PitchBook

Q2 2023

US VC Valuations Report

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Contents

Key takeaways 4

Angel and seed valuations 5

Early-stage VC valuations 7

Late-stage VC valuations 9

Venture-growth valuations 11

A word from Morgan Stanley at Work 13

Fintech 15

Carbon & emissions tech 17

Nontraditional investors 19

Liquidity 21

Deal terms 23

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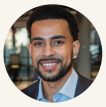

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Published on August 9, 2023

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Shareholders May be Expecting Liquidity - How Will You Respond?

As companies remain private longer amid economic uncertainty, 59% of private company decision makers are reporting increased pressure to conduct a liquidity event.[1]

What can you do today to be set up for success tomorrow?

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1 Morgan Stanley at Work 2023 Liquidity Trends Report

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Key takeaways

The seed stage's summer may be cooling off early. As VC funds exhaust their dry powder, up their reserves for existing portfolio companies, and revisit discounted opportunities, seed-stage deal sizes have started to stagnate. Both at the median and top decile, deal size fluctuations over the last 12 to 18 months have been fairly negligible, suggestive of investors' reluctance to overzealously commit capital and their desire to see capital-efficient milestones achieved.

In Q2 2023, the median early-stage valuation step-up hit a near-decade low of 1.6x. The compression of early-stage deal metrics in contrast with the growth of seed-stage metrics in recent quarters has drastically impacted the value created between stages. For many newly minted GPs that closed funds in the past three years, declining early-stage VVC and RVVC will limit portfolio markups and add to the challenges GPs face when looking to raise a subsequent fund.

Due to a stagnant exit environment and rising interest rates, nontraditional investors have continued to reduce their participation in the US venture ecosystem. In the first half of 2023, only $62.9 billion of US VC deal value involved nontraditional investors, a decline from $122.4 billion in the first half of 2022. Nontraditional investors historically influence startup valuations, with deals involving them having higher median valuations compared to those without. However, these valuations have decreased significantly from previous years. The departure of nontraditional investors from VC has resulted in a scarcity of capital for startups, giving investors more leverage in negotiations and leading to potential further declines in valuations.

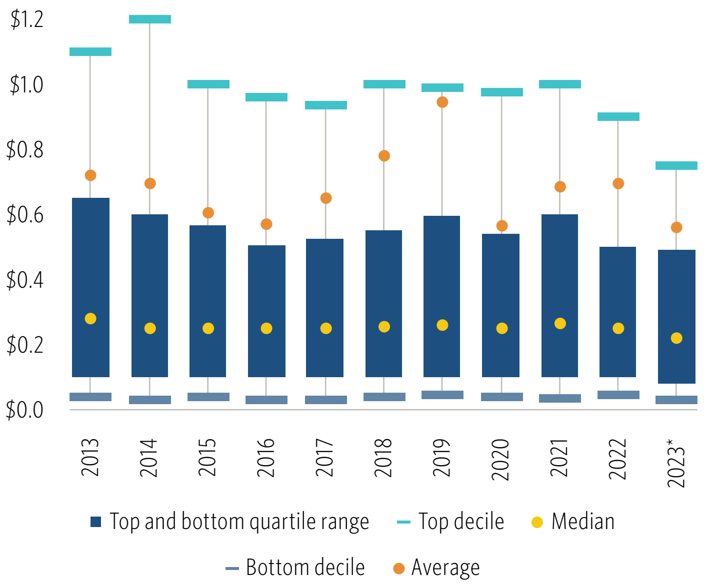
In Q2, late-stage startups continued to experience headwinds amid a challenging financing and public exit environment. The 2023 YTD insider-led deal proportion reached 9.4%, the highest point observed in nearly a decade, attesting to the capital shortage and investors' unwillingness to take on financing risks. A slight QoQ uptick in the median late-stage VC valuation signals a flight to quality, where GPs are exercising caution and deploying capital only to the highest-quality companies demonstrating strong growth momentum.

As of Q2, the venture landscape has turned the most investor friendly in about a decade, per the PitchBook VC Dealmaking Indicator. The percentage of down rounds has ascended to a four-year high due to limited capital availability resulting from a pullback of nontraditional investors, as well as a flight to quality when investors evaluate investment opportunities.

Angel and seed valuations

Median angel deal size lowest in decade

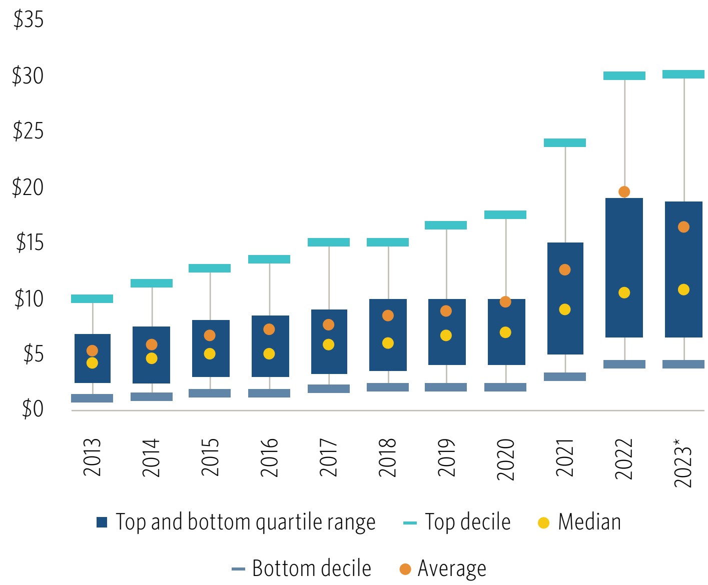
Angel deal value ($M) dispersion



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Median seed pre-money valuation inches just above 2021 figure

Seed pre-money valuation ($M) dispersion

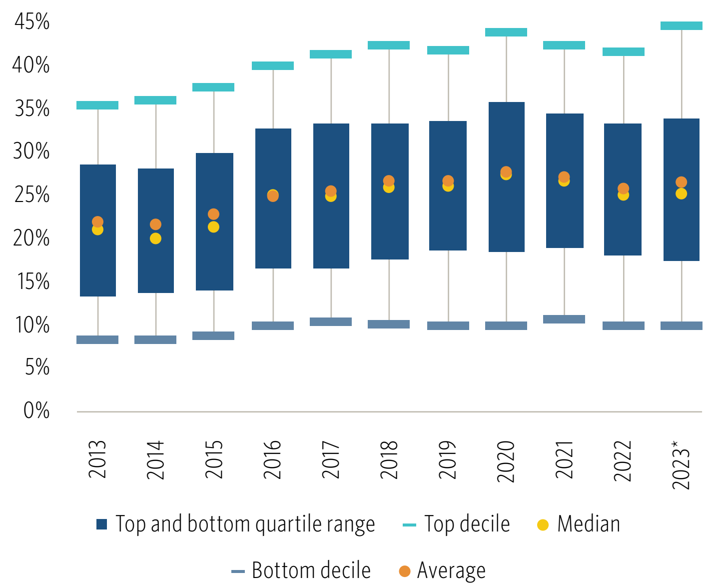


Source: PitchBook • **Geography:** US
*As of June 30, 2023

The seed stage's summer may be cooling off early. While the 2023 YTD median seed deal size retains a record high of $2.9 million, over the past four quarters, the median has fluctuated between $2.7 million and $3.0 million. This sinusoidal activity could be indicative of a ceiling for seed deal sizes. Capital efficiency and runway extension have become ubiquitous mantras within VC, but GPs also want to see startups hit performance milestones and valuation inflection points with the capital they invest. With the exception of Q1 2023, for the past six quarters, the top-decile seed deal size has hovered around $8.0 million. This may be the upper limit for most startups where GPs believe there is sufficient capital to prove product-market fit, demonstrate customer traction, and be well positioned to raise a Series A round.

Seed share acquired nearly on par with 2022

Seed share acquired dispersion



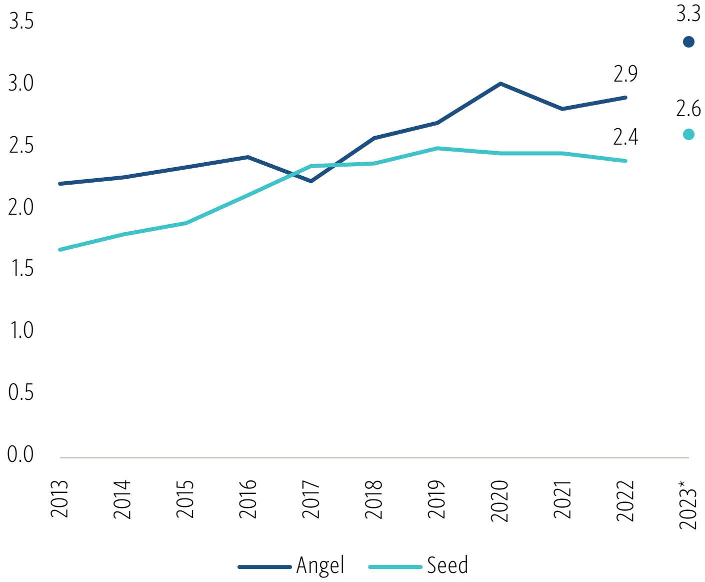
Source: PitchBook • **Geography:** US
*As of June 30, 2023

The median seed pre-money valuation has shown a more decisive trend. The 2023 YTD median of $10.8 million stands just above the 2022 full-year figure but falls short of the quarterly peak in Q1 2023. In Q2, the median seed pre-money valuation fell 16.7% QoQ to $10.0 million. We have heard that GPs are seeing a greater number of seed-stage startups putting off raising their Series A rounds and instead raising extensions of their prior round or a second seed round, limiting valuation fluctuations. In doing so, startups seek to lengthen runway, avoid raising a down round, and shield themselves from the growth and financial performance demanded of Series A startups.

Contributing to the growth of seed deal metrics up to this point has been the stage's appeal to a wide range of participants, such as multistage and nontraditional investors that value capturing larger equity positions, the extended time to exit, the formulaic nature of deal terms, and the maturation of the stage as a whole over the past decade. Coupled with the more than 1,700 micro-funds closed since the start of 2020, there has been ample investor demand propelling deal metrics upward. However, as funds exhaust their dry powder, up their reserves for existing portfolio companies, and revisit opportunities at flat or lower valuations in the early and later stages, we expect to see the heavy investor-friendly environment shackle the growth of seed deal metrics.

Median age of company at seed round hits decade high

Median time (years) from founding by stage



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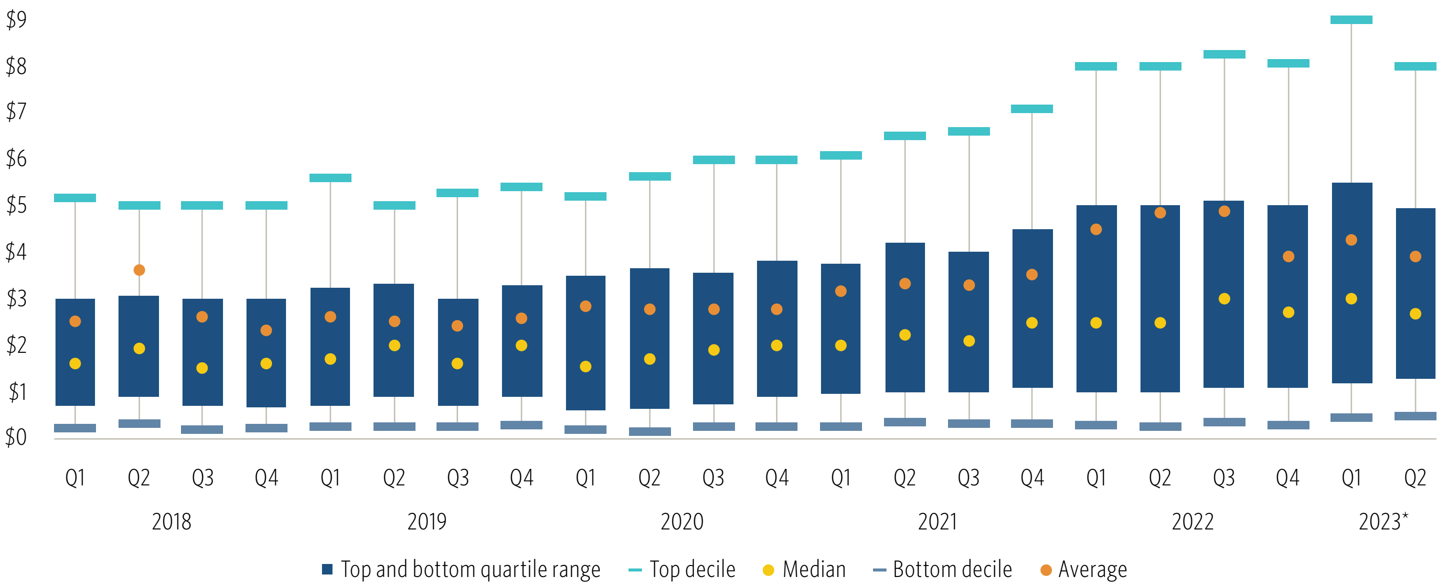
Median and top-decile seed deal sizes show signs of stagnation

Seed deal value ($M) dispersion by quarter



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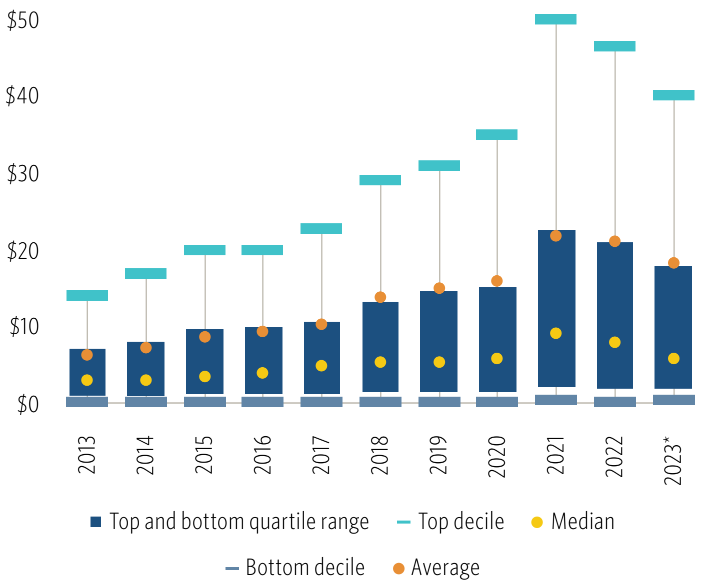
Early-stage VC valuations

Early-stage deal sizes on par with 2020 figures

Early-stage VC deal value ($M) dispersion



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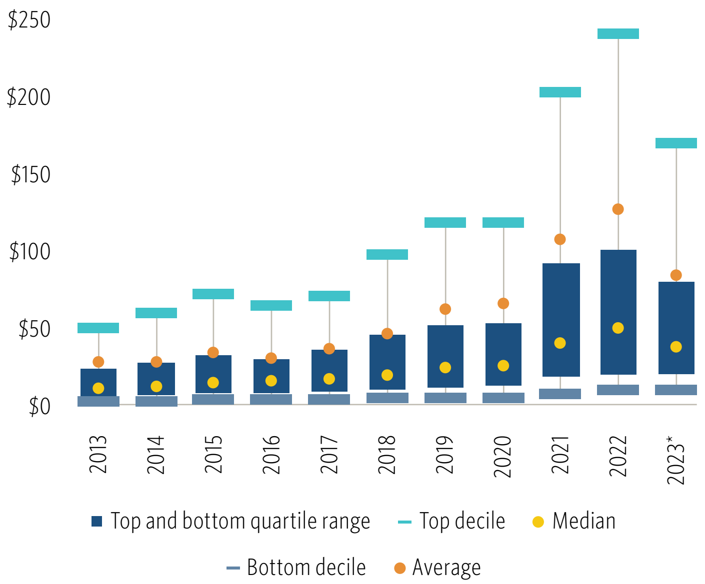
Median early-stage VC valuation remains ahead of pre-2021 figures

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



Source: PitchBook • **Geography:** US
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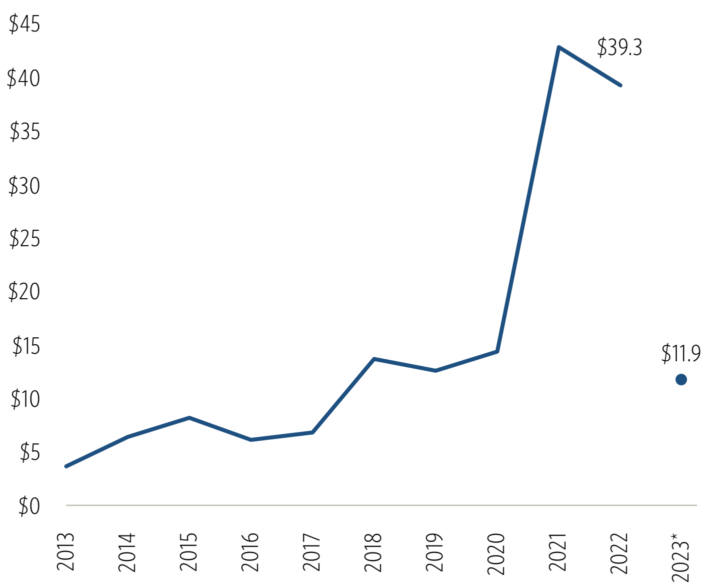
Persistent headwinds, such as the lack of available liquidity and high interest rates, have continued to trickle in and add pressure to the early stage. While the 2023 YTD median early-stage deal size and pre-money valuation of $6.0 million and $38.0 million, respectively, remain above any full-year figure prior to 2020, they are well below the record highs in recent years. This is emblematic of the investor hesitance to commit capital amid the slow dealmaking environment, where a subsequent down round could have severe ramifications on investor stakes.

On a quarterly basis, the median early-stage deal size experienced a modest uplift in Q2, notching an increase of 9.2% over the prior quarter to reach $6.5 million. Comparatively, the Q2 median early-stage pre-money valuation saw a negligible QoQ increase, landing at $38.5 million, but remains 35.8% lower than the Q1 2022 record high of $60.0 million. With no hints of a market rebound in sight and widespread founder interest in preserving valuations, the increase in deal size accompanied by relatively flat valuations suggests that early-stage startups are resorting to further extending their cash runway by giving up more equity and

Median early-stage velocity of value creation (VVC) hits a six-year low

Median early-stage VVC ($M) between rounds



Source: PitchBook • **Geography:** US
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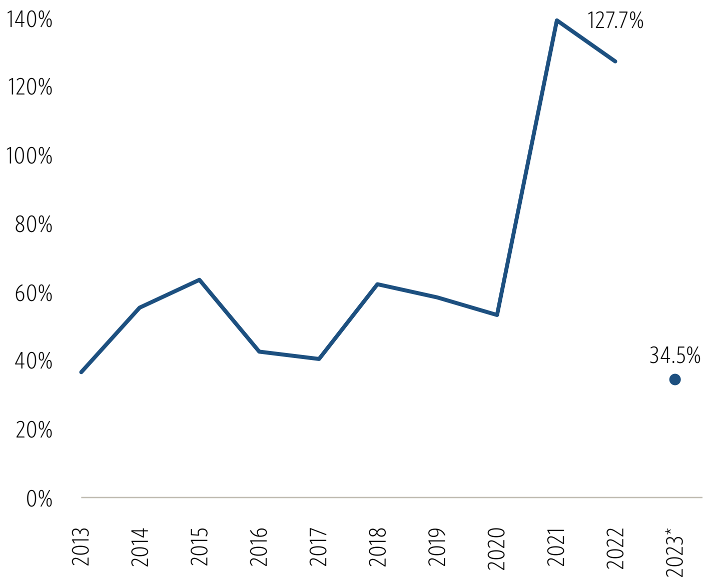
adding more structure to deal terms; the data shows the 2023 YTD median and average shares acquired have nearly returned to pre-2020 figures. The increasing competitiveness in securing venture debt is pushing founders to be more accepting of this new norm. The collapse of Silicon Valley Bank and other regional banks—institutions that specialize in lending to early-stage startups—has left the market with fewer lenders willing to partake in the risk profiles of early-stage startups, and the lenders that are willing can be even more selective due to the abundant demand for nondilutive financing amid the harsh dealmaking environment.

The compression seen in the early stage in contrast with the growth of seed deal metrics over the last 18 months has drastically affected the value created between stages. In Q2, the median early-stage step-up declined for a fifth consecutive quarter to 1.6x, the lowest quarterly multiple seen since Q3 2013. The decline in early-stage step-ups will negatively impact GPs by limiting the extent to which they can mark up their portfolios between rounds. At a time when the fundraising landscape is proving extremely difficult, the lack of paper gains to instill LP confidence could exacerbate the fundraising struggle for managers lacking robust networks and investment track records.

Median early-stage relative velocity of value creation (RVVC) sinks to a decade low

Median early-stage RVVC between rounds



Source: PitchBook • **Geography:** US
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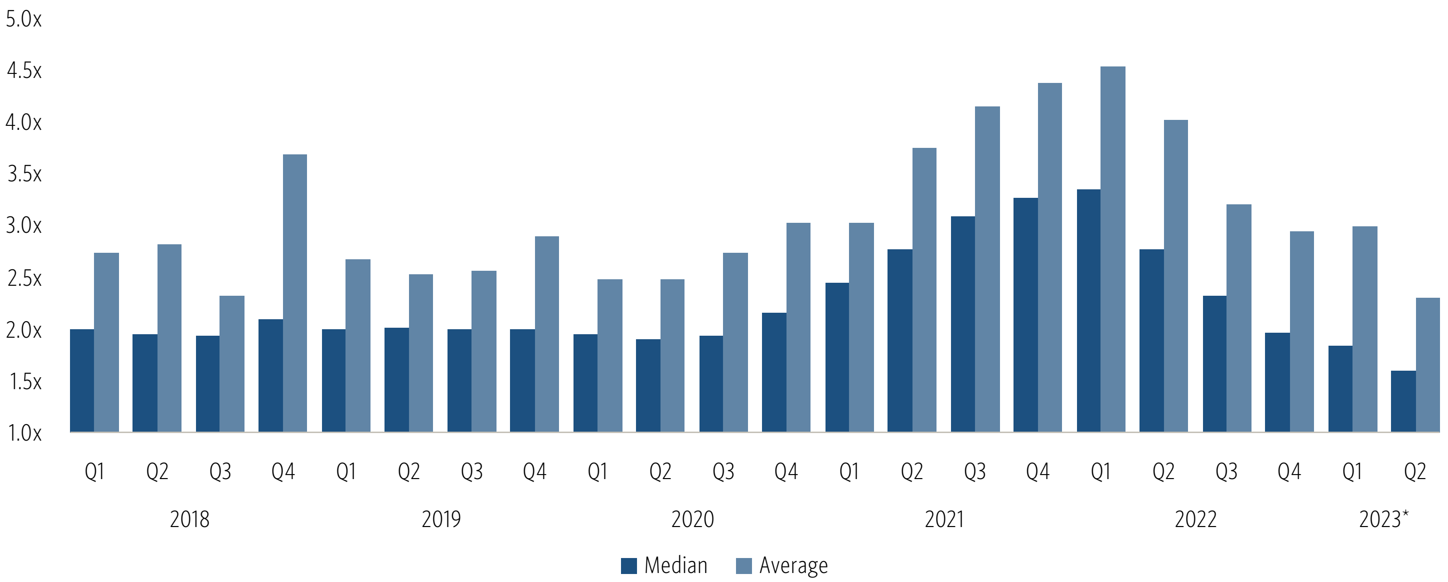
Median step-up hits lowest multiple since Q3 2013

Median and average early-stage VC valuation step-ups by quarter

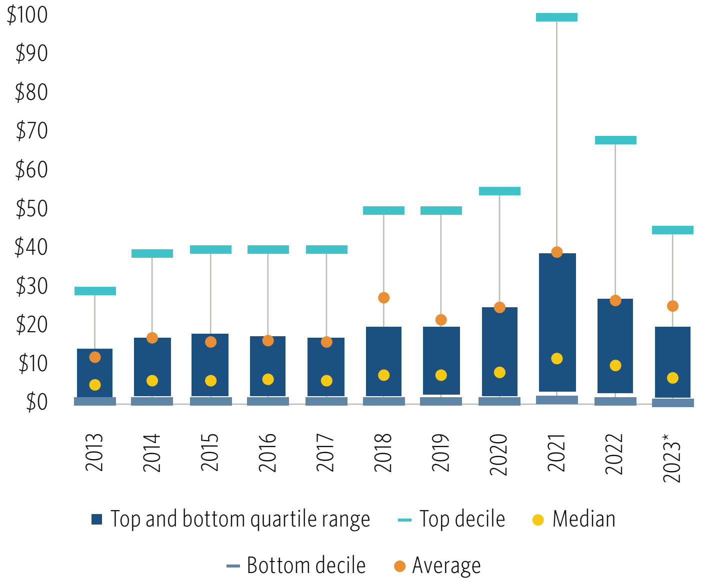


Source: PitchBook • **Geography:** US
*As of June 30, 2023

Late-stage VC valuations

Median late-stage deal size falls below 2018 level

Late-stage VC deal value ($M) dispersion



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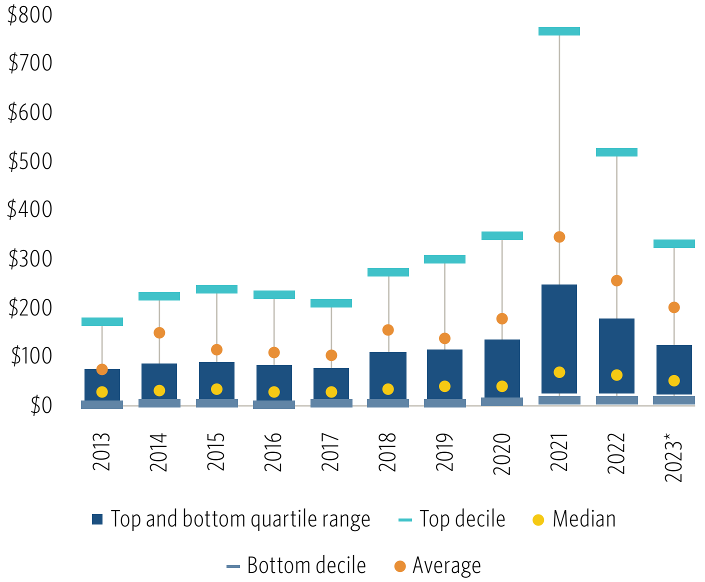
Top-quartile late-stage valuation down 30.3% YoY

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



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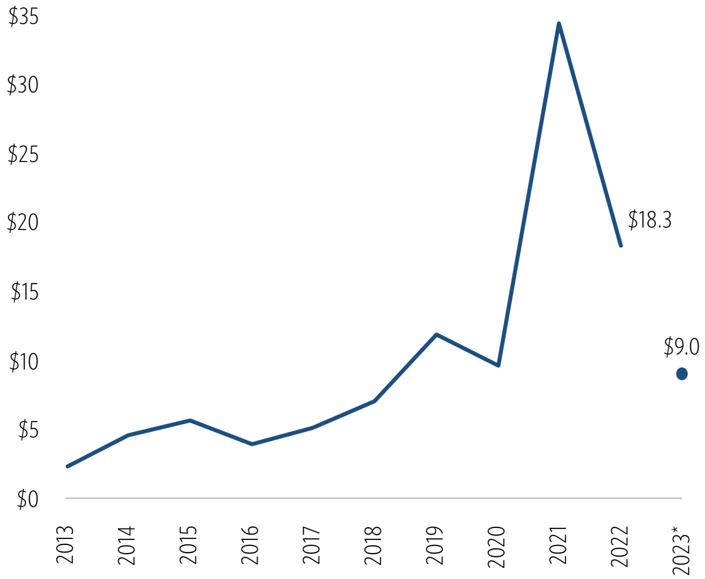
In Q2, late-stage, venture-backed startups continued to experience headwinds in raising equity financing and strategizing an exit route. The quarter featured a public market that was no longer as receptive to cumulative losses on the balance sheet; a pullback from nontraditional investors, which historically injected large amounts of capital to fuel growth; and venture funds shifting away from the growth-at-all-costs mentality. As a result, valuations for startups sitting close to the end of the venture lifecycle were compressed.

Amid a harsh financing and public exit environment, many late-stage startups opted to preserve runway by cutting burn. Some worked with their existing syndicate to cobble together an insider round to tide them over during the market turbulence: The 2023 YTD insider-led deal proportion notched 9.4%, the highest figure in nearly a decade. While those strategies could serve as temporary solutions, late-stage startups still need to return to the market eventually—runway extensions cannot indefinitely sustain a business that needs to demonstrate strong growth momentum. Existing investors likely do not have enough cash reserves to support portfolio companies through an exit and have become more selective

Median VVC drops to single digits

Median late-stage VVC ($M) between rounds



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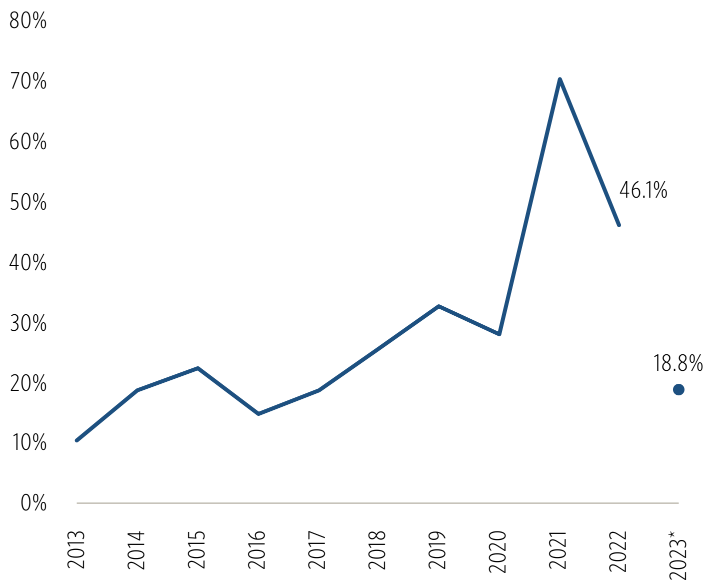
in making follow-on investments, pointing to a need for fresh capital injection from new investors. A lack of capital supply, a slowdown in the pace of dealmaking, and an unwillingness from investors to take financing risks was reflected in a sharp decline in the 2023 YTD median RVVC, a figure that reverted to the 2017 level. The dip signifies that the annualized pace for late-stage startups to grow valuation between rounds has slowed down significantly from the COVID-19-pandemic era of dealmaking exuberance. The slowing valuation growth also highlights the compressing revenue multiples that companies are faced with in this new environment.

On a positive note, in Q2 2023, late-stage valuation metrics displayed signs of strength, with quarterly median and top-quartile valuations climbing by 19.3% and 28.1%, respectively, from the previous quarter. During the same period, the quarterly median late-stage step-up grew from 1.3x to 1.5x. This upward trajectory suggests a flight to quality, as investors are continuing to deploy capital, but only to the best-performing companies with robust business fundamentals, unit economics, and financial projections.

Lowest median RVVC growth rate since 2017

Median late-stage RVVC between rounds



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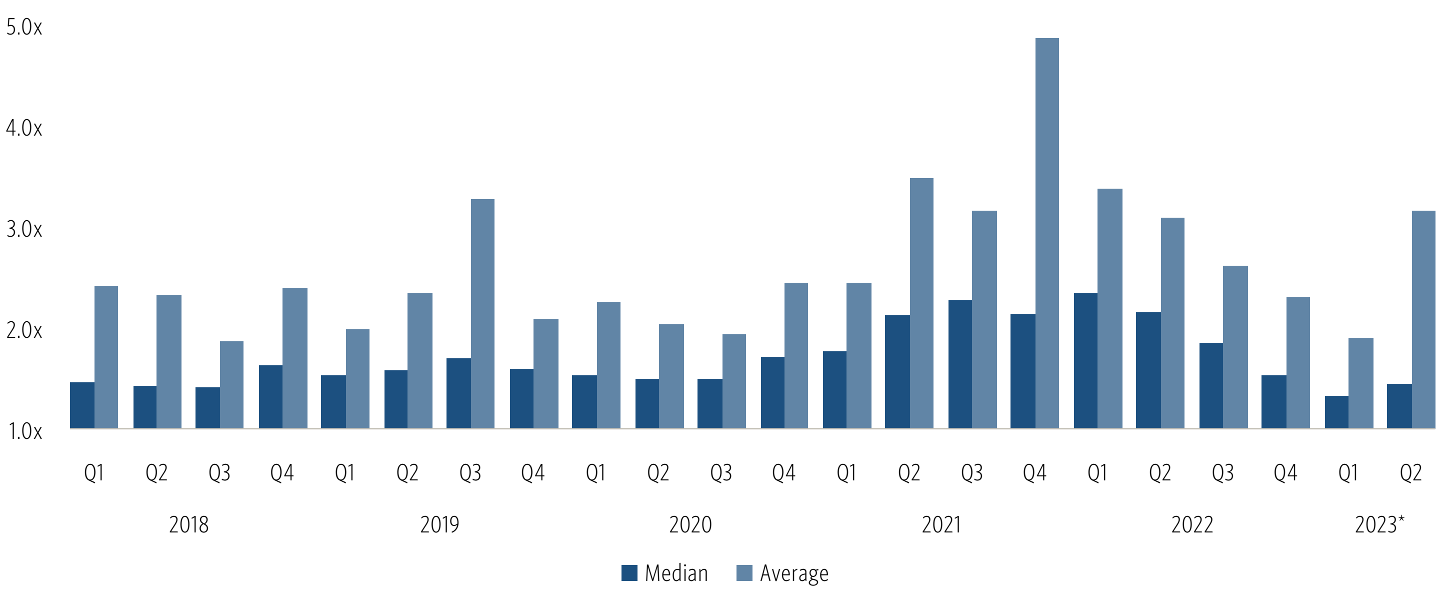
Median late-stage step-up ticks up slightly QoQ but remains below 2020 figures

Median and average late-stage VC valuation step-ups by quarter



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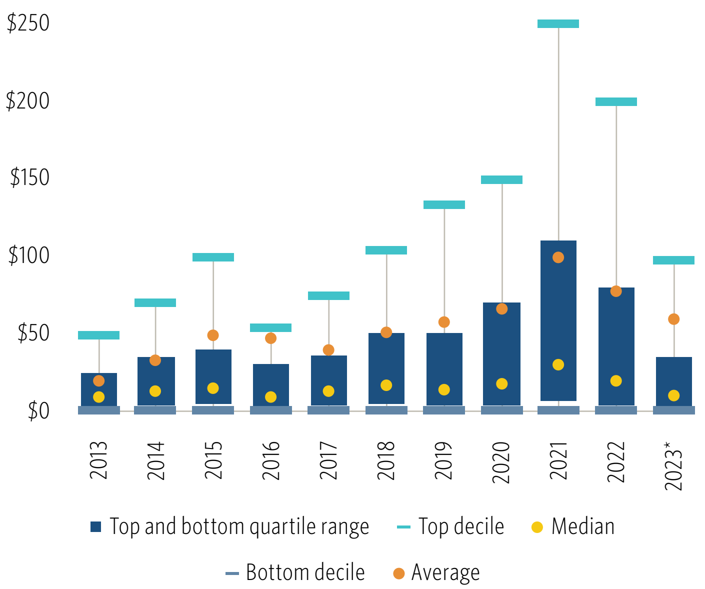
*As of June 30, 2023

Venture-growth valuations

Median deal size falls below $11 million

Venture-growth deal value ($M) dispersion



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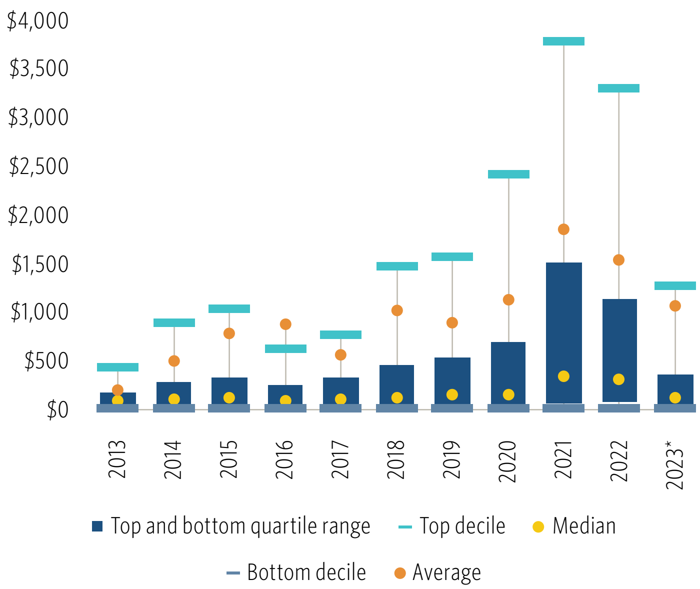
Median YTD pre-money valuation falls by nearly one-third

Venture-growth pre-money valuation ($M) dispersion



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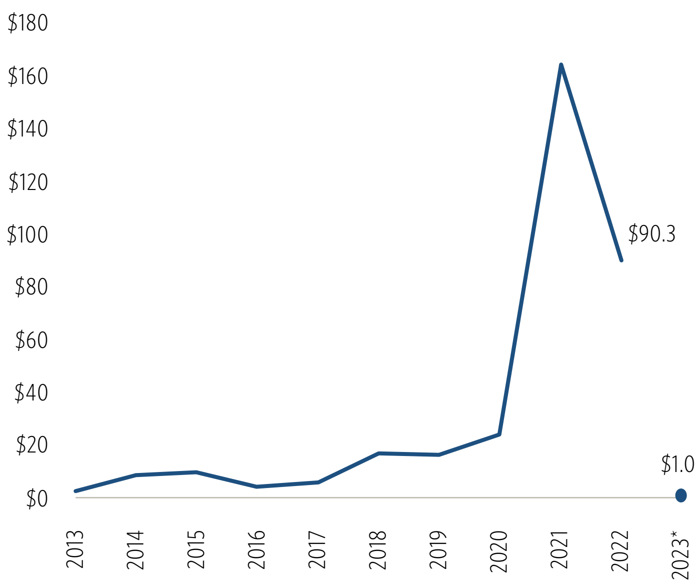
*As of June 30, 2023

Venture-growth-stage startups continue to face significant challenges due to several factors, including restricted avenues to liquidity, decreasing interest from nontraditional investors, and amplified scrutiny of business models that prioritize growth over profitability—models commonly adopted by many startups over the past few years. In the first half of 2023, the median pre-money valuation for venture-growth startups plummeted by 64.3% compared with the record high seen in 2021, dropping to $125.0 million from $350.0 million. Although Q2 2023 showed some improvement with a median pre-money valuation of $180.0 million, surpassing Q1's $90.0 million, the figures are still far below the valuations observed in 2022, such as the $600.0 million median pre-money valuation seen in Q1 2022. This decrease is indicative of a continued decline in investor confidence observed since the second half of 2022, partly driven by a lack of viable exit avenues, which limits return potential and timelines for venture firms and their LPs.

Though not coming to a complete standstill, dealmaking in the venture-growth space has become more challenging for startups; the current venture market is the most investor friendly we have observed in more than a decade, and we

VVC nearly flattens for venture-growth startups

Median venture-growth VVC ($M) between rounds



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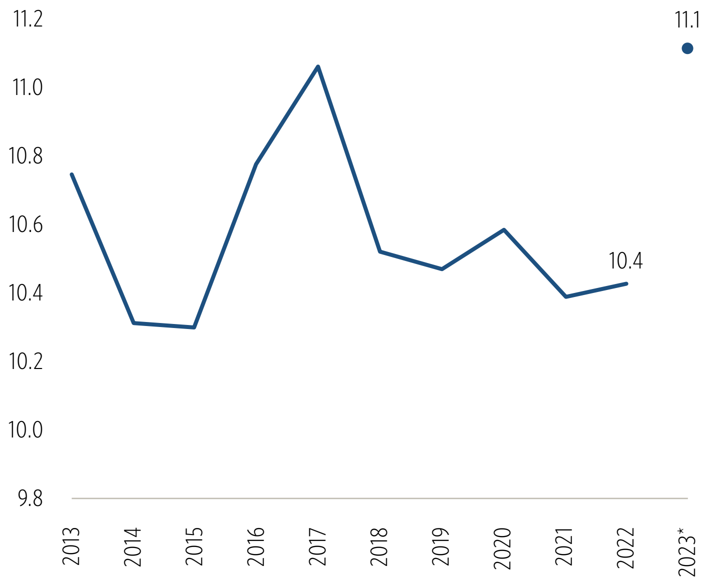
continue to see an uptick in the frequency of investor-friendly deal terms included in term sheets. In the first half of 2023, the median percentage acquired for venture-growth startups reached 15.2%, marking the highest percentage observed in more than 10 years. During the same period, our data reveals that the median venture-growth deal value amounted to $10.9 million—nearly half the 2022 full-year figure of $19.6 million and the lowest figure observed since 2016. This downward trend likely indicates that startup founders are seeking to minimize equity dilution by raising smaller amounts of capital and are considering venture debt as an additional financing source to extend cash runway without impacting the cap table. We also see considerably less value being created between the equity financing rounds that are occurring; so far in 2023, the median VVC for completed venture-growth rounds is only $1.0 million, a stark contrast to the $90.3 million recorded in 2022. Given this marked drop in value creation, it is likely that the frequency of down rounds will increase among venture-growth-stage startups as these enterprises inevitably return to market through the rest of the year and in early 2024.

Lack of exit avenues trapping companies

Median time (years) from founding for venture-growth companies



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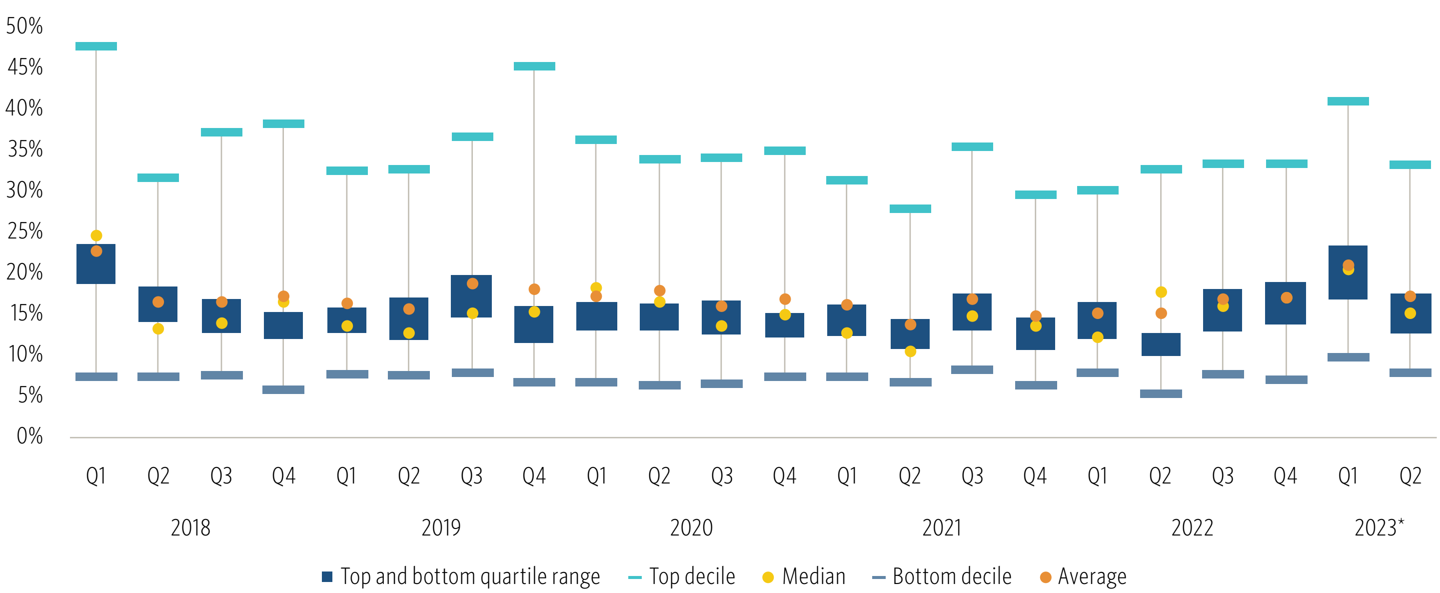
Investors requiring larger stakes on historical basis

Venture-growth share acquired dispersion by quarter



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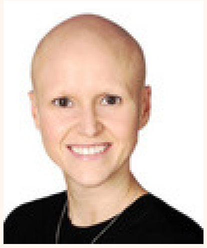
A WORD FROM MORGAN STANLEY AT WORK

Private market equity and liquidity in an uncertain market

Who is Morgan Stanley at Work?

Morgan Stanley at Work provides workplace financial benefits that help build financial confidence and foster loyalty—helping companies attract and retain talent. Our end-to-end offering spans Equity, Financial Wellness, and Retirement Solutions. Each solution includes a powerful combination of modern technology, insightful support, and dedicated service, providing your employees with the knowledge, tools, and support to help make the most of their benefits and help achieve their life goals.

Our global Equity Solutions provides innovative private companies with cap table and equity compensation management, financial reporting, and 409A valuation services. We also have a growing liquidity business built on issuer-led events, like tender offers and continuous liquidity programs. Since inception, we've executed over 100 private liquidity events and over $16 billion in secondary transaction volume.



Emiley Jellie

Executive Director, Private Company Liquidity

Emiley Jellie is an Executive Director at Morgan Stanley at Work leading Private Company Liquidity. She is responsible for the expanding suite of liquidity solutions, such as Tender Offers and Controlled Liquidity, to private companies.

Sam Adams

Executive Director, Private to Public Strategy

Sam Adams is an Executive Director at Morgan Stanley at Work leading a specialized team focused on helping private companies transition their stock plans into the public market.

How are current market conditions influencing the way private companies approach equity and liquidity?

As economic uncertainty continues, equity remains an important lever for attracting and retaining talent. The perceived value of equity among prospective talent has grown amid market volatility and rising inflation, according to 73% of private company decision-makers surveyed in our 2023 Liquidity Trends report.

Alongside this, 59% of decision-makers are also reporting increased demand for liquidity from their employees and shareholders. This is likely for two reasons. First, companies are staying private longer, and many are delaying their plans to go public while the markets remain volatile. Second, it has become increasingly common for private companies to offer liquidity to their shareholders ahead of an IPO, either through company buybacks or third-party tender offers. While liquidity in private markets has become more popular in recent years, companies are now being more conservative with their balance sheet cash, and investor demand for secondary shares may be tempered by fluctuations in private market valuations.

It's a challenging dynamic because private companies recognize the benefit of running tender offers. They can help attract and retain talent, manage dilution during or after fundraising, and exercise control over which shareholders take positions on the cap table. However, company leaders are having to prioritize and consider many other factors while deciding if they want to host a broad-based liquidity program. These include current valuation, the company's balance sheet, and potential timing for possible larger events like an IPO.

For companies that are considering running a liquidity program, what key factors or trends should they keep in mind?

While companies may not be ready to provide broad-based liquidity, they still may encounter shareholder situations that require attention. With the trend of companies staying private longer, many companies are encountering issues with expiring awards. Stock options generally will expire after 10 years if they remain unexercised, while double-trigger restricted stock units (RSUs) typically expire seven years from the grant date if the vesting conditions aren't met.

Several of our late-stage private company clients have shareholders with double-trigger RSUs that won't vest until the second trigger—typically an IPO—occurs. We're seeing some different approaches to this issue. Some companies are fully removing the second vesting trigger for RSU shares, so employees receive the shares they've been earning over the course of their employment. This means that RSU awards vest regularly and the shares are issued to individuals at each vest date. Other companies are removing a portion of the double-trigger vesting requirement to allow a subset of the RSU award to vest ahead of a large liquidity event like an IPO. In both cases, we are seeing private companies follow RSU releases with a liquidity program like a tender offer. Most commonly we see that private companies are offering partial liquidity for shareholders while they wait to go public. In unique cases, we've seen that some private companies have offered larger buckets of liquidity—50%+ of total holdings.

For companies that have shareholders approaching the expiration date on their awards, issuers may have to decide whether it's possible to amend the awards to mitigate expiration, or conduct a liquidity transaction specifically for those shareholders.

While every company is likely in a different position, it all comes back being proactive with your liquidity strategy. You may ask yourself: What are the goals of my liquidity program? Is it employee retention, bringing on a strategic partner, or satisfying excess investor demand? Who is going to be eligible to sell? Should there be sell limits for specific shareholder groups? Then, of course: What are the different tax and accounting treatments for each liquidity program? Being able to plan for all these considerations can help companies drive better outcomes.

What can companies do to stay prepared for a liquidity event in today's market?

We believe that companies may benefit from using this time to focus on "transaction readiness," which involves ensuring that they have the data integrity, systems and processes, global tax and legal compliance, and shareholder engagement to support their financial needs and plans.

IPOs and liquidity events take a lot of time and planning. They also tend to be dynamic events where deal structure is iterative until closer to the event launch date when everything crystalizes. The more companies focus on transaction readiness now to build an infrastructure for equity programs that can support the dynamic nature of these events, the better the chance of avoiding costly delays during the transaction process.

For equity plan administrators, now is the time to align internal and external stakeholders on the strategic business goals, potential timeline, terms, and legal and tax implications of a future liquidity event so that they're ready to go when market conditions improve.

There is also a lot that companies can be doing to educate their shareholders on the value of their equity and how it supports their financial wellness. Last year, 42% of eligible shareholders participated in a liquidity event (up from 21% in 2021) and 75% of liquidity events were oversubscribed. Clearly, there's interest and engagement from shareholders, and providing education now can empower shareholders to make better decisions around participating in a future liquidity event.

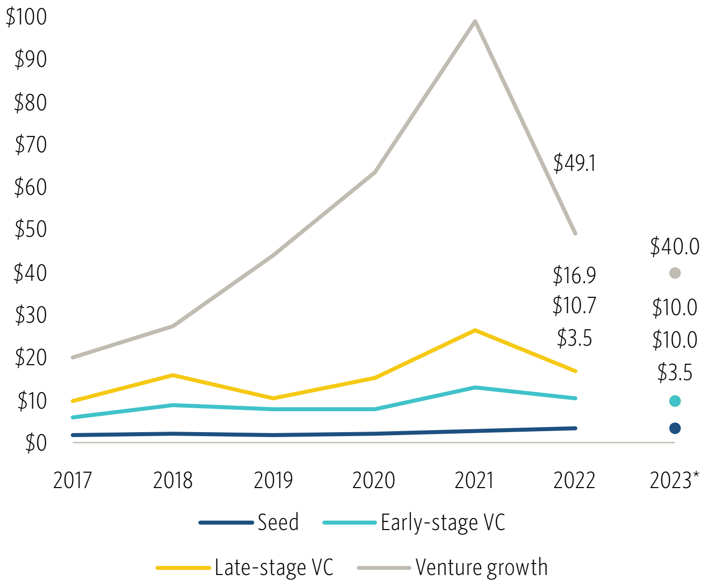
Having a strong liquidity strategy can help align the incentives of your employees and investors with the company's overall business goals. This is something that Morgan Stanley at Work can help you with regardless of your company's size or stage.

Disclosures

Fintech

Late-stage deal sizes down by 62% since 2021

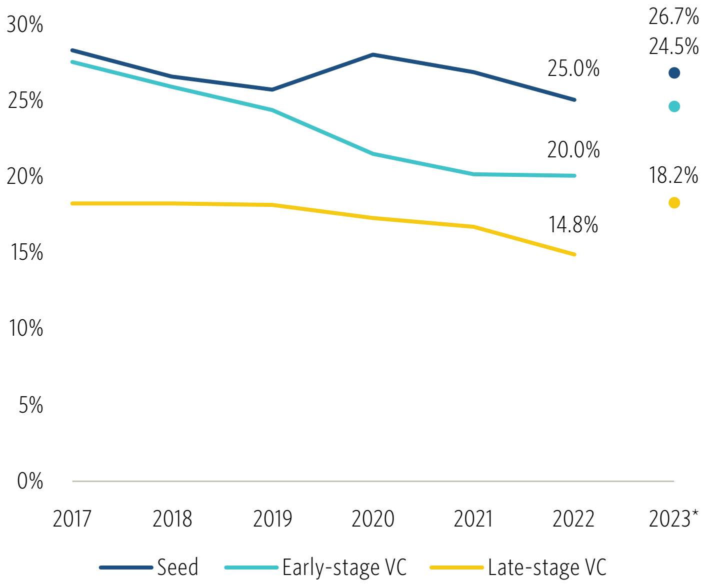
Median fintech VC deal value ($M) by stage



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Stakes acquired have risen across all stages in 2023

Median fintech VC share acquired by stage



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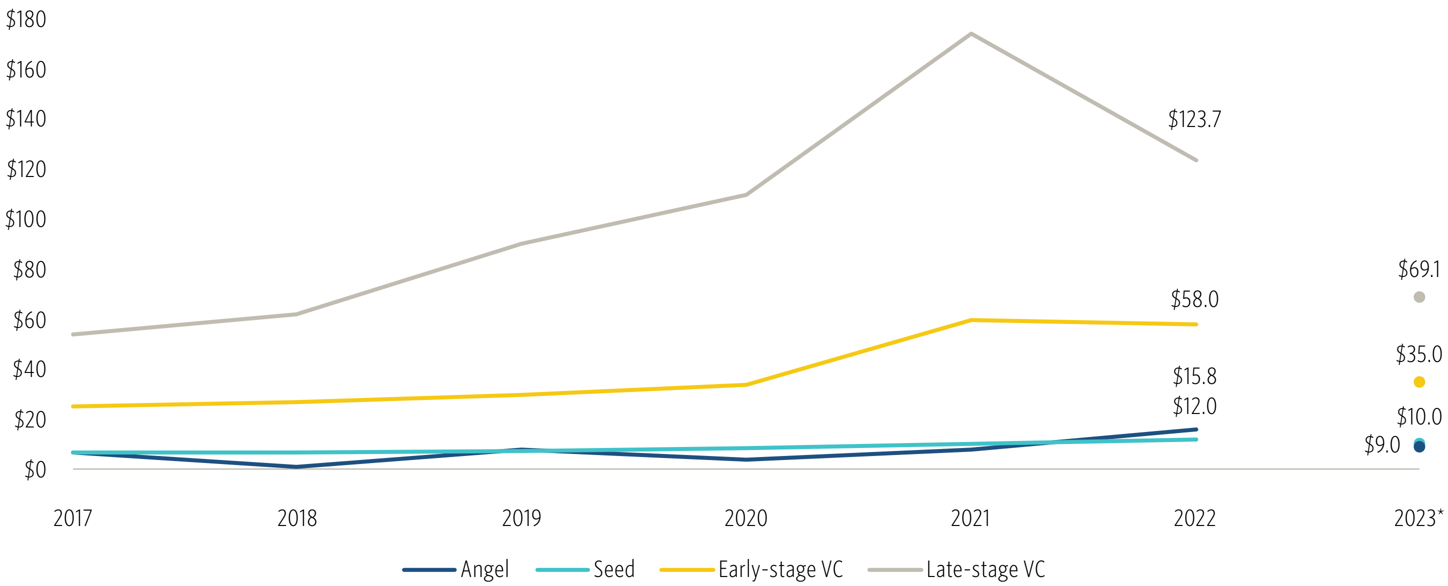
Valuations falling significantly

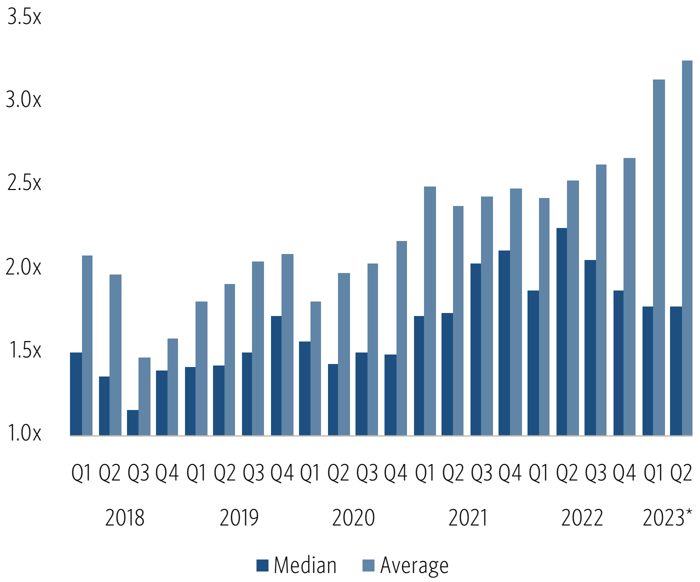
Median fintech VC pre-money valuation ($M) by stage



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Rolling four-quarter average step-up reaches new high

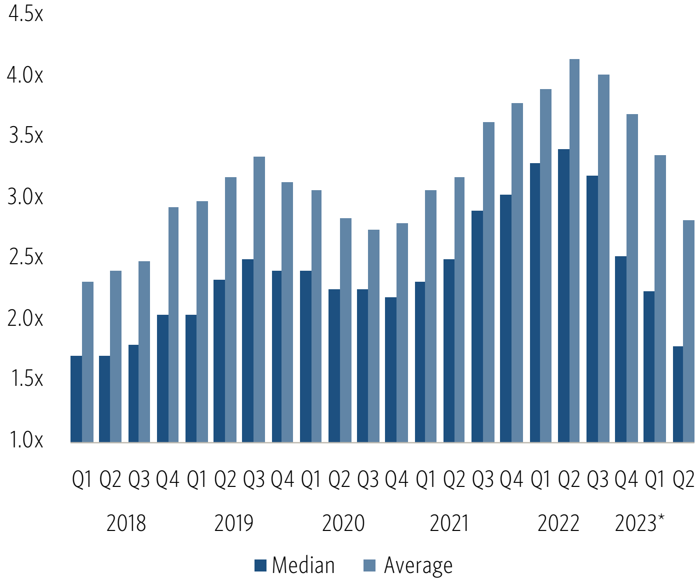
Rolling four-quarter median and average fintech seed valuation step-ups



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Early-stage step-ups back at 2020 levels

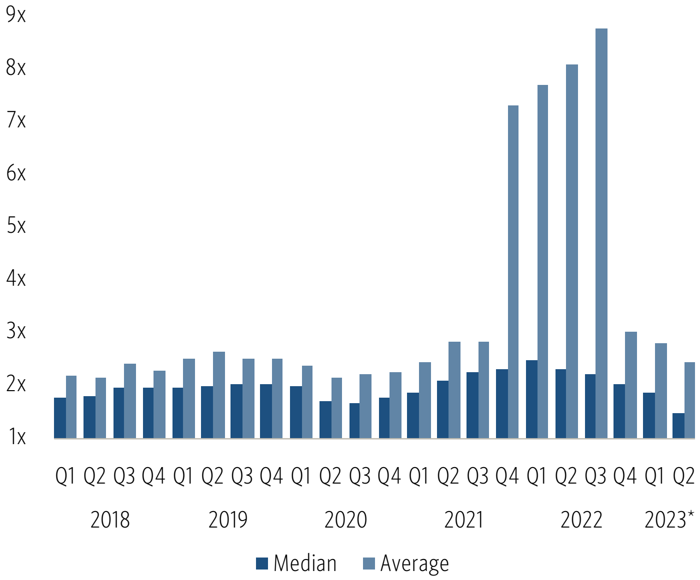
Rolling four-quarter median and average fintech early-stage VC valuation step-ups



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Late-stage fintech has quickly fallen out of favor

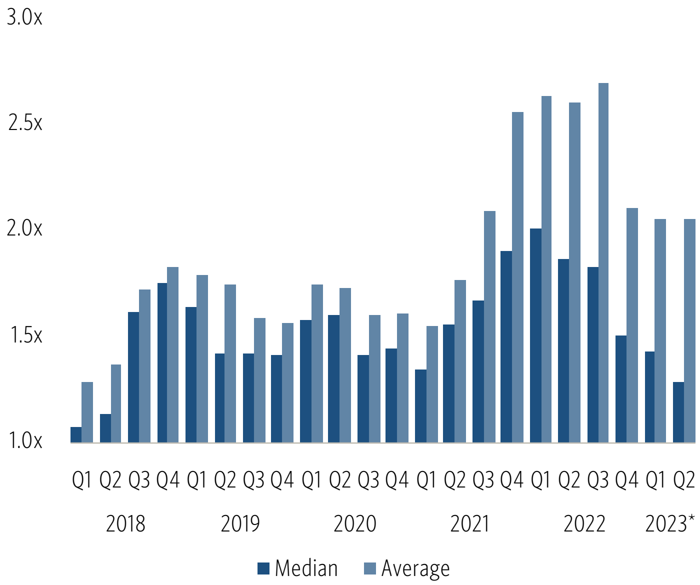
Rolling four-quarter median and average fintech late-stage VC valuation step-ups



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Without IPOs, venture growth back to reality

Rolling four-quarter median and average fintech venture-growth valuation step-ups



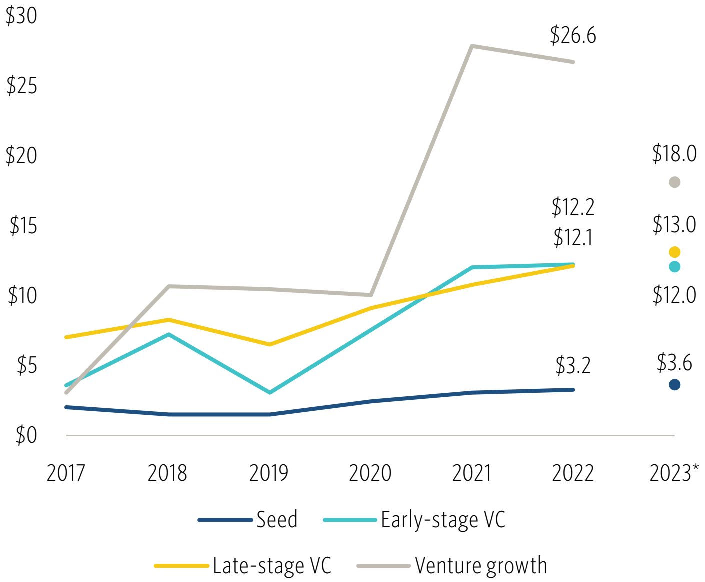
Source: PitchBook • **Geography:** US
*As of June 30, 2023

Note: Some data points in this section rely on low data counts.

Carbon & emissions tech

Carbon & emissions tech deal sizes steady

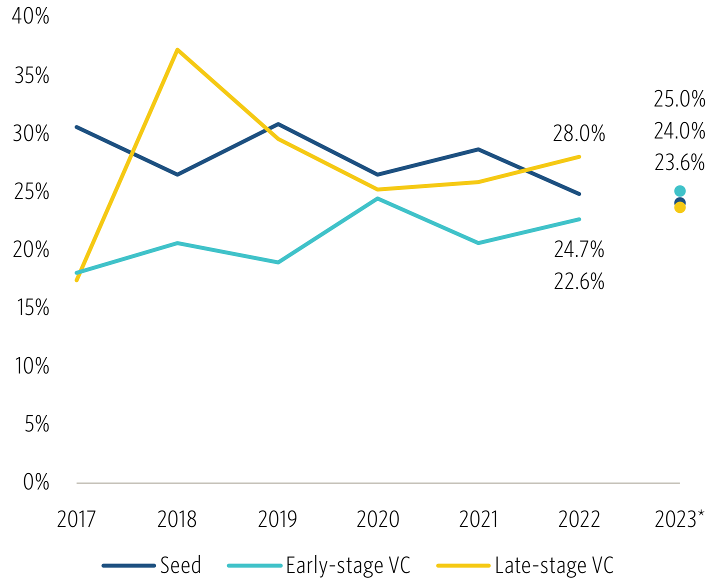
Median carbon & emissions tech VC deal value ($M) by stage



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Seed and early-stage companies finding leverage in pricing

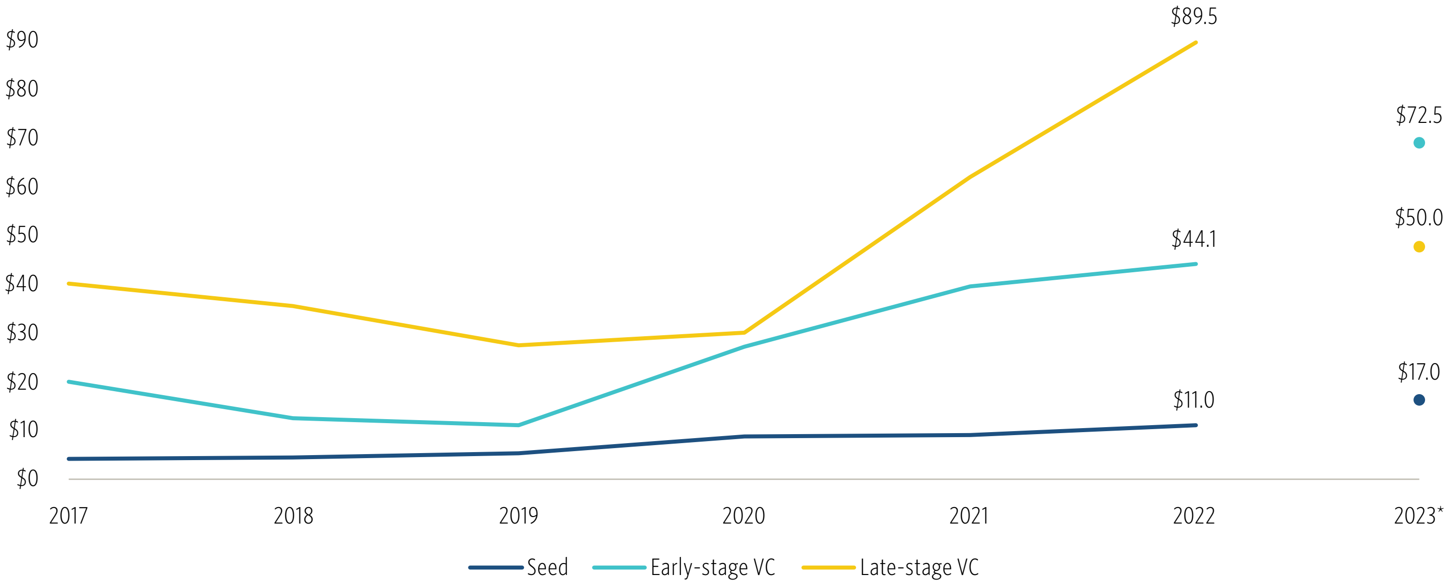
Median carbon & emissions tech VC share acquired by stage



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Less volatility in carbon & emissions tech valuations than in broader market

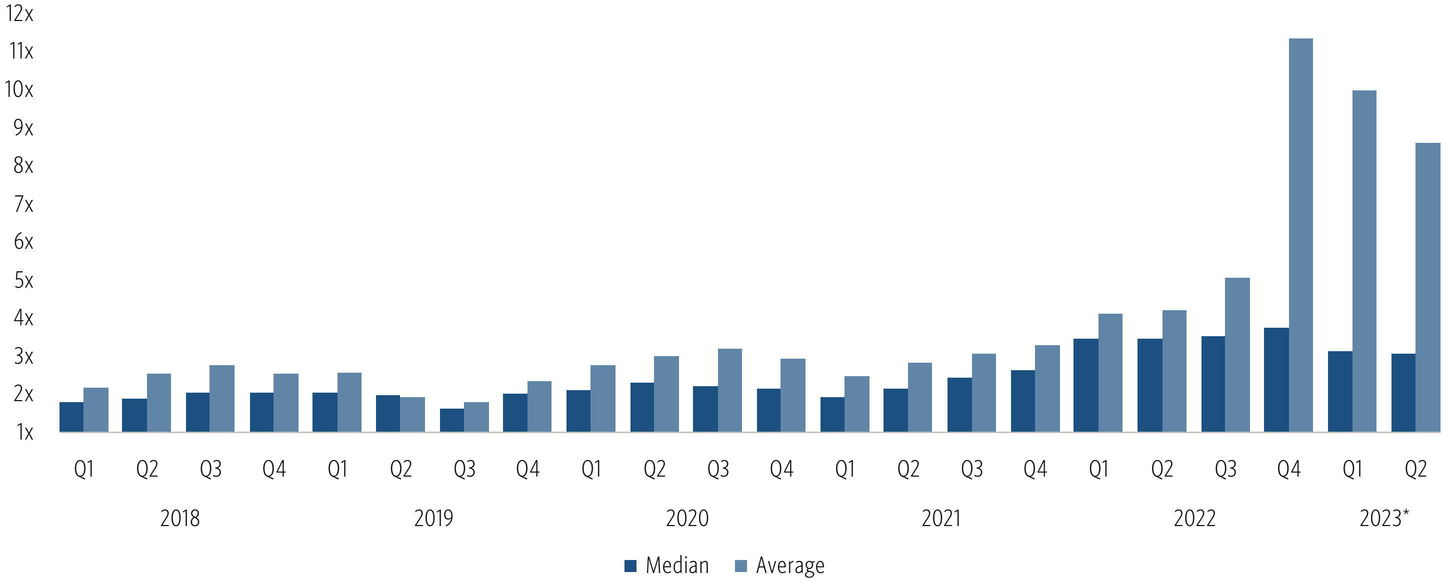
Median carbon & emissions tech VC pre-money valuation ($M) by stage



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Early-stage step-ups finding tailwinds

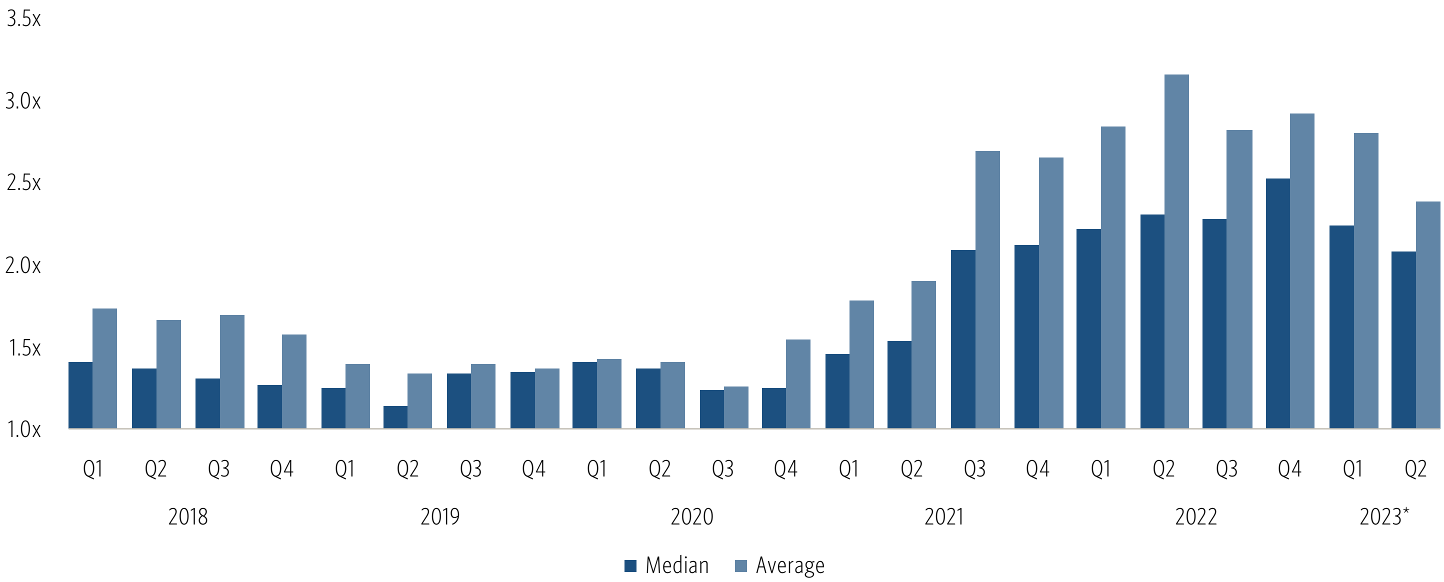
Rolling four-quarter median and average carbon & emissions tech early-stage VC valuation step-ups



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Late-stage step-ups slowing slightly but remain high

Rolling four-quarter median and average carbon & emissions tech late-stage VC valuation step-ups



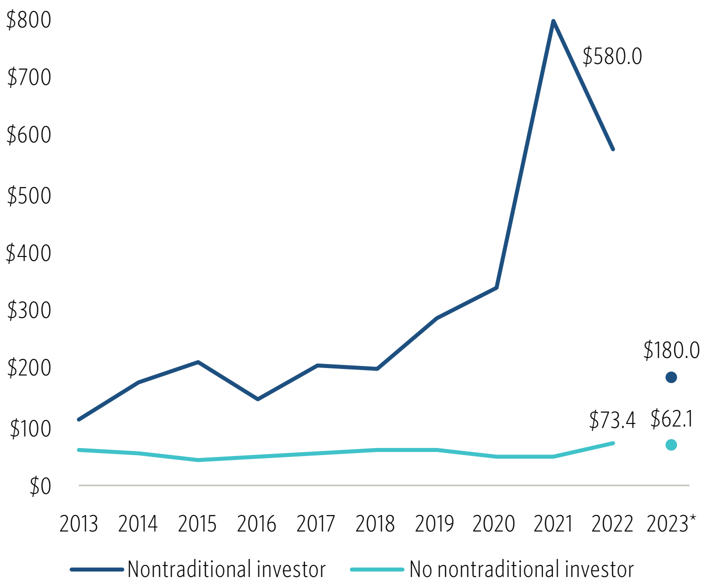
Source: PitchBook • **Geography:** US
*As of June 30, 2023

Note: Some data points in this section rely on low data counts.

Nontraditional investors

Venture-growth valuations down $400 million for nontraditional investors

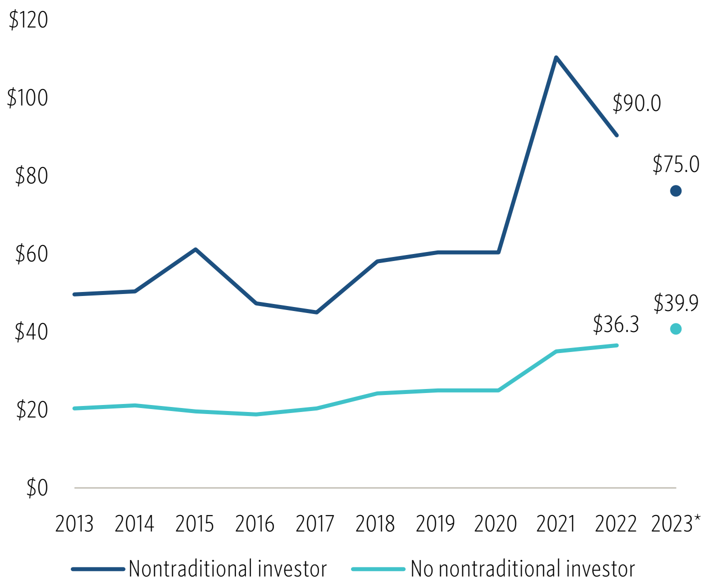
Median venture-growth pre-money valuation ($M) by investor type



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Median late-stage valuation falls to $75.0 million for nontraditional investors

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



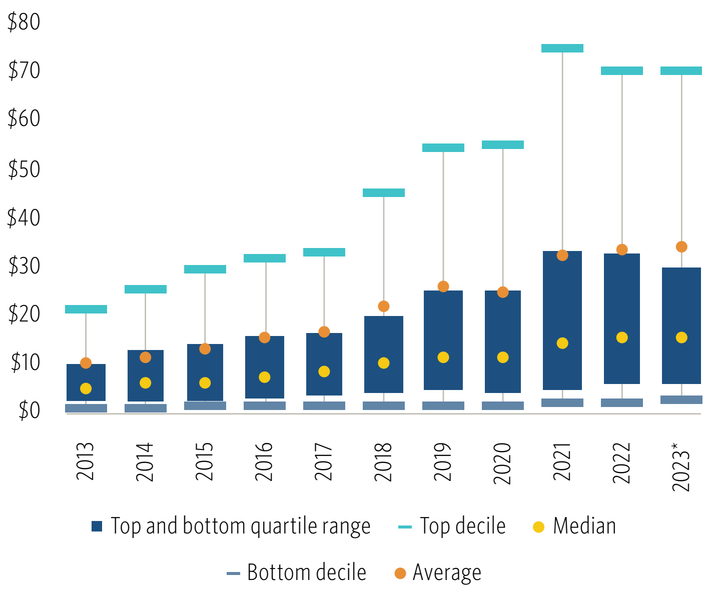
Source: PitchBook • **Geography:** US
*As of June 30, 2023

Driven by a frozen exit environment that has limited returns and rising interest rates that have impacted investment risk/return profiles, nontraditional investors have continued to pull back from the venture ecosystem. Through the first half of 2023, $62.9 billion of US VC deal value has involved a nontraditional investor—roughly half the $122.4 billion observed in the first half of 2022. On a deal count basis, the percentage of US VC deals involving nontraditional investors declined across all nontraditional investor types, which include corporate venture arms, PE shops, asset managers, and sovereign wealth funds.

Nontraditional investor involvement has historically impacted deal metrics, such as startup valuations; generally speaking, across all stages of venture, deals involving nontraditional investors tend to have higher median valuations than deals without nontraditional investor involvement. Through 2023, the median pre-money valuation for early-stage deals with nontraditional investor participation was $50.0 million, compared with $30.0 million when no nontraditional investor was involved. This valuation gap is even larger when looking

Median and average early-stage VC deal values remain above 2021 levels

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



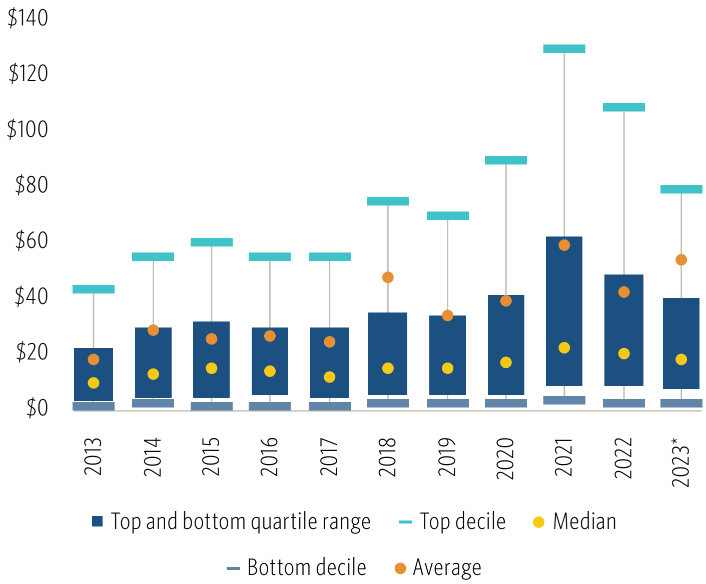
Source: PitchBook • **Geography:** US
*As of June 30, 2023

at venture-growth enterprises: a $180.0 million median for deals with nontraditional involvement compared to a $62.1 million median for deals without. Despite this, these elevated valuations are significantly lower than they were in years past. The $180.0 million median venture-growth valuation is $400.0 million lower than the full-year figure observed for 2022.

As anticipated, the departure of these investors since the second half of 2022 has led to the withdrawal of billions of dollars of much-needed capital from the venture ecosystem, consequently exacerbating the scarcity of available capital for startups. This scarcity grants investors, whether traditional or nontraditional, the advantage of negotiating more favorable deal terms and obtaining larger equity stakes when pursuing investment opportunities. Notably, nontraditional investors have demonstrated an increase in the percentage of equity stakes acquired, ranging from 1% to 4% across all stages of venture capital. This trend is expected to continue through the end of 2023 as startups, which are already capital constrained, inevitably return to the market to look for financing to continue operations. As the bargaining power of nontraditional investors strengthens, we anticipate them demanding even more equity, which could lead to further declines in valuations.

Average late-stage VC deal value increases by roughly $11 million YoY

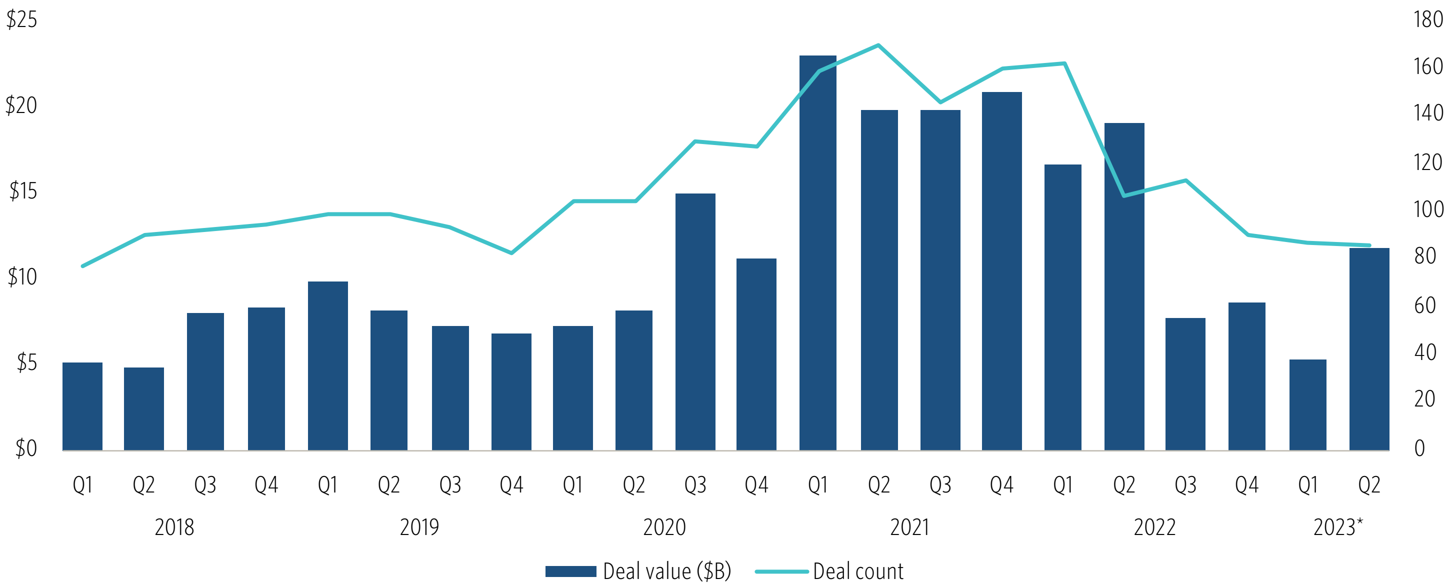
Late-stage VC deal value ($M) dispersion with nontraditional investor participation



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Nontraditional investor deal value ticks up in Q2

VC deal activity with nontraditional investor participation by quarter

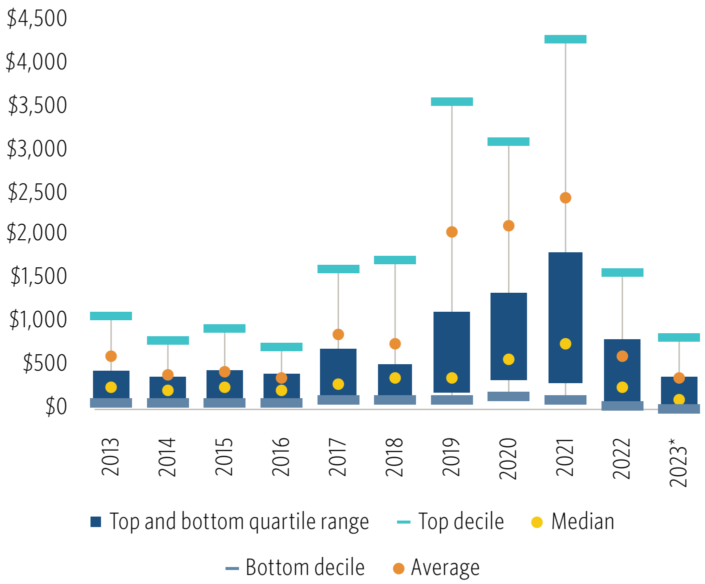


Source: PitchBook • **Geography:** US
*As of June 30, 2023

Liquidity

Average public listing valuation falls to 10-year low

Exit valuation ($M) dispersion for public listings

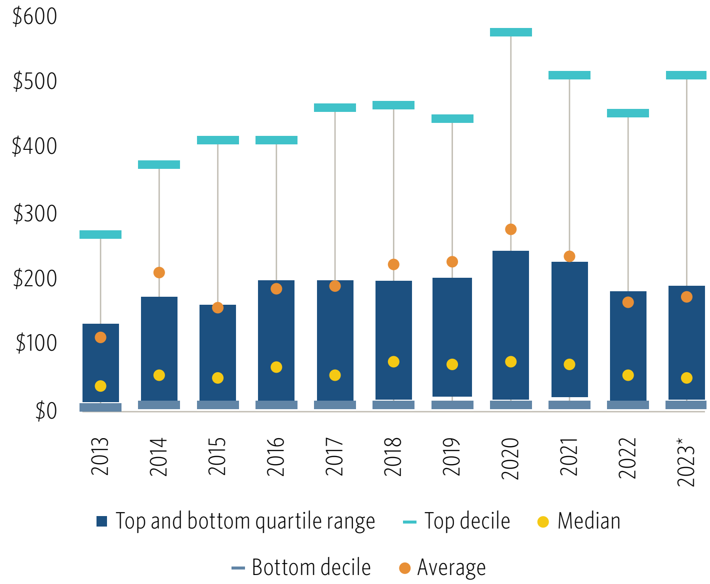


Source: PitchBook • **Geography:** US
*As of June 30, 2023

Note: Exit valuation represents the pre-money valuation. "Public listing" indicates that a company exited via an IPO, direct listing, or reverse merger.

Median acquisition price declines YoY

Exit valuation ($M) dispersion for acquisitions



Source: PitchBook • **Geography:** US
*As of June 30, 2023

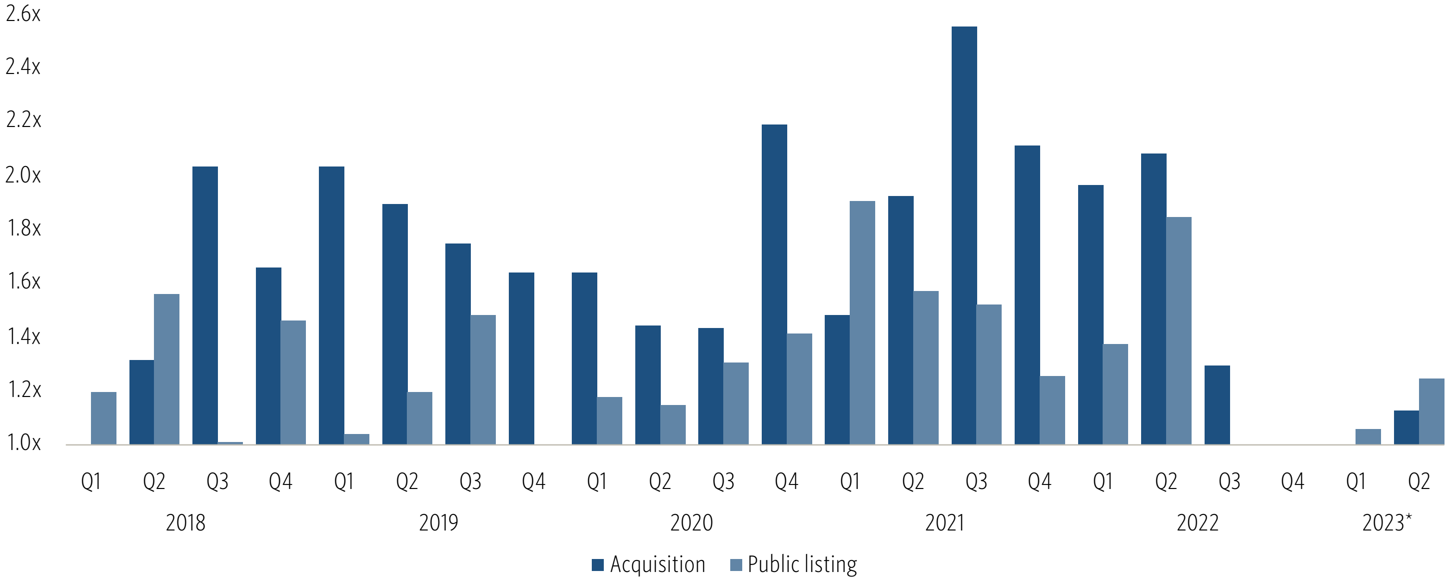
Despite the abundance of mature, high-quality enterprises spanning various industries that have the potential to go public, the IPO landscape remains in the worst shape observed since the global financial crisis. In the second quarter of 2023, there were only eight public exits, six of them IPOs, totaling approximately $3.4 billion in exit value. In contrast, during the same period in 2021, there were 79 public exits that generated a substantial exit value of $237.6 billion. Much of the public exit value generated in Q2 has been driven by outliers; nearly two-thirds of the $3.4 billion in public exit value came from the Cava IPO. Though it is hard to imagine that public exit activity could get any worse, we expect the languid pace of IPOs to continue through the remainder of the year as many investors wait to see whether the economy can avoid falling into a recession.

The frozen exit environment is not just limited to the slowdown of public exits; in Q2, M&A activity significantly declined on both a deal count and deal value basis. Our data revealed just 151 acquisitions totaling $2.0 billion in exit value during this period, down from 189 acquisitions totaling $4.8 billion in Q1. Through the first half of 2023, the median acquisition value was $45.0 million, which is slightly lower than the $49.6 million recorded for 2022 but far below the $70.0 million and $67.2 million observed in 2020 and 2021, respectively.

The lingering question for many is: When will the exit environment reopen? Unfortunately, predicting the future is challenging, and so far, there have been few indicators suggesting that exit avenues will resurface in 2023. Despite the success of the Cava IPO, it is unlikely that it alone will be the sole catalyst for reopening the IPO market this year. This is due to the venture ecosystem being primarily composed of large tech companies, and without a major tech IPO success, a broader reopening is doubtful. For acquisitions, the decline in private market valuations does present an opportunity for cash-rich corporations to acquire synergistic assets and valuable intellectual property. However, in the current economic climate, many stakeholders and organizational leaders may choose to conserve capital and observe whether the economy heads into a potential recession before making any significant moves.

Q2 median exit step-up witnesses slight increase, but data count is low

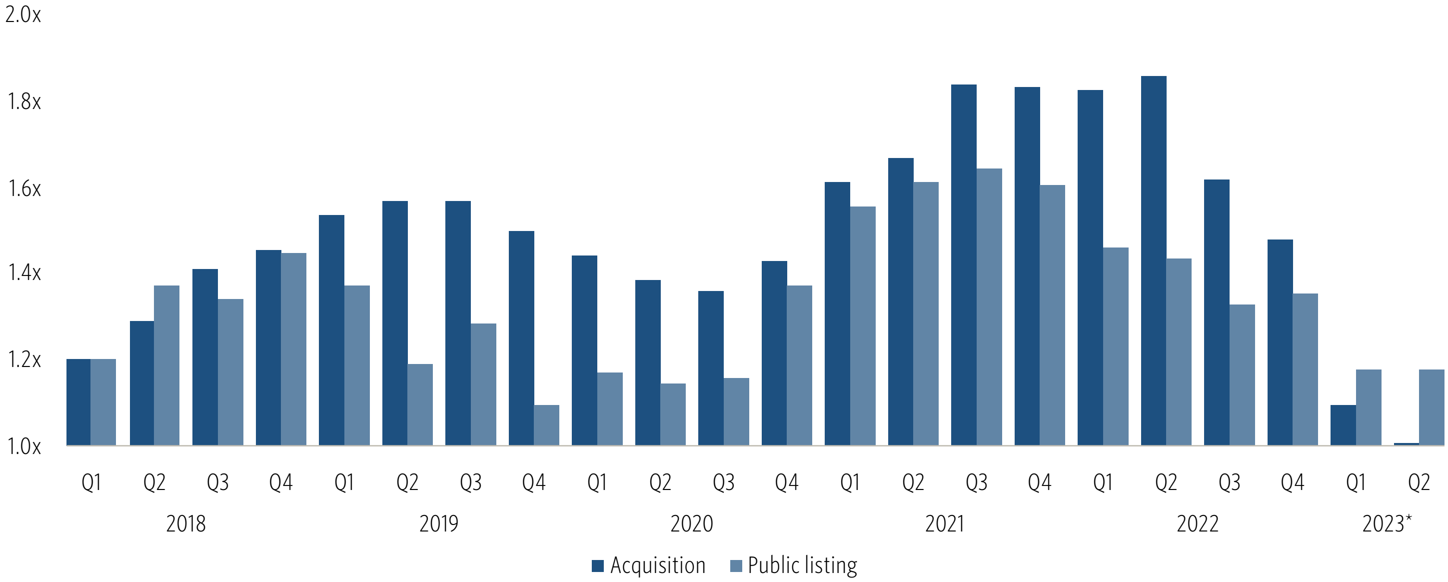
Quarterly median valuation step-up at exit by type



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Though historically low, median step-up at exit relatively unchanged QoQ

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

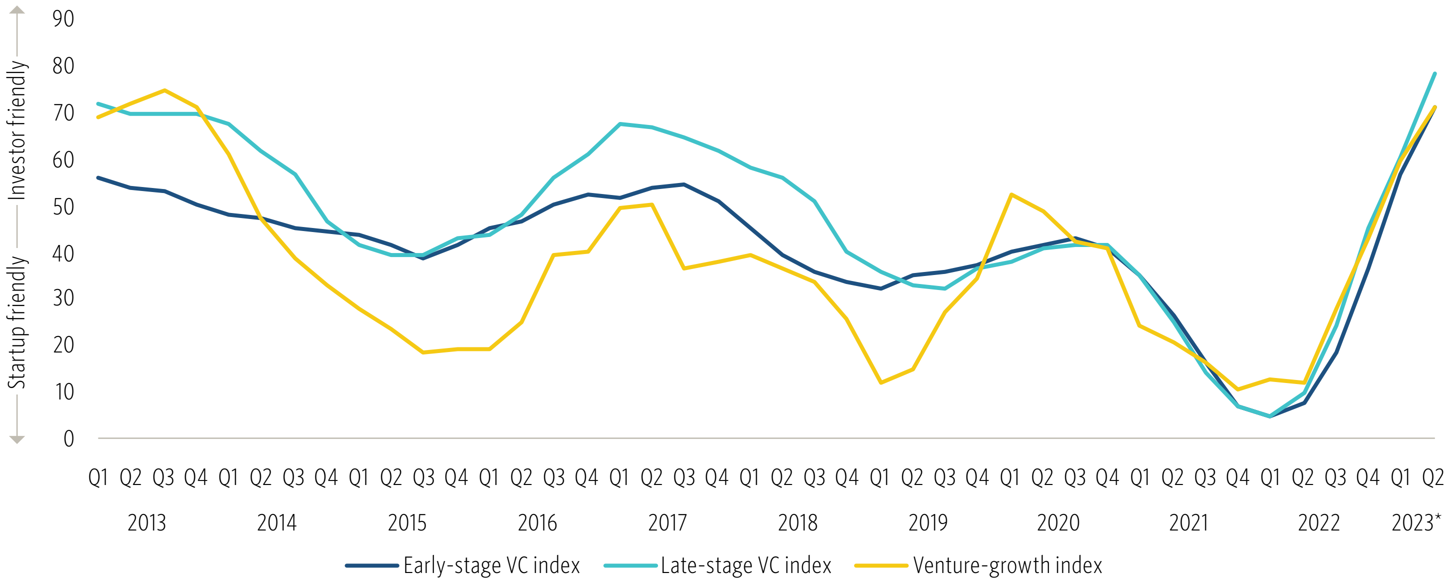


Source: PitchBook • **Geography:** US
*As of June 30, 2023

Deal terms

US venture market has turned the most investor friendly in nearly a decade

VC Dealmaking Indicator by quarter



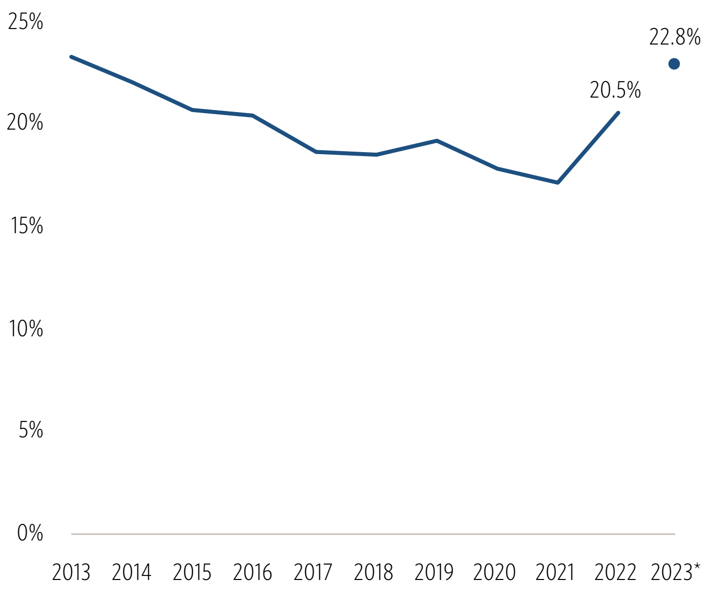
Source: PitchBook • **Geography:** US
*As of June 30, 2023

According to the PitchBook VC Dealmaking Indicator, the US venture market has turned the most investor friendly in nearly a decade, constituting an overarching theme of Q2 2023. During the first half of 2023, the US VC ecosystem witnessed a larger share of deals being conducted at a lower valuation than that of a previous financing round. The percentage of down rounds ascended to a four-year high, notching 12.6% for 2023 YTD and an estimated 15.2% in Q2, the highest figure since Q4 2017. The increase in down rounds can be attributed to a flight to quality and to scarcer capital availability resulting from a pullback of nontraditional investors, leaving startups that were unable to hit milestones struggling to raise the next round of equity financing.

This investor-friendliness has permeated all stages of the venture lifecycle. GPs have been leveraging their negotiation power to ask for more-investor-favorable terms in term sheets, including larger equity stakes, higher liquidation multiples, and cumulative dividends. Such clauses protect the interest of preferred equity holders from potential downside risks, shifting those risks onto common shareholders such as founders and employees and increasing their dilution in

Deals with cumulative dividends ascend to a nine-year high

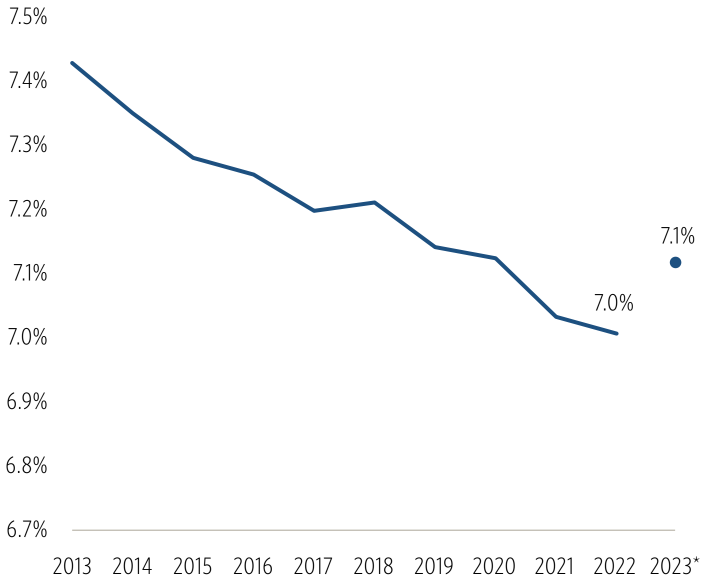
Deals with cumulative dividends as share of all VC deals



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Average dividend continues to increase, standing close to 2020 level

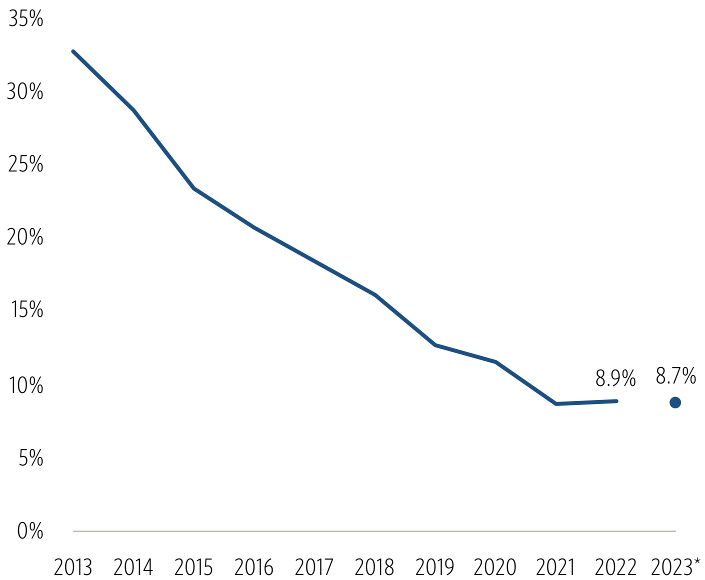
Average dividend



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Participating shares dip slightly but are on par with 2021 and 2022 figures

Deals with liquidation participation as a share of all VC deals



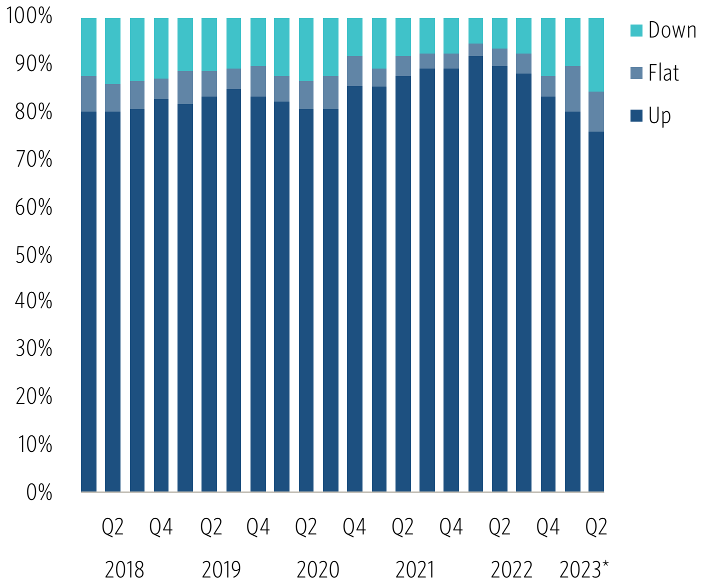
Source: PitchBook • **Geography:** US
*As of June 30, 2023

the event of a less favorable exit. As of Q2 2023, the share of VC deals with cumulative dividends has notched 22.8%, representing a nine-year peak and attesting to the current investor-friendly dealmaking climate.

With dwindling capital availability in the venture ecosystem, GPs with dry powder are less willing to take financing risks when evaluating new opportunities and have slowed down the pace of deployment, knowing that they can take their time to be thorough in the due diligence process, be highly selective, and drive tougher terms. Anecdotally speaking, founders, on the other side of the bargaining table, have become more comfortable with giving up a larger portion of their companies, even in up rounds, realizing that the pandemic-fueled capital exuberance has become a thing of the past. Some founders have opted to reopen the last round rather than repricing new shares, thereby avoiding raising a down round, which could heavily dilute existing shareholders.

Proportion of down rounds increases to 15.2% in Q2 2023

Quarterly share of VC deals by up, flat, or down rounds



Source: PitchBook • **Geography:** US
*As of June 30, 2023

Additional research

Private markets

Q2 2023 PitchBook-NVCA Venture Monitor

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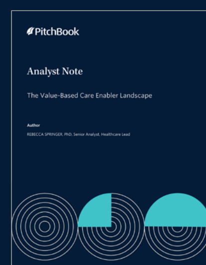
Q2 2023 European Venture Report

Download the report here

2022 PitchBook Benchmarks (as of Q4 2022)

Download the report here



Q3 2023 Analyst Note: The Value-Based Care Enabler Landscape

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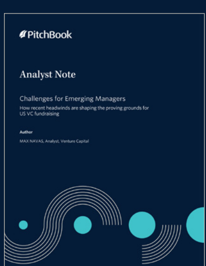

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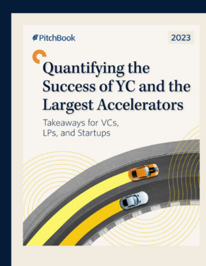

Quantifying the Success of YC and the Largest Accelerators: Takeaways for VCs, LPs, and Startups

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