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Published on September 21, 2023

Contents

We are launching a pre-seed dataset methodology to more accurately and comprehensively capture deals from the earliest phase of venture. Following the introduction of the pre-seed methodology, going forward we will sunset "angel" as a specified stage of venture in all of PitchBook's venture-focused reports.

Introducing the Pre-Seed Dataset

Investing at the earliest stage of venture to unlock greater return potential

Key takeaways

- Despite the popular use of the term "pre-seed," there is a lack of consensus among investors as to how the earliest phase of the venture lifecycle is defined. A lack of concrete, clear-cut data around this stage calls for clarification and standardization of pre-seed.

- We define pre-seed as a collection of startups with a shared set of characteristics associated with a very early development stage. The pre-seed dataset comprises nascent, unbacked startups getting their first check from an institutional investor, as well as companies raising what is considered a "pre-seed" round by the founder and investor.

- Among all geographic regions, the US and Europe have been the driving force behind the growth in global pre-seed dealmaking, significantly outweighing other parts of the world in deal volume and frequency.

- Given the nascency of pre-seed companies, most startups operating at this stage are pre-revenue and pre-product, which means the due diligence process is distinct from that of more mature, late-stage companies. Investors can leverage this newly launched dataset to evaluate pre-seed investment opportunities more comprehensively, timely, and accurately.

- The pre-seed investor base has grown over the past few years, as more investors, including VC firms, nontraditional investors such as CVCs, and accelerators, entered the pre-seed market. This trend was driven by the pursuit of greater return potential or a goal to foster regional ecosystem development.

Why creating pre-seed is an important change

Over the past five to 10 years, a growing number of VC investors have expanded their investment scope into pre-seed. This rising tide was primarily driven by incentives such as a quest to seek greater alpha by accessing early-stage companies, or a mission to help develop regional entrepreneurship ecosystems through partnerships with governments or higher education institutions.

The term "pre-seed" typically refers to a set of companies with similar characteristics, including but not limited to a small founding team, an ongoing ideation process, a lack of steady revenue streams, as well as a heavy reliance on capital sourced from the founder, their family and friends, and sometimes, angel investors. To more accurately and comprehensively capture deals from the pre-seed universe, which has become a unique market segment regarding company characteristics, deal attributes, and investor motivation, we are launching a pre-seed dataset methodology that incorporates company age and current backing status while factoring in market variances across different geographical locations. The goal is to produce reliable and timely deal analysis spotlighting the earliest phase of venture. With the introductions of the venture-growth stage and now pre-seed, PitchBook fully covers the entire venture lifecycle, from the initial institutional round to exit.

In the previous analyst note on the emergence of pre-seed, analysis of pre-seed market trends was predicated on aggregating a list of 126 self-identified pre-seed investors. This earlier approach was inherently confined in scope due to limited available data on the earliest phase of the venture lifecycle. Since then, we have expanded efforts to capture pre-seed deals from a data collection perspective. We now introduce the pre-seed methodology as a means of refining the previous data analysis model.

How we categorize pre-seed deals

While developing the pre-seed methodology, we incorporated both analysis of pre-seed deal data and information gathered from early-stage venture market participants to create a cohesive dataset that provides insight into this earliest stage of venture. To start, we analyzed data from aggregated global deals that were explicitly named as "pre-seed" from a variety of deal sources. This provided us with a more holistic and reliable view of pre-seed deal features and metrics. Between 2019 and 2023, not only did a growing number of early-stage venture investors start to self-identify as pre-seed or seed investors, but the volume of deals that were labeled as "pre-seed" in public announcements such as press releases also expanded exponentially.

Alongside that analysis, we interviewed VC market participants that have been actively involved at the pre-seed stage with the goal of zeroing in on a tighter definition of pre-seed that could be used to fill out the dataset, as well as test the methodology against the market narrative of the stage. Due to a lack of tangible metrics and key performance indicators for such nascent companies, VC investors' interpretations of pre-seed vary widely. Despite the term's frequent usage, the lack

Pre-seed definition

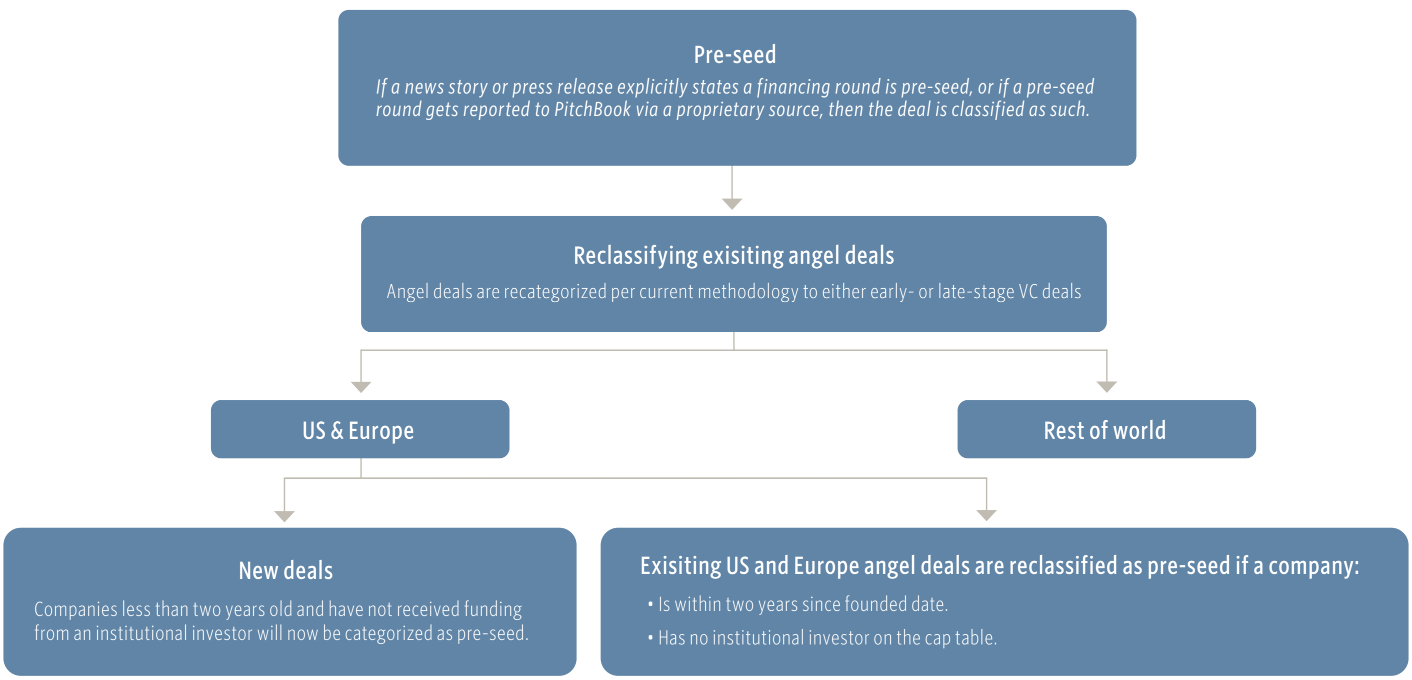
The pre-seed stage encompasses a collection of emergent startups receiving the first check from at least one institutional investor to fuel their development growth. For global startups, we reclassify angel deals depending on institutional investors' prior deal participation. Deals that have been tagged as "angel" due to the company's investor base consisting solely of individual investors will now be recategorized into the early-stage or late-stage VC deal category based on stage methodologies in place. For startups headquartered in the US and Europe, we define pre-seed as a round of financing for a company founded less than two years ago that has not yet received institutional investor support.

of concrete, well-defined data around this stage has created a void of consensus. The variations in how people understand pre-seed highlight the need for clarity, which sets the foundation for capturing and analyzing pre-seed market size, dealmaking trends, and performance over time.

By considering how startups and investors name earliest-stage venture deals as well as company attributes, including location, number of years in operation since founding, and cap table structure, the pre-seed methodology clarifies and standardizes how pre-seed is perceived and used across the venture ecosystem. A broad range of market participants, including investors that actively source and invest at the pre-seed stage, startups that sit near the beginning of the venture lifecycle, and service providers that target budding company clients, can leverage this dataset to keep abreast of the latest pre-seed market trends as well as a range of deal terms, including deal size and company valuations.

The global pre-seed deal tagging process differs from US and European deals, as the latter two regions have developed more mature and larger-scale pre-seed markets. Globally, if a news story or press release explicitly states a financing round is pre-seed, or if a pre-seed round gets reported to PitchBook via a proprietary source, then the deal is classified as such. In addition to the pre-seed deal categorization, all existing angel deals are being recategorized within our reports based on our full range of stage methodologies.

Pre-seed methodology



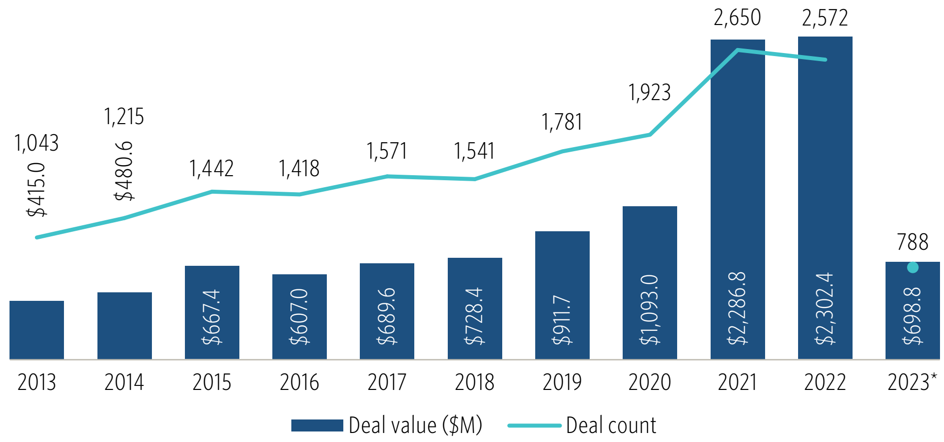
Source: PitchBook • Geography: Global

The pre-seed methodology introduces two fundamental changes to our existing dataset. First, we remove "angel" as a primary deal type and redistribute all existing angel rounds into three deal types: "pre-seed," "early-stage," and "late-stage" VC, depending on deal and company attributes. The underlying logic for this shift is that "angel" is an investor type as opposed to a definitive deal stage, with the angel category now encompassing deals into companies at widely varying stages of development. This leads to a second change, where instead of creating a naming convention, we launch the pre-seed dataset as a collection of companies sharing a set of characteristics typical of companies very early in their development stage. The pre-seed stage is defined as a group of young, unbacked startups getting their first check from one or more institutional investors, as well as those raising what is considered to be a pre-seed round by the founder and the investor.

A focus on company characteristics enables the pre-seed methodology to be applied throughout historic deals. Startups raising a pre-seed round in 2023 should be in a similar stage of development as their counterparts raising pre-seed funding 10 or even 20 years ago, irrespective of whether "pre-seed" as a relatively newly coined deal type has picked up popularity in a regional context.

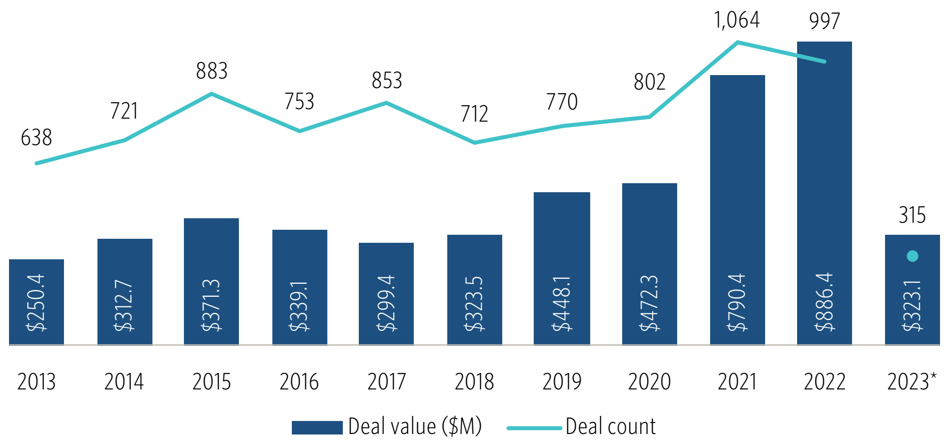
Pre-seed market trends

Global pre-seed deal activity



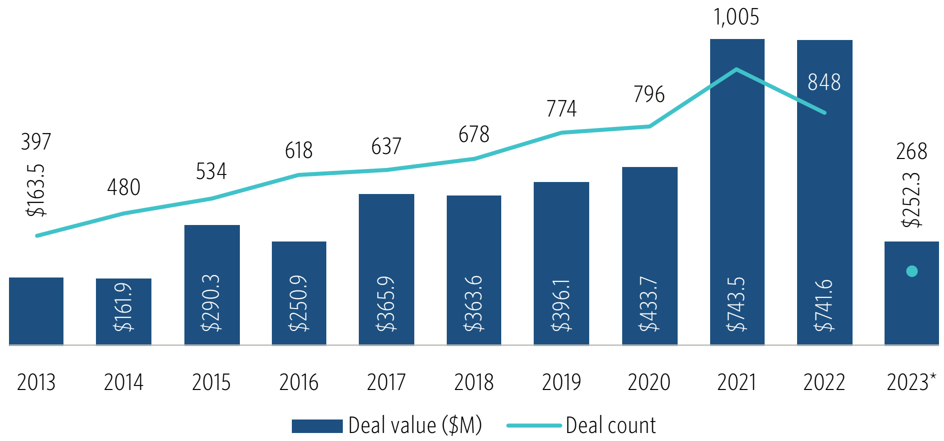
Source: PitchBook • Geography: Global
*As of June 30, 2023

US pre-seed deal activity



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

Europe pre-seed deal activity

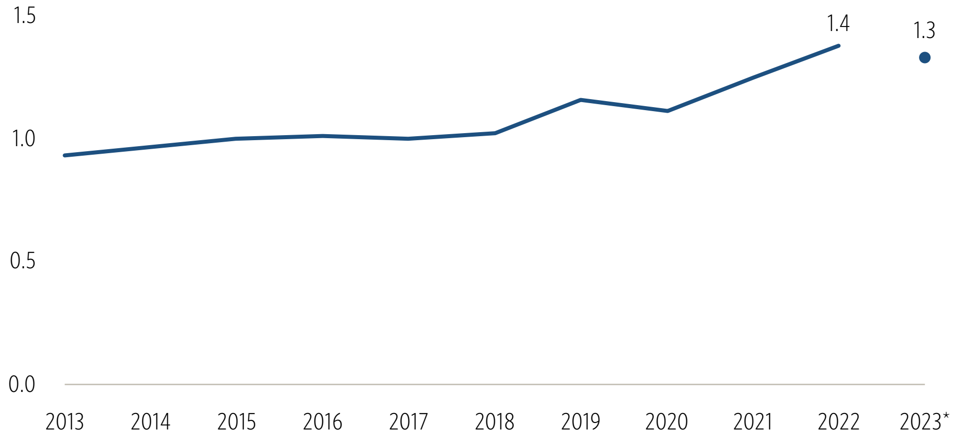


Source: PitchBook • Geography: Europe
*As of June 30, 2023

Typically representing the first "yes" from VC investors to embryonic startups, pre-seed's popularity has grown rapidly over the past decade. Globally, 1,418 pre-seed deals closed in 2016. This annual figure expanded to 1,781 in 2019, representing 25.6% growth, and subsequently peaked at 2,650 in 2021. Taking a close look at the underlying data, an upward trajectory in global pre-seed dealmaking masks an uneven deal count distribution across different geographic regions. The US and Europe have consistently been the driving forces behind the growth in pre-seed deals since their emergence, heavily outpacing other countries and regions.

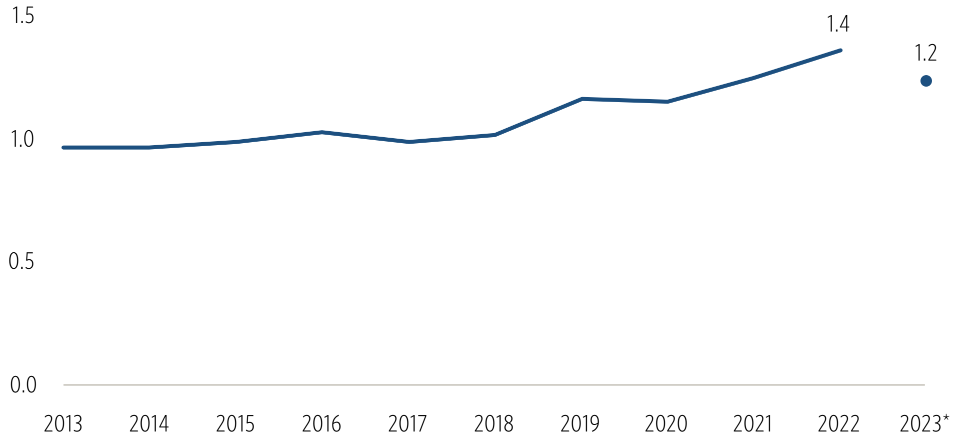
As we tracked deals that were explicitly announced as pre-seed from publicly available sources, we found that pre-seed appeared as early as 2000 in both the US and Europe, although such deals only occasionally occurred back then. The popularity of the term "pre-seed" gradually grew over time, with accelerators and early-stage-focused investors propelling the trend. For example, as early as 2011, Garry Tan, the current President and CEO of Y Combinator, talked about helping "pre-seed startups" when he first joined the accelerator as a designer-in-residence.[1] In contrast, so far, pre-seed has not garnered significant interest across the investor base in regions such as Asia Pacific.

Global median pre-seed company time (years) from founding



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

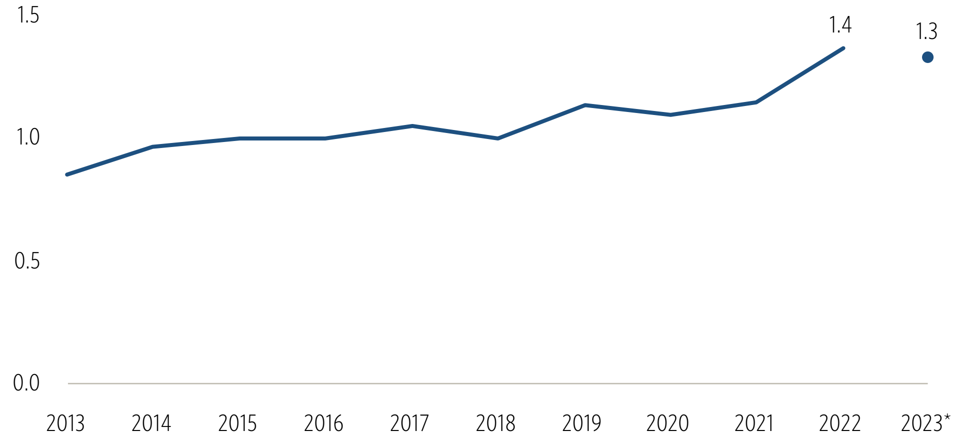
US median pre-seed company time (years) from founding



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

1: "Posterous Cofounder Garry Tan Steps Down, Heads to Y Combinator," TechCrunch, Jason Kincaid, January 14, 2011.

Europe median pre-seed company time (years) from founding



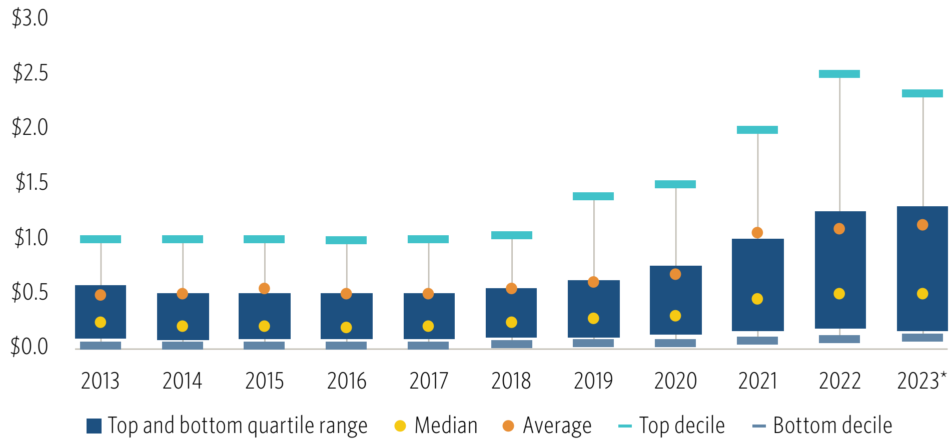
Source: PitchBook • Geography: Europe
*As of June 30, 2023

Between 2021 and June 30, 2023, the median age of global, US, and European startups raising a pre-seed round hovered between 1.1 and 1.4, attesting to their emergent status. At this stage, most startups are pre-revenue, and many do not have a working prototype yet, much less a fully developed product. As a result, pre-seed investors are taking a bold bet on fledgling startups, analyzing and evaluating new investment opportunities in a distinctively different way from their later-stage-focused counterparts. Not only is modeling future growth trajectories for pre-revenue companies a challenging process, but such practice also does not guarantee well-informed decisions. Young startups are more likely to pivot to different business ideas or progress in a different direction, meaning what is being underwritten at the time of the pre-seed investment will very likely change down the road.

When evaluating a potential investment, pre-seed investors aim to gain insights into the drivers of a business and how those key factors might evolve over time. Given nascent startups are unlikely to have developed significant financial metrics, due diligence for pre-seed deals tends to be a quick process, typically completed within a few weeks. Investors conduct a comprehensive check on founders and the business, focusing on a range of factors including—but not limited to—team composition, founder market fit, total addressable market (TAM), customer acquisition cost, and go-to-market strategy. Specifically with founder market fit, investors try to answer a set of questions, including the following: Why and how is the founding team well-positioned to succeed? Have they encountered similar issues they are trying to tackle in their own lives? Will their background help them gain a competitive edge over others trying to solve the same set of problems?

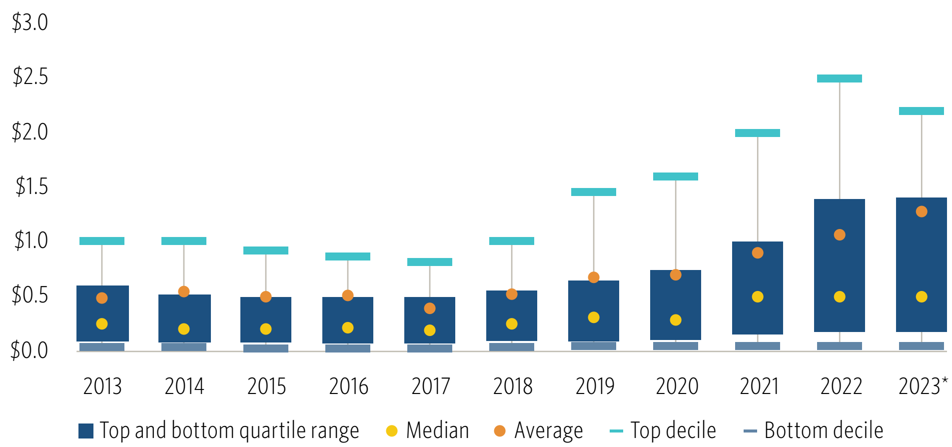
Since this dataset contains such young companies, most fitting the category of a pre-revenue, pre-product company, investors can leverage it to view how similar startups have fared, their deal size and terms, who was on the syndicate, as well as gather information on how to guide emergent startups toward a future seed investment.

Global pre-seed deal value ($M) dispersion by quartile



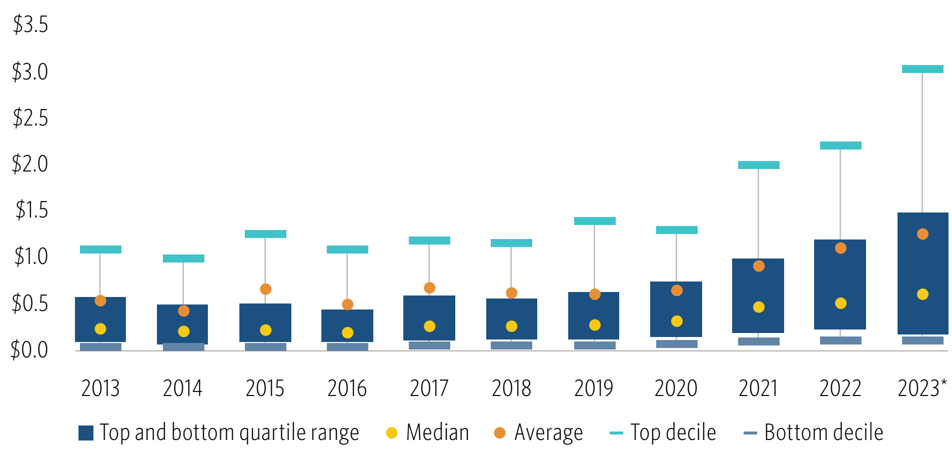
Source: PitchBook • Geography: Global
*As of June 30, 2023

US pre-seed deal value ($M) dispersion by quartile



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

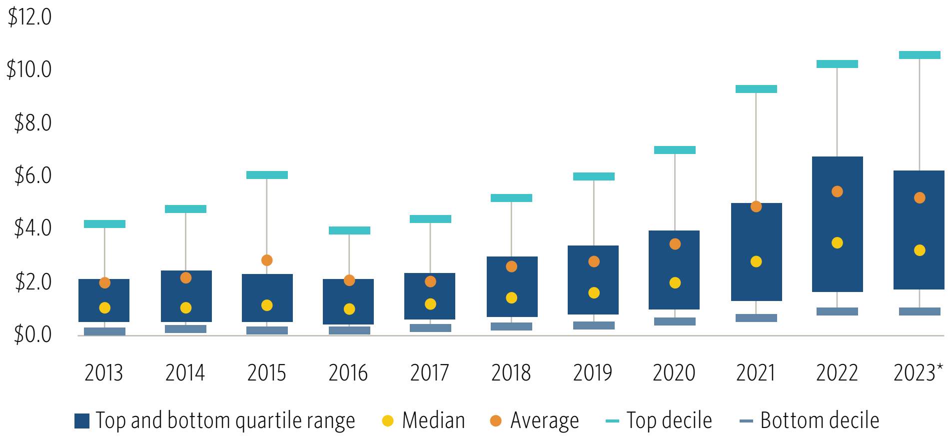
Europe pre-seed deal value ($M) dispersion by quartile



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

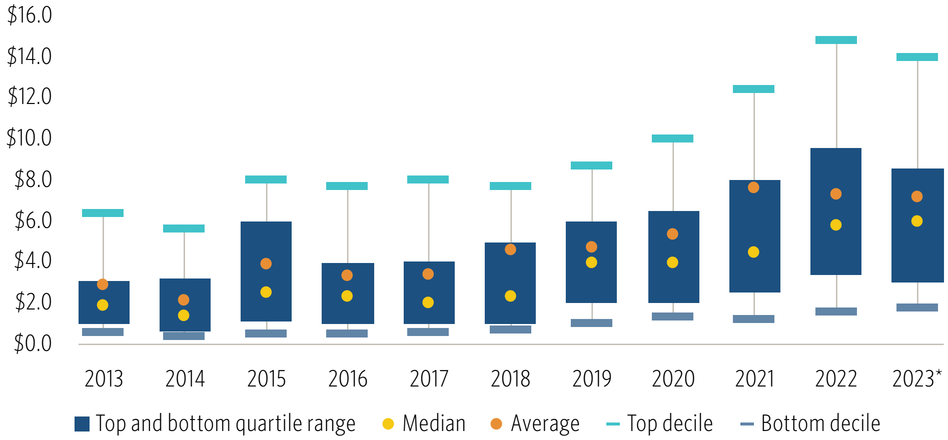
For example, the US pre-seed median deal size has been following a gradual, upward trajectory over the past few years. Between 2018 and 2020, the median pre-seed deal size stayed flat at $300,000, subsequently rising to $500,000 in 2021, and remaining at the same level through June 30, 2023. Global and European pre-seed median deal sizes followed a similar trend during the same period. US pre-seed top quartile deal size, on the other hand, displayed steady YoY growth during the same period. The 2018 figure experienced 133% growth, notching $1.4 million in 2022 and maintaining the same level for June 30, 2023. The market growth of the past decade has not been limited to the later stages of VC.

Global pre-seed pre-money valuation ($M) dispersion by quartile



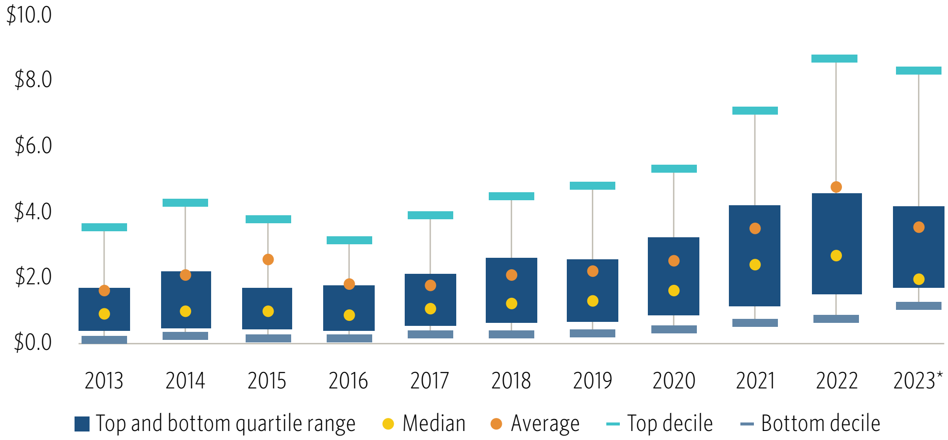
Source: PitchBook • Geography: Global
*As of June 30, 2023

US pre-seed pre-money valuation ($M) dispersion by quartile



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

Europe pre-seed pre-money valuation ($M) dispersion by quartile



Source: PitchBook • Geography: Europe
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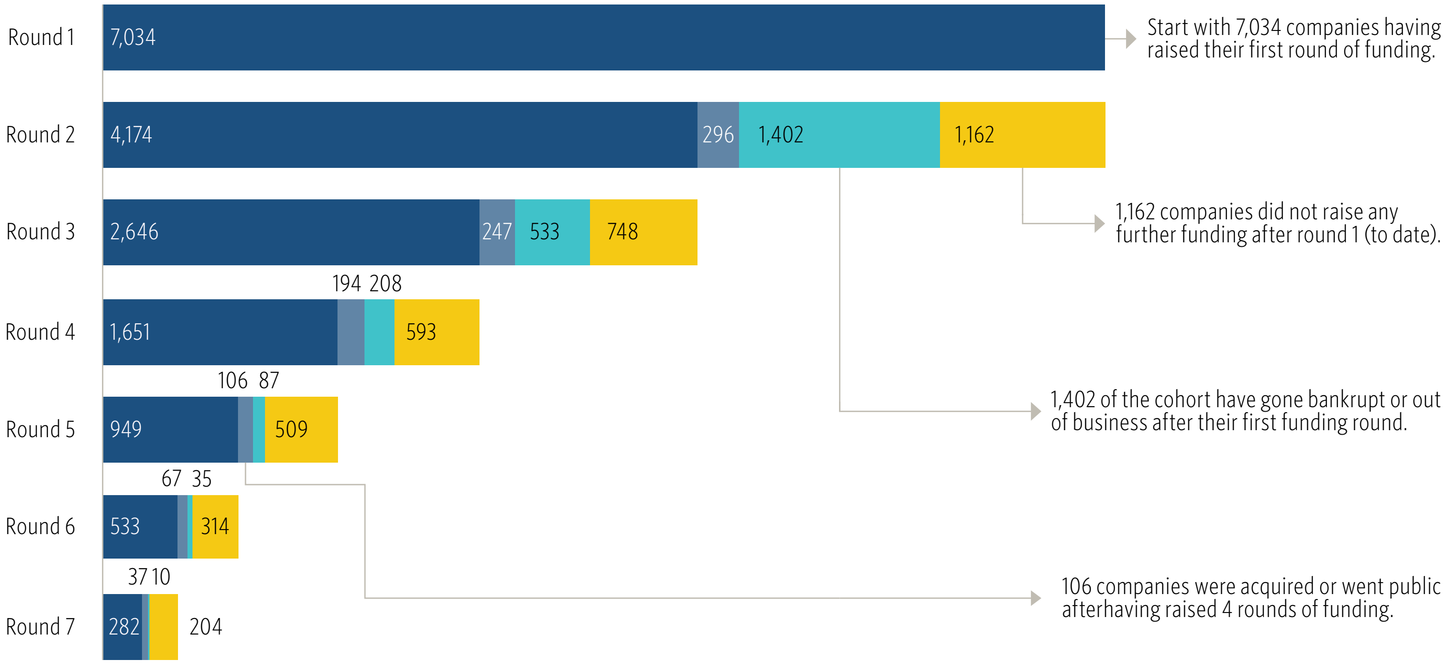
For US pre-seed deals, the top quartile pre-money valuations grew consistently between 2017 and 2022. The median and bottom quartile pre-money valuations largely followed suit, apart from some temporary plateauing of growth.

The pre-seed dataset provides useful information for a variety of market participants, including GPs, LPs, and service providers that are active at the earliest stages of the venture lifecycle. A pre-seed-focused venture fund, for example, can leverage PitchBook's pre-seed data throughout the sourcing, due diligence, investment screening and decision making, as well as portfolio management processes. During portfolio construction, a pre-seed venture fund manager can combine insights gathered from deal size and valuation trends in the dataset along with projected startup mortality rates to determine metrics such as the optimal number of portfolio companies, average check size, and follow-on reserves and investment strategies. In addition, deal activity and median deal size data across the venture lifecycle comes in handy during active portfolio management, where GPs are better positioned to help portfolio companies navigate the latest venture landscape. With the launch of the pre-seed dataset, investors and service providers now have access to timely, more accurate data at the most nascent stage of venture, both to monitor the latest dealmaking trends and to respond to market signals by adjusting their strategies accordingly.

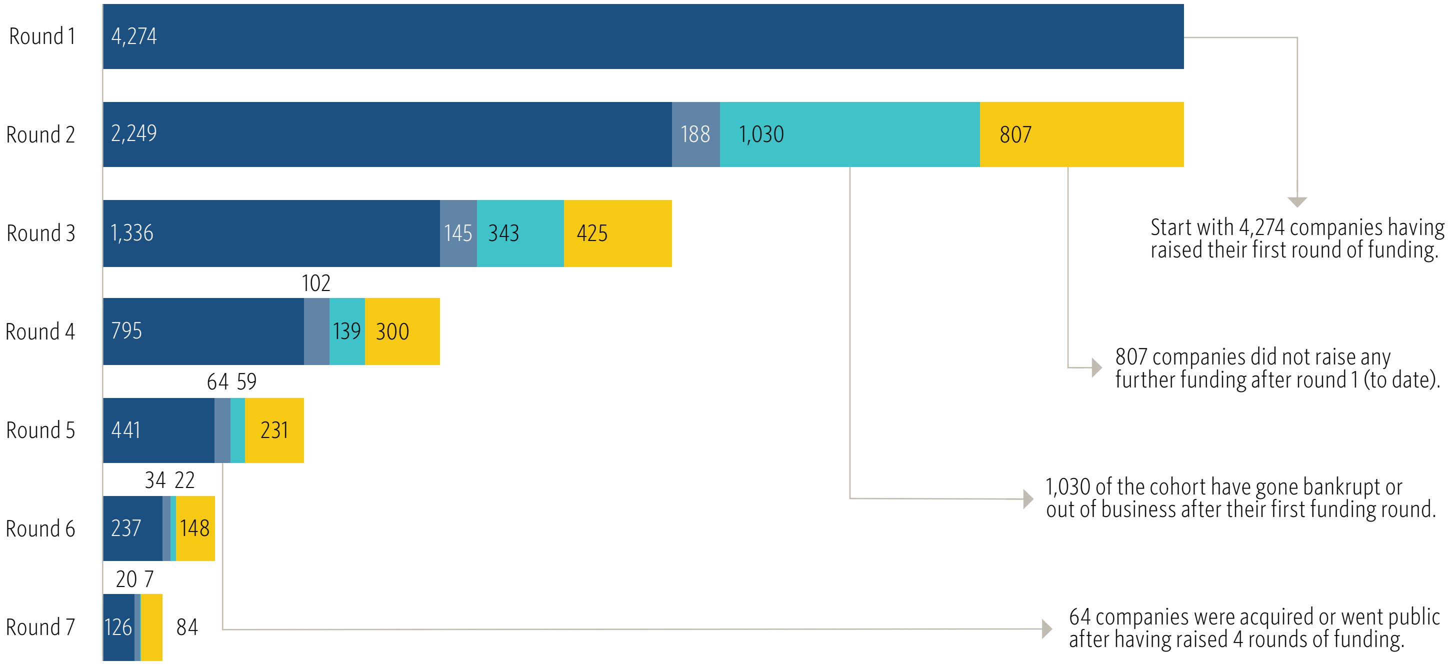
Investing at the pre-seed stage

Global pre-seed VC funnel (2010-2016)



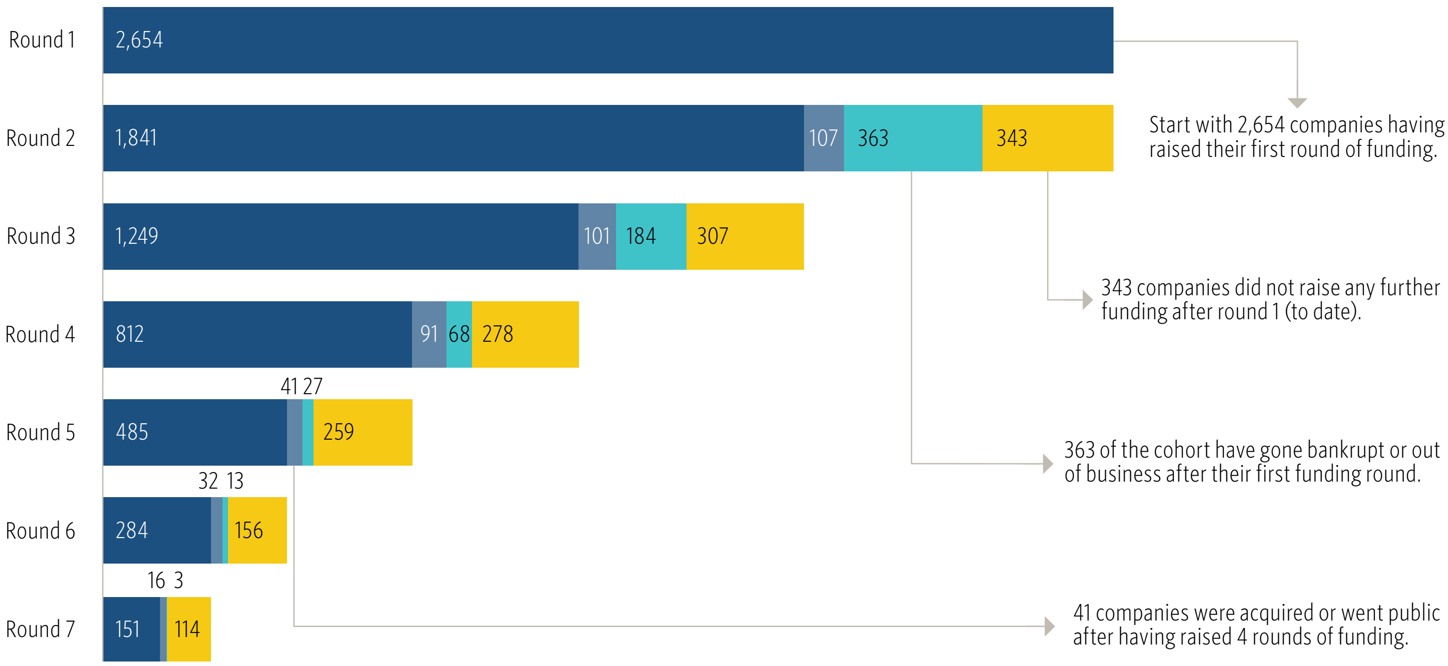
Source: PitchBook • Geography: Global
*As of June 30, 2023

US pre-seed VC funnel (2010-2016)



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

Europe pre-seed VC funnel (2010-2016)



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

Investing at the pre-seed stage is a "high-risk, high-return" strategy. Globally, 7,034 companies raised a pre-seed round between 2010 and 2016. Among this cohort, 2,564, or 36.5%, of those companies never raised a further VC financing round, while 947, or 13.5%, of those companies eventually completed an exit via an acquisition or by going public

While from a GP perspective, portfolio construction approaches could differ greatly—from making concentrated bets to conducting as many investments as possible (a strategy jokingly known as "spray and pray" in an exaggerated sense), a shared, pivotal function of pre-seed funds is to identify and invest in technologies, products, or services that will gain strong traction a few years from the time of investment. In other words, pre-seed investors are tasked with investing in industry sectors, deals, and technology that will command the future.

There are multiple incentives for investors to move upstream in the venture lifecycle to invest at pre-seed, including the pursuit of outsize returns as well as the strategy of avoiding heightened investor competition and inflated deal valuations. Some investors that specialize in earlier stages prefer to invest in pre-seed, where they can secure more shares at a modest price. In addition, to avoid directly competing against multistage investors with significantly larger fund sizes, some GPs have shifted their strategy to invest in pre-seed-stage companies where deal sizes tend to be smaller, and valuations are relatively insulated from immediate macroeconomic challenges.

Similar to other stages of the venture lifecycle, each pre-seed fund manager has a unique investment thesis and a set of preferences regarding deal and founding-team attributes. Given the high-risk profile of pre-seed-stage startups, investors take a variety of approaches to mitigate risk amid the ongoing market volatility. While some managers only invest in revenue-generating startups, some place heavier emphasis on the TAM and founding team composition. From anecdotal sources, the preference for companies operating with a B2B business model over B2C is broadly acknowledged and endorsed by pre-seed investors. The reasons for this perference of enterprise-oriented companies include a higher level of consistency with enterprise returns and the significantly lower capital cost to acquire customers for certain models, such as B2B SaaS platforms, compared to a typical B2C product.

At its core, pre-seed presents investors with an opportunity to focus on economic and venture ecosystem development. A prominent example of this is university- and government-sponsored investment, both of which are incentivized to support founders. Globally, many higher education institutions have established venture arms that invest in initiatives founded and operated by students, researchers, or alumni. Those university-affiliated venture programs offer a variety of initiatives, such as running equity-free accelerators, offering incubation support, and writing the first check to pre-seed stage startups. For example, Australia's University of Melbourne established the Genesis Pre-Seed Fund in partnership with the Victoria state government to foster growth in research and entrepreneurship with ties to the university.[2]

In addition, regional governments may allocate dedicated funding to select GPs at a regular cadence to support local entrepreneurship development, generally targeting young startups that need external assistance the most. For instance, in the US, the Indiana state government allocates funding to locally based GPs to invest in pre-seed rounds of Indiana-based startups to foster regional entrepreneurship development, thereby creating more jobs in the ecosystem for the long haul.

Over the past couple years, the pre-seed investor base has widened as a growing number of investors have started considering specializing in or expanding into the earliest phases of the venture lifecycle. Some early-stage VC firms and nontraditional investors, such as corporate venture capitalists (CVCs), became actively involved in pre-seed deals. And a growing number of accelerators, following the lead of large-scale ones with a global presence, such as Techstars, 500 Global, and SOSV, have become more engaged in making venture investments by extending beyond the underlying accelerator model, often to double down on their best-performing portfolio companies. Those entities also tend to set up funds with capital reserved for making follow-on rounds, ranging from pre-seed all the way to deals with designated series. For example, Techstars' Accelerator Fund invests in pre-seed stage startups from their accelerator programs, while their Venture Fund makes follow-on investments for accelerator graduates.[3]

2: "University of Melbourne Genesis Pre-Seed Fund," The University of Melbourne, n.d., accessed September 8, 2023.
3: "Invest in the Future of Startups With Techstars," Techstars, n.d., accessed September 8, 2023.

Moving forward

Although the 2021 capital exuberance is now in the rearview mirror, investor enthusiasm for the pre-seed stage has persisted and grown further, a trend we expect to continue. Several factors help explain why more GPs have turned their eyes to pre-seed and LPs plan to maintain exposure to the earliest stages of venture. First, betting on the right companies early on, when deal size and valuation are modest, leads to the prospect of generating outsized returns either via an exit or when a GP decides to sell its stake in a secondary transaction. Second, the earliest part of the venture lifecycle is more insulated from macroeconomic challenges than its late- and venture-growth-stage counterparts. The nascency of pre-seed companies means that founders have multiple years to refine and grow their business before acting upon an exit strategy. In addition, for nontraditional investors such as CVCs that are looking to reap long-term, strategic benefits for their parent organizations, pre-seed stage deals provide an opportunity to tap into innovative startups that hold the potential to eventually disrupt existing markets.

For a fund with heavy exposure to the earliest stages of venture, an investor needs to invest in the right company with the right founder and having the right amount of ownership. To be successful at the pre-seed stage, a VC fund needs to stay focused on its portfolio construction strategy and closely monitor portfolio company performance and whether the expected graduation rate is met, as well as account for ownership dilution over time. The introduction of PitchBook's pre-seed dataset aims to shed light on this earliest stage of venture to provide investors, companies, service providers, and other relevant stakeholders with more accurate and comprehensive deal analysis going forward.