# Venture Capital Raising Research

## 2022/23



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# Introduction

The Data & Research department in Seedbiz is conducting hundreds of researches every year made by our specialized business analysts, with a variety of needs and from many unique sectors and verticals, all for helping entrepreneurs seeking for information that will help their startup make better and precise business decisions along the way.

As the year 2023 began, it seems as the right time to explore what happened in the VC ecosystem, so we all can learn from last year's highlights and try to generate business conclusions and insights to the current year ahead. But, first and foremost, let's do a short infrastructure preparation, so that even beginner readers & entrepreneurs can deeply understand what is going to be written here.

This market overview and research are willing to provide a detailed Info about the VC ecosystem. It will also examine and crosscheck many other top reviewers and business consulting companies data, as well as business top newsletters and other relevant internet info. We will then explore with a macro view about what happened in the markets from the money point of view (POV), one from the investor angle, and another from the startup perspective.

Then we'll continue to discuss and compare statistical information that will help to recommend the following to come. This will lead us to the final and main target of this overview - business conclusions and insights to the current year ahead.

# The VC game and its players

Venture Capital (VC) is a type of private equity that is provided by firms or funds to startups and small businesses that are believed to have long-term growth potential. VCs typically invest in companies (but not just) at their early stages, when they are still developing their products or services and are not yet generating significant revenue. The VC funding ecosystem consists of a variety of players, including mostly VC firms, angel investors, incubators, accelerators, and startups.

## VC firms

Professional investment firms that manage the money of institutional investors and high-net-worth individuals and use it to fund startups. These firms typically have a team of investment professionals who evaluate potential investments and provide guidance to the companies they fund.

## Angel investors

Individuals who provide financial backing to startups in exchange for ownership equity. They may be successful entrepreneurs or business executives who have the resources and expertise to help a young company succeed.

## Incubators and accelerators

Programs that provide support to early-stage startups. Incubators are typically longer-term programs that provide startups with workspace, mentorship, and other resources to help them get off the ground. Accelerators are more short-term programs that provide intensive mentorship and resources to help startups quickly grow and scale.

## Startups

The companies that are seeking funding from VC firms, angel investors, or other sources. These are typically young companies that are developing a new product or service and are looking for funding to help bring their ideas to market.

The VC funding ecosystem is constantly evolving, with new players entering the market and new trends emerging. It is an exciting and dynamic space that has helped to shape many of the most innovative and successful companies of the past several decades.

## Types of VC fundraising

Venture capital (VC) fundraising refers to the process by which venture capital firms raise capital from investors to fund their investment activities. There are several types of VC fundraising, including:

## Early-stage

Early-stage funding refers to the initial rounds of financing that a company receives from venture capital firms, typically in the form of seed or Series A funding. These rounds are used to fund the early stages of a company's development and may be used to cover expenses such as product development and market research.


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## Growth-stage

Growth-stage funding refers to rounds of financing that a company receives once it has demonstrated some level of traction and is looking to expand its operations. These rounds may include Series B, Series C, or later-stage funding and may be used to fund the expansion of the company's operations or to prepare for a potential initial public offering (IPO).

## Secondary market

Secondary market funding refers to the purchase of existing equity in a company from early-stage investors or employees who are looking to sell their shares. This type of funding may be used by venture capital firms as a way to access later-stage investments without going through the traditional fundraising process.

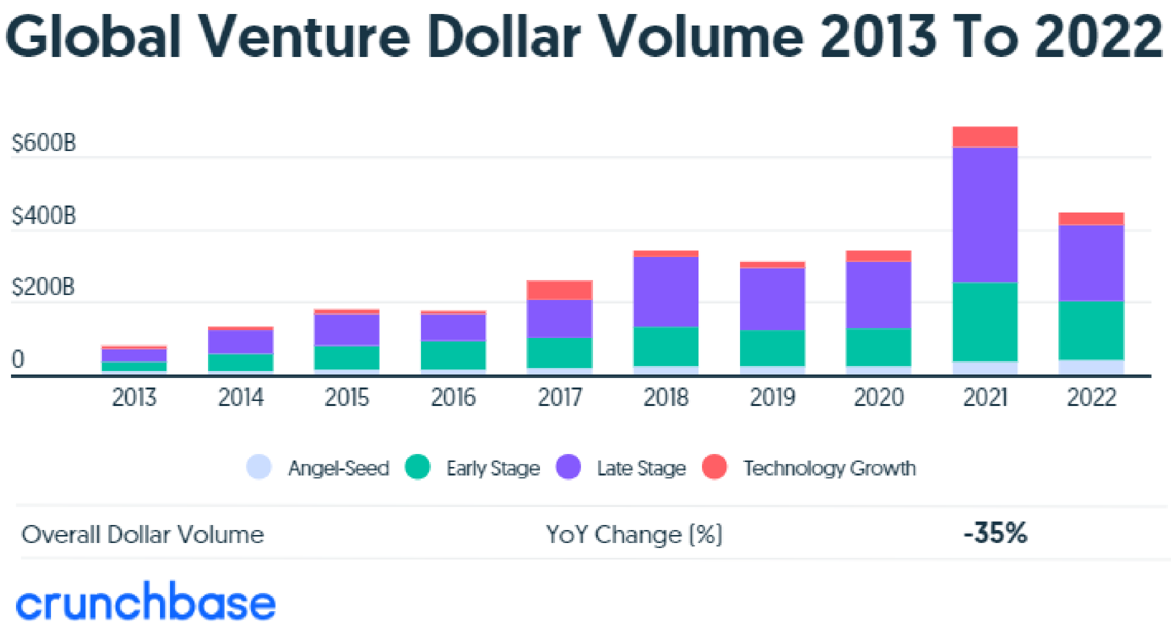
## Corporate venture capital (CVC)

Corporate venture capital refers to the investment of corporate funds into startup companies or venture capital firms. This type of funding may be used by corporations as a way to access new technologies or to build relationships with innovative companies.

**Overall**, the type of VC fundraising that is most appropriate for a particular company will depend on its specific needs and circumstances, as well as the stage of its development and the goals of the venture capital firm.

## Global venture funding

According to an analysis of Crunchbase data[1], during the second half of 2022, venture and growth investors in private companies slowed down their investment activity significantly, indicating a weaker funding environment as we start 2023.

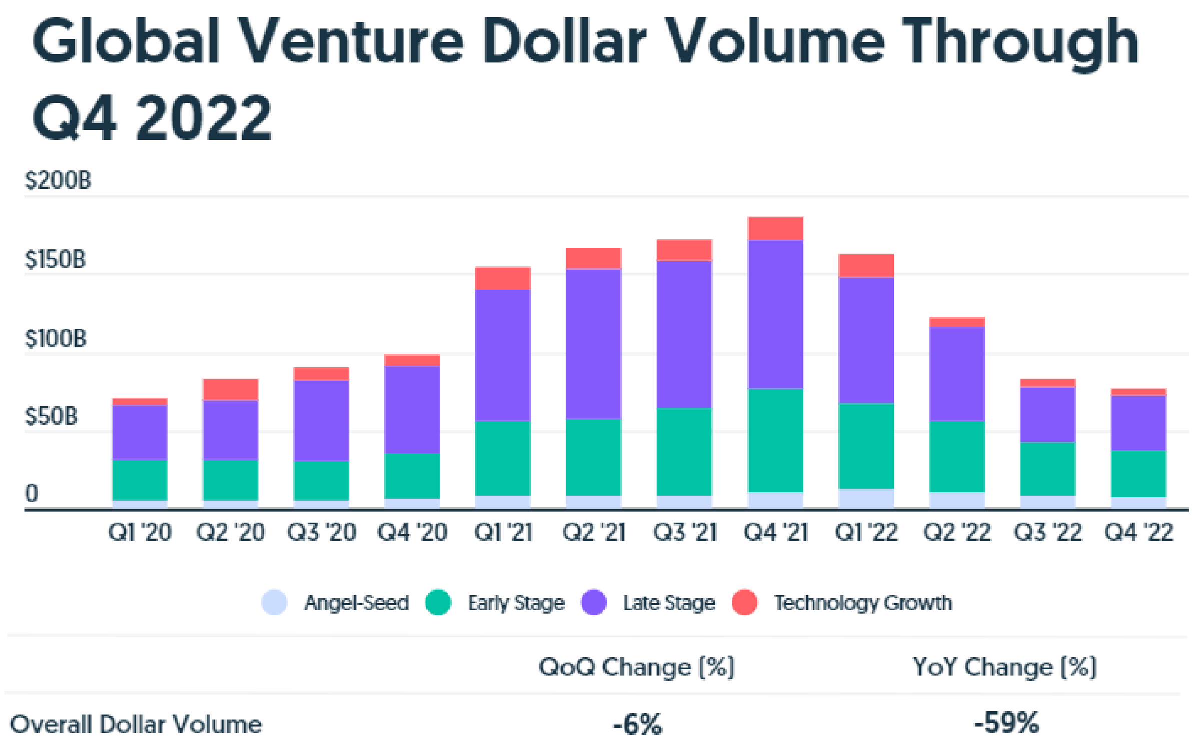



Although global venture funding reached a high of $445 billion in 2022, this marked a 35% decrease from the previous year's total of $681 billion. However, it is worth nothing that this amount is still $100 billion more than the $342 billion invested in 2020. It appears that 2021 may have been an exception rather than the start of a trend, as the stock market's decline, numerous tech industry layoffs, and the collapse of the cryptocurrency market made it difficult for investors and startups to replicate the successes of 2021. In this context, the

[1] https://news.crunchbase.com/venture/global-vc-funding-slide-q4-2022/

$445 billion in global venture funding for 2022 does not seem as impressive as it initially appeared.

In the fourth quarter, funding decreased slightly from the third quarter, which had seen a significant drop in funding, **particularly for late-stage financings**. The total amount of funding in the fourth quarter was $77 billion, a decline of 6% from the previous quarter and 59% from the same period the previous year. This marked the lowest level of funding since the first quarter of 2020, when $70 billion was invested.



To get a better understanding of how the downturn has impacted each stage of funding and how these stages attract different investors, let's take a closer look at the funding for each quarter by stage.

**Seed funding**

**Seed funding was the least impacted funding stage through last year's downturn.**

| Time period | Total invested | Number of deals |
|---|---|---|
| Q4 2021 | 10.6B | 6623 |
| Q1 2022 | 12B | 6321 |
| Q2 2022 | 10.1B | 5297 |
| Q3 2022 | 8.2B | 4378 |
| Q4 2022 | 6.9B | 3547 |

## Early stage funding

Early-stage funding saw a significant decline in the fourth quarter, totaling $31 billion, a drop of 54% from the previous year. This follows a slower third quarter, with funding down 39% from the previous year. In comparison, the first quarter saw an increase in funding while the second quarter saw a more modest decrease of less than 10%. In the past two quarters, Series B funding experienced a greater percentage decline compared to Series A funding.

| Time period | Total invested | Number of deals |
|---|---|---|
| Q4 2021 | 66B | 2803 |
| Q1 2022 | 55B | 2600 |
| Q2 2022 | 45.5B | 2351 |
| Q3 2022 | 34B | 1896 |
| Q4 2022 | 30.6B | 1708 |

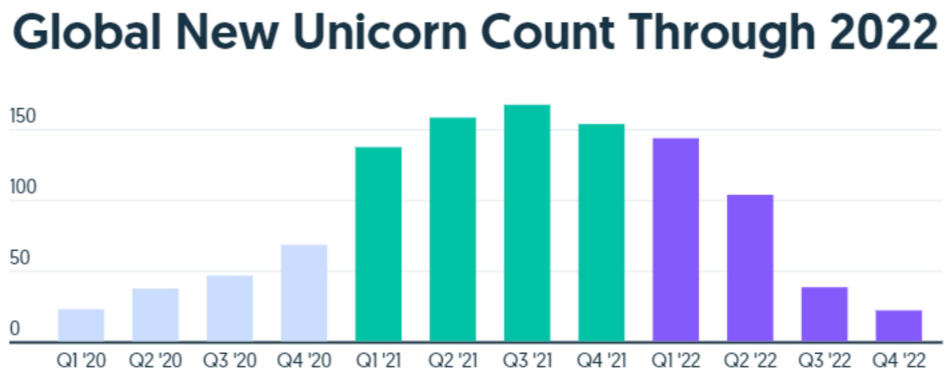
## Late stage funding

Late-stage funding has been on a downward trend since the second quarter of 2022 (Comparing YoY), with each consecutive quarter seeing a decrease.

| Time period | Total invested | Number of deals |
|---|---|---|
| Q4 2021 | 110.3B | 2803 |
| Q1 2022 | 96.1B | 2600 |
| Q2 2022 | 66.8B | 2351 |
| Q3 2022 | 40.3B | 1896 |
| Q4 2022 | 39.7B | 1708 |

**Unicorns count**

In the fourth quarter, the creation of new unicorn companies slowed down as only 22 new companies were added to The Crunchbase Unicorn Board. This is below the lowest quarterly count since the first quarter of 2020, which saw 23 new unicorns. In previous quarters in 2021 that saw the highest number of new unicorns, over 150 companies were added per quarter.




**Respectively business insights**

The venture industry faced challenges in 2022. In 2021, during the height of the pandemic, startups with the fastest growth were rewarded with ample funding. A record number of technology startups went public at valuations higher than their last private valuations and saw success on the stock market.

There was also a peak in special-purpose acquisition company (SPAC) initial public offerings, with 613 listings[2]. Many people invested in non-fungible tokens (NFTs) worth millions of dollars, and the value of Bitcoin reached a high of $65,000 in November 2021.

[2]https://www.nasdaq.com/articles/a-record-pace-for-spacs-in-2021

Funding for private tech companies came from a variety of sources, including venture firms, sovereign wealth funds, private equity and hedge funds, and corporate investors.

However, in 2022, the stock market crashed and falling public valuations put pressure on private company values. As funding became more expensive, investors across the board advised startups to focus on conserving cash and demonstrating profitability. The market for NFTs declined and the use of cryptocurrency as a technology has not proven to have a strong practical application beyond being a store of value. There were widespread layoffs in both public and private tech companies.

The collapse of FTX, which resulted in a loss of $38 billion in value, also damaged investor confidence. Even AI showed signs of underperformance, as self-driving technology company Argo AI was unable to secure additional funding despite support from Volkswagen and Ford. However, there were some positive developments in AI, such as the release of OpenAI's DALL-E for text-to-image creation and ChatGPT for conversational AI, which demonstrated the potential for AI to bring about productivity gains.

It seems that the reduction in late-stage funding will continue to affect startups in 2023 as they prepare to raise funding at the Series B stage and beyond. Funding rounds have already become smaller, and investors will be more cautious as a large number of startups that have been holding off on fundraising efforts begin to seek funding.

## Top VC active firms for 2022[3]

- Sequoia Capital
- Andreessen Horowitz
- Accel
- Kleiner Perkins
- Bessemer Venture Partners
- Intel Capital
- New Enterprise Associates
- Khosla Ventures
- Benchmark
- Canaan Partners
- RRE Ventures
- TCV
- Founders Fund
- Index Ventures
- Mindset Ventures
- GGV Capital
- Menlo Ventures
- Greylock Partners
- IVP
- York IE
- Lightspeed Venture Partners

| Firm name | Business focus |
|---|---|
| Sequoia Capital | - Tech startups<br>- High-growth startups<br>- Healthcare startups |
| Andreessen Horowitz (A16Z) | - Late-stage startups<br>- Fintech startups<br>- Cryptocurrency startups |
| Accel | - Tech startups<br>- Early-stage startups<br>- Growth-stage startups |
| Kleiner Perkins | - Hardtech startups<br>- Healthcare startups<br>- Consumer product startups |
| Bessemer | - Enterprise startups |

[3] https://startupsavant.com/top-venture-capital-firms

| | |
|---|---|
| | - Consumer product startups<br>- Healthcare startups |
| Intel Capital | - Tech startups<br>- Minority founders<br>- Artificial intelligence startups |
| Lightspeed | - Early-stage startups<br>- Healthcare startups<br>- Consumer startups |

## Funding alternative - CVC

As mentioned above, another option to fund a startup is through corporate venture capital, which refers to venture capital investment made by a corporation. CVC funding can be a good option for startups for a number of reasons:

- **Innovation first:** One of the main reasons that a CVC wants to invest in a startup, is that they want to stay in the modern competition. A startup that gives the CVC the option to lead their market with innovation products will lead to a Win-Win situation for both sides.
- **Access to resources:** In addition to providing financial resources, CVC investors may also provide access to resources such as distribution channels, customers, and expertise that can be valuable for a startup.
- **Strategic value:** CVC investors are often interested in startups that can help the corporation achieve its strategic objectives. This can provide startups with a strong partner and ally as they grow.
- **Validation:** Receiving investment from a well-respected corporation can be a strong validation of a startup's business model and can help attract future investors.

- **Potential exit opportunities:** If the startup is successful, the corporation may be interested in acquiring the company, providing the founders with an exit opportunity.

On the other hand, there are a few potential downsides to obtaining funding from a corporate venture capital (CVC) firm:

- **Control:** CVC firms may seek to exert more control over the companies they fund, as they are ultimately accountable to the parent company. This could involve taking an active role in decision-making or imposing certain requirements on the funded company.
- **Conflict of interest:** CVC firms may have conflicting interests, as they may prioritize the goals of the parent company over the interests of the funded company.
- **Limited resources:** CVC firms may have fewer resources to devote to each portfolio company, compared to traditional venture capital firms, which could limit the support and guidance they are able to provide.
- **Exit strategy:** CVC firms may be less inclined to exit their investments through an IPO or acquisition, and may instead prefer to hold onto the investment for a longer period of time. This could limit the potential return on investment for the funded company.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## CVC 2022 Investments examples[4]

During the first three quarters of the year, there were 296 corporate funding initiatives launched. However, the number of new initiatives launched decreased significantly in the second half of the year, with only 55 new funds announced in the third quarter, compared to 128 and 123 in the first and second quarters, respectively.

- **OpenSea** remains the world's largest NFT marketplace, and in February co-founder Alex Atalla followed a $300m series C round by forming corporate VC unit OpenSea Ventures with a brief to invest in open Web3 technology. It was announced alongside a grant scheme for creators in the NFT ecosystem.
  The unit has been one of the busier new CVC initiatives having disclosed 10 investments this year, the majority of which were at seed stage or earlier. The largest was a $40m series B for Golden, the creator of an automated knowledge database, and its other deals included metaverse world building platform Monaverse and Doppel, a developer of software that detects NFT fraud.
- **Chipotle**, The US-headquartered Mexican fast food chain, set up a $50m venture firm called Cultivate Next under chief technology officer Curt Garner in April to further its mission to 'Cultivate a Better World', through investing in technologies that can help restaurants operate more effectively.
  Cultivate Next's first two deals were a $150m series C round for Meati Foods, the creator of a mushroom root meat substitute, and an investment of undisclosed size in Hyphen, a developer of automated meal production technology.

[4] https://globalventuring.com/corporate/debut-cvc-funds-in-2022/

- **Home Depot**, The big-box hardware retailer, had already made a few investments and exited crowdsourced delivery service Roadie when it put $150m into a newly formed unit called Home Depot Ventures in May. Jennifer Marcus, who is heading the fund, says it will target products that can help home and business customers as well as the company's associates.
  The unit's only investment so far was as part of a $39m round for PunchListUSA, which runs an online platform that uses home inspection data to get estimates for home repairs and source renovators who can carry them out.
- **M12 (Microsoft)**, invested in over 100 early-stage companies with a focus on autonomous systems, cloud infrastructure, cybersecurity, DevOps, healthcare, vertical SaaS, and Web3, metaverse, and gaming. In 2019 invested 1B in OpenAI which developed ChatGPT & Dall-E.

## Funding alternative - M&A

M&A is the process of two companies merging or one company acquiring another. In the context of funding a startup, M&A could provide a startup with the capital it needs to grow and expand through a merger or acquisition with a larger, financially stable company. M&A is particularly beneficial for startups that struggle to scale operationally because they essentially buy cash flow, revenue and other companies' traffic, meaning startups grab a bigger share of their markets. They're also a good way for startups to find, consolidate and experiment with their value proposition.However, it also can be challenging as startups usually need to have a sizable business or product to be attractive for a merger or acquisition.

### M&A 2022 Investments examples[5]

- **Microsoft** completed its US$19.7 billion acquisition of conversational AI company **Nuance** Communications in March this year. Nuance serves a range of industries including healthcare, financial services, retail and telecommunications, and is to work on improving consumer, patient, clinician and employee experiences, which the companies hope will lead to productivity and financial performance improvements.

- **Adobe** announced it was to acquire web-first collaborative design platform **Figma** for approximately US$20 billion in cash and stock in September this year.
  The companies say their combined product portfolio will have a rare opportunity to "power the future of work by bringing together capabilities for brainstorming,

[5] https://technologymagazine.com/articles/top-10-technology-mergers-and-acquisitions-deals-in-2022

sharing, creativity and collaboration and delivering these innovations to hundreds of millions of customers".

- In March this year, **Orange** and **MásMóvil** announced their Spanish operations were to join in a 50-50 joint venture, co-controlled by the two companies with a combined enterprise valuation of €19.6 billion. The joint venture combined the assets, capabilities and teams of the two companies in Spain, building on complementary business models and existing collaboration to serve millions of consumers, including close to 1.5 million TV subscribers.

- At the start of 2022, the world's richest man **Elon Musk** started buying shares in social media platform **Twitter**, emerging as the company's largest shareholder in April with a 9.1 per cent stake. This compelled him to make an unsolicited offer to buy the platform for US$44 billion.

- **Broadcom** acquired all of the outstanding shares of **VMware** in a cash-and-stock transaction that valued VMware at approximately US$61 billion in May this year. Following the acquisition, Broadcom Software Group rebranded to operate as VMware, incorporating Broadcom's existing infrastructure and security software solutions as part of an expanded VMware portfolio.

## Increasing & decreasing sectors

Both VC investment and the number of VC deals in all jurisdictions fell to levels not seen since 2020 during 2022. The Americas saw VC investment fall sharply, from $76 billion in Q2’22 to $45 billion in Q3’22. Europe saw a similarly sharp decline, from $31 billion to $18 billion quarter-over-quarter. After experiencing a steep drop in Q2’22, VC investment in Asia fell even further—from $26 billion to $21 billion.

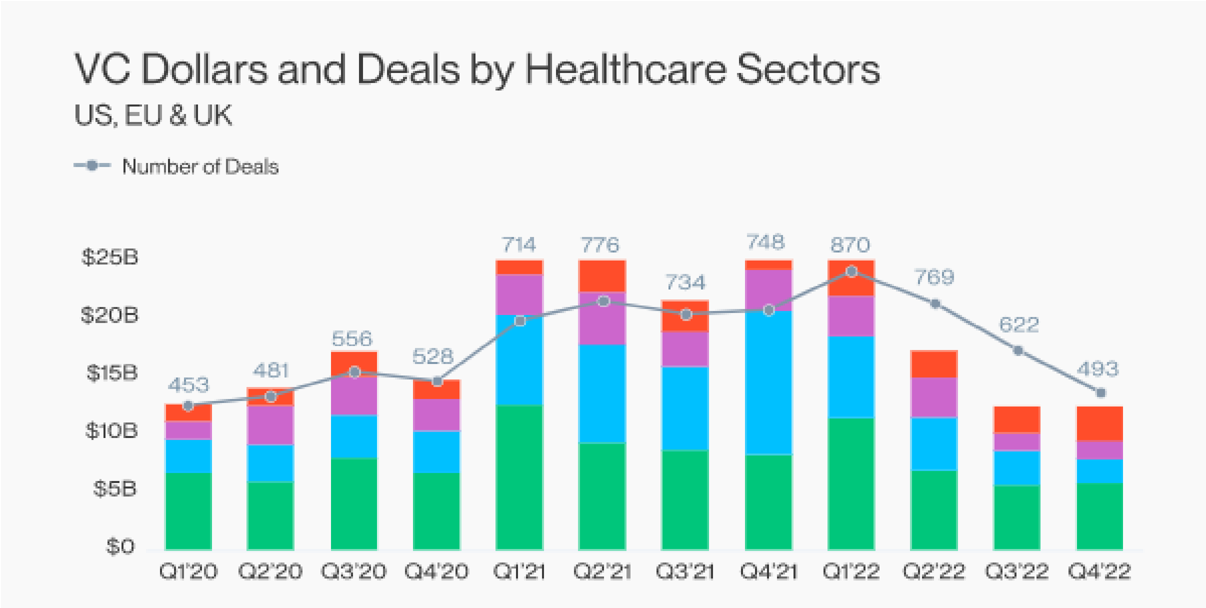
Despite the ongoing challenges of an energy crisis, economic instability, the ongoing pandemic, and pressure on businesses, investment continued in 2022 to pour into clean energy, fintech, biotech, cyber security, and B2B, including start-ups and scale-ups in AI and machine learning.

- **Healthcare and biotech**

  Healthcare and biotech have always been popular areas for venture capital investment, and the pandemic has further increased interest in these areas. Although the activity in the space has slowed down, the needs of an aging population, talent shortages, and a need to modernize healthcare systems are expected to keep investors interested in the foreseeable future. In particular, AI-enabled biotech and areas such as at-home testing and care continue to be attractive to investors in 2022.

  Additionally, interest in mental health solutions has grown. Notable deals in this sector include:

  - Singapore-based virtual care and at-home therapeutics company Biofourmis raising $320 million
  - UK-based at-home care company Cera Healthcare Technology Systems raising $312 million
  - China-based biotech firm Sironax raising $200 million.

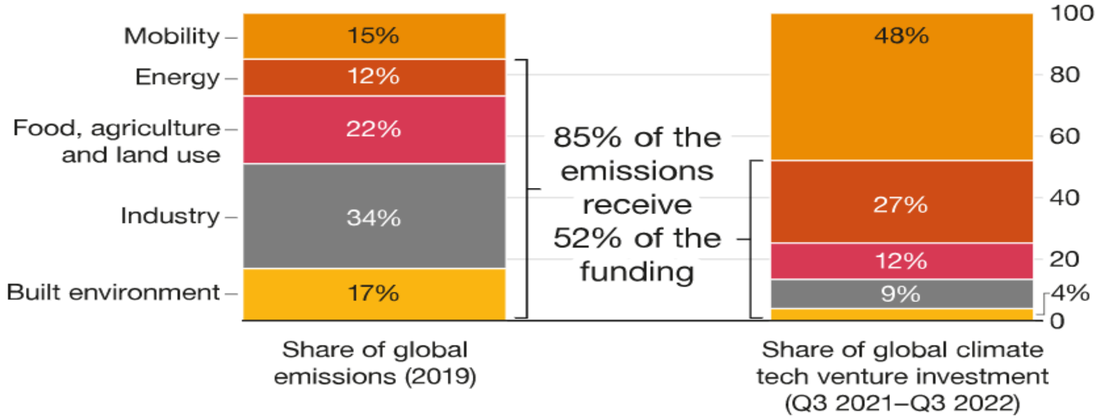



- **Climate-Tech**[6][7]

  More than one quarter of all venture capital funding is going to climate technology, with increased focus on technologies that have the most potential to cut emissions. According to a PwC report, a significant portion of venture capital funding is being directed towards climate technology, with a focus on technologies that have the greatest potential to reduce emissions. The report found that in 2021, start-ups in sectors responsible for 85% of emissions received only 39% of investment, but in 2022, start-ups in those sectors received 52% of investment in climate technology. This indicates a shift towards more targeted funding for technologies that can have the greatest impact on reducing emissions.

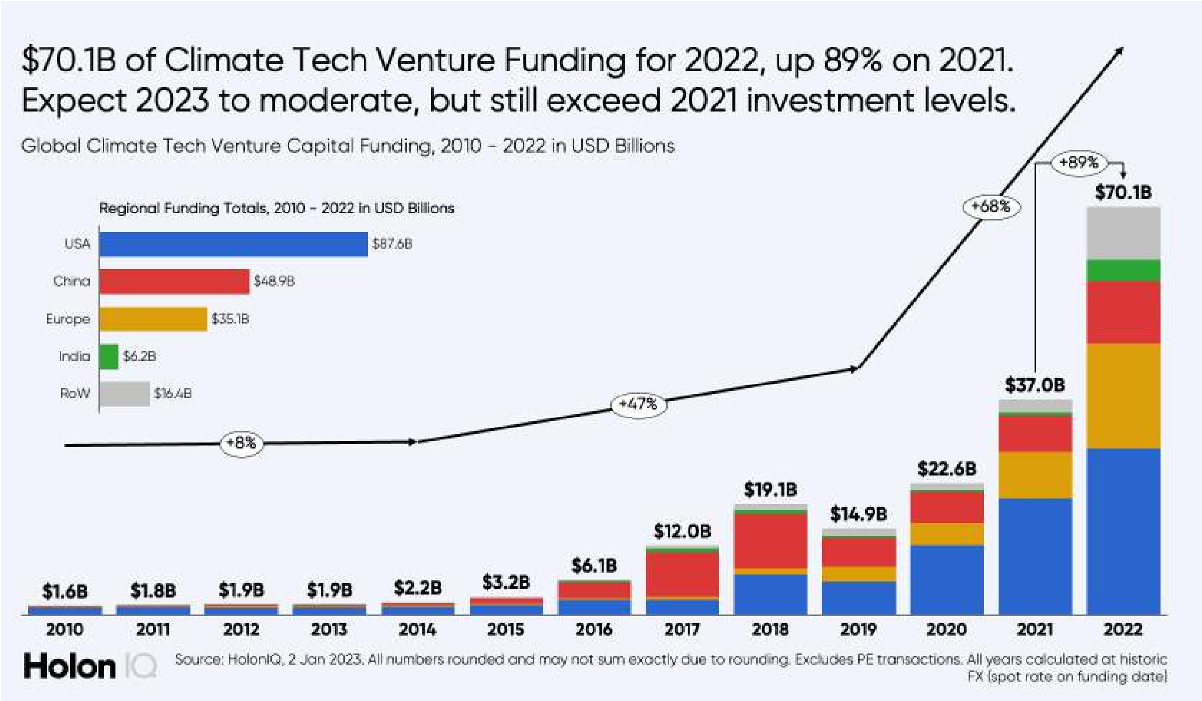
[6] https://www.holoniq.com/notes/2022-climate-tech-vc-funding-totals-70-1b-up-89-from-37-0b-in-2021
[7] https://www.pwc.com/gx/en/services/sustainability/publications/overcoming-inertia-in-climate-tech-investing.html

Share of global emissions and climate tech venture investment by sector




Source: PwC State of Climate Tech Report 2022, PwC analysis of Pitchbook data

Global Climate Tech Venture Capital had an exceptionally strong 2022 delivering $70.1B of investment, defying gravity in a broader market that has fallen significantly. 2022 was an enormous year for Climate Tech VC. The US invested more Climate Tech VC in 2022 than the entire 2006-2011 Clean Tech 1.0 Boom and at the current pace of investment, by the end of 2023, the US will have invested over $100B in VC since then. Europe's venture funding into Climate Tech more than doubled in 2022, out investing China for the first time and together with a huge rise in India and around the world, grew 89% globally on 2021's record.




Climate Tech Venture investment is now 40x larger than it was a decade ago. With innovation surging across the entire Climate Tech Landscape, notable mega rounds included:

- Northvolt's $1.1B growth round
- TeraWatt's $1.0B Series A
- TerraPowers $750M+ growth round
- RT Advanced Materials $740M
- Voyah's $700M Series
- Climework's $650M growth round
- EnergyX's $450m growth round
- Joining 160+ other companies that closed a $100M+ Mega Round in Climate Tech.

As of 2 January 2023, there are 83 Climate Tech Unicorns around the world who are now collectively valued at $180B+. 2022 saw a new Climate Tech Unicorn every two weeks on average, with a range of public market exits, SPACs a popular route as the traditional IPO proved challenging more broadly.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**Energy**

The energy sub-sector saw a significant amount of venture capital investment globally, with many companies attracting large funding rounds. Notable deals include:

- Battery manufacturer Northvolt and electric vehicle infrastructure company TerraWatt raising over $1 billion each
- US-based power development company TerraPower raising $750 million
- China-based photovoltaic manufacturer Gokin Solar raising $369 million.

Additionally, companies focused on environmental, social, and governance (ESG) issues also received significant VC investment:

- US-based carbon offset company Xpansiv raising $500 million.
- **Electric vehicles and batteries** continued to be a major focus for investment during the year and areas like **hydrogen-based technologies** also gained additional attention.

- **Ed-Tech**

  The global EdTech venture capital market experienced a strong year in 2022, with $10.6 billion invested, although it was a 49% decrease compared to the record levels in 2021. It is expected that in 2023 the market will return to pre-pandemic levels, with growth in the US, Europe and India replacing China's six-year trend of providing over 50% of global funding in the EdTech sector.

IPO & M&A transactions excluded

| Company | HQ | Cluster | Recent raise | Investors* | Valuation* |
|---|---|---|---|---|---|
| GoStudent | Austria | Tutoring | $340M | DN Capital, DST Global, Tencent, Coatue | $3.5B |
| multiverse | UK | Vocational training | $220M | Lightspeed Venture Partners Index Ventures, GV | $1.7M |
| CoachHub | Germany | Coaching and mentoring | $200M | Molten Ventures, HV Capital, Partech, RTP Global | $950M |
| sosafe | Germany | Cyber security | $73M | Christian, Henschel, GFC, Highland Europe, La Famiglia, | $350M |
| ODILO | Spain | Educational digital content | $60M | Bregal Mileston | $320M |
| Perlego | UK | Digital textbooks | $50M | The Raine Group, Johan Brand, Jamie Brooker, Evli | $300M |
| Labster | Denmark | AR/VR | $47M | Balderton Capital, Northzone, Sofina, Swisscom, A16Z | $300M |
| rise up | France | Digital training | $30M | MAIF Avenir, IMPACR Partners, Connected Capital | $160M |
| STUDYTUBE | Netherlands | Personal learning platform | $30M | Energy Impact Partners | $150M |
| Sharpist | Germany | Coaching and mentoring | $23M | Endeit Capital Capnamic, Vorwerk Ventures, Julien Codorniou, btov Partners | $110M |

- **Crypto & Web 3**[8]

  In 2021, venture capital investments in blockchain startups reached an all-time high of $25.2 billion, largely due to the optimism and increased financing for non-fungible tokens (NFT) and decentralized finance projects. However, in 2022 funding slowed significantly and is expected to be roughly one-third of the previous year's record, as a result of several companies, such as hedge fund Three Arrows Capital, lender Celsius Network, and exchange giant FTX, experiencing difficulties. still, this sector rise comparing earlier years and startups get decent investments:

  - Aptos Labs is the US based blockchain startup founded by former Meta Platforms employees. The company is developing a scalable Layer-1 blockchain with the use of a language called "Move".
    According to Yi He, co-founder of Binance and the head of Binance Labs which became the main investor, and helped to close $350 m in total

[8] https://blog.innmind.com/top-15-largest-vc-deals-in-web3-and-crypto-startups-in-2022/

through funding rounds; the language used for their blockchain is different from BNB Chain and Solana, and is more efficient and secure.

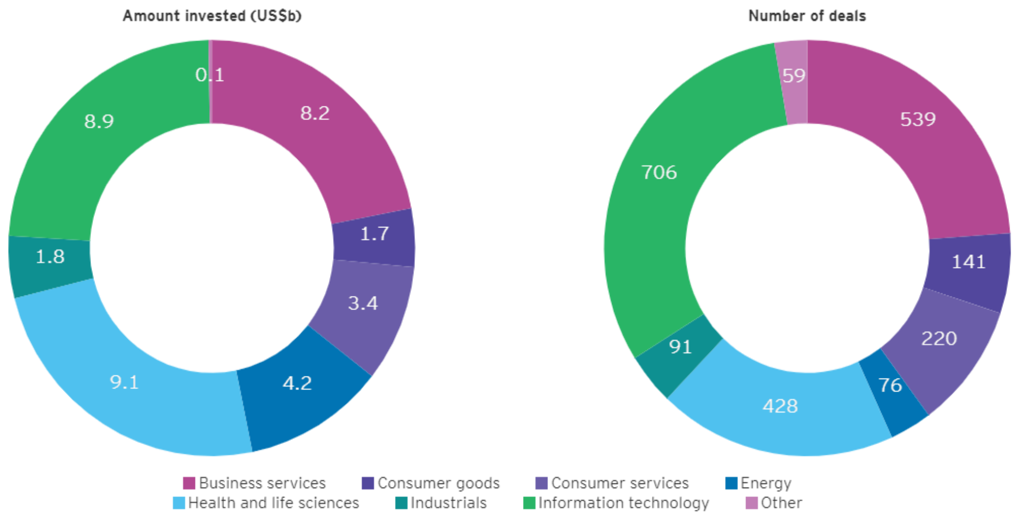
- Mysten labs, the Palo Alto-based company intends to develop an infrastructure that will help to bring Web 3 to a mass adoption, and accelerate the integration of the Sui ecosystem. Mysten Labs raised $300 million in a funding round led by cryptocurrency exchange FTX, with help of a16z crypto, Apollo, Binance Labs, Franklin Templeton, Coinbase Ventures and Lightspeed Venture Partners, among others.
- Phantom is a San Francisco based crypto startup, and is one of the premier wallet apps for the Solana ecosystem. In the first funding round the startup received $9 million from Andreessen Horowitz, at the time Phantom had 40000 active users. Only half a year later with the money received in the first funding round the startup increased its active users up to 2.1M, consistently onboarding about 100,000 users per week. Moreover, the company held a second funding round of $109 millions led by Paradigm VC on a $1.2 billion valuation.
- LayerZero Labs is a Vancouver based Web3 startup designed to unite decentralized applications across blockchains. The company has raised $135 million in a round co-led by Sequoia Capital, FTX Ventures and Andreessen Horowitz, followed by other prominent VCs, including Coinbase Ventures, PayPal Ventures, Tiger Global, Uniswap Labs, and more.

- **Artificial Intelligence (AI & ML)**[9]

  While we might have seen a pullback in venture capital investment in 2022, one area where investors are not slowing down is betting on artificial intelligence – specifically directing their investment in companies working with generative AI. Investment in generative AI has considerably increased since 2020.

[9] https://pitchbook.com/

US venture capital investment across industries
Q3 2022




Source: Crunchbase ▸ as of October 3, 2022, Ernst & Young LLP. We include equity financings into VC-backed companies headquartered in the US. Sources of cash investments include, but are not limited to, VC firms, corporate investors, other private equity firms and individuals.

Recent data shows a 425% jump from 2020 to now, with $2.1B invested in 2022 alone, with the known Dalle-2 & ChatGPT. Near future update release shows Microsoft will invest another 10B in Open.ai's generative ai products [Generative AI is powerful artificial intelligence that utilizes highly sophisticated computer programs that allow computers to create new content based on previously created content through a process called diffusion. Massive databases are compiled to "train" the AI to create new content similar to the original. The content could be anything from text to art to video content]. A notable startup to watch: Hugging face, Provider of a solution to build NLP models. It offers an open-source natural language processing library and allows users to create, train and deploy conversational AI and other solutions.

| | Hugging Face | Weights & Biases | Abacus.AI | Tecton |
|---|---|---|---|---|
| Description | Provider of a solution to build NLP models. It offers an open-source.. | Weights & Biases is a provider of machine learning model... | Provides AI based data models creation for data science. The mai... | Tecton provides a data platform for machine learning models. Allow... |
| Founded Year | 2016 | 2017 | 2019 | 2019 |
| Location | Paris (France) | San Francisco (United States) | San Francisco (United States) | San Francisco (United States) |
| Company Stage | Series C | Series C | Series C | Series C |
| Unicorn Rating | Soonicorn | Unicorn | Soonicorn | Soonicorn |
| Total Funding | $165M | $200M | $90.2M | $160M |
| Funding Round | 7 | 4 | 4 | 3 |
| Latest Round | Series C, $100M, Apr 26, 2022 | Series C, $135M, Oct 13, 2021 | Series C, $50M, Oct 27, 2021 | Series C, $100M, Jul 12, 2022 |
| Investor Count | 23 | 16 | 21 | 10 |

**The bright spot in the tech sector is that it is novel, and therefore, investors may be more willing to invest in it, compared to other tech verticals that had a difficult year, with decreasing valuations, canceled IPOs, and reduced investment appetite.**

## Corona Effect

The coronavirus pandemic has led to a significant increase in revenue for many startups in 2021 and 2022. Notable examples include Zoom Video Communications, whose revenue grew by 366% year-over-year in 2022, and Slack Technologies, whose revenue increased by 80%. Other companies that saw strong growth during this period include DoorDash, Instacart, and Peloton, whose revenues grew by 298%, 214%, and 191% respectively. Additionally, the e-commerce industry also experienced significant growth, with Amazon's revenue increasing by 44% in 2022.

On the other hand, startups in sectors like travel, hospitality, and brick-and-mortar retail have been significantly impacted by the pandemic, as lockdowns and social distancing measures have led to a decline in consumer demand and revenue. Many of these startups have had to adapt by changing their business models or downsizing operations. Some examples are:

- Airbnb, which saw a significant decrease in bookings as international travel came to a near halt and people have been hesitant to make future plans.
- HotelTonight, a mobile app that specializes in last-minute hotel bookings. The company has seen a sharp drop in demand as people have cancelled or postponed their travel plans.
- Rent the Runway, a clothing rental company with physical retail stores. The company has been affected by lockdowns and social distancing measures, which have led to a decrease in foot traffic and sales.

Furthermore, the pandemic has also led to an economic downturn, which affected startups' access to funding and support from investors, resulting in a decrease in startup creation and venture capital funding.

In summary, the pandemic has had a mixed effect on startups, with some experiencing strong growth while others have been negatively impacted.

| Startup | Revenue Increase (%) |
|---|---|
| Zoom Video Communications | 366% |
| Slack Technologies | 80% |
| DoorDash | 298% |
| Instacart | 214% |
| Peloton | 191% |
| Amazon | 44% |

## VC market - Israel POV

### Local market overview[10] [11] [12]

| $15.5B | 826 | 89 | 17 |
|---|---|---|---|
| **VC investments** | **Deals** | **M&As (First time exits)** | **IPOs & SPACs** |
| The second highest year after 2021 | Similar to the multi-year average | A slight decline in the multi-year trend | A return to the range of previous years (10–20) |

Normalization process: In 2022, the overall amount invested saw a significant decrease, dropping nearly 50% from the previous year. However, this trend is not exclusive to Israel, as Silicon Valley also saw a significant decline in high-tech investments, with a 40% decrease in 2022. After two years of strong growth, the high-tech industry in Israel faced a new reality in 2022. The amount of funding raised by start-ups decreased significantly compared to the previous year, totaling around 15 billion dollars.

**However, it's important to note that this decline should be viewed in context.** In 2021, Israeli high-tech set a record by raising nearly 27 billion dollars, which was an exceptional figure. In comparison, the industry raised around 10 billion dollars in 2020 and 9 billion dollars in 2019. If the pandemic had not occurred and the industry had continued to grow at a rate of 10% per year, the funding raised in 2022 would have been roughly 14-15 billion dollars.

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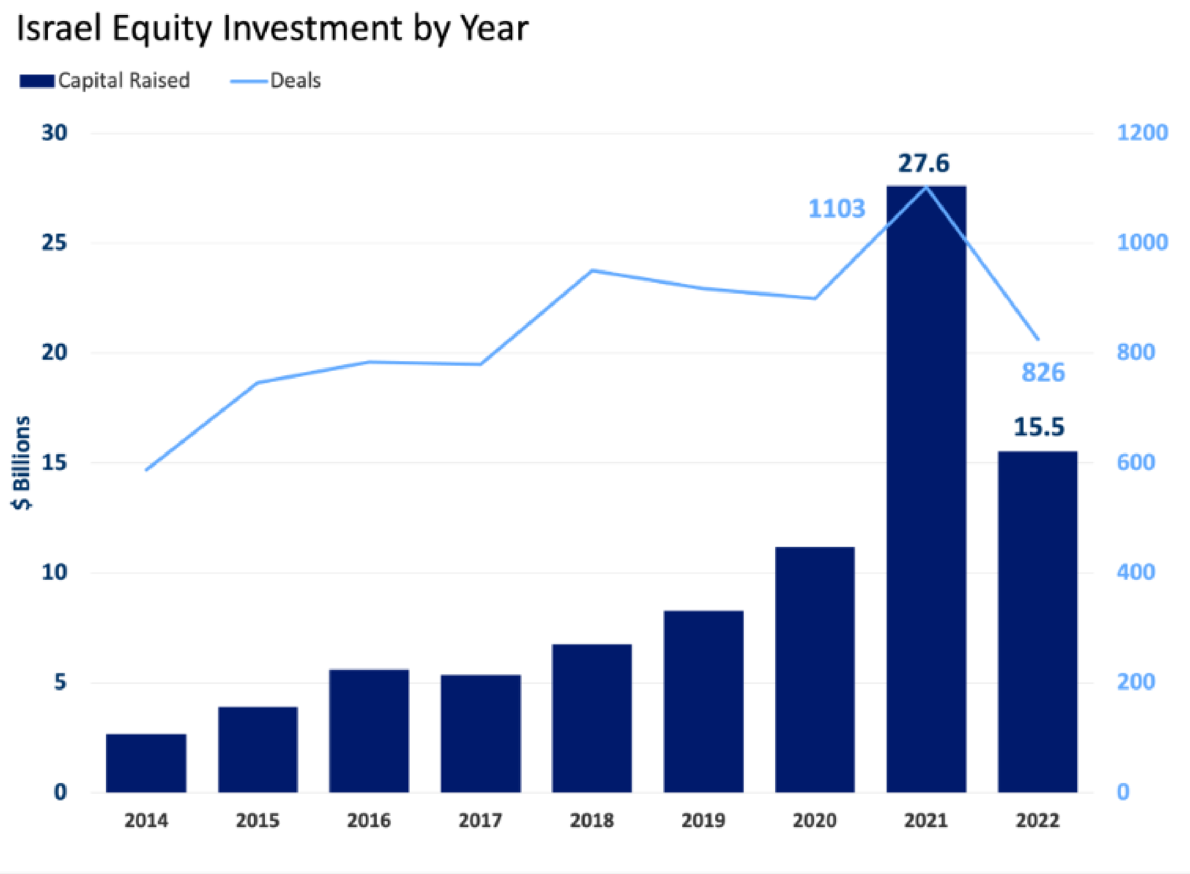
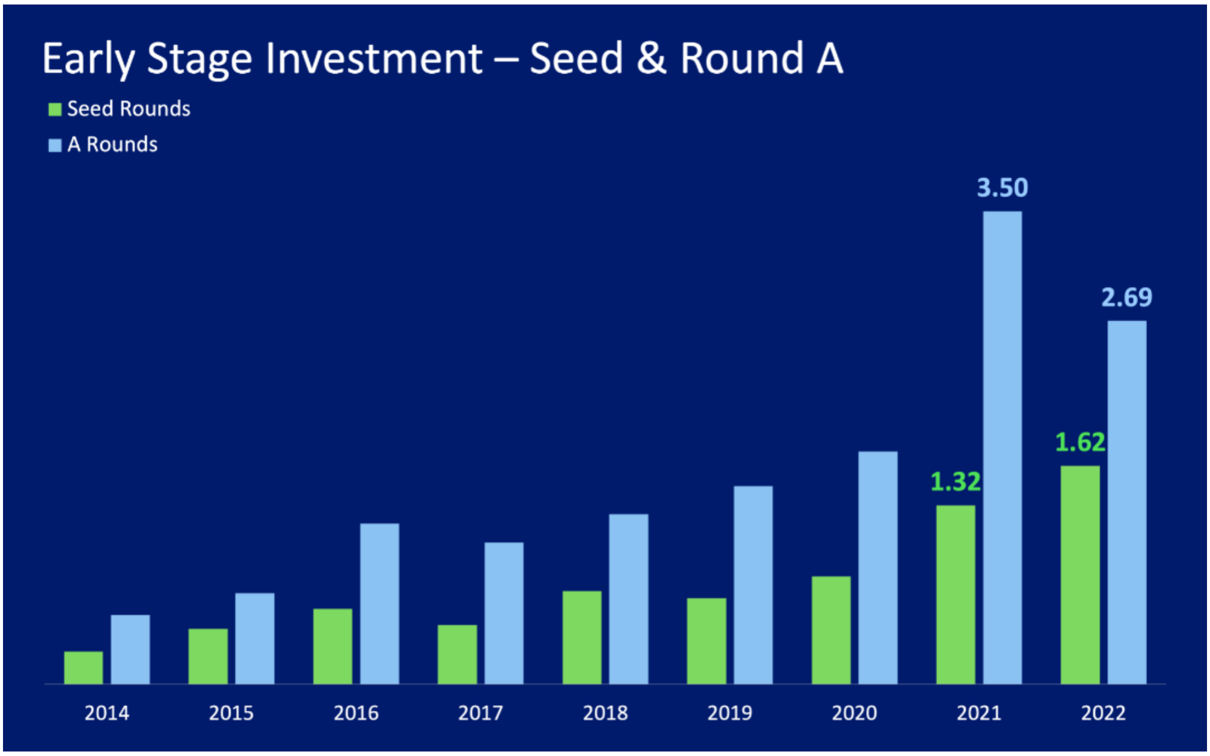
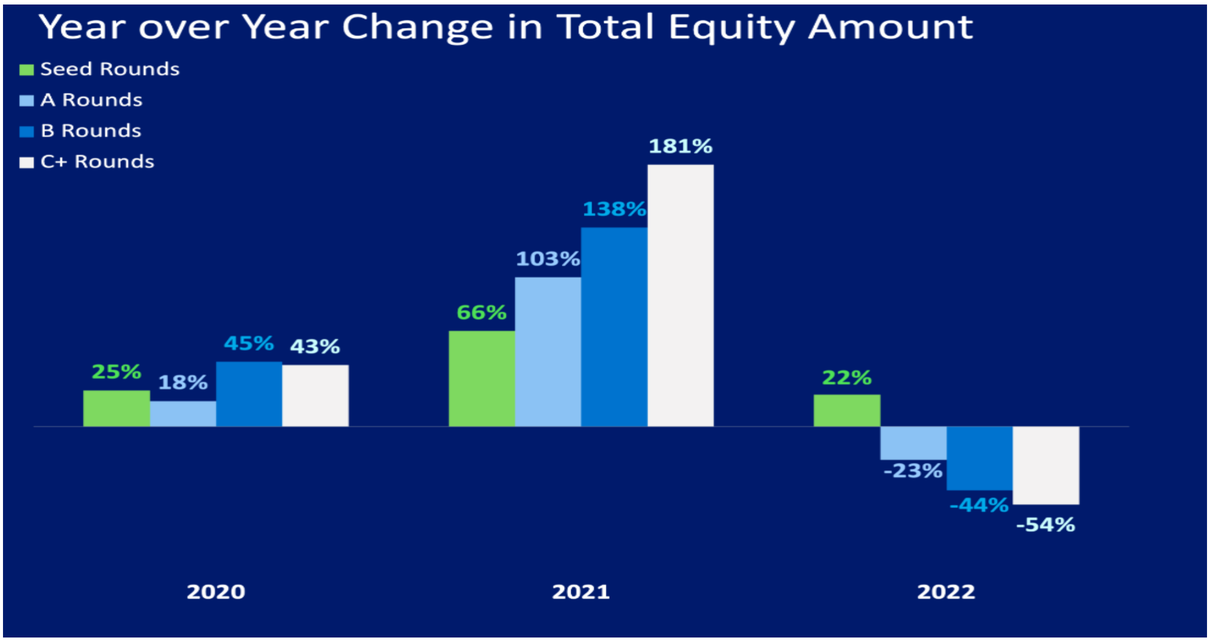
[10] https://finder.startupnationcentral.org/snc-2022-report
[11] https://makospecial.co.il/techend2022
[12] https://www.ivc-online.com/LinkClick.aspx?fileticket=H1_uQBYFEkg%3d&portalid=0&timestamp=1673356983470


Eliezer Mazal 4, Rishon LeZion | info@seedbiz.co.il | www.Seedbiz.co.il

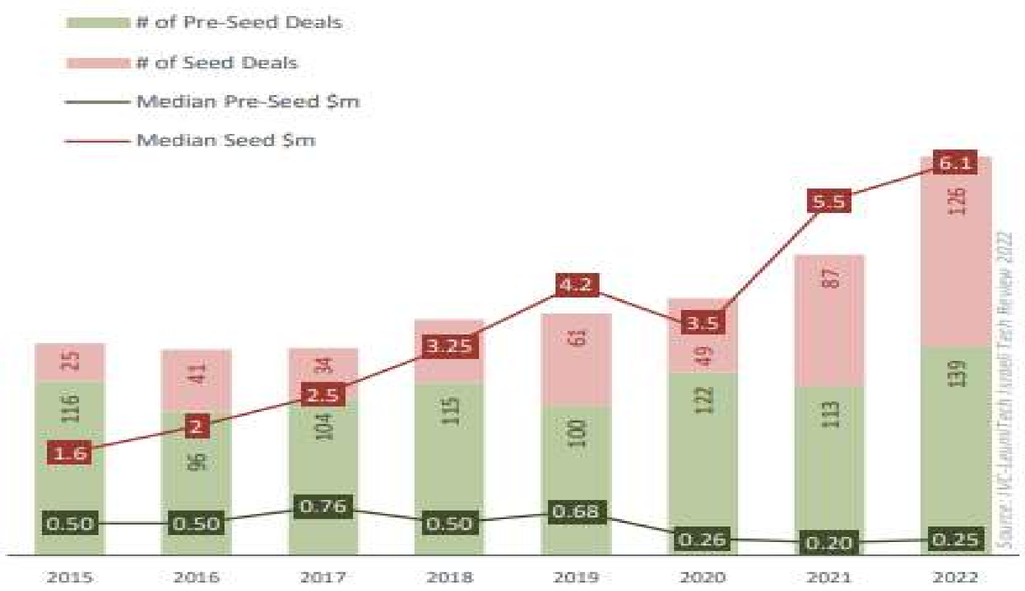



Emphasys on seed rounds: In 2022, seed rounds saw a 22% increase compared to 2021, despite overall decreases in investment across all rounds. This growth can be attributed to a shift in foreign investors' focus towards earlier stages and a significant increase in the number of investors per seed round. From 2019 to 2022, the average number of investors per seed round nearly doubled. The biggest jump was seen in 2022, where an average of one extra investor per round was added when compared to 2021, bringing the average number of investors per round to 3.5. 265 capital raising transactions in pre-seed and seed rounds were carried out last year, compared to only 200 in 2021, 171 in 2020 and 161 in 2019.


Early Stage Investment – Seed & Round A
Seed Rounds
A Rounds
3.50
2.69
1.62
1.32
2014
2015
2016
2017
2018
2019
2020
2021
2022


Year over Year Change in Total Equity Amount
Seed Rounds
A Rounds
B Rounds
C+ Rounds
25%
18%
45%
43%
66%
103%
138%
181%
22%
-23%
-44%
-54%
2020
2021
2022

# and Median $m of Pre-Seed & Seed Deals 2015 – 2022




# and Median $m of Pre-Seed & Seed Deals Q1/2018 – Q4/2022

Split year: The first half of 2022 mirrored the upward trend of 2021, however, the latter half of the year saw a downturn in the financial markets and concerns of a worldwide economic recession.

Startups advance their funding rounds in 2021: The Israeli high-tech industry, like many others, was affected by the global macroeconomic shockwaves. It was revealed that the typical duration between seed and A rounds is roughly three years, though in recent years, many companies have accelerated their fundraising efforts, reducing the gap between rounds.

Higher revenues vs. decreased valuations: most traded companies experienced an increase in revenues, but recorded a decline in their market value. This insight belongs directly to the negative trend of blowing valuations which was typically wrong.

## Sectors overview[13]

Even during a challenging time, certain areas of the high-tech industry were impacted more than others in terms of venture capital funding in 2022. Investors sought out companies with a proven track record of generating revenue, leaving those that were unable to demonstrate this without funding. Analysis of the data reveals which high-tech sectors were the most successful and unsuccessful in securing capital.

In 2022, Cyber and Fintech remained the top investment draws in the Israeli high-tech industry, though investment in these sectors decreased significantly. Cybersecurity companies have seen a rise in demand, partly due to the ongoing conflict in Ukraine. Fintech companies continue to benefit from high expectations that have been reinforced by the COVID-19 pandemic.

*Until Nov. 2022

[13]https://media.licdn.com/dms/document/C4D1FAQEilBUDNO9V5Q/feedshare-document-pdf-analyzed/0/1672671642338?e=1673481600&v=beta&t=S9vVuUiwsQ-oEBBQIa9xj5nJC_Z6Q6Ou_7f55Q9hjEo

| Sector | % Decrease 2021-2022 | % Out of total Hitech investments |
|---|---|---|
| **FoodTech** | -37% | 2021 - 4.6%, 2022 - 5% |
| **Digital Health** | -38% | 2021 - 5.3%, 2022 - 5.8% |
| **Cyber** | -52% | 2021 - 28.5%, 2022 - 23.9% |
| **FinTech** | -63% | 2021 - 28%, 2022 - 18.2% |
| **IOT** | -69% | 2021 - 14.3%, 2022 - 7.8% |
| **AgriTech** | -70% | 2021 - 3.7%, 2022 - 1.9% |
| **Automotive** | -71% | 2021 - 10.4%, 2022 - 5.3% |
| **InsureTech** | -71% | 2021 - 8.9%, 2022 - 4.5% |
| **Retail** | -73% | 2021 - 8.6%, 2022 - 4.1% |

The standout sectors in 2022 were Foodtech and Health technologies (Digital Health), which were the only ones to see an increase in their relative share of funding and experienced the least severe decrease in overall investments. Israeli Foodtech companies are at the forefront of the global industry, and the world has rediscovered Israel's digital health and medical equipment capabilities.

Retail technologies, Insurtech, and Automotive all saw huge losses in venture capital investments in the past year due to the global recession in online commerce and the advertising industry. This had a particularly strong impact on retail and Insurtech companies, as their business models were not generating enough revenue. As for the automotive sector, the delay in the development of autonomous vehicles has made these companies less attractive to investors.

CYBERSECURITY DOMINATED 2022 WITH THE MOST CAPITAL RAISED, FAR AHEAD OF THE NEXT LARGEST SECTOR

| Sector | Total Raised ($M) | # of Deals |
|---|---|---|
| Cybersecurity | $3,473 | 74 |
| Data / AI / ML | $2,010 | 66 |
| Health Tech | $1,908 | 43 |
| FinTech / InsurTech | $1,750 | 40 |
| Cloud / DevOps | $1,523 | 34 |
| Other B2B Software | $1,438 | 39 |
| Real Estate / ConTech | $787 | 12 |
| Consumer Products | $427 | 8 |
| Crypto | $298 | 9 |
| Gaming | $293 | 13 |
| Deep Tech | $284 | 8 |
| AgTech | $274 | 10 |
| HR Tech | $213 | 5 |
| FoodTech | $151 | 8 |
| Mobility | $130 | 6 |
| E-Commerce | $99 | 6 |
| Robotics / Drones | $66 | 5 |
| CleanTech | $26 | 4 |
| Ad Tech | $10 | 1 |



**Deal examples**

- **[Navina (Digital Health)]** is a health tech startup that uses AI to produce patient medical profiles. The company recently secured a $22 million Series B funding round, led by Alive Israel Healthtech fund. This brings the total funding for Navina to $45 million. The new capital will be used to further develop the technology, expand the team, and accelerate the commercialization of the platform. Navina's software automatically summarizes patient medical records into a one-page summary that is easy to understand and can be used by primary care providers. The company's technology is already being used in dozens of healthcare systems in the US and Europe.

- **Apiiro (Cyber)** is a computer software company that specializes in application security, risk management, and cloud security. Founded in 2019, Apiiro is based in New York City and has recently (Nov. 2022) raised $100 million in funding from investors such as General Catalyst, Greylock, and Kleiner Perkins. The company has developed a cloud application security platform to give organizations visibility, context, and actionable insights so they can proactively fix risks across the software supply chain. Apiiro's platform uses machine learning and text analysis to discover application components and help developers identify and fix security issues at the design phase.

- **AI21 Labs (AI/ML)** is an AI vendor that specializes in developing AI systems with an unprecedented capacity to understand and generate natural language. The company is currently valued at $664 million and its latest funding round was a Series B for $64M on July 12, 2022. AI21 Labs plans to use the new funding to expand its operations and to continue developing comprehensive language models.

- **Fireblocks (Crypto)** is a blockchain security service provider that helps businesses move, store, and secure their digital assets. They secured a Series E funding of $550M on January 27, 2022, with its valuation in July 2021 estimated at $2.2B. It provides its services to several large financial institutions, including Bank of New York Mellon, BlockFi, and eToro. Fireblocks offers an all-in-one platform for financial institutions to run their digital asset businesses and provides a multi-layer technology to protect customer and investor funds from cyber attacks, internal collusion, and human error.

- **Trullion (Fintech)** is an AI-powered lease accounting software company based in New York City. It provides software solutions to assist with financial reporting and compliance with ASC 842 and IFRS 16. It recently raised $5.5M from investors such as Aleph, Greycroft, and financial executives from SAP, Ernst & Young, Airbnb, and others. Trullion's software uses artificial intelligence to read unstructured data and translate them into real-time financial reports. The company is aiming to provide businesses with better financial transparency and control over their data.

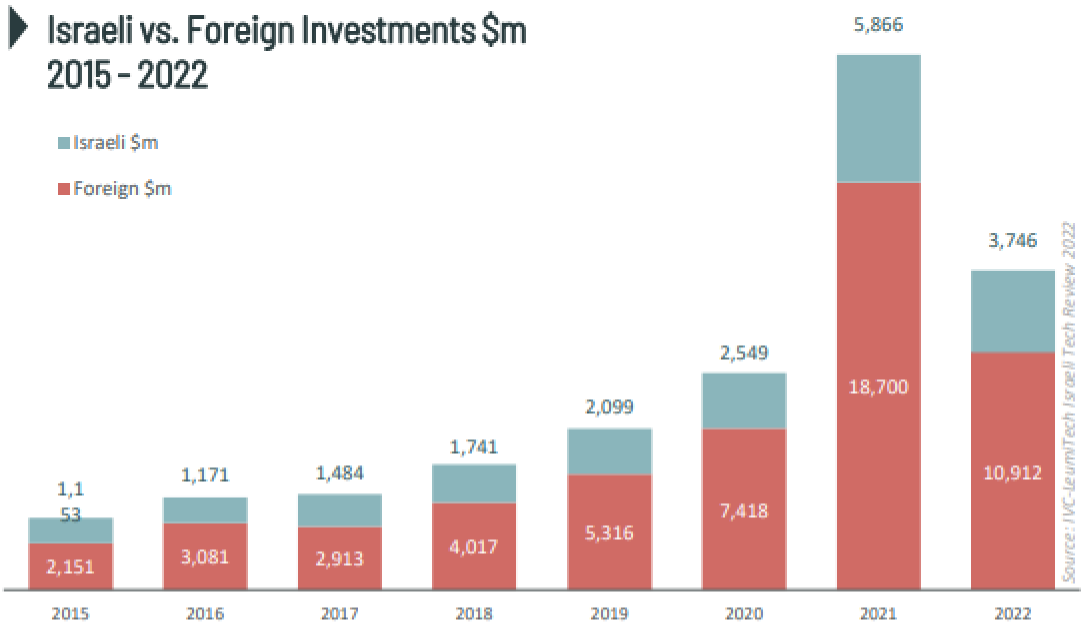
- **Everybuddy Games (Gaming)** is a startup that specializes in developing video games for mobile and console platforms. Founded in 2021, the company has since raised significant funding from investors, including a $15 million Series A round in 2022. The company has also released several successful titles, including Everybuddy

Run and Everybuddy Jump, both of which have seen critical and commercial success. Everybuddy Games has also been actively looking to develop new and innovative game modes, with their latest focus being on the development of a new Battle Royale mode. Additionally, the company is also looking to expand into the educational gaming space with a new set of initiatives and funding opportunities.

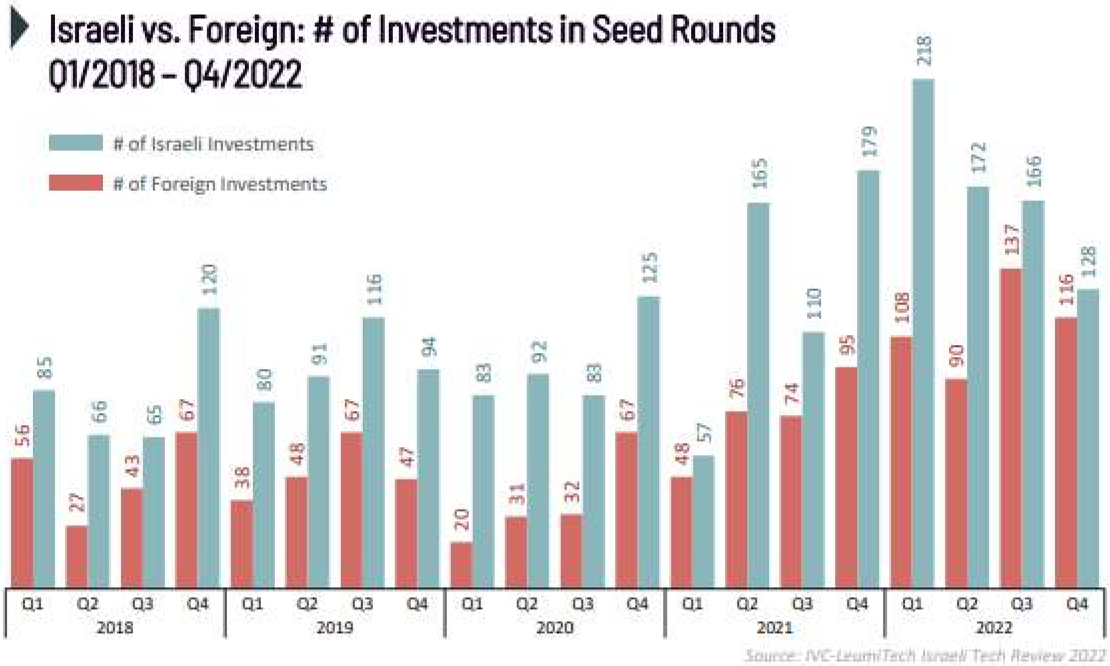
- **Tetavi (Metaverse - Spatial Computing)** is a Los Angeles-based volumetric technology platform that was founded in 2016. The company recently rebranded to **Yoom** and raised a $15 million funding round from investors including former Apple exec Jimmy Iovine and SpringHill Entertainment CEO Maverick Carter. This round brings the company's total funding to $50 million and includes investors from Insight Partners and other venture capital firms. Yoom specializes in volumetric video capture and uses cutting-edge technology to create 3D visuals.

## Foreign vs. Local investments

In 2021, a large amount of foreign funds celebrated in the local start-up ecosystem, which was impossible to achieve without the fullness of these funds. 18.7 billion dollars were poured into the ecosystem by foreign funds, while only 5.8 billion dollars were poured by Israeli venture capital players. The following year, a distribution of 10.9 billion dollars was made to foreign funds, while 3.7 billion dollars was distributed to local entities, thus increasing the share of Israelis in the pie, though not by a large margin.




Foreign investments, responsible for the majority of the Israeli high-tech capital inflow in 2022, complied with the downtrend. In 2022, OurCrowd and Viola VC were the most active local investors in Israel, investing in 84 and 47 startups respectively. Pitango followed with 21 investments. The leading foreign VCs in the Israeli ecosystem were Insight Partners and Tiger Global Management, with 40 and 26 investments respectively. In its first years of activity in Israel, Tiger Global Management focused mostly on more mature companies ready for IPO or unicorn valuation. However, in 2022 its investment strategy shifted to earlier stage companies, with 13 A-round deals and three seed-round deals. In comparison, in 2021 the fund made 75% of its investments in Israel in C+ rounds, and the rest in B rounds.




During the last quarters, there was a noticeable shift in the number of investors participating in seed deals. The number of local investors, typically more prominent in seed deals, dropped drastically, reducing the gap with foreign investors. This suggests that foreign investors may be favoring earlier rounds of fundraising for startups, while Israeli funds have previously been the dominant force in fundraising.

**Nowadays, more than 90% of local venture capital funds identified themselves as seed or early stage funds, which suggests that most of the available funds are earmarked for newer start-ups just starting out.**

## What interests Investors

Before funding a company, venture capitalists (VCs) typically consider a variety of factors to determine whether or not to invest. Some of the key things that investors in the VC industry are interested in include:

| Factor | Description |
|---|---|
| **The team** | Strong management team in place with a proven track record of success, with skills and experience to execute on the business plan |
| **The market** | Large and growing market opportunity, with a clear path to reaching and monetizing the market |
| **Traction** | Evidence of progress and real demand for the product or service |
| **Competitive landscape** | Clear competitive advantage, with barriers to entry that will protect the investment |

| | |
|---|---|
| **Financials** | Clear path to profitability and a strong financial plan, with a solid financial track record of revenue growth and positive cash flow |
| **Exit strategy** | Clear plan for exiting the investment through an IPO or acquisition |
| **ESG** | Environmental, Social, and Governance factors, to evaluate the impact of a company and its business model. |
| **Marketing / Finance Metrics** | • Customer acquisition cost (CAC) - How much does it cost to acquire a customer?<br>• LifeTime Value (LTV) / CAC Ratio (at least 3:1) - The average customer lifetime value across the entire customer base,divided by the customer acquisition cost.<br>• Net new Monthly Recurring Revenue (MRR) Growth Rate - a key metric which shows how fast the company is growing and is the bedrock of a healthy business.<br>• Customer Retention Rate (CRR) - Specially for SaaS companies, it refers to the number of customers that were with the company last month vs today. |

Usually those factors depend on the active round and its stage. It's common that in the Pre seed & Seed rounds, the focus is on the team and the confidence of the investor in the ability of the team to execute. At later stages, there is a smooth switch towards scaling ability.

When targeting VC investors micro resolutions for 2023, there is some important notable assumptions to follow:[14]

- It's all about "responsible growth" now - CEOs are advised to (a) grow at least as fast as before, but also (b) drastically cut all costs. Use terms like "EBITDA". Based on that, a Pro CFO will be in demand in many startups.
- VCs still have a lot of dry powder = ~$300B. As valuations are now stabilizing at lower levels, it provides the required visibility for investors to pour money again into the ecosystem, especially for Seed and Series A.
- Emphasize valuation discipline - Unlike those other VCs who entered into crazy expensive deals in 2020-21 — still, investors will be a bit flexible: if they do get an allocation in the next Generative AI platform Series A at 500x ARR, then definitely they will go for it.
- Refocus on cash & unit economics - While growth was the key focus in 2021 with massive investments from VCs coming in to fund fast-growing startups, 2022 was more about unit economics. This is likely to continue to be the case in 2023, with startups shifting their focus further from growth to profitability, and adopting wiser cash management strategies.
- Opportunity to invest in the Web3 startups/companies - Contributing to the setup and reinforcement of the technology itself, to make sure the fundamentals are strong and to strengthen the infrastructure and also in some companies specialized in DeFi (decentralized finance) and in improving the UX to help people navigate Web3 better.

[14] https://medium.com/cathay-innovation/global-investor-roundtable-2023-predictions-on-whats-next-for-vc-startups-across-the-globe-425fc9fd7049

- Massive investment in the Chinese energy transition - While China still depends on coal for 70% of its energy, they're quickly transitioning to cleaner burning technologies to power the country. In 2023, investors will pour more money into new energy technologies that will decrease China's dependence on fossil fuels.

## Investments overview

### Dominant trends

Looking at the trends to be in venture capital investments in 2023, some of the most dominant resolutions and strategies focus on increasing the diversity of investments, utilizing innovative funding structures, and investing in more early-stage companies. Many venture capital firms are now actively investing in sustainable initiatives, such as renewable energy and green technologies. These types of investments are becoming increasingly popular, as they provide the potential for long-term returns. Furthermore, many VCs are also taking a more active role in the companies they invest in and providing more hands-on support and guidance. VCs are increasingly looking to invest in companies that are solving real-world problems and have the potential to make a lasting impact.

Other trends in venture capital investments for 2023 include a focus on investing in artificial intelligence and machine learning, the use of cryptocurrency for investing, and increasingly looking at digital health and wellness, digital media and entertainment, and the Internet of Things as potential areas for investment. Finally, venture capital firms are also looking at investing in companies that are developing new products and services that are enabled by blockchain technology.

On the other hand, investors may avoid investments in companies that do not follow ESG principles and may also avoid investments in companies that do not have a clear and viable business plan. Of course, investors are also likely to run away from investments in companies that do not have a strong management team or that lack the necessary financial resources to be successful.

## Product type

VC investors generally prefer to invest in technology-based products, such as software, apps, and websites, as they typically have higher growth potential and can scale more easily than physical products. Additionally, technology products often have lower manufacturing costs and can be sold globally with minimal barriers to entry. However, this is not always the case, and some VC investors may also invest in physical products if they believe the product and the team behind it have high potential for success.

### Funded physical-based companies

1. Northvolt is a Swedish-based company that is leading the way in the development of electric vehicle batteries. Their $800 million investment in Envision Virgin Racing, a UK-based Formula E team, is expected to help the company further its mission of making electric vehicles more affordable and accessible.
2. Gecko Robotics is a San Francisco-based robotics company that has received $200 million from the SoftBank Vision Fund. The company is developing robots for industrial use and is working to make the process of inspecting and maintaining industrial facilities safer and more efficient.
3. August Home is a San Francisco-based smart lock and security company that has received $25 million from Sutter Hill Ventures and 8VC. The company is focused on providing secure and convenient access to homes and businesses, and is working to make the process of entering and exiting buildings quicker and easier.
4. Skydio is a Los Angeles-based drone delivery startup that has received $150 million from GV (formerly Google Ventures). The company is focused on providing efficient and cost-effective drone delivery services, and is working to reduce the time and cost associated with the delivery of goods via drones.
5. Carbon is a Los Angeles-based 3D printing startup that has received $60 million from Bessemer Venture Partners. The company is working to make 3D printing more accessible and cost-effective, and is focused on developing new materials and technologies to improve 3D printing capabilities.

**Funded tech-based companies**

1. Robotic Process Automation Inc. (RPA): This tech-based product startup raised $25 million in venture capital funding from investors such as Sequoia and Lightspeed Venture Partners. The company provides automation solutions to streamline business processes and increase efficiency.
2. Viz.ai, AI-powered medical imaging analytics startup: This startup raised a whopping $50 million in venture capital funding from investors such as Kleiner Perkins, Google Ventures, and Citi Ventures. The company uses machine learning and computer vision to detect and diagnose medical conditions in imaging scans.
3. Argo AI, Autonomous vehicle startup: This startup raised $2.6 billion in venture capital funding from investors such as Ford, Volkswagen, and Koch Industries. Argo AI is developing autonomous vehicle technology to enable safe and reliable self-driving cars.
4. Vilynx, Video analytics startup: This startup raised $20 million in venture capital funding from investors such as Google and Microsoft. Vilynx uses artificial intelligence to analyze and organize videos, helping media companies and content creators monetize their videos.
5. Magic Leap, Augmented reality startup: This startup raised $400 million in venture capital funding from investors such as Saudi Arabia's Public Investment Fund and Alibaba. Magic Leap is developing augmented reality technology to create immersive and interactive experiences for users.

## B2B VS B2C

VC investors generally prefer to invest in B2B (business-to-business) companies as they typically have a more predictable revenue stream and a larger total addressable market than B2C (business-to-consumer) companies. B2B companies often have a smaller number of customers but each customer generates more revenue and has a longer lifetime value. Additionally, B2B companies often have higher gross margins and are less affected by consumer trends. However, this is not always the case, and some VC investors may also invest in B2C companies if they believe the product and the team behind it have high potential for success.

**Funded B2B companies**

1. Bolt: Estonian B2B product startup that raised $68 million in venture capital. The investors included D1 Capital Partners, the Investment Corporation of Dubai, and the Estonian Development Fund. Bolt develops software for online payments, transport, and food delivery.
2. Roblox: California-based B2B product startup that raised $520 million. The investors included Altimeter Capital, Andreessen Horowitz, and Index Ventures. Roblox provides a platform to create, share, and monetize 3D games.
3. Glossier: New York-based B2B product startup that raised $100 million in venture capital. The investors included Sequoia Capital, Tiger Global Management, and Thrive Capital. Glossier provides a platform to create and sell beauty products.
4. CloudKitchens: California-based B2B product startup that raised $400 million in venture capital. The investors included Saudi Arabia's Public Investment Fund, Softbank Vision Fund, and Mubadala Investment Company. CloudKitchens provides a platform to help restaurant operators create and manage delivery-only kitchens.
5. Affirm: California-based B2B product startup that raised $500 million in venture capital in 2022. The investors included DST Global, Founders Fund, and Lightspeed Venture Partners. Affirm provides a platform for customers to manage payments for online purchases.

**Funded B2C companies**

1. Care/of: B2C product startup that provides personalized nutritional supplements. Care/of raised $25 million in Series C funding from existing investors including Goodwater Capital, Lerer Hippeau, and Founders Fund.
2. Helium: Consumer electronics company that specializes in low-power wireless communication. Helium raised $51 million in Series B funding from GV, Khosla Ventures, and Dallas Mavericks owner Mark Cuban.
3. Opendoor: Tech-enabled real estate company that simplifies the homebuying process. Opendoor raised a $300 million Series E round of financing from Norwest Venture Partners, GIC, Access Technology Ventures, and other investors.
4. Zipline: Drone delivery service that enables on-demand delivery of medical supplies. Zipline raised a $190 million Series C round led by Andreessen Horowitz, with participation from Sequoia Capital and Y Combinator.
5. Zizoo: Boat rental marketplace, allowing customers to book boat rentals in over 30 countries. The company raised $25 million in a Series A round, led by Piton Capital and DN Capital.

## Short case study: Metaverse

Many people in the ecosystem think that the metaverse will fail, especially after Meta (Facebook) lost a lot of money until now in her projects. Some of the reasons are that the technology is still too immature for it to be useful for everyday tasks. It is also difficult to implement in a way that is both secure and cost-effective. Additionally, many people are skeptical of the potential for the metaverse to be used for malicious purposes, leading to a lack of trust in the technology. Additionally, the metaverse requires a large upfront investment in order to be used, which can be prohibitive for many businesses and individuals. Finally, the lack of a unified platform or standard makes it difficult for businesses to integrate the metaverse into their existing services and products.

On the other hand, many people believe that it will gain huge success, especially because it offers a more immersive and realistic experience than what is currently available. It allows users to create virtual worlds and engage in activities like gaming, socializing, and more in a way that was not previously possible. Additionally, the metaverse provides a platform for businesses to create new and innovative products and services. With the rise of virtual reality, augmented reality, and other technologies, the metaverse is positioned to become an integral part of the future of technology and the way we interact with it.

As mentioned earlier in this research overview, many VCs are investing in the emerging technologies that the metaverse established on. One company that noticed this is LG NOVA, and their beliefs in this market are shown.[15] LG NOVA's CVC has selected 20 startups for the next stage of its global startup competition, Mission for the Future. These startups, chosen from over 1,300 applicants, will receive funding for proof-of-concept projects. The entrepreneurs will now work with LG NOVA to create a business plan and the top 10 must demonstrate that their concept is realistic, profitable and aligns with LG NOVA's mission to innovate for a better life.

[15] https://www.forbes.com/sites/markminevich/2022/08/26/a-case-study-for-the-industry-lg-investing-in-metaverse/?sh=6cdf28321d28

The selected startups in the competition are exploring various applications with the goal of increasing the use of new immersive, interactive technologies and creating more business opportunities. These companies have great potential in the Metaverse area, an area LG is focusing on for growth. The winning startups will have the chance to improve their product offerings with LG's mentorship and resources. Additionally, these companies have the potential to change how we interact with technology and with each other on a global scale.

LG has selected 20 startups for its global competition that have a clear understanding of the metaverse and its potential for businesses and consumers, as well as innovative solutions ready to be widely deployed. The criteria used by LG to select these startups included proof-of-concept, which is a way to show that the idea is feasible by testing it with beta users. The startups chosen by LG have already developed solutions that have been proven to work on some level, which sets them apart from other startups in the field that are still in early stages of development and have not yet produced anything tangible. The ideal startup profile should have a working product and a clear understanding of how that product can create value for businesses and consumers.


Startup examples:

- iQ3 Connect is a virtual reality platform that enables companies to train their employees in a realistic and interactive environment. The company is working on developing the Enterprise Metaverse to help industrial firms become virtual-first, long-term enterprises. Their software platform allows for real-time, immersive (XR) collaboration and interaction with complex 3D content using only a web browser, which can change how industries such as architecture, engineering, healthcare, and manufacturing design, learn and interact. The technology is accessible to anyone with an internet connection.

- Snickerdoodle Labs is creating a data layer for Web 3 that prioritizes privacy, allowing individuals to own their data and the value it generates. The startup uses a tokenized data architecture to ensure customers have control over their data and that online interactions are more secure. This means consumers will have control over their data and be compensated for its value, while businesses can access high-quality data without violating privacy. This could revolutionize how data is shared and valued.

- YBVR is developing advanced technology for immersive broadcasting, allowing for more engaging virtual reality video experiences. The company aims to enhance the live event experience for fans by converting streaming video content into a more immersive viewing experience. This innovation indicates a desire for more immersive and interactive VR content, and it has the potential to change how we consume media by providing a more engaging way to experience live events, such as sports, concerts, and conferences.

All in all, LG has invested in 20 startups that have demonstrated a clear understanding of the metaverse and its potential for businesses and consumers. These startups have proof of concept with working products that have a clear value proposition. LG's investment in these startups aligns with its goal to become a leading player in the global metaverse market. The startups' immersive and interactive nature, ability to reach a broad audience, and potential to revolutionize multiple industries make them a valuable investment opportunity for LG. Other companies can learn from LG's approach by investing in a diverse range of startups to diversify risk and increase chances of success in the emerging metaverse market.

## **Companies gone wrong**

In 2022, there were numerous scandals involving venture capital (VC) investments and companies that lied to their investors. These scandals and others illustrate the need for investors to be cautious and do their due diligence when investing in venture capital firms. It is important for investors to research a company thoroughly (and vice versa) and be aware of any potential risks before making an investment.

- **Theranos**
  Theranos, a blood-testing startup, claimed to have developed technology that could perform hundreds of diagnostic tests with just a single pinprick of blood. The company, which was valued at over $9 billion, and its CEO, Elizabeth Holmes, were considered rising stars in Silicon Valley. However, in 2015, journalist John Carreyrou of The Wall Street Journal published a report revealing that the company was not using its own technology and that the results of its tests were fundamentally incorrect. FDA investigations ensued, and it was revealed that the company had been built on lies. In 2018, Holmes stepped down as CEO and was charged with criminal fraud. The company officially shut down in January 2022, and Holmes was found guilty on four charges of defrauding investors, and in November she was sentenced to over eleven years in prison.

- **FTX**
  Sam Bankman-Fried, referred to as SBF, was a prominent figure in the cryptocurrency industry and had a net worth of $26 billion. He was a supporter of effective altruism, which emphasizes using reason to make the greatest positive impact. Along with other executives at FTX, he and his company donated significant amounts of money to political campaigns, surpassing $70 million in the 2022 election cycle.
  FTX was a leading cryptocurrency exchange, ranking as the third largest globally by trading volume. It allowed users to purchase and sell various digital currencies,

including Bitcoin and Dogecoin, and also had its own token, FTT. The exchange marketed itself as a secure and convenient platform for crypto investing, utilizing high-profile television ads with celebrities like Tom Brady and Naomi Osaka, and also buying advertising spots on MLB umpire uniforms and sports stadiums. Its main competitors were Binance, Coinbase, and Kraken.

In late 2022, the Securities and Exchange Commission (SEC) filed a complaint charging the founders of cryptocurrency trading platform FTX with defrauding investors. According to the complaint, FTX made false statements about its trading volume and the size of its user base in order to attract more investors. The company also failed to disclose material information about its operations, financials, and risks, and engaged in insider trading.

The SEC alleged that the company's founders had misled investors by claiming that FTX had a larger user base than it actually had, and that its trading volume was much higher than it actually was. The SEC also alleged that the founders had failed to disclose information about their financials and operations, as well as their ability to manipulate stock prices.

The SEC's complaint resulted in a settlement in which FTX agreed to pay more than $5 million in penalties and disgorgement. Additionally, the founders of the company were barred from serving as officers or directors of a public company for five years. The settlement also required FTX to implement procedures to prevent future violations of securities laws.

- **Frank**
  Frank, an online investment company, was accused of lying to investors about its profitability and was also accused of not disclosing information about its financials and operations.

  In 2021, JPMorgan Chase & Co. acquired the financial technology company Frank for $175 million. The main purpose of the acquisition was to gain access to Frank's customer relationships, which could be used to sell more profitable financial products to those customers in the future. However, the acquisition did not go well and in November 2022, Frank's founder, Charlie Javice, was fired by JPMorgan. Now, Javice and JPMorgan are suing each other with Javice demanding the bank pay her legal fees and JPMorgan accusing Javice of fraud, alleging that Frank's email list, which they paid $175 million for, was fake. As of today, the lawsuit is still ongoing.

- **SPAC bubble**[16]
  The trend of SPACs, or special purpose acquisition companies, seems to be cooling down as many companies are closing before the end of the year. SPACs are empty companies that raise capital and merge with private companies in order to introduce them to trading on the stock exchange. However, with falling stock prices and rising interest rates, it has become difficult for SPAC managers to find deals and meet their two-year deadline. Additionally, a new tax on repurchases of shares has accelerated the rate of closing for SPACs. As a result, SPACs are now closing at a rate of four companies per day and the founders of these companies have lost over $1.1 billion this year. Furthermore, the average valuations of startups announcing mergers with SPACs have fallen to around $400 million this quarter, down from more than $2 billion last year. A total of nearly 400 SPACs holding $100 billion have yet to find deals, while another 150 companies holding around $25 billion have reached merger agreements but have not closed them.

[16] https://www.spacresearch.com/

## Final 2023 Resolutions[17]

1. **VC funding is not the only option** - Consider CVC funding, or corporate venture capital funding, which can be beneficial for entrepreneurs for several reasons. First, CVCs are often backed by large, established companies that can provide not only funding, but also resources, expertise, and connections to help startups grow and succeed. Additionally, CVCs may have a strategic interest in the startup's technology or business model, which can provide a valuable partnership or acquisition opportunity. Furthermore, CVCs can provide a valuable source of capital for startups that may have a harder time raising funds from traditional venture capital firms.

2. **Seed funding round keeps getting stronger despite overall decline** - First, the pandemic of 2021 caused a shift in the venture capital landscape, with more focus being placed on early-stage startups and founders. This allowed for more money to flow into seed rounds, as investors saw them as a good opportunity for long-term returns, so there was a shift from later rounds to Seed rounds. Additionally, the increased availability of government funding for startups and small businesses allowed for seed rounds to be funded more easily.

3. **2022 is actually a correction to the spike of 2021** - If we eliminate 2021 we can see a linear line up from 2020, so 2022 is second biggest after 2021. We have to wait and see what comes in 2023, but it's fair to compare it to 2020 or 2019 and not to 2021 which agreed by all was an abnormal year for the ecosystem.

4. **Dry powder is waiting to get wet** - There is an enormous amount of billions $ just waiting to be invested. It means that the VCs already have that money in their account and they are waiting for the right opportunities.

[17] https://sifted.eu/articles/vc-fundraising-2022/

5. **Investors default interests changed** - After 2021 boomed with blown huge valuations for startups that showed only good revenues in the better case, or startups that had only good potential in the worst case, along with scandals that proved a bad due diligence process, it seems that the VC investors shift to demanding seeing potential only after the startups will show a financial plan for profit and not just growth or revenues. Some called it disillusionment.

6. **Foreign investors still interested in funding Israeli startups** - Although the global trend of declining investments (if we include 2021), The localIsraeli ecosystem is still blooming. Startups keep getting established in the right and updated hot sectors, and the innovation-first mindset of Israeli entrepreneurs keeps attracting investors from all over the world. Solid business model will now be the key difference in the 0/1 investing game.

7. **Tech innovation is now faster than ever** - Due to the proliferation of new technologies such as artificial intelligence with the latest ChatGPT and equivalents, machine learning, blockchain, and the Internet of Things. These technologies have made it easier to develop and deploy new products and services, as well as to quickly iterate and refine existing ones. Additionally, the increased availability of data and computing power has enabled faster innovation cycles, allowing companies to test and refine products at a much faster rate than before. Finally, the trend towards open source development has made it easier for developers to collaborate on projects and to quickly share their work with others.

8. **Sectors to be considered** - First and foremost, it's the Climate Tech sector to be mentioned. More than one quarter of all venture capital funding is going to climate technology, and emissions problem solving is where the money wants to go. The world needs it and the investors understand it. Later on, due to the transition towards digitalization processes, Digital Health could see enormous investments flowing its way. FinTech will probably continue to be on top as many people and companies are looking for better solutions to handle their money.  We can also look for that the AI & ML will be in the mind of the VCs, as we saw the huge demand for ChatGPT and other similar tools demand, along with the latest funding from

Microsoft that invested another $10B in OpenAI. Lastly, we should expect that FoodTech, Cyber and even the Metaverse would get focus from investors in 2023. Metaverse investments will be on the core function and the fundamentals, at least after it will show feasibility.

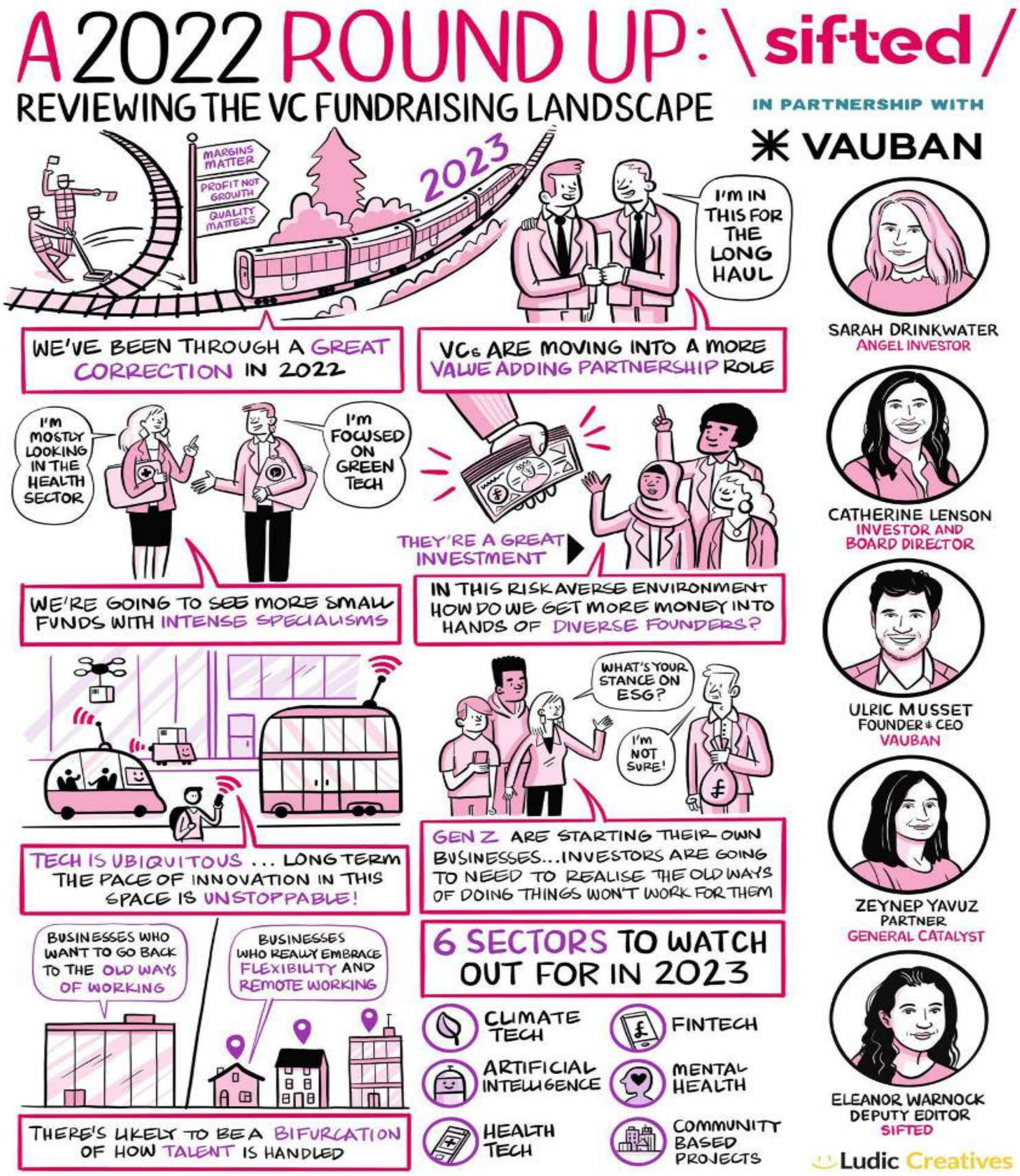
9. **Impact investing will focus more on Social** - Both generalist VCs, as well as new emerging dedicated VCs, will pay increased attention to the S and G in ESG. Social impact topics such as social mobility, fair access to healthcare and education, the protection of vulnerable parts of the population.

10. **Race to acquire Gen Z customers** - Trying to get the attention of GenZ. New startups will emerge with innovative solutions to attract this market, noticeably with content.

11. **Looking to invest in more niche markets** - Many VCs may resolve to look into niche markets with lower competition, where they might find startups with more sustainable and profitable business models.

12. **Investing in underrepresented founders and startups** - Many VC firms have committed to increasing diversity and inclusion in their portfolios, and 2023 could be a year where this focus becomes even more pronounced.

13. **Building a more robust network of resources** - Many VC firms may make a resolution to build a more robust network of resources to support their portfolio companies, such as recruiting talent, opening new markets, and providing legal and accounting support.


A 2022 ROUND UP: \sifted/
REVIEWING THE VC FUNDRAISING LANDSCAPE
IN PARTNERSHIP WITH
VAUBAN
MARGINS MATTER
PROFIT NOT GROWTH
QUALITY MATTERS
2023
I'M IN THIS FOR THE LONG HAUL
SARAH DRINKWATER
ANGEL INVESTOR
WE'VE BEEN THROUGH A GREAT CORRECTION IN 2022
VCs ARE MOVING INTO A MORE VALUE ADDING PARTNERSHIP ROLE
I'M MOSTLY LOOKING IN THE HEALTH SECTOR
I'M FOCUSED ON GREEN TECH
THEY'RE A GREAT INVESTMENT
CATHERINE LENSON
INVESTOR AND BOARD DIRECTOR
WE'RE GOING TO SEE MORE SMALL FUNDS WITH INTENSE SPECIALISMS
IN THIS RISK AVERSE ENVIRONMENT HOW DO WE GET MORE MONEY INTO HANDS OF DIVERSE FOUNDERS?
WHAT'S YOUR STANCE ON ESG?
I'M NOT SURE!
ULRIC MUSSET
FOUNDER & CEO
VAUBAN
TECH IS UBIQUITOUS ... LONG TERM THE PACE OF INNOVATION IN THIS SPACE IS UNSTOPPABLE!
GEN Z ARE STARTING THEIR OWN BUSINESSES...INVESTORS ARE GOING TO NEED TO REALISE THE OLD WAYS OF DOING THINGS WON'T WORK FOR THEM
ZEYNEP YAVUZ
PARTNER
GENERAL CATALYST
BUSINESSES WHO WANT TO GO BACK TO THE OLD WAYS OF WORKING
BUSINESSES WHO REALLY EMBRACE FLEXIBILITY AND REMOTE WORKING
6 SECTORS TO WATCH OUT FOR IN 2023
CLIMATE TECH
FINTECH
ARTIFICIAL INTELLIGENCE
MENTAL HEALTH
HEALTH TECH
COMMUNITY BASED PROJECTS
ELEANOR WARNOCK
DEPUTY EDITOR
SIFTED
THERE'S LIKELY TO BE A BIFURCATION OF HOW TALENT IS HANDLED
Ludic Creatives

# Thank you very much for reading.

May your startup get investments soon and disrupt the market!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