CRAVATH

FEBRUARY 2026

Cravath Venture Capital & Growth Equity Insights

H2 2025 AND FY 2026 OUTLOOK

Contents

Market Update

KEY TAKEAWAYS

- Venture capital investment activity increased in 2025, led by AI-driven dealmaking and increased late-stage financing, even as fundraising levels remained below prior-cycle highs.
- Capital deployment continued to concentrate in a small number of large transactions, with later-stage and venture-growth rounds accounting for a disproportionate share of total deal value.
- Exit activity showed modest improvement, though IPOs largely occurred in narrow windows amid macroeconomic volatility and regulatory uncertainty.
- Secondary transactions and tender offers gained further traction as alternative liquidity pathways for investors and employees in the subdued IPO environment.

VENTURE CAPITAL ACTIVITY

Venture capital investment activity experienced a rebound in 2025 despite subdued fundraising levels, with estimated deal counts increasing at each stage and deal value just 8% short of the peak level recorded in 2021. AI was the primary driver of deal activity and is expected to continue to dominate the VC market as new use cases are developed. Venture exit activity increased in 2025 with a number of unicorn IPOs. Market activity was somewhat restrained by geopolitical tensions and the extended U.S. government shutdown in the fall of 2025.

Investment and Valuation Trends

In the United States, VC investment in 2025 totaled over $339 billion, a 59% increase from 2024.[1] Globally, VC investment in 2025 rose 47% YoY to $469 billion,[2] with Q4 reaching the highest level of investment in the past 14 quarters.[3] The U.S. VC market played a dominant role, with U.S. startups raising more than 70% of global venture funding. These trends indicate the overall VC market's steady recovery after a prolonged market downturn in 2022-2024 and the particularly strong performance of the U.S. market.

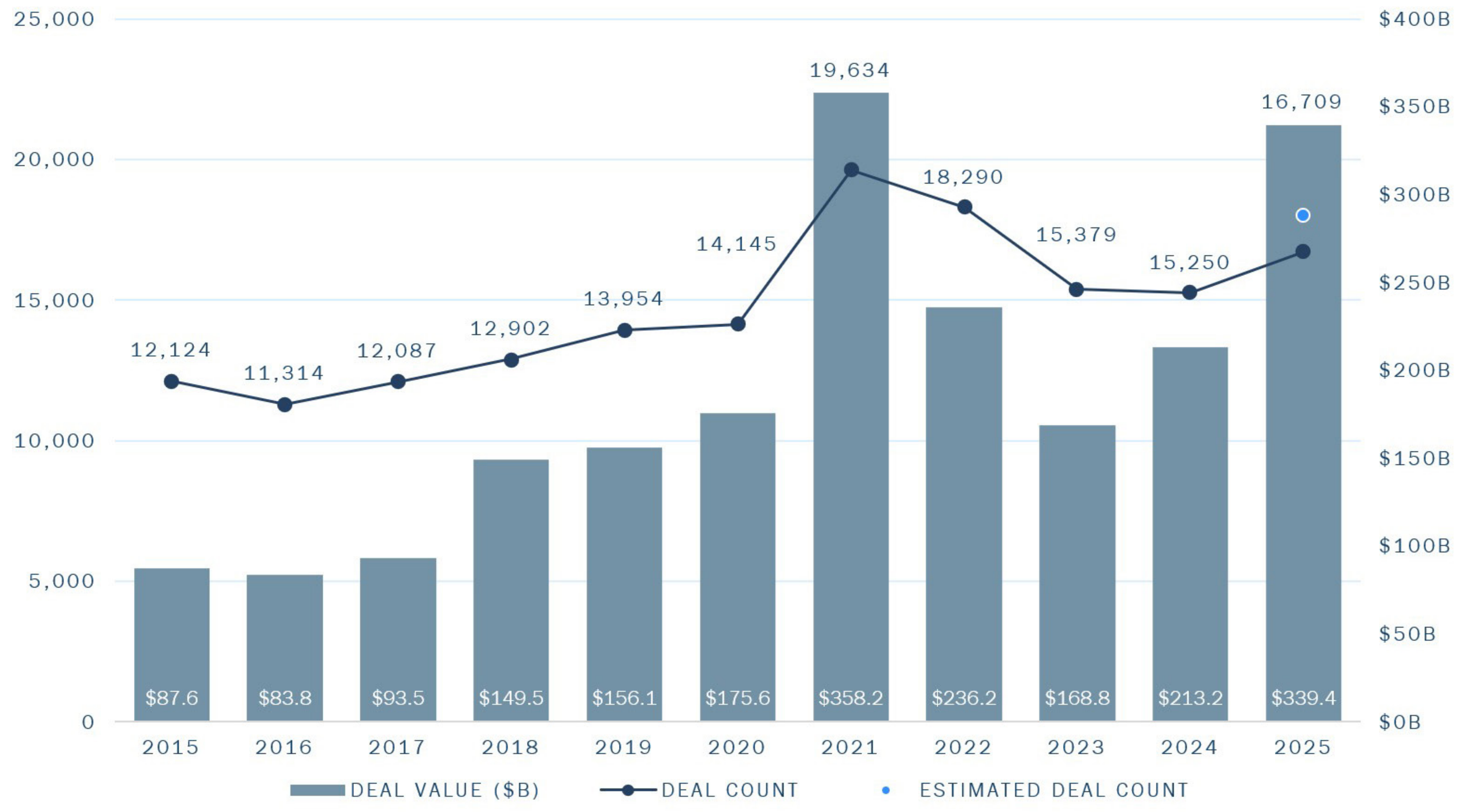
Significant later-stage activity drove dealmaking in 2025. In the United States, deal value in late-stage and venture-growth deals rose 45% and 131% YoY, respectively, and deal counts increased at each stage.[4] A small number of outsized transactions accounted for a large share of the capital invested, with 50% of the 2025 deal value invested in just 0.05% of the completed deals.[5] The eight largest U.S. VC deals in 2025 were all in the AI space,[6] accounting for nearly 10% of total VC investment.[7] Globally, the VC market exhibited a similar trend as 65% of global VC funding in 2025 was driven by later-stage rounds that raised $100 million or more.[8]

Compared to late-stage deals, first-time financing activity experienced a slower recovery in 2025. Although first-time financing deal value hit a record high in 2025, it was driven largely by megadeals for AI startups, whereas deal count for first-time financings remained relatively flat for much of the year.[9]

Crossover investors (*i.e.*, asset managers, hedge funds, mutual funds and foreign wealth funds) were less active in 2025, having completed the lowest number of deals in the U.S. since 2020.[10] The value of deals with crossover participation also decreased from 42% in 2024 to 38% of total deal value in 2025.[11]

Deal value is second highest in a decade, after only 2021

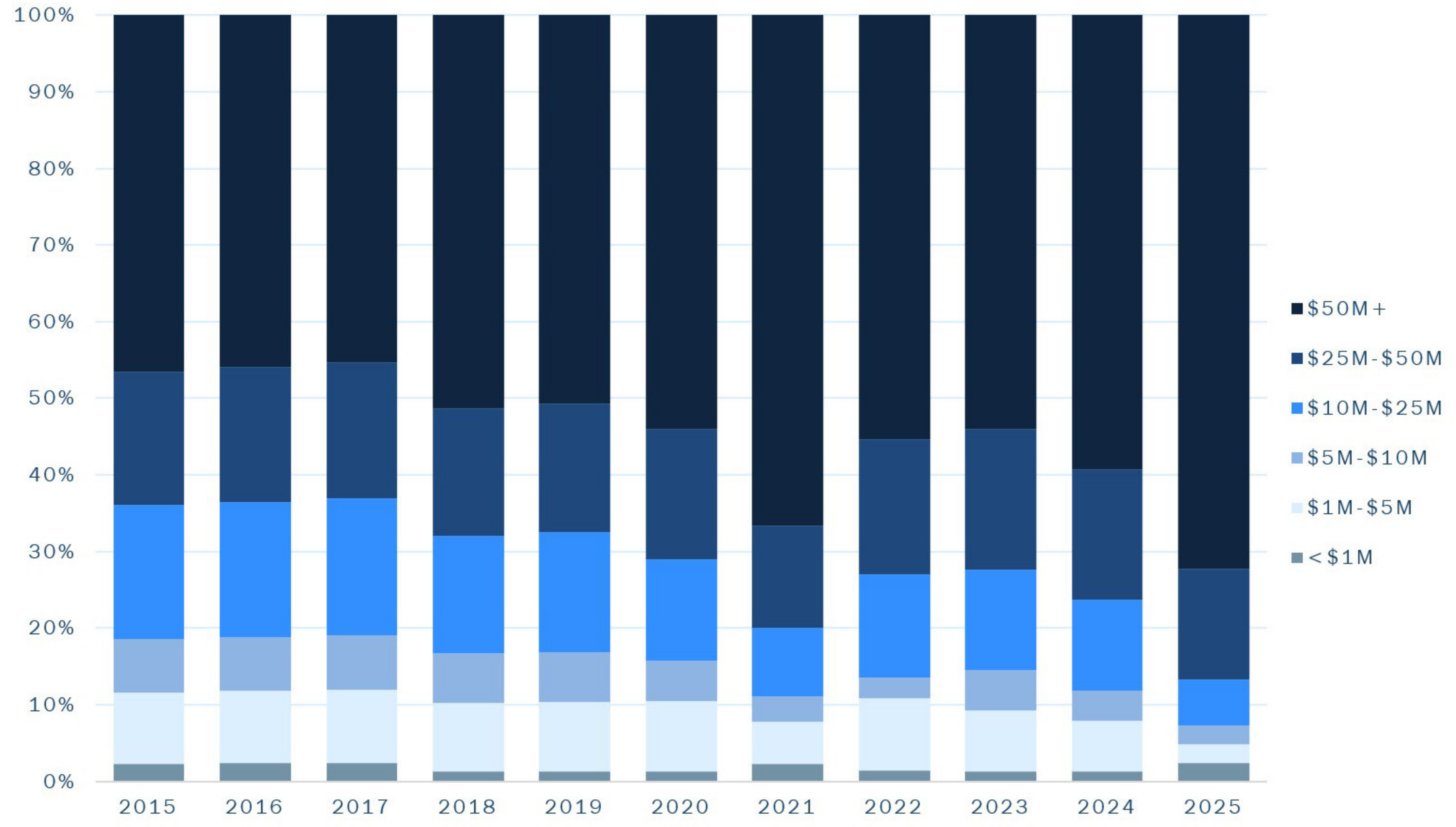
U.S. VC deal activity



Data Source: Pitchbook-NVCA Venture Monitor • As of December 31, 2025

Megadeals increasingly dominate total deal value

Share of U.S. VC deal value by size bucket



Data Source: Pitchbook-NVCA Venture Monitor • As of December 31, 2025

On the other hand, the value of deals with corporate VC ("CVC") involvement increased slightly from 60% in 2024 to 63% of total deal value in 2025.[12] In particular, the value of AI and machine learning ("ML") deals with CVC participation accounted for 68% of total AI and ML deal value.[13]

Pre-money valuations for U.S. VC deals continued to increase in 2025 across all investment stages. Series D and later investment rounds demonstrated the most substantial increase, with median pre-money valuations surging from $615.5 million in 2024 to $856.5 million in 2025, a 39% increase.[14] The ten highest-valued private companies reached over $2 trillion in combined valuations, with Anthropic (+1,802% in valuation YoY) and OpenAI (+218% in valuation YoY) recording dramatic increases in their valuations.[15]

The AI Boom

In 2025, AI continued to dominate the VC market, having transformed from just a single sector or business model to an essential part of a broad range of industries. In the United States, AI deal value increased by 16% YoY and accounted for 65% of the annual VC deal value.[16] Globally, AI captured an estimated 48% of total VC investment in 2025, nearly double the 2024 level.[17] Notable megadeals in the latter half of 2025 include OpenAI's $22.5 billion raise from SoftBank, Anthropic's $15 billion late-stage round and xAI's $7.5 billion late-stage round.[18]

At early stages, AI companies also vastly outperformed non-AI companies. There were a couple of notable outsized early-stage rounds in the past year, such as Thinking Machines Lab's $2 billion seed round and Safe Superintelligence's $2 billion round (both founded by former OpenAI leadership), which signaled VC investors' confidence in exceptional technical talent in the AI space.[19] More generally, as of late 2025, the median age of AI startups receiving their first investment is 65% lower than that of non-AI startups, and the median time that AI startups spend between funding rounds is three months shorter and continuing to decrease, while growing for non-AI startups.[20]

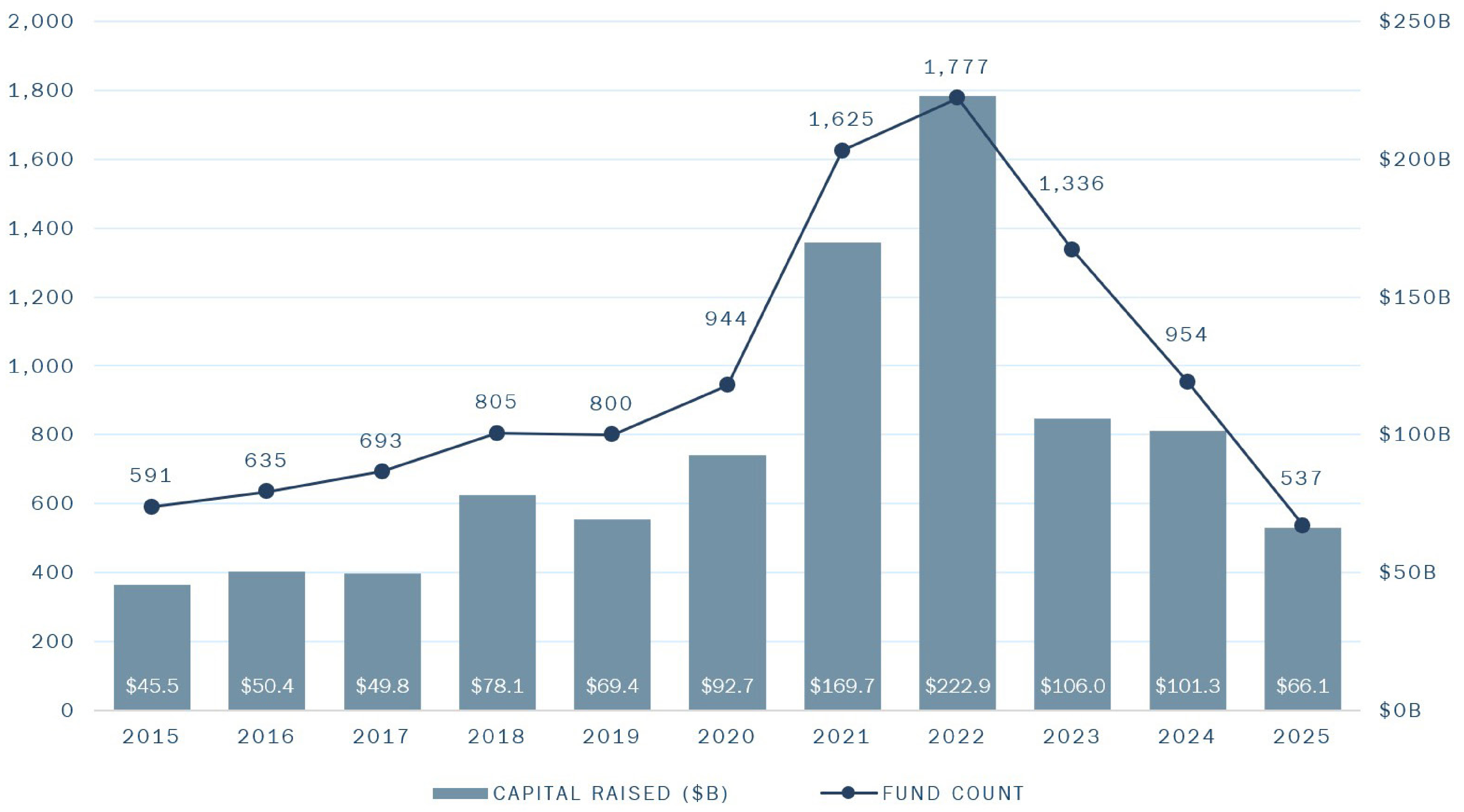
In 2026, AI is expected to continue driving momentum at all funding stages as new AI tools and applications are developed. However, as investors' expectations of product quality and returns increase and vertical segments across the AI space become saturated, there are concerns over a possible divide between the few successful companies that attract a disproportionately large share of capital, on one hand, and large numbers of the underperforming companies, on the other hand.

New York's VC Ecosystem

In 2025, New York City continued to demonstrate strong performance as a regional hub for VC activity. While the Bay Area continued to dominate the U.S. market with a significant lead, New York City accounted for 13% of deal value and 14% of deal count, surpassing all other U.S. metropolitan areas in both respects.[21] New York City's infrastructure, diverse industry representation and extensive investor network provide startups with excellent access to capital, in particular with respect to early-stage financings, which accounted for 65% of New York City-based VC deals in 2025.[22]

Fewest funds close in a decade

U.S. VC fundraising activity



Data Source: Pitchbook-NVCA Venture Monitor • As of December 31, 2025

FUNDRAISING ACTIVITY

Fundraising activity was subdued in 2025, as total commitments reached just $66.1 billion, compared to $101.3 billion in 2024 and $106 billion in 2023.[23] Limited partners ("LPs") continued to face extended liquidity constraints, while startups that have successfully received venture fundings are choosing to stay private longer to prevent exposure to public market scrutiny.[24] This has restricted the return of cash to investors, continuing a cycle of liquidity crunch. At year-end, the number of closed funds followed a multi-year downward trajectory, concluding at a decade-low.

Further, LPs have been cautious with respect to new commitments, while the lingering tariff-related instabilities since early 2025 have prompted non-U.S. LPs to reassess their U.S. exposure.

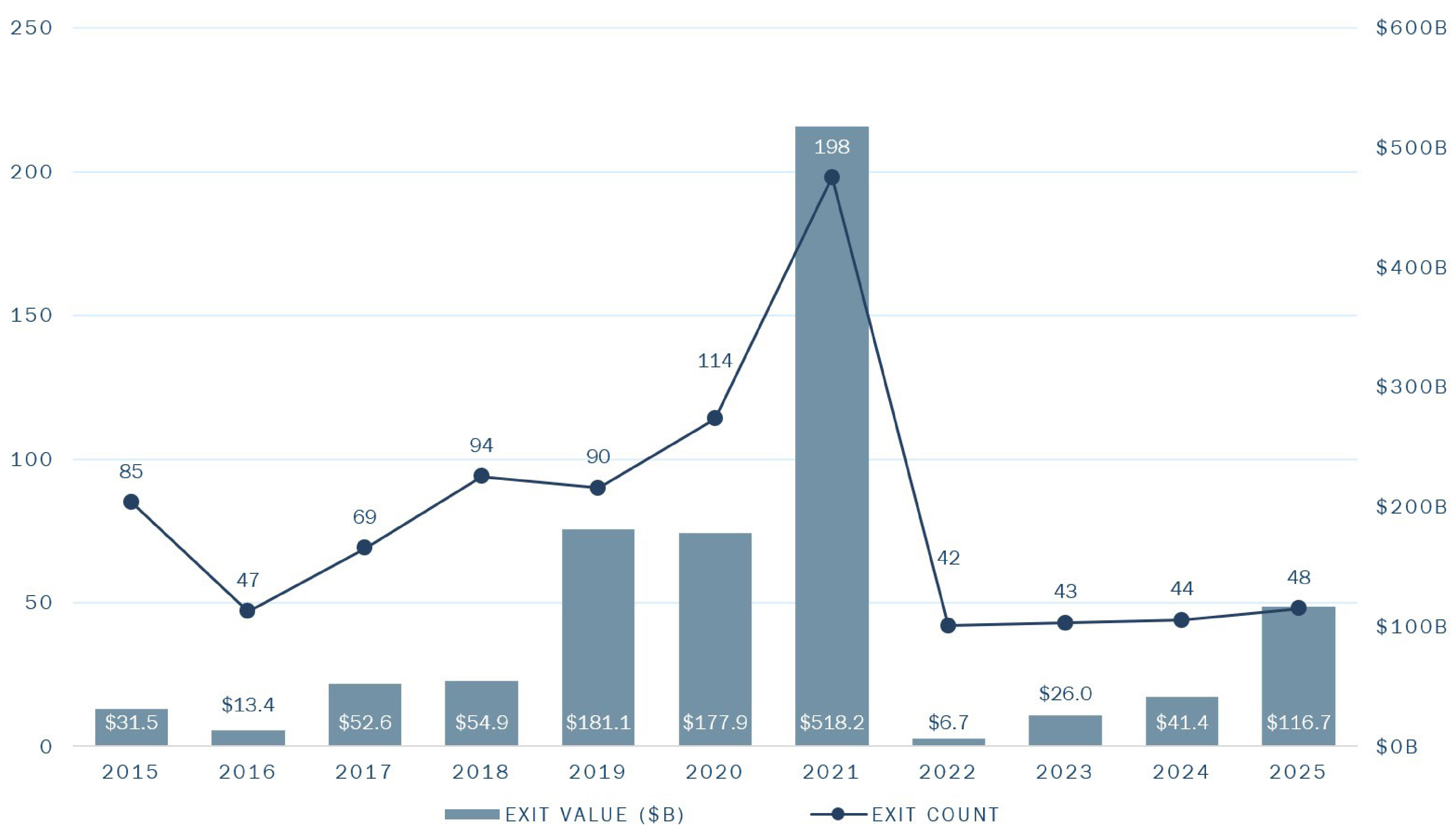
There has also been a structural shift toward market concentration. While the venture landscape was once defined by a broad array of diverse players, the past four years have seen a massive consolidation of capital into mega-funds. Funds sized at $500 million or more accounted for only 7% of the total fund closures over the past four years, while currently they represent 52% of the industry's available dry powder.[25] This capital is largely held by a small group of established managers.

However, the outlook for 2026 offers more reason for greater exit activity and fundraising optimism. U.S. VC funds have posted positive rolling one-year IRRs for three consecutive quarters. Market sentiment has been further reinforced by commentary at major global forums, where leadership from the New York Stock Exchange

(“NYSE”) has expressed confidence that IPO activity will accelerate through the first and second quarters of 2026 as more companies return to public markets. A broad pipeline of potential large-scale IPOs including technology, software and AI-focused unicorns such as OpenAI is widely expected to test public markets if conditions remain supportive. If this activity materializes, distributions from a new wave of IPOs are likely to improve LP cash flows in the coming months, signaling a more favorable liquidity and fundraising environment than in recent years.

2025 was a better year for IPOs, but counts remain low

U.S. VC exit activity via IPO



Data Source: Pitchbook-NVCA Venture Monitor • As of December 31, 2025

EXIT ACTIVITY

In 2025, the IPO market saw incremental improvement, with successful offerings largely coming from more resilient and strategically aligned companies. While the year generated nearly $298 billion in total exit value, much of the momentum was concentrated in "opportunistic" windows rather than a broad market reopening. These timing challenges were compounded by macroeconomic volatility and intermittent government shutdown-related disruptions, adding uncertainty to IPO execution. High-profile listings such as the stablecoin issuer Circle benefited from the regulatory clarity provided by the newly enacted GENIUS Act, while other major debuts were largely restricted to sectors favored by federal policy, such as space, national security and AI. Despite seventeen unicorn listings in 2025, the total IPO count in 2025 remained somewhat muted at 48, indicating that many companies are still struggling to time the market amidst macroeconomic volatility.

The U.S. VC secondary market experienced significant growth and transformation in 2025. As investors sought alternative exit pathways in a subdued IPO environment, secondary sales rose as a desirable option for realizing value alongside public listings and acquisitions. From July 2024 through June 2025, VC secondary transaction value totaled approximately $61.1 billion, exceeding the combined $58.8 billion in exit value generated by VC-backed IPOs over the same period.[26] This momentum continued into the Fall, with the secondary market estimated to reach $94.9 billion in annual transaction value as of Q3, with direct secondaries accounting for approximately $80.3 billion (up 31% from the prior quarter).[27] This mirrored global trends, as total secondary market volume reached $226 billion at the end of 2025, representing a 41% increase from 2024.[28]

Tender offers also played a role in providing investor and employee liquidity. Particularly for later-stage startups, these transactions allow employees and early investors to monetize shares even when public markets are inaccessible. In 2025, tender activity continued its upward trajectory, with Series C and later companies driving the majority of deals. The median tender size at these stages was $27.6 million, roughly 5.5x those at earlier stages.[29] Participation rates and subscription rates have also climbed, signaling growing seller interest as private companies seek to manage shareholder expectations, keep employees incentivized and provide liquidity as an alternative to public exits.

Special Insights

KEY TAKEAWAYS

- AI investment continues to expand amid an increasingly layered regulatory landscape, as developers and hyperscalers balance federal priorities, state-level oversight and international frameworks while addressing compliance considerations tied to data use, model development and infrastructure location.
- The crypto sector demonstrated continued resilience in 2025, supported by improving regulatory clarity, deeper institutional adoption and ongoing development of market infrastructure; this fueled IPO, M&A and tokenization activity despite periods of market volatility.
- Corporate domicile has increasingly become a hot topic, with Texas and Nevada, in particular, competing with Delaware for the attention of both startups and large established companies.
- Companies preparing for IPOs in 2026 face a more complex execution environment, as SEC staffing constraints and intermittent government funding uncertainty may pressure review timelines and deal execution, underscoring the need for careful planning, flexibility and regulatory readiness.

INDUSTRY SPOTLIGHT: ARTIFICIAL INTELLIGENCE

The second half of 2025 has solidified a shift in the VC and private equity landscape, as the industry moved from the software-centric mega-rounds toward a capital-intensive push for physical infrastructure. While the first half of the year was defined by record-breaking deals like OpenAI's $40 billion funding and Thinking Machines Lab's unprecedented $2 billion seed round, the latter half of 2025 focused on the financial and physical requirements of building the global AI hardware stack.

Data center–related deal activity and investment reached record highs in 2025, surpassing the total deal value recorded in 2024 and underscoring the sector's growing strategic importance.[30] More than 100 data center-related transactions were completed during the year, spanning across mergers and acquisitions, asset sales and equity investments.[31] The aggregate value of these transactions exceeded $61 billion, marking a new high for the industry and reflecting increased investor confidence in digital infrastructure.[32] This surge in activity has been driven in large part by continued hyperscaler expansion, as major technology companies accelerate the development of large, scalable data center campuses to support cloud computing, storage and networking at unprecedented scale.

The accelerating buildout of data centers is reshaping financing strategies, as hyperscalers, frontier AI labs and chip manufacturers increasingly partner with private capital to generate the sheer scale of investment required. Alongside traditional equity financings, market participants are increasingly deploying debt and project-like financing structures, including project-based financing and strategic compute-for-equity arrangements. These structures enable sponsors to fund highly capital-intensive data infrastructure while preserving equity upside and allocating construction, power-supply and utilization risks in a manner more typical of large-scale energy or transportation projects.

This shift is reflected in a growing number of high-profile transactions. For example, Meta teamed up with asset manager Blue Owl Capital to co-develop their 2.4-GW Hyperion campus in Louisiana.[33] This trend is further exemplified by NVIDIA's $100 billion phased investment in OpenAI, a compute-for-equity arrangement where OpenAI uses the capital to build data center capacity and purchase NVIDIA's next-generation GPUs. In 2025, five hyperscalers, Amazon, Google, Meta, Microsoft and Oracle, issued a combined $121 billion in debt, with Meta issuing $27 billion alone to fund their new data center in Louisiana.[34] This is four times the average level of debt issued by these companies annually over the previous five years. In addition, certain companies with existing infrastructure are raising capital to support data center builds or expansions. For example, Galaxy Digital has raised equity and debt capital to fund the buildout of its AI and high-performance computing infrastructure at its Helios data center campus, which was previously utilized for digital asset mining operations.

The shift underscores a broader reality: meeting surging AI demand is no longer just a technology challenge but a capital and coordination challenge, pushing the entire ecosystem – hyperscalers, developers and infrastructure investors – to tap deep pools of private capital to compress timelines and scale capacity faster than ever.

Heading into 2026, the AI regulatory regime reflects two different but coexisting approaches on the federal and state level. At the federal level, the Trump Administration is emphasizing policies that support rapid AI development and national competitiveness. At the same time, states like California and New York are advancing transparency and reporting requirements, with a focus on oversight and risk management. Together, these trends are shaping a layered regulatory environment in which AI developers must account for both federal priorities and state-level compliance expectations.

The Trump Administration's 2025-2026 AI strategy is built on the premise that AI dominance is a vital pillar of national security. To ensure the United States remains the global leader, the administration is focused on limiting domestic regulation that would slow development while simultaneously tightening the perimeter around American intellectual property. This approach has led to increased scrutiny of foreign investments through the Committee on Foreign Investment in the United States ("CFIUS"), particularly targeting acquisitions and joint ventures with Chinese and other foreign AI firms, and the implementation of aggressive export controls under the Export Administration Regulations ("EAR"). These sanctions are specifically designed to restrict adversarial access to high-end GPUs, AI accelerators, sensitive training data and proprietary algorithms that underpin frontier models, while also requiring companies to conduct enhanced due diligence and file mandatory disclosures for cross-border AI collaborations.

States governments on the other hand are looking inward at consumer safety and corporate accountability. California's SB 53 officially came into effect on January 1, 2026, imposing strict transparency and regulatory reporting obligations on AI developers operating within the state. Not far behind, New York signed the Responsible AI Safety and Education ("RAISE") Act into law in December 2025, which is set to go into effect on January 1, 2027. Alex Borse, the bill's sponsor said that the state rejects President Trump's executive order, signed just a week before the RAISE Act was signed, that aims to block states from regulating AI, further complicating the compliance roadmap for companies with a national footprint.[35]

Beyond transparency, a new layer of friction is emerging at the municipal level regarding physical infrastructure. For example, St. Charles, Missouri passed a moratorium banning the construction of any data center in its town for a year. Other towns such as Lordstown, Ohio proposed a permanent ban on the development of data centers within their jurisdiction.[36] More environmental guardrails are being enacted at local levels as well, specifically targeting the sites and conditions of data centers. Local governments are tightening oversight by elevating permitting requirements, increasingly demanding detailed water-use forecasts, comprehensive long-term water management plans and binding environmental mitigation measures – such as on-site water recycling or waste-heat reuse – to secure project approval.

To counter this patchwork of state-level oversight, the White House has moved to centralize authority through a series of sweeping executive orders. The administration's AI Action Plan and the Genesis Mission seek to streamline federal resources and accelerate deployment. Perhaps most significant is the National Policy Framework for AI published in December 2025. This framework is specifically designed to assert federal preemption over state laws, setting the stage for a major legal showdown as the administration attempts to invalidate state-level reporting requirements that it argues interfere with national policy and economic competitiveness.

While U.S. federal and state initiatives continue to shape domestic AI development, companies operating globally must also navigate an increasingly complex international regulatory landscape. Most notably, the European Union's Artificial Intelligence Act (the "EU AI Act"), which entered into force in 2024 and phases in through 2026, establishes a comprehensive, risk-based framework governing the development, deployment and use of AI systems. In addition to model governance and transparency obligations, the EU AI Act and related EU data protection regimes heighten scrutiny around cross-border data transfers, localization of sensitive datasets and the geographic location of model training and inference infrastructure. As a result, AI developers with multinational operations must increasingly factor data residency, transfer mechanisms and infrastructure siting into both product design and compliance planning.

INDUSTRY SPOTLIGHT: CRYPTO

The crypto industry remained resilient in the latter half of 2025 despite the decline of digital asset value in Q4, supported by a favorable regulatory environment, deepening institutional engagement and continued development of crypto-related market infrastructure. Congress, the SEC and other U.S.

regulators made meaningful progress toward clarifying the regulatory treatment of digital assets (and related activities), as well as improving interagency coordination, even as comprehensive statutory frameworks remain a work in progress. In addition, traditional financial institutions deepened their crypto exposure through ETFs, tokenized real-world assets ("RWAs") and stablecoins. Crypto IPO and M&A activity reached record levels, and private capital remained active, particularly in later-stage companies.[37]

In the second half of 2025, successful crypto IPOs centered around crypto exchanges, stablecoin issuers and infrastructure providers. The momentum for crypto IPO activity is expected to carry into 2026, with BitGo,[38] Kraken[39] and Grayscale[40] having recently completed, launched or filed for their IPOs. Notable M&A activity in 2025 included Coinbase's $2.9 billion acquisition of crypto exchange Deribit, Kraken's $1.5 billion acquisition of retail futures platform NinjaTrader and Ripple's $1.25 billion purchase of prime broker Hidden Road.

In conjunction with the establishment of the Crypto Task Force in January 2025 and the announcement of "Project Crypto" in July 2025, throughout the year and up to January 2026, the SEC issued nine Staff guidance statements,[41] four no-action letters[42] and two FAQ releases[43] on various crypto assets and crypto-related activities. The SEC and the CFTC have also made significant efforts toward interagency coordination. In September 2025, SEC Chairman Paul Atkins and then-CFTC Acting Chairman Caroline Pham issued a joint statement to announce that the two agencies would work together to harmonize their regulatory frameworks, including considering "innovation exemptions" to create safe harbors that allow market participants to engage in peer-to-peer trading of crypto assets over decentralized finance ("DeFi") protocols.[44] On January 29, 2026, SEC Chairman Atkins and new CFTC Chairman Mike Selig hosted a joint SEC-CFTC harmonization event, reinforcing their "common purpose" of delivering "clearer guidance, consistent standards and a regulatory framework that reflects how markets actually function."[45]

On the legislative side, the Digital Asset Market Clarity Act (the "CLARITY Act" or the "Market Structure Bill") was passed by the U.S. House of Representatives and advanced to the Senate on September 18, 2025, which is currently discussing a modified version of the bill in the Senate Banking Committee.[46] If passed, the CLARITY Act would establish a comprehensive regulatory framework for digital assets (other than stablecoins) and would split oversight between the SEC and the CFTC. The Senate Banking Committee's modified Market Structure Bill is expected to be marked up and voted on in the first half of 2026.[47] On January 29, 2026, the Senate Agriculture Committee also voted on and advanced its version of the Market Structure Bill addressing the CFTC's jurisdiction, now called the Digital Commodity Intermediaries Act, which will ultimately need to be reconciled with the bill voted out of the Senate Banking Committee.[48]

Looking ahead to 2026, we anticipate the SEC to continue issuing crypto-related guidance and pursuing a pro-innovation regulatory agenda. In September 2025, the SEC released its semi-annual Unified Agenda of Regulatory and Deregulatory Actions (the "Agenda"), which includes potential upcoming rulemakings focused on crypto and crypto-related activities.[49] The rulemaking agenda for offer and sale of crypto assets contemplates certain exemptions from Securities Act registration, which would streamline crypto companies' access to market. Other parts of the Agenda focus on the trading of crypto assets on national securities exchanges and Alternative Trading Systems and modernizing broker-dealer regulations to account for unique crypto characteristics, a crucial step toward integrating crypto assets into the broader financial market infrastructure. The Agenda also includes potential rulemakings regarding the use of distributed ledger technology, which would clarify the requirements for transfer agents and enhance transparency and efficiency in securities transactions. Additionally, the Agenda contemplates adding or amending custody rules under the Investment Advisers and Investment Company Acts of 1940, explicitly intended to address crypto assets, which would clarify custody requirements for investment advisors and fund managers with digital asset portfolios.

While the Agenda only included a short description for each proposed rulemaking, the proportion of crypto-focused rulemakings and the breadth of topics covered promise more meaningful progress toward regulatory clarity in 2026. Other SEC developments pointed in the same optimistic direction. In a speech on November 12, 2025, Chairman Atkins called for the establishment of a clear token taxonomy that would affirm that while tokenized securities remain securities, certain other categories of digital assets (*i.e.*, "digital commodities", "network tokens", "digital collectibles" and "digital tools") do not possess the requisite attributes of a security under federal securities laws.[50] Furthermore, in the first half of 2026, the SEC is expected to launch a dedicated innovation exemption for the crypto sector, which will offer a time-limited, supervised "sandbox" that allows crypto firms to engage in certain pilot programs for on-chain issuance, trading and tokenization.[51] This proposed exemption would make it easier for crypto firms to launch certain blockchain-based products while still operating under formal SEC oversight.

With the regulatory clarity provided by the GENIUS Act passed in July 2025, stablecoins have also become a focal point for institutional adoption in crypto, with traditional finance actors in the payments, settlement and treasury management space now competing with crypto-native stablecoin issuers like Tether and Circle. Visa and Mastercard, for instance, have positioned themselves as stablecoin settlement infrastructure providers.[52]

In 2025, the rise of tokenized RWAs has further bridged the gap between crypto and traditional finance. As of late 2025, the global tokenized RWA market is valued at $20-35 billion, a marked expansion from the estimated $6 billion in 2022, driven by yield-bearing underlying assets such as private credit and U.S. Treasuries.[53] In the latter half of 2025, traditional finance institutions have entered this space and advocated for tokenization to be conducted within regulatory guardrails. For instance, several SEC-registered transfer agents now offer tokenization services to issuers, including Superstate and Plume Network, which earned their SEC approvals as registered transfer agents in March and October 2025, respectively.[54] Notably, in December 2025, the SEC issued a no-action letter to Depository Trust Company (the "DTC"), allowing the DTC to operate a three-year "tokenization services" pilot for DTC participants to elect to tokenize their DTC-held security entitlements.[55] In the same month, the SEC issued its Statement on the Custody of Crypto Asset Securities by Broker-Dealers, which clarified that a broker-dealer may be deemed to maintain "physical possession" of crypto asset securities carried for customers' accounts, as required by the Exchange Act's broker-dealer rules.[56] However, significant uncertainties remain with respect to the regulatory treatment of the specific mechanics of tokenization pilots and crypto custody programs. It remains to be seen whether 2026 will bring additional regulatory clarity to these aspects of the tokenization space.

Institutional adoption of tokenized equity securities also accelerated. In September 2025, Galaxy Digital partnered with Superstate to become the first publicly listed company to tokenize its SEC-registered common stock on the Solana blockchain, with Superstate acting as transfer agent to record legal ownership onchain in real time.[57] Separately, in November 2025, Figure Technology Solutions filed a registration statement for a proposed offering of its Series A Blockchain Common Stock on the Provenance blockchain, a blockchain-native public equity that is tradeable via Figure's non-custodial alternative trading system and exchangeable for its Nasdaq-listed shares.[58] Going forward, tokenized equities are likely to remain subject to the existing securities regulatory framework. For instance, SEC Chairman Paul Atkins proclaimed during his November 2025 speech that "a stock is still a stock whether it is a paper certificate, an entry in a DTCC account or represented by a token on a public blockchain."[59] This stance was further reinforced through a January 2026 SEC Staff guidance statement on tokenized securities, which noted the Staff's view on tokenization as being the process of creating a digital representation of an asset using distributed ledger technology and that tokenized securities are merely traditional securities that are formatted as or represented by a crypto asset, where the record of ownership is maintained (in whole or in part) on or through one or more blockchain networks.[60]

While this guidance confirms that tokenized securities remain securities, there is still a lack of regulatory clarity and unclear mapping of existing regulations to the digital asset space in many areas, which are unlikely to be resolved until the passage of the above-discussed SEC rulemakings, innovation exemptions or Congressional market structure legislation proposals. Two areas of particular importance to monitor are developments relating to Nasdaq[61] and NYSE's[62] proposed rule changes relating to tokenized securities, which are needed to enable trading of tokenized equities via national securities exchanges, as well as clarifications on the applicability of current regulations, including broker-dealer and other intermediary registration requirements to DeFi trading protocols, which are needed to provide sufficient comfort to both regulated and unregulated parties desiring to engage in tokenized securities trading and lending through such venues.

There was also a rise of digital asset treasury companies ("DATs") in 2025. DATs are publicly traded entities that hold large stashes of crypto in their treasury reserves and offer investors leveraged exposure to the underlying digital assets. While many DAT stocks traded at significant premiums over net asset value in mid-2025,[63] the premium to underlying asset value generally disappeared toward the end of 2025 due to falling value of the underlying digital assets and competition from crypto ETFs, with many DAT stocks now trading at deep discounts.[64] The burst of the DAT bubble was seen as a painful but healthy reset for the industry; in 2026, M&A activity among DATs is expected to increase as valuation discounts, tighter capital markets and loss of the premium pressure smaller or less diversified DATs.[65]

EVOLVING LANDSCAPE FOR CORPORATE DOMICILE

The topic of corporate domicile has increasingly become a hot topic in the VC space. While Delaware remains the corporate home to a substantial majority of U.S. companies, Nevada and Texas have been attracting more companies. For instance, between 2024 and mid-2025 alone, Delaware lost 16 public companies with a market cap greater than $250 million, with 13 of them reincorporating in Nevada.[66] Recent examples of companies that moved to Nevada include Dropbox Inc., Tempus AI Inc., Fidelity National Financial, Inc., MSG Sports and MSG Entertainment and Roblox Corporation.[67] Notable companies that moved to Texas include Tesla, Inc., Coinbase Global, Inc. and Exodus Movement, Inc.[68]

Nevada and Texas are attractive to founders and companies because they arguably offer stronger director and management protections and certain tax advantages, among other corporation-friendly features. In contrast to Delaware, Nevada and Texas permit a board of directors to consider interests beyond the maximization of the corporation's long-term value in exercising its fiduciary duties. Courts in Nevada and Texas may also be more likely to apply the permissive business judgment rule in change-of-control or takeover defense situations. Moreover, in contrast to Delaware, Nevada and Texas do not impose a traditional corporate net income tax but rely instead on franchise or gross receipts taxes, generally leading to lighter tax burdens for companies.[69]

In an effort to curb the "DExit" trend, Delaware adopted Senate Bill 21 ("SB 21") in March 2025, which provides greater statutory clarity for controlled companies and in particular on insider transactions and director independence. So far, data suggests that a majority of the largest reincorporations from Delaware over the past few years were completed by companies considered "controlled" under SB 21, meaning that the largest shareholder of the company holds at least 33% of the company's voting power.[70] By providing more predictability for such controlled companies, SB 21 attempts to persuade companies to remain domiciled in Delaware.

Later in the year, both Nevada and Texas enacted significant corporate law reforms designed compete with SB 21 and Delaware as an attractive domicile. Nevada passed Assembly Bill 239 ("AB 239"), effective May 30, 2025, which limits controlling shareholder fiduciary duties, creates safe harbors for conflict transactions approved by disinterested directors, permits corporations to include jury trial waivers in their articles of incorporation and streamlines merger approval and stock split procedures.[71] Nevada, which currently tries all corporate law matters in their regular courts, also proposed a constitutional amendment to create a specialized business court (though voters will not decide on it until 2027).[72]

In May 2025, among other corporation-friendly legislation, Texas enacted Senate Bill 1057 ("SB 1057"), which applies only to publicly traded companies that are either headquartered in Texas or admitted to list on an eligible Texas Stock Exchange.[73] SB 1057 allows such Texas-based companies to affirmatively opt into favorable governance features (*i.e.*, ownership threshold and solicitation requirements for shareholder proposals) in their governance documents.[74] On September 30, 2025, the Texas Stock Exchange ("TXSE") received a milestone SEC approval to operate as a national securities exchange, the first fully integrated national securities exchange to do so in decades.[75] Set to launch in 2026, the TXSE advertises lower listing and transaction fees and better access to capital. Together, TXSE and Texas's favorable legislation provide a dual incentive for emerging companies to incorporate and go public in Texas.

NAVIGATING THE 2026 IPO LANDSCAPE

Companies considering an IPO in 2026 will need to navigate a more complex political and regulatory environment. While the pipeline of companies seeking to go public grows, both workforce reduction at the SEC and ongoing government funding uncertainty may heighten execution risk. The SEC is currently operating with a significantly reduced workforce following a wave of voluntary resignations and a strategic federal hiring freeze in 2025, resulting in an approximate 15% decline in headcount since the start of the 2025 fiscal year.[76] The convergence of heightened filing activity and diminished SEC staffing may place additional pressure on the IPO registration statement review process, potentially affecting review timelines and execution for companies pursuing IPOs in 2026.

Government shutdown risk adds a further layer of uncertainty. At the time this newsletter is being published, Congress has just authorized a funding bill to keep the U.S. government funded through September 30, 2026, bringing to an end a brief partial government shutdown from January 31 to February 3. During the Fall 2025 shutdown, which was the longest in U.S. history at 43 days, the IPO market largely paused because the SEC Staff was unable to declare registration statements effective. In response, the SEC issued critical guidance clarifying that issuers could remove the delaying amendment under Rule 473, allowing a registration statement to become effective automatically after 20 days under Section 8(a), and that companies could still rely on Rule 430A to omit final pricing information at effectiveness, with the Staff indicating it would not pursue enforcement action in this narrow circumstance. This guidance enabled a small number of issuers to proceed with IPOs during the shutdown, but the SEC cautioned that the approach was not appropriate for companies with material unresolved Staff comments, and that any pre-effective amendment would restart the 20-day clock. As a result, while the guidance provided a path forward for select issuers, most companies in registration effectively remained on hold.

Regulatory Developments

KEY SEC DEVELOPMENTS

INVEST Act of 2025

In January 2026, the House of Representatives passed the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act with bipartisan support, sending the legislation to the Senate for consideration. The bill is part of a broader legislative effort to reduce regulatory burdens and expand access to private capital markets. Among other changes, the INVEST Act proposes to ease certain disclosure requirements for emerging growth companies by allowing qualifying issuers to provide two years of financial statements, rather than three, when applying to list on a national securities exchange, and by limiting acquired business financial statement requirements to the earliest audited period presented in connection with an IPO.

The bill also proposes to broaden access to private markets by creating an additional pathway to accredited investor status. In addition to existing income, net worth and professional qualification thresholds, the INVEST Act would permit individuals to qualify as accredited investors by passing an exam or certification established by the SEC and administered by a registered national securities association such as FINRA.

For venture capital funds, the INVEST Act would further seek to lower barriers and reduce compliance costs by increasing the maximum number of beneficial owners from 250 to 500 and raising the statutory capital limit from $10 million to $50 million, building on recent SEC adjustments to these thresholds. While the INVEST Act faces a lengthy path in the Senate and may change materially before enactment, it reflects a consistent legislative trend toward easing regulatory constraints and expanding access to private capital markets.[77]

Proposed Rule Change on Quarterly Reporting

The Long-Term Stock Exchange has petitioned the SEC to allow U.S. public companies to report earnings on a semiannual basis, a move endorsed by President Trump both during his first term in 2018 and again in 2025.[78] On September 19, 2025, SEC Chairman Paul Atkins confirmed that the agency will propose a rule change that would allow companies to either continue quarterly reporting or switch to a semiannual cadence. The proposal reflects practices in other jurisdictions, such as the U.K., the European Union and Australia, where quarterly reporting mandates were rolled back in favor of semiannual disclosures. Advocates of the change argue that it could reduce regulatory burdens and associated costs, allowing companies to devote more resources to strategic initiatives, long-term investments and innovation rather than focusing primarily on short-term quarterly results.

By easing the pressure of frequent reporting, the rule would decrease reporting costs of being a public company and could make public markets more attractive to private companies that prioritize sustainable growth over short-term performance. However, opponents warn that less frequent reporting may reduce transparency, limit timely information for investors and hamper analysts' ability to provide coverage. There has also been speculation that investor demands will still lead to quarterly reporting (although perhaps not as extensive as the disclosures found in Reports on Form 10-Q).

The SEC is likely to implement the change through its standard rulemaking process, with a proposed rule tentatively anticipated by April 2026. Following a public comment period (which should be at least 60 days for major proposals), a final rule would be considered and presumably adopted by the Commissioners, followed by a transition period before any new rules go effective. While the shift to semiannual reporting could free companies from some of the operational and compliance burdens of quarterly filings, it represents a significant departure from a reporting regime that has been a fixture of U.S. capital markets for over 50 years.

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