

# Emerging Companies & Growth Quarterly Report

Q4 2025

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## 2026 Global VC Market Outlook

Venture markets reflect AI-led capital concentration and uneven but improving liquidity

### The Year of the Mega IPO

*The IPO market is bracing for a historic reopening led by potential listings from leading AI and space tech companies, creating an AI-led mega wave that could eclipse 2025's total exit value.*

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### Geopolitics Fuels a Defense Tech Boom

*Geopolitical tensions have transformed defense tech into a primary capital destination, evidenced by the mobilization of mega-funds and favorable government-aligned exit pathways.*

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### Regulatory Clarity Unlocks Fintech Liquidity

*Policy tailwinds, such as the GENIUS Act, have finally cracked open the IPO window for crypto and fintech companies.*

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### Sovereign AI Drives a Hardware Supercycle

*Demand for semiconductors has expanded beyond corporate hyperscalers to nation-states, creating a procurement super cycle that benefits hardware and infrastructure startups.*

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### Cybersecurity Becomes AI Governance

*Cybersecurity investment is pivoting toward managing machine identity and preventing AI-driven threats, a top priority for 31% of fund managers.*

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### Physical AI and Robotics Gain Valuation Intensity

*Capital is flowing into embodied AI (humanoids and robotics), driven by breakthroughs in video/vision AI that serve as the eyes.*

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### The Rise of Health AI

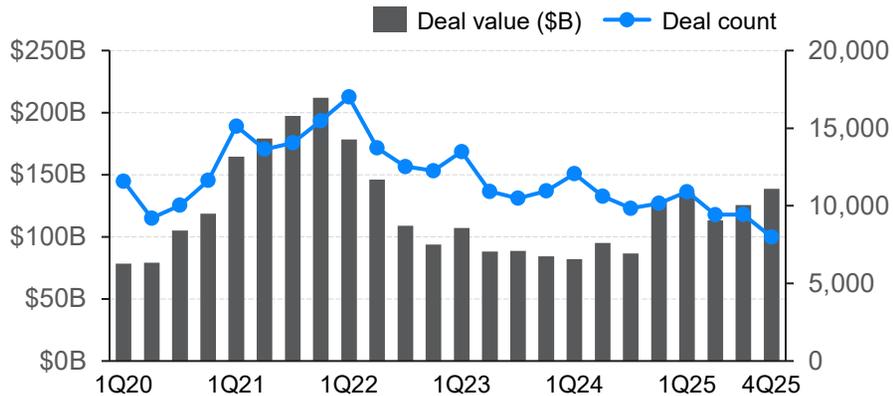
*Market dynamics in healthcare have made AI a strategic priority. The \$4.9 trillion industry has deployed AI at more than twice the rate of the broader US economy, with startups capturing 85% of all AI spend.*

# VC deal activity

Strong deal momentum, driven by North America and unicorn activity

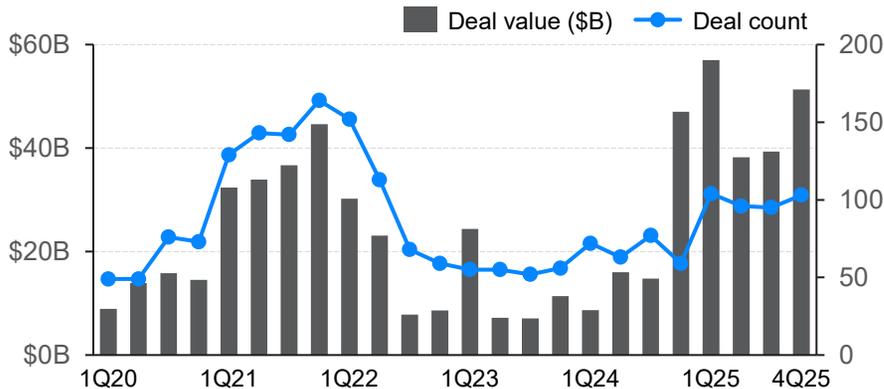
## 2025 saw highest global deal value since 2022

Global VC deal activity



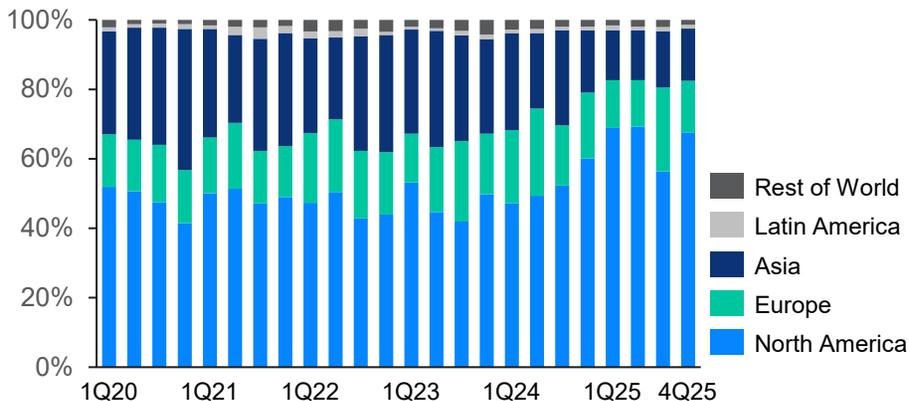
## 2025 saw record high US unicorn deal value

US unicorn VC deal activity



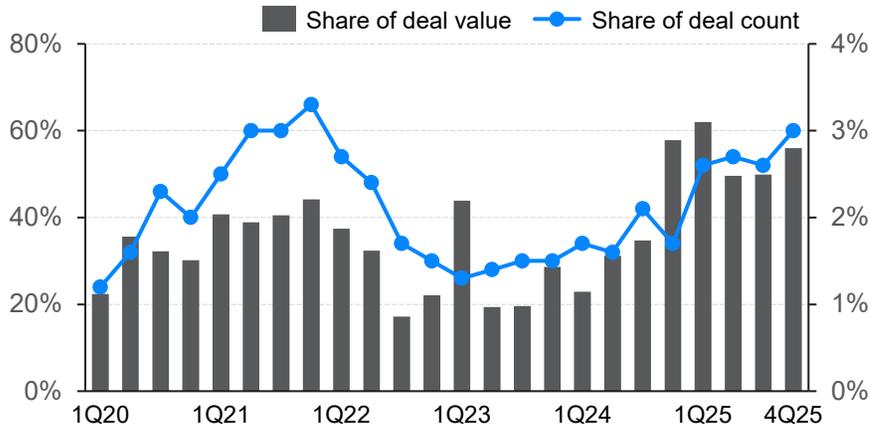
## North America deal value continued to grow

Share of global VC deal value across regions



## High capital concentration in US unicorns

US unicorn VC deal activity



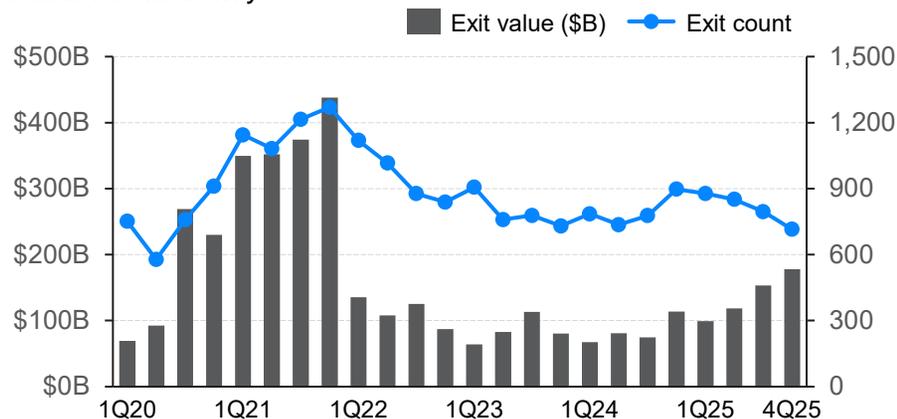
Sources: PitchBook, Latham & Watkins Tactical Opportunities Analysis  
 Note: As of 12/31/2025

# VC exit activity and alternative paths to liquidity

Exit activity climbed alongside growing nontraditional investor participation & venture debt issuance

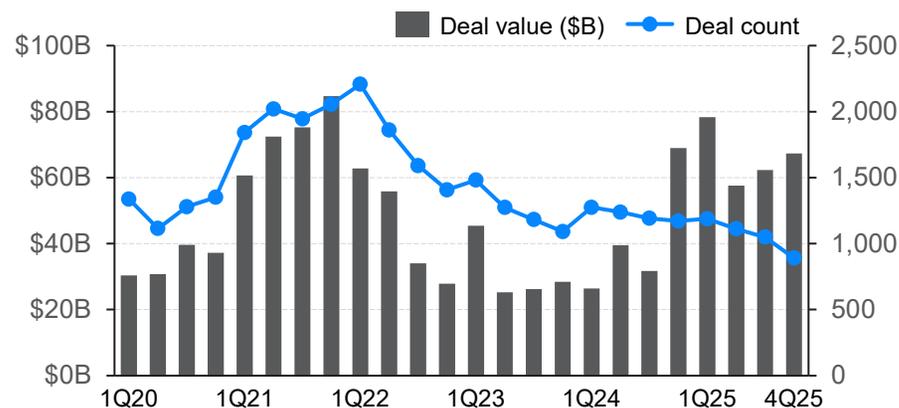
## 2025 saw highest global exit value since 2021 despite H1 volatility

Global VC exit activity



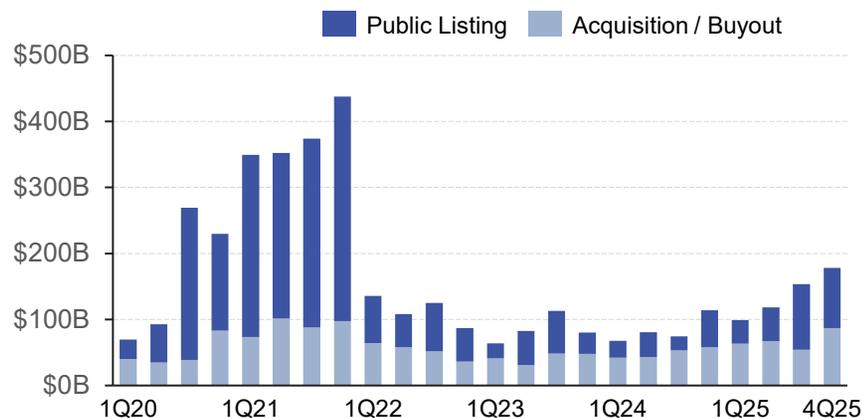
## Nontraditional investor\* activity in US continued to grow

US VC deal activity with nontraditional investor\* participation



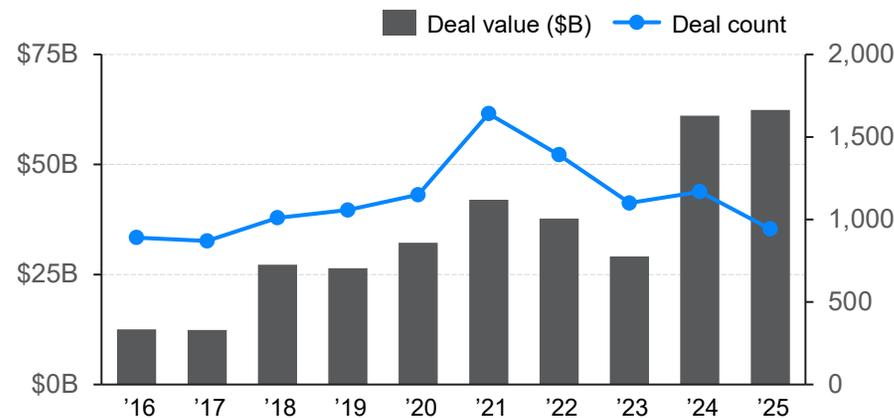
## 2025 recorded best year for global IPOs since 2021

Global VC exit value (\$B) by type



## 2025 saw record high activity in US venture debt

US venture debt deal activity



Sources: PitchBook, Latham & Watkins Tactical Opportunities Analysis

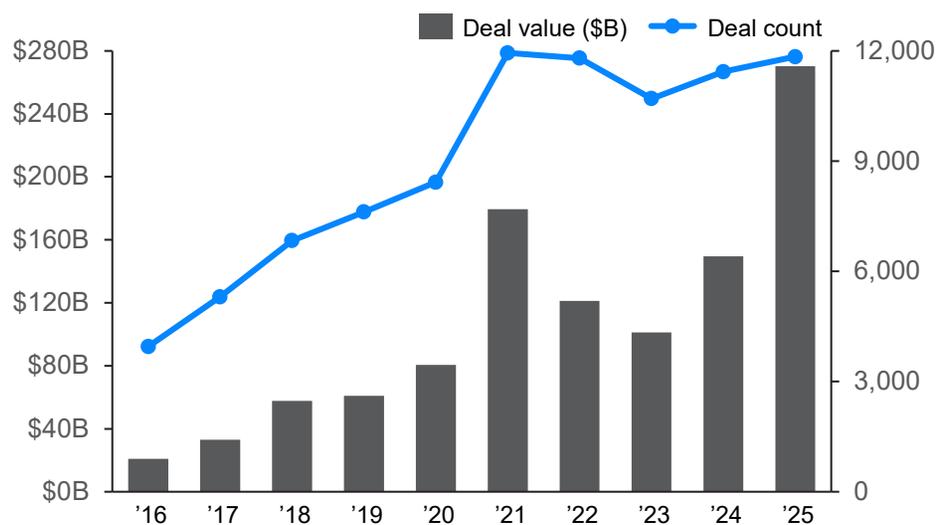
Note: \*NTI includes CVC investors, PE investors, asset managers, hedge funds, mutual funds, SWFs; As of 12/31/2025.

## AI VC deal activity

AI is primary driver of VC growth and capital concentration

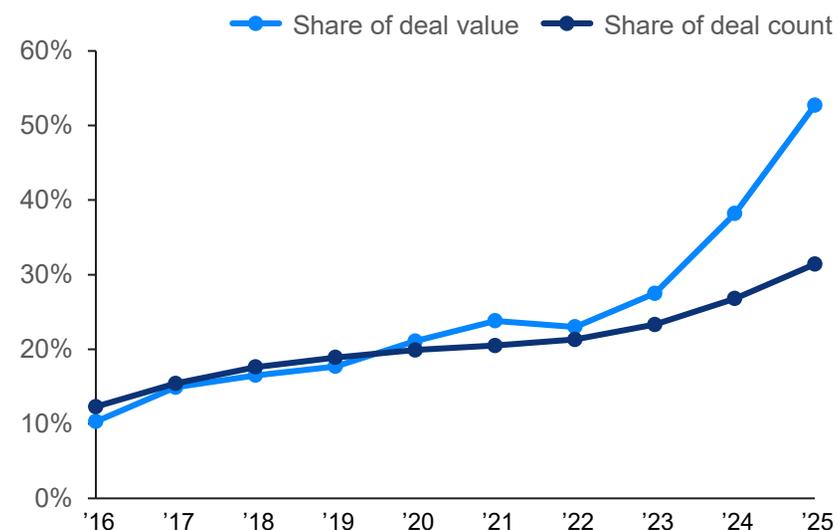
### 2025 shatters records for global AI VC activity

Global AI VC deal activity



### AI's share of deal value outpaces share of deal count

Share of global AI VC deal activity



### Key Takeaways

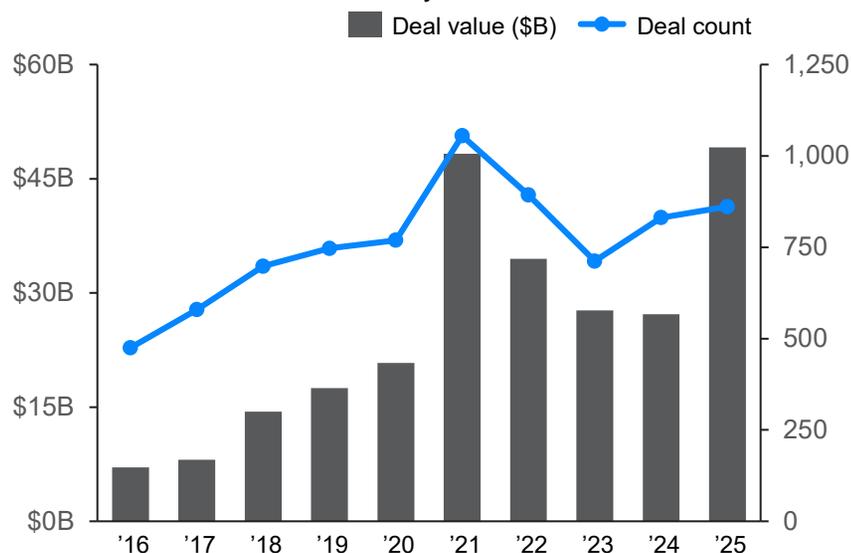
- AI startups captured over 50% of global VC deal value in 2025 as capital chases tangible use cases like **AI agents and voice interfaces**.
- Investment in physical infrastructure hit record levels in 2025, providing massive **downstream revenue opportunities for hardware startups**.
- The application phase of AI has shifted from text to vision, with **video AI projected to emerge in 2026** as critical infrastructure for robotics and field operations, enabling machines to perceive and navigate complex environments.

## Defense tech VC deal activity

Capital realignment underway in defense tech, reflecting strategic, and societal importance

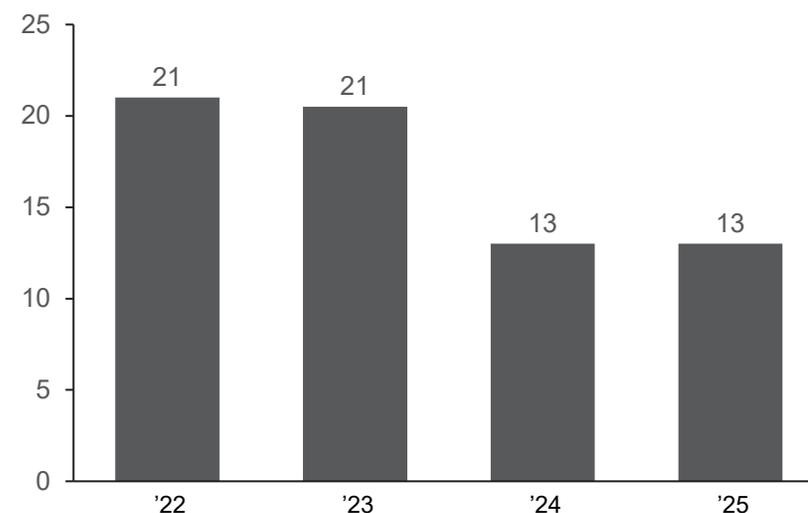
### Record year for global defense tech VC activity

Global defense tech VC deal activity



### Median time between rounds have compressed

Defense tech manufacturing time between rounds (in months)



### Key Takeaways

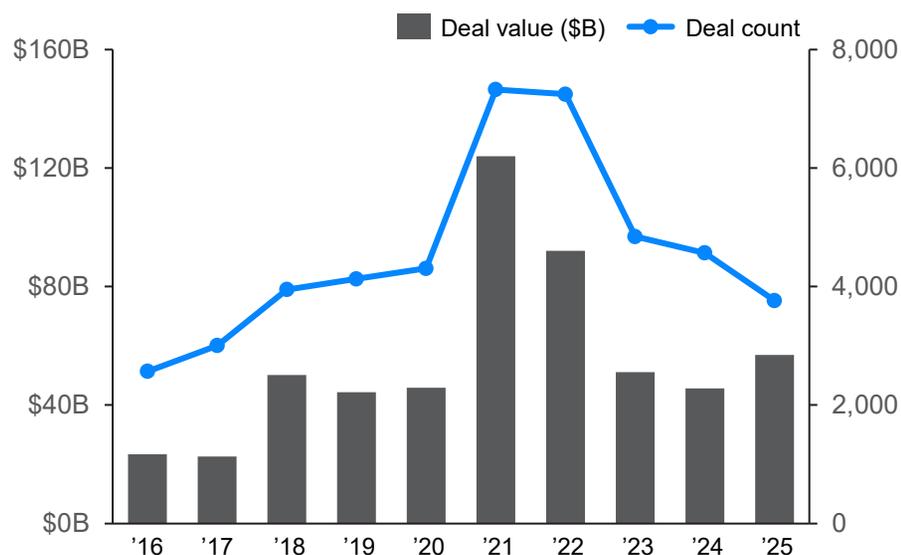
- Defense tech has graduated to a **primary capital destination**, exemplified by a major VC firm returning to market to **raise a \$10 billion fund** specifically focused on AI and defense technology.
- The sector has benefited from a regulatory tailwind that favors **IPOs in national interest sectors**. Several companies completed oversubscribed IPOs following increased government investment.
- Ongoing **geopolitical tensions have sustained investor interest**, making defense one of the few sectors where capital availability is growing rather than contracting, supported by direct government spending alignment.

## Fintech VC deal activity

Fintech resilience fueled by on-chain revival and steady AI adoption

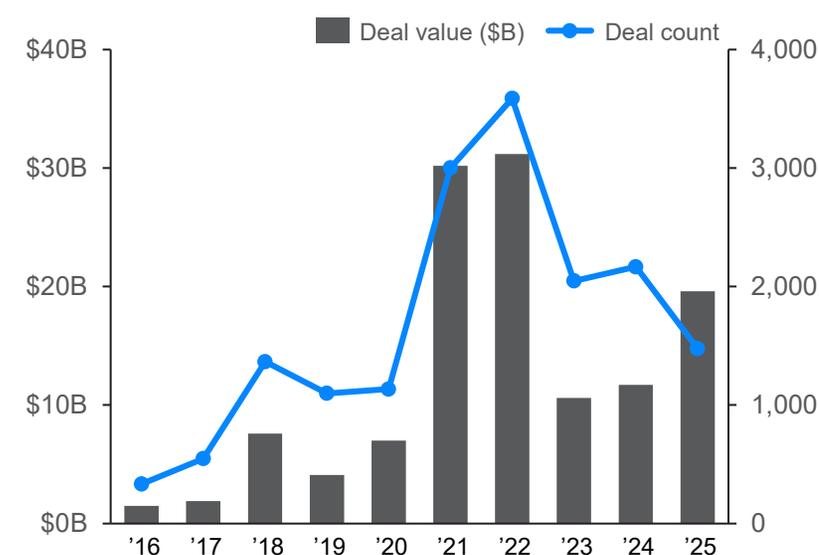
### Global fintech VC deal activity has begun to return

Global fintech VC deal activity



### Surge in global crypto / blockchain VC deal activity

Global crypto/blockchain VC deal activity



### Key Takeaways

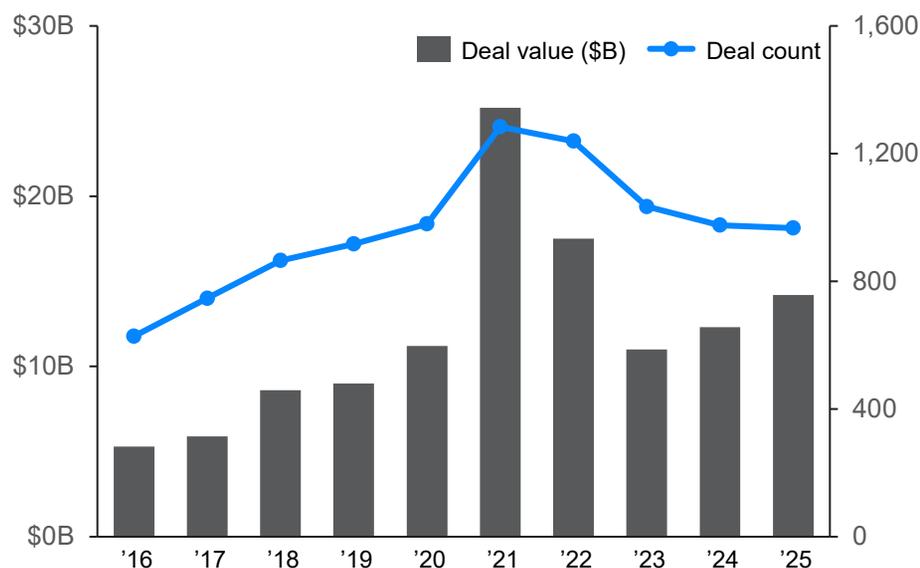
- The **IPO window has cracked open** specifically for crypto and fintech due to favorable policy shifts. A major stablecoin issuer's IPO coincided with the passage of the GENIUS Act, signaling a regulatory green light.
- Investors see a massive **untapped opportunity in vertical AI for finance**, specifically for tools that automate complex workflows in Excel and accounting, predicting a breakout winner in 2026.
- Despite broader market headwinds, **fintech remained a top priority**, with 45% of fund managers planning to prioritize fintech investments in 2026, **ranking it second only to AI**.

## Cybersecurity VC deal activity

Cybersecurity surged as capital targets defensive AI platforms

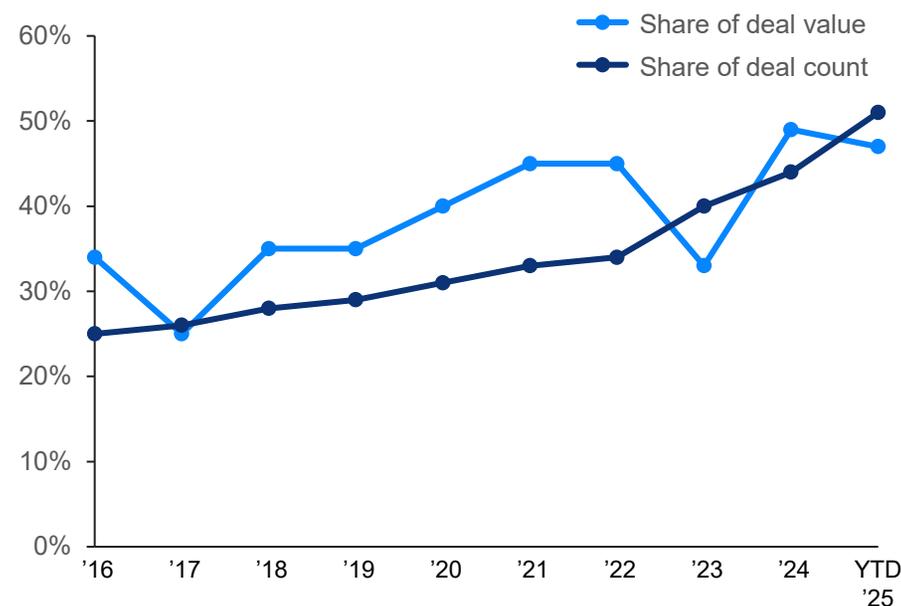
### Global cybersecurity deal activity continues to grow

Global cybersecurity VC deal activity<sup>1</sup>



### Half of all cybersecurity VC deals now involve AI companies

Share of global AI cybersecurity VC deal activity<sup>2</sup>



### Key Takeaways

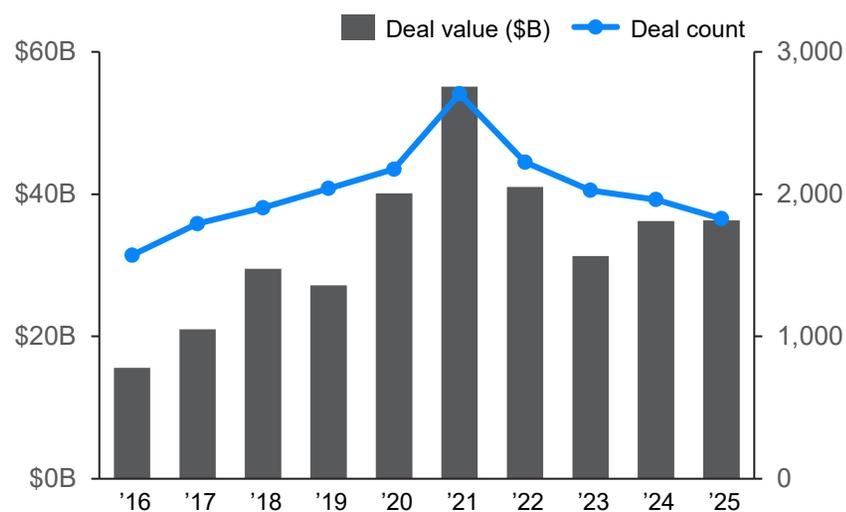
- Security spending has become **non-negotiable infrastructure**, with 31% of venture capital fund managers explicitly planning to prioritize cybersecurity investments in 2026, independent of broader market cycles.
- Cybersecurity has been fundamentally **reshaped by dual-use AI technology**, driving a "defensive" investment surge into startups that **use AI to automate threat detection and response** at a speed human analysts cannot match

## Life sciences VC deal activity

AI continued to proliferate across life sciences

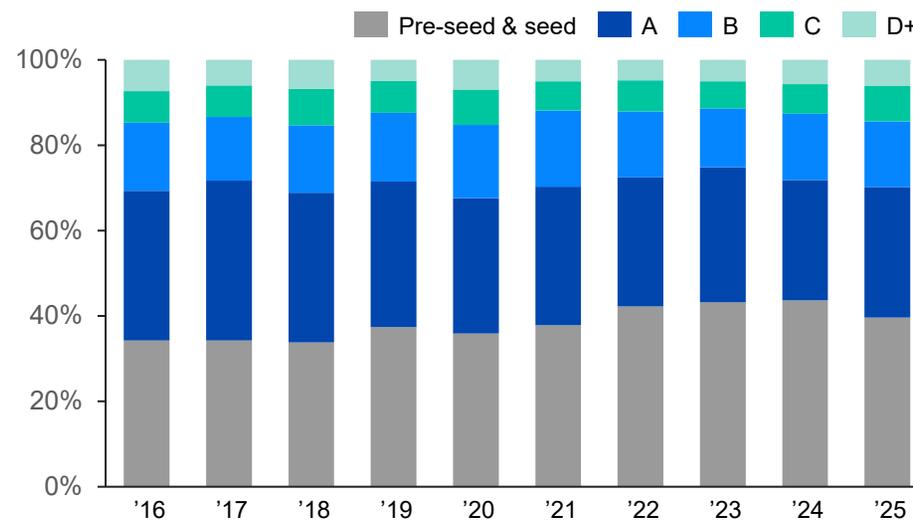
### US life sciences VC deal value flat in 2025

US life sciences VC deal activity



### Activity increased for later-series VC deals

Share of US life sciences VC deal count by series



### Key Takeaways

- The **application of foundation models in AI drug development** has spurred a **new class of AI-native biotechs**, which are among the most well-funded companies in biopharma.
- **AI pharma tools and services startups saw a surge** in dealmaking, especially AI drug discovery platforms, as their asset-light, scalable business models and faster paths to profitability appeal to investors.
- **AI adoption expanded rapidly in healthtech**, reshaping both clinical and administrative workflows.