State of Venture Capital, Private Equity and M&A 2023

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AXIOS PRO

Introduction

Welcome to the latest Axios Pro: Deals Report.

2023 has shown signs of both promise and uncertainty, leading to a lack of directional consensus among professionals across venture capital, private equity and M&A. Instead of guessing about how the market is reacting, we asked our readers instead.

> **Why it matters:** Axios Pro: Deals helps dealmakers navigate the fast-paced world of VC, PE and M&A every single day. In this report, the Pro newsroom analyzes survey results from hundreds of Axios Pro and Pro Rata subscribers to uncover where market sentiments truly lie.

> **The bottom line:** If you need to know how your competitors, clients and colleagues are thinking about what the current economic climate means for their business, then this report is for you.

Learn more about Axios Pro by visiting AxiosPro.com.

Overview

In June 2023, Axios surveyed hundreds of dealmakers to understand their sentiments about deal activity and valuations over the next six months. The research looked at the full range of deal types and key sectors of the economy. We are happy to share the results and compare them to results from a near-identical survey conducted in 2022.

The big picture

After a difficult 2022, most respondents see continued challenges on the horizon for all types of deals—venture capital, private equity, M&A, or initial public offering.

> Fewer than 20% of respondents expect an improvement in activity overall.

> Specifically, 15% for VC deals, 23% for IPOs, 28% for PE activity, and 30% for M&A.

> Venture Capital faces the strongest headwinds, as financing becomes harder to find for startups and as sellers continue to ask for more than is warranted in the current market.

Driving the results

High interest rates and inflated valuations are fueling pessimism about improvement in the short term.

Zoom in

Opinions divide equally about whether dealmaking is going to slow further or tread water, with four in 10 readers holding each view. That's a lot more optimistic than last year, though, when nearly two thirds of readers expected the situation to deteriorate.

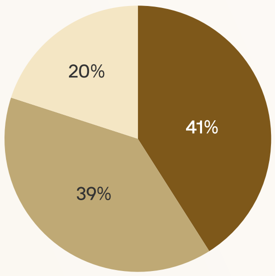
> M&A is the one area where more respondents said the next six months is likely to be "less challenging" (30%) than "more challenging" (28%).

> Enterprises weakened by difficult economic conditions are ripe for a takeover, but persistently high interest rates and reluctant sellers could provide resistance.

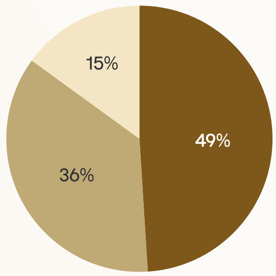
Industry insights

? Over the next 6 months, what are your expectations on the following deal activities?

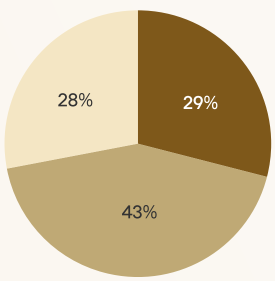
Less challenging   Same as now   More challenging



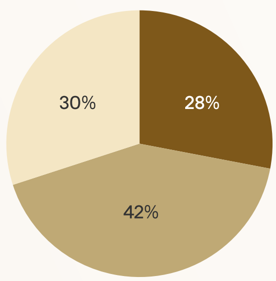
All deal activity
VC, PE, M&A and IPO



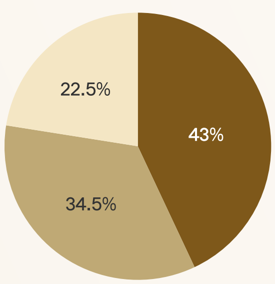
VC deal activity



PE deal activity

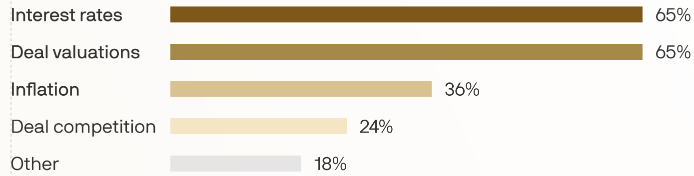


M&A deal activity



IPO deal activity

? If you've selected **more challenging** for one or more deal activities, which of the following factors drive those challenges?



? What makes you think the coming months will be **more challenging** for dealmaking?

Select subscriber responses

“ Uncertainty over the broader macro environment. Concerns about a downturn. Recession.

“ Debt availability. Lending terms in the new environment. Lenders making greater demands in negotiations.

“ Founders are still operating like they can easily raise their next round. Sellers are still clinging to inflated valuations from the 2021 timeframe.

“ IPOs have performed very poorly and investors are pissed. You will see defaults in the leveraged financial market, which will depress activity.

“ Internal and external economic and geopolitical scenarios, affecting all factors mentioned.

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Industry insights

? Why do you expect dealmaking activity to **improve or stay the same**?

Select subscriber responses

> After a year of volatility and fear, sellers will begin to capitulate. Buyers will relax their recently imposed conservatism. Valuations will settle at a new medium-high, and transactions will be consummated in greater number and size than during the past year.

> Interest rate peak will become visible, recession uncertainty will subside as outlook becomes clearer, valuations will converge.

> As we settle into a new normal (higher interest rates, lower valuations, etc.), more high-quality companies will be willing to put themselves on the market where they were previously waiting for vast uncertainty to dissipate.

> Startups and fledgling companies need capital. If just 2-3 quality IPO's successfully list, it will build confidence.

> There is a lot of dry powder out there. Investment firms need to spend money and show LPs they can return capital to keep the flywheel going.

Be smart

Interest rates will continue to weigh down dealmaking in the near term. Nearly two in three respondents (63%) say they are significantly or somewhat more concerned about the impact of continued interest rate hikes on their industry or market during the next six months. Only 14% are unconcerned.

What's happening

Health tech is showing the most life among dealmaking sectors, with 52% of respondents expecting to see significant or some growth.

> Health care opportunities are growing, as many organizations rethink their strategic position post-pandemic.

> Potential deals will emerge as health-care companies navigate a changing regulatory environment and consider adopting different payment models such as value-based care.

Of note

Optimism around climate deals declined from 50% last year to 42%. It now holds the middle ground with fintech (39%). Respondents showed the least confidence in retail (21%) and media (22%) growth.

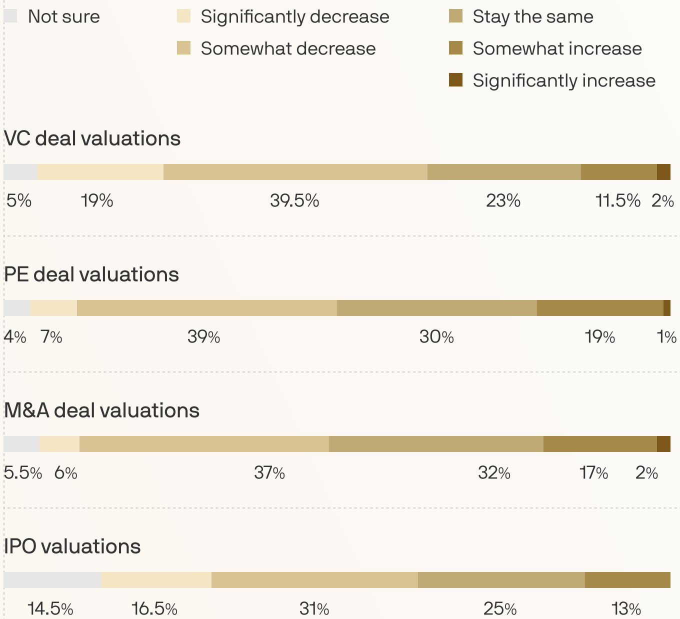
Thought bubble

Reduced pessimism aptly describes sentiment heading into the second half. More cautious investors will note that deal volume slumped markedly across the board in the first half of 2023, and certain sectors continue to struggle. However, over the course of June and early July, the IPO market has started to reopen, and with greater visibility on rates and the economy, M&A activity is also increasing.

George Moriarty
Senior Editor (Axios Pro)

Deal insights

Over the next 6 months, what are your expectations on the following deal valuations?



What are the top 1 to 3 **opportunities** facing your market over the next six months?

Select subscriber responses

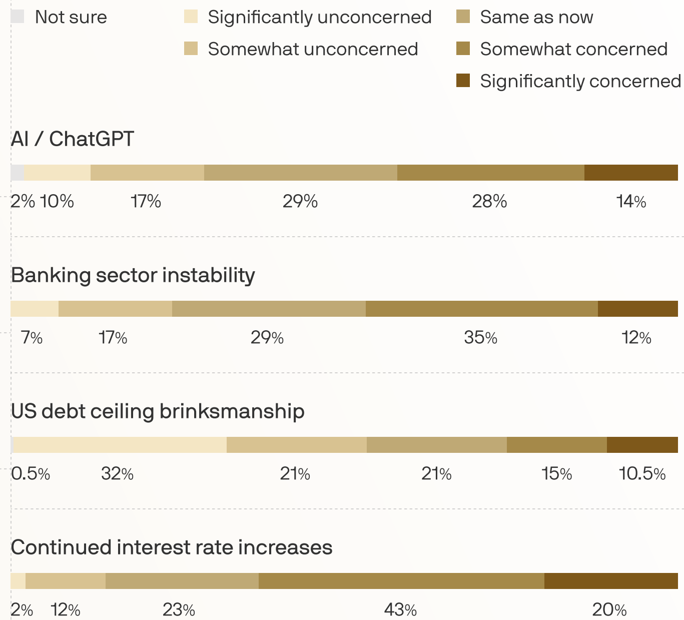
> 1. There are many quality deals out there—one just has to work harder to find them.
>
> 2. There's an increased opportunity these days to help fundable founders find good cofounders.
>
> 3. Digital health and biotech are hot.

> Scale incumbents with limited organic growth and uber-strong balance sheets. There are growing opportunities to (at least try to) apply new tech to hard problems (anything in healthcare).

> Take this time to educate and prepare for how AI will affect deals, and get smart on how to use AI to automate some of our more cumbersome/administrative processes.

> Add-on deals that reduce cost/leverage and provide platforms to grow and wait out rates. Distressed opportunities from overleveraged companies. Potential tailwinds to US economy despite rising rates.

Over the next 6 months, how concerned are you about the effects of these recent events on your business/market?



What are the top 1 to 3 **concerns** facing your market over the next six months?

Select subscriber responses

> Hawkish Fed policy continuing to push consumers towards savings, student loans un-pausing and consumer debt toppling over.

> Availability/terms of debt for stabilized/mature platforms in esoteric segments. Lenders have retrenched. Acquisition appetite of strategic players in segments.

> Portfolio runway. Pipeline development. Effectively dealing with the myriad of unknowns that will appear.

> 1. Too few VCs willing to lead Seed and Series A deals.
>
> 2. Too many VCs and angels seem to be in hiding.
>
> 3. There's a bigger chance today that quality entrepreneurs will not start new companies.

> Inflated deal values, leading to less activity and the pressure to spend dry powder, might force some companies to make poor investments.

Deal insights

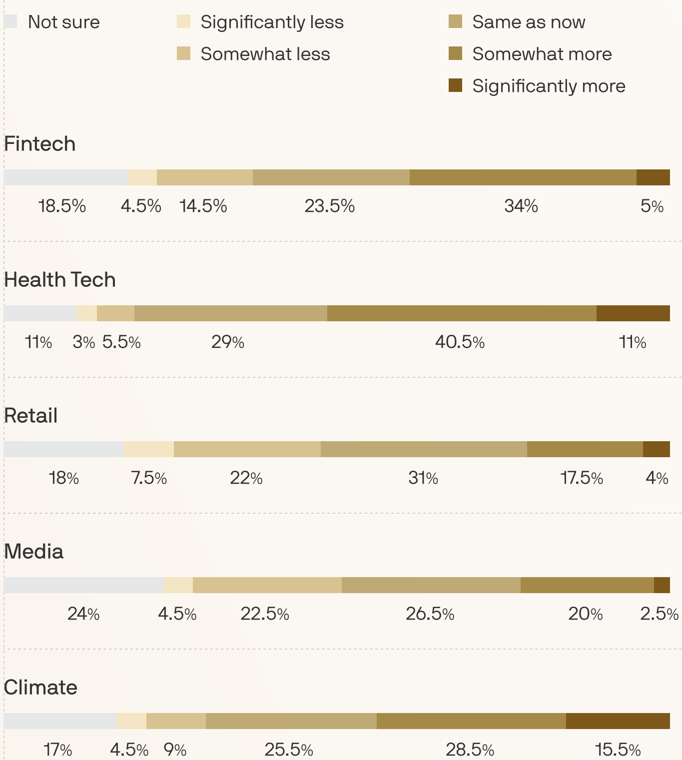
State of play

For every respondent saying valuations will increase, two or three say they will be heading down. Most dealmakers think that valuations will drop across all deal types, as sellers who have been stubbornly holding out for more than their businesses are currently worth, capitulate to reality.

> Dealmakers see VC valuations as most likely to drop, with 59% of respondents expecting declines and just 13% predicting increases in value. A tougher lending environment and founder fatigue at trying to realize valuations that aren't realistic in 2023 will likely convince some sellers to lower the price.

> Across the board, sentiment is strong that there will be drops in valuation for every type of deal: PE (46% down versus 20% up), M&A (43% versus 19%), and IPO (47% versus 13%).

? Over the next 6 months, what are your expectations on the amount of deal activity for the following industries?



Yes, but

Last year, respondents were far more certain that valuations would drop for every type of deal, with three quarters saying that VC valuations would drop and more than six in 10 predicting a fall for PE, M&A, and IPO. This year, respondents are less pessimistic. Fewer than six in 10 now expect VC valuations to fall. Less than five in 10 expect a drop in PE, M&A, and IPO.

Thought bubble

In health tech, acquisition opportunities are increasing for private equity as larger corporations rethink their balance sheets and put some divisions up for sale in response to economic pressure. Attractive tailwinds have also emerged in outsourced pharmaceuticals thanks to increased biotech and biopharma funding, coupled with rapidly approaching patent cliffs. The sector remains vulnerable to pressures like labor wage inflation and shortages, but what continues to stymie dealmaking most is the chasm between seller expectations and what buyers are willing to pay, dealmakers say.

Claire Rychlewski
Editor (Axios Pro)

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