



VC - “THE HANGOVER” – (NOT THE MOVIE)

For VC investors and startups alike, this year’s first quarter was a painful **hangover** from 2022, the year that ended the glitzy venture funding party that was 2021.

For Q1 2023, the operative word is «down»: funding is down, deal flow is down, overseas investment is down.

Plenty of factors can be chosen for the demise: from — rising interest rates, tumbling tech stocks, a war in Ukraine, weakening valuations, a stalled IPO pipeline, and let’s not forget Silicon Valley Bank. Now the question is: Has VC funding hit bottom, or do round sizes and deal counts have further to fall? We dive deeper into this year’s first-quarter numbers to find out.

The pain continues

The downward march of VC funding numbers that began in Q1 2022 and accelerated in the third quarter continues to drag on into the current year. Global venture capital funding fell 53% yoy in Q1 2023 to \$76 billion — and that’s counting two mighty lifts by Open Ai and Stripe, which each raised billions in recent months. Even early-stage numbers dropped as investors continue to hoard their record levels of dry powder.

Nowhere to hide

Sometimes in a down market, certain regions will enjoy a surge due to local factors or investment in a particularly strong sector.

But there was nowhere to hide in first-quarter 2023. The only region to show a real uptick in venture funding was North America, and that was likely due to the Open AI and Stripe multibillion-dollar deals. North American funding in the first quarter reached \$46 billion — a decline of 46% from the same period last year. And without those two large deals, Q1 venture funding would have been down even more dramatically, with a more than 60% decline from the same period last year.

Latin America hardest hit

Latin America was impacted by the downturn more than any other region in firstquarter 2023, yoy. Venture investment in Q1 was down 84% from the year-ago quarter. That puts Central and South America, which just over a year ago ranked as the fastestgrowing startup investment region in the world, on the short list for the fastest shrinking.

Active investors in the region have cut back sharply this year, such as SoftBank LA Ventures, which participated in 34 rounds in 2021 and 2022. The firm joined just two rounds this year. Jumbo-sized rounds of \$100 million and up are also apparently a thing of the past, with a single venture round of \$100 million or more closed in Q1. Late stage, early stage, seed — they all struggled to raise funding.



Europe's U.S. investors pull back

EU startups raised \$10.6 billion in funding in Q1 2023 down 18% quarter over quarter and a whopping 66% year over year, as American investors pulled back.

Seed funding saw a dramatic 25% collapse last quarter — a signal that VCs aren't big on making long-term commitments right now. While late-stage startups experienced the worst funding pullback year over year, early-stage funding performed the best of the three stages (though funding was still down 7%).

The pullback by U.S. venture firms landed a telling blow on the region. Not only are deal counts the lowest they've been in a three-year period, but Europe's also first-quarter funding is the lowest the continent has seen since Q1 2020, when the region garnered \$9.9 billion.

Asia funding falls in biggest markets

Venture funding in Asia also got off to a brutal start in 2023 declining 33% from the previous quarter and a massive 57% from the first quarter of last year. Total venture funding in the region fell to \$15.2 billion — the lowest in at least the past three years.

As in other regions, late-stage and growth rounds suffered the most, both in terms of dollars and percentage. Late-stage and growth rounds only saw \$7 billion in investment — a 64% drop from Q1 2022, which saw \$19.7 billion. Seed and angel funding rounds also weakened, with the first quarter this year seeing only \$1.4 billion raised in 723 rounds.

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