in deal size suggests that investors are more hesitant to commit to late-stage rounds without favorable prospects of an exit in the near term. Nonetheless, the H1 median is still well above the annual figures that preceded 2021, lending confidence in the resilience of this stage. Investor hesitancy was echoed by Q2 2022's contraction in the top- and bottom-quartile range of $35.6 million, a decrease of 14.0% from the Q1 2022 top- and bottom-quartile range of $41.4 million. If economic headwinds stay on their trajectory, we expect the quartile range to continue to narrow through the end of the year.

Despite the decrease in median deal sizes, the H1 2022 median pre-money valuation for late-stage deals was $110.0 million, a 10.0% increase above the 2021 full-year median of $100.0 million. This increase came as a surprise considering the drop in median deal size and tepid public market exit conditions. The growth of late-stage pre-money valuations signals certain startups are still able to demonstrate value creation to equity holders.

Furthermore, H1's median late-stage relative velocity of value creation (RVVC)—or the annualized percentage increase in valuations between rounds—was 78.1%, a nominal increase of 7.8% over the 2021 full-year median RVVC of 70.3%. Of all the VC stages, late-stage RVVC was the only one to increase by a single-digit percentage through the first half of this year, reaffirming that poor public market exit conditions are a barrier for late-stage startup valuation growth. It's amazingly positive to see late-stage RVVC continue to grow; however, should the current environment harshen, we expect the late-stage RVVC growth rate will decline.

QoQ valuation step-up growth slows

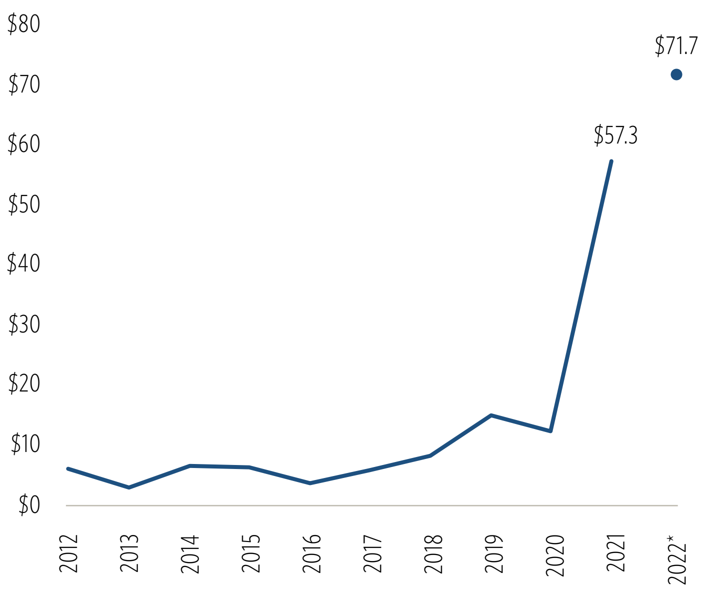
Median and average rolling four-quarter late-stage VC valuation step-ups



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Late-stage VC value creation continues upward trend

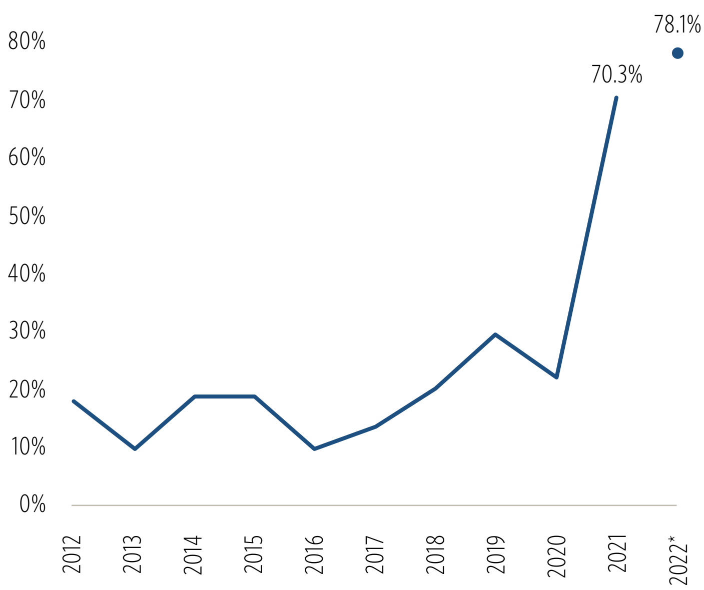
Median late-stage VVC ($M)



Source: PitchBook | **Geography:** US
*As of June 30, 2022

RVVC shows modest growth through H1

Median late-stage RVVC

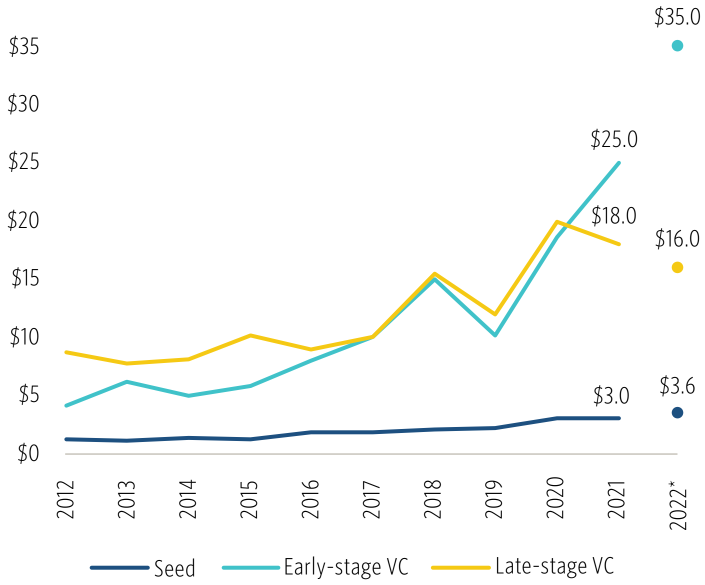


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Biotech & pharma

Early-stage VC median deal values dominate H1

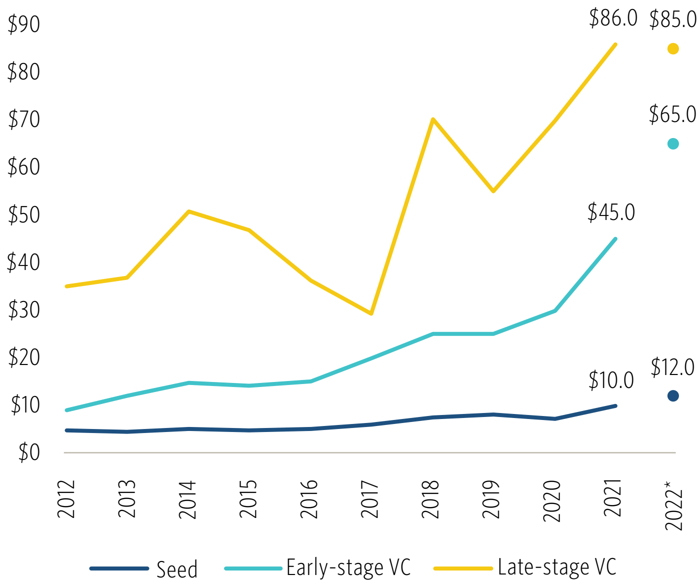
Median biotech & pharma VC deal value ($M) by stage



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early- and late-stage VC median valuation gap is narrowing

Median biotech & pharma VC pre-money valuation ($M) by stage



Source: PitchBook | **Geography:** US
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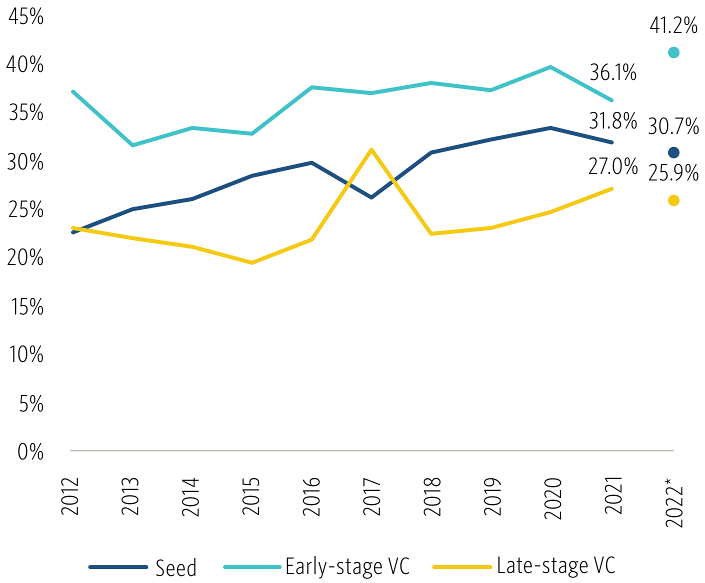
H1 early-stage median equity stakes on the rise

Median VC share acquired in biotech & pharma companies by stage



Source: PitchBook | **Geography:** US
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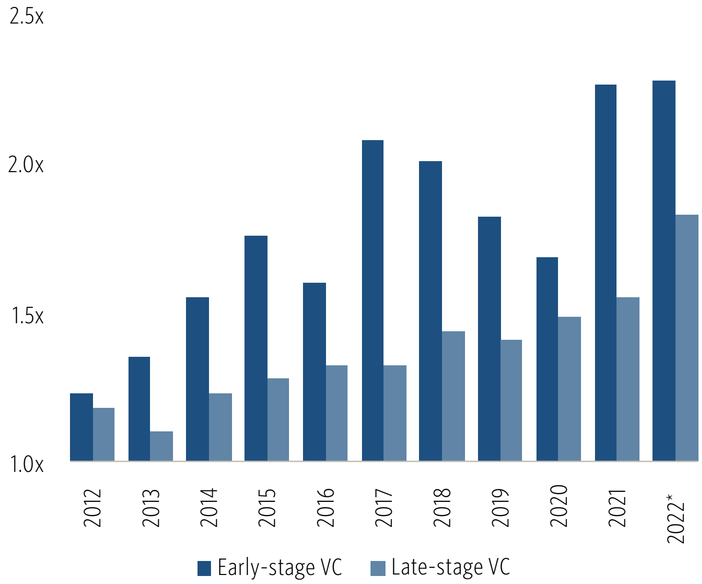
Late-stage median step-ups trend upward

Median biotech & pharma VC valuation step-ups by stage



Source: PitchBook | **Geography:** US
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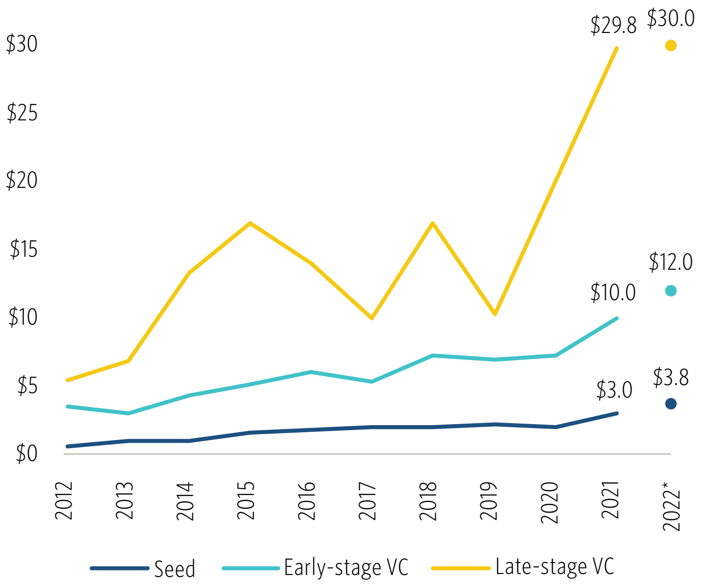
Fintech

Median deal value continues upward momentum

Median fintech VC deal value ($M) by stage



Source: PitchBook | **Geography:** US
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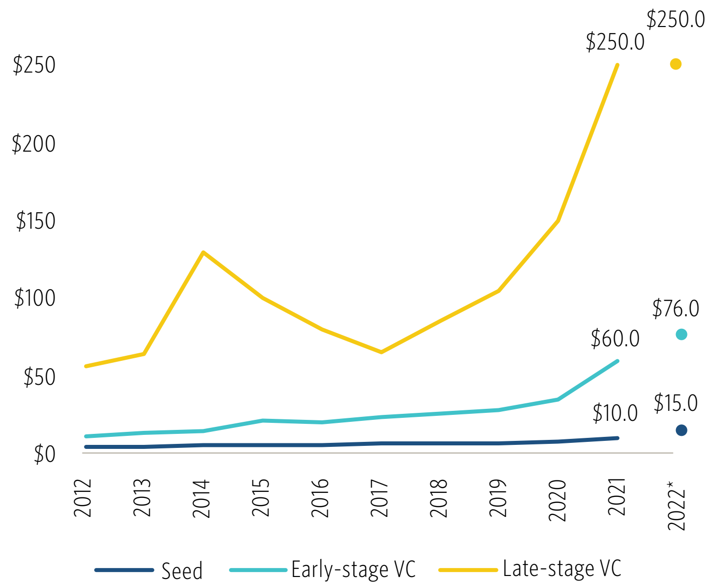
Seed and early-stage median valuations continue to climb

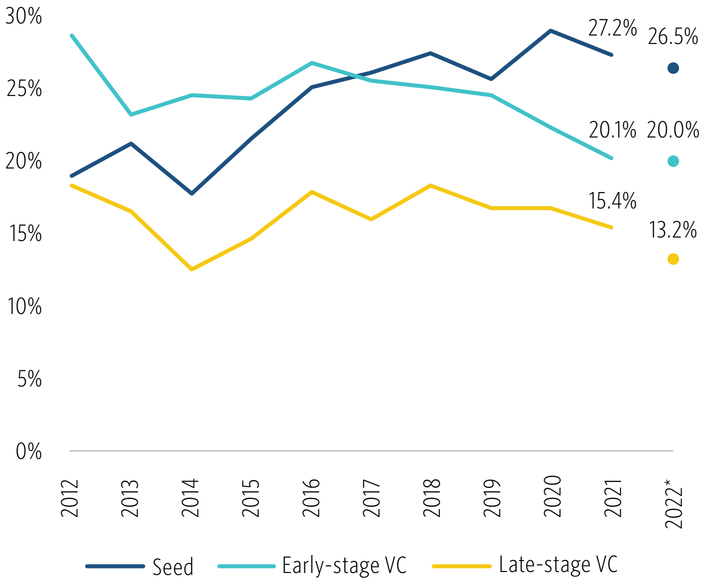
Median fintech VC pre-money valuation ($M) by stage



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Equity stakes fall across most stages

Median VC share acquired in fintech companies by stage



Source: PitchBook | **Geography:** US
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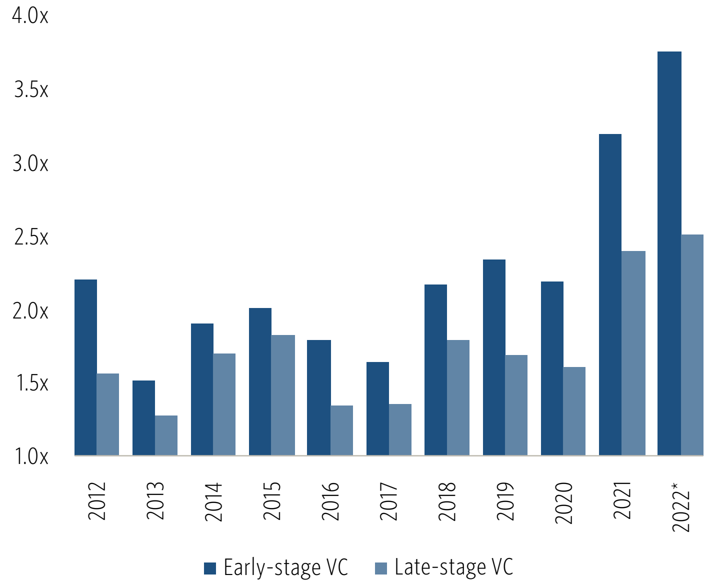
Early-stage step-ups exhibit strong growth

Median fintech VC valuation step-ups by stage



Source: PitchBook | **Geography:** US
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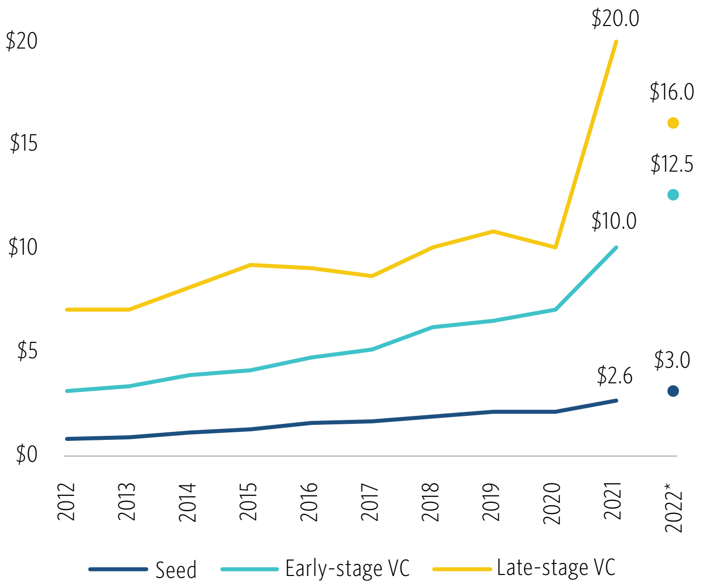
Enterprise tech

Late-stage median deal values dip

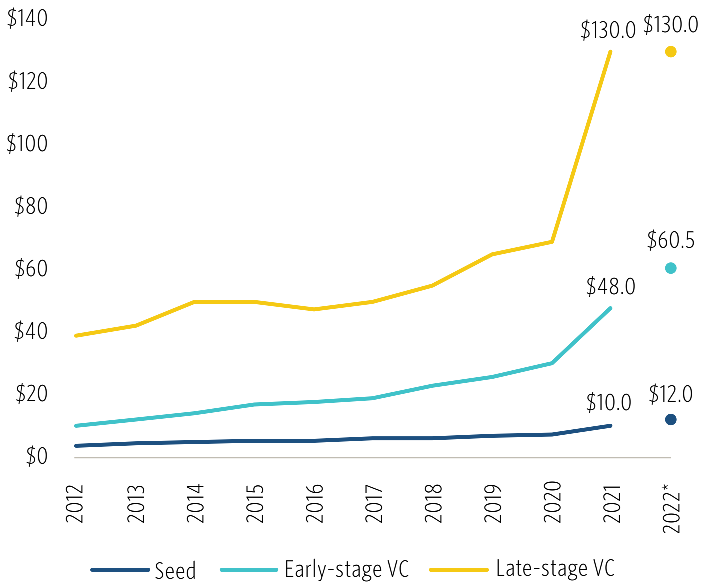
Median enterprise tech VC deal value ($M) by stage



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Late-stage median valuations plateau

Median enterprise tech VC pre-money valuation ($M) by stage



Source: PitchBook | **Geography:** US
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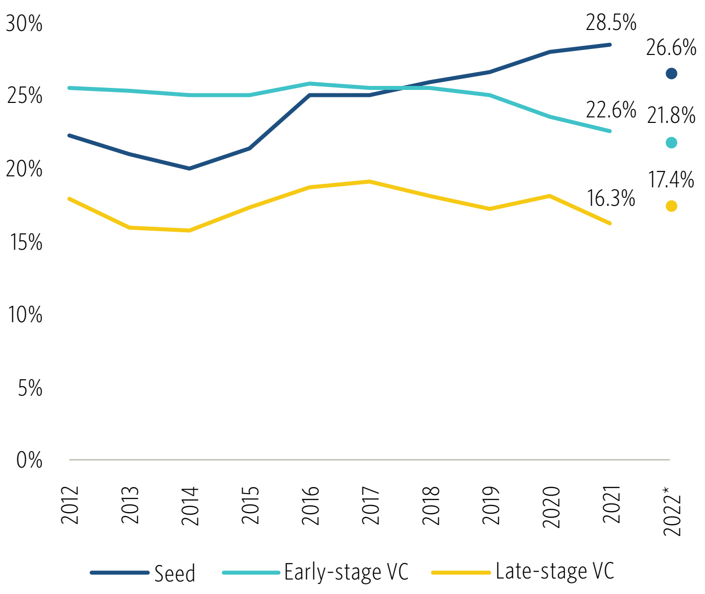
Late-stage enterprise tech equity stakes rally

Median VC share acquired in enterprise tech companies by stage



Source: PitchBook | **Geography:** US
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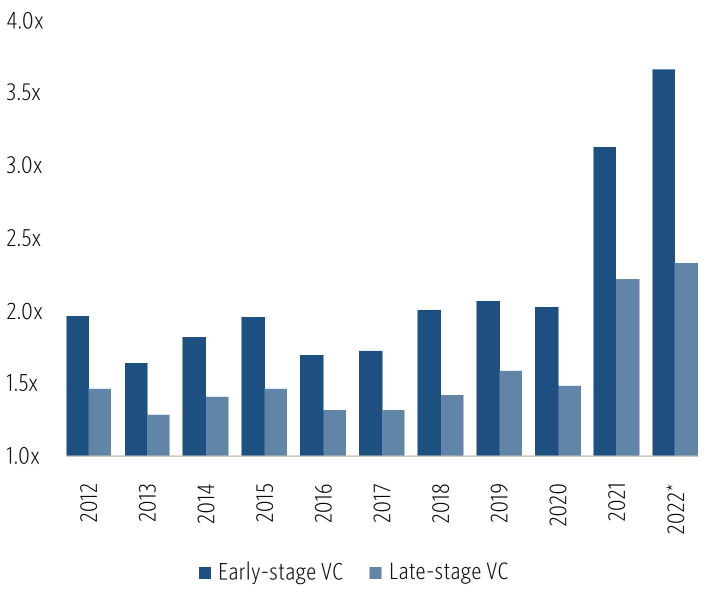
Enterprise tech step-ups ascend

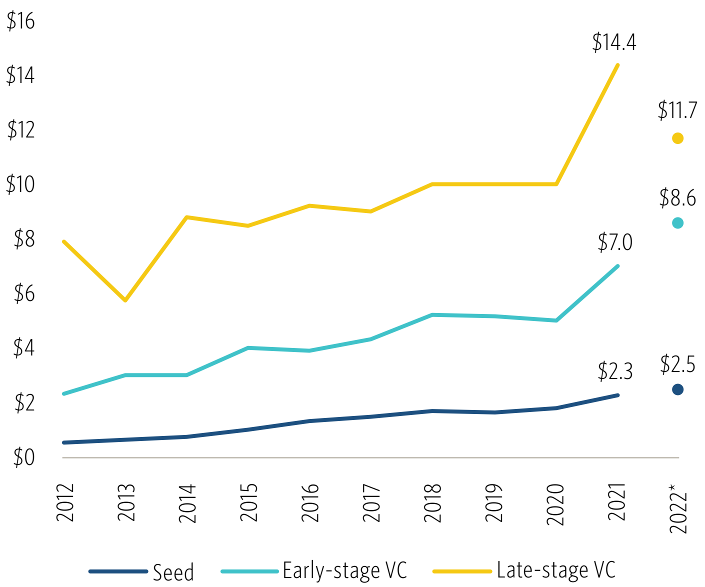
Median enterprise tech VC valuation step-ups by stage



Source: PitchBook | **Geography:** US
*As of June 30, 2022

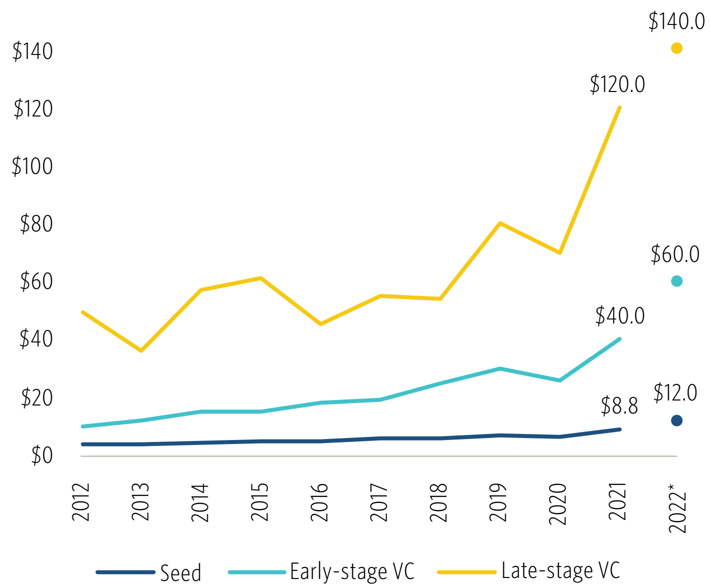
Consumer tech

Late-stage median deal values drop
Median consumer tech VC deal value ($M) by stage



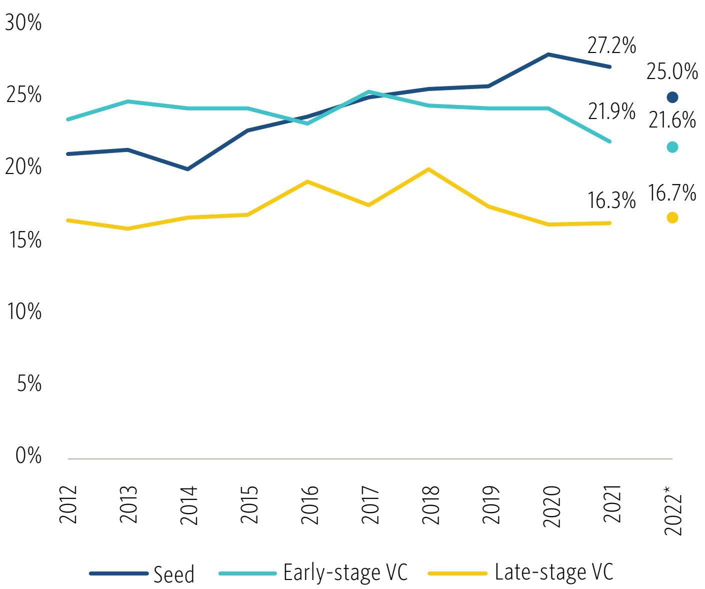
Source: PitchBook | **Geography:** US
*As of June 30, 2022

H1 sees uplift in median valuations across all stages
Median consumer tech VC pre-money valuation ($M) by stage



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Equity stakes remain stagnant
Median VC share acquired in consumer tech companies by stage



Source: PitchBook | **Geography:** US
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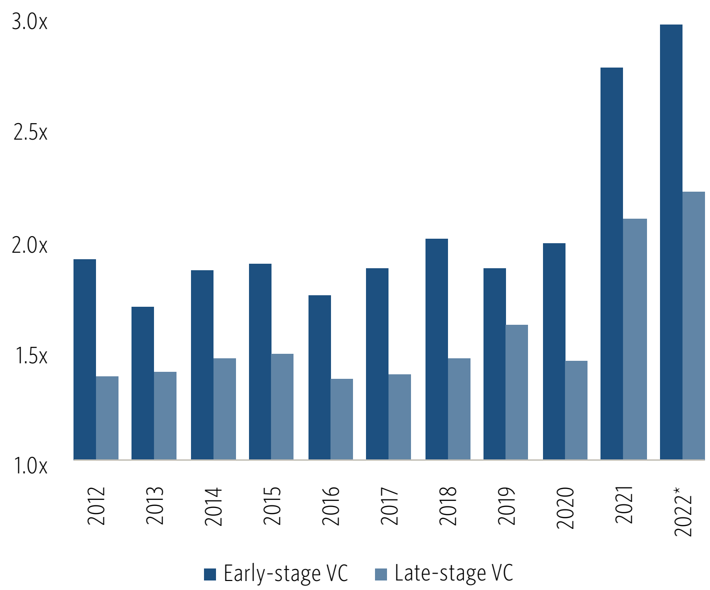
H1 step-ups see modest gains
Median consumer tech VC valuation step-ups by stage

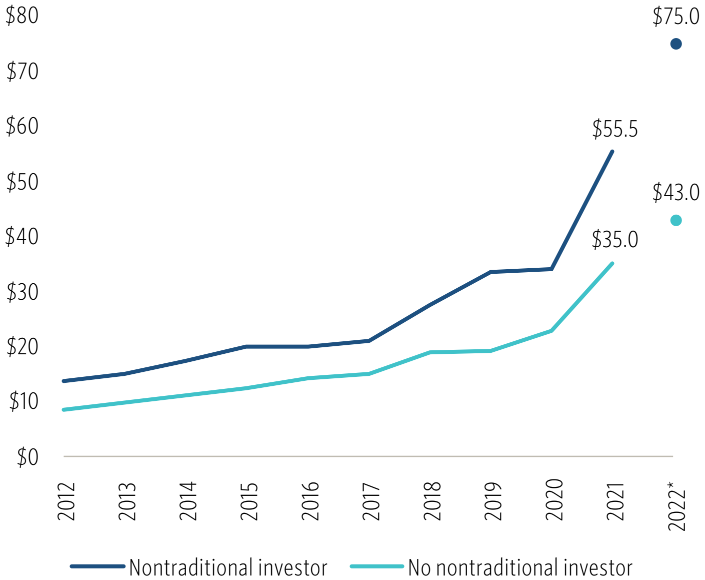


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Nontraditional investors

Nontraditional investors continue pushing early-stage VC valuations higher

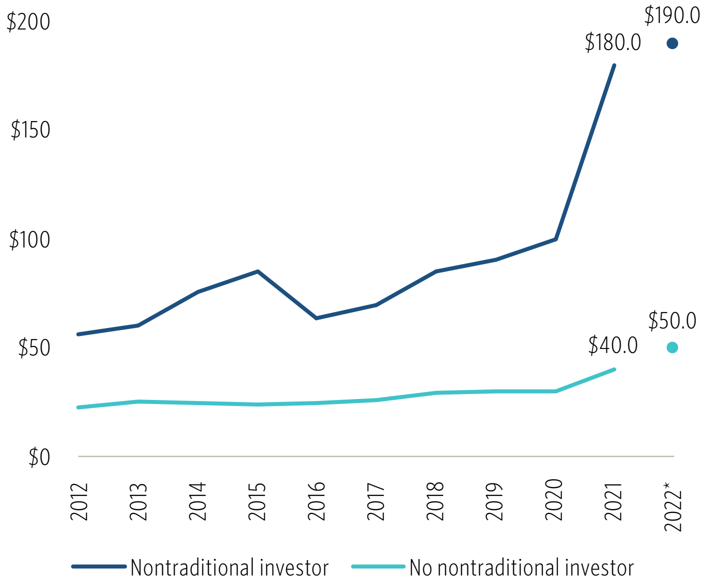
Median early-stage VC pre-money valuation ($M) with nontraditional investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Median late-stage VC valuations climb higher no matter the investor type

Median late-stage VC pre-money valuation ($M) with nontraditional investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2022

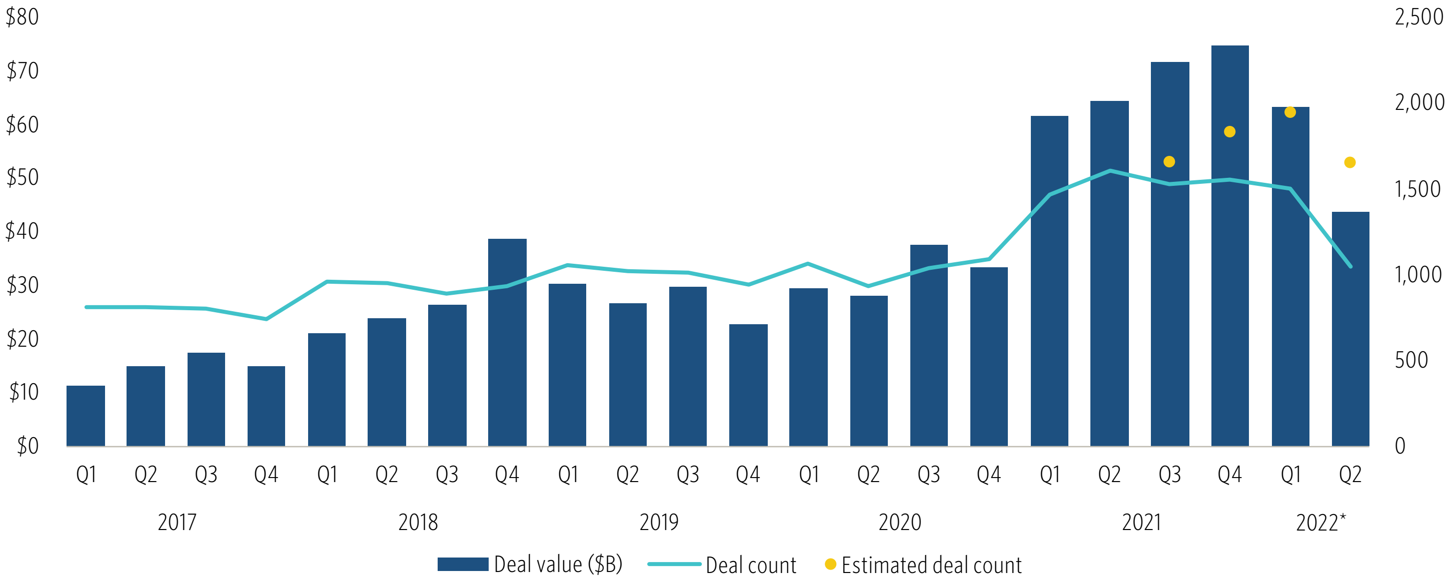
Nontraditional investor (NTI) activity in VC has remained relatively strong compared with the narrative around the market. In our Venture Monitor report, we estimated that these institutions have participated in more than 3,500 deals so far in 2022. While there were fewer nontraditional deals in Q2 than were completed during any of the past three quarters, the period will likely be the fourth-most-active quarter for NTIs in our dataset.

The valuations of deals receiving nontraditional investor participation have remained high as well. The mechanics of nontraditional investment do not change during market shifts, regardless of the level of activity. These institutions will continue to be larger, with less price sensitivity than a traditional venture fund. However, for several months now, we have heard that NTIs are changing tactics, or at least being more cautious than in 2021. That can be seen in the top quartiles of both their deal size participation and valuation, which are lower than the figures from full-year 2021 by 13.3% and 15.0%, respectively, at the late stage. However, these declines are not present at the medians of either statistic. Late-stage deal size has declined by just 7.2% while the median late-stage valuation with NTI participation is up over 2021's high by 5.5% for the year to date. Seemingly, cautious NTI behavior has, for the moment, been relegated to only the top end of the market.

These trends aren't limited to nontraditional investment at the late stage, either. The spread in median early-stage VC pre-money valuation between financings with and without nontraditional investment has grown larger through the first half of 2022. Through Q2, the median early-stage valuation from a deal with NTI participation was $32.5 million higher than those deals without, considerably more than the spread of $20.5 million generated in 2021. Over the past couple years, nontraditional investors have been moving earlier in the venture lifecycle, putting upward pressure on the early-stage market by adding competition to deals and increasing capital availability. In the current market, early-stage deals may be even more attractive to nontraditional investors, as these companies are further from public market volatility and can potentially wait out exit troughs until the IPO window comes back around.

Despite decline, nontraditional investor participation remains high

Quarterly VC deal activity with nontraditional investor participation



Source: PitchBook | **Geography:** US
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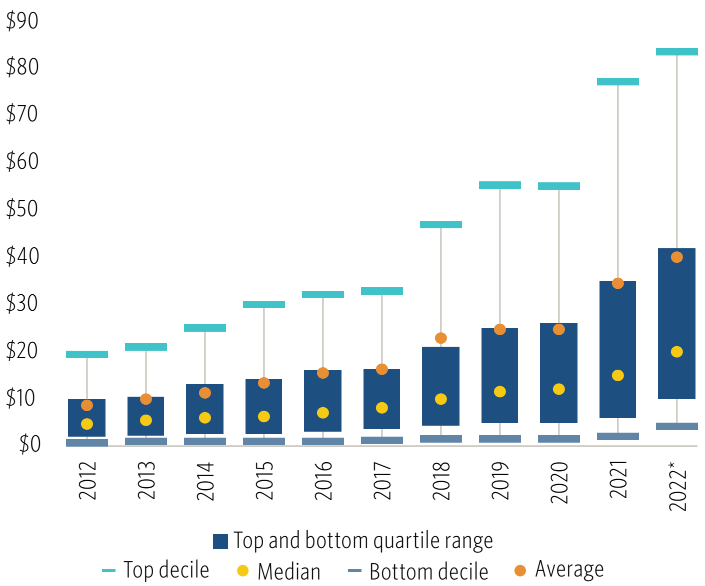
Deal values continue significant growth

Early-stage VC deal value ($M) dispersion with nontraditional investor participation



Source: PitchBook | **Geography:** US
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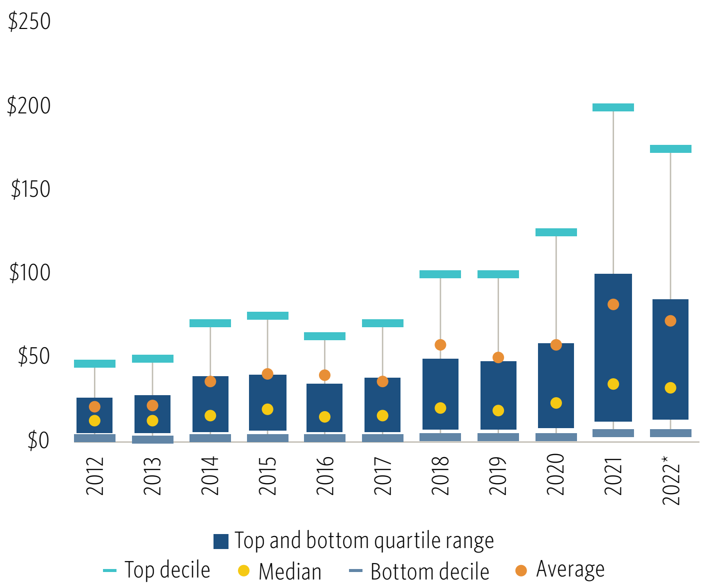
Late-stage VC deal values move back toward historical norm

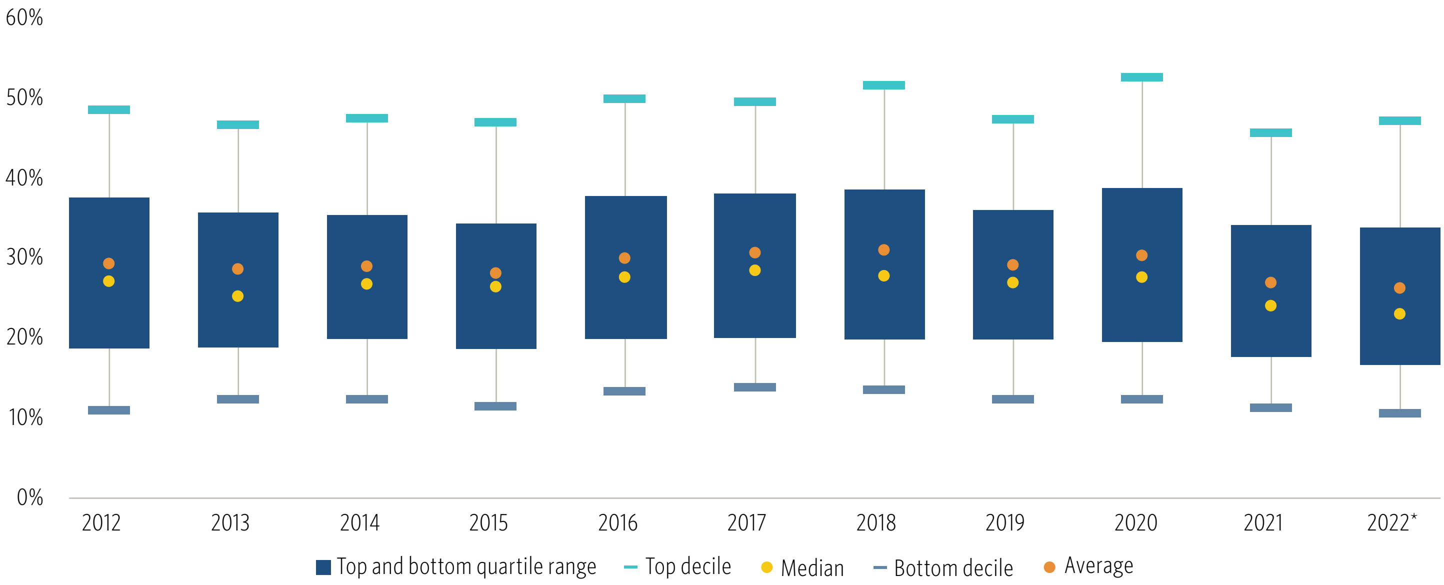
Late-stage VC deal value ($M) dispersion with nontraditional investor participation



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Early-stage VC stakes remain low

Early-stage VC share acquired dispersion with nontraditional investor participation



Source: PitchBook | **Geography:** US
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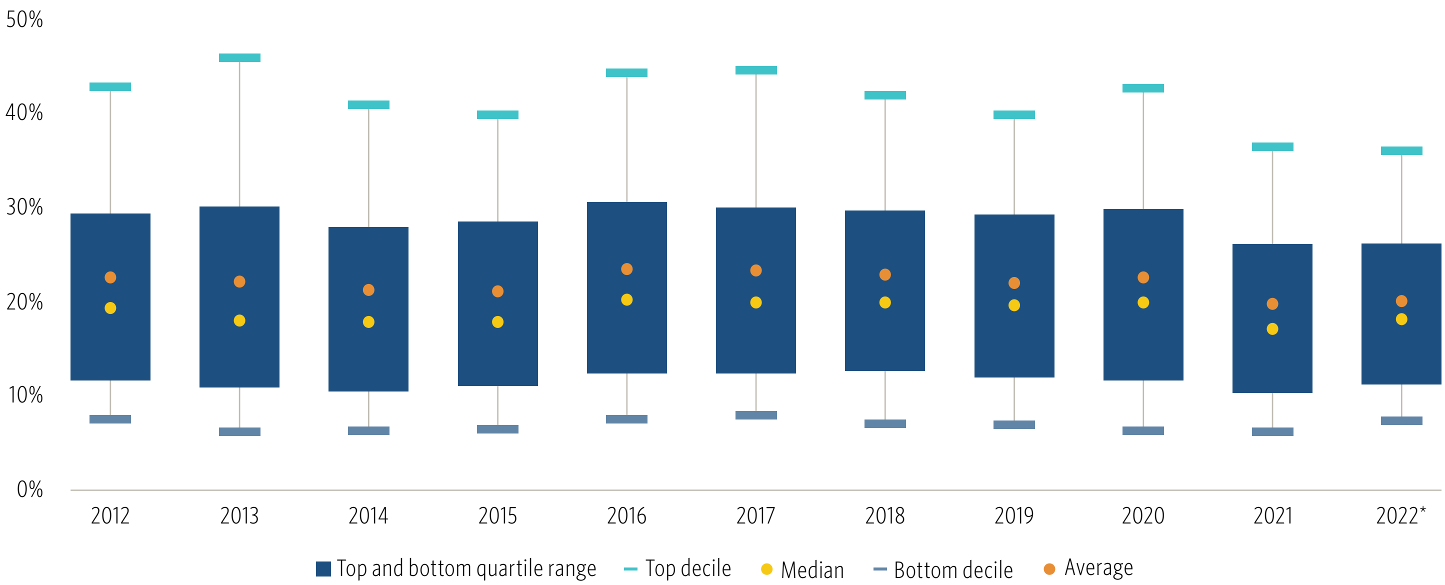
In late-stage VC stakes, little has changed

Late-stage VC share acquired dispersion with nontraditional investor participation

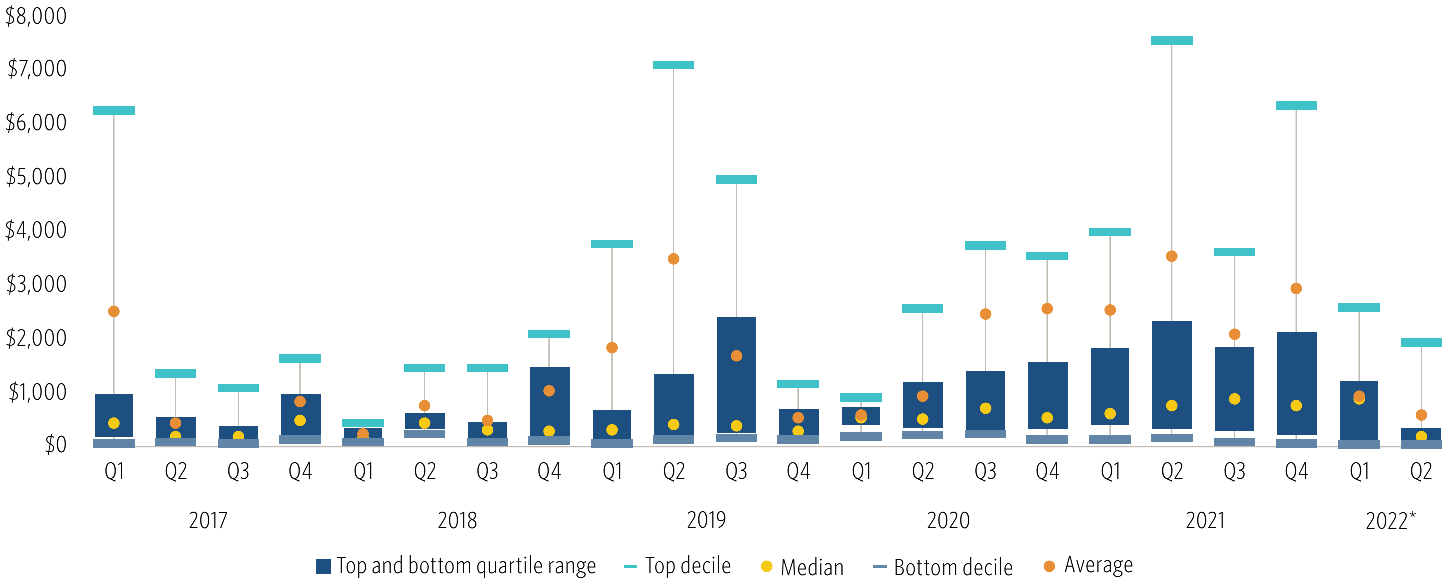


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Liquidity

Public listing valuations fall in tandem with volume

Valuation ($M) at exit via public listing dispersion by quarter



Source: PitchBook | **Geography:** US
*As of June 30, 2022

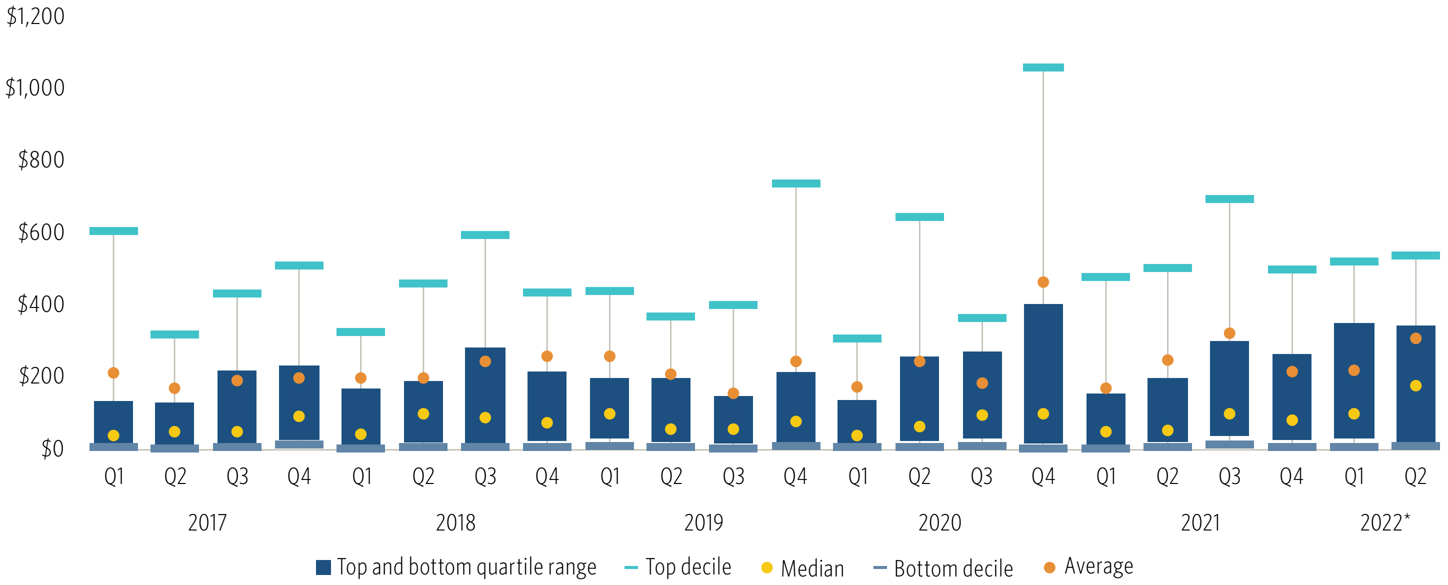
Exit activity, or the lack thereof, continues to be a key narrative of 2022. Of those exits that have closed during the year so far, we've also recorded some critical changes in the valuations. Most notably, the average and top-quartile valuations came down across both public listings and acquisitions, with public listings seeing a more drastic decline. The top-quartile public listing during Q2 2022 was completed at a $338.3 million valuation, a fall of 72.2% from the $1.2 billion level we recorded in Q1. However, the low counts in Q2 because of the general lack of IPOs must be considered. These massive IPOs always occur at an irregular cadence, contributing to some of the volatility in the top-quartile and decile valuations—as seen in the spikes in various quarters throughout 2019 and 2021.

The QoQ fall in valuations of these public listings has been quite sharp, as the public market valuation climate has degraded further during Q2, continuing to pressure valuations for public listings. This has resulted in a steep decline in the total number of public listings and an almost complete lack of public exits for companies valued over $1 billion. In the first half of 2022, we've recorded only 10 exits via public markets for companies valued over $1 billion, relative to the 102 that closed during 2021. This is a critical gap in liquidity for the growing population of startups that have reached or are near that valuation threshold in the private markets. The persistence of this liquidity gap for unicorns could have some serious trickle-down effects if the late-stage funding market sees tightening from investors or more stringent terms, which could result in more down rounds. This negative trajectory is also seen in the step-up data, wherein step-ups at exits for public listings have declined to 1.2x in Q2 from 1.5x in Q1.

Valuations for acquisitions have been much steadier relative to the exits to public markets, as we've seen little movement in median or average valuations over the first two quarters of the year. The median has stayed relatively flat since Q3 2021, at $100 million, implying that acquirers are still finding attractive opportunities in the VC universe. However, as of Q2, step-ups at exit haven't dropped, meaning buyers aren't necessarily capitalizing on low valuations, and startups are not seeking acquisitions out of desperation or due to a lack of options. We expect acquisition activity to continue with maybe even some renewed strength, as valuations might turn more favorable for acquirers—though with the caveat that corporations must be confident enough in their liquidity position to make acquisitions.

Acquisition valuations hold steady as buyers remain in market

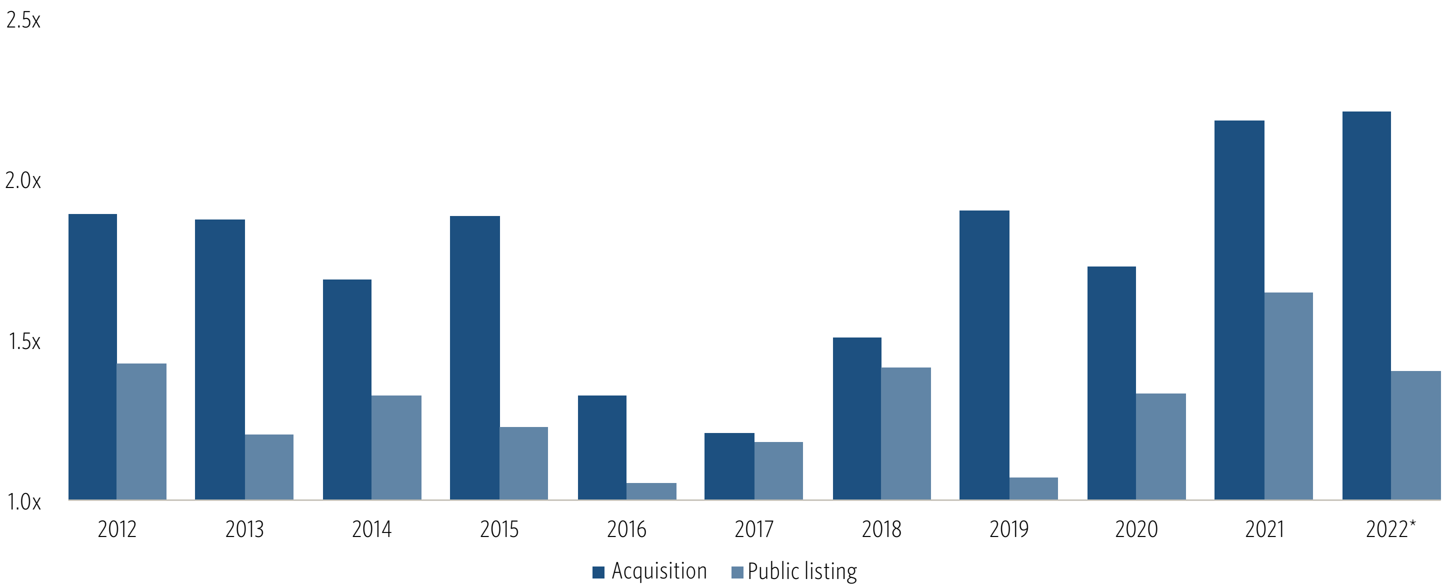
Valuation ($M) at exit via acquisition dispersion by quarter



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Valuations for acquisitions not seeing any deterioration in step-up

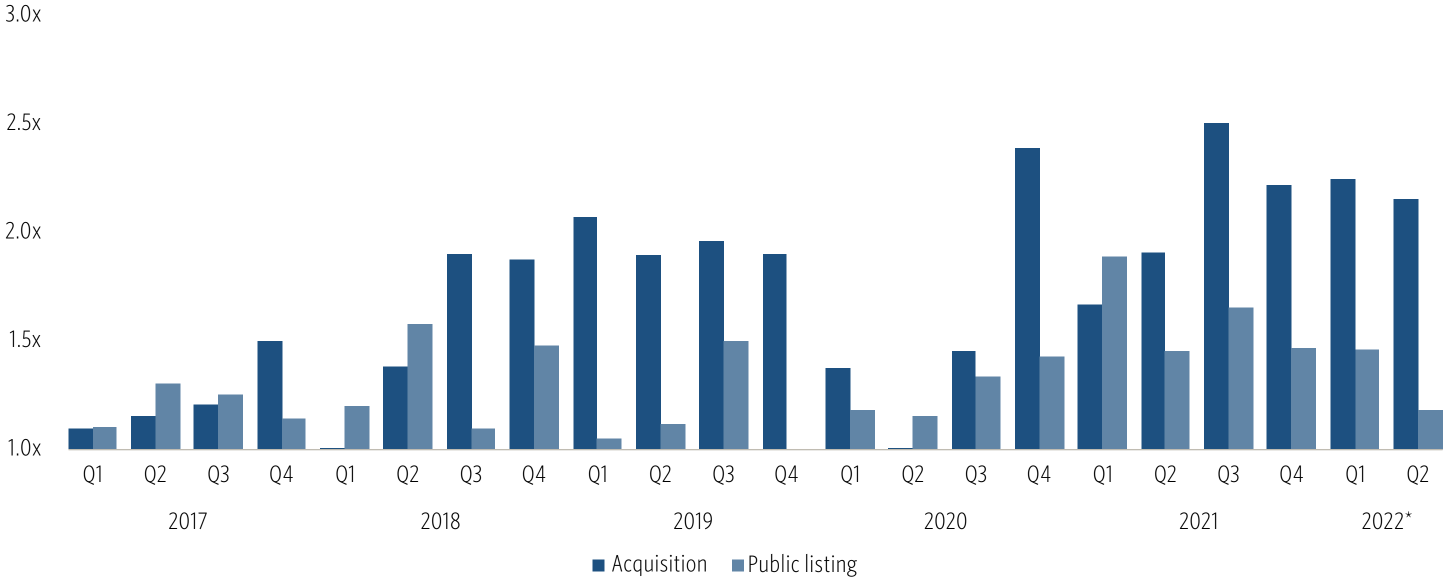
Median VC valuation step-up at exit by type



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Median public listing step-ups decline toward the 1.0x threshold

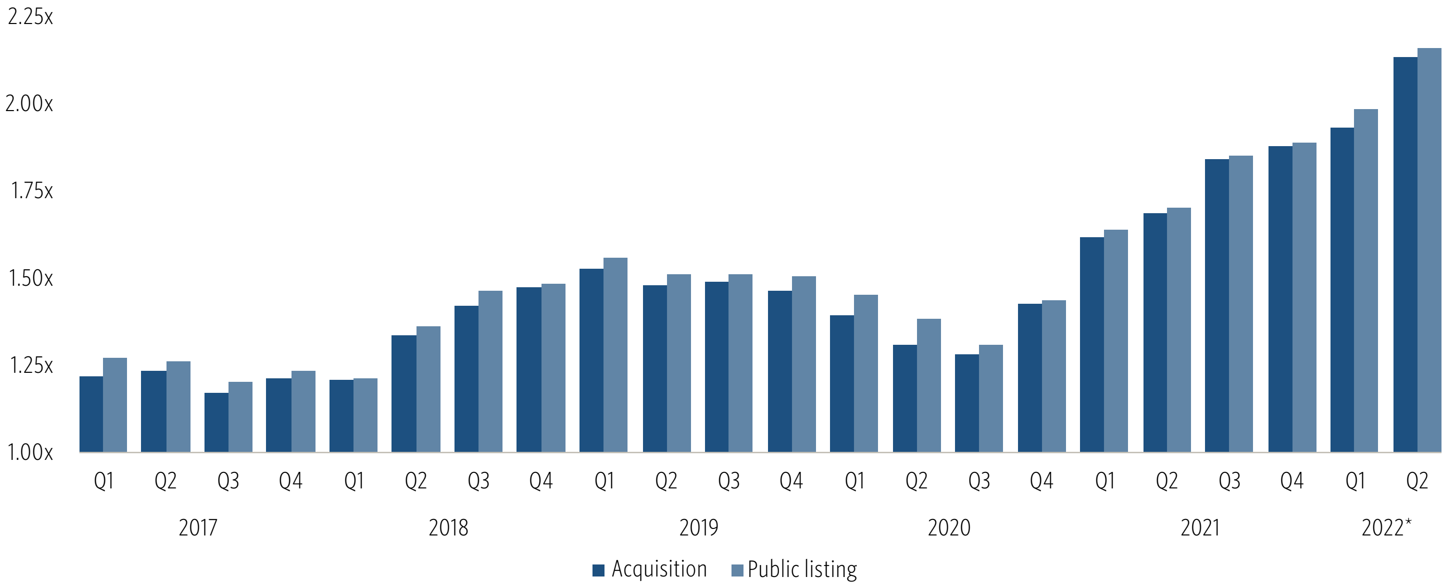
Quarterly median valuation step-up at exit by type



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Positive exit momentum likely to dissipate—especially for public listings

Rolling four-quarter median valuation step-up at exit by type

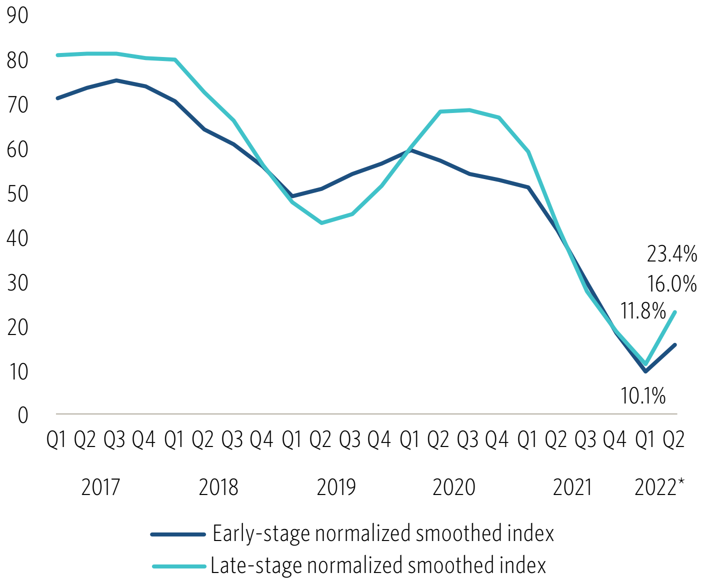


Source: PitchBook | **Geography:** US
*As of June 30, 2022

Deal terms

Market makes initial turn toward more investor-friendly environment

VC dealmaking indicator by quarter



Source: PitchBook | **Geography:** US
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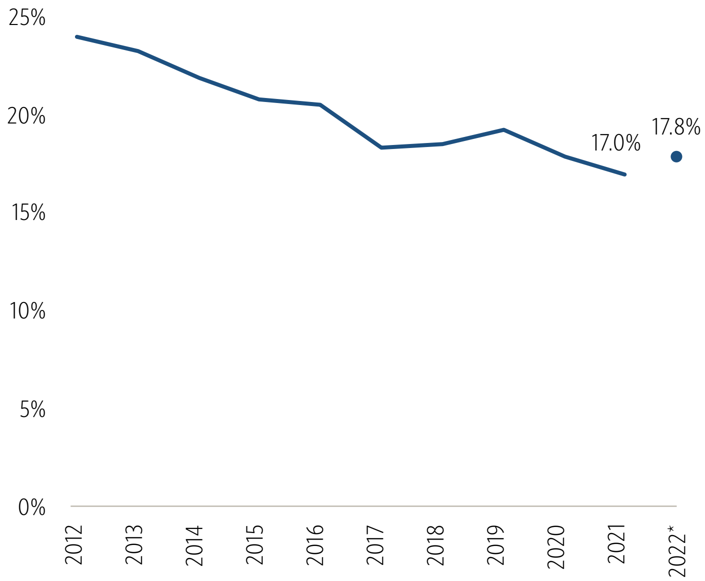
Cumulative dividends see sustained usage

Deals with cumulative dividends as a share of all VC deals

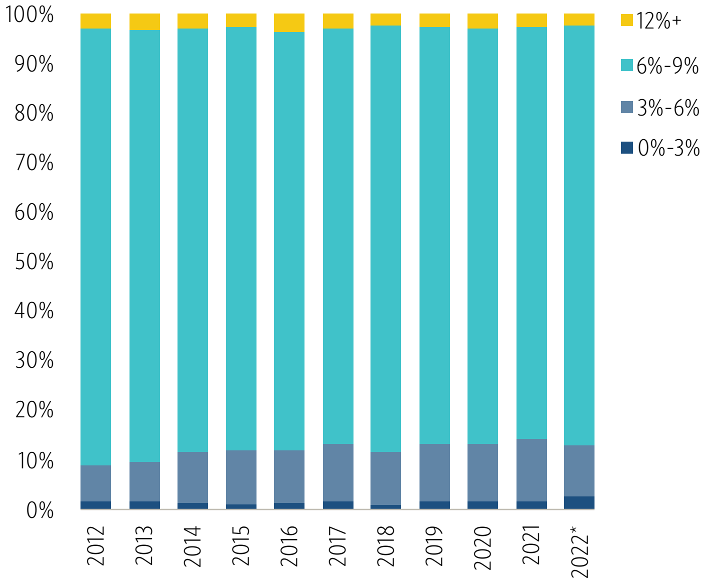


Source: PitchBook | **Geography:** US
*As of June 30, 2022

As uncertainty creeps into the conversation around VC investing, the investment negotiations and due diligence processes are becoming much more rigorous about pricing as well as the deal terms included to get to those valuations. We can see the logical tendency toward more protectionist—or investor-friendly—terms via our dealmaking indicator, which has seen a tick upward in Q2 for the first time since Q3 2020. That last broad move toward investor friendliness was when we saw some uncertainty in the financial markets around how the COVID-19 pandemic would affect the economy. While this is a move away from founder friendliness, it is not a massive move in the data. As you can see in the "VC dealmaking indicator by quarter" chart, the dealmaking indicator remains well below the levels we recorded during 2019 and 2020.

We've finally seen some movement with deal terms emerging from the tumultuous economic environment, but these changes haven't translated into an increase in down rounds as of Q2 2022. We believe this is most likely due to startups' ability to use runway to avoid pricing new rounds. Deal counts haven't plummeted off the historical pace but will likely come in below what we saw in 2021, implying some sort of caution from companies and investors as all parties try to gain some certainty in the current moment. That said, we expect to see more down rounds and a significant increase in protectionist terms if the current economic climate continues or worsens over the next 12 months—especially if the anecdotal evidence around canceled funding conversations from investors and startups is true.

Dividend breakdowns remain constant
Share of deals including dividends by size bucket



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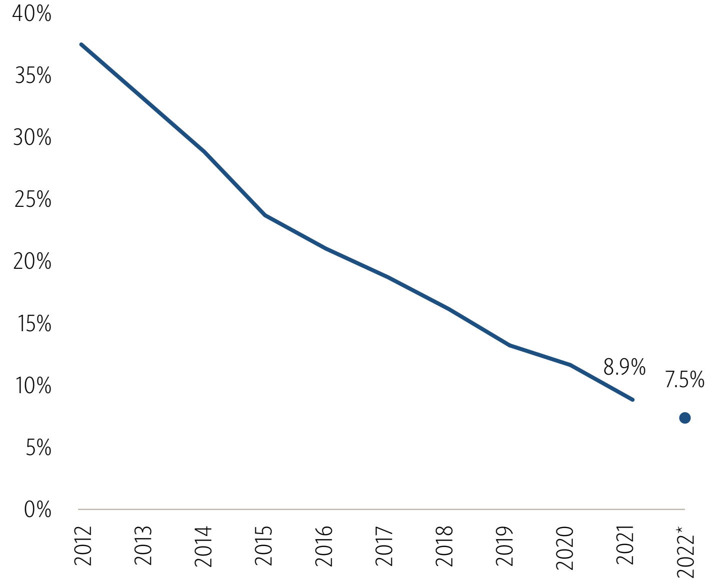
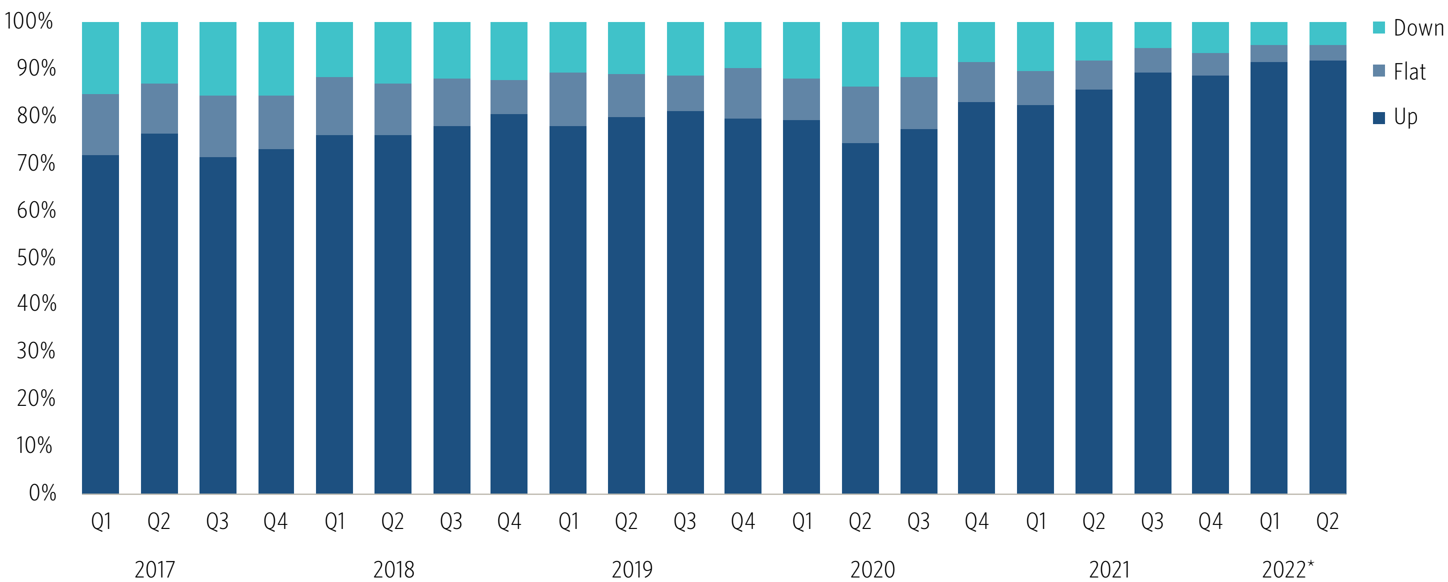
Participation rates continue descent despite market uncertainty
Deals with liquidation participation as a share of all VC deals



Source: PitchBook | **Geography:** US
*As of June 30, 2022

Down rounds yet to materialize, but might be on horizon
Share of VC deals with up, flat, or down rounds by quarter



Source: PitchBook | **Geography:** US
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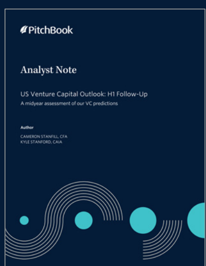
Additional research

Venture Capital



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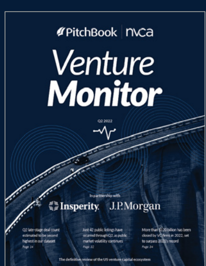

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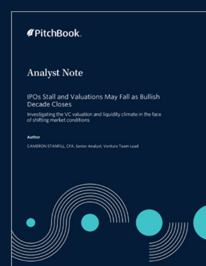

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