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State of the Markets

SVB's Innovation Economy Outlook

H2 2025

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Play it Again, Sam. AI Rings a Familiar Tune.

> As we saw with the dot-com era, early adopters of platform shifts are often not the market winners. Today's valuations are starting to stretch rationality. It is likely many companies won't achieve high returns, but the best companies could get so big they make up for the failures."

It's not your dad's venture ecosystem. Venture has evolved since we started our careers. It has gone from a mere cottage industry to a pillar of private markets and technological innovation. In the '80s and '90s, a handful of venture funds — small by today's standards — located in Boston and on Sand Hill Road were the epicenter of venture. Today VC funds operate from coast to coast and draw on global pools of capital. Funds themselves are more sophisticated, utilize new structures to tap different pools of LP capital, and often blur the lines between venture, private equity (PE) and even private debt. And the level of sophistication will only increase as megafund platforms dominate the top end of the VC industry.

Amidst this backdrop of long-term evolution there is no shortage of fast-paced changes. Tariffs continue to loom over tech companies selling physical goods and threaten future inflationary headwinds. Beyond tariffs, changes in Washington are impacting everything from immigration and talent to secondary markets and LP tax regimes. The quickness of these changes are adding a layer of uncertainty and volatility as founders navigate the continued recalibration of the innovation economy.

So how is the innovation economy faring today? Some things have remained constant since the start of the year. Companies are graduating from one series to the next at the lowest rates in history, and when they do graduate, it takes them far longer than it used to. AI is still the driving force of US VC investment, accounting for 58 cents of every dollar deployed in 2025. Unprecedented fundings like the $40B OpenAI deal are sending VC investments totals higher, but when we peek behind the curtain, we see the investment numbers remained stubbornly low for deals under $100M.

What has changed since the beginning of the year is our outlook on IPOs. Our bearish outlook for IPOs in 2025 is looking more favorable, and it appears the IPO window is at least partially open — though the many have been down rounds.

VC-backed tech companies have reached a new equilibrium. Revenue growth rates remain low and slow while profitability has remained higher than in the past as companies stay focused on efficiency. The period of cost cutting, headcount reductions and painful austerity measures seems to be over, and now it's up to founders and CFOs to stay the course and let companies grow.

As we look to the future, the promise of AI is a beacon on the horizon. Generative AI is likely the most powerful tool to come from the innovation economy in the last two decades. But inventing a technology is not the same as commercializing it. As we saw with the dot-com era, early adopters of platform shifts are often not the market winners. Today's valuations are starting to stretch rationality. It is likely many companies won't achieve high returns, but the best companies could get so big they make up for the failures.

We don't know yet how this will play out, but hypercycles are part and parcel of venture. Each new invention builds on itself, failures spin out into new successes and the flywheel of innovation keeps turning.

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Click Through to Key Takeaways

Mega-deals push VC toward all-time highs; smaller deals trend flat.

Jump to Page

Among the top 100 unicorns, foreign-born founders have an outsized impact.

Jump to Page

Venture podcast index tracks FOMO frenzies and investor sentiment.

Jump to Page

Distributions expand: There is no typical series today.

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Companies have reached a new equilibrium, balancing growth and profitability.

Jump to Page

AI companies are less efficient: high burn multiples and low profit margins.

Jump to Page

AI labor displacement: limited for now, but teams are leaner.

Jump to Page

The IPO window cracks open, especially for larger companies.

Jump to Page

Perspectives on the Innovation Economy

The Evolution of Venture Capital

"What you're seeing today is the start of the institutionalization of venture. The industry is kind of like Cro-Magnon on the evolutionary scale from ape to human. We're somewhere in the first third of the evolution. We will become an industry that looks more like PE given the number of companies and the global scale and ambition of these businesses."

Ian Sigalow
Co-founder and Managing Partner

Greycroft

AI: High Growth Companies With New Metrics

"The AI category is seeing revenue growth at an unprecedented rate — literally 2-5X for early-stage companies vs. what we saw for prior generation SaaS startups. There are 'unknowns,' though, as in any emerging category. Key metrics like NDR, TCV, gross margins, barriers to switching, etc.[1] are in many cases also very early in their development. Investors know this is a historical shift in the technology landscape — bigger than internet, mobile or cloud — but some of the trusted metrics investors have come to rely on are still early in their formation."

Jeff Richards
Managing Partner

Notable Capital

Low Graduation Rates

"Intuitively, everything used to be cool: consumer, crypto, fintech, etc. Everything was firing on all cylinders. A big number of startups were generated. Can the world support 100,000 startups? You had the Cambrian explosion of ideas, now you're seeing the natural selection. People tried a bunch of ideas and not everything is working. How could they all graduate?"

Jon Sakoda
Founding Partner

Decibel

Advice to Capital-Rich AI Companies

"My advice is one, don't over-raise. Two, if you did, pretend you don't have that money. Send it to a bank account and forget you have it. And then, do not hire relative to the amount you raised, hire relative to the product milestones that you need to achieve in six months, 12 months, 18 months, 24 months, and really only unlock the budget as you hit the milestones."

Mercedes Bent
Venture Partner

Lightspeed

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Notes: 1) Net dollar retention (NDR) and Total Contract Value (TCV).
Source: SVB Interviews.

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To learn more about the lead authors, see page 32.

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The SVB Market Insights team leverages SVB's proprietary data, deep bench of subject-matter experts and relationships with world-class investors and founders to develop a holistic view of the innovation economy for our State of the Markets Report. We partnered with lead authors Marc Cadieux and Mark Gallagher, who bring over a half-century of industry knowledge and experience working with many of the top companies and investors across the innovation economy.

Together, we're proud to present this 30th edition of SVB's State of the Markets Report.

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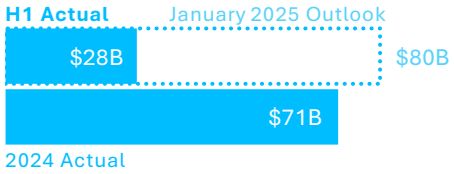
Macro Factors

Outlook for 2025

VC Fundraising

US VC Fundraising[1]

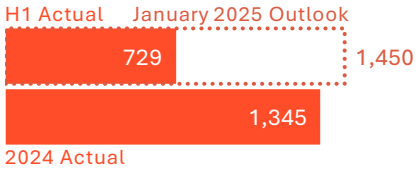


2025 Outlook

In January, we expected venture fundraising to climb above 2024 lows, fueled by lower interest rates and higher exit activity. Instead, US fundraising continued to trend down. A volatile H1 filled with inflationary tariff policies led to investors waiting to see how the Fed might move rates and how the economy would respond. Now, with public markets near all-time highs and IPO activity picking up, we could see tailwinds in H2.

Early-Stage

US Series A Tech Deals[2]



2025 Outlook

Series A tech deal activity has exactly tracked our beginning of the year expectations. The moderate uptick in activity off 2024 lows has been fueled by a robust cohort of seed companies seeking to raise Series A. This is the first growth in investment activity that we have seen since 2021. However, the number of Series A financings is still the lowest in over a decade.

Late-Stage

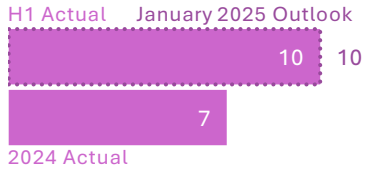
US Late-Stage Tech Valuations[3]

2025 Outlook

Late-stage tech valuations are on track to hit our expectations by year-end, but the median values tell us very little. AI companies command a significant premium — the valuation premium for a Series D AI company is 85% above non-AI companies.[4] The distribution of valuations is also far wider than it used to be, making this metric less useful to an individual company. We will likely sunset this metric in future reports, given changing dynamics.

Exits

US VC-Backed Tech IPOs on Major US Exchanges[5]



2025 Outlook

We didn't expect much from 2025 IPOs, but perhaps we should have. Equity markets are near all-time highs, and in the first half, 10 tech companies tested public markets. It appears the IPO window is opening, and pent-up demand from public and private investors will drive continued activity though the back half of the year, assuming there are no significant macro events shaking public markets — one big assumption to make this year.

Notes: 1) For funds headquartered in the US by date closed. 2) Tech defined broadly as VC excluding healthcare. 3) Late-stage defined by PitchBook Data, Inc. as Series C+ or a round that occurs more than five years after a company is founded. 4) Median valuation premium. 5) Nasdaq and New York Stock Exchange.

Source: Preqin, PitchBook Data, Inc., S&P Capital IQ and SVB analysis.

Markets Lack Curve Appeal

For all the talk about tariffs drawing costs higher, inflation remained remarkably low in the months after "Liberation Day." That may be changing. The June inflation reading ticked up to 2.7%, the highest in four months. Companies that avoided raising prices in the beginning, it seems, could only eat the costs for so long. Now, some are passing higher costs on. The effective US tariff rate has oscillated between 10% and 20%+ in the last five months as shifting policies and trade agreements have created uncertainty for US companies and their trading partners. An unstable geopolitical situation in the Middle East adds further inflation risk, with the potential to increase energy costs.

For investors hoping for lower interest rates, these factors signal disappointment. **The Fed will have a difficult time delivering lower interest rates in the face of rising inflation.** The bond market is asserting itself, with investors demanding a higher term premium due to persistent deficit concerns and inflation uncertainty. For startups and VCs, even if the Fed resumes cutting rates, this means that long-term capital is not getting meaningfully cheaper. High bond returns are also luring some LPs away from venture. If you can make 5% risk free, why keep such high VC allocations? These ongoing economic uncertainties — particularly around trade policy — are causing greater volatility in public markets as well. This makes it more difficult for exit opportunities in private markets as IPO difficulty trickles down to M&A.

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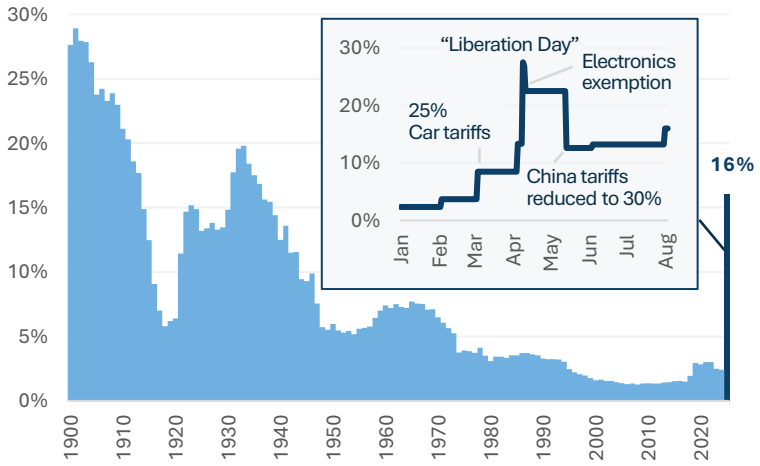
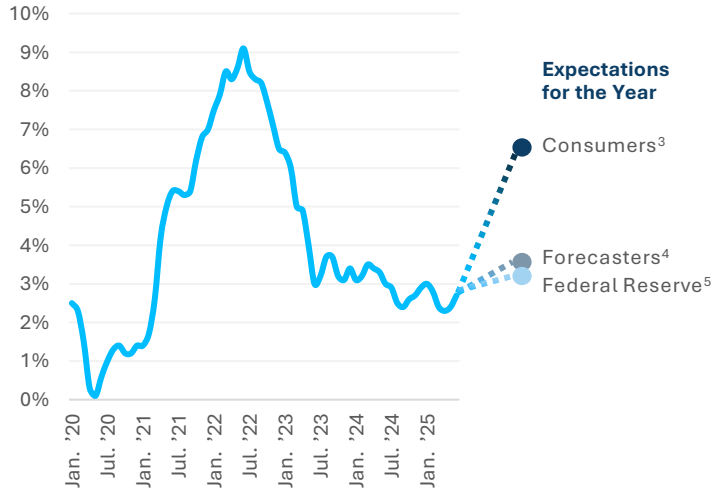
US Sets Highest Tariffs in ~~79~~ ~~116~~ 89 Years

Effective US Tariff Rate[1]



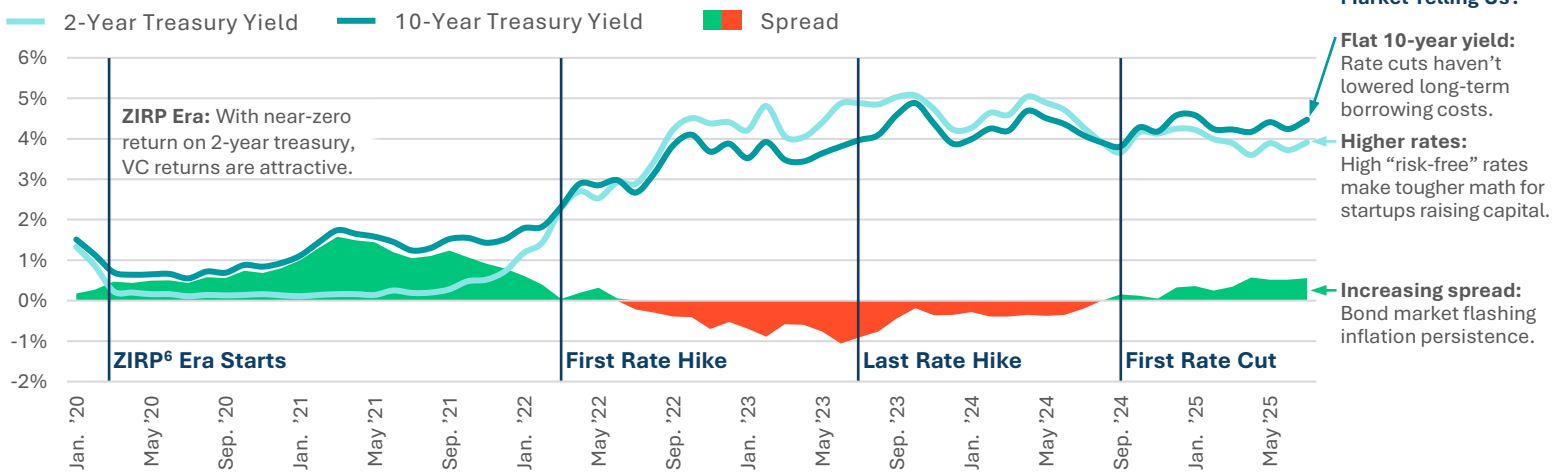
The Eye of the Hurricane for Inflation?

Consumer Price Index (CPI) Over Time[2]



Fed's Hands Are Tied by Inflation and Deficit Concerns

Treasury Yields and Spread Between 2-Year and 10-Year



Notes: 1) As of 7/29/2025. 2) CPI for all urban consumers. 3) University of Michigan Survey of Consumers, median price change in next 12 months. 4) Survey of Professional Forecasters, headline CPI at year-end. 5) Median projection of Federal Reserve Board members and bank presidents for PCE inflation in 2025. 6) Zero interest rate period.

Source: Bloomberg, US Bureau of Labor Statistics, University of Michigan, FRED, Federal Reserve, S&P Capital IQ and SVB analysis.

America's Top Import: Founders

As the White House pulls up the drawbridge on immigration, we may be in danger of stifling innovation in unseen ways. The US tech industry is heavily propped up by foreign-born talent, especially among the highest valued companies. **At least 59 of the top 100 highest valued US unicorns have a foreign-born founder.** This group includes transformative companies such as OpenAI, SpaceX and Stripe — the three highest valued US unicorns — and collectively accounts for more than $1.5T of aggregate value. In fact, 19 of the top 20 US unicorns have at least one foreign-born founder.

Many tech founders initially come to the US under student visas (F-1s),[1] yet this pipeline has dwindled in recent years. The number of F-1 visa applications peaked in 2015, and has dropped 20% in the last nine years. Of those who apply, fewer are being admitted. Added scrutiny on applications has cut the issuance rate down by 37 percentage points from its peak. Federal funding cuts to universities and increased vetting on student visa applicants could further squeeze this pipeline, potentially diverting would-be founders to other countries. For now, the US retains a dominant position in the global tech industry, generating more than half of newly created unicorns in the last five years. But that dominance hinges on a steady supply of global talent. If the spigot is turned off, it may take years for the impact to register, or we may see others rise faster.

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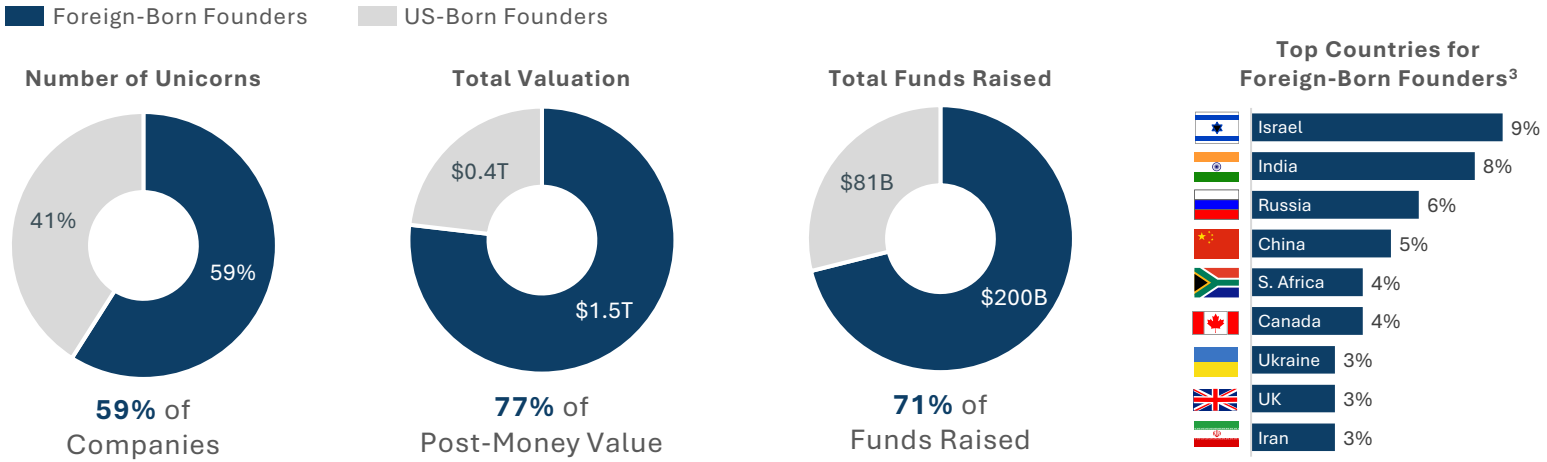
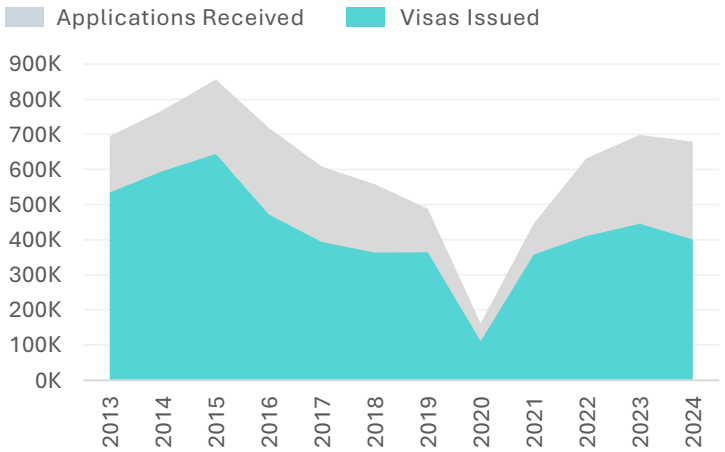
Among Top 100 Unicorns: Foreign-Born Founders Have an Outsized Impact

Share of Top US Unicorns and Valuation by Founder Status[2]



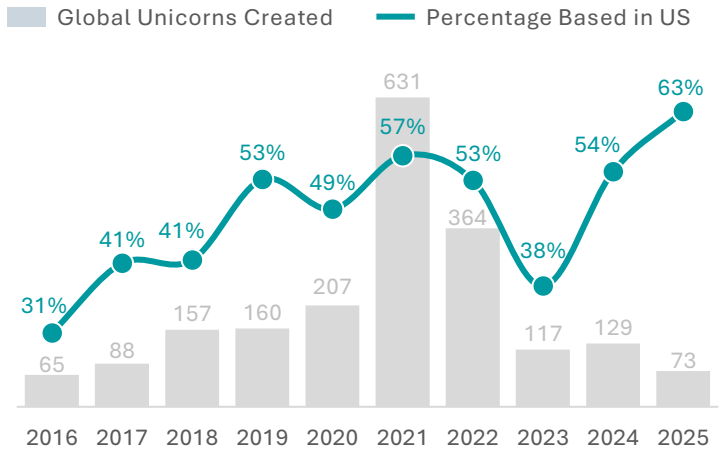
Slower Brain Gain: Student Visas Drop

US F-1 Student Visa Applications and Issuances



US Dominates in Unicorn Creation

Percentage of New Global Unicorns Based in the US



Notes: 1) As many as 72% of foreign-born tech founders arrive here on student visas, according to one study by the University of Georgetown. 2) Includes companies with any listed founder who was born outside the US. Top 100 are the highest valued according to most recent valuation. 3) Percent of the top 100 most valued US unicorns by founder origins.

Source: US State Department, PitchBook Data, Inc. and SVB analysis.

Going All In on Podcast Sentiment

VC has a vibe problem, and in the VC world vibes matter. In the innovation economy, where real-time, transparent data is scarce, behavioral dynamics play an outsized role.

We conducted a VC vibe check using transcripts from 3,200 podcasts, quantifying the industry's emotional arc since COVID-19 in our Podcast Sentiment Index. The result? Three distinct eras: The Stimulus Surge ('20-'22), The Hype Hangover ('22-'23) and today's VC Vibecession, where the dollars are flowing but the energy is muted.

Despite a rebound in investment numbers, sentiment hasn't recovered. It spiked with ChatGPT and again with GPT-4 but faded each time. Podcasts today feel more cautious, more cynical and far less euphoric than in past cycles. VCs don't have to be optimistic to invest — they just have to fear missing out, like in today's frothy AI market. **The podcast data captures that tension: Sentiment is muted, but AI hype is still driving investment.**

Topic trends tell their own story. Crypto had its booms and busts. AI is in a sustained upswing. Energy has quietly climbed as AI demand grows. Defense, once off-limits in polite VC conversation, surged after the 2024 election. **These shifts reflect more than headlines. They signal changing appetites and the "FOMO factor" within the venture ecosystem.** Take defense: The culture has shifted, and the podcast mic is where that shift shows up first. What gets talked about today gets funded tomorrow.

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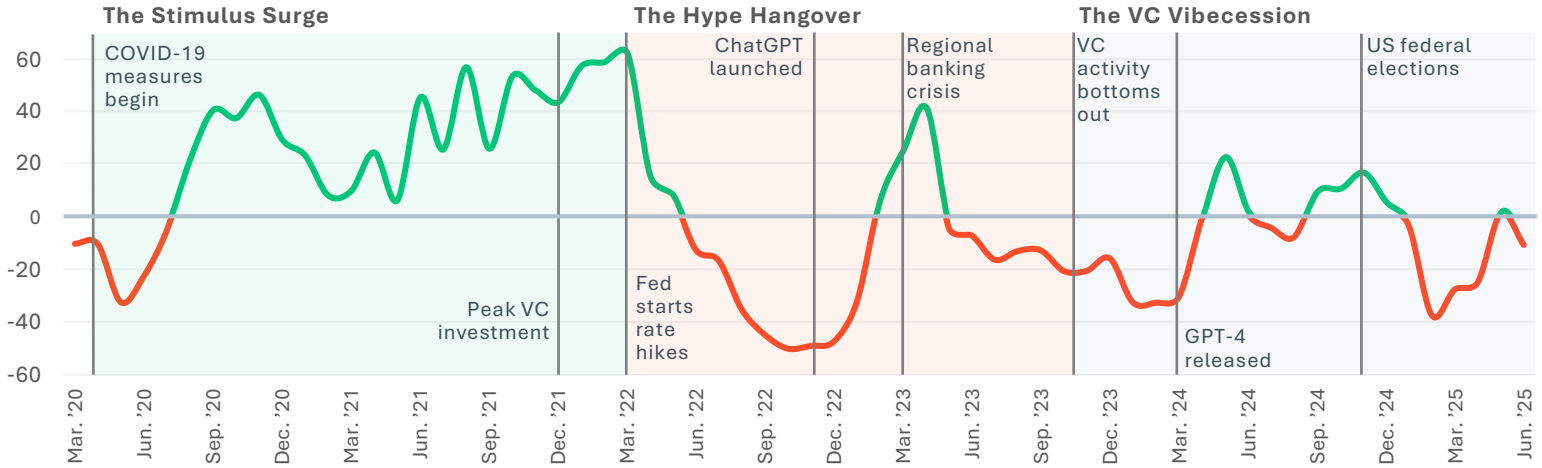
From Boom to Bummer: The Podcast Sentiment Index

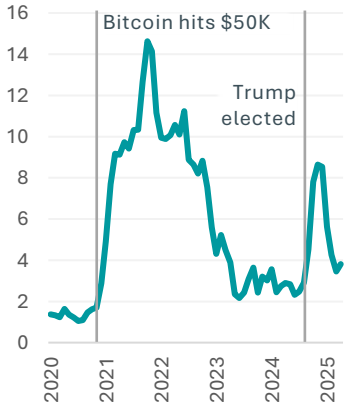
Average Sentiment Among a Sample of Tech- and VC-Focused Podcasts from 2020 to June 2025[1]



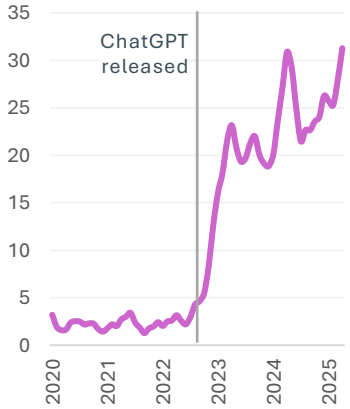
Tech Trends: The Eras Tour

Average Number of Mentions of Each Topic per Podcast Episode[2]

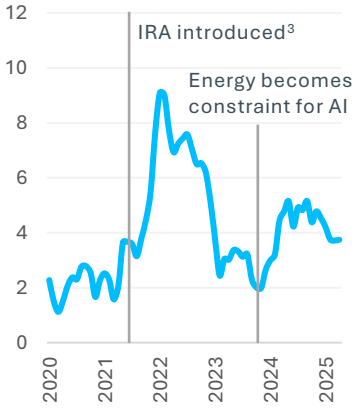
Crypto: The Boom and Bust



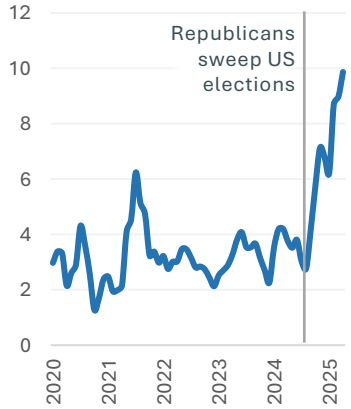
AI: The Enduring Upswing



Energy: Fueling the AI Giant



Defense: Today's Hot Trend



Notes: 1) The Podcast Sentiment Index tracks the tone of 3,200 podcast episodes using FinBERT, a financial sentiment model. Scores reflect the three-month moving average positive language in each episode. Zero is the median positive score across episodes. 2) Topic mentions are based on keyword frequency across the same sample using a three-month moving average. 3) Inflation Reduction Act. This date is when Build Back Better was introduced to the House, which later became the IRA.

Source: RSS feeds of podcasts, OpenAI Whisper transcriber, FinBERT (ProsusAI) and SVB analysis.

Capital: Fundraising and Investment

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Survival of the Fattest

Bifurcation is the word of the moment for VC funds. Fundraising in the US is on track to hit $56B this year, a 21% drop from 2024 and the lowest level since 2017. Yet the big funds keep getting bigger, stretching the very definition of venture investment as we have known it. **Among conventional VC fund capital raised in the US over the last three years, over 36% went to funds at least a billion dollars in size — that's up from 22% for the period ending six years ago.** Megafund managers such as Andreessen Horowitz, General Catalyst and Coatue are changing the rules (and the math) of VC investing with increasingly large funds structured in dynamic ways.

The sizes of these funds are challenging the norms of VC return profiles. Coatue's $8B fund portfolio, would have to achieve over $240B in exit value in order to return 3x to investors[2] — the conventional baseline for a *good* outcome in venture. That would mean one fund landing three IPOs the size of Uber's IPO — a tall order by historic standards. Then again, the standards are changing. OpenAI is on pace to become the most valuable private tech company ever, currently valued three times greater than Facebook, the largest tech exit in history. The massive scale of the AI opportunity justifies eye-popping fund sizes for some investors. "Unless the internet and the phone fail overnight and we roll back to the 1990s, the size of these outcomes is at least going to be that big, and if not bigger," said Ian Sigalow, Co-founder and Managing Partner at Greycroft.

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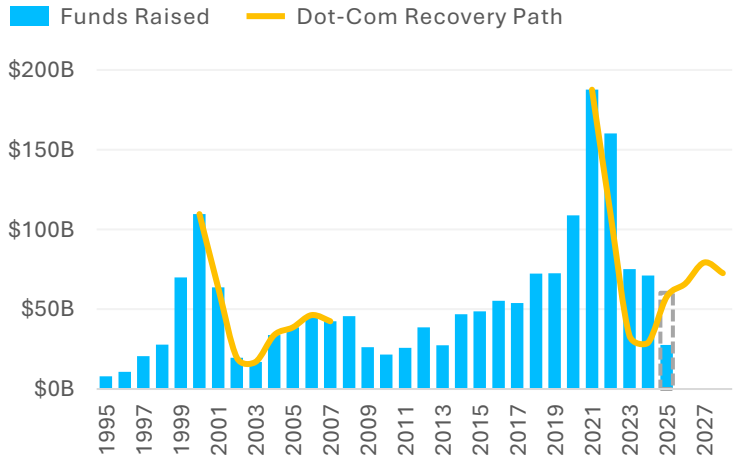
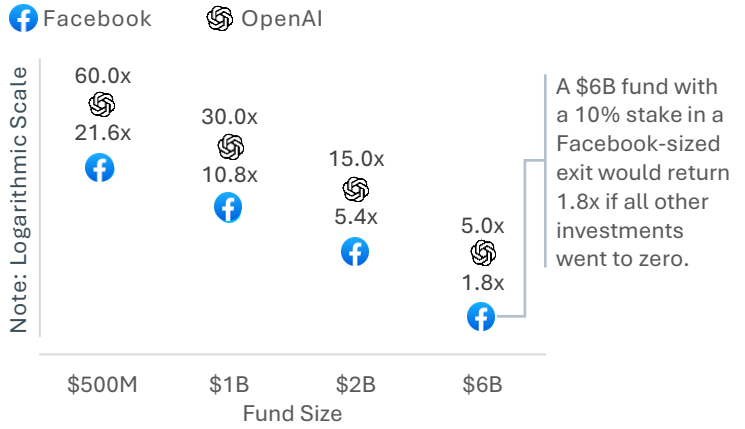
VC Fundraising Levels Out

US VC Funds Raised By Date Closed (CPI-Adjusted)[1]



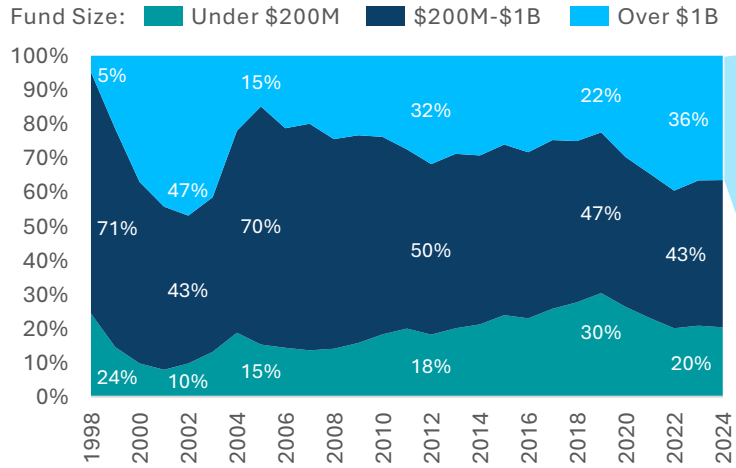
Grand Slams Look More Like Base Hits

What Fund Return Multiples Look Like for Top Outcomes by Fund Size (Assuming a 10% Stake and 0x Return on Other Investments)[2]



The Shrinking Middle Class VC Fund

CPI-Adjusted Total US VC Funds Raised[3] (Trailing Three Years)



Megafunds Change the Rules of Venture

Key Innovations in the VC Fund Structure

Innovation	Firm	Year	Purpose/Result
Registering as Investment Advisors	a16z	2019	Unlocks investment into new asset classes, such as crypto and public markets
The Evergreen Fund Model	SEQUOIA	2021	One master fund feeds all sub funds, pooling exit shares together
Adding Non-Venture Products	GENERAL CATALYST	2024	New revenue streams from buyouts and wealth management services
Opening to Retail Investors	COATUE	2025	CTEK fund lowers threshold for LPs to $50K, opening venture to new investors

Notes: 1) US funds closed through 6/25/2025. 2) Theoretical analysis that assumes a 10% stake at exit and accounts for OpenAI's latest valuation. 3) Fund sizes adjusted to 2025 dollars.
Source: Preqin and SVB analysis.

To Liquidity and Beyond

LPs have long embraced VC as a source of strong, long-term returns. Pensions, endowments and foundations — "liquidity sensitive" LPs — contribute nearly 40% of the typical VC fund's committed capital. The problem? Much of the gains from these investments are trapped.

Paper returns are high, but realizations are low. As reported in our H1 2025 report, the majority of top quartile funds' value remains undistributed. This is true not only for recent funds, but also for vintages as far back as 2014. Low realizations and a stubbornly slow exit market are creating tension for LPs with rising cash needs. **Take endowments: Their average effective spending rate grew by 4.3% in 2024, but in dollar terms, annual withdrawals grew by over 6%, according to the NACUBO-Commonfund Study of Endowments.** About half of that goes to student aid, with another 18% directed toward academic programs and research. That burden will grow if federal funding continues to erode. Further compounding this burden is increased taxes, up from 1.4% to 8.0% for the largest endowments.

This puts a new kind of pressure on the endowment model popularized by Yale and characterized by a high allocation to private markets, predicated on long-term patience. In a world where distributions slow, spending needs climb and endowment taxes increase, the trade-off between return and liquidity is being reevaluated. LPs don't want to exit venture — they just need it to pay them back.

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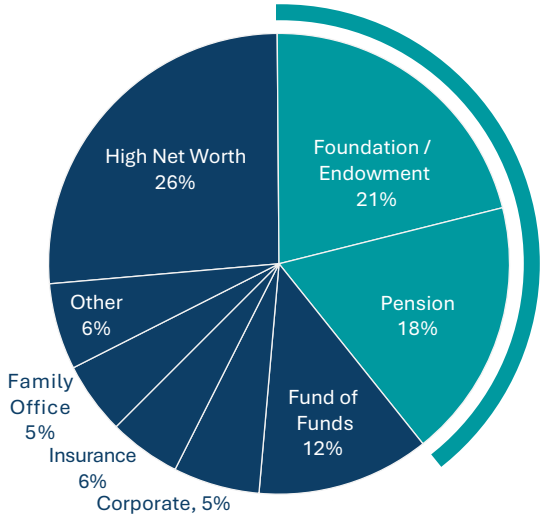
Liquidity Sensitive LPs Are Big VC Allocators

Average Percent of VC Fund Allocation From Each LP Group[1]

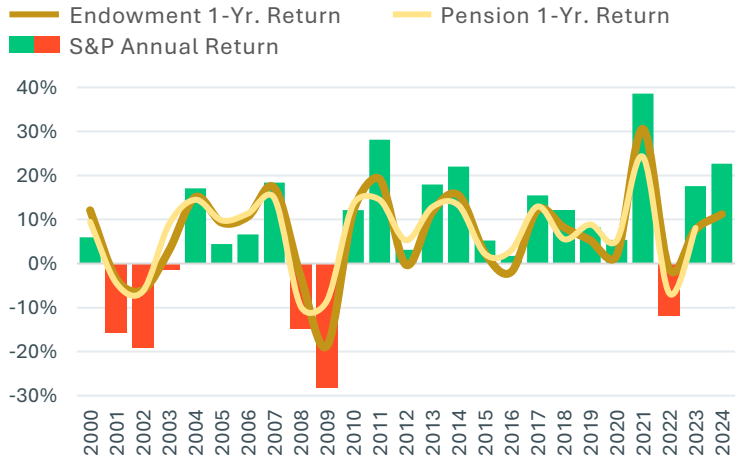


39%

In the average VC fund, **39%** of capital is from "liquidity sensitive" LPs — those with regular annual payout obligations.

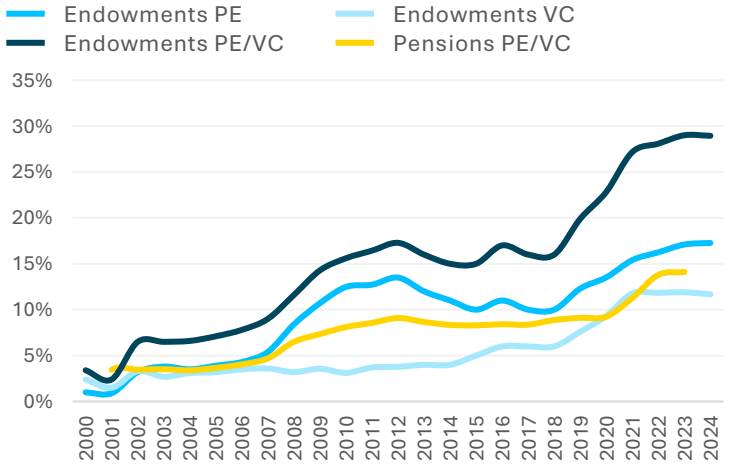
LP Performance Has Been Strong

Endowment and Pension Performance vs. S&P 500[2]



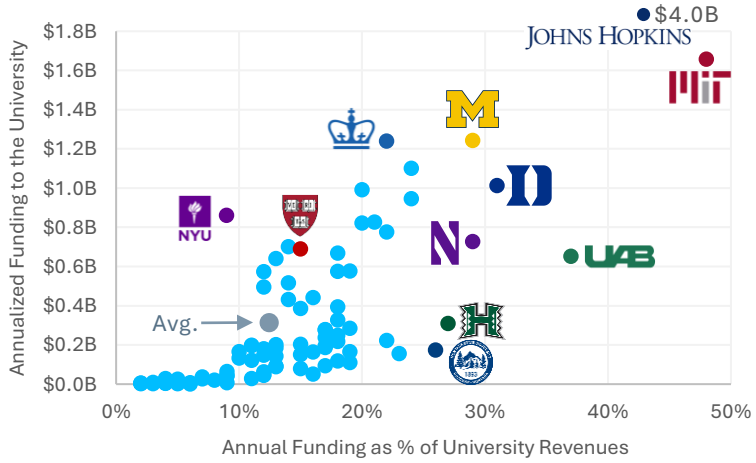
But Value Is Locked in Illiquid Assets

Average LP Allocations to Private Markets, Select LP Types[3]



A New Risk to LP Liquidity: Political

Federal Funding to Universities Under Federal Investigation[4]



Notes: 1) Does not sum to 100 due to rounding. Sample of approximately 580 VC funds with vintages 2009 through 2024. Funds must have a capital call line to be included. 2) The data represent equal weighted endowment and pension returns and the S&P 500 price index. 3) One missing year of data is linearly interpolated. 4) Most recent data as of 2023. Based on annual financial reports compiled by the Urban Institute.

Source: SVB proprietary data, NACUBO-Commonfund Study of Endowments, Public Plans Data, S&P Capital IQ, Urban Institute Analysis by Jason Cohn and SVB analysis.

Stop Worrying and Love the Boom

Top-heavy deals for AI companies are sending VC investment totals into the stratosphere. But just as you can't gauge a person's health by a number on the scale, you can't assess the venture economy by the amount of VC being deployed. **On a run-rate basis, nearly two-thirds of VC dollars in the US are going to deals over $500M.** In comparison, these mega-deals accounted for just 18% of total investment at the peak of the VC boom in 2021. Just looking at deals under $100M (in dark green), VC levels are on par with the period preceding the pandemic, as is deal count, with about 1,150 deployments per month, down from 1,650 at peak.

So what's driving these mega investments? Megafunds, of course. The six largest funds that raised since 2021 have participated in deals accounting for one-third of US VC raised in the last 12 months, up from under 10% for the period ending in November 2024. The increase is driven almost exclusively by massive AI deals.

Six months after the news of DeepSeek's massive efficiency gain, Western AI development is still expensive. While 36% of VC deals now go to AI companies, over 58% of capital goes to AI. But which deals *really* count as AI?[3] The answer is in the eye of the investor, it seems. VCs we've spoken with offer different takes across a spectrum, with some viewing user interface wrappers over large language models (LLM) as legitimate AI investments and others taking a more focused view on the core technology. For now, the litmus test is simple: They know it when they see.

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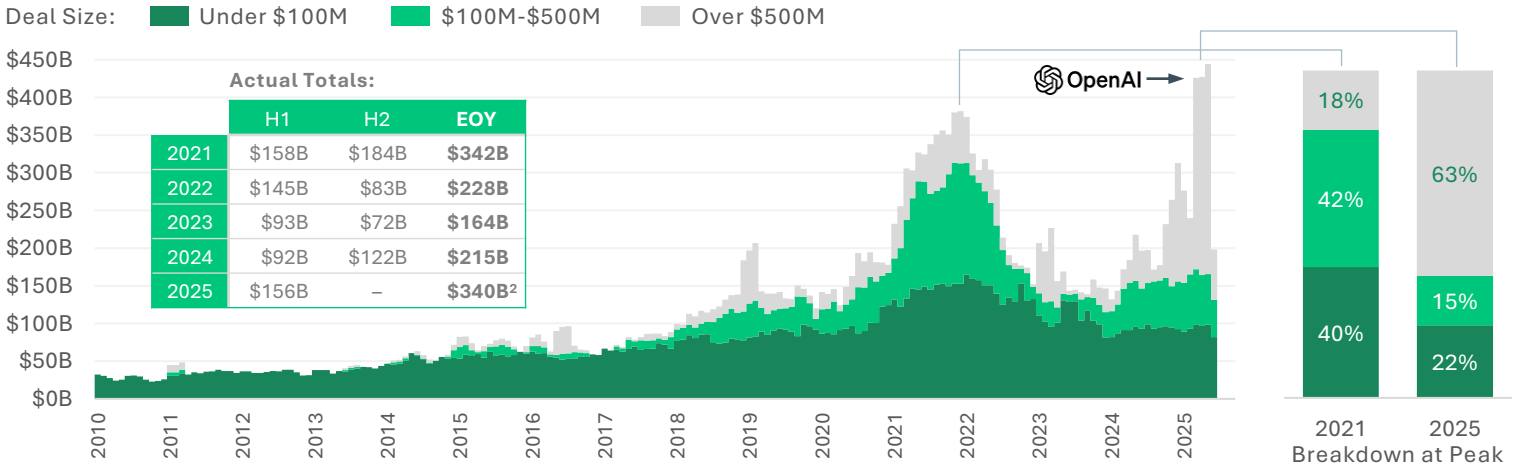
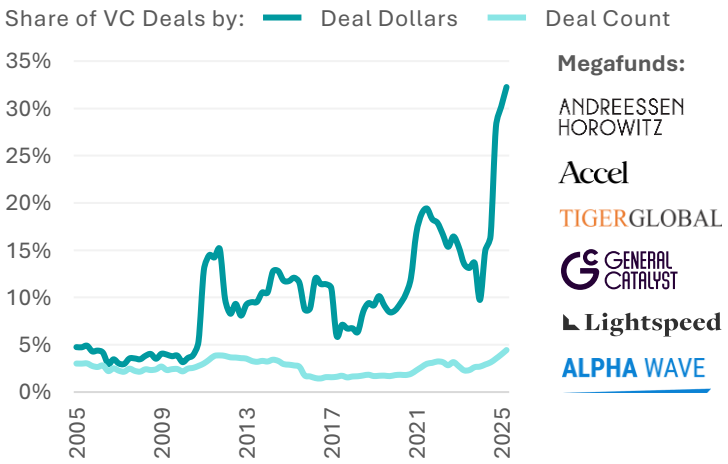
Kind of a Big Deal: Mega Rounds Dominate VC Investment

Annualized US VC Investment by Deal Size (Trailing Three-Month Total x 4)[1]



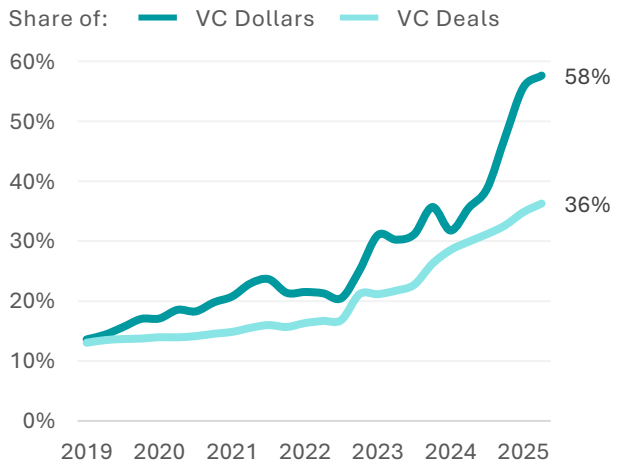
Mega Managers Are Eating the World

Share of US VC Investment With Mega Manager[3] Participation



More Than Half of VC Dollars Flow to AI

Share of US VC Investment in AI Companies[3]



Notes: 1) Three-month total of VC investment multiplied by four, through 6/15/2025. 2) Extrapolated year-end total based on H1 pace through 6/15/2025. 3) Mega managers selected based on total funds raised since 2021. Chart reflects total dollars for all deals that include one of the megafunds firms listed. 4) According to PitchBook's AI/ML vertical tagging.

Source: PitchBook Data, Inc. and SVB analysis.

Why the Long Tail? Distributions Expand

Raising an individual series today doesn't say as much about the company as it once did. Convoluted funding strategies are more common as companies struggle to graduate to the next series. **"The series terms are not that relevant anymore — you're seeing $50M Series A," said Ian Sigalow, co-founder and managing partner at Greycroft.**

With the tough funding landscape and convoluted funding paths, down round activity is still near its 2024 peak. Some 12% of deals in 2025 have been down rounds, and the true number is likely higher given the propensity to hide unfavorable outcomes from public view or behind draconian terms. This contributes to the widening valuations distributions. While median valuations tell us how valuations are trending over time or the differences between sectors, they don't tell us much about what an individual company can expect to raise.

One of the most significant indicators of how a company will be valued is who is investing. Companies receiving investment from a mega manager platform, such as a16z, Tiger Global or General Catalyst, can expect substantial valuation premiums compared to their peers. This likely occurs for two reasons: one, these investors are ostensibly in the highest quality companies, and two, they are generally less price sensitive. The latter has contributed to rising median valuations — a trend that will likely continue.

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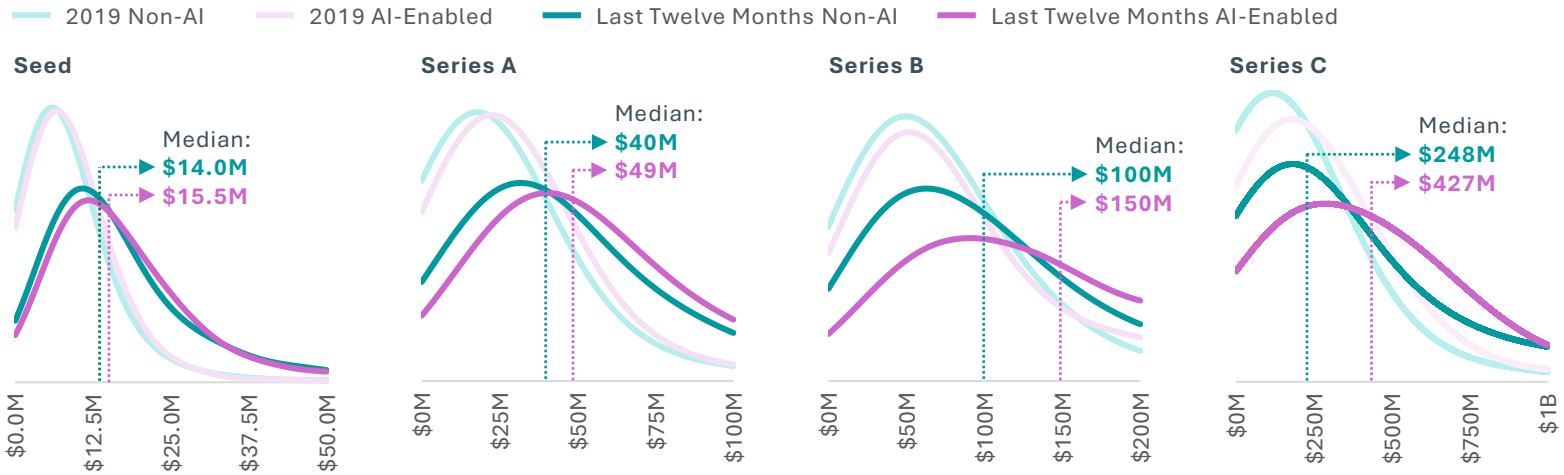
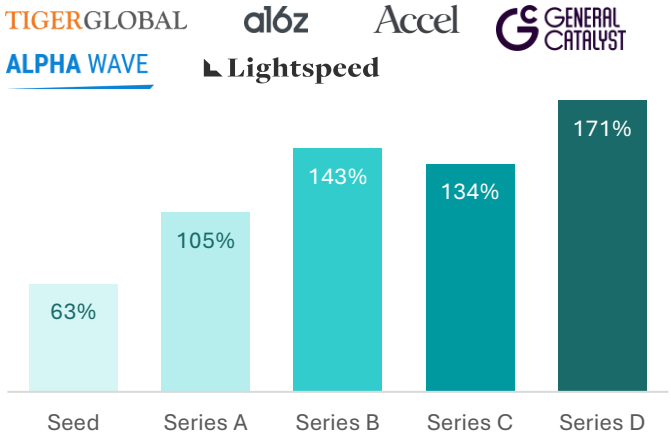
Fat Tails Abound: There Is No "Typical" Valuation by Series Today

Pre-Money Valuation Distributions by Series, Year and AI Exposure for US VC-Backed Companies[1]



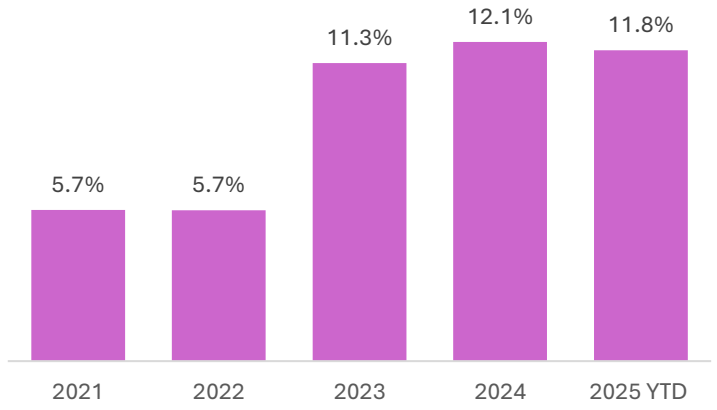
Mega Managers Pay Higher Prices

The Pre-Money Valuation Premium Mega Managers Pay Compared to All Other VCs by Stage (Last Twelve Months)[2]



Down Rounds Still as Popular as Ever

Percentage of Down Rounds for All US VC Deals



Notes: 1) AI defined using Pitchbook Data, Inc. taxonomy; includes all companies that integrate AI into their product or service offering. 2) Mega manager cohort includes: Tiger Global, Andreessen Horowitz, Accel, General Catalyst, Alpha Wave and Lightspeed; median valuation of a deal at a series that includes a mega manager divided by median for deals that do not include a mega manager.

Source: PitchBook Data, Inc. and SVB analysis.

Held Back a Grade: 6-10 Months Behind

If our schools were like our startups, it would be a national crisis. Half as many startups are graduating to the next round within three years as compared to 2020, and we don't believe this will change any time soon.

Among the most troubled companies in our portfolio, we saw company failure rates peak in late 2024 with one in five companies winding down.[1] Most companies end up bridging the gap by reducing burn and focusing on profitability or raising extension and bridge rounds. **Even the best companies find themselves bridging the gap. Among our top performing portfolio companies, 25% have done a bridge round or extension round in the last 12 months.**[2] This has prolonged the time it takes to get from one round to the next.

At the current median time between rounds, it would take a company 10 years to go from seed to Series D — 45% longer than in 2022. If this trend continues, it will perpetuate the groundswell of companies staying private longer. This trend is pushing many early-stage investors to sell their positions in subsequent rounds to return capital to LPs sooner. As Mercedes Bent, partner at Lightspeed and co-founder of a new early-stage firm notes, earlier liquidity is becoming a competitive advantage for VC funds as the time horizon for liquidity can stretch out 15-20 years.

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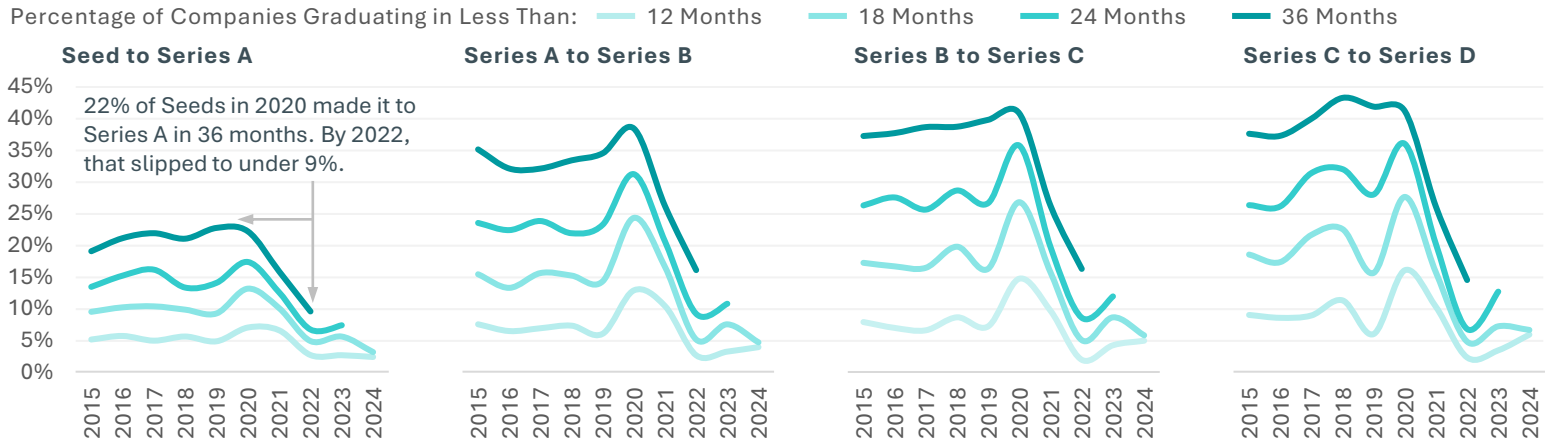
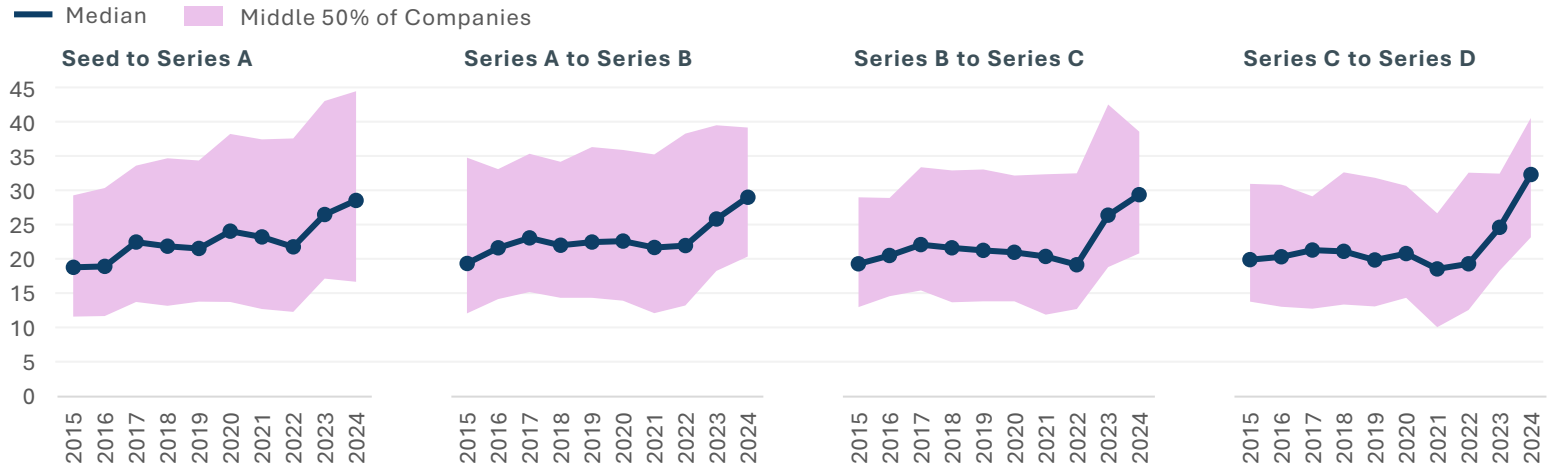
Graduation Rates at an All-Time Low

Graduation Rate for US VC-Backed Companies[3]



Companies May Need To Raise More Runway: Time Between Rounds Has Spiked

Months Between Rounds for US VC-Backed Companies (Excluding Extension Rounds)



Notes: 1) Based on resolved outcomes from the troubled companies we track. 2) From a survey of 200 of SVB's top-performing portfolio companies. 3) A company may raise multiple bridge rounds/extension rounds, but is not counted to have graduated until it raises its next formal milestone round (Series A, Series B, Series C, Series D, etc.).

Source: PitchBook Data, Inc and SVB analysis.

The Best Are Still Born in the West

The West Coast has still got it. Company graduation rates from seed to Series C remain highest on the West Coast, and the gap doesn't seem to be narrowing. Since 2019, the region has maintained its lead in first-round company funding share.

Yes, the geography of innovation is still concentrated like it has always been, but now, we're seeing it more intentionally distributed. **VC is evolving, guided by deep sector alignment, local infrastructure and founder migration, not just legacy prestige.**

States like Colorado and Texas have seen meaningful increases in VC activity, driven by capital increasingly flowing into regions that have developed distinct sector strengths. New York has become a fintech standout, with nearly 30% of local VC dollars going to the sector in 2024 — more than double the national average. Austin dominates in consumer tech, and Denver receives 54% more share of VC dollars than the national average for climate tech. These patterns reflect deliberate specialization in these cities, built on local talent and research infrastructure.

Companies are also opening satellite offices and moving to states with more favorable business climates, such as Tesla's 2021 HQ relocation to Texas and Amazon's new HQ opening in Virginia.

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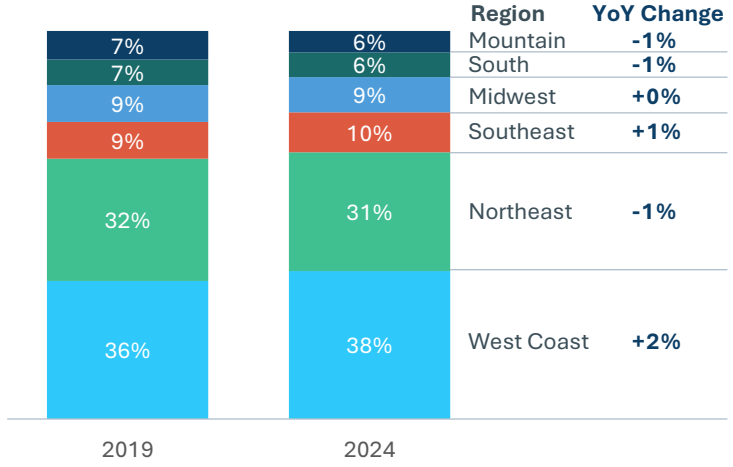
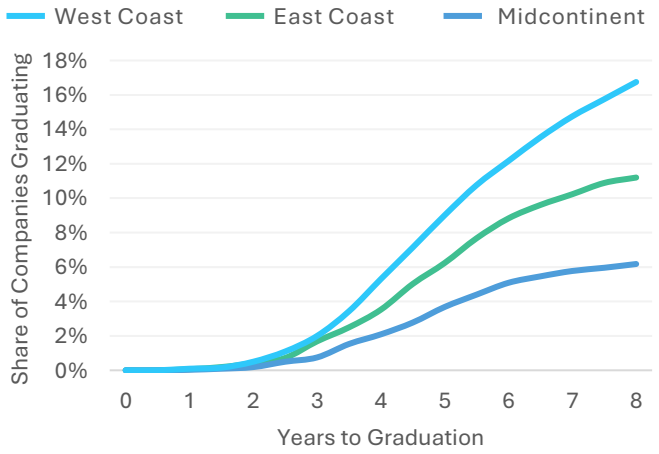
Net-New Innovation Increases Out West

Share of First Round Company Funding by Region[1]



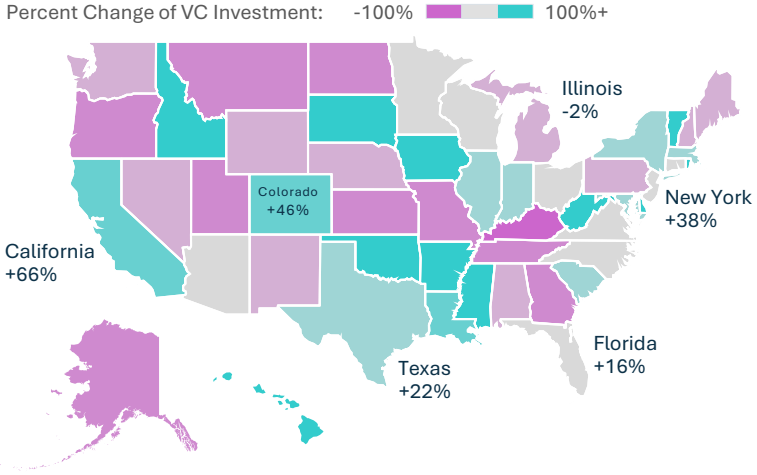
The West Coast Is Still Top of the Class

Seed to Series C Graduation Rates by Region



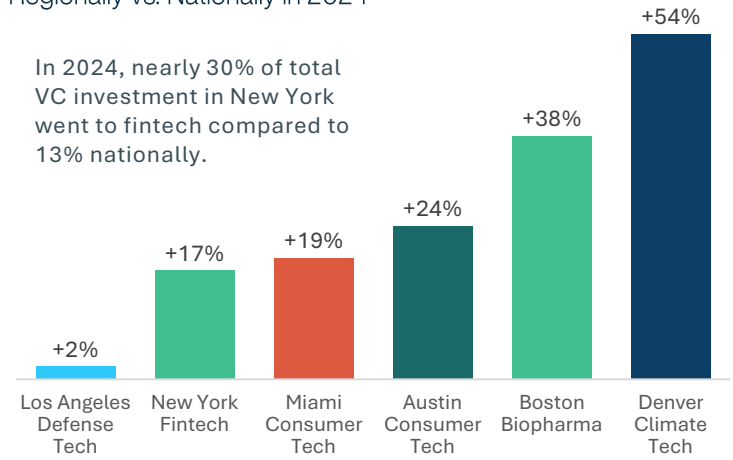
The New Gravity Centers?

Percent Change of US Venture Capital by State From 2019 to 2024



Every City Bets Differently

Percent Difference Between Each Sectors' Share of VC Regionally vs. Nationally in 2024



Notes: 1) Region breakdowns are categorized by Pitchbook Data, Inc. The Northeast consists of the Mid Atlantic and New England region. The Midwest includes the Great Lakes.

Source: Pitchbook Data, Inc. and SVB analysis.

VC-Backed Tech Benchmarks

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Bootstrapped or Boot-Stuck?

It's been a tough few years in the VC industry. While some companies have failed, the vast majority are still standing, and this group is healthier than you might imagine. Three-quarters of all venture-backed tech companies are growing, and, of those, 63% are either profitable or seeing improving profitability. These companies are on a trajectory for future growth.

The percentage of companies that are now profitable has more than doubled since 2022, but there is a cost to this higher profitability. Across the board, companies have focused on reducing burn and increasing efficiency, which has translated to better profitability but lower growth. Revenue growth has fallen, and, for companies that were already struggling to grow prior to reducing burn, this has meant shutting off growth entirely. And VCs fund companies primarily based on growth, not profit margins. This was compounded by macroeconomic headwinds for growth generally with decreased spending on tech products and services by public buyers.

One in five companies are both not growing and unprofitable. When a venture-backed company continues to burn cash and sees declining revenue, it is likely the end of their fundraising journey. A company in this position will likely look for an exit ramp in the form of a soft landing M&A, assignment for the benefit of creditors (ABCs), bankruptcy, or simply close their doors.

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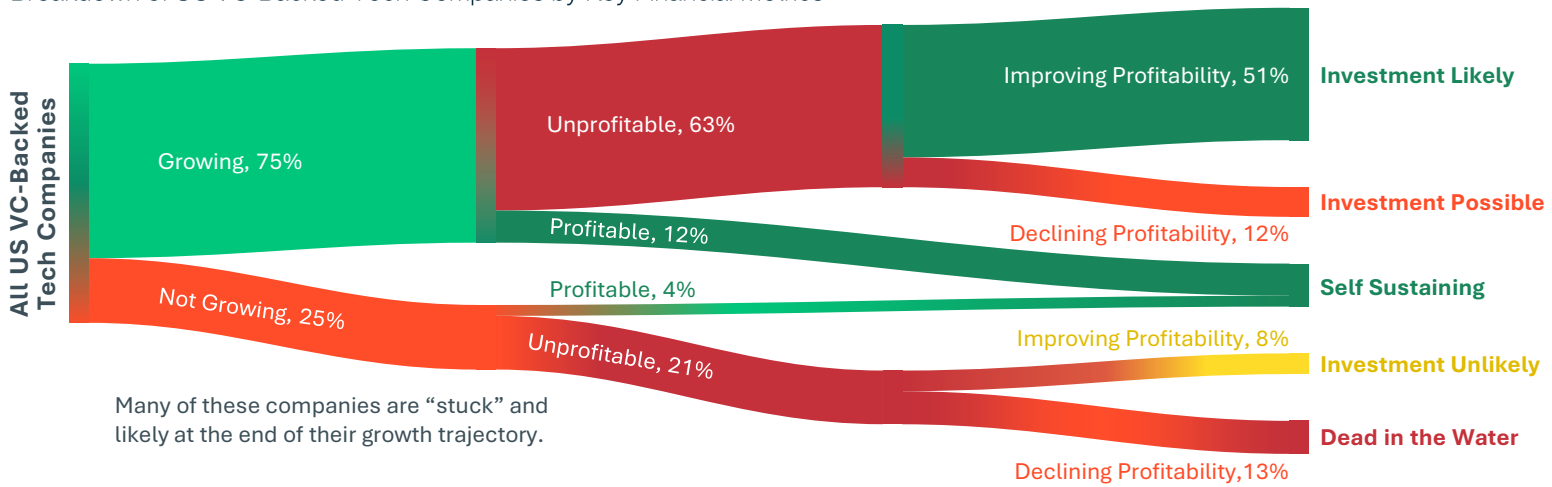
One-Fifth of VC-Backed Tech Companies Are Not Growing and Are Unprofitable

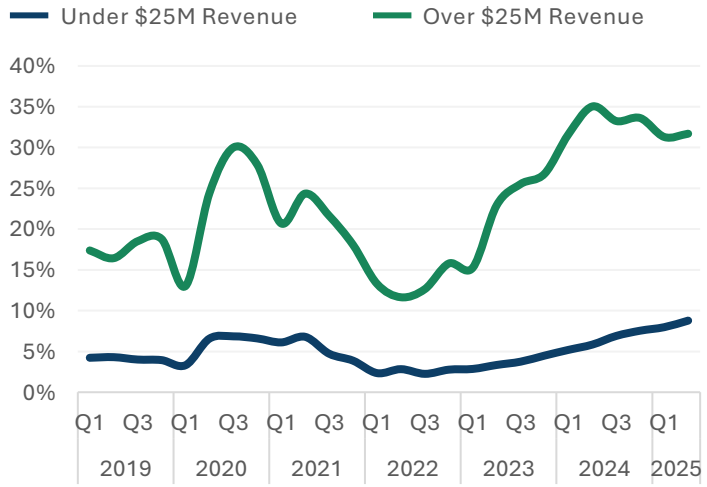
Breakdown of US VC-Backed Tech Companies by Key Financial Metrics[1]



Many of these companies are "stuck" and likely at the end of their growth trajectory.

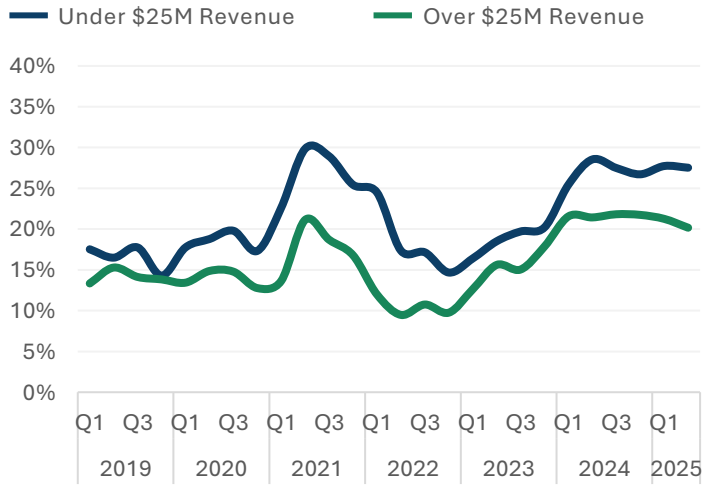
More Companies Are Profitable...

Percentage of US VC-Backed Tech Companies That Are Profitable



...But More Companies Are Not Growing

Percentage of VC-Backed Tech Companies Without YoY Growth



Notes: 1) Growth and profitability changes assessed on a YoY basis.
Source: SVB proprietary data and SVB analysis.

Where Are We Growing?

The term “new normal” has been thrown around a lot since 2020, but perhaps we’re finally there. Companies have reached a new equilibrium, balancing growth and profitability. Since 2019, companies have adjusted continuously. These swings have left revenue growth and profitability in a state of constant flux, but for the last four quarters, revenue growth rates and profitability have stabilized. While companies are getting closer to profitability, growth remains important. Investment bankers assessing pre-IPO companies have continued preaching the value of growth, saying the rule of 40 (revenue growth plus profit margin) should be driven by growth rather than high profitability.

Company cash levels are also back to “normal.” The median cash and equivalents are in line with Q1 2020, with the exception of the largest companies, which have kept cash levels relatively high. Even so, over half of VC-backed tech companies must raise or adjust burn in the next 12 months. While this is higher than historical values — in the mid-40% range — it has not moved significantly in the last four quarters.

The largest differences in runway appear among the smallest and largest companies. The largest companies have seen runway grow as investors have funneled cash into perceived winners, while the smallest companies are experiencing runway contraction.

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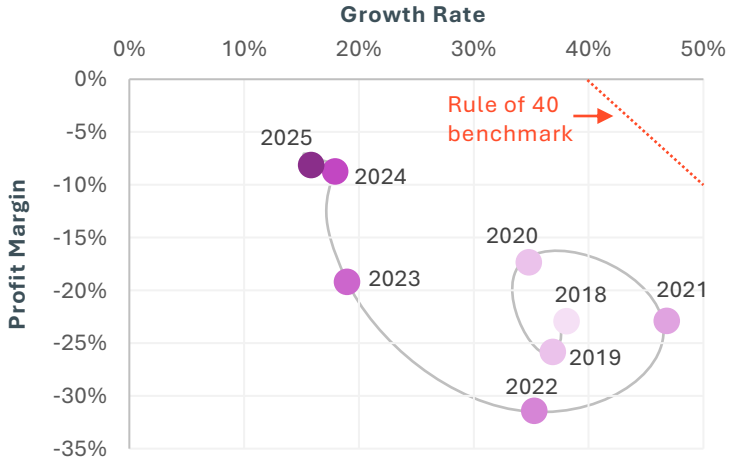
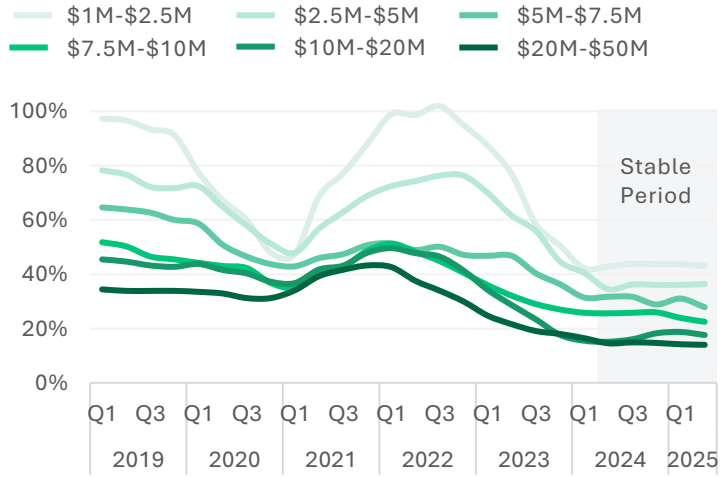
The Rule of 40: Spirals Into Control

Median Revenue Growth Rate and Profit Margin for VC-Backed Tech Companies With Over $25M Annual Revenue[1]



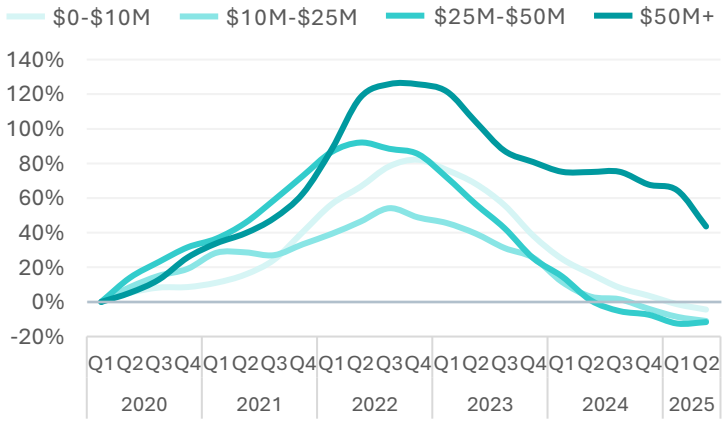
Growth: Slow and Steady

Median Revenue Growth Rate by Company Revenue



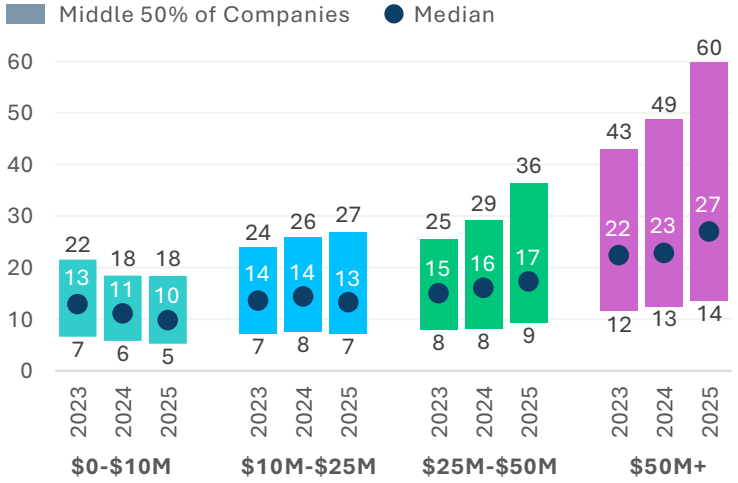
Companies Back to 2020 Level of Cash

Percent Change in Cash and Equivalents Since Q1 2020 for US VC-Backed Tech Companies by Company Revenue



Runway: Down at Early Stage, Up at Late

Months of Runway: US VC-Backed Tech Companies by Revenue



Notes: 1) YoY revenue growth rate; includes statements for all quarters of the year.
Source: SVB proprietary data and SVB analysis.

(Revenue) Multiple-Choice Question

Venture investors are in a “risk off” stance; they are being far more discerning in the deals they are doing. **Investors demand more revenue for their money. Across all series, the benchmarks to raise capital are higher.** To be in the top quartile of the Series C, companies need to bring in $45M in 2025 — a 65% jump from 2023. The increase in Series A benchmarks has stalled since 2023 after a significant spike in 2022 and 2023, as we discussed in our H1 report. In 2021, the median Series A company only had $1.4M.

We’ve found the bottom of the market and have seen slight revenue multiple expansion in the last few quarters. This is especially clear at the top quartile for Series A and B multiples, which have risen 30% and 50%, respectively, since Q1 2023.

Later-stage multiples, such as those at Series C, are generally following public markets. For example, the median Series C revenue multiple at the end of 2021 was approximately 25x. Today, it is just over 9x, which is a 65% decline. Over that same period, the median multiple for 2021 tech IPOs plummeted from 10x to 3x, resulting in a 67% decline.

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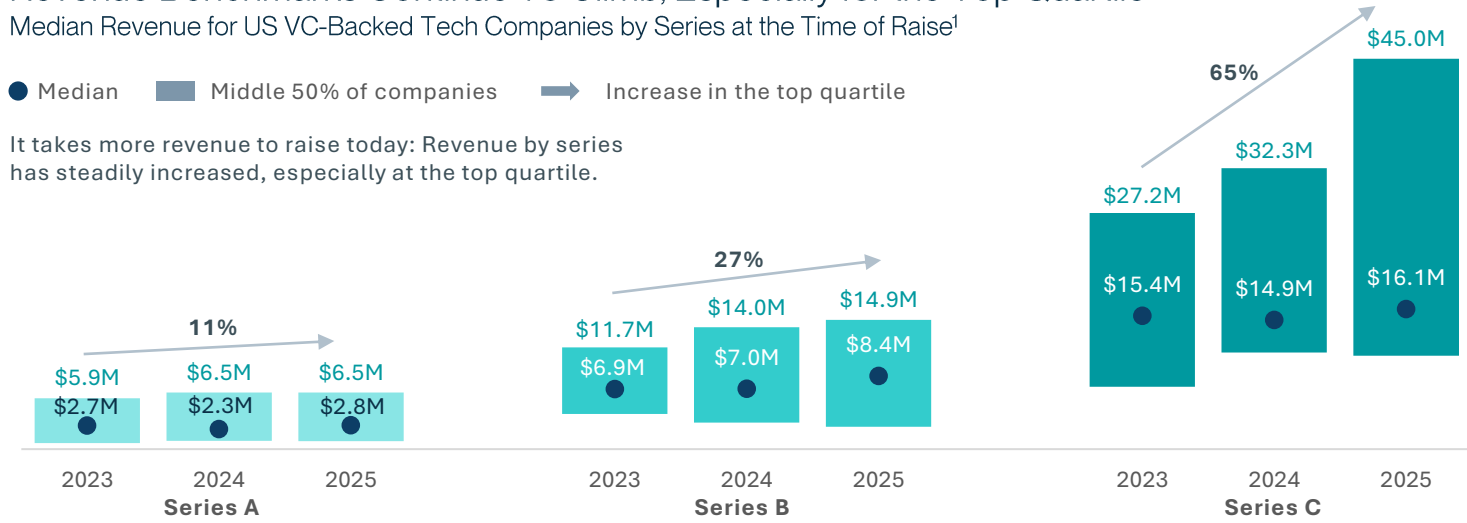
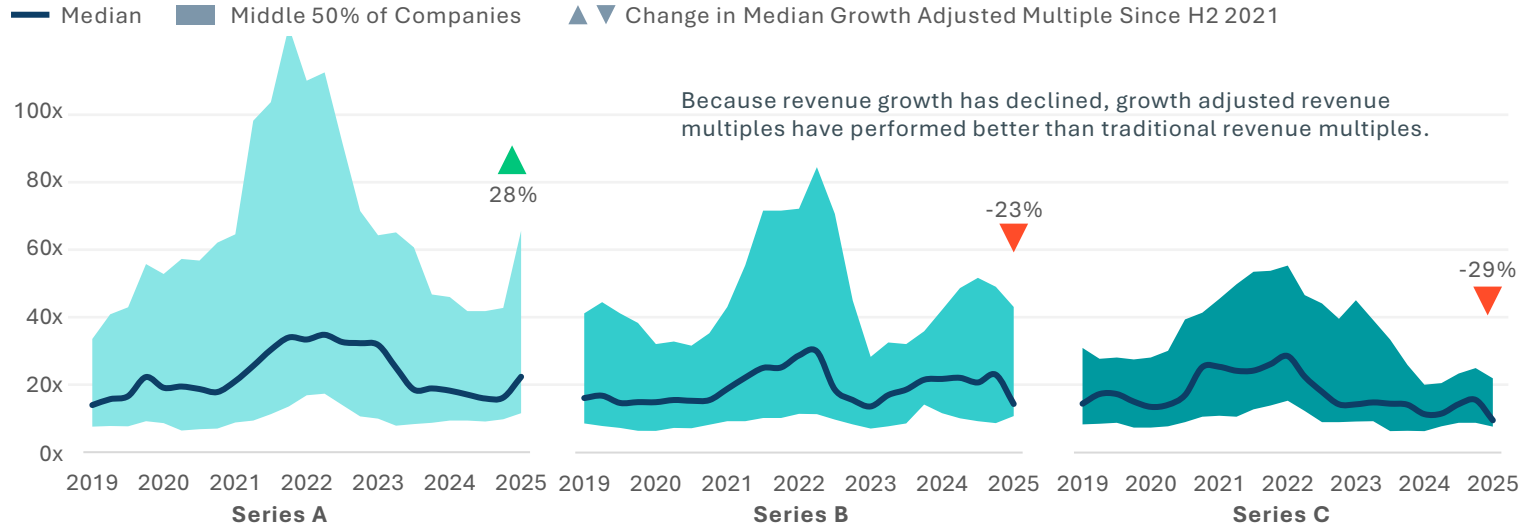
Revenue Benchmarks Continue To Climb, Especially for the Top Quartile

Median Revenue for US VC-Backed Tech Companies by Series at the Time of Raise[1]



Revenue Multiples: Back to 2020 Levels

Revenue Multiple by Series for US VC-Backed Tech Companies[2]



Notes: 1) Total revenue including one-time sales and recurring sales. 2) Moving three-quarter average.
Source: SVB proprietary data, PitchBook Data, Inc. and SVB analysis.

Mythical Metrics: Unicorn KPIs

There are 726 VC-backed tech unicorns, and, for some of them it's time to stop horsing around and face the metrics. While 72% of tech unicorns are growing YoY, 28% see declining revenue. Growth naturally slows down as companies scale, but for private companies to see no growth at all is problematic when 78% of S&P 500 companies see YoY growth. Most unicorns not growing are burning through their once well-stocked coffers. In fact, 91% of those that are not growing are also unprofitable. While most of these companies aren't at risk of going underwater, they will likely be on a different funding path going forward. **PE buyers will step in eventually, but not at the valuations founders have previously received.** "A challenge with financial PE buyers vs. strategics or an IPO is multiples are often far lower. 3-4X revenue for sub-20% growth is not uncommon," said Jeff Richards of Notable Capital. But the reality is that most unicorns still have valuation overhang and plenty of runway, so we aren't seeing any buyouts occur.

With the IPO window open, how many unicorns could head for public market pastures? If we assume the benchmark for a successful large tech IPO is $300M in revenue, 25% of companies have achieved this benchmark. But only 5% of all unicorns achieve this revenue threshold and meet the rule of 40 benchmark. If instead of the rule of 40, it's a rule of 20, about 12% of all unicorns meet these benchmarks.

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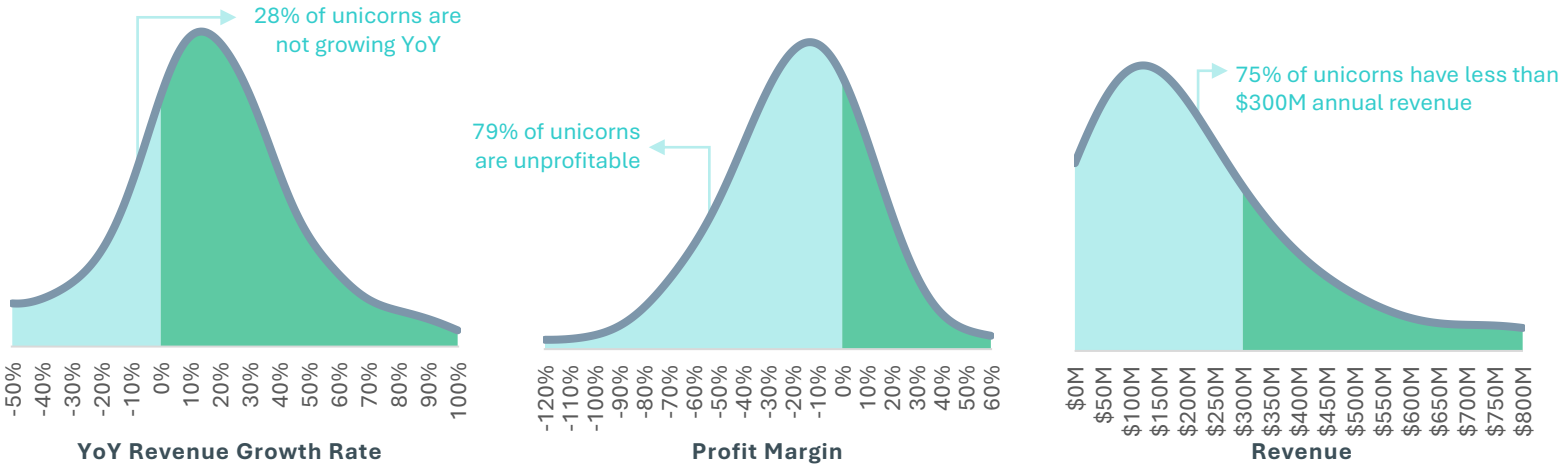
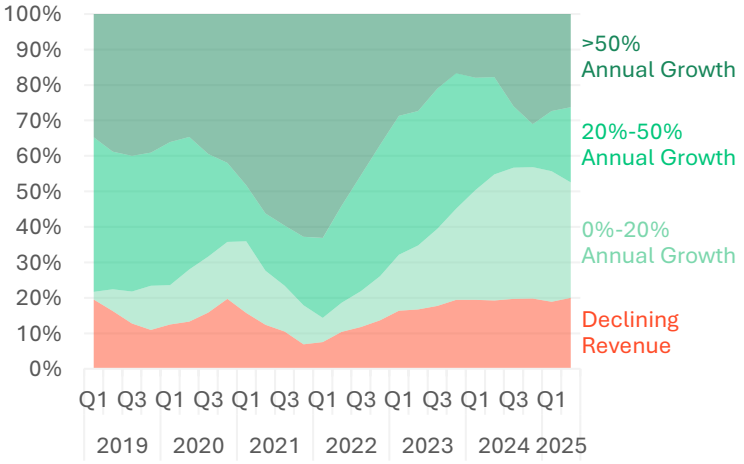
How Are US VC-Backed Tech Unicorns Faring?

Distribution of YoY Revenue Growth Rate, Profit Margins and Total Revenue for US Tech Unicorns[1]



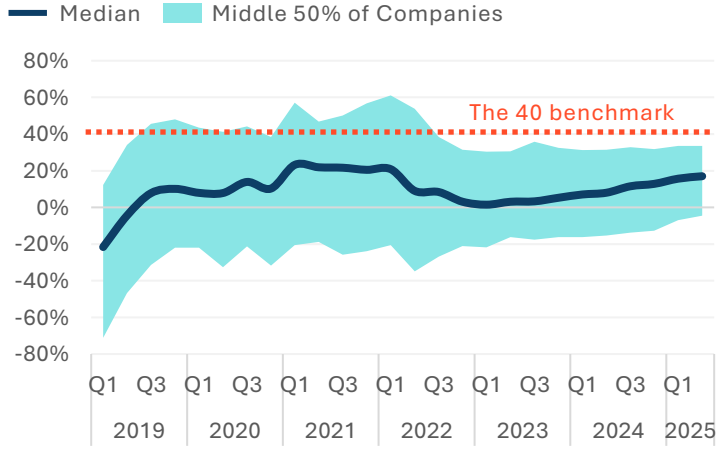
Few Unicorns Achieve High Growth

YoY Revenue Growth Rate Distribution Over Time for US Tech Unicorns



The Rule of 40 Is Improving for Unicorns

Rule of 40 (Revenue Growth + Profit Margin) for US VC-Backed Tech Unicorns



Notes: 1) Data for the last 12 months ending 06/30/2025.
Source: SVB proprietary data, PitchBook Data, Inc, S&P Capital IQ and SVB analysis.

AI: Breakthrough or Bubble?

Fueling a Rocket or Inflating a Bubble?

Before there was Larry Page, there was Carl, his older brother. In 1997, while Larry and Sergey Brin were tinkering with their page-ranking project at Stanford, Carl Page was building eGroups.com, a website to manage email lists on the early web. Three years later, Yahoo! bought eGroups for $420M, making Carl a rich man, but consigning his company to the footnotes of history. AI today feels a lot like the internet in 1997, and it's too early to separate the Googles from the Yahoos and eGroups.

One thing is certain: The money is flowing freely. Hundreds of billions of dollars are being pumped into AI infrastructure. Capital expenditure (CapEx) spending among the top five tech companies jumped roughly 67% since the release of ChatGPT, muchof it flowing into the pockets of NVIDIA. The tech companies are seeing gains too. Revenue for Google and Meta — the two hyperscalers making the biggest investment in AI — has jumped 80% since 2021. Much of this is flowing right back into AI development. One route is investment in AI startups. Big tech companies are placing big bets in all of the major AI unicorns. **The risk in the AI ecosystem right now is that relatively few LLMs are forming the foundation for many other VC-backed companies. While these LLMs are seeing strong revenue growth, VC funding is still heavily subsidizing their operations and revenue.** Many LLM customers are themselves VC-backed companies. If that sounds familiar, you probably saw the dot-com bubble.

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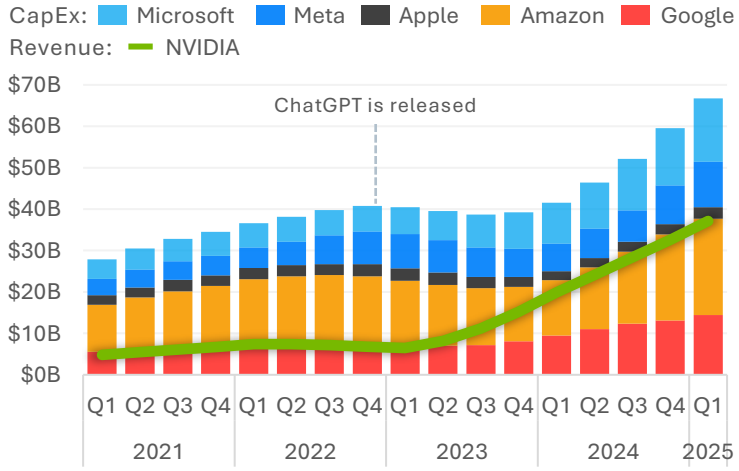
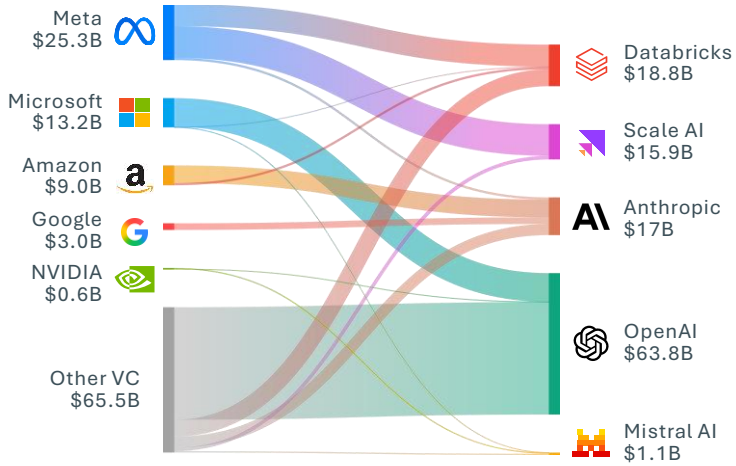
Hyperscalers Are on an AI Spending Spree

CapEx Spending vs. NVIDIA Revenue (Trailing 4-Qtr Average)[1]



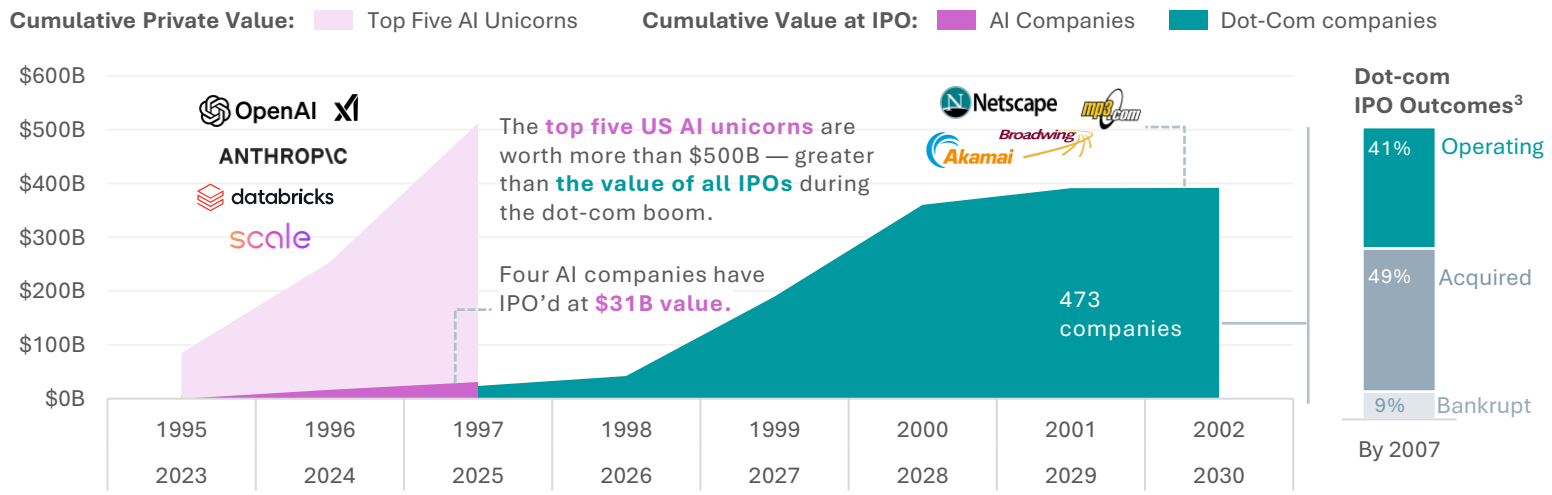
Placing Bets in the Race for AI Dominance

Top Funded AI Startups and Tech Majors Backing Them[2]



AI Companies Are Massively Valuable: If You Build Them, Will IPOs Come?

Cumulative Value (CPI-Adjusted) of VC-Backed Companies at IPO



Notes: 1) Quarterly CapEx spending according to earnings statements aggregated by S&P Capital IQ. 2) Investment amounts approximated based on publicly available data. 3) Sums to 99 due to rounding.
Source: Annual reports, S&P Capital IQ, PitchBook Data, Inc. and SVB analysis.

The 40 Billion Dollar Question

So, are we in a bubble? It's the question on everyone's mind, and the answer is almost certainly *yes*. The truth is that most investors already know this. **The real question is will the returns from their largest outcomes be enough to offset their losses from the (many) companies that don't succeed?** If the dot-com timeline is any indication, it may take several more years to find out.

ChatGPT's unveiling was to AI what Netscape Navigator was to the internet. In the 1990s, the Nasdaq responded to the Netscape moment with a five-year bull run before the bubble ultimately burst. Today, we're seeing an uncanny similarity in how AI optimism is washing through public tech stocks. A dot-com timeline would put us about halfway through the overall run-up.

Much has changed in 30 years. Startups are more mature, they stay private longer, and the risk (and reward) of new technology is now more concentrated in private investors who plan for many of their bets to go to zero. These factors could mitigate fallout from an AI-bubble, and we may already be seeing them play out. A rise in VC-backed roll-ups and acquihires that pay back investors are providing parachutes for some. Yet signs of valuation inflation are troubling. AI deals are closing at premiums that could be difficult to grow into long term. For now, it seems investors are betting that the biggest winners will tip the scales.

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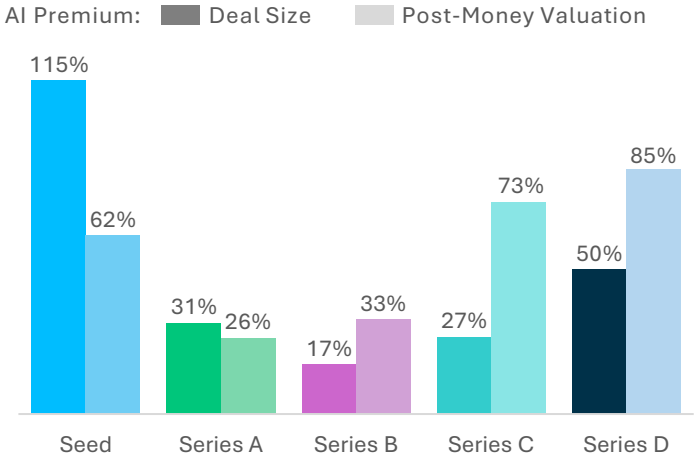
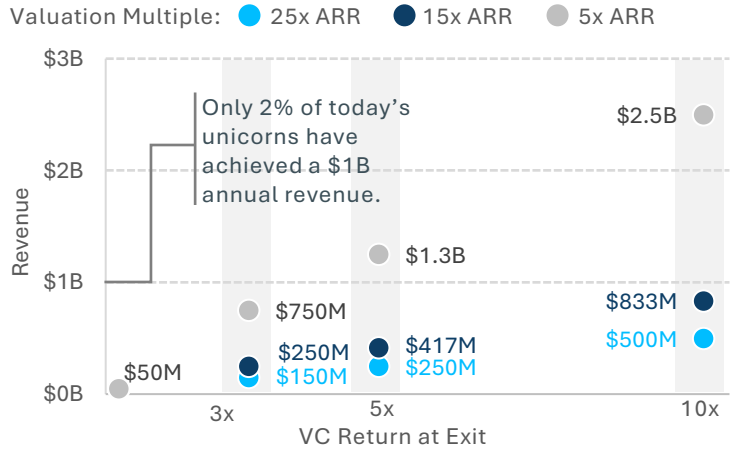
For AI, Frothy Deals and High Valuations

Median Premiums for AI[1] Deal Size and Valuation (2024-25)



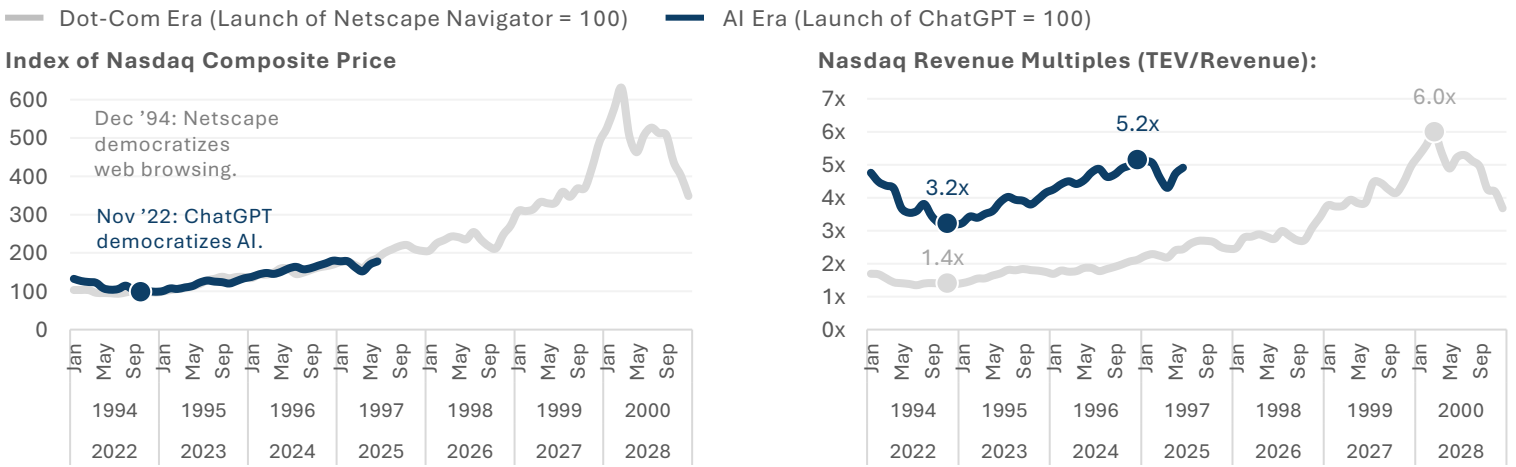
AI Math: VCs Bank on Mammoth Exits

Scenario: For a $200M Series B Raised at $1.25B Valuation on $50M Revenue, How Much Revenue Is Needed at Exit?[2]



AI Has Followed a Familiar Path. Where Does It Go from Here?

Nasdaq Performance: Dot-Com Era ('94 to '00) vs. the GenAI Era ('22 to Present)



Notes: 1) According to PitchBook methodology. 2) Theoretical analysis based on representative deals in AI. Revenue is annual recurring revenues needed to return VC funds at various revenue multiples.

Source: S&P Capital IQ, PitchBook Data, Inc. and SVB analysis.

Are AI Companies More Efficient? No.

Reports of our efficiency have been greatly exaggerated. Seed strapping, vibe coding, lean teams — there is no question AI is capable of driving efficient growth, but for companies receiving low-cost capital in competitive markets, efficiency is not incentivized. **Growth and gaining market share are the priorities. As such, AI companies are generally not efficient at the median. Revenue per employee is higher for non-AI companies compared to AI companies.**

The reality is that most AI companies have more than ample cash to run their businesses. As we saw on the last page, AI companies have significant deal size and valuation premiums, meaning the cost of capital is relatively low for these companies. As such, they have higher burn rates, are hiring more employees and are operating less efficiently. This means lower profit margins and higher burn multiples for AI companies. For example, the median Series C AI company is spending $3.10 to gain one dollar of new revenue compared to $2.50 for a non-AI company. But does this difference in spending matter? Ian Sigalow, Greycroft's co-founder and managing partner, pointed out: "a company's burn multiple yesterday is not a relevant criteria to determine whether or not it is going to be a top 1% venture-backed outcome." While non-AI companies are at the tail of the technology cycle, AI requires significant capital as "the markets are brand new. You want to win them and create a monopoly business," said Sigalow.

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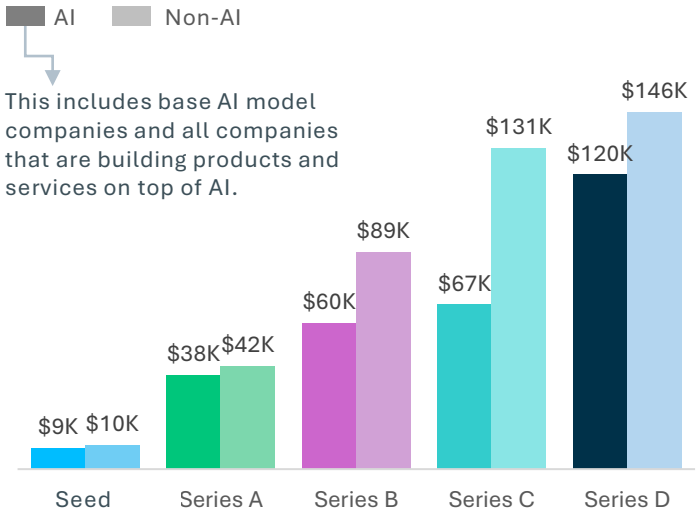
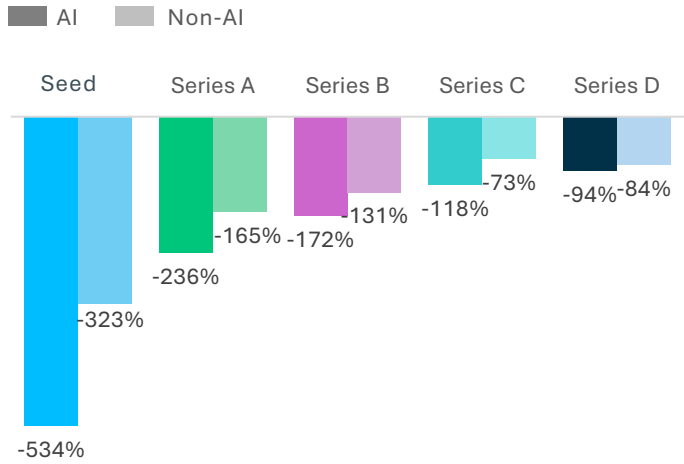
AI, Less Revenue per Employee

Median Revenue per Employee, US VC-Backed Tech[1]



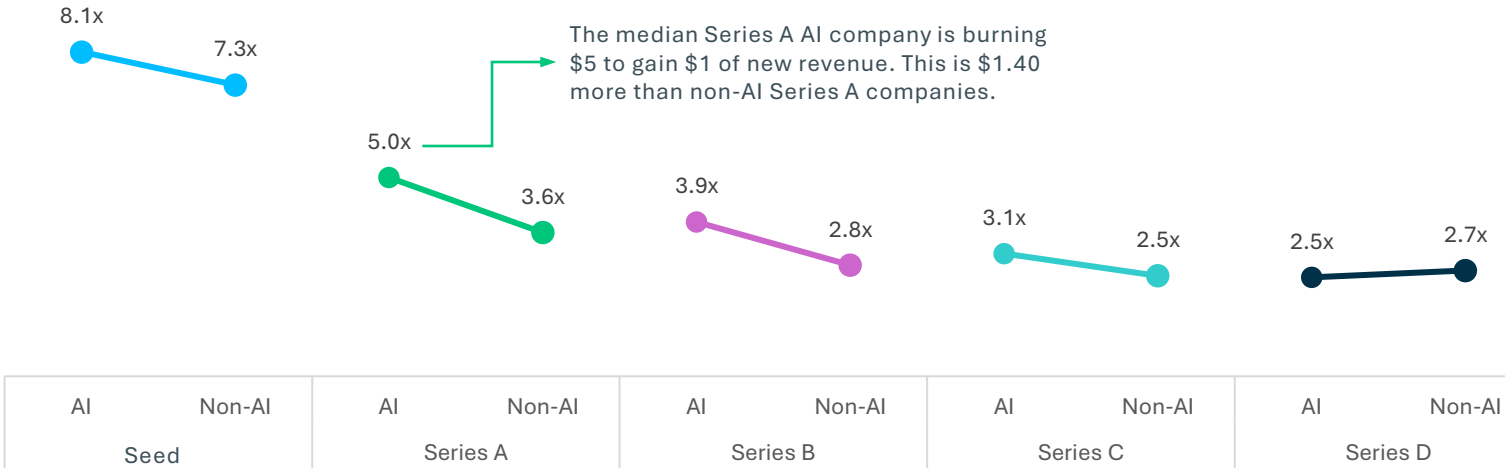
Non-AI Companies Are More Profitable

Median Profit Margin for US VC-Backed Tech[1]



AI Companies Are Burning More Cash to Gain Revenue

Median Burn Multiple for US VC-Backed Tech[1]



Notes: 1) Data reflects median since 2022; AI is defined as companies leveraging AI or building AI products and services. Leverages PitchBook Data, Inc.'s AI vertical definition.
Source: SVB proprietary data, PitchBook Data, Inc. and SVB analysis.

The Invisible Hand of AI Job Loss

If AI is replacing workers, the labor market hasn't noticed. Since ChatGPT's launch in late-2022, layoffs in the tech sector have actually declined, undercutting the idea that GenAI is driving widespread job destruction. The late-2022 layoff spike was driven by the tighter funding environment rather than automation.

Where AI's impact is showing up is more subtle, and arguably more important. **Startups that received seed funding in 2024–2025 are raising capital with smaller teams than they did just a few years ago. The average team at seed funding has four fewer people today than in 2019.**[1] The implication is clear: AI is allowing founders to do more with less. These labor market dynamics aren't unprecedented. During the early internet and mobile waves, layoffs didn't spike, though hiring and job openings did slow. The same pattern is unfolding today. AI is taking some jobs away from workers, but not to a degree that is meaningfully impacting labor markets. The bigger impact is in erasing jobs that might have been posted. CFOs tell us this is most evident with more junior developer roles.

Another question lingers: when companies cite AI for layoffs, is it strategy or spin? It's probably a bit of both. In some cases, the moves have proven premature. Klarna reversed its AI-related cuts to customer service staff, citing poor results from AI. Expect more false starts as large companies implement new tech, but don't expect them to slow down.

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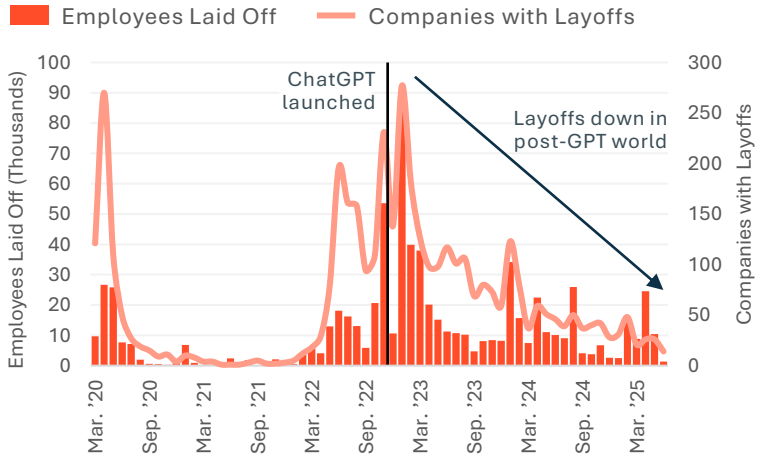
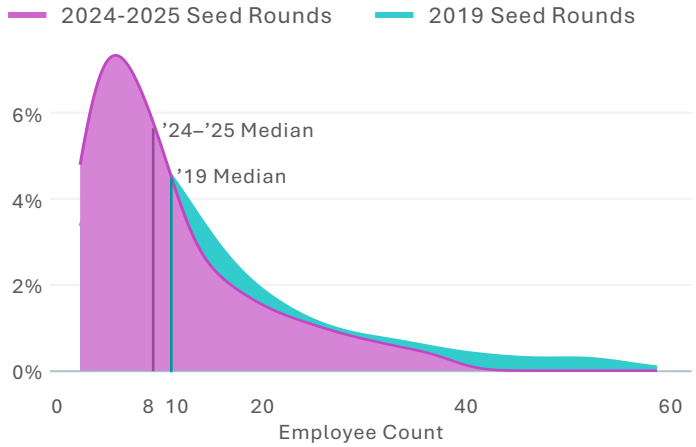
AI Layoffs a Red Herring in Short Term

Tech Layoffs by Employee and Company Count



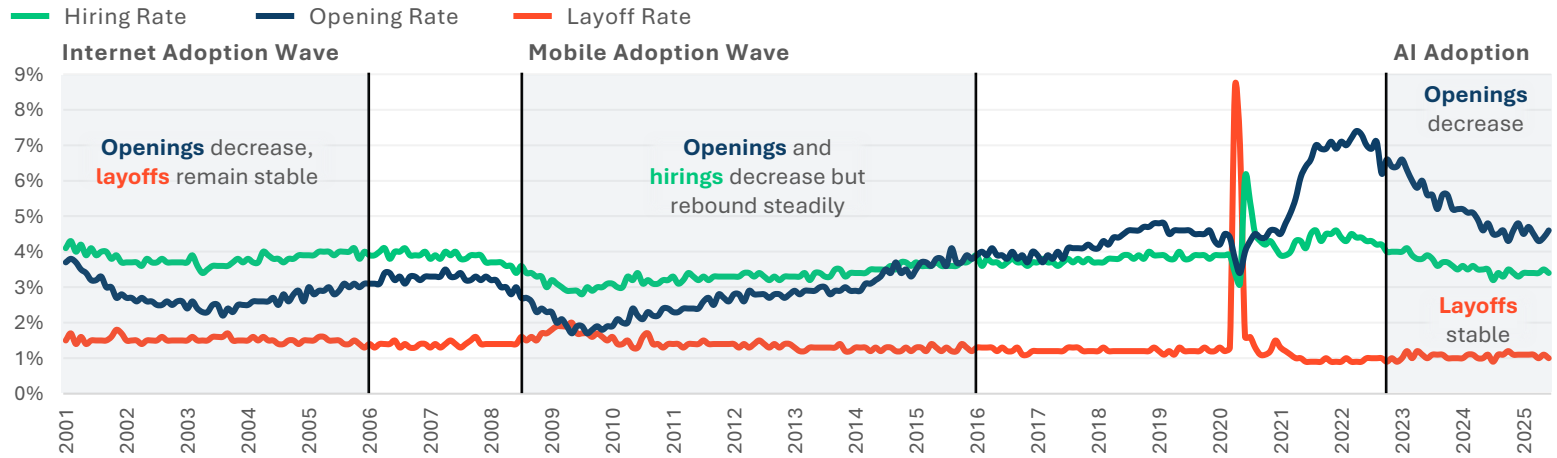
However, AI Is Enabling Leaner Startups

US Tech: Distribution of Employee Count at Seed Rounds in '19 vs. '24-'25[1]



Tech Waves Involve Lower Job Openings in Short Term, But Layoffs Largely Stable

Hiring, Job Opening and Layoff Rates Across Market Cycles



Notes: 1) Distribution chart omits the top 5% of companies by employee count in each cohort. Averages use data winsorized at the 95th percentile. Excludes healthcare companies. Companies in the 2019 cohort must have employee data at least one year between 2019 to 2021; companies in the 2024-2025 cohort must have data in one of those two years. May include non-FTE associates (e.g., advisors).

Source: Layoffs.fyi, PitchBook, Bureau of Labor Statistics (JOLTS) and SVB analysis.

Exits

Fruitful Roll-ups? VCs Embrace M&A

More VC-backed companies are getting into the startup buying game, as acquisitions become an increasingly valuable strategy to acquire growth. In 2025, 46% of M&A deals have included a VC-backed buyer. Notable acquirers include AI unicorns such as OpenAI, which has made five purchases since 2023, and Databricks, which has acquired 17 companies in that span.

M&A activity hasn't yet turned the corner, but signs are looking more positive for a rally in 2025. One metric we're watching is the ratio of M&A exits to VC deals. As of 2025, there are eight M&A deals for every 100 VC deals, the highest ratio in seven years. Unfortunately, this uptick doesn't necessarily mean better outcomes for founders. Data through June shows that 90% of deals in 2025 are undisclosed, an indication that typically signals a less favorable outcome for the seller. Just 7% of deals were sold for a known price at least 3x higher than the total amount of VC raised. That's down from 22% seeing a favorable outcome in 2021.

As the frenzy to acquire AI talent heats up, more companies are circumventing conventional M&A through acquihires that bolster their in-house development stack. This is becoming a flashpoint in the tech ecosystem as some are left out to dry. Backlash to Google's acquisition of Windsurf's leadership team for $2.4B has pushed this to the forefront.

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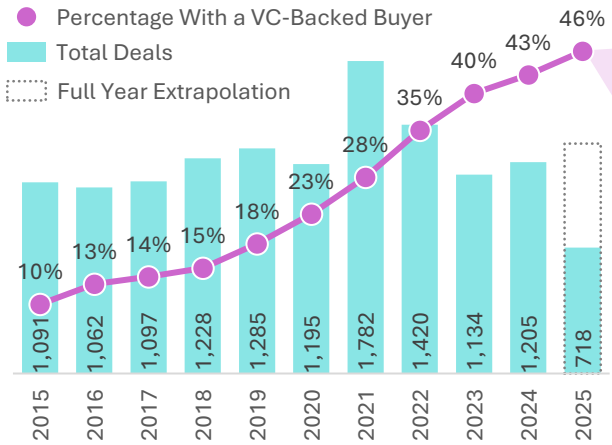
Acquired Taste: Startups Buy More Startups

VC-Backed M&A Deals (Excluding LBOs) and the Percentage with a VC-Backed Buyer[1]



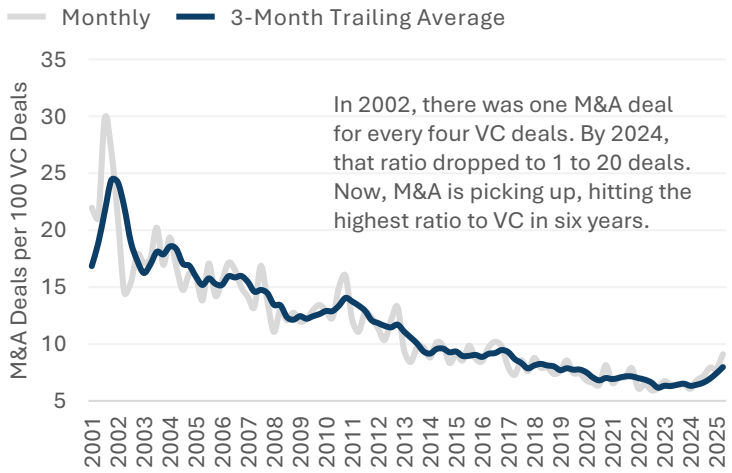
M&A All Day: AI Unicorns Are Buying to Scale

Notable VC-Backed M&A Buyers Since 2023[2]

Buyer	TEV	M&A Deals	Focus
OpenAI	$300B	5	Horizontal AI Platform
stripe	$92B	6	Embedded Payments
databricks	$62B	17	Infrastructure Tools for AI
INFINITE REALITY	$16B	5	AI for Social Media
Figma	$13B	6	AI for Design
GrubMarket	$3.5B	17	AI for Food Distribution

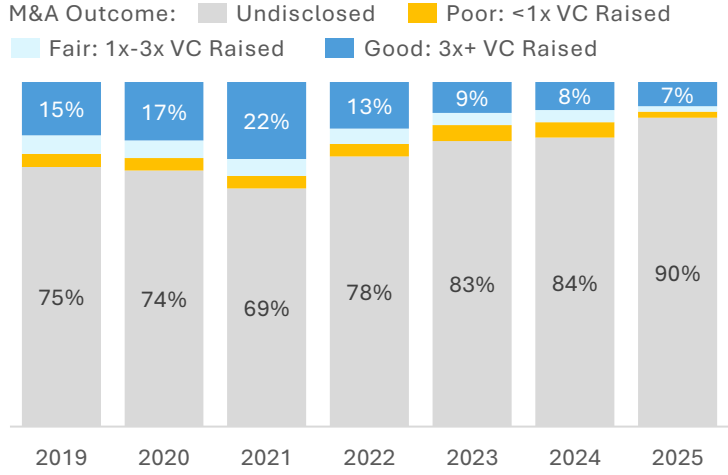
M&A Disappeared; Now It's Coming Back...

Number of US VC-Backed M&A Deals per 100 VC Deals



...But Fewer Deals Have Favorable Outcomes

Share of M&A Deals by Outcome (Deal Price/Total VC Raised)



Notes: 1) LBOs are leveraged buyouts. 2) Featured buyers are those unicorns with at least five acquisitions in the last three years, ranked by latest total enterprise value (TEV).
Source: S&P Capital IQ, PitchBook Data, Inc. and SVB analysis.

IPOs: Bigger, Cheaper, Slower

Today's IPO isn't a growth rocket — it's a revenue tank. The IPO window is open, but only just. **After a freeze in mid-2024, VC-backed tech IPOs returned in early 2025 with a handful of notable listings.** A few, like Circle, have performed extraordinarily well, but this seems more like the exception than the rule. With many other IPOs posting middling returns, investor appetite remains selective.

IPOs today are different. Namely, they're bigger: average revenue at IPO has jumped from under $200M in the early 2010s to over $500M today. In terms of growth, investment bankers maintain that a strong "rule of 40" should be driven by 30% annual revenue growth, not just high profit margins. But bankers don't make the rules. The average annual revenue growth for IPOs in 2022-2025 was just 9%. Valuation multiples are reflecting the growth slowdown, with a drop in average EV/NTM revenue multiples.[1]

Costs add to the friction. Underwriting fees can consume 4-7% of the float and disproportionately burden smaller listings. Combined with abundant private capital, these pressures help explain why the number of public companies remains low. With 7 of the 17 IPOs in 2024-2025 being down rounds, private companies could be even more hesitant to go public, waiting until they are leaner, larger and readier for their public debut.

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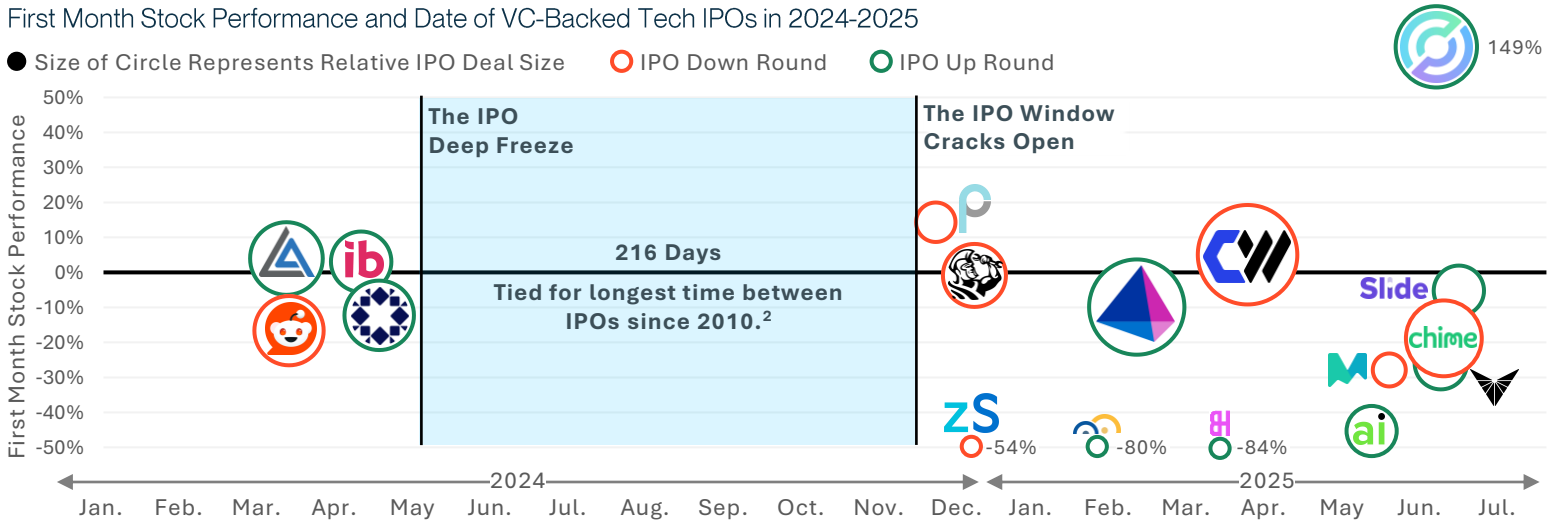
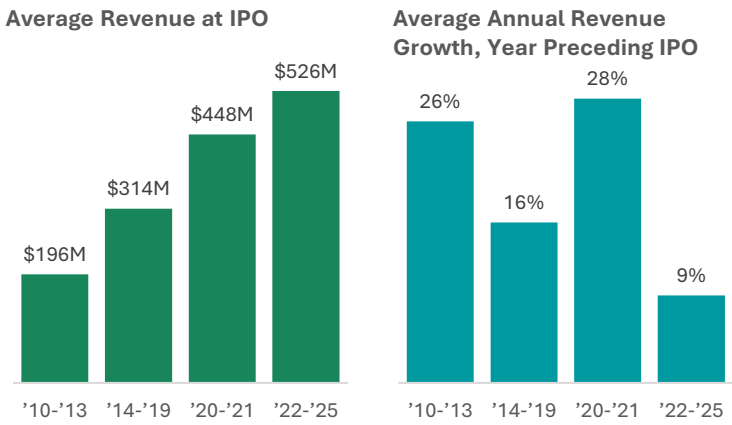
The IPO Window Remains Ajar

First Month Stock Performance and Date of VC-Backed Tech IPOs in 2024-2025



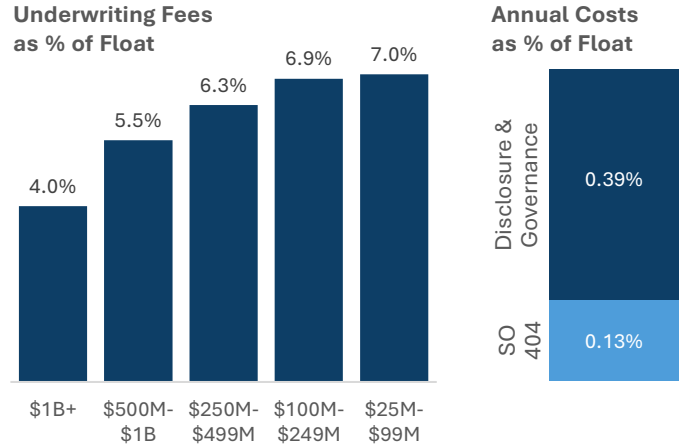
Companies Bigger But Slower at IPO

Average Revenue and Growth for US VC-Backed Tech IPOs



High Costs Keep Public Companies Low

Underwriting Fees and Ongoing Compliance Costs[3]



Notes: 1) Enterprise value to next twelve months revenue. Excludes one outlier. 2) The other longest dry spell was from September 27, 2022 to May 1, 2023. 3) Annual costs as a percent of float derived from Ewens et al. (2023).

Source: S&P CapitalIQ, PitchBook Data, Inc., Michael Ewens et al. "Regulatory Costs of Being Public: Evidence from Bunching Estimation" (2023), pwc "Considering an IPO? First, understand the costs" and SVB analysis.

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Marc Cadieux is president of Silicon Valley Bank's commercial banking business where he focuses on the needs of innovation companies at all stages of development, including the investors who back them.

Marc's career at Silicon Valley Bank, a division of First Citizens Bank, began in 1992. In the three decades since, he has held a variety of top credit and sales roles serving some of the world's most innovative companies. Most recently, he served as chief credit officer, appointed in 2013, and oversaw credit policy and process, credit underwriting, loan approval and portfolio management activities. He is a strong advocate of bank initiatives to expand opportunities for those who are underrepresented in the innovation economy. He serves as an executive sponsor for the company's employee resource group focused on women employees.

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Mark Gallagher is the co-head of the investor coverage practice. He and his team provide tailored services, industry insights and strategic guidance to top investors in the innovation economy.

Mark has served as a financial partner to venture capital firms and technology and life science companies for the majority of his career. During his 22-year tenure with SVB, he has been involved in a number of strategic projects and initiatives, most recently leading the corporate venture capital practice. He's held numerous leadership roles including head of the Northeast technology banking practice, head of business development in New England and several years running the Northeast life science practice.

A supporter and champion of the New England technology community, Mark serves as a board member for BUILD Boston and was formerly on the board of overseers for The Mass Technology Leadership Council (MTLC).

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