

Venture Capital Valuations: Mid-Year Outlook



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VC down rounds still prevalent but first signs of performance bottoming out

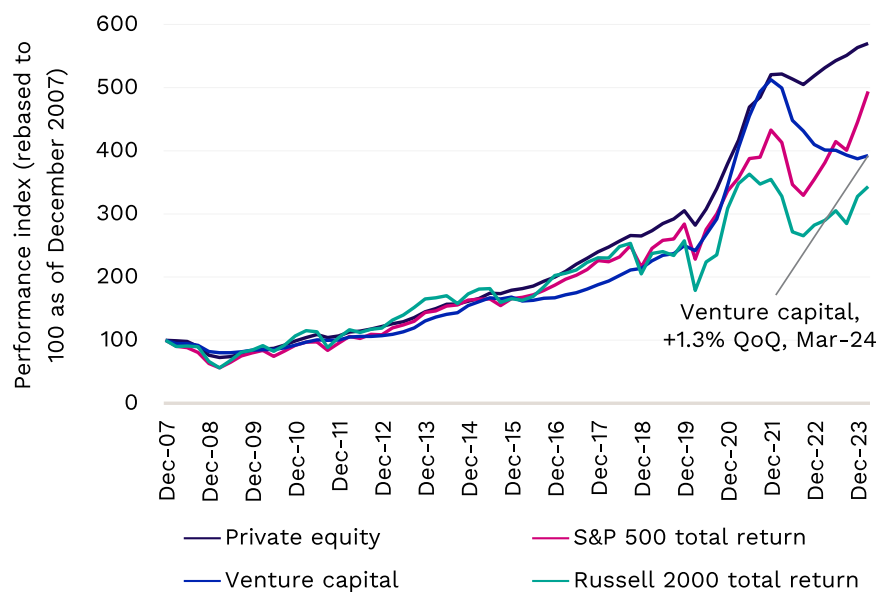
By Angela Lai, CFA

The first quarter of 2024 saw venture capital (VC) performance move in a positive direction for the first time in two years, according to Preqin's quarterly indices (Fig. 1). Since the end of 2021, VC performance has edged downward, recording a 23% loss over the period despite the slight improvement in this most recent quarter. Whereas VC down rounds spiked at the end of 2023, when our data indicated that one in four VC-backed companies worldwide had received lower valuations, this proportion has since fallen.

As this update reveals, down rounds affected one in five companies in the first quarter of 2024. This could be the first signs of VC performance bottoming out, even though the asset class is not entirely out of difficulty.

Fig. 1: VC performance has stabilized for first time since 2021

Preqin and public markets indices



Source: Preqin Pro. Data as of June 2024

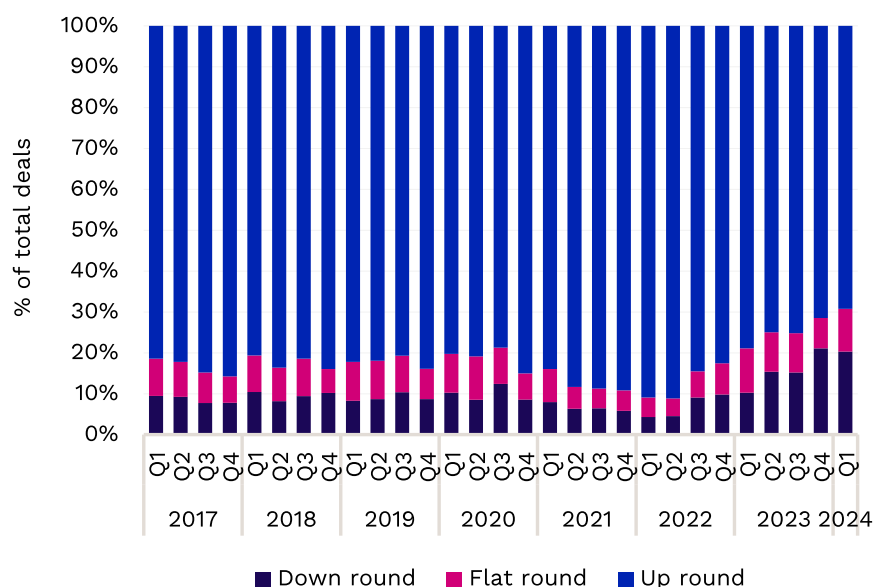
Down rounds affect 20% of VCs in first quarter of 2024

The proportion of down rounds in VC-backed companies remains at a historical high. Preqin data shows there were down rounds in one in five new VC funding rounds during the first quarter of 2024 (Fig. 2). This means that around 20% of VC-backed companies have received capital at a lower valuation since the last funding round – nearly double the 12% at the height of the pandemic and well above the five-year average of 8% between 2018 and 2022. The increase in down rounds continues to be more severe for

later-stage companies when we examine the breakdown between series A to series D (Fig. 3). Similar to the previous quarter, the highest proportion of down rounds were in series D, at 38% of total deals.

Fig. 2: VC down rounds remain at a historical high

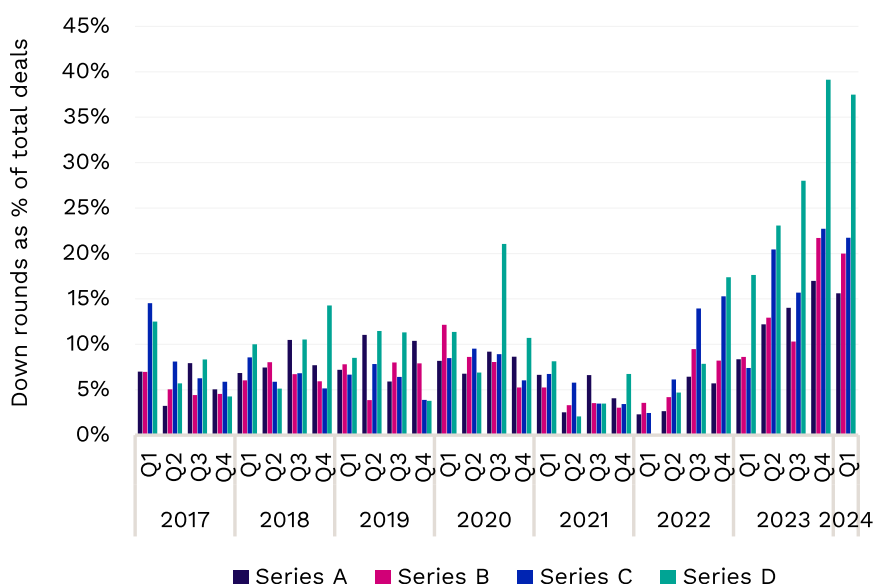
Number of down, flat, and up rounds as a percentage of total deals



Source: Preqin Pro. Data as of June 2024

Fig. 3: Down rounds most common in series D

Number of down rounds as a percentage of total deals by stage



Source: Preqin Pro. Data as of June 2024

Weaker investor sentiment, which directly influences the prices investors are willing to pay, tends to affect later-stage VC-backed companies as they are generally higher-stake investments with valuations that are more sensitive to market movements based on near-term performance expectations. The mark-to-market impact can often be amplified, especially for those with an imminent exit.

Early stage not immune to weaker sentiment

Even though early-stage down rounds remained low relative to later-stage fundraising, down rounds still accounted for 16% of series A valuations in our latest data, which is close to being a record high. In the current market, investors tend to favor earlier-stage VCs due to their smaller commitments and longer incubation periods. This usually provides some degree of protection from external market volatility, but it doesn't mean these investments will be completely immune to downward market pressure.

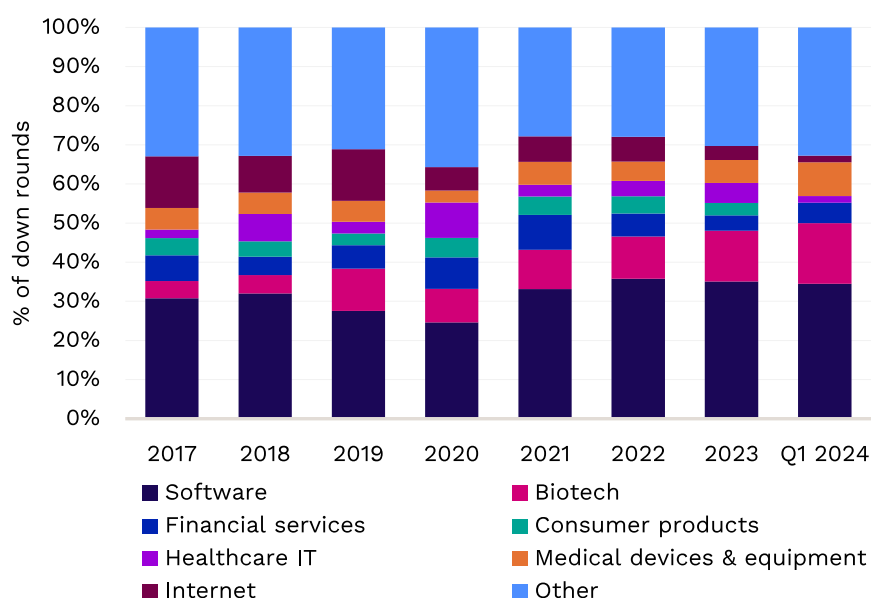
Early-stage investments are typically held at cost until a new round of funding triggers a re-valuation. But with the prolonged lack of deal activity in the market, more GPs and investors are increasingly writing down early investments that are not performing as well as expected.

Mixed fortunes across different sectors

In terms of sector differences, IT software made up around one-third of down rounds in the first quarter of 2024 – unsurprising given it typically also made up around one-third of VC deals (Fig. 4). Biotech and medical equipment and devices down rounds also persisted in the quarter, increasing to 16% and 9% respectively. This speaks to the cooling of investor enthusiasm toward these sectors in the pandemic period, while the underperformance of biotech has also been evident in public equity markets.

Fig. 4: One-third of down rounds in software

Proportion of seed to series D down rounds by primary industry



Source: Preqin Pro. Data as of June 2024

On the other hand, as detailed in our previous valuations reports, artificial intelligence (AI) and cleantech – including the renewable energy and electric vehicle sectors – are among the most active industry verticals. In particular, AI-related transactions made up 30% of VC deal value in the first three quarters of 2023, and are now among the biggest deals with some notable up rounds.¹

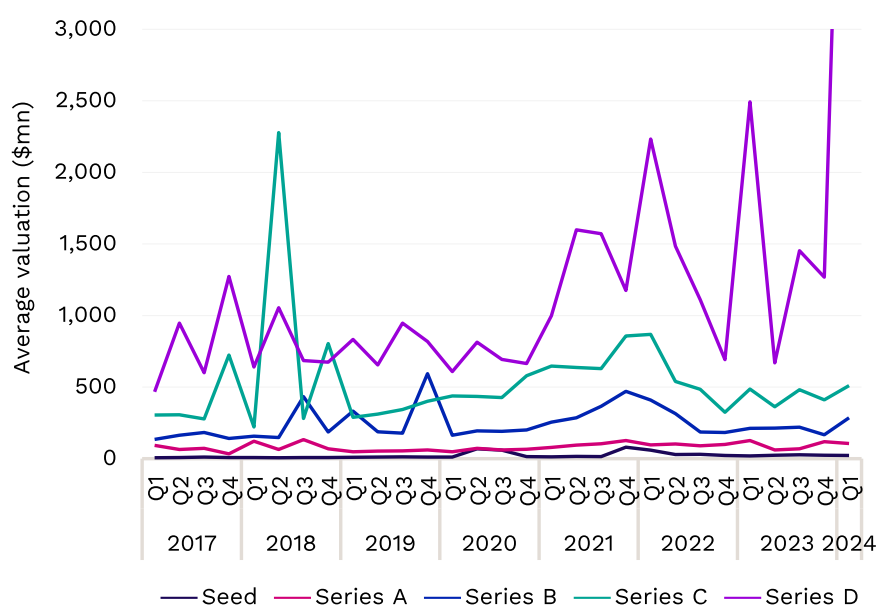
We see this as an ongoing theme in the VC space and in other asset classes, with public equity valuations for AI-related companies also rallying. In any case, we expect valuation trends to depend on the changing heatmap, with investors willing to pay more for exposure to popular sectors.

AI ventures: the largest deals and highest valuations

While VC post-money valuations overall are trending below 2021 highs, the averages could vary widely between quarters, especially at later stages where deal volumes are thinner (Fig. 5).

Fig. 5: AI deals swing series D valuations

Post-money valuations by funding stage (\$mn)



Source: Preqin Pro. Data as of June 2024

At series D in the first quarter of 2024, some of the larger valuations were also major up rounds. Cohere,² an AI venture backed by prominent corporate investors including Nvidia, saw its valuation double to \$4.6bn from about a year ago. Ramp,³ a corporate card fintech, raised new funding to expand AI

¹ <https://www.preqin.com/insights/research/reports/private-asset-valuations-venture-capital-q3-2023>

² <https://pro.preqin.com/asset/443329/deals>

³ <https://pro.preqin.com/asset/338013/deals>

capabilities at \$7.2bn valuation, up from \$5.4bn previously. Two of the five deals at or above \$1.0bn during the quarter were also AI-related: Amazon's additional investment of \$2.8bn in AI safety and research company Anthropic⁴ and China-based Moonshot AI's⁵ onboarding of Tencent as a new investor in its \$1bn series B deal (Fig. 6).

⁴ <https://pro.preqin.com/asset/430306/deals/720643/profile>

⁵ <https://pro.preqin.com/asset/549966/deals/729600/profile>

Fig. 6: AI-related transactions among the biggest deals

Largest VC deals in Q1 2024 by deal size*

Company name	Country	Primary industry	Company stage	Deal size (\$mn)
Anthropic, PBC	US	Software	Unspecified round	2,750
Generate Capital, Inc.	US	Financial services	Unspecified round	1,500
Immotors	China	Automobiles, other vehicles & parts	Series B	1,123
Moonshot AI	China	Internet	Series B	1,000
Cohesity, Inc.	US	Software	Series F	1,000
Yuanxin Satellite	China	Telecoms	Series A	944
Radiology Partners, Inc.	US	Healthcare	Growth	720
Wonder Group, Inc.	US	Food	Unspecified round	700
CCPIC	China	Power & utilities	Unspecified round	700
Stripe, Inc.	US	Software	Unspecified round	694
Figure AI Inc.	US	Industrial machinery	Series B	675
JCET Automobile Electronics	China	Automobiles, other vehicles & parts	Unspecified round	604
MiniMax	China	Internet	Unspecified round	600
Arena BioWorks	US	Biotech	Unspecified round	500
Monzo Bank Limited	UK	Financial services	Series I	426
Picnic B.V.	Netherlands	Retail	Unspecified round	385
Nexamp, Inc.	US	Renewable energy	Unspecified round	370
Mirador Therapeutics, Inc.	US	Biotech	Series A	333
Electra	France	Power & utilities	Series B	329
H2 Green Steel	Sweden	Materials	Unspecified round	325

* excluding private investment

Source: Preqin Pro. Data as of June 2024

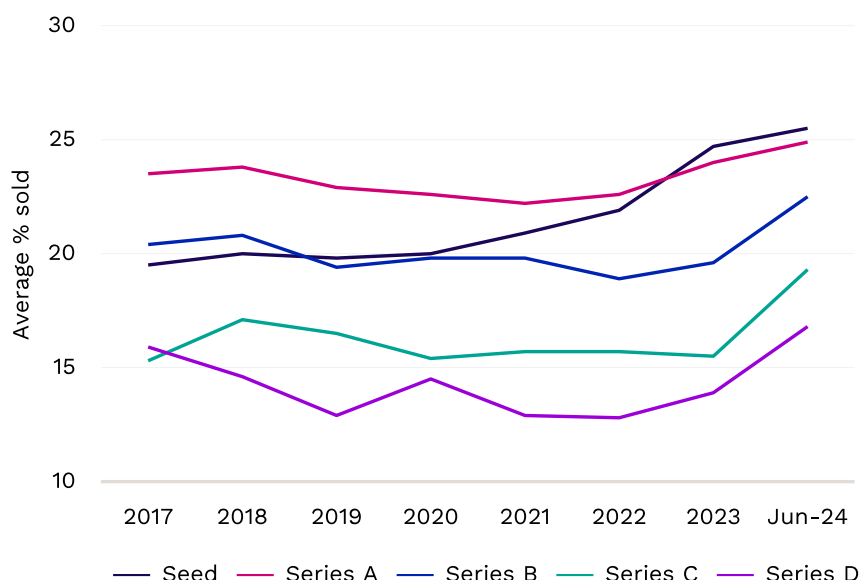
VC investors in a stronger position

As our analysis shows, the market is keen on some sectors and these continue to attract strong capital flows.⁶ Appetite remains weak outside these sectors, as indicated by the overall down rounds and deal volumes in recent quarters. While the general downward valuation trend for VCs means entry prices are lower, it's not the only thing that has turned in favour of VC investors/funds.

The percentage of equity sold also underlines that the power dynamics between VC investors and founders have turned more in favor of the former. Preqin data indicates a steady increase since 2021 in the average percentage sold at each round, which means founders are agreeing to more ownership dilution as investors gain more control (Fig. 7). For example, seed investors were buying around 20% of a company in the five years up to 2021, but this has increased to over 25% this year. Even at the same company valuation or ticket size, getting more equity would imply more upside potential and therefore transfer more value to the investor.

Fig. 7: Start-ups are selling more equity

Average percentage sold per VC funding round



Source: Preqin Pro. Data as of June 2024

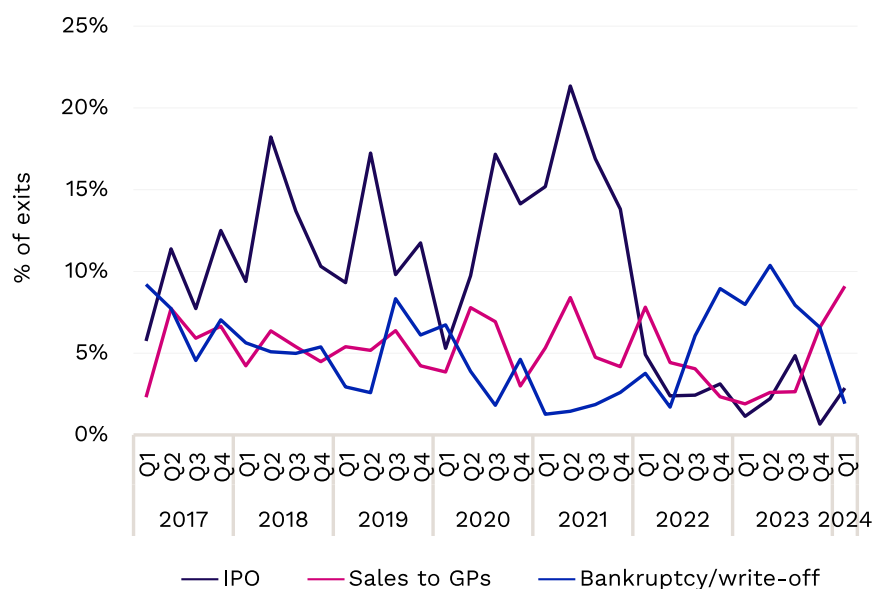
Write-offs down but could return with a time lag

The exit environment continues to be challenging. With initial public offerings trending at a low single-digit percentage for VC exits in North America and Europe, more have turned to exits via secondary sales (Fig. 8). Sales to GPs in the first quarter of 2024 made up 9% of exits – the highest in a single quarter in the period since 2017. Bankruptcy and write-offs have so far been low. This could partly be due to low disclosure of this data, although some investors are also wary of the time lag in writing down non-performing assets, also known as 'zombie' assets.

⁶ <https://www.preqin.com/insights/research/reports/deal-flow-monitor-q1-2024>

Fig. 8: Sales to GPs on the rise

Percentage of VC exits by type in North America and Europe



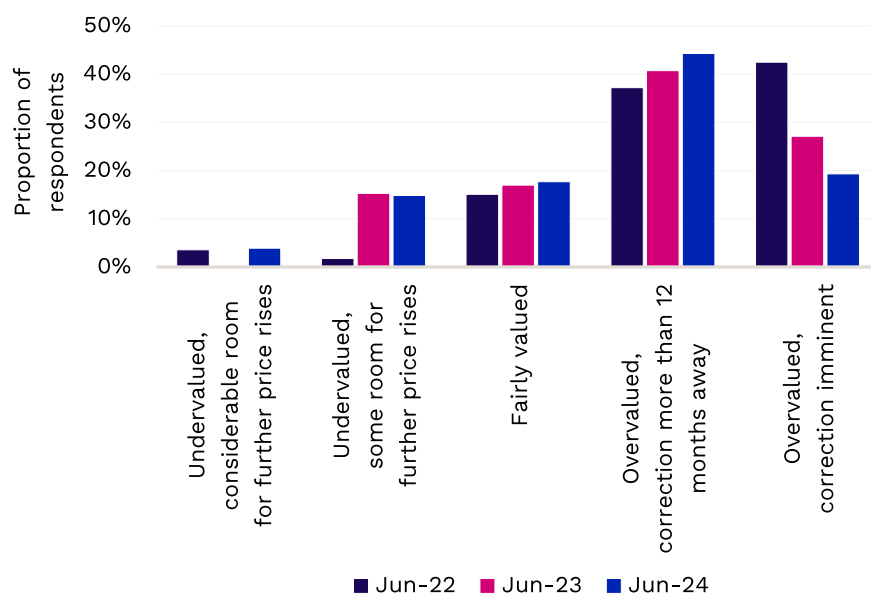
Source: Preqin Pro. Data as of June 2024

Investor view on VC valuations improving but recovery slow

In our latest investor survey in June 2024, concerns about the overvaluation of VC portfolio companies seemed to be easing slightly (Fig. 9). Tracking back two years to the survey in June 2022, 80% of investors who responded said portfolio companies were overvalued and would be subject to correction, but this percentage has fallen to 64% in the latest survey.

Fig. 9: Investor concerns on overvaluation easing

VC investors were asked: 'How do you view portfolio company/asset pricing?'

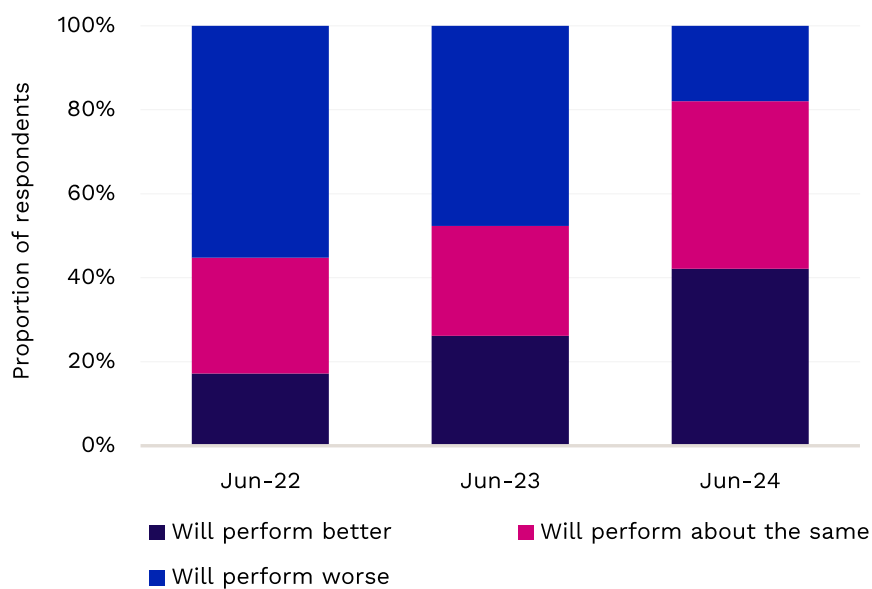


Source: Preqin Investor Survey, June 2024

This means that while further correction is still largely expected for existing investments, the pressure may have lessened a little due to the substantial negative performance seen in the past two years. Our latest survey shows 42% of investors are expecting performance to improve in the next 12 months, which is the highest proportion in the last three years (Fig. 10).

Fig. 10: Investor performance expectations improving

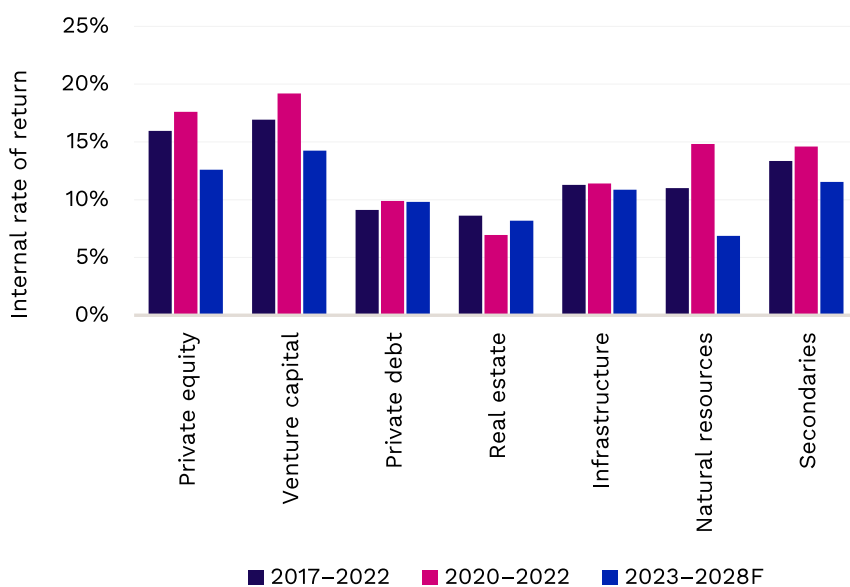
VC investors were asked: 'How will next 12 months' performance compare to previous 12 months?'



Source: Preqin Investor Survey, June 2024

Fig. 11: VC will continue to outperform other alternatives

Historical and forecast performance by asset class



Source: Preqin

Our near-term outlook for VC remains clouded by an uneven recovery. We expect more pressure on vintages where more deployments were made around 2021 and 2022, when valuations were relatively high – a view backed up by the continued high proportion of down rounds reported in this update. But investors who have remained cautious toward new VC investments may start to be attracted by the soft deal-making environment, combined with low valuations, according to recent VC fundraising and deal activity.

We continue to expect VC to outperform other alternative asset classes over the longer term despite some near-term risks (Fig. 11). For more analysis on this, see our Future of Alternatives report.⁷

⁷ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

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