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Venture Monitor

Q3 2023



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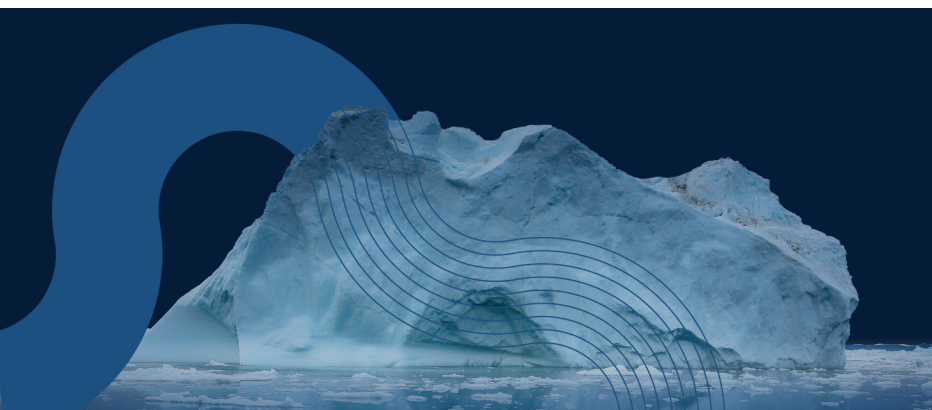


J.P.Morgan



Deloitte.

The definitive review of the US venture capital ecosystem



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We have launched a pre-seed report methodology to more accurately and comprehensively capture deals from the earliest phase of venture. Going forward we will sunset “angel” as a specified stage of venture in all of PitchBook’s venture-focused reports.

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Executive summary

The third quarter of 2023 nearly saw the lowest overall venture deal value in six years and the lowest deal count in roughly three. While the headline figures of the quarter are an important indicator of overall activity, without proper context, they can obscure—rather than illuminate—the story of American venture capital (VC) in the back half of 2023. From generative artificial intelligence (AI) to geopolitics, the number of effectively unprecedented factors impacting the market today means that investors are still searching for equilibrium in an economy that is in flux.

On the front end of the market, the relative share of pre-seed to early-stage deals dropped consistently over the past year. In comparison, late-stage and venture-growth deals have been on a relatively flat trend over the past several quarters. There has also been a marked decrease in megadeals over the past year, with deals over \$100 million making up 48.5% of deal value in Q3, a far cry from their 60.0% of deal value in Q4 2021. Additionally, sectoral trends are notable for the relative compression between sectors, with software deals at a multiyear low in investment share, while life sciences investment, though down in absolute terms, is at the highest relative level since 2020. Whether investments in life sciences will also increase in absolute—rather than relative—terms remains to be seen.

The third quarter of the year also saw several large liquidity events, which were well above trend when compared to the past several quarters. Public

listings by companies like Instacart and Klaviyo are of particular interest for the market as they represent mature companies whose ownership and investors decided that market conditions were ideal for liquidating their positions. Current estimates place the number of companies waiting to go public at 75, and while exit activity is expected to be modest in the near future, the impending listings of household names like Stripe, Chime, and Reddit could portend a more robust liquidity environment.

In 2022, fundraising was concentrated in the hands of the largest funds, with nearly half of all capital committed going to funds over \$1 billion. The relative share of committed capital to funds valued between \$100 million and \$1 billion increased sharply over the year, making up nearly two-thirds of funds raised in 2023 so far. Despite the stronger relative performance of mid-cap funds, 2023 has been a difficult year for emerging managers trying to raise first funds, with nearly three out of every four dollars raised in 2023 going to an established manager and first-time funds pacing toward their lowest count in roughly a decade.

Overall, the market remains under considerable stress. More companies are taking bridge, continuation, or down rounds; inside rounds are at multiyear highs; and there are fewer rounds with a new lead investor obtaining a board seat than at any time in at least a decade. Investors and founders alike are optimizing for stability and cash flow to meet the challenges of

the current market. However, the ecosystem remains well capitalized, and additional sources of liquidity from federal programs like the Inflation Reduction Act and the CHIPS and Science Act are becoming available. Finally, sectors like AI and life sciences lean into key competencies of the US industrial and research bases. Further investment in research-heavy sectors like these could unlock significant value. The last 18 months have seen a level of tumult in the economy that would have been unimaginable just a few years earlier, but amid stormy seas, VC remains well positioned to ride the waves.

NVCA policy highlights

While congressional activity in the third quarter of 2023 was more limited in scope, federal agencies marched forward with a series of consequential rulemakings impacting the venture ecosystem. Below is an overview of NVCA's current policy priorities and their state of play.

FTC and DOJ merger guidelines

In July, the Federal Trade Commission (FTC) and Department of Justice (DOJ) laid out [new guidelines](#) for approving mergers. Consistent with other counterproductive FTC activities during Chairperson Lina Khan's tenure, NVCA has a number of concerns about the new guidelines, which significantly raise the risk of small company acquisitions being blocked for theoretical reasons that have little underpinning in reality and misrepresent nascent firms that fall well short of having monopoly power as being "dominant." We submitted [comments](#) to the FTC and DOJ detailing our concerns.

Hart-Scott-Rodino (HSR) proposed overhaul

In late June, the FTC proposed a concerning [overhaul](#) of the Hart-Scott-Rodino premerger notification rules. If adopted, these rules would dramatically increase costs, burden, and the time required to prepare filings for M&A transactions, even for deals that do not raise substantive antitrust issues—and in some circumstances can even hit growth financings. NVCA submitted [comments](#) detailing how the FTC's proposed additional information burden would counterproductively throw sand in the gears of our nation's innovation engine.

Outbound Investment Executive Order (EO)

In August, President Biden issued an [Executive Order](#) instructing the Department of the Treasury to impose notification requirements—and in some cases prohibitions—on US investments in Chinese companies that involve semiconductors and microelectronics, quantum information technologies, or AI. NVCA submitted [comments](#) in response to the EO, outlining unintended consequences for the US startup ecosystem.

Small Business Administration final rulemaking

The US Small Business Administration (SBA) released two NVCA-supported final rules creating a new category of small business investment company (SBIC) license intended to be tailored to equity investment funds. This rulemaking allows new critical technology SBICs to invest or lend private capital and borrow capital from the SBA to make equity and/or debt investments in small businesses and startups.

Artificial intelligence developments

This summer, Washington set its sights on all things artificial intelligence. In June, the Biden administration unveiled new efforts regarding AI, which include:

- An updated roadmap to focus federal investments in [AI research](#) & development (R&D).
- A request for information (RFI) on [critical AI issues](#) from the Office of Science and Technology Policy (OSTP).
- A report on the [risks and opportunities](#) related to AI in education.

In late June, Senate Majority Leader Chuck Schumer (D-NY) unveiled his long-awaited two-pronged approach for crafting AI policy, as Congress and the administration race to regulate the booming industry. The SAFE Innovation for AI framework has five central pillars:

1. **Security:** Shore up national security by examining AI threats from foreign adversaries or rogue groups and ensure economic security for workers, especially low-skilled, low-income workers.
2. **Accountability:** Support the creation of "responsible" systems to address issues like misinformation and bias and support creators by addressing copyright concerns and protecting intellectual property.
3. **Foundations:** Require that AI systems align with democratic values at their core, protect elections, and promote AI's societal benefits while avoiding potential harms.

4. **Explain:** Companies should share how an AI system arrived at a particular answer in simple terms so users can better understand why the system produced a particular answer.
5. **Innovation:** Support US innovation in AI technologies that focuses on unlocking the potential of AI and maintaining US leadership in the technology.

Additionally, in August, policymakers in the House and Senate unveiled the [CREATE AI Act](#). The legislation is based off the [National AI Research Resource](#) (NAIRR), which has four primary goals:

1. Spur innovation and advance the development of safe, reliable, and trustworthy AI R&D.
2. Improve access to AI resources for researchers and students, including groups typically underrepresented in STEM.
3. Advance capacity for AI research in the United States.
4. Support the testing, benchmarking, and evaluation of AI systems developed and deployed in the US.

California Senate Bill (SB) 54

Senate Bill 54 quickly advanced through the California Legislature this summer and passed in early September. The bill will require VCs to gather diversity data through a survey collected from founders and report information about their funding determinations, including, at an aggregate level, specific demographic information for the founding teams of all the businesses in which the VC fund made an investment during the prior calendar year.

NVCA has raised [concerns](#) about this legislation, including the poor data that will be collected, which will likely dramatically overrepresent the amount of diversity in the startup ecosystem and increase compliance and risk burdens. Governor Gavin Newsom signed the bill on October 8. However, he [acknowledged](#) the problematic provisions and will propose cleanup language as part of his 2024-25 Governor's budget.



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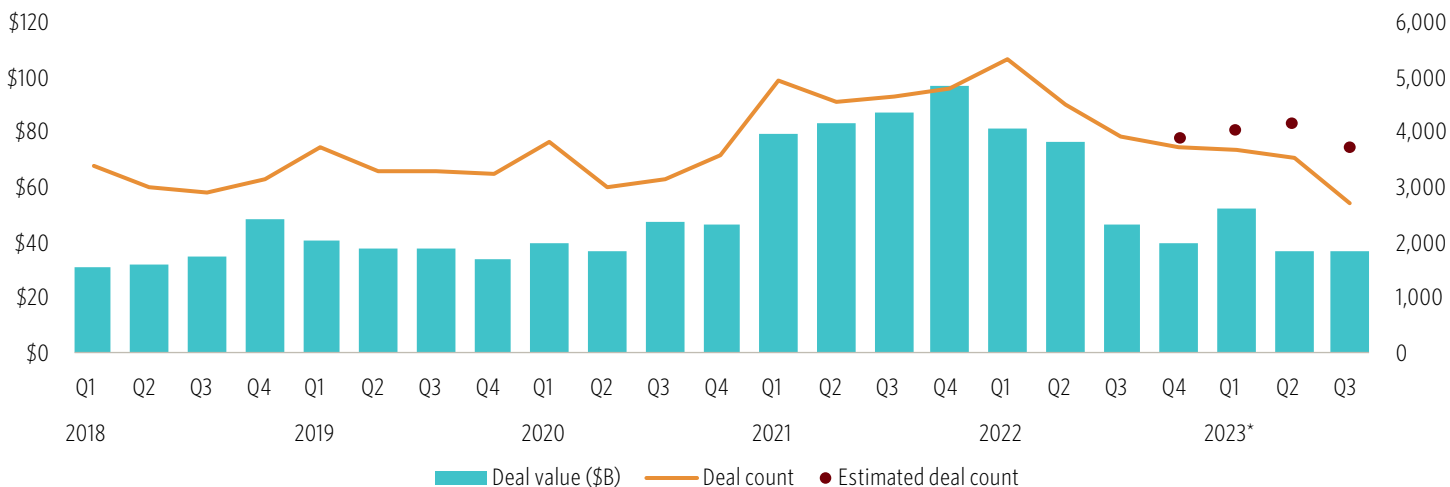
*Source: Gallup's 2020 Employee Engagement Meta-Analysis

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Overview

Quarterly deal value falls to lowest figure since Q2 2018

US VC deal activity by quarter



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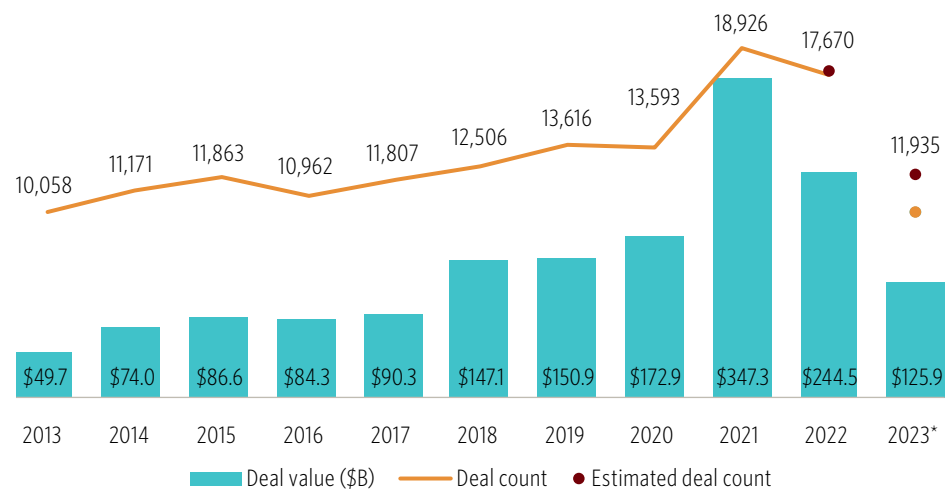
When we look at deal trends through more quantitative measures, it is easy to see the shifts the market has endured over the past 18 months. While quarterly deal counts have stabilized over the past year, the figures remain considerably lower than those in late 2020 through 2021. This slower activity also comes at a time when more than 51,000 VC-backed companies remain private, increasing the pressure on startups that are now competing for investors' time and capital.

Deal value declined or was flat quarter over quarter at each stage except for the late stage, which surpassed its Q2 deal value with Anthropic's \$4.0 billion investment from Amazon.

Large deals have become increasingly uncommon, in part due to the pullback from nontraditional investors and to the ability of strong companies that are well positioned from a cash standpoint to stay out of the market while it is in their best interest.

Deal value pacing for lowest year since 2019

US VC deal activity



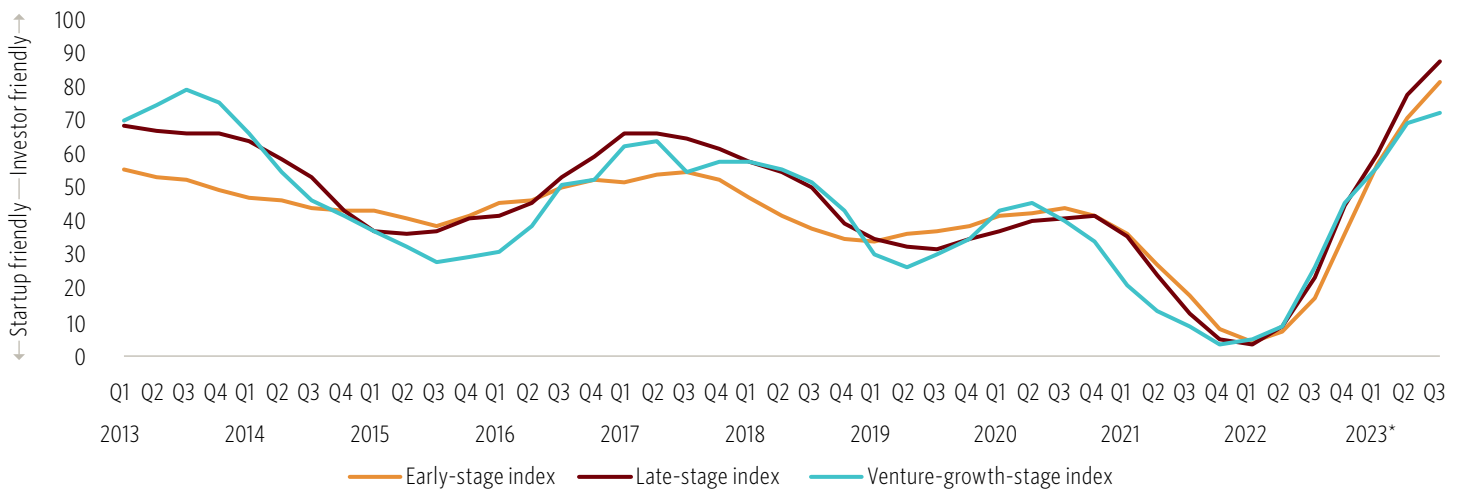
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Our VC Dealmaking Indicator continues to highlight the investor friendliness of the current market. The late stage has distanced itself from the other stages, as the capital supply for its companies has been

consistent in its dearth throughout the year. There is no expectation that dealmaking for US VC will shift during Q4, and the market should continue to operate as it currently is. Capital availability will remain low until an

Late stage separates itself as most investor friendly

US VC Dealmaking Indicator by quarter



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

exit market can reappear and pull money, and companies, through the venture lifecycle.

The big story of Q3 was the IPOs of Instacart and Klaviyo. The long drought of tech-unicorn IPOs was coming to an end with the hope that more were ready to get in line. Though it may be too early

to determine if the window is truly open for VC-backed companies, these listings did illustrate some of the challenges that unicorns face if a listing is their next step. Current multiples are well below where many companies raised during 2020 and 2021. Both Instacart and Klaviyo listed at lower share prices than their previous VC investment despite

growing revenues and, in both cases, achieving profitability. Not only are companies that are going public facing an uncertain market future, as recession fears still exist, but also there will likely need to be a concession on pricing to make the jump.

Low public multiples damaging IPOs

TTM price-to-sales multiple for VC-Backed IPO Index



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Our VC-Backed IPO Index and DeSPAC Index highlight the challenges of an uncertain market for newly minted public companies. Each index has been down by 50% or more since the slowdown began in early 2022. This performance is well under that of large indexes. In a market where less-risky

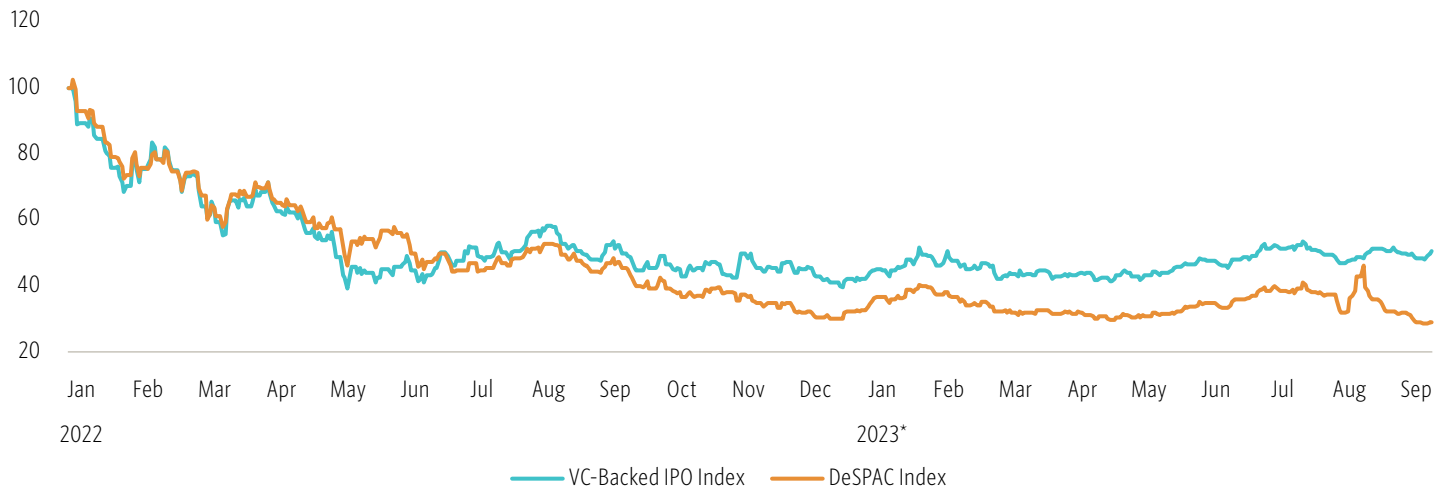
assets are receiving a premium, high-growth VC-backed companies have not been favored.

While our IPO backlog has somewhat plateaued in the past few quarters, the challenges facing VC-backed companies hoping for an exit remain and may

get more difficult as interest rates are likely to stay elevated for longer, public market multiples remain deeply compressed from their highs, and a potential government shutdown still looms over the market.

IPO index remains down 50% since January 2022

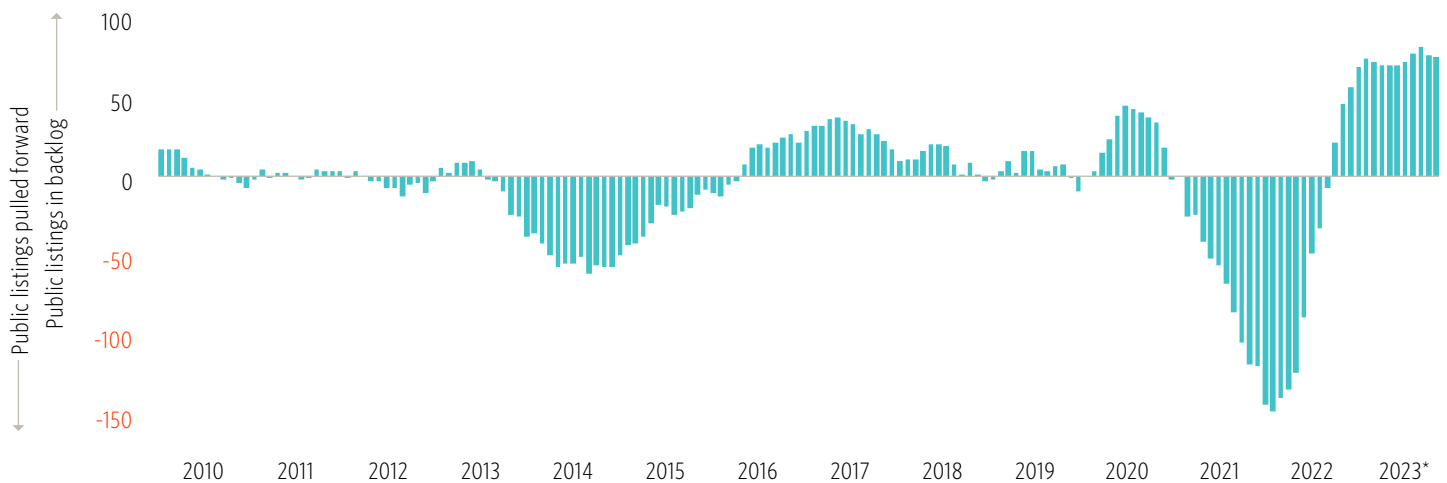
US VC IPO Index and DeSPAC Index rebased to 100



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Backlog could set stage for busy market

Monthly VC-backed public listing count versus estimated IPO



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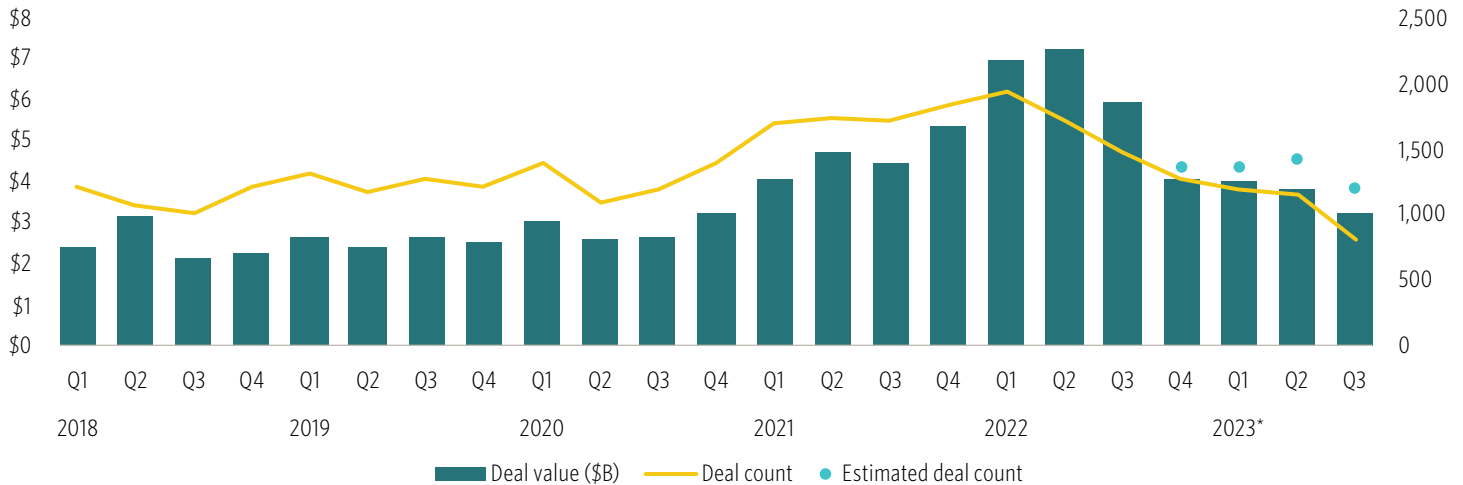
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Pre-seed and seed

Q1 pre-seed and seed activity slumps to a 12-quarter low

US pre-seed and seed deal activity by quarter



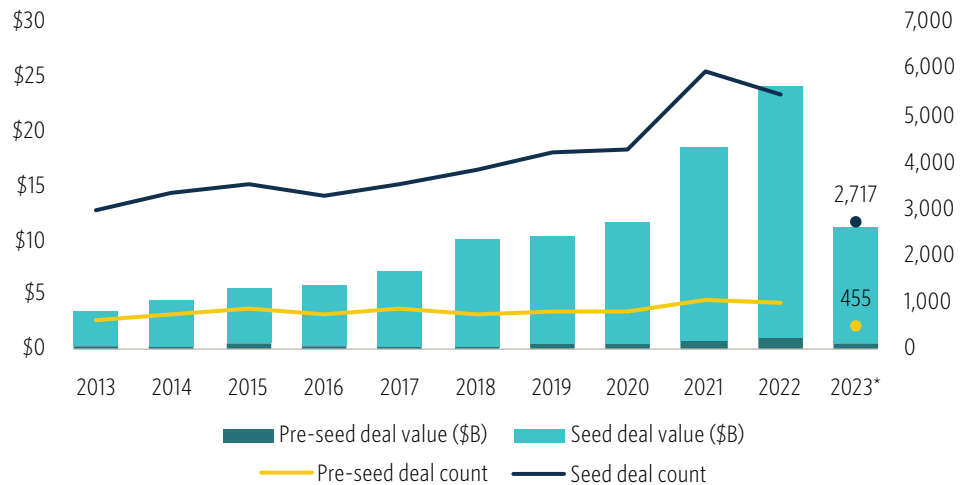
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In Q3, we launched a new [pre-seed methodology](#) that encompasses the venture market’s evolution at its most nascent stages. Pre-seed startups pose an even higher investment risk than those at seed because they are often pre-product and pre-revenue. Yet these startups present an attractive return profile for investors to deploy capital into. Investors can now leverage our newly launched methodology to more comprehensively, timely, and accurately evaluate pre-seed investment opportunities alongside the rest of PitchBook’s VC dataset.

Q3 deal activity in the pre-seed and seed stages continued its descent, with just \$3.2 billion invested across an estimated 1,214 deals. Both deal value and count have fallen to pre-pandemic levels in line with 2018. Despite the popular narrative touting the insulated nature of these stages due to their extended time to exit, the selection bar to receive investment is higher than ever. In an investor-favored dealmaking environment, VCs have

Seed deal count on pace to fall below pre-pandemic figures

US pre-seed and seed deal activity



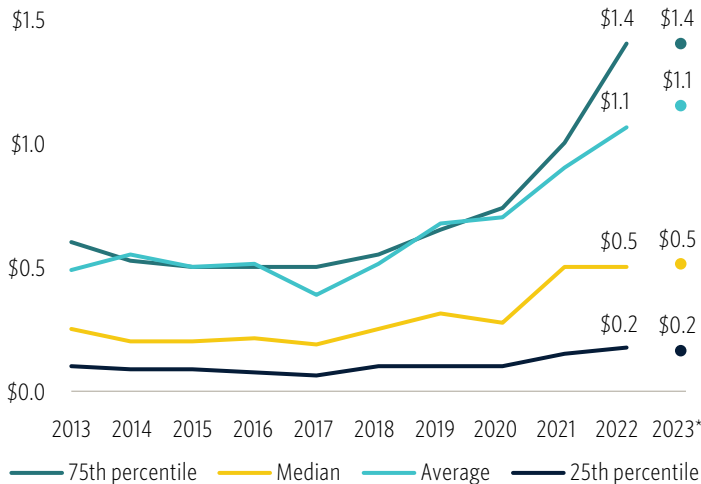
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slowed their pace of investment, which allows them to conduct more thorough due diligence and uncover red flags that may have previously been overlooked or missed during the scramble to access deals in 2021 and early 2022.

Despite the subdued investment pace, the median 2023 YTD pre-seed deal size and pre-money valuation held up against 2022, at \$0.5 million and \$5.7 million, respectively. The frequent absence of quantitative performance metrics for

Median pre-seed deal size held at par since 2021

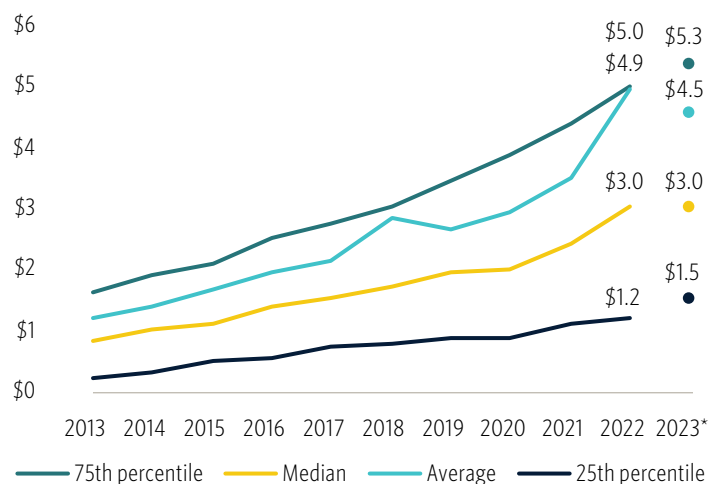
Range of US pre-seed deal values (\$M)



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Median seed deal size remains at record-high level

Range of US seed deal values (\$M)



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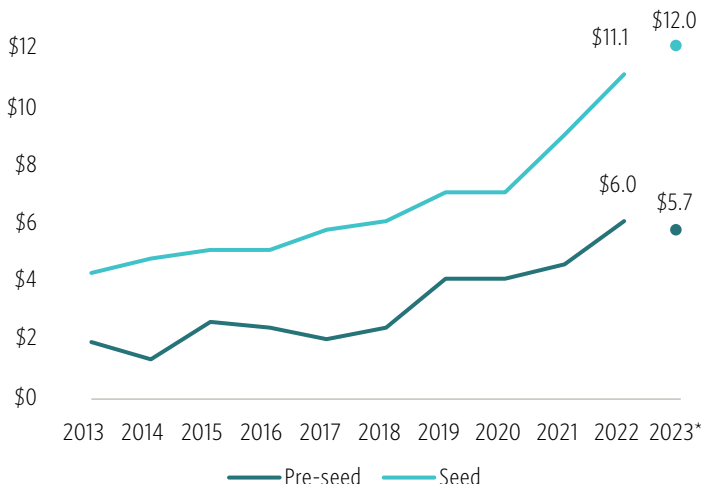
startups at this stage means investor due diligence focuses largely on qualitative aspects such as the founding team's composition, go-to-market strategy, and the total addressable market. Often, pre-seed startups have yet to validate their business idea, thereby creating more risk and potential upside variability.

Seed has similarly escaped the metric compression seen in later venture stages. Rising deal metrics across pre-seed and seed have created a situation wherein investors focusing on these stages have evidence to support holding assets at par value or even prescribing some uplift to their startups. For LPs receiving fund statements, this could suggest positive

interim fund performance and mask the difficult dealmaking environment awaiting portfolio companies in the early stage and beyond. Consequently, it may be difficult for LPs to discern which VCs are differentiated enough to thrive and produce strong returns through this downturn, a potential recession, and the tail end of their fund life.

Median seed valuations exceed 2022, but stagnate at top quartile

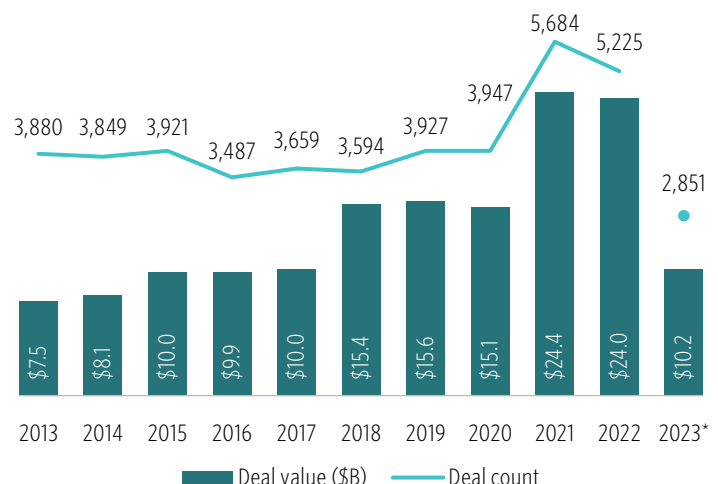
Median US pre-seed and seed pre-money valuations (\$M)



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First-financing deal value on pace to set a six-year low, below \$15.0 million

US first-time financing VC deal activity

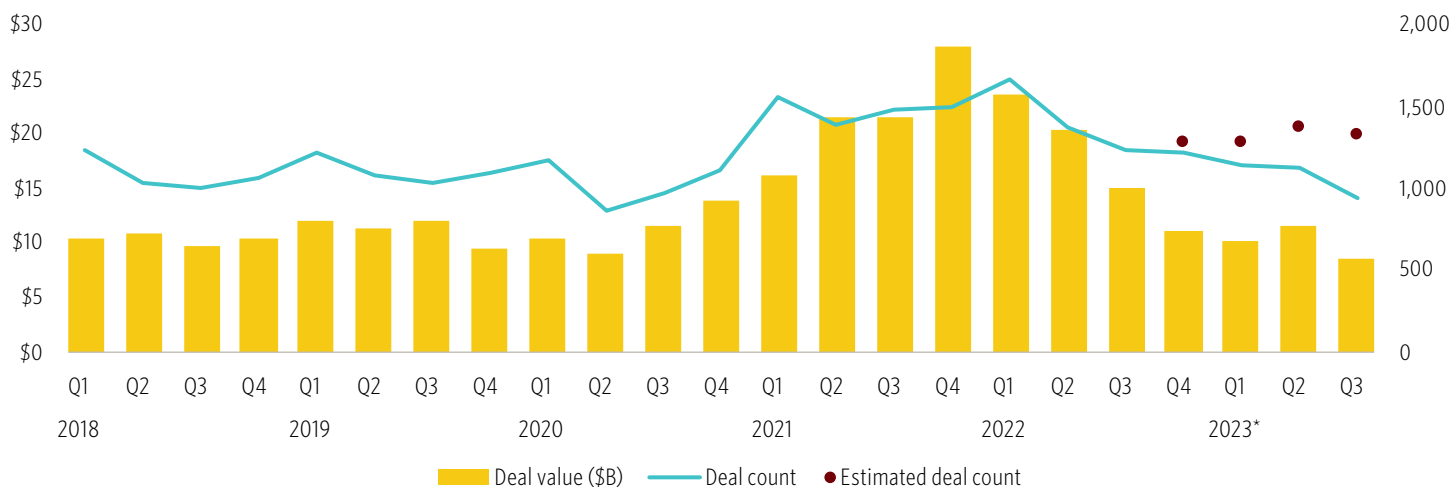


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Early-stage VC

Early-stage estimated quarterly deal count remains in line with long-term trend

US early-stage VC deal activity by quarter

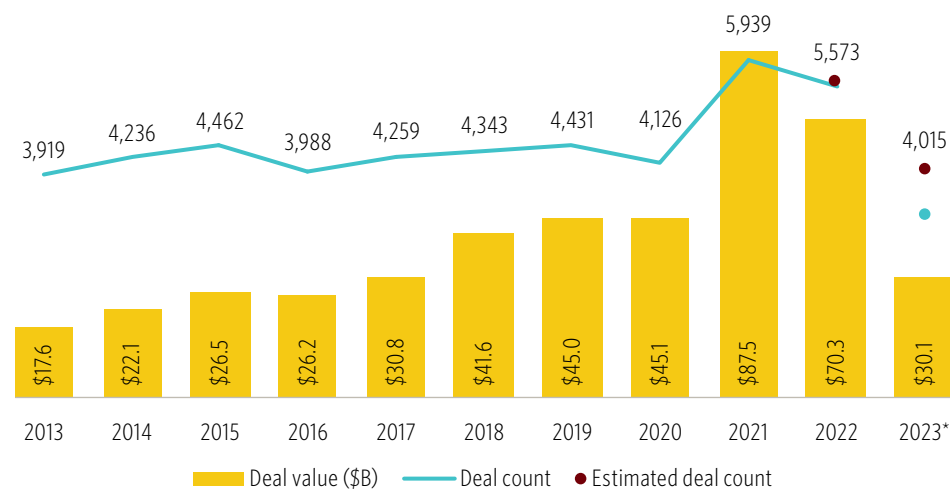


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For 2023 YTD, the early stage has seen just \$30.1 billion invested across an estimated 4,015 deals, with the annual deal value on pace to hit a six-year low. Raising capital as an early-stage startup nowadays is especially daunting because the company is tasked with taking its refined product and efficiently scaling revenues—frequently evaluated via annual recurring revenue (ARR). Amid the current market volatility, customers’ budgets have tightened, sales cycles have extended, and converting proofs of concept (POCs) or pilots to recurring revenue has become increasingly difficult. Additionally, many of these startups continue to combat the operational bloat stemming from the growth-at-all-costs mentality of recent years and look for avenues to extend cash runway, both of which could impede revenue targets. Hampered by the continued mismatch of founder and investor valuation expectations, more founders have opted to raise extension rounds, wherein investor ARR expectations are more pliable than when

Early-stage deal value on pace to set a five-year low

US early-stage VC deal activity



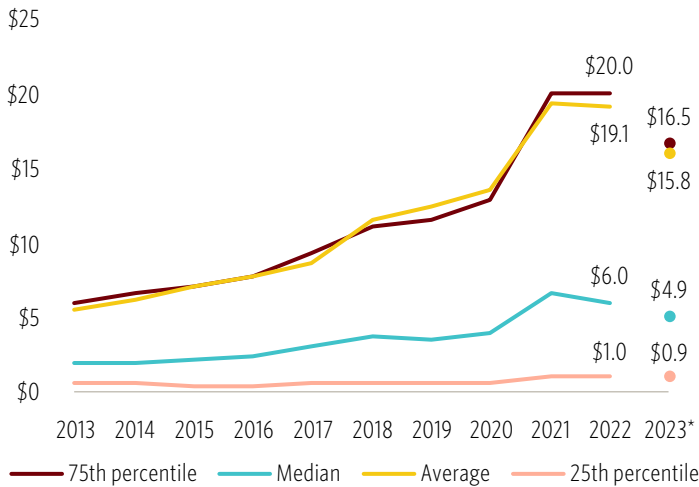
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stepping up to a formal Series A or B. As a result, of the \$121.9 billion deployed into VC through Q3, just 24.7% was invested in early-stage startups; this is considerably lower than prior decade’s (2013 to 2022’s) annual average of 29.9%.

Unsurprisingly, Q3’s deal activity dragged behind prior quarters. Just \$8.5 billion was invested across an estimated 1,341 deals—the lowest quarterly deal value figure since Q3 2017. Early-stage deal metrics sank alongside dealmaking

Median deal size is down 26.7% from 2021 record high, but remains above pre-pandemic figures

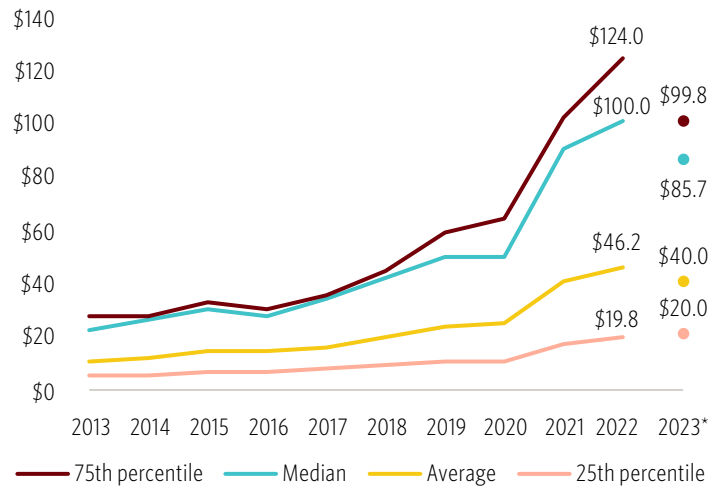
Range of US early-stage VC deal values (\$M)



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Median valuation reverts to 2021 figure

Range of US early-stage VC pre-money valuations (\$M)



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through Q3, with the median deal size landing at \$4.9 million, which is 26.7% below the 2021 record high median of \$6.6 million. With inklings of an improving exit environment, a cruel optimism has brewed, leading founders returning to market to raise smaller amounts of capital in hopes of conserving equity and a near-term market rebound in which they can raise at more favorable terms.

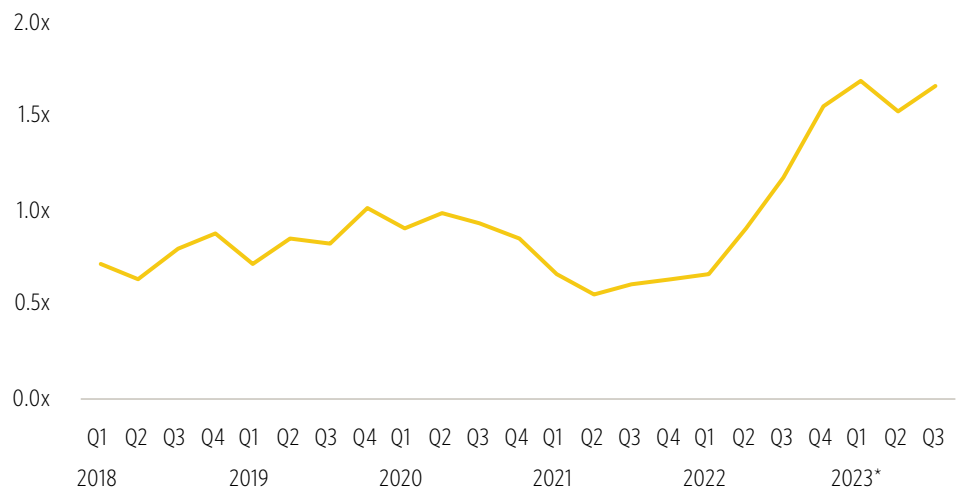
Yet questions remain: Have we hit the bottom? If not, how much longer until we do, and how far do we have to fall? Contrary to prevailing seed valuations, the median year-to-date early-stage pre-money valuation came in at \$40.0 million—a decrease of 13.4% from the 2022 median of \$46.2 million, but back in line with the 2021 median. While the early-stage median stands above

pre-pandemic figures, there is certainly room for the median to fall closer to \$25.0 million to \$30 million—consistent with the long-term trend. However, as

the variance between seed and early-stage valuations shrinks further, value creation between stages will continue to erode along with investor interest.

Q3 early-stage capital availability falls back to record lows, matching Q1

Capital-demand-to-supply ratio in the US early-stage VC marketplace



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A WORD FROM INSPERTY

Wondering how to choose a professional employer organization? Ask seven questions.

Choosing the right professional employer organization (PEO) for you and your portfolio companies (portcos) is a huge project.

As a co-employer, the PEO you choose will ultimately take responsibility for payroll processing, providing workers' compensation insurance coverage, an employee benefits package and a host of other sensitive human resources (HR) and administrative tasks.

A culture mismatch between your portfolio and your PEO, or partnering with a financially unstable PEO, can spell trouble for you and your portcos' employees.

To ensure the best fit possible between your company and this trusted partner, you'll need to conduct a thorough analysis of your potential PEO, digging deeper than just the PEO's Employer Services Assurance Corporation (ESAC) accreditation, if any, as well as the PEO's online reviews and financial statements.

To be a well-informed buyer, get answers to these seven due diligence questions specific to the PEO industry.

1. Are you a certified PEO?

The IRS has a voluntary certification program for PEOs. It's not a simple process to get certified by the IRS,¹ and not every PEO qualifies.

Here are some of the requirements for companies to be a certified PEO (CPEO):

- An independent audit of their financial statements.
- CPA-affirmed documentation that they remit employment taxes in a timely manner.
- Documentation that they have positive working capital.
- Background reports of their individuals responsible for employment tax payments.

For small business owners, there are several benefits to choosing a CPEO over a noncertified PEO, including:

- CPEOs are solely liable for the payment of federal employment taxes on wages it pays to worksite employees.
- In most cases, your business retains the ability to obtain certain tax credits when in a CPEO relationship.

2. What does your service agreement look like?

Not all PEOs offer the same set of HR services.

The PEO's client service agreement (CSA) sets out the terms and conditions of your relationship with the PEO.

It should specify what employer obligations the PEO is assuming as well as what employer obligations the client is retaining. Looking at the fine print of each PEO's client service agreement combined with your other due diligence will help you decide which PEO offers you:



Donna Hare
Sr. Business
Performance
Consultant

Donna JW Hare has more than 24 years' experience

in the professional employer organization (PEO) industry. For the past 21 years with Insperty, Donna has been a Sr. Business Performance Consultant advising C-level executives & HR leaders on strategies related to human capital and employment risk with a specialty in mergers and acquisitions, spinoffs and exit strategies.

- The best service
- The greatest value
- The type of expertise that your organization needs

When looking at the CSA, are the respective parties' responsibilities and liabilities clearly laid out? What provisions permit you or the PEO to terminate the contract?

If you come across any terms that are vague or problematic, ask your PEO representative for an explanation.

Also, ask if there are any service offerings that aren't specifically covered in their CSA. Some PEOs offer support in ways that aren't easily captured in a legal document, like elevating team performance or succession planning.

¹: The IRS does not endorse any particular certified professional employer organization. For more information on certified employer organizations, go to www.irs.gov.

3. How much should I expect my PEO service fee to increase each year?

To be sure the PEO can offer you long-term cost savings, find out, on average, how much the PEO's service fees have increased over the past few years.

The best-value PEOs can keep annual service fee increases down.

If you're getting low introductory pricing, asking this question can help you avoid surprise PEO cost increases later.

4. Tell us about your EPLI coverage

The goal in asking this question is to find out:

- If the PEO carries employment practices liability insurance (EPLI).
- What coverage your company would gain by joining this PEO.

This is important because EPLI can help protect small businesses from the financial consequences associated with a variety of employment-related lawsuits, such as wrongful termination or noncompliance with the Americans with Disabilities Act.

Many PEOs provide EPLI coverage that you may otherwise not have considered. Knowing how much coverage you're gaining (if any) can help you compare the level of risk management that you would get with one PEO versus another.

5. How will you take care of our portfolio companies?

It's important to make sure the PEO you're considering has experience working with venture capital firms and their portfolio companies.

A good PEO will be able to support fast-growing companies at any stage of

growth, anticipating needs and helping to mitigate risks as they scale.

When talking to your potential PEO, here are some more specific questions to ask:

- What are your recent statistics involving compliance and talent retention/turnover for your client companies?
- What can you do for my portcos on the recruiting front? Do you help with hiring C-suite talent for rapid growth?
- How does your HR technology infrastructure support rapid growth?
- How will you help us build a culture by design? Can you describe previous work with diversity, equity & inclusion (DEI) programs and employee culture surveys?

6. Can we meet the people who will be servicing our account?

Some PEOs are strictly web-based. Some charge extra to speak with a live representative, while others use call centers. In these cases, you may speak with a different person each time you need help.

Other providers offer fully staffed offices around the country. These PEO companies typically provide more person-to-person service and support. And if you join one with a nearby office, you may have opportunities to meet the PEO's service team in-person.

It's important to find a PEO that offers the appropriate level of support to suit your business' HR needs, so ask to meet the people who will be serving you.

You can also ask the PEOs you're considering for their "staff support ratio," or the number of the PEO's service team members to the total number of their client companies' employees. This can be a good metric to compare the level

of service you can expect from one PEO to another.

7. Can we speak with some of your clients?

A reputable PEO will be happy to share client references, preferably those in your industry or geographic area. Look into the types of companies PEOs serve. Is there a business on their list similar to your size and needs?

You can ask them questions about their experience with the PEO and the impact it's had on their business and employees.

You may also find case studies or video testimonials on a PEO's website and independent client reviews published elsewhere online. Just be sure to read online reviews critically—and even consider contacting the author for more information—if you're going to make a choice based on what they say.

At Insperity, we can answer each of these questions with confidence. We have a long history of helping businesses of any size or sector reach their goals. It's proven that having a PEO working alongside a company that desires to grow quickly is the best way to accelerate that growth and sidestep the many potential pitfalls that come with success.

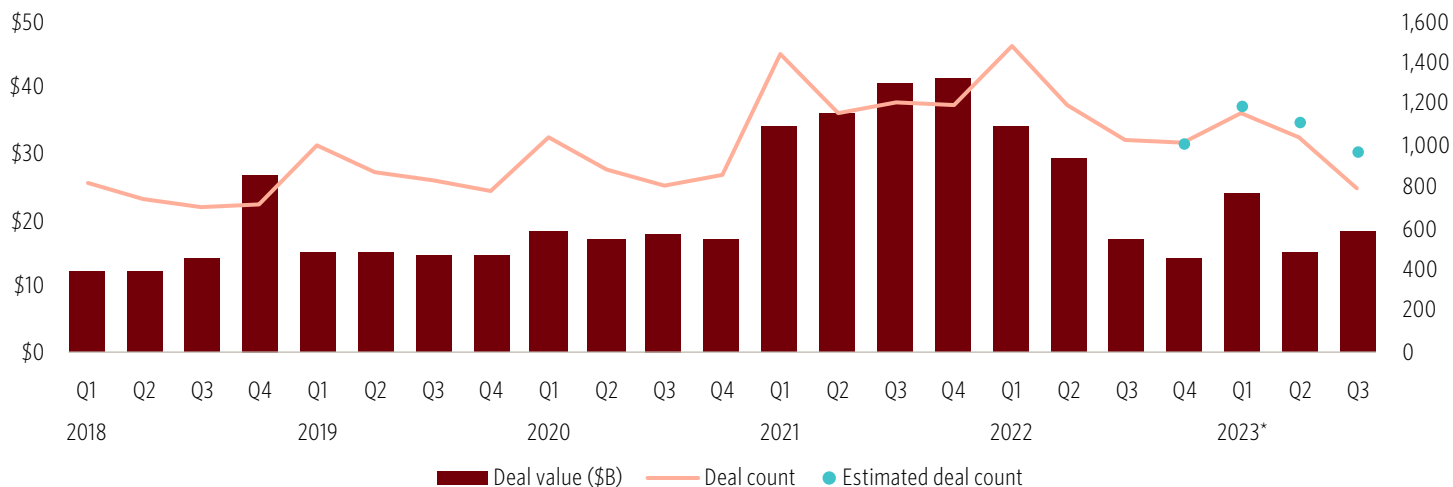
For more on bringing the benefits of a PEO to your VC firm and your partners, contact Randy Fisher, Insperity's Private Capital Development Director, at randy.fisher@insperity.com.

Insperity has helped thousands of startups by providing the HR infrastructure they need to gain the competitive advantage for talent and support their growth. Insperity believes startups are critical to the vitality of the American economy, and we're eager to work alongside up-and-coming companies that share that belief.

Late-stage VC

Q3 deal value and count continued to descend

US late-stage VC deal activity by quarter



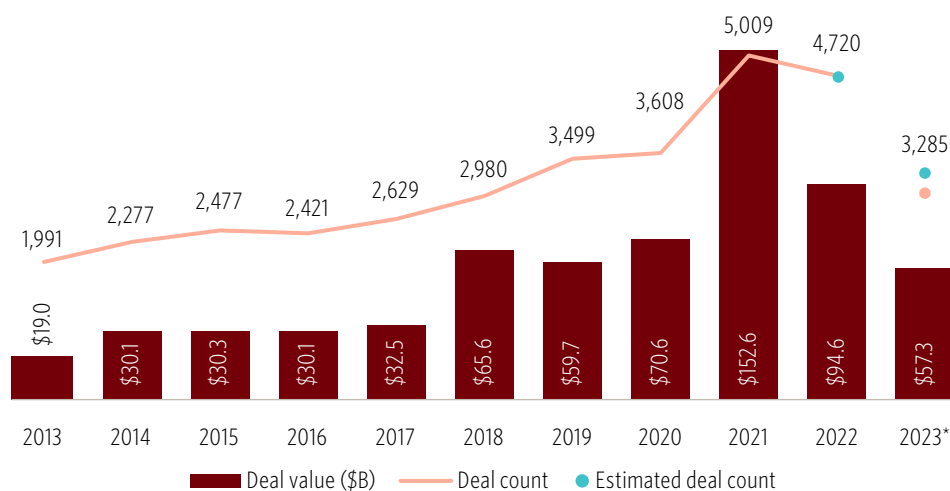
PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Q3 would have been a continuation of the descent in deal value had it not been for Anthropic’s \$4 billion deal with Amazon, though a single deal does not indicate a return to capital availability for the market. Consistent with H1, a flight to quality among investors has led to a dealmaking slowdown across the venture lifecycle. According to the [PitchBook VC Dealmaking Indicator](#), investor friendliness at the late stage has risen to the highest level in our dataset, attesting to severe challenges that mature startups have encountered with equity financing.

Many GPs have pushed off their next fundraise until at least 2024. This delayed timeline has led to a slowed pace of capital deployment. In the circumstance wherein GPs write a large check to a startup, the selection bar has risen, both as a de-risking mechanism and to ensure their investment decisions are justifiable from an LP lens. This capital shortage phenomenon is particularly acute in the later stages of

Annualized deal value on par with pre-pandemic level

US late-stage VC deal activity



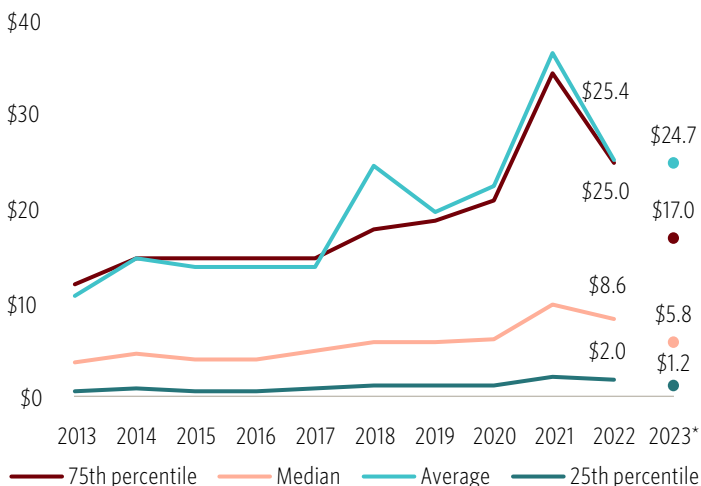
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VC, wherein mature startups that have not yet reached cash flow breakeven typically need significant cash infusion for business expansion. The number of megadeals (\$100 million+) at the late stage remained low during the past few quarters. Q3 observed 30 late-stage

megadeals, while the same quarter one year ago recorded 43. A lack of outsized rounds attests to the equity financing headwinds that late-stage startups face, many of which have opted for increasing business efficiency via cost-cutting measures such as layoffs.

YTD median deal size falling to 2019 level

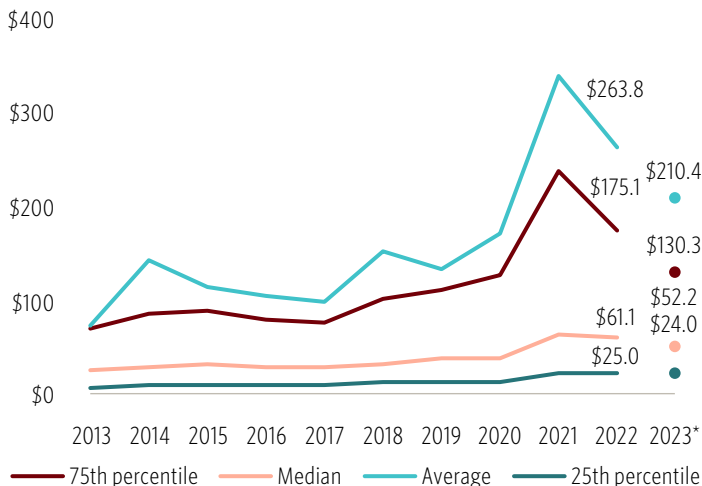
Range of US late-stage VC deal values (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

YTD median valuation falls below 2022 full-year figure

Range of US late-stage VC pre-money valuations (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

According to PitchBook’s [Q3 2023 Quantitative Perspectives](#), the 2022 to 2023 YTD price-to-sales (P/S) multiple for the VC-backed IPO Index sits at 5.0x—a sharp decline from the 2020 to 2021 median of 13.0x. Compressed public market multiples have made it more difficult for late-stage companies to go through a public listing. Anecdotally, more late-stage startups are exploring acquisition opportunities as a potential alternative means of exiting, as the IPO market has yet to meaningfully show signs of restored vitality.

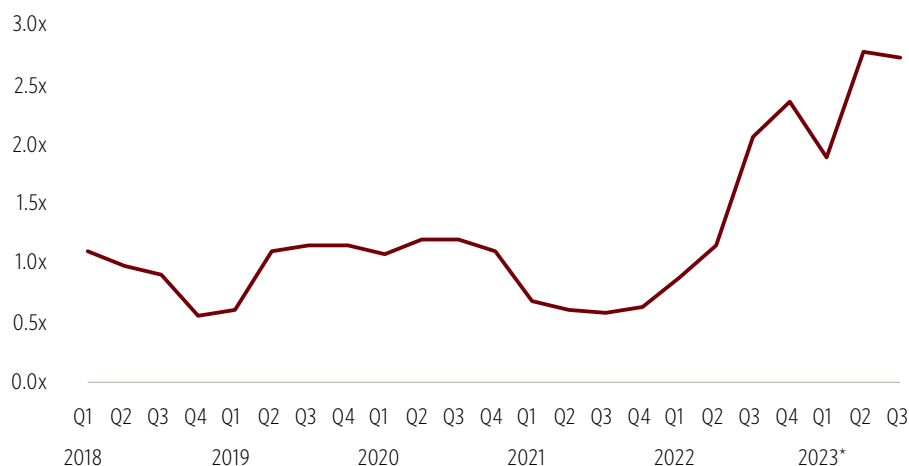
Historically, high-quality companies with a strong talent base and a competitive edge have found success fundraising irrespective of the macro climate. The same holds true for the current environment. On the other hand, mediocre companies that are unable to hit milestones or demonstrate progression toward a path to profitability will encounter major hurdles for future financing events. Many late-stage startups loaded up their balance sheets

by raising outsized rounds during the frothy times of 2021 and early 2022, and have subsequently delayed their next fundraises; however, reducing cash burn cannot sustain a business indefinitely. Toward the end of 2023 or early 2024, some of these startups that previously

raised at elevated valuation levels will need to return to the market. Should the lackluster dealmaking momentum continue, more late-stage startups will likely seek creative ways of financing, risk taking a down round, or, for the underperforming ones, potentially fold.

Late-stage capital demand sitting at 2.7x available supply

Capital-demand-to-supply ratio in the US late-stage VC marketplace

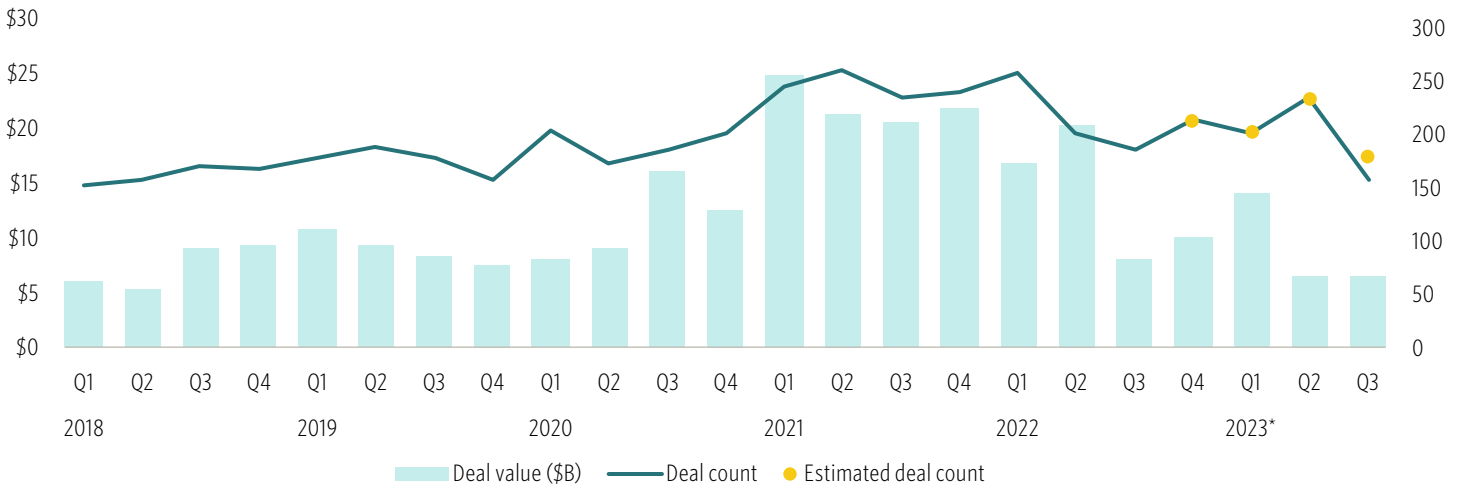


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*As of September 30, 2023

Venture growth

Venture-growth deal count witnesses notable decline in Q3

US venture-growth deal activity by quarter



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

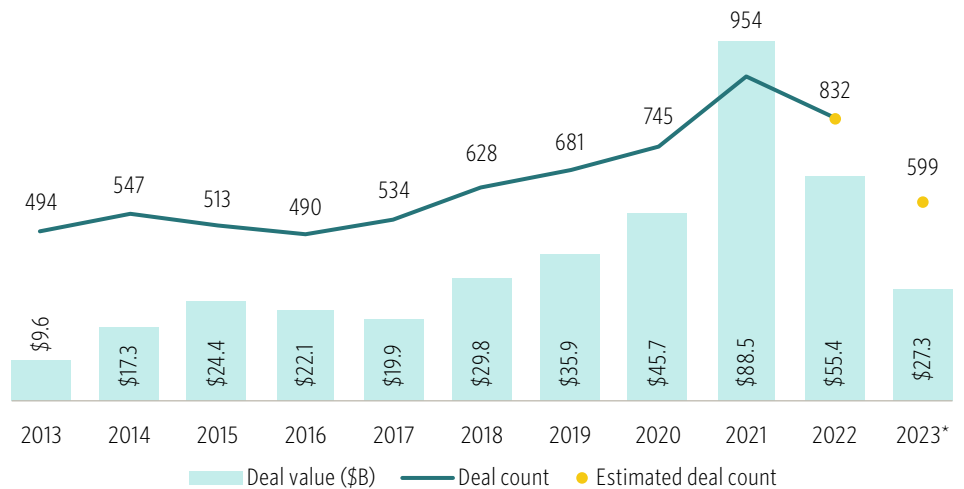
Through the third quarter of 2023, venture-growth-stage startups have encountered several challenges, marked by a dearth of exit activities and a pronounced downturn in valuations.

In Q3, this stage recorded \$6.6 billion in total deal value—roughly flat compared to Q2 and a 53.0% decline from Q1. Arguably more noteworthy was the substantial decline in the number of venture-growth deals in Q3, with an estimated 175 completed deals—down from 228 in Q2—representing the lowest quarterly deal count in nearly 14 quarters. As our data reveals, not only are there fewer venture-growth deals being completed, but smaller checks are being written as well. Thus far into the year, the median annual deal size for venture-growth startups sits at \$11.4 billion, which is nearly one-third of the \$31.0 billion median observed in 2021 and the lowest median deal size since 2016.

The convergence of fewer, smaller deal sizes illustrates both reduced capital

\$27.3 billion invested in venture-growth deals through 2023

US venture-growth deal activity



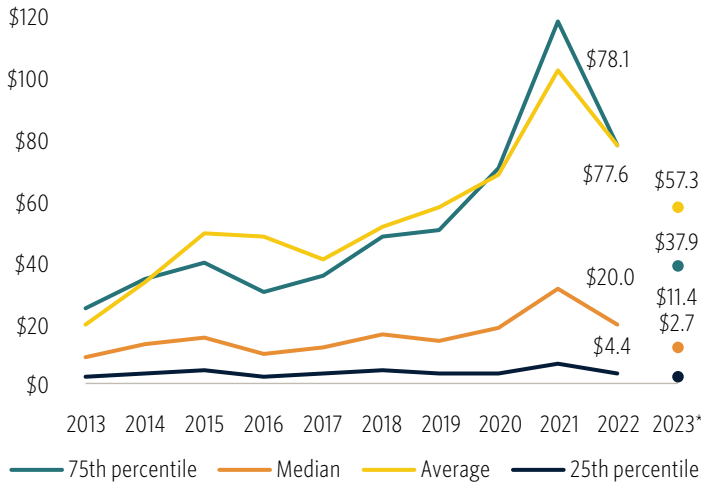
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*As of September 30, 2023

availability and a discernible shift in investor sentiment. This shift is further evidenced by a continued decline in valuations; the median pre-money valuation for venture-growth-stage startups in 2023 stands at \$129.8

million—a five-year low and a 52.8% drop from 2022. In the current high-interest-rate environment, investor sentiment continues to shift toward prioritizing profitability and robust financial metrics over a relentless

2023 YTD median deal size falls to seven-year low

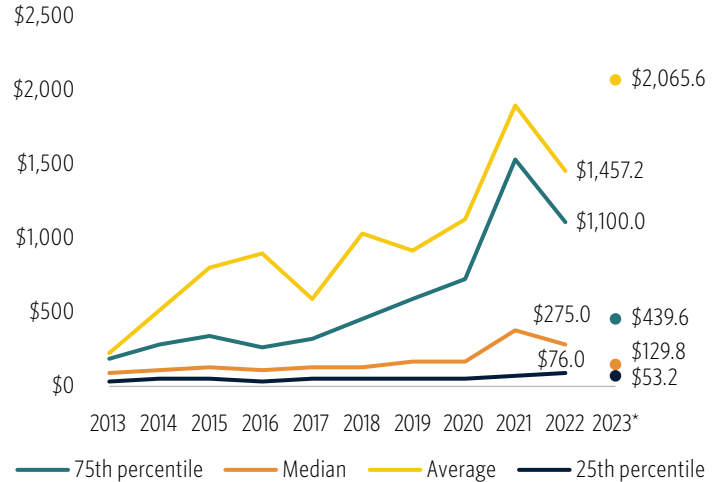
Range of venture-growth deal values (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

2023 YTD median pre-money valuation less than half of 2022 figure

Range of venture-growth pre-money valuations (\$M)



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pursuit of growth at all costs among venture-growth-stage startups. As the prevailing risk-reward dynamic continues to favor alternative investment instruments, investors are increasingly recognizing the value in startups that can demonstrate a clear path to profitability and a focus on long-term financial health to mitigate failure risk.

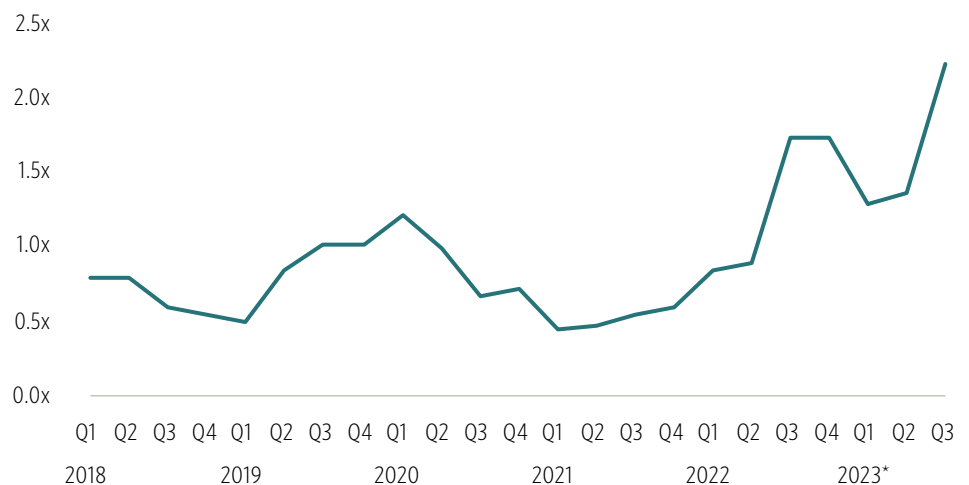
Beyond a growing preference for profitability, which many startups are unable to demonstrate, the lack of exit opportunities for these mature enterprises has restricted the return potential for existing and potential investors, leading many to slow their pace of new and follow-on commitments. This has subsequently led to a disparity between the amount of capital being demanded by startups and the amount of capital able to be supplied by investors. PitchBook's [Dealmaking Indicator](#) reveals a capital-demand-to-supply ratio of 2.2x for venture-growth-stage startups as of Q3, the highest ratio within our dataset.

Looking forward, the future of many venture-growth startups hangs in limbo. Many startups that raised financing rounds at the height of 2021 now find themselves trapped in a much harsher fundraising environment when subsequently seeking follow-on rounds.

Cash runways can only last so long, and staying private is a privilege. Assuming the lackluster exit environment and current trends persist, we are likely to see a large wave of down rounds and shutdowns in coming quarters.

Demand-supply ratio increases to 2.2x, its highest level in over a decade

Capital-demand-to-supply ratio in the US venture-growth marketplace



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

A WORD FROM J.P. MORGAN

Our views on venture

“While there are a few pockets of optimism within venture, the dust has not totally settled for much of the ecosystem. Given the more discerning environment, many startups that were backed in 2021 are unlikely to get the same warm reception when they next need to raise. Of course, it is encouraging to see the green shoots, but a little premature to say we are through the worst of it.”

—John China, Co-Head of Innovation Economy, Commercial Banking

The US economy has performed better than expected in 2023, but risks are elevated heading into 2024

Macroeconomic conditions have developed more favorably than we thought three to six months ago. Resilient consumer spending, stabilizing business sentiment, and ongoing fiscal support have all contributed. Recession forecasts have been pushed out, and inflation continues to moderate while labor markets remain tight. Within the venture ecosystem, we have seen labor markets settle after turbulence earlier this year. Although the technology sector leads all industries in layoffs over the past nine months, the pace of monthly job cuts has declined nearly 90% from the spring.

Looking ahead, economic and financial market risks are elevated given the significant amount of monetary tightening that has occurred over the past 18 months. Even if the Federal Reserve is done hiking rates this cycle, we do not expect to see rate cuts until the latter part of 2024. Meanwhile, the Fed’s balance sheet runoff program—also known as quantitative tightening—

is ongoing at around \$1 trillion per year, effectively removing that amount of liquidity from the economy.

The effects of higher interest rates and tighter credit are still playing out. While the volatile conditions of March have faded, regional banks are slowing loan growth, which will subdue economic activity in certain sectors over the coming quarters. Plus, consumers’ dwindling excess savings and the resumption of student loan payments are headwinds to spending.

The outlook is also clouded by a greater-than-normal degree of unpredictability around global trade, commodities markets, and national security stemming from the ongoing Russia-Ukraine war and US-China trade tensions.

Given elevated uncertainties around the macro economy and financial markets, it remains crucial for founders to plan ahead and be ready to raise capital when a window of opportunity presents itself. If a company’s cash runway is within 18 to 24 months, the time to start thinking about a private raise is now. While it might be tempting for founders to wait for a better deal down the road, taking decisive action sooner is often the better path.

With the recent uptick in IPO activity, there are glimmers of optimism for venture markets

Although a broader reopening of IPO markets could still be months away, recent activity is encouraging if you are a late-stage company or VC with



Ginger Chambless
Head of Research,
Commercial Banking

Ginger Chambless is a Managing Director and Head of Research for

JPMorgan Chase Commercial Banking. In this role, she produces curated thought leadership content for commercial banking clients and internal teams. Her content focuses on economic and market insights, industry trends, and the capital markets.

Additional contributors:

Pamela Aldsworth
Head of Venture Capital Coverage

Andy Kelly
Managing Director, Venture Capital Coverage

portfolio companies in the pipeline. Aside from the general pick-up in volumes, there will be a lot of focus on pricing outcomes and subsequent trading performance for this cohort, as well as the ability to deliver on earnings expectations out of the gate. If all goes well, and the broader macro and markets backdrop remains supportive, we expect a bigger reopening in 2024.

Even though the window may open wider in 2024, we expect the bar to remain high. Investors are likely to maintain discipline around IPO participation, focusing on high-quality, profitable companies with proven business models and reasonable valuations. Historically speaking, a vibrant IPO market has seen 90 to 100 venture-backed listings in a year.

It is hard to say whether we will see those numbers in the next year or if listings will build more gradually. Regardless, with the IPO backlog sitting at unprecedented levels, there could be a competitive rush for the exits.

In the meantime, my colleague Carly Roddy, Head of West Coast Private Capital Markets, notes that we have seen active markets for secondary transactions and priced equity rounds for late-stage companies. On the back of green shoots in the IPO markets, there is an increased dialogue for issuers going to market with pre-IPO capital raises, which can serve as a branding event ahead of an IPO, to transition the cap table to long-term holders and provide liquidity to shareholders and employees. The market tone has improved, supporting more opportunistic issuances by companies as opposed to the “need to raise” mentality that has prevailed over the past 18 months. Crossover and public-style investors are beginning to return to the private markets, while growth equity and private equity investors remain engaged, with record dry powder to put to work.

Some early-stage companies still see the convertible note as a helpful tool to bridge to the next financing round. According to Aumni, a J.P. Morgan company that pulls anonymized data from tens of thousands of closing documents to provide market insights, valuation caps have trended up recently. A higher valuation cap is generally considered more favorable to founders because when the note converts into equity, there is less dilution to existing shareholders.

Following a steep drop from Q2 2022 to Q4 2022, valuation caps appear to be stabilizing in line with historical ranges.

Startups are looking to banking partners for treasury management, venture lending, and networks

According to Ashraf Hebela, Head of Startup Banking, it seems as if founders have spent more time on treasury and cash management best practices in the six months following Silicon Valley Bank’s collapse than in the prior 10 years combined. While decisive actions taken by the Fed, Treasury, and FDIC have tempered the pace of deposit flight in recent months, the lens through which startups and VCs evaluate banking partners may have permanently shifted. Access to and safety of funds are no longer taken for granted, while earning a competitive yield on excess cash and a simplified onboarding experience remain important. More consideration is being given to longer-term treasury management because as a company grows and scales, treasury needs become more complex.

Venture lending is another area in which startups and VCs are seeking clarity given the shifting lender landscape. While activity in venture lending has slowed due to subdued venture activity overall, the top end of the market is starting to pick up.

Startups are increasingly looking to their banking partners for insights and networks. It is important for founders to leverage data analytics and sector insights to navigate dynamic market conditions and make informed

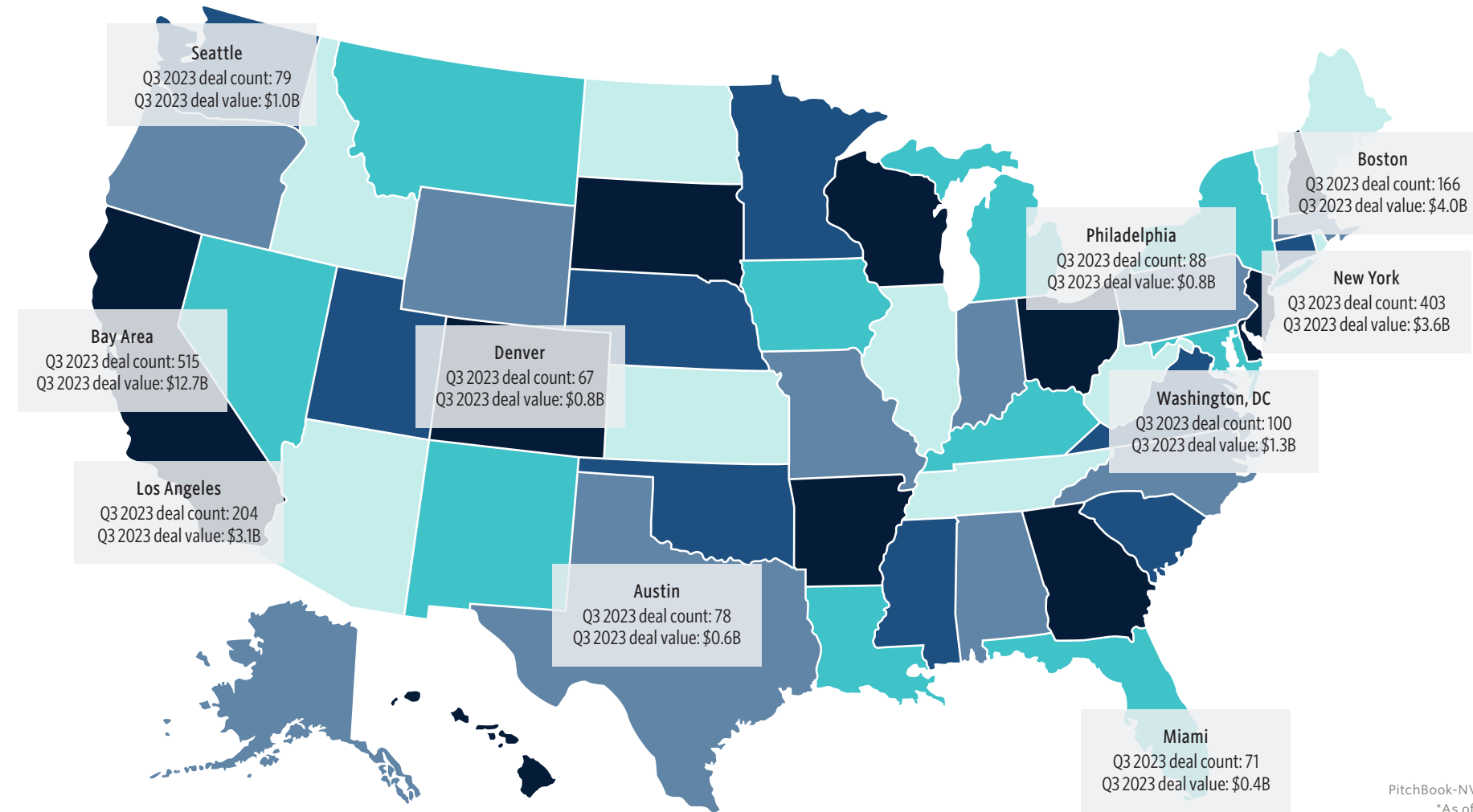
decisions about how much capital to raise and at what valuation and terms. Access to investor networks such as those we have available through J.P. Morgan’s Capital Connect platform can create opportunities for capital raising, while introductions to much larger companies that could become customers or offer operating expertise can provide a competitive edge.

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Regional spotlight

Bay Area deal activity witnesses continued slowdown

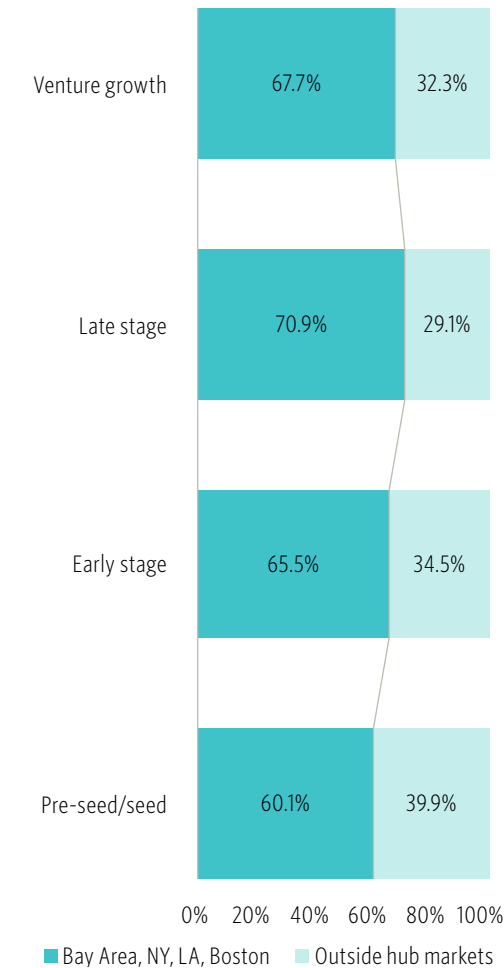
Q3 VC deal activity by ecosystem*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Deal value remains concentrated in major hubs

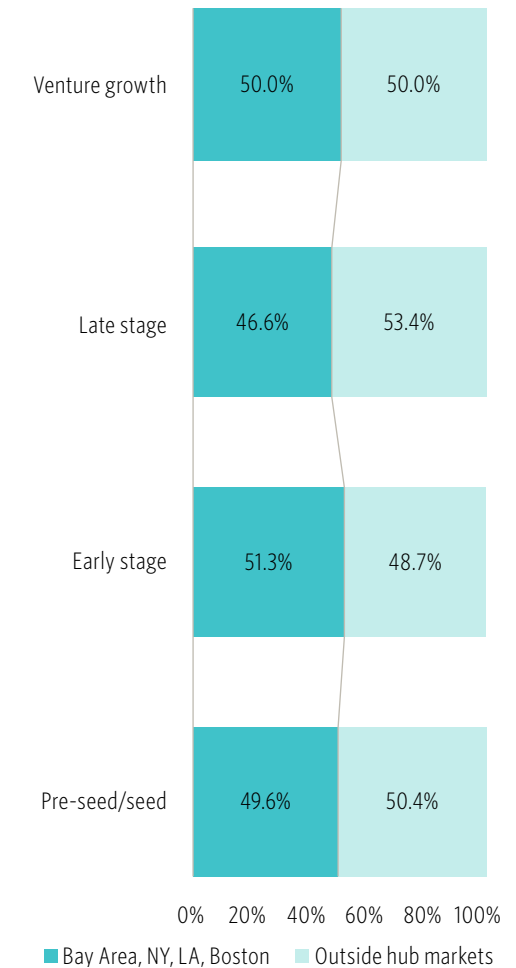
Share of VC deal value by market breakout*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Proportion of deal counts is nearly equal

Share of VC deal count by market breakout*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023



Los Angeles

Los Angeles has seen its deal count activity slip back toward 2020 levels, pacing for the largest drop YoY in deal count among the top 10 markets. This has a lot to do with the growth that the market realized through the height of VC—a 41.1% YoY increase from 2020 to 2021.



Boston

Boston still securely sits as the fourth-most-active market. However, the difference between Boston and the next-most-active ecosystem, Philadelphia, is considerably smaller than it was a few years ago. Boston still commands high prices and has seen strong fundraising over the past few years, bolstering it as a desirable market for VC.



Austin

Austin will likely reach 400 completed deals for the third consecutive year in 2023. That figure would be just a 20% decline from the 2021 high, making Austin one of the more resolute VC ecosystems of the major markets. Fundraising for Austin-based firms has been slow, with just nine funds closing in 2023; 35 or more closed during each of the past two years.

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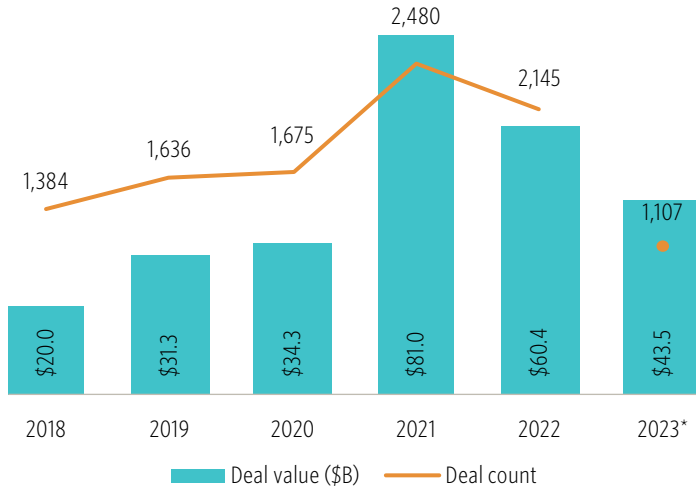
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DEALS BY SECTOR

Enterprise SaaS

2023 deal value approaching 2022 levels, while deal count lags

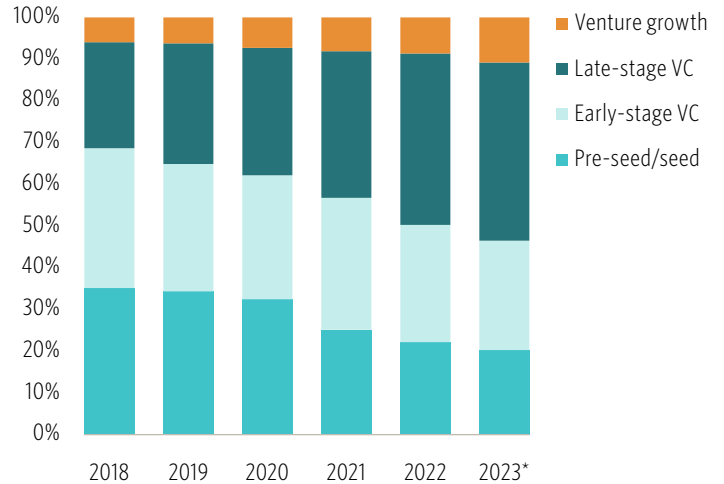
US enterprise SaaS VC deal activity



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Late stage continuing to grow YoY, early stage and pre-seed fall in proportion

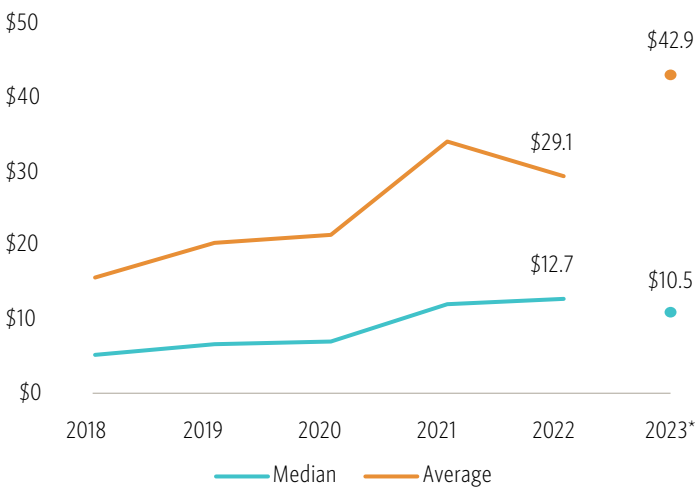
Share of US enterprise SaaS VC deal count by stage



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Average increase buoyed by singular megadeals, while median decreases

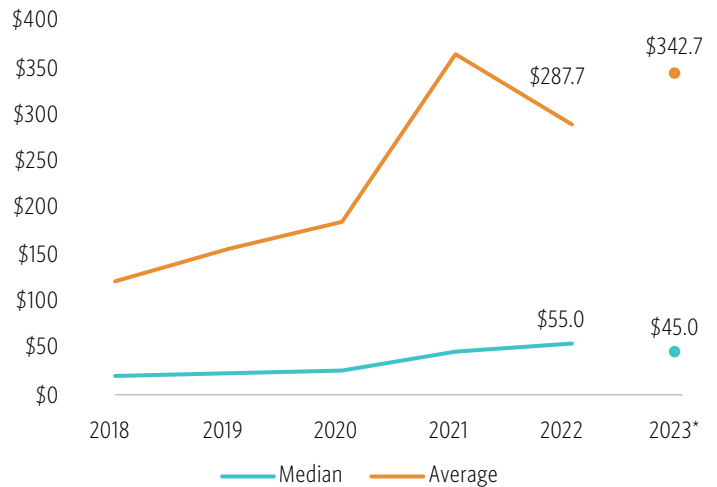
Median and average US enterprise SaaS VC deal values (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

2023 figures nearly match 2021 records

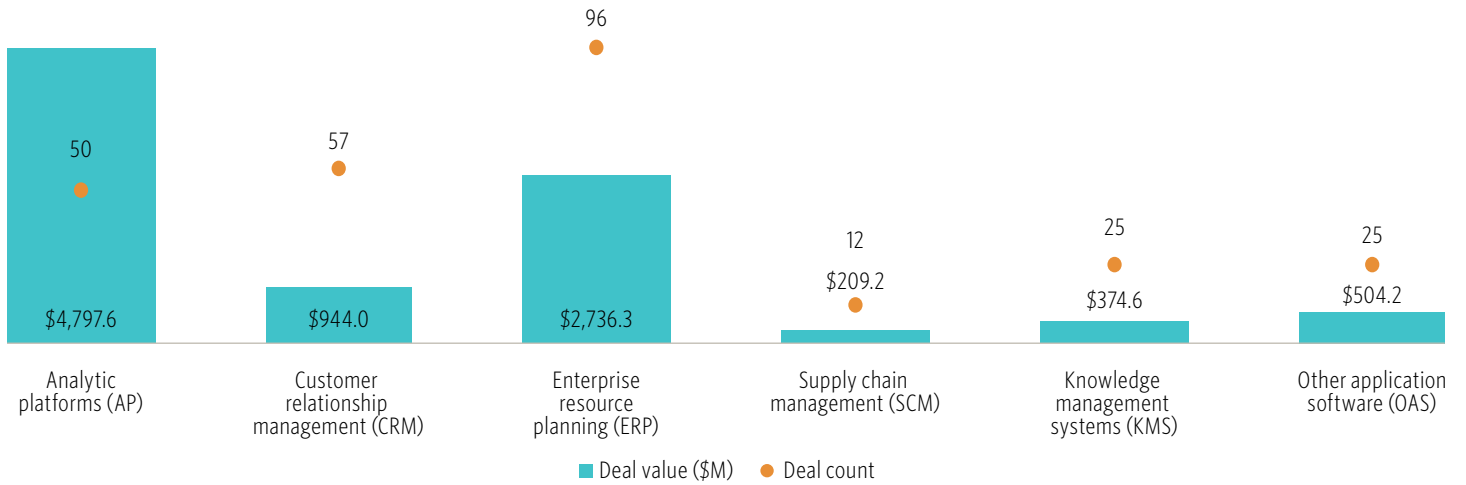
Median and average US enterprise SaaS VC pre-money valuations (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

AP supported by megadeals, followed by traditional leaders ERP and CRM

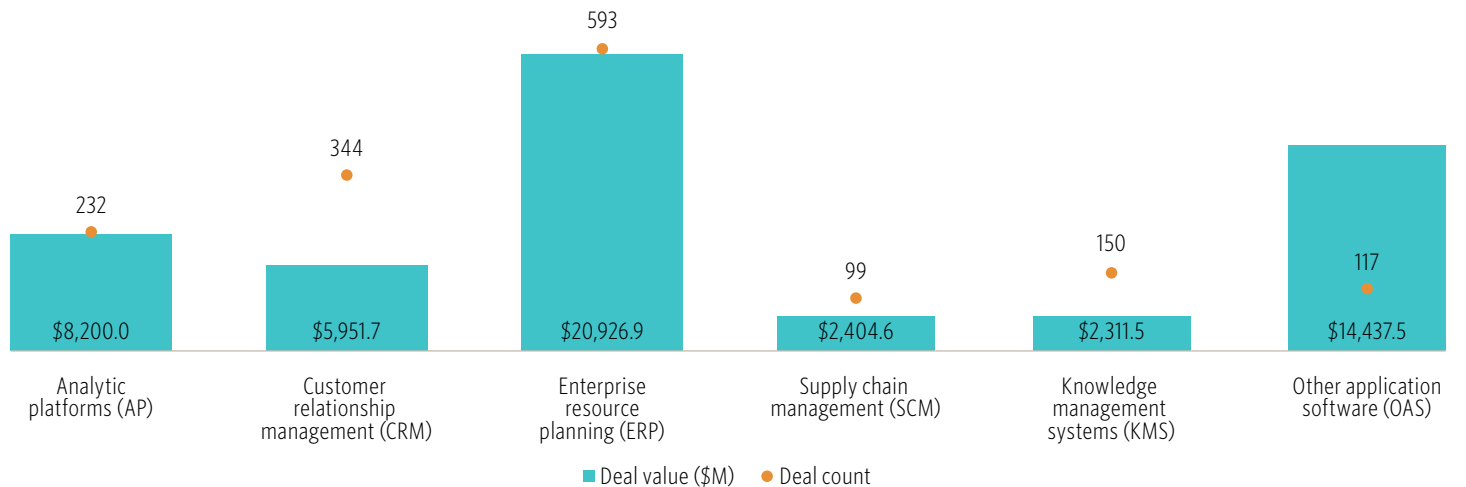
Q3 2023 US enterprise SaaS VC deal activity by segment*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Other application software deal value lifted by OpenAI megadeal in Q1 2023

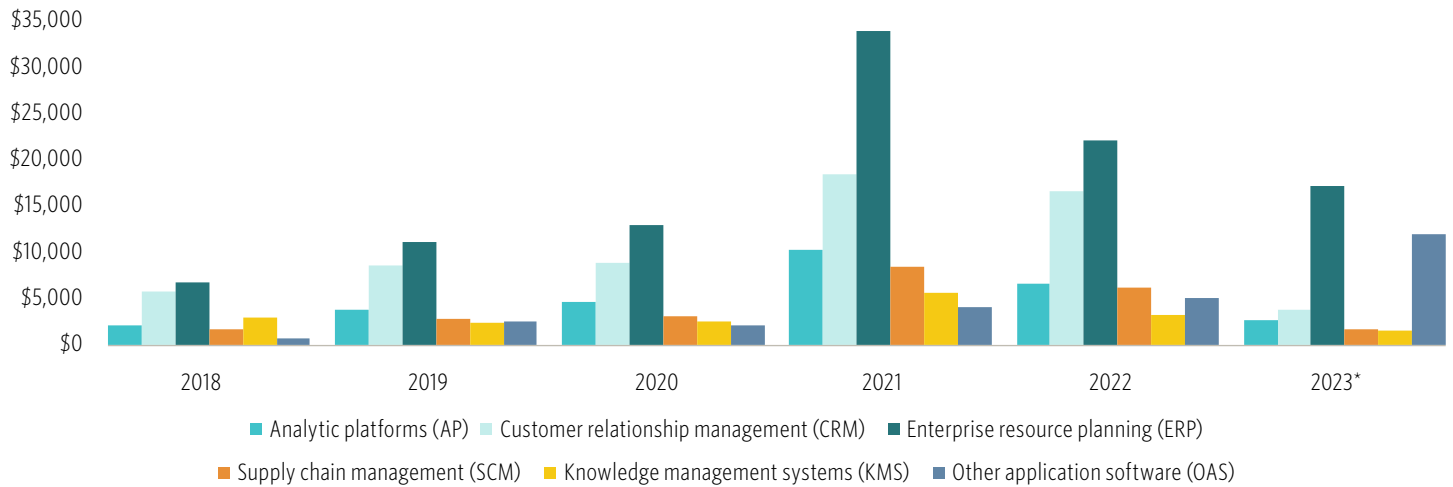
TTM US enterprise SaaS VC deal activity by segment*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

ERP deal value shows continued resilience, while CRM has fallen precipitously YTD

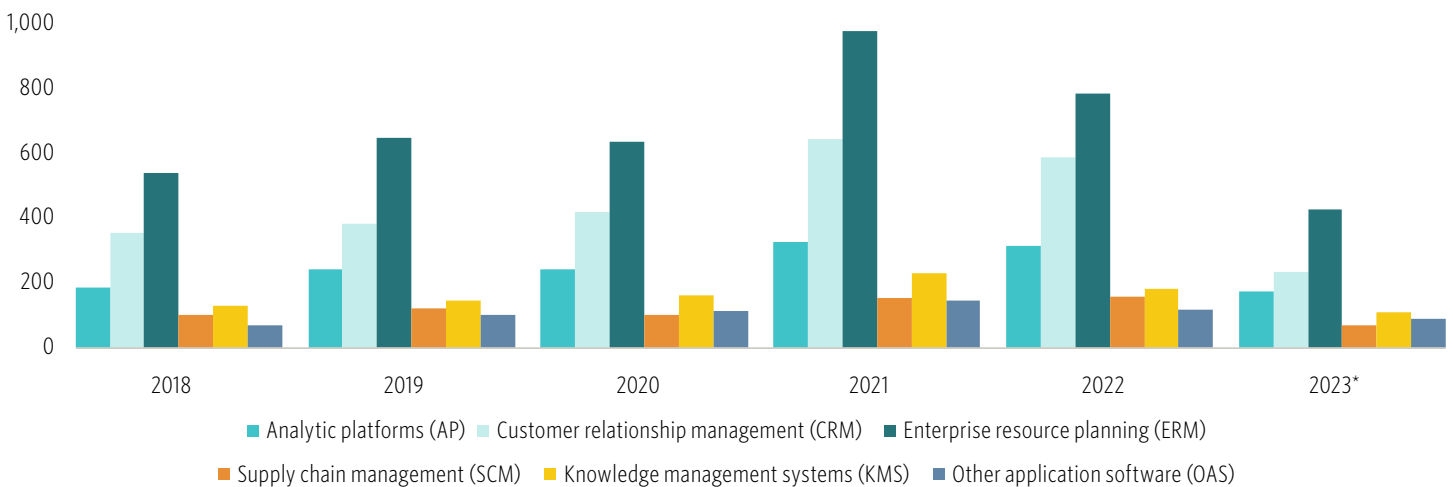
US enterprise SaaS VC deal value (\$M) by segment



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Deal count smooths out megadeals, revealing continued focus in ERP, CRM, and AP

US enterprise SaaS VC deal count by segment



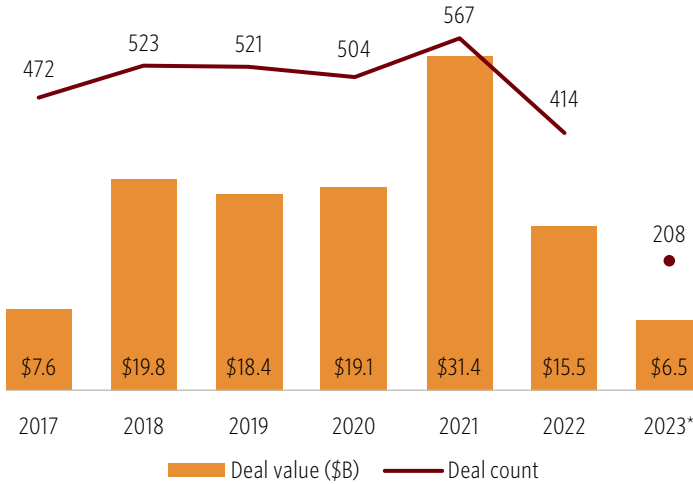
PitchBook-NVCA Venture Monitor
*As of September 30, 2023

DEALS BY SECTOR

Mobility tech

Deal value and count remain well below levels of recent years

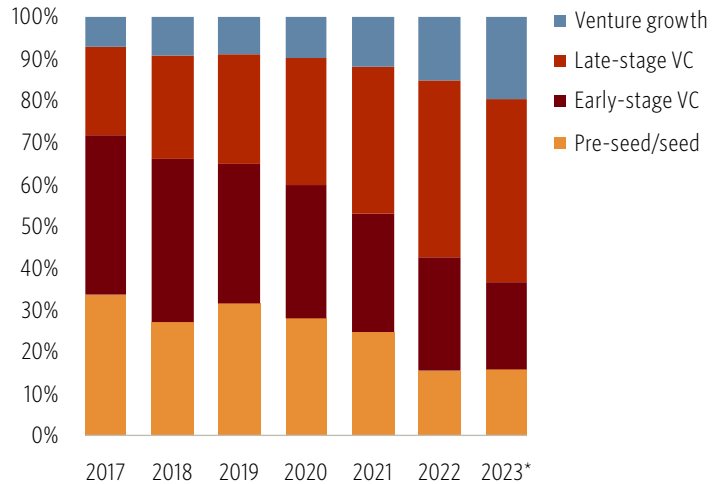
US mobility tech VC deal activity



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Venture growth and late-stage VC continue taking larger share of deals

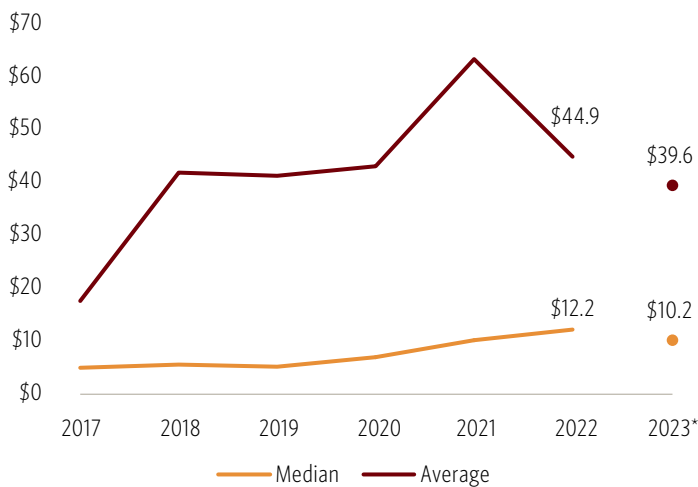
Share of US mobility tech VC deals count by stage



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Average and median deal values remain muted

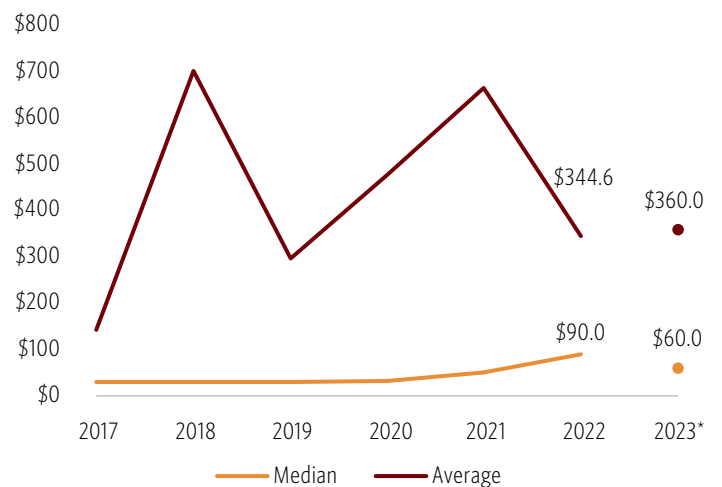
Median and average US mobility tech VC deal values (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Average remains flat, while median slips

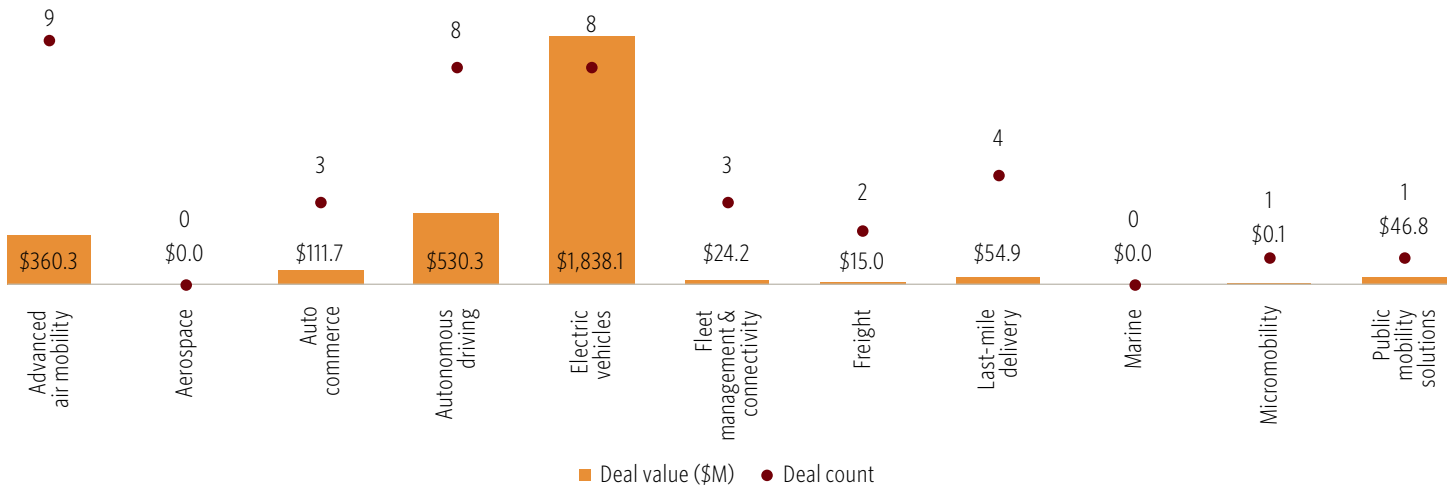
Median and average US mobility tech VC pre-money valuations (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Investment in electric vehicle (EV) segment continues to dominate in Q3

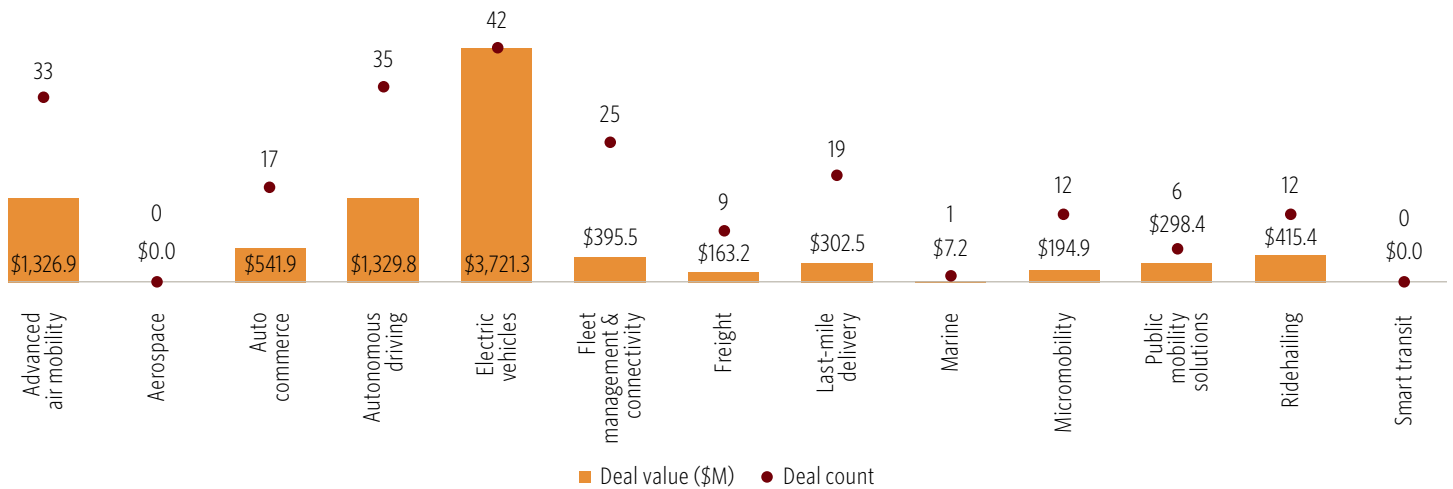
Q3 2023 US mobility tech VC deal activity by segment*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Investment in EV segment garners lion's share of value for TTM

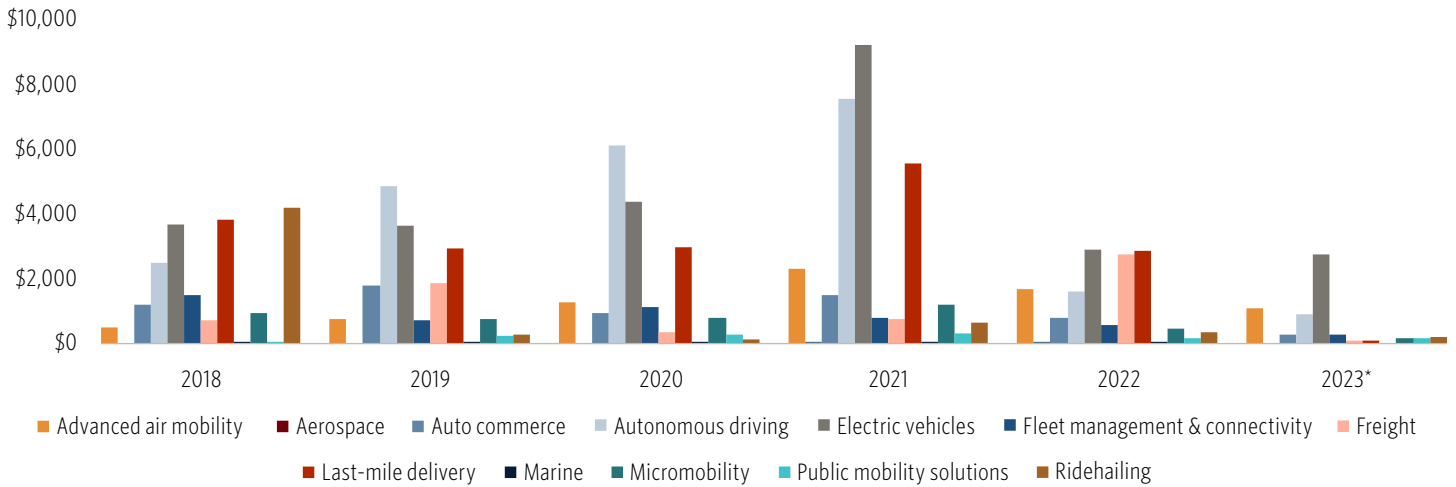
TTM mobility tech VC deal activity by segment*



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

EV deal value dominates in 2023 as autonomous driving, freight, and last-mile fall off

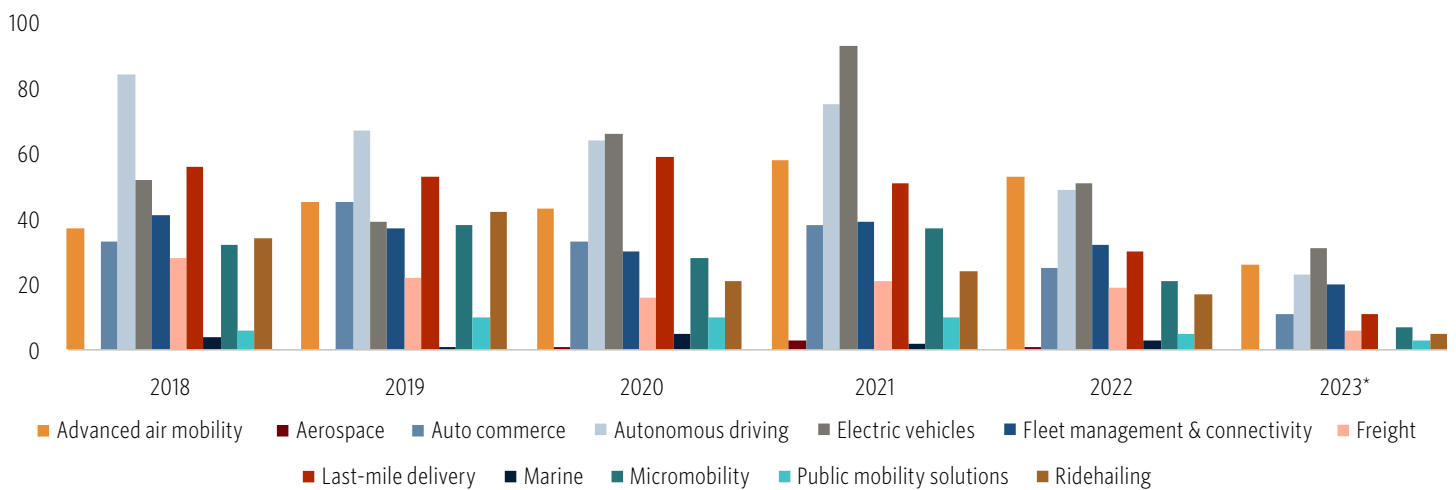
US mobility tech VC deal value (\$M) by segment



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Deal count for 2023 more broadly distributed across sectors, with EVs leading

US mobility tech VC deal count by segment

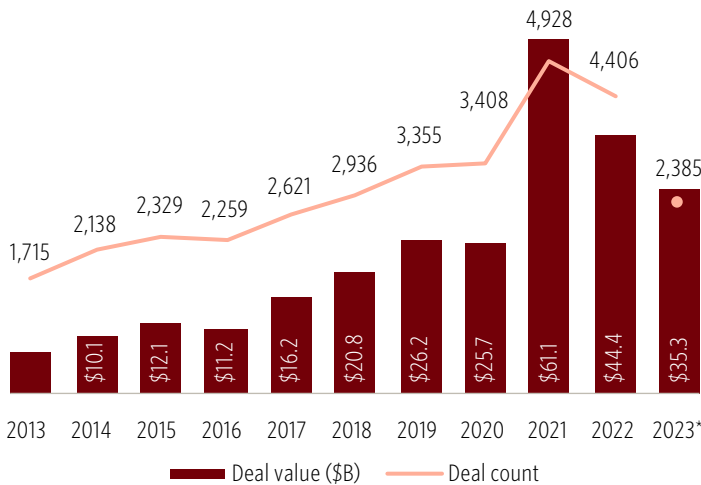


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*As of September 30, 2023

Female founders

Investment in female founders struggles to keep pace with 2022

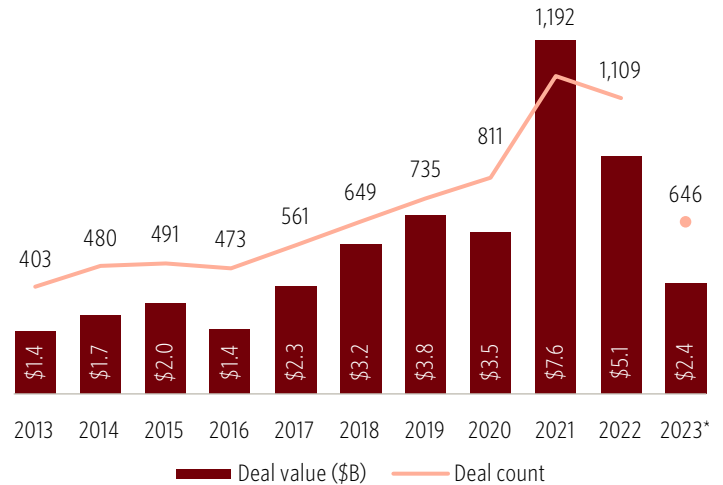
US VC deal activity in companies with at least one female founder



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

All-female-founded companies finding difficult market

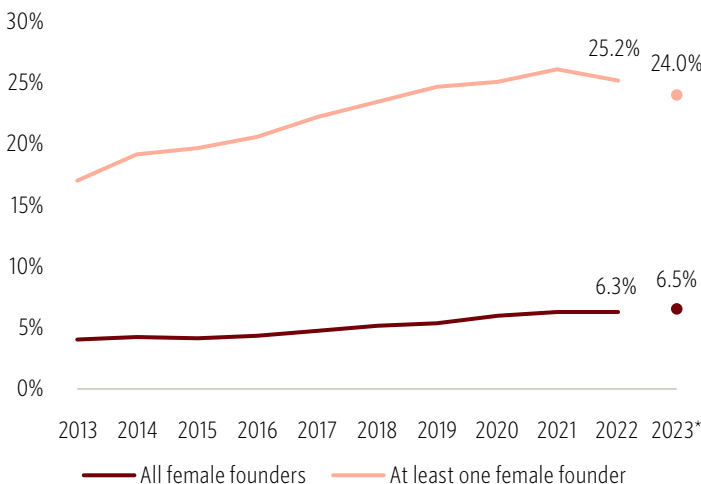
US VC deal activity in companies with all-female founding teams



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Proportions of total deal count falling

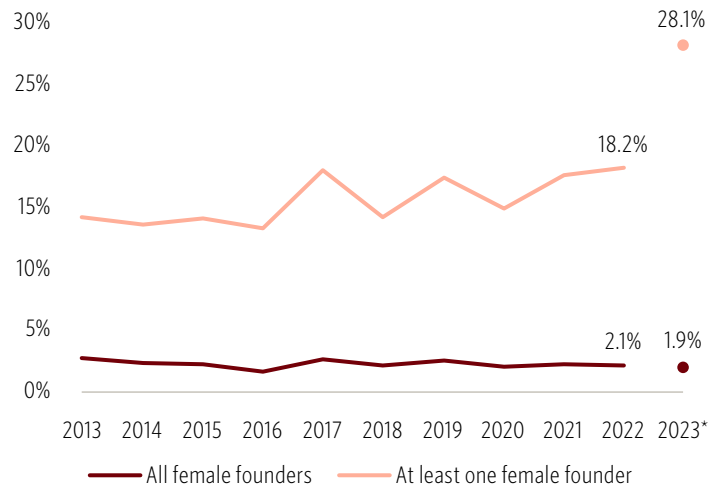
Female-founded company deal count as share of all US VC deal count



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Large deals biasing the positive jump

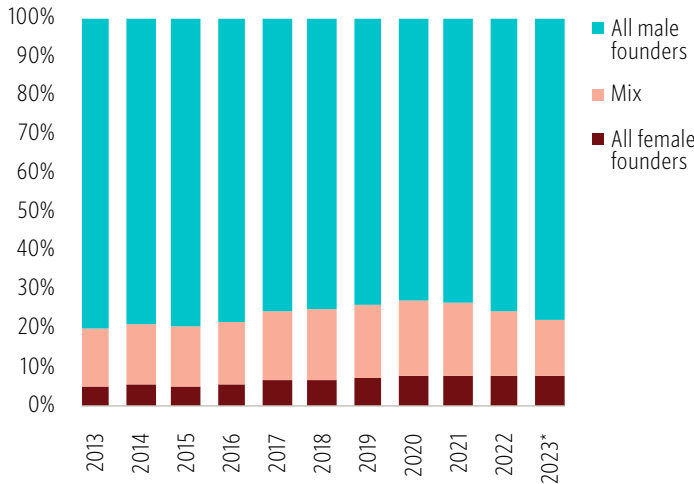
Female-founded company deal value as share of all US VC deal value



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

First-financings cannot keep momentum

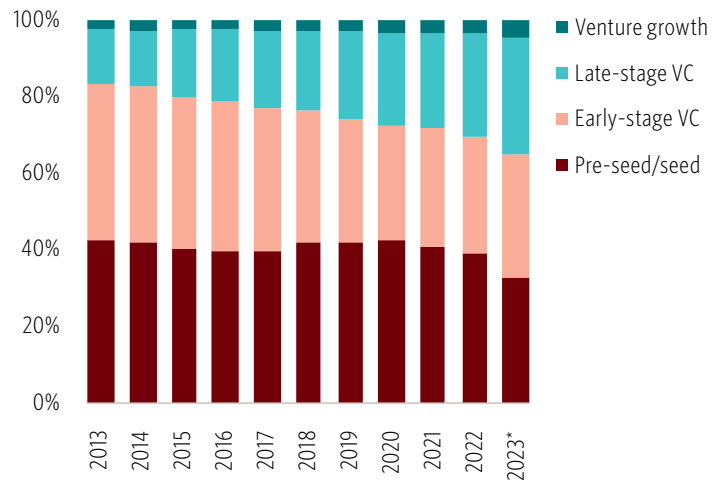
Share of US VC first-time financings by founder gender



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Larger proportion of female-founded companies reaching late stage

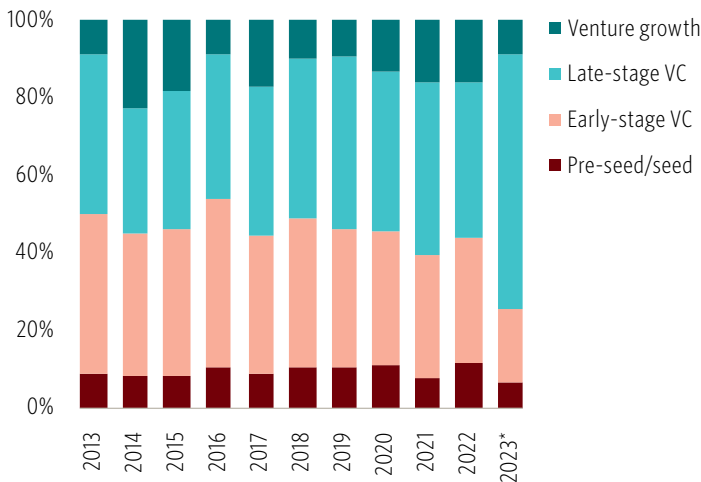
Share of US VC deal count for female-founded companies by stage



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Late-stage deal value already surpasses 2022

Share of US VC deal value for female-founded companies by stage



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

New York distancing itself from Bay Area

Top five US CSAs by deal count for companies with all-female founder teams in 2023*

Combined statistical area	Deal count
New York	156
San Jose	97
Los Angeles	55
Boston	28
Washington, DC	26

PitchBook-NVCA Venture Monitor
*As of September 30, 2023

A WORD FROM DENTONS GLOBAL VENTURE TECHNOLOGY GROUP

Federal funding: Pathways for growth

Victor H. Boyajian, Global Chair of Dentons Global Venture Technology and Emerging Growth Companies Group, sat down with colleagues representing Dentons Public Policy and Venture Technology leadership to discuss federal funding opportunities for emerging growth companies.

Victor H. Boyajian (New York/San Francisco): In the current macroeconomic environment where venture capital financings are down some 25%, it is important for emerging growth companies to consider ways to tap into the large amount of federal stimulus funding opportunities. It can be a low-risk way to enhance balance sheet management and allow a company to continue to aggressively execute upon its strategic growth plan.

Emily Jacobs (Washington, DC): It is a common misconception among clients that federal funding is meant only for public or nonprofit entities. This is not the case. Numerous bills have passed in recent years that have created many new opportunities for private entities in a variety of areas, including healthtech, climate tech, energy, defense, aerospace, sustainability, and infrastructure. In the fiscal year 2022, the US government gave out more than \$750 billion in federal grants through various agencies.

Jeff Denham (Washington, DC): There are three really major bills that have passed in recent years, and they are the Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act. Embedded within all those bills are programs for grant opportunities, especially in the energy, transportation, and infrastructure sectors, as well as technology in terms of the development of chips here in the United States.

Jacobs (Washington, DC): In order to assist our clients, Dentons' Public Policy team has developed a grant-monitoring system that pulls together all open grant opportunities and is tailored to our clients' needs and eligibility. From this customized report, we can then help to identify the best opportunities, strategize on potential partnerships, and help get congressional support for these applications.

Boyajian (New York/San Francisco): This is a very unique service offering. Why is this an attractive option for emerging growth companies, especially in our current funding environment?

Christina Austria (Washington, DC): When our clients think about venture funding, we expect the venture firm to take an equity ownership stake and usually also a governance stake. Depending on the stage of your company, you might not be ready for this step—especially in our current market, which favors investors' interests. The advantage to federal funding is that the government won't take a stake in your company, so this is a form of nondilutive capital that is an especially compelling option for early-stage companies. It is more than just the money.



Victor H. Boyajian
 Global Chair, Dentons Global Venture Technology and Emerging Growth Companies Group

Victor leads a global team focused on representing emerging growth technology companies, venture capital firms, corporate strategics, and private equity firms in a broad array of financings and strategic transactions from Silicon Valley to Boston and New York, and around the globe.



Christina Austria
 Counsel, Dentons Global Venture Technology and Emerging Growth Companies Group

Christina routinely serves as outside general counsel to clients. She has significant experience in structuring, negotiating, and advising clients on a wide variety of venture financing and M&A transactions.



Matthew Cutts
 Head of US Policy and Government Relations

Matthew Cutts is the head of US Policy and Government Relations. He coordinates large multilayered public policy initiatives and helps his clients achieve their most sought-after federal legislative objectives.

Joe Crowley is a Senior Policy Director and former US Representative from New York's 14th Congressional District.

Jeff Denham is a Senior Policy Director and former US Representative from California's 10th Congressional District.

Emily Jacobs is a Partner in Dentons' Public Policy Group.

Joe Crowley (Washington, DC): These are competitive grants, and when you receive the grant, it can even serve as a seal of approval for future venture funding.

Boyajian (New York/San Francisco): That is a critical point. Having a successful grant can serve to help reaffirm your position in the marketplace and expand your business, ultimately attracting your next round of private financing.

Matthew Cutts (Washington, DC): Can you share with us some of the early questions companies should be asking themselves as they're looking at the multitude of opportunities?

Jacobs (Washington, DC): The main thing you need to do is understand the process. These grants are put out on a continual basis, so you should have those conversations early on with the agency to know what's coming in the pipeline. You must make sure it's a mission match for you and what you're trying to accomplish, because once these are posted, it's a relatively quick turnaround to get these applications in before the deadline. From there it will go to the review process, and that can take a few months, so understand that it's not a quick cash infusion, it's a long-term play.

Crowley (Washington, DC): In my time in office, I have never seen this amount of funding out there. You just have to be creative and understand how you fit into the different boxes the government has to be able to access those grants.

Boyajian (New York/San Francisco): Is the grant opportunity tied to a specific project, or can it just go to generally support working capital? I think that's a really important distinction.

Jacobs (Washington, DC): It really depends on the grant guidelines. There may be a grant specific to one project in an exact location or a grant with less direction, where there is a general incentivization to create a new product, for example.

Boyajian (New York/San Francisco): Are there situations where we can see whether new grants can be created? What would this process look like?

Cutts (Washington, DC): Yes, if a client is looking into opportunities at the Department of Energy, for example, but the perfect opportunity doesn't exist, we can sometimes leverage connections and connect with the relevant member of Congress to ask: Have you ever thought about funding this type of project? Are there any plans to create new grants?

Austria (Washington, DC): It's really unique that you're not just helping companies apply for grants that are already specified, but because we know these agencies and the possibilities, we can actually bring our client needs to them to ask the reverse: What can you provide to match this?

Boyajian (New York/San Francisco): A consideration companies might have is: What do we have to give up in exchange for this funding? We might not want to have our core asset, our intellectual property, in any way restricted or owned by another constituent, such as the federal government. Is that concern ill-founded or valid?

Denham (Washington, DC): I can't think of any scenarios with such strings attached. But I think that's part of our diligence process. We sit down and look through the long litany of possible grants and narrow that down to what really fits the need.

Cutts (Washington, DC): What key sectors do you think are especially important right now among venture capital investors?

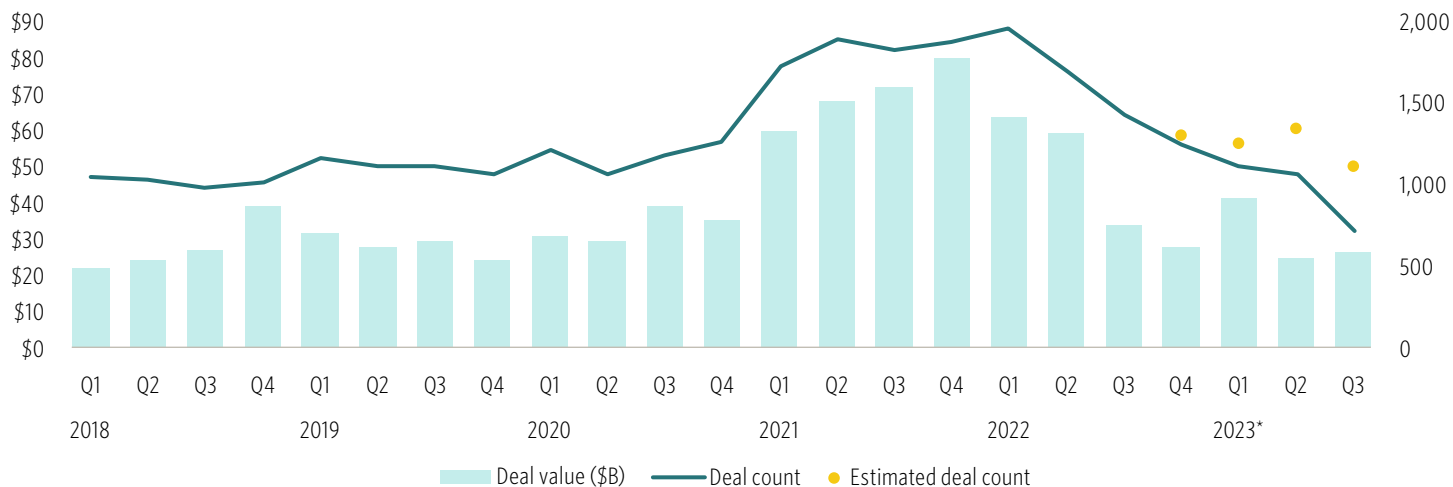
Boyajian (New York/San Francisco): We're seeing attention turn to climate tech, fintech and digital health, as well as AI and cybersecurity. It's exciting to see that there are federal grant opportunities for these exact categories. Our group is, in turn, focusing on these exact industries to help accelerate strategic growth.

Dentons Venture Technology team ranks in PitchBook's top 10 for global venture and M&A deals.

Nontraditional investors

Nontraditional investor deployment to VC falls to five-year low

US VC deal activity with nontraditional investor participation by quarter



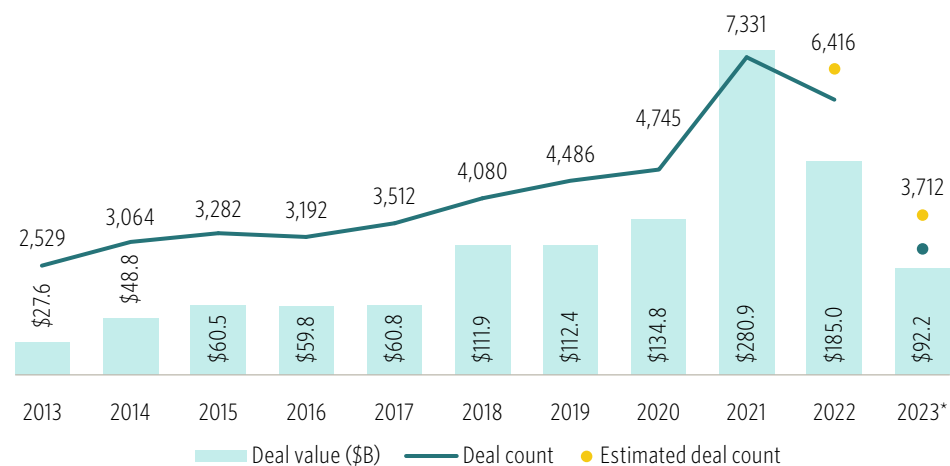
PitchBook-NVCA Venture Monitor
*As of September 30, 2023

In Q3, total deal value involving nontraditional investors amounted to \$26.2 billion, accounting for 71.4% of the total deal value in the US VC market during the period. With the exception of Q1, the proportion of deal value involving nontraditional investors to overall VC deal value has been steadily declining, and Q3's proportion is the among the lowest in recent years. The repercussions of nontraditional investor withdrawal are quickly observed in private markets, constraining the capital availability across all venture stages—particularly for late- and venture-growth-stage startups that demand larger amounts of capital relative to earlier-stage enterprises. Consequently, these startups may be compelled to court new equity investors at flat or reduced valuations or explore costly nondilutive financing options such as venture debt, accessible only to the highest-quality enterprises.

Historically, the allure of VC investment for nontraditional investors rested upon its potential for outsized financial returns.

2023 YTD deal value participation on pace to finish below \$110.0 billion annually

US VC deal activity with nontraditional investor participation



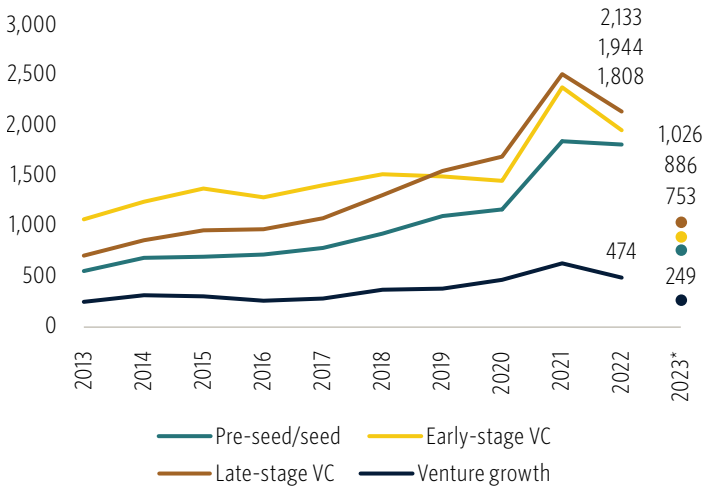
PitchBook-NVCA Venture Monitor
*As of September 30, 2023

However, the subdued exit environment since 2022 has hindered startups' ability to generate returns for investors. Moreover, escalating interest rates have rendered alternative investments like bonds more attractive, given their

superior yield-to-risk ratio compared to private investments such as VC. Crossover investors in particular have continued to pull away from the VC ecosystem, tallying just \$10.9 billion in deal value in Q3 compared to \$11.5 billion in Q2; on a deal

NTIs participate in just 249 venture-growth deals through 2023 YTD

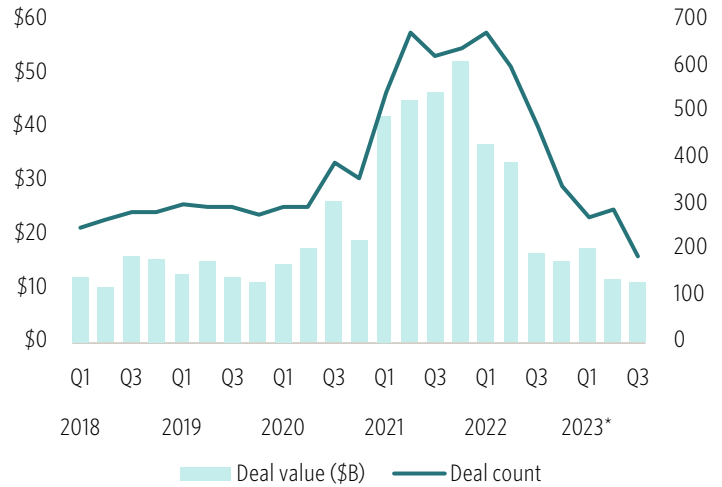
US VC deal activity with nontraditional investor participation by quarter



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Crossover participation deal count declines significantly in Q3

US VC deal activity with crossover investor participation by quarter



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*As of September 30, 2023

count basis, they participated in just 183 VC deals in Q3, which is 36.4% lower than Q2's 288 deals.

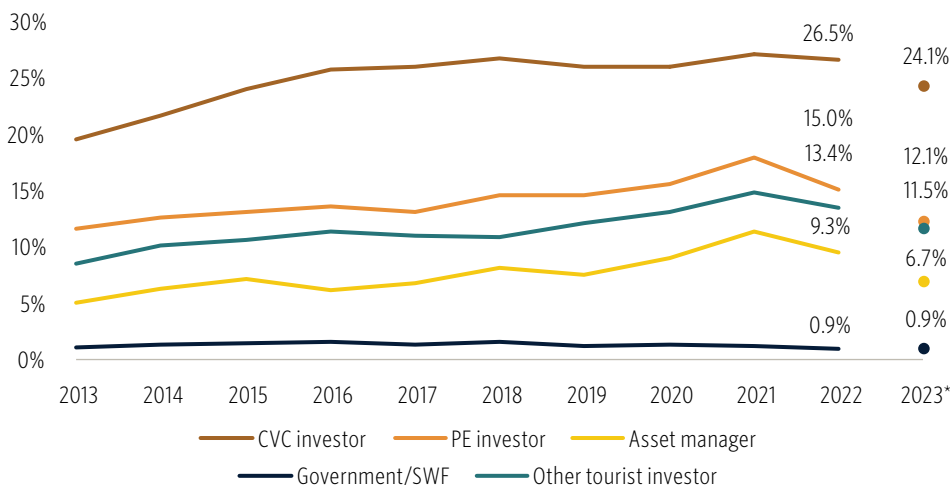
Interestingly, corporate VCs (CVCs) have displayed a more nuanced pattern

in Q3. While their annual participation as a proportion of overall VC deal count declined to 24.1% during the quarter, marking the lowest percentage since 2015, their annual participation as a proportion of overall VC deal value surged

to 62.6%—the highest annual percentage in our dataset, though a couple deals heavily bias this data. This contrast suggests that many CVCs are embracing a risk-mitigation strategy, favoring quality over quantity. Concentrating larger capital injections into a select group of startups with sound fundamentals, core competencies, and promising growth prospects serves to alleviate exposure to startups struggling amid the current challenging market conditions.

CVC investors' proportional deal count activity dips to eight-year low

Deals with nontraditional investor participation as a share of all US VC deal count by investor type



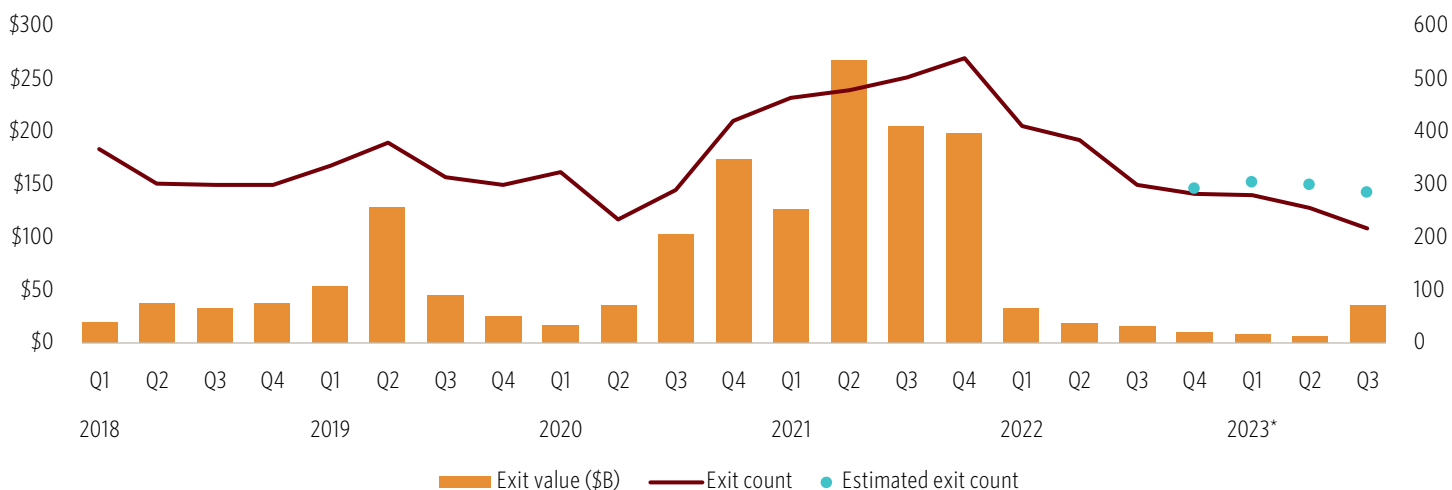
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*As of September 30, 2023

Looking forward to the next few quarters, nontraditional investor participation will likely continue to decline, given the prevailing high-interest-rate environment and dearth of startup exit avenues. Nevertheless, a silver lining emerges in the form of discounted investment opportunities potentially brought about by declining startup valuations. By capitalizing on these opportunities, these investors may witness a resurgence in participation, potentially breathing some life back into the VC ecosystem.

Exits

Q3 exit value experiences significant uptick, largely attributed to Instacart and Klaviyo IPOs

US VC exit activity by quarter



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*As of September 30, 2023

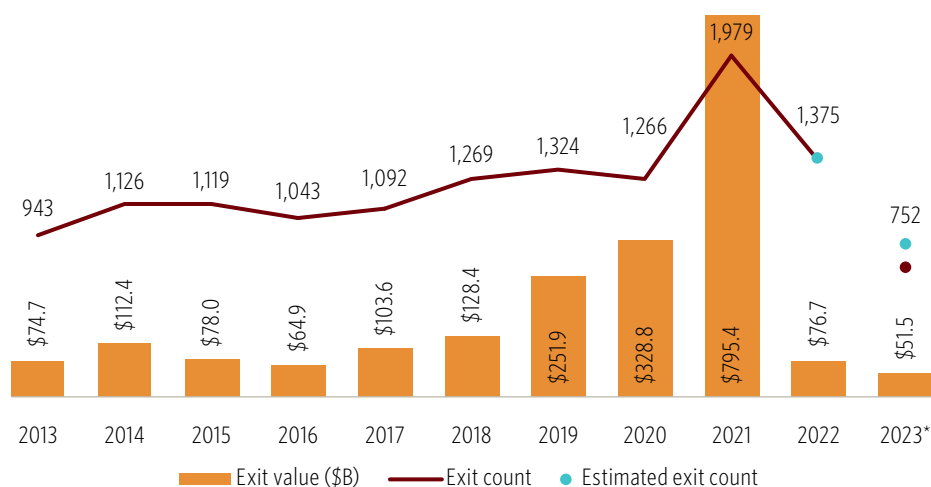
In Q3, the exit environment exhibited a glimmer of hope relative to the subdued nature of the liquidity landscape of the past 18 months. In Q3, we observed \$35.8 billion stemming from an estimated 284 exit events. This exit value represents the most substantial quarterly performance since Q4 2021.

While at first glance this might suggest a revival, a closer look reveals that more than one-third of the total exit value in Q3 was attributed to just two IPOs: Instacart and Klaviyo. Digging deeper, the post-IPO performance of these companies leaves much to be desired. Instacart, with a post-money IPO valuation of \$8.3 billion, fell far short of its lofty VC valuation of \$39.0 billion achieved in 2021. Similarly, Klaviyo's IPO valuation of \$7.6 billion marked a notable decline from its last private, VC-backed round in July 2022, when it was valued at \$9.5 billion.

What is significant about these IPOs is that they involved profitable

Exit count and value creation continue to stagnate through 2023

US VC exit activity



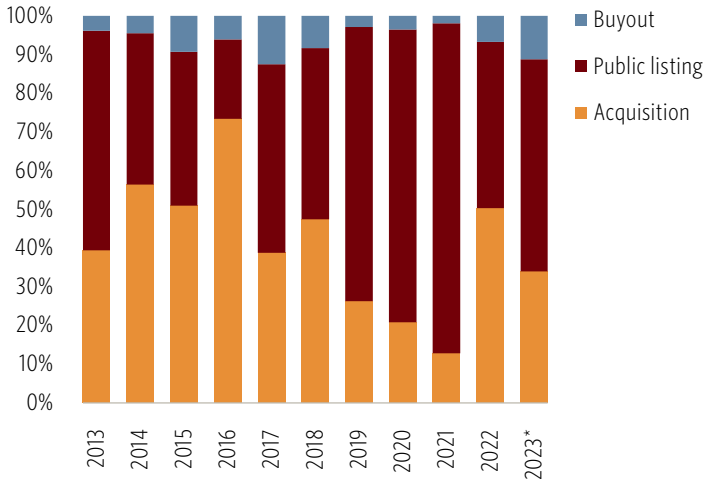
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companies—a rarity in the world of VC-backed, growth-oriented tech unicorns. Yet, despite having achieved profitability, they took valuation cuts and have faced challenges in their trading performance since going public. This raises concerns

for unprofitable companies or those lacking a clear path to profitability, as they may face even greater challenges in the public markets, where valuations multiples have compressed.

Majority of exit value YTD generated via public listing; first time since 2021

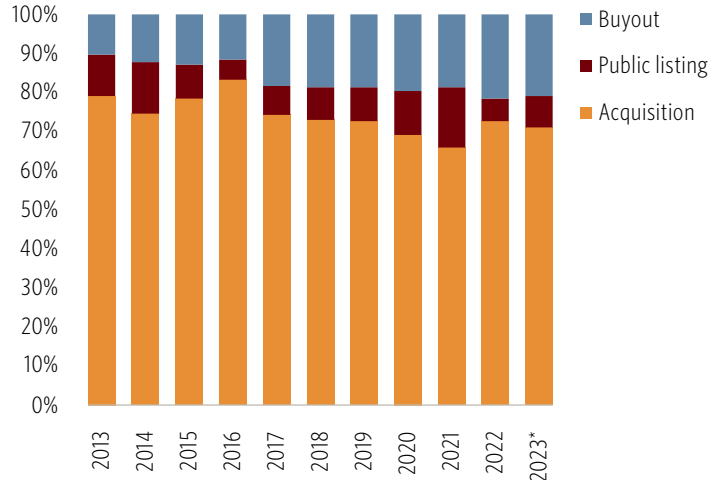
Share of US VC exit value by type



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YTD count of exits via acquisitions falls to roughly half of 2022 figure

Share of US VC exit count by type



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*As of September 30, 2023

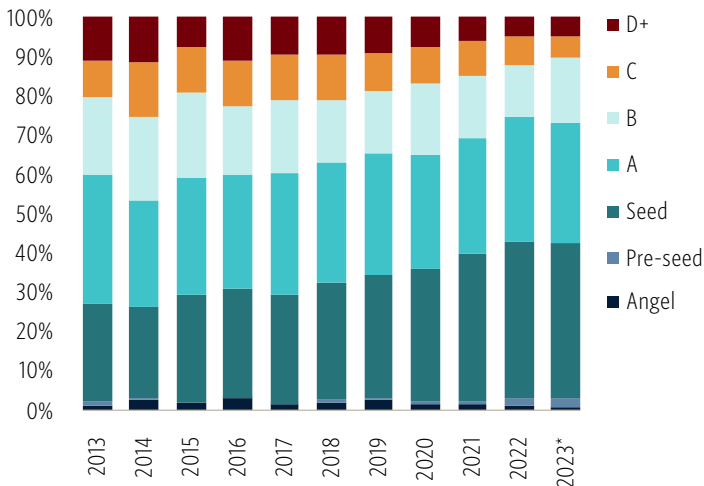
Holistically, Q3's exit environment was bittersweet. On one hand, the recent IPOs of Instacart and Klaviyo could be interpreted as a welcoming sign for VC-backed tech unicorns eager to find an exit, illustrating a desire from both investors and startups to unlock

returns. On the other hand, we must also consider the cost of exiting. A substantial valuation cut experienced in an IPO is a tough pill to swallow. This presents a conundrum for companies seeking to go public: Do they opt for an exit, albeit risking a reduced valuation, or continue to

navigate the uncertain private markets in pursuit of better terms? The overarching question going forward is whether these developments are indicative of a broader trend or simply outliers in an otherwise lackluster market.

Seed and Series A startups continue to make up the majority of acquired startups through 2023

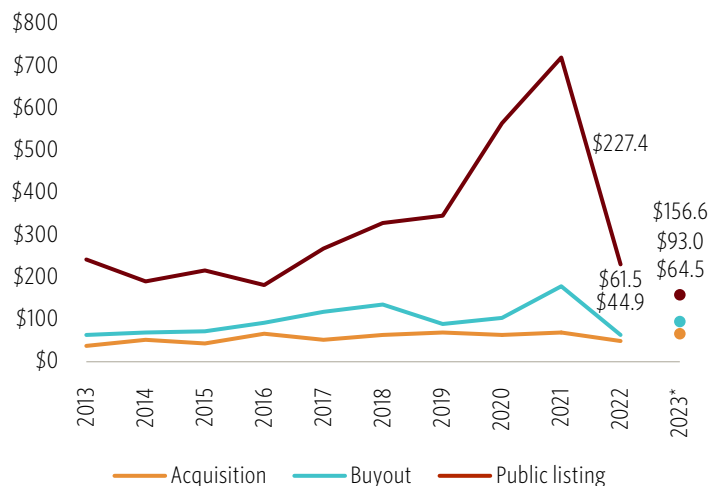
Share of US VC round count by round series where next round is an exit via acquisition



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*As of September 30, 2023

Median exit sizes for acquisition and public listing remain above 2022 figures

Median US VC exit value (\$M) by type



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

A WORD FROM DELOITTE

Venture capital chronicles of 2023: Pioneering artificial intelligence, course corrections, and uncharted waters

Over the years, the ups and downs of VC have resulted in tumultuous and tremendous moments, from global economic downturns to profound advancements in technology. It can be challenging to have a pulse on today's challenges and tomorrow's opportunities without having extensive knowledge about the industry's history. Thankfully, we can lean on resources like Heather Gates, who has over 30 years of experience in venture capital and presents deep knowledge of VC's past and present. Journey further to learn Heather's insights about the climate of the venture capital ecosystem and what the future may hold.

Exploring the current landscape

AI has dominated the news cycles to the point you may be tuning it out, but it's here to stay (for the better) in every industry, and that's especially true in venture capital investing. The evolution of AI has skyrocketed to become more robust every day, fueling valuations and growth in the industry. We're only beginning to scratch the surface of the impact that AI will have on new, innovative companies, which is especially interesting as they are notorious recipients of VC investment. For example, in the audit world, AI has the potential to tackle mundane tasks such as data collection, processing, and repeatable tasks so people can feel more fulfilled in their work by focusing on strategic and complex areas that require creativity, dexterity, and empathy—

all skills that depend on human emotional intelligence.

Although AI is hot, other sectors of venture capital investing are decidedly cooler. It's been a year of reset with necessary corrections to return to long-term stability. Over the course of the past two years, the value of companies hit astronomical highs,² and the influx of overpriced, overvalued companies created instability. Another factor at play is a less robust IPO market, which is a key driver for investing and valuation activity. In this case, what went up needed to come down. But as valuations course correct to a traditional level, interest from venture capitalists and corporate buyers is expected to be on the rise.

Another factor that is following an upward trajectory is the increased focus on addressing DEI issues. The venture capital industry recognizes that women, racially and ethnically diverse individuals, and other historically underrepresented groups have been excluded from equal opportunities to manage venture funds or hold investment decision-making positions. There's also been growing interest in supporting historically underrepresented founders and investing in diverse teams, which is just one of the data points highlighted in the interactive [VC Human Capital Survey Dashboard](#) powered by Deloitte, Venture Forward, and the National Venture Capital Association.³ While venture capital has made progress



Heather Gates
Audit & Assurance
Private Growth Leader
Deloitte & Touche LLP

With more than 30 years of financial services experience,

Heather serves as the national Private Growth Leader, with oversight of the Deloitte Private, Emerging Growth Company, and Private Equity businesses within Audit & Assurance.

toward a more equitable industry, there is still a long road ahead.

Impact of the downturn

This year's economic uncertainty comes with limited exit opportunities and lower valuations, ultimately resulting in a softer market. While this has affected companies across the board, the impact varies greatly between startups and late-stage companies. No matter what part of the lifecycle a company is in, funding is critical—but there are certain implications that come with investor funding at each stage.

Early-stage companies are facing challenges because overall investing is down,⁴ making the first round of financing even harder to obtain. Many venture capitalists are apprehensive about investing right now because of economic unpredictability, increased

2: "Q3 2023 Road to Next Report," Deloitte, September 12, 2023.

3: "VC Human Capital Survey Fourth Edition," Deloitte, Venture Forward, and National Venture Capital Association, April 18, 2023.

4: "Q3 2023 Road to Next Report," Deloitte, September 12, 2023.

inflation, and other global impacts, including potential cybersecurity issues. At this stage, it's crucial to focus on building something the world needs to have and then finding people who agree with your thesis and trust in your ability to execute.

Many late-stage companies raised a lot of money from 2021 to 2022, and those that managed their funds well were able to stretch those investments over this year, without having to raise more capital. However, it is more complicated for companies that did not take advantage of obtaining money when valuations were higher or that had planned to go public. Now, the market is fairly tight and raising more money is critical to move forward. At this stage, it's important to focus on the fundamentals—ensure your financials are strong and accurately reported, determine if experienced and thoughtful leadership is in place, and develop a fully mapped-out path to growth and profitability.

Trends of the past and present

Despite being in a downturn, there's a lot to look forward to with technology rapidly advancing. Between AI and various cloud technologies, there are tools to lean on to find success in the years to come.

As the pendulum of variables swings in the world of venture capital, it's imperative to stay attentive to what works and what doesn't. During 2021 to 2022, we were experiencing a frothy cycle wherein excessive optimism, high valuations, and an abundance of capital were flowing into the startup ecosystem.⁵ When we experience this kind of cycle, venture capitalists place value on growth, what revenue increases look like, and how quickly companies are

growing. When the market is slower, like it is right now, venture capitalists and institutional buyers are more concerned with how much money companies are making and their ability to achieve positive margins. To pique the interest of venture capitalists in our current market, companies must demonstrate existing profitability or present a clear path to it.

Navigating the uncertain future

Even though we can't predict exactly what will happen next year, we can prepare by keeping a close eye on data points that will give us insights into the future of venture capital. More recently, there's been an uptick in IPOs with a few clients making the move to go public. It's expected that a positive trend is on the rise, thereby creating potential opportunities for companies to exit successfully.

There isn't a crystal ball that shows us what the future of venture capital looks like, but there are questions to consider that can help you predict what may come next.

Stay curious about these wonderings:

- What is happening in terms of IPO activity? Are we seeing more transactions? Is the window more open?
- Where is VC funding headed? At what levels are companies being evaluated?
- Are larger-entity tech layoffs resulting in startup formation? How is this affecting overall employment?

Amid the prevailing challenges and uncertainties in the venture capital arena and broader capital markets, a sense of optimism is gradually gaining momentum. As market conditions stabilize, there's potential for an

environment of growth, innovation, and renewed investor confidence to emerge—painting a promising future for VC.

Interested in learning more? Dive into what the future may look like for emerging growth companies in Deloitte's most recent [Road to Next](#), an analysis of current investment trends defining the private financial markets.

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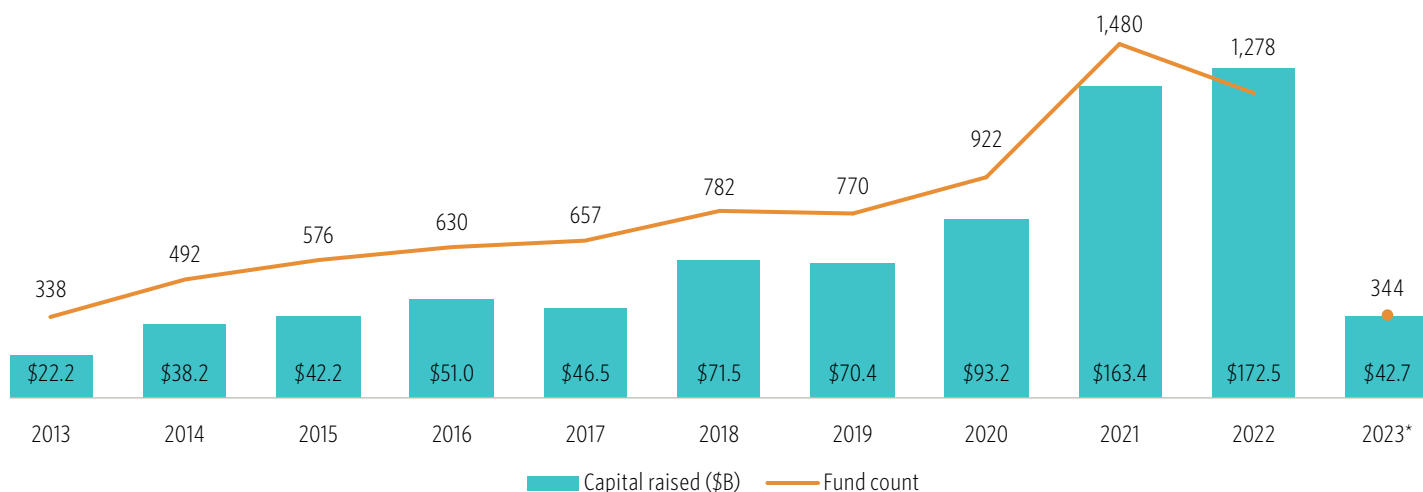
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⁵: "Q3 2023 Road to Next Report," Deloitte, September 13, 2023.

Fundraising

Number of US VC funds raised on pace to set a nine-year low

US VC fundraising activity

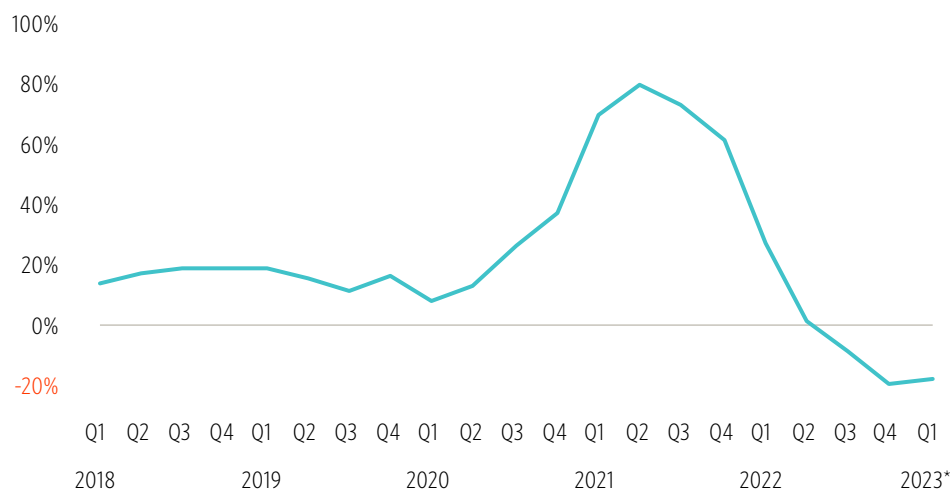


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Several factors explain the ongoing venture fundraising sluggishness. First, the avenue to public exits—wherein outsized returns have historically been generated—have not opened. Without meaningful value being unlocked in public exits, GPs have been returning less capital to LPs, thus leading to an overall liquidity crunch. Second, while the denominator effect has likely lessened for some institutional investors due to a relative public market rebound, with elevated interest rates, certain less-risky asset classes such as private credit have become more attractive with strong payouts, which means that venture needs to provide better returns on a risk-adjusted basis in order to compete. Third, many institutional investors have either taken a more cautious approach to making large commitments to venture or are constrained by their ability to do so. During the 2021 and early 2022 market frenzy, many VC managers returned to the market with a shorter turnaround time to raise larger funds. On top of everything else, the practice of product

Rolling one-year IRRs remain negative

US VC rolling one-year IRRs*



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*As of March 31, 2023

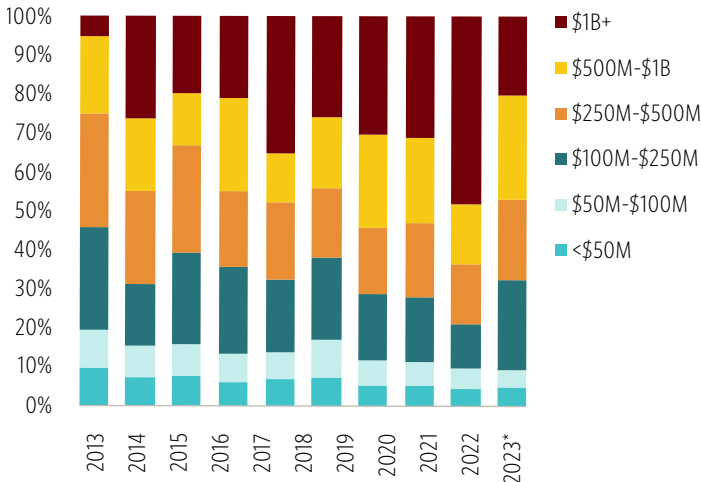
bundling—stipulations that LPs must commit to all funds offered by the firm, as opposed to select strategies—translated into dwindled capital availability from institutional investors’ budget planning.

US GPs have been traveling abroad for

alternative sources of capital. The Persian Gulf States have become a popular fundraising destination. However, not every manager has had success securing fund commitments there. From a cultural perspective, it takes time to build a trusting relationship with LPs

52.1% of capital committed to funds with \$500 million AUM or larger YTD

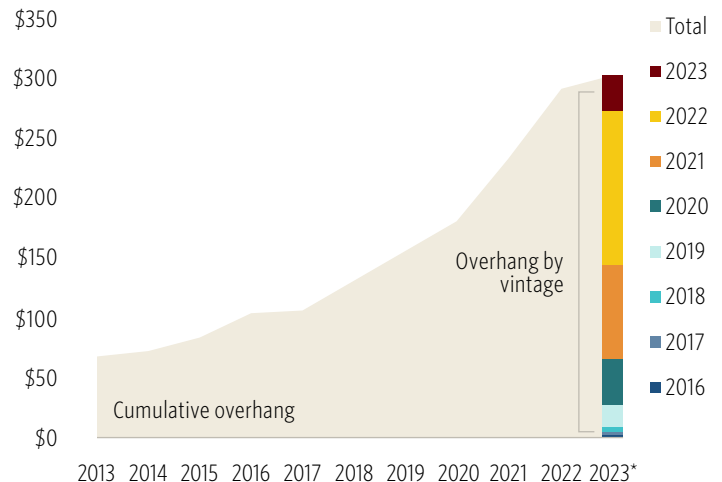
Share of US VC fund value by size bucket



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*As of September 30, 2023

US VC dry powder remains elevated through end of 2022 and into Q1 2023

US VC dry powder (\$B) by vintage



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in the region. Additionally, for certain countries such as Saudi Arabia, venture is a relatively new asset class, and many investors are still in the process of deepening their understanding of VC.

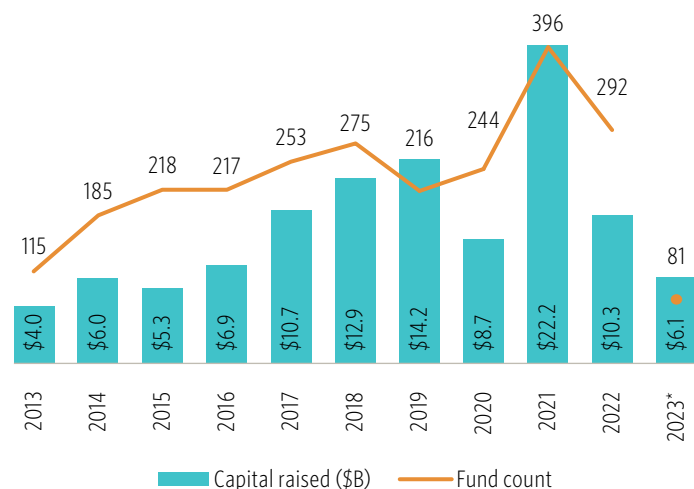
Emerging managers trying to secure LP commitments are tasked with

demonstrating why their funds are differentiated from the rest of the crowd and why they are best positioned for executing their strategies. Through Q3, a similar number of funds has been raised by emerging and experienced managers for the year. However, the committed capital that goes to established

managers as a proportion of all fund value has reached the highest level in our dataset, at 73.3%. While fundraising is never an easy journey, managers who have not yet established themselves are facing severe headwinds, and many expect to see the market weeding out underperforming managers.

First-time funds closed through Q3 2023 account for 12.2% of fund value YTD

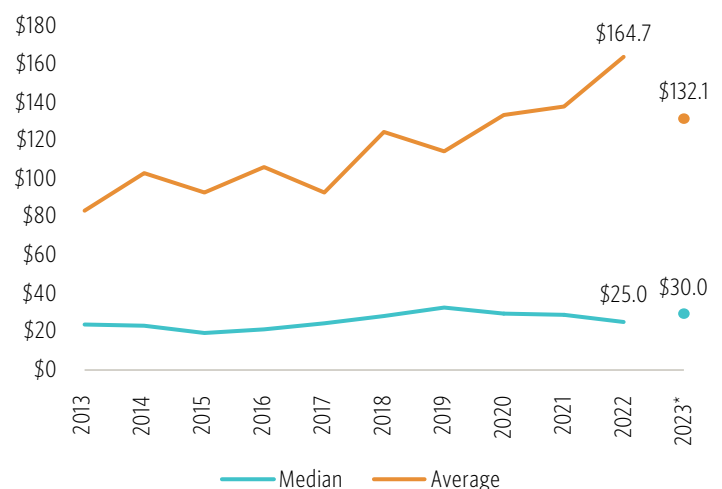
US VC first-time fundraising activity



PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Median fund size on par with 2021 level

Median and average US VC capital raised (\$M)



PitchBook-NVCA Venture Monitor
*As of September 30, 2023



The IPO window can be narrow. Be ready when it opens.

Deloitte's audit and IPO readiness services can help companies prepare for public exit opportunities.

[Learn more](#)

Q3 2023 league tables

Most active investors pre-seed and seed*

1	Pioneer Fund	50
2	Plug and Play Tech Center	29
3	Y Combinator	22
3	Alumni Ventures	22
5	SOSV	19
6	Triangle Tweener Fund	15
7	Andreessen Horowitz	13
8	Everywhere Ventures	11
8	Sequoia Capital	11
8	Gaingels	11
11	Hatcher+	10
11	500 Global	10
13	HAX	9
14	Soma Capital	8
14	Abstract Ventures	8
14	Acequia Capital	8
17	Craft Ventures	7
18	NextView Ventures	6
18	Lux Capital	6
18	IndieBio	6
18	Florida Opportunity Fund	6
18	FJ Labs	6
18	Climate Capital	6
18	Founders Fund	6
18	8VC	6
26	Neo	5
26	Uncorrelated Ventures	5
26	Techstars	5
26	Streamlined Ventures	5
26	Rebel Fund	5
26	The MBA Fund	5
26	Robot Ventures	5
26	Invest Nebraska	5
26	Guillermo Rauch	5
26	First Round Capital	5
26	Fin Capital	5

PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Most active investors early stage*

1	Andreessen Horowitz	19
2	FJ Labs	14
3	Alumni Ventures	13
4	Gaingels	11
5	General Catalyst	9
5	Calm Ventures	9
7	Samsung NEXT Ventures	8
7	GV	8
7	Khosla Ventures	8
10	Y Combinator	7
10	Sequoia Capital	7
10	Red Cedar Ventures	7
10	Lightspeed Venture Partners	7
10	Caffeinated Capital	7
15	Sunstone Management	6
15	Precursor Ventures	6
15	Menlo Ventures	6
15	Plug and Play Tech Center	6
15	Collab+Currency	6
20	Hatchet Ventures	5
20	Valor Equity Partners	5
20	Union Square Ventures	5
20	New Enterprise Associates	5
20	Lux Capital	5
20	Fin Capital	5
20	Draper Associates	5
20	Balaji Srinivasan	5
20	10X Capital	5
20	ARCH Venture Partners	5

PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Most active investors late stage*

1	Alumni Ventures	18
2	SOSV	9
3	RA Capital Management	8
3	Khosla Ventures	8
5	Prelude Ventures	7
5	Energy Impact Partners	7
5	Connecticut Innovations	7
8	Breakthrough Energy	6
8	General Catalyst	6
10	Neer Venture Partners	5
10	Valor Equity Partners	5
10	Tech Square Ventures	5
10	HAX	5
10	Plug and Play Tech Center	5
10	Florida Opportunity Fund	5
16	Revolution (Washington, DC)	4
16	Wellington Management	4
16	MarketX	4
16	Remarkable Ventures	4
16	StartX (US)	4
16	Inertia Ventures	4
16	Insight Partners	4
16	Founders Fund	4
16	DCVC	4
16	Eclipse Ventures	4
16	8VC	4
16	BlackRock	4
16	Calm Ventures	4

PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Most active investors growth stage*

1	Alumni Ventures	3
1	FJ Labs	3
3	Nvidia	2
3	Alphabet	2
3	Revelation Partners	2
3	Andreessen Horowitz	2
3	SR One Capital Management	2
3	Arboretum Ventures	2
3	Qualcomm Ventures	2
3	BVF Partners	2
3	Sound Ventures	2
3	CE Innovation Capital	2
3	GV	2
3	Clean Energy Venture Group	2
3	Teamworthy Group	2
3	Doha Venture Capital	2
3	Polaris Partners	2
3	Escalate Capital Partners	2
3	RA Capital Management	2
3	Fabrica Ventures	2
3	Sands Capital	2
3	Farallon Capital Management	2
3	Trinity Capital	2
3	Wellington Management	2
3	F-Prime Capital	2
3	Realm Capital Ventures	2

PitchBook-NVCA Venture Monitor
*As of September 30, 2023

Methodology

Deals

We include equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, corporate investors, and institutions, among others. Investments received as part of an accelerator program are not included; however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US, with any reference to “ecosystem” defined as the combined statistical area (CSA). We include deals that include partial debt and equity.

Angel: We define financings as angel rounds if there are no PE or VC firms involved in the financing round, and individual investors have participated. “Angel” is no longer included in our stage methodologies, as deals tagged as angel can be into companies that can be of different development levels. However, these deals can show up within the report through investor-type-specific deal activity.

Pre-seed/seed: When the investors and/or press release state that a round is a pre-seed or seed financing, it is tagged as such. If the company is under two years old and the round is the first institutional investment in the company, the deal will be tagged as pre-seed unless otherwise stated. Regulatory filings under \$10 million for deals where investors are unknown are classified as seed unless pre-seed parameters are met.

Early stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, prior financing history, company status, participating investors, and more.

Late stage: Rounds are generally classified as Series C or D (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, prior financing history, company status, participating investors, and more.

Venture growth: Rounds are generally classified as Series E or later (which we typically aggregate together as venture growth) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors, including the age of the company, number of VC rounds, company status, participating investors, and more.

Nontraditional investors: “CVC” includes rounds executed by established CVC arms as well as direct equity investments by corporations into VC-backed companies. “PE” includes VC deals by investors whose primary classification is PE/buyout, growth, mezzanine, or other private equity. “Crossover” investors are a subset of nontraditional investors—specifically asset managers, hedge funds, mutual funds, and sovereign wealth funds—that have been active in VC investment across any stage. They are referred to as crossover because these investors are likely to be participating at the late stages directly prior to an exit.

Venture debt: The venture debt dataset is inclusive of all types of debt products raised by VC-backed companies, regardless of the stage of company. In mixed equity and debt transactions, equity is excluded when the amount is of known value. Financings that are solely debt are included in this dataset, though not incorporated into the deal activity dataset used throughout the report. Mixed equity and debt transactions will be included in both datasets.

Exits

We include the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there

is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown. IPO value is based on the pre-money valuation of the company at its IPO price. One slight methodology update is the categorical change from “IPO” to “public listings” to accommodate the different ways we track VC-backed companies’ transitions to the public markets. To give readers a fuller picture of the companies that go public, this updated grouping includes IPOs, direct listings, and reverse mergers via SPACs.

Fundraising

We define VC funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional VC firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth stage vehicles are classified as PE funds and are not included in this report. A fund’s location is determined by the country in which the fund’s investment team is based; if that information is not explicitly known, the HQ country of the fund’s general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund’s committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

A perfect partnership: PitchBook and the National Venture Capital Association

Why we teamed up

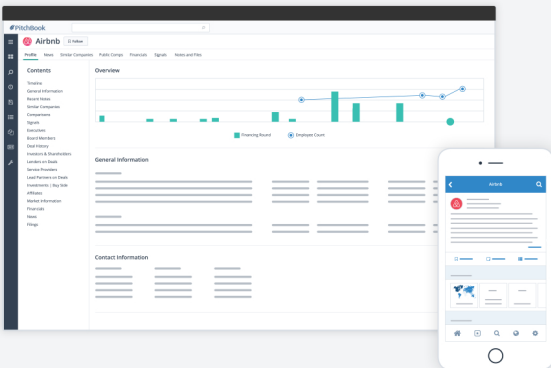
NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with PitchBook empowers us to unlock more insights on the VC ecosystem and better advocate for our evolving industry.

The PitchBook-NVCA Venture Monitor

Informed by PitchBook data, our quarterly Venture Monitors dive deep into venture capital activity and deliver insights to inform your investment strategy. PitchBook data also bolsters our annual year-in-review publication.



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