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Venture Monitor

Q3 2024

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The definitive review of the US venture capital ecosystem

Contents

Executive summary	3
NVCA policy highlights	5
Dealmaking	7
Regional spotlight	11
A word from J.P. Morgan	12
Deals by sector: Cybersecurity	14
Deals by sector: Life sciences	16
Female founders	17
A word from Dentons	19
Investor trends	21
Venture debt	23
A word from Deloitte	25
Exits	27
Fundraising	30
Q3 2024 US league tables	34
Methodology	35

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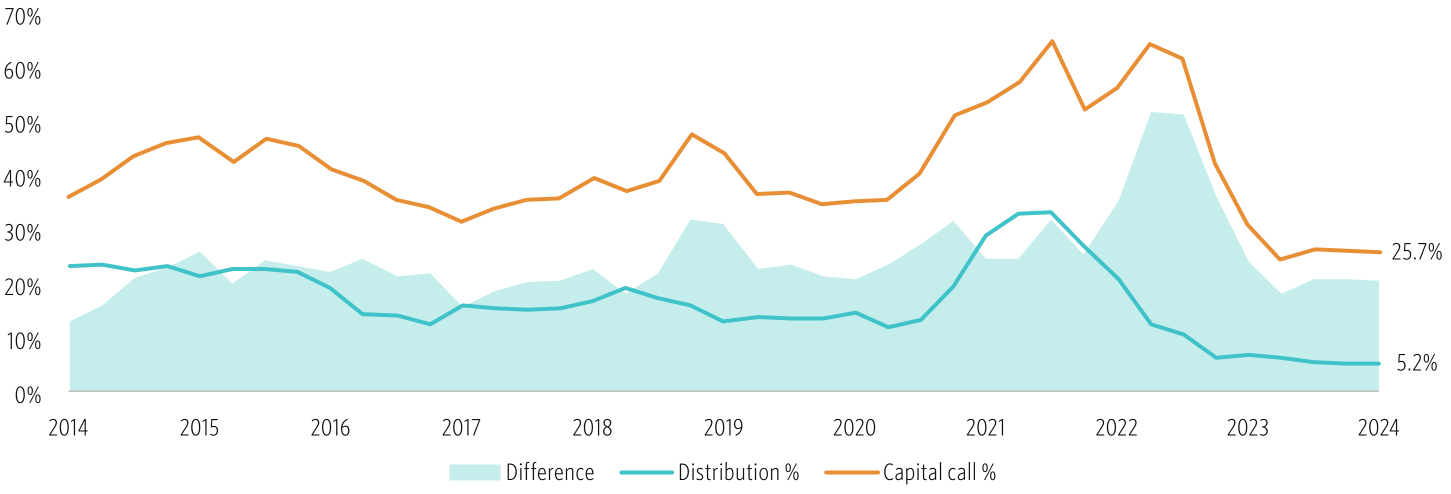
Executive summary

Lack of distributions is exacerbating the dealmaking and fundraising stalemate

VC cash flow ratios



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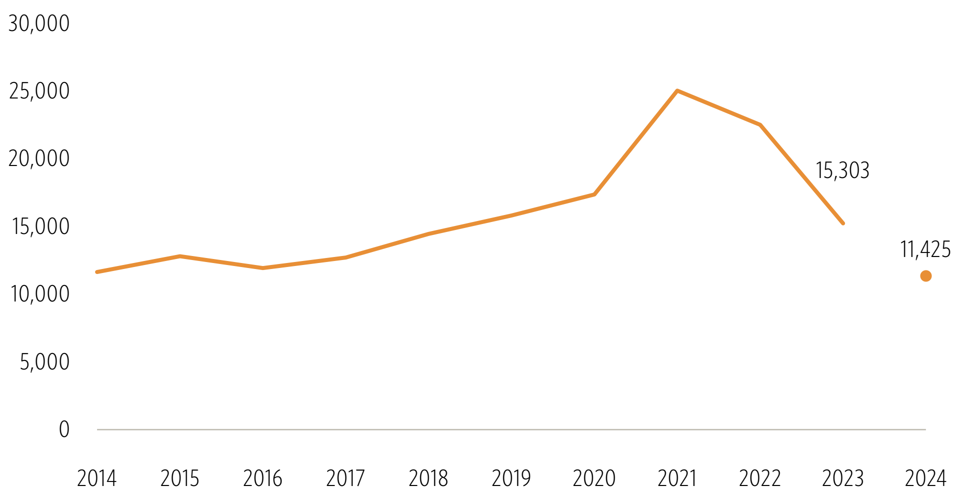
Distributions, or the lack thereof, continue to be the most important component in the current venture environment. Initial public offerings (IPOs) and large M&A remain particularly absent from the market—just 14 companies went through a public listing in Q3, and the final exit value for the quarter reached just $10.4 billion. The market continues to be flush with headwinds despite the 50-basis-point rate cut from the Federal Reserve (the Fed) in September, which will continue to pressure the exit market for the near term. The final day of the quarter offered some hope, with Cerebras registering for an IPO. The $4.25 billion unicorn would be the first major tech listing since Rubrik in April.

The number of investors active in the market has quickly dwindled

Unique investor count in VC deals



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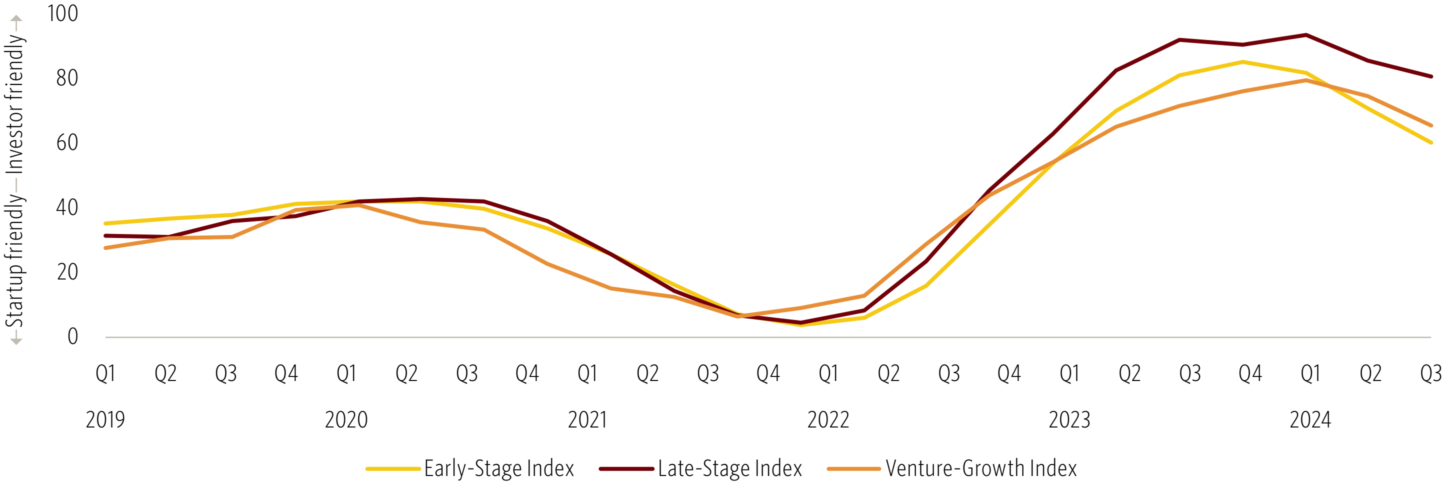
As a share of net asset value (NAV), our most recent data shows that cash back to LPs is flowing at a rate nearly as low as during the global financial crisis (GFC) and has been in the single digits for eight consecutive quarters. The average quarterly rate of distributions over the past decade has been 16.8%, demonstrating just how dire the distribution scene has been. This lagged data point is as of March 31, 2024, and knowing that Q2 and Q3 were also incredibly slow in terms of exits, we expect this rate to remain as low as data is added.

The lack of distributions portends much of the challenges digesting through the venture market. Take, for example, our Dealmaking Indicator, which shows that the valuation correction and investor-protective term sheets have made this an incredibly investor-friendly market,

VC investors remain in friendly territory

VC Dealmaking Indicator



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and we can begin to see how the lack of returns is adding stress to the market. To be sure, deal counts have remained relatively high due to a prevalence of insider rounds and bridge financings, which continue to play a large part in companies chugging forward during the investor-friendly market. However, capital calls slowed significantly over the past few quarters as GPs remained cautious of asking for more money to deploy whilst not also sending money back in return. As a percentage of dry powder, just 23.1% was contributed to dealmaking in the past year, one of the lowest portions since early 2010. This helps explain the high ratio of deals to deal value, especially considering how many of the dollars have been provided by large corporates to a select few AI companies. Capital calls by VCs may not be explicitly conditioned on distributions, but at some point, LPs must question the mix of risk in their portfolios if the market just keeps asking and is giving little back.

Another data point that demonstrates the difference of market interest in venture capital (VC) deals between 2021 and now is the number of active investors making deals. The total number of investors making a deal in 2024 through Q3 is just 45.5% of the total from 2021. Data can estimate the amount of capital available, but this shows the extreme caution investors are taking toward the market with liquidity strapped.

As we look at the rebalancing of venture, the lack of distributions is impacting fundraising as well, which should further consolidate the market. More than 80% of the capital raised on the year has been by established managers. With one quarter left, 2024 is also set to be the second year in a row with fewer than half the total commitments raised as in either 2021 or 2022. Though LPs have had time since the beginning of the slowdown to rebalance their investments if they had become overallocated to VC, the lack of distributions is providing little money to recycle into VC, creating a need for many to hold off on reinvesting into the strategy.

Though dry powder remains high, our data shows that company inventory has continued to increase over the past couple years despite a narrative of an increase in companies shutting down. More than 4,300 companies raised their first investment in 2023, and another 3,000 have done so this year. Now, with high bars to clear and less capital available, the startup ecosystem is struggling to regain its footing for growth.

The Fed rate cut in September is a step in the right direction for companies and investors hoping for a return of more market certainty and activity. A sticking point to distributions is the lack of IPOs. Unicorns account for roughly $2.5 trillion in value and are aging. Nearly 40% of these companies have been held in a portfolio for at least nine years, dragging IRRs and keeping back distributions. 50 basis points will not be the kick-start the market needs, but the outlook of further cuts should get companies preparing for upcoming listings and buoy corporates with more leeway for acquisitions. Unlocking the value held in the private markets—and more specifically in aging companies held by aging funds—is the remedy the market needs.

NVCA policy highlights

Between federal and state issues, Q3 2024 has been a busy one for the venture capital community. We've included our primary concerns below as well as some accomplishments.

Tax update

Research & development (R&D) incentives have historically promoted innovation by allowing businesses to recover some of the costs of developing new, cutting-edge products and services. The Tax Cuts and Jobs Act included a provision to require companies, starting in 2022, to capitalize and amortize costs over five years for domestic research and 15 years for international. In January, the House of Representatives passed a strong bipartisan tax package negotiated by House Committee Chair Jason Smith and Senate Committee Chair Ron Wyden that includes significant business and individual tax provisions. Of specific interest to NVCA members is a provision that allows startups to immediately deduct—rather than amortize—domestic R&D costs over five years.

Although Majority Leader Chuck Schumer recently expressed his desire to bring the legislation to the floor in the coming months, the path forward remains unclear due to opposition from Republicans over the scope of the child tax credit and revenue offsets that are unrelated to R&D deductibility. Prior to the August recess, Schumer brought up a procedural motion that would have allowed for consideration of the bill. Unfortunately, the motion failed on the Senate floor due to unrelated policy and process concerns. We believe that R&D expensing is likely to be included in a tax package next year.

The Treasury's new Anti-Money Laundering (AML) final rule

The Securities and Exchange Commission (SEC) and Financial Crimes Enforcement Network (FinCEN) have issued a final rule expanding AML filing requirements under the Bank Secrecy Act to include registered investment advisors and exempt reporting advisors as "financial institutions." Effective January 1, 2026, investment advisors must implement AML/combating the financing of terrorism (CFT) programs, report suspicious activity to FinCEN, and comply with additional reporting and recordkeeping obligations.

SEC officially abandons private funds rule

In September, the SEC opted not to challenge the 5th Circuit's decision on the private funds advisor rule, which marks the end of the SEC's legal push and a significant win for the venture industry. Due to NVCA's efforts in filing a lawsuit against this SEC overreach, VC and PE fund managers will be exempt from this rule's requirements to provide quarterly statements and disclose side letter terms.

March-in rights update

Following significant industry pushback on the National Institute of Standards and Technology request for information to more broadly utilize "march-in rights" on taxpayer-funded inventions, the agency has remained quiet on any further guidance. Tangentially, in August, the Biden administration announced that the Department of Health and Human Services reached agreements with all participating manufacturers on new negotiated lower drug prices for the first 10 drugs selected for the Medicare Drug Price Negotiation program. This announcement may satisfy the administration's push for lowering drug prices ahead of the election.

Empowering Main Street in America Act introduced in the Senate

NVCA has been advocating for the Developing and Empowering our Aspiring Leaders (DEAL) Act to broaden qualifying investments to include secondaries and investments in other venture funds, easing liquidity constraints and facilitating industry growth. After working with the House of Representatives this year to successfully pass the Expanding Access to Capital Act, which included provisions from the DEAL Act, Senate Republicans recently introduced a capital formation package that includes the DEAL Act called the Empowering Main Street in America Act.

AI update

NVCA was highly engaged in opposition to California Senate Bill (SB) 1047, the Safe and Secure Innovation for Frontier Artificial Intelligence Models Act. We submitted a letter raising concerns about the legislation, highlighting the outsized impact it would have on early-stage AI startups.

Fortunately, after SB 1047 passed the California State Assembly on August 28, it was then vetoed by Governor Gavin Newsom on September 29. NVCA supports this action and continues to advocate for the development of a clear, consistent national framework for AI regulation.

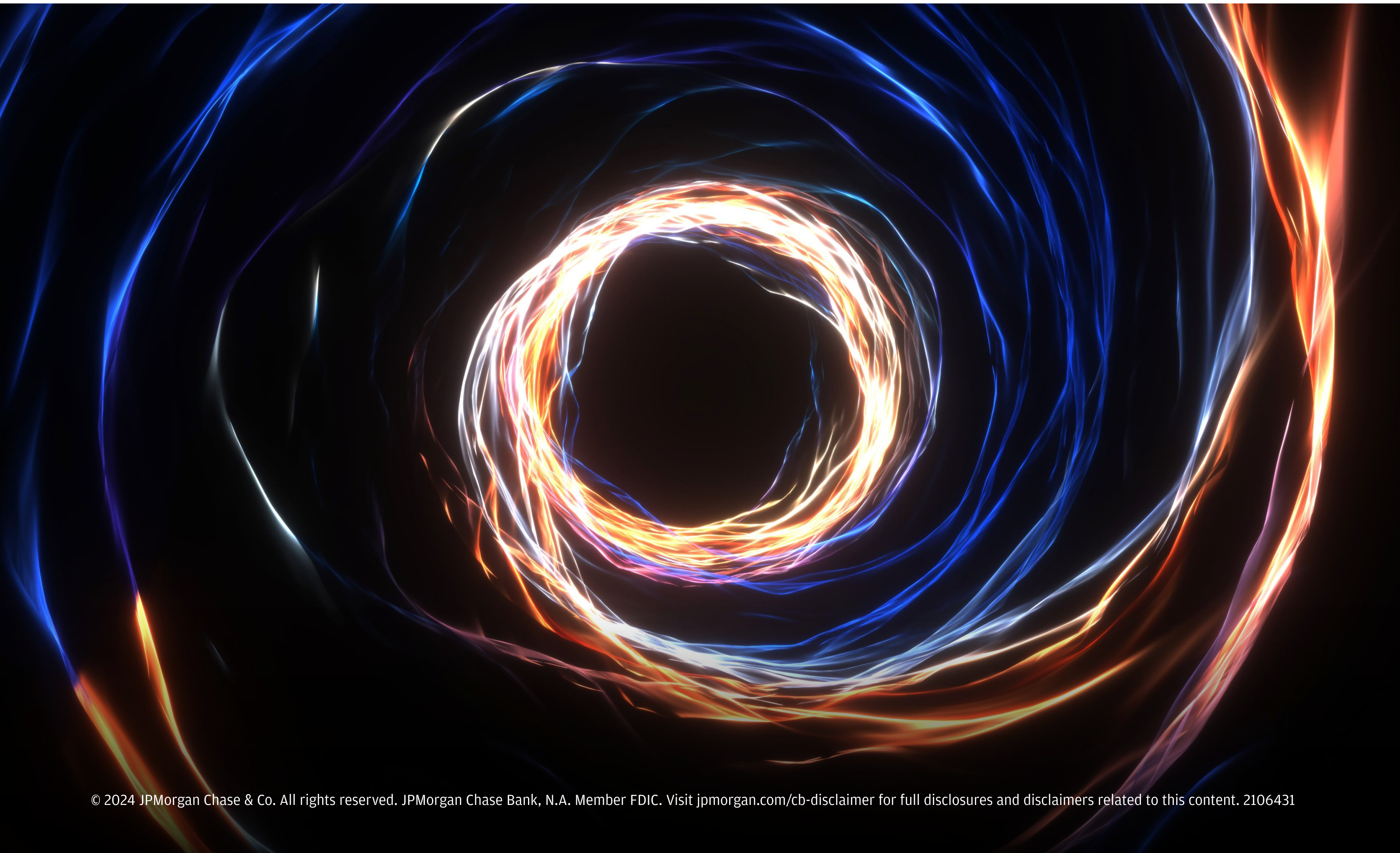
California healthcare system consolidation legislation

Assembly Bill (AB) 3129 passed out of the California State Legislature on August 31 and was vetoed on September 28. NVCA was a major part of the coalition against this bill, submitting an official opposition letter, signing on to coalition letters and floor alerts and engaging members of the California Legislature. If enacted, AB 3129 would have served as a substantial barrier to healthcare innovation. NVCA and its coalition partners support the governor's decision to veto AB 3129.

The policy environment is developing rapidly in the second half of 2024 with numerous issues at the state and federal levels. NVCA remains committed to protecting and promoting the interests of the innovation economy and is closely monitoring the development of these and other issues.

Bobby Franklin
President & CEO
NVCA

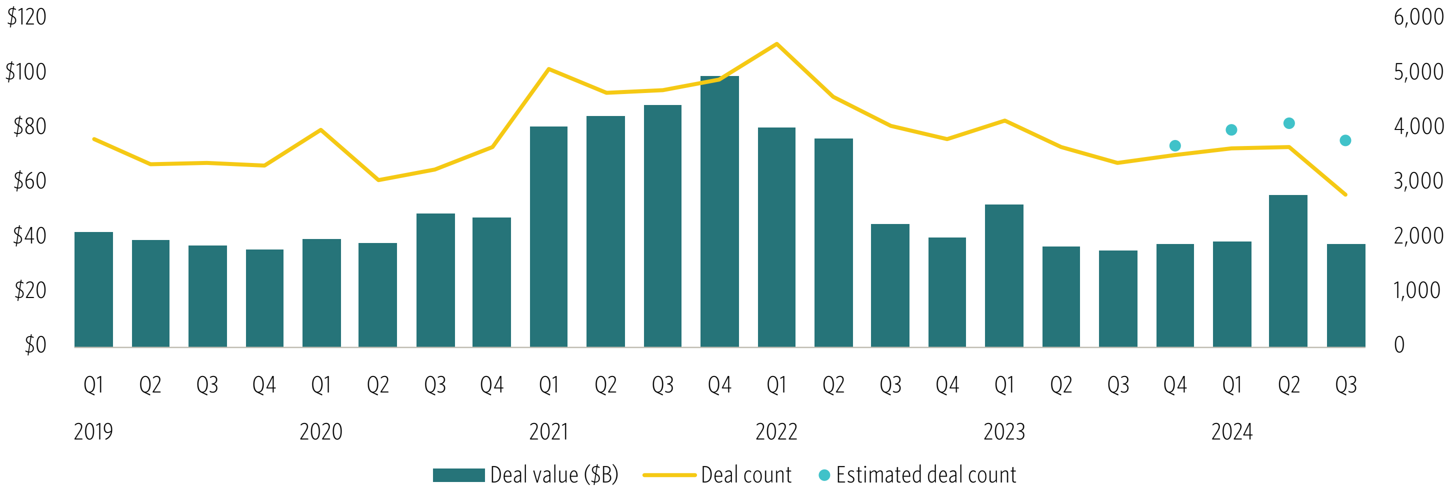
Bobby Franklin is the President & CEO of NVCA, the venture community's trade association focused on empowering the next generation of transformative US-based companies. Based in Washington, DC, with an office in San Francisco, NVCA acts as the voice of the US VC and startup community by advocating for public policy that supports the US entrepreneurial ecosystem.



Dealmaking

Deal activity pulls back from Q2

VC deal activity by quarter



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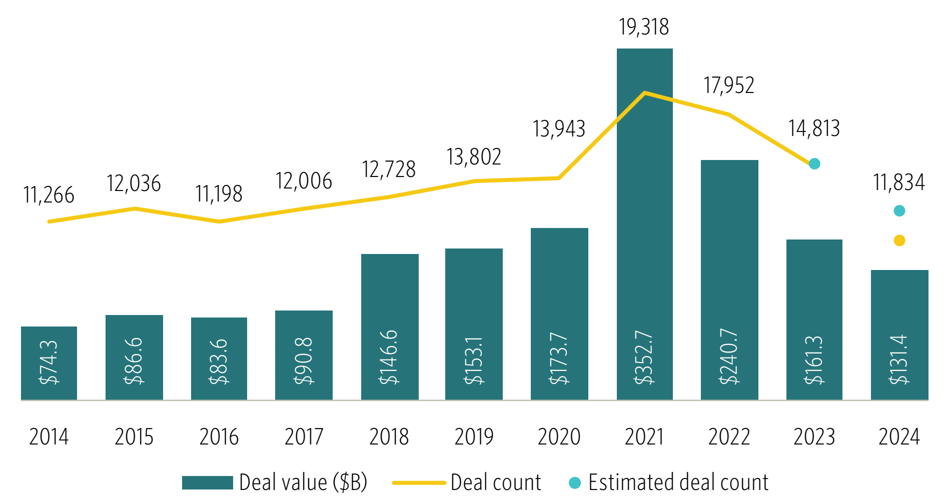
Venture deal counts seem to have bottomed, but a meaningful market rebound has yet to occur. This year's deal value is on track to reach $175.2 billion, surpassing 2020 but still a long way from zero-interest-rate-policy (ZIRP)-era highs. VC's restrained pace of recovery is due largely to the persistent headwinds that have blocked the pipeline of exit, fundraising, and dealmaking activity. As liquidity remains elusive, increasingly cautious venture investors have stepped up their standards, opting for quality over quantity as they increase time spent on due diligence and advocate for more investor protections in term sheets. As a result, dealmaking activity remained slow in Q3. Deal counts have started to tepidly tick upward in the last four quarters, with 3,775 completed deals in Q3. However, this year's total deal count is projected to be similar to 2023, further emphasizing that the market has just started its journey on the long road to recovery.

Outsized deals elevate total deal value

VC deal activity



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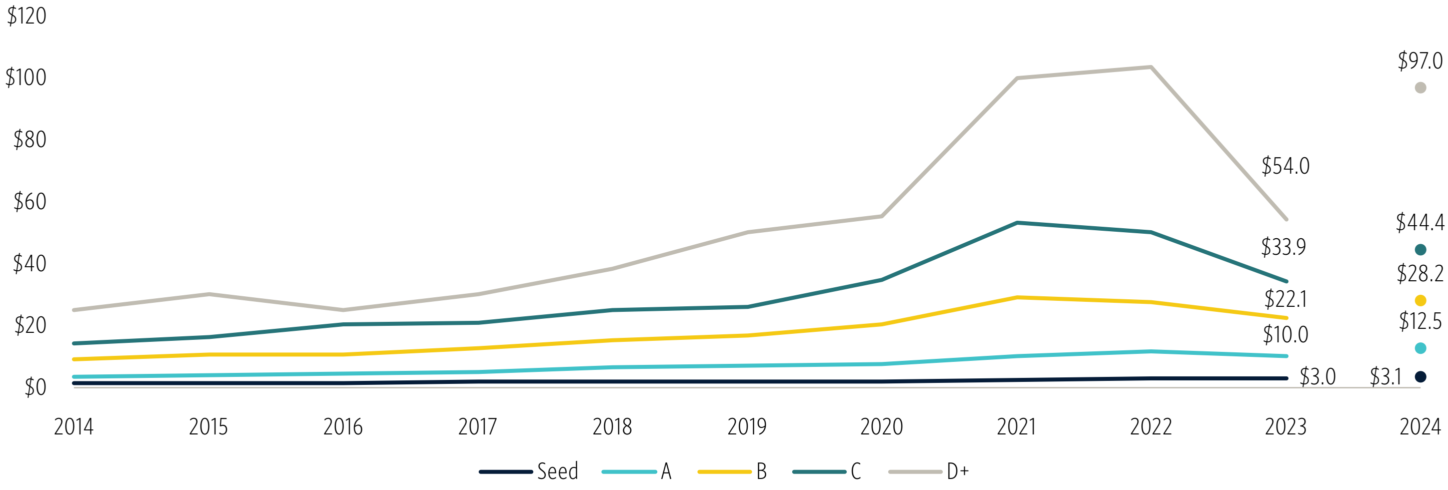
The high inflation and high interest rates that started in 2022 have contributed to venture's struggles because they limit exit opportunities, decrease VC's relative desirability as an investment, and increase investor caution. Hope is on the horizon now that the Fed has made its greatly anticipated first rate cut of 50 basis points in September after holding rates steady for over a year. A single cut is not a miracle remedy to jump-start venture as the target interest rate of 4.75% to 5% is still elevated, though

Deal sizes trend upward

Median VC deal value ($M) by series



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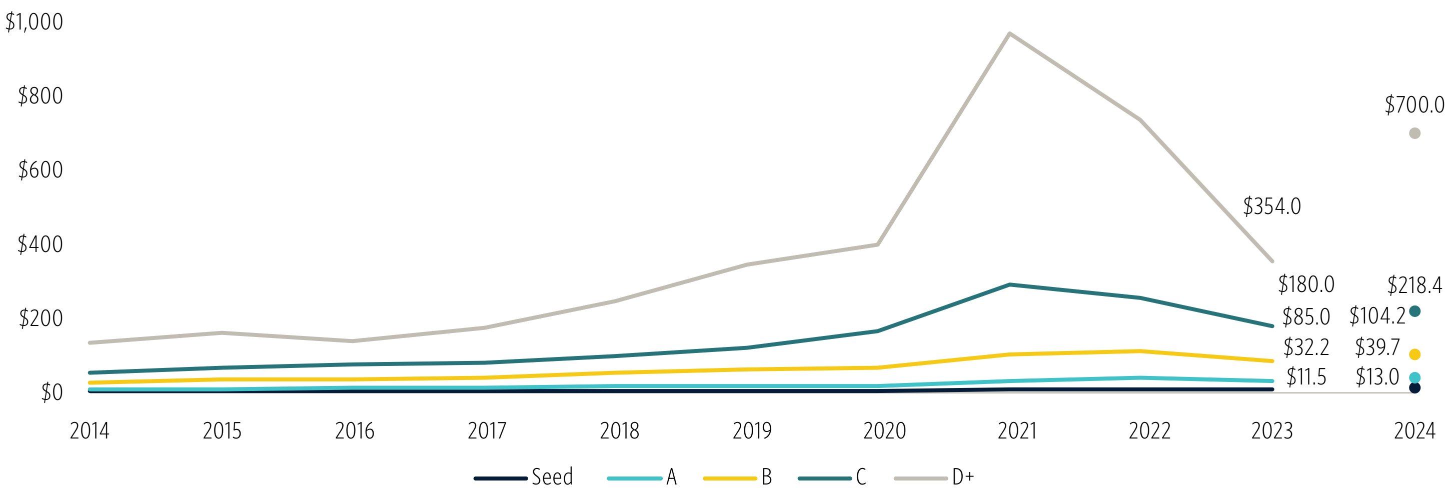
this is a step in the right direction. The speed of VC's recovery depends largely on the frequency and magnitude of subsequent cuts.

In the meantime, venture-backed companies are staying private for longer as they wait for a friendlier dealmaking environment. The growing backlog of companies currently unable or unwilling to exit has caused the US private company inventory to balloon to 57,674, a record high. Late-stage and venture-growth startups, which are typically prime candidates for public listings, have taken on a growing percentage of this population, making up 32.4% of private companies, compared with 30.0% three years ago. Considering that the inventory increased 25.9% during this period, this change is significant and contextualizes just how much the lack of IPOs has affected VC.

This upward trend of private company inventory means investors are struggling to translate numbers on their balance sheets into realized returns to reinvest into VC, so startups are having a harder time securing

Pre-money valuations increase across series

Median VC pre-money valuation ($M) by series



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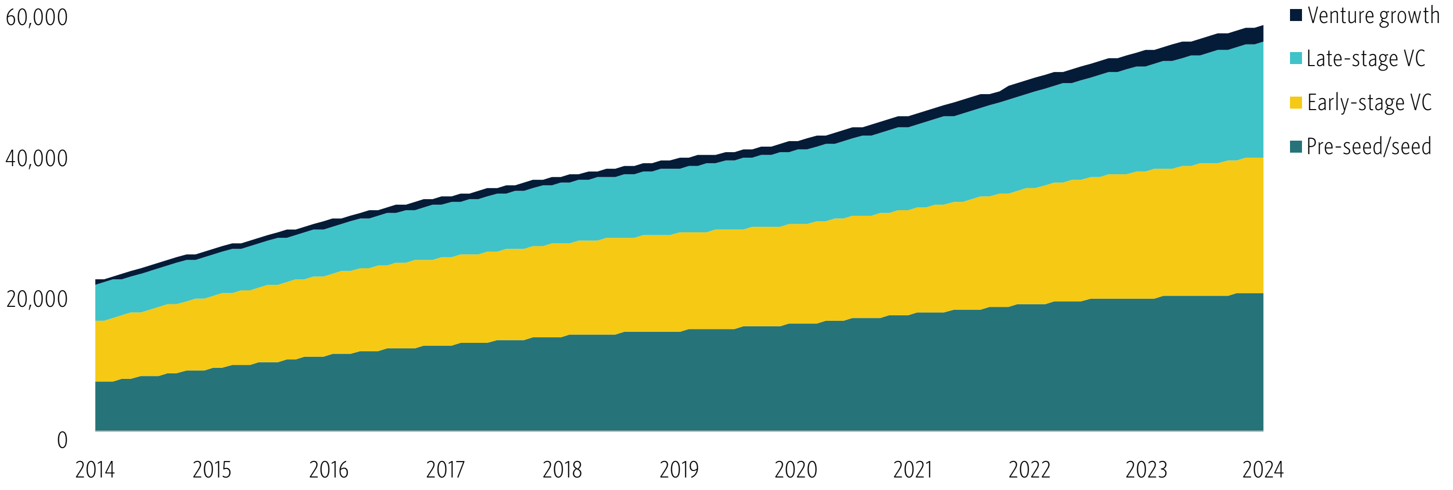
VC-backed inventory surpasses 57,000

VC-backed company count by stage (smoothed)



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additional rounds of funding. To make their capital last, companies are shifting their focus from growth at all costs to cost-cutting. This can be beneficial because profitable companies have more autonomy over when they choose to exit because they are no longer dependent on external capital. However, leaner companies may not be able to garner the higher valuations and larger rounds that they desire because revenue growth, not profitability, is a major determinant for those figures.

Currently, both the median deal size and valuation are trending higher across most series when compared with 2023. Though a positive signal, a deeper dive into the data reveals that these metrics are currently elevated by outsized AI deals and companies that last raised two to three years ago when valuations were at all-time highs. These companies locked in lofty valuations during the ZIRP era when capital was much easier to attain. Now, after taking cost-cutting measures to extend their cash runway for as long as possible, these startups are finally raising additional rounds of funding.

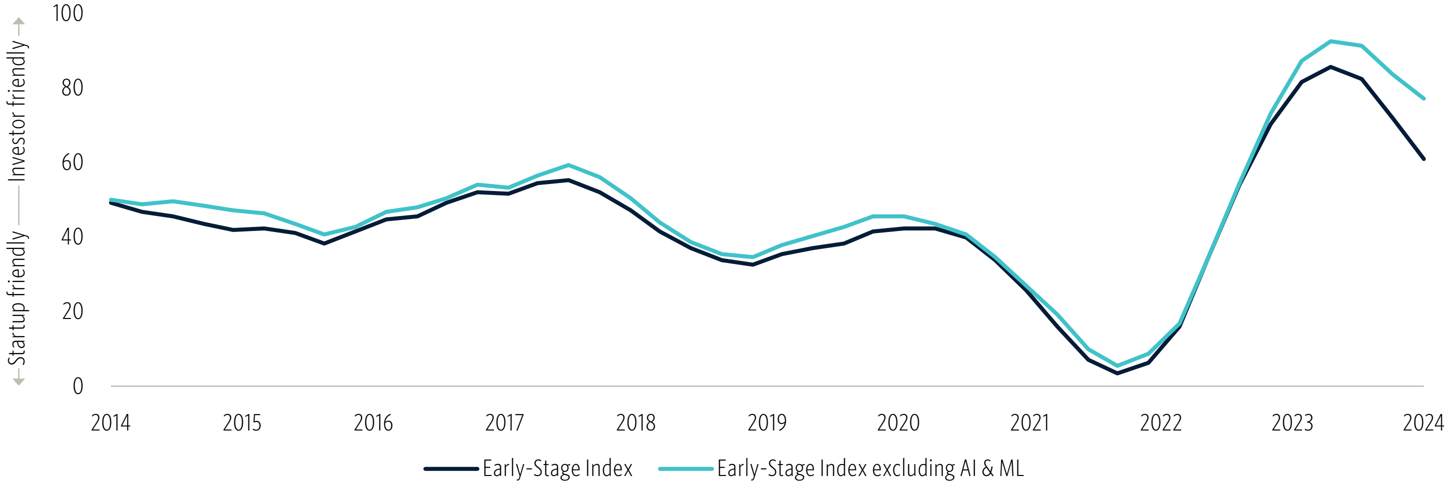
AI companies are commanding the most attention in venture. Q3's largest deal was from Anduril Industries, a defense tech company that uses AI in weapons systems, which raised a $1.5 billion Series F at a $12.5 billion pre-money valuation. AI research lab Safe Superintelligence had the second-largest deal, raising $1.0 billion at a $4.0 billion pre-money valuation for its very first round. Because the company just launched, Safe Superintelligence has yet to reveal a product or details on its business model. However, investors were not deterred by the company's nascency because its strong founding team includes AI experts such as OpenAI co-founder Ilya Sutskever.

Safe Superintelligence is a prime example of AI's dominance in VC, as the company's $1.0 billion round single-handedly makes up 20.4% of first-time financing deal value for Q3. First-time financing VC deal count and value are on pace to end the year above pre-pandemic levels, with 3,004 completed deals generating $13.6 billion in deal value year to date. Many investors have preferred to reinvest available capital in existing portfolio companies to help them weather the harsh environment. Consequently, new deals have a significantly higher selection bar. Cautious investors are now choosing to commit more capital to the strongest companies after conducting thorough due diligence, rather than the fast-paced allocation to more deals with smaller amounts that occurred two to three years ago. However, this has not been a concern for AI companies, which do not need to meet the same standards of profitability and solid unit economics as other startups seeking venture investment.

The sustained prominence of large AI deals illustrates that some investors are still willing to make large bets on promising AI startups. Hype is not only propelling AI deal sizes and valuations higher but also creating relatively better deal terms for startups. Our [VC Dealmaking Indicator] reveals that dealmaking outside of AI & machine learning (ML) remains incredibly investor friendly. Cautious investors can negotiate more protections because the demand for dollars far outweighs

AI & ML startups are moving the VC market toward neutral territory

Early-Stage VC Dealmaking Indicator



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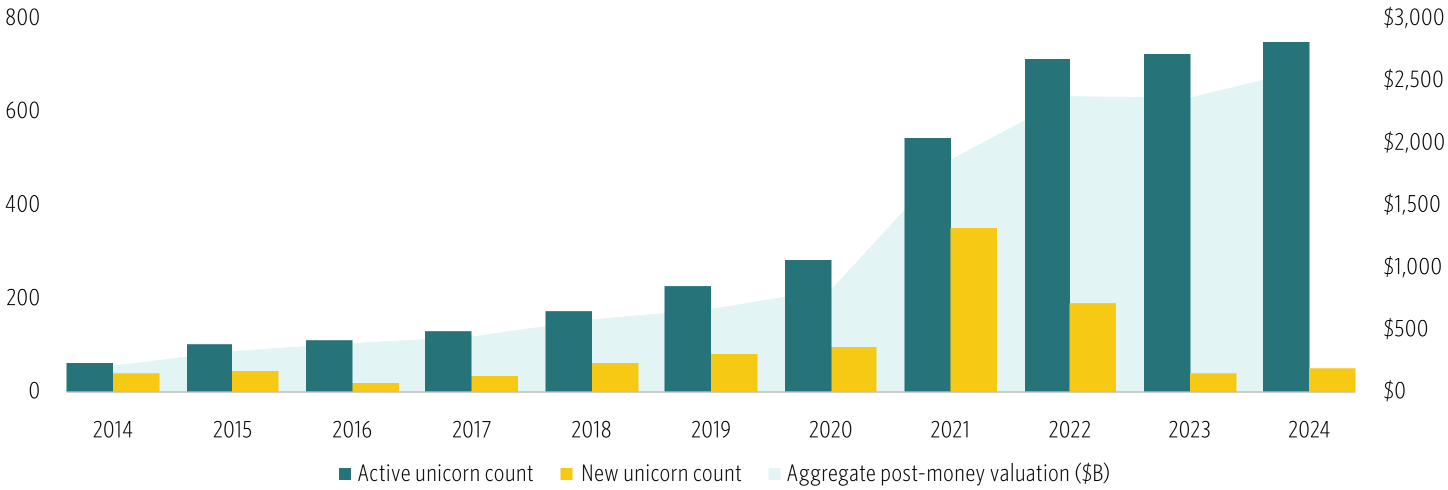
its supply. However, strong investor interest in AI & ML companies is tipping the scale in favor of startups, moving dealmaking closer to neutral territory.

The flow of dealmaking continues to be sluggish. With so many companies remaining private, the dam created by the headwinds of high interest rates and inflation will eventually crack. Positive indicators include the continued deployment of dry powder, indicating that money is being put to work in venture even if activity is still slow, and the start of interest rate cuts from the Fed. The main elements that will determine the scope of venture's recovery are how much of the high market value will actually be realized once exits re-emerge, and whether returns prove to be as fruitful as expectations, especially compared with the high valuations from a couple years ago.

Unicorn valuations at all-time highs

Unicorn count and aggregate post-money valuation



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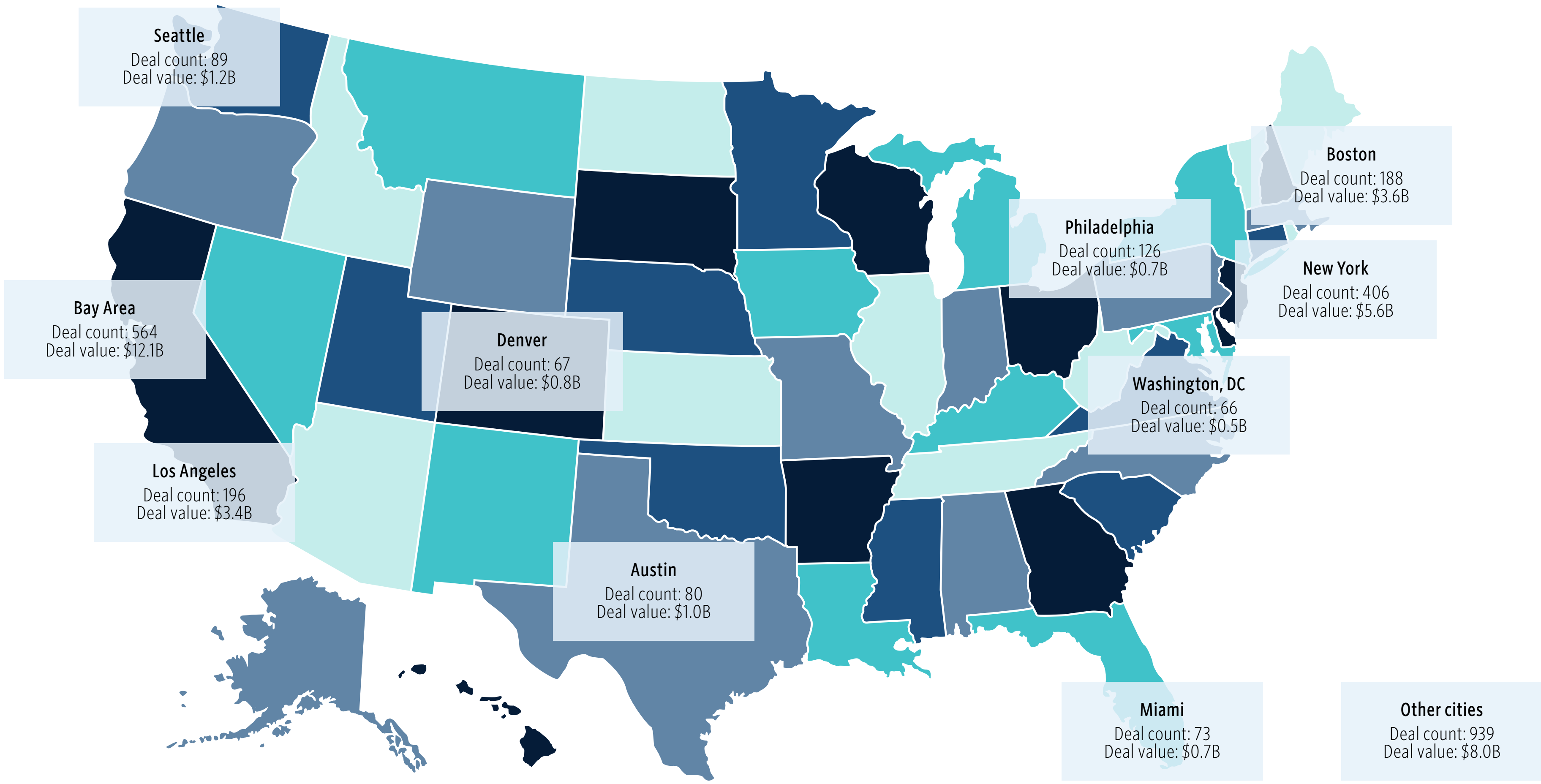
Regional spotlight

Deal value overwhelmingly centered on VC hubs in Q3

Q3 2024 VC deal activity by ecosystem



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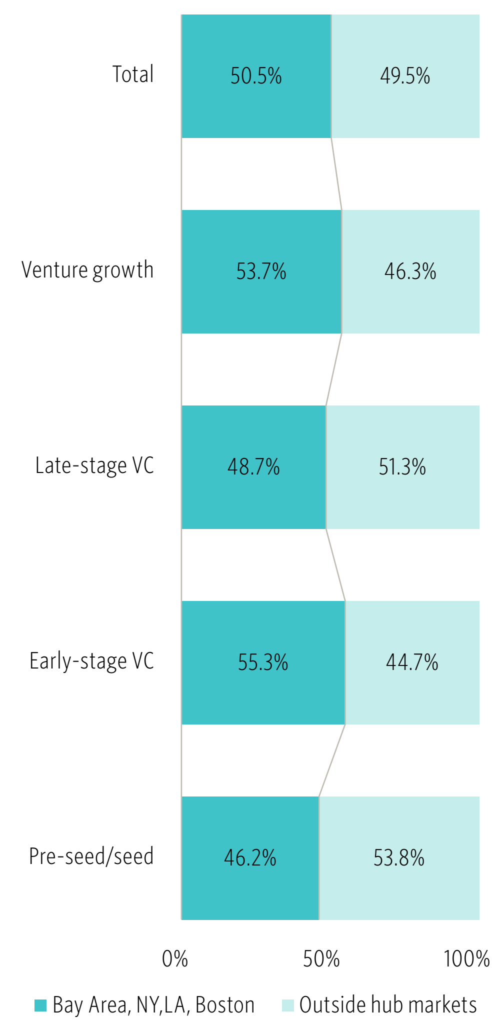
Deals evenly split among hubs and nonhubs

Share of VC deal count by market breakout



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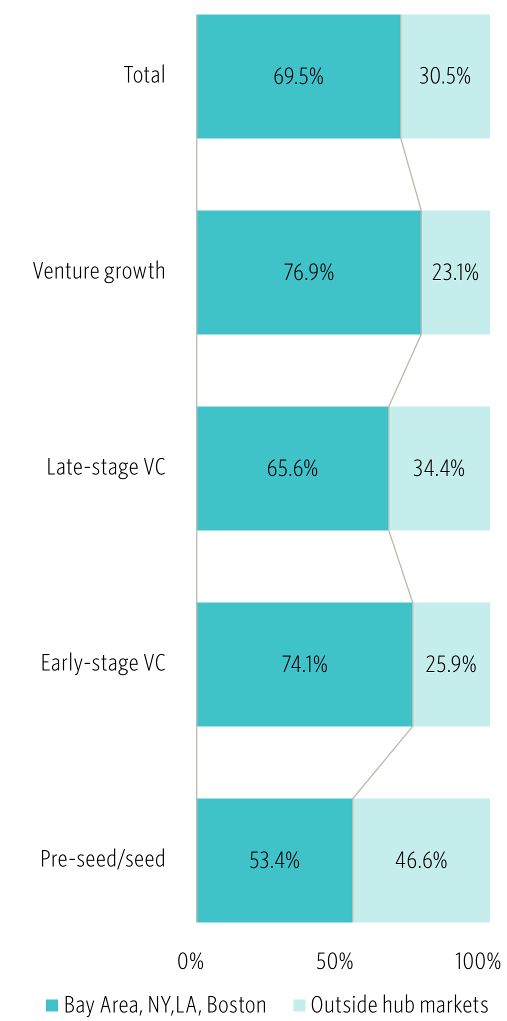
Nearly 75% of dollars put into hubs

Share of VC deal value by market breakout



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A WORD FROM J.P. MORGAN

Our views on venture

Some turbulence, but markets resilient on soft-landing potential and lower interest rate outlook.

Most macroeconomic indicators continue to point to a soft landing, as businesses, consumers, and markets have handled inflation and higher interest rates much better than expected. Near-term recession concerns have picked up a little recently but remain low. We have nudged up our own US GDP growth forecast for the year to 2.5%.

After an extended period of higher interest rates, the long-awaited easing cycle officially started with a decisive first Fed cut of 50 basis points at the September meeting. Looking ahead, we think the Fed could move at an orderly pace to bring rates to a neutral, nonrestrictive stance. We will look for another 50 to 75 basis points of cuts before year-end and ongoing 25-basis-point cuts at each meeting in 2025 until reaching a fed funds target rate around 3% by midyear.

In addition to putting less restraint on the demand side of the economy, sustained lower interest rates should benefit company valuations, with high growth profiles receiving the most lift. There is some early evidence of this playing out across public equity markets with smaller caps outperforming large caps by roughly 500 basis points since July. Given an expected lag between public and private markets of nine to 12 months, lower interest rates could filter through the venture capital ecosystem over the course of 2025.

The upcoming presidential election remains an element of uncertainty.

With differences in proposed policies coming into focus and the election outcome too close to call, some uncertainty remains for the economic and market outlook. The candidates appear furthest apart on tax policy, trade and tariffs, green initiatives, and immigration. Given the tight race, the makeup of Congress will also influence what policies are ultimately implemented.

Interestingly, the candidates appear to align on their tough stances vis-à-vis Big Tech, albeit for different reasons. In recent years, increased regulation and antitrust enforcement have effectively sidelined the largest technology companies from M&A activity. While we don't think this dynamic has been the primary reason behind the lack of consolidation among startups this cycle, we are cautiously optimistic the market tone for smaller deals in the technology sector could improve with a change in administration.

Stabilization in venture activity overall belies the tale of two cities within the ecosystem.

Venture capital flows overall appear to be levelling off around pre-pandemic levels, with heightened activity around a few sectors offsetting ongoing challenges across many others. AI and cyber infrastructure continue to garner significant investment activity with little valuation sensitivity, and the best-performing startups continue to raise capital on attractive, founder-friendly terms. Underscoring this dynamic, data from Aumni, a J. P. Morgan company, shows the recovery in top-quartile valuations across stages towards pre-pandemic levels, while the divergence between top-quartile and median valuations this year has widened.[1]

Carly Roddy, co-head of North America private capital markets, notes that VCs continue to be highly selective and discerning when putting money to work. Aside from in-favor sectors and the strongest performers, finding new lead investors continues to prove difficult, as the usual lead investors

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.

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Managing Director, Venture Capital Coverage

1: Aumni, a J.P. Morgan company, is a leading provider of investment analytics software to the venture capital industry.

have reduced their deal activity and lead cadence. Some investors are expressing capacity constraints as triage and portfolio management remain top priorities.

Roddy also notes that deal dynamics continue to trend investor-friendly for much of the ecosystem.
In this environment, rational valuations are being prioritized over commercialization and growth, resulting in the increased prevalence of down rounds, structured rounds, and lower volumes of valuation markups. Based on Aumni data, down rounds climbed to nearly 25% at midyear, up from the 2% at the peak of the cycle in mid-2021. There are notable differences in trends between early and late stage, with early-stage down rounds stable to improving, while late-stage down rounds step changed higher through the first half of this year. It is likely these figures understate the reality, as insider-led down rounds and extensions often go unreported. Stage-to-stage post-money valuation markups have been less frequent and more muted, even though this appears to have stabilized around +60% and begun to trend in the right direction.

As funds seek to deliver DPI, or distributed to paid-in capital, to limited partners amid the prolonged lull in venture-backed exits, we have seen increased activity in secondary markets. Direct secondary market conditions appear to be improving, with positive price action and narrower bid/offer spreads year to date.

Optimism is building that 2025 can be the turning point in venture-backed company capital markets activity.

Greg Chamberlain, co-head of technology equity capital markets, sees the setup for 2025 as supporting an acceleration in IPO activity for the startup ecosystem. Improved clarity on the economy, interest rates, and the election should generally bolster confidence to transact. Plus, improved trading performance from the 2024 IPO cohort has helped in restoring investor perception of the asset class and interest in high-quality equity issuance has been increasing. With only a few months left in the year, IPO volumes appear on track to reach or slightly exceed $30 billion for 2024. Prior to the pandemic, a normal year for IPO markets was $40 billion-$45 billion in total issuance and included 35-40 tech IPOs. Chamberlain notes that given pent-up demand and several scaled, profitable, and growing private companies, it is possible 2025 could be better than normal, assuming the macro and market backdrop remain benign.

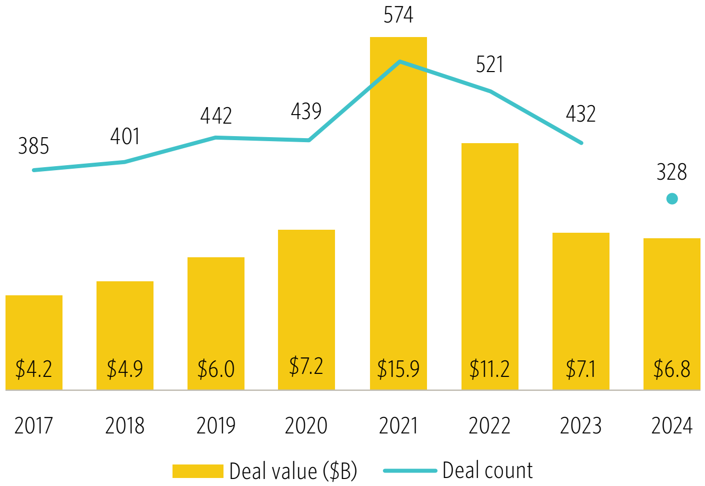
Along with our expectation for increased IPO activity next year, we expect an improved environment for M&A. There are numerous startups in the ecosystem with good business models that have reached profitability and maintained liquidity. Founders may be holding out for improved IPO conditions to assess going public. Many will dual-track their exit opportunities and choose the path that offers the best potential outcome over time.

DEALS BY SECTOR

Cybersecurity

Cybersecurity deal value trending up

Cybersecurity VC deal activity



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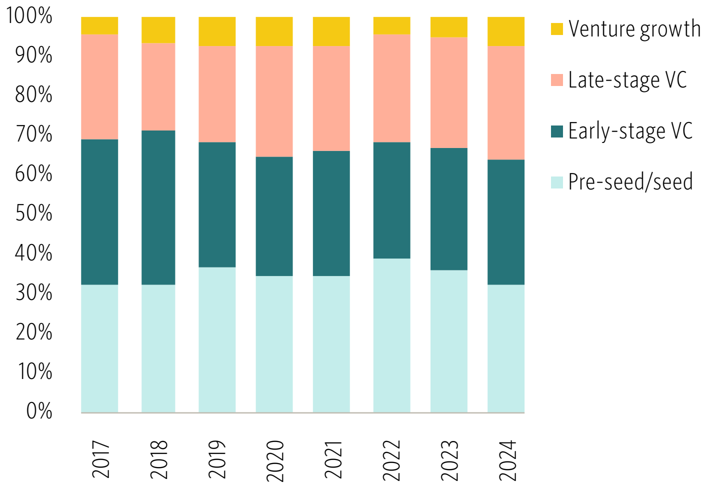
Later stages taking growing portion of deals

Share of cybersecurity VC deal count by stage



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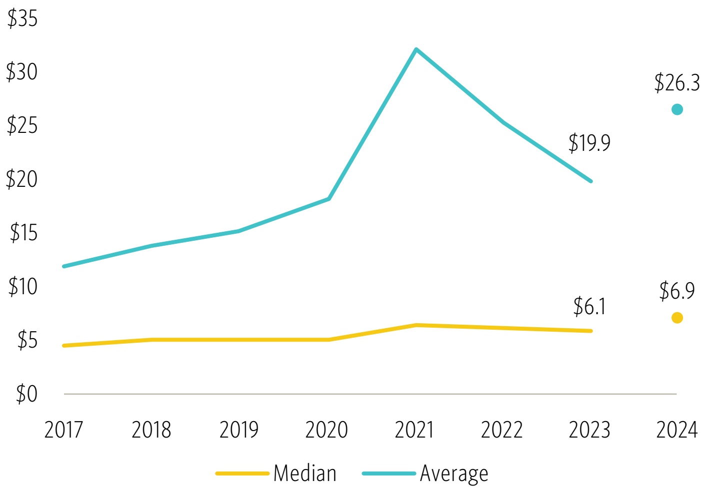
Deal sizes are up YoY

Median and average cybersecurity VC deal values ($M)



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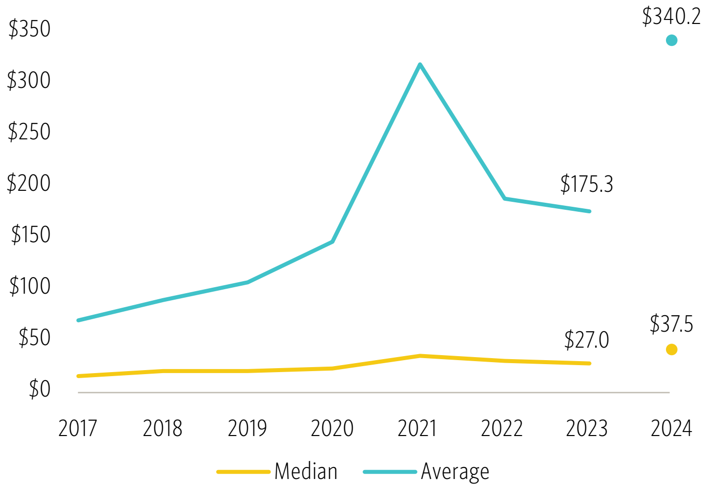
Valuations elevated by outsized startups

Median and average cybersecurity VC pre-money valuations ($M)



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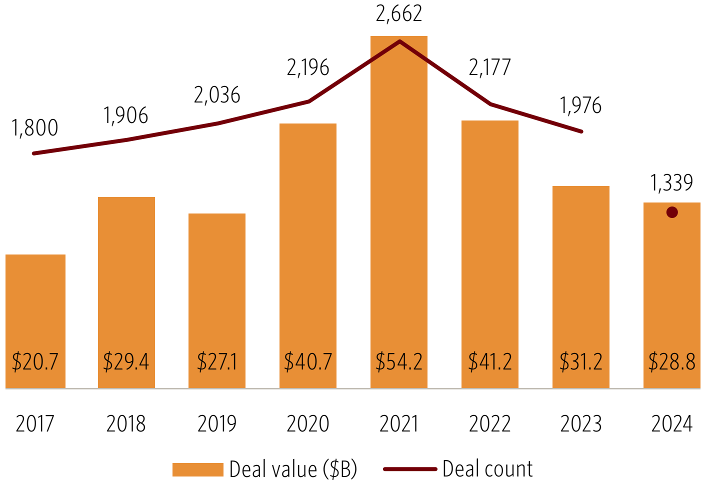
DEALS BY SECTOR

Life sciences

Deal counts continue to decrease

Life sciences VC deal activity



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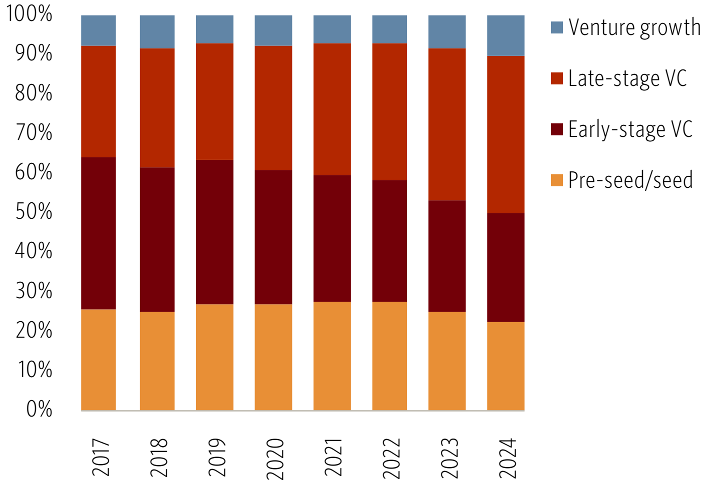
Greater proportion of later-stage life sciences deals

Share of life sciences VC deal count by stage



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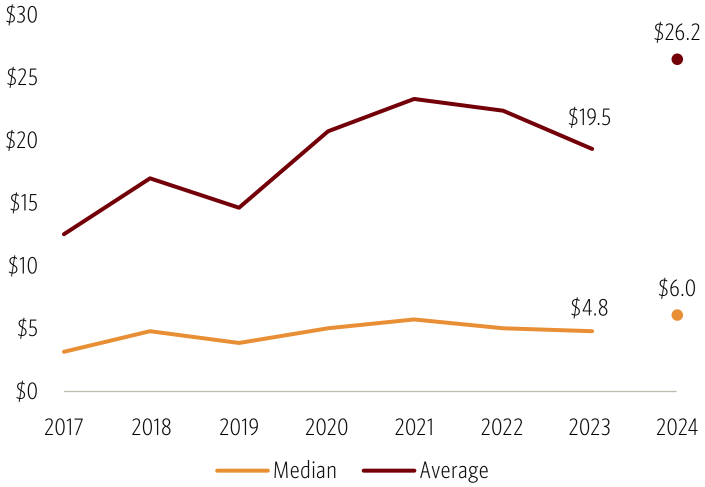
Completed life sciences deals are getting larger

Median and average life sciences VC deal values ($M)



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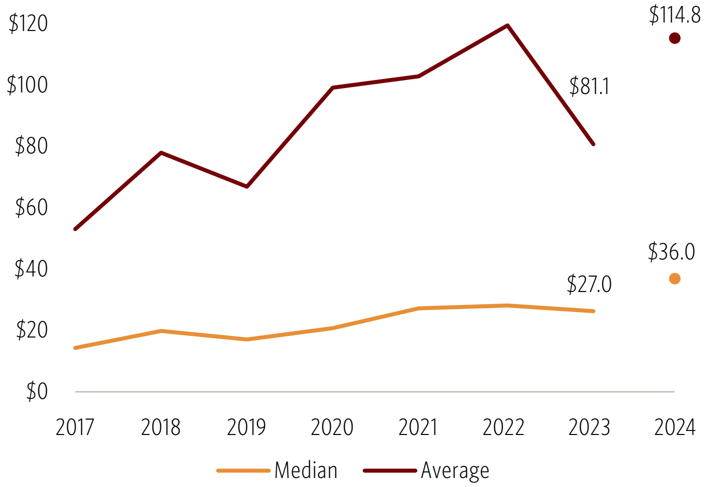
Median valuation shows swift uptick

Median and average life sciences VC pre-money valuations ($M)



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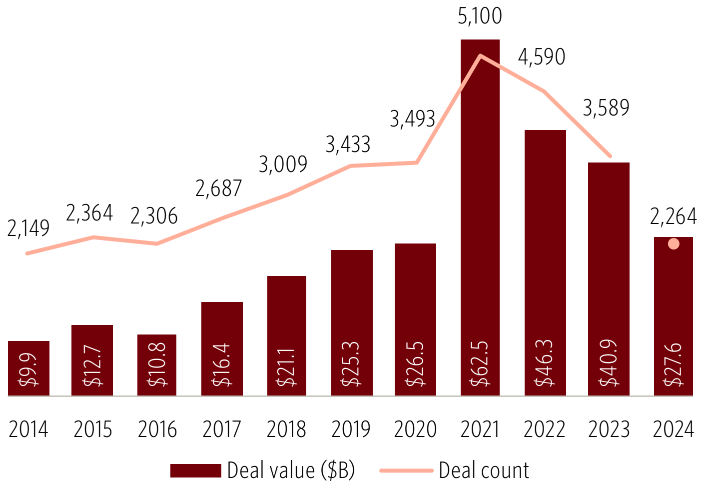
Female founders

Low dealmaking for female founders

VC deal activity for companies with at least one female founder



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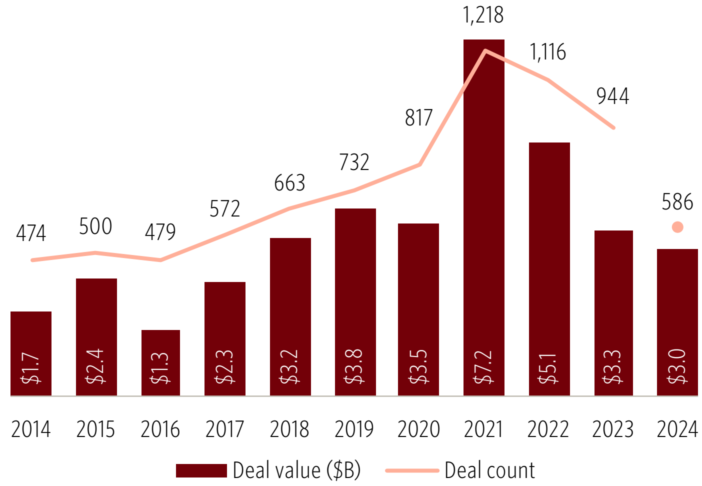
All-female deal value to surpass 2023

VC deal activity for companies with all-female founding teams



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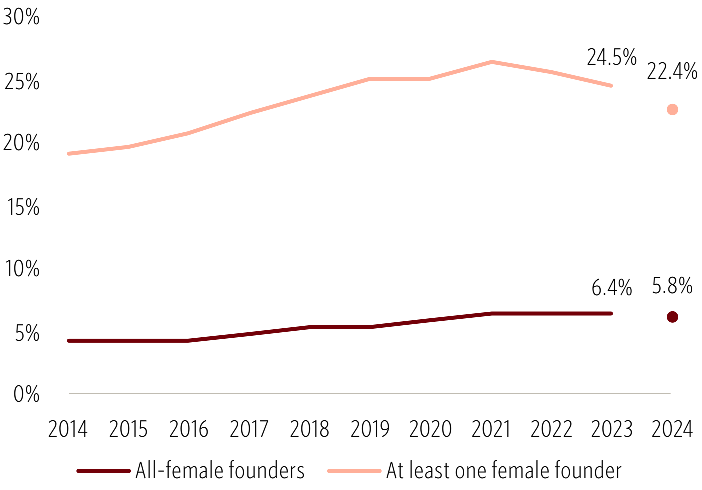
22.5% of deals have female founders

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



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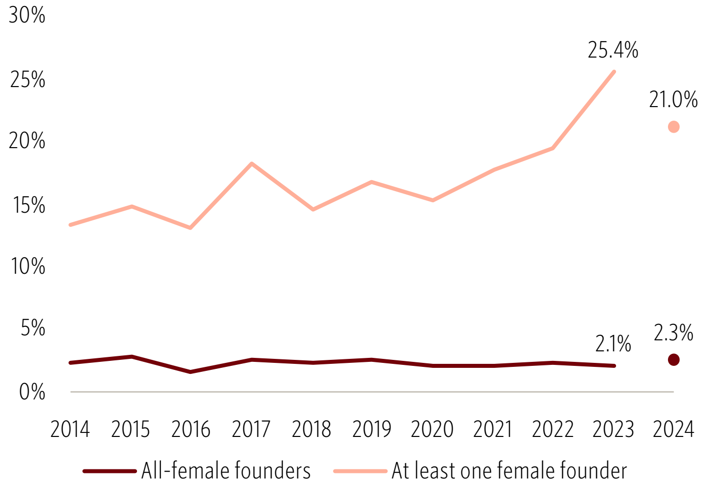
Decrease due to outsized financings

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



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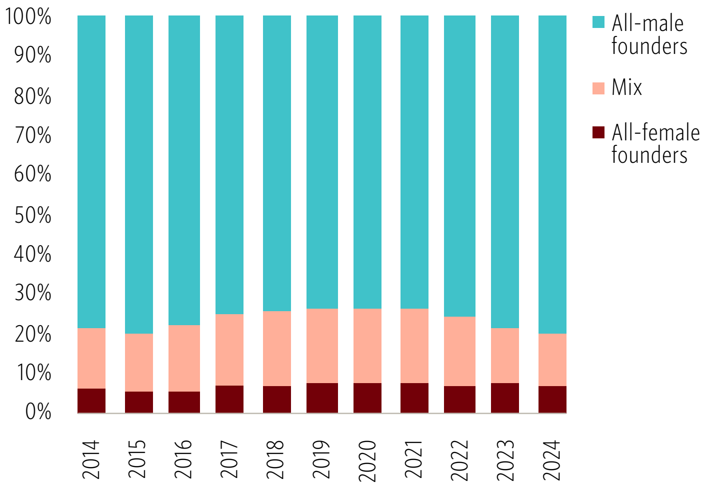
First-time financings continue declining

Share of VC first-time financings by founder gender mix



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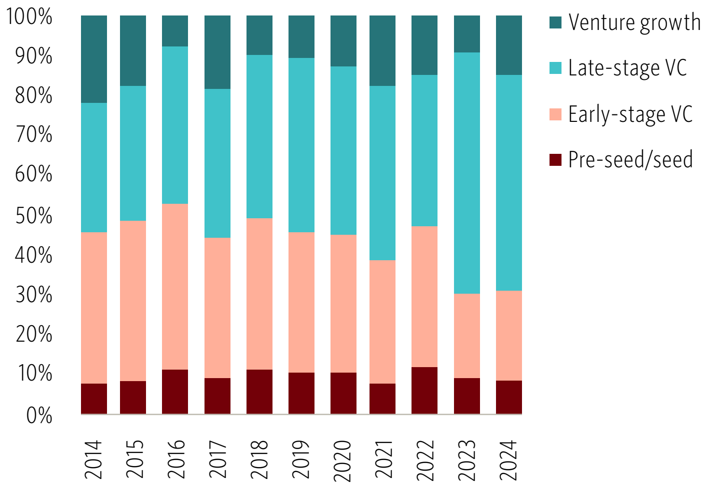
Late stage raises the most capital

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



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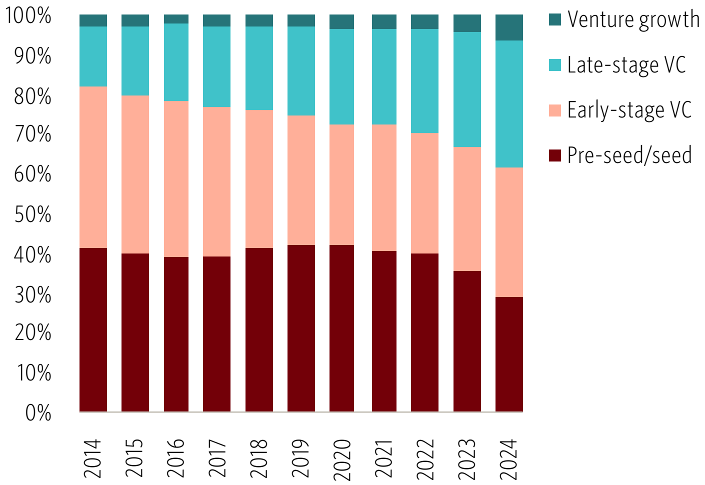
Deal activity slowing for most stages

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



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Bay Area leads the decade's deal value

Top five CSAs by capital raised for companies with all-female founding teams (2014-2024)

Combined statistical area	Capital raised ($B)
San Jose-San Francisco-Oakland, CA	$9.5
New York-Newark, NY-NJ-CT-PA	$9.4
Los Angeles-Long Beach, CA	$3.1
Boston-Worcester-Providence, MA-RI-NH-CT	$2.3
Philadelphia-Reading-Camden, PA-NJ-DE-MD	$1.1

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Note: San Diego MSA is excluded in Los Angeles-Long Beach CSA.

A WORD FROM
DENTONS GLOBAL VENTURE TECHNOLOGY GROUP

Regulatory challenges continue to impact M&A

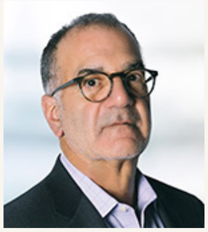
***Victor H. Boyajian**, global chair of Dentons Global Venture Technology and Emerging Growth Companies Group, sat down with **Ausra Deluard**, partner and co-chair of Dentons US Antitrust Group, to discuss the future of venture capital in a changing regulatory landscape. They talk about how M&A has long been a primary growth driver for emerging growth companies and their investors and discuss the current challenging environment for M&A and how it may potentially reshape exit strategies.*

Boyajian (New York/San Francisco): Under the leadership of Federal Trade Commission (FTC) Chair Lina Khan and Department of Justice (DOJ) Assistant Attorney General Jonathan Kanter, the FTC and DOJ have adopted a strong stance on M&A, especially when it comes to tech companies. Their headline actions involving the likes of tech giants appear to strongly influence market perceptions. How do you see this antitrust enforcement impacting the M&A strategies of venture capitalists and tech companies? What challenges might they face when trying to navigate this environment?

Deluard (New York/San Francisco): The antitrust regulatory environment has become a key concern for dealmakers in the US and globally. The level of enforcement is reflected not just by the number of deals that are ultimately challenged by the FTC and DOJ in court, but also by the increasing prevalence of merger investigations, which can be quite burdensome and expensive. The DOJ earlier this month reflected how more than 20 potential deals have been abandoned in response to the DOJ's inquiries. Many feel there is little practical oversight for the issuance and scope of these merger investigations, referred to as "Second Requests." These "Second Requests" disproportionately impact emerging growth companies that have fewer resources to devote to an investigation—not to mention the challenge of sustaining operations in the face of prolonged deal uncertainty (typically lasting about one to 1.5 years). With significant delays, there is a risk the markets will change, which will directly impact valuations and deal appetite. While many deals involving emerging growth companies do not meet premerger notification thresholds (currently applicable to deals valued over $119.5 million) and are thus less likely to undergo an intensive investigation preclosing, there is an overall chilling effect that bleeds into the deal environment and mentality. And when combined with a high interest rate environment, deal flow is impinged upon.

Boyajian: What is going on in the EU with regard to antitrust enforcement?

Deluard: Parties are increasingly mindful of antitrust merger enforcement on both sides of the Atlantic, and deal volumes have dropped more than 25% in Europe compared to last year. We see similar antitrust enforcement goals in the EU where the EU's enforcement continues to be rigorous and the European Commission (EC) has a commitment to closely monitor tech deals and "killer acquisitions" where innovative startups are acquired to allegedly eliminate future competition. However, the percentage of significant transactions blocked or abandoned in the EU has been below the number blocked or abandoned in the US. Indeed, the European Court of Justice just issued a landmark ruling in the Illumina/GRAIL case, putting an end to the EC's practice of accepting referrals to review transactions that do not meet the thresholds for review by individual member states of the EU. We expect to see the EC finding other ways to counter "killer acquisitions" that may



Victor H. Boyajian
Global Chair, Dentons Global Venture Technology

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.

Ausra Deluard
Co-Chair, Dentons US Antitrust Group

Ausra is committed to effectively and cost-efficiently helping clients across a broad range of industries to get their deal done, handle investigations, and navigate antitrust risk in commercial strategy and decision making.

not meet merger control thresholds, such as using other antitrust tools, like the abuse of dominance framework, to investigate nonreportable transactions, like it did in the Towercast case.

Boyajian: The FTC and DOJ's focus on preventing "killer acquisitions" has reshaped the M&A landscape. What are the key indicators the FTC and DOJ look for when identifying potentially anticompetitive deals, and how can companies structure their transactions to avoid regulatory pushback?

Deluard: Not all acquisitions will face antitrust scrutiny. In fact, the vast majority of reportable deals are not closely scrutinized, and even fewer nonreportable deals are investigated. Deals that help startups propel their innovation further and provide resources necessary for successful longevity without presenting a competitive overlap provide a compelling reason for FTC and DOJ approval in line with their current agendas.

Boyajian: FTC Chair Khan and DOJ Assistant Attorney General Kanter have advocated for a broader, more aggressive interpretation of antitrust laws, considering factors like innovation and market dynamics, which goes beyond just consumer prices. How has this shift affected the way mergers are evaluated, and what implications does this have for tech startups seeking acquisition as an exit strategy?

Deluard: We are seeing a broader range of issues and concerns being used to justify lengthy merger investigations. These theories still need to be tested in court, but FTC and DOJ scrutiny with lengthy investigations can be harmful to a deal long before it gets to court. Tech companies should consider the antitrust risk of various options—small market share is no longer a "pass" to potentially avoid scrutiny. Now, there are a number of less evident factors that could increase risk of an investigation, including competition for talent, for example. That said, many acquisitions and investments still get approved without in-depth merger investigations. Finding the right partner who wants to do the deal for the right reasons and having that narrative ready for regulators is key.

Boyajian: Looking ahead, what are the potential long-term impacts of the current FTC and DOJ's approach to antitrust on the innovation ecosystem? Could this lead to a slowdown in tech development?

Deluard: We all understand the risk-reward ratio. It's pretty simple—without the potential of larger rewards, entrepreneurs may be less motivated to take significant risks to innovate and explore unchartered territory. Regulatory pressures can create market distortions. Many dealmakers want that proverbial regulatory pendulum to swing back.

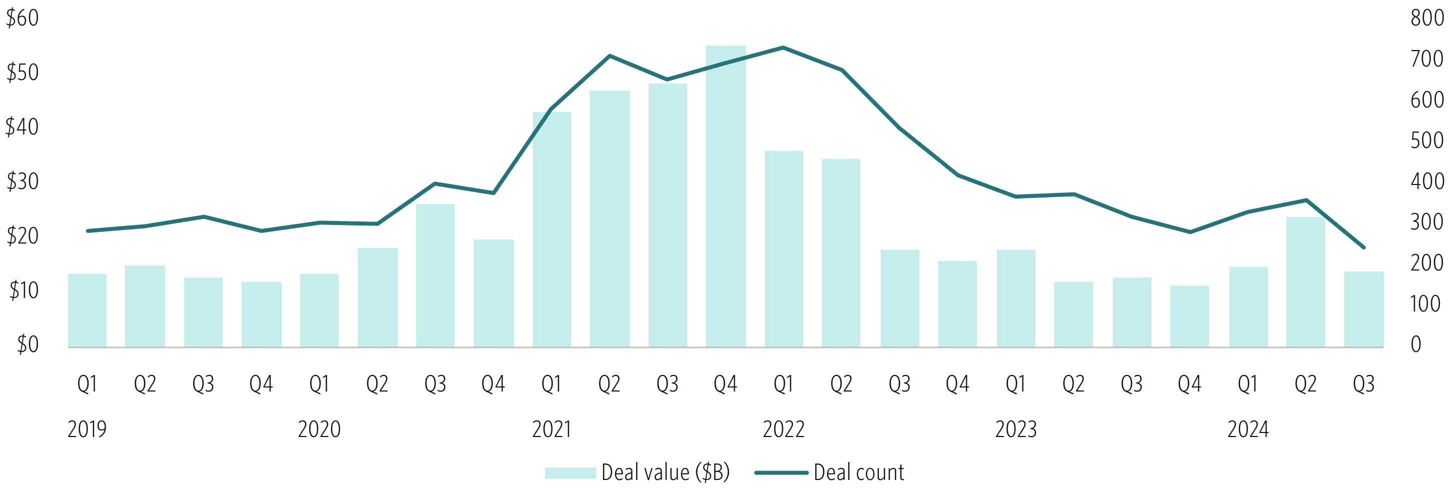
Boyajian: For early-stage startups positioning themselves for future acquisition, what would you say they should consider to ensure they remain attractive to potential buyers given the current antitrust climate?

Deluard: To be in an attractive position to potential buyers, we encourage companies to focus on their unique value proposition. The more your company strategy visibly centers on meeting an unaddressed need, the fewer concerns antitrust regulators may have regarding the diminution of rivalry. Any hyperbole or language about "destroying the competition" or anticompetitive strategies to foreclose others could lead to enhanced scrutiny. It's also important to find the right partner, one with a growth mindset, that can help take your company to the next level—not only ensuring survival, but allowing your company to grow and flourish. Distinguish your markets and highlight how the transactions will actually enhance competition. Internal communications, business plans, and pitch materials should reflect how your acquisition partner can help the company innovate further for the benefit of the wider marketplace. Demonstrate how benefits of the transaction will actually flow to market participants in a clearly defined way. Anticipate what competitors may be saying about the impact of the transaction so you can be prepared to respond to any biased narratives. As antitrust merger advice can be quite specific depending on the factual circumstances of each transaction, it is helpful to do a risk assessment and consider antitrust strategy early in the process.

Investor trends

Crossover deal value and counts are starting to recover

VC deal activity with crossover investor participation by quarter



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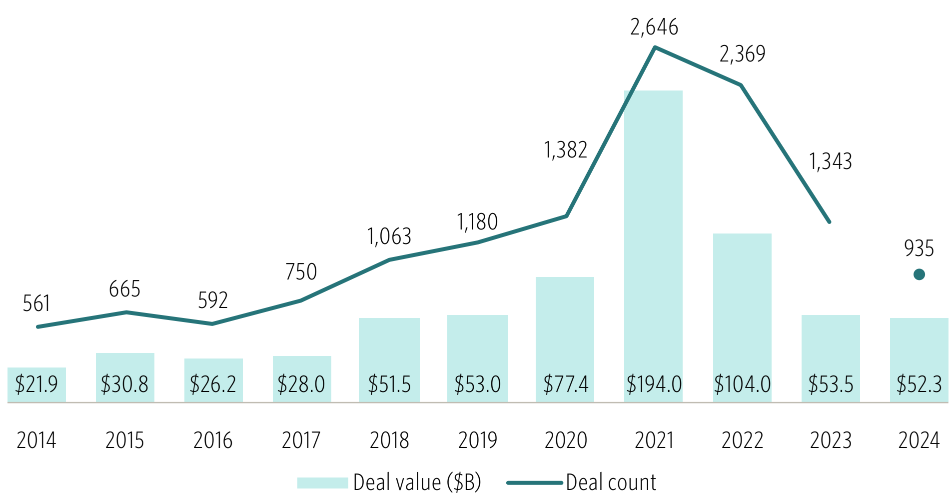
Crossover investors play a more essential role in venture than they had in the past, highlighted by the void in capital availability that followed their pullback from deal activity over the past couple years. As companies stay private for longer, liquidity from realized returns seems to be getting further out of reach in an already parched market. Crossover investors have far more flexibility than traditional VC investors do to strategically add capital to late-stage venture because their long-term investment theses allow them to hold portfolio companies long past public listings. This year's deal value associated with crossover rounds is on track to reach near $70 billion, up 30.3% compared with 2023. Q2 2024 was especially strong, generating $23.8 billion over 360 deals, while Q3's $13.8 billion in deal value is more in line with other quarters over the past two years.

Despite the abundant dry powder, venture investors across the board have retreated from mature startups.

Yearly crossover deal value is on track to trend upward

VC deal activity with crossover investor participation



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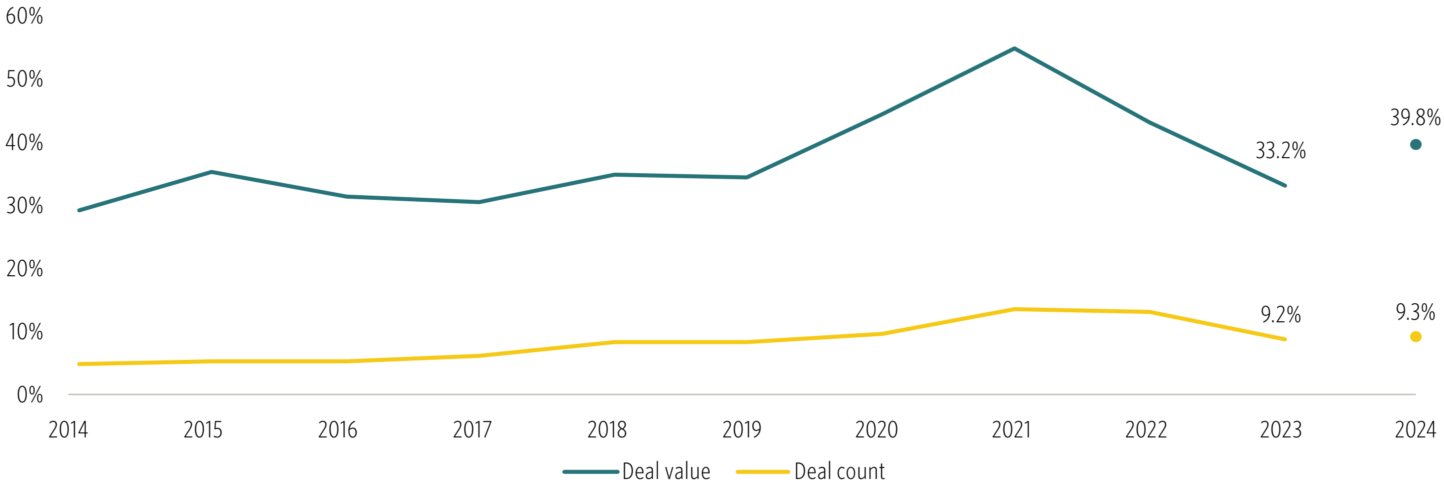
The downward pressure on overall dealmaking has been especially pronounced in the late and venture-growth stages. This year's late-stage deal value, which is similar to 2023, is on track to reach $73.6 billion over about 4,100 deals. Venture growth is projected to reach $33.9 billion over 860 deals in 2024, which is also in line with last year's figures. When compared to 2021 when dealmaking was at its peak, late-stage deal value is currently 53.0% lower and venture-growth deal value is 62.4% lower. This pullback is precisely why crossover investor participation is

Crossover participation still below ZIRP-era highs

VC deal activity with crossover investor participation as a share of all VC deals



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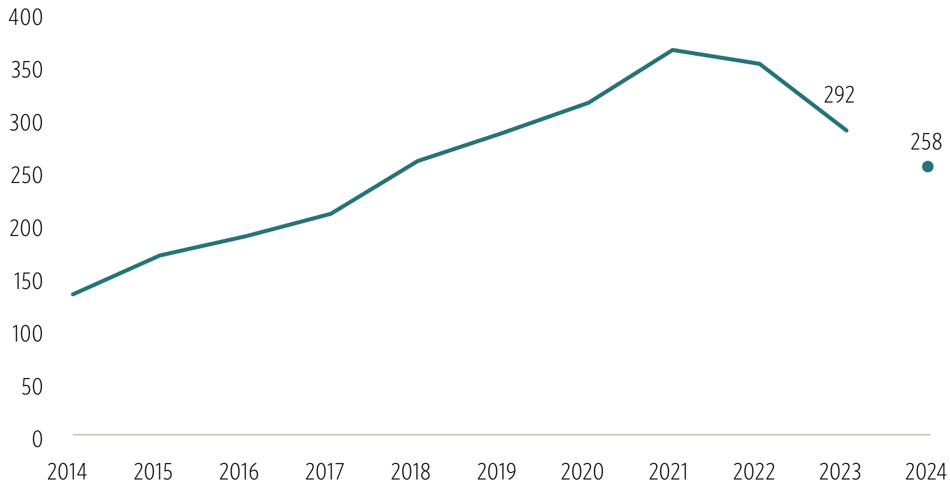
crucial to continue propelling this part of the market. Later-stage companies have ample demand for investment because these companies need capital to continue their growth, and crossover investors with their long-term investment theses are well suited to address this need.

There is strong potential for greater crossover investor participation in venture, though its extent relies on the volume of exits when VC eventually rebounds. Crossover investors heavily participated in the ZIRP-era venture boom, leaving them with large and illiquid VC portfolios as exit activity stagnated. Elevated interest rates are another detractor if crossover investors use debt to finance their venture deals, especially because venture's modest returns are not currently high enough to justify the borrowing costs. Since the highs from 2021 and 2022, the number of unique crossover investors has dropped by 30.1% as these investors stepped back to re-evaluate their overexposure to the asset class. Yet indications exist that crossover investors will return to venture, especially once exit activity resumes, since crossover investor deal value seemed to have bottomed in 2023. Though crossover investor participation has not yet returned to its previous highs, their involvement is essential for the fate of later-stage venture, especially as these companies stay private for longer.

Fewer crossover investors

Count of unique crossover investors that invested in US-headquartered target companies by close year



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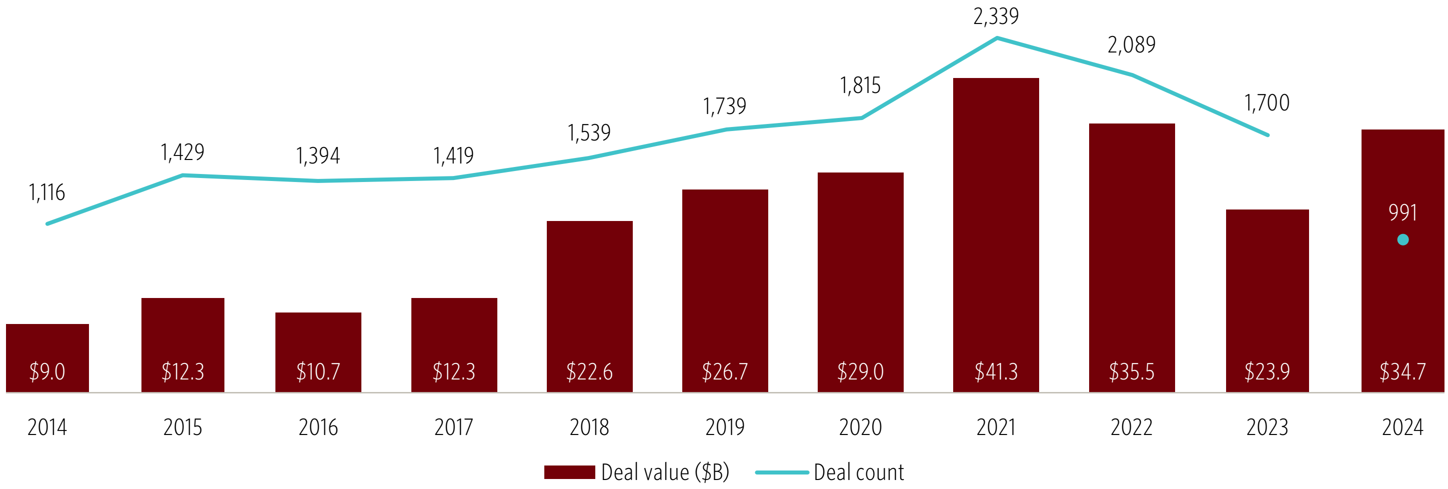
Venture debt

Venture loans have lagged past years

Venture debt deal activity



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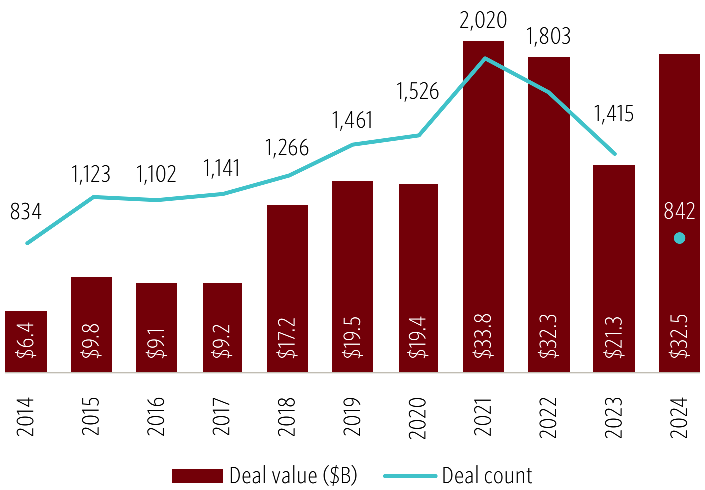
Tech lending value on pace to become highest ever

Tech venture debt deal activity



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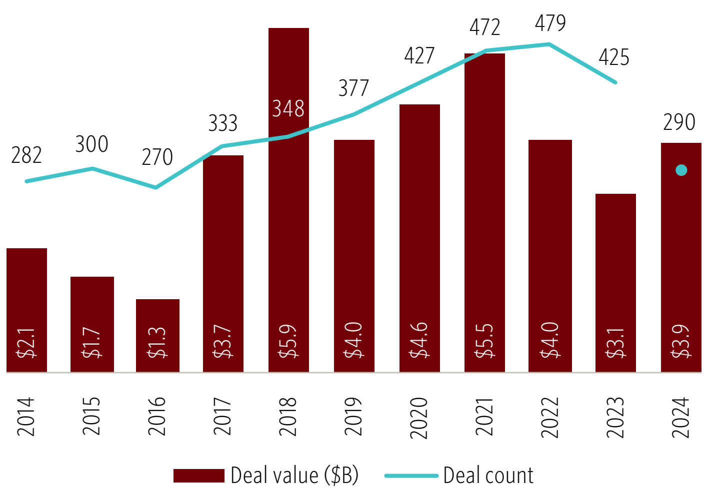
Healthcare loans back to 2019 levels

Healthcare venture debt deal activity



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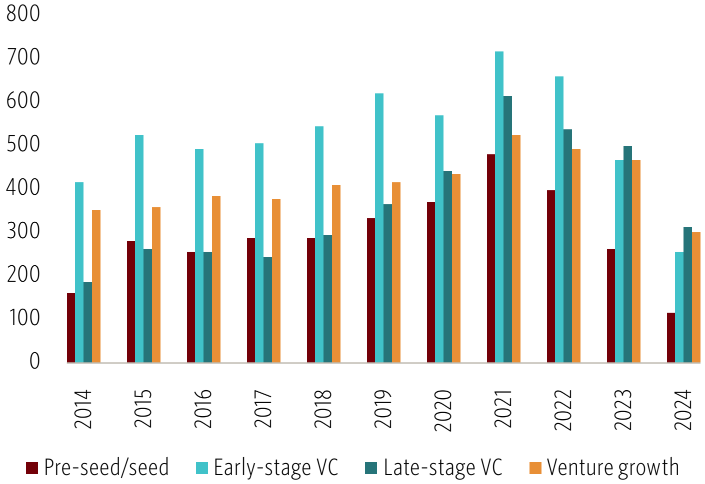
Late-stage loans account for highest proportion

Venture debt deal count by stage



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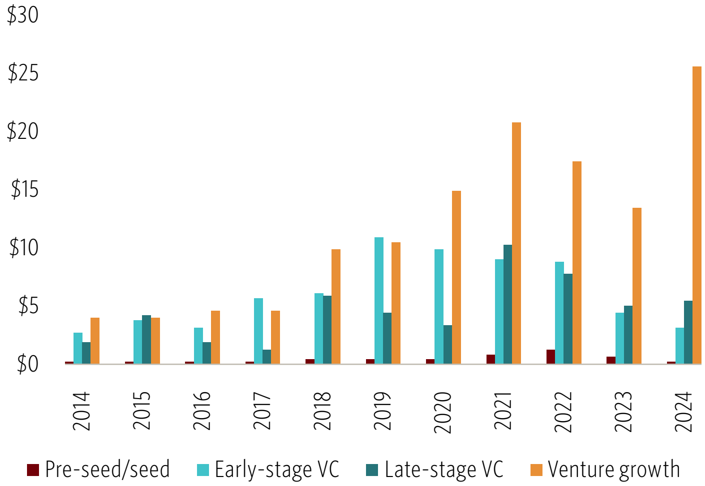
Near 75% of debt to venture-growth companies

Venture debt deal value ($B) by stage



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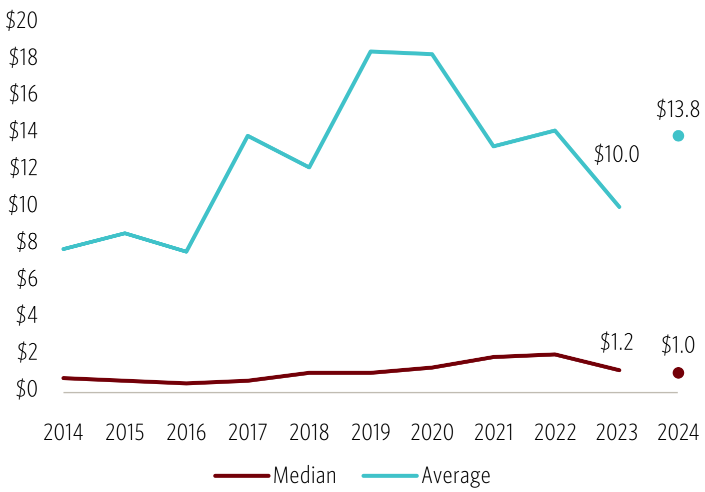
Median early-stage loan size has fallen

Median and average early-stage venture debt deal values ($B)



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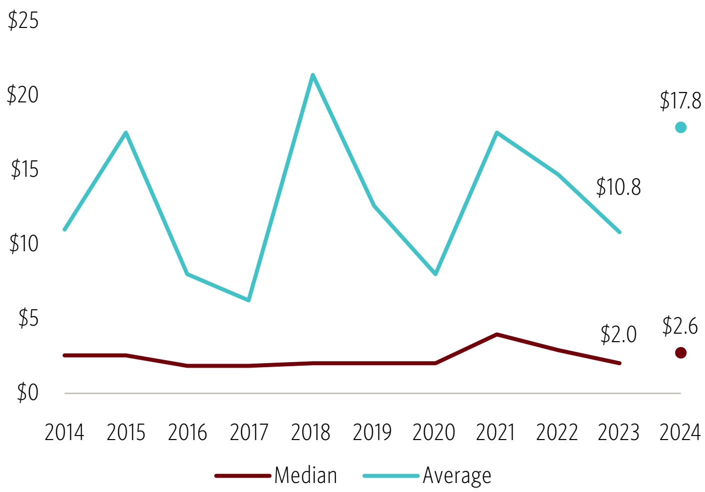
Lenders have remained cautious toward large loans

Median and average late-stage venture debt deal values ($B)



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A WORD FROM DELOITTE

Venture capital's uncertain tax policy future

It's generally known that in an election year, taxes can be a major topic. With the 2024 election approaching, the VC world is buzzing like a trading floor right before the opening bell. The potential tax policies each candidate is outlining could lead to vastly different outcomes, placing the VC ecosystem in a high-stakes game of "what if?" VCs and their portfolio companies may need to plan for multiple possible outcomes at both the presidential and congressional levels and be ready to pivot quickly.

For guidance, Deloitte's Heather Gates and Gordon Perl provide their insights on how venture capitalists can navigate the present ambiguity. Together, they paint a picture of a landscape marked by the need for agility and strategic planning.

The roller coaster terrain of VC

Beyond the direct impact of pending tax policies, the broader economic road ahead for startups and VCs may likely remain bumpy. The past few years have seen a market correction, with funding and valuations taking a hit. The frenzied gold rush of 2021 has given way to a more cautious approach, with many VCs now focusing on "inside rounds" (when a round is primarily funded by investors from a previous round) to sustain their most promising portfolio companies.

The correction may have also impacted market exits, which have largely paused, as a result of volatility and doubt. While a few companies are moving forward with their IPO plans, according to the latest Road to Next report, most are staying on the sidelines in hopes of more clarity after the election.[2] Now, with these possible tax policy changes taking center stage, the ride may just be getting started.

The approaching impact of new tax laws

Historically, we've seen that elections can serve as a catalyst for tax policy changes—driven by an administration's budgetary needs and broader legislative goals.[3] With the sunset of provisions from the 2017 Tax Cuts and Jobs Act (TCJA) due to occur at the end of 2025, there is significant debate about whether they will be extended, altered, or left to expire. Private financial markets should prepare for possible changes that impact both individual and corporate taxation.

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.

Gordon Perl

Business Tax Partner, Deloitte Tax LLP

Gordon is a partner for Deloitte's Silicon Valley Tax Practice where he serves as the National Tax Leader for the Deloitte Emerging Growth Practice. Gordon has more than 20 years of public accounting experience.

While tax policy might be the headliner, interest rates and geopolitical factors play key roles in this financial landscape. High interest rates have made it more expensive for many private equity firms to leverage deals, leading to a slowdown in transaction activity. However, as interest rates stabilize or potentially decrease, we could see a resurgence in dealmaking, giving the VC ecosystem the boost it's been waiting for.

Key tax issues on the horizon

Several key tax issues are top of mind for the VC community according to Gordon: corporate tax policy changes, potential changes to the capital gains tax rates, and the capitalization of R&D costs.

Under current law, R&D expenses must be capitalized over five or 15 years—a significant shift from their previous ability to expense the costs immediately. Gordon says, "This change has led to real cash outflows for many startups, straining financial resources at a critical stage in development."

Some politicians have advocated for higher capital gains rates to raise revenue and make the tax code "fairer" between wage and unearned income. Others think doing so would discourage investment, risk-taking, and entrepreneurship. Those who

2: "Road to Next: Exit avenues: The era of inside and down rounds," Deloitte, Q3 2024.
3: "Taxes, Tariffs and Debt: Investors Start to Fear the Presidential Election," The Wall Street Journal, Gunjan Banerji, April 29, 2024.

want to keep the rates lower argue it's necessary for the United States to maintain a competitive edge in the global economy, creating an advantageous environment for more investment. In short, any increase in capital gains taxes could cool the VC enthusiasm just when startups need it most.

Changes to capital gains tax rates also have the potential to ripple through the VC ecosystem. If rates increase, the attractiveness of venture investments could diminish, as returns would be taxed more heavily. This could lead to a reduction in investment activity, particularly in early-stage startups, which are already navigating a tough funding environment.

Charting a course through uncertainty

In this uncertain climate, scenario planning becomes paramount. Startups and VCs may want to conduct "if-then" analyses to prepare for various outcomes. This typically involves modeling the potential impacts of different tax scenarios on cash flow, valuations, and investment strategies. Heather compares it to assembling a complex matrix of decisions, preparing the right actions to effectively address the situation.

One area with a range of options at play is IPO strategy. The potential increase or decrease in corporate tax is likely to affect a company's decision time frame to go public. If the expectation is that corporate taxes will decrease, it might make sense to delay an exit to benefit from that more favorable tax environment in the future. If, on the other hand, expectations are that corporate taxes will rise, there may be a premium on going public before those changes occur. The stakes are high all around, but Heather notes: "With detailed planning and a bit of flexibility, the VC world could possibly come out stronger in the end."

Potential industry winners and losers

Heather believes that the industry will be impacted regardless of how the tax laws change or don't change, which will drive the investing behavior of funds and may affect what their future investments look like. Gordon adds that the life science industry could be among those most affected by the capitalization of R&D, due to the extended length of time required for drug approvals. If R&D costs are being capitalized with little to no income, taxes are paid immediately, perhaps leaving less money for research spending or other investments.

Preparing for the future

As the elections near, startups may need to do more than just cross their fingers. They may need to get their financial houses in order and create a robust system to handle the potential complexities of future tax policies. This may include running diagnostics on their financial health, ensuring compliance, and being ready to adapt to changes in the regulatory environment. Gordon says, "We're working with a lot of startups right now, holding brainstorming sessions to analyze their tax footprint over the next several years. What will they need to do to prepare for an IPO? How will different tax policies impact business changes? These are all important steps in doing the sort of analysis needed to be ready to adapt to a dynamic environment." With a Deloitte advisor at your side, you can have a plan for potential scenarios. While the future remains uncertain, startups and VCs should stay sharp, informed, and ready to pivot at a moment's notice.

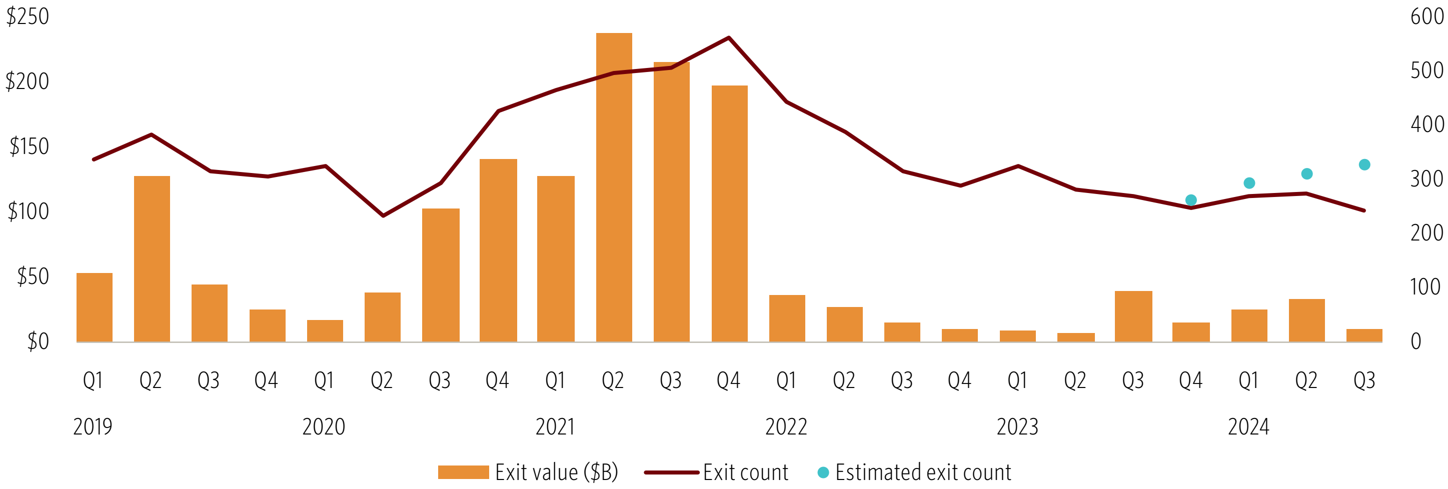
Take a deeper dive into upcoming tax policy by downloading the latest report.

Contact our team today.

Exits

Q3 continued to see a lack of large public listings

VC exit activity by quarter



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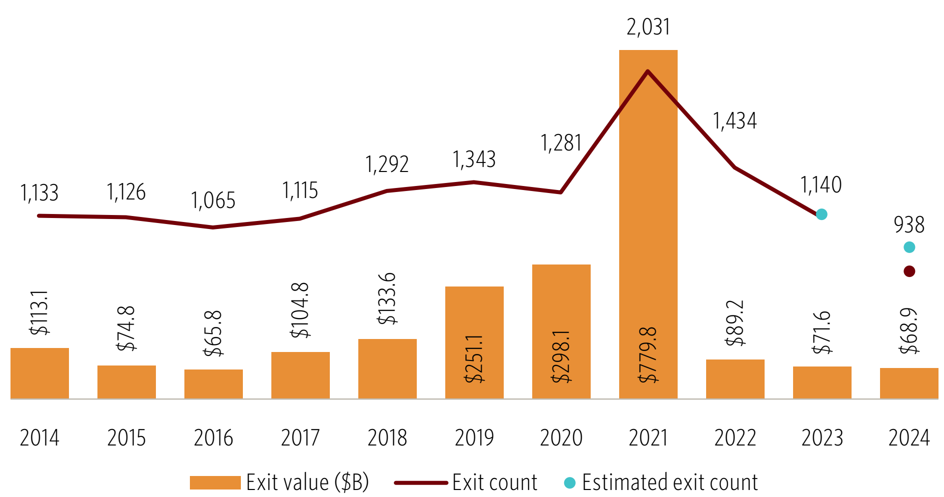
In Q3, the exit scene remained lackluster, with $10.4 billion generated across 243 exit events. On a quarterly basis, exit value settled at a five-quarter low. Q3 reflected a shortage of outsized public listings, with only two exits—both acquisitions—exceeding the billion-dollar threshold. Most of the top 10 largest exits came from the healthcare space, which helps explain why three quarters into the year, 2024 has the highest concentration of pharma & biotech exit value as a proportion of total exit value in the past decade. As discussed in our Q2 2024 healthcare research, exits in the biopharma sector have slowed, with unfavorable public valuations being a hurdle. During the same period, however, the medtech sector exemplified strong exit momentum, with startups that emerged over the past 50 years looking to emulate the IPO of Tempus.

The exit market remains sluggish

VC exit activity



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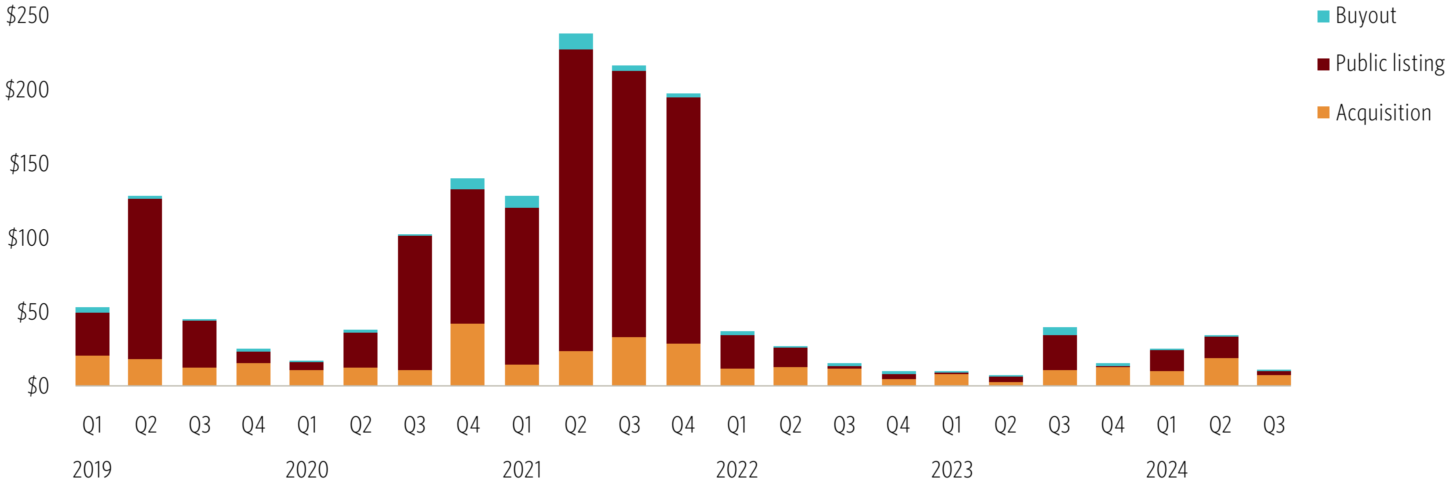
Across the board, unfavorable multiples and market volatility continued to weigh on exits. With a sustained shortage of large exits, there has been a heightened sense of urgency from the LP side for liquidity generation. GPs have been getting creative around liquidity via alternative routes such as secondaries and continuation funds. For example, some funds are contemplating bringing in team members that are dedicated to secondary transactions, thereby maximizing liquidation opportunities. Anecdotally speaking, founders have also become more open to secondaries while also being cautious and thoughtful about their cap table composition.

Value from public listings diminished in Q3

Quarterly VC exit value ($B) by type



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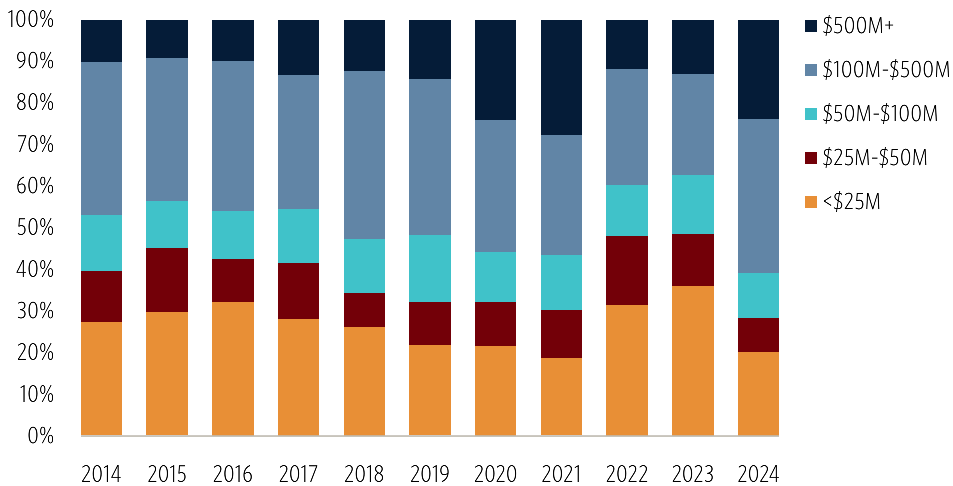
In a recent analyst note on VC returns by series, we discussed that PE firms have become more active shoppers for VC-backed startups as add-on targets for their platform companies. As of Q3 2024, the percentage of buyouts as a proportion of total VC-backed exit count has climbed to 21.8%, nearly on the same level as the year prior. We expect to see the buyout momentum continue at the intersection of middle-market PE firms and VC. According to our Q2 2024 US PE Middle Market Report, during the first half of 2024, middle-market buyout value and count ascended by close to 12.0% compared with the same period in 2023, largely due to more favorable borrowing terms for PE middle-market deals. This backdrop, along with the add-on strategy employed by PE firms to help platform companies position themselves as stronger and better once we enter a better economic cycle, serves as a tailwind for buyout exits.

While PE investors continue to show inquisitive actions, the appetite that corporate strategic acquirers have for M&A remained diminished in Q3. Larger acquisitions are subject to regulatory scrutiny, but for smaller deals that are less of a concern for the Federal Trade Commission (FTC), corporations have become more circumspect about making acquisitions. Barriers to a warmer M&A scene include corporations finding it difficult to embrace elevated valuation levels from the prior market highs, which leads to conversations about getting to a midpoint with a reasonable valuation level, as well as increased caution around whether the time and resources needed for a successful integration will generate sufficient return on investment (ROI) to justify the merger of two entities.

Small M&As not providing much relief to VCs

Share of VC exit count by size bucket



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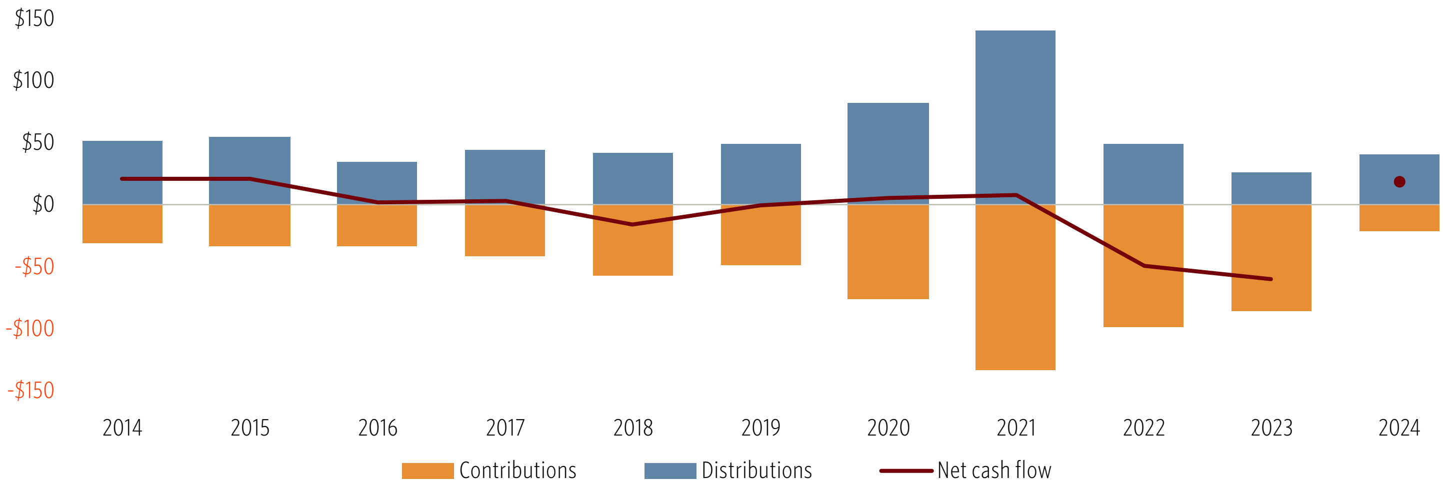
A lack of exits continued to weigh on LP liquidity positions

VC cash flows ($B)



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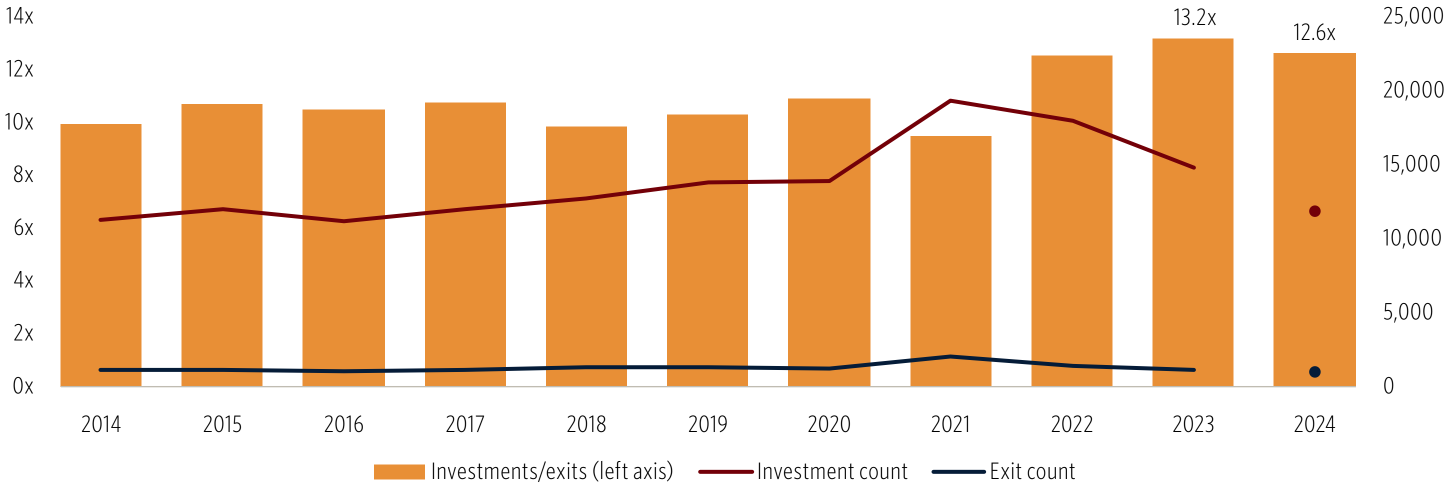
Fewer VC investments as exits remain low

VC exit count versus investment count



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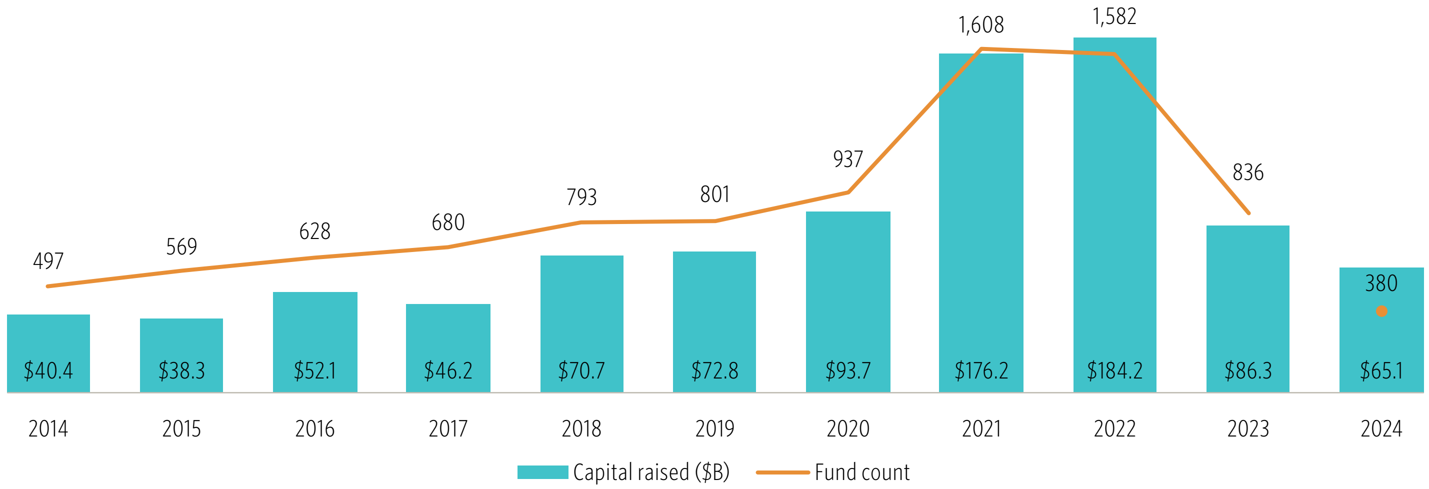
Fundraising

Fundraising on track to narrowly exceed 2023 level
VC fundraising activity



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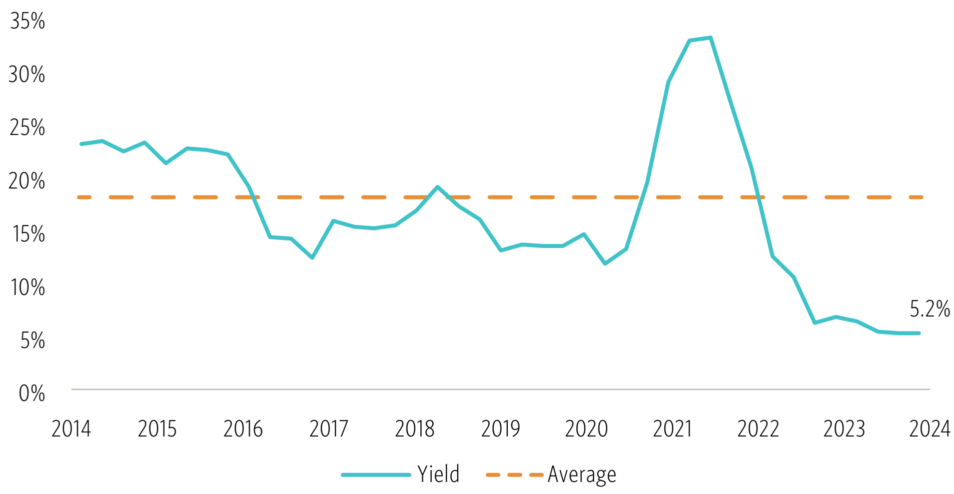
Three quarters into 2024, $65.1 billion has been raised across 380 VC funds. Annualized venture fundraising value is on track to exceed 2023 and pre-pandemic levels. Fund count, on the other hand, is projected to land at the lowest level in nearly a decade, surfacing capital concentration in select, large-scale managers with a name brand. Indeed, the pattern of "haves and have-nots" has become pronounced both at the deal and fund level. Historically, established managers (firms that have raised at least four funds) garner a larger share of total capital raised per year. As of Q3 2024, $52.9 billion, or 81.2% of capital raised so far this year, was secured by established GPs, pointing to the highest level of concentration within this cohort in a decade. Through Q3 2024, $45.5 billion, or 69.9% of capital raised so far this year, belonged to funds that are $500 million or larger. First-time and emerging managers—most of which tend to have smaller fund sizes—are bearing the brunt of the fundraising slowdown.

A lack of distributions continued to weigh on liquidity constraints
VC distributions as a share of NAV



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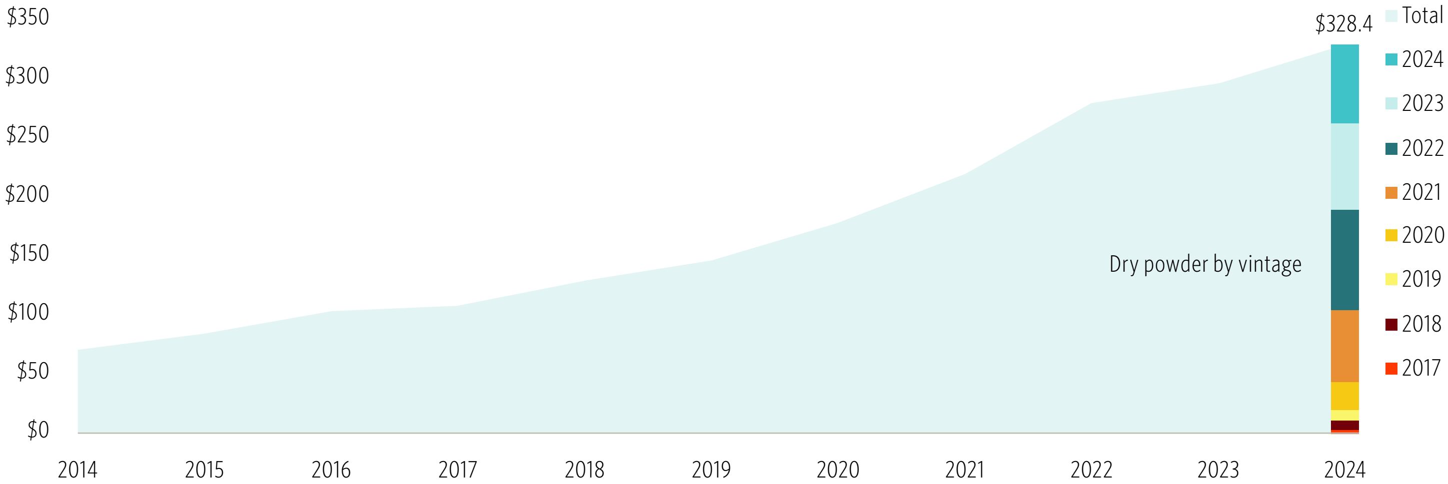
Reacting to the harsh reality of the liquidity crunch, many GPs have delayed their next fundraise to 2025 and beyond in hopes of waiting for overall market conditions to improve. By doing so, GPs also buy themselves time to improve their fund metrics. Not only are fewer managers back in the market, but the timeline for closing a fund for those actively fundraising has also elongated. The median and average times to close for US VC funds has ticked up to 14.7 months and 17.0 months, respectively, both the highest in our dataset.

Dry powder continues to grow

VC dry powder ($B)



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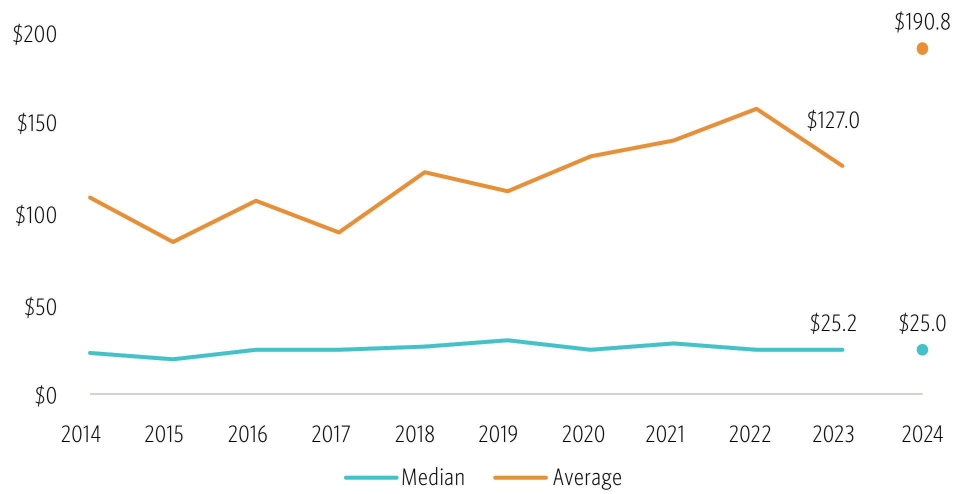
From an LP perspective, several layers of considerations exist when it comes to venture investments that have been factors in the slow fundraising environment. To start with, in a higher interest rate environment, the bar for VC returns is effectively higher when alternative, low-risk strategies produce a stable return north of 5%. Recent vintages have also not provided high returns due to inflated valuations and a lack of due diligence time from the GP side. Combined, these have led to caution from LPs.

Large funds command competitive advantage in fundraising

Median and average VC capital raised ($M)



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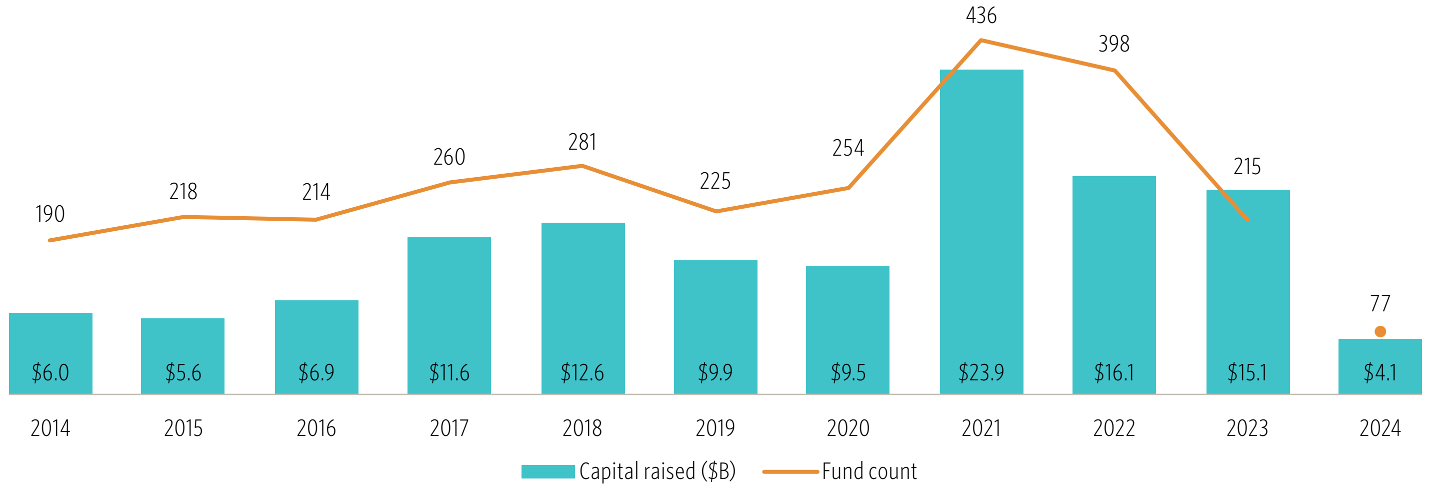
In addition, LPs that are committed to venture in the long term and value vintage diversity may not be able to re-up with managers due to liquidity constraints created by the lack of distributions over the past few years. With this hurdle, meaningful improvement is unlikely until meaningful exit activity occurs.

A perennial challenge for VC fund managers is extended feedback cycles. It takes a long time for a GP to gather meaningful metrics on its fund performance. Not only does a lack of real-time or short-term feedback present an obstacle for managers to make improvements using those metrics, but this also makes it difficult for LPs to evaluate emerging managers that may not have had the time to build a track record.

Across the board, LPs have emphasized DPI and have demonstrated interest in gathering information about the underlying portfolio companies. With the increased sense of urgency from the LP side, GPs have become more creative around liquidity generation. When distributions have not been generated, LPs want to ensure that GPs are valuing their holdings reflective of the current environment, such as marking down positions that are held in a valuation level from 2021.

New funds bear the brunt of the fundraising slowdown

VC first-time fundraising activity



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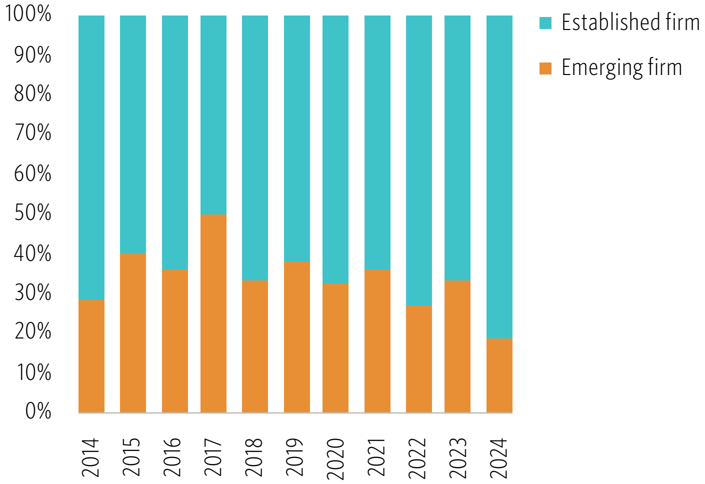
Stronger preference for established name brands

Share of VC capital raised by manager experience



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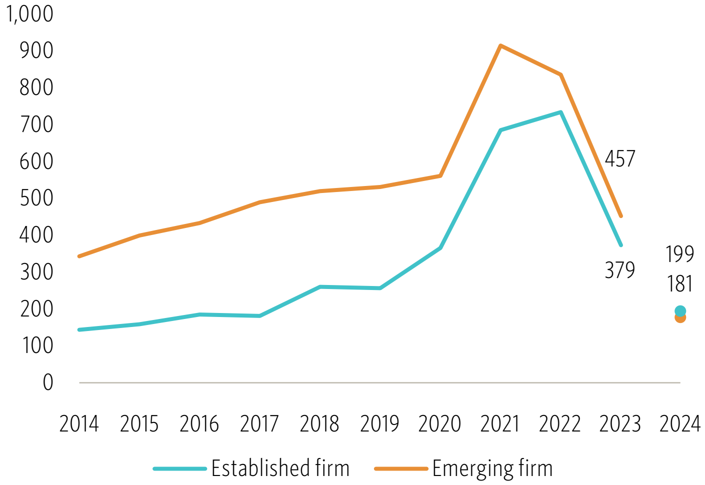
Established managers have closed more funds than emerging managers in 2024

Count of fund closures by manager experience



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Q3 2024 US league tables

Most active pre-seed/seed investors

1	Pioneer Fund	58
2	Y Combinator	26
3	South Park Commons	22
3	Precursor Ventures	22
3	Andreessen Horowitz	22
6	Alumni Ventures	21
7	Triangle Tweener Fund	17
7	Sequoia Capital	17
7	SOSV	17
10	Elevate Ventures	16
11	Everywhere Ventures	13
11	IndieBio	13
13	Techstars	12
13	Soma Capital	12
13	Climate Capital	12
16	500 Global	11
17	Antler	10
18	Plug and Play Tech Center	9
18	General Catalyst	9
20	Liquid 2 Ventures	8
21	SBXi	7
21	Neo	7
21	Great Wave Ventures	7
21	Santiago Roel Santos	7
21	8VC	7
26	Flywheel Fund	6
26	Ritual Capital	6
26	Felicis	6
26	Robot Ventures	6
26	BoxGroup	6
26	FJ Labs	6
26	Gaingels	6
26	Hack VC	6

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As of September 30, 2024

Most active early-stage investors

1	Soma Capital	25
2	Impact Assets	19
2	Andreessen Horowitz	19
4	Alumni Ventures	17
5	Sequoia Capital	12
6	Formulate Ventures	11
6	SBXi	11
8	Y Combinator	10
8	Gaingels	10
10	Robot Ventures	7
10	Index Ventures	7
10	Lemniscap	7
10	BoxGroup	7
14	LvlUp Ventures	6
14	RA Capital Management	6
14	Khosla Ventures	6
14	Insight Partners	6
14	Samsara BioCapital	6
14	GV	6
14	FJ Labs	6
14	500 Global	6
14	General Catalyst	6
23	Elevation Capital	5
23	Velocity Capital	5
23	Mayfield Fund	5
23	Greylock	5
23	Bankless Ventures	5
23	Nvidia	5
23	Electric Capital	5
23	F-Prime Capital	5
23	Accel	5
23	Coinbase Ventures	5
23	Aurelia Ventures	5
23	Dhuna Ventures	5
23	Bessemer Venture Partners	5

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As of September 30, 2024

Most active late-stage investors

1	Impact Assets	14
1	Alumni Ventures	14
3	SOSV	10
4	Gaingels	9
5	Khosla Ventures	8
5	Y Combinator	8
5	Andreessen Horowitz	8
8	Sequoia Capital	7
8	FJ Labs	7
8	GV	7
11	GrowthX Capital	6
11	Morrison Seger	6
11	Wellington Management	6
11	New Enterprise Associates	6
11	Kleiner Perkins	6
11	Plug and Play Tech Center	6
11	General Catalyst	6
11	Insight Partners	6
19	Keyhorse Capital	5
19	Costella Kirsch	5
19	HAX	5
19	TEDCO	5
19	Triangle Tweener Fund	5
19	Intel Capital	5
25	Bossa Invest	4
25	SBXi	4
25	Third Prime	4
25	The Invus Group	4
25	OrbiMed	4
25	Lux Capital	4
25	Samsung NEXT Ventures	4
25	Energy Impact Partners	4
25	Founders Fund	4
25	Fidelity Management & Research	4
25	Connecticut Innovations	4
25	IndieBio	4
25	ARCH Venture Partners	4

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As of September 30, 2024

Most active venture-growth investors

1	Sequoia Capital	5
1	Bossa Invest	5
3	FJ Labs	4
3	General Catalyst	4
5	Altimeter Capital Management	3
5	Thrive Capital	3
5	GV	3
5	Alumni Ventures	3
5	SOSV	3
5	Andreessen Horowitz	3
5	Tiger Global Management	3
5	Energy Impact Partners	3
5	GIC	3

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As of September 30, 2024

Most active accelerator/incubators in VC deals

1	Y Combinator	44
2	IndieBio	19
2	500 Global	19
4	Plug and Play Tech Center	18
4	Techstars	18
6	Neo	8
7	Ben Franklin Technology Partners of Southeastern Pennsylvania	6
8	Everest Ventures Group	3
8	Newlab	3
8	StartX	3
8	Elemental Impact	3
12	Aptos Foundation	2
12	Startup Wise Guys	2
12	Innosphere Ventures	2
12	SaaSCraft Ventures	2
12	Prota Ventures	2
12	Draper Goren Blockchain	2
12	Startup Warrior	2
12	FalconX	2
12	Avra	2
12	Betaworks	2
12	PANONY	2
12	AI Grant	2
12	Z Fellows	2
12	BlockBuilders	2
12	Arka Venture Labs	2
12	Los Angeles Cleantech Incubator	2

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As of September 30, 2024

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.

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 or later (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.

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 as 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.

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