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Contents

Exit Alternatives for US VC

Finding liquidity in a deal drought

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- Heightened interest rates have caused a major roadblock for VC-backed exit opportunities, and the market will likely see little relief from this stalemate until rates are lowered considerably. This year's US VC exit value is on track to reach $98.0 billion, a significant 86.2% decline from 2021 highs. This prolonged dearth of IPOs and M&A has led to dwindling LP distributions.

- As a result of the lack of liquidity, secondary market share sales have increased, allowing early investors and employees to access returns while a company remains private. The rise of secondaries funds, such as the $3.3 billion raised by StepStone for the largest VC secondaries fund to date, indicates increased investor appetite. Companies are also embracing secondaries, as four of the top 10 most highly valued startups in the US shared plans for tender offers in the first half of the year.

- On the other hand, continuation funds may theoretically seem like a silver bullet for funds reaching maturity, but the vehicle's inherent conflicts of interest between LPs and GPs and small market size will likely hinder its widespread adoption.

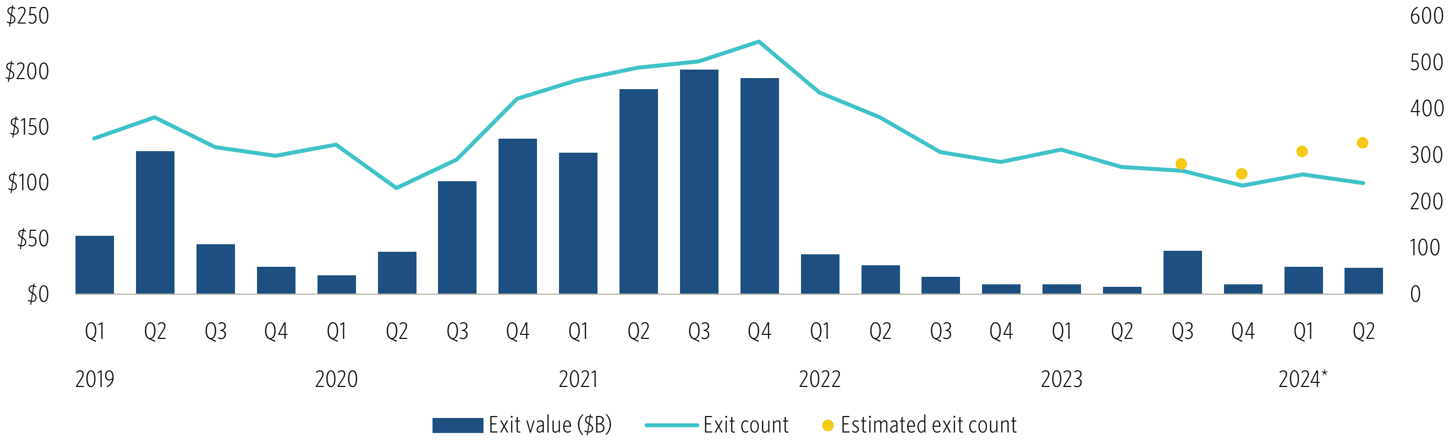
- Because venture is more volatile than PE, lenders have little appetite for issuing VC net asset value (NAV) loans. Even though NAV loans can be used to provide LP distributions, this use case cuts into overall returns.

- The overall question is not if venture will look beyond traditional exits to generate liquidity, but rather which strategies will be most effective and how they will influence venture's business model after the exit drought subsides.

The continued liquidity drought

In the past couple of years, venture capital's return-driving exits such as IPOs and M&A have dried up due to elevated interest rates and inflation. This year's expectations for US VC-backed public listings are the lowest since 2016. Through the first two quarters, only 37 companies went public, generating $28.4 billion in exit value. This pales in comparison to 2021 when $588.7 billion in exit value was generated through 310 public listings. At the same time, a large majority of M&A transactions have been small and undisclosed. Consequently, many VC-backed startups are choosing to stay private for longer, either by choice or due to a lack of interest from potential buyers. The resulting lack of liquidity has caused LPs to grow restless because of the imbalance this causes within their portfolios.

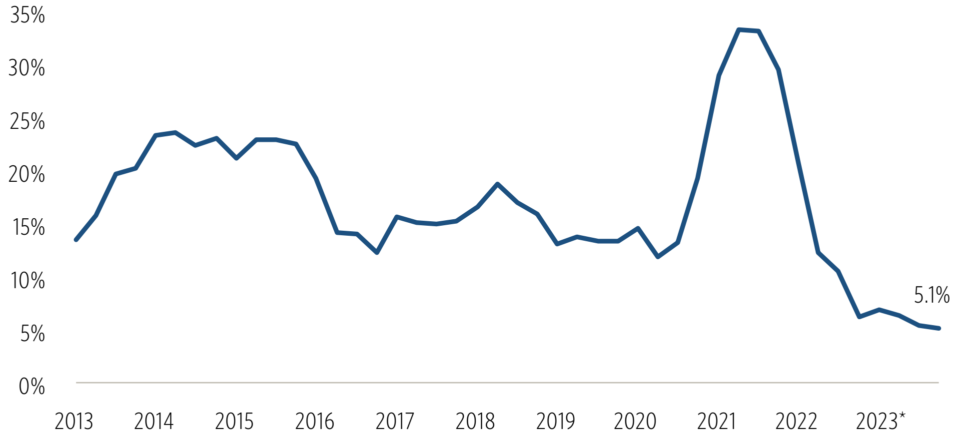
VC exit activity by quarter



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

Consequently, fundraising continues to be stifled, with 2024 projected to reach the lowest annual fundraising level since 2019. Managers are having a difficult time raising additional funds without delivering LP returns, especially because more liquid, lower-risk investments now have attractive yields thanks to high interest rates. LPs also have less available capital because exits often fund their subsequent investments. US VC net cash flows have been in a deficit since 2022, leaving LPs $42.9 billion in the red. The median investor in 2015 to 2022 vintages has not broken even yet, as the median DPI for these fund vintages is below 1.0x, as shown in our Q4 2023 Global PitchBook Benchmarks. According to our semiannual VC Tech Survey, nearly half of venture firms are pushing back their fundraising timelines due to the lower availability of LP dollars. Established managers have captured 77.1% of fund value YTD, but even name-brand funds such as Valar Ventures, Tiger Global, and IVP have struggled, closing significantly smaller funds than their last fundraise, as highlighted in our Q2 2024 PitchBook-NVCA Venture Monitor.

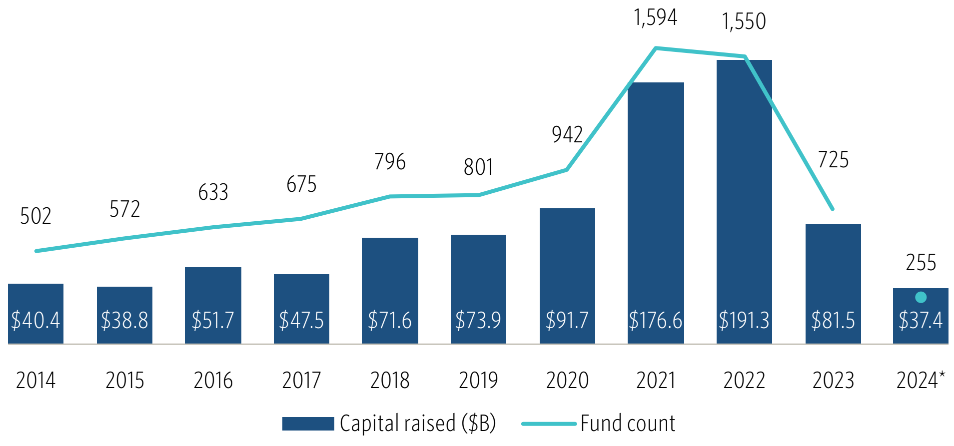
VC 12-month distribution yield as a share of NAV



Source: PitchBook • Geography: US • *As of December 31, 2023

As a result, less common methods for generating returns and distributions back to LPs have been gaining traction across the private markets, including secondaries, tender offers, continuation funds, and NAV loans. The underlying risks of venture capital, as opposed to growth or buyout markets, create specific pros and cons for each of these liquidity alternatives, making some more applicable to startup investment than others.

VC fundraising activity

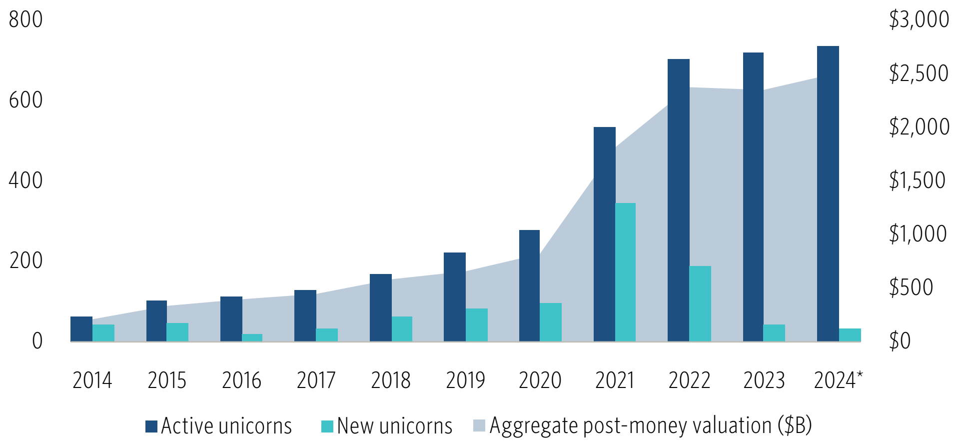


Source: PitchBook • Geography: US • *As of June 30, 2024

Secondaries

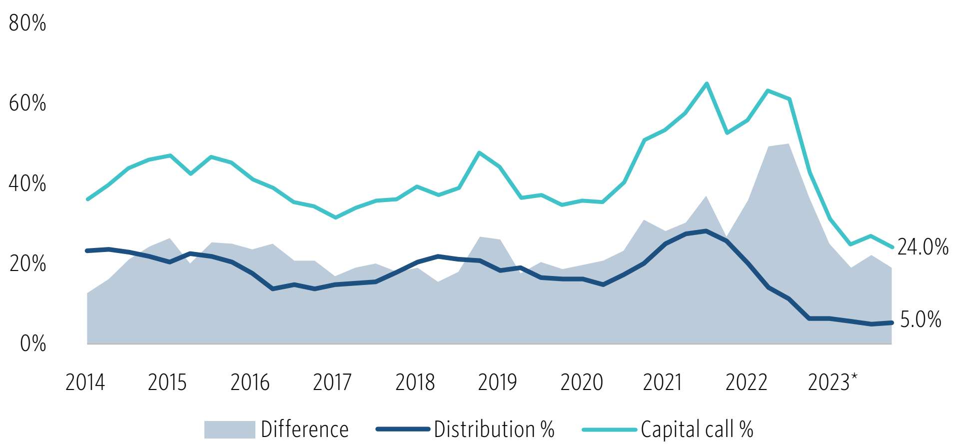
Companies are staying private for longer, which is accelerating the need for alternative sources of liquidity. For example, the number of active private unicorns in the US is at an all-time high of 735. However, this growth is not attributed to the rapid formation of new unicorns; in fact, the number of new unicorns has been steadily decreasing, with only 34 companies achieving this status in the first half of 2024, a significant drop from 346 in 2021. Rather, unicorns have extended their timelines to a median of 8.1 years since their first VC round, up from 6.4 years in 2021 when exits were far more frequent.

Unicorn count and aggregate post-money valuation



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

VC cash flows



Source: PitchBook • Geography: US • *As of December 31, 2023

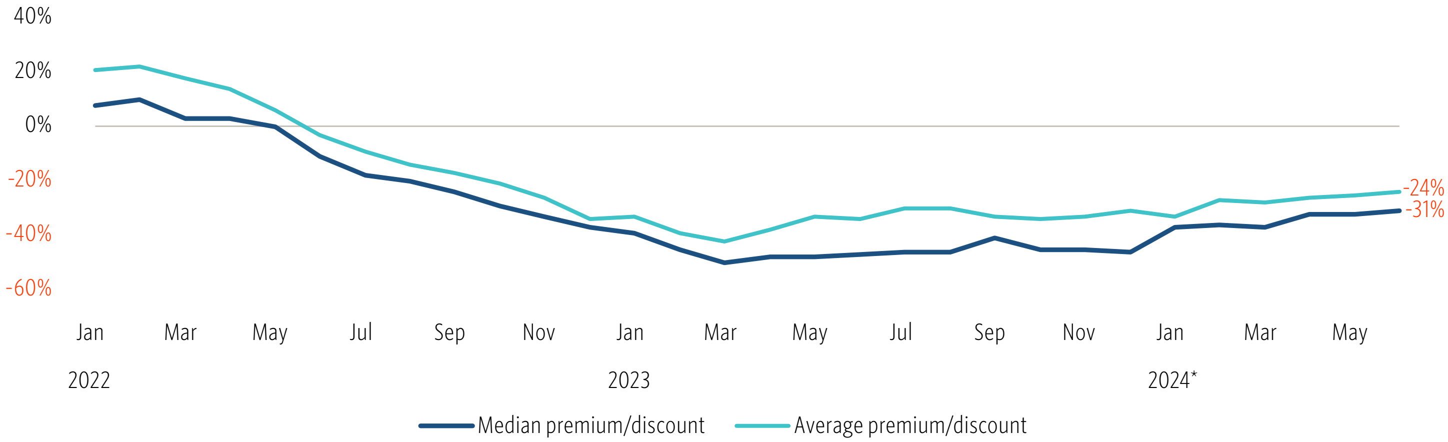
Later-stage companies such as unicorns often have consistent revenue streams and an established growth trajectory, which gives them the freedom to wait for a better time to exit. However, longtime shareholders, particularly employees who have most of their compensation tied up in stock and GPs who are facing LP pressure to realize returns, do not have this same luxury. With a big hole in their pockets, employees and LPs want to start getting their money and diversifying their portfolios.

The secondary market could be a viable solution to address these cash needs outside of M&A and IPOs, providing longtime shareholders liquidity, diversification, and risk management as startups wait for more favorable exit conditions. Companies can initiate secondary transactions through company-sponsored tender offers, marketplace-driven auctions, or direct sales to investors.

Because these transactions can affect valuations listed in 409A reports, many companies do not allow transfers or enforce transfer restrictions to gatekeep which investors are added to the cap table. With a right of first refusal (ROFR), companies and existing investors have the option to purchase stock with the same terms before direct sales are made to external parties. Co-sale agreements allow investors to sell a pro rata portion of their shares in a proposed external sale, also under the same terms. Currently these policies are not standardized, though the National Venture Capital Association provides model legal documents. Both shareholders and the secondary market would benefit from increased clarity on which sales are allowed.

Because there is no centralized secondary stock exchange for private companies, major challenges include the lack of market transparency, the administrative burden for companies to put together tender offers, and the high potential for mismatched supply and demand. In the zero interest-rate policy era, VCs paid large premiums to participate in the secondary market because primary funding rounds were oversubscribed. The pricing narrative shifted from premiums to discounts in 2022 once startup valuations fell dramatically due to elevated interest rates. Currently, supply is still outweighing demand in the secondaries market, leading to price discrepancies. According to data from Zanbato, the median and average discounts decreased to 31% and 24%, respectively, in Q2 2024. Though these discounts are still large, secondary pricing is rebounding from its bottoms in March 2023, when the median and average discounts were 50% and 42%, respectively.

Median and average secondary premium/discount to last VC round



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

With so many ways to calculate venture valuation, a healthy secondary market's clearing prices can support the high valuations of top-performing companies with proven investor demand. At the same time, steep discounts may place downward pressure on lower-conviction companies and their valuations, especially if they last raised when capital was much easier to attain.

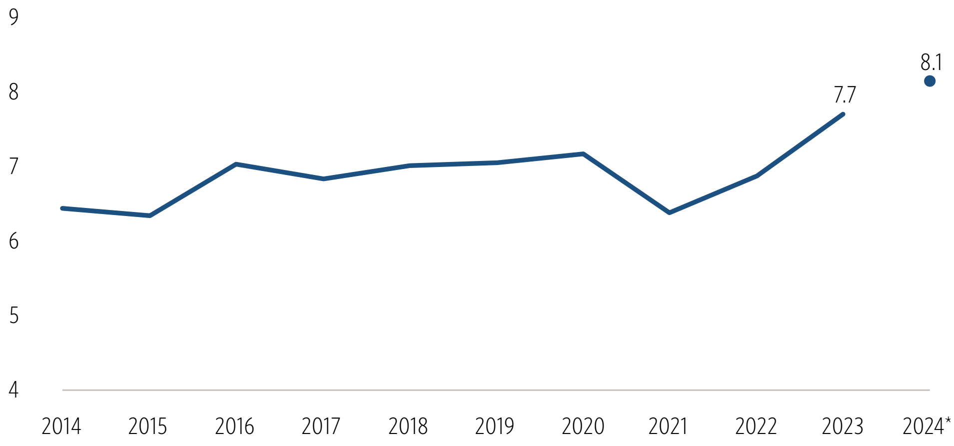
Tender offers

Tender offers are becoming an increasingly popular subset of secondaries. In fact, four of the top 10 most highly valued startups in the US shared plans for tender offers in the past two quarters: rocket company SpaceX, artificial intelligence research organization OpenAI, payments giant Stripe, and data software tool developer Databricks.

Companies run tender offers to give employees and early investors opportunities to sell their shares at a predetermined price after a 20-business-day review period mandated by the Securities and Exchange Commission (SEC). Because tender offers allow companies to control the price and participants, they are far less flexible than other types of secondary transactions.

Tender offers are particularly valuable to employees because stocks represent a large portion of startup compensation and other sources of liquidity often have unfavorable terms. Few banks lend against unlisted stocks, and those that do charge higher rates for the additional risk and gatekeep access to only high-net-worth individuals (HNWIs) with an established banking relationship. The typical startup employee would instead use forward purchase agreements where shares are transferred to their buyer at a specified price only when the company undergoes a liquidity event. Because a company may sell at a discount or never exit, high interest payments and fees help offset this gamble. For example, Accuidity, an asset management firm, offered to lend funds to Databricks employees to exercise options and pay taxes at 15% interest plus a stock fee up to 10% of the value of the shares used as collateral.[1] Another option is a cash advance with variable prepaid forward contracts offered by companies such as Nikkl. Unlike a loan, cash is exchanged for a variable number of future stocks, which is determined by preset floor and ceiling prices that come into play only after an exit.

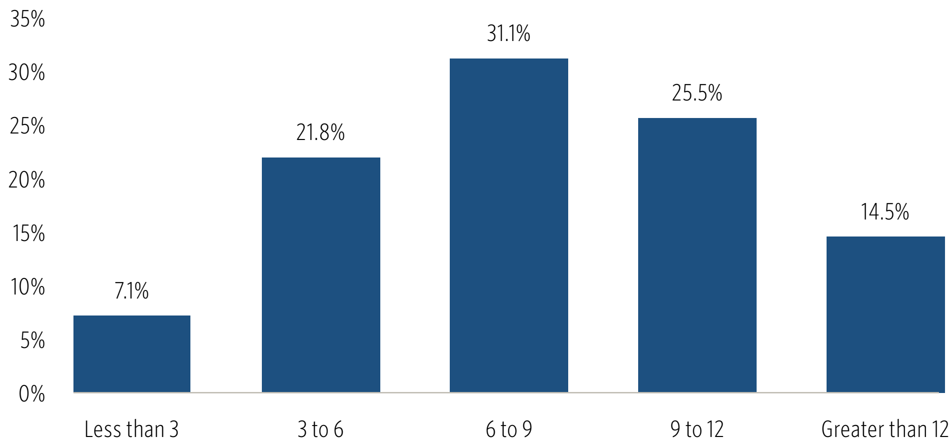
Median time (years) since first VC round for active unicorns



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

1: "Without IPOs, Some Startup Workers Pay Steep Price to Get Cash," The Information, Cory Weinberg, August 11, 2023.

Distribution of unicorn holding times (years)*



Source: PitchBook • Geography: US • *As of August 6, 2024

Startups best positioned for tender offers have high investor demand for shares and low willingness to exit in today's environment. For example, SpaceX and OpenAI have periodic tender offers every six and 12 months, respectively, and Stripe raised multiple rounds of funding to finance its tender offers.

To protect their interests, companies can place strategic restrictions on tender offers. OpenAI has historically imposed a lower sales limit for former employees, capping them at $2.0 million, while current employees could sell up to $10 million. The company also prioritizes current employees if the offer is oversubscribed. In April, Rippling announced its second tender offer of $590.0 million in conjunction with its $200.0 million Series F. Though open to both current and former employees, Rippling imposed multiple requirements: Employees at rival companies were not able to participate, only purchased options rather than restricted stock units (RSUs) could be sold, and employees could sell up to 25% of their vested equity. This 25% maximum included shares sold in their previous tender offer, and shares sold outside of a company-sponsored transaction were penalized and double counted.

Case study: Stripe

Stripe is a particularly interesting example. In March 2023, the company raised a large Series I down round at a $50.0 billion valuation, a drastic decrease from its peak valuation of $95.0 billion in March 2021. Because Stripe did not need the capital for growth and did not want to go public yet but recognized that RSUs were expiring, the company issued a tender offer to employees. The share buybacks offset the newly issued shares to Series I investors, maintaining the payout hierarchy for investors that did not want to sell.

The company set off another tender offer in February 2024 that served the same purpose and raised the company's valuation to $65.0 billion, which is 30.0% higher than its previous funding round but still over 30% lower than its peak. Most funds came from investors, though Stripe used some of its own capital to repurchase shares, offsetting employees' equity dilution. Stripe sat in a unique position in its ability to take a down round from the onset of this transaction because it had sold minimal stakes in its recent prior financings due to its enormous valuation.

Launching a tender offer like this served several purposes. For one, the company was able to provide liquidity to employees and investors that wanted, or needed, to cash out their holdings. At the time, Stripe was roughly 15 years old, having been founded in 2009, and had been held in VC portfolios for 13 years—the company was in Y Combinator's summer 2010 class and raised its first VC round in 2011 from investors including Andreessen Horowitz and Sequoia Capital.

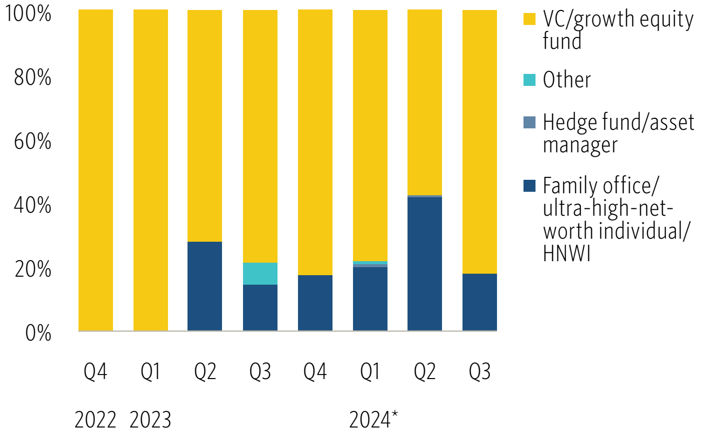
Another purpose that Stripe achieved was reorganizing its cap table, consolidating the number of shareholders and gaining long-term crossover investors. The JOBS Act of 2012 increased the number of shareholders on a company's cap table before requiring public financial disclosures, but with RSU conversions, it is possible the company was coming up against the barrier of 2,000 shareholders. Adding long-term shareholders to the cap table later in the startup lifecycle is important because these investors are not constrained by the typical 10-year venture timeline. Because they can continue to hold shares long after a public listing, long-term shareholders' intentions are better aligned with mature startups. An IPO is no longer viewed as the end goal, but rather just an important milestone.

Venture secondaries funds

Multiple specialist firms are raising multibillion-dollar funds to target venture secondaries as part of their strategy, including Industry Ventures, Lexington Partners, and Pinegrove Capital Partners, signaling increased appetite among investors. In June, StepStone raised $3.3 billion for the largest fund dedicated to VC secondaries to date. The group has consistently raised secondaries funds since 2014, and this fundraise is a significant step up from its fifth fund close in 2021 at $2.6 billion. In July, NewView Capital, a New Enterprise Associates spinout, announced that it is raising $700.0 million across two funds dedicated to venture secondaries. NewView's flagship funds focus on direct and secondary investments into mid- to late-stage companies, while its Special Opportunities Funds focus exclusively on venture secondaries. NewView expects to return capital from its secondary investments within five to six years.

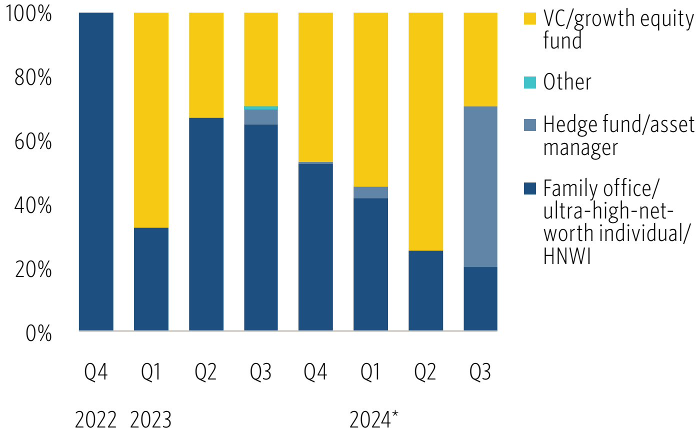
If this trend continues, secondaries funds have the potential to become a key liquidity provider for venture. These funds can transact through direct secondaries, where buyers are able to purchase directly from company shareholders, and through secondaries platforms such as Zanbato that help match supply and demand. Billion-dollar funds such as StepStone's have the volume to transact primarily through private placements and tender offers, while exchanges open the secondary market to more participants.

Quarterly share of secondary market buyers by type



Source: Zanbato • Geography: US • *As of August 15, 2024

Quarterly share of secondary market sellers by type



Source: Zanbato • Geography: US • *As of August 15, 2024

According to Zanbato's data, secondary sellers have primarily been funds and HNWIs such as employees looking for liquidity, though Q3 has seen an influx of hedge fund and asset manager participation as well. On the other side of the transaction, VC and growth equity funds have consistently been the main buyers of secondaries. More players are participating in smaller deals, in comparison with the relatively unchanged competitive landscape for the largest deals, with only a handful of players raising billion-dollar funds. There has been a recent uptick in buyer participation from HNWIs and family offices because of increasing investor demand and familiarity with the product, in part due to evergreen funds from managers such as StepStone and Hamilton Lane.

Outlook

In a way, the slowdown has become a catalyst for growth in venture capital. The market is adapting to this new normal as investors look for pockets of liquidity, and secondaries are well suited to address both shareholder and company needs. An added benefit of extended private company timelines is that once the IPO market is jump-started, there will be a robust backlog of eligible startups ready to sustain the exit momentum. In the meantime, the rise of specialized funds will support the increased adoption of venture secondaries.

Recent VC secondary fund closes*

Investor	Fund	Fund value ($M)
Upfront Ventures	Upfront Secondary II	N/A
New Enterprise Associates	NEA Secondary Opportunity Fund	$468.2
StepStone Group	StepStone VC Secondaries Fund VI	$3,300.0
TrueBridge Capital Partners	TrueBridge Secondaries I	$230.0
Cendana Capital	Kline Hill Cendana Partners Fund	$105.0

Source: PitchBook • Geography: US • *As of August 6, 2024

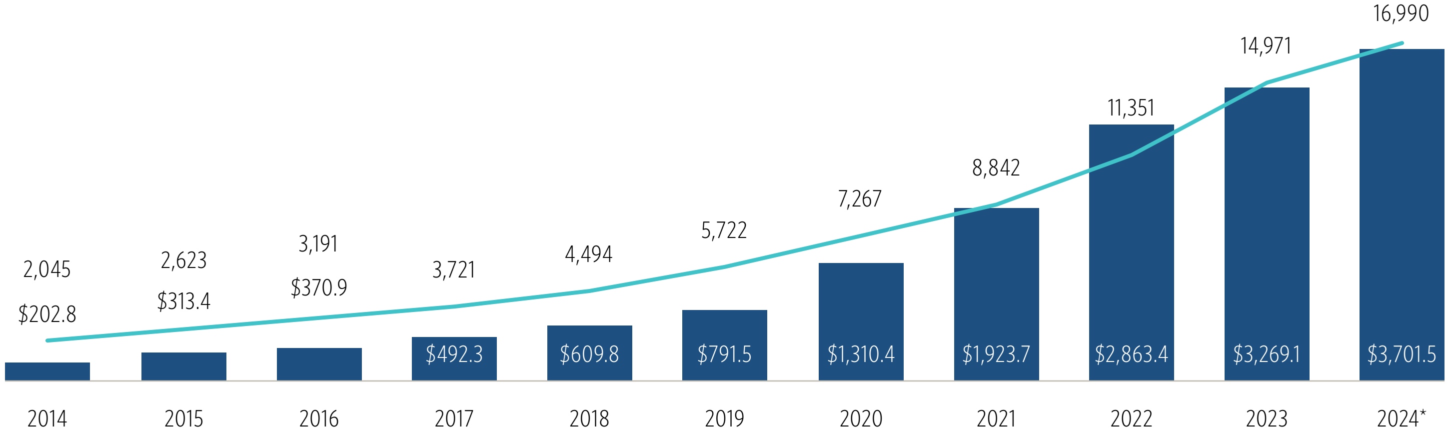
Continuation funds

Before 2020, continuation funds were niche products, primarily used by distressed sellers with positions that were difficult to exit. However, the widespread lack of exits in recent years has led fund managers to consider the vehicle as a potential liquidity solution.

Everyone seems to win with continuation funds. GPs can hold assets beyond their typical fund term by rolling them into a new vehicle under their management rather than selling their position to a secondary buyer at a lower-than-desirable price. Not only is this an effective method to consolidate remaining positions in older funds, but also managers can manufacture distributions while they maintain control and assets remain private. Existing LPs have the option to access liquidity or hold on to their exposure in hopes of additional upside. New investors have the benefit of knowing exactly which portfolio companies will be in the fund, which cannot be said of traditional venture or private equity.

Continuation funds are typically used in private equity and are set up to have shorter durations of six to seven years. Compared with other liquidity alternatives such as lending through NAV financing or equity replacement through structured secondaries, continuation funds have simpler structures and more scalability. As a result, the number of continuation-fund-related exits has been increasing each year. In our 2024 US Private Equity Outlook, we forecast that 2024 will see 100 or more exit transactions involving continuation funds as buyers. Despite these benefits, continuation funds have not been widely adopted in US venture capital yet.

Mature VC-backed company count and aggregate post-money valuation ($B)



Source: PitchBook • Geography: US • *As of August 6, 2024
Note: "Mature" VC-backed companies are those that raised their first VC round eight years ago or earlier.

Conflicts of interest are a major issue because GPs are on both sides of the transaction. Exiting LPs would want the fund's assets to be sold at the highest possible price. Meanwhile, new and remaining LPs would want the assets to be transferred at the lowest possible price. GPs may also choose to incorporate less favorable terms in their continuation funds, forcing LPs to choose between selling their top-performing assets that could have more growth or paying higher fees for continued exposure.

This conflict of interest is illustrated by Shasta Ventures' recent attempt to create a continuation fund. In April 2024, Shasta Ventures proposed moving nearly all the assets in its fifth VC fund to a continuation fund with StepStone as the lead investor. There are a few reasons Shasta's LPs chose to vote against the deal. First, the fund is only seven years old, which is far from maturity. Second, Shasta priced the assets at a steep 35% discount from their Q3 2023 value. Finally, the proposed changes to management fees, transaction costs, and carried interest would cost LPs $15.0 million more than if they kept their investments in the original fund. Whether or not this discount and fee structure were justified, Shasta was asking its LPs to choose between taking a large pay cut or accepting higher fees for the same assets and manager.

To increase transparency and investor protection for continuation funds, the SEC began requiring a third-party valuation or fairness opinion in November 2023. Another way fund managers can assuage LPs' concerns is to provide an option to maintain the status quo, which firms such as Insight Partners include to empower LPs with greater flexibility. Existing investors typically have two choices: fully liquidating or reinvesting in the new fund. Ideally, LPs should also have the ability to liquidate only part of their holdings or maintain their current position with no changes to their fees or ownership structure, which would help reinforce that the continuation fund is in their best interest.

Calculating the market size for VC continuation funds

Venture funds eligible for a continuation spinout should be approaching the end of their expected life, so they should be at least nine years old. This metric is in line with a recent continuation fund that was closed by RockPort Capital in October 2023, over 15 years after the primary fund's close date of June 2008. Next, these funds must be large, because these vehicles typically roll over only 10% to 20% of the main fund. Venture funds greater than $500 million are the most eligible candidates because their portfolio companies are likely to include high-conviction later-stage companies that have a high probability of realizing an exit in the next seven years. Unicorns are a great example, as they often make up a large percentage of a fund's value, particularly if the investment has been held for an extended period. For instance, 282 unicorns raised their first round of financing in 2015 or earlier, so all their early investors have been waiting to realize an exit for over nine years. Given these fund maturity and size parameters, only 3.9% of US VC funds fall within them.

Top five VC continuation funds by fund value (2014-2024)*

Investor	Fund	Fund value ($M)
Draper Fisher Jurvetson Management	DFJ Fund IX Continuation	$527.1
Altos Ventures	Altos Ventures IV (Recapitalized)	$457.5
Core Capital Partners	Core Capital Partners II CF	$250.0
Upfront Ventures	Upfront Continuation Fund I	$176.5
RockPort Capital Partners	RockPort Capital Partners III Continuation Fund	$19.2

Source: PitchBook • Geography: US • *As of August 6, 2024

Case study: Sequoia Capital

In July, Sequoia Capital offered its investors an option to cash out of Stripe at a $70.0 billion valuation, a $5.0 billion increase from Stripe's last valuation from February. Sequoia first backed the company nearly 14 years ago, and this $861.0 million offer was given to LPs that invested in funds raised between 2009 and 2012 and represents 10% of Sequoia's total ownership of Stripe. These shares would be purchased by more recent Sequoia funds. This ownership reshuffling emphasizes Sequoia's conviction in the company and highlights that Stripe's IPO is likely not happening anytime soon. Though not formally a continuation fund, this transaction takes inspiration from the strategy and is a creative solution to the LPs' liquidity problem without pushing Stripe toward a public listing.

This change in strategy is reminiscent of Sequoia's shift from traditional VC to registered investment advisor (RIA) in 2021. Sequoia is no longer limited by the SEC's Investment Advisers Act of 1940, which mandates that venture funds can invest only up to 20% of their capital in nonqualifying investments such as debt, secondaries, public equities, and funds of funds. At least 80% of investments must be made directly to private companies. By becoming an RIA, Sequoia can now explore different portfolio constructions, investment timelines, and asset classes. For example, traditional VCs may eventually need to sell their shares after a portfolio company becomes public due to the 20% limit, even if managers still have high conviction in the business, while such constraints do not apply to RIAs.

With this freedom, Sequoia is in no rush for Stripe to list publicly because both parties have the capacity to wait for a better market. Sequoia can therefore implement innovative solutions to address LP needs for liquidity while also maintaining its stakes in top-performing companies. Time will tell whether other managers follow suit, though not every firm would be able to generate enough demand to follow their example. VCs with a strong track record, portfolio, and LP loyalty would be best suited for this strategy.

Outlook

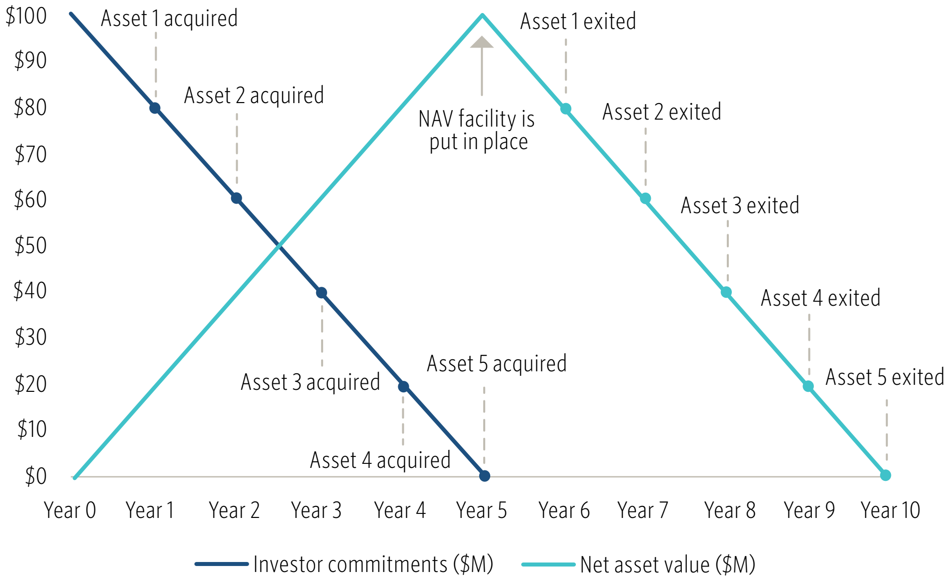
Though currently a hot topic among VC investors, continuation funds likely will not become widely adopted due to their fundamental conflicts of interest and small market size. Though they can help provide liquidity, continuation funds are administratively burdensome and require additional rounds of underwriting, coordinating LPs, and continued management of each portfolio company. Once activity resurges and opens more paths to liquidity, continuation funds may revert to accommodating difficult-to-exit positions. However, creative solutions from funds such as Sequoia's that take inspiration from continuation funds have the potential to fundamentally change venture's business model. We may see more movement of high-conviction company holdings from older to newer funds to extend their investment timelines.

NAV loans

When interest rates were low, asset-level financings were inexpensive. With today's high interest rates, NAV loans have become more attractive in PE due to the increasing costs of leverage and corporate refinancing, coupled with the decreasing availability of traditional loans and recyclable capital. However, they have yet to be widely adopted in VC.

As discussed in our analyst note NAVigating Considerations and Controversies Around NAV Loans, NAV loans have grown significantly since 2020. The onset of the COVID-19 pandemic closed off traditional financing options, so NAV loans were initially used to ensure that funds could continue operating. Their popularity continued when high interest rates made them cheaper than their alternatives because the collateral is more diversified than asset-level financing. Today's global NAV market size is estimated to be just under $100 billion and is expected to reach $700 billion by 2030.[2] Currently, NAV loans are primarily used in private equity funds, with buyout funds accounting for 37% of borrowers, followed by infrastructure and private credit funds at 23% and 21%, respectively.[3]

Simplified example of capital call facility usage versus NAV facility usage during a fund's life



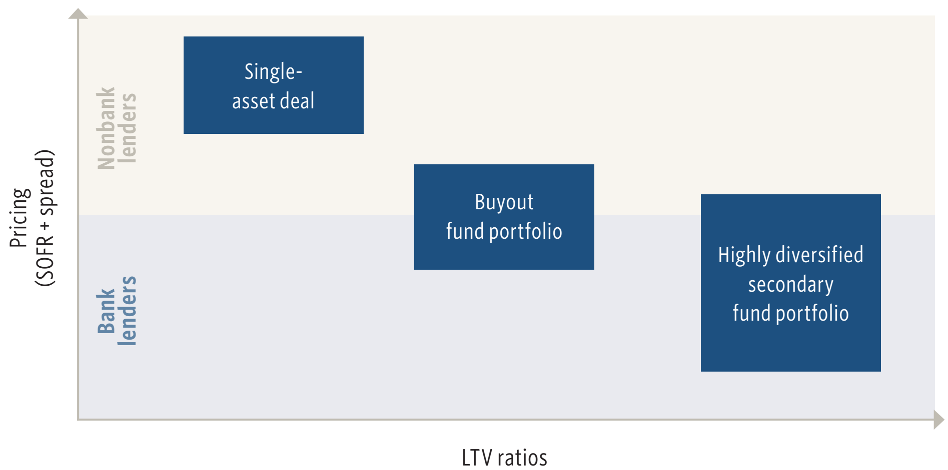
Source: PitchBook

2: "Rising Popularity of NAV Loans & Key Considerations," Bloomberg Law, Stacie Cargill and John Stephen, March 2024.
3: "NAVember Live Poll Data," Haynes and Boone, 2023.

NAV loans are bespoke solutions that provide nondilutive capital to funds when most or all of the capital has been called. The collateral consists of the fund's portfolio of assets excluding asset-level leverage, cash flows, or a combination of both. Borrowers primarily use these loans for reinvesting into high-performing companies and placing new bets. Other use cases include paying down existing debt and facilitating distributions to LPs without selling assets, though these strategies cut into overall returns and are therefore not favored by LPs unless they urgently need liquidity. Even though LPs do not necessarily need to approve the implementation of NAV loans, fund managers would benefit from being transparent about why this vehicle is best suited to address both the fund's needs and LP interests, including any impacts to investors' costs and overall returns, well before anything is finalized.

NAV loans are commonly structured as term facilities at the fund level, with maturities ranging from one to five years and a loan/value (LTV) ratio between 10% and 25%.[4] Pricing consists of an upfront fee and a floating rate as a spread above a benchmark rate, such as the secured overnight financing rate. However, the riskier nature of VC would likely mean less favorable terms, such as lower LTV ratios at higher price points.

Pricing and LTV ratios across different fund types



The structure of NAV loans prevents this strategy from becoming widely applicable in VC. Unlike PE funds, most VC funds and their portfolio companies do not have consistent cash flow or large enough assets to take out loans. Established funds with a strong manager track record may qualify if they meet the following criteria. First, the fund not only should have called all its LPs' capital but also should have a need for additional funding, which typically takes at least five years. Second, these funds should invest in Series B or later companies, with the intention that most of these startups have an established product-market fit and generate consistent cash flows or are on their way to achieving these milestones in the near future. It is also easier for lenders to validate the business models of more mature companies. Third, the fund size should be at least $500 million so that managers can borrow

4: "Insights on the NAV Lending Market," Proskauer, June 2023.

enough capital to materially impact their investment strategy, given that LTV ratios are typically between 10% and 25%. Fourth, diversification is key in such a high-volatility industry like venture. The fund should own at least 10 portfolio companies, which helps increase its probability of success and ability to repay the debt.

Considering all these factors, a fund's ability to use a NAV loan with material impact depends on if the fund is large, has deployed its capital on later-stage companies, and is at least halfway through its lifecycle, which heavily shrinks the population of participants to less than 3.5% of total US VC funds. The actual market may be even smaller, depending on lenders' risk appetites for issuing these loans. Because NAV loans apply to only a small subset of venture, they likely will have little impact on the overall industry.

Finally, if NAV loans were used to provide distributions to LPs, then the risks for the funds would be high. With any funds operating with a European waterfall payout structure, losses on loans would not only cut into total LP returns but also cut into the carried interest available for the GP. Though NAV loans have the potential to be a useful tool, venture funds and their inherent volatility are not the best suited for this liquidity alternative.

Conclusion

As interest rates remain heightened and exit activity continues to be muted, startups and investors have been exploring alternative sources of liquidity. Though multiple strategies have emerged to address the lack of IPOs and M&A, secondaries are best suited for venture. The secondary market provides a viable means of realizing returns for investors while companies remain private and maintain control over their cap table, transfer eligibility, and, in the case of tender offers, prices.

Secondaries have the potential to become a mainstay in venture because they are a rare source of liquidity in a high-risk and long-duration asset class. By lowering the barrier to entry for venture through increased access, shorter holding periods, and discounted pricing, secondaries have allowed more investors to gain exposure to VC and diversify their portfolios. Even once activity reignites, company and shareholder timelines do not always align, so employees and early investors may still use the secondary markets to realize returns when they need capital.

Overall, this extended deal drought has pushed the traditional VC model to evolve. Recent developments in exit alternatives may create more liquidity options than ever and have the potential to leave long-lasting impacts on the future of venture.