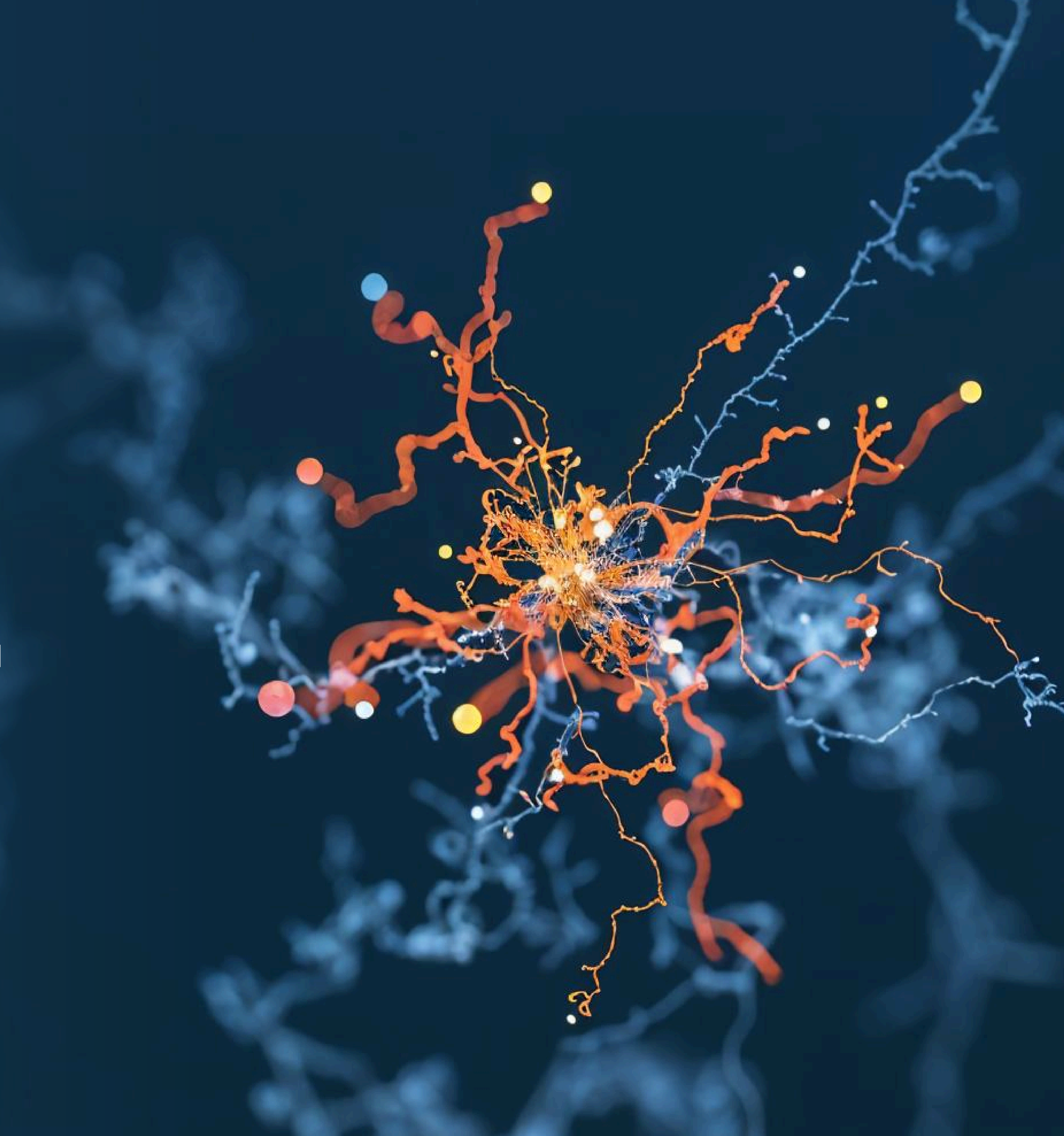
GUNDERSON DETTMER

2024 VENTURE CAPITAL REPORT

A YEAR-IN-REVIEW



This is Gunderson Dettmer's year-in-review venture capital report, analyzing data collected from the thousands of venture financing transactions in which we have represented clients. The report examines market trends in deal activity, valuation and transaction size and includes spotlight sections on the unique factors affecting AI and life sciences deal-making. Included throughout are insights from Gunderson partners, who have negotiated more venture financings than any other law firm every year for the past decade, according to PitchBook.

OVERVIEW

Although weak M&A and IPO markets continue to deprive investors of much-needed liquidity, the total amount invested in venture capital financings in 2024 increased significantly compared to 2023. This jump was driven by enthusiasm for technical innovations in artificial intelligence, which lured investors back into the market after almost two years of hesitancy. Investors eased the focus on pre-seed and seed rounds that characterized 2023 and slowly re-entered the market for early-stage venture financings (Series A and B) and later-stage venture and growth financings (Series C, D and E+). However, increases in median valuations and transaction sizes were propped up by AI investments, resulting in a bifurcated market where some companies raised record amounts of money at record valuations and others struggled to find capital.

Methodology

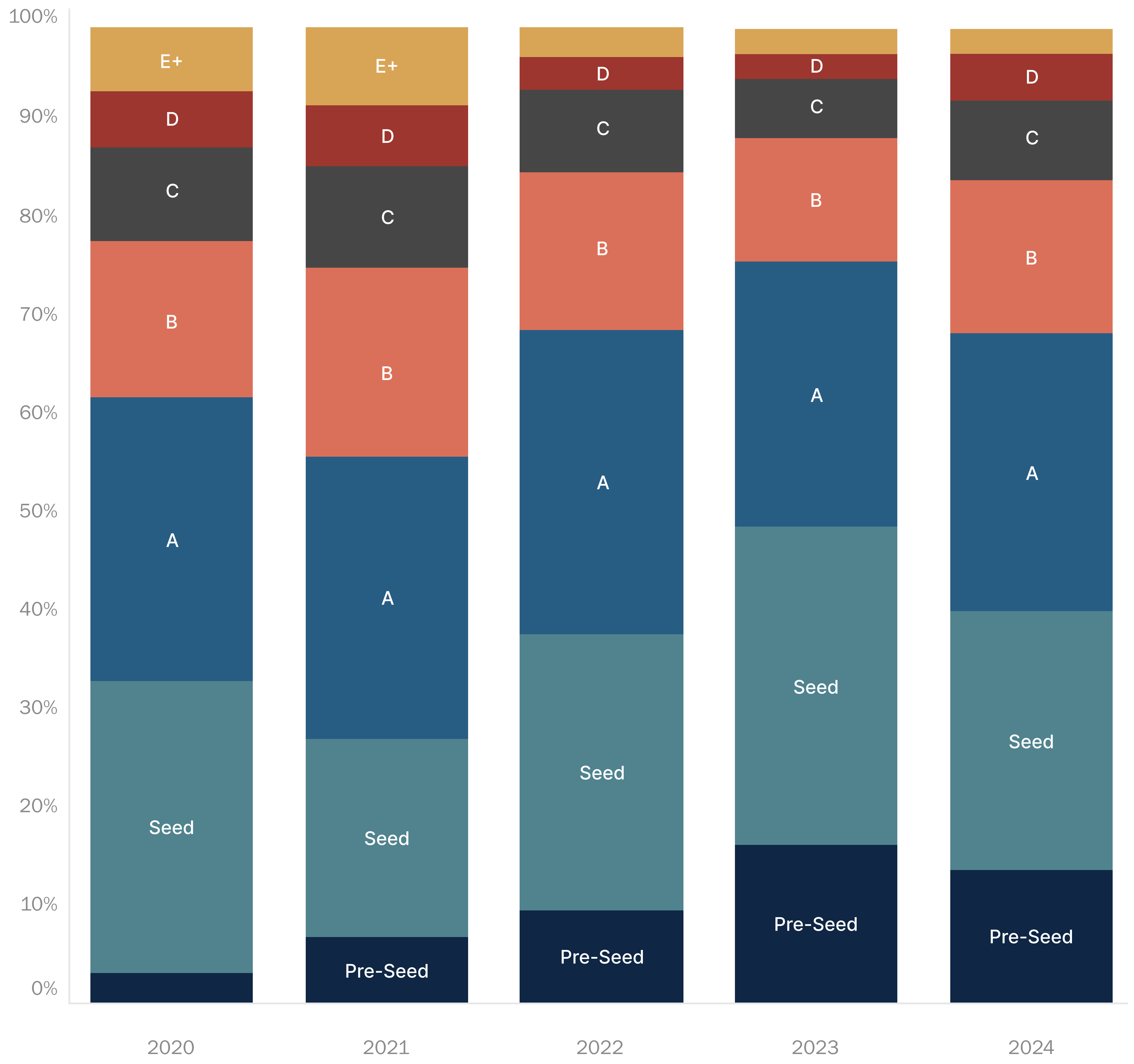
The data in this report is collected from private company equity financing transactions, pre-seed SAFE issuances and pre-seed convertible note issuances in which Gunderson Dettmer represented either the company or an investor, except that the data presented in Down Rounds (Percentage of Total Deals) and Median Years Since Most Recent Financing includes only transactions in which Gunderson represented the company. This report does not include data from any convertible note financings occurring after a company's first equity financing. Data is allocated to the period in which the initial closing for the applicable transaction occurred.

PRE-SEED AND SEED TRENDS

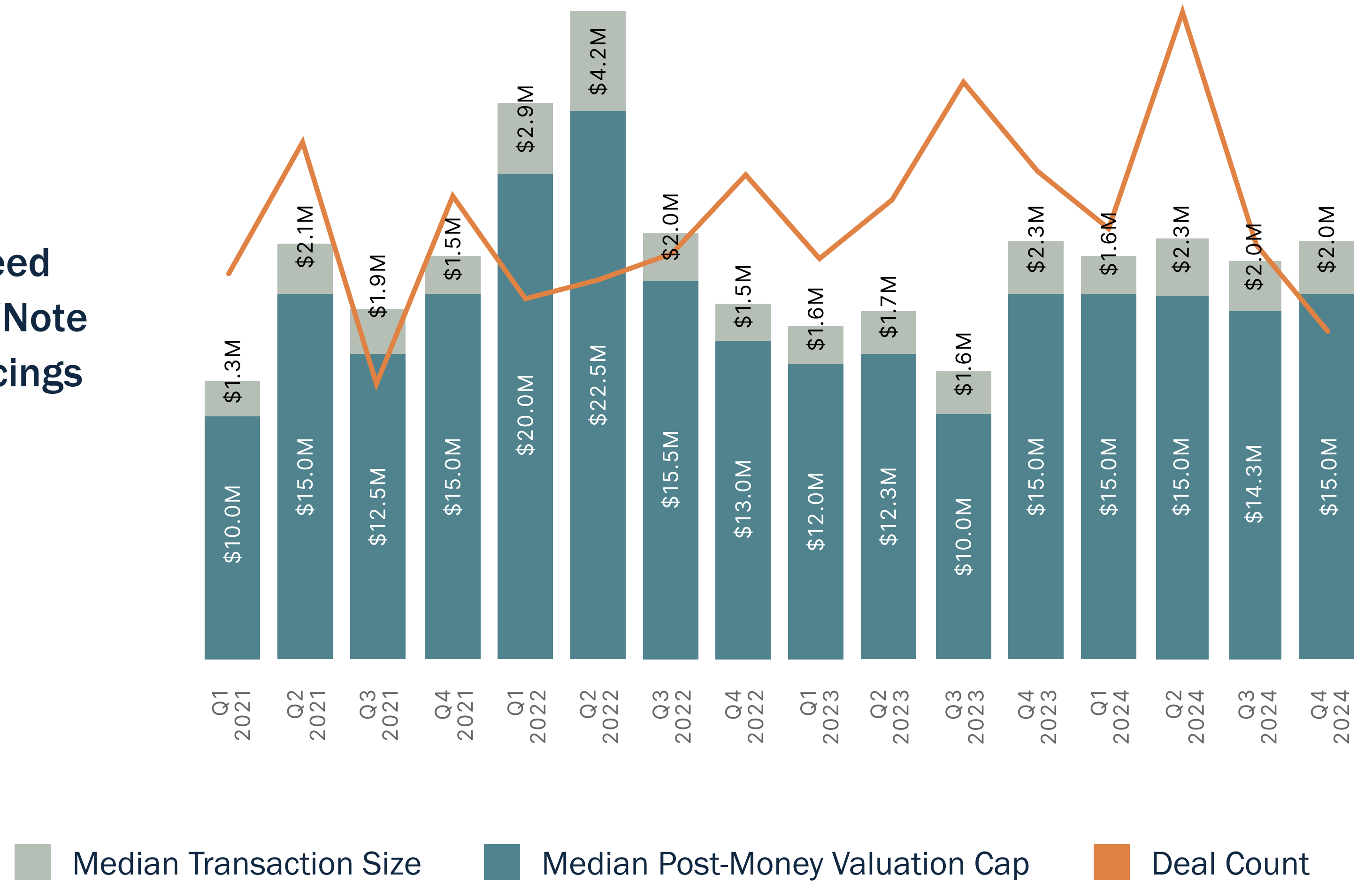
After two years of avoiding the slowdown that plagued later-stage deals, pre-seed and seed financings were the only stages showing year-over-year declines in deal count for 2024. However, this decline in deal volume may be less of an intentional shift away from these deals and more of a willingness by investors to consider post-seed investments again. With the market uncertainty of late 2022 and 2023, many investors sought the (relatively) easier valuation judgments and smaller capital commitments of pre-seed and seed deals. This focus softened in 2024 according to data comparing yearly venture capital deals by stage. Pre-seed deals represented under 7% of total venture capital deals in 2020 and 2021 before jumping to 9% in 2022 and 16% in 2023. Similarly, seed deals jumped from 21% in 2021 to 28% in 2022 and 33% in 2023. This trend reversed in 2024, as the relative share of all post-seed rounds increased, and pre-seed and seed rounds retreated toward 2022 levels.

Despite the modest decrease in deal counts, valuation caps for pre-seed deals, valuations for seed financings and transaction sizes for both categories grew year-over-year, indicating that the market is not meaningfully softening for these earliest deals. While median valuations for later-stage rounds are still substantially below 2021 highs, pre-seed and seed rounds reached all-time highs. The 2024 median post-money valuation cap of $15.0 million in pre-seed deals and the median pre-money valuation of $20.0 million for seed rounds are, respectively, 20% and 33% above 2021 levels. This combination of fewer deals and increased valuation and deal size indicates that investors are imposing higher standards for companies and only the larger, higher quality deals are being funded.

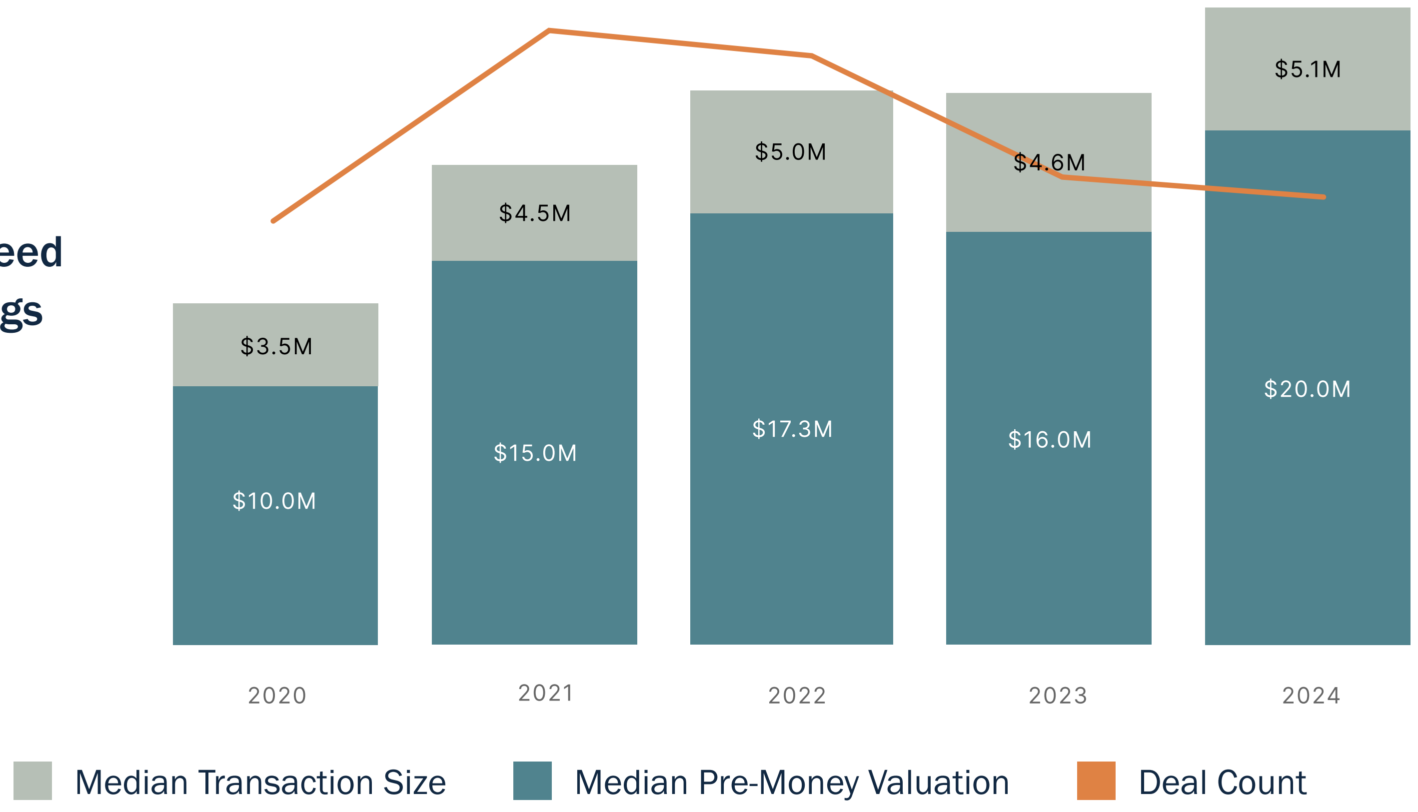
Distribution of VC Rounds by Series



Pre-Seed SAFE/Note Financings



Series Seed Financings



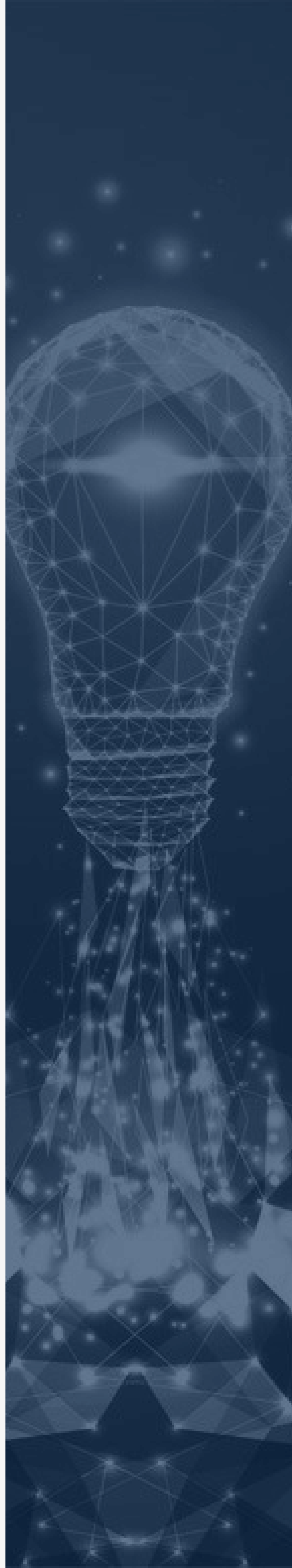
Despite the higher standards for fundraising companies, there are multiple signs that valuation growth stats were not overstating the health of the market for pre-seed and seed stage deals. First, investor demand at these earliest stages was more sector agnostic than in the later-stage market, where aggressive interest in AI companies obscured a much more difficult fundraising environment for non-AI companies. Information on median valuations for AI vs. non-AI companies is presented in more detail in the *AI Spotlight* section below and shows that the AI/non-AI valuation disparity was smallest for the seed financing stage. This indicates that seed valuation increases were not solely attributable to AI enthusiasm.

Additionally, it appears that founders were taking a pragmatic approach to valuation. Having experienced the stress of a tight fundraising environment, companies were thinking longer-term in valuation negotiations, leaving room for growth in their valuations to put themselves in the best position to raise their next financing round. Overall, despite the growth in median valuations and transaction sizes, the fundraising environment did not feel excessively company-friendly, as investors maintained caution amid pressure from high interest rates and a lack of exit event liquidity.

"There is a sense that investors are being more disciplined and have raised the bar for companies looking for capital, even at the earliest stages. There is pressure on young companies to find product-market fit earlier, and investors are looking at a company's trajectory to profitability earlier in its lifecycle."

Melissa Marks

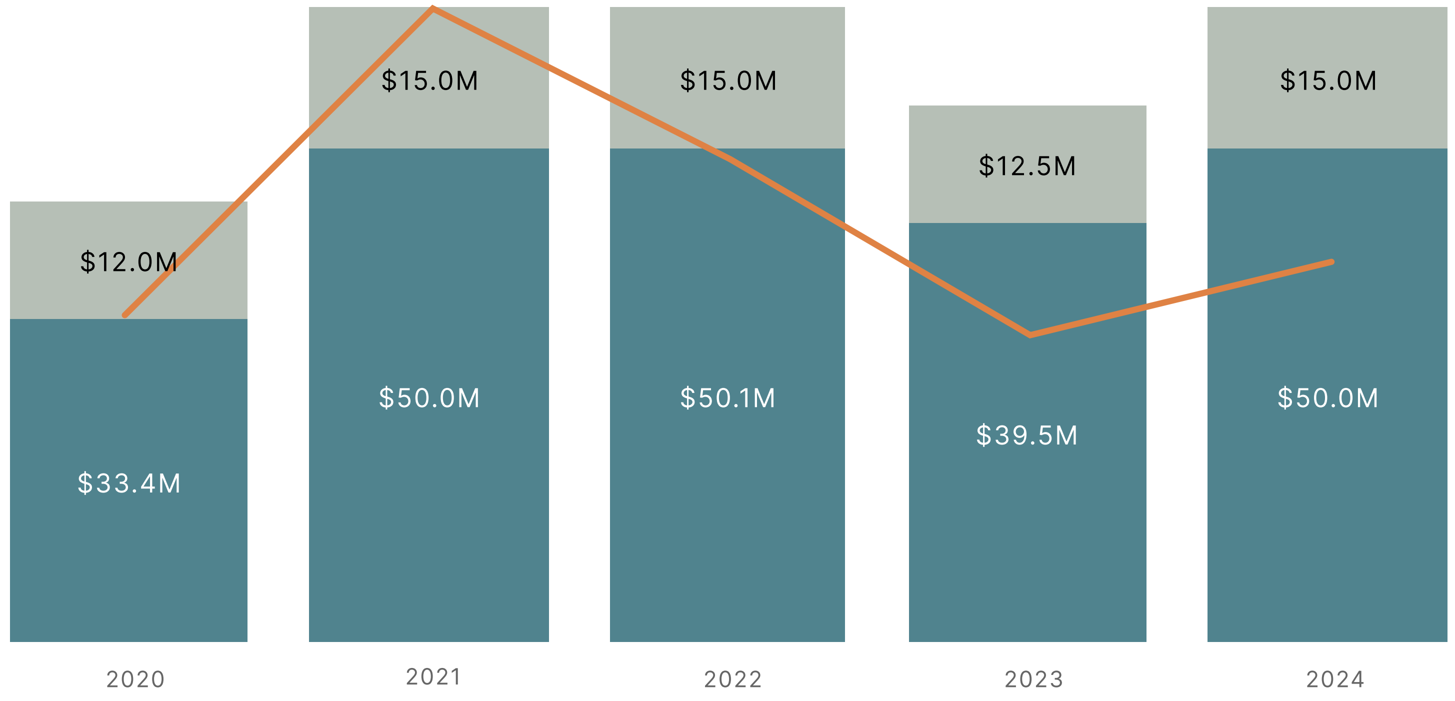
Corporate Partner, New York



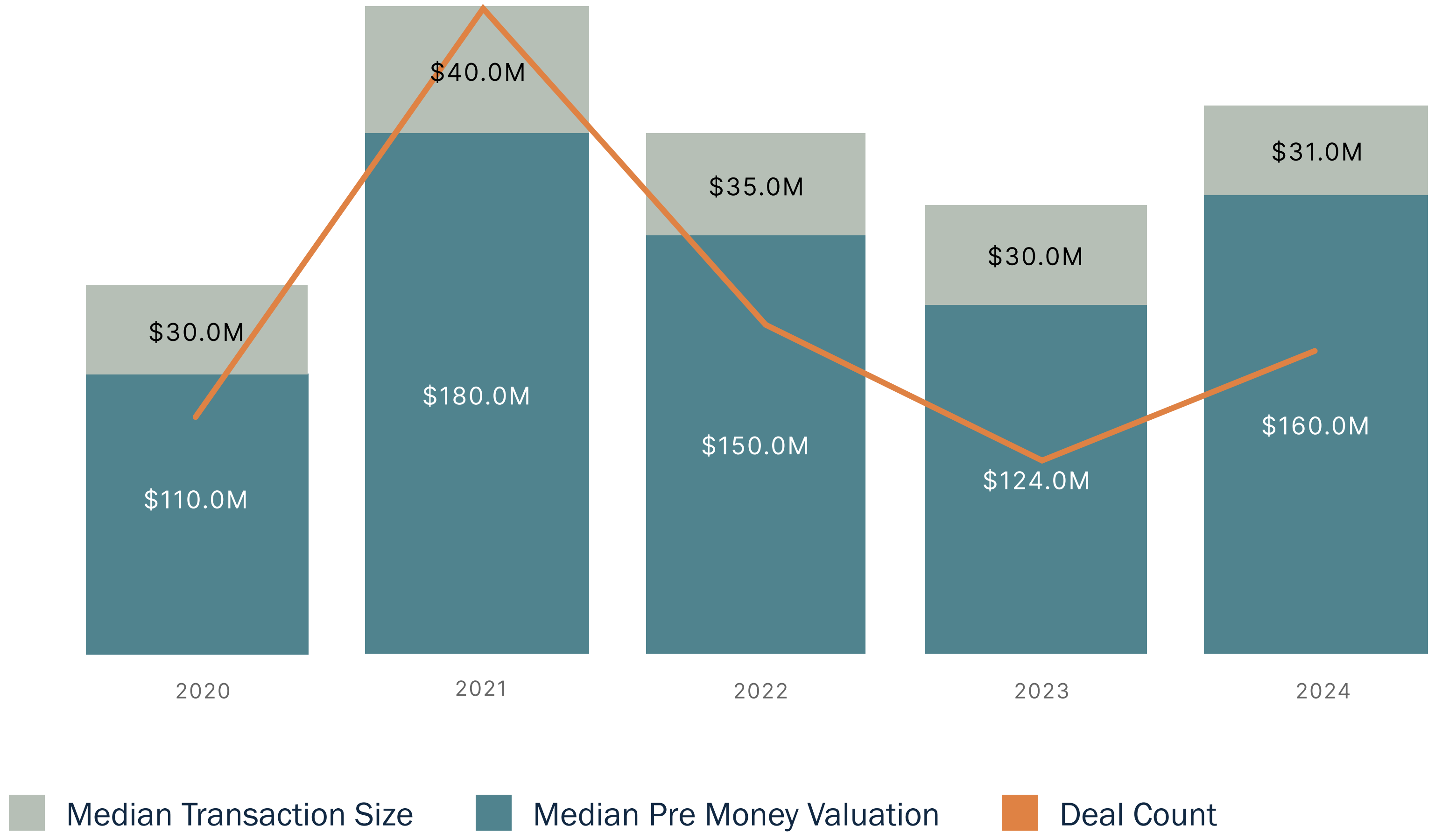
EARLY-STAGE TRENDS

Early-stage venture deals provided some notable positive signals in 2024. Total early-stage deal count for 2024 was 27% above 2023, which is the first year-over-year increase since 2021. An increase in Series A/B deal activity was expected at some point given the extremely tight market in this stage over the past few years, as even companies that raised large rounds before mid-2022 would eventually run out of money and return to the financing market. If runway issues were the only driver forcing companies to fundraise, we would expect negotiating leverage to shift toward investors, resulting in lower valuations and deal sizes. However, median valuations and transaction sizes for early-stage deals rose roughly in line with deal count for 2024. Median pre-money valuation for Series A/B deals in 2024 increased 22% year-over-year while median deal size increased 25% year-over-year. However, a closer look at the deal data reveals that these gains in valuation and transaction size were not felt evenly across the early-stage market.

Series A Financings



Series B Financings



Series A/B Dispersion in Pre-Money Valuation and Transaction Size

The dispersion of pre-money valuations and deal sizes highlights the increased variation in these metrics in 2024 compared to 2023. The huge gap between median and average pre-money valuation in 2024 highlights the existence of significant outliers in the data. The farthest of these outliers came from the extremely popular AI sector, where investors were showing much more risk tolerance by committing historically large amounts of capital at elevated valuations. Apart from AI, the data does not suggest a dramatic shift in investors' risk profile; rather, investors were being more disciplined about the investment characteristics required to achieve their return targets.

Another interesting aspect of investors' mostly cautious return to early-stage investing is the increased participation of capital sources other than traditional venture capital funds. The sharpest drop in early-stage investor activity in 2022/2023 came from non-VC investors, such as strategic investors, corporate venture capital (CVC) funds and crossover funds. Due to high interest rates and stock market volatility, strategic and CVC investors focused on conserving cash and operating core businesses rather than pursuing non-essential investments. The same market forces, in addition to the lack of exits on previous private company investments, reduced participation from crossover, private equity and hedge funds. 2024 could signal a turning point for this trend if we continue to see increased activity across investor types. We saw more involvement from strategic investors in 2024, which is a positive signal for future M&A activity.

"While we're still seeing a really tight market for post-seed/early-stage financings, in the deals that are getting done, investors are putting their best foot forward with companies to win the hottest opportunities. There is a willingness to deploy capital that we haven't seen since early 2022."

Mike Irvine
Corporate Partner, San Francisco

"Strategic investors played a much larger role in venture financings in 2024, which is a positive signal for near-term M&A activity. There are cash-strapped companies who haven't been able to raise capital and more buyers who are ready to spend money again."

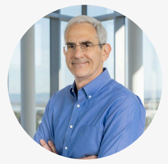
Heidi Walas
Corporate Partner, Silicon Valley

LATER-STAGE TRENDS

Later-stage deal data for 2024 reflected more positive market signals compared to 2023. Although down rounds constituted 19% of all Series C/D financings in 2024, the prevalence of down rounds dropped in the second half of the year. Time between financing rounds was at its highest point in a decade in 2024 and may continue to increase if there are still companies delaying capital raises that ultimately return to the market for funding in 2025. However, as time passes, it becomes less likely that the companies that have not fundraised are simply choosing to wait out the market and more likely that these companies are unable to find willing investors.

The lack of successful exits has been particularly challenging for later-stage investors, who typically deploy capital with shorter investment horizons. The lack of liquidity for these investors' limited partners has frozen the cycle of distribution and reinvestment, resulting in less capital for funds to pursue new investments. At the same time, interest rate changes and market volatility have larger direct effects on later-stage companies that are (hypothetically) closer to exit, so the challenges have been acute for later-stage companies.

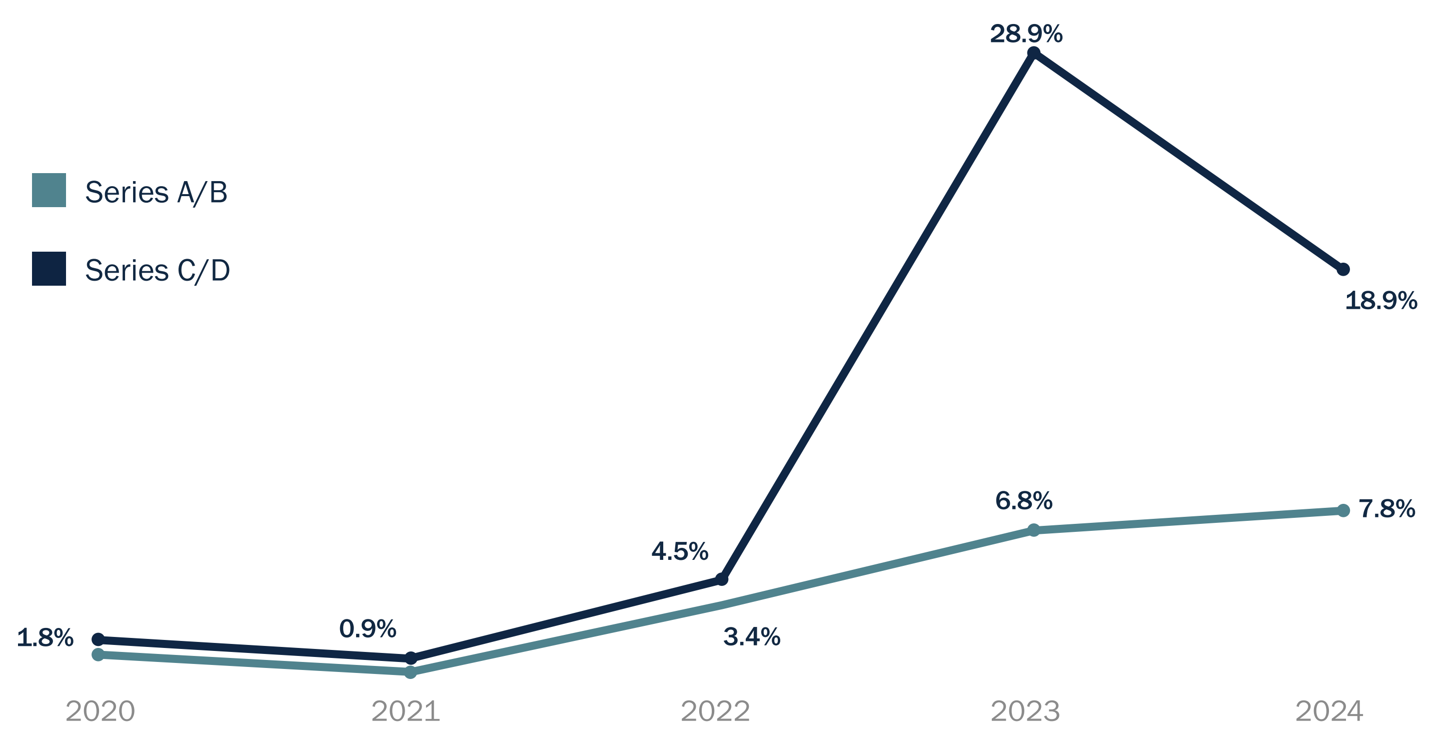
"Despite the dearth of exit activity, there were signs of optimism in the second half of 2024, with funds increasing their pace of capital deployment and many funds preparing for a 2025 fundraise. While there is limited data for 2025 activity, early indications are that LPs are recommitting to the venture market and continuing with the recent bias towards investing in the more established, name-brand funds."



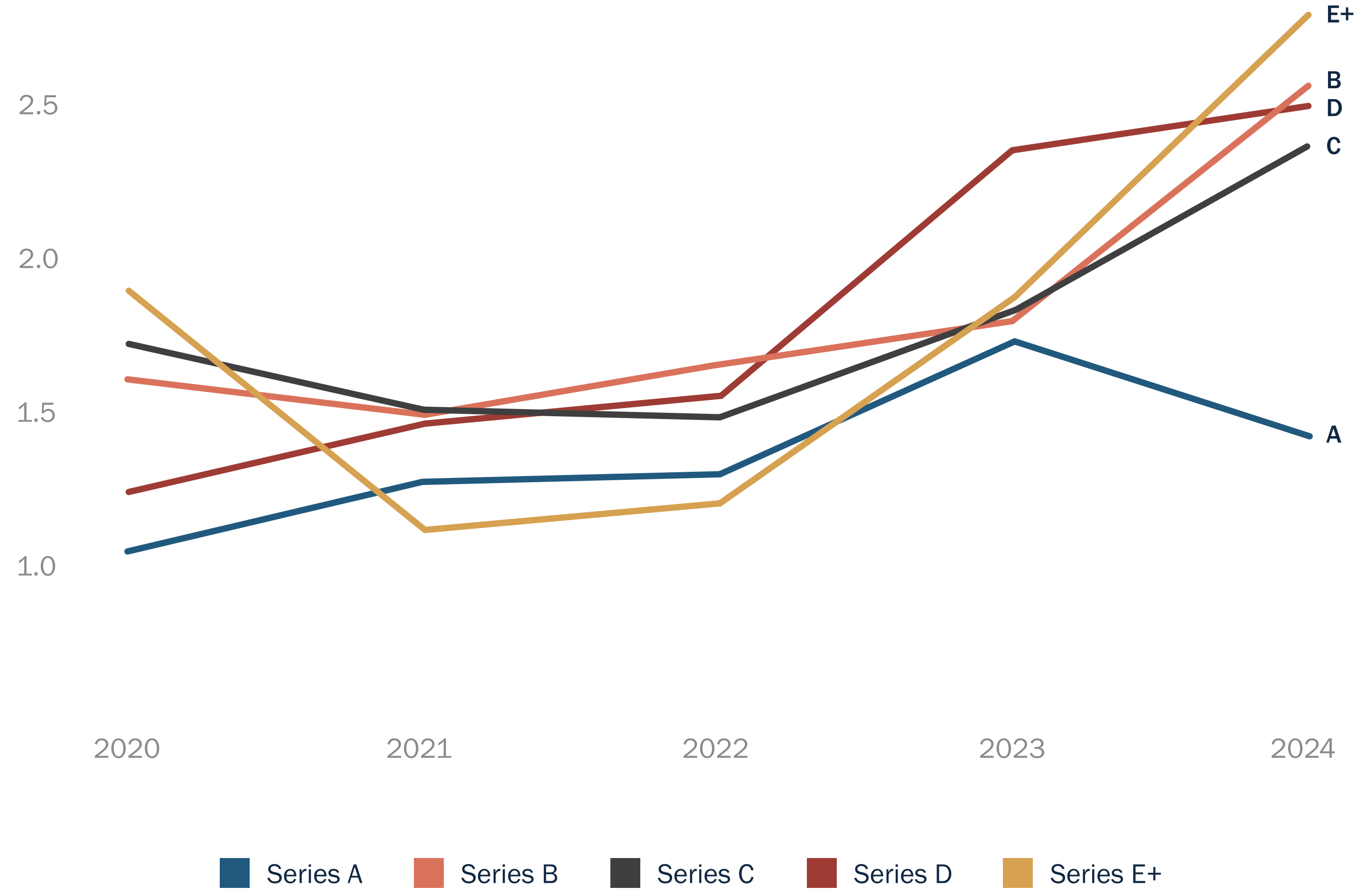
Steve Franklin

Founding Partner & Chair of Fund Formation Practice, Silicon Valley

Down Rounds (Percentage of Total Deals)



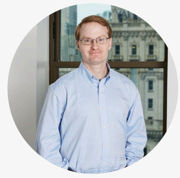
Median Years Since Most Recent Financing



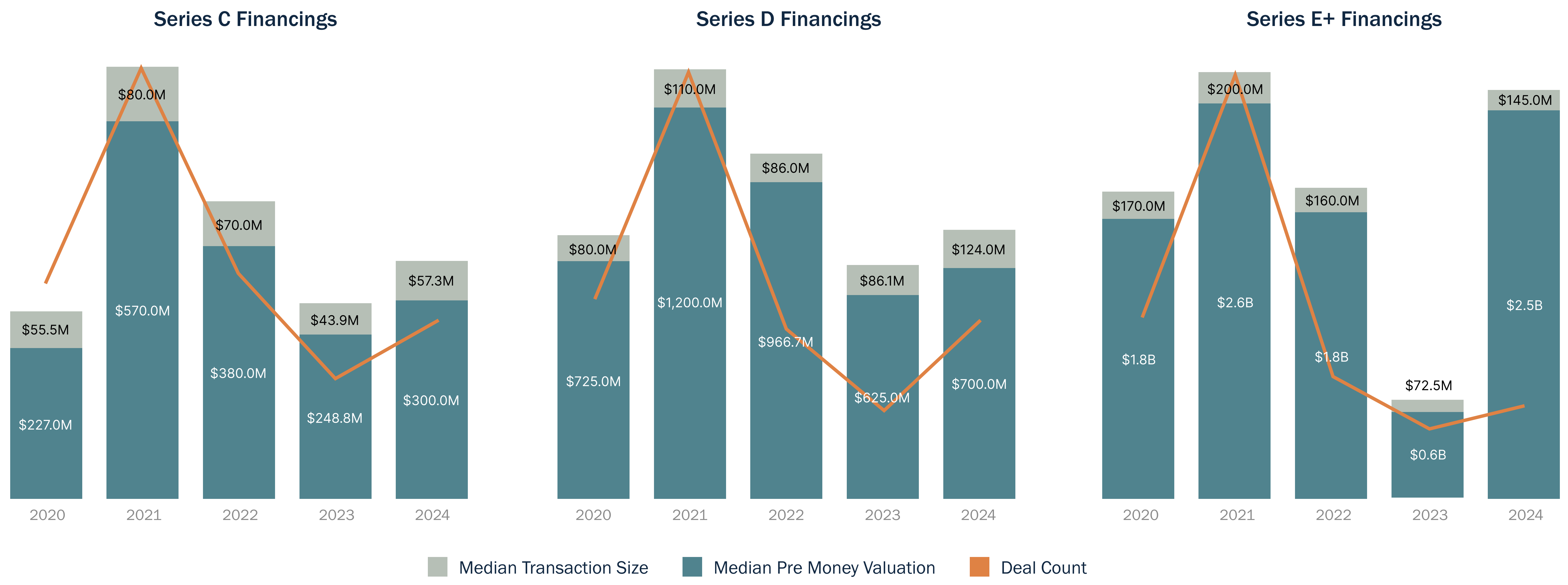
However, 2024 data shows that we are seeing more appetite to deploy capital by investors in later-stage deals, suggesting investors' increasing confidence that exits may be on the horizon. Data for Series C/D financings shows significant increases in valuation and deal-making in 2024, although values remained well below the exceptionally frothy highs of 2021. Deal count and median transaction size for Series C/D deals reflected year-over-year increases of 65% and 49%, respectively. Series C/D median pre-money valuation was more than 40% higher than for 2023, but this median was pulled upward by the considerable number of very large Series D deals.

Data for Series E+ deals also reflects big shifts in economics, with median transaction size and median pre-money valuation both near 2021 levels. Despite the huge year-over-year increases for both these metrics, Series E+ deal count remained relatively flat, again reflecting the bifurcated fundraising environment where investors are either committing record amounts of money at record high valuations or choosing not to participate at this stage.

"Late-stage deal count has not kept pace, but we are seeing huge increases in valuation and deal size, indicating that investors are concentrating in the best, most important companies. We've worked on a handful of deals that amount to what would typically be total VC funding for an entire quarter."



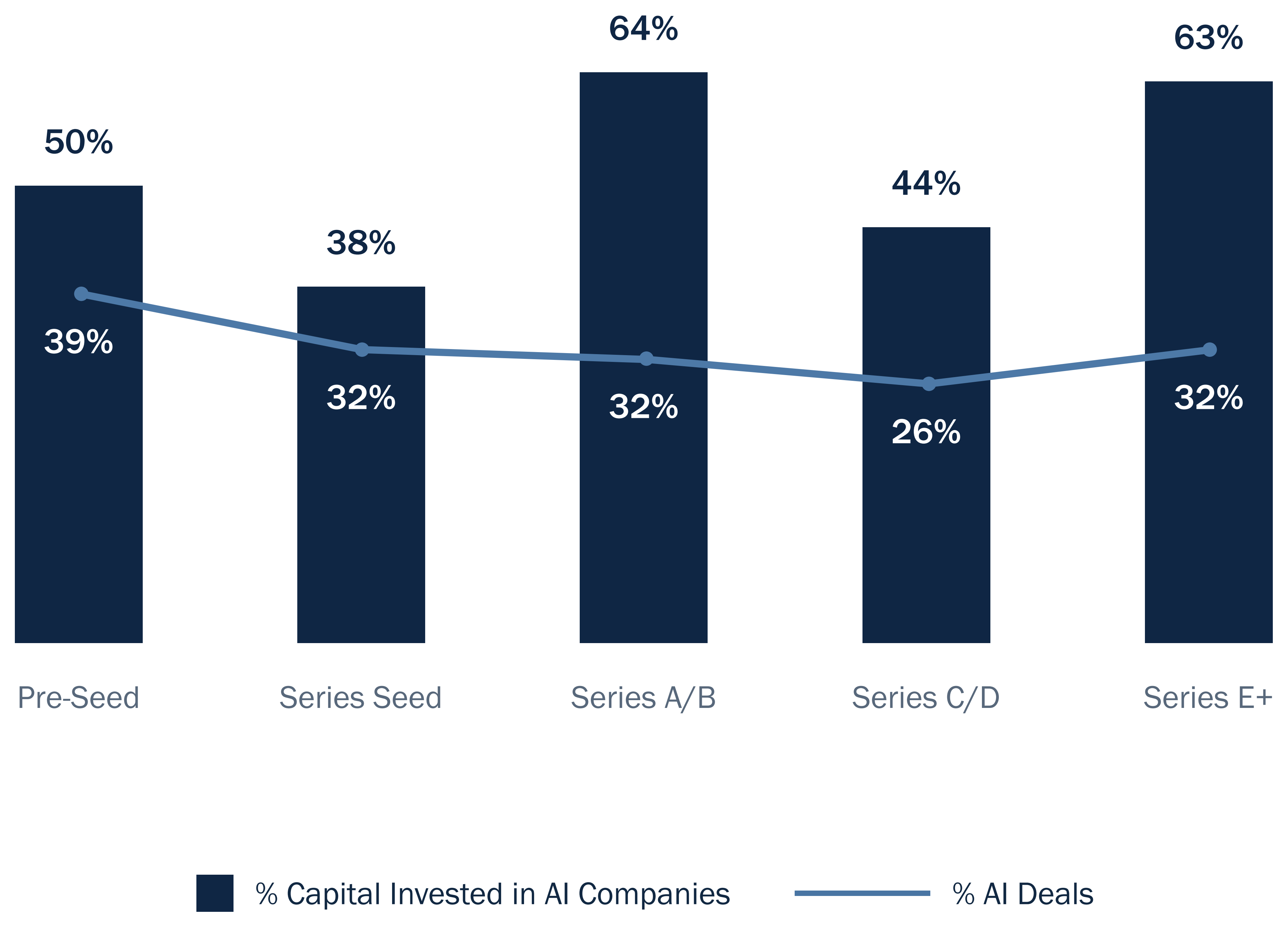
Ryan Purcell
Corporate Partner, New York



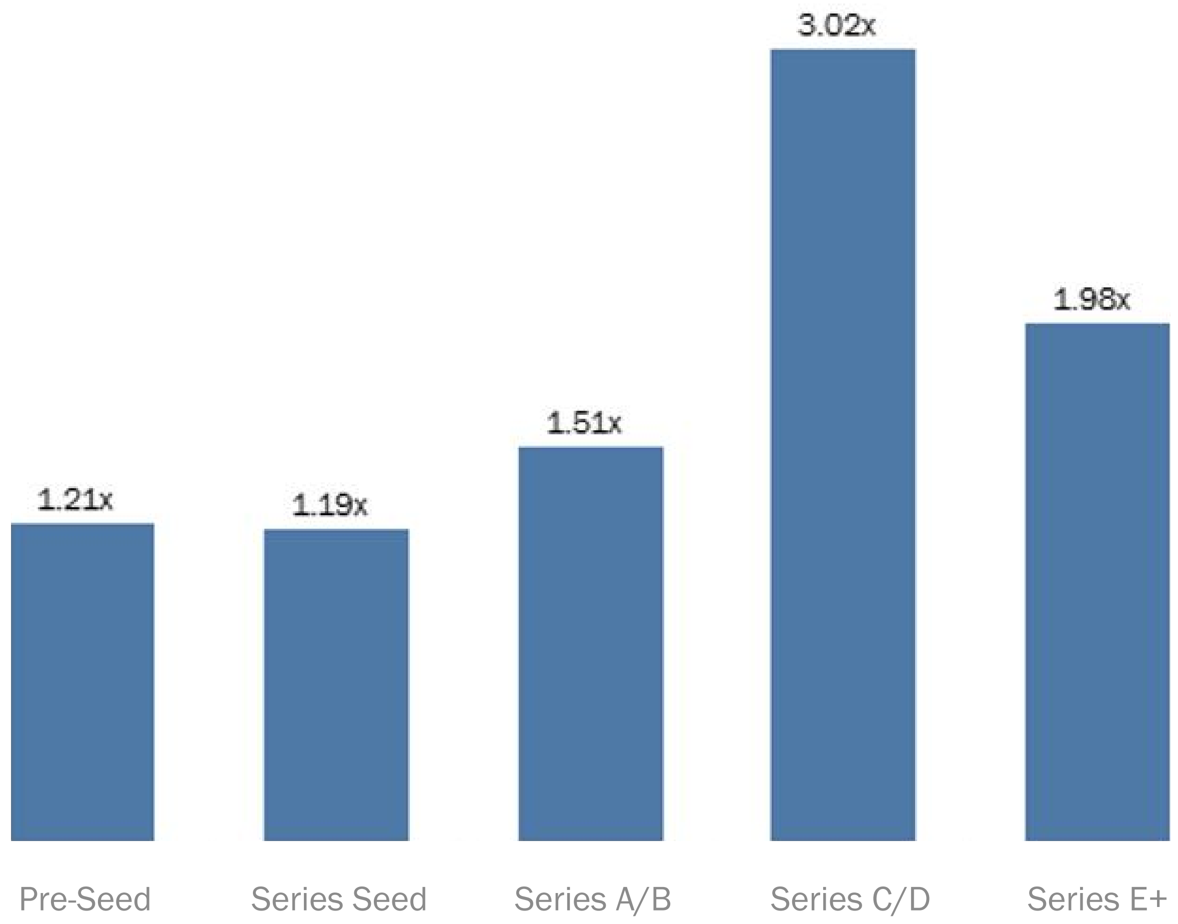
AI SPOTLIGHT

AI enthusiasm was one of the major themes in venture capital investing in 2024. Commentators have compared AI to the invention of the internet in describing the scale of the opportunity it presents investors. Looking at AI deals as a percentage of total deal count, we see that investments in AI companies accounted for nearly one-third of deals in every financing stage. Transaction size shows an even stronger tilt toward AI investments, as AI companies' share of total dollars raised was well above their share of deal count. This seems expected in later round financings, where the "outlier" AI deals of 2024 included some of the largest VC funding rounds of all time. However, the trend was just as strong for earlier stages—where the participation metrics are not tilted upward by enormous, record-breaking AI deals—emphasizing investors' willingness to commit large amounts of capital to AI companies, relative to their other investments.

2024 VC Investments in AI: AI Share of Total Transaction Value vs. AI Share of Deal Count



2024 AI Median Valuation Premiums



While AI investing pushed up deal count similarly at both the earliest and latest financing stages, 2024 data on median valuations shows that the valuation premium for AI companies was much stronger in later-stage deals. While the premium in median pre-money valuation was significant even at the earlier stages, it really ballooned at the later stages, with Series C/D and Series E+ both showing extreme disparities between AI and non-AI companies. While this AI focus in later rounds is consistent with our experience in the market, the calculated premium is likely exaggerated due to the fact that the later-stage dataset includes both the record large outlier deals and the highest percentage of down rounds among all stages.

"AI companies and the vast quantities of money they're raising are fueling a "tale of two cities" aspect to the market, where some companies are raising billions of dollars in oversubscribed rounds and others are struggling for investor commitments."

David Gammell
Corporate Partner, Boston

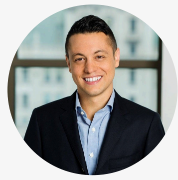
A closer look at the technology affecting AI valuations

As the first quarter of 2025 unfolds, we continue to see a fundamental shift in how investors assess AI-focused companies' business models. While the first wave of investor activity in the generative AI space focused on companies building proprietary frontier models and general-purpose AI applications, the high costs of entry in this space and an increasing reliance on collaborative open-source models has shifted investor focus to companies building sector- and use-specific AI applications. Consistent with this trend, startups are increasingly offering specialized AI solutions, leveraging two primary go-to-market strategies: (1) ready-made "off-the-shelf" vertical AI applications tailored for industries such as healthcare, finance and HR, and (2) flexible, agentic AI solutions that adapt to customer needs, typically delivered through enterprise-grade professional implementation and customization services.

These emerging business models have influenced how investors and acquirers evaluate potential targets, with due diligence increasingly focused on a company's ability to maintain market differentiation and address regulatory compliance challenges. With respect to market differentiation, investors have pushed companies to demonstrate that their business models can hold a competitive edge in an environment where the same handful of LLMs (used by many companies for similar purposes) are used by almost every AI-focused company in the marketplace. Additionally, prospective investors, acquirers and customers are increasingly scrutinizing whether AI-focused companies offer practical and reliable tools that increase productivity and innovation. In response, many companies have focused on overcoming the evergreen concerns that generative AI tools are not sufficiently reliable or accurate, that tech stacks remain too vulnerable to failures (e.g., excessive reliance on compute costs or third-party models) or that promises of vastly increased efficiency and productivity are illusory at best. AI companies are expected to provide solutions that adequately navigate intellectual property and privacy concerns related to model training and fine-tuning (e.g., providing customer and user control over use of customer data to enhance model performance).

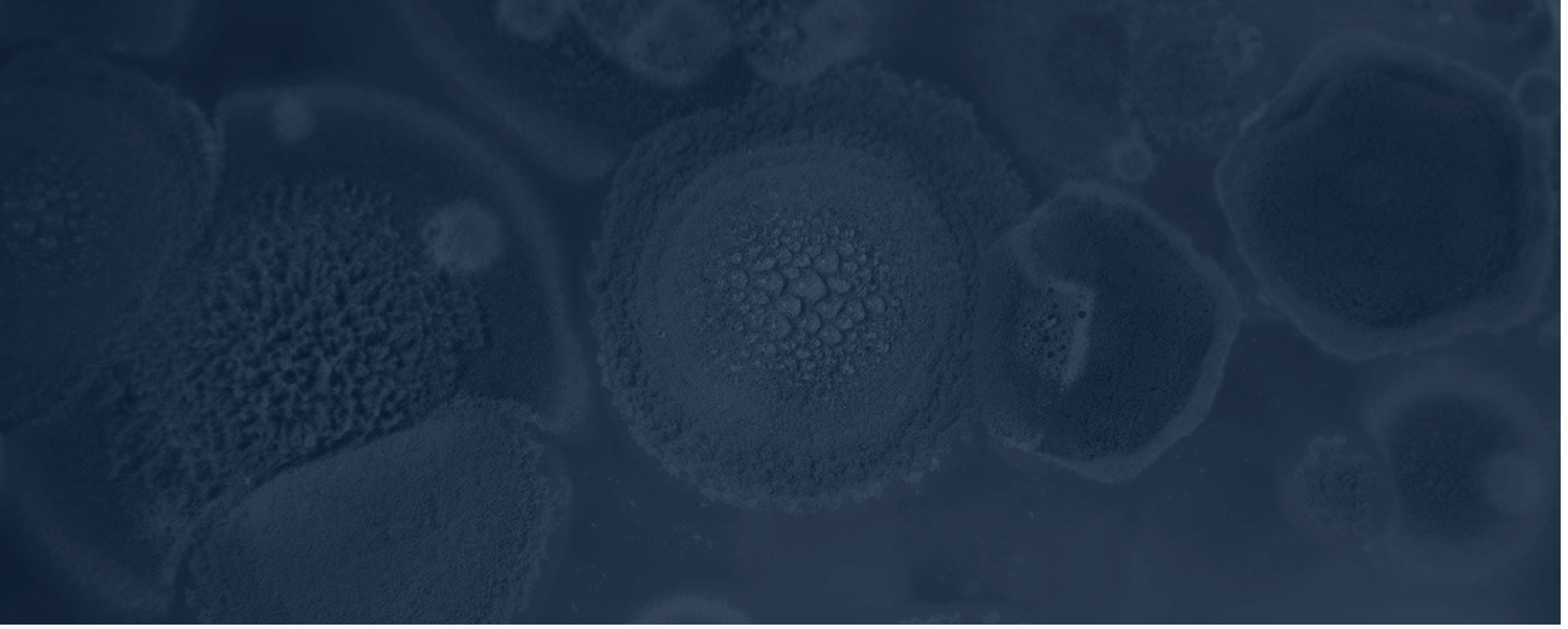
Similarly, investors continue to scrutinize how companies have built and fine-tuned their models, focusing on whether they have the rights to ingest certain datasets for training and whether they use their customers' data for this purpose as well. (We expect several courts to rule on pending lawsuits in this area over the next year, hopefully providing more clarity as to how freely companies can scrape and ingest third-party data for model training). Additionally, investors have focused more on whether companies are prepared to comply with the emerging slate of AI regulations — particularly when those companies offer services used for "high-risk" purposes (e.g., financial or hiring decisions, profiling, health diagnostics) — including generating content subject to AI transparency laws (e.g., watermarking or metadata disclosure requirements for images and videos). Companies that proactively implement compliant technical safeguards and internal policies are positioning themselves as safer long-term investments in the AI market.

"Investors and acquirers are increasingly focused on how AI-focused companies build, train, and deploy their models and tools. The choices a company makes on these fronts could profoundly impact its ability to secure high-quality investments and gain an edge in the marketplace. These choices also spotlight the challenge of balancing risk mitigation (around intellectual property, privacy and security, and regulatory exposure) with innovation and the goal of staying ahead of the competition. Companies that identify ways to pragmatically achieve this balance are well positioned to dramatically scale their businesses and increase their value."



Aaron Rubin

Strategic Transactions and Licensing Partner, New York

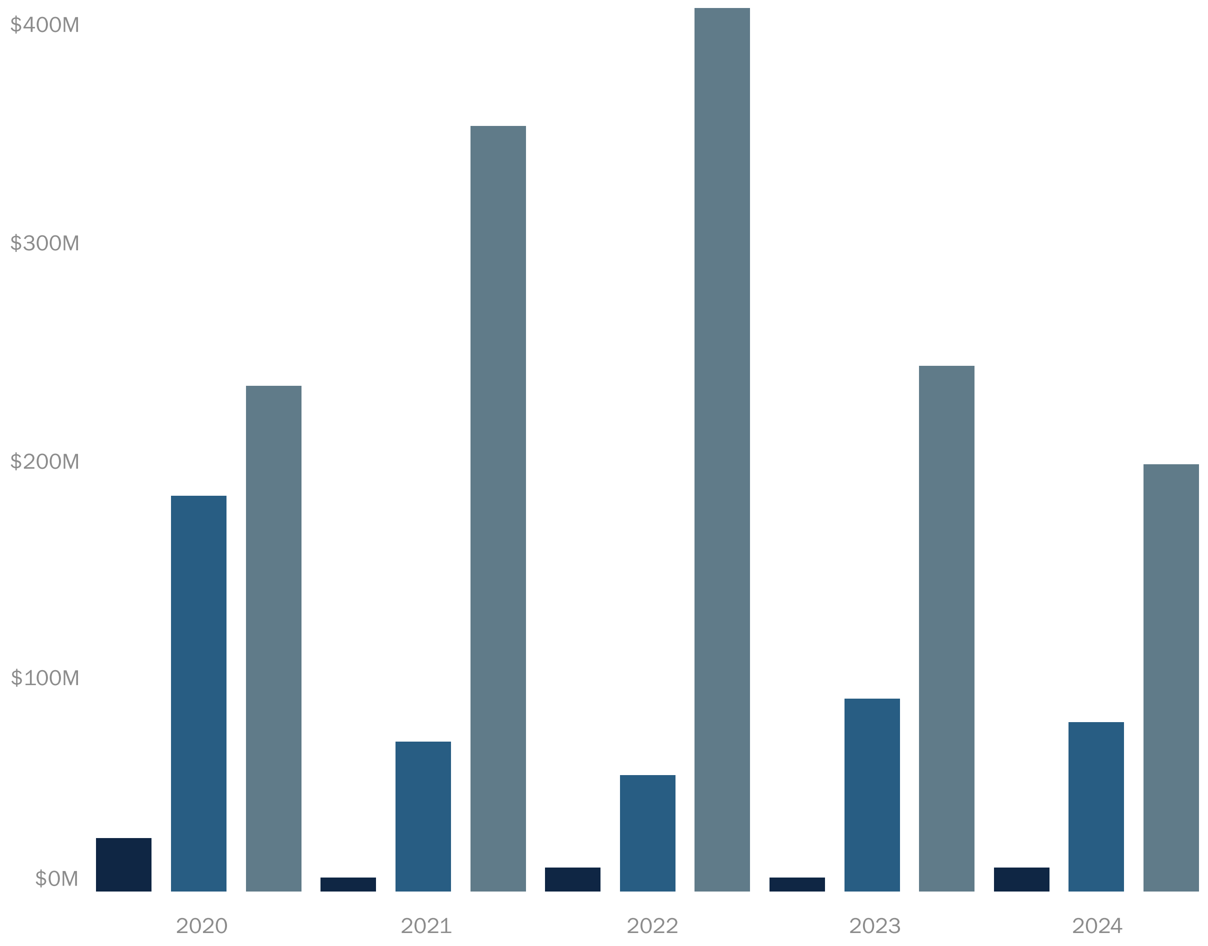


LIFE SCIENCES SPOTLIGHT

Although life sciences companies have claimed some of the few VC-backed IPO and M&A exits over the past few years, the life sciences sector is navigating one of its most challenging financing environments of the past two decades. Companies are struggling to fundraise in a market in which investors are being very selective in deploying capital and maintaining pressure on valuations. Deal data shows that the median pre-money valuation for post-seed deals fell in 2024, reflecting a year-over-year drop of 6% for early-stage deals and 18% for later-stage deals. At the same time, deal sizes continued to swell for all stages, nearly reaching or surpassing all-time highs from 2021. Drawing more dollars from investors can sometimes signal company negotiating leverage. However, when considered with the lower valuation and deal count data, the deal sizes more likely reflect investor concentration in fewer deals, in addition to rising capital requirements for companies in this space.

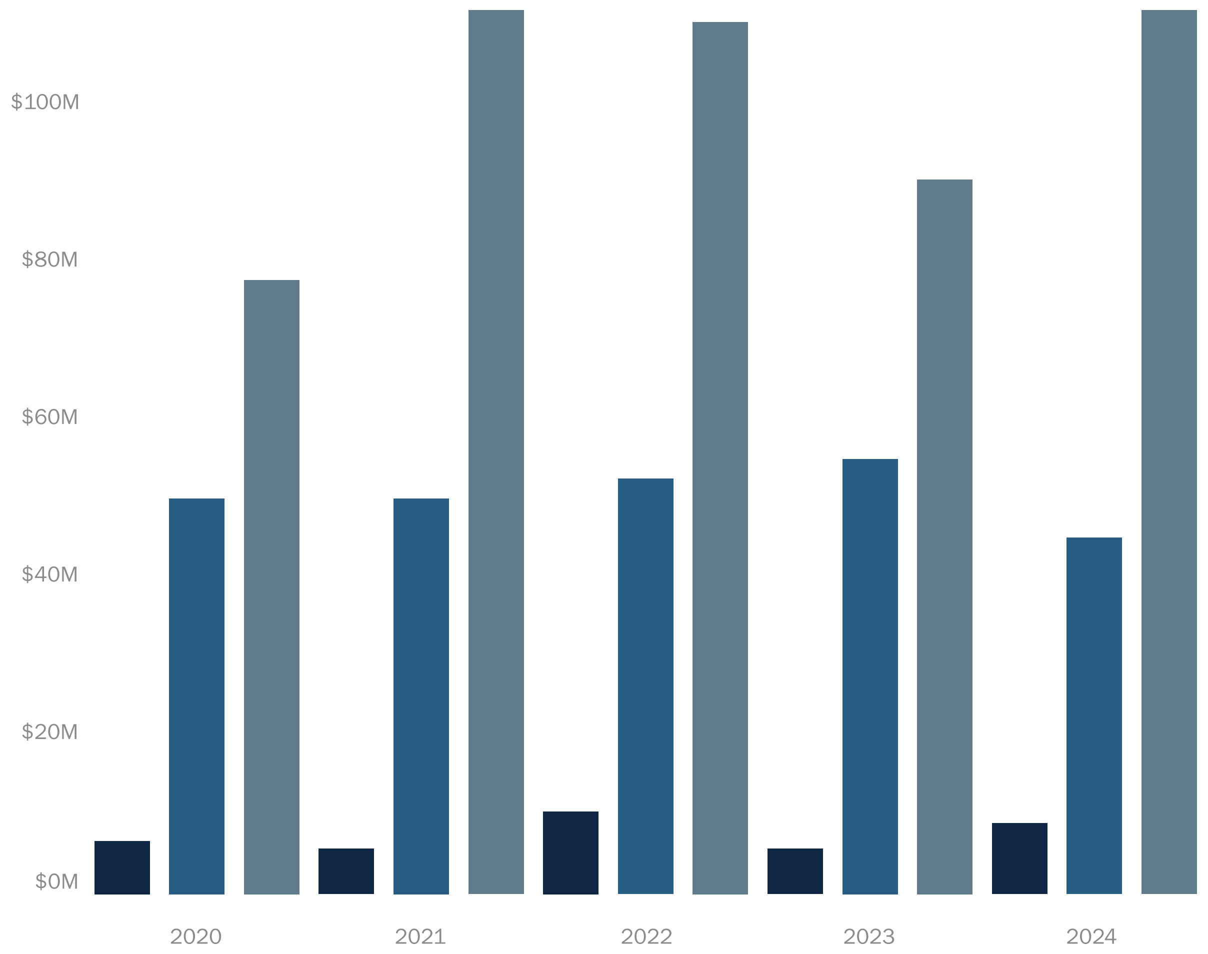
Median Pre-Money Valuation for Life Sciences VC Financings

- Series Seed
- Series A/B
- Series C/D



Median Transaction Size for Life Sciences VC Financings

- Series Seed
- Series A/B
- Series C/D



While valuation measures for other stages fell, median pre-money valuation for seed deals increased more than 50% to $14 million. This jump was more pronounced because of pointedly low measures from 2023, but it also corresponds with a larger story about changing investor demand across deal stages. Deal count data highlights these shifts. As with other VC sectors, a lack of portfolio company exits and general economic uncertainty have caused life sciences investors to allocate capital more cautiously. The result is a movement by investors toward very early-stage investments—with lower capital commitments, simpler valuation judgments and longer time horizons—or increasingly, to more mature companies that already have late-stage clinical trial data, which presumably would reduce the investors' risk and shorten the time to exit, although at a higher asset cost. This shift by investors left a gap in funding for late pre-clinical and early clinical financing rounds, and capital commitments were sparse outside of insider funding sources.

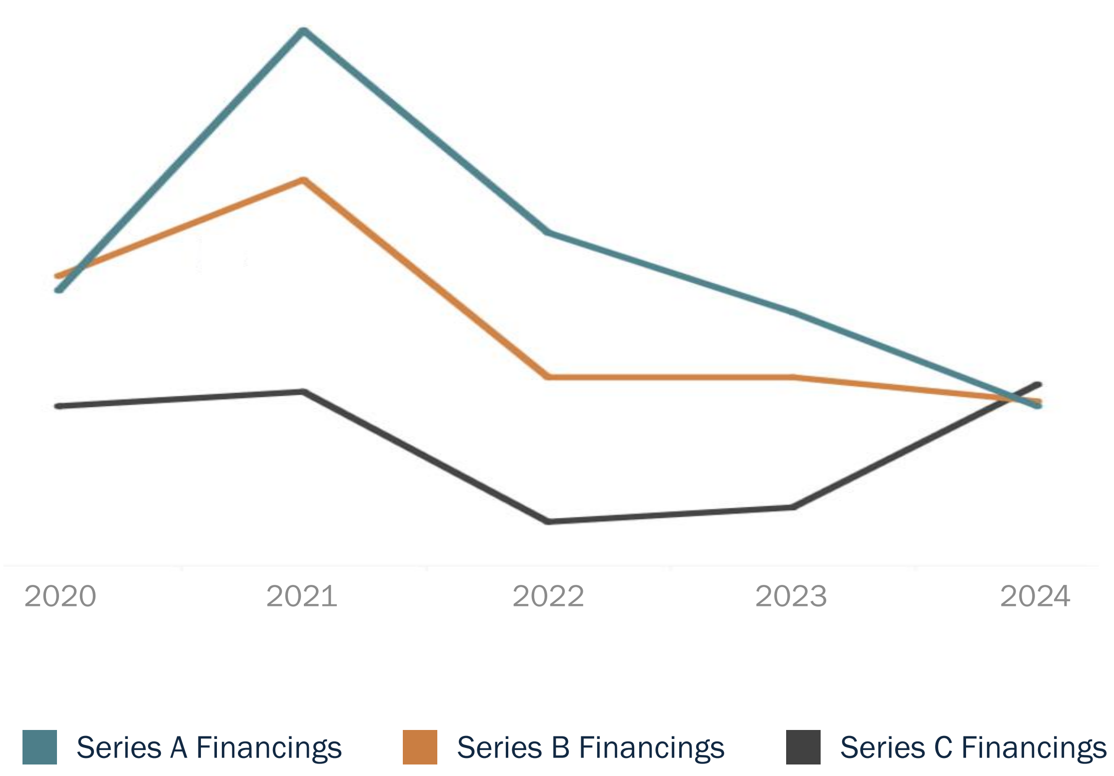
Companies responded to the constrained financing conditions and changing investor preferences of 2024 in interesting ways. First, there was a strong current of new company creation. The new company could be a blank slate or a reorganization of existing assets. In multiple instances we have seen companies pivoting to focus on more trendy areas of study. For example, a company developing immuno-oncology treatments, a previously hot area where interest has cooled, might shift its focus to autoimmune diseases instead. This strategic reorientation may be achieved either through the acquisition of new assets or the repurposing of existing assets for related uses.

In another trend, to meet investor demand for late-stage clinical trial data, companies increasingly focused on acquiring assets that are already in the later stages of clinical trials, either through purchases or inbound licensing. Although this practice is not new, it is taking new forms and growing in prevalence. Some VC funds are using practices more common in private equity, such as directly acquiring assets to form a portfolio company or position a roll-up.

Licensing clinical-stage assets from China is another approach we are seeing more frequently. The Chinese government has made substantial investments in biotech research over the past decade as part of its broader focus on manufacturing innovation. Slowing economic growth in China has constrained government funding for these initiatives in recent years. At the same time, U.S.-based VC investors have withdrawn from the Chinese market because of geopolitical risk. These factors have resulted in innovative Chinese biotech companies competing for capital, prompting many toward international licensing deals.

Inbound licenses of clinical-stage assets from China present unique considerations for U.S. companies. In these deals, Chinese licensors often aim to retain rights within China, while otherwise granting licensees exclusive worldwide rights. Typically, these are companies that have not finished clinical testing, so licensees must carefully consider their expectations around the use of trial data and future research activities if the Chinese counterpart continues to develop the drug. U.S. companies want to minimize any risk that the Chinese rights holders conduct inconsistent trials or obtain any adverse outcomes that could jeopardize the path to FDA approval.

Life Sciences VC Deal Count by Stage



"Life sciences companies are in an extremely tight fundraising market, with cautious investors maintaining pressure on valuations. We're seeing investors prioritize late-stage clinical trial data, and so we're seeing companies positioning themselves around these assets."

Tim Ehrlich

Partner & Chair of Life Sciences Practice, Boston