

Venture Capital: 2023 Year in Review & 2024 Outlook

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Venture capital investment activity and valuations broadly declined in 2023; however, the impact of tighter capital market conditions was not felt evenly across the development cycle. Pre-Seed and Seed valuations remained above 2021 (aka the most recent VC investment “Heyday”) levels despite downward pricing pressure in 2022 and 2023. Additionally, investor appetite remained robust as smaller, earlier-stage VC funds (<\$50.0 million AUM) comprised a majority of 2023 fundraising activity. On the other hand, early-to-mid stage businesses faced challenges from investors requiring longer hold periods, higher thresholds for value-creation milestones, and a reduction in bridge financing activity. Lastly, valuations for late-stage and pre-IPO ventures declined, as public appetite for new listings waned and private deal-making became a more viable route toward exit.

Seed funding (as opposed to seed company valuations) in the U.S. declined by 31% in 2023, after experiencing ~10% growth during 2022. Despite the relatively significant decline in activity for seed funding, the impact of reduced funding activity was comparatively less than those for other development stages. At the same time that seed ventures experienced a decline in funding activity, deal values (as measured by pre-money valuation) finished 2023 near, or above, record annual highs. Fewer, higher-value deals could be indicative of investors’ ‘raising the bar’ for their investment requirements, but showing more conviction once committed.



While a higher bar for capital deployment could bode well for future early-stage investments (Series A and beyond), current early-stage ventures are at somewhat of an impasse heading into 2024. As a result of higher seed-stage valuations and stagnating conditions for early-stage businesses, duration between funding rounds continues to increase and liquidity needs come to the forefront. Many early-stage companies are seeking capital to extend their current runways while attempting to fuel continued growth. Challenging market conditions are further evidenced by a reduction in median valuation step-up multiple to 1.68x in 2023, the lowest observed multiple since 2013. This is indicative of many early-stage ventures seeking capital at, or near valuations from prior rounds in order to access needed liquidity.

Later stage businesses are facing tepid public market conditions as evidenced by decreases in pre-IPO valuations for two anticipated 2024 IPOs: Reddit and Astera Labs. Both companies are among the most highly-anticipated upcoming tech IPOs, and are targeting similar valuations at \$4.0 - \$5.0 billion. However, the companies’ paths to these valuations are quite different.

Reddit, a well-regarded, but unprofitable social media platform with a 20-year track record, experienced an approximate 70% decline in pre-IPO value, falling from \$16.6 billion in April 2023, to a targeted IPO value of \$5.0 billion at the outset of 2024. Reddit initially filed for a public offering in 2021, but delayed the actual offer pending more favorable market conditions. Astera Labs, a manufacturer of semiconductors supporting cloud architecture, was profitable in 2023 and is expecting significant revenue growth in 2024. While Reddit ultimately experienced a 70% decline in valuation, Astera has shown steady growth, achieving a pre-money valuation of \$3.2 billion in November 2022 (Series D), reflective of a ~250% increase in the company's 2021 valuation of \$900 million.

Existing investors are most likely to feel the pain of lower valuations, and subsequent down rounds. However, investors on the sidelines and new funds with adequate capital could benefit from favorable market conditions resulting from depressed valuations and some of the highest numbers of observed down rounds since the Global Financial Crisis. As such, it is not unreasonable to expect localized market volatility, depressed IPO valuations, increased private market activity, and more robust secondary trading heading into Q2 2024.



Share Performance

Trading during the first fiscal quarter of 2024 concluded with the closing of markets on March 28, 2024. As discussed in our pre-IPO article, post-offering performance for Reddit (NYSE:RDDT) and Astera Labs (NASDAQGS:ALAB) remained a Tale of Two Cities. Both stocks finished well above their initial offering prices, and both enjoyed a spike in share price during the last week of the month. However, Reddit gave back all of these early gains and then some, as the shares closed at \$49.32 for the quarter after falling approximately 25% during the last two days of trading. This left Reddit's shares approximately 2% below the closing price on the first day of trading (March 21).

On the other hand, Astera shares finished the quarter at \$74.19 per share, which was reflective of an approximate 42% price appreciation from the start of trading. While Astera's closing price was well off the high of \$94.50 per share, the company's closing share price remained steady through the rest of the month.

Market Capitalization

While both companies realized higher market capitalizations after the first day of trading, both companies' pre-IPO trajectories remained consistent. While Reddit's pre-IPO valuation estimates steadily declined in the time leading up to the IPO, Astera had been on the rise. Looking back at the end of Q1, Astera added approximately \$2.1 billion in market value while Reddit's valuation was essentially flat from the first day of trading (in fact, the company lost about \$15 million in market value since the start of trading).



At this point, both companies have an extremely limited trading history. However, one can likely conclude that while we are unlikely to be back in the days of easy money for IPOs, investor appetite remains healthy for the *right* offering.

Article Sources:

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5. *Despite Aiming for Similar Valuations, Reddit and Astera IPOs Tell Very Different Stories*, CTECH, February 11, 2024



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Owen Uscher has joined Empire Valuation Consultants' Portfolio Valuation practice as a Senior Manager. He brings over 16 years of experience performing and supervising hundreds of valuation engagements. Over the course of his career, Owen held roles as a third-party valuation consultant, Big Four audit support specialist, as well as 'in-house' valuation specialist and asset manager for an alternative investment firm. As such, he is uniquely positioned to understand the needs and challenges of alternative asset managers and their key stakeholders regarding Level 3 asset valuations.

Specific valuation experience includes valuations of private equity and debt investments across a variety of industries, such as Financial Services, Residential & Commercial Real Estate, Structured Products, Industrials, Pharmaceutical/Biotech, and Oil & Gas. In addition to more traditional investments, Owen is experienced in the valuation of complex securities (preferred equity, convertible notes, debt & equity derivatives). These valuations were also performed for a variety of purposes, including financial reporting (ASC 820/805/350/718) applications, fund portfolio valuation, GP-led secondary offerings, recapitalizations, buy/sell-side analysis, credit analysis, valuation policy & governance, tax planning, and litigation support.