2022 VENTURE CAPITAL TRENDS

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Introduction

2021 was a record year for venture funding and the startup world. The total value of disbursed capital and the pace at which it was put to work was much faster than in previous years.

According to CB Insights, global venture capital financings in 2021 totaled $643 billion, more than double the $294 billion recorded in 2020. On a region by region basis, investments increased in every region, with North America and Europe more than doubling the investment activity experienced in 2020.

Understanding these trends can make you a more efficient investor if you spend considerable time sourcing and reviewing potential early-stage startups.

In this guide, we give you a high-level overview of the current status of the venture capital industry in 2022.

Funding Will Remain Strong, But Not Hot

Experts say that the pandemic – while tragic – was a boom for the tech industry. Funding was substantially up in all stages, but especially in the late stage deals, representing year-over-year growth of 47% in the US.

Many non-traditional investors that don't typically invest in technology, such as large hedge funds, private equity, and other private market investors, decided to allocate capital to this asset class to take advantage of the hot market and high valuations. This trend will most likely continue in 2022.

The tech world continues to evolve to meet consumers' growing demand amid the pandemic, creating opportunities for seasoned and first-time entrepreneurs to build new companies and new unicorns to emerge. According to Pitchbook, 2021 saw a record number of companies valued at more than $1 Billion, exceeding the combined total of each of the past five years.

We probably won't see the same in 2022. Many startups are now working with plenty of cash on hand, thanks to the funding received in the past year. Others are considering exits or initial public offerings. Plus, macroeconomic shifts like inflation, rising interest rates, and the risk of a potential market correction are creating challenges for investors. These economic conditions could result in a slowdown in VC deals.

As Mark Sherman, Managing Director at Telstra Ventures, said, "The year could provide some choppiness with COVID, inflation and several geopolitical issues swirling about"

Don't get us wrong: Investing will still be strong in 2022, but probably not meteoric like 2021. We expect funding to be between $300 billion and the $643 billion we saw in 2021.

The Blockchain Hype Continues

The blockchain and cryptocurrency sectors were heavily funded in 2021, and we don't expect 2022 to differ. Venture investments in this area hit $25.2 billion last year, far greater than the $3.1 billion received in 2020. Of those $25.2 billion, 79% were early-stage investments. Across the board, valuations of companies in the digital asset ecosystem were 141% higher than the rest of the venture capital space.

It seems like there are new blockchain startups and coins launched every month. This new space has begun to carve a unique place of its own, and 2022 will see real diversification beyond cryptocurrencies, with the emergence of various types of tech companies relying on the blockchain, to build NFTs, DAOs, and other Web3 technologies. These companies will continue to drive the number of seed-stage and Series A deals in the blockchain space. For example, in 2021, funding for NFT projects grew an impressive 12,000% to $4.8 Billion.

"Crypto is one of the most exciting investment areas right now because, in some ways, the entire stack is being built simultaneously. From apps to infrastructure, to protocols, we are seeing developer and entrepreneur activity across the board." Says Nino Marakovic, CEO of Sapphire Ventures, a venture capital firm invested in several crypto companies.

Why is blockchain so hot? In part because more prominent institutional players are getting involved. In the beginning, the space was dominated by "alternative" investors who leaned on hype and speculation to grow the value of coins and crypto companies. Now, however, big financial institutions are wading into this space. And various other industries see the benefits and use cases of blockchain go beyond cryptocurrencies.

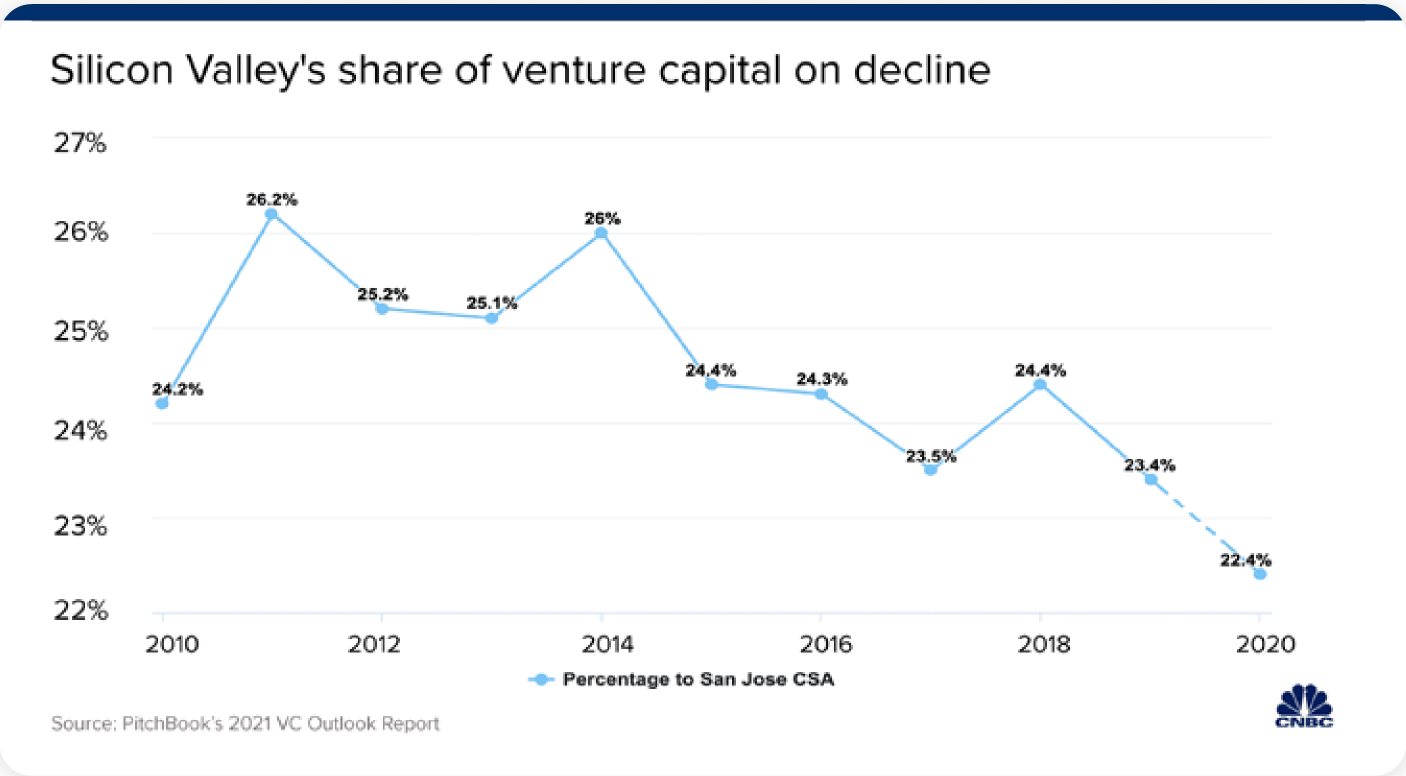
According to Coinbase, in 2018, 80% of crypto transactions were driven by retail investors, totaling $66 billion. But at the end of 2021, 72% of transactions came from large institutions totaling $327 billion. So the big guys now have serious skin in the game.

If you haven't already, it's time to stop dismissing those "crypto bros" as hype-builders and fad-seekers. Instead, their organizations have real potential, so you'll want to start building relationships with entrepreneurs and leaders in the blockchain ecosystem.

Venture Capital Moves Beyond Silicon Valley

Traditionally, Silicon Valley, New York, and other major hubs have hosted a large share of tech companies and captured a sizable percentage of VC investments. However, the emergence of SaaS technologies and remote-first work culture is shifting how venture capital is geographically allocated.

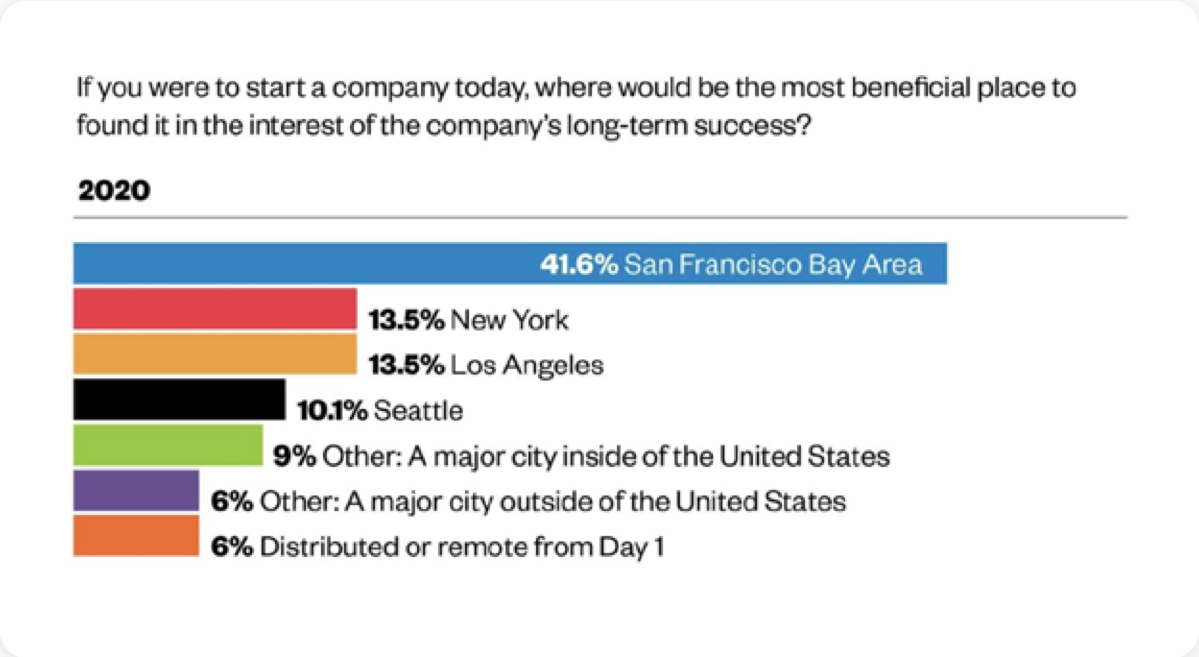
Data from Pitchbook shows how Silicon Valley accounted for under 20% of total VC funding in 2021, compared to 24% in 2018. This is because promising companies no longer need to be headquartered in the Valley to make it big.



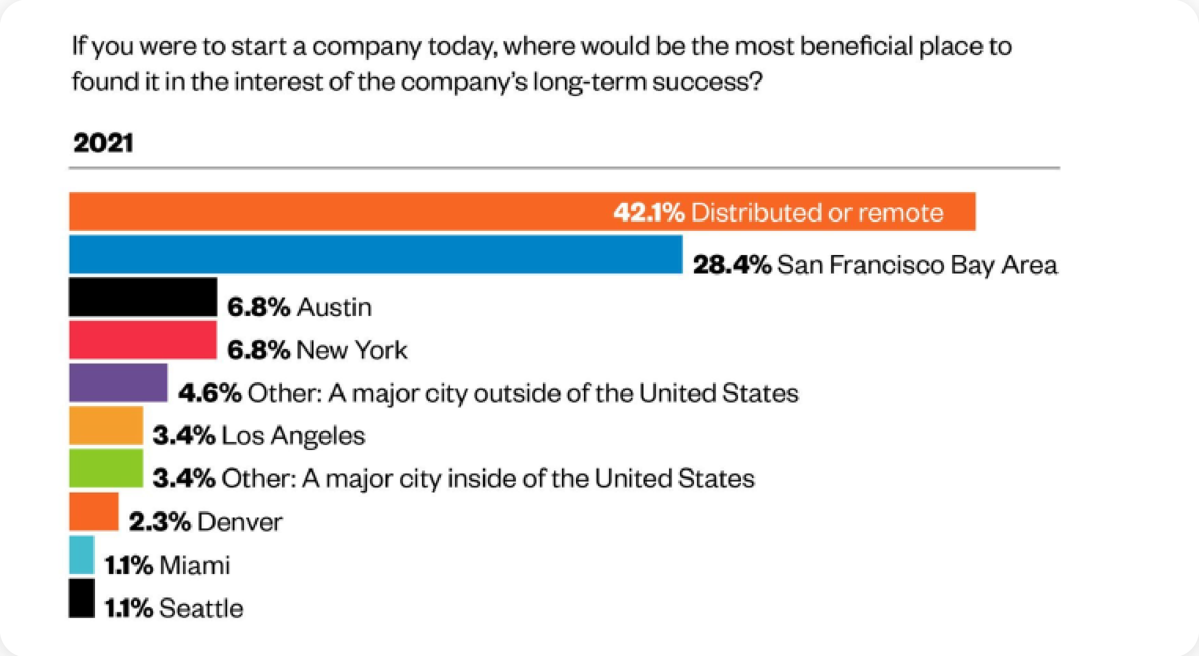
Source: CNBC

With the emergence of remote work, top talent does not have to be located in Silicon Valley. As a result, companies have access to the best talent without being restricted to a specific geographical location.

A survey conducted by Initialized VC shows how before the pandemic, most founders chose the San Francisco Bay Area as the most beneficial place to start a company in the interest of the company's long-term success. However, when the survey was conducted again in February 2021, the most popular choice was distributed or remote.



Source: Initialized



Source: Initialized

The data is clear; Silicon Valley and other traditional tech hubs are no longer the only places enterprising founders want to establish their companies. As a result, VC firms should look beyond these hubs and beyond their borders to other emerging markets with lower valuations and good talent pools like Southeast Asia and Latin America.

The Race to the Super App

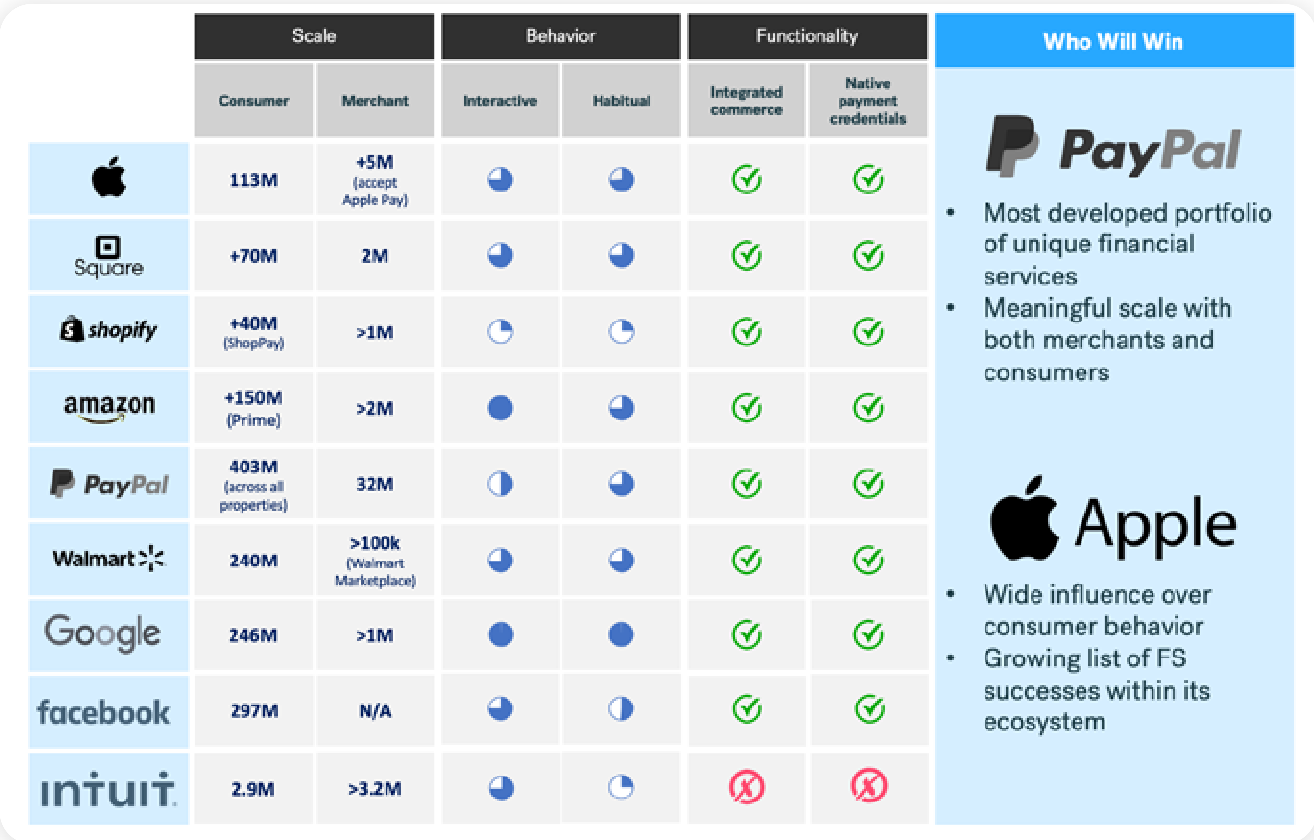
Commerce Ventures defines a super app as "An app that unites an ecosystem of related services under one roof with fully integrated financial infrastructure to engage these services." It's a comprehensive platform that provides so many essential services that users don't need to leave the application for most use cases.

Asian markets have led the way here. AliPay and WeChat Pay are clear examples. They offer commerce services that help users discover, research, and purchase goods and services all in one place. They also provide various financial services, such as payments, financing, transfers, and more.

There isn't an app that has achieved super app status yet in the U.S. market, but several are getting close. Apple and PayPal are probably the closest platforms to break into the next level of app adoption. Other industry experts also point at Amazon as having the elements to create a super app.

What does this mean for VCs sourcing deals? You'll notice that many of the bundled services that those big players offer weren't built in-house. They were *acquired*. For example, Square recently bought AfterPay, and Apple, Walmart, Shopify, and Amazon continue to strategically acquire startups and established companies to expand their service lines.

The “race to the super app” might accelerate the M&A activity in this space. Therefore, a potential investment strategy is to source deals based on their underlying technologies and ask yourself how to leverage your firm’s network to introduce these small companies with promising technologies to larger firms looking for acquisition targets.



	Scale		Behavior		Functionality	
	Consumer	Merchant	Interactive	Habitual	Integrated commerce	Native payment credentials
Apple	113M	+5M (accept Apple Pay)	◕	◕	✓	✓
Square	+70M	2M	◕	◕	✓	✓
shopify	+40M (ShopPay)	>1M	◔	◔	✓	✓
amazon	+150M (Prime)	>2M	●	◕	✓	✓
PayPal	403M (across all properties)	32M	◑	◕	✓	✓
Walmart	240M	>100k (Walmart Marketplace)	◕	◕	✓	✓
Google	246M	>1M	●	●	✓	✓
facebook	297M	N/A	◕	◑	✓	✓
intuit	2.9M	>3.2M	◕	◔	✗	✗

Image: Commerce Ventures

Industries to Watch

These are some of the industries we expect will be raising the lion’s share of venture capital dollars. As an investor, you might want to learn more and understand the technologies and underlying trends driving these sectors and the value they bring.

Financial Technology (Fintech)

Fintech powers most digital commerce transactions. According to Crunchbase, this industry received at least $131 billion in funding in 2021, or over 20% of all VC capital deployed. Specifically, most dollars went into trading platforms, payments infrastructure, neobanks, and “buy now, pay later” services.

If present trends continue, we expect to see more late and early-stage investments, especially in the infrastructure layer, buy now pay later, embedded services, and B2B payments.

Biotech and Healthcare Technology

Biotech and healthcare technology are in the spotlight again (and not just because of COVID-19). Biotech companies aren't only developing vaccines and fighting viruses. Instead, they're conducting cutting-edge research around various areas, including gene editing designed to extend our lifespans and treat various disorders. In addition, artificial intelligence is being used to analyze massive amounts of data and make diagnostics more accessible.

Regulatory changes, COVID, and consumer shifts around telemedicine and at-home testing have also increased demand for new biotech and health tech products; This nascent industry promises to impact consumers positively, and VC investors should note.

Cybersecurity

As technology becomes more pervasive and many of us work from home for the foreseeable future, so does the need for cybersecurity. This sector received $21.8 billion in VC funds last year compared to less than $10 billion in 2020.

We expect this year to see increased investment levels in cybersecurity companies, in part driven by the emergence of new technologies, including blockchain and its multiple use cases. These new blockchain-based companies require compliance, auditing, governance, and security solutions to grow to the next level.

According to Steve Ward from Insight Partners, *" I do not think there will be widespread adoption of digital currencies until proper monitoring is in place."*

Apart from the blockchain industry, cybersecurity budgets are moving to the forefront in all sectors due to emerging challenges and ever-increasing cybersecurity risks, including high-profile attacks targeting private corporations of all sizes, governments, and critical infrastructure.

Goodbye SPACs

Special-purpose acquisition companies, or SPACs, were a trend in 2021. With more than 300 in the first quarter alone. At first, VCs saw them as fast and simple ways to the public markets, especially for riskier and capital-intensive startups.

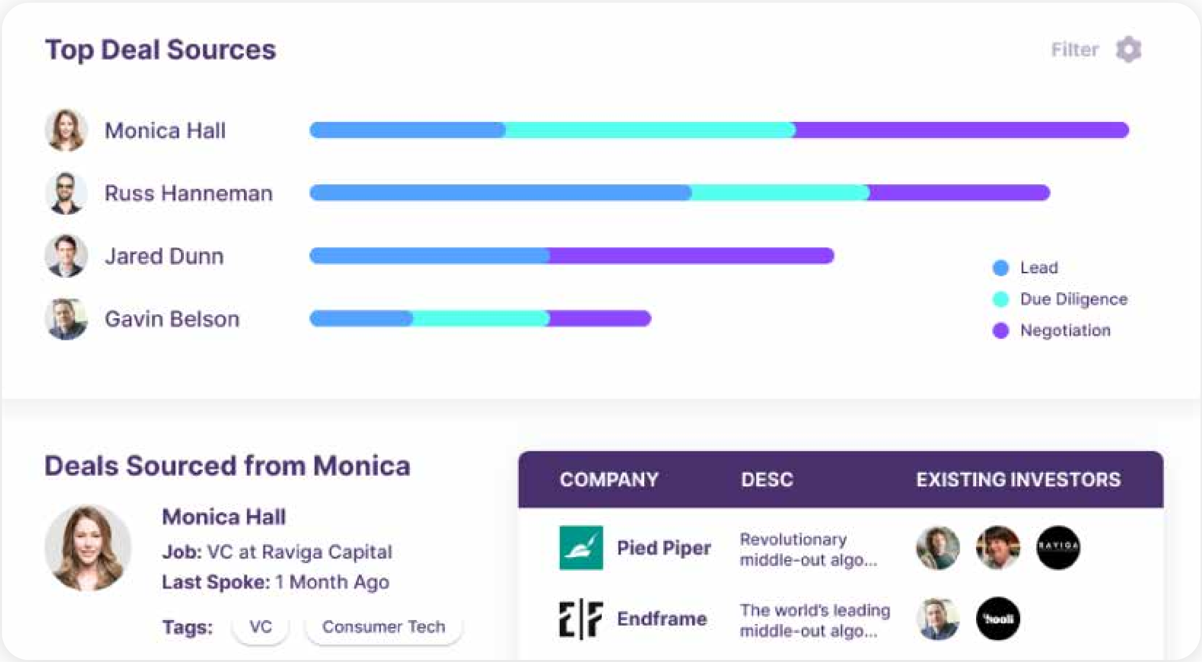
However, one analysis found that most VC-backed companies that went public using SPACs ended the year trading far lower than their highs. Therefore, the SPAC bubble is probably over. Any company going public will probably opt for a traditional IPO.

Adoption of Relationship Intelligence Platforms

While the size of your relationship network is important, your *understanding* of it is even more critical to your success as an investor. Your network is more than a mere collection of names, email addresses, and LinkedIn contacts.

By having the ability to unify your team's network in one place coupled with real-time network updates and notifications, you will be better positioned to leverage the power of your firm's collective network to find and close more deals in less time by knowing when and how to best engage with your contacts.

The emergence of relationship intelligence platforms is why forward-looking VC firms have completely replaced or supplemented their traditional or "sales-focused" CRMs in favor of these purpose-built platforms. After all, sourcing deals via warm introductions is more effective and less time-consuming than cold outreach.



Additionally, relationship intelligence platforms designed by investors for investors such as 4Degrees let you customize your deal flow pipeline with the stages and information that matches your firm's unique workflows while automatically enriching contact and company data, eliminating manual data entry.

The power of relationship intelligence does not end after investing in a company. 4Degrees allows you to provide portfolio companies with lasting value by surfacing the right introductions to key partners, mentors, customers, or executives.

Relationship management software is becoming a core component of the venture capital tech stack, and we expect more investment firms will adopt relationship intelligence platforms in 2022.

Going Forward

Like 2021, this year will be very promising for venture capital and technology companies. The innovation and investment trends created by the adoption and acceleration of various technologies due to the global events of the past years will continue, which means more user adoption and more deals in multiple industries.