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State of the Markets

SVB's Innovation Economy Outlook

H2 2024

Contents

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The New R&R: Recalibration and Recovery

> Recovery should hasten in the back half of the year, with anticipated cuts in interest rates and increased political clarity after the US election season. Those changes may grease the flywheel of innovation — helping to support IPO markets, return capital to distribution-starved LPs, and spur fundraisings and investment.”

The innovation economy is looking for some much-needed R&R — recovery and recalibration. There’s been evidence of both in 2024.

First, on the recovery front, although US venture investment is half what it was in 2021, it is still higher than 26 of the last 30 years.[1]

The broader innovation economy is recovering, but at different rates and timelines. That’s where recalibration comes in.

While many companies are finding it harder to raise, the best are making it happen — led by those capitalizing on the boom in AI. Yet some are being disproportionately affected, such as the seed-stage startups being hit by the Series A crunch or the record-breaking stable of unicorns waiting for exit markets to thaw and late-stage capital to return.

Excluding AI, growth remains a challenge to many companies. CFOs continue to scrutinize spending. At the same time, venture capital (VC)-backed companies prioritized margins over growth, given a desire to extend runway and have a path to profitability. For many, the economics of burning cash to chase growth when customer acquisition costs (CAC) are higher doesn’t make sense.

The end of zero-interest-rate policy (ZIRP), the tougher fundraising environment, and a disjointed economy have exposed companies that were buying growth but lacked strong underlying businesses. Now, more companies are shrinking while being cash flow negative. These zombie companies have clung to runway through small cash injections and cutting to the bone, but many are reaching the end of their runway. Some companies will fail but the broader innovation economy will be stronger for it.

Recovery should hasten in the back half of the year, with anticipated cuts in interest rates and increased political clarity after the US election season. Those changes may grease the flywheel of innovation — helping to support initial public offering (IPO) markets, return capital to distribution-starved limited partners (LPs), and spur fundraisings and investment.

While our outlook remains measured, innovation remains unstoppable. Most investors are laser focused on the promise of generative AI — comparing the present moment to the dawn of the industrial revolution, the invention of the internet, or the rise of mobile — all seismic shifts.

This conviction punctuates our long-term thesis: The innovation economy will continue capture a larger share of the broader economy and serve as the growth engine in decades to come.

Marc Cadieux
President
SVB Commercial Bank
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Mark Gallagher
Head of Investor Coverage
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Silicon Valley Bank

Notes: 1) Annualized run rate of investment for H1 2024 adjusted for inflation.

Investor Perspectives on the Innovation Economy

Generative AI: A Seismic Shift

"We are at the beginning of one of the largest technical revolutions in history. We have not figured out how to fully take advantage of it yet, but this will change the way we work and live. **Similar to the industrial revolution**. It will fundamentally change society."

Enrique Salem
Partner

BainCapital

Seed: A Fake Flight to Safety

"The seed stage is a loss leader for big funds. Small checks theoretically help the large funds find the best investment opportunities, but rarely does this work out, and it's something of a fake flight to safety. However, for founders, taking money from large funds at seed is highly risky. **Entrepreneurs who take money from big funds need to know that very few of those funds will back their Series A. Seed checks are options from the VC's POV and a potential death sentence for startups,** because it makes the bar to getting a Series A so much higher."

Eric Paley
General Partner

FOUNDER COLLECTIVE

Growth Still Prized

"Growth is more valuable than profitability. Full stop. The issue is that companies can't grow right now. **Buyers are more difficult to unlock; you can't efficiently generate new customers, so companies are choosing to generate cashflow because they don't have a choice.** They don't have a place to invest. It's a pragmatic solution. What we hope is that we can get to a place where companies can reinvest into sales or marketing, but we're not there yet. It's wasted. You're pissing away your money to do that right now."

Byron Deeter
Partner

Bessemer Venture Partners

Disciplined Founders

"Companies are still raising large amounts of capital, but there is definitely a cohort of these companies that is intentionally experimenting with lean teams, keeping burn low and executing rapidly. **We're seeing high growth companies with very disciplined burn rates for their scale. With AI, I think we'll see large, valuable companies with much smaller teams (and more ARR / employee) than in previous funding cycles,** resulting from a combination of using AI internally and exceptional product market fit leading to strong top-line growth."

Tiffany Luck
Partner

NEA

A Top-Heavy Unicorn Class

"When IPOs do return, you might see 30-35 IPOs maybe 20 take-privates a year. **There was an expectation in 2021 that all the unicorns will go public. But unfortunately, that's not true. A lot of that was driven by the ZIRP environment.** Maybe 50 unicorns are growing 30% and will IPO. Maybe another 100 are ready to declare a shutdown. Most of the companies are good companies but just aren't valued where they were. It's unlikely they will clear the last valuation."

Dharmesh Thakker
General Partner

Battery

Healthy Down Rounds

"Generally, some companies and/or shareholders are hesitant to accept down rounds and are instead accepting highly structured securities. It could be that firms are reluctant to show lower marks to LPs, that management or sponsors don't want to suffer what they believe is avoidable dilution, or fear that a down round will forever taint an otherwise healthy business. **Regardless, the healthy thing to do might be to just accept a down round with a standard, clean security that assures greater go-forward alignment between investors and management.** I'd hypothesize that over the long term that would increase liquidity in the market and result in better outcomes for a greater number of stakeholders."

Matt Nugent
Partner

L CATTERTON

Source: SVB Interviews.

About the Authors

Lead Authors

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Marc Cadieux is president of Silicon Valley Bank's commercial banking business where he focuses on the needs of innovation companies at all stages of development, including the investors who back them.

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Mark Gallagher is the co-head of the investor coverage practice. He and his team provide tailored services, industry insights and strategic guidance to top investors in the innovation economy.

To learn more about the lead authors see page 34.

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The SVB Market Insights team leverages SVB's proprietary data, deep bench of subject matter experts, and relationships with world-class investors and founders to develop a holistic view of the innovation economy for our State of the Markets report. We partnered with lead authors Marc Cadieux and Mark Gallagher, who bring over a half century of industry knowledge and experience working with many of the top companies and investors across the innovation economy.

Together, we're proud to present this 28th edition of SVB's State of the Markets report.

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Macro

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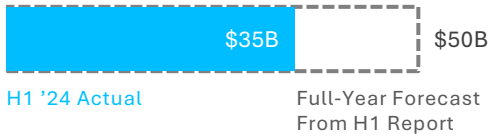
Temperature Check: A Review of Our H1 Outlook

VC Fundraising

US VC Fundraising[1]

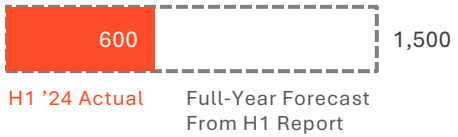


Tracking Our 2024 Outlook

After a sleepy 2023, VC fundraising has materially picked up with $1B+ funds accounting for $14B. This growth is undergirded by the booming AI investment cycle. Of funds closed in H1 2024, 35% claim AI as a focus area. While on track to overshoot our H1 outlook, the fundamental dynamics constraining VC fundraising are likely to remain in place through year-end: high interest rates and limited distributions to LPs.[2]

Early-Stage

US Series A Tech Deals[3]

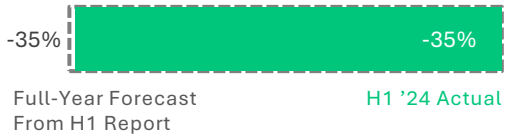


Tracking Our 2024 Outlook

At the start of the year, we expected a meager uptick in Series A, but the reality has been a prolonged slowdown. While seed companies have continued to raise, most have yet to graduate to Series A, creating a bottleneck. For companies raising a Series A, the quality is improving. Both median Series A tech valuations and deal sizes grew 17% and 20% year-over-year (YoY) respectively.

Late-Stage

US Late-Stage Tech Valuations Relative to Peak (Q4 2021)[3,4]



Tracking Our 2024 Outlook

Late-stage tech valuations have recovered quickly — hitting our full-year expectation for recovery in H1. Three drivers have contributed to the growth. First, the best companies avoided raising priced rounds since 2021, but are coming back to market. Second, late-stage AI account for ~half of late-stage investment and the median AI company is valued 68% above non-AI companies. Third, public markets have continued to ride a wave of growth, with the S&P 500 up 19% YoY.[5]

Exits

US VC-Backed Tech IPOs on Major US Exchanges[6]

Tracking Our 2024 Outlook

Just five US VC-backed Tech IPOs have dared to venture into public markets. Performance has been mixed with only one (Reddit) trading up since its IPO. The lackluster performance of 2024 IPOs, continued high interest rates, and an impending election are likely to put a damper on the back half of the year, though a few may exit between November and December.

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Notes: 1) For funds headquartered in the US by date closed. 2) Limited partner (LP). 3) Tech defined broadly as VC excluding healthcare. 4) Late-stage defined by PitchBook Data, Inc. as Series C+ or a round that occurs more than five years after a company is founded. 5) Data as of 7/30/2024 and based on S&P 500 price performance. 6) Nasdaq and New York Stock Exchange (NYSE).

Source: Preqin, PitchBook Data, Inc., S&P Capital IQ and SVB analysis.

Making the Cut: All Eyes on Fed Rates

It has been more than a year since the Federal Reserve last changed interest rates, and it appears more likely that a drop could be around the corner. The Fed's dual mandates to keep inflation in check and the labor market humming are within reach. Though inflation is still above the Fed's 2% target, both metrics are now well within (or below) the historic normal range (going back to the '50s). In a promising sign of potential cuts to come, the EU and Canada have recently reduced rates after holding unchanged since mid-2023. Analysts expect the US to follow suit. FOMC[3] projections suggest the federal funds rate could drop below 5% by year's end and fall to 4.1% within 18 months.

At the Fed meeting in July, Chair Jerome Powell noted signs that the employment market is cooling and inflation has "eased notably." The language signals that a rate cut could come in September if the current trends continue. **Lower rates will favor VC investment and fundraising, as dollars have been reallocated since the end of ZIRP.** However, it's unlikely we'll get back to that period again any time soon. Despite weakening in certain sectors, the overall economy is still performing well. The employer cost index, a measure of compensation and benefits over time, shows that overall wages are back to rising faster than costs. A favorable trend, assuming it doesn't convince the Fed to leave rates higher for longer.

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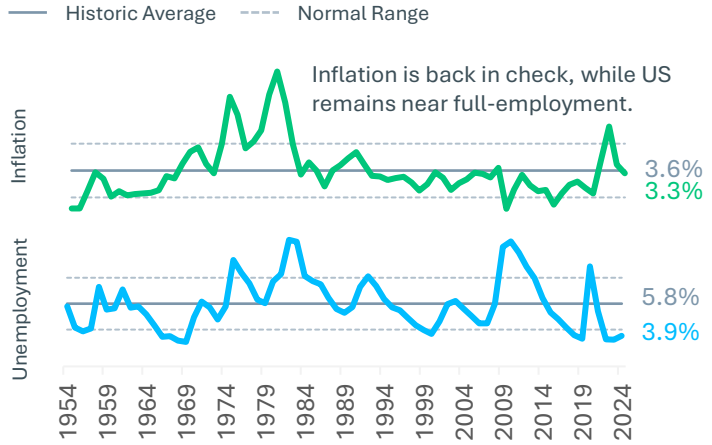
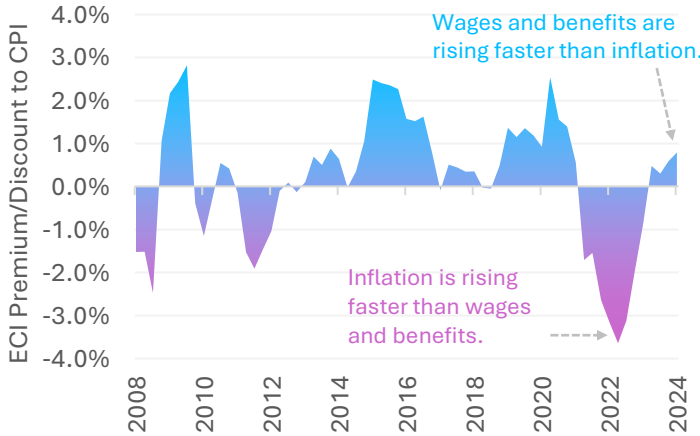
The "Dualling" Mandates: Inflation and Jobs

Average Annual US Inflation and Unemployment[2]



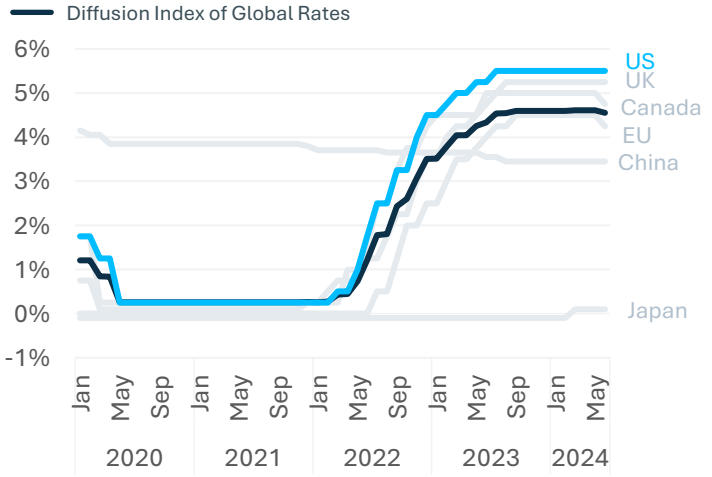
Pay Growth (Finally) Outpacing Prices

US Employment Cost Index Compared to Consumer Price Index



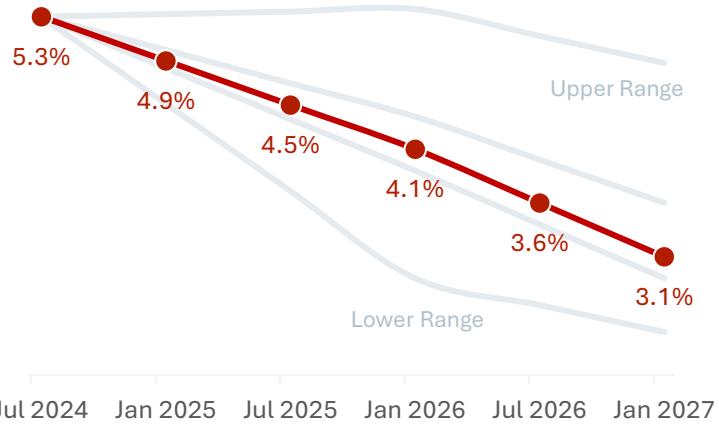
Fed Holds as Foreign Banks Begin To Cut

Central Bank Rates for Top Countries by Currency Circulation[3]



Rate Cuts Coming Soon? Projections Say So

FOMC Economic Projections for the Fed Funds Rate



Notes: 1) Federal Open Market Committee. 2) Historic average since 1954. Normal range is one standard deviation from the historic average.
3) Diffusion index is a weighted average of the top six central banks by currency volumes.
Source: St. Louis Federal Reserve and SVB analysis.

Leaner Times Hit Software Spend

Software metrics don't look as untouchable as they once did. For most software companies, the era of single-digit churn rate is over. Earnings call mentions of "cost-reductions" and similar terms are hovering nearly as high as they were during the pandemic. With corporate cuts top of mind, software budgets are in the crosshairs along with layoffs. **Dharmesh Thakker, general partner at Battery Ventures, said IT buyers are rationalizing spending on some technologies this year — particularly as companies push for profitability — but new corporate spending on generative AI more than makes up for cuts in other areas.** "They're reserving cash for that," Thakker noted, adding that a recent Battery IT-spending survey saw enthusiastic spending signals from many buyers.

In early 2022, software developers were the most sought after among all job groups reported in federal data. Two years later, they are the least sought after, with software job postings now as rare as they were in the initial months after the pandemic. In a cohort of the top 50 largest publicly traded software companies by market cap, the median YoY revenue growth has fallen consistently for the last two and a half years, hitting 20% in Q2 2024. Valuation multiples for this group have tumbled 58% from their market peak and are now trading at eight times their estimated next 12 months revenue. Until software spend bounces back, SaaS startups may stay in freeze mode, conserving cash rather than aiming for growth as CAC costs remain high.

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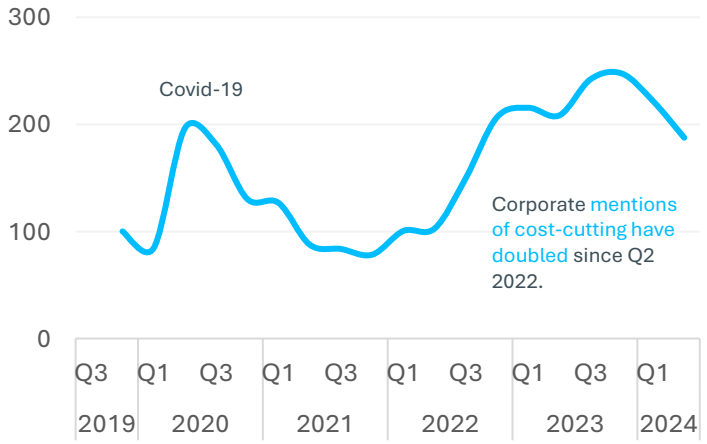
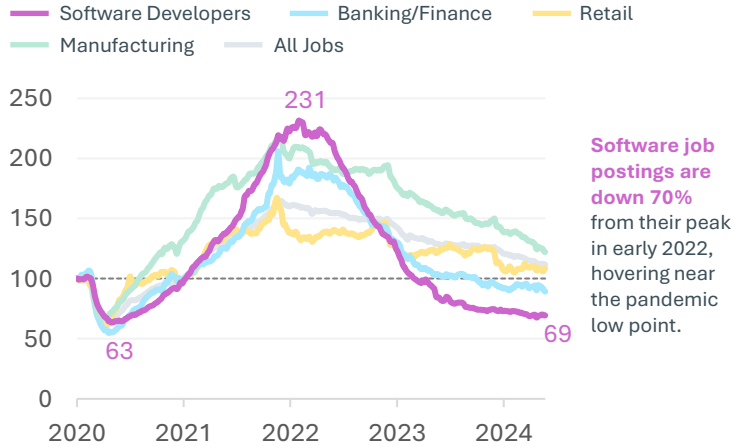
In Board Rooms Cost Cuts Still Top of Mind

Index of Earnings Call Mentions of Cost Cutting[1]



Help Not Wanted: Job Postings Drop

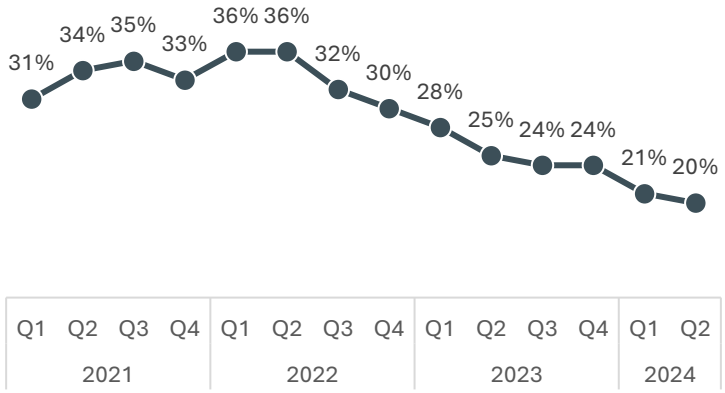
Index of US Job Postings on Indeed (Feb 2020 = 100)



Software job postings are down 70% from their peak in early 2022, hovering near the pandemic low point.

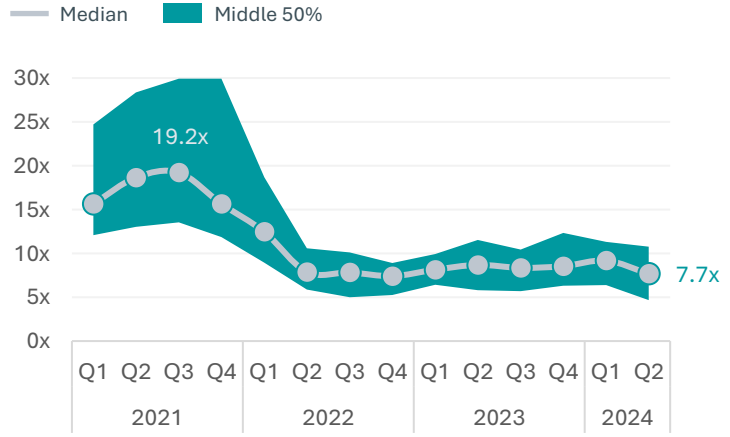
Public SaaS Revenue Growth Slows

Median Revenue Growth for the Top 50 US Public SaaS Companies



~~Great~~ Modest Expectations for SaaS Sales

Top 50 US Public SaaS: Revenue Multiples (TEV/NTM Revenue)[2]



Notes: 1) Search terms included "cost-cutting", "reduce spending," "cut expenses," "cut spending," "reduce expenses," "reduce overhead," and "lower overhead." 2) Total Enterprise Value/ Next Twelve Months Revenue.
Source: S&P Capital IQ, CB Insights, St. Louis Federal Reserve and SVB analysis.

The Next Digital Era Is Already Here

Web1.0: Working at CERN, computer scientist Tim Berners-Lee launched the World Wide Web in 1991. Optical networks spread access and improved download speeds. Early dot-com companies like Yahoo!, eBay and Amazon established commercial models for the internet. The rise of web browsing and email increased demand for personal computers. By 2000, half of all US households had a PC, and 42% had internet access.

Web2.0: Social media tilted the internet toward user-generated content, as dynamic sites like YouTube replaced the static "read-only" early web. Companies such as Facebook and Twitter embraced the concept of the web as a platform, and Apple's release of the iPhone in 2007 kicked off a wave of smart devices that massively increased online traffic. By 2018, more than half of global internet traffic came from mobile users.

Cloud computing: Global digitization unspooled vast amounts of data, compelling companies to better secure and leverage their data for value. Cloud computing services pioneered by Amazon's AWS[1] replaced in-house corporate data centers, streamlining data management and lowering barriers for software development, changing how people worked. Enterprise SaaS accelerated during the pandemic as workers required more digital tools and greater connectivity.

Gen AI: Artificial intelligence was decades in the making when OpenAI's Chat-GPT captured public attention in 2022. The breakthrough released a torrent of investment in the space, paving the way for AI-generated services to disrupt current software business models and lead to new ways of generating and processing data.

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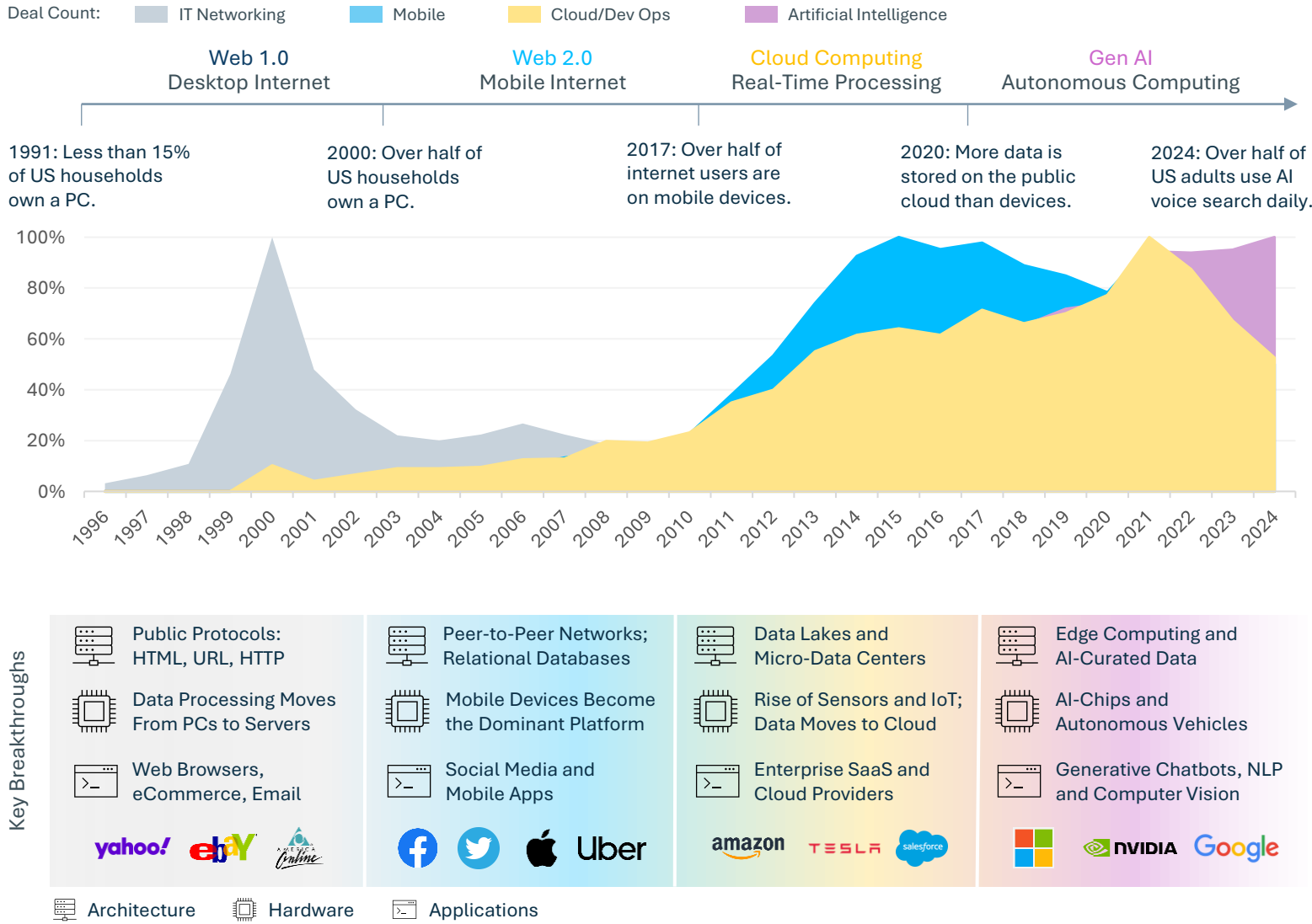
Tech Platforms and Digital Eras

Index of VC Deals by Tech Vertical (100% = Peak Investment)[2]



Notes: 1) Amazon Web Services. 2) Cohorts selected based on representative industry sectors classified in PitchBook Data, Inc. taxonomy.
Source: US Bureau of Labor Statistics, US Census Bureau, Statista, IDC, Yaguara.co, PitchBook Data, Inc. and SVB analysis

VC Fundraising

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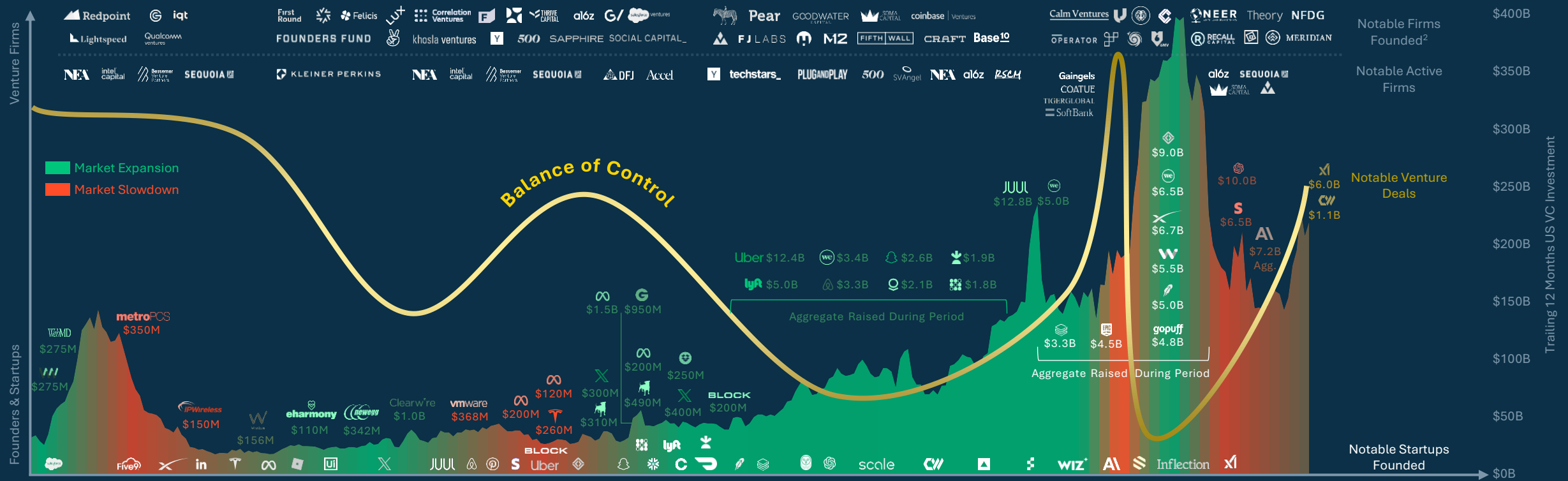
Waves of Venture: The Tide Is High but I'm Holdin' On[1]



Characteristics:

- Enactment of the ERISA[3] and Revenue Act powers start of "smart money"
- Founders gain influence over time
- CVCs[4] begin to emerge

Characteristics:

- New entrants into the investor universe
- VCs provide tools, resources and support (customer acquisition, marketing, public relations, recruiting and technical advice)
- Venture firms begin to build platforms
- Data-driven investing takes shape

Characteristics:

- Micro VCs emerge
- Homogenous term sheets lean founder friendly
- Material drop in what it costs to start a company in the era of cloud computing and mobile technology
- Capital flooded in from family offices and global institutions

Characteristics:

- Increased participation from non-traditional investors
- Influx of new VC and PE[5] firms
- Diversity in strategy, stage and geography
- Capital is a commodity
- Growth-at-all costs
- Adequate governance becomes an afterthought

Characteristics:

- Crossovers exit space
- Lack of liquidity slows capital flywheel
- AI disrupts the entire ecosystem
- Flight to quality (both investors and companies/founders)
- Firms seek to become RIAs[6]
- Increased regulatory scrutiny
- Unit economics and efficient growth become a priority

Notes: 1) Trailing 12-month US VC investment. Data excludes growth equity, crowdfunding, grants and equity for service. Spike in 2018 due to JUUL's December 2018 $12.8B equity raise. Investment data for Coreweave's May 2024 Series C deal only includes the $1.1B in equity raised. 2) Date founded based on the year of the firm's first VC fund raised, then founding date if unavailable. 3) Employee Retirement Income Security Act of 1974. 4) Corporate venture capital. 5) Private Equity. 6) Registered Investment Advisors.

Source: PitchBook Data, Inc. and SVB analysis.

Nothing Ventured, Something Gained

In the FOMO frenzy of 2021-22, venture investors added about $300B to their war chests, collecting in two years what it would take six years to raise in the late 2010s. That haul may have to last them a while. US fundraising remains muted this year, with VC's announcing $74B in fundraising attempts and so far closing $35B, a pace on par with pre-pandemic levels. Those LPs that *are* allocating to venture favor large, well-known firms. Billion-dollar funds account for 34% of all funds raised this year — nearly twice the share they did last year. **Conversely, first-time funds are finding a tough reception. Forty-seven first-time funds were closing per month in 2021, but the pace has dropped to a quarter of that high mark this year — the lowest level in seven years.**

Given the tougher fundraising market, some corporate VCs are recasting their investment efforts toward strategy rather than agnostic returns. Microsoft's corporate investment firm, M12, announced this year that they have shifted their focus to startups that fit within the Microsoft's ecosystem of products. In a January blog post, M12 global head Michelle Gonzalez said the fund has "tightly aligned" its investments with the corporate strategy. Other CVCs, including those at Databricks, OpenAI and Chevron, have announced funds with a similar strategic focus this year.

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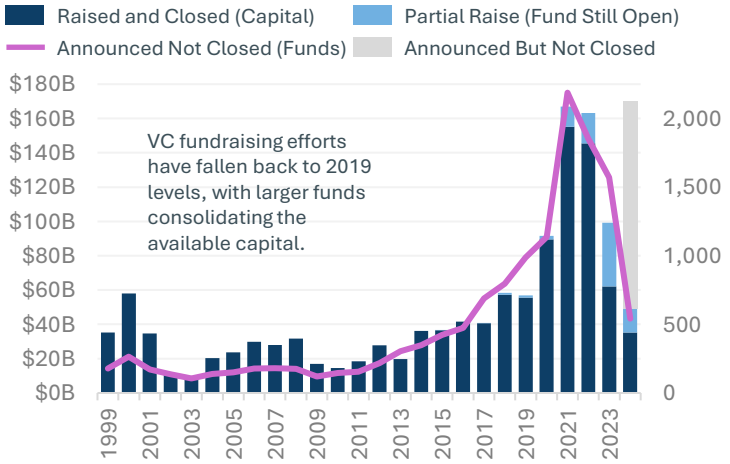
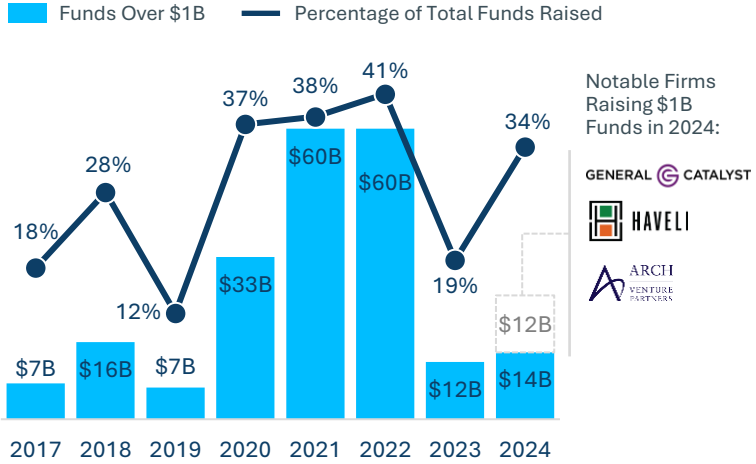
Fewer Funds Attempt To Raise

US VC Funds Raised[1]



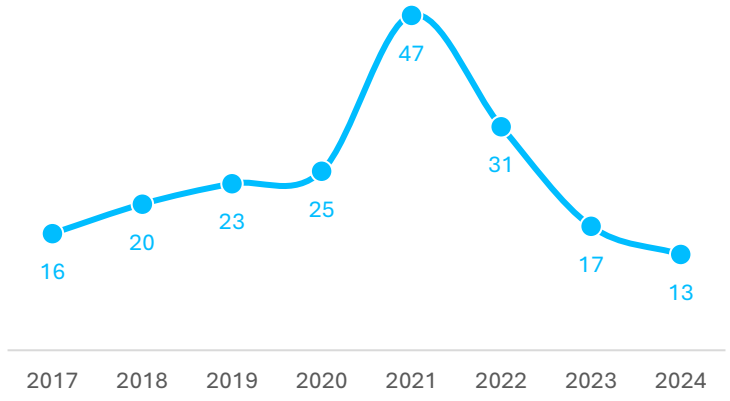
Mega Funds Fill the Void

US VC Funds Raised Over $1B



Failure To Launch: First-Time Funds Fall Off

First-Time US VC Funds Raised per Month



Corporates Aligning VC Funds With Strategy

Notable Corporate VC Funds Raised in 2024

CVC	Fund Size	Focus
CISCO	$1B	AI Ecosystem
databricks	N/A	Early- and Growth-Stage; Startups Enabling AI Alongside Its Platform
Chevron	$500M	Climate Technologies
TOYOTA	$300M	Climate and Frontier Tech
OpenAI	$175M	Early-Stage; Fields Prime for AI Transformation

Notes: 1) Funds still raising includes open funds with no final close announced since 2020.
Source: Preqin, PitchBook Data, Inc. and SVB analysis.

Fund Managers Step Up or Step Out

Unlike 2023 when many funds announced fundraises but did not close, investors this year are more cautious with their efforts. Many prefer to wait it out rather than attempting a raise and coming up short. **The share of funds that raised a step-down, or a lower fund size than the prior fund in the series, reached a historically high 27% last year — an indication that the tougher environment was throwing a wrench in the cycle of perpetual fund growth.** This year, the share of step-downs has receded, we suspect, because fewer funds are being caught by surprise. Still, only about half the funds are hitting their target amount, and those missing low are closing at half their goal on average.

As we noted on the prior page, bigger funds are taking one in three dollars raised. That trend has played out for years but briefly reverted last year, as many large funds slammed the brakes on fundraising when deployments slowed. Smaller funds, many of which are emerging managers, may not have the option to pause fundraising. Now it's the smaller funds that are waiting in the wings, as brand name firms step back into focus. After a year with no closes, Marquee firms such as a16z, Accel, and Khosla Ventures have raised funds this year. Each of these was a step-down from the last fund that firm raised. In the most notable step-down example, Tiger Global ended a two-year fundraising drought in April, though the $2.2B close was a third of its $6B goal, itself a stepdown from $12B in 2022.

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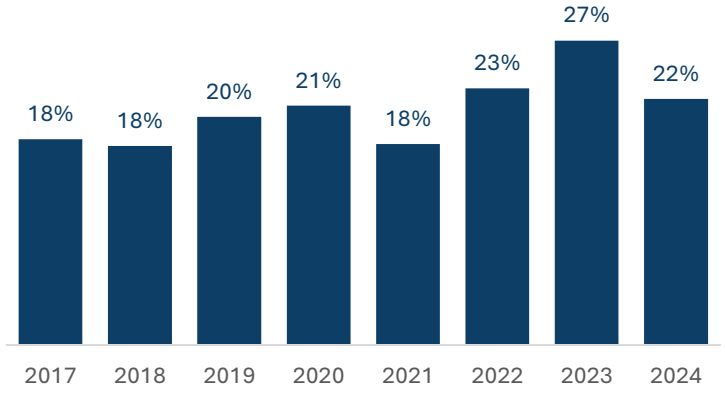
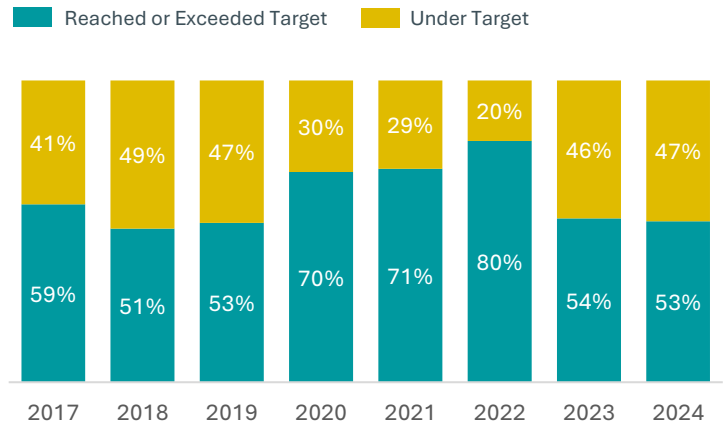
Raising Less Is Better Than Nothing at All

Percentage of US VC Funds Raising Less Capital Than the Prior Fund in the Same Series



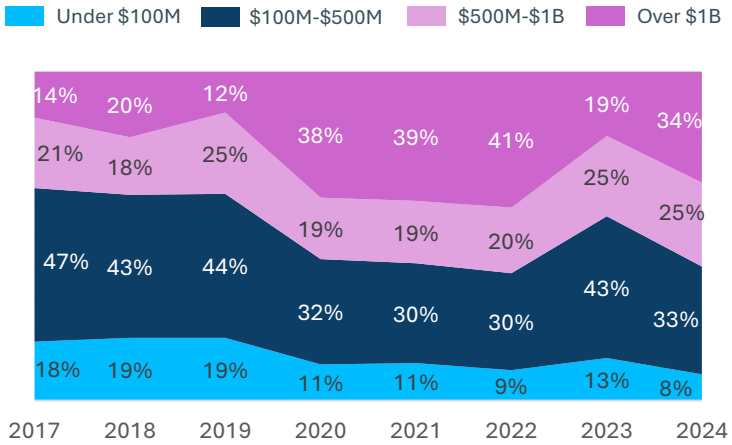
Fewer Funds Are Hitting Their Target

VC Funds Final Close Amount Compared to Initial Target[1]



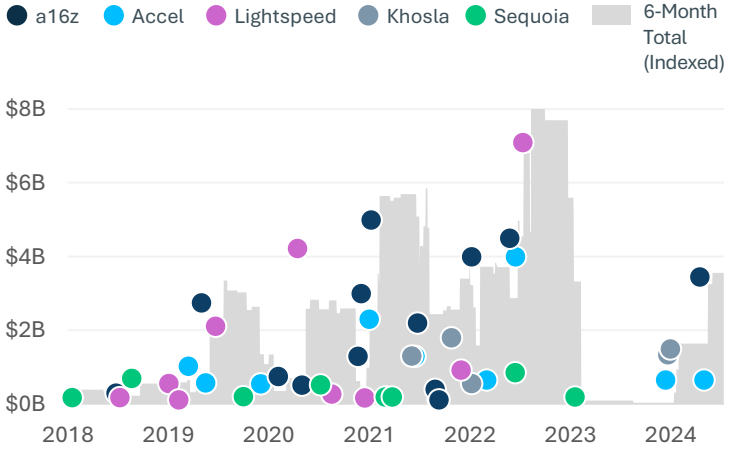
Big Venture Consolidates Capital

Distribution of Closed US VC Dollars Raised by Size of Fund



After Pause, Marquee Firms Raise Again

VC Fund Closures for Notable US Firms Since 2018



Notes: 1) For those funds that announced an initial target amount. Most funds do not announce targets. 2) Indexed for visual purposes, so peak value equals $8B and fits on graphic.

Source: Preqin and SVB analysis.

The Fund-to-Table Experience

In the power law game of VC investing, where a single big winner can make or break a vintage, it stands to reason that quantity over quality will prevail every time. Why bet on 10 companies if you can bet on 100? Backed by this logic, larger funds have increasingly adopted a broad brush approach at the early stage, investing in many companies at seed to gain optionality and getting more selective with follow-on investment. But smaller funds don't have that luxury. With fewer companies to back, fewer failures can be tolerated. Whatever these often niche firms lack in funding they hope to make up for in expertise and loyalty. But when it comes to returns, which strategy works best? As it turns out, both.

Segmenting US VC funds at $250M, we analyzed IRR and DPI[1] over the last 30 vintages. The results show that smaller funds are largely keeping up with the bigger ones. When it comes to IRR, LPs investing in funds below $250M from 2015-2019 received a 20% median return compared to 17% for larger funds. **This trend repeated for across time periods, with smaller funds slightly edging out larger funds in on-paper returns. The trade-off, it seems, is volatility.** Smaller funds have a wider range outcomes for the middle 50% of firms, often with higher highs and lower lows. That's especially true for vintages in the last four years. However, when it comes to actual distributions, larger funds are in the lead, with 40% of funds returning 100% of DPI or more from 2005-2019.

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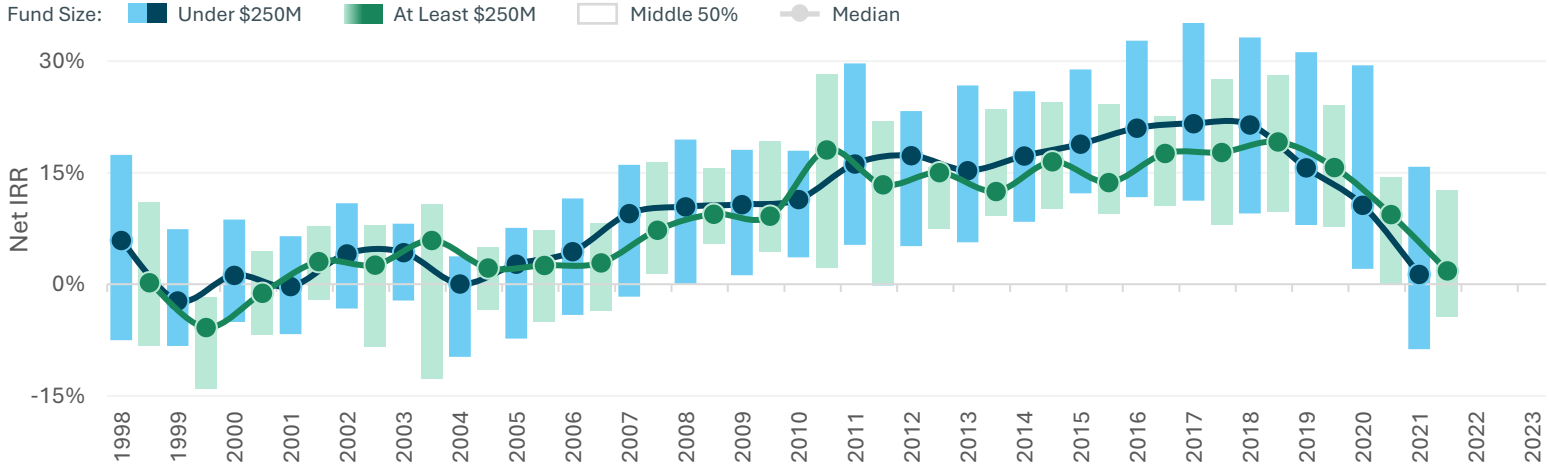
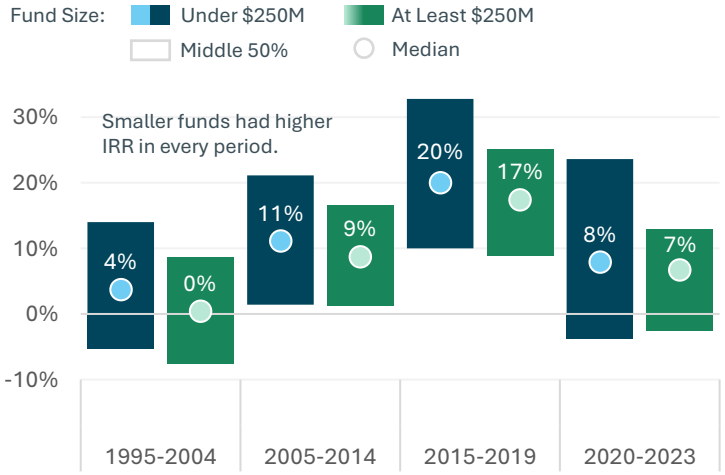
Do Smaller Funds Perform Better?

Net IRR by Vintage Year and Fund Size for US VC Funds[2]



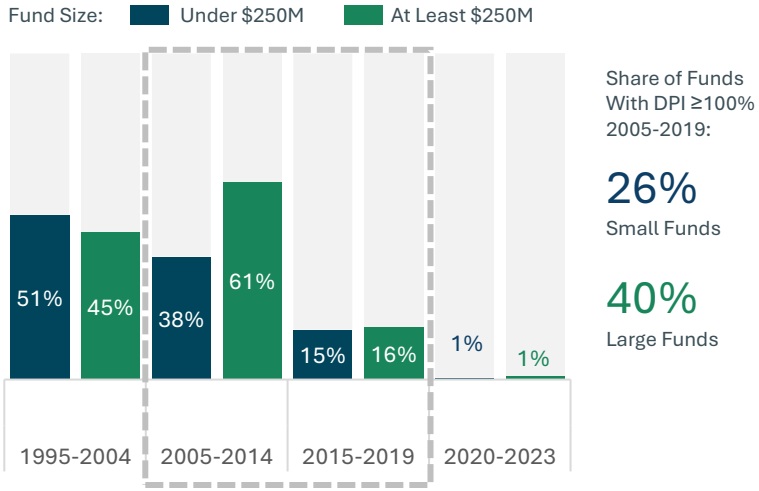
Yes and No: Higher IRR but More Variance

US VC Fund Net IRR Across Time Periods[2]



But Distributions Are a Different Story

Percentage of US Venture Funds That Have a DPI at Least 100%[2]



Notes: 1) IRR: internal rate of return. DPI: distributions to capital paid-in. 2) Fund amounts are not CPI-adjusted.
Source: Preqin and SVB analysis.

Sitting on the Sidelines, For Now

In the two-year period starting H2 2020 and ending H1 2022, 1,263 new venture funds entered the market, which is 72% higher than the prior two years. During this time, crossover investors and other non-traditional funds became key players in the ecosystem. But when the good days ended, these investors — who have the option to invest in other asset classes that were buoyed by rising rates— paused venture in search of alpha elsewhere. Meanwhile most dedicated venture investors took a wait-and-see stance, reserving capital for perceived winners and restricting new investments. **Some of these funds may never raise again — these are the zombie VCs. For founders looking for long-term partners, these funds are unlikely to scaffold future growth.** However, zombie VCs are hard to identify.

The number of funds that made at least one investment every six months has fallen about a third since market peak. Today, the number of active lead investors is aligned with 2019-2020 levels. Anecdotally, many companies are taking meetings with VCs only to be told the VC isn't actively investing or making new investments. With many more investors sitting idle, dry powder remains stubbornly high. According to Preqin, $99B US VC dry powder was raised in 2021 or before. Furthermore, the active investors are generally investing in earlier-stage companies, and it is slow going to deploy a $500M fund writing seed checks. This dynamic has insulated the seed stage, as we will see in the VC investment section.

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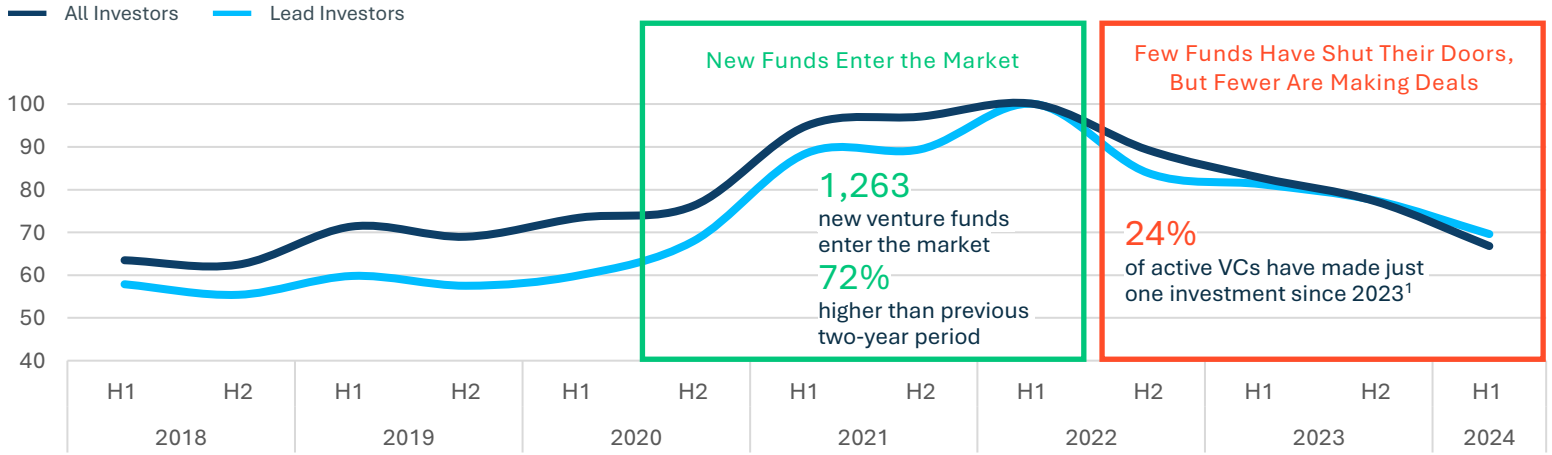
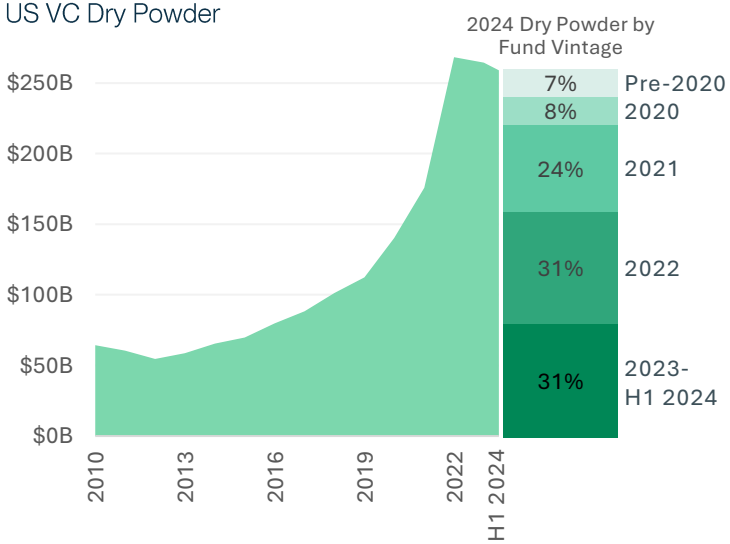
Zombie VCs: Operational (For Now) but Not Investing Regularly

US VC Funds That Invested in the Last Six Months: Indexed to 100 at Peak



Dry Powder Smolders While VCs Wait

US VC Dry Powder



Active Investors Skew Earlier Today

US VC Investors by Stage[2]

Notes: 1) According to Pitchbook Data, Inc. 2) Investors with at least one investment during the time period.
Source: PitchBook Data, Inc., Preqin and SVB analysis.

VC Investment

Healthy Levels, Amid Recalibration

There is still more money flowing to founders than 26 of the last 30 years, despite that VC investment is at less than half its peak.[1] With the more measured pace of investment, the pace of mega-deals (over $100M) have slowed since 2021. Besides 2021, the last time mega-deals spiked was during the dot-com era.

While AI is driving modest increases in mega deals, activity remains far below 2021's. Further indicative of a return to healthy levels is a normalization of valuation step-ups between rounds. Today, valuation step-ups are closer to pre-2020 levels. **Though valuations are less frothy (generally), some pockets of the market are maintaining more fizz than others — especially at the early stage and among sectors, such as AI, which we will explore later in the report.**

In a sign of future growth, hybrid investors are dipping their toes back into venture. Lower interest rates should only bolster their resurgence. With continued emphasis on AI and the resurgence of hybrid investors, we expect full-year investment levels to be on par, if not slightly above last year.

However, despite the turning tide, it takes time to recalibrate to today's healthier level. As Byron Deeter, Partner at Bessemer, says, "We're in the digestion phase after going through a flood of capital."

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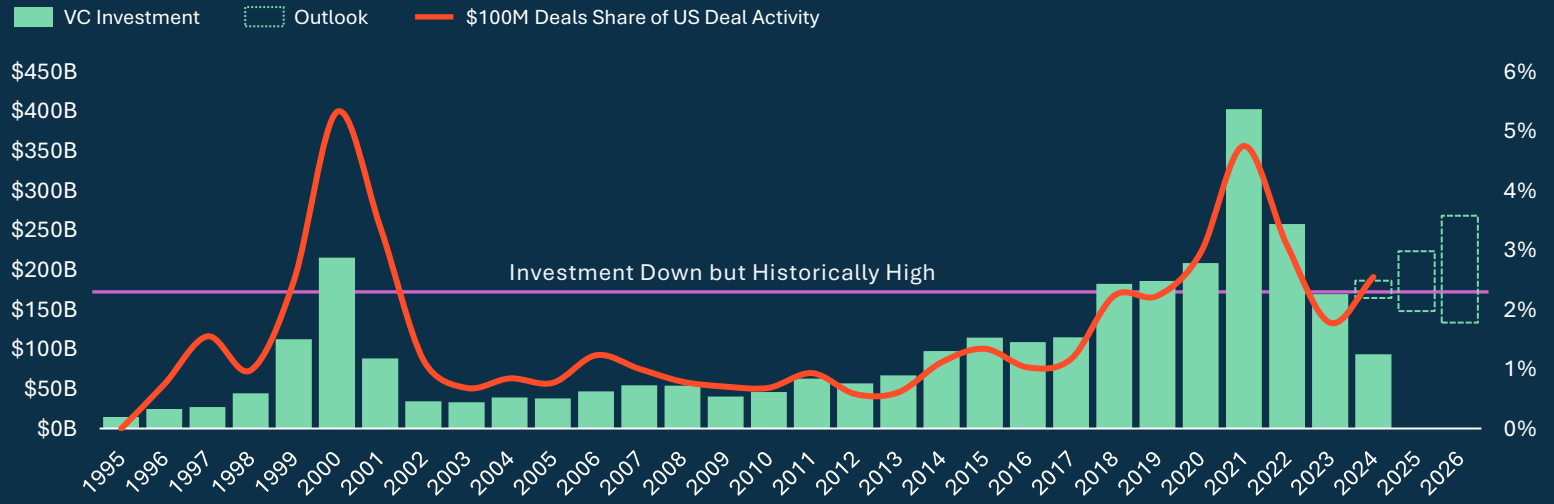
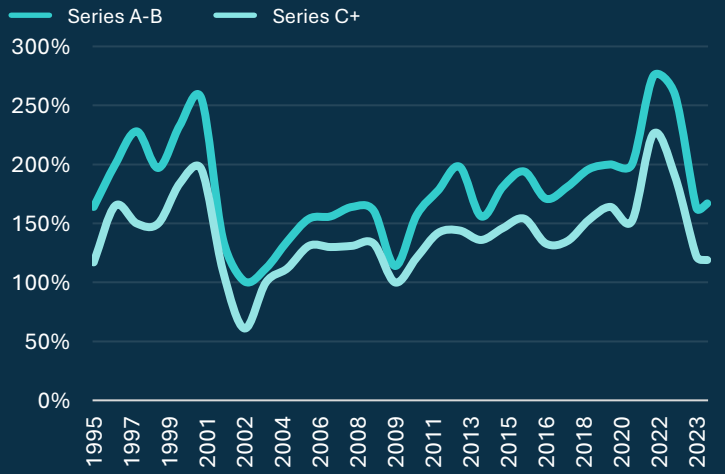
Investment Down but Still Historically High

CPI-Adjusted US VC Investment by Year and Share of Investment Coming From $100M Deals[2]



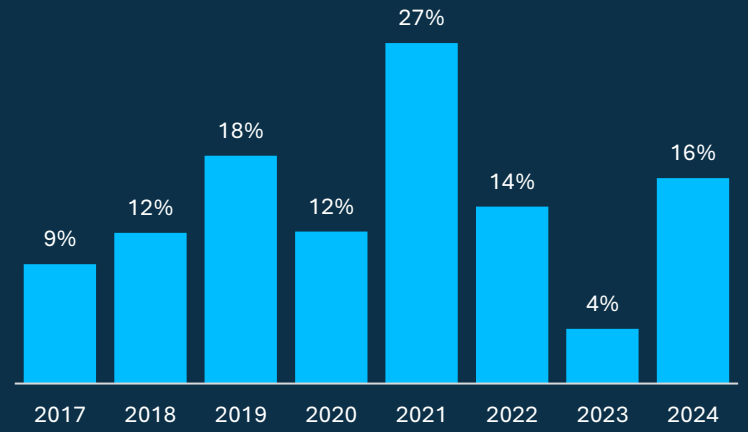
Not Stepping Down but Step-Ups Shrink

Median US VC Valuation Step-Ups by Series



Are Hybrid Investors Coming Back?

Deals With Notable Hybrid Investor Participation Share of Total US VC Investment[3]



Notes: 1) Annualized run rate of investment for H1 2024 adjusted for inflation. 2) $100M in 2024 dollars adjusted for inflation in prior years. 3) Coatue Management, LLC., Insight Partners, SoftBank Group and Tiger Global Management.

Source: PitchBook Data Inc., US Bureau of Labor Statistics and SVB analysis.

Deal Sizes Start to Round Up

It's official: Growing deal sizes are back. Following a dip last year (with the exception of seed) amidst a broader market pullback and interest rate uncertainty, Series A through Series C round sizes have rebounded by ~20% on average this year. **Driving the positive momentum is the reversal of headwinds, along with a boost in investor optimism surrounding AI.** The growing interest in AI has had a major impact on the rebound in venture capital, given the vertical has accounted for 28% of deals and 48% of capital in 2024.[1]

Similarly, valuations have also bounced back driven by three tailwinds. First, strong public market performance — as of the time of this writing, the S&P 500 is +19% YoY.[2] Second, the flood of AI investment into highly valued companies. Third, top companies that were well capitalized in 2021 raised unreported inside rounds or converts during the slowdown are now coming back to market and raising priced rounds. While this group may be raising at relatively robust valuations, the relative velocity of value creation is far slower. **In 2021, many companies raised up rounds after just 12 months. Now, the velocity has slowed — it has taken 2-3 years and an inside round or similar cash injection to raise their next priced round.** There is light at the end of the tunnel, it just may be the tunnel is a little longer.

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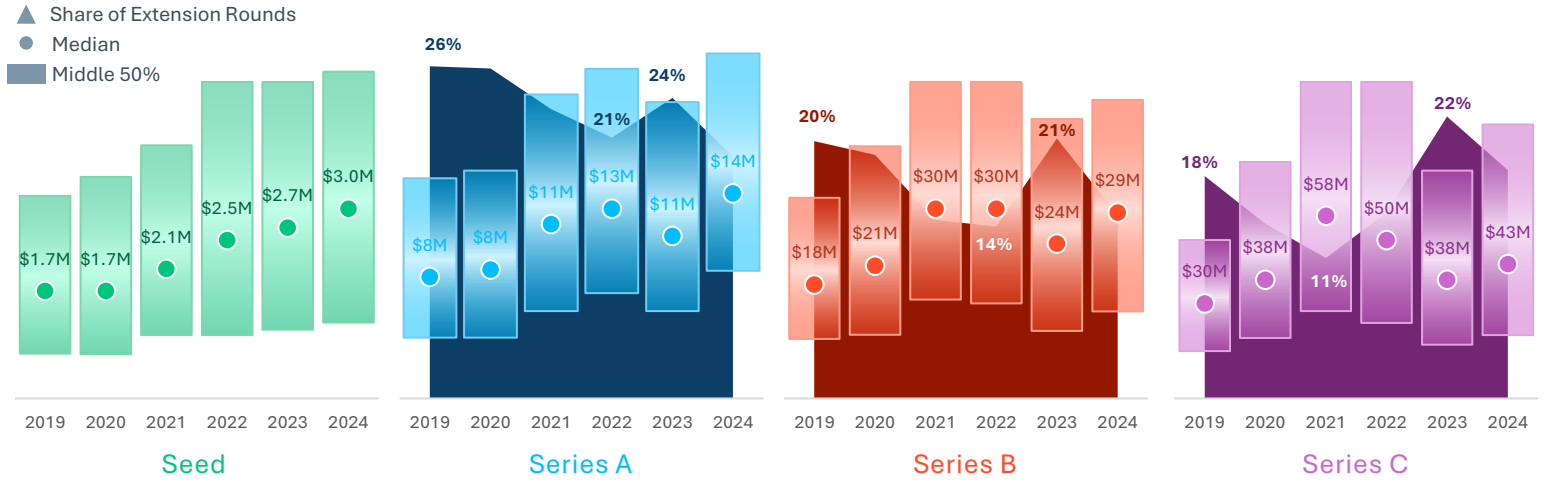
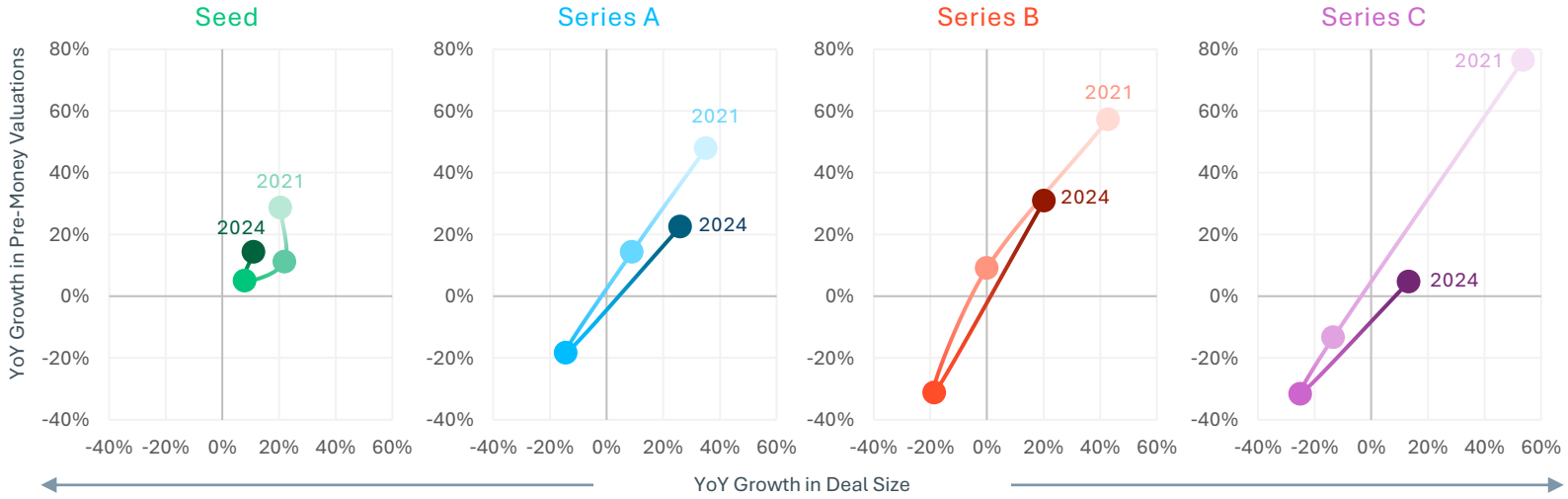
Funding Continues To Water Seed Rounds as Later Stages Bounce Back

Median and Middle 50% US Deal Size and Share of Extension Rounds by Series Since 2019



Recovery in Deal Size and Valuation Growth Prominent at Later Stages

YoY Growth in Median US Deal Sizes and Pre-Money Valuations by Series



Notes: 1) Data as of 7/23/2024. Deals and capital based on VC deals as defined by PitchBook Data, Inc., excluding crowdfunding, grants, equity for service, growth equity, and corporate deals without a series attached to it. 2) Data as of 7/30/2024 and based on S&P 500 price performance.
Source: PitchBook Data, Inc., S&P Capital IQ and SVB analysis.

No Seeds at the Series A Table

Money doesn't grow on trees, but plant the seed and watch it grow. For investors, too many seeds may have been planted. Over the past decade-plus, seed investing has evolved from a nascent investment type to an established asset class. This is driven both by institutional investors wanting to get in earlier to capture more of the alpha pre-exit as well as providing more optionality to double down on perceived winners. This has been further accelerated in recent years as many new dedicated seed funds emerged and company formation surged thanks to overly exuberant capital markets.

With the boom times of 2021 came capital excess but also lofty expectations. **These startups, now pegged with potentially higher-than-justified valuations, will need to clear a higher bar to move on to the next round.** The problem is, with a capital paradigm shift fully in effect, many of these ZIRP babies have been forced to cut costs at the expense of growth — not to mention the tougher environment where customers are securitizing their spend. This, in turn, makes it harder for a startup to raise its next round as growth is traditionally the main metric Series A investors look for. As benchmarks increase and timeframes extend, more startups have opted to raise additional seed rounds (i.e., seed-plus or Series A-). Herein lies the Series A crunch, a classic case of mismatched supply and demand. Until the VC ecosystem fully digests the seed surplus, expect graduation rates to continue trending down.

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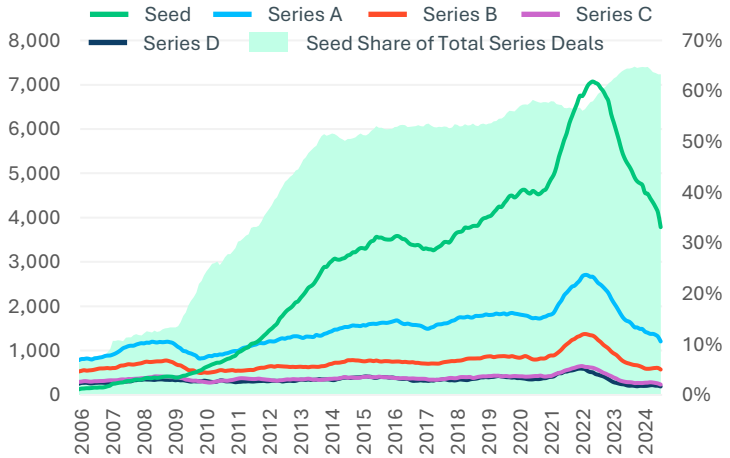
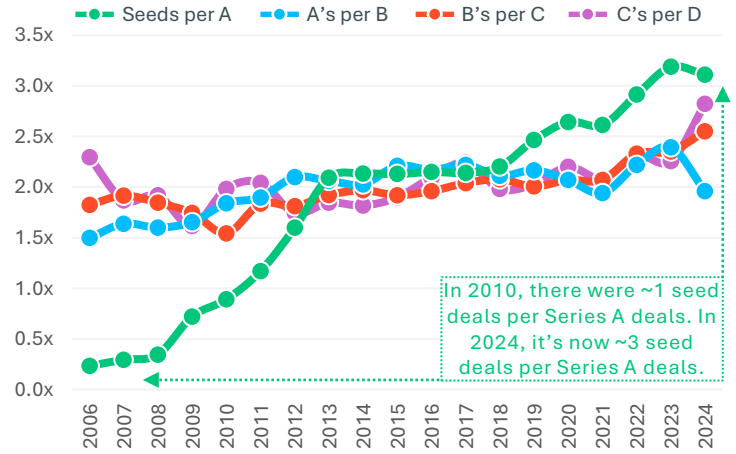
US Seed Rounds Explode Post-GFC[1]

Trailing 12 Months Deal Count by Series and Seed Share of Deals



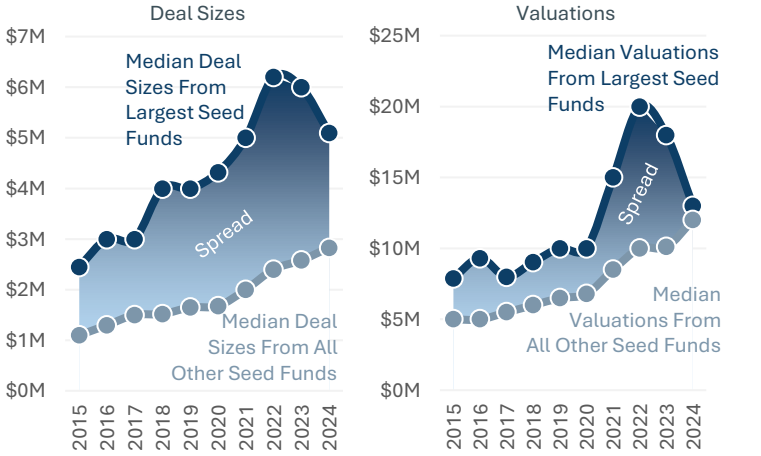
Seedpocalypse Now

US Deal Counts Ratio From One Series to Subsequent Series



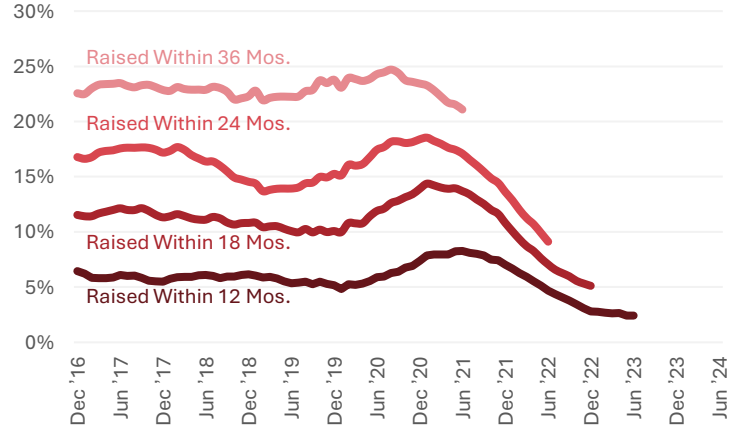
Large Seed Funds Propping Up Deals

US Seed Deal Sizes and Pre-Money Valuations by Investor Bucket[2]



Series A Crunch Starting to Rear Its Head

Trailing 12 Months Share of US Seed Startups That Raised a Series A Within Given Timeframe



Notes: 1) Global Financial Crisis. 2) Investor buckets determined by analyzing the largest US seed funds. Criteria for largest US seed funds for deal analysis include firms whose earliest seed fund vintage is 2015 or later, has raised more than $500M in seed funds, and has a fund series count below 10 seed funds.

Source: Preqin, PitchBook Data, Inc. and SVB analysis.

Fewer Startups Walk Across the Stage

Graduation rates are on the decline across stages, and dropout rates (i.e., startup failure rates) could soon be on the rise. Graduation rates were fairly consistent leading up to 2020; however, war chests built in the aftermath of COVID-19 and the subsequent market pullback completely changed the capital dynamic. Now, more than two years removed from the boom times, most startups are struggling to graduate. But are some companies better positioned to graduate than others — especially if they raised more? The answer might surprise folks.

When breaking down top and bottom quartile companies by deal size for a given year and series, those in the top quartile by deal size graduated at a rate ~2x the bottom quartile. Much of the narrative has been that the more a company raises, the less likely they are to graduate due to startups becoming inefficient with their capital and a higher bar set for future rounds. While it may be true that well-funded companies aren't forced to be scrappy and thus less likely to be efficient, the data shows that that doesn't mean they won't graduate to the next round.

So, where will graduation rates end up? Right now, things are tracking similar to last year. And it's reasonable to assume that recent deals were more "normal" than boom times. **But until the backlog of companies from that time has been digested (and some have failed), it's likely graduation rates will stay muted below historical norms.**

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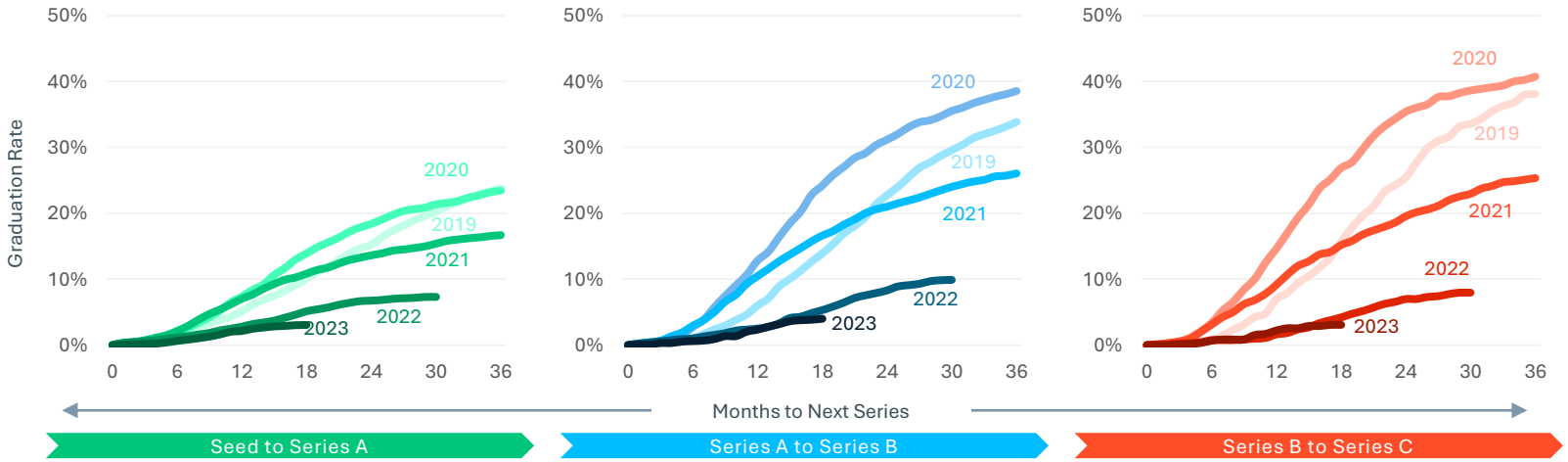
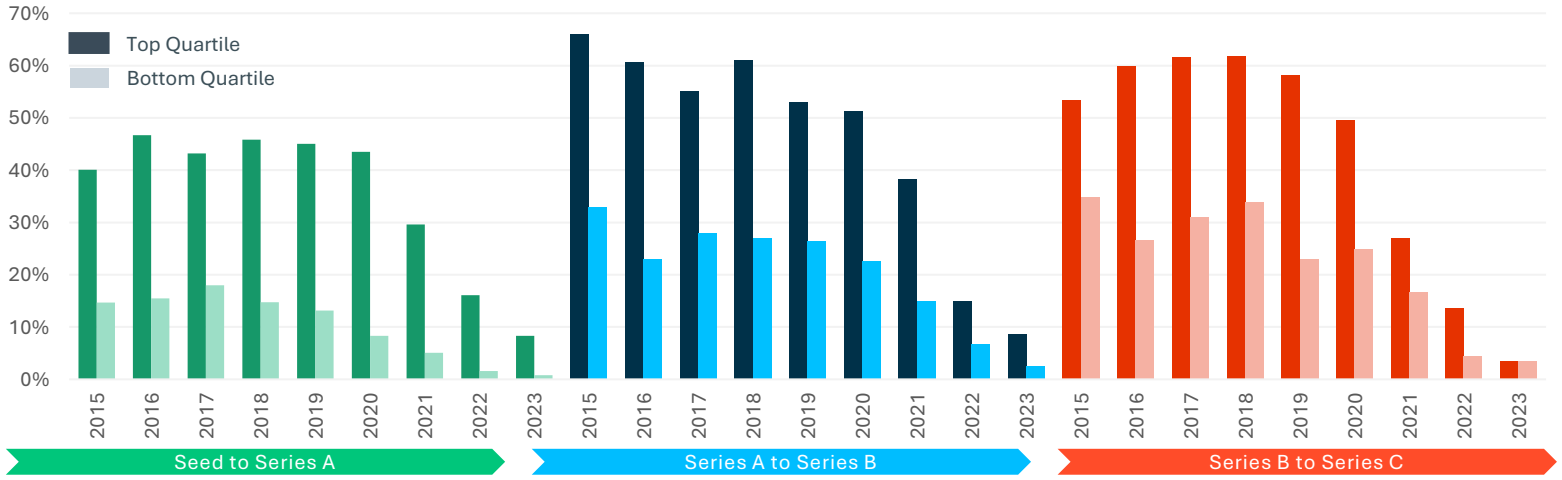
2024 Graduation Rates Remain on Track With Last Year

Graduation Rates by Months to the Next Series



Top Quartile Startups Get Their Cap and Gown First

Graduation Rates of Top and Bottom Quartile[1] Startups by Deal Size



Notes: 1) Quartiles determined by analyzing deal sizes for each series in a given year.
Source: PitchBook Data, Inc. and SVB analysis.

AI Unicorn Walks Into a Bar…

… And the bartender says, “we don’t serve under-aged unicorns.” All kidding aside, the unicorn cohort continues to grow, reaching 736 as of H1 2024. Very few unicorns have exited (or failed/fallen), and more continue to take flight. **The growth in unicorns has in part been driven by a rash of AI companies achieving unicorn status — of the 73 unicorns added in the trailing 18 months, 28 are AI companies.**

The new AI unicorns are a slightly different breed, growing to unicorn status far more quickly than non-AI unicorns. The top 25% of AI unicorns achieved unicorn status in less than 2.5 years — compared to non-AI unicorns that took 3.5 years. They also skew earlier — with 30% classified as early-stage.[1]

Not only is AI capturing a growing share of new unicorns, the largest deals are going to AI companies. The top 10 US VC deals each year have historically captured about 9% of total fundraising — since 2023 they have captured 20%. This jump has been driven by AI investment, much of which ends up in the pockets of chip makers as GPUs[2] remain a limiting factor. **While it is hard to understate the sea change of generative AI, the market is clearly frothy, and not all the $1B AI companies will survive.** Unlocking the internet was a sea change as well, but not every dot-com company returned the fund. We remain optimistic about the future of AI, but cautious about the velocity and size of investments.

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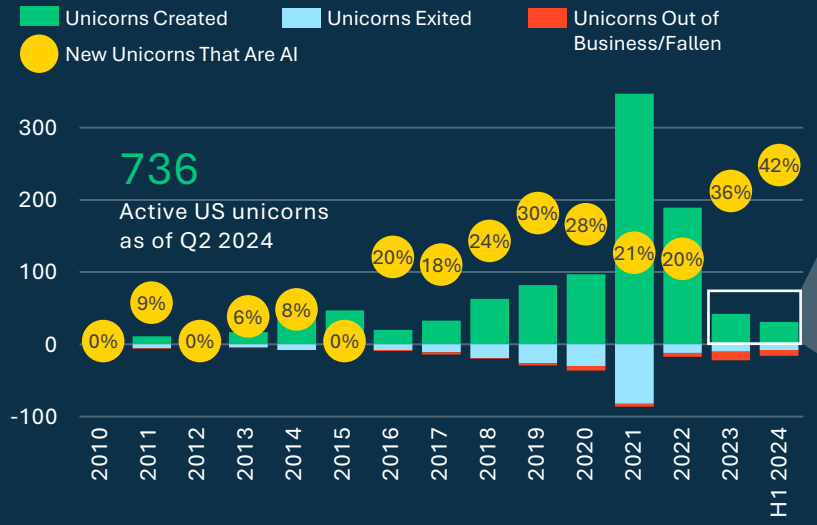
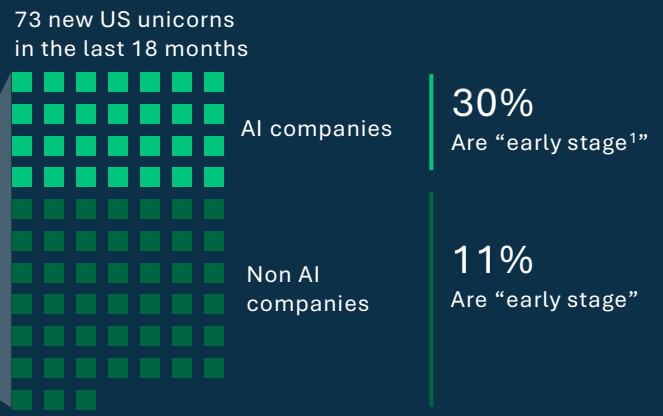
Unicorn Creation Continues; Young AI Companies Joining the Herd

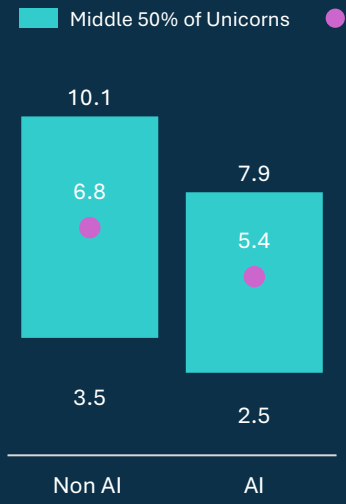
Unicorns, Created, Exited and Fallen by Year





AI is Fastest to Unicorn Status

Years from Founding to Unicorn for the Last 18 Months[3]



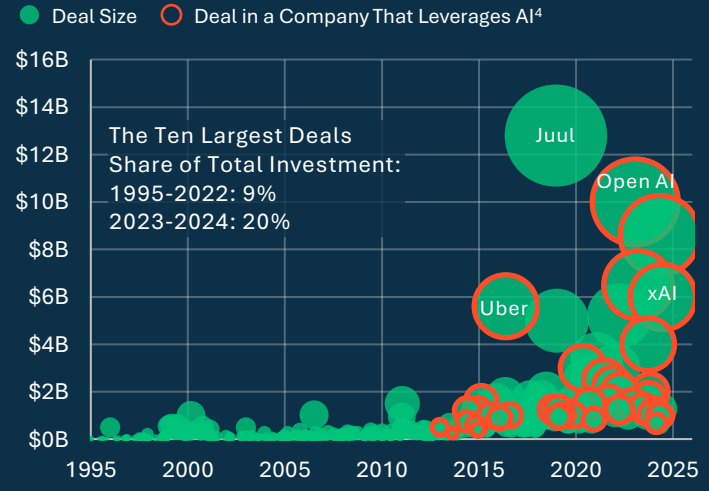
Fastest Companies to Unicorn Status 2024

Green = AI Company

Humanity Protocol | 1.2 yrs
xAI | 1.3 yrs
Cognition | 1.3 yrs
Typeface | 1.5 yrs
ElevenLabs | 2.1 yrs
Perplexity | 2.2 yrs
Together | 2.2 yrs
Quantinuum | 2.2 yrs
Farcaster | 2.9 yrs
Alumis | 3.1 yrs

AI Drives Massive Deals

Ten Largest US VC Deals by Year since 1995



Notes: 1) Early-stage is classified as Series A-B and must be younger than 5 years. 2) Graphic Processing Units. 3) Unicorns created in the last 18 months. 4) CoreWeave’s 2024 deal includes $7.7B in debt financing; if the debt is excluded it still falls in the top ten largest deals for H1 2024.

Source: PitchBook Data Inc. and SVB analysis.

Weather Hold on Unicorn Growth

A minority of unicorns have attractive metrics for an IPO while the majority struggle to grow as customers scrutinize spend and unicorns place a greater emphasis on profitability. This raises the question: what becomes of this record-breaking stable of unicorns?

About 12% of US tech unicorns fall within a rule of x[1] greater than 70% — these companies are well positioned to IPO when markets open. However, one-third of US tech unicorns are both unprofitable and shrinking — many of these businesses have been exposed by a tougher economic environment and the end of ZIRP that have prevented them from buying growth with cheap capital. This group is no longer an attractive investment for growth investors and is unlikely to generate a return. Some may get to cashflow positive and eke out a "living" as a zombie. Others may be purchased at a discount or fail — but their growth trajectory is by and large over.

In between the top performers and late-stage flameouts sits the majority of the cohort. Most have robust runway. The median US tech unicorn has just over 20 months of runway — giving them the ability to wait for sunny economic days. **But the clock is ticking for early investors. About half of unicorns are older than 10 years. While growth will return eventually, the road will be long as many still deal with a valuation overhang — according to several investors we spoke with.**

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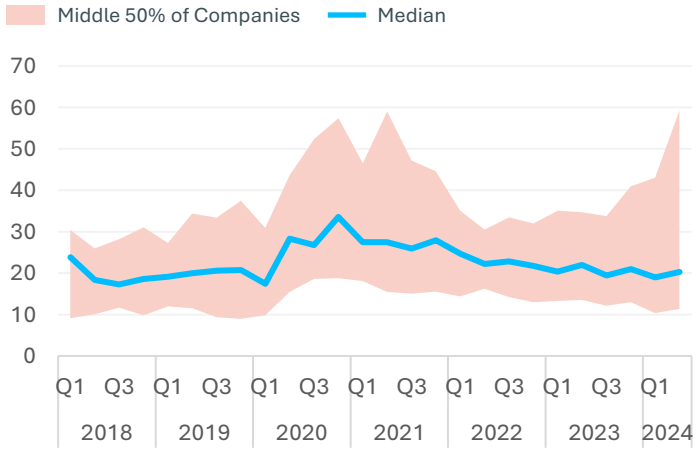
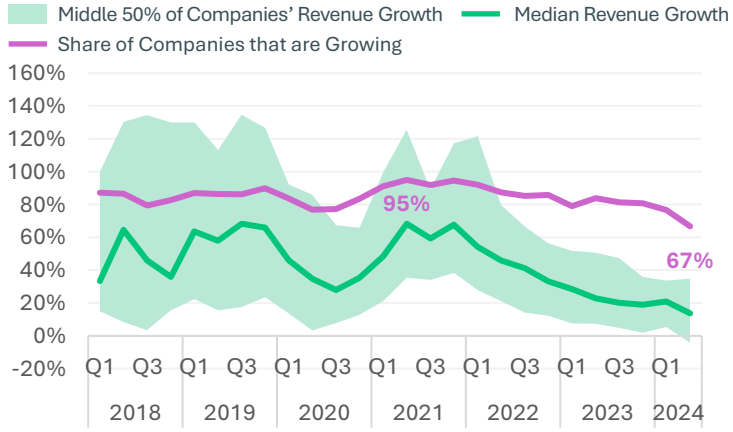
Unicorn Runway Remains Robust

US Tech Unicorn Runway in Months



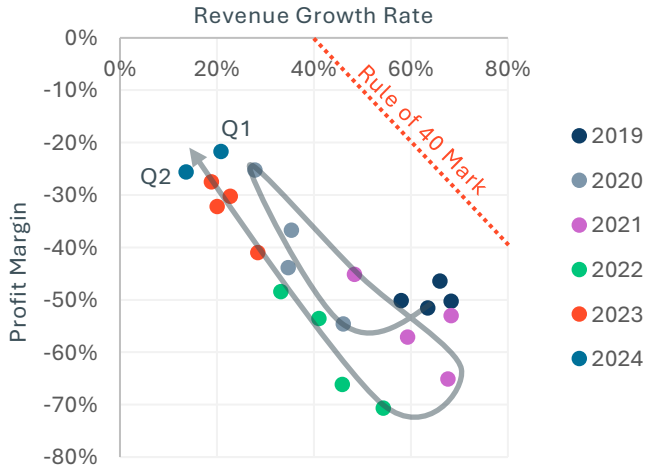
Good Growth Is Hard to Come by

US Tech Unicorn YoY Revenue Growth and Share of Companies Share with Growth



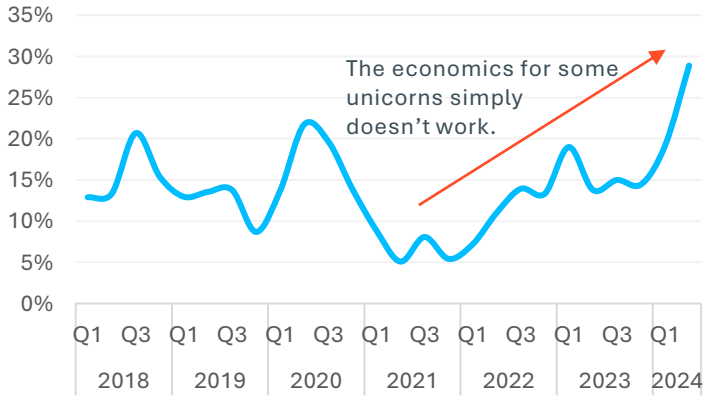
Marginally Better Profitability; Slow Growth

Rule of 40 for US Tech Unicorns



Unicorns Become Zombiecorns

Share of US Tech Unicorns That Are Unprofitable and Have Declining YoY Sales



Notes: 1) Rule of x is similar to rule of 40, but places a multiple on revenue growth rate — in this case, we use a 2x multiple. Rule of x = profit margin plus two times the annual growth rate. According to Bessemer's research, this methodology more accurately captures how investors value companies than the rule of 40.

Source: SVB proprietary data, PitchBook Data Inc. and SVB analysis.

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VC-Backed Tech Financial Trends

Runway, Always in Vogue

Generally speaking, companies have less runway today than at the start of the venture correction. If we look at a cohort of companies that had a fairly typical level of runway (12-15 months), only the top 42% have maintained at least 12 months of runway. But half of these companies have less than seven months of runway. On paper, a quarter could be out of business by year-end. However, in the real world, runway doesn't fall linearly, and companies and investors work to extend runway as they approach cash-out.

Nowhere is this more clear than through case studies of companies that, while well capitalized in 2021, are reaching the end of their runway. Most of these raised small rounds that provided a few additional months of cash runway. Many of these have taken the form of inside rounds, convertible notes and other unpriced rounds. **According to our data, these small rounds have gone publicly unreported (perhaps indicative that activity is slightly higher than headline VC investment numbers suggest).** In addition to raising small rounds, many more companies have decreased burn. But for many companies reaching the end of their runway, those cuts have come too late— an important reminder that managing burn early has far greater impacts than cuts with limited runway.

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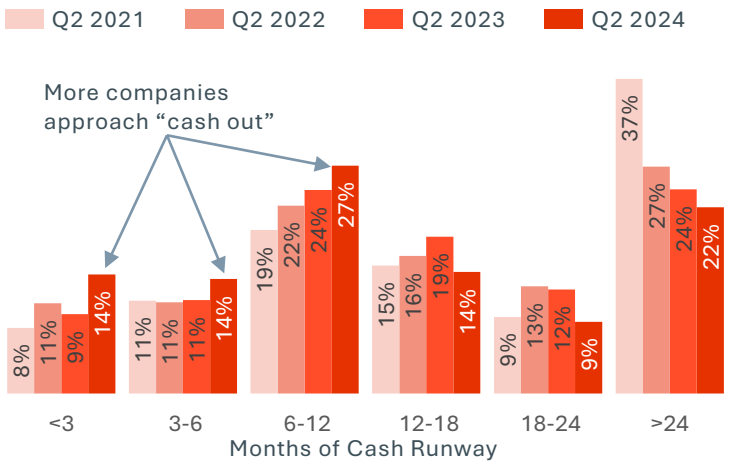
More Companies With Low Runway

Distribution US VC-Backed Tech Companies by Runway

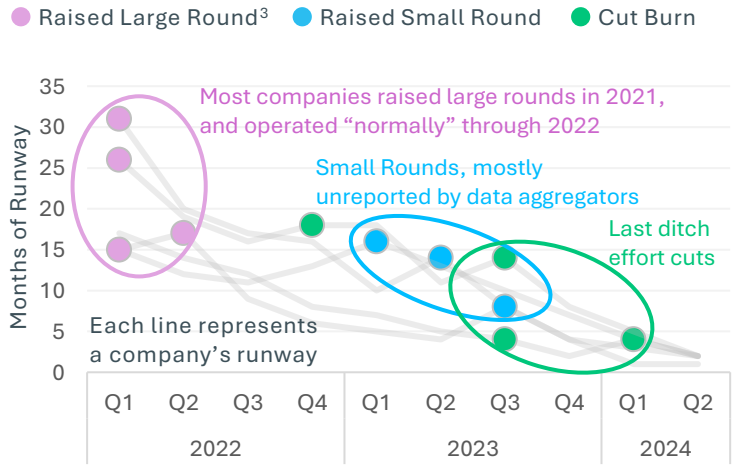


Cash Runway: Haves and Have Nots

Cash Runway for Companies with 12–15 Months in Q1 2022[1]

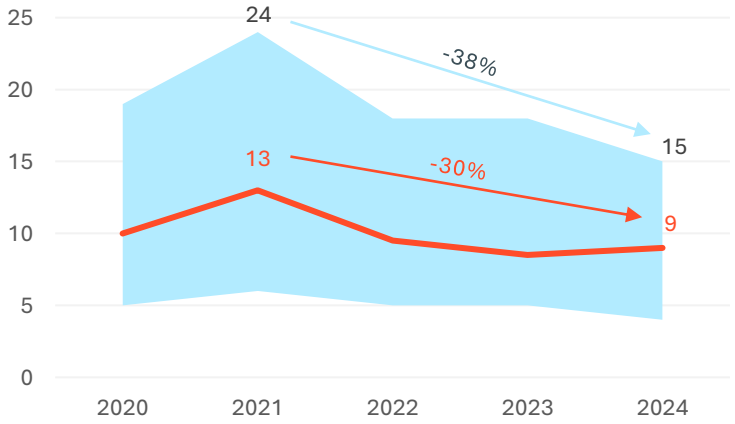
Journey to the End of the Runway

Case Studies: US VC-Backed Tech Companies Running Out of Cash[2]



Companies Raise Less Runway

Months of Runway Added Following a Raise



Notes: 1) US VC-backed tech. 2) A random sample of companies running out of runway; each line represents a company's runway; each dot represents a significant event impacting cash runway. 3) Q1 2022 large rounds reflects if the company raised a deal in the prior three months.
Source: SVB proprietary data and SVB analysis.

Bigger Isn't Better for Round Sizes

VC isn't immune to diminishing marginal returns. To unpack what happens when companies have lots of cash on hand, we compared two distinct cohorts of companies: those that raised 18 months or more of runway and those that raised 12 months of runway or less. We expected those that raised more runway would see larger increases in their burn, and they did. As a result, we also expected these companies to be less profitable as they focus more heavily on growth, and they were.

But what were the benefits of all that spending and reduced profitability? **For the median company — and there are many exceptions — more capital doesn't increase revenue growth. This implies that as investors write larger checks — there is little to no marginal benefit in the form of additional growth.** Instead, companies increase burn on non-core, non-essential line items. Whereas, lean startups are fundamentally healthier.

To many founders, taking a larger round is attractive, locking in runway and providing a greater degree of freedom from fundraising and investors. But the extra cash in startup pockets is often spent without growing the top line. **Counter intuitively, the ones that benefit most from larger round sizes tend to be the investors, who acquire more of the company for a lower valuation.**

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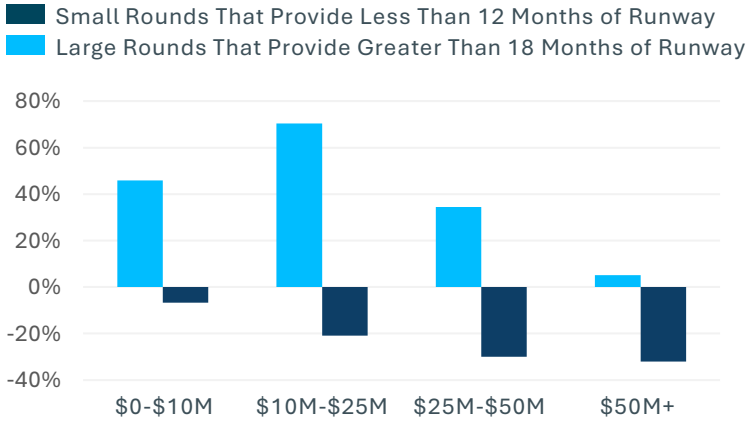
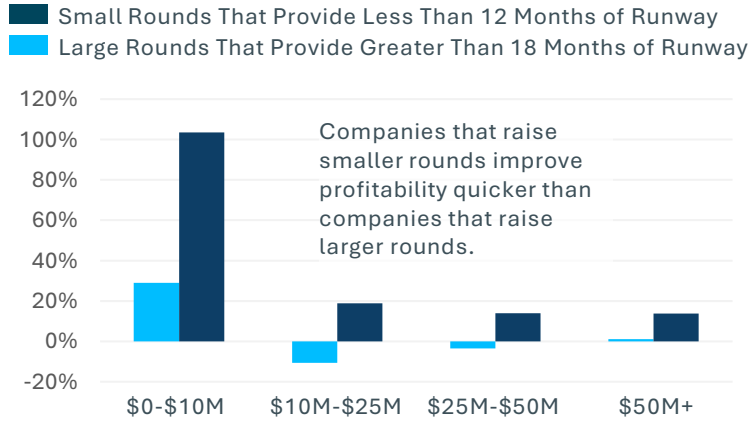
Big Raises Burn Holes in Startup Pockets[1]

Median Change in Burn Rate One Year Following a Fundraising Round by Company Size for US VC-Backed Tech



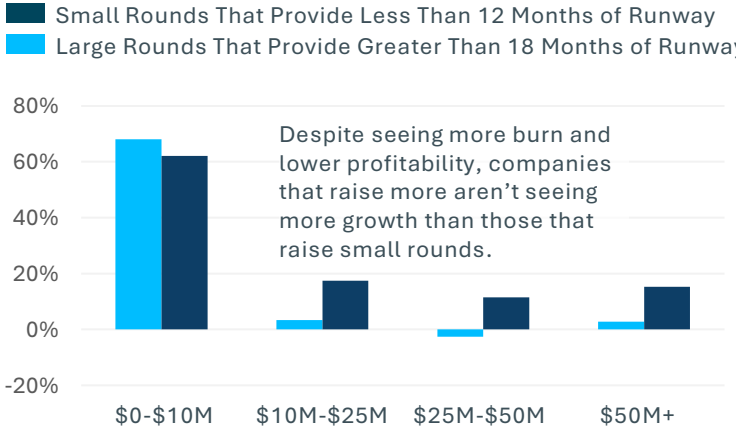
The Extra Burn Means Lower Profitability

Median Percentage Point Change in Profit Margin One Year Following Round by Company Size for US VC-Backed Tech



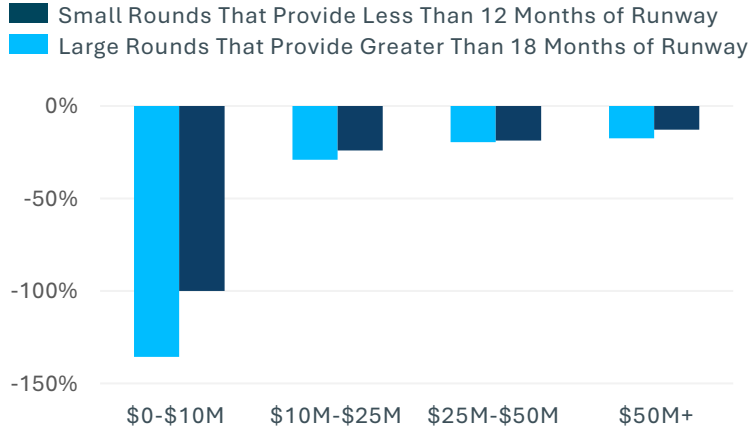
Growth Rates Aren't Higher

Median Revenue Growth Rate One Year Following Fundraising Round by Company Size for US VC-Backed Tech



Balancing Burn and Profitability

Median Rule of 40 One Year Following Fundraising Round by Company Size for US VC-Backed Tech



Notes: 1) For companies that raised a round in 2022 with year-after metrics in 2023.
Source: SVB proprietary data and SVB analysis.

Walking Dead Companies

Growth is an imperative for VC and investors, but revenue growth is slowing for tech companies and fewer companies are achieving ultra-high growth of over 100% a year. For companies that have managed burn and are growing slowly, the slow growth most likely isn't a death knell. **However, there is a growing cohort of companies that have both negative growth YoY and are unprofitable. In essence, these companies are burning capital and losing ground.** The percentage of shrinking and unprofitable companies has jumped 15 percentage points since 2021. The end of ZIRP, the tougher fundraising environment, and a slower economy (from the standpoint of tech and software spend) have exposed companies buying growth but lacking strong underlying businesses.

While some early-stage companies will be able to pivot, adjust their pricing or continue to innovate on their product, **later stage companies are much more likely to be "walking dead" — companies that will not be venture backable given growth and margins.** But options are limited for these companies; leveraged buyouts (LBOs) are a possibility for some that may be rolled into a platform, and middle market M&A is also possible for companies looking to buy tech at a low cost. Anecdotally, investors don't expect late-stage companies in this cohort to do much more than clear liquidation preferences.

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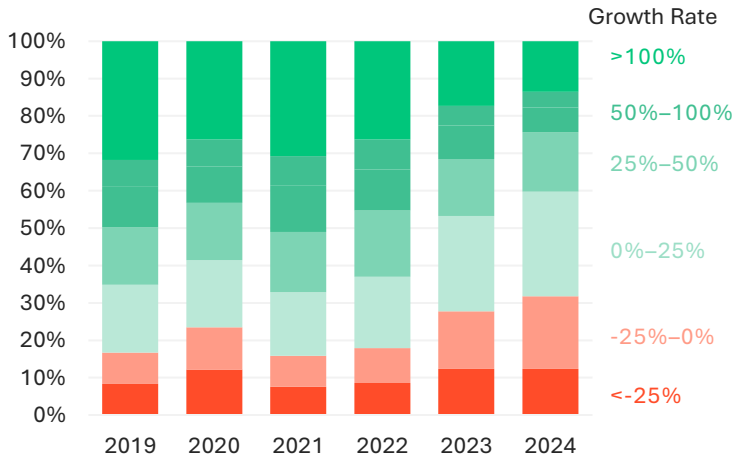
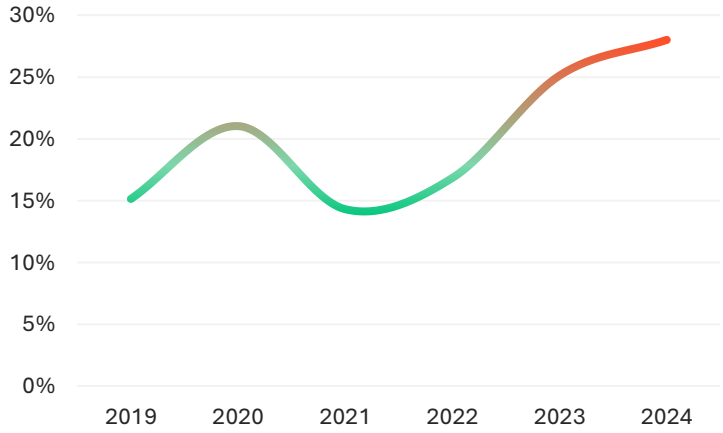
Fewer Companies Achieve High Growth

Distribution of Growth Rate for US VC-Backed Tech Companies[1]



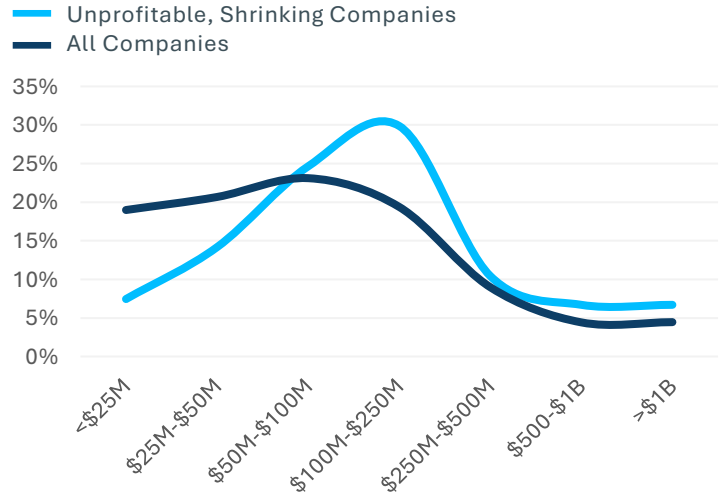
Cash Burning and Shrinking

Share of VC-Backed Companies with No Growth or Profit



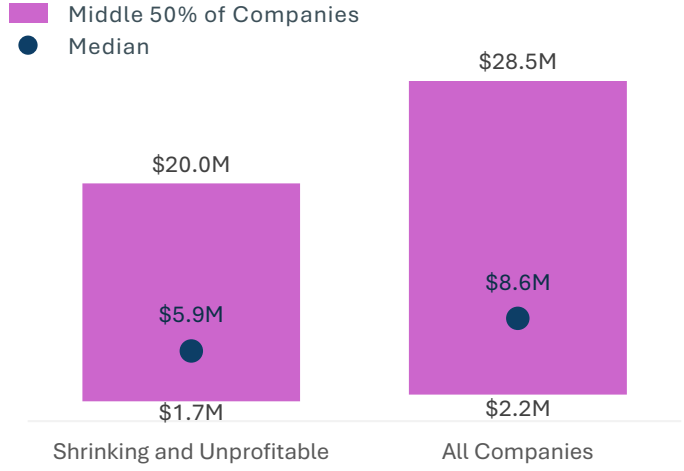
Struggling Companies Tend To Be Mid-Sized …

Distribution of US Tech Companies by Last Known Valuation



… And Revenue Skews Smaller

Revenue Distribution for US VC-Backed Tech Companies



Notes: 1) Growth rates assessed as YoY growth rates.
Source: SVB proprietary data, PitchBook Data Inc. and SVB analysis.

Startups Breaking the “Rules”

Margins have improved, but growth has slowed — the net result? US VC-backed enterprise software companies are further from the industry benchmarks for balancing growth and profitability. The top quartile of rule of 40 for enterprise software companies with greater than $50M+ in revenue fell 39 percentage points from 2021 to just 19% in H1 2024. That decline is even starker when looking at the rule of x, which fell 87 percentage points to just 46% in H1 2024. The deeper decline in the rule of x, a metric that weights growth more heavily than profitability (in our case we used a 2x multiple), is underpinned by the reality that **companies have been unable to grow as CACs climb and customers re-examine IT budgets (for most technologies — except for AI).**

While the rest of the VC ecosystem has rotated in favor of chasing profitability, AI is partying like it’s 2021. Money is flowing into AI at a record-breaking pace, and high company valuations mean the cost of capital is relatively low. As we discussed on page 26, larger check sizes tend to result in less efficient spending that doesn't always improve the top line. To some extent, we see that with AI. With the abundant capital and opportunities AI companies have for growth, we see far lower profitability and higher growth. This high burn hasn’t translated linearly to higher growth. Instead, many AI companies are burning a lot on compute and on moving faster than the competition, therefore their rule of 40 remains painfully low.

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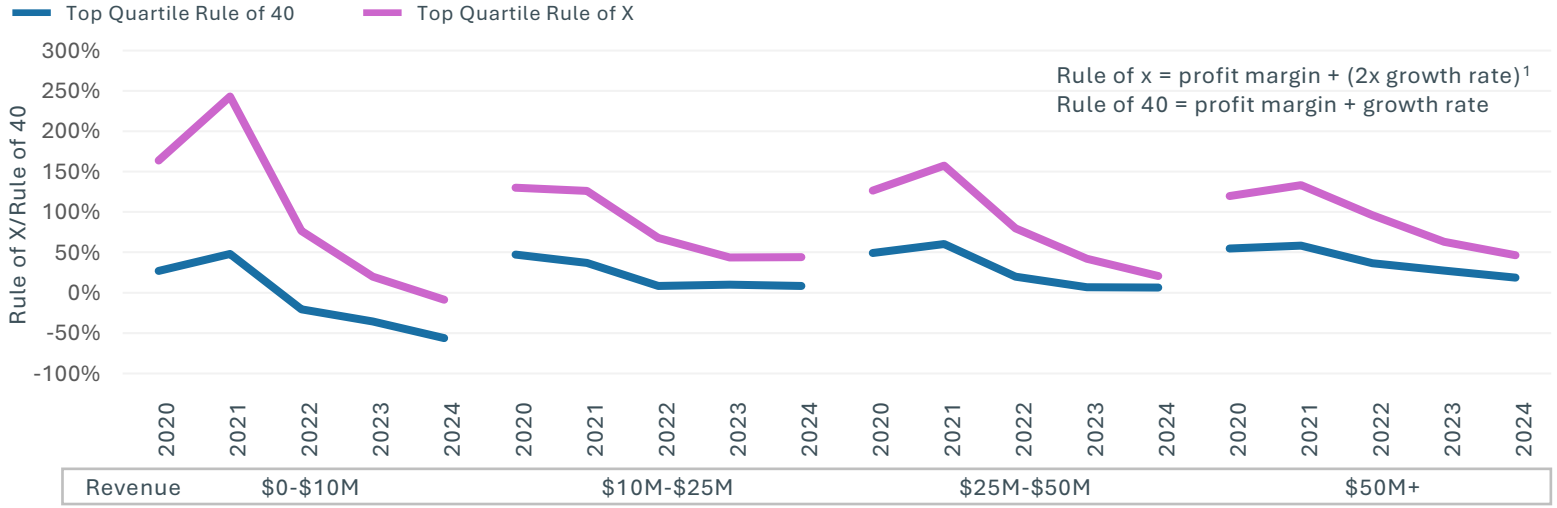
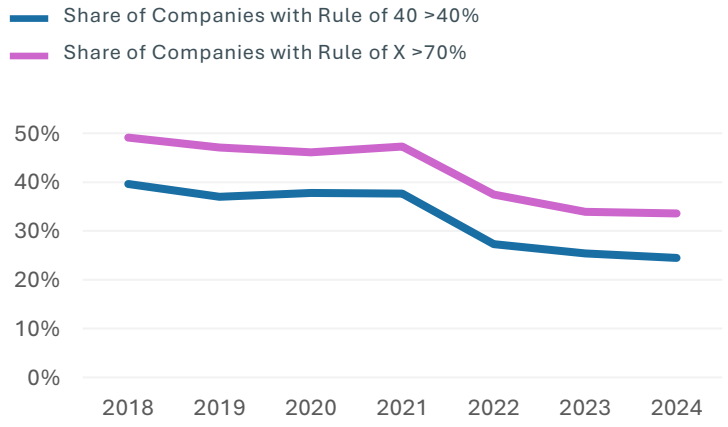
Growth and Profitability: Even the Best Companies Are Out of Balance

Rule of 40 and Rule of X for US Enterprise Software Companies by Company Annual Revenue and Year



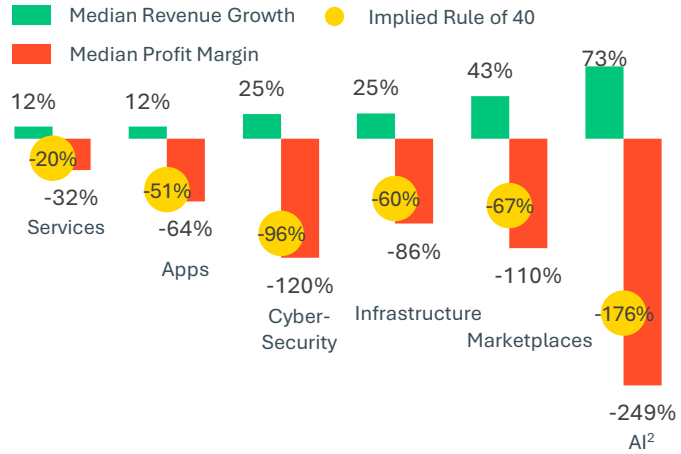
Fewer Companies Follow the “Rules”

Share of US Enterprise Software Meeting the Rule of X or Rule of 40 for Companies With at Least $25M Annual Revenue



Enterprise AI is Growth at All Cost

Enterprise Software by Subsector: Profit Margin, Revenue Growth and Rule of 40



Notes: 1) Rule of x is similar to rule of 40, but places a multiple on revenue growth rate — in this case, we use a 2x multiple. Rule of x = profit margin plus two times the annual growth rate. According to Bessemer's research, this methodology more accurately captures how investors value companies than the rule of 40. 2) Only includes companies developing AI technology; excludes companies that leverage AI as part of a product offering, but do not develop AI.

Source: SVB proprietary data and SVB analysis.

Dollar Doldrums May Diminish Margins

The recent strength of the US dollar (USD) has benefited many private US companies, but the tide may soon be changing. The high-rate environment and the fact that other major currencies started their rate cut cycles have contributed to continued USD strength. This dynamic has benefited companies with foreign burn and revenue in USD, which are most US VC-backed companies that deal with foreign exchange.

If rates fall and the interest rate differential between USD and other major currencies shrinks, the USD will likely struggle to make new highs. In addition, US presidential election years generally have larger high-low trading ranges among major currencies. These dynamics further underpin the potential risks in the back half of the year.

Companies with international burn and USD revenue may face challenges if the USD does depreciate. One of the most significant ways this may show up is the bottom line. We looked at the top quartile Series C tech companies and assigned different percentages of burn outside the US, from 10% all the way up to 90%. Under a high USD deprecation scenario (15%), those with 20% of burn outside the US experienced a 5 percentage point decline in profit margin, while those with 90% of burn outside the US saw profit margin fall 22 percentage points — underscoring the importance of an foreigner exchange hedging strategy.

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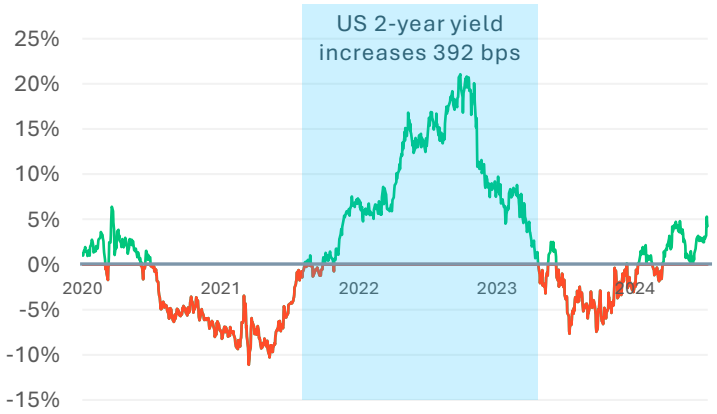
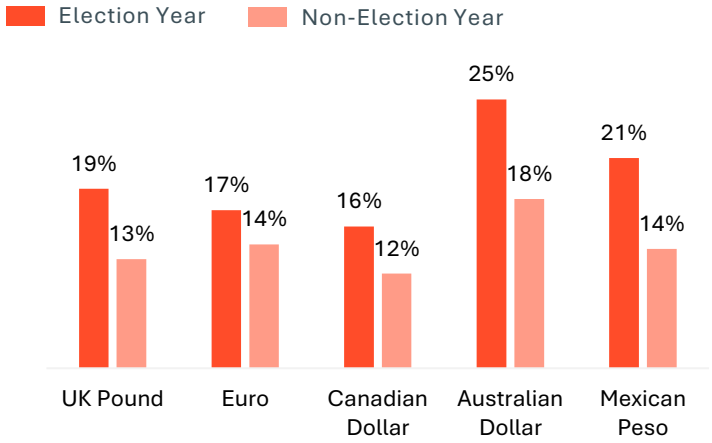
Interest Rates Led the USD Bull

YoY Change in USD Relative to Top Traded Currencies[1]



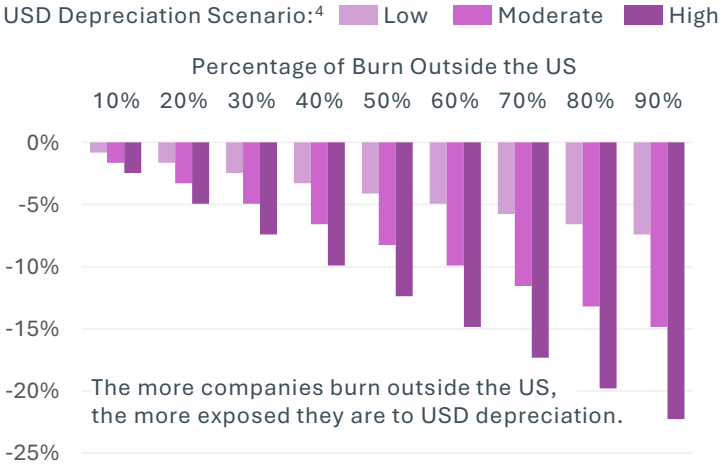
Volatility and Elections Go Hand in Hand

Average High-Low Trading Range vs. USD[2]



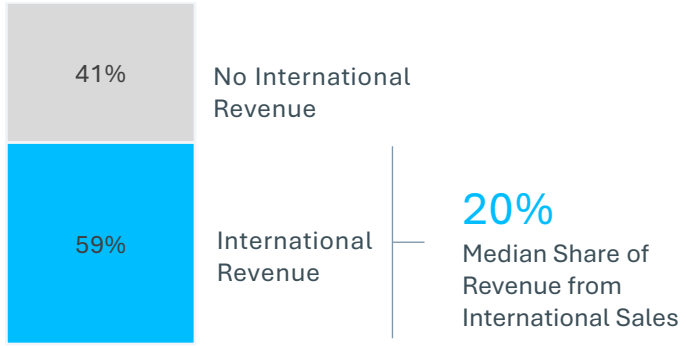
Dollar Bear, Bearing Down on Profit Margin

Change in Profit Margin from Baseline for a Top Quartile Series C[3]



Top Companies Sell Internationally

Share of Top-Tier Venture-Backed[5] Companies with International Revenue



Notes: 1) Using the US Dollar Index (DXY). 2) For elections since 2000. 3) Based on metrics for the top quartile (by valuation) Series C US VC-backed tech company — assumes no international sales. 4) Low, Moderate and High corresponds to a 5%, 10% and 15% depreciation scenario, respectively. 5) Top-tier companies determined by size, growth and SVB assessment. VC-backed or formerly vc-backed.

Source: Bloomberg, PitchBoook Data, Inc., SVB proprietary data, SVB survey of top tech companies and SVB analysis.

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Exits

Liquidity Is Scarce in Exit Drought

With the exit window still closed, LPs are distribution-starved while still meeting VC capital calls — putting pressure on VCs to generate liquidity. The value of US VC-backed exits is on track to be the lowest since 2016 when we experienced a double-dip public market selloff. At the same time, while down, VC investment levels remain healthy. **Taken together, these trends pushed ratio of capital called to distributed to an all-time high, just barely above its post-dot-com peak.**

Even among 10-year-old funds, distributions to paid-in capital (DPI) is just 23% of total value of paid-in capital (TVPI). The long journey to return capital is indicative that the 10-year fund cycle may be a thing of the past as private companies stay private longer.

The limited distribution environment has paved the way for VCs seeking alternative modes of liquidity from LPs. Look no further than Sequoia who offered to buy Stripe shares from LPs at a $70B valuation. The secondary deal, is perhaps most interesting as the fund is not selling the shares to an outside party, but using a subsequent fund to purchase the shares. For a company that has been around nearly 15 years, any liquidity is welcomed by LPs. **We expect secondary activity will continue until exit markets open, given the plethora of secondary funds raised in 2023 and the efficiency provided by secondary exchanges for ultra-late-stage companies.**

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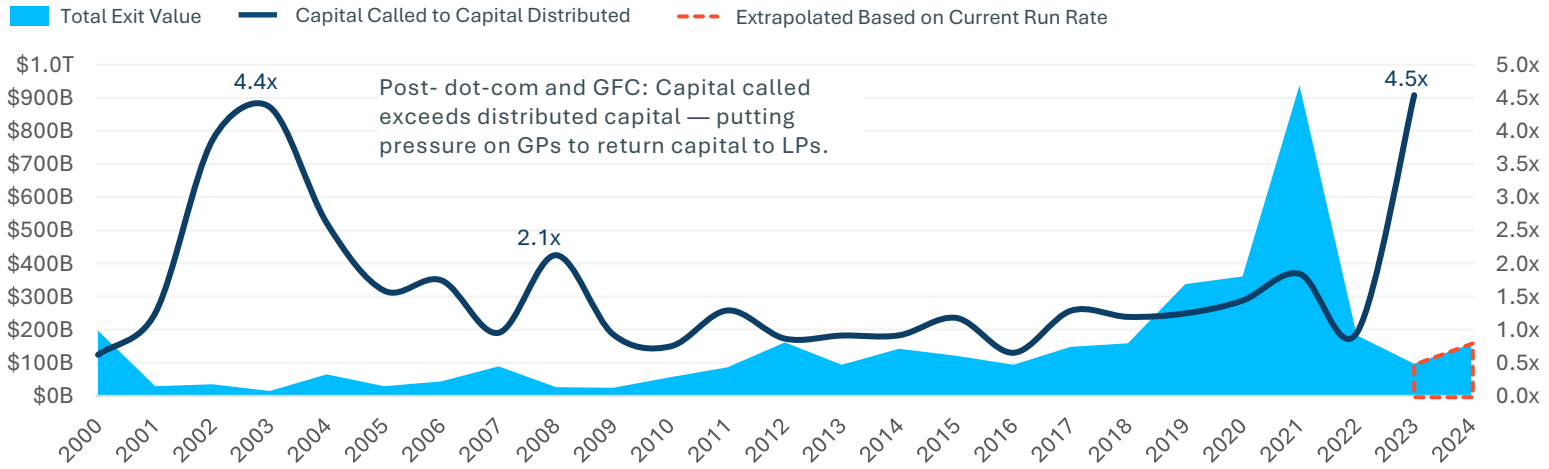
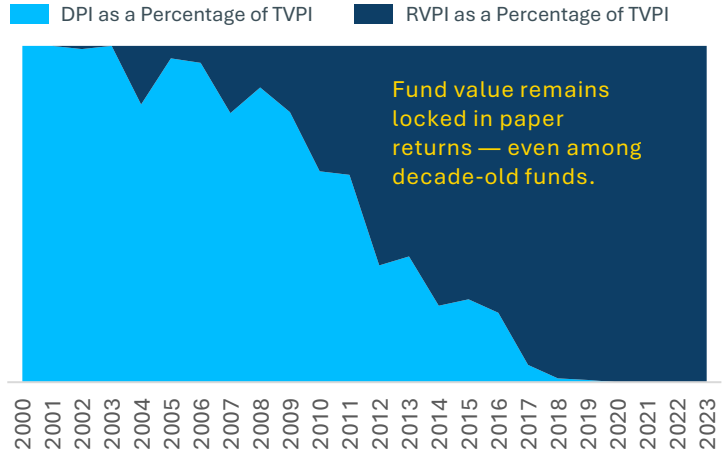
Distributions Are Hard to Find

Value of US VC-Backed Exits by Year and Ratio of Capital Called to Capital Distributed for North American VC Funds



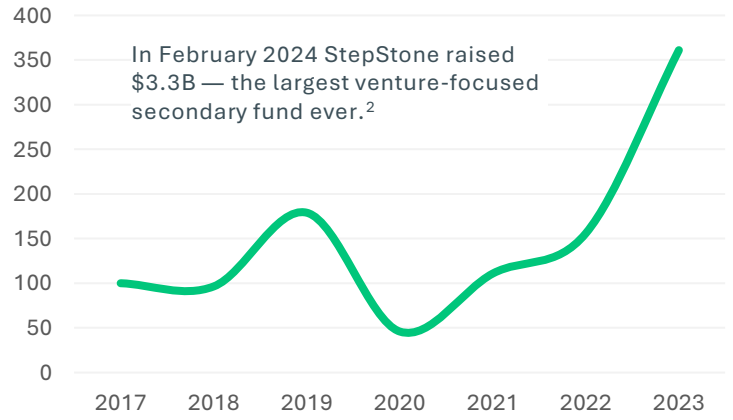
LPs Mostly Need to Wait

TVPI Broken Down by DPI and RVPI[1] for US VC Funds



Secondary Funds Boom

US Secondary Fundraising Indexed to 100 in 2017



Notes: 1) Residual Value to Paid-in Capital. 2) According to StepStone press release.
Source: Preqin, PitchBook Data, Inc. and SVB analysis.

Runway Is Dire, Look to Acquire

Acquisitions are moving at a snail's pace, but as runway dwindles, buyers may come out of their shell. Current US VC-backed M&A activity puts the current trajectory on par with last year — a far cry (~38% lower) from the peak of 2021.[1] **With capital scarce in today's environment, startups that haven't been able to raise after pulling all the levers to extend runway and survive have been forced to sell.** This is evident in two metrics: 1) median cash runway at purchase, which has fallen just under six months, and 2) purchase price relative to last private valuation (LPV) — which stands at 3.5x on a median basis, but is well below the peaks of 2021. In fact, more companies are selling for a loss. In 2024, more than one in five companies are selling for less than their LPV — up from just 13% in 2021.

With large, transformational M&A likely on pause until post-election (not to mention antitrust concerns continuing to be a major headwind), the foundation may be set for PE to play a necessary role in the ecosystem. Unlike US VC dry powder, which has modestly fallen, US PE dry powder continues to tick up, standing at $688B as of July 2024.[2] With more companies struggling to raise and exhausting all options to cut costs to extend runway, PE can serve as a necessary exit option. **Assuming the current environment continues, look for PE firms to be on the offensive and potentially scoop up quality companies for less than their would-be asking price.**

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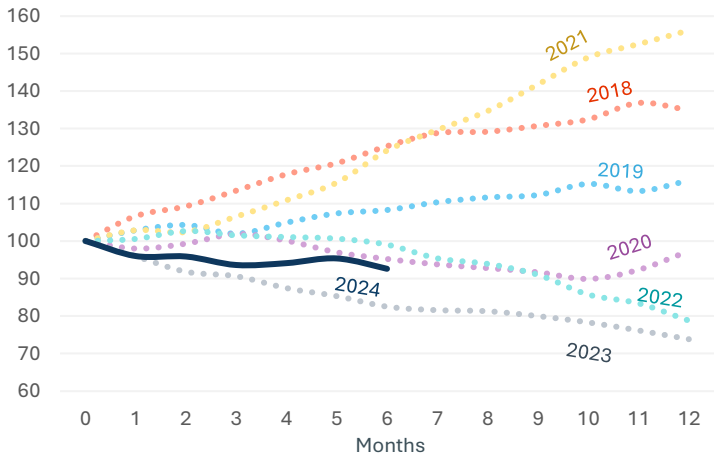
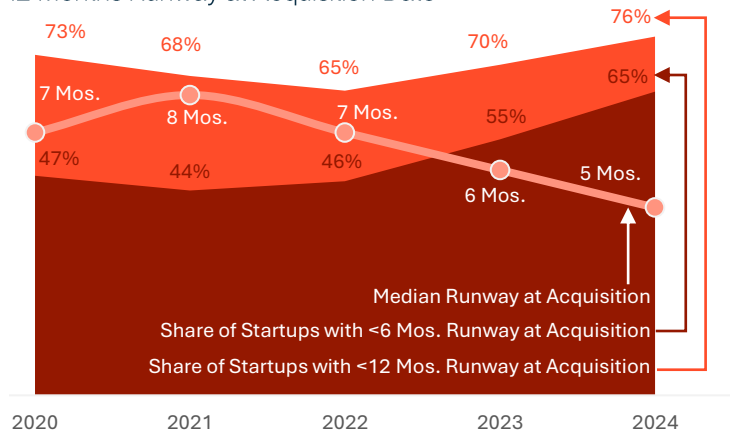
M&A Activity Crawling at a Snail's Pace

Trailing 12 Mos. M&A for US VC-Backed Startups Indexed to 100



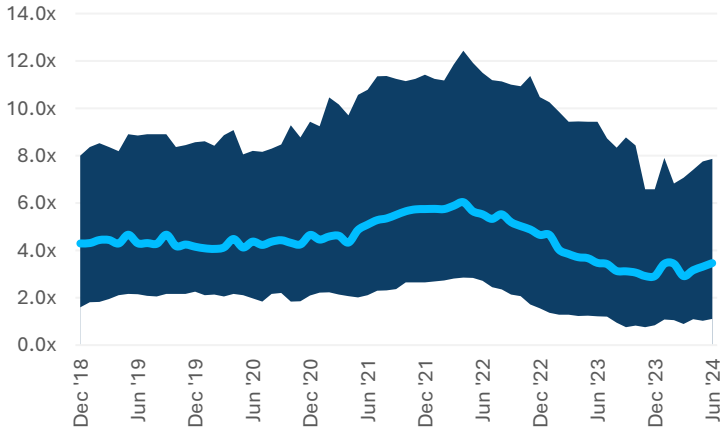
Runway at Acquisition Date Falling

Median Runway and Share of Companies With Less Than 12 Months Runway at Acquisition Date[3]



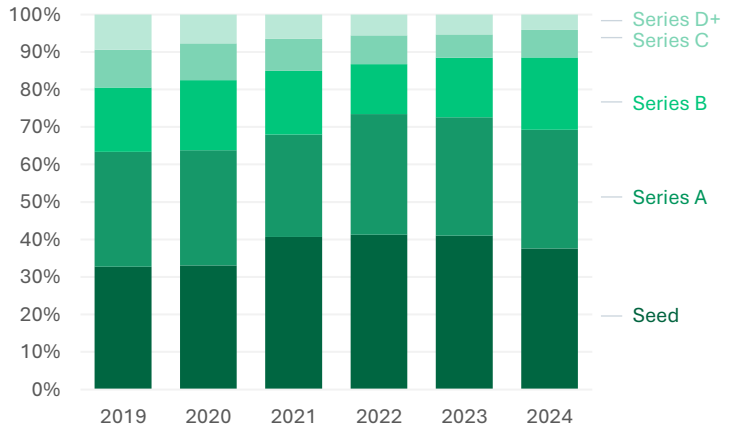
Today's M&A Deals Are Closing for Less

Trailing 12 Months Median Acquisition Post Valuation to LPV



Startups Aren't Exiting Earlier

Stage a Startup Gets Acquired at by Year



Notes: 1) Data based on annualized US VC-backed M&A data as of 7/15/2024. 2) US fund manager PE buyout dry powder data as of 7/28/2024. 3) Runway at acquisition is based on the most recent available runway data within the last three quarters.
Source: PitchBook Data, Inc., Preqin, SVB proprietary data and SVB analysis.

Efficiency Is Key to the IPO Engine

IPOs remain muted, but don't count them out. Recent election cycles suggest that VC-backed startups are still willing to test public markets in the back half of election years. While history isn't a perfect guide, the election may not have the substantial impact some may say. Initial performance and the multiple achieved are important, but the journey to being a consistent, successful startup is long. And data suggests the ones who are scrappy and efficient provide the most alpha.

Refreshing an analysis[1] previously done by Founder Collective shows that for startups that went public between 2010 and 2018, those that raised more equity underperformed their leaner counterparts (measured by the efficiency multiple).[2] **This is likely because too much capital can create unwanted dependencies such as relying on unsustainable burn, inefficient growth and loss of exit optionality.** For IPOs since 2019, the difference between the efficiency of the top and bottom 20 IPOs has narrowed. Though this reflects two sets of circumstances: 1) the growth-at-all-costs environment that began in 2019 and 2) the IPO cohorts of 2019 and 2021 benefiting directly from the digitization post-COVID.

However, with capital no longer a commodity, the performance pendulum could shift back to favoring efficient startups. Moral of the story: Stocking your war chest and building your coffers is essential to grow but doesn't always lead to better outcomes.

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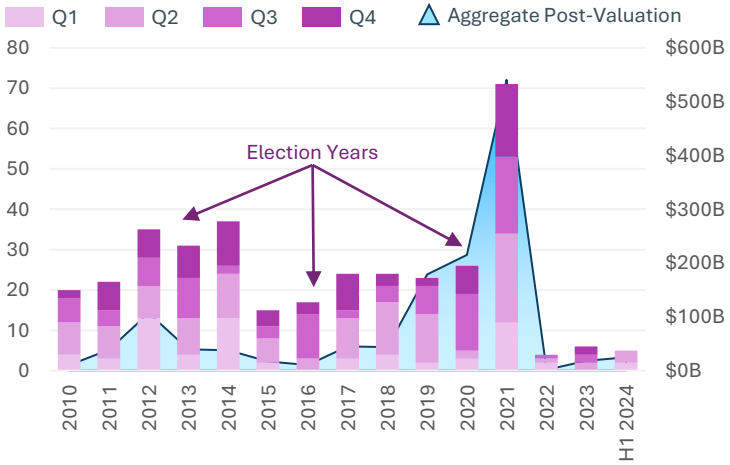
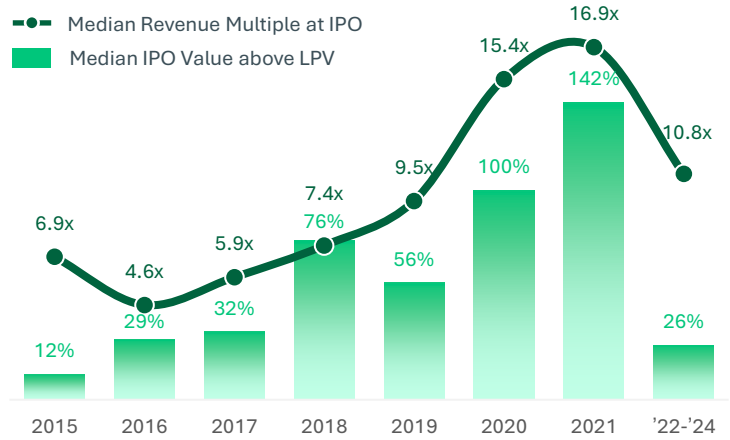
IPOs Remain at Lowest Level Since GFC

US VC-Backed Tech IPOs by Quarter and Aggregate Valuation



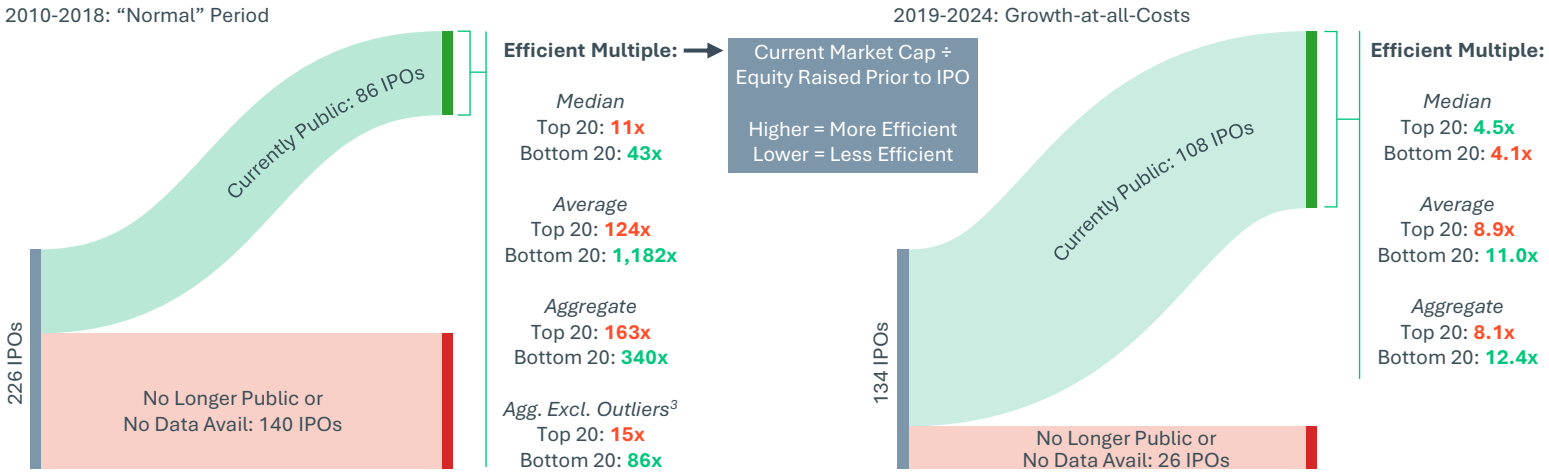
Revenue Multiples Looking Like Division

Median Revenue Multiple for US VC-Backed Tech IPOs and Post-Valuation Relative to LPV



Efficient Multiples: Capital Efficient to Growth-at-all-Costs and Back?

Efficient Multiples for Top 20 and Bottom 20 US VC-Backed Tech IPOs by Equity Raised Prior to IPO



Notes: 1) Original analysis by Founder Collective can be found here. 2) Efficiency multiple is market cap divided by equity raised prior to IPO. Equity includes all traditional VC, as well as corporate, crowdfunding, growth equity, accelerator/incubator and angel rounds. 3) Outliers for 2010-2018 IPOs include Meta and Tesla from the top 20 and Veeva Systems and Arista Networks for bottom 20.

Source: TechCrunch, Founder Collective, PitchBook Data, Inc., S&P Capital IQ and SVB analysis.

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Marc Cadieux is president of Silicon Valley Bank's commercial banking business where he focuses on the needs of innovation companies at all stages of development, including the investors who back them.

Marc's career at Silicon Valley Bank, a division of First Citizens Bank, began in 1992. In the three decades since, he has held a variety of top credit and sales roles serving some of the world's most innovative companies. Most recently, he served as chief credit officer, appointed in 2013, and oversaw credit policy and process, credit underwriting, loan approval and portfolio management activities. He is a strong advocate of bank initiatives to expand opportunities for those who are underrepresented in the innovation economy. He serves as an executive sponsor for the company's employee resource group focused on women employees.

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Mark Gallagher is the co-head of the investor coverage practice. He and his team provide tailored services, industry insights and strategic guidance to top investors in the innovation economy.

Mark has served as a financial partner to venture capital firms and technology and life science companies for the majority of his career. During his 22-year tenure with SVB, he has been involved in a number of strategic projects and initiatives, most recently leading the corporate venture capital practice. He's held numerous leadership roles including head of the Northeast technology banking practice, head of business development in New England and several years running the Northeast life science practice.

A supporter and champion of the New England technology community, Mark serves as a board member for BUILD Boston and was formerly on the board of overseers for The Mass Technology Leadership Council (MTLC).

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