PitchBook

Q3 2023

US VC Valuations Report

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Shareholders May be Expecting Liquidity - How Will You Respond?

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

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

Discover what steps you can take to stay transaction ready and manage the expectations of your shareholders ahead of a future IPO or liquidity event.

Request a Transaction Readiness Assessment

1 Morgan Stanley at Work 2023 Liquidity Trends Report

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Contents

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.

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

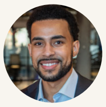
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Kyle Stanford, CAIA
Lead Analyst, Venture Capital
kyle.stanford@pitchbook.com

Max Navas
Analyst, Venture Capital
max.navas@pitchbook.com



Vincent Harrison
Analyst, Venture Capital
vincent.harrison@pitchbook.com

Data

Susan Hu
Senior Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Chloe Ladwig and Jenna O'Malley**

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Click here for PitchBook's report methodologies.

Key takeaways

The pre-seed and seed markets have remained steadfast against market headwinds. The formulaic nature of dealmaking, qualitative-focused due diligence efforts, and surplus of smaller VC funds closed in recent years have kept deal metrics afloat and even contributed to record highs, such as the Q3 median seed deal size of $3.3 million. While we do not expect to see significant deal-metric growth in the near term, we do not expect to see a deal-metric correction soon either.

The early stage continues to be a flashpoint for value creation, as evidenced by the closing gap between seed and early-stage deal metrics resulting in a decade-low RVVC figure of 35.3%. The increased focus on strong financials and paths to profitability has raised the bar for receiving investments and has led more startups to raise bridge rounds rather than chance raising a new series round in which they may be unable to meet investors' financial expectations.

The overcapitalization of late-stage startups has allowed many to stave off raising new capital amid the harsh dealmaking environment, pushing the 2023 YTD median time between rounds to 1.72 years, the highest of any stage. The late-stage startups that are returning to market likely raised their previous rounds at high valuations during the frothy environment in late 2021, and their successful raises in Q3 have resulted in a quarterly increase in the median pre-money valuation to $63.0 million.

Venture-growth-stage startups face the harsh reality that median deal metrics have fallen more than 60% from record highs in recent years. The prolonged lack of liquidity and pullback of nontraditional investors have provided active investors ample leverage to demand higher equity stakes, with the 2023 YTD median notching a decade high of 14.9%. Worse yet, the volatile macro environment has even left some venture-growth startups incapable of raising new capital, forcing them to seek out potential acquirers or shut their doors.

Despite some recent encouraging IPOs, the overall IPO market remains quiet. Only 27 public exits worth about $21.9 billion total occurred in Q3, an improvement from Q2 but far below previous years. Notably, Instacart and Klaviyo went public at reduced valuations compared with their last VC rounds, signaling caution for high-growth yet unprofitable startups. Moreover, median public listing valuations are at a 10-year low, indicating reduced investor enthusiasm. In contrast, M&A deals have seen an increase in median valuations, a reflection of a growing preference for established, high-performing companies.

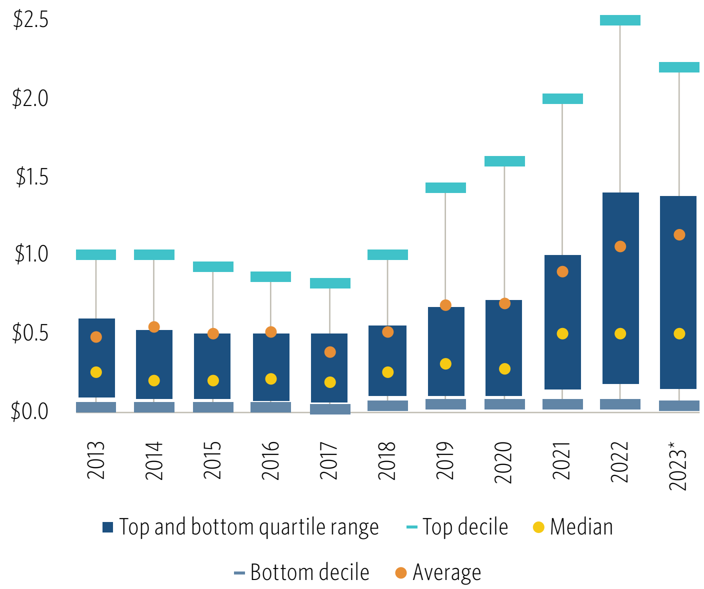
Pre-seed and seed valuations

Within our pre-seed data, we can more clearly see that the most nascent venture stages continue to remain insulated from the liquidity crunch and macroeconomic volatility. Pre-seed startups' deal metrics remain relatively unchanged due to the formulaic nature of dealmaking at this stage. The 2023 YTD median deal size and median pre-money valuation of $500,000 and $5.7 million, respectively, are roughly flat from 2022 figures. One of the more influential factors impacting pre-seed deal metrics is startup headquarter location because the cost of employee wages and office space can vary widely. Our data shows that the median pre-seed deal size in California is $900,000, while in Texas it is just $400,000. Consequently, we see higher valuations in California compared with many other states.

Seed-stage deal metrics have also remained steadfast against market headwinds. Despite the plateauing of the seed median deal size at $3.0 million over the past five quarters, the Q3 median deal size increased, notching a record high of $3.3 million. This increase is suggestive of founder interest in maximizing runway and avoiding returning to market to raise an early-stage round, where they must grapple with

Median pre-seed deal size on par with prior two years

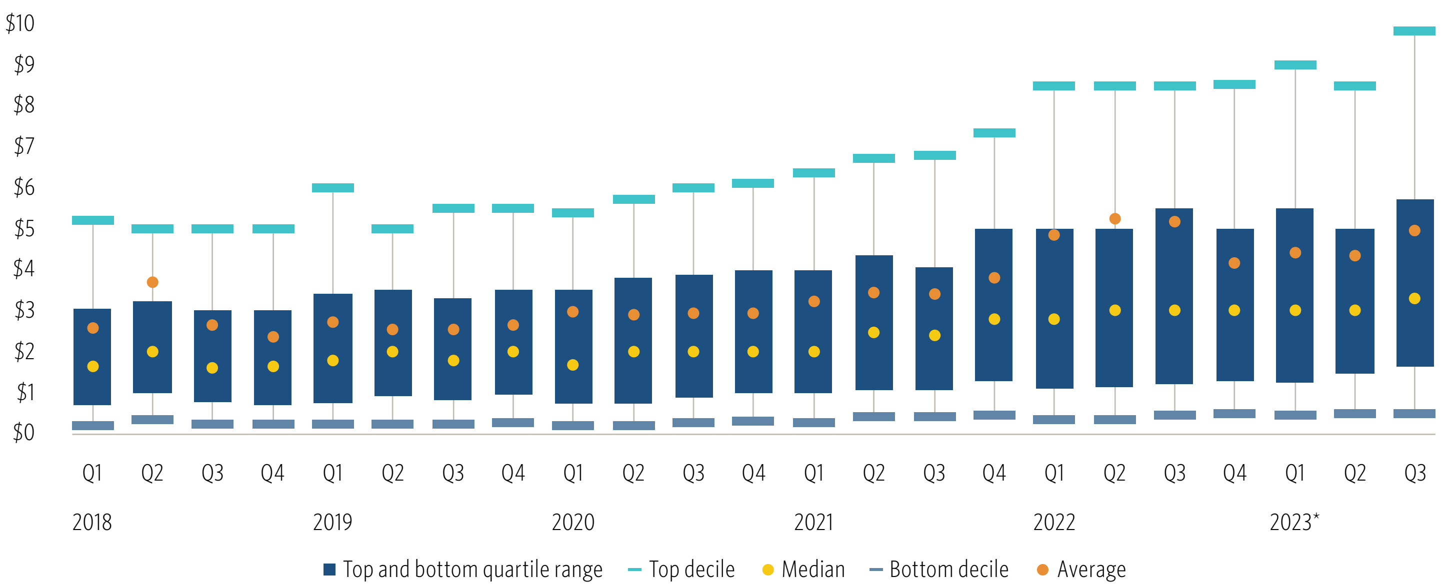
Pre-seed deal value ($M) dispersion



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

Seed deal size experiences modest ascent in Q3

Seed deal value ($M) dispersion by quarter



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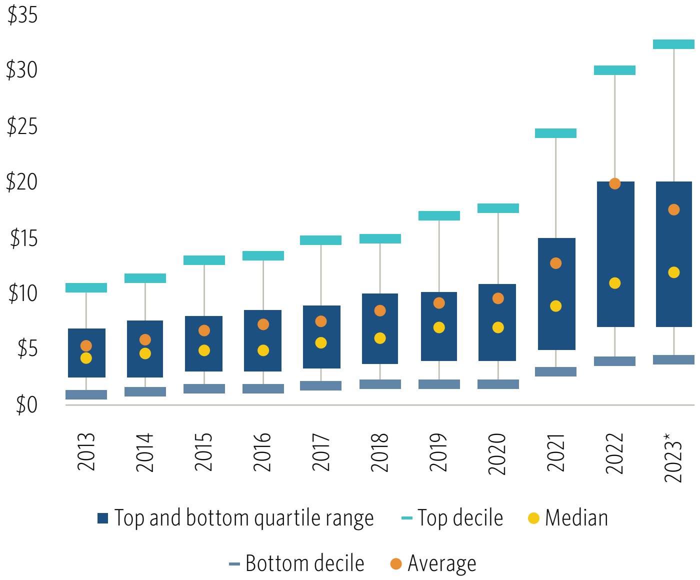
Median seed pre-money valuation hits record high

Seed pre-money valuation ($M) dispersion



Source: PitchBook • **Geography:** US
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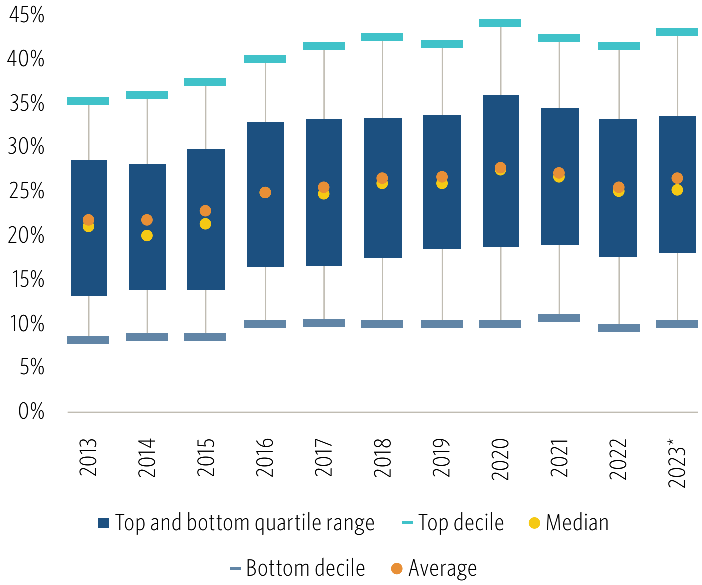
Seed share acquired inches above 2022 figures

Seed share acquired dispersion



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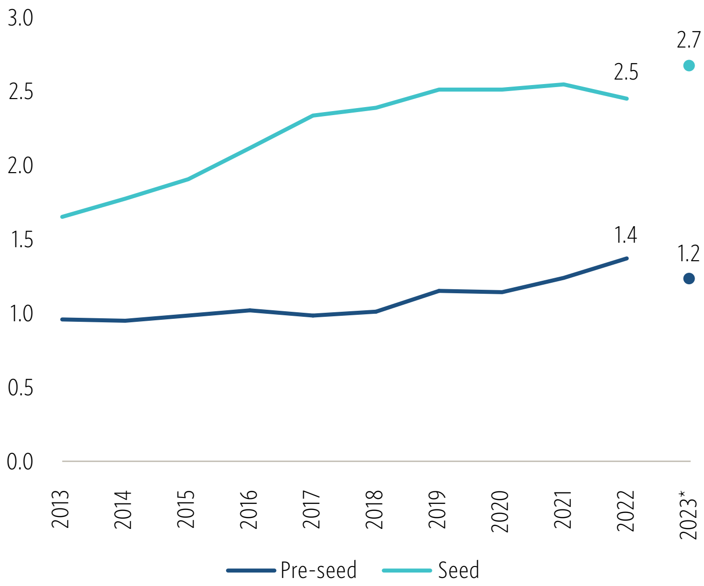
compressed valuations. The Q3 median seed pre-money valuation was $12.0 million, matching two of the past three quarters. For the most part we have seen seed deal metrics, including median equity stakes acquired, stay constant over the past year, likely due the risk associated with their still-evolving products, unproven product-market fit, and investor desire to see valuation markups in subsequent financing rounds. We expect seed-stage deal metrics to remain relatively strong in the near term due to the surplus of smaller VC funds closed in recent years, which can collectively deploy sizable amounts of capital and keep deal metrics afloat. However, should first-time fundraising activity remain depressed and a substantial number of these smaller VCs fail to raise another fund, we expect seed deal metrics to fall in the long term.

Median age of company at seed round hits decade high

Median age (years) of company at time of deal by stage



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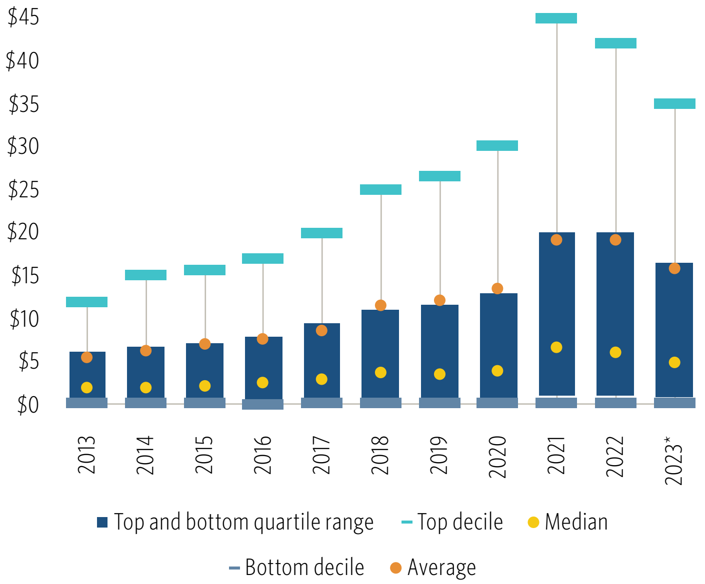
Early-stage VC valuations

Median early-stage deal size remains aligned with long-term trend

Early-stage VC deal value ($M) dispersion



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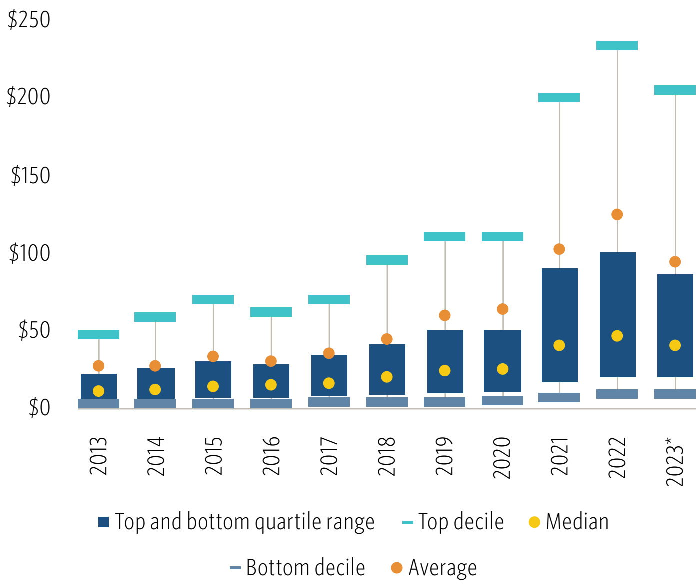
Median early-stage valuation shows signs of stagnation

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



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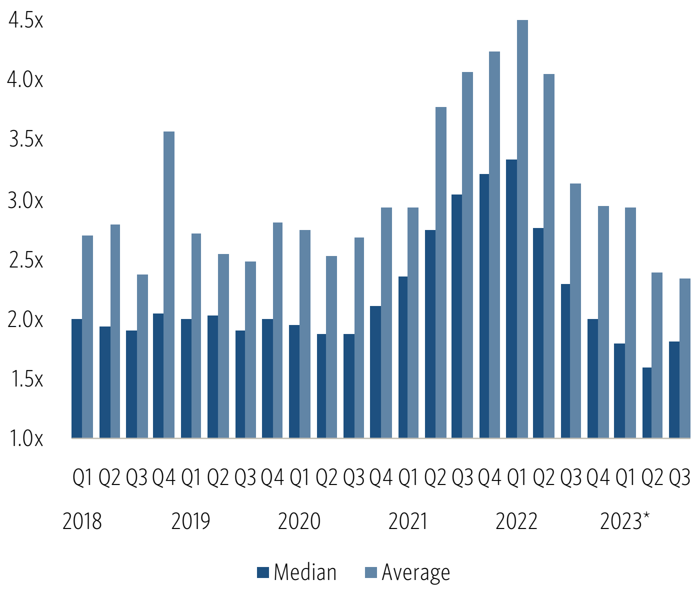
With the Q3 2023 median deal size of $5.0 million and the median pre-money valuation of $40.0 million, early-stage deal metrics sit well below those of recent years. On a quarterly basis, the early-stage median deal size has seen larger fluctuations than the median valuation, likely due to an increase in extension and bridge rounds in an effort by startups to avoid raising a new round in which they may be unable to meet investors' financial-performance expectations. Additionally, early-stage startups will have varying degrees of capital requirements. Early-stage startups that are generating more revenue can reduce their capital dependency on new financing rounds. The median pre-money valuation, on the other hand, has been fairly static at around $40 million for the past year as a result of the increase in flat rounds and the more investor-friendly dealmaking environment leading to less investor flexibility at the negotiation table when it comes to pushing the upper bound of this metric.

The closing gap between seed and early-stage deal valuations is leading to an erosion of value creation between stages, illustrated by the 2023 YTD median early-stage step-up and RVVC figures falling to near-decade lows of 1.7x and 35.3%,

Q3 median step-up sees QoQ increase

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



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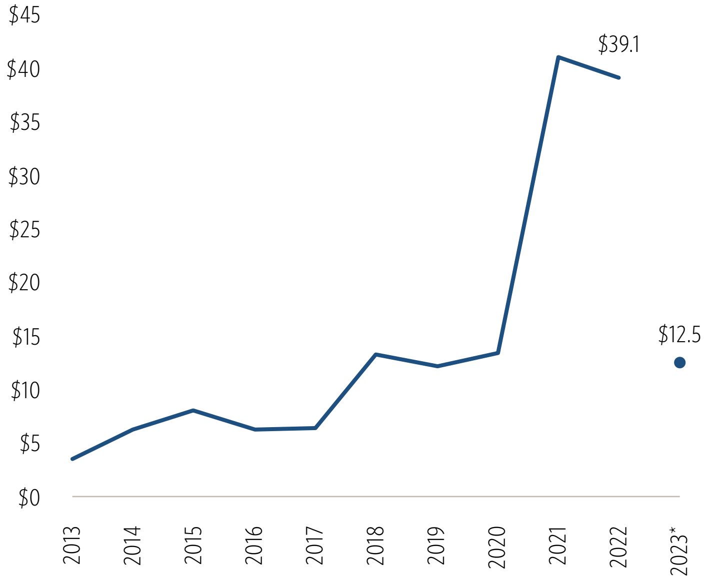
respectively. Value creation between stages is crucial to propelling startups through fundraising cycles. For many investors, anything other than an increase in valuation between rounds can be a signal of underlying issues and can elicit greater caution. To mitigate these issues, early-stage startups are taking more time between financing rounds to demonstrate their growth and reach attractive valuations that will substantiate new investor interest.

Amid this push for demonstrable growth, lower-quality startups are not getting funded in the current market environment. In Q3, the bottom-quartile valuation at the early stage rose to a record high of $23.9 million, which is suggestive of a higher bar that has been set to receive investment and the added pressure on VCs to be more prudent in deploying capital and setting themselves up to achieve target return profiles. Despite this, higher-quality startups returning to market are required to give up larger equity stakes. The Q3 2023 median share acquired reached 24.0% for early-stage companies, hitting an 11-quarter high and nearly aligning with the roughly 25% share acquired we have seen for early-stage companies for the better half of the past decade—a signal that we have abandoned the founder-friendly environment of recent years. High-quality startups should be prepared to give up nearly one-quarter of their company's equity at the early stage in order to successfully secure funding and pursue further growth.

Median early-stage velocity of value creation (VVC) remains above pre-2020 figures

Median early-stage VVC ($M) between rounds



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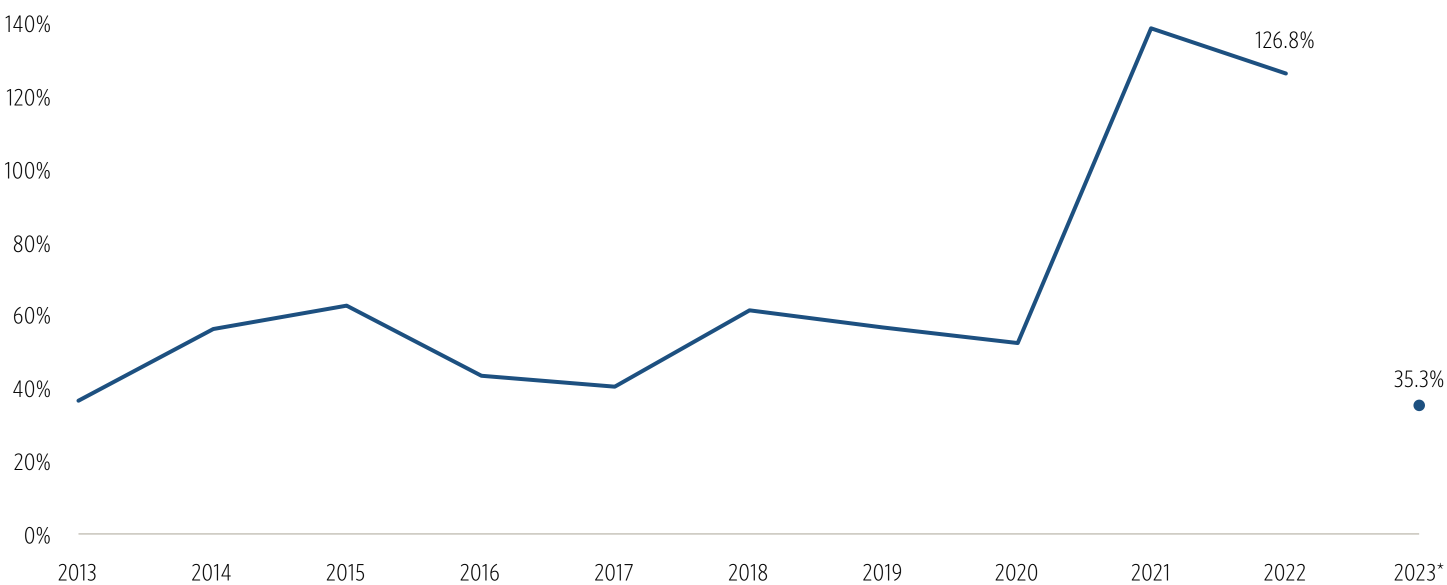
Median early-stage relative velocity of value creation (RVVC) settles at a decade low

Median early-stage RVVC between rounds



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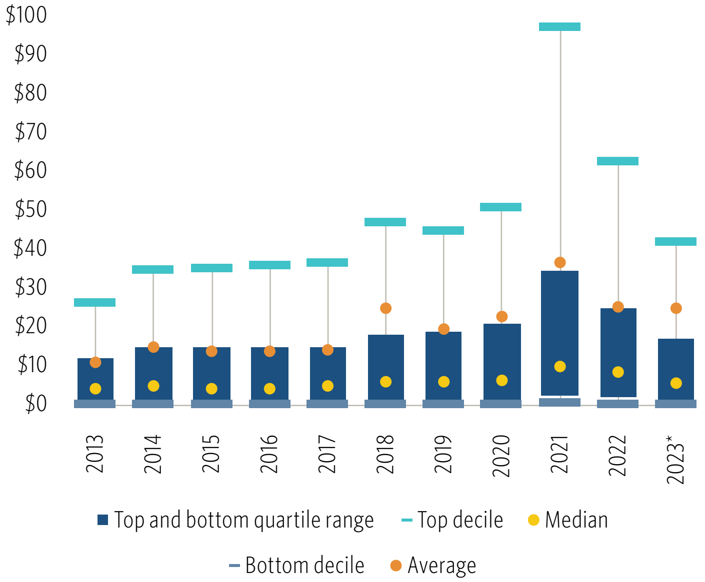
Late-stage VC valuations

Median late-stage deal size on pace to hit a six-year low

Late-stage VC deal value ($M) dispersion



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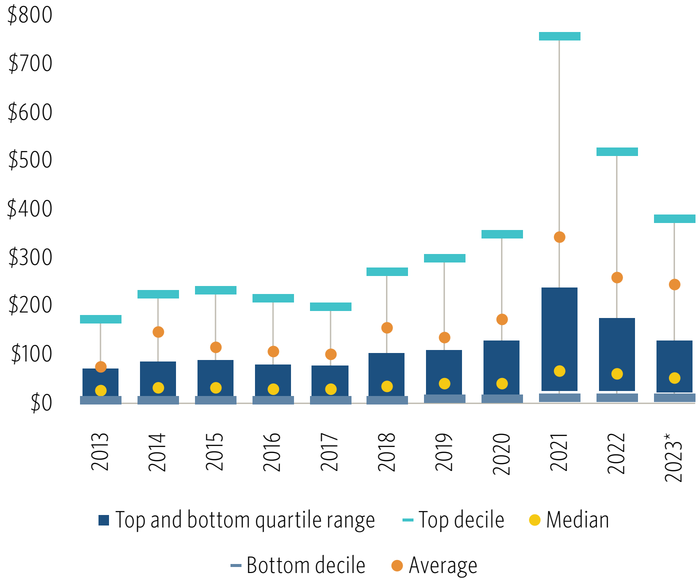
Median late-stage valuation down 22.4% from 2021 record high

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



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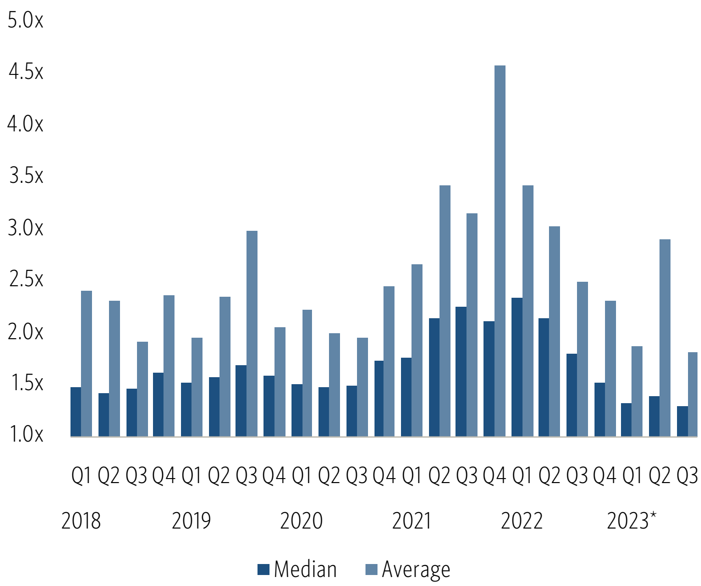
The late stage continues to be battered by the market. While many late-stage startups are mature enough to have been able to take advantage of the loose financing market of recent years and overcapitalize themselves, the sheer size of the late-stage company inventory—roughly 15,000 as of Q3 2023, and 5,000 more than we saw at the start of 2020—makes the already-competitive market that much more cutthroat.

The Q3 2023 median late-stage deal size landed at $5.9 million, representing an 8.0% decrease from the prior quarter's median and setting up the 2023 full-year median to hit a six-year low. Many late-stage startups have scaled their businesses and secured larger streams of recurring revenue, allowing them to model out their businesses' cash flow more easily and supplement their external financing needs. Those forced to return to market due to low cash reserves and revenue streams that are unable to keep pace with their capital requirements are looking to minimize the capital they must raise in this harsh dealmaking environment. The variances in late-stage capital needs has resulted in broad fluctuations in the median deal size on a quarterly basis, ranging from $5.0 million to as high as $6.4 million over the past four quarters.

Median late-stage step-up falls to a near-decade quarterly low

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



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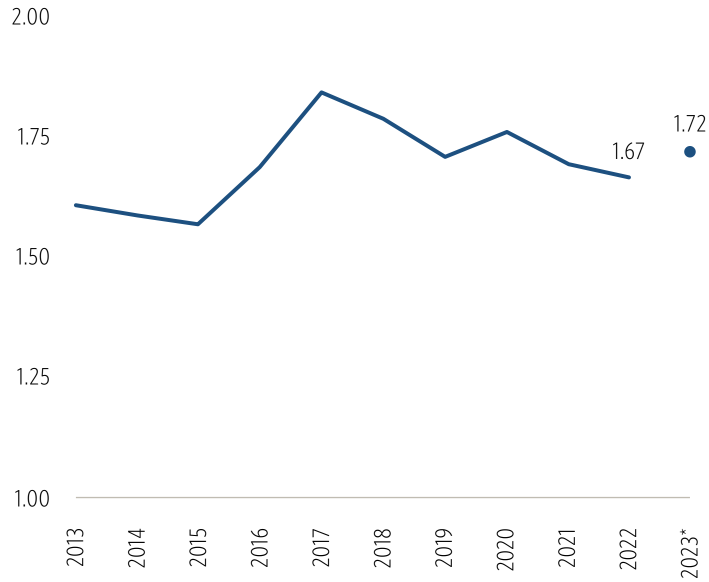
Despite the 2023 YTD median late-stage pre-money valuation of $52.0 million sitting 15.1% below the 2022 median, the median has experienced steady growth on a quarterly basis. In Q3, the median late-stage pre-money valuation increased for the second consecutive quarter, landing at $63.0 million. While this may suggest that higher-quality startups are returning to market, we have seen the median time between rounds increase to 1.72 years for late-stage companies, the highest of any stage, indicating that these startups raised their last rounds at the peak of valuations in late 2021 and early 2022. While we have seen a significant increase in the estimated down rounds, with the Q3 estimation ticking up to a near-decade high of 17.1%, a sizable portion of companies are still able to raise at higher valuations and are pushing up deal metrics. Despite the positive growth of valuations in recent quarters, we have yet to witness a revival of nontraditional investor participation; therefore, the quarterly growth in valuations could misrepresent investor exuberance and a true deal-metric rebound.

Late-stage median time between rounds trends upward

Median time (years) between rounds for late-stage VC companies



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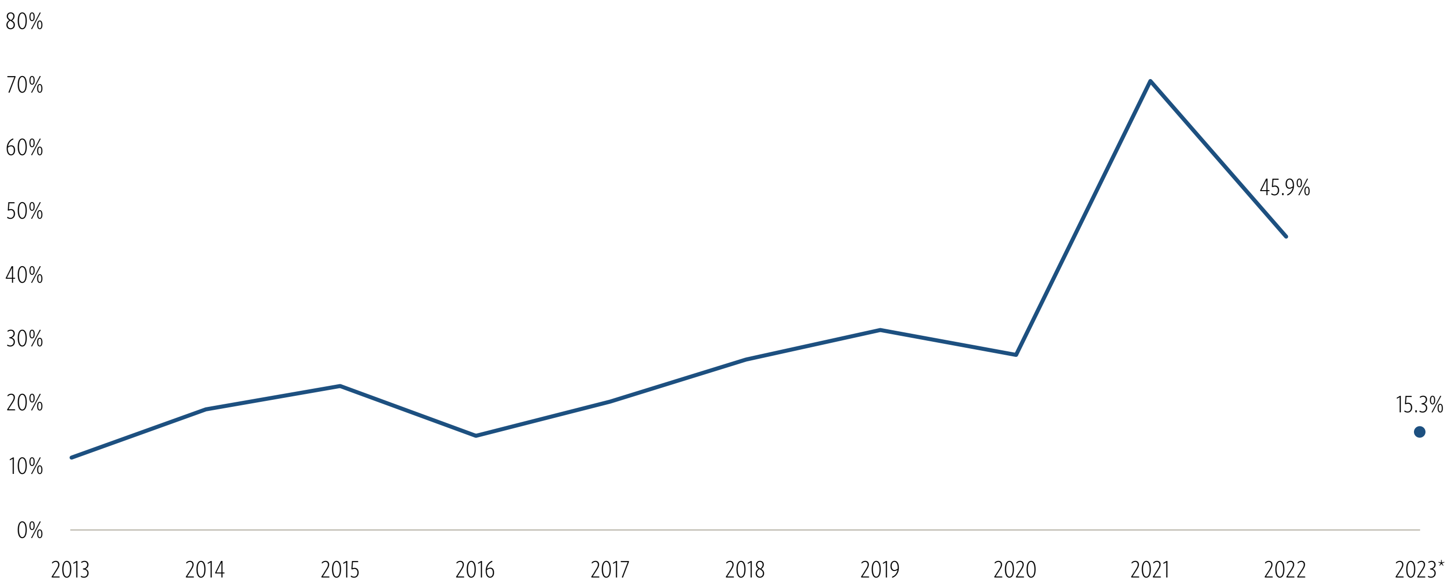
Lowest median RVVC figure since 2016

Median late-stage RVVC between rounds



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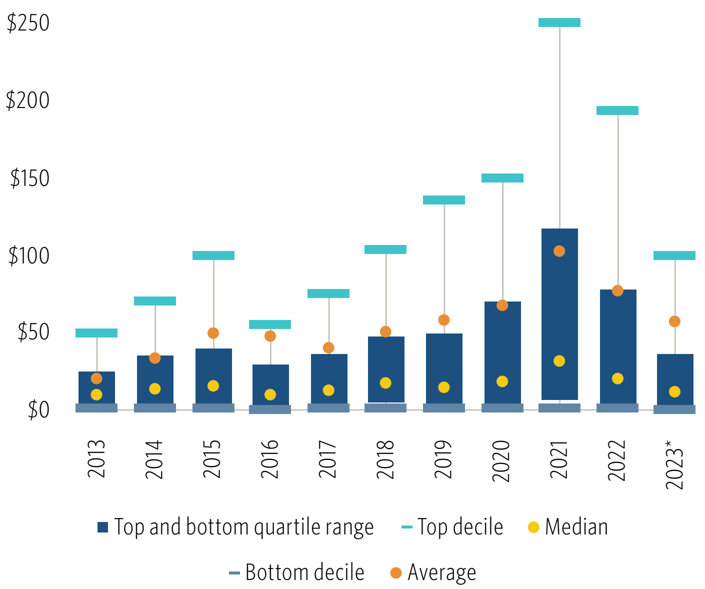
Venture-growth valuations

Median deal size declines to seven-year low

Venture-growth deal value ($M) dispersion



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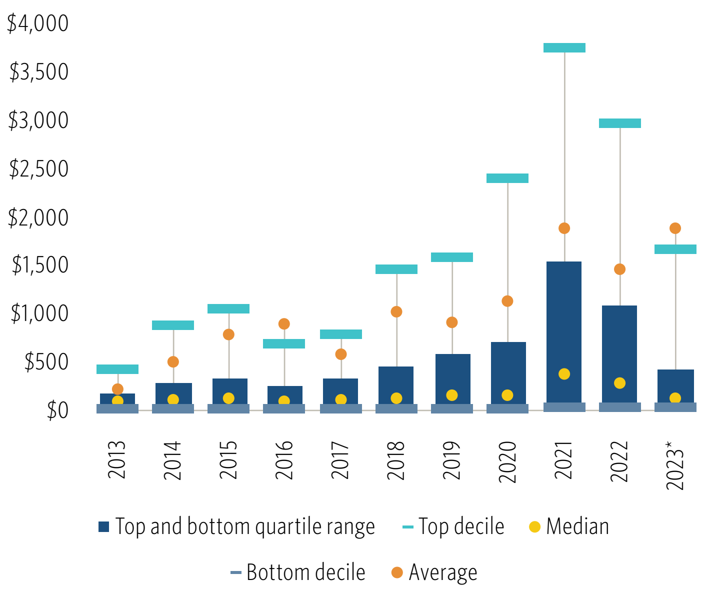
Median valuation falls 65.2% from 2021 record high

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



Source: PitchBook • **Geography:** US
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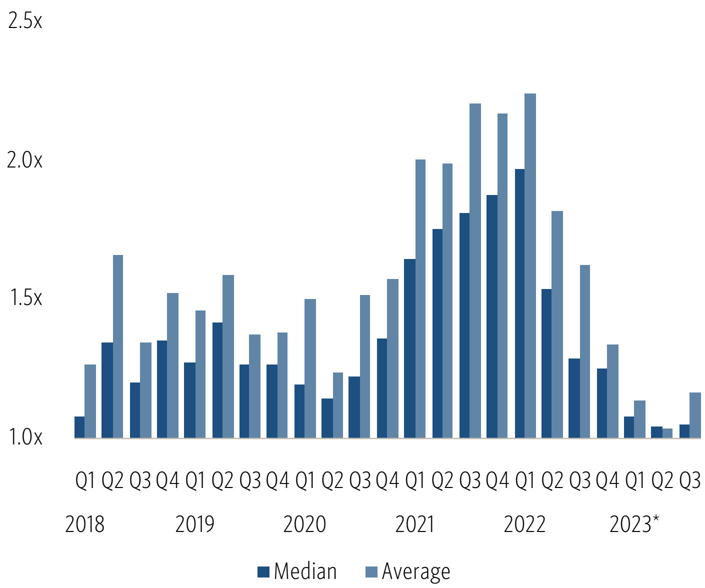
The venture-growth stage remains the most contentious stage for dealmaking due to the mismatch of founder and investor valuation expectations as well as public and private valuation expectations. Despite several notable VC-backed IPOs in 2023, including those of Cava, Instacart, and Klaviyo, their subsequent lackluster stock performance has left many venture-growth-stage startups apprehensive about pursuing public listing as a means to liquidity. Instead, many of these startups have chosen to bide their time by extending cash runways through headcount and variable costs reductions, all the while evaluating alternative paths to liquidity, such as acquisitions. As a result, we have seen the median time between rounds reach a five-year high of 1.46 years as venture-growth startups attempt to stave off the need for external capital.

Those that must return to market face a harsh reality. The venture-growth stage has experienced the most drastic compression of all venture stages, with the 2023 YTD pre-money valuation of $129.6 million representing a 65.2% decline from the 2021 record high. While we have seen notable improvement on a quarterly basis with the Q3 median valuation reaching $260.0 million, this stage relies heavily on the participation of nontraditional investors to support

Median venture-growth step-up stagnating near 1.0x

Median and average venture-growth valuation step-ups by quarter



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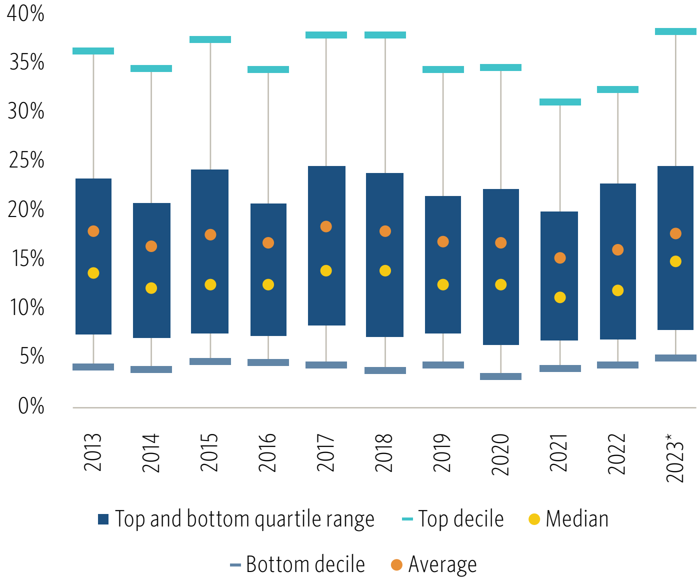
larger financing rounds and to signal the strength of a startup to other investors. The pullback of nontraditional investors has likely contributed to the broad quarterly variance in the median venture-growth-stage valuation. Furthermore, venture-growth startups have more flexibility in timing their fundraises due to their overcapitalization in recent years and their larger operations that are able to mitigate their high monthly burn rates.

Venture-growth-stage startups, more than their early- and late-stage peers, are choosing to raise only necessary amounts of capital due to the larger equity stakes required by investors; the 2023 YTD median share acquired sits at a decade high of 14.9%. Consequently, the 2023 YTD median deal size has fallen 62.1% from its 2021 record high, landing at $11.9 million and hitting a seven-year low. Closing a venture-growth round amid the prolonged liquidity crunch and pullback of nontraditional investors is commendable because the heavily investor-friendly environment has left some companies incapable of raising new capital. Such is the case with Seattle-based trucking startup Convoy, once valued at $3.8 billion, which shut down after failing to find an acquirer for its technology or securing new capital. Should this harsh dealmaking environment and lack of liquidity persist through the coming year, we could see more venture-growth startups once heralded as industry-disrupting unicorns fall by the wayside.

Investor equity stakes reach decade high

Venture-growth share acquired dispersion



Source: PitchBook • **Geography:** US
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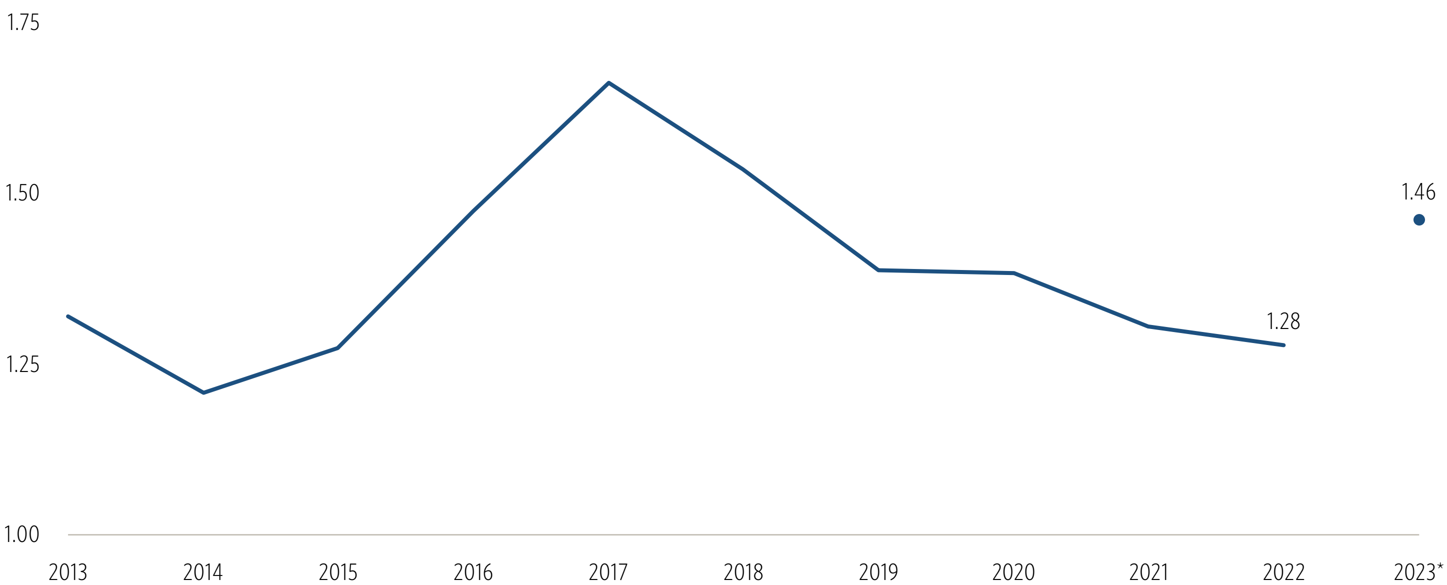
Startups push median time between rounds to five-year high

Median time (years) between rounds for venture-growth companies



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A WORD FROM MORGAN STANLEY AT WORK

How Secondary Transactions Can Help Solve Private Company Liquidity Needs

Who is Morgan Stanley at Work?

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

Our global Equity Solutions provide innovative private companies with cap table and equity compensation management, financial reporting, and 409A valuation services. Our growing liquidity business is built on issuer-led events, such as tender offers and continuous liquidity programs, and since its inception, we have executed more than 100 private liquidity events and more than $19 billion in secondary transaction volume as of Q3 2023.

Jeff Urban

Managing Director, Private Secondary Transactions

Jeff leads the Morgan Stanley Wealth Management Private Transactions Desk, with a focus on secondaries in venture-backed companies. He is an established public and private markets executive with 25 years of experience in equity capital markets and fintech. Before joining Morgan Stanley, Jeff drove innovative private capital liquidity origination and managed the Investor Coverage team at CartaX, the private capital markets division within Carta. Prior to that, Jeff spent 17 years at RBC Capital Markets, LLC, leading numerous institutional equity distribution, deal syndication, corporate access, and client strategy teams.

Q: What secondary transaction activity are you seeing in the private markets?

As more venture-backed companies have chosen to stay private longer, the demand for a holistic approach to employee and investor liquidity has accelerated. At the same time, valuation uncertainties have frozen the IPO on-ramp and stifled private capital raises. Given these factors and the expanded exit timeline, the need and demand for both employee and investor liquidity continue to increase. As a result, and specific to Morgan Stanley, we have seen a material increase in inquiries on behalf of our wealth management and Morgan Stanley at Work clients to represent their liquidity needs against this challenging, and rapidly evolving, market backdrop. And we are here to help—by managing the friction sometimes associated with executing secondary transactions and providing support as a trusted thought leader when it comes time to make critical decisions.

Despite this growing interest, the general view among secondary investors may be that many private market valuations have not yet reconciled with those of their public market peers. This has resulted in a material bid-ask spread between buyers and sellers for many private companies. In many cases, secondary transactions cannot be matched on price, despite there being significant quality buyside interest in a company. Specific to growth-stage secondary investing, there has also been a narrowing of focus on the perceived highest quality and sustainable companies. There are strong considerations on behalf of companies as to the type of investor seeking direct access to their cap table. Despite the current backdrop, there have been several recent high-profile IPOs, and the market is beginning to see improved volumes from the depressed levels we have seen over the past year.

At Morgan Stanley, we believe current market conditions have created a need for a strong client-centric approach to the secondary markets that constructively meets the demands of companies, employees, and investors.

Q: What pain points do secondary transactions solve?

Under the right circumstances, secondary transactions can be beneficial for companies, investors, and shareholders. For companies, a structured approach to secondary liquidity can support employee retention and recruitment. Investors can tap the secondary markets to provide liquidity to their limited partners and position themselves for future fundraises.

For employees, management teams recognize the need to provide liquidity opportunities to their employee base. Liquidity allows them to realize some of the value of their equity, which can also help them feel more engaged in the workplace. While many companies run broad-based liquidity events at varying frequencies, often a financial need for a key employee emerges outside these events. A secondary transaction, whether with an existing or new investor, can provide the company and employee with an attractive path. Meanwhile, investors can leverage secondary transactions to increase their current investment in the company or get the opportunity to initially invest and build a relationship with the management team in certain situations.

Morgan Stanley's Wealth Management Private Transactions Desk assists in solving this historical trading friction, driving liquidity solutions for employees and investors alike, which has been rewarding to be a part of.

Q: How can private companies leverage secondary transactions to drive liquidity outcomes?

Morgan Stanley at Work is a leader in company-sponsored liquidity programs, which allow companies to grant secondary liquidity to shareholders in an organized and controlled process. Demand for liquidity programs remains strong among companies with large numbers of shareholders that want partial or full liquidity for their shares.

However, liquidity programs can be resource-intensive and require strong balance sheets in the absence of raising capital. In 2022, we launched a private transactions desk that offers liquidity on a more bespoke basis, which has led to positive corporate, employee, and investor outcomes as a company navigates its evolution in the private markets. Corporations have engaged Morgan Stanley directly to source liquidity in special situations when it otherwise could not be found.

By leveraging Morgan Stanley's extensive wealth-client network and select private market liquidity partners, our private transaction desk specializes in sourcing liquidity for companies or individual shareholders.

Q: How have your clients benefited from a more bespoke, wealth management-centric approach to the secondary markets?

Since launching the private transactions desk, our firm's advisory groups have been actively sourcing liquidity for clients who could not find it elsewhere. Ultimately, we believe this desk is both unique to the private markets and fully aligned with our goal of solving the capital needs of and diversifying investment opportunities for our wealth management clients.

As one of the leading wealth management firms in the US, we have built tremendous reach into the private markets on both the corporate and investor sides. At the same time, our equity management technology platform Shareworks is the preferred cap table provider for thousands of private companies. We believe the combination of these two factors puts us in a unique position to provide liquidity solutions and bespoke guidance to wealth clients looking to buy or sell secondary shares.

Whether you're a global corporation or a startup, we understand the needs of your company and employees and offer tailored solutions and technology to help meet them. Learn more about Morgan Stanley at Work's offering and explore our Private Company Equity Solutions.

Disclosures

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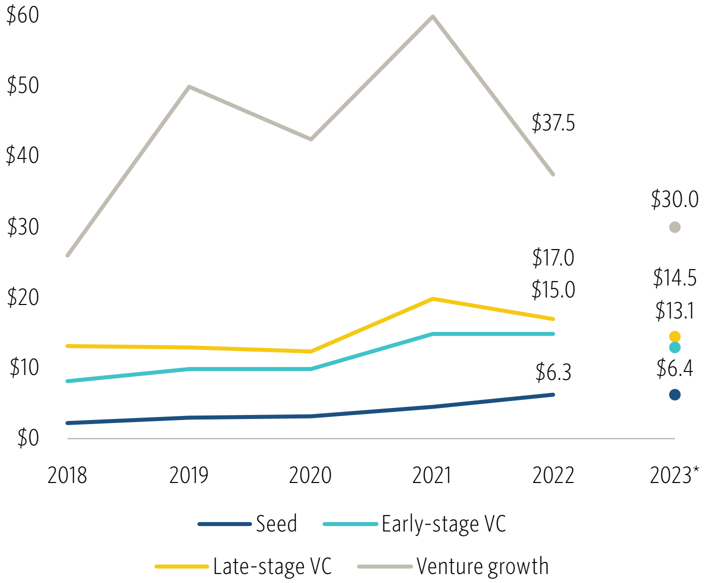
Enterprise SaaS

Seed value ticks higher despite macro headwinds lowering value for other stages

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



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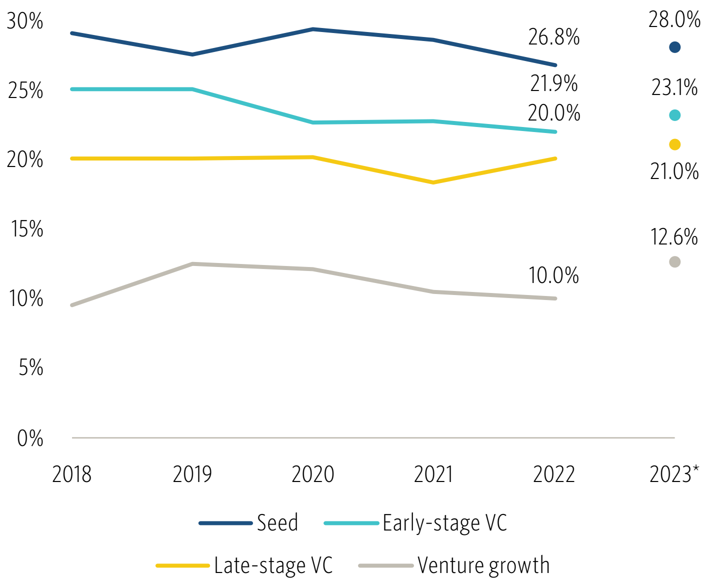
Reflecting the more investor-friendly environment, VC share acquired ticks up

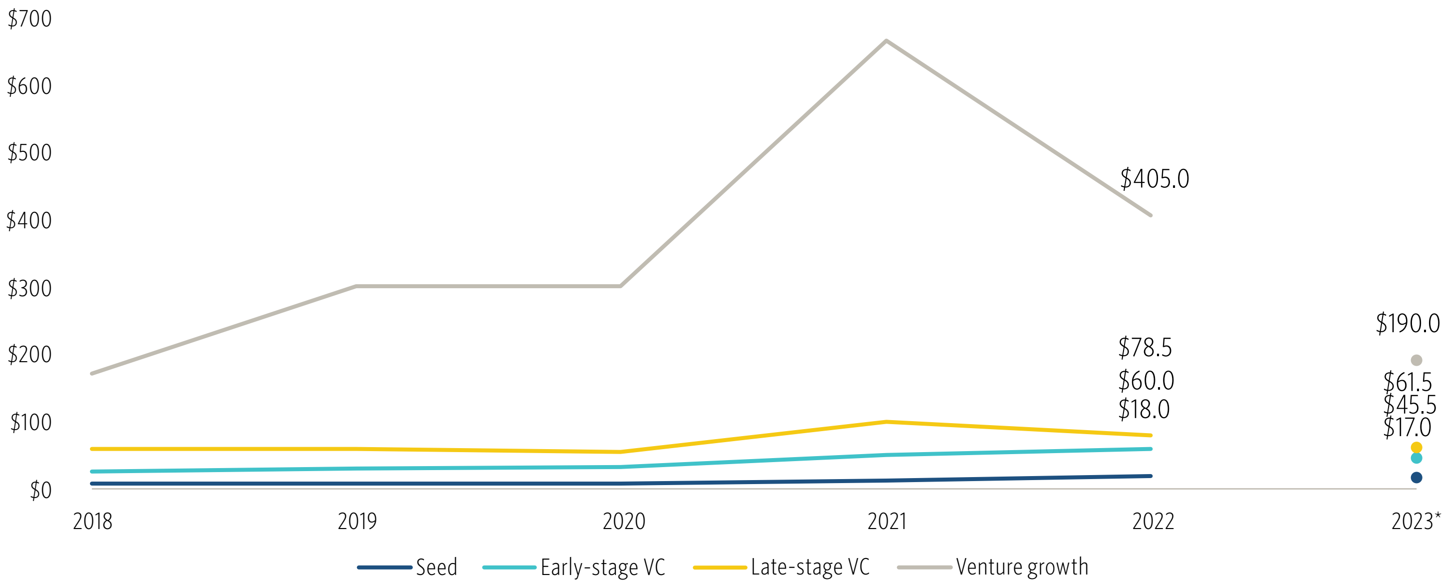
Median enterprise SaaS VC share acquired by stage



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

Median VC pre-money valuations decline for all stages, with venture growth collapsing the most YoY

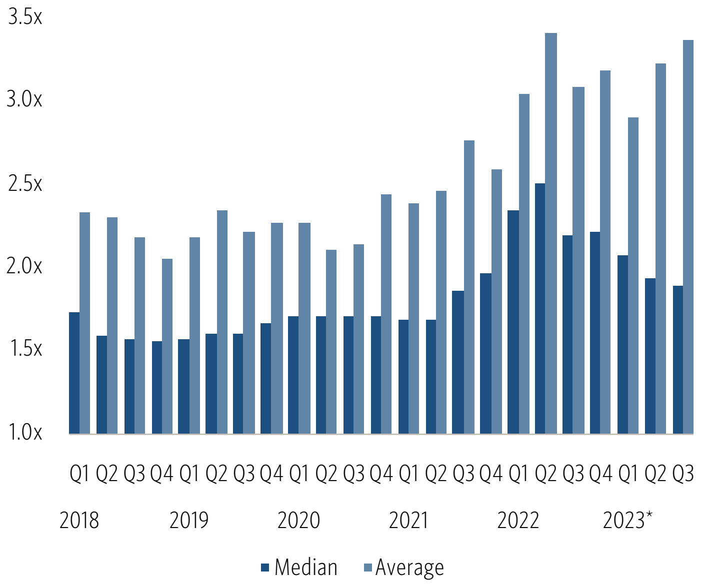
Median enterprise SaaS VC pre-money valuation ($M) by stage



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

Average seed valuation step-up continues to climb, bolstered by outsize deals

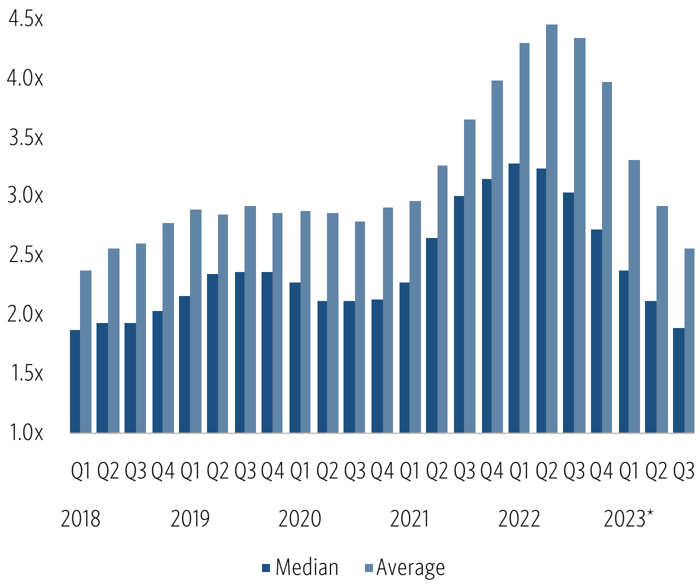
Rolling four-quarter median and average enterprise SaaS seed valuation step-ups



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

Early-stage valuation step-ups fall below pre-pandemic levels for the first time

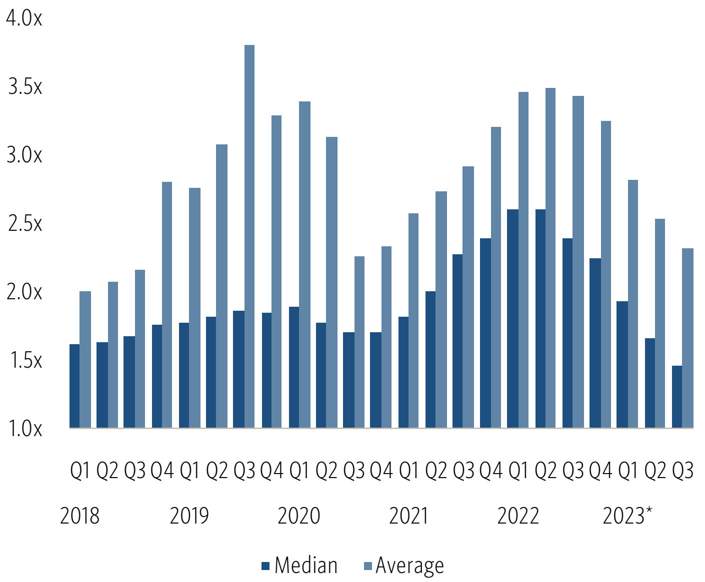
Rolling four-quarter median and average enterprise SaaS early-stage VC valuation step-ups



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

Median late-stage VC valuation step-up falls below 1.5x for the first time since before 2018

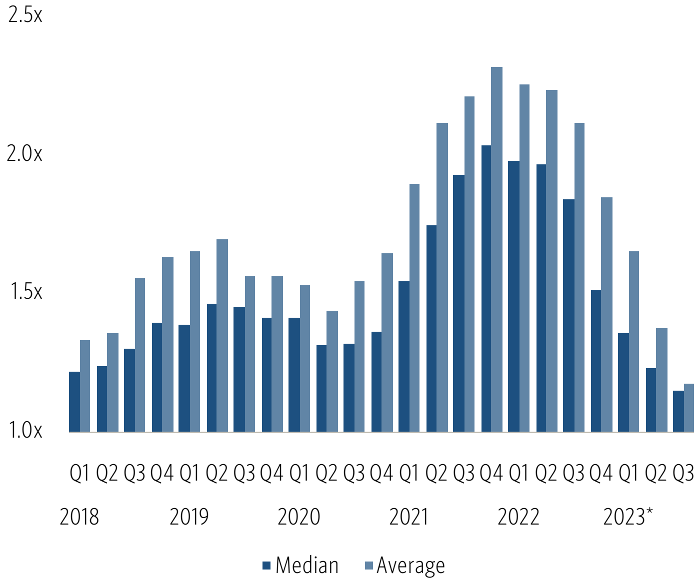
Rolling four-quarter median and average enterprise SaaS late-stage VC valuation step-ups



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

Venture-growth valuation step-ups decline precipitously

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

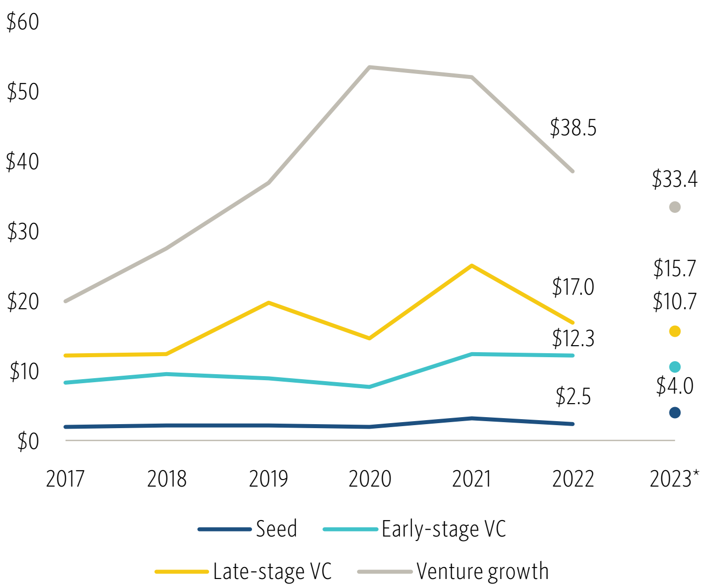


Source: PitchBook • **Geography:** US
*As of September 30, 2023

Mobility tech

Median values start to level off

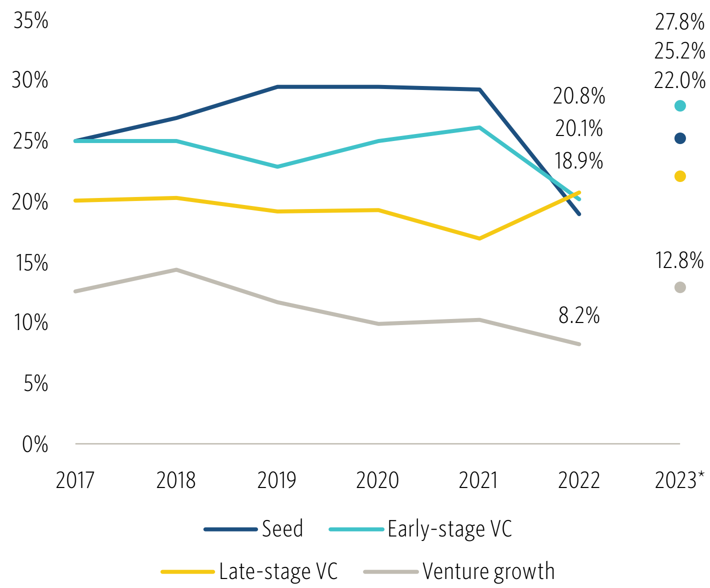
Median mobility tech VC deal value ($M) by stage



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

Early-stage companies see increased consolidation

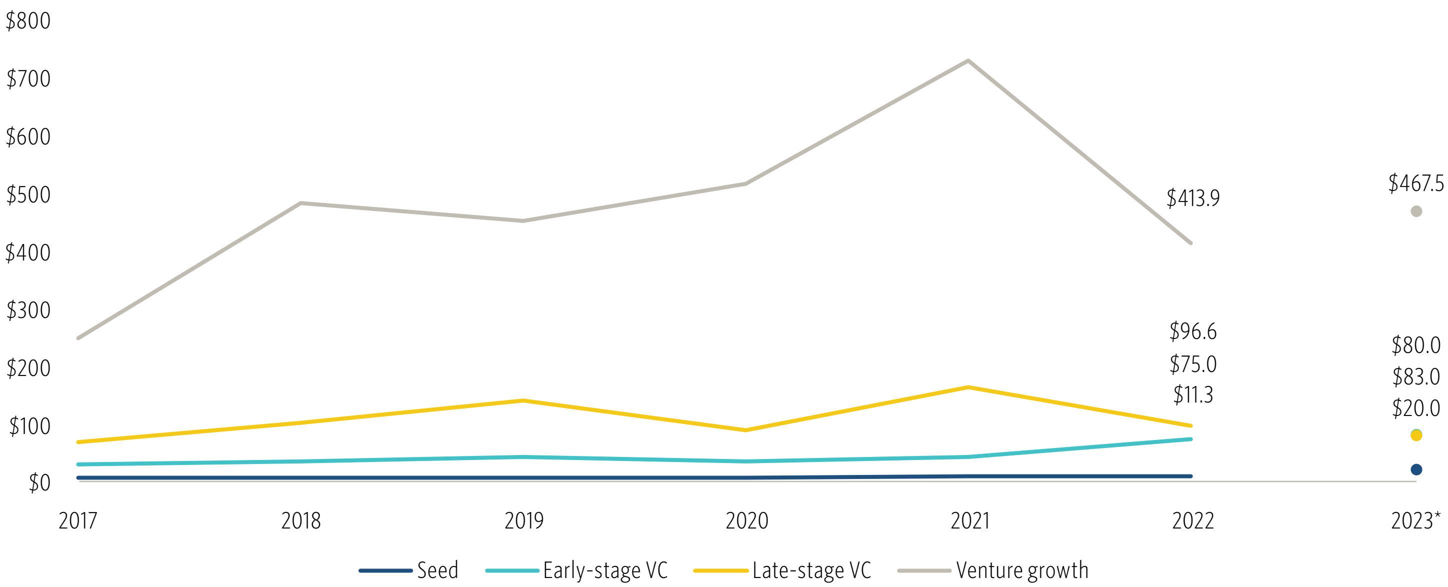
Median mobility tech VC share acquired by stage



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

Pre-money valuations showing improvement

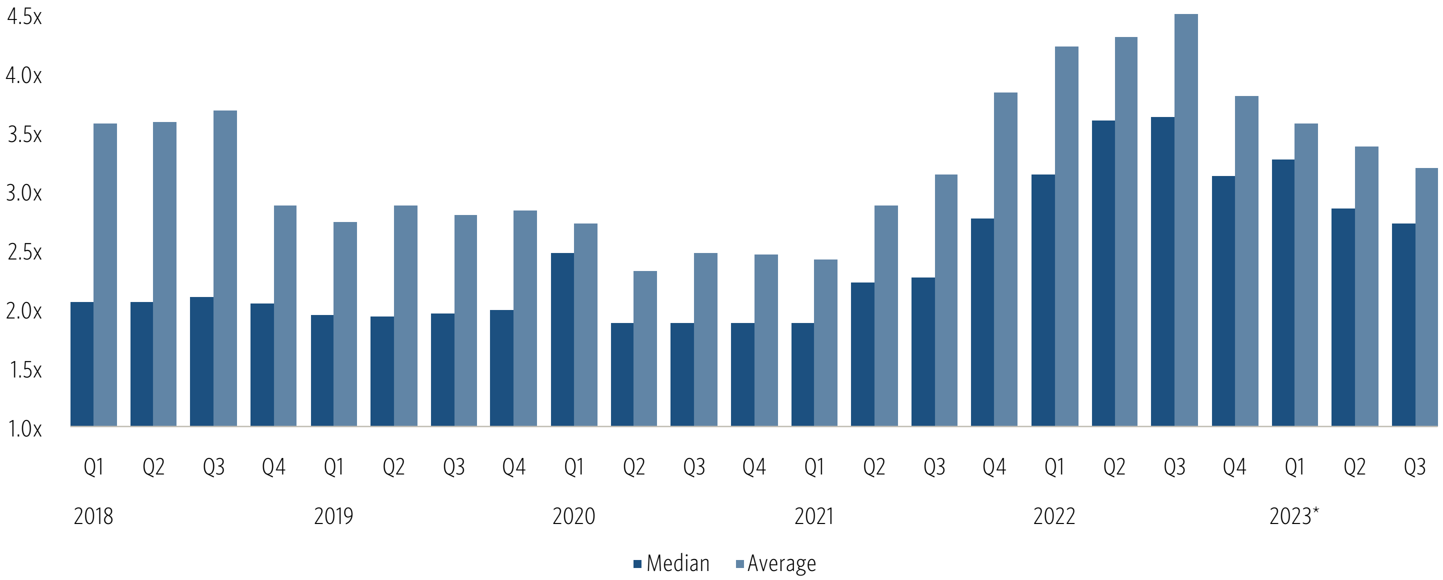
Median mobility tech VC pre-money valuation ($M) by stage



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

Early-stage valuation step-ups still declining

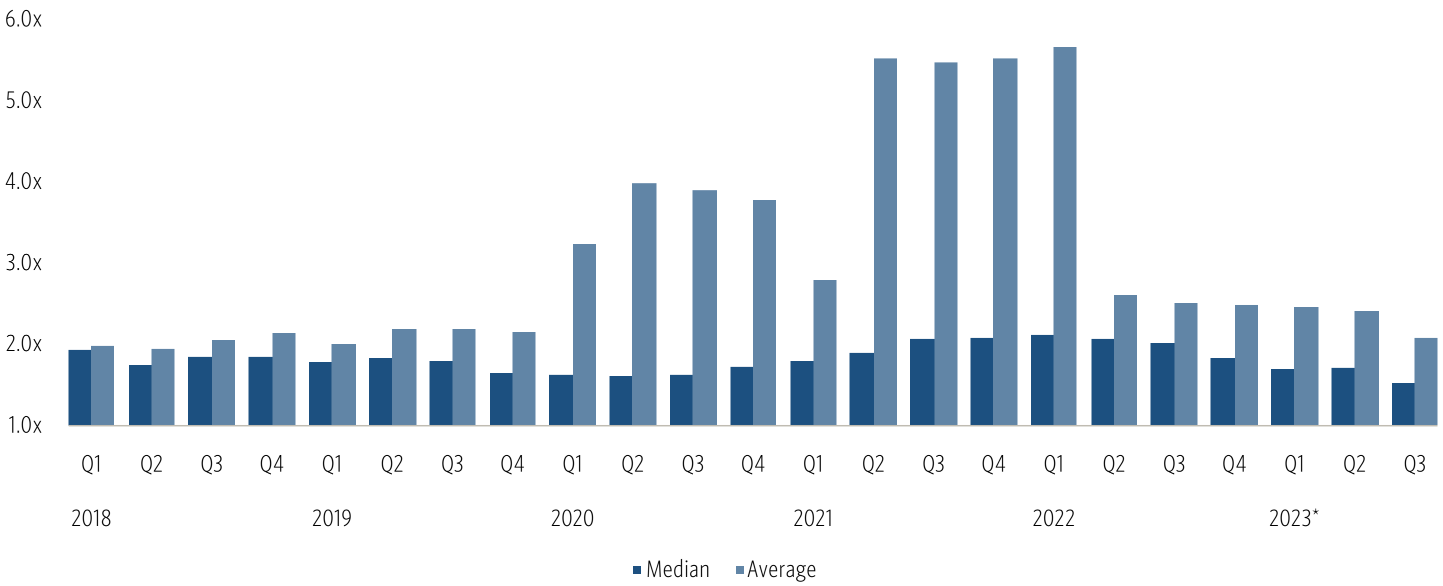
Rolling four-quarter median and average mobility tech early-stage VC valuation step-ups



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

Late-stage step-ups continue to fall

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

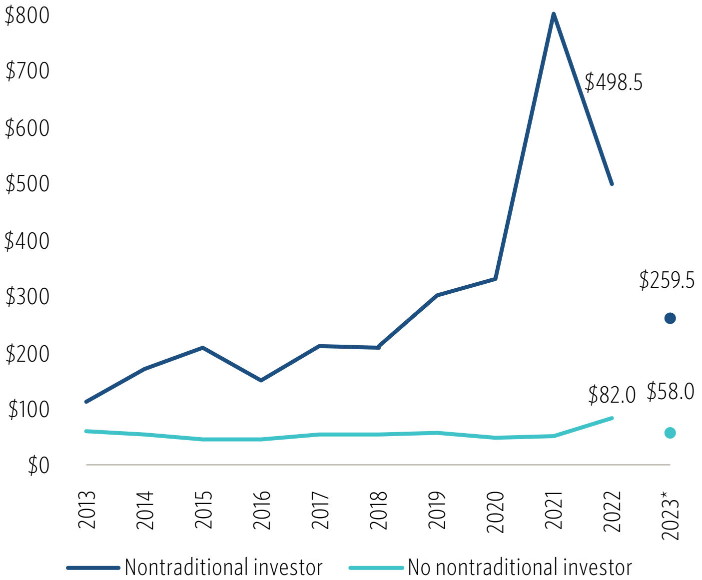


Source: PitchBook • **Geography:** US
*As of September 30, 2023

Nontraditional investors

Venture-growth valuation for nontraditional investors declines to five-year low

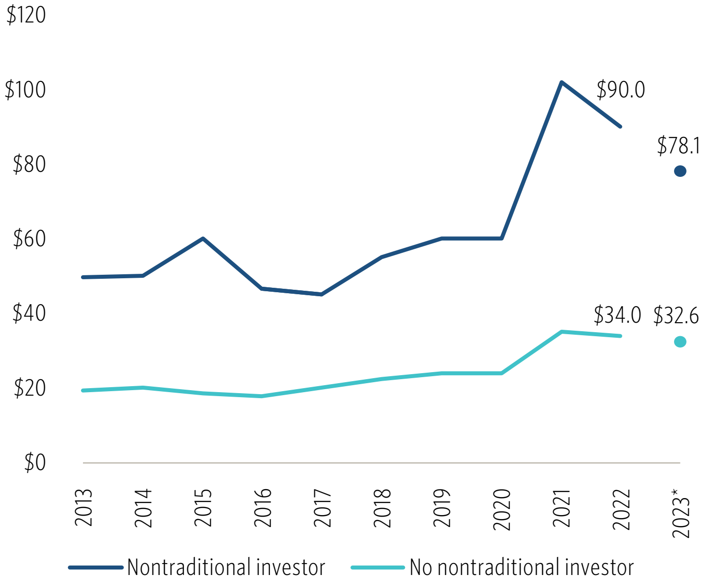
Median venture-growth pre-money valuation ($M) by investor type



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

Median late-stage valuation for nontraditional investors declines 13.2% YoY

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



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

Throughout Q3 2023, the VC landscape continued to undergo a significant transformation marked by a confluence of factors that have redefined the role of nontraditional investors and their influence on startups. This shift is characterized by a slow exit environment, the ongoing influence of interest rates on risk/return dynamics, and various macroeconomic intricacies.

Nontraditional investors have continued to scale down their presence within the venture ecosystem. Over the initial three quarters of 2023, nontraditional investors accounted for approximately $93.7 billion of US VC deal value. This represents a notable decline from the $184.2 billion observed in all of 2022. As we have discussed in prior research, this exodus is driven by several factors. The stagnant exit environment has limited the returns accessible to nontraditional investors, and this lack of liquidity has curtailed the attractiveness of riskier alternative investments. Moreover, the ascent of interest rates over the past 18 months has augmented venture investment risk and reshaped the risk/return profile, potentially prompting nontraditional investors to reassess their allocation to venture. With more secure high-yield assets available elsewhere in the market, the relative appeal of venture may have diminished.

Nontraditional investor deal value increases slightly in Q3

VC deal activity with nontraditional investor participation by quarter

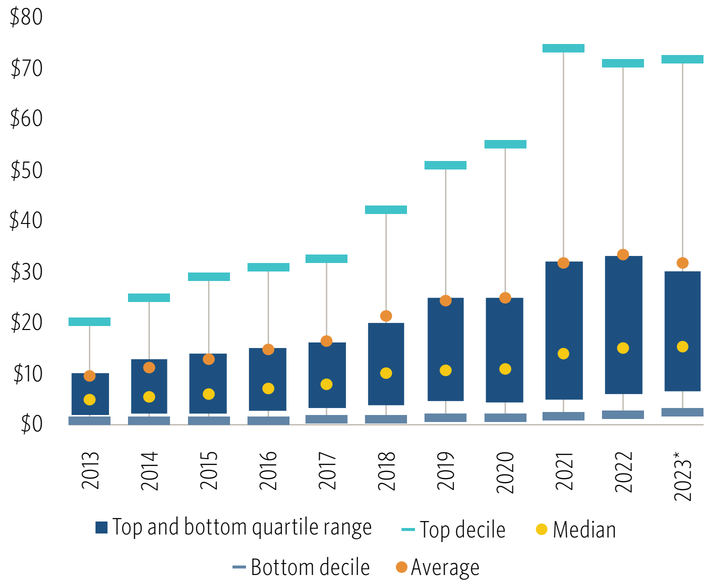
Source: PitchBook • **Geography:** US
*As of September 30, 2023

Deals involving nontraditional investors continue to have higher valuations compared to deals without. For instance, year to date, late-stage deals with nontraditional investor participation have a median pre-money valuation of $78.1 million, in contrast with the $32.6 million median for deals without nontraditional investors. The heightened valuations associated with nontraditional investor involvement can be attributed to a combination of important factors. The involvement of nontraditional investors often serves as a strong vote of confidence, signaling to other potential investors and the broader market that a startup is not only promising but also strategically positioned for success. Additionally, nontraditional investors often offer strategic value beyond just capital; they provide startups with access to extensive networks, distribution channels, partnerships, and other valuable resources that can expedite their growth. This potential for strategic collaboration adds an extra layer of appeal to the startup and can provide a compelling rationale for higher valuations.

Of course, these valuable contributions from nontraditional investors come with a trade-off, particularly in the prevailing economic climate, where these investors seek to mitigate the heightened risks associated with venture investing. With the sole exception of the pre-seed stage, the median equity stakes acquired by nontraditional investors have shown a year-over-year increase in 2023 across all stages of venture, ranging from 0.5% to 2.3%. Despite the ongoing macroeconomic challenges, which have slowed the pace and volume of nontraditional investor activity, the symbiotic relationship between nontraditional investors and startups suggests that strategic investments will continue, albeit at a potentially more measured rate compared with the robust activity witnessed in recent years.

Median early-stage deal value reaches record high for nontraditional investors

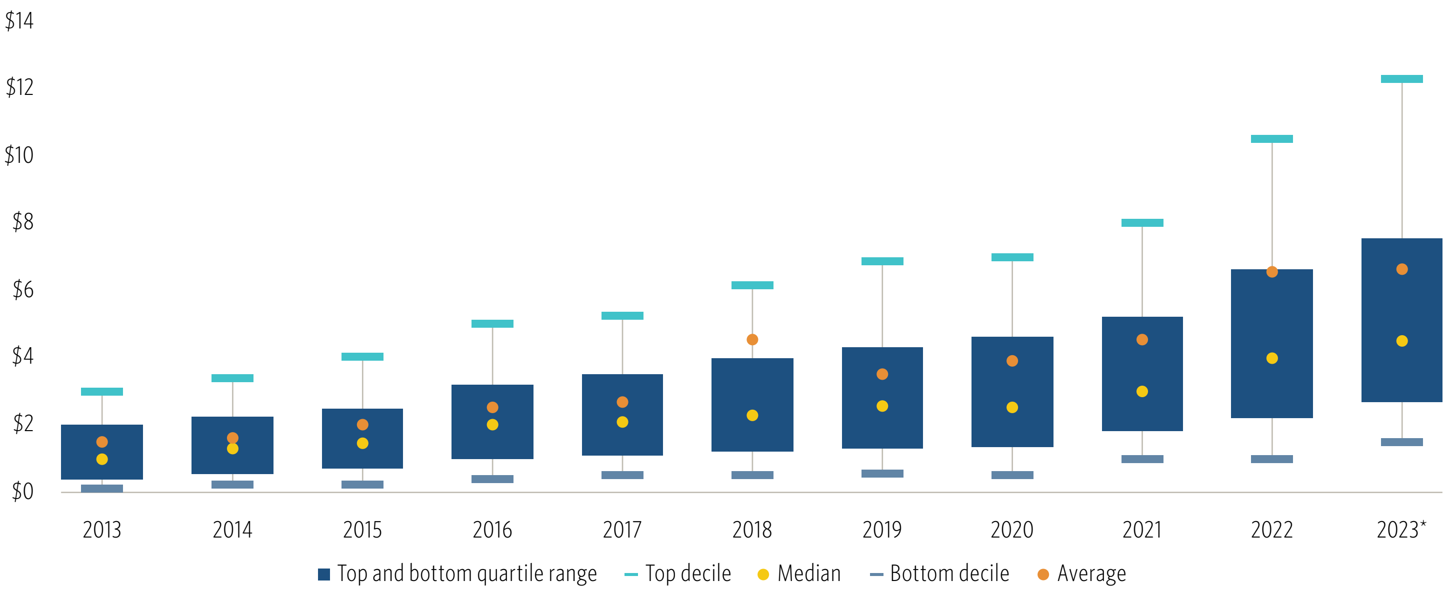
Early-stage VC deal value ($M) dispersion with nontraditional investor participation



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

Median and average seed deal values remain notably elevated for nontraditional investors

Seed deal value ($M) dispersion with nontraditional investor participation

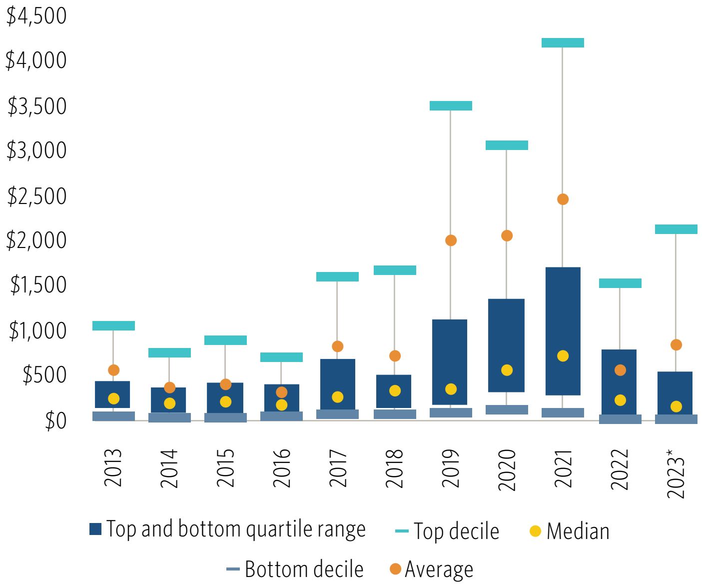


Source: PitchBook • **Geography:** US
*As of September 30, 2023

Liquidity

Median public listing valuation falls to 10-year low

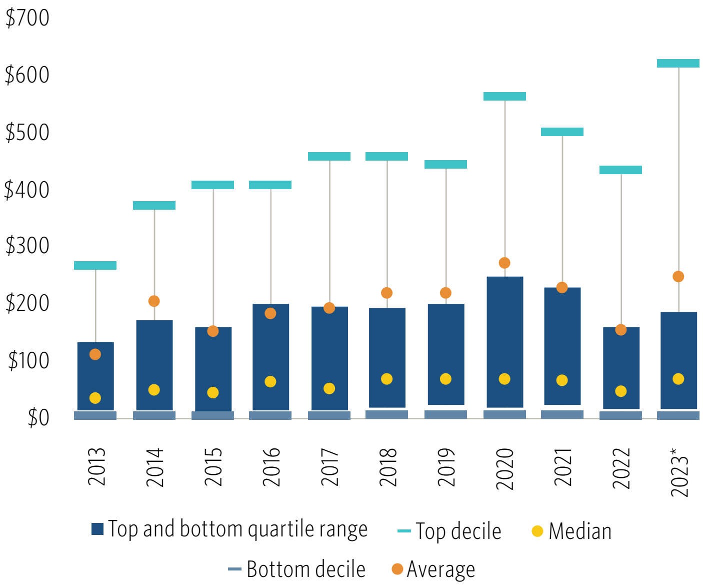
Exit valuation ($M) dispersion for public listings



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

Median acquisition price highest since 2020

Exit valuation ($M) dispersion for acquisitions



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

As we have discussed in prior research, the recent IPOs of Instacart and Klaviyo could be interpreted as a welcoming sign for the large population of VC-backed companies that possess the potential to enter public markets. Despite this glimmer of hope, the IPO market remains quiet on a historical basis. In Q3, only 27 public exits were recorded with an aggregate exit value of approximately $21.9 billion. While this is a notable increase from Q2, in which 11 public exits comprising roughly $3.5 billion occurred, it pales in comparison to prior periods. In Q3 2021, 95 public exits were achieved, generating $167.3 billion in value. It is also worth noting that, despite the positive impact of the Instacart and Klaviyo IPOs from a value perspective, both companies went public at reduced valuations compared with their last priced VC rounds.

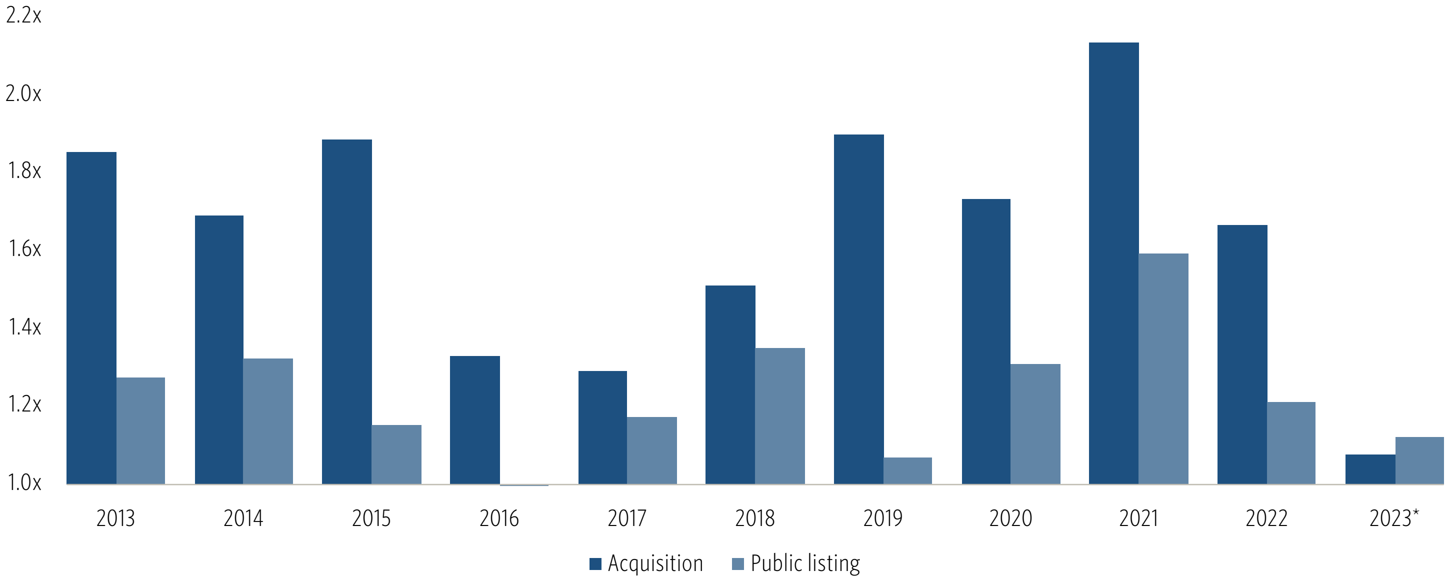
While it is hard to fathom a more subdued exit environment, we anticipate the sluggish pace of exits, particularly IPOs, to persist through the remainder of 2023. In the current environment, many startups are carefully evaluating the "cost of going public." The fact that profitable startups like Instacart and Klaviyo have chosen to enter the public market at considerably reduced valuations may send a cautionary signal to high-growth yet unprofitable startups contemplating a public debut in these current conditions. This shift is indicative of the broader decline in public listing valuations. The 2023 YTD median public listing valuation stands at just $156.6 million, marking a 10-year low.

Interestingly, M&A valuations tell a more nuanced story. While total M&A deal value and count have been on the decline since the second half of 2022, 2023 has seen an uptick in median deal values. Through the first three quarters of 2023, the median M&A deal value stands at $69.5 million, which is 44.8% higher than the 2022 full-year median and even 2.1% higher than the 2021 full-year median. One factor contributing to this dynamic is a "flight to quality" among investors and acquirers, which are becoming increasingly discerning in their selection of startups, favoring well-established, high-performing companies.

Looking forward, adaptability and strategic decision-making will be paramount for startups, investors, and acquirers as they navigate the evolving landscape of exit opportunities and assess the associated risks and rewards.

2023 median exit step-ups drop YoY, nearing 1.0x

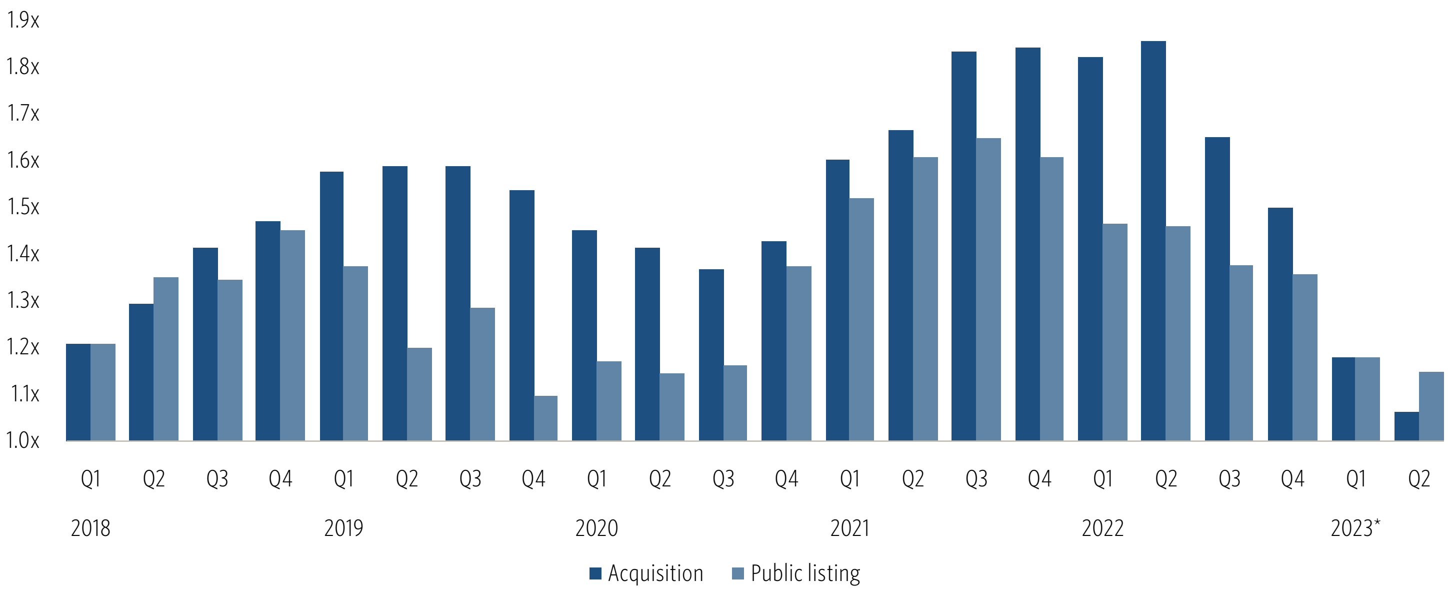
Median VC valuation step-up at exit by type



Source: PitchBook • **Geography:** US
*As of September 30, 2023
Note: The 2016 public listing step-up is 1.0x.

Median step-up for acquisitions continues to decline QoQ

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

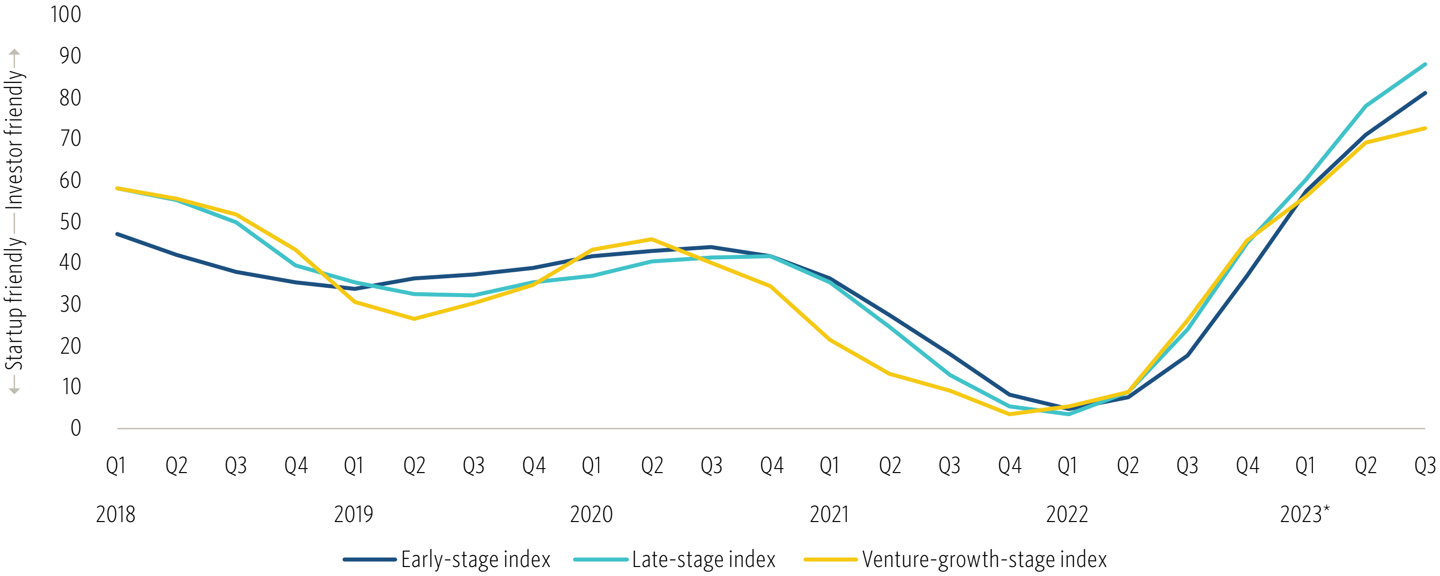


Source: PitchBook • **Geography:** US
*As of September 30, 2023

Deal terms

Investor friendliness within US venture market continues to climb to record high

VC Dealmaking Indicator by quarter



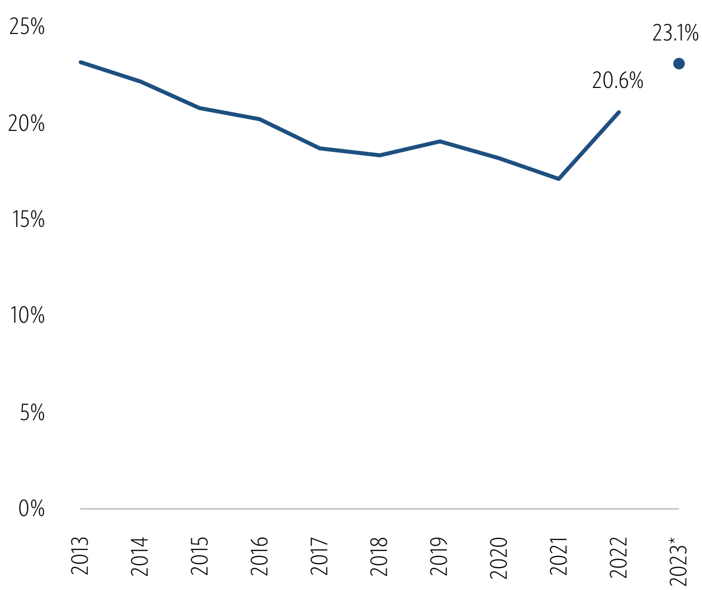
Source: PitchBook • **Geography:** US
*As of September 30, 2023

In Q3 2023, the US venture market continued to favor investors in ways not observed in nearly a decade, as evidenced by PitchBook's VC Dealmaking Indicator. One of the most striking developments in Q3 was the rise of flat and down rounds among startups within the US VC ecosystem. During the first three quarters of the year, 26.4% of all rounds completed were done so at a flat or reduced valuation relative to the startup's last round. Notably, the estimated percentage of down rounds in Q3 climbed to a 10-year high at 17.1%, up from 13.5% in Q2 and 9.3% in Q1. The upswing in down and flat rounds has been anticipated for some time, as numerous startups are now running low on capital and thus find themselves compelled to navigate a more challenging fundraising landscape in order to survive. This of course stands in stark contrast with the more startup-friendly financing environment of 2021, during which many startups were able to rely on rapid, unbridled growth to achieve sky-high valuation multiples.

Today it is abundantly obvious that this trend has reversed; investor favorability has permeated nearly all stages of the VC lifecycle. Venture firms are leveraging their increased negotiating power to secure more favorable terms in term sheets, including

Deals with cumulative dividends highest in nearly a decade

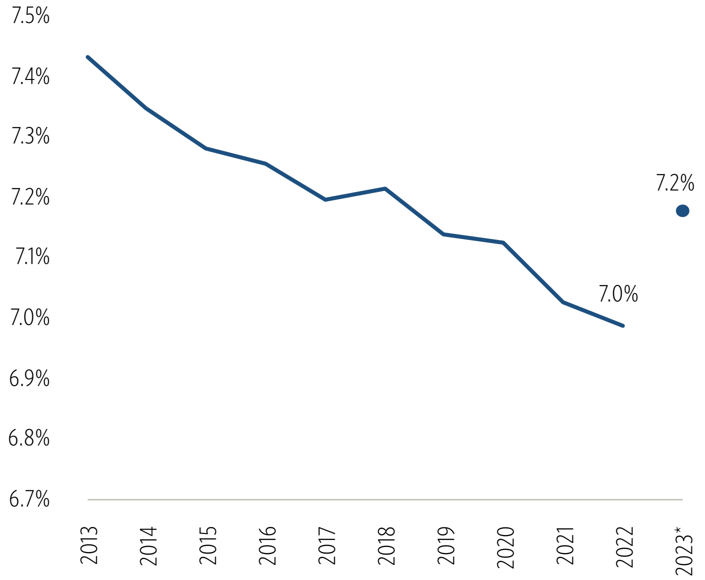
Deals with cumulative dividends as a share of all VC deals



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

Average dividend reaches four-year high

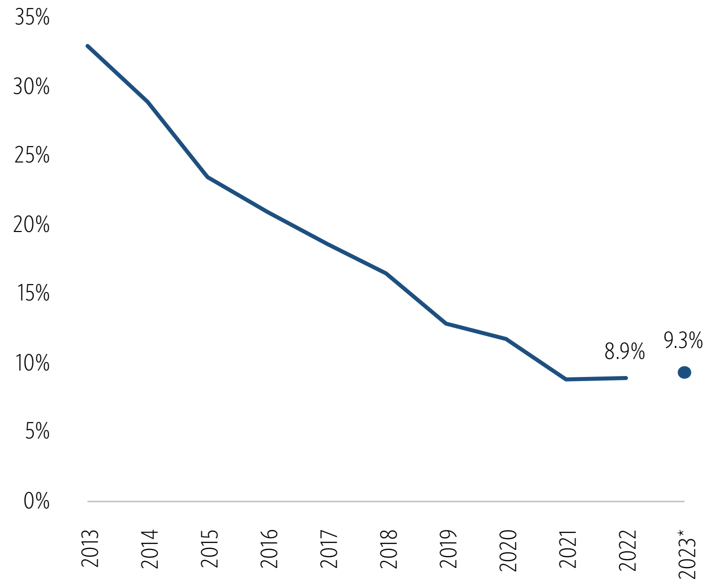
Average dividend of VC deals



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

Participating shares beginning to pick up, highest since 2020

Deals with liquidation participation as a share of all VC deals



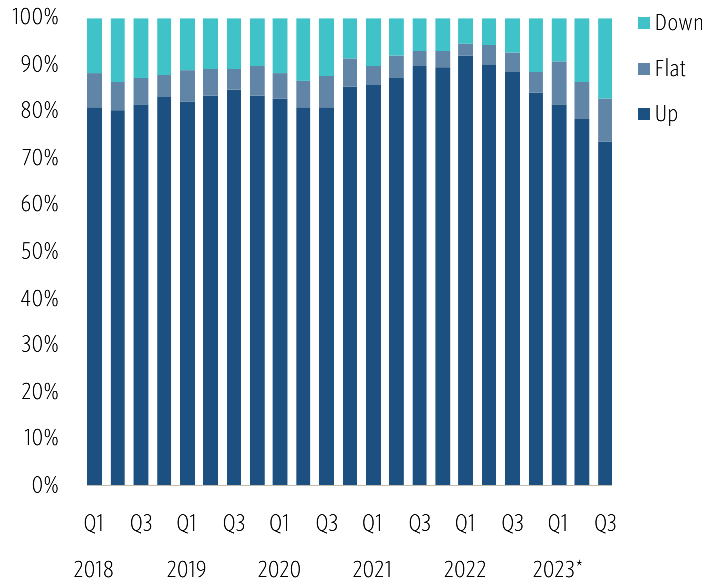
Source: PitchBook • **Geography:** US
*As of September 30, 2023

larger equity stakes and higher dividend shares. On an annual basis, nearly all stages of VC have experienced an increase in the median equity stake acquired in 2023. For example, the YTD median percentage acquired for venture-growth-stage companies is 14.9%, approximately 4.0% higher than the 2021 median and the highest we have observed in over a decade. Moreover, as of Q3, 23.1% of US VC deals in 2023 featured cumulative dividends, marking a nine-year high.

These trends and observations are a direct reflection of the changing nature of the US venture market that has been shifting since the second half of 2022. Dwindling capital availability for startups and a frozen exit environment, among other factors, have placed the ball in investors' court. As such, we expect a continued increase in the prevalence of investor-friendly deal terms and downside protections through the remainder of this year and into 2024. And while many startups will surely aim to hold out for better valuations in the future, the reality is that cash runways are finite, and this strategy is more challenging to execute in practice than in theory.

Estimated proportion of down rounds hits 10-year high of 17.1%

Quarterly share of VC deals by round type



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

Additional research

Private markets research

Q3 2023 PitchBook-NVCA Venture Monitor

Download the report here

Q3 2023 European Venture Report

Download the report here

2023 PitchBook Benchmarks (as of Q1 2023)

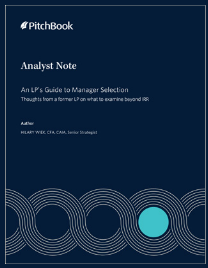
Download the report here

Q3 2023 Enterprise SaaS Public Comp Sheet and Valuation Guide

Download the report here

Q3 2023 Artificial Intelligence & Machine Learning Public Comp Sheet and Valuation Guide

Download the report here



Q3 2023 Analyst Note: An LP's Guide to Manager Selection

Download the report here

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