

Global and Japan Venture Capital Market Update · 2023

March 2024
Japan Investment Corporation

Acknowledgments

- Japan Investment Corporation (JIC) conducts research on domestic and international capital market trends for its own investment activities. This document discloses a portion of our research result and serves the public with available market information and reference.
- Unless otherwise noted, the following material is based on information available as of February 2024.

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■ US Startup :

- Startups, particularly those in later stages, continue to face challenges in securing financing. Although the sharp decline in deal activities since 2021 is now in the past, deal count and value remain stagnant, leading many to doubt the prospects of an early recovery. Apart from generative AI, there are no other sectors strong enough to stimulate an increase in deal activities across the entire market.

■ Japanese Startup :

- The funding for Japanese startups began to decrease in 2023, one year after the global startup funding market experienced a decline. Similar to the situation in the US, funding for late-stage Japanese startups is sluggish, with both the amount of capital raised and the valuation of these startups trending downwards. In comparison to the significant valuation adjustments observed in listed equities, the valuation adjustment for late-stage startups remains relatively minor.

■ US VC :

- The amount of VC fundraising began to decline in 2023. Two factors contributed to this trend: (a) a slowdown in exit activities led to decreased distributions from funds to LPs, and (b) a decline in the value of listed equity portfolios translated into a denominator effect in the asset allocation of LPs. While the recovery in the value of listed equity portfolios is alleviating the denominator effect, the stagnant distribution is acting as a headwind for fundraising activities. Emerging VC fund managers are particularly impacted by these conditions.

■ Japan VC :

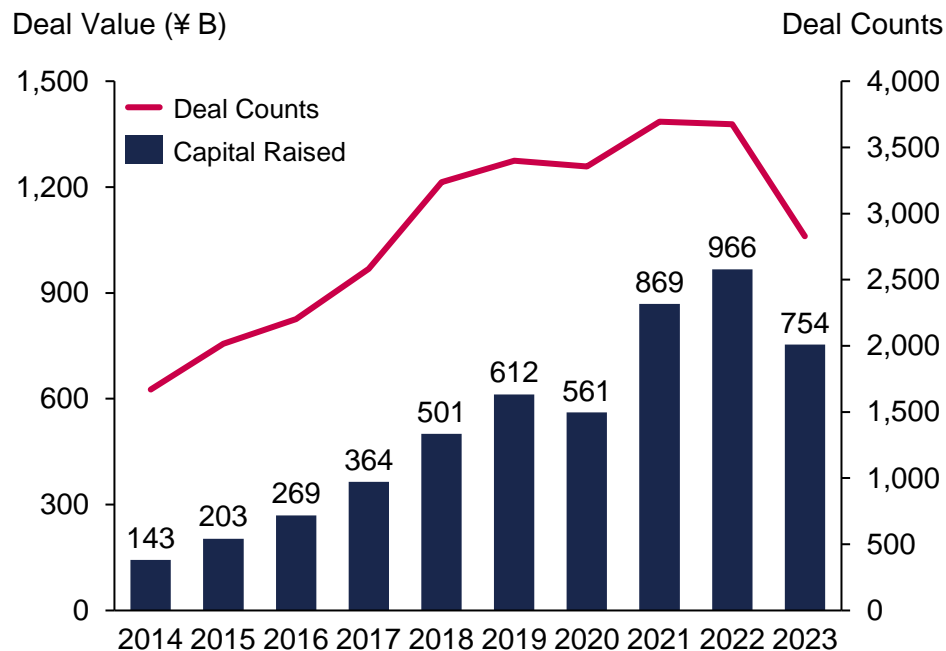
- Unlike the United States, Japan currently does not show a clear downtrend in VC fundraising. However, the relatively slow progress in the establishment of first-time funds indicates that emerging VC fund managers are facing increasing challenges in fundraising.

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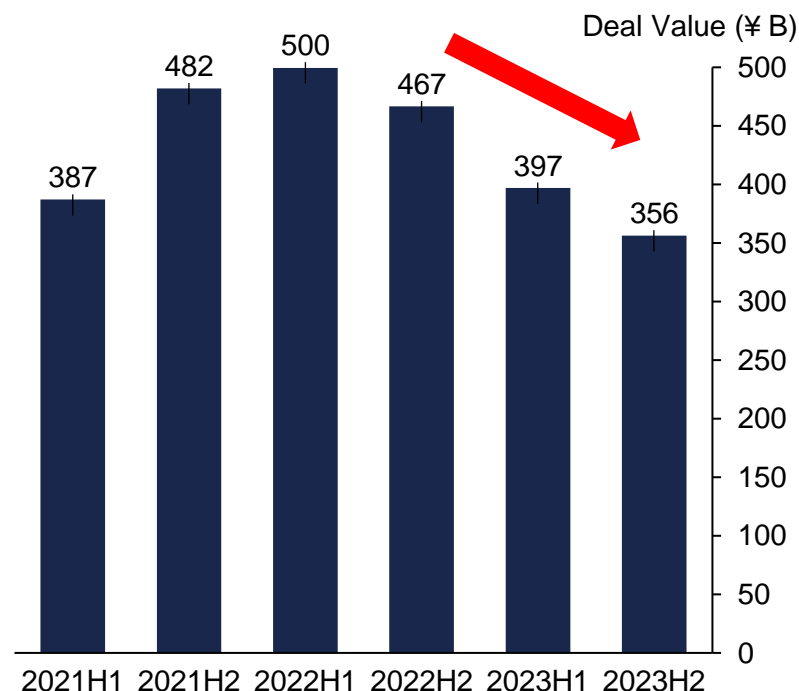
Japan : Deal Activity | Overview

- Startups (SUs) raised a total amount of ¥ 754B in 2023 ¹. This marked the first decline since 2020, with a decrease of 22% compared to 2022. Similar to the global startup funding challenges that emerged in 2022, Japan experienced a similar decline about one year later.
- On a semi-annual basis, startup funding has been decreasing for three consecutive periods since H1 2022.

Deal Activity (annual)



Deal Activity (semi-annual)



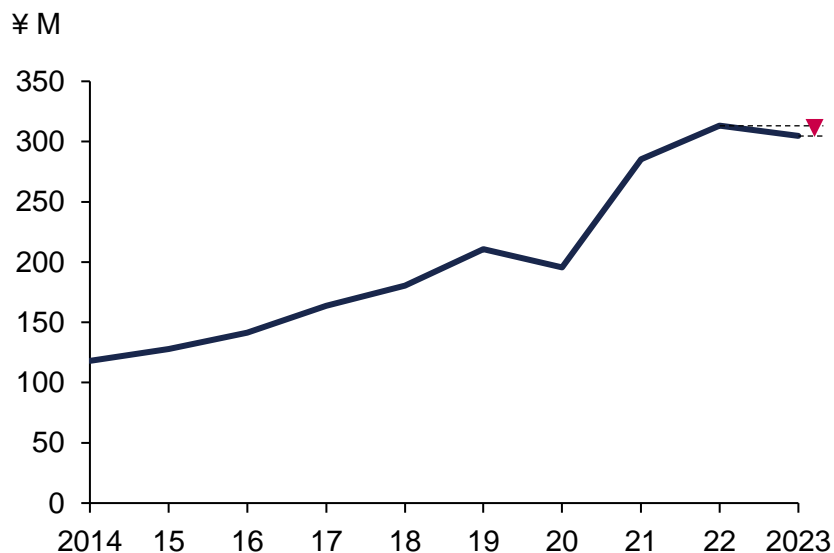
Note 1) The figure above is a preliminary result, which is subject to revision as deals in the past are identified retrospectively. Taking into account the retrospective revisions made over the past several years, the 2023 results may be revised upward by around +10% to reach the 800 billion yen range.

Source: INITIAL

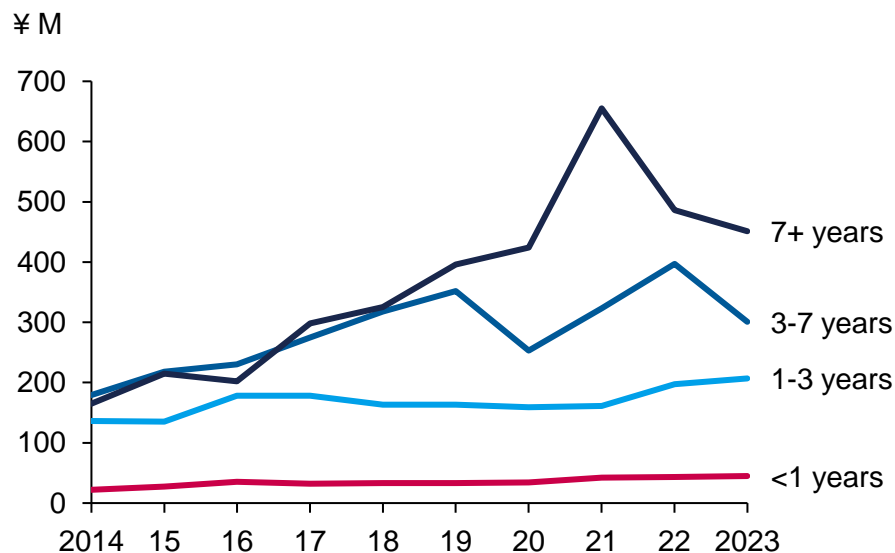
Japan : Deal Activity | Average Size

- The average deal size in 2023 is approximately 300 million yen¹.
- The average deal size falls significantly for established SUs (SUs founded within 3-7 years or more).
- Moving forward, many deal activities of younger SUs (SUs with less than 3 years of history) which has been unidentified initially are being discovered and added to databases. Due to the change in the SU mix, the average deal size of SU in 2023 is to be revised downward.

Average¹ Deal Size²



Average³ Deal Size by Found Year Bucket



Note 1) Total amount of deal value divided by the total number of deal counts.

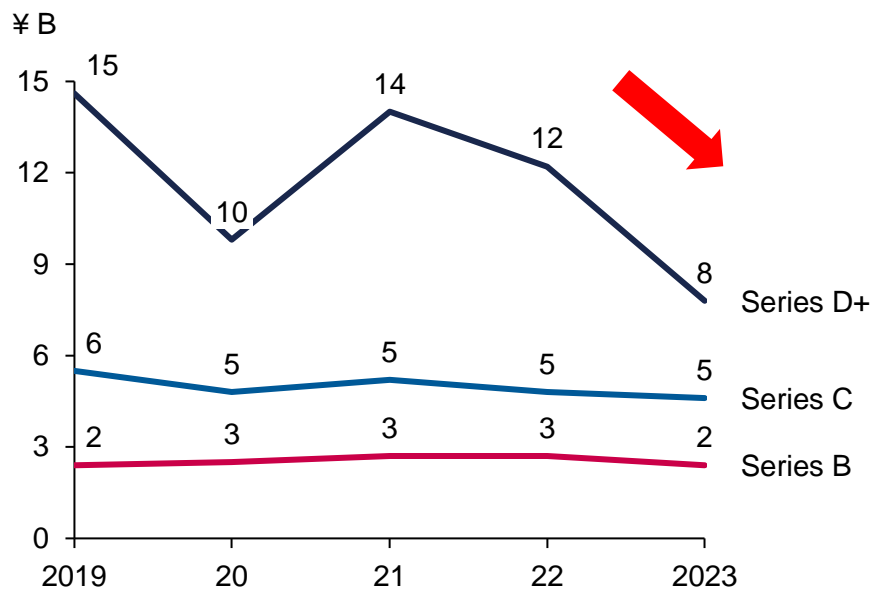
Note 2) The figure above is preliminary result. It may be subject to revision as deals in the past are identified retrospectively.

Note 3) Total amount of deal value divided by the total number of deal counts for each bucket.

Source: INITIAL

- The median valuation of startups, particularly those in later stages, has declined significantly since 2021. In the listed market, valuations of growth equities continue to be sluggish.
- For instance, the average PSR (price-to-sales ratio) of 30 well-known SaaS companies in Japan¹ peaked at over 20 times in 2021 but has recently fallen to around 6 times and remains stagnant. Later-stage startups, which are nearing exit, are affected by the sluggish valuation of listed growth equity.

Post-money valuation / median



Major listed SaaS companies in Japan Average PSR multiplier ¹



Note 1) Average PSR multiples of 30 listed SaaS companies in Japan . Ticker of these listed companies are JT Equity 2477, 2492, 3923, 3983, 3984, 3991, 3993, 3994, 4060, 4071, 4165, 4168, 4180, 4192, 4375, 4379, 4397, 4397, 4431, 4435, 4443, 4448, 4475, 4478, 4488, 4493, 4776, 5038, 5621, 6027.

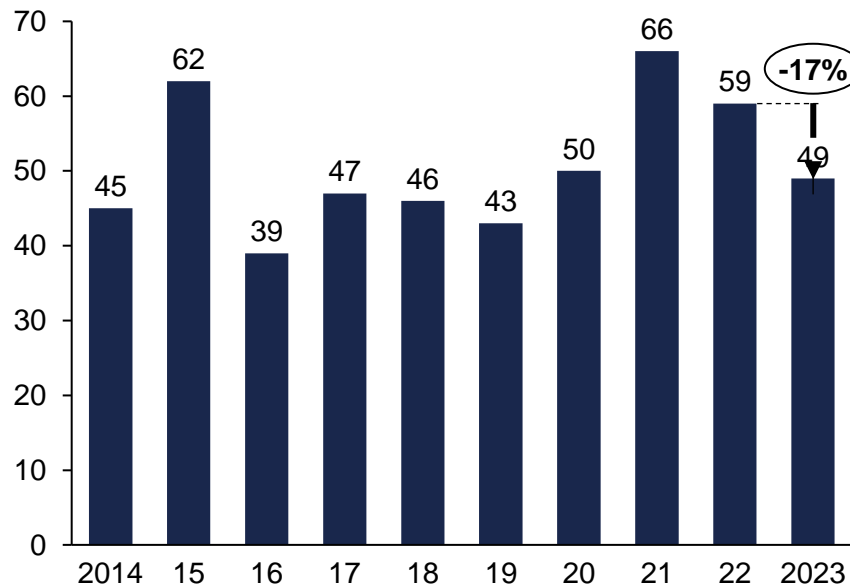
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Japan : Exit | Overview

- The number of startup exits via IPOs in 2023 was lower than the previous year (-17%). With a less active growth market and IPO market, many companies are delaying IPOs or shifting their focus to M&A exits. However, the decline in M&A exits is relatively small, with only a 3% decline.
- IPOs by iSpace and iQPS, two space startups, garnered attention from the market. The Tokyo Stock Exchange revised its listing examination process to accommodate more IPOs by deep tech startups. As observed in the past, listed startups are the primary buyers in the majority of M&A deals. However, one exception in 2023 was the Bank of Mitsubishi UFJ, which acquired Kanmu, a Fintech startup, and made it a consolidated subsidiary (valued at \$25 billion).

Number of new startup listings ¹

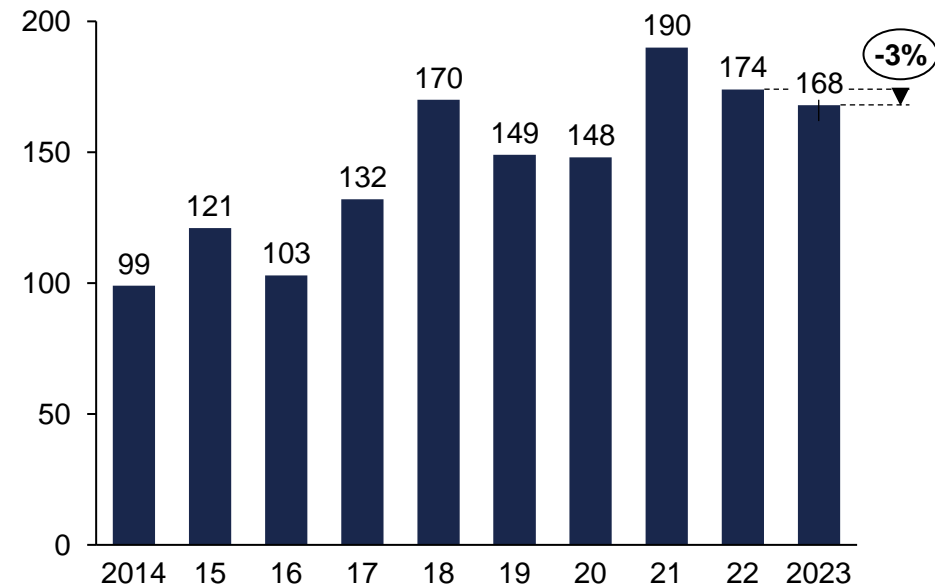
Number of companies



Note 1) Only domestic listings are counted.

Number of startup M&A

Number of companies



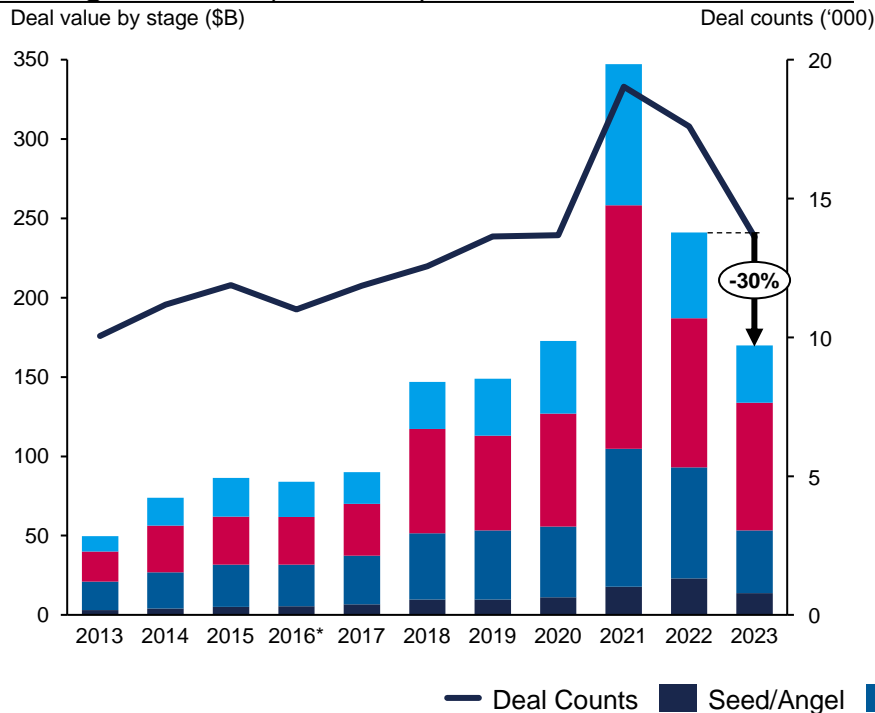
Source: INITIAL

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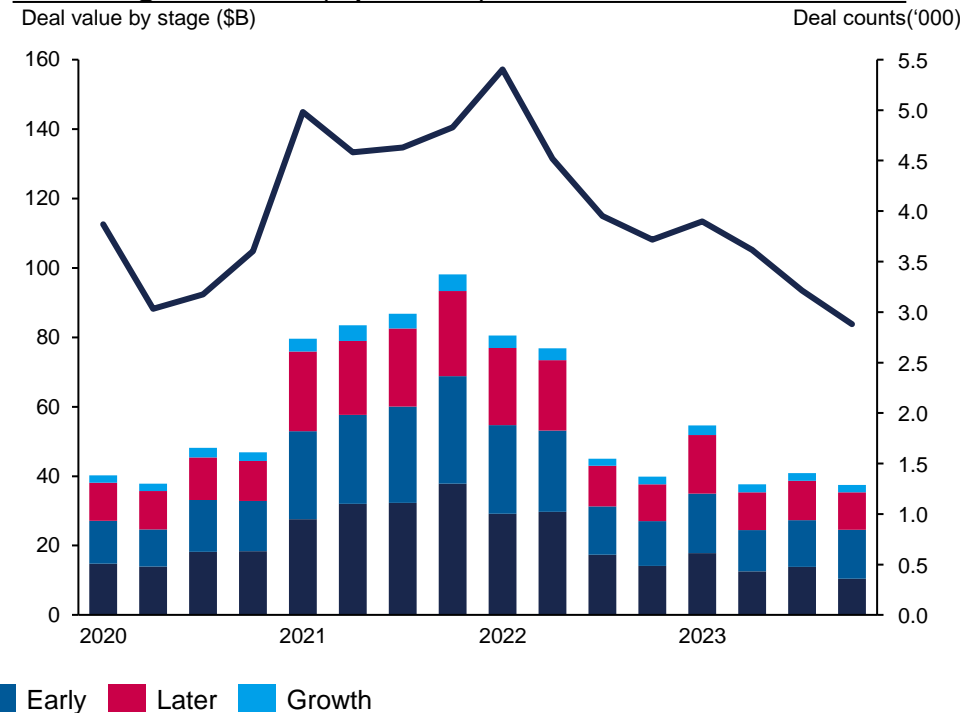
US: Deal Activity | Overview

- In 2023, startup deal activities experienced a slowdown for the second consecutive year, both in terms of the amount and number of deals. This struggle to raise capital extended beyond startups in the late growth phase to those in the seed or early stages.
- However, on a quarterly basis, the sharp decline is now behind, and deal activity has generally remained flat since the second half of 2022. Despite this, uncertainties persist around macro-economic trends, interest rate policies, and global geopolitics, with no clear sight of market recovery.

Funding trends ¹ (annual)



Funding trends ¹ (quarter)



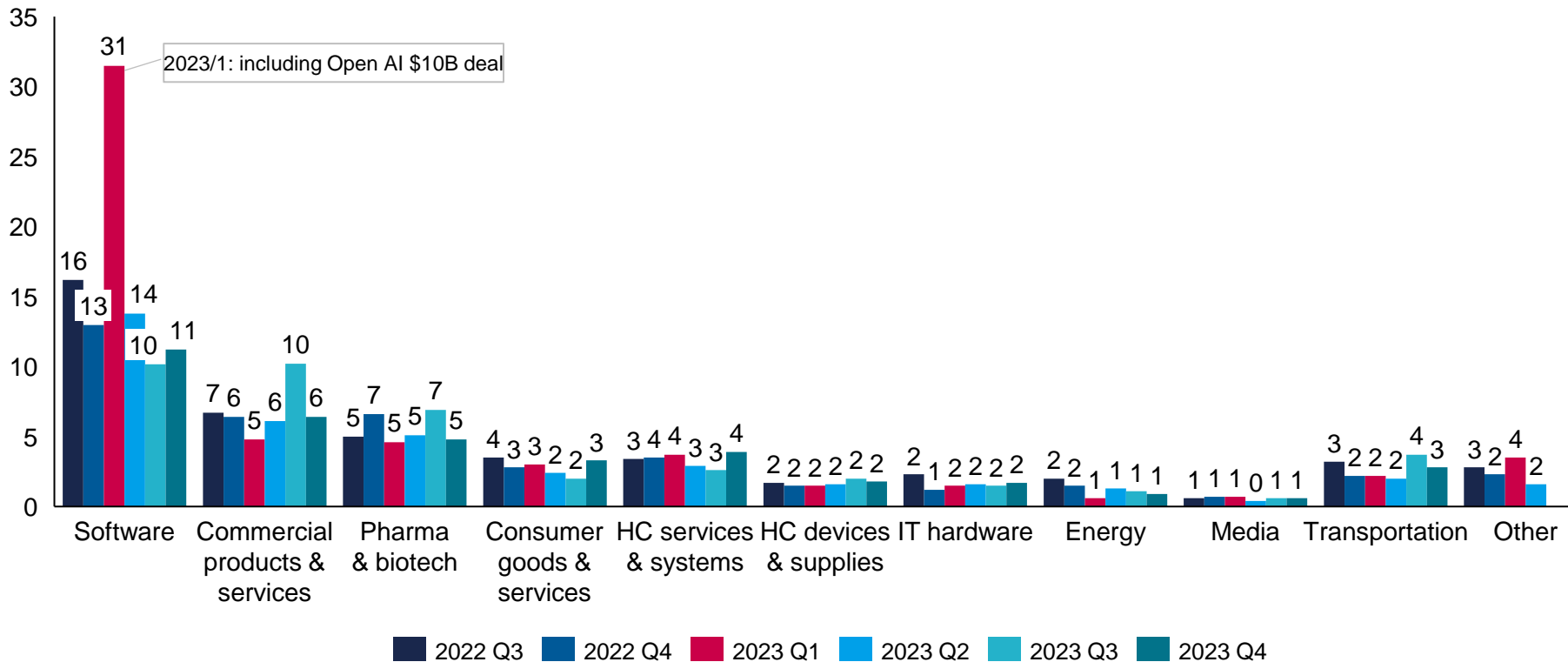
Note 1) Pitchbook defined venture growth stage as rounds after Series E.

Source: PitchBook

US: Deal Activity | Trends by sector

- On a quarterly basis, the amount of SU deal activity remains flat across sectors.
- Since last year, there has been a boom in Generative AI, driving deal activities among AI-related startups, which are constituents of the Software sector. However, apart from OpenAI's \$10 billion deal in 2023 Q1, the rest of the AI-related deals have not contributed significantly enough to increase the total deal value of the sector as a whole.

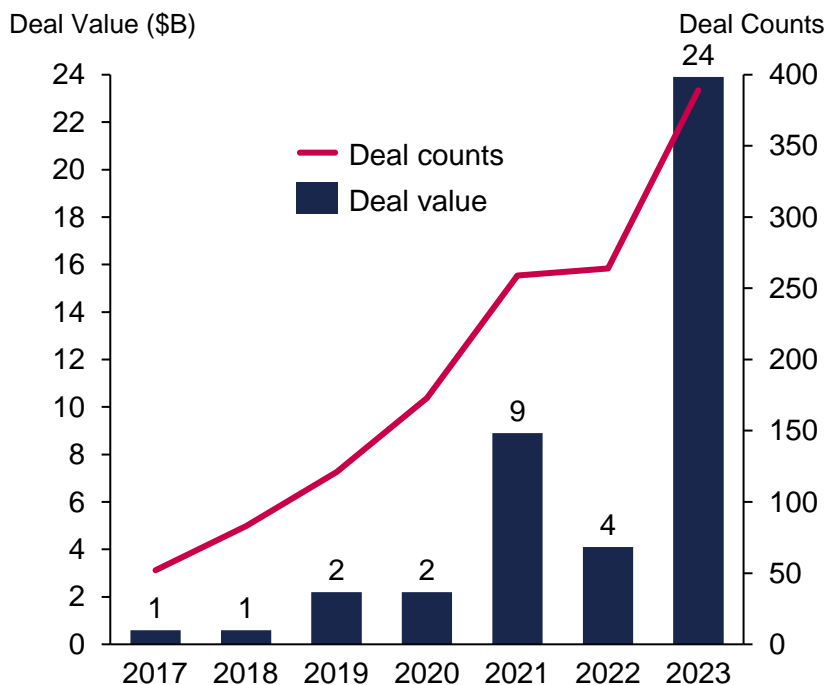
Quarterly US VC deal value (\$B) by sector



Source: PitchBook

- In 2023, the number of deals closed by Generative AI-related startups surged, with corporations actively investing in these startups. This trend has continued into 2024, with Microsoft recently announcing a strategic alliance with Mistral AI, a French startup. Tech giants are investing in AI because an excellent AI model applied to their existing products may determine their competitiveness. Apart from investing in startups, tech giants are also allocating significant capital to their own research and development, talent recruitment, and mergers and acquisitions.
- When evaluating the value of a startup, tech giants consider the synergy created through incorporating the startup into their own ecosystem, such as the revenue generated from cloud usage by customers of the startup with excellent AI technology. In this respect, tech giants assess the value of a startup from a different perspective than venture capitalists.

US: VC Deals for Generative AI



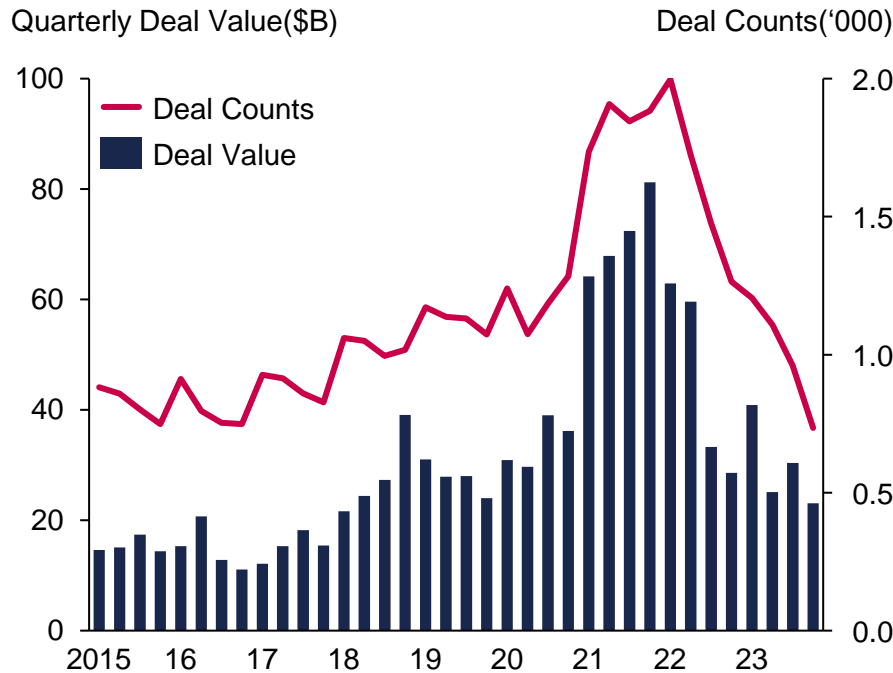
Investments in Generative AI-SUs by the corporates

SU (Valuation)	Corporate	Investment amount	Date	The aim
Open A.I. (\$86B)	Microsoft	\$10B	2023/1	Connect to search engines, Azure, and various apps
Anthropic (\$20B)	Amazon	\$3.4B	2023/9	Create foundation model and deploy to AWS customers
Anthropic (\$20B)	Google	\$2B	2023/10	Introducing conversational AI to search engines
Inflection AI (\$4B)	NVIDIA/Microsoft	\$1.3B	2023/6	AI supercomputer development, equipped with GPU
Mistral AI (\$2B)	Microsoft	€ 15M	2024/2	Collaboration in research and development (model training), etc.

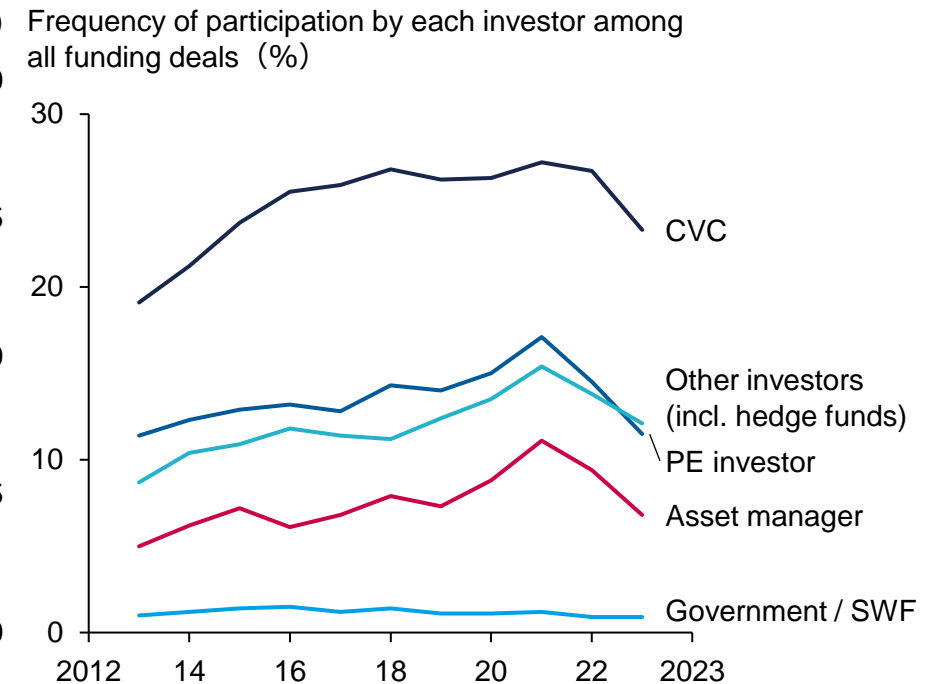
US : Deal Activity | NTI

- During the tech bubble period in 2021, non-traditional investors (NTIs: including CVCs , SWFs , asset management companies, PE companies, hedge funds, etc.) were active in investing in SUs. However, starting from 2022, the frequency of participation by these investors has been decreasing.
- CVC initially led their peers with a relatively higher participation ratio. However, they are now also slowing down in parallel with other non-traditional investors.

VC deal activity with NTI participation



Deal activity by NTI investor type



Source: Pitchbook

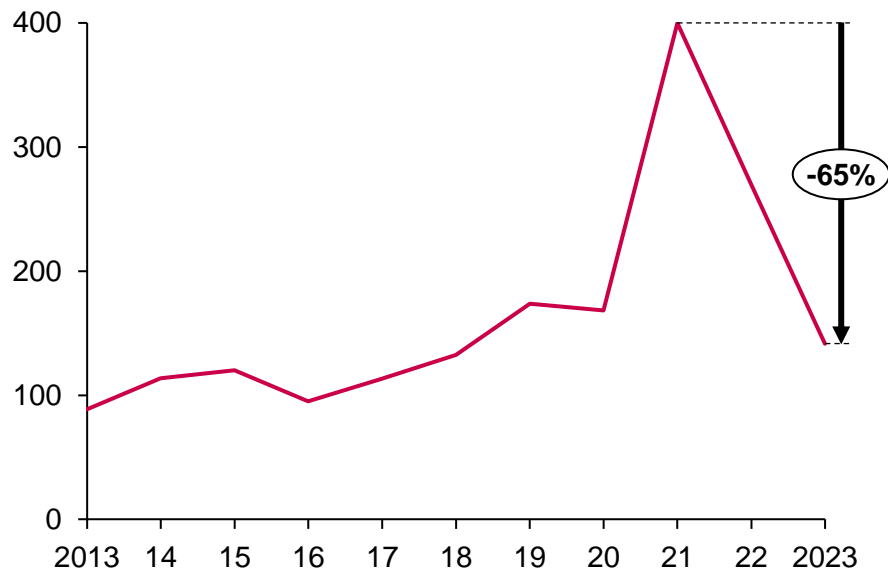
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US : Valuation | Overview

- In 2023, startup valuation declined in all stages except for the seed stage.
- The growth stage experienced a significant decline in valuation for two consecutive years. This decline has also impacted valuations in earlier stages.

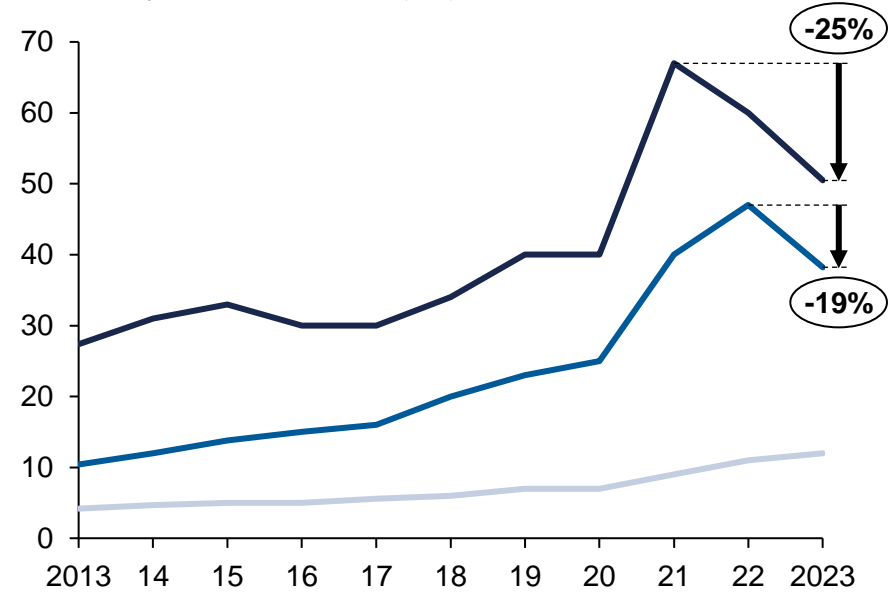
Valuation Changes: Venture Growth Stage ¹

Pre-money valuation/median (\$M)



Valuation Changes: Other stages ¹

Pre-money valuation/median (\$M)



— Venture Growth — Later — Early — Seed

Note: Pitchbook defined venture growth stage as rounds after Series E.
Source: Pitchbook

US : Trends in listed tech stocks

- With the stock prices of GAFAs starting to rise from the end of 2022, the NASDAQ index has regained the previous high watermark recorded in 2021 and is on an upward trend. However, unprofitable tech companies continue to perform poorly, leading to a bifurcated market.
- In contrast, the IPO index, which measures the stock price performance of recently IPOed stocks, is far from the level it was at the end of 2021. Nevertheless, it is currently showing signs of improvement.

NASDAQ Index / Non-Profitable Tech Index ¹

(Index with end of 2021 as 100)



— GSXUNPTC — NASDAQ Index (COMP)

US IPO Index ²

(January 2021 as 100)



— Renaissance US IPO Index

Note 1) "Goldman Sachs's Non-profitable Tech Index" (GSXUNPTC Index)

Note 2) The IPO index is a metric that tracks the stock price performance of recently listed companies. Specifically, in the case of the Renaissance US IPO Index, it comprises highly liquid IPO stocks that raised \$100 million or more at the time of listing. The index calculates combined performance of these stocks up to three years after each IPO.

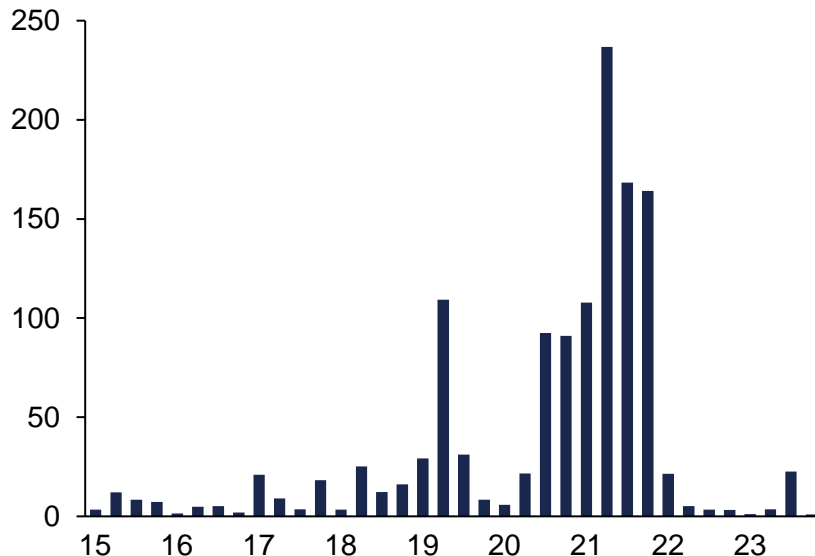
Source: PitchBook, Bloomberg

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- Both the number of IPOs and M&A activities are sluggish.
- In 2023, Instacart's IPO garnered attention. Despite having a peak private valuation of \$39 billion, its public offering price was only one-fourth of that. The stock price did not perform well immediately after the IPO, but it began to pick up from the beginning of 2024. In 2024, trends in large-scale IPOs such as Reddit (March 21st) are drawing attention as a precursor for other IPO hopefuls.
- Corporations are reportedly becoming more cautious about initiating M&As due to stricter scrutiny from US government antitrust authorities, which exposes them to deal-break risks.

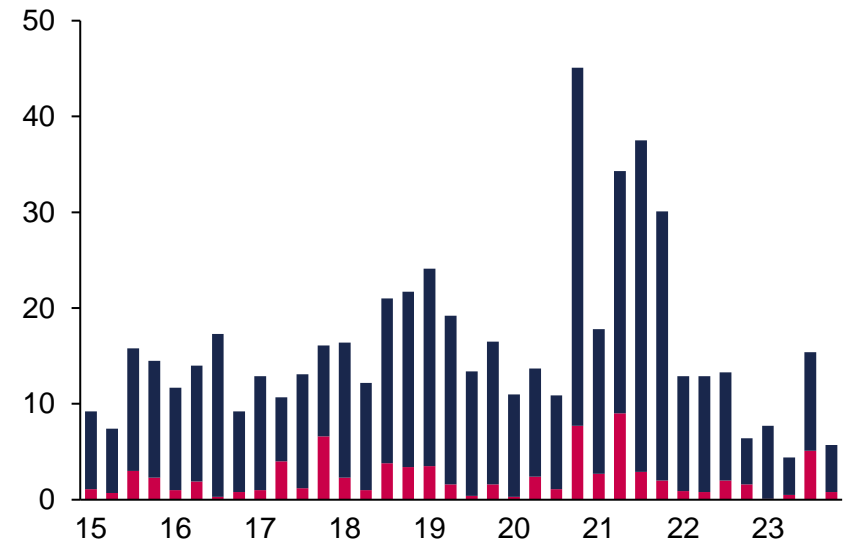
IPO Activity by quarter

Deal value (\$B)



M&A Activity by quarter

Deal value (\$B)



Source: Pitchbook .

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■ IPO

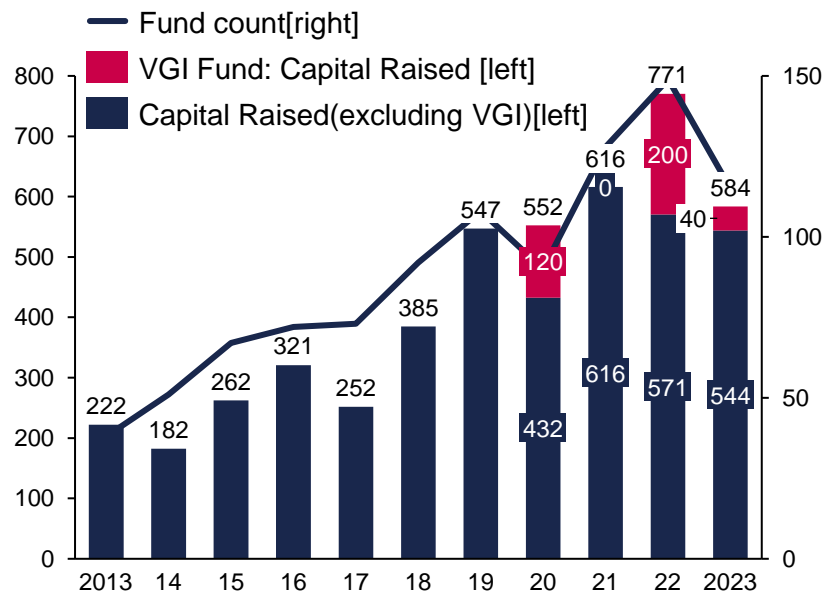
■ M&A ■ Buyout

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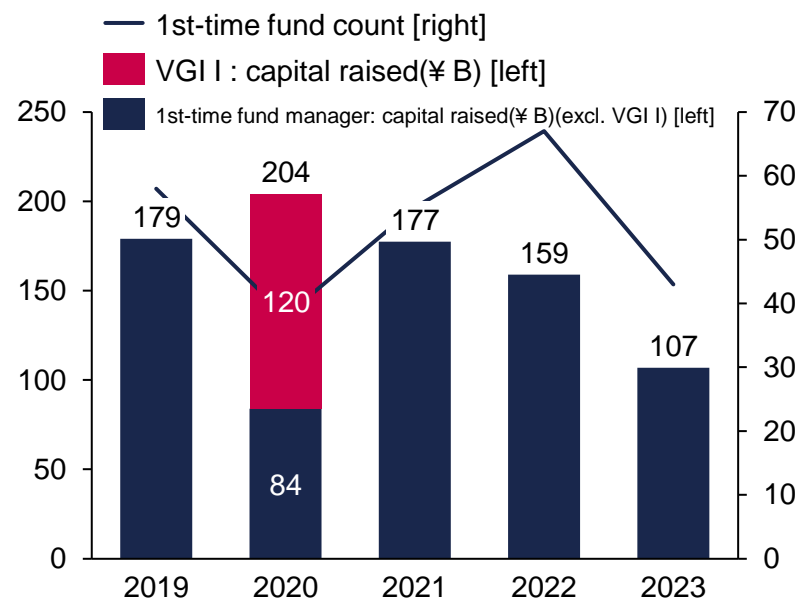
Japan : Fundraising

- 2023 vintage VC funds have raised JPY 584B.^{1,2} This amount represents a 5% decrease compared to the amount raised by 2022 vintage VC funds (JPY 616 billion, the amount observed at the same time last year).
- The league table is primarily dominated by CVCs or VCs affiliated with financial institutions.
- There have been observations that emerging general partners (GPs) are facing challenges in raising funds. The chart on the right indicates that so-called "1st time funds" have not been performing well in fundraising over the last three years.

VC Fundraising Activity ¹



VC Fundraising Activity: 1st-time manager



Note 1) The figure above is presented on a fund vintage year basis and is subject to upward revisions as past vintage funds close successive rounds moving forward. Regarding the capital raised for 2022-vintage funds, the figure has increased from ¥ 616B (as of January 2023) to ¥ 770B (as of January 2024).
 Note 2) In the absence of VGF 2 (¥200 billion, 2022 vintage) and VGI Opportunity Fund (¥40 billion, 2023 vintage), the total amount raised by 2023-vintage funds decreased by ¥21 billion year-over-year.
 Note 3) For each of the Japanese general partners (GPs), the oldest fund they had raised since 2013 is regarded as the "1st time fund".

Japan : Fundraising | New Funds

- 2023 vintage roster is dominated by CVCs or VCs affiliated with financial institutions.

Top 10 Funds Launched in 2022

Top 10 Funds Launched in 2023

★ VCs managed by independent manager (not affiliated with any parent organization) .

fund (Management company name)	Size ¹ (¥ B)	Vintage Date	Fund name (Management company name)	Size ¹ (¥ B)	Vintage Date
JIC VGF2 (JIC Venture Growth Investments Co., Ltd.)	200.0	2022/12	SBI Venture Fund2023/SBI Digital Space Fund (SBI Investment Co., Ltd.)	100.0	2023/9
Globis Fund VII, L.P. ★ (Globis Capital Partners & Co.)	72.7	2022/4	JICVGI Opportunity Fund No.1 (JIC Venture Growth Investments Co., Ltd.)	40.0	2023/9
JP Investment II (Japan Post Investment Corporation)	70.0	2022/7	Mitsubishi UFJ Capital IX (Mitsubishi UFJ Capital Co., Ltd.)	30.0	2023/3
JAFCO SV7 ★ (JAFCO Group Co., Ltd.)	56.0	2022/6	SMBC-GB Growth (Global Brain Corporation)	30.0	2023/7
82 Sustainability I (82 Investment)	30.0	2022/1	SMBC Asia Rising (Incubate Fund Management Pte. Ltd.)	27.0	2023/4
EEI5 ★ (Energy & Environment Investment, Inc.)	30.0	2022/9	NTT Investment Partners Fund IV (NTT Docomo Ventures, Inc.)	20.0	2023/4
Eight Roads Ventures Japan III, L.P. (Eight Roads Ventures Japan)	28.0	2022/6	Mitsubishi UFJ Life Science IV (Mitsubishi UFJ Capital Co., Ltd.)	20.0	2023/4
Sony Innovation Fund 3 L.P. (Sony Ventures Corporation)	26.5	2022/2	QR2 (QR Investment Co., Ltd.)	20.0	2023/7
UMI3★ (Universal Materials Incubator Co., Ltd.)	17.1	2022/9	ALL STAR SAAS FUND THREE PTE. LTD. ★ (BEENEXT Capital Management Pte. Ltd.)	15.7 *	2023/8
DNX Partners Japan IV, LP★ (DNX Ventures)	16.0	2022/10	Delight Ventures No. 2 (Delight Capital Co., Ltd.)	15.1	2023/4

¹ Size as of February 2024.

* USD 110 M. Converted at USD1=JPY142.7 (According to the company's press release in August) .

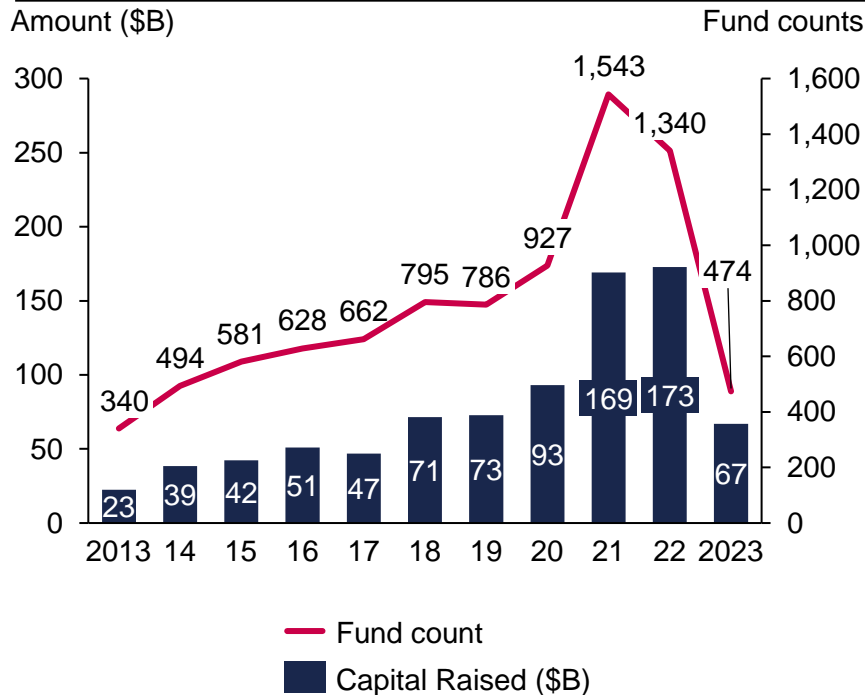
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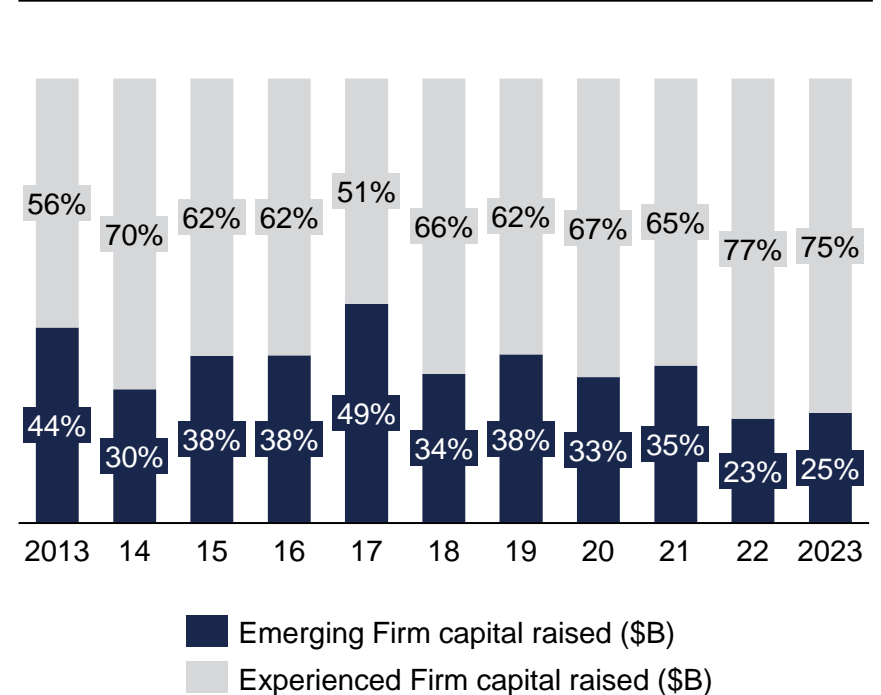
US: Fundraising | Overview

- VC fund raising activity in 2023 was in slump. In particular, emerging managers has been impacted.
- The two factors contributed to the move were (a) a slow down in the exit activities decreased distributions from funds to LPs, and (b) a decline in the value of listed equity portfolio was translated into a denominator effect in asset allocation of LPs.
- Although the recovery in the value of listed equity portfolios is alleviating the denominator effect, stagnant distributions are acting as a headwind for fundraising activities. The outlook appears grim.

VC fundraising activity by vintage year



Fundraising by emerging¹ and experienced



Note 1) "Emerging" is defined as firms that have launched fewer than 4 funds. "Experienced" firms are defined as those that have raised 4 or more funds.
Source: Pitchbook

US Fundraising | Major New Funds

- The landscape has shifted, with large growth funds that once dominated the top positions in volume no longer prominent. Instead, funds focusing on early-stage startups are now leading the pack.

#	Fund name ¹	Size ² (\$M)	Strategy	Investment field
1	GC Venture XI (General Catalyst)	4,600	Early Stage	• IT , Healthcare, Consumer Goods
2	OrbiMed Private Investments IX	1,860	General	• Bio, healthcare, IT , pharmaceutical
3	Khosla Ventures VIII	1,343	Early Stage	• Deep tech
4	Lux Ventures VIII	1,150	Early Stage	• Deep tech (healthcare, aerospace, bio, IT)
5	RTP IV (RTP Global)	1,000	Early Stage	• Consumer Goods, IT , Software
6	8VC Fund V	880	Early Stage	• Deep tech, IT , healthcare
7	Canaan XIII	850	Early Stage	• Bio, financial/insurance services, IT , logistics, pharmaceuticals
8	Felicis Ventures IX	825	Early Stage	• IT
9	Elephant Partners V	800	Early Stage	• IT , cyber security
10	Eclipse Ventures Fund V	720	General	• Energy, Healthcare, IT , Semiconductor, Transportation

Note 1) US focused closed funds only, exclude evergreen funds

Note 2) Closed

Source: Preqin, Pitchbook

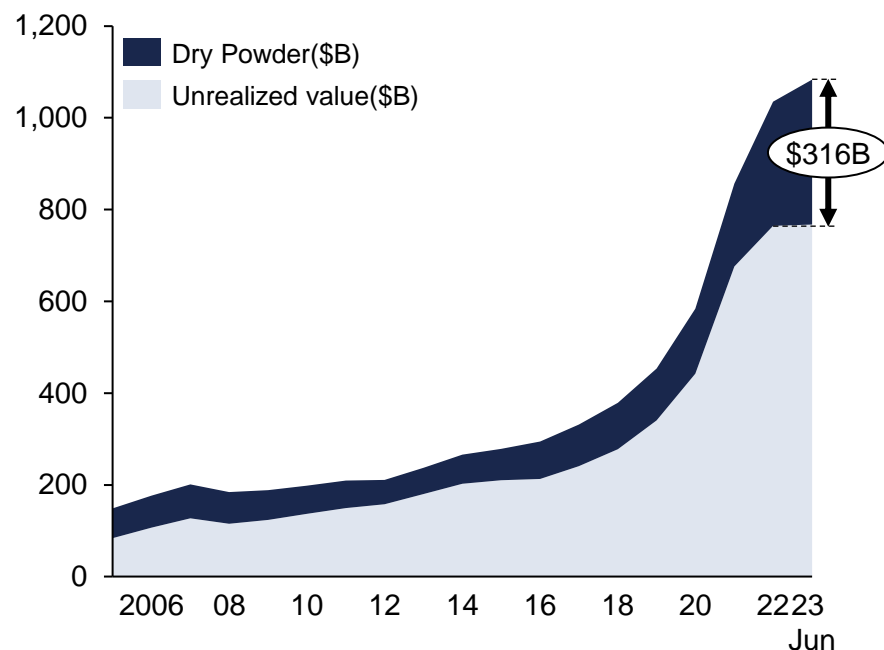
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USA : Dry Powder | Overview

- The undrawn commitment balance (dry powder) of VC funds is accumulating. VCs are cautiously evaluating investment opportunities and deploying capital slowly as further valuation adjustment of investee SUs is likely and the prospect of recovery in the exit market is uncertain.
- In response to these challenges, some GPs have decided to cut funds size to appease LPs or have lowered the fund raising target.

Dry Powder Volume • Yearly

Total assets under management in the North American VC market (AuM) (\$B)



Major GP company responses to dry powder

GP	Policies reported (time)
Tiger Global	Reducing the target size for its latest venture fund to \$5 billion, down from an expected size of \$12.7Bn (February 2023)
Founders Fund	Cut the size of its \$1.9Bn VC fund raised by half.(March 2023)
Insight Partners	The target amount of the new fund has been lowered from \$20B to \$ 15B (June 2023)
Sequoia Capital	Cut the size of its cryptocurrency fund to \$200M from \$585M. Slashed the size of ecosystem fund to \$450M from \$900M. (July 2023)

Note 1) At the end of each year, as of June 30th in 2023

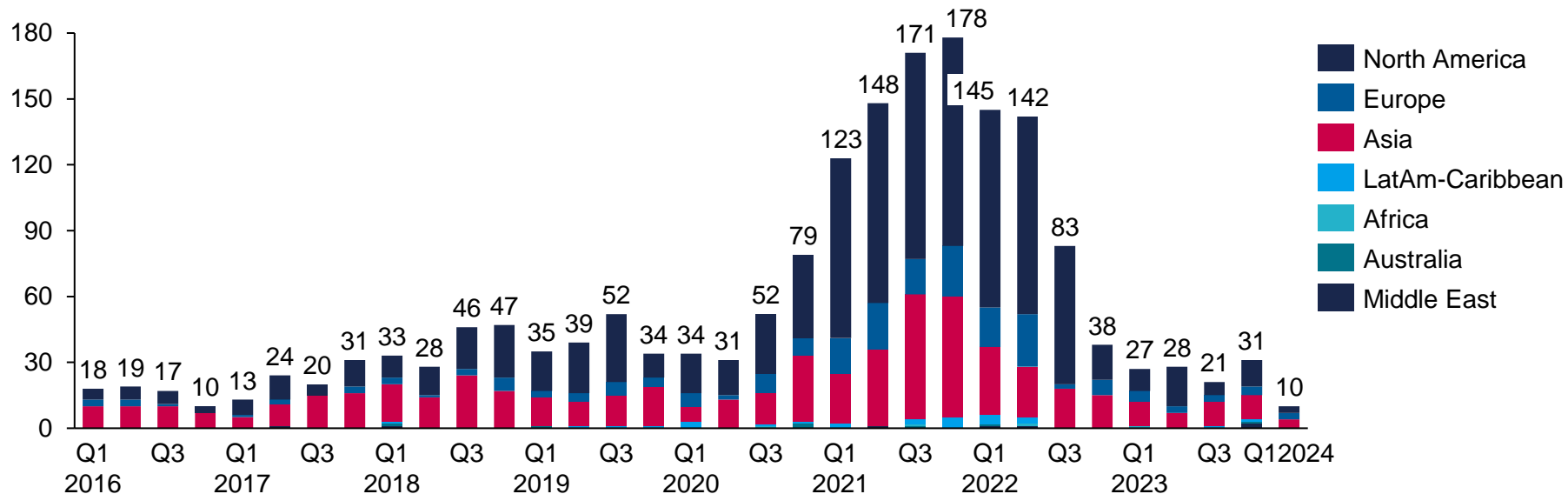
Source: Preqin, The Information, Financial Times, Press Research

1	Summary	P4	4	Supplementary material collection	P29
2	Startup	P5	4.1	Unicorns	
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Global: Unicorn | Overview

- The number of new unicorn births per annum has significantly decreased since 2021.
- Total unicorn counts reads over 1,300 currently, but, considering the decline in trading price in secondary market and/or reported valuation applied in financial reports of investors, it is likely to see many unicorns will be forced to be mark down in the next round in the future.

Number of new unicorns/quarterly/number of companies

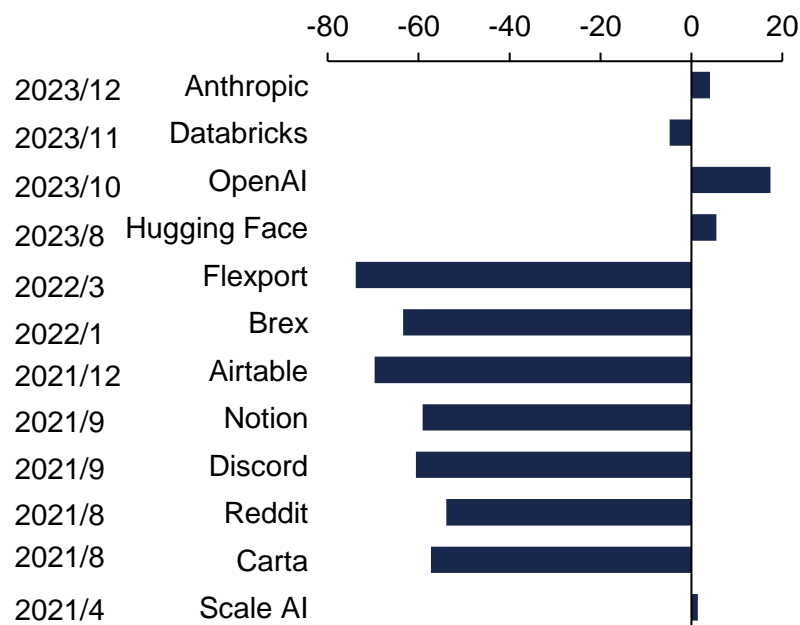


Note 1) as of 15th February, 2024

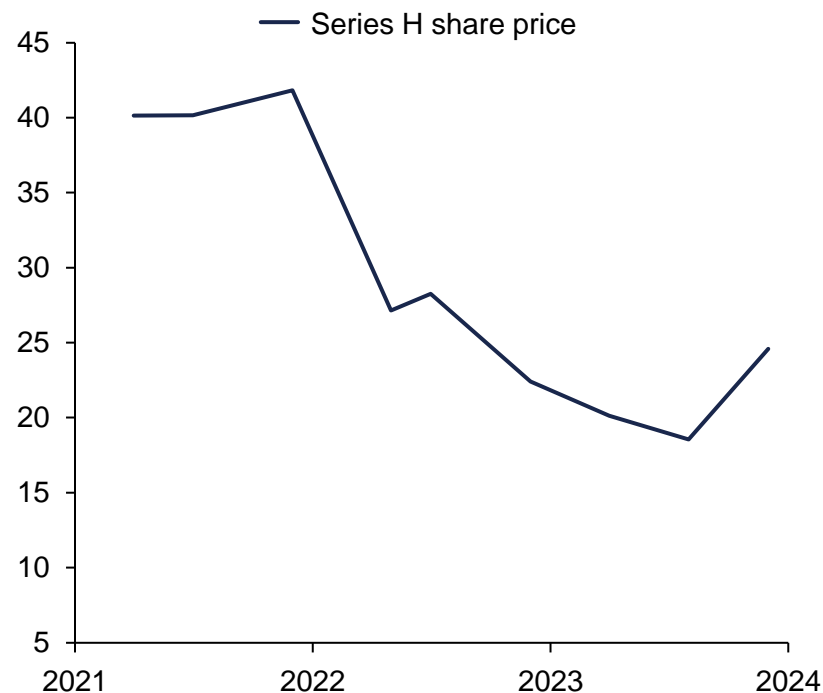
Source PitchBook

- The recent rise in stock prices of listed equities benefits the valuations of some AI-related unicorns. However, for other types of unicorns, there is evidence of declines in trading prices in the secondary market and/or reported valuations applied in financial reports by investors.

Valuation in secondary transactions
(% , compared to the previous round)



Stripe valuation (Fidelity Investments) ¹

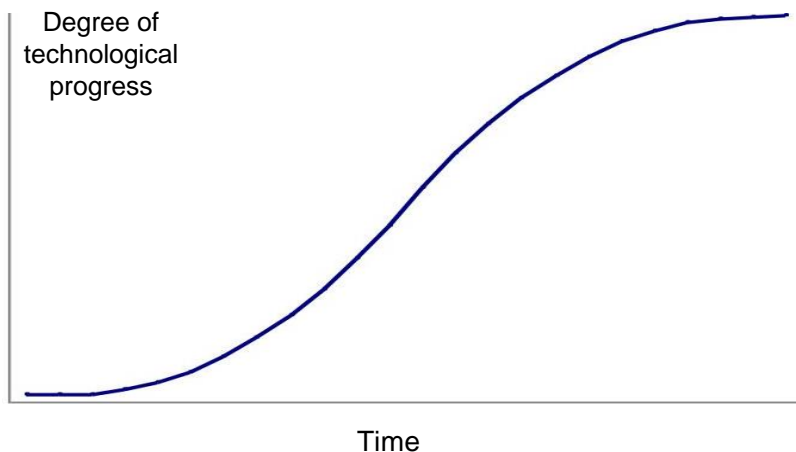


Note 1: Fidelity slightly increased the valuation of Stripe, a stock included in its investment trust, in its investment report (December 2023)

Source:PitchBook , Notice, The Economist

- The number of newly born unicorns has continued to slow down since 2021, and it has been noted that the reason for this slowdown is not solely due to a higher discount rate applied to value these loss-making startups.
- Recently, Andrew Cote at Andreessen Horowitz¹ have pointed out that the SaaS business, which had been the mainstream up until now, has matured. There are fewer SUs that receive high valuations based on expectations for explosive returns.
- Traditionally, many SUs have been evaluated as unicorns in the SaaS category. However, today's SaaS may have a less attractive risk-return profile for VCs. Some believe that in the future, AI, space, defense, life sciences, etc. may replace SaaS as new investment target.

S-curve of expected economic growth of new technology ¹



Note 1: Pointed out by Andrew Cote in his newsletter. It was originally based on the theory advocated by economist Carlota Perez that “economic growth from new technology follows an S-shaped curve.”

Reference: Y Combinator investment theme

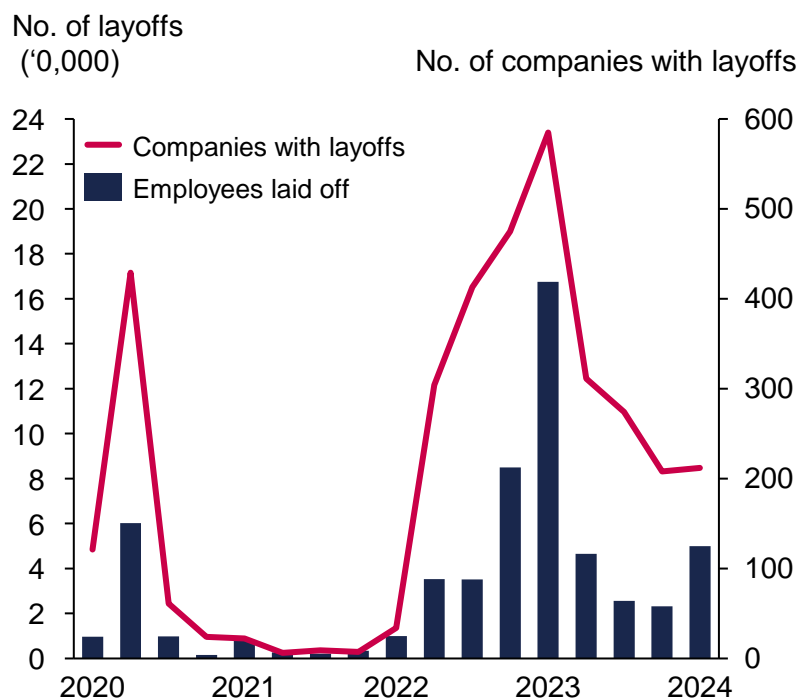
In the “Request for Startups” shared by YC in February 2024, categories including space, manufacturing, defense, etc. are among the top of the list of the areas of interest:

- Applying machine learning to robotics
- Using machine learning to simulate the physical world
- New defense technology
- Bring manufacturing back to America
- New space companies
- Climate technology
- Commercial open source companies
- Spatial computing
- New enterprise resource planning software (ERPs)
- Developer tools inspired by existing internal tools
- Explainable AI
- LLMs for manual back office processes in legacy enterprises
- AI to build enterprise software
- Stablecoin finance
- A way to end cancer
- Foundation models for biological systems
- The managed service organization model for healthcare
- Eliminating middlemen in healthcare
- Better enterprise glue
- Small fine-tuned models as an alternative to giant generic ones

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- The layoffs at tech companies, which began in 2022, peaked in the first half of 2023 and then reached a lull for a while. However, since the beginning of 2024, major tech companies have resumed large-scale layoffs. In response to the post-pandemic environment, major tech companies are conducting strategic reviews on business lines that are unlikely to yield quick results. They are cutting investments and focusing more on cost efficiency. These layoffs have been appreciated by investors and are reflected in the current stock prices.

Trends of layoffs in tech companies since the coronavirus shock



Major tech companies layoffs

- **Google**: Targets a wide range of operations including voice assistant (Google Assistant), engineering, and advertising sales (few hundred people)
- **Amazon** : Reduction in video distribution and production business (several hundred people)
- **Microsoft** : Reduced the number of people in the game department (After acquisition of Activision Blizzard) (1,900 people)
- **Apple** : Plans to lay off development team employees due to withdrawal from EV business
- **Cisco** : Deteriorating environment in networking equipment business (5% of total employees, over 4,000 people)

Changing trends

-2023

- Adjusting overstaffing in light of deteriorating company performance (due to rising inflation, weak consumer demand).



2024-

- Companies including those with great performance are reducing personnel to improve organizational efficiency.

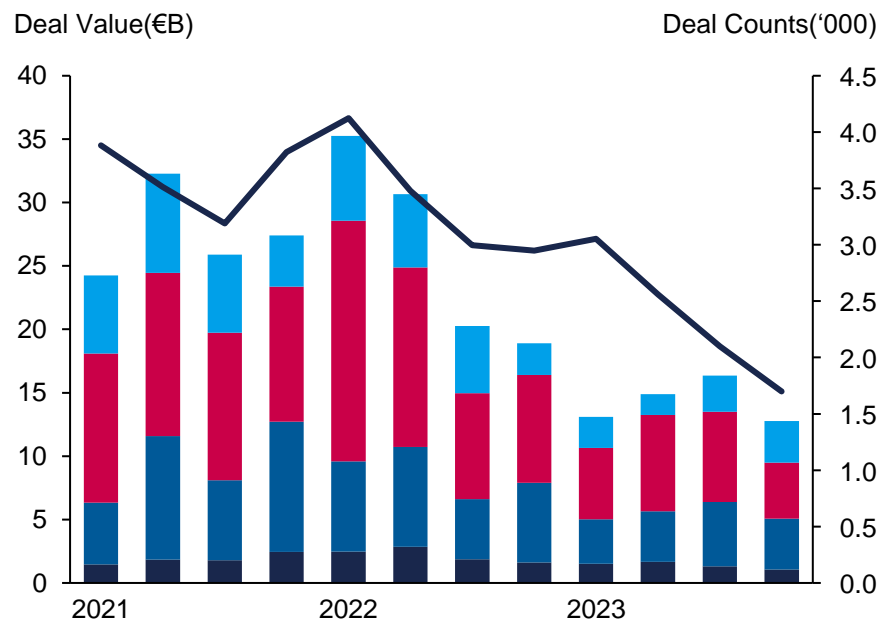
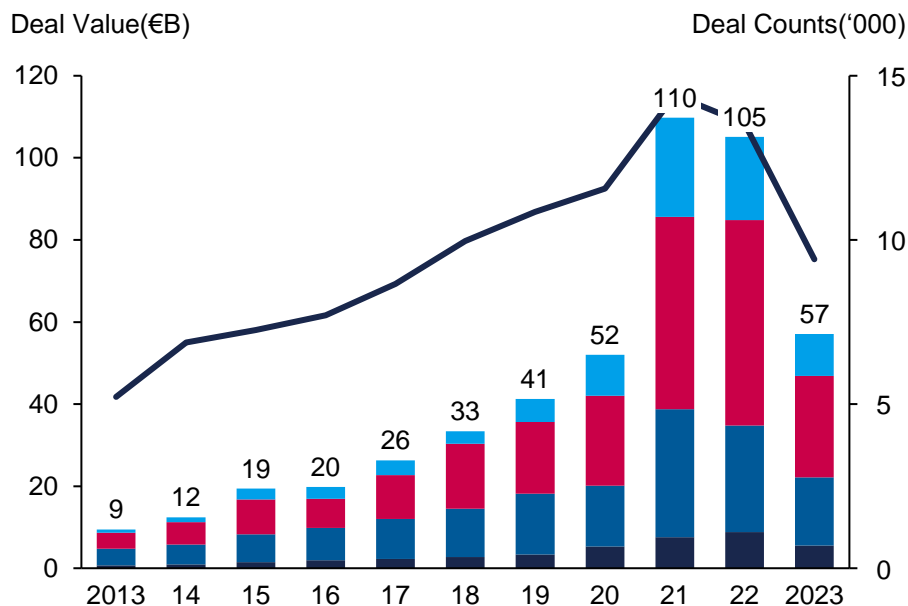
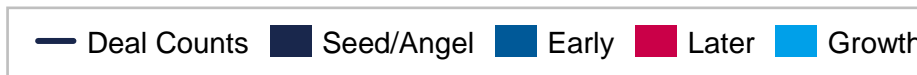
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Europe Deal Activities| Overview

- Overall deal activities began to decline in 2022, and this trend continued into 2023 with further decreases. The main contributing factor was a decrease in later/growth stage deals.
- On a quarterly basis, deal activities have remained almost flat after experiencing a significant decrease from 2022 Q2.

Annual deal activity trends ¹

Quarterly deal activity trends ¹



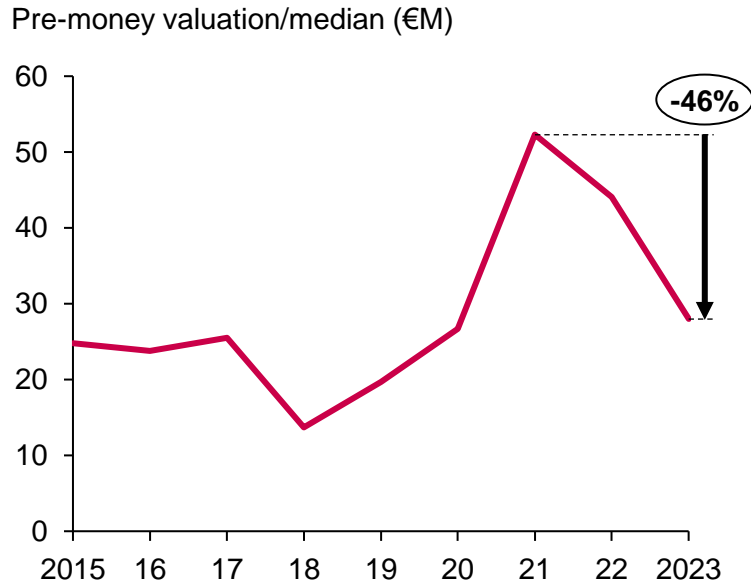
Note 1) Stage definitions are based on PitchBook classification. Growth stage refers to funding from Series E.

Source: PitchBook

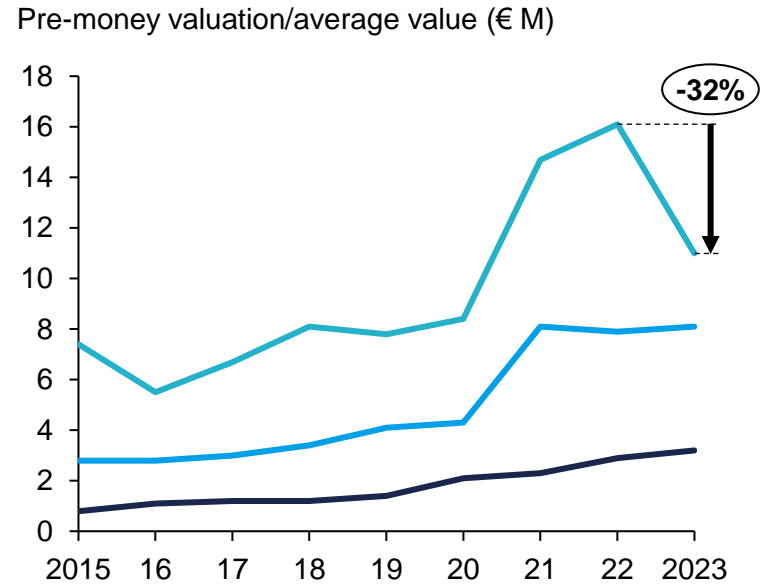
Europe : Valuation | Overview

- In 2023, growth and later-stage startup's valuation sharply declined from the level of the previous year.

Valuation Changes: Venture Growth Stage ¹



Valuation Changes: Other stages ¹



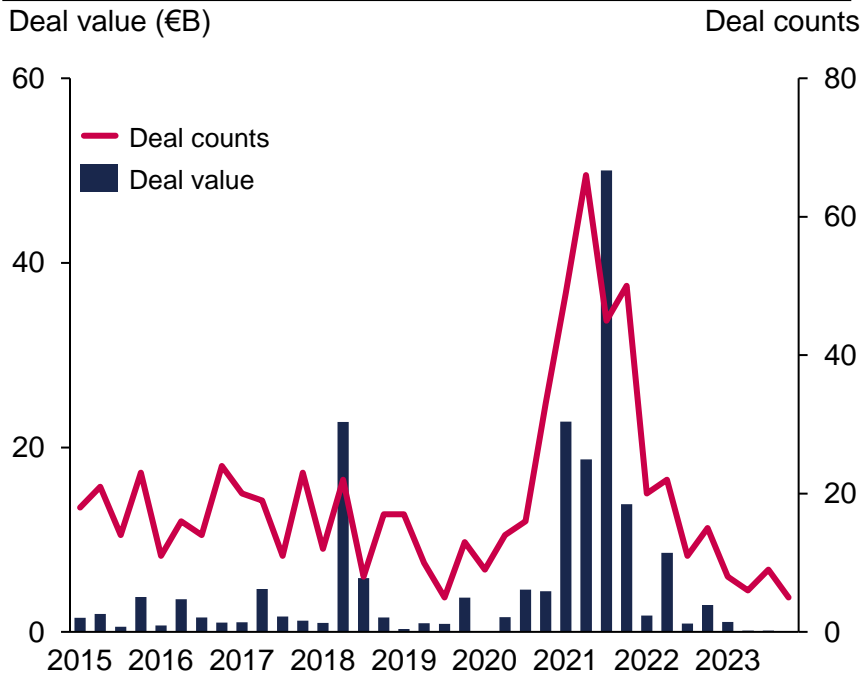
— Growth — Later — Early — Seed

Note: Pitchbook defined venture growth stage as rounds after Series E.
Source: Pitchbook

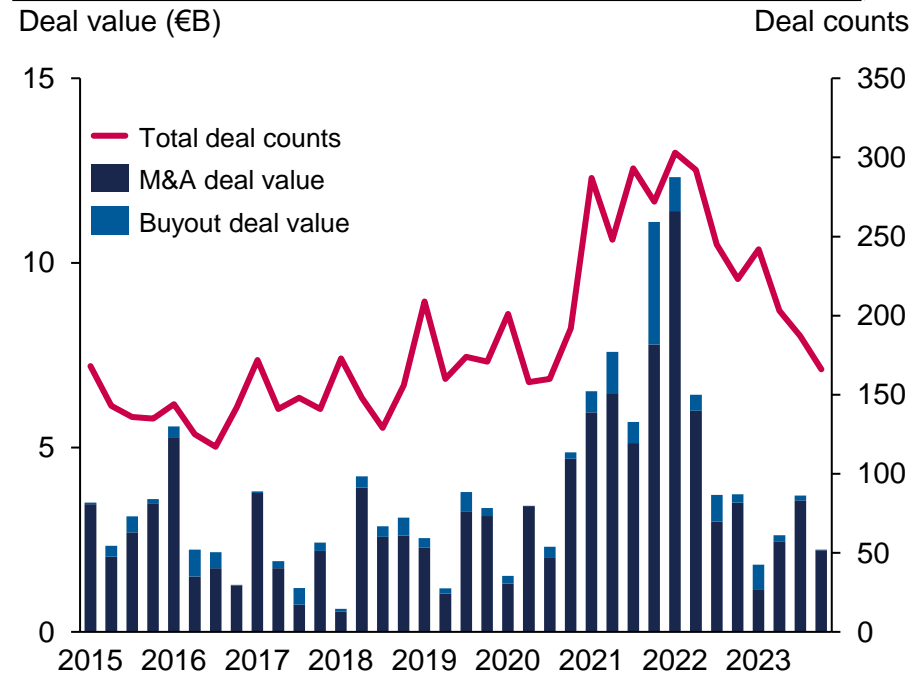
Europe : Exit | Overview

- European SU exit activity is sluggish in both IPOs and M&A. In 2023, the IPOs of ARM and IONOS, two former European SUs, were expected to have a positive impact on other IPO hopefuls, but the expectation did not materialize.
- In 2024, Klarna and Northvolt are expected to go public, and the results will attract attention.
- Exits were mainly through M&A in 2023. The largest deal was the acquisition of the biotech / pharmaceutical SU Kerecis (Iceland) by the medical equipment manufacturer Coloplast (Denmark) at a valuation of €1.2 billion.

IPO Activity by quarter



M&A Activity by quarter



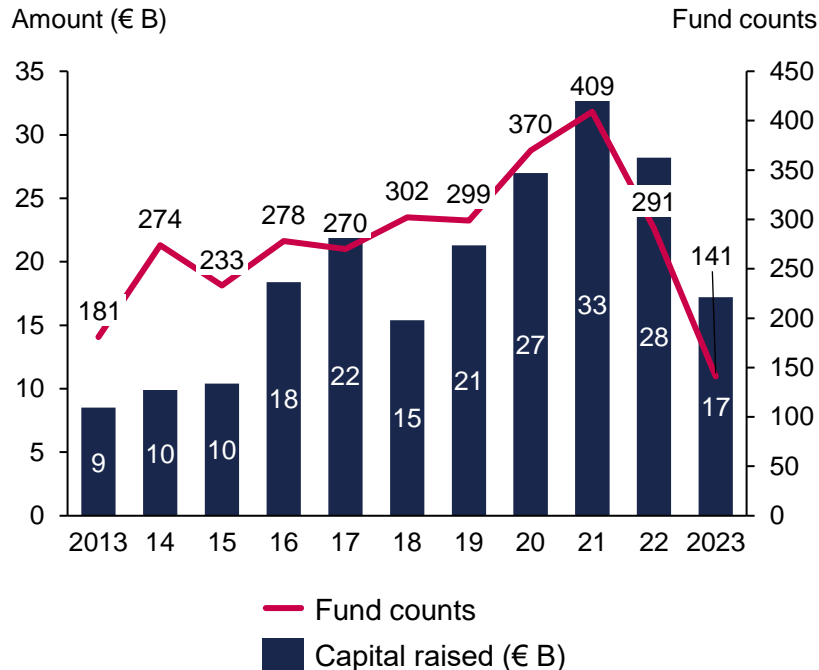
Source: PitchBook

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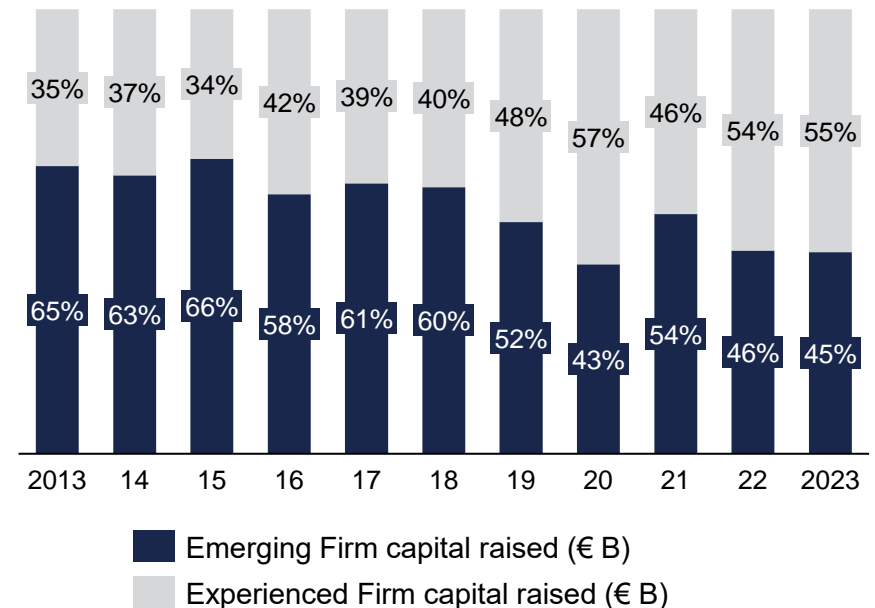
Europe : Fundraising | Overview

- VC fund raising activities continue to be sluggish. In particular emerging managers perform poorly.
- European public investment institutions, such as the EIF, are increasing their funding to VC funds, recognizing the equity funding gap for growth-stage SUs. Additionally, in light of rising geopolitical risks, NATO has launched a fund, the NATO Innovation Fund, to invest in deep tech SUs/VCs. The fund raised a total of €1 billion from the governments of 13 NATO member countries and others.

VC fundraising activity by vintage year



Fundraising by emerging¹ and experienced










Note 1) "Emerging" is defined as firms that have launched fewer than 4 funds. "Experienced" firms are defined as those that have raised 4 or more funds.
Source: Pitchbook

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India : SU Finance Market Overview

- India's SU finance market is the fourth largest in the world after the US, UK, and China .

index	US	Europe	China	India	SEA	Japan *	Global	
SU funding amount	\$107B	\$40B	\$12B	\$7B	\$4B	\$5B	\$189B	2023 SU Funding Top  US \$107B  England \$12B  China \$12B <div style="border: 2px solid black; padding: 2px;"> India \$7B</div>  Germany \$7B  France \$6B  Japan \$5B
Global ranking / composition ratio (%)	#1 (56%)	- 21%	#3 (6%)	#4 (4%)	- (2%)	#7 -	100%	
SU funding deal counts	5,691	3,783	578	1,000	448	2,828	13,572	
Unicorn (current)	660	198	152	94	45	9	1,275	
New unicorn	28	4	4	2	1	1	58	
EXIT (M&A)	1,263	1,425	22	119	61	118	3,569	
EXIT (IPO)	34	11	30	18	10	49	130	

* Japanese data is from INITIAL. Converted to USD at USD 1 = JPY150.

- India is expected to experience high economic growth, particularly in the consumer market, driven by the increase in its vast middle-class population. The Indian government made efforts to improve science and mathematics education in the 1990s. The country also benefits from an abundance of highly skilled IT personnel, leading to a rise in the number of IT development bases.
- India's favorable economic environment is fostering the growth of startups (SUs). Additionally, there are high expectations for startups to play a key role in addressing social issues such as economic disparities that emerge during the growth process. Consequently, Indian startups are attracting investment not only from domestic investors but also from foreign investors.

Market characteristics

Huge consumer market

Abundant high-level IT human resources

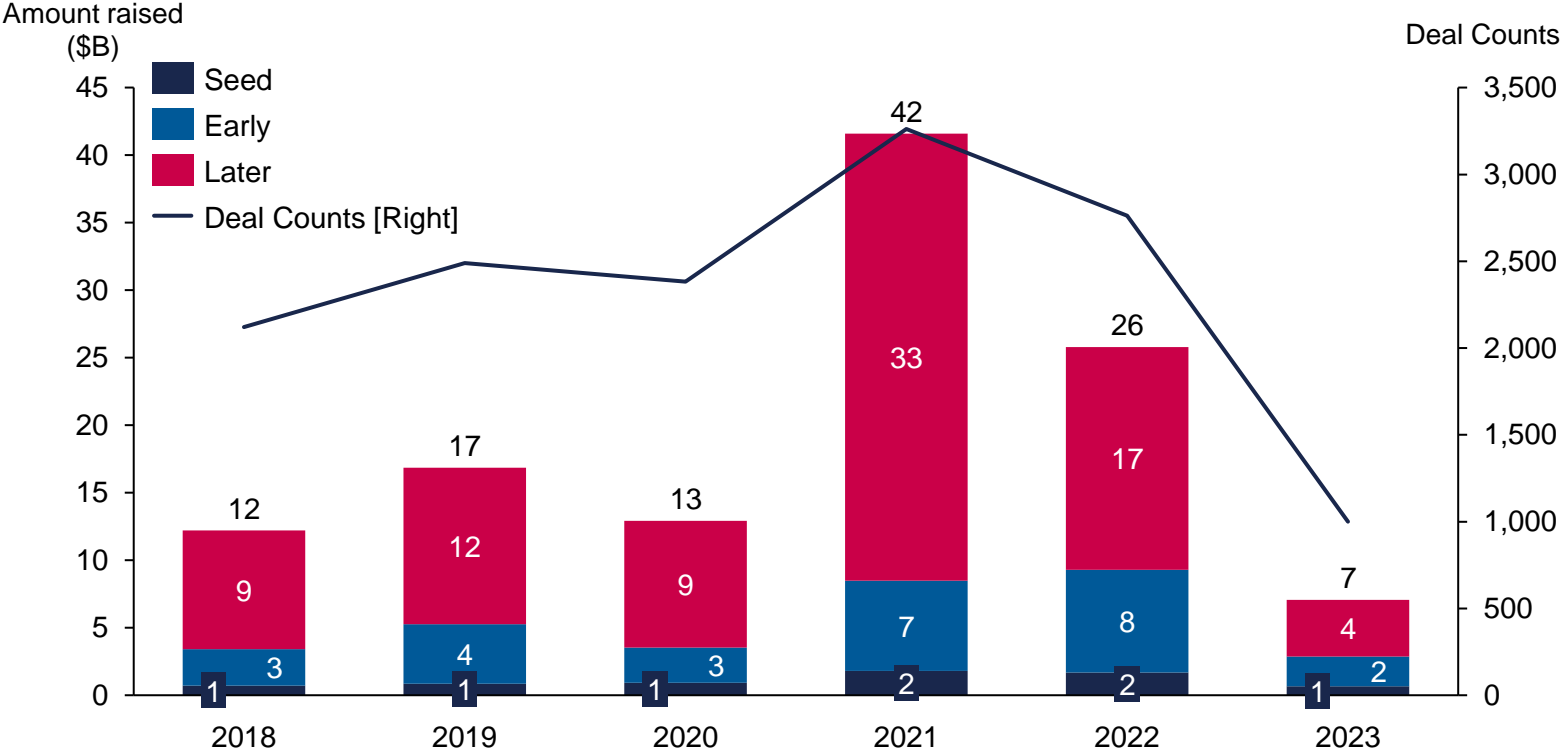
Opportunities in the SU sector

- ✓ **Fintech: Financial inclusion needs**
Less than 5% of households have access to credit.
- ✓ **Ecommerce / Consumer Service / Internet:**
A large number of people are connected to the Internet*, and there is a large need to consume goods and services via the Internet.
*the number of Internet users is over 700 million, and smartphone users is over 900 million.
- ✓ **B2B Commerce & Services :**
63 million small and medium-sized enterprises have large needs for technology implementation.
- ✓ **Healthcare:**
Improvements in living standards and changes in lifestyles are creating new needs, such as dealing with lifestyle-related diseases, but healthcare services remain inefficient.
- ✓ **Enterprise Tech/SaaS:**
Abundant highly skilled human resources and relatively low labor costs.

India : Deal Activities

- In line with the global trend, startup (SU) deal activities in India are also experiencing a steep decline after peaking in 2021. The deal value of SUs in 2023 decreased by 72% from its peak. Particularly, the deal value of later-stage SUs, which previously constituted the largest segment, witnessed the most significant decline, plummeting by 88%.

Deal Activity ¹ (Amount (\$B) /Deal Counts)

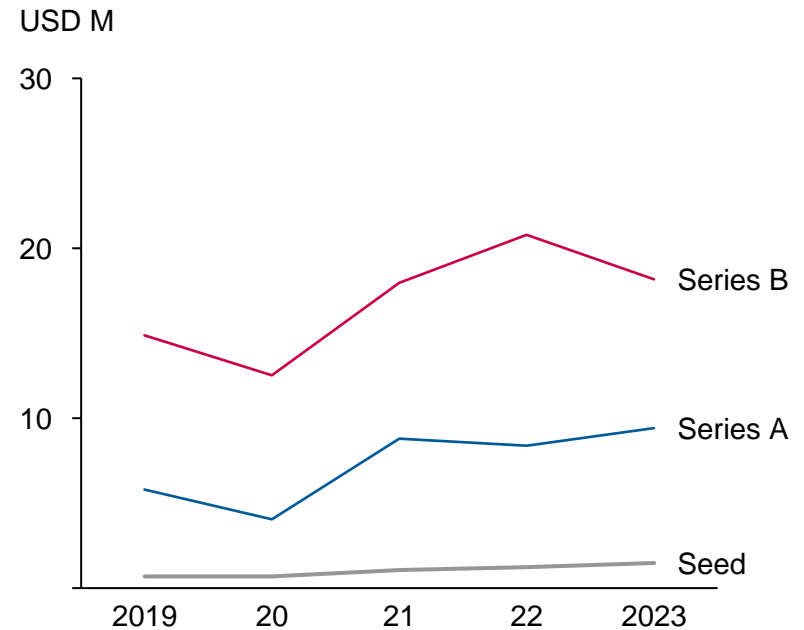
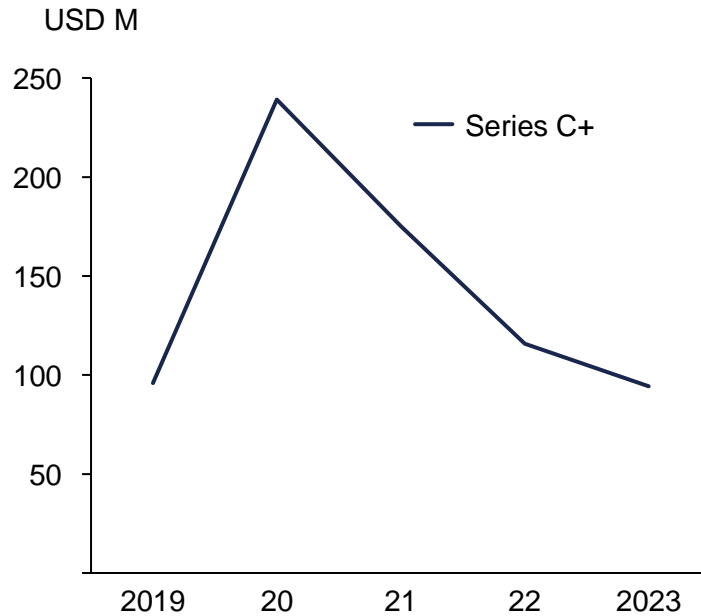


Source: Tracxn

Note 1) Series A and B are shown as Early, and Series C+ are shown as Later, according to Tracxn's classification.

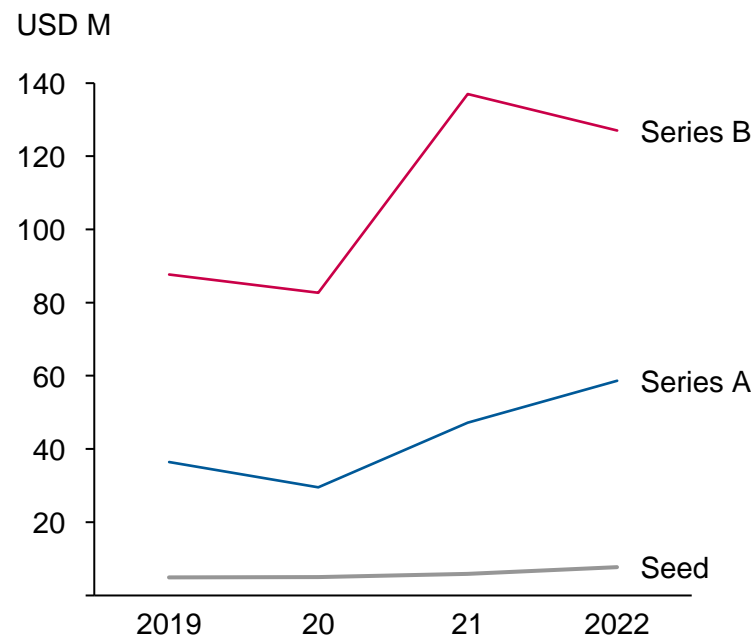
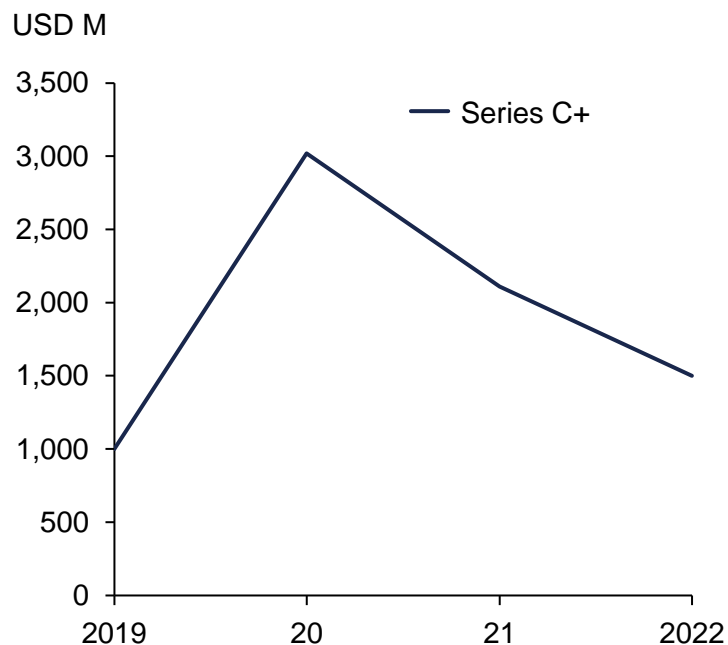
- Average deal size for Series C and later is declining.

Average Deal Size



- Valuations for Series C and later has been halved since its peak in 2020. ¹

Valuation Changes (Post-money valuation / average)

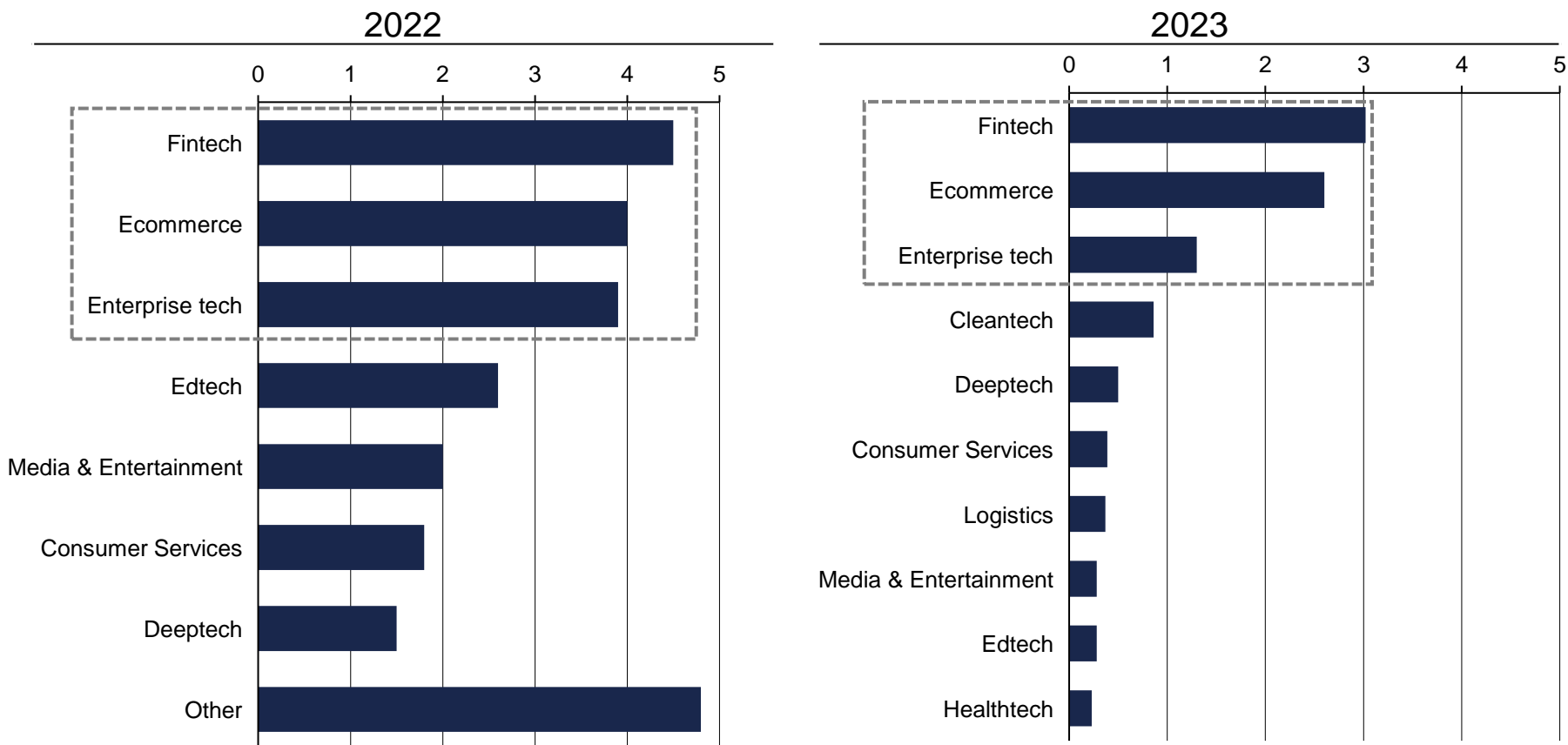


Note 1) 2023 data is excluded from the graphs due to limited sample size.

India : Deal Activities | Sector

- The scale of startup (SU) financing in sectors such as Fintech, E-commerce, and Enterprisetech reflects India’s market characteristics, including its large consumer market. Despite the significant shrinkage of the entire funding market in 2023, these three sectors remained relatively strong compared to others. As a result, their composition ratio within the whole increased compared to the previous year, rising from 49% to 70%.

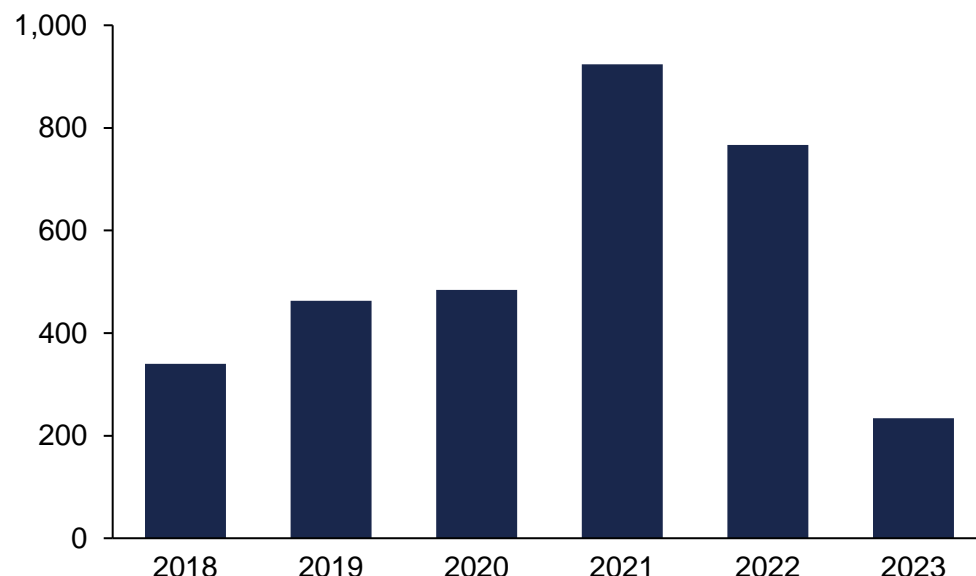
SU funding amount (by sector) (in \$B)










India : Foreign investors

- International investors used to frequently participate in Indian startups' later-stage financing. However, their appetite has waned, and they are now participating less. For instance, foreign investors who were actively investing in later-stage startups, such as Tiger Global and Accel, are now participating fewer transactions. Tiger Global made 48 deals in 2021, 22 deals in 2022, and 2 deals in 2023.

Trends in foreign investors investing in Indian SU (number of investors)

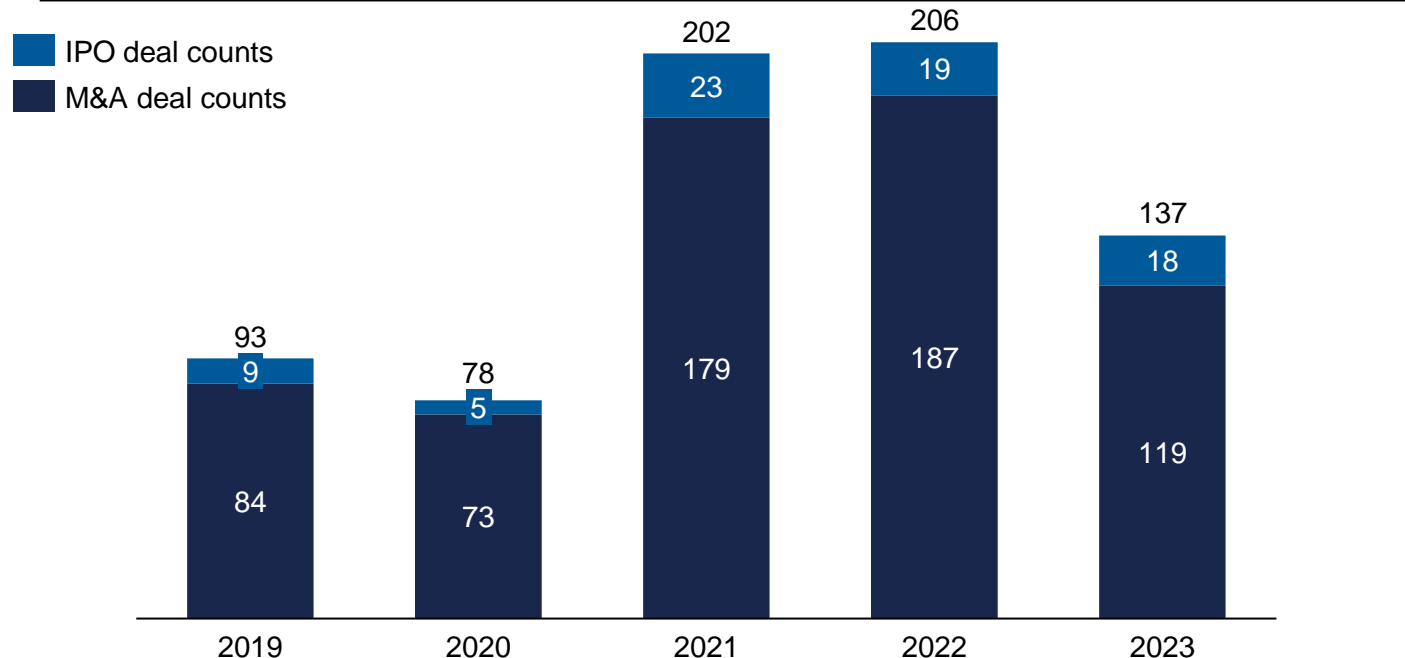


Top Foreign investors

Stage	Investor name	#Investments in 2023
Seed	 Y Combinator	19 (▲ 56%)
	 Surge	11 (± 0%)
	 Better Capital	8 (▲ 79%)
Early	 Accel	9 (▲ 64%)
	 Tiger Global Management	2 (▲ 89%)
	 Lightspeed Venture Partners	2 (▲ 50%)
Later	 Glade Brook Capital	1 (± 0%)

- While India boasts numerous unicorns, a relatively small number of them have gone public so far. Potential reasons behind this include: (a) India lacks a well-developed dedicated listing market for startups, akin to NASDAQ in the US, and strict listing standards are applied to startups., and (b) The IPO application process is complex, and underwriting costs are expensive. Additionally, many investors prefer to invest in startups, and it's often a favorable choice for startups to continue private funding to fuel growth rather than going public.
- The number of M&A deals in 2023 saw a decline of 36% compared to the previous year, reflecting the overall slump in the capital market.

Indian SU EXITS (IPO , M&A)



Note 1) " IPO landscape: Challenges and opportunities for Indian unicorns to go public " (mint, December 22 , 2023)

- India's vast consumer market and ample investment funds for late-stage startups, primarily from foreign investors, have contributed to the emergence of numerous consumer/internet and fintech-related unicorns.
- However, mirroring global downtrends, there are former unicorns whose stock price performance has been lackluster post-listing, as well as current unicorns facing downward valuation adjustments by investors.

Typical former unicorn (Post-IPO)



- **Zomato:** fintech founded in 2008, valued at \$16.5B (IPO in 2021)

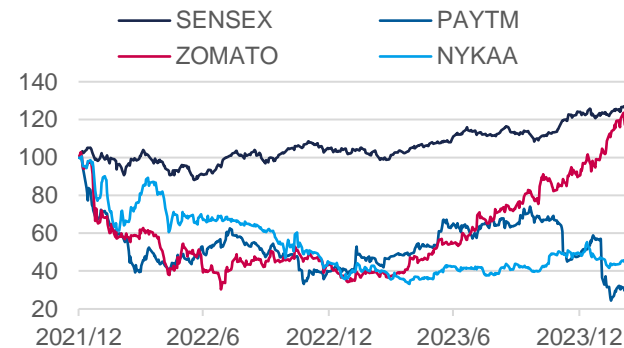


- **Paytm:** fintech founded in 2000, valued at \$3.0B (IPO in 2021)



- **Nykaa:** online marketplace founded in 2012, valuation \$5.2B (IPO in 2021)

Post-IPO Unicorn : Stock price trends (indexed with the end of 2021 as 100)



Current representative unicorn (IPO planning in progress)



- **Swiggy:** online food delivery service, founded in 2014 , valued at \$12.2B, (planning IPO in 2024)

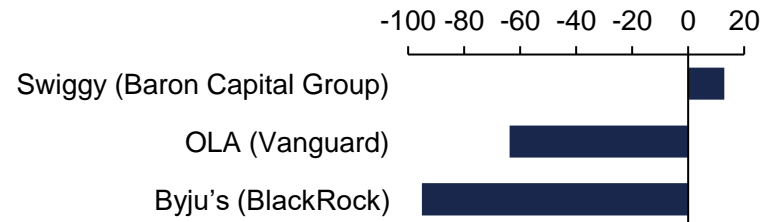


- **Ola Electric:** , ride sharing service, founded in 2017, valued at \$5.5B (planning IPO in 2024)



- **Byju's:** Education /Edtech, founded in 2011 , valued at \$1.0B

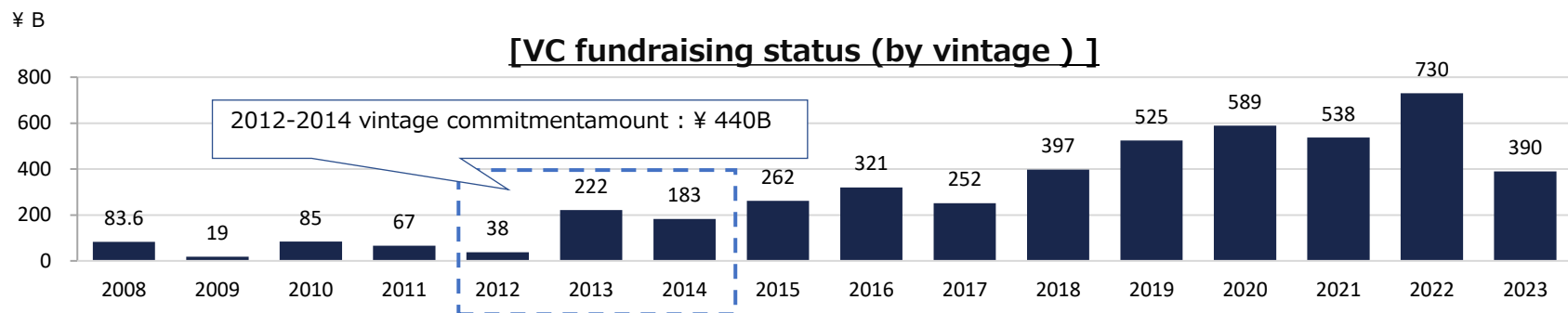
Changes in unicorn evaluation(%)
[from the 2023 investment reports of each investment company]



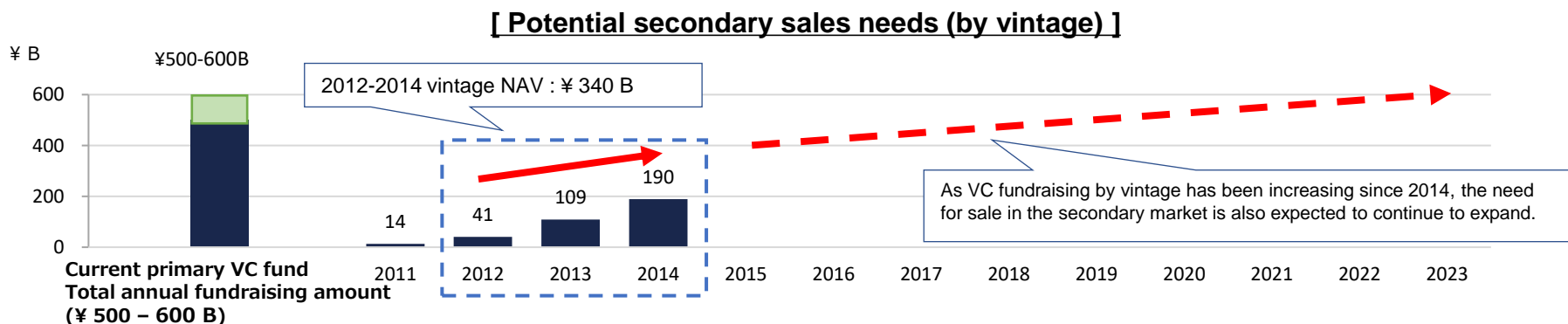
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Japan | Expanding secondary needs

- The lifespan of a VC fund is 10 years+α . Consequently, VC funds from the 2012 to 2014 vintage are now approaching the point where they must liquidate their portfolios to meet the fund dissolution deadline.
- In total, there are 106 VC funds from the 2012 to 2014 vintage, with a combined fundraising amount of ¥440 billion. According to estimates by JIC (*), the net asset value (NAV) of the portfolios held by these VC funds is approximately ¥340 billion.
- Given the current unfavorable IPO environment and the underdeveloped M&A market for acquiring startups in Japan, there is a growing necessity to sell these portfolios in the secondary market.



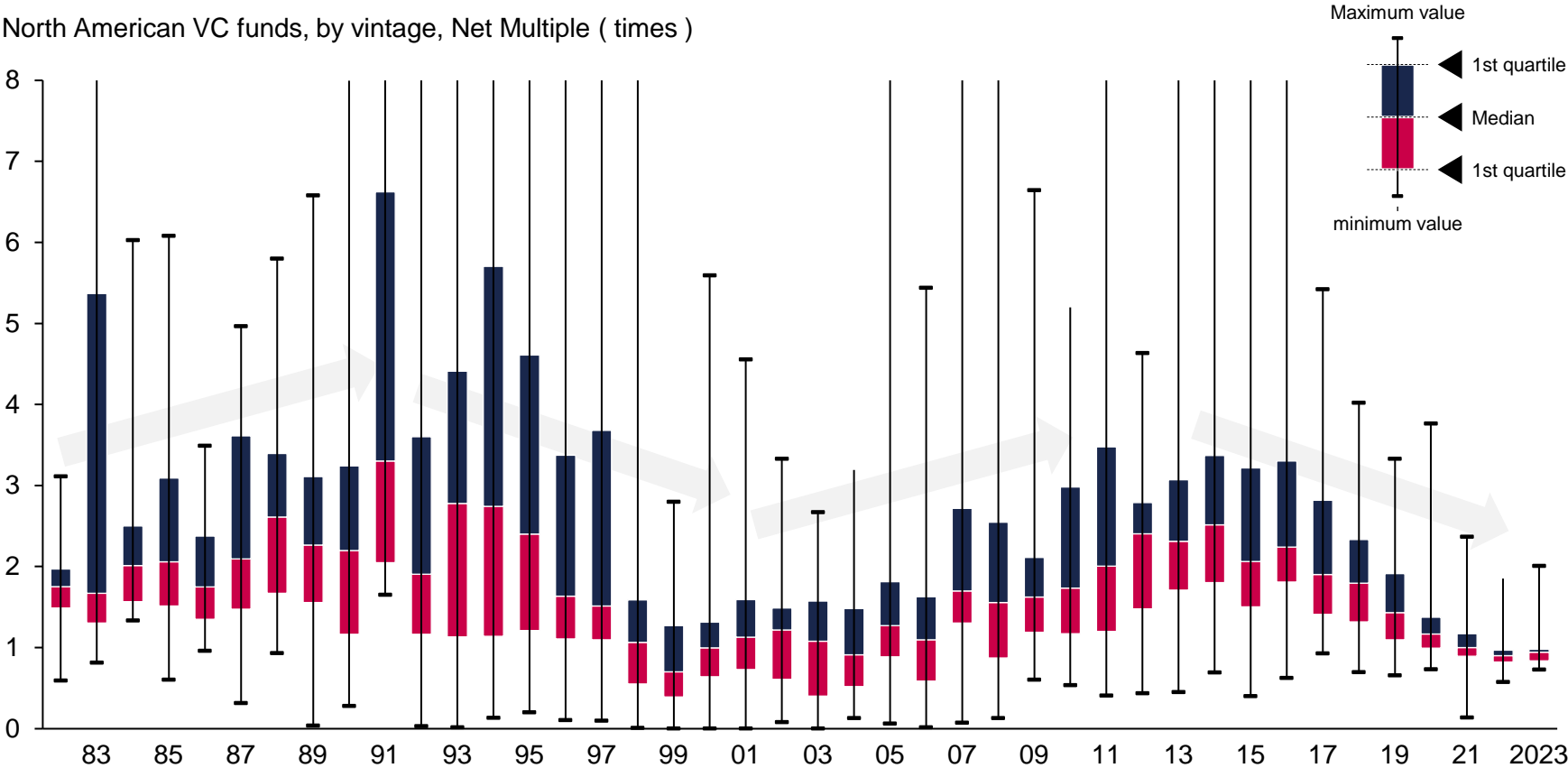
* The estimation is made by multiplying the median PIC (%) and median RVPI (%) for each vintage in the JVCA-Preqin survey (based on the end of December 2022) by the VC fundraising amount by vintage (INITIAL).



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Other | Market cyclicality

North American VC funds, by vintage, Net Multiple (times)



Source: Preqin

Other | Market cyclicality

- Excellent startups emerged from boom and bust cycles in the past.



Source: Bloomberg