Road to Next

Q3 2024

Exit avenues: The era of inside and down rounds

Executive summary
Bottlenecked exits are starting to flow again, liquidity is still a priority

Exit trends
Expansion-stage exits show early signs of recovery in 2024

Sector trends
Health tech, artificial intelligence (AI), and oncology see exit value surge in the year to date

Spotlight
"Flat is the new up": Recalibrated valuations set a stricter tone for new financing

Regional trends
Coastal dominance remains, but more eyes are on Texas

Looking forward
Sustained exit momentum could create ripple effects for H2 2024 dealmaking

Deloitte.

Data provided by PitchBook

Editorial team

"There is a stronger sentiment that 2024 marks the 'bottoming out' stage of venture dealmaking. It is still early in the recovery stage, but things are looking better."

Heather Gates

Audit & Assurance Private Growth Leader, Deloitte & Touche LLP

With more than 30 years of financial services experience, Heather serves as the national Private Growth leader, with oversight of the Deloitte Private, Emerging Growth Company, and Private Equity businesses within Audit & Assurance.

"Following a painful period of dislocation, private markets are now seeing green shoots in 2024. Valuations and M&A volumes are ticking upward as most companies have 'righted the ship' and acquirers are reapproaching opportunities for inorganic growth. Bespoke liquidity options remain in place, particularly in the highly competitive later stages."

Kevan Flanigan

US Deloitte Private Risk & Financial Advisory Leader

Deloitte Corporate Finance LLC

With more than 30 years of extensive investment banking and financial advisory experience, Kevan serves as the Client Excellence leader for Deloitte's US Automotive practice and the US leader for the Deloitte Private Advisory services practice. Based in Los Angeles, he has served automotive OEMs and suppliers, as well as automotive aftermarket and technology companies.

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Deloitte and PitchBook have collaborated to produce a unique methodology for the Road to Next series to better analyze a new segment of companies that emerged in the 2010s. Dubbing this segment the "expansion stage," the methodology uses investment data restricted to late-stage venture capital (VC), private equity (PE) growth, and private corporate financing. In addition, companies must still be privately held by investment firms.

Executive summary

Bottlenecked exits are starting to flow again, liquidity is still top of mind

Themes and key findings for this issue

- Exit activity has always been a critical metric for private markets, but the unique confluence of factors that has emerged over the past 18 months is increasing attention on the recent liquidity squeeze and, perhaps more importantly, the path back to stronger dealmaking.
- The liquidity spigot has begun to trickle again, and growing sentiment assumes that the worst of the dealmaking slump may be over. Markets are pricing in interest rate cuts before the end of this year, with early signs of economic cooling after a prolonged battle against inflation. Public market rallies in the first half of 2024 provided encouragement for companies waiting in the wings for their listing debuts.
- In the meantime, however, most companies are finding it necessary to consider alternative liquidity options. A growing number of inside rounds and down rounds are closing as expansion-stage companies seek out more efficient financing. Post-initial public offering (IPO) secondary transactions, referred to in the report as "liquidity events," also grew in popularity as some investors approached liquidity and portfolio management more creatively.
- The software-as-a-service (SaaS) and life sciences verticals drove the majority of expansion-stage exit value in the first half of the year, while the health tech and AI and machine learning (ML) verticals experienced the strongest gains. (See page 12 "Expansion-stage exit value ($B) by emerging tech vertical" table.) Several transactions worth more than $1 billion each closed, representing growing interest in areas including glucagon-like peptide-1 (GLP-1) obesity treatments and AI-enabled software platforms. AI maintains its grip on several industries, with no signs of pulling back in the next few quarters.

Exit trends

Exit value ticked upward in Q2, but it is too soon to call it a proper recovery

Compared with 2023, expansion-stage exit activity has demonstrated greater momentum in 2024, with Q2 notching the highest quarterly exit value since Q4 2021. Total exit value for the first half of the year nearly doubled compared with the same period last year, suggesting that the market may be on track for its first year of growth after two years of declines.

The “wait-and-see” approach that many companies took in response to the market correction has been stretched to its limits by the Federal Reserve’s (the Fed’s) “higher-for-longer” interest rate strategy. The result has been a tepid reentry into exits for the expansion stage for two primary groupings: stronger companies seizing what they see as a window of opportunity despite headwinds, and undercapitalized companies that move forward with transactions out of necessity.

$88B

Cumulative expansion-stage exit value in the first half of 2024 represents nearly double the amount closed in the same period last year across 7.5 percent fewer transactions.

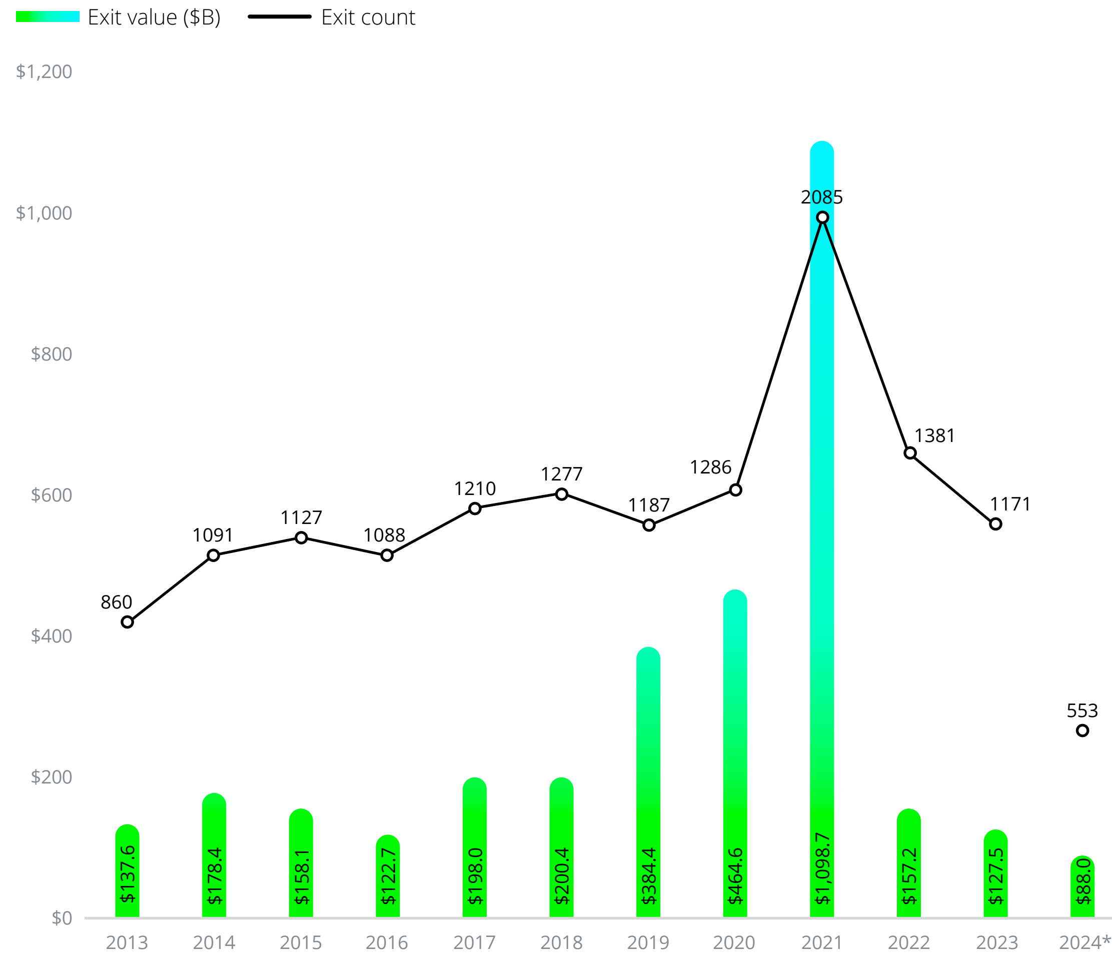
18.9 years

The average age of an expansion-stage company at the time of its exit in 2024 has ticked downward from 20.6 years in 2023.

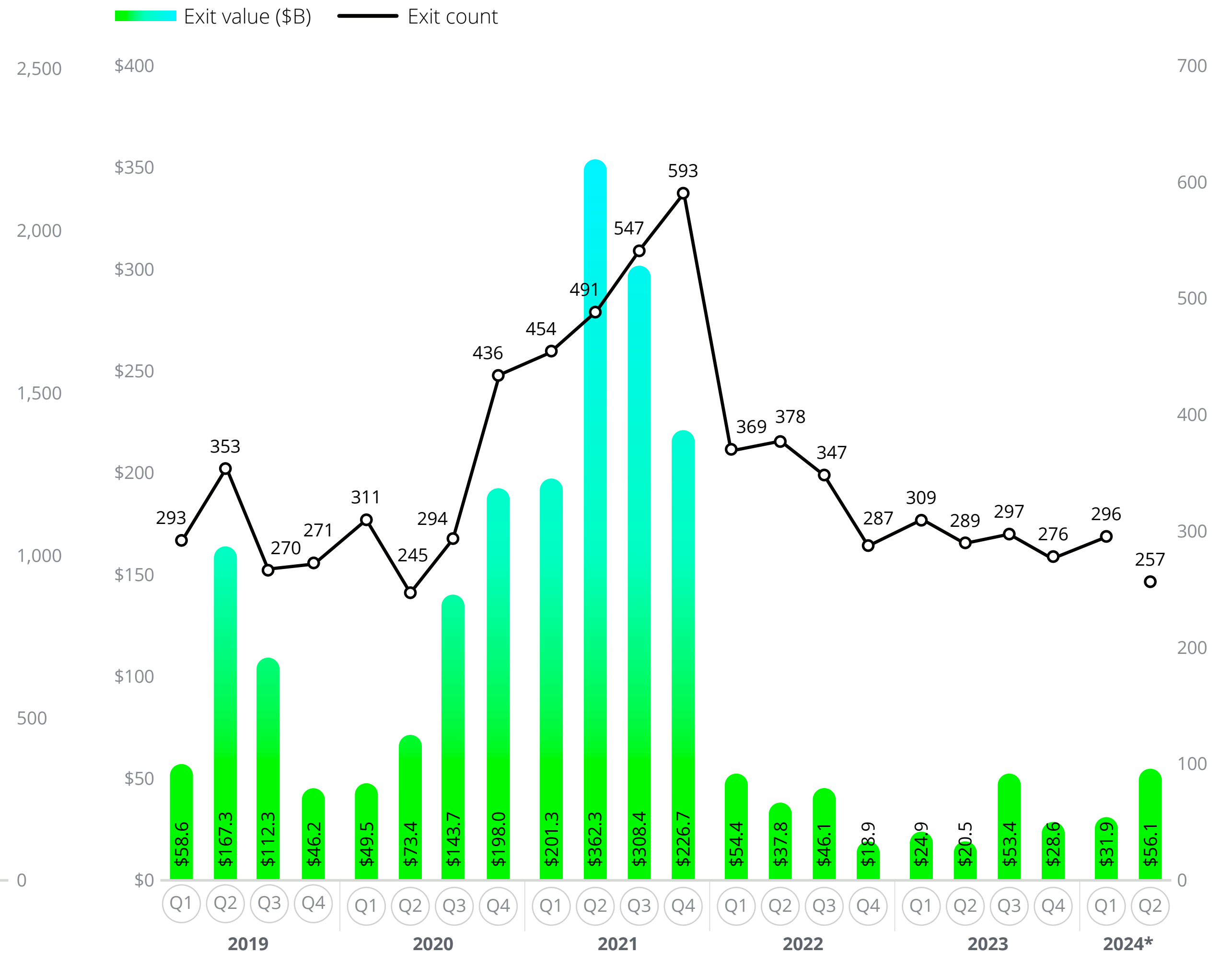
12.1%

AI and ML companies represent a significant and growing share of all expansion-stage exits, up from 7.9 percent last year.

Exit trends



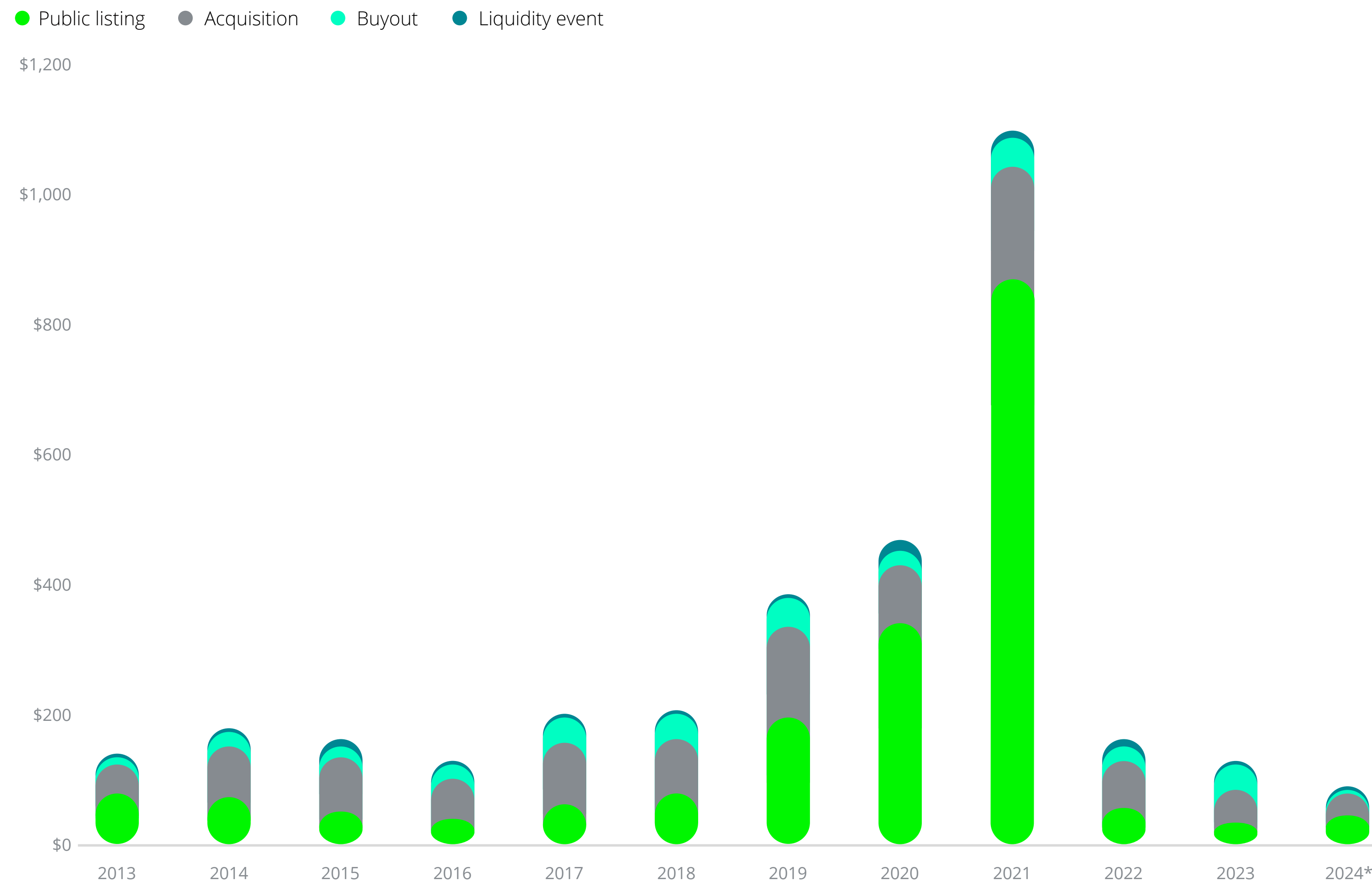
Source: PitchBook | Geography: US | *As of June 30, 2024



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

Exit trends

Acquisitions remain the favored exit track as investors and management alike maintain a particularly timid approach to public listings, with a few notable exceptions. According to PitchBook data depicted in the "Expansion-stage exit value ($B) by type" chart, acquisitions collectively generated nearly $50 billion in total value last year and more than $33 billion just in the first half of this year. Public listing value also swelled thanks to a handful of large outlier IPOs. In fact, cumulative public listing value so far this year already exceeds last year's by more than one-third. Beyond the dollar value, the number of public listings also appears on track to meet last year's total.



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

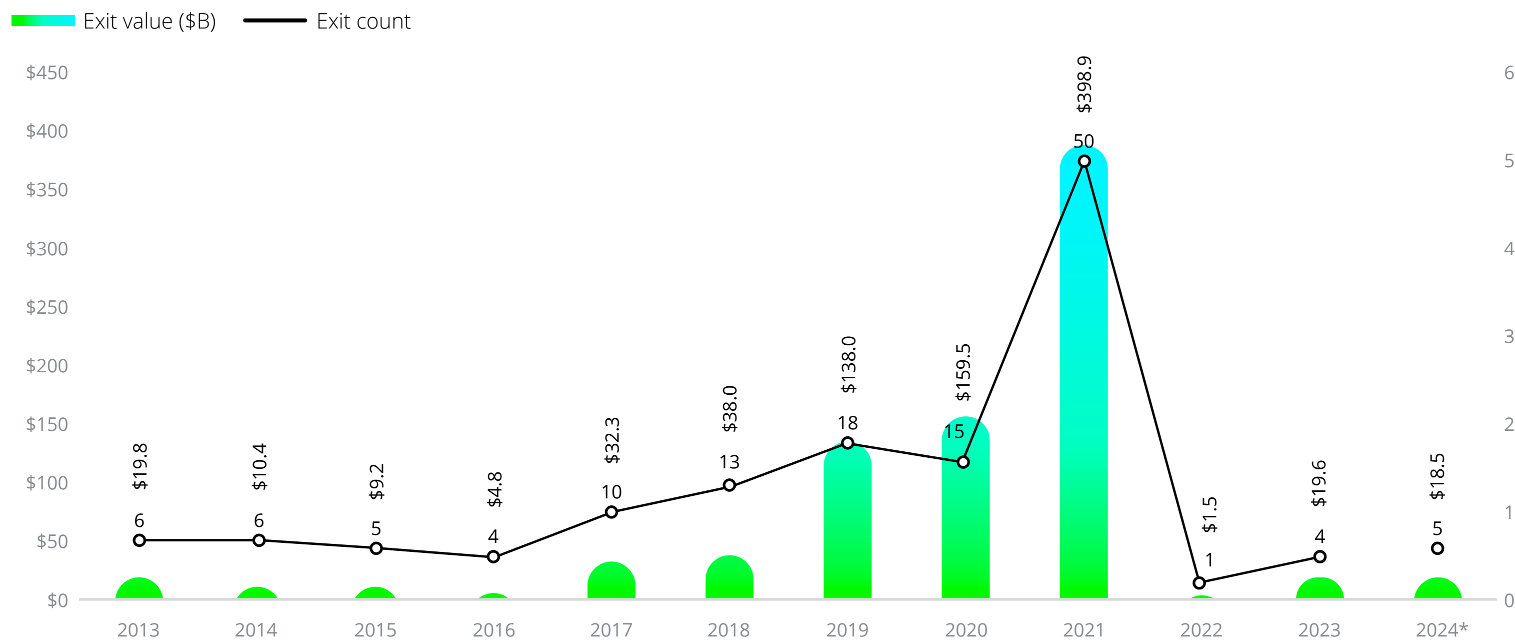
Exit trends

Unicorn IPOs screeched to a halt in 2022, but momentum is returning

Public listings for unicorn companies all but disappeared in 2022 as their IPO count plummeted from 50 in 2021 to just one. There appears to be a slow crawl back to even pre-pandemic levels of activity, with many companies losing their unicorn status and even more companies reconsidering IPOs given the current exit climate. The minting of new unicorns has also sharply corrected, thereby shrinking the pipeline of the highest-valued companies in a testament to more measured and critical approaches to valuations. Five unicorns completed IPOs in the first half of 2024, which already outpaces the four that closed in all of 2023.

Beyond unicorns, examining all former expansion-stage companies that went on to IPO reveals a nearly even split between those whose public valuations exceeded the highest private valuation they achieved prior to exiting and those whose public valuations fell short of that threshold. In other words, there is a roughly 50 percent chance that a company will generate more value in the public markets than during its pre-IPO days. These odds may not be enough to inspire a mass revival of IPO candidates yet, particularly for the highest-valued companies with more to prove.

Unicorn IPO activity



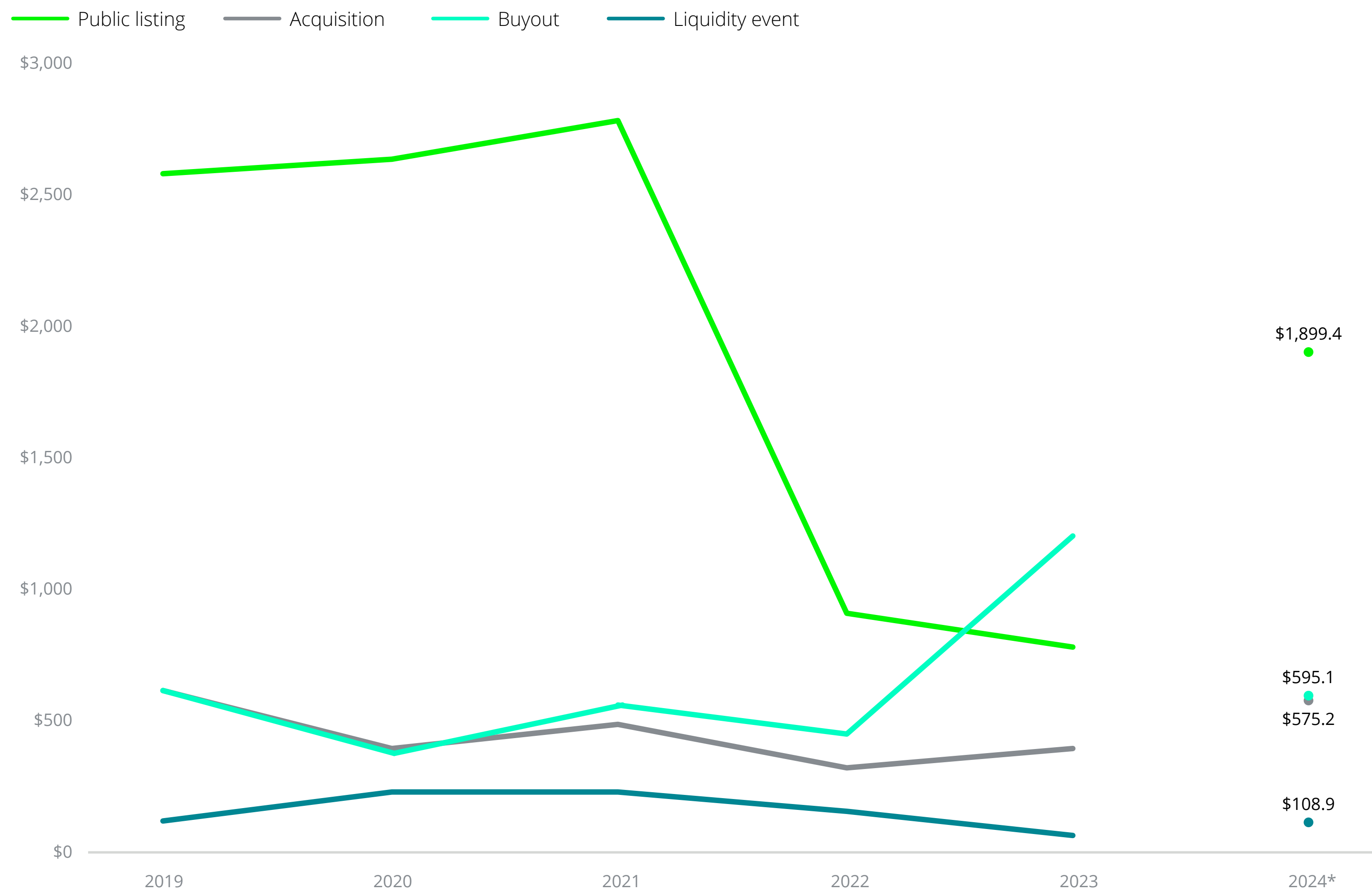
Source: PitchBook | Geography: US | *As of June 30, 2024

Exit trends

The average public listing size for an expansion-stage company has more than doubled this year compared to 2023, driven upward by the largest deals in a smaller sample size. Similarly, public indexes exhibited strong performance in the first half of 2024, skewed heavily by the "Magnificent 7" tech stocks benefiting from AI exuberance.[1] By comparison, in a more realistic and encouraging sign for companies aiming for new listings in the near term, equal-weighted and small-cap indexes drew in lower but still positive returns.

On the PE front, cumulative buyout value surged in 2023 due to rising leverage costs and a growing number of opportunities for portfolio additions and optimization, including several outlier deals. The number of new buyouts has held steady this year, but their cumulative value has fallen flat at $8.6 billion compared with $43.7 billion in full-year 2023. The average buyout size also dropped by more than half, with fewer large outlier transactions taking place this year.

Exit trends



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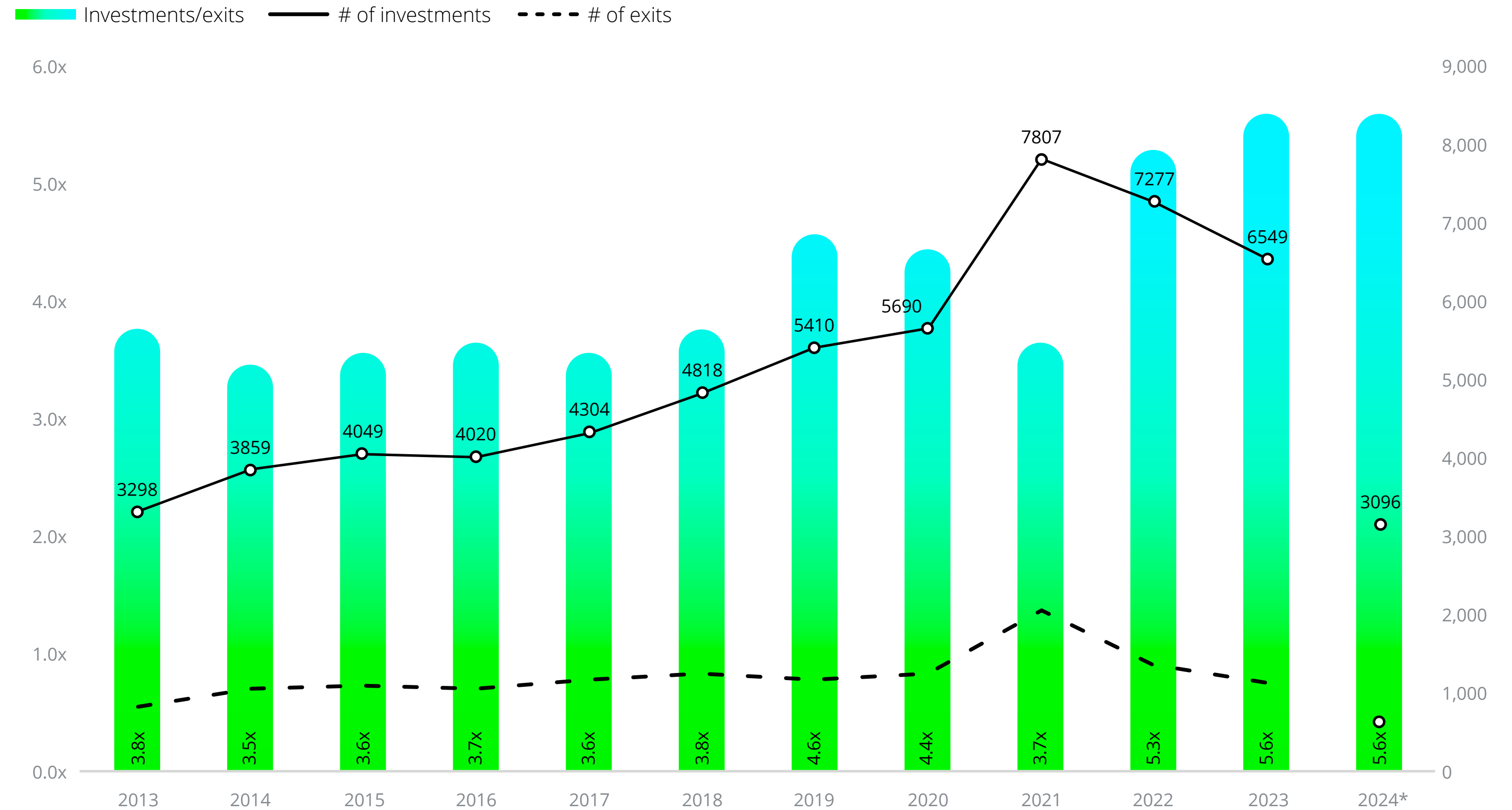
Now that the post-2021 valuation reckoning has largely played out, the road ahead for valuation growth appears more balanced. As noted by Heather Gates, Audit & Assurance Private Growth leader at Deloitte & Touche LLP, markets "needed a point of reconciliation for valuations. The hypothesis is that dealmakers are now meeting in the middle, or at a minimum, where they are comfortable with returns on valuations." Greater emphasis placed on profitability, and sustainable growth may, in fact, work out better for well-positioned expansion-stage companies and contribute to a healthier pace of unicorn creation.

Exit trends

Deals are still closing, but the liquidity crunch looms overhead with slower replenishment

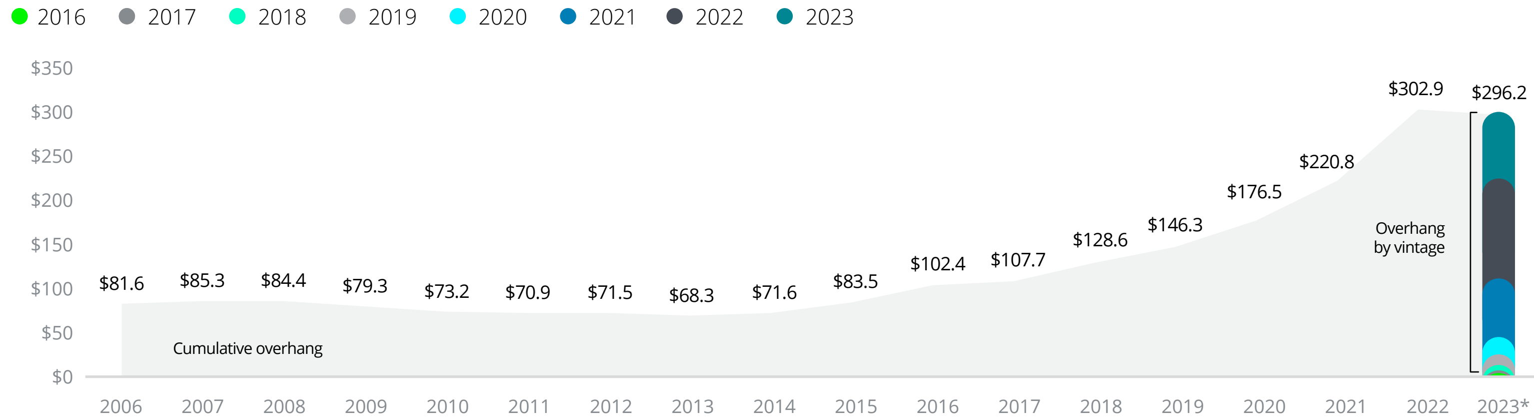
Because exit values determine the volume of capital returned to investors, they can provide an early indicator of the pace of new dealmaking in the coming quarters, barring any drastic external factors. The ratio of expansion-stage investments to exits remains elevated at a record high of 5.6x, indicating that IPO bottlenecks and investor liquidity concerns persist. With fewer exits returning cash to general partners (GPs) for reinvestment, a slower ramp-up of expansion-stage dealmaking may be in store. If inflation continues to cool in the second half of 2024, it will alleviate some concerns around growth prospects, thus buoying that recovery.

Expansion-stage exit count versus investment count

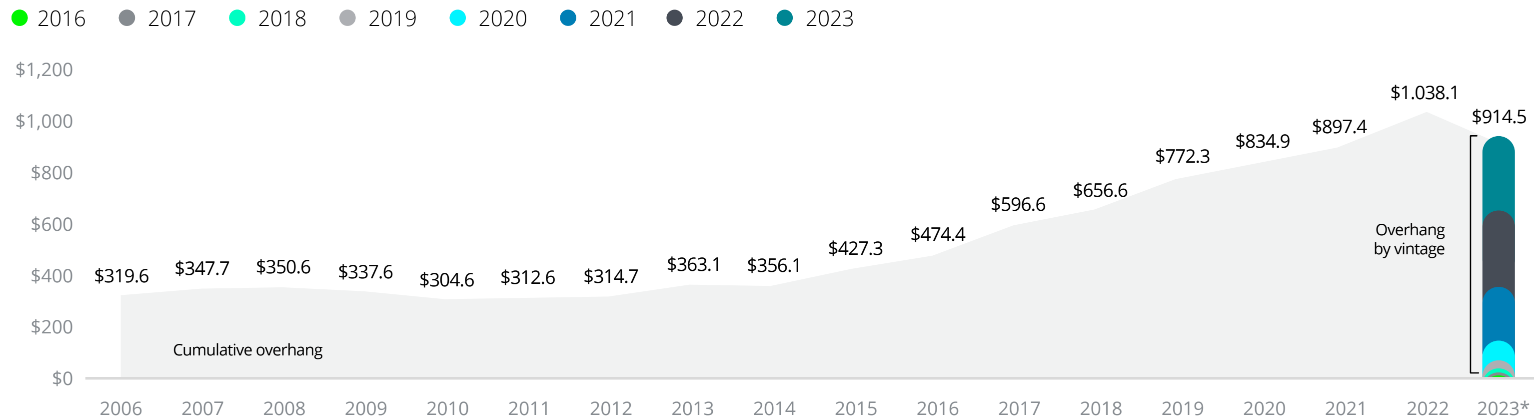


Source: PitchBook | Geography: US | *As of June 30, 2024

Exit trends



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



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

At the end of 2023, VC and PE firms alike sat on near-record levels of dry powder that was hypothetically available to deploy. However, persisting uncertainty around growth prospects and valuation resets contributed to a slowing of new check writing as well as sluggish replenishment of capital from hesitant limited partners (LPs). The revolving door of exits, fundraising, and check writing is playing out in real time, with slightly stronger forward pressure being applied in 2024.

"Firms still hold plenty of liquidity in the form of dry powder. With the latest cycle of interest rate increases likely complete, it is now a matter of when they are cut. A lower cost of capital may be on the horizon, and PE firms are demonstrating that they are ready to reengage."

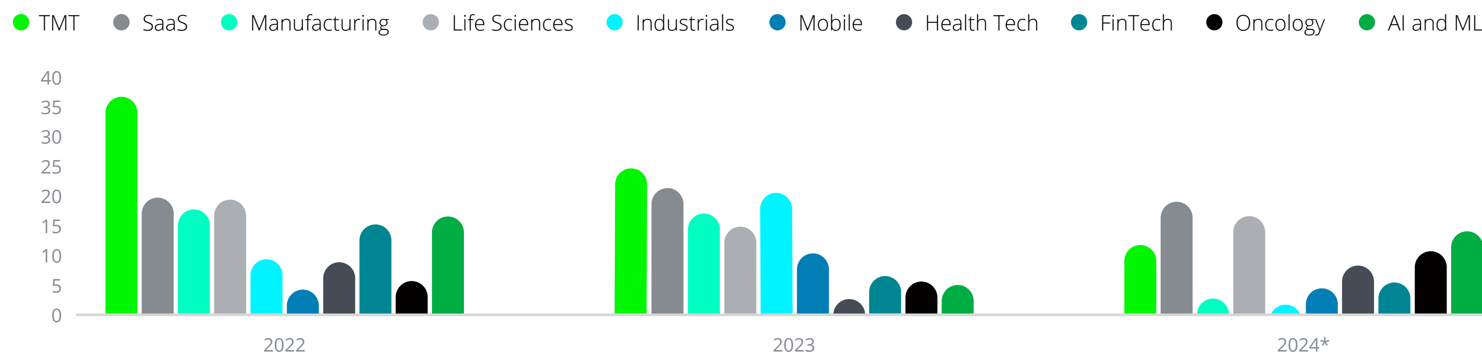
Kevan Flanigan
US Deloitte Private Risk & Financial Advisory Leader
Deloitte Corporate Finance LLC

Sector trends

Health tech, AI, and oncology see exit value surge year over year (YoY)

Last quarter's report focused on emerging tech segments, but zooming out to the broader expansion-stage universe reveals relatively strong exit activity in both tech and life sciences so far this year. Software platforms, and specifically those with AI integrations, certainly maintain their preponderance in both the expansion-stage dealmaking and exit arenas. At 67, the AI and ML exit count so far this year stacks up well compared with last year's total tally of 93. The combined value of this year's exits thus far reached $13.7 billion—nearly 3x that of last year's value. Bucking the trend seen in most other verticals, enormous valuations for certain companies operating in the AI space can still be justified to investors, reflected in rising median and average valuations for AI and ML companies according to PitchBook and NVCA's Q2 2024 Venture Monitor report, and acquirers clearly see the value as well. The longer-term vision for AI will likely result in an eventual pullback in the volume of capital investment and subsequent exits, but that remains on the horizon.

Expansion-stage exit value ($B) by emerging tech vertical



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

The health tech segment, defined as companies that provide information technologies to improve patient-centric health care, sits at the intersection of tech and life sciences. Among the expansion-stage health tech exits so far this year, a variety of transaction types exists depending on the specific application offered.

"The surge in AI dealmaking reflects its influence and applications across industries. AI technologies aim to create greater operational efficiency for businesses, which could favorably impact their strategic plans and, perhaps, shorten the timeline to reach profitability."

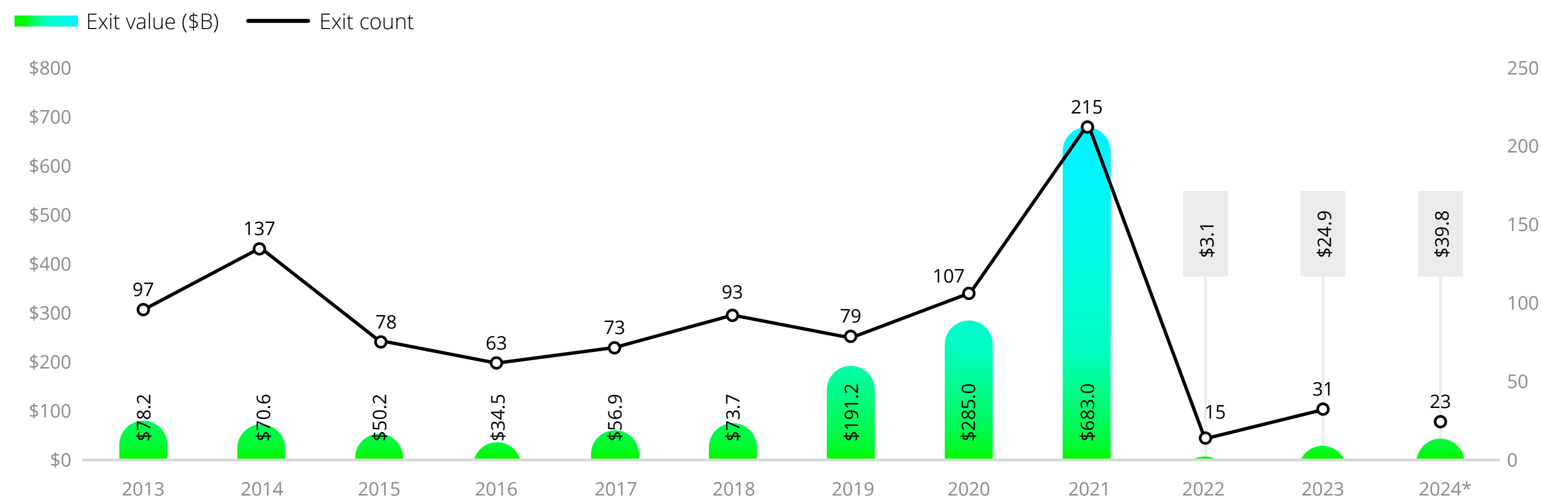
Kevan Flanigan
US Deloitte Private Risk & Financial Advisory Leader
Deloitte Corporate Finance LLC

Sector trends

The largest health tech acquisitions, of more than $100 million, were geared toward medical devices and solutions for laboratory testing, while more IPOs were closed by biotech and drug discovery firms. To date, total health tech exit value has more than tripled in 2024 compared with last year, for a total of nearly $8 billion.

Oncology remains one of the largest segments of the pharmaceutical market, and thus it typically represents a solid portion of exit activity. In 2024, this momentum continued, with the total exit value doubling compared with 2023. One large oncology acquisition worth north of $1.5 billion has closed so far this year, swaying the overall activity in the vertical. Even without this outlier, the total value has shown impressive growth in the first half of the year.

Among the 23 expansion-stage companies that opted to move forward with IPOs in the first half of this year, there is a strong presence of drug discovery companies as well as a few notable players in the software and semiconductor industries. Each of these groupings represents some diversion from the norm for various industry-specific reasons. Pharmaceutical and biotechnology firms typically go public earlier than other industries in order to finance therapeutic development and other capital-intensive research and development (R&D) initiatives. The software industry has benefited from the AI revolution, with more seamless integration of the technology into many existing platforms, and semiconductor manufacturers are also experiencing major ripple effects from AI in the form of surging demand for chips to power the technology.



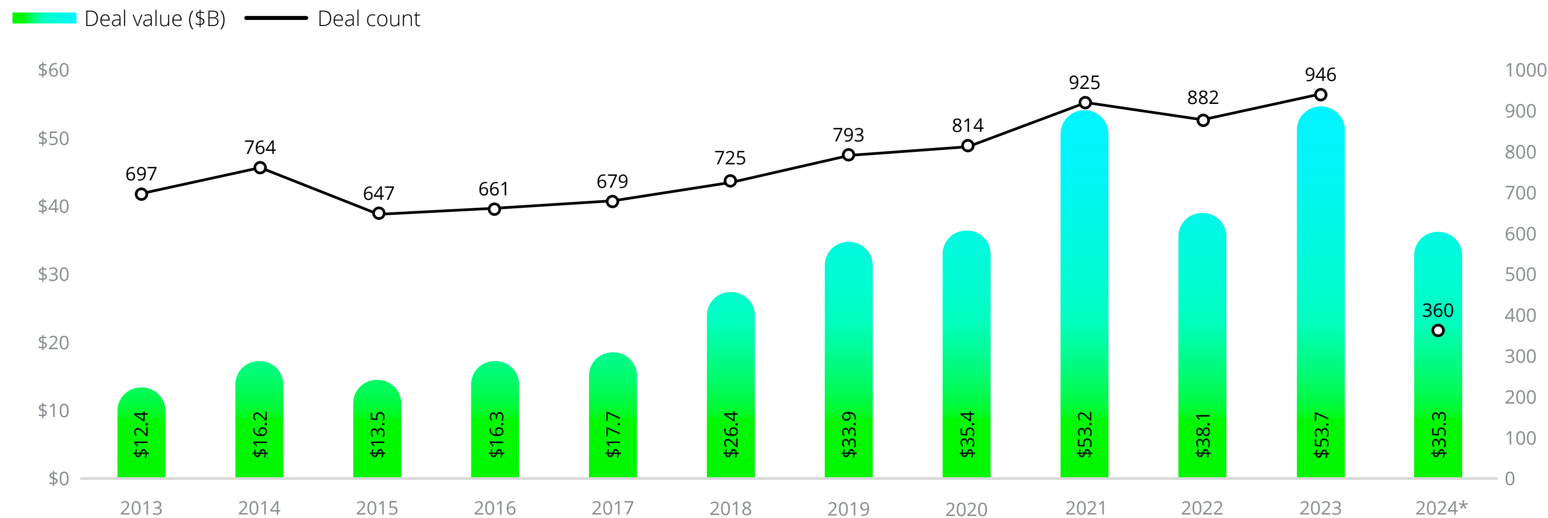
Source: PitchBook | Geography: US | *As of June 30, 2024

Spotlight

Expansion-stage companies are relying more on inside rounds and down rounds

A more positive outlook for exits is taking shape, and excitement in select sectors continues, but many expansion-stage companies are leaning more heavily on existing investors rather than scoping out new potential backers. In this report, inside rounds are defined as deals whose existing investors represent at least half of all participants and whose lead investors are all existing investors. In these scenarios, existing investors may want to double down on an investment because they have a positive outlook for the company and want to avoid diluting their stake. However, in many other cases, and particularly in times of low liquidity in the market, companies opt for an inside round simply because it is the quickest way to secure capital and remain afloat.

Expansion-stage inside round deal activity



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

Inside rounds accounted for more than $35 billion in capital in the first half of 2024, already exceeding the annual totals closed between 2013 to 2019. Inside round value has swelled over the past decade, acting as a popular liquidity option in both 2021 and 2023, with more than $50 billion in cumulative inside deal value closed in both years. 2023's substantial inside round activity was likely due to companies seeking a more efficient round of financing in a more difficult capital-raising environment than in 2021. The significant activity then grew alongside blockbuster growth in VC- and PE-growth markets as well as greater follow-on investment made during that time.

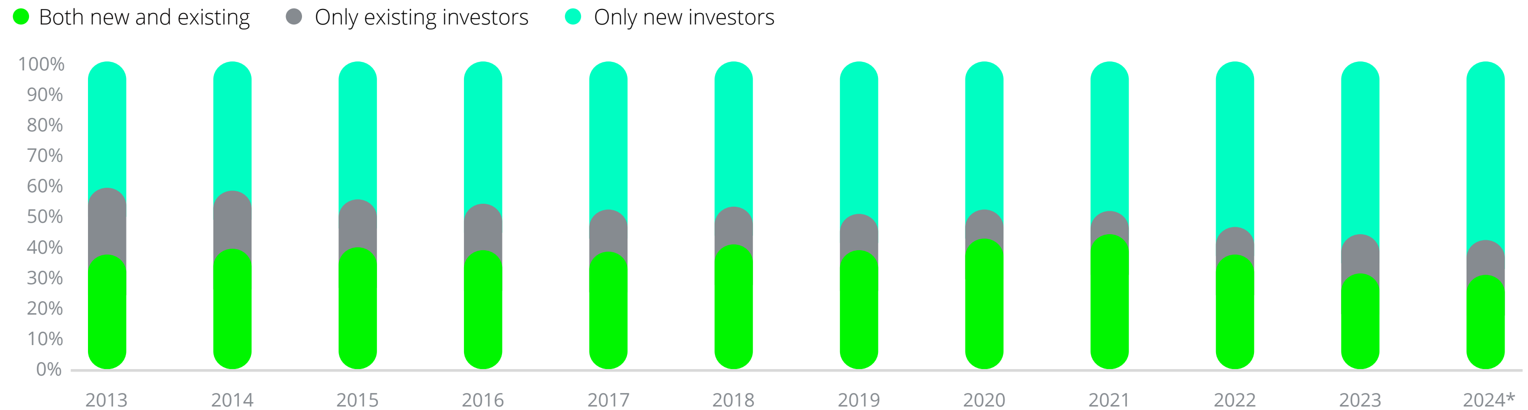
Demand for fresh capital is still high, especially for expansion-stage companies suffering from the success of the impressive valuations they secured prior to mid-2022. As discussed in the "Exit trends" section, collective dry powder is still high as well, but fundraising

Spotlight

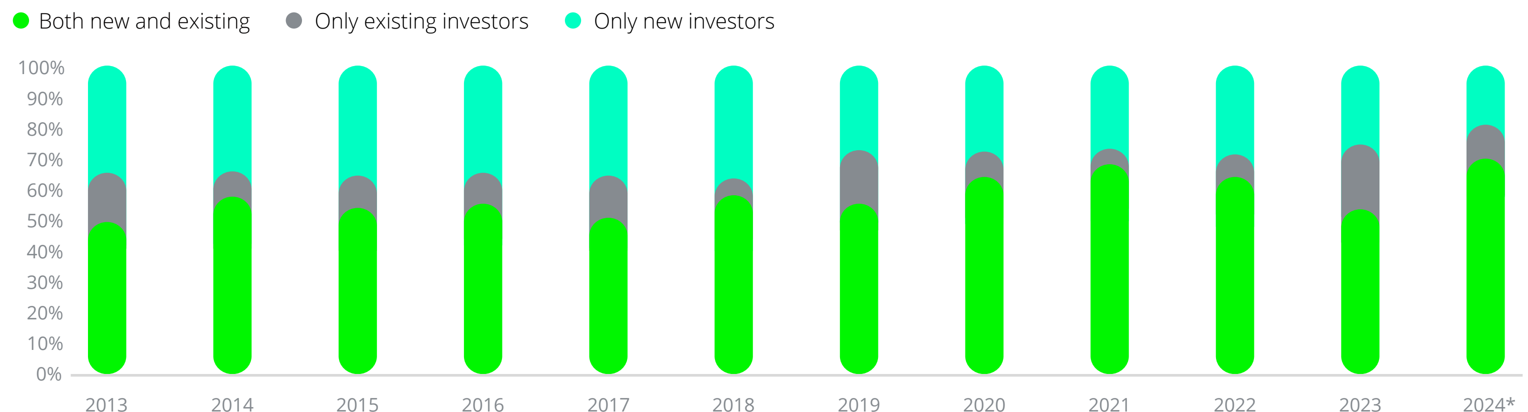
has slowed, and return prospects remain uncertain, meaning investors are still exercising a higher degree of caution in terms of their own liquidity. While many existing investors are acting as critical partners and capital sources for their portfolio companies, recalibrated expectations on both sides of the deal equation may be the key to a resumption of growth in dealmaking and eventual exits. Since 2022, more than 50 percent of expansion-stage deals have been done with an entirely new investor base.

"It is difficult for companies right now to raise even a flat round, let alone an up round. In this environment, 'flat is the new up.' Inside rounds are happening, but this is not sustainable. Ultimately, LPs need liquidity at a level for venture returns that demand bigger exits."

Heather Gates
Audit & Assurance Private Growth Leader
Deloitte & Touche LLP



Source: PitchBook | Geography: US | *As of June 30, 2024. Only showing deals with investor information. Excludes the first round of a company.



Source: PitchBook | Geography: US | *As of June 30, 2024. Only showing deals with investor information. Excludes the first round of a company.

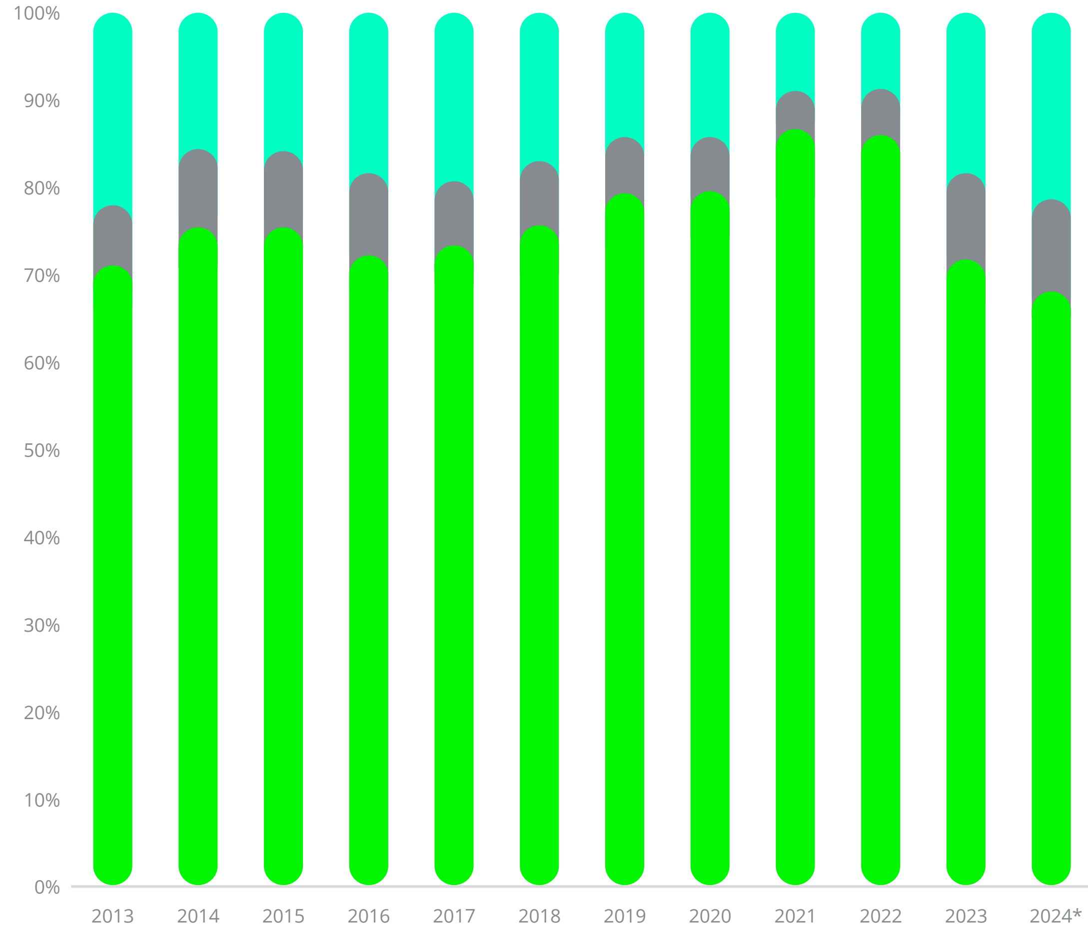
Spotlight

Another option for companies in a liquidity slump is to raise their next round priced at a lower valuation than their previous one. After waiting out initial uncertainties and macroeconomic shocks, more expansion-stage companies began to accept VC down rounds beginning in 2023, in a trend that persisted in the first half of 2024. More than 20 percent of all VC expansion-stage deals were down rounds in the first half of 2024, up from 18.4 percent in 2023 and marking the highest share since 2013. For valuations, "the rearview mirror effect is at play," states Kevan Flanigan, US Deloitte Private Risk & Financial Advisory leader, Deloitte Corporate Finance LLC. "Many owners are no longer looking for sky-high prices anymore."

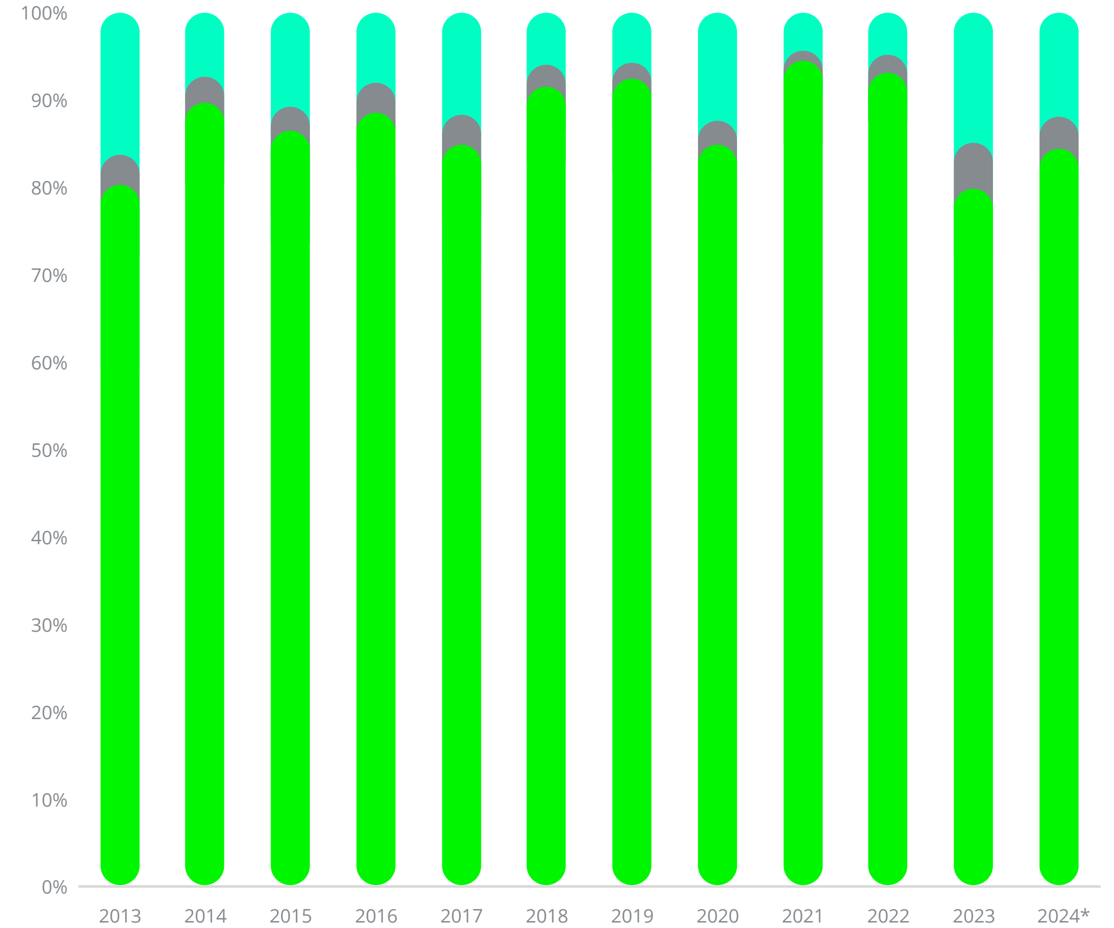
While down rounds negatively affect a company's reputation and dilute ownership, a down round may not be the worst possible outcome for companies or their investors if the alternative is no fresh equity capital at all. One important caveat in the down round data is its inherent survivorship bias: Only companies that raise a round are counted. For companies that are unable to raise any fresh equity capital regardless of valuation changes, options are limited and potentially painful. Budget rightsizing—often in the form of layoffs—has become a common theme for pre-breakeven startups that need to stretch resources until they can secure capital injection.

Pursuing alternative forms of debt financing is an option as well. As Flanigan notes, "Later-stage pricing dynamics come down to competition and leverage. Companies may engage with a PE firm and sacrifice more ownership or look to junior debt markets to secure liquidity while maintaining control." Although debt pricing has risen alongside the cost of capital, companies may find a place for it in their capital stack depending on the amount needed and compliance considerations. Flanigan continues, "Later-stage capital options are quite bespoke, and many companies are finding ways to construct different types of financing alongside their equity raises."

Spotlight



Source: PitchBook | Geography: US | *As of June 30, 2024. Only showing VC expansion-stage deals.



Source: PitchBook | Geography: US | *As of June 30, 2024. Only showing VC expansion-stage deals.

Regional trends

Much like dealmaking, expansion-stage exit activity is concentrated within existing hubs, with some dispersion

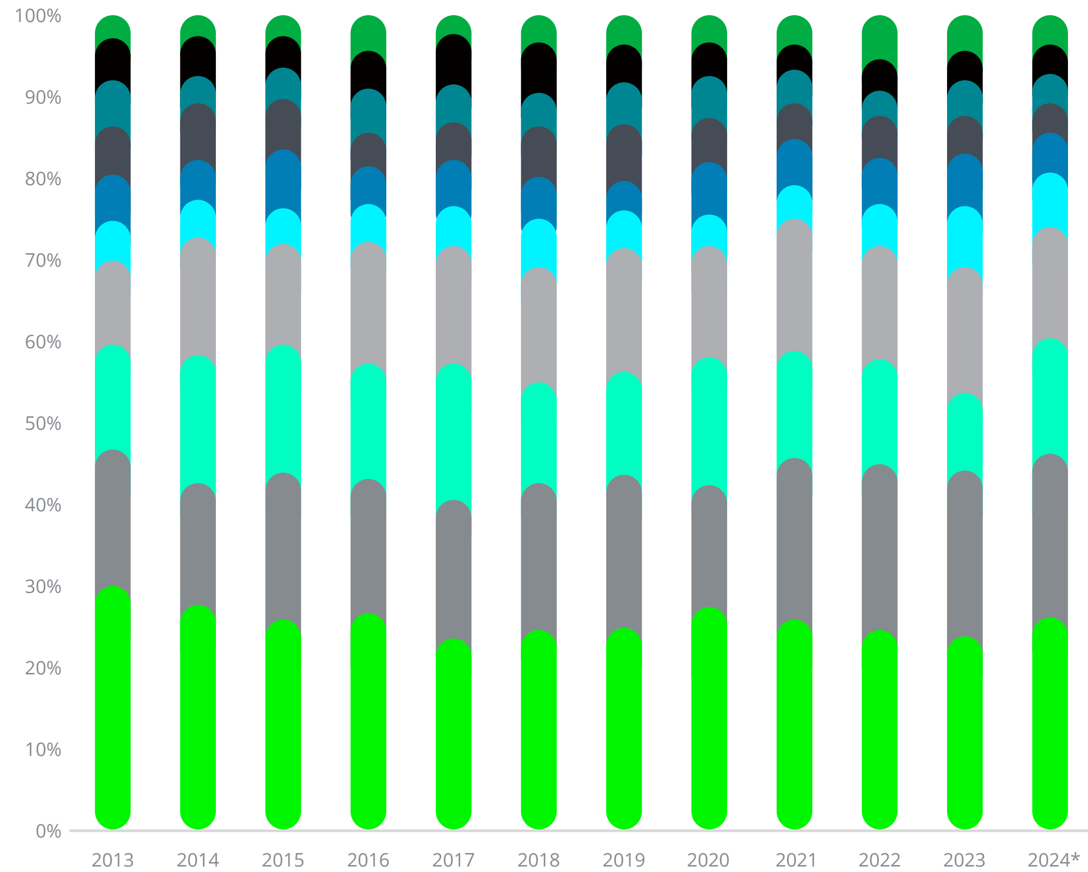
The enduring coastal hubs of the Bay Area and New York City maintain dominance in expansion-stage exit activity, together accounting for approximately 30 percent of the total exit count in the first half of 2024. Their collective share of the total exit value, however, has waned since 2021, with exit transactions dispersing across a wider array of locations. Noncoastal regions represent two of the top 10 regions for exit count so far in 2024 (Denver and Dallas-Fort Worth). An additional eight noncoastal regions rank in the top 20 regions, highlighting several midsize markets attracting talent, particularly in tech and life sciences. Two Texas regions (Dallas-Fort Worth and Houston) also consistently rank among the top 15 for exits. A group of institutional investors has laid out plans to launch a new stock exchange, the TXSE, in the Lone Star State to compete with the New York Stock Exchange and the Nasdaq, which could attract more listings for Texas metropolitan areas likely beginning in 2026.[3] Comparing 2024's regional year-to-date (YTD) exit counts with 2023's counts reveals that companies in Boston, the Bay Area, and Houston demonstrate the greatest resilience. So far this year, heavyweight exits more than $1 billion closed in several states outside traditional tech hubs, including Utah, Mississippi, and Indiana. Recent fundraising for VC and PE funds has become increasingly concentrated across the most experienced and entrenched firms. This, combined with overall demand for new capital driving up competition, means that expansion-stage companies and their talent will still most likely need to pursue funding from existing epicenters in California and New York moving forward.

"Capital is flowing more heavily into a wider array of hubs across the US. University talent pools, tax incentives, and new digital infrastructure for information sharing are among factors generating buzz in these new ecosystems. With the rise of VC accelerators and incubators across the US, more founders can maintain operations and fundraising efforts locally, reducing the burden on startups in their most critical stages of formation. For later stages, large anchor deals in a locality may also attract more attention from established GPs in the existing coastal VC hubs."

Jamie Rapps
Audit & Assurance Senior Manager, Lead Client Coordinator
Deloitte & Touche LLP

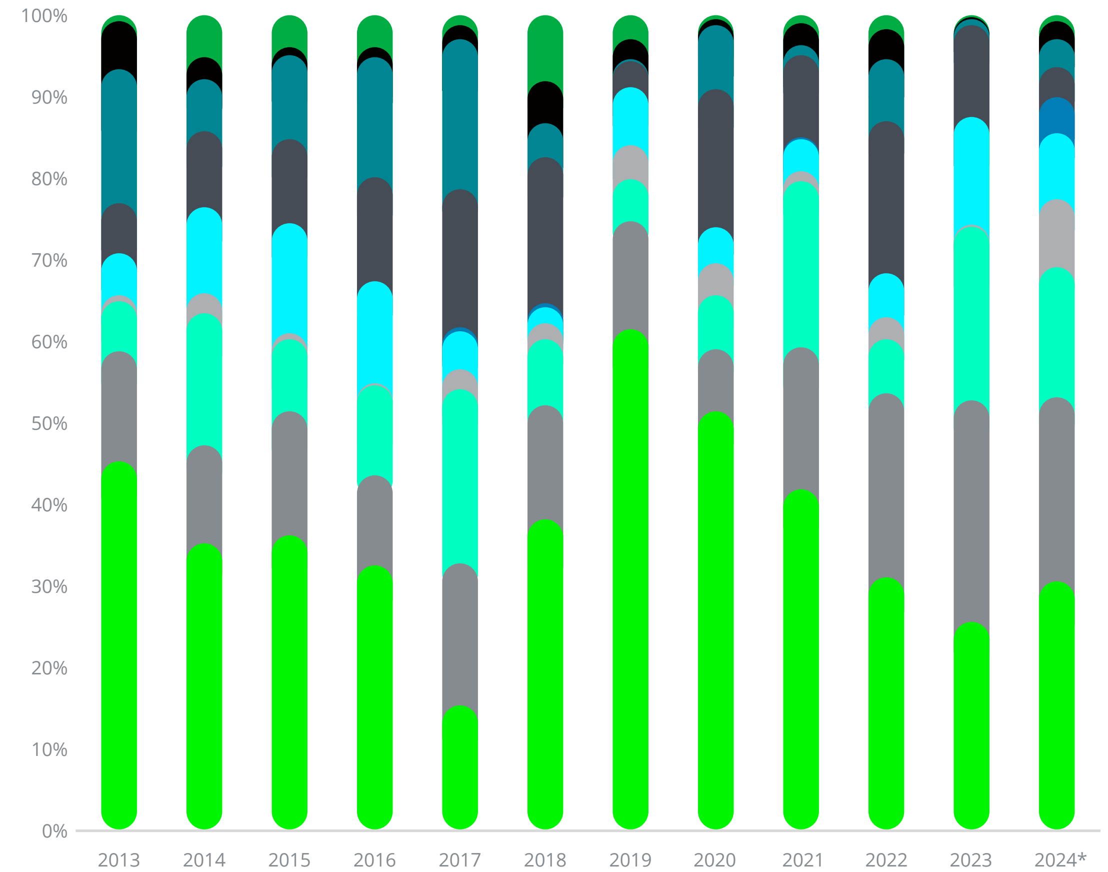
Regional trends

Share of expansion-stage exit count by top CSAs



Source: PitchBook | Geography: US | *As of June 30, 2024. Showing top 50 CSAs by deal count.

Share of expansion-stage exit value by top CSAs



Source: PitchBook | Geography: US | *As of June 30, 2024. Showing top 50 CSAs by deal count.

Looking forward

The outlook for expansion-stage exits is mixed but relatively positive, with several important inflection points coming up in 2024. Markets have largely made their predictions regarding interest rate cuts by year end and election results in Q4. Surprises in either of these areas could dislocate the flow of capital, especially for higher-leveraged transactions and certain verticals subject to stricter regulatory review like financial technology (fintech) and electric vehicles (EVs). Beyond macroeconomic considerations, the expansion stage is contending with the latest stage in the cycle, with a full recovery still out of reach.

"Companies and investors alike will face ongoing external shifts through the end of 2024. Dealmakers are modeling out various taxation scenarios and global expansion considerations. Due to the heightened caution, companies should expect a more 'buttoned-up' approach to securing new financing, including more sophisticated financial modeling and preparation."

Heather Gates
Audit & Assurance Private Growth Leader, Deloitte & Touche LLP

Looking forward

Exit activity in the first half of the year will likely dictate expansion-stage dealmaking in the back half to a fair degree. Dealmakers can expect a continued drag on closing timelines as the level of due diligence dedicated to each individual deal has been dialed up based on investor caution. Slower resumption in IPOs could especially weigh on VC activity, and the positive initial receptions received by a select number of companies have yet to trickle down across the larger ecosystem. More exceptions to the norm will likely be made for AI applications and companies that can pivot their strategies to demonstrate solid product-market fit involving Generative AI capabilities. Overall sentiment is expected to continue improving, but uncertainties remain.

"The level of due diligence is up significantly, and deals are no longer moving as quickly or aggressively as in prior years. The good news is that the market is steadily improving, so the strategic positioning of a company is still important; but financials and operations need to be tight and well-documented."

Kevan Flanigan
US Deloitte Private Risk & Financial Advisory Leader
Deloitte Corporate Finance LLC

Methodology

Geographical region: United States

The **expansion stage** is defined from a transactional perspective as including late-stage venture or growth financings as defined by PitchBook. All investment data is restricted to late-stage VC, venture-growth, PE-growth, or corporate financing types, as defined by PitchBook. **Nontraditional investors** are defined as hedge, mutual, or sovereign wealth funds.

Active investors: The number of active investors is calculated by including either investors that have raised a venture or growth fund in the trailing five years or those that have made four or more VC- or PE-growth investments in the past three years. There is no exclusion on investor type, apart from angel investors.

Exits: All exits are defined by PitchBook’s primary exit types: buyouts, acquisitions, or public listings, which include direct listings, traditional public listings, and special purpose acquisition companies (SPACs), as well as a new category dubbed “additional liquidity events after the public listing,” explained in further detail below. The underlying companies are those that have, at minimum, achieved any of the investment data under restrictions. In the Q2 2023 edition of the Road to Next series, a fourth category of exit was debuted, explicitly for companies that had undergone a public listing. In order to better capture liquidity for investors’ post-lockup periods and also for longer-term holders of shares that liquidated after the public listing in general, additional liquidity events classified as secondary market offerings on the open market, secondary public offerings, and private investment in public equity (PIPE) deals were also included. Private investors often hold their shares for longer, beyond the initial offering and then utilize additional offerings or secondary market transactions as well as sales to new investors when firms seek a PIPE. Up to three additional liquidity events were included.

Inside rounds are defined in this report as deals whose existing investors represent at least half of all participants and whose lead investors are all existing investors.

Down rounds in this report refer to expansion-stage deals closed at a lower valuation than the previous financing round.

Updates: For editions in 2023, underlying methodologies were changed due to PitchBook’s methodological changes and incorporation of new pre-seed, seed, and venture-growth stages, which will shift numbers slightly yet be more accurate going forward. A new exit methodology was also incorporated, including the breakout of post-IPO liquidity events.

Endnotes

1. Rocco Pendola, Paul Curcio, and David Tony, "What are the Magnificent 7 stocks?" CNN Underscored Money, June 10, 2024.
2. Kyle Stanford, Emily Zheng, and Kaidi Gao, *Q2 2024 PitchBook-NVCA Venture Monitor*, PitchBook, July 10, 2024.
3. Martín Slipczuk, "Financiers plan to launch a Texas-based stock exchange," *Texas Tribune*, June 5, 2024.

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