



# State of the Private Market





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# State of the Market

2022 was an extraordinary year for Nasdaq Private Market (NPM). It was the year we completed our spin-out from Nasdaq, Inc, and became a fully independent company, separately capitalized and with a new mix of fantastic, committed strategic investors and partners. In addition to Nasdaq, Inc., Silicon Valley Bank, Goldman Sachs, Morgan Stanley, Citi, as well as Allen & Co joined us as investors to advance the private markets. In our first year, we secured new NYC and San Francisco offices, doubled the size of our team, and completed thousands of tasks large and small required to stand up a dynamic, innovative tech company. It was a lot of work but enormously rewarding for us. With that challenge behind us, we now come into 2023 excited, focused, and ready to execute for our clients and partners worldwide.

At the same time, 2022 was undeniably a challenging year for many of our clients and for us. NPM is fortunate to serve private companies across the technology, health care, biotech, clean energy, financial services, and other essential areas of the innovation economy. While they each are building innovative products to advance their respective industries, we continue to support their aspirations by deploying cutting-edge products and services to help achieve their liquidity objectives and strengthen employee retention strategies. Last year, hostile macro forces drove an abrupt and violent revaluation of risk across all asset classes, perhaps felt nowhere more acutely than in the market for private, pre-IPO companies. This meant, for significant periods of 2022, that the private markets were, for all intents and purposes, closed. Liquidity virtually evaporated as bid/offers widened dramatically and sellers vastly outnumbered buyers. Many investors simply moved to the sidelines, awaiting macro stability and greater clarity regarding valuations in the harsh new risk-off reality.

Fortunately, many private companies took advantage of favorable conditions in '20 and '21 to raise substantial capital. That meant last year they were able to tighten belts, lengthen runways, and sit out the hostile primary and secondary private capital markets environment.

From conversations with clients, 2023 has the potential to be different. From a macro perspective, better inflation data has driven a modest recovery across risk assets. Market stability brings hopes of a re-opening of the IPO market at some point in 2023. NPM's most active clients are traditionally later-stage companies within 24 months of IPO, so this may bode well for an uptick in private market transaction volumes.

Macro conditions aside, we believe there will be forcing mechanisms in 2023 that could ignite increased private market activity. Investors continue to be attracted to innovative, disruptive, high-growth private companies and new capital continues to flow into this sector. Given the current secondary discounts seen in the market, this year we expect investors to begin deploying capital at a more normalized rate. For asset owners, particularly current or former employees, challenging macro conditions don't change the realities of life. They still need to buy houses and pay tuitions. Our corporate clients are acutely sensitive to the needs of their employees, and many are engaging with NPM to explore employee-focused liquidity programs in 2023 to provide partial liquidity. As risk managers, many of our investor clients need to re-balance portfolios given last year's dramatic valuation changes.

# State of the Market (cont'd.)

They may also be under LP pressure to make distributions, or wind down vintage end-of-life funds. Finally, having sat out during 2022, some private companies will simply need to raise capital in 2023 to fund continued growth and innovation regardless of potential valuation discounts. With these considerations in mind, we are cautiously optimistic these forces could start to initiate activity in the private markets after 2022's deep freeze.

At NPM, last year's market time-out gave us bandwidth to focus on the build-out and deployment of SecondMarket™ our new, next-generation private market trading platform. To help private companies innovate and thrive, we believe the private markets must evolve to become an even more institutionalized and investable asset class. We intend to be at the epicenter of this fundamental change. Thanks to our team of 40+ engineers, we architected, developed, and refined our new platform. It was time well spent since we believe SecondMarket™ to be a quantum leap forward in the ability of corporate issuers, asset owners, investors, and the banks and brokers that serve them to efficiently operate in the private markets. We look forward to showing you our new platform. Reach out and we'll be happy to schedule a demo.

As excited as we are about our innovative new technology platform, we know the most important factor for our clients in the selection of a liquidity partner is trust. NPM has nearly ten years of experience facilitating more than 600 private company-sponsored liquidity programs and over \$43 billion in transacted volume on behalf of clients. When founders hire NPM, they place the trust of their employees in our hands. We take this responsibility incredibly seriously for every company we serve.

While NPM is now independent, we still share a name and common values with Nasdaq, Inc., one of the most trusted and respected companies in the global financial services industry. We look forward to earning your trust through all the challenges and opportunities in 2023 and beyond.

## Tom Callahan

*Chief Executive Officer*

*Nasdaq Private Market*



# Private Market Highlights

-  Private company valuation discounts deepen
-  Large increase in market-driven auctions
-  Shift back to late-stage software companies
-  Shareholder supply continued to outpace investor demand
-  Employee participation rates and subscription rates at all-time highs
-  Median transaction volume increased
-  Investor participation tilted back towards VC firms and away from hedge funds
-  Leading law firms continued to partner with NPM
-  NPM broadened our solution set across tenders, auctions, pre-IPO trading windows, individual share sales, bank/broker marketplace, transfer and settlement, as well as data

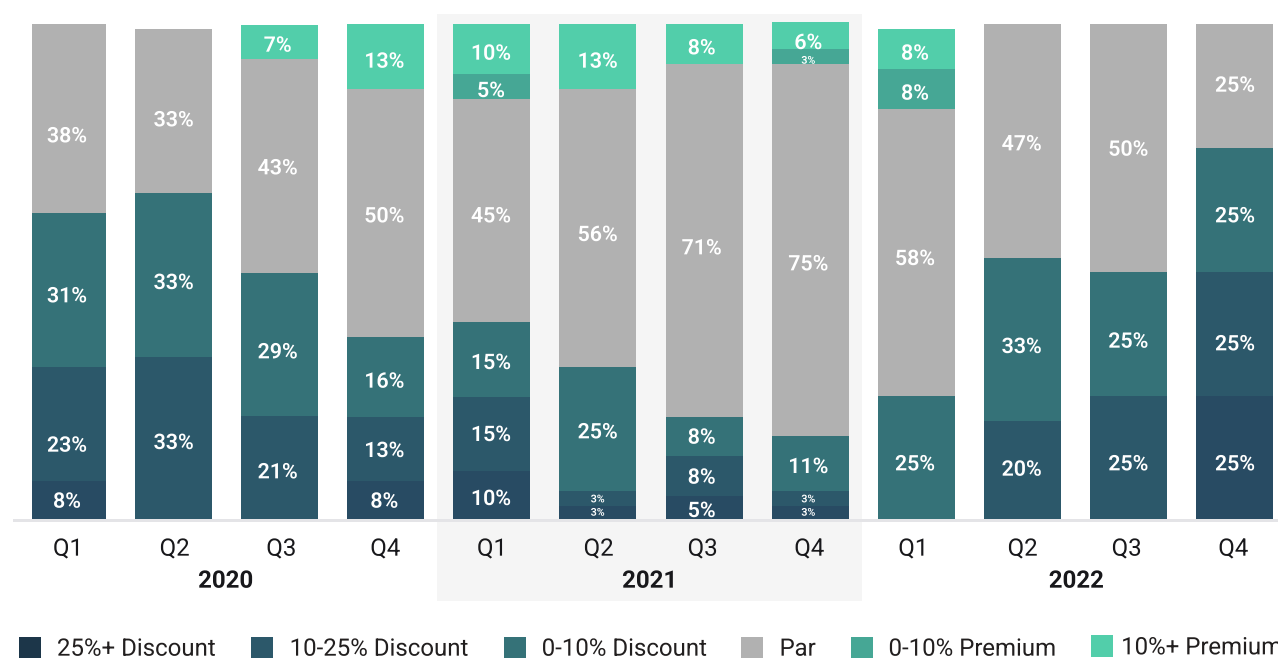
# Private Company Valuations

Private company valuations continued to decline through the second half of the year, as seen in the pricing of secondary share sales relative to the most recent round of primary preferred capital raised.

In Q1 2022, 16% of secondary share volume on NPM priced at a premium to the last preferred round. In Q2 and Q3, secondary premiums vanished and 20-25% of NPM volume transacted at a discount of 10-25% from the last round. The pattern accelerated in Q4, with discounts deepening as 25% of NPM volume transacted at a discount of 25% or greater to the last round.

Although secondary volume in 2022 was significantly lower than in 2021, the trough was reached in Q3 as volume increased in Q4. The increased buy-side interest in Q4 is perhaps reflective of the view that private market pricing is at or close to the equilibrium point that will stabilize prices and perhaps shift them upwards in the months to come. We expect activity levels from VCs and other investors to continue to increase again given these pricing dynamics coupled with the ongoing need to deploy capital.

## Secondary Discount Relative to Most Recent Preferred Round

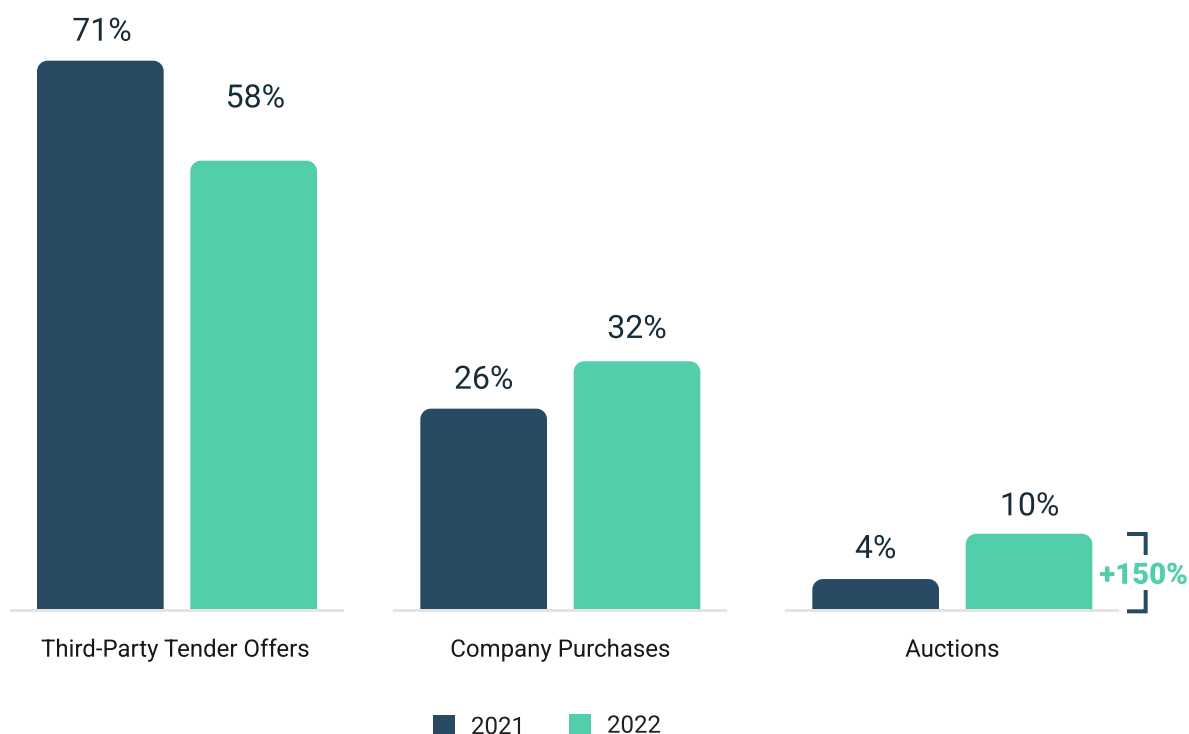


Source: Nasdaq Private Market

# Liquidity Program Types

Given the pricing volatility noted above, many of NPM's private company clients continue to seek assistance with price discovery. Private companies leverage the NPM platform and investor network to run customized liquidity programs with new or existing investors. Across 2022, there was an 150% increase in the number of private company auction programs facilitated by NPM which are designed to establish a market-driven pricing mechanism.

## Secondary Program Types



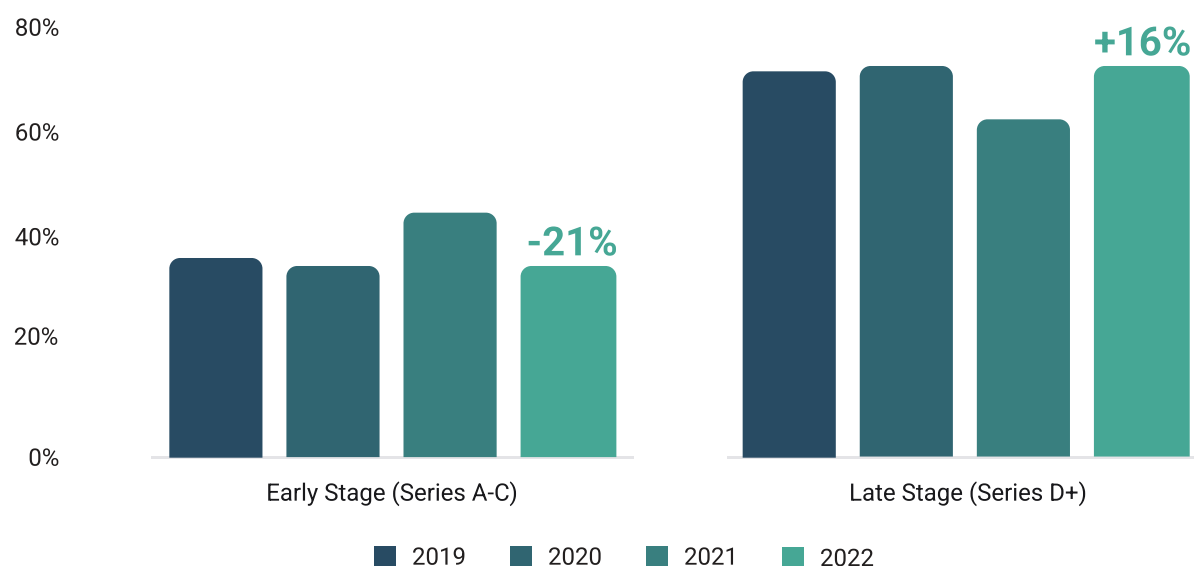
Source: Nasdaq Private Market

# Company Characteristics

Companies of all stages partnered with NPM to run secondary liquidity programs in 2022. Two thirds of all programs involved late-stage companies (Series D or later), reflecting a move back to NPM's historical averages. The slight increase among early-stage companies (Series A-C) in 2021 has subsided, likely due to shifting investor sentiment.

Similarly, from a valuation perspective, 45% of liquidity programs facilitated by NPM were run by companies with a valuation of \$1-\$5 billion, while 22% involved companies with a valuation greater than \$5 billion. The percentage of programs by companies with a valuation of less than \$250 million declined in 2022, yet still made up 8% of total 2022 liquidity programs.

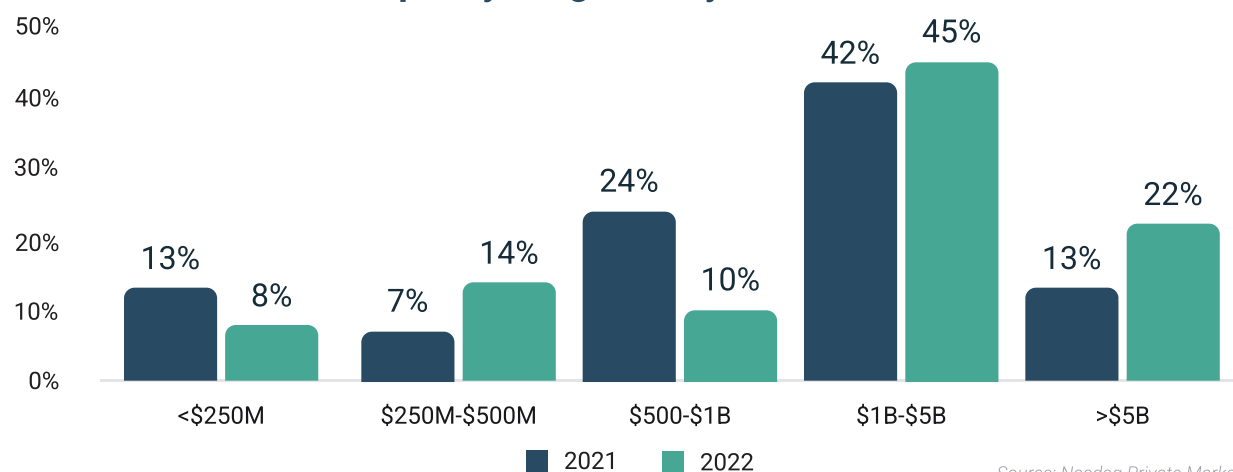
## Liquidity Programs by Stage\*



\*Excludes Companies Without Listed Financing Status

Source: Nasdaq Private Market

## Liquidity Programs by Valuation

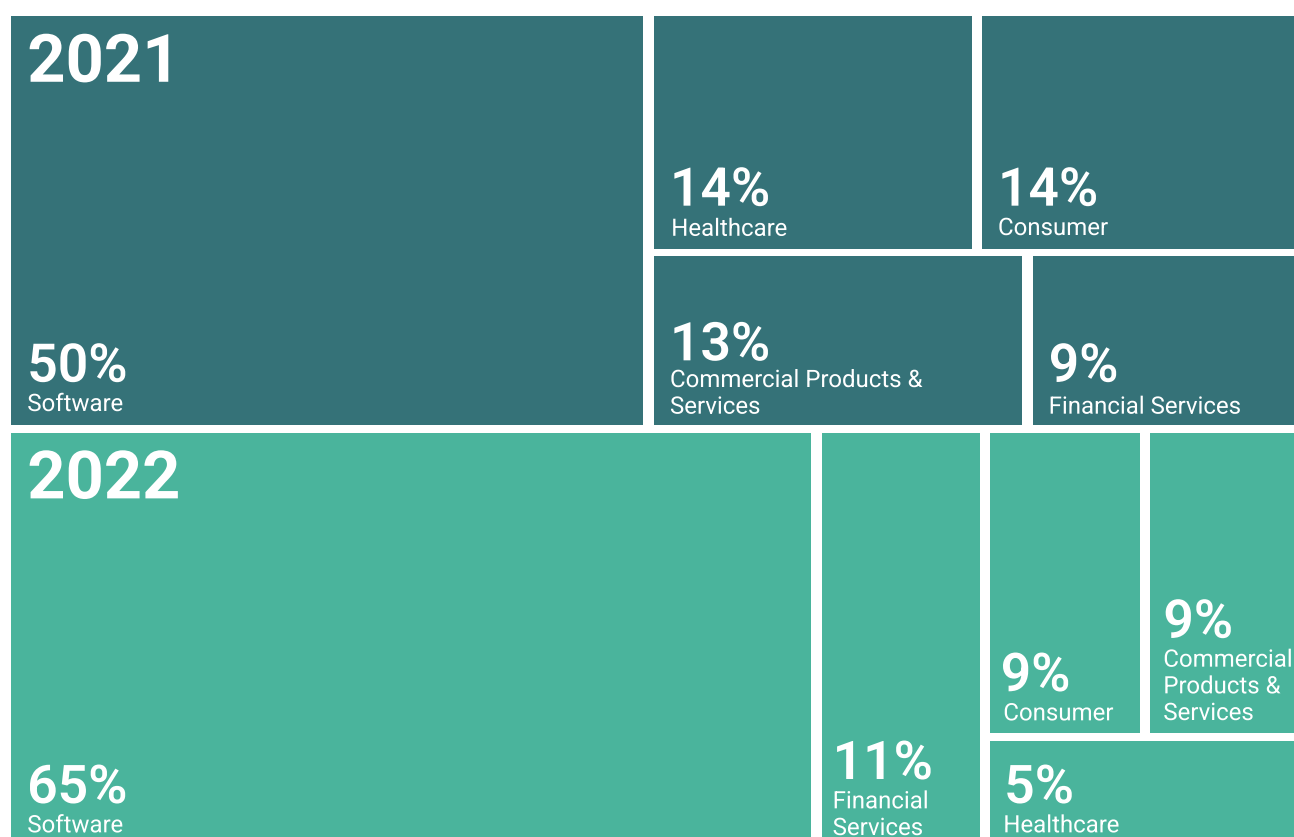


Source: Nasdaq Private Market

## Company Characteristics (cont'd.)

From a sector perspective, the shifts we observed at mid-year continued throughout the second half of 2022. Nearly two thirds of companies that partnered with NPM in 2022 were in the software sector, up from 50% the prior year. Every other sector saw moderate to steep declines with the exception of financial services which slightly increased. These sector shifts tend to follow the prevailing investment appetite among institutional buyers.

### Transaction Count by Sector



Source: Nasdaq Private Market

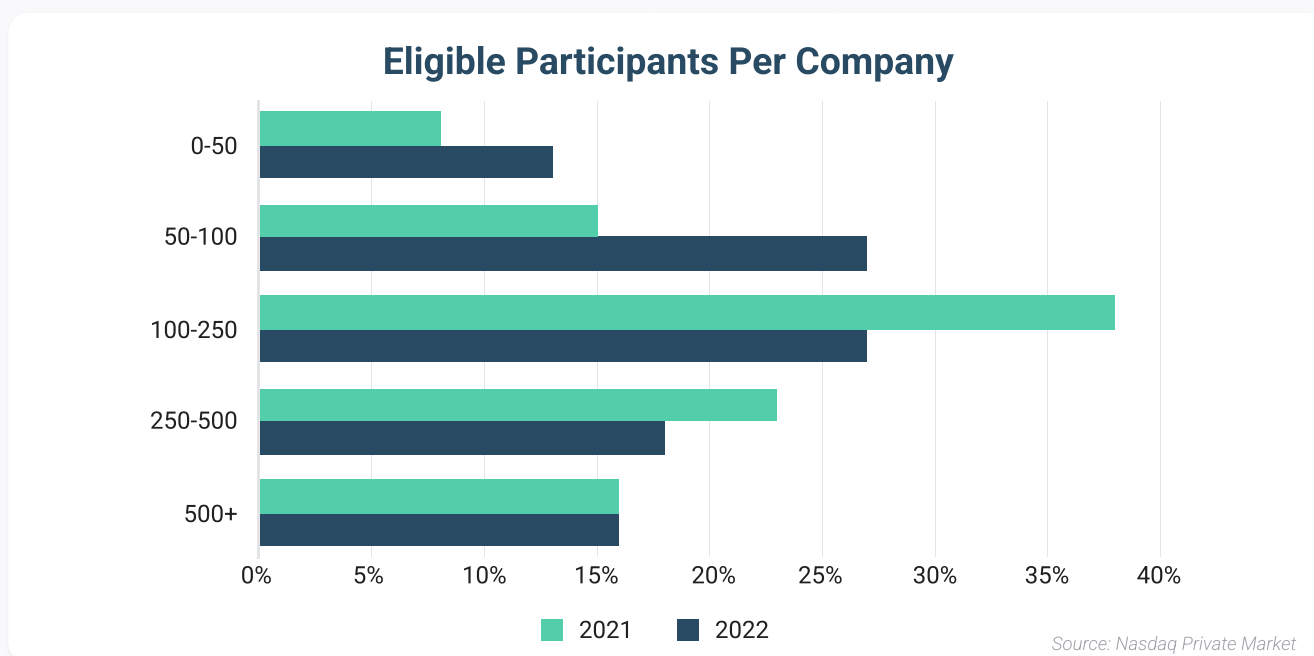
Reflecting broader geographic investment trends among venture capitalists, the majority of 2022 NPM clients were headquartered in California or New York. However, the geographic diversity of NPM clients increased in 2022, with more companies headquartered in the Midwest running secondary programs than in prior years. NPM also continued to expand its international focus, supporting companies in new markets outside of the U.S. Similarly, while the majority of NPM clients are VC-backed, we observed an uptick in liquidity programs by companies backed by other investor types.



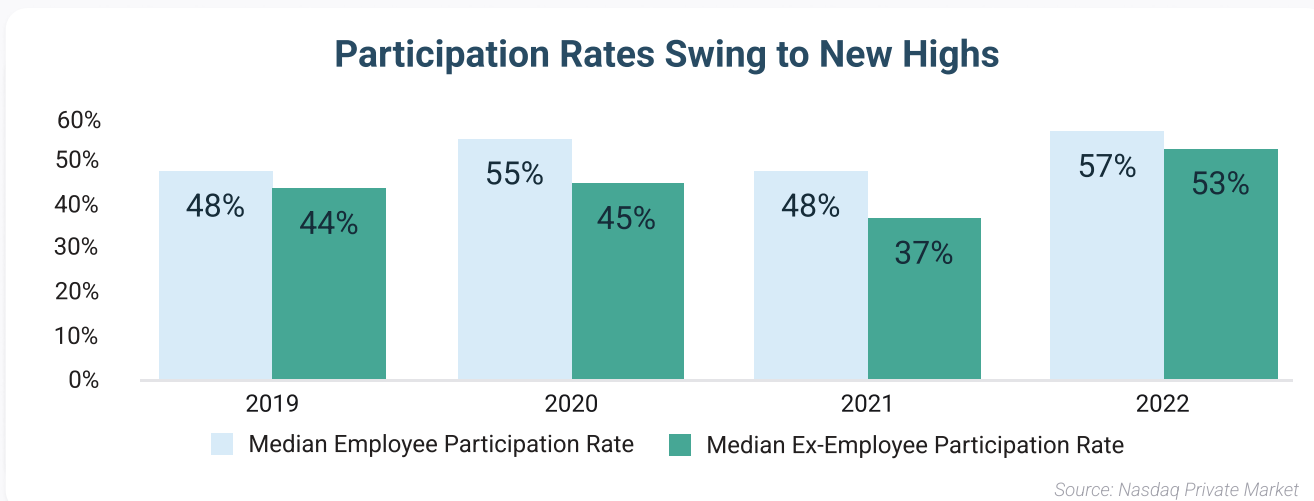
# Shareholder Participation Rates

In 2022, shareholder supply outpaced investor demand, reversing the trend seen in 2021. The series of graphs below illustrates the shifting market equilibrium.

Companies with a broad range of eligible shareholder participants ran liquidity programs with NPM in 2022. Given the shift to later-stage companies discussed above, the most common number of eligible participants per company trended upwards towards 100-250 and 250-500.



Despite the higher number of eligible participants per program, overall participation rates continued to increase in 2022. This highlights that a higher percentage of eligible sellers chose to offer their shares for sale in these secondary programs. Median participation rates for employees and ex-employees were 57% and 53%, respectively.

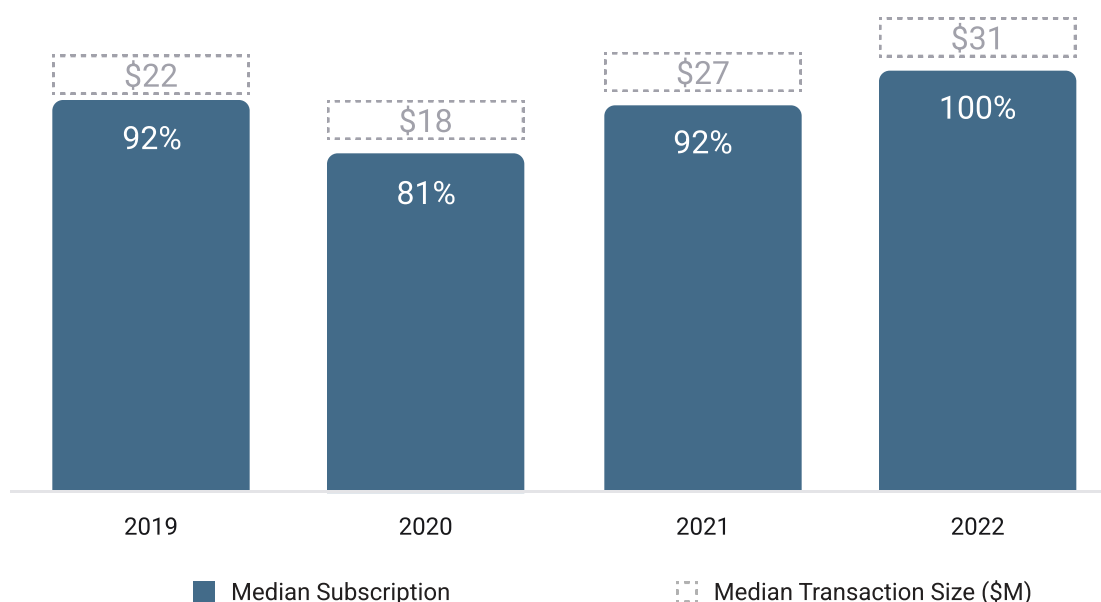


## Shareholder Participation Rates (cont'd.)

Subscription rates represent the proportion of shares that investors were able to purchase relative to their purchase intention. Subscription rates reached their maximum of 100% in 2022, a level we have never seen in secondary programs. This is a clear indication that the need for shareholder liquidity remained high despite market and valuation turbulence.

Similarly, the median transaction size of programs facilitated by NPM increased 15% to reach a high of \$31 million.

### Median Subscription Rate and Transaction Size

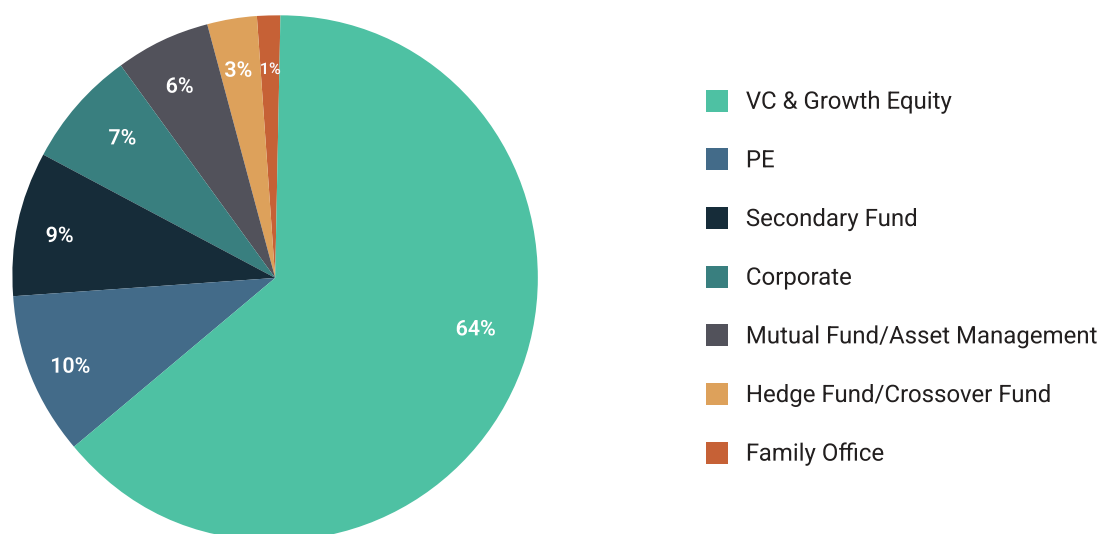


Source: Nasdaq Private Market

# Secondary Investor Types

Many types of investors continue to use secondary investments in private companies as a portfolio diversification tool. NPM works with a broad investor base including venture capital funds, private equity funds, mutual funds, hedge funds, RIAs, family offices, and others. In 2022, there was a notable increase in the percentage of venture capital and growth equity buyers across programs facilitated by NPM. Similarly, given the public market volatility, there was a sharp decline in the percentage of hedge fund buyers, particularly in the second half of the year.

**Investors Purchasing in Private Company Transactions Through NPM**

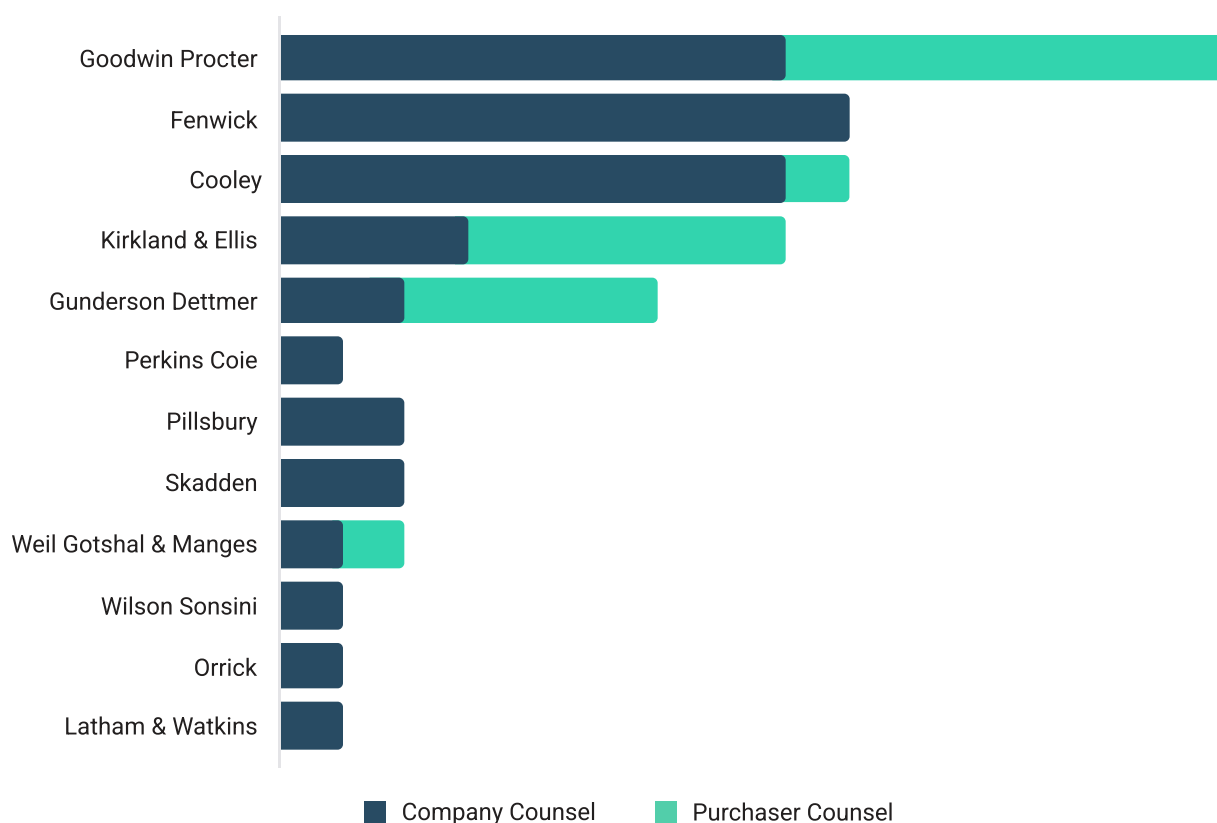


Source: Nasdaq Private Market

# Law Firms Leading Secondaries

NPM has a long history with many of the most influential law firms that advise private companies and investors on secondary transactions, and we are incredibly grateful for their ongoing support.

## Law Firms Leading Private Company Transactions with NPM



Source: Nasdaq Private Market

Other law firms that partnered with NPM in 2022 include:

- DLA Piper
- Finn Dixon & Herling
- Freshfields Bruckhaus Deringer
- Goldfarb & Seligman
- Herzog Fox & Neeman
- Hogan Lovells
- King & Spalding
- LaBarge Weinstein
- O'Melveny & Myers
- Polsinelli
- PSL Law Group
- Saul Ewing Arnstein & Lehr
- Sheppard Mullin
- Stinson Morrison Hecker
- Troutman Sanders
- Willkie Farr & Gallagher

# NPM: Your Private Market Partner

NPM is a market-leading provider of solutions for private companies, investors, and employees. Given the public market sentiment and volatility today, many IPO plans are still on hold, exacerbating the need for companies to offer partial shareholder liquidity. In addition to running tenders, auctions, and company buybacks, many private companies are partnering with NPM to offer individual shareholder solutions as well as to leverage our transfer and settlement and data offerings.

**Trading Windows.** Pre-IPO companies can leverage NPM's alternative trading system (ATS) to structure customized trading windows for their shareholders. Private companies use these programs to offer controlled liquidity to shareholder groups and investors that they select. Companies also control the percentage of vested holdings shareholders can sell and customize information sharing as well as communications in a confidential data room. Some companies use trading windows to streamline their existing investor base. Other companies take advantage of NPM's access to capital and new investors available through our global bank partner network. In either case, trading windows can provide rich trading data and price discovery that supports a future IPO or other liquidity event.

**Individual Share Sales.** In addition to broad company-sponsored secondaries, NPM has an active block marketplace and trading technology for individual share sales. Banks, broker-dealers, investors, employees, and other shareholders buy and sell equity holdings via one trusted platform. NPM supports these entities and individuals directly and can also structure ongoing employee resources in conjunction with a broad liquidity program.

**Transfer and Settlement Solutions.** Similarly, NPM's Transfer and Settlement Solutions enable private companies to streamline their secondary share transfers in a more efficient process. Our platform and workflow tool manages transfer activity from match to settlement, eliminating friction and creating new controls for equity administration teams, regardless of which venue or broker matches the trade. The platform comes at no direct cost to corporate clients and generates rich data to inform future trading decisions.

**Private Market Data.** Actionable data is critical for private market participants. Access to reliable private market data remains one of the pain points in the secondary market. NPM's mission is to build market infrastructure and to unlock hard to source data to increase transparency, standardization, and access to the private markets. We continue to invest in new data products to power our marketplace and deliver critical insights to decision-makers.

Please contact us [here](#) to discuss how NPM can support your goals in the private secondary market.





**Nasdaq Private Market**

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