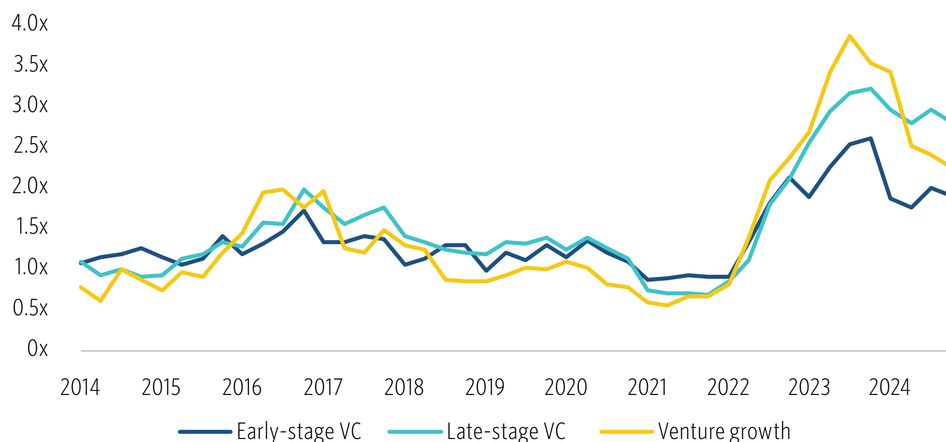
**Susan Hu**
Associate Quantitative Research Analyst
susan.hu@pitchbook.com

# Outlook: The demand-supply imbalance for late- and venture-growth-stage companies will remain above 2016-2020 trend averages.

## Capital demand-supply ratio by stage




Source: PitchBook • Geography: US • As of October 31, 2024

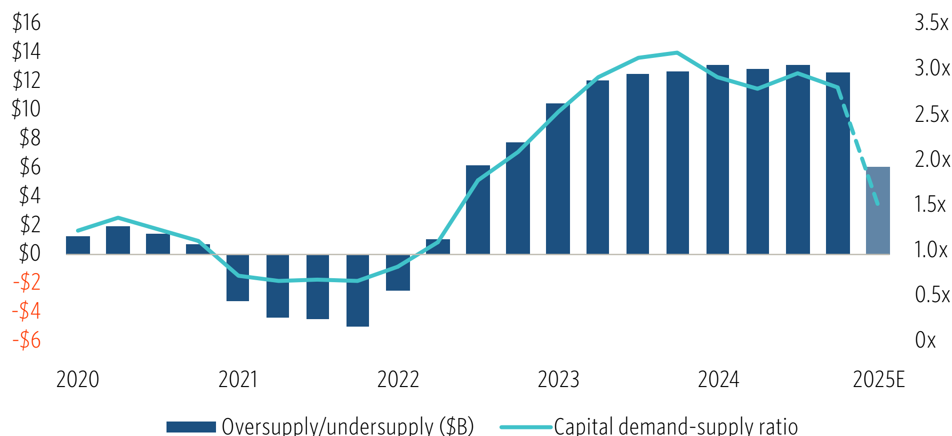
### *Rationale*

From 2016 through 2020, the average capital demand-supply ratio for the venture market was approximately 1.2x for late-stage companies and 1.4x for venture-growth-stage companies. This indicates that there was consistently more capital needed by startups than was being supplied by investors. Our venture capital demand-supply ratio measures the balance between the capital deployed by VC firms and other market participants (capital supply) and the amount of startups seeking to raise capital (capital demand). A 1x ratio represents a balanced market where supply equals demand. However, for late- and venture-growth-stage companies, estimated demand has typically exceeded supply, driven by their proximity to public markets. By 2023, the demand-supply ratio peaked at 3.5x for these companies, a significant imbalance wherein only $1 million was available for every $3.5 million demanded by startups, for example.

This ratio captures the cyclical nature of the venture market. During the 2020-2021 boom, near-zero interest rates and an influx of nontraditional investors created unprecedented capital availability, pushing the ratio to a low of 0.6x for late- and venture-growth-stage companies by Q4 2021. As macroeconomic conditions shifted, rising interest rates and inflation led to a retreat of nontraditional investors, quickly reversing the trend. By 2023, the demand-supply ratio surged to a peak of 3.5x, reflecting dwindling capital availability and heightened investor selectivity.

This environment has particularly impacted more mature startups, many of which raised large rounds during the 2020-2021 boom and now face challenges securing new funding at comparable valuations. A frozen exit environment has exacerbated these challenges, keeping many companies private. While some stronger startups have managed to raise capital, others have faced increasing financial pressure.

**Late-stage oversupply and undersupply by quarter with 2025 estimate**




Source: PitchBook • Geography: US • As of October 31, 2024
*Note: Estimated demand is based on historical demand curves.*

As conditions improve, and with the expectation that there is a relatively stronger exit market, we expect 2025 demand-supply ratios to meet or continue to trend above the 2016-2020 averages of 1.2x for late-stage companies and 1.4x for venture-growth-stage companies. Using the current inventory of deals, we project with the 2016-2020 historical averages that the observed deal value per month would need to reach approximately $15 billion for late-stage companies and $7 billion for venture-growth-stage companies. While an anticipated uptick in exit activity next year could restart the venture flywheel, the backlog of private companies and ongoing capital constraints suggest the recovery is likely to be gradual. We estimate that there are currently 18,000-plus late-stage and venture-growth companies in the inventory, accounting for 32.4% of VC-backed companies—of which at least 1,000 VC-backed companies have not raised another VC round since 2021.

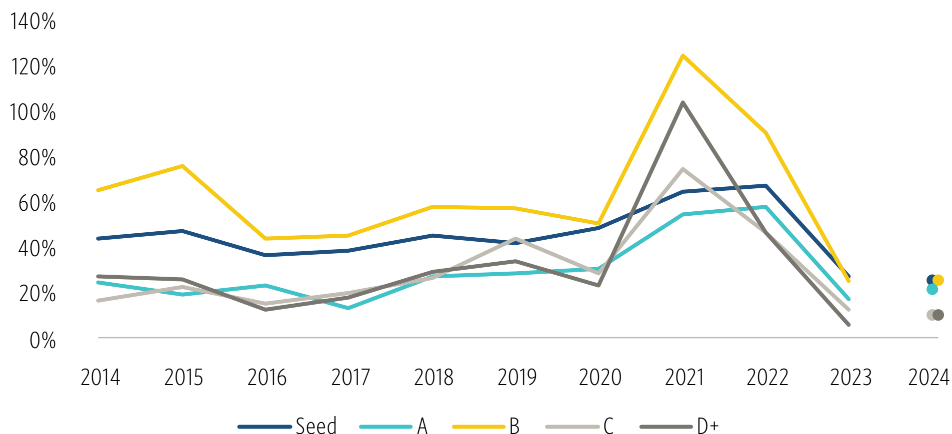
## *Risks*

A key risk lies in any significant changes that could bring the market demand-supply closer to parity, shifting the ratio away from the expected imbalance. A rapid reopening of the exit market, driven by increased IPOs or M&A activity, could release the backlog of later-stage demand, increasing distributions back to LPs. Additionally, as nontraditional investors offload part of their portfolio and as later-stage companies look to restructure in preparation for exit opportunities, strong potential exists for greater nontraditional investor participation into venture. Historically, VC funds that deployed capital during recovery phases have delivered stronger returns, further incentivizing re-entry into venture. Moreover, periods of high liquidity are often associated with faster deployment cycles. If nontraditional investors re-enter the market and traditional venture investors significantly increase deployment speeds, the anticipated imbalance above the 1.2x and 1.4x demand-supply ratio for late- and venture-growth-stage companies, respectively, may not materialize.

**Kyle Stanford, CAIA**
Lead Analyst, VC
kyle.stanford@pitchbook.com

## Outlook: Valuation growth for the market will rebound.

### Median RVVC by series




Source: PitchBook • Geography: US • As of November 16, 2024

*Rationale*

Companies are still being valued highly in the market. Notwithstanding the peaking interest in AI, most sectors continue to see the median valuation grow across stages. While roughly 30% of priced rounds are coming at flat or down valuations, it is easy to understand this dichotomy when measuring the speed and height of valuation growth during prior rounds. The median step-ups companies are attaining between rounds are gradually increasing back from the low points of 2023, though companies have taken significantly longer between financings than in the past. This length has driven annualized growth of valuations toward the ground.

Several factors will play into increasing valuation growth for companies. For one, an exit resurgence, even marginally, will likely place a higher premium on VC-backed companies. At the same time, strong companies have continued to garner high conviction from investors, and as the market consolidates, those companies will likely command even more of a competitive pricing boost.

We note below our belief that exits will begin to proliferate back into the market. The backlog of IPO contenders beginning to find liquidity will be a boost to the market in the form of capital able to be recycled into deals and funds, and positive momentum has been shown to boost spending for private shares of companies. The S&P 500 has been the darling of 2024, with almost continuous growth powered by megacap companies. While it has remained in the background, small-cap growth stock returns have been less robust until recently, when they began to share in the postelection surge. The Russell 2000 is near an all-time high—the first time it has flirted with a new high since 2021. Underlying the performance has been an expansion of small-cap growth revenue multiples, which bodes well for closing the gap between pricing expectations for highly valued private companies and public market investors.

Our PitchBook comp sheets reveal that trailing 12-month (TTM) revenue multiples in 2024 have been significantly lower than historical norms for technologies such as enterprise software as a service (SaaS) and fintech. Even public AI businesses have not been immune from multiple compression. These depressed multiples have capped valuation expansion amid a slower revenue growth market. That a large majority of companies have continued to raise new valuations higher than their last highlights rosier economic conditions. The expectation that interest rates are cut further in 2025 should also induce pricing growth. A normalization of the revenue multiples will positively impact the prices investors are able and willing to pay for private companies.

Over the past few years, VC has also been plagued by too many companies vying for the same dollars. This has placed pricing power into the hands of investors and created market dynamics where market share has been factored across a large number of companies, increasing customer acquisition costs and pressuring margins. Consolidation, whether through M&A or through company failures, will help reduce some of the costs that companies have already needed to be hyperaware while lengthening runway until the next investment can be closed.

These cost reductions for companies, alongside expanding multiples, will bring back valuation growth between financings, albeit toward more historical figures rather than the exuberant highs of 2021.

### *Risks*

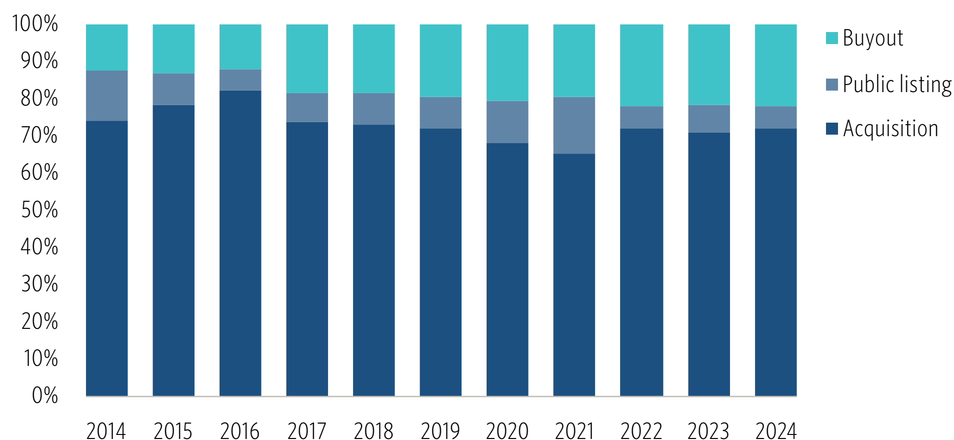
The risks for a return of valuation growth for companies are nuanced. From a market perspective, a continuation of poor exit opportunities will ruin the high expectations of investors, pressure their ability to continue investing in VC, and lower their expected returns projections. A group of established managers will be able to close new funds, supplying themselves with dry powder moving forward. However, those firms would find a favorable pricing market should the large swath of managers without new funds currently be unable to raise. The high valuations of 2021 were due to several factors, one of which was the high number of market participants competing for deals.

We expect down and flat rounds to remain elevated even if exits pick up. The overinvestment in VC during the zero-interest-rate-policy (ZIRP) years sent many companies into the VC lifecycle that will not be able to achieve the size and exit that VC needs. The too-high valuations of those years have also made it difficult for many companies to catch their revenues up to the prior valuation multiple. Because so many companies are in the VC inventory and many will find an underwhelming market because of that, there will be a relative amount of drag on market medians.

**Kaidi Gao**
Analyst, VC
kaidi.gao@pitchbook.com

## Outlook: An acute need for liquidity generation will spur an increase in acquisitions.

### Share of VC exit count by type




Source: PitchBook • Geography: US • As of November 15, 2024

*Rationale*

Over the past two years, the M&A landscape for venture-backed startups has reflected sustained sluggishness. YTD, our dataset recorded 699 acquisitions of VC-backed companies. The annualized figure for 2024 is on track to dip slightly below the level of 2023, which itself was a slow year for exits. Outsized mergers this year were few and far between, which was unsurprising given the heightened regulatory scrutiny and macroeconomic uncertainties that in turn challenged business optimism.

A large proportion of the largest mergers and acquisitions closed during the year came from the healthcare sector. YTD, the largest M&A deal was Roche's $3.3 billion acquisition of Carmot Therapeutics, the size of which overshadowed the second-largest exit, ProfoundBio's $1.8 billion acquisition by Genmab. This phenomenon can be attributed to industry particularities as well as the healthcare industry not experiencing the high valuation inflation of the tech sector, for example. In our VC Returns by Series: Part IV analyst note, we mentioned that, compared with their non-healthcare peers, biopharma and medical device companies are less impacted by the Federal Trade Commission's (FTC's) antitrust enforcement.

A potential shift in the regulatory landscape in the near to medium term may be a boon for large M&As. With the Trump administration's return to the White House, the predominant market view is that a less stringent, pro-business policy direction is underway. Current FTC Chair Lina Khan has been known for her commitment to blocking mergers on the grounds of antitrust laws. While not all her litigation attempts ended up blocking a deal, those investigations and lawsuits served as a considerable deterrent that large corporations needed to weigh against potential benefits from acquiring a target. If Khan was to be replaced by a successor with a more lax view on large mergers, the market may react to a more open regulatory environment by considering making more acquisitions.

We expect increased momentum in VC-backed acquisitions in 2025, driven by a heightened sense of urgency to generate liquidity among GPs, gradual convergence of price expectations between founders and buyers, as well as businesses seeking further expansion through inorganic growth. In the Q3 2024 PitchBook-NVCA Venture Monitor, we discussed how the lack of exits continued to weigh on LP liquidity positions. Both GPs and LPs have continued to speak of the urgency for liquidity generation. LPs' need for returns and capital recycling has manifested in GPs doubling down on the best-performing portfolio companies while trying to find homes for those unlikely to be an outsized success down the road. With a narrowed gap between buyer-seller price expectations, more founders have been willing to explore acquisitions as an exit strategy.

Another factor that should drive more M&A is companies seeking growth from acquiring strategically aligned peers, especially now that the valuation level has become more attractive compared with a few years ago, making it easier for businesses to swallow the costs. With the "cash is king" mantra, corporations with ample cash reserves have an edge in price negotiations, as acquisition targets and existing investors typically agree to a discount in cash offers. The appetite for acquisitions could come from corporate senior executives or from PE firms facilitating add-on deals for their platform companies. For the latter case, a series of projected rate cuts later this year and in 2025 will be a tailwind for PE-backed acquisitions due to lower borrowing costs.

### *Risks*

While lessened antitrust oversight will boost consolidations among large players and further expansion for incumbents, headwinds for smaller acquisitions from the past few years may persist, thus hindering the prospect of a slew of acquisitions. In 2024, we observed a lack of smaller acquisitions, which are not subject to antimonopoly scrutiny and are less affected by high borrowing costs. Major considerations for evaluating potential M&A opportunities, including integration costs, key employee retention in the case of a talent acquisition, as well as balancing near- and long-term value creation, point to corporate executives being highly cautious about making acquisitions. The overall emphasis on business fundamentals and unit economics as opposed to growth at all costs further sets the context for the slowdown in the M&A space and may carry forward in the coming quarters.

Additionally, extrapolating from historical M&A patterns during election years,[1] we might see a meaningful month-over-month uptick in the number of acquisitions closed in December, which would in turn boost the 2024 annual M&A exit volume and narrow the gap between 2024 and 2025 by M&A exit count. According to our Q3 2024 US PE Breakdown, the average M&A closed per month during election years in the US tends to surge in December, suggesting that companies tend to delay acquisition closings as they navigate election uncertainties. If similar dynamics play out this year in VC-backed mergers and acquisitions, the annual M&A deal number will likely experience a boost from closings announced in the last month of the year.

1: This data tracks all M&A deals, not just VC-backed M&A.

**Emily Zheng**
Senior Analyst, VC
emily.zheng@pitchbook.com

## Outlook: Unicorn IPOs will propel growth in venture exit value.

### Notable VC-backed unicorns likely to IPO in 2025

| Company | IPO probability | Most recent post-money valuation ($M) | Company age (years) | Industry sector |
|---|---|---|---|---|
| Chime | 91% | $25,000.0 | 12 | IT |
| CoreWeave | 87% | $23,000.0 | 7 | IT |
| Discord | 93% | $14,700.0 | 12 | IT |
| VAST Data | 94% | $9,100.0 | 8 | IT |
| Hinge Health | 67% | $6,200.0 | 10 | Healthcare |
| Lightmatter | 93% | $4,400.0 | 7 | IT |
| Arctic Wolf | 95% | $4,300.0 | 12 | IT |
| Patreon | 93% | $4,255.0 | 11 | B2B |
| Cerebras | 96% | $4,250.0 | 8 | IT |
| EquipmentShare | 97% | $3,750.0 | 9 | B2B |
| GrubMarket | 97% | $3,600.0 | 10 | B2B |
| Figure Technology Solutions | 9% | $3,200.0 | 6 | IT |
| Wellhub | 93% | $2,400.0 | 12 | B2B |
| MNTN | 45% | $2,019.0 | 15 | IT |
| Harry's | 34% | $1,700.0 | 12 | B2C |
| Turo | 91% | $1,280.0 | 15 | B2C |
| Kallyope | 94% | $1,136.0 | 9 | Healthcare |
| ShipBob | 29% | $1,125.0 | 10 | IT |
| Element Biosciences | 94% | $1,044.0 | 7 | Healthcare |
| Omada | 95% | $1,032.0 | 13 | Healthcare |

Source: PitchBook • Geography: US • As of November 16, 2024

### *Rationale*

Through Q3 of this year, $68.9 billion has been generated in exit value, with public listings constituting 45.7% of that total. Rather than focusing on the need for liquidity, which has already been examined in depth, this outlook focuses on the companies that *should have been* and *need to be* producing returns: unicorns.

IPOs have historically led the creation of venture exit value, and the recent drought has locked up a large proportion of potential returns in an aging unicorn population. Five IPOs of venture-backed unicorns from the first three quarters of 2024—Tempus AI, Reddit, Astera Labs, Rubrik, and Ibotta—had a combined pre-money valuation of over $17 billion, and Pony.ai's November IPO and ServiceTitan's December IPO raised the total past $26 billion. These five listings alone made up nearly 25% of the

exit value through Q3, further emphasizing their significance. However, over 43% of unicorns have been held in venture portfolios for at least nine years, a notable extension from pandemic-era highs due to the unfavorable exit environment and their continued ability to raise capital thanks to investor demand for top companies. The current median unicorn age is 8.4 years since their first VC round, an increase from 6.4 years in 2021 when exits occurred more frequently. Without unicorn IPOs to provide windfalls of realized returns, the venture market has remained strained over the last few years.

Simply forecasting that a flood of unicorns will finally exit in 2025 would be naive. The reality is that these companies will need to create liquidity for their investors, and secondary markets are not yet large enough to satisfy this need. Instead, we can create a theoretical list of companies likely to IPO with our VC Exit Predictor model.[2] For this outlook, we looked at VC-backed companies that are 6 years old and older with an IPO probability of 95% or higher and an Opportunity Score of 75% or higher, with the addition of startups that have already filed and the removal of any that have publicly announced that an IPO is not in line with their near-term strategy. With this data, separate scenarios were created for unfavorable, base, and ideal cases for the upcoming IPO year.

Our unfavorable scenario is that IPOs remain at the same level as 2024, which is a low bar, and would result in six unicorn IPOs with at least $20 billion generated in exit value. Of the 20 notable unicorns that have filed confidentially or are rumored to go public in 2025, including CoreWeave, Cerebras, and other companies listed in the table, the median post-money valuation is $3.7 billion. Assuming their next rounds are public listings, then multiplying this median with six IPOs leads us to about $22 billion generated, which falls above our assumed floor of $20 billion. Of course, it is possible that only small unicorns IPO next year. Our worst-case scenario is that only $7 billion is generated, which is calculated using the valuations of the six smallest companies in our notable unicorns table.

The venture market will feel some much-needed relief even if there are only a handful of unicorn IPOs next year. Because these startups hold so much value, their exits will still lead to distributions, feed into restarting the fundraising cycle, and contribute to the overall health of the VC ecosystem. Our base-case scenario is 12 unicorn IPOs in 2025, which assumes that 60% of the companies (20) in the table that have either already filed or are speculated to be actively planning will follow through. These 20 notable unicorns have a combined valuation of over $117.5 billion. Therefore, about $70.5 billion of exit value would be generated in this scenario.

Finally, our ideal outcome would be 20 unicorn IPOs, which is in line with pre-pandemic exit activity and could create $117.5 billion in realized value assuming all notable unicorns exit. Market conditions need to be ideal for this scenario to happen, which would include steady and significant interest rate cuts from the Fed and increased appetite for new listings from public investors, so startups no longer need to take haircuts to their valuations to go public like Reddit had to. A friendlier exit environment would encourage more startups to pursue public listings rather than remaining on the sidelines.

2: PitchBook's VC Exit Predictor calculates exit probability using a machine learning model that is fed historic and real-time data on private company exits.

### *Risks*

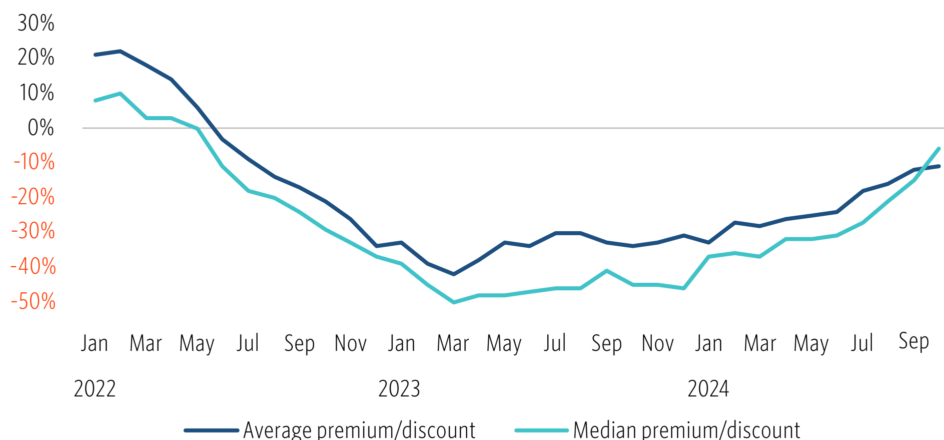
Where 2025's actual exit value lands will depend largely on market conditions. The strong backlog of IPO-eligible startups has grown steadily over the last three years because of sparse exit activity. Top unicorns may prefer to remain private because they have been able to easily continue raising capital despite overall stagnant venture dealmaking activity. For example, SpaceX was reported in early December to be weighing a tender offer that could increase its prior valuation from earlier in 2024 by $140 billion to a total of $350 billion. At this rate, SpaceX would not need to IPO in 2025 because of how much it is able to raise from eager investors—and it has shown no intention of doing so, either. If other strong unicorns follow suit, then only small unicorns would be likely candidates for public listings. This would lead to our worst-case scenario of $7 billion generated, merely one-third of 2024's total exit value.

The proposed tariffs from President-Elect Trump may also influence the venture market. The tariffs are anticipated to spike prices on imported goods, raise the overall costs of running businesses, decrease companies' investments in innovation, and decrease consumer appetite for public listings. Their financial impact will depend largely on their severity and breadth.

**Emily Zheng**
Senior Analyst, VC
emily.zheng@pitchbook.com

## Outlook: The secondary market will expand due to increasing demand.

### Median and average secondary premium/discount to last VC round




Source: Zanbato • Geography: US • As of October 31, 2024

*Rationale*

The secondary market is expected to play an even larger role in venture in 2025. Secondaries are mutually beneficial for investors and private companies, providing longtime shareholders with opportunities to realize returns while startups extend their timelines before going public. By reorganizing their cap tables, startups can exchange early investors for long-term shareholders who are not constrained by the typical 10-year venture timeline, encouraging better-aligned interests. After all, an IPO is simply an important milestone, but VC funds often treat it as the end goal.

2024 was another year of stagnant venture exit activity. The lack of realized returns pushed distribution rates down to near-decade lows, remaining in the single digits for eight consecutive quarters. Selling shares on the secondary market has become a popular solution for LPs looking for liquidity, especially because there are little to no other options without exits. However, increased investor demand to purchase secondaries has also risen as cautious investors want exposure to the highest-conviction startups, leading discounts to significantly recover and climb from 37% in January 2024 to 6% in October 2024. Most of the trading volume is concentrated amongst brand-name private companies, including SpaceX, Anthropic, Stripe, Databricks, and Discord, as reported on Notice.co and Caplight, both of which provide secondary pricing data.

The anticipated uptick in exit activity in 2025 will likely increase secondary market transactions. Though seemingly counterintuitive because secondaries serve as a liquidity alternative, with more capital flowing through venture, LPs will have more capacity to increase exposure to their top portfolio companies and gain access to promising startups at a discount. Sellers on the secondary market also benefit in a robust exit environment by avoiding the post-IPO lockup period.

Even if LPs are finally able to realize distributions in 2025, the reality is that a single year of exits will not be enough to fully replenish their wallets. Plus, not every company will exit as soon as the market reopens. Many top startups are staying private for longer because they have been able to continue raising financing despite the overall tepid dealmaking environment, which is much simpler than dealing with the costly and time-intensive hurdles of publicly listing. In 2024, the median age of a company raising a Series D+ round is near decade highs, at 9.7 years old, further supporting the case for secondaries.

As discounts approach parity and potentially even cross into premiums, the narrative around secondaries will shift. Currently, secondaries are a way to gain access to promising companies at lower price points. Once secondaries are traded at a premium, the market will become reminiscent of the pandemic era, when investors' fear of missing out led to oversubscribed rounds and secondary purchases above market value. This trend may exacerbate investor hype for access to particular companies—like those in AI—that may artificially inflate valuations far greater than company fundamentals and widen the chasm between the top performers and lower-conviction startups.

The recent rise of venture secondaries funds will also provide continuous tailwinds for this market. LPs have been allocating capital to these strategies even when fundraising overall has been tepid. Multiple firms have raised multibillion-dollar funds with this thesis, including NewView Capital, Industry Ventures, Lexington Partners, and Pinegrove Capital Partners. StepStone broke records in June when it raised $3.3 billion for the largest fund dedicated to VC secondaries. Venture secondaries are here to stay, at least for the next five or so years as these funds deploy capital and potentially become key liquidity providers and return generators for venture.

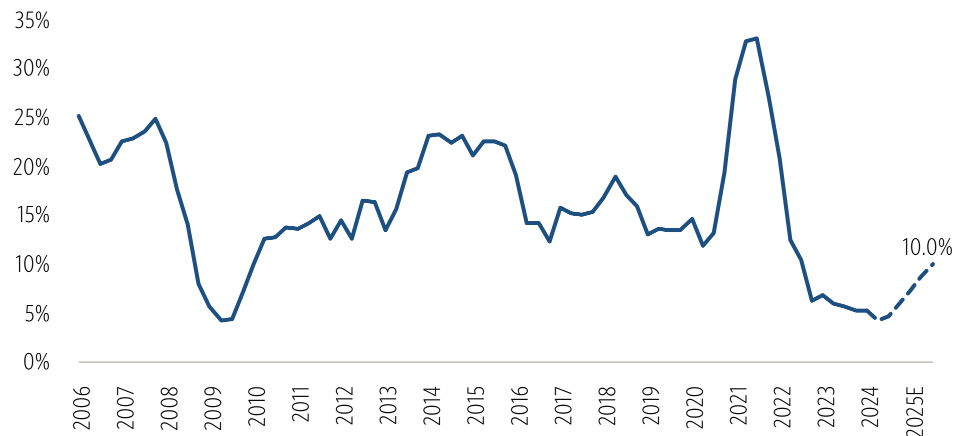
### *Risks*

The secondary market is currently not centralized or widely adopted. The multitude of secondary pricing platforms provides more transparency to the traditionally opaque private markets, though the lack of standardization on how companies offer secondaries and where they are traded will limit the market's growth. Many companies still do not allow transfers or enforce restrictions to control which investors are added to their cap table. Plus, transactions continue to be concentrated among a handful of top players. Even with increasing investor interest from this past year, the decreasing median discount is more a reflection of demand in the strongest companies than in venture overall because mediocre startups are not as actively traded—if at all—in comparison. For the secondary market to continue expanding, more startups without brand names need to be included and garner sufficient investor demand. Otherwise, the benefits of secondaries will be reserved exclusively for the top 1% of private companies and their investors, and the rest of the ecosystem will have no opportunities to benefit.

**Collin Anderson**
Data Analyst
collin.anderson@pitchbook.com

## Outlook: Distribution yields will increase for the first time since 2021.

### VC fund TTM distributions relative to NAV




Source: PitchBook • Geography: US • As of September 30, 2024
*Note: Data is based on 5- to 10-year-old funds.*

### *Rationale*

Distributions yields have been in a downtrend since their peak in Q3 2021. Distribution yields measure the proportion of the aggregate US VC fund net asset value that was distributed over the subsequent year. The most recent quarters have been some of the lowest on record, approaching the global financial crisis (GFC) lows of 4.2%. Unlike the current absence in distributions, the GFC lows were emblematic of the broader economic crisis stifling US capital markets. We are not facing the same economic turmoil. Unemployment remains low, inflation is decelerating, and public market indexes are posting strong returns. The recent dearth in distributions is not systematic; it is a hangover from the recent period of expedited market dynamics.

From 2010 to 2019, quarterly distribution yields averaged 16.4%. Over this period, it took VC-backed companies a median of 9.2 years to go from founding to an exit via public listing. Similarly, the median time between capital raises for VC funds remained stable at 2.7 years. These historical market dynamics began to shift in 2020 due to the low-interest-rate environment and the increased investor appetite for risk. VC-backed companies accelerated their timelines for public listings, dropping the median years since founding to 7.5. The increase in exit activity stimulated fund distributions, peaking at 33% in Q3 2021. The deluge of capital returned to LPs gave firms the opportunity to raise new funds at the quickest pace since 2010. When the music stopped, the ecosystem was stripped of many companies meant to fuel current distributions, and the leftovers were shackled by lofty valuations. Despite the lack of recent distributions, the average quarterly distribution yield since 2020 sits at 14.1%, near the historical average. This is further evidence to support the theory that the drought in current distributions was caused by expedited market dynamics and not a systematic disruption.

The last two years have given the ecosystem time to recover. The influx of dry powder has kept the market afloat while allowing firms to be more selective with their investments. The additional time has also given early-stage companies the ability to germinate and mature companies the time to grow into their valuations. The delay in distributions has also increased the demand for exit alternatives, leading to growth in secondary markets.

As we head into 2025, we expect distributions to reverse their current downtrend and head toward the historical average. As noted above in our outlook concerning VC exits, GPs are under pressure from current LPs to start returning capital, and the reset in market dynamics has finally opened the door for exit opportunities. There is a robust population of mature unicorns representing a substantial portion of venture capital, and the incoming administration plans to loosen the restrictions on M&A activity.

### *Risks*

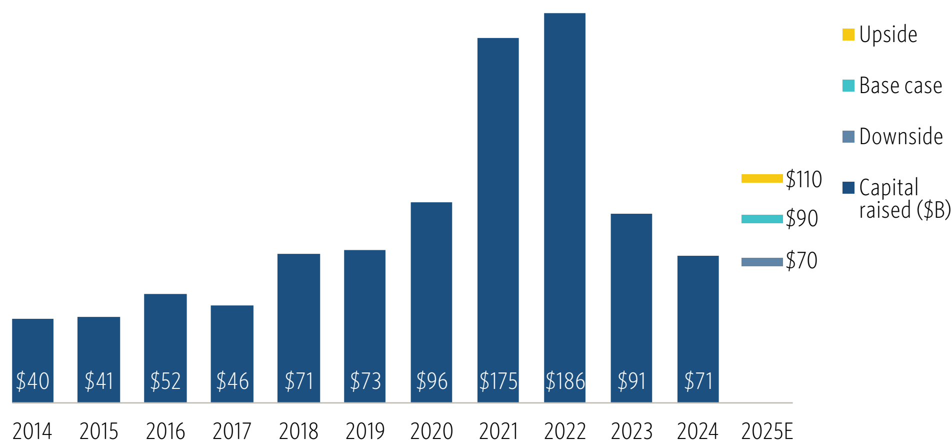
Public listings are the largest source of capital to fuel distributions. Understandably, companies prefer to enter the public markets during periods when investor risk appetite is elevated. The current public market environment remains sturdy. Even small caps have started to rally after underperforming market-weighted indexes, with the Russell 2000 outperforming the S&P 500 over the last year. Much of this performance can be attributed to stable employment, disinflation, and the Fed loosening monetary policy. Any change to this macroeconomic backdrop could adversely affect public markets, leading private companies to stave off public listings.

Another risk to our distribution projections comes in the form of market incentives. As touched on in our Q4 2024 note on evolving fund economics, there has been a shift in incentives for private market employees. Historically, payouts for founders and employees have been tied to the company's exit outcome, just like investors. Recently, companies such as Stripe and SpaceX have been able to raise tender offers to compensate employees with vesting stock options. Deals such as these allow employees access to early liquidity and decrease internal pressure for companies to push for an exit. Currently, these deals represent exceptions to traditional funding rounds caused by increased demand for exposure to these highly sought-after cap tables. However, if deals like this become more common, companies may stay private for longer to avoid the scrutiny of public market disclosures.

**Susan Hu**
Associate Quantitative Research Analyst
susan.hu@pitchbook.com

## Outlook: VC fundraising activity will surpass 2024 levels.

### VC fund capital raised with 2025 estimates




Source: PitchBook • Geography: US • As of November 16, 2024

### *Rationale*

In 2025, fundraising activity will remain constrained by historically low distribution rates and limited LP liquidity. Distribution yields have hovered at near record lows, with current levels comparable to those last seen during the GFC. As a result, the time between fundraising cycles has lengthened as many GPs choose to delay their next fundraising, particularly for smaller and midsized funds, which face the brunt of LP liquidity challenges. Also, larger, more established managers have continued to secure capital, though perhaps at reduced fund sizes. High-profile venture investors have scaled back their fundraising efforts. For example, Tiger Global closed a fund earlier in 2024 at $2.2 billion—63% below its initial target.

Amid these challenges, the gradual recovery in exit activity anticipated in 2025 points to a possible reversal. Healthier M&A volumes and the thawing of the IPO market are expected to unlock LP liquidity, providing momentum for new fundraising cycles. This shift could help alleviate fundraising challenges for smaller and first-time funds, which have faced acute difficulties in securing capital. Only 77 first-time funds have been raised YTD, a sharp decline compared with 215 in 2023.

Our fundraising projections leverage a time series framework that analyzes historical distribution data and market conditions to forecast future activity. Using TTM distribution trends, the model refines its estimates by detecting shifts in seasonality and macroeconomic factors. Scenarios modeled include distribution rates of 5%, 10%, and 15%, benchmarked against historical averages from 2016 to 2020, with the base case assuming 10% distribution rates. In our base case, capital raised for 2025 is projected at approximately $90 billion. Downside scenarios estimate $70 billion, while upside projections reach $110 billion if market conditions improve earlier than anticipated.

Deployments of 2022 and 2023 vintage funds have been slower as investors adjusted their capital pacing strategies in response to market downturns and limited liquidity opportunities. This cautious deployment has contributed to an elevated capital demand-supply ratio, keeping the dealmaking environment investor-friendly. However, as fundraising activity is projected to increase in 2025, the influx of new capital, combined with uncalled commitments from recent vintages, can relieve pressure on capital-starved startups.

### *Risks*

While the outlook is optimistic, several risks could dampen recovery prospects. A delay in increased distributions, paired with limited exit opportunities, may prolong the liquidity crunch. Furthermore, established VC managers, such as a16z, General Catalyst, and Accel, have continued to raise capital in recent years by leveraging their GP networks to secure outsized commitments during challenging market conditions. These funds, having already raised significant capital, may contribute less to future fundraising momentum in 2025.

Additionally, our prediction does not account for the impact of outsized funds, such as the $40 billion AI-focused fund from a16z in partnership with Saudi Arabia's Public Investment Fund, which is expected to close by the end of 2024 or in 2025. While these large-scale commitments will increase overall fundraising figures—accounting for 56% of the $71 billion tracked YTD in 2024—they are not reflective of the broader market challenges.

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