VC FUNDING SLIDE IN 2022 SETS STAGE FOR ANOTHER TOUGH YEAR

Exactly to the day one year ago, in January 7, 2022 we did outline some trends that could materialize in 2023 however we did write a few word of caution.

Closing the year 2022 on **venture capital** investment, the reviews are in, and they are mixed.

Venture and growth investors in private companies scaled back their investment pace significantly in the latter half of 2022, signaling a slower funding climate as we begin 2023.

To be fair, 2021 was a tough act to follow. Fast-growing startups were showered with capital, and tech firms went public at high valuations. Acronyms like SPAC and NFT were golden tickets to cash. Every type of investor had a role to play and there was every reason to believe the lavish show would go on in 2022.

But last year's funding numbers said otherwise. Global venture funding in 2022 reached $445 billion — marking a 35% decline year over year from the $681 billion invested in 2021 — according to an analysis of Crunchbase data. But despite the slower funding environment in 2022, investors spent $100 billion more last year than the $342 billion invested in 2020.

The stock market's fall in 2022, mass tech layoffs and crypto's collapse left many investors and startups struggling to match 2021's successes.

Much of the 2022 decline was weighted in the second half of the year. Funding in the fourth quarter was marginally below the third quarter, which had already declined significantly, particularly at late-stage financings.

Fourth-quarter funding totaled $77 billion – very modest amount.

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

The fourth quarter was the first quarter in 2022 when seed-stage funding fell in a year-over-year comparison. Seed funding totaled $7 billion in Q4, down 35% year over year.

Early-stage funding totaled $31 billion in Q4, down by 54% year over year. The third quarter was also a much slower funding quarter, down 39% year over year. Prior to that, the first quarter was up and the second quarter down by less than 10% compared to a year earlier.

Series B fundings were down by a greater percentage than Series A fundings these past two quarters.

The pullback in **late-stage funding** started in the second quarter of 2022 and continued through each consecutive quarter.

Late-stage and technology growth funding was $40 billion, down 64% year over year for this past quarter, from $110 billion in Q4 2021, and flat quarter over quarter according to an analysis of **Crunchbase** data.

As we entered 2022, the stock market crashed and spiraling public valuations put pressure on private company values. As capital became more expensive, conserving cash and demonstrating unit economics was advised by investors across the spectrum over the months that followed.

In the pandemic-heavy days of 2021, startups growing the fastest were rewarded with abundant capital. A record number of technology startups went public well above their last private valuations and soared on listing. Momentum for special-purpose acquisition company IPOs peaked and reached 613 listings. Thousands of buyers bought NFTs valued in the millions of dollars. And Bitcoin peaked at $65,000 in November 2021.

Capital to private companies came from an array of investors; venture firms with bigger pockets, sovereign wealth funds, private equity and hedge funds committed more to private tech, and corporate investors leaned into innovation in part by funding innovative tech companies.

The scaling back of late-stage funding will impact startups in 2023 as they prepare to raise funding at Series B and later. Round sizes have already come down, but investors will also be more cautious as a slew of startups — having held back — get ready to raise.

Source: Crunchbase

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