

Future of Fintech

SVB's Outlook on Innovation
in the Fintech Industry

October 2023



A New Era Begins

When the graphs are all up and to the right, that's an easy story to tell. For a long time, they didn't go any other way. More than a decade of US expansion lifted the innovation economy to new heights year after year as technology moved from a niche segment into the mainstream. Perhaps no tech sector was more favored than fintech. In the wake of the Global Financial Crisis, near-zero capital costs and the emergence of smartphones allowed fintechs to flourish by building the banking apps people wanted.

The unbundling of financial services brought every financial product out of the bank lobby and onto a phone screen — from insurance policies and stock trading to debit payments and credit monitoring. By 2021, at the peak of VC investment, fintech companies accounted for one-fifth of US VC dollars invested and unicorns created (page 15).

Now, two years into a VC slowdown, the fintech sector is feeling the effects of the tougher macro conditions. The low-cost funding that opened the door for business models like buy now pay later (BNPL) and alternative consumer lending has grown more expensive, while regulators, who once overlooked technology providers, are placing fintechs under increasing scrutiny. All of this adds up to a more complicated picture for fintech founders and investors.

In this latest edition of our Future of Fintech report, we leverage SVB's unmatched proprietary data and deep sector knowledge to provide an in-depth look at the health and productivity of the fintech sector. Our findings show that while fintech companies are facing obstacles to growth, they are also finding opportunity. For example, the demand for regulatory technology is growing as federal agencies set new rules for financial technology (page 8). Payment companies are primed for growth as the shift toward embedded finance continues (page 11), and the emergence of artificial intelligence (AI) is driving efficiencies across fintech subsectors (page 7).

These trends are already showing up in the data. While VC investors are pulling back on deployments generally, fintech valuations still hold a premium compared to tech overall, an indication of the long-term promise for the space (page 12). The same can be said for blockchain and digital assets. While this space has weathered challenges in the last year, rising asset prices and commitments by institutional investors suggest that blockchain technology may be entering a new phase of development (page 17). While it's easy to get distracted by the hype of short-term volatility, we remain committed to the lasting viability of the fintech space. Innovation isn't always a straight line, but our enduring view remains optimistic.

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Outlook: Four Themes to Watch



Tuning business models for higher interest rates

Fintechs that were born during the zero-interest rate environment are shifting revenue models toward the most profitable products under tighter margins and changing demand dynamics.



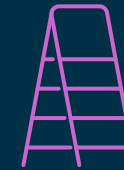
Scarcity of capital spurs a flight to quality

Tough market conditions are compressing valuations and driving tighter competition for the best deals. Valuations for the top quarter of fintech deals have remained sticky, while the fintech space overall still holds a premium to other tech sectors.



M&A buyer's market: Shifting from build to buy

The backlog of IPO-ready fintech companies is putting pricing pressure on founders to accept less favorable deal terms. Financial institutions see the buyer's market as a chance to scoop up low-cost tech platforms.



Blockchain steps into a new growth cycle

The winter has thawed into spring as digital asset prices hover 50% above the lows of January. This cycle starts from a higher baseline with 83 unicorns and \$67B in venture capital already at work in active blockchain startups.



Macro

Higher Rates Pressure-test
Revenue Models



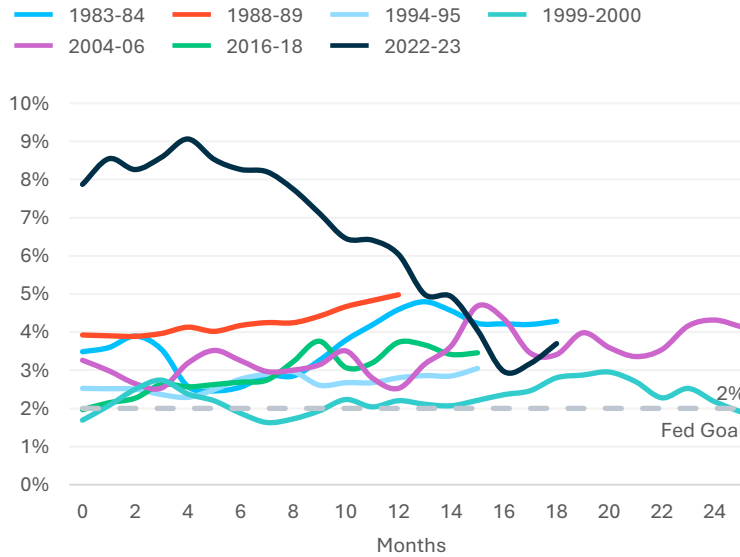
Inflation Tamed, But Higher Rates Remain

The Fed's sustained interest rate hikes appear to be working as intended. Inflation, which loomed near a 40-year high of 8.2% this time last year, was down to a more manageable 3.7% in August. It's clear that higher rates are here to stay. Fed chairman Jerome Powell said more rate hikes may be needed to bring inflation down to the goal of 2% with current Fed projections expecting an additional hike this year. **For many fintechs born in a zero-rate environment, this paradigm shift to higher costs of capital represents a major hurdle to established business models**, which have largely depended on high volume transactions to overcome steep customer acquisition costs. These costs are only rising now that higher interest rates are making it harder to find creditworthy borrowers, both because demand is drying up and the pool of creditworthy borrowers is shrinking.

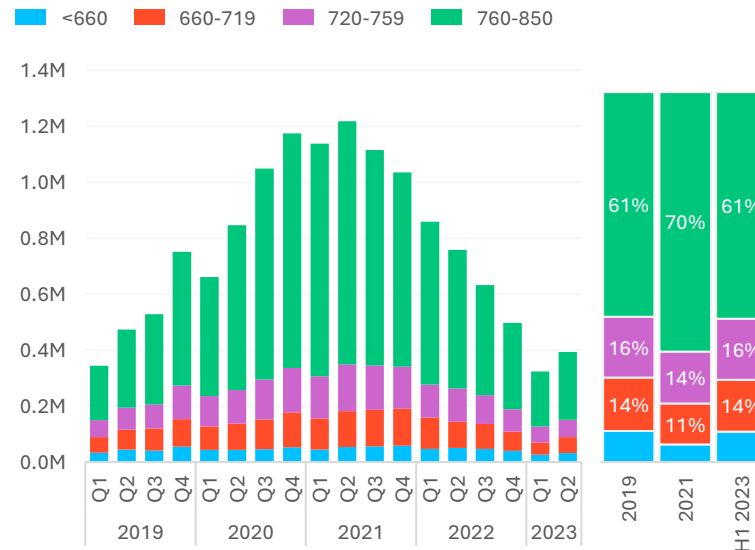
Margins are being squeezed across most consumer debt products. The most pronounced example of this shift can be seen in home lending. Mortgage rates have gone up as the prime lending rate has increased, but diminishing demand for loans means originators can't pass the full increase off to consumers, resulting in lower margins on less volume. The home buying boom of 2021 resulted in a 2x increase in mortgage originations for prime borrowers, originations have fallen 75% since the peak. The trend extends to auto loans, where the average interest rate is also below the prime rate, down 90 basis points from a year ago. One area bucking the trend is credit cards, which have remained highly profitable. Card providers are able to more than pass on the costs of higher rates as consumers turn to credit to offset higher prices and depleting savings.

These headwinds are putting pressure on fintechs, especially consumer lenders, to pivot toward new revenue streams or find cheaper capital sources. As a result, valuations are taking a hit. Forward revenue multiples of public fintech stocks have fallen sharply to reflect the pessimism.

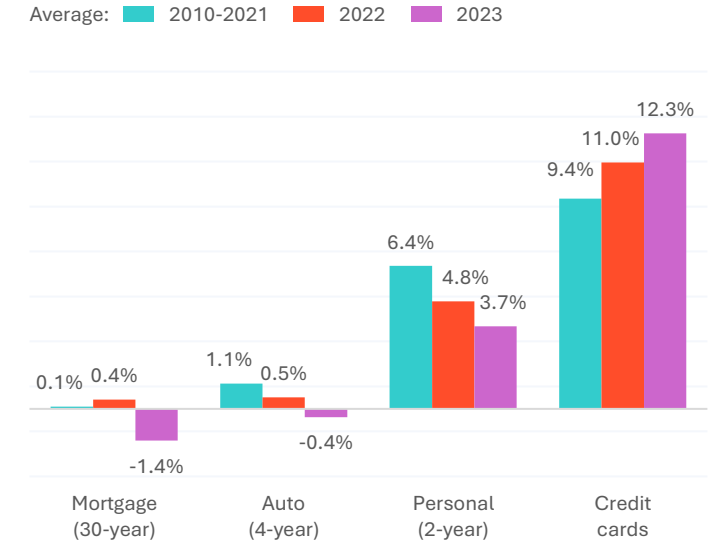
US Inflation During Fed Rate Hikes¹



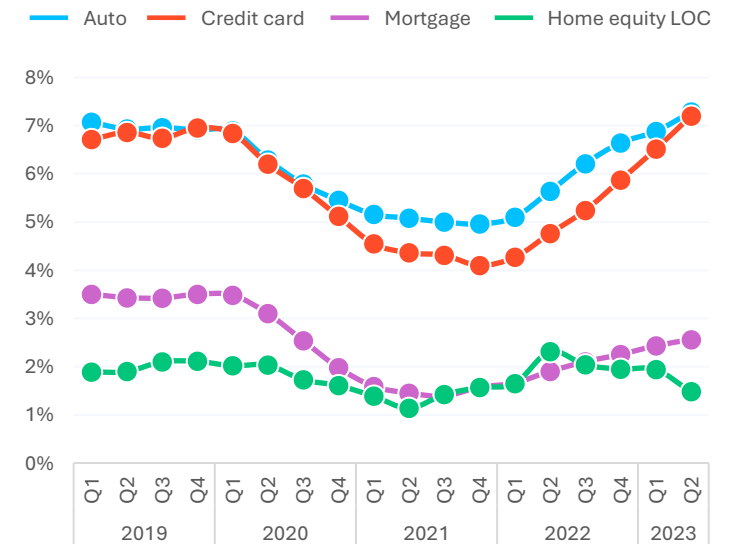
US Mortgage Originations by Credit Score



US Interest Rates Minus the Prime Rate²



US Delinquency Rates by Loan Type



Notes: 1) Inflation as measured by the YoY change in the consumer price index. 2) Rates for 2023 reflect the latest available data. Source: Federal Reserve Bank of St. Louis, Federal Reserve Bank of New York, PitchBook and SVB analysis.

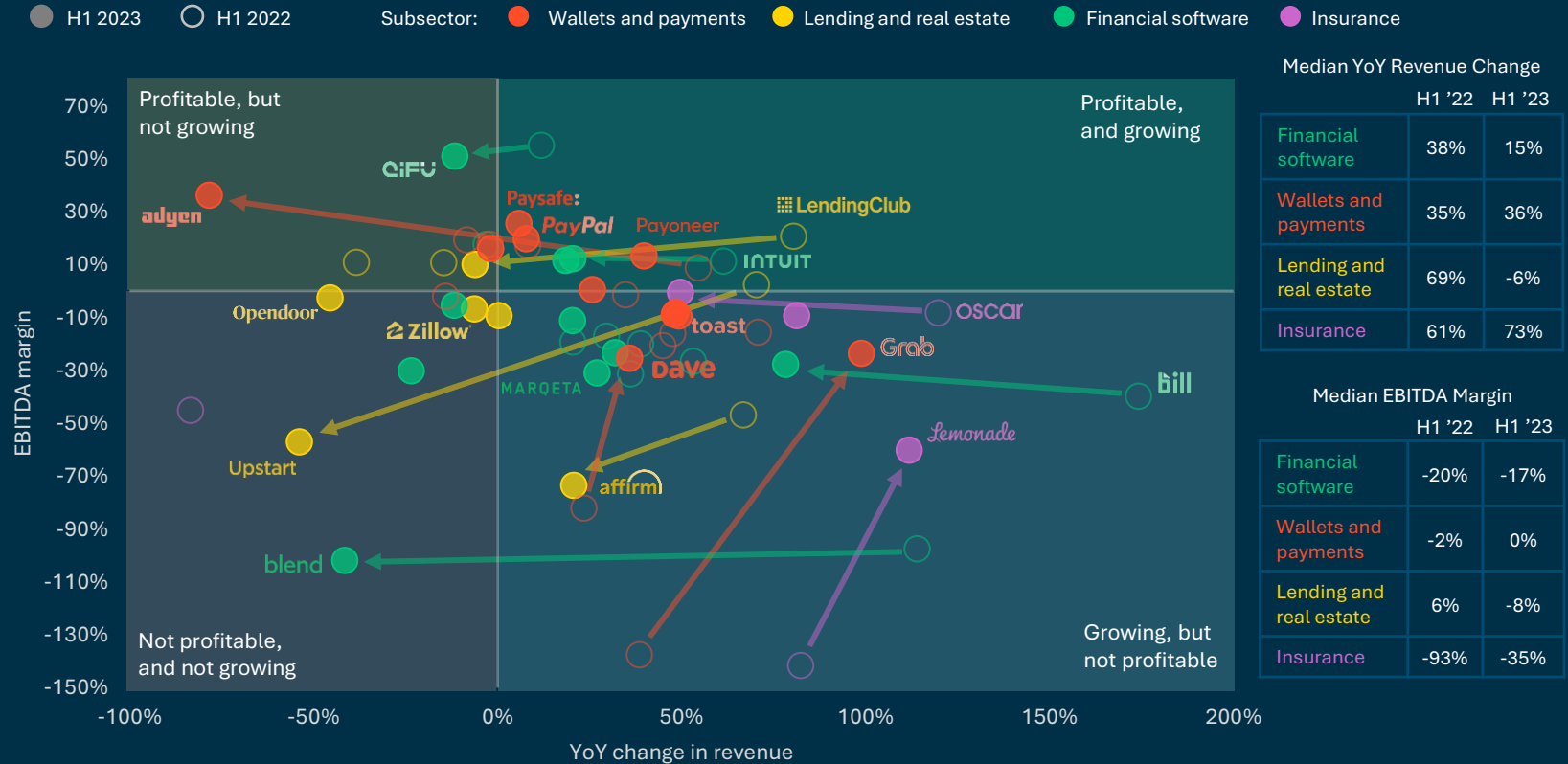
Split-Decision: Trade Growth for Profit

When borrowing costs were relatively cheap and free-flowing, fintechs could afford to focus on building products that attracted users, even if the unit economics weren't ideal. High growth rates trumped profitability as investors favored expansion over unit economics. Some turned to freemium models to drive volume over monetization. **The higher cost of capital is now putting pressure on fintech companies to adopt more profitable practices, or in some cases, completely pivot to new revenue sources.** We see these trends playing out among the cohort of formerly VC-backed public fintech companies. Among this group, revenue growth rates have contracted, falling from a median of 39% YoY growth in 2022 to 20% growth in 2023.¹ At the same time, EBITDA margins have improved as companies shed costs.

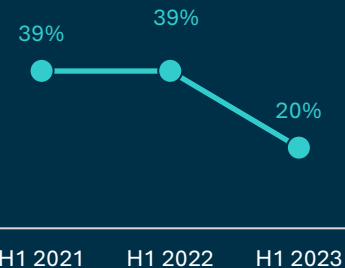
Alternative consumer lenders are especially exposed to high interest rates. The lending-as-a-service platform Upstart uses AI technology to automate lending decisions for personal and auto loans. It experienced rapid growth in 2021, but rising capital costs have squeezed its margins and lowered consumer demand for loans. Charge-offs are up, while originations were down 72% in H1 compared to H1 2022. Many companies are making proactive moves to mitigate their risks. The buy now, pay later (BNPL) lender Affirm has offset lower loan revenue with higher merchant fees. The neobank SoFi last year branched into platform services with the acquisition of Technisys. That move has provided new revenue to offset lower originations.

Some are doubling down on their existing model. The neobank Dave has attracted 9M members by offering AI-underwritten cash advances and checking accounts with no overdraft fees. Revenue is largely dependent on tips from satisfied customers. Despite headwinds, growth has continued and improving profitability (driven by automation) recently helped the company secure better lending terms.

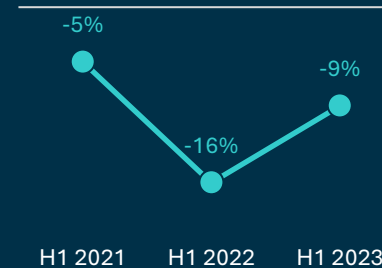
Public Fintech Companies: Revenue Growth and EBITDA Margins¹



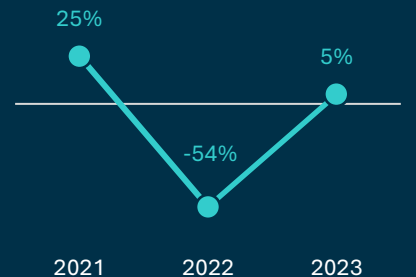
Median YoY Revenue Growth¹



Median EBITDA Margin



Median YoY Change in Market Cap²



Notes: 1) Data compares the YoY revenue change and outright EBITDA margin from a cohort of 31 formerly VC-backed public fintech companies.

2) YoY change from the end of year market capitalization for 2021 and 2022 and as of 9/25/2023.

Source: S&P Capital IQ, PitchBook and SVB analysis.

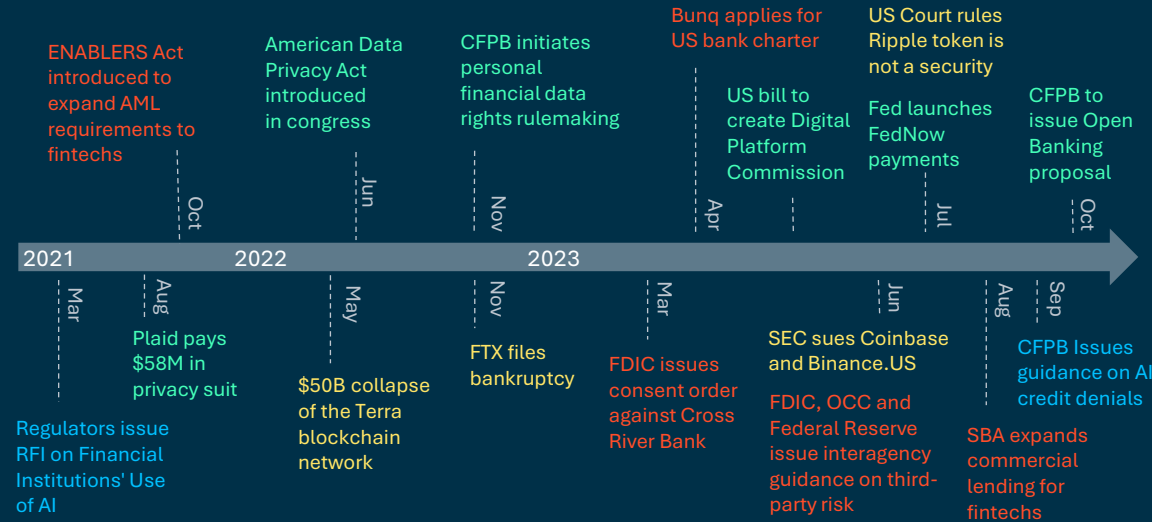
Regulation and Fraud Costs on the Rise

The patchwork of agencies set up to regulate US financial institutions largely overlooked the financial technology platforms that rose up in the last decade. Regulators are making up for lost time by grappling with issues ranging from data privacy to fair lending to digital assets. Dovetailing this growth in regulation is a rising trend of fraud in the financial system.

Fraud costs are a direct hit to the bottom line. As many as 60% of fintechs reported paying at least \$250k in the last year in compliance fines and penalties, according to a survey by the regtech firm Alloy. **Automation, including through the use of AI, is seen as both a solution to better fraud detection, and a risk.** According to the same Alloy survey, 56% of fintechs are already using AI for compliance and another 29% are considering it. Federal agencies are cautious of the new technology. Concerns about the potential for AI-enabled cyberattacks, market manipulation, and biased lending decisions are being studied in an interagency rulemaking process that began in 2021. Another area of focus is digital assets which are still largely unregulated in the US.

In the traditional finance space, the rise of neobanks has also been an increasing focus of regulator activity. These neobanks, such as Chime, with 21 million users, offer front-end technology and marketing on top of a partnership with a chartered bank. **Regulators and lawmakers are putting pressure on partner banks to better manage the risk of these neobanks.** In June, the OCC, FDIC and the Federal Reserve issued the Interagency Guidance on Third-Party Relationships, underscoring that banks are responsible for the risk of their fintech partners. This increased scrutiny is creating opportunities for regulatory technology. Companies like Alloy and Cable are among the regtech¹ startups that have raised \$8.9B in the last two years.

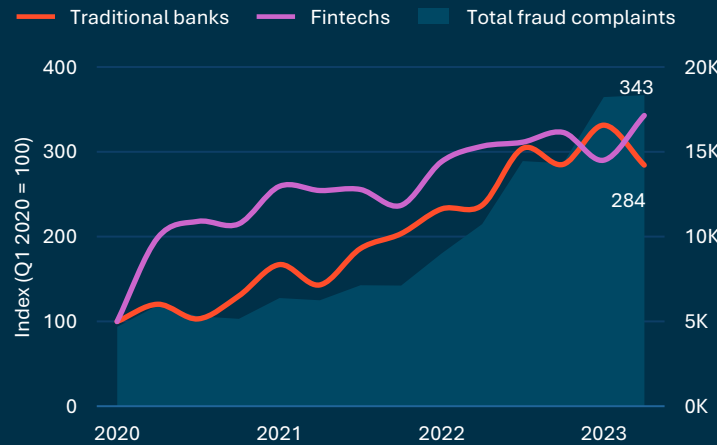
Fintech Regulatory Timeline: Key Actions and Rulings



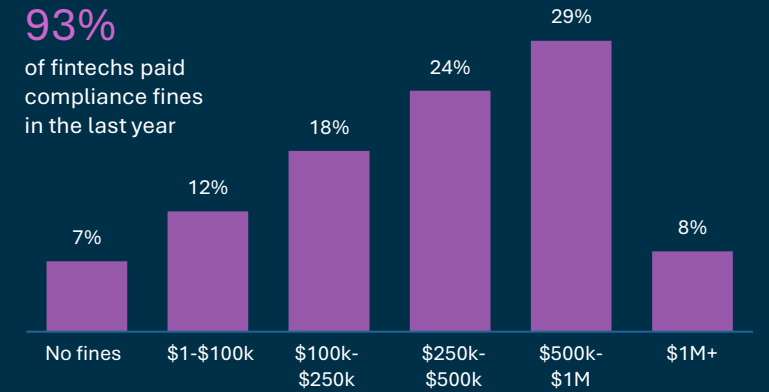
Key Regulatory Themes in 2023

- Digital Assets**
Seeking clarity on stablecoins and tokenized assets
- Data Security**
The rise of open banking
- KYC/Compliance**
Banks under pressure to manage third-party fintech risk
- Artificial Intelligence**
Harnessing AI's benefits while mitigating the risks

US Monthly Complaints of Fraud Indexed by Company Cohort²



Percentage of Fintech Companies³ Reporting Annual Compliance Fines





Capital and Benchmarks

Cutting Back to Get Ahead



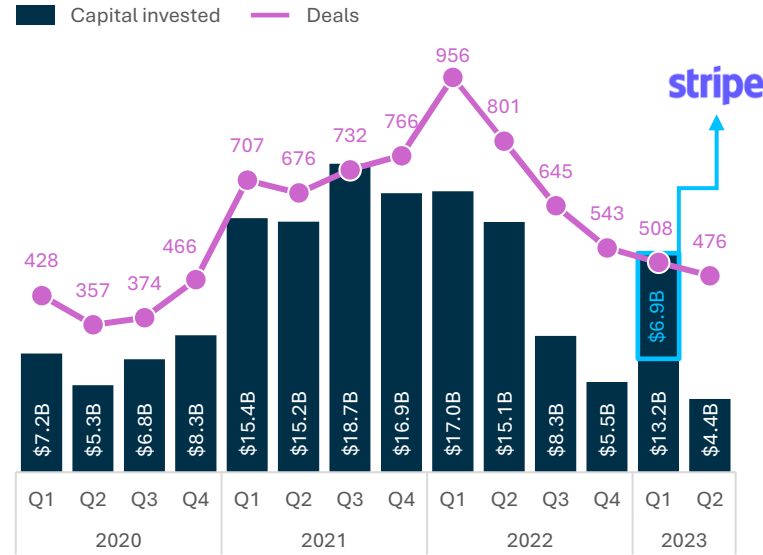
Fin-vestment Slows; Mega Deals Shine

US fintech VC fundraising has largely mirrored the broader fundraising market. As it stands now, funds that have closed in 2023 with a stated interest in fintech are down nearly 70%, with aggregate fundraising dollars falling at a similar rate. However, that doesn't mean firms are standing still. Ribbit Capital is raising Fund X and has closed \$800M in its first round. Corporates such as PayPal and Nationwide are in the midst of raising fintech funds.

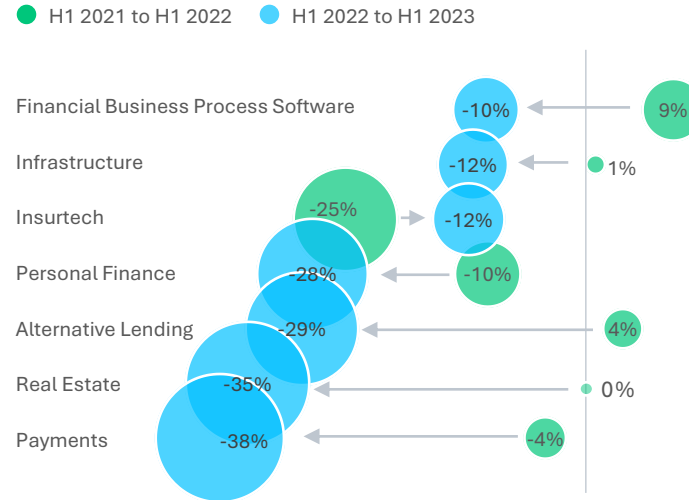
Capital is also being put to work. **While down from 2021 highs, deal flow has started to settle in between the lulls of the pandemic and the heights seen in a frenzied 2021.** At its current clip, deal pace is slated to fall 33%, while investment dollars are on track to decline 23% compared to last year. However, recent quarters have been highlighted by several notable mega deals, most notably Stripe, which landed a \$6.9B deal. Yet even the mega deals aren't all positive. Stripe took a 47% markdown from its March 2021 \$95B post-money.¹

From a subsector standpoint, activity has started to show a bifurcation. **Industries more prone to changes in interest rates, such as personal finance, lending and real estate, have seen dramatic decreases in activity.** Meanwhile, areas such as insurtech, infrastructure and financial business process software have fared better. Commercial payment deal activity has remained slightly more robust than consumer payments, due to the growth potential of embedded payments. In addition, insurtech has seen some positive momentum recently, with Chicago-based D2C homeowners insurtech company Kin raising a \$33M extension Series D round (\$142M in total for the series D) at a \$1B valuation. This funding round should help provide additional runway, allowing the company to cut a path to profitability, as it has just reached positive operating income — indicative of the trend seen recently favoring profitability over growth at all costs.

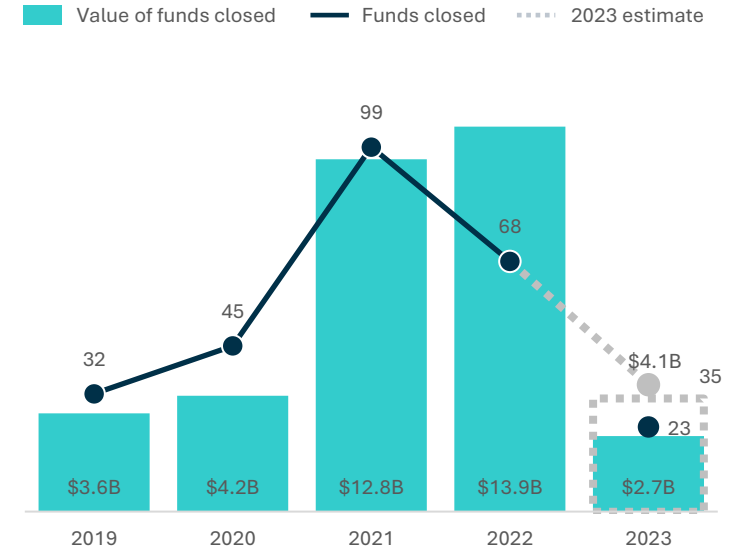
US VC Investment Into Fintech



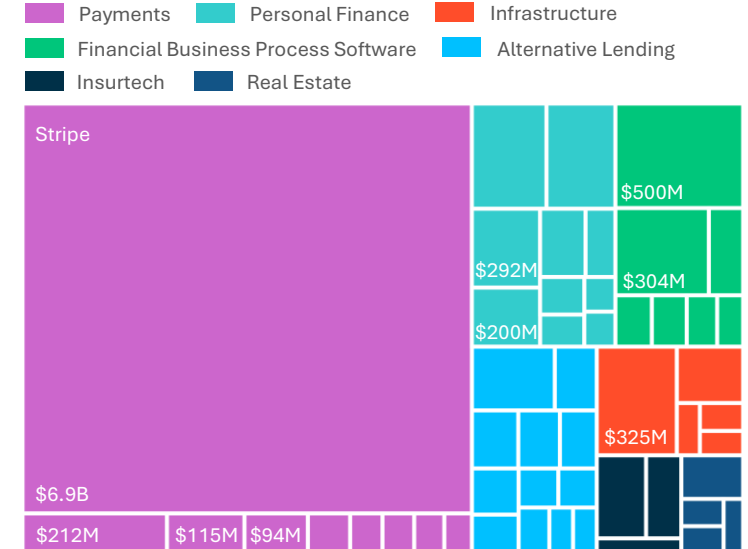
Change in Deal Activity by Subsector



US VC Fundraising: Fintech-Specific Funds



Largest 50 Fintech Deals by Subsector²



Notes: 1) A secondary deal on 9/2/2022, valued the company at \$152B on a post-money basis, implying a 67% drop to its current valuation. 2) As of 9/15/2023.

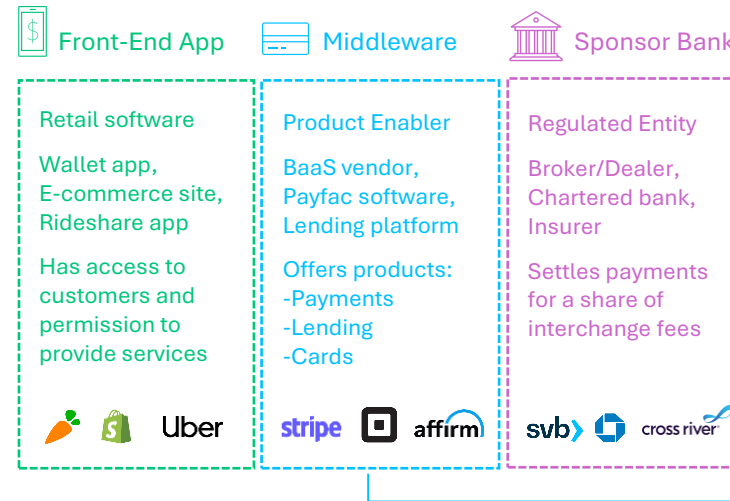
Source: Preqin, PitchBook and SVB analysis.

Payments: The Once and Future Fintech King

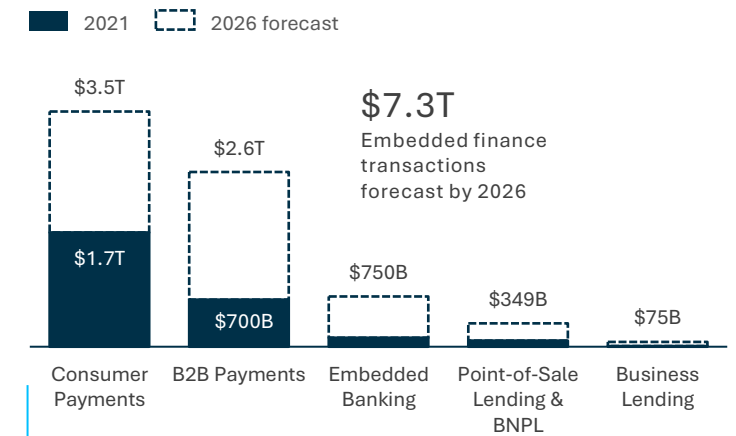
Stripe's \$6.9B fundraising in March wasn't just the largest deal of the year, it was one of the largest VC tech rounds ever. The commercial payments app was valued at \$50B, down from \$95B in 2021, but still good enough to maintain the company's position as the second most valuable US unicorn after SpaceX. One way to see the deal is that it underscores the immense promise and optimism investors have in the payments and embedded finance space. **Digital payments surged during the COVID-19 pandemic, and unlike other short-lived pandemic spikes, this trend has stuck around.** As many as 69% of consumers preferred contactless payments in 2022, up from 22% in 2020, according to a survey by the firm NMI. Tap-to-pay technology is on the rise, and embedded finance transactions — including embedded banking, lending and insurance — are expected to top \$7T by 2026, according to a report by Bain. The pool of potential revenue is ripe for companies across the embedded finance value chain, from the consumer apps providing the customers to the banks settling the transactions.

Stripe can be viewed as a bellwether for the payments sector overall. The company has cemented itself as a core infrastructure provider for payments, processing \$817B in transactions in 2022. But like other fintechs facing macro headwinds, growth has slowed. The company laid off 14% of workers in November 2022. Rather than funding growth, their massive spring funding round went toward a stock buyback from current and former employees. Rival payments company Adyen has experienced a similar slowdown, posting weaker than expected revenue growth in H1 2023 and sparking a reactionary 39% drop in stock price. Some B2B payments companies have done well under higher interest rates. Toast, the payment processor to restaurants, posted 49% YoY revenue growth in H1 2023, largely on a boost in subscriptions and payment volume.

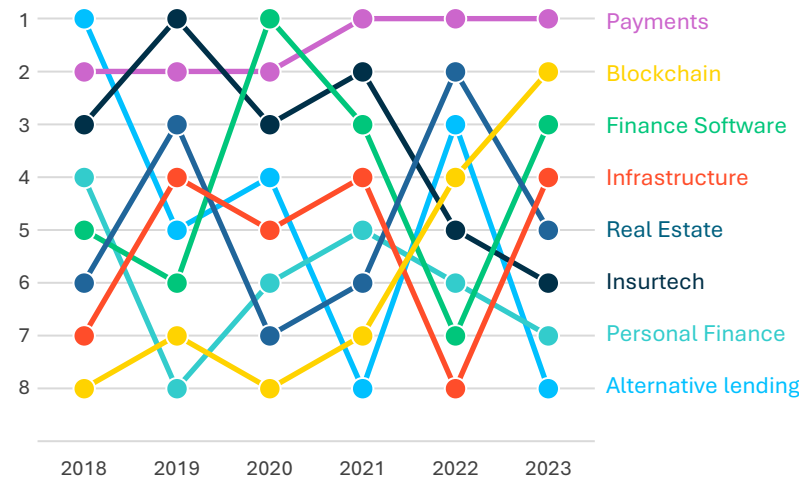
Embedded Finance Value Chain and Projected Market Opportunity



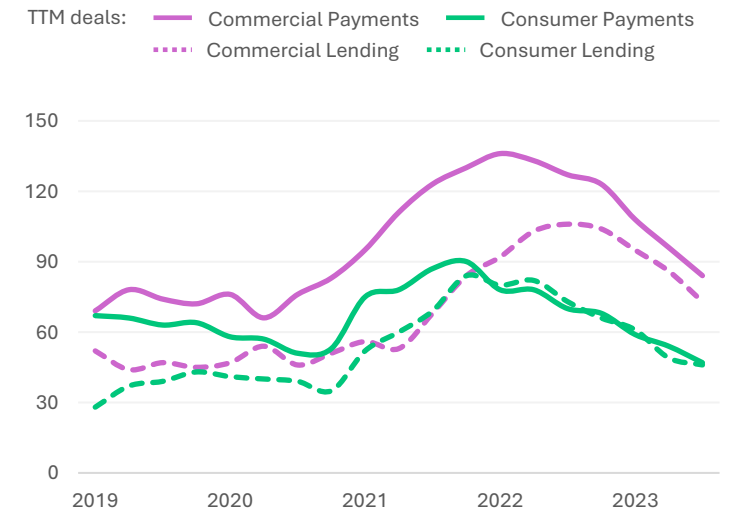
Projected Transactions¹ by Embedded Product Type



Rank of Median Valuations by Subsector²



US VC Deals: Payments and Lending



Early Bird Gets The Valuation

As companies go back to the funding well, it's clear that yesterday's price is not today's price. Expectations from investors have changed, and it's being reflected in the data.

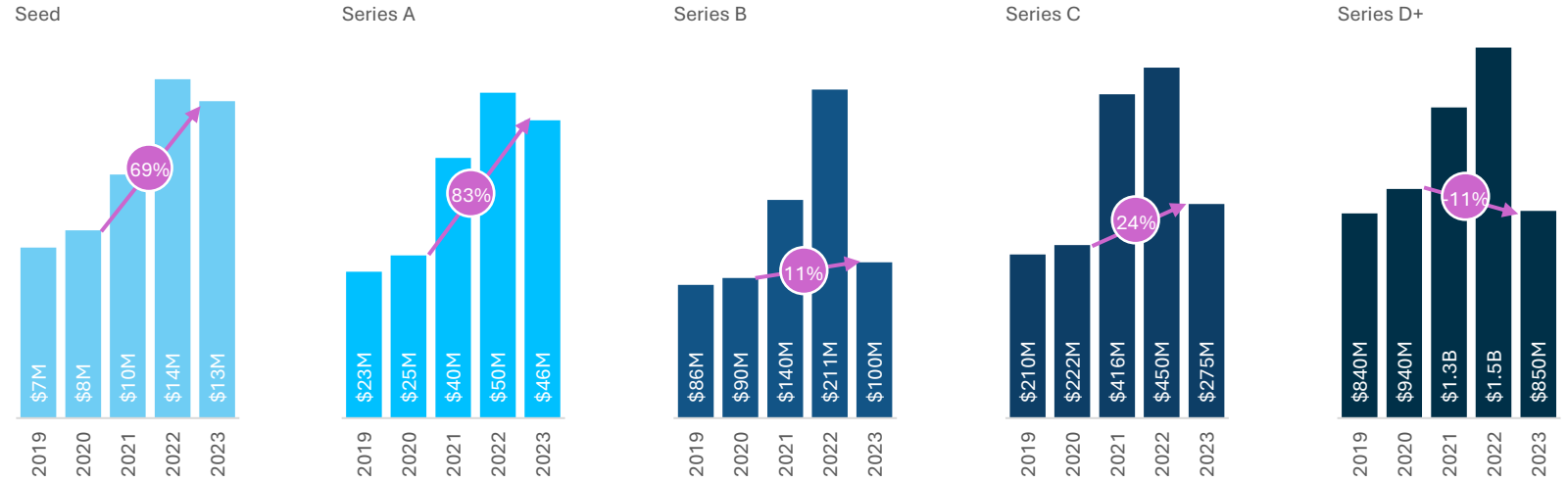
At the earlier stages, pre-money valuations have demonstrated resiliency, moderating from last year but still well above their pre-pandemic levels. The same cannot be said for the later-stages, with Series D+ valuations falling in aggregate 44% from last year, settling slightly below 2020 levels. Later-stage valuations remain muted as public market performance has hurt public comps and the allure of early-stage potential is better understood.

However, not only are valuations moderating, but more companies are reporting down rounds. Down rounds are an unwelcomed event for a number of reasons, namely because they can lead to outsized dilution, disgruntled investors and employees concerned over their equity — not to mention the public black eye. **US fintech is seeing 11.0% down rounds, compared to 12.3% in the broader tech ecosystem.**

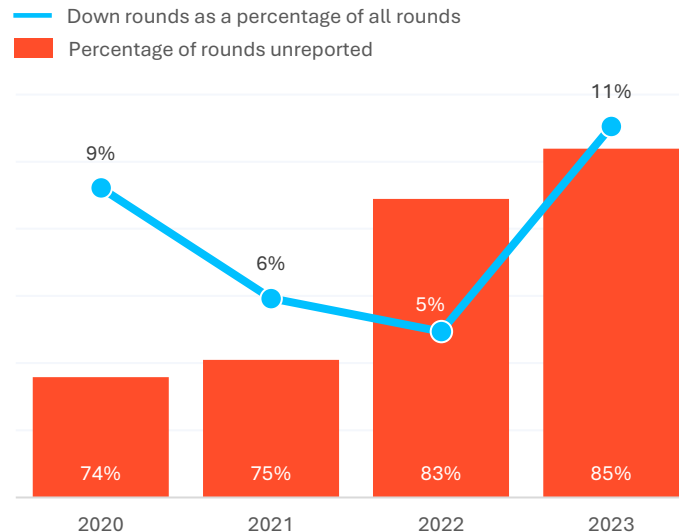
Yet this might not be the whole picture. Similar to past downturns, a smaller number of startups are reporting their valuations. This is likely tied to startups wanting to avoid the public scrutiny of raising a down round. Another possible scenario for not disclosing terms is if a company raised less capital or at a lower valuation than initially expected. In fintech, 85% of deals do not report a valuation compared to 75% in the broader ecosystem.

For deals with reported valuations, fintech is still receiving a premium in their valuations relative to other tech sectors. The trend may indicate that while the sector has challenges, investors expect fintechs to be successful — even late-stage companies that have been squeezed by public market multiple compression.

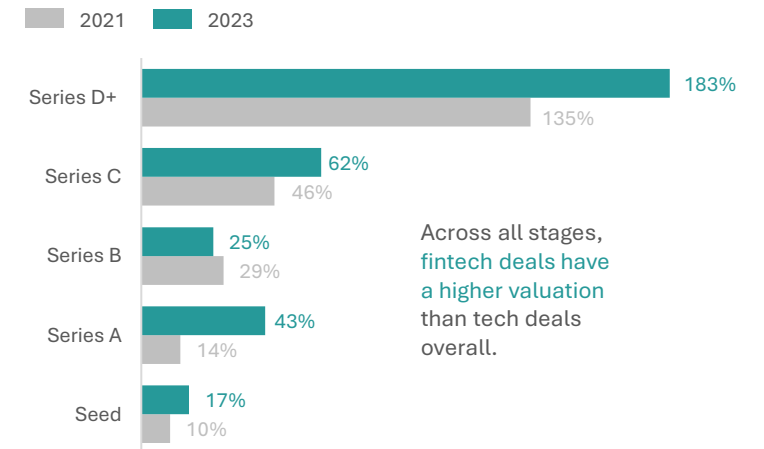
US Fintech: Median Pre-Money Valuation by Stage¹



Down Rounds and Unreported Rounds¹



Fintech Valuation Premium Compared to All VC Investment



Across all stages, fintech deals have a higher valuation than tech deals overall.

Notes: 1) 2023 data as of 9/1/2023.
Source: PitchBook and SVB analysis.

Pivot! Pivot! Startups

Channel Ross Geller

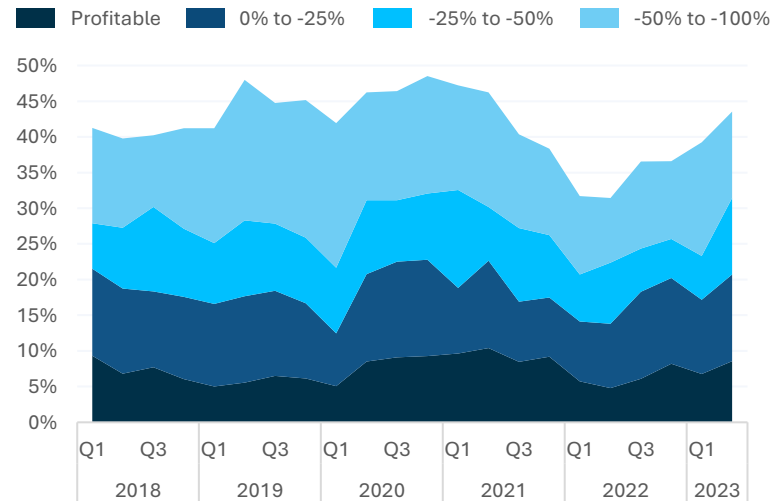
With tides turning the past ~18 months, fintech startups have had to quickly pivot their business in order to hit key operating metrics for their current investors, potential future funding rounds and ultimately, survival. **One of the quickest ways to improve the bottom line is cutting your biggest expense: head count.** While minimizing items such as travel and expense (T&E) and reducing spend on SaaS can help reduce burn at the margin, head count is among the largest line items for many startups, making it a core focus for cuts. This is especially true for many fintech startups that overhired in the high growth environment of 2020-2021 and now face excess head count amid slower than expected growth.

Our proprietary data shows that cuts do make an impact on the bottom line. In fact, **the median fintech burn multiple has fallen nearly 60% to 1.2x — 25% lower than the rest of the tech industry.** Improving burn multiples not only extends the runway, but it also puts the company on a better path to profitability. With the current investment pace continuing at a slower clip, **US fintech startups have quickly pivoted away from growth and toward profitability.** In Q2 2023, 74% of VC-backed fintech companies cut cash burn YoY, up from only 14% cutting a year prior. This is higher than the broader tech ecosystem, with 68% of US VC-backed companies cutting cash burn YoY. Not only do reductions to burn improve efficiency and profitability, but — in addition to macro economic factors — they contribute to lower growth rates. In 2021, nearly 90% of US VC-backed fintech startups were growing, today only 71% are growing. While this is higher than other sectors, slowing growth complicates a company's path to profitability, and may push some companies out of what is considered "venture backable."

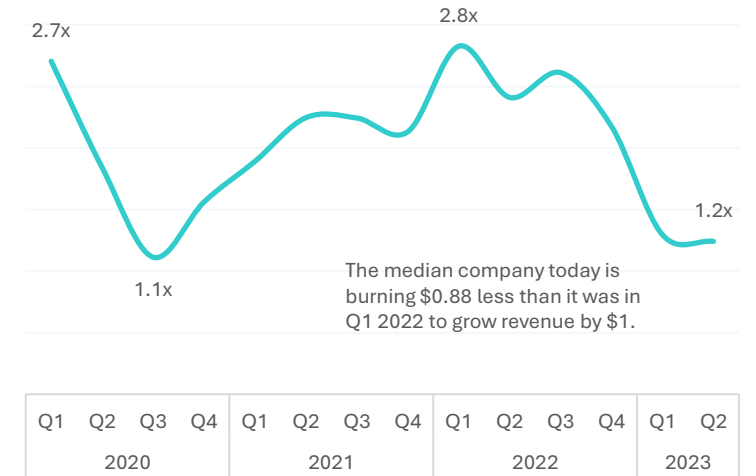
Net Burn and Layoffs for US VC-Backed Fintech Companies



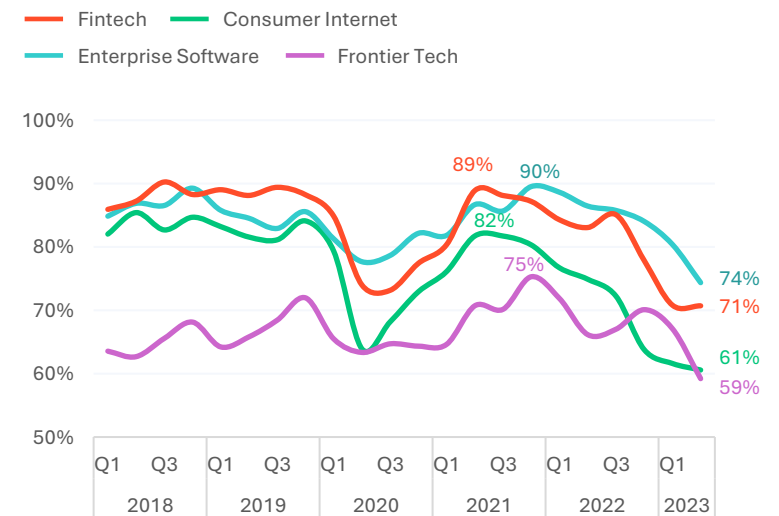
Percentage of US VC-Backed Fintech Companies At or Above EBITDA Margin



Median Burn Multiple: US VC-Backed Fintech¹



Percentage of Companies with Increasing Revenue YoY: US VC-Backed Fintech



Notes: 1) Net burn divided by net new revenue.
Source: SVB proprietary data, Layoffs.FYI and SVB analysis.

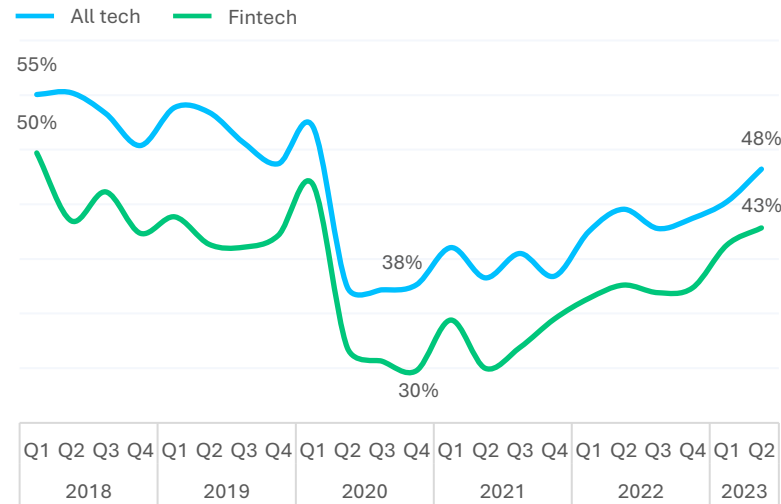
Barreling Down the Cash Runway

In aggregate, the US innovation economy is trading water in terms of runway. As of Q2, 43% of US fintechs have less than a year's worth of runway. **Compared to tech at large, fintech companies have slightly more runway on average**, perhaps due to the highly aggressive nature of cash burn reduction among fintech companies. The troublesome trend is that runway continues to fall across the board for all stages and subsectors, as capital coming in through investment and revenue lags capital going out through burn. While US fintech is holding up better than the broader tech ecosystem, the share of US fintech startups with less than 12 months runway has been steadily increasing since mid-2021. **Based on SVB proprietary data, at current burn rates, more than half of US fintechs will need to raise cash by Q3 2024, with that number jumping to over 60% come year end in 2024.**

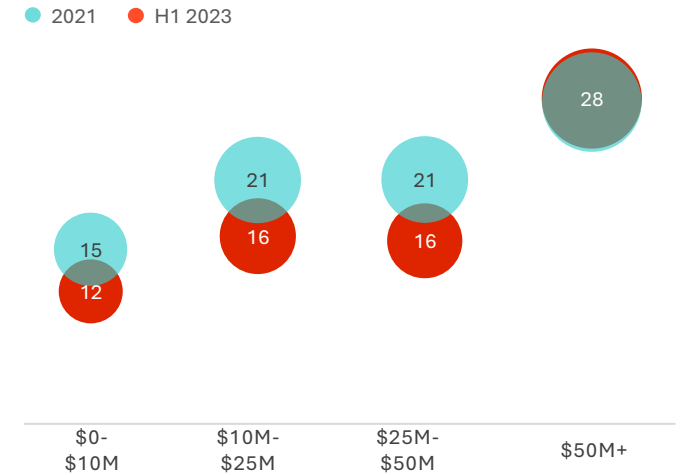
But who exactly needs to raise cash? For starters, the early-stage is far more vulnerable than the late-stage from a runway perspective. **Startups with less than \$50M in annual revenue generally have 12 to 16 months of cash runway.** This number balloons to nearly double for later-stage companies. Later-stage companies tend to have more runway as they reach scale and burn less on a relative basis. In addition, most raised substantial amounts of money in the boom times of 2021 when public markets were strong and capital was plentiful. This helped to build up their war chests for environments like today.

However, it's worth noting that despite a 62% decline in the level of US fintech VC investment since 2021, US fintech company runway across the board has only fallen 22% since its peak in Q4 2021. This is in large part thanks to significant cost-cutting by companies as they focus on profitability and extending runway rather than revenue growth.

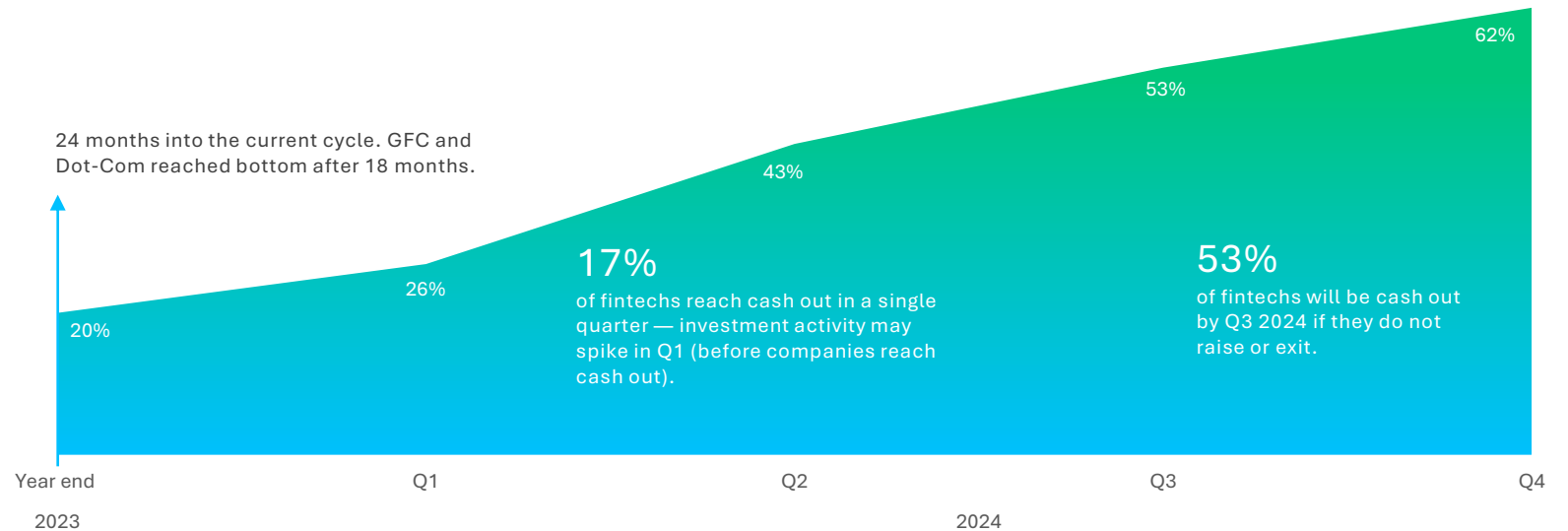
Percentage of US VC-Backed Fintech Companies With <12 Months of Runway



Months of Cash Runway by Revenue Band: US VC-Backed Fintech¹



Percentage of Fintech Companies Running Out of Cash by Date



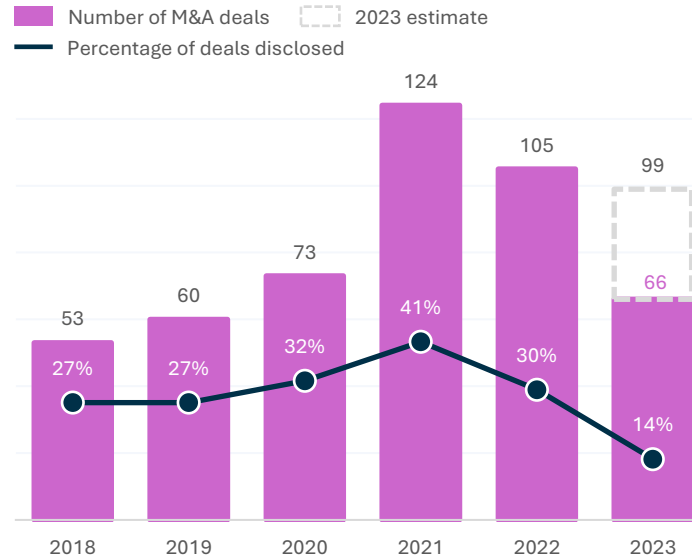
Paying for Keeps: M&A Buyers Have the Edge

Cracks of light are finally shining through the IPO window. After a year and a half without a notable VC-backed public exit, Instacart's listing in September has spurred optimism for other late-stage tech companies. However, it may take a while for that optimism to reach fintechs. Tough macro conditions are dampening the exit hopes of many mature fintech companies and shifting the balance of power toward buyers. The most notable public fintech exit so far this year, Better.com's SPAC exit in August, resulted in a 93% single-day loss. While the home lending company may be an outlier, the offering didn't instill confidence in other would-be fintech exits. Instead, founding teams who aren't able to raise an extension round are facing the possibility of a less than favorable acquisition.

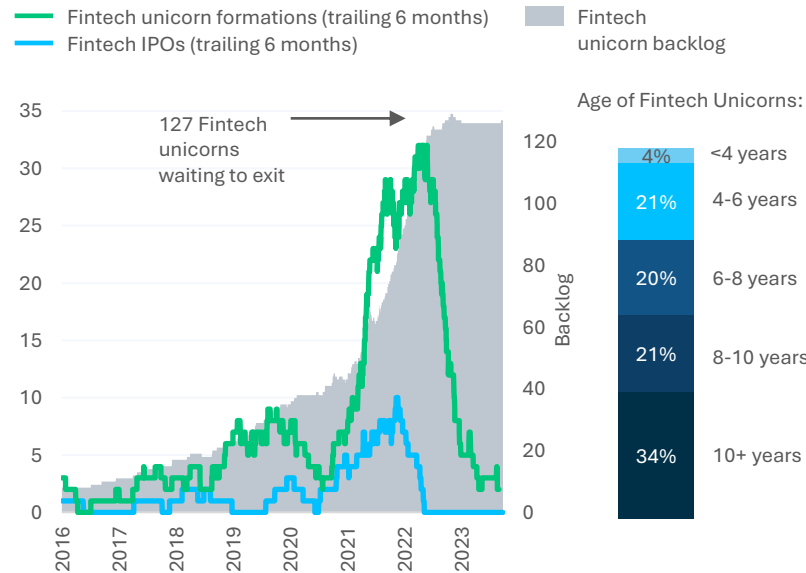
Compared to VC funding levels, M&A activity has remained relatively strong as companies see opportunities to buy market share rather than build it. **Acquisitions are on pace to surpass 2020 levels, yet the few deals that are being disclosed suggest that founders are finding tough terms.** Only 14% of 2023 fintech acquisitions have disclosed deal terms, down from 41% in 2021. Among these, several acquisition prices are below the total amount of VC raised. Even segments like credit cards, which are faring well in the higher rate environment, are finding tougher deal terms. X1, the business card startup, was acquired by Robinhood in August, underscoring the challenge of customer acquisition as larger companies leverage M&A to diversify product lines.

Companies looking to make acquisitions have a captive audience to choose from. The enthusiasm for fintech investments during the VC run-up in 2021 created a backlog of 127 fintech unicorns, many of which now have a valuation overhang. Half are over eight years old. These companies may resist an exit, but with growth rates diminishing and VC capital scarce, carving a path to profitability may be the only viable alternative.

US VC-Backed Fintech M&A Deals



US Fintech Unicorn Formations¹ and IPOs²

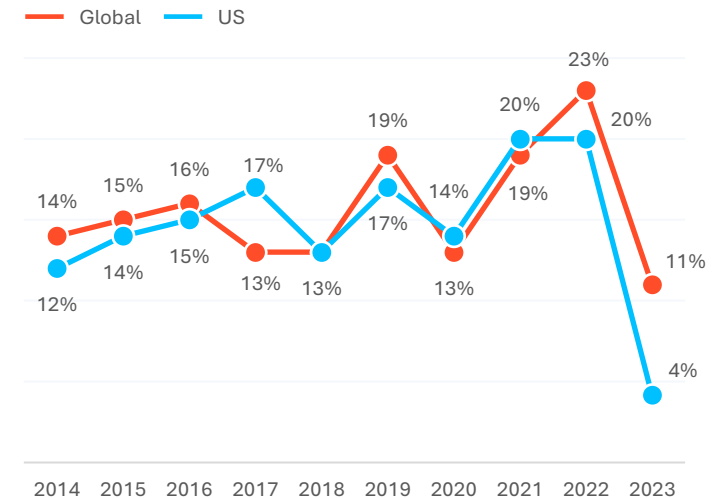


Notes: 1) As of 9/28/2023. 2) Companies valued over \$100M, excluding SPACs.
Source: PitchBook and SVB analysis

Notable Fintech Acquisitions in 2023

Target	Buyer	M&A Price	Total Raised	Focus Area
power.	Buyer	\$275M	\$321M	Credit Cards
uplift	Buyer	\$100M	\$289M	BNPL
aumni	J.P.Morgan	-	\$69M	Investment Analytics
X1 Card	Buyer	\$95M	\$62M	Credit Cards
BOND FIS	Buyer	-	\$42M	Embedded Finance Infrastructure

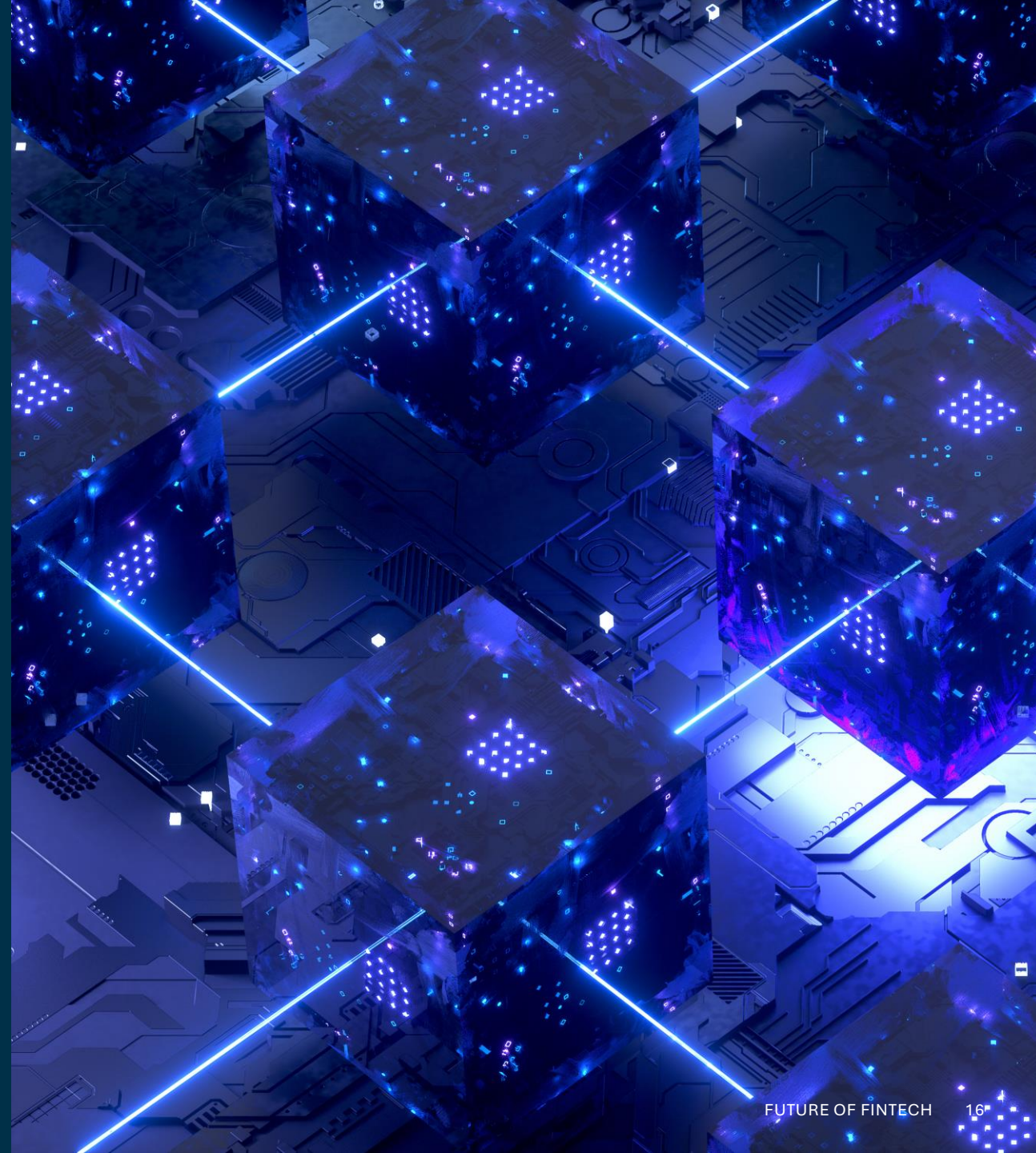
Percentage of Unicorn Formations that are Fintech Companies¹





Blockchain in Focus

A New Growth Cycle Emerges



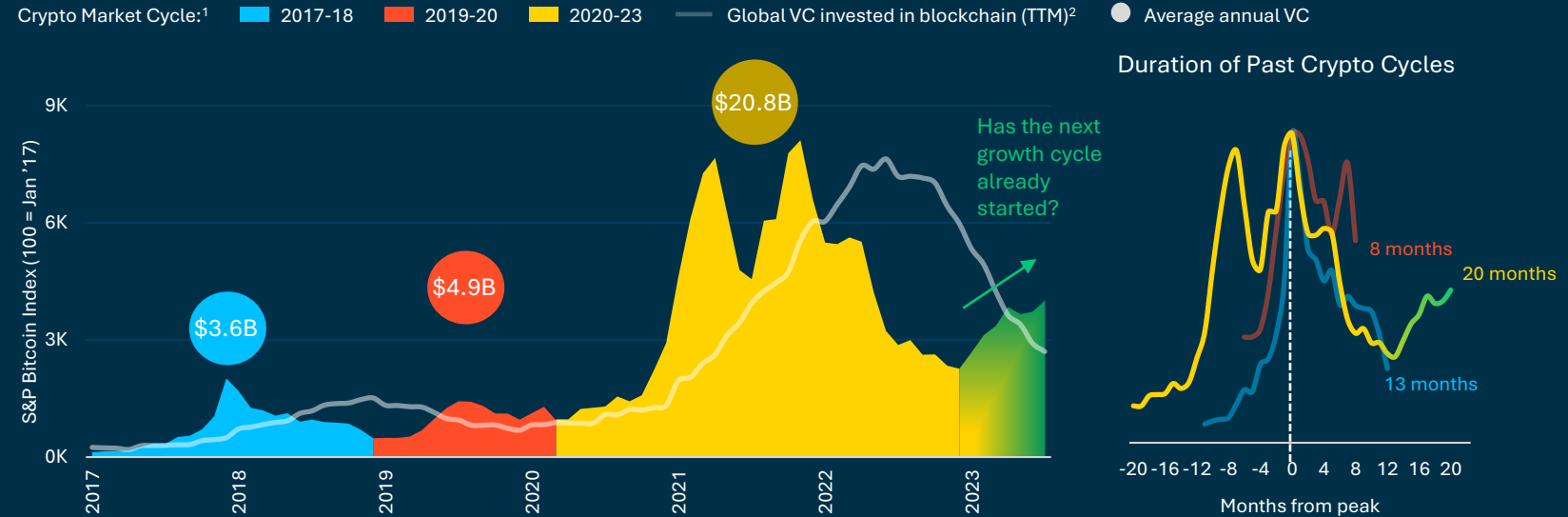
Leaning into a New Growth Cycle

There have been three cycles in the last seven years in which Bitcoin prices have at least doubled before returning to a baseline. Each time, the cycle follows a predictable pattern: Asset prices go up and liquidity activity increases, driving more investment and development in the space. Startups are seeded. Applications are deployed. Public awareness rises. Eventually, the price spikes. Then, as liquidity withdraws, it falls.

In the 2017-18 cycle, the price peaked at \$21,900 and fell 83% in 13 months. In 2019-20, the price topped out at \$13,200 before falling 50% in 8 months. In the most recent cycle, the price peaked at \$77,000 and fell to a low of \$18,000, a 75% drop. This time, there was more to lose. Over \$80B of global VC investment has been deployed in blockchain and crypto startups since 2017, more than 85% in the last three years. The high-profile collapse of several notable companies and blockchain projects including FTX, Terra and Celsius has put a dent in the public image of the digital assets space. Interest in non-fungible tokens (NFTs), for example, which hit a fever pitch at the height of the crypto cycle, has fallen to a fraction of its previous trading volume.

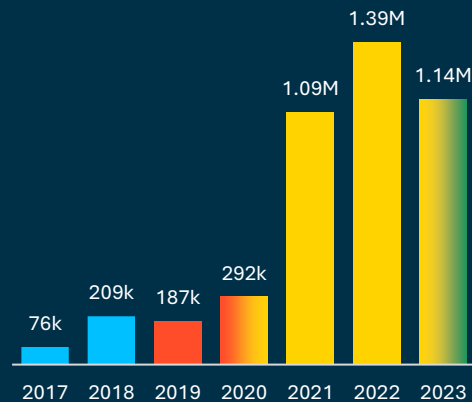
But underneath the public sentiment, there are positive indicators to build on. **Development activity hasn't stopped. The rails and infrastructure that are needed to drive adoption onto blockchain networks has continued to occur even as asset prices remain squeezed.** The number of daily active wallets and active weekly developers are above 2021 levels. These numbers underscore the idea that price cycles build on themselves to generate greater growth with each iteration. While it's unlikely that prices will hit their prior highs anytime soon, it is feasible that we're entering a new, long-term growth cycle. If this is the case, there will be opportunities for new innovations in blockchain as adoption grows with time.

Crypto Cycles by VC Investment, Asset Price and Duration

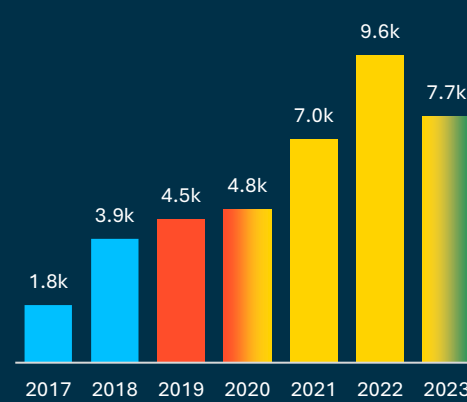


Global Blockchain Development Activity

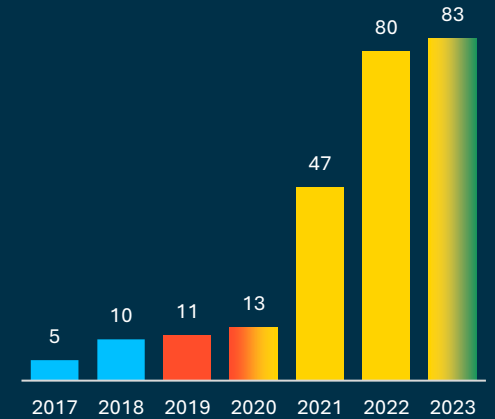
Daily Active Wallets



Weekly Active Developers



Blockchain Unicorns



As Funding Dries, the Best Deals Stand Out

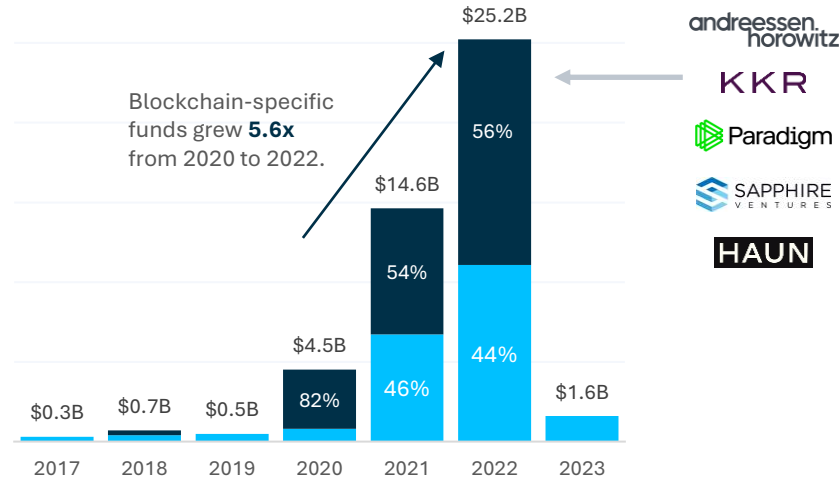
Enthusiasm for digital assets during the bull market of 2020 and 2021 resulted in a jump in fundraising specifically earmarked for blockchain technology. **In 2022, VC and PE growth investors closed \$25B in blockchain-specific funds, up from just \$500M in 2019.** More than half of this capital went to the top five fund managers, who also participated in a sizeable share of VC deployments through 2022. With much of this capital still undeployed, some funds such as Sequoia have slashed the size of their blockchain-specific funds, reallocating it to more general focus areas. Broadly, VC investment in blockchain has decelerated considerably this year, though the pace and volume of investment is still expected to finish above 2020 levels.

While the volume of funding is down, the valuation of deals being reported has continued to climb. This trend parallels a shift in overall deal interest toward earlier stage companies where the promise of future returns compels strong investor interest. Seed and Series A companies comprised 65% of total VC invested in blockchain companies through August of 2023, up from 31% in 2021. The median pre-money valuation for a Series A deal was \$95M, a 56% increase from last year. This is considerably larger, compared to Series A fintech deals and may point to dynamics in the tokenized funding structure of these companies that is not captured completely by traditional VC fundings.

Investment into blockchain has been hindered by the large-scale collapses that occurred to several crypto projects in 2022. Companies such as FTX and Three Arrows were among the most active venture investors of blockchain companies. FTX, for example, invested in 193 companies before its bankruptcy in November 2022. Companies still active have also drawn down their investment activity. Coinbase, the largest corporate venture investor in blockchain by deal count, has invested in 35 deals through August, down from 140 deals during the same span last year.

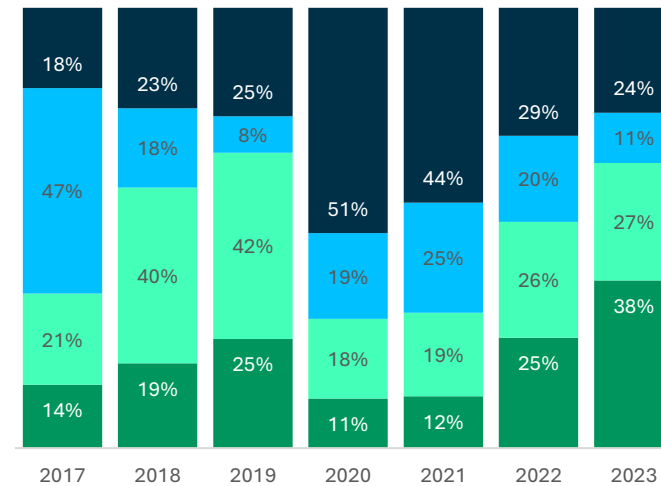
Blockchain-Specific VC Fundraising¹

Funds raised: ■ Top five firm (by fund size) ■ All others



US VC Investment in Blockchain by Stage

■ Seed ■ Series A ■ Series B ■ Series C+

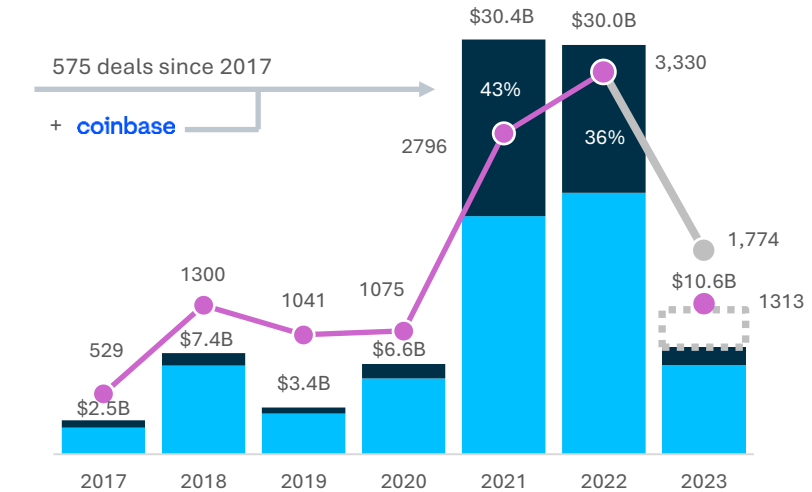


Notes: 1) Funds listing crypto, blockchain and fintech as a majority of the focus areas. 2) Includes Pitchbook's Web3 and Crypto/Blockchain verticals as of 9/28/2023.

Source: Preqin, PitchBook and SVB analysis.

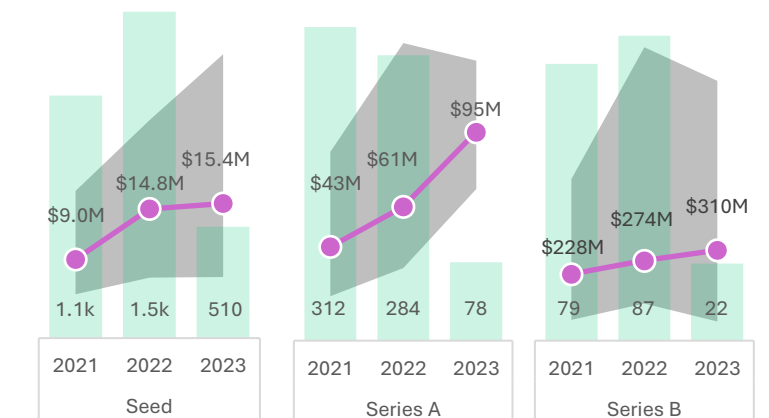
Global VC Investment in Blockchain²

■ Top five firms and Coinbase ■ Other ■ Deals ■ Estimate



Median Pre-Money Valuations for VC-backed Blockchain Companies²

— Median valuation ■ Middle 50% ■ Deal count



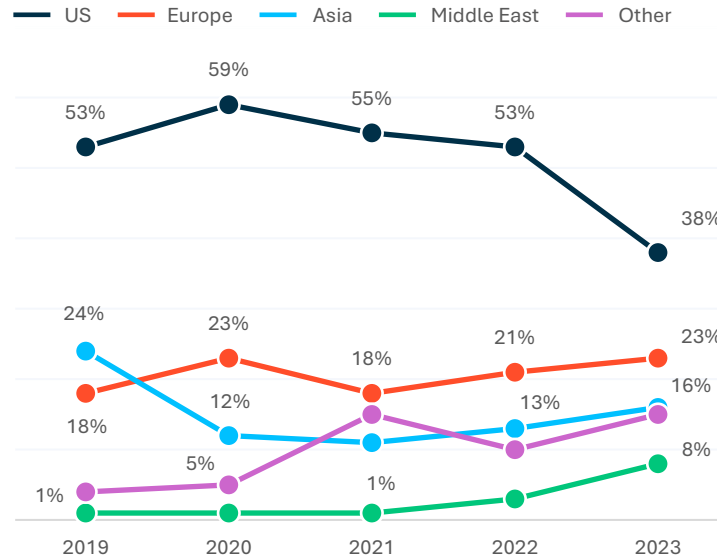
Blockchain Beyond Borders: US Lagging

The US has held a wide lead in the development of blockchain technology since the earliest days of the sector. However, that lead may be in danger of narrowing as other countries clarify their digital asset policies, leading to an outflow of capital abroad as companies chase stability.

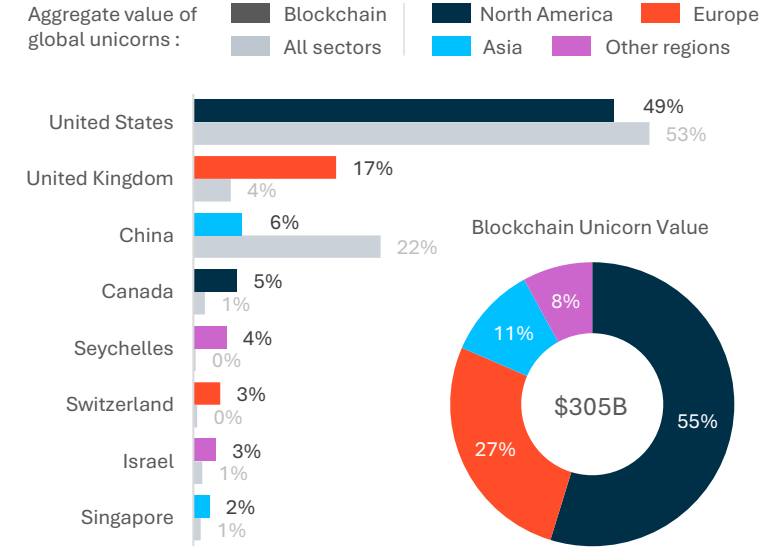
So far in 2023, US-based companies have accounted for 38% of the global VC invested in blockchain companies, down from 53% last year. Europe is quickly gaining traction, with the UK becoming a concentrated hotspot for blockchain technology. **The UK is home to just 4% of the value of active VC-backed unicorns, but is home to 17% of the value of blockchain unicorns**, including Revolut, the fintech behemoth and crypto exchange last valued at \$33B. The UK is among several countries including Singapore, Japan and India to pass laws regulating digital assets this year. In June, the Financial Services and Markets Bill Act was passed to include measures that bring crypto and stablecoins into the scope of regulation in the UK. The law followed the European Parliament's approval in May of the Markets in Crypto-Assets Regulation (MiCA), a set of rules governing the use of crypto assets, including requiring companies to register before serving customers in Europe.

In the US, regulators, courts and lawmakers are still grappling with how digital assets will be governed and what compliance measures will apply to companies. The fallout from the FTX collapse in November 2022, is intensifying this process. In June, the SEC sued the crypto-exchange Coinbase for failing to register as a broker. Coinbase CEO Brian Armstrong has said the California-based company could consider relocating outside the US if regulations are not clarified. The global stable of crypto and blockchain unicorns includes \$305B in value, though these valuations are largely untested since the bear market. Only 47.5% of this value was confirmed by deals in the last 18 months.

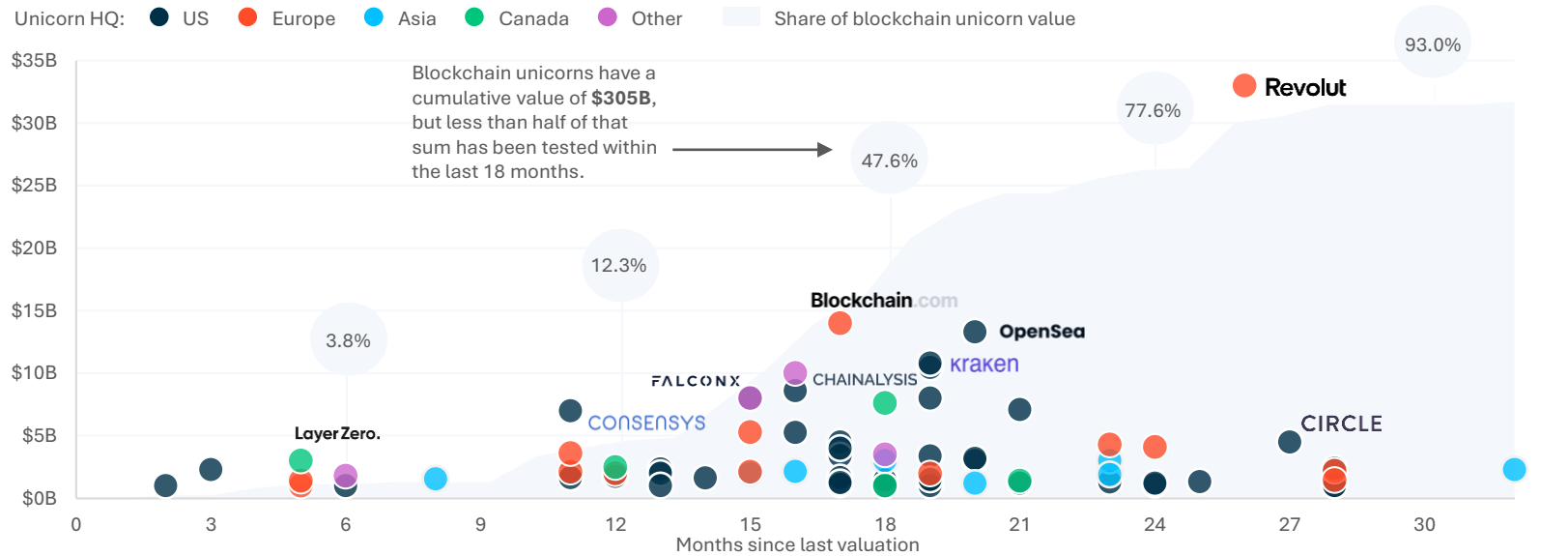
Percentage of Blockchain VC¹ by Region



Top Countries for Blockchain Unicorns



Blockchain Unicorns by Valuation and Months Since Last Valuation²



Notes: 1) Includes Pitchbook's Web3 and Crypto/Blockchain verticals as of 9/8/2023. 2) includes unicorns formed through H2 2023. Source: PitchBook and SVB analysis.

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