THE STATE OF U.S. EARLY-STAGE VENTURE: 1Q23

TOC

Executive Summary

After a sharp drop in 2022, early-stage venture performance continued to slump in 1Q23. Indicators of a potential rebound in the early-stage market remain inconclusive: while 1Q23 saw a larger share of deals marked up than the previous two quarters, the rate of investment activity on AngelList was the lowest we've ever measured.

The low volume of dealmaking may indicate that prices remain too high for some VCs to feel comfortable jumping back into the market. Our valuation data lends credence to this theory. When compared to 4Q22, median valuations rose at Series A and B. Average valuations fell at every stage aside from pre-seed. The drop in deal volume could also be a second order effect of the unraveling of Silicon Valley Bank, the preferred banking partner of many VCs.

One bright spot in tech amid the ongoing turmoil has been generative AI, which captured the second largest share of investment activity on the platform in 1Q23 (AI / ML was the 5th most active investment sector on AngelList in 2022). While Web3 has significantly less fanfare than it did this time last year, the sector still managed to capture the fourth highest share of deal volume in 1Q23, indicating resiliency during this prolonged "crypto winter."
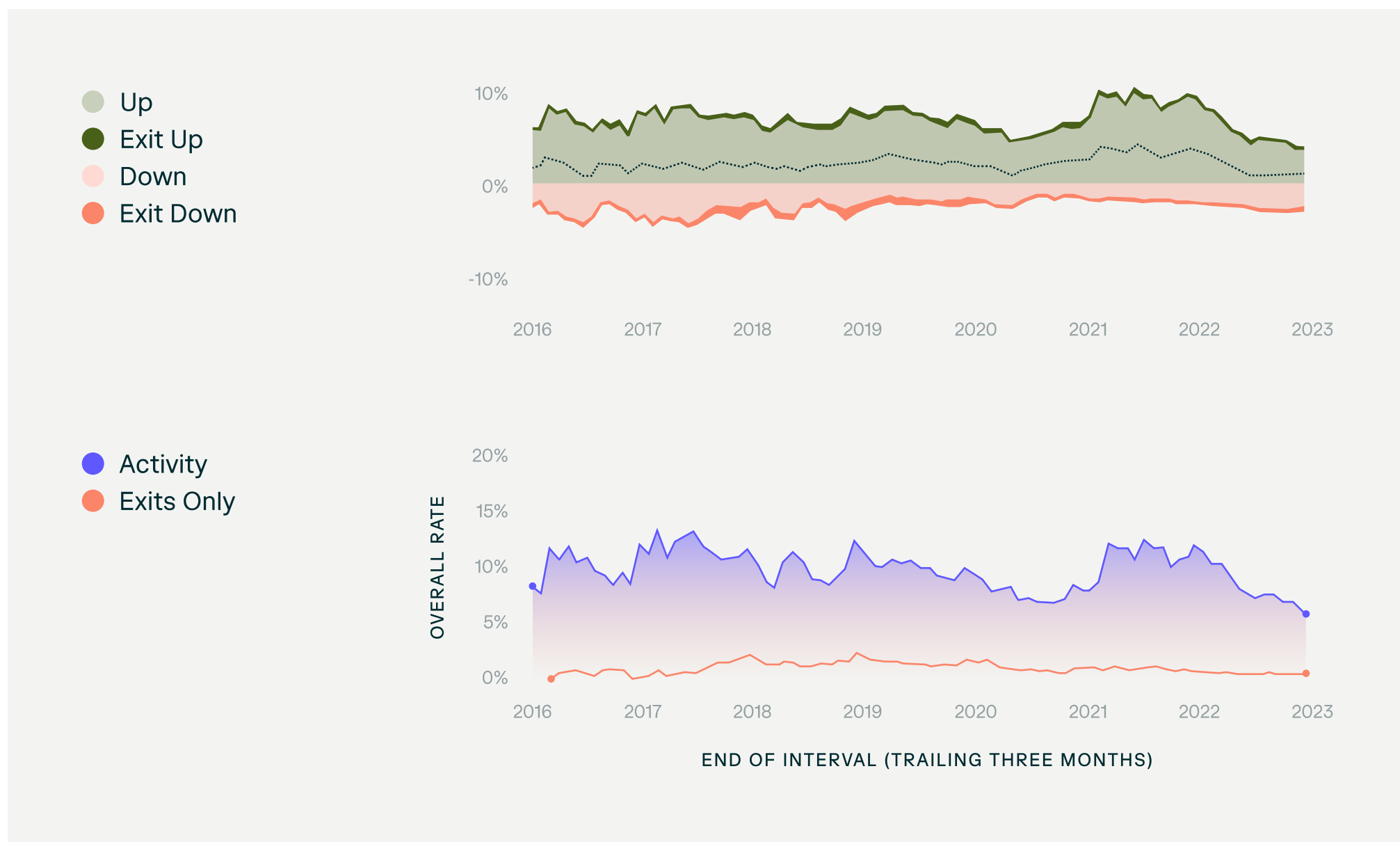
Despite lower deal volume, funding to female founders actually rebounded in 1Q23 to levels not seen since 1Q22.

Meanwhile, there was a dramatic uptick in SAFE-usage on AngelList, suggesting many of the deals that are getting funded in the current environment are early-stage startups.

This theory is borne out in our deal share data, which reveals that there's been an uptick in pre-seed and seed-stage funding in 1Q23 relative to the previous quarter, while funding rounds at the later stages on AngelList have declined.

Overall, 1Q23's data doesn't indicate that early-stage venture is out of the woods quite yet. Our recent blog post on lagged market correlations suggests it takes 9-18 months for changes in the public market to trickle their way down to the private market. As such, it wouldn't be all that surprising for early-stage venture to continue to slump throughout 2023.

Markups

Up
Exit Up
Down
Exit Down

Activity
Exits Only

OVERALL RATE

END OF INTERVAL (TRAILING THREE MONTHS)

Source: AngelList

AngelList fund managers had seasoned investments into 13,257 active startups at the start of 1Q23, primarily at the seed and pre-seed stages. Of those startups, **6.1%** raised a round or exited in 1Q23. Of that activity, **67.8% was positive**, meaning the startup saw its share price increase. This represents a **4.4% increase** from 3Q22's mark of 63.4%. 1Q23's share of positive activity is the highest rate observed since 2Q22's rate of 77.5%.

Overall, **4.1%** of active startups that AngelList fund managers had seasoned investments into at the start of 1Q23 saw a share price increase, while **2.0%** saw a share price decrease relative to their last fundraise ("marked down").
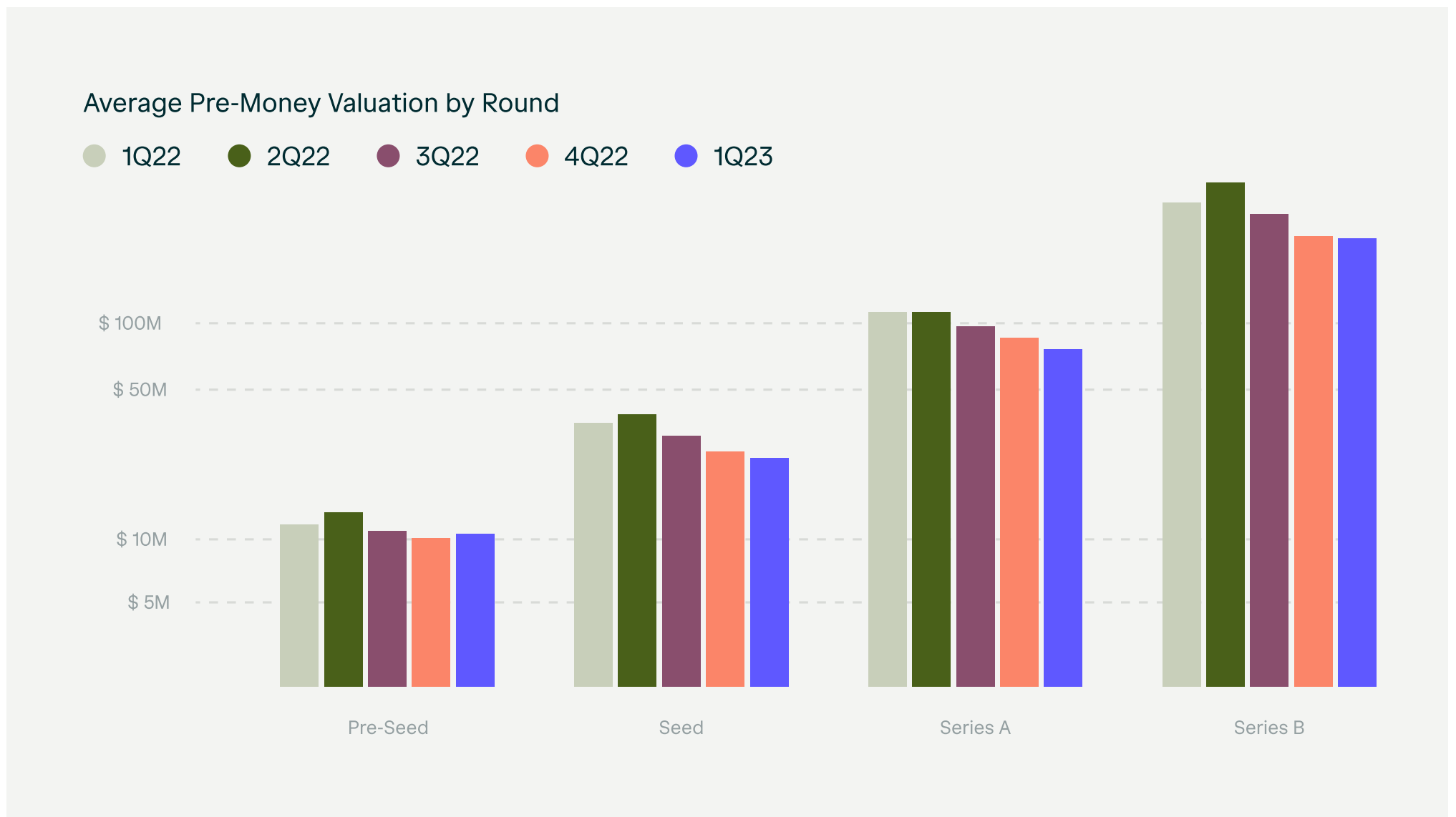
Rate of Activity
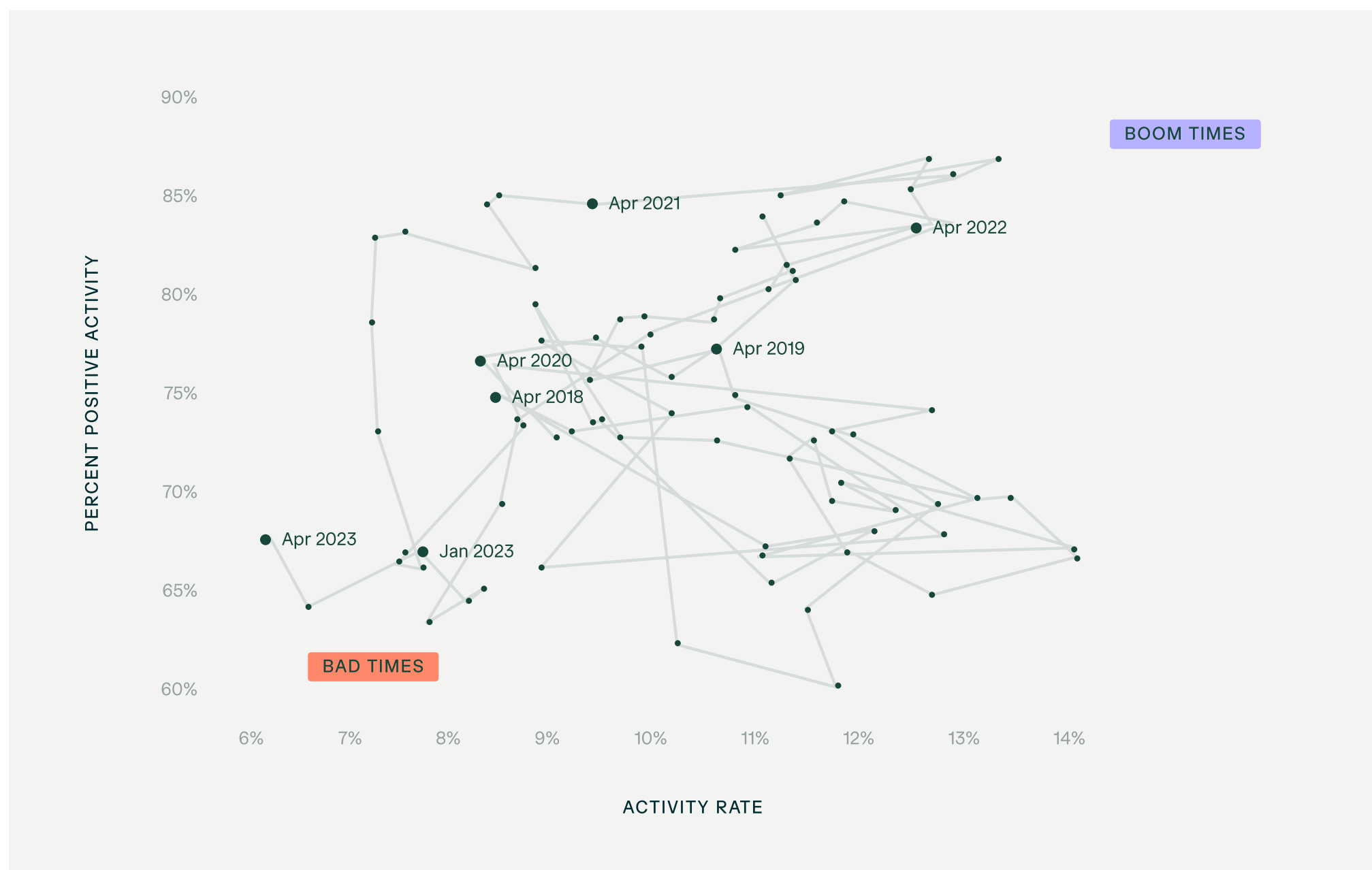
Source: AngelList

Only **6.1%** of active startups on AngelList raised a round or exited in 1Q23, the lowest rate ever observed in our dataset. This rate of investment activity is a **1.3% decline** from 4Q22's rate of 7.4%, and a 5% decline from 1Q22's rate of 11.6%.

While a historically low volume of deals are getting done, the tenor of those deals appears to be a bit more founder-friendly than it has been the previous two quarters (as evidenced by the "markups" data). This data suggests that high-quality startups are still able to attract financing, despite the general malaise in early-stage tech.

It'll be interesting to observe over time if a further decrease in valuations leads to a rebound in investing activity. If so, the low observed transaction volume may imply that VCs are currently waiting out the market in hopes of another material repricing event.

Average Valuation

Average Pre-Money Valuation by Round

● 1Q22　　● 2Q22　　● 3Q22　　● 4Q22　　● 1Q23

Pre-Seed　　Seed　　Series A　　Series B

$ 100M
$ 50M
$ 10M
$ 5M

Source: AngelList

⚠ Note: averages can be easily skewed by outliers.

Aside from pre-seed, average startup valuations declined at every fundraising stage relative to the previous quarter in 1Q23. Seed-stage valuations **declined by 5.7%** to $22.5M, Series A valuations **declined by 14.1%** to $66.6M, and Series B valuations **declined by 2.5%** to $220M. Pre-seed valuations **increased by 1.9%** to $10M.

After a 2022 in which average annual valuations actually increased at every funding stage, 1Q23's data suggests average valuations are finally matching the market reality.

Median Valuation

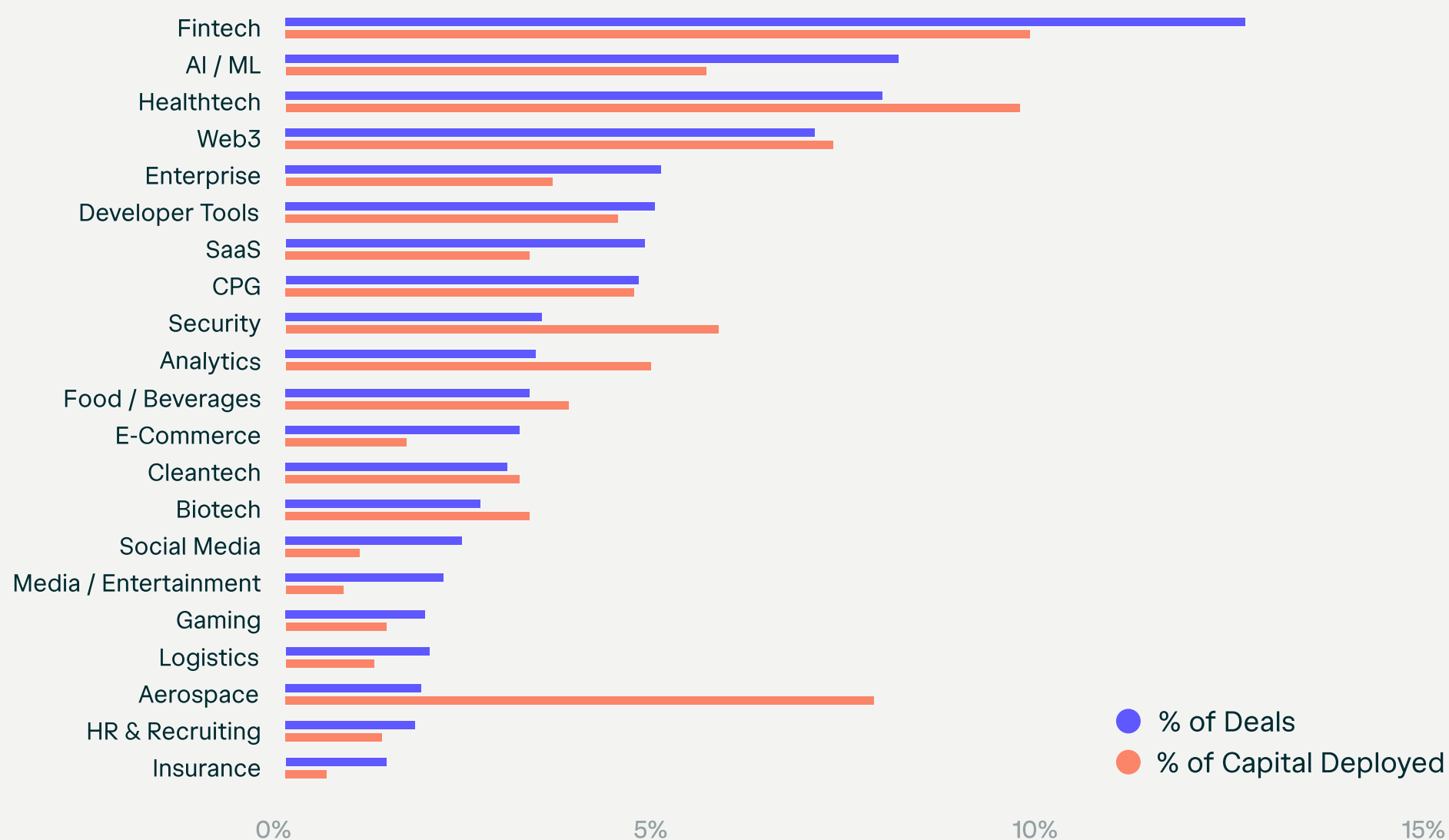|	25th percentile	50th percentile	75th percentile
Pre-Seed	$6M	$10M	$12.5M
Seed	$12M	$18M	$25M
Series A	$40M	$57M	$90M
Series B	$70M	$150M	$282.5M

Source: AngelList

Early-stage median (50th percentile) valuations remained stagnant in 1Q23, while later-stage median valuations actually increased over the previous quarter. Median Series A valuations **grew by 14%** over the previous quarter to $57M, and Median Series B valuations **grew by 20%** over the previous quarter to $150M.

Meanwhile, median pre-seed valuations and seed-stage valuations held the same mark they did at the end of 4Q22, at $10M and $18M respectively. The latest median valuation data, when taken in combination with the current markup data, suggests many of the startups raising at valuation increases on AngelList today may be later-stage businesses.

Early-Stage Venture by Market

Deal Share & Capital Deployed by Market

Legend:
- ● % of Deals
- ● % of Capital Deployed

Markets (top to bottom): Fintech, AI / ML, Healthtech, Web3, Enterprise, Developer Tools, SaaS, CPG, Security, Analytics, Food / Beverages, E-Commerce, Cleantech, Biotech, Social Media, Media / Entertainment, Gaming, Logistics, Aerospace, HR & Recruiting, Insurance

X-axis: 0%, 5%, 10%, 15%
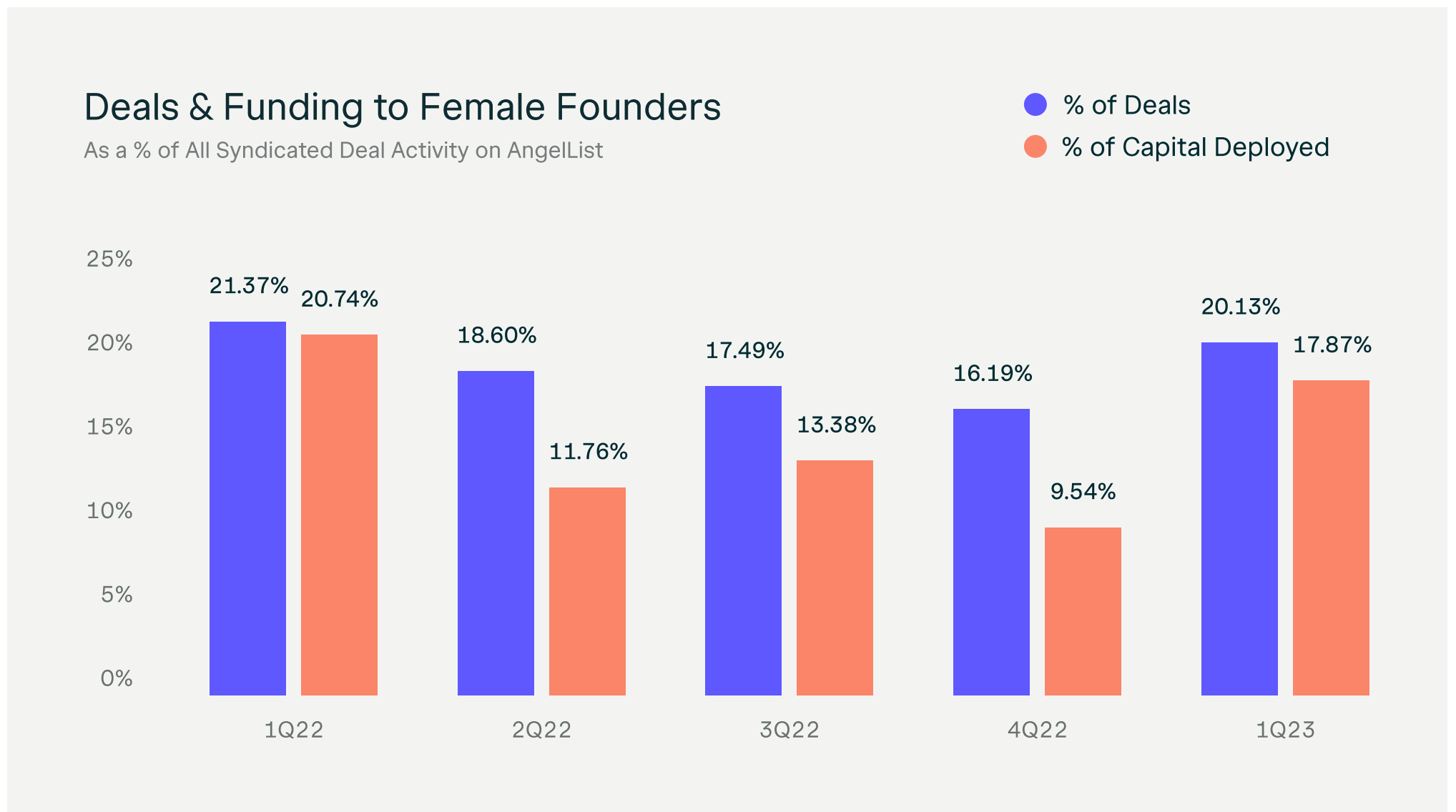
Source: AngelList

Among the most notable developments in 1Q23 was the explosion of investment activity in startups in the AI / ML sector on AngelList. These startups comprised 8.1% of all investment activity on the platform, the highest such rate ever observed for the AI / ML sector on AngelList. Of course, investor enthusiasm for AI isn't surprising given the numerous technological breakthroughs in AI these past 6 months, leading to an explosion of AI projects [(roughly 34% of the current Y Combinator class is AI-focused)](#).

Fintech had the largest share of investment activity at 12.6%, and 27 different sectors captured at least 1% of deal share in 1Q23.

Despite capturing the second highest share of deal volume, the AI / ML sector had only the sixth-highest share of capital deployed in 1Q23—after fintech, healthtech, aerospace, Web3, and security, respectively. This could suggest AI projects aren't as capital intensive as startups in other sectors (like aerospace). Note that seed-stage valuations for AI startups have **increased by 33%** over the previous quarter.

Overall, **23 different sectors** captured at least 1% of capital deployed in 1Q23.
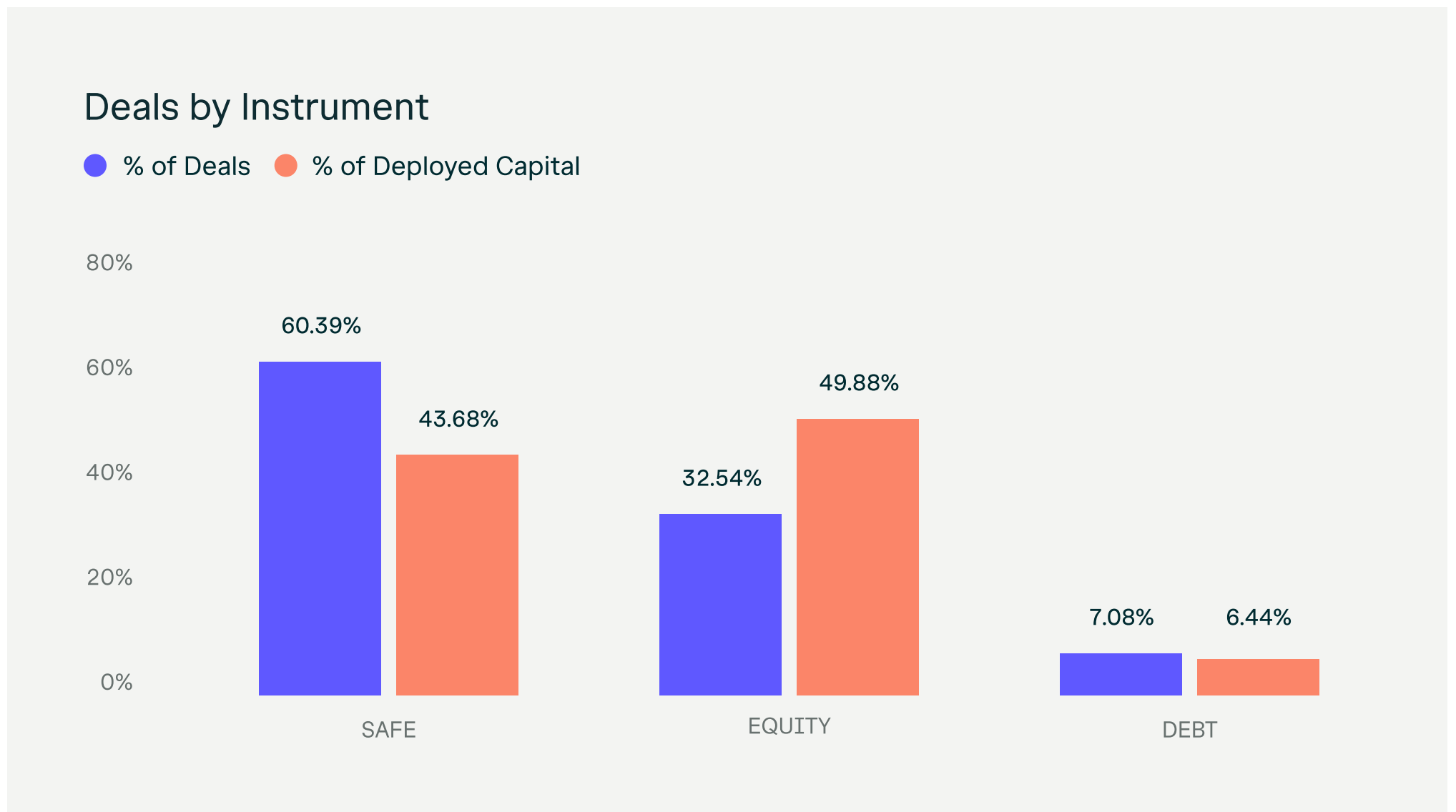
Funding to Female Founders

Deals & Funding to Female Founders
As a % of All Syndicated Deal Activity on AngelList

- ● % of Deals
- ● % of Capital Deployed

Quarter	% of Deals	% of Capital Deployed
1Q22	21.37%	20.74%
2Q22	18.60%	11.76%
3Q22	17.49%	13.38%
4Q22	16.19%	9.54%
1Q23	20.13%	17.87%

Source: AngelList

While investment activity slowed in 1Q23, funding to female founders actually rebounded to its highest rate since 1Q22. This suggests that, unlike in the past, the depressed fundraising environment isn't having an outsized impact on female-founded startups in our dataset. Overall, the share of deals involving female founders **increased by nearly 4%** over 4Q22, while the share of capital deployed **increased by over 8%**.
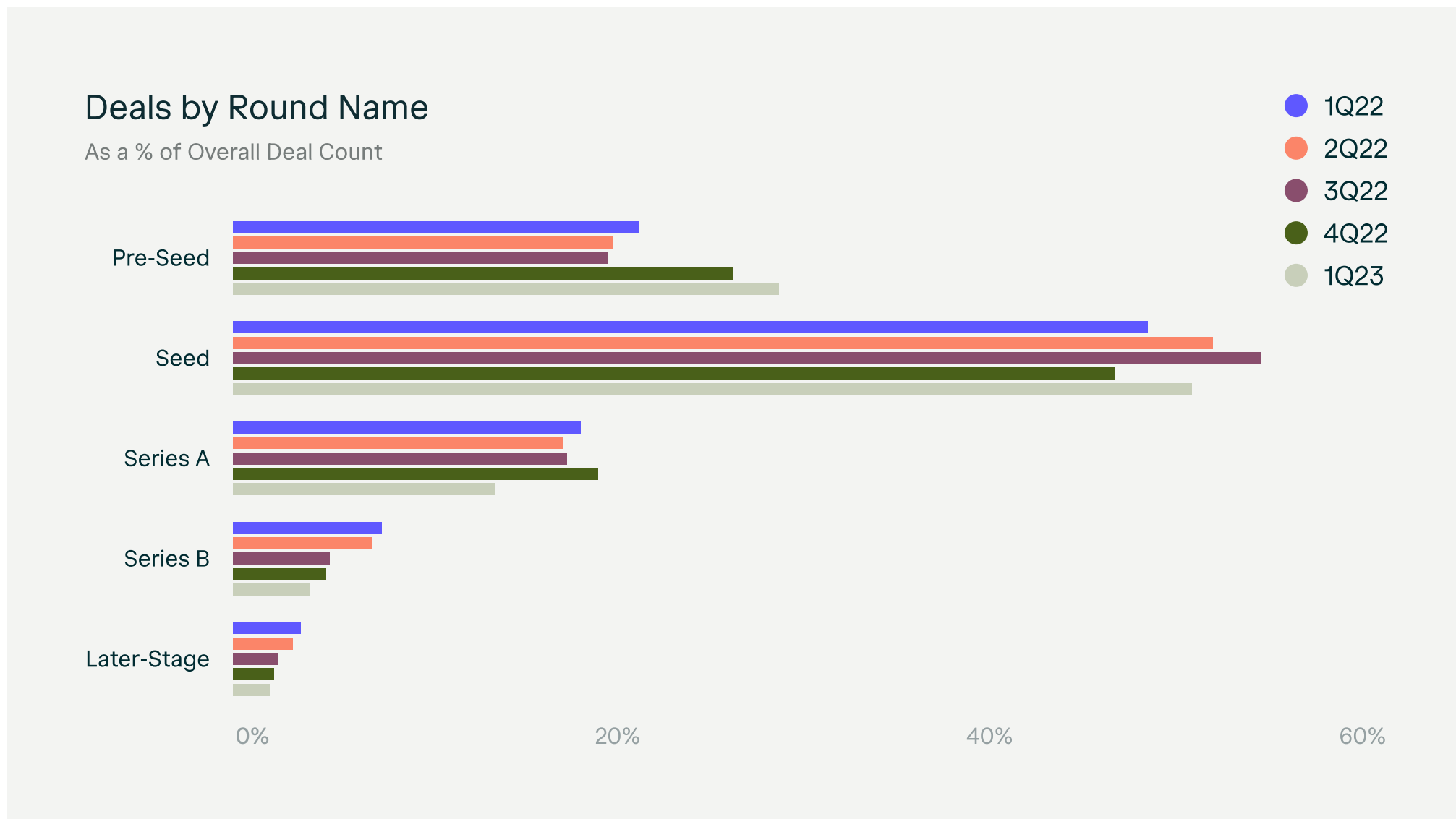
Deals by Instrument

Deals by Instrument

● % of Deals   ● % of Deployed Capital

```
80%

60%                60.39%                          49.88%
                                          32.54%
40%                         43.68%

20%
                                                              7.08%  6.44%
 0%
                     SAFE                  EQUITY              DEBT
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Source: AngelList

Given a majority of deals on AngelList occur at early-stage, SAFEs have always been the investment vehicle of choice for AngelList investors. However, 1Q23 sets a new high-water mark for SAFE usage on AngelList, with **60.4% of deals** executed using a SAFE. This is nearly a 5% increase over 2022's annualized rate of 55.8%, and suggests AngelList investors are primarily focused on early-stage startups in the current market. Given many markups appear to be coming from later-stage investments, it would appear there are currently more value investments for VCs at the early-stage.

Meanwhile, equity rounds comprised less than a third of all investment activity on AngelList in 1Q23, and dropped below 50% of capital deployed for the first time ever in our dataset.

Deal Share by Round Name

Deals by Round Name
As a % of Overall Deal Count

Legend: 1Q22, 2Q22, 3Q22, 4Q22, 1Q23

Categories: Pre-Seed, Seed, Series A, Series B, Later-Stage

X-axis: 0%, 20%, 40%, 60%

Source: AngelList

Increased SAFE usage would suggest more early-stage deal activity, and that reflects what we saw when evaluating deal volume by round. Pre-seed investments comprised roughly **29%** of investment activity in 1Q23, compared to 26.5% in 4Q22. Seed-stage investments comprised **50.8%** of investment activity in 1Q23, up from 46.7% in 4Q22.

Meanwhile, Series A investments declined from 19.4% in 4Q22 to **13.9%** in 1Q23, and Series B investments declined from 5% in 4Q22 to **4.1%** in 1Q23. Overall, it appears while markups are happening on later-stage deals, investment activity is currently focused around early-stage businesses.

The Upshot

- Positive activity (i.e., markups) on the AngelList platform in 1Q23 was the highest we've observed since 2Q22.

- Investment activity in 1Q23 was the lowest rate we've ever observed in our dataset, signaling that fewer deals are getting done (even though the deals getting done are generally more positive than they've been for the previous two quarters).

- Despite the slowdown in market activity, median later-stage startup valuations increased in 1Q23. This data suggests the positive activity we observed came from later-stage deals.

- While more positive activity came from later-stage deals, early-stage deals (pre-seed and seed) made up the lion's share of investment activity on AngelList in 1Q23. Over 60% of deals used a SAFE.

- AI / ML was the second most popular sector to invest in on AngelList in 1Q23, by way of investment activity. Seed-stage valuations for AI deals increased 33% over the previous quarter.

- Funding to female-founded startups rebounded to levels not seen since 1Q22.

Early-stage venture is in a transitional period. Valuations are in flux as VCs adopt a more judicious approach to how they deploy capital. However, the new wave of AI technologies carry the potential to lift early-stage venture performance out of this slump. VCs are already showing a willingness to open their checkbooks for these startups—many of which are still in the earliest stages of development.

The emergence of a new dominating wave of technology and the generally depressed fundraising environment may make this an unprecedented time for willing investors to jump into the market and capitalize on lower prices and decreased competition.

About AngelList

AngelList provides investors and founders with the infrastructure they need to launch and scale a startup or fund—and invest in both. As of this writing, we support nearly $15B in assets under management. Our data and access gives us a nearly unrivaled view into early-stage venture activity. That means we can report with more accuracy on market-wide trends within the startup ecosystem.

⚠ Programming note: For the past two years, Silicon Valley Bank has been a co-author of the quarterly State of Venture report. We are grateful for SVB's contributions in helping us illustrate the outlook of the tech ecosystem to our readership. As we look to the future of these reports, we're interested in working with new partners in the startup community that can share proprietary data that can help inform and educate our audience of VCs, founders, and operators. If that's you, please email mspeiser@angel.co.

About the Authors

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ABE OTHMAN

Matthew Speiser writes about technology and investing for venture capital firms and startups, including AngelList, Hustle Fund, Mercury Bank, and others. He has a BS in Journalism from the University of Delaware. To learn more about Matthew's work, visit his website.

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Legal Disclaimers

Methodology

An AngelList "deal" is an investment made by a Traditional or Rolling Fund, Syndicate (SPV), or Roll Up Vehicle hosted on the AngelList platform. We define "early stage" deals as deals that occur at Series A or prior. We include all deals signed in the relevant quarter, indicating a legal commitment to invest. We make no guarantee that these deals were finalized in the quarter, or ever. All deals are labeled by round and sector according to the best judgment of the deal lead, with potential oversight from the AngelList investment operations team.

Since we generally only update valuations at priced rounds, at any given three-month stretch, perhaps only 10% of companies will show a change in value. As AngelList skews towards earlier investments, we estimate that about three-quarters of the companies we track are at the seed or Series A stage.

This data represents deals signed by AngelList GPs between 1/1/23 - 3/31/23.

Markups

The "markups" charts represent what has happened to every active, "seasoned" company ("seasoned" meaning that we track an investment in the company that is at least 180 days old) over a trailing three-month window.

A seasoned startup is considered "marked up (down)" if the most recent deal tracked by AngelList into that startup increased (decreased) in value. Rates are all expressed relative to the number of startups with seasoned investments at the start of the quarter (13,257). While efforts are taken to track valuation updates and exits in a timely manner, readers should expect small changes to historical values on the plots, reflecting valuation changes or exits that occurred during the quarter but were not registered on the platform by the end of the quarter.

In both the "markups" and "activity" charts, time goes left to right, so the most recent activity is closest to the right-hand side of the plot. The top plot is a split between good events (Markups and Exit Ups), which are in shades of yellow and are on the positive side of the top plot, and bad events (Markdowns and Exit Downs), which are in shades of purple and are on the negative side of the top plot.

The dotted line in the top chart is the median outcome—when it's positive, the typical startup event that we observed was positive. The bottom plot tracks activity rates overall and exit rates.

Rate of Activity

Only active (not exited) startups that we have a seasoned investment into (an investment at least 180 days old at the start of the three-month period) are considered. Since we detect activity by changes in the latest price-per-share, in some cases if a startup does a "flat" round that does not change the price per share, we may not detect that activity.

Valuations

Based on summary statistics from the pre-money USD valuations of all the rounds within the interval.

Valuations are generally marked to a company's latest priced financing round, as disclosed to AngelList. While AngelList's valuation sources are believed to be reliable, AngelList does not undertake to verify the accuracy of such valuations. Companies that have not received new investments in a priced round since the last mark are held at cost or may be marked down at AngelList's discretion according to its valuation policy.

Valuations and returns do not account for liquidation preferences and other non-financial terms that may affect returns. Investments in later-stage companies may be sent to a third-party for valuation if (i) the company's estimated value is over $100 million, (ii) the investment is estimated to be worth over $10 million and (iii) 24 months have passed since the last investment. Valuations presented herein are calculated as of the date disclosed and have not been audited by a third-party. Contact us for full details on our valuation methodologies.

Market Sector	Deal share by market sector was calculated by adding up the total deal count for each deal that was part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of overall deal count in 1Q23. Share of capital deployed by market sector was calculated by adding up the total capital deployed for all deals that were part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of the total capital deployed across all sectors in 1Q23.
Funding to Female Founders	Deal share of female founders was determined by adding up all syndicated deals to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of overall deal count for 1Q23. Share of capital deployed to female founders was determined by adding up the total syndicated capital deployed to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of the total capital deployed on AngelList for 1Q23.
Deals by Instrument	Deals by instrument were determined by adding up all deals completed in 1Q23 that were assigned a specific instrument tag at deal close. This number was then expressed as a percentage of overall deal count in 1Q23. Preferred investment instrument by round name was determined by adding up all deals assigned to a specific round in 1Q23 and assigned to a specific deal instrument tag at deal close. This number was then expressed as a percentage of the overall number of deals in that named round in 1Q23.
Deals by Round Name	Deals by round name was determined by adding up the total number of deals that were assigned to a specific round for 1Q22, 2Q22, 3Q22, 4Q22, and 1Q23 at deal close. This number was then expressed as a percentage of the overall deal count that took place within the measured time period.