PitchBook

Q3 2024

US VC Valuations Report

PitchBook

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Contents

PitchBook Data, Inc.

Nizar Tarhuni Executive Vice President of Research and Market Intelligence

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

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

Emily Zheng
Senior Analyst, Venture Capital
emily.zheng@pitchbook.com

Data

Collin Anderson
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Chloe Ladwig** and **Joey Schaffer**

Published on November 6, 2024

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AT WORK

Staying Private Longer? Here's How to Address Your Liquidity Needs

The pressure for employees to access liquidity may continue to build as your company stays private longer. A liquidity event can take some of the pressure off and having the right systems, processes, and people in place can be critical for planning a successful corporate action. However, companies often underestimate the amount of work required, which can lead to costly transaction delays.

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

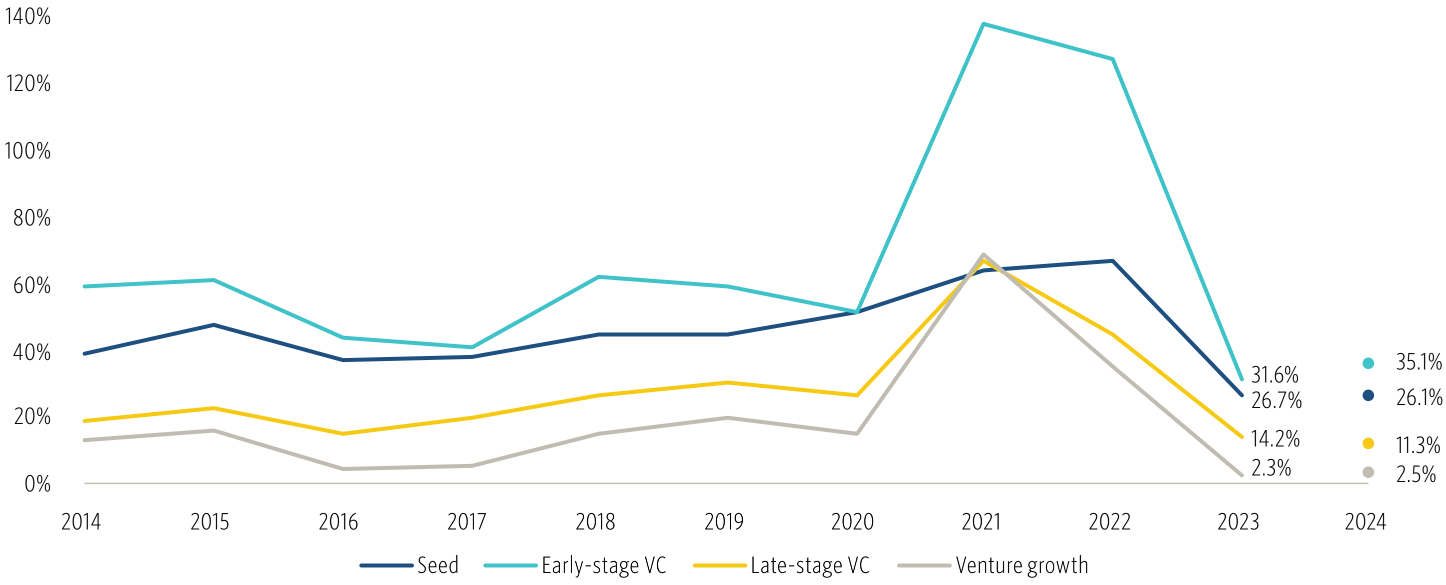
Discover what steps you can take to stay transaction ready and manage the expectations of your shareholders ahead of a corporate action.

Request a Free Transaction Readiness Assessment

Market overview

RVVC highlights challenges brought on by previous high valuations

Median RVVC by stage



Source: PitchBook • Geography: US • As of September 30, 2024

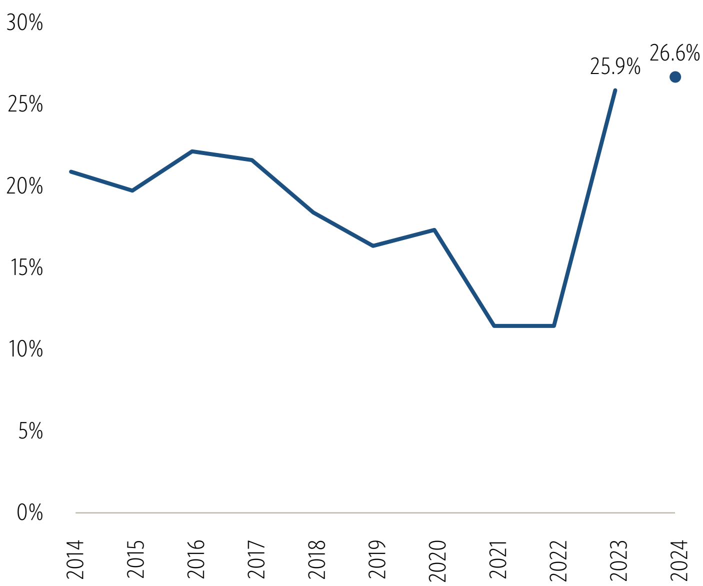
The market pricing shifts that began in earnest in 2022 have remained largely in a state of rebalancing. Q3 median pre-money valuations are high, though a large amount of context is needed for those figures, particularly considering that valuation growth for companies has been slow.

The annualized growth rates between rounds, or relative velocity of value creation (RVVC), have cratered by a wide margin from the highest point in the past decade in 2021 to the lowest in that time frame. That the economy did not collapse has likely kept revenues high for many companies, but revenue multiples in VC market valuations have declined significantly. Annual valuation growth may not be a metric that investors look at to determine winners necessarily, but it can highlight how market mechanics can deteriorate returns for investors.

The foremost issue the market is navigating is the lack of distributions to LPs. The pressure caused by few large exits has been compounded by the high growth of market value in the past few years. Currently, VC-backed companies in the US are valued at more than $4 trillion—more than double the $1.7 trillion value of the market in 2020. From a company

Pricing challenges highlighted by down rounds

Down and flat rounds as a share of all VC rounds



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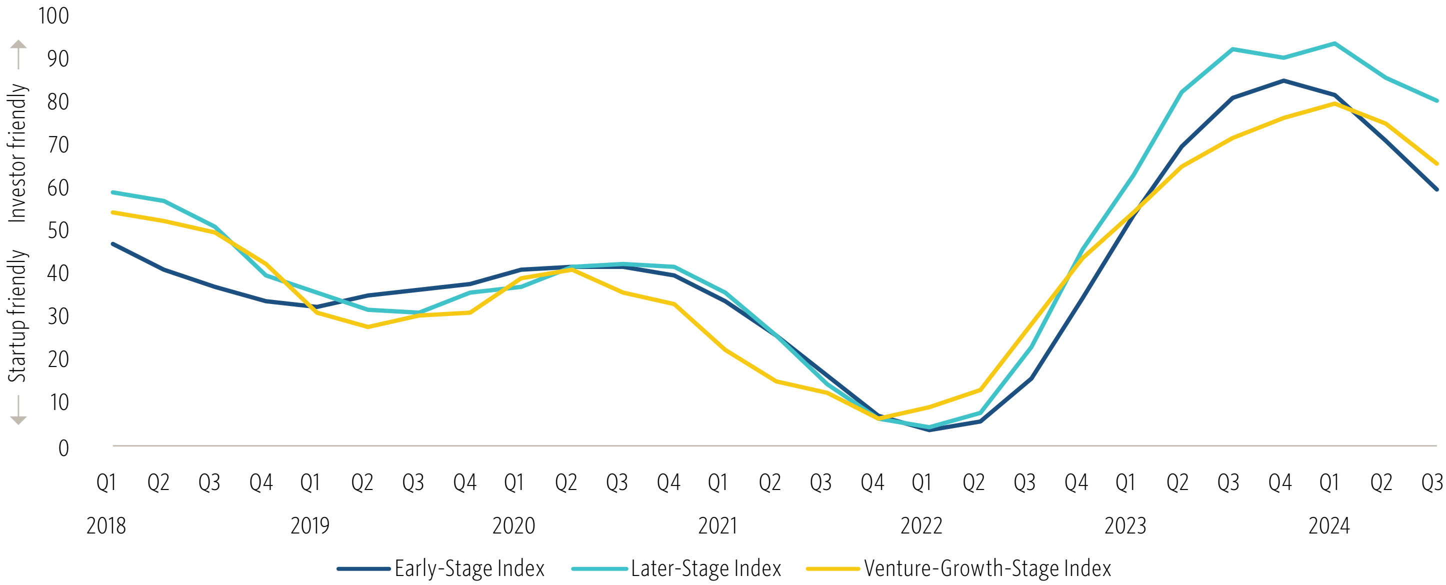
Though the market has moved in a startup-friendly direction, it remains in investor favor

VC Dealmaking Indicator



Source: PitchBook • Geography: US • As of September 30, 2024

perspective, the high valuations raised a couple years ago have made it difficult to position for an exit. Companies face either public market investors unwilling to pay a similar price or acquirers looking for steep discounts in an uncertain economic environment. For investors and LPs, the holding value of stakes acquired at high prices is unstable and the prospect of down rounds and further dilution to stakes is increasing.

In our VC Dealmaking Indicator, the market has moved back toward balance between investor- and startup-friendliness over the past several quarters. This is in part due to the relative strength of deal activity, lack of investor-protective terms, and continued high valuations placed on new rounds.

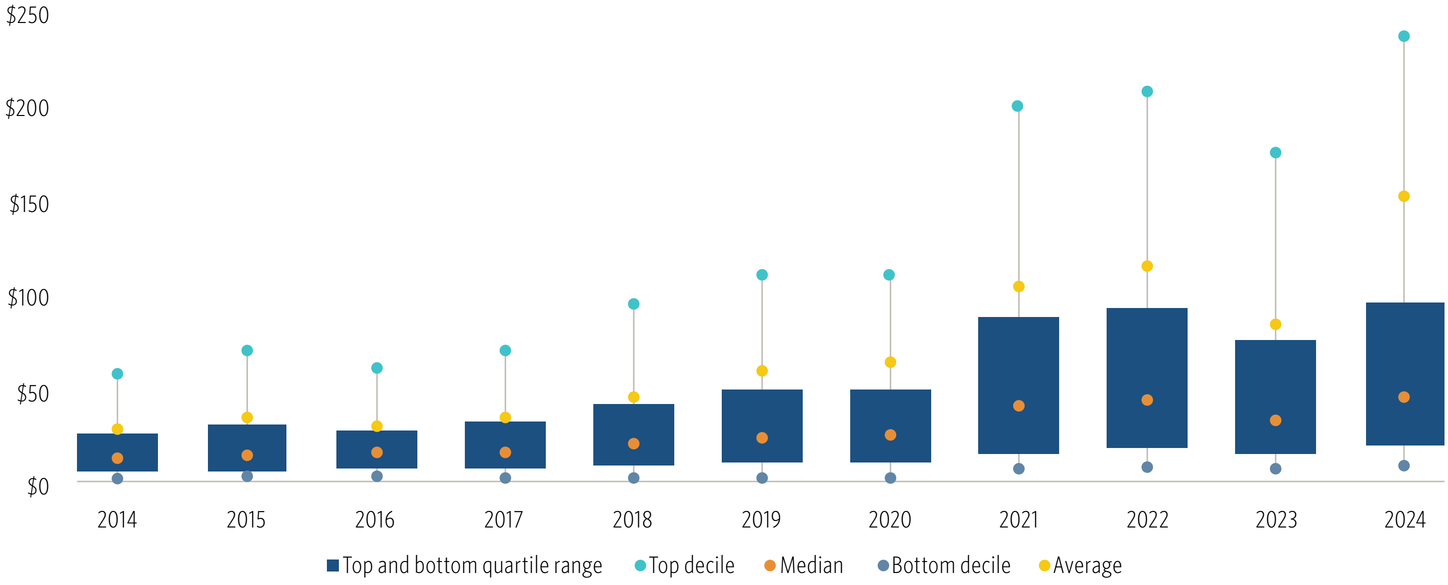
The cautiously optimistic movement of the model has been biased to the heavy activity in AI, which has accounted for more than one-quarter of deal count and more than one-third of deal value. Competition akin to the exuberant market of 2021 has driven AI investment. Across venture stages, AI prices are much higher than other sectors and technologies.

The light at the end of a very long tunnel was the rate cut by the Federal Reserve (the Fed) in September. Though a single cut will not alleviate the market challenges or bring pricing back to market highs, continued economic growth and an increase of risk in the market should both help companies continue growth and also slowly decrease the bid-ask spread in the market.

Dealmaking

Elevated valuations attributed to delayed fundraising

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



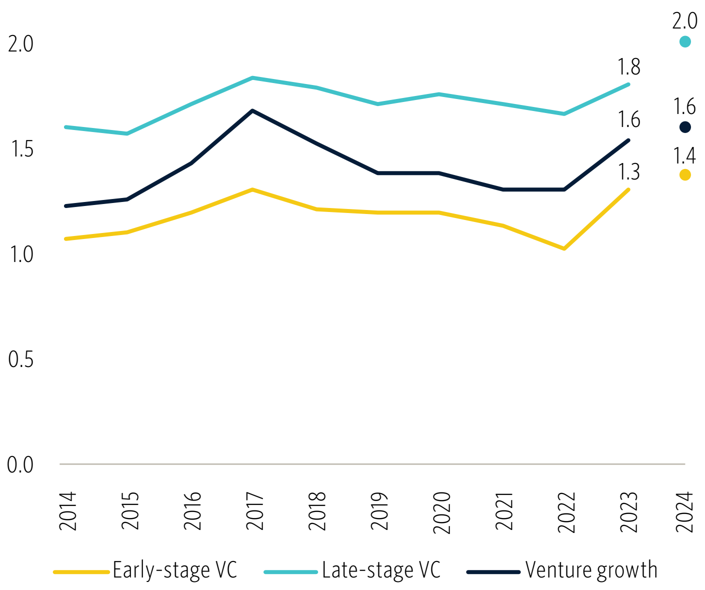
Source: PitchBook • Geography: US • As of September 30, 2024

Median valuations have increased across all venture stages when compared with the past two years. In fact, for most stages these valuations even exceeded the medians from 2021 when venture activity was at its peak. This upward trajectory, coupled with the beginning of rate cuts by the Fed, has left the industry optimistic for venture's grand return. These numbers alone do not tell the whole story of the current venture environment. It continues to battle headwinds from still-high interest rates, which have dampened exit activity, the flow of distributions back to LPs, and the amount of capital being reinvested into the asset class.

Median valuations may be high, but valuation growth is not. Rather, these high medians are being elevated by companies that last raised during the zero-interest-rate-policy (ZIRP) era. These startups locked in high valuations when capital was much easier to attain and are finally returning to market after extending their cash runways for as long as possible. The median time between rounds has been steadily increasing since 2022 across most stages. For instance, a majority of later-stage venture-backed companies have waited over two years to raise their next round, compared with the median of 1.67 years from 2022. This trend will likely continue as more startups return to raise subsequent capital.

Startups wait longer to fundraise

Median time (years) between rounds by stage



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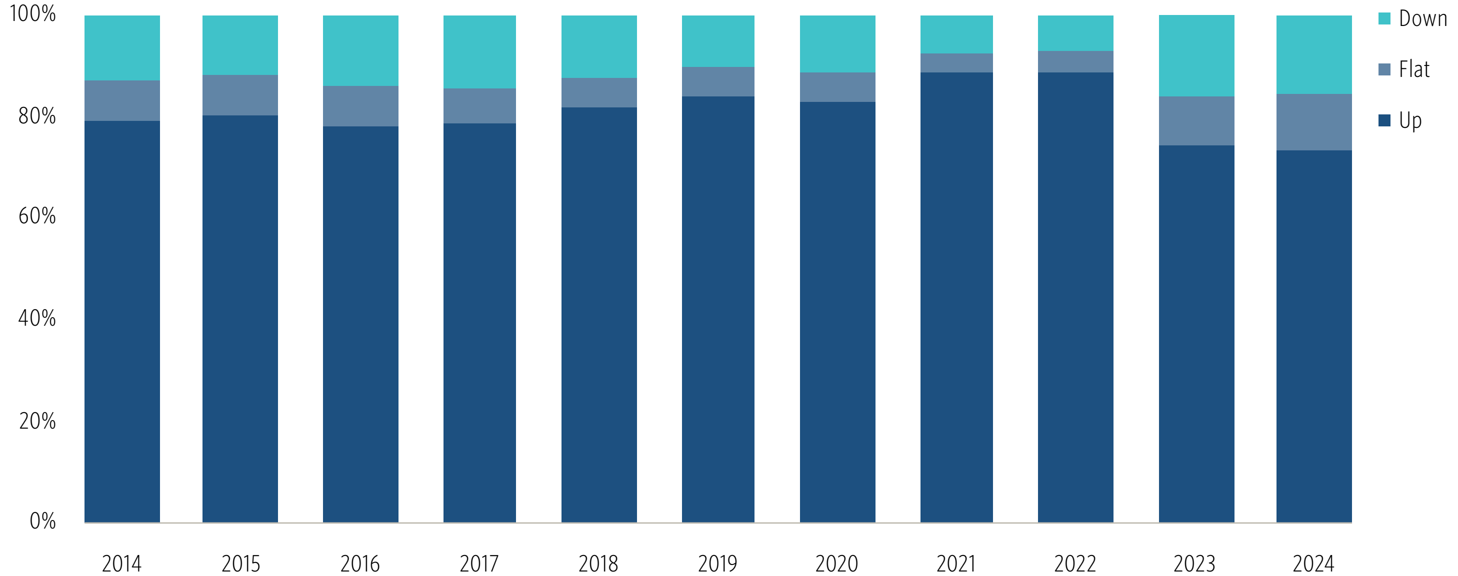
Greatest percentage of flat and down rounds in a decade

Share of VC deal count by up, down, and flat rounds



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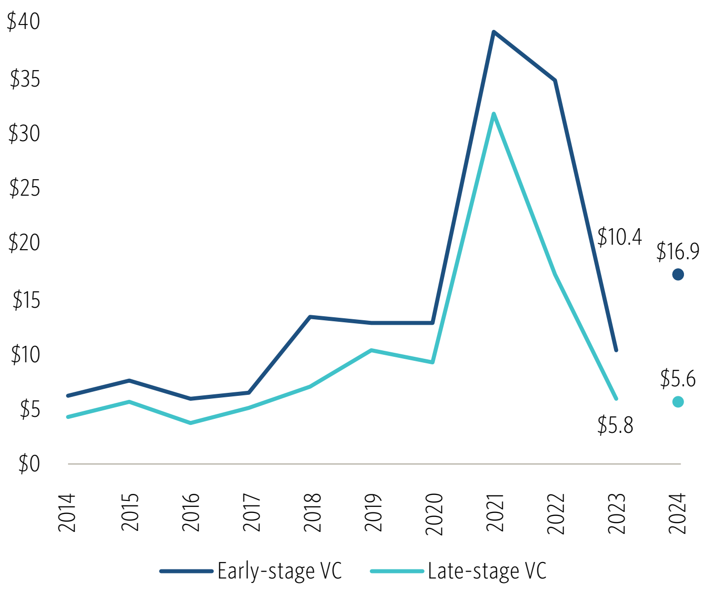
Valuations have also been elevated by outsized AI deals, which are not representative of venture's overall dealmaking activity. Investor caution for the rest of venture has not been applicable to AI companies because these investors are willing to pay high prices for fear of missing out on the next innovation wave. In Q3, Anduril Industries, a defense tech company that uses AI in its weapons systems, raised a $1.5 billion Series F at a $12.5 billion pre-money valuation. These figures far exceed this year's venture-growth medians of $5.5 million in deal value and $261.4 million in pre-money valuation. Also in Q3, AI research lab Safe Superintelligence raised $1 billion for its very first round at a $4 billion pre-money valuation. First-time financings of this magnitude are uncommon, which is illustrated when comparing Safe Superintelligence's deal to 2024's median early-stage deal value of $5.5 million and median pre-money valuation of $44.8 million.

A better temperature check that measures venture's slowing growth is the combined percentage of flat and down rounds, which is at a decade high of 26.6%. Over the past three quarters, 10.8% of deals have been flat, while 15.9% have been down. Cooling valuations help provide more accurate reflections of company fundamentals, which can be beneficial, though down rounds create dilution risk for employees and existing investors without protections.

Slowing pace of value creation

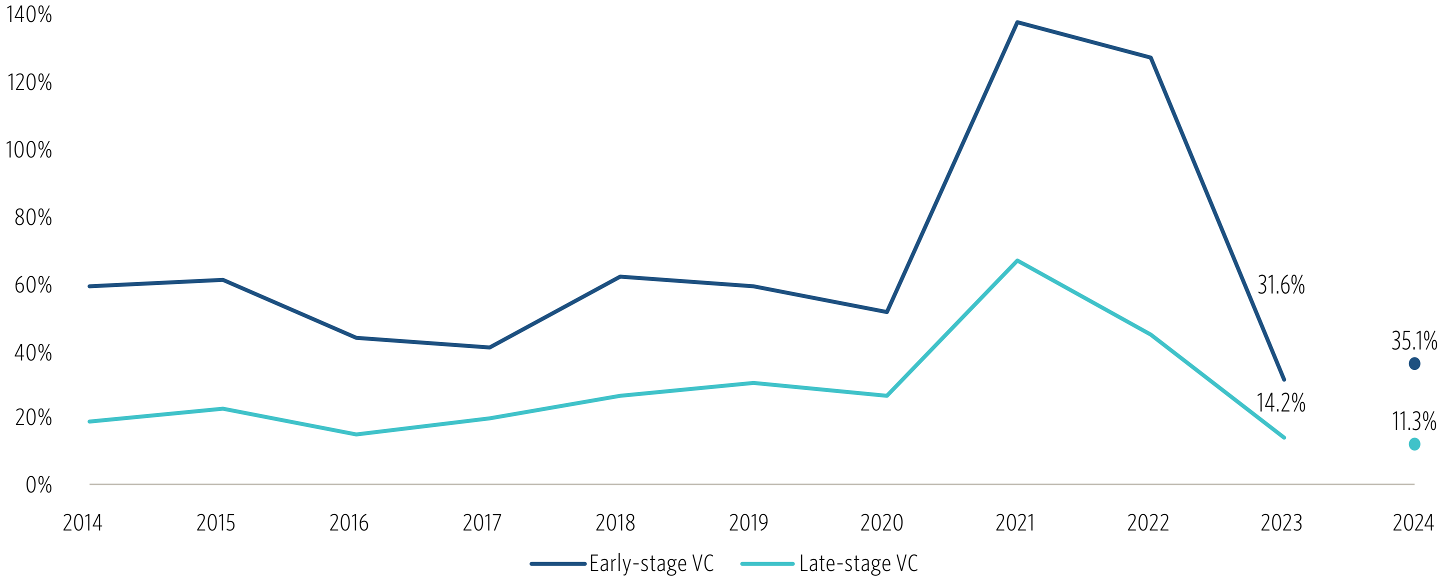
Median VVC between rounds by stage



Source: PitchBook • Geography: US • As of September 30, 2024

Muted growth between rounds

Median RVVC between rounds by stage



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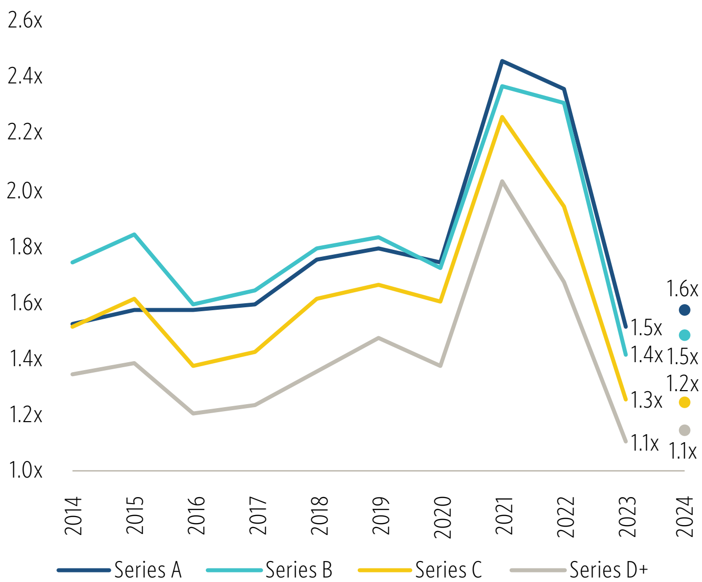
Companies are finding it difficult to keep advancing at the same pace as when they last raised. This is partly because their valuations are already high, but also because investors have been increasingly cautious to add more money to venture, which makes dealmaking and justifying high company prices even tougher. Therefore, even though 73.4% of deals are still up, RVVC has taken a steep downturn since the ZIRP era as valuations are reset to more reasonable levels. The median annualized percentage growth in early-stage valuation is 35.1%, a 74.5% decrease from 2021's RVVC and the second-lowest level in the past 10 years. Similarly, the later-stage median RVVC is at a decade low of 11.3%, which is an 83% decrease from 2021.

The median step-up between series also reflects this pattern of growth, or lack thereof. For example, the median Series D+ step-up is only 1.1x, which is barely an increase from companies' last round and is nearly half the market growth levels from 2021. Overall, the high valuations from dealmaking are more reflective of the value captured two to three years ago and by the AI hype rather than a true representation of the strength of today's venture market.

Low valuation growth between series

Median step-up by series



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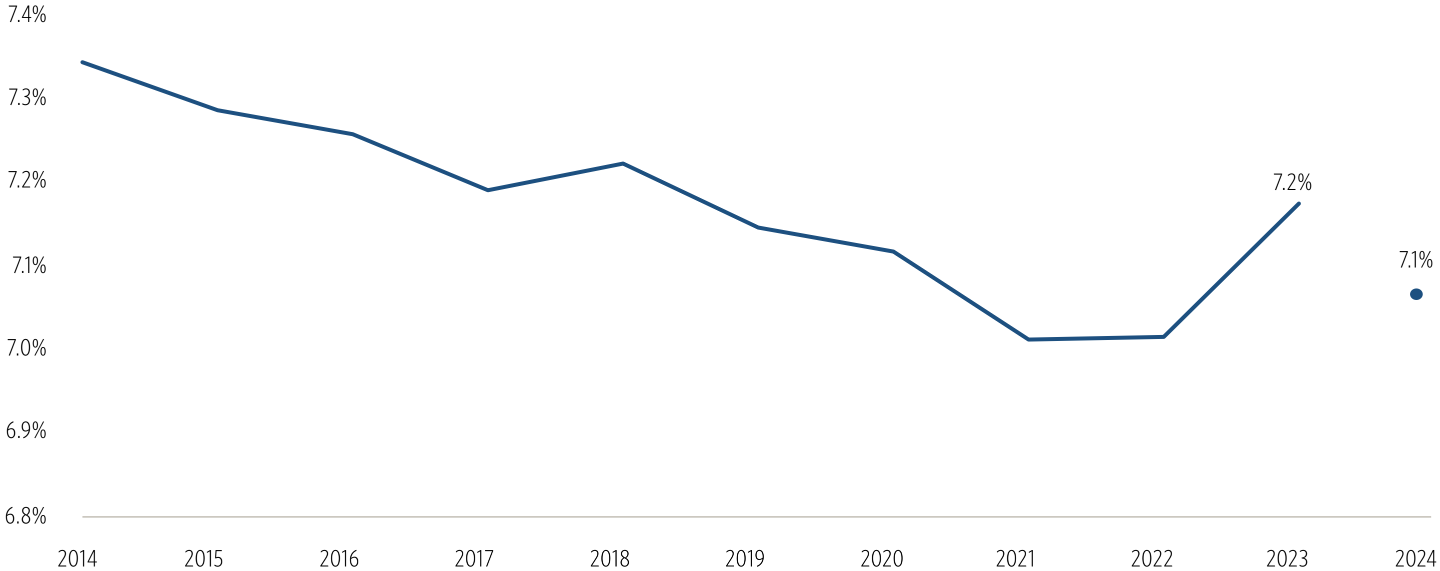
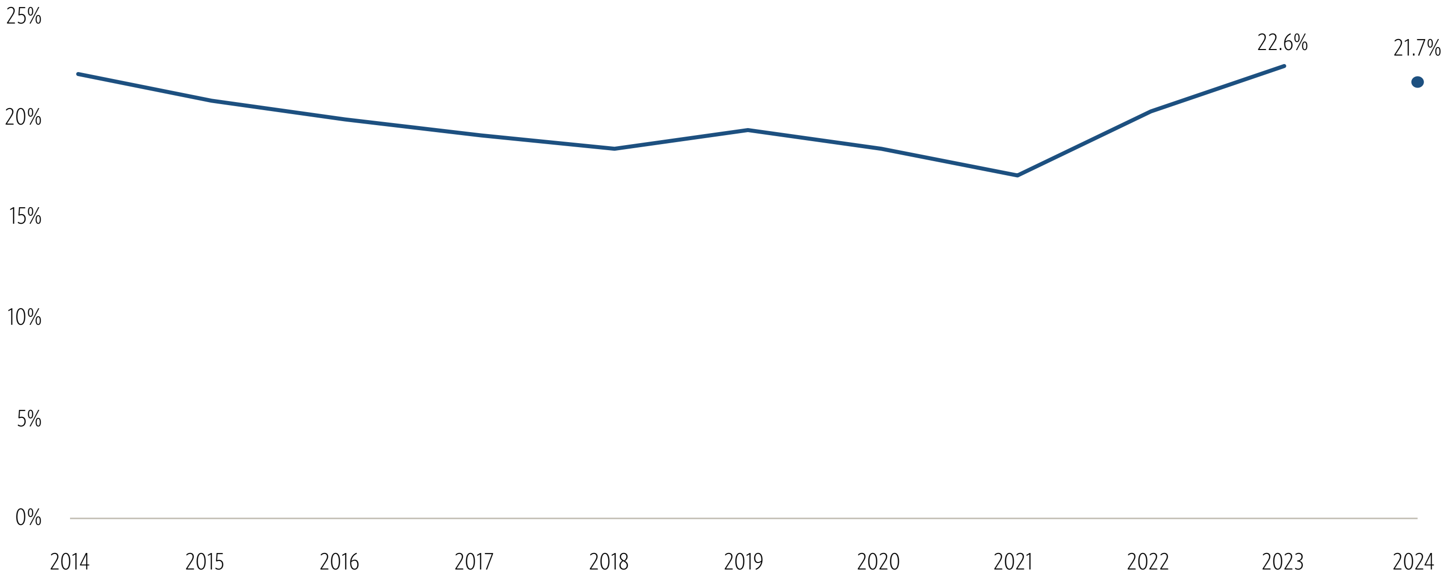
Average dividend falls back
Average dividend



Source: PitchBook • Geography: US • As of September 30, 2024

Cumulative dividends decline alongside overall investor friendliness
Cumulative dividends as share of all dividends

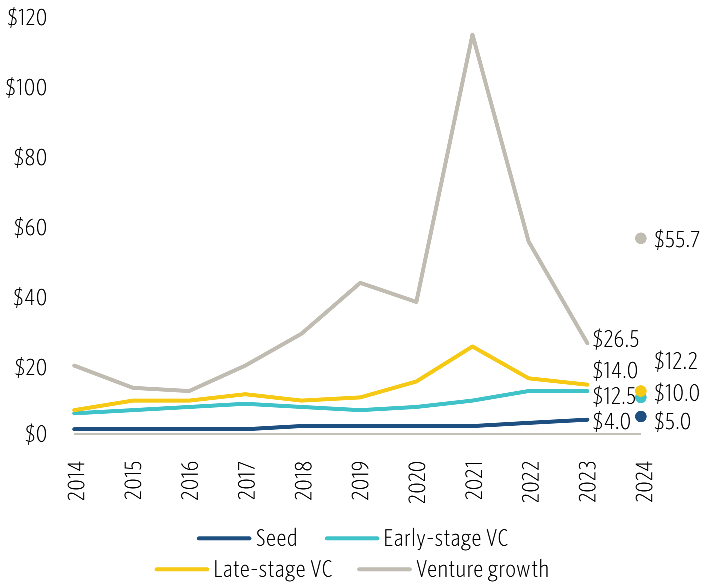


Source: PitchBook • Geography: US • As of September 30, 2024

Cybersecurity

Cybersecurity deal value trending up for seed and venture growth

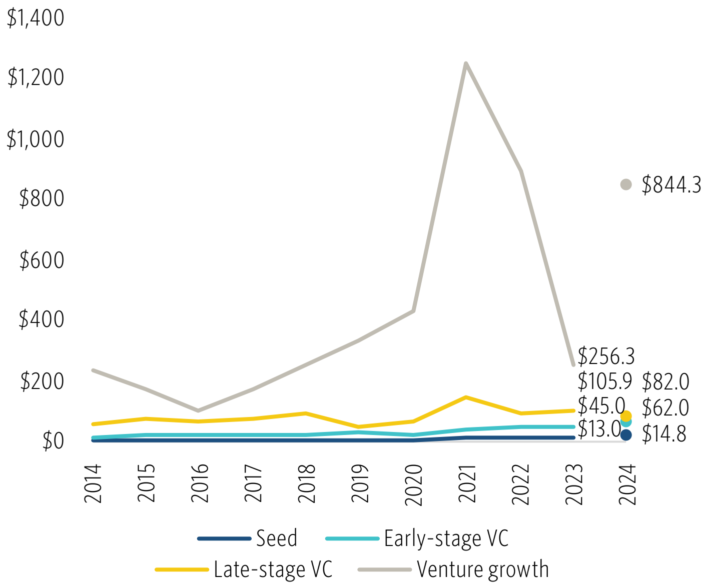
Median cybersecurity VC deal value ($M) by stage



Source: PitchBook • Geography: US • As of September 30, 2024

Higher valuations driven by ZIRP-era rounds

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



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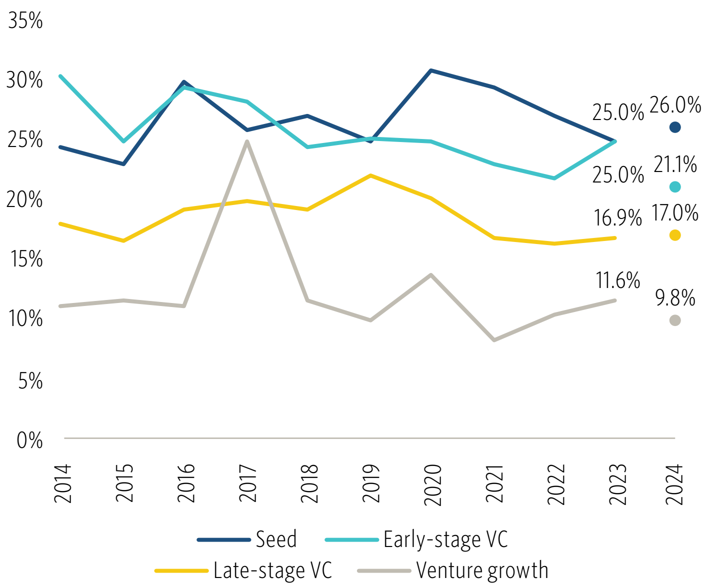
VCs are acquiring smaller stakes in early-stage and venture-growth companies

Median cybersecurity VC share acquired by stage



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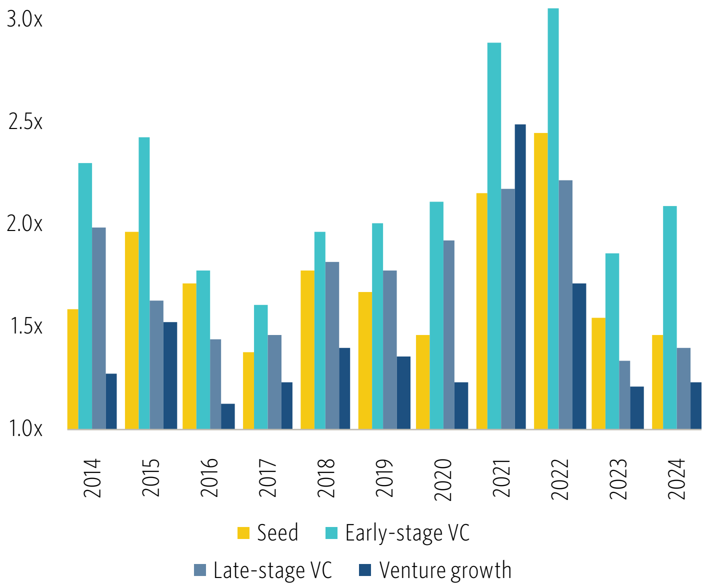
Early-stage step-up reflects high investor interest

Median cybersecurity VC valuation step-up by stage



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A WORD FROM MORGAN STANLEY AT WORK

Staying private longer: Impact on corporate actions

Shawn Murphy
Managing Director
Head of Private Markets at Morgan Stanley at Work

Shawn has more than 20 years' worth of experience across financial services, fintech, microfinance, equity management, and private markets. Shawn's team delivers equity management, liquidity, and workplace solutions to private companies and investors. In her role, Shawn oversees growth initiatives from expansion into new and adjacent products to evolving existing capabilities.

Who is Morgan Stanley at Work?

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

Whether preparing for a liquidity event or an IPO, planning a release of restricted stock units, or expanding your equity plan, Morgan Stanley at Work can help you take charge of where you are today and where you're going next.

Why are companies staying private longer and rethinking their approach to equity and liquidity?

Not that long ago, an IPO was considered an important and necessary milestone for a maturing private company looking to reach the next growth stage. However, the influx of capital into the private markets in recent years has given private companies greater flexibility to stay private longer—in some cases indefinitely. This trend, coupled with uncertainty in the public markets, has led more private companies to delay their IPO plans and reallocate the resources they would have spent on public listing and regulatory requirements toward continued innovation, growth, and business optimization.

But as companies stay private longer, they also must consider the impact to their equity compensation plan. According to our 2024 State of the Workplace Financial Benefits Study, 84% of employees believe equity compensation to be the most effective way to motivate a workforce.[1] Employees work hard for their equity, which gives them a meaningful stake in the success of the business; however, some want and need the ability to liquidate some of that equity even when there's no IPO or exit event on the immediate horizon. As a result, some private companies are taking a proactive approach to liquidity. Additionally, 93% of private companies reported that the possibility of a company having a liquidity event is valuable to a prospective hiring decision.[2]

Hence, some companies allow employees and investors to sell their equity to third-party buyers through one-off transactions; others let employees and investors borrow against their equity. However, the most popular mechanism for companies to grant partial liquidity to their participants is through organized liquidity programs where the company maintains control over who can participate and how much equity can be sold. To date, Morgan Stanley at Work has executed over 290 of these issuer-led liquidity events worth over $22 billion.

How are current market conditions impacting IPOs and liquidity events?

Despite a 30% year-over-year lift in IPO listings,[3] the IPO market remains relatively quiet compared to prior years. With ongoing geopolitical events and market uncertainty, we expect more companies to sit on the sidelines and wait for IPO conditions to improve.

1: "State of the Workplace 2024 Financial Benefits Study," Morgan Stanley at Work, 2024.
2: "Liquidity Trends: Perspectives From Private Company Leaders," Morgan Stanley at Work, June 24, 2023.
3: "Optimism Builds for the 2024 IPO Market," EY, Rachel Gerring and Mark Schwartz, October 17, 2024.

Meanwhile, pressure for employee liquidity will continue to build. Therefore, it is important that companies take the time to become "transaction-ready." Transaction readiness means ensuring a company has the right people, processes, and systems in place to be able to execute a significant corporate action—such as an IPO or liquidity event—when the timing is right. Proactively planning within 18 months of a liquidity event or IPO can help maintain greater control over timing and reduce the risk of complications while also helping streamline daily operations beyond the transaction date.

How can companies keep their employees engaged as they remain private longer?

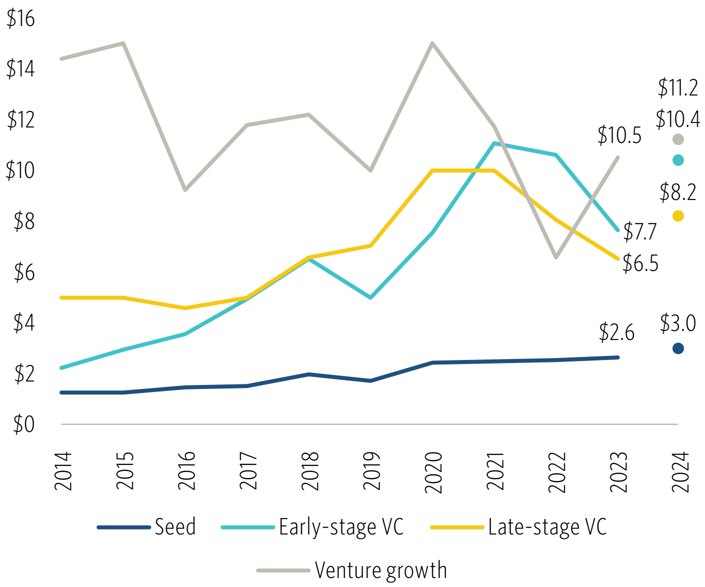
Employee engagement and education has become increasingly important, especially for companies with no immediate plans to go public. To get the most out of their equity, employees must understand what it is worth, how it reflects their contribution to the business, and how it supports their overall financial well-being. Companies that effectively communicate and engage their shareholders on an ongoing basis can experience higher employee satisfaction and retention rates.

At the same time, employees may increasingly be looking to their employers for help with their specific financial challenges, especially in today's uncertain economic climate. Companies may have a significant opportunity to augment equity education with retirement planning and more holistic financial guidance. Offering these resources can send a powerful message about how a company continues to invest in its employees as it heads into the next stage of growth and beyond.

Life sciences

Deal sizes tick upward in 2024

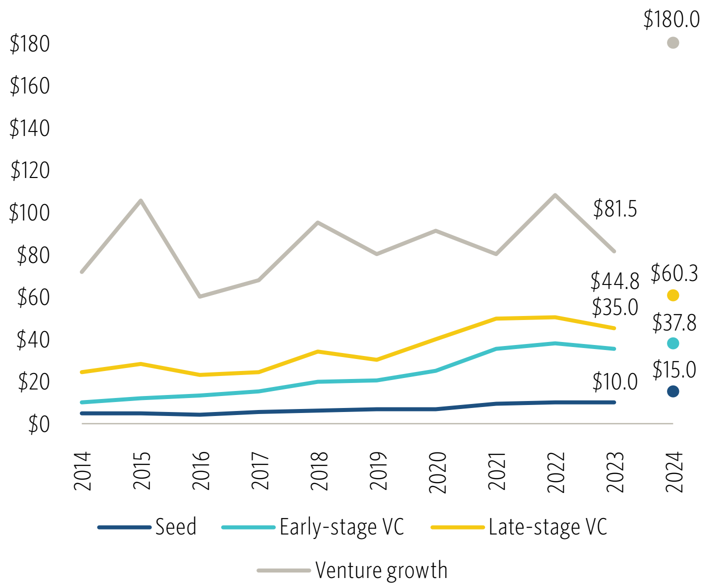
Median life sciences VC deal value ($M) by stage



Source: PitchBook • Geography: US • As of September 30, 2024

Valuations see boost YoY

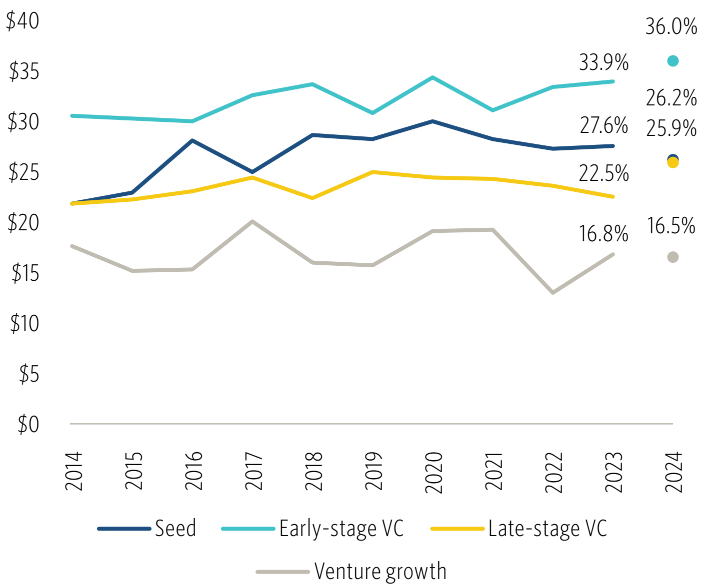
Median life sciences VC pre-money valuation ($M) by stage



Source: PitchBook • Geography: US • As of September 30, 2024

Little change in stake acquired

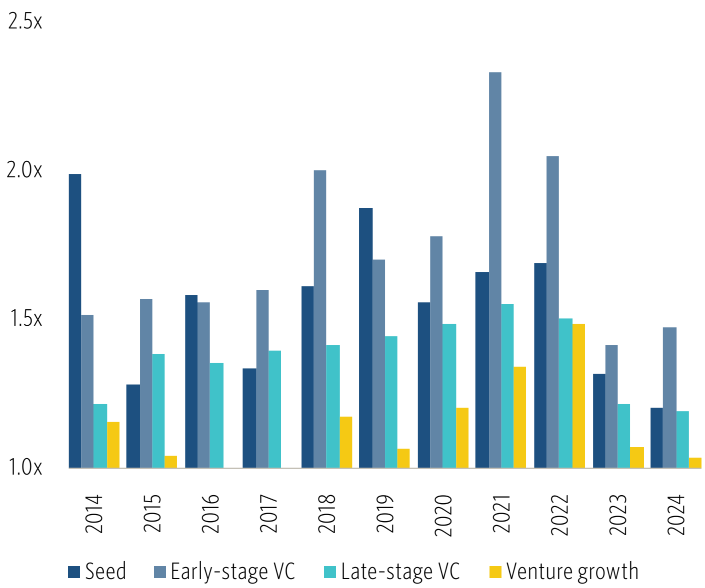
Median life sciences VC share acquired by stage



Source: PitchBook • Geography: US • As of September 30, 2024

Median step-ups decline outside of early stage

Median life sciences VC valuation step-up by stage

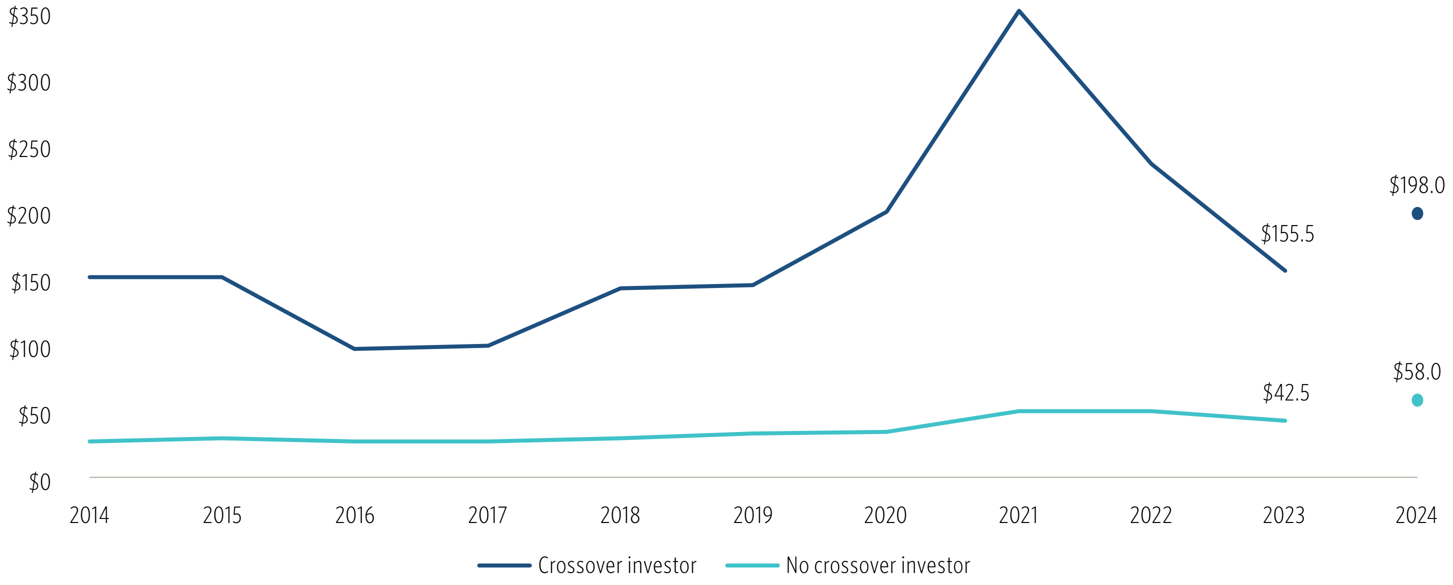


Source: PitchBook • Geography: US • As of September 30, 2024

Investor trends

Valuation spread highlights crossovers' flight to quality

Median late-stage VC pre-money valuation ($M) with crossover investor participation



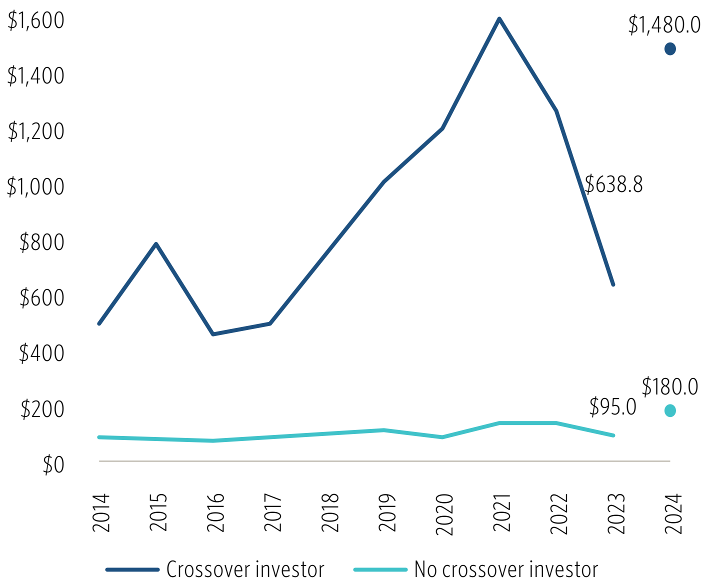
Source: PitchBook • Geography: US • As of September 30, 2024

Median valuations are significantly higher for rounds with crossover investor participation, highlighting these nontraditional investors' flight to quality. For late-stage companies, the median valuation with crossovers is $198 million year to date, compared with $58 million without. Venture-growth companies have an even wider gap, with a $1.5 billion median valuation with crossovers, which is the second highest in a decade after 2021's peak, compared with only $180 million without.

The difference in median valuations is due primarily to crossover investors' frequent participation in outsized deals, rather than an indicator of increased capital availability. Strong individual companies have been able to close these large deals with big investors despite VC's overall tepid dealmaking environment, so their successes should not be considered as a positive indicator for the overall venture market. Crossover investors are hyperfocused on investing in the strongest companies because their heavy involvement in the ZIRP-era boom left them stuck with bloated VC portfolios when exit activity plummeted. Crossover investors' preference for quality is demonstrated through their participation in six out of the top 10 deals this quarter. Out of all Q3 deals with crossover investor participation, 26.4% were megadeals of over $100 million.

Second-highest venture-growth median valuation this decade

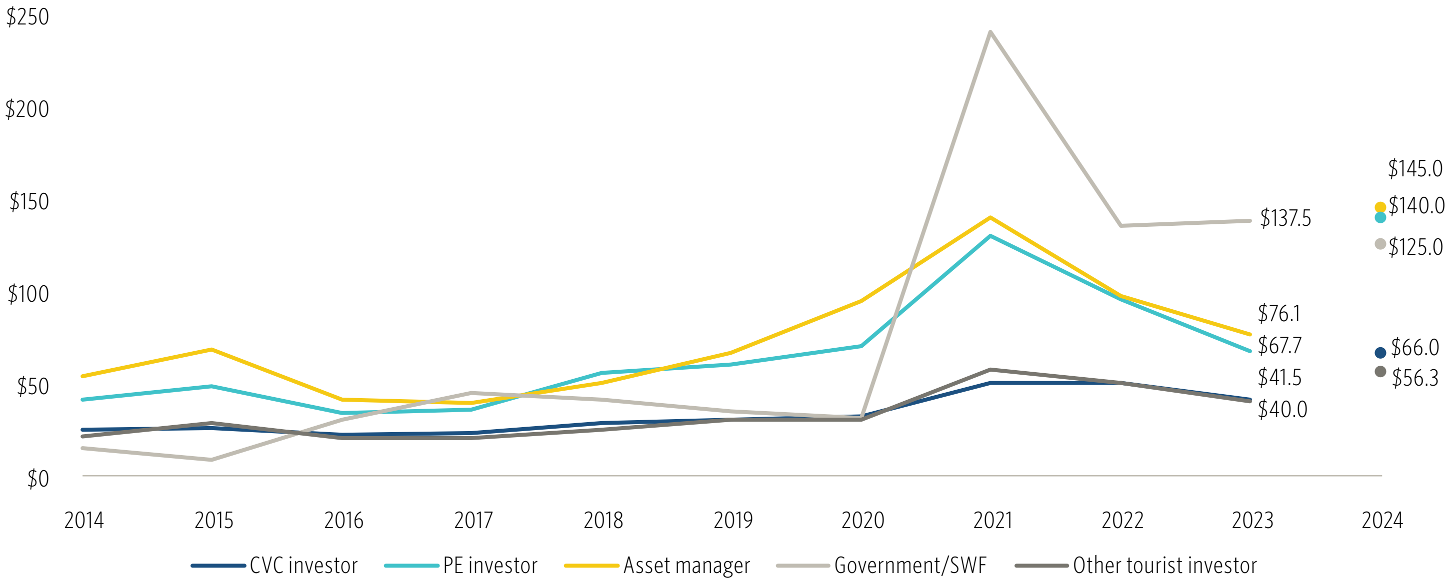
Median venture-growth pre-money valuation ($M) with crossover investor participation



Source: PitchBook • Geography: US • As of September 30, 2024

Higher valuations across alternative investor types

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

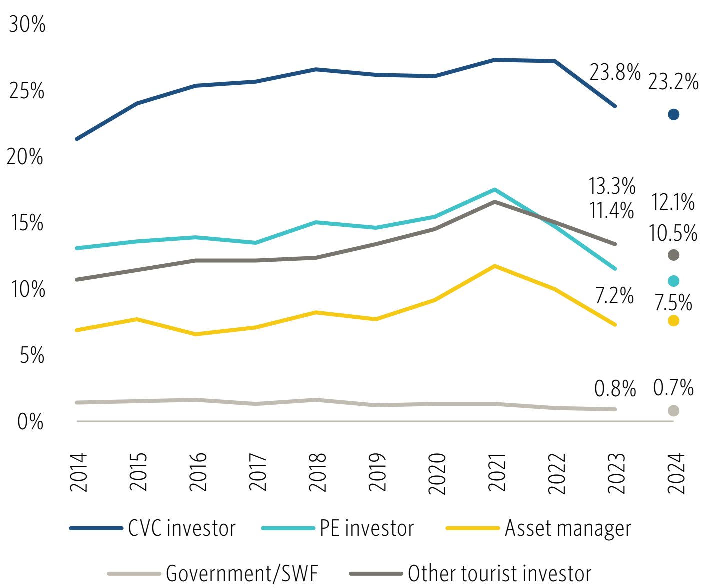


Source: PitchBook • Geography: US • As of September 30, 2024

The extent and pace of later-stage venture's recovery will depend on the resurgence of crossover investor participation. Crossover investors are essential for later-stage startups to continue fueling their growth while remaining private, though the number of unique crossover investors has dropped by over 30% since the ZIRP era. Crossover investors are long-term investors that can hold assets well past public listings, unlike traditional venture funds, which has made them an important source of late-stage and venture-growth funding. However, venture investors overall have been reluctant or hard-pressed to allocate capital to mature startups given today's high valuations, which cut into the total return profile of the investment, and because of the large size of investments required. Crossover investors' pullback from the asset class has left fewer investors well suited and available to invest later in a company's lifecycle, leading many later-stage companies to delay raising additional capital and extend their cash runways for as long as possible through cost-cutting measures.

Deal participation declining

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

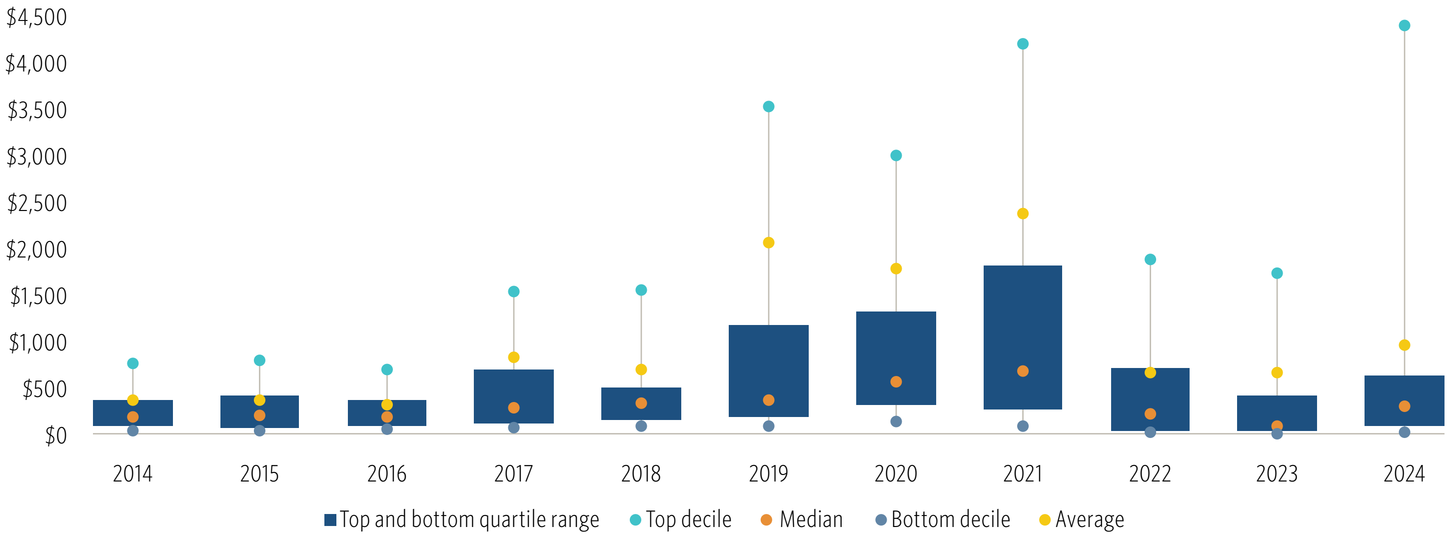


Source: PitchBook • Geography: US • As of September 30, 2024

Liquidity

Few IPOs with varied performance

Public listing VC exit valuation ($M) dispersion



Source: PitchBook • Geography: US • As of September 30, 2024

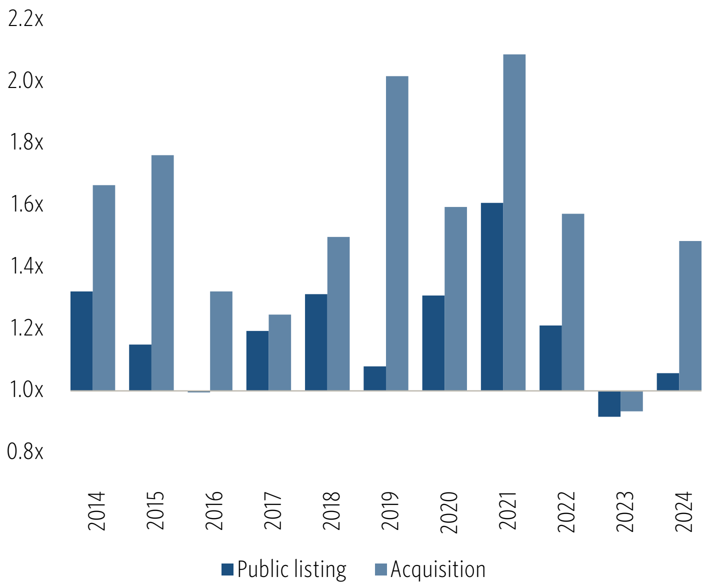
IPOs

Transitioning to public markets remained a challenge for companies in Q3, with only 14 public listings and a median exit valuation of $129.1 million. The quarter's valuation was particularly low, considering that the year-to-date annual median is $292.1 million. All venture-backed IPOs in Q3 originated from the healthcare sector, and none crossed the billion-dollar valuation threshold. The mixed post-IPO performance has not garnered much enthusiasm among startups waiting for a friendlier exit environment. As of this writing, half of these companies have a higher market cap than their IPO and only one-third are trading at a higher stock price than their debut.

Cerebras filed for an IPO at the end of the quarter, sparking optimism across venture. The chipmaker is the first AI startup to file since the AI investor hype began and will be the first major venture-backed tech public listing since Ibotta's in April 2024. However, the company has run into some delays as it first needs clearance from the Committee on Foreign Investment in the US for potential national security concerns. The company's investor and largest customer, which accounted for 83% of its 2023 revenue, is a Middle Eastern company with historic ties to China. Another potential

Exit returns continue to be muted

Median VC step-up at exit by type



Source: PitchBook • Geography: US • As of September 30, 2024

Multiples have not rebounded yet

VC-Backed IPO Index price/sales multiple

Source: PitchBook • Geography: US • As of September 30, 2024

hurdle will be public demand, because Cerebras hopes to reach a valuation between $7 billion and $8 billion, nearly double its $4 billion pre-money valuation from its last round in 2021. Current secondary prices on Forge imply a $7.1 billion valuation, which is a positive signal of investor demand.[4] However, the business is not yet profitable, so the high valuation, coupled with potential regulatory issues, may raise concerns among public investors.

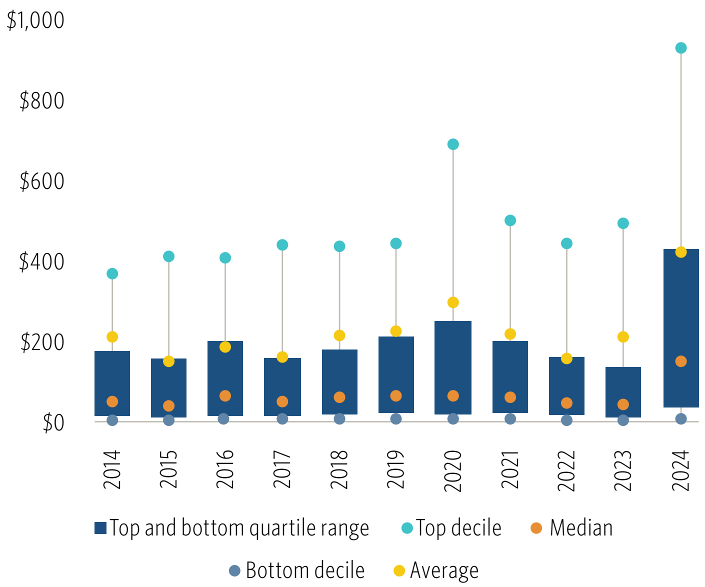
Overall, the major challenge for VC IPOs continues to be high valuations. AI firms like Cerebras have been relatively insulated from venture's headwinds, but for other startups, the public is unlikely to pay the elevated prices that these private companies seek. Until startups are willing to compromise on their valuations, the IPO standstill will persist.

M&A

The median M&A exit valuation has soared to decade highs. However, a deeper analysis reveals that M&A activity is much weaker than what this data captures and highlights the widening gap between top-performing and mediocre companies.

Acquisitions dominated by healthcare

Acquisition VC exit valuation ($M) dispersion

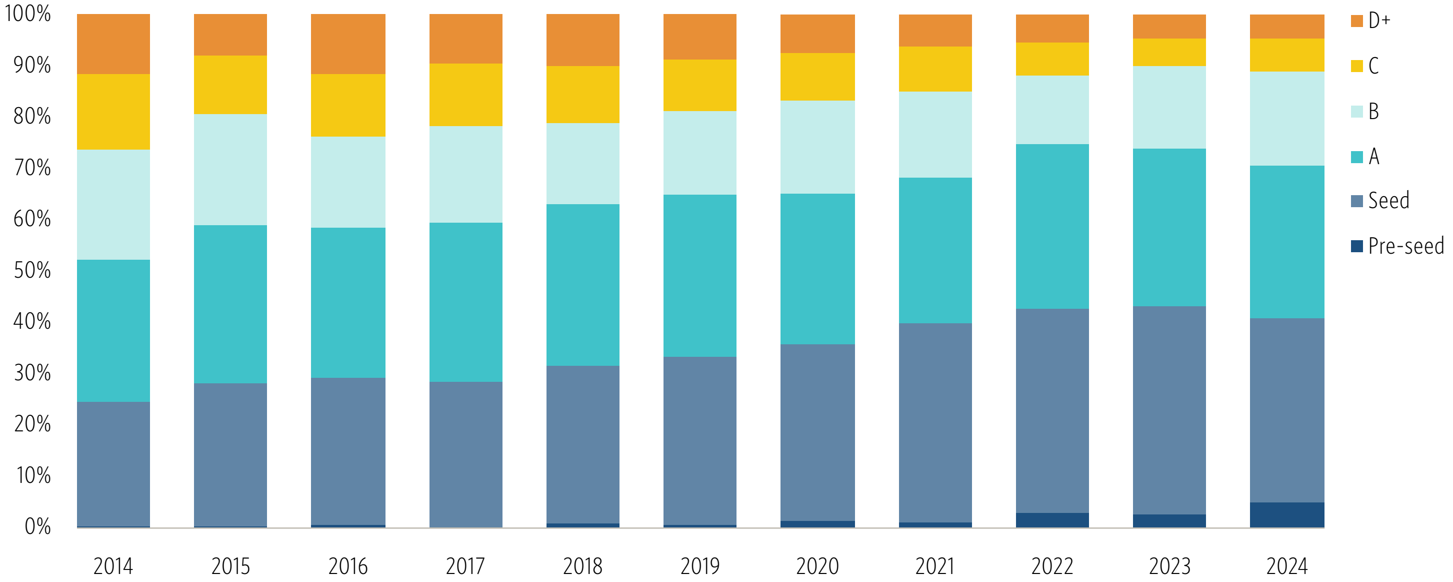


Source: PitchBook • Geography: US • As of September 30, 2024

4: "Cerebras Upcoming IPO: Computing Going Public Amidst AI Fever," Forge Global, Jake Sefane, October 4, 2024.

More early-stage acquisitions as valuations remain high

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



Source: PitchBook • Geography: US • As of September 30, 2024

The median acquisition valuation is $150 million year to date, and a handful of large deals pushed the annual average to $419.1 million. Only two exits exceeded the billion-dollar threshold in Q3, and both were for biotechnology companies. In fact, the top five acquisitions in exit size all came from healthcare. This sector concentration is yet another indicator that overall venture M&A activity has not returned.

Outsized deals explain the wide gap between the median and average, but smaller exits are not being captured. Over 85% of 2024 acquisitions thus far have had small and therefore undisclosed deal sizes, biasing the median figure higher. High valuations have made later-stage acquisitions prohibitively expensive, so early-stage startups with comparatively less elevated company prices are better suited, with 82.5% of acquisitions YTD occurring after a seed to Series B round.

This trend toward smaller deals brings into question how much investors are realizing from M&A, as their returns may not be enough to break even. Rather, investors are using these exits to cut their losses and recoup some liquidity in this parched market. Top startups that continue to garner investor interest are opting to stay private, leaving mediocre companies as prime contenders for M&A, especially if they are struggling to raise additional capital to keep operations running. The prevalence of smaller deals will likely persist for at least the next few quarters as more startups approach the end of their cash runway and look for exit opportunities.

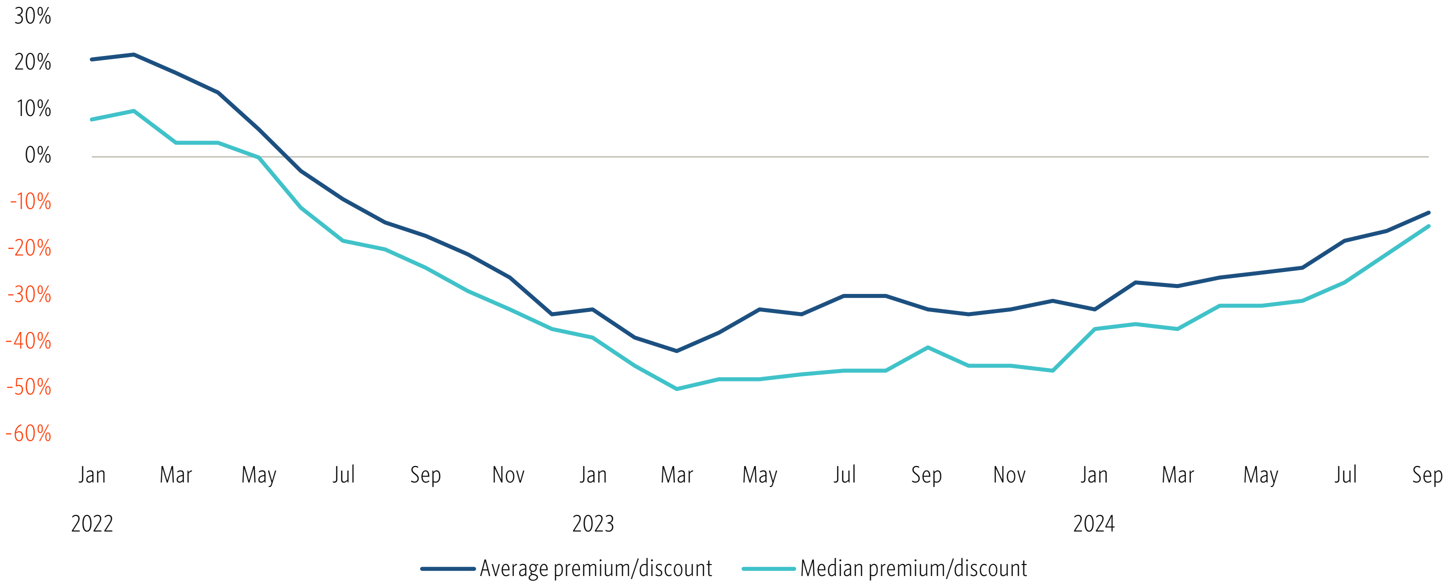
Secondaries

Secondaries provide the best of both worlds. Companies can remain private for longer while simultaneously generating realized returns for investors despite limited IPOs and M&A. More than half of Series D and later startups were founded over 9.7 years ago, one year longer than the median age of 8.7 years in 2021 when VC activity was at its peak. Therefore, these companies' early adopters have been waiting for a decade to realize returns, and this timeline is expected to continue expanding until exit activity rebounds, leaving these long-time investors restless to get their money back.

Secondaries are still trading at a discount but are steadily progressing closer to parity, indicating increased demand among purchasers. The median discount in Q3 was 15%, significantly lower than the 50% when discounts bottomed in March 2023. The secondary market provides pricing transparency outside of official rounds, so stronger companies benefit more from these transactions because proven investor demand helps justify high valuations. Overall, we expect secondaries to continue their growth, as both investors and companies can benefit from their increased adoption.

Secondary discounts are approaching parity

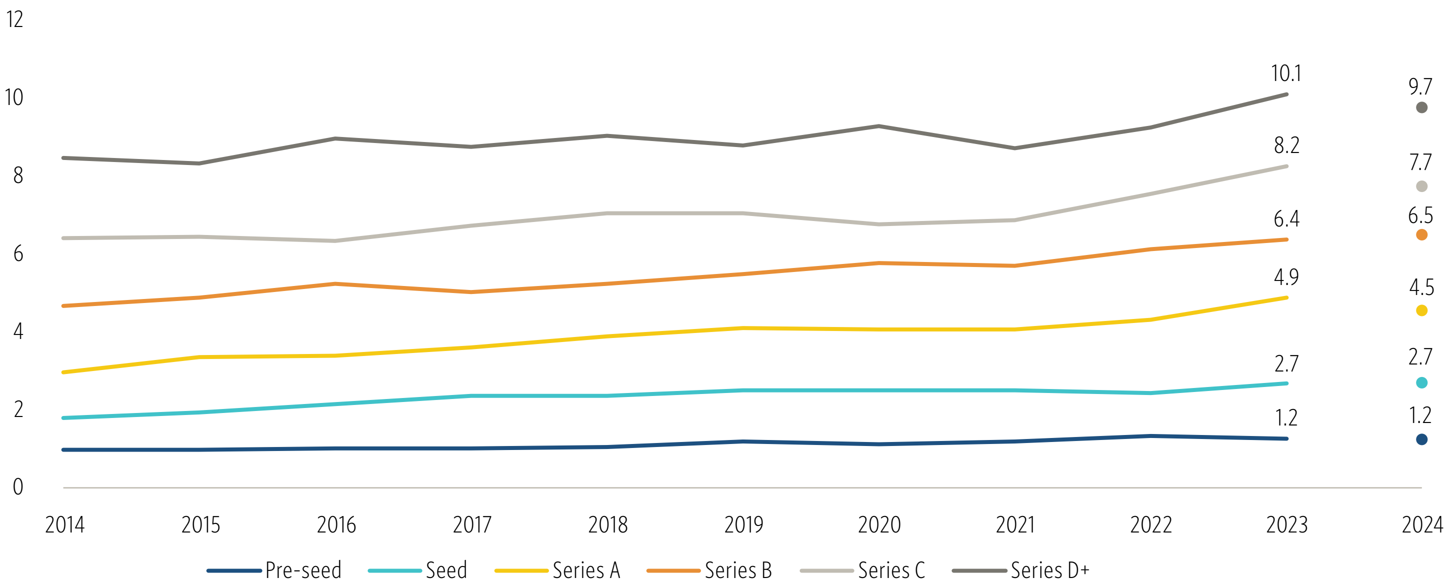
Median and average discount to last VC round



Source: Zanbato • Geography: Global • As of September 30, 2024

Startups are staying private for longer

Median time (years) from founding by series



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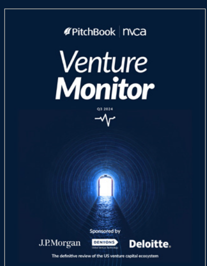
Additional research

Private markets



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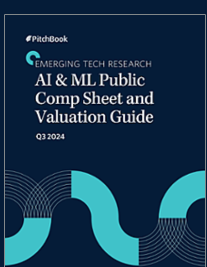

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