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STONKS

State of Pre-seed and Seed Valuations

Q4 2022 Projecting to Q1 2023

State of the Market: Valuations

Michael Cardamone, CEO at Forum Ventures

Valuations at pre-seed and seed are shifting as this report hits the digital shelves of the internet. All of this noise inhibits clear, reliable signals that investors can use to make prudent decisions. With the market moving so quickly, it can be impossible to know what is fair in this market. Because of this Forum Ventures partnered with Stonks to conduct a survey capturing data over the last two months from completed pre-seed and seed rounds. Currently, AngelList data lags by months, and a Pitchbook study about Q3 valuations already feels out of date given how much late-stage valuations are coming down to be more in line with public comps.

To help VCs make more informed investments and help founders realize successful pre-seed and seed rounds, Forum surveyed over 80 VCs who participated in early-stage fundraising rounds in Q4 2022.

80+

VCs were surveyed who participated in early-stage fundraising rounds in Q4 2022.

49%

Partner / GP or Managing Director

124

Closed rounds over Q4 represented.

According to the Pitchbook report, $73B was raised over the last few years by small, emerging funds that largely focus on early-stage investments. As the macro environment deteriorates around us and later-stage valuations tumble, it's all but certain that Series A rounds will similarly decrease in valuation. As with A, so too will seed; that said, the amount of dry powder held by early-stage funds is causing the disparity we are seeing in the data.

With this report, we aim to provide VCs and founders alike with timely data about market valuations from actual round participants. Too often a founder will anchor to one or two data points and extrapolate these as "normal." In reality, this is often the exception. As the famous saying goes, "Trust, but verify."

StonKs Commentary:

Tom White, Director of Research at StonKs

Market conditions like these remind us why the expression "May you live in interesting times" is construed as more of a curse than a blessing. In light of interesting—said euphemistically, of course—macroscopic conditions, geopolitical turmoil, trouble in the metaverse, and a myriad of other maelstroms, it's no fun to be an early-stage funder or founder right now.

That said, hard data has a way of dispelling flimsy sentiment. Contrary to Twitter's screeching masses, deals are getting done and funds are being funded. More, trouble often begets tremendous opportunity.

After all, per a previous Stonks writeup, though perhaps initially counterintuitive, some of the strongest performing companies of our generation — Uber, Lyft, Airbnb, Pinterest, Snowflake, Slack, Square, Cloudera, Yammer, and many more — emerged and received funding during this downturn.

Looking at company formation data, the creation of these eventual winners spans a lengthy timeline. More, it is distributed almost equally before, during, and after the crisis. This supports the notion that good companies materialize through all sorts of financial climates: good, bad, and downright ugly.

Though companies founded during recessions have a much harder time raising capital, they do benefit from three Key advantages:

1) A Focus on Financial and Operational Discipline

2) Less Competition

3) Talent Acquisition Becomes Easier

With that, take heart fellow founders and funders as even the darkest clouds have silver linings. What's more: with economic clouds come rains that nourish the fortunes sown in bear markets and reaped in bull ones.

Per Marc Andreessen, IT'S STILL TIME TO BUILD!

Set the Stage

In 2020 and 2021, many large, multi-stage funds focused their investments on seed-stage companies in light of soaring Series A valuations. Those funds were not overly price-sensitive at that stage because they wanted to optimize for dollars invested and optionality, which drove valuations up. There was also a great deal of AngelList syndicates investing at the seed stage. In my experience, they were less price sensitive because they were getting economics on a deal-by-deal basis & not necessarily thinking about portfolio construction & the math required to drive great returns for a fund.

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I call this the HOT or NOT Pool Party market. There will be hot rounds that everyone wants to pile into and will go out at high valuations oversubscribed. Others will be wondering why they can't pull in the bare minimum for their round.

-Respondent, Managing Partner at Colorado-based fund

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There is still a lot of dry powder out there. VCs are still reasonably investing; however, are more choosy and slower to move.

-Respondent, President & COO at Bay Area-based fund

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Series A valuations have started to come down, and it appears that the big multi-stage funds are focusing their attention on Series A+ deals. Additionally, given the macro environment, the volume of capital flowing through syndicates and angel investors more broadly is likely to slow down significantly. These dynamics, combined with the expected onslaught of bad news across late-stage private tech companies over the next couple of quarters, suggest that valuations at seed will revert back to 2019 levels by Q2 of next year.

Approach

We surveyed over 80 VCs who are actively investing in early-stage startups. Survey participants self-identified as having participated in at least one round between Oct/Nov 2022.

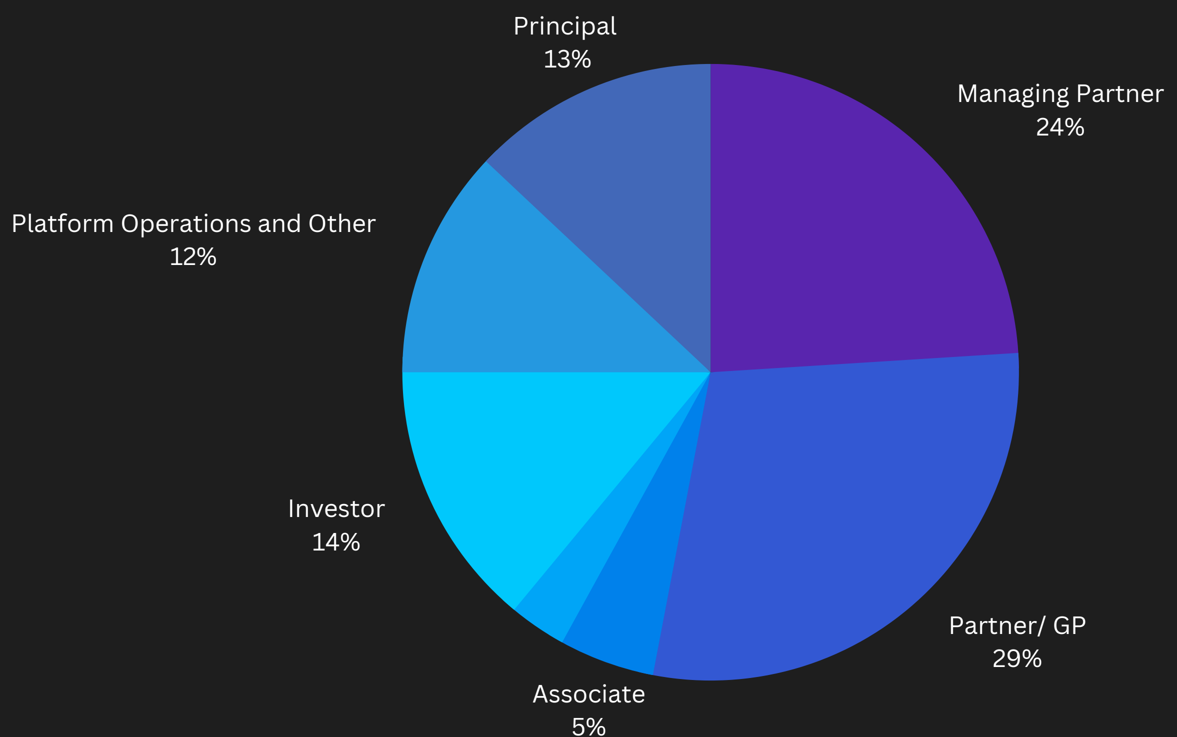
80
Active VCs Surveyed

124
Rounds Captured

$72M
Median AUM

$1-2M
$2-4M
Most common check sizes

Responses captured from the following job titles:



Stats You Need to Know

Sentiment and Investment Pace:

- 58% of respondents believe seed valuations will go down in Q1 2023, 38% believe they will stay the same, and only 4% believe valuations will go up.
- The average number of investments made in the last 2 quarters since the market turned was 2.

>50%

of respondents reported that their current investment pace is either slightly slower or significantly slower than it has been in the past.

Valuation Data

- 48 deals were done pre-revenue. 80% of them were done at $11M or less in post-money valuation. The rest ranged between $15M to $31M. The Median valuation across this set of companies was $9M and the average was $9.7M.
- One outlier at a $55M post-money valuation that – you guessed it – was in Web3. Without this outlier, the average is only $9.5M. Given recent news with FTX, it is predicted that Web3 valuations could revert back to market norms.

$14M

Avg. Post-money cap or valuation across all 124 rounds captured

- Within this data set, there were 33 deals that got done in companies with $250K+ in ARR. As expected, only 27% of these deals were done at $11M or less in post-money valuation and the Median valuation across this subset was $16M and the average was $19.8M.

Traction	# Deals*	Median Valuation	Average Valuation
Pre-Revenue	48	$10M	$10.7M
0-250K ARR	30	$10M	$13M
250k+ ARR	33	$16M	$19.8M

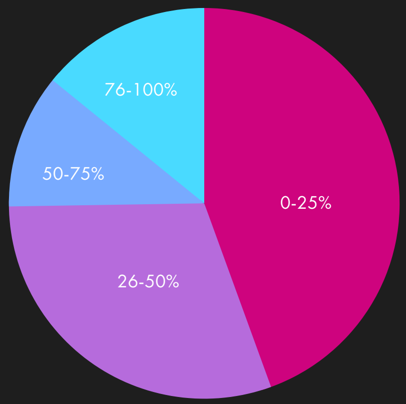
*Some respondents opted not to share traction or valuation data on all of their rounds

Who is Getting Funded

Representation

- Only 25% of respondents had over half of their founders that were underrepresented minorities
- 44% of respondents had less than a quarter of their founders that were underrepresented minorities
- The sentiment among the respondents is that the current market conditions are disproportionately affecting underrepresented founders. Clearly, significant economic progress is needed to help close the gender and racialized wealth gap.

Percentage of Underrepresented Founders



According to TechCrunch, in Q3 2022, women raised around 1.9% of all venture capital allocated (down from 2.4% in 2021) That number becomes even lower and even worse if we factor race into account. While the overall number for all-female teams was 2.4% last year, Black and Latinx women hovered around 0.05% each, while Indigenous Americans raised approximately 0.004% of known capital in the United States.

"Fewer female founders and equity given to female team members when part of the founding team. I also see less female advisors. It feels as if the market is completely shrinking back to the early 2000s."

-Respondent, General Partner at anonymous fund

Industry

Top 3 industries of the companies invested in

- Fintech (20%)
- Future of Work (11%) and
- Healthtech (13%)

Geography

The top three geographic areas represented in this data set were

- Bay Area (29%)
- Other (36%), and
- NYC (22%)
- Other geographies represented were Austin, Atlanta, Miami, and Toronto.

Key Takeaways

Companies are clearly still getting funded pre-revenue, but it appears that valuations are starting to decrease. 33% of the deals were completed at a valuation of less than $10M, many of which were in the $3M - $7M range. It is thought that pre-seed, especially those that are pre-revenue, will normalize to this range.

Not surprisingly, valuations across this data set are generally correlated to traction, as companies with $250K+ in ARR on average were completed at 68% higher valuations than pre-revenue companies, minus the Web3 outlier.

27%

of the deals got done below a $10M valuation

68%

higher valuations in companies with $250K+ ARR than pre-revenue companies

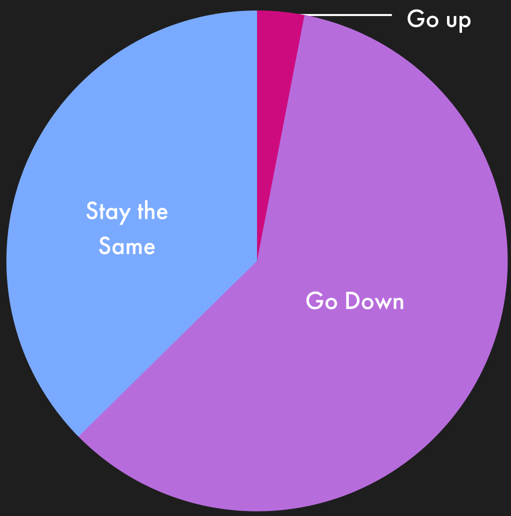
26%

of the rounds reported had $20M+ in valuation.

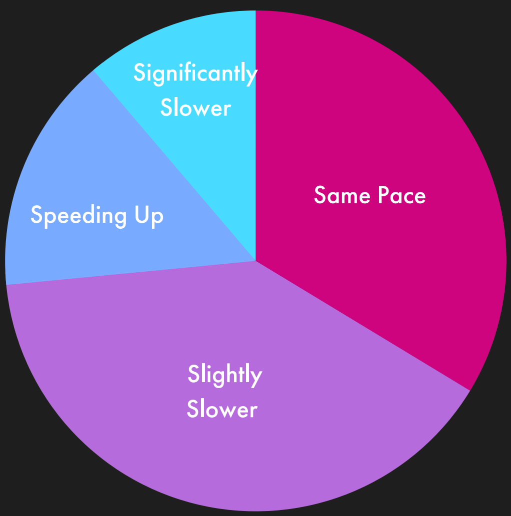
Across the board, valuations are predicted to go down and the investment pace is predicted to slow down in Q1 2023

-Michael Cardamone, CEO at Forum Ventures

How do you think valuations will trend in Q1 2023?



How does your current pace compare to Q1 and Q2 2022?



Across the funds surveyed that have done at least one deal in the last couple of months, valuations are predicted to go down and the investment pace is predicted to slow slightly in the next quarter due to current market conditions and more deliberate due diligence processes. As more early-stage funds see where Series A and beyond rounds are getting priced, early-stage valuations will continue to come down. Over the last few years, the pace of deployment by many funds was also much faster than usual, which meant a lot of re-ups for LPs over that time period.

In this market, fundraising from LPs is getting tighter and LPs are encouraging GPs to extend their deployment period back to a 2-3 year time horizon. This, and the uncertainty around where valuations will settle for pre-seed and seed, are likely major drivers of why many of the funds in the survey reported investing at a slightly slower pace than they have in the past; and expect that to continue.

Surprisingly, 26% of the rounds reported in the survey got done at \$20M+ in valuation. It seems a subset of companies are still able to generate competition for their round, which leads to relatively high valuations. It is suspected that the percentage of seed rounds getting done at \$20M+ will go down over the next two quarters. It is expected that seed valuations will continue to come down over Q4 and Q1; and eventually settle back at about 2019 levels.

> **The pace is picking back up in terms of meetings and interesting opportunities, but the decision-making process is slower and more deliberate. There is a return to saner valuation asks and negotiations, which is a necessary and ultimately positive trend for both founders and investors.**
>
> -Respondent, Managing Director at New York-based fund

Conclusion

There is no question that fundraising for funds and founders alike is going to be hard for the foreseeable future. With that said, don't be too discouraged as a founder because pre-seed and seed rounds are still getting done! As a founder, stay focused on controlling the things you can control, run a good fundraising process, be patient as investors are often taking longer to make decisions and try to get traction before going out to raise in order to increase your probability of successfully raising a round.

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Michael Cardamone,
CEO at Forum Ventures

Michael Cardamone launched Forum Ventures in 2014 in San Francisco, with a mission to make the B2B SaaS journey easier, more accessible and successful for early-stage founders. Forum is the leading early-stage fund, program and community for B2B SaaS startups based in New York, San Francisco, and Toronto.

With over 300 portfolio companies globally, Forum founders have gone on to raise $600M+ in follow on funding from funds like Andreessen Horowitz, Bessemer Ventures, Serena Ventures, FirstRound Capital, Salesforce Ventures, and many more.

Forum is planning to writing checks into 75+ SaaS companies in 2023
Pitch Us here.

STONKS

Tom White,
Director of Research at Stonks

Tom works as writer, investor, researcher, and advisor at Stonks. Stonks allows accredited investors to invest alongside the 0.1% of VCs, angels, and accelerators. Via such products as Demo Day Vehicles and Stonks Secondaries, we are building the simplest, fastest onramp to startup investing.

Via insightful yet irreverent content across our Blog, Newsletter, Podcast, Twitter, and YouTube, and a number of IRL/virtual events, we strive to make private markets more accessible, transparent, and liquid.