
Morningstar Unicorn Market Monitor: Q2 2024

Quality Takes Center Stage Amidst Modest Recovery of Late-Stage Venture Capital

Morningstar Inc.

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Introduction

The late-stage venture capital market hit the reset button in the second quarter of 2024, as high but stable interest rates and moderate inflation contributed to a gradual recovery in company valuations, fundraising, and exits after a turbulent period. The Morningstar PitchBook Global Unicorn Index, which monitors late-stage venture performance, increased by 1.15% during the quarter.

Despite the modest recovery, the market remains polarized. Artificial intelligence startups are leading capital flows and driving valuations, yet startups overall still face a high bar for raising funds due to a more selective and cautious investment climate.

In this issue of the Unicorn Market Monitor, we explore the key trends shaping the late-stage venture landscape for the second quarter of 2024, using insights from the Morningstar PitchBook Global Unicorn Indexes.

Key Takeaways

- ✗ The [Morningstar PitchBook Global Unicorn 500](#) and [Morningstar PitchBook US Unicorn 100](#) indexes gained 1.27% and 2.24%, respectively, in the second quarter of 2024, underperforming their public market counterparts, the Morningstar Global Markets Index and Morningstar US Market Index, which saw gains of 2.57% and 3.48%, respectively.
- ✗ Investors are now prioritizing high-quality companies with strong growth potential and clear paths to profitability in the late-stage venture market. This trend is driven by higher valuations and multiples for profitable exits and IPOs. Moreover, in light of limited exits and capital reinvestment challenges, LPs are placing greater emphasis on managers' ability to provide returns and are urging GPs to expedite fund distributions.
- ✗ Eight new unicorns—private venture-backed companies valued at \$1 billion or more—entered the [Morningstar PitchBook Global Unicorn Index](#) in the second quarter of 2024, bringing the total count to 1,351 companies.
- ✗ Among industry verticals, the [Morningstar PitchBook BioPharma Unicorn Index](#) dominated with a 13.53% gain, driven by companies focused on clinical assets and the potential of AI in drug discovery.
- ✗ Limited exit opportunities have boosted growth in the secondary market, with pre-IPO valuations for unicorns—especially in AI, fintech, and cybersecurity—rising significantly. This is evident from the sharp increase in trading volume and transaction size in the second quarter of 2024, reflecting strong investor confidence and activity in these sectors.

Market Insights

The market slowdown that began in 2022 appeared to be easing in the second quarter of 2024. Companies currently seeking capital had raised funds in late 2021 or early 2022, when their valuations were already high. Consequently, revenue multiples are lower, with more modest valuation increases between rounds and a rise in flat or down rounds, contrasting with the higher frequency of down rounds in recent years.

In light of elevated interest rates, uncertainties around when the US Federal Reserve will start cutting rates, and the magnitude of those cuts, mature companies at the later stages of venture continued to face financing pressures. The [Morningstar PitchBook Global Unicorn 500](#) and the [Morningstar PitchBook US Unicorn 100](#) indexes gained 1.27% and 2.24%, respectively, in the second quarter of 2024, underperforming their public market counterparts, the Morningstar Global Markets and Morningstar US Market indexes, which saw gains of 2.57% and 3.48%, respectively.

Exhibit 1: Trailing Returns %

Unicorn Indexes	Q2 2024	1Y	3Y	5Y
Morningstar PitchBook Global Unicorn 500	1.27%	10.76%	8.17%	16.05%
Morningstar PitchBook US Unicorn 100	2.24%	8.54%	7.28%	17.93%
Morningstar PitchBook Asia Unicorn 100	-0.17%	11.79%	8.85%	12.93%
Morningstar PitchBook Europe Unicorn 50	-2.31%	1.65%	8.62%	19.11%
Morningstar PitchBook UK Unicorn 20	-2.05%	-1.67%	15.44%	23.32%

Global Market Indexes	Q2 2024	1Y	3Y	5Y
Morningstar Global Markets	2.57%	19.13%	5.28%	10.81%
Morningstar US Market	3.48%	23.78%	8.36%	14.30%
Morningstar Asia	2.39%	13.81%	-1.62%	5.51%
Morningstar Europe	1.18%	12.73%	3.02%	7.12%

Source: Morningstar. Data as of June 30, 2024.

Companies that raised capital two to three years ago and had pushed out financing through cost-cutting measures are returning to the market for new funding. During the quarter, \$55 billion was invested across an estimated total of 4226 deals in the US. Quarterly deal count climbed to the highest level since the second quarter of 2022.

Barring a few large technology companies, the US IPO market has been slow and is likely to slow for the balance of the year. The IPO market tends to follow public markets, which have had a good run. The market environment looks favorable for well-positioned companies to access public markets.

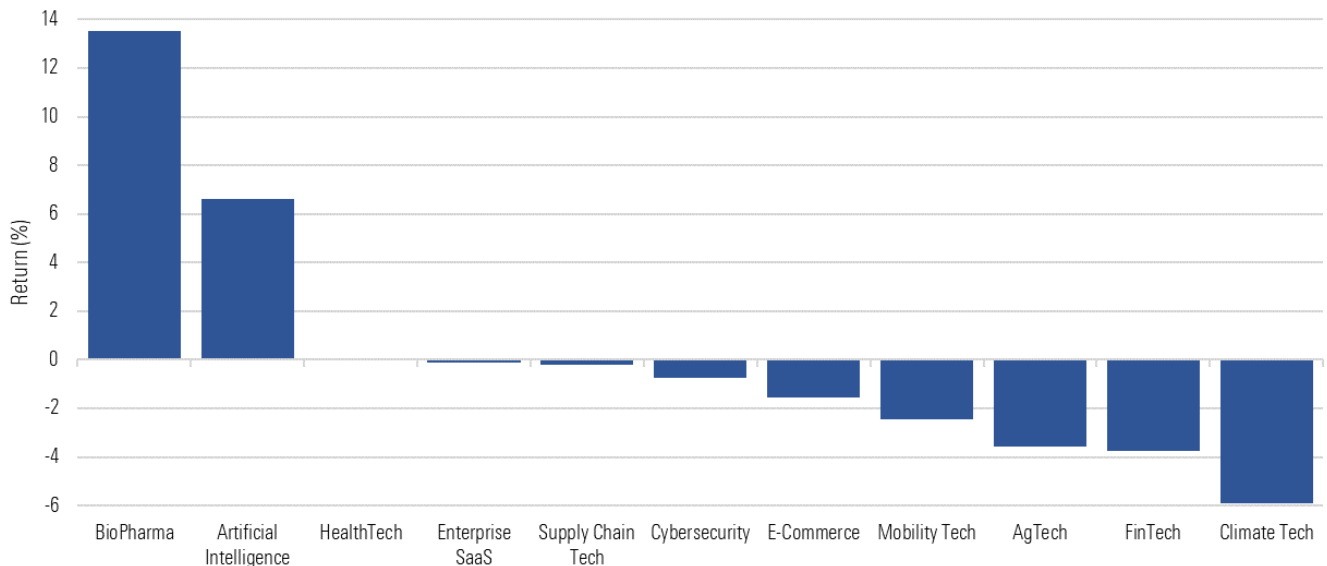
Despite signs of recovery in exit markets, some investors are still facing liquidity challenges from their private market investments. This has led to a surge in secondary market transactions. The trend of rising pre-IPO valuations that began in June 2023 has persisted into the first half of 2024. According to Caplight, a secondary market data specialist, trading volume grew 50% year-on-year, with average transaction sizes now at \$2 million, indicating strong participation from institutional investors.

Unicorn Industry Vertical Indexes Market Insights

The [BioPharma Unicorn Index](#) had the largest gain over the quarter, returning 13.53%. Venture investments into BioPharma companies continued to rise quarter over quarter in the second quarter of 2024. The venture capital climate continues to focus on advanced clinical assets, with platform bets mostly out of focus. Investor enthusiasm remains high in the new year despite market challenges. The realization of the long timelines required for AI to have an impact on drug discovery and development has tempered interest in these companies. However, investors are beginning to recognize that focused investments in the most promising AI applications may yield significant long-term benefits. The slow adoption of AI in clinical development highlights the need for a long-term investment vision, as seen with Xaira’s \$1.0 billion mega-round in April, valuing the firm at \$2.7 billion. Formation Bio, an AI-native pharma company, also had a significant fundraise that contributed to the positive return over the quarter, valuing the company at \$1.7 billion.

The only other industry vertical index that rose over the quarter was [artificial intelligence](#), returning 6.60%. Unlike the rest of venture capital fundraising, funds focused on AI are closing regularly and more quality deals are being made within this industry vertical. PitchBook estimates that by 2026, the AI & ML market will nearly double its market size of \$262.5 billion reached in 2023. AI has been one of the most active industry verticals for corporate investment by both dollars invested and deals completed. While the OpenAI and Anthropic deals (both receiving heavy investment from Amazon or Microsoft) pushed up the total deal value of corporate venture capital investment, or CVC, more than 12% of the second quarter’s completed CVC deals were into AI companies. If that figure holds through the rest of the year, it would be the highest annual proportion of CVC deals into the vertical and be second only to software-as-a-service, which has seen its proportion cut marginally in recent years.

Exhibit 2: Q2 2024 Performance of Morningstar PitchBook Unicorn Industry Vertical Indexes



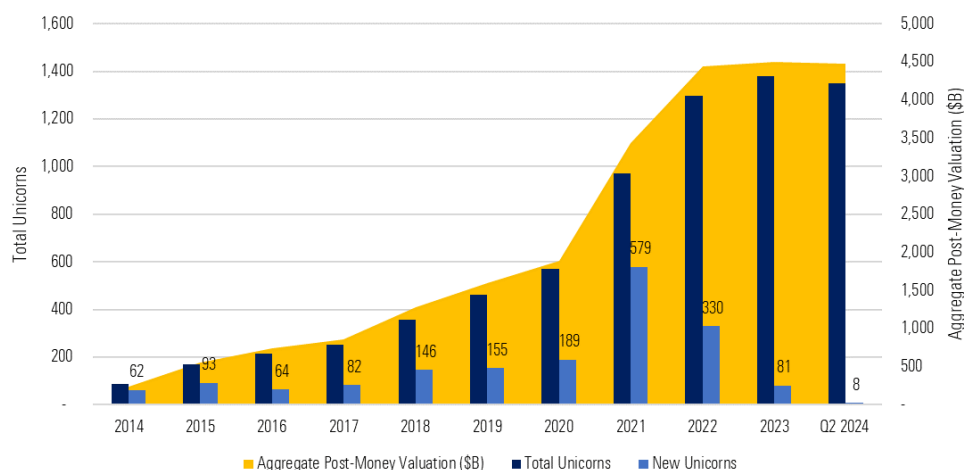
Source: Morningstar. Data as of June 30, 2024.

Growth of Global Unicorns

There were only eight¹ newly minted unicorns that entered the Morningstar PitchBook Global Unicorn Index in the second quarter, bringing the aggregate unicorn valuation to \$4.5 trillion, with a total of 1,351 companies holding the title.

Since the unicorn boom in 2021, the funding landscape for startups has become considerably tougher, leading to a significant drop in the number of new unicorns. While early-stage deals are occurring across various sectors, many investors are continuing to focus on funding established startups via new funding rounds or secondary deals in anticipation of potential IPOs. However, according to PitchBook, the second quarter of 2024 recorded the highest number of early-stage deals since the first quarter of 2022, and it has observed that pre-seed and seed deals are getting larger in size.

Exhibit 3: Growth of Global Unicorns by Number and Assets



Source: Morningstar. Data as of April 30, 2024, the reconstitution universe selection date.

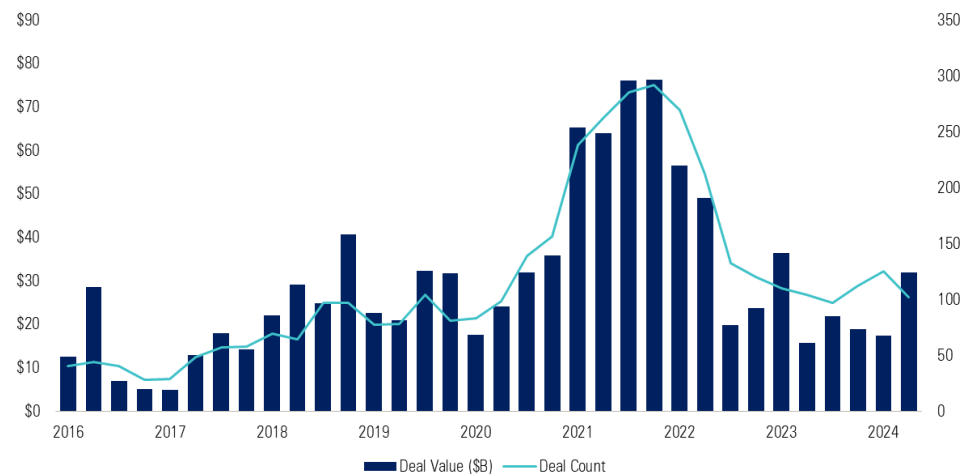
New Deal Flow Declines

In light of elevated interest rates, uncertainties around when the Fed will start cutting rates and the magnitude of those cuts, coupled with high valuations in the last funding rounds, mature companies at the later stages of venture continued to face financing pressures in the second quarter. Over the quarter, the pace of unicorn dealmaking activity remained slow, with \$31.9 billion invested across a total of 102 deals. However, a few outsize deals propped up the elevated deal value during the quarter, with 45 mega-rounds (rounds exceeding \$100 million) contributing to 75% of the total deal value. It is likely too early to claim a rebound in deal activity, however. The market likely has bottomed out, and companies that raised two to three years ago and had pushed out financing through cost-cutting measures are returning to the market for subsequent financing.

¹ Data as of April 30, 2024, the index reconstitution universe selection date.

The liquidity constraint scenario has also remained sticky, and fundraising continued to be challenging across the quarter, given lack of LP appetite. As a result, many VCs have slowed their pace of investment, both to stretch their current fund to last longer before returning to the market to raise subsequent funds and to spend more time with existing portfolio companies to help them navigate the tough waters of the equity financing market. In line with the past two years, in the current environment, deals are taking longer to close, and VCs are conducting thorough due diligence of potential deals and have a higher bar for deploying capital.

Exhibit 4: Global Unicorn Deals by Quarter



Source: PitchBook Data. Data as of June 30, 2024.

During the past decade, companies have been staying private for longer, partially because they have had access to capital, which helps maintain their business operations. The trend has been more pronounced in the past two years, during which mature startups have been waiting for favorable market environment while striving to continue to grow and improve their financial metrics, as public investor appetite has shifted to solid unit economics and growth trajectory.

The largest deal to occur over the quarter was CoreWeave's \$8.6 billion Series C, valuing the company at \$19 billion, resulting in the company becoming the 19th largest constituent in the [Global Unicorn Index](#). The company plans to expand its datacenter footprint, purchase more Nvidia chips, and expand operations outside of the US. With the race for AI underway, AI infrastructure costs are driving median and average AI & ML deal sizes to new highs. France-based Mistral AI raised an estimated \$651 million at a \$6.51 billion post-money valuation. The startup, only slightly over a year old, has secured substantial funding and is aiming to challenge OpenAI and establish itself as Europe's leading AI company. Lastly, DeepL, a Germany-based firm solving complex linguistic challenges using generative AI, raised \$300 million at a \$2 billion post-money valuation.

Exhibit 5: Largest Q2 2024 Up Rounds

Unicorn	Step-Up Multiple	Latest Funding Round Date	Latest Post-Money Valuation (\$B)	Country	Primary PitchBook Vertical
CoreWeave	7.54	05/01/24	19.00	US	Artificial Intelligence
Mistral AI	3.25	06/11/24	6.51	France	Artificial Intelligence
Zepto	2.52	06/21/24	3.60	India	FoodTech
DeepL	2.00	05/22/24	2.00	Germany	Artificial Intelligence
Island	2.00	04/30/24	3.00	US	Cybersecurity

*Step-Up Multiple is the increase in a company's valuation, calculated by dividing a company's post-money valuation at a round by its post-money valuation at its previous funding round.

Source: Morningstar. Data as of June 30, 2024.

A Continued Flight To Quality

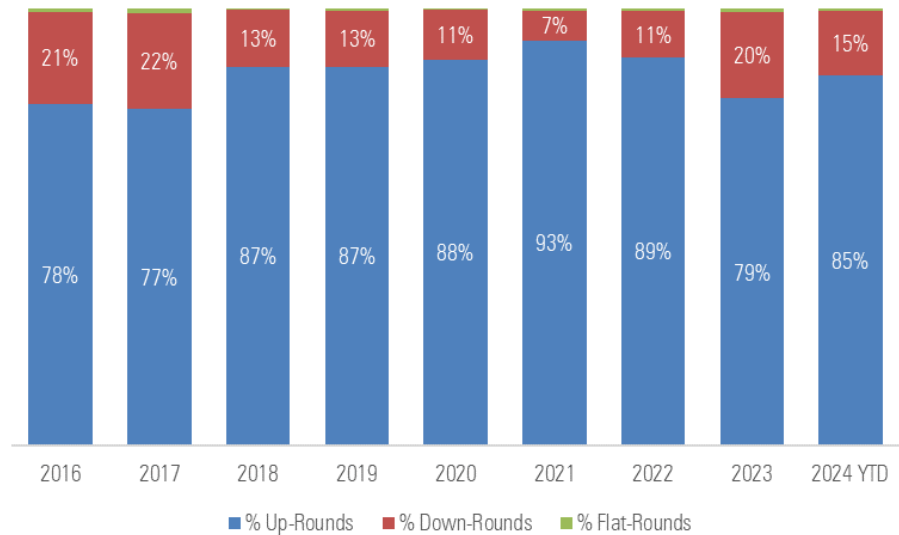
The multiples that public markets are placing on revenues continue to contribute to the poor market conditions for VC-backed companies, pushing many firms to accept lower valuations upon exit. Three of the largest down rounds over the quarter were attributable to acquisitions at valuations less than \$1 billion, resulting in those companies losing unicorn status and exiting the [Global Unicorn Index](#). Gett, a UK-based Mobility Tech company, was acquired at a valuation of \$150 million, an 88% markdown from its last VC funding round. Tegus, a US-based FinTech firm, was also acquired at a lower valuation of \$930 million. Last, Noname Security, a US-based Cybersecurity company, was acquired for \$450 million, a 51% markdown.

Exhibit 6: Largest Q2 2024 Down Rounds

Unicorn	Valuation Markdown	Latest Funding Round Date	Latest Post-Money Valuation (\$B)	Country	Primary PitchBook Vertical
Gett	-88%	05/09/24	0.18	UK	Mobility Tech
Tegus	-71%	06/11/24	0.93	US	FinTech
The Sand Box	-57%	06/06/24	1.00	Malta	Gaming
Noname Security	-55%	06/25/24	0.45	US	Cybersecurity
Essence Healthcare	-21%	04/10/24	2.15	US	InsurTech

Valuation Markdown % is the decrease in a company's valuation. It is calculated by subtracting a company's latest post-money valuation in a funding round from its previous post-money valuation in the previous funding round. The difference is divided by the latest post-money valuation to express a percentage.

Source: Morningstar. Data as of June 30, 2024.

Exhibit 7: Percentage of Unicorn Up/Flat/Down Valuations (2016-Q2 2024)

Source: Morningstar. Data as of June 30, 2024.

Exits

Returning capital to LPs is another challenge in the current market. There have been high-profile public listings and acquisitions in 2024, but those successes are particularly notable in light of the challenges being faced in all parts of the exit market. Mergers and acquisitions typically make up the bulk of VC liquidity events, but the combination of increased regulatory scrutiny from the federal government and stockholders pushing strategic acquirers to engage only in transactions that will result in short-term accretion has resulted in a sharp decrease in activity. Public listings have been another part of the market wherein promising companies have held back from entering an uncertain market. Although some standout companies have still managed to go public, the increase in median portfolio company ages from 6.9 years to 10.7 years over the past decade indicates that both founders and investors are taking a more measured approach to entering the public markets.² The main growth area for exits in the current market has been buyouts, which are also at 10-year highs. When combined with reports of increased activity on the secondary markets, these changes in disclosed exit activity highlight the increased creativity of general partners as they seek to return capital to their limited partners.

Exhibit 8: Growth of Unicorns Measured by Index Constituents (Q2 2024)

Region	Total	New	IPOs	Avg Val (\$B)	Total Val (\$B)
Global	1,351	8	2	3.31	4,472
United States	731	6	2	3.28	2,396
Asia	370	0	0	3.65	1,348
Europe	144	0	0	3.07	443

Source: Morningstar. Data as of June 30, 2024, the reconstitution universe selection date.

² Please refer to the infographic, "Unicorns and the Growth of Private Markets," for more information.

In the second quarter, two unicorns, Ibotta and Rubrik, exited via IPO, generating hope. But they did not boost the listing market as much as anticipated despite successful post-IPO performance. And once again in the quarter, less than \$30 billion in exit value was generated to turn into distributions back to LPs.

We welcome your feedback. Please reach out to us at AskIndexes@morningstar.com.

Appendix

Exhibit 9: Performance for Morningstar PitchBook Global Unicorn Indexes: Return %

Global Unicorn Indexes	Q2 2024	1 Y	3 Y	5 Y
Morningstar PitchBook US Unicorn	1.46%	11.28%	11.67%	21.89%
Morningstar PitchBook US Unicorn 100	2.24%	8.54%	7.28%	17.93%
Morningstar PitchBook Global Unicorn	1.15%	11.68%	9.91%	17.38%
Morningstar PitchBook Global Unicorn 500	1.27%	10.76%	8.17%	16.05%
Morningstar PitchBook Asia Unicorn	0.19%	12.77%	7.40%	11.60%
Morningstar PitchBook Asia Unicorn 100	-0.17%	11.79%	8.85%	12.93%
Morningstar PitchBook Europe Unicorn	3.62%	8.90%	9.48%	18.85%
Morningstar PitchBook Europe Unicorn 50	-2.31%	1.65%	8.62%	19.11%
Morningstar PitchBook China Unicorn 50	0.04%	12.77%	0.99%	6.07%
Morningstar PitchBook India Unicorn 25	-4.61%	-1.19%	12.23%	10.77%
Morningstar PitchBook UK Unicorn 20	-2.05%	-1.67%	15.44%	23.32%

Source: Morningstar. Data as of June 30, 2024.

Glossary

Deal, or Funding Round: A discrete round of investment in which a business raises money to fund operations or growth in exchange for equity or an ownership stake. In venture capital investing, each funding round after the initial seed investment is given a series letter, beginning with A.

Down Round: A funding round in which a company is determined to have a lower valuation than it had at the previous round.

Exit: A liquidity event for a private company, which can take the form of an initial public offering, a merger, or an acquisition.

Initial public offering: A company's debut on a public stock exchange, marking its transition from private to public company; at that point, the general population can invest in it.

Mergers and acquisitions: A merger is a financial transaction that results in the combining of two companies to form a new company. An acquisition, on the other hand, occurs when one company buys another company and folds it into its operations.

Post-money valuation: A company's dollar value as determined as inclusive of new capital invested in the round.

Pre-money valuation: A company's dollar value as determined as excluding new capital invested in the round.

Step-up multiple: The percentage increase in a company's valuation, calculated by dividing a company's post-money valuation at a round by its post-money valuation at its previous funding round.

Unicorn: A venture capital-backed company with a post-money valuation of \$1 billion or more.

Up Round: A funding round in which a company is determined to have a higher valuation than it had at the previous round.

Valuation Markdown %: The percentage decrease in a company's valuation. It is calculated by subtracting a company's post-money valuation at a round from its post-money valuation at the previous funding round, and then dividing the result by the first post-money valuation.

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