PitchBook

Q2 2024

US VC Valuations Report

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What a 409A Valuation Says About Your Business

409A valuations carry a message to employees, investors and the market about the fair market value including the future growth potential of a business. As you re-evaluate your equity and liquidity needs amid ongoing market uncertainty, having an up-to-date and accurate 409A valuation will allow you to make more informed decisions and stay transaction ready.

Is it Time to Revisit Your 409A Valuation?

It can be beneficial to have an ongoing conversation with your 409A valuation provider as you make changes to your equity, liquidity or exit plans.

Revisit Your Valuation

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Market overview

The US venture market continues a slow evolution by way of correcting expectations and valuations, at least in some arenas of the market. Artificial intelligence & machine learning (AI & ML) is driving interest across the strategy, with company valuations far outstripping those in other verticals. On its own, AI & ML received nearly 50% of deal value in the US market in Q2. This was driven by CoreWeave and xAI's large deals ($8.6 billion and $6.0 billion, respectively), but the vertical also captured more than a quarter of the completed deals in Q2. It is true that AI is a broad category and that many companies have pivoted their business, or at least their company story, to encompass AI and capture the market tailwinds.

Broadly speaking, the private markets continue to grapple with the factors that led to the initial slowdown. Interest rate cuts this year may seem likelier now than they did a quarter ago, but that sentiment is far less optimistic than it was a year ago. The pressure of rising rates on public markets was quickly felt in the late stage and the venture-growth stage and has further impacted market dynamics in the early stage as liquidity challenges persist.

The strong public market performance that has been viewed as a potential driver of IPOs has also bifurcated. The seven largest companies on the S&P 500 are up more than 32% year to date, while the rest of the index is up just over 7%. Tech companies that listed this year have also had relatively lackluster post-IPO performances. For several newly listed companies, the initial listing price was a strong increase from the IPO, but the stocks have trended negatively since. Price/sales ratios have not expanded materially under the weight of higher cost of capital, and subsequently, valuations have continued to flounder in the private market.

The challenge with the data is that median valuations look high, but context is needed for color on those figures. In fact, the YTD annual medians are higher at some stages than they were in 2021. That is hardly the entire story, nor is it necessarily correct or incorrect. It just depends on what you are looking for.

The median Series A valuation in Q2, $40.0 million, matched the figure from the two peak quarters in 2022. However, the number of reported valuations in Q2 2024 is well less than half that of each of these other high quarters. The median Series B valuation in Q2 showed a rebound of more than 30% from the 2023 low, yet it remains 30% below the highs of 2021.

What cannot be seen in the data is the revenue multiples generated by the valuations or the growth rates of startups raising capital. The market narrative is that investment benchmarks have increased, and if this is taken as truth, then the increasing valuations (record medians or not) come into a different context. The fewer priced rounds are due to the inability of companies to raise a new round, as well as companies opting for convertible notes or debt, when possible, rather than raising a new priced investment at a lower valuation.

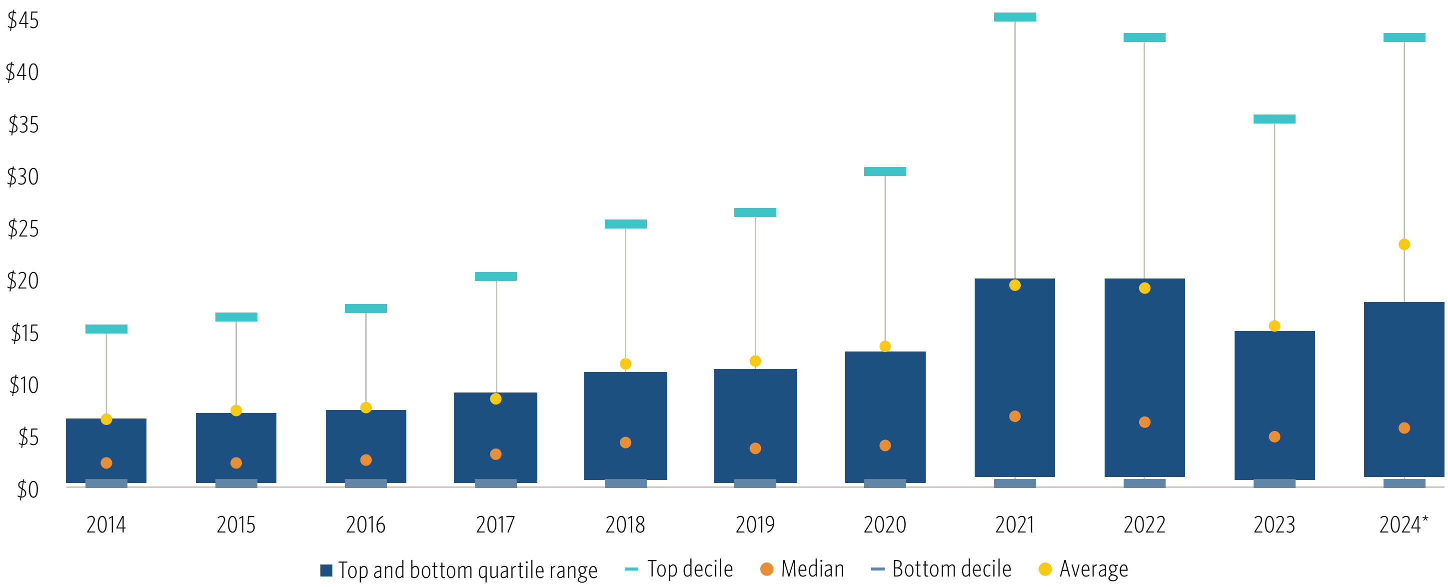
Another factor in the rising medians has been the number of companies that are finally coming back to market to raise. The median time between financing has increased significantly for companies. In Q3 2021, Series D+ rounds were being raised roughly 1.2 years after the previous round. Companies closing Series D+ rounds in Q2 of this year had not raised for a median time of more than two years, meaning that companies raising now also last raised when pricing was at its highest and they already had a high valuation pinned to themselves.

With more context, the relatively high median valuation figures highlight a more challenging market for startups. Those that can raise are doing it over a longer time period to reach milestones, and they are raising at a much lower step-up because their previous valuation was based on much higher multiples in the market two years ago.

Dealmaking

AI companies raise early-stage deal value

Early-stage VC deal value ($M) dispersion



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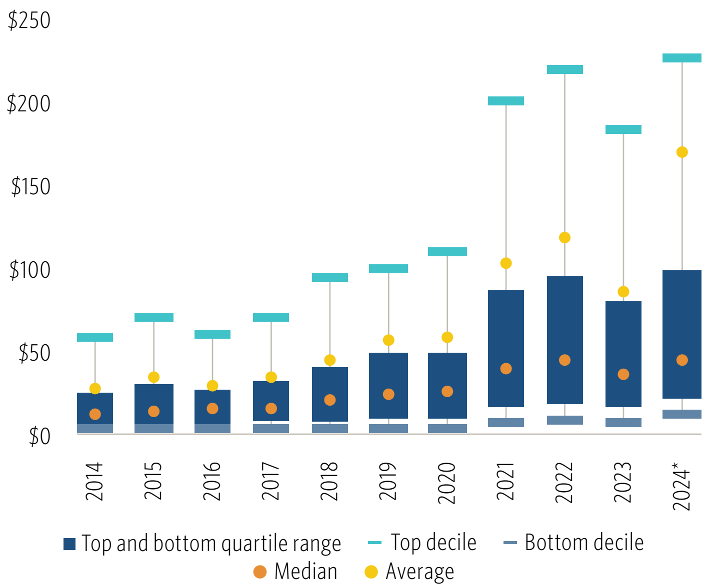
Continued headwinds

Deal counts have expanded for three consecutive quarters, and the median deal value has increased across nearly all stages compared with 2023's annual figures. Despite increasing valuations, we cannot claim that the market is rebounding yet. Investors are becoming increasingly cautious as high interest rates and inflation persist, and their preference for quality has allowed top performers to shine in this dampened environment. Therefore, valuations are currently elevated by outsized AI deals and delayed fundraising for companies that last raised during pandemic highs.

Inflation is showing signs of slowing, but the Federal Reserve (the Fed) has not cut rates as of Q2 2024. The June Consumer Price Index rate was 3.0%, the lowest level in more than three years. If inflation continues moving sustainably toward the Fed's 2.0% target and the job market cools simultaneously, then the Fed is expecting four cuts next year. This would bring the rate down to 4.1% by the end of 2025 and could provide VC some much-needed relief, though there would likely need to be more than four quarter-percentage-point cuts to jump-start market activity.

High valuations without high step-ups

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



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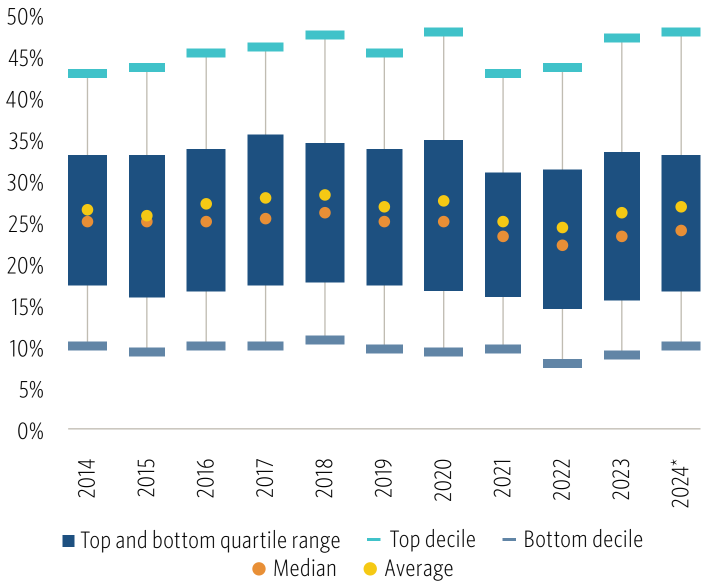
Investors reverting to larger stakes

Early-stage VC share acquired dispersion



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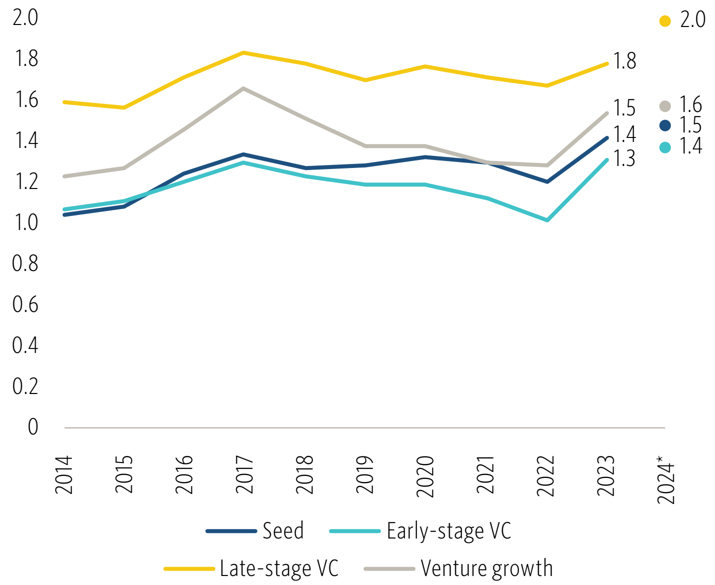
Less frequent fundraising

Median time (years) between VC rounds by stage



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These market uncertainties have prompted venture-backed companies to lengthen their cash runways through drastic cost-cutting measures. Now more than two years from the initial slowdown, many of these startups have no choice but to raise another round despite the continued unfavorable environment. Their last rounds were during the valuation highs of two to three years ago, so these elevated valuations are now being transferred to 2024 as they raise additional capital.

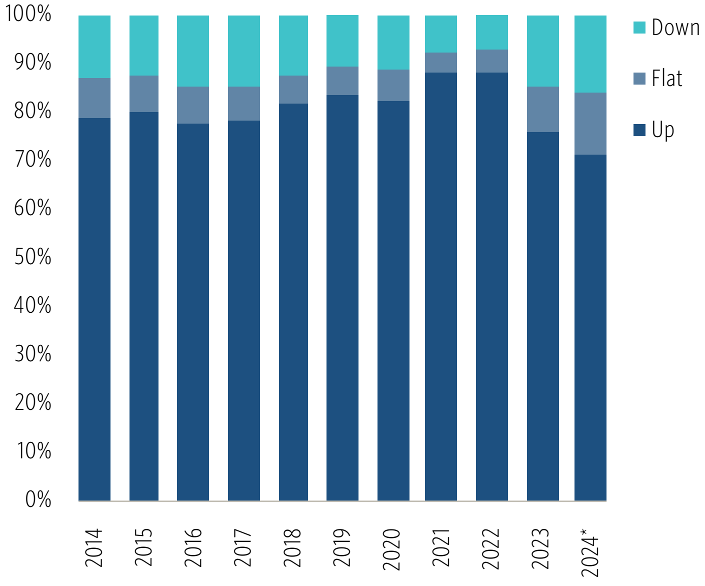
The influence of high-quality companies on valuations is best illustrated by comparing medians and averages. The average early-stage valuation through the first half of 2024 has nearly doubled from 2023 to $169.0 million, while the median early-stage valuation has increased by 28.6% to $45.0 million. Despite being young companies, several early-stage firms with distinct advantages have proven themselves as successful outliers. xAI was founded only last year, but its ties to Elon Musk and AI helped the platform raise a $6.0 billion Series B at an $18.0 billion pre-money valuation in June. Areteia Therapeutics closed its first round of $425.0 million in February at a $418.0 million pre-money valuation. Founded in 2022, Areteia was spun out of Knopp Biosciences, giving it a head start with five patents while advancing through Phase 3 of clinical trials. Similarly, there is a large gap between the median and average late-stage valuations of $68.6 million and $244.8 million, respectively, through Q2.

Companies are also staying private for longer as they remain stuck in the exit standstill. Companies raising a Series D+ round now have a median age of 9.9 years, compared with 8.6 years in 2021. To weather these extended timelines, median deal values have expanded across all stages except venture growth so that startups have enough capital to achieve necessary milestones, shore up valuations, demonstrate their growth potential, and wait for a better fundraising environment before raising another round. The median late-stage VC deal value YTD is the third highest in the past decade at $7.0 million. Interestingly, late-stage deal values were highest right before the market slowdown, with medians of $8.5 million in 2022 and $10.0 million in 2021. The current hype around AI, with less cautious investments as investors are consumed by the fear of missing out, is reminiscent of pandemic-era VC. Investor caution for the rest of venture means that they favor higher-quality companies with higher valuations and higher thresholds to maintain their growth rates. With more capital required, larger rounds are needed.

A more accurate temperature check for VC is the median step-up between series, which has decreased to pre-pandemic levels. For example, the median Series D+ step-up is only 1.2x, which is barely an increase from the last round and is on par with market growth levels from 2017. This is almost half of the series' peak median step-up of 2.0x in 2021. This erosion of value creation between stages is also

Greatest percentage of flat and down rounds in a decade

Share of VC deal count by up, down, and flat rounds



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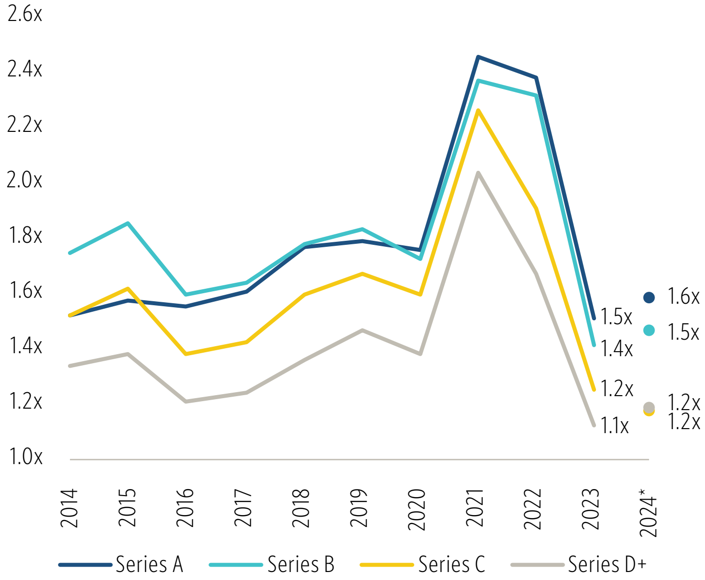
Step-ups decrease to pre-pandemic levels

Median VC step-up by series



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illustrated through relative velocity of value creation (RVVC), which remains significantly below pre-pandemic levels. The annualized percentage growth in valuation for early-stage VC is 36.4%, the second lowest in the past 10 years and a large drop from 137.7% during 2021 highs. The late-stage VC RVVC is at a decade low of 9.6%.

Low step-ups do not necessarily mean that the company has low growth potential. Though these multiples are typically used as a measurement for forecasting value creation, it is unrealistic to expect companies to sustain the growth rates that accompanied the frenzy of pandemic-era investing. Plus, valuations simply become harder to expand as they get higher. This valuation reset is much needed as companies realign their priorities from growth at all costs to increasing efficiency.

Down rounds and fundraising alternatives

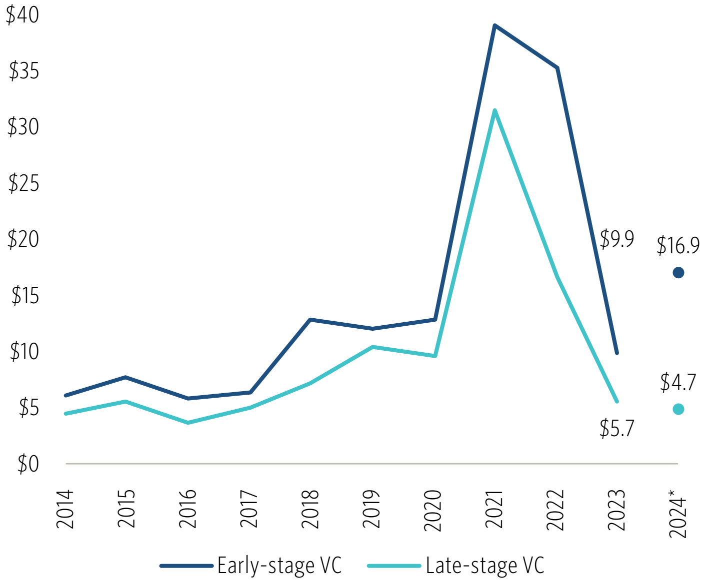
The combined percentage of flat and down rounds is at a decade high, another indicator of slowing growth. Even though a strong majority of deals are still up rounds, 15.7% of rounds have been down and 12.7% have been flat YTD. Though valuations are becoming more reasonable given company fundamentals, existing investors without antidilution protections and employees are the most at risk of being negatively impacted by down rounds. The value of their investments and ownership percentages could decrease significantly with lower valuations, especially if investors do not participate in subsequent rounds. Employee stock options may fall out of the money, and these holdings could become worthless unless the price rebounds before expiry.

While strong companies can consistently attract investor interest, startups that do not want to accept flat or lower valuations but need additional capital may fall back on simple agreement for future equity (SAFE) notes and convertible notes that would not reprice their shares. With these fundraising alternatives, companies can raise lower dollar amounts to address their cash needs and delay an official fundraise for when the market is hopefully more company friendly.

These alternatives are contributing to longer fundraising timelines. The median time between rounds has increased for seed to Series D+ companies, with Series D+ companies now taking a median of 2.1 years to raise another round, compared with 1.2 years in 2021 when capital flowed freely. We are just starting to see these companies come back to fundraising, so as more startups hit the two-year mark and decide to raise, we will likely see a further uptick in flat and down rounds.

Growth remains slow

Median VVC ($M) between VC rounds by stage



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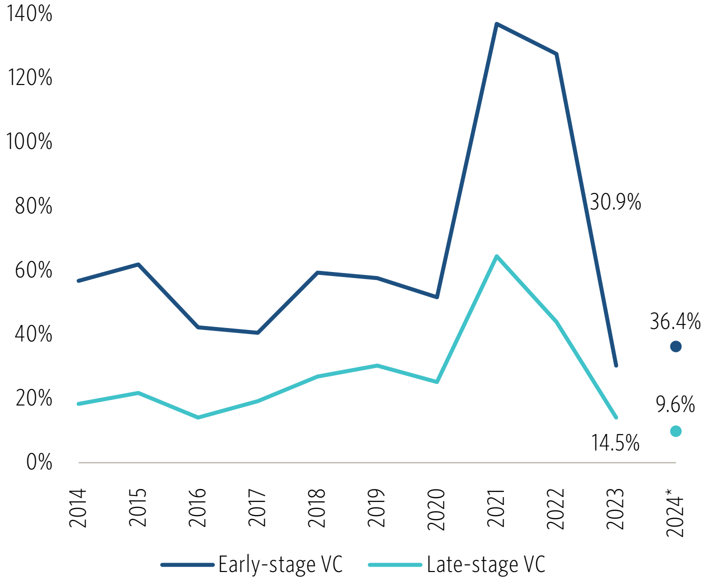
Muted percentage growth between rounds

Median RVVC between VC rounds by stage



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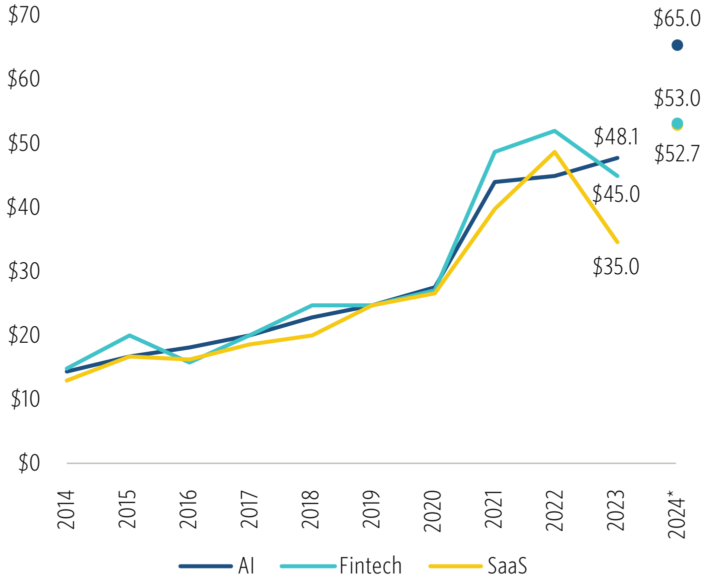
AI anointed as “Most Likely to Succeed”

Investors cannot get enough of AI. Valuations have ramped up, and despite high prices, VCs have consistently been willing to invest. There is a lot of hype around the technology, which many believe will be integral to reshaping the future. Their strong conviction has created a sense of urgency, as investors are consumed with the fear of missing out on big returns if they do not invest now. As a result, early-stage AI’s median RVVC is 114.9% in 2024, far outshining the early stage as a whole at 36.4% and both fintech and software as a service (SaaS) at 24.7% and 36.1%, respectively. This outsized annualized percentage growth in valuation is approaching 2021 levels when RVVC peaked across all stages, highlighting that the competition that pervaded the entire venture market a few years ago is now concentrated in AI.

This hyperfocus has been propelled by the billions that major tech giants have poured into AI as they attempt to outpace each other and not fall behind. Microsoft has invested $13.0 billion into OpenAI, integrated the platform into its Azure cloud service, and offered cloud credits to OpenAI as part of their deal. Amazon has invested $4.0 billion into Anthropic

AI stands out compared with other verticals

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



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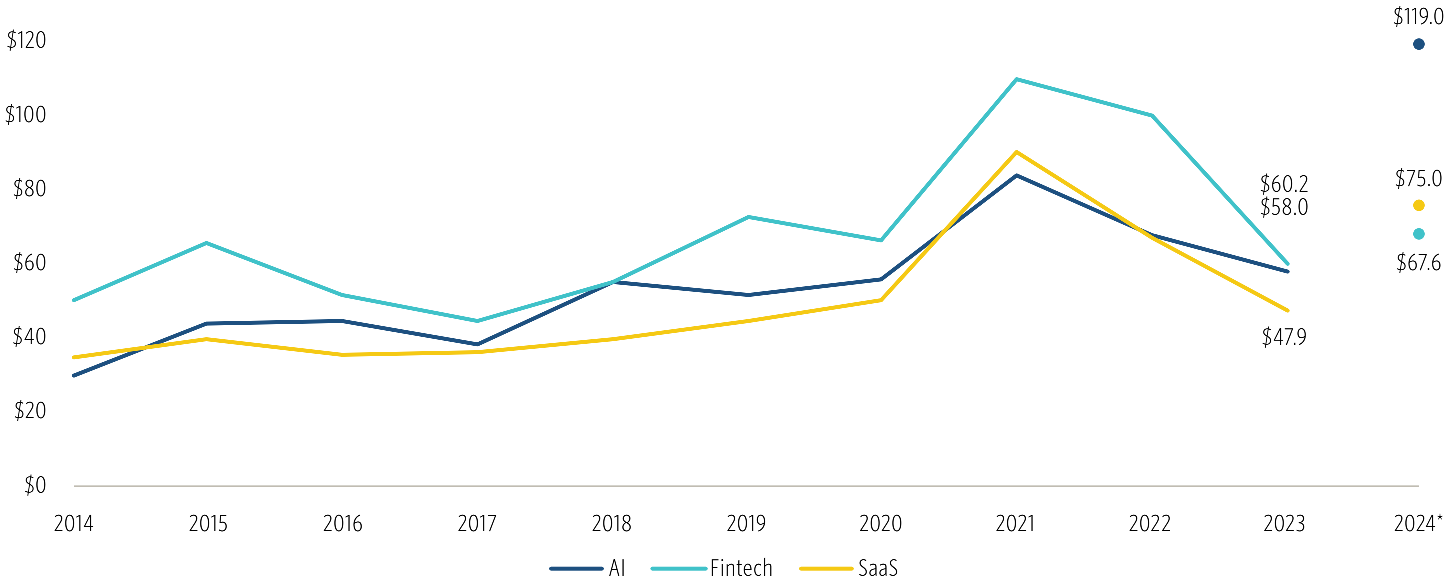
Median AI late-stage valuation hits $119.0 million

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



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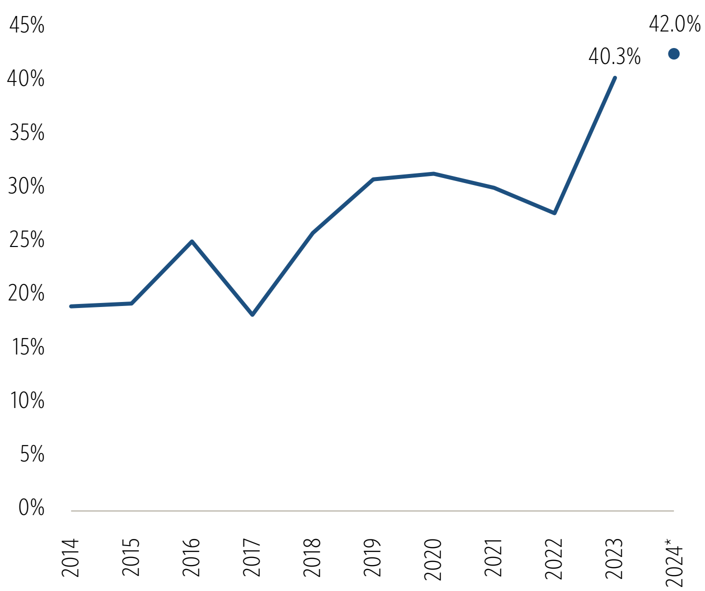
and has a similar agreement to grant Amazon Web Services (AWS) customers access to Anthropic's AI models in exchange for Anthropic's use of AWS and chips.

In addition to these large investments in external companies, tech leaders have prioritized developing AI models internally. Meta has integrated AI products across its platforms, from chatbots to image generation to smart glasses. This widespread adoption has been costly, with the company forecasting an increase in its 2024 annual spending from the original range of $30-$37 billion to $35-$40 billion due to its heavy investments in AI infrastructure.

These hefty price tags shed light on the harsh reality of AI: The technology is incredibly expensive. Many companies have spent billions on NVIDIA's graphics processing units alone. Consequently, AI-focused companies must raise higher dollar amounts to have enough capital to fund their research, development, and resource needs, pushing up valuations that have recently outpaced those in fintech and SaaS. The median early-stage AI company valuation has climbed to a decade high of $65.0 million in 2024, a 35.1% increase from 2023 levels and 44.4% higher than the overall median early-stage valuation of $45.0 million. The median late-stage AI company valuation rose even higher, with 2024 levels currently at a decade high of $119.0 million, more than double the median from 2023 and 73.5% higher than the overall median late-stage valuation of $68.6 million.

42.0% of unicorn deals are in AI

AI unicorn deals as a share of all unicorn deals



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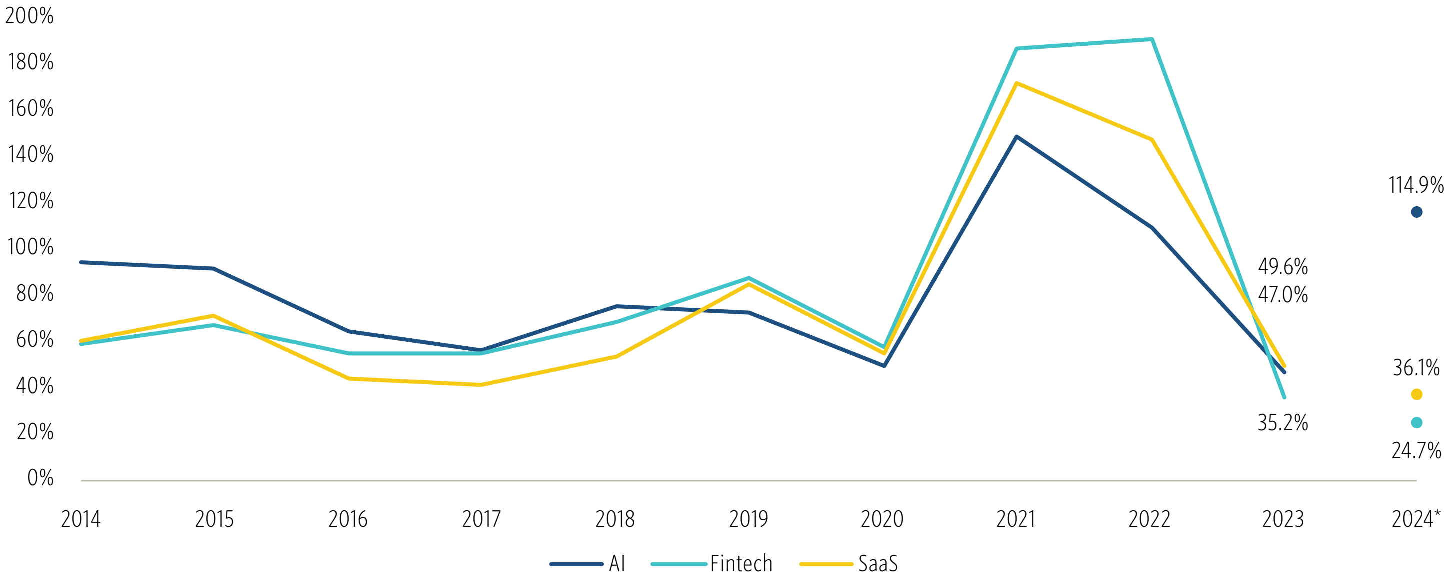
Early-stage AI displays outsized percentage growth between rounds

Median early-stage VC RVVC by vertical



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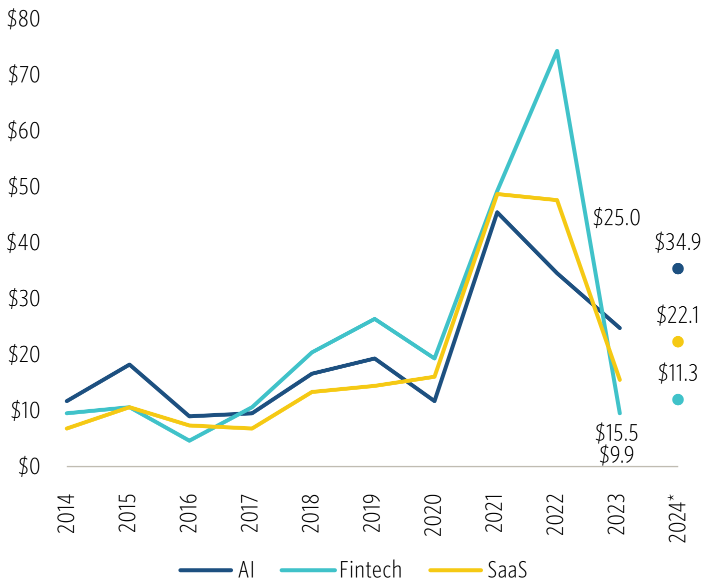
As a response to investor demand, AI-focused venture strategies are surging in popularity. As highlighted in our Q2 2024 PitchBook-NVCA Venture Monitor, three VC funds with an AI specialty have each raised over $1 billion this year. Like direct company investments, AI funds are starting to incorporate more creativity into their deals. In July, Anthropic and Menlo Ventures announced a $100.0 million fund where Menlo invests in early-stage startups while Anthropic provides these portfolio companies $25,000 in credits for its large language models. By providing resources outside of cash, including coaching, quarterly meetups, and a direct hotline to Anthropic, Menlo is setting itself apart from other eager investors as a better strategic partner for the hottest AI startups.

With so much investor enthusiasm and available dry powder, AI valuations will likely remain elevated for a while. AI's large price tag brings into question whether it can generate enough returns with such costly requirements and so many prominent players, but only time will tell whether these high valuations are justified.

VVC highlights growth in early-stage AI

Median early-stage VC VVC ($M) by vertical



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A WORD FROM MORGAN STANLEY AT WORK

Behind the numbers: What a 409A valuation says about your business

Steve Liu
Executive Director Head of Valuation Services
Morgan Stanley at Work

Steve is responsible for leading the valuation practice and oversees client engagement, strategic partnerships, and business development activities to support the Private Markets group.

Steve was previously the valuation practice leader at SVB Analytics. Prior to that, Steve worked with Deloitte and KPMG for more than a decade in New York and San Francisco, respectively, managing both domestic and international clients that ranged from startups to Fortune 100 companies. Steve has a Master of Business Administration from New York University's Stern School of Business and master's and bachelor's degrees in engineering from The Cooper Union for the Advancement of Science and Art. He has received the Accredited Senior Appraiser designation in business valuation from the American Society of Appraisers.

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Whether preparing for a liquidity event or an IPO, planning a release of restricted stock units, or expanding your equity plan globally, Morgan Stanley at Work can help you take charge of where you are today and where you're going next.

Why should venture-backed private companies consider revisiting their 409A valuations?

In recent years, market volatility has continued to have a significant impact on private company 409A valuations. Many companies may have seen their valuations recalibrate due to material changes in financial performance, sector-specific market dynamics, or forecasted growth projections. As a result, some companies have decided to reprice their stock options or issue additional equity to preserve the upside value of their equity plans.

409A valuations have also been impacted by the current fundraising environment. Increasingly, private companies have had to raise money at lower valuations (down rounds) or with more onerous terms, creating a downstream impact and future allocations of equity. Lastly, as IPO markets have remained quiet, we've also seen an uptick in private company secondary activity, which can often have an impact on valuations.

One key component of a private company's equity, fundraising, and exit strategy are 409A valuations. Beyond helping companies stay compliant when issuing equity-based compensation, 409A valuations also carry a message to employees, investors, and the market about the fair market value including the growth potential of a business. As companies re-evaluate their equity and liquidity needs amid ongoing market uncertainty, having an up-to-date and accurate 409A valuation will allow them to make more informed decisions and stay transaction ready.

What factors should companies take into account when conducting a 409A valuation in consideration of an option grant, a tender offer, or an exit event?

This deserves a deeper conversation, but I'll highlight a couple areas for consideration. First, there's the financial analysis that drives the valuation opinion. There's been a recent movement away from valuing companies based on market sentiment versus actual performance. Therefore, maintaining accurate financial statements and having strong financial controls gives valuation providers a clearer view of the company's development and forecasted growth. Keep in mind that any inconsistencies or gaps in a company's financial data can carry over into future 409A valuations and transactions. This is why our Valuation Services team places a lot of emphasis on helping companies maintain a transaction-ready valuation strategy between major corporate actions.

Additionally, any completed secondaries or tender offers need to be accounted for in the 409A valuation. However, the impact of that activity on the 409A valuation depends on a variety of factors, including how the transaction was structured, the timing and frequency of trading, and who participated in the transaction. A valuation provider can help companies quantify the impact of prior secondaries and anticipate the impact of future transactions.

Most importantly, private companies should understand that valuations become increasingly complex as a business grows. Later-stage companies may require more frequent valuation opinions outside of the 12-month safe harbor period, and it can be beneficial for them to have an ongoing conversation with their 409A valuation provider as they make changes to their equity, liquidity, or exit plans.

For late-stage private companies with eventual plans to go public, how should their 409A valuation strategy evolve?

As private companies mature and start to think about how they will operate after going public, 409A valuations tend to focus less on investor sentiment and more on year-over-year financial performance and exit planning. As part of this evolution, demonstrating consistency and transparency within their valuations is a key component. Remember, a 409A valuation is a reasonable, independent estimate of a company's stock price; it needs to strike a balance between what's aspirational and the actual performance of the company. Therefore, the responsibility of the 409A valuation provider is to provide an analysis that matches the narrative of the private company and creates a coherent valuation history.

For companies thinking about going public in the near future, consider that 409A valuations and secondary transactions within three years of an IPO are subject to public disclosure and scrutiny by the Securities and Exchange Commission. Given the impact that market volatility has had on private market valuations, companies may want to have a conversation with their valuation provider on how to navigate any potential challenges that may arise.

What are some other equity or 409A valuation trends you are seeing?

The fundraising environment remains challenging, especially for late-stage companies. With down rounds happening across the market, investors have greater leverage to dictate the terms of funding. As companies raise capital in this climate, they should pay attention not only to their post-money valuation but also to the terms of their equity financing, as they can have a cascading impact on equity allocation across the capitalization table.

Furthermore, while we've likely moved past the peak of stock option repricing that we saw last year, it likely remains a consideration for many companies. At Morgan Stanley at Work, we've been helping companies evaluate the short- and long-term impact of a repricing, along with the message it sends to employees about their equity compensation.

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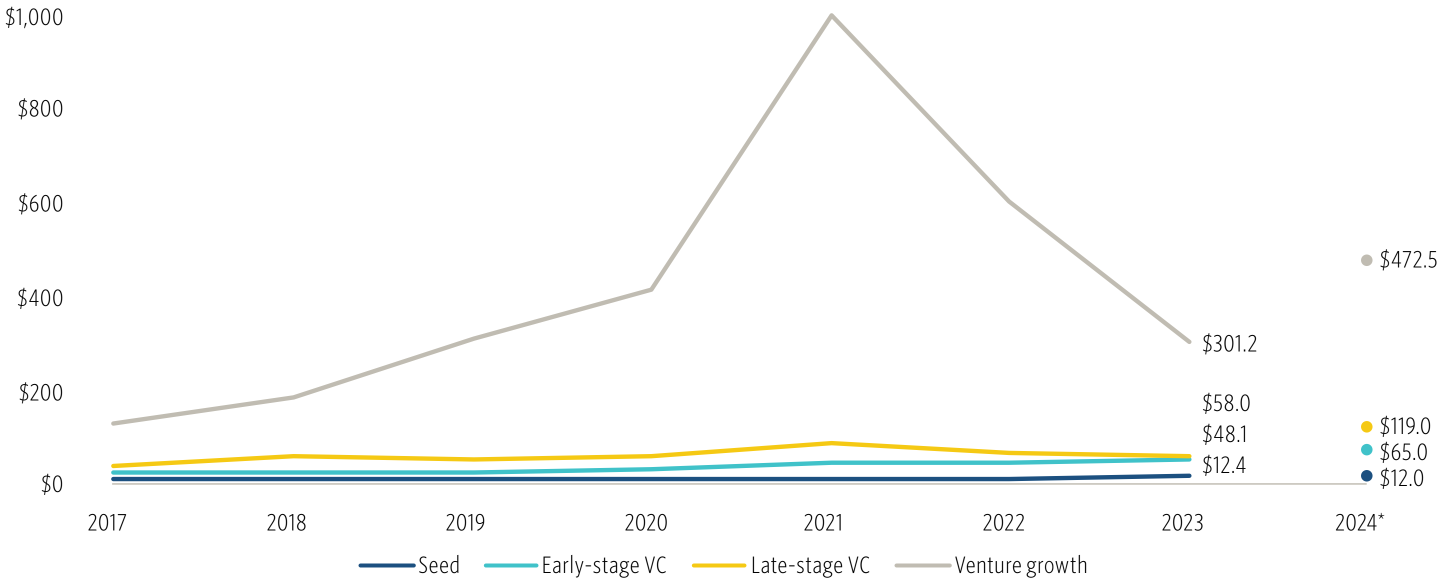
AI & ML

Investor conviction in AI is boosting valuations

Median AI & ML VC pre-money valuation ($M) by stage



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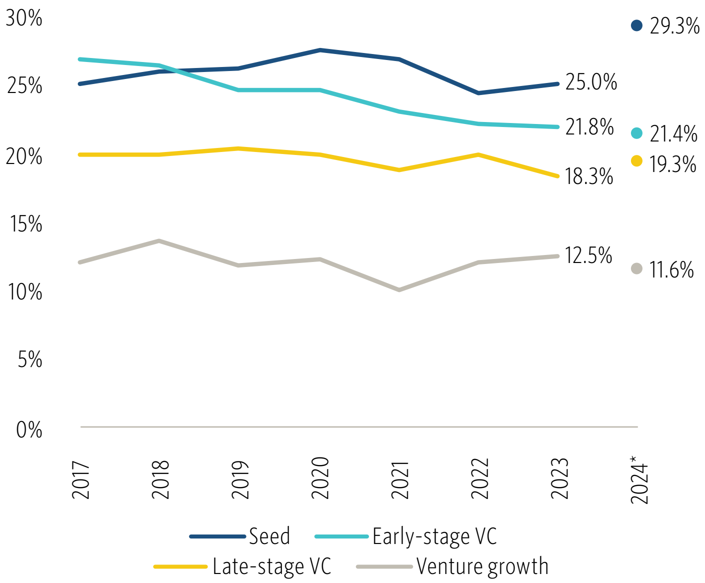
VCs stakes remain steady, with larger shares in seed

Median AI & ML VC share acquired by stage



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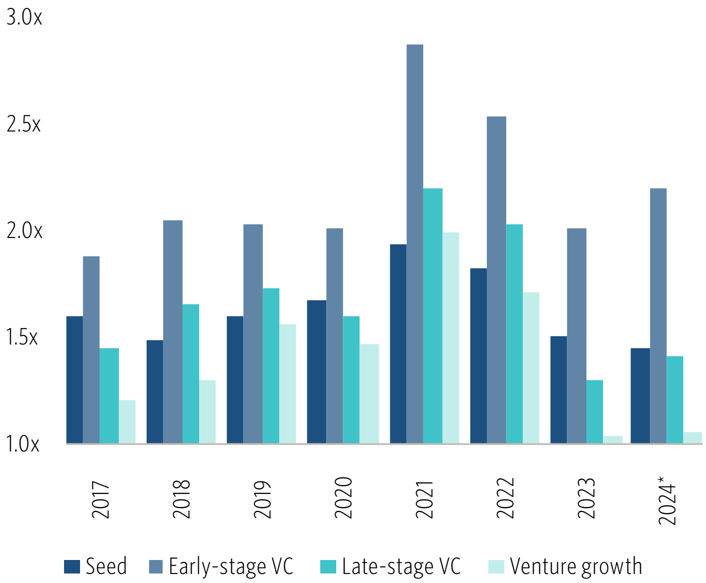
Early-stage step-up rebound reflects high interest

Median AI & ML VC valuation step-up by stage



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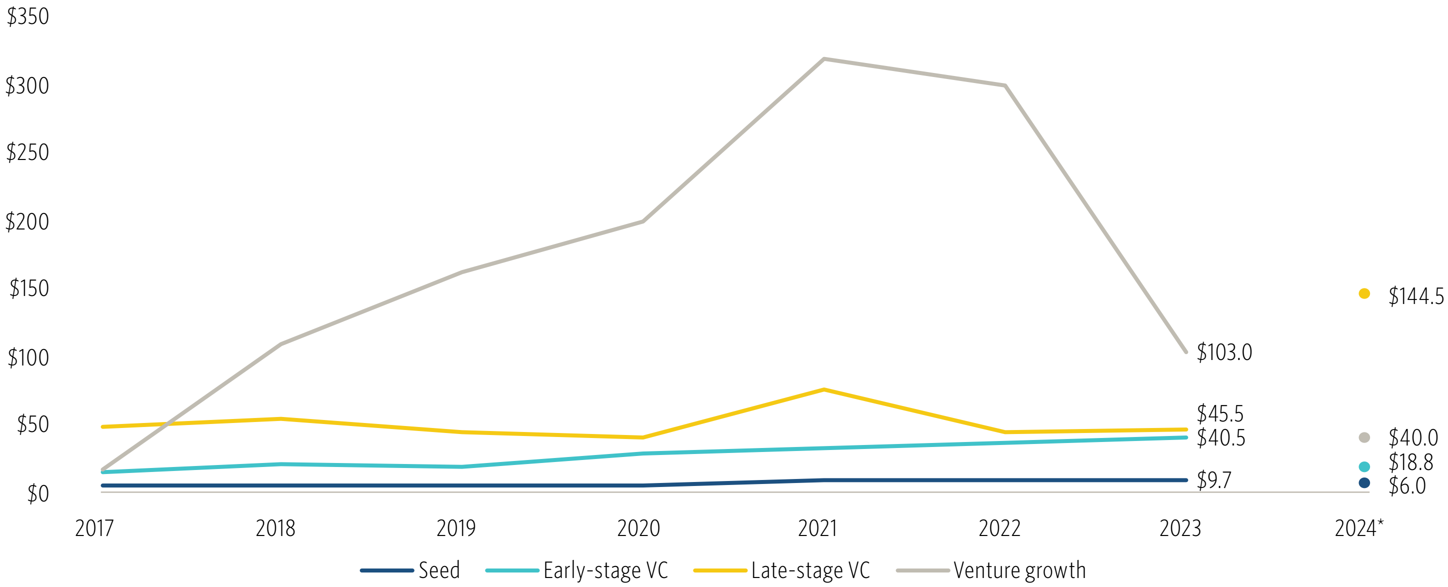
Agtech

Valuations recede at all stages except for the late stage

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



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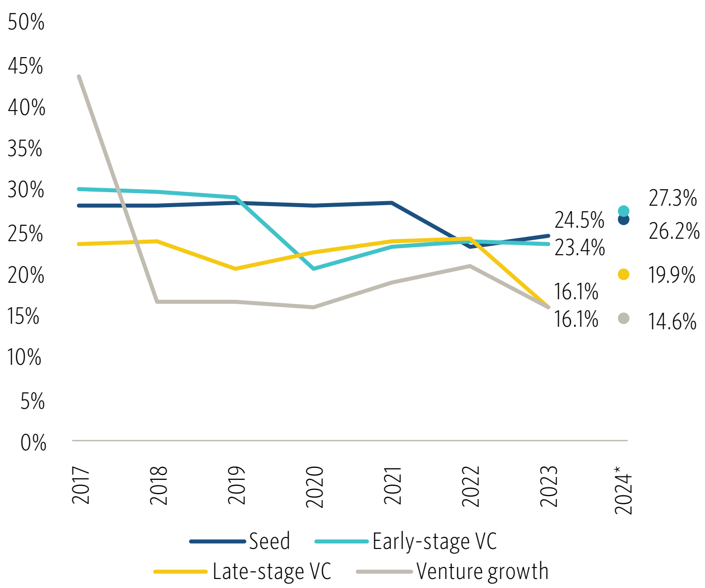
VCs acquire larger stakes in seed, early-stage, and late-stage companies

Median agtech VC share acquired by stage



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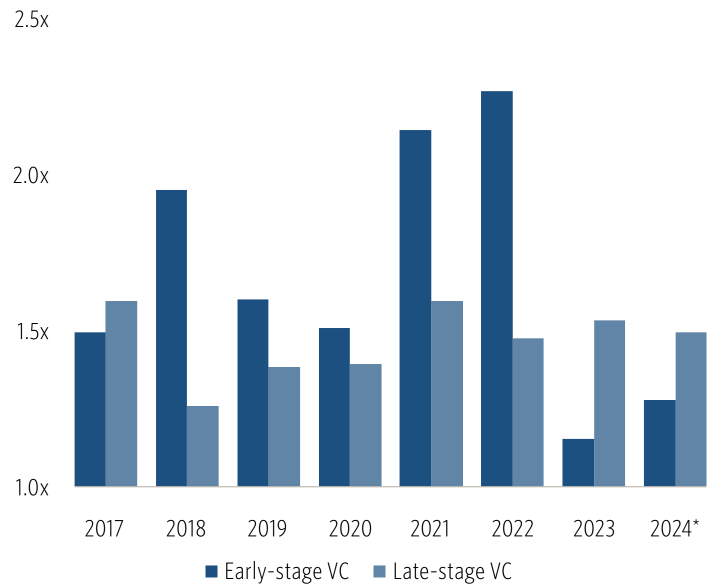
Late-stage agtech investments maintain steady valuation growth since 2020

Median agtech VC valuation step-up by stage



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Forge has helped investors trade over $14 billion in more than 500 private companies.[1]

Learn more at forgeglobal.com

NYSE: FRGE

1. Based on Forge's historical transaction data from inception through Dec 31, 2023

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PitchBook

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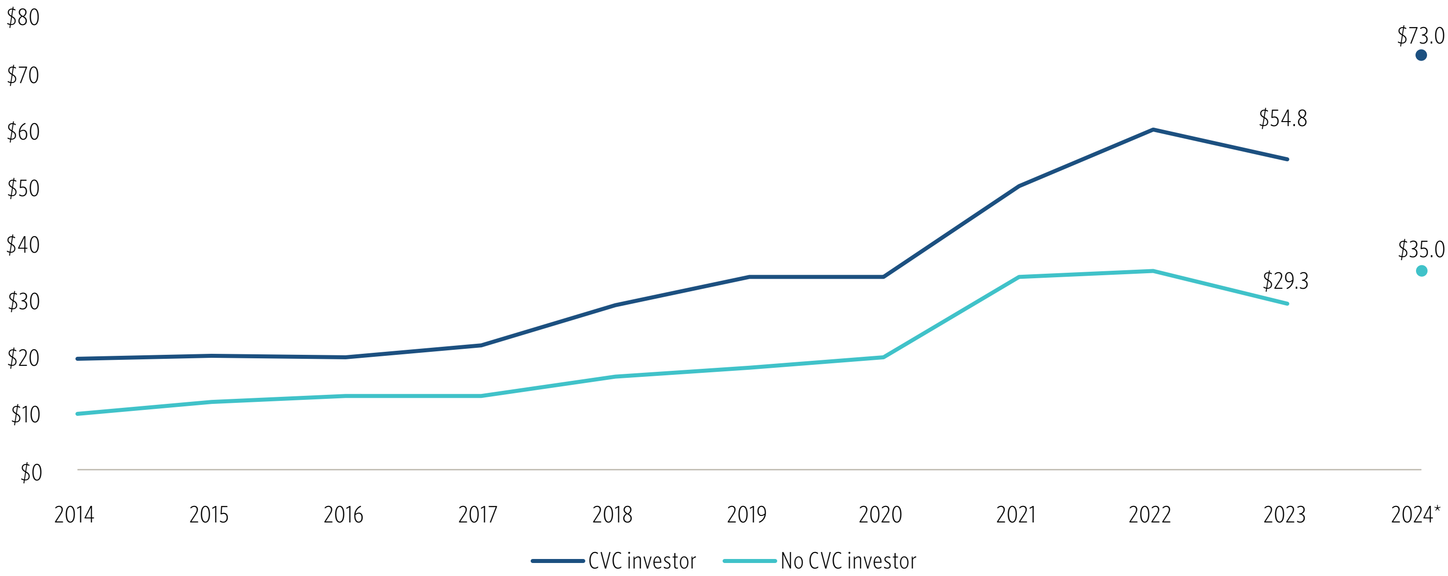
Investor trends

Valuation spread highlights CVC firms' flight to quality

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



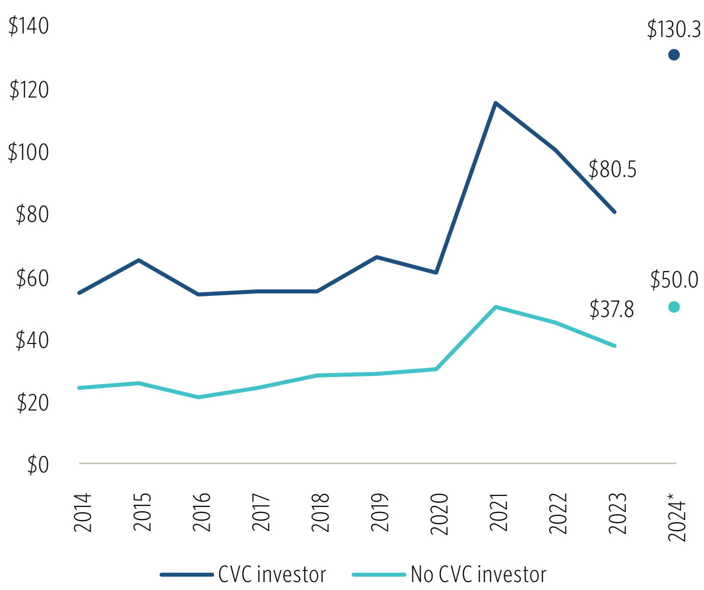
Source: PitchBook • Geography: US • *As of June 30, 2024

Maybe nowhere in the venture market is the flight to quality more apparent than in nontraditional investor activity. While these institutions had entered the market en masse up through 2021, pushing valuations higher and higher with the added capital in the market, now we are seeing a widening gap between valuations of rounds with nontraditional investors and those without due to their pullback and their focus on top companies. At both the early stage and the late stage, the median valuation with nontraditional investor participation pushed to its highest annual figure. Similar to the market's median pre-money valuation, this is not necessarily due to prices becoming significantly more expensive, but more due to companies coming back to market to raise and lesser-quality companies not receiving equity interest from these institutions.

For such prominent investors in the market, corporate investors pulled back their venture activity significantly, refocusing their investments on early-stage companies that are able to provide noncash returns, which have been a hallmark of many corporate venture capital (CVC) programs. AI, for instance, has been a core investment thesis during the year. With these investments, corporates providing compute to AI companies gain potentially strong future cash flows from the company continuing to use its service. The flight to

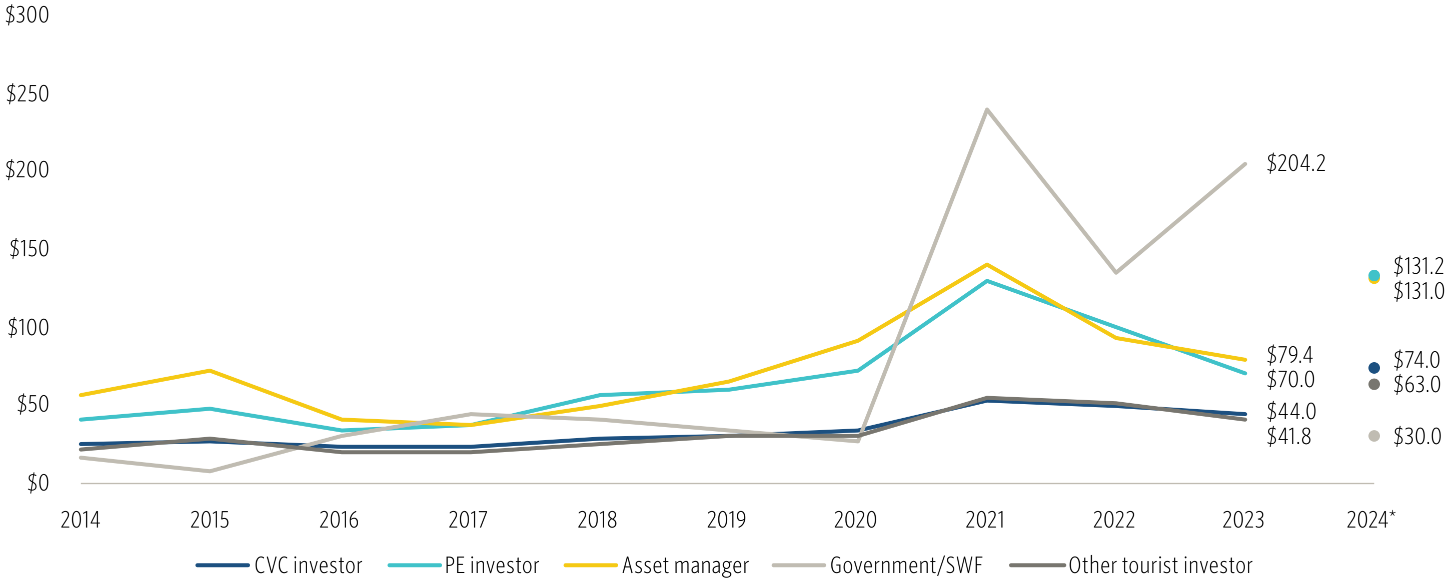
Median late-stage pre-money valuation exceeds 2021 level

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



Source: PitchBook • Geography: US • *As of June 30, 2024

Asset managers and PE firms push into higher valuations
Median VC pre-money valuation ($M) by investor type



Source: PitchBook • Geography: US • *As of June 30, 2024

quality and lower overall activity has driven the median price paid by corporates at the early stage much higher than it has been, reaching $73.0 million through Q2. The spread between the median pre-money valuation in deals with CVC investors and those without is now at a high of $38.0 million. While this would seem to suggest potential overpaying by corporates, it is more likely due to the truncated opportunity set that CVC is willing to engage with in this environment.

The exodus of crossover investors from the venture market is another one of the more notable occurrences of the slowdown during the past couple years. In Q2, there was little sign of these institutions reigniting their activity. The large increase in deal value with their participation during the quarter was boosted by the CoreWeave and xAI deals and should not be looked at as growth in available capital, just as individual companies driving large investors into the market.

The challenges that come with the pullback from crossover investors is that their money has been a reliable source of capital for late-stage and venture-growth-stage companies looking to remain private while in growth mode. Though dry powder remains near $300 billion, there is little ability or incentive for venture investors to support the capital needs of companies with already high valuations because of the return profile of these investments. The product of the pullback has been companies extending their runway as long as possible. Series C and Series D+ rounds are being completed more than two years after the company's most recent round, a notable growth of roughly 100% since 2021. With such a high number of companies remaining private at the late stage and venture-growth stage, a lack of a resurgence in crossover investment will likely lead to heavy down rounds or an inability for these companies to raise equity capital for growth.

Broadly speaking, crossover investors are investing in the largest, and highest-quality, deals. The median deal size with an asset manager participating is $26.1 million, the second-highest annual figure for these institutions. This market provides the opportunity for the best-capitalized companies to separate from the rest of their respective sectors. The prices paid by these investors have also increased at the median with their flight to top-quality deals. Through Q2, the median pre-money valuation of deals with crossover investors has reached $131.2 million.

A WORD FROM FORGE GLOBAL

Building the technology and data infrastructure to support private market investing

Kelly Rodriques
CEO
Forge Global

Kelly Rodriques is the CEO of Forge Global, a leading global private securities marketplace. He's accrued decades of domestic and international experience founding and successfully operating growth companies in the financial technology (fintech) sector, and his fintech experience spans both investing and financial services leadership. He was formerly the CEO of PENSCO, Totality, and Novo and was an operating partner with Ignition Growth Capital. He founded Operative Capital, an early-stage fintech investment fund, and remains a managing partner there.

How has the secondary market for private company shares evolved in recent years?

Forge has been leading the market for private share trading for more than a decade, helping clients transact over $14 billion across more than 500 companies.[1] We have seen the private market evolve considerably: from a nascent industry exploring the possibilities of private company liquidity to a maturing asset class that institutional investors are integrating into portfolios.

Three major themes crystallize the increasingly irreplaceable role of the private market and how Forge serves the venture capital ecosystem.

First, there is a growing acceptance among private company executives and boards of directors that carefully managed liquidity programs allow them to play offense, not defense, with their corporate strategy. Providing a pathway to liquidity enables executives to show employees that they understand their needs, while financial innovations such as Forge Investment Funds make it possible for management teams to establish clear liquidity parameters and maintain ongoing control of their cap tables.

Second, the growing accessibility of private market data makes it easier for shareholders and investors to accurately value pre-IPO companies. For example, Forge Price™ is a proprietary price per share offered on 2,000 companies that is calculated from publicly available primary funding round information, secondary market transactions, and indications of interest on Forge. Forge Price™ serves as a complement to the firmographic data and venture valuations that investors have relied on for years and, taken together, can enable more accurate portfolio marks.

Third, institutional investors are increasingly adopting private shares into portfolios as they seek uncorrelated sources of return. Forge is working with Accuidity, a Boston-based institutional asset manager, to offer index-linked strategies that streamline the path to exposure to this asset class in a single product. We are seeing adoption from registered investment advisors and offices that have an ongoing need to diversify their portfolios and differentiate their practices.

How can investors use Forge's data and indexes to analyze venture-backed companies and access this asset class?

Sophisticated investors know that venture valuations are an integral piece of the pricing puzzle, but that they're just one of many pieces.

In the current market, investors are conducting ongoing price discovery as private companies trade actively on the secondary market. This data is critical to understanding the true valuation of a private company. If investors ignore this data, they're missing a big piece of the puzzle—so it's becoming increasingly common for investors to incorporate secondary market pricing data into valuation models.

Beyond individual company pricing, Forge works with asset managers, index providers, and financial data organizations to design and build custom private market indexes and models that utilize Forge's proprietary data, trading expertise, and technology infrastructure.

1: These figures are based on Forge's historical transaction data from inception through December 31, 2023.

When Forge launched the Forge Private Market Index in 2023, our vision was to create a benchmark for actively traded private companies that can be used to understand current market sentiment. Forge has since expanded this portfolio to include the Forge Accuidity Private Market Index, which tracks 60 of the most liquid late-stage private technology companies in the US.

Increasingly, asset managers are looking to create vehicles that enable investors to express specific views on the market—whether that's conviction in a specific sector, such as artificial intelligence (AI), or a slice of the market, such as large-cap names. Whatever the vision, Forge offers customizable solutions based on client needs and handles the end-to-end index production, including periodic index calculations, corporate action handling, and index reconstitution and rebalance.

What else can investors expect from Forge as the market matures?

Forge is investing heavily in technology to make private share trading as intuitive as every other asset class that institutional investors are most familiar with. Forge Pro, our flagship institutional trading product, allows investors to monitor live trading data from Forge's global order book and execute transactions seamlessly. Investors can track every bid or ask across the global market, understand real-time company valuations, and set up roles and permissions for different members of their investment team to adhere to compliance processes.

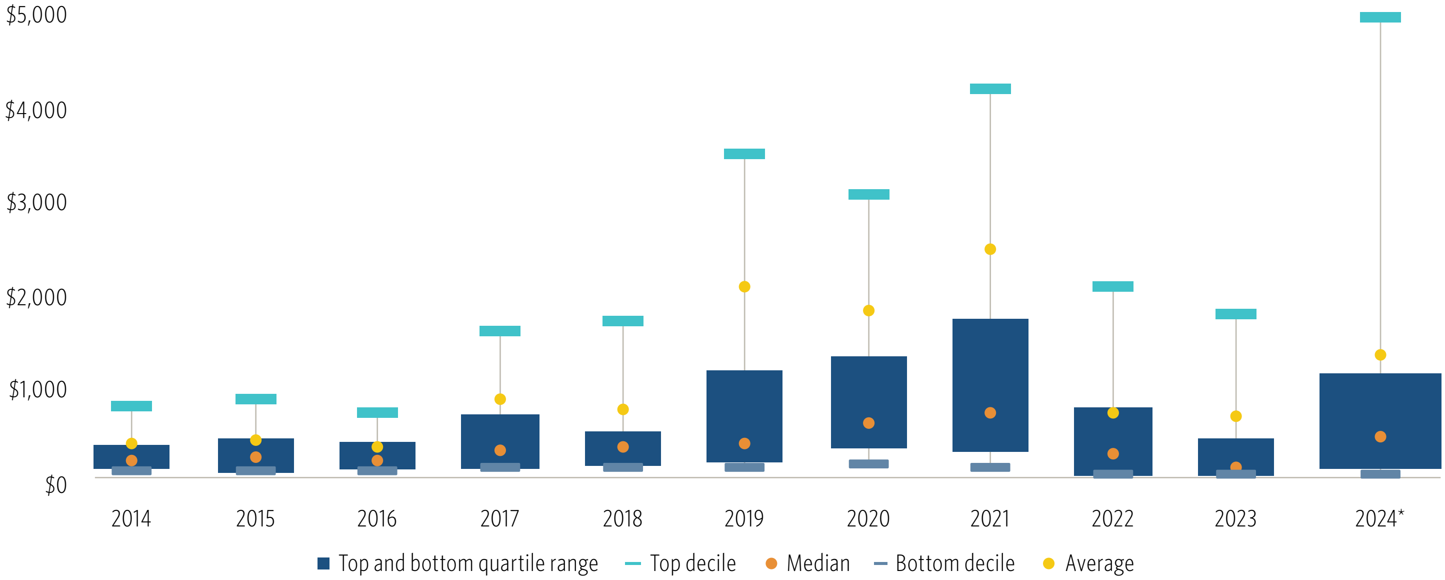
Meanwhile, Forge has expanded in Europe in partnership with Deutsche Börse to serve the growing market of institutional investors in that region. Europe is home to global technology leaders in consumer tech, AI, fintech, and climate tech—and Forge is porting its infrastructure to enable employees, founders, and investors to access liquidity.

The private market shows no signs of slowing down, and Forge is building the technology and data infrastructure and providing trading expertise to support investors along the way.

Liquidity

Limited IPOs with mixed performance

Public listing VC exit valuation ($M) dispersion



Source: PitchBook • Geography: US • *As of June 30, 2024

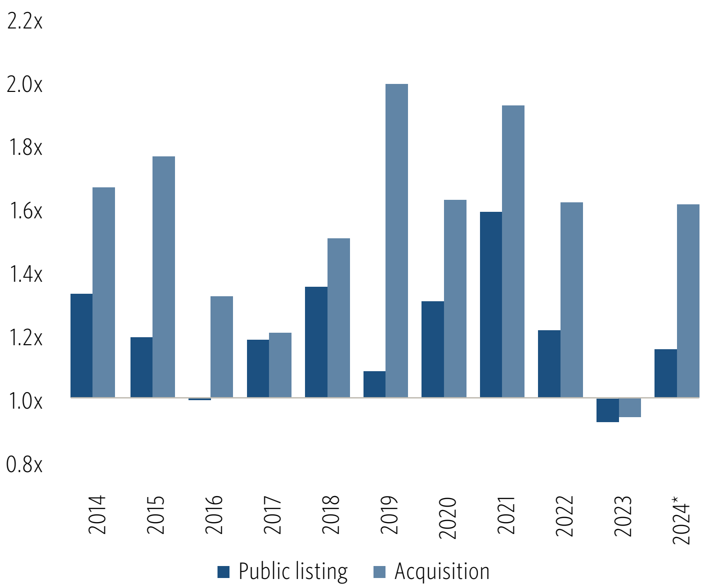
IPOs

Investors had high hopes for IPOs at the beginning of 2024. Economists were forecasting six interest rate cuts from the Fed, which were supposed to jump-start venture. Now over halfway through the year, the Fed has continued to hold rates at elevated levels, and as a result, the IPO market has yet to rebound. In Q2, only 14 companies went public for a total of 37 IPOs in the first half of the year, a similar pace to that of the past two years. Despite high-profile public listings from Ibotta, Rubrik, Astera Labs, and Reddit, the overall lack of activity and uninspiring post-IPO performances have provided little relief for the prolonged venture slowdown.

As of this writing, public listing performance has been mixed, and out of the four headliners, only Reddit is trading higher than its IPO price. Reddit recently reached its highest market cap of over $11.0 billion, but when the company chose to IPO, its valuation took a significant cut from $10.0 billion in 2021 to a pre-money IPO valuation of $4.9 billion in March. Both Astera Labs' and Rubrik's stock prices are down since their IPOs, though their market caps remain at all-time highs. Ibotta initially had strong performance in its first month, but its stock price and market cap have both dipped below company peaks since then.

Low returns from exits

Median VC step-up at exit by type



Source: PitchBook • Geography: US • *As of June 30, 2024

Note: The median public listing step-up in 2022, 2023, and 2024 comes from low data counts.

Because of this lackluster performance, promising companies are choosing to delay IPOs despite filing paperwork with the Securities and Exchange Commission. StubHub aimed to publicize its IPO plans in July, but the deal has been pushed past Labor Day reportedly due to the limited number of large and successful offerings recently. Similarly, in June, aluminum producer Novelis postponed its $945.0 million IPO that would have been the largest US listing YTD, reportedly because of adverse market conditions. Though these companies have postponed listings, startups are not writing off IPOs altogether. Wiz recently joined the fray of potential high-profile listings after declining Google's massive $23.0 billion takeover offer. The cybersecurity startup plans to file in the coming years once it reaches $1.0 billion in annual recurring revenue and is currently halfway there.

The major challenge is still high valuations and the pricing gap between the more modest public valuation multiples and still-elevated private valuation multiples. Many companies had their highest valuations during the pandemic when capital flowed freely, but the public likely will not pay the premium price that private companies want. In addition to recent lukewarm post-IPO performance, overall public market performance is modest at best. Most of the returns from the S&P 500 are concentrated in the Magnificent Seven, which is highlighted by the performance difference between the entire index (17.3% YTD as of July 22) and the equal-weight ETF (7.5%). The IPO standstill will persist until private companies are willing to compromise and accept lower prices.

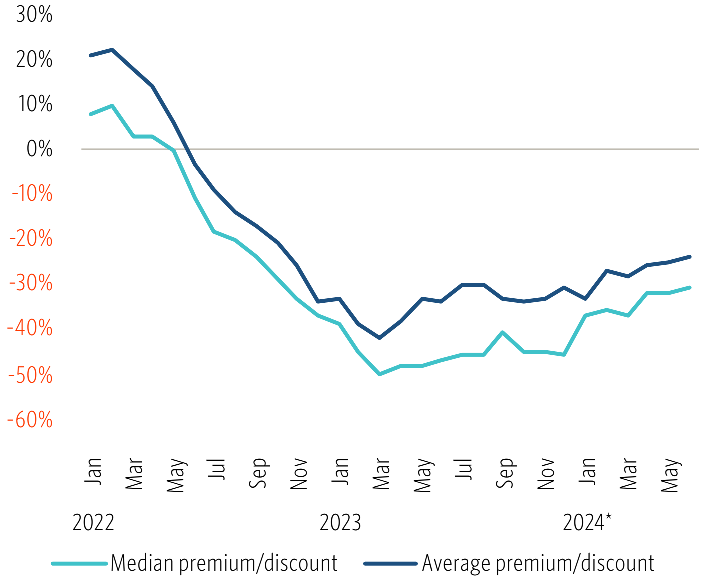
Secondaries

Secondaries are becoming an increasingly important source of liquidity in venture, especially if interest rates remain elevated. In this prolonged slowdown, secondary transactions address investor preferences for cash and company preferences for staying private. However, top-performing companies will likely benefit the most because the increased price transparency can uphold their valuations, while the same cannot be said of lower-conviction companies.

Because of the lack of exits, LPs have not been realizing returns. Fundraising is especially affected because of the lack of capital available to reinvest in venture, so 2024 is projected to reach the lowest level of fundraising since 2019, as highlighted in the Q2 2024 PitchBook-NVCA Venture Monitor. Early investors may also find their net worths heavily concentrated in one private company and could benefit from diversification by selling some shares.

Secondary discounts have bottomed

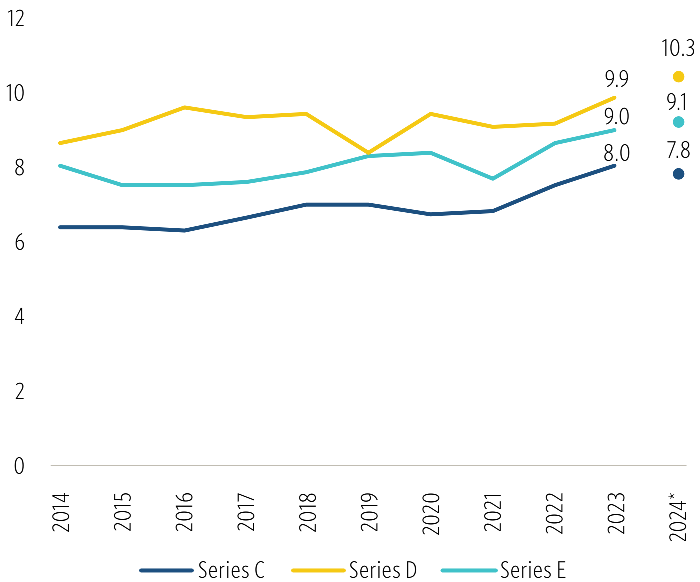
Median and average secondary discount to last VC round



Source: Zanbato • Geography: US • *As of June 30, 2024

Late-stage startups extend their timelines

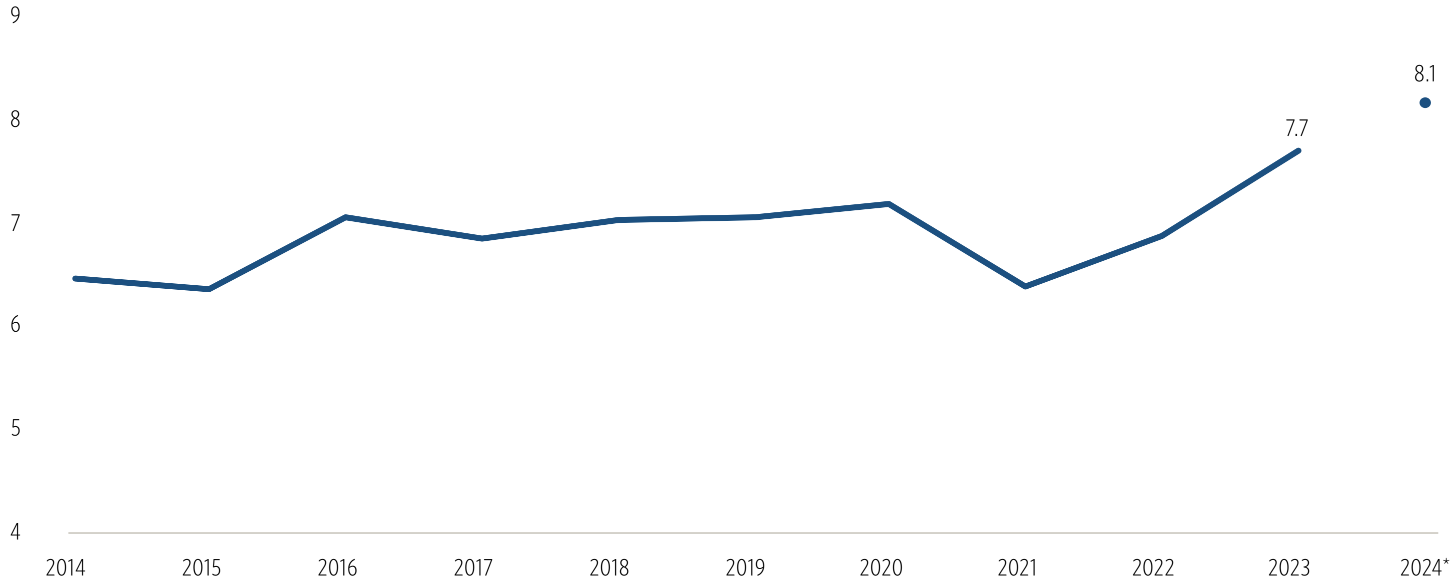
Median time (years) from founding for VC companies by series



Source: PitchBook • Geography: US • *As of June 30, 2024

Unicorns are staying private for longer

Median time (years) since first VC round for active unicorns



Source: PitchBook • Geography: US • *As of June 30, 2024

At the same time, top-performing startups are preferring to wait for a friendlier exit environment. These companies often have the advantages of consistent revenue, proven products, and solid growth prospects, so they have the luxury of choosing to delay their exits. As a result, the median age of companies raising a Series C, D, or E round in 2024 ranges from 7.8 to 10.3 years, continuing the upward trend that began in 2022 during the initial slowdown. US unicorns have also been held in VC portfolios for longer. Unicorns have been held by first-round VC investors for a median of 8.1 years, a significant increase from 6.4 years in 2021 when exits were far more frequent.

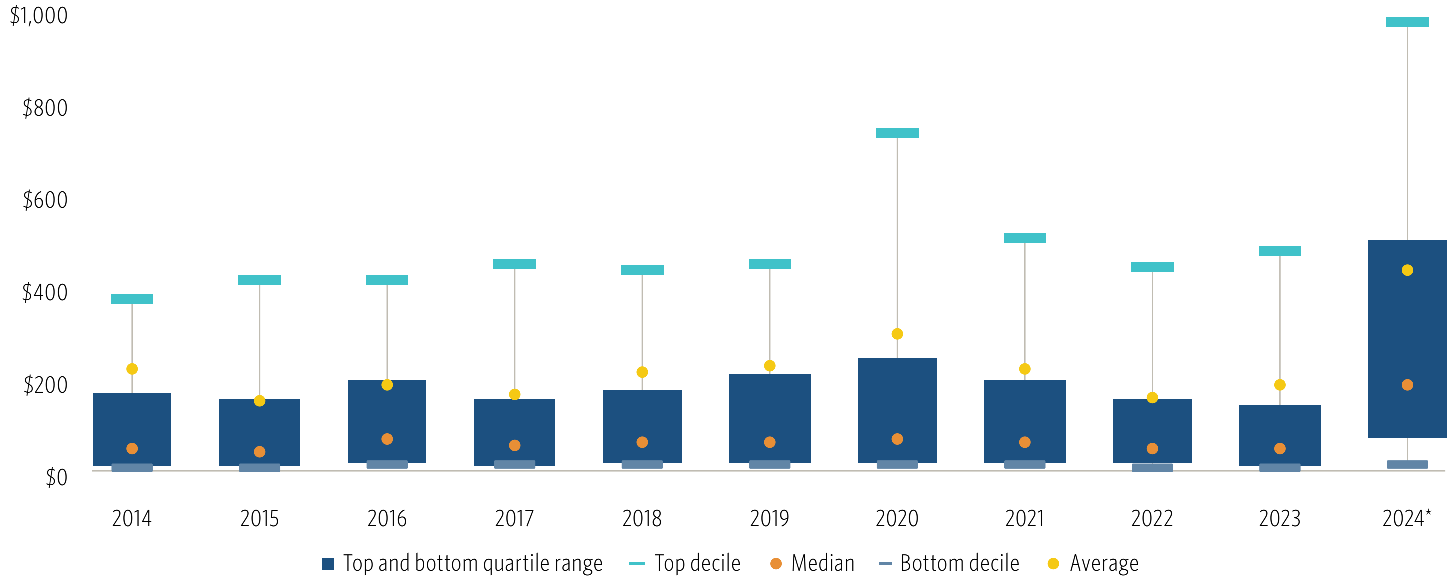
A healthy secondary market not only allows investors to buy and sell private company shares but also provides valuable insight on company valuations. Secondary market pricing can help strong companies justify their high valuations through proven investor demand. At the same time, lower-conviction companies could face increased pressure on their valuations if secondary shares are priced at steep discounts, especially if the startup raised its last round when capital was much easier to attain.

Secondaries are still trading at a discount, but according to data from Zanbato, the market bottomed in March 2023. Median and average discounts have inched toward parity, decreasing to 31% and 24%, respectively, in Q2. To capitalize on this opportunity, multiple venture secondary funds have emerged, including multibillion-dollar funds from Industry Ventures, Lexington Partners, and Pinegrove Capital Partners. StepStone raised the largest VC-focused secondary fund to date in June, totaling $3.0 billion. Not only are shareholders ready to sell private company stock, but these funds and decreasing discounts also indicate increased appetite to purchase secondaries.

Not all secondaries are created equal, and the strongest companies will benefit the most from the secondary market. Startups that can support their valuations in secondary prices will see increased investor demand. After all, investors much prefer to put their cash into high-conviction companies that are simply waiting to exit, rather than in a struggling company where shareholders are trying to cut losses and offload their holdings. Overall, we expect secondary sales to grow in the coming quarters, especially as traditional liquidity sources continue generating limited returns. Both investors and companies benefit from secondaries' increased adoption, and the rise of venture secondaries funds means that there will be plenty of capital to deploy in this space.

Most M&As are too small to report

Acquisition VC exit valuation ($M) dispersion



Source: PitchBook • Geography: US • *As of June 30, 2024

M&A

At first, M&A seems to be rebounding, because the median and average acquisition VC exit valuations are at decade highs of $185.0 million and $431.1 million, respectively. However, 2024 is on track to be the second-lowest year for M&A exit value in the past decade, generating $19.4 billion as of Q2, which is not enough to support VC investors' return needs. For context, this total value for the first half of the year is smaller than Google's proposed $23.0 billion acquisition of cybersecurity startup Wiz, which was announced in July but soon fell apart.

Only a handful of large-scale deals have generated strong returns for investors, which is not enough to bolster the overall health of venture M&A. Tabular, a data automation platform, was acquired by Databricks for $1 billion in June. This was the only technology company that crossed the billion-dollar threshold in Q2, with most high-value acquisitions concentrated in the healthcare sector. Inhibrx, a clinical-stage biotechnology company, was acquired by French pharmaceutical and healthcare company Sanofi for $2.2 billion in May.

The narrative discrepancy is largely because 90% of M&A transactions in Q2 were small and therefore undisclosed, so M&A data is capturing only the strongest players with high valuations. This raises questions about how much investors are receiving from these liquidity events, as we can assume every unreported transaction is likely not a large-return-generating exit. Many of these investors are likely close to or below break-even because companies included in these undisclosed Q2 M&A transactions raised more than $3 billion, averaging about $34 million of VC funding per company.

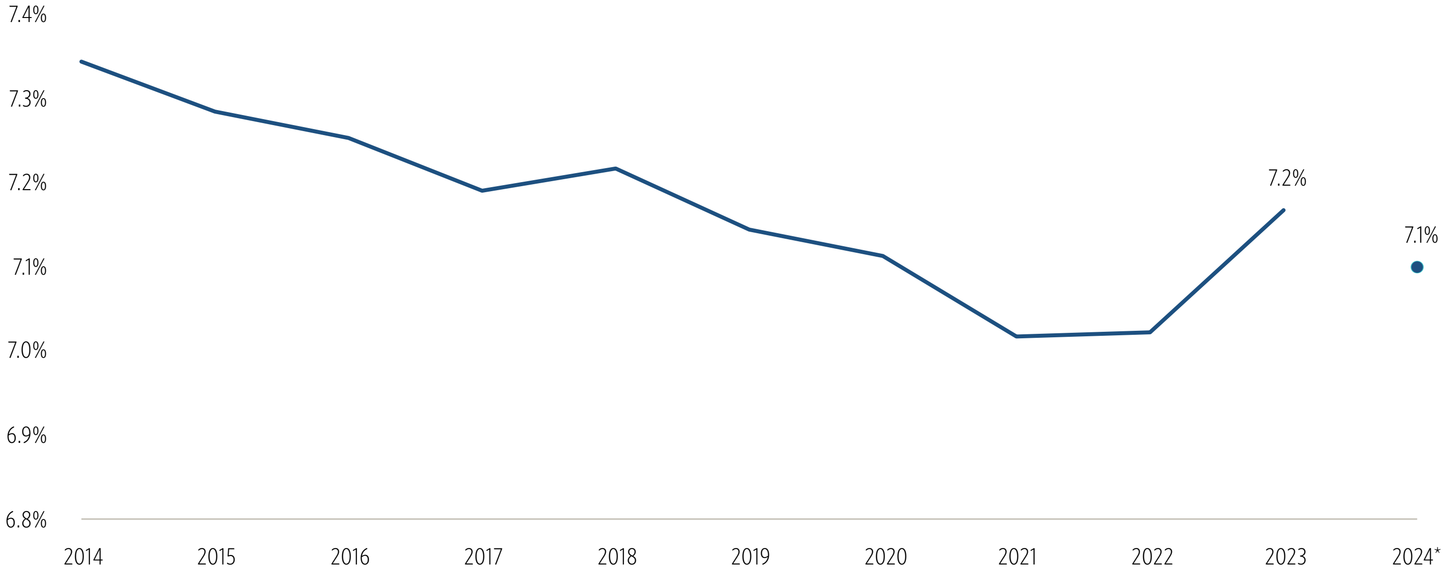
M&A has become a method for investors to cut their losses rather than serving as a crucial source of liquidity and returns. Given this shift, stronger companies are even more willing to wait for a better exit environment, especially since valuations have increased as cautious investors are willing to pay higher prices for a stake in top players. Even in earlier stages such as seed, the median deal value has increased 63.2% from pre-pandemic levels in 2019 to $3.1 million. Consequently, mediocre companies that are unable to continue delaying fundraising or successfully get additional capital are targets for these small M&A deals. If this muted environment persists as expected, lower-conviction companies may not have many other options to keep their businesses running.

The gap between the top and bottom players is widening in M&A, and this trend will likely continue for at least the next few quarters. As more mediocre companies reach the end of their cash runway, this concentration of smaller deals will persist. From there, buyers need to be ready to pay elevated prices for stronger companies that can hold on to their high valuations.

Deal terms

Average dividend slips back

Average dividend for VC deals



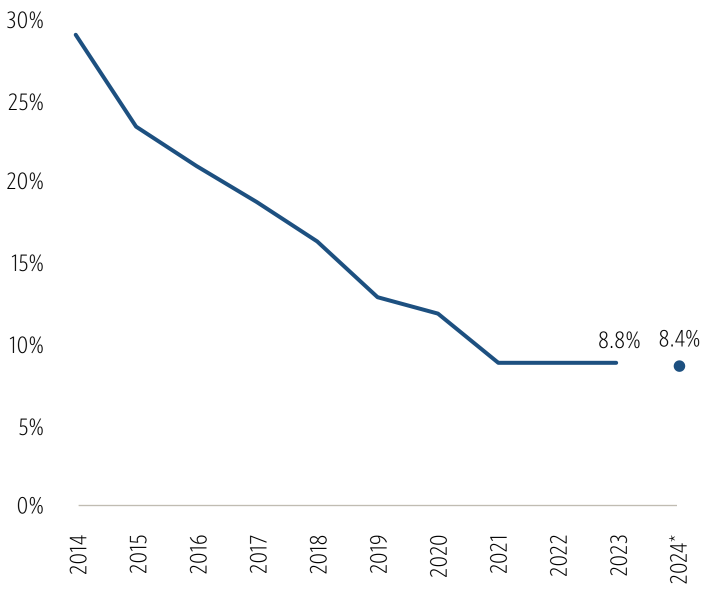
Source: PitchBook • Geography: US • *As of June 30, 2024

The challenging exit environment, as well as the extended time that startups have remained private during the market's maturity over the past decade, presents an interesting challenge to liquidity that is, in part, due to investor protections embedded in preferred stock. Preferred stock is paid out before common stock, a benefit provided to investors that offsets some risk down the line and an instrument that should keep founders pushing to maximize exit value. As companies have remained private longer, or at least grown to a larger valuation while private and raised even larger rounds to fuel growth, the payout waterfalls have become very tall. Waterfall payouts are now playing a larger role due to the lackluster exit environment and are likely driving decisions regarding exit opportunities, especially for companies with prior valuations generated by high revenue multiples.

As buyers have been looking for heavy discounts for deals to get completed, the payout structures can be a large disincentive for founders and boards to move forward with a discounted exit unless absolutely necessary. Liquidation multiples and the excess rounds raised add further payout prior to common shares, weighing on the pricing of common shares trading on secondary markets. The slowdown

Liquidation participation unchanged from 2023

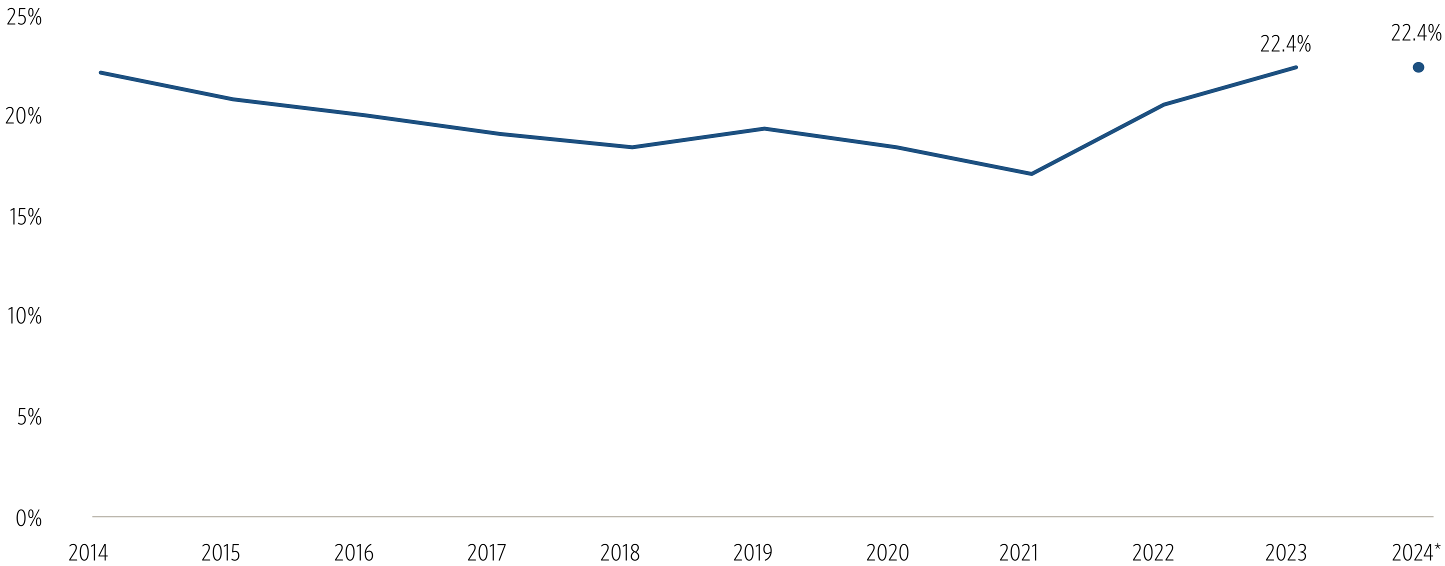
Deals with liquidation participation as a share of all VC deals



Source: PitchBook • Geography: US • *As of June 30, 2024

Cumulative dividends remain highest in decade

Deals with cumulative dividends as a share of all VC deals with dividends



Source: PitchBook • Geography: US • *As of June 30, 2024

has shown that many companies may be strong, and growing, but the outsized valuations received in the era of zero interest rate policy may be too wealthy for exit expectations.

IPOs present further discussion points for investors that invested in the rounds of companies at 2021 prices and clean term sheets. As preferred shares convert to common ones, the lack of antidilution provisions in many 2021 term sheets sets up the last investors for a loss at the time of listing. Several of the high-profile tech companies that have gone public in the past year did so at lower valuations than their prior VC round. The expectation should be that many of the companies that have pushed off a planned listing, or have balked at moving toward a listing, have done so because the multiple they would receive in the public market is much lower than their valuation. With conversion ratios being 1.0x for most preferred shares, without antidilution clauses in their agreements, many late-stage investors would be underwater on their holdings upon a successful listing by their tech portfolio companies.

The addition of cumulative dividends in closed term sheets remains the highest it has been in the past decade, mirroring the 2023 figure that had moved quickly from the lowest figure in the decade (in 2021) to the highest. The average dividend rate has not increased nearly to the same extent, sitting below the 2023 figure.

Cumulative dividends are not the most aggressive or investor-friendly term that can be included in term sheets, but they provide a boost to shares they are attached to and are an additional claim on cash flows before common shares are paid out in the event of a company sale.

Additional research

Private markets

Q2 2024 PitchBook-NVCA Venture Monitor

Download the report here

2024 US Venture Capital Outlook: Midyear Update

Download the report here

H1 2024 VC Tech Survey

Download the report here

Q4 2023 Venture Capital PitchBook Benchmarks (with preliminary Q1 2024 data)

Download the report here

Q2 2024 European Venture Report

Download the report here

2024 European Private Capital Outlook: Midyear Update

Download the report here

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