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Early Insights from 2022 Year End Venture Valuations: Noisy Numbers & What to Watch

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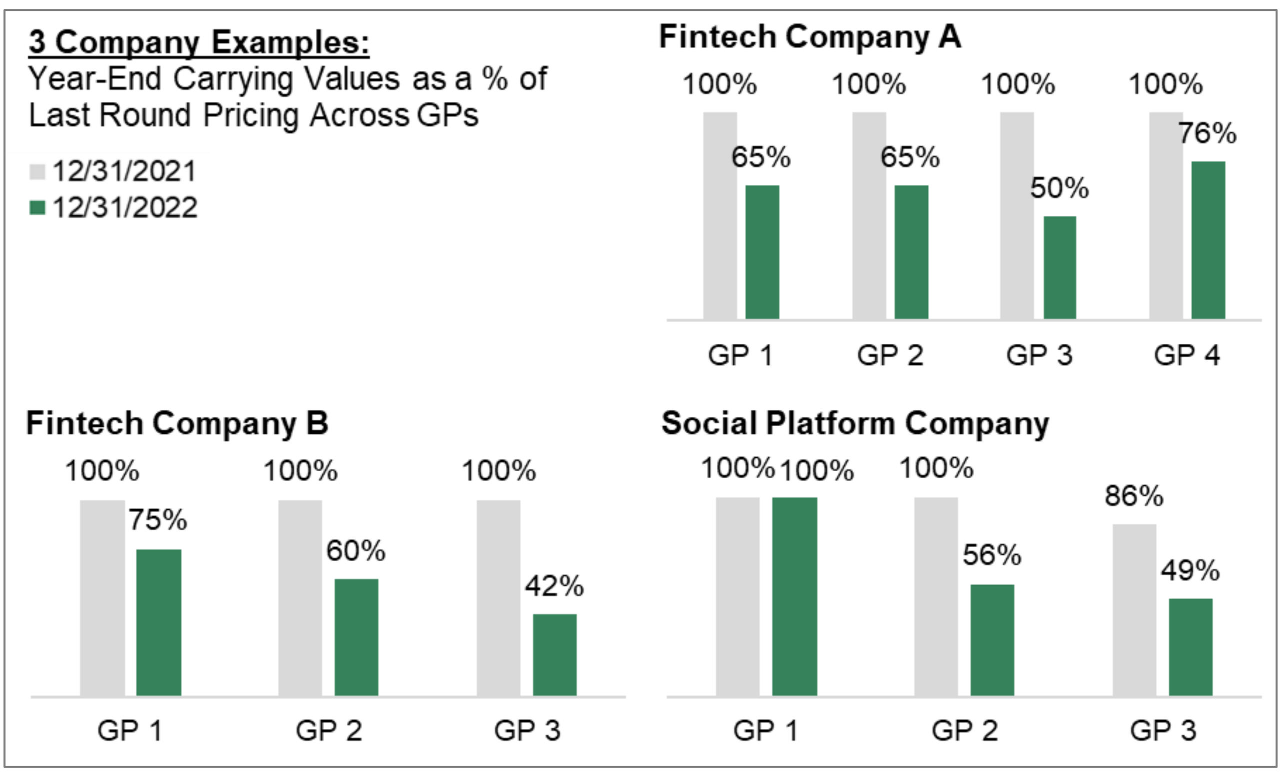
- Last round pricing is no longer the default carrying value, particularly for companies whose last round was in the first half of 2022.
- With new valuations varying widely, unrealized performance is an inadequate measure for evaluating the relative performance of VCs and the prospects for their portfolios.

Our analysis of top venture companies held by multiple GPs confirms a change in how private unrealized companies are marked and, in some cases, reveals a stark range of carrying values for the same company. GroveStreet examined the valuations of 20 portfolio companies held by multiple GPs. Of the 54 valuations, 40 (74%) were held at the last round pricing on 12/31/21. By 12/31/22 only 14 (26%) were still being held at the last round, and 23 (43%) were held at less than 75% of the last round. Of particular note, there was a wide variation in the marks across GPs for the same company. The table below provides three examples from high profile companies in GroveStreet portfolios and ones likely to be in other LP portfolios.



As the incidence in variation in portfolio company values increases, benchmarking unrealized performance becomes less meaningful. LPs, now more than ever, must scrutinize business fundamentals (e.g., ARR, growth rate, cash burn, entry price, market comps, strategic position, etc.) to evaluate GP performance. Some GPs who have been particularly conservative may benchmark poorly against peers, yet they may have as good or better portfolios than those who have taken a lighter hand to valuation adjustments.

GroveStreet's longstanding practice is to be in active, ongoing dialogue with managers regardless of market conditions. Current conversations with GPs reveal that many don't know how their valuations compare to those of their peers as the 'last funding round' default mark is no longer the norm. Several GPs who thought they had been aggressive in mark downs turned out not to be, relative to their peers. Some may be waiting until public comps rebound or are waiting for their companies to raise capital to avoid fully adjusting interim carrying values.

From what GPs are sharing today and our experience with revaluation cycles, we expect carrying values will continue to see downward pressure through 2023, assuming public comps do not rise. This will likely be a once-in-a-decade test of patience for venture LPs. But a closer look may reveal that despite the markdowns certain portfolio companies are growing well with an advantageous market position and are well in the money *even at* adjusted carrying values and with potential for upside.

Don't rely on benchmarks to evaluate your GPs. Dig into the companies, and you may be pleasantly surprised by what you find.